BRUNSWICK
PROTECTING MAINE'S ENVIRONMENT
SEWER DISTRICT

2013

BUDGET NARRATIVE

BRUNSWICK SEWER DISTRICT

PROTECTING MAINE'S ENVIRONMENT

TABLE OF CONTENTS

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EXECUTIVE SUMMARY – 2013 BUDGET

User Rates

As presented, the 2013 budget includes a proposed increase to our user rates. We propose a 6% increase in the Residential, Commercial, Roof Drain, and Catch Basin rates; a 3.45% increase in the Septage rate and a 4% increase in the Holding Waste rate. We have also added a new rate schedule for TSS & BOD Limits (surcharge rate). We propose, and the projected revenue is calculated on, the rate increases become effective 01 April 2013.

We understand that approval of this budget is not an approval for an increase in rates. That requires a separate process and approval of the Board as outlined in the Charter. We expect that an approval to implement this proposed budget will be contingent upon amending the expenditures based on the final outcome of any rate action.

Revenue

Overall, annual billing revenue is proposed 4.2% higher than our projection for year-end 2012. This accounts for the proposed rate increases and the overall increase in 2012 revenue that we have experienced for the residential, commercial, municipal, and septage accounts. In total a projected increase of $118,000 for 2013.

Operating Expenses

Overall division expenses are budgeted at 6.3% over anticipated 2012 year-end.

Capital

The capital budget for 2013 is proposed at $487,000. Of that amount $372,000 is projected to come out of the 2013 revenue. We are proposing to use $35,000 from the Capital & Depreciation Reserve to cover the remaining Administrative Office Building construction costs and $80,000 from the Entrance Charge Reserve to fund the 2013 phase of the MacMillan Drive Inflow/Infiltration removal project.

Bond Payment

The 2013 bond payment for the 2005 SRF Loan will total some $107,000. The first payment for the 2012 MMBB bond will be $56,000. A total of $163,000 for 2013.

2013 Budget

The 2013 Operations Budget is presented as a balanced budget with revenue and other fund sources equaling the proposed expenditures.

Note: For the purpose of balancing the Analysis Sheet, funds sent to reserve accounts (e.g. Entrance Charge and Capital & Depreciation) are treated as expenditures from Revenue.

YEAR-END 2012 BUDGET

2012 Revenue

Operating Revenue is expected to come in at $85k over projection. The breakdown by Over/ (Under) is: Residential $28k, Commercial $19k, Brunswick Landing ($23k), TSD $64k, Catch Basins ($3k), and Septage/Holding $0k.

Other Revenue: Jobbing $9k, Interest Earned ($2k), and Entrance Charge ($19k). With the removal of the administration building, the building and its contents that still had depreciable life (a book value) has been written off in the fixed assets. This has accounted for a $198,000 net loss in the Miscellaneous portion of Other Revenues, creating a ($163,000) balance in Other Revenue.

Accounting for all Revenue sources and all Expenditures for 2012, we expect to end the year with a net loss of ($71,000).

2012 Appropriation of Funds

Entrance Charge Reserve: The 2012 budget authorized the expenditure of up to $160,000 from the Entrance Charge Reserve to fund the upsizing of the Richards Drive sewer line (from 12" to 15" diameter). We later determined it was best to locate and remove the non-sanitary flow from the 12-inch line versus upsizing (deal with the cause not the symptom), thus obtained subsequent authorization to change the scope of the work to remove the sump pump flow and groundwater flow from the MacMillan Drive sewer line. We expect to expend approximately $80k in 2012 on that effort.

Capital & Depreciation Reserve: The 2012 budget authorized staff to obtain a $500,000 loan (bond) from the Maine Municipal Bond Bank (MMBB) to fund the Administrative Office Building Renovation. After selecting the contractor and initiating design for the renovation, it soon became evident that the cost and effort to bring the building up to current code and energy efficiency was approaching the per square-foot cost of a new building; and that staff had underestimated the renovation cost. As such, the Board authorized staff to proceed with the building Replacement and fund the additional cost from the Capital and Depreciation Reserve. In requesting that the additional $475,000 cost be funded from the Capital and Depreciation Reserve, Staff noted its intent to begin replenishment of the reserve account in 2013. Total expenditure for the building was authorized at $975,000. The contractor expects to complete the building construction by the end of 2012 at or slightly under the $975,000.

We expect billing revenue to exceed projection by some $85,000 and to be under-expended in Operations Expenses by some $25,000. The combination of funds totaling some $110,000 will be used to offset the loss created by the write-off of fixed assets noted above. On the books it appears we will have to cover the loss from a reserve account.

2012 Operating Expenses

We expect to end the year under-expending the division expense budgets by some $25,000. The Collection and Pumping Division is projected to end the year some $4,000 over budget (0.066% over). The Treatment Division is projected to end the year some $77,000 under budget (8% under). The Heating ($9.3k), Power ($24k), Equip. Fuel ($3.5k), Sodium Hypochlorite ($5.4k), and Sodium Hydroxide ($18.5k) accounts were the major contributors to the savings. The credit goes to the treatment staff in meeting their goal to reduce these costs. The Administrative Division is expected to end the year some $48k over budget (6.9%). Much of this over-run was due to the unplanned and unbudgeted move out of the building and its related costs (e.g. rent for leased space).

2012 Capital

The original approved Capital budget totaled $977,000. A subsequent $475,000 authorized appropriation took the total to $1.452M. Total capital expenditures for 2012 are expected to be $1.333M. This includes some $33.2k in unexpected capital expenditures for emergency line repairs and replacement of a 20-inch diameter check valve.

2012 Budget Summary

The 2012 Operations Budget is not expected to end the year balanced as per the approved budget. The fixed assets write-off has created a negative balance of about $71,000. We expect to expend $440,000 of the authorized $475,000 from the Capital and Depreciation Reserve on the Administrative Office Building, with the balance being carried forward to 2013 to cover the remaining exterior site work (Spring 2013).

<u>2013 OPERATIONS BUDGET</u>

Rates.

As presented, the 2013 budget proposal includes an increase to our user rates. We propose a 6% increase for the Residential, Commercial, Roof Drain, and Catch Basin rates; a 3.45% increase in the Septage rate and a 4% increase in the Holding Waste rate. We have also added a new rate schedule for TSS & BOD Limits (surcharge rate). We propose that the rate increases become effective 01 April 2013.

The Charter notes that rates will be established "*<u>to provide sufficient revenue</u>*" for a number of purposes. One of which is "*<u>To create and maintain a funded depreciation reserve, with annual</u>*

increments not to exceed annual depreciation". Another "*To pay for such repairs, replacements, renewals, and extensions as may be necessary…".*

Our annual depreciation is just over $1,000,000. Even with the rate increase, funding available from revenue for the 2013 capital budget is in the $428,000 range. Of that amount, $377,000 is for 'have-to-do in 2013' projects, and $51,000 is being used to whittle down the 5-year capital projects list. We do not propose to dedicate any revenue to the Capital & Depreciation Reserve.

2013 Revenue

With the proposed rate increases, Operating Revenue projections for 2013 are estimated at $2,915,000, some $118,000 more than the estimated year-end for 2012.

In Other Revenues, based on the estimated year-end, we have increased the Jobbing and Contract Work revenue by $6,000 over the 2012 budget to account for an expected Operations & Maintenance Agreement with the Midcoast Regional Redevelopment Authority and additional work from the Topsham Sewer District. The Interest Earned revenue has been increased by $1k over year-end 2012. Miscellaneous has been increased $16k over 2012 budget. And the Entrance Charge revenue has been decreased by $3k from the expected 2012 year-end estimate. We have estimated some $37,000 for donated assets in 2013 (Botany Place, Phase V). A portion of the McKeen Woods Landing (former Navy housing known as Capehart) sewer system is being proposed for District takeover in 2013. We are checking with the auditor to see if the system, which is more than 50 years old and technically beyond its depreciated life, has any asset value that needs to be recorded. If so, it will increase the donated assets value for 2013. (The value of donated assets is recorded as additional revenue in the fiscal year we take ownership.)

2013 Appropriation of Funds

The 2013 budget proposes to use $80,000 from the Entrance Charge Reserve to fund the 2013 phase of the MacMillan Drive/Peary Drive Inflow and Infiltration removal project.

We propose to carry forward some $35,000 from the Capital and Depreciation Reserve to fund the spring 2013 site work by the contractor on the Administrative Office Building project.

2013 Operating Expenses

Collection and Pumping Division: The 2012 budget was $610k. Year-end is estimated at $614k. The 2013 Division budget is proposed at $690,000, a 12.4% increase over year-end 2012 and a 13.1% increase over the 2012 budget. Major causes for the 2012 budget over-run were:

- Line Maintenance costs. We had an unplanned emergency line repair on Everett Street and one on Green Street for some $18,000 total. By philosophy we do not budget for emergency line repairs. If one occurs we typically absorb the cost into the expense or capital budget. Also, our decision to equip and train staff on performing our own trenchless 'spot lining' repairs was an unbudgeted cost center that came out of the line maintenance budget.

- Labor cost. During 2012 we were asked to perform substantially more jobbing request from Topsham Sewer District and Maine Affordable Housing (McKeen Woods Landing). Much of this was performed on Friday which is overtime. While we bill for the labor and overhead (and any equipment time), the initial cost comes out of the labor budget, thus increasing the labor expense line item. As an offset, the revenue side increases when we receive the payments. We also conducted our 'spot lining' on Fridays but will move that operation to normal work hours in 2013. We expect to see a continued increase in Jobbing for 2013 and have increased our labor budget accordingly.

For 2013: With the increased Jobbing assignments, the spot lining work, and potentially the addition of O&M duties for Brunswick Landing-we still do not plan on filling the current vacancy on the Collection/Pumping Division. We will assign a staff member from the Treatment Division part-time (half-year) to this division, and have determined that is it more economical to budget the additional overtime that to fill a position full time. The labor budget has been adjusted accordingly to account for the overtime.

We have increased the Line Maintenance budget to $9,850 from the 2012 budget of $5,300.

We have increased the Maintenance Hole budget from $15k to $22k for 2013.

We included a major increase in the Maintenance Service Contracts for 2013. This line item has increased from $15k in 2012 to $34k for 2013. We plan to move our geographical information services (GIS) computer program to the cloud and obtain what is known as an 'Enterprise License' from ESRI. The enterprise license will allow us to share the GIS information with any of our computers without having to purchase a software license for each one, do away with our GIS server (and its operational and replacement cost), and have full use of the technological upgrades and programs – all from the 'cloud'. The annual enterprise license is $10k, but we will have the initial set-up cost of some $8 to 10k for this year only.

Prediction: *As time has seen us purchase more communication, information, security, and monitoring services (telephone, cable, security, internet, etc), I foresee an ever increasing need for more sophisticated technological services that are best obtained out-of-house. I would not be surprised to see this line item become a major part of our operation's cost within the next few years.*

Treatment Division: The 2012 budget was $960k. Year-end is estimated at $883k. The 2013 Division budget is proposed at $881k, a 8.2% decrease from the 2012 budget and a 0.02 % decrease from the 2012 year-end projection. The reductions are due primarily to:

- Reduced electrical rate and usage. Our electrical supply rate for the Plant went from $0.0947 per kWh to $0.0675 in December of 2011. In developing the 2012 Division budget, we projected a $30,000 savings in the electrical supply cost. Staff has also reduced our electrical usage by 28% (by 245,640 kWh!!) for the first nine months of 2012 compared to the same period in 2011. An additional savings of $16,580!!

- Reduced heating cost. With the installation in 2011 of the natural gas fired boilers, 2012 will be the first full budget year on natural gas versus heating oil. At an annual usage of some 40,000 gallons of heating oil that at $3/gal =$120k/yr. We estimate our 2012 heating cost to come in at some $22k, and could possibly be less than $20k. An annual savings of close to $100,000 per year! The budget for 2012 was $30,000.
- Reduced chemical cost. A staff goal for 2012 was to reduce the chemical cost by some 20%. In that effort we reduced the 2012 budget to $80,000 from the $98,000 2011 usage for sodium hydroxide. Staff exceeded the goal and we expect to end the year at less than $62,000. An $18k reduction from the 2012 budget! Sodium hypochlorite has seen a marked decrease from a high of $28,000 in 2009 to an expected year end cost of $13,000 on $16,000 budget.
- Labor budget. For 2013 we plan to assign one Treatment Division employee to the Collection Division for ½ of the year. As such, the division's labor cost has been reduced accordingly, and the Collection Division's labor cost has been increased proportionally.

These savings are being carried forward in the 2013 budget.

<u>Administrative Division</u>: The 2012 budget was $690,000. Year-end is estimated at $738,000. The 2013 Division budget is proposed at $805K, a 16.6% increase from 2012 budget and a 9.1% increase over year-end 2012.

The increases during 2012 are primarily due to:

- Moving operations to a leased site. During the 2012 budget process we planned on renovating the office building, not replacing the building. As such we had not factored into the budget the moving cost, office lease cost, utility change-over costs, etc. that ensued with the decision to tear down the building. The Supplies and Expense budget went over by $3.3k [68%) and the Miscellaneous line item went from a budget of $1700 to almost $19,000. The principal driver was the monthly lease for the temporary office space (7 mos. At $2k/mo.).
- The other major over-runs were Vehicle Maintenance ($2.2k), Telephone ($2.7k), and Consulting Fees ($6.7k).

For 2013. During 2012 we added a part-time employee to the administrative staff. We plan to make the position full-time for 2013. This has increased the labor and benefits budgets. We have also seen an increase in the need for some overtime for the office staff and as such, have included some overtime for 2013. With the increase in staff training we have substantially increased the Professional Development budget for 2013.

It is important to understand that a number of budget items are included in the Administrative Division budget that affect all the divisions, but cannot easily be apportioned. All of the insurance costs (worker's comp and property & liability) ($62k), the meter reading costs from the water district ($58k), payroll ($7k), Trustee fees ($6.7k), and Consulting Fees [legal, engineering] ($22k). This skews the 'division budget to # of employees ratio' as compared with the Operation Divisions.

General Overview of Projects and Goals

With the last major upgrade to the Treatment Plant now 21 years old, we conducted an evaluation of the facilities and its processes to determine the efficiencies, improvements, and new technologies we can bring to the facility and its operations, and develop a new 20-year improvement plan. We have just received the draft report this week. The report places the upgrade into two phases, each with a substantial cost estimate. This will be a major undertaking for the District, one which I plan to pursue. But I want us use the time in 2013 to fully understand the impacts, cost and effort to implement; and to design a realistic, reasonable, and economically supported timeframe supported by the staff, Board, and the public. This includes the possibility of subdividing the two major phases into smaller, more manageable (economically speaking) components. To this end I have included a minimal amount of $13k in case we need additional consultation in this effort.

<u>Personnel Programs</u>:
From the 2012 Annual Budget Narrative:

> *"2011 saw some major savings in the operations expenses from 2009 and 2010 including a $36k reduction in health insurance cost, $34k reduction in electrical cost, and a $36k reduction in heating cost. Adding to those savings we expect another $30K reduction in electrical cost due to the reduction in our power supply cost from $0.0947 to $0.0675 per kWh. We are also continuing the process of identifying and pursuing cost savings and efficiencies of operations by the use of technology, staff training, researching alternatives in our biosolids program and electrical generation options, and the use of outside services. This includes not filling the two current staff vacancies."*

Following that statement I noted that I plan to put some of the savings into funding some new programs for the staff. All of the recommendations were approved and funded for 2012. I have continued with the programs for 2013 and have included their funding in the budget. The three key programs were the merit pay for achieving goals, end-of-year sick leave buy-back option, and a two-year plan to place all the Operators on the same pay grade.

Again, from the 2012 Annual Budget Narrative:

> *"The program calculates as a percentage how far along each collection & pumping staff member has advanced along their current pay grade. It then calculates what that employee's wage rate would be (in 2011 dollars) if the employee had moved that same*

> *percentage along the treatment staff comparable pay grade. In summary, the pay grade adjustments will increase the individuals wage rate by between 9.9% and 12.5% while still being on the 2011 pay matrix. I propose no other wage rate increase for 2012 for these individuals. The 2013 budget proposal will need to include an additional increase to place all the affected employees on an even par with the treatment staff counterparts. The estimated annual labor cost is $28,000 including overtime. For this reason I have chosen not to fill the operator vacancy on the Collection/Pumping staff".*

We have accomplished the first phase in 2012. I have included the cost of the final phase in the 2013 Labor cost for the Collection/Pumping Division personnel. This is one of the reasons for the increase in that division's budget from 2013.

With this program and the goals merit program, we have seen an amazing change in the staff's outlook, attitude, and more importantly, their willingness and drive to take on new and more challenging tasks and responsibilities. We have already seen in the first year, the efforts the staff has made to find operational savings-permanent operational savings- to offset the costs of these programs. I truly would like to have the continued support of the Board to complete this transition.

Annual Economic Adjustment and Merit: The 2013 budget includes a full economic adjustment and full merit. The economic adjustment is based on the new formula adopted by the Board in 2007. The formula is based on the CPI data for the November to October timeframe. The October number came out on November 15th. Based on that formula, the CPI adjustment is 2.3%. A Merit award (as determined by the performance evaluation) will average 2.9% across the board. Together this is an average wage adjustment of 5.2%. These adjustments have been included in the wages budget.

Capital

The total capital budget is proposed at $487k. This includes $175k for a new sludge truck with a roll-on/roll-off container. We plan to buy an additional container in 2014 allowing us to go from two sludge trucks to just one. As clarified during the Annual Budget Meeting of November 01, 2012, the design of the new truck body allows for the attachment of a flatbed or a dump body, in addition to a roll-on/roll-off container, making the vehicle a multi-use truck.

We have included $10k for a pipe lining trailer and $8k for the restoration of two sewer line maps (circa 1890).

Construction includes replacement of 1,350 linear feet of 6-inch diameter pipe with 8-inch diameter pipe on College Street at the cost of some $120k. This is part of a Public Works Department road reconstruction project.

We have set aside $80k from the Entrance Charge Reserve for the 2013 phase of the MacMillan Drive/Peary Drive Inflow & Infiltration Removal project, and $35k from the Capital & Depreciation Reserve to fund the spring 2013 work remaining for the contractor.

$59k is dedicated to completing the Administrative Office Building project that is not included in the contractor's scope of work. This includes $17k to complete the refurbishing portion (desk, tables, chairs, bookcases, etc). We have allocated $25k to install the CCTV system for the Conference Room (to record Board meetings and provide other media presentations and staff training), and $17k to complete the site work and landscaping that is not in the contractor's scope of work.

Bonds

The 2013 bond payment for the 2005 SRF Loan will total some $107,200 (Principal is $82,270, Interest is $24,986).

The bond payment for the new MMBB bond for the Administrative Office Building will total some $56,200 (Principal $45,352, Interest $10,846)[2.086% Rate]

For a 2013 total of $163,400.

2013 Summary

The 2013 Operations Budget is presented as a balanced budget with revenue and other fund sources equaling the proposed expenditures. Operating Revenues are proposed to be some $203k above the 2012 budget which includes the recommendation for a 6% rate increase. The budget includes continuing the programs adopted in 2012 to promote, recognize, and reward employee performance and education. These additional costs are being offset with some substantial operational cost savings achieved through lower electrical, heating, and chemical cost; and by not filling a current staff vacancy.

Respectfully Submitted for Your Consideration,

Leonard Blanchette
General Manager
Brunswick Sewer District
19 November 2012