



NARRATIVE of the

2014

PROPOSED

OPERATIONS BUDGET

Prepared for the

30 October 2013

ANNUAL BUDGET MEETING

(Revised October 24, 2014)



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EXECUTIVE SUMMARY – 2014 BUDGET

User Rates

As presented, the 2014 budget proposal does not include any increase to our user rates. Effective 01 April 2013 there was an increase of 6% for the Residential, Commercial, Roof Drain, and Catch Basin rates; a 3.45% increase in the Septage rate; and 4% in the Holding Waste rate; and a new rate category for excessive Total Suspended Solids (TSS) and Biochemical Oxygen Demand (BOD).

Revenue

Overall, annual revenue is proposed at 1% (\$30,000) lower than our projection for year-end 2013. This is based on the revenue experienced for the residential, commercial, municipal, septage accounts, and other revenue in 2013. We do not expect that pattern to change for 2014.

Entrance Charge

Based on the downturn in construction projects in 2013, we have downgraded the estimate for 2014 to \$15,000. Though the entrance charge is revenue, it is dedicated to the entrance charge fund (reserve account) and is not available to cover either operating expenses or capital project costs.

Expenses

The combined division expenses are budgeted at 5% above anticipated 2013 year-end, an increase of \$112,000. The year-end 2013 is expected to come in some \$24,000 less than originally budgeted, a net increase of 3.7% (\$88,000) over the 2013 budget.

Capital

The capital budget for 2014 is proposed at \$257,000. Of that amount \$78,000 is for equipment and \$179,000 for pipe replacement and upgrades.

Bond Payment

Combining principal and interest, the 2014 bond payment for the 2005 SRF Loan will be some \$107,000, and the 2014 bond payment for the 2012 MMBB bond will be \$56,000. A total of \$163,000 for 2014.



2014 Budget

The 2014 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, revenue sent to reserve accounts (Entrance Charge and Capital & Depreciation) are treated as expenditures.

YEAR-END 2013 BUDGET

2013 Revenue

Operating Revenue is expected to come in (\$1,000) under projection. The breakdown by Over/ (Under) is: Residential \$18k, Commercial (\$36k), Brunswick Landing \$7k, TSD (\$8k), Catch Basins (\$0k), and Septage/Holding \$18k.

Other Revenue is expected to come in \$4,000 over projection. The breakdown by Over/ (Under) is: Jobbing/Contract Work \$2k, Interest Earned (\$12k), and Miscellaneous \$14k.

Entrance Charge is expected to come in (\$7,000) under projection.

Donated Assets: The acceptance of the McKean Street Landing wastewater infrastructure accounted for a \$500,000 gain in the Donation of Capital Assets. Donated Assets are treated as revenue thus inflating the total revenue.

Revenue Summary

Without including the Donated Assets (an asset value, not a cash receipt) and the Entrance Charge revenue (which is dedicated to the Entrance Charge Reserve Fund) we expect to come in \$3,000 over the budget projection for the combined Operating Revenue and Other Revenue.

2013 Appropriation of Funds

Entrance Charge Reserve: The 2013 budget authorized the expenditure of up to \$80,000 from the *Entrance Charge Reserve* to fund the removal of the sump pump flow and groundwater flow from the MacMillan Drive sewer line. We expect to expend the full \$80k in 2013 on that effort.



Capital & Depreciation Reserve: The 2013 budget authorized the use of \$35,000 from the Capital and Depreciation Reserve to fund the remaining work to the Administration Building and the contractor's retainage (withheld until project completion) still remaining for 2013. We have expended the amount authorized, but intend to replace some \$25,000 from the projected surplus (See: 2013 Budget Summary)

2013 Operating Expenses

We expect to come in under-budget in the 2013 Operating Expenses (the division expense budgets) by some \$24,000 (1% under). The Collection and Pumping Division is projected to end the year some \$40,000 under budget (5.8%). The Treatment Division is projected to end the year some \$20,000 over budget (2.3%). The 2013 budget anticipated moving one Treatment division person to the Collection/Pumping division for ½ of the year. That transfer did not occur thus accounting for the bulk of the difference between budget and year-end. The Administrative Division is expected to end the year some \$4,000 under budget (0.5%).

2013 Capital

The approved 2013 Capital budget totaled \$487,000. Total capital expenditures for 2013 are expected to be some \$489,000, some \$2,000 over budget (0.4%).

2013 Budget Summary

In summary, the 2013 Operations Budget is expected to end the year with an approximate surplus of \$25,000. In the recommendation for setting the Reserve balances as of 31 December 2013 (following the receipt of the draft 2013 audit) we will ask that the surplus be assigned to the Capital & Depreciation Reserve.

2014 OPERATIONS BUDGET

Rates.

As presented, the 2014 budget proposal does **not** include any increase to our user rates. Effective 01 April 2013 there were increases of 6% for the Residential, Commercial, Roof Drain, and Catch Basin rates; a 3.45% increase in the Septage rate; and 4% in the Holding Waste rate; and a new rate category for excessive Total Suspended Solids (TSS) and Biochemical Oxygen Demand (BOD).



2014 Revenue

Operating Revenue: *Operating Revenue* for 2014 is estimated at \$2,801,000, some \$114,000 less (-3.9%) than the 2013 budget, and \$113,000 less than estimated year-end for 2013.

Basis for projection:

- We have segregated Topsham Sewer District's O & M services revenue, some \$60,000, from the *Operating Revenue* and reassigned it to *All Jobbing and Contract Work*.
- We estimate the I & I removal work at Brunswick Landing will reduce the flow, and its resulting revenue, by some 22%. A reduction of \$69,000 for the anticipated year-end 2013.
- We project that the Residential sector will increase \$47,000 above year-end 2013. An increase of 3.8%.
- We project that the Commercial sector will increase \$8,000 above year-end 2013. An increase of 0.9%.
- We project that the Septage revenue will increase \$3,500 above year-end 2013. An increase of 1.4%.

Other Revenues: We have set the 2014 *Jobbing and Contract Work* revenue at \$105,000. This category is now segregated into three components: Misc., TSD O&M, and MRRA O&M. Miscellaneous Jobbing has been set at \$15,000, same as 2013 year-end. As noted above, we have assigned the estimated \$60,000 for TSD O&M (contract operations) to this category. We have also assigned an estimated \$30,000 for an expected Operations & Maintenance Agreement and other contracted work with the Midcoast Regional Redevelopment Authority to this category.

- *Interest Earned* has been set at \$7,000. A downgraded of \$1,000 from year-end 2013.
- *Miscellaneous* has been set at \$37,000. A reduction of \$6,000 from year-end 2013.
- *Entrance Charge* revenues have been set at \$15,000, a reduction of \$2,000 from year-end 2013.
- *Donation of Capital Assets* has been set at \$0. We do not expect any takeover request for 2014.

2014 Appropriation of Funds

We are not requesting any reserve funds in the 2014 Operations Budget. We expect to fund the Expense and Capital budgets from Revenue.



2014 Operating Expenses

Collection and Pumping Division: The 2013 budget was \$690,000. Year-end is estimated at \$650,000. The 2014 Division budget is proposed at \$686,000, a 0.6% decrease over the 2013 budget, and a 5.5% increase over year-end 2013.

Key Components:

The 2014 budget includes almost \$38,000 to lease an 8,000 sq. ft. building at Brunswick Landing (\$32k for the lease, \$5k for utilities & heat). This is one-year lease for a building that will house all of the vehicles and equipment of the Collection/Pumping division now housed (most out-of-doors) at the Treatment Plant. This will free up space for the Treatment division to place its vehicles and equipment indoors at the Plant. The building is owned by the Federal Aviation Administration, but the lease is with MRRA. If the building meets our needs and we could eventually (within a few years ???) obtain the building from the FAA (as a public conveyance???) it could save the District between \$750k to \$1m by removing the need to build our own vehicle/equipment garage at the Plant site (which is proposed in the Phase 1 scope of work).

To help offset this cost, the District is entering into an agreement with MRRA to perform contract operations of its wastewater collection and pumping system. The agreement will have a minimum \$18k annual service charge. Coupled with performing upgrades and repairs above and beyond the O&M agreement, we estimate a total MRRA jobbing revenue of \$30k for 2014.

Treatment Division: The 2013 budget was \$881,000. Year-end is estimated at \$901,000. The 2014 budget is proposed at \$923,000, a 4.8% increase from the 2013 budget and a 2.4 % increase over the 2013 year-end projection.

In 2013 we proposed moving one division employee to the other division for ½ the year and adjusted the division wages budget accordingly. This did not occur, which decreased the year-end expenses for the Collection/Pumping division, and increased the year-end expenses for the Treatment division. The 2014 wages have been re-adjusted to account for a full-year staffing level of six individuals for the Treatment division.

The division continues its efforts to reduce major operating expenses:



- Reduced electrical usage. Total electrical consumption for 2012 was 847,000 kWh (\$86k), compared to 1.10M for 2011 (\$133k), 1.18M for 2010, and 1.24M in 2009. They are on track to use about 840,000 kWh for 2013(\$83K).
- Reduced heating cost. With the installation in 2011 of the natural gas fired boilers, 2012 was the first full budget year on natural gas versus heating oil. The annual usage of some 30 to 35,000 gallons of heating oil at \$3/gal equals a cost of \$90,000 to \$105,000/yr. The heating cost for 2012 came in at under \$18,000. It looks like 2013 was slightly colder and we expect to expend some \$24,000. We are saving a minimum of \$75,000 per year to heat the Plant! The budget for 2014 is set at \$26,500 to provide a cushion.
- Reduced chemical cost. In 2012 we reduced the budget to \$80,000 from the \$98,000 2011 usage for sodium hydroxide. Staff exceeded the goal and ended the year at \$59,000. We expect to end 2013 at a cost of \$45,000, but have set the 2014 budget at \$47,000 to provide a cushion.
 - Sodium hypochlorite has seen a marked decrease from a high of \$28,000 in 2009 to a budget of \$12,000 for 2014.

These savings are being carried forward in the 2014 budget.

Administrative Division: The 2013 budget was \$805,000. Year-end is estimated at \$801,000. The 2014 Division budget is proposed at \$855,000, a 6.2% increase from 2013 budget and a 6.7% increase over year-end 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. Such as all of the insurance costs (worker's comp and property & liability) (\$65.5k), the meter reading costs from the water district (\$61k), payroll service (\$4k), postage [for billing, disbursements, and public notices] (\$14k), Trustee fees (\$6.7k), and Consulting Fees [audit, legal, and engineering] (\$22k). This skews the "division budget to # of employees' ratio" as compared with the Operation Divisions.

General

Facilities

With the last major upgrade to the Treatment Plant now 22 years old, we commissioned an evaluation of the facilities and its processes to determine the efficiencies, improvements, and new technologies to bring to the facility and its operations, and develop a new 20-year improvement plan. The report, completed in 2012, divides the upgrade into two phases, each



with a substantial cost estimate. 2013 saw the first steps in the process to determine the timing and scope of work to pursue in the next upgrade project. At this early planning level, the preliminary cost estimated for Phase One is \$22M. It is expected that this process will continue in 2014 involving a public information and participation effort along with an internal process that will provide the Trustees with the information needed to determine if and when to move ahead on a upgrade of the Treatment Plant. As the Board has not given authorization to proceed with any phase of the project, the 2014 Operations Budget does not include any funding (other than some consulting fee funding for use in the planning stage) for any facet of a Treatment Plant Upgrade project.

Personnel Programs:

We have continued with the personnel programs for 2014 and have included their funding in the budget. The three key programs are the merit pay for achieving goals, end-of-year sick leave buy-back option, and the education program. With these programs, 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. During 2013 we continued to see the efforts of staff to find operational savings --permanent operational savings-- to offset the costs of these programs. I want to thank the Board for their continued support and belief in the staff.

Annual Economic Adjustment and Merit: The 2014 budget includes a full economic adjustment and full merit. The economic adjustment (i.e. COLA) 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. As we have moved the entire budget adoption process ahead by one month, we will not have the October number until November. (The September data, now due out Oct 30th, was delayed due to the government shutdown) As such, for now we have calculated the latest CPI based on the August data. Based on that formula, the **CPI adjustment is 1.7%**. A Merit award (as determined by the performance evaluation) will average 2.8% across the board. Combined, this is **an average wage adjustment of 4.45%**. These adjustments have been included in the wages budget. As the annual CPI is based on a 12-month average, we do not expect the CPI to change more than one-tenth percent either way for September and October, but will update the calculation as the CPI is updated.



2014 Capital

The total capital budget is proposed at \$257,000 for 2014. This includes \$78,000 for new equipment, and \$179,000 for pipe upgrade and replacement. Construction includes replacement of 900 linear feet of 6-inch diameter pipe with 8-inch diameter pipe (five hundred l.f. on Whittier Street and 400 l.f. on McCellan Street).

Bonds

The 2014 bond payment for the 2005 SRF Loan will total some \$107,200 (Principal is \$84,063, Interest is \$23,130)[1.81% Rate].

The bond payment for the new MMBB bond for the Administrative Office Building will total some \$56,000 (Principal \$46,298, Interest \$9,554)[2.12% Rate]

For a 2014 total of \$163,000.

As in 2013, \$56,000 of revenue is being dedicated to the Capital & Depreciation Reserve to replenish the \$475,000 used for the Administrative Building.

2014 Summary

The 2014 Operations Budget is presented as a balanced budget with revenue and other fund sources (though none requested in this budget proposal) equaling the proposed expenditures. **Operating Revenues** are proposed to be some \$114k less than the 2013 budget. The two major influences are the reassignment of Topsham Sewer District jobbing revenue (\$60k) to Jobbing and Contract Work, and an expected decrease of some \$69k from Brunswick Landing. Total **Other Revenues** are expected to increase by \$83K over 2013 year-end. The net effect is an expected decrease of \$30k in billing revenue from 2013.

As with 2013, we have assigned \$56k of revenue to the Capital & Depreciation Reserve as the second payment in a 10-year plan to replenish the \$475k used to fund the Administrative Office Building.

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 ongoing operational cost savings achieved through lower electrical, heating, and chemical cost; and by not filling a current staff vacancy.



Future Budgets

We plan to complete the first District wide Strategic Plan by the end of 2013 or early 2014. From this 'master' plan, proposed as a 5-year plan (reviewed annually), we will develop the detailed projects, goals and direction, envisioned in the Strategic Plan. The 2015 Operations Budget will see the first inclusion of the Strategic Plan.

Lorraine Caron, Finance Manager, is also working towards the development of a multi-year Operations Budget. Tied in with the Strategic Plan, the multi-year budget will provide a more comprehensive guide to the Board in planning and determining a sustainable rate structure.

This will probably be the last time you see the budget proposal in this format. Lorraine has a goal of submitting our budget proposal document to a national review program for recognition as an award winning budget document. As such, we will be including other information and data not normally included in the past. (As a side note, Lorraine has volunteered to be judge for the 2013 submissions.)

Respectfully Submitted for Your Consideration,

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General Manager

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Asst. General Manager

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Finance Manager