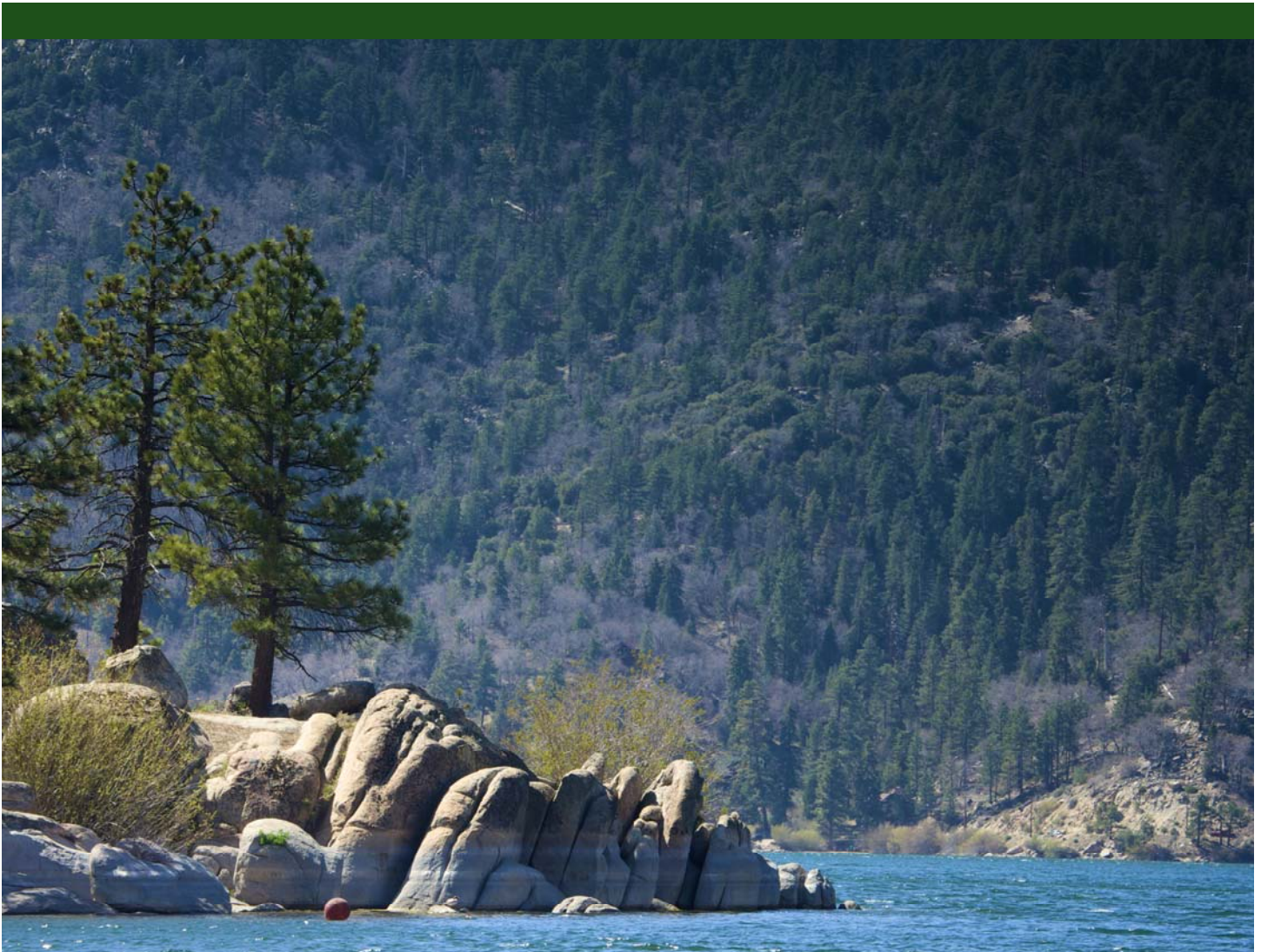


BUDGET

For the Year Ended June 30, 2020

2020



BIG BEAR AREA REGIONAL WASTEWATER AGENCY

BIG BEAR CITY, CA 92314

Big Bear Area Regional Wastewater Agency

Budget and Forecast FY 2020 - 2024

Fiscal Year Ending June 30



Table of Contents

| | |
|---|----|
| Budget Framework | 4 |
| Important Assumptions..... | 4 |
| Comparisons | 5 |
| Items Impacting Financial Performance..... | 5 |
| Terminology..... | 7 |
| Financial Performance: Income Statement and Cash Flow Comparisons | 7 |
| Statement Comparison: Projected FY 2019 to Actual FY 2018 and Budget FY 2019..... | 8 |
| Discussion: Projected FY 2019 Compared to Actual FY 2018 | 9 |
| Discussion: Projected FY 2019 Compared to Budget FY 2019 | 11 |
| Statement Comparison: NEW Budget FY 2020 to Projected FY 2019..... | 12 |
| Discussion: NEW Budget FY 2020 Compared to Projected FY 2019..... | 14 |
| Financial Summary..... | 15 |
| Operating Trends and Outlook..... | 16 |
| Operating Income Stabilizes as Operating Expense Growth Slows | 16 |
| Other Revenue Grows Slightly..... | 16 |
| Capital | 17 |
| Maintenance Capital Expenditures Increase..... | 17 |
| Debt Outstanding Increases, Debt Service Decreases..... | 17 |
| Leverage and Debt Service..... | 17 |
| Discussion and Analysis..... | 19 |
| Operations | 19 |
| Operating Revenues | 19 |
| Operating Expenses..... | 20 |
| Capital Contributions - Connection Fees | 24 |
| Debt Service and Bond Covenant Calculations | 24 |
| Capital Expenditures | 25 |
| Capital Expenditures – FY 2020..... | 28 |
| Capital Expenditures – FY 2021 – FY 2024..... | 31 |
| Cash and Designated Fund Balances..... | 32 |
| Rate Review | 33 |
| Adequacy of Rates | 33 |
| FY 2020 Rate per EDU - \$216.78 / EDU | 33 |



| | |
|--|----|
| Ratepayer Impact | 33 |
| Appendix..... | 34 |
| Five-Year Forecast..... | 34 |
| Income Statement | 34 |
| Cash Flow Statement and Designated Fund Balances | 35 |
| Rate Analysis..... | 36 |
| Historical Income Statement | 37 |



Budget Framework

Important Assumptions

The budget and the forecast period were prepared using the following assumptions:

Rate Increase: The budget and forecast period were prepared assuming inflationary adjustments in the Agency's sewer user fee each year during the 5-year period, from FY 2020 - 2024.

| | Actual FY 2012 | Actual FY 2013 | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Actual FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Actual/Proposed Rates | \$ 180.71 | \$ 187.94 | \$ 193.58 | \$ 201.32 | \$ 201.32 | \$ 201.32 | \$ 204.34 | \$ 210.06 | \$ 216.78 | \$ 223.29 | \$ 229.99 | \$ 236.88 | \$ 243.99 |
| % Change | | 4.0% | 3.0% | 4.0% | 0.0% | 0.0% | 15% | 2.8% | 3.2% | 3.0% | 3.0% | 3.0% | 3.0% |
| Prior Projected Rate Adjustment | | | | | | | | | 2.9% | 3.0% | 3.0% | 3.0% | 3.0% |

The rates through FY 2024 have been structured to meet the Agency's current operating and capital needs during the next five years and assumes no new debt financing during the period. It should be noted that the Agency's rates have been structured to cover 85% of its annual debt service. The remaining 15% (approximately \$75,000) is projected to be funded through connection fee revenue.¹

Average Dry Weather Flow: The Agency budgets for dry weather. Based on historical experience, this is approximately 795 million gallons of influent flow on an annual basis. If, during the budget period, the Agency incurs wet weather flows or other operational variances from the budget, and the operating budget is unable to absorb the increased costs, the Agency has established a Contingency Fund from which the Board may appropriate funds. The Contingency Fund is recommended to be two months of operating and maintenance expense by the Government Finance Officers Association. Based on staff's review, we believe the amount to be adequate.

Inflation: Annual price change assumptions are used in the multi-year forecast to project year-over-year changes in certain revenues and costs. The Agency considers the Riverside, San Bernardino, Ontario, CA CPI-U² (Consumer Price Index for all Urban Consumers, All Items; published by the Bureau of Labor Statistics), the 20-City Construction Cost Index (published by Engineering News Record), and the Congressional Budget Office forecast CPI as indicators in determining future price changes. The overall inflationary outlook has been mixed with the Federal Reserve recently halting anticipated rate hikes. Consumer price inflation has slowed since October/November and the construction cost index has increased slightly.

¹ The Agency estimated what it can expect to collect in connection fee revenue during an economic downturn. During the last recession, the Agency's lowest annual rate of connections to the system was 18, which equates to \$75,240 in connection fee revenue.

² It should be noted that the regional CPI index previously used by the Agency in prior years is no longer available. The sample area was modified to split Los Angeles and Riverside. The new indices are 1) Los Angeles, Long Beach, Anaheim and 2) Riverside, San Bernardino, Ontario. The Agency's proximity is closer to Riverside and therefore the Agency will move forward using the Riverside, San Bernardino, Ontario index. The index began in December 2017 and therefore the November CPI utilized by the Agency reflects an 11-month change instead of 12 months.



Inflation

| Month | Riverside, SB, Ontario CPI – U | West Region CPI-U | National CPI-U | CCI |
|---------------|--------------------------------|-------------------|----------------|------|
| November 2018 | 3.6% | 3.3% | 2.2% | 2.9% |
| January 2019 | 3.0% | 2.7% | 1.6% | 3.0% |

Congressional Budget Office Forecast

| Index | Period | Rate |
|--------------------------|---|------|
| CPI, All Urban Consumers | Calendar Years 2020- 2024, Annual Average | 2.5% |

The Agency has assumed inflation of 3% each year during the forecast period, unchanged from prior forecasts. This inflation assumption reflects the 2.5% national inflation expected by the Congressional Budget Office combined with higher regional inflation.

| | Actual FY 2013 | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5-Year Average |
|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| Inflation Rate | 1.0% | 1.8% | 0.8% | 1.8% | 2.2% | 4.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |

Actual inflation represents the CPI, Los Angeles-Riverside-Orange County, All Urban Consumers

Comparisons

Financial performance comparisons throughout this draft include historical, current and future periods. The periods prior to and including FY 2018 are periods of actual financial performance, FY 2019 is the projected performance, FY 2020 is the budget period, and FY 2020 – FY 2024 is the forecast period:

| | | | |
|----------------|----------------|----------------|--------------------------|
| <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2020 - FY 2024</u> |
| Actual | Projected | Budget | Forecast Period |

Items Impacting Financial Performance

Rising Salaries and Wages Expense - Separations during 2017 and 2018 combined with a change in pay schedules resulting from the Compensation and Classification Study resulted in the majority of the Agency’s employees (14 of 15 employees) being within their respective pay scales and thus eligible for annual merit adjustments in addition to annual cost of living adjustments. This results in potentially higher annual percentage changes in salaries and wages than if all employees were at the top of their respective pay ranges and only eligible for a cost of living adjustment. As employees cycle through the pay scale, the growth in the Agency’s salaries



and wages is expected to peak in 2020 and begin to slow through 2024 as more employees reach the top of their respective pay scales.³

Higher Pension Costs - CalPERS lowered the discount rate, also known as the assumed rate of return, to 7% from 7.5%. The reduction has been transitioned over a three-year period beginning in FY 2019 and ending in FY 2021. The normal cost⁴ is expected to increase 2.3 points, from 12.5% of payroll in FY 2018 (before the discount rate adjustment) to 14.8% of payroll in FY 2021, and the payment of the unfunded accrued liability⁵ is expected to increase substantially, from \$61,710 in FY 2018 (before the discount rate adjustment) to an estimated \$144,400 in FY 2021. These increases will contribute to an average annual growth in pension costs of 11% over the forecast period.

Lower Sludge Removal Expense – The Agency has projected much lower sludge removal expense for FY 2019 due to a new hauling contract. The new contract lowered the transportation cost per ton by \$27. With annual tons of 4,038, the total reduction expected is \$109,000. Sludge removal expense is expected to lower again in FY 2020 by \$37,000 due to the new belt press which is expected to reduce the Agency's sludge tons by increasing the dryness of the sludge produced. Annual tons are budgeted to decline 700 tons, from 4,038 to 3,338.

Higher Chemicals Expense – The timing of a carbon tower replacement (every three years) and the increased use of polymer will contribute to higher chemicals expense of approximately \$55,000 in FY 2020. The increased use of polymer (approximately \$24,000 a year) will continue beyond FY 2020 and is the result of a higher rate of solids removal than in previous years and higher polymer use associated with the new belt press.

Higher Repairs and Replacements Expense – A higher level of repairs and replacements expense is expected to continue into FY 2020, with higher overall expense for the next five years. Average annual repairs and replacements expense is forecast to be \$224,000 per year compared to the previous five-year period of \$157,000 per year. The higher expense is consistent with historical expenditures and aging plant and equipment.

No Change in Annual Connections - The Agency has averaged 55 connections per year for the last three years (excluding multi-unit developments) and for the twelve-month period ending December 31, 2018, there are 58 connections. The Agency has assumed 55 annual connections through FY 2024.

Unplanned Expenditures – The Agency has incurred a substantial amount of unexpected expenditures resulting in lower capital and replacement fund reserves. This will reduce the Agency's flexibility over the next two years to absorb cost overruns or unexpected repairs. If the Agency continues to incur unplanned costs, it is likely that planned capital expenditures will need to be deferred or future rate adjustments will need to be higher than projected. Unplanned expenditures include \$500,000 in costs associated with the Replenish Big Bear Project⁶, \$460,000 in additional costs for the hopper (related equipment for the new belt press), and approximately \$1.2 million in additional appropriations primarily related to the pond rehabilitation project (\$720,000), Lucerne Valley Emergency Repair (\$200,000), general repairs (\$260,000), and unplanned equipment purchases (\$40,000).

³ Using the Plant Operator position as an example, it would take six years to cycle through the pay scale assuming annual merit adjustments of 5%.

⁴ The normal cost is the amount of pension benefit earned by active employees as they work and is calculated and contributed on an annual basis as a percentage of pay.

⁵ The unfunded accrued liability (UAL) is the amount of pension benefit that has been earned and accrued by active and retired employees but that does not have an equal amount of assets set aside to fund the benefit.

⁶ \$250,000 is projected to be incurred in FY 2019 and \$250,000 is budgeted in FY 2020.



These unplanned expenditures of approximately \$2.2 million are offset in part by \$1.3 million in new pipeline scheduled in FY 2019 that will not occur (a portion deferred).

Reduction of OPEB Unfunded Accrued Liability (OPEB UAL) - The Agency has budgeted to reduce its OPEB UAL by \$200,000 during FY 2020, and by \$400,000 over the five-year forecast. **If the Agency continues to have unplanned expenditures as noted on the previous page, this payment may be eliminated or reduced in FY 2020.** The reduction in the OPEB UAL is part of a five-year plan to reduce the liability annually by \$200,000 for a total of \$1 million. The Agency made annual reductions in 2017 and 2018 and plans to make an additional payment in 2019, leaving \$400,000 remaining in the next five-year period. Based on the most recent valuation (dated July 1, 2017), the unfunded OPEB Liability is \$1.3 million and represents a 52% funded ratio (ratio of assets to liability). If the Agency were to reduce its OPEB UAL as planned, the funded ratio would be greatly improved. Based on the current valuation, the funded ratio would be approximately 80%.

A goal of the Agency has been to reduce its unfunded pension/OPEB liabilities so that the Agency's pension/OPEB assets are nearly equal to its pension/OPEB liabilities, resulting in annual pension/OPEB expense near the normal cost. Maintaining a higher funded ratio, better insures that the Agency's obligations will be met, and that intergenerational equity will be maintained among ratepayers.

Terminology

| | |
|------------------------------|---|
| CAGR | is the Compound Average Growth Rate which is the average annual growth rate over the period referenced |
| CAPEX | are capital expenditures |
| CalPERS | California Public Employees Retirement System |
| FY | means the fiscal year ending June 30 th of the year referenced, i.e. FY 2019 is the fiscal year ending June 30, 2019 |
| nm | means “not meaningful”. It is input as the outcome when dividing by “0” or when the percent change calculation includes a loss or negative number |
| Projected performance | is based on six months of actual performance through November 2018 and represents the Agency’s best estimate of full-year, FY 2019 performance |
| UAL | unfunded accrued liability (used in reference to pension and OPEB unfunded liabilities) |

Financial Performance: Income Statement and Cash Flow Comparisons

Income statement and cash flow comparisons have been provided on the following pages. The following should be noted as it relates to the financial comparisons: 1) all references to the FY 2019 Budget are the revised budget unless noted otherwise, 2) actual results may not match audited financial statements due to the exclusion of GASB adjustments related to pension and OPEB expenses, and 3) an “nm” is notated when dividing by “0” or when the percent change calculation includes a loss or negative number. A written financial summary is provided for each comparison. A discussion and analysis of the NEW FY 2020 Budget follows.



Statement Comparison: Projected FY 2019 to Actual FY 2018 and Budget FY 2019

| INCOME STATEMENT | | | | | | | |
|--|-------------------|-------------------|----------------------|-----------------------|--------------|-----------------------|-----------|
| Comparison Projected FY 2019 to Actual FY 2018 and Budget FY 2019 | | | | | | | |
| | Actual FY 2018 | Budget FY 2019 | Projected FY 2019 | vs. Actual FY 2018 | | vs. Budget FY 2019 | |
| | | | | \$ | % | \$ | % |
| Operating Revenues: | | | | | | | |
| Annual Charges | 5,091,576 | 5,251,785 | 5,251,785 | 160,209 | 3% | 0 | 0% |
| Standby Charges | 85,180 | 83,200 | 83,200 | -1,980 | -2% | 0 | 0% |
| Rental Income | 50,449 | 51,071 | 51,071 | 622 | 1% | 0 | 0% |
| Waste Disposal | 23,113 | 21,798 | 21,798 | -1,315 | -6% | 0 | 0% |
| Other Revenue | <u>1,916</u> | <u>0</u> | <u>0</u> | <u>-1,916</u> | <u>-100%</u> | <u>0</u> | <u>nm</u> |
| Total Operating Revenue | 5,252,233 | 5,407,854 | 5,407,854 | 155,621 | 3% | 0 | 0% |
| Operating Expenses: | | | | | | | |
| Salaries and Benefits | 1,988,278 | 2,150,153 | 2,159,081 | 170,803 | 9% | 8,928 | 0% |
| Power | 386,367 | 445,035 | 472,976 | 86,609 | 22% | 27,941 | 6% |
| Sludge Removal | 397,813 | 355,339 | 246,318 | -151,495 | -38% | -109,021 | -31% |
| Chemicals | 49,408 | 47,864 | 48,945 | -463 | -1% | 1,081 | 2% |
| Materials and Supplies | 127,277 | 161,757 | 183,067 | 55,789 | 44% | 21,310 | 13% |
| Repairs and Replacements | 155,447 | 531,399 | 574,311 | 418,864 | 269% | 42,912 | 8% |
| Equipment Rental | 37,215 | 803 | 803 | -36,412 | -98% | 0 | 0% |
| Utilities Expense (other than power) | 26,737 | 20,376 | 28,130 | 1,393 | 5% | 7,754 | 38% |
| Communications Expense | 37,064 | 47,734 | 43,855 | 6,791 | 18% | -3,879 | -8% |
| Contractual Services - Other | 74,947 | 102,054 | 125,205 | 50,258 | 67% | 23,151 | 23% |
| Contractual Services - Professional | 233,349 | 286,416 | 259,000 | 25,651 | 11% | -27,416 | -10% |
| Permits and fees | 145,515 | 151,465 | 151,465 | 5,950 | 4% | 0 | 0% |
| Property Tax Expense | 3,599 | 3,652 | 3,652 | 53 | 1% | 0 | 0% |
| Insurance | 99,428 | 103,132 | 100,843 | 1,415 | 1% | -2,289 | -2% |
| Other Operating Expense | 50,470 | 57,382 | 62,931 | 12,460 | 25% | 5,549 | 10% |
| Depreciation Expense | <u>842,155</u> | <u>975,331</u> | <u>975,331</u> | <u>133,176</u> | <u>16%</u> | <u>0</u> | <u>0%</u> |
| Total Operating Expense | 4,655,070 | 5,439,891 | 5,435,912 | 780,842 | 17% | -3,979 | 0% |
| <i>Operating Expenses b/f Depreciation</i> | <i>3,812,915</i> | <i>4,464,560</i> | <i>4,460,581</i> | <i>647,666</i> | <i>17%</i> | <i>-3,979</i> | <i>0%</i> |
| Operating Income | 597,164 | -32,037 | -28,058 | -625,222 | nm | 3,979 | nm |
| Nonoperating Income | | | | | | | |
| Gain (loss) on asset disposition | -1,709,527 | 0 | 0 | 1,709,527 | nm | 0 | nm |
| Interest Income | 73,866 | 72,043 | 71,768 | -2,098 | -3% | -275 | 0% |
| Other Nonoperating Income | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>nm</u> | <u>0</u> | <u>nm</u> |
| Nonoperating income | -1,635,661 | 72,043 | 71,768 | 1,707,429 | nm | -275 | 0% |
| Nonoperating Expense | | | | | | | |
| Other Expense | 31,477 | 271,700 | 271,700 | 240,223 | 763% | 0 | 0% |
| Interest Expense | <u>102,489</u> | <u>128,264</u> | <u>128,264</u> | <u>25,775</u> | <u>25%</u> | <u>0</u> | <u>0%</u> |
| Nonoperating expense | 133,966 | 399,964 | 399,964 | 265,998 | 199% | 0 | 0% |
| Income before Contributions | -1,172,464 | -359,958 | -356,254 | 816,210 | nm | 3,704 | nm |
| Connection Fees | <u>249,560</u> | <u>201,850</u> | <u>201,850</u> | <u>-47,710</u> | <u>-19%</u> | <u>0</u> | <u>0%</u> |
| Change in Net Position | -922,904 | -158,108 | -154,404 | 768,500 | nm | 3,704 | nm |



CASH FLOW STATEMENT
Comparison Projected FY 2019 to Actual FY 2018 and Budget FY 2019

| | Actual FY 2018 | Budget FY 2019 | Projected FY 2019 | Projected FY 2019 vs. Actual FY 2018 | Projected FY 2019 vs. Budget FY 2019 |
|---|-------------------|-------------------|----------------------|--|--|
| Cash from operating activities: | | | | | |
| Operating Income (Loss) | 597,164 | -32,037 | -28,058 | -625,222 | 3,979 |
| Depreciation expense | 842,155 | 975,331 | 975,331 | 133,176 | 0 |
| Other Miscellaneous Income (Exp) | 0 | 0 | 0 | 0 | 0 |
| Change in Working Capital, Other Adjustments | <u>285,106</u> | <u>10,155</u> | <u>-178,392</u> | <u>-463,498</u> | <u>-188,547</u> |
| Net cash provided by op activities | 1,724,425 | 953,449 | 768,880 | -955,544 | -184,569 |
| Cash from noncapital financing: | | | | | |
| Payment of pension related debt/liability | -200,000 | -200,000 | -200,000 | 0 | 0 |
| Cash from capital and related financing: | | | | | |
| Interagency Expense | -19,777 | -260,000 | -260,000 | -240,223 | 0 |
| Capital Expenditures | -1,489,193 | -3,583,666 | -2,193,150 | -703,957 | 1,390,516 |
| Proceeds from Asset Disposition | 4,700 | 0 | 0 | -4,700 | 0 |
| Connection Fee (Capital Contrib) | 282,590 | 201,850 | 201,850 | -80,740 | 0 |
| Proceeds from Debt Issuance | 0 | 1,731,500 | 1,731,500 | 1,731,500 | 0 |
| Debt Service: | | | | | |
| Interest Expense | -102,489 | -128,264 | -129,293 | -26,804 | -1,029 |
| Principal Debt Amortization | <u>-473,594</u> | <u>-441,719</u> | <u>-469,141</u> | <u>4,453</u> | <u>-27,422</u> |
| Total Debt Service | -576,083 | -569,983 | -598,434 | -22,351 | -28,451 |
| Net cash used for cap and related financing | -1,797,763 | -2,480,299 | -1,118,234 | 679,529 | 1,362,065 |
| Cash from investing: | | | | | |
| (Increase) Decrease in Other Assets | 0 | 0 | 0 | 0 | 0 |
| Other Proceeds | 0 | 0 | 0 | 0 | 0 |
| Interest Income | 59,598 | 72,043 | 71,768 | 12,170 | -275 |
| Proceeds from the Sale of Investment | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net cash from investing | 59,598 | 72,043 | 71,768 | 12,170 | -275 |
| NET CHANGE IN CASH | -213,740 | -1,654,807 | -477,586 | -263,845 | 1,177,222 |
| Beginning Cash Balance | 6,933,282 | 6,719,542 | 6,719,542 | -213,740 | 0 |
| Ending Cash Balance | <u>6,719,542</u> | <u>5,064,734</u> | <u>6,241,956</u> | <u>-477,586</u> | <u>1,177,222</u> |
| Change in Cash Balance | -213,740 | -1,654,807 | -477,586 | -263,845 | 1,177,222 |

Discussion: Projected FY 2019 Compared to Actual FY 2018

Operating Revenues are projected to be \$5.4 million, up \$155,621 or 3% in FY 2018. The increase is driven by higher annual charges which are the result of a 2.8% rate increase and new connections during the period.

Operating Expenses (before depreciation) are projected to be \$4.5 million, up \$647,666 or 17% in FY 2019. The increase in operating expenses is due largely to higher Repairs and Replacements, Salaries and Benefits, Power,



Materials and Supplies and Contractual Services Other. These increases are expected to be offset in part by lower Sludge Removal expense.

- **Repairs and Replacements** expense is projected to be \$574,311, up \$418,864 or 269% in FY 2019 due to Lucerne Valley emergency repairs; generator troubleshooting, repairs and catalyst replacement; oxidation ditch repairs (splitter gates, rotor paddles, rotor adjustment, rotor reducer, end bearings, and motor), and belt press bearings and motor replacement.
- **Salaries and Benefits** expense is projected to be \$2,159,081, up \$170,803 or 9% in FY 2019. The increase is driven by an 8% increase in salaries and wages and a 13% increase in benefits expense. The increase in salaries and wages is the result of increases in base pay driven by combined annual merit and COLA adjustments. The increase in benefits expense is driven by an increase in pension contribution expense and medical premium expense. Please see the Discussion and Analysis section for a more detailed explanation of the increases
- **Power** expense is projected to be \$472,976, up \$86,609 or 22% in FY 2019 due to higher flows in the current period (compared to the year ago), higher gas transportation costs and the temporary use of utility power resulting from a generator shutdown in November and December 2018.
- **Materials and Supplies** expense is projected to be \$183,067, up \$55,789 or 44% driven largely by higher safety supplies expense and tools and equipment. Safety supplies expense includes the purchase of fall arrest equipment, delineators and two scot packs. Tools and equipment expense is expected to be higher due to a carryover (valve exerciser) from the prior period.
- **Contractual Services - Other** expense is projected to be \$125,205, up \$50,258 or 67% in FY 2019. The increase is driven by higher HVAC maintenance and service costs and the carryover of testing and labor expense from the prior period.
- **Sludge Removal** expense is projected to be \$246,318, down \$151,495 or 38% in FY 2019 due to a reduction in hauling costs and lower sludge tons expected to be removed. The Agency's hauling costs were lowered by approximately \$27 a ton due to the negotiation of a contract with a new hauler. The Agency is expected to remove 4,038 tons in FY 2019 compared 4,777 in FY 2018, a reduction of approximately 740 tons. The Agency removed more tons in the prior period due to a change in operating plant parameters.

Operating Income is projected to be (\$28,058), down \$625,222 in FY 2019. The decrease in operating income is driven by the substantial and unusual increase in operating expenses for the period. Operating expenses are expected to increase \$780,842 (including depreciation expense). Higher operating expenses are due to large carryover appropriations during the period, nonrecurring operating expenses (temporary usage of utility power), and new appropriations for unplanned repairs.

Change in Net Position is projected to be (\$154,404), an increase of \$768,500 in FY 2019. The increase over the prior year is largely due to the large losses from asset disposals (primarily the cannibal system equipment) in the prior period.

Change in cash for the period is projected to be (\$477,586) in FY 2019 compared to (\$213,740) in the prior period, a decrease of \$263,845 in cash generated. Lower cash flow in FY 2019 is expected due to lower cash from operations (lower by \$955,544) offset by higher cash from capital and related financing (higher by \$679,529). Higher cash flow from capital and related financing in FY 2019 is related to new debt proceeds during the period.



Discussion: Projected FY 2019 Compared to Budget FY 2019

The comparison below is made to the Agency's budget, as amended during the year to include \$1.6 million in carry over and new appropriations during the period: 1) 420,000 operating expense, 2) \$ 260,000 for Replenish Big Bear preliminary engineering and environmental work and GSA administrative expense, and 3) \$880,000 in capital expenditures.

Note: Explanations provided below for variances between projected performance and the budget are similar to those explanations for projected performance compared to the prior year actual performance.

Operating Revenues are projected to be \$5.4 million, on plan with the budget.

Operating Expenses (before depreciation) are projected to be \$4.5 million, on plan overall with the Agency's revised budget. The Agency experienced significant variances (although offsetting) in the following line items.

- **Sludge Removal** expense is projected to be \$246,318, down 109,021 or 31% from the budget. The Agency's hauling costs were lowered by approximately \$27 a ton due to the negotiation of a contract with a new hauler at the end of FY 2018.
- **Contractual Services – Professional** expense is projected to be \$259,000, down \$27,416 or 10% from the budget. The decrease is due to lower debt issuance costs offset somewhat by safety consulting fees and Lucerne Valley project management fees.
- **Repairs and Replacements** expense is projected to be \$574,311, up \$42,912 or 8% from the budget due to generator catalyst replacement and troubleshooting and a Clarifier 3 valve repair.
- **Power** expense is projected to be \$472,976, up \$27,941 or 6% from the budget due to the temporary use of utility power resulting from a generator shutdown in November and December 2018 and higher gas transportation costs.
- **Materials and Supplies** expense is projected to be \$183,067, up \$21,310 or 13% from the budget due to higher safety supplies expense. The Agency purchased fall arrest equipment during the period which was unbudgeted.
- **Contractual Services - Other** expense is projected to be \$125,205, up \$23,151 or 23% from the budget. The increase is driven by higher HVAC maintenance and service costs. The Agency entered into a new service contract during the period to manage regular maintenance on the HVAC system to increase system performance and lower recent repairs.

Operating Income is projected to be (\$28,058), up \$3,979 and on plan with the budget

Change in Net Position is projected to be (\$154,404), up \$3,704 and on plan with the budget.

Change in cash for the period is projected to be (\$477,586) in FY 2019, up approximately \$1.2 million compared to the budget. Higher cash flow is expected in FY 2019 when compared to the budget primarily due to lower capital expenditures of approximately \$1.4 million. The Agency had planned for new pipeline of \$1.3 million during the period and has eliminated a portion of the pipeline (8" pipeline) and deferred the remaining line (15" pipeline).



Statement Comparison: NEW Budget FY 2020 to Projected FY 2019

INCOME STATEMENT
Comparison NEW Budget FY 2020 to Projected FY 2019

| | Projected FY 2019 | NEW Budget FY 2020 | NEW Budget FY 2020 vs. Projected FY 2019 | |
|---|----------------------|--------------------------|--|------------|
| | | | \$ | % |
| Operating Revenues: | | | | |
| Annual Charges | 5,251,785 | 5,437,076 | 185,291 | 4% |
| Standby Charges | 83,200 | 81,660 | -1,540 | -2% |
| Rental Income | 51,071 | 51,820 | 749 | 1% |
| Waste Disposal | 21,798 | 21,798 | 0 | 0% |
| Other Revenue | <u>0</u> | <u>0</u> | <u>0</u> | <u>nm</u> |
| Total Operating Revenue | 5,407,854 | 5,592,354 | 184,501 | 3% |
| Operating Expenses: | | | | |
| Salaries and Benefits | 2,159,081 | 2,400,883 | 241,803 | 11% |
| Power | 472,976 | 481,412 | 8,436 | 2% |
| Sludge Removal | 246,318 | 209,564 | -36,754 | -15% |
| Chemicals | 48,945 | 104,222 | 55,277 | 113% |
| Materials and Supplies | 183,067 | 164,512 | -18,555 | -10% |
| Repairs and Replacements | 574,311 | 264,877 | -309,434 | -54% |
| Equipment Rental | 803 | 820 | 17 | nm |
| Utilities Expense | 28,130 | 28,638 | 508 | 2% |
| Communications Expense | 43,855 | 43,506 | -349 | -1% |
| Contractual Services - Other | 125,205 | 103,632 | -21,573 | -17% |
| Contractual Services - Prof | 259,000 | 210,077 | -48,923 | -19% |
| Permits and fees | 151,465 | 165,348 | 13,883 | 9% |
| Property Tax Expense | 3,652 | 3,703 | 51 | 1% |
| Insurance | 100,843 | 109,856 | 9,013 | 9% |
| Other Operating Expense | 62,931 | 48,501 | -14,430 | -23% |
| Depreciation Expense | <u>975,331</u> | <u>895,524</u> | <u>-79,807</u> | <u>-8%</u> |
| Total Operating Expenses | 5,435,912 | 5,235,073 | -200,838 | -4% |
| <i>Operating Expenses b/f Depreciaton</i> | <i>4,460,581</i> | <i>4,339,549</i> | <i>-643,479</i> | <i>-3%</i> |
| Operating Income | -28,058 | 357,281 | 385,339 | nm |
| Nonoperating Income | | | | |
| Gain (loss) on asset disposition | 0 | 0 | 0 | nm |
| Finance Charge Income | 0 | 0 | 0 | nm |
| Interest Income | 71,768 | 107,396 | 35,628 | 50% |
| Other Nonoperating Income | <u>0</u> | <u>0</u> | <u>0</u> | <u>nm</u> |
| Nonoperating income | 71,768 | 107,396 | 35,628 | 50% |
| Nonoperating Expense | | | | |
| Other Expense | 271,700 | 261,700 | -10,000 | -4% |
| Interest Expense | <u>128,264</u> | <u>136,848</u> | <u>8,584</u> | <u>7%</u> |
| Nonoperating expense | 399,964 | 398,548 | -1,416 | 0% |
| Income before Contributions | -356,254 | 66,129 | 422,383 | nm |
| Connection Fees | <u>201,850</u> | <u>229,900</u> | <u>28,050</u> | <u>14%</u> |
| Net Income, Change in Net Assets | -154,404 | 296,029 | 450,433 | nm |



CASH FLOW STATEMENT
Comparison NEW Budget FY 2020 to Projected FY 2019

| | Projected FY 2019 | NEW Budget FY 2020 | Budget FY 2020 vs. Projected FY 2019 |
|---|------------------------|--------------------------|--|
| Cash from operating activities: | | | |
| Operating Income (Loss) | -28,058 | 357,281 | 385,339 |
| Depreciation expense | 975,331 | 895,524 | -79,807 |
| Other Miscellaneous Income (Exp) | 0 | 0 | 0 |
| Change in Working Capital | <u>-178,392</u> | <u>6,707</u> | <u>185,100</u> |
| Net cash provided by op activities | 768,880 | 1,259,512 | 490,632 |
| Cash from noncapital financing: | | | |
| Payment of pension related debt/liability | -200,000 | -200,000 | 0 |
| Cash from capital and related financing: | | | |
| Interagency Expenses | -260,000 | -250,000 | |
| Capital Expenditures | -2,193,150 | -1,786,653 | 406,497 |
| Proceeds from Asset Disposition | 0 | 0 | 0 |
| Connection Fee (Capital Contrib) | 201,850 | 229,900 | 28,050 |
| Proceeds from Debt Issuance | 1,731,500 | 0 | -1,731,500 |
| Debt Service: | | | |
| Interest Expense | -129,293 | -136,848 | -7,555 |
| Principal Debt Amortization | <u>-469,141</u> | <u>-372,229</u> | <u>96,912</u> |
| Total Debt Service | -598,433 | -509,077 | 89,357 |
| Net cash used for cap and related financing | -1,118,233 | -2,315,829 | -1,197,596 |
| Cash from investing: | | | |
| (Increase) Decrease in Other Assets | 0 | 0 | 0 |
| Other Proceeds | 0 | 0 | 0 |
| Interest Income | 71,768 | 107,396 | 35,628 |
| Proceeds from the Sale of Investment | <u>0</u> | <u>0</u> | <u>0</u> |
| Net cash from investing | 71,768 | 107,396 | 35,628 |
| | | | 0 |
| NET CHANGE IN CASH | <u>-477,585</u> | <u>-1,148,921</u> | <u>-671,336</u> |
| Beginning Cash Balance | 6,719,539 | 6,241,954 | -477,585 |
| Ending Cash Balance | <u>6,241,954</u> | <u>5,093,033</u> | <u>-1,148,921</u> |
| Change in Cash Balance | <u>-477,585</u> | <u>-1,148,921</u> | <u>-671,336</u> |



Discussion: NEW Budget FY 2020 Compared to Projected FY 2019

Operating Revenues are budgeted to be \$5.6 million, up \$184,501 or 3% from FY 2019. The increase in operating revenues reflects a 3% increase in Annual Charges (increase in sewer user fees and new connections to the system).

For discussion purposes, the Agency “normalized” FY 2019 operating expenses by excluding carryover appropriations, new appropriations for unusual repairs, and nonrecurring expenses related to the temporary use of utility power. This will provide a more normalized year in order to compare the FY 2020 budget.

“Normalized” Operating Expenses and Operating Income FY 2019

| | "Normalized" Projected FY 2019 | NEW Budget FY 2020 | NEW Budget FY 2020 vs. "Normalized" Projected FY 2019 | |
|--|--------------------------------------|--------------------------|---|------------|
| | | | \$ | % |
| Operating Expenses: | | | | |
| Salaries and Benefits | 2,159,081 | 2,400,883 | 241,803 | 11% |
| Power | 449,129 | 481,412 | 32,283 | 7% |
| Sludge Removal | 246,318 | 209,564 | -36,754 | -15% |
| Chemicals | 48,945 | 104,222 | 55,277 | 113% |
| Materials and Supplies | 177,362 | 164,512 | -12,850 | -7% |
| Repairs and Replacements | 226,238 | 264,877 | 38,639 | 17% |
| Equipment Rental | 803 | 820 | 17 | nm |
| Utilities Expense | 28,130 | 28,638 | 508 | 2% |
| Communications Expense | 43,855 | 43,506 | -349 | -1% |
| Contractual Services - Other | 117,436 | 103,632 | -13,804 | -12% |
| Contractual Services - Prof | 203,728 | 210,077 | 6,349 | 3% |
| Permits and fees | 151,465 | 165,348 | 13,883 | 9% |
| Property Tax Expense | 3,652 | 3,703 | 51 | 1% |
| Insurance | 100,843 | 109,856 | 9,013 | 9% |
| Other Operating Expense | 62,931 | 48,501 | -14,430 | -23% |
| Depreciation Expense | <u>975,331</u> | <u>895,524</u> | <u>-79,807</u> | <u>-8%</u> |
| Total Operating Expenses | 4,995,246 | 5,235,073 | 239,827 | 5% |
| <i>Operating Expenses b/f Depreciation</i> | <i>4,019,915</i> | <i>4,339,549</i> | <i>319,634</i> | <i>8%</i> |
| Operating Income | 412,608 | 357,281 | -55,327 | -13% |

Operating Expenses (before depreciation) are budgeted to be \$4.3 million, up \$319,634 or 8% from FY 2019. The 8% increase in operating expenses is driven largely by increases in Salaries and Benefits and to a lesser extent increases in Chemicals, Repairs and Replacements, and Power expense. These increases are offset somewhat by lower Sludge Removal and Other expense. These changes are explained below.

- **Salaries and benefits** expense is budgeted to be \$2.4 million up \$241,803 or 11% from FY 2019. The increase is driven by increases in salaries and wages due to annual merit, COLA and longevity



adjustments⁷ (\$146,228) and an increase in benefits expense (\$91,143) driven by higher pension expense (\$45,721) and medical premium expense (\$27,980). Please see page 22, for a detailed discussion of the increases.

- **Chemicals** expense is budgeted to be \$104,222, up \$55,277 or 113% from FY 2019. The increase is related to a carbon tower replacement during the period (scheduled every three years) and increased polymer use related to higher levels of sludge removal from the plant and requirements associated with the new belt press.
- **Repairs and Replacements** expense is budgeted to be \$264,877, up \$38,639 or 17% from FY 2019. The increase is related to Oxidation Ditch 3 repairs, treatment plant door replacements, OAC storage room leak repairs, and treatment plant surface repairs.
- **Power** expense is budgeted to be \$481,412, up \$32,283 or 7% from FY 2019 and primarily reflects an increase in SW Gas transportation costs offset by a reduction in the Bear Valley Electric standby fee.
- **Sludge Removal** expense is budgeted to be \$209,564, down \$36,754 from FY 2019 due to a reduction in solids resulting from the new belt press. The new belt press is expected to increase the dryness of the sludge and lower the Agency's overall tons by 700, from 3,338 tons to 4,038 tons.
- **Other** expense is budgeted to be \$48,501, down \$14,430 or 23% from FY 2019 and reflects lower education and training expense.

Operating Income is budgeted to be \$357,281, a decrease of \$55,327 or 13% from FY 2019. The decrease in Operating Income is primarily due to the increase in Operating Expenses of \$239,827 offset somewhat by the increase in Operating Revenues of \$184,501.

Financial Summary

Based on the current forecast, the Agency will need inflationary rate adjustments through 2024. This is consistent with the Agency's prior plan and the 2018 Rate Study. During the next five-year period, growth in operating expenses will outpace that of revenues —revenues will grow at an average annual rate of 3%, reflecting the inflationary rate adjustments, while expenses grow at an average annual rate of 5%. Expense growth in excess of inflation is being driven by higher salaries and benefits, with other operating expenses averaging 1% annually on a combined basis. Operating income over the forecast period is stable and at acceptable levels, and when combined with connection fee revenue and interest income, provides good cash flow with sufficient funds for operating and capital requirements.

Although the Agency incurred new debt in FY 2019, the Agency's debt service will be lower in FY 2020 due to lowering amortization requirements under its existing debt. The lower debt service will contribute approximately \$70,000 annually to the Agency's cash flow and contribute to higher debt service coverage. Debt service coverage at the end of FY 2020 is expected to be 3.1 x and is expected to remain close to this level over the forecast period. Minimum debt service coverage pursuant to the Agency's borrowing agreements is 1.2 x. The Agency's debt capacity is estimated⁸ at \$3.8 million in FY 2020, increasing to \$4 million by FY 2024.

⁷ The Agency budgets salary adjustments as follows: employees that are below the top of scale and are thus eligible to receive a merit adjustment are budgeted to receive a 5% salary adjustment; employees that have been here 7 years or more are budgeted to receive a 1% longevity adjustment; all employees are budgeted to receive a COLA adjustment based on the November CPI. Estimates based on these assumptions are for budgeting purposes only.

⁸ The calculation utilizes a 2.0 x debt service coverage and assumes borrowing terms of 20 years at 4%.



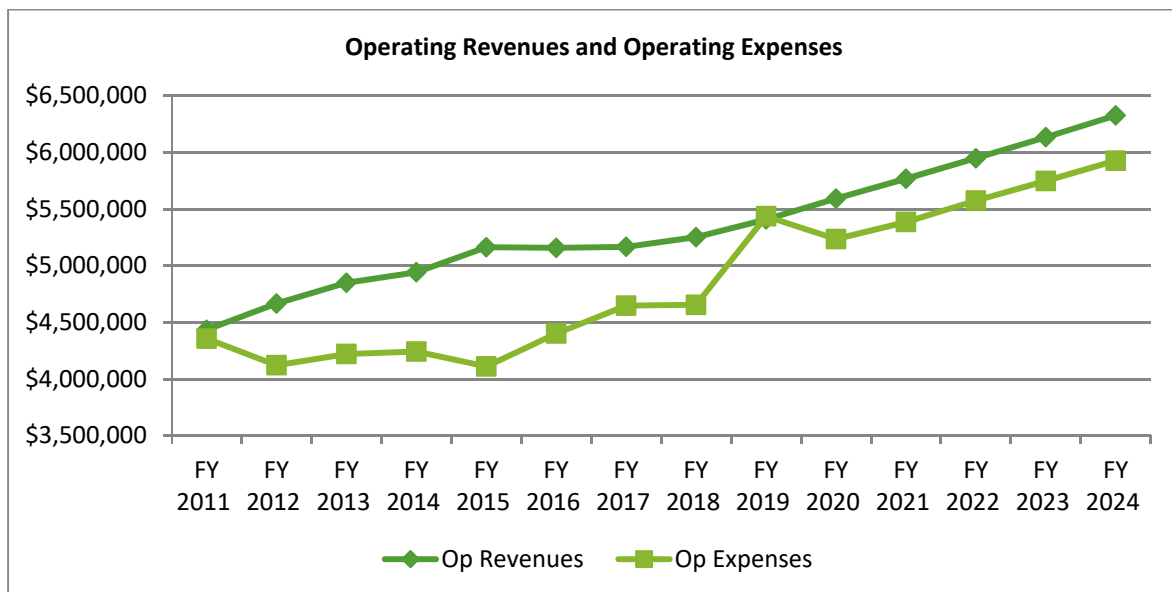
At the end of FY 2024, the Agency is projected to have \$526,155 in the “future” component of the capital and replacement fund. This amount reflects the cash that is available for future capital projects beginning in FY 2026. Based on the current capital improvement plan, the Agency is expected to fall short by approximately \$190,000 to cover the five-year period beginning FY 2026. Based on the Agency’s plans for lower-cost, solar energy, we believe much of the generator maintenance in the capital improvement plan will be eliminated and as a result, the projected funds in the capital and replacement fund will likely be sufficient.

The Agency is expected to have a net use of cash over the five-year period of approximately \$76,000.

Operating Trends and Outlook

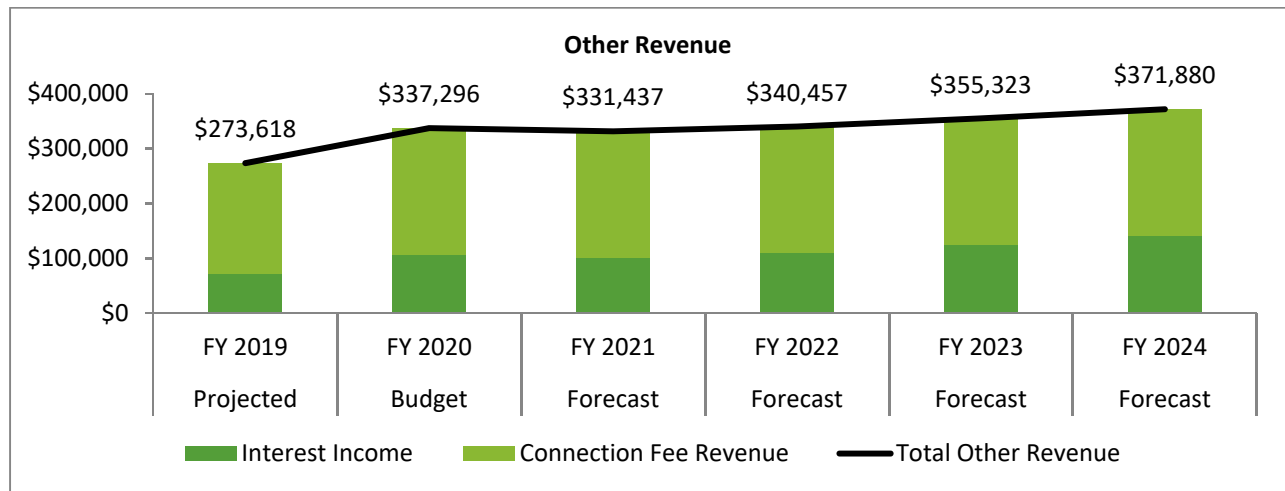
Operating Income Stabilizes as Operating Expense Growth Slows

The Agency's Operating Expenses (before depreciation) are expected to grow at an average annual rate of 5% over the next five years, outpacing expected inflation of 3% for the same period. The growth in operating expenses over the period is being driven by salaries and benefits expense which is expected to peak in FY 2020 at 11% annual growth and slow to 5% growth in FY 2024. This slowdown in salaries and benefits expense growth combined with relatively flat growth in other operating expenses, will help manage the Agency’s overall growth in operating expenses to around 4% annually beginning in FY 2021 and will contribute to stable operating income over the period.



Other Revenue Grows Slightly

Other revenue sources, Interest Income and Connection Fee Revenue, are projected to increase slightly over the period with combined totals of approximately \$340,000 - \$370,000 annually, driven by increasing interest income from slightly increasing interest rates (0.6% over the period) and slightly higher connection fee revenue driven by the increase in the Agency’s connection fee.



Capital

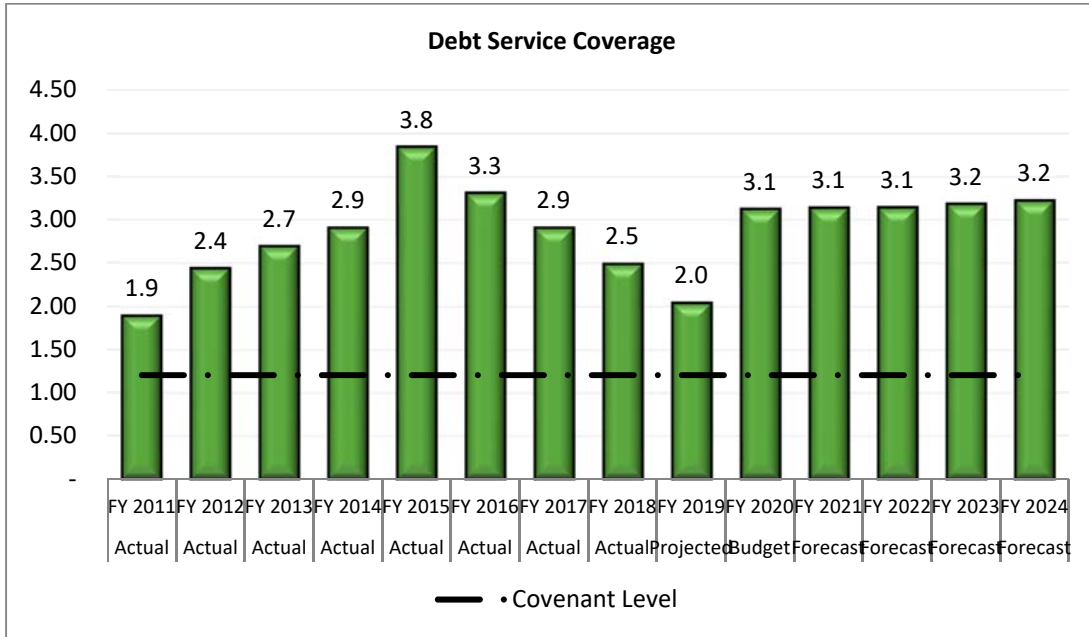
Maintenance Capital Expenditures Increase

The next five-year period is a relatively heavy maintenance period for the Agency. Capital expenditures total \$5 million and average \$1 million per year, with maintenance and replacement capital expenditures averaging approximately \$950,000 per year. This amount exceeds long-term historical depreciation of approximately \$830,000 and exceeds the annual maintenance requirement of \$880,00 indicated in the Agency’s current 20-year CIP.

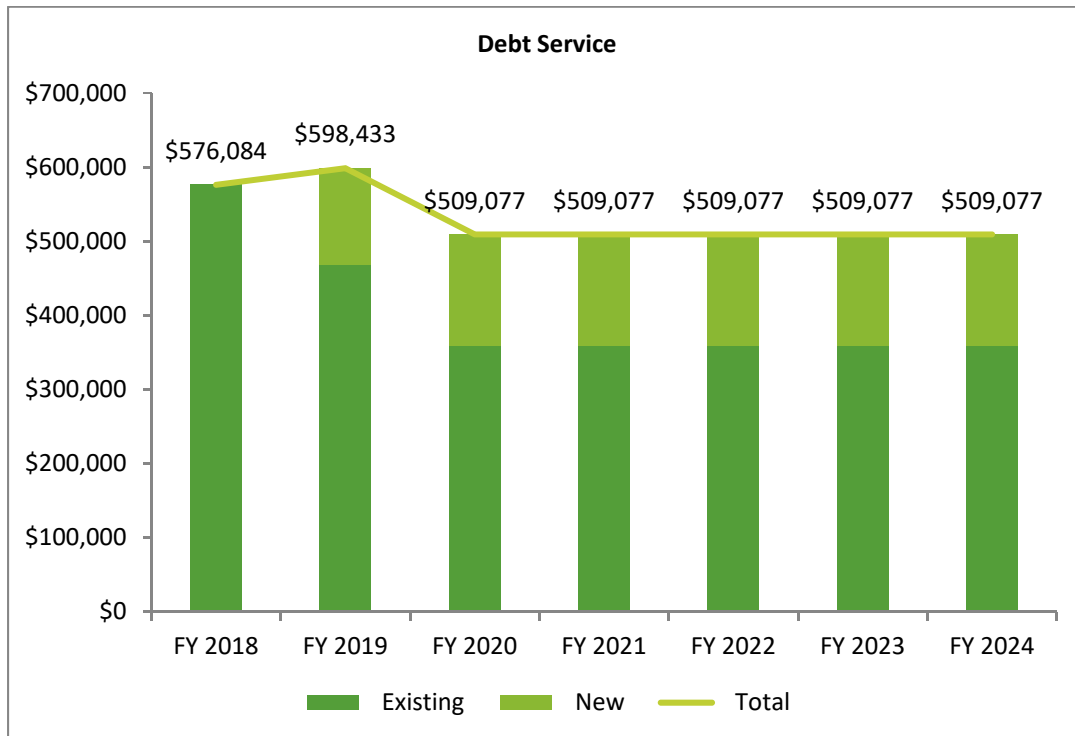
Debt Outstanding Increases, Debt Service Decreases

Leverage and Debt Service

The Agency’s debt outstanding will be approximately \$4 million at the end of FY 2019, up from \$2.8 million at the end of FY 2020. The increase is the result of the \$1.8 million new borrowing in September 2018. Over the last 10 years, the Agency’s highest debt outstanding has been \$6.1 million in FY 2010. The Agency’s leverage is restricted through its debt service coverage covenant contained in its borrowing agreements. Essentially, the covenant requires the Agency to maintain the ability to cover its debt service (principal and interest expense) with operating income (before depreciation) plus other income (connection fees and interest income) 1.2 times. The Agency is projected to have a 2x debt service coverage at the end of FY 2019 increasing to 3.2x by the end of FY 2024.



The Agency's debt service (annual principal and interest payment) declines from \$598,433 in FY 2019 to \$509,077 reflecting reduced amortization under the existing debt that more than offsets the new debt service and contributes to improving debt service coverage.





Discussion and Analysis

Operations

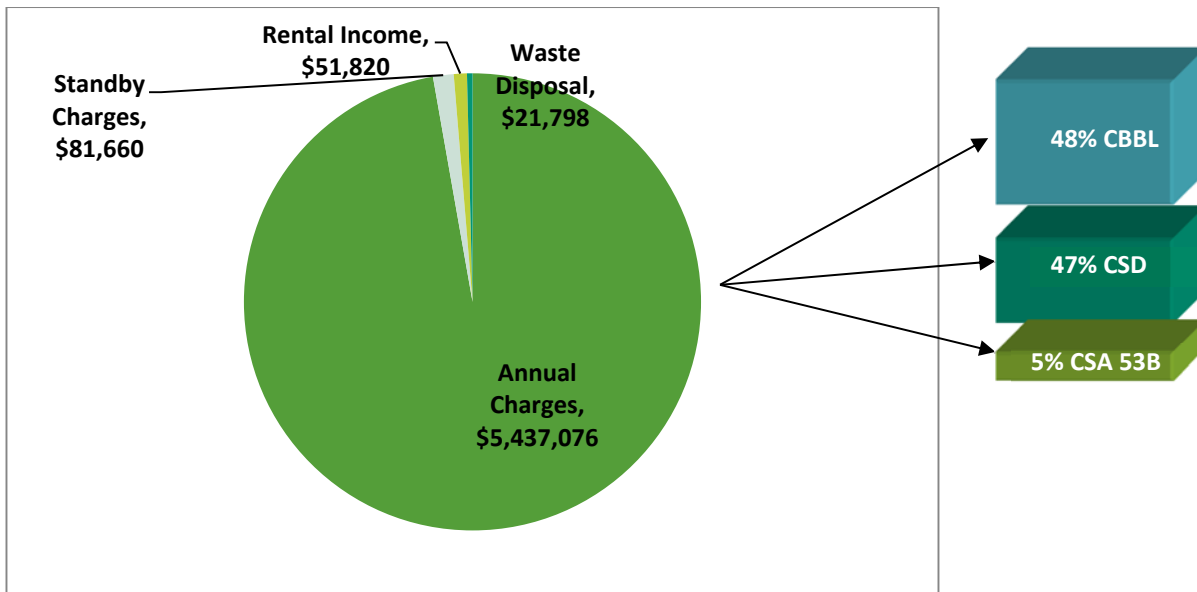
Operating Revenues

Operating Revenues are budgeted to increase 3% in FY 2020 and each year over the forecast period. This growth reflects 3% annual rate adjustments during the period and new connections to the system.

| | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5-Year CAGR |
|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|----------------|
| Operating Revenues: | | | | | | | | | | | | |
| Annual Charges | 4,778,215 | 4,979,690 | 4,991,166 | 5,007,070 | 5,091,576 | 5,251,785 | 5,437,076 | 5,612,469 | 5,793,493 | 5,980,326 | 6,173,155 | 3% |
| Standby Charges | 91,400 | 90,860 | 89,250 | 86,930 | 85,180 | 83,200 | 81,660 | 80,541 | 79,422 | 78,302 | 77,183 | -2% |
| Rental Income | 47,745 | 48,291 | 49,232 | 49,918 | 50,449 | 51,071 | 51,820 | 52,592 | 53,386 | 53,386 | 53,386 | 1% |
| Waste Disposal | 22,433 | 19,829 | 22,869 | 22,033 | 23,113 | 21,798 | 21,798 | 21,798 | 21,798 | 21,798 | 21,798 | -1% |
| Other Revenue | 2,007 | 24,575 | 5,104 | 488 | 1,916 | 0 | 0 | 0 | 0 | 0 | 0 | nm |
| Total Op Revenues | 4,941,801 | 5,163,247 | 5,157,621 | 5,166,439 | 5,252,233 | 5,407,854 | 5,592,354 | 5,767,400 | 5,948,099 | 6,133,813 | 6,325,523 | 3% |
| Annual Change | 2% | 4% | 0% | 0% | 2% | 3% | 3% | 3% | 3% | 3% | 3% | |

Annual Charges

Operating Revenues are largely driven by Annual Charges which account for approximately 97% of the Agency's Operating Revenues. Annual Charges, pursuant to the Agency's Operating Agreement No. 1, are collected annually from the three member agencies based on EDUs and flow per Agency.





Member Agency Billing

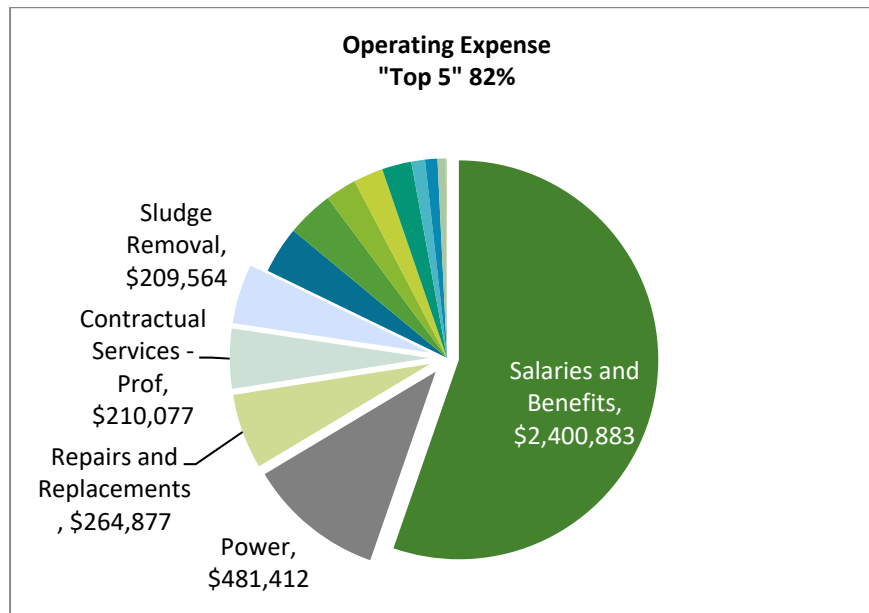
| | 3-Year Average Flows | Reported EDUs | Implicit Charge per EDU | Fixed Charge | Variable Charge | Annual Charge Adjustment | Total |
|-------------------------|-------------------------|------------------|-------------------------------|-----------------|--------------------|-----------------------------|----------------|
| Annual Charges: | | | | | | | |
| City of Big Bear Lake | 356,624 | 11,558.7 | \$224.89 | \$1,837,181 | \$656,173 | \$106,089 | \$2,599,443 |
| Big Bear City CSD | 295,005 | 12,260.0 | \$210.38 | 1,948,649 | 542,797 | 87,758 | 2,579,204 |
| CSA 53 B | <u>27,062</u> | <u>1,262.0</u> | <u>\$204.78</u> | <u>200,587</u> | <u>49,792</u> | <u>8,050</u> | <u>258,430</u> |
| Total | 678,691 | 25,080.7 | | \$3,986,417 | \$1,248,762 | \$201,897 | \$5,437,076 |
| Standby Charges: | | | | | | | |
| City of Big Bear Lake | | | | | | | \$29,280 |
| Big Bear City CSD | | | | | | | 46,560 |
| CSA 53 B | | | | | | | <u>5,820</u> |
| Total Annual Charges | | | | | | | \$81,660 |
| Connection Fee: | | | | | | | |
| Connection Fee per EDU | | | | | | | \$4,180 |

Standby Charges and Rental Income

Both Standby Charges and Rental Income are stable and predictable. Standby Charges are the fees paid by the owners of vacant parcels and are collected from the member agencies at the same time as the Annual Charges. These charges decline annually as parcels are developed and connect to the system or are combined. Rental Income is related to leased property and is contractual in nature.

Operating Expenses

The Agency's top five operating expenses account for 82% of the Agency's total operating expenses before depreciation, with salaries and benefits expense being the largest line item at 55%.





Discussion and Analysis of Top Five Operating Expense Categories

Salaries and Benefits Expense

It should be noted that while future increases in salaries and benefits expense exceed those levels the Agency has experienced historically, the Agency remains in compliance with its growth rate cap set in 2009. In 2009, the Agency targeted an average annual growth rate not to exceed 5%. As can be seen in the chart below, the Average Annual Change since 2009 is expected to be 3% in 2020, increasing to 4% in 2024.

| | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5-Year CAGR |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|----------------|
| SALARIES AND BENEFITS: | | | | | | | | | | | | |
| Salaries and Wages | 1,159,003 | 1,171,981 | 1,221,821 | 1,271,829 | 1,253,739 | 1,355,818 | 1,502,045 | 1,602,133 | 1,689,046 | 1,782,693 | 1,873,750 | 7% |
| Employee Benefits | 624,023 | 553,247 | 601,956 | 671,354 | 686,944 | 779,181 | 870,224 | 962,642 | 1,053,836 | 1,123,111 | 1,182,971 | 9% |
| Unemployment Expense | 503 | 2,002 | 742 | 8,661 | 28,631 | 4,514 | 6,944 | 6,944 | 6,944 | 6,944 | 6,944 | 9% |
| Payroll Taxes | 18,472 | 17,811 | 19,165 | 19,673 | 18,964 | 19,568 | 21,670 | 23,161 | 24,411 | 25,759 | 27,070 | 7% |
| Total Salaries and Benefits | 1,802,001 | 1,745,041 | 1,843,684 | 1,971,517 | 1,988,278 | 2,159,081 | 2,400,883 | 2,594,879 | 2,774,238 | 2,938,507 | 3,090,735 | 7% |
| % Change | -1% | -3% | 6% | 7% | 1% | 9% | 11% | 8% | 7% | 6% | 5% | |
| Average Annual Change (a) | 0% | 0% | 1% | 1% | 1% | 2% | 3% | 3% | 3% | 4% | 4% | |

(a) Base Year FY 2009

Salaries and Benefits expense is budgeted to increase by 11% in FY 2020, driven by an 11% increase in salaries and wages and a 12% increase in benefits expense.

Salaries and Wages - The increase in salaries and wages is driven by the composition of the employee base and higher inflation rates. Separations during 2017 and 2018 combined with a change in pay scales resulting from the Compensation and Classification Study have resulted in the majority of the Agency’s employees (14 of 15 employees) being within their respective pay scales and thus eligible for annual merit adjustments in addition to annual cost of living adjustments. This results in potentially higher annual changes in salaries and wages than if all employees were at the top of the pay scale and only eligible for a cost of living adjustment. As employees cycle through the pay scale, the growth in the Agency’s salaries and wages is expected to peak in 2020 and slow through 2024 as more employees reach the top of their respective pay scales. Higher inflation rates have driven higher COLAs than anticipated. The November 2018 CPI⁹ (for Riverside, San Bernardino, Ontario) was 3.6%. This represents a higher COLA than anticipated for the second year in a row.

Employee Benefits - The 12% increase in benefits expense is driven by higher pension contribution expense and to a lesser extent, medical premium expense. CalPERS lowered the discount rate, also known as the assumed rate of return, to 7% from 7.5%. The reduction has been transitioned over a three-year period beginning in FY 2019 and ending in FY 2021. The normal cost¹⁰ is expected to increase 2.3 points, from 12.5% of payroll in FY 2018 (before the discount rate adjustment) to 14.8% of payroll in FY 2021, and the payment of the unfunded accrued liability¹¹ is expected to increase substantially, from \$61,710 in FY 2018 (before the discount rate

⁹ The Agency began utilizing the November CPI in 2016 as the budget assumption for employee COLA adjustments.

¹⁰ The normal cost is the amount of pension benefit earned by active employees as they work and is calculated and contributed on an annual basis as a percentage of pay.

¹¹ The unfunded accrued liability (UAL) is the amount of pension benefit that has been earned and accrued by active and retired employees but that does not have an equal amount of assets set aside to fund the benefit.



adjustment) to an estimated \$144,400 in FY 2021. These increases will contribute to an average annual growth in pension costs of 11% over the forecast period. Growth in medical premium expense is due to a 14% increase in premiums beginning in January 2019 combined with a 7.3% increase in premiums budgeted in January 2020.

Power Expense

The Agency expects a 3% average growth in power expense over the forecast period driven by a 7% increase in FY 2020, slowing to 1 to 2% thereafter. Historically, the Agency’s power expense has been volatile and is primarily impacted by flow, natural gas transportation costs, and utility power rates. The Agency utilizes power from Bear Valley Electric (BVE) to run its pumping stations, purchases natural gas under a five-year contract from Just Energy to run its generators which supply power to the Agency’s Treatment Plant and Administration Building, and contracts for natural gas transportation with SW Gas.

The Agency experienced flat to decreasing costs in FY 2017 and FY 2018 due to changes in natural gas costs. The Agency extended its natural gas contract in FY 2017 in order to take advantage of lower market rates. This resulted in lower natural gas prices and lower budgeted and projected costs for fuel compared to prior periods. The Agency also incurred lower natural gas transportation costs in FY 2017 and FY 2018 as a result of a credit from SW Gas for prior overcharging. The Agency is expected to experience an increase in costs in FY 2019 resulting from higher flows than in FY 2018 and higher gas transportation costs. Higher power costs are expected to continue in FY 2020 due to the higher gas transportation costs noted above (approximately \$66,000 annually) but will be offset in part by a reduction in the standby fee charged by BVE (lowered by approximately \$33,000 as part of the most recent rate case).

| | Actual | Actual | Actual | Actual | Actual | Normalized | Budget | Forecast | Forecast | Forecast | Forecast | 5-Year |
|-----------------------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------|
| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | CAGR |
| POWER: | | | | | | | | | | | | |
| Fuel for Power Production | 319,045 | 389,373 | 400,699 | 365,628 | 271,509 | 304,537 | 366,604 | 371,117 | 375,765 | 380,552 | 385,484 | 5% |
| Gas Admin Building | 3,823 | 3,649 | 3,692 | 4,060 | 3,627 | 3,833 | 3,948 | 4,066 | 4,188 | 4,314 | 4,443 | 3% |
| Gas Treatment Plant | 8,442 | 7,472 | 5,497 | 4,887 | 3,886 | 7,351 | 7,572 | 7,799 | 8,033 | 8,274 | 8,522 | 3% |
| Electricity Treatment Plant | 31,841 | 47,421 | 61,931 | 61,865 | 61,865 | 61,865 | 29,317 | 30,264 | 31,128 | 31,539 | 31,539 | -13% |
| Electricity Stations | 35,090 | 36,231 | 39,537 | 78,065 | 35,015 | 61,529 | 63,621 | 65,530 | 67,299 | 67,299 | 67,299 | 2% |
| Electricity Admin Building | 195 | 1,510 | 8,284 | 6,925 | 9,703 | 9,000 | 9,306 | 9,585 | 9,844 | 9,844 | 9,844 | 2% |
| Electricity Lucerne | <u>803</u> | <u>807</u> | <u>791</u> | <u>751</u> | <u>762</u> | <u>1,014</u> | <u>1,044</u> | <u>1,076</u> | <u>1,108</u> | <u>1,141</u> | <u>1,176</u> | <u>3%</u> |
| Total | 399,239 | 486,463 | 520,431 | 522,181 | 386,367 | 449,129 | 481,412 | 489,436 | 497,364 | 502,963 | 508,306 | 3% |
| % Change | -6% | 22% | 7% | 0% | -26% | 16% | 7% | 2% | 2% | 1% | 1% | |



Repairs and Replacements Expense

Repairs and replacements expense is projected to increase in FY 2020 and again in FY 2021. In FY 2020 the Agency is planning for additional needed repairs: drain valve in Oxidation Ditch 3; door replacements in the treatment plant; OAC storage room leak; and plant surface repairs. In FY 2021, the Agency has scheduled TVing and Hydro cleaning which is scheduled every four years (previously completed in 2016).

The Agency anticipates the higher level of repairs experienced recently to continue in the future. The Agency's long-term historical average (2003 - 2018) is approximately \$180,000 a year for repairs and replacements expense. During the last five years, the Agency has averaged only \$157,000 a year. If we exclude the last five years in order to determine a more normalized average, the average expense is approximately \$191,000 a year and a level that we would consider a baseline for future projections. The average over the forecast period is approximately \$224,000 a year.

| | Normalized | | | | | | | | | | | |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|----------------|
| | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5-Year CAGR |
| REPAIRS AND REPLACEMENTS: | | | | | | | | | | | | |
| Mainline | 20,251 | 19,429 | 61,540 | 3,855 | 16,017 | 44,832 | 46,250 | 123,427 | 48,041 | 21,157 | 28,291 | -9% |
| Pumps, Motors, Bearings | 21,569 | 20,449 | 20,727 | 14,126 | 6,469 | 19,055 | 40,648 | 30,054 | 30,405 | 25,607 | 26,375 | 7% |
| Equipment and Machinery | 9,022 | 68,460 | 22,511 | 17,987 | 13,785 | 54,886 | 33,660 | 30,035 | 30,936 | 31,864 | 32,820 | -10% |
| Vehicles | 15,944 | 25,355 | 19,129 | 27,193 | 11,956 | 18,600 | 14,400 | 14,832 | 15,277 | 15,735 | 16,207 | -3% |
| Generators | 29,892 | 20,229 | 20,030 | 56,331 | 86,872 | 46,186 | 48,500 | 49,955 | 76,566 | 52,997 | 54,587 | 3% |
| Irrigation System - Lucerne | 779 | 0 | 4,997 | 5,227 | 2,321 | 5,260 | 5,419 | 5,581 | 5,748 | 5,921 | 6,099 | 3% |
| Other | 89,349 | 7,903 | 1,830 | 3,926 | 18,027 | 37,419 | 76,000 | 18,409 | 18,961 | 19,530 | 20,116 | -12% |
| Total | 186,806 | 161,825 | 150,764 | 128,645 | 155,447 | 226,238 | 264,877 | 272,292 | 225,934 | 172,811 | 184,495 | -4% |
| % Change | 17% | -13% | -7% | -15% | 21% | 46% | 17% | 3% | -17% | -24% | 7% | |

Sludge Removal Expense

Sludge removal expense has been volatile over the last five years. The Agency began removing more solids from the plant beginning in FY 2016 and was able to manage the higher costs of increased sludge removal with self-hauling. The Agency began self-hauling in FY 2013. The Agency hauled approximately 11% of its own sludge in 2013 and increased this to approximately 58% in FY 2016. With frequent breakdowns and costly maintenance of the Agency's bin truck, the Agency terminated self-hauling operations in FY 2018. At the end of FY 2018, the Agency entered into a contract with a new hauler which provided a \$27 per ton reduction in hauling costs for an annual reduction of approximately \$109,000. The new contract is the primary reason for the decrease in sludge removal costs in FY 2019. The Agency will be installing a new belt press in the second half of FY 2019, which is expected to reduce the Agency's sludge production by 700 tons, lowering sludge removal costs by an additional \$38,000 in FY 2020.

| | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5-Year CAGR |
|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|----------------|
| SLUDGE REMOVAL | 221,541 | 162,627 | 225,990 | 281,096 | 397,813 | 246,318 | 209,564 | 212,413 | 215,349 | 218,372 | 221,486 | -2% |
| % Change | -9% | -27% | 39% | 24% | 42% | -38% | -15% | 1% | 1% | 1% | 1% | |



Contractual Services - Professional Expense

Contractual Services - Professional expense contains engineering, legal and other expense (IT, audit, actuarial, and other services). Multiple projects in 2018, 2019 and 2020 have elevated this line item, as well as the need to contract for IT services beginning at the end of 2016. FY 2020 includes an Arc Flash Study and the continued use of a safety consultant hired in FY 2019 to shore up the Agency’s safety plans and programs; FY 2019 includes approximately \$48,000 in special studies at the Lucerne Valley facilities (carried over from FY 2018), an engineer’s assessment of the Agency’s Sewer System Management Plan, and a new contract with a Safety Consultant; and FY 2018 included a rate study and special studies at the Lucerne Valley facilities.

| | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5-Year CAGR |
|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|----------------|
| CONTRACT SRVC - PROF | | | | | | | | | | | | |
| Engineering | 2,715 | 12,261 | 6,293 | 67,736 | 57,699 | 30,000 | 15,450 | 15,914 | 16,391 | 16,883 | 17,389 | -10% |
| Legal | 190,766 | 58,735 | 54,575 | 92,501 | 92,907 | 100,000 | 92,700 | 95,481 | 98,345 | 101,296 | 104,335 | 1% |
| Other | 30,564 | 28,802 | 90,539 | 31,220 | 82,742 | 129,000 | 101,927 | 68,795 | 76,308 | 72,984 | 75,174 | -10% |
| Total | 224,045 | 99,798 | 151,407 | 191,457 | 233,349 | 259,000 | 210,077 | 180,189 | 191,044 | 191,163 | 196,898 | -5% |
| % Change | 64% | -55% | 52% | 26% | 22% | 11% | -19% | -14% | 6% | 0% | 3% | |

Capital Contributions - Connection Fees

Connection Fees are expected to remain relatively flat and are projected at 55 annually over the forecast period. New connections to the wastewater system have remained low during the current economic cycle. Excluding multi-unit developments, connections have averaged 55 per year for the last 3 years with trailing, twelve-month connections of 58 as of December 31, 2018. The Agency increased its connection fee as a result of the 2018 Connection Fee Study to \$4,180 from \$3,670.

| | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5-Year CAGR |
|-----------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|----------------|
| Connections | 45 | 84 | 69 | 63 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | |
| Connection Fee | \$3,670 | \$3,670 | \$3,670 | \$3,670 | \$3,670 | \$3,670 | \$4,180 | \$4,180 | \$4,180 | \$4,180 | \$4,180 | |
| Connection Fees | 165,150 | 308,280 | 253,230 | 231,210 | 201,850 | 201,850 | 229,900 | 229,900 | 229,900 | 229,900 | 229,900 | 3% |
| % Change | 50.0% | 86.7% | -17.9% | -8.7% | -12.7% | 0.0% | 13.9% | 0.0% | 0.0% | 0.0% | 0.0% | |

Debt Service and Bond Covenant Calculations

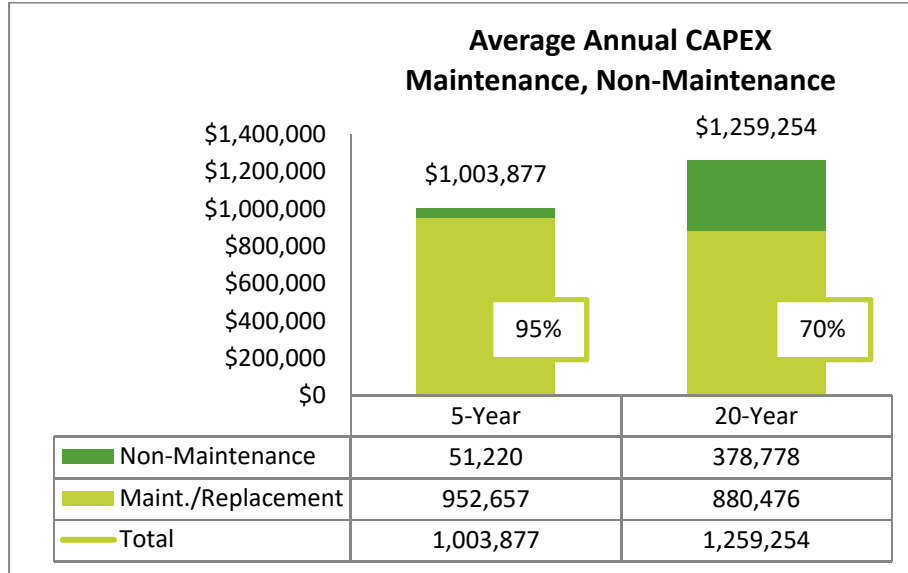
The Agency borrowed \$1.8 million of new debt in FY 2019 to fund the new belt press, conveyor and hopper. Although the Agency incurred new debt in FY 2019, the Agency’s debt service will be lower in FY 2020 due to lowering amortization requirements under its existing debt. The lower debt service will contribute approximately \$70,000 annually to the Agency’s cash flow and contribute to higher debt service coverage. Debt service coverage at the end of FY 2020 is expected to be 3.1 x and is expected to remain close to this level over the forecast period.

| | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 |
|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Debt Service | \$579,284 | \$576,084 | \$576,084 | \$576,083 | \$576,084 | \$598,433 | \$509,077 | \$509,077 | \$509,077 | \$509,077 | \$509,077 |
| Net Rev / Debt Srv | 2.7 | 3.7 | 3.2 | 2.9 | 2.5 | 2.0 | 3.1 | 3.1 | 3.1 | 3.2 | 3.2 |
| Covenant Test | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| PASS / FAIL | PASS | PASS | PASS | PASS | PASS | PASS | PASS | PASS | PASS | PASS | PASS |



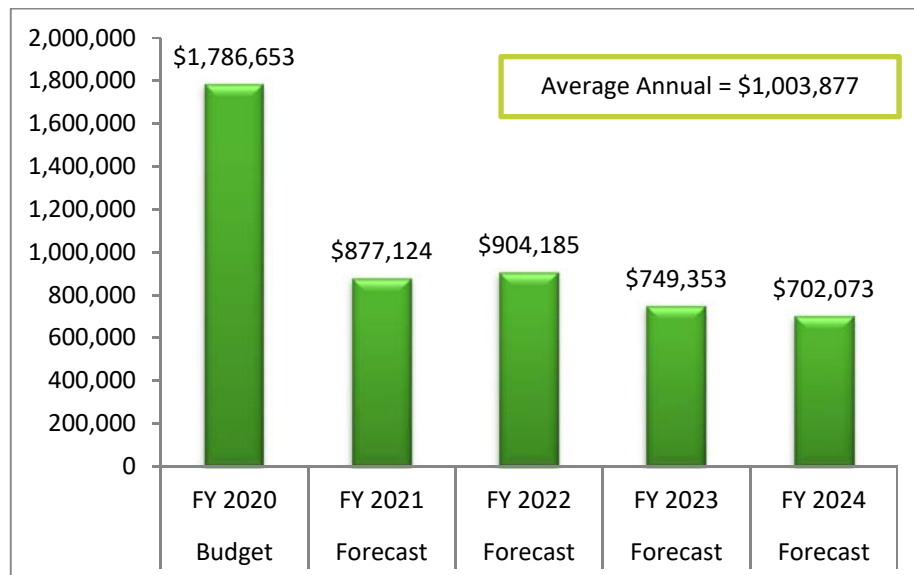
Capital Expenditures

Over the long-term, the Agency expects maintenance CAPEX to be approximately 70% of total capital expenditures and non-maintenance CAPEX to be 30%.



During the five-year forecast, capital expenditures total \$5 million and include two larger capital projects that total \$1.2 million (Headworks and SCADA replacement projects). Maintenance and replacement capital expenditures over the period average approximately \$950,000 per year and exceed expected annual maintenance. The Agency’s long-term annual depreciation expense averages approximately \$830,000 (general indicator of the level of annual maintenance capital expenditures needed to maintain the Agency’s assets) and the Agency’s current 20-year Capital Improvement Plan indicates an average annual maintenance requirement of approximately \$880,000.

All capital expenditures in the 5-year plan will be cash funded.





5-YEAR CAPITAL IMPROVEMENT PLAN, FY 2020 – 2024

| | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5 Year FY 2020-2024 |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|------------------------|
| ADMINISTRATION BUILDING | | | | | | |
| Admin Building - HVAC Boiler and Controls | 0 | 0 | 0 | 0 | 296,251 | 296,251 |
| Total | 0 | 0 | 0 | 0 | 296,251 | 296,251 |
| EFFLUENT DISPOSAL ASSETS | | | | | | |
| Storage | | | | | | 0 |
| Monitoring Wells Rehabilitation | 0 | 0 | 0 | 36,114 | 0 | 36,114 |
| Total | 0 | 0 | 0 | 36,114 | 0 | 36,114 |
| FLOW MEASURING DEVICES | | | | | | |
| RAS Flow Meter (10 year replacement) | 0 | 0 | 15,289 | 0 | 0 | 15,289 |
| WAS Meter (10 year maint replacement) | 9,431 | 0 | 0 | 0 | 0 | 9,431 |
| CBBL Flow Meter and Software (10 year replacement) | 0 | 48,471 | 0 | 0 | 0 | 48,471 |
| CSA Flow Meter (10 year replacement) | 0 | 0 | 0 | 15,819 | 0 | 15,819 |
| Auxiliary Flow Meter (15 year replacement) | 0 | 0 | 0 | 26,802 | 0 | 26,802 |
| Total flow measuring devices | 9,431 | 48,471 | 15,289 | 42,621 | 0 | 115,812 |
| INTERCEPTOR SYSTEM | | | | | | |
| Pumping Equipment | | | | | | |
| Pump 3, Flygt 150 HP Rebuild | 0 | 0 | 84,419 | 0 | 0 | 84,419 |
| Total interceptor system | 0 | 0 | 84,419 | 0 | 0 | 84,419 |
| OTHER EQUIPMENT | | | | | | |
| Communications | | | | | | |
| Radio Communication Equipment | 15,500 | 0 | 0 | 0 | 0 | 15,500 |
| SCADA System Replacement | 450,000 | 0 | 0 | 0 | 0 | 450,000 |
| IT System | 27,000 | 0 | 0 | 0 | 0 | 27,000 |
| Electrical | | | | | | |
| VFD Interceptor - Station 3 (7 yr) | 0 | 0 | 0 | 18,042 | 0 | 18,042 |
| VFD Interceptor - LPS (7 yr) | 0 | 0 | 0 | 0 | 28,242 | 28,242 |
| Utility Transfer Switch | 25,000 | 0 | 0 | 0 | 0 | 25,000 |
| Laboratory | | | | | | |
| Effluent Composite Sampler | 8,000 | 0 | 0 | 0 | 0 | 8,000 |
| Fume Hood and Fan | 15,635 | 0 | 0 | 0 | 0 | 15,635 |
| Office Equipment | | | | | | |
| Copier | 0 | 15,273 | 0 | 0 | 0 | 15,273 |
| Plotter / Scanner | 6,100 | 0 | 0 | 0 | 0 | 6,100 |



5-YEAR CAPITAL IMPROVEMENT PLAN, FY 2020 – 2024 Cont.

| | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5 Year FY 2020 2024 |
|---|-------------------|---------------------|---------------------|---------------------|---------------------|------------------------|
| Security | | | | | | |
| Fire Alarm System OAC | 150,000 | 0 | 0 | 0 | 0 | 150,000 |
| Total | 697,235 | 15,273 | 0 | 18,042 | 28,242 | 758,792 |
| OTHER TANGIBLE PLANT | | | | | | |
| Palomino Drive Repave | 0 | 0 | 0 | 0 | 200,000 | |
| Asphalt and Paving | 0 | 0 | 250,000 | 250,000 | 0 | 500,000 |
| Total | 0 | 0 | 250,000 | 250,000 | 200,000 | 700,000 |
| POWER GENERATING EQUIPMENT | | | | | | |
| Cummins #1 Overhaul (3-year life) | 0 | 152,684 | 0 | 0 | 0 | |
| Cummins #2 Overhaul (3-year life) | 0 | 152,684 | 0 | 0 | 0 | |
| Cummins #1 Top End (3-year life) | 0 | 0 | 0 | 61,793 | 0 | 61,793 |
| Cummins #2 Top End (3-year life) | 0 | 0 | 0 | 61,793 | 0 | 61,793 |
| Waukesha Rebuild (6-year life) | 0 | 0 | 0 | 0 | 87,406 | 87,406 |
| Waukesha Overhaul (6-year life) | 172,142 | 0 | 0 | 0 | 0 | 172,142 |
| Station 2 Generator + Fuel System | 72,116 | 0 | 0 | 0 | 0 | 72,116 |
| Station 3 Generator + Fuel System | 0 | 120,000 | 0 | 0 | 0 | 120,000 |
| LPS Generator + Fuel System | 0 | 0 | 152,213 | 0 | 0 | 152,213 |
| Total | 244,258 | 425,368 | 152,213 | 123,586 | 87,406 | 1,032,831 |
| Vehicles | | | | | | |
| 1989 Dump Truck Replacement | 0 | 0 | 94,493 | 0 | 0 | 94,493 |
| 2002 Vehicle - Utility Cart Electric | 0 | 16,958 | 0 | 0 | 0 | 16,958 |
| 2010 GMC 1/2 Ton | 0 | 0 | 48,236 | 0 | 0 | 48,236 |
| 2004 Toyota 4-Runner | 0 | 47,704 | 0 | 0 | 0 | 47,704 |
| 2004 Toyota Tundra - Replace with 1 Ton | 65,000 | 0 | 0 | 0 | 0 | 65,000 |
| Utility Cart Gas | 0 | 0 | 0 | 27,519 | 0 | 27,519 |
| Heavy Equipment and Accessories | | | | | | |
| Bobcat Backhoe | 0 | 0 | 0 | 89,369 | 0 | 89,369 |
| Total transportation equipment | 65,000 | 64,662 | 142,729 | 116,888 | 0 | 389,279 |
| TREATMENT PLANT | | | | | | |
| Piping | | | | | | |
| High Pressure Effluent Line | 0 | 157,594 | 0 | 0 | 0 | 157,594 |
| Processing Equipment: | | | | | | |
| Polyblend Unit Backup 1 | 0 | 0 | 9,980 | 0 | 0 | 9,980 |
| Shaft Mount Reducer - Ditch #3 | 0 | 15,756 | 0 | 0 | 0 | 15,756 |
| Pumping Equipment: | | | | | | |
| Clarifier 3: | | | | | | |
| Scum and Tank Drain Pump - 10 HP | 0 | 0 | 18,318 | 0 | 0 | 18,318 |



5-YEAR CAPITAL IMPROVEMENT PLAN, FY 2020 – 2024 Cont.

| | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5 Year FY 2020-2024 |
|--|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| <i>Cannibal Building:</i> | | | | | | |
| Submersible Pump - 15 HP (2) | 0 | 0 | 0 | 8,559 | 0 | 8,559 |
| <i>Auxiliary Pump Building:</i> | | | | | | |
| Auxiliary Pump 2 | 0 | 0 | 0 | 0 | 21,136 | 21,136 |
| Auxiliary Pump 3 | 0 | 0 | 38,003 | 0 | 0 | 38,003 |
| <i>Main Pump Building:</i> | | | | | | |
| Skylights | 20,000 | 0 | 0 | 0 | 0 | 20,000 |
| RAS Pump 1 7.5 HP Rebuild | 0 | 0 | 0 | 0 | 5,633 | 5,633 |
| RAS Pump 4 7.5 HP Rebuild | 0 | 0 | 0 | 0 | 5,633 | 5,633 |
| Effluent Pump 1 40 HP | 0 | 0 | 0 | 12,681 | 0 | 12,681 |
| Effluent Pump 2 40 HP | 0 | 0 | 0 | 12,681 | 0 | 12,681 |
| Effluent Pump 3 100 HP | 26,169 | 0 | 0 | 0 | 0 | 26,169 |
| Effluent Pump 4 100 HP | 0 | 0 | 0 | 28,181 | 0 | 28,181 |
| Effluent Pump 5 100 HP | 0 | 0 | 0 | 0 | 28,886 | 28,886 |
| Effluent Pump 6 100 HP | 0 | 0 | 0 | 0 | 28,886 | 28,886 |
| Headers and check valves | 0 | 150,000 | 0 | 0 | 0 | 150,000 |
| Structures | | | | | | |
| Headworks | 404,811 | 0 | 0 | 0 | 0 | 404,811 |
| Treatment Equipment | | | | | | |
| Carbon Tower Headworks | 0 | 0 | 193,234 | 0 | 0 | 193,234 |
| Bar Screen | 129,289 | 0 | 0 | 0 | 0 | 129,289 |
| Grit Aeration, Air Lift Difuser | 47,573 | 0 | 0 | 0 | 0 | 47,573 |
| Grit Washer | 54,833 | 0 | 0 | 0 | 0 | 54,833 |
| Wash Press Raptor Headworks | 88,053 | 0 | 0 | 0 | 0 | 88,053 |
| Total treatment plant equipment | 770,728 | 323,350 | 259,535 | 62,102 | 90,174 | 1,505,889 |
| STUDIES AND MAPS | | | | | | |
| New Pipeline Maps | 0 | 0 | 0 | 100,000 | 0 | 100,000 |
| Total Studis and Maps | 0 | 0 | 0 | 100,000 | 0 | 100,000 |
| TOTAL | <u>1,786,653</u> | <u>877,124</u> | <u>904,185</u> | <u>749,353</u> | <u>702,073</u> | <u>5,019,387</u> |

Capital Expenditures – FY 2020

Flow Measuring Devices

WAS Meter (\$9,431): The treatment plant WAS metering equipment measures the Waste Activated Sludge flow from the Main Pump Building to a variety of locations throughout the treatment plant. This meter is no longer able to be calibrated and is not supported by the manufacturer. We will be replacing this meter with new equipment that can be calibrated on an annual basis.

Start Date: August 1, 2019
 Target Completion Date: August 31, 2019



Other Equipment, Communications

Radio Communications Equipment (\$15,500): The existing analog radio equipment is old and in need of replacement. The scope of work will include modification of our existing FCC licenses to digital frequency, new base stations and handheld radios, and a new repeater at LPS. The radio communications equipment is a crucial part of BBARWA operations while implementing traffic control measures and emergency operations.

Start Date: July 1, 2019
Target Completion Date: October 31, 2019

SCADA System Replacement (\$450,000): The SCADA system (Supervisory Control and Data Acquisition) will be updated to an industry standard level. BBARWA staff is working closely with Allen Bradley representatives to acquire new equipment and will work closely with licensed contractors to install, program and maintain a new SCADA system. The SCADA system is a crucial part of BBARWA operations.

Start Date: July 1, 2019
Target Completion Date: June 30, 2020

IT System (\$27,000): The Agency needs an IT system. The new IT system is a cost-effective data processing and storage solution that will host all the Agency data and programs and allow business continuity in the event of disaster recovery. Staff will work with our IT provider, Accent Computer Solutions, Inc., for the purchase, configuration, and implementation.

Start Date: July 1, 2019
Target Completion Date: December 31, 2019

Other Equipment, Electrical

Utility Transfer Switch (\$25,000): The treatment plant power generation equipment is set up to automatically transfer power in the event of a power outage. This equipment needs to be upgraded and is necessary for integration with the SCADA system replacement.

Start Date: May 1, 2020
Target Completion Date: May 30, 2020

Other Equipment, Laboratory

Effluent Composite Sampler (\$8,000): BBARWA discharge order requires composite samples. This sampler is located in the Auxiliary Pump Building. The Effluent Composite sampler is outdated, and replacement parts are difficult to obtain.

Start Date: July 1, 2019
Target Completion Date: July 31, 2019

Fume Hood and Fan (\$15,635): The current fume hood is not up to the current standards and regulations for laboratory fume hoods. This equipment is used for acid digestion and is needed twice a week for ventilation of vaporous chemicals.

Start Date: July 1, 2019
Target Completion Date: July 31, 2019



Other Equipment, Office Equipment

Plotter / Scanner (\$6,100): The Agency is in the process of implementing a new document retention system in accordance with the Agency's Record Retention Policy. The purchase of a plotter/scanner will allow staff the ability to scan large scale historical drawings and maps for retention and print large scale maps and engineered drawings for use by staff.

Start Date: October 1, 2019
Target Completion Date: January 31, 2020

Other Equipment, Security

Fire Alarm System (\$150,000): The treatment plant has a hard-wired fire alarm system. Due to aging wiring and equipment, this system has started to send out false alarms. BBARWA will be upgrading the fire alarm system with new equipment for better reliability of the system.

Start Date: July 1, 2019
Target Completion Date: October 31, 2019

Power Generating Equipment

Waukesha Overhaul (\$172,142): The Waukesha generator is the main source of power for the treatment plant. This engine was last overhauled in 2015. This engine overhaul schedule is based on run hours and recommended factory O&M, which includes removing and replacing all internal parts of the engine.

Start date: July 1, 2019
Target completion date: July 31, 2019

Station Two Generator and Fuel System (\$72,116): The standby generator at Station Two is old and in need of replacement. The parts for the existing unit are getting difficult to find and are very costly to replace. The scope of work will include the purchase of an approved generator and fuel system to be installed by an approved factory representative with the help of BBARWA staff.

Start date: April 1, 2020
Target completion date: April 30, 2020

Transportation – Vehicles

Dodge Ram One Ton (\$65,000): The Agency needs a one-ton truck with a regular pickup bed for daily operations and towing of plant equipment. This truck will be replacing the half-ton Toyota Tundra.

Start Date: July 1, 2019
Target completion date: July 31, 2019



Treatment Plant

Main Pump Building Skylights (\$20,000): These skylights act as access panels for the Agency’s effluent pumps in the Main Pump Building. These panels are cracked which allows rain water and snow to enter the Main Pump Building. The scope of work includes purchase and installation of the skylights.

Start Date September 1, 2019
Target completion date: September 30, 2019

Effluent Pump 3 (\$26,169): Effluent Pump Three is one of four, 100 HP pumps in the Main Pump Building. This pump will be removed and sent to the manufacturer for a rebuild.

Start date: August 1, 2019
Target completion date: August 31, 2019

Headworks and Related Treatment Equipment (\$724,599): The headworks area of the treatment plant is the first stage of treatment at BBARWA. The building is old and needs to be updated. This project will include the coating of the concrete aeration chamber. New equipment will also be installed (i.e. Bar screen, Grit Aeration, Air Lift Diffuser, Grit Washer). By rebuilding the headworks, the treatment plant should see a significant change in the amount of trash and grit that is introduced into the oxidation ditches and ultimately disposed of at the local transfer station. The scope of work (and the amount included above) includes the purchase and installation of the new bar screen.

Start date: April 1, 2020
Target completion date: October 31, 2020

Capital Expenditures – FY 2021 – FY 2024

Projects discussed below are in the 5-year capital plan, beyond the budget year, and exceed \$100,000.

Admin Building HVAC Boiler (\$296,251): The Administration Building HVAC system has been having a lot of breakdowns and an upgrade to a newer more efficient system is recommended. The current system has been found to be undersized which puts too much strain on the current boiler creating multiple failures.

New Pipeline Maps (\$100,000): The Agency has pipeline maps that depict the original locations of Agency facilities with varying degrees of accuracy. The Agency will begin to update its maps which will help BBARWA staff with line locations for dig alerts.

Asphalt and Paving (\$700,000): The asphalt needs replacement due to age and climate. The asphalt work includes the grading and paving of areas within the treatment plant and repaving of Palomino Drive.

Cummins Generators Major Overhaul (\$305,368) and Top End Service (\$123,586): The Cummins generator system was installed in 2007 and put into operations in 2008. The generators run approximately 4,500 hours a year to supply power for the Treatment Plant and the Administration Building and supply heat to the Covered Drying Bed. The generator system is a critical part of operations and ensures reduced expenditures for electricity. The generators require major overhaul and top-end services, which rotate every 20,000 hours. The scope of work will include new crankshaft, camshaft, piston kits, cylinder heads, turbocharger and the generator end to be checked for any electrical shorts.

Station Three and LPS Generator and Fuel Systems (\$272,213): The Agency is going to be replacing the old standby generators at the lift stations. The parts for the existing units are getting hard to find and are very costly



to replace. The scope of work will include the purchase of an approved generator and fuel system to be installed by an approved factory representative with the help of BBARWA staff. During power outage situations these generators serve as standby power to keep pumps moving wastewater to the treatment plant.

Headers and Check Valves (\$150,000): The piping from the RAS pumps and the Effluent pumps in the Main Pump Building are getting older and need replacement. Over time these pipes start to deteriorate due to the inherent effects of flowing water. This will include check valves, gate valves and all piping in the Main Pump Building.

High Pressure Effluent Lines (\$157,594): The treatment plant utilizes its secondary effluent for many different applications. It is utilized in almost all the hose bibs and serves as the water supply to most of the buildings at the treatment plant.

Carbon Tower Headworks (\$193,234): The Carbon Tower is used to filter sewer gas from the headworks before it gets released into the atmosphere. This carbon tower is aging and is scheduled for replacement.

Cash and Designated Fund Balances

All references to Agency funds and designated fund balances are related to internal reserve funds maintained by the Agency for various operating and capital related purposes. The following is a summary of the Agency's internally designated funds:

| CASH AND DESIGNATED FUND BALANCES | |
|-----------------------------------|--|
| Fund | Description |
| Capital and Replacement | Fund balance is maintained for capital expenditure requirements. The current year portion reflects capital expenditures appropriated for the budget and goes up and down as funds are appropriated or expensed during the budget year. The current year portion of the fund balance is reestablished annually prior to July 1 for the ensuing budget year. The future year portion reflects cash available for future capital requirements identified in the Agency's 20-Year CIP. |
| Debt Service | Fund balance is maintained for debt service requirements appropriated for the budget and goes down as funds are expensed during the budget year. The fund balance is reestablished annually prior to July 1 for the ensuing budget year. |
| Liquidity | Fund balance is maintained to meet the Agency's operating requirements due to the timing and infrequent nature of the Agency's revenues. The Agency, in general, needs approximately \$2.2 million as of July 1 of each fiscal year. This amount will go up and down with changes in operating expense. The fund balance is reestablished annually prior to July 1 for the ensuing budget year. |
| Contingency | The Agency has established an 1) emergency fund of \$500,000 and 2) operating fund in the amount of two months operating expense. The operating portion of the contingency fund required balance will go up and down with changes in operating expense. The fund balance is reestablished annually prior to July 1 for the ensuing budget year. |
| Connection Fees | The use of connection fee revenue is restricted by law. The Agency accounts for accrued and unspent connection fee revenue through this internal fund. |



| | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | Total Change |
|-------------------------------------|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|-----------------|
| ENDING BALANCE: | | | | | | | |
| Cash Balance | 6,241,954 | 5,093,033 | 5,123,971 | 5,331,746 | 5,714,783 | 6,165,889 | -76,066 |
| Designated Fund Balances: | | | | | | | |
| Capital and Replacement Fund | | | | | | | |
| Current Year | 1,786,653 | 877,124 | 904,185 | 749,353 | 391,328 | 1,137,254 | -649,399 |
| Future Years | <u>535,897</u> | <u>188,601</u> | <u>66,383</u> | <u>308,077</u> | <u>922,726</u> | <u>526,155</u> | <u>-9,742</u> |
| Total C & R | 2,322,550 | 1,065,725 | 970,567 | 1,057,430 | 1,314,053 | 1,663,409 | -659,141 |
| Debt Service Fund | | | | | | | |
| Liquidity Fund | 509,077 | 509,077 | 509,077 | 509,077 | 509,077 | 509,077 | 0 |
| Contingency Fund: | | | | | | | |
| Emergency | 2,187,069 | 2,268,158 | 2,362,917 | 2,453,781 | 2,548,779 | 2,625,242 | 438,173 |
| Operating | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 0 |
| Total Contingency | <u>723,258</u> | <u>750,074</u> | <u>781,411</u> | <u>811,459</u> | <u>842,875</u> | <u>868,161</u> | <u>144,903</u> |
| Designated Funds | 1,223,258 | 1,250,074 | 1,281,411 | 1,311,459 | 1,342,875 | 1,368,161 | 144,903 |
| Designated Funds | 6,241,954 | 5,093,033 | 5,123,971 | 5,331,746 | 5,714,783 | 6,165,889 | -76,066 |

At the end of FY 2024, the Agency is projected to have \$526,155 in the “future” component of the Capital and Replacement Fund. This amount reflects the cash that is available for future capital projects beginning in FY 2026. Based on the current capital improvement plan, the Agency is expected to fall short by approximately \$190,000 to cover the five-year period beginning in FY 2026. Based on the Agency’s plans for lower-cost, solar energy, we believe much of the generator maintenance in the capital improvement plan will be eliminated and as a result, the projected funds in the Capital and Replacement Fund will likely be sufficient.

Rate Review

Adequacy of Rates

The budget and forecast period were prepared assuming annual inflationary changes in the Agency's sewer user fees ranging from 3% to 3.2% in FY 2020 - 2024. The rate adjustments should be adequate to cover future operating and capital requirements for the budget and forecast period. The forecast period is a "best estimate" of the Agency's future revenue requirements and may change as we move into the future, which could impact the timing and size of potential rate adjustments.

FY 2020 Rate per EDU - \$216.78 / EDU

Based on the Agency’s current budget and five-year forecast, staff is recommending a rate of \$216.78 per EDU, a 3.2% increase over the FY 2019 rate of \$210.06.

Ratepayer Impact

The financial impact to the ratepayer in FY 2020, based on a 3.2% increase to the established rate is as follows:

| Annual Increase | Monthly Increase |
|-----------------|------------------|
| \$6.72 | \$0.56 |



Appendix
Five-Year Forecast

Income Statement

FY 2019 as presented below is based on expected performance and has not been "normalized" as previously presented for discussion purposes.

| | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | 5 Yr CAGR (a) |
|---|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|------------------|
| Operating Revenue: | | | | | | | |
| Annual Charges | 5,251,785 | 5,437,076 | 5,612,469 | 5,793,493 | 5,980,326 | 6,173,155 | 3% |
| Standby Charges | 83,200 | 81,660 | 80,541 | 79,422 | 78,302 | 77,183 | -1% |
| Rental Income | 51,071 | 51,820 | 52,592 | 53,386 | 53,386 | 53,386 | 1% |
| Waste Disposal | 21,798 | 21,798 | 21,798 | 21,798 | 21,798 | 21,798 | 0% |
| Other Revenue | 0 | 0 | 0 | 0 | 0 | 0 | nm (b) |
| Total Operating Revenue | 5,407,854 | 5,592,354 | 5,767,400 | 5,948,099 | 6,133,813 | 6,325,523 | 3% |
| Operating Expenses: | | | | | | | |
| Salaries and Benefits | 2,159,081 | 2,400,883 | 2,594,879 | 2,774,238 | 2,938,507 | 3,090,735 | 7% |
| Power | 472,976 | 481,412 | 489,436 | 497,364 | 502,963 | 508,306 | 1% |
| Sludge Removal | 246,318 | 209,564 | 212,413 | 215,349 | 218,372 | 221,486 | -2% |
| Chemicals | 48,945 | 104,222 | 80,076 | 82,454 | 113,810 | 87,426 | 12% |
| Materials and Supplies | 183,067 | 164,512 | 149,326 | 154,166 | 161,579 | 169,531 | -2% |
| Repairs and Replacements | 574,311 | 264,877 | 272,292 | 225,934 | 172,811 | 184,495 | -20% |
| Equipment Rental | 803 | 820 | 837 | 854 | 880 | 906 | 2% |
| Utilities Expense (other than power) | 28,130 | 28,638 | 29,497 | 30,382 | 31,293 | 32,232 | 3% |
| Communications Expense | 43,855 | 43,506 | 44,811 | 46,155 | 47,540 | 48,966 | 2% |
| Contractual Services - Other | 125,205 | 103,632 | 102,698 | 109,642 | 111,037 | 118,802 | -1% |
| Contractual Services - Prof | 259,000 | 210,077 | 180,189 | 191,044 | 191,163 | 196,898 | -5% |
| Permits and fees | 151,465 | 165,348 | 173,744 | 182,575 | 191,866 | 201,640 | 6% |
| Property Tax Expense | 3,652 | 3,703 | 3,755 | 3,808 | 3,862 | 3,916 | 1% |
| Insurance | 100,843 | 109,856 | 116,534 | 123,043 | 130,075 | 137,320 | 6% |
| Other Operating Expense | 62,931 | 48,501 | 49,956 | 51,454 | 52,998 | 54,588 | -3% |
| Depreciation Expense | 975,331 | 895,524 | 885,098 | 886,085 | 879,015 | 869,866 | -2% |
| Total Operating Expense | 5,435,912 | 5,235,073 | 5,385,542 | 5,574,548 | 5,747,769 | 5,927,113 | 2% |
| Operating Income | -28,058 | 357,281 | 381,858 | 373,551 | 386,043 | 398,410 | nm (b) |
| Nonoperating Income | | | | | | | |
| Gain (loss) on asset disposition | 0 | 0 | 0 | 0 | 0 | 0 | nm (b) |
| Finance Charge Income | 0 | 0 | 0 | 0 | 0 | 0 | nm (b) |
| Interest Income | 71,768 | 107,396 | 101,537 | 110,557 | 125,423 | 141,980 | 15% |
| Other Nonoperating Income | 0 | 0 | 0 | 0 | 0 | 0 | nm (b) |
| Nonoperating income | 71,768 | 107,396 | 101,537 | 110,557 | 125,423 | 141,980 | 15% |
| Nonoperating Expense | | | | | | | |
| Other Expense | 271,700 | 261,700 | 11,700 | 11,700 | 11,700 | 11,700 | -47% |
| Interest Expense | 128,264 | 136,848 | 124,101 | 110,916 | 97,279 | 83,173 | -8% |
| Nonoperating expense | 399,964 | 398,548 | 135,801 | 122,616 | 108,979 | 94,873 | -25% |
| Income before Contributions | -356,254 | 66,129 | 347,594 | 361,492 | 402,487 | 445,516 | nm |
| Connection Fees | 201,850 | 229,900 | 229,900 | 229,900 | 229,900 | 229,900 | 3% |
| Net Income, Change in Net Position | -154,404 | 296,029 | 577,494 | 591,392 | 632,387 | 675,416 | nm |

(a) Compound Annual Growth Rate (average annual change)

(b) "nm" means not meaningful



Cash Flow Statement and Designated Fund Balances

| | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | Total Change |
|---|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| Cash from operating activities: | | | | | | | |
| Operating Income (Loss) | -28,058 | 357,281 | 381,858 | 373,551 | 386,043 | 398,410 | 1,897,142 |
| Depreciation expense | 975,331 | 895,524 | 885,098 | 886,085 | 879,015 | 869,866 | 4,415,587 |
| Change in Working Capital | <u>-178,392</u> | <u>6,707</u> | <u>18,746</u> | <u>20,944</u> | <u>21,085</u> | <u>22,100</u> | <u>89,582</u> |
| Net cash provided by op activities | 768,880 | 1,259,512 | 1,285,701 | 1,280,579 | 1,286,143 | 1,290,375 | 6,402,312 |
| Cash from noncapital financing: | | | | | | | |
| Payment of pension related debt/lia | -200,000 | -200,000 | -200,000 | 0 | 0 | 0 | -400,000 |
| Cash from capital and related financing: | | | | | | | |
| Interagency expense | -260,000 | -250,000 | 0 | 0 | 0 | 0 | |
| Capital Expenditures | -2,193,150 | -1,786,653 | -877,124 | -904,185 | -749,353 | -702,073 | -5,019,387 |
| Connection Fee (Capital Contrib) | 201,850 | 229,900 | 229,900 | 229,900 | 229,900 | 229,900 | 1,149,500 |
| Proceeds from Debt Issuance | 1,731,500 | 0 | 0 | 0 | 0 | 0 | -3,869,887 |
| Debt Service: | | | | | | | |
| Interest Expense | -129,293 | -136,848 | -124,101 | -110,916 | -97,279 | -83,173 | -552,318 |
| Principal Debt Amortization | <u>-469,141</u> | <u>-372,229</u> | <u>-384,976</u> | <u>-398,160</u> | <u>-411,798</u> | <u>-425,903</u> | <u>-1,993,065</u> |
| Total Debt Service | <u>-598,433</u> | <u>-509,077</u> | <u>-509,077</u> | <u>-509,077</u> | <u>-509,077</u> | <u>-509,077</u> | <u>-2,545,383</u> |
| Net cash used for cap and related fin | -1,118,233 | -2,315,829 | -1,156,300 | -1,183,361 | -1,028,530 | -981,250 | -10,285,158 |
| Cash from investing: | | | | | | | |
| Interest Income | <u>71,768</u> | <u>107,396</u> | <u>101,537</u> | <u>110,557</u> | <u>125,423</u> | <u>141,980</u> | <u>586,893</u> |
| Net cash from investing | 71,768 | 107,396 | 101,537 | 110,557 | 125,423 | 141,980 | 586,893 |
| NET CHANGE IN CASH | -477,585 | -1,148,921 | 30,938 | 207,775 | 383,036 | 451,106 | -76,066 |
| Beginning Cash Balance | 6,719,539 | 6,241,954 | 5,093,033 | 5,123,971 | 5,331,746 | 5,714,783 | 6,241,954 |
| Ending Cash Balance | <u>6,241,954</u> | <u>5,093,033</u> | <u>5,123,971</u> | <u>5,331,746</u> | <u>5,714,783</u> | <u>6,165,889</u> | <u>6,165,889</u> |
| Change in Cash Balance | -477,585 | -1,148,921 | 30,938 | 207,775 | 383,036 | 451,106 | -76,066 |

| | Projected FY 2019 | Budget FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | Total Change |
|--|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|-----------------|
| DESIGNATED FUND BALANCES (Ending) | | | | | | | |
| Cash Balance | 6,241,954 | 5,093,033 | 5,123,971 | 5,331,746 | 5,714,783 | 6,165,889 | -76,066 |
| Capital and Replacement Fund | | | | | | | |
| Current Year | 1,786,653 | 877,124 | 904,185 | 749,353 | 391,328 | 1,137,254 | -649,399 |
| Future Years | <u>535,897</u> | <u>188,601</u> | <u>66,383</u> | <u>308,077</u> | <u>922,726</u> | <u>526,155</u> | <u>-9,742</u> |
| Total C & R | 2,322,550 | 1,065,725 | 970,567 | 1,057,430 | 1,314,053 | 1,663,409 | -659,141 |
| Debt Service Fund | | | | | | | |
| Liquidity Fund | 509,077 | 509,077 | 509,077 | 509,077 | 509,077 | 509,077 | 0 |
| Liquidity Fund | | | | | | | |
| Liquidity Fund | 2,187,069 | 2,268,158 | 2,362,917 | 2,453,781 | 2,548,779 | 2,625,242 | 438,173 |
| Contingency Fund: | | | | | | | |
| Emergency | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 0 |
| Operating | <u>723,258</u> | <u>750,074</u> | <u>781,411</u> | <u>811,459</u> | <u>842,875</u> | <u>868,161</u> | <u>144,903</u> |
| Total Contingency | 1,223,258 | 1,250,074 | 1,281,411 | 1,311,459 | 1,342,875 | 1,368,161 | 144,903 |
| Designated Funds | 6,241,954 | 5,093,033 | 5,123,971 | 5,331,746 | 5,714,783 | 6,165,889 | -76,066 |



Rate Analysis

| | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| | | | | | | | |
| Revenue Requirements: | | | | | | | |
| Op Expenses before Depreciation | 4,460,581 | 4,339,549 | 4,500,444 | 4,688,463 | 4,868,755 | 5,057,248 | 23,454,459 |
| Rate Funded Capital: | | | | | | | |
| Debt Service | 500,243 | 433,672 | 433,672 | 433,672 | 433,672 | 433,672 | 2,168,362 |
| Capital Expenditures (cash funded) | <u>800,000</u> | <u>800,000</u> | <u>800,000</u> | <u>800,000</u> | <u>800,000</u> | <u>800,000</u> | <u>4,000,000</u> |
| Total Rate Funded Capital | 1,300,243 | 1,233,672 | 1,233,672 | 1,233,672 | 1,233,672 | 1,233,672 | 6,168,362 |
| Subtotal | 5,760,824 | 5,573,222 | 5,734,117 | 5,922,136 | 6,102,427 | 6,290,920 | 29,622,821 |
| LESS Other Revenues: | | | | | | | |
| Other Revenue: | | | | | | | |
| Standby Charges | 83,200 | 81,660 | 80,541 | 79,422 | 78,302 | 77,183 | 397,108 |
| Rental Income | 51,071 | 51,820 | 52,592 | 53,386 | 53,386 | 53,386 | 264,571 |
| Waste Disposal | <u>21,798</u> | <u>21,798</u> | <u>21,798</u> | <u>21,798</u> | <u>21,798</u> | <u>21,798</u> | <u>108,989</u> |
| | 156,069 | 155,278 | 154,930 | 154,606 | 153,487 | 152,367 | 770,668 |
| Revenue Requirements | 5,604,755 | 5,417,944 | 5,579,186 | 5,767,530 | 5,948,940 | 6,138,553 | 28,852,153 |
| Proposed Rate | \$210.06 | \$216.78 | \$223.29 | \$229.99 | \$236.88 | \$243.99 | |
| Annual Change | 2.8% | 3.2% | 3.0% | 3.0% | 3.0% | 3.0% | |
| Rate Revenue per Proposed Rate | | | | | | | |
| EDUs | 25,001 | 25,081 | 25,136 | 25,191 | 25,246 | 25,301 | |
| Rate Revenues - Proposed Billing | 5,251,785 | 5,437,076 | 5,612,469 | 5,793,493 | 5,980,326 | 6,173,155 | 28,996,520 |
| Rate Revenue Excess (Shortfall) - Proposed | -352,970 | 19,133 | 33,283 | 25,963 | 31,386 | 34,603 | 144,367 |
| Bond Covenant with Proposed Rate | | | | | | | |
| Net Revenue / Debt Service Ratio | 2.0 | 3.1 | 3.1 | 3.1 | 3.2 | 3.2 | |
| Covenant Test Ratio | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | |
| PASS / FAIL | PASS | PASS | PASS | PASS | PASS | PASS | |



Historical Income Statement

The historical information presented below does not match the audited financial statements and excludes GASB adjustments for pension and OPEB expense.

| | Actual FY 2014 | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Actual FY 2018 | Projected FY 2019 | NEW Budget FY 2020 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|--------------------------|
| Operating Revenues: | | | | | | | |
| Annual Charges | 4,778,215 | 4,979,690 | 4,991,166 | 5,007,070 | 5,091,576 | 5,251,785 | 5,437,076 |
| Standby Charges | 91,400 | 90,860 | 89,250 | 86,930 | 85,180 | 83,200 | 81,660 |
| Rental Income | 47,745 | 48,291 | 49,232 | 49,918 | 50,449 | 51,071 | 51,820 |
| Waste Disposal | 22,433 | 19,829 | 22,869 | 22,033 | 23,113 | 21,798 | 21,798 |
| Other Revenue | <u>2,007</u> | <u>24,575</u> | <u>5,104</u> | <u>488</u> | <u>1,916</u> | <u>0</u> | <u>0</u> |
| Total Operating Revenue | 4,941,801 | 5,163,247 | 5,157,621 | 5,166,439 | 5,252,233 | 5,407,854 | 5,592,354 |
| Operating Expenses: | | | | | | | |
| Salaries and Benefits | 1,797,691 | 1,745,041 | 1,843,684 | 1,971,517 | 1,988,278 | 2,159,081 | 2,400,883 |
| Power | 399,239 | 486,463 | 520,431 | 522,181 | 386,367 | 472,976 | 481,412 |
| Sludge Removal | 221,541 | 162,627 | 225,990 | 281,096 | 397,813 | 246,318 | 209,564 |
| Chemicals | 37,376 | 45,636 | 48,561 | 71,097 | 49,408 | 48,945 | 104,222 |
| Materials and Supplies | 153,454 | 147,264 | 136,371 | 138,226 | 127,277 | 183,067 | 164,512 |
| Repairs and Replacements | 186,806 | 161,825 | 150,764 | 128,645 | 155,447 | 574,311 | 264,877 |
| Equipment Rental | 0 | 3,659 | 165 | 2,242 | 37,215 | 803 | 820 |
| Utilities Expense (other than power) | 19,757 | 16,062 | 11,773 | 13,023 | 26,737 | 28,130 | 28,638 |
| Communications Expense | 45,613 | 33,491 | 38,610 | 44,062 | 37,064 | 43,855 | 43,506 |
| Contractual Services - Other | 95,678 | 81,627 | 102,120 | 94,182 | 74,947 | 125,205 | 103,632 |
| Contractual Services - Professional | 224,045 | 99,798 | 151,407 | 191,457 | 233,349 | 259,000 | 210,077 |
| Permits and fees | 131,361 | 142,310 | 145,866 | 148,687 | 145,515 | 151,465 | 165,348 |
| Property Tax Expense | 3,265 | 3,426 | 3,476 | 3,524 | 3,599 | 3,652 | 3,703 |
| Insurance | 69,622 | 83,561 | 87,406 | 85,386 | 99,428 | 100,843 | 109,856 |
| Other Operating Expense | 58,032 | 57,964 | 59,474 | 56,329 | 50,470 | 62,931 | 48,501 |
| Depreciation Expense | <u>799,443</u> | <u>840,229</u> | <u>875,328</u> | <u>896,429</u> | <u>842,155</u> | <u>975,331</u> | <u>895,524</u> |
| Total Operating Expense | 4,242,923 | 4,110,983 | 4,401,426 | 4,648,083 | 4,655,070 | 5,435,912 | 5,235,073 |
| <i>Total Op Expense b/f Depreciation</i> | <i>3,443,480</i> | <i>3,270,754</i> | <i>3,526,098</i> | <i>3,751,654</i> | <i>3,812,915</i> | <i>4,460,581</i> | <i>4,339,549</i> |
| Operating Income | 698,878 | 1,052,264 | 756,194 | 518,356 | 597,164 | -28,058 | 357,281 |
| Nonoperating Income | | | | | | | |
| Gain (loss) on asset disposition | -28,326 | -21,553 | -2,678 | -91,973 | -1,709,527 | 0 | 0 |
| Interest Income | 11,305 | 12,430 | 22,889 | 29,101 | 73,866 | 71,768 | 107,396 |
| Other Nonoperating Income | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Nonoperating income | -17,021 | -9,123 | 20,211 | -62,872 | -1,635,661 | 71,768 | 107,396 |
| Nonoperating Expense | | | | | | | |
| Other Expense | 11,700 | 11,700 | 11,700 | 11,700 | 31,477 | 271,700 | 261,700 |
| Interest Expense | <u>111,747</u> | <u>145,012</u> | <u>130,669</u> | <u>117,739</u> | <u>102,489</u> | <u>128,264</u> | <u>136,848</u> |
| Nonoperating expense | 123,447 | 156,712 | 142,369 | 129,439 | 133,966 | 399,964 | 398,548 |
| Income before Contributions | 558,410 | 886,429 | 634,036 | 326,045 | -1,172,464 | -356,254 | 66,129 |
| Connection Fees | <u>165,150</u> | <u>308,280</u> | <u>253,230</u> | <u>231,210</u> | <u>249,560</u> | <u>201,850</u> | <u>229,900</u> |
| Change in Net Position | 723,560 | 1,194,709 | 887,266 | 557,255 | -922,904 | -154,404 | 296,029 |