

Agenda Item: 11.

MEMORANDUM

TO: Board of Directors

FROM: Zach Nelson, Project Manager

SUBJECT: Revised Financial Projection for Merging Washington County Rural Water Systems #1 and #2

DATE: May 8, 2013



The memorandum prepared on April 4, 2013 for the financial merger of Washington County Rural Water Systems #1 and #2, indicated that merging the two water systems would create a budget deficit in the fiscal year of 2019. Upon further review of the information contained in that memorandum, it appears that there was a miscalculation in the spreadsheets for Tables #1 and #2.

The original Table #1 showed a "Bond & Interest Reserve" line item as an expense (\$197,700) in FYs 2014 thru 2017. This bond and interest reserve amount is not an actual expense that is incurred annually. This amount should be shown one time only and be held separately. Therefore, a "Bond & Interest Reserve" expense of \$197,700 should only be shown in FY 2014. (See attached Table 1 – Revised 5.3.2013) This results in a deficit of (\$75,583) in FY 2017 instead of the (\$668,683) previously shown in Table #1. While the revised Table #1, still shows that WCRW#2 will experience a budget deficit in FY 2017, it is not as drastic as previously thought.

The original Table #2 for the Combined Draft Budget for Washington County Rural Water Systems #1 and #2 contained the same miscalculation for the "Bond & Interest Reserve" line item. Therefore, a "Bond & Interest Reserve" expense of \$197,700 should not be shown in FYs 2015 thru 2019. (See attached Table 2 – Revised 5.3.2013) This revised table shows that the combined systems will not have a (\$191,483) deficit at the end of 2019, but instead will be at a very healthy \$797,016 positive cash flow going into 2020.

To summarize, the original figures presented at the April 2013 subcommittee meeting did not accurately portray the financial stability of merging the Washington County Rural Water #1 and #2 Systems. Deducting a "Bond and Interest Reserve" annually, compounded the miscalculation, to show that the combined system would eventually face a budget deficit in the FY 2019. Such is not the case. The merged system appears stable into the future with only minor adjustments needed. Part of those adjustments should probably include increasing the rates for Washington County Rural Water System #2 to help offset the debt that it brings to the combined system. New water rates for Washington County Rural Water System #1 become effective June 1, 2013. These new rates match those for Washington County Rural Water System #2, which were increased in April of 2013.

Along with the financial merger of the two systems, staff also recommends that rates for Washington County Rural Water System #2 be set at a minimum of 5% higher than Washington County Rural Water System #1, until debt from the initial construction of the system is paid.

The recommendation from the Subcommittee in April of 2013 was:

BE IT RESOLVED that a financial merger of Washington County Rural Water #1 and Washington County Rural Water #2 be implemented commencing in Fiscal Year 2014.

Management also recommends adoption of the following amendment:

BE IT RESOLVED that the General Manager be directed to set a rate structure for Washington County Rural Water #2 that is a minimum of 5% higher than Washington County Rural Water #1, until debt from the initial construction of Washington County Rural Water #2 is paid, commencing October 1, 2013.

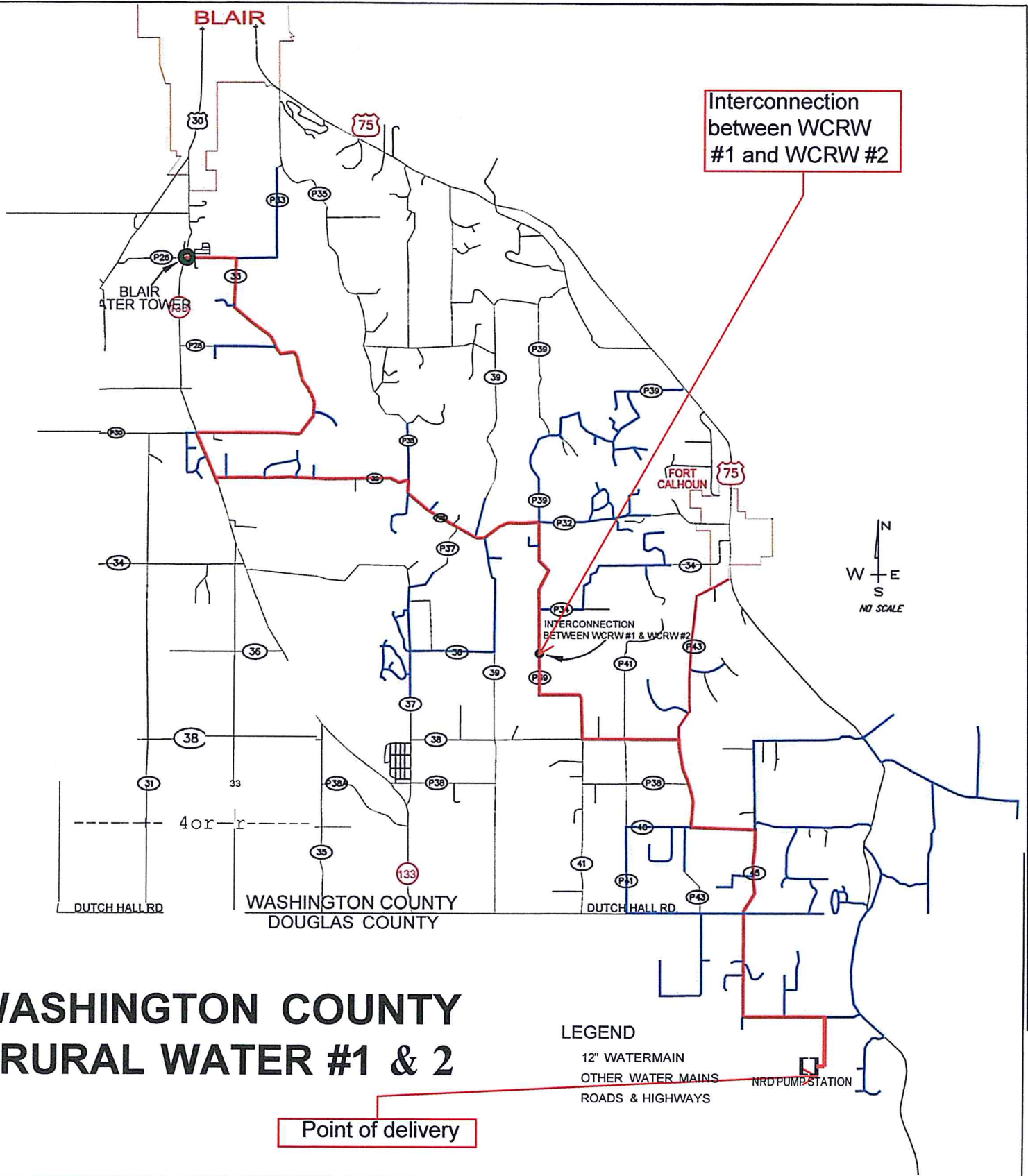


TABLE 1 - Revised 5.3.2013

PROJECTED DRAFT BUDGET FOR F.Y. 2014 -2017 Washington County Rural Water #2

REVENUES		F.Y. '14		F.Y. '15		F.Y. '16		F.Y. '17
CASH ON HAND	\$	400,000.00	\$	171,878.00	\$	143,655.00	\$	31,581.00
Water Sales	\$	140,000.00	\$	143,000.00	\$	157,440.00	\$	161,040.00
Hookup Fees	\$	17,500.00	\$	17,500.00	\$	18,500.00	\$	18,500.00
Late Charges	\$	1,750.00	\$	1,800.00	\$	1,800.00	\$	1,850.00
Interest Income	\$	1,000.00	\$	750.00	\$	500.00	\$	250.00
Misc. Income	\$	350.00	\$	350.00	\$	350.00	\$	350.00
City/County Reimbursement	\$	357,632.00	\$	352,734.00	\$	-	\$	-
TOTAL INCOME	\$	918,232.00	\$	688,012.00	\$	322,245.00	\$	213,571.00
EXPENDITURES								
Vehicle Repairs/Maint.:	\$	3,500.00	\$	4,000.00	\$	4,500.00	\$	4,500.00
Customer Contract:	\$	15,000.00	\$	15,000.00	\$	15,500.00	\$	16,000.00
Water Purchase:	\$	24,000.00	\$	24,500.00	\$	25,000.00	\$	25,500.00
Expenses/Personnel:	\$	100.00	\$	100.00	\$	100.00	\$	100.00
Information & Education:	\$	200.00	\$	200.00	\$	250.00	\$	250.00
Bonds Payable:	\$	345,000.00	\$	345,000.00	\$	95,000.00	\$	95,000.00
Interest Expense:	\$	94,844.00	\$	87,647.00	\$	80,189.00	\$	75,679.00
Public/Legal Notices:	\$	100.00	\$	100.00	\$	100.00	\$	100.00
Misc. Expenses:	\$	500.00	\$	500.00	\$	500.00	\$	500.00
Office Supplies:	\$	1,000.00	\$	1,000.00	\$	1,050.00	\$	1,050.00
Postage:	\$	160.00	\$	160.00	\$	175.00	\$	175.00
Prof. Services/Legal:	\$	1,500.00	\$	1,500.00	\$	1,500.00	\$	1,500.00
Professional Services:	\$	4,000.00	\$	4,000.00	\$	4,100.00	\$	4,100.00
Equipment Rental:	\$	100.00	\$	100.00	\$	100.00	\$	100.00
Proj. Maint. Materials:	\$	3,400.00	\$	3,600.00	\$	3,800.00	\$	3,800.00
Contract Work:	\$	15,000.00	\$	15,500.00	\$	16,000.00	\$	16,500.00
Salaries:	\$	40,000.00	\$	41,200.00	\$	42,500.00	\$	44,000.00
Bad Debts:	\$	250.00	\$	250.00	\$	300.00	\$	300.00
Bond & Interest Reserve	\$	197,700.00	\$	-	\$	-	\$	-
TOTAL EXPENSE	\$	746,354.00	\$	544,357.00	\$	290,664.00	\$	289,154.00
Excess Revenue Over (Under) Expenditures	\$	171,878.00	\$	143,655.00	\$	31,581.00	\$	(75,583.00)

TABLE 1 - Original

PROJECTED DRAFT BUDGET FOR F.Y. 2014 -2017 Washington County Rural Water #2

REVENUES		F.Y. '14		F.Y. '15		F.Y. '16		F.Y. '17
=====								
CASH ON HAND	\$	400,000.00	\$	171,878.00	\$	(54,045.00)	\$	(363,819.00)
Water Sales	\$	140,000.00	\$	143,000.00	\$	157,440.00	\$	161,040.00
Hookup Fees	\$	17,500.00	\$	17,500.00	\$	18,500.00	\$	18,500.00
Late Charges	\$	1,750.00	\$	1,800.00	\$	1,800.00	\$	1,850.00
Interest Income	\$	1,000.00	\$	750.00	\$	500.00	\$	250.00
Misc. Income	\$	350.00	\$	350.00	\$	350.00	\$	350.00
City/County Reimbursement	\$	357,632.00	\$	352,734.00	\$	-	\$	-
TOTAL INCOME	\$	918,232.00	\$	688,012.00	\$	124,545.00	\$	(181,829.00)
EXPENDITURES								
Vehicle Repairs/Maint.:	\$	3,500.00	\$	4,000.00	\$	4,500.00	\$	4,500.00
Customer Contract:	\$	15,000.00	\$	15,000.00	\$	15,500.00	\$	16,000.00
Water Purchase:	\$	24,000.00	\$	24,500.00	\$	25,000.00	\$	25,500.00
Expenses/Personnel:	\$	100.00	\$	100.00	\$	100.00	\$	100.00
Information & Education:	\$	200.00	\$	200.00	\$	250.00	\$	250.00
Bonds Payable:	\$	345,000.00	\$	345,000.00	\$	95,000.00	\$	95,000.00
Interest Expense:	\$	94,844.00	\$	87,647.00	\$	80,189.00	\$	75,679.00
Public/Legal Notices:	\$	100.00	\$	100.00	\$	100.00	\$	100.00
Misc. Expenses:	\$	500.00	\$	500.00	\$	500.00	\$	500.00
Office Supplies:	\$	1,000.00	\$	1,000.00	\$	1,050.00	\$	1,050.00
Postage:	\$	160.00	\$	160.00	\$	175.00	\$	175.00
Prof. Services/Legal:	\$	1,500.00	\$	1,500.00	\$	1,500.00	\$	1,500.00
Professional Services:	\$	4,000.00	\$	4,000.00	\$	4,100.00	\$	4,100.00
Equipment Rental:	\$	100.00	\$	100.00	\$	100.00	\$	100.00
Proj. Maint. Materials:	\$	3,400.00	\$	3,600.00	\$	3,800.00	\$	3,800.00
Contract Work:	\$	15,000.00	\$	15,500.00	\$	16,000.00	\$	16,500.00
Salaries:	\$	40,000.00	\$	41,200.00	\$	42,500.00	\$	44,000.00
Bad Debts:	\$	250.00	\$	250.00	\$	300.00	\$	300.00
Bond & Interest Reserve	\$	197,700.00	\$	197,700.00	\$	197,700.00	\$	197,700.00
TOTAL EXPENSE	\$	746,354.00	\$	742,057.00	\$	488,364.00	\$	486,854.00
Excess Revenue Over (Under) Expenditures	\$	171,878.00	\$	(54,045.00)	\$	(363,819.00)	\$	(668,683.00)

TABLE #2 - Revised 5.3.2013

COMBINED DRAFT BUDGET
FOR WASH. COUNTY. RURAL WATER #1 & #2

REVENUES

ITEM	ACCT. #		F.Y. '14		F.Y. '15		F.Y. '16		F.Y. '17		F.Y. 18		F.Y. '19
Cash On Hand	3000	\$	1,100,000.00	\$	913,893.00	\$	925,185.00	\$	857,702.40	\$	815,689.40	\$	815,883.08
Water Sales	3091	\$	468,000.00	\$	476,580.00	\$	523,286.40	\$	532,646.00	\$	584,617.68	\$	593,977.00
Hookup Fees	3092	\$	45,500.00	\$	45,500.00	\$	48,100.00	\$	48,100.00	\$	48,100.00	\$	50,700.00
Late Charges	3093	\$	5,800.00	\$	5,900.00	\$	6,000.00	\$	6,100.00	\$	6,200.00	\$	6,300.00
Interest Income	3110	\$	4,500.00	\$	2,000.00	\$	1,500.00	\$	1,000.00	\$	750.00	\$	500.00
Contrib./Reimb./Cost Share	3120	\$	357,632.00	\$	352,734.00	\$	-	\$	-	\$	-	\$	-
Misc. Income	3130	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,200.00
Total Income		\$	1,982,532.00	\$	1,797,707.00	\$	1,505,171.40	\$	1,446,648.40	\$	1,456,457.08	\$	1,468,560.08

EXPENDITURES

Vehicle Repair/Maint.	4052	\$	7,500.00	\$	8,000.00	\$	9,000.00	\$	9,000.00	\$	9,500.00	\$	9,500.00
Customer Contract Costs	4080	\$	70,000.00	\$	70,000.00	\$	71,000.00	\$	71,000.00	\$	72,000.00	\$	72,000.00
Water Purchase	4090	\$	145,000.00	\$	147,000.00	\$	149,000.00	\$	151,000.00	\$	153,000.00	\$	155,000.00
Dues & Memberships	4130	\$	250.00	\$	250.00	\$	250.00	\$	250.00	\$	250.00	\$	300.00
Staff Travel & Expenses	4171	\$	700.00	\$	700.00	\$	700.00	\$	700.00	\$	700.00	\$	750.00
Information Programs	4217	\$	375.00	\$	400.00	\$	400.00	\$	400.00	\$	400.00	\$	450.00
Bond Principal Payments	4280	\$	345,000.00	\$	345,000.00	\$	95,000.00	\$	95,000.00	\$	100,000.00	\$	100,000.00
Bond Interest Payments	4290	\$	94,844.00	\$	87,647.00	\$	80,189.00	\$	75,679.00	\$	71,794.00	\$	65,144.00
Public Notices	4311	\$	100.00	\$	100.00	\$	100.00	\$	100.00	\$	100.00	\$	150.00
Misc. Expense	4330	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,300.00
Office Supplies	4331	\$	2,000.00	\$	2,100.00	\$	2,200.00	\$	2,200.00	\$	2,200.00	\$	2,300.00
Photocopier Lease	4334	\$	2,900.00	\$	2,900.00	\$	3,000.00	\$	3,000.00	\$	3,000.00	\$	3,200.00
Postage	4370	\$	420.00	\$	450.00	\$	480.00	\$	480.00	\$	480.00	\$	500.00
Legal Fees	4392	\$	3,000.00	\$	3,000.00	\$	3,000.00	\$	3,000.00	\$	3,000.00	\$	3,000.00
Professional Services	4400	\$	8,000.00	\$	8,100.00	\$	8,200.00	\$	8,200.00	\$	8,200.00	\$	8,400.00
Equip. Rental	4475	\$	100.00	\$	100.00	\$	100.00	\$	100.00	\$	100.00	\$	150.00
Maintenance Materials	4477	\$	8,700.00	\$	8,900.00	\$	9,100.00	\$	9,100.00	\$	9,100.00	\$	9,300.00
Contract Work	4479	\$	24,000.00	\$	24,500.00	\$	25,000.00	\$	25,000.00	\$	25,000.00	\$	26,500.00
Telephone	4520	\$	1,700.00	\$	1,750.00	\$	1,800.00	\$	1,800.00	\$	1,800.00	\$	1,900.00
Remote Elec. Utilities	4530	\$	400.00	\$	425.00	\$	450.00	\$	450.00	\$	450.00	\$	5,000.00
Pump Station Utilities	4531	\$	7,000.00	\$	7,250.00	\$	7,500.00	\$	7,500.00	\$	7,500.00	\$	8,000.00
Salaries	4550	\$	147,000.00	\$	152,000.00	\$	159,000.00	\$	165,000.00	\$	170,000.00	\$	175,000.00
Building Maint.	4630	\$	250.00	\$	250.00	\$	250.00	\$	250.00	\$	250.00	\$	3,000.00
Auto & Truck Purchase	4803	\$	-	\$	-	\$	20,000.00	\$	-	\$	-	\$	20,000.00
Bad Debt Expense	4900	\$	600.00	\$	600.00	\$	650.00	\$	650.00	\$	650.00	\$	700.00
Bond & Interest Reserve	4998	\$	197,700.00	\$	-	\$	-	\$	-	\$	-	\$	-
Total Expense		\$	1,068,639.00	\$	872,522.00	\$	647,469.00	\$	630,959.00	\$	640,574.00	\$	671,544.00
Excess Revenue Over (Under) Expenditures		\$	913,893.00	\$	925,185.00	\$	857,702.40	\$	815,689.40	\$	815,883.08	\$	797,016.08

TABLE #2 - Original

COMBINED DRAFT BUDGET FOR WASH. COUNTY. RURAL WATER #1 & #2

REVENUES

ITEM	ACCT. #		F.Y. '14		F.Y. '15		F.Y. '16		F.Y. '17		F.Y. 18		F.Y. '19
Cash On Hand	3000	\$	1,100,000.00	\$	913,893.00	\$	727,485.00	\$	462,302.40	\$	222,589.40	\$	25,083.08
Water Sales	3091	\$	468,000.00	\$	476,580.00	\$	523,286.40	\$	532,646.00	\$	584,617.68	\$	593,977.00
Hookup Fees	3092	\$	45,500.00	\$	45,500.00	\$	48,100.00	\$	48,100.00	\$	48,100.00	\$	50,700.00
Late Charges	3093	\$	5,800.00	\$	5,900.00	\$	6,000.00	\$	6,100.00	\$	6,200.00	\$	6,300.00
Interest Income	3110	\$	4,500.00	\$	2,000.00	\$	1,500.00	\$	1,000.00	\$	750.00	\$	500.00
Contrib./Reimb./Cost Share	3120	\$	357,632.00	\$	352,734.00	\$	-	\$	-	\$	-	\$	-
Misc. Income	3130	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,200.00
Total Income		\$	1,982,532.00	\$	1,797,707.00	\$	1,307,471.40	\$	1,051,248.40	\$	863,357.08	\$	677,760.08

EXPENDITURES

Vehicle Repair/Maint.	4052	\$	7,500.00	\$	8,000.00	\$	9,000.00	\$	9,000.00	\$	9,500.00	\$	9,500.00
Customer Contract Costs	4080	\$	70,000.00	\$	70,000.00	\$	71,000.00	\$	71,000.00	\$	72,000.00	\$	72,000.00
Water Purchase	4090	\$	145,000.00	\$	147,000.00	\$	149,000.00	\$	151,000.00	\$	153,000.00	\$	155,000.00
Dues & Memberships	4130	\$	250.00	\$	250.00	\$	250.00	\$	250.00	\$	250.00	\$	300.00
Staff Travel & Expenses	4171	\$	700.00	\$	700.00	\$	700.00	\$	700.00	\$	700.00	\$	750.00
Information Programs	4217	\$	375.00	\$	400.00	\$	400.00	\$	400.00	\$	400.00	\$	450.00
Bond Principal Payments	4280	\$	345,000.00	\$	345,000.00	\$	95,000.00	\$	95,000.00	\$	100,000.00	\$	100,000.00
Bond Interest Payments	4290	\$	94,844.00	\$	87,647.00	\$	80,189.00	\$	75,679.00	\$	71,794.00	\$	65,144.00
Public Notices	4311	\$	100.00	\$	100.00	\$	100.00	\$	100.00	\$	100.00	\$	150.00
Misc. Expense	4330	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,100.00	\$	1,300.00
Office Supplies	4331	\$	2,000.00	\$	2,100.00	\$	2,200.00	\$	2,200.00	\$	2,200.00	\$	2,300.00
Photocopier Lease	4334	\$	2,900.00	\$	2,900.00	\$	3,000.00	\$	3,000.00	\$	3,000.00	\$	3,200.00
Postage	4370	\$	420.00	\$	450.00	\$	480.00	\$	480.00	\$	480.00	\$	500.00
Legal Fees	4392	\$	3,000.00	\$	3,000.00	\$	3,000.00	\$	3,000.00	\$	3,000.00	\$	3,000.00
Professional Services	4400	\$	8,000.00	\$	8,100.00	\$	8,200.00	\$	8,200.00	\$	8,200.00	\$	8,400.00
Equip. Rental	4475	\$	100.00	\$	100.00	\$	100.00	\$	100.00	\$	100.00	\$	150.00
Maintenance Materials	4477	\$	8,700.00	\$	8,900.00	\$	9,100.00	\$	9,100.00	\$	9,100.00	\$	9,300.00
Contract Work	4479	\$	24,000.00	\$	24,500.00	\$	25,000.00	\$	25,000.00	\$	25,000.00	\$	26,500.00
Telephone	4520	\$	1,700.00	\$	1,750.00	\$	1,800.00	\$	1,800.00	\$	1,800.00	\$	1,900.00
Remote Elec. Utilities	4530	\$	400.00	\$	425.00	\$	450.00	\$	450.00	\$	450.00	\$	5,000.00
Pump Station Utilities	4531	\$	7,000.00	\$	7,250.00	\$	7,500.00	\$	7,500.00	\$	7,500.00	\$	8,000.00
Salaries	4550	\$	147,000.00	\$	152,000.00	\$	159,000.00	\$	165,000.00	\$	170,000.00	\$	175,000.00
Building Maint.	4630	\$	250.00	\$	250.00	\$	250.00	\$	250.00	\$	250.00	\$	3,000.00
Auto & Truck Purchase	4803	\$	-	\$	-	\$	20,000.00	\$	-	\$	-	\$	20,000.00
Bad Debt Expense	4900	\$	600.00	\$	600.00	\$	650.00	\$	650.00	\$	650.00	\$	700.00
Bond & Interest Reserve	4998	\$	197,700.00	\$	197,700.00	\$	197,700.00	\$	197,700.00	\$	197,700.00	\$	197,700.00
Total Expense		\$	1,068,639.00	\$	1,070,222.00	\$	845,169.00	\$	828,659.00	\$	838,274.00	\$	869,244.00
Excess Revenue Over (Under) Expenditures		\$	913,893.00	\$	727,485.00	\$	462,302.40	\$	222,589.40	\$	25,083.08	\$	(191,483.92)