

Agenda Item: 6. – Subcommittee postponed to the July 9, 2013, Review and Recommendation of Washington County Rural Water #1 and Washington County Rural Water #2 Merger – Zach Nelson

Attached is Zach Nelson's memorandum to the Board of Directors dated May 8, 2013.

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.

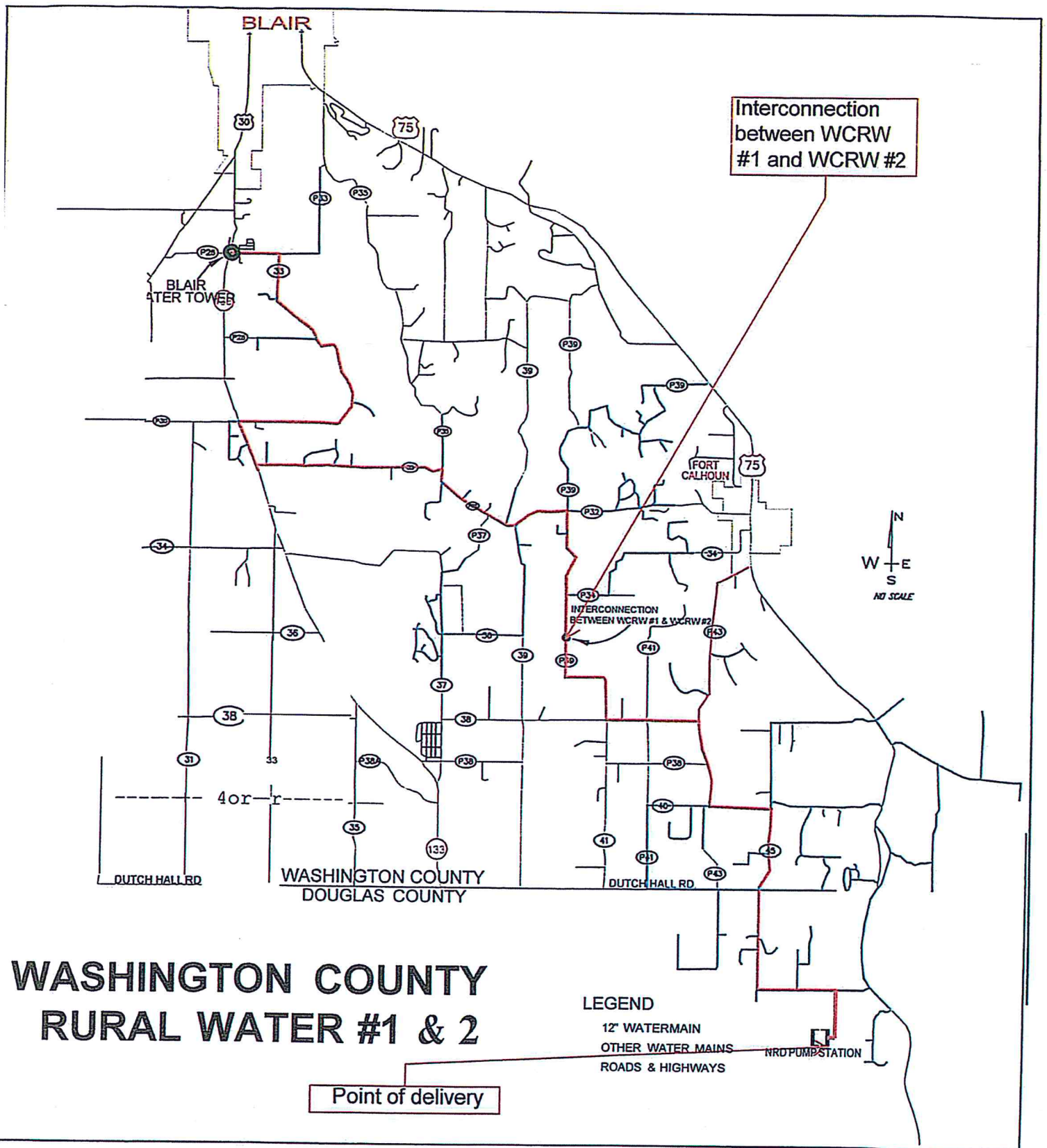


TABLE 1 - Revised 5.3.2013

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

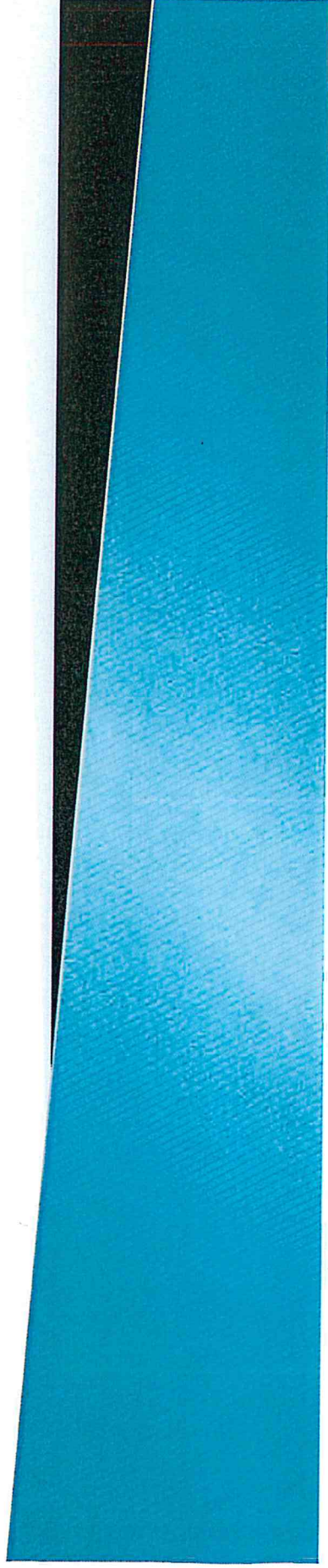
ITEM	ACCT. #		F.Y. '14		F.Y. '15		F.Y. '16		F.Y. '17		F.Y. '18		F.Y. '19
Cash On Hand	3000	\$	1,100,000.00	\$	913,893.00	\$	727,485.00	\$	462,302.40	\$	222,589.40	\$	25,083.08
Water Sales	3091	\$	468,000.00	\$	476,580.00	\$	523,286.40	\$	532,646.00	\$	584,617.68	\$	593,977.00
Hookup Fees	3092	\$	45,500.00	\$	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

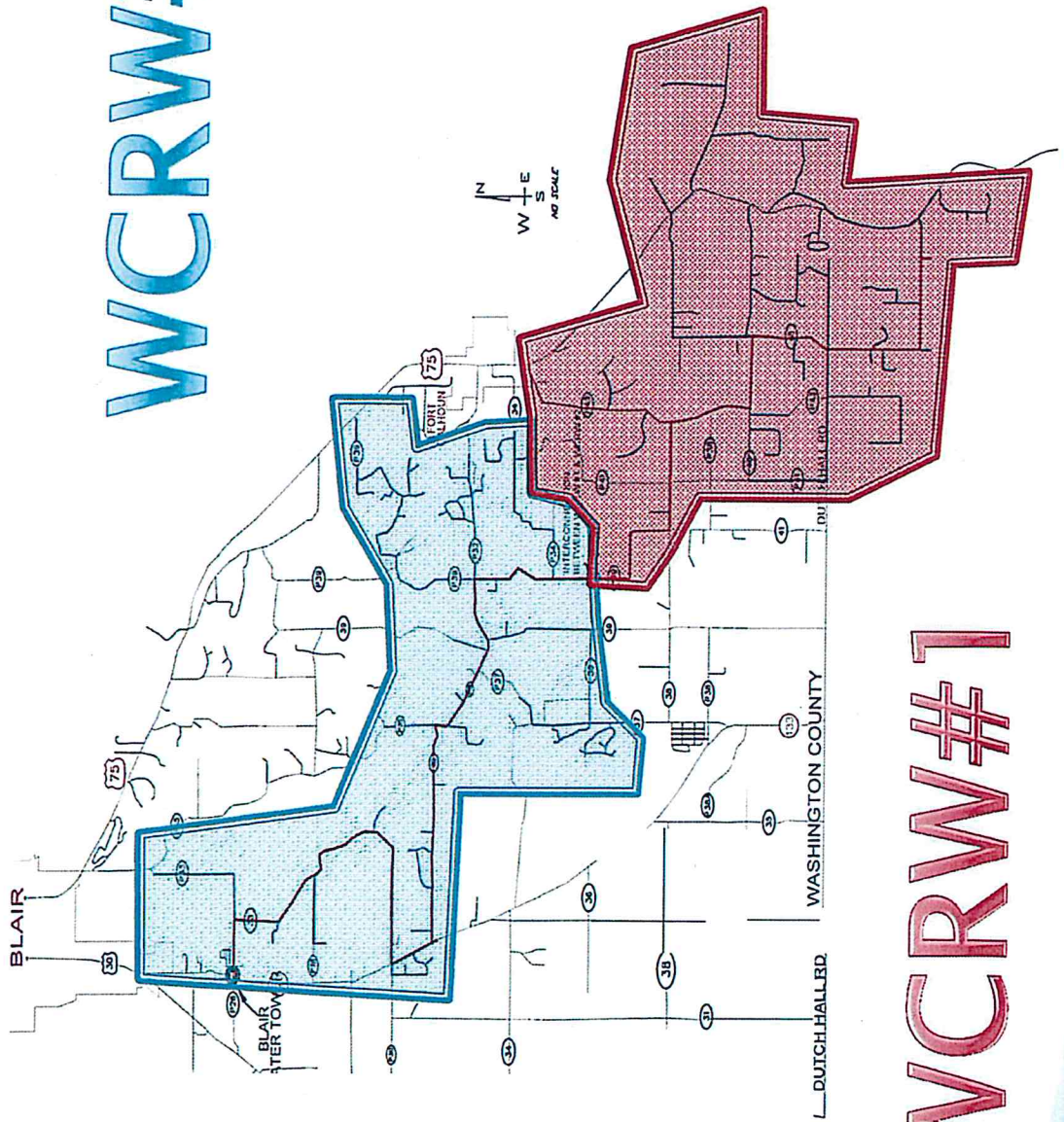
Vehicle Repair/Maint.	4052	\$	7,500.00	\$	8,000.00	\$	9,000.00	\$	9,000.00	\$	9,500.00	\$	9,500.00
Customer Contract Costs	4080	\$	70,000.00	\$	70,000.00	\$	71,000.00	\$	71,000.00	\$	72,000.00	\$	72,000.00
Water Purchase	4090	\$	145,000.00	\$	147,000.00	\$	149,000.00	\$	151,000.00	\$	153,000.00	\$	155,000.00
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)

Washington County Rural Water System #2 Financial Projection Analysis

6/11/2013



WCRW#2



WC RW#1

Original Combined System Forecast - Summary

- ▶ Table #2 that was presented at the 5/9/2013 District Board Meeting was based upon the following assumptions:
- ▶ 13 new customers were added each year
- ▶ 8% rate increases in 2016 and 2018
- ▶ \$600k bank loan would be refinanced in 2014 at the same interest rate and term



Original Combined System Forecast - Summary

Assumptions Continued..

- ▶ “Cash on Hand” at the end FY 2019 would be \$797,016 (does not include \$197,700 Bond & Interest Reserve held separately for WCRW#2 Bond Debt)



New Options Evaluated

- ▶ #1 – Increase Rates on WCRW#2
- ▶ #2 – Payoff Bank Loan with Loan Funds from WCRW#1
- ▶ #3 – Merge WCRW#1 and WCRW#2, payoff bank loan



Option #1 – Increase Rates on WCRW#2

- ▶ To represent the worst case scenario, NO NEW CUSTOMERS were factored into future sales
- ▶ Therefore, “hookup fees” and “new customer contract costs” were removed from the projection
- ▶ Calculations assumed:
 - 87 customers paying the base charge
 - 216 customers actively using water



OPTION #1 – Increase Rates on WCRW#2

- ▶ In order to meet a balanced budget (Income = Expenses) by FY 2017, rates would need to increase by 97%
- ▶ The average bill for active users in 2013 is \$48.30
- ▶ The average bill in 2017 would need to be \$95.25



OPTION #2 - Payoff Bank Loan with Loan Funds from WCRW#1

- ▶ To represent the worst case scenario, NO NEW CUSTOMERS were factored into future sales
- ▶ Therefore, “hookup fees” and “new customer contract costs” were removed from the projection
- ▶ Calculations assumed:
 - 87 customers paying the base charge
 - 216 customers actively using water



Option #2 – Payoff Bank Loan with Loan Funds from WCRW#1

- ▶ Payoff the Washington County Bank Loan of \$600,000 (5.25% Interest) in FY 14' using \$100,000 from WCRW#2 and \$500,000 from WCRW#1
- ▶ WCRW#2 would pay back funds to WCRW#1 at 1.5% interest over 30 years (\$20,700 / year)



OPTION #2 - Payoff Bank Loan with Loan Funds from WCRW#1

- ▶ This would leave “Cash on Hand” balances at the end of FY 14’:
 - $\text{WCRW\#1} = \$200,000$
 - $\text{WCRW\#2} = \$130,000 + \$197,700$ (Required Bond and Interest Reserve)



OPTION #2 - Payoff Bank Loan with Loan Funds from WCRW#1

- ▶ However, under this scenario rates in WCRW#2 would still need to increase 55% by FY 17' to balance the budget (Income = Expenses)
- ▶ The average bill for active users in 2013 is \$48.30
- ▶ The average bill in 2017 would need to be \$74.83



OPTION #3 - Merge WCRW#1 and WCRW#2 - payoff bank loan

- ▶ To represent the worst case scenario, NO NEW CUSTOMERS were factored into future sales
- ▶ Therefore, “hookup fees” and “new customer contract costs” were removed from the projection
- ▶ Calculations assumed:
 - 91 customers paying the base charge
 - 709 customer actively using water
 - Bank loan of \$600,000 is paid off in FY 14’



OPTION #3 - Merge WCRW#1 and WCRW#2 - payoff bank loan

- ▶ Rates would need to increase at 3.5% / year to achieve a balanced budget in FY 17,
- ▶ End of the year “Cash on Hand” Balance would increase from \$416,272 in FY 14’ to \$566,014 in FY 19’ (Excludes \$197,700 held in Bond and Interest Reserve)



Summary

- ▶ Based upon further evaluation, merging WCRW#1 and WCRW#2 is still the best solution to provide water service at a reasonable price to customers in Washington County.
- ▶ Regardless if the \$600,000 Washington County Bank Loan is paid off or refinanced, the combined system will not require significant rate increases to existing WCRW#1 customers



Option #1 - Increase WCRW#2 Rates, no restructuring of debt, no customer growth

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	\$ 169,378.00	\$ 168,678.00	\$ 168,678.00
Water Sales	\$ 140,000.00	\$ 173,723.00	\$ 273,974.00	\$ 272,987.00
Hookup Fees				
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	\$ 500,732.00	\$ 529,357.00	\$ 276,624.00	\$ 275,437.00
EXPENDITURES				
Vehicle Repairs/Maint.:	\$ 3,500.00	\$ 4,000.00	\$ 4,500.00	\$ 4,500.00
Customer Contract:				
Water Purchase:	\$ 24,000.00	\$ 25,200.00	\$ 26,460.00	\$ 27,783.00
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	\$ 731,354.00	\$ 530,057.00	\$ 276,624.00	\$ 275,437.00
Excess Revenue Over (Under) Expenditures	\$ (230,622.00)	\$ (700.00)	\$ -	\$ -
CASH ON HAND REMAINDER	\$ 169,378.00	\$ 168,678.00	\$ 168,678.00	\$ 168,678.00
Required Sales to Balance Budget	\$ 172,922.00	\$ 174,423.00	\$ 273,974.00	\$ 272,987.00

Percentage Increase from Average Customer Bill in 2013 (\$48.30) to projected rate in 2017	97.20%
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Assumptions and Comments

1. Zero growth in # of customers
2. Bond and Interest Reserve Expense in FY 14' is not a true expense, but is shown to signify that this amount must be maintained in a separate CD per bonding requirements.
3. The required average bill increases drastically from FY 15' to FY 16' due to the expiration of repayments from Blair and Washington County
4. Required Sales to Balance Budget excludes "Bond and Interest Reserve" in FY 14' as this is not a true expense
5. Calculations include increasing the base service charge to \$25 in FY 14'

Option #2 - Payoff Loan using \$500k of WCRW#1 Funds, Repay WCRW#1 at 1.5% over 30 years

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	\$ 130,177.00	\$ 188,928.50	\$ 188,928.50
Water Sales	\$ 140,000.00	\$ 175,000.00	\$ 217,800.00	\$ 220,063.00
Hookup Fees				
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	\$ 500,732.00	\$ 530,634.00	\$ 220,450.00	\$ 222,513.00
EXPENDITURES				
Vehicle Repairs/Maint.:	\$ 3,500.00	\$ 4,000.00	\$ 4,500.00	\$ 4,500.00
Customer Contract:				
Water Purchase:	\$ 24,000.00	\$ 25,200.00	\$ 26,460.00	\$ 27,783.00
Expenses/Personnel:	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
Information & Education:	\$ 200.00	\$ 200.00	\$ 250.00	\$ 250.00
Bonds Payable:	\$ 295,000.00	\$ 295,000.00	\$ 45,000.00	\$ 45,000.00
Interest Expense:	\$ 63,345.00	\$ 58,772.50	\$ 53,315.00	\$ 52,055.00
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	\$ -	\$ -	\$ -
Payoff Bank Loan	\$ 100,000.00			
WCRW#1 Payback	\$ 20,700.00	\$ 20,700.00	\$ 20,700.00	\$ 20,700.00
TOTAL EXPENSE	\$ 770,555.00	\$ 471,882.50	\$ 220,450.00	\$ 222,513.00
Excess Revenue Over (Under) Expenditures	\$ (269,823.00)	\$ 58,751.50	\$ -	\$ -
CASH ON HAND REMAINDER	\$ 130,177.00	\$ 188,928.50	\$ 188,928.50	\$ 188,928.50

Percentage Increase from Average Customer Bill in 2013 (\$48.30) to projected rate in 2017	54.93%
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Assumptions

1. Zero growth in # of customers
2. Bond and Interest Reserve Expense in FY 14' is not a true expense, but is shown to signify that this amount must be maintained in a separate CD per bonding requirements.
3. Bank Loan is paid off in FY 14' using \$100,000 from WCRW#2 and \$500,000 from WCRW#1. Loan to be repaid to WCRW at 1.5% over 30 years. This option would leave \$200,000 of Cash on Hand in WCRW#1 in FY 14'

Option #3 - Combined System with Annual Sales Increases of 3.5% to Achieve Balanced Budget in FY 17'

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

ITEM	F.Y. '14	F.Y. '15	F.Y. '16	F.Y. '17	F.Y. 18	F.Y. '19
REVENUES						
Cash On Hand	\$ 1,100,000	\$ 416,272	\$ 530,442	\$ 526,464	\$ 547,514	\$ 568,578
Water Sales	\$ 484,380	\$ 501,333	\$ 518,880	\$ 537,041	\$ 555,837	\$ 575,291
Hookup Fees						
Late Charges	\$ 5,800	\$ 5,900	\$ 6,000	\$ 6,100	\$ 6,200	\$ 6,300
Interest Income	\$ 4,500	\$ 2,000	\$ 1,500	\$ 1,000	\$ 750	\$ 500
Contrib./Reimb./Cost Share	\$ 357,632	\$ 352,734	\$ -	\$ -	\$ -	\$ -
Misc. Income	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,200
Total Income	\$ 853,412	\$ 863,067	\$ 527,480	\$ 545,241	\$ 563,887	\$ 583,291
EXPENDITURES						
Vehicle Repair/Maint.	\$ 7,500	\$ 8,000	\$ 9,000	\$ 9,000	\$ 9,500	\$ 9,500
Customer Contract Costs	\$ 20,000	\$ 20,000	\$ 21,000	\$ 21,000	\$ 22,000	\$ 22,000
Water Purchase	\$ 145,000	\$ 152,250	\$ 159,863	\$ 167,856	\$ 176,248	\$ 185,061
Dues & Memberships	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 300
Staff Travel & Expenses	\$ 700	\$ 700	\$ 700	\$ 700	\$ 700	\$ 750
Information Programs	\$ 375	\$ 400	\$ 400	\$ 400	\$ 400	\$ 450
Bond Principal Payments	\$ 295,000	\$ 295,000	\$ 45,000	\$ 45,000	\$ 50,000	\$ 50,000
Bond Interest Payments	\$ 63,345	\$ 58,773	\$ 53,315	\$ 52,055	\$ 50,795	\$ 49,395
Public Notices	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 150
Misc. Expense	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,300
Office Supplies	\$ 2,000	\$ 2,100	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,300
Photocopier Lease	\$ 2,900	\$ 2,900	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,200
Postage	\$ 420	\$ 450	\$ 480	\$ 480	\$ 480	\$ 500
Legal Fees	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Professional Services	\$ 8,000	\$ 8,100	\$ 8,200	\$ 8,200	\$ 8,200	\$ 8,400
Equip. Rental	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 150
Maintenance Materials	\$ 8,700	\$ 8,900	\$ 9,100	\$ 9,100	\$ 9,100	\$ 9,300
Contract Work	\$ 24,000	\$ 24,500	\$ 25,000	\$ 25,000	\$ 25,000	\$ 26,500
Telephone	\$ 1,700	\$ 1,750	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,900
Remote Elec. Utilities	\$ 400	\$ 425	\$ 450	\$ 450	\$ 450	\$ 5,000
Pump Station Utilities	\$ 7,000	\$ 7,250	\$ 7,500	\$ 7,500	\$ 7,500	\$ 8,000
Salaries	\$ 147,000	\$ 152,000	\$ 159,000	\$ 165,000	\$ 170,000	\$ 175,000
Building Maint.	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 3,000
Auto & Truck Purchase	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ 20,000
Bad Debt Expense	\$ 600	\$ 600	\$ 650	\$ 650	\$ 650	\$ 700
Bond & Interest Reserve	\$ 197,700	\$ -	\$ -	\$ -	\$ -	\$ -
PAYOFF WCRW#2 BANK LOAN	\$ 600,000					
Total Expense	\$ 1,537,140	\$ 748,898	\$ 531,458	\$ 524,191	\$ 542,823	\$ 585,856
Excess Revenue Over (Under) Expenditures	\$ (683,728)	\$ 114,170	\$ (3,978)	\$ 21,050	\$ 21,064	\$ (2,564)
Remainder CASH ON HAND	\$ 416,272	\$ 530,442	\$ 526,464	\$ 547,514	\$ 568,578	\$ 566,014

Assumptions

1. Zero growth in # of customers
2. Bond and Interest Reserve Expense in FY 14' is not a true expense, but is shown to signify that this amount must be maintained in a separate CD per bonding requirements.
3. Bank Loan is paid off in FY 14'
4. Water Purchase amount is increased by 5% annually to reflect future increases from MUD and City of Blair