

2003

Financial Report

“2nd Quarter”

INTRODUCTION

Well . . . , tracking the budgeted revenues and expenses, the forecasted budget would appear to be looking good, and manageable. However, a trend has set in during the past six months that seems to be forecasting a different story. The trend is the loss of active customers that has remained, with no sign of recovery, since the beginning of the year. A six percent customer loss, equivalent to eighty-nine (89) customers, is going to have a large impact on the forecasted revenues, thus the forecasted expenses. This trend may change for the better given time, but, this type of trend is not common with municipal utilities. The obstinate community climate over the sewer rate increase and the increase itself are the suspected culprits that have led to this circumstance.

The reason that the budget numbers are still looking manageable is due to the policy change in the *Non-Payment Disconnect Date* that created a partial one-month revenue jump (15-25K/utility) stemming from customers trying to catch up on their accounts before being disconnected for non-payment, which, in turn, also created additional revenues from the *Fee for Non-Payment*. An average of 145 *Fees for Non-Payment/month* at \$50/non-payment for two consecutive months added an additional \$14,500 to the utilities coffers.

So . . . , where do we go from here? For now, I suggest that we watch this trend closely, cut back on expenses where it's appropriate, and continue working to develop short/long-range infrastructure improvement projects and a stable financial plan to accommodate the utilities present and future needs. Many of the planned capital purchases and smaller improvement projects for CY 2003 were made during the first and second quarters. And, due to the afore mentioned trend in customers, all the items that remain on the outline will be closely scrutinized as to it's need versus the utilities financial constraints.

The 2003 financial report for the second-quarter will first, review costs associated with planned capital purchases that are completed or under review, and then, the status and cost of improvement projects that are ongoing or under review; secondly, it will identify and explain excess spending for each budget line item by referencing updated information and forecasts in the documents following the narrative section of this report; and lastly, this report will provide a summary of the provided information and analysis to assist in guiding financial decision making throughout CY 2003. You will find a brief status and actual/estimated cost of these projects outlined below:

CAPITAL PURCHASES

- **Planned (Completed):**
 - **Telephone System:\$1,500
 - Total Purchased:\$1,500

- **Planned (Under Review):**
 - *Billing Software (\$810/mo. payment for \$24,980 lease):\$4,050
 - **Service Truck, per year (\$26,000-10%, 5yrs.):\$6,600
 - **Tools (Shop, trucks & WWTP):\$2,000
 - Total Planned/under Review:\$12,650

IMPROVEMENT PROJECTS

- **Ongoing:**
 - ** WWTP Generator Fuel Supply/Containment:\$200
 - ** WWTP; Sidewalks (Concrete):\$3,000
 - Total Ongoing:\$3,200

- **Planned / Under Review**
 - ** WWTP; DO Meter/Probe:\$800
 - ** WWTP; Ammonia Probe:.....\$500
 - ** WWTP; Floating docks:.....\$?????
 - ** Office Shelving (Labor & Materials)\$1,800
 - ** WWTP; ORP Probe:\$500
 - ** WWTP; Safety Barrier, Fence:\$5,000
 - Total Planned/Under Review:\$8,600

*Actual **Estimated

After reviewing the costs associated with these projects it becomes necessary to, first, compare them with the current “Planning docket” and “Profit and Loss” reports in order to set project priorities , and second, to identify how to best accomplish our projected goals while insuring that we are able to stay within budget. In doing this, each line of the planning docket provides a percentage cell that shows how much of the forecasted budget has been spent through to the second quarter of 2003. You will notice that each budget line item is *below*, *at*, or *above* the fifty-percent mark of its forecasted budget amount. A brief explanation for those revenue line items that have fallen short of their second quarter forecast (<50%; <100% for availabilities) and expense line items that have exceeded their second quarter forecast by more than ten percent (>60%) is provided below:

WATER BUDGET 2003; Planning Docket

REVENUES

- **Availability Fees: 70% of budget.** In many cases, customers are simply not paying this fee if they can get away with it. This was an apparent trend when the utility was purchased from the

developer given the fact that the developer sold approximately \$150,000 of bad availability fee debt to the utility at .50-cents on the dollar. The utility has not been able to catch up on collecting this debt.

EXPENSES

- ❑ **615 Purchased Power:** *65% of budget; initial budget set at \$1,200.* Completely related to the water utilities portion of the utility office electric bill. Winter heating costs are the cause of the increased power bills; this may fall back into line by years end.
- ❑ **625 Repairs & Maintenance:** *76% of budget; initial budget set at \$500.* These costs were all directly related to the cost of repairing computers that have essentially reached the end of their useful life (approx. four years) and quit working completely. We had hoped to keep them going a while longer. (Unchanged from 1st quarter)
- ❑ **626 New Equipment:** *No Budget set for New Equipment.* Purchase of used dump truck and small computer parts. (Virtually unchanged from 1st quarter)
- ❑ **656 Insurance-Vehicle:** *89% of budget; initial budget set at \$500.* There are two reasons for this excess. First, all commercial insurance policies are paid in ten equal payments from January thru October, thus, proportionately costing closer to 60% in the second quarter. Second, the insurance payments are normally paid proportionately 25% Water and 75% Sewer; in the first two months the payments were inadvertently split 50/50, thus reflecting higher than normal on the Water budget and lower than normal on the Sewer budget. In addition, the insurance carrier splits the premium payments differently each month, adding to the confusing percentages. Premiums have not increased and should top out right on budget in the last quarter.
- ❑ **657 Insurance-General Liability:** *92% of budget; initial budget set at \$3,900.* (Same as above)
- ❑ **658 Insurance-Worker's Comp:** *92% of budget; initial budget set at \$800.* (Same as above)
- ❑ **675 Misc. Expense:** *70% of budget; initial budget set at \$2,500.* It appears as though the costs being categorized in this line item were not necessarily all being categorized here last year. These costs are all normally associated with the description of this budget category and should blend into the overall budget with little to no impact on the overall budget. (Virtually unchanged from 1st quarter)
- ❑ **Improvement Projects:** *90% of budget; initial budget set at \$10,000.* These costs were all associated with facility improvement projects and the installation of the new HVAC system outlined in the 1st Quarter Finance Report.

SEWER BUDGET 2003; Planning Docket

REVENUES

- ❑ **Metered Revenues:** *48% of budget.* The trend of lost customers is apparent for the sewer utility; unlike the water utility that makes up the difference in revenue when customers have water leaks, which quite a few customers have had during the first half of the year.
- ❑ **Availability Fees:** *71% of budget.* (Same reason as for the Water Availability Fees)

EXPENSES

- ❑ **720 Materials & Supplies:** *101% of budget; initial budget set at \$19,200.* This quarter has again experienced a second vacuum pump purchase added to the normal first and second quarter cost of restocking collection system materials used for field projects; then, on top of that, getting hit with the cost of materials used for improvement projects. This line item should be increased for next years budget to allow for additional material and supply expenses.
- ❑ **736 Contracted Services–Other:** *87% of budget, initial budget set at \$14,300.* None of these costs are out of the ordinary, which lends to the idea that some costs were inadvertently misappropriated into the wrong line item when planning the budget last year. This budget category will increase by as much 43% if the current trend continues.
- ❑ **750 Transportation:** *90% of budget, initial budget set at \$6,300.* Normal fuel purchases and truck repairs have put this line item well above the half mark. This line will exceed its budget trying to keep the utilities current truck fleet running, let alone street legal and safe.
- ❑ **756 Insurance – Vehicle:** *64% of budget; initial budget set at \$1,500. (Same as outlined under Water Budget No. 656)*
- ❑ **757 Insurance – General Liability:** *61% of budget; initial budget set at \$11,700. (Same as above)*
- ❑ **758 Insurance – Worker’s Comp:** *77% of budget; initial budget set at \$2,300. (Same as above)*
- ❑ **Improvement Projects:** *89% of budget; initial budget set at \$10,000.* These costs were all associated with facility improvement projects and the installation of the new HVAC system outlined in the 1st Quarter Finance Report.

PROFIT & LOSS

- ❑ **Water Utility:** The water utility’s Profit & Loss forecast estimates a **\$5,339** profit at the end of 2003, without allowing for any more major capital purchases or facility improvements. The water utility’s fairly stable revenue/expense pattern should be able to accomplish this, short of a continuing slump in the customer base.
- ❑ **Sewer utility:** The sewer utility’s Profit & Loss forecast estimates a **\$40,553** profit at the end of 2003 without allowing for any more major capital purchases or facility improvements. Unlike the water utility, the sewer utility expenses can increase quickly and unexpectedly given the large number of electric motors and pumps used to transport and treat wastewater. The shortage of customers is already becoming evident in the metered revenues of the sewer utility.

SUMMARY

In summary, the big concern should be on lost customers. Monitoring the gains and losses of customers is essential to heading off and planning for any potential economics problems that may lie ahead. As reported, many of the capital purchases and small improvement projects were already completed and paid for earlier in the year. These types of expenses will be avoided in the third quarter until we can see how the declining customer base will affect upcoming revenues. I’ve prepared and attached a supplemental four-page report outlining a customer comparison from 2001 thru 2003 to

show the six-percent customer loss, adjust revenues to reflect the loss and carry the adjusted revenue numbers into modified Profit & Loss reports and Planning Dockets for both utilities.

Please review the Planning Dockets and Profit & Loss forecasts; both, the regular monthly and supplemental reports. Much work has gone into making these reports as accurate as possible, however, the information is greatly susceptible to human error and should be tracked monthly to stay well informed with the trends in revenue and expenses. The capital purchases and improvement projects listed above may or may not all be achievable during the current year. Each item under review will be evaluated for its specific priority status alongside the other items under review and will only be achieved after it has been determined that the utility has the financial capability to do so while meeting all of its legal/financial obligations. The water/sewer costs breakdown of all capital purchases and improvement projects listed above, but not paid for during the first or second quarter, is as follows:

Water Utility Projects (above) = \$5,075

Sewer Utility Projects (above) = \$19,375

Much discussion will be had with department heads and the utility board as these projects are reviewed and evaluated. Planning, finance and project meetings will be a routine part of the progression of annual planning. I look forward to working with each department head and board member on projects of interest as we continue to improve the service to our customers and raise the professional bar for our employees.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Fish', with a long horizontal flourish extending to the right.

Jeffrey A. Fish
Utility Manager