

2003 Financial Report “3rd Quarter”

INTRODUCTION

The year 2003 is coming to its end but the trend of losing utility customers has not. The utilities have lost, on average, ninety (90) customers per month in 2003 and have yet to recover; recovery from the directly related revenue losses may actually take a few years, however, inflation and the costs of operations and maintenance will continue to grow. Initially, there are two directions that can be taken, and should be taken simultaneously. The *first* is obvious and ongoing; cut expenses to make it through the *crisis*. The *second* is just as obvious but not as easy to accomplish; the utilities must continue to find ways to improve customer relations and generate revenues sufficient to meet its obligations and operate and maintain the utilities. The utility staff is already aware of this *crisis* and will continue to work hard to meet customers’ needs and minimize operating costs.

Moving forward in this direction will require careful planning of necessary operations, maintenance and improvement projects while closely monitoring financial constraints. One problem the utilities could experience during the upcoming and winter months will be dropping the cash-operating accounts below the two-month operating expense limit set by the bond ordinances. This doesn’t mean that the utilities will not be able to fully fund these accounts again in the spring, but it could be, and probably will be, noted as a sign of financial difficulty to existing and prospective lenders and surely commented on in the next State Board of Account’s audit.

The 2003 financial report for the third-quarter will initially review costs associated with planned capital purchases that are completed or under review for completion by years end, and then, the status and cost of improvement projects that were recently completed; 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 for the duration of CY 2003 and into the 2004 fiscal year. You will find a brief status and actual/estimated cost of these projects outlined below:

CAPITAL PURCHASES

□ **Planned (*Completed*):**

- *Billing Software (Down payment in August):\$5,000
- *Billing Software (\$872.08/mo. payments begin in October):\$2,616
- Total (*Completed*):.....\$7,616

- **Planned (*Incomplete*):**
 - ****Touch-Read Wand for Meter Reading (Developing a payment plan): \$3,000**
 - ***1,000-Gallon Tank w/Trailer (Campbell's Petroleum):\$1,100**
 - **Total (*Incomplete*):\$4,100**

IMPROVEMENT PROJECTS

- **Planned (*Completed*):**
 - **** WWTP; DO Meter/Probe:\$800**
 - **** WWTP; Ammonia Probe:.....\$500**
 - **** WWTP Generator Fuel Supply/Containment:\$200**
 - **** WWTP; Sidewalks (Concrete):\$200**
 - **Total (*Completed*):.....\$1,700**

- **Planned (*Incomplete*):**
 - ***There are no planned Improvement Projects for 2003:\$0.00**

*Actual **Estimated

The Capital Purchases and Improvement Projects planned for completion in 2003 are nearly complete. Several items were removed from this years plan leaving only two *incomplete* items, both purchases are scheduled for completion by years end. However, several capital purchases and small improvement projects were completed early in the year that were necessary to meet certain State Board of Account's requirements for billing and bookkeeping, along with the purchase of a much needed dump truck and a few tools that have improved our ability to provide service to the customers. Only essential capital or improvement purchases will be planned for the upcoming season and the 2004 budgets. The water/sewer costs breakdown of all Capital Purchases that are planned for completion in CY 2003, but not paid for during the previous three quarters, is as follows:

Water Utility Projects (*Incomplete*) = \$1,500

Sewer Utility Projects (*Incomplete*) = \$2,600

The 3rd Quarter report is mostly a reflection on the year-to-date through the third quarter with some financial forecasting to predict how the year will end. With that understanding, it becomes important to review the current "Planning docket" and "Profit and Loss" reports in order to establish specific goals for the 2004 Budget, and then, to identify how to best accomplish our projected goals while insuring that we are able to stay within the financial constraints associated with the lost revenues. For this purpose, each line of the planning docket provides a percentage cell that shows how much of the forecasted budget was spent, up to and including the third quarter of 2003. You will notice that each budget line item is *below*, *at*, or *above* the eighty-five-percent mark of its forecasted budget amount. A brief explanation for those revenue line items that have fallen short of their third quarter forecast (<85%; <100% for availabilities) and expense line items that have exceeded their third quarter forecast by more than ten percent (>85%) is provided below:

WATER BUDGET 2003; Planning Docket

REVENUES

- ❑ **Metered Revenues:** 78% of budget. (Drop in customers billed is clearly reducing revenues)
- ❑ **Availability Fees:** 82% of budget. (Customers are still not paying their Availability Fees)

EXPENSES

- ❑ **625 Repairs & Maintenance:** 104% of budget; initial budget set at \$500. 3rd Quarter costs were associated with repairing the leaking dump truck lift cylinder. (This line item should be increased for next years budget to allow for additional Repair and Maintenance expenses.)
- ❑ **626 New Equipment:** No Budget set for New Equipment. 3rd Quarter costs were associated with the purchase of new computers, printer, and down payment for Greentree billing/ledger software. (This line item should be set for next years budget to allow for New Equipment expenses.)
- ❑ **656 Insurance-Vehicle:** 111% of budget; initial budget set at \$500. Paid in full for 2003. (This line item should be increased for next years budget to allow for increased Vehicle Insurance expenses.)
- ❑ **657 Insurance-General Liability:** 102% of budget; initial budget set at \$3,900. Paid in full for 2003. (This line item should be increased for next years budget to allow for increased General Liability Insurance expenses.)
- ❑ **658 Insurance-Worker's Comp:** 131% of budget; initial budget set at \$800. Paid in full for 2003. (This line item should be increased for next years budget to allow for increased Worker's Compensation Insurance expenses.)
- ❑ **675 Misc. Expense:** 215% of budget; initial budget set at \$2,500. 3rd Quarter expenses are normal and associated with this category. (This line item should be increased for next years budget to allow for additional Miscellaneous expenses.)
- ❑ **Improvement Projects:** 106% of budget; initial budget set at \$10,000. 3rd Quarter costs were associated with materials purchased for minor facility improvements and the installation of the new telephone system by King Communications. (This line item should be increased for next years budget to allow for additional Improvement Project expenses.)

SEWER BUDGET 2003; Planning Docket

REVENUES

- ❑ **Metered Revenues:** 72% of budget. (Drop in customers billed is clearly reducing revenues)
- ❑ **Availability Fees:** 71% of budget. (Customers are still not paying their Availability Fees)

EXPENSES

- ❑ **720 Materials & Supplies:** 149% of budget; initial budget set at \$19,200. 3rd Quarter expenses are normal and associated with this category. (This line item should be increased for next years budget to allow for additional Material & Supply expenses.)

- ❑ **726 New Equipment:** *No Budget set for New Equipment.* 3rd Quarter costs were associated with the purchase of new computers, printer, and down payment for Greentree billing/ledger software. (This line item should be set for next years budget to allow for New Equipment expenses.)
- ❑ **736 Contracted Services–Other:** *141% of budget, initial budget set at \$14,300.* 3rd Quarter expenses are normal and associated with this category. (This line item should be increased for next years budget to allow for additional Contracted Service expenses.)
- ❑ **750 Transportation:** *124% of budget, initial budget set at \$6,300.* 3rd Quarter expenses are normal and associated with this category. (This line item should be increased for next years budget to allow for additional Transportation expenses.)
- ❑ **756 Insurance – Vehicle:** *102% of budget; initial budget set at \$1,500.* Paid in full for 2003. (This line item should be increased for next years budget to allow for additional Vehicle Insurance expenses.)
- ❑ **757 Insurance – General Liability:** *102% of budget; initial budget set at \$11,700.* Paid in full for 2003. (This line item should be increased for next years budget to allow for additional General Liability Insurance expenses.)
- ❑ **758 Insurance – Worker’s Comp:** *137% of budget; initial budget set at \$2,300.* Paid in full for 2003. (This line item should be increased for next years budget to allow for additional Worker’s Compensation Insurance expenses.)
- ❑ **775 Misc. Expense:** *124% of budget; initial budget set at \$10,000.* 3rd Quarter expenses are normal and associated with this category. (This line item should be increased for next years budget to allow for additional Miscellaneous expenses.)
- ❑ **Improvement Projects:** *105% of budget; initial budget set at \$10,000.* 3rd Quarter costs were associated with materials purchased for minor facility improvements and the installation of the new telephone system by King Communications. (This line item should be increased for next years budget to allow for additional Improvement Project expenses.)

PROFIT & LOSS

- ❑ **Lost Revenues:** As mentioned before, the lost revenues are directly related to an average loss of ninety (90) customers per month. To better show the correlation between lost customers and lost revenues, Table 1 shows revenue loss as monthly and yearly totals based on an average customer’s consumption of 3,600 gallons/month.

Table 1: LOST REVENUES		
90 Customers Lost @ 3,600 gallons/month	MONTHLY	YEARLY
Water Revenues Lost	\$2,689	\$32,270
Sewer Revenues Lost	\$4,194	\$50,328

- ❑ **Water Utility:** The water utility’s Profit & Loss forecast estimates a **\$1,249** profit at the end of 2003; this will not allow for any 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 decline in the customer base. The 2004 Water Budget will be *tightened*.

- **Sewer utility:** The sewer utility's Profit & Loss forecast estimates a **\$39,570** loss at the end of 2003 without allowing for any more major capital purchases or facility improvements. The shortage of customers is having a very detrimental effect on metered revenues of the sewer utility. This revenue loss will have a cost-prohibitive effect on the sewer utility's ability to adequately address problems throughout the collection system and treatment plant while meeting the existing financial obligations. The 2004 Sewer Budget will be *very tight*.

SUMMARY

In summary, the big concern continues to be the impact that losing large numbers of customers is having on the utilities ability to generate sufficient revenues to meet its financial obligations. And again, it remains essential to monitor the gains and losses of customers in order to head off and plan for additional economic problems that lie ahead if the customer base doesn't turn around and begin to grow.

Please review the Planning Dockets and Profit & Loss forecasts for accumulated revenue and expense balances. The utility board has much to think about and should discuss these financial matters with legal and financial council for planning financial solutions/goals, as well as with engineering consultants for planning of short/long-term improvement projects. Planning steps to address this crisis in advance will be crucial to avoiding an even worse scenario. The utility and the community it serves have created a problem that will require cooperation and understanding from all parties involved and a positive and constructive attitude from its leaders are a must. I look forward to working with the board, its consulting staff and the community it serves as we work through the crisis at hand.

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