



## MEMORANDUM

DATE: October 15, 2015  
TO: Dan Duchniak  
FROM: Donna Scholl  
RE: 2016 Operating Budget and 2016 Five Year Capital Improvement Plan

The attached packet summarizes the October draft of 2016 Budget. It contains the first draft of the operations budget and a second draft of the capital improvement plan.

The highlights of the operations budget are as follows:

1. "Net Income" is budgeted at \$3.3 million, up from 2015 projected of \$2.4 million.
2. Revenue is budgeted without a rate increase. However, if the Utility qualifies for a simplified rate case (SRC) it would file an application with the PSC in March. SRC increases are typically 3%.
3. Budgeted gallons billed were based on a regression analysis of the prior 3 years.
4. Compensation, the total of wages and benefits, is budgeted to match the increases predicted in the market. FTE adjusted benefits are expected to be 1.7% lower than market. Wages are expected to be 0.6% higher than market. The plan assumes that a solid employee will receive a 2.25% increase.
5. A variance analysis of significant expenses (not related to compensation) reveals a decrease of \$798,832. The decrease is due to preliminary costs associated with the future water supply. They were fully amortized in 2015.
6. The budget is sufficient to meet our debt covenants.

The second draft of the capital improvement plan projects expenditures out to 2020.

I look forward to discussing the finer points of the budget with you and the commission.

WWU  
STATEMENT OF REVENUES EXPENSES  
2016 BUDGET

	<u>2015 B</u>	<u>2015 P</u>	<u>2016</u>	<u>2015 P v. 2015 B</u>	<u>2016 B v. 2015 P</u>
<b>OPERATING REVENUES:</b>					
Residential	\$ 4,808,215	\$ 4,715,936	\$ 4,595,871	0.98	0.97
Commercial	1,486,949	1,458,708	1,425,742.67	0.98	0.98
Industrial	874,160	851,314	815,485.97	0.97	0.96
Public	342,811	360,052	349,979.79	1.05	0.97
Multi Family	1,491,934	1,502,126	1,490,225.70	1.01	0.99
<b>Total Metered Sales</b>	<b>9,004,069</b>	<b>8,888,136</b>	<b>8,677,305</b>	<b>0.99</b>	<b>0.98</b>
Private Fire Capacity	179,182	180,518	182,205.49	1.01	1.01
Public Fire Capacity	1,731,953	1,737,660	1,745,612.23	1.00	1.00
Other Operating Revenues	509,652	509,174	497,472.41	1.00	0.98
<b>TOTAL OPERATING REVENUES</b>	<b>11,424,856</b>	<b>11,315,489</b>	<b>11,102,595.13</b>	<b>0.99</b>	<b>0.98</b>
<b>OPERATING EXPENSES:</b>					
Source	726,558	957,439	8,832	1.32	0.01
Pumping	1,160,448	1,034,249	1,071,915	0.89	1.04
Treatment	450,520	388,375	444,059	0.86	1.14
Distribution	1,229,080	1,092,498	1,180,864	0.89	1.08
Customer Service	193,108	241,107	197,204	1.25	0.82
Administrative	1,840,865	1,685,161	1,815,756	0.92	1.08
<b>Total</b>	<b>5,600,579</b>	<b>5,398,828</b>	<b>4,718,631</b>	<b>0.96</b>	<b>0.87</b>
<b>MANAGERS' MARGIN</b>	<b>5,824,277</b>	<b>5,916,661</b>	<b>6,383,965</b>	<b>1.02</b>	<b>1.08</b>
Depreciation	2,421,577	2,432,380	2,568,223	1.00	1.06
Tax Equivalent	1,776,510	1,776,510	1,774,814	1.00	1.00
Other Taxes	107,917	94,262	109,484	0.87	1.16
<b>TOTAL OPERATING EXPENSES</b>	<b>9,906,584</b>	<b>9,701,981</b>	<b>9,171,152</b>	<b>0.98</b>	<b>0.95</b>
<b>TOTAL OPERATING INCOME(LOSS)</b>	<b>1,518,272</b>	<b>1,613,509</b>	<b>1,931,443</b>	<b>1.06</b>	<b>1.20</b>
<b>NON OPERATING INCOME&amp;(EXPENSE)</b>	<b>2,010,017</b>	<b>811,328</b>	<b>1,417,696</b>	<b>0.40</b>	<b>1.75</b>
<b>NET INCOME(LOSS)</b>	<b>\$ 3,528,290</b>	<b>\$ 2,424,837</b>	<b>\$ 3,349,139</b>	<b>0.69</b>	<b>1.38</b>



Recommended Compensation for 2016  
Budget Impact

	2015 P	2016 B	Δ		Variance				Volume Adjusted 2015P	2016 Per Market Forecast	Budget Compared to			
			\$	%	Volume		Rate				2015P	Vol Adj	Mkt	
					\$	%	\$	%						
Benefits														Benefits
Medical Insurance	436,954	482,247	45,294	10%	37,640	8.6%	7,654	1.8%	474,594	493,577	10.4%	1.6%	-2.3%	Medical Insurance
Dental Insurance	27,615	31,304	3,688	13%	2,652	9.6%	1,036	3.8%	30,267	31,478	13.4%	3.4%	-0.6%	Dental Insurance
Life Insurance	9,816	10,986	1,170	12%	529	5.4%	641	6.5%	10,345	10,986	11.9%	6.2%	0.0%	Life Insurance
Disability	7,238	8,036	797	11%	321	4.4%	477	6.6%	7,559	8,036	11.0%	6.3%	0.0%	Disability
Pension	134,284	142,652	8,368	6%	5,532	4.1%	2,836	2.1%	139,816	142,652	6.2%	2.0%	0.0%	Pension
Total Benefits	615,907	675,225	59,317	9.6%	46,673	7.6%	12,644	2.1%	662,581	686,729	9.6%	1.9%	-1.7%	Total Benefits
Wages	2,007,949	2,157,044	149,094	7.4%	88,838	4.4%	60,257	3.0%	2,096,787	2,144,384	7.4%	2.9%	0.6%	Wages
Grand Total	\$ 2,623,857	\$ 2,832,269	\$ 208,412	7.9%	\$ 135,511	5.2%	\$ 72,901	2.8%	\$ 2,759,367	\$ 2,831,113	7.9%	2.6%	0.0%	Grand Total

WWU  
SIGNIFICANT ITEMS  
EXPENSES > \$500,000 OR CHANGES > \$25,000  
2016

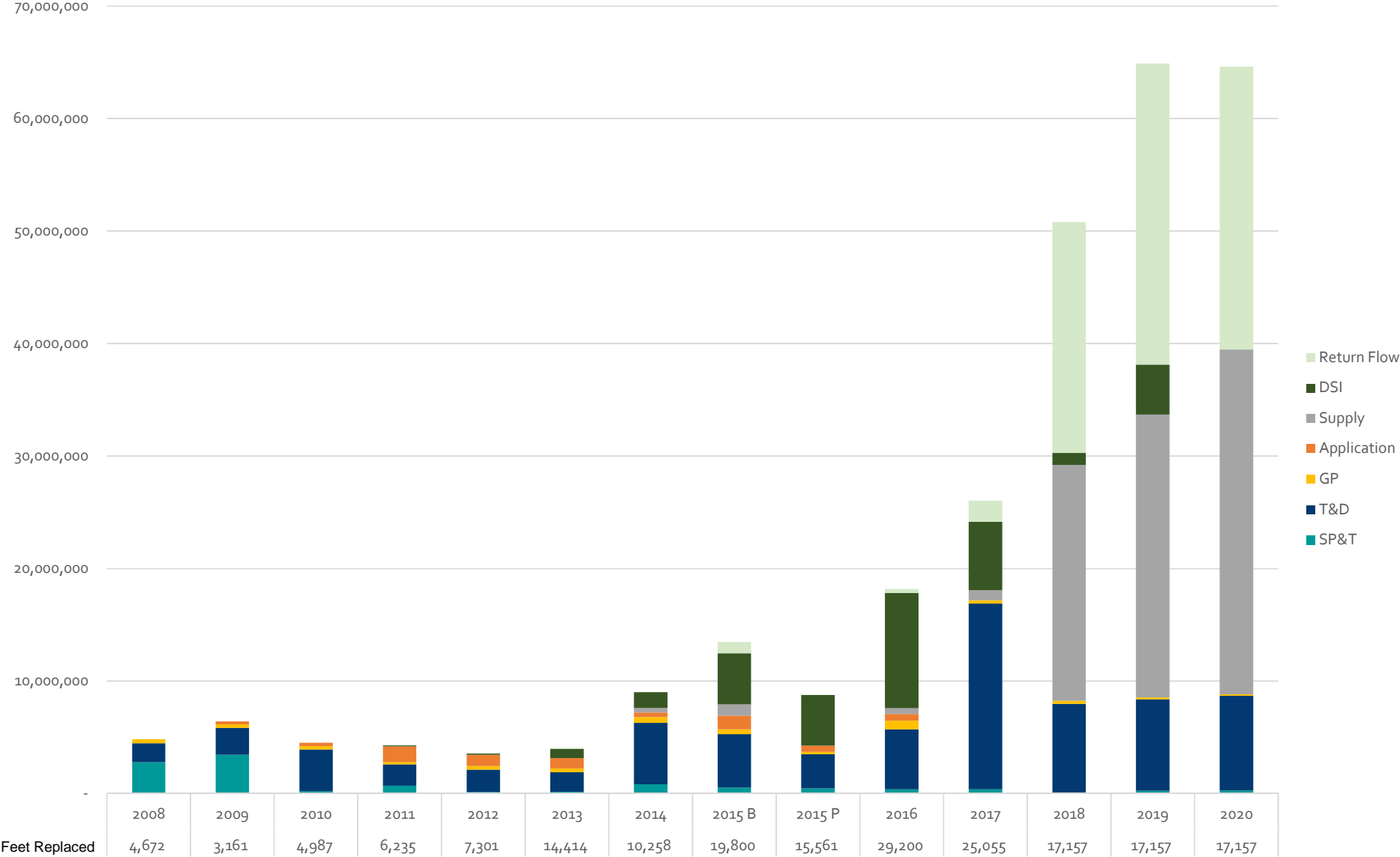
**ITEMS UNRELATED TO COMPENSATION**

ACCOUNT #	DESCRIPTION	2015 P	2016 B	\$ Δ	% Δ	NOTE
6030	200 SOURCE MISC OPERATING EXPENSES	\$ 945,706	\$ -	\$ (945,706)	-100%	100% Decrease - The PSC amortization of preliminary survey costs through 2012 was fully amortized in 2015.
6230	300 PUMP OP - POWER	839,745	827,643	\$ (12,102)	-1%	1% Decrease - Pumpage was down in 2015. That trend has been budgeted to continue in 2016. WE Energies is also not anticipating a rate increase of anything over 1/2% in 2016.
6330	300 PUMP EQUIP MAINTENANCE	34,225	62,125	\$ 27,900	82%	82% Increase - Less maintenance was performed in 2015, as projects were completed in other areas.
6410	300 TMNT - CHEMICALS	122,203	159,606	\$ 37,403	31%	31% Increase - Pumpage is down in 2015 and well #3 was out of service for a period of time in 2015. There is a budgeted cost increase ranging from 2% - 9% depending on the chemical in 2016.
6640	600 T&D CUSTOMER INSTALL	34,982	98,358	\$ 63,375	181%	181% Increase - In 2016, we will do cross connection inspections on multi-family properties (4 units and larger) under the contract of Hydro Design.
9211	300 A&G VEHICLE & EQUIP SERVICE & MAINTENANCE	73,020	103,317	\$ 30,297	41%	41% Increase - In 2015, there were no major repairs needed on the fleet.
		\$ 2,049,881	\$ 1,251,049	\$ (798,832)	-39%	

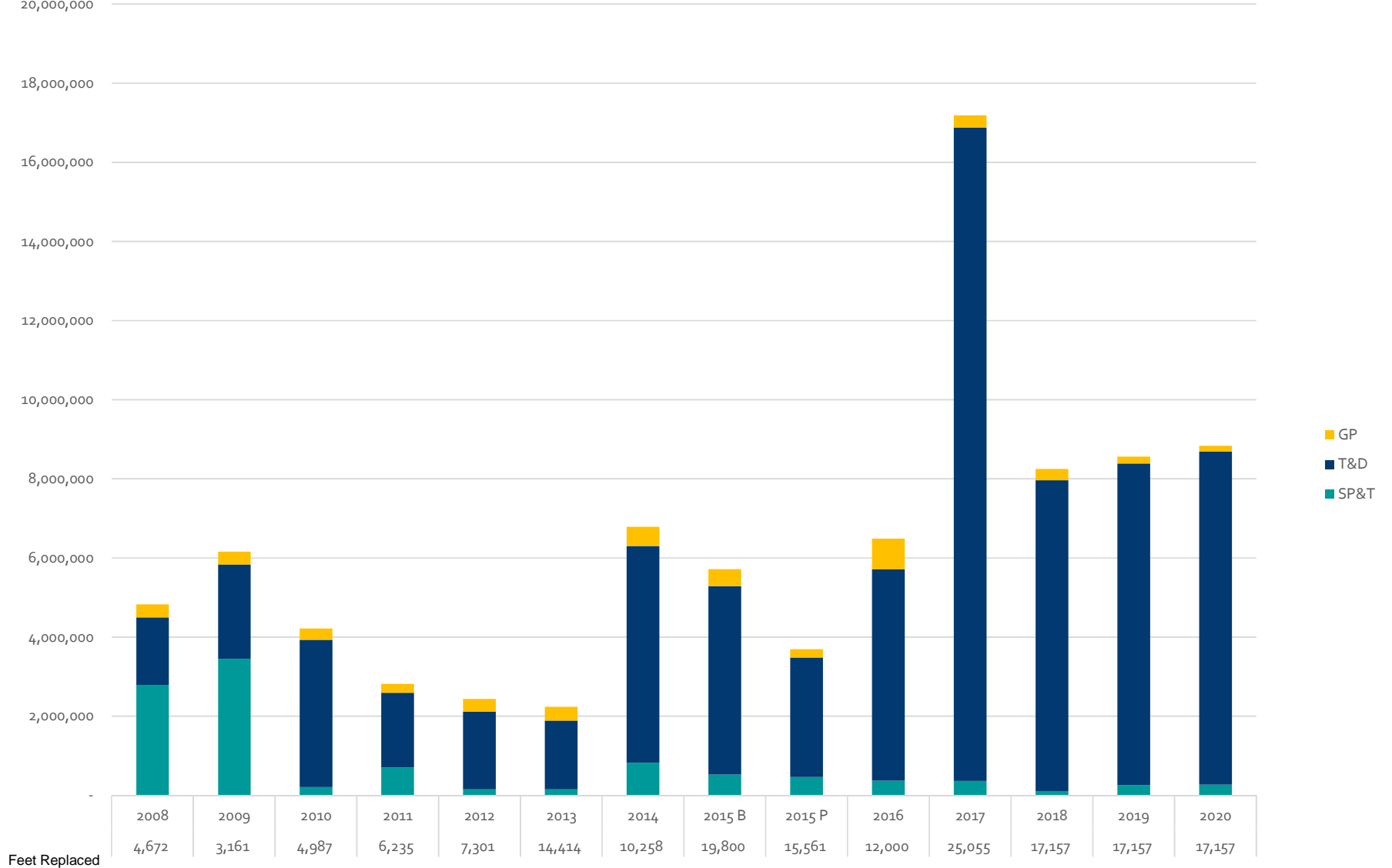
**COMPENSATION**

	2,832,269
<b>TOTAL EXPENSES ANALYZED</b>	<b>\$ 4,083,317</b>
<b>MANAGERS' EXPENSES</b>	<b>\$ 4,718,631</b>
<b>% OF MANAGERS' EXPENSES ANALYZED</b>	<b>87%</b>

# WWU CAPITAL IMPROVEMENTS - HISTORY 2008-2020



WWU  
 CAPITAL IMPROVEMENTS - HISTORY  
 ROUTINE  
 2008-2020



Feet Replaced