



## MEMORANDUM

DATE: October 23, 2017  
TO: Dan Duchniak  
FROM: Donna Scholl  
RE: 2018 Operating Budget

The attached packet contains the first draft of the 2018 Operating Budget. The revised 2018 CIP and the Five Year CIP will be presented in November.

The highlights of the operating budget are as follows:

1. "Net Income" is budgeted at \$2.3 million, up from the 2017 projected loss of \$0.1 million. As a reminder, the loss in 2017 was caused by two things. First, revenue is down by \$1.1 million because the Utility's application to raise rates, filed in July of 2016 with the Wisconsin Public Service Commission (PSC), is still waiting to be approved. Second, as part of the rate case, the PSC required the Utility to amortize two years of Great Lakes soft costs (non cash), an unexpected impact of \$0.8 million, in 2017.
2. Revenue is budgeted with an 11% rate increase.
3. Budgeted gallons billed is projected based on 2017 actuals through August and 2016 actuals for September through December. The 2016 Public gallons were reduced to replicate the experience earlier in the year.
4. Even with the budgeted 2.75% increase for solid employees, compensation, the total of wages and benefits, is expected to decrease slightly in 2018. Health insurance premiums did not increase. The WRS pension contribution decreased by 20 basis points. Finally, a retiring manager's position will be filled by a less senior employee.
5. A variance analysis of significant expenses (not related to compensation) reveals a decrease in expenses of \$0.5 million. The entire decrease is due to the two years of amortization required by the PSC. When the effect of the amortization is removed, expenses are budgeted to increase by \$0.3 million. One third of the increase takes place in maintenance of mains where a change in city policy is increasing street opening costs.
6. The budget is sufficient to meet our debt covenants.

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

**WAUKESHA WATER UTILITY  
STATEMENT OF REVENUES AND EXPENSES  
BUDGET**

	<u>2017 B</u>	<u>2017 P</u>	<u>2018 B</u>	<u>2017 P v. 2017 B</u>	<u>2018 B v. 2017 P</u>
<b>OPERATING REVENUES:</b>					
Residential	5,030,438	4,522,675	4,935,966	90%	109%
Commercial	1,569,600	1,375,276	1,511,322	88%	110%
Industrial	827,016	750,083	790,196	91%	105%
Public	326,294	270,503	302,093	83%	112%
Multi Family	1,668,163	1,477,037	1,618,382	89%	110%
Total Metered Sales	9,421,510	8,395,573	9,157,958	89%	109%
Private Fire Capacity	199,977	189,111	222,476	95%	118%
Public Fire Capacity	1,927,919	1,792,253	2,113,211	93%	118%
Other Operating Revenues	495,143	469,521	471,737.03	95%	100%
<b>TOTAL OPERATING REVENUES</b>	12,044,549	10,846,458	11,965,382	90%	110%
<b>OPERATING EXPENSES:</b>					
Source	769,547	1,643,379	676,345	214%	41%
Pumping	1,015,430	893,923	1,071,399	88%	120%
Treatment	473,202	399,529	491,138	84%	123%
Distribution	1,476,933	1,158,384	1,337,138	78%	115%
Customer Service	203,204	189,231	230,042	93%	122%
Administrative	1,626,499	1,879,764	1,661,347	116%	88%
Total	5,564,814	6,164,210	5,467,409	111%	89%
<b>MANAGERS' MARGIN</b>	6,479,735	4,682,248	6,497,974	72%	139%
Depreciation	2,616,901	2,654,227	2,594,690	101%	98%
Tax Equivalent	1,793,628	1,793,628	1,874,880	100%	105%
Other Taxes	111,000	107,590	119,639	97%	111%
<b>TOTAL OPERATING EXPENSES</b>	10,086,343	10,719,655	10,056,617	106%	94%
<b>TOTAL OPERATING INCOME(LOSS)</b>	1,958,206	126,803	1,908,765	6%	1505%
<b>NON OPERATING INCOME&amp;(EXPENSE)</b>	(272,252)	(254,717)	379,135	94%	149%
<b>NET INCOME(LOSS)</b>	1,685,955	(127,914)	2,287,900	-107%	1789%

WWU  
Salary Surveys  
2018

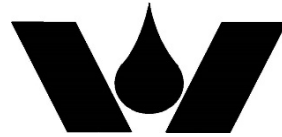
Date	Source	Market	2018	2017	2016	2015	2014
July	Society for Human Resource Management	National	3.10	3.10	3.10	3.05	3.10
August	WI Employment Relations Commission	State	1.84	0.68	1.62	1.52	1.66
October	Management Resources Association	Local	3.50	2.60	3.00	2.80	3.00
		Average	2.81	2.13	2.57	2.46	2.59

Last updated: 10/5/2017



Recommended Compensation for 2018  
Budget Variance Analysis

	2017 Budget to Projected				2018 Budget to 2017 Projected			Variance Explanation	
	2017B	2017 P	Δ		2018 B	Δ			
			\$	%		\$	%		
Benefits									Benefits
Medical Insurance	493,659	480,341	(13,318)	-2.7%	463,042	(17,299)	-3.6%	One employee moved from family coverage to "opt out" in 2018	Medical Insurance
Dental Insurance	30,825	29,997	(828)	-2.7%	29,880	(117)	-0.4%		Dental Insurance
Life Insurance	11,723	11,836	113	1.0%	12,032	196	1.7%		Life Insurance
Disability	7,064	6,565	(499)	-7.1%	8,083	1,518	23.1%	Rate increased by 16%; applied to higher total salaries	Disability
Pension	149,714	150,232	518	0.3%	143,888	(6,344)	-4.2%	WRS funding rate decreased from 6.8% to 6.6%	Pension
Total Benefits	692,985	678,972	(14,013)	-2.0%	656,925	(22,047)	-3.2%		- Total Benefits
Wages	2,235,019	2,190,437	(44,582)	-2.0%	2,200,115	9,678	0.4%	Solid employee receives increase of 2.75%	Wages
Grand Total	\$ 2,928,004	\$ 2,869,409	\$ (58,595)	-2.0%	\$ 2,857,040	\$ (12,369)	-0.4%		



Compensation  
Municipal Comparison

	<u>WWU</u>	<u>City</u>
Wages - Mid Point	62,107	60,398
Medical Insurance	18,336	19,711
Dental Insurance	1,269	1,140
Life Insurance	355	345
Disability	248	-
Pension	4,099	3,986
Earned Sick Time Buy Out	-	2,091
	<u>86,415</u>	<u>87,672</u>

WWU  
SIGNIFICANT ITEMS  
EXPENSES > \$500,000 OR CHANGES > \$25,000  
2018

ITEMS UNRELATED TO COMPENSATION

ACCOUNT #		DESCRIPTION	2017 P	2018 B	\$ Δ	% Δ	NOTE
6030	200	SOURCE-MISC.OPERATING EXPENSES	\$ 1,624,078	\$ 591,491	\$ (1,032,587)	-64%	64% Decrease - Per the direction of the PSC with the 2016 rate case, the Utility had to record amortization of preliminary studies for the GWA project for all of 2016, as well as 2017 in 2017.
6145	300	SOURCE MAINT - WELL ABANDON & CROSS CONNECTION	-	73,472	\$ 73,472	100%	100% Increase - We have budgeted to abandon Newhall well and 2 monitoring wells in Howell Oaks development in 2018.
6230	300	PUMP OP - POWER	703,841	773,530	\$ 69,689	10%	10% Increase - Well #10 was pumping at a lower capacity for much of 2017.
6330	300	PUMP EQUIP MAINTENANCE	38,465	98,850	\$ 60,385	157%	157% Increase - Increased maintenance is budgeted in 2018 including cleaning and inspecting the Hillcrest hydro tank and maintenance on three large booster pumps.
6410	300	TMNT - CHEMICALS	156,125	201,565	\$ 45,440	29%	29% Increase - Purchases/use of sodium silicate will increase in 2018 to insure that we have proper corrosion control for lead and copper. Also, well #10 was performing at a decreased capacity in 2017, using fewer chemicals.
6520	300	TMNT EQUIPMENT MAINT	19,231	59,070	\$ 39,839	207%	207% Increase - Less routine maintenance was performed in 2017, partially because of well #10's reduced capacity.
6610	300	T&D OPS - STORAGE FACILITIES EXPENSE	322,179	277,575	\$ (44,604)	-14%	14% Decrease - Morris tower is budgeted to be painted in 2018. Davidson Tower was painted in 2017, but is a larger structure.
6730	300	T&D MAINT OF MAINS	236,131	343,597	\$ 107,465	46%	46% Increase - Street opening costs are budgeted to increase due to policy changes at the City. Increased valve maintenance is also budgeted for 2018.
6770	300	T&D MAINT OF HYDRANTS	40,902	73,281	\$ 32,378	79%	79% Increase - Increased maintenance is budgeted for hydrants in 2018. Maintenance activities were allocated to other areas in 2017.
1865	200	CA CONSERVATION & OUTREACH	49,289	81,768	\$ 32,479	66%	66% Increase - There were no large business incentives for conservation in 2017.
9214	300	A&G BUILDING SERVICES	43,738	75,754	\$ 32,016	73%	73% Increase - Less snow removal was needed in the beginning of 2017 and some routine cleaning services were postponed due to construction around building in 2017.
9280	200	A&G REGULATORY COMMISSION	45,589	88,376	\$ 42,787	94%	94% Increase - Intervenor compensation and higher legal fees are budgeted for 2018.
			\$ 3,279,570	\$ 2,738,329	\$ (541,241)	-17%	

COMPENSATION NET CONTRA AND SEWER CREDIT

	2,619,415
TOTAL EXPENSES ANALYZED	\$ 5,357,744
MANAGERS' EXPENSES	\$ 5,467,409
% OF MANAGERS' EXPENSES ANALYZED	98%