



MEMORANDUM

DATE: October 22, 2018
TO: Dan Duchniak
FROM: Joe Ciurro
RE: 2019 Operating Budget

The attached packet contains the first draft of the 2019 Operating Budget. The revised 2019 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 \$1.64 million, down from the 2018 projected net income of \$1.8 million. Contributing to this is a decrease in total operating revenues of 1.6% and an increase in managers' expenses of 17%. The expense increase is primarily related to two items:
 - a. Personnel costs having a focus on capital items (i.e. pipe loop testing) in 2018, which are expected to center on operating activities in 2019, and
 - b. One-time expenses expected during 2019.
2. Revenue is budgeted without an expected rate increase during 2019.
3. Budgeted gallons billed are projected based on 2018 actuals through August and 2017 actuals for September through December. The 2019 projections include a 2% reduction in consumption due to conservation efforts.
4. Compensation, the total of wages and benefits, is expected to increase by 5.5%, or roughly \$157,000. Wages will account for \$135,000 of the increase due to the budgeted 2.50% increase for employees receiving a solid performance evaluation and one-time costs (\$65,000) associated with expected retirements such as payouts of accrued leave and wages associated with personnel overlap to assist in training of new staff. Offsetting the increase includes health insurance premiums remaining the same and the WRS pension employer contribution decreasing by 15 basis points.
5. A variance analysis of significant expenses (not related to compensation) reveals an increase in expenses of almost \$0.6 million. Items contributing to this increase include the abandonment of four wells, hydro tank maintenance, UCMR (Unregulated Contaminate Monitoring) and outside services such as a compensation study, legal services and regulatory expenses associated with a conventional rate case that is planned to be filed during the year. One-time costs account for 50% of the increase noted above.
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>2018 B</u>	<u>2018 P</u>	<u>2019 B</u>	<u>2018 P v. 2018 B</u>	<u>2019 B v. 2018 P</u>
OPERATING REVENUES:					
Residential	\$ 4,935,966	\$ 4,935,316	\$ 4,824,683	1.00	0.98
Commercial	1,511,322	1,473,795	1,437,793	0.98	0.98
Industrial	790,196	781,895	770,327	0.99	0.99
Public	302,093	291,152	287,896	0.96	0.99
Multi Family	1,618,382	1,592,249	1,540,313	0.98	0.97
Irrigation	-	40,337	42,827	1.00	1.06
Total Metered Sales	9,157,958	9,114,745	8,903,838	1.00	0.98
Private Fire Capacity	222,476	237,621	239,814	1.07	1.01
Public Fire Capacity	2,113,211	2,100,170	2,112,231	0.99	1.01
Other Operating Revenues	471,737	463,081	468,983	0.98	1.01
TOTAL OPERATING REVENUES	11,965,382	11,915,618	11,724,866	1.00	0.98
OPERATING EXPENSES:					
Source	676,346	606,957	755,122	0.90	1.24
Pumping	1,071,399	908,229	1,038,078	0.85	1.14
Treatment	491,138	393,319	535,038	0.80	1.36
Distribution	1,337,138	1,302,068	1,369,287	0.97	1.05
Customer Service	230,042	197,476	258,082	0.86	1.31
Administrative	1,660,875	1,455,837	1,745,292	0.88	1.20
Total Managers' Expenses	5,466,938	4,863,887	5,700,899	0.89	1.17
MANAGERS' MARGIN	6,498,445	7,051,731	6,023,967	1.09	0.85
Depreciation	2,594,722	2,595,701	2,683,359	1.00	1.03
Tax Equivalent	1,874,880	1,874,880	2,058,933	1.00	1.10
Other Taxes	119,563	115,499	120,254	0.97	1.04
TOTAL OPERATING EXPENSES	10,056,103	9,449,967	10,563,445	0.94	1.12
TOTAL OPERATING INCOME(LOSS)	1,909,280	2,465,651	1,161,421	1.29	0.47
NON OPERATING INCOME&(EXPENSE)	379,135	(661,825)	478,622	(1.75)	(0.72)
NET INCOME(LOSS)	\$ 2,288,415	\$ 1,803,827	\$ 1,640,043	0.79	0.91



Salary Surveys
2019

Released Date	Source	Market	2019	2018	2017	2016
July	Society for Human Resource Management	National	3.20	3.10	3.10	3.10
July	WI Employment Relations Commission	State	2.25	1.84	0.68	1.62
September	Management Resources Association - WI	State	2.70	3.50	2.60	3.00
September	Carlson Dettman Upper Midwest Wage Increases Survey Report- SE Wisconsin	Local	1.87	N/A	N/A	N/A
		Average	2.51	2.81	2.13	2.57

Last updated: 9/6/2018



Recommended Compensation for 2019
Budget Variance Analysis

		2018 Budget to Projected				2019 Budget to 2018 Projected			
		2018B	2018 P	Δ		2019 B	Δ		
				\$	%		\$	%	
Benefits									
Medical Insurance	463,042	470,024	6,982	1.5%	485,414	15,390	3.3%	0% premium increase, and add'l staff overlap to train for pending retirements	
Dental Insurance	21,391	21,719	328	1.5%	22,427	708	3.3%		
Life Insurance	12,032	11,414	(618)	-5.1%	11,486	72	0.6%		
Disability	7,060	6,302	(758)	-10.7%	7,315	1,013	16.1%		
Pension	147,238	145,614	(1,623)	-1.1%	150,785	5,171	3.6%		
Total Benefits	650,763	655,074	4,311	0.7%	677,427	22,353	3.4%		
Wages	2,217,565	2,214,426	(3,139)	-0.1%	2,349,233	134,807	6.1%	Solid performance = 2.50% incr.; add'l costs related to expected retirements	
Grand Total	\$ 2,868,328	\$ 2,869,500	\$ 1,172	0.0%	\$ 3,026,660	\$ 157,160	5.5%		

WWU
SIGNIFICANT ITEMS
EXPENSES > \$500,000 OR CHANGES > \$25,000
2019

ITEMS UNRELATED TO COMPENSATION

ACCOUNT #	DESCRIPTION	2018 P	2019 B	\$ Δ	% Δ	NOTE
6030	200 SOURCE-MISC.OPERATING EXPENSES	\$ 591,491	\$ 591,491	\$ (0)	0%	This account holds the amortization of preliminary costs associated with the Great Water Alliance project. With the Utility's 12/1/2017 rate order, the PSC requires the Utility to amortize \$591,491 annually until a subsequent rate order becomes effective, which is planned for 1/1/2020.
6145	300 SOURCE MAINT - WELL ABANDON & CROSS CONNECTION	-	140,427	\$ 140,427	100%	100% Increase - In 2018, the Utility budgeted to abandon Newhall well and two monitoring wells in the Howell Oaks development. This project was postponed to 2019. Baxter well is also budgeted to be abandoned in 2019.
6230	300 PUMP OP - POWER	689,521	704,339	\$ 14,818	2%	2% Increase - Pumping power is budgeted to increase slightly in 2019, per WE Energies estimate.
6330	300 PUMP EQUIP MAINTENANCE	49,508	110,748	\$ 61,239	124%	124% Increase - Increased maintenance activities are budgeted in 2019. This includes hydro tank maintenance at Hillcrest, three rebuild kits for booster pumps, and re-calibrating mag meters.
6420	300 TMNT - LABOR, MATERIALS & EXPENSES	87,057	140,049	\$ 52,992	61%	61% Increase - In 2019, UCMR (Unregulated contaminate monitoring) will be required by the EPA.
6424	300 TMNT - RADIUM TESTING/ANALYZING	107,995	172,456	\$ 64,461	60%	60% Increase - Wastewater discharge costs will increase by an estimated 10% in 2019. Return flow charges are also included for a full year at an increased rate in the 2019 budget.
6610	300 T&D OPS - STORAGE FACILITIES EXPENSE	217,889	252,800	\$ 34,911	16%	16% Increase - Hunter tower is budgeted to be re-painted in 2019 and is larger than the Morris Tower which was re-painted in 2018.
6751	300 T&D MAINT PROPERTY SERVICES	73,288	110,542	\$ 37,254	51%	51% Increase - An increased number of iron property service replacements are budgeted in 2019 in preparation for the new water supply.
9230	100 A&G OUTSIDE SERVICES	1,844	36,250	\$ 34,407	1866%	1866% Increase - Legal fees are budgeted higher than actual expenditures in most years to ensure the funds are available, if needed. A compensation study update is also budgeted in 2019.
9230	200 A&G OUTSIDE SERVICES	25,300	75,300	\$ 50,000	198%	198% Increase - A meter reading study is budgeted for 2019. The study will provide us with different options as we look to monthly billing in future years.
9280	200 A&G REGULATORY COMMISSION	2,741	87,051	\$ 84,310	3076%	3076% Increase - Filing a conventional rate case with intervenor compensation is budgeted in 2019.
		\$ 1,846,632	\$ 2,421,453	\$ 574,820	31%	

COMPENSATION NET CONTRA AND SEWER CREDIT

2,785,170

TOTAL EXPENSES ANALYZED

\$ 5,206,623

MANAGERS' EXPENSES

\$ 5,700,899

% OF MANAGERS' EXPENSES ANALYZED

91%