



Waukesha Water Utility Draft Operating Plan 2022

Draft Operating Budget Memo
Statement of Revenues and Expenses
Salary Survey Summary
Compensation
Significant Items Analysis
Draft Rate Projections 2021-2026



MEMORANDUM

DATE: October 15, 2021
TO: Dan Duchniak
FROM: Joe Ciurro
RE: 2022 Operating Budget

The attached packet contains the first draft of the 2022 Operating Budget. The revised 2022 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 \$2.73 million, up from the 2021 projected net income of \$2.46 million. Contributing to this is a water rate increase of 9% that has an expected effective date of July 1, 2022.
2. Offsetting the revenue increase is a \$689,000, or 13%, increase in Managers' expenses. Non-operating income is expected to increase by \$425,000, with an increase in contributed assets/grants (\$488k) offset by an increase in long-term debt interest expense (\$149k).
3. Budgeted gallons billed considered 2021 and 2019 actual consumption, with 2020 data being excluded due to the effect that COVID-19 had on it. Consumption in 2021 for Commercial, Industrial and Public customers have trended towards per-2020 figures; as such, the 2022 budgeted consumption reflects that same trend.
4. Compensation, the total of wages and benefits, is expected to increase by 6%, or roughly \$184,000. The largest factor in the \$184,000 increase relates to a full year of wages and benefits of three employees hired during 2021 and the budgeting of 0.5 FTE's for an Assistant Billing and Customer Service Supervisor. This position will be a temporary position as the current Billing and Customer Service Supervisor is expected to retire in early 2023. Additionally, a 2.25% wage increase was included in the Draft 2022 Operating Budget for any employee with a Solid Performance rating on their annual review. Please note that the Utility received some updated survey information that adjusted that increase to 2.50%. That adjustment will be made to the Final 2022 Budget.
5. A variance analysis of significant expenses (not related to compensation) reveals an increase in expenses of almost \$459,000. Items contributing to this increase include operations re-prioritizing time from the unidirectional flushing program to routine maintenance activities such as pump maintenance and property service replacements, costs of monthly billing for a full year, and the re-start of commercial cross connection inspections.
6. Draft rate projections illustrate what rates could look like for the next 5 years. The second step of the current rate order, a 9% increase, has a July 1, 2022 effective date. Also, with the GWA Project concluding, Utility staff will be seeking a considerable 2-step rate increase for 2023 and 2024 to pay for the related capital assets and any new operating expenses associated with receiving water from Lake Michigan.

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

**WAUKESHA WATER UTILITY
STATEMENT OF REVENUES AND EXPENSES
2022 BUDGET**

	<u>2021 B</u>	<u>2021 P</u>	<u>2022 B</u>	<u>2021 P v. 2021 B</u>	<u>2022 B v. 2021 P</u>
OPERATING REVENUES:					
Residential	\$ 5,946,999	\$ 5,774,686	\$ 6,004,106	0.97	1.04
Commercial	1,526,404	1,532,100	1,565,411	1.00	1.02
Industrial	575,275	651,968	775,687	1.13	1.19
Public	249,015	289,312	458,112	1.16	1.58
Multi Family	1,817,326	1,795,188	1,801,780	0.99	1.00
Irrigation	58,053	93,015	83,653	1.60	0.90
Total Metered Sales	10,173,071	10,136,269	10,688,750	1.00	1.05
Private Fire Capacity	285,385	297,052	315,907	1.04	1.06
Public Fire Capacity	2,547,817	2,468,162	2,564,457	0.97	1.04
Other Operating Revenues	535,340	513,427	528,626	0.96	1.03
TOTAL OPERATING REVENUES	13,541,613	13,414,910	14,097,740	0.99	1.05
OPERATING EXPENSES:					
Source	989,754	982,763	980,159	0.99	1.00
Pumping	971,593	937,128	987,483	0.96	1.05
Treatment	560,491	495,798	564,356	0.88	1.14
Distribution	1,115,363	918,872	1,132,905	0.82	1.23
Customer Service	284,637	286,250	305,336	1.01	1.07
Administrative	1,883,852	1,546,478	1,886,400	0.82	1.22
Total Managers' Expenses	5,805,691	5,167,288	5,856,640	0.89	1.13
MANAGERS' MARGIN	7,735,922	8,247,622	8,241,100	1.07	1.00
Depreciation	2,876,887	2,875,757	2,948,906	1.00	1.03
Tax Equivalent	2,146,102	2,146,102	2,198,386	1.00	1.02
Other Taxes	127,160	113,017	134,879	0.89	1.19
TOTAL OPERATING EXPENSES	10,955,841	10,302,164	11,138,812	0.94	1.08
TOTAL OPERATING INCOME(LOSS)	2,585,773	3,112,747	2,958,928	1.20	0.95
NON OPERATING INCOME&(EXPENSE)	(1,146,608)	(653,468)	(227,665)	0.57	0.35
NET INCOME(LOSS)	<u>\$ 1,439,165</u>	<u>\$ 2,459,278</u>	<u>\$ 2,731,263</u>	<u>1.71</u>	<u>1.11</u>



Salary Surveys
2022

Released Date	Source	Market	2022	2021	2020	2019	2018
August	Society for Human Resource Management	National	3.00	2.70	3.00	3.20	3.10
October	WI Employment Relations Commission	State	2.30	1.56	2.07	2.25	1.84
September	Management Resources Association - WI	State	3.00	2.20	3.20	2.70	3.50
September	Carlson Dettman Upper Midwest Wage Increases Survey Report- SE Wisconsin	Local	1.80	1.33	1.96	1.87	N/A
		Average	2.53	1.95	2.56	2.51	2.81

Last updated: 10/13/2021

Rate Used	2.50	2.00	2.25	2.50	2.75
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Notes:

Draft 2022 Operating Budget used 2.25% wage increase for a Solid Performance rating.
Updated survey came in October.



Recommended Compensation for 2022
Budget Variance Analysis

	2021 Budget to Projected				2022 Budget to 2021 Projected			Variance Explanation
	2021 B	2021 P	Δ		2022 B	Δ		
			\$	%		\$	%	
Benefits								
Medical Insurance	663,410	575,620	(87,790)	-13.2%	617,240	41,620	7.2%	2% increase in premiums, 3-new employees in 2021 are expected to have benefits for full 12 months in 2022
Dental Insurance	26,324	23,010	(3,314)	-12.6%	26,208	3,198	13.9%	2% increase in premiums, 3-new employees in 2021 are expected to have benefits for full 12 months in 2022
Life Insurance	10,986	11,713	727	6.6%	12,959	1,246	10.6%	
Disability	7,465	6,185	(1,280)	-17.1%	8,748	2,563	41.4%	
Pension	157,505	151,817	(5,688)	-3.6%	158,583	6,766	4.5%	Contrib. rate is decreasing 3.7%, from 6.75% to 6.5%, (i.e. WRS)
Total Benefits	865,690	768,345	(97,345)	-11.2%	823,738	55,393	7.2%	
Wages	2,328,307	2,325,204	(3,103)	-0.1%	2,454,137	128,933	5.5%	Solid performance = 2.25% increase, 0.5 FTE Incr. (Temp. Position)
Grand Total	\$ 3,193,997	\$ 3,093,549	\$ (100,448)	-3.1%	\$ 3,277,875	\$ 184,326	6.0%	

**WWU
SIGNIFICANT ITEMS
EXPENSES > \$250,000 OR CHANGES > \$25,000
2022**

ITEMS UNRELATED TO COMPENSATION

ACCOUNT #	DESCRIPTION	2021P	2022 B	\$ Δ	% Δ	NOTE
6030	200 SOURCE-MISC.OPERATING EXPENSES	\$ 958,332	\$ 958,332	\$ -	0%	Amount represents GWA Project costs that were deemed non-capital, which the PSC authorized to amortize over a number of years.
6230	300 PUMP OP - POWER	\$ 706,854	\$ 723,076	\$ 16,222	2%	2% Increase - A 1.7% rate increase is budgeted for pumping power in 2022.
6330	300 PUMP EQUIP MAINTENANCE	\$ 64,267	\$ 92,148	\$ 27,881	43%	43% Increase - Maintenance activities were pushed out to 2022, due to the uni-directional flushing that was performed in 2021.
6424	300 TMNT - RADIUM TESTING/ANALYZING	\$ 180,781	\$ 215,833	\$ 35,052	19%	19% Increase - A 10% increase was budgeted for sewer and a 10% rate increase was budgeted for return flow for wastewater discharge related to the radium wells.
6640	200 T&D CUSTOMER INSTALL	\$ 2,000	\$ 70,230	\$ 68,230	3411%	3411% Increase - Commercial cross connection was postponed in 2021 because of COVID. Residential cross connection was also suspended due to COVID. Both are anticipated to resume in 2022.
6730	300 T&D MAINT OF MAINS	\$ 358,666	\$ 361,260	\$ 2,594	1%	Balance represents distribution system maintenance costs for mains, valves, air relief, and valve boxes.
6730	600 T&D MAINT OF MAINS	\$ 0	\$ 31,000	\$ 31,000	100%	100% Increase - A contractor is budgeted to adjust valve boxes for the City's paving program in 2022.
6750	300 T&D MAINT STREET SERVICES	\$ 25,271	\$ 56,070	\$ 30,799	122%	122% Increase - Less street service maintenance was completed in 2021 while Operations staff focused on uni-directional flushing.
6751	300 T&D MAINT PROPERTY SERVICES	\$ 7,987	\$ 67,265	\$ 59,278	742%	742% Increase - No property services are projected to be replaced in 2021 because of COVID and uni-directional flushing. We have 49 iron property service replacements remaining and have budgeted 20 for 2022.
9030	200 CA RECORDS/COLLECTIONS	\$ 389,571	\$ 443,947	\$ 54,376	14%	14% Increase - Increased costs associated with monthly billing (i.e. printing & mailing costs, etc.) didn't start until March 2021. 2022 will be the first full year impacted by those costs. Additionally, there is 0.5 FTE's budgeted for a Asst. Billing and Customer Service Supervisor. A retirement is planned for early 2023 and this will allow for an appropriate training period for the replacement. As such, this will be a temporary increase in FTE's.
9060	200 CA CONSERVATION & OUTREACH	\$ 60,652	\$ 94,066	\$ 33,414	55%	55% Increase - In 2022, we are budgeting the allowable conservation expense, per the current PSC rate order. Also, we have included a conservation plan update in 2022.
9219	200 A&G OFFICE SUPPLIES & PRINTING	\$ 113,441	\$ 139,900	\$ 26,459	23%	23% Increase - Increased credit card fees associated with monthly billing didn't start until March 2021. 2022 will be the first full year impacted by those costs.
9264	150 A&G HEALTH INSURANCE	\$ 240,669	\$ 256,808	\$ 16,139	7%	7% Increase - Balance includes health insurance benefits for retirees that were employed on or before January 1, 1995.
9280	200 A&G REGULATORY COMMISSION	\$ 6,147	\$ 63,784	\$ 57,637	938%	938% Increase - A water rate increase application will be completed in 2022.
		\$ 3,114,638	\$ 3,573,720	\$ 459,082	15%	

**COMPENSATION NET CONTRA AND SEWER CREDIT
LESS: COMPENSATION INCLUDED IN ACCOUNTS ABOVE**

2,587,892
(653,806)

TOTAL EXPENSES ANALYZED

\$ 5,507,805

MANAGERS' EXPENSES

\$ 5,856,640

% OF MANAGERS' EXPENSES ANALYZED

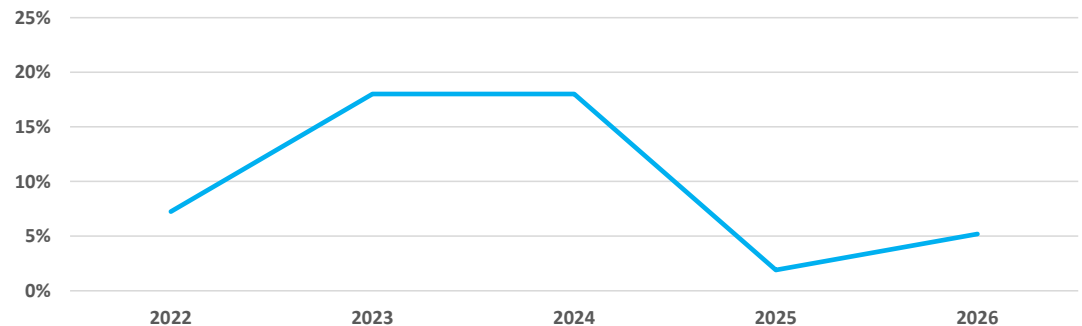
94.0%



Rate Revenue Projection 2021 - 2026

Rate Revenue Increase Projections - Global View

	2021	2022	2023	2024	2025	2026
Return Flow Rate Increase		24%	0%	0%	0%	0%
Return Flow Rate Rev. (annualized)	\$ 6,143,692	\$ 7,621,018	\$ 7,612,903	\$ 7,461,688	\$ 7,327,602	\$ 7,209,455
<i>Sewer Rate Increase</i>		3.95%	7.50%	7.50%	7.50%	4.00%
Sewer Rate Revenues	\$ 17,442,313	\$ 18,111,338	\$ 19,469,688	\$ 20,929,915	\$ 22,499,658	\$ 23,399,644
Water Rate Increase		9.00%	39.00%	39.00%	0.00%	10.00%
Water Rate Revenues	\$ 12,695,779	\$ 13,177,934	\$ 18,835,495	\$ 25,797,262	\$ 25,390,048	\$ 27,477,015
Combined RF/Swr/Wtr Rate Revenues	\$ 36,281,785	\$ 38,910,290	\$ 45,918,086	\$ 54,188,865	\$ 55,217,308	\$ 58,086,114
Combined RF/Swr/Wtr Rate Increase		7.2%	18.0%	18.0%	1.9%	5.2%





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Combined RF/Swr/Wtr Rate Increase		7.2%	18.0%	18.0%	1.9%	5.2%

Utility Billing Impact - Global View - Single Residential

	2021	2022	2023	2024	2025	2026
	\$/Yr	\$/Yr	\$/Yr	\$/Yr	\$/Yr	\$/Yr
Return Flow	\$ 167	\$ 206	\$ 206	\$ 206	\$ 206	\$ 206
Sewer	480	499	537	577	620	645
Water	399	429	597	830	830	913
RF/Swr/Wtr	\$ 1,046	\$ 1,134	\$ 1,339	\$ 1,612	\$ 1,656	\$ 1,763
Monthly Avg	\$ 87	\$ 95	\$ 112	\$ 134	\$ 138	\$ 147

**Assumes 48,000 gallons used annually.