

**2019 BUDGET**

**DONALA WATER AND SANITATION DISTRICT**

**December 6, 2018**

**BY**

**KIP PETERSEN, GENERAL MANAGER**

## **Summary of the Proposed Budget for 2019**

I am presenting the Preliminary Budget for 2019 for Board review and discussion, as well as allowing the public to be made aware that the preliminary budget is available for review. I have published a Legal Notice, as well as inclusion on the District's website and October Newsletter, that the Board would be reviewing the budget, in detail, at your October 18, 2018, Board meeting. The Board will take public comments at this meeting, for consideration, prior to the adoption of the 2019 Budget at the December 6, 2019, Board meeting.

Based upon the recommendations contained in the User Charge Evaluation Report, completed by GMS, Inc., in October of 2017, I have developed this budget with a recommended 4% water rate increase and a \$2/month increase in Sewer Charges **and a \$1 a month increase to the water service rate.** .

### **ASSUMPTIONS MADE IN THE DEVELOPMENT OF THE 2018 BUDGET**

In 2018, the District saw several new commercial properties start construction. Three commercial structures were erected at the Academy Gateway location; however, I am not aware of any additional commercial construction on this property and I have not budgeted for any new construction. In 2018 I anticipated that 12 homes would be constructed, mainly around the former golf course property. Only home was constructed on the golf course in 2018. I am budgeting for 10 homes to pay tap fees in 2018. This will generate \$315,000 in tap fees.

The forecast of water consumption and the impact that weather will have, not only on the consumption by customers, but on our management of our water resources is the biggest challenge in the budget development process. In 2018, we saw two potential "spills" of Pueblo Reservoir, resulting in the potential to the District of "losing" our water to downstream users. As a result, we attempted to use as much of our Willow Creek Ranch water as possible. In future years, we will reconsider when, or if, we take water during potential spill conditions. This operational challenge in 2018, resulted in higher utilities being used as I had forecast that we would have the ability to take all of our water from Willow Creek, instead, with the forecast spill in June, we used as much water from the Ranch as we could. By the mid-summer, the weather had turned hot and dry resulting in less water from the Ranch than we have seen previously, causing us to ramp up the wells in the District, thus increasing our utility costs, over what I had budgeted for.

I have monitored the long range forecast for the Front Range and I am not confident that we'll see relief from drought conditions in 2019. Some are projecting a 70% chance of an El Nino in 2019, which would trend to generate a wetting winter and spring. Others are anticipating an continued drought pattern in 2019.

I have based this budget on a forecast for a dryer than normal water demand season.

## Operating Revenue

Water Sales: At this time, I am proposing a 4% across all tiers, rate increase. Water sales in 2018 were higher than anticipated, based upon weather patterns creating a warm and dry late spring and the same for the second half of the summer season. I am anticipating a similar weather pattern for next season. The District charges a monthly \$25 water service rate which assists us in covering the administrative costs of operations. The last change to this charge was in 2012. I am proposing to increase this service rate by \$1 per month in 2019.

Effluent Sales: I have been able to lease the Laughlin water right to AGIUA for then next several years, in addition to our existing lease of our effluent. This will result in a 20% increase in this line item.

Sewage Service: An increase of \$2 per month to each monthly bill.

Installation Fees: This line item will decrease by 32% as a result of fewer homes being constructed that budgeted for. This is the fee charged when a tap fee is paid.

Tap Fees: This line item will decrease 52% as the result of residential and commercial construction not meeting expectations in 2018, as well as forecasting only 10 new homes being built.

Water Development Fee: This line item will decrease by 66% as the result of residential and commercial construction not meeting projections.

Sewer Development Fee: This line item will decrease by 55% as the result of residential and commercial construction not meeting projects in 2018.

Property Tax: This line item will increase by less than 1%.

Auto Tax: This line item will decrease by 14%. New car sales in El Paso County were heavily impacted by two major hail storms, resulting in higher than anticipated revenue in 2018. I cannot anticipate such events in 2019.

Avail. Of Service: This line item will increase by 46%. This increase is the result of new, platted development. The Academy Gateway project (8 vacant lots), and 42 lots of the golf course redevelopment have now been platted, and which have access to water and waste water services, which is when the imposition of these fees occurs. In addition, there are 14 additional platted lots within the District for a total of 56 vacant lots. Each platted, but unbuilt upon lot has a 350\$ AVS fee charged to the owner. This fee pays for the on-going maintenance of the infrastructure available to that property.

Operating Interest: This line item will increase by 64% as the result of higher interest rates being paid on the District's investments.

Investment Interest: This line item will remain neutral.

New Water Inf. Loan: This line item will decrease by 33%. This line is essentially a neutral line item as it will cover the costs of the specific projects covered by the bond funds and our expenses are covered by this loan. The capital projects anticipated I 2019 will exhaust the balance of the available funds.

Water Investment Fee: This line item will decrease by 66% based upon increased residential and commercial development not developing as quickly as anticipated.

FL Reimbursement: This line item accounts for the time our staff works over at Forest Lakes.

We anticipate more time in 2019 due to the construction of the surface water treatment plant and continued construction within Forest Lakes. I anticipate that this will result in a 40% increase in the budgeted amount.

Misc. Revenue: In 2018, the District received a check from the Academy Water and Sanitation District, in the amount of \$889,000. This was one-time payment for their buy-in into the District's sewer infrastructure and will not be included in any future budget. This item can fluxuate substantially year to year. One example is our winter return flow obligations with the Pueblo Board of Water Works. They account for our winter return flows, using either their water (for which we pay a set amount per acre feet, payable prior to the winter return flows start). If we have enough water in Pueblo Reservoir, we will use that water, which we pay PBWW to account for, at a much reduced per acre foot. At the end of the water season we usually will receive a refund check. This past year it was \$39,794. Other misc. revenue would include the T-Mobile lease on the Holbein water tanks. ~~I am programming the Barash cost recovery for 2019, in the amount of \$90,000. Still, I anticipate a decrease of 87% in this line item.~~ **As the Barash payment was received in 2018, I have removed it from the proposed 2019 budget. This difference is now a decrease of 97%.**

Total Operation Revenue will decrease by ~~18~~ **17.5%**. Excess revenue over operations, will be placed in an interest-bearing account to assist in future repair and maintenance costs.

Operations: The Total Expenditures, not including capital projects, will increase by 2.2% however, the Total Operations portion of the budget will decrease by 11%, mainly the result of a lower amount of funding for capital projects.

Reimb. Of Capital Projects: This line item covers the District's costs to repurchase equipment for Forest Lakes, who then reimburses the District for those costs. Forest Lakes payments are reflected in the Revenue portion of the budget. I am not programming for an increase in 2019.

Chemical and Lab.: This line item will increase by 8%.

Repair/maintenance: This line item will increase by 7.4%. See Attachment A

Truck/backhoe expense: Increase by 4%. It includes the replacement of a high mileage work truck. See Attachment A.

Utilities: Increase by 25%. In conversations with Intermountain Electric, they have indicated there will not be a rate increase projected for 2019, however, based upon past experience I have anticipated a 5% increase from them at some point in 2019. Black Hills Energy has not announced a price increase at this time. This line item is highly variable as the more the District produces groundwater, the higher the electrical costs are. In 2018, our electric costs were much higher than anticipated due to the increased production from the District's wells, as result of less water from the District's Ranch. With a dry forecast for 2019, I believe that a 25% increase is justified.

Tools and Equipment: This line item will reduce by 40%. See Attachment A

Inspection Refunds: for each tap fee paid, the builder/developer will see a portion of the installation fee charged, returned (\$200). As a result of the development anticipated 10 new homes), this line item will decrease by 33%.

Waste Plant Expenses: This line item will increase by 27%. This the result of programmed capital expenses. For more details, see UMCRRWTF proposed budget.

W & P Loan Payback: No increase. This line item represents our annual payments to the Colorado Water and Power Development Authority for the two loans the District has with them. These pay for the several large capital replacement projects anticipated in 2019.

Audit: I am anticipating a 4.4% increase.

Insurance: This line item will increase by 10%. This line item includes the property and casualty coverage, as well as employee health insurance. This increase is based upon the renewal information provided to the District.

Legal Expenses: This line item will reduce by 33%.

Office Expenses: This line item will increase by 38%.

Office Equipment: This line item will increase by 66%. This increase is due to an update to the billing program that is needed.

Telephone: Increase by 10%.

Professional Engineer: This line item covers engineering professional services for on-going projects related to Willow Creek Ranch. This would include assistance with the Bureau of Reclamation on our request for a long-term contract, as well as the application before Pueblo County.

District Engineer: I am anticipating a 30% increase for 2019, as a result of continued engineering review needs. This line item covers all general engineering work done for the District. Development review is the primary use.

Salaries: This line item will actually decrease by 8.8% due to a calculation error in 2018. It does include an overall 4% increase in salaries.

Payroll Taxes: As a function of salaries, this line item will decrease by 8.8%.

457 Plan: As a function of salaries, this line item will decrease by 8.8%.

Contract Services: This line item will decrease by 4%, primarily due to a close review of all contract services and a desire to have them all included in this line item. It did reduce costs in several other line items.

Publication: Due to increased requirements for publication, as well as increased costs, this line item will increase by 7.9%.

Fees, Permits, Dues: This line item will decrease by 10%, based upon the prior year costs.

Training: This line item will increase by 45%. Training would include employee development training as well as conference registration and related costs. Top priority will be given to employee development.

Investment Expense: No change.

County Treasure Fee: No change.

Forest Lakes Reim. Expense: This line item will remain as a place holder in the budget to allow us to track how much the District is paying for equipment that is reimbursed by Forest Lakes.

CSU WTR/BOWW: This line item will decrease by 29%. CSU has indicated that the costs to deliver the Willow Creek Ranch water increase by 3.5%, however, this is offset by a recalculation of the minimum System Usage Fee. This fee will be reduced from \$15,012.5 per month, down to \$3,646.63. This will result in an annual savings of \$137,000. The Pueblo Board of Water Works (PBWW) provides the District's required winter return flows and will increase their charges by 3.5%. In 2019, the Bureau of Reclamation will increase the District's costs by 8% to cover increased OM&R costs at the North outlet works. Costs will increase from \$52,000 in 2018 to \$56,332. We can anticipate these costs to remain high for the next three years. With carriage agreement with Fountain Mutual Irrigation Company, we will now have an annual cost of approximately \$8,000 per year. This agreement allows the District to measure how much water for accounting purposed. The Southeast Colorado Water Conservancy District charges us, in 2019, \$3,500 for their administration of our "out of District" water. Despite these increases, I am projecting that our costs for 2019 will still decrease. This is due to our projection for dry winter and spring in 2019 and a greater dependence upon our well system for water production.

Misc.: No change.

The total operational budget will decrease by .1%, or a difference of -\$1,050 from 2018 operational expenses.

**Capital Projects:**

This category is broken into three categories; a general fund capital project budget, new water infrastructure project budget, and the Laughlin water right annual payment. The breakdowns of each category are included in Attachment A.

General Fund Capital: This line item will ~~decrease by 33%.~~ will increase by 73%. This is the result of the District mitigating arsenic generation from our wells and the treatment taking place at the R.Hull water production plant. In the preliminary budget submitted, these funds were allocated in the Wastewater Treatment budget as part of Donala's contribution to arsenic removal, however, with the treatment location changed to the water I have placed this project in water capital for 2019 These funds have been held in the District's savings account.

New Water Infrastructure: These are projects which are accomplished using the bond funds. This line item will increase by 33%.

Laughlin Water Right: This line item will remain constant.

DONALA WATER & SAN. DIST.	ACTUAL	BUDGET	ACTUAL	BUDGET
EXPENDITURES	THRU DEC.	YR END	THRU AUG	YR END
	2017	2018	2018	2019
CHEMICAL AND LAB	\$31,501	\$35,000	\$26,886	\$38,000
REPAIR/MAINTENANCE	\$106,404	\$374,100	\$196,425	\$403,900
VEHICLES	\$31,036	\$61,000	\$40,652	\$63,000
UTILITIES	\$321,528	\$315,000	\$254,696	\$415,000
TOOLS AND EQUIPMENT	\$43,268	\$33,150	\$18,833	\$20,000
INSPECTION REFUNDS	\$0	\$3,000	\$400	\$2,000
WASTE PLANT EXPENSES	\$687,794	\$1,099,789	\$407,773	\$1,502,020
TV WASTE PLANT EXP.	\$473,225	\$883,899	\$419,671	\$633,891
FL WASTE PLANT EXP.	\$15,125	\$30,208	\$28,561	\$56,106
W & P LOAN 2006	\$318,426	\$319,449	\$318,681	\$318,193
W & P LOAN 2007	\$144,687	\$144,687	\$144,687	\$145,865
W & P LOAN 2011	\$310,167	\$310,288	\$309,438	\$310,366
AUDIT	\$20,580	\$21,000	\$20,970	\$22,000
INSURANCE	\$204,980	\$211,000	\$187,174	\$232,000
LEGAL EXPENSES	\$33,256	\$30,000	\$16,165	\$20,000
OFFICE EXPENSES	\$27,926	\$15,730	\$9,785	\$25,000
OFFICE EQUIPMENT	\$9,561	\$17,800	\$8,181	\$40,000
TELEPHONE	\$18,705	\$20,000	\$12,939	\$22,000
PROFESSIONAL ENGR.	\$65,042	\$70,000	\$14,496	\$50,000
DISTRICT ENGR.	\$49,538	\$15,000	\$28,165	\$30,000
SALARIES	\$634,295	\$751,587	\$449,296	\$686,053
PAYROLL TAXES	\$46,862	\$57,496	\$34,371	\$52,483
457 PLAN	\$38,753	\$52,611	\$27,883	\$48,023
CONTRACT SERVICES	\$50,842	\$81,790	\$42,861	\$78,000
PUBLICATIONS	\$19,089	\$15,500	\$14,220	\$17,000
FEES, PERMITS, DUES	\$14,371	\$20,000	\$13,780	\$18,000
TRAINING	\$10,804	\$10,000	\$11,657	\$18,000
INVESTMENT EXPENSES	\$22,873	\$5,000	\$4,336	\$5,000
COUNTY TREAS.	\$24,508	\$28,000	\$26,499	\$28,000
FOREST LAKES EXP	\$3,182	\$10,000	\$6,809	\$10,000
MISC. EXPENSES	\$9,846	\$10,000	\$5,604	\$10,000
CSU/PUEBLO/STORM	\$1,730,214	\$1,748,245	\$820,971	\$1,255,269
ADJ. BALANCE		\$0		\$0
TOTAL OP & ADMIN.EXP	\$5,518,387	\$6,800,329	\$3,637,649	\$6,575,169
CAPITAL PROJECTS				
OTHER	\$379,044	\$227,000	\$131,249	\$975,000
NEW WATER INF./BOND	\$606,797	\$2,611,000	\$526,187	\$1,750,000
LAUGHLIN DITCH RIGHTS	\$485,643	\$200,000	\$98,134	\$200,000
TABOR RESERVE	\$231,529	\$334,061	\$188,276	\$274,097
DEBT RESERVE	\$1,747,468	\$2,459,582	\$1,098,305	\$2,375,042
CONTINGENCY	\$0	\$100,000	\$0	\$100,000
TOTAL EXPENDITURES	\$8,968,869	\$12,731,972	\$5,679,800	\$12,249,307
ENDING FUND BALANCE	\$12,916,332	\$9,972,529	\$14,798,986	\$16,944,553



## ATTACHMENT A

### INFRASTRUCTURE BOND FUNDS

Gleneagle Drive Water Line replacement	\$1,750,000
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### CAPITAL PROJECTS

Meter Replacement	\$125,000
Water Tank Repairs	\$50,000
	\$175,000

### REPAIR AND MAINTENANCE

1 Well Repair	\$300,000
Weather Station Upgrade	\$6,300
TV sewer lines	\$3,000
Well Meter and Transducer Repair	\$10,000
Pipe Repair and Inventory	\$25,000
Electrical Repairs	\$25,000
SCADA Parts and Repair	\$27,000
3 Water on Floor Sensors	\$4,600
2 Replacement Night Work Lights	\$2,500
	\$403,900

### TRUCKS AND BACKHOE

Replacement of High Mileage Truck	\$40,000
Tires/Maintenance/Repairs	\$23,000
	\$63,000