

ERIE COUNTY WATER AUTHORITY
INTEROFFICE MEMORANDUM



October 5, 2018

To: Commissioners Schad, Carney and Jones
From: Robert J. Lichtenthal, Jr., Deputy Director *RJL*
Subject: Attached 2019 Budget Documents

Included with this memo is the Authority's 2019 Preliminary Budget.

The preparation of the annual budget is initiated after the operating results for July of the current year have been prepared. These results are then projected for the next five months to obtain estimated operating results for the entire year.

The Budget Director is responsible for producing budget preparation instructions, a budget preparation timetable, necessary worksheets and other supporting documentation for each department showing past and present budget information. This information informs Department Heads of any changes for the most recent budget and serves as a guide for putting together estimates and making the necessary entries into the budget entry system.

Department Head Budget Preparation

Each Department Head has the responsibility of entering estimates of their department's needs for the ensuing fiscal year. The entries required include Labor and Transportation Expense budget requests – including allocation to the correct line items and units, Operating and Maintenance Expense budget requests and Capital Expense budget requests.

In preparing the annual Operating and Maintenance budget for their respective department, the Department Heads consider the historical results of previous years, the projected results of the current year, recent developments that have taken place in the department which would impact the future operating results and industry and commodity pricing changes that could impact the future operating expenses.

For all Operating and Maintenance expenses, Department Heads need to make sure line items in their budgets are developed on need and not an approximation based solely on the previous year. They are also required to have supporting documentation to justify these needs as well.

Preparation of the Capital Budget by Department Heads is to be done on the long and short – term needs of the department and the Authority as a whole. Estimates should be based on feasibility studies performed by engineers and planners and also similar projects which have been undertaken in the past.

The budget documents attached are organized as follows. The first summary pages (1.1-1 and 1.1-2) titled "Statement of Net Income Available for Capital Budget" lay out the Operating Revenues the Operating and Maintenance (O&M) expenses presented unit by unit. Adjustments to reflect O&M expenses capitalized and reflected in the Capital Budget, Other Income and Other Expenses and Debt Service are presented and a final Net Income number is presented. This number is later reflected as a major source of funding for the Capital Budget.

Revenues reflect a 2% across the board increase in the commodity rate for all customers and the final 1/3 phase in of the Infrastructure Investment Charge for customers with meter sizes of 1 1/4 inch or larger. This impacts less than 4000 out of nearly 171,000 customers. These increases are reflected in the Authority's Five Year Rate Projection Model. The Board will need to take separate action to amend the Authority's Tariff to adopt any increase in rates and fees for 2019.

Page 1.2-1 summarizes expenses across the departments and units by the Major Object of the expenditures such as Salaries and Wages, Power Purchased, etc. Pages 1.3-1 through and including 1.3-3 break the expenses down in further detail. Pages 1.4-1 through 1.4-52 present Department and Unit expense detail. I have also included an attachment titled Internal Distribution Number Account Descriptions which defines the types of expenses represented by the two digit codes you will see for each line of expense.

The Capital Budget is presented Unit by Unit with brief descriptions of the project. Projects can be either single year or multi-year in nature. The budget amount reflected is the amount projected to be expended in the current year and includes engineering, construction, overhead and contingency. You will notice that certain projects show amounts for 2018 indicating that this might either be a multi-year project or a project which may have been anticipated to be accomplished in 2018 but was delayed or deferred.

Page 2.1-1 is a Statement of Resources and Summary of Appropriations by Unit. Pages 2.2-1 through 2.2-18 present the detail and pages 2.3-1 to 2.3-2 show a breakdown by major category.

Over the course of the next week leading up to the Board of Commissioners Budget Hearings the staff will be preparing additional supporting documents to be presented and reviewed at the hearings, including a schedule of the times allotted to each Department for their budget presentation. It is hoped that this information will allow you to begin your preparations for the hearings and your upcoming deliberations as you move toward adopting a budget for 2019 by November 1, 2018.

This is a lot of information to digest. Please write down any questions you may have and feel free to contact either myself or Steve D'Amico regarding any of this information. I hope you find this helpful.