



ERIE COUNTY WATER AUTHORITY

INTEROFFICE MEMORANDUM

October 4, 2019

To: Commissioners Schad, Carney, and Jones

From: Karen A. Prendergast, Chief Financial Officer *KAP*

Subject: 2020 Annual Budget Review

I look forward to reviewing the 2020 budget with you on October 17, 2019. Please feel free to email me with any questions you may have before then. Division and Department Heads will also be on hand to answer specific questions at the October 17th budget review.

Following are the highlights of the Authority's 2020 preliminary budget:

Revenue

The 2020 preliminary budget proposes a 2% increase in both the volumetric rate and the infrastructure investment charge (IIC). The estimated impact on the average customer is \$4.34 per year for residential customers with smaller meters and \$11.72 per year for larger commercial customers. These two groups represent 99% of our customers.

The Cost of Service Study completed in 2016 by Raftelis Financial Consultants was implemented over the past three years, bringing the IIC for large meters up to recommended levels. The charge, which represented 16.8% of our revenue in 2016, grew to a projected 21.6% in 2019. In December of 2016 the Deputy Director recommended extending the contract with Raftelis for a three-year period on an as-needed basis. It is my intention to revisit the extension with the Board by year's end and have Raftelis update the rate model before the 2021 budget is adopted.

Operating & Maintenance (O&M) Expense

The preliminary O&M budget increased 4.5% from \$53,786,286 in 2019 to \$56,219,241 in 2020. The following line items represent significant increases over the 2019 budget:

- Employee compensation
 - The collective bargaining agreement with the Brotherhood of Western New York Water Workers was ratified by the Board on December 20, 2018, resulting in a 3.5% increase in the 2020 labor budget. Negotiated increases also contributed to a higher overtime budget in 2020.

- Additional positions were budgeted in 2020 in support of the Authority's newly adopted Strategic Initiatives Plan. Positions in Engineering, Inspections, the Meter Shop, and Customer Service have been added to assist in meeting our capital investment and customer service goals. These positions resulted in a 4.3% increase in overall budgeted compensation.
- Fringe benefit costs including health insurance, life insurance, workers compensation and disability insurance remained within 1% of the 2019 budget.
- Insurance costs
 - Property insurance premiums rose 13.81% due to an increase in claims, and cyber insurance coverage was increased to \$20 million resulting in a 104% increase in premium.
 - Budgeted retiree health insurance costs increased 5.75% due to increased claims in 2019.
- Payments to contractors
 - Budgeted payments to contractors for repairs increased 26.5%. A new on-call repair contract was bid in September of 2019 – the successful bid was 22.4% higher than the previous contract. Increased usage has resulted largely from emergency transmission main repairs.
 - Budgeted payments to restoration contractors increased 8.3% as the number of excavations required trends up with the number of repairs.
 - Increases are somewhat offset by a 13.3% decrease in budgeted payments to other contractors at the water treatment plants.

Capital Spending

Budgeted capital spending increased 21% from \$41,518,653 in 2019 to \$50,212,351 in 2020. The replacement of the north Ball storage tank for \$7,240,000 and distribution and transmission main replacements of \$29,910,000 represent approximately 74% of the 2020 capital budget.

cc S. D'Amico
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