

MEMORANDUM

TO: Mayor Railey and City Council
FROM: Al Greene, City Manager
PURPOSE: Fiscal Year 2016/2017 Budget Message
DATE: May 10, 2016

1. Overview

State law requires that the recommended budget be transmitted to the Mayor and members of the City Council prior to June 1st of each year. The law also requires that a Budget Message be included with the transmittal of the recommended budget. This memo and the attached budget worksheets are intended to meet the requirements of the law and to provide the City Council with a framework for budget deliberations.

Projections of the current year's revenues and expenses through June 30th and previous year's actual revenues and expenses are included in the worksheets for comparison purposes. This year we have provided a column for the **FY 2017 Base**, which represents the minimum amounts required for the City to operate for the coming year without significant local revenue increases for new programs, equipment or employee compensation. All departmental work sheets, with the exception of the Police Department, also have a column for **FY 2017 Expansion**, which contains staff's recommended amounts for increases in employee compensation and new capital purchases.

In the Police Department worksheet we have included a column titled **Requested FY 2017 Expansion** which includes requests from the department head for new positions and associated vehicles, equipment and supplies and the **Recommended FY 2017 Expansion** column contains the manager's recommended expansion budget for the department. You will see that the manager's recommendation does not include all expansion items requested by the department. The **Recommended FY 2017 B & E** represents the manager's recommended total funding (Base and Expansion) for the department.

The recommended expansion budget contains the amount needed to fund the first of a two-year effort to raise employee compensation to the levels recommended in the recently adopted pay plan. The FY 2017 Expansion Budget for each department contains the cost of salary and benefit increases necessary to move all employees to a reduced minimum salary level in their range, and to provide an additional .5% increase for each year that the employee has served the City of Lowell. This approach is suggested in Mrs. Veazey's report as Option 2 for

implementation, and covers about \$74,000 of the cost of full implementation of the pay plan. The remaining cost would be scheduled in next year's budget and would complete the transition to providing equitable and competitive compensation for our employees.

The following comments provide a summary of the recommended Budget compared to the current year's projected revenues and expenses.

- The total recommended General Fund Budget for FY 2017 is \$2,286,981 compared to total projected FY 2016 General Fund expenses of about \$2,052,903, for an increase of \$234,078 (11.4%). Most of the increase can be attributed to cost associated with the upcoming transportation study and the Poston Park sidewalk extension. Off-setting grant revenue in the coming year for these two projects combined is \$177,750. Most of the remainder of the increase can be attributed to the roughly \$55,000 cost increase in General Fund salaries to implement Option 2. If we were to add in benefit cost related to Option 2 the cost of these few items would represent more than the total increase in the General Fund.
- Staff's recommended budget provides contingency appropriations for both the General Fund and the Utility Fund at \$10,502 and \$13,160 respectively. Lowell has not funded contingencies in recent memory and the lack of contingency appropriations, combined with tight budgeting, provides limited flexibility during the year for changing circumstances. It also makes it difficult to raise the level of reserves in each fund.
- The total recommended Utilities Budget for FY 2017 is \$1,169,963 compared to projected expenses for FY 2016 of \$1,183,669, for a decrease of \$13,706. Salaries, benefits, and the provision of a contingency in the Water and Sewer Department are contributing to total an increase in that Department of \$37,648. This increase is more than offset by a reduction in the Wastewater Treatment Department of about \$51,354 attributed primarily to a reduction in maintenance and repair of equipment (\$35,085), the temporary rental of an emergency generator (\$9,000), and sludge disposal (\$4,000).
- Total recommended appropriations for both funds combined (General Fund plus Utility Fund) for the coming year are \$3,456,944 compared to projected expenses for the current year of \$3,236,572 and budgeted expenses of \$3,267,063.

2. General Fund Expense

Table 1 below provides 2015 actual, 2016 budgeted and projected, and 2017 recommended General Fund expenses by department. While this information is somewhat helpful in understanding the recommended budget, the best way to gain an understanding of the changes in the General Fund is to compare the year-over-year totals for different categories of expenses. Table 2 below separates General Fund expenses into five categories: personnel, operating, capital, debt and contingency.

Table 1. General Fund Expense Summary by Department

Expense	FY 2015	FY 2016	FY 2016	FY 2017	FY 2017	FY 2017
	Actual	Approved	Projected	Base	Expansion	B & E
Administration	\$ 696,200	\$ 755,071	\$ 685,439	\$ 662,015	\$ 40,894	\$ 702,909
Police	\$ 654,961	\$ 602,897	\$ 592,523	\$ 568,817	\$ 103,401	\$ 672,219
Streets	\$ 274,963	\$ 311,676	\$ 319,479	\$ 414,219	\$ 17,068	\$ 431,286
Powell	\$ 23,948	\$ 94,330	\$ 94,330	\$ 94,525	\$ -	\$ 94,525
Sanitation	\$ 369,870	\$ 233,664	\$ 224,209	\$ 227,718	\$ 9,073	\$ 236,790
P & R	\$ 137,878	\$ 141,348	\$ 136,924	\$ 138,064	\$ 11,187	\$ 149,251
Total	\$ 2,157,820	\$ 2,138,986	\$ 2,052,903	\$ 2,105,358	\$ 181,623	\$ 2,286,981

Table 2. General Fund Summary by Expense Category

Category	FY 2015	FY 2016	FY 2016	FY 2017	FY 2017	2017
	Actual	Approved	Projected	Base	Expansion	B & E
Personnel	\$ 1,037,384	\$ 1,079,327	\$ 1,059,795	\$ 993,547	\$ 88,791	\$ 1,082,338
Operating	\$ 842,561	\$ 841,240	\$ 850,870	\$ 821,872	\$ 9,115	\$ 830,987
Capital	\$ 245,044	\$ 172,060	\$ 95,879	\$ 243,580	\$ 63,510	\$ 307,090
Debt	\$ 32,831	\$ 46,360	\$ 46,359	\$ 46,359	\$ 9,705	\$ 56,064
Contingency	\$ -		\$ -	\$ -	\$ 10,502	\$ 10,502
Totals	\$ 2,157,820	\$ 2,138,987	\$ 2,052,903	\$ 2,105,358	\$ 181,623	\$ 2,286,981

At \$1,913,325, combined recommended personnel and operating expenses for the General Fund are \$2,660 higher than the projected expenses for these categories in FY 2016 of \$1,910,665.

In terms of personnel expenses, several things are going on between FY 2016 and FY 2017. You will notice a reduction of \$66,248 in comparing the FY 2016 Projected to the FY 2017 Base. Our projections for FY 2016 include vacation pay-out for four employees totaling about \$15,370. In addition, the FY 2017 recommendation takes into account the elimination of the zoning administrator position this spring. We also changed health insurance providers in mid-year and will realize lower premiums for about five months of FY 2016, but we anticipate a reduction for twelve months in FY 2017.

For FY 2017 we have assumed that:

- there will be no pay-out resulting from employee changes,
- the zoning administrator position will not be filled,
- health insurance premiums will not be raised or lowered from their current level during the year, and we assume twelve months of premiums at the lower rate.

As stated, we have included funding for Option 2 of the pay plan transition, and we have also included \$15,000 in FY 2017 for costs associated with managing zoning administration and to continue to compensate employees for undertaking additional duties that were formerly assigned to the zoning administrator position. The City Council and the new manager will need to work together to determine the final staffing arrangements for the year and what actual cost will be involved in the arrangement that you decide upon.

One final note in terms of General Fund (and the Utility Fund) salaries should be mentioned. In the past we have funded 100% of the salary and benefits of the city clerk and 40% of the salary and benefits of the utility billing clerk from the Utility Fund. This year we propose to fund 100% of the salary and benefit costs of the utility billing clerk and the part-time billing clerk and 50% of the city clerk’s salary and benefit costs from the Utility Fund. We believe that the proposed change in the allocation of costs fairly reflects the costs to the respective accounting funds of the office staff.

In terms of General Fund capital funding, staff recommends a year-over-year increase of \$212,111, from a projected FY 2016 fund total for capital of \$94,979 to a recommended FY 2017 total of \$307,090. However, as you can see from Table 3 below, most of the recommended capital will be funded with grants, loans and Powell Bill revenue. At \$17,400, general revenue programed for capital purposes is actually \$34,652 below the current year’s level of \$52,052.

Table 3. General Fund Capital

Object	FY 2016	FY 2017
Transportation Planning	\$ 5,000	\$ 50,000
Administration Computers	\$ -	\$ 7,400
Walkie Talkies	\$ 12,052	\$ -
Police Vehicles	\$ -	\$ 56,110
Limb Chipper	\$ 35,000	\$ -
Poston Park Eng./Constr.	\$ 14,250	\$ 137,750
Road Construction/Repairs (PB)	\$ 25,677	\$ 52,830
Signs (Powell Bill)	\$ 3,000	\$ 3,000
Total Capital Expenses	\$ 94,979	\$ 307,090
<u>Revenue Sources</u>		
<u>Grants and Loans</u>		
Transportation Grants	\$ -	\$ 40,000
Poston Park Sidewalk Grant	\$ 14,250	\$ 137,750
Lease Proceeds	\$ -	\$ 56,110
Sub-total	\$ 14,250	\$ 233,860
<u>Annual Revenue</u>		
Powell Bill	\$ 28,677	\$ 55,830
General Revenue	\$ 52,052	\$ 17,400
Sub-total	\$ 80,729	\$ 73,230
Total Capital Revenue	\$ 94,979	\$ 307,090

We recommend that the Poston Park Sidewalk project be expensed out of the Street Department, at least for budget review purposes. We are showing revenues and expenses for this project in both FY 2016 and FY 2017, with an estimate \$14,250 in revenue to be realized and expensed in

FY 2016, and the remaining revenues and expenses of \$137,750 in FY 2017. This estimate will need to be revisited before adoption of the final budget to fine tune the portion of revenues and expenses that will need to be funded in each year. An alternative to funding in the General Fund budget would be to establish a capital project budget for the total anticipated revenues and expenses. We suggest that the City Council have a discussion with your Interim Manager and Finance Officer regarding the most appropriate method of accommodating this project from a budget standpoint.

In the draft copies of budgets, we typically show recommended Powell Bill expenses to be equal to Powell Bill revenue. This makes a review of the General Fund more straightforward. Powell Bill revenue and expenses will have to ultimately be provided for the remaining portion of design and bidding cost of the Oak Street and Roseboro Court street projects that are remaining at the end of the fiscal year. Construction dollars will also need to be appropriated for whatever portion of those projects that the Council decides to undertake once bids are received. As with the Poston Park Sidewalk Project in the Street Department, I will defer to the Council and your staff at the time to decide on the most appropriate method of accommodating the projects from a budgetary standpoint.

The proposal to fund two new police cars through a lease-purchase represents a net cost of about \$10,000 in FY2017. We propose the lease to be structured for a three year term with semi-annual payments. With the purchase of the cars in early winter there would be one debt payment of about \$10,000 in FY 2017, two debt payments in FY 2018 and FY 2019 totaling about \$20,000 in each year, and one final debt payment of about \$10,000 in FY 2020. Table 4 incorporates likely debt service payments into our existing General Fund debt service schedule.

Table 4. General Fund Debt Service Schedule

Item	2014	2015	2016	2017	2018	2019	2020	2021
<u>Police Cars</u>								
Principal	\$ -	\$ 7,692	\$ -	\$ 9,075	\$ 18,450	\$ 18,873	\$ 9,597	\$ -
Interest	\$ -	\$ 59	\$ -	\$ 630	\$ 958	\$ 536	\$ 108	\$ -
	\$ -	\$ 7,750	\$ -	\$ 9,705	\$ 19,408	\$ 19,409	\$ 9,705	\$ -
<u>Software</u>								
Principal	\$ -	\$ 3,618	\$ 3,563	\$ 3,641	\$ 3,721	\$ -	\$ -	\$ -
Interest	\$ -	\$ 211	\$ 239	\$ 161	\$ 81	\$ -	\$ -	\$ -
	\$ -	\$ 3,829	\$ 3,803	\$ 3,803	\$ 3,803	\$ -	\$ -	\$ -
<u>Garbage Truck</u>								
Principal	\$ -	\$ 19,753	\$ 39,930	\$ 40,721	\$ 41,527	\$ 21,071	\$ -	\$ -
Interest	\$ -	\$ 1,525	\$ 2,626	\$ 1,836	\$ 1,030	\$ 208	\$ -	\$ -
	\$ -	\$ 21,278	\$ 42,557	\$ 42,557	\$ 42,557	\$ 21,278	\$ -	\$ -
Total Principal	\$ -	\$ 31,062	\$ 43,494	\$ 53,437	\$ 63,698	\$ 39,944	\$ 9,597	\$ -
Total Interest	\$ -	\$ 1,795	\$ 2,866	\$ 2,627	\$ 2,069	\$ 744	\$ 108	\$ -
Total GF	\$ -	\$ 32,857	\$ 46,359	\$ 56,064	\$ 65,767	\$ 40,687	\$ 9,705	\$ -

The Fire Department requests a slight increase of \$3,053 for FY 2017, with \$204,200 requested for operations and only \$5,500 for matching grants. The total request is \$209,700. The current year's amended budget for the Fire Department includes \$174,200 for annual operations and \$32,447 for grant matches, for a total of \$206,647. The Department hopes to begin work on remodeling of the fire station this year, and is requesting the shift from matching funds for grants to facilitate the renovations. Chief Moore has indicated to me that he looks forward to meeting with you at an upcoming work session to discuss departmental plans and to answer any questions you may have.

Table 5. Fire Department Funding

	FY 2015	FY 2016	FY 2017	Difference FY 2016 - FY 2017
Operating Funds	\$ 177,913	\$ 174,200	\$ 204,200	\$ 30,000
Grant Matches	\$ 26,338	\$ 32,447	\$ 5,500	\$ (26,947)
Total	\$ 204,251	\$ 206,647	\$ 209,700	\$ 3,053

3. General Fund Revenues

Since we do not recommend increases in locally-controlled General Fund revenue source, and we don't anticipate any significant changes in revenue sources that are beyond our control, the General Fund revenue picture for FY 2017 is straightforward and very much in line with current year's anticipated revenues. Our estimate of General Fund operating revenues for the coming year, before factoring in grant funds and lease proceeds, is \$2,053,121, compared to the projected operating revenues in the current year of about \$2,054,864. We do not recommend increases in property taxes, garbage collection fees or other general revenue sources. We also do not anticipate the need at this time for a fund balance appropriation in the coming year. Of course, any expenses during the year that were not anticipated or included in the adopted budget will likely require consideration of a fund balance appropriation at that time.

In terms of non-operating revenues, given the delay in state approval of our transportation planning services agreement with VHB, grant revenue for the project (\$40,000) is being shown in FY 2017 (along with the \$50,000 in expenses). As has been mentioned previously, we also anticipate non-operating revenue from the Poston Park Sidewalk Grant of \$133,750 in FY 2017. Finally, we estimate \$56,110 in loan proceeds for the purchase of two police cars.

The only non-operating revenue projected for FY 2016 is \$14,250, or thereabouts, in design costs for the Poston Park Sidewalk, compared to total estimated non-operating revenue in FY 2017 of \$233,860. If you refer back to Table 3 General Fund Capital, you will see that only \$17,400 in general revenue is recommended for capital purposes in FY 2017. The General Fund is healthier than in previous years due to recent revenue increases, primarily in the form of tax increases and sanitation fee increases; however, there are capital maintenance issues that we are still unable to address given current resources. Even though the General Fund is in better shape than it has been in the past, it appears that to fund significant capital maintenance projects and proposed new projects and facilities in the future will require revenue increases. Please keep in

mind that in FY 2018 you will need to consider funding the second phase in the transition to the new pay plan, in addition to any increase in capital funding that may be required.

Our unassigned General Fund Balance as of June 30, 2015 was \$424,917. While a significant amount has been appropriated in the initial FY 2016 Budget and subsequent budget amendments, it appears that we will end the fiscal year without any significant use of General Fund Balance and that, in fact, there is a possibility that you may even realize a small surplus.

Table 6. 2017 General Fund Revenue Summary

	FY 2016	FY 2017
<u>Operating Revenue</u>	Projected	Recommended
Property Tax Related	\$ 1,184,760	\$ 1,189,300
Sanitation/Solid Waste	\$ 107,529	\$ 109,300
Other Local Revenue	\$ 46,695	\$ 42,300
State Shared Revenue	\$ 228,800	\$ 225,300
Sales Tax and Hold Harmless	\$ 388,896	\$ 388,896
Powell Bill	\$ 94,525	\$ 94,525
Sale of Fixed Assets	\$ 3,659	\$ 3,500
Total Operating	\$ 2,054,864	\$ 2,053,121
<u>Non-Operating Revenue</u>		
MPO Grant Funds	\$ -	\$ 40,000
Sidewalk Grant Funds	\$ 14,250	\$ 137,750
Lease Proceeds	\$ -	\$ 56,110
Fund Balance Appropriated	\$ -	\$ -
Total Non-Operating Revenue	\$ 14,250	\$ 233,860
Total Revenue	\$ 2,069,114	\$ 2,286,981

Staff has been consistent in the last few years in offering the view that a solid *unrestricted* General Fund balance number for small towns would be 18% of general operating expenses, including debt payments and routine annual capital expenses. I do not believe that 18% would be adequate on a long-term basis unless operating expenses include a reasonable level of routine equipment replacement, necessary major facility repairs, and other fairly large endeavors that are called for from year-to-year to maintain the status quo, and to even improve the city's standing in some respects. Projections indicate that such operating expenses for FY 2017 will be about \$2,053,000 and so a comfortable unrestricted General Fund balance level would be in the neighborhood of \$370,000.

However, as we have mentioned, the proposed FY 2017 General Fund budget only contains \$17,400 in capital funded through annual operating revenue. That is less than 1% of the budget and is further indication that our annual reinvestment is not where it needs to be. It appears that our unrestricted general fund balance has improved in recent years to the point where we should consider investing at a higher level in facility maintenance. I believe that it is important that the City Council work with your new manager and your Finance Officer to develop a credible capital plan for the General Fund.

Table 7. General Fund Balance Levels

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Projected	Projected
Stabilization by State Statute	\$ 134,513	\$ 138,147	\$ 145,635	\$ 145,635	\$ 145,635
Streets - Powell Bill	\$ 529,037	\$ 398,375	\$ 410,689	\$ 410,689	\$ 410,689
Unrestricted General Fund	\$ 349,359	\$ 473,688	\$ 424,917	\$ 441,128	\$ 441,128
Total General Fund	\$ 1,012,909	\$ 1,010,210	\$ 981,241	\$ 997,452	\$ 997,452

\$ 441,128	21%
\$ 370,000	18%
\$ 307,950	15%
\$ 164,204	8%

4. Utility Overview and Expenses

At \$1,169,963, the recommend budget for the Utility Fund for FY 2017 reflects a \$13,706 decrease from the current year’s projected expenses of \$1,183,669. However we have budgeted \$52,951 in fund balance in the current year and it appears that we may actually use in the neighborhood of \$74,000 or more when all is said and done. Unexpected expenses requiring additional fund balance during FY 2016 are related to expensive, atypical lift station repairs during the year and an unanticipated increase in water demand. Some of the increase in water demand has off-setting revenue from sales associated with it, but water loss has also increased noticeably during the year.

If current projections are in the ball park, Utility Fund balance will decrease this year from \$325,576 to about \$265,000. For this reason we are not in a position to recommend a fund balance appropriation to make ends meet in the coming year’s utility budget. To do so would continue the trend of failing to raise sufficient revenue to cover expenses and would result in a reduction of fund balance below the level of what can be considered reasonable and prudent.

Table 8. Utility Revenue and Expense Summary by Department

Expenses	FY 2015	2016	FY 2016	FY 2017	FY 2017	FY 2017
Department	Actual	Approved	Projected	Base	Expansion	B & E
Water and Sewer Operations	\$ 795,125	\$ 830,903	\$ 874,638	\$ 837,439	\$ 74,847	\$ 912,286
Wastewater Treatment	\$ 188,378	\$ 306,173	\$ 309,031	\$ 257,677	\$ -	\$ 257,677
Total Expenses	\$ 983,503	\$ 1,137,076	\$ 1,183,669	\$ 1,095,116	\$ 74,847	\$ 1,169,963
Revenue	\$ 1,042,909	\$ 1,084,125	\$ 1,183,669	\$ 1,091,965	\$ 77,998	\$ 1,169,963
Change in Fund Balance	\$ 59,406	\$ (52,951)	\$ (74,328)	\$ -	N/A	\$ -

Our base expenses for FY 2017 are \$88,553 lower than total projected expenses for FY 2016. In the Water and Sewer Department, items contributing to this reduction include one-time purchases and expenses in FY 2016 for hand-held meter reading devices (\$8,000), water system

mapping (\$7,500), and atypical repairs to lift station and associated pump repairs (\$29,000). In the Wastewater Treatment Department decreases are related to expenses in FY 2016 for capital repairs for the WWTP generator (\$47,000) and a projected \$4,000 reduction in FY 2017 for sludge disposal cost.

However, personnel cost for implementation of Option 2 of the transition to the new pay plan (\$36,887), a recommendation to provide for annual hydrant repair in FY 2017 (\$6,000), the recommendation to fund and develop a “Needs Assessment” for the utility operation (\$14,000), and the recommendation to fund a contingency appropriation (\$13,160), all as shown in the expansion budget, combine to offset any reduction we may have gained from the current year’s expenses in terms of the generator rental and repair, and lift station maintenance. While we had off-setting revenue in FY 2016 for the generator repairs along with Fund Balance to draw on, the expansion items in the current year’s budget do not immediately provide us with off-setting revenue. All of these circumstances complicate a review of the year-over-year Utility Fund Budget.

As with the General Fund, probably the best way to gain and understanding of what is going on in the Utility Fund is to compare changes in categories of revenues and expenses. Table 9 provides that comparison.

Table 9. Utility Fund Summary of Expenses by Category

	FY 2016	FY 2017	FY 2017	FY 2017
Revenue	Projected	Base	Expansion	Recommended
Operating (excluding wholesale Sales)	\$ 43,050	\$ 45,150	\$ -	\$ 45,150
Water and Sewer Sales	\$ 1,009,137	\$ 1,037,815	\$ 77,998	\$ 1,115,813
Insurance Proceeds	\$ 47,404	\$ -	\$ -	\$ -
Availability Fees	\$ 9,750	\$ 9,000	\$ -	\$ 9,000
Fund Balance Appropriated	\$ 74,328	\$ -	\$ -	\$ -
	\$ 1,183,669	\$ 1,091,965	\$ 77,998	\$ 1,169,963
Expenses				
Personnel	\$ 205,347	\$ 231,319	\$ 36,887	\$ 268,206
Operating (excluding wholesale purchases)	\$ 401,868	\$ 314,176	\$ 20,000	\$ 334,176
Water and Sewer Purchases	\$ 471,933	\$ 461,500	\$ 4,800	\$ 466,300
Capital	\$ 16,400	\$ -	\$ -	\$ -
Debt	\$ 88,121	\$ 88,121	\$ -	\$ 88,121
Contingency	\$ -	\$ -	\$ 13,160	\$ 13,160
	\$ 1,183,669	\$ 1,095,116	\$ 74,847	\$ 1,169,963

In the discussion of the General Fund, we touched on the fact that there are changes in the composition of our personnel expenses related to the decision to eliminate (for the time being) the zoning administrator position and to add a part-time utility billing clerk. We also mentioned that staff recommends changes in the allocation of administrative salaries (city clerk, utility billing clerk and part-time utility billing clerk) between the General Fund and the Utility Fund.

During FY 2016 there have been changes in employee’s options regarding dependent/spousal health insurance that will result in increased Utility Fund personnel costs in FY 2017. The implementation of Option 2 also must be covered. These three circumstances combined will result in an increase in personnel costs for the Utility Fund of about \$63,000 in the coming year.

As we mentioned, we are recommending a decrease in operating expenses for the year due primarily to the elimination of significant one-time expenses. We do recommend \$20,000 in the expansion budget for the Needs Assessment (\$14,000) and for hydrant repairs and replacement (\$6,000). We recommend a \$4,800 increase in water and sewer treatment expenses. Two Rivers Utilities has advised that we should be prepared for a possible 2% increase in wholesale water purchase and wastewater treatment charges effective January 1, 2017. At \$13,160, the recommended contingency appropriation represents a little over 1% the recommended Utility Fund budget.

5. Utility Revenue

In terms of Utility Fund revenues, we will pick up a slight bump in water and sewer sales this year resulting from the 5% increase that took effect in January. We realized five months of the additional revenue in the current fiscal year and will receive revenue as a result of January’s increase for a full twelve months in FY 2017. As you know, I am somewhat reluctant to anticipate availability fee revenue because it is speculative and because we should not allow ourselves to anticipate availability fee revenue to be available to cover operating costs; however, I have included \$9,000 in availability fee revenue in the projections. Both the additional revenue from growth in customer revenue and the availability fee revenue equate to the construction of three new homes. We also recommend an across the board increase in water and sewer rates of 7.5%. This rate increase is estimated to bring in an additional \$77,998.

Table 10. Utility Fund Revenue Summary

	FY 2016	FY 2017	Year-Over-Year
Operating Revenue	Projected	Recommended	Difference
Utility Sales	\$ 1,009,137	\$ 1,115,813	\$ 106,676
Tap Fees	\$ 2,400	\$ 4,000	\$ 1,600
Reconnect and Late Fees	\$ 40,000	\$ 40,500	\$ 500
Miscellaneous Revenue	\$ 650	\$ 650	\$ -
Availability Fees	\$ 9,750	\$ 9,000	\$ (750)
Insurance Proceeds	\$ 47,404	\$ -	\$ (47,404)
Fund Balance Appropriated	\$ 74,328	\$ -	\$ (74,328)
Totals	\$ 1,183,669	\$ 1,169,963	\$ (13,706)

At \$88,133, Utility Fund debt service will remain the same in FY 2017 as in FY 2016. The debt for blowers installed at the wastewater treatment plant in the 2008 time frame will be paid in full this year, resulting in a reduction in debt service payments in FY 2018 of \$24,114. In FY 2018 the debt on software acquired in FY 2013 will be paid in full resulting in a reduction in debt payments in FY 2019 of \$6,668.

Table 12 below provides a recent history of actual and projected Utility Fund balance for the past several years. As you can see, fund balance has gone from a high of \$380,151 in FY 2013 to a projected low in FY 2016 and FY 2017 of \$251,990. The reduction in FY 2014 is attributed to a contribution of about \$104,000 toward expenses related to the first phase of the wastewater treatment plant rehabilitation project. While fund balance bounced back significantly in FY 2015, in the current fiscal year we incurred an additional \$57,351 in debt payments for Phase II of the treatment plant repairs, unusual pump station repair projects and the increase in water loss.

Table 11. Utility Debt Service Schedule

	2014	2015	2016	2017	2018	2019	2020	2021
<u>Blowers</u>								
Principal	\$ 19,763	\$ 19,763	\$ 19,763	\$ 19,763	\$ -	\$ -	\$ -	\$ -
Interest	\$ 4,351	\$ 4,351	\$ 4,351	\$ 4,351	\$ -	\$ -	\$ -	\$ -
	\$ 24,114	\$ 24,114	\$ 24,114	\$ 24,114	\$ -	\$ -	\$ -	\$ -
<u>Software</u>								
Principal	\$ -	\$ 6,298	\$ 6,248	\$ 6,385	\$ 6,525	\$ -	\$ -	\$ -
Interest	\$ -	\$ 370	\$ 420	\$ 283	\$ 143	\$ -	\$ -	\$ -
	\$ -	\$ 6,668	\$ 6,668	\$ 6,668	\$ 6,668	\$ -	\$ -	\$ -
<u>WWTP Repairs</u>								
Principal	\$ -	\$ -	\$ 51,642	\$ 51,642	\$ 51,642	\$ 51,642	\$ 51,642	\$ -
Interest	\$ -	\$ -	\$ 5,709	\$ 5,709	\$ 5,709	\$ 5,709	\$ 5,709	\$ -
	\$ -	\$ -	\$ 57,351	\$ 57,351	\$ 57,351	\$ 57,351	\$ 57,351	\$ -
Total Principal	\$ 19,763	\$ 26,061	\$ 77,653	\$ 77,790	\$ 58,167	\$ 51,642	\$ 51,642	\$ -
Total Interest	\$ 4,351	\$ 4,721	\$ 10,480	\$ 10,343	\$ 5,852	\$ 5,709	\$ 5,709	\$ -
Total w/s Debt Service	\$ 24,114	\$ 30,782	\$ 88,133	\$ 88,133	\$ 64,019	\$ 57,351	\$ 57,351	\$ -

Table 12. Utility Fund Balances

Utility Fund Balances	2013	2014	2015 Actual	2016 YE Projected	FY 2017 Projected
Water and Sewer Fund Balance	\$ 320,825	\$ 380,151	\$ 267,959	\$ 326,228	\$ 251,990
Gain/Loss	\$ 59,326	\$ (112,192)	\$ 58,269	\$ (74,238)	\$ -
	\$ 380,151	\$ 267,959	\$ 326,228	\$ 251,990	\$ 251,990

Even with the recommended 7.5% increase in rates in FY 2017, the following year promises to be difficult as well. While you will realize the \$24,114 decrease in debt service payments previously mentioned, Phase II of the transition to the new pay plan will represent a challenge. Also, please note that there is no significant capital spending recommended in the FY 2017 Budget. In FY 2018 it is more than likely that routine annual capital will be more urgent than in FY 2017.