
FY21 Water Fund Budget

As Introduced

By The

Finance Director &
Public Works Director

September 15, 2020

Town of Bar Harbor

FY 2021 Water Budget

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Memo

To: Town Councilors; Cornell Knight, Town Manager

From: Stan Harmon, Finance Director

CC: Bethany Leavitt, Public Works Director; Jeff Van Trump, Superintendent

Date: 9/4/20

Re: Water Budget Message – FY2021 Water Budget

Summary

This FY2021 budget for the Bar Harbor Water Division proposes the following changes from last year's 2020 budget:

- **No rate increase for the 5th year in a row**
- **Gross capital expenditures projected at \$570,000, with no bonding**
- **A 1.3% budgeted decrease of anticipated revenues**
- **A 5.2% budgeted increase of operating expenses**

Revenues in FY21 are projected to be 1.3% lower than the FY20 budget and 4.6% lower than the projected FY20 results. Total operating expenses, including depreciation, over the 2020 budget are scheduled to increase by 5.2%. Capital spending is requested at \$570,000 covered by internally generated funds. The fiscal year just ending (FY20) projects a positive cash flow of approximately \$96,622, primarily because of deferred capital spending. Next year, we are budgeting for \$362,922 in cash drawn down because of increased capital spending.

Major Highlights to the Budget

Besides capital investment, there is one major item that impacts the budget.

The COVID19 pandemic. Because of the short term local negative economic impact on both residents and businesses, there is a recommendation to hold off a recommended increase to cover the day to day operating expenses. This delay of at least a year, however, will not negatively impact the Water Division's operations due to its healthy cash fund balance currently from previously deferred capital investment. Using the PUC rate case formula, shown elsewhere in this budget, that increase would be approximately 7%. There will most assuredly be a decrease in revenue and volume this year due to the delay in certain businesses opening up for the tourist season and a lower number of tourist visits.

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Statistical Infrastructure & Operational Data of the Water Division

There are 1786 metered customers, of which 71%, or 1259 accounts, are classified as Residential. 25% of these total metered customers as well as 22% of the related revenue volume are seasonal customers, but all customers generally receive their bills quarterly. There are 97 customers related to non-metered sprinkler and private hydrant fire protection.

Investment in plant and infrastructure totals increased by \$8.9 million since the Town purchased the Water Company in 2001. The water *mains* in its service areas total 29.3 miles with distribution pipe sized from 1" to 16". Since 2001 the Division has invested in 9.3 miles of new mains while retiring 7.7 miles. Design capacity is approximately 2400 gallons per minute. 365 million gallons are sent through the transmission mains annually with about 15% unaccounted for; down from over 25% ten years ago. Jackson Lab represents 27% of the total measured volume for the utility and can run as high as 45% of the volume in the Winter quarter. The Lab generates 10% of the Water Division's total revenues and 14% of the metered revenues. The Jax Lab has been keeping close to their estimates of water usage (stable use, despite the Ellsworth facility coming on line). Management/Accounting administrative fees charged by the Town to the Water Division have remained relatively stable since 2001. The Water utility also pays the Town's General Fund (CIP) for 1/3 of the Public Works facility debt service costs for the use of the facility. The latest 2019 annual filing with the *Public Utilities Commission* provides additional detail operating data and is located on the State PUC website as well as the Town website under the Water Division of Public Works.

Current Water Rates & Average Customer Bill (no changes from last year)

- A minimum quarterly bill currently under this budget allowing 1200 cubic feet through a 5/8" meter of \$76.17 per quarter will remain at that level. Bar Harbor's typical quarterly average household charge for 2000 cubic feet currently is \$111.53, still below the average rate of \$114.84 for 15 selected comparable communities. As a comparison, the Town's sewer customers pay quarterly fees for *wastewater* usage of \$47.70 (for a minimum-allowing 600 cuft usage) and \$159.00 (2000 cuft-for a small family).
- *USDA-Rural Development*, the federal organization that provides grant and loan funds for qualifying utilities, has used a 2000 cubic feet per quarter standard to compare usage for a typical family household among all the utilities. At the current rates, 8000 cubic feet in annual water usage totals to \$446 per annum for a family of four in Bar Harbor or \$37.18 per month. Refer to pages 23-24 for other water utility rate comparisons.

Volume

This budget assumes respective decreases in volume of 1.5% from the FY 20 budget and a 2.5% decrease from the current FY 20 actual volume. The trend certainly has stabilized from the previous downtrends in the last few years, but the COVID19 impact is perhaps only reflected as a moderate impact at this point, but all categories do show an expected decrease from FY20 actuals. Page 15 shows the trends of total annual water sales since 2015 in six month rolling averages which shows 7% more volume compared to 4.5 years ago. Ten years ago the Town billed approximately 55% of the water transmitted from Eagle Lake. However, by

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2019, that percent increased to 72%, a gradual improvement over the years due primarily to its main replacement program, leak detection and the meter replacement program---meaning less water that is lost or unaccounted for. For budgeting, we continue to assume little change in water volume from JaxLab as they expand the use of its Ellsworth production facility. Their long term water use projections provided to the Town have shown generally level usage for the next few years.

Revenues

The 2021 budget assumes a moderate expected decrease in gross revenue due to the impact of the pandemic, but we have the same rate structure compared to FY2020 estimated and the FY2020 budget, so the minimum in place quarterly and seasonal charges will soften the decrease. A dry or wet season (volume usage) is typically the largest factor in our fluctuation of revenues along with JaxLab mice production fluctuation being another significant factor. We bill in advance, with the excess billed in arrears, so the first indicator of anticipated lesser usage of this Spring due to COV19 through late June will be reflected in the July 1st billing. Since Water revenues are billed in advance, the FY20 positive results were not significantly impacted by COV19. For example, usage/volume of this past 2nd quarter is not billed until the 3rd quarter.

Operating Expenditures

The proposed FY2021 water budget reflects a 4.9% overall increase in operating expenses over the FY '20 budget year and a 1.1% increase over this past year's estimated final expenses. Payroll and benefits, in total, are anticipated to reflect an 6.6% increase above last year's budget due mostly to health insurance costs. The budgeted wage increase is 3.0% (COLA), same as the General Fund employees.

Major line item increases of \$1500 or more in projected cash expenses anticipated in FY2021 above last year's budget are as follows:

- Benefits-All Accts **-\$5200-#5290**, line items higher due to health insurance participation
- ContServ-CO2 Tank Rental **-\$5336**, \$4,500 for fee increase
- ContServ-Software Access **-\$5368**, \$4,500 for Water system model (50% cost to WW)
- Supplies-CO2 **-\$5426**, \$4,800 PH buffering agent, higher usage and pricing
- Supplies-**#5438**, \$1,500 general trends suggests a higher budget
- Rep&Maint-**#5634**, \$2,500 for plant equipment beginning to age
- Equipment-Computers **-\$5700**, \$6,300 for computer and cell phones replacement
- Equipment-Operations **-\$5704**, \$6,000 for battery powered pallet jack
\$2,200 for generator
\$4,000 for backup flometer elec. control panel

What Were the Results of Actual FY20 Operating Expenses vs the FY20 Budget?

The Water Division's FY'20 projected actual operating expense results is projected to end up 3.8% above the target of its 2020 spending budget this year. Three major areas adding to \$54,000+ overspending were depreciation-\$15,000 (non-cash), Benefits-\$14,000 and the balance of \$65,000+ for unanticipated repairs of

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Mains and services. Staff deferred its planned hydrant flow testing for \$9000 because these other expenses were trending higher than budget.

Some of the major expense line items projected to exceed budget this year (FY20) include:

- Benefits-MSRS Pension **-#5210**, \$3,852 due to lower budget estimates
- Benefits-HealthIns **-#5225**, \$8,885 due to higher participation levels
- Benefits-Health R.A. **-#5290**, \$2,590 due to participation levels
- ContrServ-CO2 Tank Rental **-#5336**, \$3,181 due to fee increase
- Supplies-CO2 **-#5426**, \$8,568 is due to pricing/usage
- Supplies-Operatng **-#5438**, \$5,700 due to higher spending trend
- Repairs & Mt-Building **-#5602**, \$2,800
- Reprs of Mains **-#5628**, \$36,540 for line breaks/leaks
- Reprs & Mt-Plant Eqpt **-#5634**, \$7,255 for aging equipment
- Reprs of Services **-#5650**, \$18,873 for service line breaks, leaks
- Reprs of Vehicles **-#5658**, \$2,749 for vehicle higher repairs
- Depreciation **-#6012**, \$14,507 for the added Rte#3 mains

Public Fire Protection (Hydrant Revenues)

Included in the budget revenue is the PUC mandated annual public fire protection amount authorized for the utility to charge the Town for its downtown fire protection. It was stated in prior budget hearings that it is formula driven, calculated by our rate case consultant in accordance with PUC standards in line with the State Statutes. A copy of that calculation is included in the Town's last rate case located on the Town website. The utility maintains 106 public hydrants in the downtown area out to Hulls Cove.

Public Fire Protection History - To provide public fire protection a utility generally must size its infrastructure 2 to 3 times larger. Variables within that formula include the estimated year round population as well as the total reported gallons pumped. However, the results do have an overall regulatory cap of 30% of total revenues that can be derived as public hydrant revenues—in Bar Harbor's situation, the last rate case determined that number to be \$585,604. This charge of \$585,604 to the Town's taxpayers is shown as an expense in the Town Budget and as revenue in this Water budget. These funds are used for the general operations of the Water Division, including debt service. All other revenues raised come from either specific user fees, or private fire protection (hydrants/sprinklers).

The Town in 2016 received an improved ISO (*Insurance Services Office*) rating, which over time may lower fire insurance premiums for home and business owners. The rating went from a 5/9 to a 4/4x rating which reflects the Town's continued measureable improvement in its fire department funding & operations (50% of the rating) and by its continued replacement of older mains and hydrants (40% of the rating), by measuring increasing peak flows towards a 3500 gpm target. These efforts contribute to improved fire response capability.

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Annual Drinking Water Quality Report

This annual report by the Federal Safe Drinking Water Act is sent to all customers of the Water Division. There were no water quality violations in calendar 2019. Due to the continued exceptional water quality of our source, the surrounding protection of the watershed, the water system has a filtration waiver. Under the State's Safe Water Drinking Program, the water Division has both a type of chlorination and UV lighting to protect its supply. Fluoridation was added in 1964. Lime and CO2 treatment are also added for both PH control as well as pipe corrosion control.

Debt Service

As of June 30, 2020, total principal in obligated debt for the water users stands at \$4,836,977, or approximately 24% of all direct debt obligations of the Town. In the FY2021 budget, the debt service is projected to be at \$716,000 or approximately 33% of the total annually revenues presently generated. All current debt is currently fully funded within the existing rate structure with interest rates ranging from 1.5% to 5%. The Town re-financed a 10 year old issue in April of this year and paid down \$40,000 of principal with most of the bond premium received.

Future Debt—the 5 year CIP spending plan shows \$1.4 million over the next four years that are likely to be borrowed to implement the recommendations outlined in the Master Plan as well as replace one pump station. This may impact the rates by 5%. There are projects that were postponed when the entire Consolidated Capital Plan was deferred to avoid new bonding for a certain period. This will likely change when the Consolidated Plan is reviewed once again in conjunction with new spending on Wastewater's CSO mitigation capital costs. The newly completed Water Master plan will also play a major role in future capital budgets and thus new bonding for large capital projects approved.

Capital Outlay

The Town has invested \$8,921,358 (72% from bonds) on capital improvements since the purchase of the company in 2001. In fiscal year 2019/20 the Water division spent or committed \$270,114 for necessary capital investments. The proposed FY'21 capital budget requests \$570,000 and is funded by operating cash flow as well as cash reserves. The Water Division raises over \$200,000 per year available from its own cash flow for capital equipment and small project costs. In FY21 we anticipate drawing down available Fund Balance surplus to pay cash for the identified capital expenditures.

FY 2021 Capital Spending (CIP) Recap

| | | |
|---------------------|------------------|---|
| Master Plan- | \$10,000 | —Initial engineering evaluation-Eagle Lake outlet dam |
| Asset Mgt- | \$5,000 | —Asset Mgt software conversion |
| Mains- | \$200,000 | —Addition to Ferry Terminal Pump Station |
| Mains- | \$230,000 | --Replacement for Hancock Street |
| Mains- | \$40,000 | ---Balance needed for Livingston Road |
| Hydrants- | \$10,000 | ---Annual hydrants replacement program |
| Services- | \$10,000 | ---Service renewals not related to main replacements |
| Trucks- | \$37,000 | —Replace the 2012 truck |

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Fiber Optics \$20,000---Purchase of fiber run to Duck Brook, low est.
Contingency \$8,000---Reserve for unanticipated CIP needs

\$570,000 **Total FY21 CIP**

Working Capital/Cash Flow

A common and simple method for measuring a minimum working capital formula for a utility that bills in advance is to use 3 months or 25% of annual operating expenses. This target calculates to approximately \$360,000 estimated requirement as of June 30, 2020. Since FY2010 the Division has been building up its own cash reserve. The cash balance at the end of this year is anticipated to be higher because of deferred capital spending and it is much healthier than in years past. The proposed budget projections show adding a positive net cash flow from FY2020 operations of \$96,622 (of which over half was sourced from refinancing a 10 year old bond) and there will be a drawdown of the cash reserves of \$362,922 in FY2021. In FY22, another drawdown of the higher reserves is anticipated for increased capital investment purposes.

Future FY2022 Budget

There is a preliminary discussion to recommend adding one person to the operating staff in FY22. This is due to coverage, more attention to meter monitoring/replacement, increase in GIS/GPS needs (system mapping) to locate and record below ground shut offs, gate valves, etc., focused on field maintenance of hydrants, valve and curb stops, full inventory & equipment electronic asset record keeping, increased regulatory requirements and the need to free up the Superintendent for more long-term planning, especially with the new Master Plan recommendations to implement. When the Town purchased the Water Company in 2001, there were 6 on staff. Currently, there are 5 personnel plus the Superintendent's time split with Wastewater, making 5 ½. In addition, the age of the water system requires more input from Town staff to keep the system operating and well maintained.

Water Master Plan

The prior Water Master Plan was completed in April of 2005. Much of those recommendations have been funded and implemented. Staff hired engineers to update this plan in FY2019/20 to use as a continuing guide, a living document so to speak, to assist in long term planning, avoiding surprises in both capital and operational aspects of maintaining the efficient running of the water facility and to give general direction for budgeting priorities. This includes maintaining the *filtration waiver*, which if not renewed, would be very expensive for the ratepayers. This latest Master Plan was completed in December of 2019 by *Olver Associates* and was partially funded by a \$15,000 grant.

Items reviewed by the Master Plan were subjects focused on identifying bottle necks of constricted flow in the distribution system, water storage needs, documenting weaknesses of the system, help design equipment replacements and upgrades and work with the Town's *Comprehensive Plan* to investigate likely expansion opportunities in designated growth areas to relieve stress on the private well water resources. The Master Plan was completed in May of this year, and while priorities were recommended in the report, specific main improvements projects will require coordination with other department needs, such as Wastewater and

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Highway; and an inter-department project prioritization plan developed. This consolidated coordination allows funds from each department to be used wisely.

Town Council Action – The next step is for the Town Council to pass a motion to adopt the Water Budget and Ordinance, as proposed, (*or amended*) and schedule a public hearing on October ____,2020.

Water Budget Ordinance Amendment

Town of Bar Harbor

#2020-xx

An Ordinance Amendment to Adopt the Fiscal Year 2021 Water Budget

The Town of Bar Harbor hereby ordains that Chapter 201, Water, of the Town Code is amended as follows:

[Please Note: Old language is ~~stricken~~. New language is underlined.]

Chapter 201, Water

ARTICLE III, Water Budget, Rates Fees and Charges

§ 201-11 Water budget.

A. Budget adopted. The fiscal year 2020~~21~~ Water Budget, dated ~~July 16, 2019~~September 15, 2020, is hereby adopted as published and summarized below.

- (1) Cash. Net cash generated is estimated to be ~~\$38,632~~<362,922>.
- (2) Revenues.
 - (a) PUC regulated revenues are estimated to be ~~\$2,127,302~~2,099,804.
 - (b) Total water revenues are estimated to be ~~\$2,151,302~~2,124,804.
- (3) Expenses. The following appropriations are hereby approved:
 - (a) Nonoperating expenses: ~~\$<4,400>~~.
 - (b) Salaries and wages: ~~\$301,594~~316,461.
 - (c) Payroll benefits: ~~\$151,200~~166,350.
 - (d) Contractual services: ~~\$283,662~~295,283.
 - (e) Materials and supplies: ~~\$119,300~~123,700.
 - (f) Utilities and commodities: ~~\$64,100~~64,000.
 - (g) Repairs and maintenance: ~~\$156,400~~164,000.
 - (h) Equipment purchases: ~~\$7,400~~18,500.
 - (i) Other: insurance, travel, advertising and miscellaneous: ~~\$46,800~~47,500.
 - (j) Interest: ~~\$132,736~~123,460.
 - (k) Depreciation and amortization: ~~\$315,647~~324,687.
 - (l) Capital spending: ~~\$302,676~~570,000.

[end of ordinance]