

RESOLUTION NO. 2259-18

A RESOLUTION OF THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY, WASHINGTON, ADOPTING THE FINAL BUDGET FOR PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY, WASHINGTON FOR THE CALENDAR YEAR 2019

WHEREAS, in conformity with RCW 54.16.080, this Commission prepared a proposed budget of the contemplated financial transactions of the District for the ensuing year of 2019, and filed same in the records of the Commission on the 1st day of September, 2018, and proof was made that notice of hearing on said proposed budget was given by publication in the Skagit Valley Herald on September 17, 2018 and September 24, 2018, and copies of the affidavits of publication are interleaved in the minute book, and

WHEREAS, the Board of Commissioners of said District met in the office of the District in Mount Vernon, Washington, at 5:00 PM on the 1st day of October, 2018, and proceeded with the hearing and consideration of said budget as provided by law, and

WHEREAS, the Board of Commissioners deemed it to be in the best interest of the District that the final budget for the year 2019 be finally determined and adopted as presented.

NOW, THEREFORE, BE IT RESOLVED that the Board of Commissioners of Public Utility District No. 1 of Skagit County, Washington, does hereby adopt the budget as finally determined as set out in the copy of said budget attached to this resolution, and by reference is made a part thereof.

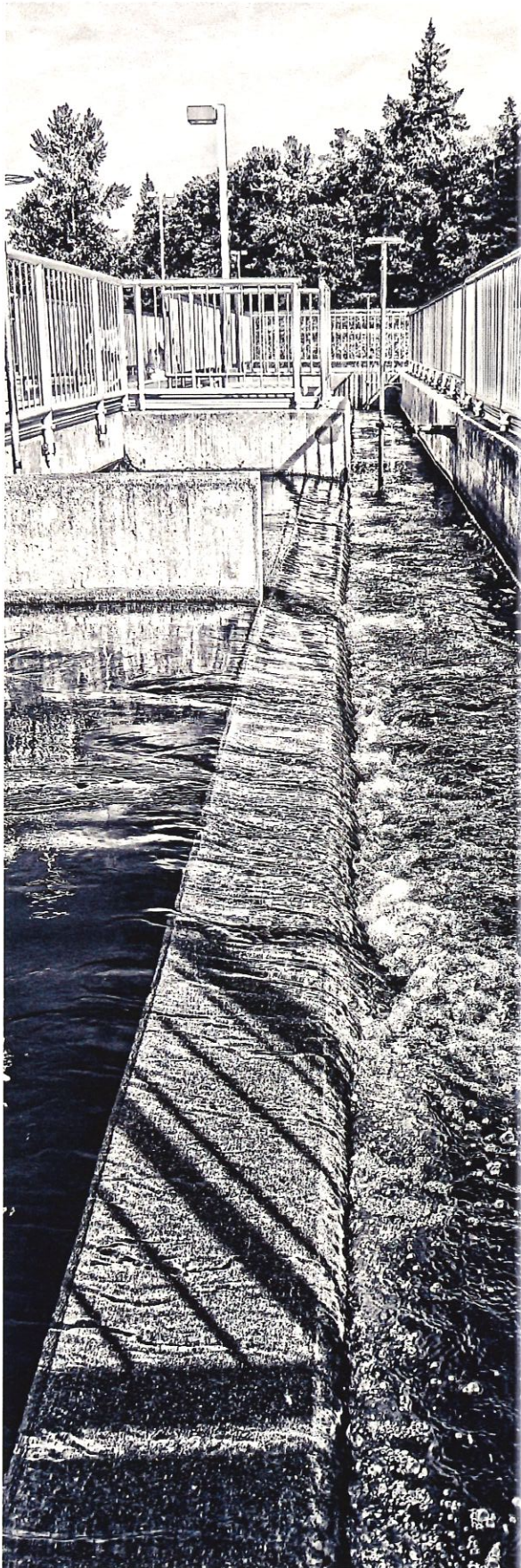
ADOPTED by the Commission of Public Utility District No. 1 of Skagit County, Washington, at a regular meeting held this 13th day of November 2018

Robbie Robertson, President

Eron Berg, Vice President

ATTEST

Al Littlefield, Secretary



2019 BUDGET

PUBLIC UTILITY DISTRICT
NO. 1 OF SKAGIT COUNTY

Adopted November 13, 2018

Skagit
PUD
PUBLIC UTILITY DISTRICT

In accordance with District Resolution No. 1361, we are pleased to present the 2019 Proposed Budget for Public Utility District No. 1 of Skagit County.

This report first reviews the budget process and describes the format of the budget document. It then summarizes the 2019 Proposed Budget and discusses the major funding changes recommended for 2019.

SECTION 1: 2019 BUDGET PROCESS

The budget serves as a financial plan that guides and governs the spending commitments of the organization. It is designed to balance *resources* and *requirements* for each fund, where “resources” consist of beginning fund balances plus projected revenues, and “requirements” consist of authorized expenditures plus planned reserve balances at the end of the year. By balancing resources against requirements, the budget is designed to ensure that there is sufficient cash in each fund to meet its financial commitments. By adopting the budget, the Board also creates *appropriations*, which is an upper limit on spending authority delegated to managers.

This document is the Proposed Budget, which will be the subject of the public hearing on October 1. After the public hearing and during work sessions, Board members will have the opportunity to direct further changes to the budget. The Adopted Budget will incorporate any changes and be binding at the onset of the 2019 calendar year.

After the new calendar year begins, new information or changing circumstances may arise that affect the budget. These changes will be brought forward to the Board for approval and tracked as the Revised Budget. If mid-year changes are not needed, then expenditures will continue to be governed by appropriations contained in the Adopted Budget.

SECTION 2: INTRODUCTION TO BUDGET DOCUMENT

A. NEW CHART OF ACCOUNTS

This will be the third year of budgeting utilizing the new chart of accounts. The District replaced the AS400 financial system with Cayenta Financials in 2017. The new financial system has also brought changes to the “chart of accounts,” which is the collection of numerical codes used to track expenditures and revenues, assets and liabilities. Changes to a chart of accounts affect the categories used to describe an organization’s financial activity. Unfortunately, these changes have resulted in the loss of some budget history but believe that over time the new chart of accounts will improve our ability to manage and control the District finances.

The biggest change to the chart of accounts was the addition of the programmatic categories. Instead of being able to sort expenditures only by major “functions” (supply, treatment, transmission and distribution, customer accounts, administration), we can now provide department detail as well. Departments are a relevant category because they are the key to management accountability—each manager is now responsible for one or more departmental budgets.

In addition to adding the “department” category, the new chart of accounts made some changes in the “object of expenditure” line items. Some old-line items were merged into new combined line items, while other line items were separated into more than one new line item. A “crosswalk” was used from the old categories to new categories to provide a history of expenditures wherever possible.

Historical expenditure and revenue information is useful in budgeting, because it gives us a frame of reference in judging the reasonableness of future estimates. However, we had to make some compromises in the 2019 budget document because of the change in the chart of accounts. Because the historical account information was not sorted by departments, nor by the new line items, the budget history presented in this document may have missing data in some of the line items for comparison purposes. For the 2015 and 2016 actuals, the totals match the totals in the old chart of accounts, but we had to do some allocating and estimating within line items and departments. In future years, as the new chart of accounts matures, we will gradually be able to add additional years of history under the new categories, and we will not need to allocate or estimate historical information.

Along with the change in the financial system, we have also changed the management of our accounting funds compared to previous years. Beginning in 2017, debt service expenditures are charged directly to the Debt Service Fund instead of the Capital Fund.

The remainder of this budget document consists of a discussion of the major features in the 2019 Proposed Budget, including notable changes from previous years. We also include a table showing that the budget complies with the District's fiscal guidelines.

SECTION 3: DISCUSSION OF 2019 PROPOSED BUDGET

A. REVENUES

A1. UTILITY RATE REVENUE

This budget incorporates the 8.5% rate increase presented in January 2016 as part of the multi-year financial forecast developed by FCS Group. This rate increase is planned to be in effect January 1, 2019. Total rate revenue is projected to be \$24.5 million in 2019.

The District will also address the development of a Customer Assistance Program during our next rate study. This study is scheduled to begin during the first quarter of 2019 and will be a comprehensive review of the current rate structure as well as new programs. The impact of these changes on future rate increases is unknown currently.

A2. SYSTEM DEVELOPMENT FEES AND OTHER NON-RATE REVENUE

Non-rate revenue is projected based on historical trends as well as a revised estimate for 2018 based on the first six months of the year.

The System Development Fees (SDF) revenue estimate is likewise based on recent experience. It is estimated to be \$1.6 million in 2019. SDF revenue is kept in a separate fund and may be used for growth or capacity related capital expenditures for the water system.

Revenue projections for the Proposed Budget are shown in Exhibit 1.

Exhibit 1: Projected Revenues

	2017 Actual	2018 Budget	2018 Actual Estimated	2018-2019 % Change	2019 Proposed
Operating Revenue					
Residential/Multifamily	14,831,490	16,090,000	15,806,811	8.5%	17,150,000
Commercial/Fire Protection	4,852,640	5,305,000	5,394,555	8.5%	5,854,000
Government	553,724	659,000	615,651	8.5%	668,000
Irrigation	654,802	470,000	635,605	8.6%	690,000
Resale	120,342	106,000	96,568	8.7%	105,000
Total Rate Revenue	<u>21,012,998</u>	<u>22,630,000</u>	<u>22,549,189</u>	8.5%	<u>24,467,000</u>
Misc Operating Revenues	303,912	259,533	348,502	5.2%	366,720
Total Operating Revenue	<u>21,316,910</u>	<u>22,889,533</u>	<u>22,897,691</u>	8.5%	<u>24,833,720</u>
Capital Contributions					
Wrk Ord Deposits (Non-Donated Plant)	305,577	300,000	420,238	-0.1%	420,000
Services	523,113	408,000	475,406	3.7%	493,000
System Development Fees	1,552,681	1,100,000	1,547,256	3.1%	1,595,000
Capital Grants	30,000	427,500	-		-
Pipe Replacement Fee	619,102	611,000	679,198	1.1%	686,500
Total Capital Contributions	<u>3,030,473</u>	<u>2,846,500</u>	<u>3,122,099</u>	2.3%	<u>3,194,500</u>
Non-Operating Revenue					
Merchandising & Jobbing	-	-	-		-
Rental Revenue	20,736	20,000	20,736	5.0%	21,774
Investment Income	119,650	78,200	257,024	-33.8%	170,200
Misc Non-Operating Income	15,468	25,000	9,848	1.5%	10,000
LUD Interest Income	34,784	29,000	32,500	1.5%	33,000
LUD Penalty Income	2,588	3,700	8,560	-41.6%	5,000
LUD Assessments	231,059		121,025	65.3%	200,000
Total Non-Operating Revenue	<u>304,635</u>	<u>77,700</u>	<u>449,693</u>	-2.2%	<u>439,974</u>
Total Revenue and Capital Contributions	<u>24,652,018</u>	<u>25,813,733</u>	<u>26,469,483</u>	7.6%	<u>28,468,194</u>
Amounts Credited to Other Funds					
Prior Lien Assessment Revenue	268,431	32,700	162,085		238,000
SDFs	1,552,681	1,100,000	1,547,256		1,595,000
Total Credited to Other Funds	<u>1,821,112</u>	<u>1,132,700</u>	<u>1,709,341</u>		<u>1,833,000</u>
Total to be Received by Revenue Fund	<u>22,830,906</u>	<u>24,681,033</u>	<u>24,760,142</u>		<u>26,635,194</u>

B. OPERATING COSTS

B1. SUMMARY OF OPERATING COST CHANGES

The multi-year financial forecast developed in 2017 by FCS Group includes a projection of Operating expenses based on a historical 5-year average for the Consumer Price Index (CPI) and the Construction Cost Index (CCI). The forecast assumed increases to salaries, benefits and cost for water purchased from Anacortes, which results in an annual inflation increase forecast of approximately 4.6%. When the operating costs for the 2019 Proposed Budget are compared to the FCS forecast for 2019, there is a difference of approximately 3%. The main reason for the difference is due to the recent significant increase in the cost of construction. The forecast assumed a rate of 2.7%, while the CCI average increase in 2018 has been 7.4%.

There are additional operating expenses included in next year’s budget that may not been forecasted or budgeted in prior years. Some of these expenses are one-time costs, while others will be recurring costs that will be included in future budgets. Some of the more significant expenses include the following:

Material one-time and new recurring operating costs are shown in Exhibit 2

Exhibit 2: Additional Costs –

New Recurring or One-time Costs	
New Recurring Costs	
On-call Network Support	\$42,000
Migrate Phone Services to Cloud-based System	35,000
MS Office 365 Annual Program	15,250
One-time Costs	
Election Cost	32,000
Crew Equipment Training and Certification	23,500
Water Rate Study and SDF Study	50,000
Customer Satisfaction Survey	25,000
Non-represented Staff Comp Program-Phase 2	72,000
Ranney Well Demolition	80,000
Sludge Removal	35,000
Radio Frequency and Planning Study	40,000
Document Management Consultant	50,000
Total	499,750

Exhibit 3 shows how the department budgets are distributed among the major functions.

Exhibit 3: Summary of Operating Budget

	2019 Proposed O&M Budget								Total
	01 Supply	03 Treatment	05 T&D	06 Broadband	07 Cust Svc	08 Admin	Expend Offsets	Taxes and Non-Oper	
Commissioner						250,070			250,070
Executive						1,292,145			1,292,145
Human Resources						231,182			231,182
Safety						207,742			207,742
Information Technology			31,100			1,336,186			1,367,286
Broadband				39,300					39,300
Finance						738,110			738,110
Stores						376,680	(250,000)		126,680
Meters					613,921				613,921
Customer Service					720,989				720,989
Billing					248,079				248,079
Community Relations					263,042				263,042
Engineering	110,000		13,700			1,545,678			1,669,378
Construction & Maintenance			713,807			579,978			1,293,785
Operations Support		-	23,500			817,082	(555,000)		285,582
Water Treatment Plant	413,500	2,211,669							2,625,169
Water Quality and Lab	14,080	21,380	131,920			183,504			350,884
Distribution	320,000	-	116,865			849,939			1,286,804
Facilities		-	15,000		1,000	198,812			214,812
Non-Departmental						54,286	(625,000)	1,250,120	679,406
Total Cash Operating Expenses	857,580	2,233,049	1,045,892	39,300	1,847,032	8,661,394	(1,430,000)	1,250,120	14,504,367

A historical view of the operating budget is only available by function and by line item since the chart of accounts previously was not broken out by department. Exhibit 4 shows a comparison over time by function, while Exhibit 5 shows that same comparison by line item.

Exhibit 4: Historical Summary of Operating Budget by Function

2019 Budget Summary by Function	2015	2016	2017	2018	Proposed 2019	2018-2019	2018-2019
	Actual	Actuals	Actuals	Budget	Budget	\$ Change	% Change
Supply (01)	732,518	784,320	691,098	790,128	857,580	67,452	8.5%
Treatment (03)	1,718,875	1,713,345	1,995,077	2,085,252	2,233,049	147,797	7.1%
Transmission & Dist (05)	2,738,945	2,340,527	903,154	1,035,453	1,045,892	10,439	1.0%
Customer Service (07)	1,109,612	1,255,267	1,559,834	1,710,376	1,847,032	136,656	8.0%
Administration (08)	4,165,277	4,040,804	5,535,078	6,706,376	7,270,694	564,318	8.4%
Taxes and Other (09)	924,371	973,885	1,123,288	1,158,920	1,250,120	91,200	7.9%
Total	11,389,598	11,108,147	11,807,530	13,486,505	14,504,367	1,017,862	7.5%

Note: Some expenses have been reclassified across programs.

Exhibit 5: Historical Summary of Operating Budget by Line Item

Skagit PUD - 2019 Proposed Budget		2015	2016	2017	2018	2019	\$ Change	% Change
Summary by Line Item		Actual	Actual	Actual	Budget	Proposed Budget	Budget	Budget
6010	Salary, Wages and Benefits	\$ 7,564,313	\$ 7,784,099	\$ 7,863,063	\$ 8,550,094	\$ 9,456,124	\$ 906,030	10.6%
6100	Water Purchased from Others	215,131	272,720	224,834	185,000	200,000	15,000	8.1%
6150	Power Purchased for Pumping	473,729	489,324	456,927	484,500	530,000	45,500	9.4%
6180	Chemicals	403,266	342,485	463,949	426,550	523,380	96,830	22.7%
6200	Materials & Supplies	626,856	589,583	455,549	583,807	612,900	29,093	5.0%
6204	Broadband Sales Costs	-	2,892	3,658	4,000	4,500	500	12.5%
6205	Broadband Supplies and Materials	35,316	34,234	37,410	39,100	16,300	(22,800)	-58.3%
6215	Rain Barrels	-	-	3,326	3,600	3,600	-	0.0%
6221	Community Relations	-	-	9,977	16,600	50,900	34,300	206.6%
6222	Insurance Claims and Reimbursements	1,179	2,221	19,432	2,000	-	(2,000)	-100.0%
6225	Maintenance Contracts	17,333	15,758	20,548	18,550	14,500	(4,050)	-21.8%
6226	Memberships, Licenses, Certifications	71,766	60,647	80,354	83,066	87,389	4,323	5.2%
6228	General Supplies & Non-Professional Services	307,793	197,041	276,057	275,863	296,124	20,261	7.3%
6229	Postage and Shipping	88,662	96,201	95,930	94,960	83,120	(11,840)	-12.5%
6230	Professional Services	179,323	356,108	462,075	625,000	580,500	(44,500)	-7.1%
6231	Security	3,240	3,524	3,362	3,740	3,240	(500)	-13.4%
6232	Tools and Small Equipment	27,938	34,864	55,145	59,750	78,900	19,150	32.1%
6234	Utilities	124,916	130,523	187,056	191,310	235,516	44,206	23.1%
6235	Permits	-	-	34,010	34,265	35,365	1,100	3.2%
6251	Computer Hardware, Communications, SCADA	91,733	121,611	41,009	118,900	76,500	(42,400)	-35.7%
6252	Computer Software, Licenses and Support	224,563	287,537	219,934	343,990	510,409	166,419	48.4%
6255	Education and Professional Development	72,712	92,946	142,880	235,875	184,860	(51,015)	-21.6%
6260	Building, Furniture, Grounds and Roads	183,531	204,551	225,432	204,922	261,764	56,842	27.7%
6261	Safety	65,214	83,004	41,207	50,380	49,630	(750)	-1.5%
6242	Rental Expense	4,232	2,810	19,056	-	-	-	0.0%
6266	Advertising	14,894	14,072	20,045	22,500	20,550	(1,950)	-8.7%
6267	Bad Debts	28,169	44,647	40,429	30,000	42,000	12,000	40.0%
6500	Transportation-Fuel	92,324	72,957	94,215	100,000	100,000	-	0.0%
6501	Transportation-Parts	69,234	79,815	44,818	60,000	60,000	-	0.0%
6502	Transportation-Outside Services	-	-	17,928	30,000	30,000	-	0.0%
6505	Transportation-Enterprise Fleet Mgmt Fee	-	-	-	4,178	4,178	-	0.0%
6560	Insurance-Property	108,214	185,495	176,337	180,000	226,592	46,592	25.9%
6570	Insurance-Liability	251,443	190,456	261,258	260,000	300,980	40,980	15.8%
6590	Insurance-Other	3,566	34,143	9,103	5,085	4,425	(660)	-13.0%
<i>Expenditure Offsets:</i>								
6550	Transportation Overhead Charge	(107,312)	(381,163)	(556,177)	(360,000)	(555,000)	(195,000)	54.2%
6750	Inventory Administrative Overhead	(248,515)	(227,149)	(244,694)	(140,000)	(250,000)	(110,000)	78.6%
6751	Administrative Expense Transferred	(529,535)	(1,083,695)	(621,200)	(500,000)	(625,000)	(125,000)	25.0%
<i>State Taxes:</i>								
4080	Utility Taxes	906,570	956,602	1,026,230	1,109,000	1,190,000	81,000	7.3%
<i>Other Expenditures:</i>								
4082	State Excise Taxes	-	-	48,461	32,000	43,000	11,000	34.4%
4084	Fire and Dike District Taxes	14,685	13,804	46,324	16,520	16,520	0	0.0%
4087	Miscellaneous Taxes	195	195	1,335	600	600	-	0.0%
4299	Miscellaneous Expenses	2,921	3,284	938	800	-	(800)	-100.0%
Total Cash Operating Expenditures		\$ 11,389,598	\$ 11,108,147	\$ 11,807,530	\$ 13,486,505	\$ 14,504,367	\$ 1,017,862	7.5%

Exhibit 5 compares District operating expenses for the years 2015-2019. The budget estimates the amount of inventory, equipment, and administrative expenses that will be capitalized to projects during the coming year. Actual expenses charged to projects may vary from the budget depending upon the work-in-process. The 2019 Budget anticipates that less salary and benefits expense will be capitalized directly to projects than in 2018.

B2. AGENCY MEMBERSHIPS

The District is a member participates in several different groups, agencies and events where a business interest has been identified. Exhibit 6 is a listing of the various agencies, organizations, and groups that the District has included in the 2019 Proposed Budget.

Exhibit 6: Agency Memberships the District Participates In

Memberships	2019
Skagit Council of Governments (SCOG)	1,400
Washington PUD Association (WPUDA)	56,000
Washington Water Utilities Council (WWUC)	2,000
Economic Development Association of Skagit County (EDASC)	2,500
Washington Association of Sewer & Water Districts	550
American Water Works Association (AWWA)	6,100
Chlorine Institute	5,100
Salmon Festival	5,000
Mount Vernon Chamber	825
Burlington Chamber	600
Sedro Woolley Chamber	800

B3. STAFFING

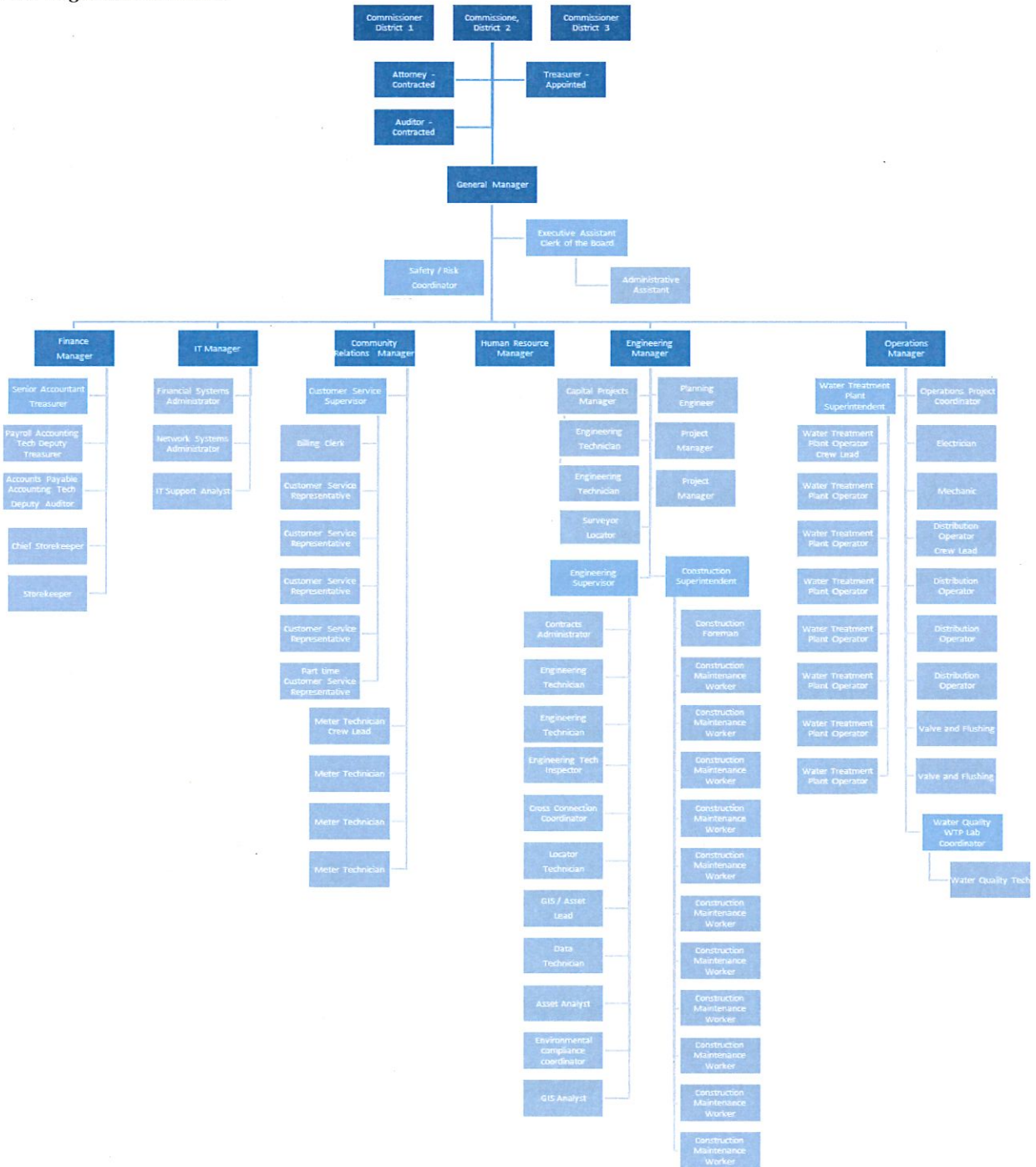
The District continues to assess core functions and level of service and adjusting staffing levels or operations to make improvements. Some recent examples of these changes include: a part-time Customer Service Representative, outsourcing the auditing functions, hiring a full time Safety/Risk Coordinator, adding a Project Manager for our major capital projects, adding a full-time Locator, as well as summer help and interns. All these changes have proven to be successful.

To support the District’s efforts to participate in the internship program at Bellingham Technical College, we have budgeted for interns to work at the water treatment plant for six months of the year for approximately 20 hours per week. It is our hopes that the interns will create a pool of skilled and knowledgeable potential applicants for vacant positions at the plant. In addition, the Finance Department will be continuing offering an internship position to current college students to provide accounting majors an opportunity to learn about government accounting and an intern is planned for the Safety Department to provide valuable work experience to a student enrolled in a local safety program.

Exhibit 7: Summary of Full-Time Equivalent Positions (FTEs)

2019 Proposed Budget Authorized FTEs by Department	2014	2015	2016	2017	2018	Proposed 2019	FTEs Budgeted Capital Projcts	Changes in 2019
Commissioner	-	-	-	-	-	-	-	
Executive	3.00	3.00	3.00	3.00	3.00	3.00		
Human Resources	1.00	1.00	1.00	1.00	1.00	1.00		
Safety	-	-	-	-	1.00	1.05		Add Intern
Information Technology	3.00	3.00	3.00	4.00	4.00	4.00	0.55	
Broadband	-	-	-	-	-	-		
Finance	5.25	5.25	5.00	4.25	4.25	4.25		
Stores	2.00	2.00	2.00	2.00	2.00	2.00		
Meters	4.00	4.00	4.00	4.00	4.42	4.00		Remove summer help
Customer Service	5.00	5.00	5.00	5.63	5.63	5.63		
Billing	1.00	1.00	1.00	1.00	1.00	1.00		
Community Relations	1.00	1.00	1.00	1.00	1.00	1.00		
Engineering	17.00	18.00	18.00	18.00	20.00	19.80	8.9	Voluntary reduction in hours
Construction & Maintenance	13.00	13.00	14.00	14.00	14.00	14.00	7.7	
Operations Support	4.00	4.00	4.00	4.00	4.00	4.42		Reclassified summer help from Facilities
Water Treatment Plant	9.00	9.00	9.00	9.00	9.50	9.50		
Water Quality and Lab	3.00	3.00	2.00	2.00	2.00	2.00		
Distribution	3.00	3.00	4.00	6.00	6.00	6.00		
Facilities	-	-	-	0.25	0.42	0.20		Add Chinook Services employee
Total	74.25	75.25	76.00	79.13	83.22	82.85	17.2	

Exhibit 8: Organization Chart



C. CAPITAL COSTS

Exhibit 9 is a summary of an updated capital improvement program (CIP). It contains revised expenditure estimates for projects authorized for 2018 with constant dollar estimates for projects planned through 2028. The CIP table was changed to reflect updates in schedule for the Judy Reservoir to Mount Vernon Transmission Line Phase 2, which is planned to start in 2019 and extend through 2021 for completion. To coordinate with Skagit County, the McLean Road Pipeline project was split into two phases with the first phase starting in 2018. This resulted in several other schedule changes for other pipeline projects to keep a balance in the overall workload and expenditures. The table also shows some additional projects at the water treatment plant and a revision to the District's usual pipe replacement program.

The overall cost of the CIP for the eleven-year period has increased by approximately \$8.3 million from the 2017 Financial Plan. This is due primarily to adding a Water Treatment Plant, Skagit River Diversion, & Raw Water Pump Station (WTP / SRD / RWPS) assessment/project and money to complete the PUD main campus assessment/replacement. In addition, the shuffling of projects described above and revisions to projects in the out years modified the CIP. It is anticipated that more projects will be completed in the first six years of the CIP (2018-2023) than the last five years of the CIP. This is to be expected as the CIP is updated for construction and rolled forward with new projects added as they are identified.

Capital Improvement needs were identified through

- Comprehensive system planning process
- Internally developed capital improvement plan

Capital Improvement Plan budget phases

- Phase 1 - Needs / Condition Assessment
- Phase 2 - Cost analysis, feasibility, and prioritization
- Phase 3 - Design
- Phase 4 – Construction

Capital funding plan identifies possible funding sources available

- Cash reserves, rate funding, SDF, developer contributions, and debt

Rate funded capital replacement is a prudent fiscal target with the following purposes:

- Ongoing system reliability/sustainability
- Equity, charge customers commensurate with the consumption of facility useful life
- Rate stability

Exhibit 9: Summary of Planned Capital Improvement Projects 2018-2028 – Continued

No.	Description	Total 2018-28 (Constant \$)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Fiber:												
35	Old 99 and Cook Rd. Fiber to Sedro Woolley	150,000		150,000									
36	PUD Campus Fiber from 9th and Highland	30,000	30,000										
37	Division St Fiber from 9th and Highland	70,000	70,000										
38	Division St Fiber from Waugh Road Booster	20,000	20,000										
39	Division St Fiber to Eagle's Nest	30,000	30,000										
40	Annual Fiber Optic Installation Program	2,350,000		200,000	200,000	225,000	225,000	250,000	250,000	250,000	250,000	250,000	250,000
	Reservoirs:												
41	Cascade Ridge Reservoir	200,000										50,000	150,000
42	Big Lake Reservoir	400,000										50,000	350,000
43	Pleasant Ridge Area Reservoir	500,000				100,000	400,000						
44	N Sedro Woolley Reservoir	500,000										250,000	250,000
45	Burlington Reservoir	250,000											250,000
46	Panorama	700,000			700,000								
	Facilities												
47	WTP Lagoon	15,000		15,000									
48	WTP Dam Pipe Replacement	310,000		10,000	300,000								
49	Potlatch RO Replacement	60,000				60,000							
50	PUD Campus Assessment / Replacement	100,000		100,000									
51	PUD Campus Site Selection Design A&E	1,400,000			600,000	400,000	400,000						
52	PUD Campus Construction / Land	9,000,000				3,500,000	5,500,000						
53	WTP/SRD/RWPS Conditions Assessment (Elect/Mech/Capacity)	350,000		350,000									
54	WTP/SRD/RWPS Design Projects Identified in assessment	600,000			400,000	200,000							
55	WTP/SRD/RWPS Prioritized Project Construction	6,000,000			2,000,000	4,000,000							
	Other:												
56	Mountain View Consolidation	2,000,000	100,000	500,000	1,400,000								
57	Coordinated Opportunitites with Other Agencies	6,400,000	350,000	1,550,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
58	Annual Pipe Replacement Infill	12,000,000	3,500,000	500,000	1,000,000	-	1,000,000	1,000,000	1,000,000	-	1,000,000	1,500,000	1,500,000
	Total Capital Projects	166,198,025	14,574,373	19,029,336	24,238,751	22,368,918	12,479,801	12,497,227	14,651,137	22,064,876	13,579,639	5,560,314	5,153,652
	Total from November 2017 Financial Plan	157,878,000	23,540,000	15,190,000	11,682,000	10,408,000	17,326,000	17,434,000	10,593,000	25,744,000	18,961,000	3,500,000	3,500,000
	Increase/(Decrease) from November 2017	8,320,025	(8,965,627)	3,839,336	12,556,751	11,960,918	(4,846,199)	(4,936,773)	4,058,137	(3,679,124)	(5,381,361)	2,060,314	1,653,652
	6-Year Average Annual CIP 2018-2023						11-Year Average Annual CIP 2018-2028						
	Per November 2017 Financial Plan	15,930,000					Per November 2017 Financial Plan						14,352,545
	Revised November 2018	<u>17,531,401</u>					Revised November 2018						<u>15,108,911</u>
	Increase/(Decrease) from November 2017	1,601,401					Increase/(Decrease) from November 2017						756,366

C1. CATEGORIES OF CAPITAL PROJECTS:

Department Capital – These are capital expenses that are required on either a one-time basis or annual basis to maintain operation of District facilities and functions. Examples include vehicles, construction equipment, facility equipment, and pump replacements and replacement equipment at the Water Treatment Plant.

Major Capital – These are the larger projects that most people associate with a Capital Improvement Program. Projects include pipeline replacement, reservoir construction, fiber optic construction, etc. It also includes large department capital projects such as the raw water pump station upgrade.

Pipe Replacement – The District’s pipe replacement program includes the survey, design, and construction of pipe replacement projects to replace old, undersized, or defective pipes.

C2. CAPITAL PROGRAM CHANGES

According to the 2017 Financial Plan, the total value of the capital projects planned for 2018-2028 was \$157.9 million. Based on the updated capital plan for the 2019 budget, the total value of the capital projects for 2018-2028 is now \$166.2 million. The overall increase in the capital program is a result of the following changes:

a) Department Capital

The 2018 Financial Plan included a preliminary estimate of department capital costs from Operations, Engineering, Water Treatment Plant, Meters, Finance, and the IT Departments for the years 2018-2027. As more thought and preparation is invested in the operation of our system, department capital projects were revised for the 2019 budget. This includes; vehicles replacements as part of our fleet rotation, Badger meter hardware and software upgrades, facility improvements and repairs at the main campus, security and reliability improvements at the Water Treatment Plant; and the IT department has planned life cycle replacements for server hardware, improvements to the SCADA system and completion of DOH security mandates.

b) Major Capital

A review of the projects in this category was performed to update construction costs based on recent projects and market conditions. Major projects scheduled for 2019 include: \$350,000 of fiber installation, \$1.7 million for the Raw water pump upgrades & replacement analysis, \$4 million for the Judy Reservoir to Mount Vernon Transmission Line Phase 2, \$5.7 million for the McLean & Best Road pipelines, \$1.7 million for the Mountain View consolidation, and \$750,000 for projects that are Coordinated Opportunities with other Agencies, which is primarily the improvements to College Way.

c) Pipe Replacement

Historically, a placeholder of \$3.5 million was budgeted for pipe replacement each year. The 2019 CIP allocates this money between specific pipe replacement infill projects, projects with other agencies, and the remainder placed into annual pipe replacement projects. The mix of projects will be managed as specific needs are identified and the capacity of our current staffing level.

D. CAPITAL BUDGET AND DEBT SERVICE

Exhibit 9 compares the first year of the CIP capital budget to the 2018 Adopted Budget. The 2019 Proposed Budget shows a reduction in departmental projects of approximately \$1.2 million due to a vactor truck purchase and SRD pump rehabilitation in 2018. Major capital projects show an increase of \$4 million and include specific small diameter pipe replacement projects that were previously budgeted as annual pipe replacement.

In previous years, funding of the debt service was apportioned between the Revenue Fund and the System Development Fund. Starting with the 2018 budget, 100% of the debt service will be funded by the Revenue Fund allowing all the System Development revenue to go towards capital projects.

Exhibit 9 shows the debt service payments scheduled for 2019.

Exhibit 9: 2019 Capital Budget and Debt Service

Summary of Capital Budget and Debt Service		2018 Adopted Budget	2019 Proposed Budget
Capital Budget			
Department Capital		\$ 2,682,373	\$ 1,524,336
Major Capital		13,010,000	17,005,000
Annual Pipe Replacement		3,500,000	500,000
Total Capital Budget		\$ 19,192,373	\$ 19,029,336
2019 Debt Service		Interest	Principal
Debt Service - Bonds	\$ 447,590	\$ 660,997	\$ 1,108,587
Less: Federal Tax Credit on 2009B Bonds	(64,048)		(64,048)
Net Debt Service - Bonds	\$ 383,542	\$ 660,997	\$ 1,044,539
Public Works Trust Fund Loans	25,115	1,281,201	1,306,316
Drinking Water State Revolving Fund Loans	156,264	766,225	922,489
Other State Loans	1,960	59,625	61,585
Total Debt Service	\$ 566,882	\$ 2,768,048	\$ 3,334,929

E. FISCAL MANAGEMENT TARGETS

The adequacy of the budget is tested by looking at it in the context of long-term financial policies and seeing whether the budget achieves the District’s fiscal management targets. Following are some comments about how the Adopted Budget compares with the fiscal management targets.

a) Revenue Fund Ending Balance

Target: 2.5 months O&M + Depreciation (\$3,953,000 for 2019).

Projected: \$3,881,000, which is just under target.

b) Net Liquidity

Target: =>180 days of O&M expenses, including fund balances for Revenue, Major Capital, SDF, and Debt Service funds.

Projected: 318 days, which exceeds the target.

c) Debt Service Coverage

Target: Minimum 1.25 for bonded debt; Planning target for bonded debt is 2.0

Projected: 13.5 on bonded debt, which exceeds the target. Debt service coverage on all debt is 4.4

d) Capital

Target: Capital Expenditures funded by revenue fund target = \$3.5 million in 2019

Projected: Capital Budget in 2019 is \$19 million, of which \$8.4 million is funded by revenue and exceeds the target.

The comparison of the 2019 Budget with the District's fiscal management targets is shown in Exhibit 10.

Exhibit 10: Comparison of 2019 Proposed Budget with Fiscal Management Targets

Fiscal Policy Check	2018 Actual Estimated	2019 Proposed
Liquidity Target		
Ending Balance, All Funds	\$ 15,268,418	\$ 11,945,080
No. Days of O&M Expenses	436 Days	318 Days
Target (Minimum)	180 Days	180 Days
Above/(Below) Target	256 Days	138 Days
Revenue Fund Balance		
Ending Balance Revenue Fund	\$ 3,030,965	\$ 3,881,356
Target (Minimum)		
2.5 months of O&M Expenses plus Depreciation	3,739,071	3,953,001
Above/(Below) Target	(708,106)	(71,645)
Debt Service Coverage		
Bonded Debt Service	\$ 1,776,761	\$ 1,108,587
Total Revenue excluding Debt Proceeds and Transfers	\$ 26,543,494	\$ 28,706,194
Projected O&M Expenses	12,769,859	13,705,505
Projected Net Operating Revenue	\$ 13,773,635	\$ 15,000,689
Bonded Debt Service Coverage	7.75	13.53
Target (Minimum)	2.00	2.00
Above/(Below) Target	5.75	11.53
Information:		
Total Debt Service, including State Loans	\$ 3,512,846	\$ 3,334,929
Debt Service Coverage on All Debt	3.92	4.50
Rate-Funded Capital		
Capital Expenditures funded by Revenue Fund	\$ 9,507,373	\$ 8,424,336
Target (Minimum)	3,500,000	3,500,000
Above/(Below) Target	\$ 6,007,373	\$ 4,924,336
100% of Annual Depreciation	5,177,682	5,268,900
Above/(Below) Annual Depreciation	4,329,691	3,155,436

F. RATE FORECAST SUMMARY

The Proposed Budget assumes the 8.5% rate increase presented by FCS Group in January 2016. The schedule includes across-the-board increases of 8% in 2016, 8.5% in 2017-2019, and 8% in 2020. Because this budget includes a large capital improvement program a bond issue will also be needed during 2019 - 2022 to fund the capital projects.

For 2019, the average residential rate impact of this budget is \$4.23 per month, assuming 6 ccf of water use each month.

G. FUND SUMMARIES

Following are fund summaries for each of the District funds, using a cash budgetary basis. The fund summaries are followed by a projected statement of Revenues, Expenses and Changes in Fund Net Assets, which is on the GAAP (Generally Accepted Accounting Principles) basis that is used for financial reporting.

Exhibit 11: Comparative Fund Summaries

All Funds Summary for 2018 Cash Resources and Requirements						
	Revenue Fund	Major Capital Fund	System Development Fund	Debt Service	Bond Reserves and Sinking Funds	Combined
Resources:						
Beginning Fund Balance	4,473,030	6,943,267	2,264,695	1,412,653	503,518	15,597,163
External Revenue:						
Rate Revenue	22,897,691					22,897,691
System Development Fees			1,547,256			1,547,256
Capital Contributions	1,574,842					1,574,842
Grants		537,500				537,500
LUD Assessments, Interest, Penalties				162,085		162,085
Investment Income	132,218	36,732	42,802	25,352	19,920	257,024
Non-Operating Revenues	192,669					192,669
Total External Revenue	24,797,421	574,232	1,590,058	187,437	19,920	27,169,068
Debt Proceeds:						
Debt Proceeds - Division St Tank Loan		2,962,409				2,962,409
Debt Proceeds - Mountain View Loan		100,000				100,000
Debt Proceeds - Gilligan Creek Loan		1,192,500				1,192,500
Debt Proceeds - Bonds		0				0
Total Debt Proceeds	0	4,254,909	0	0	0	4,254,909
Transfers from Other Funds:						
System Development Fund	50,000	523,000				573,000
Major Capital Fund	1,590,000					1,590,000
Revenue Fund		3,325,000		3,811,100		7,136,100
Revenue Fund - Minimum Bond Reserve						0
Revenue Fund - New Debt Reserve					895,510	895,510
Total Transfers from Other Funds	1,640,000	3,848,000	0	3,811,100	895,510	10,194,610
Total Revenue	26,437,421	8,677,141	1,590,058	3,998,537	915,430	41,618,587
Total Resources	30,910,451	15,620,408	3,854,753	5,411,190	1,418,948	57,215,750
Uses:						
Operating Expenditures:						
Operations and Maintenance	11,748,175					11,748,175
Bond Issue Costs						
Utility and Excise Taxes	1,021,684					1,021,684
Total Operating Expenditures	12,769,859	0	0	0	0	12,769,859
Capital Expenditures:						
Service/Meters/Developer Projects	895,644					895,644
Department Projects	2,682,373					2,682,373
Major Capital Projects		9,735,000				9,735,000
Pipe Replacement	3,500,000					3,500,000
Total Capital Expenditures	7,078,017	9,735,000	0	0	0	16,813,017
Debt Service Payments:						
Interest Payments				808,641		808,641
Federal Tax Credit for 2009B Bonds				(63,202)		(63,202)
Principal Payments				2,767,407		2,767,407
Total Debt Service Payments	0	0	0	3,512,846	0	3,512,846
Transfers to Other Funds:						
Revenue		1,590,000	50,000			1,640,000
Major Capital	3,325,000		523,000			3,848,000
Debt Service	3,811,100		0			3,811,100
Debt Reserve	895,510					895,510
						0
Total Transfers to Other Funds	8,031,610	1,590,000	573,000	0	0	10,194,610
Total Expenditures	27,879,486	11,325,000	573,000	3,512,846	0	43,290,332
Ending Fund Balance	3,030,965	4,295,408	3,281,753	1,898,344	1,418,948	13,925,418
Total Uses	30,910,451	15,620,408	3,854,753	5,411,190	1,418,948	57,215,750

All Funds Summary for 2019 Cash Resources and Requirements						
	Revenue Fund	Major Capital Fund	System Development Fund	Debt Service	Bond Reserves and Sinking Funds	Combined
Resources:						
Beginning Fund Balance	3,030,965	5,638,408	3,281,753	1,898,344	1,418,948	15,268,418
External Revenue:						
Rate Revenue	24,833,720					24,833,720
System Development Fees			1,595,000			1,595,000
Capital Contributions	1,599,500					1,599,500
Grants		0				0
LUD Assessments, Interest, Penalties				238,000		238,000
Investment Income	68,500	60,330	21,110	11,346	8,914	170,200
Non-Operating Revenues	269,774					269,774
Total External Revenue	26,771,494	60,330	1,616,110	249,346	8,914	28,706,194
Debt Proceeds:						
Debt Proceeds - Division St Tank Loan		0				0
Debt Proceeds - Mountain View Loan		1,112,100				1,112,100
Debt Proceeds - Gilligan Creek Loan		0				0
Debt Proceeds - Bonds		4,000,000				4,000,000
Total Debt Proceeds	0	5,112,100	0	0	0	5,112,100
Transfers from Other Funds:						
System Development Fund	50,000	2,000,000				2,050,000
Major Capital Fund						0
Revenue Fund		6,400,000		2,829,400		9,229,400
Revenue Fund - Minimum Bond Reserve						0
Revenue Fund - New Debt Reserve					400,000	400,000
Total Transfers from Other Funds	50,000	8,400,000	0	2,829,400	400,000	11,679,400
Total Revenue	26,821,494	13,572,430	1,616,110	3,078,746	408,914	45,497,694
Total Resources	29,852,459	19,210,838	4,897,863	4,977,090	1,827,862	60,766,112
Uses:						
Operating Expenditures:						
Operations and Maintenance	12,614,367					12,614,367
Bond Issue Costs		60,000				60,000
Utility and Excise Taxes	1,190,000					1,190,000
Total Operating Expenditures	13,804,367	60,000	0	0	0	13,864,367
Capital Expenditures:						
Service/Meters/Developer Projects	913,000					913,000
Department Projects	1,524,336					1,524,336
Major Capital Projects		17,005,000				17,005,000
Pipe Replacement	500,000					500,000
Total Capital Expenditures	2,937,336	17,005,000	0	0	0	19,942,336
Debt Service Payments:						
Interest Payments				630,930		630,930
Federal Tax Credit for 2009B Bonds				(64,048)		(64,048)
Principal Payments				2,768,048		2,768,048
Total Debt Service Payments	0	0	0	3,334,929	0	3,334,929
Transfers to Other Funds:						
Revenue		0	50,000			50,000
Major Capital	6,400,000		2,000,000			8,400,000
Debt Service	2,829,400		0			2,829,400
Debt Reserve - Minimum Bond Reserve		0				0
Debt Reserve - New Debt		400,000				400,000
Total Transfers to Other Funds	9,229,400	400,000	2,050,000	0	0	11,679,400
Total Expenditures	25,971,103	17,465,000	2,050,000	3,334,929	0	48,821,032
Ending Fund Balance	3,881,356	1,745,838	2,847,863	1,642,161	1,827,862	11,945,080
Total Uses	29,852,459	19,210,838	4,897,863	4,977,090	1,827,862	60,766,112

Exhibit 12: Projected Statement of Revenues, Expenses, and Changes in Fund Net Assets (GAAP Basis)

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY				
Proposed Budget - Statement of Revenues, Expenses, and Changes in Fund Net Position (GAAP Basis)				
Projected For the Years Ending December 31, 2019 and 2018				
	2018 Budget	Proposed 2019 Budget	\$ Change	% Change
Operating Revenues:				
Residential-Multiple	16,090,000	17,150,000	1,060,000	6.59%
Commercial	5,305,000	5,854,000	549,000	10.35%
Governmental	659,000	668,000	9,000	1.37%
Irrigation	470,000	690,000	220,000	46.81%
Resale	106,000	105,000	(1,000)	-0.94%
Total Water Sales	22,630,000	24,467,000	1,837,000	8.12%
Misc. Revenues	259,533	366,720	107,187	41.30%
Total Operating Revenues	22,889,533	24,833,720	1,944,187	8.49%
Operating Expenses:				
Supply	790,128	857,580	67,452	8.54%
Treatment	2,085,252	2,233,049	147,797	7.09%
Transmission and Distribution	1,035,453	1,045,892	10,439	1.01%
Customer	1,710,376	1,847,032	136,656	7.99%
Administrative, Engineering & General	6,706,376	7,270,694	564,318	8.41%
Taxes Other Than Income Taxes	1,109,000	1,190,000	81,000	7.30%
Depreciation (non cash)	4,936,902	5,268,900	331,998	6.72%
Other Post Employment Benefits (non cash)	271,030	275,000	3,970	1.46%
Total Operating Expenses	18,644,517	19,988,146	1,343,629	7.21%
Operating Income (Loss)	4,245,016	4,845,574	600,558	14.15%
Non Operating Revenues				
Investment Income	78,200	170,200	92,000	117.65%
Interest, Penalty Income on LUDs	32,700	38,000	5,300	16.21%
Rental Income	20,000	21,774	1,774	8.87%
Miscellaneous Non Operating Income	25,000	10,000	(15,000)	-60.00%
Total Non Operating Revenue	155,900	239,974	84,074	53.93%
Non Operating Expense				
Miscellaneous Non Operating Expense	800	-	(800)	-100.00%
Interest on Debt, Net of Fed Tax Credit	803,099	566,882	(236,217)	-29.41%
Amortization of discounts (premiums)	33,733	-	(33,733)	-100.00%
Capitalized Interest	(48,700)	(20,000)	28,700	-58.93%
Other Taxes	49,120	67,120	18,000	36.65%
Total Non Operating Expense	838,052	614,002	(224,050)	-26.73%
Capital Contributions				
Work Order Deposits	300,000	420,000	120,000	40.00%
Donated Plant	400,000	600,000	200,000	50.00%
System Development Fees	1,100,000	1,595,000	495,000	45.00%
Special Fee-Pipe Replacement	611,000	686,500	75,500	12.36%
Services	408,000	493,000	85,000	20.83%
Local Utility District Assessments	-	-	-	0.00%
Grants	427,500	-	(427,500)	-100.00%
Total Capital Contributions	3,246,500	3,794,500	548,000	16.88%
Change in Net Position	6,809,364	8,266,046	1,456,682	21.39%

