

LEHIGH COUNTY AUTHORITY

BUDGET 2021

PRELIMINARY ASSUMPTIONS

SEPTEMBER 14, 2020

Preliminary 2021 Budget Review

Budget Assumptions:

- COVID-19 Impact on 2021 Budget
- 2021 Strategic Imperatives
- Staffing Changes
- Other Assumptions

Review of Key Factors by Fund:

- Internal Services
- Suburban Water
- Suburban Wastewater
- City Division

Summary & Next Steps

COVID-19 Impacts on 2021 Budget

- Pennsylvania’s “green phase” likely to continue into 2021 – assuming no broad “red phase” shut-downs
- Partial recovery of City Division commercial water sales, but remaining lower than 2019
- Penalties and late fees reinstated in 2021 (or earlier)
- Water service terminations for non-payment reinstated in 2021 (or earlier)
- Lingering cash-flow impact of increased past-due receivables
- Potential COVID-19 customer relief fund not incorporated into budget – requires review *(primarily a City Division impact)*
- Continued work-from-home arrangements for significant portion of non-operational staff
- Continued increase in cleaning services & supplies

LCA's Strategic Imperatives - 2021

| <u>Category</u> | <u>Description</u> |
|------------------------|--|
| Organizational | Strategic Planning |
| Organizational | Leadership Team Development & Management Training |
| Organizational | Performance Management System Development |
| Operations & IT | Suburban SCADA System - Evaluation, Upgrade & Staffing |
| Operations | City Division Equipment – Vactor & CCTV Truck |
| Finance & IT | Project Accounting System Implementation in MUNIS |
| Process Improvement | Customer Service & Billing |
| Process Improvement | Sewer Signatory Billing |
| Process Improvement | Human Resources Policy & Procedures |
| Capital Works Project | Trexlertown Interceptor Project Design |
| Capital Works Project | Suburban Water Meter Upgrades |

Staffing (Headcount) Changes - 2021

| Home Departments | 2021 Budget | 2020 Forecast | Change |
|--|------------------------|--------------------------|---------------|
| Executive | 5 | 5 | - |
| Planning | 3 | 3 | - |
| Finance | 10 | 10 | - |
| Information Technology | 9 | 8 | 1 |
| Customer Care and Billing | 19 | 17 | 2 |
| Compliance | 13 | 13 | - |
| Capital Works | 8 | 8 | - |
| Operations - Suburban | 23 | 20 | 3 |
| Operations - D&C | 29 | 29 | - |
| Operations - Waste Water Treatment Plant | 13 | 14 | (1) |
| Operations - Waste Water Treatment Plant (Maintenance) | 10 | 10 | - |
| Operations - Waste Water Treatment Plant (Residuals) | 7 | 7 | - |
| Operations - Water Filtration Plant | 14 | 14 | - |
| Operations - Water Filtration Plant (Maintenance) | 5 | 5 | - |
| TOTAL LCA POSITIONS | 168 | 163 | 5 |

Other Budget Assumptions for 2021

- Salary increases:
 - Merit increases 4/1/2021 for non-union employees
 - Increases by contract for SMART union employees
 - Basic assumptions for increases for SEIU union employees (contract negotiations to be completed by 12/31/2020)
 - Revisit 2020 compensation survey (preliminary results provided mid-2020 during pandemic)
- General inflation of 2.0% suggested by the economic forecasters – applied to general operating expenses unless something specific is requested otherwise
- Employee health benefit cost increase of 15%
- Increased pension plan funding requirement to cover unfunded liability

Key Budget Factors: Internal Services

- Reorganizing internal budget process to provide “department” budgets – to increase visibility and accountability for expense management
 - Executive
 - Planning
 - Capital Works
 - Finance
 - Compliance
 - Customer Care
 - Information Technology
- Labor expense increase - 3 new internal positions & increased benefit costs
- Strategic planning support - \$75k
- Process improvement support - \$50k
- Increased spending for office cleaning and supplies - \$48k
- Increased spending on computer services & maintenance - \$40k
- Review & update compensation study to determine pandemic impact - \$15k

Key Budget Factors: Suburban Water

- 2020 borrowing for capex deferred – will be completed in 2021 (estimated \$5M)
- Budgeted 6.5% increase in user revenues – based on prior 5-year forecast
 - Rate impact to be determined later in budget process
 - Assume conservative 1.0% in volume growth
 - Full-year of additional water sales to new Dr. Pepper account
 - Minimal Covid-19 impact in Suburban Water due to healthy residential growth and continued industrial usage
- Operating Expenses increased 23% compared to 2020 Forecast:
 - Increased cost of water purchase from City Division - \$675k
 - Headcount increases – 3 new operations positions in Suburban Water
 - Note: 2 positions included in 2020 budget deferred due to pandemic
 - Covid-19 impact in 2020 - decreased spending this year on projects, incorporated into 2021 budget
- Adjusting for the above, Operating Expenses increase 4.6% from 2020 Budget
- **ISSUE: Debt Service Coverage Ratio = 1.04 (required = 1.10; target = 1.20)**
GAP to TARGET = \$551k, to be reviewed prior to next budget presentation

Key Budget Factors: Suburban Wastewater

- User revenues expected increase 21.2% due to Signatory revenue calculations (increased flow and loads)
- Operating Expenses increased 10.5% from 2020 Forecast; 6% increase from 2020 Budget
 - Personnel and internal expenses increased 5.8% from 2020 Budget
 - Other operational expenses (projects and other discretionary spending) increased 0.1% from 2020 Budget, but increased 26.3% to 2020 Forecast due to deferred work (Covid-19 related)
- Continued healthy Debt Service Coverage Ratio of 9.14 estimated for 2021
- **ISSUE: Capex borrowing deferred from 2020 – requires further review of funding required for Trexlertown Interceptor project and other Act 537 work**
- **ISSUE: Common Rate Collector System rate review required due to several large capital improvements completed or anticipated**

Key Budget Factors: City Division

- Cite Lease Amendment & other settlement terms incorporated into 2021 Budget:
 - Revenue increase due to rate change
 - Revenue increase due to LCA Suburban Water purchase agreement
 - Annual payments to City for retiree health care and lease administration
 - Increased capex for water main replacement & other projects
 - Elimination of legal expenses
 - Other terms as noted in the agreements
- Lower debt service due to bond refinancing
- Operating Expenses increased 3.0% from 2020 Forecast
- Debt Service Coverage Ratio of 1.76 estimated for 2021

- **ISSUE: Anticipated PENNVEST loan for water plant VFD project – requires further review before incorporating into 2021 Budget**

- **ISSUE: Potential impact of COVID-19 customer relief program not included in 2021 Budget**

Preliminary 2021 Budget Results

| | Budget | FC | Budget | Actual |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2021</u> | <u>2020</u> | <u>2020</u> | <u>2019</u> |
| NET INCOME | | | | |
| Suburban Water | (351,797) | 869,029 | (78,407) | 2,670,094 |
| Suburban Wastewater | 881,341 | 1,789,388 | (1,269,292) | (473,333) |
| City Division | <u>432,462</u> | <u>(5,034,167)</u> | <u>(4,106,561)</u> | <u>(4,130,921)</u> |
| Total LCA | <u>962,006</u> | <u>(2,375,750)</u> | <u>(5,454,260)</u> | <u>(1,934,160)</u> |
| | | | | |
| CASH FLOWS | | | | |
| Suburban Water | (3,314,509) | (2,889,118) | (2,048,282) | 2,681,907 |
| Suburban Wastewater | 1,027,290 | 1,412,889 | 17,484,855 | (1,685,495) |
| City Division | <u>2,602,631</u> | <u>(443,127)</u> | <u>3,142,950</u> | <u>(3,065,798)</u> |
| Total LCA | <u>315,412</u> | <u>(1,919,356)</u> | <u>18,579,523</u> | <u>(2,069,386)</u> |
| | | | | |
| DEBT SERVICE COVERAGE | | | | |
| Suburban Water | 1.04 | 1.41 | 1.25 | 1.56 |
| Suburban Wastewater | 9.14 | 10.33 | 3.18 | 6.03 |
| City Division | 1.76 | 1.47 | 1.52 | 1.63 |

What's Next?

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- Suburban Water expense review
- Suburban Water revenue / rate review
- Common Rate Collector System revenue / rate review
- Refine capex borrowing requirements for all 3 funds
- Evaluate potential COVID-19 customer relief fund & impact to City Division

- Next Board Presentation (9/28/2020): Preliminary 2021 Budget Statements

Questions

