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LEHIGH COUNTY AUTHORITY

BUDGET 2022

PRELIMINARY ASSUMPTIONS

SEPTEMBER 13, 2021

Preliminary 2022 Budget Review

Budget Assumptions:

- COVID-19 Impact on 2022 Budget
- 2022 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 2022 Budget

- Collections processes non-payment reinstated in 2021 will continue in 2022 – expecting cash-flow impact of increased past-due receivables would come back to normal in 2022
- Customer relief fund already funded – requires review (*primarily a City Division impact*)
- Continued promotion of other non-LCA customer assistance funding sources (Emergency Rental Assistance program, etc.)
- Review availability of American Rescue Plan funds and other funding sources to support capital improvements at a reduced cost
- Continuation of work-from-home arrangements for selected non-operational staff
- Relative stability in water sales and modest growth expected

LCA's Draft Strategic Plan Goals: 2022

Operational Excellence	Addressing Small System Challenges Process Improvement Program * Large Diameter Valve Maintenance
Regional Collaboration & Leadership	Engagement with Municipalities, Stakeholders, Community Organizations Advance Little Lehigh / Groundwater Monitoring Program Develop LCA Capabilities List to Support other Municipal Needs
Financial Stewardship	Enhance Financial Forecasting * Increase Focus on Expense Management * Assess Low-Cost Capital Funding Alternatives (grants, WIFIA)
System Capacity & Reliability	Develop LCA's Asset Management Program Approach * Suburban Water Supply Plan / Standardize Master Planning Approach Major Capital Improvements
Customer Engagement & Support	Improve Customer Delinquency / Collections Process Enhance Emergency Communication & After-Hours Protocols Customer Education & Outreach (sewer system focus in 2022)
Employee Engagement & Safety	Enhance & Standardize Employee Safety Training Program Create Job-Specific Performance Measures & Training Plans * Standardize Onboarding / Supervisory Onboarding Process *

**** Items marked with an asterisk (*) are being evaluated for staff capacity and may be reflected in the 2022 Budget proposal as staff additions.***

Staffing (Headcount) Changes – 2022*

	2022	2021	
Home Departments	<u>Budget</u>	<u>Forecast</u>	<u>Change</u>
Executive	5	5	-
Planning	3	3	-
Finance	11	11	-
Information Technology	10	9	1
Customer Care and Billing	19	19	-
Capital Works	8	8	-
Compliance (Lab)	13	13	-
Operations - Suburban	22	22	-
Operations - Water Filtration Plant	14	14	-
Operations - Water Filtration Plant (Maint.)	5	5	-
Operations - D&C	29	29	-
Operations - Waste Water Treatment Plant	13	13	-
Operations - WWTP (Maintenance)	10	10	-
Operations - WWTP (Residuals)	7	7	-
TOTAL LCA POSITIONS	169	168	1

** Additional staffing required to achieve strategic plan goals not included.*

Other Budget Assumptions for 2022

Salary increases:

- Merit increases 4/1/2021 for non-union employees
- Increases by contract for SMART union employees
- Increases by contract for SEIU union employees
- Revisit compensation survey (preliminary results provided mid-2020 during pandemic)

Overall health insurance cost increase – 5%

Worker compensation increase – 16%

General inflation of 2 - 2.50% suggested by the economic forecasters

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 – 1 new internal position for GIS Specialist

Customer Service – new positions added to 2021 budget, which are expected to be filled by year end:

- Collections Analyst
- Suburban Field Technician

Increased expenses for special studies, compensation studies, public relations, education & training, and legal services to support organizational efforts

Key Budget Factors: Suburban Water

Operating Expenses – Significant Increase (\$1.9M over 2021 Forecast)

- Water purchase cost increase driven by higher capital improvements completed at Allentown Division Water Filtration Plant - \$750K
- Inflationary impacts - \$260K
- Capital expenses reclassified as Operating - \$490K
- Other spending increases - \$440K

Rate Considerations:

- Debt financing vs. cash funding levels for \$5.8M in capital improvements
- Lower overall debt service as a result of refinancing in 2021
- Volume growth
- Rate study needed in 2022

ISSUE: Annual expected rate increase of 6.75% (from 2022-2026 capital plan) may be inadequate to cover operating expenses and desired capex funding level from operating revenues. More analysis and discussion will follow throughout the budget process.

Key Budget Factors: Suburban Wastewater

User revenues from Signatories still being calculated – draft rates to be presented in October

Operating Expenses – Modest Increase (\$740K over 2021 Forecast)

- Inflationary Impacts - \$360K
- Capital expenses reclassified as Operating - \$380K

ISSUE: No Capex borrowing in 2022 – 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 in recent years

Key Budget Factors: City Division

Major factors from 2020 Lease Amendment affecting 2022 Budget:

- Approx. \$3.2M revenue increase due to “Phase 2” rate change plus higher inflation of 4.60% (base rate change includes inflation as a component)
- LCA Suburban Water purchase increase by \$750K
- Continues annual payments to City for retiree health care and lease administration, impacted by high inflation

Operating Expenses – Significant Increase (\$2.5M over 2021 Forecast)

- Inflationary impacts - \$810K
- Capital expenses reclassified as Operating - \$610K
- Other spending increases - \$1.1M

Debt considerations:

- Anticipated PENNVEST loan for water plant VFD project - \$1.2M
- Slight increase in debt service in accordance with refinanced bond schedule
- Debt service coverage expected - 1.68

Preliminary 2022 Budget Results

	Budget	Forecast	Budget	Actual
	2022	2021	2021	2020
NET INCOME				
Suburban Water	1,013,888	1,136,849	183,548	456,932
Suburban Wastewater	150,215	1,237,714	1,175,879	2,724,420
City Division	<u>(585,085)</u>	<u>(2,545,881)</u>	<u>865,692</u>	<u>(4,289,354)</u>
Total LCA	<u><u>579,018</u></u>	<u><u>(171,318)</u></u>	<u><u>2,225,119</u></u>	<u><u>(1,108,002)</u></u>
CASH FLOWS				
Suburban Water	687,231	(1,895,946)	(3,490,153)	(3,715,926)
Suburban Wastewater	3,849,456	3,060,942	2,321,828	398,089
City Division	<u>4,508,319</u>	<u>2,434,352</u>	<u>4,663,547</u>	<u>2,036,185</u>
Total LCA	<u><u>9,045,006</u></u>	<u><u>3,599,348</u></u>	<u><u>3,495,222</u></u>	<u><u>(1,281,652)</u></u>
DEBT SERVICE COVERAGE RATIO				
Suburban Water	1.63	1.69	1.20	1.26
Suburban Wastewater	8.05	10.07	8.17	12.54
City Division	1.68	1.52	1.62	1.60

What's Next?

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- Incorporating reorganization and Strategic Plan implementation into budget numbers
- Suburban Water & City Division expense review
- Refine borrowing requirements for Suburban Water capital improvements
- Suburban Water revenue / rate review
- Detailed review of capital improvements planned for 2022

Next Board Presentation (9/27/2021): Preliminary 2022 Budget Statements

Questions

