

2023 Budget: Preliminary Review & Assumptions

LCA Board of Directors
September 12, 2022



Today's Review & Next Steps

Budget Assumptions

- Support for strategic initiatives
- Staffing changes
- Other assumptions

Review of Key Factors by Fund

- Internal Service, Suburban Divisions, City Division
- Summary of expected 2023 Budget results

Coming Up...

- Preliminary budget review – 9/19/2022
- Refined review & rate overview – 10/10/2022
- 2023 Budget approval – 10/24/2022 (required to be complete by Nov. 1)
- 2023 rate adoption – 11/14/2022



2023 Budget Support for Strategic Initiatives: *Asset Management*

- Strategic Asset Management Plan (SAMP) development including multi-year program implementation roadmap
- Director of Engineering & Asset Management
- Budgeted Resources:
 - Consulting services for SAMP development
 - Payroll/benefits for new hire



2023 Budget Support for Strategic Initiatives: *Process Improvement*

- Re-implementation of LCA's Enterprise Resource Planning (ERP) system, Munis by Tyler Technologies
- Budgeted Resources:
 - Consultant support for project planning & implementation
 - Software implementation contract
 - Temporary staffing & technical resources



2023 Budget Support for Strategic Initiatives: *Water & Sewer Capacity*

- Continuation of regional Act 537 Plan development
- Various capacity-related studies & projects
 - Upper Western Lehigh Interceptor Pump Station (addressing the “Trexlerstown Bottleneck”)
 - Pretreatment Plant near-term capacity planning
 - Central Lehigh Division – Upper System water storage tank
- Budgeted Resources:
 - Consultant support



2023 Budget Support for Strategic Initiatives: *Operational Excellence*

- Implementation of small systems process control & instrumentation plan
- Various projects to enhance service & system resiliency
 - Lead service line replacement program
 - Emergency Response Plan review and update
 - Large diameter valve maintenance and rehabilitation plan
- Budgeted Resources:
 - Plant Operations Compliance Technician – new hire
 - Consultant support

2023 Budget Support for Strategic Initiatives: *Summary*

Strategy Area	2023 Budget for NEW Needs Identified*
Asset Management	\$365,000
Process Improvement	\$1,476,000
Water & Sewer Capacity	\$1,400,000
Operational Excellence	\$220,000
TOTAL	\$3,461,000

** Staff additions included as estimated payroll cost only.*

2023 Staffing Changes

2022 (current) employees	161
Vacant / open positions	10
New positions for 2023	3
2023 (budgeted) employees	174



2023 Staff Additions:

- +1 - Director of Engineering & Asset Management
- +1 - Plant Operations Compliance Technician
- +1 - Training Coordinator (Human Resources)
- +0 - Temporary staffing to support Munis project
- +0 - Temporary staffing for specific succession-planning needs

2023 Personnel Budget

(wages & benefits)

- Fill all 10 vacant positions
- Staff additions (3)
- Wage increases (by union contracts)
- Health insurance cost increase (estimated at 5%)

2022 Forecast	\$18,281,392
2023 Preliminary Budget	\$19,967,569
% Change	9.22%

Other 2023 Budget Assumptions

- Return to pre-pandemic training budget (including travel for conference attendance)
- Additional support for internal training, safety training, and security review / improvements
- Inflationary impact on other expenses: 3.75%
- City Division lease rates: by agreement
- Suburban Division wastewater rates: by agreement
- Suburban Division water system revenue growth: 2%

Key Factors: Internal Service

- Continued efforts to departmentalize the budget
 - Will be completed with ERP / Munis re-implementation project
- Non-personnel internal costs up \$549,000 (approx. 19%) from 2022
 - 3.75% inflation impact
 - Consulting expense to support strategic initiatives

Department	2023
Executive	286,032
Communications	132,141
Finance	1,673,384
HR	457,985
Service & Technology	320,063
Plant Operations	75,906
Engineering & Asset Management	453,302
TOTAL	3,398,813




Key Factors: Suburban Water

- Operating Expense increase of 6.9% from 2022 forecast
 - Proportionate share of personnel and internal service cost increases
 - Inflation impact
 - Capital budget: \$6.9M will draw \$3.8M from new borrowing completed in 2022
 - Additional revenue required = 5.5%
 - 2% volume growth estimated
 - 3.5% rate impact estimated
 - In line with 2023-2027 Capital Plan forecast
 - Water rate study needed due to significant rate changes made in 2021-2022
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Key Factors: Suburban Wastewater

- Operating Expense increase of 4.0% from 2022 forecast
 - Proportionate share of personnel and internal service cost increases
 - Inflation impact
 - Capital budget: \$5.9M captured with no borrowing planned
 - Additional revenue required = 2.9%
 - Signatory rate impact will vary by group due to pay-go capex impacts
 - Example: Park Pump Station generator project (Little Lehigh Relief Interceptor – Ph. 1)
 - Signatory User Charge Report to be issued in early October
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Key Factors: City Division

- Operating Expense increase of 6.3% from 2022 forecast
 - Proportionate share of personnel and internal service cost increases
 - Inflation impact
 - Capital budget: \$13.7M captured with no new borrowing planned
 - Pennvest loan for Water Filtration Plant pump project expected to close in January 2023
 - City Lease rates increase by formula
 - $\text{CPI (7.6\%)} + 2.5\% = 10.1\%$
 - Slightly lower overall rate impact of 9.8% expected due to slower growth of capital cost recovery charges and Administrative Order fees
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Preliminary Summary of 2023 Budget Results

	Budget	Forecast	Budget	Actual
	2023	2022	2022	2021
NET INCOME				
Suburban Water	2,167,936	2,539,927	2,094,223	4,780,026
Suburban Wastewater	453,924	749,444	1,788,879	(2,252,986)
City Division	<u>4,929,063</u>	<u>3,988,788</u>	<u>2,194,319</u>	<u>4,431,771</u>
Total LCA	<u><u>7,550,923</u></u>	<u><u>7,278,159</u></u>	<u><u>6,077,421</u></u>	<u><u>6,958,811</u></u>
CASH FLOWS				
Suburban Water	988,564	2,209,792	402,292	(2,927,414)
Suburban Wastewater	(568,091)	4,336,317	4,353,353	(1,133,048)
City Division	<u>4,148,434</u>	<u>6,136,259</u>	<u>5,439,552</u>	<u>9,094,925</u>
Total LCA	<u><u>4,568,907</u></u>	<u><u>12,682,368</u></u>	<u><u>10,195,197</u></u>	<u><u>5,034,463</u></u>
DEBT SERVICE COVERAGE RATIO				
Suburban Water	1.88	2.14	2.03	5.84
Suburban Wastewater	9.17	10.24	10.82	6.56
City Division	2.19	1.92	1.67	1.79

Looking Ahead

Work Remaining

- Finalize preliminary budget requests
- Suburban Water rate study
- Suburban Wastewater signatory user charge report

Upcoming Board Meetings

- Preliminary budget review – 9/19/2022
- Refined review & rate overview – 10/10/2022
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Discussion /
Questions?

Thank you!

