

Proposed Budget | 2017



October 9, 2016

In accordance with District Resolution No. 1361, we are pleased to present the 2017 Proposed Budget for Public Utility District No. 1 of Skagit County.

This report first describes the changes from the Preliminary Budget previously submitted to the Board. It then describes the budget process and the new format of the budget document, after which it summarizes the 2017 Proposed Budget and discusses the major funding changes proposed for 2017.

SECTION 1: CHANGES FROM PRELIMINARY BUDGET

The Proposed Budget is similar to the Preliminary version submitted to the Board on September 5. The overall operating budget is less than in the Preliminary stage, primarily due to an updated estimate of the percentage of staff time being charged to capital projects. Offsetting this shift of staff time from operating to capital projects was the addition of 0.65 FTE of part-time help for the Customer Service staff. The net effect was about a \$750,000 reduction in the operating budget.

The capital budget for the Proposed Budget stage contains updated estimates of the timing of projects currently underway. We re-categorized the purchase of land in the Gilligan Creek Watershed from routine capital to major capital, and it is now planned to be funded by a \$1.59 million Department of Ecology loan, of which 25% is forgivable principal. The other 75% is to be repaid at 2% interest over 20 years.

SECTION 2: 2017 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 enough 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.

The budget process occurs in three stages: Preliminary, Proposed, and Adopted. The Preliminary Budget was submitted to the Board on the first Monday in September. It consisted of our first pass at compiling a large number of budget estimates and balancing proposed expenditures against projected revenues. The Preliminary Budget was the subject of the budget workshop on September 13. We then made additional changes in response to Board feedback and further staff research. This document is the Proposed Budget, which will be the subject of a public hearing on October 11. After the public hearing, Board members will have the opportunity to direct further changes to the budget, which will be incorporated into the Adopted Budget that is binding at the outset of the 2017 calendar year. The budget is built upon an assumed 8.5% across-the-board rate increase, and the rate increase will need to be approved along with the budget in order to be effective on January 1, 2017.

After the new calendar year begins, there is inevitably new information that arises and decisions made that may affect the budget during the middle of the year. If mid-year changes are approved by the Board, then the most current version of the 2017 budget at any given point in time will be 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 3: INTRODUCTION TO BUDGET DOCUMENT

A. NEW CHART OF ACCOUNTS

The District has been implementing a new financial system, Cayenta, to take the place of our old AS400 system. The new financial system also brings 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. In the short run these changes create an unavoidable loss of budget history, but we believe that over the long run 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 in the programmatic categories: instead of being able to sort expenditures only by major "functions" (supply, treatment, transmission and distribution), we can now sort by departments as well. Departments are a relevant category because they are the key to management accountability—each manager is now responsible for a departmental budget.

In addition to adding the "department" category, the new chart of accounts makes some changes in the "object of expenditure" line items. Some of the old line items were merged into new combined line items, while other old line items were separated into more than one new line item. We created a "crosswalk" from the old categories to new categories as closely as possible, but it was not exact.

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 2017 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 extends only as far back as 2015 actuals and the 2016 budget, not prior to 2015. For the 2015 actuals and 2016 budget figures, the totals match the totals in the old chart of accounts, but we had to do some allocating and estimating within particular 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.

B. BUDGET DOCUMENT FORMAT

Since the basic categories were changing anyway and there were new staff members preparing the budget, we took advantage of the opportunity to make what we believe are a variety of other improvements to the budget document. We hope that these changes are informative and useful to the Board as well as to the department managers. At the same time, the budget format is still under development, and we welcome feedback about it.

The remainder of this budget document consists of a discussion of the major features in the 2017 Proposed budget, including notable changes from previous years.

SECTION 4: DISCUSSION OF 2017 PROPOSED BUDGET

A. REVENUES

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

Exhibit 1: Projected Revenues

	2015 Actual	2016 Budget	2016 Revised Estimate	2015-2016 % Change	2017 Proposed
Operating Revenue					
Residential/Multifamily	12,597,211	13,290,000	13,731,531	9.0%	14,534,000
Commercial/Fire Protection	4,243,174	4,380,000	4,471,314	5.4%	4,754,000
Government	505,485	530,000	498,029	-1.5%	574,000
Irrigation	416,131	430,000	240,961	-42.1%	100,000
Resale	96,143	93,000	33,588	-65.1%	465,000
Total Rate Revenue	17,858,145	18,723,000	18,975,423	6.3%	20,427,000
Misc Service Charges	310,191	388,000	254,927	-17.8%	260,000
Total Operating Revenue	18,168,335	19,111,000	19,230,351	5.8%	20,687,000
Capital Contributions					
Wrk Ord Deposits (Non-Donated Plant)	269,388	90,000	124,169	-53.9%	120,000
Services	248,944	820,000	356,884	43.4%	350,000
System Development Fees	1,216,991	850,000	1,023,534	-15.9%	1,020,000
Capital Grants	39,931	-	31,836	-20.3%	397,500
Pipe Replacement Fee	374,345	370,000	568,498	51.9%	600,000
Total Capital Contributions	2,149,600	2,130,000	2,104,921	-2.1%	2,487,500
Non-Operating Revenue					
Merchandising & Jobbing	5,856	-	-	-100.0%	-
Rental Revenue	20,736	20,000	20,736	0.0%	20,000
Investment Income	18,751	14,000	56,116	199.3%	20,000
Misc Non-Operating Income	14,509	14,500	15,704	8.2%	15,000
LUD Interest Income	40,014	45,000	32,500	-18.8%	24,150
LUD Penalty Income	4,428	10,000	3,695	-16.5%	4,000
LUD Assessments	192,777	108,006	168,890	-12.4%	170,000
Total Non-Operating Revenue	297,070	211,506	297,641	0.2%	253,150
Total Revenue and Capital Contributions	20,615,005	21,452,506	21,632,913		23,427,650
SDFs and Prior Lien Assessment Revenue	1,216,991	875,670	1,049,204		1,045,670
Total to be Received by Revenue Fund	19,398,014	20,576,836	20,583,709		22,381,980

A1. UTILITY RATE REVENUE

This budget assumes the 8.5% rate increase presented last January as part of the multi-year financial forecast developed by FCS Group. This rate increase is assumed to be effective January 1, 2017. Total rate revenue is projected to be \$20,427,000 in 2017.

A2. SDF AND OTHER NON-RATE REVENUE

Non-rate revenue into the Revenue Fund is projected based on the 2015 actual amount received, as well as a revised estimate for 2016 based on the first six months of the year.

The SDF revenue estimate is likewise based on recent experience. It is estimated to be \$1,020,000 in 2017. SDF revenue is kept in a separate fund, and it must be used for either capital expenditures or debt service.

B. OPERATING COSTS

Exhibit 2 shows how the department budgets are distributed among the major functions.

Exhibit 2: Summary of Operating Budget

2017 Proposed O&M Budget								
	01 Supply	03 Treatment	05 T&D	07 Cust Svc	08 Admin	Expend Offsets	Taxes and Non-Oper	Total
Commissioner					210,069			210,069
Executive					1,073,098			1,073,098
Human Resources					185,590			185,590
Safety					175,799			175,799
Information Technology				18,170	895,290			913,460
Broadband					30,000			30,000
Finance					625,556			625,556
Stores					306,823	(220,000)		86,823
Meters				590,667				590,667
Customer Service				645,377				645,377
Billing				186,244				186,244
Community Relations				204,186				204,186
Engineering	34,000		65,000		1,351,919			1,450,919
Construction & Maintenance			827,356		148,786			976,142
Operations Support		27,000	10,500		925,233	(360,000)		602,733
Water Treatment Plant	458,500	1,996,576						2,455,076
Water Quality and Lab	12,200	146,316	128,028		32,800			319,344
Distribution	399,640	-	954,130		16,286			1,370,056
Non-Departmental					80,745	(500,000)	1,047,400	628,145
Total Cash Operating Expenses	904,340	2,169,892	1,985,014	1,644,644	6,057,994	(1,080,000)	1,047,400	12,729,284

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 3 shows a comparison over time by function, while Exhibit 4 shows that same comparison by line item.

Exhibit 3: Historical Summary of Operating Budget by Function

2017 Budget Summary by Function	2015 Actual	2016 Budget	2016 Revised Estimate	Proposed 2017 Budget	\$ Change from 2016 Budget	% Change from 2016 Budget
Supply (01)	722,183	700,000	272,800	904,340	204,340	29%
Treatment (03)	1,714,198	2,060,000	2,156,819	2,169,892	109,892	5%
Transmission & Dist (05)	2,762,298	2,707,500	2,634,111	1,985,014	(722,486)	-27%
Customer Service (07)	1,109,612	1,300,000	1,382,450	1,644,644	344,644	27%
Administration (08)	4,060,813	4,923,500	4,156,983	4,977,994	54,494	1%
Taxes and Other (09)	923,940	962,500	990,538	1,047,400	84,900	9%
Total	11,293,045	12,653,500	11,593,701	12,729,284	75,784	1%

Note: Some expenses have been reclassified across programs.

Exhibit 4: Historical Summary of Operating Budget by Line Item

Skagit PUD - 2017 Preliminary Budget		2015	2016	2017		
Summary by Line Item		Actual	Budget	Proposed	\$ Change	% Change
6010	Salary, Wages and Benefits	\$ 7,563,745	\$ 8,253,699	\$ 8,352,582	\$ 98,883	1.2%
6180	Chemicals	403,266	420,000	402,050	(17,950)	-4.3%
6200	Materials & Supplies	629,777	725,750	649,448	(76,302)	-10.5%
6205	Broadband Supplies and Materials	35,316	45,000	30,000	(15,000)	-33.3%
6213	Power Purchased for Pumping	473,729	543,750	524,500	(19,250)	-3.5%
6215	Rain Barrels	-	-	3,600	3,600	0.0%
6221	Community Relations	-	-	11,850	11,850	0.0%
6222	Insurance Claims and Reimbursements	1,179	2,000	-	(2,000)	-100.0%
6225	Maintenance Contracts	17,333	25,000	26,800	1,800	7.2%
6226	Memberships, Licenses, Certifications	71,766	70,000	72,655	2,655	3.8%
6228	General Supplies & Non-Professional Services	208,743	134,000	222,397	88,397	66.0%
6229	Postage and Shipping	88,662	91,000	94,560	3,560	3.9%
6231	Security	3,240	3,500	3,240	(260)	-7.4%
6232	Tools and Small Equipment	27,938	52,750	28,700	(24,050)	-45.6%
6234	Utilities	124,916	157,850	161,270	3,420	2.2%
6235	Permits	-	-	34,265	34,265	0.0%
6251	Computer Hardware, Communications, SCADA	91,733	202,500	188,750	(13,750)	-6.8%
6252	Computer Software, Licenses and Support	224,563	280,372	227,200	(53,172)	-19.0%
6255	Education, Training, Travel and Conferences	72,712	138,079	151,595	13,516	9.8%
6260	Building, Furniture, Grounds and Roads	184,105	209,750	136,822	(72,928)	-34.8%
6261	Safety	65,214	85,500	42,180	(43,320)	-50.7%
6268	Water Purchased from Others	215,131	200,000	278,040	78,040	39.0%
6310	Professional Services	179,324	406,000	554,000	148,000	36.5%
6420	Rental Expense	4,232	4,500	-	(4,500)	-100.0%
6500	Transportation-Fuel	92,324	135,000	100,000	(35,000)	-25.9%
6501	Transportation-Parts	69,234	110,000	60,000	(50,000)	-45.5%
6502	Transportation-Outside Services	-	-	15,000	15,000	0.0%
6560	Insurance-Property	108,214	215,000	168,288	(46,712)	-21.7%
6570	Insurance-Liability	251,443	185,000	171,092	(13,908)	-7.5%
6590	Insurance-Other	3,566	-	-	-	0.0%
6600	Advertising - Legal Notices	14,894	30,000	2,000	(28,000)	-93.3%
6601	Advertising - Community Relations	-	-	19,000	19,000	0.0%
6700	Bad Debts	28,169	30,000	30,000	-	0.0%
<i>Expenditure Offsets:</i>						
6550	Transportation Overhead Charge	(107,312)	(140,000)	(360,000)	(220,000)	157.1%
6750	Inventory Administrative Overhead	(248,515)	(275,000)	(220,000)	55,000	-20.0%
6751	Administrative Expense Transferred	(529,535)	(650,000)	(500,000)	150,000	-23.1%
<i>State Taxes:</i>						
4080	Utility Taxes	906,570	942,000	1,028,000	86,000	9.1%
<i>Other Expenditures:</i>						
4084	Fire and Dike District Taxes	14,685	18,000	17,000	(1,000)	-5.6%
4087	Miscellaneous Taxes	195	-	200	200	0.0%
4213	Public Record Inspection Fees	150	-	-	-	0.0%
4260	Miscellaneous Expenses	2,341	2,500	2,200	(300)	-12.0%
Total Cash Operating Expenditures		\$ 11,293,045	\$ 12,653,500	\$ 12,729,284	\$ 75,784	0.6%

There are additional operating expenses included in next year’s budget that had not been budgeted in prior years. Some of these expenses are one-time costs, while others will be recurring costs due to deferred maintenance. Some of the more significant expenses include the following:

\$130,000	Safety Consultant
\$13,000	Safety Training
\$25,000	Safety Supplies
\$75,000	Building Improvement Feasibility Study
\$40,000	Northstar/Cayenta Refresher training
\$65,000	Paymentus
\$15,000	Bill Outsourcing
\$150,000	Pump Maintenance at Skagit River Diversion
\$69,000	Valve actuator replacements at WTP

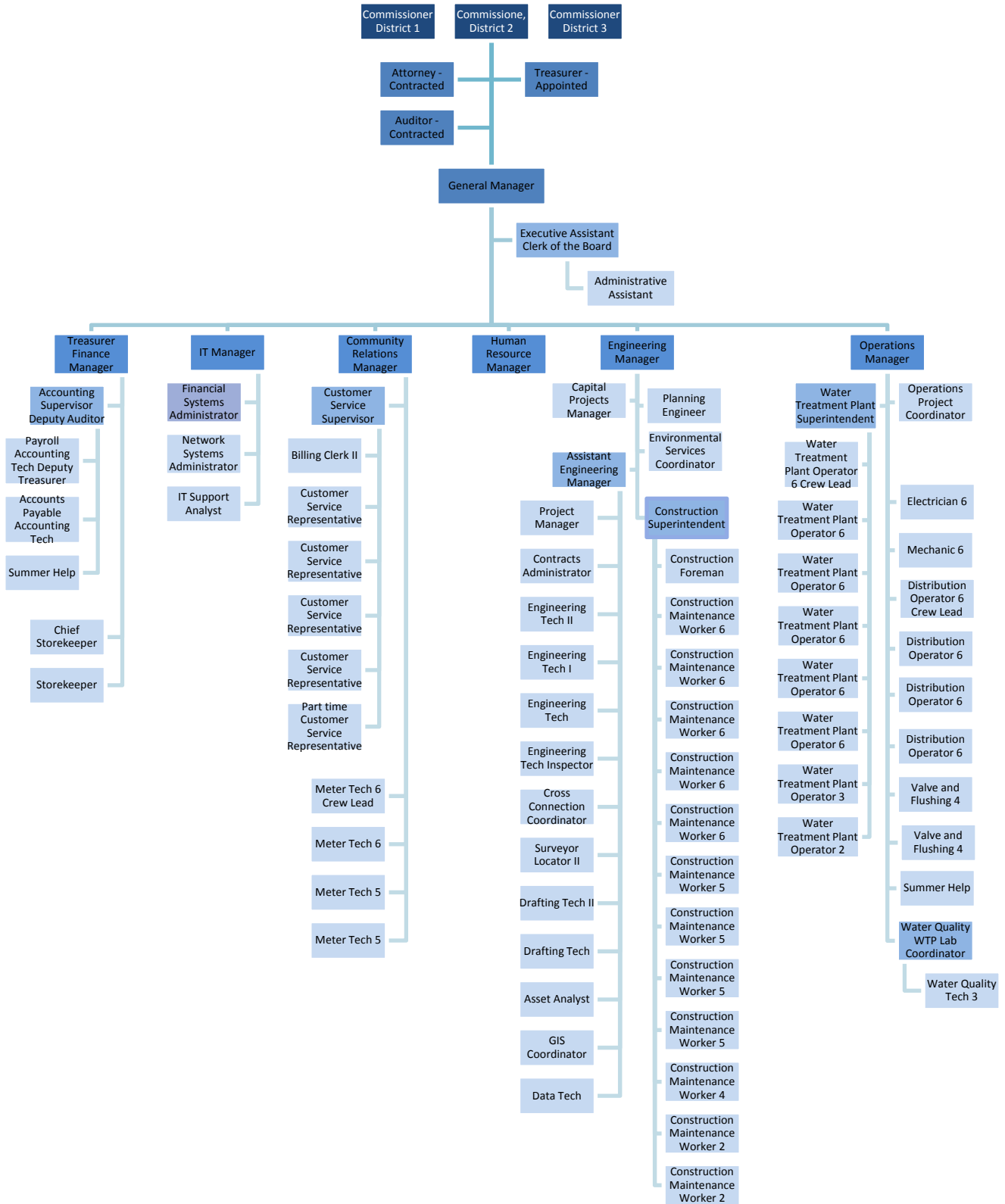
C. CHANGES IN NUMBER OF FULL-TIME EQUIVALENT POSITIONS

The Proposed 2017 budget includes the addition of a full-time position in Information Technology, the reduction of a full-time position in Finance, and the addition of two summer seasonal positions in Finance and Operations Support, respectively, and additional part-time help (0.65 FTE) in Customer Service. The changes over time are shown in Exhibit 5 and the changes are reflected in the District’s organization chart as shown in Exhibit 6.

Exhibit 5: Summary of Full-Time Equivalent Positions (FTEs)

2017 Proposed Budget Authorized FTEs by Department	2013	2014	2015	2016	Proposed 2017	Changes in 2017
Commissioner	-	-	-	-	-	
Executive	3.00	3.00	3.00	3.00	3.00	
Human Resources	1.00	1.00	1.00	1.00	1.00	
Safety	-	-	-	-	-	
Information Technology	3.00	3.00	3.00	3.00	4.00	Add Financial System Administrator
Broadband	-	-	-	-	-	
Finance	5.00	5.25	5.25	5.00	4.25	Use external Auditor; add summer help
Stores	2.00	2.00	2.00	2.00	2.00	
Meters	4.00	4.00	4.00	4.00	4.00	
Customer Service	5.00	5.00	5.00	5.00	5.65	Add part time help
Billing	1.00	1.00	1.00	1.00	1.00	
Community Relations	1.00	1.00	1.00	1.00	1.00	
Engineering	17.75	17.00	18.00	18.00	18.00	
Construction & Maintenance	13.00	13.00	13.00	14.00	14.00	
Operations Support	4.00	4.00	4.00	4.00	4.25	Add seasonal vegetation control
Water Treatment Plant	9.00	9.00	9.00	9.00	9.00	
Water Quality and Lab	3.00	3.00	3.00	2.00	2.00	
Distribution	4.00	4.00	4.00	6.00	6.00	
Total	75.75	75.25	76.25	78.00	79.15	

Exhibit 6: Organization Chart



D. CAPITAL COSTS

Exhibit 7 is a summary of an updated capital improvement program (CIP). It contains revised expenditure estimates for projects authorized for 2016, and then constant-dollar estimates for the ten years from 2017 through 2026. The total capital program is increased over the version presented to the Board last January. Over the first six years, this CIP averages about \$1.6 million more per year than the version last January.

Capital Improvement needs were identified through

- Comprehensive system planning process
- Internally developed capital improvement plan

Capital funding plan identifies 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

D1. CATEGORIES OF CAPITAL PROJECTS:

Routine Capital – These are capital expenses that are required on either a one time basis or on a yearly basis to maintain operation of District facilities and functions. Examples include vehicles, computer equipment, construction equipment, 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.

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.

D2. CAPITAL PROGRAM CHANGES

According to the 2016 Financial Plan, the total value of the capital projects from 2016 – 2026 was \$137.7 million. Based on the updated capital plan for the 2017 budget, the total value of the capital projects from 2016 – 2026 is now \$185.3 million. The additional \$47.6 million in the capital program is a result of the following changes:

a) Routine Capital

The 2016 Financial Plan included a preliminary estimate of routine capital costs from Operations, Engineering, the water treatment plant and the IT Department for the years 2016 – 2026. As more thought and preparation is invested in the operation of our system, additional routine capital projects were developed for the 2017 budget. The increase for the Operation Department included \$1.2 million for new vehicles and equipment. However, the majority of the increase in routine capital was because of major upgrades that are needed at the water treatment plant that include replacement of pumps at the raw water pump station, and for the IT Department to keep up to date with the hardware replacements that are needed for our network. For the period 2016 – 2026, an additional \$13.3 million was added in routine capital projects.

b) Major Capital

A review of the each of the projects in this category was performed to update the construction costs based on recent projects. An additional \$2.9 million was added to the CIP as a result. Also, additional information was gathered in the past year regarding our water meter batteries and their replacement schedule. An additional \$2.5 million was added to the CIP in 2025 when the batteries will be nearing the end of their life expectancy and an additional \$1.59 million was added in 2017 for the Gilligan Creek Watershed Purchase. Lastly, a line item that is routinely budgeted for every year, but is not included on the CIP, are the projects that are “Mandated by Other Agencies”. Typically, \$300,000 is added to the yearly budgets to account for those projects, and that amount was carried forward for every year in the CIP. For the period 2016 – 2026, an additional \$10.3 million was added in major capital projects.

c) Pipe Replacement

The typical amount that is budgeted for pipe replacement in each budget is \$3.5 million. As part of the 2016 Financial Plan, the annual amount for pipe replacement was increased to account for inflation and those amounts increased every year. However, the increase in the pipe replacement budget was not accounted for in the CIP. The 2017 budget included the actual figures from the financial plan for every year. For the period 2016 – 2026, an additional \$24.0 million was added in pipe replacement projects.

E. CAPITAL BUDGET AND DEBT SERVICE

The first year of the CIP is the capital budget, which is shown in Exhibit 8 along with a revised estimate of 2016 spending. The 2017 capital budget includes one year of projected inflation, since the figures in Exhibit 7 were shown in 2016 constant dollars.

In addition, Exhibit 8 shows the debt service payments scheduled for 2017.

Exhibit 8: 2016 Capital Budget and Debt Service

Summary of Capital Budget and Debt Service		2016	2017
<i>2017 Estimates Include Projected Inflation</i>		Revised Estimate	Proposed Budget
Capital Budget			
Routine Capital		\$ 1,164,688	\$ 3,282,289
Major Capital		10,860,000	12,566,920
Annual Pipe Replacement		3,500,000	3,595,622
Total Capital Budget		\$ 15,524,688	\$ 19,444,831
2017 Debt Service		Interest	Principal
Debt Service - Bonds		\$ 450,970	\$ 1,312,083
Less: Federal Tax Credit on 2009B Bonds		(71,015)	(71,015)
Net Debt Service - Bonds		\$ 379,954	\$ 1,312,083
Public Works Trust Fund Loans		38,546	1,356,201
Other State Loans		173,708	325,647
Total Debt Service		\$ 592,209	\$ 2,993,932

F. 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 Proposed Budget compares with the fiscal management targets.

a) Revenue Fund Ending Balance

Target: 2.5 months O&M + Depreciation (\$3.56 million for 2017).

Projected: \$3.71 million, which exceeds the target.

b) Net Liquidity

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

Projected: 279 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: 6.47 on bonded debt, which exceeds the target. Debt service coverage on all debt is 3.12.

d) Rate funded capital

Target: \$3.5 million minimum (slowly increasing to depreciation expense)

Projected: Planned rate-funded capital for 2017 is \$8.1 million, which exceeds the target.

The comparison of the 2017 Proposed Budget with the District’s fiscal management targets is shown in Exhibit 9.

Exhibit 9: Comparison of 2017 Proposed Budget with Fiscal Management Targets

Fiscal Policy Check	2016 Revised Estimate	2017 Preliminary	2017 Proposed	2017 Adopted
Liquidity Policy				
Ending Balance, All Funds	\$ 14,854,234	6,384,184	9,188,342	
No. Days of O&M Expenses	468 Days	183 Days	279 Days	
Policy Target (Minimum)	180 Days	180 Days	180 Days	
Above/(Below) Target	288 Days	3 Days	99 Days	
Revenue Fund Balance				
Ending Balance Revenue Fund	\$ 4,858,710	\$ 3,828,364	\$ 3,711,793	
Policy Target (Minimum):				
2.5 months of O&M Expenses plus Depreciation	3,390,771	3,704,206	3,557,106	
Above/(Below) Target	1,467,939	124,158	154,687	
Debt Service Coverage				
Bonded Debt Service	\$ 1,335,513	\$ 1,763,053	\$ 1,763,053	
Total Revenue excluding Debt Proceeds and Transfer:	\$ 21,632,913	\$ 22,970,000	\$ 23,427,650	
Projected O&M Expenses	11,593,701	12,733,285	12,027,207	
Projected Net Operating Revenue	\$ 10,039,212	\$ 10,236,715	\$ 11,400,443	
Bonded Debt Service Coverage	7.52	5.81	6.47	
Policy Target (Minimum)	2.00	2.00	2.00	
Above/(Below) Target	5.52	3.81	4.47	
<i>Information:</i>				
Total Debt Service, including State Loans	\$ 3,654,382	\$ 3,595,570	\$ 3,657,155	
Debt Service Coverage on All Debt	2.75	2.85	3.12	
Rate-Funded Capital				
Capital Expenditures funded by Revenue Fund:				
Routine Capital	\$ 1,114,688	\$ 3,165,729	\$ 3,232,289	
Major Capital	3,360,000	-	1,300,000	
Annual Pipe Replacement	3,500,000	3,595,622	3,595,622	
Total Capital Expenditures funded by Revenue Fund	\$ 7,974,688	\$ 6,761,351	\$ 8,127,911	
Policy Target (Minimum):	3,500,000	3,500,000	3,500,000	
Above/(Below) Target	\$ 4,474,688	\$ 3,261,351	\$ 4,627,911	
100% of Annual Depreciation	4,682,000	5,046,904	5,046,904	
Above/(Below) Annual Depreciation	3,292,688	1,714,447	3,081,007	
Backup Calculations - Projected O&M Expenses				
Projected O&M Expenses:				
Cash Operating Budget		\$ 13,480,431	\$ 12,729,284	
Less: Taxes		(1,028,000)	(1,028,000)	
Cash Operating Budget excluding Taxes		\$ 12,452,431	\$ 11,701,284	
Assumed Budget Realization Factor		94%	94%	
Conservative assumption--2015 actual was 92%.				
Projected O&M Expenses excluding Taxes		\$ 11,705,285	\$ 10,999,207	
Plus: Taxes		1,028,000	1,028,000	
Projected O&M Expenses	\$ 11,593,701	\$ 12,733,285	\$ 12,027,207	
Projected Depreciation	4,682,000	5,046,904	5,046,904	
Projected O&M Expenses Plus Depreciation	\$ 16,275,701	\$ 17,780,189	\$ 17,074,111	
2.5 months of O&M Expenses Plus Depreciation	\$ 3,390,771	\$ 3,704,206	\$ 3,557,106	

G. RATE FORECAST SUMMARY

An 8.5% increase is required in 2017 to meet financial obligations in this budget. Because this budget includes a larger capital program than previously, larger bond issues will be needed in 2018 and 2020, and it will be important to monitor future rate needs. However, the schedule of rate increases presented by FCS Group in January 2016 is still expected to be adequate for at least 5 years, through 2020. The schedule included across-the-board increases of 8% in 2016, 8.5% in 2017-2019, and 8% in 2020.

For 2017, the average residential rate impact of this budget is \$3.59/month (assuming 6 ccf of water use).

H. 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 a GAAP (Generally Accepted Accounting Principles) basis that is used for financial reporting.

Exhibit 10: Revenue Fund Summary

Fund Summary	2016 Revised Estimate	2017 Preliminary	2017 Proposed	2017 Adopted
Cash Resources and Requirements				
Revenue Fund				
Resources:				
Beginning Fund Balance	\$ 6,203,114	\$ 4,682,507	\$ 4,858,710	
External Revenue:				
Rate Revenue	\$ 18,975,423	\$ 20,427,000	\$ 20,427,000	
Miscellaneous Service Fees	254,927	260,000	260,000	
Capital Contributions (Cash)	1,055,717	1,044,330	1,441,830	
Non-Operating Revenues	297,641	193,000	253,150	
Total Revenue	\$ 20,583,709	\$ 21,924,330	\$ 22,381,980	\$ -
Total Resources	\$ 26,786,823	\$ 26,606,837	\$ 27,240,690	\$ -
Requirements:				
Cash Operating Expenditures:				
Cash Operating Budget	\$ 12,653,500	\$ 13,480,431	\$ 12,729,284	
Projected Underexpenditure	(1,059,799)	-	-	
Net Cash Operating Expenditures	\$ 11,593,701	\$ 13,480,431	\$ 12,729,284	\$ -
Capital Expenditures:				
Routine Capital Projects	\$ 1,114,688	\$ 3,165,729	\$ 3,232,289	\$ -
Annual Pipe Replacement	3,500,000	3,595,622	3,595,622	-
Total Capital Expenditures	\$ 4,614,688	\$ 6,761,351	\$ 6,827,911	\$ -
Transfers to Other Funds:				
Major Capital Fund - Debt Service	\$ 2,269,363	\$ 2,536,691	\$ 2,581,341	
Major Capital Fund - Capital Projects	3,360,000	-	1,300,000	
Debt Service Fund	90,361	-	90,361	
Total Transfers to Other Funds	\$ 5,719,724	\$ 2,536,691	\$ 3,971,702	\$ -
Total Expenditures	\$ 21,928,113	\$ 22,778,473	\$ 23,528,897	\$ -
Ending Fund Balance	\$ 4,858,710	\$ 3,828,364	\$ 3,711,793	\$ -
Total Requirements	\$ 26,786,823	\$ 26,606,837	\$ 27,240,690	\$ -

Exhibit 11: Major Capital Fund Summary

Fund Summary Cash Resources and Requirements	2016 Revised Estimate	2017 Preliminary	2017 Proposed	2017 Adopted
Major Capital Fund				
Resources:				
Beginning Fund Balance	\$ 1,208,901	\$ 8,531,361	\$ 9,531,361	
External Revenue:				
Grant from Dept of Ecology			\$ 397,500	
Debt Proceeds:				
Debt Proceeds - PWTF Loan	\$ 8,500,000	\$ 876,713	876,713	
Debt Proceeds - Dept of Ecology Loan			1,192,500	
Debt Proceeds - Bonds	6,300,000	4,200,000	4,200,000	
Total Debt Proceeds	\$ 14,800,000	\$ 5,076,713	\$ 6,269,213	\$ -
Transfers from Other Funds:				
Revenue Fund - Debt Service	\$ 2,269,363	\$ 2,536,691	\$ 2,581,341	
System Development Fund - Debt Service	860,793	962,193	979,129	-
Debt Service Fund - Debt Service	25,670	25,670	25,670	-
Total Debt Service Transfers	\$ 3,155,826	\$ 3,524,555	\$ 3,586,140	\$ -
Revenue Fund - Capital Projects	3,360,000	-	1,300,000	-
System Development Fund - Capital Projects	1,450,000	-	-	-
Total Capital Projects Transfers	\$ 4,810,000	\$ -	\$ 1,300,000	\$ -
Total Transfers from Other Funds	\$ 7,965,826	\$ 3,524,555	\$ 4,886,140	\$ -
Total Revenue	\$ 22,765,826	\$ 8,601,268	\$ 11,552,853	\$ -
Total Resources	\$ 23,974,727	\$ 17,132,629	\$ 21,084,214	\$ -
Requirements:				
Capital Expenditures:				
Routine Capital Projects	\$ -	\$ 1,700,000	\$ -	
Major Capital Projects	10,860,000	9,733,862	12,566,920	-
Total Capital Expenditures	\$ 10,860,000	\$ 11,433,862	\$ 12,566,920	\$ -
Debt Service Payments:				
Interest Expense	\$ 537,987	\$ 661,264	663,224	
Federal Tax Credit for 2009B Bonds	(71,015)	(71,015)	(71,015)	
Principal Payments	3,116,394	2,934,307	2,993,932	
Total Debt Service Payments	\$ 3,583,366	\$ 3,524,555	\$ 3,586,140	\$ -
Total Expenditures	\$ 14,443,366	\$ 14,958,417	\$ 16,153,060	\$ -
Ending Fund Balance	\$ 9,531,361	\$ 2,174,211	\$ 4,931,153	\$ -
Total Requirements	\$ 23,974,727	\$ 17,132,629	\$ 21,084,214	\$ -

Exhibit 12: System Development Fee Fund Summary

Fund Summary Cash Resources and Requirements	2016 Revised Estimate	2017 Preliminary	2017 Proposed	2017 Adopted
System Development Fund				
Resources:				
Beginning Fund Balance	\$ 1,452,062	\$ 114,803	\$ 114,803	
External Revenue:				
System Development Fees	\$ 1,023,534	\$ 1,020,000	\$ 1,020,000	\$ -
Total Revenue	\$ 1,023,534	\$ 1,020,000	\$ 1,020,000	\$ -
Total Resources	\$ 2,475,596	\$ 1,134,803	\$ 1,134,803	\$ -
Requirements:				
Capital Expenditures:				
Routine Capital Projects	\$ 50,000	\$ 50,000	\$ 50,000	
Transfers to Other Funds:				
Major Capital Fund - Debt Service	\$ 860,793	\$ 962,193	\$ 979,129	\$ -
Major Capital Fund - Capital Projects	1,450,000	-	-	
Total Transfers to Other Funds	\$ 2,310,793	\$ 962,193	\$ 979,129	\$ -
Total Expenditures	\$ 2,360,793	\$ 1,012,193	\$ 1,029,129	\$ -
Ending Fund Balance	\$ 114,803	\$ 122,610	\$ 105,674	\$ -
Total Requirements	\$ 2,475,596	\$ 1,134,803	\$ 1,134,803	\$ -

Exhibit 13: Debt Service Fund Summary

Fund Summary Cash Resources and Requirements	2016 Revised Estimate	2017 Preliminary	2017 Proposed	2017 Adopted
Debt Service Fund				
Resources:				
Beginning Fund Balance	\$ 221,905	\$ 221,905	\$ 312,266	
External Revenue:				
LUD Prior Lien Assessments, Interest, Penalties	\$ 25,670	25,670	25,670	
Transfers from Other Funds:				
Revenue Fund - Minimum Bond Reserve	\$ 90,361	\$ -	\$ 90,361	\$ -
Total Revenue	\$ 116,031	\$ 25,670	\$ 116,031	\$ -
Total Resources	\$ 337,936	\$ 247,575	\$ 428,297	\$ -
Requirements:				
Transfers to Other Funds:				
Major Capital Fund - Debt Service	\$ 25,670	\$ 25,670	\$ 25,670	
Total Expenditures	\$ 25,670	\$ 25,670	\$ 25,670	\$ -
Ending Fund Balance	\$ 312,266	\$ 221,905	\$ 402,627	\$ -
Total Requirements	\$ 337,936	\$ 247,575	\$ 428,297	\$ -

Exhibit 14: Rate Stabilization Fund Summary

Fund Summary Cash Resources and Requirements	2016 Revised Estimate	2017 Preliminary	2017 Proposed	2017 Adopted
Rate Stabilization Fund				
Resources:				
Beginning Fund Balance	\$ 37,094	\$ 37,094	\$ 37,094	
Transfers from Other Funds:				
Revenue Fund	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ -	\$ -	\$ -	\$ -
Total Resources	\$ 37,094	\$ 37,094	\$ 37,094	\$ -
Requirements:				
Transfers to Other Funds:				
Revenue Fund	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ -	\$ -	\$ -	\$ -
Ending Fund Balance	\$ 37,094	\$ 37,094	\$ 37,094	\$ -
Total Requirements	\$ 37,094	\$ 37,094	\$ 37,094	\$ -
All Funds				
Cash Resources and Requirements	2016 Revised Estimate	2017 Preliminary	2017 Proposed	2017 Adopted
Total Resources and Requirements	\$ 53,612,176	\$ 45,158,938	\$ 49,925,098	\$ -
Less: Interfund Transfers	(8,056,187)	(3,524,555)	(4,976,501)	-
External Resources and Requirements	\$ 45,555,989	\$ 41,634,384	\$ 44,948,597	\$ -

Exhibit 15: 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 Assets (GAAP Basis)				
Projected For the Years Ending December 31, 2017 and 2016				
	2016 Budget	Proposed 2017 Budget	\$ Change	% Change
Operating Revenues:				
Residential-Multiple	13,290,000	14,534,000	1,244,000	9.36%
Commercial	4,380,000	4,754,000	374,000	8.54%
Governmental	530,000	574,000	44,000	8.30%
Resale	93,000	100,000	7,000	7.53%
Irrigation	430,000	465,000	35,000	8.14%
Total Water Sales	18,723,000	20,427,000	1,704,000	9.10%
Misc. Revenues	388,000	260,000	(128,000)	-32.99%
Total Operating Revenues	19,111,000	20,687,000	1,576,000	8.25%
Operating Expenses:				
Supply	850,000	904,340	54,340	6.39%
Treatment	1,910,000	2,169,892	259,892	13.61%
Transmission and Distribution	2,850,000	1,985,014	(864,986)	-30.35%
Customer	1,300,000	1,644,644	344,644	26.51%
Administrative, Engineering & General	4,781,000	4,977,994	196,994	4.12%
Taxes Other Than Income Taxes	942,000	1,028,000	86,000	9.13%
Depreciation (non cash)	4,682,000	5,046,904	364,904	7.79%
Other Post Employment Benefits (non cash)	80,000	80,000	-	0.00%
Total Operating Expenses	17,395,000	17,836,788	441,788	2.54%
<i>Note: Some expenses have been reclassified across programs, and budget history has been restated in some cases.</i>				
Operating Income (Loss)	1,716,000	2,850,212	1,134,212	66.10%
Non Operating Revenues				
Investment Income	14,000	20,000	6,000	42.86%
Interest, Penalty Income on LUDs	55,000	28,150	(26,850)	-48.82%
Rental Income	20,000	20,000	-	0.00%
Miscellaneous Non Operating Income	34,500	15,000	(19,500)	-56.52%
Total Non Operating Revenue	123,500	83,150	(40,350)	-32.67%
Non Operating Expense				
Miscellaneous Non Operating Expense	2,500	2,200	(300)	-12.00%
Interest on Debt, Net of Fed Tax Credit	550,000	592,209	42,209	7.67%
Amortization of discounts	12,700	12,700	-	0.00%
Capitalized Interest	(15,000)	(24,000)	(9,000)	60.00%
Other Taxes	18,000	17,200	(800)	-4.44%
Total Non Operating Expense	568,200	600,309	32,109	5.65%
Capital Contributions				
Work Order Deposits	90,000	120,000	30,000	33.33%
Donated Plant	300,000	350,000	50,000	16.67%
System Development Fees	850,000	1,020,000	170,000	20.00%
Special Fee-Pipe Replacement	370,000	600,000	230,000	62.16%
Services	820,000	350,000	(470,000)	-57.32%
Local Utility District Assessments	-	170,000	170,000	0.00%
Total Capital Contributions	2,430,000	2,610,000	666,600	37.80%
Changes in Net Assets	3,701,300	4,943,053	250,900	7.27%