COMMISSIONER’S WORK SESSION

2018 BUDGET DISCUSSION

OCTOBER 24, 2017

1. Introduction

2. Review Budget Status

3. Fleet Management Discussion
   • Purchase program from Enterprise

4. Financial Plan Rate Increase Scenarios
   • Additional Rate and Debt scenarios
2018 BUDGET

FLEET MANAGEMENT

OCTOBER 24, 2017

During the last regular Commission meeting on October 10, 2017, we discussed a revised approach to the District’s Fleet Management for 2018. We would like to focus on three main goals to address our fleet management needs:

**Goal 1 – Reduce the amount of under-utilized and higher mileage vehicles**

The District has typically followed a buy-and-hold model where we purchase specific vehicles for staff that drive a lot and then hand them down when the mileage gets high. The handed down vehicle will then become part of the fleet that doesn’t get a lot of usage. After holding this vehicle for close to 20 years, we then auction the vehicle for very little return on our original investment. Our goal for 2018 is to auction off a number of under-utilized and higher mileage vehicles so that we are not continuing to pay for insurance, maintenance and poor gas mileage. However, the only way to significantly reduce the number of these vehicles is to purchase new vehicles for those who drive a lot and then go through one large round of hand-me-downs.

**Goal 2 – Reduce the cost of ownership over time**

The impact of the District’s buy-and-hold model is that the cost of vehicle ownership dramatically increases over time. The optimum point at which to sell vehicles is 75,000 miles or less, but we routinely keep vehicles to 150,000 miles or more. As a result, we lose out on a higher resale value, we increase our maintenance costs and we pay more for fuel because of reduced fuel mileage. If we keep a vehicle for 75,000 miles or less, we can limit ourselves to routine vehicle maintenance like oil changes and tires, and we can get a better resale on the vehicle.

**Goal 3 – Ensuring that our most important vehicles are replaced every 75,000 miles**

We have identified nine vehicles that are vitally important to the operation and maintenance of our water systems and the District would benefit by having these vehicles replaced on a regular rotation of 75,000 miles or less to take advantage of
reliability, safety and resale value. The truck used for after hours response, the Distribution operators trucks and the Meter Readers trucks are the District’s highest mileage and most important vehicles, and we should be replacing them at 75,000 miles or less.

The District currently has 48 vehicles in our fleet, not including large vehicles like dump trucks or other construction equipment. If we were to utilize the services of Enterprise Fleet Management, there are two replacement scenarios that we should consider for 2018:

1. Major Replacement

We could eliminate 11 vehicles and replace another 14 with new Enterprise vehicles that would then be on the 75,000 replacement schedule. The remaining vehicles would stay the way they are for now. The attached Table 1 – Major Replacement Program shows the list of vehicles that we could replace in 2018 along with all of the details for each vehicle. The table shows that for each vehicle, the total cost of ownership would be less if we purchased them through Enterprise and replaced them at 75,000 miles or less. Enterprise can provide us with a purchase price better than we can get through the state contract and they can provide us with more return on the resale of the vehicles at replacement. The vehicles would be owned by the District, with Enterprise charging a $480 per vehicle per year fee for management of the program.

The purchase of the additional vehicles in this option will be offset with hand downs of existing vehicles and the sale of many under utilized vehicles. The net effect will be an increase of about $176,345.

2. Limited Replacement

Similar to the Major Replacement, but we would only purchase eight (8) vehicles in 2018, with other replacements pushed back to 2019 and 2020 (see Table 2). This scenario is what we recommend in order to eliminate some of the under-utilized and higher mileage vehicles and slowly enter into the Enterprise Fleet Management program.

The purchase of the additional vehicles in this option will be offset with hand downs of existing vehicles and the sale of many under utilized vehicles. The net effect will be an increase of about $96,260.
To re-state the recommendation that was made at the last Commission meeting, we are proposing to purchase the following vehicles in 2018:

**Already in Proposed Budget**

- Ford F150 for Distribution Operator
- Nissan Frontier for Meter Reader
- Ford Escape for Administration
- 1 Ton Flat Bed for Construction

**New Addition to Budget**

- Ford F150 for Construction Manager
- Ford F150 for After hours response
- Ford F150 for Construction Foreman
- Ford F150 for Locator

Additional vehicles for Meter Readers and Distribution Operators will be purchased in 2019 and 2020 to have them on the replacement cycle with Enterprise.
## TABLE 1 - 2018 MAJOR REPLACEMENT PROGRAM

<table>
<thead>
<tr>
<th>Equip #</th>
<th>Year</th>
<th>Description</th>
<th>Function</th>
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**Capital Outlay Management Fee: $213,524.00**
**Fuel Cost (Savings): $3,140.00**
**NM Cost (Savings): $15,909.17**
**Total Outlay:** $176,345.17

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**FUEL MANAGEMENT**

**Full Replacement.xlsx 10/20/2017**
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<th>Equip #</th>
<th>Year</th>
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<td>$315.04</td>
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</table>

**Fuel Cost:** $3.40

**Capital Outlay Management Fee:** $1,088.49 (20,400 5%) $3,360.00

**Fuel Cost (Savings):** $7,180 (0.20)

**Fleet Cost (Savings):** $6,010 (1.76)

**Total Outlay:** $30,661.87
The District’s Capital Improvement Program will require some significant investment over the next 10 years. The current financial plan includes a suite of rate increases that help to fund the program while also keeping the increases below double digits. However, as a result of keeping the rate increases manageable, there is significant debt funding required to provide the additional revenues required to fund the CIP.

I have worked with our financial consultant, FCS Group, to come up with two additional scenarios for the rate increases for 2018 to observe their impact on the debt funding required. The attached table shows the baseline scenario of rate increases which is in the District’s current financial plan, along with seven other possible scenarios that the District could adopt over the next five years. **The two additional scenarios are 1a and 1b, which are variations based on Scenario 1.** Each scenario shows four different factors for each year from 2017 to 2027:

- Rate increase %
- Average monthly bill for someone using 6 ccf per month
- The increase in the amount of the average bill based on the proposed rate increase
- The amount of debt revenue required to fund the CIP in each year

Each scenario lists the total amount of debt funding required over the study period, and the difference compared to the baseline scenario. One thing that is apparent when looking at the results is that a higher rate increase early in the time period can dramatically reduce the amount of debt funding required in later years.
### Financial Plan

#### Scenario Summary

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<th>Scenario ID</th>
<th>Description</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>Cumulative/Total Difference in Debt</th>
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<td>Scenario 5</td>
<td>Baseline with 15% for 5 Years, then Baseline</td>
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<td>$52.39</td>
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<td>$72.75</td>
<td>$75.58</td>
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</tbody>
</table>

#### Rate Increases

- **Avg Monthly Bill**
- **Increase in Monthly Bill**
- **Debt Funding**

### Scenarios

1. **Scenario 1 - Baseline with 15% Increase in 2018**

2. **Scenario 1a - Baseline with 10% Increase in 2018**

3. **Scenario 1b - Baseline with 20% Increase in 2018**

4. **Scenario 2 - Baseline with 10% Increases in 2018 and 2019**

5. **Scenario 3 - Increases of 15%, 10%, 8%, 8%, 8%, then Baseline**

6. **Scenario 4 - Increases of 12%, 9%, 8%, 8%, 8%, then Baseline**

7. **Scenario 5 - Increases of 9% for 5 Years, then Baseline**

### Cumulative/Total Difference in Debt

| 2018-2027 Difference in Debt | $67,392,500 | $46,092,500 | $46,092,500 | $55,792,500 | $34,392,500 | $36,092,500 | $38,092,500 | $39,092,500 | $44,642,500 | $47,942,500 |

### Debt Funding

- **Rate Increases**
- **Avg Monthly Bill**
- **Increase in Monthly Bill**
- **Debt Funding**

**PREPARED BY FCS GROUP, INC.**

(425) 867-1802

Scenarios GS TEST Skagit Financial Plan Scenarios 9-11-2017.xlsx Page 1