

Pricing a Budget



Beyond the Budget Structure

- Budgets are only useful if they are structured well and priced appropriately

There's just one problem...

We Don't Know What the **Future** Holds!



A budget is a **guess!**

So, let's make it a good guess

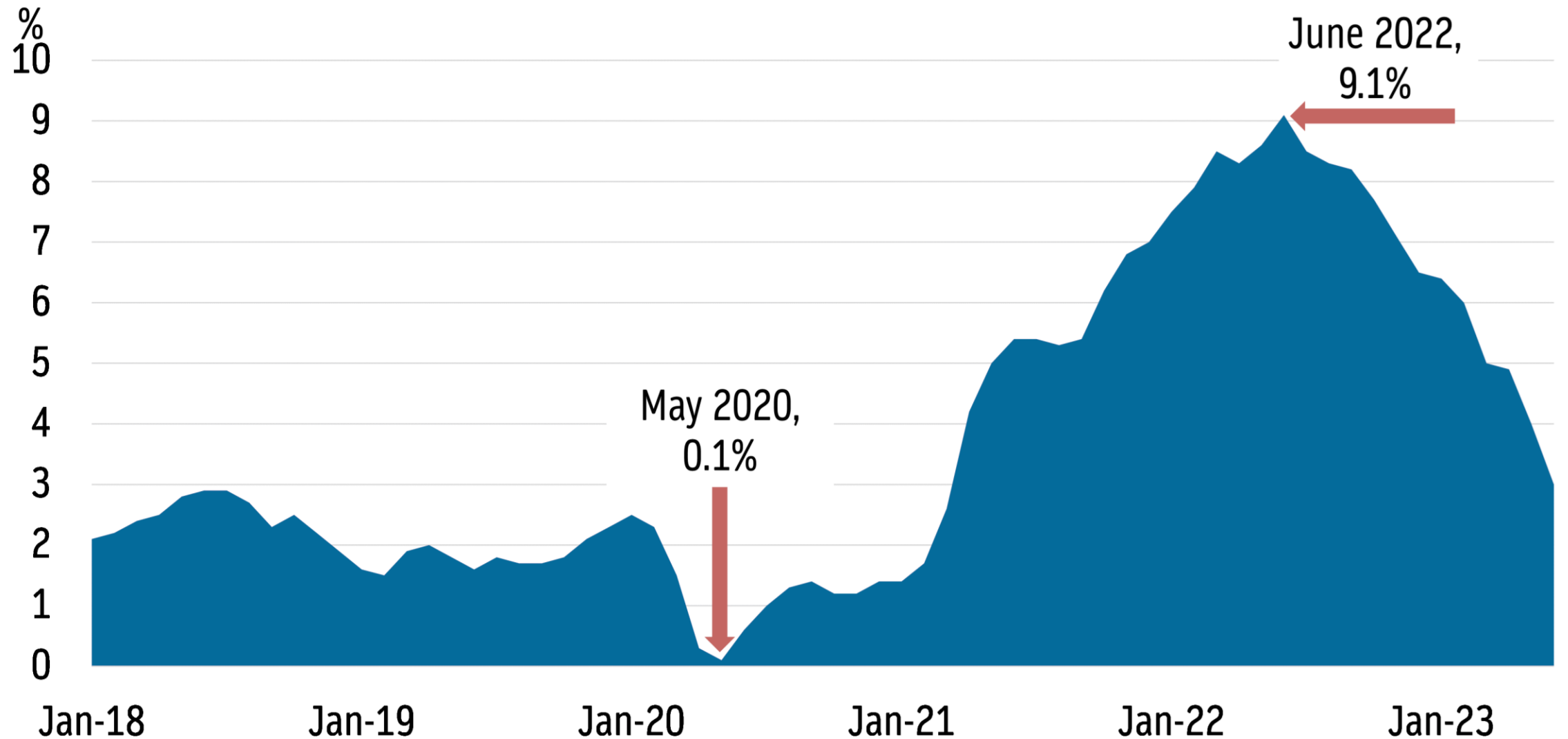
Zero Based Budgeting

- Build your annual budget from scratch, line by line, by identifying and justifying all your activities and priorities every single fiscal year
- The **gold standard**
- Time consuming



Adding 2 percent to last
year's budget also
doesn't work

Inflation Hasn't Been 2% Since COVID



Budget line items **don't**
change at the same rate

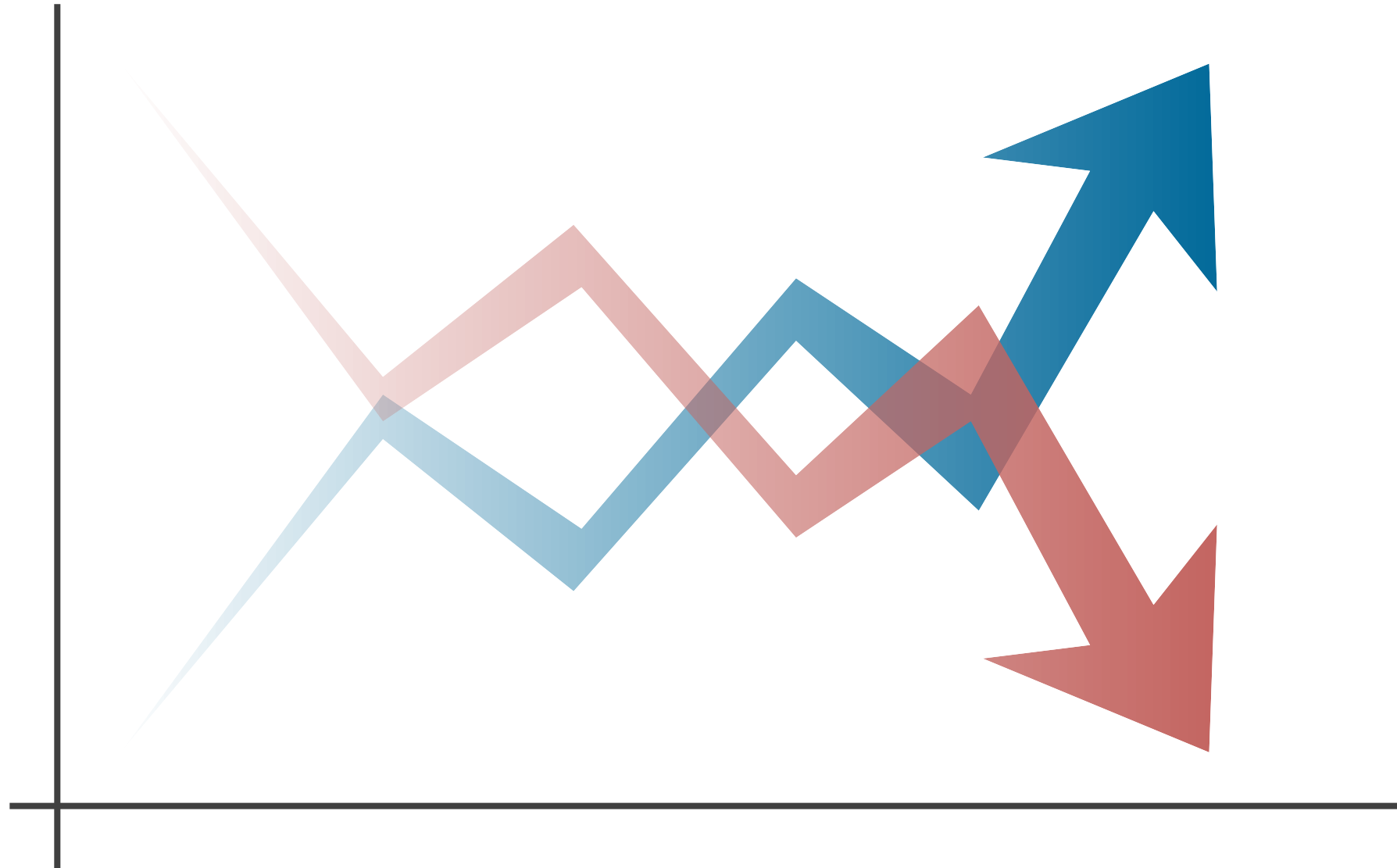
Our Best Way to Price a Budget

- Our budget should reflect **trends** in past revenues and expenses
- We can estimate the future by looking at our ~~budgets~~ from the past few years, **line by line**
budget actuals

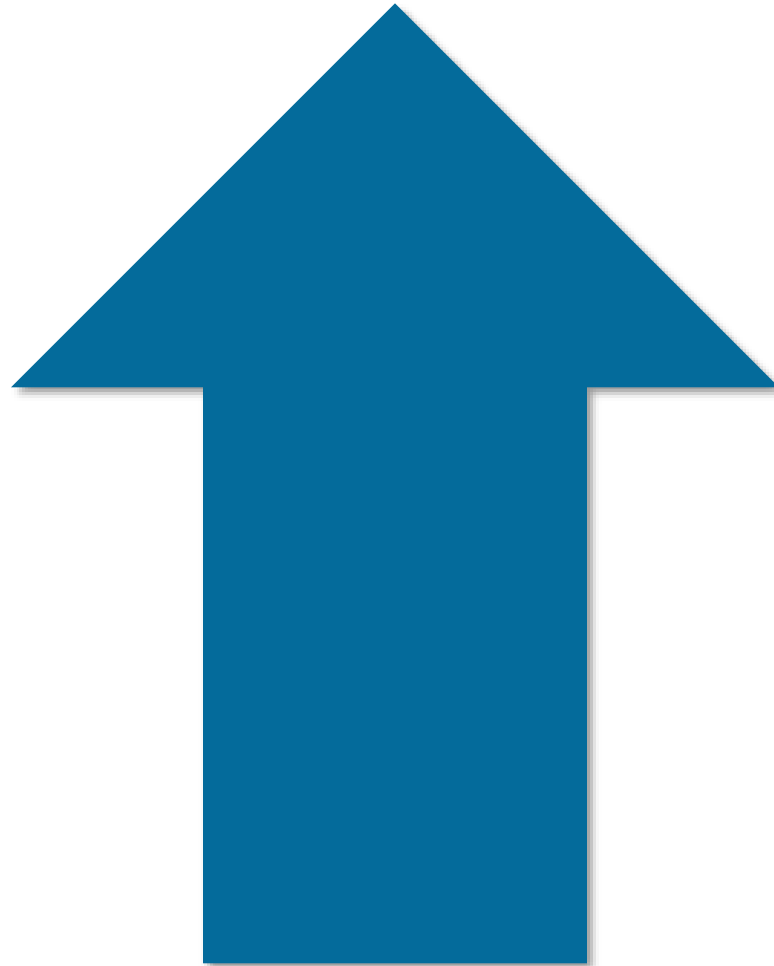
We're going to help price
Toddsville's **budget**

Good news! When you
were eating, Toddsville
fixed its budget

Start with Trends: Up or Down



Overall, expenses are going...



How about **line by line**?

19→22

SALARIES	↑
OVERTIME	↑
FICA	↓
WORKERS COMP	↑
GROUP INSURANCE	↑
RETIREMENT	↑
GENERAL SUPPLIES	↑
ELECTRICITY	↑
CHEMICALS	↑
GASOLINE	↑
DIESEL	↑
SMALL EQUIPMENT	↓
SMALL TOOLS/PARTS	↓
UNIFORM PURCHASES	↑
WATER TESTING FEES	↑
EQUIPMENT REPAIRS	↓
TANK MAINTENANCE	↓
VEHICLE REPAIRS	↑
BUILDING REPAIRS & MAINTENANCE	↑
TELEPHONE	↓
CELL PHONE	↓

POSTAGE	↓
WATER BILL POSTAGE	↑
ADVERTISING	↑
PRINTING & BINDING	↓
DUES & FEES	↑
TRAVEL	↓
EDUCATION & TRAINING	↓
OFFICE SUPPLIES	↓
COPIER LEASE EXPENSE	↓
BANK SERVICE CHARGES	↑
DEPOSIT REFUNDS	↓
CONTRACT LABOR	↑
ENGINEERING	↑
LIABILITY INSURANCE	↑
AUDIT	↑
LAB FEES	↑
VEHICLE INSURANCE	↑
IT CONTRACT	↑
ATTORNEY FEES	↑
PAYROLL SERVICE CONTRACT	↑
TRANSFER GF-ADMIN COSTS	↑
TRANSFER GF-GROUNDS MAINTENANCE	↑
Total Operating Expenses	↑

19→22

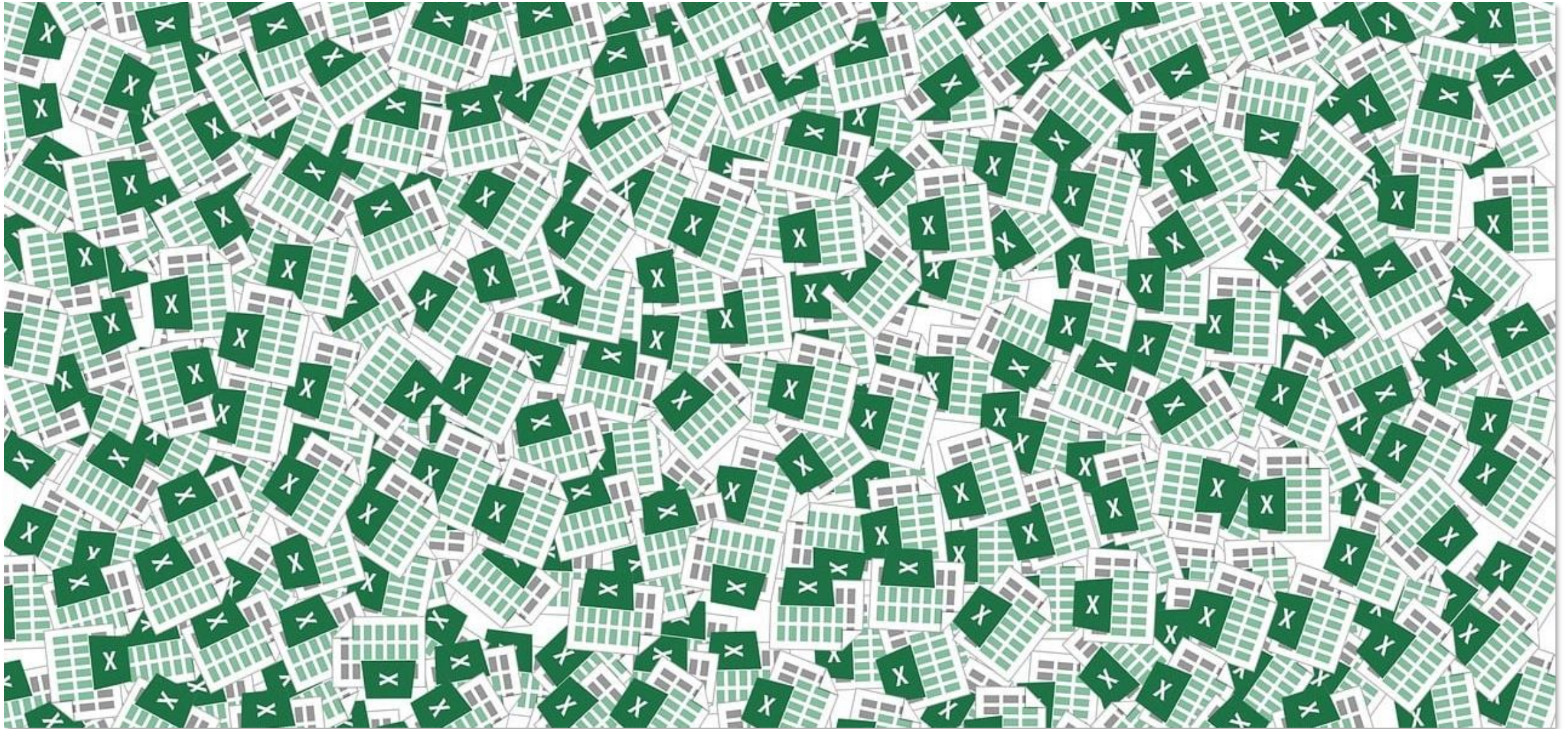
SALARIES	↑
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BUILDING REPAIRS & MAINTENANCE	↑
TELEPHONE	↓
CELL PHONE	↓

	19→20	20→21	21→22	19→22
SALARIES	↑	↑	↑	↑
OVERTIME	↑	↑	↓	↑
FICA	↓	↑	↑	↓
WORKERS COMP	↑	↑	↓	↑
GROUP INSURANCE	↑	↑	↑	↑
RETIREMENT	↓	↑	↑	↑
GENERAL SUPPLIES	↓	↑	↑	↑
ELECTRICITY	↑	↓	↓	↑
CHEMICALS	↑	↓	↓	↑
GASOLINE	↓	↑	↑	↑
DIESEL	↑	↑	↓	↑
SMALL EQUIPMENT	↓	↑	↓	↓
SMALL TOOLS/PARTS	↑	↑	↓	↓
UNIFORM PURCHASES	↑	↑	↓	↑
WATER TESTING FEES	↑	■	■	↑
EQUIPMENT REPAIRS	↓	↑	↓	↓
TANK MAINTENANCE	↓	■	■	↓
VEHICLE REPAIRS	↓	↑	↓	↑
BUILDING REPAIRS & MAINTENANCE	↓	↑	↑	↑
TELEPHONE	↓	↑	↓	↓
CELL PHONE	↓	↑	↓	↓

POSTAGE	↓	↓	↑	↓
WATER BILL POSTAGE	↑	↓	↑	↑
ADVERTISING	↓	↓	↑	↑
PRINTING & BINDING	↓	↑	↓	↓
DUES & FEES	↑	↑	↓	↑
TRAVEL	↓	↑	↓	↓
EDUCATION & TRAINING	↓	↑	↓	↓
OFFICE SUPPLIES	↓	↑	↓	↓
COPIER LEASE EXPENSE	↑	↑	↓	↓
BANK SERVICE CHARGES	■	↑	↑	↑
DEPOSIT REFUNDS	↑	↓	↓	↓
CONTRACT LABOR	↓	↑	↑	↑
ENGINEERING	↑	↑	↓	↑
LIABILITY INSURANCE	↑	↑	↑	↑
AUDIT	↑	↑	↑	↑
LAB FEES	↑	↓	↑	↑
VEHICLE INSURANCE	↓	↑	↑	↑
IT CONTRACT	■	■	↑	↑
ATTORNEY FEES	↑	↓	↑	↑
PAYROLL SERVICE CONTRACT	↑	↓	↑	↑
TRANSFER GF-ADMIN COSTS	↑	↑	↑	↑
TRANSFER GF-GROUNDS MAINTENANCE	↑	■	■	↑
Total Operating Expenses	↑	↑	↑	↑

It's not enough to know
expenses are changing.
We need to know **by how
much**

Excel is Your Friend



But for today, time for some math!



Overall Operating Expenses

	\$705,289.60	2022 Expenses
-	\$407,682.90	2019 Expenses
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	\$297,606.70	Difference
÷	\$407,682.90	2019 Expenses
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	73.0%	Percent Change
÷	3	Year-to-Year Changes
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	24.3%	Average Annual Change

Six Line Items of Interest

	2019	2020	2021	2022
SALARIES	85,800.00	113,118.50	124,767.27	132,788.61
GENERAL SUPPLIES	3,500.00	3,371.44	8,848.68	18,259.87
GASOLINE	2,500.00	1,837.31	2,766.66	3,605.03
BUILDING REPAIRS & MAINTENANCE	2,500.00	1,341.31	2,294.60	35,982.23
POSTAGE	5,300.00	1,215.84	1,149.82	1,392.63
CONTRACT LABOR	44,653.20	29,640.02	76,818.61	186,713.04

For Each Line Item

In addition to making the average annual change calculation, please consider the following:

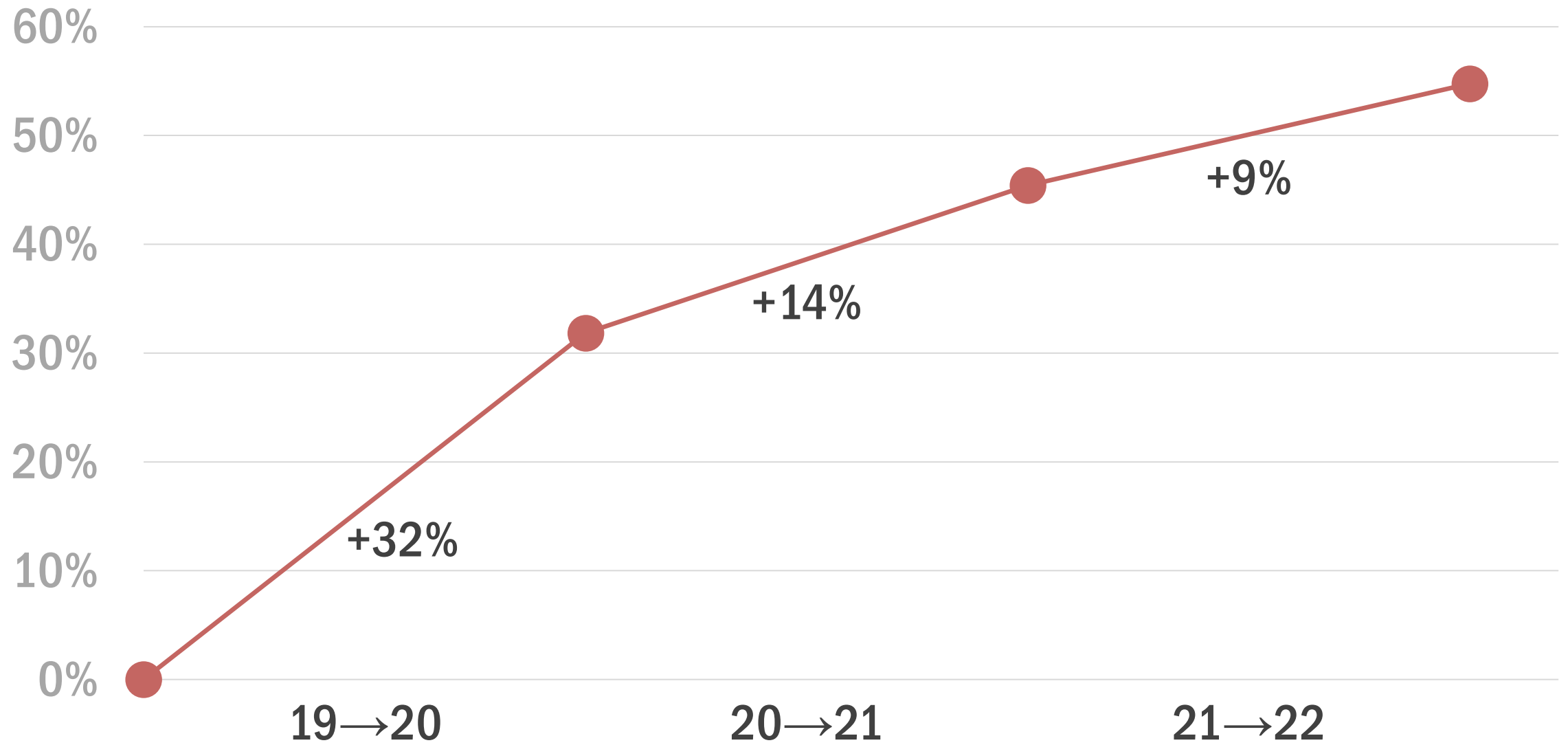
- Is the change even across the four-year span?
- What do you think is driving the change?
- What would be a good number to use for change next year's budget?

Salaries

	\$132,788.61	2022 Expenses
-	\$85,800.00	2019 Expenses
<hr/>		
	\$46,988.61	Difference
÷	\$85,800.00	2019 Expenses
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	54.8%	Percent Change
÷	3	Year-to-Year Changes
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	18.3%	Average Annual Change

Salaries

Avg:
+18.3%

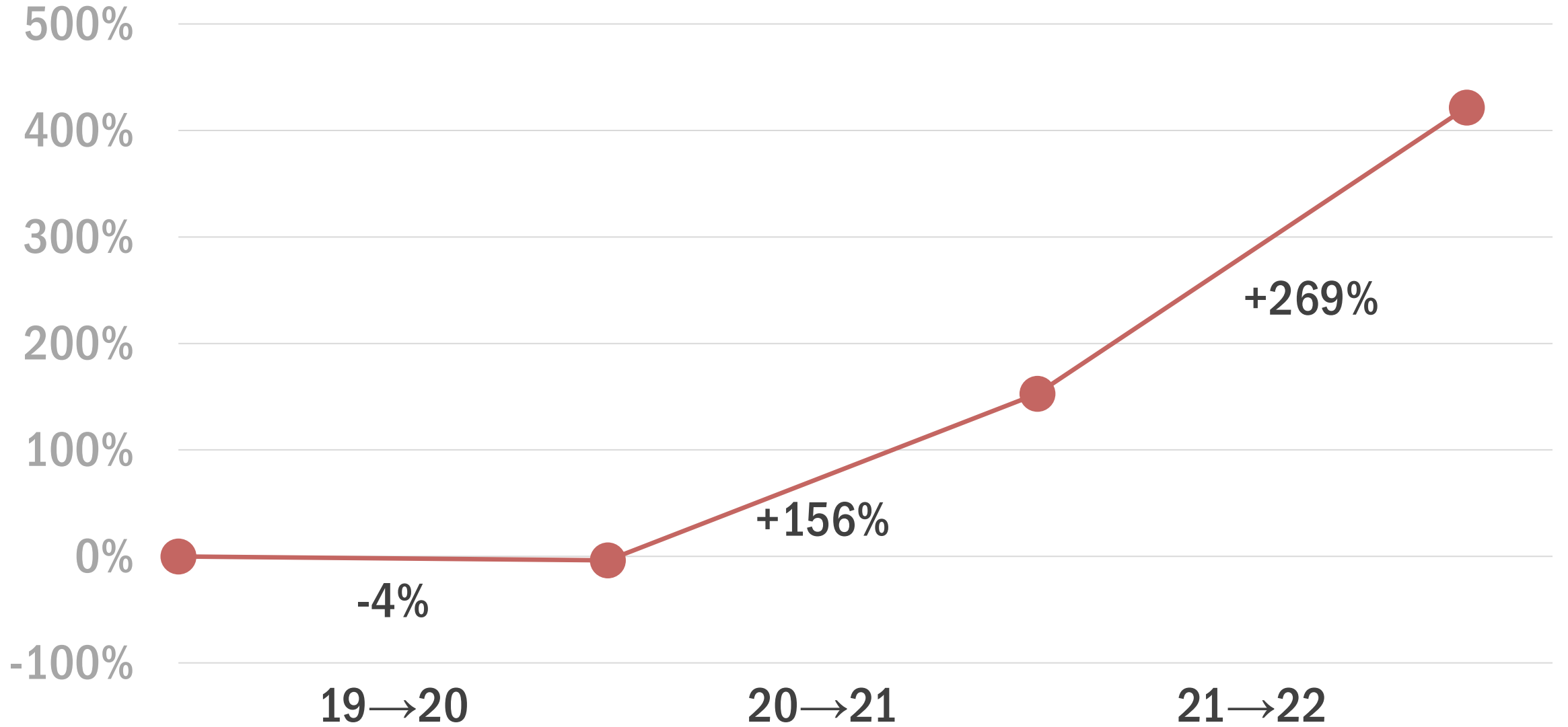


General Supplies

	\$18,259.87	2022 Expenses
-	\$3,500.00	2019 Expenses
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	\$14,759.87	Difference
÷	\$3,500.00	2019 Expenses
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	421.7%	Percent Change
÷	3	Year-to-Year Changes
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	140.6%	Average Annual Change

General Supplies

Avg:
+140.6%

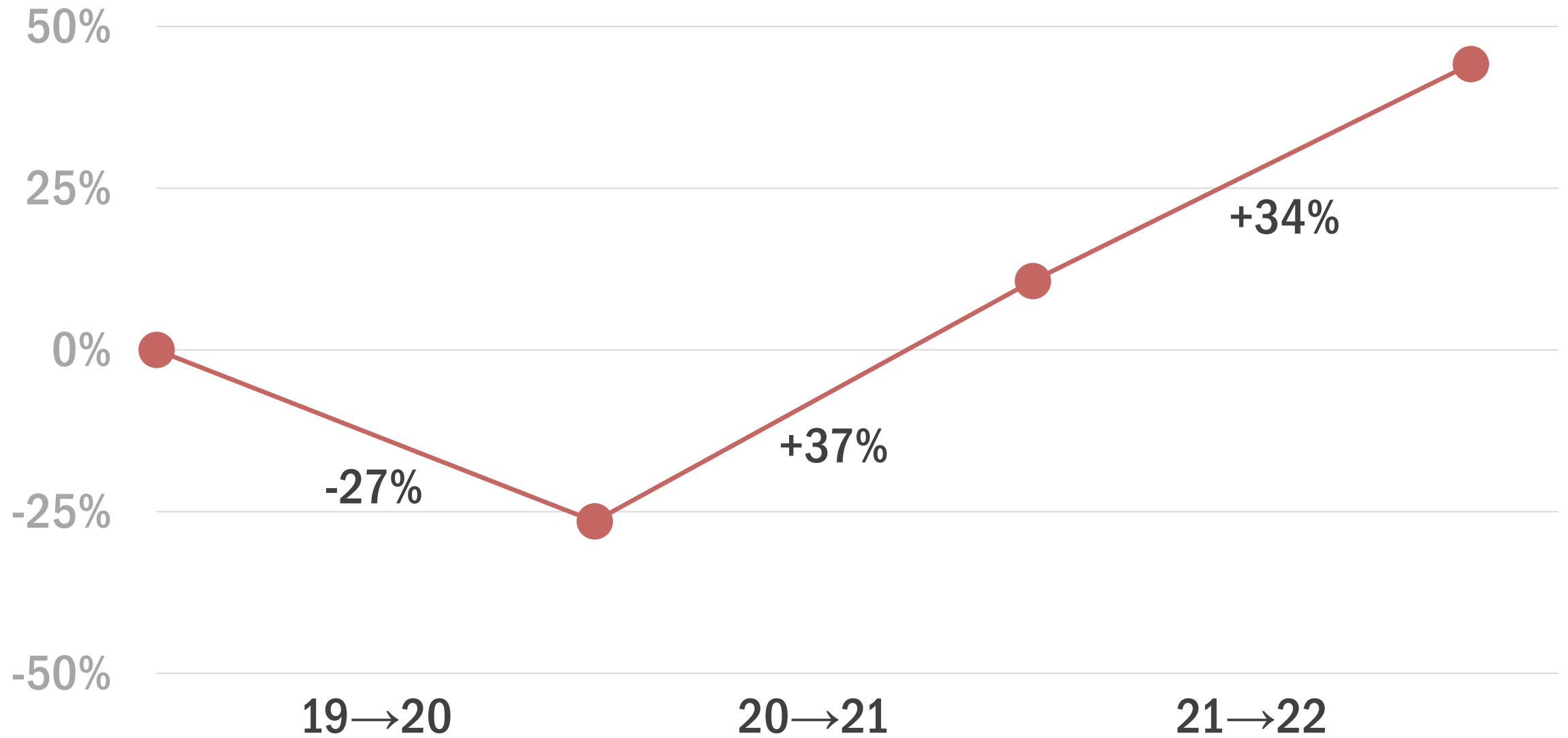


Gasoline

	\$3,605.03	2022 Expenses
-	\$2,500.00	2019 Expenses
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	\$1,105.03	Difference
÷	\$2,500.00	2019 Expenses
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	44.2%	Percent Change
÷	3	Year-to-Year Changes
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	14.7%	Average Annual Change

Gasoline

Avg:
+14.7%

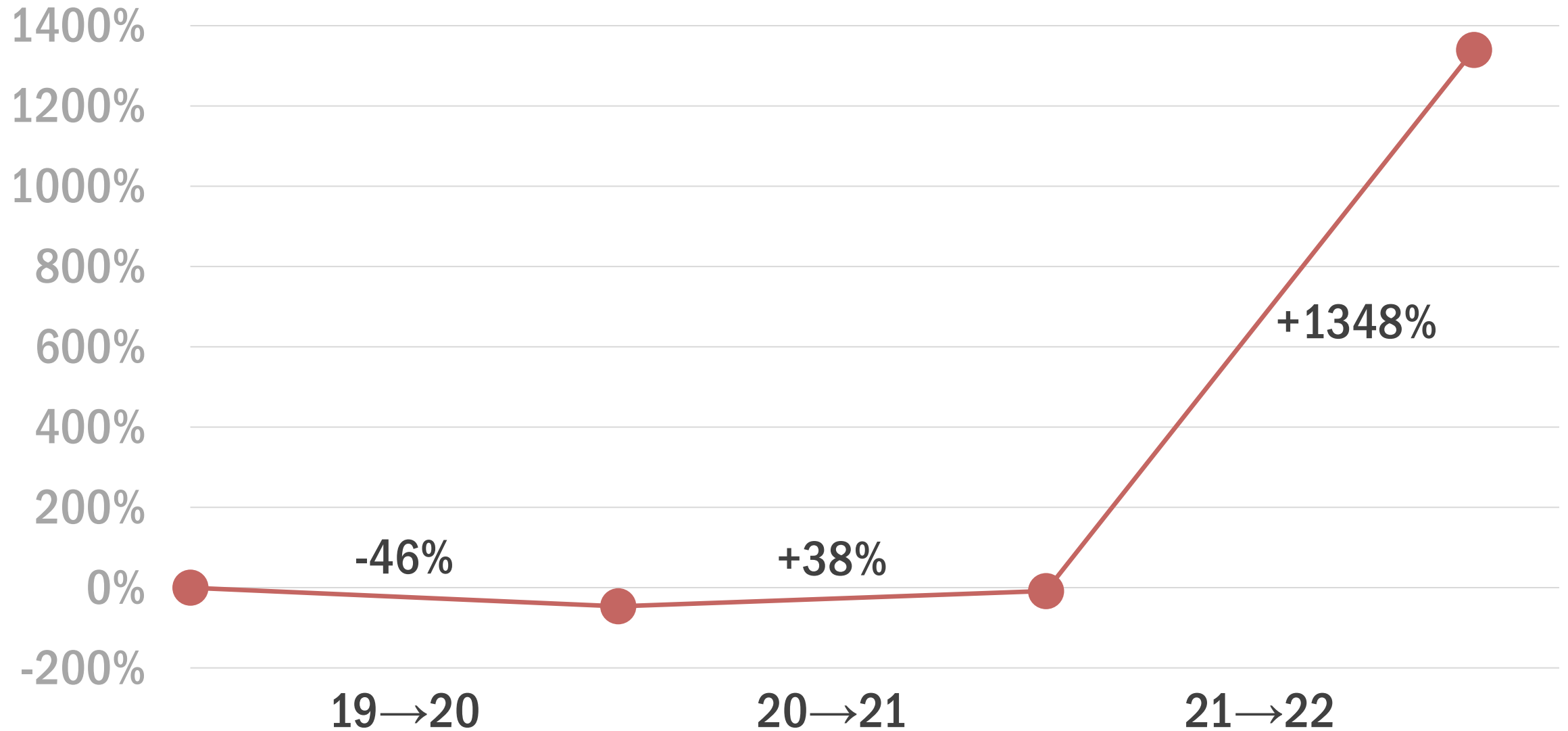


Building Repairs & Maintenance

	\$35,982.23	2022 Expenses
-	\$2,500.00	2019 Expenses
<hr/>		
	\$33,482.23	Difference
÷	\$2,500.00	2019 Expenses
<hr/>		
	1,339.3%	Percent Change
÷	3	Year-to-Year Changes
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	446.6%	Average Annual Change

Building Repairs & Maintenance

Avg:
+446.6%

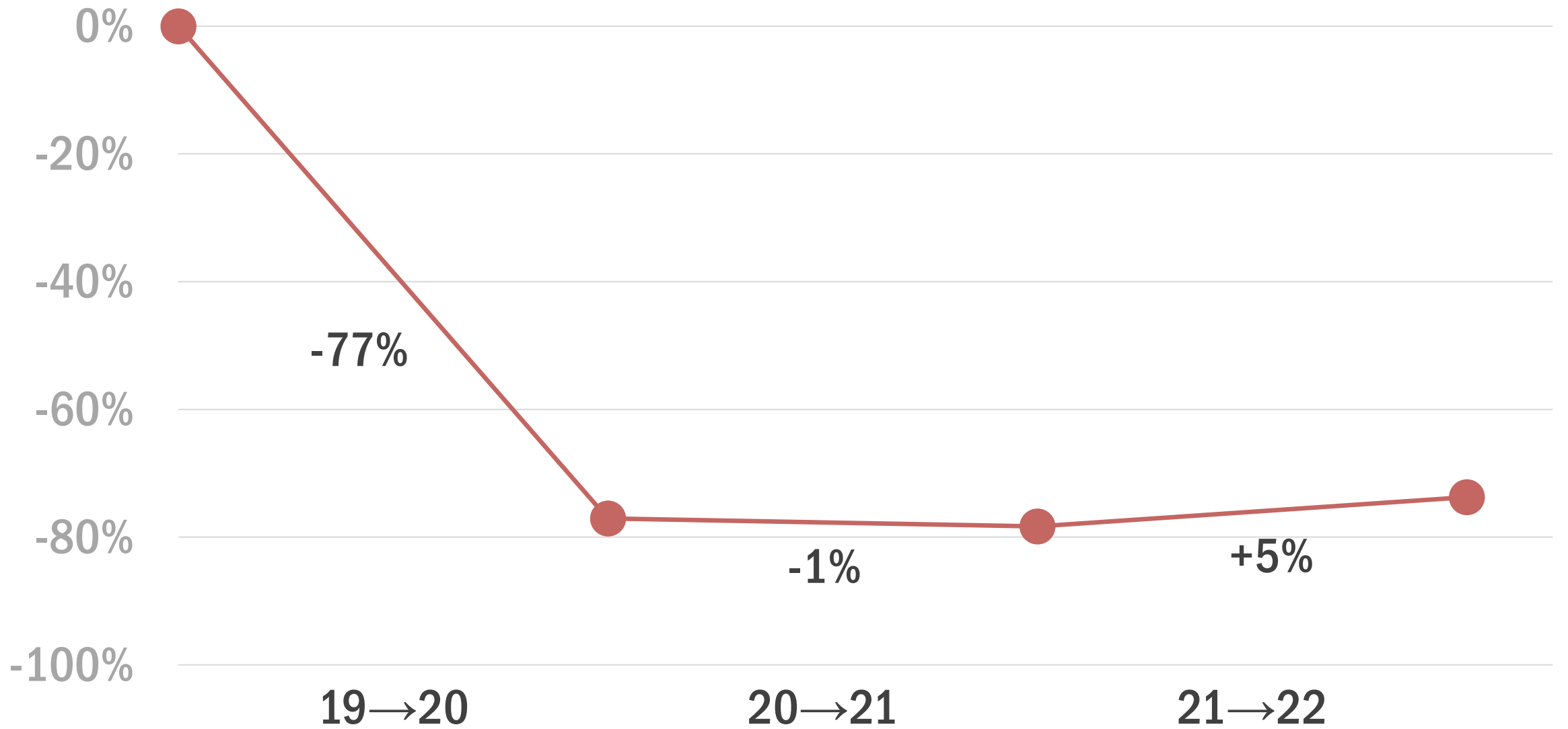


Postage

	\$1,392.63	2022 Expenses
-	\$5,300.00	2019 Expenses
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	-\$3,907.37	Difference
÷	\$5,300.00	2019 Expenses
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	-73.7%	Percent Change
÷	3	Year-to-Year Changes
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	-24.6%	Average Annual Change

Postage

Avg:
-24.6%

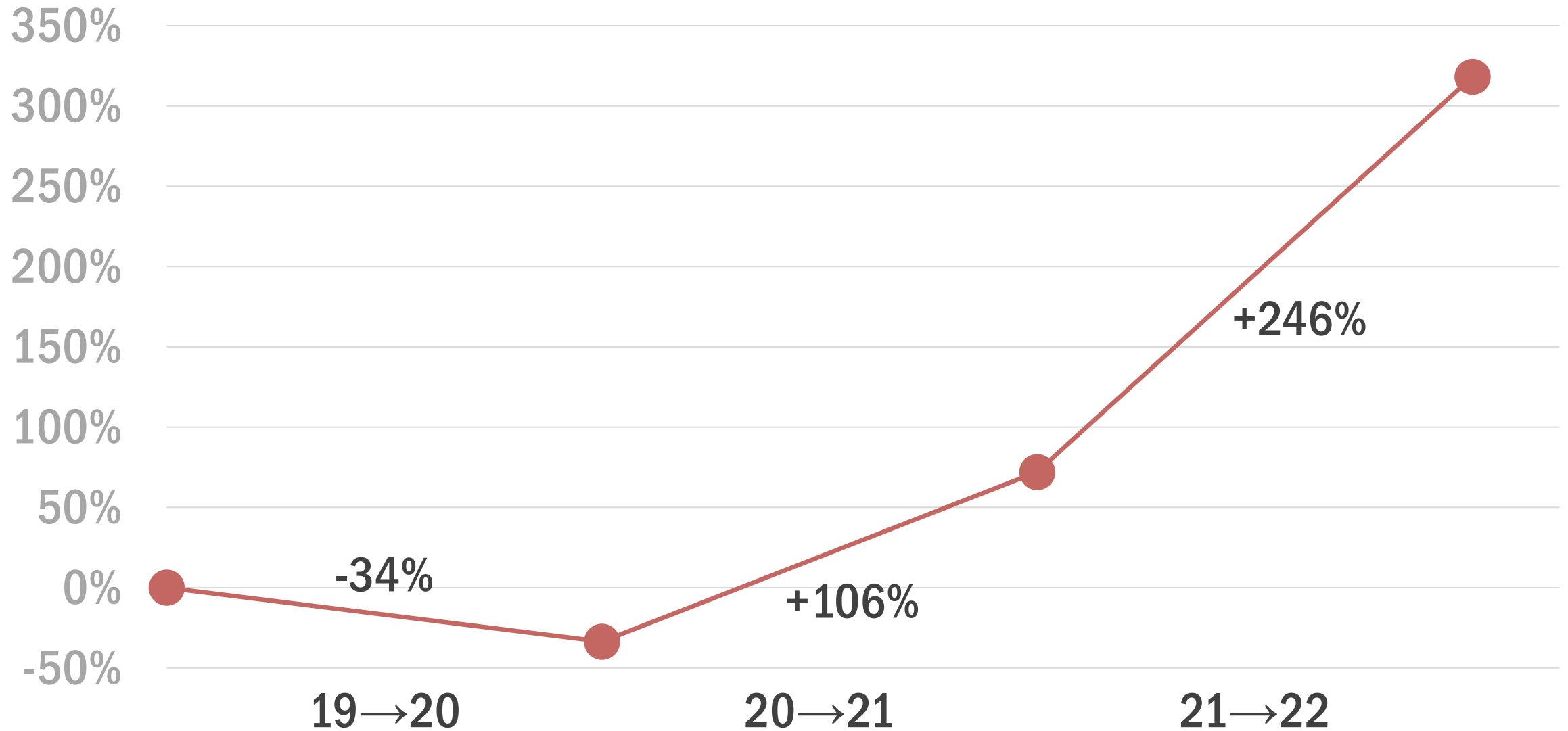


Contract Labor

	\$186,713.04	2022 Expenses
-	\$44,653.20	2019 Expenses
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	\$142,059.84	Difference
÷	\$44,653.20	2019 Expenses
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	318.1%	Percent Change
÷	3	Year-to-Year Changes
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	106.0%	Average Annual Change

Contract Labor

Avg:
+106.0%



A Big Driver of Most of these Increases Is...

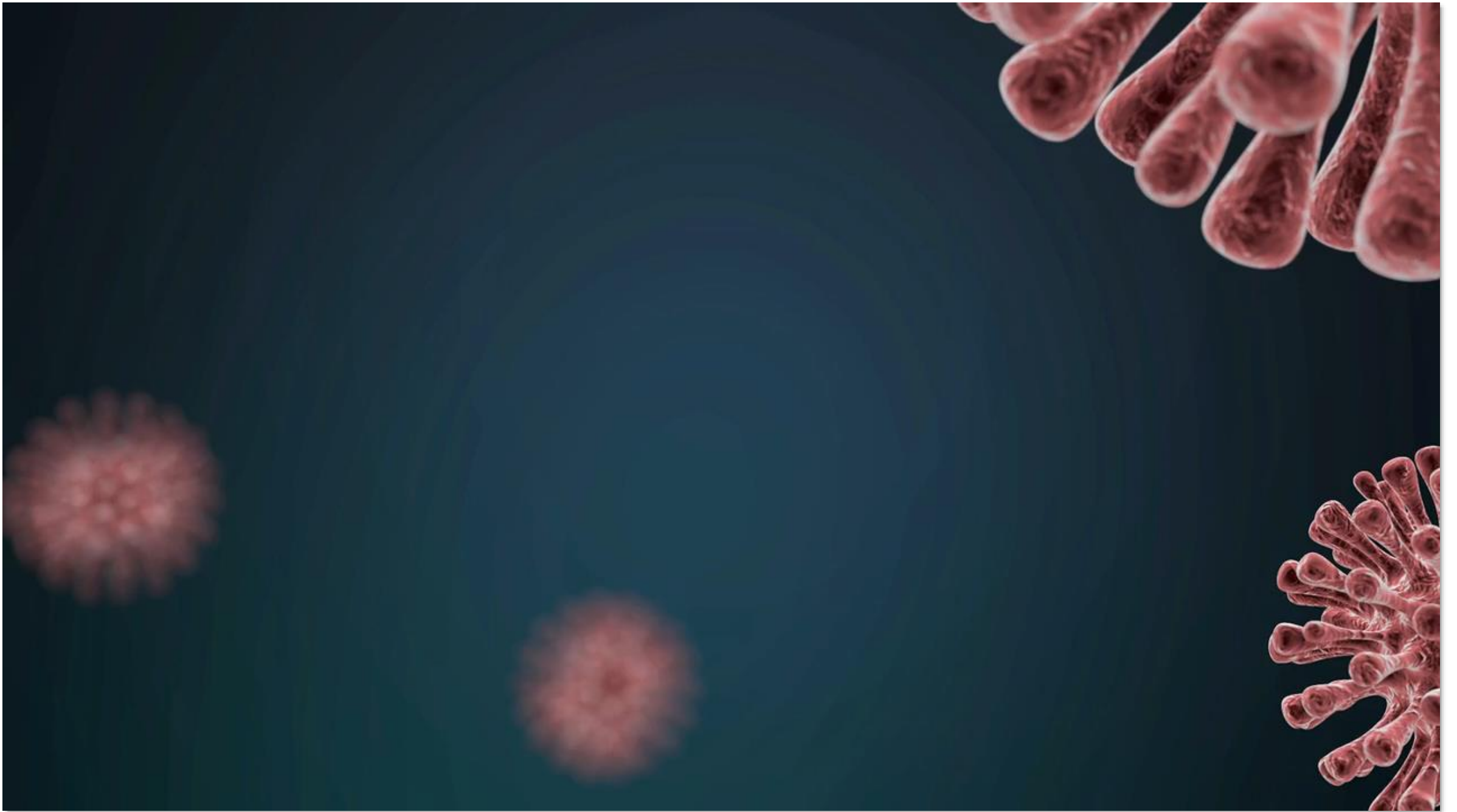


What Can Impact Trends Beyond Inflation

- Number of customers
- Water Usage
- Changes in employees
- Changes in regulations



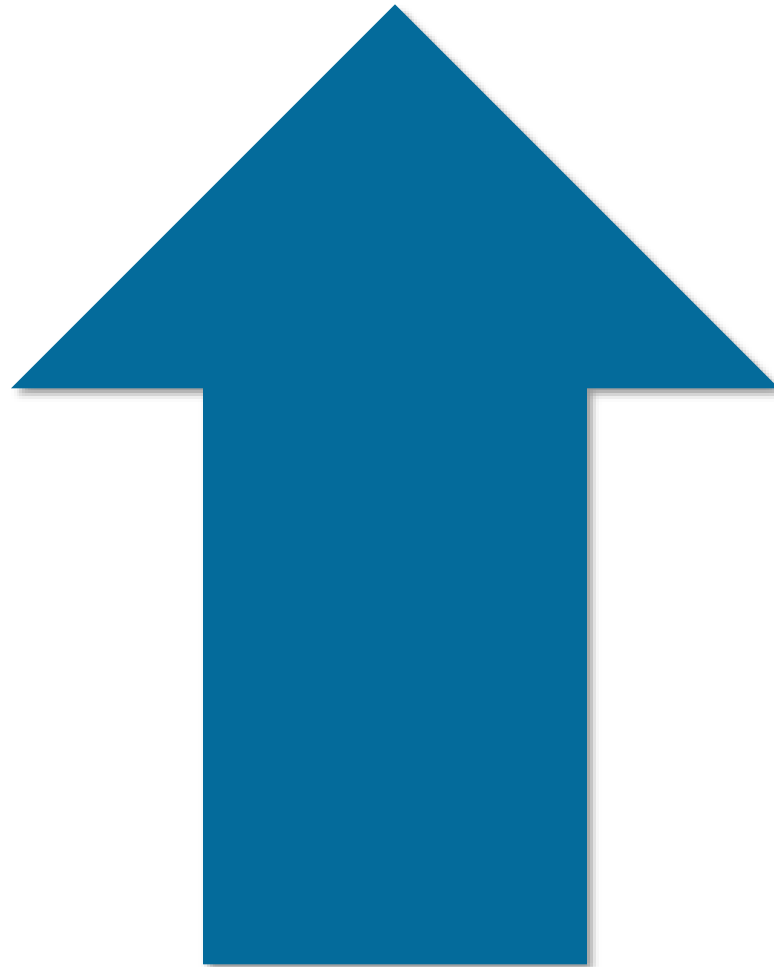




How to Price Other Expenses

- Capital Costs: Ideally based on a CIP or Asset Management Plan
- Debt Service: Based on your debt covenants
- Reserves: A policy decision!

Overall, revenues are going...



Projecting Revenue from Rates

Rate revenue is a function of:

- Number of customers
- Gallons metered
- Price of water (base charge and volumetric rate)
- Annual billing periods
- Percent of bills paid

Revenue from the Base Charge

Number of Customers

- ✘ Base Charge
 - ✘ Number of Annual Billing Periods
 - ✘ Bill Payment Rate
-

Revenue from the Volumetric Rate

Gallons Metered

- ✘ Volumetric Rate (per gallon)
 - ✘ Number of Annual Billing Periods
 - ✘ Bill Payment Rate
-

Revenue from Connection Fees

New Connections

x Fee

+

Turnover in Existing Connections

x Fee

Revenue from Loans/Grants & Reserves

It depends!

A budget is a **guess!**

So, let's make it a good guess

A Realistic Goal for the End of the Year

±10 percent

of the budgeted amount for each line item

And If You Have to be Wrong...

- For revenues: **Underestimate**
- For expenses: **Overestimate**

Thank You!



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