



Central Brown County Water Authority

ADOPTED

2012 Annual Budget

And

Member Cost Allocation

October 19, 2011

Central Brown County Water Authority
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Bellevue, WI 54311
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Introduction

Central Brown County Water Authority

The Central Brown County Water Authority was created in December 2003 through a joint effort of the City of De Pere, Villages of Allouez, Bellevue and Howard and the Towns of Lawrence and Ledgeview (with the Ledgeview Sanitary District). The Authority was created to develop a joint water system that would provide a reliable, safe and high quality source of water meeting the current and future needs of each community. An agreement was reached with the Manitowoc Public Utilities in 2005 to provide treated water from Lake Michigan and construction on the Authority's distribution system commenced in late 2005. Service to our members began in September of 2007 and the Authority has been providing water since.

The Authority remains sound financially and continues to meet all operating, debt service and bond coverage requirements.

Boards and Committees

The Authority is supervised by a Board consisting of one representative from each member community. The Board meets monthly with special meetings called as necessary. The Technical Committee meets a week in advance of the Board meeting and provides operational and system improvement input and recommendations to Board decisions. Current Board and Committee members are identified below.

Board

President, Larry Delo, City of De Pere
Vice-President, Aaron Oppenheimer, Village of Bellevue
Secretary/Treasurer, Randy Tremel, Town of Lawrence
Geoff Farr, Village of Howard
Ray Kopish, Village of Allouez
Sarah Burdette, Town of Ledgeview

Technical Committee

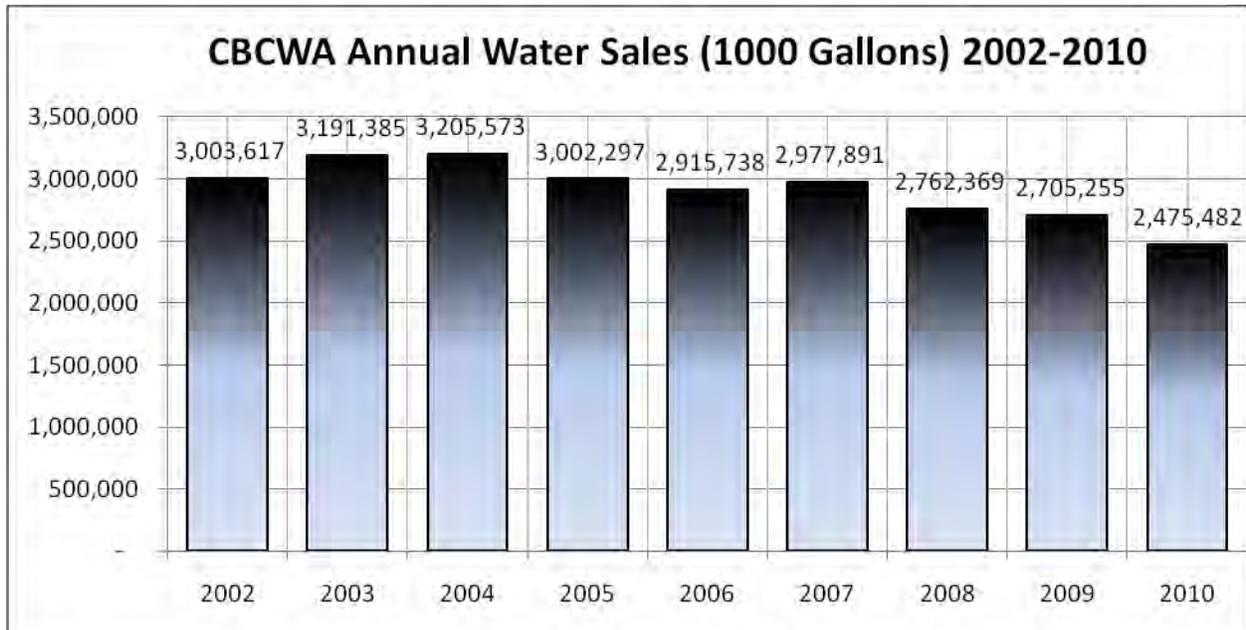
Chair, Craig Berndt, Village of Allouez
Vice-Chair, Bill Balke, Village of Bellevue
Geoff Farr, Village of Howard
Greg Little, Town of Lawrence
Mark Pansier, Town of Ledgeview
Scott Thoresen, City of De Pere

2011 Issues and Events

2011 continued a recent trend of challenging years for the water industry and specifically Central Brown County Water Authority and its members. The economic downturn, concentrated water conservation efforts by residents and businesses, wet weather conditions and successful leak detection efforts by the

member communities have led to a steady reduction in historical water sales. Water Sales in 2010 were 2.475 billion gallons, down nearly 23% from their peak of 3.205 billion in 2004. This trend is shown in chart format in Figure 1.

Figure 1



Year to date figures for 2011 indicate that this trend in declining sales may be reaching bottom. Water sales through the end of July are up slightly from 2010. Any future increase in sales will be dependent on a number of factors including improvement to the economy and a resumption of local growth and development, but it may be that consumption has at least stabilized.

The Authority receives connection fee revenues from development within its member communities. As shown in Table 1 below, the 89 new water connections in the first half of 2011 reflect the lowest first-half member growth rate since the Authority began operations in 2007. This decline is accompanied by a corresponding drop in connection fee revenues which are used by the Authority to offset debt service obligations.

Table 1
Member Water Connections
January 1-June 30

2007	321
2008	222
2009	129
2010	176
2011	89

Central Brown County Water Authority has experienced a continued decline in interest rates on its investments and a corresponding decline in associated investment income. Unfortunately, interest rates and income are not projected to recover in the 2012 fiscal year. Indications from our financial advisors are that it may be mid-2013 before rates actually begin to recover. Given the significant amount of cash the Authority is required to hold to meet bond covenants, the prolonged period of low interest rates has a direct and significant impact on projected revenues. The Authority has made a concentrated effort to maximize interest income without incurring unacceptable risk and has elected to work with investment managers at Dana Investments and M&I Bank/BMO Financial. The Authority has also begun purchasing certificates of deposit from local financial institutions when investments with attractive interest rates become available. Authority investments comply with applicable state investment regulations.

A final item of note in 2011 was the connection by the Village of Hobart to the Green Bay water system. This connection became operational in early May and resulted in the automatic termination of the agreement between the Authority and the Village whereby the Authority agreed to provide emergency water supply to the Village. The Authority will no longer receive semi-annual connection fee payments from the Village and the connection with the Village is being severed.

2012 Proposed Budget

Central Brown County Water Authority exists for the purpose of providing clean, plentiful and economical water to its member communities. The Authority budget is established based on projected operating costs, planned capital improvements and debt service. The Authority Board consists of representatives from each member community and is deeply aware of the difficult economic times and continues to act to minimize expenses and budget impact on its member communities. Every effort has been made to minimize Authority expenditures in the 2012 budget.

By far the largest percentage of the Authority budget goes to meeting debt service requirements on the \$135,625,000 bond issue issued in 2005 for construction of the system. This portion of the budget is established and cannot be readily altered until the bonds reach their call date on December 1, 2015. Given the 5% coupon rate on our remaining notes, the Authority is planning to refund existing bonds as soon as possible. The complete bond schedule for the Authority is included as Appendix A.

The Authority system was designed with a planned major capital project to achieve maximum capacity and aid in meeting peak demand rates. These improvements were once expected to occur as soon as 2013. Engineering analysis of current demand indicates that we have the ability to meet current system demands with existing capital assets. The Authority has begun development of a comprehensive operations plan intended to postpone significant capital improvement for as long as possible. Accordingly, the only scheduled capital project until 2015 is the installation of a cathodic protection system designed to protect the 48" steel water main leading from MPU to Ledgeview and the Authority's loop system from corrosion. The 2012-2021 Capital Improvement Plan is included as Appendix B and is discussed in more detail later in this document.

Operational costs consist primarily of fees and charges for service from Manitowoc Public Utilities. These charges vary with demand but it is important to note that there is a minimum annual purchase requirement regardless of actual consumption. This came into effect at the end of 2010 when total water purchase by the Authority dropped below the agreed upon minimum by approximately 3 million gallons. The Authority projects 2012 sales marginally in excess of minimum requirements.

The Authority is involved in litigation with both its former engineer and several of the contractors associated with the construction of the pipeline system. This budget includes a substantial amount for litigation expenses. Trial has been scheduled for the spring of 2012 and resolution is expected by year-end.

The 2012 detailed budget is included as Appendix C. Please note that there was a significant revamping of account numbers and accounting practices in a joint effort of the Authority accountant and our auditor.

Revenue Projections

The majority of the Authority's revenues derive from consumption based charges to its member communities. However, to meet bond covenants and retain reasonable operating reserves, the Authority maintains a sizeable invested reserve. Interest on these reserves supplements both Debt Service and operating expenses. Interest income is expected to continue to be low in 2012. As mentioned in the introduction, the Authority has engaged professional money managers to try and increase interest earnings. Funds are being transferred to these agents as this budget is being assembled. Progress in generating interest income will be monitored carefully throughout the rest of 2011 and in 2012. Every reasonable legal effort will be made to increase this non-rate form of income.

The Authority also receives revenues in the form of connection fees for all new individual customers connecting to a member water system. These "Capacity" charges have declined steadily with a severe drop experienced in the first half of 2011.

The 2012 budget includes \$550,000 in project designated funds carried forward from prior budget years and \$775,000 transferred from reserve funds. It is expected that the project designated funds, consisting primarily of unpaid project retainage and uncompleted 2011 projects, will be resolved with the expected litigation conclusion in 2012. The \$775,000 is a one-time transfer intended to cover litigation expenses and the cost of the cathodic protection program included in the CIP. Use of the reserve funds will allow the Authority to maintain 2011 water rates in 2012.

Non-revenue income projections are identified below.



2011 - 2012 Other Revenue

	2011	2012
Capacity Charges	\$140,000	\$140,000
Interest Income	631,296	652,000
Other	100	100
Carryover/Reserves	400,000	1,275,000
Grants	25,000	0
Total	\$1,196,396	\$2,067,100

Expenditure Projections

The proposed 2012 budget represents an increase of 3.7% over 2011 . There are three major contributing factors to this increase: Increased litigation expenses , increased capital spending and a scheduled increase in debt service expense. The Authority’s debt service requirements represent 67.7% of the budget in 2012. This percentage will increase as our litigation is resolved and the Authority begins additional, future, capital improvements. Projected water purchase projections for 2012 show a decline from 2011 projections. 2011 projections are proving to be optimistic and it is expected that the 2012 figures will closely match with actual sales for 2011. The decline in water sales volume is part of a statewide trend and is the most significant factor in the increases in both Authority and member water rates over the past several years.

Capital Improvement Plan

The Authority has adopted the practice of projecting a 10-year Capital Improvement Plan. This plan includes known system needs that will improve the longevity or operating characteristics of the distribution system. As of budget time, the Authority has contracted with an engineering firm to review system operations and make recommendations regarding the efficient operation of the system and future capital needs. This study will not be completed until early 2012. At this time, two known capital issues are planned. This first is the installation of a cathodic protection system on the 30 miles of steel

pipe leading from Manitowoc to our Master Meter Station near Ledgeview. This project was accelerated to be included in the 2012 budget based on recommendations from our consultants. The second is the addition of system storage that will improve reliability and reduce operating expenditures. A future, but as yet unscheduled project is the addition of a booster pump station that will be necessary as member demand eventually increases.



2011-2012 Budget Expenses

	2011	2012
Debt Service	\$8,311,544	\$8,455,583
Capital Projects	630,500	800,000
Water Purchase	2,242,696	2,224,680
Other Operating	826,894	1,018,370
Security Fund	45,380	0
Total Expense	\$12,057,014	\$12,498,633

Water Consumption

It is expected that most of the conservation and leakage correction work has now been completed and that water consumption will begin to rebound gradually as the economy improves and member growth and development resumes. For 2012, the Authority has met with each member community, reviewed flow data and worked to make a reasonable projection of consumption.

2012 closely reflects expected actual consumption patterns for 2011. Contract minimums shown in the table below are a contractual measure that takes effect only if the total projected flow falls below the sum of member minimums.



Central Brown County Water Authority 2012 Water Use Projection Summary (Thousand Gallons)

	2011	2012	Contract
	Budgeted	Projected	Minimum
Allouez	430,000	430,000	544,109
Bellevue	450,000	420,000	372,184
De Pere	850,000	800,000	908,021
Howard	650,000	650,000	576,056
Lawrence	70,000	63,000	15,314
Ledgeview	150,000	145,000	68,749
Total	2,600,000	2,508,000	2,484,433

2012 Security Fund Charges

As part of the agreement between the Authority and its members, there is a security fund established for each member. This interest-bearing fund is reserved individually by community in the event of non-payment. Each member is required to have two months of budgeted expenses set aside. Members that drop below this level are levied a surcharge to bring the account into balance. Members who accumulate a reserve in excess of three months are given a rebate. For the 2012 budget year, no members are subject to a Security Fund surcharge.

Member Cost Allocation

The Authority allocates costs to members based on projected consumption for the budget year. This is then adjusted at year end to reflect actual consumption patterns and Authority expenditures to the extent possible through a “true-up” charge process. In all cases, the Authority’s revenue stream is guaranteed by the contractual arrangement with its members.

The following table shows the allocations for 2012 based on projected water consumption for each member community. The total allocation of \$10,431,687 represents the 2012 budget less non-rate revenues. Through a one-time use of reserve funds, the Authority is able to maintain current rates.



Charges to Communities

	Member Allocation		Difference
	2011	2012	
Allouez	\$ 1,788,800	\$ 1,788,500	\$ (300)
Bellevue	1,872,000	1,746,907	(125,093)
De Pere	3,536,000	3,327,443	(208,557)
Howard	2,704,000	2,703,547	(453)
Lawrence	291,200	262,036	(29,164)
Ledgeview	624,000	603,099	(20,901)
Total	\$ 10,816,000	\$ 10,431,533	\$ (384,467)

Effective Water Rate

The Authority bills each member a uniform amount monthly based on budgeted projections and then adjusts annually to reflect actual percentage of use based on metered water sales. While water rates aren't a part of this process, they do reflect a measurement of cost that is familiar to most. Accordingly, the Authority has calculated an effective water rate for informational purposes. This rate shows both operating and fixed (capital and debt) components. Through use of budget reserves, Central Brown County Water Authority is proposing to maintain 2011 rates in 2012.



2012 Water Rate

Rate Element	\$'s/1,000 gal
Fixed Cost Rate	\$3.12
O&M Rate	\$1.04
Total	\$4.16

Appendix A - Debt Service Schedule

PRINCIPAL AND INTEREST PAYMENT SCHEDULE

Central Brown County Water Authority, Wisconsin
 \$135,625,000 Water System Revenue Bonds, Series 2005

Dated Date: 6/22/2005
 Call Date: 12/1/2015

Payment Due Date	Principal	Rate	Interest	Payment Notations	Total P & I	Fiscal Total	CUSIP No. Base: 152708
12/01/05	-	-	2,922,655.19		2,922,655.19	2,922,655.19	
06/01/06	-	-	3,308,666.25		3,308,666.25		
12/01/06	-	-	3,308,666.25		3,308,666.25	6,617,332.50	
06/01/07	-	-	3,308,666.25		3,308,666.25		
12/01/07	-	-	3,308,666.25		3,308,666.25	6,617,332.50	
06/01/08	-	-	3,308,666.25		3,308,666.25		
12/01/08	1,105,000.00	3.000	3,308,666.25		4,413,666.25	7,722,332.50	AB9
06/01/09	-	-	3,292,091.25		3,292,091.25		
12/01/09	1,285,000.00	3.250	3,292,091.25		4,577,091.25	7,869,182.50	AC7
06/01/10	-	-	3,271,210.00		3,271,210.00		
12/01/10	1,475,000.00	3.250	3,271,210.00		4,746,210.00	8,017,420.00	AD5
06/01/11	-	-	3,247,241.25		3,247,241.25		
12/01/11	1,670,000.00	3.500	3,247,241.25		4,917,241.25	8,164,482.50	AE3
06/01/12	-	-	3,218,016.25		3,218,016.25		
12/01/12	1,870,000.00	3.500	3,218,016.25		5,088,016.25	8,306,032.50	AF0
06/01/13	-	-	3,185,291.25		3,185,291.25		
12/01/13	1,985,000.00	4.940	3,185,291.25		5,170,291.25		AG8
12/01/13	100,000.00	-	-		100,000.00	8,455,582.50	AH6
06/01/14	-	-	3,133,791.25		3,133,791.25		
12/01/14	2,035,000.00	4.839	3,133,791.25		5,168,791.25	8,302,582.50	AJ2
12/01/14	300,000.00	-	-		300,000.00		AK9
06/01/15	-	-	3,077,291.25		3,077,291.25		
12/01/15	2,340,000.00	4.903	3,077,291.25		5,417,291.25	8,794,582.50	AL7
12/01/15	250,000.00	-	-		250,000.00		AM5
06/01/16	-	-	3,013,791.25		3,013,791.25		
12/01/16	2,865,000.00	5.000	3,013,791.25		5,878,791.25	9,142,582.50	**
06/01/17	-	-	2,942,166.25		2,942,166.25		
12/01/17	3,155,000.00	5.000	2,942,166.25		6,097,166.25	9,039,332.50	AN3
06/01/18	-	-	2,863,291.25		2,863,291.25		
12/01/18	3,465,000.00	4.050	2,863,291.25		6,328,291.25	9,191,582.50	AP8
06/01/19	-	-	2,793,125.00		2,793,125.00		
12/01/19	3,750,000.00	5.000	2,793,125.00		6,543,125.00	9,336,250.00	**
06/01/20	-	-	2,699,375.00		2,699,375.00		
12/01/20	4,085,000.00	5.000	2,699,375.00		6,784,375.00	9,483,750.00	AQ6
06/01/21	-	-	2,597,250.00		2,597,250.00		
12/01/21	4,435,000.00	5.000	2,597,250.00		7,032,250.00	9,629,500.00	**
06/01/22	-	-	2,486,375.00		2,486,375.00		
12/01/22	4,805,000.00	5.000	2,486,375.00		7,291,375.00	9,777,750.00	AR4
06/01/23	-	-	2,366,250.00		2,366,250.00		
12/01/23	5,190,000.00	5.000	2,366,250.00		7,556,250.00	9,922,500.00	AS2
06/01/24	-	-	2,236,500.00		2,236,500.00		
12/01/24	5,585,000.00	5.000	2,236,500.00		7,831,500.00	10,068,000.00	AT0

Central Brown County Water Authority 2012 Budget

06/01/25	-	-	2,096,625.00	2,096,625.00			
12/01/25	6,020,000.00	5,000	2,096,625.00	8,116,625.00	10,213,250.00	AU7	
06/01/26	-	-	1,946,125.00	1,946,125.00			
12/01/26	6,390,000.00	5,000	1,946,125.00	8,336,125.00	10,282,250.00	AV5	
06/01/27	-	-	1,786,375.00	1,786,375.00			
12/01/27	6,765,000.00	5,000	1,786,375.00	8,551,375.00	10,337,750.00	**	
06/01/28	-	-	1,617,250.00	1,617,250.00			
12/01/28	7,255,000.00	5,000	1,617,250.00	8,872,250.00	10,489,500.00	**	
06/01/29	-	-	1,435,875.00	1,435,875.00			
12/01/29	7,495,000.00	5,000	1,435,875.00	8,930,875.00	10,366,750.00	**	
06/01/30	-	-	1,248,500.00	1,248,500.00			
12/01/30	7,690,000.00	5,000	1,248,500.00	8,938,500.00	10,187,000.00	AW3	
06/01/31	-	-	1,056,250.00	1,056,250.00			
12/01/31	8,345,000.00	5,000	1,056,250.00	9,401,250.00	10,457,500.00	**	
06/01/32	-	-	847,625.00	847,625.00			
12/01/32	8,875,000.00	5,000	847,625.00	9,722,625.00	10,570,250.00	**	
06/01/33	-	-	625,750.00	625,750.00			
12/01/33	8,325,000.00	5,000	625,750.00	8,950,750.00	9,576,500.00	**	
06/01/34	-	-	417,625.00	417,625.00			
12/01/34	8,075,000.00	5,000	417,625.00	8,492,625.00	8,910,250.00	**	
06/01/35	-	-	215,750.00	215,750.00			
12/01/35	8,630,000.00	5,000	215,750.00	8,845,750.00	9,061,500.00	AX1	
	<u>135,625,000.00</u>		<u>142,208,265.19</u>	<u>277,833,265.19</u>	<u>277,833,265.19</u>		

* The following funds are available to pay the interest payment due December 1, 2005 through June 1, 2007:

Capitalized Interest:	11,651,526.54
Total Funds Available	<u>\$11,651,526.54</u>

** Each of the maturities noted above with "*" are Term Bonds and, therefore, Mandatory Call Notices must be published by the Paying Agent each of those years.

