



To the Board of Trustees Granger-Hunter Improvement District

The Tentative 2021 budget for Granger-Hunter Improvement District (the District) has been prepared in accordance with the District's **vision**: *Improving quality of life today – creating a better tomorrow*, the District's **mission**: *Stewards of water that is delivered clean and safe for daily use and collected responsibly to protect public health and our environment* and supports the District's **strategic plan**. This budget narrative will provide an overview of the framework the District believes will help it to meet its objective.

Budget Process

The annual budget is created by the District's management. Directors each have a responsibility to submit their department budget for consideration and review by management. The needs of a department are weighed against the needs of all departments, and priorities are established. Budgets for personnel and capital projects are also prepared, and input is received from management and directors. The budget is then organized and presented to the Board for comment, input, additional prioritization of needs and approval. Once the budget is adopted, it becomes the framework for applying District resources in the best manner to meet the needs of the customer.

Prior to adoption of the budget, the following steps need to occur:

- The tentative budget is prepared and given to the Board on or before the first scheduled meeting in November (handed out on October 13th). The tentative budget (amended for any Board input) should then be adopted at the November 17th (3:00 p.m.) Board meeting.
- When the tentative budget is adopted, the Board will also establish the time and place of the public hearing to consider adoption of the final budget. The time and place can be the same as the regularly scheduled meeting in December, which currently is to be held on December 15th at 5:00 p.m. The public hearing for the budget typically would begin at 6:00 p.m., and the District proposes such for this year.
- If no fee, rate or tax increases are considered (as is the case for the coming year), the District must publish notice of the public hearing in the newspaper at least seven days prior to the hearing. If tax, rate or fee increases are to be considered, a quarter page ad must be placed in the paper two times in the two weeks prior to the meeting.

- The Board, by resolution, may adopt the budget following the public hearing. The budget must be adopted before the beginning of the New Year.

Economic Conditions and Budget Changes

The Utah economy in 2020 has been relatively volatile with a record setting seismic event and an unprecedented viral outbreak caused by COVID-19. COVID-19 will have a mixed impact on Utah's economy. Some indicators show a sizable swing from growth before COVID-19 to contraction due to the virus; others show a COVID-19 induced deceleration in growth despite the spread of virus, while others show that COVID-19 accelerates a decline already underway. Before COVID-19, Utah's gross domestic product (GDP) was forecast to grow by 5.9%, but after COVID-19 GDP shrinks by 5.4%, a swing of nearly \$16.0 billion. Utah's unemployment rate in 2020 will likely increase from the pre-COVID forecast of 2.7% to COVID forecast of 5.7%. It is anticipated that a strong job recovery drives the unemployment rate down to 3.9% in 2021. Personal income was originally forecast to increase by 5.6% pre-COVID, but recent economic forecast changes have reduced that increase by half to 2.8%. (*Research Brief July 2020 UofU – How COVID-19 Changed Utah's Economic Forecast*)

The Federal Reserve has adjusted the FedFunds, inter-bank lending, interest rate to 0.25%, a 1.5% decrease from a year ago in an attempt to keep the economy from entering into a prolonged recession. The Consumer Price Index (CPI-U) inflation rate for each of the past nine years, with a small exception in 2011, reflects the slow consistent trend as follows with the notable decline in 2020 due to COVID-19:

2011 = 3.2%
2012 = 2.1%
2013 = 1.5%
2014 = 1.6%
2015 = 0.1%
2016 = 1.3%
2017 = 2.1%
2018 = 2.4%
2019 = 2.3%
2020 = 1.2% (through October 2020)

The price of crude oil remained relatively low for most of the past few years, with November 2020 prices being 29% lower than the year prior. Due to COVID-19, the Middle East's efforts to keep prices low and drive out U.S. competition and a new Presidential administration, it is very difficult to forecast whether or not oil prices will increase in the coming year. As a result, it's a challenge to know how much to budget for fuel, oil, PVC pipe, asphalt and other petroleum-based products which the District regularly uses. Utility rates for power and natural gas have remained relatively stable. However, the District's total operating costs related to these resources can fluctuate according to weather and demand and also due to continued experimentation with timing and the extent of utilizing wells, all of which affect the amount of water the District is pumping.

Central Valley Water Reclamation Facility (CVW) continues its very aggressive plant renovation and refurbishing, resulting in continued increases to the District's ongoing operations and maintenance costs and the District's debt service requirements. A significant portion of the facility will be refurbished or totally replaced over the next several years, as those components have reached the end of their useful life. This is driving up the budget items related to CVW, by nearly 34% in the coming year, which includes the District's share of the operating and capital costs. That is a substantial increase than the 3% budgeted increase of the prior year, due to increased debt service for the substantial plant refurbishment and higher entity ownership. Refurbishing the CVW facility and adding the required nutrient removal infrastructure is expected to cost about \$280.0 million which will be funded by bond principal and interest payments over the next 20-25 years. The first of several bonds was issued by CVW in 2016 with expectation of issuing a \$85.0 million bond in the middle of 2021, and another \$110.5 million over the next two years. With each debt issuance, the District will be responsible for making the principal and interest payments over the bond term, each with a term of 20 years. The District's share of bond payments in 2021 is anticipated to be just over \$3.3 million.

The District proposed total revenues for 2020 reflect a decrease of \$82k (0.2%) over the 2020 budget. In 2020 the District did not have any water or wastewater rate increases because Jordan Valley Water (JVW) lowered the District's rates for purchasing water by nearly 3% this year. The District anticipates JVW increasing their rates in the future, as this rate decrease is unsustainable due to JVW utilizing their reserves to fund the revenue shortfall this year. Although the District is not proposing any rate increases for this upcoming year, it is anticipated that a rate increase will be necessary in the upcoming 2022 budget, due to the result of historical consistent JVW rate increases and due to the construction at CVW and related increasing maintenance expenses.

There is no increase proposed in the property tax revenues for 2021.

Water and Sewer Impact Fees are expected to increase \$200k (44%), due to an increased level of new construction. As the available space for new construction diminishes, it is anticipated that impact fees will decrease in the future.

The District itself has a number of infrastructure projects to be completed in the near future to improve its efficiency and operations. The District is closely monitoring its funds for these projects, and in 2019 issued a \$20.0 million bond to facilitate expedited completion of certain water projects while smoothing the cost over a longer period. The bond was issued through the Federal SRF (state revolving fund) Loan Fund administered by the Utah Water Finance Agency (WFA) with an interest rate of 1.25%. The bond funds are to be utilized primarily over a four-year period. The 20-year amortization of the bonds requires annual payments of approximately \$1.2 million (principal and interest), with payments that began April 2020. As the work is performed on projects which qualify for use of bond funds, the District will pay the cost of such work and then obtain reimbursement from the bond funds held by WFA. As a result of this payment process, District cash will experience some up and down activity, but typically not for long periods of time.

Interest income is expected to decrease \$275k (52%), due to the reduction in interest rates caused by COVID-19.

With the majority of the surplus equipment sold, GHID does not anticipate the need to sell any of any large assets in 2021. Therefore, it is anticipated that sales of surplus equipment will be lower by \$19k (32%) from the previous budget.

Overall operating expenses are projected to increase \$2,478k (7.5%) in 2021, due to higher CVW Facility Operations and Project Betterments due to higher entity ownership \$1,411k, increases in CVW debt service \$1,356k, outside services for a District master plan along with associated rate and impact fee studies \$250k and board of trustee elections \$75k, partially offset by reduced JVW rates \$293k and the reduction in salaries and wages \$135k. The District's contracted amount to purchase 18,500 acre feet of water from JVW has not changed from the previous budget. The District Salaries and Wages savings were due to organizational restructuring, partially offset by an average of 3% merit increases and a new Large Meter Foreman position added.

In addition to the above, the Non-Operating section of the budget indicates an increase of \$300k (3.9%) in the District's depreciation expense, due to the replacement of older assets already depreciated. Total debt service, which includes principal and interest payments, increases \$207k (24.6%), due to higher 2019 WFA bond principal payments. The District also refinanced its 2012 Bond issued from the Utah Department of Environmental Quality from 2.5% to 1.5%. It is anticipated that this refinancing will save the District about \$390k over the remaining 12 year bond term.

Consideration of Rates

In 2018, the District implemented a tiered or "inclining block" water rate structure to encourage conservation efforts in accordance with a new law passed by the State of Utah. The District pays more to JVW for water it takes during the summer and high demand times or "peaks". The District also pumps more during certain seasons to meet those peaks, thereby incurring more cost. The tiered rate is intended to pass along those increased costs to the responsible parties who trigger the costs by their elevated level and timing of consumption. In 2019 the District implemented a 10% increase in tiered rates to catch up and try to keep up with JVW's rate increases and other costs of operations, including the significant infrastructure improvements and replacements and bonding already mentioned. The District did not increase the monthly Availability charge and has not done so since the \$1.00 (8.3%) increase in 2016. Although Granger-Hunter Improvement District already has met its mandated 25% reduction in per capita water consumption, it still must comply with the state regulations and continue using a tiered rate structure for water services.

The District recommends that there be no water rate increases in 2021. The 2021 tiered rate structure, based on monthly consumption, will continue as follows:

For all customers except Multi-Unit:

0 – 7,000 gallons = \$1.77 per 1,000 gallons
7,001 – 15,000 gallons = \$1.90 per 1,000 gallons

All > 15,000 gallons = \$2.05 per 1,000 gallons
For Multi-Unit customers, the District applies a fixed rate of \$1.90 per 1,000 gallons.

In 2019, the District increased the monthly sewer charge by approximately 10.25% due to the significant increase in operating and debt service costs at CVW, anticipated infrastructure projects within the District, and normal inflation in other costs relating to sewer services provided by the District. Sewer surcharges (for commercial facilities, based on BODs and other measures) were increased by 10.0%. There is no sewer fee increase budgeted in 2021.

A broad summary of the bottom line impact of the 2021 proposed budget, as compared to the 2020 budget, is as follows:

Decrease in Total Revenues	\$ (82,200)	(0.2%)
Decrease in combined Payroll and Benefits	126,088	1.4%
Increase in combined CVW and O&M	(2,379,014)	(11.1%)
Increase in General & Administrative	(224,842)	(9.8%)
Increase in Vehicles & Equipment	(216,063)	(52.7%)
Increase in Debt Service (other than CVW)	<u>(207,393)</u>	(24.6%)
Decrease in Net Revenues	\$ <u>(2,983,424)</u>	(55.2%)

Summary

As always, there are many variables that may cause actual results to differ from budgeted expectations. The District believes the 2021 proposed budget is very realistic considering those variables and the above-noted conditions.

The District continues to have a fiscally sound budget, enabling it to meet ongoing obligations and provide for capital projects. However, as noted there are significant capital items on the horizon, at both the District and the CVW facility. These will require that the District be meticulous and cautious in its planning in order to be proactive rather than reactive. The District continues to be in strong financial health, with very good infrastructure and excellent maintenance efforts. The District will continue to monitor the impacts of COVID-19 on the economy and on the local customer base. It has a robust long-term strategy and will adjust as necessary. The District exercises care in its stewardship over District resources and customer trust, and it searches for ways to control budgets while meeting customer needs.

If you have questions about any part of the proposed budget, please contact Jason or Austin.

Respectfully Submitted,

Jason Helm, PE
General Manager

Austin Ballard, CPA
Controller

PARAMETERS DETAILS FOR 2021 BUDGET PREPARATION

REVENUES

- **Metered Water Sales:** Water sales are budgeted to increase by \$156k or 0.8%, which represents minimal anticipated growth. The District proposes no rate increase this year. Historically the District has increase rates every other year, and 2021 was the year scheduled to have a rate increase. However, due to challenging economic conditions, the District has decided to postpone rate increases for another year. The prior rate increase occurred in 2019 which resulted in an increase in Metered Water sales of \$1.8m in that year.
- **Sewer Service Charges:** Sewer revenues are budgeted to decrease by \$130k or 1.1% in 2021, due to 2020 anticipated sewer charges to fall short of 2020 budget because several customers were converted from a rate table to a fixed sewer rate.
- **Central Valley Assessment:** No increase is anticipated this year. This assessment, which started in 2017, was originally intended to cover the CVW refurbishing and replacement. Actual infrastructure costs at CVW have significantly increased due to the unusual rapid inflation in construction prices and lack of qualified contractors. It is anticipated that rising construction cost along with debt financing will dictate increases to the fee in the future.
- **Engineering/Connection/Inspection/Turn-on Fees:** An increase of \$1k (16.7%) is anticipated for the engineering fees, but this simply reflects moderate growth in new construction, due to high density housing. Connection, inspection and Turn-on Fees are expected to increase \$12k (14.5%), again representing moderate new construction growth in high density housing. The District expects that these fees will decline in the future due to lack of available space for new construction.
- **Property Tax Revenue:** Collections for property tax revenue is not anticipated to change in 2021. The RDA Tax Increment budget is also not anticipated to change. The District desires to keep property tax revenue stream consistent, which has allowed the certified rate to drop, as it functions inversely to growth. This provides a stronger position in the event the District may need more property tax revenues in the future and/or need to issue bonds. The District's property tax collections could further increase in the future when RDA's expire and that revenue returns to the District. No tax rate increase is budgeted for 2021, and as a result, the rate will adjust to "keep the District whole," depending on whether property values in increase or decrease.
- **Impact Fees:** Impact fees were adjusted in 2015, per the Lewis Young fee study, resulting in a slight increase in the Water Impact fee and a slight decrease in the Sewer Impact fee. Netted together, the change was nearly neutral. No fee change has occurred since that time. Due to anticipated growth in high density housing construction, the District is budgeting an increase of \$200k (44.4%) in total impact fees for 2021.
- **Interest Income:** Interest income is expected to decrease \$275k (52.4%), due to the Federal Reserve adjustments to interest rates, in an attempt to keep the economy from entering a prolonged recession.
- **Sale of Surplus Equipment:** Sale of Surplus Equipment revenues are expected to decrease by \$19k (32.2%), due to the lack of excess equipment to be sold.

- **Other Income:** Other income is comprised of the sale of surplus non-capital property and scrap metal, hydrant meter rentals, and other miscellaneous income. The district is not anticipating any changes in 2021.

EXPENSES

- **Payroll Wages**
 - **Salaries & Wages:** Salaries and wages are expected to decrease \$135k (2.7%), due to organizational restructuring, partially offset by an average of 3% merit increases and a new Large Meter Forman position added.
 - All other categories are not expected to significantly change in 2021.
- **Payroll Benefits**
 - **State Retirement & 401K Plans:** State retirement & 401K plans are expected to decrease \$12k (0.8%), due to organizational restructuring, partially offset by an average of 3% merit increases and a new Large Meter Forman position added
 - **Health & Dental Insurance:** Health and dental insurance is expected to increase \$17k (1%), due to increases in health insurance rates. Dental rates did not change from the previous year as there were enough dental reserves to absorb any rate increases. It is anticipated that the District will contribute \$3,000 to each employees' Health Savings Account.
 - **Medicare:** Medicare is expected to decrease slightly as explained in Salaries & Wages.
 - **Workers Compensation Insurance:** Workers Compensation Insurance is not expected to change in 2021. This continues to be stable as the District has continued to experience a very favorable claims experience rating (aka "e-mod") for a number of years.
 - **Life/LTD/LTC Insurance:** Life/LTD/LTC Insurance is not expected to change in 2021.
 - **State Unemployment:** State Unemployment is expected to increase \$5,000 (100%), due to the increase in the number of claims in 2020 due to COVID-19. With the uncertainty of the continued economic environment as a result of COVID-19, it is anticipated that the District will continue to see increases in unemployment claims in 2021.
- **Operations & Maintenance**
 - **Repair & Replacement:** Repair and Replacement is expected to decrease \$16k (2.3%), due to reclassifying replacing channel grinders as capital, partially offset by repair supplies for large meters previously accounted for in the capital budget.
 - **Building & Grounds:** Buildings & Grounds is not expected to change in 2021.
 - **Vehicles Maintenance & Fuel:** Vehicles Maintenance & Fuel is expected to decrease \$6k (3.3%), due to lower anticipated diesel and gasoline prices.

- **Vehicle Lease:** Vehicle lease is expected to decrease \$29k (11.3%), due to the transitioning out of our current vehicle leases to owning all fleet vehicles outright. 10 out of 24 leased vehicles will be transitioning in 2021.
- **Tools & Supplies:** Tools and Supplies are expected to increase \$16k (22.3%), due to the addition of a portable flow meter and odor logger. It is anticipated that there will be efficiencies gained with employee's time by having a portable flow meter.
- **Water Purchases:** Water Purchases are expected to decrease \$293k (2.7%), due to lower rates from JWV. The District's water purchase commitment to Jordan Valley for 2021 will again be 18,500 acre feet.
- **Treatment Chemicals:** Treatment Chemicals are not expected to change in 2021.
- **Water Lab Testing Fees:** Water lab Testing Fees is expected to decrease \$10k (13.4%), due to reducing the scope of the District's flushing and swabbing program and fewer backflow testing and repair sites. As the new treatment plant comes online in 2023, it is anticipated that the flushing and swabbing program will need to be expanded as the efficacy of the program will increase.
- **Utilities (Water & Wastewater):** Utilities is expected to decrease \$77k (7.8%), due to the efficient use of wells caused by fewer start stops than anticipated.

- **CVWRF**

The CVWRF budget will increase \$2.8 million (33.6%), due to CVW issuance of new bonds to finance ongoing infrastructure refurbishment and replacement \$1.4m (69.4%) and increases in Facility Operations and Project Betterments ("pay-go capital") caused by higher entity ownership \$1.4m. CVWRF is anticipating issuing an \$85.0 million bond during 2021 and another \$110.5 million ~~2022~~ 2022 and

- **General & Administrative**

- **Office Supplies/Printing:** Office Supplies/Printing is expected to decrease \$6k (18.0%), due to needing fewer supplies.
- **Postage & Mailing:** Postage and mailing is expected to decrease \$4k (2.5%), due to increased customer acceptance of e-bills rather than receiving paper copies.
- **General Administrative:** General Administrative is expected to increase \$73k (119.4%), due to the anticipation of Salt Lake County conducting an election for two board of trustee seats.
- **Computer Supplies/Equipment:** Computer Supplies/Equipment is expected to decrease \$23k (4.7%), due to lower consulting fees and fewer replacement parts and equipment.
- **General Insurance:** General Insurance is expected to decrease \$79k (18.0%), due to changing vendors from Olympus Insurance Company to Utah Local Trust.

- **Utilities (General & Administrative):** Utilities is not expected to have any changes in 2021.
- **Telephone:** Telephone is expected to decrease \$7k (5.5%), due to reclassing blue stake services to professional consulting, partially offset by an increase in costs for in the Interactive Voice Response service.
- **Training & Education:** Training and Education is expected to decrease \$36k (26.8%), due sending fewer employees to conferences and more conferences moving to an online format.
- **Safety:** Safety is expected to increase marginally by \$1k (2.5%).
- **Legal Fees:** Legal fees is expected to increase \$10k (22.7%), due to needing legal counsel to attend board meetings and utilizing counsel more on in-house matters.
- **Auditing Fees:** Auditing fees will not increase in 2021. The District awarded a contract with Keddington and Christensen CPAs in the amount of \$11k each year with an additional cost of \$1k for the single audit for the 2019 WFA bond issuance if the need arises. The contract covers auditing periods 2020-2024 (5 years).
- **Professional Consulting:** Professional Consulting will increase \$250k (256.7%), due to the need to develop a facilities master plan and corresponding rate and impact fee studies. It is industry standard to update the facilities master plan at least every five to ten years. The last rate and impact fee study was done in 2014.
- **Public Relations/Conservation:** Public Relations/Conservation is expected to increase \$44k (79.1%), due to increasing outside services to handle public information in relation to the planned rate and impact fee study.
- **Banking and Bonding:** Banking and Bonding is expected to increase marginally by \$2k (0.6%)
- **Administrative Contingency:** No change proposed from prior year. This budget amount is set aside for significant unexpected costs that may arise during the year. It may only be used following Board approval.
- **Vehicle & Equipment Purchases**

The following list is the vehicle and equipment the District proposes to purchase in 2021:

- Water Sampling Stations – 12 (ongoing) = \$11,700
- Fire Hydrant Meters – 4 (ongoing) = \$7,000
- Automatic Flusher for dead-end streets – 2 (Engineering) = \$4,000
- Cement Trailer – (Water) = \$26,000
- Combination Truck – (Wastewater) = \$450,000
- Two Sign Trailers with Metal Signs – for 2 crews (Wastewater) = \$30,000
- Leased vehicle buyback – (unit #3,7,16,22,32,33,37,38,50,59) = \$85,000
- Snowplow Attachment - \$6,310
- Portable Cooling Unit - \$4,000
- Telescoping Crane - \$1,000
- Portable Air Compressor \$800

The total for the above equipment is \$625,810.

- **Debt Service:** Debt Service is expected to increase \$207k (24.6%), due to escalation in the principal and interest payment for both of the 2019 WFA bond and 2012 DEQ bond, partially offset by lower interest expense. The District refinanced its 2012 Bond issued from the Utah Department of Environmental Quality from 2.5% to 1.5%. It is anticipated that this refinancing will save the District about \$390k over the remaining 12 year bond term.

INFRASTRUCTURE IMPROVEMENTS

Included in the 2021 budget is a detailed listing of proposed infrastructure projects (pages C-2 through C-5), including priority ranking of those projects. Presented immediately thereafter (D-1 and the subsequent unnumbered pages) is another listing demonstrating how the District proposes to fund those projects in the next few years. The anticipated outlay for bonding projects (see D-1) is \$6.3 million in 2020, \$9.0 million in 2021, and \$4.7 million in 2022 and beyond, though this could change somewhat depending on weather, availability of contractors, cost of materials, and other conditions beyond the District's control.

RESERVE FUNDS

The following reserve funds have been established and the funding of these accounts continues.

- **Operating Reserve:** The operating reserve target is three to six months of operating expense budget for the coming year. The minimum balance in the operating account should provide a "rainy day" fund for budget shortfalls or cost overruns. The desired balance, per the 2021 budget, is between \$8.2 million and \$16.5 million. The current operating account balance is quite strong even with a significant demand of summer water purchases and water production expenses, as well as capital outlays for construction. At 10/31/2020 the balance is approximately \$13.9 million.
- **Repair and Replacement Reserve:** Every year the budget includes funds that are earmarked for repair and replacement. However, in the event of a catastrophic water line break, the yearly budget will not be sufficient to fund the emergency repair. The district has set aside monies in the Repair and Replacement Reserve account to fund such emergencies. The district has a goal to fund \$5.0 million in the account. The balance in this account as of 10/31/2020 was \$4.6 million (86.8%). Additional funding is proposed as funds are available from operations. However, the anticipated focus on infrastructure projects over the next three years could continue to present a challenge to meeting the District's goal.
- **Impact Fee Reserve:** The required amount fluctuates as construction projects are assessed for the cost of their added demand on the system capacity and as the District collected fees to complete projects to satisfy that added demand. The reserve is equal to the unspent amount the District has collected from construction projects, and the balance as of 10/31/2020 is \$4.1 million.

- **Insurance Reserve Funds:** No funding level has been established for this reserve account. Each year the District budgets approximately \$100,000 to pay deductibles and claims not covered by insurance. If the entire amount is not used during the year, the balance is transferred to the reserve fund to provide for emergencies and extreme claims that may arise. The balance in this reserve account at 10/31/2020 was \$1.1 million.
- **Post-Employment Benefit Reserve:** In 2008 the District established this reserve fund to help offset the cost of benefits paid for retired employees, including health insurance and state retirement buyout. The balance in this fund was \$1.4 million as of 10/31/2020. The liability currently on the books is \$1.0 million but is expected to decrease at the end of 2020, due to multiple retirements during 2020. Accounting rules do not require full funding of the liability. However, the District has attempted to fund the liability as fully as possible in order to decrease the negative impacts of falling behind. It is proposed to continue to over-fund the account.

It is the District's desire and intent that this document will provide a clear and detailed explanation of proposed budget changes on a line-by-line basis. Please contact Jason Helm, General Manager, or Austin Ballard, Controller, if you have any questions or concerns. Thank you for your participation in and support of the District's budgeting efforts and ongoing operations.