2023 Operating and Capital Budgets

Prepared for: Sewerage & Water Board of New Orleans Board of Directors

December 2022

Operating & Maintenance and Capital Budgets

- Budget approval process comprises several steps:
  - Internal Departmental Request Collation and Compilation – late summer
  - Department Presentations – internal budget hearings held in October
  - Final Operating Revenue and Expense Guidance Provided by Leadership – early November
  - Presentation and Review by the Finance & Administration Committee – early December
  - Approval by the Board of Directors by December 31st of each year

2023 Budget Cycle

- SWBNO is proud to present a balanced Operating and Maintenance (O&M) budget that meets our obligations and positions the organization for the future.
  - A legally balanced budget is defined as having sufficient net revenues to meet the organization’s bond covenants.
- The 2023 Budget is the third consecutive annual budget that does not include any customer rate increases. Rates were last increased effective January 1, 2020.
- While revenues are budgeted on a “billed basis,” it is essential to consider the collection rate to understand the net resources available to the organization. After considering an adjustment for “uncollectable accounts,” the net collected revenues for 2023 are projected to be 5.2 percent higher than 2021 audited levels primarily due to the restart of normal collections in late 2021.
- Budgeted Operating Revenues for 2023 are 1.2 percent higher than 2022 based on the following assumptions:
  - 1.0 percent increase in the residential customer base and flat assumed consumption per customer
  - Inclusion of previously underbilled revenues from revenue recovery program
  - As noted above, no assumed rate increase

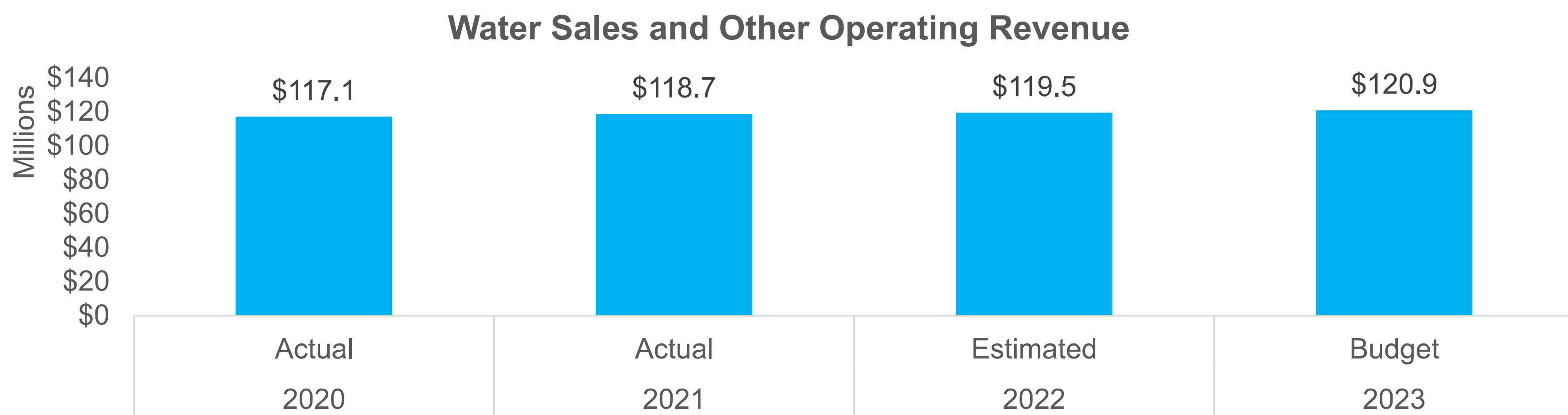
2023 Budget: Taking Control of Our Destiny

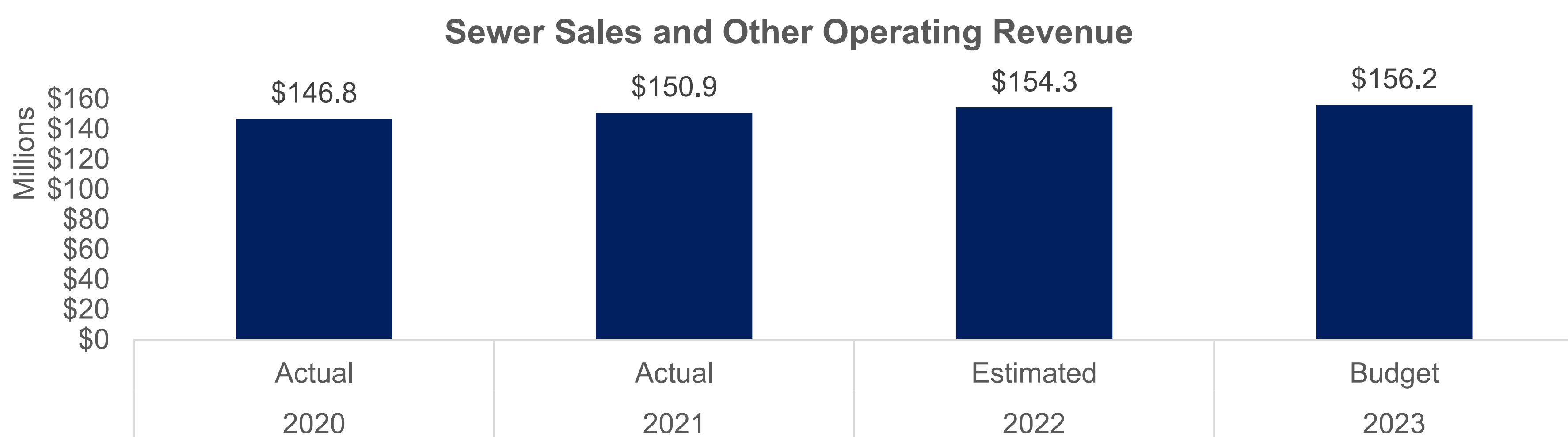
- Key budget decisions this year were driven by efforts to be:
  - Strategic – relating department goals to Strategic Plan tactics
  - Proactive – anticipating challenges such as supply chain, inflation, and workforce issues
  - Efficient – maximizing in-house resources and focusing on preventative maintenance
  - Accountable – measuring and owning our performance

- Both the operating and capital budgets reflect several legacy projects that will begin in 2023:
  - West Power Complex construction
  - Smart Meter installation
  - Modernization of financial and work order systems

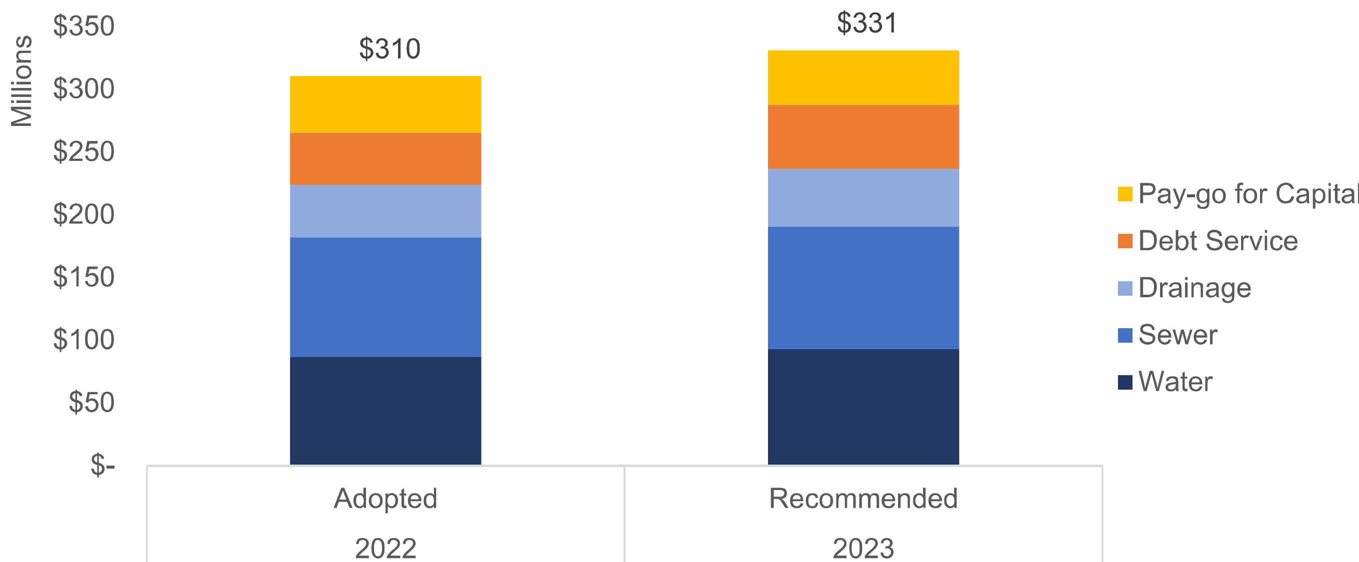
- While not all expenditure requests could be met, staff worked collaboratively to prioritize spending based on these drivers and priorities.

2023 Budget Revenue Compared to Prior Years





2023 Total O&M Budget



	2022 Adopted	2023 Recommended	$ Change	% Change
Water	$ 86,602,279	$ 92,944,542	$ 6,342,263	7.3%
Sewer	$ 95,286,786	$ 97,640,280	$ 2,353,494	2.5%
Drainage	$ 42,047,045	$ 45,916,824	$ 3,869,780	9.2%
Total	**$ 223,936,110**	**$ 236,501,647**	**$ 12,565,537**	**5.6%**
Debt Service	$ 41,460,127	$ 51,247,252	$ 9,787,125	23.6%
Pay-go for Capital	$ 45,000,000	$ 43,340,624	$ (1,659,376)	-3.7%
Total including Debt Service & Pay-go	**$ 310,396,237**	**$ 331,089,524**	**$ 20,693,287**	**6.7%**

2023 Operating Budget by System

		A Water	B Sewerage	C Drainage	D Total
	Operating Revenues:				
1	Revenues from Charges	$ 120,318,448	$ 155,557,571	$ -	$ 275,876,019
2	Other Operating Revenues	$ 547,838	$ 610,767	$ -	$ 1,158,605
3	**Total Operating Revenues**	**$ 120,866,286**	**$ 156,168,338**	**$ -**	**$ 277,034,624**
	Operating Expenses:				
4	Operating & Maintenance Expenses	$ 92,944,542	$ 97,640,280	$ 45,916,824	$ 236,501,647
5	Depreciation & Allowances Expenses (non-cash)	$ 22,468,073	$ 42,611,748	$ 35,531,001	$ 100,610,822
6	Interest Expense	$ 5,840,989	$ 8,773,103	$ 5,325,100	$ 19,939,192
7	OPEB & Pension Liability (non-cash)	$ 7,333,333	$ 7,333,333	$ 7,333,333	$ 22,000,000
8	**Total Operating Expense**	**$ 128,586,938**	**$ 156,358,465**	**$ 94,106,259**	**$ 379,051,661**
9	**Net Operating Income**	**$ (7,720,652)**	**$ (190,127)**	**$ (94,106,259)**	**$ (102,017,038)**
	Non-Operating Revenues (Expenses)				
10	Tax Revenues	$ -	$ -	$ 68,251,500	$ 68,251,500
11	Interest Income	$ 263,200	$ 160,300	$ 104,100	$ 527,600
12	Other Non-Operating Revenues	$ 1,697,400	$ 651,100	$ 27,300	$ 2,375,800
13	**Total Non-Operating Revenues**	**$ 1,960,600**	**$ 811,400**	**$ 68,382,900**	**$ 71,154,900**
14	**Net Income**	**$ (5,760,052)**	**$ 621,273**	**$ (25,723,359)**	**$ (30,862,138)**

2023 Operating Budget by Division

Division	Water	Sewerage	Drainage	Total
Executive Director	$ 631,419	$ 893,548	$ 381,242	$ 1,906,209
Special Counsel	$ 1,404,439	$ 2,074,065	$ 969,626	$ 4,448,130
Chief Administrative Officer	$ 16,606,615	$ 19,379,308	$ 9,689,654	$ 45,675,578
Communications	$ 265,910	$ 265,910	$ 132,955	$ 664,775
Operations	$ 67,728,401	$ 71,433,145	$ 36,799,528	$ 175,961,074
Chief Financial Officer	$ 4,114,312	$ 4,787,748	$ 2,475,515	$ 11,377,575
Chief Customer Service Officer	$ 9,243,681	$ 9,243,681	$ 150,122	$ 18,637,485
Capitalized Overhead	$ (7,050,236)	$ (10,437,125)	$ (4,681,818)	$ (22,169,179)
Total Operating & Maintenance	**$ 92,944,542**	**$ 97,640,280**	**$ 45,916,824**	**$ 236,501,647**
Debt Service	$ 12,737,071	$ 25,367,381	$ 13,142,800	$ 51,247,252
Depreciation & Allowance Expenses (non-cash)	$ 22,468,073	$ 42,611,748	$ 35,531,001	$ 100,610,822
OPEB Liability (non-cash)	$ 7,333,333	$ 7,333,333	$ 7,333,333	$ 22,000,000
Total Expense	**$ 135,483,019**	**$ 172,952,743**	**$ 101,923,959**	**$ 410,359,721**

2023 Operating Budget Compared to 2022 Adopted Budget

- 2023 Recommended Operating Expenses are budgeted $12.6 million, or 5.6 percent, higher than 2022 Adopted Operating Expenses.
- The Total 2023 Recommended Operating Budget is only marginally higher than the 2022 Adopted Budget when including non-cash expenses because a 23.6 percent increase in debt service payments is offset by decreased allocations for depreciation, doubtful accounts, and pay-go capital financing.

		2022 Adopted Budget	2023 Recommended Budget	$ Change	% Change
1	Personnel Services	$ 106,039,721	$ 110,539,613	$ 4,499,892	4.2%
2	Services and Utilities	$ 70,145,153	$ 76,789,412	$ 6,644,259	9.5%
3	Materials and Supplies	$ 40,748,121	$ 41,251,785	$ 503,664	1.2%
4	Special Current Charges	$ 6,084,868	$ 7,208,709	$ 1,123,841	18.5%
5	Furniture and Equipment	$ 918,247	$ 712,128	$ (206,119)	(22.4%)
6	**Total Operating Expenses**	**$ 223,936,110**	**$ 236,501,647**	**$ 12,565,537**	**5.6%**
7	Depreciation	$ 90,928,314	$ 83,510,822	$ (7,417,492)	(8.2%)
8	OPEB and Pension Liability	$ 22,000,000	$ 22,000,000	$ -	0.0%
9	Doubtful Accounts	$ 30,350,400	$ 17,100,000	$ (13,250,400)	(43.7%)
10	Debt Service	$ 41,460,127	$ 51,247,252	$ 9,787,125	23.6%
11	Pay-go	$ 45,000,000	$ 43,340,624	$ (1,659,376)	(3.7%)
12	**Total Operating Budget**	**$ 453,674,951**	**$ 453,700,346**	**$ 25,395**	**0.01%**

2023 Operating Budget: Resources Available for Pay-Go

		2023 Total Recommended Budget
Total Operating Revenues	$	277,034,624
Total Non-Operating Revenues	$	71,154,900
Total Billed Revenues	**$**	**348,189,524**
Estimated Doubtful Accounts	$	(17,100,000)
Collected Revenues	**$**	**331,089,524**
O&M Expenses	$	(236,501,647)
Debt Service	$	(51,247,252)
Total O&M Expenses & Debt Service	**$**	**(287,748,899)**
Surplus Cash Resources Available for Pay-Go	**$**	**43,340,624**

2023 Operating Budget Position Adjustments

- The 2023 Operating Budget recommends a total of 1,587 budgeted positions (1,208 filled and 337 currently vacant positions)
  - This total includes funding for 19 new positions requested by department leadership for 2023 to address strategic areas for improvement.

	2022 Authorized Positions	2023 Recommended Positions	# *Variance*	% *Variance*
Chief Administrative Officer	90	86	*(4)*	*(4.4%)*
Chief Financial Officer	80	84	*4*	*5.0%*
Chief Customer Service Officer	301	303	*2*	*0.7%*
Communications	7	5	*(2)*	*(28.6%)*
Executive Director	13	16	*3*	*23.1%*
Special Counsel/Legal	16	18	*2*	*12.5%*
General Supt./Operations	1061	1075	*14*	*1.3%*
Total	**1568**	**1587**	***19***	***1.2%***

Debt Service Coverage Requirements Met

- Section 7.01(a)(ii) of the S&WBNO Bond Covenants provides that Net Revenues shall be at least equal to 125% of the Annual Debt Service.

Debt Service Coverage Calculation	Water	Sewer	Drainage
Revenues for Debt Service Coverage:			
Total Operating Revenues	$ 120,866,286	$ 156,168,338	$ -
Total Non-Operating Revenues	$ 1,960,600	$ 811,400	$ 68,382,900
Total Revenues for Debt Service Coverage	**$ 122,826,886**	**$ 156,979,738**	**$ 68,382,900**
Expenses for Debt Service Coverage:			
Operating & Maintenance Expenses	$ 92,944,542	$ 97,640,280	$ 45,916,824
Allowance for Doubtful Accounts	$ 6,900,000	$ 10,200,000	$ -
Total Expenses for Debt Service Coverage	**$ 99,844,542**	**$ 107,840,280**	**$ 45,916,824**
Net Revenues Available for Debt Service	**$ 22,982,344**	**$ 49,139,457**	**$ 22,466,076**
Debt Service	**$ 12,740,989**	**$ 22,921,376**	**$ 10,080,000**
Debt Service Coverage	**1.80**	**2.14**	**2.23**

* Additionally, the Water and Sewer Days Cash on Hand requirement (>90 of average daily Operating & Maintenance Expenses) is projected to be achieved based current levels of cash on hand, projected cash activity for the balance of 2022 and the budgeted 2023 expenses above.

2023 Budget Cycle: Capital Program

- SWBNO Capital Budgeting involves the identification of capital improvement needs (proposed uses) and matching those capital expenditure needs with capital financing (proposed sources). Project Managers provide updated forecasts inclusive of change orders for the coming fiscal year as well as a projection for 10 years.
- The historical deferral of capital improvement projects due to a lack of financing has created a backlog; and in some cases, increased operational spending. Therefore, in this budget cycle we continue to look for creative ways to seek out all viable financing solutions through our local, state and federal partners as well as balance both our operating and capital spending needs in a very challenging environment.
- Major Capital Projects include the West Power Complex and Smart Metering which are funded for FY23 through a number of sources and will be transformational for the Utility. Additional critical projects such as the Sewer Rehabilitation Program and JIRR will continue in FY23 to progress toward mandatory deadlines.
- We continue to pursue capital financing thru new legislative grants, low-interest loan applications, future bond sales, and intergovernmental negotiations to continue to make progress on the list of capital improvements needed to improve our services to the public.

Estimated 2023 Capital Sources & Uses and Identified Projects[1]

Sources	Sewer	Water	Drainage	Total
WIFIA Program	$ 221,444,462	$ -	$ -	**$ 221,444,462**
State Revolving Loan Fund (proposed)	$ 39,000,000	$ -	$ -	**$ 39,000,000**
FEMA Grant - JIRR	$ 4,294,452	$ 21,098,470	$ -	**$ 25,392,922**
FEMA Grants - Other	$ 7,000,000	$ 7,000,000	$ -	**$ 14,000,000**
Fair Share Funding	$ -	$ 6,833,333	$ 16,599,152	**$ 23,432,485**
Other Capital Project Funds	$ 10,288,910	$ 10,288,910	$ -	**$ 20,577,820**
West Power Complex - (Capital Outlay, HUD CDBG, FEMA HMGP, Drainage Tax Bond, Fair Share Funding)	$ -	$ -	$ 52,476,307	**$ 52,476,307**
Other Grant	$ -	$ -	$ 1,166,000	**$ 1,166,000**
Pay-Go Cash Financing	$ 14,446,875	$ 14,446,875	$ 14,446,875	$ 43,340,624
Total Sources	**$ 296,474,699**	**$ 59,667,588**	**$ 84,688,334**	**$ 440,830,621**

Uses	Sewer	Water	Drainage	Total
WIFIA Program	$ (221,444,462)	$ -	$ -	**$ (221,444,462)**
Wastewater Treatment Plants	$ (39,000,000)	$ -	$ -	**$ (39,000,000)**
FEMA - JIRR	$ (4,294,452)	$ (21,098,470)	$ -	**$ (25,392,922)**
FEMA Grants - Other	$ (7,000,000)	$ (7,000,000)	$ -	**$ (14,000,000)**
Bulk Chemical Storage and Filter Gallery Projects	$ -	$ (6,833,333)	$ -	**$ (6,833,333)**
Smart Metering	$ (10,288,910)	$ (10,288,910)	$ -	**$ (20,577,820)**
West Power Complex	$ -	$ -	$ (52,476,307)	**$ (52,476,307)**
Drainage SCADA Improvements	$ -	$ -	$ (1,166,000)	**$ (1,166,000)**
Other Capital Projects	$ (34,540,703)	$ (51,742,338)	$ (50,513,366)	**$ (136,796,407)**
Total Uses	**$ (316,568,527)**	**$ (96,963,051)**	**$ (104,155,673)**	**$ (517,687,252)**

Net Result	**$ (20,093,829)**	**$ (37,295,463)**	**$ (19,467,340)**	**$ (76,856,631)**

[1] *Actual Capital appropriation and spending will be limited based on available Sources by System. Identified projects without available funding will be deferred beyond 2023 or until funding becomes available.*

R-186-2022

2023 Operating Budget and 2023 Capital Budget Blanket Appropriations
December 14, 2022

WHEREAS, as authorized by Louisiana R.S. 33:4083 that all funds receive by the Board from water rates, and from the city by appropriation from its treasury, shall be deposited to the credit of the Board as collected, with fiscal agent of the city, and shall not be paid out except upon duly adopted resolution of appropriation, and;

WHEREAS, Louisiana R.S. 33: 4094 specifically outlines the procedure for disbursement of Board funds on deposit with the Board of Liquidation, City Debt,

NOW, THEREFORE, BE IT RESOLVED, by the Sewerage and Water Board of New Orleans, that this resolution of appropriation is adopted to authorize and empower the disbursement of funds as identified in its 2023 Operation Budget and 2023 Capital Budget, by those designated parties, both within the Board as specified by its by-laws and by and through warrants drawn on the Board of Liquidation, City Debt.

I, Ghassan Korban, Executive Director,
Sewerage and Water Board of New Orleans
do hereby certify that the above and foregoing
is a true and correct copy of a Resolution said
Board, duly called and held, according to the
law on December 14, 2022

GHASSAN KORBAN
EXECUTIVE
DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

2023 OPERATING BUDGET

WHEREAS, the Sewerage and Water Board has reviewed the Recommended 2023 Operating Budget of which **$92,944,542** is from the Water Department, **$97,640,280** is from the Sewerage Department, and **$45,916,824** is for the Drainage Department for a Total Operation and Maintenance (O&M) Expense Budget of **$236,501,647**; and

WHEREAS, it is the intent of the Board that the Executive Director maintain budgetary controls; and

WHEREAS, the authorized expenditure categories for 2023 are:

EXPENDITURE CATEGORIES	2023 BUDGET
Personnel Services	$110,539,613
Services and Utilities	76,789,412
Material and Supplies	41,251,785
Special Current Charges	7,208,709
Furniture and Equipment	712,128
TOTAL Operation and Maintenance Expense	**236,501,647**
Debt Service	**51,247,252**
Pay-Go	**43,340,624**
O&M with Debt Service and Pay-Go	**$331,089,523**

NOW THEREFORE BE IT RESOLVED that the Sewerage and Water Board of New Orleans does hereby approve the 2023 O&M Expense Budget with Debt Service and Pay-Go in the amount of **$331,089,523.**

I, Ghassan Korban, Executive Director,
Sewerage and Water Board of New Orleans,
do hereby certify that the above and foregoing
is a true and correct copy of a resolution adopted
at the Regular Meeting of the said Board,
duly called and held, according to law, on
December 14, 2022.

Ghassan Korban
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

R-183-2022

ADOPTION OF 2023 CAPITAL BUDGET

WHEREAS, the recommended 2023 Capital Budget for the water, sewerage, and drainage systems is **$517,687,252**; and

WHEREAS, identified funding is projected to be available through system revenues, taxes, reserves, bond proceeds, grant funds, and participation by others to finance the Capital Budget are **$440,830,621;**

WHEREAS, the portion of the recommended 2023 Capital Budget requiring funding for the drainage system during 2023 is **$104,155,673** of which funds have been identified of **$84,688,334**, resulting in a deferral of projects totaling **$19,467,340**, unless other sources of funding are identified; and

WHEREAS, the portion of the recommended 2023 Capital Budget requiring funding for the water system during 2023 is **$96,963,051** of which funds have been identified of **$59,667,588** resulting in a deferral of projects totaling **$37,295,463**, unless other sources of funding are identified; and

WHEREAS, the portion of the recommended 2023 Capital Budget requiring funding for the sewerage system during 2023 is **$316,568,527** of which funds have been identified of **$296,474,699**, resulting in a deferral of projects totaling **$20,093,829**, unless other sources of funding are identified; and

WHEREAS, the recommended 2023-2032 Capital Improvement Program is **$2,481,190,291;**

NOW THEREFORE BE IT RESOLVED that the Sewerage and Water Board of New Orleans does hereby adopt the 2023 Total Capital Budget of **$517,687,252** with funding totaling **$440,830,621**; and

BE IT FURTHER RESOLVED that the Sewerage and Water Board does hereby accept the 2023-2032 Capital Improvement Program.

I, Ghassan Korban, Executive Director,
Sewerage and Water Board of New Orleans,
do hereby certify that the above and foregoing
is a true and correct copy of a resolution adopted
at the Regular Meeting of the said Board,
duly called and held, according to law, on
December 14, 2022.

Ghassan Korban
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS