



COMMISSION FILE NO: 17-037-4 **DATE INTRODUCED:** April 10, 2017

INTRODUCED BY: Executive Director (Signature on File in the Office of the Commission)

REFERRED BY COMMISSION CHAIRPERSON TO: Policy, Finance, and Personnel Committee

RELATING TO: Authorizing the Transfer of Funds in the 2016 Operations and Maintenance Budget and the Transfer of Funds in the 2016 Capital Budget

SUMMARY:

The Commission is requested to approve the transfer of funds in the 2016 Operations and Maintenance Budget. District Commission Policy 1-15.01, Operations and Maintenance Budget, requires Commission approval to offset overruns in one division with a surplus from another division or the unallocated reserve, as appropriate.

Likewise, the Commission is asked to approve the transfer of funds between capital accounts in the 2016 Capital Budget. District Commission Policy 1-15.02, Capital Budget, requires Commission approval to offset overruns in one capital account with a surplus from another capital account.

The amount of requested transfers is based on preliminary financial reports for 2016. A preliminary analysis of the 2016 surplus, subject to final audit, indicates a year end surplus of \$7,465,849. The surplus is to be used in the 2018 Operations and Maintenance Budget as surplus applied and a reduction to user charge billings.

A two-thirds affirmative vote of the Commission is required for adoption.

ATTACHMENTS: BACKGROUND KEY ISSUES RESOLUTION
FISCAL NOTE S/W/MBE OTHER _____

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03-27-17*

COMMITTEE ACTION: _____ **DATE:** _____

COMMISSION ACTION: _____ **DATE:** _____

SUMMARY (Cont'd)

Authorizing the Transfer of Funds in the 2016 Operations and Maintenance Budget and the Transfer of Funds in the 2016 Capital Budget

Division: Community Outreach and Business Engagement Division

Transfer Amount: \$336,000

The transfer is needed to offset the unfavorable variance of \$336,000 within the Community Outreach and Business Engagement Division. The unfavorable variance results primarily from the Marketing and Milorganite® cost center. In the Marketing and Milorganite® cost center, the unfavorable variance of \$279,000 is due to packaging expenses and the packaging contract. The 2016 budget for the cost center was created based on historical trends in the type of product sold, either packaged product or bulk product. In 2016, the District sold more packaged product to the retail markets than originally anticipated; therefore, the District had to package more product than what was budgeted. The \$279,000 unfavorable variance in the Marketing and Milorganite® cost center is partially offset by favorable variances in the Division's other cost centers. In addition, the net revenue from Milorganite® sales was \$1.2 million greater than the budgeted level. The Division's total unfavorable variance is approximately \$336,000.

Division: Fringe Benefits

Transfer Amount: \$1.1 million

The transfer is needed to offset the unfavorable variance of \$1.1 million within the Fringe Benefits Division. The unfavorable variance is the result of recording an \$1,308,000 expense related to the District's liability to the Employee Retirement System. Beginning in 2015, Generally Accepted Accounting Principles require the recording of the employers share of the actuarial liability as of a measurement date. Prior to 2015, only disclosure in the footnotes to the financial statements was required for this liability. By recording this additional expense and related liability, the District has fully funded its liability to the Employee Retirement System. This unfavorable variance of \$1.1 million is offset by the Division's favorable variance in charges to capital.

Funds for the requested transfers are available in the Unallocated Reserve.

BACKGROUND

Authorizing the Transfer of Funds in the 2016 Operations and Maintenance Budget and the Transfer of Funds in the 2016 Capital Budget

	2016 Amended Budget	2016 Preliminary Actual	2016 Preliminary Variance	Transfer From	Transfer To	2016 Amended Budget
Commission	\$281,582	\$217,277	\$64,305			\$281,582
Office of Executive Director	\$5,862,838	\$5,754,063	\$108,775			\$5,862,838
Legal Services	\$1,062,937	\$756,130	\$306,807			\$1,062,937
Finance	\$2,411,884	\$2,263,430	\$148,454			\$2,411,884
Technical Services	\$59,585,341	\$56,803,575	\$2,781,766			\$59,585,341
Planning, Research, & Sustainability	\$860,471	\$407,932	\$452,539			\$860,471
Water Quality Protection	\$3,890,185	\$3,838,468	\$51,717			\$3,890,185
Community Outreach & Business Engagement	\$5,301,842	\$5,637,300	(\$335,458)		\$336,000	\$5,637,842
Fringe Benefits	\$8,700,669	\$9,789,155	(\$1,088,486)		\$1,100,000	\$9,800,669
Unallocated Reserve	\$1,807,449	\$0	\$1,807,449	(\$1,436,000)		\$371,449
Total	\$89,765,197	\$85,467,330	\$4,297,868	(\$1,436,000)	\$1,436,000	\$89,765,197

In the 2016 Capital Budget, the Watercourse and Flood Management capital account exceeded the budgeted level by \$2.667 million. The unfavorable variance is due primarily to the timing of expenditures with more than budgeted occurring in 2016. Payments to the Army Corps of Engineers (USACE) for work to be completed for Project W21006, Underwood Creek Reach 1, Phase II, occurred in 2016, but were anticipated in future years, causing expenditures to exceed the 2016 level. This unfavorable variance does not impact the project's approved total project cost which decreased in the 2017 Capital Budget due to the formation of a USACE cost sharing partnership. Also, contributing to the unfavorable variance are expenditures for the project W11031, West Basin 30th Street Corridor Wet Weather Relief, a breakout of the 30th Street Corridor Project. Work on the 30th Street Corridor was accelerated in 2016, and the unfavorable variance is primarily attributable to timing. This unfavorable variance does not impact the project's approved total project cost. In addition, these variances do not negatively impact the District's Six-year Financing Plan.

If approved, \$2.667 million of unspent budgeted funds will be transferred from the Water Reclamation Facilities capital account to the Watercourse and Flood Management capital account to offset overruns.

BACKGROUND (Cont'd)

Authorizing the Transfer of Funds in the 2016 Operations and Maintenance Budget and the Transfer of Funds in the 2016 Capital Budget

Dollars in Thousands

	2016 Adopted Budget	2016 Actual	Year-End Variance	Transfer From	Transfer To	2016 Amended Budget
Water Reclamation Facilities	\$30,175	\$19,889	\$10,286	(\$2,667)		\$27,508
Conveyance Facilities	\$10,615	\$9,239	\$1,376			\$10,615
Watercourse & Flood Management Projects	\$24,493	\$27,161	(\$2,667)		\$2,667	\$27,160
Other Projects	\$24,288	\$14,661	\$9,626			\$24,288
Totals	\$89,571	\$70,951	\$18,621	(\$2,667)	\$2,667	\$89,571

RESOLUTION

Authorizing the Transfer of Funds in the 2016 Operations and Maintenance Budget and the Transfer of Funds in the 2016 Capital Budget

RESOLVED, by the Milwaukee Metropolitan Sewerage Commission, that funds from the 2016 Operations and Maintenance Budget be transferred as follows:

1. A total of \$336,000 from Unallocated Reserve to the Community Outreach and Business Engagement Division and
2. A total of \$1.1 million from the Unallocated Reserve to the Fringe Benefits Division,

and that funds from the 2016 Capital Budget are transferred as follows:

3. A total of \$2.667 million from the the Water Reclamation Facilities capital account to the Watercourse and Flood Management capital account.