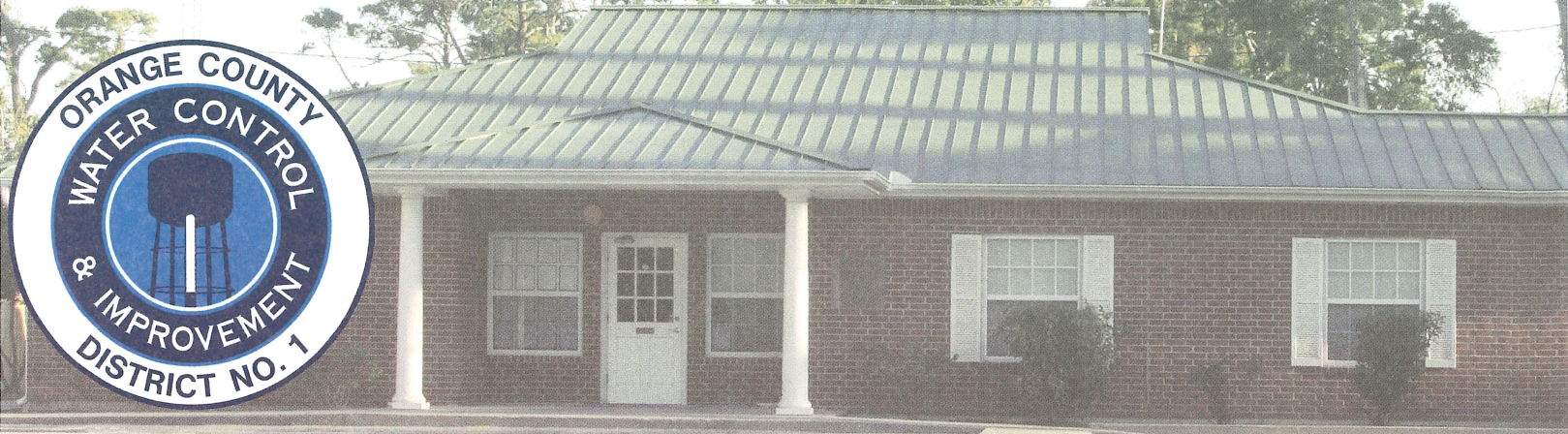


**ORANGE COUNTY WATER CONTROL &
IMPROVEMENT DISTRICT NO. 1**



**2020-2021
BUDGET**

BUDGET LETTER



May 20, 2020

Board of Directors
Orange County Water Control &
Improvement District No. 1
460 E Bolivar
Vidor, Texas 77662

Gentlemen:

Presented for your consideration are the **2019/2020 Budget Performance Analysis** and the **Proposed Fiscal Year 2020/2021 Annual Operating Budget** for the Orange County Water Control & Improvement District No. 1.

Fiscal Year 2019/2020 Annual Budget Performance Analysis

As the 2019/2020 Fiscal Year comes to an end, projections of the budget figures for revenues indicate that, once again, expectations will not be met. This will be the third year that revenues have fallen below expectations. The 2019/2020 fiscal year has been challenging and revenues and expenditures have been monitored closely. The budgeted revenues and expenditures for the year were \$4,671,460 each for a balanced budget. Based on actual data for the first 9 months of the fiscal year and projections for the remaining three months, revenues will come in at approximately \$4,583,342.76. As of the date of this letter, this figure represents approximately \$88,000 less than projected. I must interject here that the \$88,000 shortfall prediction does not include projections of lost revenue that, with the COVID 19 Pandemic "Stay at Home" Orders and many businesses and schools closed, will surely ensue.

Regarding the revenue shortfall, the largest factor is that the District currently serves approximately 117 fewer customers than it served in the past three fiscal years. It is believed the loss of customers is due to both tropical storm flood events, Harvey, and Imelda. Many homes have still not been restored. Households throughout the District are continuing to experience financial distress and are using less water than prior years and, now with the current Orders, we can most assuredly expect water sales to be down throughout the remainder of this Pandemic and revenues will follow suit.

On the expense side of the budget, the District experienced cost overruns in more than half of the line item categories. The top seven major factors affecting the overrun in expenditures and some discussion of each are:

1. Salaries and Wages (Account #5101) and Payroll Expenses (Account #'s 5104 & 5110) was the largest category of expense overrun at approximately \$98,446.67. There was a time during this fiscal year that the District employed a total of 39 employees, two more than was budgeted. The additional manpower was needed for increased effort in I/I Reduction, including the Sewer Service Line Replacement Grant Project. Through attrition, the District now employs 32 employees. For the upcoming fiscal year, we have budgeted to replace two of the seven employees who have left employment. We can operate with less staff as the Vidor Grant Project for the replacement of sewer service yard lines has now been completed. The closure of this Grant Project resulted in the need for at least one less crew (2 employees). Another point that I must make is the loss of the former General Manager. When I became General Manager, we were able to restructure some of my previous duties with staff already in place, therefore, eliminating the need to hire any additional personnel.
2. The Wastewater Collection System – Upgrades and Maintenance Account (Account #5132-G) expense line item overran by approximately \$15,930.00. Much of the overrun is related to pump

replacements at several lift stations with an average cost of \$4,550.00 each. The replacement cost of these pumps totaled approximately \$27,300 of the budgeted \$45,000, more than ½ of the allowance allocated for this account.

3. Contracts – Office Maintenance (Account # 5137) expense line item overran by approximately \$10,700.00. Much of this overrun can be contributed directly to cost increase in contracts.
4. Office Expense – General (Account #5152) expense line item is projected to overrun the budget predictions by approximately \$10,000.00. Reasons for the cost overruns in this account is simply cost of supplies has risen more than predicted.
5. Printing and Legal Notices (Account #5158) expense line item overran budget predictions by \$8,000.00. The overrun can be contributed to the cost of the TTHM quarterly notifications as required by TCEQ until TTHM levels comply and to the cost of mailouts regarding the Vidor Sewer Service Yard Line Replacement Grant Project. A decrease in cost should be recognized next year as the Vidor Sewer Service Yard Line Replacement Grant Project is now complete.
6. Tools, Small/Other Equipment (Account #5181) expense line item overruns can only be contributed to inflation costs of materials needed.
7. Office Equipment & Software (Account #5184) expense line item overrun was due to the need for a Trimble 10-Tablet and a new receiver kit in conjunction with the upgrades to the meter reading software program. I have budgeted an increase to this line item by approximately double from last year's budget as the District's dependence on technology increases. Examples: Scada system, meter reading system, billing system, etc.

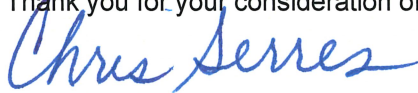
The budget line items discussed above represent the largest cost overruns. There were a few others that overran to a smaller degree, and, of course, many line items that did not exceed the budget at all, some coming in below budget projections.

District staff has reviewed the budget performance in great detail to identify the factors that led to the projected \$88,000+ underperformance of the 2019/2020 budget, to make corrective changes in the District's operations, and to develop the proposed budget for Fiscal Year 2020/2021. The recovery from Tropical Storms Harvey and Imelda flooding has continued to effect Water District operations. And, at this time, there is no way to accurately predicate the effects the COVID 19 shutdown will have on District revenues. While we know that some of the increased costs of operations is the result of the floods, we cannot predict how long these negative effects will persist. We believe that our cost of operation will continue to be higher than we had experienced prior to both flood events. Costs of materials have increased sharply in the last three years, and it is suspected that they will not drop back to previous levels. Inflation, which has been calculated for the 2019-2020 fiscal year is up by 2.73%, the projected highest inflation rate since 2011. With the three unpredictable events affecting revenues, and inflation costs affecting expenditures, projecting a balanced budget has become quite a challenge.

Proposed Fiscal Year 2020-2021 Annual Operating Budget

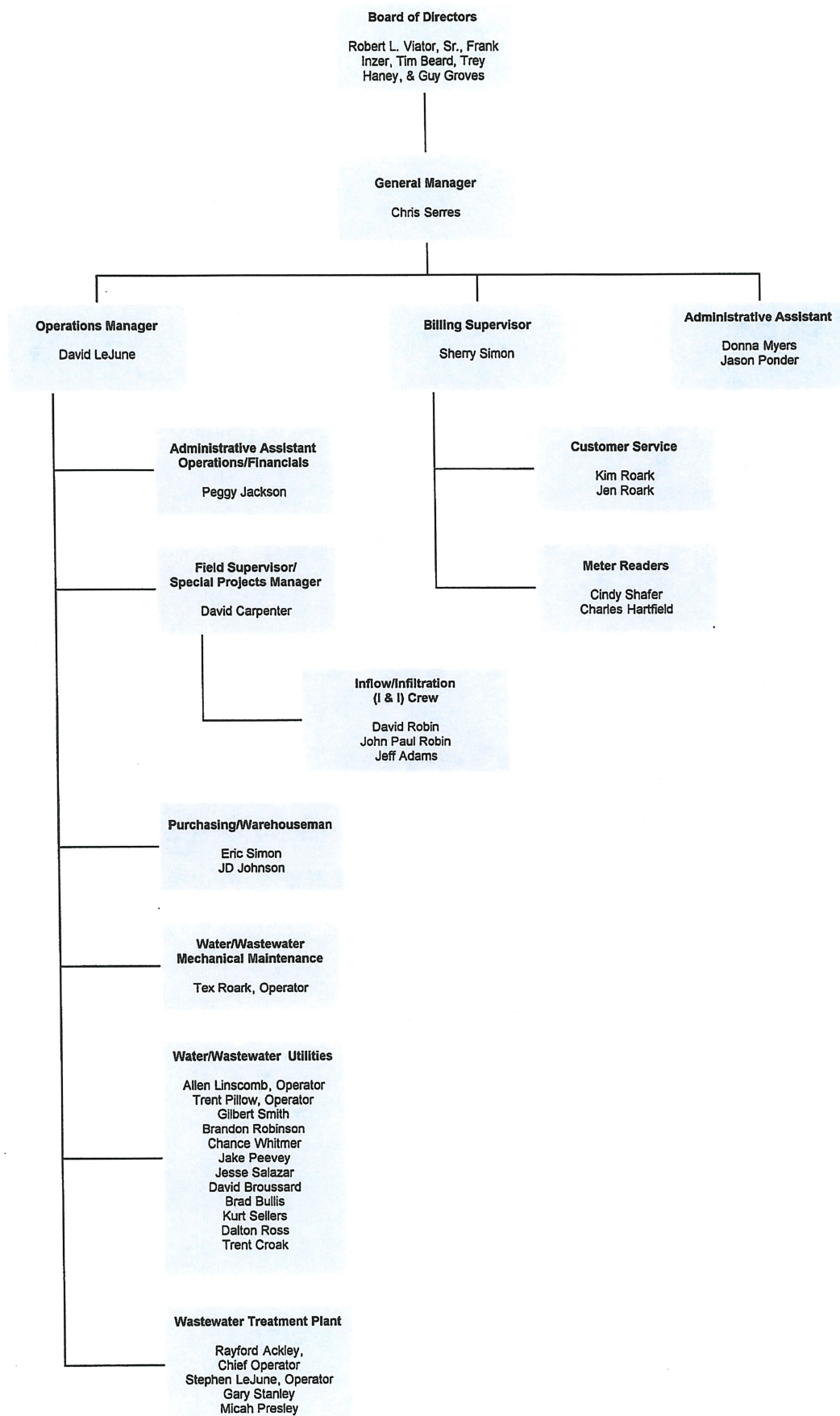
Using all available historical income and expense data, the District's staff has developed a proposed budget that predicts \$4,729,200 in spending (including the Revenue Note) and a need for \$4,729,200 in revenues to balance the budget as shown in the charts and tables in this document. As noted above, the District's sales of water and sewer services are down from previous years and we will, in all probability, continue to see a drop in sales throughout the remainder of the 2019-2020 fiscal year and into the 2020-2021 fiscal year. As costs continue to rise and usages continue a downward trend, a rate increase for water and sewer utilities will be necessary to continue operating and meeting the needs of our citizens. A 4% increase in the minimum charge of \$31.18 to \$32.43 and a \$.04 increase in the water and sewer rates respectively, up from \$.31 to \$.35 per 100 gallons of water used is proposed for the upcoming fiscal year.

Thank you for your consideration of the 2020-2021 Proposed Budget,



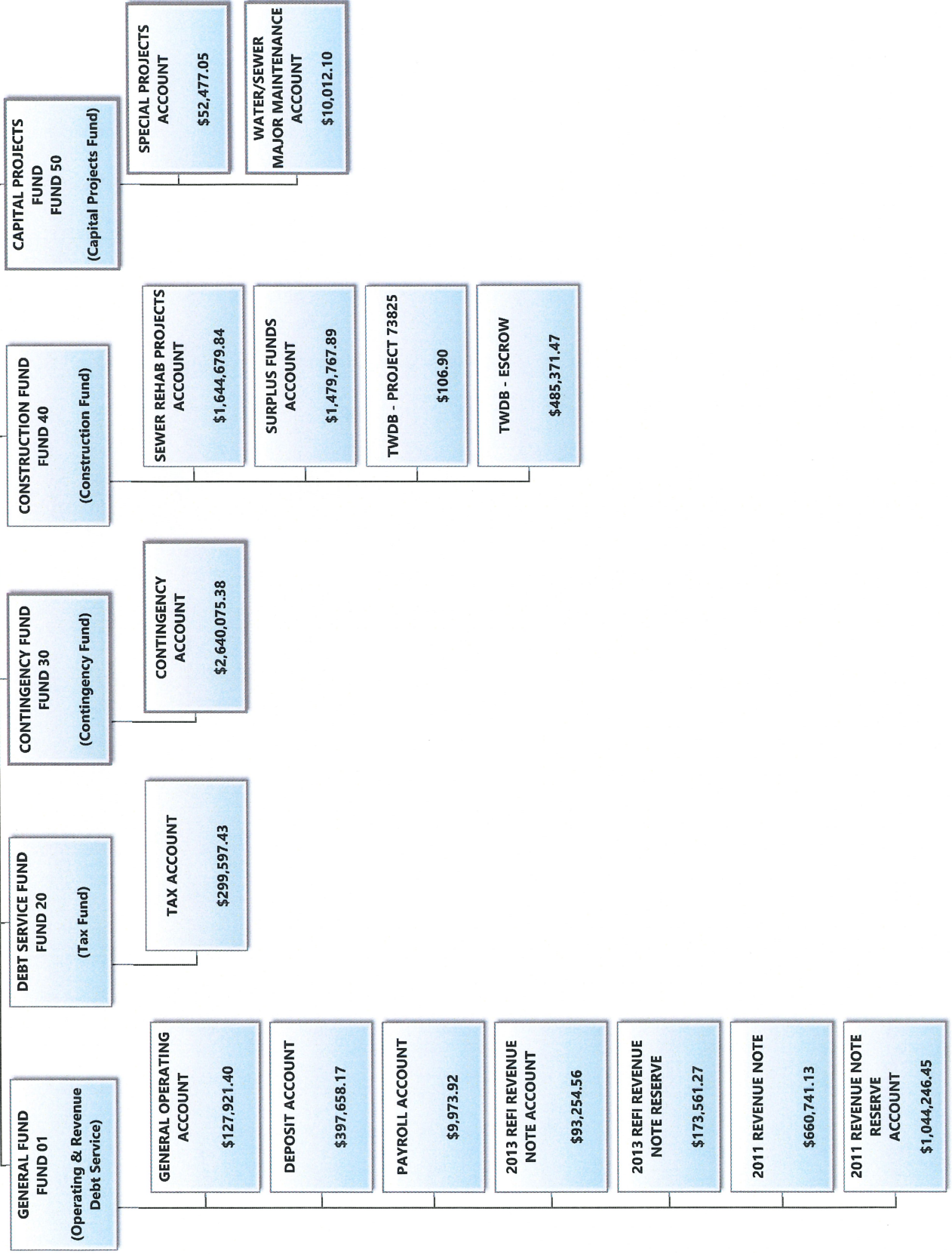
Chris Serres
General Manager

ORGANIZATIONAL CHART



**DISTRICT
CHART OF FUNDS
WITH
ACCOUNT BALANCES**

DISTRICT FUNDS (@ MARCH 31, 2020)



2020-2021
BUDGET
WITH
HISTORICAL DATA

REVENUES AND EXPENSES

[illegible]

REVENUES AND EXPENSES

ANNUAL COMPARISONS FYE 2017 - FYE 2020 WITH 2020-2021 BUDGET PREDICTIONS

EXPENDITURES										
ACCT #	EXPENSES	2016-2017 ACTUAL	2016-2017 BUDGET	2017-2018 ACTUAL	2017-2018 BUDGET	2018-2019 ACTUAL	2018-2019 BUDGET	2019-2020 @ 03/31/20	2019-2020 BUDGET	2020-2021 BUDGET
5101	SALARIES AND WAGES	\$ 1,184,985	\$ 1,217,000	\$ 1,295,446	\$ 1,260,000	\$ 1,544,079	\$ 1,470,120	\$ 1,279,964	\$ 1,631,000	\$ 1,645,000
5102	SALARIES AND WAGES - OVERTIME	\$ 80,324	\$ 85,000	\$ 167,761	\$ 85,000	\$ 117,450	\$ 80,000	\$ 73,843	\$ 115,000	\$ 115,000
5104	EMPLOYEE RETIREMENT EXPENSE	\$ 50,334	\$ 55,000	\$ 51,738	\$ 50,000	\$ 82,048	\$ 55,000	\$ 81,531	\$ 98,500	\$ 95,000
5105	HEALTH SAVINGS ACCOUNT (HAS)	\$ -	\$ -	\$ -	\$ -	\$ 8,865	\$ -	\$ 12,373	\$ 16,000	\$ 16,000
5107	HEALTH/LIFE INSURANCE	\$ 198,440	\$ 208,000	\$ 222,330	\$ 240,000	\$ 255,529	\$ 240,000	\$ 187,575	\$ 273,000	\$ 250,000
5110	PAYROLL TAXES EXPENSE	\$ 95,745	\$ 95,000	\$ 111,890	\$ 95,000	\$ 126,608	\$ 115,000	\$ 102,810	\$ 124,460	\$ 122,000
5113	TEXAS WORKFORCE COMM - UNEMPLOYMENT	\$ 460	\$ 4,500	\$ 4,055	\$ 3,000	\$ 1,764	\$ 5,000	\$ 63	\$ 5,600	\$ 5,000
5114	WORKERS COMP PREMIUMS	\$ 20,839	\$ 25,000	\$ 26,949	\$ 28,000	\$ 31,982	\$ 35,000	\$ 10,164	\$ 35,000	\$ 55,000
5116	LEGAL FEES	\$ 23,550	\$ 20,000	\$ 17,374	\$ 20,000	\$ 14,280	\$ 20,000	\$ 9,525	\$ 15,000	\$ 15,000
5119	BUILDING SECURITY	\$ 1,799	\$ 1,500	\$ 1,170	\$ 2,000	\$ 2,655	\$ 2,000	\$ 1,591	\$ 3,000	\$ 3,000
5120	LPSS REFUND ACCT	\$ 1,500	\$ 4,000	\$ -	\$ 4,000	\$ -	\$ 4,000	\$ 3,610	\$ 4,000	\$ 4,000
5121	SEWER TAP REFUND	\$ -	\$ 1,500	\$ -	\$ 900	\$ -	\$ 900	\$ -	\$ 900	\$ 900
5122	ENGINEERING FEES	\$ 22,895	\$ 30,000	\$ 36,728	\$ 30,000	\$ 5,540	\$ 25,000	\$ 41,054	\$ 50,000	\$ 50,000
5123	WATER TAP REFUND	\$ 700	\$ 1,000	\$ 1,400	\$ 700	\$ 2,550	\$ 700	\$ -	\$ 700	\$ 700
5125	AUDIT EXPENSE	\$ 16,500	\$ 16,500	\$ 16,500	\$ 16,500	\$ 16,500	\$ 16,500	\$ 16,500	\$ 16,500	\$ 16,500
5128	VEHICLE/EQUIPMENT - MAINT & REPAIR	\$ 27,367	\$ 15,000	\$ 24,237	\$ 25,000	\$ 37,479	\$ 20,000	\$ 24,976	\$ 30,000	\$ 30,000
5131-B	WELL #4	\$ 8,157	\$ 10,000	\$ 1,880	\$ 10,000	\$ 8,323	\$ 5,000	\$ 1,363	\$ 5,000	\$ 2,000
5131-C	WELL #5	\$ 2,164	\$ 10,000	\$ 6,409	\$ 10,000	\$ 6,759	\$ 5,000	\$ 7,431	\$ 5,000	\$ 7,000
5131-D	WELL #6	\$ -	\$ 1,000	\$ -	\$ 1,000	\$ 315	\$ 1,000	\$ -	\$ -	\$ -
5131-E	WATER DISTRIBUTION SYSTEM - UPGRADES/M/	\$ 25,163	\$ 10,000	\$ 27,306	\$ 25,000	\$ 39,637	\$ 25,000	\$ 16,786	\$ 35,000	\$ 25,000
5131-F	WELL #7	\$ 2,883	\$ 10,000	\$ 9,112	\$ 5,000	\$ 16,179	\$ 5,000	\$ 4,522	\$ 5,000	\$ 5,000
5132-A	OAKLANE WW TP	\$ 34,900	\$ 20,000	\$ 32,139	\$ 35,000	\$ 23,302	\$ 35,000	\$ 16,031	\$ 35,000	\$ 25,000
5132-B	TIGERLAKE WWTP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5132-C	OAKLANE/TIGER CREEK WWTP	\$ -	\$ -	\$ 1,878	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5132-D	CLOVERLEAF WWTP	\$ -	\$ -	\$ 900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5132-G	WASTEWATER COLLECTION SYSTEM - UPGRADE	\$ 42,058	\$ 25,000	\$ 74,376	\$ 40,000	\$ 49,881	\$ 40,000	\$ 45,696	\$ 45,000	\$ 45,000
5133	LPSS - NEW INSTALLATIONS/REPAIRS	\$ 83,380	\$ 50,000	\$ 76,067	\$ 70,000	\$ 162,938	\$ 70,000	\$ -	\$ -	\$ -
5133-A	LPSS - NEW INSTALLATIONS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,166	\$ 60,000	\$ 60,000
5133-B	LPSS - MAINTENANCE/REPAIRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,585	\$ 75,000	\$ 50,000

REVENUES AND EXPENSES

ANNUAL COMPARISONS FYE 2017 - FYE 2020 WITH 2020-2021 BUDGET PREDICTIONS

ACTUAL											
ACCT #	EXPENSES	2016-2017		2017-2018		2018-2019		2019-2020		2020-2021	
		ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	@ 03/31/20	BUDGET	BUDGET	BUDGET
5135	INFLOW AND INFILTRATION	\$ -	\$ -	\$ -	\$ -	\$ 21,025	\$ 30,000	\$ 23,487	\$ 30,000	\$ 30,000	\$ 30,000
5136	METERS - PURCHASE OF	\$ 43,650	\$ 60,000	\$ 62,368	\$ 60,000	\$ 52,633	\$ 60,000	\$ 50,575	\$ 60,000	\$ 60,000	\$ 60,000
5137	CONTRACTS - OFFICE MAINTENANCE	\$ 28,725	\$ 30,000	\$ 25,220	\$ 35,000	\$ 32,232	\$ 25,000	\$ 40,741	\$ 30,000	\$ 30,000	\$ 45,000
5140	FUELS & LUBRICANTS	\$ 28,417	\$ 35,000	\$ 39,825	\$ 35,000	\$ 56,428	\$ 35,000	\$ 42,324	\$ 50,000	\$ 50,000	\$ 55,000
5141	BUILDING/SHOP MAINTENANCE	\$ 28,585	\$ 15,000	\$ 24,274	\$ 41,000	\$ 44,009	\$ 20,000	\$ 15,750	\$ 20,000	\$ 20,000	\$ 22,000
5143	CHEMICALS - WATER	\$ 24,729	\$ 30,000	\$ 11,088	\$ 25,000	\$ 17,209	\$ 15,000	\$ 16,592	\$ 20,000	\$ 20,000	\$ 22,000
5144	CHEMICALS-SEWER	\$ 7,560	\$ 10,000	\$ 4,536	\$ 10,000	\$ 6,745	\$ 5,000	\$ 5,265	\$ 5,000	\$ 5,000	\$ 7,000
5149	LAB EXPENSE	\$ 37,337	\$ 45,000	\$ 44,673	\$ 40,000	\$ 33,149	\$ 35,000	\$ 29,870	\$ 40,000	\$ 40,000	\$ 40,000
5152	OFFICE EXPENSE - GENERAL	\$ 30,120	\$ 35,000	\$ 32,227	\$ 35,000	\$ 44,562	\$ 30,000	\$ 31,960	\$ 30,000	\$ 30,000	\$ 43,000
5153	BANK CHARGES AND ADJUSTMENTS	\$ -	\$ 2,000	\$ 283	\$ 2,000	\$ 1,051	\$ 1,000	\$ 4,192	\$ 5,000	\$ 5,000	\$ 5,000
5155	POSTAGE	\$ 25,254	\$ 25,000	\$ 23,439	\$ 30,000	\$ 26,941	\$ 20,000	\$ 17,920	\$ 25,000	\$ 25,000	\$ 25,000
5158	PRINTING AND LEGAL NOTICES	\$ 10,813	\$ 6,000	\$ 9,374	\$ 6,000	\$ 8,928	\$ 6,000	\$ 10,855	\$ 6,500	\$ 6,500	\$ 15,000
5160	CREDIT BALANCE - CLEARING ACCOUNT	\$ 5,239	\$ 1,000	\$ 3,549	\$ 1,000	\$ -	\$ 1,000	\$ -	\$ 1,000	\$ 1,000	\$ 1,000
5161	SURETY BONDS	\$ 821	\$ 1,000	\$ 800	\$ 1,000	\$ 1,063	\$ 1,000	\$ 700	\$ 1,000	\$ 1,000	\$ 1,000
5163	CASUAL LABOR	\$ 12,000	\$ 15,000	\$ 17,503	\$ 15,000	\$ 18,012	\$ 15,000	\$ 14,020	\$ 20,000	\$ 20,000	\$ 20,000
5164	TELEPHONE/COMMUNICATIONS	\$ 28,878	\$ 30,000	\$ 30,645	\$ 30,000	\$ 31,833	\$ 35,000	\$ 23,788	\$ 35,000	\$ 35,000	\$ 35,000
5165	TRAVEL/TRAINING	\$ 4,462	\$ 15,000	\$ 11,060	\$ 10,000	\$ 15,700	\$ 10,000	\$ 10,592	\$ 10,000	\$ 10,000	\$ 10,000
5166	DUES/SUBSCRIPTIONS	\$ 9,896	\$ 12,000	\$ 9,802	\$ 12,000	\$ 15,822	\$ 10,000	\$ 8,720	\$ 10,500	\$ 10,500	\$ 12,000
5167	UTILITIES	\$ 232,928	\$ 225,000	\$ 217,712	\$ 230,000	\$ 217,251	\$ 220,000	\$ 171,226	\$ 220,000	\$ 220,000	\$ 230,000
5170	ELECTION EXPENSE	\$ -	\$ -	\$ 207	\$ 5,000	\$ -	\$ -	\$ 293	\$ 5,000	\$ 5,000	\$ -
5171	GARBAGE PICKUP	\$ 1,641	\$ 1,500	\$ 1,514	\$ 1,600	\$ 1,337	\$ 1,500	\$ 928	\$ 1,500	\$ 1,500	\$ 1,500
5172	TCEQ - PAYMENTS OTHER THAN PERMITS AND	\$ 380	\$ 5,000	\$ -	\$ 2,000	\$ 3,300	\$ 1,000	\$ -	\$ 3,500	\$ 3,500	\$ 3,500
5173	BAD DEBT EXPENSE	\$ 252,955	\$ -	\$ 33,411	\$ -	\$ 22,055	\$ -	\$ (1,369)	\$ -	\$ -	\$ 20,000
5174	SLUDGE DISPOSAL FEE	\$ 34,292	\$ 37,000	\$ 35,245	\$ 30,000	\$ 52,281	\$ 35,000	\$ 14,529	\$ 40,000	\$ 40,000	\$ 25,000
5175	RAILROAD EASEMENTS	\$ 3,221	\$ 3,000	\$ 2,281	\$ 3,000	\$ 3,364	\$ 3,000	\$ 2,905	\$ 3,500	\$ 3,500	\$ 3,500
5176	EMPLOYEE UNIFORM EXPENSE	\$ 12,064	\$ 10,000	\$ 14,101	\$ 15,000	\$ 17,374	\$ 15,000	\$ 11,557	\$ 16,000	\$ 16,000	\$ 16,000
5177	INSURANCE - LIABILITY/PROPERTY	\$ 49,784	\$ 50,000	\$ 53,731	\$ 50,000	\$ 63,354	\$ 55,000	\$ 35,145	\$ 55,000	\$ 55,000	\$ 50,000
5179	CAPITAL OUTLAY	\$ -	\$ -	\$ -	\$ -	\$ 5,500	\$ -	\$ -	\$ -	\$ -	\$ -
5181	TOOLS (SMALL)/OTHER EQUIPMENT	\$ 10,196	\$ 10,000	\$ 19,694	\$ 15,000	\$ 33,554	\$ 15,000	\$ 19,771	\$ 19,000	\$ 19,000	\$ 25,000
5184	OFFICE EQUIPMENT & SOFTWARE	\$ 4,805	\$ 35,000	\$ 12,730	\$ 10,000	\$ 28,072	\$ 15,000	\$ 15,681	\$ 14,000	\$ 14,000	\$ 21,000
5186	FURNITURE AND FIXTURES	\$ 3,508	\$ 1,300	\$ 3,027	\$ 2,300	\$ 4,639	\$ 2,000	\$ 887	\$ 3,000	\$ 3,000	\$ 3,000
5187	LAND & RIGHT OF WAY	\$ 1,500	\$ 2,500	\$ -	\$ 2,000	\$ -	\$ 2,000	\$ -	\$ 2,000	\$ 2,000	\$ 2,000

REVENUES AND EXPENSES

[illegible]