

STATEMENT OF THE INDEPENDENT CONSUMER ADVOCATE
REGARDING USE OF GROUNDWATER REMEDIATION REVENUES

The Finance Committee, at its November 19, 2018 meeting, discussed the use of the unexpected revenue from two large groundwater remediation customers. The totals from the two customers could equal \$7.5 million but in all likelihood would be closer to \$3.5 million in the near term. The \$3.5 million represents unbudgeted revenue. According to management, other revenue and expenses will approximate budgeted amounts. The question presented by management was what to do with the \$3.5 million. The choices presented included: add to fund balance, offset unbudgeted medical expenses in the internal service fund, or reduce the ad valorem increase.

As a general principle of budgeting, it seems reasonable that unanticipated revenue should be used to offset unanticipated expenses in any given budget period. In 2018 there were unanticipated medical expenses for employees in excess of \$4 million. That is, as a self-insured entity, the MDC budgets enough to cover estimated medical expenses of its employees for the budget period. (It also of course budgets for retirees but this is through the OPEB fund not relevant here.) Its estimate for 2018 was short by over \$4 million. This amount does not appear as a budget deficit only because of the accounting convention of using an internal service fund to pay out such medical claims. The deficit therefore appears in the internal service fund, not the income and expense statement of the MDC.

Regardless of the accounting treatment, the current year is projected to result in unanticipated revenue of \$3.5 million and unanticipated expense of at least that amount. Under the principle stated above, it would seem that the appropriate course of action would be to deposit the \$3.5 million into the internal service fund to offset the debit incurred in that fund in 2018.

However, some months ago, the District Board, after discussing the possibility of unanticipated groundwater remediation revenue associated with another large customer, concluded that should this revenue be realized it should be used to reduce the then anticipated increase in the ad valorem tax. The fact that it was discussing revenue from a different customer than the current one, is not relevant. Had the District Board known at the time about the existence of the second customer, it would in all likelihood have reached the same conclusion. In any case, it seems unlikely that the first customer will in fact make a payment in the near term. Thus the only revenue currently 'on the table' is the revenue from the second customer. Under these circumstances, and in order to maintain credibility with the municipal members, the \$3.5 million must be used to offset ad valorem payments. Should the first customer unexpectedly make a payment as well, the District Board could at that point discuss whether that payment as well needs to be used to offset the ad valorem amounts.

Independent Consumer Advocate

November 20, 2018