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# E XECUTIVE SUMMARY

In line with MCWD's 60/80 in 2020 vision, Gross Sales Revenue target for 2016 is set at **P1.895 Billion** – an increase of 17% from the expected sales revenue in 2015 of P 1.618 Billion. Total operating revenue which includes penalty charges and water levy is targeted to reach P 1.865 Billion or an increase of 17% from the 2015 projections.

Out of the total operating revenue, **P 1.407 Billion** or 83.0% will go to operating expenses. This is 5 percentage point higher than the 2015 operating ratio. Depreciation expense is budgeted at P 144.3 Million while Operations and Maintenance Expenses<sup>1</sup> with a total amount of P 1.404 billion are broken down as follows<sup>2</sup>:

	<b>Amount</b>	<i>% Increase</i>
<b>Operations Expense</b>	<b>1,161,165,291.56</b>	<b>29%</b>
Customer Accounts	103,014,134.49	8%
Production and Distribution	731,358,887.62	41%
Technical Services	65,989,912.48	5%
Administrative and General	260,622,356.97	16%
<b>Maintenance Expense</b>	<b>243,706,761.04</b>	<b>24%</b>
Power and Production Equipment	34,770,211.08	10%
Transmission Lines	132,793,554.35	36%
Meter Maintenance	36,711,077.98	4%
Fabrication	7,095,705.38	50%
Motorpool	23,931,355.06	33%
General Plant	8,404,857.19	-9%

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<sup>1</sup> In order to avoid distorted variances between the actual and budgeted costs, the CNA and CPIS incentives were not included in the 2015 actual expenses per account but are presented instead as a separate line item.

<sup>2</sup> The revenue and expense accounts shall be discussed in greater detail in the succeeding sections.

Factors that have contributed significantly to the increase of the operating expenses are the Purchased Water, Materials and Supplies, and Personnel Costs.

By the end of 2016, the water district is expected to earn **P 268.1 Million** or 14.4% out of the Total Operating Revenue of **Php 1.865 Billion Pesos**.

Cash inflow is projected to amount to **P 3.135 Billion**. These include water sales, receipts from other sources of revenue such as penalties and interests, receipts from customer deposits. Also included are: (1) the proceeds of the P 600 million loan from the Development Bank of the Philippines which will finance the project costs of the Distribution Efficiency Program for Hydraulic Area 1; (3) A P 125.7 million grant from Vitens Evides International for various pipelaying projects in poor and marginalized areas in Metro Cebu and (2) P 33 million loan and grant from LWUA for the Salintubig Project. Cash disbursements from operating activities are expected to amount to **P 1.264 Billion** while cash outlay for debt service and capital expenditures are expected to reach **P 169.9 Million** and **P 2.468 Billion**, respectively. This will result to an ending cash balance of **P 476.1 Million**.

# SALES AND OTHER REVENUES

Water Sales Volume is targeted to reach 66,585,818 cubic meters at an aggregate effective rate of P 28.45 per cubic meter. This sales volume is set to cover 51% of the demand coverage for Metro Cebu.

Overall, 75% of the total water sales revenue will come from domestic consumers and 25% from the commercial consumers.

More details in the demand and sales forecast are incorporated in the 2016 Corporate Plan.

Penalty charges in the amount of more than P 14.1 Million are expected to be collected from delinquent accounts – an increase of 17%. Water levy is expected to amount to P 0.9 Million – the same as 2015.

Interest revenue will increase to P 6.4 Million in 2016 or an increase of 8%.

Items that are included in the Miscellaneous Non-Operating Revenues are from the rental of the old MCWD building, income from Water Truck delivery, Social Hall Rentals and Contributions from San Miguel Corporation.

# COLLECTIONS

A total of P 3.135 Billion of cash inflows is expected for 2016. This is an increase of 24% from the 2015 total cash inflows. 58% of the inflows will come from the water sales collections which are expected to reach P 1.822 Billion including the corresponding

franchise taxes – an increase of 12% from last year. The collection efficiency is set at 96% of the total water sales revenue after discounts. It is also expected that arrears collection will amount to 27% of the accounts receivable.

Other cash receipts include those from interest revenues, penalties, water levies, service installation fees, customer deposits and other non-operating revenues which are projected to reach P 154.9 million.

It is also expected P 600 million credit line from the Development Bank of the Philippines (DBP) will be released in 2016 to finance the Hydraulic Area 1 Pipelaying Projects aimed to improve our water distribution efficiency.

Vitens Evides International (VEI) is also set to shoulder a part (50%-70%) of the cost of various pipe-laying projects and power production equipment for 2016 which is budgeted at P 244.8 million. VEI is an international water operator, helping water companies in developing and transition countries to improve their operational and financial performance in a sustainable way.

A P 33 million grant and loan from LWUA is also expected to be received in 2015 to fund our capital expenditures.

## OPERATING EXPENSES

### OPERATIONS EXPENSE

Operations Expenses are expected to increase by 25.6% compared to the projected costs for 2015. The components of which include Customer Accounts Expense, Production Expense, Technical Services, Maintenance Expense and Administrative Expense.

### Customer Accounts Expense

This account includes all expenses related to customer servicing and includes the following costs:

	Amount	% Increase
<b>Meter Reading Expenses</b>	23,829,217.06	-4%
<b>Installation and Disconnection Expense - net</b>	37,339,422.76	20%
<b>Customer Records and Collection Expenses</b>	10,293,710.44	22%
<b>Treasury Expense</b>	8,099,992.88	5%
<b>Branch Administration</b>	4,885,763.40	5%
<b>Marketing Expense</b>	956,656.00	0%
<b>Uncollectible Accounts Provision</b>	91,518.67	n.a.
<b>PIO/PAD</b>	17,517,853.28	2%
<b>TOTAL</b>	<b>103,014,134.49</b>	<b>8%</b>

The budget for this account is higher than the actual projections for 2015 by 8%. The increase is primarily driven by *Installation and Disconnection* expense which is expected to increase in stub-out installations and by *Customer Records* expense due to the expected surge of increase of service connections

## Production Expense

	Amount	% Increase
<b>Purchased Water</b>	580,562,381.16	56%
<b>Production Expense</b>	22,028,967.47	-20%
<b>Distribution Expense</b>	31,370,727.02	-3%
<b>Power/Fuel for Pumping</b>	70,818,250.65	4%
<b>Water Treatment Expenses</b>	26,758,561.32	47%
<b>TOTAL</b>	<b>731,538,887.62</b>	<b>41%</b>

The budget for production expenses has gone up by P 214.1 Million primarily due to the increase in Purchase Water Cost. For 2016, appropriation for additional bulk water sources amounts to P171.8 million. These comprise the sources from Northern Cebu (Additional volume of 17,000 cmd), Suba-Basbas and Cabancalan.

Water Treatment Expenses would include all materials, chemicals, laboratory supplies for the maintenance and improvement of our water quality. Chemical and Treatment materials are anticipated to increase their costs by P 6.7 Million or 17%. The increase is due to the

following factors: (1) Price Inflation of 5% is expected in 2016 (2) Increase coverage of bacterial and chemical analysis due to increase sampling points and (3) Expected increase in chlorine consumption for water treatment as in-house production volume increases in 2016.

## Technical Services

	Amount	% Increase
<b>Engineering Expenses</b>	24,321,041.31	4%
<b>Construction Supervision</b>	15,709,833.48	2%
<b>Water Sourcing and Environmental</b>	25,959,037.69	7%
<b>TOTAL</b>	<b>65,989,912.48</b>	<b>5%</b>

Technical Services represent the expenses allotted for engineering, construction supervision and water sourcing and environmental expenses. It has a minimal increase of 5% from last year. This variance is attributed to vacant positions in the Engineering, Construction and Environment Departments.

Water Sourcing and Environmental expenses includes the appropriation of Php 6.7 million for the Cebu Watershed Rehabilitation Projects, Buhisan River Watershed Integrated Development Program and the Urban Cebu Forestry Project. This is part of our contribution as partners with various LGUs, the DENR and other government agencies for the Integrated Water Resources Management Program.

## Administrative Expenses

	Amount	% Increase
<b>Management Information System Expenses</b>	18,580,557.45	30%
<b>Legal Expenses</b>	15,978,441.74	12%
<b>Procurement Expenses</b>	10,098,757.53	14%
<b>Administrative and General Salaries</b>	41,707,526.00	40%
<b>Overtime and Holiday Pay</b>	1,104,347.75	-38%

<b>Employees Pensions and Benefits</b>	40,770,089.71	43%
<b>Medical Plan</b>	15,000,000.00	2%
<b>Retirement Benefits</b>	9,328,039.44	0%
<b>Other Admin Personnel Costs</b>	11,009,646.00	25%
<b>Training</b>	4,932,671.64	36%
<b>Light, Power and Water</b>	14,250,000.00	-3%
<b>Fuel, Oil and Lubricants</b>	2,234,572.10	30%
<b>Director's Fees and Expenses</b>	4,688,200.00	14%
<b>Other Outside Services Employed</b>	39,688,941.00	0.07%
<b>Taxes, Licenses and Registration Fees</b>	1,924,000.00	1%
<b>CSR Expenses</b>	3,046,567.85	2,641%
<b>Other Admin and Gen. Expenses</b>	26,279,998.76	22%
<b>TOTAL</b>	<b>260,622,356.97</b>	<b>16%</b>

Administrative Expense is composed of Personnel-related and Training expenses, Outside Services, Legal, Procurement, MIS, Fuel and Lubricants and Miscellaneous Expenses. This account's budget is higher than the 2015 actual expense by 16%.

The increase in personnel-related expenses is primarily due to the vacancy of positions amounting to P 15.7 million. Training budget is also higher by P 1.3 million because 2015's actual training expense is lower or under utilized.

MIS Expenses include the development of programs and applications and the maintenance of all computer hardware of the company. The increase is primarily attributed to new software license subscription renewals and the Oracle Infra Support Renewal which had remained unutilized in 2015.



# MAINTENANCE EXPENSE

	Amount	% Increase
<b>Maintenance of Power, Production and Equipment</b>	34,770,211.08	10%
<b>Maintenance of Transmission and Distribution - South</b>	66,899,940.42	45%
<b>Maintenance of Transmission and Distribution - North</b>	65,893,613.93	28%
<b>Fabrication Expense</b>	7,095,705.38	50%
<b>Meter Maintenance</b>	36,711,077.98	4%
<b>Maintenance of General Plant</b>	8,404,857.19	-9%
<b>Maintenance of Motorpool</b>	23,931,355.06	33%
<b>TOTAL</b>	<b>243,706,761.04</b>	<b>24%</b>

Maintenance expense has increased by P 47.4 million or 24%. Out of the total increase in maintenance expense of P 47.4 million, 57% is attributed to the increase in materials and supplies while the rest is attributed to personnel costs (vacant positions).

Maintenance of Transmission Lines will increase by 37% largely due to the increase in materials expense by P 21.2 million. The actual materials consumption for 2015 was not made the basis for 2016. Actual materials consumption is significantly under the budget and according to the Pipelines Maintenance Group, they are having difficulty in securing materials due to some problems in procurement. On the other hand, the budget for personnel cost in 2016 includes P 9.8 million for vacant positions.

The Motorpool expense's increase of 33% is due to the increase of materials expense particularly for the replacement of tires, and job out repairs since it is expected that 130 units of vehicles (including those that were newly acquired) are scheduled for preventive maintenance in 2016.

# DEPRECIATION EXPENSE

Total Depreciation Expense for the year is estimated at PhP 144.3 Million. This is higher by 5% compared to the actual expense in 2015.

## CAPITAL EXPENDITURES

### CARRY OVER PROJECTS

A total of P 1.491 Billion of the total CAPEX budget are carry-over projects from 2015. About 85% of this shall be spent on projects while 14% is allotted for the purchase of equipment.

Included in the list of capital expenditures are the following projects:

- **Expansion and Rehabilitation Projects**

MCWD has allotted P 275.7 million for year 2016. This includes the following projects:

- a. Various pipeline expansion under the Vitens Grant – P 41.5 Million
- b. Various pipeline rehabilitation projects in Metro Cebu – P 136.3 million

- **In-House Water Sourcing Projects**

Majority of the in-house sourcing projects are carry-overs from last year amounting to P 53.22 Million.

- **Distribution Efficiency**

To ensure continuous supply of water to low pressure areas or areas with intermittent water supply, the company has allotted Php 755.7 Million. This includes the Pipelaying projects in the Hydraulic Area 1 worth P 628.6 Million

- **Corporate Social Responsibility Projects**

MCWD allocates 6% of the previous year's net income for corporate social responsibility programs. P 50.7 million will be allocated for special projects to improve the supply and our water services in marginalized communities of the Local Government Units (LGUs) within the water district's service areas. This is despite the fact that such projects may only give a very minimal or no return on the invested amount. The remaining 17% (1/6) shall be for CSR-related operating expense.

## NEW CAPITAL EXPENDITURES

The "60/80" Vision would not be attained without pouring in capital investments. It is projected that in order to meet the goals in 2020, the water district has to invest a total of P 4.451 Billion<sup>3</sup> in:

- a. Asset Renewal
- b. Expansion
- c. Distribution Efficiency Improvements
- d. Reservoirs
- e. In House Sourcing Projects
- f. Meter Replacements
- g. Pump Replacements
- h. Transportation Equipment Replacement
- i. CSR Projects
- j. Other Capital Expenditures

For the year 2016, a total of P 2.468 Billion of capital expenditures is appropriated. This comprises the P 1.491 billion carry over projects from 2015 and P 977.1 million for new projects and equipment scheduled for implementation in 2016. Included in the 2016 investment plan are:

- a. Hydraulic Area 1 Distribution Efficiency Project – P 408.4
- b. Pipelaying projects in Hydraulic Areas 1,2 and 4 – P101.8 Million

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<sup>3</sup> This includes the carry-over projects from 2015.

- c. Construction of 5 Reservoirs in Nivel Hills, Pit-os, Talamban, BC Homes, Tanchan and Lobregat – P 194.1 Million

MCWD will have a projected ending cash balance of P 476.1 Million. After restricting a total of P 226.2 million for Reserve and Calamity Fund and a minimum cash balance of P 210.7 for operating costs, only P 39.1 million will be available to fund unanticipated capital expenditures in 2016.

## DEBT SERVICE

Now on the 11th year of its 15-year loan contract with DBP, MCWD will be disbursing PhP 83.7 Million as payment of the principal amount of the loan and PhP 51.9 Million as interest expense. The interest rate was reduced to 6% from 8% in 2015.

The water district has also entered into a new loan with DBP with a principal amount of P 600 million with an annual interest rate of 6% and a term of 15 years. Payment shall commence two years from the date the loan will be released. The loan is intended to fund the Hydraulic Area 1 Distribution Efficiency Project.

In addition to that, the water district also need to secure another loan of at least P 400 million to finance the Hydraulic Area 3 Distribution Efficiency Program which is currently projected to cost P 408.4 Million.

The Local Water Utilities Administration allocated P 33 million for MCWD. 50% of which is in the form of grant and the other 50% will be payable in 25 years with 0% interest. The funds will be used for the Salintubig Projects in Compostela and Cordova.

## CONTINGENT LIABILITIES

Although it still subject to final assessment, MCWD has several contingent liabilities which it might be forced to pay in 2015. Among these contingent liabilities are as follows:

- a. Real Property Tax and Revenue Share payable to the City of Cebu amounting to P 95 million. Negotiations are on-going as to the settlement of this obligation.
- b. Franchise Tax liability which is still under protest before the BIR and the Court of Tax Appeals amounts to P 28.6 million

## CONCLUSION

The year 2016 is set to be the most challenging yet for the water district with a P 2.4 Billion Capital Outlay for implementation and a 51% demand coverage to be met. Yet, it is still confident that all of its technical and financial resources are capable in meeting the challenges head on.

# ANNEXES

## Annex A: Income Statement







## Annex B: Cash Flows



## Annex C: 2016 Budget Per Cost Center







## Annex D: CAPITAL EXPENDITURES











