

Rogers Waterworks and Sewer Commission

May 19, 2014

Minutes

The Rogers Waterworks and Sewer Commission held its regular meeting at 4:00 PM on Monday, May 19, 2014, in the Rogers Water Utilities Administration Building. Present were Commissioners Don Kendall, Kathy McClure, Roger Surly, Travis Greene, and Jene' Huffman-Gilreath. Rogers Water Utilities staff in attendance were Joyce Johnson, Johnny Lunsford, William Evans, Terry McCauley, Jennifer Lattin, Pat Sharp, Robert Moore, Vera Hall, Stephen Ponder, Randy Watson and Earl Rausch. Others in attendance were Deputy City Attorney Chris Griffin, City Planner Derrel Smith and Todd Beaver of McClelland Consulting Engineers. Chairman Don Kendall called the meeting to order at 4:00 PM.

Chairman Kendall recognized Johnny Lunsford, Sewer Manager. Lunsford presented a certificate and a gift to Terry McCauley, Utility Technician Advisor, to commemorate thirty years of service to RWU and the citizens of Rogers. Lunsford stated McCauley is one of our SCADA employees taking care of the water towers and sewer lift stations. We appreciate all the work that McCauley does for us.

There was a motion by Surly, second by McClure to approve the minutes of the April 21, 2014 regular meeting as submitted. All in favor, motion carried.

Chairman Kendall recognized Joyce Johnson, Utilities Controller. Johnson presented the financial reports for April 2014. Johnson stated RWU had a loss of \$98,000 in the water department in April and year to date profit of \$260,000. Access and impact fees are running ahead of budget and prior year in both departments. As shown in the 2015 budget, we are projecting a profit in the water department of approximately \$135,000 for FY 2014. On the sewer department side, RWU had a profit of \$160,000 in April and year to date profit is \$2,013,000. The sewer department is ahead of budget largely because we paid some bonded debt off early. RWU's total reserves as of April 2014 are \$27,000,000. Johnson asked if there were any questions. There were none.

Chairman Kendall recognized Earl Rausch, Utility Superintendent for the Staff report. Rausch presented the April department reports. Rausch presented a brief report stating the wastewater plant is running fine and the sewer department had no overflows. Chairman Kendall asked, "How long will it be before Price Lane is finished?" Rausch stated the street project should be complete next year and the water and sewer contractor should be finished within two to three weeks. Rausch asked if there were any questions. There were none.

Chairman Kendall recognized William Evans, Water Manger. Evans presented the Annual Drinking Water Quality Report. Evans stated these reports are published each year by the Arkansas Department of Health in accordance with EPA regulations and are provided to our customers in their water bill. The report started in 1999 and includes testing of all contaminants during the year. Our test results show no violations. We get many calls regarding fluoride which was first added to our water in 1996. Evans asked if there were any questions. There were none.

Chairman Kendall recognized Joyce Johnson. Johnson presented the annual budget for fiscal year 2015. Johnson indicated an accrual basis budget is required for accounting reporting purposes, but a cash basis budget is presented in order to determine the impact of the budget on RWU's reserves. In reviewing the cash basis budget, RWU is budgeting revenue of \$9.4 million in the water department. The budget reflects water sales increasing by approximately 3% for residential and commercial customers, and decreasing by approximately 2% for industrial customers. Access and impact fees were budgeted 6% less than 2014. Overall revenue is expected to increase by 1.7%. Operating expenses which includes, capital projects-funded depreciation, are expected to increase by 15%. Capital projects-funded depreciation is the replacement of assets and is budgeted at \$2.1 million, which are mostly City street projects. Total debt service (principal and interest) is \$1.7 million. Capital Projects-Additions & Improvements are purchases or construction of new assets. Capital Projects-Contributed Mainline is water mains that developer's construct and donate to the Utility. We are required by bond covenants to transfer 4% of revenue or \$377,000 into the depreciation reserves. As we purchase Funded Depreciation assets we can use Depreciation reserves to fund the projects. Access and impact fees are required to be placed in a trust. We can use these funds for projects that expand our system.

The overall results of the cash basis budget indicate bringing down RWU water department reserves by \$1.8 million in 2015. This will result in total water department reserves of \$13.0 million at June 30, 2015. The combined water and sewer total reserves would be \$27.5 million at that time. RWU has an opportunity to pay off some callable 4% bonded debt in October, 2015. If RWU uses water department reserves and calls \$2.2 million of bonds, there would be approximately a \$300,000 decrease in our debt service per year.

The accrual basis budget for the water department shows the revenue budget for water will increase by 1.8% from fiscal year 2014 to \$9.4 million. Expenditures are budgeted at \$9.6 million or a 4.7% increase over fiscal year 2014 budget. A net loss of \$132,000 is budgeted. Detail revenue and expenditures were discussed. A rate increase from Beaver Water was not budgeted based on discussion with Beaver Water staff. If there is a rate increase in the fall, it would affect this budget by approximately \$35,000. The budget for depreciation expense is \$2.1 million. We budget depreciation as if all budgeted capital projects are going to be completed, but that is rarely the case. RWU did not budget any changes in the total number of personnel in either the water or sewer departments. Huffman-Gilreath asked if we have budgeted in a cost of living increase. Johnson stated a 4% increase effective January 1st is included. RWU generally waits to see what the City of Rogers does before implementing annual raises.

Surly asked if there was an “upside”, is it having a drought. Johnson stated in recent years we have been able to generate profits in the water department because of droughts. A potential loss of \$132,000 is not a significant amount. Chairman Kendall asked if we still could possibly break even. Johnson stated yes, and her recommendation is to complete the current fiscal year before considering any other alternatives. Concerning reserve levels, Johnson said she thought using reserves earning a small amount of interest to pay off debt at a much higher interest rate was prudent. However, we should not reduce our reserves so low that if a significant event occurs we have a cash deficiency. Greene asked what year the bonds are callable. Johnson stated the water bonds are callable October, 2015.

In reviewing the sewer department cash basis budget Johnson indicated in fiscal year 2014 \$3.5 million was spent to retire the 1995 ADFA sewer bonds. RWU is increasing the overall sewer reserves by \$1.5 million in 2015. In the accrual basis budget, RWU is showing a \$2.3 million profit in the sewer department for 2015. Sewer department revenue is expected to increase by 1.4% and expenditures are expected to increase by 3.6% in 2015. A new item in the detail sewer department expenditures is the sludge disposal revenue. This really is an offset to sludge disposal costs from the sale of dried sludge.

Capital projects in the sewer department are projected to be \$3.8 million. RWU has \$600,000 in sewer line replacements to do City projects and \$1.0 million for phase 4 sewer rehabilitation projects. We expect contributed sewer assets of \$750,000. Huffman-Gilreath asked what is remodeling of offices. Rausch stated we are moving people and creating new offices. Surly asked if all the sludge dryer costs are considered in the budget. Moore stated we have some history with the sludge dryer and we feel good about the budgeted operating costs. McClure asked if the water meters in the sewer budget were for replacement meters. Johnson stated the water meters in the water and sewer budgets were for both replacement and new growth. We have \$215,000 budgeted for meters for growth, and \$390,000 budgeted for meters for replacements. One half of the meter budget is in the water department and the other half is in the sewer department.

Total sewer reserves were at \$14.5 million in 2013, then dropped to \$12.9 million and are now projected to increase to \$14.4 million by June 30, 2015. Chairman Kendall asked Johnson to explain why this increase in reserves is happening. Johnson stated debt service savings from paying of the 1995 and 1996 bonds has a significant impact on the sewer department reserves. Greene asked how much debt we have. Johnson stated we have greater debt than the surrounding large cities. The debt was incurred to expand the sewer treatment plant, build water towers and tanks and build the shared Bentonville water line. RWU has approximately \$26.0 million in debt in both the water and sewer departments. The annual debt service in water is \$1.7 million and in sewer, the debt service is \$2.3 million.

Chairman Kendall asked the Commission if they wanted to study the budget or move forward on it. There was a motion by Surly, second by McClure to approve the fiscal year 2015 budget. All in favor, motion carried.

Chairman Kendall adjourned the meeting at 4:58 PM.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Earl Rausch".

Earl Rausch, Secretary
Rogers Waterworks and Sewer Commission
File: RWWSC minutes, 5-19-2014