

# UTILITIES SERVICE BOARD MEETING

July 6, 2010

***Utilities Service Board meetings are recorded electronically or stenographically and are available during regular business hours in the office of the Director of Utilities.***

Board President Swafford called the regular meeting of the Utilities Service Board to order at 5:26 p.m. The meeting was held in the Utilities Service Board room at the City of Bloomington Utilities Department Administrative Building in Bloomington, Indiana.

Board members present: Julie Roberts, Sam Frank, Jeff Ehman and Pedro Roman. Staff members present: Patrick Murphy, John Langley, Jon Callahan, Michael Horstman, Tom Staley, Jane Fleig, Mike Bengtson and Mike Trexler. Others present: Angie Steeno representing Crowe Horwath and Sue Mayer.

## MINUTES

***Board member Frank moved and Board member Ehman seconded the motion to approve the minutes of the June 22<sup>nd</sup> meeting. Motion carried, 4 ayes, 3 members absent, (Banach, Whikehart and Swafford).***

## CLAIMS

***Board member Ehman moved and Board member Frank seconded the motion to approve the claims as follows:***

***Claims 1090745 through 1090806 including \$145,322.53 from the Water Operations & Maintenance fund, \$1,100.00 from the Water Construction fund and \$1,250.00 for water hydrant meter rental for a total of \$147,672.53 from the Water Utility; Claims 1030407 through 1030445 including \$84,572.98 from the Wastewater Operations & Maintenance fund for a total of \$84,572.98 from the Wastewater Utility; and claim 10070026 for a total of \$1,905.32 from the Wastewater/Storm water Utility. Total claims approved – \$234,150.83.***

## APPROVAL OF THE CONTRACT WITH CROWE HORWATH FOR CONSULTING SERVICES:

Utilities Director Murphy said the next step for the Utility is to look at the wastewater rates. Crowe Horwath is a company the USB and Utilities' staff are familiar with and their previous experience will allow them to hit the ground running. This contract will allow them to look into wastewater rates. They already started with some of this during the previous contract for water rates. This will take between four to six weeks. The fee for this study is \$19,000. Mr. Murphy then introduced Angie Steeno representing Crowe Horwath.

Ms. Steeno said the first six pages of the agreement include general contract information that was drafted by the City Legal Department. It is the same information that was in the water report. What she is going to discuss is Attachment A. This analysis will look at Utilities' revenue requirements, what is needed to meet the operational expenses. That would include O & M, taxes, current debt service payments and payment in lieu of taxes. The most likely way will be found in deciding how much funding is needed for capital expenditures. The report will show a few different options, depending on which projects Utilities is comfortable with.

Ms. Steeno pointed out item number five which is a new piece that was not in the water study. It is to prepare a ten year cash flow. In going through the water utility they realized that the rates should be looked at in a more consistent way. They will put together a ten year cash flow that assumes inflation growth or the City of Bloomington's growth and expenses each year. The cash flow will inflate each year

while the revenues are held constant to see what it does to the bottom line. It will help identify possible rate increases needed earlier.

Another avenue that can be more specific is a long term capital improvement plan, longer than the usual five year range. This can help predict future debt funding.

Ms. Steeno said they will follow their standard practice of meeting with the Utility staff to make sure all their concerns have been incorporated, then meet with the USB, and then if approved, meet with the City Council to go through that process as well.

In a nutshell, for the Sewer Works they will be looking at revenue requirements, bond and cash funding, and then looking at how that will affect rates. It will take about four to six weeks, some initial work has been done that will be updated. They will use the most recent test year available.

Attachment B shows the compensation. The estimated not-to-exceed amount is \$19,000, in addition to that will be any fees for out-of-pocket expenses such as postage, mileage, and meeting fees. The different staff levels with their estimated hourly rates are listed. This contract is billed by the hour so it may be less than \$19,000.

Board member Ehman said he is pleased to see that a ten year cash flow will be prepared. He asked if there would be any way to get the same information about the water works as well during this study. Ms. Steeno said they could start looking at that although it would be outside the scope of this engagement. The Sewage Works offers more lee way because rates can be adopted over a period of time. With Water Works only one year at a time is considered because the IURC bases the rate on the test year even if multiple years have been considered. With the Sewage Works there is the possibility of adopting multiple years at one sitting.

Mr. Ehman said he thinks what would be very useful to the USB, and the Council has made the same request, is to have some sort of longer range plan to give an idea of when rate increases should be expected. Ms. Steeno said it always makes sense to look at the Utility every two to three years. With water there is the 15 month restriction that prevents increasing the rates during that time.

Utilities Director Murphy said they would consider the existing contract for water to see if it is broad enough to allow this work, or if an amendment would be needed. He said he didn't think it would be a problem.

Board member Roberts asked if there is a cap on the out-of-pocket expenses. Ms. Steeno said there is not. The only costs she knows of would be postage or mileage. Ms. Roberts said she hoped it would not be a situation that they did a lot of work that hasn't been paid for as happened before.

***Motion carried, 4 ayes, 3 members absent, (Banach, Swafford and Whikehart).***

#### **CONSIDERATION OF THE 2011 BUDGET:**

Utilities Director Murphy said the budget had been presented to the Finance Subcommittee at an earlier meeting. He said he would characterize this budget as having an emphasis on bare without being a bare bones budget. At this time Utilities is not in a position to spend a lot of money. For the past couple of years things have been operating from a management and operational position to minimize expenses. Overtime has been limited. The Extensions and Replacements budget has been used to fund Operations and Maintenance which reduces the number of projects that can be undertaken. He said this, as in recent years, is a zero based budget. Often budgets just factor in a 5% increase but that hasn't happened in recent years. This budget was built looking at revenues and expenses with a focus on rising variable costs which are similar to the ones recently experienced. The cost of chemicals has been rising as have fuel and various other things. The revenue projections for this year factor in the

impact of the rate increase for about seven months of the year. With the 54% rate increase the revenue growth is about 20% above 2010. The expenses for 2011 are generally the same as those experienced in 2009. The Utility does not have a large revenue surplus to operate with which is why the rate increase is so important. Until the rate increase happens there will be serious efforts to keep down costs in purchases of supplies, inventory, chemicals, reductions in overtime and anything and everything that can be done to keep down expenses.

Utilities Director Murphy and Assistant Director of Finance Horstman gave a power point presentation that is attached to these minutes.

Board member Roman said in 2009 the cost for chemicals was \$987,000. The amount budgeted for 2011 is \$870,000 which is a decrease of about \$117,000. He said he received a memo stating that the USB should anticipate an increase in expenditures in the budget for various things along with miscellaneous chemicals. He asked if the miscellaneous chemicals are the same thing he sees in the 2011 budget. Mr. Horstman said they were. He wondered why the memo says the price will go up but the budget said it would go down. Mr. Horstman explained the price in 2009 was extremely high. That's when they were the highest. They dropped from there but are now on their way back up again. It isn't really possible to know where they will be in 2011, this is just where they think it will be. The associated shipping costs are going up as well. They could go back up to the same level as 2009. It just isn't known right now. Mr. Roman said he would have expected an increase in chemicals for 2010 and 2011. Mr. Horstman said the budget for 2010 was done in March of 2009. At that time they didn't have much information on what would happen with the price of chemicals. They went through the roof. That's why 2010 is a lower figure. At this point in time it probably is not a good figure but he can't go back and change that budget. Mr. Roman said he would like to know the actual amount. The 2009 number is an actual amount of \$987,175. The memo said to expect an increase in the cost of chemicals for the 2010 – 2011 budget years. That should mean more would be budgeted for 2011, not less, unless fewer chemicals will be used.

Utilities Deputy Director Langley said he thinks the budget number will be O.K. Also he is looking at substituting one chemical for another at the Dillman Road WWTP which he expects will cause some pretty significant savings. Given what the market is doing and the unpredictability of the demand, depending on how much water is flowing, there may be some savings. Mr. Roman asked if that meant he should disregard this for chemicals. Utilities Director Murphy said he thinks the new chemical being discussed is for flocculation and he isn't sure if it was factored in. He thinks Mr. Roman's analysis and his point about the memo is on message. What he is hoping is this new chemical will do the same thing for a cheaper price. In the long run it may turn out that number isn't high enough. Maybe it should be the \$987,000 number. Mr. Roman asked if what he is saying is the price of chemicals will be going up but staff are going to find a chemical that is cheaper so it can be a lower budget number. Mr. Murphy said they want to hit the projection of \$870,000.

Mr. Horstman continued with the power point.

Utilities Director Murphy said, in summation, they are trying to strike a balance between expenses and revenues. This discussion makes it clear that is not an easy thing to do with the way the expenses are for some of the items such as chemicals and power, and what the revenue is with respect to allowing operation and maintenance and at the same time have enough money to do extensions and replacements. The one thing being added is the conservation coordinator plus \$100,000 for funding for program implementation. This budget tries to hold the line on expenses by lowering overtime, purchasing no vehicles, limiting travel, and generally being careful about how money gets spent. Mr. Murphy said Mr. Horstman had addressed the issue of payments for PILOT and interdepartmental. Two payments have been made toward that. One was made in 2009 and one in 2010, so half of it has been paid.

Board member Ehman asked if that was reflected in the budget. Mr. Murphy said it was not because it was paid in 2010. Board member Roman asked if the payment was for 2009 or 2010. Mr. Murphy said it was for 2009. Mr. Roman said when it says \$400,000 for payment of taxes only a certain amount has been paid, whatever was paid in 2010 should be included. Mr. Murphy asked Mr. Horstman if it reflects the 2010 payment. Mr. Horstman indicated it did not. Mr. Roman said that generally speaking, the problem with the budget is that it fails to give an accurate view of the status of the Utilities. What it does is say \$800,000 was budgeted to pay (*I couldn't quite catch what he said*) but only \$100,000 was spent so in the end it looks like the actual operating expenses are a lot lower than they are. They're lower because the bills are not being paid. They aren't lower because the expenditures were decreased. Right now Utilities owes the City \$600,000 to \$700,000 for payment in lieu of taxes for 2009 and for inter local agreements. That is not reflected. It's not a big deal for the USB because this goes to the Council who will approve it. The Council is made up of people who look at budgets all the time. He is afraid they will ask how much money is actually spent. How much money was actually paid? A special agreement was made so the payments wouldn't have to be paid but the budget should reflect what the actual expenses and revenue are. The Council knows the deficit is there because they strongly support the proposition for a rate increase. At some point he would like to see a piece of paper that will show them what the expenses and revenue really are. The expenses should reflect everything that should have been paid in that year, not just what was paid and the rest wasn't paid because Utilities defaulted on that. That might be acceptable to the State Board of Accounts but he is not comfortable with that kind of accounting. He said he would support this year's budget but he will no longer support any budget that doesn't include a clear statement of revenues versus expenditures and expenditures should include everything, even expenses that Utilities defaulted on. Mr. Roman went on to say that this budget will make it look like a rate increase isn't needed. This makes it look like the revenue is just slightly lower than the expenditures. Not enough to justify a 54% increase. He wants to have the kind of analysis he can take to the Council to justify a rate increase. The USB just signed a contract with Crowe Horwath for a wastewater rate increase. He wants to be able to show the Council why it is needed.

Board member Ehman said there is a 126% increase for Extensions and Replacements for water and Mr. Horstman indicated that these projects are yet to be defined, but there is some reason why 126% more revenue is needed for that. Then below in the same line of the 2011 budget where the available fund balance is Mr. Horstman suggested he hoped to make up the nearly \$1 million. Why not just budget to make that up rather than doing the increase in the Water Extensions and Replacements? Assistant Director of Finance Horstman said based on the Extensions and Replacements they could do that. On page 34 it shows the contingency is \$1.3 million but it isn't really earmarked. They could take that \$965,000 out of that amount and put it into that. But they have put \$750,000 towards that. If those revenues come in he will do that. That should cover the operating fund balance there, the \$750,000. It isn't exact. Another \$200,000 could be taken out of the \$1.3 million to build up the cash. Mr. Ehman asked if the \$965,000 does not reflect the \$750,000. Mr. Horstman said it does not. Mr. Ehman said he now understands it.

Board President Swafford apologized to the USB for being late. He asked board member Frank, the Chairman of the Finance Subcommittee, to report on the subcommittee meeting.

Board member Frank said the Finance Subcommittee had met during the previous week. They voted to send the budget forward with a recommendation for approval. Some of the things they liked were funding for the conservation position and the \$100,000 set aside for the different programs. They felt this budget is pretty bare bones, barring some increases for the fuel costs and the chemicals. This is not withstanding some of what board member Roman was saying about the chemicals because he understands what he was saying based on the 2009 actuals. They are looking at where they expect 2010 to come in. The 2011 budget will be a little bit higher than the 2010 figures are expected to come in at. He thinks that is alright. The inventory material is a reasonable thing to expect also, and when the extensions and replacements at \$3.6 million are factored in and the reserve funds are considered there is really only \$1.3 million for Extensions and Replacements. When that number is adjusted on the budget it goes down to where the expenses only increase about 4% for the year. They felt the budget is

reasonable and commend everyone for all the hard work they put into it. It was a tough year to try to plan for. The recommendation is for approval.

***Board member Roman moved and board member Ehman seconded the motion to approve the 2011 budget.***

Board member Roman said his issue is with the way the budget was presented, not with the numbers. They are fine. In the future he would like to see the actuals in a way that the USB has an idea of where they stand.

***Motion carried, 5 ayes, 2 members absent, (Banach and Whitehart).***

**OLD BUSINESS:**

No old business was presented

**NEW BUSINESS:**

No new business was presented.

**SUBCOMMITTEE REPORTS:**

There was a Finance Subcommittee meeting that was reported on earlier in this regular session.

**STAFF REPORTS:**

There were no staff reports.

**PETITIONS AND COMMUNICATIONS:**

Board President Swafford said he had sent the USB members an email asking to change the PCB Consent Decree Subcommittee to an Environmental Subcommittee so they can begin working on the water conservation plan.

***The USB agreed by consensus they would do that.***

Mr. Swafford asked Board member Ehman to start working on a conservation plan.

**ADJOURNMENT:**

The meeting was adjourned at 6:18 p.m

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**L. Thomas Swafford, President**