

CITY OF WEST LAFAYETTE WASTEWATER UTILITY  
PROPOSED 2016 BUDGET





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American Institute of CPAs  
Indiana CPA Society

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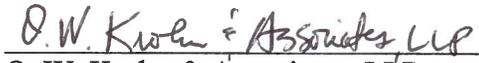
Honorable John Dennis, Mayor and  
Members of the Board of Public Works and Safety  
City of West Lafayette  
222 North Chauncey Avenue  
West Lafayette, Indiana 47906

At your request, we have compiled the accompanying limited financial information for the City of West Lafayette Wastewater Utility. The information includes the proposed 2016 operating budget along with projected operating revenues, operating expenditures, capital expenditures and cash flows for years 2016 through 2020. The accompanying schedules were prepared for internal use only for distribution to the appropriate City Officials. The use of these schedules should be limited to those that are familiar with the accounting and financial reporting practices for the City.

Pages 1 – 4 Key Budget Assumptions and General Comments

Schedule I Budgeted 2016 Operation and Maintenance Expenses  
Schedule II Projected Operating Revenues and Expenses – 2016-2020  
Schedule III Capital Expenditure Plan  
Schedule IV Projected Cash Flows and Bond Coverage – 2016-2020

The assumptions are based upon information provided to us by management of the City of West Lafayette. In preparation of these schedules, assumptions were made as noted regarding certain future events. As is the case with such assumptions regarding future events and transactions, some or all may not occur as expected and the resulting differences could be material. We have not examined the underlying assumptions; consequently, we express no opinion or assurance thereon.

  
O. W. Krohn & Associates, LLP

## **Schedule I - Budgeted 2016 Operation and Maintenance Expenses**

Total budgeted expenditures for 2016 increased \$447,341 or 8.34% from the 2015 budget. The 2016 operating expenditure budget totals \$5,809,292 of which 58% is comprised of wages, insurance and employee benefits. Wages and benefit costs for each department were based upon actual staffing and wage rates per the amended 2016 salary ordinance which provided for a base wage rate increase of 2% for most positions. New FTE's in the 2016 budget compared to the 2015 budget included one in treatment plant, one in collection system and a new storm water inspector (for 6 months) position. Employer paid health insurance for participating employees included premium increases and selected coverage levels.

### **Treatment Plant**

This budget increased by \$201,710 due to the new employee and the increase in chemical costs for the treatment of phosphorus. Other increases included services and other charges and sludge removal. Reductions in supplies, and utilities were made to more closely reflect actual 2015 costs incurred.

### **Collection System**

The department's budget increased by \$14,031. The increase in wages, insurance and benefits related to the new position in the 2016 budget. That increase was offset by reductions in supplies, professional services, utilities and repairs, which were adjusted to reflect actual 2015 costs incurred. The \$45,000 professional services budget from 2015 was reclassified to the Administration budget in 2016.

### **Sanitation**

The budget increased \$61,795 for 2016. Wage and benefits increased \$41,895 which represented market adjustments to salaries, which for certain positions exceeded the average 2% adjustment. A portion of this increase was offset with reductions in waste disposal fees based upon historical experience and some non-recurring items from 2015.

### **Storm Water**

Budget for the department decreased \$10,001 which is primarily due to the reduction in non-recurring engineering and GIS services in the services and other charges expense category. 2015 included the cost of updating the storm water master plan which is not an annually recurring expense. The reductions were offset by the addition of a new storm water inspector, it is anticipated the new position will be filled mid-2016 therefore only half of the projected salary has been included in the 2016 Budget.

### **Customer Accounts**

The budget increased \$13,316 in 2016 due to services and other charges for storm water billing activities and additional costs in contracts and IT services. These increases related in part to the storm water customer database maintenance and new CSO charge billing processes.

### **Administration & General**

Budget for Administration increased \$166,490 or 13% overall. Wages and benefits increased due to wage reallocations and coverage of a portion of the new Clerk and Controller's positions. Services and other charges increased \$37,900 to cover increased IT

support and ongoing GIS database maintenance costs. The professional services increase of \$45,000 was transferred from storm water and does not represent an overall increase.

### **Schedule II - Projected Operating Revenues and Expenses (2016-2020)**

2016 budgeted operating revenues increased by almost \$2,000,000 in total over the 2015 budget. This change is primarily a result of the implementation of a newly adopted COS surcharge. The CSO surcharge was implemented in 2 phases, Phase I is effective January 1, 2016 and Phase II will be effective July 1, 2016. The CSO surcharge is \$4.91 per ERU in Phase I and \$9.82 per ERU for Phase II. The Utility also adopted a 3% across the board rate increase for years 2016, 2017 and 2018. The result of these newly adopted rates will provide an increase in revenues thru 2018. In 2015, one of Purdue University's buildings went offline and therefore the utility no longer receives wastewater flows from this connection. The result of this reduction in flows will be a loss of approximately \$12,000 a month in revenue. Sanitation trash fee revenues have been increased in the 2016 budget to reflect actual revenues billed in 2015. Other changes to the 2016 revenue budget include recyclable sales and other operating revenues which have been adjusted to reflect actual 2015 revenues.

Expenditures for 2017-2020 have been adjusted for inflation using the 2016 budget as base line. Annual inflation adjustments range 2% to 5% depending on type of expenditure. 2014 and 2015 Actual and 2015 Budget amounts are shown for comparative purposes.

### **Schedule III - Capital Expenditure Plan**

Capital projects and related expenditures by functional category are summarized for 2016 through 2020. Specific projects and overall cost estimates have been provided by the Utility Director.

Lift station projects include the Auburn Meadows regional lift station and force main project to provide sanitary sewer service to a new residential neighborhood. Construction could begin in the second half of 2016 assuming all required approvals are received.

Collection system projects include the CSO Interceptor project and ongoing sewer lining system improvements. The CSO project is being procured as a Guaranteed Savings Contract with Bowen Engineering. Open market bonds were issued in January 2016 to fund construction which began in spring of 2015 and will be completed in approximately 12 months.

Treatment plant improvements include ongoing routine replacements of microturbine engines, rehab of the primary clarifier in 2017 and headworks enhancements in 2020. Although a final budget and funding determination will be made closer to 2020, for this plan we have assumed that the headworks project will be funded together with certain other 2020 projects with an SRF loan.

The Storm Water & Drainage projects include Salisbury-Parkridge Basin, Boes Ditch, Cuppy-McClure Ditch, Lindberg Road and Yeager Road improvements. These projects will be funded with storm water fee revenue.

Over the next five years a total of \$29,692,566 in projects and other capital expenditures have been identified. Approximately \$24,750,000 of this total is expected to be funded with bond proceeds. The remainder will be paid from wastewater and storm water net operating revenues.

#### **Schedule IV - Projected Cash Flows and Bond Coverage (2016-2020)**

This schedule projects cash flows for 2016 through 2020 beginning with operating revenues and expenditures from Schedule II. Other pledged revenues include interest income and tap fees. Interest income in 2016 is estimated based upon current low market rates of 0.25% applied to projected cash balances. From the resulting net revenues, which range from \$6.4 to \$7.1 million, we have deducted the budgeted \$528,200 payment to the City for PILT for 2016 and \$675,000 for years 2017 thru 2020, debt service for all outstanding and proposed bonds and projected capital expenditures from Schedule III. Projected ending cash balances include all operating, improvement, storm water and restricted funds (expect for construction retainage).

The improvement fund has been historically used to cover planned as well as unexpected expenditure requirements for the Utility. These funds are also relied upon to provide temporary cash flow loans to the City which avoids the cost of external borrowing. To continue to provide this margin of safety for the City, sound financial planning practices indicate that management should continue its practice of establishing guidelines for key fund balances. The key funds for the Wastewater Utility include the Operating Fund, Debt Service Reserve Fund, the Bond & Interest Funds and Improvement Fund. Bond ordinances define the necessary funds to be established, sources and uses of the funds and in some cases the required or suggested minimum balances. The Debt Service Reserve Fund requires a balance equal to combined maximum annual debt service. The reserve requirement for the 2016 CSO Bonds of \$1.3 million was fully funded with bond proceeds at closing. Additional reserve for the 2012 Bonds and 2014B Bonds is being accumulated over five years through monthly transfers to a total requirement of approximately \$4.93 million on all outstanding bonds. Bond & Interest accumulates funds for each semiannual debt payment. The required balance at the end of the year is approximately \$2.46 million. Therefore by ordinance the Utility should have approximately \$7.4 million in restricted funds on hand excluding operating and improvement funds.

Guidelines for improvement funds are not stipulated in the bond ordinances but are set by management based upon both historical experience and anticipated needs. Based upon these types of considerations and historical as well as projected cash flows, management wants to maintain a target level of improvement funds ranging from \$2 - \$3 million. The Utility's reported ending 2015 balance of improvement funds totals approximately \$1.8 million. However, that did not include a \$551,360 reimbursement to the improvement fund made in 2016 for initial engineering costs on the CSO project. New sewer rates adopted in late 2015 were designed to provide sufficient revenues to pay debt service on the new CSO Bonds as well as supporting ongoing operating expenses, PILT payments and capital expenditures. As the new rates are fully phased in, we expect to gradually build up cash reserves. The actual amounts will depend largely on what is spent on capital projects which are not funded with debt. Based upon the current capital plan and resulting projected cash

flows, the improvement fund should increase over the projection period to approximately \$3.7 million.

Bond coverage (ratio of pledged net revenues to annual debt service) for all outstanding bonded debt is projected to range from 139% to 166%. Minimum bond coverage requirements are generally 125%.

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

BUDGETED OPERATION AND MAINTENANCE EXPENSE  
FOR THE YEAR ENDING DECEMBER 31

	2016 <u>BUDGET</u>	2015 <u>BUDGET</u>
TREATMENT PLANT		
WAGES	\$ 470,080	\$ 436,478
INSURANCE AND BENEFITS	229,751	206,669
SUPPLIES	105,000	120,000
BULK CHEMICALS	250,000	130,000
SERVICES AND OTHER CHARGES	265,500	207,474
UTILITIES	330,000	380,000
SLUDGE REMOVAL	225,000	190,000
WASTE DISPOSAL FEES	12,000	15,000
	<u>1,887,331</u>	<u>1,685,621</u>
COLLECTION SYSTEM		
WAGES	343,019	304,155
INSURANCE AND BENEFITS	201,592	172,925
SUPPLIES	11,500	15,000
SERVICES AND OTHER CHARGES	40,000	35,000
PROFESSIONAL SERVICES	-	45,000
UTILITIES	65,000	70,000
REPAIRS	55,000	60,000
	<u>716,111</u>	<u>702,080</u>
SANITATION		
WAGES	416,951	388,609
INSURANCE AND BENEFITS	225,164	211,611
SUPPLIES	120,000	105,000
SERVICES AND OTHER CHARGES	55,000	30,100
WASTE DISPOSAL FEES	170,000	190,000
	<u>987,115</u>	<u>925,320</u>
STORM WATER		
WAGES	231,635	221,209
INSURANCE AND BENEFITS	106,169	89,096
SUPPLIES	40,000	40,000
SERVICES AND OTHER CHARGES	50,000	92,500
PROFESSIONAL SERVICES	100,000	95,000
	<u>527,804</u>	<u>537,805</u>

FOR INTERNAL MANAGEMENT DELIBERATIVE PURPOSES ONLY.

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

BUDGETED OPERATION AND MAINTENANCE EXPENSE  
FOR THE YEAR ENDING DECEMBER 31

	<u>2016</u> <u>BUDGET</u>	<u>2015</u> <u>BUDGET</u>
CUSTOMER ACCOUNTS		
WAGES	91,520	99,339
INSURANCE AND BENEFITS	44,309	40,174
SUPPLIES	50,000	50,000
SERVICES AND OTHER CHARGES	<u>105,000</u>	<u>88,000</u>
	<u>290,829</u>	<u>277,513</u>
ADMINISTRATION AND GENERAL		
UTILITY ADMINISTRATION WAGES	240,209	263,260
UTILITY ADMINISTRATION INS/BENEFITS	95,393	78,269
CITY ADMINISTRATION WAGES	488,418	427,034
CITY ADMINISTRATION INS/BENFITS	195,082	166,449
SUPPLIES	5,000	5,500
SERVICES AND OTHER CHARGES	186,000	148,100
PROFESSIONAL SERVICES	<u>190,000</u>	<u>145,000</u>
	<u>1,400,102</u>	<u>1,233,612</u>
TOTAL OPERATION AND MAINTENANCE EXPENSE	<u>\$ 5,809,292</u>	<u>\$ 5,361,951</u>

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CITY OF WEST LAFAYETTE WASTEWATER UTILITY

PROJECTED OPERATING REVENUES AND EXPENSES  
FOR THE YEARS ENDING DECEMBER 31

	ACTUAL	ACTUAL	BUDGET	BUDGET	PROJECTED				Notes
	2014	2015	2015	2016	2017	2018	2019	2020	
PROJECTED OPERATING REVENUES:									
WASTEWATER USER FEES	\$ 7,960,718	\$ 7,981,655	\$ 7,720,000	\$ 9,685,200	\$ 10,415,000	\$ 10,662,470	\$ 10,662,470	\$ 10,662,470	(1)
PENALTIES	33,000	32,377	35,000	35,000	35,000	35,000	35,000	35,000	(1)
SANITATION TRASH FEES	957,723	982,519	960,000	980,000	980,000	980,000	980,000	980,000	(1)
RECYCLING GRANT	41,500	41,500	41,500	41,500	41,500	41,500	41,500	41,500	(1)
RECYCLABLE SALES	31,021	19,709	35,000	20,000	20,000	20,000	20,000	20,000	(1)
TOTERS AND BINS	9,479	11,780	10,000	10,000	10,000	10,000	10,000	10,000	(1)
STORM WATER FEES	1,190,877	1,366,346	1,365,000	1,365,000	1,365,000	1,365,000	1,365,000	1,365,000	(2)
OTHER OPERATING REVENUES	24,334	53,640	30,000	55,000	55,000	55,000	55,000	55,000	(3)
<b>TOTAL OPERATING REVENUES</b>	<b>10,248,652</b>	<b>10,489,526</b>	<b>10,196,500</b>	<b>12,191,700</b>	<b>12,921,500</b>	<b>13,168,970</b>	<b>13,168,970</b>	<b>13,168,970</b>	
PROJECTED OPERATING EXPENSES:									
TREATMENT PLANT	1,660,285	2,025,631	1,692,170	1,887,331	1,925,136	1,964,911	2,005,662	2,047,414	(4)
COLLECTION SYSTEM	727,120	688,377	691,730	716,111	732,449	749,175	766,297	783,826	(4)
SANITATION	852,958	959,954	940,320	987,115	1,005,709	1,024,743	1,044,226	1,064,170	(4) (5)
STORMWATER	574,988	599,535	537,805	527,804	557,822	568,072	578,559	589,290	(4) (6)
CUSTOMER ACCOUNTS	280,633	407,127	277,513	290,829	297,088	303,486	310,025	316,710	(4)
ADMINISTRATIVE AND GENERAL	1,325,956	1,338,468	1,222,413	1,400,102	1,427,208	1,454,944	1,483,324	1,512,364	(4)
<b>TOTAL OPERATING EXPENSES</b>	<b>5,421,940</b>	<b>6,019,092</b>	<b>5,361,951</b>	<b>5,809,292</b>	<b>5,945,412</b>	<b>6,065,331</b>	<b>6,188,093</b>	<b>6,313,774</b>	
<b>NET OPERATING REVENUES</b>	<b>\$ 4,826,712</b>	<b>\$ 4,470,434</b>	<b>\$ 4,834,549</b>	<b>\$ 6,382,408</b>	<b>\$ 6,976,088</b>	<b>\$ 7,103,639</b>	<b>\$ 6,980,877</b>	<b>\$ 6,855,196</b>	

NOTES:

- (1) Adjustments to revenue categories from the 2015 to 2016 Budget are based upon actual 2015 results adjusted to reflect the new CSO Surcharge and an across the board rate increase.
- (2) 2016 Budget and projected years storm water revenues are based upon actual 2015 revenues.
- (3) Other operating revenues budget was based on 2015 experience. Includes lien fees, inspection fees, land rental income and street sweeping contract.
- (4) Operating expenses were trended using 2016 budget as baseline. Annual increases assumed generally ranged from 2% to 5% depending on type of expenditure. For example all wage categories were increased 2% per year.
- (5) Includes wages for one additional FTE in 2016.
- (6) Storm water requirements for Engineering services were higher than initially budgeted and account for the 2015 increase.

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

SCHEDULE OF CAPITAL EXPENDITURE REQUIREMENTS

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>CUMULATIVE TOTALS</u>
LIFT STATION:						
AUBURN MEADOWS LIFT STATION PROJECT	\$ 1,300,000					\$ 1,300,000
COLLECTION SYSTEM:						
LTCP - NEW CSO INTERCEPTOR (2014 & 2016 BONDS)	22,000,000					22,000,000
SEWER LINING		\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	1,000,000
ENGINEERING STUDY/PER CSO INTERCEPTOR      PHASE II					60,000	60,000
TREATMENT PLANT IMPROVEMENTS:						
MICROTURBINE ENGINE REPLACEMENTS	56,000		56,000			112,000
PRIMARY CLARIFIER REHABILITATION		300,000				300,000
HEADWORKS IMPROVEMENTS					1,000,000	1,000,000
STORM WATER & DRAINAGE:						
SALISBURY-PARKRIDGE BASIN BMP		80,300				80,300
CUPPY-MCCLURE DITCH IMPROVEMENTS			450,000	647,300		1,097,300
BOES DITCH REGRADING		358,500				358,500
LINDBERG ROAD PROJECT			350,000			350,000
YEAGER ROAD PROJECT					450,000	450,000
EQUIPMENT:						
WASTEWATER GENERAL	156,886	126,886	156,886	51,886	50,000	542,544
SANITATION	131,093	157,943	210,443	157,943	100,500	757,922
STORM WATER	34,000	68,000	68,000	34,000	-	204,000
SUB TOTALS	<u>23,677,979</u>	<u>1,341,629</u>	<u>1,541,329</u>	<u>1,141,129</u>	<u>1,910,500</u>	<u>29,612,566</u>
LESS: 2014 OPEN MARKET BOND PROCEEDS	(1,086,738)					(1,086,738)
LESS: 2016 BONDS - CSO PROJECT	(22,213,262)					(22,213,262)
LESS: PROPOSED 2020 BONDS					(1,450,000)	(1,450,000)
NET TOTALS	<u>\$ 377,979</u>	<u>\$ 1,341,629</u>	<u>\$ 1,541,329</u>	<u>\$ 1,141,129</u>	<u>\$ 460,500</u>	<u>\$ 4,862,566</u>

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CITY OF WEST LAFAYETTE WASTEWATER UTILITY

PROJECTED CASH FLOWS AND BOND COVERAGE  
FOR THE TWELVE MONTHS ENDED DECEMBER 31

		<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
PROJECTED OPERATING REVENUES	(1)	\$ 12,191,700	\$ 12,921,500	\$ 13,168,970	\$ 13,168,970	\$ 13,168,970
PROJECTED OPERATING EXPENDITURES	(1)	5,809,292	5,945,412	6,065,331	6,188,093	6,313,774
PROJECTED NET OPERATING REVENUES		<u>6,382,408</u>	<u>6,976,088</u>	<u>7,103,639</u>	<u>6,980,877</u>	<u>6,855,196</u>
PROJECTED NON OPERATING REVENUE						
INTEREST INCOME	(2)	24,000	28,000	29,000	29,000	30,000
TAP FEES	(3)	100,000	100,000	100,000	100,000	100,000
TOTAL PLEDGED NET REVENUES		6,506,408	7,104,088	7,232,639	7,109,877	6,985,196
PAYMENT IN LIEU OF TAXES	(3)	(528,200)	(675,000)	(675,000)	(675,000)	(675,000)
COMBINED ANNUAL DEBT SERVICE	(4)	(3,920,340)	(4,925,743)	(4,927,859)	(4,933,822)	(4,929,472)
PROPOSED ANNUAL DEBT SERVICE: 2020 BONDS	(5)	-	-	-	-	(88,677)
CAPITAL EXPENDITURES, NET OF DEBT FINANCING	(6)	(377,979)	(1,341,629)	(1,541,329)	(1,141,129)	(460,500)
PROJECTED CASH INCREASE (DECREASE)		1,679,889	161,716	88,451	359,926	831,547
BEGINNING CASH BALANCE		<u>9,506,886</u>	<u>11,186,775</u>	<u>11,348,491</u>	<u>11,436,942</u>	<u>11,796,868</u>
ENDING CASH BALANCE		<u>\$ 11,186,775</u>	<u>\$ 11,348,491</u>	<u>\$ 11,436,942</u>	<u>\$ 11,796,868</u>	<u>\$ 12,628,415</u>
PROJECTED BOND COVERAGE	(7)	<u>166%</u>	<u>144%</u>	<u>147%</u>	<u>144%</u>	<u>139%</u>

NOTES:

- (1) See Schedule I - Projected Operating Revenues and Expenditures.
- (2) Based upon projected cash balances and interest rate of .25% for 2016 based on current market conditions.
- (3) Per 2016 City Budget.
- (4) Per Combined Debt Service Schedule including new 2016 Bonds.
- (5) Assumes the issuance of \$1,450,000 of 20 year bonds at an interest rate of 2%.
- (6) See Schedule III - Five Year Capital Plan.
- (7) Represents Total Pledged Net Revenues divided by Combined Annual Debt Service. Minimum standard generally 125%.

	<b>2020</b>	<b>Unrestricted</b>	<b>Restricted</b>
<b>Operating</b>	<b>\$ 500,000</b>		
<b>Debt Reserve</b>			<b>\$ 4,933,821</b>
<b>Bond &amp; Interest</b>			<b>2,464,736</b>
<b>Improvement</b>	<b>3,729,858</b>		
<b>Storm Water</b>	<b>1,000,000</b>		
<b>Total Cash</b>	<b>\$ 5,229,858</b>	<b>\$ 7,398,557</b>	