

CITY OF WEST LAFAYETTE WASTEWATER UTILITY  
PROPOSED 2011 BUDGET





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American Institute of CPAs  
Indiana CPA Society

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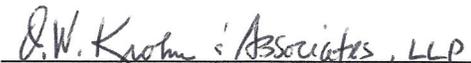
Honorable John Dennis, Mayor and  
Members of the Board of Public Works and Safety  
City of West Lafayette  
City Hall  
609 W. Navajo  
West Lafayette, Indiana 47906

At your request, we have compiled the accompanying limited financial information for the City of West Lafayette Wastewater Utility. The information includes the proposed 2011 operating budget along with projected operating revenues, operating expenditures, capital expenditures and cash flows for years 2011 through 2015. 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 – 5 Key Budget Assumptions and General Comments

Schedule I Budgeted 2011 Operation and Maintenance Expenses  
Schedule II Projected Operating Revenues and Expenses – 2011-2015  
Schedule III Five Year Capital Expenditure Plan  
Schedule IV Projected Cash Flows and Bond Coverage – 2011-2015

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

## Budgeted 2011 Operation and Maintenance Expenses – Schedule I

### Departmental Expenses

- Total budgeted expenditures for 2011 *will not increase from the 2010 budget*. Most departments are flat or have a slight decrease for next year. Within a department increased line items were offset with decreases in other areas.
  - The 2011 operating expenditure budget totals \$4,364,010 which is *\$1,139 less than the 2010 budget*. In total, 2010 operating expenditures are at budgeted levels for eleven months of actual.
  - Wages and benefit costs for each department were based upon actual staffing and wage rates per 2011 salary ordinance which provided for an increase of \$500 per employee. No additional positions or rate increases were included. Elimination of the 27<sup>th</sup> pay period which occurred in 2010 offset most wage category increases from 2010 to 2011. Employer paid health insurance for participating employees included actual negotiated premium adjustments and selected coverage levels. Increase in plan deductibles was offset by an additional \$500 HSA contribution for each employee. While employee medical insurance premiums increased 9%, due to enrollment changes overall insurance costs were held to a 1.3% increase.
- Administration
    - Administrative wages and benefits had a net reduction due to the 27<sup>th</sup> pay in 2010. The decrease in utility administration insurance despite a premium increase was a result of an employee retirement. The decrease in City administration insurance is due to correction of the allocation percentages in 2011. The 2011 budget reflects management's expectation for ongoing engineering needs and financial consulting services. Service contracts include utility share of egov website fees and reflect actual experience in 2010.
- Laboratory
    - Budget decreased overall for 2011. Insurance decrease reflects Lab Manager's opt out of employee health insurance coverage.

- Collection System
  - Changes to supplies and CSO monitors reflect actual experience in 2010. The increase in CSO monitors relates to the new ADS flow meter contract which includes online data access; the increase in CSO monitors was partially offset with a reduction in supplies and maintenance expenses.
  
- Plant Operation
  - As with other departments, wages are based on actual staffing and wage rates per 2011 salary ordinance; plant includes 11 FTE's and provisions for overtime and shift differential. Insurance increased due to 9% premium adjustment and additional \$500 HSA contribution per employee.
  - The budget for electric and gas utilities was increased due to rate increases and current usage patterns. Land application costs continue to decline since the implementation of the new digester.
  - Adjustments were made to other non personnel expense categories to align more closely with actual experience in 2010. Overall these budget adjustments result in a \$18,000 reduction in plant operating expenses.
  
- Plant Maintenance
  - This category was increased to cover recent experience; equipment repairs for 2011 is based upon the past three year average costs.
  
- Billing Expense
  - The primary budget change in billing was the increase in postage costs. Higher postage has resulted from increased collection efforts, particularly with landlords. A requirement for providing certified notice of delinquent accounts also added to the mailing costs.

- Sanitation Solid Waste Removal
  - Budget includes wages for 7 employees (drivers/collectors/processors) and provision for overtime and part time labor. Insurance increased due to 9% health insurance premium increase and additional HSA contributions.
  
- Pollution Prevention System Maintenance
  - This budget was increased \$32,490 for 2011 to accommodate needed increase in Services. Higher costs in services relates primarily to landfill tipping fees for street sweepings and storm sewer clean out.
  
- Undistributed Expense
  - Property and liability insurance budget was increased due to higher appraised insurance values of the utility's assets including completion of the digester project.

## **Projected Operating Revenues and Expenses (2011-2015) – Schedule II**

Budgeted revenues for 2011 include two revisions from the 2010 budget. User fees were decreased from \$8.6 million to \$8.5 million. This change in sales actually occurred in 2009 when sales to Purdue University dropped approximately \$300,000 or 9% from an all time high in 2008. Billings to Purdue have remained relatively constant from 2009 to 2010 so we are now assuming that this is a permanent change. Over this past two years, sales increases in other user classes have offset some of the Purdue decrease. Charges for processing of fats, oil and grease waste (“FOG”) were first implemented in 2010, however, initial volumes were not as high as assumed. The annual FOG revenue was reduced from \$150,000 to \$70,000 based upon actual experience to date. All other operating revenues were held constant for the 2011 budget and for projected revenues through 2015. No rate increases for wastewater or sanitation have been assumed in the projection. Expenditures have been adjusted for inflation in 2012-2015 as described in the notes on Schedule II. 2009 Actual and 2010 Budget amounts are shown for comparative purposes.

## **Five Year Capital Plan – Schedule III**

Capital projects and related expenditures by functional category are summarized for 2011 through 2015. Specific projects and overall cost estimates have been provided by the Utility Director. Division IV of the Western Interceptor has been bid but INDOT will not release the unit price detail until the contract is awarded. Overall indications are that the final cost of the sewer project will be less than the engineer’s estimate shown here. Approximately \$2.4 million of this project will be funded with the remaining 2004 SRF Bond proceeds. The difference along with Division V will be paid with funds on hand. Other projects in 2011 include replacement of the Soldier’s Home lift station, North River Road Interceptor and updating the CSO (Combined Sewer Overflow) Long Term Control Plan.

Capital purchases for Sanitation and Pollution Prevention include lease purchased vehicles and equipment such as trash collection and recycling trucks and street sweepers. Also in 2011, three recycling equipment shelters will be constructed.

Estimates for the Purdue Research Park lift station (\$2,640,000) and main extensions (\$720,000) have been recently updated by the Utility’s consulting engineers. Those projects are now expected to occur in 2012. An engineering study of the wastewater treatment plant capacity is currently in process to identify the most cost effective way to increase plant capacity which based on existing flows is at 90%. Once that study is completed, the \$3 million preliminary cost estimate shown as a 2012 project can be further refined.

Total 2011 expenditures are offset by the remaining SRF Loan draws available from the 2004 Bonds. The 2004 Bonds have approximately \$2.4 million remaining which will fund a portion of the Western Interceptor Division IV. Capital projects in 2011-2012 total \$13.6 million of which \$11.2 million would be paid with funds on hand if no additional bonds are issued during that time frame. Future projects under consideration in 2013-2015 include the Sheraton lift station (\$710,000) and the Fairway Knolls lift station (\$630,000).

## **Projected Cash Flows and Bond Coverage (2011-2015) – Schedule IV**

This schedule projects cash flows for 2011 through 2015 beginning with operating revenues and expenditures from Schedule II. Other pledged revenues include interest income, based upon a 1% return on projected cash balances, and tap fees. From the resulting net revenues, which range from \$5.15 to \$4.73 million, we have deducted the current budgeted \$528,200 payment to the City for PILT, debt service for all outstanding bonds and projected capital expenditures from Schedule III. Projected ending cash balances include all operating, improvement and restricted funds.

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 Operating Fund, per ordinance, should have a balance of at least two months of operating and maintenance expenditures which in this case is approximately \$800,000. The Debt Service Reserve Fund requires a balance equal to combined maximum annual debt service. For 2011, that requirement will be approximately \$3.17 million on bonds currently outstanding. Bond & Interest accumulates funds for each semiannual debt payment. The required balance at the end of the year is approximately \$1 million. Therefore by ordinance the Utility should have almost \$5 million in funds on hand excluding 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 minimum level of improvement funds ranging from \$3-\$4 million. The cash flow model follows these general guidelines.

The Utility's current 2010 balance of improvement funds totals approximately \$10.5 million. The cash flow schedule indicates that expenditures will exceed revenue sources by approximately \$8.4 million in 2011-2012 if the planned capital projects are completed on budget during this timeframe using funds on hand. The Utility could obtain financing for certain projects in this period at a subsidized below market interest rate under 3.5%. These projections assume that the Utility will use improvement funds rather than issuing additional bonds over the next few years. To maintain the improvement funds at management's desired levels, it will be important to continue to update this plan as cost estimates are refined and new projects are identified to reassess whether they can be funded without bringing down the improvement fund balances below target levels. Bond coverage (ratio of pledged net revenues to annual debt service) for existing debt is projected to range from 164% to 149%. Minimum bond coverage requirements are generally 125%.

BUDGETED OPERATION AND MAINTENANCE EXPENSES  
FOR THE TWELVE MONTHS ENDING DECEMBER 31

	2011 BUDGET	2010 BUDGET
ADMINISTRATION - GENERAL		
UTILITY ADMINISTRATION WAGES	\$ 328,238	\$ 339,039
UTILITY ADMINISTRATION INSURANCE	44,701	47,100
UTILITY ADMINISTRATION BENEFITS	50,292	48,822
CITY ADMINISTRATION WAGES	316,880	313,750
CITY ADMINISTRATION INSURANCE	43,730	74,740
CITY ADMINISTRATION BENEFITS	48,504	45,865
SUPPLIES	8,000	10,000
PUBLIC RELATIONS	1,280	1,280
CONSULTING	164,000	150,000
LEGAL	16,000	16,000
PRINTING & ADVERTISING	3,000	6,000
EDUCATION & TRAVEL	2,500	2,500
SUBSCRIPTIONS & DUES	2,000	2,000
POSTAGE	1,000	1,000
TELEPHONE	7,000	10,000
SERVICE CONTRACTS	26,000	12,900
OFFICE EQUIP/REPAIR	8,000	8,000
LIENS & AUDITS	1,000	5,600
PERMIT & FEES	14,000	14,000
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SUBTOTAL	1,086,125	1,108,596
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LABORATORY		
WAGES	74,322	72,385
INSURANCE	682	5,091
EMPLOYEE BENEFITS	9,583	8,820
SUPPLIES	23,000	23,000
EQUIPMENT	2,000	2,000
SERVICE CONTRACTS	3,500	4,000
CONSULTING	5,000	7,000
MISCELLANEOUS	1,500	500
EQUIPMENT REPAIR	1,500	3,000
	<hr/>	<hr/>
SUBTOTAL	121,087	125,796
	<hr/>	<hr/>
COLLECTION SYSTEM		
WAGES	198,870	202,923
INSURANCE	49,521	46,771
EMPLOYEE BENEFITS	33,167	32,110
SUPPLIES & MATERIALS	30,000	50,000
MACHINERY & TOOLS	540	540
VEHICLE MAINTENANCE	10,000	10,000
CSO MONITORS	35,000	20,000
CONTRACTUAL	50,000	50,000
LIFT STATIONS	13,000	15,000
EQUIPMENT-LEASE	1,000	1,000
	<hr/>	<hr/>
SUBTOTAL	421,098	428,344
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BUDGETED OPERATION AND MAINTENANCE EXPENSES  
FOR THE TWELVE MONTHS ENDING DECEMBER 31

	<u>2011</u> <u>BUDGET</u>	<u>2010</u> <u>BUDGET</u>
PLANT OPERATION		
WAGES	417,846	423,509
INSURANCE	101,411	79,475
EMPLOYEE BENEFITS	63,739	60,985
UTILITIES	375,000	350,000
SAFETY	5,500	5,500
UNIFORMS	14,600	14,600
SUPPLIES	7,000	11,000
CHEMICALS	55,000	65,000
POLYMER	2,000	4,000
TRAINING	20,000	28,000
SERVICE CONTRACTS	48,000	28,000
LANDFILL	15,000	20,000
LAND APPLICATION	200,000	250,000
EMERGENCY CONTRACTUAL	3,000	6,000
MACHINERY & TOOLS	1,000	1,000
	<u>1,329,096</u>	<u>1,347,069</u>
SUBTOTAL		
PLANT MAINTENANCE		
SUPPLIES & MATERIALS	25,000	20,000
GASOLINE	22,000	22,000
LUBRICANTS	1,000	1,000
EQUIPMENT REPAIR (FIXED)	35,000	15,000
MACHINERY & TOOLS	4,000	4,000
	<u>87,000</u>	<u>62,000</u>
SUBTOTAL		
BILLING EXPENSE		
WAGES	82,035	86,919
INSURANCE	24,639	21,716
EMPLOYEE BENEFITS	12,656	12,516
SUPPLIES & POSTAGE	47,200	40,470
BILLING AND SERVICE CONTRACTS	26,930	24,150
BAD DEBT	4,000	4,000
TRAINING	1,500	1,500
OFFICE EQUIPMENT REPAIRS	500	500
LIEN FEES AND OTHER	20,000	20,000
	<u>219,460</u>	<u>211,771</u>
SUBTOTAL		
SANITATION SOLID WASTE REMOVAL		
WAGES	257,309	292,707
INSURANCE	60,230	49,586
EMPLOYEE BENEFITS	44,311	42,826
SUPPLIES	92,580	92,580
SERVICES	235,590	235,590
	<u>690,020</u>	<u>713,289</u>
SUBTOTAL		

BUDGETED OPERATION AND MAINTENANCE EXPENSES  
FOR THE TWELVE MONTHS ENDING DECEMBER 31

	<u>2011</u> <u>BUDGET</u>	<u>2010</u> <u>BUDGET</u>
POLLUTION PREVENTION SYSTEM MAINTENANCE		
WAGES	176,206	178,336
INSURANCE	37,355	33,092
EMPLOYEE BENEFITS	28,813	27,568
SUPPLIES	15,000	25,088
SERVICES	<u>50,000</u>	<u>10,800</u>
SUBTOTAL	<u>307,374</u>	<u>274,884</u>
UNDISTRIBUTED EXPENSE		
INSURANCE	81,244	69,000
INJURIES & DAMAGES	5,150	5,150
WORKERS' COMP INSURANCE	<u>16,356</u>	<u>19,250</u>
SUBTOTAL	<u>102,750</u>	<u>93,400</u>
TOTAL OPERATION AND MAINTENANCE EXPENSE	<u>\$ 4,364,010</u>	<u>\$ 4,365,149</u>

CITY OF WEST LAFAYETTE WASTEWATER UTILITY  
PROJECTED OPERATING REVENUES AND EXPENSES  
FOR THE TWELVE MONTHS ENDING DECEMBER 31

	ACTUAL 2009	BUDGET 2010	BUDGET 2011	PROJECTED			Notes
				2012	2013	2014	
<b>PROJECTED OPERATING REVENUES:</b>							
WASTEWATER USER FEES	\$ 8,428,842	\$ 8,600,000	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000 (1)
PENALTIES	67,996	60,000	60,000	60,000	60,000	60,000	60,000 (1)
SANITATION TRASH FEES	525,002	520,000	520,000	520,000	520,000	520,000	520,000 (1)
RECYCLING GRANT	41,500	41,500	41,500	41,500	41,500	41,500	41,500 (1)
RECYCLABLE SALES	51,773	45,000	45,000	45,000	45,000	45,000	45,000 (1)
TOTERS AND BINS	6,553	4,000	4,000	4,000	4,000	4,000	4,000 (1)
FOG	-	150,000	70,000	70,000	70,000	70,000	70,000 (2)
<b>TOTAL OPERATING REVENUES</b>	<b>9,121,666</b>	<b>9,420,500</b>	<b>9,240,500</b>	<b>9,240,500</b>	<b>9,240,500</b>	<b>9,240,500</b>	<b>9,240,500</b>
<b>PROJECTED OPERATING EXPENSES:</b>							
ADMINISTRATIVE AND GENERAL	1,183,486	1,108,596	1,086,125	1,107,910	1,130,295	1,153,305	1,176,957 (3)
LABORATORY	137,386	125,796	121,087	123,454	125,873	128,345	130,870 (3)
COLLECTION SYSTEM	384,661	428,344	421,098	432,297	443,835	455,721	467,967 (3)
PLANT OPERATION	1,627,032	1,347,069	1,329,096	1,346,768	1,363,170	1,379,980	1,397,205 (3)
PLANT MAINTENANCE	66,241	62,000	87,000	87,940	89,378	90,859	92,385 (3)
BILLING EXPENSE	207,324	211,771	219,460	224,196	229,067	234,077	239,233 (3)
SANITATION SOLID WASTE REMOVAL	610,808	713,289	690,020	701,359	713,028	725,038	737,403 (3)
POLLUTION PREVENTION SYSTEM MAINTENANCE	235,992	274,884	307,374	314,930	322,702	330,697	338,923 (3)
UNDISTRIBUTED	84,176	93,400	102,750	107,139	111,738	116,557	121,607 (3)
<b>TOTAL OPERATING EXPENSES</b>	<b>4,537,106</b>	<b>4,365,149</b>	<b>4,364,010</b>	<b>4,445,993</b>	<b>4,529,086</b>	<b>4,614,579</b>	<b>4,702,550</b>
<b>NET OPERATING REVENUES</b>	<b>\$ 4,584,560</b>	<b>\$ 5,055,351</b>	<b>\$ 4,876,490</b>	<b>\$ 4,794,507</b>	<b>\$ 4,711,414</b>	<b>\$ 4,625,921</b>	<b>\$ 4,537,950</b>

NOTES:

- (1) No growth or other adjustment from 2010 Budget with the exception of wastewater user fees. Slight decrease reflects actual experience over the past two years.
- (2) Based upon year to date billings in first year which were less than initial expectations.
- (3) Operating expenses were trended using 2011 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.

SCHEDULE III

WEST LAFAYETTE WASTEWATER UTILITY

FIVE YEAR CAPITAL EXPENDITURE PLAN

	2011	2012	2013	2014	2015	Cumulative Totals
<b>LIFT STATION</b>						
North Service - PRP Lift Station	\$ 690,000	\$ 2,640,000				\$ 2,640,000
Soldiers Home Lift Station Improvements						690,000
Sheraton Lift Station Replacement				\$ 710,000		710,000
Fairway Knolls Lift Station Replacement					\$ 630,000	630,000
<b>COLLECTION SYSTEM</b>						
PRP Main Extensions (approx 14,150 LF)		720,000				720,000
Western Interceptor Division IV	3,900,000					3,900,000
Western Interceptor Division V	1,450,000					1,450,000
North River Rd. Interceptor	326,500					326,500
CSO Long Term Control Plan Update	175,000					175,000
<b>TREATMENT PLANT IMPROVEMENTS</b>						
Capacity Expansion		3,000,000				3,000,000
<b>EQUIPMENT</b>	50,000	50,000	\$ 50,000	50,000	\$ 50,000	250,000
<b>SANITATION</b>	182,839	154,182	121,140	108,065	121,833	688,059
<b>POLLUTION PREVENTION</b>	149,727	149,692	189,692	117,039	80,000	686,150
<b>SUB TOTALS</b>	6,924,066	6,713,874	360,832	985,104	881,833	15,865,709
<b>LESS: REMAINING SRF LOAN DRAWS 2004 BOND</b>	(2,391,947)					(2,391,947)
<b>NET TOTALS</b>	<u>\$ 4,532,119</u>	<u>\$ 6,713,874</u>	<u>\$ 360,832</u>	<u>\$ 985,104</u>	<u>\$ 881,833</u>	<u>\$ 13,473,762</u>

## WEST LAFAYETTE WASTEWATER UTILITY

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

		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
PROJECTED OPERATING REVENUES	(1)	\$ 9,240,500	\$ 9,240,500	\$ 9,240,500	\$ 9,240,500	\$ 9,240,500
PROJECTED OPERATING EXPENDITURES	(1)	<u>4,364,010</u>	<u>4,445,993</u>	<u>4,529,086</u>	<u>4,614,579</u>	<u>4,702,550</u>
PROJECTED NET OPERATING REVENUES		<u>4,876,490</u>	<u>4,794,507</u>	<u>4,711,414</u>	<u>4,625,921</u>	<u>4,537,950</u>
PROJECTED NON OPERATING REVENUE						
INTEREST INCOME	(2)	155,000	130,000	70,000	75,000	75,000
TAP FEES	(3)	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>
TOTAL PLEDGED NET REVENUES		5,146,490	5,039,507	4,896,414	4,815,921	4,727,950
PAYMENT IN LIEU OF TAXES	(3)	(528,200)	(528,200)	(528,200)	(528,200)	(528,200)
COMBINED ANNUAL DEBT SERVICE	(4)	(3,135,292)	(3,176,777)	(3,177,925)	(3,177,299)	(3,174,924)
CAPITAL EXPENDITURES, NET OF DEBT FINANCING	(5)	<u>(4,532,119)</u>	<u>(6,713,874)</u>	<u>(360,832)</u>	<u>(985,104)</u>	<u>(881,833)</u>
PROJECTED CASH INCREASE (DECREASE)		(3,049,121)	(5,379,344)	829,457	125,319	142,994
BEGINNING CASH BALANCE		<u>15,454,209</u>	<u>12,405,089</u>	<u>7,025,745</u>	<u>7,855,202</u>	<u>7,980,521</u>
ENDING CASH BALANCE		<u>\$ 12,405,089</u>	<u>\$ 7,025,745</u>	<u>\$ 7,855,202</u>	<u>\$ 7,980,521</u>	<u>\$ 8,123,514</u>
PROJECTED BOND COVERAGE	(6)	<u>164%</u>	<u>159%</u>	<u>154%</u>	<u>152%</u>	<u>149%</u>

NOTES:

- (1) See Schedule I - Projected Operating Revenues and Expenditures.  
(2) Based upon projected cash balances and average rate of 1% using current market conditions.  
(3) Per 2011 City Budget.  
(4) Per Combined Debt Service Schedule. Interest cost in 2011 was adjusted to reflect the fact that the 2004 Bonds will not be fully drawn down until the end of 2011.  
(5) See Schedule III - Five Year Capital Plan.  
(6) Represents Total Pledged Net Revenues divided by Combined Annual Debt Service. Minimum standard generally 125%.

	Unrestricted	Restricted
<b>Operating</b>	<b>\$ 800,000</b>	
<b>Debt Reserve</b>		<b>\$ 3,178,000</b>
<b>Bond &amp; Int. Improvement</b>	<b>3,145,514</b>	<b>1,000,000</b>
<b>Total Cash</b>	<b>\$ 3,945,514</b>	<b>\$ 4,178,000</b>