

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

PROPOSED 2012 BUDGET





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Indiana CPA Society

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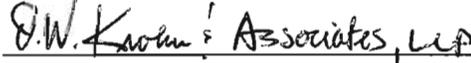
Honorable John Dennis, Mayor and
Members of the Board of Public Works and Safety
City of West Lafayette
City Hall
609 W. Navajo
West Lafayette, Indiana 47906

At your request, we have compiled the accompanying limited financial information for the City of West Lafayette Wastewater Utility. The information includes the proposed 2012 operating budget along with projected operating revenues, operating expenditures, capital expenditures and cash flows for years 2012 through 2016. 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 2012 Operation and Maintenance Expenses
Schedule II Projected Operating Revenues and Expenses – 2012-2016
Schedule III Five Year Capital Expenditure Plan
Schedule IV Projected Cash Flows and Bond Coverage – 2012-2016

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 2012 Operation and Maintenance Expenses – Schedule I

Departmental Expenses

- Total budgeted expenditures for 2012 increased \$195,342 from the 2011 budget. Wages, insurance and employee benefits account for a majority or \$136,472 of this increase.
- The 2012 operating expenditure budget totals \$4,559,352 of which 60% is comprised of wages, insurance and employee benefits. In total, 2011 total 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 2012 salary ordinance which provided for a base wage rate increase of 1.5% plus a payment of \$500 per employee. Employer paid health insurance for participating employees included actual negotiated premium adjustments and selected coverage levels. Health insurance premiums increased approximately 15%, all of which was covered by the Utility.

- Administration
 - Budget for Administration increased \$62,229 overall due to the increases in wages and benefits as described above plus one new position. Wages and benefits in 2012 now include the Utility's share of a new IT Director position. The cost of this new position is partially offset by savings in IT service contracts.

- Laboratory
 - Budget increased \$10,555 for 2012. Supply and service contract budgets were adjusted to reflect actual experience in 2011.

- Collection System
 - The department's budget increased \$34,271 for 2012.
 - Wages and benefits for 2012 are based upon actual wage rates and current benefit costs for the same five FTE's that are currently in the department. Approximately half of the budget increase is to provide for increases in their wages and benefits.

- An increase of \$17,000 in lift station repair and maintenance costs reflects actual experience in 2011 and management's expectations for 2012.
- Plant Operation
 - As with other departments, wages are based on actual staffing and wage rates per 2012 salary ordinance; plant includes 11 FTE's and provisions for overtime and shift differential as was the case for 2011. Wages for the 2012 budget decreased because an operator retired and the new hire started at a lower pay rate.
 - The 2012 budget for electric and gas utilities, uniforms, chemicals, polymer and land application were increased based upon management's expectations and to align more closely with actual experience in 2011. Overall these non wage adjustments resulted in an increase of \$33,000.
- Plant Maintenance
 - This category remained substantially the same for the new budget year.
- Billing Expense
 - The budget anticipates a slight decrease in total billing costs. The increase in wages and benefits was offset by reductions in insurance and bad debts. Collection results have justified a reduction in the provision for write offs of uncollectible accounts.
- Sanitation Solid Waste Removal
 - Overall the budget remained about the same with a net increase of \$1,477. Budget again includes wages for seven employees (drivers/collectors/processors) and provision for overtime and part time labor. Insurance increased due to 15% health insurance premium increase.
 - Supplies (fuel, equipment and vehicle parts and supplies) and services (primarily landfill tipping fees) line items were adjusted to reflect experience in 2011.

- Pollution Prevention System Maintenance
 - Budget was increased \$44,076 for 2012, of which \$24,076 was to accommodate the increase in wages, insurance and benefits. In addition to the across-the-board wage and insurance premium adjustments, this budget covers increases for the new assistant City engineer whose base salary and insurance coverage is higher than their predecessor. No new positions were added.
 - The supplies budget was increased \$30,000 for 2012 to recognize increased equipment repair and maintenance costs. The budget for services relates primarily to landfill tipping fees for street sweepings and storm sewer clean out. Based on actual 2011 experience, the 2012 budget for this line item was reduced by \$10,000.

- Undistributed Expense
 - There was no change in total for this budget in 2012. The line item for injuries & damages is no longer in use and its budget was included with insurance to cover any potential increases there.

Projected Operating Revenues and Expenses (2012-2016) – Schedule II

Budgeted revenues for 2012 include two reductions from the 2011 budget. User fees were decreased from \$8.5 million to \$8.4 million. This change in sales 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 2011 so we are 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 have not been as high as assumed. The annual FOG revenue was reduced from \$70,000 to \$50,000 based upon actual experience to date. Trash and recycling revenues were increased in the 2012 budget based upon 2011 results. Also, other operating revenues which include an INDOT street sweeping contract payment, farm rental income, lien and inspection fees reflect a budget increase in 2012 based upon experience in 2011. All other operating revenues were held constant for the 2012 budget and for projected revenues through 2016. No rate increases for wastewater or sanitation have been assumed in the projection. Expenditures have been adjusted for inflation in 2013-2016 as described in the notes on Schedule II. 2010 Actual and 2011 Budget amounts are shown for comparative purposes.

Five Year Capital Plan – Schedule III

Capital projects and related expenditures by functional category are summarized for 2012 through 2016. Specific projects and overall cost estimates have been provided by the Utility Director. Division IV of the Western Interceptor was substantially completed and primarily funded with 2004 SRF Loan draws in 2011. The 2012 budget for Division IV will cover final change orders. Western Interceptor Division V was bid and started in late 2011 and will be completed in 2012. Other projects in 2012 include Purdue Research Park improvements, replacement of the Soldier's Home lift station, final payment for North River Road interceptor, Cumberland Road Phase II sewers, completing the update of the CSO (Combined Sewer Overflow) Long Term Control Plan and the capacity expansion project at the treatment plant.

Estimates for the Purdue Research Park lift station (\$2,640,000) and main extensions (\$720,000) have been provided by the Utility's consulting engineers. Those projects are now expected to begin in 2012 and be completed in 2013. In order to enhance capacity at the treatment plant which is currently at 90% usage, consulting engineers have recommended the addition of a new aeration tank at a cost of \$2,000,000. Once approved by IDEM, it is expected that this project will be bid and started in 2012 with completion in 2013. Future projects under consideration in 2014-2015 include the Sheraton lift station (\$710,000) and the Fairway Knolls lift station (\$630,000).

Wastewater equipment purchases include lease payments for the plant grinder and a copier as well as vehicle replacements. An additional \$50,000 in 2012 and 2013 has been provided to fund the acquisition and implementation of new billing software. Capital purchases for Sanitation and Pollution Prevention include lease purchased vehicles and equipment such as recycling trucks, a vactor, street sweepers and new sewer line camera equipment.

The majority of capital projects currently identified are expected to occur in 2012-2013. Over the next five years a total of \$11,775,325 in projects and other capital expenditures have been identified. Funding is assumed to be with cash on hand. The Utility is continuing to update its CSO Long Term Control Plan which identifies projects to mitigate combined sewer overflows in the system. The plan will be submitted at the end of 2011 for IDEM approval. Once agreed to, the Utility will have approximately 15 years to make the improvements. The proposed implementation schedule developed by the Utility's consulting engineers does not include any significant capital expenditures in the next five years.

Projected Cash Flows and Bond Coverage (2012-2016) – Schedule IV

This schedule projects cash flows for 2012 through 2016 beginning with operating revenues and expenditures from Schedule II. Other pledged revenues include interest income and tap fees. Interest income in 2012 is estimated based upon current low market rates of 0.25% applied to projected cash balances. Thereafter, an annual increase in interest rates of .05% was applied. From the resulting net revenues, which range from \$4.76 to \$4.39 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 2012, 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 target level of improvement funds ranging from \$3-\$4 million. The cash flow model follows these general guidelines.

The Utility's current 2011 balance of improvement funds totals approximately \$10.3 million. The cash flow schedule indicates that expenditures will exceed revenue sources by approximately \$7.59 million in 2012-2013 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 of approximately 3%. 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 150% to 138%. Minimum bond coverage requirements are generally 125%.

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

	2012 <u>BUDGET</u>	2011 <u>BUDGET</u>
ADMINISTRATION - GENERAL		
UTILITY ADMINISTRATION WAGES	\$ 336,264	\$ 328,238
UTILITY ADMINISTRATION INSURANCE	53,494	44,701
UTILITY ADMINISTRATION BENEFITS	52,827	50,292
CITY ADMINISTRATION WAGES	340,277	316,880
CITY ADMINISTRATION INSURANCE	53,832	43,730
CITY ADMINISTRATION BENEFITS	56,160	48,504
SUPPLIES	8,000	8,000
PUBLIC RELATIONS	2,000	1,280
CONSULTING	164,000	164,000
LEGAL	20,000	16,000
PRINTING & ADVERTISING	3,000	3,000
EDUCATION & TRAVEL	2,500	2,500
SUBSCRIPTIONS & DUES	2,000	2,000
POSTAGE	1,000	1,000
TELEPHONE	7,000	7,000
SERVICE CONTRACTS	26,000	26,000
OFFICE EQUIP/REPAIR	5,000	8,000
LIENS & AUDITS	1,000	1,000
PERMIT & FEES	14,000	14,000
	<u>1,148,354</u>	<u>1,086,125</u>
SUBTOTAL		
LABORATORY		
WAGES	75,945	74,322
INSURANCE	762	682
EMPLOYEE BENEFITS	10,435	9,583
SUPPLIES	28,000	23,000
EQUIPMENT	2,000	2,000
SERVICE CONTRACTS	6,500	3,500
CONSULTING	5,000	5,000
MISCELLANEOUS	1,500	1,500
EQUIPMENT REPAIR	1,500	1,500
	<u>131,642</u>	<u>121,087</u>
SUBTOTAL		
COLLECTION SYSTEM		
WAGES	204,355	198,870
INSURANCE	57,893	49,521
EMPLOYEE BENEFITS	36,581	33,167
SUPPLIES & MATERIALS	40,000	30,000
MACHINERY & TOOLS	540	540
VEHICLE MAINTENANCE	10,000	10,000
CSO MONITORS	35,000	35,000
CONTRACTUAL	40,000	50,000
LIFT STATIONS	30,000	13,000
EQUIPMENT-LEASE	1,000	1,000
	<u>455,369</u>	<u>421,098</u>
SUBTOTAL		

FOR INTERNAL MANAGEMENT DELIBERATIVE PURPOSES ONLY.

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

	<u>2012</u> <u>BUDGET</u>	<u>2011</u> <u>BUDGET</u>
PLANT OPERATION		
WAGES	411,141	417,846
INSURANCE	110,217	101,411
EMPLOYEE BENEFITS	67,828	63,739
UTILITIES	385,000	375,000
SAFETY	5,500	5,500
UNIFORMS	16,000	14,600
SUPPLIES	7,000	7,000
CHEMICALS	65,000	55,000
POLYMER	5,000	2,000
TRAINING	22,000	20,000
SERVICE CONTRACTS	48,000	48,000
LANDFILL	15,000	15,000
LAND APPLICATION	210,000	200,000
EMERGENCY CONTRACTUAL	3,000	3,000
MACHINERY & TOOLS	1,000	1,000
	<u>1,371,686</u>	<u>1,329,096</u>
SUBTOTAL		
PLANT MAINTENANCE		
SUPPLIES & MATERIALS	25,000	25,000
GASOLINE	22,000	22,000
LUBRICANTS	1,000	1,000
EQUIPMENT REPAIR (FIXED)	35,000	35,000
MACHINERY & TOOLS	5,000	4,000
	<u>88,000</u>	<u>87,000</u>
SUBTOTAL		
BILLING EXPENSE		
WAGES	85,999	82,035
INSURANCE	20,089	24,639
EMPLOYEE BENEFITS	14,345	12,656
SUPPLIES & POSTAGE	47,200	47,200
BILLING AND SERVICE CONTRACTS	27,000	26,930
BAD DEBT	2,000	4,000
TRAINING	1,500	1,500
OFFICE EQUIPMENT REPAIRS	500	500
LIEN FEES AND OTHER	20,000	20,000
	<u>218,633</u>	<u>219,460</u>
SUBTOTAL		
SANITATION SOLID WASTE REMOVAL		
WAGES	259,157	257,309
INSURANCE	74,460	60,230
EMPLOYEE BENEFITS	47,850	44,311
SUPPLIES	100,000	92,580
SERVICES	210,000	235,590
	<u>691,467</u>	<u>690,020</u>
SUBTOTAL		

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

	<u>2012</u> <u>BUDGET</u>	<u>2011</u> <u>BUDGET</u>
POLLUTION PREVENTION SYSTEM MAINTENANCE		
WAGES	185,750	176,206
INSURANCE	48,098	37,355
EMPLOYEE BENEFITS	32,602	28,813
SUPPLIES	45,000	15,000
SERVICES	<u>40,000</u>	<u>50,000</u>
SUBTOTAL	<u>351,450</u>	<u>307,374</u>
UNDISTRIBUTED EXPENSE		
INSURANCE	86,394	81,244
INJURIES & DAMAGES	-	5,150
WORKERS' COMP INSURANCE	<u>16,356</u>	<u>16,356</u>
SUBTOTAL	<u>102,750</u>	<u>102,750</u>
TOTAL OPERATION AND MAINTENANCE EXPENSE	<u>\$ 4,559,352</u>	<u>\$ 4,364,010</u>

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

PROJECTED OPERATING REVENUES AND EXPENSES
FOR THE TWELVE MONTHS ENDING DECEMBER 31

	ACTUAL 2010	BUDGET 2011	BUDGET 2012	2013	PROJECTED			Notes
					2014	2015	2016	
PROJECTED OPERATING REVENUES:								
WASTEWATER USER FEES	\$ 8,321,319	\$ 8,500,000	\$ 8,400,000	\$ 8,400,000	\$ 8,400,000	\$ 8,400,000	\$ 8,400,000	(1)
PENALTIES	55,075	55,000	55,000	55,000	55,000	55,000	55,000	(1)
SANITATION TRASH FEES	531,030	520,000	525,000	525,000	525,000	525,000	525,000	(1)
RECYCLING GRANT	41,500	41,500	41,500	41,500	41,500	41,500	41,500	(1)
RECYCLABLE SALES	53,641	45,000	60,000	60,000	60,000	60,000	60,000	(1)
TOTERS AND BINS	7,180	4,000	4,000	4,000	4,000	4,000	4,000	(1)
FOG	27,398	70,000	50,000	50,000	50,000	50,000	50,000	(1)
OTHER OPERATING REVENUES	24,108	5,000	25,000	25,000	25,000	25,000	25,000	(2)
TOTAL OPERATING REVENUES	9,061,251	9,240,500	9,160,500	9,160,500	9,160,500	9,160,500	9,160,500	
PROJECTED OPERATING EXPENSES:								
ADMINISTRATIVE AND GENERAL	1,073,383	1,086,125	1,148,354	1,172,153	1,196,624	1,221,796	1,247,689	(3)
LABORATORY	148,192	121,087	131,642	134,172	136,756	139,397	142,095	(3)
COLLECTION SYSTEM	383,833	421,098	455,369	467,609	480,223	493,223	506,623	(3)
PLANT OPERATION	1,334,632	1,329,096	1,371,686	1,390,205	1,407,319	1,424,862	1,442,844	(3)
PLANT MAINTENANCE	97,321	87,000	88,000	88,940	90,378	91,859	93,385	(3)
BILLING EXPENSE	194,077	219,460	218,633	223,281	228,057	232,964	238,008	(3)
SANITATION SOLID WASTE REMOVAL	611,922	690,020	691,467	703,809	716,524	729,626	743,127	(3)
POLLUTION PREVENTION SYSTEM MAINTENANCE	305,807	307,374	351,450	360,248	369,303	378,625	388,224	(3)
UNDISTRIBUTED	111,384	102,750	102,750	107,397	112,267	117,370	122,718	(3)
TOTAL OPERATING EXPENSES	4,260,551	4,364,010	4,559,352	4,647,814	4,737,451	4,829,722	4,924,713	
NET OPERATING REVENUES	\$ 4,800,700	\$ 4,876,490	\$ 4,601,148	\$ 4,512,686	\$ 4,423,049	\$ 4,330,778	\$ 4,235,787	

NOTES:

- (1) Adjustments to revenue categories from the 2011 to 2012 Budget are based upon actual 2011 experience to date. Decrease in user fees and FOG charges reflect actual experience over the past two years.
- (2) Increase in other operating revenues was based on 2011 experience. Includes lien fees, inspection fees, land rental income and street sweeping contract.
- (3) Operating expenses were trended using 2012 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

	2012	2013	2014	2015	2016	Cumulative Totals
LIFT STATION						
North Service - PRP Lift Station	\$ 1,320,000	\$ 1,320,000				\$ 2,640,000
Soldiers Home Lift Station Improvements	725,000					725,000
Sheraton Lift Station Replacement			\$ 710,000			710,000
Fairway Knoll Lift Station Replacement				\$ 630,000		630,000
COLLECTION SYSTEM						
PRP Main Extensions (approx 14,150 LF)	360,000	360,000				720,000
North River Rd. Interceptor	23,282					23,282
Western Interceptor Division IV	80,000					80,000
Western Interceptor Division V	1,924,341					1,924,341
Cumberland Road Phase II Sewers	625,000					625,000
CSO Long Term Control Plan Update	50,000					50,000
TREATMENT PLANT IMPROVEMENTS						
Capacity Expansion	1,300,000	700,000				2,000,000
EQUIPMENT						
	100,000	100,000	50,000	50,000	\$ 50,000	350,000
SANITATION						
	163,906	90,569	104,227	81,000	125,000	564,702
POLLUTION PREVENTION						
	116,500	233,000	233,000	116,500	34,000	733,000
TOTALS	<u>\$ 6,788,029</u>	<u>\$ 2,803,569</u>	<u>\$ 1,097,227</u>	<u>\$ 877,500</u>	<u>\$ 209,000</u>	<u>\$ 11,775,325</u>

FOR INTERNAL MANAGEMENT DELIBERATIVE PURPOSES ONLY.

WEST LAFAYETTE WASTEWATER UTILITY

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

	2012	2013	2014	2015	2016
PROJECTED OPERATING REVENUES	(1) \$ 9,160,500	\$ 9,160,500	\$ 9,160,500	\$ 9,160,500	\$ 9,160,500
PROJECTED OPERATING EXPENDITURES	(1) 4,559,352	4,647,814	4,737,451	4,829,722	4,924,713
PROJECTED NET OPERATING REVENUES	4,601,148	4,512,686	4,423,049	4,330,778	4,235,787
PROJECTED NON OPERATING REVENUE					
INTEREST INCOME	(2) 40,000	30,000	30,000	31,000	35,000
TAP FEES	(3) 115,000	115,000	115,000	115,000	115,000
TOTAL PLEDGED NET REVENUES	4,756,148	4,657,686	4,568,049	4,476,778	4,385,787
PAYMENT IN LIEU OF TAXES	(3) (528,200)	(528,200)	(528,200)	(528,200)	(528,200)
COMBINED ANNUAL DEBT SERVICE	(4) (3,176,777)	(3,177,925)	(3,177,299)	(3,174,924)	(3,175,774)
CAPITAL EXPENDITURES, NET OF DEBT FINANCING	(5) (6,788,029)	(2,803,569)	(1,097,227)	(877,500)	(209,000)
PROJECTED CASH INCREASE (DECREASE)	(5,736,858)	(1,852,008)	(234,677)	(103,846)	472,813
BEGINNING CASH BALANCE	15,590,000	9,853,142	8,001,134	7,766,457	7,662,611
ENDING CASH BALANCE	\$ 9,853,142	\$ 8,001,134	\$ 7,766,457	\$ 7,662,611	\$ 8,135,424
PROJECTED BOND COVERAGE	(6) 150%	147%	144%	141%	138%

NOTES:

- (1) See Schedule I - Projected Operating Revenues and Expenditures.
- (2) Based upon projected cash balances and interest rate of .25% for 2012 based on current market conditions. Rate increased by .05% annually for assumed improvement in market.
- (3) Per 2012 City Budget.
- (4) Per Combined Debt Service Schedule.
- (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
Operating	\$ 800,000	
Debt Reserve		\$ 3,178,000
Bond & Int. Improvement	3,157,424	1,000,000
Total Cash	\$ 3,957,424	\$ 4,178,000