

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

PROPOSED 2015 BUDGET





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American Institute of CPAs  
Indiana CPA Society

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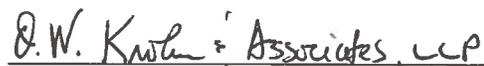
Honorable John Dennis, Mayor and  
Members of the Board of Public Works and Safety  
City of West Lafayette  
City Hall  
609 W. Navajo  
West Lafayette, Indiana 47906

At your request, we have compiled the accompanying limited financial information for the City of West Lafayette Wastewater Utility. The information includes the proposed 2015 operating budget along with projected operating revenues, operating expenditures, capital expenditures and cash flows for years 2015 through 2018. 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 2015 Operation and Maintenance Expenses  
Schedule II Projected Operating Revenues and Expenses – 2015-2018  
Schedule III Capital Expenditure Plan  
Schedule IV Projected Cash Flows and Bond Coverage – 2015-2018

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 2015 Operation and Maintenance Expenses**

Total budgeted expenditures for 2015 increased \$225,291 or 4.38% from the 2014 budget. The 2015 operating expenditure budget totals \$5,361,951 of which 59% is comprised of wages, insurance and employee benefits. Wages and benefit costs for each department were based upon actual staffing and wage rates per 2015 salary ordinance which provided for a base wage rate increase of 2%. One new Sanitation position was added in 2015. Employer paid health insurance for participating employees included premium increases and selected coverage levels.

### **Treatment Plant**

This budget decreased by \$64,321 due to changes in wage allocations and reduction of sludge removal to more closely reflect actual 2014 costs incurred. The only notable treatment plant increase was in chemicals which includes an estimate of the additional costs to treat phosphorus.

### **Collection System**

The department's budget in total was basically unchanged. The budget estimate of \$702,080 was realigned between line items to better match actual experience in 2014. For example lift station power costs and equipment repairs were greater than estimated but supplies and other services were well under budget.

### **Sanitation**

The budget increased \$50,713 in 2015. Wage and benefits increased \$61,787 which represented one new FTE and reallocation of .5 support staff to this area. A portion of this increase was offset with reductions in services and other charges.

### **Storm Water**

Budget for the department increased \$119,697 to provide for services and other charges and professional fees. Storm water incurred new costs for IT support, GIS services and engineering in order to set up and maintain the new storm water data base and to bill and process storm water fees. The 2015 budget incorporates these cost increases.

### **Customer Accounts**

The budget increased \$52,276 in 2015 due to additional wages for storm water billing activities and additional costs in contracts, license fees, credit card fees and IT services. These increases related in part to the new storm water billing requirements and Tyler implementation.

### **Administration & General**

Budget for Administration increased \$68,658 overall due to the reallocation of wages and benefits to better match up utility management's activities with the applicable functions in the utility. Increases in the non-wage categories account for the ongoing costs of the Tyler software. Those increases were offset by decreases in professional fee budgets now that much of the financial reporting developmental projects have been completed.

## **Schedule II - Projected Operating Revenues and Expenses (2015-2018)**

2015 budgeted operating revenues are \$645,000 less in total than the 2014 budget. This change is almost entirely related to wastewater fees which, due to ongoing conservation efforts by Purdue University, decreased in 2014. This trend is expected to continue in 2015 due to the completion of upgrades in the water handling systems of the University's Biochemical Building. There are ongoing construction projects at Purdue and when new facilities come on line they will offset some of the decreases. To be conservative we have not projected those increases until we have more definitive information on volumes and timing. Storm water revenues in 2014 were less than expected due to delays in the first quarter of the year in setting up and processing storm water fees. Those issues have been resolved and the projections include full year's billings in 2015 and future years.

Expenditures have been adjusted for inflation using the 2015 budget as base line. Annual inflation adjustments range 2% to 5% depending on type of expenditure. 2013 Actual and 2014 Budget amounts are shown for comparative purposes.

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

Capital projects and related expenditures by functional category are summarized for 2015 through 2018. Specific projects and overall cost estimates have been provided by the Utility Director.

Lift station projects include the Purdue Research Park (PRP) regional lift station project which began in 2013 and will be completed in 2015. The regional lift station is funded with the 1.5% State Revolving Loan Program 2012 Bond. The Utility has also secured \$2,610,000 of SRF Program funding for the Sheraton and Fairway Knoll lift station replacement projects.

Collection system projects include completion of the Cumberland Avenue Interceptor and Wet Weather Facility Improvements projects in 2015. The 2014 Open Market Bonds were sold in April of 2014 at 2.64%. They will fund the Cumberland Avenue project as well as Phase I Nutrient removal at the treatment plant.

Phase I Nutrient Removal improvements began in 2014 and will be completed in 2015. This project is funded by the 2014 Open Market Bonds. It is expected that the final phase of nutrient removal will follow at a cost of approximately \$1,250,000. The timing and cost of this phase will be reevaluated once Phase I is operational and the new plant permit sets current guidelines in terms of allowed phosphorus levels.

The Storm Water & Drainage projects include Happy Hollow, Boes Ditch and Cuppy-McClure Ditch improvements together with a storm water master plan. These projects will be funded with the new storm water fee revenue.

Over the next five years a total of \$9,321,700 in projects and other capital expenditures have been identified. Approximately half of this total is expected to be funded with bond proceeds and \$1.1 million in storm water projects will be paid for with storm water fee revenue. The remainder will be from net operating revenues and improvement funds.

The Utility has updated its CSO Long Term Control Plan which identifies projects to mitigate combined sewer overflows in the system. The 15-year plan was approved by IDEM in 2012. The proposed implementation schedule developed by the Utility's consulting engineers begins with \$500,000 in wet weather facility improvements which will be completed in 2015. The first CSO interceptor project is expected to begin with a \$1,000,000 expenditure to occur in the 2016-2018 time frame.

#### **Schedule IV - Projected Cash Flows and Bond Coverage (2015-2018)**

This schedule projects cash flows for 2015 through 2018 beginning with operating revenues and expenditures from Schedule II. Other pledged revenues include interest income and tap fees. Interest income in 2015 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 \$4.7 to \$4.98 million, we have deducted the 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, storm water 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 \$900,000. The Debt Service Reserve Fund requires a balance equal to combined maximum annual debt service. Additional reserve for 2012 Bonds and 2014B Bonds will be build up over five years to a total requirement of approximately \$3.573 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 \$1.78 million. Therefore by ordinance the Utility should have approximately \$5.3 million in funds on hand excluding improvement and storm water 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 \$2.5 - \$3.5 million. The Utility's ending 2014 balance of improvement funds totals approximately \$3.6 million compared to \$4.8 million a year ago.

These projections assume that storm water fees will be assessed to cover the cost of existing and future storm sewer projects. In 2012 and 2013, prior to the implementation of storm water fees, approximately \$1.825 million of the improvement fund was spent on storm water and drainage projects. Once sufficient storm water funds are built up over the next few years, we have assumed that the storm water revenue fund will reimburse the improvement fund. With the new storm water revenues, operating and capital needs should be covered in the next 3 to 4 years. At the end of the projection period in 2018, we have estimated the improvement fund will be at about \$2.43 million after reimbursement from storm water.

Bond coverage (ratio of pledged net revenues to annual debt service) for all outstanding bonded debt is projected to range from 133% to 146%. Minimum bond coverage requirements are generally 125%.

CITY OF WEST LAFAYETTE WASTEWATER UTILITY  
BUDGETED OPERATION AND MAINTENANCE EXPENSE  
 FOR THE YEAR ENDING DECEMBER 31

	<u>2015</u> <u>BUDGET</u>	<u>2014</u> <u>BUDGET</u>
<b>TREATMENT PLANT</b>		
WAGES	\$ 436,478	\$ 491,074
INSURANCE AND BENEFITS	206,669	224,070
SUPPLIES	120,000	127,500
BULK CHEMICALS	130,000	55,000
SERVICES AND OTHER CHARGES	207,474	234,823
UTILITIES	380,000	382,475
SLUDGE REMOVAL	190,000	225,000
WASTE DISPOSAL FEES	15,000	10,000
	<u>1,685,621</u>	<u>1,749,942</u>
<b>COLLECTION SYSTEM</b>		
WAGES	304,155	342,115
INSURANCE AND BENEFITS	172,925	167,697
SUPPLIES	15,000	30,000
SERVICES AND OTHER CHARGES	35,000	73,000
PROFESSIONAL SERVICES	45,000	45,000
UTILITIES	70,000	36,000
REPAIRS	60,000	10,000
	<u>702,080</u>	<u>703,812</u>
<b>SANITATION</b>		
WAGES	388,609	355,005
INSURANCE AND BENEFITS	211,611	183,428
SUPPLIES	105,000	105,000
SERVICES AND OTHER CHARGES	30,100	41,174
WASTE DISPOSAL FEES	190,000	190,000
	<u>925,320</u>	<u>874,607</u>
<b>STORM WATER</b>		
WAGES	221,209	225,204
INSURANCE AND BENEFITS	89,096	86,316
SUPPLIES	40,000	40,000
SERVICES AND OTHER CHARGES	92,500	51,588
PROFESSIONAL SERVICES	95,000	15,000
	<u>537,805</u>	<u>418,108</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>2015</u> <u>BUDGET</u>	<u>2014</u> <u>BUDGET</u>
CUSTOMER ACCOUNTS		
WAGES	99,339	84,495
INSURANCE AND BENEFITS	40,174	39,742
SUPPLIES	50,000	46,000
SERVICES AND OTHER CHARGES	88,000	55,000
	<u>277,513</u>	<u>225,237</u>
ADMINISTRATION AND GENERAL		
UTILITY ADMINISTRATION WAGES	263,260	234,465
UTILITY ADMINISTRATION INS/BENEFITS	78,269	80,047
CITY ADMINISTRATION WAGES	427,034	410,958
CITY ADMINISTRATION INS/BENFITS	166,449	151,984
SUPPLIES	5,500	5,000
SERVICES AND OTHER CHARGES	148,100	62,500
PROFESSIONAL SERVICES	145,000	220,000
	<u>1,233,612</u>	<u>1,164,954</u>
TOTAL OPERATION AND MAINTENANCE EXPENSE	<u>\$ 5,361,951</u>	<u>\$ 5,136,660</u>

*FOR INTERNAL MANAGEMENT DELIBERATIVE PURPOSES ONLY.*

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

PROJECTED OPERATING REVENUES AND EXPENSES  
FOR THE YEARS ENDING DECEMBER 31

	ACTUAL 2013	ACTUAL 2014	BUDGET 2014	BUDGET 2015	PROJECTED			Notes
					2016	2017	2018	
<b>PROJECTED OPERATING REVENUES:</b>								
WASTEWATER USER FEES	\$ 8,357,012	\$ 7,960,718	\$ 8,350,000	\$ 7,720,000	\$ 7,720,000	\$ 7,720,000	\$ 7,720,000	(1)
PENALTIES	54,080	33,000	60,000	35,000	35,000	35,000	35,000	(1)
SANITATION TRASH FEES	725,044	957,723	950,000	960,000	960,000	960,000	960,000	(1)
RECYCLING GRANT	41,500	41,500	41,500	41,500	41,500	41,500	41,500	(1)
RECYCLABLE SALES	43,052	31,021	60,000	35,000	35,000	35,000	35,000	(1)
TOTERS AND BINS	7,880	9,479	10,000	10,000	10,000	10,000	10,000	(1)
STORM WATER FEES	-	1,190,877	1,300,000	1,365,000	1,433,250	1,433,250	1,433,250	(2)
OTHER OPERATING REVENUES	90,492	24,334	70,000	30,000	30,000	30,000	30,000	(3)
<b>TOTAL OPERATING REVENUES</b>	<b>9,319,060</b>	<b>10,248,652</b>	<b>10,841,500</b>	<b>10,196,500</b>	<b>10,264,750</b>	<b>10,264,750</b>	<b>10,264,750</b>	
<b>PROJECTED OPERATING EXPENSES:</b>								
PLANT OPERATION	1,366,316	1,660,285	1,695,642	1,685,621	1,735,900	1,771,382	1,807,720	(4)
PLANT MAINTENANCE	78,596	-	-	-	-	-	-	(4)
LABORATORY	120,156	-	-	-	-	-	-	(4)
COLLECTION SYSTEM	496,367	727,120	790,612	702,080	716,951	732,171	747,749	(4)
SANITATION	766,938	852,958	874,607	925,320	942,142	959,365	976,997	(4) (5)
STORM WATER	348,928	574,988	418,108	537,805	547,552	557,521	567,717	(4) (6)
CUSTOMER ACCOUNTS	227,616	280,633	225,237	277,513	283,465	289,548	295,765	(4)
ADMINISTRATIVE AND GENERAL	1,311,814	1,325,956	1,132,454	1,233,612	1,257,831	1,282,609	1,307,958	(4)
UNDISTRIBUTED	120,813	-	-	-	-	-	-	(4)
<b>TOTAL OPERATING EXPENSES</b>	<b>4,837,544</b>	<b>5,421,940</b>	<b>5,136,660</b>	<b>5,361,951</b>	<b>5,483,841</b>	<b>5,592,596</b>	<b>5,703,906</b>	
<b>NET OPERATING REVENUES</b>	<b>\$ 4,481,516</b>	<b>\$ 4,826,712</b>	<b>\$ 5,704,840</b>	<b>\$ 4,834,549</b>	<b>\$ 4,780,909</b>	<b>\$ 4,672,154</b>	<b>\$ 4,560,844</b>	

NOTES:

- (1) Adjustments to revenue categories from the 2014 to 2015 Budget are based upon actual 2014 experience. Wastewater fees reflect further estimated reduction for Purdue water conservation.
- (2) Storm water revenues include a full year of billings in 2015 and 5% increase in 2016.
- (3) Other operating revenues budget was based on 2014 experience. Includes fog fees, lien fees, inspection fees, land rental income and street sweeping contract.
- (4) Operating expenses were trended using 2015 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. Plant maintenance and lab are included in plant operation beginning in 2014 for financial reporting purposes. Undistributed (insurance) is allocated between plant operation, sanitation and storm water operations beginning in 2014.
- (5) Includes wages for one additional FTE and .5 support staff in 2015.
- (6) Storm water requirements for GIS, IT and Engineering services were higher than initially budgeted and account for the 2015 increase.

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

CAPITAL EXPENDITURE PLAN

	[Bond Sources]	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Cumulative Totals</u>
<b>LIFT STATION</b>						
PRP Region Lift Station Project	[2012 SRF]	\$ 388,920				\$ 388,920
Sheraton Lift Station Replacement	[2014B SRF]	1,300,000				1,300,000
Fairway Knoll Lift Station Replacement	[2014B SRF]	1,000,000				1,000,000
<b>COLLECTION SYSTEM</b>						
Wet Weather Facility Improvements		310,000				310,000
Cumberland Avenue - Sewer Extension	[2014 Bonds]	1,100,000				1,100,000
LTCP - New CSO Interceptor			40,000	670,000	290,000	1,000,000
<b>TREATMENT PLANT IMPROVEMENTS</b>						
Nutrient Removal (Phosphorus) Phase I	[2014 Bonds]	915,000				915,000
Nutrient Removal (Phosphorus) Phase II				250,000	1,000,000	1,250,000
Microturbine Engine Replacements					56,000	56,000
<b>STORM WATER &amp; DRAINAGE</b>						
Storm Water Capital Improvement Master Plan		98,000				98,000
Happy Hollow Sewer Access/Trail ADA		50,000				50,000
Boes Ditch			200,000			200,000
Cuppy-McClure Ditch Improvements				475,000		475,000
<b>EQUIPMENT</b>						
<b>WASTEWATER GENERAL</b>						
		100,000	50,000	50,000	50,000	250,000
<b>SANITATION</b>						
		158,150	153,150	159,500	168,000	638,800
<b>STORM WATER</b>						
		<u>60,000</u>	<u>94,000</u>	<u>68,000</u>	<u>68,000</u>	<u>290,000</u>
<b>SUB TOTALS</b>		5,480,070	537,150	1,672,500	1,632,000	9,321,720
<b>LESS: SRF LOAN DRAWS - 2012 BONDS</b>		(388,920)				(388,920)
<b>LESS: SRF LOAN DRAWS - 2014B BONDS</b>		(2,300,000)				(2,300,000)
<b>LESS: 2014 OPEN MARKET BONDS</b>		<u>(2,015,000)</u>				<u>(2,015,000)</u>
<b>NET TOTALS</b>		<u>\$ 776,150</u>	<u>\$ 537,150</u>	<u>\$ 1,672,500</u>	<u>\$ 1,632,000</u>	<u>\$ 4,617,800</u>

FOR INTERNAL MANAGEMENT DELIBERATIVE PURPOSES ONLY.

CITY OF WEST LAFAYETTE WASTEWATER UTILITY

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

		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
PROJECTED OPERATING REVENUES	(1)	\$ 10,196,500	\$ 10,264,750	\$ 10,264,750	\$ 10,264,750
PROJECTED OPERATING EXPENDITURES	(1)	<u>5,361,951</u>	<u>5,483,841</u>	<u>5,592,596</u>	<u>5,703,906</u>
PROJECTED NET OPERATING REVENUES		<u>4,834,549</u>	<u>4,780,909</u>	<u>4,672,154</u>	<u>4,560,844</u>
PROJECTED NON OPERATING REVENUE					
INTEREST INCOME	(2)	29,000	28,000	28,000	28,000
TAP FEES	(3)	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>
TOTAL PLEDGED NET REVENUES		4,978,549	4,923,909	4,815,154	4,703,844
PAYMENT IN LIEU OF TAXES	(3)	(528,200)	(528,200)	(528,200)	(528,200)
COMBINED ANNUAL DEBT SERVICE	(4)	(3,421,366)	(3,545,239)	(3,541,876)	(3,538,965)
CAPITAL EXPENDITURES, NET OF DEBT FINANCING	(5)	<u>(776,150)</u>	<u>(537,150)</u>	<u>(1,672,500)</u>	<u>(1,632,000)</u>
PROJECTED CASH INCREASE (DECREASE)		252,833	313,320	(927,422)	(995,321)
BEGINNING CASH BALANCE		<u>10,302,700</u>	<u>10,555,533</u>	<u>10,868,853</u>	<u>9,941,431</u>
ENDING CASH BALANCE		<u>\$ 10,555,533</u>	<u>\$ 10,868,853</u>	<u>\$ 9,941,431</u>	<u>\$ 8,946,110</u>
PROJECTED BOND COVERAGE	(6)	<u>146%</u>	<u>139%</u>	<u>136%</u>	<u>133%</u>

NOTES:

- (1) See Schedule I - Projected Operating Revenues and Expenditures.
- (2) Based upon projected cash balances and interest rate of .25% for 2015 based on current market conditions. Rate increased by .05% annually for assumed improvement in market.
- (3) Per 2015 City Budget.
- (4) Per Combined Debt Service Schedule including three series of 2014 Bonds.
- (5) See Schedule III - Five Year Capital Plan.
- (6) Represents Total Pledged Net Revenues divided by Combined Annual Debt Service. Minimum standard generally 125%.
- (7) Includes \$1,825,000 transfer from Storm Water to reimburse Improvement for capital projects prior to 2014.

<b>2018</b>	Unrestricted	Restricted
<b>Operating</b>	<b>\$ 900,000</b>	
<b>Debt Resrv.</b>		<b>\$ 3,573,000</b>
<b>Bond &amp; Int.</b>		<b>1,786,810</b>
<b>Improvement (7)</b>	<b>2,436,300</b>	
<b>Storm Water</b>	<b>250,000</b>	
<b>Total Cash</b>	<b>\$ 3,586,300</b>	<b>\$ 5,359,810</b>