

BOARD OF PUBLIC WORKS
SPECIAL MEETING
WHITEHALL TOWNSHIP HALL
7644 DURHAM ROAD
WHITEHALL, MI 49461
A G E N D A
SEPTEMBER 20, 2012
3:30 P.M.

Call To Order.


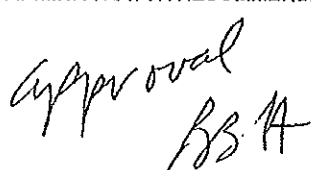
- A. Roll.
- B. Public Comment (on an agenda item).
- C. Items for Consideration:
 - 1. Proposed FY 2013 Wastewater Budget.
- D. Public Comment (on a new item).
- E. Adjourn.

AMERICAN DISABILITY ACT POLICY FOR ACCESS TO OPEN MEETINGS OF THE
MUSKEGON COUNTY BOARD OF COMMISSIONERS AND ANY
OF IT'S COMMITTEES OR SUBCOMMITTEES

The County of Muskegon will provide necessary reasonable auxiliary aids and services, such as signer for the hearing impaired and audio tapes of printed materials being considered at the meeting, to individuals with disabilities who want to attend the meeting, upon 24-hours notice to the County of Muskegon. Individuals with disabilities requiring auxiliary aids or services should contact the County of Muskegon by writing or calling the following:

Muskegon County Administrator's Offices
Michael E. Kobza Hall of Justice
Fourth Floor; 990 Terrace Street; Muskegon, MI 49442
(231) 724-6520

REQUEST FOR BOARD CONSIDERATION-COUNTY OF MUSKEGON

COMMITTEE Board of Public Works		BUDGETED NA		NON-BUDGETED	PARTIALLY BUDGETED
REQUESTING DEPARTMENT Wastewater		COMMITTEE DATE September 20, 2012		REQUESTOR SIGNATURE Mark Eisenbarth	
SUMMARY OF REQUEST (GENERAL DESCRIPTION, FINANCING, OTHER OPERATIONAL IMPACT, POSSIBLE ALTERNATIVES)					
<p>On September 13th, staff proposed the Wastewater Capital, Operations, and Maintenance budget and Bond payments for Fiscal Year 2013. The overall impact from the budget is a 6.0% adjustment in the price per million gallons of wastewater treated. This increase is designed to achieve the debt cover ratio of 1.40, the minimum cash reserves, and optimal net income, recommended by Utility Financial Solutions (see attachment). There will be no change in the Laboratory Fee Table. The recommendation for hauled waste is to increase rate from \$0.045 per gallon to \$0.046 per gallon. The Bond payments per million gallons recommended for FY 2013 are as follows: \$309.34 per million gallons for the \$17M bond issue, \$232.74 per million gallons for the \$17.5M Phase I bonds, \$189.01 per million gallons for the \$14M Phase II bonds, \$219.23 per million gallons for the \$16.8M Segment 1 of the 66-inch pipe replacement bonds, and \$247.88 per million gallons for the \$17.5M Segment 2 of the 66-inch pipe replacement bonds. The overall rate adjustment will go from \$2,646.86 to \$2,805.70 per million gallons.</p>					
SUGGESTED MOTION (STATE EXACTLY AS IT SHOULD APPEAR IN THE MINUTES)					
<p>I move to recommend adoption of the proposed FY2013 Wastewater budget with a rate increase of 6% overall for Capital, Operation, Maintenance, and Bonds. I further move to adopt the proposed rate adjustment for hauled waste of \$0.045 per gallon to \$0.046 per gallon.</p>					
ADMINISTRATIVE ANALYSIS (AS APPLICABLE)					
HUMAN RESOURCES ANALYSIS:			FINANCE & MANAGEMENT ANALYSIS:		
					
CORPORATE COUNSEL ANALYSIS:			ADMINISTRATOR RECOMMENDATION:		
					
AGENDA DATE		AGENDA NO.		PAGE NO.	

Executive Report

**MUSKEGON COUNTY
WASTEWATER SYSTEM**

Long-term Financial Projection

August 2012

DRAFT



Specializing in Cost of Service,
Rate Design, and Financial Analysis

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Utility Revenue Requirements

Utility Revenue Requirements

Revenue requirements for MCWMS were projected for 2013 based on 2011 actual expenses, projected 2012 and budgeted 2013. Revenues and expenses for Budget 2013 were analyzed with adjustments made to actual expenses to reflect projected operating characteristics. Detailed descriptions of the methodology are included in the section "Summary of Significant Assumptions". The table below is a summary of the financial projection based on the following assumptions:

1. System Growth Rate of +0% in 2013-2017
2. Inflation +3%
3. Capital improvement plan as provided by MCWMS

MCWMS projected operating income for 2013 is \$957,725. It is projected to decrease each year to an operating loss of \$(685,767) in 2017.

Table Two – Projected Financial Statements – Without Rate Adjustments

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Projected Bonds	Capital Improvements	Debt Coverage Ratio
2013	0.0%	\$ 15,925,582	\$ 14,967,857	\$ 957,725	\$ 6,071,989	-	\$ 1,220,500	1.19
2014	0.0%	15,426,078	15,038,160	387,918	5,288,347	-	1,388,000	1.11
2015	0.0%	15,426,078	15,348,843	77,235	6,059,859	-	595,000	1.07
2016	0.0%	15,426,078	15,958,471	(532,393)	1,114,029	-	3,825,000	0.98
2017	0.0%	15,426,078	16,111,845	(685,767)	(1,299,374)	-	2,255,000	0.97
Recommended Target in 2013				\$ 3,286,658	\$ 7,721,003			1.40
Recommended Target in 2017				\$ 2,948,501	\$ 7,919,315			1.40

1. The five year capital improvement plan provided by MCWMS included \$9.3 million in capital expenditures between 2013 and 2017.
2. Financial projections should typically be updated during the budgeting process each year.
3. Cash balances include current cash and investments and the equipment revolving fund.
4. A number of additional assumptions were used in developing the financial projections. Please see summary of significant assumptions on page 9.

- 2) **Minimum Cash Reserve Target** - To help ensure timely completion of capital improvements and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be established. Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets that are currently in service. The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, rate base, capital improvements, and debt service. The establishment of minimum cash reserves should consider a number factors including:
- **Working Capital Lag** - Timing differences between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps to ensure cash exists to pay expenses in a timely manner.
 - **Investment in assets** – Catastrophic events may occur that require substantial amounts of cash reserves to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can take between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies.
 - **Annual debt service** – Debt service payments do not occur evenly throughout the year and often occurs at periodic times typically every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.
 - **Capital improvement program** – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

The minimum recommended cash reserve for MCWMS in 2013 is \$7.72 million and increases to \$7.92 million in 2017. For 2013, the projected cash reserve is \$6.07 million and decreases to negative (\$1.3) million in 2017 without rate adjustments. Table four on the next page provides the minimum cash reserve calculation.

Utility Revenue Requirements

- 3) **Optimal operating income targets** - The optimal target for setting rates is the establishment of a target operating income to help ensure the following:
 - a. Funding of depreciation expense
 - b. Adequate rate of return on investment to help ensure current customers are paying their fair share of the use of the infrastructure and not deferring the charge to future generations.

As improvements are made to the system, the optimal operating income target will increase unless annual depreciation expense is greater than yearly capital improvements. The target established for 2013 is \$3.3 million and decreases in 2017 to \$2.9 million.

Table Five - Optimal Operating Income Targets Compared to Projected

	Percent Allocation	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
Outstanding Principal on Debt	2.5%	\$ 1,704,747	\$ 1,622,803	\$ 1,531,053	\$ 1,438,303	\$ 1,336,181
System Equity	3.0%	\$ 1,580,811	\$ 1,570,139	\$ 1,536,185	\$ 1,598,272	\$ 1,612,318
Target Operating Income		\$ 3,285,558	\$ 3,192,942	\$ 3,067,239	\$ 3,036,575	\$ 2,948,501
Projected Operating Income		\$ 957,725	\$ 387,918	\$ 77,235	\$ (532,393)	\$ (685,767)
Rate of Return in %		2.7%	2.8%	2.8%	2.8%	2.8%

MCWMS is projected to fall below optimal targeted operating income levels throughout the projection period of 2013 – 2017.

Significant Assumptions

This section outlines the procedures used to develop the cost of service and unbundling study for MCWMS and the related significant assumptions.

Forecasted Operating Expenses

Forecasted expenses were based on Budget 2013 and adjusted for known changes. The table below is a summary of the expenses used in the analysis.

Table Twelve – Actual and Projected Operating Expenses for 2008 – 2017

	Actual 2008	Actual 2009	Actual 2010	Actual 2011 FS	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
Operating Expenses										
Salaries and Fringe Benefits	\$ 4,082,463	\$ 4,473,923	\$ 3,987,162	\$ 4,104,385	\$ 3,801,964	\$ 3,687,902	\$ 4,107,539	\$ 4,230,765	\$ 4,357,688	\$ 4,488,419
Supplies and Other Operating Expenses	6,949,516	7,077,500	3,777,495	5,567,876	5,008,635	6,239,698	5,146,889	5,301,298	5,710,335	6,631,645
Depreciation and Amortization Expense	4,372,773	4,317,455	4,276,359	5,719,915	5,719,916	5,740,257	5,783,732	5,816,782	5,890,448	5,991,782
Total Expenses	\$ 15,404,751	\$ 15,868,878	\$ 12,041,008	\$ 15,392,176	\$ 14,630,414	\$ 14,967,857	\$ 15,038,160	\$ 15,348,843	\$ 15,958,471	\$ 16,111,845

Revenue Forecast

The revenue forecast was based on 2012 usages and current rates were applied

Capital Improvement Program

The capital improvement program was provided by the MCWMS and is listed below

Year	Capital
2013	\$ 1,220,500
2014	1,388,000
2015	595,000
2016	3,825,000
2017	2,255,000

APPENDIX A

Utility Financial Solutions
185 Sun Meadow Ct.
Holland, MI 49424
Phone: 616-393-9722
Fax: 616-393-9721

ACCOUNTANTS' COMPILATION REPORT

Muskegon County Wastewater Management System
Board of Directors

The accompanying forecasted statements of revenues and expenses of the Muskegon County Wastewater Management System were compiled for fiscal year 2013 in accordance with guidelines established by the American Institute of Certified Public Accountants.

The purpose of this report is to assist management in forecasting revenue requirements. This report should not be used for any other purpose.

A compilation is limited to presenting, in the form of a forecast; information represented by management and does not include evaluation of support for any assumptions used in projecting revenue requirements. We have not audited the forecast and, accordingly, do not express an opinion or any other form of assurance on the statements or assumptions accompanying this report.

Differences between forecasted and actual results will occur since some assumptions may not materialize and events and circumstances may occur that were not anticipated. Some of these variations may be material. Utility Financial Solutions has no responsibility to update this report after the date of this report.

This report is intended for information and use by the Board of Directors and management for the purposes stated above. This report is not intended to be used by anyone except the specified parties.

UTILITY FINANCIAL SOLUTIONS

Mark Beauchamp, CPA, CMA, MBA
Holland, MI
August 27, 2012