BUDGET & FINANCE COMMITTEE and CAPITAL & CONSTRUCTION JOINT MEETING

Friday July 27, 2018 at 7:30 a.m.
Memorandum

Members Present: B & F Committee Chair Jane Merrill, members Michael McDonald and Carl Mills. C & C Committee Chair Steve Pittman, members Marilyn Anderson and Eric Hand. Board Member Michael Shaver. Others in attendance were Utility Director Andrew Williams, Engineering Manager Wes Merkle, Plant Superintendent Scot Watkins, Consultant Buzz Krohn and Administrative Assistant Maggie Crediford.

The meeting was called to order at 7:32 a.m.

Mr. McDonald arrived at 7:38 a.m.

PUBLIC COMMENT
There was no one present from the public at the meeting.

FINANCIAL STATEMENTS AND INVESTMENTS
Mr. Mills noted that commercial sales are off from the 2017 numbers by a significant amount. He stated that the Utility is at 83% of where the B&F Committee thought the budget would be at the 6-month mark. He had two questions for Ms. Sheeks, the first was regarding interest and investments. He questioned the "actual through 6/30/2018 showing $20,000, but $55,000 was budgeted. He asked if the deficit is because the Utility is drawing down on the balance? Ms. Sheeks stated that she used the former budgeting processes in this area. Previously all the categories listed were thrown into the investments and then broken out in practice into "interest and investment banking" Next year she will make that a better number. Mr. Mills agreed that he would like to see the budget broken down differently for next year to avoid confusion.

Mr. Mills questioned the "actual income surplus" balance through 6/30/2018 of $780,000 and if you double that it would be $1.5 million for the year which would have the Utility at 71% of the projected budget. Ms. Sheeks stated that is the non-cash number what is shown is the net of amortization number. Mr. Mills suggested that when budgeting for 2019 he would suggest backing off the commercial projections. He said that the residential number looks more consistent with the budget. Mr. McDonald stated that when looking at the budget the commercial and residential both appear to be off but end up equalizing each other. He agreed that the Staff and the Committee need to be more conservative about their projections for the 2019 Budget.

WWTP EXPANSION PROJECT #1902

Mr. Merkle stated that the Eagle Creek Outfall Sewer Expansion is an independent project from the plant expansion but needs to be done as soon as possible with construction in 2019 to take full advantage of the 15.3 MGD peak hour capacity available at the plant. The current combined plant capacity between TriCo's plant and the City of Carmel's plant is 6.13 MGD average daily flow and 21.4 MGD wet weather peak flow. Combined system flows in 2017 are 4.49 MGD average daily flows which is 74% of capacity and 16.5 MGD wet weather peak flow which is 77% of capacity. Growth in the service area since 2008 has been averaging 520 EDUs per year. If the flow to the plant reaches or exceeds 90% of capacity it triggers a warning letter for IDEM. There are operational challenges that arise as the plant nears capacity.

Mr. Merkle presented a chart showing the growth trends since 2004 in the service area. Mr. Pittman confirmed from the projections on the chart presented that Mr. Merkle is projecting around 800 EDUs in 2018 consisting of both commercial and residential customers, he asked what the percentage breakdown is between residential and commercial customers. Mr. Merkle stated that he would have to get back with Mr. Pittman on those numbers for 2018. Mr. Mills asked why the accounts added have dropped but the EDUs have gone up and why those are not closer together. Mr. Merkle stated that accounts added includes commercial and multi-family, there is also a lag because EDUs are paid and accounted for during the permitting phase and several months later there will be an account associated with that property that comes on line after the development is complete.

Mr. Merkle presented a chart provided by Strand Associates in 2014 showing the growth history and projections with the estimated buildout will consist of 21,900 EDUs at buildout around 2032 if things continue as they are now. The peak hour flow will be over 90% in 2021. The average daily flow of combined capacity will be over 90% in 2024. He stated that if buildout is reached in 2032 the combined capacity needed would be 7.64 MGD average daily flow and 29.1 MGD wet weather peak flow. At TriCo's plant, capacity needed will be 4.56 MGD average daily flow and 23.0 MGD peak wet weather flow. No new capacity will be needed at Carmel's plant.

The previously proposed plant expansion was expected to cost $8.7 million dollars. Design of the project taking place in 2018-2019 and construction from 2019-2021. The scope of the work will include a mechanical screen in pretreatment, 2 VLRs, a Clarifier and UV disinfection. The final plant expansion is estimated to cost $13.5 million with the design of the project projected for 2025 and construction between 2026-2027. The scope of the work to include a grit removal system, VLR, 2 clarifiers, and backup generator replacement. Items that have changed since the last budget update include the desire to construct all 3 VLRs in 2020-2021 to save on costs by having a crew do all the work at one time. Also construct a grit removal system in 2020-2021, there was a significant amount of grit removed recently. Grit interferes with flow rates in the system. Staff is suggesting that the backup generator be replaced in 2020-2021. The Belt Filter Press will be reaching its lifespan between 2026-2027 and will need to be replaced. Staff has verified that no new digesters will be needed throughout the plant buildout. Staff is now proposing that the next plant expansion be $13.4 million dollars with design taking place in 2018-2019 and construction between 2020-2021 with the scope of the work to include; mechanical screen in pretreatment, grit removal, 3 VLRs, a clarifier, UV disinfection and a backup generator. With the final plant expansion being designed in 2025 and construction between 2026-2027 with the scope of the work including; 2 clarifiers, and belt filter press replacement costing $8.9 million dollars. He presented a chart showing the breakdown of costs for each item. Completing the plant expansion would also allow TriCo to become less dependent on sending flows to Carmel. It costs less to treat flow at our own plant than it does to send it to Carmel for treatment. Carmel is unwilling to back off the requirement to charge for 1.75 million gallons per day minimum flow. Mr. Hand asked when the contract with Carmel will be up for renegotiation. He would like the committees to take into consideration efficient utilization of the existing capacity the Utility has at Carmel versus the operational savings to be had by treating the wastewater at TriCo's plant. With pending contracts and negotiations coming up with Carmel, he would want the Utility to keep its options open. Ms. Anderson reminded everyone that during previous plant expansion, construction was moved ahead during the recession because pricing was so competitive. She encouraged the committees to plan reasonably and to shift as the economy shifts. Mr. Pittman asked Mr. Merkle when he is looking at projected growth and EDU's moving forward, is Staff looking at where they think those EDUs will be coming from or is Staff just looking at past growth numbers. Mr. Merkle stated that Staff takes both the territory left in the district with buildout potential as well as growth rates from the past. The money for the plant expansion would come from EDU Fees. There are two more 5% fee increases proposed for the next two years and after that fees generated by people connecting to the system should be sufficient to cover expansion costs.

Mr. Pittman agreed with Ms. Anderson that he would like to see the Board plan optimistically but to react situationally based on the economy. Ms. Merrill asked if the buildout of Clay Township and a potential expansion in service area has been included in the projections. Mr. Merkle stated that available land is about 30% of the area the Utility serves. As far as the land is concerned, the Utility is at about 70% built out. Mr. Mills asked how much of the 30% remaining land in the Utilities' service area is in Clay Township. Mr. Merkle stated that the majority of the 30% remaining land available in the service area is in the west side of the district. Mr. Williams stated there are groups of estate lots in Clay Township that may stay estate lots or may subdivide into smaller more dense areas. Mr. Shaver pointed out that dividing those properties and dividing them into more densely populated areas can take up to 5 years considering the approval and development processes. Mr. Williams said it can take 3 years to get extra capacity up and online at the plant to service new properties. Mr. Pittman asked what the ramifications are if the plant receives a 90% capacity warning from IDEM. Mr. Merkle stated that IDEM will send notification and the plant will need to respond with an acknowledgement and a response plan to correct the issue. Mr. McDonald questioned the diminished need for the digestors. Mr. Watkins explained that GRW did some research and found that TriCo's plant does not need 28 days retention time. The plant can remove solids in 10 days and meet Class B requirements. There are currently three empty digester tanks out at the plant. Mr. Williams stated that the Utility was required to add two digesters with the last expansion and are not using three of the digesters available at the plant. Aeration has helped reduce the need for the use of the digestors.

Mr. Shaver asked out of the 30% of undeveloped properties that remain in the TriCo's territory, how much of that will be developed. Mr. Merkle stated that as discussed in other meetings, 60% of the available 30% is projected for development. Mr. Shaver asked why the Utility would want to reduce the capacity at Carmel rather than use more of what it already owns there. Mr. Merkle said that the variable cost of $648 per million gallons to treat wastewater at our own plant versus $1,429 per million gallons TriCo pays Carmel to treat it at their plant. Mr. Shaver confirmed that on some days during dry weather that TriCo is paying for flow at Carmel that it is not using. Mr. Williams confirmed that was true. Mr. Shaver asked if $23 million dollars that TriCo will pay for the expansion in capital costs are included in treatment cost figures? Mr. Krohn stated that those numbers are just the variable treatment costs and that capital costs are not included in those numbers. Mr. Shaver questioned the desire to reduce the flow to Carmel based on the argument that "it is cheaper" because when you add in the construction costs it may not be.

Mr. Buzz Krohn of O.W. Krohn & Associates has been working with Staff to look at funding options. Mr. Krohn is proposing the Utility acquire up to a $6.5 million bond with a 10-year term and a call option after 5 years to fund the plant expansion. He explained they do have a scenario that accounts for an economic downturn. Portions of the project can be pushed out if there is a need. Currently TriCo has about $6 million dollars in the bank which is not enough to do the project, have reserves in the bank and working capital on hand in the event of unforeseen expenditures. The average MGD TriCo sent to Carmel last year was about 2 MGD. Mr. Krohn walked the Committee through the brochure he prepared for the meeting. He presented a Cash Operating Receipts comparison for 2015-2017 representing a 12-month period ending December 31st of each year. There has been an average $350,000 increase in cash receipts per year due to growth and rate increases. Currently the Utility projectsaround $7.5 million in operating receipts. Total cash operating disbursements have hovered around $5 million over the last three years. The Utility is paying Carmel a little over $1 million per year in treatment costs. Net Operating Revenues are hovering around $2 million per year. Net Operating Receipts numbers are a key number when looking at debt issuance because that will be the numerator in the bond coverage calculation. The Non-Operating Receipts and Expenditures have primarily been developer connection fees and acreage fees that are in place. The model assumes about 2 EDU's per acre. The capital outlays over the last three years were roughly $15 million. In 2017 a little over $9 million was spent on Capital Projects reducing Ending Cash & Investments from around $12 million to just over $6 million dollars. In the cash flow model, a baseline of 500 EDUs per year was used as an assumed baseline level of growth. The Utility is hitting those numbers currently. The current capacity the Utility owns at Carmel is a little over 3 MGD which is about what the capacity is at TriCo's waste water treatment plant. Combined, there is a total of 6.1 MGD available. With this proposal it would bring that to 7.6 MGD at full buildout which adds about 1.5 MGD to TriCo's treatment plant. The projected average daily flows are 6.8 MGD as the service area builds out to capacity. It costs $1,429 per million gallons to have wastewater treated at Carmel's plant vs. $648.05

to treat the water at TriCo's plant. These numbers only take into account operating costs; capital costs are not figured into these numbers.

The Bonding capacity for the Utility right now could easily accommodate a $12.5 million bond issue to be paid off in 15 years and still have over 200% debt coverage ratio. Mr. Pittman asked how that number was determined. Mr. Krohn stated that he is showing what the Utility can borrow and cover at 200%. The State Revolving Bond has a 1.25(125%) coverage. Calculating at 200% is being conservative. Capital contributions from developers have not been figured into these numbers. The numbers are generated off of revenues generated by the current customer base. Mr. McDonald asked if the 3% interest rate listed is what would be expected for a 15-year bond. Mr. Krohn stated that it is a tax-exempt rate. A 15-year term was used based on the Utilities desire to not carry long term debt. Most places use a 20-year term. Mr. Mills stated that he believes 4% is a more realistic interest rate that can be expected, at that rate the coverage would still be 180%. Mr. Krohn said that the funding assumes a rate increase until 2020 leveling off in 2021 and staying steady until the service area is completely built out and no new revenue is generated when slight increases may become necessary. The comparison between getting a Bond vs. a Short-Term Line of Credit is that with a line of credit you can use the money as you need it vs. borrowing it all at once. To obtain a short-term line of credit the Utility would need to get a credit letter from a Bond Council. A line of credit would come with a variable interest rate vs. a fixed rate with a Bond. Mr. Shaver clarified that what Mr. Krohn is suggesting is that the terms the Utility is looking for are too long for a Bond Anticipation Note but also short for a Bond. Mr. Mills stated that the biggest difference is that with a Bond all the money is borrowed up front vs a line of credit where it can be used as needed. Mr. Krohn stated that with a 10-year bond all the costs would be known upfront and would get a better interest rate. In the baseline scenario, cash on hand is kept at $4 million. If there is a recession it could dip down to $3 million. Mr. Mills stated that the Board would not want the cash to drop down below $2.5 million which would be 1.5 times the operating costs. Mr. Shaver asked what percentage of repayment comes from user rates and what percentage comes from EDU Fees. Mr. Krohn stated that coverage comes from user rates, but the payments come from EDU Fees. Mr. Shaver asked what would happen to the projections if EDU Fees were raised faster than rates are increased. Mr. Krohn stated that would depend on how much the EDU's are raised. $2,800 is about what the Utility gets per home currently in EDU Fees. Mr. Krohn stated that is a very competitive rate, he will bring a comparison to the next meeting for the EDU rates within the surrounding communities.

Mr. Williams indicated that some members needed to leave so the meeting needed to be wrapped up for now. Mr. Williams asked the Board Members to send him emails regarding what they would like to see at the next meeting.

The Committee Members discussed and agreed that they would like to revisit this topic at the August C&C Meeting jointly with the B&F Committee on Monday August 6 at 5:30 p.m.

The meeting adjourned at 9:00 a.m.

Respectfully Submitted,

Cindy Sheeks
Controller