



BUDGET & FINANCE COMMITTEE

Friday, January 26, 2018 @ 7:30 A.M.

Memorandum

Present: Committee Chair Jane Merrill, Committee Members Carmel Mills and Michael McDonald, Board Members Steve Pittman, Barb Lamb and Mike Shaver. Others in attendance were Legal Counsel Anne Poindexter, Director Drew Williams, Controller Cindy Sheeks, Engineering Manager Wes Merkle, Plant Superintendent Scot Watkins and Administrative Assistant Maggie Crediford.

Ms. Merrill called the meeting to order at 7:34 a.m.

PUBLIC COMMENT

No one from the public was present.

IT UPDATE

Mr. Williams presented a summary of accomplishments by the IT Department in 2017 which was compiled by Mr. Watkins.

Mr. McDonald stated that he is impressed with the accomplishments that were made in 2017. He passed out a list of questions and considerations he has for 2018. (see handout attached) Mr. McDonald stated that he is glad to see the District is using Office 365, he wanted to be sure that legitimate mail that is coming through the Spam filter can be found. He asked if there are redundant internet connections in case there is a failure. Mr. Williams stated that there is currently only one internet connection. Mr. McDonald asked what the consequences to the SCADA system would be if the internet goes down. Mr. Watkins stated that critical stations have cellular back-ups. Mr. Williams stated that the valves can be controlled manually if needed. Mr. McDonald asked if the District uses Cisco firewalls and how long the District keeps the logs, he has some concerns about the amount of storage available for the logs. Mr. Watkins stated that the District had been using Dell SonicWall, he would have to get back with Mr. McDonald to update him on what is currently being used. Mr. Watkins said that the District has a substantial amount of storage available for the log. Mr. McDonald asked about the complexity level on passwords used at the District. Mr. Watkins stated that passwords must meet three of four security features and passwords are updated every 30 days. Mr. McDonald suggested that it is more secure to use a passphrase vs. a password. He suggested the use of LastPass or KeePass or using password vaults to store administrative passwords. A lot of companies are putting Avecto Defendpoint on their systems. Mr. McDonald asked who gets alerts from SecureWorks Red Cloak, and what happens if there is an alert. Mr. Watkins stated that he and IT Indianapolis get the alerts. Mr. McDonald asked if there is a guest wireless network available to users that is separate from the secure network.

Mr. Watkins stated that he is in discussions with IT Indianapolis regarding the guest network. There is one in place, but the staff has not been instructed to utilize it. Mr. McDonald asked what backup strategy is in place. Mr. Watkins stated that backups are done and confirmed nightly. He receives weekly reports and there are alerts set up for failures as well as when storage is at 50%. Tests of a restore are scheduled quarterly as well as annually. Mr. McDonald asked about the District's patching strategy. Mr. Watkins stated that IT Indianapolis pushes patches when they deem them acceptable for the system. Mr. McDonald asked what the lifecycle is on computers. Mr. Watkins stated that desktop computers are replaced every 4 years, laptops are replaced every 3 years and tablets are replaced as needed typically every 2-3 years and servers are replaced every 5-7 years. All the computers are updated to Windows 10.

Mr. Williams stated that lately the employees are hitting 100% with no clicks on email bait from KnowBe4. Every two weeks a random bait emails are sent. Not all employees get the same one and they are not all sent at the same time.

Mr. McDonald asked what improvements can be done with the \$50,000 budgeted for 2018? Network Authentication, workstation upgrades? Mr. Watkins stated that there is penetration testing for the SCADA system planned. Mr. Watkins will provide Mr. McDonald answers to all the questions asked in the handout.

SEWER EXTENSION FINANCING

Mr. Williams made a presentation showing the 19 subdivisions in the service area that do not have sewer systems. Three are scheduled for development in 2018 which would leave 16 left for development in the future. He explained that installing low pressure systems in existing neighborhoods has been preferred over installing gravity systems. Gravity sewers require an 8" line with 6" lateral stubs that are installed up to the property line. Gravity sewers are installed with an open cut, there is a lot of disruption to the yards and street. Low Pressure sewers consist of a 2"-3" low pressure line that is directionally drilled with pits every 400'-500'. The owner installs the 1 ¼" lateral that goes from the main line to their home. The concept is that since people are not required to make an immediate connection, the District didn't want lateral lines sitting in the ground for a significant amount of time for other utilities to hit. Instead homeowners tap into the main when they are ready to make the connection.

Mr. Williams explained that prior to 2008 the District required physical connection to the line in 90 days and property owners had to begin a payment plan. The District had 20-30 connection cases per year that Mrs. Poindexter had to be involved with.

In 2008 State Code dictated that Regional Sewer Districts had to offer a 5-year deferral program if the County Health Department would sign a certification that the septic was working correctly. Hamilton County Health Department would not offer any certification other than one that stated that the septic was working at on the day the certificate was issued. The Board decided to follow the intent of the law and offered a 5-year deferral program to anyone who requested it. They did however have to start making payments

within 90 days on the payment plan. Depending on the size of the project, it was a 5, 10, or 20-year plan. The 20-year plan carried a 7% interest rate.

In 2012 the District realized that the people on the 5-year deferral plan from 2008 were getting close to being required to hook into the system. The Board decided that it would not require property owners to connect but they had to pay the construction costs within 90 days.

In 2015 the Board decided that property owners would not be required to pay fees for construction or connection until the property was hooked into the system. The property owner can choose when to connect unless they are instructed to do so by the Hamilton County Board of Health.

The fees paid to the District include; an \$1,818 EDU Fee (Equivalent Dwelling Unit) based off single family consumption which is charged to cover plant capacity. There is a \$150 inspection/admin fee that covers the inspection and paperwork involved with the connection. The Interceptor Fee or Local Construction Fee (depending on which is used) averages between \$3,000-\$4,500. The Interceptor Fee is established by Ordinance and is \$4,057 per acre for sewer availability. In instances where Local Construction Fees have been established, the total cost of the construction for the project is equally divided by the number of properties served and the Board has approved a separate rate ordinance for that subdivision alone.

Mr. Shaver asked for clarification between the Interceptor Fee and the Local Construction Fee.

Mr. Williams stated that the Interceptor Fee Ordinance establishes the cost per acre to connect to the District collection system. The ordinance does allow for Interceptor Fees to be waived if property owners are paying their share of local construction costs for a project. The Local Construction fee is determined for each project and established by ordinance.

Mr. McDonald had questions about the Interceptor Fee calculations.

Mr. Williams explained that Interceptor Fees depend on the acreage. For one acre the fee would be \$4,075, but many lots are less than an acre. A half of an acre would pay \$2,037.

Mr. Pittman explained that the Interceptor Fee has also been called an availability fee. Historically if a developer has offsite costs to bring the sewer line to their property the District would credit the developer for the offsite cost to extend the Districts assets. Then the builder or homeowner would pay the EDU fees when homes are constructed and connected into the system.

Mr. Shaver stated that there are three pieces to every sewer system. The Wastewater Treatment Plant capacity is covered by EDU fees. The second item is the Interceptor Sewer network cost that sometimes get defrayed but not always. And the third is the

Local Construction Costs which cover what it costs the District to install a sewer line in the neighborhood. When this method is used the actual construction costs of the project are equally divided between the homeowners in the subdivision.

Mr. Shaver stated that a breakdown in policy happens when the District tries to service an existing neighborhood that may or may not connect for several years. He asked if the District collects the Interceptor Fee for the money it has laid out or if it is sometimes waived.

Mr. Williams stated that the Ordinance originally said that if there was an existing septic system a property owner would not be required to pay the Interceptor Fee. Five years ago, the Ordinance was updated, and that wording was removed. Property owners can now be exempt from the Interceptor Fee if they are part of a Local Construction Cost Ordinance.

Mr. Williams stated that interceptors are not paid for with rate payer money. The District has an Interceptor Fund that is funded primarily by developers. The District pays the construction costs up front and then those costs are recouped later when customers connect to the sewer line.

Mr. Pittman stated that the discussion for this meeting is about how the District is going to charge for connections going forward and if the District will charge Interceptor Fees or Local Construction Costs.

Mr. Williams explained that costs are recouped through the existing Interceptor Fee Ordinance. The cost is based on acreage. In 2000 the District passed the Acreage Reduction Ordinance which allows large residential lots to reduce the billable acreage to 1.5 acres or 50% of the total acreage whichever is greater but not to exceed 3 acres. The property owner signs an agreement that states if the land is subdivided, the additional interceptor fees will be paid at that time.

Mr. Williams stated that homeowners will have to pay for the lateral line to the sewer, the tap, and the pump. Those costs will be about \$12,000-\$15,000.

Mr. Williams indicated that the 116th Street and Williams Creek Drive project is unique because there is a private force main that was installed by Mr. Hilbert that the District will take over, so part of the project is complete due to the acquisition of the existing line. The lots in that area vary in size from .64 acres to 10.5 acres. It is not like a normal subdivision where the lots are close to the same size. Two of the properties have hooked into the system and paid \$25,000 based off the Interceptor Fee Ordinance. No matter what is decided for Spring Mill Heights and Autumn Woods, it would make sense in this instance to follow the Interceptor Fee Ordinance because the lots are such different sizes.

Mr. Williams stated that District has in place the Interceptor Fee Ordinance which establishes a cost per acre to serve the whole service area. Using the Interceptor Fee

Ordinance eliminates the need to have an individual ordinance for each subdivision. However, if the need arises the option to implement a Local Construction Cost Ordinance is still available. The Interceptor Fee is a funding concept that was developed with the District originally and has been updated over time as construction costs increased. Using the Interceptor Fee will standardize the costs across the system. It allows the costs to be calculated on the known acreage of a project. Costs can be provided to property owners upfront instead of after the project has been designed and completed. It is not a frozen number, the Board can and has adjusted this number over time. The goal is when the whole District is serviced the Interceptor Fund should be as close to zero as possible.

Ms. Merrill asked Mr. Williams what he is asking the Committee to recommend to the Board. Mr. Williams stated that if the Budget and Finance Committee as a financial body finds it reasonable to start looking at charging based on acreage instead of doing individual neighborhood ordinances he would like a recommendation for that to the Capital and Construction Committee.

Mrs. Poindexter stated that the recommendation would be that the Budget and Finance Committee doesn't have concerns if Capital and Construction recommends this type of a philosophical shift.

Mr. Pittman stated that the District is building "spec" sewers in a sense that will be available for people to connect to later. The District will bear the cost of the construction until those connections occur. The District has budgeted for these costs. They are built into the budget for the next 5 years.

Mr. Shaver stated that another issue is the capital side, which is deciding if the District will build the sewers. There has been organic growth in this organization for the last two years that equates to \$100,000-\$150,000 per year. He asked if that money is going to be spent on speculated sewer extensions. Mr. Shaver stated that to the extent that the Board changes membership the law can be applied to require those property owners to connect,

Mr. McDonald asked what the business driver is to build the lines without guarantee of a rapid return in investment. If it ties to the Master Plan and is needed to get to a subdivision that will need connection it makes sense. If the thought is to just fill in pockets that don't have sewer connection, then maybe it isn't the best business decision.

Ms. Merrill stated that the other side of the issue is that if there are septic failures in those areas it will be 6 months to a year before homes can be serviced.

Mr. Mills called for a point of order and stated that the Committee was asked to make a recommendation to the Capital and Construction Committee and stated the conversation was getting off track.

Mr. Pittman stated that it is the District's mission to serve its territory. A private entity wouldn't do this. If, however the Budget and Finance Committee said that there concerns regarding the District's finances by constructing these projects that would impact his thinking.

Mr. Mills stated that it is the Budget and Finance Committee's responsibility to decide if there is enough money in the checkbook to cover the costs. It is the Capital and Construction Committee's responsibility to decide if the projects make sense based on the age of the subdivisions and when they connect to the system.

Mr. Mills made a motion to use the Interceptor Fee Ordinance to construct the projects being discussed in Capital and Construction meeting.

On a motion made by Mr. Mills to recommend that the Capital and Construction Committee recommend that the District charge the Interceptor Fee Ordinance for low pressure projects going forward, and if an exception arises the District can review that project independently. The motion was seconded by Mr. McDonald and approved unanimously.

WELL CUSTOMER BILLING OPTIONS

Mr. Williams stated that the District charges are based on consumption except if the property is on a well. According to the current rate ordinance the charge for unmetered residential properties is based on 7,000 gallons/month usage. Ms. Sheeks compiled a list of the consumption rates on the street of the customer who questioned her billing rate. The street has water but not everyone is hooked up to it. The consumption varies greatly from 1,000 gallons/month to 11,000 gallons/month. 7,000 gallons/month is above most everyone else on that street but there is no way to know what she is using without a meter. Staff has discussed looking at the number of bathrooms in the home or the number of residents. Allowing homeowners to install a meter is an option but the cost savings would take 20 years to recoup, plus the monthly meter reading fee. Mr. Williams asked if individual exceptions can be made.

Mrs. Poindexter stated that the Board needs to decide how much it is going to charge and how it is going to charge and apply it uniformly.

Mr. Williams said that since the Ordinance states 7,000 gallons, individuals could petition the Board for a reduction if they can show they have limited consumption (one bath/one person). The Board could make a reasonable accommodation for one person.

There was discussion regarding alternative approaches.

Mrs. Poindexter questioned where the 7,000 gallon/month figure came from.

Mr. Williams stated that 7,000 gallons/month is the State's design standard. When Ms. Sheeks researched the average customer in the area, the average was closer to 5,000

gallons. However, newer homes that have more efficient plumbing likely impact the average consumption.

Ms. Merrill stated that philosophically she would be comfortable reducing the rate of the unmetered accounts so that they are based off 5,000 gallons of consumption vs. the 7,000 gallons being used now, based on the average consumption of metered accounts.

This item will stay on the Committee Agenda for the February meeting.

FINANCIAL STATEMENTS AND INVESTMENTS

Ms. Sheeks stated that revenue came in at \$7.3 million. The projected revenue was \$6.9 million. Commercial projects are trending back down which happens in the winter months. The District was overbudget in a couple of areas. Consulting expenses and engineering fees were over because of studies conducted. Computer expenses were over mainly due to the ransomware event. Overall expenses for the year were below budget by \$125,000. Net Income was above projections for the year. Cash balances were at \$6.7 million. Capital Expenses will be lower in 2018.

Mr. Mills asked where the District stands in relation to renovations in the building for 2018.

Mr. Williams said that he is getting a proposal from an architect to have drawings done by the end of the first quarter. There will be work done on a leaking wall before any remodeling is done at the WWT.

Mr. Mills moved to adjourn the meeting. Mr. McDonald seconded the motion. The meeting adjourned at 9:15 a.m.

Respectfully submitted,



Cindy Sheeks
Controller