



Joint Capital and Construction and Budget and Finance Meeting Memorandum

Monday, January 6, 2020 at 4:30 p.m.
Memorandum

Members Present: C&C Committee Chair Steve Pittman, B&F Committee Chair Jane Merrill, B&F Committee Members Michael McDonald and Carl Mills, and C&C Committee Member Eric Hand, Board Member Chuck Ryerson, Others in attendance were Legal Counsel Anne Poindexter, Bond Counsel Dennis Otten, Consultants Buzz Krohn and Corby Thompson, Utility Director Andrew Williams, Engineering Manager Wes Merkle, Controller Cindy Sheeks, Collections Superintendent Aaron Strong, Utility Engineer Ryan Hartman and Administrative Assistant Maggie Crediford.

Ms. Merrill called the meeting to order at 4:45 p.m.

Public Comment

There was no one present from the public.

2020 Operating Budget

Mr. Williams said approval of the WRRF Expansion and Office Unification projects will have a big impact on the budget. 2019 had unexpected growth. 2020 residential sales are projected to be 1.5 percent over 2019 and Commercial sales are projected to be 0.5 percent over 2019. The budget shows a 4.4 percent increase in Operating Expenses versus projected 2019 expenses.

Ms. Merrill asked if the proposed budget includes a rate increase in 2020. Mr. Williams said to present a conservative budget to the Board a rate increase in 2020 was not factored into the proposed budget.

Mr. McDonald asked about the line item for Debt Service Payment. Mr. Williams said if the projects are approved and bonds are issued the first interest payment would be due in July of 2020. That payment is estimated to be \$665,500.

Mr. Mills asked if there will be a sinking fund where money is set aside for bond payments. Ms. Sheeks confirmed a sinking fund will be created. Mr. Krohn said having a prefunded debt service reserve will be a credit enhancement. The sinking fund would accumulate money monthly.

Mr. Pittman noted the second page of the proposed budget has "Revenues" listed in the first column, it should say "Expenses". Ms. Sheeks said she would correct the header.

Mr. Hand asked when TriCo last raised user rates. Mr. Williams said it was in July of 2018 and it was a 5% increase.

The Committee decided they would defer on making a recommendation to approve the proposed budget until they complete the discussion about the two proposed improvement projects.

2020 Capital Budget

Mr. Williams said the Capital Budget is contingent upon how the Board votes on the WRRF Expansion and Office Unification projects. Staff is trying to keep other spending light. The future projects that Mr. Merkle and Mr. Hartman have evaluated are included in the proposed budget. Mr. Merkle said the only changes to the proposed 2020 Capital Budget, from what the committees reviewed last month, are the bids received for the two projects.

Mr. Hand asked how the committees should proceed with considering the proposed 2020 Capital Budget. Mrs. Poindexter said traditionally the budget gets approved first, which takes into consideration bids that may or may not get accepted by the Board. Approving the budget will not dictate how the Board moves forward with the proposed projects. The Board will want to be comfortable with the bonding before the bids are awarded. If the Board awards the bids, then TriCo would need to come up with the money to pay for the bonding. If the Board is not comfortable with the bonding, then it would not award the contracts. TriCo must have a plan for paying before the contracts are awarded.

Bond Ordinance

Dennis Otten, attorney at Bose McKinney & Evans LLP and TriCo's Bond Counsel, reviewed highlights from the Bond Ordinance. Mr. Otten said the proposed ordinance is written as a standard bond ordinance for regional sewer districts and government agencies. The finance industry likes consistency in bond documents. Mr. Otten worked with Mr. Merkle and Mr. Krohn to draft the specifics of the ordinance. Adopting the bond ordinance would not obligate TriCo to close on any bonds.

The bond ordinance is for a maximum of \$25 million payable by the net revenue of TriCo. The bond ordinance establishes a sinking fund. Monthly, TriCo will set aside 1/6 of the principal and interest that will be due biannually. A one-year debt services reserve account will be established per the ordinance. After the reserve account is funded extra money will go into the Improvement Fund for other needed project expenses.

The ordinance includes an authorization for temporary financing. It probably will not be needed by TriCo but is included in case it is needed later. Mr. Otten said items are included in the ordinance that TriCo may not use. It is easier to not use an item in the ordinance than it is to add an item needed later.

Per Section 3. "Issuance of Bonds", Mr. Otten said the bonds will be up to \$25 million with a maximum discount of 1.5%. The payment dates will be January 1 and July 1 of each year after the bonds are issued. This is standard for regional sewer districts. Mr. Krohn said the structure lowers the total interest costs and if revenue is level it makes sense to have two payments. The maximum interest rate allowed per the ordinance is 5%, but it should be around 2%.

Section 4. "Registrar and Paying Agent" authorizes the Treasurer to select and appoint a qualified financial institution to serve as Registrar and paying Agent for the bonds and the BANs. The Registrar is charged with the responsibility of authenticating the bonds.

Mr. Otten stated that Sections 5 and 6 "Redemption Notes" allow for whatever makes the most sense with the bank TriCo is working with.

Mr. Krohn said his company will solicit proposals from qualified investors. He will be asking for a five to six-year call option on the bonds. After six years TriCo can accelerate payments. TriCo would be the only party that could call the bonds early.

Mr. Otten stated that Section 9 provides the bond form (pages 8-13 of the Ordinance) that will be used, and numbers will be entered when the bond is purchased.

Mr. Hand questioned the next to last paragraph on page nine of the ordinance. Mr. Otten explained a debt according to the Indiana Constitution is a debt that must be paid no matter what and by any means including with assets of the company or levying taxes. This bond will only be payable by the net revenue of TriCo. Bondholders can not look to the assets of the Utility for repayment of the bond. The paragraph clarifies that this Bond will not be a debt in the constitutional sense according to case law.

Mr. Ryerson asked if the bond is repaid by net revenue, and TriCo's net operating revenue is over two million dollars, does that mean that the entire net revenue will be paid to the bond. Mr. Krohn said the budget breaks out the bond payments and operating expenses separately. Mr. Ryerson said for years the Utility has had the luxury of having cash on hand to pay for capital projects. He is concerned about not having cash on hand during the bonding period. Mr. Krohn said bond payments will not consume all of the net revenue. Cash balances will get down to \$3 to \$4 million in five to six years. Capital outlays for the Utility are discretionary. Mr. Krohn said the offering document shows the debt coverage with current revenue and the maximum debt service requirement. TriCo will still have the lowest rates in the area and could raise rates if needed.

Mrs. Poindexter explained net revenue goes to the sinking fund first, reserve fund next and if there is extra revenue after those are funded, it goes into a third fund for other projects. There will be extra money to fund projects. Mr. Otten said if a Utility is left with no money after funding the debt payment no one would buy the bonds. The standard coverage is 125% for a bond to be purchased. Mr. Krohn concurred, 125% is the minimum coverage ratio that would be acceptable without including system development charges. TriCo will be at 150% coverage with current user rates.

Mr. McDonald asked if the bond would trigger the need for TriCo to raise development fees. He would rather increase development fees than raise user rates. Mr. Krohn said the projected 500 EDUs a year in growth would generate \$1.6 million in impact fees. Mr. Williams said development fees collected are not included when a bank is considering a bond. Development may slow down. A bank is only interested in the income the Utility is guaranteed to bring in when issuing a bond, that is why user rates are used in the calculation.

Mr. Hand asked if the ordinance precludes TriCo from future bonding. Mr. Otten said Section 21 Additional Bond Provisions, on page 20, states that in order to issue additional bonds and be on parity there is a 125% coverage requirement, meaning net revenues can cover payments on the first bond as well as the second bond with at least a 125% coverage. Mr. Krohn said TriCo could increase user rates to cover that if a second bond is needed.

Mr. Otten said Section 19 Rate Covenant just states that TriCo must maintain rates to cover expenses and cover debt payments. Mr. Otten said Section 24 Tax Covenants delivers to investors an opinion that income is excludable from federal income tax. The rule for tax exempt bonds is that proceeds cannot benefit a non-tax-exempt entity. A tax form must be filed to do a tax-exempt bond.

Mr. Otten said the ordinance can be adopted at one meeting and there are no publication requirements. Once adopted, offering sheets can be drafted and a purchaser found. A purchase agreement would be drafted in a couple of weeks and there would be a firm closing date.

Mr. McDonald asked if there is a provision for cost overrun. Mr. Krohn said the bids are in hand and there is a 5% contingency allowance built into the bids which is sufficient.

Mr. Krohn said the language in the ordinance provides for all options in the bond. It is easier to not use something included in the ordinance than it would be to add a provision if it would be needed later.

Mr. Mills asked if the Utility needs a rating or if the bonds can be issued without one. Mr. Krohn said TriCo does not have to do a rating. There are additional costs and time associated with obtaining a rating. It would add about six weeks and \$50,000 to the project and unlikely add any value to the Utility. Mr. Krohn said the bond offering documents will be drafted and presented to five or six banks. The banks will send proposals which will be evaluated. TriCo would like the ability to pay off the bond early. Most likely there will be a five- or six-year call feature in the bond which will get TriCo through the big projects. Once those projects are complete the Utility will know if the bonds can be paid off early. Potentially the bonds could be paid off in 2032 even if there is another recession.

Mr. Hand questioned Section 29 Conflicting Ordinances on page 26 which repeals all ordinances and parts of ordinances in conflict with the bond ordinance. Mr. Otten explained this would relate to previously adopted financing ordinances and is preferred by potential bond holders. This should not be an issue with TriCo.

Mr. Krohn said on page 7 of the Special Purpose Report there is a list of project costs and funding for the projects, including bond funded expenses and bids for the project. Most of the design work has already been paid. It includes a construction contingency and allowance for an underwriter discount. Mr. Krohn said he will bring a bid form to the Board meeting so the Board members can review it. The total project cost will be \$24 million including the 5% contingency.

Mr. Krohn said page 8 shows the bond payment schedule. Committing to max payment of \$1.9 million over eighteen years. Page 6 highlights the maximum annual debt service projected coverage in 2020. After paying cash operating expenses the Utility would be at 151% coverage. With projected system development fees collected would be at 230% coverage. The likelihood of attaining 230% coverage is strong. Mr. Williams said expansion related costs will ultimately be paid by system development fees. The project needs financing upfront to cover costs until the development fees come in.

Mr. Ryerson asked how many years, at 500 EDUs per year, are the numbers based off. Mr. Krohn said until buildout in 2037. Mr. Merkle said in the previous twelve months through November the Utility added 740 EDU's and referred Mr. Ryerson to the system development update information presented to the C&C Committee last month.

Mr. Krohn passed out a rate comparison chart for utilities in the area, and highlighted TriCo's competitive user rates. Mr. Williams said if the Utility continues at the current rate of growth, we will run out of capacity to allocate to new development in 2.5 years without the proposed expansion. If growth does not happen at the rate expected other capital projects can be pushed off until funds are available to cover them.

Ms. Merrill said she couldn't see any reason not to move forward with the project.

Mr. Williams said if the project is approved at the January Board meeting, the bonds would come back in February, the President and Treasurer can execute the bond agreement. Award of the construction contract would be contingent upon bond closing. Mr. Otten said closing would be within two weeks from when the bond purchaser is selected. Mr. Mills said if the timing is off a couple of weeks the Utility has the cash on hand to cover any costs.

Mr. Krohn said the Board passing the bond ordinance is the key to the project moving forward. If the ordinance is passed at the Board meeting on January 13, 2020, proposals would be solicited immediately. Mrs. Poindexter pointed out there is a 90-day bid hold on the construction contract bids so the Board can accept a bid contingent upon the closing of the bond.

Mr. Pittman asked if the 3.3% projected interest rate is where Mr. Krohn expects it to be. Mr. Krohn said he expects the rate in the high 2's.

The Committee adjourned for a break at 6:25 p.m. The Committee came back on the record at 6:35 p.m.

#1902 WRRF Expansion Construction Contract Award

Mr. Merkle said bids for the project were opened on December 20, 2019. Thieneman Construction was the lowest responsible bidder. Their bid for the project was \$21,937,000. The base bid was \$17,399,000, \$3,976,000 for Alternate 1, and \$562,000 for Alternate 2. The bid amount is five million dollars over what had been estimated during the design process and up to a week before bid opening. Mr. Merkle said several issues were since discovered with Thieneman's design estimate, including substantially higher material and subcontractor costs, missed plan changes, and quantity calculation errors.

The relatively narrow spread between reputable and well qualified contractors shows the plans were well done and the scope of the work was well understood by the bidders.

Mr. Pittman said while the miss on the budget is alarming, Carmel Clay Schools had something very similar happen with their recently bid projects. The construction market is very busy right now.

Mr. Williams said during planning this project staff had thought that TriCo could reduce its EDU fees. These numbers indicate that the Utility's current fees are on track based on the cost of this project.

Mr. Ryerson expressed his concern with the estimate being so far off from the actual bid. Thirty percent off is a staggering number and he questioned how the design engineer and contractor were so far off. Mr. Ryerson asked if the project had to be awarded to Thieneman even though they were the lowest bidder or if the Board had the flexibility to award the bid to the next lowest bidder.

Mrs. Poindexter said she could not support the Board awarding the project to the next lowest bidder if Thieneman is the lowest responsive and responsible bidder. She said she has reached out to other attorneys that represent regional sewer districts. Other utilities are also receiving high bids for projects at twenty to twenty-five percent higher than estimates.

Mr. Pittman verified with Mr. Merkle that the Utility has worked with Thieneman on past construction projects and that staff had been pleased overall with their performance. He asked Mr. Merkle if Thieneman just messed up their estimating during design. Mr. Merkle agreed and said he was very disappointed to see where bids came in. He is working with Thieneman to find savings opportunities on the project.

Mr. Ryerson asked if all or part of the project could be postponed until the construction market cooled off. Mr. Merkle said the addition of the two clarifiers could be pushed to a later date, however those are the only component of the bid that came in below the design estimate. The Utility would run the risk of prices increasing if the clarifiers are built later.

Mr. Williams said the utility needs to add more capacity when the market is growing. So, we are competing for the same contractors and resources as the private sector growth that is creating the demand for capacity.

Mr. Hand stated that in the past the Utility was able to add capacity when the market was down and was able to save costs. In this case the Utility is having to add capacity in an up market at a higher cost. He said that you win some and lose some.

Mr. Pittman asked if current revenue will cover project costs given the bids received. Mr. Krohn said the Utility can cover the cost of the proposed project.

The C&C Committee and the B&F Committee will recommend the Board move forward with the WRRF Expansion Project and award the contract to Thieneman Construction in the amount of \$21,937,000.

#1902 WRRF Expansion GRW Contract Modification

Mr. Merkle explained the contract awarded to GRW for the WRRF Expansion project covered design, permitting and bidding. The contract did not include construction phase services. Mr. Merkle asked the committees to recommend the Board approve modifications to the contract with GRW in an amount not to exceed \$321,000.

The Committees will recommend the Board approve the proposed contract modification with GRW in an amount not to exceed \$321,000, contingent on the Boards approval of the project moving forward.

#1910 Office Unification Construction Contract Award

Mr. Merkle said bids were opened for the project on December 17. Alderson Commercial Group, Inc. was the lowest responsive and responsible bidder at \$1,781,940, which includes Alternate 5. While Alderson is not a contractor the Utility has worked with before, Blackline informed staff that Alderson has a good reputation and a strong commercial building construction resume. Bid amounts were relatively close.

Mr. Ryerson asked what was included in the \$2.3 million budget. Mr. Merkle explained the budget includes building construction, site work, furnishings, design, moving costs, IT equipment and services, and other expenses related to the project.

Mr. McDonald asked if the building will have a secure room for IT equipment. Mr. Williams said yes.

The C&C Committee will recommend the Board award the construction contract to Alderson.

Government Center Office Purchase Agreement

Mrs. Poindexter said the Clay Township Trustees' attorney sent a revised purchase agreement document to her earlier in the day. She has not had the opportunity to review it and decipher if it will be agreeable and, in the Utility's, best interest. She will have an update on the sales agreement at the January 13 Board meeting.

Dedications

The C&C Committee agreed to recommend the Board accept the dedication of Hyatt Place and Waterfront of West Clay Section 5A sanitary sewers.

IT Agreement and Updates

Mr. Williams said the Utility's contract with Rook Securities will be up in January 2020. During 2019 Rook was purchased by a national company and the Utility didn't feel the new company delivered the same service promised by Rook. Mr. Williams recommended awarding the IT contract to IT Indianapolis in the amount of \$31,280 which includes Log Collection.

Mr. McDonald said he would like to make sure Staff is following up on the promises made in the contract as well as monitoring and assessing IT Indianapolis' job performance.

The B&F Committee will recommend the Board approve the agreement with IT Indianapolis in the amount of \$31,280.

Financials

Ms. Sheeks said the Utility had exceeded projected annual net income by \$83,000 at the end of November. She expects that number to rise when the books are closed for December 2019. TriCo has over \$11 million in the bank. Capital spending has been light. The account at Lake City Bank was closed and the money was moved to a Merchants Money Market account that is paying 2.05% interest.

Mr. Mills asked if the money market account at Citizens should be moved to Merchants. Ms. Sheeks said she is waiting to hear if Merchants is willing to take any more of TriCo's money. But she is hesitant to have all the Utility's money at one bank.

Capital Project Updates

Mr. Merkle said there were no additional Capital Project updates other than what was included in the memo.

Other Business

Mr. Merkle said the customer on Airhart Drive who was assessed a \$100/day fee beginning January 1 asked for leniency and to be given more time to find a contractor during the holiday season. Staff encouraged the customer to expedite the work and come before the Board to request the fee be waived. The B&F Committee agreed when the work is complete, the homeowner can ask the Board to waive the fee.

Mr. Merkle said Carmel Clay Schools is extending deep sewers that will serve a large area west of Clay Center Road. Next month staff anticipates presenting to the Board an agreement and interceptor fee credit for CCS.

Mr. Williams said Mr. Byrum may attend the January 13 Board meeting to discuss the status of proposed development on his property and TriCo's counteroffer for service.

The meeting adjourned at 7:40 p.m.

Respectfully Submitted,



Wes Merkle
Engineering Manager