

COOS BAY-NORTH BEND WATER BOARD
P. O. Box 539 – 2305 Ocean Boulevard
Coos Bay, Oregon 97420

Minutes
Budget Committee Meeting

12:00 noon
June 15, 2023

The Budget Committee of the Coos Bay-North Bend Water Board met in open session in the Board Room at the above address, date, and time for the purpose of reviewing the proposed budget for fiscal year 2023-24. Committee members present: Aaron Speakman, Patty Scott (virtually), Nichole Rutherford, Susanna Noordhoff, Greg Solarz, Carmen Matthews, Rob Kilmer and Bill Richardson. Committee members absent: None. Water Board staff present: Ivan Thomas, General Manager; Jeff Page, Operations Manager; Jeff Miller, Water Treatment Supervisor; Aimee Hollis, Customer Relations Manager; Jeff Howes, Finance Director; Matt Whitty, Engineering Manager; and Karen Parker, Administrative Assistant. Board Legal Counsel Melissa Cribbins was present. Media present: none. Budget Committee Chair Nichole Rutherford opened the meeting at 12:00 noon and asked Mr. Howes to lead the Board and assembly in the Pledge of Allegiance.

Chair Rutherford asked if there were any corrections or additions to the June 1, 2023 Budget Committee minutes. There being none, Mr. Solarz moved the minutes be approved as written. The motion was seconded by Mr. Matthews and passed unanimously.

Chair Rutherford asked Mr. Thomas to present the proposed budget. Mr. Thomas stated this meeting will consist of a recap of proposed capital projects, meter replacement program, revenues and budget estimates of receipts and expenditures for FY23-24, water rate adjustment and System Development Charges.

Mr. Thomas reviewed reserve bank balances as of the end of May 2023. Bank balances and fund tracking as of the end of May 2023 are as follows:

	ACTUAL	PROJECTED
	May 2023	June 2023
Reserve Balances		
Debt Fund	\$ 719,364	\$ 835,498
Reserve for 45 days O & M Expenses	758,454	764,099
Timber Management Program TMP	462,099	375,799
Vehicle Replacement Program	460,415	468,415
Active Capital Improvements Fund	3,805,330	3,914,092
Reserve for Sick Leave Payout	29,337	29,995
Restricted Reserves	1,585,786	1,589,395
	\$ 7,820,785	\$ 7,977,293

The category that has the most solidity is the Active Capital Improvement Fund. Out of the actual balance of \$3,805,330, there are approximately \$2,600,000 worth of allocated projects that are in the process of being completed or have not been started, and this leaves a reserve of about \$1,200,000. This does not include the restricted reserves which are held for an emergency. The restricted reserves account increases each month as revenues come in.

Mr. Page gave a recap of projects included in Schedule H (Estimate of Capital Expenditures). Mr. Page stated the proposed capital projects for FY2023-24 total \$2,316,900. Funds for the capital projects will be collected as follows: \$1,874,800 from water user fees; \$150,000 from timber funds; \$176,000 from FY2024 proposed rate increases; and \$116,000 from active capital funds. Some of the projects to be accomplished are as follows:

- Several water main replacement projects are scheduled which total approximately \$988,300
- Tank maintenance and rehabilitation projects - \$364,300
- Pump Station Replacement projects - \$175,700
- Treatment Plant Upgrades - \$386,700 (roof replacement of main building and an HVAC unit)
- Meter Replacement Program – \$275,000

With the meter replacement program all the manually read meters will be replaced with an automated meter reading system. Once this is fully implemented it will reduce costs and labor, reduce errors, improve billing accuracy, give staff better data acquisition and staff can be more proactive in the ability to help customers with leaks.

Mr. Page gave an overview of the Meter Replacement Program funding scenario stating it is based on a 10-year plan which was implemented in FY2021. By FY2028 the Board will no longer need to raise rates to support this program. A large portion of the funding comes from water sales/capital and the smaller portion comes from the rate increase.

Mr. Page stated another important project planned for FY24 is cathodic protection replacement in the approximate amount of \$200,200. The cathodic protection protects the metal piping that is crossing the sloughs. There is a 12-inch ductile iron pipe that is crossing the Isthmus Slough and also the South Slough. The pipes are submersed in salt water, and it is highly corrosive so its uses a system of sacrificial anodes and electrical current that is applied to the pipe to counteract the effects. The current systems are working at a very reduced capacity, so it is important to build a system to make sure we get longevity out of the water mains and prevent structural failure of the water mains.

Mr. Howes reviewed revenue items. Operating revenue and specifically sale of water is the largest form of revenue. There are several different customer classes which are charged different commodity rates. There is a minimum charge based on the meter size. The majority of sales in terms of dollars are derived from residential customers, next being commercial, industrial, and the public sector.

Mr. Howes gave an overview of the operating revenue. For the current 2023 fiscal year \$8,831,700 was budgeted from sales of water with an estimated year ending of \$8,831,000. That revenue is affected by the amount of water sold and rates applied to that amount of water. Sales for next year are being targeted at \$9,072,00. Mr. Howes reviewed the breakdown of the sale of water as follows:

Current Budget FY 22/23	Operating Income Sale of Water	Estimated Year Ending 06/30/2023	Budget FY 23/24
\$5,467,400	Residential	\$5,456,100	\$5,641,900
\$1,959,400	Commercial/Multi-Residential	\$1,939,700	\$1,971,600
\$ 743,000	Industrial	\$ 795,600	\$ 801,400
\$ 53,600	Commercial Fire Protection	\$ 61,300	\$ 56,900
\$ 517,800	Public Authorities	\$ 487,900	\$ 514,200
\$ 44,200	Public Hydrants	\$ 44,200	\$ 44,900
\$ 46,300	Other Water Sales	\$ 46,200	\$ 41,100

Other Operating Revenues include rent from site leases, servicing customer's installations and miscellaneous water revenue. The budgeted FY22-23 amount totals \$173,900 with an estimated year ending of \$128,900. The utility's total operating revenue for FY22-23 was budgeted at \$9,005,600 with an estimated year ending of \$8,959,00. Sales for next year, driven primarily by the proposed 5.90 percent rate increase, are being targeted at \$9,251,900.

Mr. Howes stated interest revenue was projected at \$32,500 with an estimated year ending at \$154,300. The budgeted FY23-24 amount totals \$157,400. Miscellaneous non-operating revenue was budgeted at \$594,500, estimated year ending at \$626,900. This line item includes anything to do with other than water sales - scrap metal, vehicles, refund of funds from projects, timber sales and for this reason the budgeted amounts always vary. Sewer fees were forecast at \$11,310,000 with an estimated year ending at \$11,975,000. The budgeted amount for FY23-24 totals \$12,682,400. The Water Board bills for three other utilities – North Bend sanitary, North Bend storm and Coos Bay sanitary. For billing, collecting and disbursing these monies to the Cities the utility budgeted \$190,600.

Mr. Howes stated the net income for the year was projected at \$1,352,500 with an estimated year ending at \$2,038,600. The utility's net operating income forecast for FY 23-24 is \$1,247,300 after expense deductions.

Mr. Howes reviewed the budget estimates of receipts and expenditures for the period of July 1, 2023 to June 30, 2024.

Mr. Howes summarized to balance the budget staff proposes a 5.90% rate adjustment comprised of the following:

Operations and Maintenance (3.90%)

• Labor and Benefits	\$ 219,100
• Inventory and Supplies	\$ 70,600
• Credit Card	\$ 25,000
• Insurance Property, Casualty	\$ <u>13,900</u>
Subtotal:	\$ 328,600

Capital Funding (2.00%)

• Capital Improvement:	\$ 176,000
• Vehicle Replacement Program:	\$ <u>8,000</u>
Subtotal:	\$ 184,000

Proposed Rate Adjustment: 5.90% or \$512,600

Mr. Howes reviewed a chart of the average System Development Charges over the last 10 years. In FY17, the Budget Committee and Board adopted a 20.20% increase and that was based on a System Development Methodology Study that was completed in FY2016 which recommended the utility was behind by 20.20%. In FY18, the Seattle Construction Cost Index (SCI) was 2.2% which was adopted by the Board; In FY19 the SCI was 7.98, however the Board adopted to increase the SDC using the rate adjustment of 4.0%. In FY20 the SCI was less than 1% and the Board chose not to increase the SDC's. In FY21 the SCI was less than 1% and the Board adopted to increase the SDC's using the rate adjustment of 3.38%. In FY22 the SCI was 6.02% which was adopted by the Board. In FY23 the SCI was at 6.56% which was adopted by the Board. This year the SCI is at 10.49%. A graph was shown showing what SDC increases would be given the size of the meter and rate adjustments of 2.50%, 5.00%, 7.50% and 10.49%.

Mr. Thomas stated this chart was prepared in anticipation of the Budget Committee and Board discussing the SDC's, as 10.49% is a big increase. Mr. Thomas stated the current System Development Methodology Study is expiring soon and recommended that the SCI be used, however the Budget Committee and Board can choose to do less than 10.49%. Mr. Thomas recommended the Budget Committee and Board to consider setting the SDC at a minimum of 5.0%. After a brief discussion, it was the Budget Committee and Board's consensus to set the SDC at 7.50%.

There being no further discussion of the proposed budget for FY23-24, Mr. Speakman moved they accept the budget as proposed by staff and recommend to the Board approval of the budget as presented, including the general water rate increase of 5.90%, an increase of fire hydrant rates by 5.90% per hydrant per month, increase in fire services by 5.90% and increase of System Development Charges by 7.50%. The motion was seconded by Mr. Matthews and passed unanimously.

Budget Committee Chair Nichole Rutherford declared the meeting adjourned at 12:47 p.m.

Approved _____

By _____
 Nichole Rutherford
 Budget Committee Chair

ATTEST _____