

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 4, 2020

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 2020-21. Committee members present: Mike Erbele, Aaron Speakman, Patty Scott, Rodger Craddock, Greg Solarz, Dr. Charles Sharps, Melissa Cribbins and Bob Dillard. Committee members absent: None. Water Board staff present: Ivan Thomas, General Manager; Matt Whitty, Engineering Manager; Jeff Howes, Finance Director; Jeff Page, Operations Manager; and Karen Parker, Administrative Assistant. Board Legal Counsel James Coffey was absent. Media present: none. Board Chair Bob Dillard opened the meeting at 12:00 noon and lead the Board and assembly in the Pledge of Allegiance.

Chair Dillard asked if there were any corrections or additions to the June 19, 2019 Budget Committee Minutes. There being none, Dr. Sharps moved the minutes be approved as written. The motion was seconded by Ms. Cribbins and passed unanimously.

Introductions of the Budget Committee members, council and staff were made.

Chair Dillard said as this was the first Budget Committee meeting for this fiscal year's budget process, it was appropriate to elect a Committee Chair. Dr. Sharps moved to nominate Mike Erbele as Chair. The motion was seconded by Ms. Cribbins and passed unanimously.

Budget Committee Chair Mike Erbele asked Mr. Thomas to present the proposed budget.

General Manager Ivan Thomas presented an overview of the budget, stating the first meeting would be a discussion of the proposed operation and maintenance expenses, the debt service schedule, and capital improvement plan.

Mr. Thomas stated the utility's budget format is advocated by the National Association of Regulatory Utility Commissioners and American Water Works Association.

Operations and maintenance expenses are classified into functional categories and working divisions. Functional category budgets are based on the spread over the last several years, then adjusted based on averages and projected activities for the upcoming fiscal year's budget to forecast the next year's Operations and Maintenance budget.

Revenues for FY21 are forecast by taking the lowest month of water consumption over the last 10 years and applying the new rate to it.

Revenues from water sales for FY2020 are projected to be \$70,400 under the budgeted amount.

The proposed rate adjustment for FY20-21 is 3.38% or \$267,000. This rate adjustment consists of .63% for wages and benefits (Cost of living adjustment of 2.5% for Union employees and 2.0% for Non-union employees; health benefit cost increase of 5.5%); Operations and Maintenance (small increase in property liability insurance and credit card fees); 1% for tank restoration; 1% for capital improvements; and .75% for the Meter Replacement program.

The operations and maintenance expenses are classified into functional categories as shown on Schedule B of the budget: Operating expenses from least to most expensive are transmission; source of supply; power and pumping; administrative & general; purification; distribution; customer accounting & collecting.

These functional expense categories can further be broken down into three components as shown on the budget sheets: Labor, supplies and expenses, and power. Labor and materials expenses are allocated to the various functional categories by historical percentages and adjustments are made for anticipated work load. Last year the utility budgeted 5,490,600 for total operating expenses, with an estimated year ending of \$4,729,800. This year the utility is budgeting a total of \$5,579,700 for operating expenses. Mr. Thomas commented this does not mean staff is asking for more funding; the total of \$5,579,700 is if the utility is fully staffed and realized all projects and work to completion. With addition of the depreciation amount of \$1,970,900 to the total operating expenses of \$5,579,700, brings the total operating expenses to \$7,550,600; and taking the total operating revenue of \$8,066,000, leaves a net operating income of \$515,400 for FY 20-21.

Mr. Speakman asked who determines the depreciation. Mr. Thomas stated depreciation will be covered by Finance Director Mr. Howes.

Mr. Dillard commented the operating income has decreased.

Mr. Solarz questioned why power and pumping expenses will be increasing from \$388,900 to \$557,600. Mr. Thomas stated Operations Manager Jeff Page will explain this section. Staff will be going over all operating expenses with explanations for decreasing or increasing throughout the presentation.

Mr. Speakman inquired if there are any categories that the utility is concerned with. Mr. Thomas stated staff projects off the worst case scenario and also projects off of what would be a full staff. Currently there are three positions that are not filled. If water demand is down, power and pumping decreases as there is not as much electricity being used. The main issue the utility is dealing with is not enforcing collection due to the COVID-19 pandemic and therefore revenue is down by approximately \$88,000 in one month's time. At some point collection activities will resume bringing in that lost revenue. Mr. Erbele inquired if the customer is still responsible for the bill. Mr. Thomas confirmed the customer is still held accountable for any past due billings.

Mr. Thomas reviewed Source of Supply stating several sections of the utility spend money in this functional category. This includes raw water supplies in the dunes wellfield, Upper Pony Creek, Merritt Lake Reservoir and Joe Ney Reservoir. Costs in this area are for checking lake levels, lake sampling, monitoring and rehabilitating wells, environmental monitoring, and dam structural monitoring. Last year the utility budgeted \$301,600, with an estimated year ending of \$138,300. Year-end expenses came in under budget due to lower internal labor expenses (the Distribution Specialist and Distribution Technician positions were not filled even though they were included in the budget) and renewal of the Special Use Permit for the dunes was not completed by the US Forest Service due to their limited workforce. This year the utility is budgeting \$301,600. The increase is being driven by an increase in labor in source and supply, GSI Water Solutions contract, completion of renewal of the special use permit for dunes aquifer, additional environmental monitoring at Ten-mile Creek, Matson Creek, and wellfield rehabilitation and maintenance.

Operations Manager Jeff Page reviewed Power and Pumping. This work is accomplished primarily through the Distribution and Water Treatment sections, including the operation and maintenance of 34 pump stations and the pump station at Pony Creek Treatment Plant to move water and maintain pressure throughout the system. This is accomplished by the Distribution and Water Treatment Sections personnel that check pump operations for efficiency, maintain pumps and buildings, purchase of electricity, and monitoring the SCADA system. Last year the utility budgeted \$608,300 with an estimated year ending of \$388,900. Year-end expenses came in under budget due to the vacant Distribution Technician and Distribution Specialist positions that were not filled for several months. The Distribution Specialist was filled on September 30, 2019 and the Distribution Technician was filled on January 12, 2020. Both positions were filled by existing staff. The FY20-21 proposed budget amount is adjusted lower than FY20 as there is a better understanding of the labor impacts to this category. Mr. Craddock commented Pacific Power is asking for a 1.6% rate increase and asked if this increase is included in the proposed FY20-21 budget. Finance Director Jeff Howes stated staff did consider this factor into the budget. Power costs have been reduced due to efficiencies achieved at the Pony Creek Treatment Plant and pump stations. This year the utility is budgeting \$557,600 to compensate for an increase in electrical costs, increased staff time and labor devoted to power and pumping/telemetry and instrumentation in the distribution system.

Mr. Page introduced the Purification Section budget and an overview of this function of the utility. Pony Creek Treatment Plant consists of a staff of 6, to include a Water Treatment Plant Supervisor, 3 Operators (1 Operator position not filled), 1 Water Quality Technician and Mr. Page (50%).

The main function of the purification section is the operation and maintenance of the Pony Creek Treatment Plant, which is a conventional water treatment plant that can produce up to 12 million gallons per day. The treatment plant runs 365 days a year. 1.26 billion gallons was produced in 2019 with an average daily demand of 3.5 million gallons and peak daily demand of 6.7 million gallons.

Pony Creek Treatment Plant has a quality control lab that performs many series of testing on a daily, weekly and monthly basis. The Oregon Environmental Laboratory Accreditation Program (ORELAP) provides oversight and lab certification. Laboratory

analysis for quality control and regulatory compliance results in approximately 17,000 individual non-automated analysis per year.

The following purification projects are planned for the 2020-2021 fiscal year:

- Replace aging obsolete turbidimeters which are used to measure clarity of the water at various points through the treatment process
- Replace panel for sludge pumps
- New jar tester to increase coagulant efficiency
- Tracer study through Oregon Health Authority;

Mr. Page stated purification expenses include operation and maintenance of one treatment plant, laboratory analysis for quality control and regulatory compliance, monitoring the watershed, supply, production, and distribution system. Last year the utility budgeted \$1,082,000 with an estimated year ending of \$965,100. Mr. Page stated expenses came in under budget due to staff turnover and lowering operating supply costs. This year the utility is budgeting \$1,094,000. The increased budget is due predominantly to abandoning use of lime as a pH adjustment and replacing with caustic soda.

Mr. Page introduced the Distribution and Transmission budget. The Distribution Section consists of a staff of 11 and Mr. Page (50%). Currently there are 2 Crew Leader positions open which are temporarily being filled in the interim with Utility Workers.

Mr. Page gave an overview of the transmission and distribution expenses to include operation and maintenance of water mains, pump stations and reservoirs. The Distribution System consists of 34 pump stations; 19 reservoirs; 259 miles of various sized water mains; 5,380 control valves; 1,201 fire hydrants, and transmission mains as follows: 8,800 feet from Joe Ney to Upper Pony Creek; 29,000 feet in the sand dunes; and 4,100 feet from Pony Creek Treatment Plant to the clearwell.

The expense budget items consist of storage facilities, mains, meters and services. Last year the utility budgeted \$1,205,200 with an estimated year ending of \$920,700. Mr. Page stated expenses came in under budget primarily due to not being fully staffed. This year the utility budgeted \$1,253,800 due to increase in wages and benefits, cost of supplies increasing, and having a full staff.

Last year the utility budgeted \$11,500 for transmission mains with an estimated year ending of \$1,200. These expenses came in under budget as there were no major emergencies. This year the utility budgeted \$11,700. The increased budget is due to repair of some transmission lines and leak detection.

Mr. Page reviewed the vehicle replacement program. The purpose of this program is to lower corrective maintenance costs, increase reliability of the utility's equipment, minimize breakdowns and provide annual funding for ongoing replacements. This year staff is taking a different look at the program, and rotating the utility's vehicles throughout the organization, rather than replacing the vehicles within a stated timeframe. Staff will continue to monitor this keeping track of corrective maintenance costs and resale values of the vehicles. \$8,000 per month is contributed to the vehicle replacement program. There are 32 vehicles with an accumulated book value of approximately \$800,000. Staff recommends replacing a 2002 Ford F-150 as it is 18 years old, the book value is low

and maintenance is needed. Staff recommends replacing the Ford F-150 with a domestic mid-size SUV that can be shared with operations and administrative staff.

Finance Director Jeff Howes gave an overview of customer accounting and collecting. The Customer Service section consists of 14 employees. Customer Service Representatives internally perform customer account maintenance, opening and closing accounts, billing inquiries for customers, receive and deposit payments, and perform credit/collection duties. The Data Processing section performs accurate and consistent customer billing and data processing functions. Externally, Field Customer Service Representatives perform verification of meter readings, customer education regarding high consumption and leak issues, and delivery of collection notices. Also performed is meter testing, replacement, and maintenance. A Cross Connection program is maintained to manage and enforce cross connection rules to protect water quality and public health.

Mr. Howes reviewed the payment methods consisting of E payment, online check, cash, check, and credit cards.

Last year the utility budgeted \$1,210,900 with an estimated year ending of \$1,257,200. The increased budget is primarily due to credit card transactions. Staff did not project high enough usage of credit cards. Dr. Sharps commented he thought staff was aware of what the credit card costs would be. Mr. Howes stated there are numerous types of credit cards used and each type of card has a flat fee, or interest rate fee, applied to them. Staff can project some of this, but what wasn't correctly projected was how many customers would pay by the use of credit cards. The industry standard when a survey of credit card usage was conducted was 12 to 15 percent. The Water Board currently has a percentage of 49.3 for credit card use. This year the utility budgeted \$1,280,200. The increased budget is due to continued credit card fees, wages, and increase in benefits.

Finance Director Jeff Howes stated administrative and general expenses will increase in FY2020-21. Last year the utility budgeted \$1,071,100 with an estimated year ending of \$1,058,400. The expenses came in under budget with all tasks completed. This year the utility budgeted \$1,097,900. The increased budget is due to wages, medical insurance, and property liability insurance.

Last year the utility budgeted \$5,490,600 for total operating expenses excluding depreciation with an estimated year ending of \$4,729,800. This year the utility is budgeting \$5,579,700.

Regarding fixed assets and depreciation, Mr. Howes stated all purchased capital assets are valued at cost and at an estimated cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. For FY19-20 staff used a 2% escalator; however for FY20-21 the escalator has been increased to 3%. Last year the utility budgeted \$1,904,500 with an estimated year ending of \$1,911,600. This year the utility budgeted \$1,970,900.

Mr. Howes reviewed income deductions:

- Interest on long term debt and other interest - Last year the utility budgeted \$343,900 with an estimated year ending of \$343,900. This year the utility budgeted \$313,900.
- Amortization of bond discount and expense - Last year the utility budgeted \$27,000 with an estimated year ending of \$26,400. This year the utility budgeted \$27,000.

- Sewer/Surcharge funds remitted – Last year the utility budgeted \$11,367,700 with an estimated year ending of \$10,347,600. This year the utility budgeted \$10,660,400.

Mr. Howes gave an overview of the Debt Service Schedule which includes debt for the Water Supply Expansion Project, the Bay Crossing, Water Treatment Plant Expansion Project, and the Oregon Department of Transportation South Empire Boulevard Main Replacement Project. Total outstanding debt at the end of FY20 is \$11,694,700. The total amount of principal and interest to be paid in FY2020-21 is \$1,648,200 (principal \$1,334,500, interest \$313,700).

Engineering Manager Matt Whitty gave an overview of the Engineering Section. The Engineering Section consists of Mr. Whitty and an Engineering Technician 1-office and Engineering Technician 1-field. The Engineering Section manages a large portion of the utility’s capital projects, from the planning level through construction management and project completion.

The Engineering Section’s primary responsibilities are water main, pump stations and reservoir projects; coordinate with other departments, assessing the condition of the utility’s infrastructure, in-house design and construction management, inspection of contractor installations and crew installations, oversee and review consultant designs, coordinate with City projects, and watershed management.

Additional responsibilities include maintenance of all records, asbuilt drawings and books for water mains, valve maintenance records and hydrant flow test records. Staff assists with customer funded jobs, and provides services for timber sales in accordance with the utility’s Watershed Management Plan.

Engineering staff also give support to other departments to include locating mains, lost valves and services; preparation of exhibits, maps and other drawings; assist with low pressure complaints and cross connection investigations; and provide some assistance with new service requests.

Last year the utility budgeted \$379,200 with an estimated year ending of \$349,900. This year the utility budgeted \$392,200. The increase is due to wages and increase in benefits. These costs do not include what staff has estimated will be spent on capital projects.

Mr. Whitty reviewed some of the major projects proposed for the coming fiscal year:

Water main projects:

4th street – Anderson to Elrod 8" DI	\$255,600
Ferguson – S 11th to 12th Ct 2" PVC	\$38,400
Brussels –From Commercial north 6" PVC	\$177,100
Tunnel Rehab Design	\$15,000

Pump Station and Reservoir projects:

Steel Tank maintenance program	\$274,000
Brights Mill Pump Station Building	\$85,100
Pump and Roof Replacements	\$60,200
Wisconsin Pump Station	\$221,800 (Plus \$241,900 FY20)

SCADA Telemetry Projects:

SCADA Master Plan	\$50,000
Telemetry units at Ingersoll, Shorewood and Oregon Pump Stations and Libby Reservoir	\$47,100

Miscellaneous Projects:

Merritt Dam seismic evaluation	\$52,000
Driveway paving	\$77,000
Phone system server	\$25,000
Master planning	\$100,000
Turbidimeters	\$15,000
Meter replacement program	\$133,000
Well meter replacements	\$5,400

There being no further discussion of the operating and maintenance expenses, the debt service schedule and capital portions of the budget, Mr. Thomas reminded the Budget Committee the next meeting was scheduled for Thursday, June 18, 2020 at 12:00 noon. Chair Mike Erbele declared the meeting adjourned at 1:30 p.m.

Approved _____

By _____

Mike Erbele
Budget Committee Chair

ATTEST _____