

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT
P.O. BOX 215, ETNA, OH 43018**

**FINANCIAL/AUDIT COMMITTEE MEETING MINUTES
OCTOBER 8, 2020**

1. OPENING

The October 8, 2020, Financial/Audit Committee Meeting of the Southwest Licking Community Water and Sewer District was called to order by Lawrence Kretzmann at 2:30 p.m. The Pledge of Allegiance was led by Mr. Kretzmann. Robert Platte, Lawrence Kretzmann, CJ Gilcher, Kathy Killen Josephine Carrelli, and Paul Rennick were present at roll call. Mr. Hagy arrived at 3:15pm. The meeting was live streamed for public viewing.

2. ADOPTION OF AGENDA

Mr. Platte made a motion, second by Mr. Gilcher, to approve the Agenda as presented. Upon Roll Call vote, all voted aye. Motion carried.

3. APPROVAL OF MINUTES

The minutes of the Financial/Audit Committee meeting of April 30, 2020 were approved at the regular Board meeting on May 14, 2020.

4. FINANCIALS

Mr. Rennick provided an overview of the RCAP rate study that was completed in 2019. He went over the recommendations of the study and stated that it was already kind of outdated at this point as it was using information from 2017-2018. There are some capital improvements projects that were not included in the study that changes things a little bit. He went over a few different options for the rate structure and rate changes. The Board will need to decide how to proceed.

Mr. Hagy asked Mr. Rennick what he thought was going to happen with inflation if there was another stimulus. Mr. Rennick stated he feels like the election will be real driver in what happens with inflation and also if another stimulus package is approved. He stated he really does see it going crazy right now just because everyone has been hit so hard due to covid.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

P.O.Box 215 Etna, Ohio 43018
69 Zellers Lane Pataskala, Ohio 43062
Phone (740)927-0410 Fax (740)927-4700

5. DISCUSSION OF FRAUD ISSUES

Mrs. Killen stated that the auditor was in the office to start the audit process. The auditor did not find anything of concern. She will complete the audit off site and will submit final report when complete.

6. MEMBER'S COMMENTS

Mr. Kretzmann stated he thinks the Board needs to decide soon if anything will happen with the rates in 2021. This will be discussed at a future meeting.

7. ADJOURNMENT

Mr. Gilcher made a motion, second by Mr. Platte to adjourn the meeting. Upon Roll Call vote, all voted aye, Motion carried.

MEETING ADJOURNED AT 3:33 P.M.

ATTEST:


CHARLES HAGY, SECRETARY

SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT

P.O. BOX 215, ETNA, OH 43018

69 ZELLERS LANE, PATASKALA, OH 43062

740-927-0410

AUDIT/FINANCE COMMITTEE MEETING

October 8, 2020 2:30pm (Streamed online for Public Viewing)

SIGN BELOW:

NAME

Paul Pennick

ADDRESS

*BHAM CPA
Group*

PHONE

740-827-3364

SOUTHWEST LICKING COMMUNITY WSD

SUMMARY OF KEY ISSUES TO CONSIDER

- IN TRYING TO GET RATES AND CASH FLOW WHERE IT NEEDS TO BE OVER THE NEXT 10 YEARS THE FOLLOWING INCREASES IN REVENUES GENERATED FROM RATES NEED TO BE CONSIDERED:
 - 2022 10%
 - 2023 5%
 - 2024 5%
 - 2025 5%
 - 2026 5%
 - 2027 10%
 - 2028 5%
 - 2029 5%
 - 2030 5%

- IT IS IMPORTANT TO NOTE THAT THE DISTRICT HAS NOT INCREASED RATES FOR AT LEAST 8 YEARS WHICH IS TRULY UNHEARD OF IN TODAY'S WATER AND SEWER ENVIRONMENT.

- IT IS ALSO IMPORTANT TO NOTE THAT THE CASH FLOW ANALYSIS SHOWS A GRADUAL DECREASE IN THE DEBT SERVICE FEE SO THE RATE INCREASES INCORPORATE ABOUT A 1% ANNUAL INCREASE TO OFFSET THE DEBT SERVICE FEE REDUCTION.

- INCREASES AS NOTED ABOVE ARE FAIRLY SUBSTANTIAL, BUT WILL BE NEEDED IF THE DISTRICT MAKES THE DECISIONS TO MAKE THE CAPITAL IMPROVEMENTS OUTLINED IN THE CASH FLOW ANALYSIS.

- DEBT SERVICE IS THE PRIMARY DRIVER ON THE RATES SO A CAPITAL IMPROVEMENT PORTION OF THE RATE DISTINGUISHED FROM THE OPERATING AND MAINTENANCE PORTION OF THE RATE WILL BE CRITICAL.

- ANY CHANGES TO THE RATE STRUCTURE NEED TO BE WORKED ON OVER THE NEXT 6-12 MONTHS SO THAT PROPER EVALUATION OF ALL FACTORS TO BE CONSIDERED CAN OCCUR.

- STRONGLY ENCOURAGE CONSIDERATION OF IMPLEMENTING MANY OF THE RECOMMENDATIONS OF THE RCAP STUDY BUT HOLDING ON THE RATE CHANGES UNTIL MORE TIME IS SPENT EVALUATING ALL THE ISSUES.

- STRONGLY ENCOURAGE NO KNEE JERK REACTION, BUT CAREFUL PLANNING, REVIEW AND APPROVAL OF A PROCESS TO MOVE FORWARD.

SOUTHWEST LICKING COMMUNITY WSD

SUMMARY OF KEY ISSUES TO CONSIDER

- **RATE STUDY BY RCAP**
 - THERE ARE SOME EXCELLENT RECOMMENDATIONS IN THE RCAP STUDY RELATED TO THE OPERATION, MAINTENANCE AND CAPITAL IMPROVEMENTS FOR THE DISTRICT.
 - THE DISTRICT WILL WANT TO WORK TOWARD IMPLEMENTING A NUMBER OF THESE RECOMMENDATIONS OVER THE NEXT SEVERAL YEARS AS TIME AND RESOURCES PERMIT.
 - UNFORTUNATELY THE CAPITAL IMPROVEMENTS REQUIRED BASED UPON MORE CURRENT ESTIMATES REFLECT OVER \$114 MILLION IN PROPOSED IMPROVEMENTS WHILE THE RCAP STUDY HAD USED INFORMATION FROM 2017 AND 2018 WHICH HAD A MUCH LOWER AMOUNT OF PROPOSED IMPROVEMENTS. THE RCAP STUDY HAD ASSUMED AROUND \$81 MILLION IN PROPOSED IMPROVEMENTS FOR WATER AND SEWER. HOWEVER, THE RCAP STUDY HAD INCLUDED OVER \$16 MILLION FOR THE NEW WATER TREATMENT FACILITY AND SINCE THE PLANT IS COMPLETED, THE CAPITAL IMPROVEMENTS ESTIMATED THROUGH FISCAL YEAR 2030 HAVE INCREASED.
 - THE RCAP STUDY DID NOT INCORPORATE SEWER SYSTEM CONSTRUCTION RELATED TO THE SR 161 PLANT OR UPDATED COST ESTIMATES FOR THE SR161 PLANT OR THE ETNA PLANT WHICH ACCOUNTS FOR A SUBSTANTIAL PORTION OF THE INCREASED CAPITAL IMPROVEMENTS COST.
 - THE RCAP STUDY DID NOT GO THROUGH 2030 SINCE IT WAS COMPLETED EARLIER WHILE THE CURRENT CASH FLOW PROJECTIONS GO THROUGH 2030 WHICH RESULTED IN SOME ADDITIONAL CAPITAL COSTS.
 - DUE TO THE SIGNIFICANT INCREASE IN THE AMOUNT OF CAPITAL IMPROVEMENTS REQUIRED, THE PROPOSED RATE ADJUSTMENTS IN THE RCAP STUDY WILL NOT ADDRESS THE CASH FLOW NEEDED IF ALL PROPOSED CAPITAL IMPROVEMENTS ARE MADE.

- **PROPOSED CASH FLOW ANALYSIS BY DISTRICT USING UPDATED CAPITAL IMPROVEMENT PROJECTIONS**
 - THE CASH FLOW ANALYSIS WAS PREPARED USING THE ASSUMPTIONS OF NO REDUCTION IN DEBT SERVICE FEES AND NO RATE INCREASES.
 - THE REASON IS TO SHOW THE SIGNIFICANT CASH REDUCTIONS AS CAPITAL IMPROVEMENTS ARE REQUIRED AND AS OPERATING AND MAINTENANCE COSTS GO UP.
 - NEGATIVE CASH FLOW WOULD START IN 2023 AND CONTINUE IN GREATER AMOUNTS EACH YEAR UNTIL 2030 WHEN THE DISTRICT WOULD HAVE A NEGATIVE CASH POSITION OF OVER \$4.3 MILLION. THE ANNUAL NEGATIVE CASH FLOW WOULD GO FROM A REDUCTION OF CASH OF \$450,000 IN 2023 TO A REDUCTION OF CASH OF \$5.1 MILLION IN 2030.
 - IF THE DEBT SERVICE FEE WAS ELIMINATED APPROXIMATELY 10% ANNUALLY THROUGH 2030, THEN THE CASH FLOW DEFICIT WOULD GROW TO ALMOST \$9.8 MILLION IN 2030.

SOUTHWEST LICKING COMMUNITY WSD

SUMMARY OF KEY ISSUES TO CONSIDER

- ITEMS TO CONSIDER

- ARE THE CAPITAL IMPROVEMENTS AS PROPOSED CRITICAL FOR THE DISTRICT AND IN THE TIME FRAME NECESSARY TO ENSURE PROPER GROWTH OF THE DISTRICT?
- DOES THE DISTRICT WANT TO ELIMINATE THE DEBT SERVICE FEE AND INSTEAD INCORPORATE THIS INTO THE RATES USING A CAPITAL IMPROVEMENT PORTION OF THE RATES?
- BASED UPON DISCUSSIONS WITH DISTRICT MANAGEMENT, REVIEW OF THE RCAP STUDY AND PAST EXPERIENCE WITH THE DISTRICT, IT APPEARS THAT THE WATER RATES ARE NOT FULLY COVERING ALL COSTS AND WILL NEED TO BE RAISED SO THAT THESE RATES ARE PROPERLY COVERING ALL COSTS ASSOCIATED WITH WATER TREATMENT, DISTRIBUTION AND RELATED.
- BASED UPON BOTH THE RCAP STUDY AND THE DISTRICT CASH FLOW ANALYSIS, THE RATES WILL HAVE TO BE ADJUSTED TO COVER INFLATION, CAPITAL IMPROVEMENTS AND REPLACEMENT AND RELATED ITEMS.
- HOW SOON DOES THE DISTRICT WANT TO CONSIDER IMPLEMENTING A RATE INCREASE ONCE THE ABOVE ITEMS HAVE BEEN ADDRESSED?

- RECOMMENDATIONS TO CONSIDER

- 2020 HAS BEEN AN EXTREMELY DIFFICULT YEAR FOR MANY DISTRICT CUSTOMERS WITH COVID-19 AND THE IMPACT THAT HAS HAD ON MANY INDIVIDUALS FROM A FINANCIAL AND HEALTH PERSPECTIVE.
- ALTHOUGH IT IS VERY APPARENT THAT RATE INCREASES WILL BE REQUIRED OVER THE NEXT 10 YEARS, IT MIGHT BE BENEFICIAL TO CONSIDER EITHER JUST A MINIMAL OR NO RATE INCREASE FOR 2021 TO PROVIDE SOME RELIEF TO DISTRICT CUSTOMERS.
- SINCE THE DISTRICT HAS NOT INCREASED RATES FOR QUITE A FEW YEARS, THERE WILL BE RATE INCREASES NECESSARY STARTING IN 2022 AND CONTINUING ANNUALLY THROUGH 2030 TO ADDRESS THE CASH FLOW NEEDS OF THE DISTRICT.
- A REDUCTION OF THE DEBT SERVICE FEE OVER A 10 YEAR PERIOD WOULD REQUIRE ABOUT A 1% ANNUAL INCREASE IN RATES TO GENERATE THE SAME CASH FLOW OVER THAT PERIOD.