CITY OF
GERMANTOWN
TENNESSEE 1930 South Germantown Road • Germantown, Tennessee 38138-2815
Phone (901) 757-7200 Fax (901) 757-7292 www.germantown-tn.gov

FAC Sub-Committee Meeting MINUTES

Tuesday, February 25, 2014, 6.00 pm
Triangle Room, 1930 S. Germantown Road

Members Present: Clint Hardin, Russell Johnson, Sidney Kuehn, Julius Moody, Jonathan Turner

Members Absent:

Staff Present: Patrick Lawton, Ralph Gabb, Adrienne Royals, and Bo Mills

Others: John Chlarson, Consultant

CALL TO ORDER

Mr. Lawton opened the meeting by thanking members for volunteering their time. He reported that it has been a number of years since we have looked at rate consideration/adjustment for the Utility Fund.

Bo Mills introduced Mr. John Chlarson, a consultant on public works with the University of Tennessee Municipal Technical Advisory Service.

Mr. Lawton stated that the Enterprise Fund operates a little differently than our General Fund in that the dollars associated with an Enterprise Fund are to cover the service that is provided. When this does not happen, the General Fund (largest of our City funds) has to come in and support the Enterprise Fund. Although we have been very fortunate in that our Utility Fund has been managed so well for a long period of time, we now need to look long term at the health of the fund and make some type of adjustment.

Mr. Gabb referred to audited financial statements for June 30, 2011, June 30, 2012 and June 30, 2013. He advised that since FY11 we have dropped from 7.3 million to 5.8 million to 3.9 million; today, we have 4 million dollars however, all bills/expenses have not been paid.

After much discussion regarding a pilot program that was set up some years back, Mr. Turner wanted to know was this program the direct result for the drop in dollars over the last 3 fiscal years. Mr. Gabb explained that the program is treated like a business; it is charged just like real and personal property taxes for assets based upon a tax rate that the City establishes; when payments are in lieu of taxes, it is acceptable to take the net book value of the asset and multiply it by a state formula (fifty-five percent). Mr. Lawton further explained that the main reason is the in cyclical pattern of the Utility Fund. It is totally controlled by the amount of water sales that we produce. Although expenditure does not change, we still have to read meters, produce and pump the water however, the revenue can have dramatic fluctuations depending on if we are *or* are not selling the water. Mr. Gabb then advised that by state law, revenue from the pilot program is not a part of Operating Income or Loss; it is reported in Change of Net Assets.

Mr. Gabb continued his discussion of the financial statements. He said the Unrestricted Fund Balance, Working Capital and Operating Income and Loss (water sales against expenses) are all consistently on a downward stroke. The Net Change in Assets (the final, bottom line) is going down as well. He further advised with Long-term Debt, all debt will be paid out in five or six years.

Mr. Chlarson began by restating what Mr. Gabb said. Under the latest rules, if there is a negative change in Net Assets for two consecutive years, the fund falls under the direction of the *State Water Works Finance Board*. By the time the second year rolls around, the Board sends a letter stipulating that a rate study be done and that rates be increased as well. Mr. Chlarson said that our rates and rate tier structure is progressive and is inclining rather than declining (use the most, pay the most). Audits, year-to-date projections, the current budget, capital improvements (next five years), new customer projections and numerous other factors were taken into consideration prior to conducting the study. Going forward per Mr. Chlarson, he started with the Audit Year for 2013 and the Adjusted Budget for FY14 to project Total Net Position for the next five years which yielded approximately 0.5% annual growth in revenue and 3.5% annual increase in expenses. Referring to a handout, Mr. Chlarson noted that Operating Income was in the red for all five years; significant Capital Improvement Projects for FY16 and FY17 will cause some big hits to Net Position. He said in order to find a way out of the red, we need to “bite the bullet,” do a rate increase that will carry throughout the five year plan, and then look at the study again. After considering a 12% and then 15% rate increase, Mr. Chlarson said that 20% keeps us out of the red all the way throughout the five year period. He advised that a 20% rate increase on the combined total bill equals approximately $29.00 per month (increase from $24.87) which is less than .16¢ per day and $5 per month.

Mr. Lawton said the committee could take what was presented tonight along with updated reports/spreadsheets and consider everything further; decide how we should end the fiscal year and the impact it may have on the proposed 20% increase. Also, the pilot program and its effect on the increase will need to be discussed.

After much discussion, it was decided that the next meeting will be held on Wednesday, March 5th, 2014. Per Patrick, the team should be prepared to discuss issues regarding the pilot such as how other agencies and/or the state might react and how much of the increase will cover the pilot. Another member suggested that a five year trend or analysis be presented and maybe factored into the new or proposed rates.