City Of
Camanche
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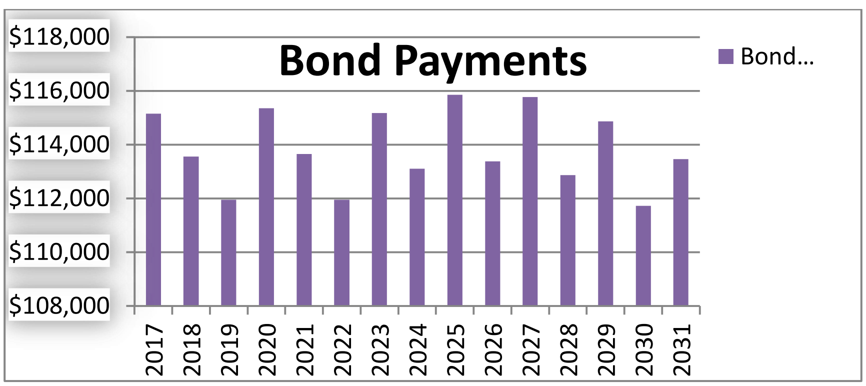
P.O. Box 77
Camanche, Iowa 52730
563-259-8342

Sewer Fund Recommendations 2017

On May 16, 2017 Council was presented with data in reference to deficit spending in the sewer fund. Discussion was tabled at that meeting. Follow up discussion was held at the June 6, 2017 meeting in which Council advised they would like to see the proposal set for the application of a sunset debt service fee applied to sewer users. The proposals are contained herein.

Review:

The sewer fund is seeing an annual deficit. That deficit can be viewed as a result of under-funding the debt service for the lift station project from 2012. The average annual cost for the debt service is approximately $113,000 every year.



The sewer fund deficit is a only a contributing factor to the sewer fund debt overall. The fund had previously enjoyed a surplus of over $500,000. Two events other than the debt service have driven the sewer fund into the negative. The purchase of water meters was a shared venture between the water fund and the sewer fund. $250,000 of the total $500,000 for the meters was taken from the sewer fund. The justification for this was that the meters are the method by which we track usage for billing of the sewer. The other large impact to the sewer fund was the high amount of rainwater which infiltrated the sewer system during heavy rains. We believe that for the most part the repairs, which also came from the sewer fund, have been resolved.

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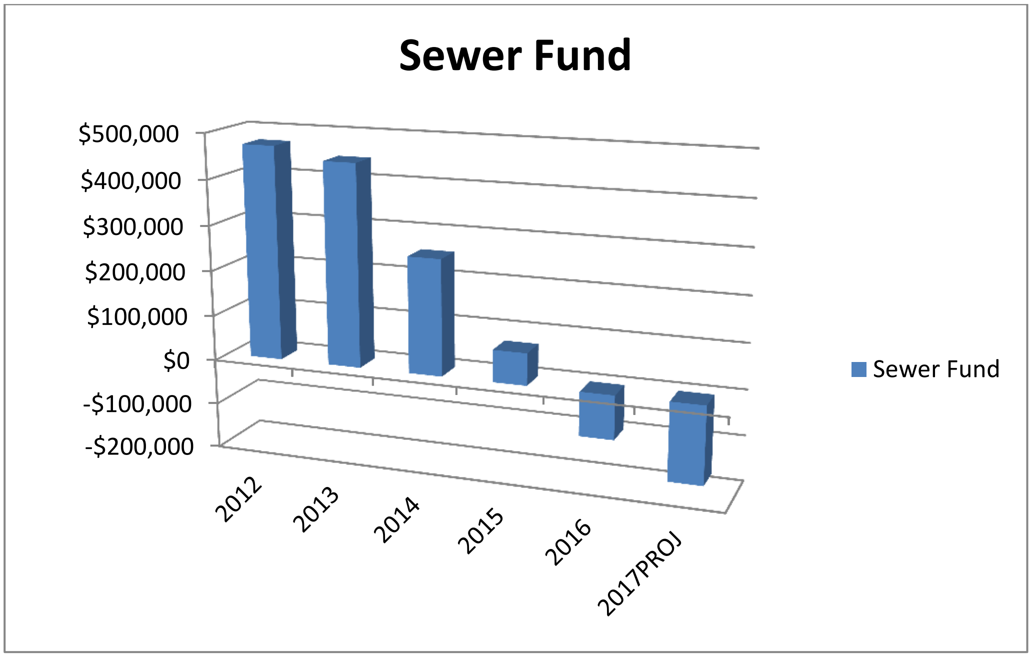
This explanation does not account for the entire loss. The remainder of that loss is a result of the lack of incoming sewer revenue to pay for the debt service. This loss has now created an overall fund balance of (-$171,689).



Projections:

The two areas we should address are:

1) Sewer Fund Annual Deficit
2) Sewer Fund Debt

Previous analysis suggested the amount of the deficit to the sewer fund correlated to the amount of the debt service. This was not completely accurate as other anomalies contributed to fund variances. A more in depth analysis was performed and what was discovered is the deficit is much closer to $45,000 annually. Although this is better news for the fund as a whole, there still remains a large debt and a significant deficit occurring. The recommendation will remain the same as you will see in the data which follows.

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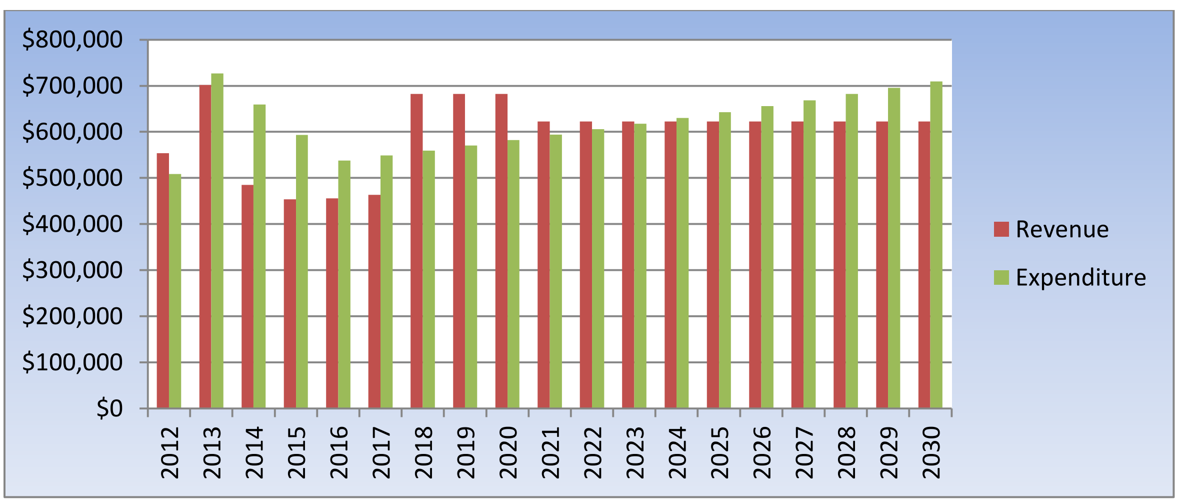
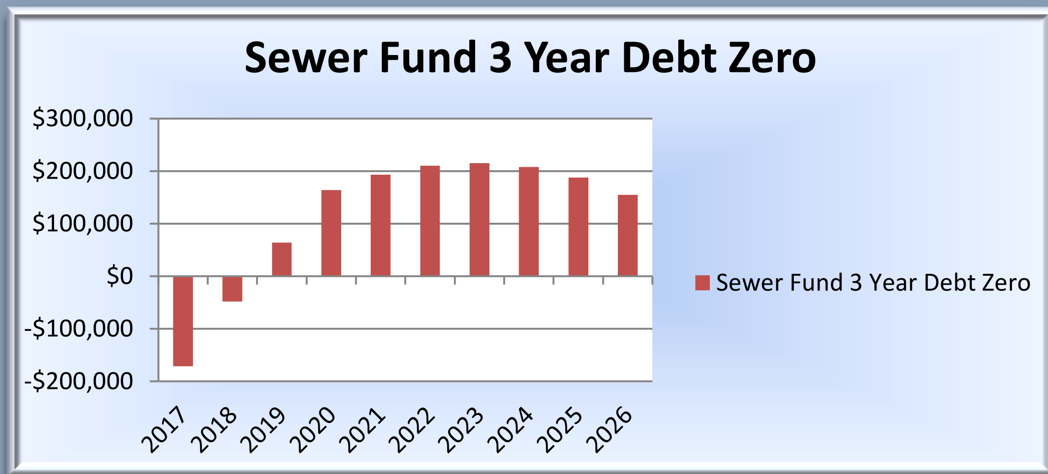
Recommendations:

The recommendation to utilize a debt service fee to pay back the debt still remains at the previously suggested level. A debt service collected can only be used to pay the debt. This will in turn create a surplus in the sewer fund as the amount of revenue necessary to cover the regular operations of the sewer service will be higher than the actual cost. With a predicted increase of 2% in cost over the years of the debt, it is predicted that this surplus, should a debt service fee be applied, will no longer exist around 2024. It is predicted that in either case, the sewer fund at that point would have a $267,000 surplus provided that no expenditures for capital outlay occur. That is unrealistic. To provide a number on what capital outlays would be necessary would be complete speculation, but history would tell us that these expenses would most likely need a fair amount of the suggested surplus.

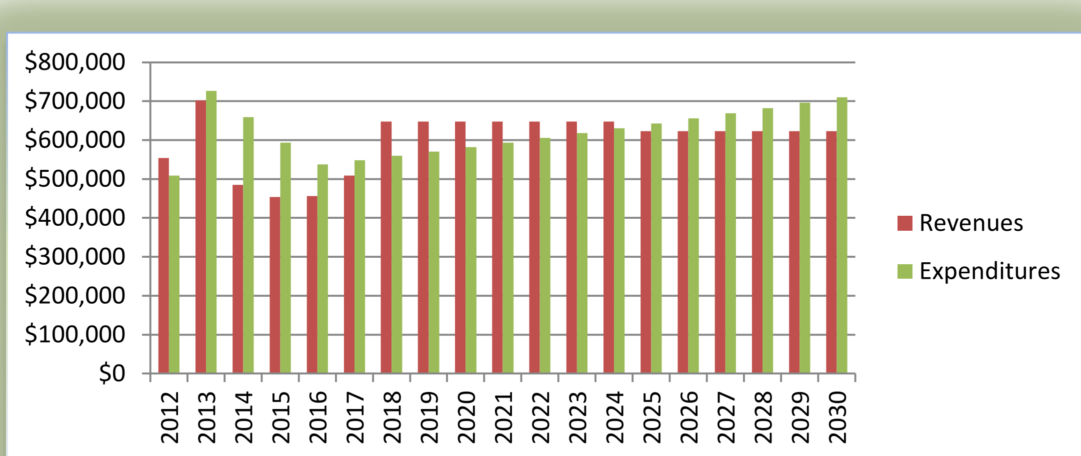
There are two scenarios I have projected which would indicate the surplus that would be gained by setting two different rates of a debt service fee. The first scenario presents a debt service fee of $21.80 per sewer connection per quarter for 3 years, and then lowering that debt service fee to $14.30 for the remainder of the debt which ends in FY2030. The purpose is to get the sewer fund out of the $171,000 hole rapidly, and then allow the surplus in sewer revenue to help rebuild what was previously used.



The fund will show a surplus through some time in 2024. This fund projection does not include a rate increase to the usage. That rate could remain at $0.44 per 100 gallons used. The next chart indicates what the sewer fund would look like through 2026 with no rate increase and no capital outlay expenditures:



The next chart shows the projected sewer fund balance should a debt service fee rate be set at $17.38 for 7 years and then reduced to $14.30 for the remaining 6 years of debt.



The final chart shows what the sewer fund would look like with the slower payback. In both scenarios, you can see how the deficit projected in 2024 would start to impact the fund. Again, it is important to note that this projection is with no capital outlay needs.

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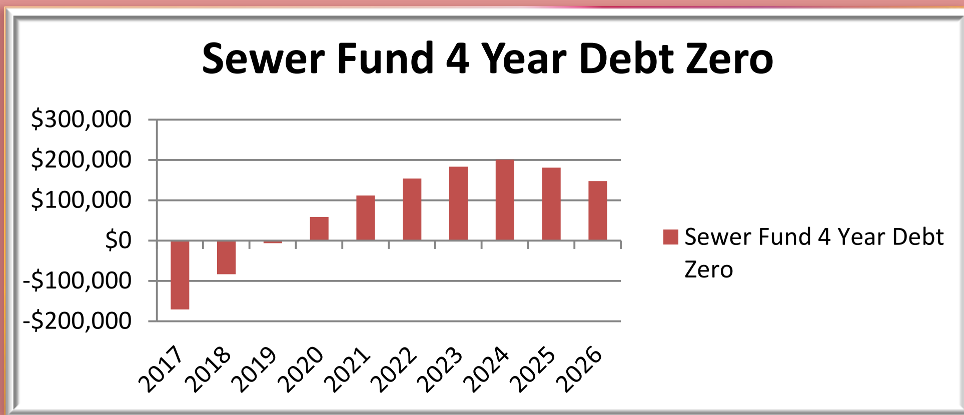

Utilizing the first suggested debt service fee schedule would provide a positive sewer fund balance in less than 3 years. The second scenario would take approximately 4 years to create a positive sewer fund balance. In either scenario, it is important to note that the need to increase the actual usage rate would not occur for at least the next 5 fiscal years. The expenditures projected include a 2% annual increase. It is quite possible that the rate increase is generous, which would thereby create more of a surplus. If that suggestion is correct, then a future rate adjustment would not be required until a later date.

Which method of debt service fee Council decides to select, if any, is the decision we face. I am seeking the recommendation of Council on which of these avenues you would like me to prepare for your approval.

Respectfully,

Andrew S. Kida

City Administrator