

Town of Oriental
Water Advisory Board Special Budget Meeting
March 10, 2014

A Special Meeting was held for the Town of Oriental Water Advisory Board to discuss the 2014-2015 Budget. Chairman Barton determined a quorum was present and opened the meeting at 1:30 PM.

PRESENT: Chairman Barton, Vice Chairman Mahan, Members DeChesser, Rittenhouse, Town Manager Cutler, Public Works Director Collett, Public Works Tech Cox, Commissioner Summers, Deputy Town Clerk Beyer

ABSENT: Member Warren Johnson (excused absence due to travel)

Chairman Barton opened the meeting and reviewed WAB budget review responsibilities. He also discussed the materials distributed prior to the meeting which included draft budget prepared by Town Clerk Heidi Artley; Introduction to Financial Management and Rate Setting handout; and DENR Budget worksheets.

Chairman Barton asked Town Manager Cutler if they used DENR guidelines and worksheets in preparing the Town budget. Mr. Cutler advised that they did not. Chairman Barton reviewed the requirements contained on the DENR PWSS web site and reviewed the requirements and worksheets.

- **Worksheet 1: Twenty Year Equipment Replacement Cost Plan.** The Department requires all PWS operators to demonstrate adequate capital to finance the replacement of system parts for the next 20 years.
- **Worksheet 2: Water System Budget.** The Department provides guidance to help financially account for the PWS and demonstrate positive cash flow. It defines operating reserve, emergency reserve and depreciation (optional) and how to calculate these budget lines.
- **Worksheet 3: Five Year Budget Projection.** The Department outlines requirements for extrapolating data contained in worksheet 2 over a five year plan that compares anticipated revenues with planned expenditures.
- **NC Water and Wastewater rates Dashboard.** The Dashboard, used by the Commissioners last year to set new rates was reviewed. We are in the red on cost recovery as we have been for many months. The reason for this is the cost of water plant repairs or how data is being entered into the State model.

Chairman Barton turned the floor over to Town Manager Cutler for presentation of his revision to the PWS 2014-2015 Budget.

- **Water Budget Overview (Manager Wyatt Cutler):**
 - **New Town Manager** – Diane Miller (Verbal Acceptance) well qualified with experience in Town of Havelock. While she has no specific PWS experience, she has written grants for PWS and is familiar with State processes.

- **Updated Budget Presentation.** Since questioning had already begun, Chairman Barton asked Vice Chairman Mahan for concurrence in combining the budget presentation topic with the Q&A topic she was scheduled to lead on the agenda with that of the budget presentation being made by Manager Cutler. Vice Chairman Mahan agreed and Manager Cutler led the budget discussion with Q&A from WAB members
 - WAB consensus is that the current methodology for determining and setting the budget spreadsheet is neither an accurate, nor compliant way to determine the budget and or/water rate increase impacts. It does not conform to Department guidelines and requirements.
 - The draft budget submitted to the WAB indicates a negative cash flow of \$16K. DENR requires a positive cash flow be demonstrated.
 - While it may be too far along into the 2014-2015 budget preparation process given required training and familiarization, a good faith attempt should be made to bring our budget process in line with DENR requirements.
 - For future budget planning the WAB advises using the DENR budget worksheets, coupled with discussions with the employees.
 - WAB recommends better recordkeeping (moving forward) to calculate employee hour estimates versus actual hours expended (the largest contributor to the Admin line item of the Water budget. The WAB believes current accounting of water plant hours is inadequate in budget estimating and accounting.
 - General agreement that we will need to add a Cross Connect Fee line item to the revenues since the Commissioners recently approved this new requirement.
 - A depreciation line item was included in budget expenses a couple of years ago. The WAB determined that we are not using a formula for correctly calculating depreciation nor is there complete understanding of what depreciation is. According to Manager Cutler, in the past this line item was known as “renourishment” or “rainy day fund”. The WAB stated its belief that the line item is arbitrarily derived.
 - The WAB observed there may be several factors contributing to the negative cash flow, these being (1) plant repairs and the impact of costs accrued in one year; (2) the way in which depreciation/replacement costs are being calculated; and (3) administrative expense fees charged to the water plant administration line item from the Town General Fund. The primary focus area was the Admin fee; and the way in which employee costs are estimated or accrued.
 - The WAB examined several aspects of the admin line and recommended areas that may need sharper clarity:
 - New employee hour estimate is 22 hours/week for general day-to-day system work/operations and 38 hours/week meter reading and testing; Manager Cutler originally said that there are no hours included for any maintenance

(to exercise the valves, repair and update the valves, flushing the valves, paint the building, etc.); but later in the meeting said there was some time included for maintenance included. This goes to the heart of WAB concerns about how employee time estimates are calculated and how they are accounted.

- The separate Admin Cost sheets (GF expense to WA Fund Budget) prepared by Heidi and Wyatt were compared and several items were noted which require clarification:
 - The total % of employees' time is equivalent to 1.2 fulltime employees, which does NOT equate to the 60 hours (equals 1.5 employees at 40 hours/week).
 - Josh is carried as having 75% of his time allocated to the water plant and system. This number was questioned. It was noted that a reduction in his time from 75% to 40% would by itself result in a positive vice negative ash flow.
 - The insurance, retirement, FICA numbers for the employees in Wyatt's spreadsheet did not match the numbers in Heidi's spreadsheet, and need to be confirmed.
 - The salary numbers have not been adjusted yet to reflect that two employees (total) are leaving and one employee is being promoted. As an example, Jason and Ralph are leaving Drew's salary is going up and should be budgeted as part of a review of how we are accounting for employee expenses.
 - Recommend Admin line items be clarified.

The WAB conclusion from the initial water budget presentation is that it is not satisfactory for presentation to the Town Commissioners. The WAB does not recommend that this budget be approved until line items can be better justified and a positive cash flow can be demonstrated.

The WAB does not recommend raising water rates at this time. There is insufficient data to raise rates for the Town of Oriental. Manager Cutler asked the WAB to consider examining moving toward a single rate system like the one used for Pamlico County. The WAB agreed it would look at this at a future meeting.

The WAB agreed to focus its regularly scheduled March 24, 2014 as a continuation of the budget discussion. In preparation for that meeting the WAB requested an updated budget worksheet from the Town Manager be prepared reflecting WAB concerns. Specific items recommended by the WAB are:

- Begin training and using DENR budget worksheets IAW State requirements ASAP. Use best estimates for this budget cycle.
- Recalculate and determine more credible employee expense estimates and accounting through time cards or other demonstrable means.
- Consider a competitive bid process for the Water Sampling and Water Tank Maintenance line items to reduce cost.
- Consider exploring other salt and chemical providers at lower costs.

- Consider removal of the depreciation line item and going back to creating line items for operating reserve and emergency reserve. If we continue to use depreciation, we recommend using a straight line depreciation tool based on manufacturer data. In either case, better accounting of how those expenses are derived is required.

There being no further business to discuss, Vice Chairman Mahan made a Motion to adjourn, Member Rittenhouse seconded. The meeting was adjourned at 4:15 PM.

Jim Barton, Chairman

Jayne Beyer, Secretary