

**Town of Thompson's Station
Utility Board
Meeting Minutes
January 15, 2020 6:00 p.m.**

Call to Order:

The meeting of the Utility Board of the Town of Thompson's Station was called to order at 6:00 p.m. on January 15, 2020 at the Thompson's Station Community Center with the required quorum. Members and staff in attendance were: Chairman Jeff Riden, Alderman Brian Stover, Bruce DiFrancisco, Joe Whitson, Skip Beasley, Town Administrator Ken McLawhon, Finance Director Steve Banks, Town Recorder/Clerk Regina Fowler and Town Attorneys Andrew Mills and Kirk Vandivort.

Minutes:

Consideration of the minutes of the December 18, 2019 regular meeting were presented. Mr. Stover made a motion to approve the December 18, 2019 regular meeting minutes. The motion was seconded and carried unanimously.

1. System Operators Update:

Town Administrator Ken McLawhon noted there were no major changes.

2. Update on Cell 1:

Town Administrator Ken McLawhon noted there were no major changes.

3. Hill Property Construction Update:

Matthew Johnson, Barge Design noted that half of the drip tubing footage has been installed. MTEMC met onsite and the acceptance of the easement on the portion of the access road where access has been cleared was completed. W & O has installed approximately 600' of the road and the first creek crossing has been completed. In the near future they will finish tubing, complete the access road for MTEMC and the continuation of the pipework and header pipe. The access road for MTEMC will be completed. According to W & O, inclement weather days in December has been an issue however, Barge will be addressing these issues with them. The completion date will change due to inclement weather days.

4. Smoke Testing Results for Canterbury:

Matthew Johnson, Barge design reported that no main line defects were detected. Of the thirty eight defects found, thirty six of those may need replacement cleanout caps which is a cheap and easy fix. The other two defects may be related to sewer services which will warrant further investigation. Determination will need to be made as to whether it is from the private or public side. These issues may warrant closed circuit tv. As a result, the following recommendations may be applicable, if not cleanout cap related it won't be an easy fix. Discussion will need to take place to determine how to handle the situation. If it is determined the defect is from the public side, a different type of discussion will need to take place to determine how it needs

To be handled. As a last resort, additional pump station data will need to be examined for any anomalies. Barge is not currently contracted to analyze any new data. That would entail additional discussion.

5. MTAS Rate Fee Study Results:

Ralph Cross with MTAS presented the following Wastewater Utility Revenue Sufficiency Study with consideration of Developer Contributions.

MTAS Mission:

- Update and expand the multi-year financial analysis of the wastewater utility from 2/18.
- Consider the financial impact of the updated capital improvement plan (CIP).
- Evaluate impact of new debt issued to fund the CIP.
- Evaluate the depreciation costs for the updated CIP.
- Recommend the amount of additional revenue required to comply with state mandates.

The Town of Thompson's Station is responsible for essential, complex, costly and highly regulated assets - EPA - TDEC - WWFB

Customer base is growing.

Where to Start

- Review the state requirements for the financial operation of public utilities.
- Focus
 - Bonded Debt
 - Total Net Position
 - Change in Net Position

Proprietary Fund

State Funding Requirements

- Wastewater Facilities Act of 1987
 - Created a Board to oversee financially distressed water/wastewater systems
 - Financial Distress:
 - Default on debt
 - Deficit in total net position
 - 2 consecutive years of negative change to net position
- Utilities under Board's oversight must submit a plan to eliminate losses or cure the default.

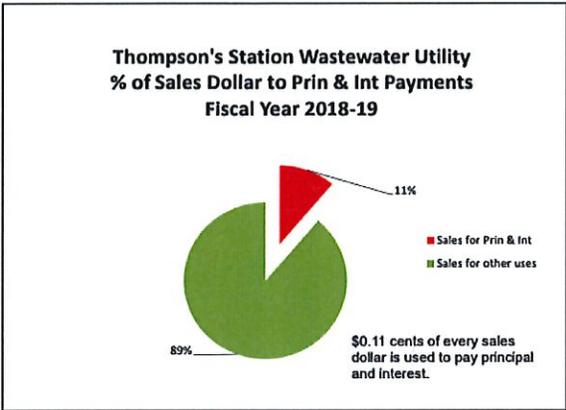
Debt/Debt Service

Existing Debt Service

Amortized principal and interest payments on outstanding debt.

Future Debt Service

Additional principal and interest payments projected on debt to be issued in the amount of \$13 million planned for Fiscal Year 2022-23.

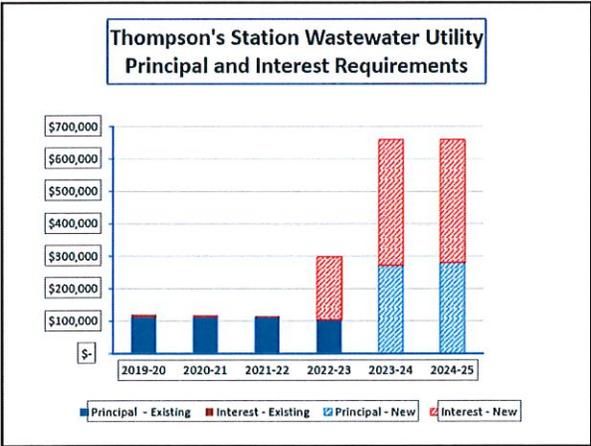


8

Debt Service

TYPE	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
EXISTING						
Principal	\$111,111	\$111,111	\$111,111	\$101,852	\$0	\$0
Interest	\$9,415	\$6,692	\$3,970	\$1,248	\$0	\$0
NEW						
Principal	\$0	\$0	\$0	\$0	\$271,414	\$279,669
Interest	\$0	\$0	\$0	\$195,000	\$386,288	\$378,033

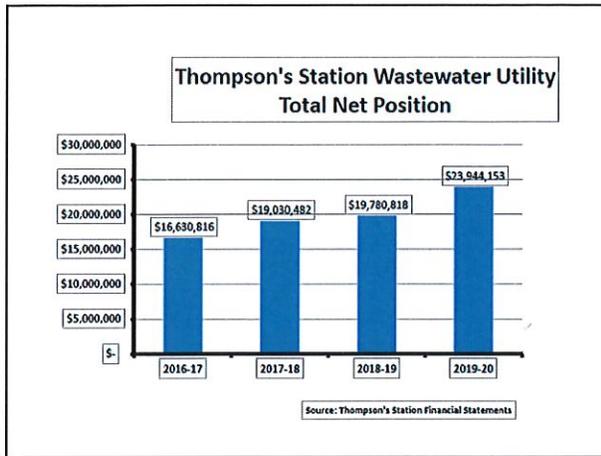
^



Total Net Position

Review of Total Net Position

“Total Net Position” has experienced growth for the past three fiscal years and is expected to increase again in FY 2019-2020.



Changes in Net Position/Review of "Changes in Net Position"

The Governmental Account Standards Board (GASB) and the State of Tennessee have different definitions for the term "Changes in Net Position".

GASB Definition of Change in Net Position

- Items that have a positive effect on net position
 - Positive income from operations
 - Positive nonoperating revenue (interest earnings)
 - Grants
 - Contributions
- Items that have a negative effect on net position:
 - Negative income from operations
 - Nonoperating expenses (interest payments)
 - Transfers out

Town of Thompson's Station Wastewater Utility Financial Review			
	FY 2016-17	FY 2017-18	FY 2018-19
Operating Revenue	\$873,635	\$972,721	\$1,140,000
Operating Expenses	\$1,105,810	\$988,163	\$898,274
Operating Income(Loss)	(\$232,175)	(\$15,442)	\$241,726
Nonoperating Rev (Exp)	(\$10,942)	\$22,126	\$6,110
Income (Loss) Before Contr	(\$243,117)	\$6,684	\$247,836
Capital Contributions	\$2,750,000	\$1,861,468	\$0
Capital Contr – Tap Fees	\$849,914	\$531,514	\$502,500
Changes in Net Position *	\$3,356,797	\$2,399,666	\$750,336

*Change in Net Position as defined by the Governmental Accounting Standards Board

Financial information from Town of Thompson's Station Audited Financial Reports

State of Tennessee Definition of Change in Net Position

- Items that have a positive effect on net position:
 - Positive income from operations
 - Positive nonoperating revenue (interest earnings)
 - Grants
 - Contributions
- Items that have a negative effect on net position:
 - Negative income from operations
 - Nonoperating expenses (interest payments)
 - Transfers out

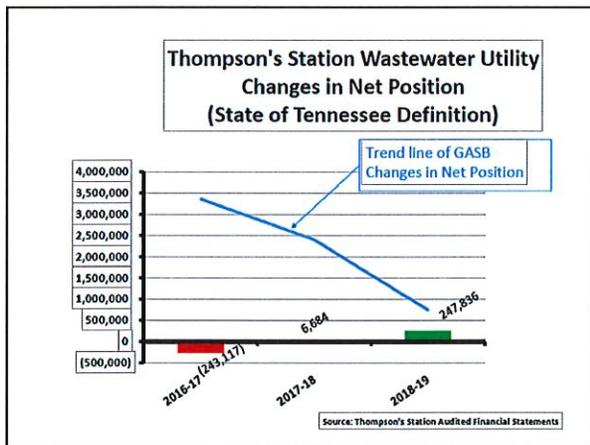
Town of Thompson's Station Wastewater Utility Financial Review				
	FY 2016-17	FY 2017-18	FY 2018-19	
Operating Revenue	\$873,635	\$972,721	\$1,140,000	
Operating Expenses	\$1,105,810	\$988,163	\$898,274	
Operating Income(Loss)	(\$232,175)	(\$15,442)	\$241,726	
Nonoperating Rev (Exp)	(\$10,942)	\$22,126	\$6,110	
Income (Loss) Before Contr	(\$243,117)	\$6,684	\$247,836	
Capital Contributions	\$2,750,000	\$1,861,468	\$0	
Capital Contr – Tap Fees	\$849,914	\$531,514	\$502,500	
Changes in Net Position *	\$3,356,797	\$2,399,666	\$750,336	

*Change in Net Position as defined by the State of Tennessee

Financial information from Town of Thompson's Station Audited Financial Reports

Comparison of the Difference in Definitions of Change in Net Position

	FY 2016-17	FY 2017-18	FY 2018-19
Audit			
State of TN	(\$243,117)	\$6,684	\$247,836
GASB	\$3,356,797	\$2,399,666	\$750,336



OBSERVATION

Thompson's Station Wastewater Utility has experienced an upward trend in income while changes in net position, as defined by GASB, show a significant decline for the last two fiscal years.

Looking to the future/Capital improvements needed for the wastewater system prioritized.

Town of Thompson's Station Wastewater Utility Capital Projects					
DESCRIPTION	PROJ COST FY 2019-20	PROJ COST FY 2020-21	PROJ COST FY 2021-22	PROJ COST FY 2022-23	PROJ COST FY 2023-24
1) Plant	\$3,101,500	\$4,000,000	\$4,000,000	\$13,000,000	\$0
3) Equipment					
- 20 year life	\$0	\$0	\$0	\$0	\$0
- 10 year life	\$566,435	\$0	\$50,000	\$0	\$50,000

Depreciation Projections					
TYPE	Fiscal Year 2020-21	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24	Fiscal Year 2024-25
Existing	\$450,000	\$450,000	\$450,000	\$450,000	\$450,000
Improvements	\$134,181	\$136,681	\$139,181	\$666,681	\$669,181
TOTAL	\$584,181	\$586,681	\$589,181	\$1,116,681	\$1,119,181

Depreciation is forecast based on the Capital Improvement Program.

CASE STUDY 1

Five Year Financial Forecast
 Without Consideration of Rate Adjustments

Revenue Assumptions-Case 1

- 8.5% annual growth in customer base
- No appreciable decline in sewer usage
- No rate increases
- Developers make significant contributions

<u>FY 2019-20</u>	<u>FY 2020-21</u>
\$3,400,000	\$3,200,000

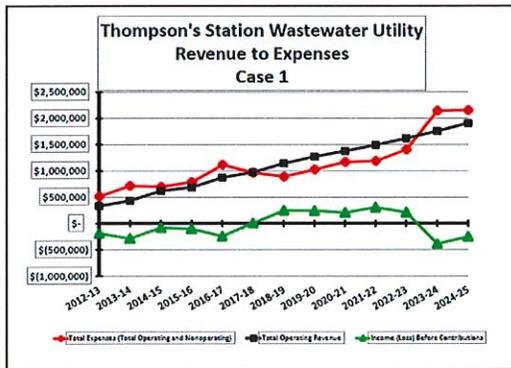
Expense Assumptions – Case 1

- Capital projects move forward as proposed (increasing depreciation expense)
- Additional debt issued in FY 2022-23
- Administration overhead expenses are applied
- Annual growth in expenses projected as follows:

• Salaries	3%
• Benefits	8%
• Utilities	5%
• Business Insurance	4%
• Other	3%

Financial Review – Case 1

1. The wastewater utility has experienced significant annual growth in the customer base over the past few fiscal years.
 2. The utility experienced a loss in FY 2016-17, but rebounded in FY 2017-18 and FY 2018-19, recovering from the loss and realizing positive income.
 3. Expenses are projected to rise due to additional depreciation and demands for service.
4. Projections indicate, due to the steady growth in customers, that operating revenues will continue to exceed expenses until FY 2023-24.
 5. At that time, the aggressive increase in depreciation expense (which must be funded as additions to the plant go online) and interest expense (due to the issuance of additional debt to fund the CIP) cause expenses to far exceed revenue.

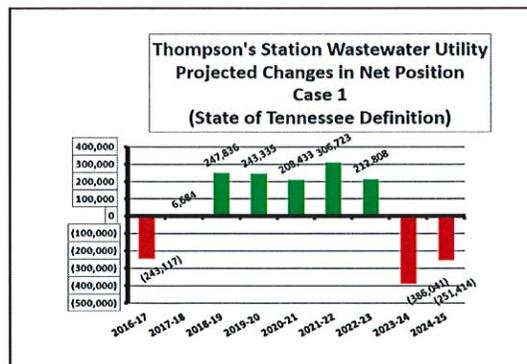


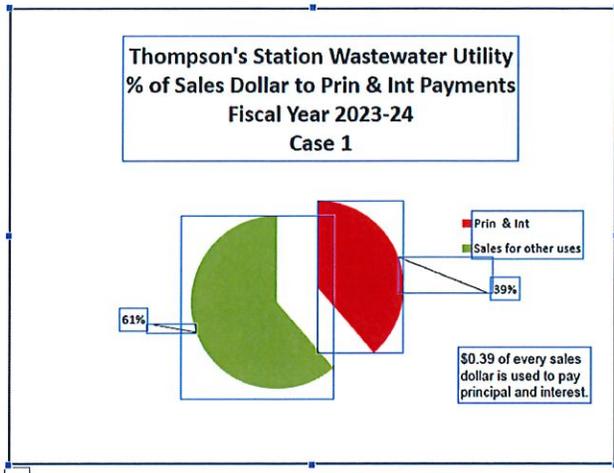
Observations for Funding Requirements of Case 1

1. The State of Tennessee's *new definition* of Change in Net Position requires the Town to address the financial condition of the Wastewater Utility without consideration of grants or contributions.
2. Projections indicate an inconsistent trend to Changes in Net Position until FY 2023-24 when the full impact of the rising costs of depreciation and interest expenses are realized.

Observations for Funding Requirements of Case 1

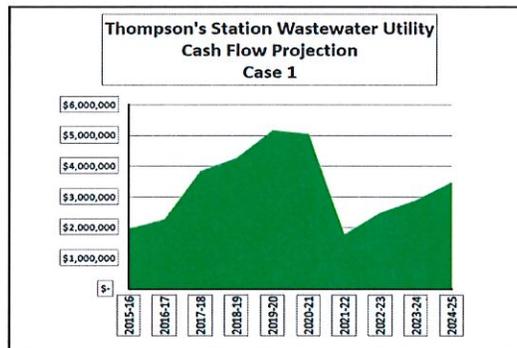
3. Higher levels of expenses for depreciation and interest will result in a significant negative change to net position beginning in FY 2023-24.
4. MTAS recommends the Town be sensitive to negative changes to net position throughout the study period. Two consecutive years of negative change to net position will trigger compliance issues for the utility with the Wastewater Facilities Act of 1987.





Cash Flow Observations for Case 1

1. If the developer contributions are received as expected and \$13 million of additional debt is issued in FY 2022-23, the cash balance is projected to remain positive throughout the study period.
2. Aggressive spending on the CIP plan will deplete the developer's capital contributions by the end of FY 2021-22.



CASE STUDY 2

Five Year Financial Forecast with Consideration of Rate Adjustments

Revenue Assumptions – Case 2

- 8.5% growth in customer base
- No appreciable decline in sewer usage
- Developers make significant contributions

FY 2019-20	FY 2020-20
\$3,400,000	\$3,200,000

Revenue increases are applied as follows:
Annual Wastewater Revenue Increases:

07/01/20	07/01/21	07/01/22	07/01/23	07/01/24
3%	3%	3%	3%	3%

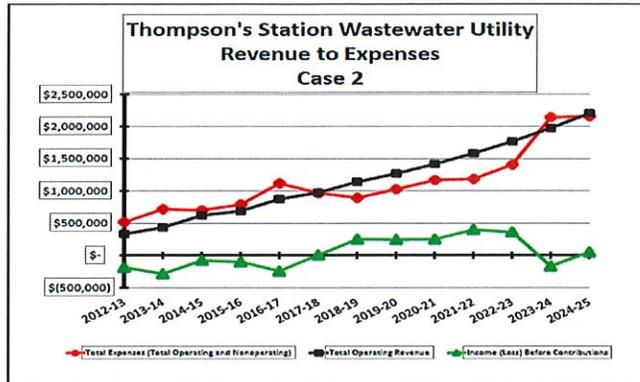
Expense Assumptions – Case 2

- Capital projects move forward as proposed (increasing depreciation expense)
- Additional debt is issued in FY 2022-23
- Administration overhead expenses are applied
- Annual growth in expenses projected as follows:

• Salaries	3%
• Benefits	8%
• Utilities	5%
• Business Insurance	4%
• Other	3%

Financial Review – Case 2

1. The same financial conditions hold as previously described for Case 1.
2. The implementation of annual adjustments to revenue provides for a gradual improvement of revenue performance over expenses during the study period.
3. Given the annual adjustments to revenue, the aggressive rise in expenses in FY 2023-24 is much more manageable.



44

Observations for Funding Requirements for Case 2

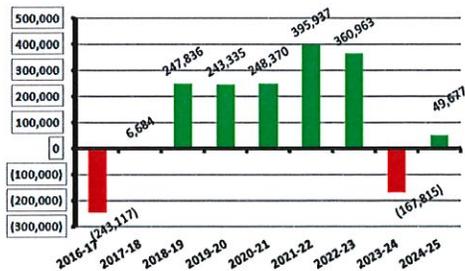
1. Projections indicate the application of annual revenue adjustments moderates the inconsistent trend to Changes in Net Position during the study period.
2. MTAS recommends the Town monitor the financial performance of the Wastewater Utility in FY 2022-23 in an attempt to achieve a positive change in net position.



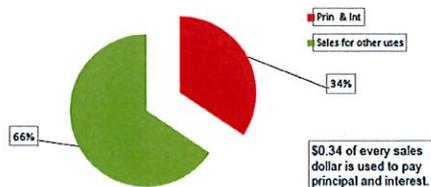
Observations for Funding Requirements for Case 2

3. When the full impact of the rising costs of depreciation and interest expenses are realized in FY 2023-24, a negative change in net position is all but unavoidable.
4. If both FY 2022-23 and FY 2023-24 both have negative changes to net position, this would trigger compliance issues with the Wastewater Facilities Act of 1987.
5. MTAS recommends the Town attempt to avoid this situation.

Thompson's Station Wastewater Utility Projected Changes in Net Position Case 2 (State of Tennessee Definition)

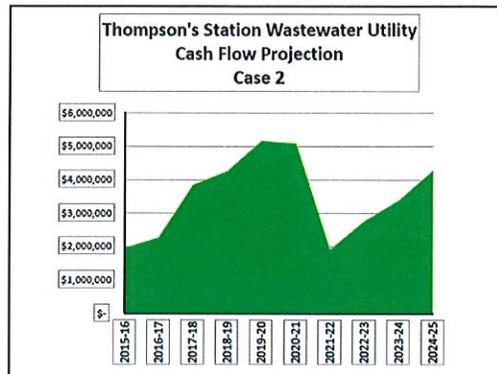


Thompson's Station Wastewater Utility % of Sales Dollar to Prin & Int Payments Fiscal Year 2023-24 Case 2



Cash Flow Observations for Case 2

1. If the developer contributions are received as expected and \$13 million of additional debt is issued in FY 2022-23, the cash balance is projected to remain positive throughout the study period.
2. Aggressive spending on the CIP plan will deplete the developer’s capital contributions by the end of FY 2021-22.



Comments

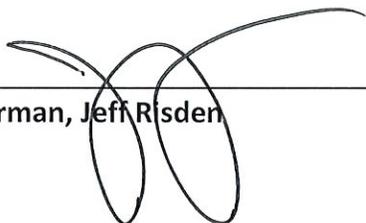
1. To remain in compliance with the Wastewater Facilities Act of 1987, municipal utilities must have a positive change to net position at least every other year.
2. Current projections indicate, if revenue adjustments are enacted and the Town actively manages expenses, the Wastewater Utility can reasonably expect compliance within the state guidelines.
3. MTAS recommends the Town be sensitive to the financial performance of the Wastewater Utility.

An Open-House was discussed for possible presentations of the following:

- Matthew Johnson, Project Manager – Barge Design Solutions
- Ralph Cross, Consultant - MTAS
- Jim Marshall, Consultant – Jackson Thornton

Adjourn:

There being no further business, the meeting adjourned at 7:22 p.m.



Chairman, Jeff Risdien