

**CITY OF KINGMAN
MUNICIPAL UTILITY COMMISSION
Council Chambers
310 N. 4th Street**

5:30 p.m.

AGENDA

Thursday, February 26, 2015

REGULAR MEETING

COMMISSION MEMBERS: Chairman Allen Burgett, Vice Chairman Mike Van Zandt,
Toby Orr, Aline Parker, Paul Shuffler, Marvin Yarbrough
Pat Yarush

COUNCIL LIAISON: Councilmember Jen Miles

CALL TO ORDER AND ROLL CALL

APPROVAL OF MINUTES

The Regular Meeting Minutes of January 22, 2015.

1. PAST COUNCIL ACTION:

None

2. OLD BUSINESS: (for review, comment and/or action)

None

3. NEW BUSINESS: (for review, comment and/or action)

a) Review & Discussion of Open Meeting Laws presented by City Clerk, Sydney Muhle.
Handouts will be provided.

b) Review of Water and Wastewater Report including Financial Conditions, Cash Reserves
and 5-Year Capital Improvements Plan; MUC Recommendation to Council for Use of
Funds or Rate Modifications.

4. CONSIDERATION & DISCUSSION OF PUBLIC COMMENTS

Those wishing to address the Commission need not request permission in advance. Action taken as a result of public comment will be limited to directing staff to study the matter of rescheduling the matter for further consideration and decision at a later date, pursuant to A.R.S. 38.431 et al.

5. COMMISSIONER'S COMMENTS

Limited to announcements, availability/attendance at conferences and seminars, requests for agenda items for future meetings and requests for reports from staff.

ADJOURNMENT

ANYONE REQUIRING SPECIAL ASSISTANCE AND/OR ACCOMMODATIONS AT THE PUBLIC MEETING SHOULD CONTACT THE CITY ENGINEERING DEPARTMENT AT 928-753-8122 AT LEAST 24 HOURS IN ADVANCE, SO THAT APPROPRIATE ARRANGEMENTS CAN BE MADE

Posted- Date/Time/Initials _____

CITY OF KINGMAN
MUNICIPAL UTILITY COMMISSION
MEETING
Council Chambers
310 N. 4th Street

5:30 p.m.

Minutes

Monday, January 22, 2015

COMMISSIOENERS:	Staff Present:	Visitors Signing In:
Marvin Yarbrough	Mike Prior, Assistant City Engineer	Joe O'Neill
Mike Van Zandt, Vice Chairman	Frank Marbury, Assistant City Engineer	Rhonda Yarbrough
Allen Burgett, Chairman	Phil Allred, Assistant City Engineer	
Toby Orr	Tina Kennedy, Utility Administrator	
Aline Parker	Melody Stewart, Recording Secretary	
Paul Shuffler-Absent	Sydney Muhule, City Clerk	
Pat Yarush		
Council Liaison Miles-Absent		

REGULAR MEETING

CALL TO ORDER AND ROLL CALL

Commissioner Yarbrough called the meeting to order at 5:30 p.m. with five commissioners present at the time of roll call. Commissioner Orr arrived after roll call was taken and Commissioner Shuffler and Council Liaison Miles were absent.

ELECTION OF THE 2015 CHAIRPERSON AND VICE CHAIRPERSON. Commissioner Parker made a **MOTION** to **NOMINATE** Allen Burgett as the Municipal Utility Commission Chairman. Commissioner Yarush **SECONDED** the **MOTION** and it was **APPROVED** by a vote of **6-0**.

Commissioner Yarbrough made a **MOTION** to **NOMINATE** Vice Chairman Van Zandt to continue as Vice Chairman. Chairman Burgett **SECONDED** the **MOTION** and it was **APPROVED** by a vote of **6-0**.

APPROVAL OF THE MINUTES

Commissioner Yarbrough made a **MOTION** to **APPROVE** the minutes from the November 24, 2014 meeting as written. Commissioner Parker **SECONDED** the **MOTION** and it was **APPROVED** by a vote of **6-0**.

1. **PAST COUNCIL ACTION:**

- a) **Ordinance 1788-Text changes to the Utility Regulations regarding the waiver of the sewer investment fees.** Assistant City Engineer Mike Prior introduced himself in the absence of City Engineer Greg Henry. Assistant Engineer Prior gave an update of the recommendation that went to the City Council on December 16, 2014. He stated Council denied recommendation stating it delayed the process and discouraged people from connecting.

- b) **Ordinance 1789- Text changes to the Utility Regulations regarding the definition of “availability” for existing homes with failed septic systems.** Assistant City Engineer Prior stated that the Council also denied the text change of “availability” .

Chairman Burgett commented that staff worked hard over several months with several hours of discussion and he was shocked and surprised that City staff’s recommendation was to deny the text changes.

Commissioner Orr stated Council has to realize that Kingman is not a high income town. We are a poor town and it would be nice to impose rules and restrictions; however the income is not here and this is imposing extra burden on people who cannot afford it. He continued these people will just move into the county because people are struggling citywide.

Commissioner Orr stated Kingman will become an island and Mohave County will continue to grow. He stated that Bullhead City and Lake Havasu will grow and Kingman will have restricted growth with less & less appeal.

Commissioner Parker asked how many people have willingly pulled permits and connected to sewer. Commissioner Parker stated it seems that every person that wants to hook to sewer comes in front of the commission and there have been hardships with the general public as far as connecting to sewer.

Commissioner Parker requested that staff look at the number of sewer service connection completed within the last two years and at the number of sewer connection variances that have come before MUC in the same time frame.

Commissioner Yarush stated originally when these issues first came about it was because there were not enough people participating and the Commission wanted to create incentives for the public to want to connect to sewer sooner.

Further discussion determined the Commissioners were shocked that staff did not recommend the changes to the Council and they would have liked to express their concerns to Council Liaison Miles.

Assistant City Engineer Prior advised the Commissioners of the 3 block CDBG sewer line extension project on Beverly Avenue with 44 connections available. There were 12 residents that qualified for CDBG funding and 8 residents who connected that did not qualify. Others will not connect unless forced through septic failure.

2. **OLD BUSINESS:** (for review, comment and/or action)
None
3. **NEW BUSINESS:** (for review, comment and/or action)

- a) **Review & Recommendation of request for variance to use overhead power for electric service at 309 Maple Street (303-06-040), by Joseph A. O'Neill, Owner/Applicant.** Assistant City Engineer Frank Marbury said the City Ordinance reads the utilities should be placed underground and City Council being the only authority to approve for overhead utilities. He continued the homeowner had requested the variance due to rock excavation and in keeping with the character of the neighborhood where many of the adjacent homes have overhead utilities. Engineer Marbury stated staff would recommend Mr. O'Neill's request.

Mr. O'Neill thanked staff for considering his request. He continued the rock makes it very difficult to dig and there are no services on Maple. He said service would have to come off of Chestnut.

After further discussion the Commissioners determined the distance required for the power poles and there was no other opposition known. Commissioner Yarbrough agreed that the surrounding area has overhead utilities.

Commissioner Orr asked about the policy on underground versus overhead and if all new construction had to be underground.

Engineer Marbury quoted City Ordinance 9-5 stating that Council would have to approve the overhead variance. He continued all new construction is required to be underground.

Commissioner Yarbrough made a **MOTION** to **APPROVE** the request for **VARIANCE**. Commissioner Yarush **SECONDED** the **MOTION** and it was **APPROVED** by a vote of **6-0**.

- b) **Review and Recommendation of the 2015 Municipal Utility Commission Meeting Calendar.** Recording Secretary Melody Stewart provided the Commissioner's with the possible alternate meeting dates in November and December of 2015 that conflict with the 2015 holidays. After a discussion was held the commission voted to change the November 26, 2015 to Monday November 23, 2015 and the December 24, 2015 date will be changed to Monday December 21, 2015 all at 5:30 p.m.

Commissioner Yarbrough made a **MOTION** to change the meeting dates of November and December to the Monday's of those respective weeks to November 23, and December 21 at 5:30.

Commissioner Van Zandt **SECONDED** the **MOTION** and it was **APPROVED** by a vote of **6-0**.

4. **CALL TO THE PUBLIC- COMMENTS FROM THE PUBLIC**

Those wishing to address the Commission need not request permission in advance. Action taken as a result of public comment will be limited to directing staff to study the matter of rescheduling the matter for further consideration and decision at a later date, pursuant to A.R.S. 38.431 et al.

There were no comments

5. **COMMISSIONER'S COMMENTS**

Limited to announcements, availability/attendance of conferences and seminars, requests for agenda items for future meetings and requests for reports from staff.

There were no comments

Commissioner Yarush made a **MOTION** to **ADJOURN**. Commissioner Parker **SECONDED** The **MOTION** and it was **APPROVED** by a vote of **6-0**.

ADJOURNMENT: 5:53 p.m.

DRAFT

AGENDA ITEM

3-B

CITY OF KINGMAN MUNICIPAL UTILITIES COMMISSION



TO: Municipal Utilities Commission

FROM: Tina D. Moline, Finance Administrator

MEETING DATE: February 26, 2015

AGENDA SUBJECT: Review of Water and Wastewater Report Including Financial Condition, Cash Reserves and Five Year Capital/Infrastructure Improvements Plan; MUC Recommendation to Council for Use of Funds or Rate Modifications

SUMMARY: A review of the City's audited financial statements including revenue and operating expenses, the 5 year proposed capital improvements plan, and overall discussion of the customer rate burden and desired collection system expansion and water system improvements is requested. After review and discussion, a recommendation from the Municipal Utilities Commission to the City Council is desired.

ATTACHMENT: Attachments include:

- Water and Wastewater Report
- Comprehensive Annual Financial Report Enterprise Fund Info
- Water and Wastewater Financial Exhibits
- Wastewater Rate Reduction Comparison
- Fund Balance Policy

RECOMMENDATION: It is recommended the Municipal Utilities Commission review the water and wastewater reports and financial condition and forward any desired changes, amendments or recommendations to the City Council.


Signature of Dept. Head

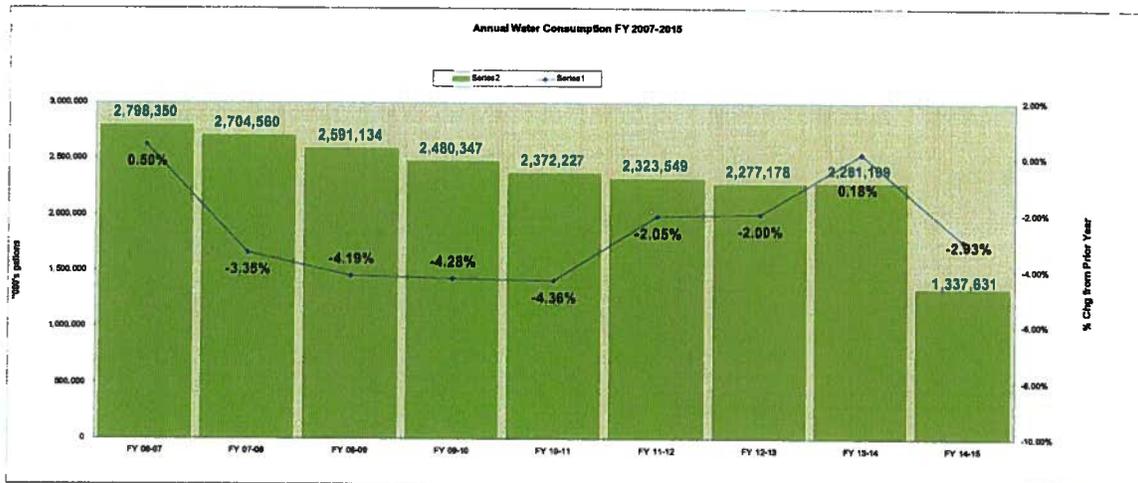
AGENDA ITEM:

Water and Wastewater Report

Background

The City of Kingman utilities systems serve approximately 18,750 water and 9,390 wastewater customers. Each of the City's water and wastewater utilities are operated as enterprise funds, meaning they are effectively separate business units. The only sources of revenue for these individual units are water sales and connection fees; and wastewater charges and development investment fees (*note: wastewater development investment fees are solely dedicated to paying for the growth related portion of debt service for the expansion of the Hilltop and Downtown Wastewater Treatment Plants.*) No property taxes, fuel taxes, or other transaction privilege taxes flow directly into these enterprise funds; and enterprise funds are accounted for separately in the City's financial statements.

The City's water rates are a tiered structure whereby the cost per thousand gallons increases in tiers for higher usage. This structure was implemented as part of an active water conservation program. Together, with the added factor of a recessionary economy and increased wastewater rates, water consumption and the related revenue derived from sales has been reduced (see graph below).



The utilities financial status is reviewed at municipal workshops and meetings no less than on an annual basis, during which maintenance and operational needs of the systems, capital projects, revenue from water and wastewater charges and overall customer rate burdens are reviewed and evaluated. The City's audited financial statements, adopted budgets and rate structures are reviewed annually by the Arizona Water Infrastructure Finance Authority. The last five years of the City's comprehensive audited financial reports, budgets and capital improvements plans, and rate study can be viewed on the City's website www.cityofkingman.gov.

Current Rates

Water Rates

The current water rates are comprised of a base rate and capital renewal fee (flat monthly charge per meter) plus a consumption charge with tiered rates depending on the quantity of water used in each consumption tier. On January 1, 2013, there was a \$2 decrease in the water base rate.

Block	Blocks	Volume Rates	
		Inside City	Outside City
	(kgals)	\$/kgal	\$/kgal
1	0 to 10	\$1.93	\$2.60
2	10 to 45	\$2.42	\$3.28
3	Over 45	\$3.64	\$4.91
Non-Residential			
All Usage			
		\$2.18	\$2.95
Irrigation			
1	0 to 200	\$2.42	\$3.28
2	Over 200	\$3.64	\$4.91
All Customers			
Base Service Charge		\$7.21	\$9.64
Capital Renewal Charge		3.75	3.75
Total Base Charge		\$10.96	\$13.39

Water Connection Fees

Development investment (impact) fees were repealed in January 2012 and the funding source moved to a meter connection fee based on meter size.

STANDARD SIZE (INCHES)	CITY LIMITS	OUTSIDE CITY LIMITS	COMPOUND METER (INCHES)	CITY LIMITS	OUTSIDE CITY LIMITS	TURBO METERS (INCHES)	CITY LIMITS	OUTSIDE CITY LIMITS
5/8" by 3/4"	2,500.00	2,625.00	2" cost/materials plus	28,340.00	28,785.00	2" cost/materials plus	28,340.00	28,785.00
1"	9,405.00	9,710.00	3" cost/materials plus	56,500.00	57,345.00	3" cost/materials plus	56,725.00	57,645.00
1 1/2"	18,550.00	18,965.00	4" cost/materials plus	82,563.00	83,858.00	4" cost/materials plus	86,313.00	88,858.00
2" cost/materials plus	29,210.00	29,655.00	6" cost/materials plus	176,180.00	178,725.00	6" cost/materials plus	183,680.00	188,725.00
						10" cost/materials plus	428,980.00	442,775.00

Wastewater Rates

The current wastewater rates are comprised of a base rate (flat monthly charge per connection) plus a monthly sewer user charge. The sewer user charge is computed based on the actual monthly metered volume of water used by the customer and the expected wastewater strength. Further, the *residential* sewer user charge is computed based on the actual monthly metered volume of water used by that customer during December, January, and February (billed in January, February, and March). During these months the actual usage is multiplied by the current residential sewer rate per 1,000 gallons. These three months of water usage establish the winter quarter average. All other months' sewer user charges are based on the winter quarter average consumption multiplied by

the current residential sewer rate. In the event the actual monthly consumption is less than the winter quarter average consumption, the actual consumption is used. The user charge is intended to distribute the costs of operation, maintenance, and an equitable share of debt service of the sewer system to users in direct proportion to use.

Table 2					
Wastewater Rates (effective Jan 1, 2013)					
Note: Rates are per 1000 gallons					
<u>Standard Classification</u>	<u>Flow</u>	<u>Bod</u>	<u>SS</u>	<u>Total</u>	<u>Monthly Fixed Chg</u>
Residential	\$2.748	\$1.418	\$1.497	\$5.663	\$27.803
Auto Steam Clean	\$2.748	\$8.736	\$9.981	\$21.466	\$27.803
Bakery Wholesale	\$2.748	\$7.597	\$4.784	\$15.129	\$27.803
Bars without Dining	\$2.748	\$1.509	\$1.600	\$5.856	\$27.803
Car Wash	\$2.748	\$0.144	\$1.198	\$4.090	\$27.803
Department / Retail Stores	\$2.748	\$1.131	\$1.198	\$5.077	\$27.803
Hospital / Convalescent	\$2.748	\$1.896	\$0.803	\$5.446	\$27.803
Hotel / Motel with Dining	\$2.748	\$3.785	\$4.796	\$11.329	\$27.803
Hotel / Motel without Dining	\$2.748	\$2.350	\$0.955	\$6.053	\$27.803
Industrial Laundry	\$2.748	\$5.095	\$5.426	\$13.269	\$27.803
Laundromat	\$2.748	\$1.131	\$0.882	\$4.761	\$27.803
Commercial Laundry	\$2.748	\$3.413	\$1.913	\$8.074	\$27.803
Market with Garbage Disposal	\$2.748	\$6.073	\$6.393	\$15.214	\$27.803
Mortuaries	\$2.748	\$6.073	\$6.393	\$15.214	\$27.803
Professional Office	\$2.748	\$0.984	\$0.633	\$4.365	\$27.803
Repair Shop / Service Station	\$2.748	\$1.362	\$2.229	\$6.340	\$27.803
Restaurant	\$2.748	\$8.344	\$4.799	\$15.891	\$27.803
School / College	\$2.748	\$0.984	\$0.791	\$4.523	\$27.803
Soft Water Service	\$2.748	\$0.026	\$0.442	\$3.217	\$27.803
Government / Public Buildings	\$2.748	\$0.984	\$0.633	\$4.365	\$27.803
Churches	\$2.748	\$0.984	\$0.791	\$4.523	\$27.803
Apartments	\$2.748	\$1.509	\$1.600	\$5.856	\$27.803
Mobile Home Parks	\$2.748	\$1.509	\$1.600	\$5.856	\$27.803
Storage, Wholesale	\$2.748	\$1.131	\$1.198	\$5.077	\$27.803
Industrial Manufacturing	\$2.748	\$1.509	\$1.600	\$5.856	\$27.803
Jail	\$2.748	\$3.785	\$4.796	\$11.329	\$27.803
Septage	\$2.748	\$41.054	\$95.936	\$139.737	\$27.803

Wastewater Treatment Plants – Upgrade and Expansion Overview

The design, engineering and construction of the Hilltop Wastewater Treatment Plant (HTWWTP) and Downtown Wastewater Treatment Plant (DTWWTP) are complete. The HTWWTP located north of Kingman was last upgraded in 1992 and included a wetlands area for discharge. In the case of the HTWWTP, the level of nitrates in test discharge areas adjacent to the facility exceeded allowable standards, was approaching capacity and was no longer able to treat sewer effluent to the standards required by the United States Environmental Protection Agency and the Arizona Department of Environmental Quality (ADEQ). The DTWWTP had similar findings from ADEQ in regard to an unacceptable level of nitrates found in test discharge areas and the plant discharged to an adjacent wash and consequently, had strict requirements on the quality of effluent. The DTWWTP was last upgraded in 1971 with two aerated lagoons and disinfection. Prior to this, there existed some other form of lagoon treatment system since the late 1930's.

Planning for the upgraded plants began in the mid 2000's. Studies were commissioned and several alternatives were examined in an effort to determine the most feasible solution for upgrading both plants. New locations were looked at as well as piping and pumping effluent to other areas. The most feasible alternatives were determined to be rebuilding the facilities on existing sites using proven treatment technology.

In order to remain in compliance with lending requirements and have sufficient cash flows, rate adjustments for wastewater were necessary. An October 2008 rate study included annual adjustments to the water and wastewater development investment fees as well as the monthly user fees; however, subsequent legislation dramatically changed the reporting and use of development investment fees overall. Water investment fees were repealed by the Kingman City Council in January 2012 and continuation of sewer investment fees are only permitted as an existing pledge for debt service associated with additional plant capacity. With an overall decline in the economy and diminished new construction between 2008 and January 2013, sewer user fees were adjusted upward to cover the shortfall in sewer investment fees in order to remain in compliance with lending requirements.

Efforts to Reduce Costs

Although it was necessary to move forward with certain capital improvements during a recessionary time, staff worked diligently to mitigate operating and capital investment costs associated for both the water and wastewater utilities systems.

Wastewater

The HTWWTP upgrades and expansion had a final cost of \$33.7 million, approximately \$1.3 million below the estimated cost of \$35 million. Substantial annual operating costs of about \$70,000 in tipping fees and \$100,000 in capital equipment for the disposal of biosolids were saved by a City staff idea to compost biosolids with tree trimmings from City parks. These biosolids and trimmings are ground together and then reused. The reuse of this material has also resulted in cost savings for the parks department and the

municipal golf course. There is future potential the composted material could be sold thus creating a possible revenue stream to offset rates.

There is also the potential to sell A+ quality effluent from the HTWWTP which would provide another source of revenue to pay for the tertiary facility including capital equipment and energy costs for the additional treatment.

During the design phase of the DTWWTP, the City procured a construction manager to provide input on design. This resulted in cost savings measures and ideas being included during design. The City also used internal staff rather than project field inspectors during construction, and assisted with management and administration of the project resulting in estimated savings of about \$1.5 million.

Solar photovoltaic array panels were installed at the DTWWTP and placed adjacent to the operations building. The panels feed into the electrical metering system to counter electrical use resulting in energy cost savings at the facility.

During decommissioning of the old plant, the contractor researched alternatives and worked to install used parts and equipment for temporary needs thus saving additional thousands of dollars. For example, three used aerators were purchased for \$3,000 each plus transportation and reconditioning and used for the additional aeration needed during decommissioning of the first lagoon. The cost of new aerators was about \$30,000 each. Purchasing used rather than new for the temporary need of additional aerators resulted in a savings of approximately \$80,000, and the used aerators were resold.

Another example of cost savings came from a change in fencing of the DTWWTP. The plans called for a block wall around the entire plant. After a review of the cost and purpose of the wall, it was decided a block wall should be constructed for protection around more sensitive areas of the plant and chain link fence would suffice for other areas. The City was also able to eliminate a building over the membrane biological reactor which reduced costs significantly. The contractor, engineering firm and staff also worked together to save costs by forming structures differently, they saved on rebar, and other value engineering.

The DTWWTP was determined to be located in a flood plain and the City was required to include channelization and a box culvert to protect the treatment plant from a 100 year flood and to provide all-weather access. Because these measures were directly related to flood issues, the City was able to utilize flood control funds for this piece of the project rather than include this cost in wastewater user fees.

Based on the necessity to greatly increase the City's wastewater user fees to fund the debt service for the wastewater treatment plant projects, the City surpassed the threshold to qualify as an underprivileged community under the EPA guidelines. This designation combined with the photovoltaic solar features installed at the DTWWTP project was the basis for the Water Infrastructure Finance Authority of Arizona to grant \$2.1 million in forgivable principal to the City of Kingman. The forgivable principal is a very substantial savings for the community.

The City also received a donation of soil valued at approximately \$775,000 from the Lingenfelter family. Other cost savings measures associated with the wastewater treatment plant projects include a reduction in the estimated legal and financial costs as well as the City declining reimbursement of capitalized interest. While the purpose of this was to ensure available loan funds for construction costs, this will save wastewater customers approximately \$883,000 in interest and principal financing costs over the 20 year life of the loan.

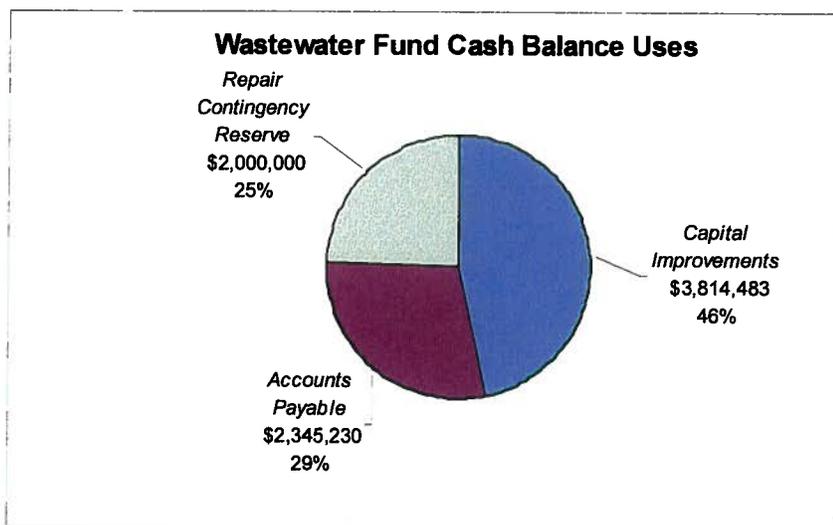
Water

The City installed variable frequency drive pumps on city well 11 and at both wastewater treatment plants. We received a rebate for this and will see energy savings in the future. Further energy savings will occur with the replacement of natural gas engines with combination units which will allow us to take advantage of off-peak pricing of electricity and will maximize off-peak demand gas and electric usage. Also in progress are improvements to the pressure zones and water system as a whole. The completion of the installation of a transmission main from Rattlesnake Tank to Rancho Santa Fe Tank will allow the City to decrease pressure zones and maximize pumping efficiency. From a budgetary standpoint, the water department eliminated 5 positions since 2007 and the engineering department eliminated 7 positions thus significantly reducing personnel costs.

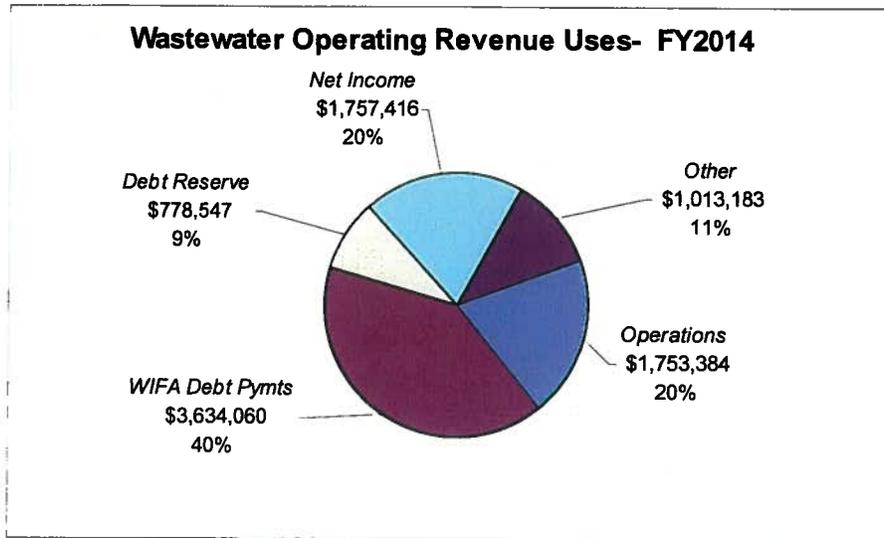
Financial Condition

Wastewater

At the end of fiscal year 2014, the wastewater utility system recorded \$66.8 million in assets, \$41.3 million in liabilities, leaving a total net position of \$25.5 million. The net position includes required debt service reserve of \$3.4 million and \$8.1 million in cash balances. This cash is further designated for use for \$2.3 million in accounts payable at the end of the fiscal year, along with \$2 million for contingency repairs leaving approximately \$3.8 million available for capital projects.



Operating revenue received for the year totaled \$8.9 million. Of that revenue, 40% or \$3.6 million was spent on debt service payments; 20% or \$1.8 million was used for wastewater system operating costs; \$1 million for City engineering department, utility billing, and other administrative costs; \$778,000 for debt reserve; leaving a cash balance available for appropriation of \$1,757,000.

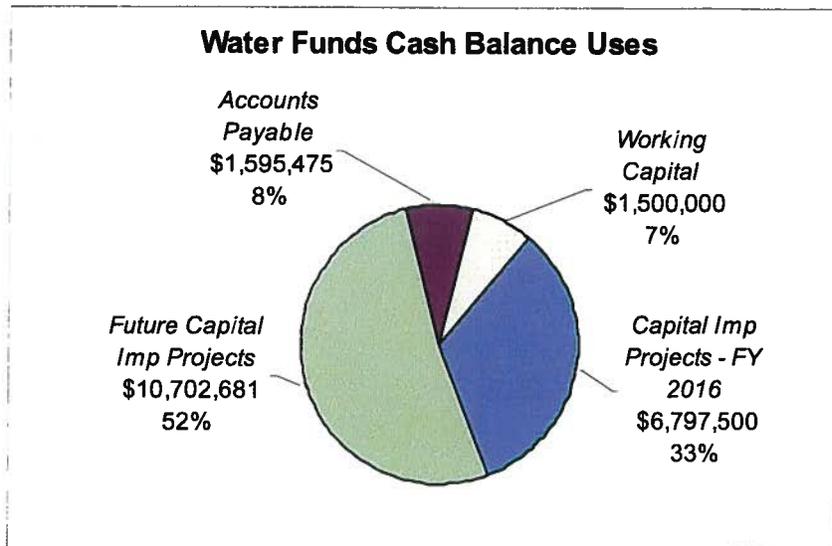


Financial statement information using a balance sheet and income statement format are included at the end of this report for further reference and review.

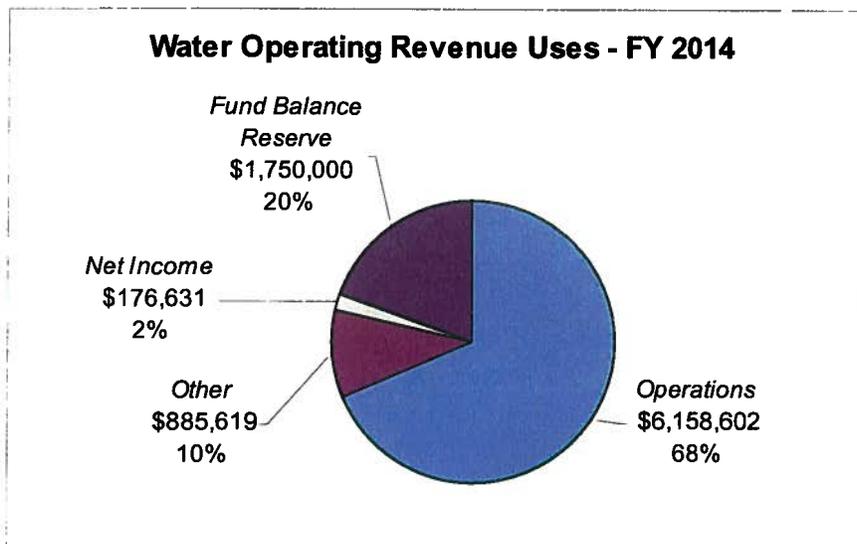
Water

The water utility system includes funds designated for water operations, including engineering, utility billing and administrative costs; capital renewal fees for repair and replacement of infrastructure; system connection fees used for capital projects; and restricted funds for the development of water resources.

At the end of fiscal year 2014, the water system had \$44.9 million in assets, \$1.8 million in liabilities, leaving a total net position of \$43.1 million. The net position includes approximately \$20.6 million in cash balances designated for use as follows: \$1.6 million in accounts payable at the end of the fiscal year, along with \$6.8 million for next year's capital projects, \$1.5 million for working capital, and approximately \$10.7 million available for future capital projects planned within the next 5 years.



Operating revenue received for the year totaled \$9.0 million. Of that revenue, 68% or \$6.2 million was used for operating costs; \$886,000 was used for City administrative costs; \$1.7 million for contingency reserve; leaving a cash balance available for appropriation of \$177,000.



Financial statement information using a balance sheet and income statement format are included at the end of this report for further reference and review.

Wastewater Rate Review

Discussion of desired use of balances, appropriate level of user rates, economic and environmental impacts, and system expansion has been the focus of many City Council, Municipal Utilities Commission, staff and customer discussions. A common theme in all discussions is the desire to increase the number of wastewater customer connections. A sewer expansion plan identifying areas of greatest need and estimated number of connections have been discussed. Recently, the Municipal Utilities Commission

recommended and City Council approved dedication of \$1 of the base charges to capital renewal which will go into effect March 2015.

Net operating income for the wastewater utility system for fiscal year 2014 was \$1,757,416. This includes development fees of \$574,870 and a grant of \$155,195, both of which are not included in projections due to the uncertainty of receiving them in the future. Net operating income should reach \$950,000 by the end of this fiscal year. This excludes development fees and/or grants but includes the reduction in revenue based on the winter quarter averaging policy for industrial and commercial users who utilize cooling towers; this policy will be implemented on March 1, 2015.

If rates and customer usage/discharge remain approximately the same over the next several years, the wastewater fund balance combined with the projected net operating income will provide sufficient inflows to fund nearly all of the 5-year capital improvements plan. This takes into consideration the designation of \$1 of the existing base charge to be used to pay for projects replacing, improving or expanding the wastewater system. The capital improvements plan totals \$5.5 million of which \$3.8 million is currently funded with existing cash balances and the remainder is planned to come from future net operating income. The second year of repair reserves of \$535,000 has been set aside in accordance with loan covenants and the fund balance contains nearly \$1 million that will be appropriated for emergency repair. A list of 13 capital projects, including sewer extension lines may be viewed at the end of this report.

Rather than fund the wastewater capital improvements plan, a wastewater reduction could be considered. Possible options include a: 1) reduction in the base rate, 2) reduction in the usage rate – this is not recommended due to the unpredictability of revenue, 3) reduction in both rates, or 4) one-time annual credit allocated to users on a monthly basis. A comparison of the rate reduction options and their projected impact on net revenues and expenses is included at the end of this report.

Water Rate Review

Discussion of desired use of balances, appropriate level of user rates, system expansion and economic development in the area, and the desire to secure future water resources has been the focus of many City Council, Municipal Utilities Commission, staff and customer discussions. A common theme in all discussions is the desire to ensure safe drinking water and sufficient water supply for future generations.

In looking to the future, the 5-year capital improvements plan for the water system totals more than \$29 million with \$17.5 million funded from existing cash balances and the remaining balance unfunded. In the past, the City has been able to accumulate net income inflows for several years and then complete eligible projects on a pay-as-you-go basis. However, the water base rate was reduced by \$2 per month effective July 1, 2013 and as a result revenue derived from base rates and usage charges decreased by \$451,000 in FY 2014. This diminishes the amount of net income inflow for future capital projects as well as operations and if the Municipal Utilities Commission considers an additional water rate decrease, the decrease will impact the funding of future capital improvement projects.

Conclusion

In summary, construction of infrastructure with additional capacity to support growth, necessary replacement and repair of infrastructure, and ongoing operations and maintenance all require adequate financial resources within the water and wastewater enterprise funds. Established rate structures and sound financial condition of the City's utility systems are necessary to assure loan compliance, continual infrastructure improvements, and maintenance and operation of the utility systems in order to provide adequate, safe, and reliable utility services. The Municipal Utilities Commission serves as the recommending body to the City Council for any desired changes, amendments or recommendations.

**CITY OF KINGMAN, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Enterprise Funds		
	Water	Wastewater	Sanitation
ASSETS			
Current assets:			
Cash and investments	\$ 20,595,658	\$ 8,159,714	\$ 1,241,467
Restricted cash and investments	400,723		
Accounts receivable	981,306	806,474	311,164
Inventories	163,511	27,769	
Deposits	9,208		
Total current assets	<u>22,150,406</u>	<u>8,993,957</u>	<u>1,552,631</u>
Noncurrent assets:			
Restricted cash and investments		3,405,895	
Land	1,128,881	597,000	567,000
Infrastructure	37,142,755	63,727,653	
Buildings	12,463,191	122,920	
Improvements other than buildings	149,328	444,650	
Vehicles, machinery, and equipment	3,811,337	704,659	5,298,177
Accumulated depreciation	<u>(31,921,455)</u>	<u>(11,187,238)</u>	<u>(4,135,818)</u>
Total noncurrent assets	<u>22,774,037</u>	<u>57,815,539</u>	<u>1,729,359</u>
Total assets	<u>44,924,443</u>	<u>66,809,496</u>	<u>3,281,990</u>
LIABILITIES			
Current liabilities:			
Accounts payable	130,297	7,149	61,330
Accrued payroll and employee benefits	91,707	23,901	27,613
Deposits held for others	400,723		
Unearned revenue	709,052	1,326	
Compensated absences payable	214,969	53,380	48,705
Loan payable		2,210,748	
Obligations under capital leases	48,726	48,726	48,726
Total current liabilities	<u>1,595,474</u>	<u>2,345,230</u>	<u>186,374</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	163,834	39,002,577	163,834
Total noncurrent liabilities	<u>163,834</u>	<u>39,002,577</u>	<u>163,834</u>
Total liabilities	<u>1,759,308</u>	<u>41,347,807</u>	<u>350,208</u>
NET POSITION			
Net investment in capital assets	22,561,477	13,147,593	1,516,799
Restricted for:			
Debt service		3,405,895	
Unrestricted	20,603,658	8,908,201	1,414,983
Total net position	<u>\$ 43,165,135</u>	<u>\$ 25,461,689</u>	<u>\$ 2,931,782</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF KINGMAN, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Enterprise Funds		
	Water	Wastewater	Sanitation
Operating revenues:			
Charges for services	\$ 8,178,178	\$ 8,936,591	\$ 3,357,109
Contributions			
Miscellaneous			
Total operating revenues	8,178,178	8,936,591	3,357,109
Operating expenses:			
Costs of sales and services	6,023,646	1,726,398	2,651,887
Depreciation	1,078,029	1,292,578	353,335
Premiums			
Administrative			
Total operating expenses	7,101,675	3,018,976	3,005,222
Operating income (loss)	1,076,503	5,917,615	351,887
Nonoperating revenues (expenses):			
Investment income	90,052	49,814	5,359
Miscellaneous	792,675	8,791	30,226
Interest expense	(15,025)	(1,512,443)	(15,025)
Total nonoperating revenues (expenses)	867,702	(1,453,838)	20,560
Income (loss) before capital contributions and transfers	1,944,205	4,463,777	372,447
Capital contributions		155,194	
Transfers in	776,153	17,283	26,222
Transfers out	(550,114)	(696,146)	(278,452)
Changes in net position	2,170,244	3,940,108	120,217
Total net position, beginning of year	40,994,891	21,521,581	2,811,565
Total net position, end of year	\$ 43,165,135	\$ 25,461,689	\$ 2,931,782

The notes to the basic financial statements are an integral part of this statement.

CITY OF KINGMAN, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Enterprise Funds</u>				<u>Governmental Activities: Internal Service Funds</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Sanitation</u>	<u>Total</u>	
<u>Increase (Decrease) in Cash and Cash Equivalents</u>					
Cash flows from operating activities:					
Cash received from customers	\$ 8,273,783	\$ 8,953,649	\$ 3,340,041	\$ 20,567,473	\$ 4,834,061
Cash received from contributions					4,074,540
Cash payments to employees for services	(2,024,881)	(590,252)	(680,870)	(3,296,003)	(1,512,961)
Cash payments to suppliers for goods/services	(4,037,969)	(1,193,621)	(1,965,492)	(7,197,082)	(7,585,926)
Other receipts	27,910	8,791	30,226	66,927	3,592
Net cash provided by (used for) operating activities	<u>2,238,843</u>	<u>7,178,567</u>	<u>723,905</u>	<u>10,141,315</u>	<u>(186,694)</u>
Cash flows from non-capital financing activities:					
Transfers in	776,153	17,283	26,222	819,658	-72,908
Transfers out	(550,114)	(696,146)	(278,452)	(1,524,712)	(513,790)
Net cash provided by (used for) non-capital financing activities	<u>226,039</u>	<u>(678,863)</u>	<u>(252,230)</u>	<u>(705,054)</u>	<u>(440,882)</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(239,729)	(315,601)	(388,710)	(944,040)	
Loan proceeds		31,577		31,577	
Principal paid on debt	(46,051)	(2,182,694)	(46,051)	(2,274,796)	(46,051)
Interest paid on debt	(15,025)	(1,512,443)	(15,025)	(1,542,493)	(15,025)
Proceeds from sale of previously transferred assets	764,765			764,765	
Net cash provided by (used for) capital and related financing activities	<u>463,960</u>	<u>(3,979,161)</u>	<u>(449,786)</u>	<u>(3,964,987)</u>	<u>(61,076)</u>
Cash flows from investing activities:					
Investment income	90,052	49,814	5,359	145,225	20,422
Net cash provided by investing activities	<u>90,052</u>	<u>49,814</u>	<u>5,359</u>	<u>145,225</u>	<u>20,422</u>
Net increase (decrease) in cash and cash equivalents	<u>3,018,894</u>	<u>2,570,357</u>	<u>27,248</u>	<u>5,616,499</u>	<u>(668,230)</u>
Cash and cash equivalents, beginning of year	<u>17,977,487</u>	<u>8,995,252</u>	<u>1,214,219</u>	<u>28,186,958</u>	<u>5,661,828</u>
Cash and cash equivalents, end of year	<u>\$ 20,996,381</u>	<u>\$ 11,565,609</u>	<u>\$ 1,241,467</u>	<u>\$ 33,803,457</u>	<u>\$ 4,993,598</u>
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u>					
Cash	\$ 12,337,041	\$ 3,612,666	\$ 753,381	\$ 16,703,088	\$ 2,935,037
Investments	8,258,617	4,547,048	488,086	13,293,751	2,058,561
Restricted cash and investments	400,723	3,405,895		3,806,618	
Total cash and cash equivalents	<u>\$ 20,996,381</u>	<u>\$ 11,565,609</u>	<u>\$ 1,241,467</u>	<u>\$ 33,803,457</u>	<u>\$ 4,993,598</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>					
Operating income (loss)	\$ 1,076,503	\$ 5,917,615	\$ 351,887	\$ 7,346,005	\$ (191,477)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	1,078,029	1,292,578	353,335	2,723,942	69,621
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	96,218	25,849	(17,068)	104,999	
(Increase) decrease in inventory	62,648	(27,769)		34,879	
Decrease in compensated absences payable	(23,974)	(19,679)	(414)	(44,067)	(1,537)
Increase in deposits held for others	27,297			27,297	
Increase (decrease) in accrued payroll and employee benefit:	13,375	(327)	2,144	15,192	6,160
Increase (decrease) in accounts payable	(91,253)	(9,700)	34,021	(66,932)	(69,461)
Total adjustments	<u>1,162,340</u>	<u>1,260,952</u>	<u>372,018</u>	<u>2,795,310</u>	<u>4,783</u>
Net cash provided by (used for) operating activities	<u>\$ 2,238,843</u>	<u>\$ 7,178,567</u>	<u>\$ 723,905</u>	<u>\$ 10,141,315</u>	<u>\$ (186,694)</u>
Schedule of non-cash capital and related financing activities:					
Contributions of capital assets	\$	\$ 155,194	\$	\$	\$

The notes to the basic financial statements are an integral part of this statement.

**CITY OF KINGMAN, ARIZONA
PLEGGED REVENUE COVERAGE
LAST TEN FISCAL YEARS**

	Fiscal Year Ended June 30									
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Excise Tax Revenue Bonds										
Excise Tax Revenue	\$ 22,493,084	\$ 20,295,258	\$ 18,344,361	\$ 18,106,118	\$ 19,359,466	\$ 21,228,915	\$ 22,896,032	\$ 23,567,269	\$ 22,598,686	\$ 18,760,314
Debt Service										
Principal	820,000	590,000	485,000	450,000	460,125	445,750	436,125	421,125	255,875	255,500
Interest	97,244	123,819	145,219	164,713	137,188	146,875	157,200	167,400	65,875	70,500
Total Annual Requirement	917,244	713,819	630,219	614,713	597,313	592,625	593,325	588,525	321,750	326,000
Estimated Coverage	24.5	28.4	29.1	29.5	32.4	35.8	38.6	40.0	70.2	57.5
Water Infrastructure Financing Authority (WIFA) Loans										
Wastewater Utility Revenue	\$ 7,268,798	\$ 5,905,330	\$ 3,544,586	\$ 2,945,758	\$ 1,745,223	\$ 1,927,194				
Debt Payments										
Principal	2,136,643	2,154,752	1,956,193	1,415,635						
Interest and fees	1,497,417	1,542,839	1,365,941	653,395	305,760	50,956				
Total Annual Requirement	3,634,060	3,697,591	3,322,134	2,069,030	305,760	50,956				
Estimated Coverage	2.0	1.6	1.1	1.4	5.7	37.8				

Source: The source of this information is the City's financial records.

Notes: 1) Only five years are presented, as the WIFA Loans were entered into during fiscal year 2008-09.

2) WIFA waived the City's rate covenant requirement for the fiscal year 2011-12 based on projections made at the time the agreement for Loan 910149-11 was executed.

CITY OF KINGMAN - WASTEWATER
Statement of Net Assets
As of June 30, 2014

	Wastewater Operating Fund	Wastewater Expansion Fund	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$3,456,454	\$4,703,259	\$8,159,713
Accounts receivable	806,474		806,474
Loan receivable			
Inventories	27,769		27,769
Deposits			
Total current assets	<u>4,290,697</u>	<u>4,703,259</u>	<u>8,993,956</u>
Noncurrent assets:			
Restricted cash and investments		3,405,895	3,405,895
Fixed assets land, infrastructure, etc.	65,596,882		65,596,882
Accumulated depreciation	(11,187,238)		(11,187,238)
Total noncurrent assets	<u>54,409,644</u>	<u>3,405,895</u>	<u>57,815,539</u>
Total assets	<u>58,700,341</u>	<u>8,109,154</u>	<u>66,809,495</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	6,068		6,068
Accrued payroll & benefits	77,281		77,281
Payback agreements collected for others	1,081		1,081
Loans Payable		2,210,748	2,210,748
Obligations under capital leases	48,726		48,726
Deferred revenue		1,326	1,326
Total current liabilities	<u>133,156</u>	<u>2,212,074</u>	<u>2,345,230</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	163,834	38,838,744	39,002,578
Total noncurrent liabilities	<u>163,834</u>	<u>38,838,744</u>	<u>39,002,578</u>
Total liabilities	<u>296,990</u>	<u>41,050,818</u>	<u>41,347,808</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,147,592		13,147,592
Restricted - debt reserve Hilltop WWTP		2,675,635	2,675,635
Restricted - debt reserve Downtown WWTP		730,260	730,260
Restricted - replacement reserve Hilltop WWTP			0
Restricted - reserve working capital			0
Unrestricted	45,255,759	(36,347,559)	8,908,200
Total net assets	<u>\$58,403,351</u>	<u>(\$32,941,664)</u>	<u>\$25,461,687</u>

CITY OF KINGMAN - WASTEWATER
Statement of Revenues, Expenses and Changes in Fund Net Assets
As of June 30, 2014

	Wastewater Fund Total	Budget FY2013-2014	Budget FY2014-2015
Operating revenues			
Charges for services:			
Sewer base fees	\$3,052,241	\$3,005,000	\$3,030,000
Sewer user fees	5,309,113	4,879,000	5,030,000
Development investment fees	574,836	0	0
Other	400	250	250
Total operating revenues	8,936,590	7,884,250	8,060,250
Operating expenses			
Personnel expenses			
Wastewater operations	815,464	926,867	918,435
Total personnel expenses	815,464	926,867	918,435
Supplies & services			
R & M, supplies & services	204,029	1,028,500	288,175
Bad debt	31,341	28,750	28,750
Chemicals	77,420	101,000	90,000
Sampling and permits	127,042	143,000	135,000
Electricity & gas	347,622	370,000	385,000
Total supplies & services	787,454	1,671,250	926,925
Internal services			
Fleet, facilities, IT, insurance	94,970	94,970	97,524
Total internal services	94,970	94,970	97,524
Capital expenses			
Improvements, equip & machinery	55,496	2,494,660	2,131,500
Depreciation	1,292,578		
Total capital purchases	1,348,074	2,494,660	2,131,500
Total operating expenses	3,045,962	5,187,747	4,074,384
Operating income (loss)	5,890,628	2,696,503	3,985,866
Transfers and other			
Investment income	49,813	7,500	40,000
Miscellaneous	8,791	250	250
Transfers for Admin, PW & Engineer	(651,845)	(678,863)	(638,847)
Capital Contribution	155,195	0	0
ADOT land payment	(61,106)	(61,200)	(61,200)
WIFA Debt payments	(3,634,060)	(3,892,735)	(3,634,060)
Net transfers and other	(4,133,212)	(4,625,048)	(4,293,857)
Net operating income (loss)	\$1,757,416	(\$1,928,545)	(\$307,991)

LOAN COVENANT COVERAGE CALCULATION

Wastewater operating income + other	\$5,949,233	\$2,696,503	\$3,985,866
Less Debt payments	(3,634,060)	(3,892,735)	(3,634,060)
Coverage sufficiency/(deficiency)	2,315,173	(1,196,232)	351,806
Less debt service reserve requirement	(778,547)	(778,547)	(243,420)
Net excess revenue	\$1,536,626	(\$1,974,779)	\$108,386
Estimated coverage ratio	1.64	0.69	1.10
Est. coverage ratio w/o depreciation	1.99		

**CITY OF KINGMAN - WASTEWATER
5 Year Sewer Capital Projects List**

Capital Replacement and Expansion Projects

1 Deteriorated sewer line replacement/realignment - \$150,000 annually	\$750,000
2 Extending sewer lines to various areas (inside or outside City limits)	700,000
3 Alternate repair method for sewer lines that cannot be traditionally repaired - \$100,000 annually	500,000
4 Update existing Sewer Master Plan from May 2003	100,000
5 Sewer line extensions and svcs in Berk from Fairfax to Fourth and in Beverly from N Fifth to N Fourth, conn/inv fees & abandon septic system	450,000
6 Relocate Chestnut sewer line through newly acquired easement	100,000
7 Eng Study to address stormwater infiltration into sewer collection system into DT plant	70,000
8 Eng Study for relocation & realignment of 1.6 mi downtown sewer outfall line	60,000
9 Boring 2 new sewer transmission line crossings I-40 at Rutherford and Burbank	479,000
10 10" and 12" main outfall paralleling Mohave Channel from Willow to Sierra Vista	450,000
11 Broadway Avenue sewer extension	500,000
12 Andy Devine Avenue sewer extension	1,200,000
13 Construct septage station, bar screen, grinder pumps and card scanner	175,000
	<u>\$5,534,000</u>

CITY OF KINGMAN - WATER
Statement of Net Assets
As of June 30, 2014

	Water Operating Fund	Water Cap Renewal Fund	Water Expansion Fund	Colorado Rvr Water Auth Fund	Total
ASSETS					
Current assets:					
Cash and investments	5,842,090	\$5,546,713	\$7,279,289	\$1,927,564	\$20,595,656
Restricted assets-customer deposits	400,723				400,723
Accounts receivable	902,078	79,229			981,307
Inventories	163,511				163,511
Deposits	9,208				9,208
Total current assets	<u>7,317,610</u>	<u>5,625,942</u>	<u>7,279,289</u>	<u>1,927,564</u>	<u>22,150,405</u>
Noncurrent assets:					
Fixed assets land, infrastructure, etc.	54,695,491				54,695,491
Accumulated depreciation	(31,921,453)				(31,921,453)
Total noncurrent assets	<u>22,774,038</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,774,038</u>
 Total assets	<u>30,091,648</u>	<u>5,625,942</u>	<u>7,279,289</u>	<u>1,927,564</u>	<u>44,924,443</u>
LIABILITIES					
Current liabilities:					
Accounts payable	127,318	2,780	200		130,298
Accrued payroll & benefits	306,676				306,676
Deposits held for others	400,723				400,723
Deferred revenue			709,052		709,052
Obligations under capital lease	48,726				48,726
Total current liabilities	<u>834,717</u>	<u>2,780</u>	<u>709,252</u>	<u>-</u>	<u>1,595,475</u>
Noncurrent liabilities:					
Non-current portion of long-term obligations	163,834				163,834
Total noncurrent liabilities	<u>163,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,834</u>
 Total liabilities	<u>998,551</u>	<u>2,780</u>	<u>709,252</u>	<u>-</u>	<u>1,759,309</u>
NET ASSETS					
Invested in capital assets, net of related debt	22,561,478				22,561,478
Unrestricted	6,482,893	5,623,162	6,570,037	1,927,564	20,603,656
 Total net assets	<u>\$29,044,371</u>	<u>\$5,623,162</u>	<u>\$6,570,037</u>	<u>\$1,927,564</u>	<u>\$43,165,134</u>

CITY OF KINGMAN - WATER
Statement of Revenues, Expenses and Changes in Fund Net Assets
As of June 30, 2014

	Water Fund Total	Budget FY2013-2014	Budget FY2014-2015
Operating revenues			
Charges for services:			
Metered water service	\$ 6,534,553	\$ 6,706,370	\$ 6,656,000
Service charges	260,647	245,000	252,500
Capital renewal fees	831,688	825,000	830,000
Meter connection fees	543,444	-	-
Trust fees	764,765	635,200	1,200,000
Other	35,755	28,626	32,990
Total operating revenues	8,970,852	8,440,196	8,971,490
Operating expenses			
Personnel expenses			
Water operations	2,846,638	3,032,145	3,106,060
Total personnel expenses	2,846,638	3,032,145	3,106,060
Supplies & services			
R & M, supplies & services	593,936	793,630	816,750
Bad debt	41,180	59,000	59,000
Chemicals	11,617	9,000	9,000
Merchant card fees	85,999	88,500	86,400
Sampling	35,622	67,000	60,000
Electricity, natural gas & gasoline	1,337,231	1,555,000	1,655,000
Total supplies & services	2,105,585	2,572,130	2,686,150
Internal services			
Fleet, facilities, IT, insurance	644,758	644,758	677,926
Total internal services	644,758	644,758	677,926
Capital expenses			
Improvements, equip & machinery	561,621	5,615,000	7,540,000
Depreciation (estimated)	1,078,029	-	-
Total capital purchases	1,639,650	5,615,000	7,540,000
Total operating expenses	7,236,631	11,864,033	14,010,136
Operating income (loss)	1,734,221	(3,423,837)	(5,038,646)
Transfers and other			
Investment income	90,053	46,000	46,000
ADOT land purchase	(61,106)	(61,200)	(61,200)
Transfer for Admin, PW & Engineer	163,463	226,039	157,005
Net transfers and other	192,410	210,839	141,805
Net operating income (loss)	\$1,926,631	(\$3,212,998)	(\$4,896,841)

CITY OF KINGMAN - WATER
Capital Purchases, Capital Renewal and Projects List

Water Operations Capital Purchases/Projects

Repair wells, pumping equipment and SCADA support - annually	150,000
Meters, boxes, rings, manholes, vaults, connections, fittings, etc. - annually	175,000
Replace srvc trucks, Hualapai Booster station back-up power generator, etc. - annually	160,000
	<u>\$485,000</u>

Capital Renewal Purchases/Projects

Storage tank restoration - ADEQ and OSHA compliance - annually	200,000
Replace aging pumps, motors, generators, natural gas engines - annually	100,000
Fire hydrant replacement and fire flow system improvements - annually	35,000
Annual replacement of north Kgm distribution lines over 20 yr period - 5 year estimate	2,000,000
Annual install of surge tanks at Castlerock, CW 11, Hualapai, Rattlesnake, and LM4 - 5 yrs	185,000
Automated meters - replace aged meters & improve customer svc - 4 yr period	10,000,000
Water master plan update	300,000
Crane truck, 15 ton, 65' reach, 25' jib to pull 600 hp motors/install UT vaults	200,000
	<u>\$13,020,000</u>

Capital Expansion Projects

1.9 mile ductile iron transmission main - Rattlesnake to Rancho SF tank	2,050,000
Rattlesnake to Rancho Santa Fe tank pumps in conjunction with east bench line	630,000
1 mile 24" transmission main - Kino to main tanks	2,542,500
Grace Neal 12" water line	850,000
Stockton Hill Road 12" water line	2,000,000
1.5 Mgal water storage tank - College tank	1,375,000
Reclaimed water pump station	100,000
Hilltop improvements for storage and dist of A+ - 2MG storage tank, pumps, motors, 8" pipe	2,700,000
Acquire 2.5 acre future well/tank site in east bench annexation area	50,000
600hp motor & pump, 2300 gpm for City Well 10	500,000
	<u>\$12,797,500</u>

**Wastewater Rate Reduction Options and Projected Impact on Net Revenues and Expenses
Using June 30, 2014 Audit Figures**

	Actual	Option 1	Option 2	Option 3	Option 4
		Reduction of 25% in Residential Base Charges and User Rates	Reduction of \$2 to Base Charges	Reduction of \$1 to Base Charges and a 5% Decrease to User Rates	One-Time Credit to be Allocated to All Users (9,400 customers @ \$3.75/mo/user)
Operating revenues					
Charges for services:¹					
Sewer base and user fees	\$8,361,354	\$8,361,354	\$8,361,354	\$8,361,354	\$8,361,354
Other	400	400	400	400	400
Less: WQA for Cooling Tower Users	0	(25,000)	(25,000)	(25,000)	(25,000)
Less: Reduction/Credit	0	(1,273,827)	(222,812)	(531,999)	(423,000)
Total operating revenue	8,361,754	7,062,927	8,113,942	7,804,755	7,913,754
Operating expenses					
Personnel expenses	815,464	815,464	815,464	815,464	815,464
Supplies & services	787,454	787,454	787,454	787,454	787,454
Internal services	94,970	94,970	94,970	94,970	94,970
Capital expenses	1,348,074	1,348,074	1,348,074	1,348,074	1,348,074
Total operating expenses	3,045,962	3,045,962	3,045,962	3,045,962	3,045,962
Operating income (loss)	5,315,792	4,016,965	5,067,980	4,758,793	4,867,792
Transfers and other²					
Investment income	49,813	49,813	49,813	49,813	49,813
Miscellaneous	8,791	8,791	8,791	8,791	8,791
Transfers for Admin, PW & Engineer	(651,845)	(651,845)	(651,845)	(651,845)	(651,845)
ADOT land payment	(61,106)	(61,106)	(61,106)	(61,106)	(61,106)
WIFA Debt payments	(3,634,060)	(3,634,060)	(3,634,060)	(3,634,060)	(3,634,060)
Net transfers and other	(4,288,407)	(4,288,407)	(4,288,407)	(4,288,407)	(4,288,407)
Net operating income (loss)	\$1,027,385	(\$271,442)	\$779,573	\$470,386	\$579,385
LOAN COVENANT COVERAGE CALCULATION					
Wastewater operating income + other	5,374,396	4,075,569	5,126,584	4,817,397	4,926,396
Less Debt payments	(3,634,060)	(3,634,060)	(3,634,060)	(3,634,060)	(3,634,060)
Coverage sufficiency/(deficiency)	1,740,336	441,509	1,492,524	1,183,337	1,292,336
Less debt service reserve requirement	(778,547)	(778,547)	(778,547)	(778,547)	(778,547)
Net excess revenue	961,789	(337,038)	713,977	404,790	513,789
Estimated coverage ratio	1.48	1.12	1.41	1.33	1.36
Est. coverage ratio w/o depreciation	1.83	1.48	1.77	1.68	1.71

Footnotes

¹ Because of the uncertainty in receiving development investment fees, they are not included in "Charges for services".

² Capital contributions are not included in "Transfers and other".

CITY OF KINGMAN
Governmental Fund Balance Policy in Accordance with GASB Statement No. 54
And Enterprise Fund Working Capital Policy

1. Governmental Fund Balance Policy

Purpose. The following policy has been adopted by the City Council in order to address the implications of Governmental Accounting Standards Board (“GASB”) Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. This policy will ensure the City maintains adequate fund balances and reserves in order to:

- a. Provide sufficient cash flow for daily financial needs;
- b. Secure and maintain investment grade bond ratings;
- c. Offset significant economic downturns or revenue shortfalls;
- d. Provide funds for unforeseen expenditures related to emergencies and/or opportunities.

This policy and the procedures promulgated under it supersede all previous regulations regarding the City’s fund balance and reserve policies.

Fund type definitions. The following definitions will be used in reporting activity in governmental funds across the City. The City may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

The general fund is used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are *restricted* or *committed* to expenditure for *specific purposes* other than debt service or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City’s purposes.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

Nonspendable fund balance

Definition – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact

Classification – Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The City will maintain a fund balance equal to the balance of any long term outstanding balances due from others (including other funds of the City)
- The City will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance)
- The City will maintain a fund balance equal to the principal of funds that are legally or contractually required to be maintained
- The City will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale

Restricted fund balance

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

Committed fund balance

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision making authority (i.e., the City Council).

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the City Council.

Assigned fund balance

Definition – includes amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The City Council delegates to the City Manager, the Financial Services Director or his/her/their designee the authority to assign amounts to be used for

specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance

Definition – includes the residual classification for the City’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Operational guidelines. The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum unassigned fund balance – The City will maintain a minimum unassigned fund balance in its general fund ranging from 25 percent to 50 percent of the budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

Replenishing deficiencies – when fund balance falls below the minimum 25 percent range, the City will replenish shortages/deficiencies using the budget strategies and timeframes described below.

The following budgetary strategies and best practices may be utilized by the City to replenish funding deficiencies:

- The City will reduce expenditures to eliminate any structural deficit;
- The City will increase revenues or pursue other funding sources;
- Any combination of strategies resulting in the elimination of a structural deficit.

Minimum fund balance deficiencies shall be replenished within the following time periods:

- Deficiency resulting in a minimum fund balance between 15 percent and 25 percent shall be replenished over a period of one year;
- Deficiency resulting in a minimum fund balance between 10 percent and 15 percent shall be replenished over a period not to exceed three years;
- Deficiency resulting in a minimum fund balance of less than 10 percent shall be replenished over a period not to exceed five years.

Surplus fund balance – Should unassigned fund balance of the General Fund exceed the maximum 50 percent range, the City will consider such fund balance surpluses for one time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures. The City may also consider such fund balance surpluses for expansion of programs of new programs if recurring funding sources exist to support expanded or new programs.

Implementation and review. Upon adoption of this policy the City Council authorizes the City Manager and/or Financial Services Director to establish standards and procedures which may be necessary for its implementation. The City Manager and/or Financial Services Director shall review this policy at least annually and make any recommendations for changes to the City Council.

2. Enterprise Fund Working Capital Policy

Purpose. The following policy has been adopted by the City Council in order to address the specific financial needs inherent to enterprise funds as directed by the Government Finance Officers Association best practices. This policy will ensure that the City maintains adequate working capital in order to:

- a. Provide sufficient cash flow for daily financial needs;
- b. Secure and maintain investment grade bond ratings;
- c. Offset significant economic downturns or revenue shortfalls;
- d. Provide funds for unforeseen expenditures related to emergencies or opportunities;
- e. Ensure stable services and fees.

Fund type definition. The following definition will be used in reporting activity in enterprise funds across the city.

An enterprise fund may be used to report any activity for which a fee is charged to external users for goods and services. An enterprise fund must be used to account for activities where:

- There is outstanding debt backed solely by fees and charges;
- Laws or regulations require that fees and charges be set to recover all costs; or
- There is a pricing policy that fees and charges be set to recover all costs.

Operational guidelines. Working capital is the difference between current assets and current liabilities. The amount of working capital is an indication of the relatively liquid portion of net assets available to satisfy current obligations.

Minimum working capital – The City will maintain a minimum working capital amount equivalent to 45 to 180 days of operating expenses and outgoing transfers. The City will also strive to maintain minimum working capital balances sufficient to fund the following year capital needs.

Replenishing deficiencies – when working capital falls below the minimum 45 days of operating expenses and outgoing transfers, the City will replenish shortages/deficiencies using the budget strategies and timeframes described below.

The following budgetary strategies shall be utilized by the City to replenish working capital:

- The City will reduce expenditures to eliminate any structural deficit;
- The City will increase revenues or pursue other funding sources;
- Any combination of strategies resulting in the elimination of a structural deficit.

Minimum working capital deficiencies shall be replenished within the following periods:

- Deficiencies resulting in a minimum working capital balance less than 45 days of operating expenses and outgoing transfers shall be replenished over a period of one year.

Surplus working capital – Should working capital balances in an Enterprise Fund exceed one year of operating expenses, outgoing transfer, depreciation and capital outlay, the City will minimally consider the following characteristics to determine if the surplus is appropriate.

- **Cash cycles.** If the enterprise fund experiences peaks and valleys in its cash position during the year, higher levels of working capital are acceptable as volatile cash cycles call for higher levels of working capital.

- **Transfers out.** If the enterprise fund is expected to make a transfer to another fund for contributions to overhead, support functions, or any other transfer of resources, then higher levels of working capital are acceptable and may be necessary.
- **Asset age and condition.** If the enterprise fund has aging infrastructure or greater exposure to very expensive maintenance and repair needs, higher levels of working capital are acceptable in order to have sufficient cash flow to fund capital and maintenance needs.
- **Volatility of expenses.** An enterprise fund with expenses that may fluctuate based on weather, availability of supply, or other factors may be more vulnerable to expense spikes in which case higher levels of working capital are acceptable.
- **Plans for capital projects or infrastructure needs.** If the enterprise fund has working capital that may be committed for future capital investment, these amounts may appear as unrestricted resources on the balance sheet but, in actuality, may be unavailable because of intended future capital spending. If these types of limitations exist, the working capital target should be adjusted to a higher level to allow for the accumulation of funds for future capital needs.
- **Debt position.** Enterprise funds often carry significant amounts of debt which is used to acquire capital assets. The amount and type of debt as well as the legal obligations associated with debt an enterprise fund carries can have significant ramifications on working capital. Higher levels of working capital will be needed to ensure resources are available for debt payments and compliance with debt covenants.

Implementation and review. Upon adoption of this policy the City Council authorizes the City Manager and/or Financial Services Director to establish any standards and procedures which may be necessary for its implementation. The City Manager and/or Financial Services Director shall review this policy at least annually and make any recommendations for changes to the City Council.