



Debt Service Fee & Increased Water Rates

As many of you have no doubt heard by now, the City Council has been discussing the utility-side budget for 2016/2017. The council met in a workshop session with our CPA on August 18th and again at the regular council meeting on August 25. In a pre-budget workshop planning meeting with the Mayor, the City's Secretary, the City's CPA, and and the Mayor *Pro Tem*, we discovered that the City had been operating on the incorrect assumption that it was going to need little to no increased revenue to pay for the sewer project, as well as not need new revenue to pay for the new water meters that were installed within the past year and a half. Like you, we wanted to know how the revenue predictions turned out to be incorrect?

The process of planning for the replacement for our worn out sewer plant started back with general discussions in 2012 that intensified into specific financial planning in the spring and summer of 2013. It was felt, early on, that Revenue Bonds would end up being the primary source of funding for whatever type of project was decided upon, so a Bond Adviser was hired as part of the "Team" to help see the project through.

As early as July of 2014, our advisor gave us a report showing that we would probably need in the vicinity of around \$11 per connection to cover **just the debt service** for a bond sale of around \$1,935,000. These figures were based on estimates of cost given by our engineering firm as well as rough assumptions based on savings expected to be incurred when the old sewer plant went away. In another analysis provided to the City in December of 2014 based on some slightly different criteria, the amount of the bond went to \$2,080,000 and the per connection cost went to about \$12.50 per month.

During the March 5, 2015 special meeting where the City Council considered two alternate bids to the base contract, one for concrete lining of the pond and the other for an optional permanent drainage structure, our engineer also mentioned that the per cost connection was going to be somewhere between \$11.88 to \$12.68 depending on which bid total was selected, the one with the two alternate bids or the one without the alternates.

IMPORTANT COMMUNITY DEVELOPMENT DATES:

- Sept. 22: Pet Clinic
- Oct. 5: Flu Clinic
- Oct. 15: City-Wide Yard Sale
- Oct. 22: City-Wide Clean-Up
- Nov. 19: Decorate for Christmas in the Park
- Dec. 1: Christmas Parade
- Dec. 3: Christmas in the Park

MEET THE CANDIDATES: TO BE ANNOUNCED

Next JCESD #1 Meeting:
Tuesday,
October 18, 2016
@ 6:00 p.m.
Firehouse

Next City Council Meeting:
Thursday,
October 20, 2016
@ 7:00 p.m.
Civic Center

Becky Ford, Mayor	753-1263
Danny Fruge, Mayor Pro-Tem Roads & Drainage; Grounds	753-3446
<u>Council Members:</u>	
Sherry Adams, Ward 3 Secretary & Buildings	753-2474
Michelle Nelson, Ward 2 Community Development	753-1475
Mark Theobald, Ward 1	
Bud Merendino, Ward 1	466-3193
Fay Roberts, Ward 2	753-2163
<u>City Clerks:</u>	
Kimberely Vandver, Naomi Fregia, & Aimee Battle	753-1475
<u>Emergency Management:</u>	
Don Smith	658-8220
<u>Code Enforcement Officer:</u>	
Mike Collier	753-1475
<u>Water/Sewer:</u>	
Office Hours:	753-2126
Emergency AFTER Hours:	755-7377

City of Bevil Oaks
7525 Sweetgum Rd.
Beaumont, TX 77713

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US POSTAGE PAID
SOUR LAKE, TX
PERMIT NO. 3

RESIDENT
RURAL ROUTE 1
BEAUMONT, TX 77713

IN THIS ISSUE:
Debt Service Fee & Increased Water Rates
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City Taxes... A Completely Separate Issue...

Thus far, our bond advisor had only been considering the per connection cost just to cover the debt service, not taking into account the savings from the lack of sewer-related services that the City expected to save when it no longer had to operate a plant. So, we asked our advisor if he could consider the City's total finances in the same way that a rate consultant would do and take everything into consideration to help us predict future rates. He provided this analysis to the City on March 9, 2015 based on a bond sale of \$2,000,000; an amount which was the amount the City Council eventually approved for sale at its March 19, 2015 Council meeting. This analysis showed that, when all things were considered, the City would need about \$24+ per connection. We could not believe that this was correct and asked him to check his figures based on previous information that we had been given.

After consulting with the City's Office Manager as well as with our CPA, additional information was submitted to our bond advisor and on March 10, 2015, with this new information, he provided a new analysis that showed that taking into account the operational savings meant the City would have a **positive cash flow** and therefore would need no additional money per month per connection. After the bonds were sold, another analysis was performed on April 21, 2015, using the exact amount of the bonds sold (more on this item later) as well as the interest rate that the bonds sold for. This analysis showed basically the same thing as the second one performed on March 10th except it showed a slightly larger cash flow due to lower par amount of the bond combined with the lower interest rate the City was able to receive. *It was after seeing these three analyses that the City drafted and distributed the **Sewer Project Update** article, that went out to the neighborhood sometime in late April, explained what had taken place and the fact that it appeared we would need less than \$5.00/month /connection to pay for these improvements.* This article as well as another titled **Clarifications Regarding Storm Water Detention Pond** can still be found on the City's opening web page.

So, what happened? At our workshop meeting on August 18, 2016, as well as the regular council meeting held on August 25, 2016, the City's CPA explained how simple human error resulted in incorrect assumptions as to the City's need to generate additional revenue to meet its debt service obligations. There was certainly no intention by any of the many hard-working professionals contributing to the sewer project to lie or mislead the City Council and the citizens of Bevil Oaks.

Quite naturally, there were calls to reduce the bond advisor's fees for any potential mistake as well as those that suggested that the City consider litigation. As to the first option, the bond advisor collected his fees at the time of closing of the bond sale; the time to reduce or withhold fees has passed. With regard to possible legal action, before you can sue someone, you must be able to answer two questions: (1) whether the City actually was harmed, and (2) what damages occurred due to this error? After careful consideration of the questions, the answer to both is "none".

Keep in mind that his first analysis or **ESTIMATED UTILITY SYSTEM CASH FLOW** as it was titled, that was performed, on March 9, 2015, showed that the City would need \$24+/connection / month to meet its needs. Had we had no other analysis performed, in May of 2015, the Council, at the very least, would have considered at **that time** instituting a **DEBT SERVICE FEE** to offset this shortfall in our budget. It may also have considered raising sewer and water rates to provide some additional revenue. So, by the June 2015 meeting, some sort of increase would have been installed in order to start collecting the money required to make the upcoming debit payments. But, by believing that the City was

City Taxes... A COMPLETELY Separate Item...

The below article was posted to the City's website, as well as the City's Facebook page recently after questions arose regarding the City's side budget and taxes. Please read the below article to better understand your City's taxes and how they are calculated, as well as the fact that the City and the Water departments, while located in the same building, are in fact separate.

From reading Facebook and hearing citizen comments, there seems to be some confusion regarding property taxes and the bond to pay the cost of the sewer project. Please understand these are two separate issues. The bond was taken out for the sole purpose of replacing the sewer plant and funds were used for no other purpose. Funds collected to repay the bond will be dedicated to repayment of the bond and no other purpose.

Property taxes are assessed annually and are used solely for operating expenses of the City of Bevil Oaks and are kept separate from Water and Sewer funds and are not used to pay for Water and Sewer Expenses. There are two separate bookkeeping systems that are audited separately for each division of the City.

Every year the City furnishes the County Tax Assessor-Collector with information necessary for the tax assessor/collector to calculate tax rates that the City can choose for the next fiscal year for property taxes. These rates are based upon current maintenance and operating expenses of the city as well as the taxable property values minus exemptions that the city allows. Early on, the City chose the "effective tax rate" which allows strictly a "break even" situation and does not leave any room whatsoever for cost of living increases, etc. When it became apparent that this could not continue, at the advice of our CPA, Council began adopting the "maximum operating rate" which is the maximum rate allowed without going to a Rollback Election. This method has provided the city with a small increase in revenue each year to cover cost of living increases without major tax hikes on property within the city.

Last year's tax rate was 0.235316/\$100 of taxable value based upon \$52,157,524 tax base. This should bring in \$122,653.60 in tax revenue but, as of July 31, 2016 the city had only collected \$116,064.99. The County projection is that only 97% is ever collected meaning that we can only expect to receive another \$2900 by September 30, 2016 which leaves our budget short by approx. \$2450 in tax revenues.

At its August 25, 2016 meeting, Council approved this year's "maximum operating rate" of 0.238272/\$100 that is based on a \$55,115,043 tax base. This would result in \$131,323.7 of tax revenue at 100% collection rate or \$8,670.10 more than last year. But, in actuality, at 97% collection rate, the City can only hope to receive \$127,384.

Here is an example of how this small increase will affect your taxes assuming that your appraised value stays the same as last year. The difference between last year's tax rate and the approved "maximum operating rate" for this year is $0.238272 - 0.235316 = 0.002956$ /\$100 of valuation. (1.25% increase) If you have a property that is appraised at \$100,000, then the increase in your tax bill for the Bevil Oaks tax will be: $\$100,000/100 \times .002956 = \2.956 . If you have a property that is appraised at \$150,000, the calculation is: $\$150,000/100 \times .002956 = \4.43 .

So, based on the 97% collection rate the County has suggested, with the approved tax increase to the "maximum operating rate", the City can only expect to collect a little over \$8,000 additional revenue for 2016.



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going to have a positive cash flow after the sewer plant went away, the City decided it had another year to see what the real savings were going to be in order to better define what our revenue needs were going to be after the sewer plant went away. By the time the first interest payment of \$16,000 came due in August 2015, we knew that we had a contingency of \$205,000 built into our project that we did not think we were going to need, at least not much of it. So, in August 2015, we made the first interest payment of \$16,222 using bond money that we did not feel we were going to need. Then, in February 2016, we made an interest and principal payment of approximately \$104,200 using money again from the contingency fund. This expenditure was allowed per our bond counsel. In August 2016, we made another interest only payment of about \$28,450 again using money from the contingency fund. When this project is complete, we think we will still have between \$65,000 to \$75,000 left from the contingency fund to use toward the February 2017 interest and principal payment of \$103,450.

So again, was the City harmed by the cash flow prediction error? The prediction error did not cause the City to borrow any additional funds. It did not cause our project to start late or add any additional burdens to the project itself. Had the City known in April '15 of this shortfall in revenue, there is nothing that would have been done differently with respect to the cost of the project. So, the harm to the City is that it missed about 14 months of collecting revenue to pay its debt. Fortunately, the project has not required the substantial use of its contingency funds and the funds have been put to good use reducing the overall debt.

How did the cash flow prediction error affect the citizens of Bevil Oaks? Consider that the day the bonds were sold, the payoff date was set in stone. The amount of the yearly payments was set in stone as well. What was not set in stone was the date that the citizens of Bevil Oaks would start paying for this debt. The bonds are to be paid back in 20 years. So, because of this human error, the citizens of Bevil Oaks have missed the opportunity to pay 13 or 14 months of the DEBT SERVICE FEE as well as the increased water and sewer rates. At this point in time, we have 19 years of payments left to make and that's all that the citizens will be asked to pay for a permanent solution to the important problem of wastewater treatment. I realize that no one likes the bad news of what the cost will be to pay for this project, but when all the facts are considered together the situation is much more understandable.

While it is quite natural to be upset with someone when an error is made concerning public trust, please consider that due to the guidance of our bond adviser combined with the extremely favorable Standard & Poor's credit rating the City received (A-Stable), the City was able to receive an average interest rate of 2.97% on these bonds over the 20 year life of the note. Also keep in mind this is the first time the City has ever borrowed money in the form of a bond, so receiving this rating combined with the very low interest rate was quite an achievement for a city of approximately 1300 citizens or 550 connections! In addition, our bond adviser had us purchase bond insurance before the bonds were sold. How did this help? Consider that as an example confirmed by our CPA: if the City needed \$1,850,00 to actually build our new facility, we had to sell \$2,000,000 worth of bonds so that after all of the fees were taken out, we would be left with \$1.850M. Thanks to our rating of A-Stable combined with the bond insurance, we only had to sell bonds worth \$1,930,000 to achieve the same amount "in our pocket". The City saved \$70,000! So, between the lower interest rate and the savings of \$70,000, over the life of the 20 year note or bond, the City, and therefore its citizens, saved \$224,761 in interest and principal payments.

In the new budget that was adopted on August 25, 2016, it was shown that due to the debt service as well as the amount that we must pay the City of Beaumont to treat our waste, we have a budget short fall of \$180,000. The utility department expects revenues of \$331,000 this next year but to at least break even we need about \$511,334. Some of these numbers are based on projections of expenditures and savings and some are based on known amounts. I think that everyone will agree that you cannot run a half a million dollar a year enterprise and hope to just break even. That is a recipe for failure. This shortfall is not caused by any lack of oversight or bad business practices or waste. It is caused by the following: the debt payment on the bond is approximately \$132,000 per year; the payment on the new water meters is almost \$24,000 per year. Based on the current amount of water sales, our projected cost to the City of Beaumont to treat our waste water is \$168,000 per year. These three numbers alone add up to \$324,000, almost the entire amount the utility department brings in yearly at present.

It is also important to note that we only pay Beaumont for the amount of water we sell through our **primary meters** which does not include the irrigation meters. It has nothing to do with the amount of water we actually pump to Beaumont, such as when we might have water in our pond from heavy rain events. We only pay for the water we sell for human use or water that is considered to pass through the sewer system from houses and businesses.

So, to cover the shortfall in revenue, the City Council has adopted a \$23.50/month/connection fee to cover the debit service of the water meters and the bond payment. This **Debt Service Fee** can **only** be used to pay off debt; it cannot be used for operating purposes or anything else. This fee will only be added to the primary meter for each residence, not your irrigation or secondary meter. If you have two or more primary meters at your property, this fee will be assessed on each primary meter. To ensure that the **Debt Service Fee** is only used to pay off debt, Council drafted an ordinance specifically stating this as well as placing this money each month into a separate account. Based on 550 connections (the number we are using at present), this will raise \$155,100 annually to pay the debt payment for the meters and the bond payment of almost \$156,000 per year. The remaining operating shortfall will be made up by increasing the water and sewer rates by 20% to equal \$.012 per combined gallon (sewer and water). At present, the rate is \$0.01.

In order to help the folks that use less than the 3000-gallon minimum, our CPA suggested that we change the minimum monthly billing from 3000 gallons to 1000 gals. From 1000 gallons and above, the amount of water you use will be billed at the new rate plus the **Debt Service Fee** of \$23.50. The new monthly minimum bill will become \$23.50 plus 1000-gals x \$0.012/gal =\$12 for a total monthly minimum bill of \$35.50. If you use 6000 per month, your bill will be: 6000 X \$0.012=\$72.00+\$23.50=\$95.00/month. A **Debt Service Fee** is how the original water plant was paid for when BOMUD purchased it from the Cowart family in 1980. The fee was \$25.00/month for 20 years and was paid off in 2001. When the bond was paid off in 2001, the fee went away.

Please note, however, that you will see the new changes on your October billing statement.

Also consider that we have not had an increase in water and sewer rates since at least 2008. While most of you will consider this a good thing, our CPA informs us it is not. By not raising rates for the last 8

years, we have been falling behind inflation. Every two to three years, we should be raising rates by 3 to 5% just to keep up with inflation. Keep in mind that the City Manager for Beaumont announced a couple of weeks back that council will be considering a 3% increase in their water/sewer rates. If approved, this will directly affect the amount we are required to pay Beaumont to treat our waste water. Also keep in mind that at present, our water and sewer collection system is about 35 years old. We spend heavily each year keeping these systems repaired and operating correctly. These costs will only continue to increase with age and inflation. The only way to pay for these costs is by additional revenue brought in by increasing water and sewer rates as time goes by.

Please remember, City Council members are not paid for their time. City council members, as well as the Mayor, volunteer their time to try and make the City a better place for all citizens. Council members and the Mayor are just like you, a cross section of our community. We seek not your praise nor your admiration, only your understanding and support.

Mayor Rebecca Ford

Mayor Pro Tem Danny Fruge



Update your contact information today! We need updated information in the event our meter system shows a leak or continual usage, emergency notifications, or any information that the City deems important for its citizens. Many times people forget to update the water department of updated contact information, so please do so today! You can call us or drop this form off with your next water payment.

Name: _____

Address: _____

Phone #: _____ Acct #: _____

Email: _____