



April 30, 2008

To: Honorable Mayor and City Council

Through: Doug Bartosh, City Manager

From: Jesus R. Rodriguez, Finance Director
Helen Bartels, Utility Bookkeeper

Subject: **Annual Sewer Report - May 1, 2008**

As required by the City's Sewer Policy, an annual report is to be presented to the City Council on the first day of May, depicting the fiscal year's activity.

As of March 31, 2008, the following funds were on hand:

Sewer Fund

Maintenance & Operations Fund	\$	2,875,875.31
Bond Replacement Fund		127,399.88
Plant Expansion Fund		132,249.40
Equipment Replacement Fund		1,228,037.96
Total	\$	<u><u>4,363,562.55</u></u>

Debt Service Reserves

Debt Service Reserves		12,728,996.24
Total	\$	<u><u>12,728,996.24</u></u>

[amounts are based on unaudited figures]

Sewer Fund Descriptions:

Maintenance & Operations Fund — Depository account for all sewer user fees.

Bond Replacement Fund — Required reserve for revenue bond holders. Funds reverted to the City on 07/01/2007.

Plant Expansion Fund — An accumulation fund for Impact Fees for future expansion of the

Equipment Replacement Fund — An accumulation fund of a portion of the sewer user fees to replace equipment as necessary.

Debt Service Fund Descriptions:

FmHA Reserve Fund — Required cash reserves for the FmHA bonds. Funds reverted to the City on 07/01/2007

WIFA Reserve Fund — Required cash reserves for the Water Infrastructure Finance Authority (WIFA) debt service. Funds reverted to the City on 07/01/2007

MPC Reserve Fund — Required cash reserves for the Municipal Property Corporation (MPC). Funds reverted to the City on 07/01/2007

Surplus Sales Tax — Excess cash reserves for use on future expansion projects.

Financial summary:

The following is a financial summary for the period of July 1, 2007 through March 31, 2008:

City of Cottonwood
Sewer Operations Summary
For the Nine (9) Month Period Ending March 31, 2008

[Amounts are based on unaudited figures]

<u>Item Description</u>	<u>Amount</u>
Operating Income	\$1,108,422.46
Operating Expenses	<u>(1,027,561.82)</u>
Operating Gain / (Loss)	\$80,860.64
Debt Service Payments (Final Payment)	<u>(237,528.02) ¹</u>
Net Gain / (Loss)	<u>\$ (156,667.38)</u>

¹Note that this payment is covered by Debt Service Reserves.

Account Receivables:

As of April 30, 2008 the account receivables for the system were \$ 203,232.32.

<u>Days</u>	<u>Amount</u>
30	\$ 9,484.85
60	6,548.14
90 and older	187,199.33
Total	\$ 203,232.32

The high outstanding accounts receivables is due to the not writing off of any accounts to bad debt in order to keep a record on the City's financial accounting system making it easier to track the information on our delinquent customers. This number has increased \$ 26,820.02 from last year due to an increase in delinquent amounts payable. However, this number should start to decrease in future years due to pending integration of water and sewer billings. This integration will give the Cottonwood Municipal Water Utility the ability to shut off water accounts with past due sewer bills.

It also should be noted that the City of Cottonwood is currently updating its policies, including its lien procedures. Liens will be placed on some of the more delinquent customers after due process.

Sewer rates for Fiscal Year 2007-08

The City Sewer Policy has established the following formulas for rate calculation:

Administrative Charge

Formula:

$$\text{Total administrative budget} \div \# \text{ of users} = \text{cost per user} \div 12 \text{ months} = \text{monthly charge}$$

Depreciation of Equipment

Formula:

$$\text{Total annual depreciation} \div \text{annualized usage of gallons sold (in thousands)} = \text{cost per thousand}$$

Operation and Maintenance (O&M) Costs

Formula:

$$\text{Total O\&M budget} \div \text{annualized usage of gallons sold (in thousands)} = \text{cost per thousand}$$

Currently, the sewer department budget is not complete. A recommended rate will be presented to the City Council shortly after a rate study has been conducted by the Utility Department.