



OAK LODGE SANITARY DISTRICT

Protecting our valuable water resources

**Oak Lodge Sanitary District Board of Directors;
Appointed Members of the Budget Committee;
Citizens and Customers**

Budget Message Executive Summary

The Oak Lodge Sanitary District's proposed budget for Fiscal Year 2012 (FY 2012) provides adequate funding to sustain operational activities and to finance the District's Capital Improvement Program (CIP). There are no new staff positions in the budget and operational cost increases are related either to inflation or to specified program needs identified in the budget accounts.

The District is proceeding with the final design and construction of the Water Reclamation Facility Upgrade project. The project's total cost, including planning, design, and construction is currently estimated at \$56.5 million which is a significant reduction from initial Sanitary Sewer System CIP Master Plan estimates which were in excess of \$80 million. The District has been successful in procuring favorable debt financing to fund the treatment facility project and simultaneously reduce otherwise potential rate impacts associated with the full cost of the project. In total the District has acquired \$45 million in debt financing with twenty year terms to maturity and a combined net weighted average cost of capital debt financing of 3.08%.

Adequate funding of the District's sanitary sewer operational activities and the financing of the sanitary CIP requires a 5% rate increase which equates to \$1.52 per month increase for an average customer using 5.32 hundred cubic feet (ccf) of water during the winter months. In FY 2011, the average customer used 6.0 ccf of water per month so the actual rate increase for customers using the new District-wide average water consumption is \$0.17 per month per EDU which is approximately \$39,686 or 0.77% of the estimated sanitary sewer service revenue in the previous fiscal year. This minimal increase in SSS revenue has unfavorable effects on the District's short term SSS financial plan. Should the District's customers continue to conserve water, rate increases anticipated by the financial plan may not be adequate to fund operations, capital improvements, and debt service. The appropriate method to address the declining water use is to reset the proportional balance between fixed and variable components of the sanitary sewer service charge. This reset becomes necessary with the District's initiation of debt service. Debt service is currently split 65/35 between the fixed and variable components of the sewer rate whereas it should be entirely borne by the fixed component. The District will study this issue during FY 2012.

The District budget proposes an increase of \$1.00 per Equivalent Service Unit (ESU) per month in the Surface Water Management (SWM) service charge fee. The SWM service charge rate will increase from \$6.00 per month per ESU to \$7.00 per month per ESU. This increase is necessary to comply with SWM regulatory requirements imposed by the Oregon Department of Environmental Quality (DEQ) through the Municipal Separate Storm Sewer System (MS4) Permit and to fund the program's capital investment projects.

The following table shows General Fund resources and requirements for the proposed FY 2012 budget:

GENERAL FUND	SANITARY SEWER SYSTEM	SURFACE WATER MANAGEMENT
TOTAL RESOURCES	\$6,563,116	\$1,200,588
PERSONAL SERVICES	-\$2,018,409	-\$644,919
MATERIALS & SERVICES	-\$1,113,729	-\$307,946
OPERATING CONTINGENCY	-\$156,582	-\$47,668
TRANSFER TO CIF	-\$807,910	-\$200,054
TRANSFER TO DSF GO Bond	-\$1,714,850	\$0
TRANSFER TO DSF STATE LOANS	-\$751,636	\$0
ENDING FUND BALANCE	\$0	\$0

The following table shows Capital Improvement Fund resources and requirements for the proposed FY 2012 budget:

CAPITAL IMPROVEMENT FUND	SANITARY SEWER SYSTEM	SURFACE WATER MANAGEMENT
BEGINNING FUND BALANCE	\$14,681,143	\$2,216,569
TRANSFER FROM GF	\$807,910	\$200,054
CWSRF DEBT ISSUANCE	\$3,000,000	\$0
MISCELLANEOUS	\$200,000	\$0
INTEREST INCOME	\$73,406	\$11,083
TOTAL RESOURCES	\$18,762,458	\$2,427,706
EQUIPMENT	-\$147,847	-\$51,513
FACILITY MODIFICATION	-\$14,000,000	\$0
COLLECTION SYSTEM	-\$85,000	-\$415,000
OTHER	-\$0	-\$5,000
TRANSFER TO GF	-\$581,364	\$0
ENDING FUND BALANCE	\$3,948,248	\$1,956,193

Detailed descriptions of resources and requirements for the General Fund, Capital Improvement Funds, System Development Charge Fund, and Debt Service Funds are provided in the following Budget Message and in the proposed FY 2012 Budget detail.

Budget Message

Fiscal Year 2012

Presented for your information is the proposed Oak Lodge Sanitary District budget for Fiscal Year 2012. Oak Lodge Sanitary District provides sanitary sewer and surface water management services to approximately 30,000 residents within a 6.5 square mile area. The District operates a sanitary sewer collection system totaling 100 miles in length, a surface water management system of some 84 miles in length, and a wastewater treatment plant with an average dry weather capacity of 4 million gallons per day. In calendar year 2010, the District collected and treated more than 1.3 billion gallons of wastewater.

The District's wastewater collection and treatment facilities were originally constructed more than 45 years ago. There have been numerous upgrades over the ensuing years but most of the wastewater treatment plant's process units exceed 35 years in age. Beginning in 2005, the District engaged in a planning effort to develop a new Sanitary Sewer System (SSS) CIP Master Plan. This new Master Plan was completed in June 2007 and serves as a guide for the extensive reinvestment necessary to ensure reliable service provision and environmental protection for the next 30 to 50 years. During FY 2011, the District began construction Phase 1A of the Water Reclamation Facility Improvements Project and completed the final design of Phase 1B. The project, which has been greatly influenced by community interests developed through the Master Plan Community Advisory Committee process, assures cost-effective improvements to the sanitary sewer collection and treatment systems that will protect public health and the environment for the foreseeable future.

The District recently completed the Surface Water Management (SWM) Strategic Plan which provides direction for the SWM operations program and SWM 10-Year Capital Improvement Plan. The SWM Strategic Plan serves as a prioritization tool for assuring that limited surface water funds are spent on projects that best serve District objectives. The Oregon DEQ has issued the new 5-year National Pollutant Discharge Elimination System (NPDES) Municipal Separate Storm Sewer System (MS4) Permit which imposes new regulatory requirements on the District. The current surface water management revenue stream is inadequate to meet the operational needs of the program, the new regulatory requirements, and fund construction of all needed projects. The monthly service charge rate per Equivalent Service Unit (ESU) for SWM has not been increased since 2000 and this budget includes a \$1.00 per month per ESU rate increase which raises the monthly service charge for SWM from \$6.00 per month per ESU to \$7.00 per month per ESU.

The details of the Budget Message are presented under the following headings:

- ENVIRONMENTAL & REGULATORY ISSUES
- CAPITAL FINANCE ISSUES
- BUDGET HIGHLIGHTS
 - General Fund Resources
 - General Fund Expenditures
 - General Fund Transfers and Contingencies
 - Capital Improvement Funds
 - System Development Charge Fund
 - Debt Service Funds
 - Summation

ENVIRONMENTAL & REGULATORY ISSUES

In 2007, the Oregon Legislature passed Senate Bill 737 (SB737) which required DEQ to consult with all interested parties to develop a list of priority persistent bioaccumulative toxics (Priority Persistent Pollutant List). A priority persistent pollutant is a substance that is toxic and either persists in the environment or accumulates in the tissues of humans, fish, wildlife or plants. DEQ has developed a Priority Persistent Pollutant List of 118 pollutants that meet this definition. During FY 2011, the District collected samples twice for DEQ to analyze the facility's effluent for these 118 pollutants. In both analyses, the effluent results were below plan initiation limits (PIL) on all substances except three. Two of those substances, Cholesterol and Coprostanol, are byproducts of human digestion and were high in every utility's results. DEQ is removing those two substances from the list of pollutants requiring mitigation. The third substance which was above the PIL was beta-Sitosterol which is a phytosterol (plant sterol), normally associated with commercial vegetable or seed processing. The District has no commercial food processors so the usual approach to reducing the substance (i.e. industrial pretreatment) will not result in addressing the issue since the source in the District is not understood. The new simultaneous nitrification/denitrification (SNDN) treatment plant process, in conjunction with the Cannibal solids treatment will likely reduce this substance below the PIL.

The District's new SSS CIP Master Plan for the water reclamation facility identifies potential changes to plant effluent standards which are determined by the facility's NPDES Permit. The current permit is expired with a DEQ-established date in 2014 for renewal. Until the new permit is in place, the District continues to operate under the expired permit. The District continues to work closely with the DEQ to develop an understanding on these potential changes to assure that any changes in requirements are based on sound science and clearly defined environmental benefits. In meetings held with the DEQ in 2010, it was understood that the District will be expected to comply with the Willamette River Basin Standard of 10 milligrams per liter of BOD (biochemical oxygen demand) and 10 milligrams per liter of TSS (total suspended solids) in the plant effluent in future NPDES permits. The new water reclamation facility is designed to meet these anticipated limits.

On the SWM program regulatory front, the District has received its NPDES MS4 Permit. The new MS4 permit requires significantly higher levels of monitoring and testing as well as studies on hydrology and impact mitigation. We continue to advocate with DEQ for the use of Best Management Practices which have been effective measures for managing the District's surface water and drainage systems.

CAPITAL FINANCE ISSUES

The proposed FY 2012 budget continues the District's commitment and obligation to reinvest in clean water facilities that protect public health and ensure environmental protection. The Sanitary Sewer System Master Plan identified needed improvements that will require significant investments in wastewater treatment facilities. The District has been successful in reducing project costs from the \$80 million estimate developed in the SSS CIP Master Plan to \$56.5 million. The District has been successful in accessing alternative financing sources to further reduce rate impacts of the project. In total the District has acquired \$45 million in debt financing with twenty year terms to maturity. The District sold \$24 million in General Obligation Bonds at 3.72% interest to finance the initial phases of the treatment facilities upgrades. Additionally, the District has received \$5.0 million in Clean Water State Revolving Fund (CWSRF) monies at zero percent interest with a 0.50% administration fee. The District received \$8 million in Oregon Infrastructure Financing Authority (IFA) loans at net 2.71% interest. The District applied for additional funding in the amount of \$8 million from the Oregon CWSRF and was approved for up to \$11.4 million at 2.65% interest plus a 0.50% administration fee. Combined these funding sources maintain a net weighted average interest rate of 3.08%.

BUDGET HIGHLIGHTS

General Fund Resources

General Fund Resources are comprised of monthly sanitary sewer service (SSS) and surface water management (SWM) rate revenue, investment income, sundry revenues and unspent funds carried forward from the prior fiscal year. The District operates from fee-for-service revenue sources. The District does not levy taxes, and any grant monies received are typically funneled through other organizations into budgeted capital improvement projects. The District does not borrow money to fund operations but it does fund large treatment facility replacement, modification, and expansion capital projects through debt financing.

The SSS Program Resources will increase by 9.74% over the prior fiscal year's amended budget. This increase is due primarily to a transfer of \$581,364 from the SSS CIF into the General Fund which is the result of an unfavorable deficiency between operating income and debt service payments. In essence this transfer is necessary to assure adequate resources to pay debt service in FY 2012. This transfer alone reflects a 9.72% increase to SSS resources.

Total SWM program resources will decline by 14.14% over the prior fiscal year amended budget. This decrease is primarily due to a smaller Fund Balance (Carryover) which has declined by \$377,604 from FY 2011. The proposed budget for SWM includes a \$1.00 per month per ESU increase in the SWM service charge rate per ESU.

While the overall budgeted General Fund Resources will increase by 5.21% over the prior fiscal year amended budget, this increase is primarily the result of the CIF transfer in the Sanitary Sewer Program to cover the debt payments in FY 2012. Total General Fund Resources are projected to be \$7,763,704. These resources fund the operating expenses of providing sanitary sewer services and surface water management services. Resources which exceed operating expenses and are available for disbursement are either transferred to debt service funds for purposes of satisfying debt service requirements or transferred to capital improvement funds for purposes of current and future capital improvements.

The proposed sanitary sewer system budget includes a 5.0% rate increase in the monthly service charge. That charge is comprised of a fixed component which is \$20.00 per month per EDU and a variable component which is \$2.11 times each customer's average monthly winter water consumption. The FY 2012 budget is based on a District-wide estimated monthly average winter water consumption of 5.32 hundred cubic feet (ccf) of water per month, while the FY 2011 budget was based on a District-wide average monthly water consumption of 6.0 ccf of water per month; consequently, on average across all customers, in FY 2012 the actual revenue expected to be raised as a result of a 5.00% SSS rate increase is \$0.17 per month per EDU which is approximately \$39,686 or 0.77% of the estimated sanitary sewer service revenue budgeted in FY 2011. For the single family household class of customers, the average water consumption per month has dropped to 5.5 ccf. In comparing FY 2011 to FY 2010, single-family households reduced their average winter water consumption from 6.26 ccf in FY 2010 to 5.5 ccf in FY 2011. As a result, the rate impact of a 5.0% SSS rate increase is in the customer's favor. Thus, the average monthly SSS service charge to those customers will decrease \$0.93 or 2.94% from the previous year because of the reduction in average winter water consumption despite the increase in the SSS service charge rates.

GENERAL FUND RESOURCE SUMMARY

FUNDING RESOURCE	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
FUND BALANCE (Carryover)	\$743,121	\$41,305
OPERATING INCOME	\$5,231,889	\$1,157,036
NON-OPERATING INCOME	\$6,743	\$2,248
TRANSFER FROM SSS CIF	\$581,364	\$0
TOTAL RESOURCES	\$6,563,117	\$1,200,589

General Fund Expenditures

General Fund Expenditures are budgeted to increase from the amended FY 2011 budget level of \$7,379,050 to \$7,763,704, or 5.21%. These expenditures consist of Personal Services, Materials and Services, Contingencies, Transfers to the Capital Improvement Funds for Sanitary Sewer Service and Surface Water Management, and Transfers to the Debt Service Funds for Sanitary Sewer Service. Total Personal Services are budgeted to increase 9.52%. The Personnel Services expense represents a District workforce of 24 FTEs, a 7.24% increase in labor salary costs which includes a cost-of-living adjustment (COLA) of 0.90% per labor agreement; a 6.73% combined increase in medical and dental benefit costs; and a 46.83% increase in PERS employer contributions.

The overall Materials and Services (M&S) budget includes a 6.01% decrease from the amended FY 2011 budget. District staff has made significant reductions in the M&S accounts in Engineering/ Professional Fees; Materials & Supplies; Facility Repair & Maintenance; and SSS Collection System Correction.

The Administration budget is down 19.25% over FY 2011. A large portion of this decline is due to reallocating PCL Insurance from Administration to the SSS and SWM Operating budgets. Utilities, Small Tools & Equipment, and Facility Repair & Maintenance are all funded in Administration in FY 2012. In prior years these Administration building costs were imbedded in the Operations budgets.

The Sanitary Sewer Service Operations budget is down 3.34% over FY 2011. Reductions have been made in SSS Engineering & Professional Fees; SSS Materials & Services; SSS Repair & Maintenance; SSS Collection System Correction; and SSS Contract Laboratory Services.

The Surface Water Management Operations budget is up 22.10% over FY 2011. A significant proportion of the increase is in Public Information/Public Relations; SWM Office Systems Maintenance; and SWM Contract Laboratory Services. The new Municipal Separate Storm Sewer System (MS4) permit requires additional operational activities, evaluation of “Best Management Practices” effectiveness, and increased monitoring of water quality.

GENERAL FUND EXPENDITURE SUMMARY

EXPENDITURE CATEGORY	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
PERSONAL SERVICES	\$2,018,409	\$644,919
MATERIALS & SERVICES	\$1,113,729	\$307,946
TRANSFER & CONTINGENCY	\$3,430,978	\$247,723
TOTAL EXPENDITURES	\$6,563,116	\$1,200,588

Transfers and Contingencies

The balance of the General Fund budget consists of \$204,250 in contingency funds, which is equal to 5% of the total General Fund expenditures – not including the contingency funds, transfers to capital improvement funds, and transfers to debt service funds. General Fund transfers include a transfer of \$200,054 to the Surface Water Management Capital Improvement Fund, a transfer of \$807,910 to the Sanitary Sewer Service Capital Improvement Fund, a transfer of \$1,714,850 to the Sanitary Sewer Service General Obligation Bond Debt Service Fund, and a transfer of \$751,636 to the Sanitary Sewer Service State Loans Debt Service Fund...

With the significant expense associated with the treatment plant capital improvement project, and the District’s relatively limited resources for the project, the District was required to raise necessary additional capital through debt financing in order to fund the project. Debt financing allowed the District to fund the project without implementing significant sanitary sewer rate increases that would have been otherwise required if the District had chosen to not borrow the funds for the project. The District has completed all of its borrowings to fund the Water Reclamation Facility Improvements Project. In FY 2012, the net debt service will be \$2.52 million. Near-term net debt service peaks in FY 2014 at \$3.14 million and then declines in FY 2015 to \$3.07 million. The District’s average net total debt service FY 2014 to FY 2030 will be approximately \$3.03 million per year. With an adequate transfer to debt service funds each year the District will be able to satisfy its debt service requirements, thereby stabilizing sanitary sewer service rates. The difference between total debt service and total net debt service is a Federal debt subsidy on the IFA debt which was issued through Build America Bonds. The average debt subsidy over the life of the loans is \$107, 243 per year.

The transfer to the Sanitary Sewer Service Capital Improvement Fund will develop capital resources for sanitary sewer projects or equipment other than the Water Reclamation Facility Project that are expected to be identified and prioritized in the District’s Sanitary Sewer Service 10-Year Capital Improvements Program. The transfer for next fiscal year is projected at \$807,910, representing the difference between projected SSS resources and SSS expenditures in the General Fund.

The transfer to the Surface Water Management Capital Improvement Fund will develop capital resources for projects that are identified and prioritized in the District’s Surface Water Management 10-Year Capital Improvements Program. Our currently defined capital needs for the Surface Water Management program are projected to be some \$6,000,000. The transfer for next fiscal year is projected at \$200,054, representing the difference between projected SWM resources and SWM expenditures in the General Fund.

TRANSFERS & CONTINGENCIES SUMMARY

EXPENDITURE CATEGORY	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
OPERATING CONTINGENCY	\$156,582	\$47,668
TRANSFER TO CIF	\$807,910	\$200,054
TRANSFER TO DSF STATE LOANS	\$751,636	\$0
TRANSFER TO DSF GO BONDS	\$1,714,850	\$0
TOTAL	\$3,430,978	\$247,723

Capital Improvement Funds

The District's SSS Capital Improvement Fund projected resources total \$18,762,458. These funds come from the Beginning Fund Balance of \$14,681,143; transfer of \$807,910 from the General Fund; interest income of \$73,406; \$200,000 reimbursement from PGE for the Stand-by Dispatchable Generator; and \$3,000,000 in CWSRF loans proceeds.

Planned expenditures from the SSS CIF include the treatment plant improvements; information technology system upgrades; and collection system repairs. These expenditures total \$14,232,847. The balance of \$3,948,248 will provide funding for later phases of the treatment plant project.

In the Surface Water Management Capital Improvement Fund, projected resources total \$2,427,707. These funds come from the Beginning Fund Balance of \$2,216,569, the transfer of \$200,054 from the General Fund, and interest income of \$11,083. Expenditures from the SWM Capital Improvement Fund include drainage improvement projects and information technology system upgrades. These expenditures total \$471,513. The balance of the fund, \$1,956,193 will be reserved to provide funding for projects planned in future years.

CAPITAL IMPROVEMENT FUND SUMMARY

RESOURCE & EXPENDITURE CATEGORY	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
RESOURCES		
BEGINNING FUND BALANCE	\$14,681,143	\$2,216,569
TRANSFER FROM GF	\$807,910	\$200,054
CWSRF DEBT ISSUANCE	\$3,000,000	\$0
IFA DEBT ISSUANCE	\$0	\$0
GO BOND DEBT ISSUANCE	\$0	\$0
INTEREST INCOME	\$73,406	\$11,083
MISCELLANEOUS	\$200,000	\$0
TOTAL RESOURCES	\$18,762,458	\$2,427,702
EXPENDITURES		
EQUIPMENT	\$147,847	\$51,513
FACILITY MODIFICATION	\$14,000,000	\$0
COLLECTION SYSTEM	\$85,000	\$415,000
OTHER	\$0	\$5,000
TOTAL EXPENDITURES	\$14,232,847	\$471,513
TRANSFERS		
TRANSFER TO GF	\$581,364	\$0
TOTAL TRANSFERS	\$581,364	\$0
RESERVES		
ENDING FUND BALANCE	\$3,948,248	\$1,956,193
CAPITAL IMPROVEMENT FUND REQUIREMENTS		
TOTAL REQUIREMENTS	\$18,762,458	\$2,427,706

System Development Charge Fund

With the development of the Water Reclamation Facility Improvements Project Phase 1A Guaranteed Maximum Price (GMP), the District established an updated Sanitary Sewer Systems Development Charge (SDC) of \$5,165 per Equivalent Dwelling Unit (EDU) in September 2009. Prior to the start of FY 2012, the District will have received the GMP for Phase 1B of the project. With those new costs in hand, the District will go through an SDC update process with the goal of establishing new SSS SDCs in Fall 2011.

It is anticipated that the District will sell 10 SDCs in FY 2012. That amount, \$51,650, will be transferred to the Debt Service Fund for State Loans. If the District sells more than 10 SDCs, the excess amount will be placed in the SDC Fund and reserved for transfer to the Debt Service Fund for State Loans in subsequent years. If the District sells less than 10 SDCs, the transfer to the Debt Service Fund for State Loans will be supplemented by reserves in the SDC Fund.

The FY 2012 Budget is based on the current SDC rate of \$5,165/EDU.

SYSTEM DEVELOPMENT CHARGE FUNDS SUMMARY

RESOURCE & EXPENDITURE CATEGORY	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
RESOURCES		
BEGINNING FUND BALANCE	\$142,170	\$0
SYSTEM DEVELOPMENT CHARGES	\$51,650	\$0
INTEREST INCOME	\$711	\$0
TOTAL RESOURCES	\$194,531	\$0
TRANSFERS		
TRANSFER TO DSF STATE LOANS	\$51,650	\$0
TOTAL TRANSFERS	\$51,650	\$0
RESERVES		
ENDING FUND BALANCE	\$142,881	\$0
CAPITAL IMPROVEMENT FUND REQUIREMENTS		
TOTAL REQUIREMENTS	\$194,531	\$0

Debt Service Funds for State Loans

Oak Lodge Sanitary District applied for three loans from the State of Oregon to assist with the funding of the Water Reclamation Facility Improvements Project. The first loan received was an interest-free loan with a 0.50% administration fee from the Clean Water State Revolving Fund (CWSRF) in the amount of \$5.0 million. The District then received a loan from the Oregon Economic Development Department’s Infrastructure Financing Authority (IFA) in the amount of \$8.0 million with a net interest rate of 2.71% after adjusting for a 45% interest subsidy from the US Treasury on interest for Build American Bonds associated with the loan. The District applied for additional funds from the CWSRF in FY 2011 and was approved for a loan of up to \$11.4 million at 2.65% interest plus a 0.50% administration fee; however, the District intends to only use \$8.0 million from the latest CWSRF loan.

The Debt Service Fund for State Loans provides funding for principal and interest payments on the CWSRF and IFA loans. In Fiscal 2012, the District will make payments from this fund totaling \$952,466. Of this amount, \$51,650 will be paid from System Development Charge receipts anticipated to be received in FY 2012. The remainder will come from transfers from the General Fund and the IFA Federal Interest Subsidy which results from Federal rebates on the Build America Bonds used by the IFA to fund the loan. The ending fund balance represents loan reserve requirements of the CWSRF loans.

DEBT SERVICE FUND FOR STATE LOANS SUMMARY

RESOURCE & EXPENDITURE CATEGORY	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
RESOURCES		
BEGINNING FUND BALANCE	\$125,000	\$0
TRANSFER FROM GF	\$751,636	\$0
TRANSFERS FROM SDCF	\$51,650	\$0
IFA INTEREST FEDERAL SUBSIDY	\$149,180	\$0
TOTAL RESOURCES	\$1,077,466	\$0
EXPENDITURES		
PRINCIPAL PAYMENTS	\$576,615	\$0
INTEREST PAYMENTS	\$375,851	\$0
TOTAL EXPENDITURES	\$952,466	\$0
RESERVES		
ENDING FUND BALANCE	\$125,000	\$0
DEBT SERVICE FUND REQUIREMENTS		
TOTAL REQUIREMENTS	\$1,077,466	\$0

Debt Service Funds for General Obligation Bonds

In April 2010, the District sold \$24 million in General Obligation Bonds to finance Phase 1A of the Water Reclamation Facility Improvements Project. Due to the District’s excellent AA Stable rating as established by Standard & Poor’s, the District received a very favorable interest rate of 3.72% on the debt. The Debt Service Fund for General Obligation Bonds provides the funds for making payments on the bond’s principal and interest. The District makes two payments per year totaling \$1,714,850.

DEBT SERVICE FUND FOR GENERAL OBLIGATION BONDS SUMMARY

RESOURCE & EXPENDITURE CATEGORY	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
RESOURCES		
BEGINNING FUND BALANCE	\$0	\$0
TRANSFER FROM GF	\$1,714,850	\$0
TOTAL RESOURCES	\$1,714,850	\$0
EXPENDITURES		
PRINCIPAL PAYMENTS	\$870,000	\$0
INTEREST PAYMENTS	\$844,850	\$0
TOTAL EXPENDITURES	\$1,714,850	\$0
RESERVES		
ENDING FUND BALANCE	\$0	\$0
DEBT SERVICE FUND REQUIREMENTS		
TOTAL REQUIREMENTS	\$1,714,850	\$0

Summation

In FY 2012, the Oak Lodge Sanitary District continues its progress toward completion of the Water Reclamation Facility Improvements project. When completed in FY 2013, the facility will provide sustainable wastewater treatment services for at least the next 30 years. This is an expensive project which will have enduring impacts on sewer rates. The District is committed to identifying and implementing the most cost-effective solutions that meet the community's values and expectations with a focus on keeping rates affordable for our customers.

Operationally, the District will implement measures that will assure that the District's customers receive efficient and professional services. Treatment system operations will undergo a significant transformation as Phase 1A of the new facility comes online in the Fall of 2011. Although our focus in recent years has been on the new treatment facility, a new emphasis has been placed on cleaning and inspecting the entire sanitary sewer collection and transmission system over the next five years. The Sanitary Sewer Service Program requires minimal additional investment in the future beyond the inflationary impacts on personnel, materials, and services. The Surface Water Management Program is challenged with the requirements of the new MS4 NPDES Permit. The recently completed Surface Water Management Strategic Plan will help the District to determine priorities for funding increased SWM operational requirements and SWM CIP projects. With the new MS4 Permit and completed SWM Strategic Plan as guideposts, a rate increase of \$1.00 per month per ESU is needed to meet operational requirements and address capital improvement needs. District staff is committed to working with the community and other partners to assure that the goals of the program are well understood and supported by the ratepayers of the District.

The Oak Lodge Sanitary District has excellent employees who are committed to providing the highest quality services to our customers in an affordable manner. We have an engaged community of Citizens who care about the environment and the District, who overwhelmingly supported the sale of General Obligation Bonds to fund the treatment facility upgrades. We are looking to this same community of Citizens for support and guidance as we work to meet the new requirements of the SWM MS4 Permit and to transform the watersheds within the District into proper functioning habitat for species which have historically inhabited these watersheds.

Working collaboratively with the community through the FY 2012 budget the District will finance, construct, and operate wastewater and surface water systems that efficiently and effectively serve current and future residents of the District. Together, we will ensure that the community's investments result in affordable and sustainable services that protect and enhance our valuable water resources.

J. Michael Read,
General Manager and Budget Officer