



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 Fiscal Year 2009-2010

This budget book presents the adopted Oak Lodge Sanitary District budget for Fiscal Year 2009 – 2010. 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 an average year, the District will collect, treat, and recycle more than 1.2 billion gallons of wastewater.

The District's wastewater collection and treatment facilities were originally constructed more than 40 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. Over the past several years, the District has been engaged in an intensive planning effort to develop a new Sanitary Sewer System 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 20 years. In April 2009, the wastewater facility predesign process was completed which provides the basis for design and construction of the Wastewater Treatment Plant Upgrade Project. In FY 09-10, the District will complete the final design and begin construction of treatment plant upgrade. District efforts to date, which have been greatly influenced by community interests expressed through the Master Plan Community Advisory process, assure cost-effective improvements to the sanitary collection and treatment systems that will protect public health and the environment for the next 20 to 30 years.

The District continues to use its Surface Water Management 10-Year Capital Improvement Plan as the guide for implementing surface water projects. In FY 09-10, the District will work with the Surface Water Management Advisory Committee to develop watershed master plans. Those master plans will serve as a prioritization tool for assuring that limited surface water funds are spent on projects that best serve master plan objectives. As we look to the future, it is clear that our current surface water management rates are inadequate to fund construction of all the needed projects. The District will fund projects planned for FY 09–10 with existing resources but additional revenues will likely be needed in the future to achieve surface water management goals.

There are a number of environmental and regulatory issues facing the District. The Oregon Department of Environmental Quality (DEQ) has adopted Total Maximum Daily Loads (TMDL) for the Willamette River consisting of bacterial and temperature standards. Additionally, DEQ is preparing to implement a Mercury standard. Our current and future wastewater treatment plant will easily comply with the bacterial and temperature TMDLs. However, if future Mercury regulations go beyond Best Management Practices developed for pollution prevention, there may be cost impacts.

The District's new Master Plan for the wastewater treatment facility identifies potential changes to plant effluent standards. The District will work closely with Oregon DEQ to develop an understanding on these potential changes and will strive to assure that any changes in requirements are based on sound science and clearly defined environmental benefits.

On the surface water management program regulatory front, the District has applied for renewal of its NPDES MS4 (Municipal Separate Storm Sewer Systems) Permit. The new permit has not yet been issued but it is possible that new permit requirements may be imposed on SWM operations and performance. We continue to advocate with DEQ for the continuation of the Best Management Practices that have been effective measures for managing the District surface water and drainage systems.

The adopted FY 09 - 10 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. With the Predesign Project now complete, it is clear that the upgrade of the District's wastewater treatment infrastructure will be costly. The District has been successful in reducing project costs from the \$80 million estimate developed in the Master Plan to \$50 million identified in the Predesign Project. With authorization to proceed with the Construction Manager/General Contractor (CM/GC) project delivery mechanism, a key goal will be to identify additional opportunities for cost reduction. The District's Board of Directors has authorized the sale of up to \$55 million in Revenue Bonds to finance the wastewater treatment upgrades. The District has positioned itself for potential alternative financing opportunities which may reduce the rate impacts of the projects. Specifically, the District has completed all applications and requirements to qualify for up to \$5.0 million in Federal Stimulus funds; \$10 million in Oregon Economic & Community Development Department funds; and annual loans from the Oregon Clean Water State Revolving Funds (SRF). These alternative financing opportunities all require payback of all or some of the monies borrowed however, the interest rates, coverage, and reserve requirements are favorable when compared to traditional Revenue Bonds. Access to these alternative financing mechanisms will result in significant long-term savings to the District's ratepayers. The District is committed to working diligently to assure that the needed projects are cost-efficient and scheduled in a manner that results in the lowest responsible sewer rates over the long-term.

The employees of the Oak Lodge Sanitary District are committed to providing the highest quality services to our customers. We have an engaged community of Citizens who care about the environment and the District. Together, we will work collaboratively to ensure that the community's investment result in affordable and sustainable clean water services.

General Fund Resources

The adopted budget includes an increase in overall General Fund Resources of 5.89%. These resources are comprised of monthly sanitary sewer (SSS) and surface water (SWM) rate revenue, investment income, and sundry revenues as well as unspent funds carried forward from the current fiscal year. The District operates totally 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.

Sanitary Sewer Services Program Resources increase by 7.36% over the previous fiscal year. This increase is due to an 8% sanitary sewer services rate increase. The primary reason that the rate increase raises resources by only 7.36% is because of reductions in Sundry Revenue and Interest Income.

Surface Water Management program resources decrease by .73% from the previous year. This is due to a reduction in interest income. SWM rates are not changing for FY 09 - 10.

While the budgeted General Fund Resources increase by 5.89% over the previous fiscal year's budget, this increase is the result of the rate increase in the Sanitary Sewer Program. Total General Fund Resources are projected to be \$6,614,413. These resources fund the operating expense of providing sanitary sewer and surface water management services. Resources which exceed operating expenses are transferred into the two capital improvement funds to finance current and future capital improvements.

The adopted budget includes an 8% rate increase to the sanitary sewer service charge. This increase is one of several anticipated rate adjustments to fund new and renovated wastewater treatment facilities. While some operating expenses are increasing as a result of labor, chemicals, energy, and fuel costs; the primary driver of rate increases continues to be capital facility funding. The District has completed the predesign phase of the Wastewater Treatment Plant Upgrade Project which produced a detailed capital improvement plan and schedule which provides the initial basis for determining Bonding requirements and future rate increases. The Oak Lodge Sanitary District Board of Directors has approved the sale of up to \$55 million in Revenue Bonds to fund the Wastewater Treatment Plant Upgrade Project to meet service and environmental requirements for the next 20 to 30 years.

GENERAL FUND RESOURCE SUMMARY

FUNDING RESOURCE	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
FUND BALANCE (Carryover)	\$553,874	\$165,513
OPERATING INCOME	\$4,927,822	\$956,000
NON-OPERATING INCOME	\$8,403	\$2,801
TOTAL	\$5,490,099	\$1,124,314

General Fund Expenditures

General Fund Expenditures increase from the previous year’s budget level of \$6,246,440 to \$6,614,413, or approximately 5.89%. These expenditures consist of Personal Services, Materials and Services, Contingencies, and Transfers to the Capital Improvement Funds for Sanitary Sewer and Surface Water Management. Total Personal Services are budgeted to increase 3.2%. The Personnel Services expense represents a District workforce of 24 FTEs, an increase in labor cost of 2.7%, and decreases in employee benefit costs. There are no new positions proposed in the FY 2009 – 2010 budget.

The overall Materials and Services budget decreases by 14.14% from the previous fiscal year. The Administration budget is 44.2% below the previous year’s budget. A significant proportion of the decrease is in Professional Services, Legal Services and Public Information. The General Fund does not include Financial, Bond, Legal and Public Involvement services to support the treatment plant capital program which are funded in the SSS Capital Improvement Fund in FY 09 - 10.

In the Sanitary Sewer operations budget, the expenditures include higher fuel, energy, and chemical costs; and reductions to maintain equipment and facilities. The overall sanitary sewer materials and services budget increases by 11.12%.

The adopted SWM materials and services budget amounts to \$139,187, some 124.46% above the previous budget. The new Municipal Separate Storm Sewer System (MS4) permit will require 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	\$1,733,897	\$542,876
MATERIALS & SERVICES	\$1,104,158	\$259,404
TRANSFER & CONTINGENCY	\$2,652,044	\$322,034
TOTAL	\$5,490,099	\$1,124,314

Transfers and Contingencies

The balance of the General Fund budget consists of \$182,017 in contingency funds, which is equal to 2.83% of the total General Fund expenditures, plus transfers of excess revenues over expenses to the Capital Improvement Funds for Sanitary Sewer and Surface Water Management. The transfers amount to \$2,510,142 to the Sanitary Sewer Capital Improvement Fund and \$281,920 to the Surface Water Management Capital Improvement Fund.

With the significant expense associated with the treatment plant capital improvement program, it is necessary to build our sanitary sewer system capital improvement fund. Each fiscal year we will endeavor to transfer between \$2 million and \$3 million to this capital fund. During Fiscal 2009 - 2010, we will be borrowing on the Bond market to finance the capital program.

With an adequate transfer to reserves each year, we will be able to make our Bond payments from the capital reserve account, thereby stabilizing rates.

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 budgeted at \$281,920, representing the difference between projected resources and expenditures in the General Fund. In future budgets, it will become necessary to increase SWM revenues in order to accomplish all of the capital and operational needs of the program.

TRANSFERS & CONTINGENCIES SUMMARY

EXPENDITURE CATEGORY	SANITARY SEWER PROGRAM	SURFACE WATER MANAGEMENT PROGRAM
OPERATING CONTINGENCY	\$141,903	\$40,114
TRANSFER TO CIF	\$2,510,142	\$281,920
TOTAL	\$2,652,044	\$322,034

Capital Improvement Funds

The District's Sanitary Sewer Capital Improvement Fund projected resources total \$9,792,036. These funds come from the current projected reserves of \$7,135,338, the transfer of \$2,510,142 from the General Fund, an additional \$50,230 from the System Development Charges Fund, and interest income of \$96,327. Proceeds from debt financing have not been included in the FY 10 budget because the availability, amount of borrowings, and terms are not known.

Planned expenditures from the Sanitary Sewer Capital Improvement Fund include treatment plant and collection system equipment, and the planning, design and construction of major infrastructure. These expenditures total \$9,792,036 in new equipment, engineering design and construction of major renovations to the treatment plant.

In the Surface Water Management Capital Improvement Fund, projected resources total \$1,942,753. The source of these resources is the current projected beginning fund balance in reserves of \$1,641,757 plus the transfer from the General Fund of \$281,920 plus interest income of \$19,077. Expenditures from the SWM Capital Improvement Fund, including drainage improvement projects, total \$423,398. The balance of the fund, \$1,514,355 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	\$7,135,338	\$1,641,757
TRANSFER FROM GF	\$2,510,142	\$281,920
SRF PROCEEDS (Stimulus)	\$0	\$0
REVENUE BOND PROCEEDS	\$0	\$0
INTEREST INCOME	\$96,327	\$19,077
SYS. DEV. CHARGES FUND	\$50,230	\$0
TOTAL RESOURCES	\$9,792,036	\$1,944,753

EXPENDITURES		
EQUIPMENT	\$330,000	\$15,000
FACILITY MODIFICATION	\$8,911,842	\$0
COLLECTION SYSTEM	\$15,000	\$405,000
OTHER	\$535,194	\$8,398
TOTAL	\$9,792,036	\$428,398

DEBT SERVICE		
TRANSFER TO D. S. FUND	\$0	\$0

RESERVES		
ENDING FUND BALANCE	\$0	\$1,514,355

CAPITAL IMPROVEMENT FUND REQUIREMENTS		
TOTAL REQUIREMENTS	\$9,792,036	\$1,942,753

Summary

The Oak Lodge Sanitary District has embarked on a program to upgrade its wastewater treatment infrastructure to provide sustainable services for the next 20 to 30 years. This program will be expensive and therefore will have significant impacts on sewer rates. We are committed to pursuing this program with the intent of identifying the most cost-effective solutions that meet the community's values and expectations. This FY 09 –10 budget includes the necessary funding to produce the designs, acquire financing, and begin construction to achieve our water quality goals while maintaining affordable rates. Our reinvestment today will serve current and future residents just as earlier generations' investments in the 1960's and 1970's brought our sanitary system to this point.

Our operational focus will be on providing the District's customers with efficient and professional services. Sanitary Sewer System operations are well established and require no additional investment in the future except in response to inflationary impacts on personnel, materials, and services. The Surface Water Management program is beginning to encounter revenue limitations. Without increased revenues in future years the SWM program will eventually consume all of its revenue in operational activities and capital investment will cease. Fiscal Year 10 –11 will likely require consideration of SWM rate increases or other revenue enhancement strategies.



J. Michael Read,
General Manager and Budget Officer