

---

## Southwest Regional Water District Special Meeting Minutes

---

A special meeting of the Audit Committee was held Tuesday, November 10, 2020 beginning at 7:00 p.m. at the administrative building with some members participating remotely via Microsoft Teams video meeting.

Meeting called to order at 7:00 p.m.

Attendance: Bob Schmidt, Bo Copeland, Randy Rolke, Mike Egbert, Sue Vance and Kenny Hoffman.

A report of tap fee receipts from July 30, 2020 – October 30, 2020 was reviewed. Of the 39 receipts, one was not timely deposited as it was deposited one day late. As this was a repeat issue of noncompliance with our SOP, staff was disciplined.

A report of ACH authorizations was reviewed. The ACH authorization rules are unchanged except for the vendor Paycor. Paycor has several different ACH rules, and there are now specific ACH limits for each Paycor subaccount instead of a blanket limit as had been the case.

The Credit Card report of available limits, account balances and available balances was presented and discussed. Of note was the Visa account with a negative balance due to a refund of the WaterPro Conference registration fees. The committee also previously requested staff investigate an alternate credit card for staff use as the First Financial Visa has been the subject of fraudulent use on several occasions. The Finance Manager has investigated various cards, and found that Chase, Capital One and Discover do not offer governmental credit cards, 5/3<sup>rd</sup> has frozen its government lending for now, and US bank is not responding to our requests for a card. We will attempt to apply for a replacement card account again in the future, but in the meantime, the Finance Manager will review the First Financial Visa on-line account on at least a weekly basis to check for fraudulent use, and will employ whatever fraud prevention and notification options are made available to us.

The District's investment report was presented and discussed. The District has just short of \$8 million invested in Star Ohio, Star Plus and First Financial bank. This is approximately \$2 million more than this time last year. Our weighted average interest has plummeted from 1.78% a year ago to 0.17% today. We are earning more interest in our First Financial account (0.20%) than we are in Star Ohio (0.14%). The committee requested that the Finance Manager review the composition of Star Ohio's investment portfolio and report back to the Committee.

Staff was directed to consider development of a Minimum Cash Balance Policy. Consultation with Legal Counsel resulted in development of a set of guidelines to help define the level of financial risk the Board is comfortable with rather than a policy. A Minimum Cash Balance Guideline has been developed and is attached. This guideline serves to keep sufficient cash balance set aside for the following purposes:

- One year of maximum debt service payments
- Three months of operating expenses
- Rate stabilization equal to 5% of previous years' operating revenues
- Emergency funds of \$400,000
- Capital expenses for unplanned, unexpected or accelerated projects equal to 20% of CIP budget

These amounts are calculated annually and are a component of the Finance Forecast. The use of the Minimum Cash Balance guidelines allows the District to forecast revenues, budget, CIP, etc. and assure we maintain sufficient cash to protect against multiple risk areas. It was emphasized that these guidelines are not intended to be policy and will not be presented to the Board for approval.

The updated 5-year CIP was presented and discussed, as was the updated 10-year Finance Plan. Both are subject to change upon completion of the Master Plan that is currently underway. A question was posed regarding the District's ability to pull out of a contracted project after it's award should finances dictate that is required. The General Manager will research and provide the Committee an answer. (District's General Counsel subsequently advised that the District has a right to abandon a project and terminate the contract, potentially subject to certain costs incurred by the contractor for work performed prior to termination and recovery of certain expenses reasonably incurred by the contractor in reliance on the award of the contract.)

A question was raised about tap fees, and the General Manager recommended that a study be undertaken to assess the tap fee components and cost. A rate consultant's assistance will likely be required to complete this work. Approval of the Board will be requested for this task.

The District's 2019 State Audit was discussed, as it was released last week. The audit was a clean audit with no findings, and no recommendations, and therefore no Management Letter was issued. There was one documented Misstatement having to do with deferred pension inflows, and the Auditors made verbal recommendations on two matters having to do with the payment of interest on a credit card and a recommendation that the District undertake an asset appraisal. Also of note, the District received a four-star rating, the highest achievement, in open and transparent government.

The Finance Manager prepared a report on the District's financial health – several metrics such as operating ratio, debt as a percentage of revenue, days of cash on hand, and several more were compared with eleven of our peers in the rural water industry. A copy of that report is attached to these minutes.

Regarding Bob Schmidt's weekly review of invoices, he stated nothing material to report. It was affirmed that the District is taking advantage of early pay discounts, and also availing itself of every opportunity to consolidate frequent payments into one check, and to pay annually instead of in installments when possible.

The next meeting of the Audit Committee will take place on March 9<sup>th</sup> at 7:00 p.m. One agenda item will be to discuss information to be presented at the Annual Meeting, in the event a meeting is held. The 2020 Audit will also be discussed.

The meeting was adjourned at 8:30 p.m.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Robert L. Copeland Jr.", with a stylized flourish at the end.

Robert L. "Bo" Copeland Jr.  
Secretary, Audit Committee

## **Minimum Cash Balance Guideline Southwest Regional Water District**

### **Creation of a Minimum Cash Balance Guideline**

The Southwest Regional Water District desires to establish a minimum cash balance guideline to indicate the desired amount of funds available at all times. The minimum cash balance guideline shall play an integral role in long-term financial planning and projections. The minimum cash balance guideline is not a restriction or encumbrance of funds, shall not dictate the investment decisions of the District and shall not be a formal policy.

### **Utilization and Restoration of the Minimum Cash Balance Guideline**

If a portion of the minimum cash balance guideline is utilized, a plan shall be established at that time to recover such portion of the cash balance. Such plans may include rate changes, anticipated expenditure reductions, or amendments to the Capital Improvement Plan. The Board of Trustees shall be informed if the actual cash balance falls below the minimum cash balance guideline at the end of any month.

### **Calculation of the Minimum Cash Balance Guideline**

The minimum cash balance guideline shall be calculated on an annual basis as part of the budgeting process. The components and approach utilized to calculate the cash reserve shall be reviewed every three years.

### **Minimum Cash Balance Guideline Components**

The use of multiple components should further mitigate potential risk as compared to only considering a single component. The total of the five components shall represent the minimum cash balance guideline.

**Debt:** The District shall maintain a cash balance component for outstanding debt issuances. The amount shall be the greater of the ensuing year's total debt service payments including principal and interest, or the amount dictated by the bond covenant as restricted cash. The cash balance shall ensure the District has sufficient funds to fulfill its upcoming debt payments.

**Operations:** Three months of operating expenses shall be kept as part of the minimum cash balance to protect against potential risks, fluctuations in revenue, and the ability to meet working capital needs. The calculation shall be based upon the prior year's total operating expenses. Any significant one-time or abnormal operating expenses shall be excluded from the calculation. This component of the minimum cash balance shall provide approximately 90 days of operating expenses should an unforeseen event occur.

**Rate Stabilization:** In addition to protecting against expenditures, the minimum cash balance guideline shall include a component to protect against the potential loss of forecasted revenues. The component attempts to address the potential loss of grant funding, detrimental weather patterns, a downturn in the housing construction market, or other unpredictable revenue shortfalls. Five percent of the prior year's operating revenues shall be included within the component for rate stabilization purposes.

**Emergency:** The District faces numerous risks, some of which are currently unknown. Examples could include natural disasters, possible litigation, potential insurance claims, or catastrophic events. Due to the unknown nature of such occurrences, the District may only estimate the emergency component to

## **Minimum Cash Balance Guideline Southwest Regional Water District**

the minimum cash balance guideline. The District assumes no liability from the creation of the emergency component to the minimum cash balance guideline.

**Capital:** Funding for capital projects shall be established to provide funds for unplanned, unexpected or accelerated infrastructure replacements. The capital component may also be utilized to smooth out fluctuations or timing of capital improvement projects. The Capital Improvement Plan attempts to take an even keeled approach in terms of annual capital improvements; however, the timing and size of projects prevent a static amount of annual capital improvements. The capital component of the minimum cash balance guideline shall be 20% of the ten-year average of the annual capital improvements plan.

**Prepared By:**

Kenny Hoffman

Business & Finance Manager

10/27/2020

## 2020 Minimum Cash Balance Guideline

Component	Description	Calculation	Guideline
Debt	1994 USDA Rural Development	Ensuing year's debt service payment	\$ 224,500
Debt	2011 Various Purpose Bonds	Maximum annual debt service payment remaining	\$ 314,250
Debt	Various Ohio Public Works Commission Loans	Ensuing year's debt service payment	\$ 69,850
Operations	Cash flow necessary to fund daily operations	25% (Three months) of the prior year's total operating expenses	\$ 1,837,937
Rate Stabilization	To protect against the potential loss of grant funding, detrimental weather patterns, or other unpredictable revenue shortfalls	5% of the prior year's operating revenues	\$ 409,581
Emergency	Natural disasters, possible litigation, potential insurance claims, catastrophic events	Estimate	\$ 400,000
Capital	Unplanned, unexpected or accelerated infrastructure improvements	20% of the annual CIP budget	\$ 670,000
<b>Total Minimum Cash Balance Guideline</b>			<b>\$ 3,926,118</b>

## 2019 Financial Health Metrics

In 2016, the Auditor of State unveiled Financial Health Indicators for Ohio's 88 counties and 247 cities. The Auditor of State's main goal was to help local officials better predict when their communities' financial health was going in the wrong direction. The Auditor of State far too often saw entities end up in fiscal emergency without a clear understanding of how they got into such a predicament. The Auditor of State studied historical data for entities that had been declared in fiscal distress and identified key indicators of fiscal stress. Seventeen indicators were collected from annual financial reports. The resulting data was presented to the general public so citizens as well as city council members or county commissioners could ask pertinent questions regarding less desirable metrics.

The Auditor of State's Financial Health Indicators was largely seen as a successful program. Unfortunately, the Financial Health Indicators were not applied to Schools, Townships, or Rural Water Districts. Several of the key Financial Health Indicators the State utilized were selected to use as metrics in our own review. The process aims to answer questions such as:

- Does the entity charge appropriate rates?
- Is the entity stock piling cash, or do they not have adequate reserves?
- Is the entity saddled with debt?
- Overall, is the entity financially stable?

There are only six rural water districts which are comparable to Southwest Regional Water District and organized under Chapter 6119 of the Ohio Revised Code. Rural Lorain County, Jefferson Regional, Adams County, Northern Ohio Rural Water and Northern Area Water Authority are governmental entities organized under Chapter 6119. Another six comparable rural water districts are organized as non-profit entities as a 501(c)(12). Del-Co Water, Western Water Company, Ross County, Gallia County, Jackson County and Tate-Monroe are organized as non-profit entities. These non-profits must file uniform financial statements with the IRS annually. The non-profit financial statements are very similar to the financial statements which must be filed with the Auditor of State, but not exact.

The most recent publicly filed financial statements were obtained for each entity. Rural Water Districts organized under Chapter 6119 are shown on the left side of the charts. Rural Water Districts operating as non-profit entities are shown on the right side of the charts. The charts visually show how the Southwest Regional Water District fares compared to its peers. The metrics are not intended to shock or frighten the reader, but to inform the reader how well an entity scores across several categories. The size of each entity varies so ratios are presented as opposed to whole dollars. Each of the twelve entities collects between \$3 million and \$16 million annually, except for Del-Co Water which collects \$36 million.

Southwest Regional Water District finds itself at or near the average on several of the financial metrics. Southwest Regional's Days of Cash on Hand, Net Capital Asset Percentage, Average Useful Life of Capital Assets and Inventory as a Percentage of Revenues are closely in line with the average of the twelve utilities. Southwest Regional's Operating Ratio stands 15% below the industry average of 1.20. Southwest Regional's poor Operating Ratio can be closely tied to the Monthly Bill at 5,000 gallons being 27% lower than the industry average of \$52.83. The 2019 figures do not consider the recent rate increase which went into effect January 1, 2020 and will generate about 15% more over the course of three years. Since 2012, the District has only raised rates by 1.0%. For reference, the District's Operating Ratio was 1.23 in 2012.

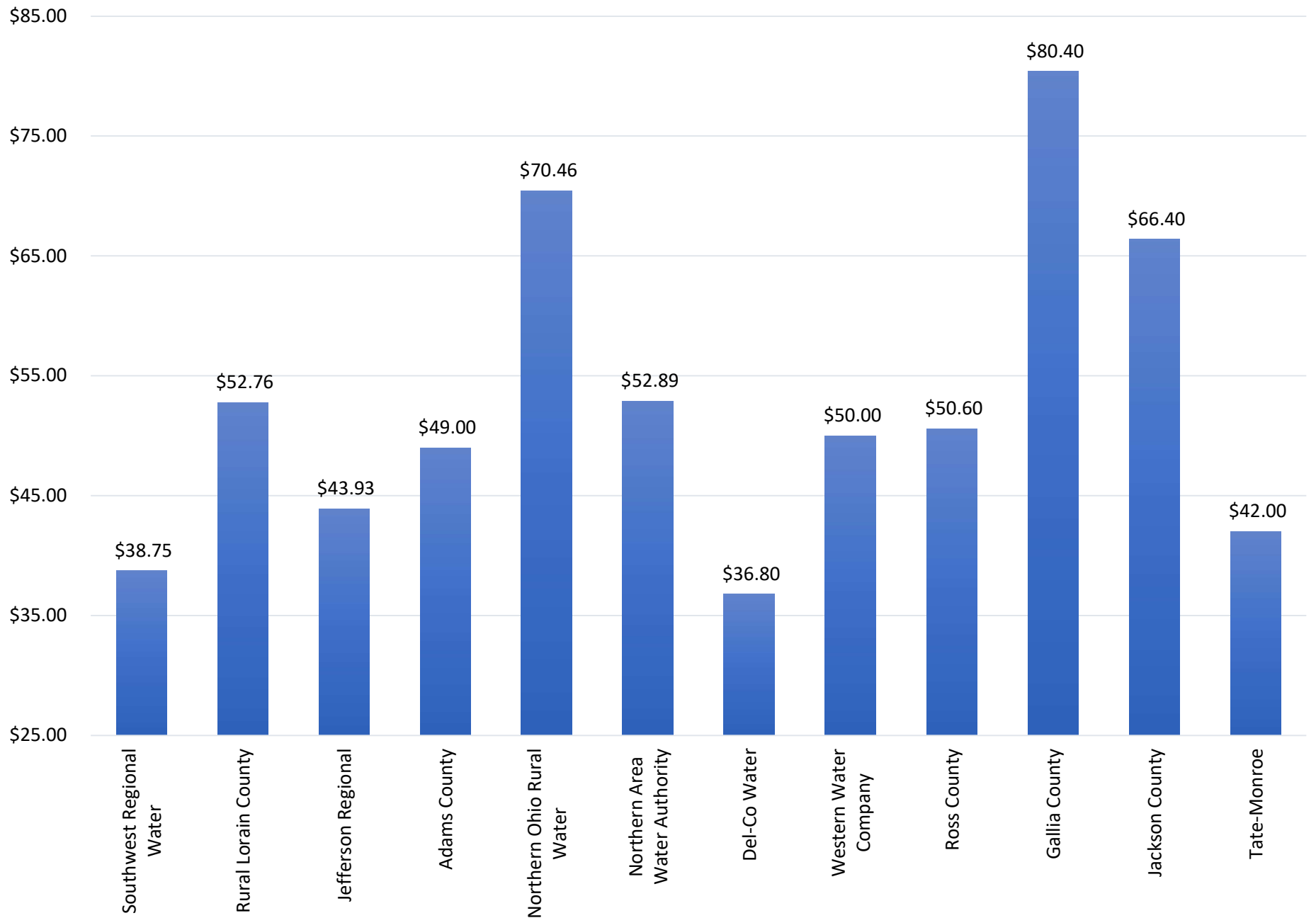
## 2019 Financial Health Metrics

A water utility being in an expansion phase may lead to higher debt levels and a higher net capital asset percentage. Extending water service to new areas generally comes with debt issuances to acquire new capital assets. Water utilities which are not in an expansion phase should experience lower debt levels and a lower net capital asset percentage. The District's level of Outstanding Debt relative to annual revenues or ending cash balance is approximately 70% lower than peer utilities. If the District were to have an average level of debt relative to its peers, the Outstanding Debt at the end of 2019 would have been \$17 million. Rather, the District's Outstanding Debt was \$5 million at the close of 2019, \$12 million less than the average of its peers.

Which type of entity fared better: Chapter 6119 Water Districts or Non-Profit Water Cooperatives? The six entities organized under Chapter 6119 of the Ohio Revised Code had an average monthly bill of \$51.30 with an Operating Ratio of 1.28. Meanwhile the Non-Profit Water Cooperatives had an average monthly bill of \$54.37 with an Operating Ratio of 1.12. Therefore, Chapter 6119 Water Districts had a 12% better Operating Ratio at a 6% lower cost. Based upon this brief analysis, Chapter 6119 organizations appear to outperform non-profit cooperatives. Non-profit cooperatives would argue a larger sample size is necessary.

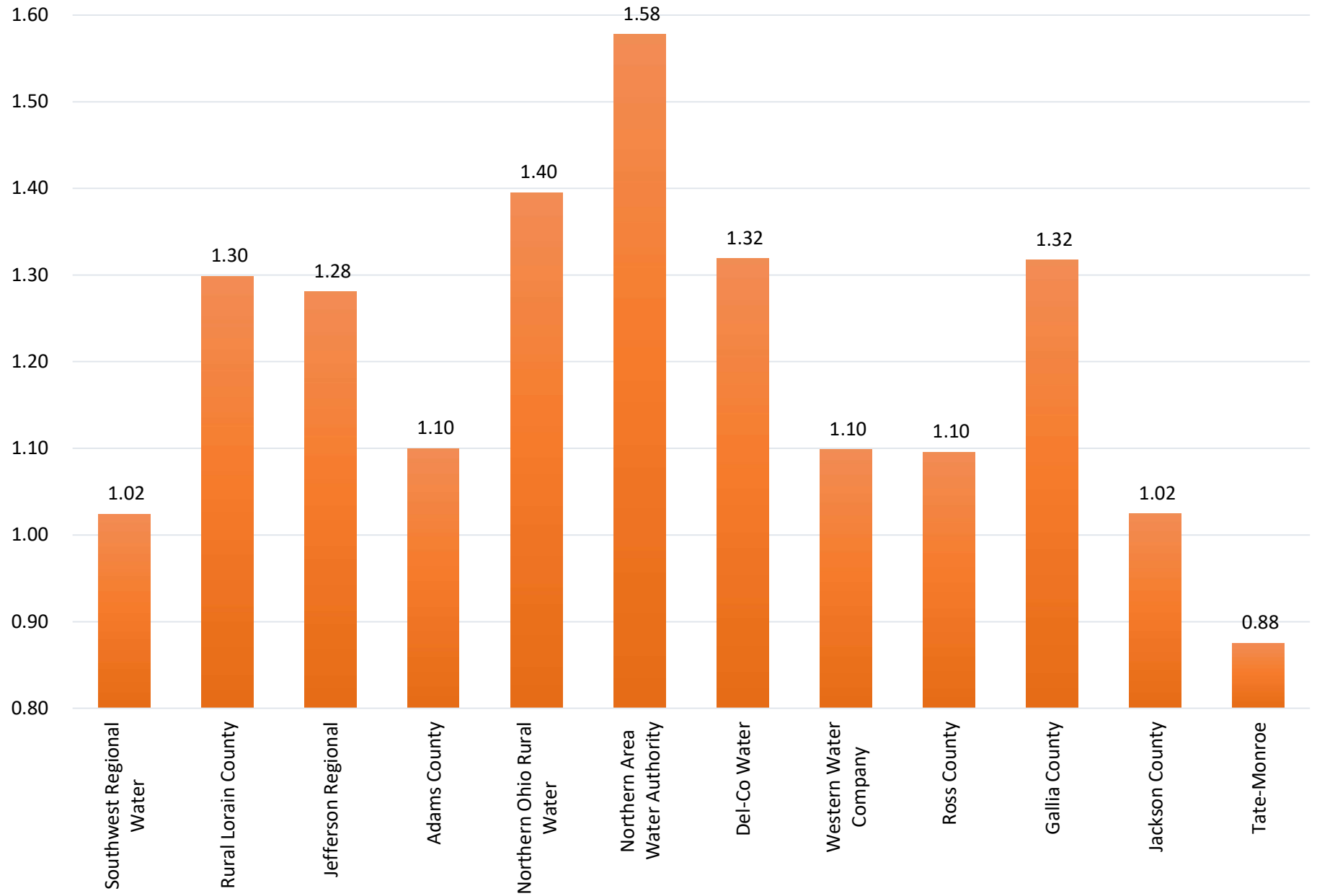
Prepared by:  
Kenny Hoffman  
Business and Finance Manager  
11/5/2020

**Monthly Bill at 5,000 Gallons (2019)**

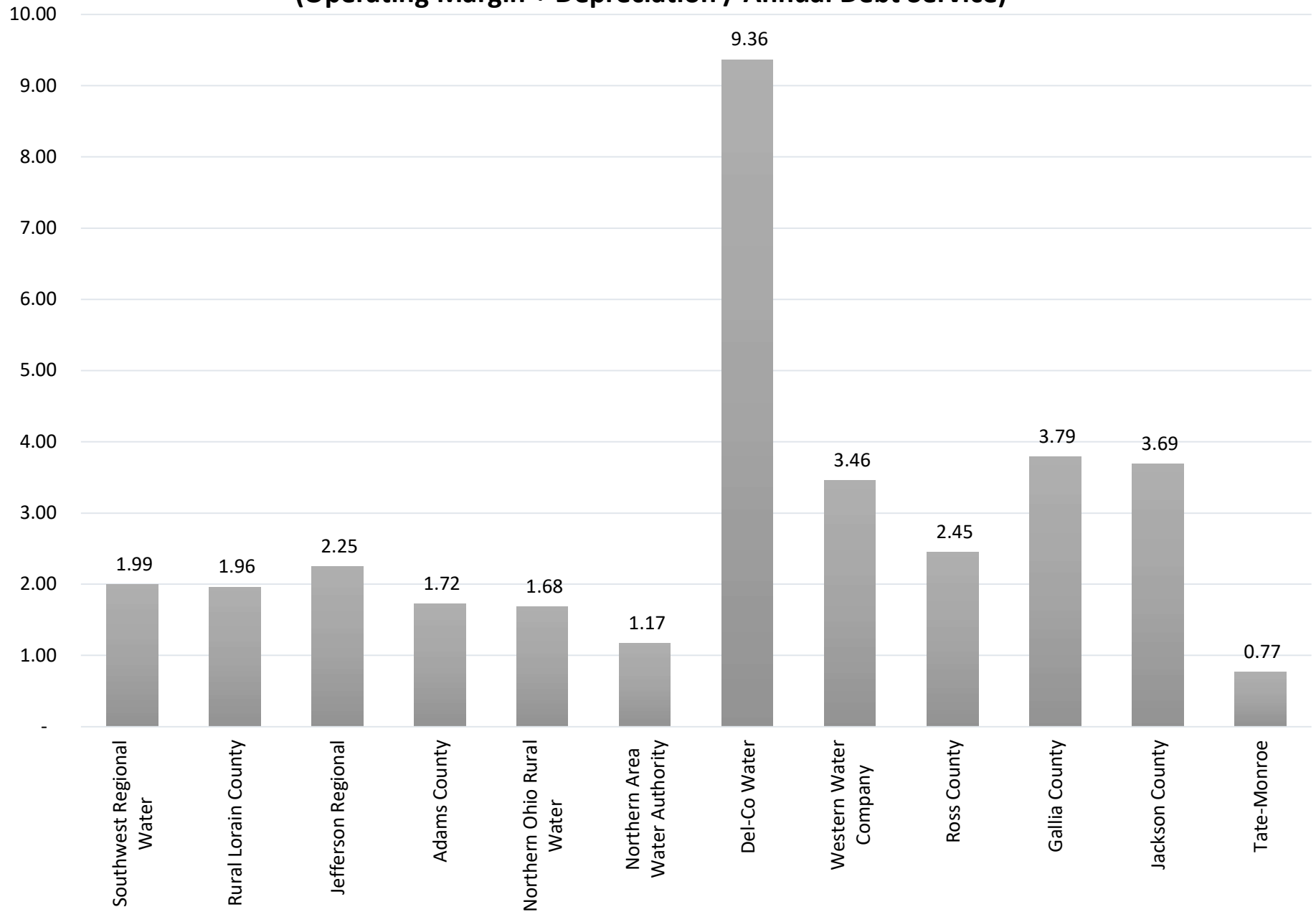




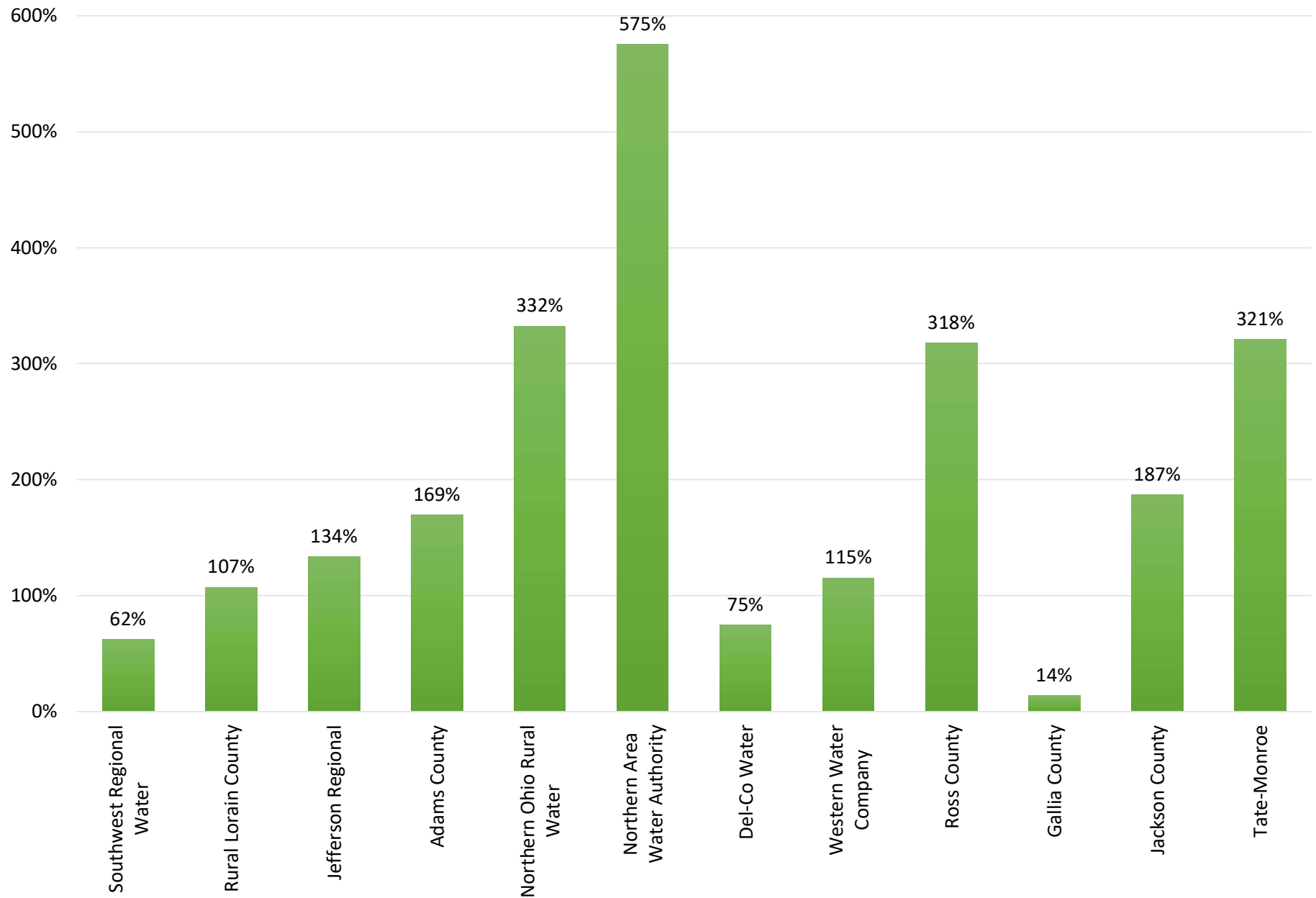
## Operating Ratio (Revenues / Expenses)



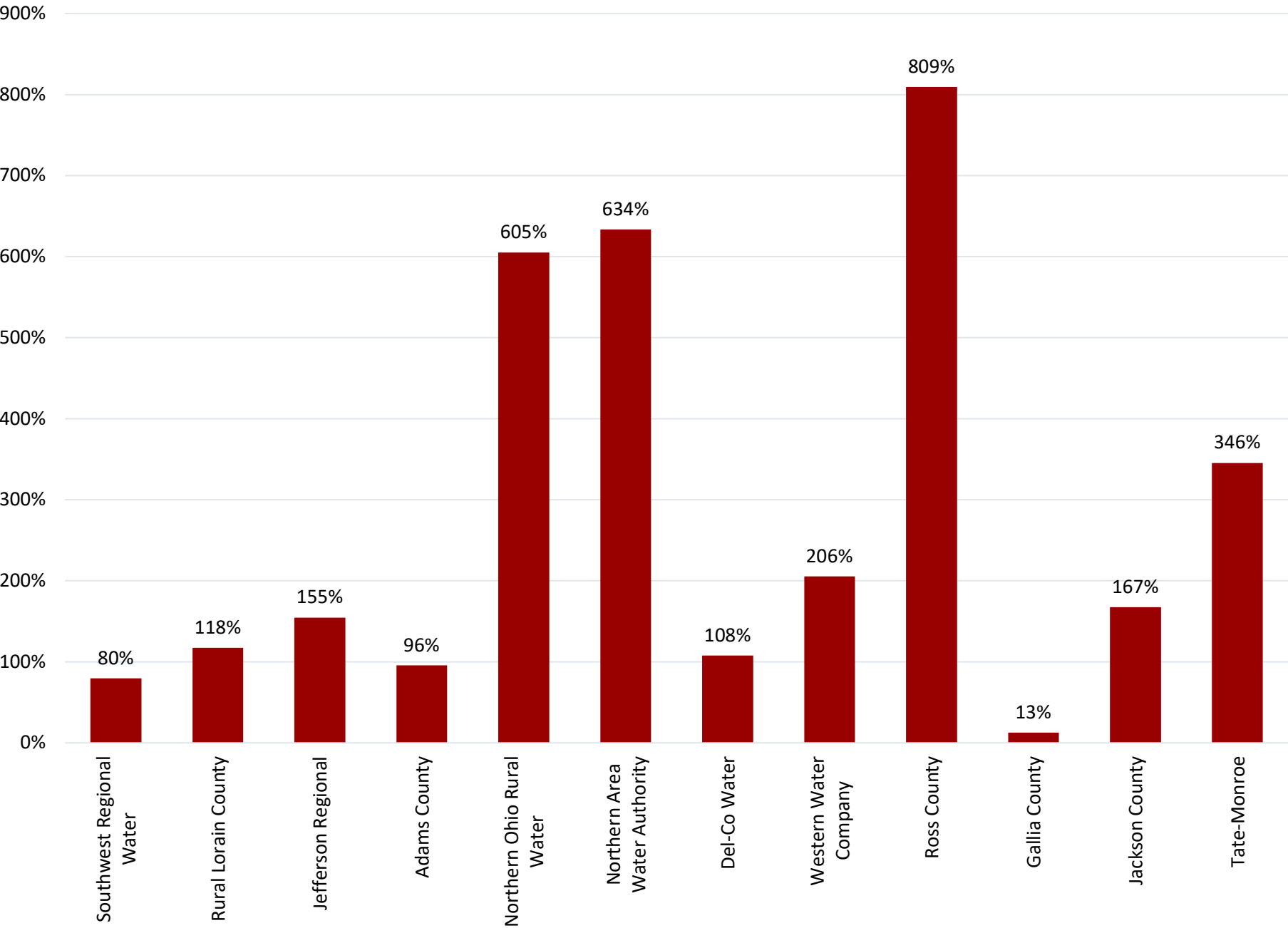
**Debt Service Coverage Ratio**  
**(Operating Margin + Depreciation / Annual Debt Service)**



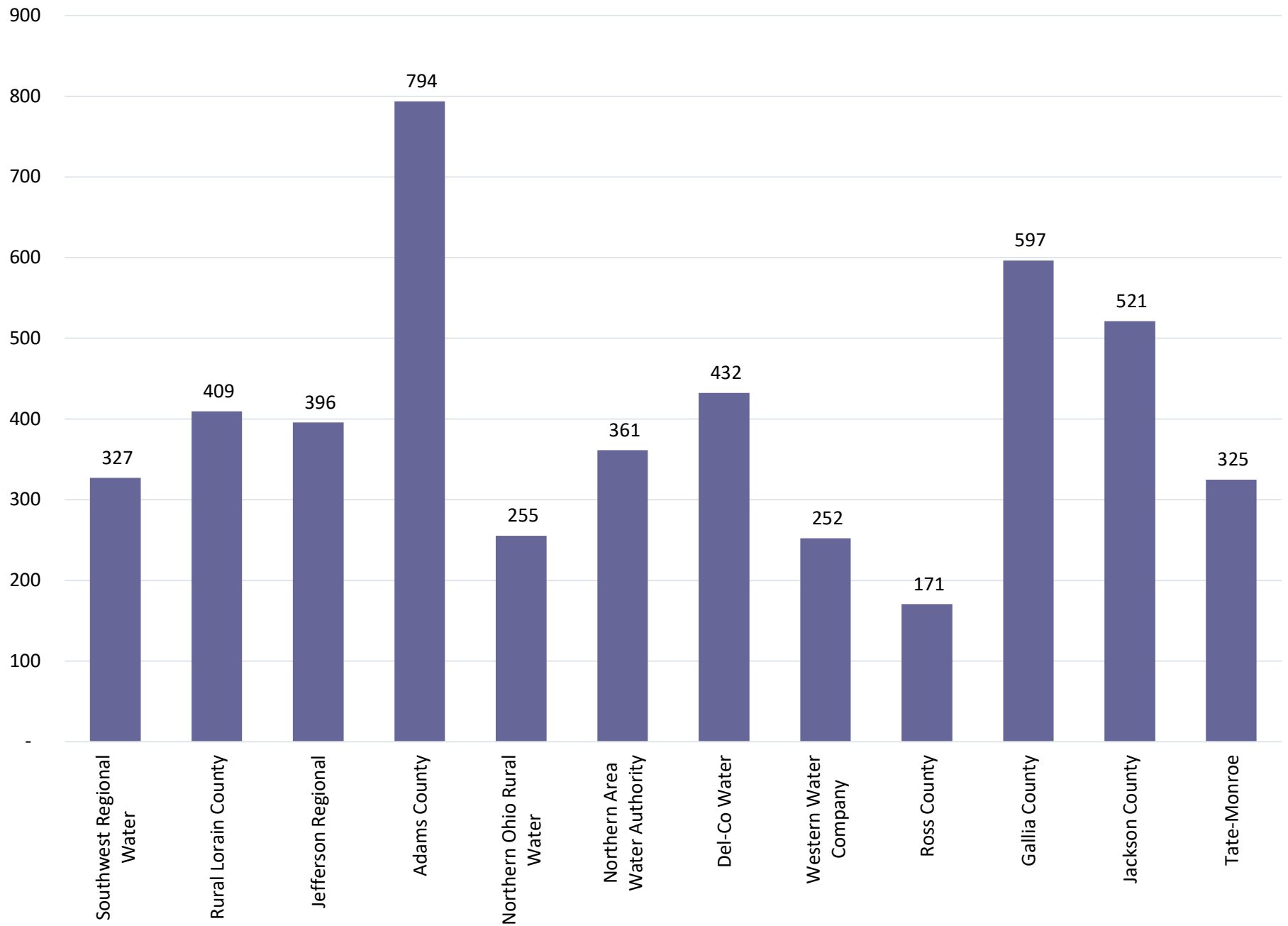
**Outstanding Debt as a Percentage of Revenues**  
**(100% means Outstanding Debt is equal to a Year of Revenues)**



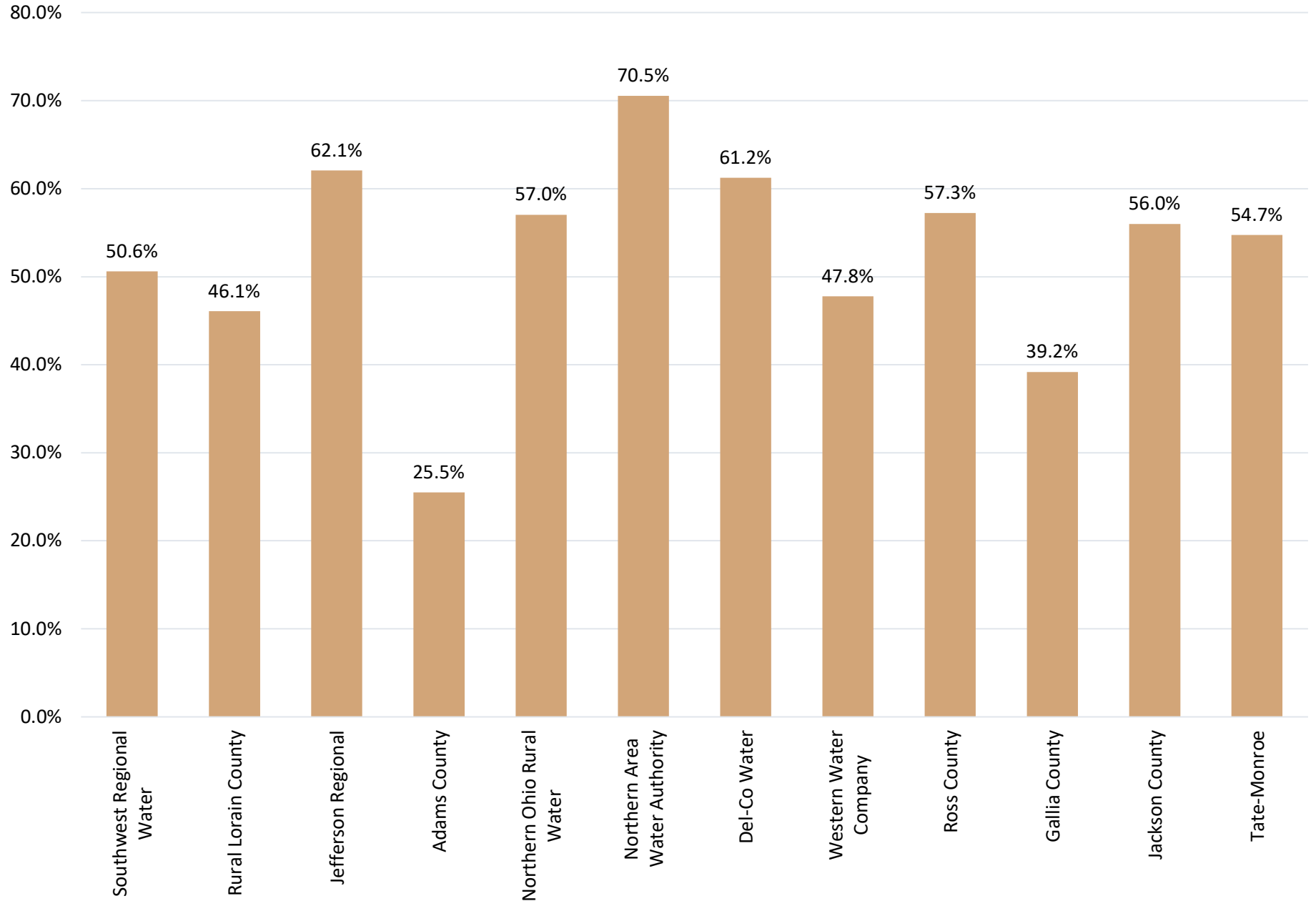
Outstanding Debt as a Percentage of Ending Cash Balance



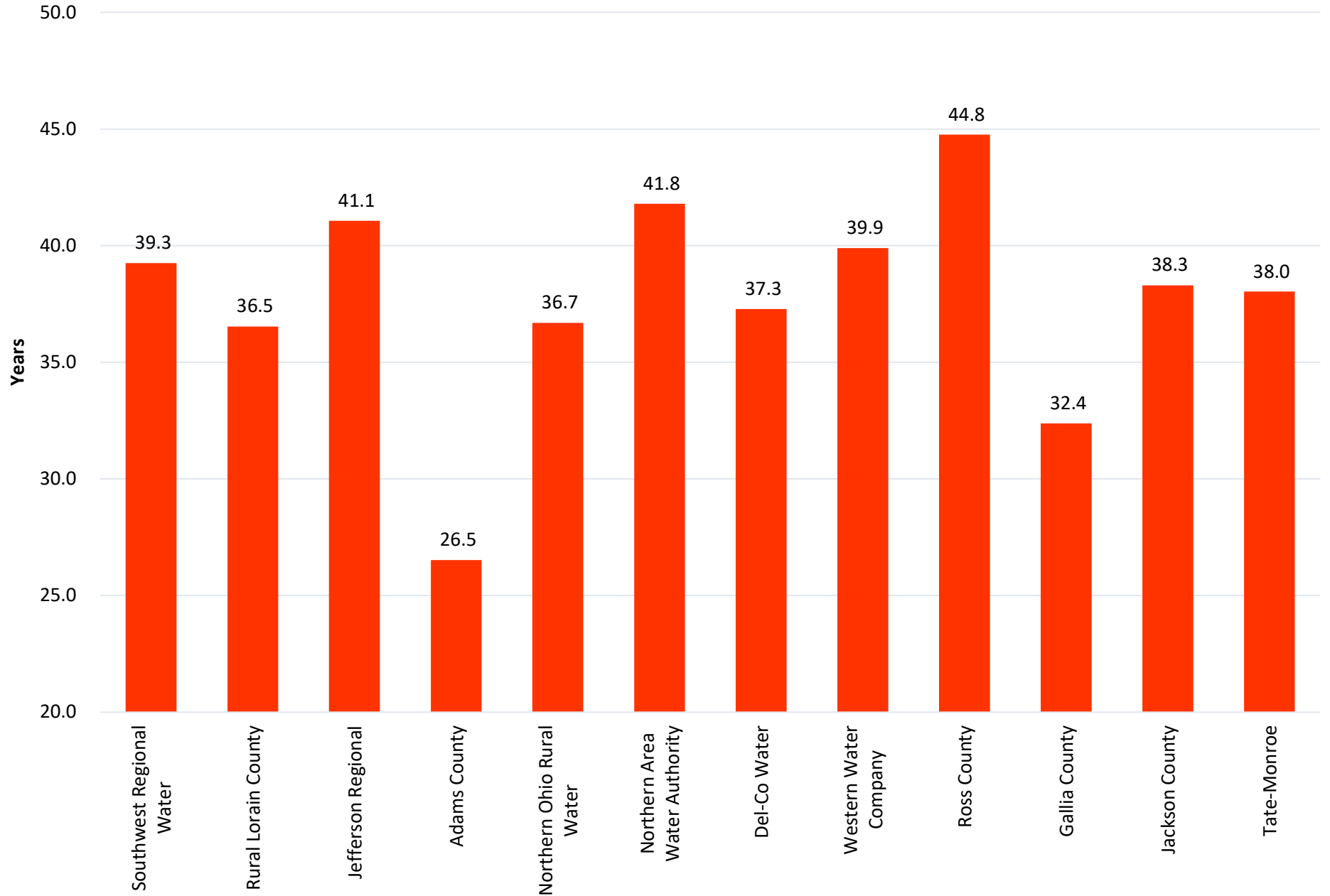
## Days of Cash on Hand



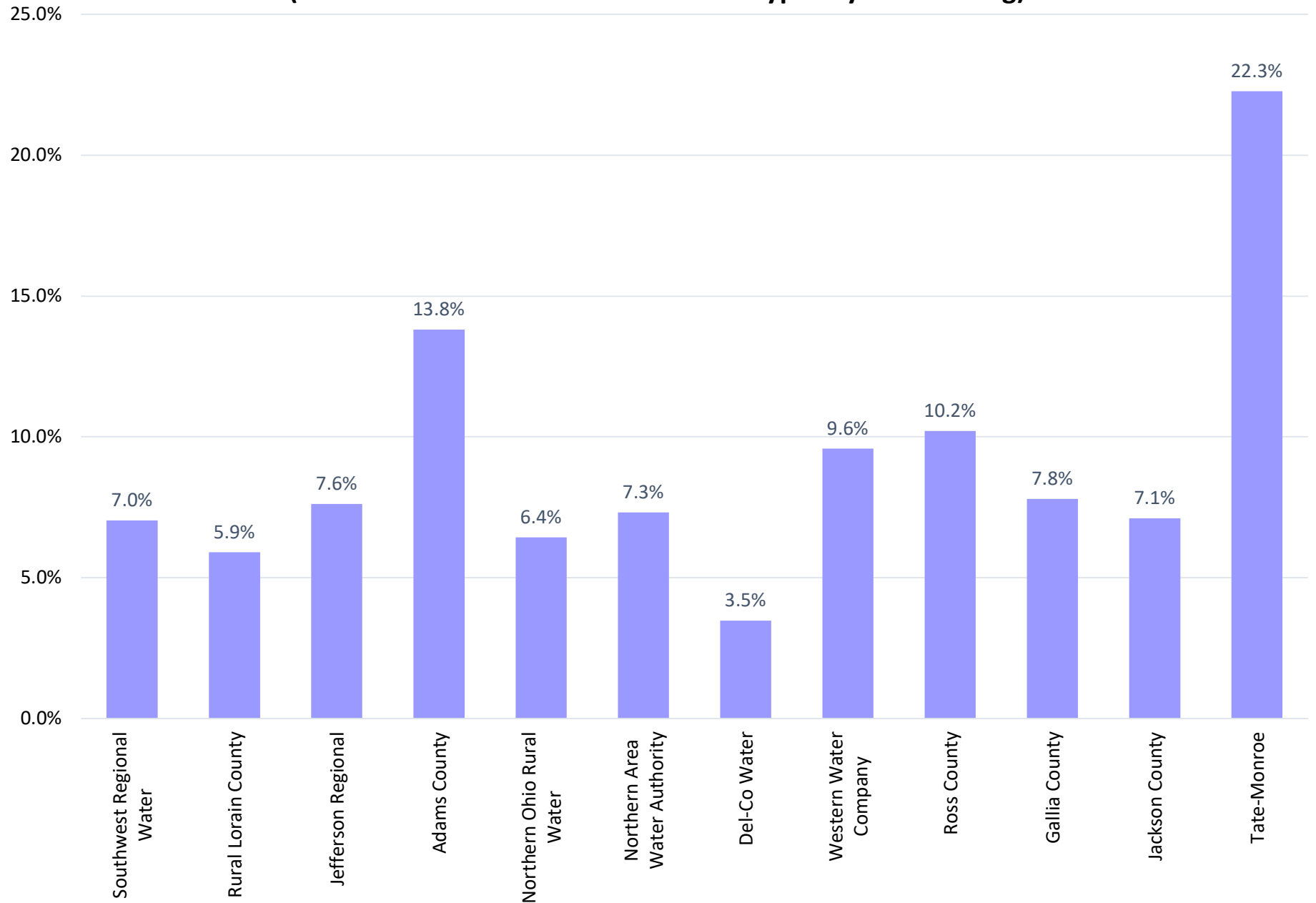
# Net Capital Asset Percentage (Net Capital Assets / Total Capital Assets)



# Average Useful Life of Capital Assets (Correlates to the Net Capital Asset Percentage)



**Accounts Receivable as a Percentage of Revenues**  
**(One month or 8.3% of water sales is typically outstanding)**





## Inventory as a Percentage of Revenues

