

TONOPAH TOWN BOARD

BUDGET WORKSHOP MINUTES

MARCH 07, 2013

Town Board Chairman Horace Carlyle called the workshop to order at 8:03 a.m. Also present were Duane Downing, Ron Kipp, and Javier Gonzalez. There were seven other people in attendance.

1. Public Comment

Horace Carlyle explained that he is dissatisfied based on the report the Board received from the auditor at the last Town Board meeting. He noted that this has been going on for at least a year and a half and as a representative of Town funds he will no longer consent to be quiet. He would like Nye County to be accountable. He noted that Town Staff has worked many hours to put together information for a budget hearing. He feels the information before the Board has no legal standing and has no verifiable base as an audit. He noted that he will put something on the agenda for the next Town Board meeting for the Board to review what actions can be taken to stop what has been going on for almost two years. He feels the resignation of the Treasurer will be used as another excuse to prolong the issue. He will recommend the Board consider sending a letter to the County Commissioners asking them to define how they will correct the problem as they are in violation of the NRS. He will also ask the Town Board to request a legal opinion from the Nye County District Attorney on how the Town can secure the proper legal records on a timely basis. He feels the letter from the auditor is worthless for the Town because it does not give any timeline, any actions or corrections, or any accountability.

No action taken by the Board.

2. Budget Workshop; All Town Departments/Tonopah Public Utilities

The Board began with the TPU budgets.

James Eason explained that there are no audited numbers. The preliminary numbers the Board asked for at the last meeting should be in later today or tomorrow so these numbers do not reflect any of the preliminary numbers. He explained that the End of Year 2011/2012 numbers should be relatively close to the audited numbers. Town Staff does a good job of tracking and they do the reconciliations every month. They are verifying what is going into the bank. The only aspect missing is the auditor's check with Nye County of what is distributed to those funds from an expense side and an income side. The Town does track the numbers and these are the numbers Staff started with. He noted that the Town is does not have the Beginning/Ending Fund balances.

Horace Carlyle wanted to know who will provide the preliminary numbers and what the basis of those numbers are. James Eason explained that at the last meeting, Daniel McArthur said he would give the Town the preliminary numbers. The Town will not receive those numbers until

today or tomorrow. There are still revenues and expenses that have come into Nye County that need to be distributed. He reiterated that the End of Year numbers are the numbers Town Staff tracks. Horace Carlyle noted that the letter states there will not be an audit until May. The Treasurer issues a monthly report that any number he supplies is based on third party information. He wanted to know what the substance of the preliminary audit is and how legal it is. James Eason explained that the substance of the audit is the numbers Mr. McArthur is pulling out of the new Tyler Eden system. He explained that he had a conversation with Mr. Carlyle on Monday in regards to setting a public workshop to discuss notifying different departments about this issue. Everybody is aware of this issue and is nothing new. The Town can only work with the information Town Staff has at hand. Staff is comfortable with the numbers and is trying to move forward so the Town has a budget to work with next year.

Horace Carlyle explained that each Board member has a legal obligation and requirement for full disclosure. It is the Board's job when there is an issue to fully disclose it to any proper authority that can get a remedy.

James Eason explained that he would like the Board to make a decision on where it wants to go. He explained that he will tell the Board where the information came from and what the Board wants to do is up to them. Horace Carlyle explained that he is willing to rely on the due diligence of the Town Staff. He is prepared to move forward with the work Staff have done based on the fact that the Board has disclosed the basis of the work.

Duane Downing noted that Staff are tracking the numbers and know the numbers are close. The Town needs to have a budget in place for next year.

James Eason explained that the Board already approved the water budget when it went forward with the funding and asked for the \$1.7 million from State Revolving Loan Fund Board of Water Finance. This is the budget that was presented to them and to USDA when the Town submitted the application requesting additional funding for Phase II and Phase III of the Water Project. He reiterated that the End-of-Year numbers 2011/2012 are the numbers the Town tracks. He noted that when comparing the end of year numbers and the audited numbers from the previous year, the Board can get an idea of how the Town is trending with the current expenses.

Horace Carlyle noted that he has an issue with OPEB. Based on the last audit, he feels the Town is underfunded by \$88,581. If this fiscal year is added, OPEB is underfunded by \$134,581. The Town is not expensing on a monthly basis on what has been allocated for OPEB. He felt that, based on the resolution and the changes to the Personnel Policy, the Board was considering bringing OPEB up to more current financial status. He also thought the Board would consider funding on a more legitimate and realistic basis. He feels the Town should fund each section of OPEB at \$15,000 per year. James Eason explained that this OPEB number put in was based off last year's audit. This is just a place holder until the Town receives the audit. There are certain things out of the audit that the Town needs and OPEB is one of them. OPEB is changing every year. The Town went down from the first OPEB recommendation. Horace Carlyle explained that when the Board is looking at the budget numbers, the Town does not expense the OPEB contributions. They are budgeted but the allocation or contribution is not showing. Chris

Mulkerns explained that with the resolution the Board approved in January, the Town will be transferring \$40,200 into the account Nye County just opened for that. This is for the last two fiscal years and whatever the Town budgets for this year will go into the same place. At this point it just sits in that fund. James Eason explained that the Town is funding OPEB and the money is going in there. The Town is not funding all of Grant Depreciation. If TPU funded Depreciation 100%, the water bills would be double what they are right now. Horace Carlyle explained that the Town is not compelled to fund Depreciation 100%. Chris Mulkerns explained that the Town is not required to fund OPEB. James Eason explained that the Town is the only entity statewide that is funding OPEB. The Town does not fund accrual of sick leave, which is also a liability on the books. The Town is not required to fund it but is required to show it. The Town has taken the step in the right direction and funded OPEB based on current employees to date working with the Town. There are a lot of things the Town is not funding 100%. Horace Carlyle explained that Staff builds into the budget funds to cover people who might be in the position to retire. James Eason explained that this is not reflected in the budget. That practice was not originally there and the Town changed that practice. When that practice changed, it allowed certain people to retire and the Town could hire new people so when those employees retired, new people could be trained and in place before the previous individual retired. The traditional practice was to wait six to nine months to catch up with all of the accrued leave before hiring the replacement position.

Chris Mulkerns directed the Board to Water Administration Salaries. She explained that the number in the budget request includes a 2 Step increase for everyone. She noted that this will not necessarily happen but if it does happen then the budget includes the highest increase across the board. Duane Downing wanted to know what the \$5,000 decrease from FY 10/11 to FY 11/12. Chris Mulkerns explained that this was the transition between her and Susan Dudley. Mrs. Dudley was still here in FY 10/11 and part of FY 11/12. She noted that the Admin Salaries is just 1/3 of her salary and 1/3 of Mrs. Dudley's retirement. Chris Mulkerns explained that the last COLA increase was in 2007. She directed the staff to the COLA worksheet. It is the same \$0.50 per hour increase that was done in 2007. It does change the Step and Grade Scale by \$0.50. James Eason explained that it equates to about \$1,000 per year more. Duane Downing wanted to know the percentage increase. Chris Mulkerns explained that the percentage depends on the hourly wage. James Eason explained that it is an equal raise and everyone is raised \$0.50 per hour regardless. He explained that Staff is proposing two different costs to the Board based on the fact that there has not been a COLA increase since 2007.

Horace Carlyle wanted to know when the last time was that employees got a raise. Chris Mulkerns explained that the policy is that if the employee gets longevity for past years, the raise was the automatic longevity increase. The Town also budgets for a Step and Grade Increase. It is based on performance. Horace Carlyle wanted to know which option staff feels is the best for retention of employees. James Eason explained that there are employees who are topped out and have not received raises since the last COLA increase. Back in 2005, employees for the Town either received one or the other. If the employee had longevity, they got that for their raise. If the employee did not have longevity, the Town built in longevity plus a step increase to the budget. The Town has always over-budgeted for Salaries. Duane Downing explained that the cost of living in Tonopah has increased dramatically in the last six years.

Joe Westerlund explained that staff is trying to put together career paths for every employee. It is associated with certifications. There will be incentives with employees getting certifications the Town needs. He is hoping this will give employees incentive to gain those certifications. Javier Gonzalez wanted to know if the training will be built into the steps. Joe Westerlund explained that the employee has to have time in the job to be able to do certain things. He explained that instead of just hiring an employee and having them trained with another employee, he has put together a working schedule so when an employee starts they know what they will be doing week by week. Starting in the third and fourth week there will be classroom time where the employee can be prepped for going into the career path. From there, the schedule will be adjusted along the way. The goal is to get new hires signed up for one of the Sacramento State College Classes. New hires will take the class and will get some study time at work in case they need help on it. New hires will be educated on books and on the job so when they go take the course there will be no question on whether the employee has enough credits to get it and the employee can pass the class and get certified. He explained that the career path lists the classes the employee will finish and which certificates they will be getting. He noted that each certification has a Step and Grade associated. James Eason explained that the Board needs to be aware that a lot of these things are built-in costs the Town is going to eat on the training side because the Town needs the employees and the certificates.

James Eason explained that the worksheets at the next workshop will show the possible COLA increase. Chris Mulkerns explained that she has shown the end of year numbers for each department under Water, the budget, where the numbers are at, and the projection. She noted that some of the items did go over budget, such as office supplies, but last year's budget included getting computers. Adjustments were done at the end of the year to cover the overages. She is not aware of any large office purchases in the next year. She noted that Harris did respond to inquiries and they feel both billing programs can be run on the same computer. The new truck fill stand will have a card swipe system for customers using that water. There is a whole new software package for the billing. She noted that staff has discussed evening the Professional Fees out across each department. Currently, the Town pays for the bulk of the Professional Fees. With the increase in revenue for water and sewer, staff discussed upping the budgeted amounts in water and sewer to pick up things they should be paying for anyway. She explained that the budget for Professional Fees is \$9,500. The end of year figure for last year was \$12,230. The suggestion is to increase the budget to at least \$15,000. Duane Downing wanted to know if the budget for every other item was going to stay the same. Chris Mulkerns explained that the Board may want to increase the budget for Office Supplies as to date expenses are at \$1,700. She noted that on this item, staff works out of Water and when water gets low, staff moves to Sewer. Dues are just one time costs and will not go any higher.

Joe Westerlund explained that when TPU sends employees to classes, he always put in for a scholarship and the Town usually gets it. All the Town is really paying for is food and travel. James Eason explained that the Town needs to do a 10% automatic increase for energy costs to account for inflation. He noted that the budget needs to stay very close to the listed numbers because that is what has been projected.

The Board moved to TPU Water Operations. Chris Mulkerns explained that she will add the COLA numbers for Salaries for the next workshop. Javier Gonzalez wanted to know how many open positions there are. Chris Mulkerns explained that there is one budgeted position open in Sewer. Javier Gonzalez wanted to know how many employees there would be if every position was filled. James Eason explained that there would be three laborers and one foreman, and Joe Westerlund. TPU has been down to one laborer, one foreman, and one utility manager.

Chris Mulkerns explained that as of January 31, 2013, Operating Supplies is \$400 over budget. This item went over budget last year as well. She noted that this is the result of putting off repairing or replacing things over the years. Joe Westerlund explained that TPU has not yet started the valve exercise program and there will be broken valves when that starts. Once it gets to a point where it is getting too expensive, the program will stop until the start of the next budget year. Javier Gonzalez noted that once the initial testing is done, it should be fine for a while if the program is kept up with. Joe Westerlund explained that his goal is to exercise every valve at least once a year.

Joe Westerlund explained that the laborers have a generator in the back of the truck for electricity at a job site. It got to the point where they were not able to repair the string when it broke. TPU had to purchase a generator for \$1,400, which will hopefully last at least 10 years. Horace Carlyle wanted to know what the program for fire hydrant testing is to meet insurance purposes. Joe Westerlund explained that this will be part of the valve exercise program. The only time the PIDO test needs to be done is to verify flows. Towns are supposed to have verified flows every ten years. James Eason explained that the Town is right around the ten year time period. To exercise the hydrants, water does not have to go anywhere. Staff needs to open the arm, fire it up to let the air come out until it starts dripping, close the arm, bring it back down, and open it back up to release the air. The only time water has to flow is to test the flows. TPU is testing the hydrant valves so if a valve breaks, customers still have water. He explained that this program is time consuming. If there are enough employees, there can be a two man team doing the program but still have employees available for other issues.

Joe Westerlund suggested increasing the Operating Supplies budget to \$12,000 because of the valve exercising program. Chris Mulkerns noted TPU might be able to do a valve exercising program under AB198 and set it up as an amount in the Grant Depreciation Fund. James Eason wanted to know if there were any anticipated increases in operating supplies for Wells, Transmissions, or Distribution. Chris Mulkerns explained that Transmissions went over in FY 2011/2012. Under Distribution, the budget for Operating Supplies was \$9,000, but only \$2,000 was used. Duane Downing noted that if Operations - Operating Supplies were increased by \$4,000, Distribution Operating Supplies could be reduced by \$4,000 or split it by reducing Transmissions Operating Supplies to \$1,200 and reduce Distribution Operating Supplies to \$6,000. James Eason recommended leaving the other departments for Water the same minus increasing any power costs. At the next workshop, staff will show both arbitrarily increasing Operating Supplies by \$4,000 and rearranging other departments. Chris Mulkerns explained that another option is not increasing power costs by 10% because theoretically the power should be decreasing.

The Board returned to the budget for Water Operations. There was no change to Safety Supplies. Chris Mulkerns explained that TPU goes through Water first for Vehicle Fuel, then moves to Sewer. The TPU has moved into the Sewer budget for fuel. She noted that Staff discussed evening out the costs for General Insurance, as currently the Town pays the majority of the overall insurance bill. James Eason suggested revising that number. Chris Mulkerns explained that the \$451 extra in the Actual to 1/31/2013 is a reimbursement for the hotel and food from Nevada Rural Water because the employee who went for the class left. She noted that phone is shared with the Town and Sewer. Everything else is staying the same. Joe Westerlund explained that another \$2,400 will be charged to Equipment Repair & Maintenance for tires for all of the trucks. Chris Mulkerns explained that the other three departments for TPU Water will stay the same but she will show the increase for power. Duane Downing explained that with the new wells and the new distribution the power should go down significantly. Joe Westerlund explained that the budget for Sample Monitoring needs to stay the same.

Chris Mulkerns explained that the total projected expenses for FY 2013 is \$522,155. The Surcharge is currently at \$1.00 per thousand gallons. Starting July 1, 2013 that rate will increase to \$1.10 and will continue to increase \$0.10 every year. The budgeted surcharge amount for FY 2013 is \$156,000. That will be surpassed based on current usage right now. The Old Debt, the Debt Reserve, Grant Depreciation and the New Debt come out of Surcharge and totals \$162,544. Next year, the Surcharge should be \$178,100. There will still be \$19,200 in the Old Debt for the new budget year and there are three months reflected. Debt Reserve is at zero as the Town does not have to pay any more on that. Grant Depreciation is being increased to \$57,000 to contribute every year. The actual new loan payments are \$173,569 for the arsenic project. The total amount of set asides is \$259,776. TPU has been setting aside money in the Arsenic Debt fund for almost two years so there is almost a year and a half of debt payments set aside in reserve. She explained that the \$28,476 in the red is covered by the reserve. James Eason explained that at one time TPU's expenses were greater than its revenue and the budget was in the red. Revenues are trending up.

Chris Mulkerns explained that the total budget for all expenditures for FY 13/14 is \$490,000 for Water. That is just for Operations and Maintenance. That does not include the set-asides, which come out of Surcharge. The total expenditures, including the set-asides, is \$749,776. The budget will be \$23,473 in the red but because of what is set aside for the new debt but that amount will be covered. The Total Water Sale Revenue is budgeted at \$515,200. End of Year totals for FY 2011/2012 show revenues collected of \$601,873. This is about \$75,000 over the budgeted amount. Actual to 1/31/2013 totals are \$409,099. Water sale revenue will likely pass the projected amount of \$529,099. The budget request is \$515,200. The additional revenue is what has always been budgeted. The current collection of \$14,773 under Interest and Penalties is all penalties. There is no interest yet. The average is about \$2,500 in penalty revenues a month. Collections for Miscellaneous has been coming down over the years. This is the result of a change in the billing system and how the system shows the deposit revenue. It is now all rolled into the actual water sales. She noted that revenue from scrap metal and propane refunds also go into this account. James Eason recommended decreasing the budgeted amount to \$5,000. Ron Kipp noted that the Miscellaneous fees were figured into the \$33,000 of Additional Revenue. He

wanted to know if the reduction would affect anything. James Eason explained that it needs to be reflected as an increase in Total Water Sales.

The Board took a break at 9:43 AM.

The Board returned at 9:53 AM.

The Board moved to the Sewer budget. Chris Mulkerns explained that an extra column will be added for the next workshop to show the COLA increases. Sewer sales are funded by the rates the Board set by resolution which also includes an annual increase of \$0.50 per residential customer. The sewer rate for commercial customers increases based on the water rate going up every year and is based on their water usage. Residential customers have a flat sewer rate on their bill. It is currently at \$22.50 and will increase to \$23.00 on July 1, 2013. She explained that the ending fund balance is steadily increasing and staff had discussed, for the next budget year, the Board may want to look at capping the increase. Horace Carlyle noted that TPU needs to look at replacement of sewer lines in the old sections of Town. Chris Mulkerns explained that because of the ending fund balance being where it is at, the Board could look at transferring \$350,000 into the Five-Year Capital Projects Plan and list it as Equipment Replacement or System Upgrades. James Eason noted that Sewer is at the point where it is almost equating Water.

Horace Carlyle wanted to know the linear feet of old pipe. James Eason explained that about 1/3 of the old pipe has been replaced. Joe Westerlund explained that TPU knows that the sewer lines are bad. When the contractor dug up the lines to tie into the current sewer line, parts of the beveled part of the pipe were falling off. He noted that there is no problem if the line is not under pressure and not disturbed. Staff sealed up the pipe so it is good to go. James Eason wanted to know how often TPU was monitoring the flow into the Treatment Plant. Joe Westerlund explained that they are monitoring the flow daily. The flow has stayed about the same over the last 2.5 years. It is always between 200,000 to 300,000 gallons. The peak flows are in the morning and the evening. James Eason explained that since he has been here, the flow rates have not changed since Shaw did the engineering job and upgraded the Treatment Plant. Joe Westerlund explained that the flow numbers have changed because a new flow meter was put in that reads every five seconds versus every five minutes. The max numbers have gone up on a daily basis but the minimum numbers have also gone down. The average has stayed the same. Chris Mulkerns explained that the revenue bond for the sewer was done in 2007 for \$600,000. As of last year's budget, the total was at \$568,000. James Eason noted that TPU could pay that off very quickly and save over \$30,000 every year in the annual payment. He explained that he does not want to put TPU in a position where there is no money to do projects but he wants the Board to be aware that the Town does not have an issue with the sewer. Horace Carlyle feels the Town needs to go another few years before capping the sewer rates. James Eason explained that out of the 7,000 average gallons of water customers are consuming, about half goes to sewer. Joe Westerlund explained that during the summer, about 1/3 of the water is going into the sewer. TPU receives about 280,000 to 300,000 gallons into the Treatment Plant but pumps about 600,000 gallons per day. James Eason explained that the Board needs to understand the revenue and has to be careful to not price people out of the market for sewer.

Horace Carlyle noted that historically, there has been a problem with revenue and expenses on sewer. James Eason noted that sewer is now running in the black. Chris Mulkerns explained that in the year the Board upped the charges for service, the revenue almost doubled. That is now being reflected in the ending fund balance for Sewer. James Eason explained that the Town needs to monitor this more closely as outlined in the resolutions. It is the Board's discretion to pick and choose every year whether or not to suspend or maintain the present level. Chris Mulkerns explained that according to the resolution the Board could even decrease the rate for that year. James Eason explained that the critical sewer project is the lift station. The second critical project is the replacement of the sewer lines around Town. The first line that needs to be replaced is the main line coming from the Treatment Plant to at least the apartments. That line was redone in the 80s.

James Eason explained that the same increase of 5-10% for fuel energy costs will apply to this budget. The goal is to lower operating costs for energy. COLA will be reflected at the next meeting. Chris Mulkerns explained that Equipment Repair and Maintenance under Operations will be used to replace a couple of big items. She noted the Board may want to consider increasing that. Joe Westerlund noted that Capital Projects could also be used. He explained that the overages for the current year is from the sewer machine and the trash pump, sump pump, and a few other things came out of the budget from last year. Joe Westerlund explained that TPU has two snakes that are no longer made. There is an issue with the new one, which is about 8 years old. The gears in the box were damaged and it would no longer go in and out. There is an older, backup snake that has about 100-125 feet on it. The box for the new snake was sent off to Phoenix to be reworked. The old box broke down the same time as the wheel that feeds the line. The feeder tube needs to be fixed so it will run straight, but the machine runs well. The goal is to get the old machine fixed so it is like new and will take more line. James Eason explained that the recommendation is to increase this item by \$3,000. Chris Mulkerns explained that under Capital Projects, the budget shows collecting \$12,000 and spending \$12,000 but that expenditures side can actually be higher because it is basically coming out of the Ending Fund Balance. She explained that from an expenditure side, the Town has to show the expenditures as equal to the revenue. When the Town does the Five-Year Capital Projects Plan, it can show a transfer in of money and what the Town plans to do with it.

Joe Westerlund explained that it is common practice to run the same sewer several times a year. In order to reduce the use of the sewer machine, the goal is to start replacing the most problematic sewer lines. He noted that the replacement of those lines is not too bad because it is 4" PVC. James Eason explained that it is not just money but reallocation and utilization of existing resources. He noted that TPU has changed how it is using the money coming in. Joe Westerlund explained that it will not necessarily be a huge expense but it will eventually reduce the overtime for those lines replaced.

Chris Mulkerns noted that there were no changes to the Treatment Plant budget. James Eason explained that the power budget would remain the same. He noted that there is additional padding in Permit Fees. Chris Mulkerns explained that because the current permit was renewing at the same time, TPU was able to do the amendment for the truck fill station at the same time

under the renewal. If the Town decides to go to a Phase II, where the water can be used for irrigation, it will require a new permit.

Chris Mulkerns explained that \$34,000 is set aside for the debt fund to pay that loan. Capital Projects is budgeted to collect \$12,000. This money is collected from the dump offs at the airport. Short Lived Assets is budgeted at \$15,000. This is always budgeted for and is another area where items with a life-span of less than five year can be purchased from. She explained that under Charges for Service, if staff factors in the increase to \$23.00, the budget would be about \$439,000. Based on past practice, the budget request can remain the same at \$435,217. Debt service will not change. The Board decided to allow the \$0.50 increase again for this year.

The Tonopah Town Board recessed to the Tonopah Library Board of Trustees at 10:36 AM. The Tonopah Town Board returned at 11:34 AM.

James Eason explained that the Town receives the numbers for Property Tax, Consolidated Tax, and Gas Tax from the Department of Taxation. The pre-abated number for Property Tax is at \$294,000. Staff believes there is an error so the budget request is a more conservative number of \$173,651. James Eason explained that Consolidated Tax was traditionally the largest generation of revenue but Room Tax has surpassed that. The recommendation for Room Tax is to stay in the \$240,000 to \$260,000 range. Consolidated tax is also staying about the same. The State recommends a budget amount of \$289,000. Staff recommends staying at the \$260,000 budget request. There is a deficit between the revenue and capital expenditures. He explained that staff carried forward last year's numbers into this year's numbers. Chris Mulkerns explained that there is an End of Year column for FY 11/12 showing what the Town shows as expenditures, a total of \$755,223. James Eason explained that the latest number for the Beginning/Ending Fund Balance is about \$1.7 million. It has been growing steadily. He explained that this is allowing the Town to use the pay-as-you go method for different projects.

James Eason explained that the Town has addressed some issues in the budget already. The Town is not going to know the OPEB contribution until the audit is received. He suggested the Board go through the expense sheets for the Town and get back to staff with any questions. The COLA column will be added as well as a 5-10% increase in fuel costs. There will be some adjustments in the Fire House budget. There are some equipment costs that will come out of this year's budget. There are other costs which will be deferred to next year. Horace Carlyle explained that the Board discussed establishing the Mining Park Foundation fund with \$25,000. Chris Mulkerns explained that when the new numbers come in, they will be sent out to the Board.

3. Public Comment

No action taken by the Board.

4. Adjourn

Tonopah Town Board Budget Workshop

March 07, 2013

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Workshop was adjourned at 12:00 p.m.

Minutes transcribed by:

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Mariah Rivero

Approved:

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Horace Carlyle, Chairman

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Duane Downing, Vice Chairman

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Ron Kipp, Clerk

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Javier Gonzalez, Member

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Vacant, Member