City of Oskaloosa, Iowa

Shared Services Study

City of Oskaloosa and the Oskaloosa Municipal Water Department

Final Report

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The PFM Group
800 Grand Avenue
Suite 3300
Des Moines, IA 50309
515-243-2600
515-243-6994 fax

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Introduction and Project Overview

Introduction and Project Overview

Introduction

Pursuant to an election held in 1922, the management and control of the municipally owned waterworks, Oskaloosa Municipal Water Department (OMWD) was placed in the control of a Board of Trustees.[1] Prior to that, the City of Oskaloosa purchased the water department from The People's Water Company of Baltimore, Maryland in 1920 by selling $300,000 of revenue bonds for the initial acquisition of the treatment plant and distribution system and improvements to the infrastructure. The mayor then appointed the three members of the Board of Trustees to oversee the water department, and employees were hired.[2]

Nearly a century later, there have been significant changes made to the OMWD, including many modifications to the water treatment plant, a complete change in water source and multiple iterations of distribution system upgrades. In the meantime, improvements in technology and a greater understanding of opportunities for economies of scale and integration of information, shared services and similar approaches to merging duties and functions have grown in popularity at all levels of government. Around the nation, local governments and their subsidiary or component units have been able to collectively reduce costs and/or improve operations through enhanced collaborative efforts. In addition, local budgets continue to be squeezed by stagnant revenue growth and declines in state funding, making it imperative to carefully consider all options and opportunities for streamlining government service delivery structures.

To analyze opportunities for OMWD and the City, PFM was engaged by the City to undertake a study of the current operations of the OMWD and determine where there may be opportunities for shared service opportunities between these entities that may be beneficial to the residents and ratepayers within the City. The study included a review of current operational costs and metrics, benchmarking of similar systems and review of local and national best practices. Within subsequent chapters of this report, the current service delivery approach is detailed and any potential for cost savings and/or efficiencies through changes in current operations or enhanced collaboration and communication between the City and OMWD is discussed.

Project Overview

The following four project phases best describe the key activities carried out by the project team:

1. **Project Planning:** The project team developed a detailed project plan and gathered information necessary to be informed on all key project activities and expected outcomes. This included, but was not limited to the following:

    - Project kick-off and comprehensive cost/activity information request; PFM identified the key 'definition of success' factors for City leadership, as well as identified key financial and other data and information necessary for project analysis.
    - Identification of comparable cities for benchmarking, with the goal of benchmarking cities of similar general population and rate payer structures.
    - Identification of interviews necessary to complete the study.

2. **Project Information Gathering:** The PFM team identified those activities most critical to obtaining the necessary information specific to gathering information related to this study.

[1] Per Oskaloosa Code of Ordinances Title 2; Chapter 2.80, Section 020 – 2.80.020 Establishment.

[2] http://www.oskaloosawater.org/history.htm

- Conducted interviews with key internal and external stakeholders and subject matter experts, including each member of the OMWD Board of Trustees, City Council and key leaders within relevant functional units at the City and OMWD. Interviews covered current operations, past, current or future cost saving or service improvement initiatives, performance metrics and other issues that have the potential to impact system operations and performance.
- Developed electronic surveys to collect relevant metrics from benchmark cities through initial calls and discussions for follow-up on information received from a contact in each city.
- Gathered relevant cost and performance data and conducted best practices research.

3. **Data Analysis:** Based on the information gathered, PFM analyzed overall operations of each entity, including cost and performance data where available. In addition, a comprehensive service delivery structure spreadsheet was developed for comparisons between City operations and other comparable jurisdiction operations in relevant areas of operation.

    - With available financial and other data, the team worked to identify opportunities for cost savings. The City and OMWD both operate on a cash basis, which is common among the benchmarked cities and utilities included in this study. At the same time, this method of accounting makes it more difficult to analyze long-term financial projections for OMWD. Under generally accepted accounting principles (GAAP), capital assets must be inventoried and valued, which more readily allows an assessment of the entity's financial position and operating profile.
    - Key aspects of the report, including the recommendations were vetted with appropriate City staff and subject matter experts.

4. **Findings and Recommendations:** Using an assessment of both qualitative and quantitative measures, the project team carried out the following tasks:

    - Developed a set of initial high level findings and communicated them with the City and OMWD.
    - Based on feedback and discussion with the City, prepared a written report with findings and recommendations, including potential for cost savings and/or service improvements (where calculable), as well as benchmarking and best practices research.
    - The attached report and recommendations will be presented to the City Council and/or other stakeholders as appropriate.

Overview of Current Operations

Overview of Current Operations

In any shared service study, it is important to have a comprehensive understanding of the operations being examined for shared service opportunities. In the case of understanding operations in the City, the PFM team focused more generally on those departments that work most directly with the OMWD and have the greatest opportunities for collaboration.

City of Oskaloosa

Form of Government
Oskaloosa has a Mayor-Council form of government. The City Council appoints a City Manager who serves as the Chief Executive Officer (CEO) and serves at the discretion of the City Council. The City Clerk is responsible for ordinances, resolutions, minutes and the Oskaloosa Code of Ordinances.

The City Council consists of seven members, four elected by ward and three elected at large for overlapping four year terms. The Mayor is elected at large for a two year term but is not a member of the City Council and is not a voting member.

The powers and duties of the City Council are outlined in Chapter 2.04 of the Oskaloosa City Ordinances and are subject to the provisions of the Home Rule Charter. The provisions require an affirmative vote of a majority of council members to set policy. A summary of general duties include the following:

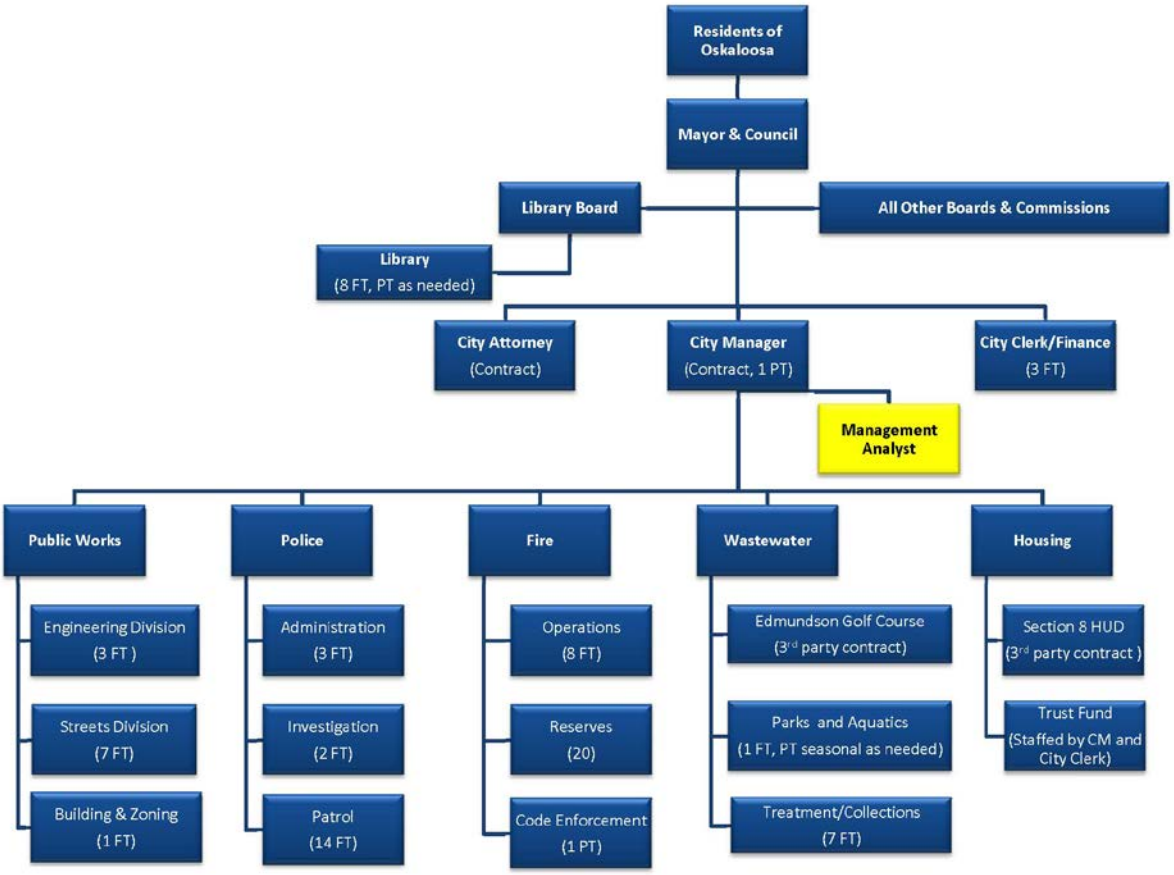
- Apportion and appropriate all funds, and audit and allow all bills, accounts, payrolls and claims, and order payment thereof. It shall make all assessments for the cost of street improvements, sidewalks, sewers and other work, improvement or repairs which may be specially assessed.
- Make all orders for doing the work, or the making or construction of any improvements, bridges or buildings.
- Approve the making of all contracts by ordinance or resolution.
- Authorize the number, duties and compensation of employees not otherwise provided for by state law or the city code.
- Exercise a power only by the passage of a motion, a resolution, an amendment, an ordinance in the manner set forth in the Oskaloosa Code of Ordinances or as provided in the Home Rule Charter.

City Departments
While the City operates with seven departments as outlined in the following organizational chart, the project team generally focused on the departments that work most directly with the OMWD and have the greatest opportunities for collaboration.

Currently, two City departments are housed in City Hall. They are the City Clerk/Finance Department and the City Manager. There is also some office space being occupied by the not-for-profit entity administering the federal Housing and Urban Development (HUD) Section 8 program for the City. These departments are responsible for the administrative and back-office functions of the City, like managing and running payroll and billing, human resources, accounting, managing information technology and other tasks that generally require data-entry type functions.

The following is the organization chart for the proposed FY2014 budget:

City of Oskaloosa Organizational Chart, Proposed FY2014



Note: Position in yellow was recently proposed in City's budget and not a filled position at this time.

Given their similar core functions, the Public Works and Wastewater Departments were determined to have the greatest opportunities for collaboration with the OMWD. As noted on the organizational chart, Public Works is comprised of three divisions; Engineering/GIS, Building and Zoning and Streets. They also work closely with Wastewater, which includes Storm Water. The Public Works department is currently located on the southwest side of town at 804 South D Street, where the offices are located for the Building and Zoning, Engineering and Streets Divisions. Customers are required to come to this location for securing building, mechanical, electrical, plumbing and other miscellaneous permit fees. The four main divisions of these departments and their primary functions are outlined below:

- **Engineering/GIS Division** (including Building and Zoning) operates with three FTEs and is responsible for design and construction of the City's public works infrastructure, maintaining city maps and plats, administration and engineering services and providing technical assistance for the Department of Public Works and other departments in the City as required by code and policy. Objectives for the Engineering Division include:
  - Providing plan reviews of municipal improvement designs for new developments.
  - Providing construction oversight, quality assurance and inspection of all paving, sanitary and storm sewers in new developments and City-owned street and sewer projects.
  - Providing maps, records and other documents to the public and other departments in the City.
  - Reviewing traffic operations.

- Inspection of driveway approach and sidewalk construction.
- Maintenance of City's zoning map and plats.
- Survey, design and inspection of reconstruction and construction projects.

- **Streets Division** maintains seven FTEs with a streets supervisor, motor equipment operators (I - II and Lead) and an auto mechanic. The Division is responsible for prolonging the life of City streets through a comprehensive pavement management program where each City street is assigned a pavement condition index (PCI). Key functions of the Division include:

  - Fills potholes in streets, replaces damaged concrete panels and performs crack sealing work. A comprehensive map of street projects is presented to the City Council annually as part of the regular budgeting process. The City assigns a PCI score of 0-100 for each road based on road roughness, rutting, cracking, patching and faulting and an improvement plan for achieving a total system PCI score is then presented to City Council. Currently, the City Council has dedicated more than $1 million annually for the City's pavement management program.
  - Does street sweeping during two seasons a year, in the spring to pick up accumulated sand from snow removal operations and again in the fall after a large percentage of the leaves have fallen. The City has one street sweeper which begins work early in the morning when traffic volume is low.
  - Seal coats approximately 50-75 blocks of street annually. This process consists of spraying asphalt emulsion road oil on a street then immediately applying limestone chip rock over the oil. The aggregate is then rolled to ensure the adhesion of the aggregate to the binder and pavement surface. The process has multiple benefits: it seals out water from penetrating the road structure, seals cracks, provides a skid resistant wearing course surface and is cost effective.

- **Wastewater Division** operates with seven FTEs for treatment and collections as Wastewater Operators I – III. The operators are housed at the City's two wastewater treatment facilities. The Division is responsible for the operation and maintenance of the City's two wastewater treatment facilities, which are staffed seven days a week This includes the operation and maintenance of seven lift stations and a storm water lagoon system, operation of an industrial pretreatment system at Oskaloosa Food Products, performing laboratory analysis for treatment facilities plus industrial and commercial contributors, operation and maintenance of sanitary and storm sewer collection systems, performing roadside mowing of City owned property and private lots, maintaining right-of-way trees and receiving 10 to 20 required contact hours of training per state certified operator.

- **Storm Water Division** has essentially operated as a utility for the City since 2002. Currently, two Wastewater employees maintain the storm and sanitary system throughout the City. Most man-hours are used for cleaning the lines and catch basins as part of a preventative maintenance program. Wastewater personnel also repair the system as needed.

  The administrative billing functions for Wastewater and Storm Water are carried out by OMWD.

Fiscal Year Budget Process

The City's Fiscal Year (FY) begins on July 1 and ends on June 30. The City prepares a budget according to Iowa Code 384.16. The preparation process begins in October as all boards, commissions and other administrative agencies of the City are authorized to prepare and administer the budget proposals no later than January 1st each year. This is to provide the City Manager adequate time to submit the completed budget proposal to City Council no later than February 15th with the adoption of a final budget and public hearing approved by the City Council by March 15th.[3] The City's budget must be certified by the County Auditor by March 15. Further details of this process and the City's current and historical annual financial reports, audits and budgets can be found on the City's website.[4]

Capital Improvement Process

Each year, parallel with the City's budget process, the City Manager collects the capital improvement plan (CIP) project list from the Public Works Department. By utilizing the comprehensive map of streets projects presented to the City Council annually as part of the regular budgeting process for the City put together through the comprehensive pavement management program, the City Engineer is able to coordinate with the Streets and Wastewater Divisions on a prioritized list of projects for each department for the next five years. At this time, the coordination of the CIP that is submitted from the City is an internal process and includes a formalized process carried out jointly with other ancillary departments, except for OMWD. The FY2013-2018 CIP contains projects for the following:

- Building Official
- Engineering Department
- Street Equipment
- Pavement Improvements
- Wastewater Projects
- Wastewater Equipment
- Storm Water

The comprehensive CIP for the City of Oskaloosa Capital Improvement Program can be found in Appendix A.

Employee Benefits

City employees are covered by one of three Collective Bargaining Agreements (CBAs), excluding those positions that have opted out of the CBA or are designated as at-will employees. The three CBAs are:

- PPME Local 2003 10 PAT AFL-CIO (Police Department)
- Oskaloosa Association of Professional Firefighters Local 636, IAFF (AFL-CIO)
- PPME Local 2003 10 PAT AFL-CIO (City Unit)

Most employee benefits are provided to full-time employees and their eligible dependents. The following is a summary of the primary benefits available to City of Oskaloosa employees:

- **Medical and Prescription Insurance**: Full time employees and their eligible dependents are provided medical and prescription drug insurance through the City of Oskaloosa Group Health

[3] Per Chapter 3.05, Section 050.

[4] http://www.oskaloosaiowa.org/index.aspx?NID=257

Plan. It consists of a self-funded plan administered by First Administrators, Inc (FAI). Beginning July 1, 2012, employees were required to by the employer to share in the cost of the plan.

- **Dental Insurance**: Full time employees are offered dental insurance for themselves and their eligible dependents through Delta Dental. The employee is responsible for paying 100 percent of the premium.
- **Vision Insurance**: Full time employees are offered vision insurance for themselves and their eligible dependents through Avesis. The employee is responsible for paying 100 percent of the premium.
- **Life Insurance**: The City provides full-time employees with a term life insurance policy in the amount of $10,000. There is no coverage for dependents unless the employee opts to pay 100 percent of the policy premium.
- **Retirement**: City full-time employees are covered under the Iowa Public Employees Retirement System (IPERS). The City contributes 8.67 percent of covered wages, and the employee contribution rate is 5.78 percent of earnable compensation. Sworn police and fire fighters are covered under the Municipal Fire/Police Retirement System of Iowa (MFPSRI). The City contributes 26.12 percent of earnable compensation and the employee contribution rate is 9.4 percent.
- **ICMA Deferred Compensation Plans**: Full time employees are eligible to participate in plans administered by ICMA Retirement Corporation.
- **Longevity**: The City provides longevity pay to employees after specified years of service and it is included in the annual base rate of pay.

The following summary table outlines the current contribution amounts for medical, dental and vision insurance:

City of Oskaloosa Employee Insurance Premiums
As of July 1, 2012

Employee Insurance	Single	Employee + Spouse	Employee + Children	Family
Medical and Prescription	$0	$29.05	$29.05	$29.05
Dental	$10 - $22	$20 - $43	$20 - $43	$38 - $63
Vision	$7.62	$14.90	$16.24	$20.89

Once an employee completes their probationary period, they are eligible for 5 days of vacation after their first year, 10 days in years two through five, 15 days for years six through thirteen, 20 days after 14 years and 25 days after 20 years. In addition, employees accrue 8 hours a month for sick leave with a maximum of 960 hours.

The City Council and Mayor are not eligible for City employee benefits but the Mayor is paid $3,600 a year and Council members are paid a per diem of $100 per regularly scheduled meeting.[5]

[5] Per Ordinance No. 1054, effective January 1, 2000.

Oskaloosa Municipal Water Department

Form of Government

The OMWD is currently an independent department and a component unit of the City. The OMWD is governed by a Board of Trustees appointed by the Mayor. The Board of Trustees serves staggered six year terms. The only stipulation of appointment is that no public officer or salaried employee of the City may serve on a utility board.[6]

The Board of Trustees may exercise all powers of a city in relation to the city utility, city utilities, or combined utility system it administers, with the following exceptions:[7]

1. Taxes, Ordinances and Bonds. A Board may not certify taxes to be levied, pass ordinances or amendments, or issue general obligation or special assessment bonds.
2. Property: Title of all property must be in the name of the City, but the board has full control of such property subject to limitations imposed by law.
3. Reports to Council: The Board shall make a detailed annual report to the Council, including a complete financial statement.
4. Proceedings Published: Immediately following a regular or special meeting, the board secretary shall prepare and cause to be published in a newspaper of general circulation in the City a condensed statement of proceedings including a list of all claims.

The Board of Trustees controls tax revenues allocated to it as well as all moneys derived from operations. All utility monies must be held in a separate utility fund, with a separate account or accounts for each utility or combined utility system.[8]

Board of Trustee compensation is currently set at $64.00 per meeting, as set by a resolution of the City Council.[9]

Department Overview

The OMWD currently employs 11 FTEs that report to a General Manager. The General Manager reports to and serves at the pleasure of the Board of Trustees. Each employee of the OMWD is an at-will employee, and OMWD or the employee may terminate the employment relationship at any time, with or without cause. The 11 FTEs currently include the following positions:

- General Manager
- Office Manager
- Billings Clerk
- Utility Customer Service Representative
- Customer Service Technician
- Operations Supervisor
- Distribution System Operators (3)
- Treatment Plant Operators (2)

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[6] Per Oskaloosa Code of Ordinances, Chapter 2.80, Section 030.

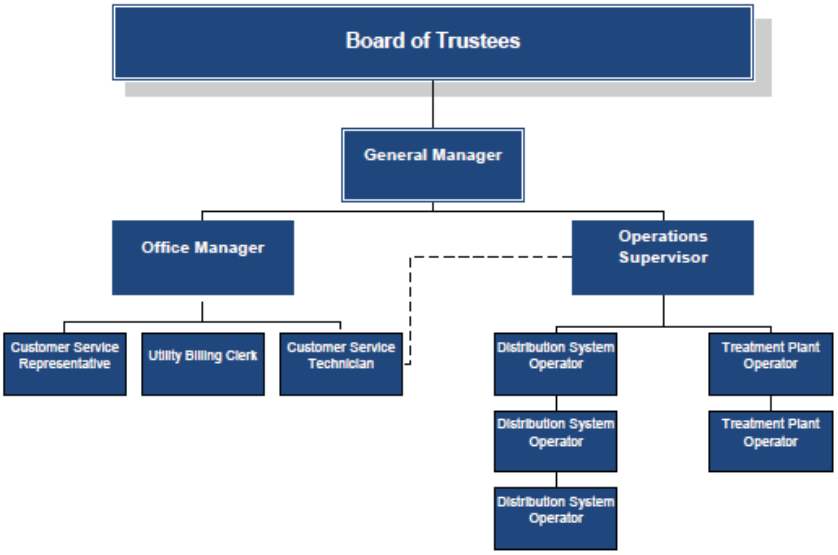
[7] Per Oskaloosa Code of Ordinances, Chapter 2.80, Section 060.

[8] Per Oskaloosa Code of Ordinances, Chapter 2.80, Section 070 - 080.

[9] Per Council Resolution 02-12-115, December 2, 2002.

The following organizational chart shows the direct reports of these FTEs:

Organizational Chart, February 2013



The current location of the Water Department is 1208 South 7th Street (the old Wander's Automotive Building), where the Department purchased real estate in the amount of $235,000 and closed on the property in October of 2012.[10] The new location includes a pole barn type building constructed in 1997 and sits on 4.37 acres of land with 6,336 square feet of fully-insulated shop space and 2,640 square feet for office space. Staff is currently operating out of a modular home directly behind the shop/office building that was on-site when the property was purchased as they await the design and construction of the new office layout.

The Department was previously leasing a building under a lease agreement that required rental payments of $850 a month with a proposed increase to $1,150 a month as of September 1, 2012. Each lease agreement required the tenant to also pay all utilities, snow and ice removal, trash removal and yard care. Due to a lack of space, the Department was also housing equipment in three separate facilities for the distribution system, and administrative staff were in a City-owned location at 213 South 1st Street that was identified as a hazardous living space in late 2012. As a result, the space needed to be vacated and will be demolished by the City in 2013. The OWMD intends to co-locate office and shop locations to the new facility and sell the modular home they are currently using as a temporary office location as soon as construction is complete.

The OMWD treatment plant is located three miles north of Oskaloosa on Highway 63, next to the South Skunk River. The Plant is a Mahaska County landmark. The Oskaloosa Water Towers are located at 612 North D Street and 604 8th Avenue East. While the OMWD purchased and currently maintains the ground that the treatment plant and water towers occupy, they are the City's property.

Billing and Service Information

While the City population is approximately 11,463, the OMWD bills approximately 4,407 residential and 514 commercial accounts. The residential accounts are sent out on a quarterly basis according to

[10] It should be noted that as outlined above the OMWD cannot legally own real property and the municipal code states that this property shall be titled in the City's name.

residence location, and the commercial accounts are sent out on a monthly basis. Bills are due on the 25th of the month and are measured in 100 cubic foot units.[11] In addition to billing for water usage, OMWD assesses and collects sewer and storm water utility fee charges for the City. The following table details the current rates:

Current Rates, February 2013

Rates Per Quarter	Per 100 Cubic Foot	Minimum Charge	Flat Fee
Water	$4.24	$25.44*	-
Water (Outside City Limits)	$8.48	$50.88*	-
Sewer	$3.51	-	$21.99
Storm Water (Residential)	-	-	$6 ($2 per month)
Storm Water (Commercial and Industrial)	-	-	$2 per ERU[12]

**Based on 600 cubic feet or 4488 gallons as 100 cubic feet is equivalent to 748 gallons.*

Fiscal Year Budget Process

At the end of the calendar year, due primarily to quarterly billing, the General Manager and the Office Manager review income and expenditures and forecast OMWD needs for the balance of the current fiscal year. Based on those numbers, OMWD makes adjustments if needed to balance the current year budget. This budget proposal as well as the budget for the next fiscal year is submitted to the Board and discussed at a budget work session. Following that discussion, for this year there were two additional budget meetings scheduled with the Board for January 21st and 28th, where budget decisions were made. Once approved by the Board, a public hearing is scheduled to amend the current year budget and approve the following fiscal year budget. This year that hearing was set for February 11, 2013. Once the budget is approved, the OMWD provides the City with their approved budget. This year, the budget was provided on January 29, 2013 just after the Board's final approval and before the public hearing in an effort to meet the City's publication schedule.

Capital Improvement Process

The General Manager facilitates the annual CIP process for the OMWD in coordination with the Operations Supervisor. Each year the 2006 Systems Analysis Report done by Garden & Associates Engineers that outlined the twenty most critical projects necessary to repair or replace existing infrastructure to reduce the possibility of main breaks or enhance fire flow is used as the foundation for addressing critical infrastructure needs. To evaluate the progress of completed projects, prior year improvements are discussed and a needs assessment is carried out to determine the most critical needs for the next year. Once projects are prioritized by OMWD staff, they are presented to the Board for approval. This year, once the Board approved the CIP plan it was sent to City staff for inclusion in the City's CIP plan, this was the first year that the OMWD plan was sent to the City.

[11] For example, if the bill shows usage as 12, 1200 cubic feet of water was consumed.

[12] ERU – Equivalent Residential Unit per month.

Employee Benefits

OMWD employees are not covered by CBAs. Each OMWD employee serves at the will of the Board of Trustees.

Similar to the City, most employees are eligible for benefits as FTEs and their eligible dependents. The following is a summary of the primary benefits available to OMWD employees:

- **Medical and Prescription Insurance**: FTEs and their eligible dependents are provided medical and prescription drug insurance through a fully insured plan with Wellmark Blue Cross Blue Shield. The Department currently carries 3 Single, 3 Employee/Souse and 5 Family policies with no employee premium contribution.
- **Dental Insurance**: FTEs are offered dental insurance for themselves and their eligible dependents through Delta Dental. The employee is responsible for paying a portion of the premium. The Department currently carries 2 Single, 4 Employee/Spouse and 5 Family policies. The premium percentages run from 14.1 percent for Single, 13.8 percent for Employee/Spouse and 12.7 percent for Family policies.
- **Vision Insurance**: FTEs are offered vision insurance for themselves and their eligible dependents through VSP. There is no employee contribution and the Department currently carries 1 Single, 5 Employee/Spouse and 5 Family policies.
- **Life Insurance**: The OMWD provides FTEs with a $20,000 term life insurance policy at an OMWD cost of $8.80 per month and $5,000 coverage for dependent coverage at OMWD cost of $1.85 per month.
- **Retirement**: OMWD employees are covered under the Iowa Public Employees Retirement System (IPERS). The OMWD contributes 8.67 percent of covered wages and the employee contribution rate is 5.78 percent of earnable compensation.
- **ICMA Deferred Compensation Plans**: FTEs are eligible to participate in plans administered by ICMA Retirement Corporation.
- **Longevity**: The OMWD does not provide longevity pay to its employees.

The following table summarizes the current contribution amounts for medical, dental and vision insurance:

OMWD Employee Insurance Premiums
As of July 1, 2012

Employee Insurance	Single	Employee + Spouse	Employee + Children	Family
Medical and Prescription	$0	$0	$0	$0
Dental	$5	$10	$16	$16
Vision	$0	$0	$0	$0

Once an employee completes their probationary period, they are eligible for 5 days of vacation in their first year, 10 days in years two through five, 15 days for years six through thirteen and 20 days after 14 years. In addition, employees earn 8 hours per month for sick leave, up to a total of 720 hours.

In addition, at the time of separation (excluding for-cause dismissal), OMWD employees are eligible for a portion of the cash balance of their sick leave. This portion is equal to 50 percent for those with10-14 years of service, 75 percent for those with 15-19 years of service and 100 percent for those with 20 or more years of service.

Benchmarking

Benchmarking

Benchmarking with similar organizations in the same business sector is a key management tool used to evaluate an organization's internal structure, functional responsibilities, procedures, output and outcomes. In the case of a water utility, rate studies that are completed to compare rate structures with similarly sized utilities should not be confused with benchmarking.

Though imperfect, benchmarking may be used both as a diagnostic tool to identify an organization's functional strengths and weaknesses and as an instrument to guide organizational and operational reform. Benchmarking helps an organization gauge their organizational and financial performance from a broad or "big picture" perspective and often collects key operational and financial metrics, organizational processes and administrative policy applications beyond just comparative rate structures.

On the other hand, comparison of rate structures is a very important tool to determine whether future growth may impact the competitiveness of the utility; the comparison is also useful in determining if anticipated rate increases may be projected forward to determine continued competitiveness, especially in neighboring communities that have similar economic and residential bases.

When cities pursue rate studies they have several options, including hiring an engineering firm, hiring other consultants or doing it in-house. Bringing in someone from the outside is often the best option as an independent third party may have fresh perspectives with innovative ideas that may lend credibility to staff recommendations presented to the governing body/board and customers. If the city or utility has staff with the expertise and time to devote to the task, it may choose to conduct the study in-house. Whatever process is used, it is very important to identify expectations for a rate study before it is initiated; this is often done by establishing what goals need to be accomplished. Goals may include:

- Generating additional revenues to keep up with inflation. The costs of operations may have risen due to inflation, and the utility may need additional revenue to cover those costs. Funds may come from a combination of user fees, loans or grants.
- Obtaining new loans. The utility may need to borrow money for capital improvements and, therefore, needs to generate additional revenue to cover debt service (i.e., principal and interest). This could include items such as infrastructure improvements and replacement or updating treatment plants or pump stations as OMWD has recently pursued.
- Maintaining compliance with professional and regulatory requirements. The utility may be subject to federal or professional regulatory mandates that often times require costly infrastructure investments or improvements.
- Examining the rate structure. This involves an evaluation of rates by customer class to ensure that rates are fairly allocated. It may involve simplifying a complicated rate structure or, if the city or utility wants to encourage water conservation, changing the rate structure to charge higher rates for large volume users may be a goal. It is important to have rates and policies that can be easily explained to rate payers.
- Initiating the examination and modification (if needed) of water and sewer policies, including extension policies, connection and tap fees, etc., to ensure that policies are up to date and new customers are not being allowed to connect onto the system at the expense of existing customers.
- Developing communication plans to communicate study findings to customers. While rate payers will be funding the rate studies, it is important to communicate the findings and value to those customers.

The OMWD has participated in a number of rate studies carried out by similarly sized cities in the past but to date had not carried out any internal benchmarking efforts. The PFM team determined that pursuing such an effort for this study was important.[13]

To perform a benchmarking analysis for the OMWD, the PFM team collected the list of those comparable cities often used by the City for internal benchmarking purposes. These cities are highlighted below in blue. After researching the service structures of those comparable cities and collecting the customer user information (number of residential and commercial user accounts) the PFM team augmented the list by including two additional cities:

Comparable Water Utility Service Structures

City	Utility Name	Population	Customers
City of Oskaloosa	Oskaloosa Municipal Water Department	11,463	4,407 Residential 514 Commercial
City of Boone - Recommended City Comp	Boone Water Works (City Utility Department)	12,661	4,802 Residential 408 Commercial
City of Fairfield - Recommended City Comp	City of Fairfield Water Department (City Public Works Department)	9,464	3,939 Residential 488 Commercial/ Other
City of Fort Madison - Recommended City Comp	City of Fort Madison Water Department	11,051	4,600 Residential >50 Commercial
City of Grinnell - Recommended City Comp	City of Grinnell Water Department	9,218	3,055 Residential 430 Commercial
City of Keokuk - Recommended City Comp	Keokuk Municipal Water Works	10,780	3,730 Residential 571 Commercial /Other
City of Knoxville - Recommended City Comp	Knoxville Water Works	7,313	*NA*
City of Newton - Recommended City Comp	Newton WaterWorks	15,254	7,000 Total Accounts **unsure of allocation*
City of Pella - Recommended City Comp	City of Pella Water Division (City Public Works Department)	10,352	3,584 Residential 775 Commercial/ Other
City of Storm Lake - Recommended City Comp	Storm Lake Water Plant (City Public Facilities Department)	10,600	3,095 Residential 475 Commercial
City of Waverly - Recommended City Comp	City of Waverly Water Division (City Public Works Department)	9,874	3,300 Residential 238 Commercial/ Other

[13] For the purposes of this study, while rate information was collected in the benchmarking survey, it is important to note that in the interest of ensuring accuracy when converting unique rate conversions, the PFM team has relied on the latest rate study for OMWD carried out by the City of Ames, Water Rate and Sewer Service Charge Survey – Iowa Cities 10,000 and Over Population, September 22, 2011.

City	Utility Name	Population	Customers
City of Indianola - Comp added for Service Structure Comparison	Indianola Municipal Utilities	14,782	4,502 Residential 493 Commercial
City of Spencer - Comp added for Service Structure Comparison	Spencer Municipal Utilities	11,233	5,121 Residential 724 Commercial

**The utility name, population and customers columns are highlighted in gray for independent operations.*

PFM identified variations between each City and the OMWD on both macro- and micro-level data by examining organizational structure, staff size, revenues and expenditures, and annual budget approval processes. PFM also discussed key issues specific to certain functions that were identified in the initial round of interviews as key issues with many of the comparable cities to gain a better understanding of their operations.

In order to assemble the most accurate, up-to-date data from comparable organizations, the project team requested information through a variety of methods, including phone and email correspondence with key contacts at each city water utility and review of strategic plans, annual reports, financial audits and websites.[14]

Service Structures

There are an array of service structures that are deployed across the State of Iowa. For this study, the PFM team identified a representative sampling of the two most common service structures for water utilities, those that are operated by independent boards separate and distinct from city government, or component units of the city and those that are internal departments or divisions operated by the city.
The following table outlines the structures for the comparable cities:

Comparable Water Utility Service Structures

City	Independent from City	City Department	Other Key Notes
City of Oskaloosa	√		
City of Boone		√	
City of Fairfield		√	
City of Fort Madison		√	
City of Grinnell		√	
City of Indianola	√		Provides City with PILOT
City of Keokuk	√		Provides City with PILOT
City of Knoxville	√		
City of Newton	√		
City of Pella		√	
City of Spencer	√		

[14] The spreadsheet outlining detailed benchmarking data was provided to City staff.

City	Independent from City	City Department	Other Notes
City of Storm Lake		√	
City of Waverly		√	

For each of the cities listed above that maintain their water utility as an internal operation, the administration and billing staff are almost always located centrally in City Hall and their distribution and maintenance staff are located at a separate maintenance facility or plant location. Often times, the water utility maintains three separate locations – a space in City Hall for billing and administration, a maintenance building for housing equipment and inventory and the physical water plant. In contrast, those operations that are separate and independent often operate in facilities separate from the City, with the exception of Newton and Indianola where the billing clerks are housed in City Hall and carry out all responsibilities related to utility billing. Indianola Municipal Utilities (IMU) houses their billing clerks in City Hall and they do all utility billings, including electric, water and network services.

In addition to contributions in the form of free or reduced cost of the utility, payments such as property-like taxes, or Payments in Lieu of Taxes (PILOTs), and other specific transfers to the general funds, are often made to local governments. This is to compensate for some or all of the tax revenue that it loses because of the nature of the ownership or use of a particular piece of real property. This may be because of foregone property tax revenue utilized by the utility. For example, Keokuk Municipal Water Works makes an annual PILOT payment to the City, last year this payment totaled $200,000. For FY14 Indianola Municipal Utilities also provided the City of Indianola with a payment equaling 3 percent of water revenues in the amount of $70,800 and 5 percent of sewer revenues in the amount of $128,900.

As outliers, the water and sewer treatment plants in Storm Lake and the water treatment plant in Spencer are run by an independent contractor, Veolia Environmental Services. Veolia Environmental Services is one of the largest waste services companies in the world and the only global manager of liquid, solid, non-hazardous and hazardous waste, on-site waste processing, industrial cleaning and process maintenance, and recycling, recovery and disposal for both the public and private sectors.[15] Contract oversight is provided by the City Public Facilities Director in Storm Lake and by the Public Works Director in Spencer.

Billing and Service Information

While population is often a good indicator for benchmarking, a more pertinent comparison is the number of customer accounts, as well as the composition of those accounts (residential and commercial). The following table details the composition of residential and commercial customer accounts for the comparable jurisdictions:

Composition of Customer Accounts

City	City Population	Residential	Commercial, Industrial or other
City of Oskaloosa	11,463	4,407	514
City of Boone	12,661	4,802	408
City of Fairfield	9,464	3,939	488
City of Fort Madison	11,051	4,600	Less than 50
City of Grinnell	9,218	3,055	430

[15] http://www.veoliaes.com/content/veolia/en/about-us/company-profile.html

City	City Population	Residential	Commercial, Industrial or other
City of Indianola	14,782	5,121	724
City of Keokuk	10,780	3,730	571
City of Knoxville	7,313	N/A	N/A
City of Newton	15,254	7,000[16]	-
City of Pella	10,352	3,584	775*
City of Spencer	11,233	4,502	493
City of Storm Lake	10,600	3,095	475
City of Waverly	9,874	3,300	238

**Includes Commercial, Industrial, Rural, Schools, Colleges, Government, Churches, Public Service, Enterprise and Resale.*

While each of these operations may operate with unique service structures, the composition in residential and commercial customer accounts is quite similar, with the City of Oskaloosa having the second highest number of commercial, industrial or other customer accounts.

It is common for the water utility (even in cases were the utility operates independently from the city) to bill wastewater, storm water and other monthly or quarterly fees on behalf of the city. For example, the City of Newton pays Newtown Waterworks to bill and collect sewer, recycling and garbage fees on a monthly basis. In some cases, despite the separate management and operation of the water utility, the administrative and billing staff and functions are housed and carried out in City Hall as a centralized utility billing department. This is the case for Indianola Municipal Utilities, where the locally owned not-for-profit utility provides the City with electric, water and network services. It should be noted that, contrary to the quarterly billing process at OMWD for residential accounts, most of the comparable jurisdictions bill all accounts on a monthly basis. OMWD does bill commercial accounts on a monthly basis.

Budget Processes

For each of the seven comparable water utilities that operate under the city, the City Council is responsible for approving the water utility budget and rate increases. Two of these cities, Boone and Fairfield, have City Council structures with an assigned utility committee that works closely with the utilities to understand the intricacies and budget needs of each utility before making a recommendation to the full Council.

Comparatively, each of the six water utilities that operate independently from the city generally operate with a Board of Trustees that is responsible for approving the water utility budget and rate increases. In most cases, the water utility's budget process runs parallel with the city's process, but the independent utility simply provides the city with a copy of their approved budget to meet mandated budget submission and publication mandates. It is not uncommon for the city council to be provided a copy of the budget solely to meet submission requirements.

Most of the comparable utilities, whether an internal city operation or separate component unit, use a cash-based accounting system. Generally accepted accounting principles (GAAP) in the public sector prefer a modified accrual based form of accounting. Of the benchmarked systems, Spencer Municipal

[16] Total accounts, respondent was not sure of the customer account composition.

Utilities (SMU) budgets on an accrual basis. The general difference in cash basis versus accrual basis is that SMU accounts for net assets and depreciation in its financial statements.

Full Time Employees

Understanding that each organizational structure for the comparable cities may be distinctly different from the City of Oskaloosa, it is often helpful to understand the composition of full time employees (FTEs) for those functional areas that best align with the water utility operations. For most cities, this includes the wastewater division as the functions related to treatment and plant operations are similar. Below is a table outlining the FTEs for water and wastewater, as well as shared FTEs for the comparable cities:

FTE Composition by City

City	Water FTEs	Wastewater FTEs	Shared Water/WW FTEs	Total FTEs
City of Oskaloosa	11	7	-	18
City of Boone	5	5	3.5	13.5
City of Fairfield	9	5	2	16
City of Fort Madison	12	1	2	15
City of Grinnell	4.5	4.5	3	12
City of Indianola	6	7.5	5	18.5
City of Keokuk	25	5	-	30
City of Knoxville	7	5	-	12
City of Newton	13	9	-	22
City of Pella	9	2	2	13
City of Spencer*	10	5 Contractors 2 City staff	2	19
City of Storm Lake**	*Not Provided*	*Not Provided*	*Not Provided*	*N/A*
City of Waverly	3	1	3	7

**Sewer Treatment Facility operated by outside contractor.*
***Water and Sewer Treatment facility operated by outside contractor.*

As the table indicates, there are differing structures in each of the comparable jurisdictions. As it relates to sharing the functional responsibilities of employees, in nearly every case the positions relate to billing and administrative functions. An additional opportunity for shared services is often found in cross-training for water and wastewater operators. Many smaller municipalities have improved service and performance through better coordinated water and wastewater service by utilizing operators that are fully licensed to run both the water treatment and wastewater treatment plants and pump stations. These cross training efforts have also enhanced job satisfaction and allowed cities to keep operators busy during typical workload fluctuations.

Water Rates

The project team relied on rate studies conducted by the City of Ames from September 22, 2011, which included OMWD. The survey respondents included 8 of the 13 cities used for benchmarking in this study. It should be noted that billing methods use various combinations of gallons and cubic feet as well as

monthly or quarterly billing cycles. For its study, the City of Ames converted minimum bills and the quantity allowed on the minimum bill to a dollars per month basis and cubic feet per month allowance. Additionally, there are a number of cities that have billing cycles based on gallons versus cubic feet. In doing so, it is important to note whether the conversion rate is 100 cubic feet to 748 gallons, or 750 gallons (as defined for the purposes of the City of Ames rate study).

2011 Water Rate Comparison
Prepared by the City of Ames, Iowa
September 2011

City	Type of Treatment	Dates of Recent Rate Adjustments	Minimum Bill Per Month	Allowance on Minimum Bill Cu Ft/Month	Monthly Charge for 600 Cu Ft
City of Oskaloosa	Wells, Softening	2005, 2007, 2009, 2011	$8.20	200	$24.66
City of Boone	Wells, Softening	2003, 2008, 2009, 2010	$7.37	100	$24.02
City of Fairfield	N/A	N/A	N/A	N/A	$23.40*
City of Fort Madison	River, Softening	2002, 2005, 2007, 2009	$9.44	0	$31.72
City of Grinnell	N/A	N/A	N/A	N/A	$25.90*
City of Indianola	Wells, Softening	2006, 2009, 2011	$8.75	133	$28.88
City of Keokuk	River, Softening	2000, 2003, 2009, 2010	$13.56	267	$20.51
City of Knoxville	N/A	N/A	N/A	N/A	N/A
City of Newton	Wells, Softening	2002, 2003, 2006, 2011	$8.38	200	$14.66
City of Pella	N/A	N/A	N/A	N/A	N/A
City of Spencer	Wells, Softening	2007, 2009, 2010, 2011	$10.00	0	$23.50
City of Storm Lake	Wells, Softening	2003, 2009, 2010, 2011	$10.30	200	$20.54
City of Waverly	N/A	N/A	N/A	N/A	$22.20*

**Calculated from information received from PFM research.*

The City of Oskaloosa has a similar treatment process, including softening, relative to the comparable jurisdictions. Other treatment types include iron removal pressure filtration as done in the City of Carroll with a population of similar size. Rate adjustments have been steady every other year since 2005, in contrast to Spencer Municipal Utilities, where rates have been adjusted for three successive years (2009, 2010, 2011). OMWD maintains the second lowest minimum bill per month at $8.20 per month, with Boone Water Works being the lowest at $7.37.

When it comes to the monthly charge for 600 cubic feet per month, it is important to note that the average single-family residence will use approximately 530–670 cubic feet per month (or 4,000–5,000 gallons). The City of Ames Rate Charge Survey used 600 cubic feet to provide the best estimate on the average

monthly residential use. The following summarizes the monthly residential charge for each comparable city:

Average Monthly Residential Water Charge

City	Monthly Charge for 600 Cu Ft
City of Oskaloosa	$24.66
City of Boone	$24.02
City of Fairfield	$23.40*
City of Fort Madison	$31.72
City of Grinnell	$25.90*
City of Indianola	$28.88
City of Keokuk	$20.51
City of Newton	$14.66
City of Spencer	$23.50
City of Storm Lake	$20.54
City of Waverly	$22.20*
Average Monthly Charge	**$23.56**
Average (Excluding Newton)	**$24.83**

As the table notes, OMWD is just above the average for the comparable cities' monthly charge for the average residential household. When the extreme outlier is excluded from the calculation, the OMWD is within pennies of the average.

Sewer Rates (Sanitary and Storm Water)

In collecting water rates, it is important to also understand rates charged for similar utilities, such as sanitary (or wastewater) and storm water. Often these charges are overlooked by utility customers, and they may misunderstand the separate charges for these services on their water utility bill. While it is useful to compare sewer rates, the charges alone are not the full story. Many cities struggle to manage federal and other mandates related to aging infrastructure or other issues specific to their jurisdiction, which results in unique rate structures or fixed fees to cover the cost of service.

While sanitary sewer, or wastewater rates are charged in the same fashion as water rates (based on gallons or cubic feet), storm water rates are generally a smaller flat fee, calculated most often by the amount of hard surface on a property or equivalent service units (ESUs). For most of the cities that were contacted for this study, if they are not currently charging a storm water fee, there have been internal discussions to move to this approach in an effort to reduce sewer rates. Often, the cost of providing this service is buried in the sewer rates for many of the comparable cities. The following table details these charges for comparable cities that currently charge a storm water fee:

Monthly Residential Storm Water Fees

City	Monthly Fee
City of Oskaloosa	$2 flat fee
City of Boone	$1.95 per ERU
City of Fairfield	No fee
City of Fort Madison	$1 flat fee + $1 Integrated Waste fee
City of Grinnell	$2.66 per ERU
City of Indianola	N/A
City of Keokuk	No fee
City of Newton	No fee
City of Spencer	$10.00 flat fee for combined sewer initiative
City of Storm Lake	$3.00 per ERU
City of Waverly	N/A

The following table reflects the comparison of domestic sewer service charges for the same set of cities as prepared by the City of Ames Rate Charge Survey:

2011 Domestic Sewer Service Charges
September 2011

City	Dates of Recent Rate Adjustments	Minimum Bill Per Month	Allowance on Minimum Bill Cu Ft/Month	Monthly Charge for 600 Cu Ft
City of Oskaloosa	2003, 2005, 2008, 2011	$7.26	0	$27.48
City of Boone	2000, 2003, 2009, 2010	$3.00	0	$50.82
City of Fairfield	N/A	$14.85	N/A	$29.40*
City of Fort Madison	2003, 2005, 2007, 2009	$8.84	0	$21.22
City of Grinnell	N/A	$7.05	N/A	$28.98*
City of Indianola	2009, 2010, 2011, 2012	$7.75	133	$36.63
City of Keokuk	2007, 2008, 2009, 2011	$25.20	267	$38.03
City of Knoxville	N/A	N/A	N/A	N/A
City of Newton	2006, 2007, 2010, 2011	$7.38	200	$16.86
City of Pella	N/A	N/A	N/A	N/A
City of Spencer	1985, 2005	$6.90	133	$21.30
City of Storm Lake	2009, 2010, 2011, 2012	$15.14	0	$28.24
City of Waverly	N/A	$10.76	N/A	$26.34*

**Calculated from information received from PFM research.*

Using the same monthly charge for 600 cubic feet per month that aligns with the average single-family residence, the average monthly residential sewer charges for the comparable jurisdictions are outlined in the following table:

Average Monthly Residential Sewer Charge

City	Monthly Charge for 600 Cu Ft
City of Oskaloosa	$27.48
City of Boone	$50.82
City of Fairfield	$29.40*
City of Fort Madison	$21.22
City of Grinnell	$28.98*
City of Indianola	$36.63
City of Keokuk	$38.03
City of Newton	$16.86
City of Spencer	$21.30
City of Storm Lake	$28.24
City of Waverly	$26.34*
Average Monthly Charge	**$30.44**
Average (Excluding Boone)	**$27.05**

**Calculated from information received from PFM research.*

As the preceding table shows, the City is substantially below the average for the comparable cities' monthly charge for the average residential household. When the extreme outlier is excluded from the calculation, the City is very close to the average.

While the project team noted that the dates of recent rate adjustments were not accurately reflected in the City of Ames study for the City of Oskaloosa, a breakdown of the historical rate increases for the previous ten years as provided by the City and OMWD are detailed in the following table:

City of Oskaloosa, Historical Water and Wastewater Rate Adjustments

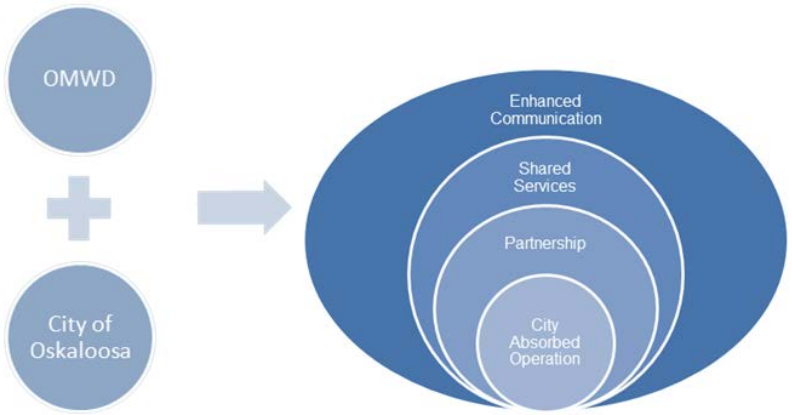
Date	Water Rate Increase	Wastewater Rate Increase
2004	4.0%	0.0%
2005	5.0%	2.9%
2006	2.0%	0.0%
2007	5.0%	0.0%
2008	15.0%	6.0%
2009	18.0%	3.5%
2010	7.5%	0.0%
2011	7.5%	6.5%
2012	3.5%	3.5%
2013	0.0%	3.5%

Opportunities for Shared Services

Opportunities for Shared Services

Within the context of any shared service study, it is important to understand the continuum of possible sharing opportunities between two entities with separate operating authority. For this particular study, the OMWD and the City currently operate in two separate operating structure silos. In an effort to find an approach that would best serve both operations, as well as the residents and rate payers in the City of Oskaloosa, the PFM team worked to identify the shared service solutions that ranged from each end of the spectrum, from simply enhancing communication to assessing options for full discontinuance of the OMWD Board of Trustees and transitioning to a City absorbed water utility operation. Below is a graphic illustration that reflects the transitional structure opportunities available to these two separate entities:

Transitional Structure Opportunities:
City of Oskaloosa and the Oskaloosa Municipal Water Department



In the end, this report includes recommendations that should provide the greatest opportunity for operational improvements and tangible savings for the City and the OMWD while taking into account local and national best practice policies related to water utility service structures.

Local Codes and Policies

The Oskaloosa Code of Ordinances recognizes that the City and the OMWD are distinct entities with separate management and authority over operations. At the same time, aspects of the Code suggest that the utility ultimately operate as a component unit of the City. The following references within the Code of Ordinances appear to support this reading:

- Appointments to the Board of Trustees are made by the Mayor and approved by the Council.[17]
- The OMWD Board of Trustees is required to make a detailed annual report to the Council, including a complete financial statement.[18]
- The Council sets the compensation of Board members by resolution.[19]
- The accounting records for the utilities should be inclusive in the City's accounting records. The clerk shall perform and be responsible for accounting functions of the municipally owned utilities.[20]

[17] Per Oskaloosa Code of Ordinances Chapter 2.80, Section 030 – Appointment.

[18] Per Oskaloosa Code of Ordinances Chapter 2.80, Section 060 (C) – Powers and duties.

[19] Per Oskaloosa Code of Ordinances Chapter 2.80, Section 040 – Compensation.

[20] Per Oskaloosa Code of Ordinances Chapter 3.04, Section 080 (F) – Accounting records.

- The utility may not provide use or service at a discriminatory rate, except to the city or its agencies.[21]

On the other hand, there are a number of references that suggest it is important for the management and control of the water utility to be separate from the public operations of the City:

- No public officer or salaried employee of the City may serve on a utility board.[22]
- The Board of Trustees may exercise all powers of a city in relation to the City utility.[23]
- All property must be in the name of the City, but the board has full control of such property subject to limitations imposed by law.[24]
- Utility monies must be held in a separate utility fund, with a separate account or accounts for each utility or combined utility system.[25]

For the purposes of this study, the key appears to be Chapter 2.80, Section 100 of the Oskaloosa Code of Ordinances. This reference provides that "discontinuance of the OMWD would require a proposal, on motion of the council or upon receipt of a valid petition, to discontinue a utility board is subject to the approval of the voters of the city, except that a board may be discontinued by resolution of council when the city utility, city utilities, or combined utility system it administers is disposed of or leased for a period of over five years."

While the OMWD has not been 'disposed of or leased for a period of over five years,' any proposal for the City to take the most absolute approach in the continuum above and seek to absorb operating authority of OMWD would require a vote of the residents of the City. Not only would this approach be time consuming (and likely involve some cost to the City), the opposition to the structural change would likely lead to a contested debate, which could divide the City and its residents and lead to an uncertain outcome. Further, if this approach were to not pass a vote of the people, it would likely eliminate any opportunity for enhanced collaboration between the OMWD and the City in the future.

National Best Practice Policies

The unique characteristics of utility operations set them apart from other regular general funded government functions and activities. Overall, there is a fundamental strength in water, sewer and drainage sectors, as per capita consumption patterns suggest that utilities are generally in a position to maintain stable financial metrics when local governments are impacted by economic fluctuations. While utility revenues are rate-based, the general consensus is that the average user is not as sensitive to utility rate adjustments to cover the costs of providing utility services as they might be to an increased cost of other local government services. Households will generally continue to wash, water and flush at consistent rates despite a utility rate adjustment, and incorporate into their family or commercial budgets with little resistance, so long as they feel the increases are justified. Rates are most often not the primary drivers of consumption decisions.

These characteristics play a key part in there being a separate set of criteria for determining the operating and fiscal health of U.S. municipal water and sewer (sanitary and storm water) utilities. According to two of the major credit rating agencies, Standard & Poors (S&P) and Fitch Ratings (Fitch), a utility's operating and fiscal health is highly dependent on the actions of the utility's employees and governing body. When

[21] Per Oskaloosa Code of Ordinances Chapter 2.80, Section 090 – Discriminatory rates illegal; Section 384.91, Code of Iowa 1977.

[22] Per Oskaloosa Code of Ordinances Chapter 2.80, Section 030 – Appointment.

[23] Per Oskaloosa Code of Ordinances Chapter 2.80, Section 060 – Powers and duties.

[24] Per Oskaloosa Code of Ordinances Chapter 2.80, Section 060 (B) – Powers and duties.

[25] Per Oskaloosa Code of Ordinances Chapter 2.80, Section 080 – Accounting.

reviewing these sector-specific utilities, Fitch reviews ten specific factors known as the "10 C's" that are a sector-specific subset of the global criteria on Revenue-Supported Rating criteria.[26] The 10 C's include the following:[27]

- **C**rew (an informal term for management)
- **C**overage and Financial Performance
- **C**ash and Balance Sheet Considerations
- **C**harges and Rate Affordability
- **C**apital Demands and Debt Burden
- **C**ovenants
- **C**ustomer Growth and Concentration
- **C**apacity
- **C**ompliance with Environmental Laws and Regulations
- **C**ommunity Characteristics

In summary, according to Fitch, the highest rated utilities "exhibit multiple management practices that maximize expenditure stability by anticipating future regulatory and growth/supply demands, reliability implementing rate increases to cover operational and capital costs, and ensuring sufficient liquidity to cope with unexpected sales shortfalls or emergency needs…..the most stable utilities operate free from day-to-day political interference and influential issues that may impact rate-setting policies." Below are the attributes of strong governance and management as outlined by Fitch:

- Management and governing body with extensive experience in the utility sector.
- An objective, engaged governing body that does not exert political pressure.
- Transparency and strong communication between management and governing body.
- Frequent analysis of the accuracy of forecasts and resource management plans.
- Well-developed and documented policies and procedures.

Within this set of management practices, OMWD has professional staff with relevant experience in the utility sector, as well as an engaged governing body and good communication between management and the governing body. Going forward, an increase in the planning and analysis of forecasts and resource management plans should receive additional attention.

The following table summarizes the key water and sewer best management practices for financial, debt and operating profile related practices as provided by Fitch:

[26] Produced by Fitch on June 12, 2012 and details Fitch's approach to rating U.S. municipal water and sewer (sanitary and storm water) utilities.

[27] www.fitchratings.com, U.S. Water and Sewer Revenue Bond Rating Criteria, August 3, 2012.

Water and Sewer Best Management Practices
Fitch Ratings, August 2012

Financial Profile Related
▪ Long-term integrated financial forecasting that considers future demand, expected rate increases, regulations, and infrastructure renovation and renewal needs.
▪ Policies to ensure appropriate financial margins, including debt service coverage and operating liquidity levels. Utilities with variable-rate debt and swap agreements are expected to understand the implications and potential risks of such capital management strategies. In addition, these utilities should include management's rationale for the sizing of financial reserves and the adequacy of those reserves to cope with interest rate fluctuations and possible termination payments.
▪ Regular financial reporting and monitoring systems that enable policymakers access to timely information on fiscal performance relative to the budget.
▪ Limited operating exposure to growth-sensitive revenues, such as tap, connection, or impact fees.
▪ Collection policies that regularly track the rate of timely payment receipts and enforce penalties against late payers or terminate service for nonpayment.
▪ Willingness of political leaders to adjust rates when necessary.
▪ Limited exposure to financial operations of the general government, so that system revenues can be relied on for use to operate and improve the utility. For transfers to the general fund, policies that specifically limit their scope and growth are favorable.
▪ Compliance with industry accounting practices and establishment of appropriate internal controls.
▪ Rate affordability guidelines that consider absolute levels of rates and their affordability relative to income levels.
Debt Profile Related
▪ Prioritized capital improvement plans that cover at least five years and consider capacity, supply, regulatory, and replacement and renewal needs.
▪ Debt issuance policies, including types, terms and sustainability under specific conditions, as well as the total amount of variable-rate debt deemed appropriate.
▪ Development of comprehensive policies on the use of hedge agreements and their disclosure prior to entering into any such arrangements.
Operating Profile Related
▪ Key management industry experience and active participation in organizations to keep pace with sector issues, regulatory mandates, and technological advances.
▪ Use of professional engineers, either within the utility or outside of it, to prepare objective reviews of system performance and needs on a regular basis and provide periodic revisions of construction cost estimates.
▪ Regular consultation with regional and local growth planners, community development officials, and demographers to predict and, if possible, limit infrastructure needs related to population and business growth.

In general, there are opportunities to improve long-term financial forecasting at OMWD, particularly as it relates to infrastructure renovation and renewal needs, as well as addressing other debt profile related policies surrounding CIP plans that need to cover at least five years and general debt issuance policies.

Recommendations

Findings and Recommendations

As discussed in the previous chapters, the project team worked to understand the unique operations, organizational structure and local policies, procedures, rules and ordinances to ensure that this report included reasonable recommendations that could provide the best opportunities for operational improvements and tangible savings for the City and the OMWD.

While shared service initiatives have been explored across the country, it is important to understand the unique nature of utility operations that set them apart from other general government functions. One critical aspect for utilities is that they must maintain the flexibility to control costs and raise rates in a timely manner without political impediment. Utilities must be able to manage rates without a lengthy rate review process or reluctance by governing officials to make necessary rate adjustments that could impact necessary cost recovery. Utility funds are often set up as business or enterprise funds to ensure that they maintain limited operating exposure to the financial operations of the general government. Unlike general fund revenues, system revenues must be relied on for operating and improving the utility, not for funding other government obligations that are often personnel driven, like City pension contributions or dedicated cost of living or salary increases provided through CBAs. This is often why compensation packages for utility employees may have quite different drivers in comparison to civil service packages, there are no union negotiations and the employees serve in an at-will capacity. Unique skills, capacity and licensing requirements are more prevalent and the flexibility to remain competitive with the private sector are often key elements to consider.

The current governance structure for OMWD provides the sort of political insulation from rate adjustments that is considered a best practice. At the same time, that 'best practice' insulation should not be viewed as support for isolation. As the benchmarking data indicates, most comparable utility systems – whether a component part of the city or independent – have sharing arrangements with the rest of city government. This only makes sense, as these arrangements can mutually benefit city residents and ratepayers. In that regard, both Trustees and members of City Council are acting as good fiduciaries when supporting these efforts where they are cost effective.

In the review of operational, financial, and procedural processes, the OMWD operates within the bounds of normal practice for similar water utilities in the State of Iowa. Given the dynamics related to the operations of the City and the OMWD, it is likely not in the best interest of the City to pursue efforts to absorb or discontinue the current operations and management of the OMWD. That said, the review of operations suggests that the City and OMWD should work together to enhance communication, formalize and standardize budgeting, financial reporting and planning efforts and explore sharing opportunities that may collectively save money, time and resources for each operating organization. There are areas, for example, in long-range planning and communication, where the City's management and operation afford opportunities for the OMWD to improve its operations.

As the City continues efforts to enhance the efficiencies in operations and maintain a forward-thinking perspective on the City's finances and operations, it will be critical that the OMWD make a more concerted effort to be a part of a broader, 'big picture' view of the City to ensure that City-wide infrastructure needs are met for the residents and water utility rate payers.

The following recommendations provide details to optimize the efforts of the City and OMWD:

1. Enhance Communication between the City and the OMWD

While the City and OMWD have made progress in this area, it is important that going forward clear roles and expectations are established for each party. While past efforts of the City Council to designate a "Council Liaison" to the OMWD are commendable, this role should be better defined, with regular and

reasonable reporting mechanisms established and agreed upon by both parties. Moving forward, the Council and OWMD need to find common ground in respecting and understanding the operating authority within each operation, and work together to determine what information should be shared to identify what is best for the City.

While attendance by a Council Liaison at every Board of Trustee meeting is an option, there are other reporting mechanisms that can be developed that respect the operational authority of both entities. They may also reduce the City's financial obligation for paying a Council member to attend these meetings (and vice versa if the Council were to request a Board of Trustee to attend each Council meeting).[28]

For example, a reporting template could be developed for the Council and the Board of Trustees to report on. The template could cover key requests, issues or reports/other relevant topics. Typically, this type of report would be split into key topics (budget update, personnel issues, capital plans, etc.). This reporting document or e-mail update could be sent through the City Manager and OMWD General Manager on a regular basis.

The City and OMWD should look for opportunities where they can partner on key issues most important to residents, and critical to the operation of both entities. This could include combining websites so that residents have one common resource for the rate information, water news and announcements, enhanced on-line payment options for residents, coordinating public events, etc. It is likely that most City residents do not understand (or care about) the distinction between the City and OMWD. To improve transparency and communication, for example, OMWD should have its key financial and operational metrics included in the City's Annual Report.

These efforts provide an opportunity to streamline and make operations more transparent for OMWD and the City. In addition, enhanced communication will keep the City and OMWD better informed of each other's intent and processes. By further opening lines of communication, each entity can be more confident that any potential issues that need to be addressed can be done proactively prior to them becoming critical issues. This concept is similar to the informal monthly utility meetings held by Mid-American where key players from OMWD, the City Engineer, MCG (local fiber), Department of Transportation, gas and phone companies come together to discuss key projects in the area. Mid-American provides an agenda and distributes minutes to normal attendees to ensure that all parties are involved and aware of future projects that may impact the operations of each entity.

2. Formalize and Standardize Joint Budgeting, Reporting and Planning Efforts

There are a series of budgeting, reporting and planning efforts that should be formalized for the OMWD, as well as the City. The key areas of these efforts include the following:

- ***Enhance Joint Budget and Planning Efforts***

  While the City has worked to enhance its budget and planning efforts, OMWD should work to better align their current budget process with the City's mandated timelines (as outlined for all boards, commissions and other administrative agencies). This process requires that a budget proposal be submitted to the City Manager no later than January 1st each year to provide the City Manager adequate time to submit a completed budget proposal to City Council no later than February 15th.

[28] Current council liaisons are not paid for their voluntary attendance at OMWD Board meetings.

The Board of Trustees should work with the OMWD staff to modify their current budget preparation process and adopt a budget schedule that aligns with that of the City.

- ***Coordinate Wastewater and OMWD Financial Policies***

Because debt issuance for the OMWD can impact the City's Revenue Available for Debt (RAD) and other parity requirements, the OMWD Board of Trustees should work with the City to establish debt issuance policies that align with those of the City's Wastewater policies.

- ***Strengthen OMWD Long-Term Financial Policies***

It is critically important for utilities to maintain a long-term, multi-year look at infrastructure needs and maintain and adhere to financial policies that ensure both short and long-term operating stability.

While the OMWD may currently have a healthy unreserved cash balance, it is important to monitor the level of those reserves, particularly as they have purchased real property, plan to make building modifications and will need to pay for gas and electric utilities that were previously provided in the City-owned facility. OMWD will also be responsible for upkeep and maintenance on its building. It is common for one-time fixed costs to be expended as capital outlay and drawn from unrestricted reserve funds, but it will be important to ensure that OMWD does not pull cash reserves for regular repairs and daily operations.

The OMWD should at a minimum have an independent third party annually evaluate the financial profile through key financial metrics, a practice that is currently carried out for the City sewer utility. According to S&P, there are five key ratios that should be considered when analyzing the financial condition of a water and sewer utility:

- Debt Service Coverage
- Liquidity
- Total Debt to Net Property, Plant and Equipment
- Top 10 Customers As a Percentage of Total Operating Revenues
- Fixed-Charge Coverage

At a minimum, given that the City and OMWD are both operating on a cash basis and not providing the balance sheets needed for the Total Debt to Net Property, Plant and Equipment and Fixed-Charged Coverage metrics, the OMWD should continually review Debt Service Coverage and Liquidity. While the only loan outstanding for OMWD is a State Revolving Fund (SRF) Loan fund, it is still important to plan to exceed the parameters of the current (and quite modest) 1.10 debt service coverage ratios, as required per the SRF program, to maintain a strong financial profile.

In addition, according to Fitch, long-term integrated financial forecasting that considers future demand, expected rate increases, regulations and infrastructure renovation and renewal needs is critical for every utility. The utility must be in a position to strategically forecast the need for rate increases on an annual basis. Often times, financial policies will provide for annual cost of living adjustments when necessary that assist in stabilizing annual rate adjustments. OMWD should incorporate this sort of annual adjustment into their rate projections. This is why national best practices recommend that utility boards be governed by independent boards, as policy makers may be hesitant to make necessary rate adjustments. This is not the case for the City's current Council as they have recently passed an ordinance that amends their municipal code, Article V, Section 13.08.570 User Charges, to reflect automatic cost of living increases for sanitary sewer rental rates. Decision making bodies for utilities like this must be willing to make tough decisions, especially

related to infrastructure replacements that may be necessary to maintain utility operations. Independent and City-operated utilities should be building the costs for these replacements into their rates, not requesting that the City subsidize or fund any necessary infrastructure replacements.

Through enhanced financial evaluation, the OMWD and the City would also be in a position to model key financial initiatives/scenarios from necessary utility rate adjustments to determining more broadly whether moving to a monthly billing cycle for utilities would enhance revenue collection and cashflow, or if the financial incentives are too minimal and do not outweigh the additional resource needs. If (or when) the OMWD movers to automated systems for meter reading, it is likely that the fiscal equation would be tipped in favor of monthly billing.

According to Fitch, the following attributes can be used to measure the financial stability of the utility:

Attributes: Financial Profile
Fitch, August 2012

Stronger

- Total debt service coverage of around 2.0 times (x) or greater.
- Days cash and days of working capital equal to one year or more.
- Free cash relative to depreciation equal to 100% or greater.
- Residential charges for individual and combined water/sewer utilities less than or equal to 0.6% or 1.2% of median household income (MHI) respectively.
- A significant percentage of revenue recovered through base charges as opposed to volumetric charges.

Midrange

- Total debt service coverage of around 1.5x.
- Days cash and days of working capital around six months.
- Free cash relative to depreciation equal to around 85%.
- Residential charges for individual or combined water/sewer utilities in excess of 0.8% or 1.5% of MHI, respectively.
- Approximately 10% of revenues recovered through base charges.

Weak

- Total debt service coverage of around 1.25x or less.
- Days cash and days of working capital of three months or less.
- Free cash relative to depreciation of 60% or less.
- Residential charges for individual or combined water/sewer utilities in excess of 1.0% or 2.0% of MHI, respectively.
- Little or no revenue recovered through base charges.

As outlined in the previous chapter, there are many similarities in the water and sewer best management practices that could benefit both the City and the OMWD if adopted.

- ***Formalize a Joint CIP Planning Process with OMWD***

The City and OMWD should work to coordinate an integrated Capital Improvement Plan (CIP) Process, with the ultimate goal of incorporating the OMWD into the City's CIP process during the budget process.[29] It may be in the best interest of these two entities to jointly secure an outside engineering firm to independently evaluate and facilitate this sort of joint planning process to ensure that the most accurate and reasonable estimates for future infrastructure needs of the City are being provided within the context of a more streamlined and formalized CIP process.

In an effort to ensure that the City and OMWD are maximizing resources, they should also explore options to share the expenses and manpower required to fully develop the web-based GPS portal that was previously planned as a joint effort to help facilitate these efforts. In addition to this enhancement in the process, the comprehensive CIP should incorporate regional and local growth, community development and demographer input.

- **Standardize Formal Operating Policies Related to Billing Adjustments**

While there is often confusion related to billing adjustments for water and wastewater, it is important to have clearly defined policies and to communicate a consistent message to the shared customers of both the City and OMWD. Customers should not be sent from OMWD to City Hall to request billing adjustments when the City has already adopted a formal policy that prohibits these adjustments. This policy should be clearly understood and communicated at OMWD so that residents do not need to make multiple trips to resolve a billing issue with their sanitary sewer service charges due to leaks, theft, accidental usage, catastrophic events or other reasons (per City Resolution No. 10-08-52).

The City and OMWD need to work to standardize these policies and ensure that they are clearly outlined on the City and OMWD websites. It is also not in the best interest of the City or OMWD to operate utilities billed on the same bill under separate policies, as it creates confusion for customers. OMWD should adopt the policy similar to the City's to ensure that residents are held accountable on their obligation to pay for water that they use, whether due to theft or accidental usage. Absent such a policy, other rate payers subsidize the costs for a utility that should be rate-driven and based on customer usage. Waivers and reductions in service fees also create a lack of transparency.

- ***Better Coordination on Leakage Reports***

The OMWD recently engaged a contractor for leak detection services. The five year contract was effective on June 30, 2011 and will cost the OMWD approximately $3,000 a year to better pinpoint water leaks. These reports should be shared formally and discussed with the Streets Department, as inadequate maintenance severely impacts street structures. The City's Streets Division and the OMWD should lay out a plan for formal communication and coordination on these leakage reports.

3. Enhance the Convenience of Paying Water Bills and other City Fees and Permits

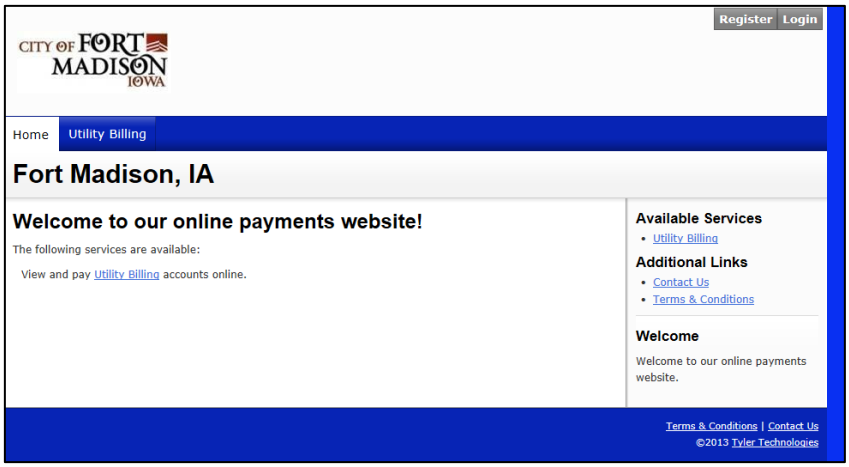
Enhancing customer convenience is an important strategy for providing strong customer service. To best serve its customers, OMWD should provide as many convenient options as possible for customer payment. As an example, many of the comparable utilities have a drop location at their City Hall, or other 24 hour location, such as the local grocery store. To heighten convenience, the City and OMWD should establish additional 24 hour drop locations for water or other utility bills.

[29] The City's current CIP can be found in Appendix A.

This 24 hour convenience should also be incentivized through providing on-line and ACH payment options. The City and the OMWD should look for opportunities to maximize electronic payment options for all City departments, especially those where permits or other payments are made most frequently. OMWD should work with the City to identify the options available for offering residents the on-line payment functionality available as a module through the City's website. In many comparable cities the utility will partner with the City to maximize customer service through Question and Answer (Q&A) type sections easily accessible through the city's website.

The City of Fort Madison is an excellent example, as they have more residents paying utility billing on-line than through any other payment source. Their on-line payment website is utilized through the same vendor as the City and OMWD, Tyler Technologies. Below is a screen shot of their payment solution:

City of Fort Madison, Iowa On-Line Payment Website



Ideally, the vision for the City to bring all permitting and bill paying functions in-house to City Hall is worth pursuing. Most often 'One Stop Shops' (OSS) or 'No Wrong Door' approaches are centered around permitting type functions or those where customers are paying for a single event and not ongoing customer payments. Front-end payments for permitting functions are very different from ongoing customer payments where customer service staff would be discussing confidential credit payment arrangements and credits and past due balances on utility bills. The City should first explore opportunities to bring permitting functions already under the City's purview in-house, and then look for ways in which they can further enhance customer convenience by cross-training in-house permitting clerks to field customer service questions related to water and other utility billing inquiries.

4. Explore Joint Purchasing Opportunities

The City and OMWD should make a more concerted effort to identify where joint purchasing opportunities may increase overall spend and result in lower price per unit prices. The project team identified a number of opportunities where the joint purchase of chemicals, paper, office supplies, piping and other equipment should be explored. While there are often nuances that may need to be considered, or special purchasing requirements for each operation, there is a definite need for a more coordinated and centralized procurement process and inventory process for the City and OMWD. Taking the time to develop a joint asset management program or operational asset lists for each department will assist in determining where these opportunities may exist. By centralizing the procurement of these resources, the City will be in a better position to ensure that they are getting the best price based on cost per unit

(CPU). While these savings cannot be quantified, savings cannot be achieved without exploring opportunities with the OMWD and other ancillary departments.

There may be similar opportunities to be explored between the City, OMWD and Mahaska Rural Water Systems (MRWS) where more high-dollar infrastructure and utility related assets can be jointly secured.

5. Explore Opportunities for Sharing Software Licensing, Servers and other Technology

Similar to the previous concept, the project team identified areas where the City and OMWD could explore opportunities for sharing software licensing, servers and other technology.

For example, the City and OMWD both utilize Tyler Technology for their financial systems, and there is currently duplication in the purchase of annual license fees. After converting to Version VX in FY 2011, the City has paid over $8,000 annually for licensing costs. The OMWD pays approximately $12,000 annually for the financial system and utility handheld meter reader interfacing. While the City and OMWD currently run on two separate versions of the software, there should be a concerted effort to streamline these systems to enhance compatibility and increase the opportunities for savings between the City, for internal billing and administrative purposes as well as other permitting functions that may require or benefit from other handheld functionality.

On a related note, the OMWD has looked to secure an outside web designer to update and modernize their website. The OMWD should use the City's web designer in an effort to ensure a coordinated design and transition to the utility webpage. These pages should be easily accessible, and carry out similar branding to best represent the City. As noted in previous recommendations, enhancing the on-line payment functionality for water billings through the City's website should be explored to avoid duplicative efforts in offering electronic payment options to residents.

6. Explore Opportunities for Equipment Sharing and Joint Contracting Ventures

While the City and OMWD should be commended on their efforts to work together and share manpower, resources and equipment, there are areas where they can do better. Given the size of the City, these two entities share the opportunity to coordinate on equipment needs without too much risk of competing demands. For example, there are large equipment purchase needs in the separate CIP plans that would be duplicative. The OWMD CIP list provided to the project team on February 6, 2013 includes a skid steer and mower projected for purchase in FY12/13; in reviewing the City's CIP, a similar piece of equipment was purchased the previous year. In addition, while the City is set to purchase a new backhoe, the OMWD CIP list indicates that they are slated to trade in their backhoe in FY16/17. By bringing both of these separate entities to the table for joint CIP planning efforts, these sorts of purchase duplications can be avoided.

As part of the CIP process, the City and OMWD should look for opportunities where engineering contracted services can be better coordinated and aligned. By jointly securing this type of outside expertise, the City and OMWD should be in a better position to ensure more competitive bids and rates from a more diverse set of qualified firms. Other joint contracting efforts could include mowing or other specialized services that are currently being secured separately by each entity.

One area of critical need for the City and OMWD is an electronic work order system. Each entity could benefit from having a more up to date work order system. The City and OMWD should consider the joint purchase of a system, potentially through a shared version of their current financial systems, to reduce the need for maintenance/administrative interactions.

7. Look for Opportunities to Centralize Back Office Functions

The departments that are currently housed in City Hall are primarily responsible for administrative and back-office functions for the City. Many are similar to functions that are also done at OMWD, including employee benefit and payroll administration, human resource and customer service functions, as well as other general administrative and accounting duties.

The OMWD and the City should make plans to eventually centralize back office functions and house their administrative staff at City Hall.

According to the Oskaloosa Code of Ordinances, one of the duties outlined for the City Clerk is to keep the accounting records of the municipal utilities.[30] Understanding this functional duty is currently being carried out at OMWD, the City and OMWD should determine if positions can be phased out through attrition that may ultimately save residents and rate payers. These personnel decisions should be modeled to give the City and OMWD a better idea of how they may impact on budgets for both entities. Additionally, by merging administrative back office functions into City Hall, the General Manager at OMWD will have more time to focus on key issues, such as the development, tracking and monitoring of relevant performance metrics most critical to the operation of the water utility.

8. Look for Opportunities to Cross-Train Water and Wastewater Operators

Cross-training between water and wastewater operators has been practiced for years across small municipalities and is often noted as a standard best practice in municipal performance measurement programs. These efforts can improve job satisfaction, collectively save money and provide the City with a more coordinated water and wastewater service as operators gain a better understanding of the interaction between the two systems and the consequences related to each aspect of operational issues that may need to be addressed. In addition, having staff fully licensed to operate and rotate between the two operations provides employees with a more diverse set of skills and gives managers the ability to rotate staff when necessary according to workload fluctuations.

While the details of this sort of arrangement may need to be worked out between the City and OMWD, the recent shift in the City's wastewater employees opting out of the City's union CBA may provide the City and OMWD with an opportunity to pursue cross-training and sharing efforts that were previously not available.

9. Continually Assess Privatization Opportunities

While outside of the scope for this shared services study, benchmarking research indicated that there are jurisdictions in Iowa where a private contractor operates their water and wastewater facilities. Opportunities may exist for the City to achieve service improvements and/or efficiencies through a similar approach. As each city has unique service needs, it is worth exploring whether this might be beneficial for the City. One approach would be to appoint a joint OMWD and City taskforce to assess this option for provision of services to determine the most beneficial utility service structure for City residents and ratepayers.

[30] Per Oskaloosa Code of Ordinances Chapter 3.04, Section 080 (F) – Accounting records.

Appendices

Appendix A – City CIP Plan

City of Oskaloosa, Iowa
Capital Improvements Program
FY 2013 thru FY 2018
PROJECTS BY DEPARTMENT

		APPROVED	REQUESTED					TOTAL
BUILDING OFFICIAL	**Project Number**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 13 TO FY 18**
4X4 pick-up	1070-01	$ 23,000.00	$ -					$ 23,000.00
TOTAL FOR DEPARTMENT		**$ 23,000.00**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 23,000.00**
								$ 23,000.00

		APPROVED	REQUESTED					TOTAL
ENGINEERING DEPARTMENT	**Project Number**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 13 TO FY 18**
Technology Improvements	9500-01	$ -	$ 22,000.00					$ 22,000.00
TOTAL FOR DEPARTMENT		**$ -**	**$ 22,000.00**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 22,000.00**
								$ 22,000.00

		APPROVED	REQUESTED					TOTAL
STREET EQUIPMENT	**Project Number**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 13 TO FY 18**
Asphalt Distributor	2010-05		$ 170,000.00					$ 170,000.00
Earthmoving type Truck with 16' steel dump body	2010-06	$ 160,000.00						$ 160,000.00
Earthmoving Truck with 10' steel dump body/snow plow	2010-07				$ 120,000.00		$ 125,000.00	$ 245,000.00
Wheeled end loader	2010-11			$ 185,000.00				$ 185,000.00
Wheeled excavator	2010-12					$ 265,000.00		$ 265,000.00
1-ton dump truck	2010-46						$ 35,000.00	$ 35,000.00
TOTAL FOR DEPARTMENT		**$ 160,000.00**	**$ 170,000.00**	**$ 185,000.00**	**$ 120,000.00**	**$ 265,000.00**	**$ 160,000.00**	**$ 1,060,000.00**
								$ 1,060,000.00

		APPROVED	REQUESTED					TOTAL
PAVEMENT IMPROVEMENTS	**Project Number**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 13 TO FY 18**
South 11th St (Hwy 92 to 9th Ave E)	2010-13			$ 460,000.00				$ 460,000.00
South 11th St (9th Ave E to 17th Ave E)	2010-14			$ 430,000.00				$ 430,000.00
3rd Ave E (S Market to S 7th St)	2010-15		$ 375,000.00					$ 375,000.00
South 7th (A Ave E to 6th Ave E)	2010-16	$ 400,000.00						$ 400,000.00
City parking lots (except Mall and City Hall)	2010-17		$ 50,000.00					$ 50,000.00
N 3rd St (Sheriff Ave to K Ave E)	2010-18		$ 500,000.00					$ 500,000.00
Sheriff Ave (N 3rd St to Market St)	2010-19		$ 150,000.00					$ 150,000.00
Hwy 432 (A Ave W to roundabout)	2010-20	$ 278,770.00						$ 278,770.00
D Ave W (N I St to N D St)	2010-22				$ 500,000.00			$ 500,000.00
17th Ave E (S 11th to S 17th)	2010-23			$ 450,000.00				$ 450,000.00
E Ave E (N 11th St to N 12th St)	2010-24			$ 165,000.00				$ 165,000.00
N 12th St (E Ave E to F Ave E)	2010-25			$ 195,000.00				$ 195,000.00
C Ave E (Hwy 63 to N 7th St)	2010-26		$ 220,000.00					$ 220,000.00
C Ave E (N 7th St to N 11th St)	2010-27		$ 175,000.00					$ 175,000.00
C Ave E (N 11th St to Park Ave)	2010-28		$ 185,000.00					$ 185,000.00
N A St (A Ave W to College Ave)	2010-29				$ 270,000.00			$ 270,000.00
N 3rd St (A Ave to K Ave E)	2010-30				$ 350,000.00			$ 350,000.00
N 3rd St (Glendale to Sheriff)	2010-31						$ 175,000.00	$ 175,000.00
11th Ave W (Hwy 63 to City limits)	2010-32					$ 700,000.00		$ 700,000.00
South 7th St (6th Ave E to 15th Ave E	2010-34				$ 550,000.00			$ 550,000.00
N 12th St (F Ave E to J Ave E)	2010-35						$ 350,000.00	$ 350,000.00
Update Transportation Master/Comprehensive plan	2010-36				$ 60,000.00			$ 60,000.00
3rd Ave E (South 7th to South 11th St)	2010-37						$ 250,000.00	$ 250,000.00
McMullin Dr (W Glendale Rd to Dead End)	2010-38						$ 550,000.00	$ 550,000.00
Caldwell Pl (McMullin Dr to Dead End)	2010-39						$ 200,000.00	$ 200,000.00
Annual pavement improvements project	2010-41	$ 45,000.00	$ 200,000.00	$ 215,000.00	$ 230,000.00	$ 245,000.00	$ 260,000.00	$ 1,195,000.00
F Ave E (N 11th St to N 12th St)	2010-42						$ 160,000.00	$ 160,000.00
Glendale Rd (Market St to Dead End)	2010-43						$ 265,000.00	$ 265,000.00
North E St (G Ave to City Limits)	2010-44					$ 1,000,000.00		$ 1,000,000.00
North Green St (N Green to M Ave)	2010-45	$ 1,068,835.00						$ 1,068,835.00
Parking Lot Improvements-Phase II (Project funding also included on Storm Water)	2011-17	$ 35,000.00	$ 450,000.00					$ 485,000.00
Traffic Signal Upgrade	2040-01	$ 40,000.00						$ 40,000.00
TOTAL FOR DEPARTMENT		**$ 1,867,605.00**	**$ 2,305,000.00**	**$ 1,915,000.00**	**$ 1,960,000.00**	**$ 1,945,000.00**	**$ 2,210,000.00**	**$ 12,202,605.00**
								$ 12,202,605.00

		APPROVED	REQUESTED					TOTAL
WASTEWATER PROJECTS	Project Number	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 13 TO FY 18
Digester boiler water treatment-piping-valves	8015-13	$ 35,000.00						$ 35,000.00
North plant bridge repair	8015-14	$ 30,000.00						$ 30,000.00
Install lagoon loadout piping and valves	8015-15	$ 30,000.00						$ 30,000.00
Replace #4 raw sewage pump at north plant	8015-16	$ 17,000.00						$ 17,000.00
City sewer assessment and needs study	8015-17							$ -
Replace #3 submersible sewage pump at M Street lift station	8015-18	$ 17,000.00						$ 17,000.00
Sanitary sewer replaced on E Avenue West	8015-19		$ 185,700.00					$ 185,700.00
Sanitary sewer replaced on North 3rd north of E Avenue East	8015-20			$ 90,000.00				$ 90,000.00
Replace stand-by generator at north plant	8015-21				$ 255,000.00			$ 255,000.00
Replace roofs South Plant	8015-22				$ 30,000.00			$ 30,000.00
Replace roofs North Plant	8015-23				$ 30,000.00			$ 30,000.00
Replace roof at M Street lift station	8015-24				$ 15,000.00			$ 15,000.00
Replace roof at University Park lift station	8015-25				$ 15,000.00			$ 15,000.00
Replace air injector pump-South Plant waste water sludge	8015-26					$ 22,000.00		$ 22,000.00
Replace air injector pump-South Plant digestor sludge	8015-27					$ 23,000.00		$ 23,000.00
Sanitary sewer replacement 5th Avenue West	8015-28					$ 50,000.00		$ 50,000.00
Sanitary sewer replacement between North H & I Street just south of M Ave W	8015-29					$ 170,000.00		$ 170,000.00
Manhole and sewer lining - North 12th and F Ave E	8015-33						$ 140,000.00	$ 140,000.00
Manhole and sewer lining - Burlington Road	8015-34						$ 155,000.00	$ 155,000.00
Line sanitary sewer - North 3rd Street	8015-35					$ 35,000.00		$ 35,000.00
Manhole and sewer lining - 3rd Avenue West near South M Street	8015-36						$ 58,000.00	$ 58,000.00
Iowa DOT Sanitary Sewer connection	8015-37	$ 37,000.00	$ 225,470.00					$ 262,470.00
Replace sanitary sewer - 3rd Avenue East	8015-38		$ 14,400.00					$ 14,400.00
Replace dual membrane-control panel on secondary digestor	8015-45	$ 400,000.00						$ 400,000.00
Replace furnace at Southwest plant	8015-46	$ 2,838.00						$ 2,838.00
TOTAL FOR DEPARTMENT		$ 568,838.00	$ 425,570.00	$ 90,000.00	$ 345,000.00	$ 300,000.00	$ 353,000.00	$ 2,082,408.00
								$ 2,082,408.00

		APPROVED	REQUESTED					TOTAL
WASTEWATER EQUIPMENT	Project Number	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 13 TO FY 18
Replace 2001 GMC 4x4 pickup	8015-02	$ 27,000.00						$ 27,000.00
Replace 1994 Cat backhoe	8015-03		$ 45,000.00					$ 45,000.00
Replace 2003 Toro 62" mower	8015-04		$ 23,000.00					$ 23,000.00
Replace 2004 Dodge 3/4 ton 4x4 pickup	8015-05				$ 30,000.00			$ 30,000.00
Replace 1999 Dodge pickup	8015-06				$ 21,000.00			$ 21,000.00
Replace Rhino mowing deck	8015-07				$ 5,000.00			$ 5,000.00
Replace 2006 Chevrolet 4x4 pickup	8015-08					$ 30,000.00		$ 30,000.00
Replace 2001 Rhino ditch and brush deck	8015-09					$ 15,000.00		$ 15,000.00
Replace locator	8015-30		$ 6,000.00					$ 6,000.00
Replace 1992 Agco-Allis sludge application truck	8015-31			$ 60,000.00				$ 60,000.00
Replace 2006 John Deere 60" mower	8015-32						$ 30,000.00	$ 30,000.00
TOTAL FOR DEPARTMENT		$ 27,000.00	$ 74,000.00	$ 60,000.00	$ 56,000.00	$ 45,000.00	$ 30,000.00	$ 292,000.00
								$ 292,000.00

		APPROVED	REQUESTED					TOTAL
STORM WATER	Project Number	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 13 TO FY 18
Mall Improvements - Phase 2	2011-17	$ 5,000.00						$ 5,000.00
Storm sewer work ahead of street work	8065-02	$ 50,000.00						$ 50,000.00
4 intakes A Ave W - west of North L & 250' of tile	8065-03		$ 85,000.00					$ 85,000.00
Replace 5 intakes**	8065-04			$ 50,000.00				$ 50,000.00
100 block of No 2nd enlarge pipe/replace manhole	8065-05				$ 45,000.00			$ 45,000.00
IDNR requirements (mapping - sampling - etc.)	8065-06					$ 50,000.00		$ 50,000.00
Trolley Place Storm Sewer	8065-07	$ 96,230.00						$ 96,230.00
E Avenue West storm sewer & intake replacement	8065-10		$ 109,300.00					$ 109,300.00
Storm sewer replacement 4th Ave W from H to creek	8065-11						$ 70,000.00	$ 70,000.00
GIS portal for sewer utilities	8065-12							$ -
Replace storm water - C Avenue East	8065-13			$ 20,000.00				$ 20,000.00
TOTAL FOR DEPARTMENT		$ 151,230.00	$ 194,300.00	$ 70,000.00	$ 45,000.00	$ 50,000.00	$ 70,000.00	$ 580,530.00
								$ 580,530.00

TOTAL ALL PROJECTS		$ 2,797,873.00	$ 3,190,870.00	$ 2,320,000.00	$ 2,526,000.00	$ 2,605,000.00	$ 2,823,000.00	$ 16,262,543.00
								$ 16,262,543.00

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The PFM Group
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

801 Grand Avenue
Suite 3300
Des Moines, Iowa
50309

515-243-2600
515-243-6994 fax
www.pfm.com

March 20, 2013

Memorandum

To: Michael Schrock, Jr, City Manager

Cc: Amy Miller, City Finance Director

From: Randall Bauer, PFM

Heidi Patterson, PFM

Re: **Confidential Management Letter**-Shared Services Study Recommendation Savings

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In an effort to address potential cost savings related to the recommendations of the March 18, 2013 Shared Services Study, the PFM project team has put together the following costing analysis. We are hopeful that this will assist the City in its joint decision making process with the Oskaloosa Municipal Water Department (OMWD).

It should be noted that each entity retains operational authority of its operations, and any operational efficiencies that the City will be able to jointly achieve with OMWD will require cooperation and collaboration. This costing analysis is a tool that can help facilitate the discussions and quantify some possible savings from the study recommendations for residents and rate payers.

The following details the costing assumptions, as well as an assumed timeframe for achieving savings. In many cases, actual savings and the timeframe for achieving these savings will be impacted by exogenous variables that cannot be readily identified or calculated.

Recommendation 1: Enhance Communication between the City and OMWD
While there will be some additional time spent by the General Manager of OMWD and the City Manager to implement this recommendation, the efforts will not go beyond the scope of current job duties or create significant or quantifiable cost burdens to the City or OMWD. The timeframe for achieving this recommendation will be on-going, but much progress can be made immediately following the release of the report in an effort to capitalize on the momentum created throughout the process of the shared services study.

Recommendation 2: Formalize and Standardize Joint Budgeting, Reporting and Planning
Implementing the six key initiatives outlined in this recommendation will take time and resources from both the City and OMWD.

For example, coordinating and standardizing these budgeting, reporting and planning processes will involve a significant amount of time from the City Manager and City Clerk as they work with the OMWD Board of Trustees and General Manager to educate them on the processes and policies that are currently in place at the City.

Likewise, better coordination from OMWD on items (such as the Leakage Reports) will involve the time and preparation from the OMWD General Manager as well as the City's Public Works Director.

Recommendation 3: Enhance the Convenience of Paying Water Bills and other City Fees and Permits

The key cost component within this recommendation will be determining how the City and OMWD will proceed with broader functionality enhancements, i.e. could OMWD be merged to the City's server as has been done with other departments. Currently, the City does not maintain the utility billing module that OMWD runs through Tyler Technology. There would be a cost to the City to secure this billing module, and it is unknown at the time of this memo whether or not the module offers an on-line payment function. (City staff has reached out to Tyler Technology to inquire on this issue.)

The City does have an on-line payment functionality currently available through their website Civic Plus. The module is free, but the fees that are currently applied to credit card payments and eCheck payments would likely exceed the cost savings that the City and OMWD would achieve for this initiative unless a portion was passed on to the bill-paying customer. There would have to be a broader discussion between OMWD and the City to determine the best approach for addressing these customer convenience initiatives before a definitive costing analysis can be completed.

Recommendation 4: Explore Joint Purchasing Opportunities

Given the lack of inventory or centralized purchasing for the City and OMWD, there is not sufficient data for the project team to identify any reasonable projected savings related to joint purchasing opportunities.

In an effort to address these opportunities, the City and OMWD should work to develop comprehensive inventory sheets that can be shared and discussed with the City Manager, Director of Public Works and OMWD General Manager to identify assets and inventory where there may be opportunities to purchase in bulk or larger quantities to reduce the cost per unit (CPU) price of these items that are currently being procured separately.

Recommendation 5: Explore Opportunities for Sharing Software Licensing, Servers and other Technology

The City and OMWD are currently utilizing the same payroll and financial system vendor, Tyler Technology. If the City were to absorb just the payroll back office functions (per Recommendation 7), the OMWD would no longer need to pay the costs of any future payroll module upgrade of approximately $12,000 just to run payroll for eleven employees.[1] If the City were able to put OMWD on the City's server as they have done with other departments, OMWD would be in a position to run their payroll from the City's server without the City absorbing this function at this time. Upon attrition, the City and OMWD should determine savings opportunities if the utility billing function were to transition to a centralized function within City Hall. If this were the case, OMWD would have a reduced need to separately secure server space and other technology such as workstations, printers and other technology needs related to carrying out these back office functions.

In addition, the OMWD has looked to secure an independent web designer to update and modernize their website. While OMWD has received quotes from outside designers, the City's web designer could include OMWD as a separate page of the City's website at a minimal cost. The City should immediately approach OMWD and determine if there can be an agreement worked out that could be beneficial for both organizations if OMWD were to contract with the City at a much lower cost than an outside web designer.

[1] The City upgrade for this component of functionality cost the City $12,890.

Recommendation 6: Explore Opportunities for Equipment Sharing and Joint Contracting Ventures

As identified in the report, the savings related to a number of duplicative equipment purchases in the next five years could save the City and OMWD collectively up to $75,000 according to separate CIP documents and cost estimates as provided in the course of this shared services study.

Recommendation 7: Look for Opportunities to Centralize Back Office Functions

This is one of two recommendations where the project team believes that OMWD and ratepayers have a real opportunity to realize significant savings. While on-going personnel costs include salary and benefits, these cost savings are likely to far exceed any savings that can be achieved through other recommendations outlined in this study such as joint purchasing or software sharing.

While physically centralizing back office functions will reduce position(s) for OMWD, the City should understand the enhanced duties and resources that will need to be expended to carry out any back office functions that are absorbed into City Hall to streamline these functions.

The project team recommends that the City propose this functional change to OMWD following the release of this study, implemented through attrition related to the OMWD Office Manager or Utility Billing Clerk positions. The Office Manager position at OMWD has a current base salary of $52,960.96. While base salary is often just a portion of the fully loaded cost of an employee, the table below provides a better indication of the annual cost for the Office Manager position at OMWD:

Fully Loaded Cost of OMWD Office Manager

Description of Cost	Amount
Monthly Base Salary	**$4,413.41**
Monthly Cost of Health Insurance*	$1,407.00
Monthly Cost of Dental Insurance	$62.24**
Monthly Cost of Vision Insurance*	$20.97
Monthly Cost of Life Insurance*	$10.65
Employee & Family Resources	$1.58
Monthly Social Security Match of 6.2%	$273.63
Monthly Medicare Cost of 1.45%	$63.99
Monthly Estimated Workers Compensation Cost	$58.00
Monthly Unemployment Compensation Cost	$32.50
Monthly IPERS Contribution of 8.67%	$382.64
Total Monthly Cost of Salary and Benefits	**$6,727.13**
Annual Cost of Salary and Benefits	**$80,725.59**

**Assumes an Employee/Spouse Policy*
***Excludes the employee contribution of $10.00*

According to this fully loaded cost saving analysis, the OMWD has the potential to save at least $80,000 annually if they were to eliminate the Office Manager position at the Water Department. This savings potential may provide the City with the opportunity to centralize the billing and administrative functions (such as employee benefit and payroll administration, human resources, general administrative and accounting duties) related to billing for water, waste water and storm water. This centralized billing function will make it necessary for the City to invest time, money and resources into a centralized utility billing and accounting function that would include full time employee (FTE) time, technology and training. The City may be in a position to explore the opportunity to contract with OMWD to carry out this operational function and charging back the time, technology and training. It is estimated that this approach could save the OMWD at least half of the on-going personnel related costs.

If the OMWD were to also eliminate the Utility Billing Clerk position through such a transition of centralizing these utility billing and other back office duties or attrition, the OMWD would be in a position to collectively save over $150,000.00 on annual personnel costs.[2] The fully loaded cost of the OMWD Utility Billing Clerk position is outlined in the table below:

Fully Loaded Cost of OMWD Utility Billing Clerk

Description of Cost	Amount
Monthly Base Salary	**$3,738.80**
Monthly Cost of Health Insurance*	$1,407.00
Monthly Cost of Dental Insurance	$62.24**
Monthly Cost of Vision Insurance*	$20.97
Monthly Cost of Life Insurance*	$10.65
Employee & Family Resources	$1.58
Monthly Social Security Match of 6.2%	$250.50
Monthly Medicare Cost of 1.45%	$54.21
Monthly Estimated Workers Compensation Cost	$58.00
Monthly Unemployment Compensation Cost	$32.50
Monthly IPERS Contribution of 8.67%	$324.15
Total Monthly Cost of Salary and Benefits	**$5,961.12**
Annual Cost of Salary and Benefits	**$71,533.39**

**Assumes an Employee/Spouse Policy*
***Excludes the employee contribution of $10.00*

Recommendation 8: Look for Opportunities to Cross Train Water and Waste Water Operators

Coupled with Recommendation 7, this recommendation has the potential to save OMWD and the City a significant amount of annual personnel costs as it is likely that the City and OMWD could each eliminate one plant operator if they were to cross-train OMWD and the City's Waste Water operators to operate and be fully licensed so that they can rotate between the two operations and better manage workload fluctuations and manage the loss of institutional knowledge related to the operation of the water and waste water plants.

Fully Loaded Cost of OMWD Plant Operator

Description of Cost	Amount
Monthly Base Salary	**$4,416.53**
Monthly Cost of Health Insurance*	$1,407.00
Monthly Cost of Dental Insurance	$62.24**
Monthly Cost of Vision Insurance*	$20.97
Monthly Cost of Life Insurance*	$10.65
Employee & Family Resources	$1.58
Monthly Social Security Match of 6.2%	$273.83
Monthly Medicare Cost of 1.45%	$64.04
Monthly Estimated Workers Compensation Cost	$58.00
Monthly Unemployment Compensation Cost	$32.50
Monthly IPERS Contribution of 8.67%	$384.24
Monthly Uniform Allowance	Unknown
Total Monthly Cost of Salary and Benefits	**$6,732.09**
Annual Cost of Salary and Benefits	**$80,785.04**

**Assumes an Employee/Spouse Policy*
***Excludes the employee contribution of $10.00*

According to the table above, the OMWD may have an opportunity to conservatively save over $80,000 in annual personnel costs through the elimination of each plant operator position phased out through cross training water and waste water operators in OMWD and the City.

[2] It should be noted that these estimates are a point in time analysis and do not include any cost of living or incremental salary increases for these two positions.

Fully Loaded Cost of City Waste Water Operator I[3]

Description of Cost	Amount
Monthly Base Salary	**$3,442.42**
Monthly Cost of Health Insurance*	$1,132.95*
Monthly Cost of Dental Insurance	$0.00**
Monthly Cost of Vision Insurance*	$0.00***
Monthly Premium Cost of Life Insurance (age 40-44)	$1.68
Employee Assistance Program (EAP)	$1.66
Monthly Social Security Match of 6.2%	$213.43
Monthly Medicare Cost of 1.45%	$49.92
Monthly Estimated Workers Compensation Cost	$58.00
Monthly Unemployment Compensation Cost	$32.50
Monthly IPERS Contribution of 8.67%	$299.49
Monthly Uniform Allowance	$12.50
Total Monthly Cost of Salary and Benefits	**$5,243.51**
Annual Cost of Salary and Benefits	**$62,922.16**

**Excludes the employee contribution of 2.5% or $29.05 for Family Policy*
***Excludes employee premium of $20-$43.00*
****Excludes employee premium of $14.90*

In addition, the City may have an opportunity to conservatively save over $62,000 in annual personnel costs for each waste water operator position phased out through cross training. These fully loaded costs reflect the base salary of the lowest classified waste water position and do not include any overtime considerations, longevity pay or accumulation of sick or vacation time. These costs would increase exponentially if the City were to relieve the duties of a position with a significantly higher base salary through attrition, elimination of duties related to duplication of management functions or cross training.

This costing analysis also does not include any cost saving projections associated with transitioning management duties and other employee positions if an arrangement with the City and OMWD were to be pursued where waste water operators were merged with OMWD or vice versa. While the nuances of any such transition would need to be mutually agreed upon between the City and OMWD, there is not sufficient data available at this time for the project team to provide a reasonable costing scenario.

Recommendation 9: Continually Assess Privatization Opportunities

While this recommendation was outside of the scope of the shared services study, as noted in the report, the best approach to identifying any potential savings related to privatization should be regularly explored by a joint taskforce consisting of City and OMWD representatives.

According to discussions with comparable jurisdictions that have taken a similar approach to this type of service structure, operational savings of up to 25 percent have been achieved through water and waste water privatization efforts.

[3] Excluding longevity pay.