



Mayor – Sandy Sanders

Acting City Administrator – Jeff Dingman

City Clerk – Sherri Gard

**Board of Directors**

Ward 1 – Keith Lau

Ward 2 – Andre’ Good

Ward 3 – Mike Lorenz

Ward 4 – George Catsavis

At Large Position 5 – Tracy Pennartz

At Large Position 6 – Kevin Settle

At Large Position 7 – Don Hutchings

**AGENDA**  
**Fort Smith Board of Directors**  
**STUDY SESSION**  
**April 12, 2016 ~ 12:00 Noon**  
**Fort Smith Public Library**  
**3201 Rogers Avenue**

**CALL TO ORDER**

1. Review of Utility Department Financial Policies ~ *Discussed at the September 8, 2015 study session ~*
2. Review status of the River Valley Sports Complex
3. Discussion regarding a neighborhood rezoning in the vicinity of North 9<sup>th</sup> and North “H” Streets
4. Review preliminary agenda for the April 19, 2016 regular meeting

**ADJOURN**

**CITY OF FORT SMITH**  
**Interoffice Memo**

**1**

**To:** Jeff Dingman, Acting City Administrator  
**From:** Kevin Sandy, Deputy Director of Business Administration   
**Date:** April 8, 2016  
**Subject:** Review of Utility Department Financial Policies

***Purpose***

This material has been prepared for the Board Study Session on April 12, 2016. The presentation on the continuing development of Utility Department Financial Policies is to provide requested information, identify any further revisions in the proposed policies, and prepare for the analysis and planning steps in the policy development process. Now that everyone has had time to digest and consider the proposed policies, it is important that there is a consensus on the policy concepts before completing the financial analysis and planning steps. If there is no substantial change identified at this time, these policies will be used as a guide for planning, reviewing rates, and budgeting while we proceed with the specific financial analysis of the proposed policies and draft a preliminary plan for implementation. Both the financial analysis and the preliminary implementation plan are recommended for consideration before final approval of these policies by the Board of Directors.

***Background***

In accordance with the *City of Fort Smith Water and Sewer Operations Efficiency Study Final Report*, the City has developed financial policies specifically for the Utility Department. The efficiency study stated that written utility financial policies would be a significant improvement in providing clearer guidance to the utility management staff for financial management. Written utility financial policies would promote a more business-like approach through a consistent framework for Utility Department decision making. The City's overall financial policies will continue to be followed, and the utility-specific policies will build upon the City's overall financial policies for improved guidance and management. Unlike the financial policies for the overall financial management of the City, the utility financial policies would address the water and sewer funds recognizing the differences between the general and enterprise funds. The utility financial policies are designed to guide financial decisions and be routinely reviewed to assure they remain relevant and appropriate as conditions change. They are not intended to be inflexible prescriptive requirements. Development and implementation of these policies needs to include a smooth transition process.

The Board of Directors authorized Burns & McDonnell Engineering Company, Inc. to develop financial policies specifically for the Utility Department. Through meetings and evaluation periods, the Utility Department staff and Financial Department staff have

provided input during the policy development process. The overarching concepts in considering the policies included:

- Addressing the directives of the Board of Directors as adopted in the Efficiency Study;
- Supporting the Utility Department's mission to provide services that promote health, safety, and quality of life for all customers;
- Enhancing the financial resiliency of the utilities; and
- Supporting the concept of self-sustained and equitability funded enterprises.

The result was 17 policies developed or formalized that can be categorized as:

- Capital Funding Policies
- Rate and Service Charge Policies
- Reserve Policies

On February 24, 2015, Burns & McDonnell and staff presented the financially related *Report on the Consent Decree Staffing Study* and *Proposed Sewer Rates & Consent Decree Impacts* for the Board of Director's guidance. Board members asked that the City increase public awareness of Project Concern and provide a comparison of the increase in the number of participants.

On September 8, 2015, Burns & McDonnell and staff presented the proposed utility financial policies for additional guidance from the Board of Directors. A copy of the *Report on the Utility Financial Policies* by Burns & McDonnell is attached. During the presentation, Board members asked for more details on past billing forgiveness and development of a cost containment policy.

***Requested Information on Project Concern***

The City offers relief on water, sewer, and sanitation bills to customers who meet certain income levels. This program is named Project Concern and is administered by the Sebastian Retired Citizens Association, Inc. Eligibility for the assistance is set at 165% of federal poverty levels.

As requested at the February 24, 2015 Board study session, the Finance Department spearheaded improvements in public awareness and greater customer assistance regarding Project Concern.

- March 2015 – The City issued a press release that described the details of the Project Concern program and instructions on how to enroll.
- April 2015 – The City updated its website with homepage links and Finance page links that allow customers to download the Project concern applications from the website. This included instructions on required documentation to be submitted with the application.

- June 2015 – City staff participated in the City’s segment on a morning radio show that discussed the Project Concern program. This discussion included program requirements and enrollment procedures.
- August 2015 – The City enhanced the notification on customer Utility Billing Statements regarding Project Concern.
- 3<sup>rd</sup> & 4<sup>th</sup> Quarter Neighborhood Meetings 2015 – City staff reviewed Project Concern at each Neighborhood Meeting and provided applications for customers at the meetings.
- December 2015 – City staff provided an update on Project Concern at a Board of Directors December Study Session.
- February 2016 – The City changed the application process, so that the customers can submit applications at the City’s Finance offices, and the applications can be reviewed at the City’s Finance offices. This improvement has drastically increased the number of participants in the program, because customers do not have to mail in the application or go to a second location to submit the application for processing. Approximately 3 – 5 applications per day have been received and processed following this improvement. Applications are available at each window in the customer service office, and customer services representatives have been trained to inform customers of the program and assist in completing applications if needed.

Table 1 compares participation in Project Concern during 2014 to participation during 2015. There was a significant increase in assistance provided to customers last year, and the February 2016 improvement noted above indicates another significant increase should be realized during the current year.

<b>Table 1</b>				
<b>Annual Comparison of Project Concern</b>				
	<b>2014</b>	<b>2015</b>	<b>Increase</b>	<b>Approx. Increase</b>
Number of participants	123	289	166	135%
Water assistance	\$2,956	\$5,837	\$2,881	97%
Sewer assistance	\$8,156	\$22,045	\$13,889	170%
Total utility assistance	\$11,112	\$27,882	\$16,770	151%

***Requested Information on Past Billing Forgiveness***

The City offers relief on water and sewer bills through its current billing adjustment practices. Customers apply for a billing adjustment through the Finance Department. Adjustments are approved based on the merits of the case. There are 2 options in approving billing adjustments. Option 1 allows a credit equal to one month at 100% of water and sewer leak combined. Option 2 allows a credit equal to two months at 50% of the water leak and one month at 100% of the sewer leak. The total of credits approved for utility customers has historically varied from approximately \$495,000 to \$720,000 each year.

Attached are pie charts that illustrate the composition of adjustments for credits that were \$1,000 or greater each. There were 281 of these credits approved during the 9 years from 2006 through 2014. A total of \$965,328 in customer relief was provided through these 281 credits. The average credit was approximately \$3,435. The attached charts show the adjustments by customer class.

***Requested Cost Containment Policy***

As requested, a Cost Control Policy Report was drafted to describe how costs are currently controlled and provide a policy for enhancing and formalizing those controls. Please see the attached report.

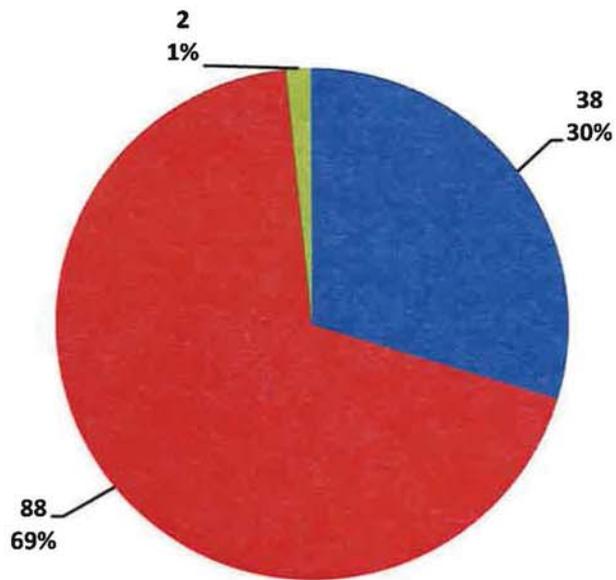
***Recommendation***

The development of financial policies specifically for the Utility Department will contribute greatly in defining key concepts for financial planning and management. These draft policies have been used for guidance during their development. The next steps are to analyze the anticipated financial outcomes of implementation and develop an implementation plan. It is recommended that any changes in concepts be identified at this time for policy revision to avoid costly rework during the analysis and planning steps. Final approval of the policies by the Board of Directors would follow analysis, planning, and final policy revision.

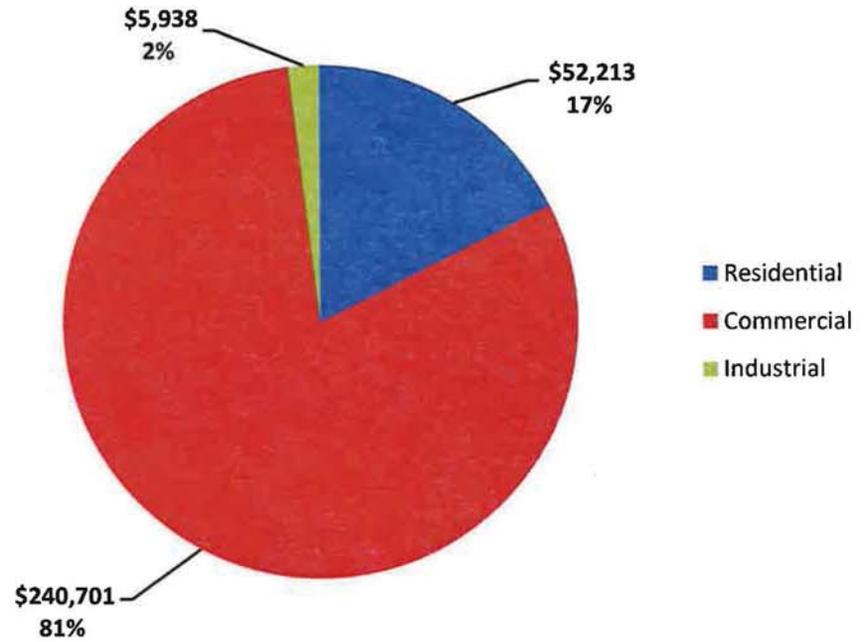
Please let me know if you or members of the Board of Directors have any questions.

**City of Fort Smith**  
**Customer Billing Forgiveness for Years 2006-2014**  
**Water Credits Each \$1,000 or Greater**  
April 7, 2016

**Chart 1**  
**Number of Credits**  
128 Total



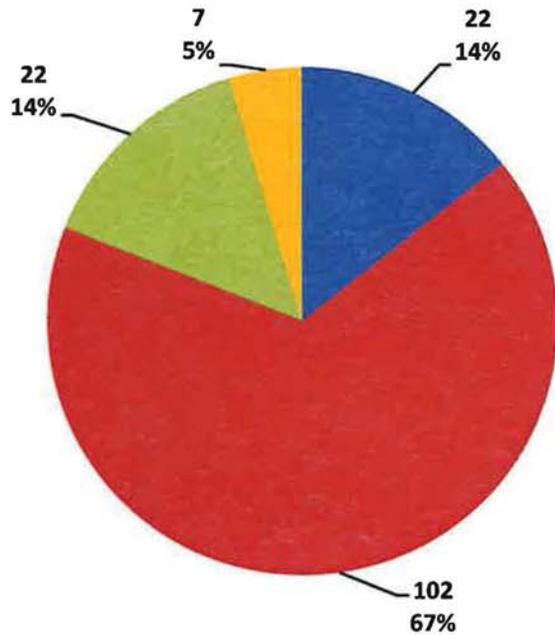
**Chart 2**  
**Amount Forgiven**  
\$298,852 Total



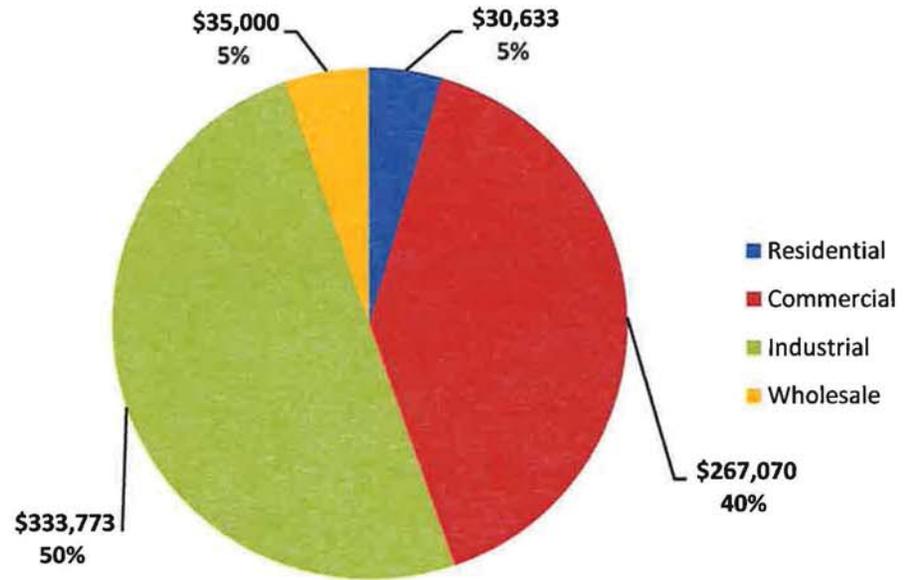
- Residential
- Commercial
- Industrial

**City of Fort Smith**  
**Customer Billing Forgiveness for Years 2006-2014**  
**Sewer Credits Each \$1,000 or Greater**  
 April 7, 2016

**Chart 3**  
**Number of Credits**  
 153 Total



**Chart 4**  
**Amount Forgiven**  
 \$666,476 Total



**CITY OF FORT SMITH**  
**Utility Department Cost Control Policy Report**  
**April 8, 2016**

Controlling costs is an important management function that achieves defined results while incurring only the planned expenses. Managing expenses in a manner that controls costs is accomplished through defining goals, supervising purchasing, staffing appropriately, and continuing improvement.

**Defining Goals**

Planning allows efficient use of resources to achieve the desired results by clearly defining goals and avoiding unnecessary or unintentional costs. Doing what is needed and avoiding what is not needed logically focuses resources on the desired results and avoids waste. This is an important part of controlling costs.

The Utility Department goals are defined through the City of Fort Smith Comprehensive Plan, Water and Sewer Operations Efficiency Study, Water System Master Plan, Wastewater System Master Plan, Capital Improvement Program, Asset Management Program, Utility Strategic Management Plan, Consent Decree, annual budgeting, and ongoing identification of needs by the Utility Department staff and the Board of Directors. These activities provide direction from the Board of Directors and collaboration within the Utility Department and with the City Administration, other departments, and professionals who specialize in various topics and services. Short-term and long-term planning in an inclusive and logical manner identifies priorities, defines needed actions, and helps avoid unnecessary costs.

**Supervising Purchasing**

Purchases represent a significant cost for the Utility Department. These costs can be categorized as the purchase of supplies, materials, equipment, and contracted services; procurement of professional services; or acquisition of real property. Controlling costs in all these categories is important for overall efficiency.

The City uses a variety of methods for controlling costs through supervision of purchases. The method of control depends on the nature and amount of the purchase. Supplies, materials, equipment and construction contracts are purchased through quotes and bids. Real property is acquired using fair market value assessments. Professional services are procured through competitive qualifications-based selection.

***Purchase of Supplies, Materials, Equipment and Services***

Supplies, materials, equipment and services include tangible items that the Utility Department uses for the operation and maintenance of the water and sewer treatment systems, water distribution systems, and sewer collection systems. These services exclude contracts for professional services but include construction of municipal improvements. As defined in the City's purchasing ordinance:

**Purchases:**

- Less than \$1,000 may be made without competitive quotes.
- \$1,000 but less than \$7,500 may be made with competitive oral quotes.
- \$7,500 but less than \$75,000 may be made with 3 or more competitive written quotes. If 3 competitive written quotes are not obtained:
  - At least 3 suppliers must be contacted in attempting to obtain quotes, or
  - The reason 3 suppliers were not contacted must be noted.
- \$75,000 or more may be made with competitive written bids and approval of the City Administrator and Board of Directors.

**Contracts for Supplies, Materials, Equipment, and Construction of Municipal Improvements:**

- Less than \$1,000 may be made without competitive quotes.
- \$1,000 but less than \$7,500 may be made with competitive oral quotes.
- \$7,500 but less than \$20,000 may be made with 3 or more written bids. If 3 written bids are not obtained:
  - At least 3 firms must be contacted in attempting to obtain bids, or
  - The reason 3 firms were not contacted must be noted.
- \$20,000 or more may be made with competitive bids and approval of the Board of Directors.

**Contracts for Other Services Excluding Professional Services:**

- \$75,000 or less may be made by the City Administrator after soliciting and reviewing written proposals from interested and qualified providers.
- \$75,000 but less than \$300,000 may be made by the City Administrator with written notification to the Board of Directors after soliciting and reviewing written proposals from interested and qualified providers.
- \$300,000 or more may be made with competitive written bids and approval of the City Administrator and Board of Directors.

***Procurement of Professional Services***

The procurement of professional services is governed by Arkansas law (A.C.A. 19-11-801 et seq.) and City Municipal Code (Sec. 2-182) and incorporates a competitive qualifications-based selection process. Professional services include external accounting, legal, financial advisory, architectural, consulting, engineering, construction management, land surveying, title search and insurance services, graphic design, advertising and video production services, software and website development services, land acquisition and appraisal services, and aquatic park management and marketing services.

The City selects the firm considered most qualified and capable of performing the desired work based on the firms' qualifications as guided by State law. After selecting the most qualified firm, the City works jointly with the selected firm to prepare a detailed, written description of the scope of proposed services and uses

this as the basis for negotiating the contract for services. State law specifically excludes competitive bidding.

- Less than \$75,000 may be made by the City Administrator
- More than \$75,000 may be made by the Board of Directors.

### ***Acquisition of Real Property***

Real property acquisitions are related to private property interests, such as, land, roads, ditches, existing buildings, structures, and easements. The cost of real property is the value of the property as determined by fair market value appraisals or the courts. The process might be exclusively through settlement or might involve eminent domain, and might vary if the situation involves acquisitions pursuant to federal requirements or otherwise is authorized by motion, resolution, or other legislative enactment of the governing body of the City.

The City prepares plans for proposed projects that identify approximate property acquisitions and notifies affected property owners. The City then holds a public meeting to discuss the plans and property acquisitions with affected property owners, or for small projects, makes direct contact with the property owners in lieu of holding a public meeting.

Unless previously authorized by the budget, the proposed project requiring acquisition of private property interests must be approved by the Board of Directors.

### **Acquisitions of \$5,000 or less or Acquisitions Only for Temporary Construction Easements**

- Staff estimates the value of the acquisition based on appraisal reports.
- If there are complicating factors or no reliable value data available, the value is established through an appraiser.
- The estimated value must be reviewed and approved by the Director of Utilities or designee.
- The City offers a settlement to the property owner.
- Staff may not negotiate with the property owner except to receive information about an obvious error in the staff's valuation.
- If the acquisition value issue is settled, staff or the city attorney will close the transaction.
- If the acquisition value issue is not settled, a formal appraisal will be prepared and forwarded to the property owner. Any proposed settlement above the appraised amount will be submitted to the Board of Directors.
- Any use of the power of eminent domain will be submitted to the Board of Directors for approval.
- The Board of Directors may either approve a settlement amount or authorize the use of eminent domain to acquire the property interest.

**Acquisitions of \$5,001 but less than \$20,000**

- The value is established through an appraiser.
- The City offers a settlement to the property owner.
- Staff may not negotiate with the property owner except to receive information about an obvious error in the appraiser's valuation.
- If the acquisition value issue is settled, staff or the city attorney will close the transaction.
- If the acquisition value issue is not settled, any proposed settlement above the appraised amount will be submitted to the Board of Directors.
- Any use of the power of eminent domain will be submitted to the Board of Directors for approval.
- The Board of Directors may either approve a settlement amount or authorize the use of eminent domain to acquire the property interest.

**Acquisitions greater than \$20,000**

- The value is established through an appraiser.
- The appraised amount and a request for authorization to make an offer will be presented to the Board of Directors for approval.
- If authorized, the City will send an offer letter to the property owner.
- If the acquisition value issue is settled, staff or the City Attorney will close the transaction.
- Any proposed settlement above the appraised amount will be submitted to the Board of Directors.
- If the acquisition value issue is not settled, any proposed settlement above the appraised amount will be submitted to the Board of Directors.
- Any use of the power of eminent domain will be submitted to the Board of Directors for approval.
- The Board of Directors may either approve a settlement amount or authorize the use of eminent domain to acquire the property interest.

The Utility Department codes all purchases in accordance with the chart of accounts and fund codes provided by the Finance Department. All purchases are processed through Finance Department procedures to assure compliance with accounting principles, audit requirements, operating and capital budgets, purchasing procedures, and legal requirements. Also, the Utility Department and Finance Department collaborate on bulk purchases and formal bids for supplies, materials and equipment. This collaboration provides a higher degree of controlling costs and internal controls on large purchases.

**Staffing Appropriately**

Staffing also represents a significant cost for the Utility Department. Staffing can be provided through City employees and through contracted services. A combination of these resources is typically needed to support the operation and improvement of the water and sewer systems. Efficiency is achieved through a balance of resources that meets the unique requirements of the Utility Department.

The Utility Department has experienced a transformation change in both its capital and operating needs with the Consent Decree which became effective in 2015. The staffing needs changed significantly to meet the Consent Decree requirements. These needs are in addition to the recommendations for incremental resources as previously documented in the "Water and Sewer Operations Efficiency Study" by HDR Engineering in 2013.

The Utility Department is proceeding with the approved staffing plan to meet the objective of achieving and maintaining full compliance with the Clean Water Act as required by the Consent Decree. This plan is based on the "Water and Sewer Operations Efficiency Study" by HDR Engineering, the "Report on the Consent Decree Staffing Study" by Burns & McDonnell Engineering Company, Inc. and previous discussions with the Board of Directors. The overall concept is that the resources who offer specialized services not normally performed by City employees or capabilities that are not needed beyond the duration of the Consent Decree will be provided by contracted staff, and the resources who will be needed for continuing operation, maintenance, repairs, and construction activities beyond the duration of the Consent Decree will be provided by City employees. The balance between City employees and contracted services is anticipated to change throughout the duration of the Consent Decree as the work scope and load vary depending on project and program requirements. Hiring only the contracted services and employees necessary as the City's needs change helps avoid unnecessary costs associated with overstaffing in the various disciplines or repeated hiring costs associated with a fluctuating need for employees. The objective of the staffing plan is to provide the different resources needed at the appropriate levels for the duration those particular resources are needed.

### **Continuing Improvement**

Management plans and processes are only as good as the results they help produce. Results can change over time as objectives, resources and conditions evolve. Process changes in intended to improve results can have either a negative or positive influence on results. Periodic reassessment of results and how management plans and processes support those results into the future is necessary. However, frequent changes in processes risk creating uncertainty and process instability, and are likely to be counterproductive in the long term. Consequently, a balance between changes for improvement and consistency for stability in processes is needed.

Written policies that can be revised when necessary helps reduce uncertainty but also allows for future changes as the need arises. Including the Finance Department in these periodic reviews would broaden the perspective on ways to improve and enhance discussions.

### **Proposed Policy: Cost Control**

A policy regarding cost controls can be structured as follows:

*Cost controls shall be provided through planning and setting goals for success, controlling the purchasing processes, and at least annually reviewing Utility Department financial processes and controls with the Finance Department.*



**Report on the**

# Utility Financial Policies

**City of Fort Smith, Arkansas**

**Project No. 75670**

**September 2015**

# **Utility Financial Policies**

**prepared for**

**City of Fort Smith, Arkansas  
Utility Department**

**September 2015**

**Project No. 75670**

**prepared by**

**Burns & McDonnell Engineering Company, Inc.  
Kansas City, Missouri**

**COPYRIGHT © 2015 BURNS & McDONNELL ENGINEERING COMPANY, INC.**

## TABLE OF CONTENTS

		<u>Page No.</u>
<b>1.0</b>	<b>EXECUTIVE SUMMARY</b> .....	<b>1-1</b>
1.1	Purpose and Approach .....	1-1
1.2	Proposed Policies .....	1-1
1.2.1	Proposed Policy: Revenue-Funded Capital .....	1-2
1.2.2	Proposed Policy: Targeted Debt Service Coverage Levels .....	1-2
1.2.3	Proposed Policy: Debt Service as a Percent of Revenue Stream.....	1-2
1.2.4	Proposed Policy: System Development Charges.....	1-2
1.2.5	Proposed Policy: Facility Charges .....	1-3
1.2.6	Proposed Policy: Connection Charges.....	1-3
1.2.7	Proposed Policy: Rate Methodology .....	1-3
1.2.8	Proposed Policy: Affordability Assessment .....	1-3
1.2.9	Proposed Policy: Billing Collections.....	1-3
1.2.10	Proposed Policy: Billing Corrections.....	1-3
1.2.11	Proposed Policy: Billing Forgiveness.....	1-4
1.2.12	Proposed Policy: Winter Averaging for Residential Sewer Bills .....	1-5
1.2.13	Proposed Policy: Service Charges .....	1-5
1.2.14	Proposed Policy: Water and Sewer Fund (Revenue Fund).....	1-6
1.2.15	Proposed Policy: Fleet and Equipment Replacement Reserve .....	1-6
1.2.16	Proposed Policy: Water/Sewer Capital Improvement Fund .....	1-6
1.2.17	Proposed Policy: Depreciation Fund .....	1-7
<b>2.0</b>	<b>INTRODUCTION</b> .....	<b>2-1</b>
2.1	Overview.....	2-1
2.2	Project Approach .....	2-2
2.3	Statement of Limitations.....	2-3
<b>3.0</b>	<b>PROPOSED FINANCIAL POLICIES</b> .....	<b>3-1</b>
3.1	Introduction.....	3-1
3.2	Capital Funding Policies .....	3-1
3.2.1	Background.....	3-1
3.2.2	Proposed Policy: Revenue-Funded Capital .....	3-5
3.2.3	Proposed Policy: Targeted Debt Service Coverage Levels .....	3-6
3.2.4	Proposed Policy: Debt Service as a Percentage of Revenue Stream ....	3-6
3.2.5	Proposed Policy: System Development Charges.....	3-7
3.2.6	Proposed Policy: Facility Charges .....	3-9
3.2.7	Proposed Policy: Connection Charges.....	3-9
3.3	Rate and Service Charge Policies .....	3-10
3.3.1	Background.....	3-10
3.3.2	Proposed Policy: Rate Methodology .....	3-11
3.3.3	Proposed Policy: Affordability Assessment .....	3-12

3.3.4 Proposed Policy: Billing Collections ..... 3-12

3.3.5 Proposed Policy: Billing Corrections..... 3-13

3.3.6 Proposed Policy: Billing Forgiveness..... 3-15

3.3.7 Proposed Policy: Winter Averaging for Residential Sewer Bills ..... 3-16

3.3.8 Proposed Policy: Service Charges ..... 3-18

3.4 Reserve Policies ..... 3-18

3.4.1 Background ..... 3-18

3.4.2 Water and Sewer Fund (Revenue Fund) ..... 3-21

3.4.3 Fleet and Equipment Replacement Reserve ..... 3-23

3.4.4 Water/Sewer Capital Improvement Fund ..... 3-24

3.4.5 Depreciation Fund..... 3-25

3.4.6 Summary of Reserve Funds and Policy Changes ..... 3-26

**4.0 REFERENCES ..... 4-1**

**LIST OF TABLES**

	<u>Page No.</u>
Table 3-1: Regional Utility Billing Practices.....	3-13
Table 3-2: Existing Reserve Funds.....	3-20
Table 3-3: Summary of Recommended Funds with Policy Adjustments (1).....	3-26
Table 3-4: Summary of Existing Reserve Funds with No Recommended Changes (1).....	3-27

**LIST OF FIGURES**

	<u>Page No.</u>
Figure 1-1: Policy Development Approach .....	1-1
Figure 2-1: Policy Development Approach .....	2-2
Figure 2-2: Policy Development Perspectives Considered .....	2-2
Figure 3-1: Fort Smith Utility Debt to Net Plant .....	3-2
Figure 3-2: Fort Smith Utility Debt Service Coverage .....	3-4
Figure 3-3: Fort Smith Utility Depreciation as a Percentage of Free Cash Flow .....	3-5
Figure 3-4: Fort Smith Utility Debt as a Percentage of Operating Revenue .....	3-7
Figure 3-5: Fort Smith Utility Operating Margin .....	3-11
Figure 3-6: Fort Smith Utility Days Cash on Hand .....	3-21

**LIST OF ABBREVIATIONS**

<b><u>Abbreviation</u></b>	<b><u>Term/Phrase/Name</u></b>
ABT	Additional Bonds Test
AWWA	American Water Works Association
BMcD	Burns & McDonnell
CAFR	City of Fort Smith Comprehensive Annual Financial Report
CCF	One Hundred Cubic Feet
CIP	Capital Improvement Program
Department	Fort Smith Utility Department
EPA	Environmental Protection Agency
O&M	Operating & Maintenance
SDC	System Development Charge
WEF	Water Environment Federation

## 1.0 EXECUTIVE SUMMARY

### 1.1 Purpose and Approach

In February 2013, the “Water and Sewer Operations Efficiency Study” (the Efficiency Study) was published and provided, among other things, recommendations to develop and adopt formal financial policies for the water and sewer utilities. This Utility Financial Policies report has been prepared for the Fort Smith Utility Department (the Department) to document and describe several policies to be considered by the City of Fort Smith. Taken as a whole, these recommended policies address the spirit and nature of the recommendations made in the Efficiency Study. Overall, the proposed policies will improve the overall financial strength and stability of the Department.

This document is intended to summarize the potential policies under consideration and provide a basis for discussion with the City’s Board, staff, and other stakeholders as appropriate to obtain further input and direction into the policy development. Using this feedback, the policies will be evaluated during the ongoing rate study to assess the potential impact associated with implementation. The overall approach used to develop the proposed policies is illustrated below in Figure 1-1.

**Figure 1-1: Policy Development Approach**



The Introduction Section 2.0 of this report provides additional background and an overview of the policy development process. Section 3.0 Proposed Financial Policies documents the policies and the rationale behind them; where possible, a high level impact assessment is provided. An impact assessment will be also provided in the rate study work to be completed in 2015.

The remainder of this Executive Summary summarizes the proposed policies.

### 1.2 Proposed Policies

Included herein are the proposed policies for the City of Fort Smith Utilities Department. Details regarding the rationale behind specific policies and considerations made during their development are found in subsequent sections of this report. Because of the complexity of Consent Decree requirements and the inter-relationship of some policies and targets (e.g. improvements in debt service coverage will provide funds that may be used for reserves), a more thorough evaluation of the impact of these policies is ongoing that uses the water and sewer financial planning and rate models. Following this evaluation,

some of the proposed policies may be refined and a plan for implementation proposed to balance policy implementation with rate impact and other potential consequences.

Rules governing the flow of funds, the use of funds, and certain reserves are set forth in existing bond covenants. The proposed policies have been crafted to complement these requirements. Nothing in this document should be interpreted to be in conflict with or undermine existing bond covenants, which take precedence over all proposed policies contained herein.

### **1.2.1 Proposed Policy: Revenue-Funded Capital**

The Utility Department will annually provide cash funding from the Water and Sewer Fund for the Capital Improvement Program at a minimum level equal to the prior year's annual depreciation expense. CIP spending may include fleet and equipment replacement, system renewal and replacement, and other capital projects. The amount of annual cash funding shall be at least equal to the amount of the prior year's depreciation expense. The amount of annual cash funding will be determined by the Utility Director during the annual budgeting and CIP planning process and subject to Board approval.

### **1.2.2 Proposed Policy: Targeted Debt Service Coverage Levels**

The Department will provide through its annually approved budget the Net Revenues necessary to produce a planned debt service requirement that achieves a minimum debt service coverage level of 1.40 times annual debt service as reported in the latest CAFR. In the event actual annual debt service coverage reported in the CAFR is below the minimum threshold of 1.40 times annual debt service, the Utility Director will produce a financial plan in the next budget cycle that provides revenue or expense adjustments or a combination of revenue and expense adjustments necessary to restore coverage to 1.40 times annual debt service within 3 budget years after the shortage was initially reported.

### **1.2.3 Proposed Policy: Debt Service as a Percent of Revenue Stream**

The Department will include debt service as a percentage of revenue stream analysis subject to Board Approval as a component of the debt issuance process.

### **1.2.4 Proposed Policy: System Development Charges**

System development charges shall be periodically reviewed at least every five (5) years using principles generally accepted in the water and sewer industries and in compliance with Arkansas State Statutes. The intent of these charges will be to reasonably recover costs of growth-related backbone facilities allocated to increases in the number growth of customers. Charges will be designed so that the water and sewer systems will not subsidize the other.

### **1.2.5 Proposed Policy: Facility Charges**

Facility charges may be developed to recover costs incurred to provide water or sewer service to a specific area. Facility charges shall be periodically reviewed at least every five (5) years using principles generally accepted in the water and sewer industries and in compliance with Arkansas State Statutes. The intent of these charges will be to reasonably recover costs of facilities allocated to a geographic area. Charges will be designed so that so the water and sewer systems will not subsidize the other.

### **1.2.6 Proposed Policy: Connection Charges**

Connection charges shall be developed and periodically reviewed at least every five (5) years using principles generally accepted in the water and sewer industries. The intent of these charges will be to reasonably recover costs of installing water and sewer service lines and facilities that provide services to customers' properties. Charges will be designed so that the water and sewer systems will not subsidize the other.

### **1.2.7 Proposed Policy: Rate Methodology**

Rates for water and sewer billing shall be developed and periodically reviewed at least every five (5) years using a cost of service methodology generally accepted in the water and sewer industries. The intent of the rates will be to reasonably recover costs allocated to each customer class from the respective customer class, fund the water and sewer systems so neither system subsidizes the other, and support the goals and objectives of the water and sewer systems.

### **1.2.8 Proposed Policy: Affordability Assessment**

The Department shall include affordability analysis as a component of the ratemaking process and performance of the Consent Decree.

### **1.2.9 Proposed Policy: Billing Collections**

The water and sewer customer bills shall become past due if not paid within 15 days after the billing date. When past due, a penalty shall be added to the account in the amount of 10 percent of the past month's current billed amount, and a past due and shutoff notice will be mailed to the customer's address of record. Services for bills not paid within 30 days after the billing date are subject to suspension of service and may be turned off until the account is paid in full.

### **1.2.10 Proposed Policy: Billing Corrections**

The City shall make water and sewer billing corrections to customers' bills and/or accounts to correct errors that occurred within the past three (3) years as a result of one or more of the following:

- The meter was misread.
- The water and/or sewer usage was inaccurately estimated when an actual meter reading was not used.
- The water meter, sewer meter, meter reading system, billing system, and/or accounting system did not operate properly.

Corrections shall be calculated as the difference between the erroneous usage and the corrected usage. The corrected meter reading shall be recorded on the customer's account when identified and shall be used so that the usage billed and usage subsequently billed shall be calculated using the corrected meter reading. Customer charges shall not be changed independently of meter readings. Meter readings will not be held over until the actual usage catches up to the erroneous meter reading.

In the event that the correction increases or decreases the usage so that the resulting change in either water or sewer charges exceeds the lesser of four (4) times the average water or sewer bill for that service point over the previous twelve months or \$1,000, approval of the correction will require the Finance Department to escalate the matter to the Utility Director or designated representative for approval within five (5) business days from the date of escalation.

### **1.2.11 Proposed Policy: Billing Forgiveness**

Credits to water and sewer utility bills may be granted to customers to account for water leaks fixed by plumbing repairs, filling swimming pools, and billing corrections. Credits may be applied to customer accounts subject to the following conditions.

- Except for adjustments that result due to billing corrections, a service point is eligible for a water leak credit to water charges for not more than two (2) months, provided a water leak credit was not posted to the account in the most recent 12 month period. Similarly, except for adjustments that result due to billing corrections, a service point is eligible for a credit to sewer charges for not more than two (2) months related to water leakage, provided a sewer credit related to water leakage was not posted to the account in the most recent 12 month period. In addition, an account is eligible for a credit to sewer charges for one (1) month related to filling a swimming pool each calendar year.
- In the event of a billing correction, a service point is eligible for a water credit to water charges and sewer credit to sewer charges for any charges added due to a billing correction.
- Each water credit is subject to a maximum of either four (4) times the average monthly water charges or \$1,000, whichever is less. Similarly, each sewer credit is subject to a maximum of either four (4) times the average monthly sewer charges or \$1,000, whichever is less.

- Credits applied to billed water volumes may not lower the billed volume for any month of service below its most recently 12 month average or 6 CCF, whichever is higher
- Credits applied to billed sewer volumes may not lower the billed volume for any month of service below its most recently designated winter average or six (6) CCF, whichever is higher.
- The customer must provide the City with written proof that the leak was fixed by plumbing repairs for a leak credit to be considered by the City.

In the event a proposed credit exceeds these conditions, approval of the credit will require the Finance Department to escalate the matter to the Utility Director or designated representative for approval within five (5) business days from the date of escalation. The Utility Director or designated representative may approve a water and sewer credits as follows:

- A maximum water credit of \$1,000 plus 50 percent of the billed water amount greater than \$1,000, not to exceed \$5,000 total credit for water.
- A maximum sewer credit of \$1,000 plus 50 percent of the billed sewer amount greater than \$1,000, not to exceed \$5,000 total credit for sewer.

If the proposed credit is denied by the Utility Director or designated representative, the decision may be appealed by the customer to the City Administrator or designated representative, within 10 business days from the date of the decision made by the Utility Director or designated representative.

### **1.2.12 Proposed Policy: Winter Averaging for Residential Sewer Bills**

Billable volumes for residential sewer customers during the April, May, June, July, August, September and October billing cycles will be determined based on the most recent evaluation of winter period water consumption, defined as the average monthly water usage during the immediate preceding November, December, January, February and March billing cycles at the same service point. The monthly billable volume for each residential account will be established as either actual water usage or the winter average calculated usage, whichever is lower for the applicable month. If a residential sewer customer does not have a winter period water consumption, for example an account initiated after the start of the winter period, the billable volume during the months of April, May, June, July, August, September and October will be either actual water usage or 6 CCF whichever is lower..

### **1.2.13 Proposed Policy: Service Charges**

Service charges shall be developed and periodically reviewed at least every five (5) years using principles generally accepted in the water and sewer industries. The intent of these charges will be to reasonably

assess charges to customers who use particular services related to water or sewer services. Charges will be listed in a table of service charges subject to Board approval and maintained by the Department.

#### **1.2.14 Proposed Policy: Water and Sewer Fund (Revenue Fund)**

The Department will maintain a reserve balance of a minimum of 33 percent (120 days) to 49 percent (180 days) of the annual operation and maintenance expenses for liquidity and emergencies. Balances will be made available to fund ongoing operation and maintenance costs, and fund emergency operations or unforeseen events. If the end of year Water and Sewer Revenue Fund balance is calculated to be less than 120 days or more than 180 days, the Utility Director will provide a financial plan to the Board to restore this fund balance to the targeted range within three (3) budget years after the variance was initially reported.

#### **1.2.15 Proposed Policy: Fleet and Equipment Replacement Reserve**

The Department will establish and maintain a Fleet and Equipment Replacement Reserve (FERR) to be funded annually by a deposit equal to the prior year's equipment depreciation expense. Such deposits will be considered a portion of the transfers from the Revenue Fund to provide revenue funding for capital expenditures. Assets classifiable as fleet or mobile equipment are eligible for funding from the FERR. No minimum balance is required to be maintained in the FERR. If funding provided by the annual deposit exceeds the current year's fleet and mobile equipment purchases, available balances will carry forward to subsequent years. If funding provided by the annual deposit and any other available balance within the FERR is not sufficient to fully fund the current year's fleet and mobile equipment purchases, the Department will secure additional capital improvement funding consistent with current utility practice. If the balance available in this reserve exceeds fleet and mobile equipment spending identified in the CIP, additional deposits to this reserve may be suspended until the balance in this reserve does not exceed fleet and mobile equipment spending identified in the CIP.

#### **1.2.16 Proposed Policy: Water/Sewer Capital Improvement Fund**

The Department will maintain reserves in the Water/Sewer Capital Improvement Fund to provide funding for the capital improvement program. An annual deposit from the Revenue Fund will be proposed by the Department and subject to Board approval that, together with deposits to the Depreciation Fund and Fleet and Equipment Replacement Reserve, amount to a minimum of the prior year's depreciation expense. All assets of the Department are eligible for funding from the Water/Sewer Capital Improvement Fund reserves. No minimum balance is required to be maintained in the Water/Sewer Capital Improvement Fund reserves. If available funding exceeds the current year's capital expenditures, available balances will carry forward for use during subsequent years. If balances are not sufficient to fully fund the current

year's capital expenditures, the Department will secure additional capital improvement funding consistent with current utility practice. If the balance available in the Water/Sewer Capital Improvement Fund exceeds infrastructure, facility, and resource capital spending identified in the CIP, additional deposits to this fund may be suspended until the balance in this fund does not exceed infrastructure, facility, and resource capital spending identified in the CIP.

### **1.2.17 Proposed Policy: Depreciation Fund**

The Department will maintain reserves in the Depreciation Fund to fulfill bond covenants and to provide funding for investment in fixed assets. An annual deposit from the Revenue Fund will be proposed by the Department and subject to Board approval that, together with deposits to the Water/Sewer Capital Improvement Fund and Fleet and Equipment Replacement Reserve, amount to a minimum of the prior year's depreciation expense. No minimum balance is required to be maintained in the Depreciation Fund in excess of that fulfilling the bond requirement. If balances are not sufficient to fully fund the current year's capital expenditures, the Department will secure additional capital improvement funding consistent with current utility practice. If the balance available in the Depreciation Fund exceeds capital spending as identified in the CIP, additional deposits to this fund may be suspended until the balance in this fund does not exceed capital spending identified in the CIP.

## 2.0 INTRODUCTION

### 2.1 Overview

The mission of the Fort Smith Utility Department (the Department) is “to ensure the sustained delivery of quality water and sewer services that promote health, safety, and quality of life for all customers.”

Development and adoption of financial policies will support the Department in the pursuit of its mission in several ways:

- Fulfill the mission with focus that
  - Ensures sustained delivery of quality water and sewer services
  - Promotes health, safety and quality of life
  - Provides excellent service to customers
  - Complies with the Consent Decree requirements
  - Creates value through operational excellence
  - Ensures long-term regional success
- Provide liquidity to adequately fund operating and capital costs
- Mitigate the risk of financial stress caused by
  - Revenue shortfalls due to weather anomalies
  - Sudden increases in commodity costs
  - Avoidable regulatory and Consent Decree penalties
  - Cost of major equipment failure or fixed asset failure
  - Unexpected expenses due to civil disorder, catastrophes, or other emergencies
- Better position the utility to fund capital projects that are necessary to comply with regulatory requirements and liabilities associated with aging infrastructure and future system growth
- Assist in the compliance with existing bond covenants, and position the Department more favorably for ratings reviews associated with future debt issuance thereby lowering the cost of borrowing money
- Enhance the stability in user rates and charges by minimizing the severity of rate shock that can result if inherent risks noted above are realized

The development of financial policies will also assist the Department in addressing certain recommendations that resulted from the “Water and Sewer Operations Efficiency Study” (the Efficiency Study) published during February 2013. The Efficiency Study identified several options regarding financial management that collectively were intended to strengthen the Department’s financial resiliency. Furthermore, the financial policies will help to enhance the Department’s long-term financial stability and

its ability to reasonably maintain stable rates. Unless otherwise noted, the policies are applicable to both the Water and Sewer Systems.

### 2.2 Project Approach

The overall approach used to develop the proposed policies is illustrated below in Figure 2-1. The approach began with an assessment of current policies and practices in certain strategic areas.

**Figure 2-1: Policy Development Approach**



These strategic areas were identified in a variety of ways, including input from Department management and staff; recommendations from the Efficiency Study; observations from prior financial planning and rate projects; consideration of Consent Decree requirements; review of financial performance and material variance drivers; and other techniques. Current policies and practices were identified. BMcD then worked with Department staff to develop financial policy concepts to either further strengthen existing policies or establish new policies as needed. Input in the development of these policy concepts was obtained from multiple perspectives, as shown in Figure 2-2.

**Figure 2-2: Policy Development Perspectives Considered**



Multiple perspectives were considered as policy concepts were formulated. The degree to which the proposed policies address Department concerns, align with industry best practices either from the perspective of BMcD or the City's Financial Advisor, align with the priority recommendations of the Efficiency Study, assist in compliance with Consent Decree requirements, and recognize City policies and practice was considered.

Where possible, targets for the policies were identified, and current Department compliance with these targets was evaluated. To the extent a policy target was not currently met, a high level impact on existing revenues was calculated to provide context regarding the potential adjustment necessary to achieve desired policy targets. Because of the complexity of Consent Decree requirements and the inter-relationship of some policies and targets (e.g. improvements in debt service coverage will provide funds that may be used for reserves), a more thorough evaluation of the impact of these policies is ongoing that uses the water and sewer financial planning and rate models. Following this evaluation, some of the proposed policies may be refined and a plan for implementation proposed to balance policy implementation with rate impact and other potential consequences.

This document is intended to summarize the policies under consideration and provide a basis for discussion with the City's Board, staff, and other stakeholders as appropriate to obtain further input and direction into the policy development.

Rules governing the flow of funds, the use of funds, and certain reserves are set forth in existing bond covenants. The proposed policies have been crafted to complement these requirements. Nothing in this document should be interpreted to be in conflict with or undermine existing bond covenants, which take precedence over all proposed policies contained herein.

### **2.3 Statement of Limitations**

In the preparation of this report, BMcD used the information provided by Fort Smith and additional third parties to make certain assumptions with respect to conditions that may exist in the future. While BMcD believes the assumptions made are reasonable for the purposes of this report, we make no representation that the conditions assumed will occur. BMcD has also relied on the information provided to us without independent verification and cannot guarantee its accuracy or completeness. Therefore, to the extent that actual future conditions differ from those assumed in the Study or from the information provided to us, the actual results may vary from those projected.

## 3.0 PROPOSED FINANCIAL POLICIES

### 3.1 Introduction

In this report, proposed policies have been aggregated into three general groups, described as follows:

- **Capital Funding Policies:** Policies that guide the funding of capital projects and management of debt
- **Rate and Service Charge Policies:** Policies that guide the administration of user charges
- **Reserve Fund Policies:** Policies that establish specific reserves and targeted balances

This section of the report will discuss each general policy group, and detail specific proposed policy recommendations within each group. Groups were determined based on similarities in the underlying policy's purpose. However, policies can be interrelated on different levels both within groups and across groups.

Rules governing the flow of funds, the use of funds, and certain reserves are set forth in existing bond covenants. The proposed policies have been crafted to complement these requirements. Nothing in this document should be interpreted to be in conflict with or undermine existing bond covenants, which take precedence over all proposed policies contained herein.

### 3.2 Capital Funding Policies

#### 3.2.1 Background

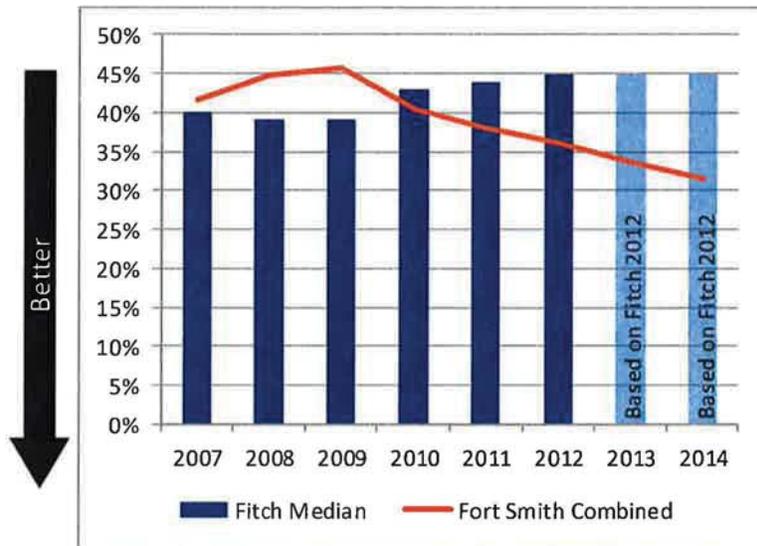
As a municipal utility the Department is charged with operating and managing water and sewer utility systems with a net book value in excess of \$514 million as of December 31, 2014. Water and sewer utilities are capital intensive enterprises requiring significant investment in above and below ground infrastructure. The need for further investment in the system can be caused by many factors, including the addition of system capacity to accommodate growth, the enhancement of the system's capabilities to meet Consent Decree requirements and increasing regulatory requirements, the renewal and replacement of aging assets that are approaching the end of their useful lives, and the desire to improve operating efficiency.

Generally speaking, a capital investment plan can easily surpass the ability of the utility to fund the improvements in its entirety. In such cases, planning and project prioritization are needed to assist in the alignment of the sources and uses of capital funds. Funding for capital projects typically includes available balances, revenues from user charges, the issuance of long term debt, state revolving loans, or

less frequently, grant funding. Fort Smith has used both revenue-backed debt instruments and sales and use taxes funded debt to finance projects for the water and sewer systems. Funding can also be derived from system development charges, facility charges, and connection charges assessed to new connections as they are added to the system.

Historically, the issuance of debt has represented a significant portion of the Department’s capital funding approach. One measure frequently used to evaluate the reasonableness of the outstanding utility debt level is to compare outstanding debt to the value of the fixed assets of the system. Figure 3-1 shows the trend in the relationship between debt and net plant (defined as original cost less depreciation of fixed assets) for the Department. This ratio is compared against results published by Fitch Ratings for municipal water and sewer systems. Fitch discontinued publicly releasing annual medians after 2012, opting to require a subscription to its research service to access this information at substantial cost. For the purposes of this report, Fitch medians are estimated for 2013 and 2014 based on 2012 results.

**Figure 3-1: Fort Smith Utility Debt to Net Plant**



As shown in Figure 3-1, the level of debt outstanding for Fort Smith’s water and sewer utilities was relatively high from 2007 through 2009, but has been on an improving trend in more recent years. Improvements in this ratio can be achieved through providing more pay-as-you-go funding sources such as revenues from user charges, system development charges and facility charges. Improvements can also be achieved through use of alternative funding sources such as taxes.

The Department currently does not have a policy regarding the level of funding to be provided from debt

or other sources. The risk in relying too heavily on debt issuance to fund capital improvements is that a utility can become over-leveraged and suffer erosion of system equity, which could signal increased riskiness of the Department's debt to the municipal bond investor. Lower bond ratings and higher cost of issuing future debt could result, and drive the need for additional rate increases. Furthermore, over-reliance on debt as a capital funding mechanism can place pressure on debt service coverage.

Minimum debt service coverage levels are usually established by utility revenue bond covenants. For Fort Smith, existing debt covenants define annual debt service coverage as:

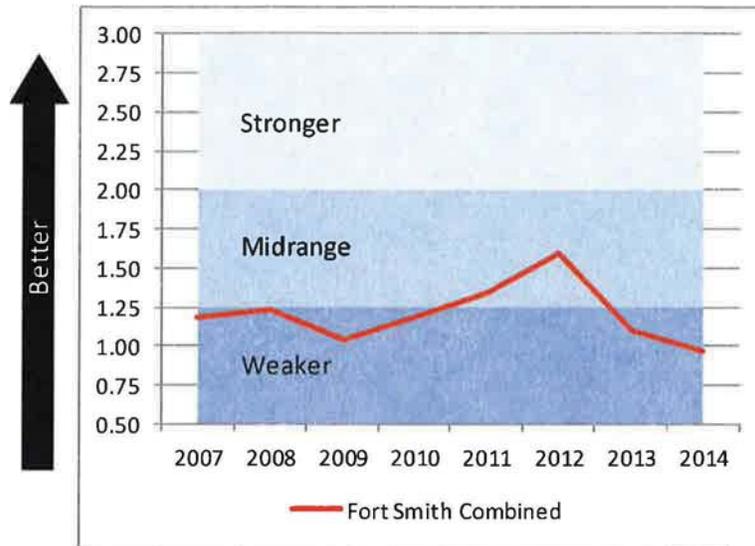
$$\frac{[\text{Maximum Annual Principal and Interest payable on all Revenue Bonds}]}{[\text{Net Revenues}]} = \text{Annual Debt Service Coverage}$$

Net Revenues are defined as gross revenues less the amounts required to pay the costs of operations, maintenance and repair of the utility systems excluding depreciation, interest and amortization expenses. For Fort Smith, the minimum annual debt service coverage required by covenants is 1.10 times annual debt service. Fort Smith also has an additional bonds test (ABT) that is required to be met in the event additional parity revenue bonds are issued. The ABT requires debt service coverage of 1.25 times average debt service in the most immediately prior year or 1.30 times average debt service for the next projected year. The next projected year allows for adjustments for any increase in rates that may have been adopted and any new debt service payments. The additional bonds coverage test is only applied as a condition of issuing additional parity debt. Figure 3-2 shows the trend in the Department's annual debt service coverage in recent years, compared to Fitch Ratings' stratification of weaker, midrange, and stronger performance for municipal water and sewer utilities.

As shown in Figure 3-2, debt service coverage for Fort Smith has eroded substantially since 2012. Debt service coverage in 2014 was 0.97 times, below the minimum revenue bond requirement of 1.10 times.

While the Department is obligated by covenant to maintain a minimum debt service coverage threshold, the Department does not have a formal policy regarding targeted debt service coverage. Based on BMcD's experience, it is recommended that debt service coverage targets be established at a level higher than the minimum as a component of the utility's financial plan. By targeting a level of debt service coverage in excess of the absolute minimum required, a utility is much better positioned to handle unexpected variances (such as abnormally low revenues due to weather conditions). Additionally, rating agencies look favorably on debt service coverage levels that are consistently higher than absolute minimum requirements.

**Figure 3-2: Fort Smith Utility Debt Service Coverage**



System development charges (also known as impact fees) represent one possible source of revenue for funding projects that are required to support growth in customers and increased capacity in the systems. System development charges (SDCs) differ from connection charges and facility charges. Connection charges are designed to fund the costs of physically installing customer connections and service lines to the customer’s property from the local water distribution system or sewer collection system. Facility charges are intended to recover the costs of extending the local water distribution system or sewer collection system that provide services to specific subdivisions or service areas, such as the existing Rye Hill elevated service plane fee. In contrast, system development charges are intended to fund growth-related backbone facilities shared by virtually all retail customers, such as treatment plants, large water transmission mains, large sewer interceptor lines, sewer flow equalization facilities, sewer outfall lines, and water source development.

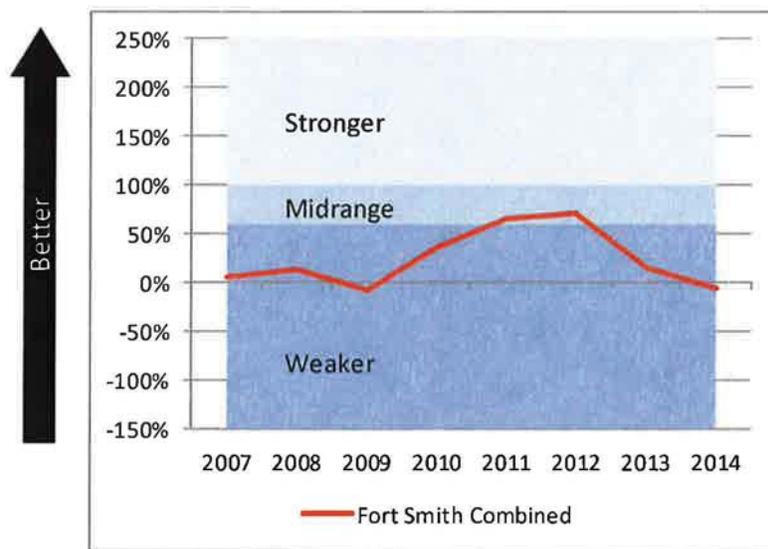
While the Department does assess charges to specific service areas to cover the cost of extending service to that service area (i.e., facility charges), it does not currently assess system development charges to recover the cost of capacity investment in backbone facilities. The determination of system development charges is governed by the State of Arkansas by Arkansas Code 14-56-103. For a variety of reasons, BMcD does not recommend implementing system development charges at this time, but does recommend developing a policy to systematically evaluate SDCs every five (5) years as conditions change.

Figure 3-3 shows annual depreciation expense as a percentage of free cash flow. This measure examines a utility’s ability to generate cash in excess of operating costs and debt service, sufficient enough to meet

the level of annual depreciation expense. At the heart of this concept is that a prudent utility should be able to produce enough cash to reinvest in its system equal to annual depreciation. Fitch Ratings reserves its “Stronger” designation for utilities able to generate cash in excess of depreciation annually.

As shown in Figure 3-3, depreciation as a percentage of free cash flow has eroded substantially since 2012. As noted previously the results in several figures within this report are inter-related.

**Figure 3-3: Fort Smith Utility Depreciation as a Percentage of Free Cash Flow**



### 3.2.2 Proposed Policy: Revenue-Funded Capital

It is recommended that the Department adopt a policy regarding the cash funding of future capital improvement program (CIP) projects to provide revenue funded capital at a level consistent with the prior year’s annual depreciation expense as reported on the Department’s audited financial statements. The proposed policy may read as follows:

*The Utility Department will annually provide cash funding from the Water and Sewer Fund for the Capital Improvement Program at a minimum level equal to the prior year’s annual depreciation expense. CIP spending may include fleet and equipment replacement, system renewal and replacement, and other capital projects. The amount of annual cash funding shall be at least equal to the amount of the prior year’s depreciation expense. The amount of annual cash funding will be determined by the Utility Director during the annual budgeting and CIP planning process and subject to Board approval.*

### 3.2.3 Proposed Policy: Targeted Debt Service Coverage Levels

As noted previously the Department is generally obligated to provide annual debt service coverage at a minimum level of 1.10 times annual debt service. The ABT is more restrictive and requires coverage of 1.25 times average debt service in the prior year or 1.30 times average debt service in the next year (2). The additional bonds coverage test is only applied as a condition of issuing additional parity debt. However, in an environment where future revenue bond issues are likely, prudent planning should provide for the fulfillment of the more stringent requirements of the ABT. It is recommended that the Department adopt a policy to achieve an annual debt service target of 1.40 times annual debt service levels (1). The proposed policy may read as follows:

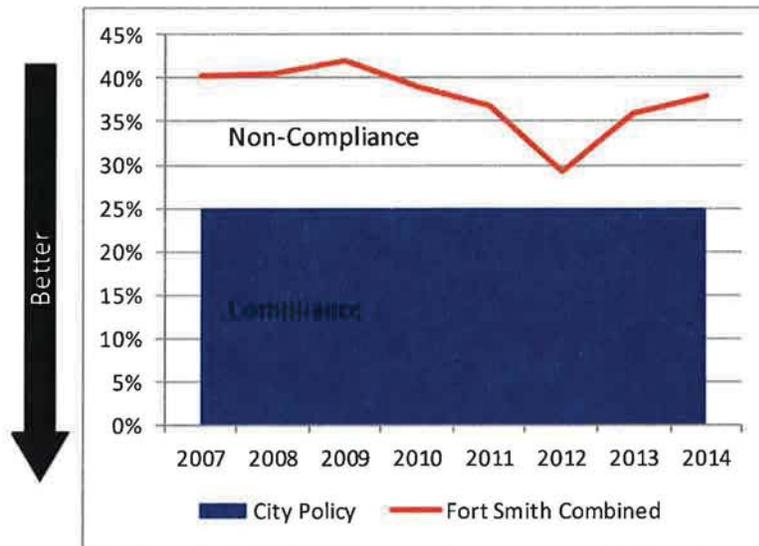
*The Department will provide through its annually approved budget the Net Revenues necessary to produce a planned debt service requirement that achieves a minimum debt service coverage level of 1.40 times annual debt service as reported in the latest CAFR. In the event actual annual debt service coverage reported in the CAFR is below the minimum threshold of 1.40 times annual debt service, the Utility Director will produce a financial plan in the next budget cycle that provides revenue or expense adjustments or a combination of revenue and expense adjustments necessary to restore coverage to 1.40 times annual debt service within 3 budget years after the shortage was initially reported.*

Setting an annual debt service coverage minimum target of 1.40 times annual debt service positions the utility to more easily pass the ABT threshold; is consistent with rating agency preferences as demonstrated in Figure 3-2 and confirmed with the City's financial advisor; and will assist in providing revenue streams that may be applied toward the revenue-funded capital policy described in Section 3.2.2, thereby mitigating the impact of that policy. In 2014, debt service coverage was below the annual required level of 1.10 times. Sewer revenue increases were adopted for implementation in 2015 through 2017 which should improve overall coverage levels. However, future revenue adjustments may be necessary to reach a threshold of 1.40 times.

### 3.2.4 Proposed Policy: Debt Service as a Percentage of Revenue Stream

The City currently maintains a policy that debt service should not exceed 25 percent of the related revenue stream. This policy is likely intended to prevent the utility or other City operations from becoming overly burdened with debt. As shown in Figure 3-4, the Department has been out of compliance with this policy in recent history.

**Figure 3-4: Fort Smith Utility Debt as a Percentage of Operating Revenue**



For the utilities, the clarity of this policy is clouded by the use of alternative funding strategies such as sales tax revenues. Also, utilities in general tend to be highly capially intensive and are influenced by factors such as needed reinvestment in aging infrastructure, increasingly stringent regulatory compliance requirements, Consent Decree requirements for many sewer utilities, and the need to balance the impact all of these issues have on customer bills. As such, a Department financial plan is likely to differ significantly from general fund departments, particularly in the use of debt to fund capital improvements. Considering the proposed utility policies to revenue fund a portion of the CIP based on depreciation expense and to maintain a minimum annual debt service coverage level of 1.40 times, the likelihood of future compliance with this policy is expected to improve but is not guaranteed. Setting a firm ratio requirement of debt service to revenue stream can result in customer rates higher than would have otherwise been required for regulatory or bond covenant compliance. It is recommended that debt service as a percentage of the revenue stream be tracked and reported periodically by the Department, discussed as part of debt issuance process, and used for informational purposes only. The proposed policy may read as follows:

*The Department will include debt service as a percentage of revenue stream analysis subject to Board Approval as a component of the debt issuance process.*

**3.2.5 Proposed Policy: System Development Charges**

As noted in Section 3.2.1, system development charges (or impact fees) represent one possible source of revenue for funding projects that are required to support growth in customers and related increases in

capacity of the utility systems. Currently growth-related costs are comingled with other costs of the water and sewer systems and theoretically recovered through water and sewer user rates. In the design of system development charges (SDCs), the water and sewer costs associated with growth and related system expansion are discretely identified, and the charges are applied to new customers as they join the system. Such charges cannot be arbitrarily set, and must reasonably be related to the cost and level of service provided. Generally speaking, system development charge revenues can only be used to pay for growth-related projects. In this way, system development charges align the cost of growth and related system expansion more directly with new customer development.

The key policy consideration is whether the cost of new infrastructure should be recovered from new customers joining the system, or if it should be funded through rate revenues, which is the current utility practice.

The State of Arkansas enables municipal utilities to charge system development charges under Arkansas Code 14-56-103. BMcD recommends against implementing SDCs at this time, for a variety of reasons.

- The vast majority of CIP planned in the next five (5) years is not designed to create additional capacity to accommodate growth. Rather, the CIP is geared toward renewal and replacement or regulatory compliance. Such projects are generally not candidates for SDC cost recovery.
- Implementing and managing SDCs requires increased administrative effort, particularly with respect to the following:
  - Creation of separate funds solely for the deposit and use of SDC revenues
  - Determination of a particular project's eligibility for SDC funding
  - Tracking of receipt of SDC funds compared to applicable expenditures
  - A requirement to refund portions of SDC receipts to customers if proceeds are not spent within seven (7) years
- In recent years, Fort Smith has not experienced considerable growth in utility customers, and this trend is currently projected to continue for the near future. Assuming 125 new customers per year and an average \$2,500 SDC, potential SDC revenue totals approximately \$312,000 per year, an amount that will not provide sizeable funding for CIP nor materially impact user charge rate increases.

Based on these considerations, BMcD does not recommend SDCs for the Department now. However, conditions may change over time, particularly if the Department's capital plan begins to identify more growth-related projects that increase capacity in backbone components of the water or sewer systems. Therefore BMcD does recommend evaluating SDC implementation at least every five (5) years.

A policy regarding system development charges may be structured as follows:

*System development charges shall be periodically reviewed at least every five (5) years using principles generally accepted in the water and sewer industries and in compliance with Arkansas State Statutes. The intent of these charges will be to reasonably recover costs of growth-related backbone facilities allocated to increases in the number growth of customers. Charges will be designed so that the water and sewer systems will not subsidize the other.*

### **3.2.6 Proposed Policy: Facility Charges**

Some systems use facility charges to recover costs of water or sewer facilities that provide service to a specific service area or geographic area within the system. Such areas might require storage tanks and pumping facilities exclusively for providing water or sewer service to that area. These facilities are generally required to extend service to specific areas and do not involve backbone facilities that are shared or used by most retail connections on the systems.

The Department currently charges an additional connection fee for any user who connects to the water system within the Rye Hill elevated service plane.

A policy regarding development charges may be structured as follows:

*Facility charges may be developed to recover costs incurred to provide water or sewer service to a specific area. Facility charges shall be periodically reviewed at least every five (5) years using principles generally accepted in the water and sewer industries and in compliance with Arkansas State Statutes. The intent of these charges will be to reasonably recover costs of facilities allocated to a geographic area. Charges will be designed so that so the water and sewer systems will not subsidize the other.*

### **3.2.7 Proposed Policy: Connection Charges**

The costs of constructing water and sewer service lines and facilities to connect properties to the water or sewer system are often recovered through connection charges. These costs typically include the materials and labor associated with extending the service mains to customer premises and installing metering equipment.

A policy regarding connection charges may be structured as follows:

*Connection charges shall be developed and periodically reviewed at least every five (5) years using principles generally accepted in the water and sewer industries. The intent of these charges will be to reasonably recover costs of installing water and sewer service lines and facilities that provide services to*

*customers' properties. Charges will be designed so that the water and sewer systems will not subsidize the other.*

### **3.3 Rate and Service Charge Policies**

#### **3.3.1 Background**

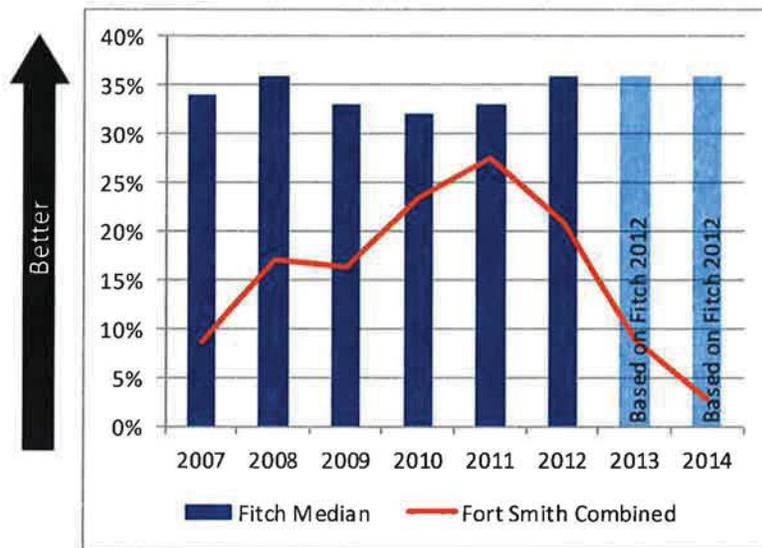
User charges must be sufficient to provide adequate funding for operating and capital needs, meet debt service requirements, and maintain sufficient reserves. The Department's planning horizon for user charges is five (5) years. A five (5) year plan is prepared and, to the extent revenue adjustments are necessary, proposed rates are developed and presented to the Board for approval. Rate approvals are typically provided by the Board for one (1) to three (3) years. Subsequent adjustments, if necessary over the three (3) years, are intended to be evaluated before the initial approval term has expired. This process is planned to be repeated every three (3) years to refresh the plan for known or anticipated changes. The current process has resulted in the adoption of revenue increases periodically, but not always regularly.

Plans are developed specifically for the water utility and the sewer utility. Rates are designed to recover the costs associated with each utility's respective financial plans. Within the plans, forecasts are made for direct costs of operating each utility and the indirect costs of support provided by the City. Some of the direct and indirect cost centers that provide service to the Department benefit both the water and the sewer utility. For those cost centers, allocation factors are used to identify the portion applicable to either the water or sewer utility. These water and sewer allocation factors are updated periodically, with the most recent update at the end of 2014. Overall financial reporting for the Department is consolidated to reflect the combined water and sewer performance.

During the evaluation of the five (5) year plan, typical bills are calculated to illustrate changes in bills for various Fort Smith customer classifications resulting from proposed rate adjustments. Comparisons are made to neighboring utilities for regional benchmarking typical customer classes. The concept of evaluating affordability was noted in the Efficiency Study as another way to indicate the reasonableness of proposed rates.

From a utility enterprise point of view, one indicator of the sufficiency of revenues (beyond coverage and reserve levels) is annual operating margin and annual cash flow. Figure 3-5 shows the trend in operating margin for Fort Smith compared to the Fitch Ratings median result.

**Figure 3-5: Fort Smith Utility Operating Margin**



Operating margin is defined as operating income divided by total operating revenues. In comparison to the Fitch Ratings median, Fort Smith has consistently been lower and most recently on a declining trend. Generally speaking, the trend in operating margin shown in Figure 3-5 correlates to the trend in debt service coverage shown previously in Figure 3-2 and depreciation expense as a percentage of free cash flow shown in Figure 3-3.

Several policies regarding rate and financial management are proposed herein. These policies are designed to support improvement of the Department’s financial performance.

**3.3.2 Proposed Policy: Rate Methodology**

Receiving revenues in a manner that is equitable for customers at levels that adequately fund both the water and sewer utilities is important to sustain water and sewer services. Cost of service methodologies generally accepted in the water and sewer industries are intended to set user charges and rates that reasonably recover the cost of serving customers from the respective customers and achieve the objectives of the water and sewer systems. It is proposed that Fort Smith consider continuing using the cost of service methodology in setting water rates and adopt this methodology for setting sewer rates.

The Department generally proposes three-year (3-year) rate plans to the Board for their consideration and approval. Implementing systematic rate adjustments at regular intervals helps mitigate the risk of rate shock. BMcD is of the opinion that the current approach that adopts multi-year rate adjustments is reasonable.

A policy regarding rate methodology may be structured as follows:

*Rates for water and sewer billing shall be developed and periodically reviewed at least every five (5) years using a cost of service methodology generally accepted in the water and sewer industries. The intent of the rates will be to reasonably recover costs allocated to each customer class from the respective customer class, fund the water and sewer systems so neither system subsidizes the other, and support the goals and objectives of the water and sewer systems.*

### **3.3.3 Proposed Policy: Affordability Assessment**

During the Efficiency Study, the concept of including an affordability assessment was raised for consideration and use in the ratemaking process. The concept involves comparing the Median Household Income (MHI) for Fort Smith to the existing and proposed typical bill for a residential household. According to the Affordability Assessment Tool for Federal Water Mandates, published in 2013 for the United States Conference of Mayors, the AWWA and the WEF, it is “commonly inferred that the EPA would consider a combined annual water and sewer bill of less than 4.5 percent of MHI to be affordable (2.5 percent for water, plus 2 percent for sewer services).” The concept of affordability was included in the Consent Decree that was lodged January 2, 2015. The time extension clause allows the City to submit a financial capability assessment on or before January 2, 2021 for an extension if the residential sewer costs exceed 2.5 percent of the MHI. It is worthwhile to assess affordability in consideration of the Consent Decree time extension clause and to provide affordability indicators in the information provided to the Board (1). However, BMcD does not recommend adopting formal targets and actions resulting from the affordability assessment, because the Department has no control over trends in MHI. Rather, it is recommended that affordability be monitored for a possible Consent Decree time extension, discussed as part of the rate-making process and used for informational purposes. Such a policy may be structured as follows:

*The Department shall include affordability analysis as a component of the ratemaking process and performance of the Consent Decree.*

### **3.3.4 Proposed Policy: Billing Collections**

Generally speaking, improvements in the collection of revenues from customers that lead to either reduced uncollectable revenue or faster receipt of revenue will lower the utility’s costs and improve working capital. A shorter and more effective collection process will help lower uncollectable bills and lower operating costs. Utility billing and collection activities are managed by the City of Fort Smith Finance Department, with responsibility for invoice preparation and issuance, collection, and customer

care. Presently, customer bills for water and sewer services are due and payable prior to midnight of the fifteenth (15<sup>th</sup>) day following the billing date. Days receivables for 2013 was 41.9 days and for 2014 was 41.8 days. Revenue recognition directly impacts the cash flow of the utilities. Thirteen other utility service providers were surveyed in the greater Fort Smith area for comparison to the City's current practices. The results are provided in Table 3-1.

**Table 3-1: Regional Utility Billing Practices**

	Others			City of Fort Smith
	Minimum	Maximum	Average	
Billing Frequency	Monthly	Monthly	Monthly	Monthly
Days after billing that bills become past due	7	25	17	22
Days after billing that service is shut off for non-payment	14	32	26	62

The survey results suggest that Fort Smith's current practice of waiting 62 days after billing to shut off service is longer than other utilities in the region. Other service providers shut off service on an unpaid bill 14 days to 32 days after the bills are mailed. The average is 26 days. The City shuts off service on unpaid bills 62 days after the bills are mailed – more than twice the average. Since billing occurs after utility services are provided, the City's customers can receive services for three (3) months without paying their bills before service is terminated. If this period were to be reduced, it is anticipated that slow paying customers would bring their accounts current at a faster rate improving liquidity and days outstanding ratios. If a bill is truly uncollectable, reducing the number of days to shut off would effectively lower the uncollectable amount. It is recommended that this period be reduced. Such a policy may be structured as follows:

*The water and sewer customer bills shall become past due if not paid within 15 days after the billing date. When past due, a penalty shall be added to the account in the amount of 10 percent of the past month's current billed amount, and a past due and shutoff notice will be mailed to the customer's address of record. Services for bills not paid within 30 days after the billing date are subject to suspension of service and may be turned off until the account is paid in full.*

### **3.3.5 Proposed Policy: Billing Corrections**

The City may make corrections to bills and customer accounts for errors in reading meters, processing

bills, and posting payments. These corrections might occur during the billing process or after bills have been generated. Currently, corrections are sometimes recorded as corrections to customer accounts and at other times recorded as adjustments depending on when the entry is posted as related to billing cycles. Also, meter reading corrections are occasionally not made so that the usage may catch up to the actual meter reading. Consequently, billing corrections are not reported separately from adjustments and occasionally not recorded. It is recommended that corrections be identifiable and reported separately from adjustments that forgive charges that were billed to customers. Furthermore, corrections should be recorded when identified.

Finally, it is recommended that some threshold be established for approval of correction adjustments. In the event that the proposed adjustment exceeds this threshold, additional approval will be required to approve the adjustment. This concept is proposed to provide enhanced control over corrections processing and assure needed meter reading and billing process improvements are identified and implemented as those needs arise.

A policy to address correcting errors may be structured as follows:

*The City shall make water and sewer billing corrections to customers' bills and/or accounts to correct errors that occurred within the past three (3) years as a result of one or more of the following:*

- *The meter was misread.*
- *The water and/or sewer usage was inaccurately estimated when an actual meter reading was not used.*
- *The water meter, sewer meter, meter reading system, billing system, and/or accounting system did not operate properly.*

*Corrections shall be calculated as the difference between the erroneous usage and the corrected usage. The corrected meter reading shall be recorded on the customer's account when identified and shall be used so that the usage billed and usage subsequently billed shall be calculated using the corrected meter reading. Customer charges shall not be changed independently of meter readings. Meter readings will not be held over until the actual usage catches up to the erroneous meter reading.*

*In the event that the correction increases or decreases the usage so that the resulting change in either water or sewer charges exceeds the lesser of four (4) times the average water or sewer bill for that service point over the previous twelve months or \$1,000, approval of the correction will require the Finance Department to escalate the matter to the Utility Director or designated representative for*

*approval within five (5) business days from the date of escalation.*

### **3.3.6 Proposed Policy: Billing Forgiveness**

Through the customer service operations managed by the City of Fort Smith, customers may obtain credits that effectively reduce billed revenues for utility services. The need for these credits can be caused by various legitimate issues including water leaks, filling swimming pools, good will, or other matters. The total annual amount of credit granted to utility customers has varied from approximately \$495,000 to \$720,000 annually during the past six (6) years. Presently customers are eligible for up to three (3) credit adjustments per year.

Current practices for customer billing adjustment do not involve the Utility Department and are managed and approved entirely by the Finance Department. Occasionally the credits are substantial, and taken as a whole, may adversely impact the financial results of the utilities. A policy is proposed to introduce the Department Director (or assigned delegate) to approve the granting of credits if the credit exceeds certain thresholds and to allow billing adjustments during a three-year (3-year) period if a billing correction occurs. Such a policy may be structured as follows:

*Credits to water and sewer utility bills may be granted to customers to account for water leaks fixed by plumbing repairs, filling swimming pools, and billing corrections. Credits may be applied to customer accounts subject to the following conditions.*

- *Except for adjustments that result due to billing corrections, a service point is eligible for a water leak credit to water charges for not more than two (2) months, provided a water leak credit was not posted to the account in the most recent 12 month period. Similarly, except for adjustments that result due to billing corrections, a service point is eligible for a credit to sewer charges for not more than two (2) months related to water leakage, provided a sewer credit related to water leakage was not posted to the account in the most recent 12 month period. In addition, an account is eligible for a credit to sewer charges for one (1) month related to filling a swimming pool each calendar year.*
- *In the event of a billing correction, a service point is eligible for a water credit to water charges and sewer credit to sewer charges for any charges added due to a billing correction.*
- *Each water credit is subject to a maximum of either four (4) times the average monthly water charges or \$1,000, whichever is less. Similarly, each sewer credit is subject to a maximum of either four (4) times the average monthly sewer charges or \$1,000, whichever is less.*
- *Credits applied to billed water volumes may not lower the billed volume for any month of service below its most recently 12 month average or 6 CCF, whichever is higher.*

- *Credits applied to billed sewer volumes may not lower the billed volume for any month of service below its most recently designated winter average or six (6) CCF, whichever is higher.*
- *The customer must provide the City with written proof that the leak was fixed by plumbing repairs for a leak credit to be considered by the City.*

*In the event a proposed credit exceeds these conditions, approval of the credit will require the Finance Department to escalate the matter to the Utility Director or designated representative for approval within five (5) business days from the date of escalation. The Utility Director or designated representative may approve a water and sewer credits as follows:*

- *A maximum water credit of \$1,000 plus 50 percent of the billed water amount greater than \$1,000, not to exceed \$5,000 total credit for water.*
- *A maximum sewer credit of \$1,000 plus 50 percent of the billed sewer amount greater than \$1,000, not to exceed \$5,000 total credit for sewer.*

*If the proposed credit is denied by the Utility Director or designated representative, the decision may be appealed by the customer to the City Administrator or designated representative, within 10 business days from the date of the decision made by the Utility Director or designated representative.*

Because this policy involves the Utility Department and other City departments, further discussion is recommended with the Finance Department to evaluate requested procedural changes and collaborate on process controls that enhance quality control and maintain superior customer service.

### **3.3.7 Proposed Policy: Winter Averaging for Residential Sewer Bills**

Because sewer discharge is not typically directly metered, a reasonable basis for estimating contributed (or billed) sewer volumes must be made. Within the sewer utility industry, the most frequent methods for estimating contributed sewer volumes are either 100 percent of the actual water used or calculation of winter water used. A less common method includes using a fixed percentage of actual water use (for instance, 80 percent of water use in a given month equals estimated sewer volume). The National Association of Clean Water Agencies (NACWA) publishes a detailed survey of sewer utilities which examines, among many other variables, the types of approaches used to estimate single-family contributed sewer volumes. According to the most recent NACWA survey published during 2011, 50 percent of survey respondents indicated using 100 percent metered water as the sewer billing basis, while 45 percent reported using winter water as the basis. Other approaches, including a fixed percentage of water use, were responsible for the remaining 5 percent. For non-residential customers, water use is typically the basis for estimating contributed sewer volumes.

The Department presently bases residential contributed volume for the period of April through October on

each account's most recent winter billing period of November through March. Billed sewer volumes during months outside of the winter billing period are set at the lesser of the current month's water use or the most recent winter billing period. From a ratemaking point of view, a change in the definition of the winter billing period should be revenue neutral for the utility system. For instance, if the definition of the winter period is changed, and overall billable volume declines, rates will need to be adjusted upward to provide the same revenue stream to cover the same revenue requirements. Changes in the definition of the winter period are designed to be revenue neutral for the system; however individual accounts could pay more or less based on the definition and their respective billable flow. Therefore the equitability of cost recovery can be impacted when winter period definitions are adjusted. Because of this, care should be taken in defining the winter period to derive an equitable approach to determining contributed flow. Some utilities choose to evaluate changes in winter period definition during the conduct of rate studies.

Another policy consideration is the treatment of residential accounts with sprinkler systems that have only one meter serving both the single family home as well as the sprinkler system. In the event sprinkler usage occurs in November or March, such use could presumably be captured in the winter period calculation as it is currently defined. From a practical standpoint, sprinkler use is likely limited for most residential customers in November or March under normal climatic conditions, especially when compared against the hot and dry summer months. BMcD recommends treating all residential customers similarly in the determination of winter period use. Alternately, a customer with a sprinkler system could choose to have an additional meter installed at their expense to determine the quantity of water used specifically in their sprinkler system. Such quantities would not be subject to sewer charges.

BMcD is of the opinion that the current winter period determination as practiced by the Department is reasonable, and therefore BMcD does not recommend changes to the winter period definition in the proposed policy. However we recommend evaluating seasonal trends in monthly billed water volumes for the residential class during the upcoming rate study, and consider changes if warranted. While the Department may consider evaluating the adequacy of the winter period definition from time to time, BMcD does not recommend developing a formal policy setting parameters for the frequency of such analyses. The Department should initiate such an evaluation if a shift in customer usage characteristics is detected, or if it is determined a large percentage of requested billing adjustments are based on issues with the winter period definition. A policy is proposed to clarify how winter average should be applied to residential accounts. Such a policy may be structured as follows:

*Billable volumes for residential sewer customers during the April, May, June, July, August, September and October billing cycles will be determined based on the most recent evaluation of winter period water*

*consumption, defined as the average monthly water usage during the immediate preceding November, December, January, February and March billing cycles at the same service point. The monthly billable volume for each residential account will be established as either actual water usage or the winter average calculated usage, whichever is lower for the applicable month. If a residential sewer customer does not have a winter period water consumption, for example an account initiated after the start of the winter period, the billable volume during the months of April, May, June, July, August, September and October will be either actual water usage or 6 CCF whichever is lower.*

### **3.3.8 Proposed Policy: Service Charges**

Many water and sewer utilities assess service charges for ancillary services related to water or sewer services. These charges could include turn-on and turn-off fees, pipeline tapping fees, leak detection fees, meter re-read fees, and meter tampering fees. The intent of such charges is to match charges to the customers who use a particular service rather than collecting those costs through water and sewer rates.

The City of Fort Smith currently has service charges for reinstatement of service after a turn-off for nonpayment of a bill or for a returned check, reinstatement of service after normal business hours, setting a fire hydrant meter, processing pretreatment applications, industrial waste monitoring and inspection, collecting and analyzing samples, and reviewing and responding to accidental sewer discharges.

A policy is proposed to provide a schedule of service charges. A policy regarding service charges may be structured as follows:

*Service charges shall be developed and periodically reviewed at least every five (5) years using principles generally accepted in the water and sewer industries. The intent of these charges will be to reasonably assess charges to customers who use particular services related to water or sewer services. Charges will be listed in a table of service charges subject to Board approval and maintained by the Department.*

## **3.4 Reserve Policies**

### **3.4.1 Background**

In the Introduction Section of this report, it was noted that the development and adoption of financial policies will support the Department in the pursuit of its mission in several ways:

- Fulfill the mission with focus
  - Ensure sustained delivery of quality water and sewer services
  - Promote health, safety and quality of life

- Provide excellent service to customers
- Create value through operational excellence
- Ensure long-term regional success
- Provide liquidity to adequately fund operating and capital costs
- Mitigate the risk of financial stress caused by
  - Revenue shortfalls due to weather anomalies
  - Sudden increases in commodity costs
  - Cost of major equipment failure or fixed asset failure
  - Unexpected expenses due to civil disorder, catastrophes, or other emergencies
- Better position the utility to fund capital projects that are necessary to comply with regulatory requirements and liabilities associated with aging infrastructure and future system growth
- Assist in the compliance with existing bond covenants, and position the Department more favorably for ratings reviews associated with future debt issuance thereby lowering the cost of borrowing money
- Enhance the stability in user rates and charges by minimizing the severity of rate shock that can result if inherent risks noted above are realized

Establishing and maintaining appropriate reserves represents a fundamental component of prudent utility management, and all of the factors listed above are readily addressed through reserve management. The Department currently maintains several funds or groups of funds for utility use, as detailed in Table 3-2.

Of the funds noted in Table 3-2, the assets or balances available in all but the Water and Sewer Fund are restricted in the sense that the application of those funds may only be for the expressed purpose of the fund. After obligations for the other funds are satisfied, balances available in the Water and Sewer Fund are unrestricted, in the sense that they may be used for any lawful utility purpose. Obligations for other funds are defined in the existing bond covenants.

**Table 3-2: Existing Reserve Funds**

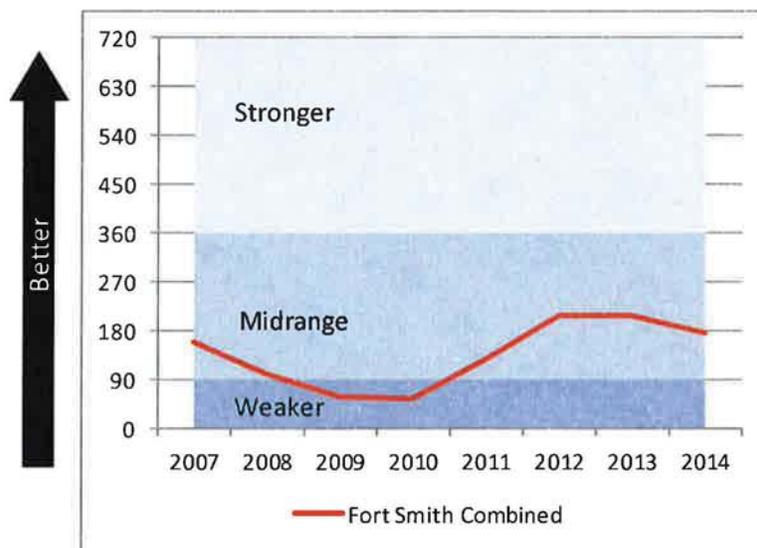
Fund	Purpose	Minimum Balance Required
Water and Sewer Fund (Revenue Fund)	Provide operating liquidity and mitigate risk	Target of 15% of O&M
Water and Sewer Revenue Bond Construction Fund(s)	Funding source for bond-financed CIP projects; holds deposits from applicable bond sales	None
Water and Sewer Revenue Bond Fund and Debt Service Reserve	Payment of principal, interest, and trustee fees, and Bond covenant requirement, lesser of (1) 10% bond proceeds; (2) max annual debt service; or (3) 125% annual average debt service.	Monthly transfers of 1/6 next interest installment, 1/12 principal installment, and trustee's fees
Water and Sewer Depreciation Fund	Bond covenant requirement to be used for asset replacement made necessary by depreciation of the system.	\$500,000

An examination of the Department's financial statements will provide insight into the overall reserve position and is a key indicator for bond rating agencies. Figure 3-6 depicts Fort Smith's days cash on hand in comparison to Fitch Ratings' stratification of weaker, midrange, and stronger performance. For this chart, days cash on hand is computed as:

$$\frac{[\text{Cash} + \text{Short Term Investments}]}{[\text{Total Operating Expenses} - \text{Depreciation}] \times 365 \text{ Days}} = \text{Days Cash On Hand}$$

Across all utility funds, Fort Smith held about 176 days of cash on hand at the end of 2014, declining from 2012 levels. As noted earlier in this report, most indicators for Fort Smith evaluated in this report have eroded since 2012. At 176 days, the reserve only falls within the midrange performance stratification. To achieve "stronger" performance from Fitch Ratings' perspective, total cash on hand would need to approximate one (1) year or more of operating expenses.

Figure 3-6: Fort Smith Utility Days Cash on Hand



Policy considerations for reserves are noted in the remainder of this section of the report. These policies are designed to provide a clear basis for reserve funds, their use of funds, and where applicable their recommended minimums.

### 3.4.2 Water and Sewer Fund (Revenue Fund)

In the process of setting Sewer rates following adoption of the Consent Decree, the Board considered an operating reserve target of about 73 days of operating expenses ( $0.20 * 365$  days). This revised target was an improvement over the prior 55 day / 15 percent target used previously by the Department. Operating reserves are frequently stated in terms of “days” of operating expenses as the primary purpose of operating reserves is to provide funding for ongoing operations and mitigate associated risk. Policies and practices vary widely across the industry, but the minimum operating reserve targets usually set are 60 to 90 days. As evidenced in Figure 3-6, from Fitch Ratings’ perspective, the municipal bond market prefers balances in excess of 90 days.

Municipal utilities, like any enterprise, require a certain amount of liquidity to operate efficiently. Working capital bridges the timing difference between revenues received and expenses paid. By the time a customer receives a bill, the operating costs associated with providing water and sewer service such as labor and commodity costs have already been incurred. If working capital is not sufficient, financial stability can deteriorate. From BMCD’s perspective, this is one reason why Fitch Ratings would consider operating reserve balances less than 90 days as weaker. Reserve levels must first be sufficient to reflect the timing differential between when the cost of providing service is incurred and when payment for this

service is ultimately received.

Additionally, municipal utilities are exposed to risks that can materially disrupt financial performance. In one extreme example, the Sewerage and Water Board of New Orleans lost over 30 percent of its revenue stream following Hurricane Katrina. While Fort Smith's hurricane risk is not comparable with New Orleans, tornado, earthquake, flooding, ice or wind storms, fires or other catastrophic disasters all represent potential risks. Risk is also present in the form of material equipment or other asset failure, sudden increases in costs associated with commodities such as natural gas or chemicals, and security, among others. Maintaining appropriate reserve balances in the Revenue Fund provides financial stability and can help mitigate the risk associated with unforeseen events.

BMcD recommends a minimum target balance of 120 days O&M, or approximately 33 percent of budgeted O&M costs to meet liquidity and provide a level of reserve for emergency purposes. The proposed 120 days minimum O&M reserve is based on an allotment of 90 days for working capital reserve (about 25 percent of O&M) plus 30 days emergency reserve (about an additional 8 percent). The working capital reserve target of 90 days is consistent with the reserve recommendation in the Efficiency Study. An overall target of 120 days further mitigates risk, and is more consistent with municipal bond market expectations demonstrated in Figure 3-6. In the event an unanticipated issue causes reserves to be drawn below the minimum 120-day balance, we recommend the Department commit to developing a plan to restore balances within three (3) budget years after the shortage was initially reported. With a minimum operating reserve of 120 days, the Department will be better positioned for favorable bond ratings and the financial stability of the system will increase over the long term. As a result, the increase days of cash may reduce the cost of borrowing future money.

The Department may also consider establishing a maximum threshold for reserves in the Water and Sewer Fund. It is proposed that a maximum reserve balance of 180 days be set to establish an overall range of 120 to 180 days of O&M for reserve purposes. In the event reserves exceed the 180 day balance, we recommend the Department develop a plan to restore balances to the targeted range within 3 budget years after the overage was initially reported.

A proposed reserve policy for the Water and Sewer Revenue Fund can be structured as follows:

*The Department will maintain a reserve balance of a minimum of 33 percent (120 days) to 49 percent (180 days) of the annual operation and maintenance expenses for liquidity and emergencies. Balances will be made available to fund ongoing operation and maintenance costs, and fund emergency operations or unforeseen events. If the end of year Water and Sewer Revenue Fund balance is calculated to be less*

*than 120 days or more than 180 days, the Utility Director will provide a financial plan to the Board to restore this fund balance to the targeted range within three (3) budget years after the variance was initially reported.*

### **3.4.3 Fleet and Equipment Replacement Reserve**

The Fleet and Equipment Replacement Reserve represents a new account established for the purpose of pooling available revenue transfers from the Water and Sewer Fund (see Section 3.2.2 Revenue-Financed Capital) as a funding source for fleet and mobile equipment replacement (1). Assets classifiable as fleet or mobile equipment within the Department's fixed asset records qualify for funding from the Fleet and Equipment Replacement Reserve. It is recommended that deposits to this reserve equal the Department's equipment depreciation and represent a portion of the revenues available for cash funding of equipment described in Section 3.2.2 of this report (and not be considered incremental to the transfers described in that policy statement). As such, a portion of revenue-financed capital will be explicitly directed to the shorter-lived assets of the Department, which are most effectively paid out of current revenues. No minimum balance is required for this reserve. If fleet and mobile equipment spending exceeds the balance available in this reserve, the Department will identify alternative funding sources as part of the annual financial planning and budget cycle. If the balance available in this reserve exceeds fleet and mobile equipment spending identified in the CIP, additional deposits to this reserve may be suspended until the balance in this reserve does not exceed fleet and mobile equipment spending identified in the CIP.

A proposed policy for the Fleet and Equipment Replacement Reserve can be structured as follows:

*The Department will establish and maintain a Fleet and Equipment Replacement Reserve (FERR) to be funded annually by a deposit equal to the prior year's equipment depreciation expense. Such deposits will be considered a portion of the transfers from the Revenue Fund to provide revenue funding for capital expenditures. Assets classifiable as fleet or mobile equipment are eligible for funding from the FERR. No minimum balance is required to be maintained in the FERR. If funding provided by the annual deposit exceeds the current year's fleet and mobile equipment purchases, available balances will carry forward to subsequent years. If funding provided by the annual deposit and any other available balance within the FERR is not sufficient to fully fund the current year's fleet and mobile equipment purchases, the Department will secure additional capital improvement funding consistent with current utility practice. If the balance available in this reserve exceeds fleet and mobile equipment spending identified in the CIP, additional deposits to this reserve may be suspended until the balance in this reserve does not exceed fleet and mobile equipment spending identified in the CIP.*

### 3.4.4 Water/Sewer Capital Improvement Fund

The capital funds represent a group of funds established for the purpose of funding capital improvement projects for the Department. Examples of these capital improvement projects include infrastructure related to water supply, treatment, and transmission for the water system, and sewer interceptor and treatment for the sewer system. Existing Bond Construction Funds are created to receive deposits from applicable bond sales and use those funds in accordance with bond covenants. It is anticipated that an additional capital reserve should be created called the Water/Sewer Capital Improvement Fund to receive annual transfers proposed in Section 3.2.2 from the Revenue Fund. Balances available in the Water/Sewer Capital Improvement Fund may be applied to any infrastructure, facility, and resource capital project approved as a part of the Capital Improvement Program (CIP). Annual revenue transfers will provide a funding source for the capital projects (1). No minimum balance is required for this fund. If infrastructure, facility, and resource capital improvement spending exceeds the balance available in the Water/Sewer Capital Improvement Fund, the Department will identify alternative funding sources as part of the annual financial planning and budget cycle. If the balance available in the Water/Sewer Capital Improvement Fund exceeds infrastructure, facility, and resource capital spending identified in the CIP, additional deposits to this fund may be suspended until the balance in this fund does not exceed infrastructure, facility, and resource capital spending identified in the CIP.

The amount of monies transferred to the Capital Improvement Fund may vary year to year based on decisions made by the Department and approved by the Board as part of the annual budgeting and CIP planning process. However, the total amount of monies available to fund capital projects in a given year among the transfers to the Water/Sewer Capital Improvement Fund, the Depreciation Fund, and the Fleet and Equipment Replacement Reserve shall at a minimum amount to the prior year's annual depreciation expense as proposed in Section 3.2.2.

A proposed policy for the Water/Sewer Capital Improvement Fund can be structured as follows:

*The Department will maintain reserves in the Water/Sewer Capital Improvement Fund to provide funding for the capital improvement program. An annual deposit from the Revenue Fund will be proposed by the Department and subject to Board approval that, together with deposits to the Depreciation Fund and Fleet and Equipment Replacement Reserve, amount to a minimum of the prior year's depreciation expense. All assets of the Department are eligible for funding from the Water/Sewer Capital Improvement Fund reserves. No minimum balance is required to be maintained in the Water/Sewer Capital Improvement Fund reserves. If available funding exceeds the current year's capital expenditures, available balances will carry forward for use during subsequent years. If balances are not sufficient to*

*fully fund the current year's capital expenditures, the Department will secure additional capital improvement funding consistent with current utility practice. If the balance available in the Water/Sewer Capital Improvement Fund exceeds infrastructure, facility, and resource capital spending identified in the CIP, additional deposits to this fund may be suspended until the balance in this fund does not exceed infrastructure, facility, and resource capital spending identified in the CIP.*

### **3.4.5 Depreciation Fund**

In accordance with existing bond covenants, the Department is required to maintain a balance of \$500,000 until the applicable bonds mature. As of December 31, 2014, the City has accumulated \$1,400,000 in the Water and Sewer Depreciation Fund for asset replacement. The 2015 Budget transfers an additional \$450,000 to the Depreciation Fund. With an annual depreciation amount of \$11,861,667 in 2014, a Depreciation Fund transfer of \$450,000 is sufficient to provide about 4 percent of annual depreciation funding for one year. The Efficiency Study recommended the utility pursue a policy to provide revenue funding for capital projects equal to the amount of value lost in annual depreciation.

The amount of monies transferred to the Depreciation Fund may vary year to year based on decisions made by the Department and approved by the Board as part of the annual budgeting and capital planning process. However, the total amount of monies available to fund capital projects in a given year among the transfers to the Water/Sewer Capital Improvement Fund, the Depreciation Fund, and the Fleet and Equipment Replacement Reserve shall at a minimum amount to the prior year's annual depreciation expense as proposed in Section 3.2.2. If the balance available in the Depreciation Fund exceeds capital spending identified in the CIP, additional deposits to this fund may be suspended until the balance in this fund does not exceed capital spending identified in the CIP.

No minimum balance is required for this fund. Projects funded by balances in the Depreciation Fund must be renewal and replacement projects that have been identified and approved within the CIP. Beyond the minimum bond covenant requirement of \$500,000, no minimum balance is required for this fund. If capital improvement spending for assets exceeds the balance available in the fund, the Department will identify alternative funding sources as part of the annual financial planning and budget cycle.

A proposed policy for the Depreciation Fund can be structured as follows:

*The Department will maintain reserves in the Depreciation Fund to fulfill bond covenants and to provide funding for investment in fixed assets. An annual deposit from the Revenue Fund will be proposed by the Department and subject to Board approval that, together with deposits to the Water/Sewer Capital Improvement Fund and Fleet and Equipment Replacement Reserve, amount to a minimum of the prior*

year's depreciation expense. No minimum balance is required to be maintained in the Depreciation Fund in excess of that fulfilling the bond requirement. If balances are not sufficient to fully fund the current year's capital expenditures, the Department will secure additional capital improvement funding consistent with current utility practice. If the balance available in the Depreciation Fund exceeds capital spending as identified in the CIP, additional deposits to this fund may be suspended until the balance in this fund does not exceed capital spending identified in the CIP.

**3.4.6 Summary of Reserve Funds and Policy Changes**

Table 3-3 summarizes the reserve funds impacted by the recommendations in this report. The Revenue Fund is an existing fund with recommendations to increase the reserve level and to increase revenue financed capital. The Equipment Replacement and Capital Funds are new.

**Table 3-3: Summary of Recommended Funds with Policy Adjustments (1)**

Fund or Account	Purpose	Efficiency Study Recommendation	Proposed Balance Range	Required Deposits To/From
Water and Sewer Fund (Revenue Fund)	Provide operating liquidity and mitigate risk	25% or 90 Days of Current O&M	33% to 49% of O&M / 120 -180 Days	Minimum of prior year's depreciation to FERR, Capital Improvement Fund, and Depreciation Fund
Fleet and Equipment Replacement Reserve	Funding source for fleet and mobile equipment replacement	Annual Equipment Depreciation	No Minimum Requirement; Maximum as Approved by Board in CIP	Annual Equipment Depreciation(1) from Revenue Fund
Water/Sewer Capital Improvement Fund	Funding source for CIP	Annual Revenue Funded Capital Projects	No Minimum Requirement; Maximum as Approved by Board in CIP	Portion of prior year's annual depreciation from Revenue Fund
Water and Sewer Depreciation Fund	Bond covenant requirement and funding source for CIP asset replacement made necessary by depreciation of the system.	Annual Infrastructure Depreciation	\$500,000 Minimum; Maximum as Approved by Board in CIP	Portion of prior year's annual depreciation from Revenue Fund

Table 3-4 summarizes the existing reserve funds that are not impacted by the recommendations in this report.

**Table 3-4: Summary of Existing Reserve Funds with No Recommended Changes (1)**

Fund or Account	Purpose	Minimum Balance Requirement
Water and Sewer Revenue Bond Construction Fund(s)	Funding source for bond-financed CIP projects; holds deposits from applicable bond sales	None
Water and Sewer Revenue Bond Fund and Debt Reserve (Bond Fund)	Payment of principal, interest, and trustee fees. Bond covenant requirement, lesser of (1) 10% bond proceeds; (2) max annual debt service; or (3) 125% annual average debt service.	Monthly transfers of 1/6 next interest installment, 1/12 principal installment, and trustee's fees

## 4.0 REFERENCES

1. **HDR Engineering, Inc.** *City of Fort Smith Water and Sewer Operations Efficiency Study: Final Report*. Kansas City : HDR Engineering, Inc., 2013. pp. 99-101.
2. **Stephens Inc.** \$7,330,000 City of Fort Smith, Arkansas Water and Sewer Revenue Bonds Series 2005B. [Official Bond Statement]. Little Rock, Arkansas : s.n., December 1, 2005. p. 16.



Burns & McDonnell World Headquarters  
9400 Ward Parkway  
Kansas City, MO 64114  
Phone: 816-333-9400  
Fax: 816-333-3690  
[www.burnsmcd.com](http://www.burnsmcd.com)

**Burns & McDonnell: Making our clients successful for more than 100 years**



# Memo

To: Honorable Mayor & Members of the Board of Directors  
From: Jeff Dingman, Acting City Administrator  
Date: 4/8/2016  
Re: River Valley Sports Complex Project Update

---

On the agenda for the April 12, 2016 board study session will be an update on the River Valley Sports Complex project to construct a softball/baseball complex on City-owned property at Chaffee Crossing. Project developers Jake Files and Lee Webb will be in attendance to discuss the project's status with the Board and answer any questions.

The project was originally authorized in March, 2014 via Resolution No. R-20-14 and the city committed a maximum of \$1.6 million to the project. In May, 2015, the RVSC proposed a time extension for the project and modification of the project draw schedule, which was approved by the board via Resolution No. R-96-15, a copy of which is attached for your reference.

To date, the city has paid \$620,000 according to the draw schedule as set forth in the amended agreement.

The modified date of completion by the amended agreement was March 31, 2016. As that date has come to pass and the project is not yet complete, Mr. Webb and Mr. Files wish to provide the board with a status report on the project. Attached also find a brief update statement from Mr. Files, along with a few current pictures from the project.

While no action of the board is being requested, it would be appropriate for the board to acknowledge that the date of delivery has not been met, but that the project continues and there is still an expectation that the project will be completed. If the board so chooses to formalize a new date of delivery after discussion with the project developers, that is certainly appropriate.

Please contact me if you have additional questions regarding this agenda item.

RESOLUTION NO. R-96-15

A RESOLUTION AUTHORIZING THE MAYOR TO EXECUTE AN AMENDMENT AGREEMENT WITH THE RIVER VALLEY SPORTS COMPLEX ADJUSTING PERFORMANCE PAYMENT SCHEDULE AND THE DATE OF COMPLETION

WHEREAS, the City of Fort Smith and the River Valley Sports Complex (the "Seller") entered into an Agreement Regarding Construction and Purchase of River Valley Sports Complex for the development of a tournament quality eight-field sports complex on city-owned real property in the Chaffee Crossing area of Fort Smith, such Agreement being effective March 4, 2014 and authorized by Resolution No. R-20-14; and

WHEREAS, such Agreement sets forth specific performance milestones for the disbursement of a maximum of \$1.6 million from the City to the Seller, and sets a specific date for substantial completion of the project of June 10, 2015 with the project being ready for public use by July 1, 2015; and

WHEREAS, the City and the Seller have agreed to issue an Amendment Agreement in order to adjust the performance payment schedule and to establish a new date for completion.

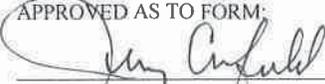
NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the City of Fort Smith, Arkansas that the Mayor is authorized to execute the attached Amendment Agreement with the River Valley Sports Complex for the purpose of adjusting the performance payment schedule and the establishment of a new completion date of March 31, 2016.

This Resolution adopted this 19 day of May, 2015.

  
Mayor

ATTEST:

Heather James  
acting City Clerk

APPROVED AS TO FORM:  
  
No submission required

R-96-15

AMENDMENT TO AGREEMENT REGARDING  
CONSTRUCTION AND PURCHASE OF  
RIVER VALLEY SPORTS COMPLEX

This Amendment Agreement made and entered into this 28 day of May, 2015 between the City of Fort Smith, Arkansas (the "City") and River Valley Sports Complex (the "Seller").

WHEREAS, the City and the Seller entered into the "Agreement Regarding Construction and Purchase of River Valley Sports Complex" for the development of a tournament quality eight-field sports complex on city-owned real property in the Chaffee Crossing area of Fort Smith, such Agreement being effective March 4, 2014 and authorized by Resolution No. R-20-14; and

WHEREAS, such Agreement sets forth specific performance milestones for the disbursement of a maximum of \$1.6 million from the City to the Seller, and sets a specific date for substantial completion of the project of June 10, 2015 with the project being ready for public use by July 1, 2015; and

WHEREAS, the City and the Seller have agreed to amend the original Agreement by modifying the disbursement milestones and declaring a new date for substantial completion of the project,

NOW, THEREFORE, the Parties agree to and authorize this Amendment Agreement, which modifies performance milestones for payment disbursements and the date of substantial completion identified in the March 4, 2014 "Agreement Regarding Construction and Purchase of River Valley Sports Complex" as follows:

Section 1. The first two performance milestones have already been met, and the City has paid the Seller a \$100,000 disbursement at the execution of the original Agreement as well as a \$100,000 disbursement for the submission and approval of construction plans for the project.

Section 2. Upon completion of earthwork for one four-field complex, the City shall make a payment to the Seller in the amount of \$125,000.

Section 3. Upon completion of earthwork for the second four-field complex, the City shall make a payment to the Seller in the amount of \$125,000.

Section 4. Upon completion of concrete slabs for both concession buildings, the City shall make a payment to the Seller in the amount of \$100,000.

Section 5. Upon getting the two concession buildings in the dry, including the completion of roof installation on both buildings, the City shall make a payment to the Seller in the amount of \$100,000.

Section 6. Upon completion of both concession buildings, as evidenced by obtaining a Temporary Certificate of Occupancy from the city's Building Official, the City shall make a payment to the Seller in the amount of \$50,000.

Section 7. Upon completion one four-field complex, including all playing surfaces and irrigation, the City shall make a payment to the Seller in the amount of \$150,000.

Section 8. Upon completion the second four-field complex, including all playing surfaces and irrigation, the City shall make a payment to the Seller in the amount of \$150,000.

Section 9. Upon completion of the surfaces for all common areas between and around the playing fields, the City shall make a payment to the Seller in the amount of \$25,000.

Section 10. Upon setting of all poles for field lighting, the City shall make a payment to the Seller in the amount of \$70,000.

Section 11. Upon completion of wiring and lights on one four-field complex, the City shall make a payment to the Seller in the amount of \$65,000.

Section 12. Upon completion of wiring and lights on the second four-field complex, the City shall make a payment to the Seller in the amount of \$65,000.

Section 13. Upon setting fences on the playing fields on one four-field complex, the City shall make a payment to the Seller in the amount of \$80,000.

Section 14. Upon setting fences on the playing fields on the second four-field complex, the City shall make a payment to the Seller in the amount of \$80,000.

Section 15. Upon completion of all other fencing, including any perimeter fencing, the City shall make a payment to the Seller in the amount of \$40,000.

Section 16. Upon grading and paving of parking lots, including striping, the City shall make a payment to the Seller in the amount of \$75,000.

Section 17. Upon completion of landscaping of parking islands, the City shall make a payment to the Seller in the amount of \$25,000.

Section 18. Upon completion, acceptance, and final approval by the City, the City shall make a payment to the Seller in the amount of \$75,000.

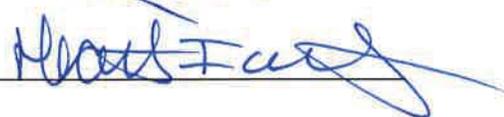
Section 19. Time. Seller agrees that the Sports Complex will be substantially completed by March 18, 2016. It is agreed that the Sports Complex will be fully developed and ready for use by March 31, 2016.

Section 20. The provisions herein are the only amendments to the Agreement Regarding Construction and Purchase of River Valley Sports Complex. All other provisions of said Agreement remain in full force and effect.

IN WITNESS WHEREOF, this Amendment Agreement is executed as of the date set forth above.

SELLER – RIVER VALLEY SPORTS COMPLEX

By: 

Attest: 

OWNER – CITY OF FORT SMITH, ARKANSAS

By:   
Mayor

Attest:   
City Clerk

## Dingman, Jeff

---

**From:** Jake Files  
**Sent:** Friday, April 08, 2016 9:37 AM  
**To:** Dingman, Jeff  
**Cc:** Lee Webb  
**Subject:** River Valley Sports Complex Pictures

Jeff-  
Here are some pictures from this morning at the Sports Complex for the Board Packet. Both buildings (Concession/Restroom) are blocked and columns are up (they will be bricked), and the trusses are in production now for the roofs, expect them in the next 10 days. Light bases are all set, and you can see in the pictures that the lights themselves are ready to be set on the bases. Fields are graded and ready for us to start bringing in final finish grade and topsoil/sod so we can irrigate and fence. We were slowed down some by the rain, as many were, but are back at it, and will have a revised timeline and updates for the board. Financials will be provided at the study session as well with details of donations and cost projections.  
Jake







# Memo

**To:** Jeff Dingman, Acting City Administrator  
**From:** Wally Bailey, Director of Development Services  
**Date:** March 15, 2016  
**Re:** North 9<sup>th</sup> Street Neighborhood Rezoning

City staff has been working on an analysis of the zoning in the vicinity of North 9<sup>th</sup> Street and North “H” Street. The property being reviewed is zoned Commercial Heavy (C-5) and Transitional (T) but has developed as a neighborhood with mostly single family homes. We’ve sent two letters and held a neighborhood meeting to assess the interest of the property owners in pursuing a neighborhood rezoning.

The area has developed as single family homes with the exception of three properties that are commercially developed, 13 vacant lots, and two duplex or multifamily developments. Following our outreach efforts, we have heard from 12 of the 44 private property owners. The majority of the 12 support the rezoning. One property owner is opposed and one would like his property changed to something that allows both residential and commercial. The City of Fort Smith owns two properties in the area (*Wilson Park and 800 North 9<sup>th</sup> –former Mallalieu Church property*). Attached is a map that graphically depicts information regarding contacts, city owned property, and zoning.

We have received comments from the owners of two commercially developed properties. One is a church (721 North 10<sup>th</sup> Street) and is in support of the zone change. The change will not affect their ability to continue the church at this location. The other commercially developed property owner is the Fraternal Order of Police (803 North 9<sup>th</sup> Street). We met with FOP representatives and discussed the concerns of the neighborhood and the potential land uses available with the present zoning of Commercial-5. They want to keep a commercial zoning but not necessarily all the land uses of the Commercial-5 zoning district. After further discussion and review, they have agreed to a Planned Zoning District (PZD) with a list of restricted land uses that should be neighborhood friendly. The PZD would be part of the neighborhood rezoning.

The Unified Development Ordinance specifies who can initiate a rezoning request. Eligible applicants include the Board of Directors, Planning Commission, property owner(s) or their agent, or any property owner within the area to be rezoned.

Originally we anticipated the neighborhood would initiate the rezoning request. However, neighborhood representatives have asked that the Board of Directors initiate the rezoning request. I recommend we include this item on a future study session for the Board's discussion. If the Board wants to initiate the neighborhood rezoning, we will prepare a Resolution for the Board's approval authorizing the staff to begin the rezoning process.

Please contact me if you have any questions on this subject.

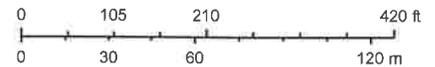
# Proposed 9th Street Rezoning



March 15, 2016

1:1,675

- Fort Smith City Limits
- Zoning
- Subdivisions



City owned property – Green

Property owners responding – Yellow

Property owners opposing rezoning – Red

- B. Development Plan.** A development plan will not be required for a residential neighborhood rezoning or a corrective rezoning. The Planning Commission may waive or defer the requirement for a development plan for other developments upon the applicant making the request to waive or defer the requirement and a public hearing.

### **27-330-2 Applicant**

---

An application for a conventional rezoning request may be initiated by the Board of Directors, Planning Commission, property owner(s) or the owner's agent, or upon application of any interested property owner within the area proposed to be rezoned.

### **27-330-3 Applicability**

---

A conventional zoning request should be used when the applicant is seeking a zone change that meets one of the basic zone district classifications.

### **27-330-4 Pre-Application Conference**

---

A pre-application conference is required pursuant to Section 27-302.

### **27-330-5 Submission Requirements**

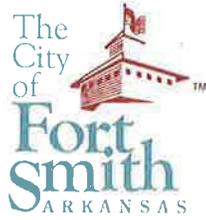
---

The Director shall prepare an application form which specifies the information to be submitted in support of a conventional rezoning application. This shall include, at a minimum:

- A.** Preliminary Development Plan (Section 27-331)
- B.** Application Fee
- C.** Technical studies pursuant to Section 27-303-2.
- D.** Other information as specified on the application form or as requested by the Director, other departments or agencies, the Planning Commission, or the Board of Directors.

### **27-330-6 Application and Review Procedures**

---



April 8, 2016

TO: Members of the Board of Directors  
Members of the Airport Commission

RE: Appointments:

The terms of Mr. Justin Voris and Mr. Larry Schiffner of the Airport Commission will expire June 30<sup>th</sup>, 2016. In accordance with Ordinance No. 2926 applications for these prospective vacancies are now being received. Applicants must be residents and registered voters in the City of Fort Smith.

Please submit applications to the city administrator's office no later than the close of business on May 17<sup>th</sup>, 2016. A list will be compiled for review by the Board of Directors. Applications are available on the City of Fort Smith website. Go to [www.fortsmithar.gov](http://www.fortsmithar.gov) and click on boards and commissions.

Sincerely,

A handwritten signature in blue ink that reads "Jeff Dingman".

Jeff Dingman  
Acting City Administrator

623 Garrison Avenue  
P.O. Box 1908  
Fort Smith, Arkansas 72902  
(479) 785-2801  
[www.fortsmithar.gov](http://www.fortsmithar.gov)

Printed on 100% Recycled Paper



April 8, 2016

TO: Members of the Board of Directors  
Members of the Fort Smith Municipal Employees Benevolent Fund Board of Advisors

RE: Appointments:

The terms of Mr. Jamie Hammond (Police Department) and Mr. Teddy Abbey (Fire Department) of the Fort Smith Municipal Employee Fund Board of Advisory will expire June 30<sup>th</sup>, 2016. In accordance with Ordinance No. 2926 applications for these prospective vacancies are now being received. Applicants must be residents and registered voters in the City of Fort Smith.

Please submit applications to the city administrator's office no later than the close of business on May 17<sup>th</sup>, 2016. A list will be compiled for review by the Board of Directors. Applications are available on the City of Fort Smith website. Go to [www.fortsmithar.gov](http://www.fortsmithar.gov) and click on boards and commissions.

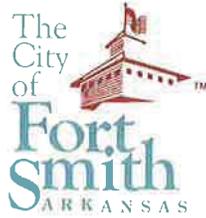
Sincerely,

A handwritten signature in blue ink that reads "Jeff Dingman". The signature is stylized and cursive.

Jeff Dingman  
Acting City Administrator

623 Garrison Avenue  
P.O. Box 1908  
Fort Smith, Arkansas 72902  
(479) 785-2801  
[www.fortsmithar.gov](http://www.fortsmithar.gov)

Printed on 100% Recycled Paper



April 8, 2016

TO: Members of the Board of Directors  
Members of the Community Development Advisory Committee

RE: Appointment:

The term of Ms. Nichelle Christian of the Community Development Advisory Committee will expire June 30<sup>th</sup>, 2016. In accordance with Ordinance No. 2926 applications for this prospective vacancy are now being received. Applicants must be residents and registered voters in the City of Fort Smith.

Please submit applications to the city administrator's office no later than the close of business on May 17<sup>th</sup>, 2016. A list will be compiled for review by the Board of Directors. Applications are available on the City of Fort Smith website. Go to [www.fortsmithar.gov](http://www.fortsmithar.gov) and click on boards and commissions.

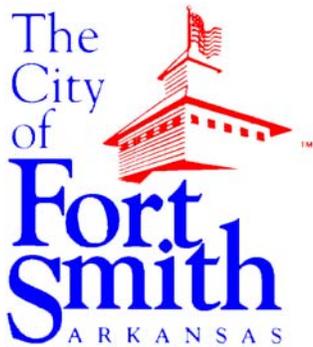
Sincerely,

A handwritten signature in blue ink that reads "Jeff Dingman".

Jeff Dingman  
Acting City Administrator

623 Garrison Avenue  
P.O. Box 1908  
Fort Smith, Arkansas 72902  
(479) 785-2801  
[www.fortsmithar.gov](http://www.fortsmithar.gov)

Printed on 100% Recycled Paper



Mayor – Sandy Sanders

Acting City Administrator – Jeff Dingman

City Clerk – Sherri Gard

**Board of Directors**

Ward 1 – Keith Lau

Ward 2 – Andre’ Good

Ward 3 – Mike Lorenz

Ward 4 – George Catsavis

At Large Position 5 – Tracy Pennartz

At Large Position 6 – Kevin Settle

At Large Position 7 – Don Hutchings

## **AGENDA ~ Summary**

### **Fort Smith Board of Directors STUDY SESSION**

**April 12, 2016 ~ 12:00 Noon  
Fort Smith Public Library  
3201 Rogers Avenue**

#### **CALL TO ORDER**

- All present, except Director Lorenz  
*Note: Director Settle left the study session at approximately 1:05 p.m.*
  - Mayor Sandy Sanders presiding
1. Review of Utility Department Financial Policies ~ *Discussed at the September 8, 2015 study session ~*  
The Board expressed concern with the debt service coverage ratio and concurred “real time” information is needed. Expenses within the Utility Department were also noted as a concern whereby the Board urged efforts be made to reduce such. No additional direction was specifically identified with regard to the subject policies; therefore, staff will proceed as originally directed.
  2. Review status of the River Valley Sports Complex  
Settle/Good placed a resolution granting a ninety (90) day extension on the April 19, 2016 regular meeting
  3. Discussion regarding a neighborhood rezoning in the vicinity of North 9<sup>th</sup> and North “H” Streets  
Due to concern of setting a precedent, a majority of the Board conveyed reluctance with the City initiating the subject rezoning action as requested by the residents, which is due in part to difficulty in obtaining the \$350 filing fee with no assurance the rezoning would be approved. The Board members present indicated their support of the rezoning; therefore, it was requested staff go back and talk to the residents about initiating the subject action.
  4. Review preliminary agenda for the April 19, 2016 regular meeting

#### **ADJOURN**

1:21 p.m.