

The Truth Hurts - February 20, 2018 Water Rate Special Election Facts

Rebuttal to the Rapid City Journal's 2/11/18 Hit Piece "Water rate claims full of holes"

We are your fellow Citizens/Voters/Ratepayers of Rapid City and our sole audience is our fellow Voters of Rapid City. This is the ONLY audience to which we are beholden. Our sole objective with regards to the 2018 Water Rate Special Election is to bring the FACTS to our fellow Voters to the best of our ability, and we have exactly ZERO incentive to promote anything but the FACTS since doing so would simply be counterproductive.

We are an ALL-VOLUNTEER effort of citizens who decided to petition Ordinance 6201 since we were gravely concerned with the long-term negative financial and quality of life ramifications of the 52% to 74% Water Rate increase on individuals and families. NONE of the leadership of this effort has any employment connections (either directly or indirectly) with the City of Rapid City and hence we make our argument with an unvarnished lens. We simply felt it was our duty as citizens to give the Rapid City VOTERS the ability to have the FINAL say on this issue which simply would not happen without the petition effort. We respect the sanctity of the Rapid City voter's FINAL decision on this issue and we call on the Rapid City Council to do the same.

We wish to specifically address the RCJ article "Water rate claims full of holes" dated 2/11/18. We will address the article bullet point by bullet point.

Highest rates in South Dakota

The statements "Highest residential water rates in South Dakota" and "52%-74% City Water Increase" are both unquestionably TRUE statements as both are directly from the 2018 City of Rapid City Fee Schedule under Resolution No. 2017-088. Both a graphic and a PDF of the Fee Schedule is found on reformrapidcity.com. In the 2/11/18 RCJ Article, misleading or intentionally false statements were made by Samuel Blackstone in the THREE paragraphs directly under the "Highest rates in South Dakota" subtitle. Mr. Blackstone used the 2017 RC Water Rate of **\$3.11/unit** (0-10 units) for his comparison with other cities rather than the 2022 RC Water Rate that the Rapid City Council passed under Ordinance 6201 on 11/6/17. The Rapid City Council passed a 2022 water rate of **\$4.73/unit** (0-10 units) which surpasses the highest rate noted of Hill City at \$4.47/unit. **So yes, under Ordinance 6201, the Rapid City Water system has the highest water residential water rates in South Dakota** and exceeds the compared six city average of \$3.25/unit by 45.5%.

We note that in the fourth and fifth paragraph of this same section, Mr. Blackstone used **\$4.73/unit** in the calculation for the impact on the average single family residence which resulted in **a water rate increase of 52% which is precisely in the 52% to 74% range of increase** we noted both on the postcard and reformrapidcity.com. Further, reformrapidcity.com gives the information on how to perform the water rate calculation whereas the RCJ article does not. **Note that higher than "average" residential water users will experience an increase in water rates greater than 52%.**

Finally note that in the 11/7/17 RCJ article "Showdown looming over city fee increases" and the 12/20/17 RCJ article "Water rate hike going to public vote", Mr. Blackstone stated, "...an average Rapid City household's water bill would rise by **43 percent** over the next five years." Bottom line, Mr. Blackstone has reported the Water rate percentage increase and/or unit costs under Ordinance 6201 wrong three out of four times for a failing grade of 25%. Compare this to the postcard and reformrapidcity.com which stated both the Water rate percentage increase and unit costs under Ordinance 6201 **CORRECT THE FIRST AND ONLY TIME** for a grade of 100%. Next time, focus only on the facts Mr. Blackstone and perhaps one day you might earn a passing grade!

Blank checks for future rates hikes

We stand by the statement "Blank Checks for future water rate hikes" as **passing Resolutions is a far lower threshold than passing Ordinances and makes FUTURE Water Rate Hikes more likely**. In fact, Ordinance 6201 moved Water Rates and Fees into the City of Rapid City Fee Schedule and voters could reasonably expect ANNUAL Water Rates and Fees increases without rejection of Ordinance 6201 since every time the Rapid City Council votes on the City of Rapid City Fee Schedule they would have the opportunity to increase Water Rates and Fees.

Diverting water fund cash to other projects

This one is more nuanced but we stand by our statement “diverting water fund cash to other projects.” Upon passage of Ordinance 6209 on 11/20/17 we asked several Council Members, “What was the purpose of the \$1,250,000 transfer from the Water Enterprise fund to the Utility Facilities Governmental fund?” Their answer, “it was for the West Memorial Park Improvement project.” This made sense to us since it lined up with the estimated construction cost of \$1,181,644 for the West Memorial Park Improvement project. In a 2/8/18 KOTA interview, Allender stated “the money was transferred by ordinance in public meetings to repay the Utility Support Fund for a loan to buy water storage capacity in Pactola Reservoir. The group is wrong, the city did not break the law. The city made an expenditure in line with the Water Enterprise Fund.”

Our group did an audit of the known facts of the Ordinance 6209 situation on 2/9/18 and here were our conclusions:

- (1) The transfer of Cash from the Water Enterprise fund to the Utility Facilities Governmental fund was ENTIRELY UNDISCLOSED in the Meeting Agendas, Meeting Minutes, and Videos from the two Council Meetings as well as the Public Works Committee Meeting. Shouldn't the purpose of moving \$1,250,000 between accounts be disclosed so that the City Council Members know WHAT they are voting on BEFORE they vote and the PUBLIC is kept informed? City of Rapid City transparency in this case was exactly zero.
- (2) Why aren't legitimate expenses of the Water Enterprise fund paid DIRECTLY from the Water Enterprise fund? Moving large sums of money from account to account to account seems problematic at best.
- (3) The Ordinance 6209 transfer wasn't an isolated incident. There appears to be significant transfers of money over time between the Water Enterprise fund and other Enterprise funds, and between the Water Enterprise fund and the Governmental funds which makes analysis of the true financial condition of the Water Enterprise fund much more difficult. We recommend an independent forensic accounting audit for the last ten years be conducted immediately on the Water Enterprise fund to get to the root of the problem.

A final fact check

In the 2/11/18 RCJ Article, misleading statements were made by Samuel Blackstone in the third, fourth, and fifth paragraphs directly under the “A final fact check” subtitle.

The third paragraph states, “Sumption said if someone wants to make real claims against the city’s finances, they should look at its cash flow statements, not its cash balance sheet.” Page 120 of the 2014 City of Rapid City Comprehensive Annual Financial Report is utilized since it acts a de facto Income Statement not a Balance Sheet. The Income Statement is the best way to analyze whether the Rate Structure (Program Revenues) is appropriate relative to the Program Expenses. The proof that this approach is valid is the Income Statement shows \$5,710,329 for 2015 Operating Income and \$5,963,750 for 2014 Operating Income whereas the Cash Flow Statement shows \$5,970,943 for 2015 Operating Income and \$5,949,331 for 2014 Operating Income.

As stated in the article, the 2004-2015 Average Annual Operating Income of the Water Enterprise fund is \$4,467,055 per year. We concur with Sumption that this does NOT include expenses for infrastructure improvements, capital outlays, and debt repayments. The bottom line is according to the Income Statement analysis approach, the Water Enterprise fund can handle up to \$4,467,055 per year in Infrastructure improvements/capital outlays (water projects) without requiring issuance of debt or taking into account debt service.

TABLE 1: Water Enterprise fund outstanding Bonds

BOND A: \$6.0 million Drinking Water Loan SRF2 of 2009, Interest Rate 3.0%, 2031 Maturity Date

BOND B: \$45.1 million Water Revenue Bonds of 2009, Interest Rate 4% to 5%, 5 Year Interest Only Bond (NOV 2009 to NOV 2014), NOV 2039 Maturity Date

BOND C: \$46.03 million Water Revenue Bonds of 2015, Interest Rate 3.625% to 5%, 5 Year Interest Only Bond (MAY 2015 to MAY 2020), MAY 2045 Maturity Date

Our financial statement analysis assumed that BOND B and BOND C would be used in conjunction with each other in order to pay for the replacement Mountain View Water Treatment Plant (Using estimated construction costs from 2009), so that **no additional Bonds would need to be issued by the Water Enterprise fund for the foreseeable future.** What Sumption is stating is that BOND B is being retired by issuing BOND C and retirement of BOND B occurs on 11/1/2019 (Ideally, BOND B would be retired immediately but perhaps that is in violation to the BOND B Bond Indenture). Hence, what Sumption is stating that when the replacement Mountain View Water Treatment Plant is designed/constructed an additional BOND D of some amount will be needed to cover those construction cost rather than using the proceeds from BOND B residual remaining (after Jackson Springs WTP) and the BOND C proceeds. We note that long-term interest rates have increased considerably since November 2016 and hence Sumption's BOND D will likely have a higher interest rate than the early retired BOND B.

Page 42 of the 2014 City of Rapid City Comprehensive Annual Financial Report indicates the cost of Jackson Springs WTP Construction as \$22.3 million. Audited Financial Statement costs should include ALL costs of a project including Design, Construction, etc. This is a deficiency in the City's Financial Report which should be rectified.

The PDF document titled Upcoming City Water Infrastructure Projects (2018-2022) provided to the RCJ directly from the City is useful to the voters, but the following analysis should be applied. The \$18,500,000 cost in 2018-2022 water projects equates to \$3,700,000 per year which is below the \$4,467,055 per year in historical operating cash flow. The Street reconstruction projects with major water components is deceptive as it simply doesn't delineate the portion of the total construction cost which would be tied to the Water Enterprise fund. These projects have four major components: Roadway, Stormwater, Sewer, and Water. Water only costs are generally a very small portion of the total construction cost of a roadway. Why isn't the exact Water percentage of these projects delineated in the document? Also, does the City of Rapid City conduct mean time between failure (MTBF) analysis in all its underground piping for the Rapid City Water system? It is industry standard practice that the road surface is replaced multiple times before the underground piping is replaced since the piping has a much longer MTBF than the roadway surface. It is our understanding that this industry standard practice is not being followed in Rapid City. What is the technical justification for this?

Why did our group use 2014 and 2015 City of Rapid City Comprehensive Annual Financial Report in our Financial Statement analysis? From the 11/1/17 Legal and Finance Committee Minutes under LF110117-16 it is revealed that only the initial 2015 Financial Statement Audit has been completed at this time and that the 2016 Financial Statement Audit has yet to be completed. Far from being transparent, in early 2018, the 2015 City of Rapid City Comprehensive Annual Financial Report is the latest financial information publically available.

Material Omissions of Facts

In the RCJ 2/11/18 article, take note that the City of Rapid City officials did NOT mention or address:

- (1) What is the City's estimated cost of the replacement Mountain View Water Treatment Plant (WTP)? Here we are in February 2018 and the discussion regarding the Enterprise Water fund has been on-going since October 2017 and the City of Rapid City still has not publically stated the estimated cost of the replacement Mountain View Water Treatment Plant? Why isn't this cost included in the PDF document titled Upcoming City Water Infrastructure Projects (2018-2022)?
- (2) Bullet points (4a) Freddy the Freeloader and (5) Outside the Rapid City Limits from the reformrapidcity.com website were not addressed. Apparently, they couldn't come up with any creatively false claims to refute these two facts.

Given all the above, there are plenty of adjectives to describe the City of Rapid City. Transparent is certainly not one of them. The Truth isn't boring. In fact, the Truth is stranger than fiction!! Please visit reformrapidcity.com to learn of the FACTS of the 2018 Water Rate Special Election and please vote on February 20, 2018. Thank you!

Upcoming city water infrastructure projects (2018-2022)

Water-only projects (2018-2022)

1. Selador Ranch Reservoir construction (2018): **\$7.5 million**
2. Pinelawn Reservoir construction (2021): **\$4.9 million**
3. Well #13 well house construction (2019): **\$2.05 million**
4. St. Martins Booster Station upgrade (2022): **\$2 million**
5. Girl Scout Gallery Building reconstruction (2019): **\$1.825 million** reconstruct the pump and chlorine building into a single building and upgrade electrical, major water source supply for city

Total estimated cost: **\$18.3 million**

Street reconstruction projects with major water components* (2018-2022)

1. East North St. reconstruction (2018): **\$8.8 million**
2. 38th Street reconstruction (2018): **\$3.6 million**
3. Sturgis Road utility rehabilitation (2018): **\$2.7 million**
4. Dakota Drive water main reconstruction (2020): **\$1.7 million**
5. Robbinsdale Phase 5 (2022): **\$1.5 million**
6. West Chicago Street utilities (2018): **\$1.4 million**
7. Omaha Street (Sheffer to 12th Street) (2019): **\$824,000**

Total estimated cost: **\$20.5 million**

* Cost estimates are for the total project, of which the water improvements are a part.

Source: Rapid City Capital Improvement Plan (2017-2022)