

Washington County Service Authority Board of Commissioners
May 5, 2014 Public Hearing Minutes

The Washington County Service Authority Board of Commissioners' Public Hearing was called to order by the Chairman at 6:03 PM.

ROLL CALL

Commissioners Present:

Mr. Joe Chase, Chairman
Mr. Kenneth Taylor, Vice Chairman
Mr. Devere Hutchinson
Mr. Jim McCall
Mr. Dwain Miller

Commissioners Absent:

Mr. Mark Nelson
Mr. Frank Stephon, IV

Staff Present:

Robbie Cornett, General Manager
Carol Ann Shaffer, Administrative Assistant

Also Present:

Mrs. Dawn Figueiras, General Counsel

Consultants Present:

Mr. Bart Kreps, Senior Consultant of Raftelis Financial Consultants, Inc.

3. Approval of the Agenda

Mr. Taylor motioned to approve the Agenda. Mr. Taylor's motion was seconded by Mr. Hutchinson and approved by a 5-0-0-2 vote of the Board.

4. Rates, Fee and Charge Public Hearing

Mr. Chase introduced Mr. Bart Kreps, Senior Consultant of Raftelis Financial Consultants, Inc.

Mr. Kreps said Raftelis was engaged by WCSA to conduct a water and wastewater rate and financial plan study and wanted to provide some prospective on WCSA and what they do.

Mr. Kreps discussed the value of water saying what WCSA does is critical for public health. Water treatment services and wastewater treatment services have done more to protect public health in this country than anything else. The wastewater treatment plant is probably has the biggest positive environmental in this country, it is tremendous. The last thing WCSA does is take part in economic development. It would be difficult to support growth in the county without water and sewer services, stated Mr. Kreps then discussed the 5 step rate setting process. The first step is to identify financial and pricing objectives. This is the building block of the rate structure process which helps determine what is most important to identify revenue requirements and demand projections; help develop the financial the financial plan or road map, allowing us to understand where the utility is now; as it pertains to costs; and laying out that path for the future. The third step is to allocate costs so we can design our rates and see if rates are in line with our most important pricing objectives, which is step four in the process. The final step back and evaluate to see the rates are in alignment with the financial and pricing objectives in Step 1.

Throughout this process, the Board felt it was important to include the community in this process to gain their prospective and input, said Mr. Kreps. To do this, we developed a Citizens Advisory Task Force (CATF) made up of nine individuals representing a large cross section of the community. The CATF members did a great job and they had great insight and commentary and that was incorporated in the study.

One thing Mr. Kreps needed to accomplish was to learn what pricing

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objectives was important to the Board and the CATF.

The pricing objectives most important to the Board were:

- Affordability
- Revenue Stability
- Rate Stability
- Economic Development

Mr. Kreps said it was interesting to see the top pricing objectives for the CATF was almost the same as the Board's.

Those objectives were:

- Affordability
- Simple to Understand and Update
- Economic Development
- Revenue Stability

Mr. Kreps then discussed a chart that showed the trends in operating expenses, cash funded capital reserves and debt services saying these costs increase due to inflationary pressures. The chart shows revenues under the existing rates will not be enough to cover these expenses over the next 5 years. The chart also shows revenues under the proposed rates; at a 5.25% annual rate increase, will be enough to cover all these costs. Mr. Kreps said system growth has been very slow due to strained economic systems, locally, regionally and nationally. Though that appears to subside somewhat, said Mr. Kreps, we cannot assume, from a forecasting prospective, there will be a lot of growth in the system. In order to be where we need to be financially, we need a 5.25% annual rate increase across the Board said Mr. Kreps.

Mr. Kreps said the sewer utility was a bit different. The water utility is a mature utility servicing about 22,000 customers while the sewer utility is a relatively new utility, serving about 2,000 customers. Since the sewer utility is a newer utility,

we do expect some growth, explained Mr. Kreps, but not enough to meet projected revenue requirements so we propose a 3.0 % annual rate increase that is more of an inflationary adjustment.

Mr. Kreps went on to discuss the debt service. In developing the financial plan, there are a couple of things we must look into carefully, said Mr. Kreps. One of those things is debt service coverage. When the Authority borrows money for projects and must enter covenant with bond holders. Net revenues must be at least 15% above WCSA's net revenues by covenant or you are in default of covenants. For this reason, Raftelis recommends the debt service coverage be between 1.25% and 1.50%, to allow some cushion and not fall below the 1.15% ratio required for bond covenants. Mr. Kreps then discussed reserves as they are very important to the Authority. Current reserve balances are adequate but not excessive. The forecast re-builds reserves to the recommended reserves equal to 250 to 300 days of operating costs.

Mr. Kreps said Raftelis recommended the Board adopt 3 specific reserve policies:

- A minimum operating reserve of 120 days of operating and maintenance costs;
- A reserve set for repair, replacement and renewals equal to the target of annual depreciation;
- And a reserve set for rate stabilization of 10% of annual rate revenue.

Mr. Kreps referred to a slide that showed WCSA's current rate structure. The minimum fixed charge for a customer with a ¾ inch line is \$20.51 and increases based on meter size. There is also a class based volumetric rate with residential and non-residential classifications. Residential rates increase

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with the more water that is used. The upfront charges are the system fee and tap fee. The system fee is designed to recover capacity related loss and the tap fee relates to the physical connection to the system. There are also volumetric rates for residential, commercial or industrial customers. The volumetric rates for commercial and industrial customers are higher than those for residential customers. This is because it costs more to treat the stronger commercial and industrial wastewater. The system fee and tap fee are similar to the water utility.

Mr. Kreps then discussed the proposed water rate structure. It is designed to reduce upfront water charges (a buy-in approach and policy adjustment) and increase the minimum charge at a lower rate (2.5% annually) than the volumetric rates (9.0% annually).

This means a small residential customer (1,000 gallons per month) will pay an additional \$.81 cents per month in 2015, increasing to \$.97 per month in 2019. A typical customer that uses about 5,000 gallons of water per month will see an increase of \$2.28 per month in 2015 and \$2.98 per month in 2019.

Mr. Kreps then discussed a slide that compares WCSA's rates to other utilities both locally and nationally. The slide showed WCSA rates were not the cheapest nor were they the most expensive rates shown on the slide, but fell in the middle. He also said it was hard to compare utilities since each system was so different.

Mr. Kreps then compared the cost of WCSA water to the cost of a bottle of water. Assuming a gallon of bottled water is \$1.00, it would cost \$4,000 to purchase 4,000 gallons of bottled water. WCSA delivers safe drinking water

directly to your tap at a unit cost of \$3.31 per gallon. That means, WCSA customers pay less than one penny per gallon for water. That is an incredible deal, said Mr. Kreps.

Mr. Kreps then discussed the proposed sewer rate structure saying the sewer utility was different because it was newer but some of the same water principals hold true to the sewer. The proposed sewer rate structure will reduce the upfront charges (a buy-in approach) and increase the minimum charge at a lower rate (1.0%) than the volumetric rates (4.5%). This would reduce the system fee to \$2,485 and the tap fee to \$750.00. The tap fee is again based on the cost of the physical connection to the system, stated Mr. Kreps.

The effect the proposed rate structure has on the 1,000 gallon per month user is an additional \$ 0.59 per month in 2015 and \$0.67 per month in 2019. A typical user of 5,000 gallons per month will pay an additional \$1.83 per month in 2015 and \$2.13 in 2019.

Mr. Kreps compared average monthly expenses. His comparison showed the average water bill was the least expensive of the utility. Water is an essential utility that you could not live without and fell on the lowest end of the graph, he explained.

There were some miscellaneous fees Raftelis recommended the Board discontinue; the water and wastewater line inspection fee and the plat review fee. Costs pools are difficult to identify and labor costs are inconsistent for these fees, explained Mr. Kreps. Revenue from these fees is very low and the fees do not meet the typical criteria for establishing ancillary charges.

In his conclusion, Mr. Kreps offered to answer questions.

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Mr. Chase thanked Mr. Kreps for the presentation.

Mr. Chase also wanted to recognize all those who served on the Citizens Advisory Task Force:

Randy Pennington – Board of Supervisors

Randy Woodward – Industrial Development Authority

George Price – Resident

Phil Blevins – Agriculture

Bob Lester – Industry

John Garrett – Senior Citizens

David Wall – Local Development

Gary Dutton – Finance

Bert Mullins – Engineering

Mr. Chase said the Board was very appreciative of their time and efforts in working with WCSA and Raftelis to come up with the recommendations.

The Chairman, Mr. Chase, Opened the Public Hearing for public comment asking if anyone was present to speak in favor of the proposed rates, fees and charges. Mr. Chase asked that comments be limited to 5 minutes or less.

George Noll, a property owner in Mendota Virginia, was the first to speak. Mr. Noll said his well went bad in February 2014 and doesn't understand why that happened, since his water has been fine since 1994. Mr. Noll said across the road from his home was a ¾ inch water line and he paid \$4,560 to connect to that line. Mr. Noll asked to be grandfathered in and be able to pay the new lower connection fee once approved.

The next person to address the Board was Randy Pennington who served on the Citizens Advisory Task Force and on

another committee with Mr. Chase and Mr. Stephon. "I know there has been a lot of work, a lot of study you have put into this rate structure and I appreciate your time and your efforts", stated Mr. Pennington. Mr. Pennington believes the proposed rate structure will be very important to Washington County for residential and commercial growth because the reduced tap fees make it more affordable and for the citizens of Washington County. Mr. Pennington said, if and when the economy turns around, it (the proposed reduced connection fees) will be a vital part of economic growth.

Junior Gobble of Alverado was the next to speak. Mr. Gobble said he has known Jim McCall for several years and has discussed water fees with him for some time. Mr. Gobble said he appreciated the Board and commended them for what they were doing (in reducing connection fees). Mr. Gobble said he had 5 grandchildren who were "getting to the age they wanted to get married and build houses and put doublewides in." At, \$4,500 each, that would be a lot of water meters, Mr. Gobble stated. He commended the WCSA Board for what they were doing and thanked them for their service.

Sylvia Whited was the next to speak. In 2012, she and her husband learned he had cancer and "we found out we needed to get off well water and get a tap", she stated. Mrs. Whited said she paid \$4,560 in November of 2012 "only because we were told the tap was going up." At that time, Mrs. Whited said they were not able to run the line connecting their home to the system. Due to Mr. Whited's illness, he could not be near

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the bacteria found in dirt. Mrs. Whited said they were able to paid the water connection fee of \$40.00 about 2 weeks ago. Mrs. Whited asked that she also be "grandfathered in because our money has been sitting up there and we have not used anything; if that would be possible."

Then Mr. Garnet Harold addressed the Board. He asked "what is the tap fee for water hookup at this time, how much is it?"

Mr. Chase asked Mr. Harold if his question was the cost of the proposed tap fee or the cost of the current tap fee.

Mr. Harold asked what the tap fee was "right now."

Mr. Chase said \$4,560.

"Do you intend to reduce that tap fee", asked Mr. Harold.

Mr. Chase said yes; that is what this meeting is about.

Mr. Harold asked what the proposed connection fee was.

Mr. Chase said \$1,628.

Mr. Harold said he "certainly hope that would get passed, because us old folks can't afford a \$4,500 tap fee".

The next person to address the Board was Jim Moran of Rich Valley, Virginia. Mr. Moran said "this is just a proposal and a thought I have had." Mr. Moran said he understood from what he heard WCSA had difficulty getting people to connect to the system. Those with existing water systems look at the tap fee and say, if we have a good water system why would we tap in, stated Mr. Moran. "Then there are people on new development. What I am thinking is you need to categorize your fees between existing structures, houses built now and new development", stated Mr. Moran.

Mr. Moran felt even a \$900 connection fee is too much to get people to connect. You want that monthly fee of \$40.00 a month; it adds up over time, stated Mr. Moran. "You are stopping these people from joining the system and you are not looking at that \$40.00 is going to cover all this initial costs", stated Mr. Moran. Mr. Moran suggested charging a connection fee of \$100 or \$200 for existing homes. Mr. Moran felt those with new development had a decision to make. If they are on an existing water line, "they can say; with this \$4,500, \$40 per month; I can get a well drilled. A well now costs \$5,000; \$10,000; so they will be inclined to pay the \$3,000 or \$4,000 tap fee" stated Mr. Moran.

Mr. Moran thought existing residents should not pay for new development. Mr. Moran said he should not subsidize for a new housing; he shouldn't build a new road to it. He said developers liked that because developers want development to be cheap so they can develop more. In Mr. Moran said "it puts it on the backs of existing people; people who now live in this county; to pay for other new people to come in who, generally speaking, can afford to pay that tap fee." In Mr. Moran's opinion, WCSA should drop the connection fee so more existing residents would connect to the system and collect the monthly fee.

Andy Copenhaver of Meadowview, Virginia then addressed the Board. Mr. Copenhaver said he was not a big water user but every year his water bill went up. Mr. Copenhaver said every year, you (the Board) spends a lot of time trying to redistribute the costs. Mr. Copenhaver said he was interested to hear to lower costs. Mr. Copenhaver said in looking over past meetings, he saw the average

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person at WCSA made \$45,000 per year but the average person at the county makes \$30,000. Mr. Copenhaver said he "would like to see, before the next rate increase, is how to cut costs." Mr. Copenhaver said he did not understand a lot of the capital costs. "During the big drought four or five year ago, I don't remember any telling us we needed to conserve water", Mr. Copenhaver stated. "Now we have built a brand new plant, a state of the art plant...that is going to triple our water capacity' he said. Mr. Copenhaver asked why we needed all this capacity. Mr. Copenhaver said you are fixing lines so there won't be as many leaks and will be doing a major expansion of Mill Creek. Mr. Copenhaver said WCSA keeps building capacity when you already have plenty of water.

He then suggested stopping because there was enough. He said he was not against expansion but felt WCSA had enough water. Mr. Copenhaver said he felt he was subsidizing growth that was not needed. Mr. Copenhaver said he agreed with Mr. Moran and did not feel current customers should have to subsidize new customers. He thanked the Board for their time.

Next to address the Board was Mr. McConnell asking how many meters were purchased at the higher costs and how many were purchased prior to the higher costs annually.

Mr. Chase said he did not know what the percentage was.

Mr. McConnell said he was not opposed to the user fee cost because everything costs a little more every day and felt it was reasonable. Mr. McConnell said when a new subdivision is built, the builder pays for the infrastructure; the customer may pay the tap fee. WCSA

does not pay to lay the line in a subdivision. That cost is borne by the developer, explained Mr. McConnell.

The Chairman asked if there is anyone present to speak in opposition of the proposed rates, fees and charges. No one spoke.

The Chairman Closed the Public Hearing.

Mr. Chase then asked if the Board would like to take action on the proposed rates and fees.

Mr. McCall asked Mr. Cornett, how long it would take for the proposed rates to go into effect. He asked how much lead time the office would need to make the new rates affective. .

Mr. Cornett said the office would be prepared to make the monthly user fee increases affective in June. The May consumption period has already begun. To get the billing system set up and ready, the earliest we could do that would be for June consumption Mr. Cornett explained.

Mr. Hutchinson said if we wait and evaluate what we heard here tonight until the May Board meeting and approved the proposal, what would be the time frame to start the new fees.

Mr. Cornett said the connection fees can be made effective when the Board desires; they can go into effect the next business day or in conjunction with our fiscal year on July 1st. If action is taken at the May Board meeting, from a billing software standpoint, connection fees could be effective for the June consumption.

Mr. McCall motioned to approve the proposed rates, fees and charges and the

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connection fee of \$1,628 go into effect on May 6, 2014 at 8:00 am and the monthly usage fee go into effect for June consumption. The motion was seconded by Mr. Taylor and unanimously approved with a 5-0-0-2 Board vote.

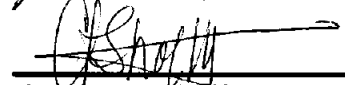
Mr. Chase thanked those who attended the hearing for their time and comments.

5. Adjourn

Mr. Taylor made the motion to adjourn the Public Hearing at 6:41 PM. Mr. Taylor's motion was seconded by Mr. Chase and was approved by a 5-0-0-2 Board vote.



Mr. Joe Chase, Chairman



Carol Ann Shaffer, Assistant Secretary