

Washington County Service Authority Board of Commissioners
September 25, 2013 Recessed Meeting Minutes (Held on October 21, 2013; 6:00 PM)

The recessed meeting of the Washington County Service Authority Board of Commissioners was called to order by the Vice Chairman at 6:20 pm.

ROLL CALL

Commissioners Present:

Mr. Joe Chase, Chairman
Mr. Ken Taylor, Vice Chairman
Mr. Devere Hutchinson
Mr. Jim McCall
Mr. Dwain Miller
Mr. Frank Stephon, IV

Commissioners Absent:

Mr. Mark Nelson

WCSA Staff Present:

Robbie Cornett, General Manager
April Helbert, Engineering Manager
Carol Ann Shaffer, Administrative Assistant

Also Present:

Mr. Mark Lawson, General Counsel

3. Approval of the Agenda

There were no corrections or additions to the Agenda. Mr. Hutchinson motioned to approve the Agenda. The motion was seconded by Mr. Stephon and approved by a Board vote of 6-0-0-1.

4. Consideration of Water and Sewer Line Extension Project Participation Requirements *Robbie Cornett*

Mr. Cornett highlighted the information in the Board's packet saying; VDH is the funding agency typically used for water line extension projects. He continued saying; VDH requires 50% plus 1 participation of existing area residents in order to fund a water line extension project.

Higher participation requirements help improve financial feasibility and can be

an indicator of the availability of easements. In 2011, the participation requirements were moved from 50 % plus 1 to 75%.

That presents a challenge for small projects with connections; projects with three connections. These projects can be difficult to downsize to meet current 75% participation requirement.

Many of the same points are relative to sewer, said Mr. Cornett. The main difference with sewer is funding agencies; such as Rural Development, VHCD and DEQ; require mandatory connection as a condition of funding. Those agencies also require WCSA to enforce the mandatory sewer connection. The thought is, with higher sewer participation requirements, there will be less push backs from residents due to the mandatory connection, explained Mr. Cornett. Easements are different with sewer projects as well. Water projects typically run along the road so easements aren't as much of an issue. In some cases, we avoid easements with water projects.

Gravity sewer projects must follow the contour of the ground, so obtaining easements for sewer projects is sometimes more difficult, said Mr. Cornett.

Currently, the participation requirement for water and sewer projects is 75%.

Mr. Hutchinson said he mentioned before that he made the motion to approve the 75%. The reason was because of financial feasibility and it would help maintain or prevent the current user fees from being increased. Mr. Hutchinson said, the problem is that has been in the works so long, it will be difficult to change. Mr. Hutchinson also though there would be a problem approving future projects in small project areas because a small amount of

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residents could prevent the majority from getting service. Mr. Hutchinson felt that particular issue was overlooked when changing the participation requirement to 75%. Mr. Hutchinson said it had been over a year since the % participation requirements. He felt it would be difficult to explain why a project could not be approved when the majority of residents signed user agreements.

Mr. Taylor feels the 75% participation level is too high. He then discussed the Hidden Valley Project saying there was 55% participation for that Project. Mr. Taylor said he did not know what the right percentage was but he thinks 75% is too high.

Mr. Chase said his view was 75% required participation was too high for small projects, but not too high for large projects.

Mr. Taylor suggested using a tier to determine the participation requirement based on the size of the project.

Mr. Chase thought agreeing a smaller number that could be used on an individual basis for smaller projects. He then discussed the sewer project in his neighborhood that would serve about 110 residents. Mr. Chase said, with a 50% plus one participation requirement for that project, there would be several individuals who would be upset if WCSA tried to condemn property for the project or required residents to connect with 60 residents in favor and 59 opposed to the project.

The Board agreed with Mr. Chase.

Mr. Miller said he thought the sewer requirements would have to stay at 75%. The 50% plus one would only pertain to water.

One thing to consider in separating water and sewer required participation levels the saturation rates, said Mr. Hutchinson.

WCSA's saturation rate for water in the county is good, but the sewer saturation rate in the county is minimal.

Mr. Chase suggested having a lesser required % for participation for smaller projects to be used on an individual basis.

Mr. Miller thought the participation requirement for sewer projects should remain at 75 %.

Mr. Lawson agreed with Mr. Chase about residents that did not agree to sewer service being upset with WCSA trying to obtain easements or condemning property for a project and agreed the participation requirement for sewer should stay at 75%.

With water projects, residents are not required to mandatorily connect, stated Mr. Chase. Because of this, he felt the participation requirement for sewer should be 75% but could be lowered for water projects.

Mr. Miller discussed project financial feasibility saying, in discussing a lower requirement, they needed to be sure projects still were still financially feasible.

Mr. Miller said the North Fork River Road project prompted the Board to approve a \$20,000 cap per connection.

Mr. Hutchinson said keeping the 75% participation requirement for water projects might keep projects from being approved thus lowering property values for some. Mr. Hutchinson said he knew of a house that has sold three times because of septic tank issues.

Mr. Hutchinson

Mr. Hutchinson said he understood the importance of financial feasibility and sometimes property would have to be condemned but hated to take those steps to complete a project.

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There was a brief discussion about the new requirements for condemning property.

Mr. Hutchinson said he would like to see the Board agree on a percentage so the majority of people who wanted and need service could get that service. Mr. Hutchinson thinks it is the Board's job to help the majority of individuals who want and need water to provide clean, safe water to them.

The Board then discussed participation levels for different projects such as Hidden Valley.

Taylor: a little over 60% for Hidden Valley

Mr. Hutchinson said he felt the Board should be able to agree on a percentage that would accommodate the majority of individuals interested in service. Water is not a renewable and not something we can rely on forever, said Mr. Hutchinson.

Mr. McCall discussed the importance of keeping the required participation levels for water and sewer projects separate.

Mr. Lawson suggested agreeing on a cost per connection for a project.

Mr. Cornett said they did not know the cost per connection for a project until grant money for the project was secured.

Mrs. Helbert said WCSA did not know the cost per connection until funding was given for the project.

The Board then discussed the grant funding and the number of connections (currently 41 to 43) for the Sutherland Project.

Mr. McCall suggested reducing the required participation levels for water projects to 50% plus 1; since that was what the funding agencies required for project funding. Mr. McCall said the 50% plus 1 requirement should be for water projects only; keeping the

requirements for water and sewer projects separate.

Mr. Stephon said he agreed with the suggestion made by Mr. Taylor; to have a tier broken into 3 or 4 amounts for connections while maintaining financial feasibility.

There was a brief discussion about the tier and the participation requirements for each level.

Mr. McCall said he felt keeping the \$20,000 per connection cap was critical and though everything else would take care of itself by setting the participation requirement at 50% plus one. He also felt setting the requirement at 50% plus 1 would ensure that all potential customers be treated the same.

Mr. Hutchinson agreed with Mr. McCall and said his concern was being treating customers fair and equal. Mr. Hutchinson said he would agree on to a percentage that was fair and equitable to everyone.

Mr. McCall said some projects would be eliminated because of the lack of grant funding but said he thought it was important to keep trying to secure grant funding for projects.

Mrs. Helbert asked for clarification of 50% plus 1 because it would effect projects where there were only 3 connections.

After a brief discussion about projects with only three connections, the Board agreed to look at such projects on an individual basis.

Mr. McCall officially motioned to change the water participation requirements to 50% plus 1, for water projects only.

Mr. Chase suggested keeping the \$20,000 cap on projects as well.

Mr. Stephon seconded the motion.

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Mrs. Helbert asked if participation requirements for existing projects would be at 75% or 50% plus 1.

Mr. Taylor suggested grandfathering those projects into the new participation requirement of 50% plus 1.

Mr. Cornett thought Richie Road would be the only project the new participation requirement would affect. The Board may vote on participation levels for that project if they so desire.

Mr. Taylor said there were areas where water was needed and it was the Board's job to get water to those that needed it.

Mr. Taylor then discussed the Mendota area saying the water in that area contained a lot of sulfur and it was important to get water in that area.

Mr. Miller said user agreements were solicited in Mendota about 4 to 5 years ago. The project area had to be adjusted to get the 50% plus 1 participation requirements.

Mr. McCall said, "We need keep it as low as we can and 50% plus 1 is as low as we can go".

Mr. Hutchinson agreed with Mr. Taylor's comment that the Board's primary job is to provide water and sewer for the majority of those that want and need service. Everyone needs clean safe drinking water, stated Mr. Hutchinson.

Mr. Stephon agreed but said there needed to be guidelines; adding, if the Board approves the motion, we can go back and revisit WCSA's connection cap.

Mr. Hutchinson then discussed bad debt saying WCSA had to cut back on the amount of bad debt. We are writing off \$3,000 to \$4,000 per month for bad debt just because people can't pay their water bill. The water bill is the cheapest utility and when you put them in such a bind they can't pay it, something has to be

done. Mr. Hutchinson said he did not want to put anymore burden on those people who could not pay their water bill.

Mr. Miller said most months, 20% of our customers have late fees.

Mr. Chase asked for the Board's vote on Mr. McCall's motion to change the line extension project participation requirements to 50% plus 1. The Board approved the motion voting 6-0-0-1.

5. Consideration of Water and Sewer Line Extension Project Financial Feasibility *Robbie Cornett*

Mr. Cornett thought for the most part, financial feasibility had been discussed as part of Agenda item 4 and so Mr. Cornett would limit his discussion.

When participation requirements were last established, so was financial feasibility, Mr. Cornett said. At that time, the average cost per connection for water line extensions was \$38,699 and \$33,502 per sewer connection. At that time, the Board established \$20,000 per connection as a cap in an effort to manage financial feasibility. The second part of the Board's action in 2011 was, if a project comes in under \$20,000 per connection, further feasibility consideration is given by the Board on a case by case basis, added Mr. Cornett.

Mr. Cornett raised three questions regarding financial feasibility; 1. Will the project cash flow? 2. Will the connection and monthly user fees pay for the project costs over the life of the loan? 3. Will the project require additional funding from the self-supporting part of the water system?

Mr. Miller asked if it was possible for a project to cash flow if connection fees were more than \$20,000.

Mr. Cornett said his thought for a project to cash flow; WCSA would have to

generate \$20,000 per connection in income from each customer over the 30 year loan life. So the monthly user fee would be about \$700 per year in monthly user fees to come up with the \$20,000 per connection over 30 yr.

Mr. McCall said the current water bill was about half what the average phone bill was.

6. Consideration of Rate Study Pricing Objectives *Robbie Cornett*

At the August Rate Study Work Shop, the Board considered 10 different pricing objectives stated Mr. Cornett. The consensus the Board though given more time, they may reach a greater consensus on the essential, very important and important pricing objectives were.

The Board reviewed the pricing objectives they ranked at the August Workshop.

Mr. Miller said Raftelis' definition for affordability was different than the Board's definition of affordability.

Mr. Cornett suggested providing Raftelis with the Board's definition of affordability so Raftelis understands what the Board view of affordability is in regards to their ranking of pricing objectives.

Mr. Hutchinson asked were the Town of Boons Mill was located. Mr. Chase told where it was located.

Mr. Hutchinson discussed the webinar he, Mr. Chase and Mrs. Harold took part in. Mr. Chase said they volunteered WCSA's rates to be analyzed during the webinar. Mr. Chase said our figures looked good in all their rankings; particularly the percentage of water and sewer costs based on income was at least 1% lower than other localities.

Mr. Hutchinson said he was very surprised at WCSA's statistics compared

to other counties. Mr. Hutchinson then discussed information he had on Boones Mill's rates for water and sewer saying it was a mirror image of WCSA.

Mr. Chase said the webinar also showed that WCSA stood out in is what big water users such as industrial users pay annually compared to all other counties. WCSA rates are lower for big water users than the other counties discussed in the webinar, Mr. Hutchinson added.

The Board then discussed their understanding of affordability and decided the Board's definition of affordability as it relates to the pricing objectives is WCSA's connection fees and monthly user fees are to be affordable in this area. Mr. Cornett said he would note the Board's definition of affordability to Raftelis.

After the Board reviewed and discussed the pricing objectives they chose as essential, very important and important in the August Workshop, they agreed to submit their original ranking of pricing objectives to Raftelis for the Rate Study.

7. Consideration of PAYGO for Water Distribution and Sewer Collection Projects *Robbie Cornett*

Mr. Cornett said paygo is a short way of saying we pay for capital projects as we go with reserves and cash funds; not by borrowing money for projects.

Utilities that tend to take that approach do so for water distribution, waste water collection projects as well as maintenance items at treatment plants. This approach is typically not taken for plant expansion or for new plants as those projects are typically debt funded, added Mr. Cornett. By using the paygo approach, we have the opportunity to save the financing costs of borrowing money and the program costs associated

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with various agency requirements such as environmental reviews, Davis Bacon wages and so on.

WCSA may be nearing a point in its water history that it could potentially transition to a paygo approach. Raftelis is going to evaluate that possibility and report back, stated Mr. Cornett.

The current schedule of debt

Between 1996 and 2012, WCSA has averaged \$2.7 million per year in annual water distribution related capital projects and referred to information showing the amount of debt retired per year.

Mr. Cornett said WCSA would begin retiring water debt in 2014; beginning with about \$785,000 in annual debt service retirement.

Mr. Cornett said we may be at a point in our history where we can pay for water distribution projects as we go. That would have the benefit of saving substantial money in the long run if we can do that, added Mr. Cornett.

In later years, we are about \$3.5 mill by 2034 and \$5.2 million in 2050 without raising rates any further to generate revenue, stated Mr. Cornett.

Mr. Chase asked how much of a rate increase it would take to generate an additional \$100,000.

Mr. Lawson said it would be less than a one percent increase; about .008.

Mr. Cornett said he thought the additional revenue that would be required is less than what one may think at first view.

Mr. McCall said if we keep doing what we have done in the last few months; using plastic instead of copper, only having one crew in maintenance on call and the savings in insurance, "it will take care of it".

Mr. Hutchinson said we deferred last year's rate increase by cutting out \$160,000 in potential projects.

Mr. McCall commented that no one was complaining about not continuing with those projects.

Mr. Hutchinson said it was not that they did not need to be done but could be put on hold.

Mr. McCall continued saying WCSA was saving in overtime, particularly in the maintenance department last month.

Mr. Cornett said due to the Board's interest in paygo, it made sense to ask Raftelis to include paygo in their study.

Mr. Chase asked if Mr. Nelson had provided any information about paygo.

Mr. Cornett said he had not.

Mr. Hutchinson said they discussed paygo with Raftelis during their interview.

Mr. Miller said with paygo, we would be able to move forward with projects that were not approved for funding.

Mr. Cornett said the EPA is wanting utilities to become self-funding so funding agencies are not needed in the future. Mr. Cornett said starting out, you have to borrow money and that is where we are with sewer.

8. Consideration of a Rate, Fee and Charge Study Stakeholder Group
Robbie Cornett

Raftelis provided the Board with two different options for a stakeholder group; a Citizens Advisory Task Force or a Citizens Focus Group. A Citizens Advisory Task Force is the option that appears to most closely align with this work and Mr. Cornett asked the Board which option they favored most.

Mr. Cornett asked the Board which option they were favorable to.

Mr. Chase said he favored the Citizens Advisory Task Force.

Mr. Hutchinson said he was in favor of the Citizens Advisory Task Force. Mr. Bean agreed to facilitate the Task Force.

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Mr. Hutchinson also felt the Task Force could be very beneficial to WCSA in many ways. He thought it would be good for public relations showing that WCSA is interested in discussing the needs and concerns of our customers.

Mr. Chase agreed.

Mr. Taylor asked who selected the groups.

Raftelis suggested having representation from the following groups through invitation:

- County Government, invite representation from the IDA and the Board of Supervisors.
- Residential
- Agriculture
- Industrial
- Environmental
- Senior Citizens
- Local Developer
- Finance
- Engineering

Mr. McCall suggested having two Board members select someone from each group to serve on the Task Group.

Mr. Hutchinson suggested the Commissioners compile a list of nominees from each category, then a two member Board committee would select and invite someone from each category to be part of the Task Force.

After a brief discussion, the Board agreed on the above mentioned selection process.

Mr. Cornett suggested each Commissioner provide a list of nominees from each category and present that list to Mr. Cornett on 11-23-13. Mrs. Helbert thought it would be good to rank each nominee in the event the first choice is unable to serve on the Task Force.

The Board agreed.

Mr. McCall commented on a well written letter the Commissioners received from Mr. Cornett. Mr. McCall

said he thought the topic (temporarily reducing water connection fees) needed to be revisited. Mr. McCall said he was clear now on why there was a separation in water and sewer. Mr. McCall said they still had justification to temporarily reduce fees.

Mr. McCall complimented Mr. Cornett on "a good report".

Mr. Cornett said he tried to listen to the Board and felt there was some gaps or misunderstandings about how "we do what we do and attempted to bring that together for the Board".

Mr. Taylor asked what Mr. McCall meant by temporarily.

Mr. McCall said until the Study was complete and voted on by the Board.

Mr. Chase said before the Board began the 5 year phase in, the connection fee was about \$2660 and no one was complaining. To temporarily be around \$3000 to \$3500 may be something we could do long term but Mr. Chase said he did not think it could be much less than that.

Mr. Miller felt a \$1,200 connection fee was too cheap because on a line side with no utilities; it may be a breakeven point.

Mr. Miller said there were a lot of costs involved with the connection fees. Those fees start in the office, they do not begin in the field, he stated. Mr. Miller said he did not know if the connection fee should be \$4560. If you figure all the costs involved with a tap, the cost is more than \$1,200.

Mr. Hutchinson said he agreed that the connection fee were too high but, he thought the Board needed to determine how reducing the connection fee to \$1,200 or \$1,500 would affect revenue and how WCSA would make up that lost revenue. Mr. Hutchinson continued saying, in order to be eligible for

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funding, agencies look out our ability as an authority to repay money within 30 years. To determine that, said Mr. Hutchinson, funding agencies look at the amount of revenue we generate.

Mr. Hutchinson said, by Mr. Cornett recently making WCSA property available for cell companies to build cell towers, revenue will be generated. Mr. Hutchinson said he believed in keeping the connection fees to a minimum. We need to be wise, said Mr. Hutchinson, and should not reduce revenue until we have a way to make up that revenue.

Mr. Taylor asked what the connection fee was in July of 2009 and suggested changing the connection fee to what it was in July of 2009. Mr. Taylor said he would like to see a chart showing the difference in revenue with the 2009 connection fee and the current connection fee, per year. He then asked how much revenue did we really lose.

Mr. Cornett said Mrs. Harold would compile that information for Board review.

Mr. Chase felt it was important to make a decision on facts.

Mr. McCall said the whole philosophy of WCSA changed that year. We always operated on the belief that if we needed revenue, we raise every ones rates, then someone came up with the idea that...

Mr. Chase said that came from the Study.

Mr. Cornett said that started in 1998.

Mr. Hutchinson asked when WCSA became an Authority.

Mr. Cornett said in 1953.

It was in 1998 the first system fee component of the connection fee was added, said Mr. Cornett. That fee increased some between 1998 and 2008. In 2009, with the Water Plant Expansion, galvanized line and other projects; the Board looked at connection

fees and monthly user fees and which to raise in order to generate the amount of revenue needed, explained Mr. Cornett. The Board came up with the fees, which has been revised since 2009.

Mr. Chase said if the Study says we are too high, we need to lower rates.

Mr. McCall mentioned rates for neighboring utilities and asked if WCSA was right or if the other utilities were right.

Mr. Hutchinson said according to the webinar, WCSA was "in good shape" compared to our neighbors as far as costs are concerned. Mr. Hutchinson said WCSA was in the mid-range or below in most categories as far as cost was concerned; according to the webinar.

Mr. Chase said; regarding costs, he did not know how neighboring utilities could be producing the amount of water and sewer cheaper than WCSA is.

Mr. Chase said he would like to evaluate the actual costs for neighboring utilities and compare those to WCSA's actual costs.

Mr. McCall said he had a call from a customer in Alvarado who could not afford the cost of a water tap and could not afford an additional \$200 per month to pay it. Mr. McCall said our water bill is half of the utility bill and half of what Direct TV charges. Mr. McCall continued saying, there will always be bad debt.

Mr. Hutchison said he read information about the burden communities carry because of low wage jobs; minimum wage jobs and what they cost the community; it has devastating effects on a community.

Mr. Hutchinson said there was assistance available for those that needed it. He continued saying, his concern was for

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those that needed assistance but could not qualify for it.

Mr. Lawson then discussed the working core that seemingly make "a good living" saying, the cost of living has increased so much the working core has a hard time making ends meet.

Mr. Hutchinson discussed those making a "living wage" saying it was surprising the families in this community making a "living wage" that had nothing left over after their responsibilities were met. He continued saying, it was surprising how many families qualified for food stamps or free school meals in our community.

Mr. McCall said if all utilities charged the kind of up-front fees that WCSA charged, it would kill them.

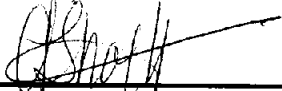
The Board erupted in discussion about the costs of cable, phone and other utilities in this area.

9. Adjournment

At 8:20 pm, Mr. Stephon motioned to Adjourn. Mr. Miller seconded the motion and the Board approved voting 6-0-0-1.



Mr. Joe Chase, Chairman



Carol Ann Shaffer, Assistant Secretary