

**MINUTES  
PURCELLVILLE TOWN COUNCIL SPECIAL MEETING  
OCTOBER 17, 2016, 6:30 PM  
TOWN HALL COUNCIL CHAMBERS**

The special meeting of the Purcellville Town Council convened at 6:30 PM in Council Chambers.

PRESENT: Kwasi Fraser, Mayor  
Karen Jimmerson, Vice Mayor  
Kelli Grim, Council member  
Nedim Ogelman, Council member  
Doug McCollum, Council member  
Chris Bledsoe, Council member  
Ryan Cool, Council member

ABSENT: None

STAFF: Robert W. Lohr, Jr., Town Manager  
Danny Davis, Assistant Town Manager  
Sally Hankins, Town Attorney  
Alex Vanegas, Director of Public Works  
Liz Krens, Director of Finance  
Scott House, Superintendent, Waste Water Treatment Plant  
Connie LeMarr, Assistant Director of Finance  
Dale Lehnig, Capital Projects & Engineering Manager  
Sheryl Hood, Executive Assistant/Project Coordinator  
Diana Hays, Town Clerk

**CALL TO ORDER OF SPECIAL MEETING:**

Mayor Fraser called the special meeting to order at 6:30 PM.

**SPEAKERS/PRESENTATION FROM MUNICIPAL & FINANCIAL SERVICE GROUP (MFSG):**

Eric Callocchia, Manager, MFSG, gave a presentation on the Town's water and sewer rates (attached).

**TOWN COUNCIL QUESTIONS AND ANSWERS SESSION:**

- Council member Ogelman asked about the capital investment and infrastructure where most of the investment comes from in this type of project.

Mr. Callochchia stated from a combination of federal, state, county and local, and Alex Vanegas added that the Town has made an investment in the water and sewer infrastructure and made improvements to the collections system and reduced inflow and infiltration by 27%. Mr. Vanegas added the wastewater plant has been upgraded to meet the current Chesapeake Bay standards. In regards to the Water Treatment Plant, Mr. Vanegas added the facility was built in 1986 and an upgrade was made in 2000 to add an extra filter but will eventually need to make upgrades on the water side to improve the infrastructure, including line upgrades and/or replacements due to their age.

- Council member Ogelman asked for a comparison in Purcellville's water investment compared to others around the country. Mr. Edward Donahue, President of MFSG, stated there has never been much federal funding on the water side and most have loans through the state revolving loan fund with little or no interest cost loans however it is likely Purcellville would not qualify for grants for hardship or low income because of demographics, and added that most of the costs for building water and sewer infrastructure and all of the operating costs falls on the local community. Alex Vanegas added the Town received a federal grant of 16% which was tied to the Chesapeake Bay to meet the current regulations.
- Council member Grim stated she has concerns for the water plant and what is coming mandated and the five year plan as well the needed investment for it. Rob Lohr added that the water plant was purchased using cash in 1985 which was obtained by selling an easement on the water shed property to the Appalachian Trail and was expected to last around 30 years. Rob Lohr talked about using availability fees to help fund future growth.
- Council member Ogelman summarized the presentation that was given that this type of infrastructure as an investment is not a good investment because the infrastructure becomes more complex and the residents are using less. Council member Ogelman added he also hears that we need to keep adding more lines which feels like a contradiction, and that the idea that if we have more tap fees or build more units, we will get out of the infrastructure trap does not make sense. Mr. Callochchia stated that Council member Ogelman is correct. Council member Ogelman added that something that is being said often is that if the Town develops more the rates will drop and hears that this is not that kind of economy of scale situation where the unit costs will go down. Mr. Callochchia stated that the system is of the size that if the Town were to completely build out those projects it would still be a very small utility system. Mr. Donohoe added that you always want to have enough capacity to serve present customers with a little growth however if you build too much an expansion would be needed.
- Mayor Fraser asked about the annual revenue requirement as shown on slide 11 and asked if that when rates are set how much of the revenue is coming from rates versus the miscellaneous category, and Mr. Callochchia stated he could provide that percentage.

Mayor Fraser talked about using existing resources without going to a growth model. Mr. Donahue talked about the increased operating costs and late payment policies.

- For comparison, Council member Cool asked if there are other clients with a similar community and what works best for them for tier structure. Mr. Callocchia noted there are several close by with similar structures with unit rates being the most popular because they were set a long time ago and that most of the dollars come from the first three or four tiers. Mr. Callocchia talked further about condensing tiers and then deciding how punitive to make the rate structure keeping it simple with minimal customer impact.
- Mayor Fraser talked about using meals tax to pay off debt. Mr. Donahue stated that can be down however the challenge is that the meals tax is less reliable and predictable and will have more fluctuations in cash flow which could affect credit ratings. Kyle Laux with Davenport talked about protecting the credit rating while working with utility issues. Further discussion took place about the possibility of extending service.
- Council member Grim asked if the larger amount that is above the standard tied to the debt. Mr. Laux talked about growth, availabilities and the infrastructure to support the growth and the risk associated with the growth. Council member Grim talked further about trying to stop the annual increases.
- Council member Cool asked if a policy can be created that says a certain percentage based on income and transfer it as to not affect the credit rating. Mr. Callocchia stated it is discretionary spending based on non-dependable revenue. Council member Cool talked about the goal being to simplify rates, define what a fair model is, expand the green box and better communication to the citizens.

Council member Jimmerson left the meeting at 8:04 PM.

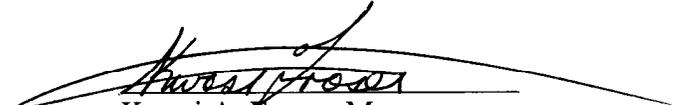
Mr. Donahue stated he can work with the Council to show the impacts of doing different things.

Mayor Fraser talked about monthly rates being high and the residents asking for relief and the need to be creative in ways to reduce the expense.

Council member Ogelman requested to hear ways to lobby any of the other constituencies to get support and relief. Mr. Donahue stated Council and citizens should go to their local representative and Senator.

**ADJOURNMENT:**

With no further business, Council member Ogelman made a motion to adjourn the meeting at 8:12 PM. The motion was seconded by Council member Bledsoe and approved with one absent.



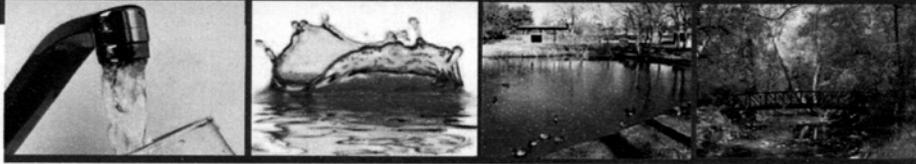
Kwasi A. Fraser, Mayor



Diana Hays, Clerk of Council



## Town of Purcellville Water and Sewer Utilities



### Water and Sewer Rates Discussion

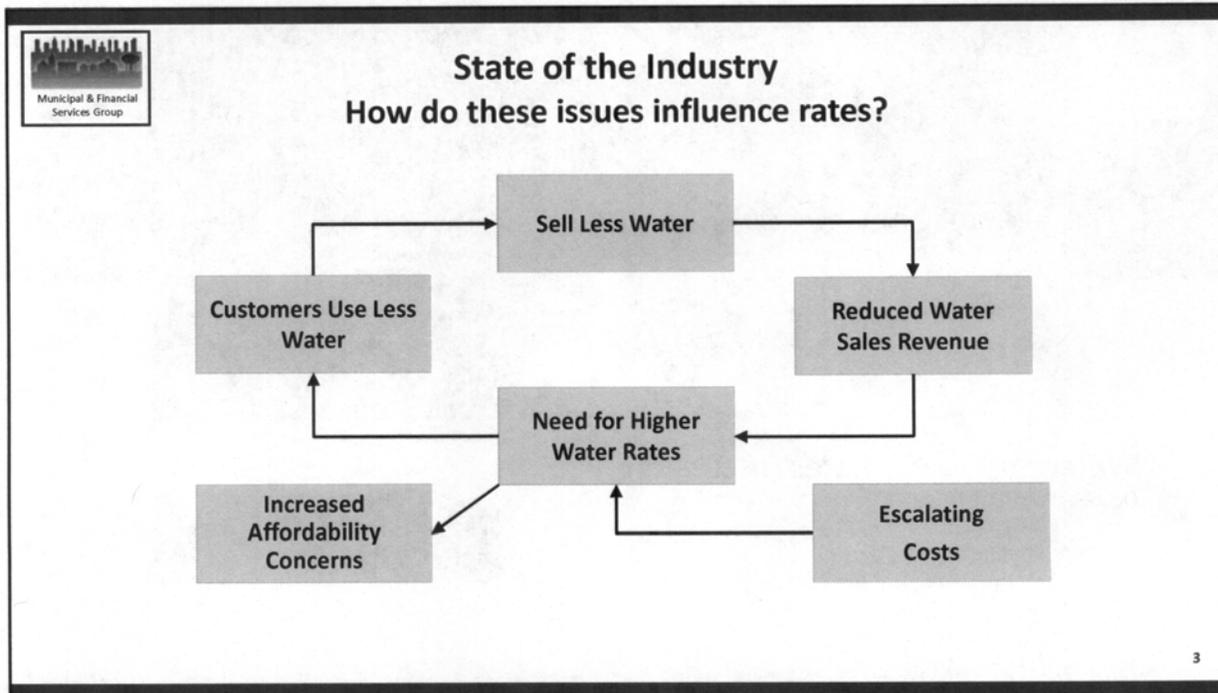
October 17, 2016

Presented By:  
Edward J. Donahue III  
Eric Callocchia



## State of the Industry What is causing the need for utility rate increases across the Country?

- Declining Water Use - Declines of per capita consumption of 20% to 30% over the past several decades
  - ▶ Water fixture replacement
  - ▶ Declines in average household size
  - ▶ Commercial/industrial water use efficiency
  - ▶ Conservation ethic
  - ▶ Economic conditions
- Significant Capital Investments will be needed in the future
  - ▶ Majority of water and sewer systems were constructed 70 plus years ago
  - ▶ Nationwide estimated replacement costs over next 30 years:
    - Water systems - \$1 trillion
    - Sewer systems - \$2.5 trillion



**Basic Principles of Rate Setting**

- **Water and Sewer Operations are self-supporting**
  - ▶ Rates and fees are set to recover cost of providing service
  - ▶ No profit to General Fund
  - ▶ Operations function as a business
  - ▶ Utilities reimburse General Fund for support services
- **Water and Sewer Rates are user fees rather than taxes and therefore are designed to charge customers based on their use of the service.**
  - ▶ Three part test for a user fee (Bolt v. City of Lansing, MI) (1988):
    - 1) Must serve a regulatory purpose rather than a revenue-raising purpose; and
    - 2) Must be proportionate to the necessary costs of the service; and
    - 3) Must be voluntary— users must be able to refuse or limit their use of the commodity or service.

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### Overview of Rate Setting Process

Step 1 - Identify Revenue Requirements - Cost of Providing Services



Step 2 - Allocate Costs Among Customers



Step 3 - Design Rate Structure

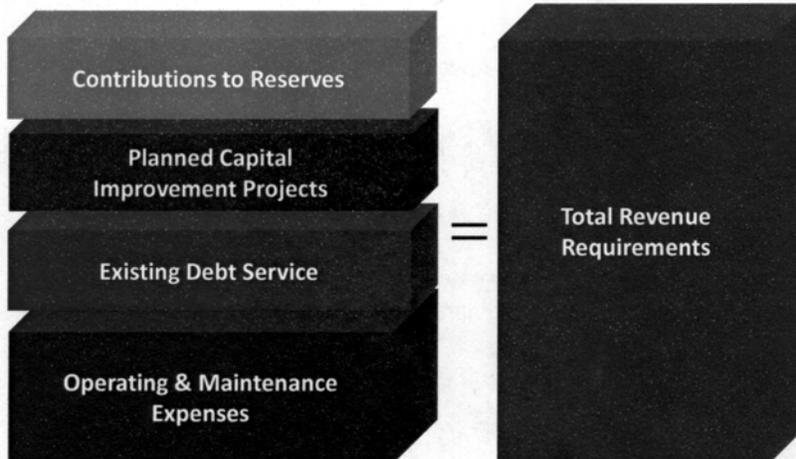


Step 4 - Implementation

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### "Building Blocks" of Revenue Requirements



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## Operating and Maintenance Expenses

- Day to day operating and maintenance of the system including:
  - ▶ Source of Supply (water)
  - ▶ Treatment
  - ▶ Disposal (sewer)
  - ▶ Storage (water)
  - ▶ Pumping
  - ▶ Transmission and Distribution (water mains and lines)
  - ▶ Collection (sewer)
  - ▶ Customer Service
  - ▶ Administrative and General

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## Debt Financing Plans

- Existing debt: Requirements to make existing payments and maintain any coverage requirements
- Future debt: Based on how the capital improvements plan will be funded, key considerations include:
  - ▶ Life of asset to funded (longer lived assets typically debt funded)
  - ▶ Type of improvement (routine replacement ideally cash funded)
  - ▶ Overall debt level considerations including percentage of total revenues used to pay debt service
- Debt Service places additional requirements on utility:
  - ▶ Debt coverage requirements (revenue bonds)
  - ▶ Debt service reserves (revenue bonds)
  - ▶ Use of Governing Body's debt capacity (general obligation bonds)

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## Capital Improvement Plan

- Capital needs of the water and sewer system required to:
  - ▶ Repair and replace existing infrastructure (rates)
  - ▶ Meet existing and new regulatory requirements (rates)
  - ▶ Upgrade and increase efficiency of the systems (rates)
  - ▶ Provide service to new customers (availability fees)
  
- Capital costs have significant impact on water and sewer rates due to the fact that:
  - ▶ Most water and sewer infrastructure is constructed in “lumps” rather than incrementally
  - ▶ Costs of projects fluctuate year over year depending on type
  - ▶ General approach used to fund projects:
    - ▶ Cash funded = immediate impact
    - ▶ Debt funded = long-term impact

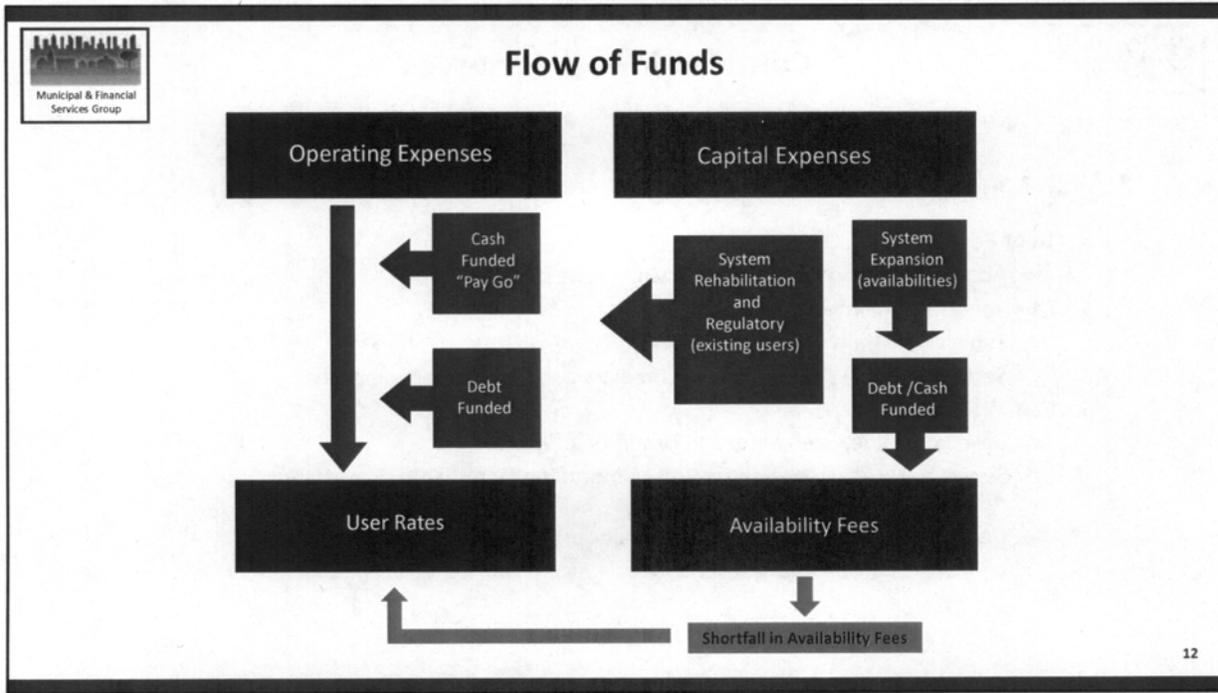
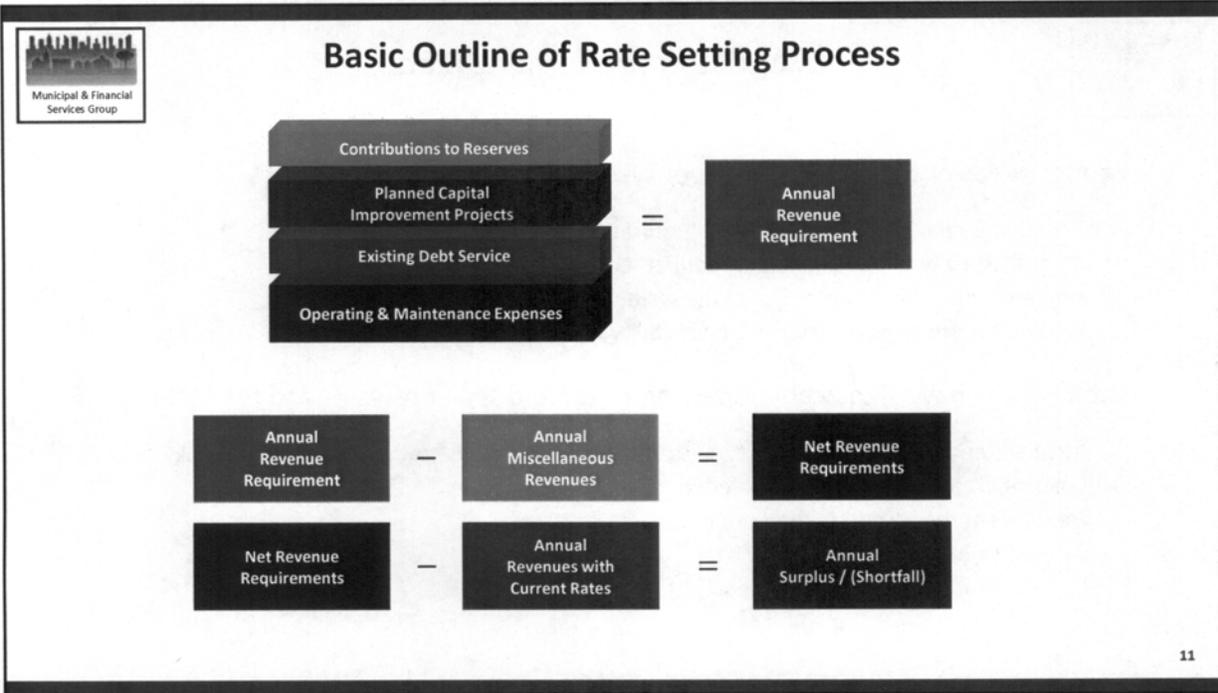
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## Contributions to Reserves

- Water and Sewer Funds should maintain reserve balances related to:
  - ▶ Debt Coverage
    - ✓ According to bond covenants / loan requirements
  - ▶ Operating and Maintenance
    - ✓ Typically 90 days cash on hand
    - ✓ Serves as “rainy day fund” for immediate and unexpected expenses
  - ▶ Capital Replacement
    - ✓ Based on value, useful life, and condition of assets
    - ✓ Serves as rate increase mitigation (“smoothing factor”) when assets must be refurbished/replaced
    - ✓ Decreases the need to borrow for major projects

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## Rate Design – Pricing the Service

Rate design is largely influenced by policy objectives of the utility.



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## Rate Design – Fixed Portion

### What Costs to Recover

- Meter Reading
- Billing & Collection
- Customer Service
- Debt Service
- Other

- Higher the fixed charge the greater the revenue stability
- Higher the fixed charge the more expensive service is for smallest user

### Basis for Applying the Charge

- Account
- Meter size
- Equivalent Residential Unit (EDU)

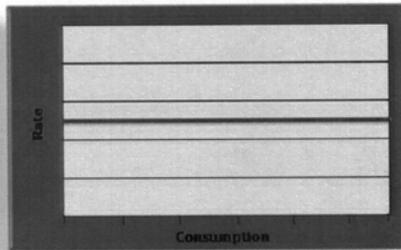
- Basis selected should be consistent with costs recovered

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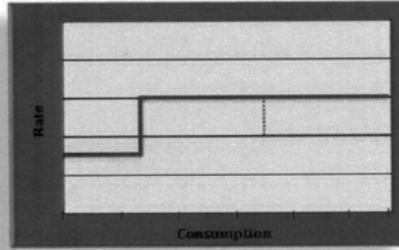


### Rate Design – Variable Portion

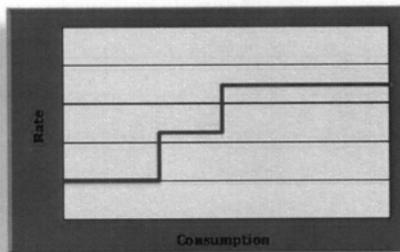
Uniform



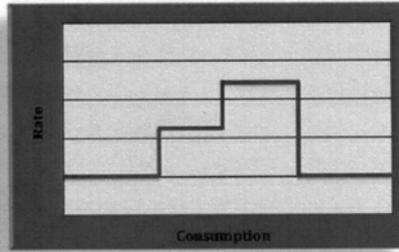
Lifeline Block



Inclining

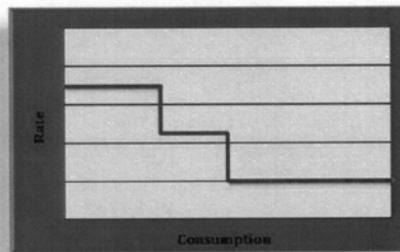


Combination

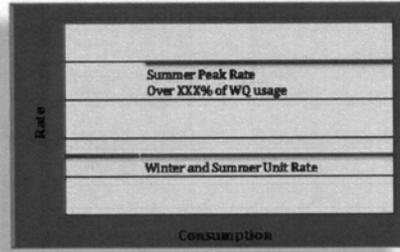


### Rate Design – Variable Portion

Declining



Seasonal / Peak Usage





## Summary

- Utility rates should be set to cover the operating and capital expenses of the utility system.
- Sometimes, there is no “right” answer: Town policy influences which rate structure is used to collect utility fees.
- Utility financing is a long term endeavor:
  - Early small increases mitigate the need for large future increases
  - Debt financing distributes costs among current / future users
  - Ultimate Goal – Keep utility rates and fees as low as possible **over time**.

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## Discussion

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 Manager  
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## Discussion Items

- The specific rate setting philosophy of the Town Council
- Methods of cost allocation between small and large users
- The Town's policy on special discounts / subsidies (low income, elderly, etc.)
- Monthly billing opportunities
- Reducing the tier system from 17 tiers down to 5 tiers
- Water only metered accounts for specific businesses whose water consumption is not comparable to their sewer usage
- Development of reserves & replacement funds.
- Minimum usage fees.