

## Special Council Meeting—February 13, 2018

The special meeting of the Council of the Town of Altavista was held in the Council Chambers of the J.R. Burgess Municipal Building, 510 Seventh Street on February 13, 2018 at 5:30 p.m.

1. Mayor Mattox called the meeting to order and presided.

### Council members

present:

Mayor Michael Mattox  
Mrs. Micki Brumfield—arrived at 6:33  
Mrs. Beverley Dalton  
Mr. Tracy Emerson  
Mr. Timothy George  
Mr. Jay Higginbotham  
Mrs. Tanya Overbey

Also present:

Mr. J. Waverly Coggsdale, III, Town Manager  
Mr. Daniel Witt, Assistant Town Manager  
Mrs. Tobie Shelton, Finance Director  
Mr. David Garrett, Public Works Director  
Mr. Tom Fore, Public Utilities Director  
Mr. John Eller, Town Attorney  
Mrs. Mary Hall, Administration

Mayor Mattox advised the purpose of the Special Called Meeting was to receive a presentation from Woodward & Curran in regards to the Utility Rate Study.

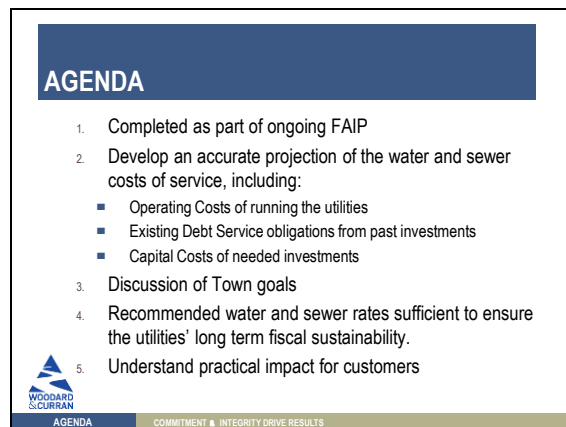
Mr. Coggsdale introduced Mr. Toby Fedder, P.E., Vice President /Principal, Woodard & Curran. He thanked Mr. Fedder, his crew, Mrs. Shelton and Mr. Fore for the multiple meeting sessions to get to this point of a work session.

Mrs. Dalton complimented staff for the new monitors in the Council Chambers.

2. Utility Rate Study—Woodard & Curran

Mr. Toby Fedder addressed Council. He advised his job with Woodard & Curran is to handle the financial questions of large engineering projects; everything from rate studies to financial strategic studies. He leads a division of 15 people that assist with doing these assessments as well as providing funding plans for the clients.

Mr. Fedder presented Council with a PowerPoint presentation:



## Facilities Assessment and Improvement Plan

- Recently completed the FAIP to ensure that the money is spent efficiently on the right targets:
  1. Improved reliability
  2. Operational efficiency
  3. Required plant upgrades
- Altavista needs significant Capital Investments over the coming six years (CY2018 through CY2023)
  1. Water Utility - ~\$8M - \$10M (unescalated cost estimate)
  2. Sewer Utility - ~\$10M - \$20M (unescalated cost estimate)

*Amount based upon whether "FAIP" or "Town" recommended Capital program is followed*
- Rate study ensures utilities remain financially sound



Master Plan

COMMITMENT ■ INTEGRITY DRIVE RESULTS

## Capital Program Options – Water System

- Review of 5-year Capital program options
  - FAIP – W&C recommendations
    1. Upgrades to plants and other infrastructure in near term ~\$10M
    2. Limited water line replacements – mostly completed in mid and long-term
  - "Town" CIP – W&C / Town consensus
    1. Reduced upgrades in near term
    2. Includes ~\$700k in annual water line replacements



Master Plan

COMMITMENT ■ INTEGRITY DRIVE RESULTS

## Capital Program Options– Sewer System

- Review of 5-year Capital program options
  - FAIP – W&C recommendations
    1. ~ \$19 Million over the next five years
    2. Plant upgrades and collection system asset renewal
  - "Town" CIP – W&C & Town recommendations
    1. ~ \$10 Million over the next five years
    2. Critical plant upgrades with less aggressive construction schedule due to cost



Master Plan

COMMITMENT ■ INTEGRITY DRIVE RESULTS

## Utility Rate Study Goals and Approach

- Two primary objectives for the rate study:
  1. Generate revenues sufficient to cover the full cost of service for the utility (including operating costs, existing debt service, and the cost of the Capital Investment Plan)
  2. Maintain sufficient reserves to cover unanticipated costs
- Approach to Rate Study
  1. Make rational projection of future cost of the utilities
    - Operational Costs
    - Existing Debt Service
    - Costs of Future Capital
  2. Develop a defensible revenue generation rate structure using historical and projected future billing information



Rate Study

COMMITMENT ■ INTEGRITY DRIVE RESULTS

### Rate Study Operational Costs

- Costs of operating the existing utility in compliance with permits and requirements
- Escalated along industry standard guidelines
- Small additions for new operational costs associated with Capital Improvements programs

WOODARD & CURRAN  
Rate Study

### Rate Study Debt Service Costs

- Utilities currently have minimal debt service
- Primarily due to cash financing capital purchases in the recent past

WOODARD & CURRAN  
Rate Study

### Rate Study Capital Improvements Plan Impacts - Water

Two options for CIP

- FAIP is the full set of recommendations delivered by W&C
- "Town" CIP is based upon discussions with Town staff to minimize rate impacts and prioritize improvements most critical for day-to-day operations
- Cash flow impacts shown

WOODARD & CURRAN  
Rate Study

### Rate Study Capital Improvements Plan Impacts - Sewer

Similar to Water, two options for CIP

- FAIP set of recommendations delivered by W&C
- "Town" CIP is based upon discussions with Town staff to minimize rate impacts and space out the CIP schedule
- Cash flow impacts shown

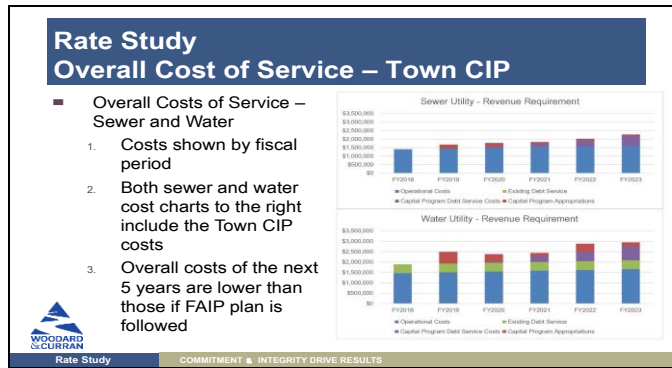
WOODARD & CURRAN  
Rate Study

### Rate Study Overall Cost of Service – FAIP

- Overall Costs of Service – Sewer and Water

  - Costs shown by fiscal period
  - Both sewer and water cost charts to the right include the FAIP recommendations delivered by W&C

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Rate Study

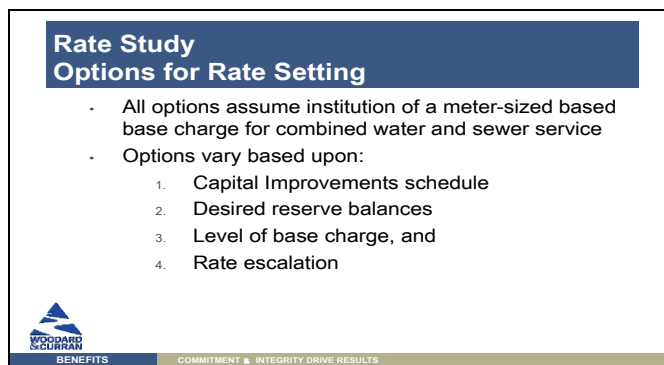


Mayor Mattox asked if this is including all capital expenditures or are we not doing Capital Expenditures.

Mr. Fedder stated the difference between the two plans FAIP had a large cash outflow at the beginning because a lot of those items are not considered to be capital items. They don't last for a very long time. In reference to the "Town" CIP, this is where projects need to be funded (such as water lines) for 50, 60, 70 years depending on materials.

Mayor Mattox asked at the end of the day will the same things be accomplished or are things being dropped on the "Town's" plan.

Mr. Fedder stated in most parts, things are being pushed off; pushing them further back. You are doing the same thing just extending the way you are rolling out a lot of projects.



Mr. Fedder recommended moving to a fixed fee; raising more revenue is needed. He presented Council with various scenarios for rate setting. Mr. Fedder stated during the course of looking at numbers Mr. Fore and Mr. Coggsdale wanted to sharpen the pencils on the CIP, the numbers were going to be difficult to achieve. The second thing that happened is the Town lost a very large water user (Dominion Energy); a large chunk of water sales (a loss of approximately \$300,000) per year. Not only does the town need to invest in capital but replace that income as well. When Dominion Energy turns off the tap next year, 96 percent of running the water and sewer are in fixed cost, debt service, capital program, salaries, electricity to keep the lights on, things that do not vary with the loss of a customer.

Mrs. Dalton stated in reverse, when the switch was turned on to Dominion Energy and a rate was established, the rates were not established so there is probably a delta in there somewhere.

Mr. Fore stated the amount of time the water plant was running before Dominion Energy was based on them setting the plant at the same speed that they are running; however, instead of pumping at a rate of 3 million gallons a day, they pumped at a rate of 2.2 million gallons a day. The pumps were not pumping a full capacity. The cost is on one pump.

Mr. Fedder stated incremental savings come from the electricity used for pumping and the chemicals used to make the water safe for drinking.

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Mrs. Dalton noted Dominion is a customer that the town has had for a short time.

Mr. Higginbotham mentioned the town is purchasing water from Campbell County. It won't be as dramatic.

Mr. Coggsdale noted Dominion Energy is still under obligation to buy what the Town is buying from the County; this is in the figures. The loss is above and beyond that.

Mr. Fedder noted growth makes a lot of problems go away and that's especially true with water and sewer.

Mr. Fedder stated in preparation of this study, they looked at what reserves were available to assist in the CIP. There is an undesignated reserved balance on the books of \$2.8 million that will be available to assist in this to prevent huge rate increases and \$1 million in capital reserves.

Mr. Coggsdale stated there is a million dollars in the reserve balance designated entirely for the Enterprise Fund. We came up with a \$3.8 million number. There is \$4.8 million undesignated in which \$2.8 million could be used to supplement and come up with the \$3.8 million.

Mrs. Dalton asked if this had anything to do with the "disciplined" policy.

Mr. Coggsdale responded the "rainy day" fund has not been touched.

Mr. George asked if this could be used to avoid the increases for the next four years.

Mr. Coggsdale stated once the reserve is spent, there is a bigger hole next year. The rates are reoccurring revenue; the reserve is one time revenue.

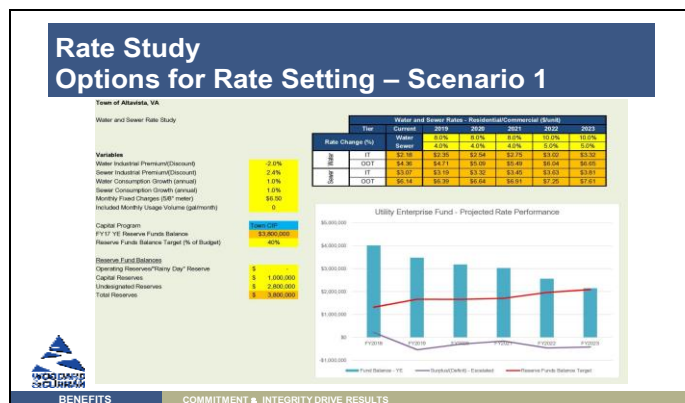
Mr. George asked if the reserve is not used would the 8% and 4% over the next four years remain.

Mr. Fedder referred to the Scenario 1 stating 40% of annual operating revenues was an appropriate level of reserves to be the target. The plan under this scenario is to use a portion of the reserves to keep the rate increases smaller. This will help pay off the debt services associated with borrowing for the capital program. Unless the town wants to subsidize the Enterprise Fund; the idea of an Enterprise Fund is to make sure it funds the things it is responsible for. This may mean rate increases.

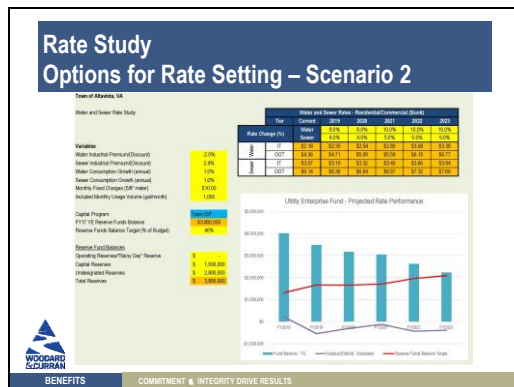
Mr. Emerson referred to the top line for 5 years on Scenario 1 and asked if this is 40% for water 5 years and sewer a 22% increase over 5 years.

Mr. Fedder stated the average of the two (water and sewer) over 5 years would be in the low 40% range.

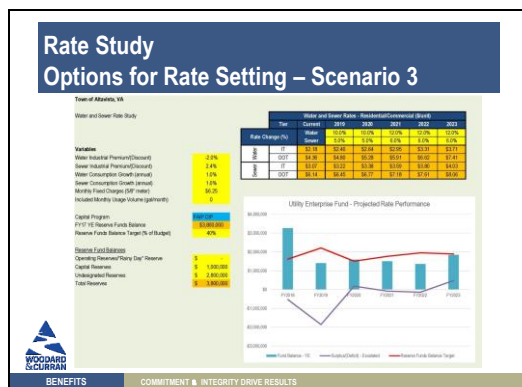
Mr. Emerson referred to his water bill stating it averages \$65.00 quarterly and what is being proposed over a 5 year period would average \$29 on his quarterly bill. A breakdown of \$5.00 per year for 5 years.



Mr. Fedder explained in Scenario 2, the monthly fixed charge is bumped up to \$10.00 with 1,000 gallons of usage included. This would help to alleviate some of the rate increases on folks that use a small amount of water. He noted the increases would be 8 and 4 for 2019 and 2020, the 10 and 5 for 2021, 2022 and 2023 in order to maintain the reserves.



Mr. Fedder referred to Scenario 3 and advised this uses FAIP (which has an extremely large cash flow requirement). It comes down to a reserve balance at \$3.8 million which is unacceptably low considering the Town would be entering into Capital programs. He felt Council may want to enter into one of the first two scenarios.



Mr. Fedder stated this shows what the scenarios look like from a quarterly bill perspective for a 60,000 gallon a year customer and 20,000 gallon a year customer.

**Rate Study Impacts of Rate Options – 60k Gal/yr**

Quarterly Bill Impacts for a customer using 60k/month

- Scenario 1 & 2 both use the Town proposed CIP roll-out, the difference being the targeted reserves maintenance.
- Both Scenarios targets FY2023 reserves at 40% of revenues
- Scenario 1 includes a \$6.50 monthly charge (\$19.50 per quarter) with no included consumption
- Scenario 2 includes a \$10 monthly charge (\$30 per quarter) with 1,000 gallons per month included usage
- Scenario 3 shows bills for the more aggressive FAIP CIP rollout and maintenance of 40% reserves.

Scenario	Charge	Current	2019	2020	2021	2022	2023
SCENARIO 1	Water	\$20.00	\$19.50	\$19.50	\$19.50	\$19.50	\$19.50
	Sewer	\$30.15	\$29.65	\$29.65	\$29.65	\$29.65	\$29.65
	Fixed Charge	\$0.00	\$19.50	\$19.50	\$19.50	\$19.50	\$19.50
	Total	\$50.15	\$68.65	\$68.65	\$68.65	\$68.65	\$68.65
SCENARIO 2	Water	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00
	Sewer	\$30.15	\$29.65	\$29.65	\$29.65	\$29.65	\$29.65
	Fixed Charge	\$0.00	\$19.50	\$19.50	\$19.50	\$19.50	\$19.50
	Total	\$50.15	\$69.15	\$69.15	\$69.15	\$69.15	\$69.15
SCENARIO 3	Water	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00
	Sewer	\$30.15	\$29.65	\$29.65	\$29.65	\$29.65	\$29.65
	Fixed Charge	\$0.00	\$30.00	\$30.00	\$30.00	\$30.00	\$30.00
	Total	\$50.15	\$80.65	\$80.65	\$80.65	\$80.65	\$80.65

**Rate Study Impacts of Rate Options – 20k Gal/yr**

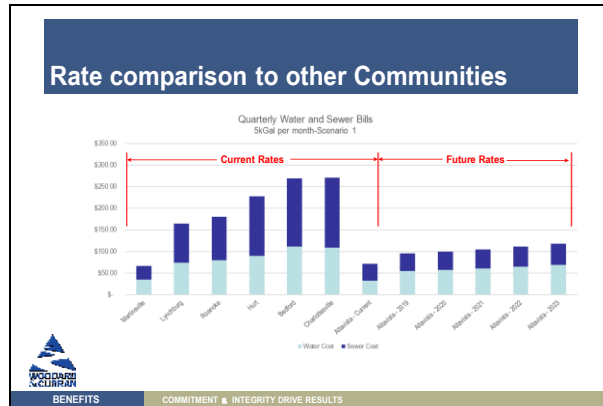
Quarterly Bill impacts for a customer using 20k/Gal/year

- Scenario 1 & 2 both use the Town proposed CIP roll-out, the difference being the targeted reserves maintenance.
- Both Scenarios targets FY2023 reserves at 40% of revenues
- Scenario 1 includes a \$6.50 monthly charge (\$19.50 per quarter) with no included consumption
- Scenario 2 includes a \$10 monthly charge (\$30 per quarter) with 1,000 gallons per month included usage
- Scenario 3 shows bills for the more aggressive FAIP CIP rollout and maintenance of 40% reserves.

Scenario	Charge	Current	2019	2020	2021	2022	2023
SCENARIO 1	Water	\$10.00	\$9.50	\$9.50	\$9.50	\$9.50	\$9.50
	Sewer	\$15.08	\$14.58	\$14.58	\$14.58	\$14.58	\$14.58
	Fixed Charge	\$0.00	\$19.50	\$19.50	\$19.50	\$19.50	\$19.50
	Total	\$25.08	\$43.58	\$43.58	\$43.58	\$43.58	\$43.58
SCENARIO 2	Water	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
	Sewer	\$15.08	\$14.58	\$14.58	\$14.58	\$14.58	\$14.58
	Fixed Charge	\$0.00	\$30.00	\$30.00	\$30.00	\$30.00	\$30.00
	Total	\$25.08	\$54.58	\$54.58	\$54.58	\$54.58	\$54.58
SCENARIO 3	Water	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
	Sewer	\$15.08	\$14.58	\$14.58	\$14.58	\$14.58	\$14.58
	Fixed Charge	\$0.00	\$40.00	\$40.00	\$40.00	\$40.00	\$40.00
	Total	\$25.08	\$64.58	\$64.58	\$64.58	\$64.58	\$64.58

Mayor Mattox asked if there was a rate study impact on some of the larger users.

Mr. Fedder stated it is not in this presentation. They compared with other locations with similar facilities. He stated everyone is seeing rate increases and the Town's water rates even with an increase are incredibly lower than other communities.



Mr. Fedder advised in regards to the connection fees for the Town, he was surprised at how low the fees are. The Town is losing money every time someone connects to water and sewer. Mr. Fedder felt the charges should be scaled according to the AWWA Capacity Factors.

Mrs. Dalton asked if this is an industry standard way of calculating these fees.

Mr. Fedder responded that it is.

Mr. Higginbotham questioned the number of connections in the past two years.

Mr. Fore responded approximately 6 connections.

Mr. Fedder stated this would not be a big revenue driver but would cover the Town's cost and adopt appropriate standards for operations.

### Recommended connection and supply charges

- With current connection fees, the Town loses money (time and materials associated with the support they provide) every time they connect a new customer to the system.
- Updated Connection Fees are intended to better align the cost of supporting new connections with the charge which is currently levied to new customers.
- Additionally, the adoption of Availability Fees, is recommended. These charges ensure that new customers are paying a pro rata portion of existing plant infrastructure based upon expected usage.
- Proposed charges are shown on the table to the right.

Connection Fees**		Factor Basis		AWWA Standard	
				Meter Size	Capacity Factor
Water Connection	\$ 1,500	meter size		1/2"	1.00
Sewer Connection	\$ 2,000	meter size		3/4"	1.50
Water Availability	\$ -	meter size		1"	2.00
Sewer Availability	\$ 600	meter size		1-1/2"	8.00
				2"	8.00
				2-1/2"	11
				3"	15
				4"	25
				5"	50
				6"	80
				8"	115

\*\* - Connection fee reflects actual costs to Town; (should be re-evaluated every 5 years)  
 \*\*\* - Availability Fees (should be reassessed if additional plant capacity is brought online)  
 \*\*\*\* - All Fees should be assessed using AWWA Capacity Factors in table to the right.  
 For Example: a new 1-1/2" water connection would be assessed \$1,500 X 5 = \$7,500 connection fee.

Mrs. Dalton thanked Mr. Fedder for his ability to be so articulate and felt she understood.

Mr. George asked what this will do to Abbott Laboratories; this will be a considerable hit for them.

Mrs. Dalton stated this means a conversation with Abbott Laboratories and noted we have been in this position before.

Mr. Higginbotham stated the big question is of the \$10 million what is a want and what is a need.

Mr. Fore stated once the CIP is in hand Council can say whether they agree or disagree with what is in the plan.

Mr. Higginbotham asked what has a band-aid on it and ready to fail tomorrow.

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Mr. Fore stated the major band-aid was taken care of with the electrical upgrades. He advised during the heavy rainfall event, the springs had to be cut off. Part of the facility assessment gives the ability to correct these issues. Some sections of the town continue to have waterline breaks in the same areas which are getting band-aids. Another area is to provide water pressure to the Melinda Drive residents which will be hit hard in the first two years of the facility assessment. He noted additional pump stations will be required on River Road, Holly Hills, and Northgate in order to achieve the same water pressure. Mr. Fore stated there are incidences of a lot of band aids.

Mr. Coggsdale advised this will be part of the discussion when starting the Budget review. He noted the draft Budget will go out to Council members on February 19th. He noted the proposed budget will have the current rates.

Mayor Mattox stated Council and staff have worked hard to get away from patching to fixing the problem for the last few years.

Mr. George mentioned it is his hope that the next media package will include a page showing the Town's rates compared to other localities.

Mayor Mattox adjourned the meeting at 6:38 p.m.

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Michael E. Mattox, Mayor

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J. Waverly Coggsdale, III, Clerk