

**MINUTES
PURCELLVILLE TOWN COUNCIL SPECIAL MEETING
BUDGET WORK SESSION
TUESDAY, OCTOBER 28, 2019, 7:00 PM
TOWN HALL COUNCIL CHAMBERS**

The special meeting of the Purcellville Town Council convened at 7:00 PM with the following in attendance:

PRESENT: Kwasi Fraser, Mayor
Joel Grewe, Council member
Nedim Ogelman, Council member
Tip Stinnette, Vice Mayor

ABSENT: Chris Bledsoe, Council member
Ryan Cool, Council member
Ted Greenly, Council member

STAFF: David A. Mekarski, Town Manager
Sally Hankins, Town Attorney
Hooper McCann, Director of Administration
Liz Krens, Director of Finance
Connie LeMarr, Asst. Director of Finance
Paula Hicks, Accounting Manager
Linda Jackson, Budget Analyst
Buster Nicholson, Director of Public Works
Jason Didawick, Asst. Director of Public Works
Dale Lehnig, Capital Projects & Engineering Manager
Diana Hays, Town Clerk

CALL TO ORDER OF SPECIAL MEETING

Mayor Fraser called the special meeting to order at 7:00 PM

AGENDA AMENDMENTS/APPROVAL

None

CITIZEN/BUSINESS COMMENTS

None

PRESENTATION:

David A. Mekarski, Town Manager, introduces Stantec's presentation on rate designs offering models that are focused on equity amongst the class of rates and recommendations for a preliminary rate structure. (*Copies are on file at the Clerk's office.*)

Liz Krens, Director of Finance, introduces David Hyder and Kyle Stevens from Stantec to present on a project that has been a year in the making on our utility rate study.

David Hyder opens presentation with a reminder to everyone on their overall approach being used in this study is the focus of creating a financial plan defining on how much revenue needs to be collected to fund the water and sewer systems. Static models will be presented at the end of the discussion. Cost of service which defines the proportional revenue recovery between the various classes of customers was discussed at the last meeting and will be reviewed in this presentation. This evening the main focus will be rate design and the structure on how to recover those revenues by class and then the final step is the communication to the public. He begins the presentation.

Council member Ogelman questions the information becoming normalized from what is presented because of the greater number of residents than businesses. David Hyder comments it is normalized in the sense of the expectation being greatest in the cost to serve your residential customers because they are a vast majority.

Council has questions and a discussion on including waste water into the equation. David Hyder, Stantec, and Liz Krens, Director of Finance, confirms that this discussion is on water costs and does not include wastewater until the second half of the presentation.

David A. Mekarski and David Hyder have a brief conversation in regards to operation and maintenance costs and comparing to other municipalities.

David Hyder recommends, based on the Cost and Service Analysis, two customer classes to be categorized as single family residential and non-single family.

David Hyder shares objectives of rate design with four key objectives; rate equity, simplicity in understanding rates, stability in the rates, and conservation of water. He shows results of the terms of the current rate structure showing that there is more than necessary being collected from the single family class because of the 17 tier rate structure.

Council member Ogelman reminds David Hyder of previous discussions that the utility should run as a business and wondered where had the direction changed to move to the equitable idea. Mr. Hyder comments that there is a breaking point; that it should be run as a business with a self-supported system and with it being a public utility there is no profit incentive. David Hyder defines it as decoupling from a business and it is a public utility as it should be based on cost of service. The current rate structure is not sustainable and revenues need to be raised in the future on water and wastewater sides. The concern is for the prices of commercial and institutional are getting so high that those customers will be lost. Council member Ogelman understands that from the business case model, but does not understand the idea of it having to be equal as a nonprofit with \$40 million in debt and we are looking for ways to recover what we invested in capital into our infrastructure.

Sally Hankins, Town Attorney, comments that the rates don't have to be equal, but they have to be related to the cost of service and that cost of service might be different for one class of customers over another, then it's ok to reflect that cost of service difference in the price you are charging with a basis for that difference.

David Mekarski comments that the debt is associated to the sewer enterprise fund and we are looking at rates and equity in the water enterprise fund. Council member Ogelman points out that the charge on water is not separate from the sewer rates. Mayor Fraser comments that the sewer rate is a derivative of what is being charged and it is not being run like a business. A discussion continues among Council and Town Attorney. Council member Grewe sums up the conversation "run like a business" meaning the revenue needs to be generated within it's system and to be self-supporting.

Council member Ogelman questions if the typical residential citizen that is using water sparingly, should be on the same kind of equitable track as an institution that locates itself in town to make a profit. David Hyder agrees that the word equitable is ambiguous in that nature, but his concern is that the town will place itself out of the market on the top end. He will be displaying alternatives to move towards equity, address conservation, and other proposals. He introduces Kyle Stevens to continue with presentation and to discuss water and sewer at this point.

Kyle Stevens discusses modest changes to the sewer structure and summarizes the more technical study that was done. The two components used are a monthly fixed charge regardless of usage and an additional component based on volume used in a bimonthly period. There is an Alternative A and Alternative B with more detail given.

Mayor Fraser comments on different rates for out of town and uses Woodgrove High School as an example. David Hyder and Council member Ogelman discuss this topic in more detail. Council member Grewe comments on different amounts charged depending on where they are from would promote trouble. Council member Ogelman questions the 17 tier structure in place now and Sally Hankins would defend the reason for the existing tiers and the cost of service escalates as the usage escalates. Paula Hicks points out the same argument with our restaurants in town similar to Woodgrove High School.

Vice Mayor Stinnette suggests to cease the conversation and allow Stantec to get through the presentation.

Kyle Stevens reviews sewer scaling on fixed charges and references two discussions involving the level of fixed cost recovery. (*Slide 11 and 12*)

Vice Mayor Stinnette questions doubling fixed rates for larger meters beyond 5/8' meter and wanting to be sure this is explained when volumetric rates are discussed to be put into context.

Kyle Stevens continues on how to size the tiers and the data that was gathered. The recommendation is a 4 tier configuration, based on indoor use, census information a family of 3 being tier 1 and then a family of 6 being tier 2. The next demand driver for other tiers is peak outdoor use which was used from a random GIS census of parcel size which would be tier 3 and then tier 4 would capture all excess use over tier 3. He continues to review an Alternative A for volumetric rates and Alternative B for volumetric rates. (*Slide 18-19*) Also the presentation covers

billing impacts with both these alternatives on single family and non single family customers.
(Slide 20-28)

David Hyder summarizes, in terms of the rate structure, that Stantec recommends Alternative B for the following reasons to correct an unsustainable rate structure, balance customer impacts with cost of service findings and rate equity, enhance the transparency and understandability of rates, and promotes conservation for all customers.(Slide 29)

Mayor Fraser opens the floor for Council comments.

A discussion occurs among David Hyder, Vice Mayor Stinnette, and Council member Ogelman regarding Alternative B and the effects it has on customers and type of customers.

Council member Grewe and Council member Ogelman present a discussion to David Hyder, Stantec, on possibly breaking out the institutional portion to determine more of the possible demand, risk, and impact from this class of user.

David Hyder presents the fundamental question; does it cost the Town more to serve institutions based upon average use by meter size and effectively the same for single family.

Council member Grewe comments that the buy-in happens at establishing the cost of service and a discussion continues with David Hyder and Kyle Stevens.

Council member Ogelman comments that the water and sewer breakdown is important when showing bill impacts and should be shown for both. David Hyder agrees and the key point to be aware of are also the years noted 2020 to 2023.

Mayor Fraser is concerned with the Alternative A having a larger impact and David Hyder agrees. David Hyder has advocated for Alternative B and it being the most appropriate choice. Vice Mayor Stinnette confirms percentages with Mr. Hyder. Mayor Fraser comments that this so far something to think over.

David Hyder continues with presentation in regards to water revenue and sewer revenue requirement by the type of expense charts. (Slide 30-31) The chart detail shows expenses only and the orange representing the operating costs, blue being the debt, and yellow being the cash funded CIP pointing out that 2023 starts the jump in debt payment. Council member Grewe requests these charts be more broken out in more detail.

David Hyder continues with the financial modeling assumptions keeping in mind the current chargeback per fund being \$493k, terms of going forward to increase water rates by 1% will equal \$21k additional revenue and to increase sewer rates by 1% will equal \$32k additional revenue, and if there is any support that comes from the general funds to reduce the chargeback with a 1% increase in meals tax would equal \$430k and a 1 cent increase in property tax would equal \$141k. All of these factors can be used in the financial modeling using the latest water CIP presented by Public Works.

David Hyder continues with a summary and showing different scenarios of rates not changing and then a scenario of showing Alternative B for water revenue sufficiency analysis and sewer revenue sufficiency analysis charts and its' impacts. (Slide 34-39) Liz Krens comments there will be a

significant impact on the general fund without increasing revenue. David Mekarski follows up with a comment that 70% of our general fund is human beings and the Novak study displays the size and services of our town needing 225 employees and we only have 87. Council member Ogelman questions if the 225 is an average or actual number. Mr. Mekarski continues comments without a new meals tax, a new property tax and monetizing our assets would result in staffing impacts and service reductions and defer a major capital project of a new police headquarters. His point being the need to recognize this when making decisions on this rate structure.

Mayor Fraser needs more explanation on the chargeback amount of \$493 reaching a million dollars. Liz Krens comments it is \$493k on water and \$493k on sewer.

David Hyder continues with the last two slides of the presentation showing the average customer bill impact over the next 5 years using Alternative B without general fund support and then the very last slide showing the same, but with general fund support. Without general fund support the total water and sewer percentage change would be 1.88% up to 8.6% over 5 years and with the general fund support would be 1.88% up to 6% over 5 years.

Council member Grewe comments on expanding the projection over 10 years pointing out a substantive increase of \$8 million dollars of financial impact.

Mayor Fraser would like to look forward with these numbers to 2025 and keep in mind the future of costs being lower because of automation, machine, and artificial intelligence or are we looking at status quo of the jobs remaining the same. David Hyder comments that this is a good question.

Council member Ogelman comments on hidden costs of growth over some number of years and questions how big are places that gain economies of scale from utilities. David Hyder references a report. Kyle Stevens reads from the Draper Aden report on this information and a conversation continues.

Vice Mayor Stinnette confirms the revenue collected in a current year from water and sewer is \$5.3 million and the amount of revenue is the same using Alternative B. Vice Mayor Stinnette confirms that Alternative B does not reduce our debt, does increase our user rate, does decrease commercial rate and principal reason to do this is to make rates sustainable. David Hyder confirms and it would cause conservation pointing out long term it would possibly increase the revenue. Connie LeMarr, Assistant Director of Finance, confirms that conservation has gone up and these measures will continue to go up.

Connie LeMarr also comments that big businesses have left town and another dug their own well. Council member Ogelman questions if the net revenue for water and sewer has ever taken a dip and be sure that this business case is clear.

Vice Mayor Stinnette questions if there are any other scenarios that would be better than Alternative B. David Hyder comments that there might be other ways to go about things before moving to Alternative B and needs more time to cover Vice Mayor's question. Mr. Hyder realizes it is difficult to look at these results, not gain additional revenue and also people are being impacted.

Council member Grewe comments that Alternative B is a hard sell, but would like to give citizens some more choices and realizes if there was an increase of people on the system it would be helpful in the rate change which has not been modeled. Council member Ogelman comments that in that scenario, be sure not to show net revenue without showing net costs.

Vice Mayor Stinnette summarizes instructions for David Hyder to go forward with Alternative B with modifications and show an Alternative C with minimal change in the first year. On the financial modeling assumption include a rule of thumb for each home. Council member Ogelman adds to also provide break down on a per capita basis of water and sewer costs.

Mayor Fraser questions the timing of the next presentation of information from staff and decides to cancel the upcoming meeting for lack of time to prepare.

Buster Nicholson asks for confirmation on percentages from an earlier chart discussion on cost of service to current revenue. David Hyder answers from a proportionality standpoint, residential customers use about 73% total volume and generate 57% of the revenue.

David Mekarski requests that Council seek new revenue sources to get to structural stability such as an increase to meal tax that comes from 90% of out of town residents.

ADJOURNMENT:

With no further business, Council member Grewe made a motion to adjourn the meeting at 9:15 PM. The motion was seconded by Council member Ogelman and carried 4-0-3 absent.

Kwasi A. Fraser, Mayor

Kimberly Bandy, Deputy Town Clerk