March 9, 2010

UTILITIES COMMISSION
March 9, 2010
7:00 p.m.

The Stafford County Utilities Commission met for its regular meeting on March 9, 2010, in the A, B, C Conference Room in the Stafford County Administration Center. Commission members present were Steven Apicella, Lloyd Chittum, Bob Gibbons, Danny Kim, Bill Tignor and Clarence Young. Paul Bender and Karin DeMoors were present for PFM, our financial advisor.
Harry Critzer, Susan Fitzgibbon, Cheryl Giles and Mike Smith were present for the Utilities Department.

2. Public Presentations – Mr. Paul Waldowski commented that he would like to see the County report the revenues per district and the expenses per district. Mr. Waldowski explained that although we are one county, there would be times when revenues from one district could be used to help pay expenses in another district. Mr. Waldowski stated he had presented this proposal to the Planning Commission and also plans to propose it to the Board of Supervisors.

3. Approval of Minutes – Steven Apicella requested the following addition to the January 12, 2010 minutes:
• Mr. Gibbons commented that when the Planning Commission revisits the Reservoir Protection Overlay District ordinance, the Utilities Commission would be given an opportunity to review or comment on the ordinance.

Mr. Apicella also requested the following additions to the minutes for the January 26, 2010 work session:
a) Mr. Apicella asked if the $4.5M in FY11 for the proposed rate increase was a mandatory requirement. Staff responded it is discretionary, albeit a good business practice recommended by our financial advisor.
b) Mr. Apicella also asked if the $4.5M for reinvestment did not occur in whole or in part, how it would affect our Bond rating. Staff responded it would not negatively impact our bond rating but would impact the ability to set aside funds for reinvestment needs downstream.
c) Mr. Apicella recommended that staff look at the unreserved fund balance and see if more of the funds in that account could be used to leverage bond financing rather than using those funds to directly pay for projects. Staff responded that the debt financing vs. pay-as-you-go approach would be looked into for smaller projects.

Following these additions to the minutes for the January 12, 2010 meeting and the January 26, 2010 work session, the minutes were approved.

4. Utilities Finances – Director of Utilities, Harry Critzer reported that at the February 16, 2010 Board of Supervisors (BOS) meeting, the BOS referred the water and sewer rates and fees issue to the Utilities Commission and directed the Utilities Commission to hold a public hearing and provide a subsequent recommendation to the BOS.

At the March 2, 2010 BOS meeting, the BOS asked the Utilities Commission and staff to come back to them with a recommendation that meets the following criteria:

¬ Meets our fiscal, infrastructure and service requirements.
¬ Does not raise rates as originally proposed – 8% per year for 3 years.
¬ Seeks to achieve no increase in rates for FY11, if fiscally prudent.

Mr. Critzer provided a timeline targeting July 1st as the effective date for the proposed rate increase. In order to prepare for a public hearing to be held at the April 13th Utilities Commission meeting, staff proposed that a special Utilities Commission work session be held March 23rd or another date convenient to the Commission.

Mr. Critzer reported the Utilities Department's objectives are to: complete priority CIP projects, maintain bond ratings, and to implement reasonable and justified rates and fees. The CIP cash needs view for the next three years currently totals $134M.

Mr. Critzer explained that Rocky Pen Run Reservoir needs to be done now if we want to meet current and future water demands and position ourselves to be able to provide sustained operations in drought conditions. If we postpone it until the economy improves, we run the risk of not providing consistent and reliable service to our customers at all times. It is going to take three years to get the dam, reservoir and water plant constructed, which would require us to rely on Abel Lake WTF and Smith Lake WTF to get us through peak demand days during the summer. This would most likely mean that mandatory water restrictions would need to be implemented.

Mr. Critzer stated that although the current economic conditions have a negative connotation, one positive outlook is that it is an ideal bidding environment for our projects. It would be to our advantage to get the bids out during this economy. We could expect significantly reduced costs for the dam, reservoir and water treatment projects.

Mr. Critzer finalized his presentation by highlighting the amount of infrastructure for the Rocky Pen Run project and the operating objective for the Utilities Department.

PFM representative Karin DeMoors provided background information on the impact of the financial crisis on the municipal bond market. Ms. DeMoors stated that Stafford's strong credit ratings would save Utilities almost $6M in total debt service on its planned borrowing.

Ms. DeMoors reported that over the past few months, PFM has worked with staff to come up with recommendations to facilitate the implementation of large capital projects. PFM recommendations are as follows:

♣ Update financial policies
Adopt 10-year financial plan
Develop formal CIP forecasting and monitoring procedures
Move from growth-based to usage-based rate structure
Adopt a reimbursement resolution as part of annual budget process
♣ Modernize bond covenants

Ms. DeMoors stated Utilities does not currently have a policy on debt service coverage, although there are minimum debt service requirements per our existing bond covenants. PFM recommends the Utilities Department adopt a financial policy on debt service coverage ratios and proposes that senior debt service coverage should be 1.5x the annual debt service and the subordinate debt service coverage should be 1.25x the annual debt service.

Mr. Gibbons asked about the current debt for Utilities. Ms. DeMoors responded that Utilities current outstanding debt is $12M in bonds and $30M in VRA loans. The existing debt service is about $3M to $4M a year, which excludes debt service on the new VRA loans.

Mr. Gibbons asked for clarification of the 1.5x debt service coverage. Mr. Paul Bender responded that it is the total revenue minus operating expenditures which would need to be 150% of the debt service.

Ms. DeMoors reported PFM also recommends the Utilities Department revise the operating reserve policy to require a minimum of 150 days operating and maintenance expenses and to consolidate separate operating reserves.

Mr. Gibbons asked what are the current revenues. Susan Fitzgibbon responded it is currently $29M. Mr. Gibbons asked how much is currently encumbered in reserves. Ms. DeMoors responded $23.2M excluding the debt service Reserve, which is currently $3.1M.

Mr. Bender commented that the only reason for the policy changes were to maintain the AA bond rating while freeing up as much cash as possible.

Susan Fitzgibbon reported there has been no rate change in over two years. The proposed rate recommendations are to have a 6% increase in FY11, a 7% increase in FY12 and an 8% increase in FY13. The annual projected revenue increase with proposed rates for FY11 would be about $1.3M. The projected growth during the planning period is about 1.5% in the first three years. It gradually increases to about 2% in subsequent years.

Mr. Gibbons commented that we have a system that does not have enough customers to take care of itself. The system is based upon reinvestment.

Steven Apicella asked the following questions:
• What is the actual amount of monetary value for FY12 and FY13 rate increases?
• What is the cumulative percentage of the rate increase if we started in FY12?
• What does that percentage of money pay for?
• Since the debt service doesn't begin until FY12, what amount will be used to cover debt service and what amount will be used to cover additional operating cost?

Ms. Fitzgibbon responded that the monetary value would be $1.3M for FY11, $1.6M for FY12 and $2.1M for FY13 with rate increases of 6%, 7%, and 8% in FY11, FY12 and FY13 respectively. If there is no rate change in FY11, the monetary value would be $0 for FY11, $2.2M for FY12 and $2.9M for FY13 with rate increases of 0%, 10%, and 11.5% in FY11, FY12 and FY13 respectively. In either scenario, the cumulative impact is approximately 24% by the end of FY13. Both scenarios were calculated so that the debt ratio targets could be met by FY18 in order to maintain the Utilities bond rating. If the proposed changes for the fiscal policy were approved, there would be some flexibility in using the fees to pay debt service.

Mr. Bender commented that in 2011 bonds will begin to be issued to build Rocky Pen Run. VRA low interest loans and some grant funding have already been obtained for Little Falls Run WWTF and Aquia WWTF. It is not a year-by-year plan. The reason for the 10-year rate proposal plan is to try and make the increases for the first, second and third year less but still maintain the bond rating.

Following some discussion regarding the need for borrowing funds, Ms. Fitzgibbon reported that the debt ratios outlined in the proposed fiscal policy would be met by FY18. If there is no rate change in FY11, we will need a 10% and 11.5% rate increase in FY12 and FY13 to meet the debt ratio targets by FY18. The revised proposal is a 6% increase in FY11, a 7% increase in FY12 and an 8% increase in FY13. The residential conservation rate and the irrigation/bulk rate would remain unchanged. The availability fee for water would increase from $5,600 to $6,900 and the availability fee for sewer would remain unchanged. The original proposed rates were reduced by postponing non-immediately critical CIP projects, reducing operating costs, proposing an update of the Utilities fiscal policy, and re-addressing financing options. The FY11 impact to the average residential customer would be an increase of $2.44 and for the average commercial bill an increase of $17.76.

Mr. Critzer provided cost estimates of the Rocky Pen Run dam, reservoir and water treatment facility. Mr. Gibbons asked why there was an increase from $77M to $125M in three years for the cost estimates. Mr. Critzer explained that the earlier estimates equate to today's estimates. There were two anomalies for the $76M in 2004 and the $77M in 2006.

Mr. Critzer reported staff met with Schnabel and URS to discuss Rocky Pen Run cost estimates for the dam design. They informed staff that the $125M cost could possibly be lower due to the current bidding environment.

5. Stafford Meadows – Private Water and Sewer Systems – Mr. Critzer reported that he and Deputy County Administrator Mike Neuhard met with the management company of Stafford Meadows. The management company is billed based upon four meters. Stafford Meadows has 209 townhomes and condos. The average usage per residential unit is 4.67 thousand gallons per month for an average bill of $37.82. The management company also charges a maintenance fee.

Staff recommends that we not take over the system because additional revenue would be minimal and Utilities would incur additional expenses to maintain the system.

6. Commission Members Comments – Danny Kim inquired if there were other alternatives pursued for generating revenue instead of the proposed rate increase. Mr. Bender responded that Utilities had maximized their ways of obtaining funds through grants and borrowing.

Mr. Apicella asked if funds could be used from the fund balance after the necessary amounts have been reserved to pay the $1.2M for FY11. Mr. Bender responded that we should not tap into the fund balance because it would jeopardize our borrowing when we go to the bond market.

Following some discussion about borrowing and reinvestment of funds, Mr. Gibbons suggested asking the Board of Supervisors to eliminate the P.I.L.O.T program.

Mr. Apicella made a motion to recommend to the Board of Supervisors to eliminate the P.I.L.O.T. program and a proposed rate increase of 3% for FY11, 7% for FY12, and an 8% for FY13 prior to the Commission holding a public hearing. The motion was seconded by Lloyd Chittum and passed unanimously.

Mr. Critzer asked the Commission's recommendation for handling the fiscal policy. The Commission recommended the fiscal policy be handled separately from the proposed rate increase. Mr. Bender informed the Commission that the proposed fiscal policy changes helped to lower the proposed rate recommendations.

Mr. Apicella made a motion to recommend to the BOS to raise the water availability fees from $5,600 to $6,900. The motion was seconded by Mr. Gibbons and passed unanimously.

Mr. Critzer commented he would speak with County Administration to see if we could get the item on the March 16th BOS agenda. Once he receives an answer, staff would contact the Commission to schedule a date for a work session to be held.

Mr. Chittum inquired about the Golden Tap Award. Mr. Critzer responded there were currently no names available for submission to the selection committee. Mr. Chittum commented that due to a lack of information, the item would be deferred until the next meeting.

The meeting was adjourned at 9:20 p.m.

Respectfully submitted,

William C. Tignor,
Recording Secretary