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Service Authority

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K. Jack Kooyoomjian, Ph.D., Member
Marlo Thomas Watson, Member

Calvin D. Farr, Jr., P.E., General Manager

MINUTES OF BOARD OF DIRECTORS RATE STUDY WORK SESSION OF OCTOBER 27, 2021

Board Members Present: Jim Almond, Dean E. Dickey, Joyce P. Eagles, K. Jack Kooyoomjian, Ph.D., B. Paul O'Meara, Jr., Marlo Thomas Watson, and Harry Wiggins.

Absent : Paul Colangelo

Staff : Calvin Farr, Astrid Nelson, Don Pannell, Samer Beidas, Lyle Beefelt, Lake Akinkugbe, Brian Sipes (via telephone), April Bean and Kim Murray.

Legal Counsel : Mark Viani/Bean Kinney & Korman.

Guests : David Hyder/Stantec.

Chairman O'Meara opened the Work Session at 6:46 PM.

Mr. Farr thanked Board Members for their time this evening. He reminded Board Members that the next regular Board meeting will be held Wednesday, November 10, 2021 (6:45 PM).

Mr. Farr asked Board Members to consider the future as they consider the Rate Study and when making decisions about the Service Authority's rates (with respect to aging infrastructure and other matters).

1. RATE STUDY WORK SESSION

Ms. Nelson noted the Rate Study was a team effort led by Mr. Sipes, Mr. Beefelt and Mr. Akinkugbe. She introduced Mr. David Hyder, Senior Principal with Stantec, rate consultant.

Mr. Hyder briefed the Board about the Service Authority's rate setting criteria and process, which includes covering the cost of service, setting rates on a three-year cycle and ensuring the Service Authority's rates meet established standards of affordability.

Mr. Wiggins asked if water and sewer bills have increased at three times the rate of inflation since 2010 (per the presentation) primarily due to infrastructure; Mr. Hyder answered yes, it is largely due to infrastructure replacement needs. He noted reduced consumption also directly affects the bottom line. Mr. Farr added that stricter regulatory requirements, mandated expedited improvements by regulatory agencies, and aging water systems are all factors in rate increases.

Mr. Hyder noted the Service Authority is meeting and exceeding affordability metrics that have been established within the industry.

Mr. Dickey asked Mr. Hyder to elaborate on the replacement fund criteria. Mr. Hyder explained he worked with engineering staff to determine the anticipated design life of various assets. They also considered assets that are past their useful life.

Mr. Wiggins referenced the Prince William County (PWC) lowest quintile indicator (\$47,500 as stated in the presentation) and asked how the water and sewer affordability metric takes into account the cost of housing. Mr. Hyder answered it does not.

Mr. Almond asked how the increasing minimum wage would affect the affordability of the Service Authority's bills. Mr. Hyder stated with the forecast of not increasing rates, at least in the next year, a higher minimum wage would reduce the number of hours needed to work to pay the utility bill.

Mr. Dickey questioned whether water conservation (by customers) is a viable way to reduce rates. Mr. Hyder answered that to the extent a low income home may have bad toilets and fixtures, those owners could reduce their bills by making repairs and/or replacing equipment. He added that home audits may be another way to assist customers in lowering their bills.

Mr. Hyder reviewed the regional monthly bill comparisons (based on 5,000 gallons); the Service Authority's (PWC) rate is the second lowest on the list of 10 counties/cities.

Mr. Hyder reviewed information regarding customer rebate programs. He noted typical programs focus on water use – driving behavior to address water scarcity or conservation philosophy. Mr. Hyder added that customer rebates from “excess” cash reserve balances are rare. Instead, utilities may delay or reduce future rate increases/maintain current rates or accelerate necessary capital investments. Ultimately, rebates, refunds or rate reductions in the short term all result in higher rate increases in the future.

Mr. Hyder provided a summary of the Rate Study, noting the Service Authority's Replacement Fund Balance Target has increased based on expired assets. He added that customer bills are affordable based on industry metrics and are among the lowest in the region. He does not recommend any rate adjustments in Fiscal Year 2022 (FY22); additionally, while there is flexibility, he noted adopting new rates within two years will avoid future large increases (consistent with Board Priorities).

Mr. Hyder suggested next steps include his returning to the Board in FY23 with user rate recommendations and an analysis of Expansion and Commitment funds and availability fees.

Mr. Wiggins referenced fixed rates for service and variable rates for actual usage; he asked how this is done at other utilities. Mr. Hyder explained it is common for utilities to have some type of fixed charge on their bills; it can provide some revenue stability and may help avoid volatility. He noted the fixed component of utility bills typically seen in the industry has increased over time to the 20-30% range and the Service Authority is within that range.

Mr. Almond asked how increased personnel costs impact rates; Mr. Akinkugbe shared that a 5% increase in personnel costs was assumed in the financial model and includes salary adjustments. Higher vacancies offset the need to increase the current year budget. Mr. Farr acknowledged that if the Service Authority was fully staffed and there were no rate increases, it would likely impact future salary increases.

Dr. Kooyoomjian noted the Board needs to take a long-term perspective as they move forward and strive for stability and predictably; they need to encourage employees to have good ideas, to be more efficient, save money, run the operation, have a "smart shop." He added that he would like to revisit the "six month rule" for the Operating Fund. Dr. Kooyoomjian noted that the Service Authority is in the top 5% of utilities in the country with its performance and he would like to see it retain that posture and not slide in any way.

Mr. Wiggins referenced his comments about connection fees at the last meeting. The Service Authority's fee is the same for high- and low-priced homes. He asked if all utilities have fixed connection fees. Mr. Hyder stated he is not aware of other utilities with discounted connection fees in Virginia. He noted a few exceptions in California. He offered to do research on that issue in Virginia; he would not recommend going that route, but some states will base their connection fees on the number of bedrooms, fixture counts, etc. (including for tiny homes). He suggested caution is needed due to possible implications. Mr. Beefelt added that any changes based on fixture counts would be difficult to administer; they would also have to consider any changes made to a structure since those changes would affect demand. Mr. Dickey asked Mr. Hyder to check with Fairfax County as they may have some experience and/or advice with variable connection fees.

Mr. Farr spoke about his experience in working with developers and economic development staff with respect to paying availability fees as part of affordable housing during redevelopment.

Mr. Viani reported he surveyed area jurisdictions in Northern Virginia and Suburban Maryland (which is served by the Washington Suburban Sanitary Commission) and found that housing affordability is a growing concern. To address this growing need, these jurisdictions have adopted affordable housing programs that provide a market-based financial incentive for developers to provide dedicated affordable housing units in exchange for increased density for their market-rate units. Examples include Fairfax County's ADU (Affordable Dwelling Unit) Program and Montgomery County's MPDU (Moderately Priced Dwelling Unit) program. (For example, a developer provides 12% of its units as dedicated affordable units in exchange for a 20% overall increase in density.) Mr. Viani advised that through these programs, the jurisdictions had also provided permitting incentives (discounted permit fees) etc. but that had not provided a discount or free water/service connections, or any public infrastructure discounts (i.e. schools, roads) and that these were just absorbed as part of the costs of doing business. This approach was also true in the case of tax credit projects (4% and 9% projects supported by the VDHA [Virginia Housing Development Authority]) which construct 100%

affordable housing projects. He stated that there were likely two reasons for this rather uniform approach. The first is simply a reflection of the actual need placed on this public infrastructure by the additional people generated in affordable households (just as they would be with market rate households). Mr. Viani noted that this is consistent with the “growth pays for growth” mantra of the Service Authority. The second and more important consideration would be the impact of the Service Authority’s bond covenants, which do not allow the Service Authority to give away services. Such bond covenants are commonplace and likely apply to the other jurisdictions surveyed.

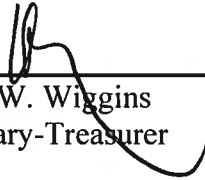
2. CLOSED MEETING

There was no need for a closed meeting.

Board Members thanked Mr. Hyder for his work on the Rate Study.

3. ADJOURNMENT

The work session adjourned at 7:59 PM.



Harry W. Wiggins
Secretary-Treasurer