

HARTSTENE POINTE WATER-SEWER DISTRICT
2016 BUDGET HEARING
November 7, 2015
202 E Pointes Drive West, Shelton WA 98584

MINUTES

PRESENT: President R. Ray, Secretary M.A. Cary, Commissioner N. Nelson, Accounting and Administrative Services Manager (AAS) M. Carnahan, General Manager (GM) M. Jeffreys.

CALL TO ORDER: The meeting was called to order at 10:00 am.

PRESENT AGENDA: The agenda for the November 7, 2015 Budget Hearing was presented. *Commissioner Cary moved to adopt the agenda as presented. Commissioner Nelson seconded. Hearing no objections, the agenda was adopted.*

WELCOME: Opening remarks were presented by President Roger Ray.

RECOGNITION: President Ray recognized Commissioner Nancy Nelson for her service to the District since 2012. She is resigning effective November 20, 2015 and moving to Montana. President Ray also recognized Commissioner Mary Alice Cary for her service to the District since its formation in 2008. Her term expires at the end of 2015. President Ray recognized Commissioner-Elect David McNabb who will be taking office January 1, 2016.

BUSINESS:

Budget Hearing Presentation: Commissioner Cary presented the District's Mission Statement and an overview of the purpose of the District. The GM and AAS presented the District's 2015/2016 projects, challenges faced by the District and the proposed solutions, the proposed 2016 budget, and the proposed increases to connection fees and monthly rates.

Questions and Comments: Attendees were presented the opportunity to give their comments and questions. Those questions and comments and the District's responses are summarized below:

William Parisio:

- Question/Comment: Commented on the cost of the lockbox service. He felt the cost was excessive. Mr. Parisio asked if the District had investigated contracting with local banks for this service.
 - Response: The District is not prohibited by law to process payments in the office; however, due to the limited staff members in the office, it would be difficult to establish adequate internal controls to ensure the proper handling of payments. For that reason, the District prepared a request for proposals for check payment processing services in its search for a contractor. The AAS did a preliminary search into contractors that could fill the District's needs and found that banks which offered these services were comparable in price, but would likely offer less in customer service.

- Question/Comment: 2015 Citizens Rate Study Task Force member, Hy Visse, projected that District did not need a rate increase for three years. What happened?
 - Response: Mr. Visse's projections were based on the assumption that the District does not need financial reserves and that capital improvements should be paid for through debt service. The commissioners have adopted policies which conform to the State Auditor's Office (SAO) and the Government Finance Officer's Association best management practices which dictate that the District maintain reserves to cover emergencies, asset replacements, and planned capital improvements.

With the Drinking Water State Revolving Fund (DWSRF) Loan, the District's debt service will be approximately 22% of the District's revenues at the current rates. The SAO guideline for debt load is less than 12% of revenue.

Additionally, it is becoming increasingly difficult for municipalities to obtain financing for capital improvement projects. The District attempted to obtain a conventional commercial loan for the Booster Pump and Meter Installation project, however multiple banks refused to finance the project. That project finally was paid for by a USDA Rural Development Bond from funds provided for in the American Reinvestment and Recovery Act. Those funds are no longer available. The Public Works Trust Fund is Washington State's primary infrastructure loan program; however, the legislature has been re-appropriating funds from that program to help balance the State's General Fund budget for the past several years, leaving no funds for new infrastructure loans.

The need to address aging water and wastewater infrastructure was the focus of a 2012 American Water Works Association (AWWA) study which found that more than \$1 trillion will be needed to replace and expand drinking water infrastructure alone over the next 25 years. According to the AWWA's 2015 State of the Water Industry report, infrastructure and how to finance capital improvements continue to top the list of concerns facing water professionals throughout North America. This question of how to fund capital improvement and infrastructure projects is not unique to the Hartstene Pointe Water-Sewer District. It is the main issue for the majority of water and wastewater systems around the country.

There are fewer and fewer loans available to municipalities, and with so many systems facing the same problems of aging infrastructure, competition for these loans is fierce and our small system would likely not rank as a top priority. The District is left to determine how to pay for its capital improvement projects with other funding sources, including operating revenues, financial reserves, and special assessments.

- Question/Comment: Why is the District not using the installed water meters?
 - Response: The primary reason meters were installed was to meet a requirement of the Water Use Efficiency Rules, established by the Washington State Department of Health, which require that water municipalities use water more efficiently. The

rules require that all customer connections have water meters installed by 2017. The District will be reading the meters on a monthly basis to collect usage data and find customer-side water leaks in order to work toward conserving water in accordance with the Water Use Efficiency Rules.

The main difficulty the District would have with charging our customers primarily based on water usage is 95% of the District's expenses are fixed, meaning they are expenses which must be paid whether or not anyone is using the water or flushing wastewater into the sewage collection system. In 2015 the District formed a citizen's task force to conduct a rate study. Within the Rate Study Task Force's report to the Board of Commissioners, Hy Visse, who is a Certified Public Accountant, submitted a minority report, which noted:

"The system must be, and is, robust enough to provide service to all of Hartstene Pointe properties on the busiest holiday weekend. All while in compliance with Federal and local regulations...5% of costs will increase or decrease with water usage, 95% will not. About \$5 per month of your water/sewer bill pays for costs that follow usage [treatment chemicals and electricity]. About \$90 per month pays for the facilities and costs that don't follow usage [debt service, water testing, payroll, billing]. \$5 for turning on the water, \$90 for having the water at the tap and removing the resulting sewage.

"What would be the effects of usage rates on the District? Revenue would be less predictable. Revenue would be more seasonal. Less predictable and more seasonal revenue may require greater operating cash reserves and more frequent rate changes. Because of the cost recovery nature of the District, the method of determining the amount of individual customer billings should have no material effect on total revenue."

If, in the future, the District commissioners decide to change the rate structure to reflect usage, it would be in addition to the established base rate which customers are currently paying in order to cover the actual costs of maintaining the water and wastewater systems.

- Question/Comment: How and when were ratepayers notified of the Budget Hearing? In the past the District has sent postcard notifications.
 - Response: The Budget Hearing announcement was published on the November/December bill, and an article in the November/December newsletter sent out with the November/December bills included an article about the Budget Hearing, the proposed 2016 budget, and the proposed rate increase. The budget preparation meeting schedule and Budget Hearing date have been posted for two months on the District website's main page, the District's bulletin board at the HPMA clubhouse, and on the door of the District Office.

The cost to send a separate postcard notification to ratepayers of the Budget Hearing would be approximately \$400.00. The budget process would not be far enough along to notify customers of a potential rate increase more than one week

before the budget hearing takes place. Preparing a separate mailing for the budget hearing would be limited in its value.

David McNabb:

- Comment: Mr. McNabb has made a study of public utilities and wrote a book on the subject. AWWA reports that the number one challenge for water/wastewater systems is finding money for capital improvement. Municipalities are unable to find sources of financing. All systems are facing this same problem.

Kathy Ossenkop:

- Comment: Ms. Ossenkop bought property early on at the Pointe. Weyerhaeuser originally developed the Pointe with the intent that it would serve as a retreat for its employees. Early on, Weyerhaeuser found that the ground would not perk well. We are dealing with this problem now. She understands the current issues. When the County was managing the system, Rustlewood, and other systems in Mason County, were funded by the Pointe's rates. We are experiencing the resulting problems, now we have to fix them. We are fortunate that we are paying less than some others. Property values will go down without water and sewer service. The District is doing the best it can. We are trying to pull ourselves out of a difficult situation.
- Question: Since we have meters, would it be possible to read and charge based on usage, even if it only changed the bill by a couple of dollars?
 - The District needs to gather at least one to two years of usage data to evaluate before it could change its rate structure in a responsible, financially viable way. Meters will be read in 2016 and once the District has the necessary data it will revisit this question.

James Cary:

- Comment: We are living in a private community. People come here and sometimes overlook the fact that they have to have clean water and wastewater collection, and with the costs for that distributed across fewer people, that is going to cost the individual more than it would in a larger, growing community.

Jim Hill:

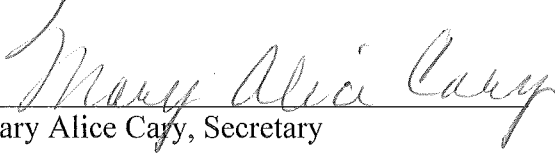
- Question: What are the interest rates on the District's current loans?
 - Response: Department of Ecology loan for the Wastewater Outfall is a 20 year, 1.5% interest rate loan. USDA Bond for the Booster Pump and Water Meter Installation is a 20 year, 2.75% interest rate loan. The Drinking Water State Revolving Fund loan for the Drinking Water Treatment Upgrade is a 24 year, 1.5% interest rate loan.

Commissioner Cary:

- Comment: Cited the excellent work that General Manager, Mont Jeffreys, and Accounting and Administrative Service Manager, Miceal Carnahan, did on this budget presentation.

Budget Hearing adjourned at 11:25 am.

Respectfully Submitted By:



Mary Alice Cay, Secretary

Approved at the Regular Meeting of the Board on: November 12, 2015