

Franconia Water Department Monthly Meeting

Wednesday June 12, 2019

Town Hall Meeting Room 4:30pm

In Attendance: Water Commissioners Darrel Dietlein, Joan Hartford and Dan Walker; Meaghan Caron, Water Department Secretary

Stephen St. Cyr of Biddeford Maine is in attendance to give his presentation from his rates assessment.

Public in Attendance: Kevin Johnson, Gale River Motel; Cort Roussel, Franconia Notch Vacations; Deane Haskell, Hillwinds Lodge; Ken King, BGI Acquisitions/homeowner.

Darrel Dietlein motions to open the meeting at 4:44pm.

Darrel introduces Stephen St. Cyr and turns the table to his presentation.

Stephen speaks of his work and his involvement with water and sewer companies and municipalities. His work involves year end tax work as well as financing for water projects, rate changes and increases and designs. Meaghan provided 2018 rates and multiple reports so these are the numbers from which his study was based on and what his theories and goals are worked on. Stephen opens by saying that there is no right answer, per say and that there are all sorts of rate designs for a multitude of reasons. Anything from fixed rates to usage rates but generally, rates systems are somewhere in the middle because there are always certain costs that are fixed and that will always require payment and attention from the bottom line.

The ultimate goal is to generate enough revenue to cover costs of the department. The infrastructure needs to be supported by the funds generated. The department needs rate stability so as to have enough revenue every month of the year so as to support and manage the system and its needs.

Stephen St. Cyr's assessment in it's entirety can be found attached to the end of these minutes. Some major Points of discussion are mentioned below

Simplicity of a rate structure is what allows a department's customers to understand it's rates and the entity to manage it. The current rate structure that the Franconia Water Department has is relatively common and simple structure with its one uniform rate and 6 base meter rates.

Affordability of water: Water at one time was relatively cheap but it is no longer due to infrastructure being underground. Systems are hard to maintain and the requirements for quality and safety of water are much more so than before and will likely become stricter in the future.

Expenditures, including operating costs and labor are “fixed”. The cost structure does not depend on the amount of water that a customer uses. Cost recovery should not be subject to the fluctuation of usage.

Definitions of rates structures is reviewed (see attachment)

Stephen then reviews his multiple scenarios as he reviews each of his attachments. Ideally, base rate revenue should be somewhere between 40-60% of the total revenue.

Attachment A is the Base scenario (the department’s numbers from 2018). All attachments that are presented are compared to this base scenario. Currently, this scenario shows 39.38% of revenue is gathered from base rates.

Attachment B: Steve reiterates that the goal is to keep close to the 40% total revenue needed from the base rate. This scenario is not recommended due to the dramatic increase in multiple rates.

Attachment C: Stephen states that the logic behind larger meters having higher rates is that the greater capacity that a customer has causes a ripple effect through the system, everything is greater to serve the larger meters. Whether or not the customer uses the water this capacity needs to be met. He refers to DES having certain requirements for load amounts that a system must adhere to. A system can’t be designed just for the minimum requirement. 20-25% above peak demand would be substantial for the well house to support. This all supports the logic behind incremental increases in base rates based on meter and pipe size.

Deane Haskell asks why the difference between 5/8” Residential and Non-residential meters and the difference between 1” and 1.5” meter base rates. Steve explains that the reason behind creating these rate classes is, again, based on the demand from these customers. Demand expectation that the load is greater with commercial customers and demand fluctuates.

Mr. Haskell asks which of the scenarios is recommended by Stephen and he states that either Attachment Scenario C or D are what he would recommend. He says that he would work towards gradually making these changes over the course of a couple years.

Attachment E: This shows increasing the base rate scenarios to gain 45% from base rates

Attachment F: This shows increasing the base rate scenarios to gain 50% from base rates.

Additional revenue from base rates makes the usage rate go down but Stephen does not recommend any drastic reduction in any rates due to the consistent demands of state requirements, and mandates that need to be complied with each year. Joan mentions the tank cleanings and inspections that are required every 5 years at huge costs to the department.

Darrel asks about seasonal rates and seasonal customer rates? Generally in that case, one usage rate Jan-April, higher rate May-August and then drops back again. The problem with this

is that the system still had to support the seasonal (homes) even if they aren't there using the water.

Kevin Johnson raises a few concerns and points. He says that the fact that we have such a small system means that the changes that are made to the system have a disproportionate effect on a small minority of the account holders. He feels that making changes to only the commercial (non-residential) rates and not the Residential customer's rates is unfair because the Residential community represents $\frac{3}{4}$ of the system's customers.

Stephen responds stating that he doesn't believe that the number of customers isn't quite as essential as the usage from those customers. For example, usage from 5/8" residential customers is 4.4 million gallons totaling 30% of the total water usage. Steve works some 3" customer numbers as well. Usage totals 2,750,000 gallons from the 3" customers. Out of 14.6 million gallons this equals 19% equating less than 14% of the revenue.

Kevin continues, stating that he believes many of the non-residential 5/8" meter rated customers do not put a high demand on the system. He uses the Town of Franconia accounts as an example in that each of their meters is billed at the non-residential rate but their consumption is very low compared to the average 5/8" customer's usage. He believes that meter sizes rates are punitive to the folks in the middle. He thinks everyone should pay the same base meter rate and then the usage/consumption rate is what goes up based on the usage.

Darrel asks Stephen to run numbers for the 5/8" Non-residential customers for comparison. Usage is 10.89 % making the total base revenue 11.18% from 5/8" non-residential customers.

5/8 meter is same size, argument could be made that there shouldn't be a different rate between res and commercial.

Mr. Haskell speaks and states that he doesn't understand why there isn't more consistency based on usage. He thinks it is a negative incentive for conservation.

Kevin asks "what is the argument against having a standardized meter rate?" He speaks to a demand and usage rates vs. base rate revenue. Everyone pays the same base rate, no matter who they are and then the usage rate is fluctuating based on greater usage. This creates a direct relationship between excessive usage and higher rates and conservative usage and lower rates.

Demand on the system is what Steve speaks to, from the larger customers. Potential demand...whether they use it or not.

Darrel speaks to wanting to make sure that the system continues to be able to support its customers and the system has to be maintained to its size. State requirements still have to be met regardless of whether or not the system grows or stays the same. The best newest parts

of our current system are 10 years old and we are required to maintain the quality of this system at its size.

Cort Roussel speaks to covering the base rate by simply dividing what is needed from the base rate by 314 customers. "For example, if \$1 mil needed divided by 314 customers....to give a base rate and then do the usage rate in addition to that." Keep everyone standardized. Equality for the users. He doesn't believe what has been done in the past should bear any weight on what is being done right now.

Darrel responds that we are doing our best in trying to find the best fit for Franconia.

Deane Haskell speaks to not needing a base rate and believes that our system has shown the same amount of usage for the past few years and therefore this should mean that we have a steady usage from which to gain income.

Steve disagrees again stating that a usage rate isn't reliable. If revenue is subject to a usage rate the more the system is then subject to user's habits and demands and fluctuations in the weather etc.

Mr. Haskell mentions that he department needs a reserve fund generated from the income. Darrel and Joan state that his is exactly what we are trying to begin establishing.

Kevin Johnson speaks to a usage rate and being fine with having his bill go up if a usage rate were established. He states that Residential rate hasn't changed that much. He suggests imposing a \$10.00 rate increase on residential customers. Assess the customers equally he says and then let them pay for their over use of water etc. so as to give some control in the customers hands to conserve.

Darrel speaks about the Franconia towns people paying \$72 a year towards the bond from the for water system upgrade.

Steve speaks to recommending the increase in the base rate (Attachment C and D) for $\frac{3}{4}$ ", 1", 2" and 3" meters. This would offset the usage rate and continues to maintain the system and its simplicity. We may want to go back to quarterly billing. More frequent billing is often easier for customer to pay, brings less delinquency in payments and allows for consistent flow of funds.

Deane Haskell speaks again...stating that the department has one chance to get it right and to fix it. Business community is up in arms and to do it the Franconia Way. We shouldn't be burdening businesses.

Darrel puts to vote that Steve continue working on our system analysis and asks him to create another proposal that includes an increased base rate based on the model that Kevin Johnson proposed and described. He would take the base revenue needed from meter fees (\$114,120) and divide it by our 314 customer base to get an equal annual base rate and also adjust the usage rate. Also, he will work with additional funds needed for future projects, state mandated

tests etc to add on top of the total revenue needed to gain a reserve fund. We will supply a projection of future projects. Darrel puts it to vote and Joan seconds and Dan agrees. All are in favor.

Stephen St. Cyr excuses himself from the remainder of the meeting at 6:03pm.

Ken King speaks of the improvements made in recent years since the water project and asks about getting another bond from the town and getting projects done up at Mittersill. Mittersill work is piecemeal and he speaks to the Mittersill community having a major revolt if work doesn't happen. He suggests the department get a bond from the town to get the work done. He is representing the voice of many of the people in Mittersill.

Joan states that we are working up there and doing our best to make progress. Almost all of the work that was done last summer was up in Mittersill.

Ken suggests requesting email from the all customers, especially Mittersill, will be helpful to communication and for relaying shut offs, work to be completed and notice of mandated tests. Meaghan states that she has always communicated to the best of her ability, especially via direct phone calls, to discuss any important information. It is stated, by Ken and Cort, that email would be best as the customer base from Mittersill is becoming a younger group and email is what they respond to.

Minutes from May 9th meeting and June 4th work session are reviewed. Darrel motions to approve the Meeting minutes, Dan seconds and all are in favor. Joan motions to approve the work session minutes, Darrel seconds and all are in favor.

Joan motions to approve that LRW is paid quarterly, Darrel seconds and all are in favor.

Darrel motions to close the meeting at 6:31pm, Joan seconds all are in favor and the meeting is closed.

These minutes of the Franconia Water Department have been recorded by its Secretary. Though believed to be accurate and correct they are subject to additions, deletions and corrections by the Board of Commissioners of the Water Department at its next meeting when the Board votes its final approval of the minutes. They are being made available at this time to conform to the requirements of New Hampshire RSA 91-A:2.