

**TOWN OF WINDSOR LOCKS  
WATER POLLUTION CONTROL AUTHORITY  
SPECIAL MEETING  
TUESDAY, FEBRUARY 11, 2014**

**MEMBERS PRESENT:** Steven N. Wawruck, Jr., Jeffrey Ives, Robert Crochetiere, Dennis Gragnolati, William Hamel and Gary Laurito

**MEMBERS ABSENT:** Denise Balboni and Michael Russo  
Dana Steele, Town Engineer, Ex Officio

**ALSO PRESENT:** Scott C. Lappen, Director of Public Works, Ex Officio  
Gary Kuczarski, Superintendent  
Heather Kane, Recording Secretary  
Paul Dombrowski, Woodard & Curran  
Toby Fedder, Woodard & Curran

At 5:33 p.m., Steven N. Wawruck, Jr. called the meeting to order.

**MINUTES: January 14, 2014 Regular Monthly Meeting:** William Hamel made a motion: **TO ADOPT THE MINUTES AS PRESENTED** – Seconded by Gary Laurito. Without further discussion, the motion passed 5-0 with one abstention for Robert Crochetiere.

**PUBLIC INPUT:** None

**FINANCIAL REPORTS:**

- a. **January 2014 Cash Reports:** Gary Laurito made a motion: **TO ACCEPT THE JANUARY FINANCIAL REPORTS AND THE CD INVESTMENT UPDATE** – Seconded by William Hamel. Without further discussion, the motion passed unanimously.
- b. **CD Investments – update and changes:** Please see item (a) under Financial Reports for the related motion.

**CORRESPONDENCE:** None

**OLD BUSINESS:**

- a. **Woodard & Curran – Capital Project FY 13/14 / Rate Study:** Toby Fedder focused the discussion on three primary items: the work completed to date, a walk-through of the WPCA Financial Model, and the work that remains. Mr. Fedder needs the Authority's input to complete the remaining work and to insure the outcome is a useable document for the WPCA. This model will form the basis of any future rate recommendation.

Work Completed to Date: Mr. Dombrowski and Mr. Fedder examined the existing revenue generation practices at the WPCA. The WPCA generates revenue almost entirely from the sewer user fees. Consistently over the past three years, 95%-96% of overall revenue is directly related to the user fees (this includes revenue generated by liens and interest). After looking at the current revenue generation practices, Mr. Fedder collected and uploaded into the model 3 to 5 years of WPCA financials – everything from appropriated budgets to past sewer bill consumption figures. Mr. Dombrowski worked with Mr. Kuczarski to develop a comprehensive CIP that has also been uploaded into the model. Mr. Fedder took a look at the current and past rate setting practices of the WPCA. Mr. Fedder shared that the record-keeping at the WPCA is far better than many WPCAs much larger in size. Except for one notable exception, the way that the WPCA has set the rates in the past has been valid and has been done with an established methodology that has been used year after year. The current rate setting process starts with the WPCA establishing a budget, then trying to figure out how much sewage the WPCA is going to

sell, and then using those figures in the actual rate calculation. The Windsor Locks' WPCA has established processes and procedures which is not usual for many WPCAs this size.

Financial Model Walk-Through: Mr. Fedder showed the WPCA how the financial model works. The financial model included spreadsheets on rate, revenue, budgets, CIP and consumption. The WPCA's rates have increased annually over the past four years. A probable reason why the WPCA's rates are too low to fully support operations right now is because the assumption on how much sewer the WPCA is going to sell in any given year is too high and has been for some time. Actual consumption figures are lower than the assumption being used. Included in the financial model are actual budgets going back to 2010 along with some projections.

At 5:46 p.m., William Hamel left the meeting.

Capital Improvement Plan: A CIP spreadsheet was handed out to the Authority at the meeting. The spreadsheet listed, in order of priority, capital projects to the cost of roughly \$8.5 million dollars which are needed by the WPCA. How the WPCA decides to construct and finance these projects will be a huge factor in determining future rates. The figures on the list are just ballpark figures to be solely used for planning and are not figures that are based upon an extensive engineering evaluation process. The term "annual" listed under "funding source" basically means that capital projects will be funded from that year's budget. Mr. Fedder stated the WPCA may want to consider lumping some of these projects together and issuing a general obligation bond through the Town. If the WPCA needs to raise a half million dollars in any given year to do a half million dollar upgrade, that figure will go directly into the revenue requirement for that fiscal year. Rates would need to change to reflect that in the given year. A better way to look at a lot of these projects is to lump some of them together through a general obligation bond. Right now you can fund \$1 million in a 20 year bond for about \$66,000/year which is much more doable from an annualized budgetary and rate impact perspective. Many of these improvements will last years. If all the projects were funded through the capitals budgetary line item which was held at \$300,000/year, the list would take 20 years to complete. A timeline for when the WPCA would like these projects to be done needs to be established. Then the WPCA could periodically go out to bond a group of projects. For example, some towns issue their municipal run WPCA a \$10 million bond authorization under which the WPCA may go out one year for \$3 million and then two years later go back out for another \$2 million. There are two projects on the list that will probably be funded through the DEEP's Clean Water Fund which is a state run subsidized bonding vehicle with a very low interest rate and favorable terms. These two projects would total about \$2.5 to \$3 million out of the \$8.5 million listed on the CIP. The WPCA may wish to bond \$2 million in three increments to cover the rest. The WPCA will need to determine how they want to fund the projects based on what feels right for Windsor Locks.

The consumption spreadsheet is based on the water company's meter reads. Mr. Fedder used to predict how much sewage the WPCA would sell by using an average of the past 5 years' worth of consumption. He now recommends using just the past three years due to a long term trend of declining consumption. Consumption has been declining due to the installation of water saving devices. A three year average is more accurate than a five year average which takes into consideration two years that have higher consumption (assuming that over the past three years there was no major drought that could drive water usage). Declining usage is a real problem for so many utilities because a decline in consumption does not correlate to a decline in operating costs.

Work remaining for completion: Mr. Fedder needs to finish the rate projection. To do so, he needs the WPCA's input on three issues. He will then develop and present a memo to the WPCA with his rate recommendations in order to fund not just operations but also the CIP.

Issue #1 – Alternate Rate Structures: Mr. Fedder stated that the WPCA's records are really good from a defensibility standpoint. Mr. Fedder has the ability to set alternate rate structures if the WPCA would like to consider them. One such alternate rate structure is a multi-tier rate

structure (for example: residential users pay one rate up to 25,000 gallons a quarter then a different and increased rate for usage above 25,000 gallons). This rate structure is popular in Massachusetts even though this rate structure often times depresses usage further. Mr. Fedder also has the ability to set differential rates by user class. There are three different consumption numbers. One is metered consumption which is what the meter reads for water consumption. Then there is billed consumption which comes into play due to the minimum charges (for example: a residential user who uses 2,000 gallons is billed for 8,000 gallons with the minimum charge). Effective consumption is the usage that the WPCA actually billed for which is the number that needs to be used when setting the rates. The WPCA gets paid for the differential between what is actually used and what is included in the minimum charge. Right now the WPCA's residential average effective consumption is roughly 66% of all the classes, public is over 1%, commercial 27%, and industrial is a little under 6%.

Steven N. Wawruck, Jr. shared that this rate discussion originally started due to complaints by small commercial users with minimal water usage who were being charged the minimum commercial rate and due to a few well users who felt the well charges were unfair. Mr. Wawruck just does not want to lose sight of that especially for those small commercial enterprises that use so little water. Mr. Fedder does have the ability to run a sensitivity analysis for the WPCA so if the WPCA wants to consider a lower minimum rate for commercial properties Mr. Fedder can tell the WPCA what the dollar impact will be. The fact of the matter is that any dollar the WPCA stops gaining from one class will be shifted to the other classes. It is a zero sum gain with rate setting. Mr. Fedder can include what the impact will be in the memo.

The spectrum of billing practices is incredibly broad. On one end of the spectrum there are communities that get around 92% of their revenue from fixed charges. The actual water rate per 1000 gallons is very cheap in these communities. This is very rare. On the other end of the spectrum are communities that do not have any minimum rates. Mr. Fedder stated that the higher the minimum rate is the more secure the revenue streams will be because it locks in a minimum revenue from all of the customers. Minimum rates are a good idea and widely practiced throughout the industry. The Windsor Locks WPCA's minimum rates are not outrageous minimums by Mr. Fedder's experience.

Mr. Laurito asked Mr. Fedder how the model would adjust the rates when lowering the commercial minimum. Specifically, could the WPCA create a tier stream within commercial users that would not affect residential users? For example, if the WPCA generates \$1 million in revenue from commercial users, could the Authority lower the minimum commercial rate for the small operations and increase the rate in the model for the larger commercial operations. Mr. Fedder does have the ability to determine the impact of such changes but he stated that the WPCA would leave themselves shockingly open for a rate dispute from anyone who did not like it. Because in order to do that, the WPCA would need to define what percentage of the budget the commercial users will support. The commercial rate would have to be higher per thousand gallons to accommodate the change in the lower classification of commercial properties. If the rate per thousand gallons is the same whether it is for a residential, commercial or industrial property, it would be hard to say that the WPCA is being unfair to one class over the other. Right now the commercial minimum rate is roughly \$40 per month which is not a lot for any business. Mr. Fedder understands the position of the small commercial properties but lowering the minimum commercial rate will affect the other classes through an increase in rate. Though the WPCA may hear from these commercial owners, it is not a large cost. In addition, these owners are getting something for that minimum rate: the security in knowing that when they open up for business in the morning the drains will work and things will not back up. The WPCA has an established, accepted rate structure. Mr. Fedder does not want to start changing it around. As one who has gone through big changes in rate structure with communities, Mr. Fedder has found trying to explain a new rate structure can be more problematic. Mr. Wawruck could accept that answer but the WPCA did tell business owners and residents that a full discussion would take place in regards to the minimum rate. Mr. Ives would like to come up with something general for everyone that is easily explained and has a basis for collecting the needed revenue. Mr. Ives remembers what initiated this discussion but feels it has gotten a lot bigger in order to better understand everything that goes into determining the rate. Though Mr. Fedder thinks the WPCA's minimums may be on the low side, he noted the WPCA has a fair way of collecting

revenue. Minimums are very effective at making sure everyone is paying something for the benefit of being connected to sewer. There is a value in being able to come home and flush the toilet and everything goes away. The WPCA collects on that value through the minimums. Mr. Fedder could look at different minimum amounts but to make a wholesale switch to a quarterly service charge could confuse a large portion of the population because it is something new. Mr. Ives would like a rate based on gallons that will generate the needed revenue. A lot of people think that is the fairest way to base the rate. There will always be the customer that doesn't use the gallons. But there is a value to having a sewer connection where it goes down and does not come back whether it is taken advantage of or not. Mr. Wawruck stated this discussion was necessary in order to have a solid foundation to stand on when explaining to residents or business owners who appeal the rate that this is the cost of doing business. Mr. Fedder thinks that we have a very reasonable rate structure that just needs to be tweaked in a couple of ways that will most likely increase the rates in near future. The minimum flow for residential properties right now is 8 thousand gallons per quarter, 25 thousand gallons per quarter for commercial and 35 thousand gallons per quarter for industrial. Properties owners are paying for the minimum flow whether they use it or not and thereafter the \$4.88 rate (for this fiscal year) goes into effect for every addition thousand gallons of usage.

Issue #2 – Expected Sewer Billing Volumes: This year the WPCA expected to sell 388,000,000 gallons in order to raise the needed revenue to cover the WPCA's budget. It was an assumption. The WPCA will in all likelihood sell about 355,000,000 gallons this year based on the average of the last three years. In the beginning of FY 2013-2014, the WPCA actually billed/sold 347,000,000 gallons. The WPCA needs to make sure that the number used is reflective of the real amount of sewer that will be sold. This is critical in making the utility whole financially on a yearly basis. Mr. Fedder asked if the WPCA would like to use a three year running average of sewer sold (what he would recommend) or a different number when calculating the rates. The WPCA agreed to use the three year running average of sewer sold.

Issue #3 – Financing options for CIP: There are 8.5 million dollars in upgrades that need to be done. Mr. Dombrowski believes the WPCA could get funding for two major projects that amount to about a third of the 8.5 million dollars through the Clean Water Fund which subsidizes the rate down to 2%. Some of the items on the CIP (like the purchase of new vehicles) would be handled through the annual budget for capitals and not bonded. The WPCA pays \$103,000 per year until 2022 for debt. Mr. Wawruck stated that the WPCA will have to bond the projects. There is no other choice. It would require the WPCA to plead its case before the Town's finance board. In order to keep the facility running the way that it is, these capital costs need to occur. The Plant is 30 years old. Mr. Fedder suggested the WPCA carry any project that is estimated at \$70,000 or lower as a line item appropriation in that fiscal year while bonding the larger projects and bundling them into three different bond issuances that are separated by two year windows. For example, the first \$2 million would be bonded in 2015, the next \$2 million in 2017 and the last \$2 million in 2019. Mr. Wawruck stated the Town's past practice has been going out for bond for a 9 month period, accumulating anywhere between \$8 million to \$10 million dollars in bands, and then go for a bond issuance. Mr. Wawruck believes what Mr. Fedder suggested is feasible. The Town does not issue bonds annually. Instead the Town rolls bands for a couple of years which makes financing easier. It has been favorable over the past few years because with interest rates are next to nothing for a band. Mr. Fedder suggested keeping the annual capital budget around \$200,000 for the smaller projects. The additional debt service would be added to the debt service line item.

Steven N. Wawruck, Jr. left the meeting at 6:28 p.m..

Mr. Fedder will develop a roll out schedule for the full CIP. He will give it to Mr. Dombrowski and Mr. Kuczarski to review. Once that it is approved by them, Mr. Fedder will finalize the memo with rate recommendations for the next ten years in order to give the WPCA a sense as to where it has to go. Obviously, the further out the projection the less reliable it is; it is just a guideline. All utilities are facing a decrease in consumption while the cost of operation remains the same. In

addition, the consumption that the WPCA bills for is not the amount that is treated at the Plant due to inflow & infiltration. The rates might surprise some people but without new revenue streams it is better to set the rate appropriately than to run into a deficit situation where the WPCA burns through reserves (which is never a good idea) or alternately the Town has to come to the WPCA's rescue. The Plant is a well maintained Plant because the operators proactively manage the facility. When the Clean Water Act was enacted, the federal government gave out huge grants. Most plants built in the 1970s came with a 90% grant check from the federal government which has highly subsidized the sewer rates. Therefore, people have completely and totally underestimated the actual cost of providing the services. Property owners have not been paying the cost. Now that old plants need to be rebuilt and upgraded, the real cost is starting to be seen. People think it is outrageous but they do not realize the subsidies they have had in past years. It would probably cost at least \$60 million to \$80 million to build just the Plant today. It would cost many times that to build the entire sewer system.

Toby Fedder left the meeting at 6:43 p.m.

- b. **WPCF's Front Office PCs:** One computer was installed this past Friday and the other computer was installed on Monday. These computers were installed with Windows 7 Professional.

#### **NEW BUSINESS:**

- a. **Providing bills online:** Heather Kane contacted Webster Bank to determine how much it would cost to provide bills online. She is still waiting to hear back from them. By providing bills online, the cost of postage and related office supplies would be reduced. Mr. Laurito asked if this service could be provided through a Town's website instead of processing it through the bank. Mrs. Kane stated that a secure website would be required to view bills since usage is listed on the bills. There is a Connecticut law that states utility usage is not public information. Mrs. Kane has spoken to Blair, the designer of the current billing system, and he hopes at some point to upgrade the system to be internet-based instead of Access based which may make it easier to view bills online in the future.
- b. **Offering credit / debit cards as a payment option** The Town's tax department does offer the option of paying by credit/debit card when paying online (though this service is not yet offered for people paying in person). Many people, not seeing a difference between the Town and the WPCA, expect to be able to pay their sewer bill by a credit/debit card. Mr. Laurito suggested asking Webster Bank about dealer discounts. For every card processed, the card holder and the merchant pay a fee. Residents who pay their taxes by card currently pay these fees. Webster collects those fees and puts them in a separate account from which the merchant service provider receives the fees. Webster can only provide this service for taxes. Since the sewer use bill is not a tax, Webster was unable to put the current ACH fees into a separate account for the WPCA. Mr. Laurito highly recommended that a separate account be set up to track the credit/debit card fees. There are all different structures and different fees for different cards. Mr. Laurito has a lot of experience processing credit/debit cards and he would be happy to answer any questions Mrs. Kane may have in regards to this process.

**ADJOURNMENT:** At 6:51 p.m., with no other business to discuss, Gary Laurito made a motion: **TO ADJOURN THE MEETING** – Seconded by Robert Crochetiere. Without further discussion, the motion passed unanimously.

Respectfully submitted,

Heather Kane  
Recording Secretary