

Memo



To: Dave Sosa, Borough Manager
From: Jila Stuart, Finance Director
Cc:
Date: February 24, 2015
Re: Response to 2-23-15 email from Water & Sewer Utility Customer

This memo includes responses and corrections to the utility customer email sent 2-23-15 regarding water and sewer rates.

Customer's email states:

My main issue is with the monthly surcharge of \$17.95. While this is being slightly reduced, it still remains a rather large fee. I realize that the CCWSS utility was purchased by the city for \$370,000, and the charge is to offset that. I went along with that at the time it happened because we were very happy to be done with CCWSS.

The customer does not underscore that when the Borough took over the utility from Crystal Cathedrals Water & Sewer System (CCWSS) the customer's bill went down almost \$30 per month. His monthly base bill went from \$117.25 to \$90.00 per month.

Customer's email states:

This line now feeds up to 100,000 gallons a day into the entire city utility. The problem is that only 20 or 30 of us are paying for it. So the 20 or 30 of us that live on Piedad/Comstock are paying a surcharge to pay for a water line that benefits the entire town.

This statement is incorrect. When the Borough decided to purchase CCWSS the Assembly considered three options for paying for the purchase: (1) Form an LID and have each property owner with property adjacent to the CCWSS main pay a charge equal to their pro rata share of the \$370,000. This would have been paid as a lump sum upfront or financed over time. (2) Have the former CCWSS customers pay off the cost of the purchase over a 20 year period as a monthly surcharge to their utility bills. (3) Have the entire system of water/sewer customers pay off the cost of the purchase with a surcharge to their utility bills. The Assembly decided to create a hybrid approach by combining option 2 and option 3. They decided 50% of the cost of the purchase would be paid by all of the Haines Borough water/sewer customers and 50% would be paid by the former CCWSS customers. In fact there are roughly 650 customers that are paying for the purchase and roughly 60 customers that pay the CCWSS area surcharge.

Another thing that is important to keep in mind is that the CCWSS utility was built on a different financial model than the Haines Borough utility. The Haines utility does not pay to extend mains. All Haines Borough utility customers prior to the purchase of CCWSS would have paid for the section of main that connects them to the system. This was accomplished by LID, through the purchase price of their land in the case where the developer installed the main, or it was simply done by the property owner hiring a contractor to extend the main. In some instances mains extensions may have been accomplished with grants, but that is not likely to have been a frequent occurrence because DEC frowns on paying to extend mains which increases property values for the properties served. In the case of the CCWSS utility the

utility owner paid upfront to install the mains and intended to be repaid by the utility customers over time through their rates.

Customer's email states:

There must come a point when our debt to society is paid, and we pay whatever everyone else is paying.

Under the repayment method adopted at the time of purchase that time is 20 years from the time of purchase –or sooner if the debt is paid off earlier.

Customer's email states:

If we are forced to continue paying the surcharge to the benefit of everyone else, then we should at least be given an amortization schedule to know where our debt is at.

As the customer himself mentions in his email, while an argument can be made that the drinking water infrastructure purchased from CCWSS benefits the system as a whole that argument cannot be made for the sewer infrastructure. I have attached a spreadsheet which shows the requested information regarding the debt for the purchase.

CCWSS Purchase Amount	\$ 370,000	
Water Fund Share of purchase	247,900.00	
Sewer Fund Share of purchase	<u>122,100.00</u>	
Total purchase price	370,000.00	
Less Grant from Alaska Clean Water Fund	(18,315.00)	(sewer)
Water Loan Principal Amount	247,900.00	
Sewer Loan Principal Amount	<u>103,785.00</u>	(sewer share less ACWF grant)
Total principal to be repaid	351,685.00	

		Annual	
		Target	Surcharge
Total to be repaid (including 1.5% apr interest over 20 years)		Amount*	Share**
Water Repayment Amount	289,138.91	14,456.95	7,228.47
Sewer Repayment Amount	<u>121,049.96</u>	6,052.50	3,026.25
Total	410,188.87		

	Water Loan			Sewer Loan		
	Paid by	Paid by	Balance	Paid by	Paid by	Balance
	CCWSS	All	Due	CCWSS	All	Due
	Surcharge	Customers		Surcharge	Customers	
Total to be repaid			289,138.91			121,049.96
FY11	6,009.47	6,009.47	277,119.97	2,308.80	2,308.80	116,432.36
FY12	10,805.90	10,805.90	255,508.17	4,210.60	4,210.60	108,011.16
FY13	8,579.49	8,579.49	238,349.19	3,906.60	3,906.60	100,197.96
FY14	7,976.93	7,976.93	222,395.33	3,989.61	3,989.61	92,218.74
Jul-Dec 2014	4,007.10	4,007.10	214,381.13	2,013.90	2,013.90	88,190.94

Total Water & Sewer Balance Remaining as of 12/31/14 (including Interest) 302,572.07

* Total Repayment amount with interest divided by 20 years

** 1/2 of annual repayment target