

KENT COUNTY WATER AUTHORITY

MINUTES OF THE REGULAR MEETING
OF THE BOARD

March 17, 2016

A meeting of the Board of Directors of the Kent County Water Authority was held on the 17th day of March 2016, at 3:30 p.m. at the offices of the Authority in West Warwick, RI, in the Joseph D. Richard Board Room.

Chairman Boyer opened the meeting at 3:30 p.m. Board members Vice Chairman Masterson, Treasurer Joseph Gallucci, Secretary Edward Inman and Mr., Giorgio were all present together, along with the General Manager/Chief Engineer Timothy J. Brown, Legal Counsel Patrick J. Sullivan, Esq., Director of Technical Services John Duchesneau and Director of Administration and Finance Director Jo-Ann Gershkoff. Mr. Giorgio led the group in the pledge of allegiance.

APPROVAL OF THE MINUTES

The minutes of the regular board meeting and the executive session portion of the meeting of February 25, 2016 were presented for approval. Mr. Inman moved passage, seconded by Mr. Masterson and the minutes were unanimously approved.

GUESTS

Mr. Woodcock, Woodcock and Associates – Rate Case Review and Rate Input

Mr. Brown introduced Mr. Woodcock, rate consultant to the KCWA, to the board and Mr. Woodcock made an extensive presentation of the upcoming rate case before the Public Utilities Commission (hereinafter “PUC”).

He began with a distribution of the proposed rates that may go before the PUC that he had put together. The handout contrasted the current rates with the proposed rates

He indicated that overall, the document proposes a 16.7% rate increase. It is unlikely that the PUC would grant the entire request, he advised. That has been his experience before the PUC, he explained. He added that he looked at FY 15 and project it through FY 17. It involved a cost of service study and a cost allocation study. He mentioned older meters that need to be replaced, indicating that the older the meter gets, the slower it turns, depriving KCWA of needed, but lost, revenue. He also cited capital work and the funding thereof. KCWA uses debt, he explained, and that comes with an interest cost. He recommends pay as you go as a way to avoid the interest expense. He cited that water consumption was declining, but the fixed costs to provide the water are not. He then identified fire protection charges that are reflected in this rate

case proposal that seek to transfer the cost of the hydrants from the, in some cases, non paying local fire districts, and build it into the rate. This cost would be built into the size of the customer's meter. This would apply to public fire hydrants only, and not to private fire systems he explained.

Mr. Inman discussed the costs inherent in transferring the cost of the hydrant to the consumer from the fire district, to which Mr. Woodcock thought it was negligible. Mr. Inman asked if any statistical analysis was done to determine the fee. Mr. Woodcock replied that there was. There was discussion about tax exempt organizations and they would participate in the payment.

Mr. Woodcock went on the the service charge portion of the rate case. He said they would go up substantially. Mr. Boyer discussed the meter sizes as the comprise the customer base with Mr. Woodcock replying that the 5/8 inch making up roughly 90% of the meters.

Mr. Woodcock then discussed the fire charges. Mr. Brown added that most fire departments expenses for water represent 1/2 of 1% of their billings. The added cost is when a 12" main is required instead of a 4" main to deliver a fire flow. The same with oversized pumps that would otherwise be unnecessary. Most of the fire service charges cover the delivery of water to a hydrant to put the fire out. The water cost, he said, was inconsequential.

Mr. Woodcock then discussed the demand surcharge portion of the rate proposal. He said that revenues depend upon consumption; revenues can dip but fixed costs remain constant. Demand surcharge would raise about \$500,000.00 to cover dips in revenues as a result of low demand. This, he said, would be a new charge. Mr. Inman asked if anyone else in RI uses this surcharge. Mr. Woodcock responded that there are no communities in Rhode Island that currently have this charge but it is utilized in other parts of the country.

Mr. Woodcock then discussed the impact the rate increases would have on the customers. He then discussed revenue reconciliation. He reported that the proposal would raise \$3,200,000.00 in additional revenues.

He then discussed the cost of meter replacement which he pegged at two million dollars over three years. Mr. Boyer asked whether these replacements would have a positive impact relative to revenues. Mr. Woodcock replied yes, and reiterated the fact that older meters are inaccurate and slow over time. Mr. Brown added that the current system of reading meters is obsolete; that new reading devices are necessary.

Mr. Boyer then asked whether Mr. Brown supported the rate proposal. Mr. Brown said the rate proposal will be done in such a way that gives the PUC two alternatives; one with the hydrant costs built into the rate and one done the old way. The PUC isn't happy about the legal fees spent to recover the money from the fire districts. Mr. Brown also added that the two judgments obtained by legal counsel do not go away; they will be collected.

Mr. Inman said the current customer gets their increased water bill. The fire tax remained the same. He asked how does that benefit the consumer, and identified that as a real

issue. He added that customers outside the fire districts will ask why they should shoulder the burden of the Coventry fire districts when their town paid their bill.

Mr. Brown added that if the board wanted to push one alternative or the other, it is up to the board. Mr. Masterson said the billing comes from KCWA, so the unpleasant response will come back to the board members. Mr. Brown agreed, but ultimately it is the PUC who will be responsible for the decision. Mr. Brown predicted support from the communities.

Mr. Gallucci took issue with that, saying that Warwick may not. He said that he has to explain this to his constituents that pay twice the price than those other Warwick residents in the city's system. Mr. Woodcock asked if they were recovering all their costs of the water department, or are some built into the tax rate. Mr. Brown discussed the differences in the system along with Mr. Boyer. Mr. Brown added that Warwick has a right to request intervener status. Also, Mr. Gallucci opined that he may request a credit with Warwick for KCWA users that represents the difference in the rate.

Mr. Inman said he thought the logical route was to put forth both proposals to the PUC and let them make the decision. He thought the Coventry fire districts would see this as a revenue catcher, but nonetheless, leave it to the PUC.

Mr. Woodcock then discussed the seasonal rate. He also discussed the problems, such as the need to bill monthly, identify the summer season, build it into the billing quarters, among others.

Mr. Woodcock discussed the impact of the fire surcharges. Mr. Masterson asked how much the increase would be in pennies, as it is easier to understand and easier to explain. Although the overall percentage was high, it equated to between \$3.75 and \$5.00 per month for the average customer.

Mr. Woodcock then went over the proposed step increases. He explained that the legislature recently passed the ability of KCWA to extend their rate over several years. He said this was a cost saving measure, as typically a rate filing is about \$200,000.00. To revisit a step filing, the cost was under \$20,000.00. He identified it as a great way to save money. Although not required, the authority can go into the PUC only on the step increase in the ensuing years. Mr. Masterson asked if the step portion of the rate filing was approved and the authority didn't need to go for an increase in year two, was year three foreclosed? Mr. Woodcock said it was not foreclosed.

Mr. Brown then summarized the proposal. He said KCWA has asked for a lot more on previous occasions and received it. He also added that this proposal for the hydrant charges will not eliminate the collection on the two judgments that KCWA has against the fire districts. He advised the board that he would schedule an April special meeting to approve the rate filing.

That concluded the presentation and the board thanked Mr. Woodcock.

LEGAL MATTERS

Legal Counsel Mr. Sullivan reported the Center of New England ongoing receivership. There was no activity to report on this.

He then spoke on the ongoing case of KCWA v. CCFD. He indicated that the final judgment had entered in the case, and a 20 day appeal period was running. He said he applied for the issuance of an execution, and that will be held during the appeal period. It will be issued unless the case is appealed. He did report that the attorney for the fire district indicated their board's desire to enter into settlement negotiations.

The remaining legal matters will be handled in executive session Mr. Sullivan said.

Director of Finance Report:

Mr. Brown explained and submitted the financial report. Cash Receipts and Disbursements FY 2015-2016 as of February 2016, and statement of cash location 2015-2016, attached as exhibit "A", were submitted and a thorough discussion ensued with regard to the sales and revenue.

Mr. Gallucci moved and seconded by Mr. Inman to accept the reports and attach the same as an exhibit and that the same be incorporated by reference and be made a part of these minutes.

Upon Motion duly made and seconded, it was unanimously,

VOTED: That the Statement of Cash Location and Cash Receipts and Disbursements FY 2015-2016 as of March 2016, attached as exhibit "A", be approved as presented and be incorporated herein and are made a part hereof.

Mr. Brown also updated the board on the restricted accounts in the cash location portion of the report. He reported that the KCWA received approval that day from the PUC to use several restricted reserve funds for capital improvements, He added that he was pleased with the decision.

Point of Personal Privilege and Communication

Although there was no comment under this section, Mr. Giorgio requests that the executive session portion of the meeting be moved from the end of the agenda. This was at 4:43 p.m.

EXECUTIVE SESSION: Pursuant to RI GL 42-46-5(a)(2) Litigation *Kent County Water Authority vs. Colbea Enterprises, LLC, Motiva Enterprises, LLC, and RBS Citizens National Association* C.A. No. KC 14-0809 and *Kent County Water Authority v. Coventry Fire District* KC-2014-0487.

The chairman then read the agenda item above and asked for a motion to go into executive session.

Mr. Giorgio moved and seconded by Mr. Masterson that the board move into executive session for discussion of the aforementioned litigation.

Upon Motion duly made and seconded, it was unanimously, by roll call vote,

VOTED: That the board moved into executive session for discussion of litigation RI GL 42-46-5(a)(2) Litigation Kent County Water Authority vs. Colbea Enterprises, LLC, Motiva Enterprises, LLC, and RBS Citizens National Association C.A. No. KC-2014-0809 and Kent County Water Authority v. Coventry Fire District KC-2015-0487.

The board goes into executive session at 4:44 p.m.

Mr. Masterson moved and seconded by Mr. Giorgio that the board exit from executive session.

Upon Motion duly made and seconded, it was unanimously, by roll call vote,

VOTED: That the board exit from executive session.

At 4:50 p.m. the board emerges from executive session and resumes open session.

Mr. Masterson moved, seconded by Mr. Inman, that the minutes of the executive session meeting shall remain under seal pursuant to RIGL 42-46-4 and 42-46-5.

Upon motion duly made and seconded, it was unanimously, by roll call vote,

VOTED: That executive session minutes of the meeting shall remain under seal pursuant to RIGL 42-46-4 and 42-46-5.

Mr. Sullivan reports for the record that a vote was taken in executive session to settle the case of Kent County Water Authority v. Coventry Fire District KC-2015-0487 for 8 payments of \$23,470.63 so long as the CFD remains current on the ongoing hydrant billing, and authorized the Chairman to sign a Memorandum of Agreement to memorialize the settlement

GENERAL MANAGER/CHIEF ENGINEER'S REPORT

GENERAL:

Revised Capital Improvement Program, Review

Mr. Brown advised that this program will be ready for the rate filing. He indicated that KCWA needed approval from the PUC for this project and that it will span 5 to 6 years.

Rate Case Review

Mr. Brown informed the board that Mr. Woodcock went over this filing earlier in the meeting.

INFRASTRUCTURE PROJECTS

Apponaug Circulator Water Main Replacement (Winter Shutdown)

Mr. Brown informed the board that this project remains ongoing with a spring construction startup.

East Greenwich Well Refurbishment

Mr. Brown reported that the bid has been set and it is scheduled to be opened on April 12, 2016.

IFR 2014A Construction Startup

Mr. Brown informed the board that this is in spring startup.

IFR 2014B

Mr. Brown informed the board that this is in spring startup as well.

IFR 2015A Spring Construction Start

Mr. Brown informed the board of a spring startup with a construction meeting at the end of the month.

IFR 2015B

Mr. Brown informed the board of a winter bid. An opening is scheduled for March 30, 2016.

2016 Design (Project Status)

Mr. Brown advised that this project has field work underway.

IFR System Structure Demolitions (Set Bid Date)

Mr. Brown advised that this is for the removal of tanks not needed, among other demolitions. There is a meeting scheduled next week.

CAPITAL PROJECTS

Mishnock Area Transmission Main, Design Revision (Current Project Status)

Mr. Brown indicates that the final design revisions are underway with a bid coming thereafter.

There being no further business before the board, Mr. Inman moved, seconded by Mr. Gallucci to adjourn the meeting.

Dated: April ____, 2016

Legal Counsel