MEETING MINUTES
CARROLL COUNTY PUBLIC SERVICE AUTHORITY
JULY 11, 2016
CARROLL COUNTY GOVERNMENTAL CENTER
BOARD MEETING ROOM
HILLSVILLE, VA

CALLED TO ORDER

The Carroll County Public Service Authority held their regularly scheduled meeting on Monday, July 11, 2016 at 3:07 p.m. in the Carroll County Governmental Center Board Meeting Room. Members present included Dr. Thomas Littrell, Chairman, Keith Meredith, James Light Jeanette Dalton, and Doug Winesett. Also present was Executive Director and PSA Engineer, Jessica Montgomery and Dana Phillips, Assistant Director and Secretary/Treasurer of the Authority. William Payne, Vice Chairman, was absent.

Dr. Littrell: Welcome everyone I apologize for missing last months meeting. I was in rout to Virginia from California in a 1928 Ford. We traveled close to 3000 miles, I did not pick up a screw driver or a wrench to the next to the last and I just did some adjustments to the car so I felt very fortunate. The great race motto is to finish is to win and we started with about 110 cars and about 85 finished so I felt very fortunate to have been the 46th car to finish and second in our division. I appreciate William taking over for me last meeting and he is on vacation this time. So it will just be the five of us. I certainly appreciate everyone's efforts and hard work. The first item on the agenda is citizen's time. I will remind that there is a five minute limit per speaker. We have one sign up, Brian would you like to come forward.

CITIZENS TIME

Brian Suggs: I have been trying to work with y'all on my water bill and talking to Dana. I said I could pay the $80. My children are coming home from social services and I have to have my water on. I have worked with them. I can pay $80 a month on a card I have specially dedicated to the water bill and I have saved it. She said y'all would knock the penalties. I can put the $50 on the water bill every month and put something toward that. I got $80 to give every month. You understand what I am saying? That's what I am needing to do. I am needing to get my kids back home and they need water. I am going to court today so they might be working on coming home today. So they can get ready for school and stuff. I want to see if I can get my water turned on and get a meter back in there. I don't have a meter in there or nothing. I want to get the meter back in there and give y'all the regular bill every month of $50.00 and put the rest to the side because I don't have but a little bit of income coming in until my children come home, then I will have my whole income. They took my income and my kids income and I just got half my income back a couple months ago. I got another attorney today, cause my other attorney is about to die George. That is what I am asking for y'all to do. I have my whole payment card of $80 some dollars, $86.00 a month. That was my food eating money; they don't give me but $50 some dollars in stamps so I am giving y'all my food eating money. But when my kids come home I will have another $700 or $800 a month. Cause I get my income back plus their income. So I

want to know can y'all do that for me? It is my SSI check card. I told Debbie I could dedicate that to y'all. And that's what I did I saved it all month. I get it every month on the 1st and the 3rd . I can dedicate the water bill. My kids can't come home until they have water. I aint got no meter or nothing, so that is what I want to see if y'all can do. I've been coming up here for three or four months now trying to work with y'all. Before I was scared to pay anything cause I was scared it would get eat up some way. That's all I know to tell you. I am doing the best I can.

Dr. Littrell: Thanks for your comments once again I wasn't here last meeting as I already mentioned, I read the minutes it seems like this was discussed thoroughly last time; does anyone want to say anything?

Mr. Winesett**:** From what I recall, we discussed it in depth, we agreed to, if you paid we would knock off the penalties and if you caught it up, then we would turn the water back on. Have we received anything last month?

Mr. Suggs: That is what I am saying I talked to her about it, I brought the money today to pay y'all. I can dedicate that $80 a month to y'all.

Mr. Winesett: Are you employed sir?

Mr.Suggs: I am on disability. They took my kids and when they did they took my income. I just now got back partial on my income. But when my kids come home I can get their income back plus my income. It's been going on for about two years now. They are supposed to be coming home I am going to court today for over nights and before school starts which is the first of the month. But they have to be able to take a bath and have water and stuff.

Mr. Winesett: I agree if they are going to be in the home.

Mr. Suggs: I haven't had a meter in 9 months and some of that $700 and some dollars is based on y'all charging me for water. That I was supposed to have and I ain't even had a meter. But regardless of that I can give y'all the $50 a month for the regular water bill and pay the difference up to the $80, until I get my income back when I get my kids back here in a couple months. I only get $500 and some a month now. I am taking the $80 some dollars a month I eat on and giving it to y'all so we can work something out and my children can have water. All I am asking y'all is so I can have my water back on so I can get my kids back and they can have a life again.

Mr. Winesett: Yes sir I think I understand what you want.

Mr. Meredith: I think also last month, I indicated that if you showed us efforts that we would re-evaluate. The way the board decided was because of the track record and the history and what was owed in arrears we can't just keep going.

Mr. Suggs: That's what I told y'all last month I would dedicate that card. I got the money off of that card today that I was going to pay y'all at the first of the month. I just wanted to make sure we had a little agreement deal thing going. But I brought the money today to give you.

Mr. Meredith: I understand that sir the $80 is roughly about 10% of what you owe. That's where we have an issue.

Mr. Suggs: I don't have $800, if I did I would be more than happy to give it to you. But I am talking about my children's life. I don't care about me. I want to pay you the money, I haven't had any money to give and I am just now getting back on my feet. I am getting my income back getting my children back.

Mr. Meredith: Trust me we waived a good portion of what was owed, and I know you are appreciative of that. But from our stand point and this is just speaking for me, if you show us not just this month the $80 but if we see a historical effort.

Mr. Suggs: I tried after last meeting Debbie and I got on the phone with the card company and set up automatic deduction and they said I would need a bank thing. We couldn't get it done Debbie tried to help me with it.

Mr. Meredith: Last month we acted as a board as responsibly as we could, I am just speaking for myself if any other board members want to chime in they can. If I may ask do you know who your new attorney is?

Mr. Suggs: Benzie from Independence. The court appointed him the other day and I spoke with him for a few minutes. I go to court today to set up the over nights. The reason I have not paid before now is I felt like the money was going to get ate up some way. That's the reason I held the money. I actually called Debbie and told her I had the money cause I wanted to come to the meeting. That's all I can do.

Dr. Littrell: I guess my problem I have is you have been here before, some of the past times, you have promised to pay and we have not seen any money.

Mr. Suggs: The problem was I couldn't understand that when I paid y'all the money that I paid the $70 some a month the interest would chew it up. Last month y'all said you would knock the penalties off. That brought it done to $840 something. If I pay $47 a month and you all charge me $50 some a month for the meter being there which I don't have a meter that eats up the $50 some I just paid y'all.

Dr. Littrell: But that does show a good faith on your part. Does the Authority want to make any kind of action?

Mr. Meredith: I feel like we are beating a dead horse to a point because we have heard from you for a couple months and I do understand and appreciate your concern for your children. If we were AEP and you did not pay your power bill, I do not think they would reconnect your power until you caught your power bill up. I don't look at us any differently. I think perhaps we have been more compassionate because they did leave the water on for a limited time when you were not paying. It is an unfortunate chain of events. Back to the last month's meeting, we acted to waive those penalties and we made it clear on what you had to do to satisfy getting your water meter back. To date we haven't received anything, and I know you say you have it today. I do appreciate that. If we see that the effort is made and I am not saying next month or the month after we have to have some sort of reasoning to re-evaluate the situation. I know that's not the answer you want to hear but that is my answer Mr. Chairman.

Dr. Littrell: It seems it is the will of the Authority if you pay a couple three months we will revisit and see how you are doing. I sorry for you personal problems.

(ORDER)

CLOSED MEETING-PURSUANT TO VA CODE SECTION 2.2-3711 A(1) DISCUSSION OF PERSONNEL

(ORDER)

Upon a motion by Mr. Meredith, seconded by Mr. Winesett and duly carried the Authority does hereby enter into closed meeting at 3:20 p.m. until 3:50 p.m. for discussion of VA Code Section 2.2-3711 A(1) Discussion of Personnel.

(ORDER)

Upon a motion by Mr. Meredith, seconded by Mr. Winesett and duly carried by the Authority does hereby convene out of closed meeting.

Whereas the Authority has convened a Closed Meeting on this date pursuant to an affirmative recorded vote and on the motion to close meeting in accordance with the Virginia Freedom of Information Act.

CERTIFICATION OF CLOSED MEETING

Now therefore be it resolved that the Authority certifies that to the best of each member's knowledge (1) only public business matters lawfully exempt from open requirements by Virginia law were discussed in this Closed Meeting in which the certification as identified in this motion concerning the closed meeting were heard, or considered by the Authority certification resolution applies and (11) only such public business matters as were identified in the motion concerning the Closed Meeting were heard, or considered by the Authority.

NEW BUSINESS

Rate Committee- Mr. Meredith- Mr. Chairman we discussed this for last month, it is tough anytime you talk about raising rates. We have given this a lot of consideration. There are several factors to consider, that weight on our minds. The last increase was 2009 during that time there has been a lot of cost increase. However, for us the key factor in raising rates is to be grant eligible. In order to apply and receive grants we have to meet a certain criteria that we do not set. We understand an increase would be required to receive funding. With that said, James and I discussed it and we would propose a Public Hearing be set forth to discuss the rate increase we have proposed. Not only address the water rates but also the sewer rates. It is not just tongue and cheek because I know there are many citizens hurting now.

Dr. Littrell-I would like to thank both of you for your work on this. I know it was not fun or easy.

Mr. Meredith- I might add it was not just our work, staff worked on this too by complying some numbers.

Dr. Littrell- Like you said in a nut shell basically the two reasons for this; number one, the cost in the PSA doing business the last seven years has increased, if we do not raise rates to some level we will not be grant eligible for any projects in the future. I now need a motion to set the Public Hearing for September 12, 2016 at 3:00 p.m. or as soon thereafter as the matter maybe heard in the Board Meeting Room. This will be in the Carroll New and Galax Gazette twice in August.

(ORDER)

Upon a motion by Mr. Meredith, seconded by Mr. Winesett and the duly carried by the Authority does hereby approve for Public Hearing to be held on September 12, 2016 at 3:00 p.m. or as soon thereafter to discuss the Proposed Water and Sewer Rates.

(ORDER)

CONSENT AGENDA

Upon a motion by Mr. Meredith, seconded by Mr. Winesett and the duly carried by the Authority does hereby approve the consent agenda, section A, B and C. The June 13, 2016 minutes were also approved, they are on file in the PSA office. The claims are also on file in the PSA office. They are as follows:

Claims

Checks # 2196-21511 $9,648.43

Checks # 21512-21546 $194,972.85

Transfer for Claims

CCPSA to Operating July $194,972.56

Cliffview to CCPSA to close account $70.26

Transfer for Reserve

CCPSA to Debt Reserve $9740.90

PROJECT UPDATES

Project Up-dates

Cliffview Water – Construction Phase

The Contractor (CW Cauley & Son) has completed tank site grading and the access road, and the Subcontractor (Mid Atlantic Storage) has erected the tank. During the previous month, the pipe crew has been installing water line primarily along Fox Fire Lane, Revere Road, Live Oak Lane, and Trading Post Road with approximately 32,000' of water line installed to date over the entire project area. The directional bore Subcontractor was shut down again this month due to equipment problems, and has now remobilized and is continuing on the Chestnut Creek crossing. The Contractor will continue pipe work, road bores, and the Chestnut Creek crossing during the upcoming month.

Lynnhaven Tank PRV – Design Phase

No engineering activity during this month.

Cana/Meadowbrook Water – Planning Phase

USDA-RD SEARCH Grant Project. The PER and EA have been approved by both USDA-Rd and the Health Department. Due to low percentage of signups within the areas connecting the Cana and Exit 1 water systems, the PSA has requested that the PER and EA be amended to address additional source capacity primarily for the Cana system. Work continues on those updates.

FUNDING APPLICATIONS

Sylvatus/Route 100 Water – A DWSRF funding application was submitted to VDH for the Spring 2016 funding cycle and a funding offer has been made.

Mrs. Montgomery explained the funding offer for the Sylvatus/Route 100 Water. In order for this project to have a positive cash flow there would have to be 39 connections and there are only 7 connection that can be served by this line currently. Staff recommendation is this project is not self-sufficient so therefore the PSA would not accept this funding offer. What is the Authority thoughts on this offer?

Mr. Winesett - Does not sound feasible.

Mr. Light- Too much expense not enough hook ups.

Mrs. Montgomery- I know the resident out there really want the water line we have to look at what makes sense. We cannot keep going in debt, we would only be getting $2,436.00 a year if all 7 signed up and the payment would be over $13,000 a year.

It was the consent of the Authority to not accept the offer on the Sylvatus Water Line Extension.

Lynnhaven PRV – Small Project Construction Grant application submitted to VDH in April 2015, and a funding offer has been made to the PSA.

Force Account Construction – A DWSRF funding application for force account construction of water lines along Coulson Church Road and Ridge Road has been submitted to VDH, and a funding offer has been made.

Mrs. Montgomery explained the funding offer for the Coulson Church Road/Ridge Road Water Line Extension. This is a force account project, which means there would be no contractor. The PSA crew would install the water lines. The debt service on this loan would be $11,454.00. This project is cash flow positive. Staff would recommend that the Authority accept this funding offer. We do not have many sign ups on the Ridge Road side but we would address this residents.

Mr. Meredith- These offers are based on us being grant eligible.

Mrs. Montgomery- Yes

Mr. Light - What about Meadowbrook has it been pushed aside because of rates?

Mrs. Montgomery- We need to find more water for Cana before we can continue on that project.

(ORDER)

Upon a motion by Mr. Meredith, seconded by Mr. Winesett and duly carried the Authority does hereby accept the fund offer from VDH for the Coulson Church Road/Ridge Road Water Line Extension.

Mr. Meredith- Keep trying to get funds for the Sylvatus through other programs.

(ORDER)

Authority Member's Time

Mr. Light- Nothing

Mrs. Dalton- Nothing

Mr. Winesett- Nothing

Mr. Meredith- Just like to reiterate, I think the board has shown the willingness to work with the customer that came in. I think we would work with anyone in the same situation. As far as rates go it tuff to sit here and start talking about increasing rates but I feel like it is a necessary evil. I hope the customer understand that.

Dr. Littrell- I is not always easy to sit up here is it.

Mr. Meredith- No Sir

Dr. Littrell- I do appreciate the Rate Committee and staff working hard on this. I know it is a hand and glove type thing. I apology again for not being here last month but I know you were in good hands with William. Look forward to him being back next month.

(ORDER)

ADJOURNMENT

Upon a motion by Mrs. Dalton, seconded by Mr. Winesett and duly carried the Authority does hereby adjourn at 4:22 p.m. until the next regularly scheduled meeting on August 8,2016 at 3:00 p.m. in the Carroll County Governmental Center Board of Supervisor meeting room.

_____
Dr. Littrell, Chairman

_____
Jessica Montgomery, Executive Director/Engineer

_____
Dana Phillips, Sec./Treasurer

COMMONWEALTH of VIRGINIA

Marissa J. Levine, MD, MPH, FAAFP
State Health Commissioner

John J. Aulbach II, PE
Director, Office of Drinking Water

DEPARTMENT OF HEALTH

OFFICE OF DRINKING WATER

Madison Building
109 Governor Street, 6th Floor
Richmond, VA 23219
Phone: 804-864-7500
Fax: 804-864-7521

June 15, 2016

Subject: Carroll County
Water – Carroll County Public Service Authority
Sylvatus WL Extension
WSL – 003-17

Ms. Nikki Cannon, Executive Director
Carroll County Public Service Authority
605-2 Pine Street
Hillsville, VA 24343

Re: 2017 Drinking Water Construction/Financial Assistance
DWSRF Initial Offer

Dear Ms. Cannon:

The Virginia Department of Health (VDH) has completed a preliminary review of your application for drinking water construction funds. The determination of the funding package is shown below; however, this determination and your inclusion in VDH's Intended Use Plan is contingent on the availability of federal and state funding as well as the conditions below.

Based on the information provided, VDH determined the total funding package for your project is estimated to be $362,200. The funding package was determined using information provided in your loan application.

Your project may be eligible for special funding under our Disadvantaged Program. The funding package under this special Program would be a $275,200 loan at 2.65% interest for a term of 30 years with $87,000 as principal forgiveness.

This offer requires a commitment to annually evaluate revenues and adjust rates as necessary to ensure revenue growth that factors in increases (e.g. operational costs, inflation, etc.), other costs (e.g. asset/equipment replacements, technology upgrades, capital improvements, etc.), and takes into account other potential revenue reductions (e.g. future regulations, reductions from water conservation, etc.). VDH recommends waterworks establish and fund a capital reserve fund that adequately supports capital improvements and asset replacements.

Having adequate financial resources is crucial to maintaining a successful and sustainable waterworks. Furthermore, VDH recommends waterworks implement a revenue growth model that includes automatic annual rate adjustments that exceed inflation. VDH recommends waterworks self-evaluate their financial positions using the attached ***Building Financial Sustainability/Financial Health Indicators*** to ensure they are able to provide for financial sustainability. You should begin to prepare your latest audited financial statement to avoid any delays in credit review and loan closing.

The funding package and loan closing are conditioned on and are subject to change based on (but not limited to) the following:

(1) The availability of federal and state match funds to support the DWSRF Program, please note that the federal appropriation has not been finalized,
(2) New restrictions/conditions that the EPA or VDH may require in the use of the SRF funds.
(3) Owner complying with the DWSRF Program requirements, which include American Iron and Steel, Davis Bacon Prevailing Wage, and other provisions,
(4) The purpose, benefit, or scope of the project changes from the Preliminary Engineering Report (PER) or the DWSRF Application; or the VDH-ODW Field Office does not concur with the project purpose, benefit, or scope,
(5) Owner's progress to a timely closing according to a pre-negotiated schedule, or delays/changes in project readiness to proceed,
(6) Owner's history of activities with the DWSRF Program (i.e. late payments or non compliance),
(7) Owner obtaining user agreements from future water users in the project area, (if applicable)
(8) The financial estimates provided in your loan application significantly changing,
(9) Owner's ability to secure the loan, all loan offers will require a credit report acceptable to VDH,
(10) Owner soliciting other lenders for parity on this new debt,
(11) Owner being debarred or suspended from applying for state or federal funds,
(12) Waterworks maintaining compliance with the Virginia *Waterworks Regulations* and other applicable state/federal laws, regulations, policies, and procedures, and
(13) EPA mandates that all program assistance recipients demonstrate full technical, financial, and managerial capacity in order to receive funds. VDH may place special requirements on recipients in order to ensure capacity requirements are met prior to loan closing.

An acceptance of this funding offer reflects a commitment on your part to these requirements. VDH reserves the right to by-pass any project that has not executed financial agreements within 12 months from the date of VDH's award letter.

Please notify me in writing as soon as possible but no later than July 18, 2016 at the address above of your acceptance of this initial funding package offer <u>or</u> any concerns and additional factors that should be considered. Failure to notify me can be deemed as your withdrawal from this program. I can be contacted at (804) 864-7489.

Sincerely,

Steven D. Pellei, PE, Director
Division of Construction Assistance, Planning & Policy

cc: J. Dale Kitchen, PE, Project Supervisor, FCAP
Mount Rogers Planning District Commission
Melody Counts, MD, Acting District Health Director
Ray Whitner, ODW Field Director, Abingdon Field Office
James Maras, Director of Community Programs, Rural Development

VDH/OFFICE OF DRINKING WATER
FINANCIAL AND CONSTRUCTION ASSISTANCE PROGRAMS (FCAP)

Building Financial Sustainability/Financial Health Indicators

Having adequate financial capacity and an acceptable credit review is a Program requirement for revolving fund loan projects. Listed below are some financial indicators that may be evaluated during a review by VDH or by the Virginia Resources Authority (VRA). Reviews are not limited to the factors listed below and may include other factors.

Revenue Pledge Factors: *(User fees pledged for loan repayment)*

1. ***Debt Service Coverage Ratio:*** Net Revenue (revenue – O&M) available for debt service divided by applicable debt service. Evaluated using the first two fiscal years after project completion.

   - Poor — Less than 1.15x
   - Adequate — From 1.15x to 1.5x
   - Strong — Greater than 1.5x

2. ***Days Cash on Hand:*** Amount of total available unrestricted liquid reserves divided by daily operating expenditure requirements.

   - Poor — Less than 60 days
   - Adequate — From 60 to 120 days
   - Strong — Greater than 120 days

3. ***Operating Ratio:*** Total operating income plus operating reserves divided by total operating costs (not including debt)

   - Poor — Less than 1.1
   - Adequate — From 1.1 to 3.0, Small systems (1.25 to 3.0), Medium and large (1.1 to 2.0)
   - Strong — Greater than 3.0 Small systems (3.0), Medium and large (2.0)

General Obligation Factors:[1] *(Locality pledges its full faith and credit, backed by taxing power)*

4. ***State Aid (if applicable):*** Available state aid divided by applicable debt service.

   - Poor — Less than 1.0x
   - Adequate — From 1.0x to 1.5x
   - Strong — Greater than 1.5x

5. ***Debt Service vs. Expenditures:*** Debt service compared to the total operating budget.

   - Poor — Greater than 15%
   - Adequate — From 10% to 15%
   - Strong — Less than 10%

6. ***Unassigned Fund Balance:*** Unassigned fund balance vs. total revenue.

   - Poor — Less than 5%

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[1] Evaluate the debt, revenues, and expenses of the entire entity and not just the waterworks enterprise fund

- Adequate From 5% to 10%
- Strong Greater than 10%

7. ***Debt Payout Ratio:*** Measurement of how much debt is paid off in ten years.

- Poor Less than 50%
- Adequate From 50% to 60%
- Strong Greater than 60%

8. ***Total Debt vs. Total Valuation:***

- Poor Greater than 6%
- Adequate From 2% to 6%
- Strong Less than 2%

Other Factors:

9. ***Affordability Index Target:*** Annual residential bill divided by Annual Median Household Income (MHI).

- 1% for average gallons per month*
- 2% for 5,000 gallons per month

* Use the rate structure (in-town, if applicable) for residential customers and apply it to the average monthly residential water usage to derive the average monthly user rate for evaluation under the DWSRF Program. The average monthly residential water usage is to be based on residential water meter data. Waterworks are expected to meet or exceed the target rate criteria at the time of project completion.

Other considerations:

Experience has shown that fairly structured utility rates that implement gradual rate increases annually have been the most acceptable to the ratepayers and most effective in keeping revenue at pace with costs.
VDH recommends waterworks implement a revenue growth model that factors in increases (e.g. operational costs, inflation, etc.), other costs (e.g. asset/equipment replacements, technology upgrades, capital improvements, etc.), and takes into account other potential revenue reductions (e.g. future regulations, reductions from water conservation, etc.).
VDH recommends waterworks establish and fund a capital reserve fund that adequately supports capital improvements and asset replacements.
VDH reserves the right to require an implementation schedule acceptable to VDH for those waterworks that may need additional time for implementation of significant rate increases.

COMMONWEALTH of VIRGINIA

Marissa J. Levine, MD, MPH, FAAFP
State Health Commissioner

John J. Aulbach II, PE
Director, Office of Drinking Water

DEPARTMENT OF HEALTH

OFFICE OF DRINKING WATER

Madison Building
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June 15, 2016

Subject: Carroll County
Water – Carroll County Public Service Authority
Coulson Church Road/Ridge Road WL Extension
WSL – 002-17

Ms. Nikki Cannon, Executive Director
Carroll County Public Service Authority
605-2 Pine Street
Hillsville, VA 24343

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DWSRF Initial Offer

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Based on the information provided, VDH determined the total funding package for your project is estimated to be $388,000. The funding package was determined using information provided in your loan application.

Your project may be eligible for special funding under our Disadvantaged Program. The funding package under this special Program would be a $235,000 loan at 2.65% interest for a term of 30 years with $153,000 as principal forgiveness.

This offer requires a commitment to annually evaluate revenues and adjust rates as necessary to ensure revenue growth that factors in increases (e.g. operational costs, inflation, etc.), other costs (e.g. asset/equipment replacements, technology upgrades, capital improvements, etc.), and takes into account other potential revenue reductions (e.g. future regulations, reductions from water conservation, etc.). VDH recommends waterworks establish and fund a capital reserve fund that adequately supports capital improvements and asset replacements.

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(4) The purpose, benefit, or scope of the project changes from the Preliminary Engineering Report (PER) or the DWSRF Application; or the VDH-ODW Field Office does not concur with the project purpose, benefit, or scope,
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(7) Owner obtaining user agreements from future water users in the project area, (if applicable)
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(12) Waterworks maintaining compliance with the Virginia *Waterworks Regulations* and other applicable state/federal laws, regulations, policies, and procedures, and
(13) EPA mandates that all program assistance recipients demonstrate full technical, financial, and managerial capacity in order to receive funds. VDH may place special requirements on recipients in order to ensure capacity requirements are met prior to loan closing.

An acceptance of this funding offer reflects a commitment on your part to these requirements. VDH reserves the right to by-pass any project that has not executed financial agreements within 12 months from the date of VDH's award letter.

Please notify me in writing as soon as possible but no later than July 18, 2016 at the address above of your acceptance of this initial funding package offer <u>or</u> any concerns and additional factors that should be considered. Failure to notify me can be deemed as your withdrawal from this program. I can be contacted at (804) 864-7489.

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Steven D. Pellei, PE, Director
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cc: J. Dale Kitchen, PE, Project Supervisor, FCAP
Mount Rogers Planning District Commission
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VDH/OFFICE OF DRINKING WATER

FINANCIAL AND CONSTRUCTION ASSISTANCE PROGRAMS (FCAP)

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   - Poor — Less than 1.1
   - Adequate — From 1.1 to 3.0, Small systems (1.25 to 3.0), Medium and large (1.1 to 2.0)
   - Strong — Greater than 3.0 Small systems (3.0), Medium and large (2.0)

General Obligation Factors:[1] *(Locality pledges its full faith and credit, backed by taxing power)*

4. ***State Aid (if applicable):*** Available state aid divided by applicable debt service.

   - Poor — Less than 1.0x
   - Adequate — From 1.0x to 1.5x
   - Strong — Greater than 1.5x

5. ***Debt Service vs. Expenditures:*** Debt service compared to the total operating budget.

   - Poor — Greater than 15%
   - Adequate — From 10% to 15%
   - Strong — Less than 10%

6. ***Unassigned Fund Balance:*** Unassigned fund balance vs. total revenue.

   - Poor — Less than 5%

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[1] Evaluate the debt, revenues, and expenses of the entire entity and not just the waterworks enterprise fund

- Adequate From 5% to 10%
- Strong Greater than 10%

7. ***Debt Payout Ratio:*** Measurement of how much debt is paid off in ten years.

   - Poor Less than 50%
   - Adequate From 50% to 60%
   - Strong Greater than 60%

8. ***Total Debt vs. Total Valuation:***

   - Poor Greater than 6%
   - Adequate From 2% to 6%
   - Strong Less than 2%

Other Factors:

9. ***Affordability Index Target:*** Annual residential bill divided by Annual Median Household Income (MHI).

   - 1% for average gallons per month*
   - 2% for 5,000 gallons per month

* Use the rate structure (in-town, if applicable) for residential customers and apply it to the average monthly residential water usage to derive the average monthly user rate for evaluation under the DWSRF Program. The average monthly residential water usage is to be based on residential water meter data. Waterworks are expected to meet or exceed the target rate criteria at the time of project completion.

Other considerations:

Experience has shown that fairly structured utility rates that implement gradual rate increases annually have been the most acceptable to the ratepayers and most effective in keeping revenue at pace with costs.
VDH recommends waterworks implement a revenue growth model that factors in increases (e.g. operational costs, inflation, etc.), other costs (e.g. asset/equipment replacements, technology upgrades, capital improvements, etc.), and takes into account other potential revenue reductions (e.g. future regulations, reductions from water conservation, etc.).
VDH recommends waterworks establish and fund a capital reserve fund that adequately supports capital improvements and asset replacements.
VDH reserves the right to require an implementation schedule acceptable to VDH for those waterworks that may need additional time for implementation of significant rate increases.