



Danville Utility Commission
4:00 p.m. February 27, 2017 Meeting
Council Chambers, City Hall
Minutes

Commission Members Present: Bill Donohue, Ken Larking, Trina McLaughlin, Fred Shanks, Phillip Smith and Jim Turpin

Commission Members Absent: Vanessa Cain and Michael Nicholas

Staff Present: Michael Adkins, Meagan Baker, Amy Chandler, Greg Disher, Barry Dunkley, Carolyn Evans, Jenny Holley, Kelly Kinnett, Jerry Shupe, Mike Spencer, and Clarke Whitfield

Others Present:

Call to Order and Announcements

Chairman Smith opened the meeting and asked that the attendance be recorded. As a quorum was present, the meeting was called to order.

Discussion/Business Items

Minutes of January 23, 2017 Commission Meeting

Chairman Smith asked for any corrections, deletions, or adjustments to the minutes of January 23, 2017.

Mr. Turpin made a motion to approve the minutes. Mr. Donohue seconded, all members voted in favor, and the motion carried unanimously.

Review of Utilities' Financial Statements

Mr. Adkins reviewed the utilities financial statements and addressed questions from the commissioners. He introduced the Commission to Ms. Amy Chandler who was recently hired as the new assistant director of finance. She will take over presenting the financial statements as soon as she is comfortable working with the utilities budget.

Fiscal Year 2018 Utilities Budget Update

Ms. Jenny Holley presented the updated budget. Changes in the wastewater fund included an increase transfer of \$8,000 to the general fund for a total of \$693,760.

The water fund included an increase of \$18,750 in interest expense for debt service on bonds and an increase of \$10,000 for maintenance costs for fuel tank repair. The water funds transfer to the general fund was also increased by \$5,000 to \$942,300.

Concerning the gas fund, there was an increase in the transfer to the general fund by \$51,000 to a total of \$3,059,330. Mr. Turpin explained his concerns with the natural gas fund's shortage. He asked if the shortage is unable to be covered, would the funds have to be taken from the unreserved fund balance. Ms. Holley stated that the necessary funds would have to come from the unreserved fund balance if they were unable to make it up through operations and capital projects. She mentioned that the staff considered weather normalization when making predictions for the new budget.

Mr. Shanks also questioned if there would be any concern with taking money from the unreserved fund. Ms. Holley stated that she had completed an analysis and it was determined staff felt comfortable using those funds.

Concerning the electric fund, increases included \$41,250 for interest expenses for debt service on bonds and the contribution to the general fund was increased by \$125,000.

Mr. Donohue explained his concerns with the electric department funds. He questioned if the projected revenue was actually achievable. He also mentioned his concerns with the current rate of investment when compared to depreciation rates. He discussed the changes with weather and recommended the staff have a third party analysis to help with future projections.

Mr. Turpin commented that several years ago the utility was making large investments because it was growing. However, at this point it is no longer growing and has leveled off.

Mr. Shanks asked whether more projects should be underway because of the current low interest rates. Mr. Grey responded that three transformer projects are already currently underway. As these projects are completed, they will immediately move on to others.

Mr. Smith asked for clarification on the PCA allocations. Ms. Holley stated all monies collected will go towards the PCA rather than a portion of it going towards paying for the energy efficiency program as it has been in previous years.

Ms. Holley reported that an increase of \$130,000 in regular capital maintenance equipment was required for the purchase of a new generator.

Mr. Smith questioned the funding of the generator project. Mr. Larking stated that the Charles H. Harris Financial Services building has had numerous issues with power outages and the City will be installing a generator so that the customer service and collections divisions can continue to serve customers even during an outage. Mr. Smith asked who owned the building and Mr. Larking stated it is owned by the City. Mr. Smith

expressed his issues with the utilities department having to cover the cost of the generator when they do not own the building. He said the city should be responsible for the care and maintenance of their buildings.

Ms. Holley reported there were no changes to the telecommunications budget.

Mr. Turpin made a motion that the Danville Utility Commission approve the updated version of the utility department's proposed fiscal year 2018 budget for submission to the city manager and inclusion in his budget proposal to City Council, with the Commission's recommendation for its adoption by Council. He further moved that the staff make the budget expenditure adjustments necessary to bring the budgets back into balance without further rate increases and brief the Commission on actions taken at the April 24 meeting, should on-going evaluations reveal revenue shortfalls. Mr. Larking seconded the motion.

More discussion continued. Mr. Donohue discussed the three million dollars that are currently reserved which could be used to pay down the PCA. He asked if the budget could be adjusted to include the three million so that it can be acted upon immediately.

Mr. Donohue made a motion that in addition to the current budget as presented, it be amended to allow for a financial transaction to take the balance of the reserved amount of money for the stranded costs associated with AMP Ohio and be used to pay down the electric fund PCA at the beginning of the fiscal year. Ms. McLaughlin seconded the motion. All members voted in favor and the amended motion carried unanimously.

The original motion, as amended, was approved unanimously with all members voting in favor.

VIR Wastewater Request

Mr. Barry Dunkley discussed the request from VIR to review their monthly wastewater charges to see if what is being charged is reasonable. VIR currently pays monthly fees to each entity involved including the Halifax County Service Authority (HCSA), the Pittsylvania County Service Authority (PCSA), and the City of Danville. As a result of a 2003 agreement, VIR is currently charged 1.5 times the normal wastewater rate. After review, staff determined the rate was unfair and they should be charged the same rate as all other customers.

Mr. Shanks stated that VIR has had a great impact on the local economy and should be treated fairly. He questioned who paid for the initial wastewater infrastructure to VIR. Mr. Dunkley reported that he was not sure who covered the costs but it was most likely covered by VIR and grant funding.

Mr. Dunkley also mentioned that the city may be considered in the future to provide water services to VIR so this would be good for the relationship. They currently operate on multiple wells.

Mr. Turpin asked would it be fair to ask all of the parties involved (HCSA and PCSA) to share in the reduction so that the city is not the only entity that loses revenue. Mr. Dunkley stated that it would be hard for them to lower their charges and still be able to cover their cost of services.

Mr. Donohue made a motion that the Danville Utility Commission recommend to City Council to terminate the Halifax County Service Authority (HCSA) agreement from 2003 and charging the Pittsylvania County Service Authority for any wastewater services from Virginia International Raceway at the current City of Danville wastewater rate. Ms. McLaughlin seconded the motion. All members voted in favor and the motion carried unanimously.

Rate of Return Discussion Follow-Up

Jacob Thomas from GDS discussed updates on the initial rate study results presented on December 5, 2016.

Concerning transfers to the City's general fund, Thomas reviewed the procedures other municipal utilities follow for general fund contributions and compared them to the City of Danville. He also reviewed tax contributions by investor owned utilities.

Given all of the information, Thomas recommended an effective general fund transfer of 4.5% of revenue across all utility funds for payment in lieu of taxes. The remaining part of the general fund transfers will be rate of return on net assets.

Concerning the rate of return, Mr. Thomas provided the updated and corrected numbers from the previous meeting. For the electric fund, the target rate of return is 5.01% but the projected rate for FY2018 is 2.91%. Thomas reported that in order to meet that shortage, costs need to be cut or rates will need to be increased.

Mr. Donohue asked how this compared to an investor owned utility. Mr. Thomas stated that he would have to look into the numbers but the rate of return is typically higher for investor owned utilities.

Concerning the gas fund, Thomas recomputed the funds resulting in a recommended rate of return of 6.17%. The projected rate for FY2018 is 6.99%.

The water fund was also recomputed to a target rate of return of 5.23% and a FY2018 projected rate of 6.02%.

The wastewater target was slightly below with the target rate of return at 5.25% while the projected FY2018 rate of return is 4.25%.

Department Discussions

Mr. Turpin expressed his appreciation for the rate information, stating he has been requesting to see this information for a long time.

Mr. Donohue mentioned it may be important to share the information with the Virginia Manufacturing Association (VMA) so they understand how the City's rates are established.

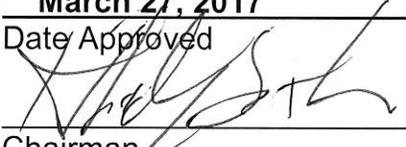
Mr. Smith discussed the rates for the city's street lighting. The new rate increase for street lighting is a result of the increase in the cost of service. Mr. Smith expressed concern with the past street lighting rate structure and how it will impact the LED street lighting project.

Mr. Grey reported that the new electric outage call center went live at the end of January. On February 8, the new utilities customer portal went live. On February 15, the City started receiving power from the Schoolfield Dam. All of the work on the dam was conducted by City staff.

Adjournment

Chairman Smith stated the next meeting is scheduled for March 27, 2017. There being no further business, Chairman Smith adjourned the meeting at 5:21 p.m.

Submitted by Meagan Baker
Secretary to the DUC

March 27, 2017
Date Approved

Chairman
Danville Utility Commission