Record of Proceedings: **July 23, 2013**
West Chester Township Board of Trustees
Work Session- Butler County Water and Sewer: Operational Overview and Costs Impacting Water Rates

Convene: Mr. Wong convened the meeting at 5:03 p.m..

Mrs. Boyko began the session by noting that the Board endorsed Mr. Lang's suggestion at the June 25, 2013 Trustee meeting that they meet with the Butler County Water and Sewer Department to better understand their operational capacity and water rates. She introduced Mr. Bob Leventry, Director of the Butler County Water and Sewer Department, and Mr. Charlie Young, Butler County Administrator. Mrs. Boyko said Mr. Leventry would be making a presentation, providing an overview and their water rates, and allow for Trustee comments and questions. She said there could be public comment if the Board so desired and time permitted. At that point she turned the meeting over to Mr. Leventry.

Mr. Leventry expressed their appreciation for the opportunity to address the Board's concerns and began his PowerPoint presentation.

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Referencing the following slides, much of which is self-explanatory, his accompanying comments could be summarized as noted below each slide:

Township Water System Infrastructure – Pipelines

6"	=	91	miles	24"	=	12	miles
8"	=	118	miles	30"	=	5	miles
10"	=	31	miles	36"	=	2	miles
12"	=	36	miles	42"	=	3	miles
16"	=	16	miles				

TOTAL MILES = 314 miles

". . . give(s) you an idea of what a big player West Chester Township is and what a big part of the Butler County water system you are."

Township Water System Infrastructure – Major Facilities

Pump Stations

Rialto Pump Station - 15.6 MGD
Beckett Ridge Pump Station - 15.6 MGD
Muhlhauser Pump Station - 8.1 MGD
Dimmick Pump Station - 11.9 MGD

Water Storage Tanks

Tylersville Tank - 1 Million Gallons (MG)
VOA Tank - 2 MG
Cox Tank - 1 MG
Liberty Union Tank - 1 MG
Dimmick Reservoir - 5 MG

In addition "...we have about 9 very major facilities, obviously serving more than West Chester Township, but Liberty and Fairfield as well. But these (facilities) are all located within West Chester Township." The 5 major water storage tanks comprise about 2/3rds their water storage. They have 5 major pump stations, 4 of which are located in West Chester Township.

Township Water System Customers

16,737	=	Residential Customers
1,146	=	Commercial Customers
67	=	Industrial Customers
518	=	Multi-Family Residential Customers

Butler County has about 38,000 total customers – this chart illustrates that West Chester is the bulk of their customers.

	2012 Billed Charges	2012 Billed Water Consumption
West Chester Township	$11,694,753 (56%)	2.10 Billion Gallons (56%)
Butler County	$20,950,613	3.75 Billion Gallons

West Chester accounted for 56% of their (Butler County's) total revenue in billed water consumption. He termed West Chester "a major player".

Total Water System Capacity

Total Water Supply Capacity = 43 MGD
Total Ultimate Peak Demand = 34 MGD (at build-out)
Excess Supply Capacity = 9 MGD

Their Total Water Supply Capacity is derived from their two suppliers, the cities of Hamilton and Cincinnati. He noted they attained build-out in 2011, and that "MGD" stands for Million Gallons per Day.

Compliance

- No Violations
- Ohio EPA compliant in all areas
- ORC compliant in all areas
- ISO compliant – Water Supply Rated Class 1

He said they have not been cited for any violations "for many, many years", and their Class 1 rating is on a scale of 10, or "Superior".

Water System Operations Budget (in million $)

	2008	2009	2010	2011	2012	2013
Salaries & Benefits	4.93	4.33	3.8	3.59	3.46	2.91
Electric & Utilities	0.85	0.64	0.59	0.46	0.45	0.46
Purchased Services	1.2	0.9	0.97	0.52	0.38	0.54
Materials/Supplies	0.71	0.71	0.55	0.57	0.58	0.53
Other O&M	0.38	0.48	0.58	0.66	0.55	0.56
Purchased Water	9.54	10.04	10.6	10.51	11.05	11.63
TOTAL	17.61	17.1	17.15	16.31	16.47	16.63

Mr. Leventry pointed out the increase in the cost of Purchased Water from 2008 to 2013 and, in contrast, the reduction in the total water system operating budget for that period from $17.6 to $16.6 million, a result of restructuring. He observed that every cost they controlled was eroded by increased Purchased Water cost.

Contract Terms

Hamilton – 20 years expiring December 31, 2021

Cincinnati – 20 years expiring December 31, 2025

Current Purchased Water Rates

Hamilton = $2.78 per 1,000 Gallons
Cincinnati = $1.66 per 1,000 Gallons
Water rates increase annually by CPI.

Current Minimum Purchase Requirement

Hamilton – 8 MGD or 2,920 MGY
Cincinnati – 6 MGD or 2,190 MGY

"This is the slide that tells a big part of the story", with respect to West Chester Townships' water rates. He added the costs increase annually by contract based on the Consumer Price Index.

Annual Minimum Purchase Water Cost

Hamilton - $8.12M (8 MGD)
Cincinnati - $3.64M (6MGD)

Annual Cost to Purchase 8 MGD from Cincinnati = $4.85 M
Difference = $3.27M per year

This slide factored the two previous slides.

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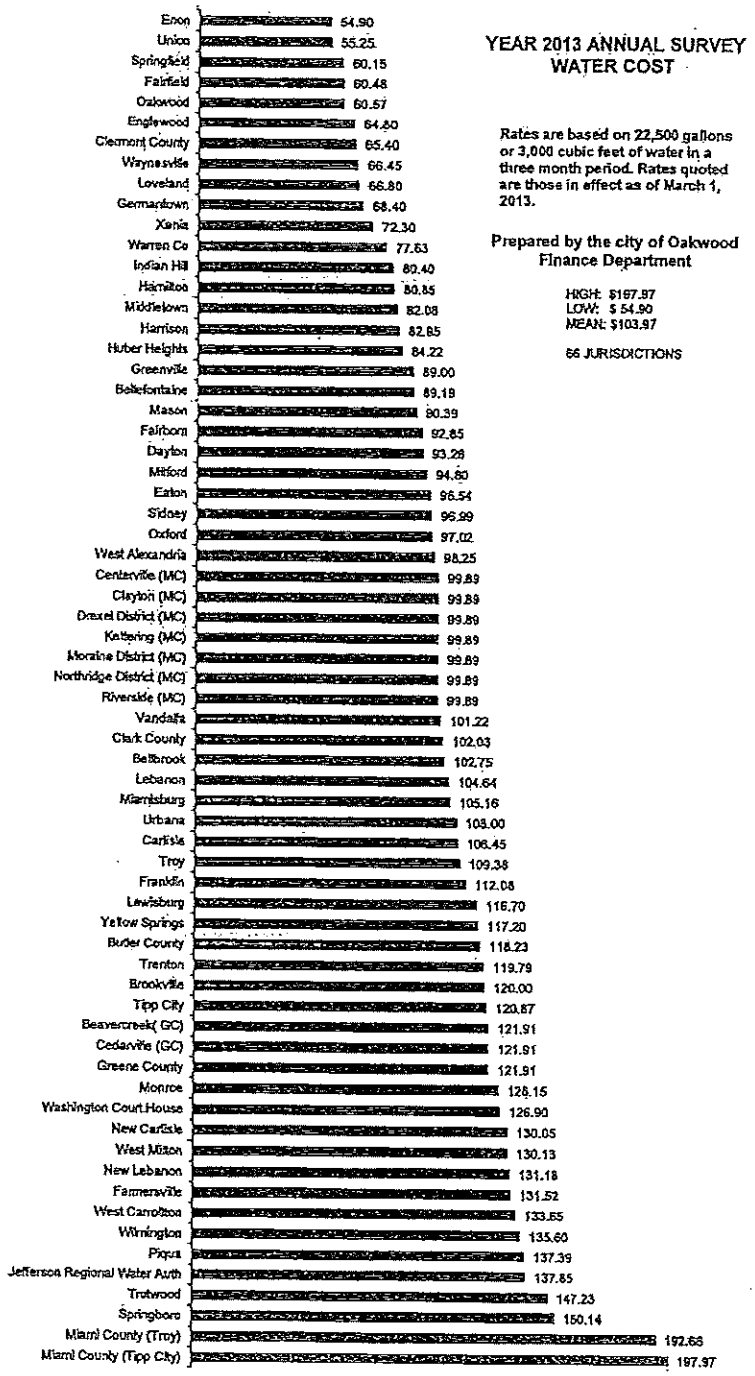
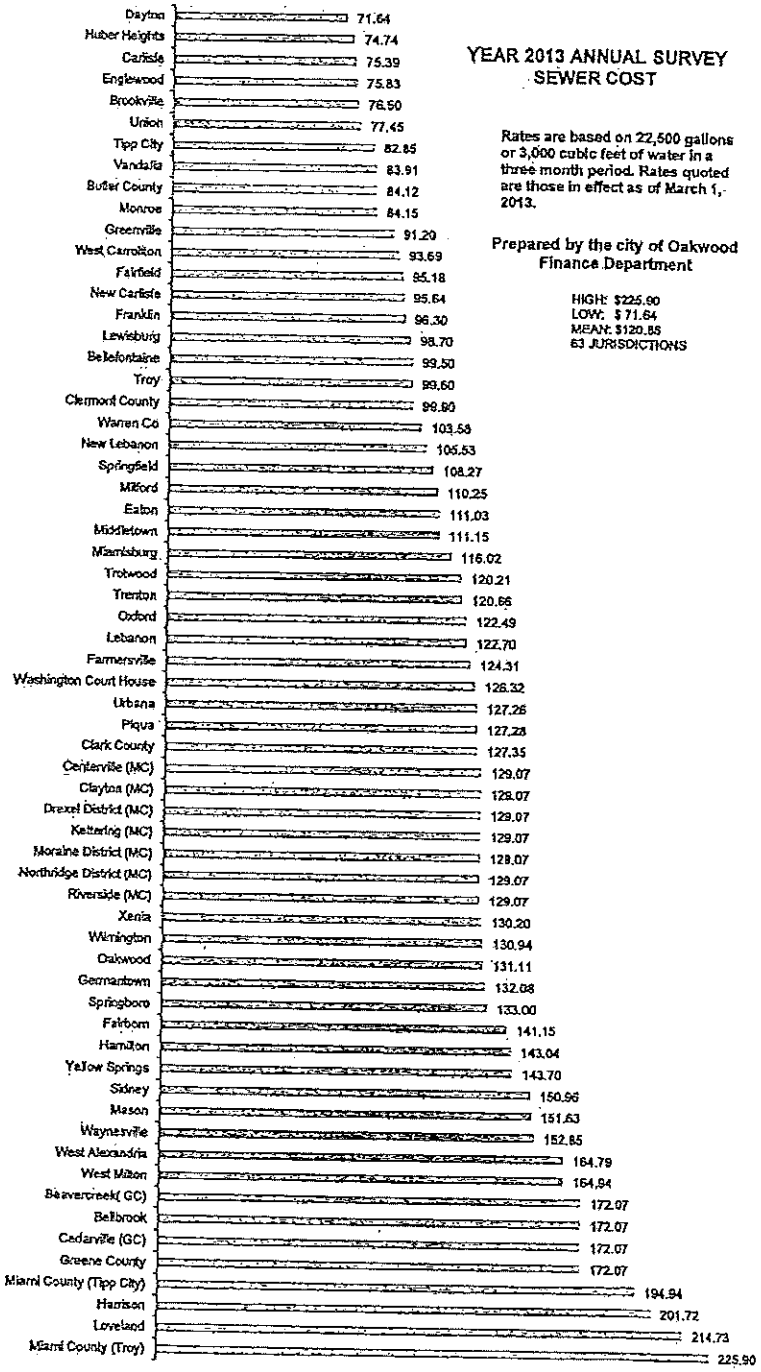
Mr. Leventry then referred to three charts that were in the packet, but not in his PowerPoint presentation. The first was titled "2013 Annual Survey of Water Costs" (AKA "The Oakwood Survey"), below:

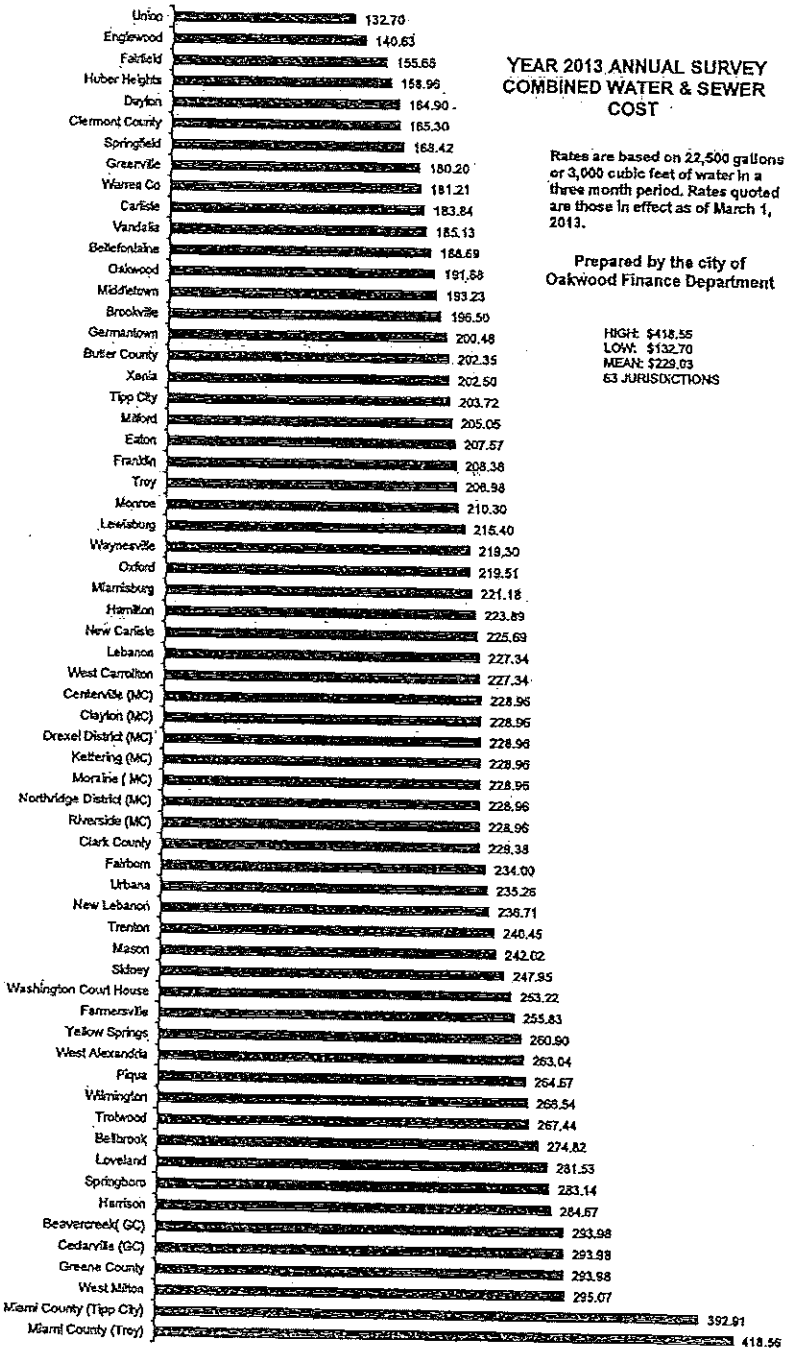


MC - Montgomery County
GC - Greene County



MC - Montgomery County
GC - Greene County

Mr. Leventry commented that, "We have control of our means of production on our costs for the most part in the sewer system operation, and when we can do that we can be extremely competitive regionally when we're given the opportunity."



MC - Montgomery County
GC - Greene County

Mr. Leventry said, "Because of our low sewer rates we (Butler County) remain fairly competitive regionally".

Hamilton Water Production Costs

City's cost to treat water = $0.80 per 1,000 gallons

City's rate to Butler County = $2.78 per 1,000 gallons

250% Mark-up of Production Costs

Mr. Leventry said, "It's a contract rate, not a cost of service rate, and that right there's the major reason why Butler County's rates and charges are toward the bottom on the Oakwood Survey".

Capital Recovery
$35M Judgment Bonds

- County paid City $35M in 2002 for capital costs for the SWTP expansion.
- Judgment Bonds Annual Debt Service = $2.6M
- Judgment Bonds Retire on 2026
- Hamilton Water rate should NOT have any capital recovery charges in rate.

He said, "there's another part of the purchase water story that needs to be told", adding, as a result of Butler County suing the city of Hamilton over water rates and charges, a settlement in 2002 resulted in the county paying the city $35 million for the capital cost of the South Water Treatment Plant expansion, or about 74% of the cost of expansion. He concluded this slide by reading the bottom entry, "Hamilton Water rate should NOT have any capital recovery charges in the rate" because, he added, "We already paid it" in the form of the $35 million judgment bond.

Capital Recovery
Cincinnati Water Rate

Cincinnati's $1.66/1,000 gallons water rate has approximately $0.30/1,000 gallons for capital recovery charges built into the rate.

At $1.36/1,000 gallons, 8 MGD of Cincinnati water would be $3,971,200 per year.

Difference from Hamilton = $4.15M/year

Mr. Leventry noted that our cost from Cincinnati includes a capital recovery expense, and it's attributable to the water line that was constructed from Sharon Road in Glendale to International Boulevard in West Chester. Excluding this capital cost, the annualized net cost of water and transmission relative Hamilton shows, "the real cost of what Hamilton is overcharging us: About $4.15 million per year. And if we had a true cost of service rate from Hamilton . . . that would be the savings in the water system operation."

What Are We Doing About It?

- Ongoing Negotiations with City
- Butler County in planning phase of developing a ground water well field.
- Soil drilling and borings completed and a ground water report has been prepared.
- Well site acceptance application submitted to Ohio EPA on April 15, 2013 for future well field site.

Negotiations have not proved fruitful. "They (Hamilton) have no motivation to re-negotiate a favorable contract that yields them 4 million surplus dollars". He said the County Commissioners have charged their staff with getting the cost of water down, noting the bottom 3 points on this slide.

What Do We Want?

- A "cost plus overhead" water rate that is cost of service based.
- An ownership-type interest in the City's regional water production facilities that recognizes the County's $35M capital payment.
- A long term agreement incorporating these principles as the basis for regional cooperation and a long term contract, OR
- Construction of a Butler County water production facility to provide long term rate control.

For options, he said they've talked to Fairfield, Middletown, Southwest Regional Water District, as well as Cincinnati about other metered connections.

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At this point Mr. Leventry concluded his PowerPoint presentation and indicated his willingness to take questions.

Mr. Wong said, "This is almost criminal what they're charging us", and asked who negotiated this contract. Mr. Leventry said it was negotiated in 2002 by the then County Commissioners, the County Administrator, and the Finance Director. He gave a brief history of the water contracts between Butler County and the city of Hamilton dating back to the 1980's. Mrs. Stokers commented that Butler County took on Hamilton's debt for its' increased cost to raise capacity for which there was no net decrease in the cost of water. Mr. Leventry responded that, for the $35 million, Butler County bought down the cost per thousand gallons from about $3.25 to $2.15 and pays about $2.6 million annually, which they termed a "zero sum game".
Mr. Lang said we were underwriting the cost of water for the city of Hamilton and their businesses, and asked if there was any "wiggle room" in the contract. Mr. Leventry said they discussed the contract with the Prosecutor's Office and they opined the county was bound by the terms of the contract. Subsequently terms of the contract and settlement agreement, options and remedies were discussed. To Mr. Lang's question, Mrs. Boyko said her recollection of the settlement contract was that it recognized "force Majeure" (i.e. causes that are outside the control of the parties, such as natural disasters, that could not be evaded through the exercise of due care) and, secondly, if there is a substantial change in a governmental entity including, but not limited to incorporation. In the latter instance the participating entity could conceivably extract itself from the arrangement,

but she said that would be for attorneys to determine the applicability. Mr. Leventry said he understood the Ohio Revised Code permitted Limited Home Rule townships to form their own water and/or sewer districts. He questioned whether the formation of such a district would constitute such a substantial change in a governmental entity. Mrs. Boyko said the creation of a water district would entail engineering plans relative the geographic service area, infrastructure, strategic plans, the cost to operate, etc.
Mrs. Stoker asked if Butler County was buying the contractually required minimum from Hamilton and the balance of its needs from Cincinnati, and Mr. Leventry responded affirmatively. In response to Mrs. Stokers' question asking if the 36" water main from Cincinnati has the capacity to fulfill Butler County's needs if they were only purchasing from Cincinnati, Mr. Leventry said it could fulfill West Chester's needs. However, areas in northern Fairfield Township and Liberty Township that also receive water from Cincinnati may on occasions, conceivably several months a year, have inadequate water main capacity, and they would need either larger water mains or a new pumping station. Relative this scenario, he said Middletown has a very stable excess capacity and that's being considered as a possible supplement to that which would be purchased from Cincinnati. Mrs. Stoker commented that the day they broke ground to expand capacity in those townships would be the day Hamilton would cut their water rates in half. Mr. Leventry said that was the case when Montgomery County was ready to begin building their own water system; the city of Dayton then renegotiated lower rates with Montgomery County. He said Butler County was prepared to "go down that path", taking the steps necessary to fulfill their water needs sans the city of Hamilton, and that they "were in the planning phase right now". Specifically, he said they were "shooting for a 15 million gallon per day (MGD) well field up on the Great Miami", and coupled that with 19 MGD from Cincinnati for 34 MGD, thereby enabling us to fulfill our needs. He said the well field would be a major project requiring about 4 years for completion, consequently, given that the current contract with Hamilton expires in 2021, they would begin construction on the well field about 2017. He added that they would need to complete the project about 6 months in advance of the expiration of the contract with Hamilton to allow for testing, training and such, and projected the total cost to approximate $100 million. He said most all of that would be borrowed, estimated the bond debt service to be about $5.5 million per year, and operating expenses to approximate $2.5 million per year. He compared that $8 million in cost to a projected $10 million in charges by Hamilton in 2021, factoring in the Consumer Price Index cost escalator. To Mr. Wong's question why doesn't Butler County begin construction now rather than wait until 2017, Mr. Leventry said they would still be contractually obligated to pay for an 8 MGD minimum from Hamilton through 2021 while paying all the costs for their new facility if they began construction prematurely.

When asked, Mrs. Boyko said she was not looking for any direction from the Board that evening, adding that they need additional discussion. Mr. Lang asked her to work in cooperation with the county to explore what options exist. Mrs. Stoker reflected on her experience with these issues back in the 1990's, saying water is a significant expense to our constituents, including businesses. Mr. Lang provided water rate and consumption data that indicate West Chester businesses are at a competitive disadvantage. Mrs. Stoker said Hamilton could offer prospective new businesses free water, given the rates paid by

surrounding customers. She said she's philosophically opposed to bluffing, but thinks we should plan to proceed and see what happens.

Charlie Young, Butler County Administrator, then replaced Mr. Leventry at the lectern saying they appreciate the support the water department has received from the townships, that they strive to provide good rates, and they're here to answer the Board's questions. He noted that they reduced their personnel cost by 40% and a million dollars in other costs, both while the cost of water was increasing. He said the 2002 agreement was intended to be an interim agreement that was to be replaced with a more comprehensive agreement, but that never happened, the result being higher water rates. Mr. Young said their goal was to find a long term solution, reiterating the previously cited options.

Mrs. Stoker commended them for reducing costs.

The Board then agreed to permit public comment:

Chris Wunnenberg, 8132 Dimmick Road, Development Director for Shumacher Dugan Construction, said he's been involved in this issue for 30 years, adding that his company installed many of the water lines in the Township's industrial areas. He said they discussed West Chester's options - separate from that of Butler County - with Butler County many years ago, to enable West Chester to control its' own destiny. The options included (a) developing our own water system, entailing leasing the pipes in the ground and a long term operational agreement with Butler County, (b) buying water from Cincinnati, and (c) allowing Butler County to pursue some renegotiation. He cited Fairfield and Middletown as smaller communities that have their own water system, produce excess capacity and at a lower cost, while controlling their own destiny. He commended Butler County for now controlling their operational costs. He said West Chester could consider creating its' own water system wherein we buy our own water and possibly negotiate with the county to operate a West Chester system, and we could do so before 2021. He concluded by citing several examples of companies and how water rates influenced their decision to locate or not to locate in West Chester.

As there were no other public comments Mr. Wong concluded the work session at 5:56 p.m..

Bruce Jones, Fiscal Officer

Lee Wong, President