

RESPONSE TO QUESTIONS ABOUT 5 YEAR RATE PLAN

AT THE LAST MEETING THE BOARD DIRECTED MR WEAKLEY IN CONJUNCTION WITH ASSISTANCE BY MR. BENNETT, TO PROVIDE A RESPONSE TO QUESTIONS, INCLUDING FROM MS DODGE, ABOUT THE AUTHORITY'S 5-YEAR RATE PLAN. MR. BENNETT HAS DRAFTED THE RESPONSE BASED ON VARIOUS INPUT OF INFORMATION AND THE RESPONSE IS AS FOLLOWS AND I WILL READ THE REPSONSE AND ENTER IT INTO THE RECORD:

We realize that rate increases may be unpopular and obviously have financial impact on our customers. The Board never takes them lightly or without extensive review, analysis and input. We must always balance the needs of properly running a utility business and the impact on our customers. The Board determined and maintains that the rate increases set in 2019 are necessary and appropriate.

In FY2017-18, rates were not increased for Service Authority customers. However, in April 2019, the Board determined that in order to meet the regulatory requirements; repair and maintain our facilities; and to provide acceptable service, rates must be increased. The only source of the funding is revenue received from our customers and additional funding is needed to meet these requirements.

In addition, the Service Authority must continue to plan for the future, both in terms of identifying needs and costs. The future capital needs are both real and financially challenging. We have approximately \$15M in expected, needed capital improvements coming up, in order to fully comply with applicable regulations, address our aging systems, support infrastructure, provide additional capacity to support future development, and grow our customer base.

The \$15M figure is based on at least the following:

\$450,000 in water system repairs (\$300,000 for Nindes Store system plus approximately \$152,000 in miscellaneous water system costs per our utility master plan);

\$773,000 for pump station repairs;

\$2M for a new sludge handling facility;

\$11.4M to decommission Purkins Corner and Oakland Park; and

\$364,000 for miscellaneous waste water treatment repairs.

In order to meet these needs, we implemented a 5-year financial plan last year. Our financial advisors, who are experts in this area and who have considerable experience with Virginia counties and municipalities of all types and sizes, helped us craft a way forward that involves three key actions:

- (1) The 5-year rate increases to generate additional revenue;*
- (2) Restructuring a large portion of our existing debt (to lower our interest payments and free up about \$4M in cash for immediate expenses); and*
- (3) Obtaining a \$15M line of credit (to help pay for major capital needs).*

All of these actions are essential to raise the funds necessary to meet our present and future financial requirements.

In addition, the rate increases were a primary condition for restructuring our existing debt. Before they would restructure our debt, the Virginia Resources Authority (VRA) required the Board to formally vote on the plan, with specific language they approved and required, to raise rates for five consecutive years. For the Board to now renege on this promise to VRA would violate the agreement and our moral obligation. Such action would result in serious financial harm to the Service Authority going forward and jeopardize our ability to secure VRA financial assistance in the future.

All of our actions, including the 5-year rate increases, are designed to put the Service Authority on a sound operational footing, both now and for the foreseeable future

The best solution going forward - for both the organization and our customers – is to substantially increase our customer base. The Service Authority needs more customers and more connection fees, both commercial and residential. New development is essential to the future of the Service Authority and to reducing the burden on our small customer base.

While we understand that some may not fully agree with the rates, we hope the information we have provided explains our position.