

ORIGINAL
N.H.P.U.C. Case No. DW 13-171
Exhibit No. 11
Witness Panel 1
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Eastman Sewer Company, Inc.

DW 13-171

Responses to Staff Set 1

Data Request Received: 08/29/13

Date of Response: 09/12/13

Request No. Staff 1-2

Witness: William S. Weber

REQUEST: Please comment generally on the financial capabilities of the VDE to own and operate a sewer utility.

RESPONSE: The capacity of the Village District of Eastman, (VDE) to own and operate a sewer utility is found in the past annual financial reports and audits (see Attachment 1-2011 Audit), which confirm a history of a firm financial foundation. This, coupled with sound past and current leadership, puts the VDE in a unique position to own and operate a sewer utility.

The annual budget of the VDE is approximately \$900K, and the annual budget of the sewer operation will only be one third of that amount by itself. The only debt the sewer company has is an existing \$280K balance on a bank loan. At the 2013 VDE Annual Meeting, the voters accepted the debt as part of the ESC, VDE transfer and subsequently voted to issue a bond not to exceed that amount. The VDE had secured a bank commitment prior to the annual meeting for the \$280K with more favorable terms than the sewer company currently has, freeing up financial resources for other potential expenses outside of the budget.

The sewer operation will stand alone financially under the VDE with a separate budget of approximately \$300K, managed and administered by the existing staff. This will eliminate any duplicity that would be created with a separate district or company.

At the March 2013 Annual meeting, a one-half year sewer budget was passed by the voters in anticipation of a July 2013 closing between the VDE and the Eastman Sewer Company, (ESC). This budget not only included all of the ongoing necessary costs, a contingency line of \$10,900 was included and a \$75.00 per quarter rate increase passed unanimously due to the voters recognizing the validity for more funding based on various reports outlining necessary repairs. The voters also passed, again by unanimous vote, three new sewer only Capital Improvement Accounts totaling \$37,700. All the sewer related warrants included language that noted that any sewer expense would be paid by the sewer users. See Exhibit #4 of Joint Petition, minutes of Annual Meeting.

The VDE has adopted an investment policy utilized for funds not immediately needed that has been managed over the past 20 years by the Board of Commissioners. This investment policy is indicative of the VDE's fiscal commitment to the community.

All discussion of financial capability and capacity is of no value without proper planning and prioritizing. There is no question the Eastman Sewer needs repairs and updating, some minor some major. The means to the end is establishing a schedule of projects and where, by priority, they will rank.

The current leadership of the ESC saw several years ago that updating of the system was necessary and, based on the aging sewer infrastructure, waiting was no longer an option. As such, they developed a plan that would serve as a road map for the next ten years. A Capital Improvement Study was completed by CLD Consulting Engineers in March 2008 (see

Attachment 2) and served as a guide for the ESC going forward. Although at this point the costs associated with the recommended repairs and updates in the CLD report are dated, the narrative is not. With the proper foresight the ESC was able to complete \$445,644 in Capital Projects between the years 2008 and 2013. The attached table summarizes what had been the capital expenditure plans of the ESC and then the VDE if the transfer had occurred in July 2013. Given the timing required by the current PUC process, all of these expenditures may be delayed (see Attachment 3-spreadsheet dated 9/5/2013).

In July 2010, it was determined through the routine testing and monitoring of the sewer system that ESC was falling into non-compliance with the Department of Environmental Services permit parameters. In early 2011, the ESC engaged the services of Underwood Engineers to further evaluate the system and its potential needs and requirements over the next 5 plus years (see Attachment 4-Underwood Engineers report dated January 4, 2013). The report was primarily undertaken to establish what would be necessary to move the sewer disposal from seasonal irrigation on the Eastman Golf Course to a more up to date and conforming subsurface disposal system. Since June 2012, the VDE has been involved with the ESC planning and coordination with Underwood Engineers given the possibility that the VDE would own the sewer utility.

The VDE has been kept informed by the ESC as to planning and possible strategies in the event the ESC transferred to the VDE. As each vote brought the reality of the VDE owning the sewer utility closer, the ESC and the VDE consulted on matters the engineers would raise. By planning the future of the sewer system together, the VDE is in a position to accept the role of owner operator without any disruption to the planning or the system. In December of 2012 the VDE, with the advice of the ESC, developed a one-half year budget for the sewer operation and

the creation of capital reserve accounts and presented it to the voters at the March 2013 Annual Meeting. By taking this step, the VDE positioned itself to be financially able to assume the sewer operation on July 1, 2013. The proposed budget passed, paving the way for the commencement of new capital accounts based on a rate increase to support the same, and the financial means to commence negotiations with an engineering firm to continue the required efforts. VDE anticipates it will use the same firm that had already been involved with the ESC for the previous two years. (See Attachment 5-2013 VDE Annual Report).