

Founders Bridge Utility Company Proposal October 24, 2016

Summary

County staff recommends acquiring the Founder's Bridge Utility Company infrastructure for economic development purposes. Gray Land & Development Company, owner of the infrastructure, is interested in transferring ownership to the County with the understanding that the County will continue with development of two water wells, a pump station and water treatment plant.

Estimated cost for completion of construction of the wells, pump station and water treatment is approximately \$795,000. At the County's current rates, it is estimated that the County will see a return on its investment in 5.5 years, at which time the charges to customers will be available for improvements.

There is currently a Preliminary Engineering Report (PER) at the Health Department for review.

Participants

- Founders Bridge Utility Company (FBUC) provides water and sewer services to residents/business.
- FBUC leases all assets (water and sewer lines) from Gray Land & Development Company (GrayCo)
- Sydnor Hydro operates the system including meter readings and billing for FBUC. It is anticipated that Sydnor will continue to operate the system for the County.
- Proslnc owns Independence Golf Course and is providing easements for the wells.
- Winterfield Phase II Development is waiting for the Health Department to approve the PER

Current Rate Structure Comparison

Residential

Bimonthly usage = 18,700 gallons
5/8" meter (residential)

Founder's Bridge Utility water charges = \$98.77
Founder's Bridge Utility sewer charges = \$75.48

Powhatan County water charges = \$133.87
Powhatan County sewer charges = \$142.08

Commercial

Bimonthly usage = 37,700 gallons
1.5" meter (commercial)

Founder's Bridge Utility water charges = \$350.65
Founder's Bridge Utility sewer charges = \$291.77

Powhatan County water charges = \$403.01
Powhatan County sewer charges = \$453.28

Return on Investment

Assumptions

- 1) Existing Customer Base remains at 359 customers (residential and commercial).
- 2) Annual operating expenses of \$241,000 (2015) will be increased to \$280,000 once the new plant is online.
- 3) Estimated annual revenue from existing customer base at Powhatan rates is \$425,000.
- 4) Annual revenue (\$425,000) less annual operating costs (\$280,000) equals \$145,000 for annual repayment to General Fund for \$795,000 investment.
- 5) $\$795,000/\$145,000 = 5.5$ years return on investment.
- 6) As new development occurs, the rate of return will decrease.

Timeline

10/24- Board of Supervisors Meeting - approval to proceed

11/10- Transfer Contract executed

11/14- State Corporation Commission approval of transfer - process begins

11/14- Health Department approval of Preliminary Engineering Report (Engineering Design of Water Treatment Plant and Pump Station) - process begins

11/28- Board of Supervisors Meeting - amend Water and Sewer Service District boundaries

The timeline is accelerated because the PER and the purchase of easements for the wells are on hold pending the determination of County acquisition. Winterfield Phase II Development requires the approval of the PER to continue on schedule.

From “A Special Report” by Public Citizens Water for All Program, September 2002

Accountability

A private utility may refuse to cooperate with the local government to address local concerns and to pursue development goals. When served by a public utility, water users can always hold public officials responsible for poor quality of water service and for failure to address their concerns. Having to stand for reelection is a powerful enough incentive for public officials to remain responsive to the residents’ concerns. A private corporation, particularly one with a long-term contract that holds customers captive, is by contrast accountable primarily to its shareholders.

Economic Development

Nothing is more fundamental to a community’s economic growth and development than adequate, reliable and affordable water and wastewater service. However, a private company may not desire to expand into a new area, or upgrade service in an area a city may have targeted for redevelopment, if its cost benefit analysis fails to project sufficient profits from the investment. The company’s refusal to expand may force the city to scuttle the development plans or build a separate plant to serve the area, which is generally more expensive than simply extending water lines from the existing plant nearby.

Conservation

A private company may refuse, directly or indirectly, to promote water conservation, despite the local, regional, and national objectives. Private companies in the water business do not grow profits and please shareholders by selling less, but by selling more.

A growing number of communities are now awakening to the disadvantages of private ownership of their waterworks. Several have moved to buy the private waterworks to reclaim control over rates, development, and quality of service.