December 8, 2023

TO: Woodstock Selectboard

FROM: Woodstock Water Working Group
Members: Charlie Kimbell, Alex Mulley, Keri Cole, Gabe DeLeon, Tom McCaughey, Eric Duffy. Abstaining: Tom Debevoise.

RE: Recommendation to Purchase the Woodstock Aqueduct Company

It is our recommendation that it is in the best interests of the Town of Woodstock and the current and potential customers in the service area of the Woodstock Aqueduct Company for the Town to purchase the assets of the company and to operate the water system. Here is why:

- State regulators are requiring Improvements to Woodstock's water system for fire protection, and no new connections for housing, business or other uses can be made until a plan to address those fire related issues are approved.

- The Woodstock Aqueduct Company does not have the financial resources to make those improvements and wants to sell the company.

- A Municipal owner, versus an independently owned utility or private equity firm, would have the lowest costs for ratepayers, greatest flexibility, and align the interests of the Town with the operations of the water system.

- The Town has personnel and equipment to support the operations of the water system.

The Woodstock Aqueduct Company has indicated that it is willing to sell the company to the Town for the amount of its outstanding debts incurred to make improvements to the water system. While the exact amount is in flux because of the ongoing repairs to the system as a result of the 2023 July rain events, the estimated total is $1,000,000. The tangible assets included in the sale that are taxed by Woodstock (land, buildings, water system) equal $1,967,800 as of the most recent assessment. The company's assets on their financial statements have a gross value of $2,042,439, with a fully depreciated value of $1,182,033.69. It is not within the Working Group's charge to negotiate a purchase price with the seller, but we are recommending that the Selectboard include all of the company's assets in an offer to the Woodstock Aqueduct Company, including the 358 acre Vondell property.

Who should own the system?
We did not take up the philosophical debate of private ownership vs public ownership. Instead, we focused on determining if the Town and the customers of the system were better served by municipal ownership vs private ownership. It became obvious to us that ownership by the Town better served its residents based on the following:

Lower costs.

- State regulations allow a private owner to establish rates to cover all expenses and generate an after tax return on equity of 9%. Town ownership would not include this profit margin.
- The Town would have access to much lower cost funding sources with longer terms of repayment. The Town is eligible for low cost loans (2-3%) from the Drinking Water State Revolving Fund with long amortizations of 20+ years. A private company would have higher borrowing costs (7%+) and a shorter loan term.
- Eligibility for grants. Though the Town does not qualify for all grant funds because of its high median household income, there are state and federal grants available that could reduce the total amount needed. It is reasonable to project 20-25% grant funding.

Alignment of priorities.

- The Town could manage the water system to align with priorities in the Town plan that may not return the desired return on equity for a private owner. For instance, improving water supply to the “east end” would support redevelopment of that part of town, something that has been a priority of the Town for decades and would yield many benefits. However, it may not be attractive when looking only at the return on the investment in the improvements to the water system alone.

Flexibility and control.

- As a private utility, the Woodstock Aqueduct Company is regulated not only by the Department of Environmental Conservation clean water division but also by the Public Utilities Commission. Municipalities are also regulated by the DEC’s clean water division but not by the PUC, giving the Town more flexibility in setting rates to support operating expenses and to establish “sinking funds” for future investments.

Required Improvements

The improvements that need to be made to the water system to comply with state regulations have been identified in a comprehensive engineering report by Otter Creek Engineering. The major improvements include:

1. installing a larger water main (12” diameter pipe) from the water tank on Cox District Road, along the road to Route 4 (Option 1a);
2. replacing the water main (8” to 12” pipe) from that intersection along Route 4 to the Rec Center Bridge (Option 1b);
3. building a new storage tank on the east side of Woodstock at the same elevation as the existing storage tank (Option 2).

The costs of these improvements, plus the replacement of one of the wells on Route 12 and improvements to the Cox District Reservoir earthen dam are estimated at $10 million over the next 10 years (in 2023 dollars).

It is important to note that these improvements have to be made regardless of who owns the water system.

Who pays for the improvements?

Currently, all operating costs and debt service on capital improvements are passed through to the property owners connected to the water system ("users pay" model), plus a per fire hydrant fee assessed primarily to the Town.

Using the best information available to us, we calculated that within the Woodstock Aqueduct Company customer base:

- 77% are residences and consume 49% of the water.
- 6% are hospitality establishments and consume 33%, with the Woodstock Resort being the largest consumer.
- 7% are institutions (Town, schools, non-profits) and consume 13%.
- 10% are commercial properties (retail, office) and consume 6%.

The typical household in Woodstock pays $313 per year for water. Based on benchmarking data comprising 60% of Vermont residents on water systems (and assuming comparable consumption levels) that is generally in line with typical water rates in Vermont. Currently all customers pay the same quarterly minimum charge and the same rate for water consumption ($.029 per cubic foot).

(There is an opportunity to redesign the rate structure, as some of the elements are antiquated (a charge that varies with the size of the "service" from the water main to the property) and there are no conservation incentives or differences for different types of customers. The only other case we could find in Vermont for the assessment of a per hydrant fee is for private hydrants located off the right of way of the water company, and that is $125 per hydrant per year, vs $100 per hydrant per quarter in the current rate structure. It would take careful planning and analysis to make sure the rates reflect the objectives of the water system, but there are plenty of examples in the State of communities that have recently (last 10 years) updated their rate cards.)

If the Town owned the system, and keeping the "users pay" model in place, and assuming the $10 million in capital improvements are paid entirely by debt, rates for users would need to increase by 100%. That would place Woodstock at the top end of the scale for residential rates and could put real pressure on households of low and moderate income.

If a private, for-profit entity were to purchase the Woodstock Aqueduct Company, and they funded the improvements through a mix of capital and debt (50/50), ratepayers would see an increase of 3x current rates.

Should the Town, meaning all property owners, shoulder a greater share of the cost of capital improvements?

If not for the requirement to increase water pressure to the fire hydrants, at least $8 million in capital improvements would not have to be made. While that supports the town taking on a greater share of the cost of capital improvements, it is a large departure from the current “users pay” approach. The Town already shares some of the cost in the fee paid to the Woodstock Aqueduct Company in the per hydrant charge, but that fee is a small percentage of the total fees paid (about 5%) and it is reasonable to consider increasing that amount to help offset the total cost. In one scenario, to keep the water rates paid by existing customers at current levels, the amount paid by the Town would have to increase from $27k per year to $400-500k per year. (Currently the Woodstock Aqueduct Company is preparing a rate increase for review by the Public Utilities Commission that might significantly increase the per hydrant charge as a contingency plan in order to fund the improvements. By doing so, that would move more of the support of the system from current users to the Town.)

It is reasonable to expect the current users to pay more for the water that they consume, subject to a reconfiguration of the rate structure, in order to pay for the costs of improvements. The users benefit more directly than other residents, even in the form of lower insurance costs. It is also reasonable to expect the Town to increase its share of the costs, as the primary benefit of improved public safety and economic growth will benefit all members of the community. We are not suggesting any specific increase or percentage share, as that is up to the Selectboard to deliberate.

In summary, doing nothing is not an option. The improvements to the system have to be made as long as fire hydrants remain in operation, regardless of who owns the water system. The Woodstock Aqueduct Company, because of its current financial position, will struggle to find the resources available to make the improvements, delaying their implementation and negatively impacting both public safety and new housing and business development. If acquired by a new private owner, incentivized by financial returns, the water rates are projected to increase significantly more, up to 3x current levels. The Town is best positioned to acquire the Woodstock Aqueduct Company, and we urge the Selectboard to take up the issue and put the matter before the voters at Town Meeting in March, 2024.

Attachments:
Deal Sheet
90 Percent Preliminary Engineering Report
Harvard Business School Study
Questions from Working Group and Public
Woodstock Aqueduct Company - Talking Points
WAC Benchmarking - 23-12-5
WAC 10 Year Capital Plan
WAC Financing Cost Comparison