

HERMITAGE WASTEWATER TREATMENT PLANT

2010 IMPROVEMENT PROJECT

General Information

June, 2010

WHY

A 2009 Consent Order & Agreement between the City, Hermitage Municipal Authority (HMA) and the Pennsylvania Department of Environmental Protection (PADEP) including a Corrective Action Plan mandates improvements to the City's wastewater treatment plant (WWTP) that are complete, with the plant operational, by December 31, 2012. Failure to make this date will result in daily fines and the suspension of new connections to the system – stopping any new construction.

PROJECT

The project is estimated to cost \$32M. It will increase treatment capacity from 5.0 MGD to 7.7MGD. It will utilize a treatment process that will produce electricity to significantly reduce or eliminate electricity costs at the WWTP, create a land applicable product that will nearly eliminate the need to landfill wastes, and provide an alternative for food waste disposal for regional retail businesses and industries that does not currently exist. The approved design, which utilizes green technology to provide the previously mentioned cost-saving components of the project, has gone through a value engineering process as required by the PADEP and the PENNVEST funding agency. It should be noted that PENNVEST only provides funding for projects they have determined to be designed to construct the most cost effective solution.

CONSTRUCTION SCHEDULE

To meet the operational deadline of December 31, 2012, the project bids must be advertised on June 23, 2010 and bids received must be reviewed and then awarded by the Hermitage Municipal Authority (HMA) on August 18, 2010.

FUNDING

Funds for the project will come from 3 grants - \$350,000 PA Green Energy Grant, \$375,000 PA Growing Greener Grant and \$1M PA H2O Grant, a low interest (1%) 20 year loan from the PA Infrastructure Investment Authority (PENNVEST) in the amount of \$13,788,203 and the remainder from a bond issue. Legislation authorizing the bond issue financing and guarantee was adopted by the HMA on April 30, 2010 and the Hermitage Board of Commissioners on May20, 2010. Terms of the low interest PENNVEST loan require that the rate structure and schedule to finance the project debt service be in place prior to the loan closing. Closing is anticipated on September 23, 2010. An ordinance establishing the rate structure and schedule must be adopted by that time.

COSTS

The total new annual operational, maintenance and debt service costs are \$5.9M. The revenue required from residential rates will be \$3.92M annually (flat rate) or \$4.05M annually (base rate + consumption component) depending on the type of rate structure. The percentages of projected new annual expenditures (\$5.9M) breakdown as follows:

- Debt Service 56%
- Operation & Maintenance 40%
- Capital Improvements 2%
- Other 2%

Approximately 97% of all costs are fixed and not dependent on consumption or flow totals.

TIMELINE

- Week of May 24 – PNC Capital Markets sells bonds and locks in rates.
- June 10, 2010 – Public discussion on rate structure and schedule
- June 23, 2010 – HMA advertises for construction bids.
- June 29, 2010 – Bond issue closing
- July 22, 2010 – Introduction of an ordinance adopting a rate structure and schedule to be effective January 1, 2011.
- August 18, 2010 – HMA awards construction contracts contingent upon PADEP approval.
- August 25, 2010 – Public hearing and final vote on an ordinance adopting a rate structure and schedule to be effective January 1, 2011.
- September 1, 2010 – Other communities (Shenango Twp., Jefferson Twp., Clark Borough, and Wheatland Borough) that have sewage treated at the Hermitage WWTP will be notified of an increase in the rate they pay to Hermitage, effective 1/1/11, for their budget purposes.
- September 23, 2010 – Closing of the PENNVEST loan.

LOCAL RESIDENTIAL RATE COMPARISONS

Sharon \$44.00 per month*

Sharpsville \$54.00 per month for under 3,000 gallons + \$2.35 for each additional 1,000 gallons

Shenango Twp \$49.00 per month

Jefferson Twp. \$55.00 per month

*reduced from \$54.00 per month effective June, 2010

RESIDENTIAL RATE STRUCTURE OPTIONS

Existing Structure

- Flat rate for all residential users
- Currently \$95 per quarter
- Residential rate generates approximately \$2.6M annually

Existing Usage

- There are 6750 residential customers in Hermitage
- The average residential customer uses 3,013 gallons of water per month
- 48.21% of residential customers use over 3000 gallons of water per month
- 51.89% of residential customers use 3,000 gallons or less of water per month

Proposed Option #1 – Needed Annual Revenue - \$3.92M – Flat Rate

- Flat rate for all residential users
- Change to a monthly billing cycle beginning 1/1/12
- Permit payment by automatic checking account debit
- Allow for the ability to make one annual payment (possibly for a discount)
- Rates
 1. Current rate \$95/quarter (\$31.67/month)
 2. Effective 1/1/11 \$105/quarter
 3. Effective 1/1/12 \$42/month
 4. Effective 1/1/13 \$48.50/month

Proposed Option #1A – Needed Annual Revenue - \$3.92M – Flat Rate

- Same structure as Option 1
- Effective 1/1/13 a Low Income Reimbursement Program will be instituted using the same income criteria as the current Solid Waste Program – Head of Household annual income under \$19,050.
- Reimbursement made after successful application for the previous year.
- Reimbursement is approximately 15%, or \$90/year which is equal to \$7.50/month
- Cost of the Low Income Reimbursement Program is estimated to be \$18,000/year.
- Program will be paid for from interest earnings.

Proposed Option #2 – Needed Annual Revenue - \$4.05M – Base Rate with Consumption Component

- Fixed base rate plus a water usage component beginning 1/1/12
- Change to a monthly billing cycle beginning 1/1/12
- Permit payment by automatic checking account debit

- Rates
 1. Current rate \$95/quarter (\$31.67/month)
 2. Effective 1/1/11 \$105/quarter
 3. Effective 1/1/12 \$35/month base rate plus \$3.20/1,000 gallons of water usage
 4. Effective 1/1/13 \$38/month base rate plus \$3.20/1,000 gallons of water usage

Water Usage Gal/Mo	# Customers	% of Customers	Usage \$	Monthly Rate*
0-1,000	1,015	15.04%	\$3.20	\$41.20
1,001-2000	1,128	16.71%	\$6.40	\$44.40
2,001-3000	1,352	20.03%	\$9.60	\$47.60
3,001-4,000	1,226	18.16%	\$12.80	\$50.80
4,001-5,000	715	10.59%	\$16.00	\$54.00
5,001-6,000	487	7.21%	\$19.20	\$57.20
6,001-7,000	315	4.67%	\$22.40	\$60.40
7,001-8,000	217	3.21%	\$25.60	\$63.60
8,000+	295	4.37%	\$28.80	\$66.80

*Effective 1/1/13

Proposed Option #3 – Needed Annual Revenue - \$4.05M – Base Rate with Consumption Component

- Same as Option #2
- Rates
 1. Current rate \$95/quarter (\$31.67/month)
 2. Effective 1/1/11 \$105/quarter
 3. Effective 1/1/12 \$40/month base rate plus \$2.15/1,000 gallons
 4. Effective 1/1/13 \$42/month base rate plus \$2.15/1,000 gallons

Water Usage Gal/Mo	# Customers	% of Customers	Usage \$	Monthly Rate*
0-1,000	1,015	15.04%	\$2.15	\$44.15
1,001-2,000	1,128	16.71%	\$4.30	\$46.30
2,001-3,000	1,352	20.03%	\$6.45	\$48.45
3,001-4,000	1,226	18.16%	\$8.60	\$50.60

4,001-5,000	715	10.59%	\$10.75	\$52.75
5,001-6,000	487	7.21%	\$12.90	\$54.90
6,001-7,000	315	4.67%	\$15.05	\$57.05
7,001-8,000	217	3.21%	\$17.20	\$59.20
8,000+	295	4.37%	\$19.35	\$61.35

*Effective 1/1/13