

Appendix B

Donahue Transcription

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ST. MARY'S METROPOLITAN COMMISSION STUDY TASK FORCE

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BRIEFING BY ED DONAHUE

11

DECEMBER 18, 2009

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MEMBERS

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P R O C E E D I N G S

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CHAIRMAN DENSFORD: We'll go ahead and pick up where we left off with our next presenter, who is Mr. Ed Donahue of the Municipal and Financial Services Group. Welcome.

MR. DONAHUE: Thank you very much.

DR. COX: We were tasked with presenting to the members of the Task Force information about why counties in the State of Maryland move their services from sanitary districts to in-house. You have a chart in your packet that's on legal size paper. We identified -- this is the set of counties that we want to speak to. And we're pleased to have as a resource and assistance on this particular task, Ed Donahue, who serves as President of the Municipal and Financial Services Group, which is a specialized consulting practice that focuses on financial management and economic issues facing public sector and infrastructure clients.

In your packet, you also have information -- his professional profile, as well as information on the company of which he is president. And so, to facilitate

1 and get things started, I just thought we'd turn things
2 over to Ed so the members have the benefits of his
3 expertise.

4 CHAIRMAN STONE: Thank you, Robin.

5 MR. DONAHUE: Thank you, Robin. And when Dr.
6 Cox called me, I was delighted to be able to participate.
7 I appreciate the opportunity.

8 First of all, we don't have a horse in this
9 race. We are not doing any consulting work for either
10 MetCom or the county. We have worked -- maybe 15 years
11 ago, we did some work for the county. We have the
12 dubious distinction of developing the county's first
13 impact fees, which can get us tarred and feathered in
14 some parts of the world and whatever.

15 In listening to people speak, there were many
16 good points made, and I tried to group them into a couple
17 of categories. Just to sort of summarize simply, when
18 you're providing water and sewer service, you've got two
19 kinds of costs to worry about, capital costs and operating
20 costs. And there's two kinds of capital costs. There's
21 the cost of building treatment capacity and sort of your
22 backbone system, and the cost of building the lines, if

1 you're just talking sewer lines, collection lines.

2 Typically, you recover -- and one of the issues
3 in St. Mary's County is -- and any other high-growth area
4 -- is how to pay for growth. And everybody says, well,
5 somebody else will pay for it. You need -- whether it's a
6 county agency or it's an independent district or
7 commission or authority, you need a policy as to how
8 you're going to pay for growth. My understanding is that
9 in St. Mary's County, the sort of official policy is that
10 growth pays for growth. We don't want current citizens or
11 current customers to be subsidizing the costs -- the
12 capital costs or operating costs for developers. You
13 know, that -- you can change that. Some counties have.
14 But it's my understanding right now is that the policy is
15 growth pays for growth.

16 If you're going to pay for the capital costs of
17 the treatment plant in the backbone system, you have --
18 call it what you will -- a capacity fee, a system
19 development charge or whatever, tied to what it costs you
20 to build capacity for -- typically in terms of EDUs, ERUs,
21 all tied to the cost per gallon to build something.

22 If you're going to put line extensions in or

1 pump stations to serve a development, typically, if you're
2 going to build new development, you make the developer pay
3 for it. If you're going to go back and infill an area
4 where there is no service, where you want to extend it,
5 the county front ends the money and you pay for it by
6 making people pay a benefit assessment of some sort.

7 And there was some discussion about, well, why
8 make people pay if they don't want to join the system,
9 if they have a perfectly adequate well or septic system
10 or whatever, and the answer is purely and simply
11 financial, because if you don't make them pay, you're
12 putting MetCom or the county, whoever the utility is, in
13 the role of being the banker. And if you want to do
14 that, that's fine. But somebody has to pay for the cost
15 of building that capacity if you build it and people
16 don't use it.

17 So, either -- what typically would happen is if
18 you build -- if you put a line extension in and you don't
19 make people pay to join the system, you have to raise
20 user fees for everybody else who's in the system. It's a
21 zero sum game. If somebody pays less, somebody else pays
22 more. So, that's the hard, cold facts of life running a

1 utility.

2 On the operating cost side of the system, you
3 usually recover all those costs through user fees,
4 monthly or quarterly or something like that, and you may
5 have a fixed charge and you may not have a fixed charge
6 and you may have some kind of consumption charge or, if
7 you're in the sewer business, you may just have a flat
8 fee per household or something like that. But, I mean,
9 there's all kinds of ways to come up with that fee
10 structure to produce that revenue. But the basic
11 question you all seem to be grappling with is who should
12 take the risk of making the investment to build the
13 infrastructure.

14 There are ways you can address it. Frederick
15 County, for example, has a policy that if you're in the
16 designated growth area in Frederick County and you're
17 consistent with the comp plan and consistent with the
18 water and sewer master plan, but some developer wants to
19 put something in that's 15 miles away from the closest
20 water and sewer line, the developer has to build the
21 entire line to get to that 15 miles and it has to be
22 sized for the ultimate system, not just to serve his

1 development. So, he's got to take the risk. And then
2 the county will track those costs and will reimburse the
3 developer for a portion of those costs when, and if,
4 development occurs. But the risk is on the developer,
5 not on the county. I mean, that's one way to offload the
6 risk from whether it's MetCom or the county.

7 That gets you out of -- I heard somebody
8 talking about package plants. You know, the sort of
9 guiding rule is, you know, beware of developers bearing
10 package plants because developers are interested in the
11 low cost of constructing something, not the low cost of
12 operating it. And so, the quality of a package plant for
13 water or wastewater treatment is always questionable.
14 So, I mean, if you have something and you want it built
15 to your specifications, you want to inspect it. You
16 don't want -- you just don't want it turned over from the
17 developer.

18 There was also some discussion and talk about
19 making people join -- pay for line extensions. No rate
20 structure is going to be fair to everybody. Any time you
21 use an average, somebody's paying more or somebody's
22 paying less than it really costs to serve them. The

1 concept of community and what defines a community is
2 really important. The concept we typically use to try to
3 explain a rate where you use an average is a postage
4 stamp. I mean, you may live 10 miles from the post
5 office and I may live 20 miles from the post office, but
6 we pay the same rate to mail a card. Theoretically, we
7 could come up with a different rate for each of us based
8 upon how far we are from the post office. But it would
9 be so expensive and so administratively impractical, that
10 we use averages. And that's just what a rate is. It's
11 an average.

12 So, no rate structure is ever going to be fair
13 to everybody. Somebody's always going to get a benefit.
14 Somebody's always going to be penalized.

15 Talk about MetCom front-ending the cost of
16 capacity, it's all a question of risk. If you want
17 MetCom or if you want the county to invest in
18 infrastructure in advance of growth, you can do it, but
19 then you're going to have to figure out how to pay for
20 the cost of that capacity until the customers show up.

21 Most of the costs of running a water and sewer
22 system, both capital and operating, are fixed. Your debt

1 service is fixed. Most of your labor costs are fixed.
2 Your benefits are fixed. Probably out of the total cost
3 of running a water and sewer system, probably 85 percent
4 are fixed costs. The only thing that really changes with
5 the amount of customers or the amount of water and sewer
6 is how much electricity and chemicals you use, and to a
7 minor extent, the amount of labor for maintenance. But
8 everything else is pretty fixed. So, you're making a
9 decision to make a big investment when you build that
10 capacity.

11 The example I would use locally is Washington
12 County. It wasn't so terribly long ago they had a
13 sanitary district in Washington County where the -- some
14 of the county commissioners were on the district board as
15 well, and they decided that if they -- this is when
16 Hagerstown was dying for growth and there were not jobs
17 and Fairchild was closing down and all that stuff. They
18 said, well, if we build lots of sewer capacity, we'll get
19 jobs. And they built sewer capacity far in excess of
20 what the county's comprehensive plan said they were going
21 to need for the foreseeable future.

22 And the consulting engineer who did the study

1 for the wastewater treatment plan covered their butts
2 very carefully, as I would. Every other page they said,
3 the growth rates are not consistent with the county's
4 comprehensive plan; however, based on the instructions we
5 have received about the number of customers, this is what
6 we're going to design and build.

7 Sure enough, they built the stuff and -- they
8 built it and the customers didn't come and the district
9 was about to default on its bonds, and then the county
10 collapsed the district and rolled it into the county.
11 And Washington County is still paying \$2 million a year
12 in debt service on those bonds that the sanitary district
13 couldn't pay. So, the citizens of Washington County,
14 through their property taxes, are paying off those bonds
15 for the old sanitary district.

16 And, you know, you just need -- who takes the
17 risk when you build this capacity? If you build it and
18 they don't come, somebody's got to pay for it. It's all
19 a question of timing.

20 Somebody was talking about growth rates
21 changing. We did some work out in Leesburg. Leesburg,
22 until two or three years ago, was plugging along at a 5

1 to 6 percent growth rate, and they decided to build an
2 expansion of their water treatment plant and of their
3 sewage treatment plant based on these growth rates. And
4 they were going to use these fees from new customers to
5 basically pay the full costs so their present customers
6 wouldn't be impacted at all.

7 And they issued \$64 million in bonds. They
8 built the expansions to both plants, and the growth rate
9 last year was less than 1 percent. So, they're faced
10 with raising their user fees for water and sewer
11 customers to pay the debt service that's not being paid
12 for by new customers' capacity charges. That is not
13 making the elected officials in Leesburg very popular.

14 So, you need to think about those things. It's
15 the whole question of timing. When you build capacity,
16 you build it in chunks. You can't just build ten gallons
17 at a time because of what it costs. You need to build a
18 million gallons at a time or a half-million gallons at a
19 time. So, you need to -- you know, you need to have a
20 good crystal ball and figure out when you're going to
21 need the capacity because you got to pay for it once you
22 build it whether it's used or not.

1 The other thing that you got to be careful of,
2 when you set these fees for new customers, you need to --
3 you can only set them based on what it costs you to build
4 the capacity. You can't set them based on your cash flow
5 needs. If it costs \$7,000 to build the capacity in a
6 sewer plant to serve a single-family home, that's the
7 maximum amount of charge you can hit the new customer
8 with. Because, otherwise, if you had just one new
9 customer a year and you had a million dollars in debt
10 service, if you charge that customer a million dollars,
11 that won't hold up in court. So, some years you're going
12 to take in more money and fees from new customers than
13 you need, and other years, you're going to take in less.
14 That's why you need to have a long-term financial plan
15 and you need to have reserves and contingencies built
16 into your stuff.

17 As these fees get higher and higher, developers
18 and the public, in general, are going to challenge them
19 more frequently, as they should, and you need to be able
20 to explain exactly where the numbers came from. We went
21 through our capital improvement plan. We said these
22 projects were growth-related; these weren't growth-

1 related. These were split 50/50 or 60/40. Here's how we
2 -- here's the basis for the system development charge.
3 Here's what it cost per gallon to build capacity. We use
4 250 gallons per day per household. So, there's our cost
5 per EDU. So, you can defend it.

6 The discussion about whether you went to the
7 Metropolitan Commission sanitary district and authority,
8 whatever, you can have a really well run Metropolitan
9 Commission and do a bang-up job, or you could have a
10 terribly run one. The same thing would be true in a
11 county agency. It's a question of the elected officials
12 who either create MetCom or the district or the
13 authority, sitting down and taking the time to address
14 the governance issues up-front, investing more time than
15 money in designing the box within which the agency has to
16 operate, so that you don't have problems.

17 If MetCom right now, if there's county code,
18 county law that says people living within so many feet of
19 the line have to connect, MetCom's got no choice but to
20 enforce that. Otherwise, they could be sued for not
21 complying with the law. So, you need to build the box
22 you want them to operate in.

1 If you want them to have some kind of timing of
2 growth within a designated growth area, you need to put
3 that in your comprehensive plan for the county because
4 they can only respond -- you also want -- we just helped
5 set up a new water and sewer authority down in the
6 Wilmington, North Carolina, area, and we had them write
7 in the agreements that created the authority that they
8 could only provide service in areas that were consistent
9 with the county comprehensive plan or that of the
10 incorporated municipalities in the county, and that if
11 the authority wanted to provide service outside those
12 areas, they needed the approval of the city or the
13 county.

14 But that the city or the county -- the cities
15 or counties, if they wanted to make an investment in
16 infrastructure outside what the comprehensive plan called
17 for, they could do that if they went to the service
18 authority and the service authority said, well, we can't
19 -- it doesn't make sense economically. Then the county
20 or the cities could front-end the costs to build that.

21 Like over in Queen Anne's County where the
22 county commissioners front-ended the cost for that

1 industrial park by the Bay Bridge, I mean, there were no
2 customers there to pay to put water and sewer service in
3 there when they built it, but in retrospect, it turned
4 out to have been a really good investment for the county.
5 But the county front-ended I think it was like \$900,000
6 or a million dollars in costs to get water and sewer
7 service to the industrial park. I mean, it wasn't in any
8 designated service area and it wasn't in the comp plan
9 for immediate development. But, I mean, that was where
10 the elected officials in the county made the investment,
11 and it turned out to be a good one.

12 So, you need to think of those things and you
13 put them in the legislative or the agreement or the
14 articles or the whatever that established the authority.

15 The chart that Robin and her colleagues put
16 together shows many counties in Maryland have collapsed
17 their sanitary districts, and we've worked for most of
18 those counties. We've helped take apart some of those
19 sanitary districts. In most every case, the issue is one
20 of governance. You know, the elected officials felt
21 there wasn't enough accountability and control. You want
22 accountability.

1 You don't want elected officials meddling in
2 day-to-day operations of the authority. No disrespect to
3 elected officials. They have about 100 things on their
4 plates, and if you have a single-purpose agency, like a
5 water and sewer authority or a district or something, you
6 can get the expertise and take some of the politics out
7 of it. You're never going to take the politics out
8 completely, but you don't want politics interfering in
9 day-to-day operations. And elected officials have too
10 many other things to worry about.

11 If you have some dedicated board, even if
12 you've been set up as a county department, you create a
13 utility board or a utility advisory board, let them make
14 the day-to-day decisions and let the county commissioners
15 reserve the right to veto or override those decisions.
16 But you also, from -- this is going to be somewhat
17 cynical. If you set up a separate authority or
18 commissioner district, it protects the county
19 commissioners from having to approve rate increases,
20 which is never a popular thing.

21 And the elected officials think of rates and
22 fees as though they were taxes, like you can set them

1 arbitrarily. One of the things that happens, and why the
2 infrastructure in this country has gotten to the point it
3 has, is if you have a utility department in the county
4 and the director of the utility department comes in and
5 says, we need to raise rates 9 percent next year, and the
6 county commissioners look at one another and they say, no
7 way in hell can we do that, you can only raise them 3
8 percent, the utilities director will say, yes, sir, and
9 will raise them 3 percent. But what they will do is
10 defer maintenance. They can't defer operating cost, but
11 they can defer maintenance. And it's not going to look
12 any different for a year or two. But if you keep doing
13 that, you build up this backlog of deferred maintenance,
14 and in 20 years, you have a \$100 million reconstruction
15 project on your hands.

16 So, you really want to take the rate setting,
17 as much as you can, out of the political arena. It needs
18 to be based on hard (inaudible) you know, good operating
19 budgets, good capital budgets, stuff like that. But it
20 really should not be a political decisions because
21 elected officials think of rates as other taxes, where
22 you can arbitrarily say, we don't want the millage rate

1 to be than this or, you know, that kind of thing.

2 MS. MCNEIL: I'm a little -- I want to back you
3 up a little bit. I'm a little bit unclear on your
4 general description of perceived lack of political
5 accountability.

6 MR. DONAHUE: Right.

7 MS. MCNEIL: What does that mean and can you
8 give us some specific examples?

9 MR. DONAHUE: Well, for instance, in Kent
10 County, they used to have a sanitary commission. Now,
11 they have a Department of Water and Wastewater. And they
12 had like 11 little sub-districts within the sanitary
13 district and each one had its own set of rates and its
14 own set of fees. Some of them had as few as 40
15 customers. Some of them had a couple thousand customers.
16 Some of them never should have had water and sewer
17 service provided because, economically, there's no way
18 they could ever support themselves.

19 But when we went and looked at their finances,
20 what they were collecting in rates and fees only covered
21 about half the cost of running the thing. The county,
22 out of its general fund, would transfer funds every year

1 to subsidize the water and sewer district. And the
2 county commissioners were getting lots of flack from
3 people, why is my bill \$75 when his is \$45 and I live two
4 miles down the road? Because they're in different sub-
5 districts.

6 We suggested making common rates across all the
7 districts which, over a period of years, they gradually
8 got to. But the county commissioners did not have the
9 nerve, politically, to raise rates for water and sewer
10 service to what they should be to make them self-
11 sufficient. So, they decided that since we're going to
12 be left footing the bill for this, that we're going to
13 just bring this all in-house and get rid of having a
14 separate district and all that stuff.

15 And even now in Kent County, the county pays
16 about 30 percent of the operating costs of the water and
17 sewer system each year from the general fund.

18 MS. McNEIL: So, it's sort of really financial
19 management?

20 MR. DONAHUE: Yes.

21 MS. McNEIL: Okay.

22 MR. DONAHUE: Absolutely. And in those cases

1 -- in that case, the county commissioners were also
2 serving as the members of the sanitary district board.

3 MS. McNEIL: Okay.

4 MR. DONAHUE: Queen Anne's County still has a
5 sanitary district, but it's the county commissioners who
6 are the board. And so, you go to a meeting of the county
7 commissioners and they'll say, all right, we're going to
8 adjourn the meeting of county commissioners and we'll
9 call into session the sanitary district. So, they take
10 off one hat and put on another and there really doesn't
11 seem to be much point to it.

12 Other places, like Worcester County, the
13 sanitary commission, 95 percent of its activity was
14 running the sewage treatment plant that serves Ocean
15 City. And Ocean City said, that makes no sense at all.
16 We run our own water system; we want to run our own sewer
17 system. The county commissioners agreed to dissemble the
18 sanitary district, transfer the sewage treatment plant to
19 Ocean City, and the remaining small mom-and-pop water and
20 sewer systems -- at least they were in those days -- went
21 to the county engineering department to operate. Now,
22 the county operates the system in the couple of small

1 communities and they also operate the one in Ocean Pines,
2 which has grown to be pretty large over the last ten
3 years or so.

4 But, in most cases, the elected officials end
5 up taking all the heat for every time rates and fees go
6 up and when people have a problem and not getting it
7 resolved quickly. So, if we're going to take the heat,
8 we're going to take the control.

9 MS. MCNEIL: We're going to manage it, in other
10 words.

11 MR. DONAHUE: Yeah.

12 MS. MCNEIL: Okay.

13 MR. DONAHUE: There's no right answer, but I
14 would suggest you can do a good job or a terrible job
15 whether it's in the county or it's a separate entity. I
16 mean, it's just a matter of taking the time. You know,
17 when you make the policy decisions, the elected officials
18 need to understand -- for instance, if they say, we want
19 MetCom to front-end all the development costs, then the
20 elected officials need to understand that means MetCom,
21 as it's now structured, is going to come to them and say,
22 we need to borrow more money, you guys need to pony up

1 and guarantee debt for MetCom. And that's going to
2 affect the county's credit rating, so it affects the
3 interest rates on other county debt and it affects the
4 amount of risk the county takes.

5 Or they could say, all right, we're not going
6 to guarantee your debt, you're going to have to issue
7 your own revenue bonds just backed by the revenue stream
8 and you're going to have to pledge rates to be what they
9 need to be to service that debt. And MetCom, at first,
10 would have a worse credit rating than the county, but
11 after demonstrating, you know, five or ten years of
12 experience, its credit rating would probably end up being
13 close to that of the county's, but not quite as good.

14 You also have to -- I mean, like Washington
15 Suburban Sanitary Commission, Montgomery and Prince
16 George's County, there's an example of a political
17 problem. WSSC has a really good staff. They're very
18 competent. But the problem is at the governance level,
19 they can't decide what business they're in. Montgomery
20 County -- there's three commissioners from each county,
21 which is the first mistake, having an even number of
22 commissioners. The commissioners from Montgomery County

1 want good quality water and sewer service at a reasonable
2 cost and what they define to be reasonable might be more
3 than what St. Mary's is willing to pay.

4 But Prince George's County, the three
5 commissioners say, we see this as an opportunity for
6 economic development and to funnel business to favored
7 Prince George's contractors and, oh, by the way, we run a
8 water and sewer system on the side. And until the six of
9 them can get their act together, whoever's the general
10 manager there is going to fail no matter how good she or
11 he may be because the whole governance thing is screwed
12 up and it's going to continue that way.

13 Harford County, David Craig, we met with him
14 six months ago. He wants to take the county's water and
15 sewer system and the water and sewer systems of the three
16 incorporated communities and roll them into a county --
17 into an agency that would not be part of the county
18 government or part of the municipalities. And he said, I
19 don't even want to control it. His thought was, let's
20 create a five-member board. We'll have the mayor of each
21 of the three communities appoint one member, we'll have
22 the county council appoint one member, and we'll let the

1 county executive appoint one member. And let's try to
2 take the politics out of water and sewer.

3 The reason he's doing that I don't think is
4 because he's altruistic. He wants to make sure, for
5 economic development purposes, there's enough water and
6 sewer capacity for all these BRAC jobs that are going to
7 be coming into Aberdeen and Edgewood. I mean, he's also,
8 I think, demonstrating good statesmanship in taking the
9 position he's taking. But -- so, it can work either way.
10 It's just a question of the policy decisions that are
11 made and the legislation that controls it.

12 Some of the things that are going on right now,
13 right with -- for instance, with MetCom, I understand the
14 county -- since the county is guaranteeing the debt --
15 certainly should have to approve the bond ratings. I
16 can't understand no common sense reason why the county
17 thinks it should or would want to control the size of the
18 staff of MetCom, trying to control the number of
19 employees. I mean, if MetCom says we need 20 employees
20 or 50 employees, who cares? I mean, obviously, you want
21 to be efficient and effective and all that, but the
22 county commissioners have enough things on their plate to

1 worry about rather than worrying whether we have one
2 secretary or two secretaries or whether we have one
3 engineer that's highly paid or three that are paid dirt
4 poor. It's a level of detail control that's overkill.

5 MS. McNEIL: What about the capital budget, for
6 example? Do you think they should approve the capital
7 budget?

8 MR. DONAHUE: If they're guaranteeing it,
9 probably so. You know, I --

10 MS. McNEIL: The big thing is not approved, but
11 the little things are approved.

12 MR. DONAHUE: Yeah, yeah, I mean, if you really
13 need this task force -- I mean, what you're doing is just
14 the beginning of a process. It's not the end of it. You
15 really need to think through all these things, and where
16 you end up, I'm not sure. It's really what the community
17 -- what St. Mary's County wants to do. But there's no
18 right answer, there's no wrong answer. It's just
19 crafting something that makes sense here.

20 One of the things that's going to be hard for
21 St. Mary's County to do -- and we're seeing it in other
22 places -- we're doing some financial planning work right

1 now in both Charles County and Calvert County and they
2 both have the same problem. They'd like to think the
3 elected officials have this rosy vision of a rural county
4 that's sort of agricultural and all this kind of stuff,
5 but they're not. They're no longer mom-and-pop
6 governments. They're big-time businesses. And St.
7 Mary's County is affected the same way, except St. Mary's
8 probably happened sooner than Charles or Calvert because
9 of Pax River.

10 It's no longer -- you certainly want to keep
11 the things that make St. Mary's County attractive,
12 controlling the growth areas, designating growth in 10
13 percent of the acreage, keeping the other 90 percent
14 zoned, you know. There's ways you can do that.

15 Queen Anne's County adopted a policy a couple
16 of years ago. They have -- I think 94 percent of the
17 acreage in Queen Anne's County is designated as out of
18 the targeted development area. If you're a developer and
19 come in and if you want to put up -- something of more
20 than so many units, they'll make certain financing
21 techniques available to you if it's in the designated
22 growth areas. If it's outside the growth areas, they

1 won't.

2 The one that came to mind is one in Kent
3 County, where Hovnanian wanted to do the upscale
4 retirement community, which the county commissioners, at
5 the time, thought was great because it would bring in
6 high-assessed value houses and no kids for the schools.
7 They agreed to use tax increment financing districts to
8 pay for some of the site improvements, the roads, the
9 stormwater, the stuff like that, whereas if you wanted to
10 put it in other parts of the county, they wouldn't let
11 you do that. So, that would save Hovnanian -- in their
12 case, it was going to save them \$25 million. So, that
13 was certainly worth something. And, in return, Hovnanian
14 agreed to build an elementary school somewhere else in
15 the county. So, the commissioners used it as a
16 negotiating tool as well.

17 There's things like that you could do, but
18 there's no easy answer.

19 CHAIRMAN DENSFORD: Well, you mentioned that
20 most of the counties, if not all of them, that had moved
21 from an independent or semi-autonomous water and sewer
22 authority and brought that department in-house, so to

1 speak, as an integral part of county government, have
2 those counties -- was there a significant financial
3 impact, negative impact in doing that?

4 MR. DONAHUE: No. It -- for the most part, the
5 districts and commissions were self-supporting. It was
6 the exception in places like Kent County where they
7 consciously weren't -- they just -- the elected officials
8 didn't feel there was enough accountability in the
9 operations. I mean, the same complaints as you're
10 getting here. People playing real estate -- the sanitary
11 district playing real estate developer in places we don't
12 want them to develop stuff, those kind of issues. It
13 wasn't a financial issue.

14 And bringing it in-house is not going to save
15 you money. And believe me, outsourced as a separate
16 commission isn't going to save you money either. And you
17 can do it in a variety of ways. I mean, you could set it
18 up as a utility commission, but say we want the
19 commission to buy services from the county, we want the
20 commission to buy accounting services and, you know, HR
21 services and data processing services, things like that.
22 I mean, you could -- it's a question of what business

1 model you really want to use. I don't think there's
2 going to be -- long-term, there's going to be much
3 difference dollar-wise, whether you do it in-house or as
4 a separate entity.

5 The one thing I would caution you is that no
6 matter how you do it, you're going to have significantly
7 higher costs than you're paying now, hearing the kind of
8 numbers that I heard about what people are paying in
9 fees. I mean, the typical thing in Maryland these days
10 for a new customer, single-family home to get water and
11 sewer service, exclusive of actually the cost of
12 physically connecting, just buying capacity in the
13 system, is probably anywhere from \$8,000 to \$12,000.
14 That's significantly more than what you're charging here.
15 That's based on what it really costs to build the
16 capacity.

17 The numbers are all over the place. If you're
18 out west in California, in places like Orange County,
19 California, it can cost you in the mid-twenties for water
20 and sewer service. We did some work out in Purcellville,
21 Virginia, which is a wealthy community west of Leesburg,
22 and it costs \$32,000 there if you are a single-family

1 home and want water and sewer service. Now, Purcellville
2 is admittedly militantly anti-growth and they included
3 everything but the kitchen sink in those costs and that
4 may be in there, too. But they came up with a cost that
5 they could defend when people challenged them.

6 CHAIRMAN DENSFORD: But that \$8,000 to \$12,000,
7 though, sounds to me like about what it would cost
8 somebody to put in their own private septic system for a
9 single-family residence, somewhere in that neighborhood?

10 MR. DONAHUE: Yeah. I mean, a septic system
11 can cost you \$10,000 easily.

12 CHAIRMAN DENSFORD: Yeah, that's what I'm
13 thinking.

14 MR. DONAHUE: You also have the benefit, you
15 know, of having -- I mean, I live in a community, we have
16 community water, we don't have community sewer. I would
17 be delighted to pay \$8,000 to not have to worry about my
18 septic system.

19 I'll be glad to try to answer questions. I
20 mean, fire away.

21 MS. MCNEIL: Well, you mentioned our local
22 costs are so much cheaper.

1 MR. DONAHUE: It sounded that way from what I
2 heard at the --

3 MS. McNEIL: Why do you think that is?

4 MR. DONAHUE: Just -- it just sounded like the
5 fees were lower than that.

6 MS. McNEIL: Do you have any idea?

7 MR. DONAHUE: No.

8 MS. McNEIL: Okay.

9 MR. DONAHUE: No.

10 MS. McNEIL: Just curious. But you're saying,
11 basically, it's the scope of what you include, I think,
12 are -- MetCom, in this letter, just said it was based on
13 basically the debt service.

14 MR. DONAHUE: Right.

15 MS. McNEIL: And --

16 MR. DONAHUE: Well, you need to average that
17 out over time. You don't want rates and fees to change
18 dramatically year to year. So, you take a multi-year
19 look and you sort of average it out and keep pushing it
20 forward and smoothing it out so that you don't have a
21 \$4,500 fee one year and a \$7,000 fee the next year. You
22 ideally would have it increase slowly and gradually.

1 The same thing with your user fees. Rather
2 than setting a fee -- we just did some work up in
3 Connecticut where a community had not adjusted its water
4 and sewer user fees for 17 years. And so, we ended up
5 recommending a 40 percent increase in water and sewer
6 rates, which was not very popular. I mean, we strongly
7 recommend that you look at five years or ten years and
8 maybe set them for less than that, but raise them a
9 couple percent every year. People will grumble or mumble
10 if you raise them 2 or 3 percent, but if you wait 10
11 years and raise them 30 percent, they get real unhappy.

12 MS. GUAZZO: Mr. Donahue, you really appealed
13 to me when you said to take the politics out because the
14 governance of the county has -- the governors of the
15 county have trouble raising rates politically, and my
16 mind shot to the impact fee in this county, which is
17 absurdly low. But it will never get raised to what it
18 ought to be because the people that set the rates are the
19 people that have to run for office.

20 MR. DONAHUE: Well, except impact fees are one
21 thing you can get away with raising, although you'll
22 really piss off the developers. If there were a way for

1 the developer to pass those costs along dollar-for-
2 dollar, they wouldn't care. They're the ones who are
3 really affected by impact fees because when you set an
4 impact fee for schools or parks or roads, it gets buried
5 in the cost of the house. Raising impact fees will raise
6 the cost of building the house, it won't raise the price
7 of the house because the market sets what people are
8 willing to pay for a house. And so, if the cost of
9 impact fees are greater than the market will bear, it
10 affects the profits of your real estate developer.

11 MS. GUAZZO: So, when we hear the argument that
12 the developer will simply pass the cost along to the
13 purchaser --

14 MR. DONAHUE: They'll try to.

15 MS. GUAZZO: -- that's not strictly true then?

16 MR. DONAHUE: They'll try to, but if the market
17 isn't there --

18 MS. GUAZZO: The market isn't there.

19 MR. DONAHUE: Yeah. I mean, there are ways you
20 can do that. Sacramento County has come up with a
21 mechanism to allow basically impact fees to be a closing
22 cost rather than a developer's cost. I mean, there's

1 things you can do like that. You may not want an impact
2 fee to be as high as the cost -- I mean, when we looked
3 at impact fees in St. Mary's County 15 years ago, I think
4 in those days we calculated the cost of providing schools
5 for a single-family home based on whatever number of kids
6 there were per household in elementary, middle and high
7 school. In those days, it was about \$8,000. Now, it's
8 probably closer to \$15,000 or \$16,000.

9 The county commissioners said, no way. And
10 that's fine. But they need to understand that if they
11 don't charge that level of impact fee, the difference
12 that they don't charge is what everybody in the county is
13 paying in their property taxes. And that's fine. That's
14 legal. That's a policy decision. But people should be
15 aware when they make those decisions what the impact of
16 it is.

17 MS. GUAZZO: Let me ask you -- back to water
18 and sewer. When you're setting rates, you -- it sounded
19 to me like you were saying that the sewer authority,
20 whatever it is, had to look into the future for
21 environmental upgrades, capacity upgrades, and they had
22 to program that into their rate structure or do they just

1 wait until the bomb drops and they say, oh, we need
2 bonding authority to cover this?

3 MR. DONAHUE: No. You need to predict that,
4 realizing nobody's got a perfect crystal ball. Anne
5 Arundel County has a capital improvement program for its
6 utilities that goes out in fair detail for five years and
7 then gets sort of fuzzy after that. In their CIP, they
8 plug an extra water tank every year, after five years,
9 knowing full well and good that they're not going to
10 really build all those water tanks. But as they get
11 closer to that sixth year, the water tank goes out of the
12 capital improvement program and real projects go in.
13 What they really want is a placeholder in there so that
14 elected officials and the public don't think that after
15 five years, we're not going to have any more capital
16 costs. Because that's what would happen otherwise.

17 And you need to -- you know, you use your
18 consulting engineer to tell you, well, if MDE really does
19 adopt these standards for the Bay clean-up program,
20 what's that going to mean for us in terms of, you know,
21 biological nutrient removal or enhanced nutrient removal?
22 What's that going to mean and are we going to get a grant

1 for 50 percent of those costs or no percent of those
2 costs or, you know, what is it? So, you need to be
3 constantly looking out there thinking, what is it going
4 to do to me in this utility if we adopt these standards?

5 Now, there was an article in yesterday's New
6 York Times about 70 percent of the people in this country
7 drinking unsafe drinking water, which is sort of
8 hyperbole. But it says while they meet legal standards,
9 but the standards haven't been changed since 1976 and
10 there's new compounds that have been identified as being
11 carcinogenic and things like that that we don't regulate.
12 You can't protect everybody from everything. But this
13 probably will be some fall-out from that with some
14 tightening of standards and it never lowers costs. So,
15 you need to plan, you know, both in your operating costs
16 and in your capital costs as best you can for those
17 things that are coming at you.

18 MS. GUAZZO: So, the better the testing gets,
19 the more impact it has?

20 MR. DONAHUE: If you can measure it, they'll
21 want to regulate it, absolutely, absolutely. And you
22 also need to look at those things, though -- for

1 instance, things like the Bay clean-up, you can't pass
2 those costs on to just your new customers because they
3 benefit existing customers as well. So, when you look at
4 your capital costs, you need to really put them in two
5 categories, things that are growth-related or caused by
6 growth, and everything else. Growth-related stuff you
7 can try to recover through impact fees or whatever you
8 want to call them. The other costs you need to recover
9 through your user rates. Everybody needs to pay them.

10 MR. JARBOE: Don't you -- when you do your
11 impact fee in that report and suggested what that number
12 is between a high and a low --

13 MR. DONAHUE: Right.

14 MR. JARBOE: But don't you also recommend some
15 periodic review of that, not necessarily annually or
16 semiannually or whatever?

17 MR. DONAHUE: You should review it annually;
18 you don't necessarily change it annually.

19 MR. JARBOE: Right.

20 MR. DONAHUE: But just like setting water and
21 sewer rates, you should review them every year, you don't
22 necessarily change them every year. But it's really part

1 -- it should be part of the budget process. If you give
2 the utility a budget for a million dollars to operate,
3 somebody ought to say, well, will our existing rates and
4 fees produce a million dollars worth of revenue? It
5 doesn't matter if it hits it on the nose every year, but
6 if it consistently understates or overstates the revenue,
7 then you've got a problem. But, yeah, you should review
8 that stuff. It's sort of the flip side of -- local
9 governments, when they budget stuff, focus on expenses.
10 You also need to focus on the revenue side.

11 MR. JARBOE: And kind of review in off-election
12 years and make your decision then.

13 MR. DONAHUE: Well, we have been -- I mean, we
14 have designed rate structures where somebody says, you
15 know, we want rate increases in these years, which just
16 happened to be, you know, off years for elections.

17 MR. JARBOE: Just a remark.

18 (Laughter).

19 MR. IVES: Mr. Donahue?

20 MR. DONAHUE: Yes, sir.

21 MR. IVES: I just appreciate your insights.

22 It's obvious to me that you're very well versed and

1 experienced in this area, particularly with your comments
2 with various counties across the state. So --

3 MR. DONAHUE: I've been doing it a long time
4 and I guess I'm too dumb and too old to do anything
5 different.

6 MR. IVES: So, what I want to ask you then is,
7 based on your experience and maybe your limited knowledge
8 of St. Mary's County and MetCom here, what are some of
9 your thoughts about our current governance structure and
10 how things work right now?

11 MR. DONAHUE: Well, it sounds like there's some
12 unhappy people. And you could either tweak the
13 legislation that governs MetCom or you could dissolve
14 MetCom and move it in-house. You're not going to really
15 change the function. You're not going to change the
16 staffing. You still need -- because of both state and
17 federal laws, any thought that you would cut staffing a
18 lot by bringing it in-house is naive. You need licensed
19 and certified people operating treatment plants. You
20 need people with certain kinds of training overseeing
21 water and sewer systems.

22 But one thing I would say is that as St. Mary's

1 County continues to grow, you need to have some kind of
2 master plan for water and sewer service of the county.
3 You may not provide water and sewer service everywhere in
4 the county, but you're going to eventually get in a place
5 where you're going to need a countywide water and sewer
6 agency. Whether that's a department of county government
7 or a separate authority is really a policy kind of
8 decision. And it needs to be self-sufficient and it
9 really probably ought to issue revenue bonds rather than
10 rely on the full faith and credit of the county. I mean,
11 you need to be able to demonstrate to those people who
12 don't get water and sewer service that they're not
13 subsidizing those who do and vice versa.

14 MR. IVES: Thank you.

15 MR. DONAHUE: I don't know if that --

16 MR. IVES: No, that's good. Thank you.

17 CHAIRMAN DENSFORD: Any other questions for Mr.
18 Donahue?

19 (No response).

20 CHAIRMAN DENSFORD: All right.

21 MR. DONAHUE: If anybody's got more questions,
22 Robin's got my phone number and email address. I'd be

1 glad to try to answer them. I appreciate the
2 opportunity. I really -- you know, I was saying to
3 Elaine Kramer that I think the last time we did anything
4 for the county was when Pat B. Wade (phonetic) was the
5 finance director and that was quite a while ago. Sorry
6 to hear the news of his death last year.

7 MS. GUAZZO: Mr. Donahue, just one quick one.
8 So, your organization -- you have done analysis of other
9 counties', Virginia, Maryland, Delaware, water and sewer
10 systems and made formal recommendations how they would
11 fly better?

12 MR. DONAHUE: We're financial and management
13 people. We don't design things, we don't build things,
14 we don't sell bonds. We do financial and management
15 studies. And we've worked -- I mean, most of our work
16 has been in the mid-Atlantic because we're based right
17 here. But, I mean, we've worked -- we're doing work
18 right now for the Anchorage Water and Wastewater Utility
19 and we're doing lots of work up in New England and out in
20 the Kansas City area and the Chicago area. But, I mean,
21 this is the kind of stuff we do. My income here is a
22 sales pitch. I came here because Robin asked me to.

1 MS. GUAZZO: You've been very helpful. Thank
2 you.

3 MR. DONAHUE: Thank you very much.

4 DR. COX: Thank you very much.

5 (Whereupon, the excerpt regarding the briefing
6 of Ed Donahue was concluded.)

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