

Washington County Service Authority Board of Commissioners
April 24, 2017 Recessed Meeting Minutes (held May 22, 2017)

The Recessed Meeting of the Washington County Service Authority Board of Commissioners was held in the Jack S. Cole Conference Room located at 25122 Regal Drive, Abingdon, Virginia. The meeting was called to order by the Chairman at 4:05 pm.

ROLL CALL

Commissioners Present:

Mr. Kenneth Taylor, Chairman
Mr. Mark Nelson, Vice Chairman (arrived at 4:10 pm)
Mr. Wayne Campbell
Mr. Jim McCall
Mr. Dwain Miller
Mr. Vernon Smith
Mr. Mike White

WCSA Officers Present:

Robbie Cornett; Secretary, General Manager
Melinda Jett; Treasurer, Controller

General Counsel Present:

Dawn Figueiras; Elliott, Lawson & Minor

WCSA Staff Present:

Dave Cheek; Operations Manager
Ryan Kiser; Maintenance Manager
Holly Edwards; Customer Service Manager

3. Approval of the Agenda

Mr. McCall motioned to approve the Agenda, Mr. Campbell seconded and the Board approved voting 6-0-0-1.

4. Consideration of Unfunded Water Project Prioritization and Funding Allocation – Robbie Cornett

Mr. Cornett reviewed the attached presentation. During Mr. Cornett's discussion of Water Line Extension Funding Offers,

Mr. Nelson asked if the .25% rate reduction could be applied to the individual projects or the projects as a whole.

Mr. Cornett said the rate reduction could be applied to individual projects or applied per projects.

Mr. Nelson then asked if the 2% compounding rate increase was on all users.

Mr. Cornett said the increase would extend to all users.

Mr. Nelson asked if the compounding rate increase was negotiable.

Mr. Cornett said this was the first time he recalled seeing this (compounding rate increase) in the loans.

Mr. Nelson asked if the rate plan increase was greater than the 2% compounding increase.

It is for the next two years but we haven't looked at rates beyond that, said Mr. Cornett.

Mr. Miller asked what the rate increase was over the next two years.

Around 4% but depends on water usage, said Mr. Cornett.

In Mr. Cornett's review of the slide Reserve Status, he said this year he expected to add \$660,000 to reserves this year.

Mr. Nelson said WCSA is currently \$1.5 million ahead of reserves projected in the 5 Year Rate Plan.

Yes, said Mr. Cornett.

Mr. Cornett then discussed the recommendation. During his discussion of Step 1, Mr. Nelson asked if WCSA could ask the Board of Supervisors to draft a moral obligation saying they would agree to replenish those reserves if WCSA's funds dropped below the required debt service coverage ratio (by using the \$1.5 million in reserves as stated in step 1 of the recommendation).

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Mr. Nelson asked if that had ever been done before.

Mr. Cornett said as far as he knew it has never been done, asked but thought it would be possible to ask.

Mrs. Figueiras said Step 2 would mean WCSA would not need to use the \$1.5 million in reserves. Correct, said Mr. Cornett.

The Board discussed the options discussed by Mr. Cornett and the affect the options would have on reserves.

The Board then had a brief discussion about the meter replacement project expected in coming years.

Mr. Nelson asked if there was a project the \$1.5 million in reserves could go toward that would offer a better return for WCSA and the county citizens.

Mr. Cornett said the tank on Route 58 would need to be demoed. There is a 6 inch transite line buried deep on Clear Creek Road (project estimate just over \$1 million) that is a real safety concern for the employees. Another project is the Mid Mountain Zone 1 and 2; two pump stations; Phase 1 is over \$1 million and Phase 2 is over \$2 million. The Smyth Chapel Project is just about \$600,000.

Mr. Cornett expects the meter replacement project to generate enough revenue to pay its cost. Mr. Cornett said there were more CIP improvements projects than money in the repair and replacement reserves could cover.

Mr. McCall sked how close staff was to making a recommendation and had a firm cost.

Close to the end of the year, said Mr. Cornett.

Mr. Nelson asked when WCSA planned to replace the transite line on Clear Creek.

Mr. Cornett said it was added in the Galvanized Phase 3 Project if the project comes in under budget. Mr. Cornett said

they should know in January of 2018 if the transite line will be included in the Galvanized Line Phase 3 Project.

Mr. Nelson made a motion to move forward with Option 2 as recommended and apply for the \$966,485 Grant from VDH and allocate \$1.5 million from WCSA reserves and keep all projects.

Mr. Smith said he preferred Option 3.

Mr. Nelson amended his motion to be subject to receipt of the grant or that it be brought back to the Board for additional review.

Mrs. Figueiras asked if Mr. Nelson were recommending the two step approach.

Mr. Nelson said he was recommending the two step approach were WCSA applies for the Grant and subject to the Board's approval upon notice of the Grant (if WCSA receives the Grant), the Board can then decide to apply the \$1,5 million at that time.

Mr. McCall seconded.

For clarification, Mr. Miller said the motion is to do Step 1 in the 2 step plan and bring Step 2 back to the Board for consideration.

Mrs. Figueiras and Mr. Nelson agreed that is the motion on the floor.

The motion carried with a unanimous Board vote of 7-0-0-0.

Mr. Cornett asked the Board's consideration to approve \$70,000 to fund South Fork Intake improvements, remove Monte Vista/Crescent Drive project and prioritize the remaining projects at a later date.

Mr. Nelson motioned to approve Mr. Cornett's recommendation. Mr. Campbell seconded and the Board approved voting 7-0-0-0.

4. Consideration of the 2017-2018 Fiscal Year Budget - Melinda Jett

Mr. Nelson had specific questions about the budget.

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His first question was about the accrued sick leave pay and vacation pay. Mr. Nelson said he saw where they were reversed off and said normally it would be built on from year to year. In other words, there would be an analysis of how much would need to be allocated to that liability instead of reversing off the entire amount. Mr. Nelson asked what the logic behind reversing off the accrued sick leave pay and vacation pay was.

Mr. Cornett said he had the same question. Reversing the sick and vacation pay is something that started a couple of years ago as recommended by the auditor. Mr. Cornett said he wanted to go back to the auditor and discuss the wisdom behind reversing the pay instead of having a reserve amount for it.

Mr. Nelson said it is wrong. If Farmer and Cox recommended reversing the pay, Farmer and Cox would have to prove in on some type of documentation. Mr. Nelson explained that by reversing the pay, it skews the numbers so dramatically that it is hard to know what the true compensation numbers are. Mr. Nelson recommended showing sick leave pay and vacation pay as a liability. Mr. Nelson said he would like the record to clearly reflect WCSA achieved more in actual dollars that was budgeted.

Mr. Nelson then discussed reserves saying if WCSA stayed on target, it would increase reserves by \$853,000 in 2017 and \$748,000 in 2018. Mr. Nelson thought those figures were very conservative saying he thought those figures would be more in the \$1.2 to \$1.5 million range if WCSA stays on course.

Mr. Nelson then asked what the total dollar amount allocated for all departments for planning was.

We set aside money to assist with two things; one for a Regional Study with the Town of Abingdon and also set aside for money for strategic planning but did not move forward with either of those. Money was also set aside in sewer intended to be used to update local limits and sewer rules and regulations. That is still in progress.

Mr. Nelson thought staff did a great job on the Budget. He continued saying everyone worked hard to build reserves that can be used for all those who need water.

Mr. Nelson thought WCSA should look at the average basis points paid from the banks.

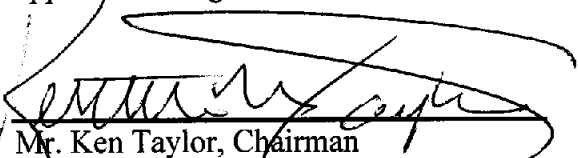
Mr. Nelson said he thought WCSA should consider other ways to invest reserves to gain the most interest.

Mr. Jett and Mr. Cornett echoed Mr. Nelson's recommendation.

Mr. Nelson made a motion to approve the Budget as presented. Mr. Smith seconded and the Board voted 7-0-0-0 approving the 2017-2018 Fiscal Year End Budget as presented.

5. Adjourn – 5:20 pm

Mr. Miller made a motion to adjourn. Mr. Campbell seconded and the Board approved voting 7-0-0-0.


Mr. Ken Taylor, Chairman


Carol Ann Shaffer, Assistant Secretary

Unfunded Water Project Prioritization and Funding Allocation

Overview

- Unfunded Capital Projects
- Extension Funding Offers and Priority
- Improvement Project Priority

Unfunded Capital Projects

- 7 Extensions of Service (Hidden Valley in Funded Projects)
 - Rich Valley
 - Sugar Cove Road
 - Rattle Creek
 - Chip Ridge
 - Mendota Road
 - Pine Hill Road
 - Walker Mountain
- 8 Improvement Projects
 - South Fork Improvements
 - Route 58 Tank Demolition
 - Lee Highway/Clear Creek Improvements
 - Mid-Mountain (Zone 108) Phase 1 and 2
 - Smyth Chapel Improvements
 - Meter Replacement
 - Monte Vista/Crescent Drive

- Questions About May 11th Project Background?

Water Line Extension Funding Offers

- Virginia Department of Health Offer:

• Grant		Loan	Project
• \$0	(0%)	\$3,163,900	Rich Valley Road
• \$67,000	(26.5%)	\$182,212	Hidden Valley Road (Partial Funding)
• \$59,000	(26.4%)	\$164,780	Rattle Creek Road
• \$118,000	(26.5%)	\$326,840	Sugar Cove Road
• \$125,000	(100%)	\$0	Chip Ridge Road

- Terms: 2.5% Interest for 30 Years
 - 0.25% Rate Reduction With Minimum 2% Compounding Rate Increase for 5 Years
 - Range of \$3,000 to \$6,000/Year
- June 9, 2017 Notice of Intent

Analysis Assumptions

- **30-Year Period**
 - Life of Loan; Most Infrastructure Life Much Longer
- **No Operation (Treatment, Distribution, etc.) and Maintenance Cost**
 - Estimated at \$250,000 to \$500,000 Over 30 Years
- **No New Connections**
 - New Connections Will Occur
- **Committed Customers pay a \$50/Month Bill**
 - This Amount Will be High for Some and Low for Others and Will Change Over Period
- **Department of Housing and Community Development (DHCD) Funding for Hidden Valley Will be Awarded**
 - \$362,500 Application
- **Does not Include Outside Funding Other Than DHCD for Hidden Valley**

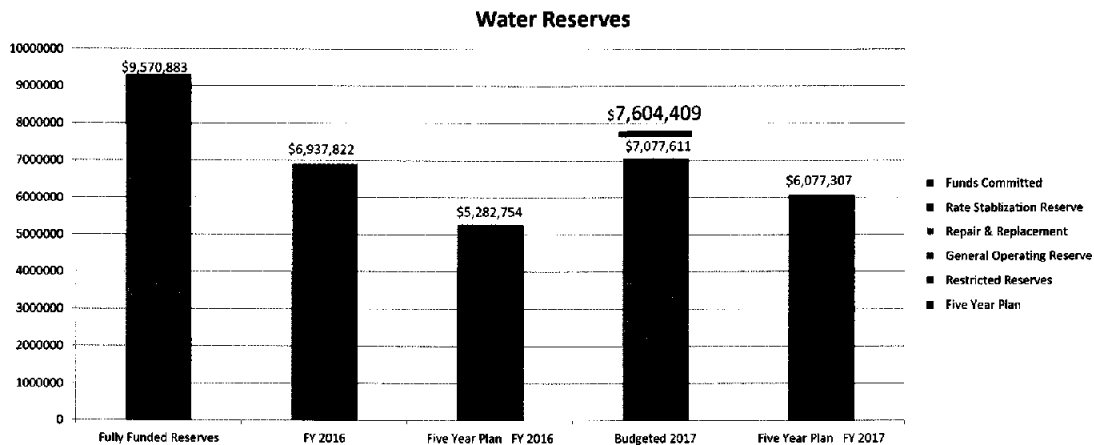
Option #1

\$	3,841,732	VDH Loan Offer
\$	148,148	Connection Fee Revenue
\$	3,693,584	Actual Finance Amount
\$	40,589	Cost/Connection (Goal: \$20,000) (91 Committed Connections)
\$	176,470	Annual Debt Service of \$3,693,584 @ 2.5% for 30 years
\$	54,600	New Annual Revenue (\$50 x 91 Connections x 12 Months)
\$	1,200,000	Debt \$54,600 Will Support
\$	2,493,584	Grant Needed to Cash Flow
\$	1,873,584	Needed to Achieve \$20,000/Committed Connection
	OR	
\$	121,870	Annual Debt Service Shortfall
	0.90%	Rate Increase (About \$0.45/Month on \$50 Bill)

Option #2

\$ 3,841,732	VDH Loan Offer
\$ 148,148	Connection Fee Revenue
\$ 1,527,102	June 2017 Estimated Excess Reserve
\$ 2,166,482	Actual Finance Amount
\$ 23,807	Cost/Connection (Goal: \$20,000) (91 Committed Connections)
\$ 103,509	Annual Debt Service of \$2,166,482 @ 2.5% for 30 years
\$ 54,600	New Revenue (\$50 x 91 Connections x 12 Months)
\$ 1,200,000	Debt \$54,600 Will Support
\$ 966,482	Additional Grant Needed to Cash Flow
\$ 346,482	Additional Grant Needed to Achieve \$20,000/Committed Connection
OR	
\$ 48,909	Annual Debt Service Shortfall
0.40%	Rate Increase (About \$0.20/Month on \$50 Bill)

Reserve Status



Option #3		
\$	677,832	VDH Loan Offer (Excluding Rich Valley Road)
\$	76,516	Connection Fee Revenue
\$	601,316	Actual Finance Amount
		Cost/Connection (Goal: \$20,000) (47 Committed Connections)
\$	28,729	Annual Debt Service of \$601,316 @ 2.5% for 30 years
\$	28,200	New Annual Revenue (\$50 x 47 Connections x 12 Months)
\$	600,000	Debt \$54,600 Will Support
\$	1,316	Grant Needed to Cash Flow
		Needed to Achieve \$20,000/Committed Connection

Considerations

- Whether to Use Some/All/None of 2017 Reserve Surplus
 - \$1.5 Million Surplus as of June 30, 2017
 - \$1.9 Million Short of June 30, 2019 Target
 - Use of Some/All Would Take Time to Replenish for Extension or Improvement Projects
 - Use of Reserves Would Have a Negative Impact on Coverage Ratios
- Without Rich Valley Road, Assuming DHCD Grant for Hidden Valley, Other Four Projects Cash Flow and Require No Rate Increase or Use of Reserves
- Should a Request be Made to Washington County?

Recommendation (Extensions)

- Consider Two Step Plan

- Step 1

- Option 2 (All Five Projects + \$1.5M From WCSA Reserves)
 - Subject to DHCD Funding Hidden Valley
 - Subject to Additional \$966,482 Grant From VDH
 - Apply to MRDPC July 2017 (Award Would Offset \$1.5M From WCSA Reserves)
 - Remove Mendota Road, Pine Hill Road and Walker Mountain From Capital Plan Until Minimum Participation is Achieved
 - Seek VDH Extension and Reconsider at June Board Meeting

Recommendation (Extensions)

- Consider Two Step Plan

- Step 2, (if VDH Does not Approve Additional \$966,482 Grant)

- Option 3 (Excludes Rich Valley Road)
 - Subject to DHCD Funding Hidden Valley
 - Apply to MRDPC July 2017
 - Remove Mendota Road, Pine Hill Road and Walker Mountain From Capital Plan Until Minimum Participation is Achieved
 - Seek VDH Extension and Reconsider at June 26th Board Meeting
 - Reapply for Rich Valley Road

Improvement Project Priority

- 8 Improvement Projects
 - South Fork Improvements
 - Route 58 Tank Demolition
 - Lee Highway/Clear Creek Improvements
 - Mid-Mountain (Zone 108) Phase 1 and 2
 - Smyth Chapel Improvements
 - Meter Replacement
 - Monte Vista/Crescent Drive
- Consideration:
 - \$2.9M Repair and Replacement Reserve Initial Target is “Deprecation” but Could be Revised to Align With “Asset Management” Goals

Recommendation (Improvements)

- Fund South Fork \$70,000
- Remove Monte Vista/Crescent Drive
- Prioritize Remaining Projects at Later Date