

Washington County Service Authority Board of Commissioners
February 28, 2011 Recessed Meeting Minutes (Meeting Held March 21, 2011)

The Washington County Service Authority Board of Commissioners' recessed meeting was called to order by the Chairman at 6:01 PM.

ROLL CALL

Commissioners Present:

Mr. Joe Chase, Chairman
Mr. D.L. Stout, Vice Chairman
Mr. Devere Hutchinson
Mr. Dwain Miller
Mr. Frank Stephon, IV
Mr. Kenneth Taylor

Commissioners Absent:

Mr. Prince Coleman

Staff Present:

Robbie Cornett, General Manager
Kim Harold, Controller
Amanda Paukovitz, Administrative Assistant

Also Present:

Mrs. Dawn Figueiras, General Counsel

3. Approval of the Agenda

Mr. Cornett had no additions or changes to the agenda, aside from Mrs. Harold's name [erroneously listed as Kimberly Roberts]. Mr. Stephon moved to approve the agenda. Mr. Stephon's motion was seconded by Mr. Hutchinson and was approved by a 6-0-0-1 vote of the Board.

4. Consideration of the 2011-2012 Fiscal Year Budget

Mrs. Harold presented the Board with a few line item updates to the Budget.

In regards to the Administration Departmental Budget on page 1, Mrs. Harold spoke of some items that have been rolling forward into the budget each year. In an effort to not affect rates and fees with items that WCSA plans to purchase in the future, those items have been removed from the budget. For example, they did remove \$50,000 for phone system hardware, \$15,000 for

software training and [\$18,900] for surveillance equipment. The latter will be added when it has been procured, numbers are finalized and the specific budget year is known. Staff also added \$5,000 for striping and sealing the parking lot; this figure came from an obtained quote. Mr. Cornett clarified this as an [\$83,900] deduction and a \$5,000 addition, for a [net deduction of \$78,900].

The Customer Service Departmental Budget experienced the same analysis. Under computer equipment, the mobile work order unit underwent a \$24,600 deduction. This item, along with others, were left in the budget (for future reference). The amounts were removed, as to not effect rates, fees and charges for the current year.

No changes were made to the Maintenance, Water Production, Meter and Sewer Departmental Budgets. Mrs. Harold referenced the Water Distribution Departmental Budget on page 5. The first item listed under computer equipment (tablet PCs with GPS) was removed from the budget. As the item is not quite ready for purchase, \$36,501 was omitted. Additional information was requested for an AutoCAD digitizer. As follow-up details were not submitted for a further quote, the \$2,600 was not allotted. Mr. Cornett affirmed that these items referenced are predicted future needs, just not currently. After reviewing the Departmental Budgets, Mrs. Harold reviewed the CIP List with MFSG's update on the Rate Model. She noted that this was not reviewed in great detail last time. The top section of the CIP List references projects that we have or plan to secure bond funding for, while the bottom half of page 8 notes cash-funded projects.

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Mrs. Harold explained that Project #29 was moved out until 2013-2014, thus moving \$200,000 as well. When the budget is finally approved, it will be updated. This was later clarified by Mrs. Figueiras. She noted that Item #32 for \$654,947 was in the current year and has been changed since the last budget; it is correctly reflected in 2011-2012, where it is now on the CIP List. Item #32 was a project WCSA Staff did not expect to expend before June [2011], so it has been moved to the correct year. CIP Projects #54 and #55 have been added since last month. These are the two projects that WCSA Staff sought the Board's approval to seek VDH funding for this year. Currently, these projects show up as cash funded. Mr. Cornett explained that once funding is received, projects are moved to the appropriate category.

Mrs. Harold referenced page 9, which is the second page of the CIP List. For example, Projects #53-63 have secured grant funding. Capital Equipment Purchases, which were just reviewed by department, are incorporated below that, as their figures are pulled to the spreadsheet. The top portion of the list represents capital that has actually been purchased for the year and the second portion represents capital that has been requested for next year. In looking at the \$1,028,000 that has been budgeted in FYE 2011, WCSA has spent \$748,000 of that through February. The Total Capital Expenditures to be funded, as indicated at the bottom of the list, amount to \$2,034,111 for the year; the anticipated [2011-2012 Total Capital Expenditures] total \$3,194,377. Once updated, those figures pull over to page 10. By moving the previously mentioned \$645,000 from FYE 2011, which is

ending in June, to [FYE 2012], it has changed the Wastewater Departmental Budget for FYE 2011 to an increase of \$425,307. Mrs. Harold explained to the Board that when Staff looked at this last month, we were looking at having a decrease of \$222,000. By moving the project out one year, WCSA will have a greater positive balance for this year. She noted that we were expecting a positive balance of \$307,000; WCSA is now looking at \$873,000.

On page 11 of the FY2011-2012 Budget, the \$654,000 moved from the Wastewater Departmental Budget to the next year brought about changes. When looking at the "Funded by Operations" section, the Wastewater Capital Projects total \$714,000, where it was [\$60,000] for the year. WCSA had a positive last month for sewer of [\$314,000]; that has changed to [-\$345,000]. The project still needs to be funded, but will not expend the \$654,000 by June of this year. In result, it has been moved to next year. Mrs. Harold explained that in regards to the Supplemental Budget, there have been no additional changes to the compensation information that Mr. Cornett provided last month. On the next page, she referenced the benefits information, which also saw no changes. Mrs. Harold did have a meeting with WCSA's insurance agent, Patsy [Akridge], earlier this month to talk about WCSA's health claim history and the market trends. Ms. Akridge coordinates benefits for companies whose renewals are in July; she has already received their renewal information. For our company's size and claims history, Ms. Akridge foresees a slight decrease to no more than a 10% increase; she feels very comfortable with WCSA budgeting a 10% increase.

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However, it all depends on what kind of claim year WCSA had, which will be available to Ms. Akridge by the end of June/beginning of July. Mrs. Harold provided the Board with the current benefits summary. Mr. Cornett reminded the Board that WCSA saw a slight decrease in health insurance premiums last year and thankfully, no major claims. He expressed that WCSA does not have to look far to see many employers who have seen major premium increases in recent years, where WCSA has not. Insurance renews on October 1. However, it is usually not until early July before WCSA sees renewal notices. Mr. Cornett expressed that all WCSA has to go by in planning for this aspect of the budget is the experience of other groups our size. Mr. Chase inquired the cost of an employee's deductible. Mrs. Harold explained that WCSA employees have a \$500 deductible for single individuals and \$1,000 for a family. Mr. Chase expressed he has always thought and would still like to see employees pay more for their benefits. He referenced situations like the current happenings in Wisconsin, where various employee benefits are bringing havoc on budgets. Mrs. Harold noted that in speaking with Ms. Akridge, they have new provisions in the Health Care Act that will be enacted in 2014. She explained that for plans not grandfathered in, employers will have to provide additional benefits to the employee. To remain grandfathered in, employers can make no changes to their current health plan. Mrs. Harold referenced the next page of the Supplemental Budget, where more information concerning the Grandfathered Status is provided. She expressed we will not know the effects

of this process until 2014. She explained that Ms. Akridge noted this all could change as well with the 2012 election, but that is the risk employers have to take. Mrs. Harold explained that the four bullets at the bottom, "No Lifetime Dollar Limits", "Dependent Coverage to Age 26", "No Pre-existing Conditions for Children", and "'Restricted' Annual Limits", are items excluded from grandfathering; every company has to provide those features. She asked Ms. Akridge for a summary of what she thinks the features may be. However, Ms. Akridge explained that the market is so volatile right now, that those features remain unknown. She is reminding all of her employers of the effects that grandfathering could have. Mrs. Harold expressed to the Board it is up to them, whether or not they are willing to take the risk. However, WCSA will not know the effects until 2012, if there are any at all. If the plan is repealed, the process will not matter. If it remains intact, WCSA would be subject to all responsibilities.

Mr. Chase inquired if this is state legislation; Mrs. Harold affirmed it as federal. Mr. Miller noted that the deductible cannot be changed either. Mrs. Harold expressed that it could not be changed without a company losing its grandfathered status. Mr. Hutchinson added that the responsibility could move from the federal to the state guidelines. When and if that happens, responsibilities could change a lot. Mr. Miller expressed there will be a lot of questions to be had over the next two years, as things are up in the air. Mr. Miller expressed that we need to leave [WCSA's insurance plan] alone at this time. Mr. Chase affirmed that if he is still on the Board next year, he may have

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to bring the [WCSA insurance plan] up again. Mrs. Harold expressed no one knows what things will be like next year, healthcare wise.

Mrs. Harold reviewed the following pages of line items for water and sewer. She noted that the 100s represent water accounts, -00 indicates the department and the last six digits indicate individual accounts; 300 accounts are for sewer. In speaking with MFSG when finishing the WCSA Rate Model, they talked about the number of connection taps made for the year. This number has been down each year, as the economy is down. Mrs. Harold and Mr. Cornett performed a trend analysis and to date, WCSA has made 50-57 taps through February [2011]. They project 100 taps total to be made by the end of June; that is how she came up with the \$392,000 for next year. The connection fee is \$3,900, which would apply to those taps. This year's budget includes the Johnston Memorial Hospital (JMH) Connection, which added a substantial amount of money to the WCSA projections. Mrs. Harold does not feel it appropriate to bring JMH's connection forward in the budget each month. She has reviewed each line item numerous times, in case she has missed anything. Mrs. Harold plans to review these line items again and update accordingly. They do not plan to have the budget approved until June, after discussions. If there are any questions, she encouraged the Board to feel free to inquire with her or Mr. Cornett. Mrs. Figueiras inquired if WCSA has obtained the number of new taps for other utilities over the same time frame. Mr. Cornett affirmed that we do not, but we have recently presented to the Board a comparison of issuance of new building permits (in Washington County

and neighboring counties) via the Building Permit Report. He reiterated that over the last five years, all towns/counties have seen a decrease in issuance of new building permits. However, most, if not all, counties have seen a sharper decline than Washington County. Mrs. Figueiras noted this can translate into new taps; Mr. Cornett affirmed this. He also expressed we would get into more detail of these figures with MFSG's report of WCSA Rates, Fees & Charges. [New connections] is one area where WCSA revenue has been down, along with connections forecasted in 2008 and 2009; this results in lower consumption. However, he did note that both primary revenue streams are down in result of the economy for 2008-2009. Mr. Cornett explained this as a reason for forwarding MFSG the Building Permit Report. He knows it is important to the Board to know, as some have inquired if perhaps WCSA's connection fee is a deterrent for growth, compared to our neighbors. Nevertheless, the decline in Washington County is no different than that in others. He thanked Mrs. Figueiras for her question. As we get into MFSG's report, Mr. Cornett affirmed some information would become clearer.

Mrs. Harold expressed that if there were not any budget-specific questions, they would move on to MFSG's report. Mr. Cornett affirmed that as Mrs. Harold said, the budget does not have to be approved or adopted until June. In fact, unless requested, Staff will probably not make any further presentations on the budget until June. The goal was to get the budget in the best shape WCSA could this month so that if any adjustments to rates were necessary, Staff could do that; Mr. Cornett thinks

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we have done so. In June, the Board will see updated, year-to-date information for presentation of the final draft in June.

5. Consideration of the 2011-2012 Rates, Fees and Charges

Mr. Cornett explained that both he and Mrs. Harold plan to review MFSG's update of the 2009 Rates, Fees and Charges Study, which MFSG was procured to do. Over the last year, he and Mrs. Harold noticed that WCSA's new connections were below projections. Based on the more recent actual financing, opposed to anticipated financing, they thought now seemed like an appropriate time to have the rate model updated. Upon reviewing MFSG's work, both Mr. Cornett and Mrs. Harold do not think there is any way to make MFSG's explanation any more brief than the memo reads. Mr. Cornett read the following:

This document was prepared to update the water and sewer cost of service study performed by MFSG in March of 2009 for WCSA or the "Authority". As part of the initial study, a five year rate plan was developed and approved by the Authority Board. [Mr. Cornett noted we are currently in Year 2 of 5.] The Authority has authorized MFSG to perform a review of the water and sewer fiscal performance and projections, given 1) customer growth and usage patterns, 2) changes in budgets and 3) capital costs since the original study was completed. For all of these reasons, the report needed an update. Each analysis completed for the Authority's utility fund is predicated on the use of a cash flow analysis to support the pricing of utility services, with a clear segregation of costs and revenues allocated to growth-related capital costs from the costs of operating the water and sewer systems and paying for non-growth capital costs.

Mrs. Cornett added that they have a

second handout to review with the Board shortly. He noted that some Supervisors have questioned whether or not WCSA is taking the system fee or connection fee revenue to pay for operations and maintenance (O&M) expenses. However, 1) that is illegal and 2) WCSA is not doing it. A Supervisor has accused WCSA recently of "double dipping"; this is untrue. WCSA has developed a report, to be reviewed later, which clearly shows that the connection fee revenue generated has been allocated to growth-related costs. WCSA has had a shortfall in growth-related revenue, i.e. connection fees, compared to monthly user fees. In result, WCSA continues to subsidize growth-related costs through monthly user fees. The claim that WCSA is making so much money off taps and using that towards O&M costs is untrue. He continued with the memorandum: The remainder of this document provides a comparison of actual results and original projections related to customer and consumption growth, customer usage, operating and maintenance expenses and capital expenses. This document also provides a revised forecast of operating results and recommendations for adjustments to the Authority's financial rates, in light of actual and forecasted operating results.

1) Review of Customers and Consumption (To Date)

The following table [Note: Mr. Cornett discussed Table 1, Column 2] provides the actual water and sewer customers' consumption, compared with forecasts developed as part of the financial plan. [Mr. Cornett added that in light of economic conditions, Table 1's figures (Water System ERU Growth) needs to be revised, to reflect more closely the actual figures. WCSA will only ask the Board to consider changes in rates through the next two fiscal years; the table does show through 2014. WCSA is

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concerned about revenue generations in Table 2 (Water System Annual Water Sales (1,000 gallons). The projections are reduced and we are still predicting a decrease. The actual rate of growth is 10% less than projected; he discussed details of this decrease. WCSA projects a decrease in the next four fiscal years, but does project an increase in the number of ERU's in 2014.] As demonstrated in Table 1, the growth in number of new water equivalent residential units (ERU's) has occurred at a substantially slower pace than projected in the financial plan. The plan had anticipated a growth rate of 2.3% while the Authority has experienced an annualized growth rate of 0.4%. The slower pace of growth has significantly reduced revenues from tap and system fees. Table 2 demonstrates that the slower pace of growth has also impacted water sales. The slower pace of growth is not surprising, given the economic recession that has taken place over the last few years. The vast majority of utilities around the United States have seen growth in new customers slow substantially. To provide a local perspective [as described earlier], the Authority recently completed a survey of the annual number of residential building permits for seven counties near Washington County. The counties in the survey include: Lee, Russell, Scott, Smyth, Tazewell, Wise and Wythe. The survey demonstrates that six of the seven counties included in the survey have seen annual double digit percentage declines in building permits over the last two years, 2008-2009. These results show that the recent decline in number of new ERU's experienced by the Authority is not abnormal and is a trend that has been experienced throughout Virginia and by counties near the Authority.

Based on these trends, a conservative estimate of customer growth is provided in Table 1 and similarly the growth in water sales is forecasted to conservatively grow in accordance with ERU growth. It is possible that the Authority will return to a more "normal" level of growth sooner (which would be closer to 300 ERU's per year) but

to be conservative, we have assumed this does not happen until 2021, assuming a gradual increase of 25 additional ERU's each year beginning in 2014 through 2021.

Tables 3 and 4 demonstrate a similar trend in the sewer system ERU growth and sewer sales. [Mr. Cornett added that the sewer system statistics are not as bad as the water statistics, but not as good as WCSA wanted. They reflect a 28% reduction; he discussed this in more detail and referenced Table 14.] The decrease in the anticipated number of ERU's significantly decreases the revenues from tap and system fees and the reduction in water and sewer volumes sold reduces the anticipated revenue from water sales.

2) Operating and Maintenance Expenses

The budgeted operating and maintenance expenses for 2009 were used as a starting point for the forecast of future operating expenses for the water and sewer system in the original study. The operations and maintenance expenses were forecasted assuming an annual increase of 3%. The following tables provide a comparison of the original estimate of operating expenses, compared with the actual and revised forecast. [Mr. Cornett referenced Table 5 and noted that in comparing the 2011 Original Forecast with the Actual/Revised Forecast of Total Capital Expenses, there is a difference of \$1.2 million. Other than last year in sewer, things are not as well as WCSA forecasted.] It should be noted that the original forecast of operating expenses was updated following the study to account for fixed asset purchases funded within operating and maintenance expenses. As a result, the original forecasts shown in Tables 5 and 6 now include fixed asset purchases. As demonstrated in Tables 5 and 6, the Authority's water system operating expenses were slightly higher than anticipated in 2010, but will be substantially higher in 2011. The sewer expenses were less than anticipated in 2010, but are expected to grow at a faster pace in 2011 than originally forecasted. Several of the operating expenses that have increased or are anticipated to increase more

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significantly than forecasted, include: chemical purchases [which had been procured for purchase on a quarterly basis], energy costs [i.e. electricity], health insurance [which declined last year, but has previously increased and is expected to increase again] and maintenance supplies [Note: most of what WCSA does is affected by fuel prices, which have increased significantly. In recent years, WCSA has experienced low bid prices due to the low economy. Otherwise, prices have increased, and will most likely continue to increase]. It should be noted, however, that the Authority typically incurs operating and maintenance expenses at a level below the budgeted amount [which is favorable]. As a result, we anticipate that the difference between the original projection and the revised forecast will not be as substantial, as shown in Table 5.

3) Capital Expenses

Capital expenses for the water and sewer system include: existing debt, the funding of the capital improvement program in the form of additional debt, cash funding and lastly, contributions to capital reserves. The following tables provide a comparison of the original forecast of total capital expenses and the actual/revised forecast. Table 7 [Total Capital Expenses, which Mrs. Harold discussed in more detail] demonstrates that the actual and revised capital spending will be lower than originally anticipated. It should be noted that some of the reduction in capital spending is due to the use of debt, as compared to cash funding of capital projects, which essentially spreads the cost of the project out over the life of the loan, as compared to funding it in one year from user rates. Table 8 shows that the capital expenses were less in 2010 than anticipated, but will be higher in 2011 and 2012. [Table 8 displays the Sewer Capital Expenses, which Mrs. Harold presented in detail].

4) Operating Results

The comparison of the original financial plan forecasts and the actual results demonstrate the forecasts varied from

reality in a number of areas. A number of factors outside the Authority's control, such as the economic recession and the recent increases in operating costs, have resulted in revenues being below forecasts and expenses being above forecasts. The following tables present the total revenue requirements under the revised forecasts and demonstrate the operating results for the water and sewer operations.

[Table 9 shows the 2010 Operating Expenses were \$8.7 (million), \$9.8 (million) in 2011, \$9.8 (million) in 2012, \$9.6 (million) in 2013 and \$9.8 (million) in 2014; Mrs. Harold discussed the entire table in detail.] Table 9 demonstrates that with the current rate plan and the updated forecasts for expenses and customer growth, the water rates will not produce sufficient revenues to cover the operating and capital costs related to operating and maintaining the water system. It should be noted that under the official financial plan, it was anticipated that the Authority would see revenue shortfalls in 2010 and 2011, with a breakeven occurring in 2012.

The revenue requirements for the sewer system under the revised forecast are shown in Table 10 [where the operating expenses are at \$854,000 in 2010; the net revenue requirement from rates was \$926,000 and the (Projected Revenue with the Current Rate Plan) was \$1.1 (million). Mrs. Harold also discussed the abovementioned statistics for 2012, 2013 and 2014. WCSA does not anticipate seeing such a large change in 2013 and 2014].

Table 10 demonstrates the changes in the forecast will not impact the sewer system as much as the water system.

5) Recommendations of MFSG

In light of the anticipated shortfalls shown in the operating results, particularly for the water system, [MFSG recommends] that the Authority consider making several adjustments to the financial plan over the next several years.

The following recommendations are made for the water system:

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- The Authority should not fund the 3R (Repair, Replacement, Renewal) Reserve contribution [Note: this is referenced on Page 5, Table 9, Column 1 of MFSG's memo] over the next two fiscal years (2012 and 2013). Until revenues [erroneously referred to as reserves] can catch up with operating and capital expenses, the funding of this reserve should be put on hold. On an annual basis, the Authority should evaluate its ability to fund these reserves in subsequent years.
- The Authority should evaluate the budgeted level of operating expenses to ensure that they represent an accurate estimate of anticipated and actual expenses [which was covered prior by Mrs. Harold; anticipated expenses have been eliminated in this year's budget].
- In light of the anticipated shortfalls in revenues, [MFSG recommends] that additional rate adjustments be made in 2012 and 2013. The recommended adjustments are shown in [Table 11, which shows that the original plan, or the plan currently in place, would increase monthly user fees by 3% in FYE 2012 and 3% in FYE 2013. The additional adjustment being recommended is 4% in the upcoming and the following fiscal year, for a total of 7% each year].
- [MFSG recommends] that the Authority continue to monitor revenues and expenditures over the next several years as the economy turns around. If the number of new ERU's were to return to more historical levels in a shorter period of time, rate increases should be adjusted accordingly.

The following recommendations are made for the sewer system:

- Similar to the water system, the Authority should not fund the 3R Reserve contribution over the next two years. Until revenues [erroneously referred to as reserves] catch up with operating and capital expenses, the

funding of these reserves should be put on hold. On an annual basis, the Authority should evaluate its ability to fund the reserve in subsequent years.

- The Authority should evaluate the budget level of operating expenses to ensure that they represent an accurate estimate of anticipated actual expenses.
- In light of the anticipated shortfalls in revenues, [MFSG recommends] the additional rate adjustments be made in 2012 and 2013. The recommended adjustments are shown in [Table 12; the plan that is in place right now calls for a 5% adjustment of monthly user fees for FYE 2012 and 5% in FYE 2013. The additional adjustment being recommended is 1% in the upcoming and the following fiscal year, for a total of 6% each year].

Mrs. Figueiras inquired, in regards to the second bullet point under both water and sewer, if MFSG's recommendations take into account the previously mentioned changes. Mr. Cornett affirmed this, as the actuals are less than the projections. He explained that the recommendations are just as much a view to the future as they are to the past. Mr. Cornett explained that as bad as the CIP projections were, the same is true for WCSA's fixed assets; they were not as accurately projected as they should be. Projected items for the future need to be removed from the budget to create a more accurate picture, as has been done for the next two upcoming fiscal years. Mrs. Figueiras inquired if MFSG is recommending more evaluations. Mr. Cornett expressed they hope to do better forecasting in upcoming outlying years. Mr. Cornett explained that rate projections are good, but the actual dollars and cents that customers have to pay are important to him and the Board. He continued reviewing the memo:

6) Sample Bills and Rates

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The following sample bills were developed to demonstrate the impact of the recommended adjustments on the customer's water and sewer bills. Table 13-15 present sample bills under the current and recommended rate plan and the difference in the customer bill [Mr. Cornett reviewed Tables 13-15 in detail]. The actual rates proposed for FYE 2012 and 2013 are presented [in Table 16], along with the rates developed and approved during the original financial plan.

Mr. Cornett explained that WCSA is not collecting revenue as anticipated. This is believed to be due to the economy, as it has become an evident countrywide problem with various utilities. We need revenue for debt service coverage with our lenders, and WCSA is not seeing new connections or consumption as expected. We become ineligible for funding or we receive additional stipulations if monthly user fees are not adjusted. As expressed by Mr. Cornett, if the Board is so inclined, he and Mrs. Harold have prepared a resolution that reflects the recommendations made by MFSG. Mr. Cornett and Mrs. Harold support MFSG's recommendation and likewise recommend the resolution; it reflects what was just presented, with the exception of the 3R Reserves contribution being discontinued for two years. He distributed the resolution. Mr. Cornett expressed that if the Board passes the resolution, he also asks that they consider a motion to suspend the 3R Reserve Contributions for [FYE] 2012 and [FYE] 2013. He noted the report was concluded with MFSG last Thursday; there was no opportunity to provide the Board with this information prior to this evening's Board meeting. He and Mrs. Harold felt it was better to review the abovementioned information with the Board in detail this evening.

With respect to the original projected 4% rate increase, Mr. Taylor inquired of the total projected revenue for [FYE] 2012. Mrs. Harold explained that based on current earnings, WCSA is projected to be at \$9.6 million in water fees by the end of June, based on what has happened through February; a total 7% [increase] would put WCSA at \$10.357 million [erroneously listed as \$10.2357 million]. Mrs. Figueiras noted that for the Board to adopt a rate increase procedurally under the statute, the Board would adopt a resolution with WCSA's new rates, fees and charges; this would then be advertised and a public hearing would be conducted. Following that, WCSA would have a later meeting to adopt either the preliminary resolution or one that reflects changes from insight received since the preliminary adoption. She clarified that voting tonight would not be a final call, as it involves a three step process. Mr. Cornett further explained that if the resolution is passed tonight, it only establishes a preliminary set of monthly user fees. This would then proceed to advertisement of a public hearing, as proposed to run this and next Friday. The statute requires WCSA to wait at least 60 days after the second advertisement to hold the public hearing; the public hearing would then be held on June 1 or soon thereafter. At the public hearing, WCSA Staff would make a presentation for justification of the adjustments. The Chairman would open the floor for public feedback, either for or against the adjustments. Ordinarily, the Board would not adopt any rates at the conclusion of the public hearing. They could if they wanted to, but Mr. Cornett feels it would depend on the level of feedback received at the public hearing. If no one speaks in

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opposition, there is no need to study the matter further and the preliminary rates could be adopted. If there is any cause or reason to adjust the rates further at the public hearing, this can be done and the rates can be adopted. The earlier in June the Board can adopt the rates, the better WCSA will be at implementing them as of July 1 (the beginning of the new fiscal year). Ideally, the public hearing should not be delayed any longer than necessary. Mr. Cornett, on behalf of WCSA Staff, would propose a public hearing on or about June 1, if not before. If there is no feedback from the public, the Board could adopt this or an amended set of monthly user fees. The public hearing could be recessed for a week later, if need be, for the Board to think about the public hearing results for a week and further consider what we want to do, if necessary. Mr. Cornett explained that once monthly user fees are established, the Board can then consider the rest of the budget at that meeting or at the June 27 Regular Board Meeting. Mr. Cornett believes the Board would not want to adopt the budget until the rates are adjusted accordingly.

Mr. Chase inquired, if the Board does not pass the rate increases, what are other alternatives the Board can consider? Mr. Cornett clarified there are several things to keep in mind. If the Board is not willing to adopt the rate adjustments, they would need to make corresponding budget cuts, item by item; it would be unclear until these changes are made to see what kind of revenue WCSA would be able to save as necessary to reach the goal. He explained that he and Mrs. Harold have tried before tonight to cut departmental capital expenses and fixed assets, and to spread things out over the upcoming fiscal years

with the rearrangement of the CIP. They have tried to reduce this as much as they could. VRA says without an adjustment, they will not give us parody on loans. WCSA would not get funding for any additional capital improvement projects from them or a list of other things unless we are willing to make adjustments. Mrs. Harold noted, for example, the Grant Parody expressed that WCSA could request a moral obligation from the County or fund the Debt Service Reserve of \$1 million annually. If WCSA did not meet its rate covenant of 1.15% net income, we would need to fund the Debt Service Reserve in full at the end of the audit year; they would ask WCSA to put \$1 million of restricted cash aside. Mrs. Figueiras asked where this \$1 million would come from. Mr. Cornett affirmed this as a circular argument that does not seem to make sense. Mrs. Harold explained that they may be referencing RD's restrictions, which already requires restricted cash. She explained that VRA said WCSA could go through every expense line item to get the budget down to the bare minimum. Mrs. Harold expressed that the abovementioned suggestions are the options VRA talked about. Upon Mrs. Figueiras' inquiry, Mr. Cornett reiterated that Staff has cut a couple \$100,000. He affirmed that close to \$1 million was cut from the budget prior to that.

Mr. Taylor acknowledged that we are in a time period that is not good [economically]; no one likes these kinds of times. People can sometimes go back and find more to cut, but at one point, it becomes deficient. He inquired, is there any fat in this WCSA Budget? Mr. Cornett explained some people may disagree with he and Kim's practice; those people may see reason to keep the

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fat in. At this point, there would be nowhere further in the WCSA Budget to cut, unless it came from staff performance evaluations, cost of living adjustments (COLA), insurance, and replacement of vehicles and equipment (which occurs when necessary for safety purposes). Mr. Cornett sees nowhere else to make cuts outside of those areas. Mr. Miller inquired about the projected CIP for [FYE] 2013 and [FYE] 2014 and questioned if any of that can be cut. Mr. Cornett expressed that some projects have already been moved. He noted that before any of these CIP figures went to MFSG, WCSA Staff, consisting of Kim Harold, Doug Canody, Jack Garrett and [Robbie Cornett], moved out several projects over several fiscal years. They moved what they could without resulting in adverse implications from VDH. WCSA has done a lot of moving and any remaining projects are too far in the process (i.e. projects have been advertised for bids, etc.). Mr. Cornett provided examples, such as the Reedy Creek Project and the Exit 13 Phase 1 Project. WCSA cannot move any of the remaining projects on the CIP without certain and significant consequences. The absolute only places left for cutting expenses are within the replacement of vehicles, equipment, fixed assets, compensation and benefits. Other than that, all that remains are capital projects, along with operation and maintenance expenses.

Mr. Hutchinson brought up the possibility of WCSA potentially applying for a credit rating. He inquired if any of these discussed further cuts could jeopardize WCSA's ability to obtain that rating. The rating would be important to have for the purpose of obtaining grants, bonds, future funding,

etc. Mr. Hutchinson wondered if WCSA is looking at cutting budgetary items and jeopardizing the rating as well. Mr. Cornett affirmed this as a situation for which WCSA would really want to consult our financial advisor, as it would be their area of expertise and some of this is uncharted territory for WCSA. Mrs. Figueiras affirmed Mr. Hutchinson's inquiry to sound logical. Mr. Cornett does not think it is an illogical fundamental to keep the credit rating in mind to maintain a strong financial disposition. To do that, WCSA would either have to increase rates or decrease spending. He knows that the agencies that lend WCSA money, such as RD, VRA, and even our auditors, believe that steady, small increases over consecutive fiscal years or some type of regular adjustment to rates reflects better on the utility, rather than not doing anything and increasing rates 10-15% five years from now. He affirmed that this kind of action does give creditors a bit of concern. However, WCSA Staff could speak with Wye River about that. Mr. Stephon reflected that back in the 80's, when he worked here, WCSA went about five years without raising rates or fees. Following that, WCSA had to make a big jump in rates and the development caused a big stir. Ever since he witnessed that happen, Mr. Stephon has always been in favor of small increases annually, opposed to trying to get by a year or two, and follow-up with a large increase, i.e. 10%.

Mr. Hutchinson agrees with small increases over a period of time, rather than a big jump, for the sake of families' budgets. Mr. Stephon expressed that the definition of a "small increase" can be arguable as well. Mr. Hutchinson also agreed with Mr. Taylor; if there is