

Washington County Service Authority Board of Commissioners
August 7, 2015 Special Called Meeting Minutes

The Special Called Meeting of the Washington County Service Authority Board of Commissioners was called to order by the Chairman at 7:08 am.

ROLL CALL

Commissioners Present:

Mr. Kenneth Taylor, Chairman
Mr. Mark Nelson, Vice Chairman
Mr. Wayne Campbell
Mr. Devere Hutchinson
Mr. Jim McCall
Mr. Dwain Miller
Mr. Mike White

WCSA Staff Present:

Robbie Cornett, General Manager;
Secretary
Kim Boyd, Controller; Treasurer
Carol Ann Shaffer, Administrative
Assistant; Assistant Secretary

3. Approval of the Agenda

Mr. McCall motioned to approve the Agenda. Mr. Nelson seconded and the Board approved with a 7-0-0-0 vote.

4. Consideration of Rural Development Funding for the Galvanized Line Phase 3 Project including the Abingdon Water Storage Tank – Robbie Cornett

Mr. Cornett discussed the following presentation entitled; USDA Rural Development Offer of Funding for Galvanized Phase 3 and Abingdon Water Storage Tanks.

Outline:

- Galvanized Phase 3
- Abingdon Water Storage Tanks
- Rural Development Funding Offer
- Customer Financial Impact
- WCSA Financial Impact
- WCSA Capital Improvement Plan
- Average Monthly Expenses

- Recommendation
- **Galvanized Phase 3**
- Staff Analysis 2004-2008
- The Lane Group Preliminary Engineering Report (PER) 2010
 - Three Phase Project
 - 200 Miles; 22% of the Distribution System
 - 8,000 Connections; 40% of Customer Base
 - \$30 Million Total
 - 86% of Leaks
 - \$610,000 per year in Water Loss & Maintain Costs associated with Galvanized Line
 - No Fire Flow
 - Poor Water Quality
 - Poor Water Pressure
- Phase 1 Complete 2013
- Phase 2 Complete 2016
- Phase 3 Complete 2019?
 - Project Costs Increased From \$10 Million to \$14.65 Million
 - Why?
 - Found More Galvanized Line During Design and Construction of Phases 1 and 2
 - Due to Cross-Country Nature of Some Line, its Cost More

Abingdon Water Storage Tanks

Mr. Cornett said noted in PER done by Adams Heath in 2010, Liquid Engineering Corporation (LEP) of Billings Montana was hired to complete internal and external inspection of both Abingdon tanks in March 2012.

- Service Area:
 - Town of Abingdon
 - Whites Mill
 - Route 19 and Brumley Gap
- Draper Aden Associates Identified Tanks as Needing Replacement in a 1998 Study

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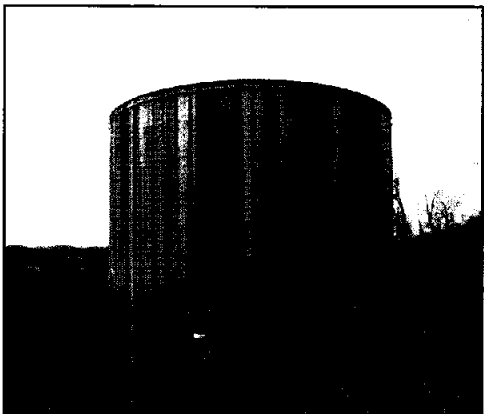
- Adams Heath Engineering 2013 PER Confirmed Replacement:
 - Replace 1.0 and 0.5 MG Tanks With 2.0 MG Tank
 - Estimated Cost \$1,800,100

Mr. Cornett expects the new tank will be pre stressed concrete tank and should allow for 75 or more years of service with a minimal amount of care and far outlast the debt service of 40 years on the Rural Development loan.

Below is a picture of the half million gallon tank that was last serviced in 1996.



Below is the million gallon tank that has no record of being serviced, stated Mr. Cornett.



Rural Development Funding Offer:

- \$4.3 Million Grant Expectation
 - Due to WCSA's Fiscal Strength, Grant of \$4.3 Million not Possible and Grant of \$1.0 Million is Reaching

- WCSA was Required to De-obligate Existing \$10 Million funding for Galvanized Phase 3

Mr. Cornett found out in December of 2014 that Rural Development (RD) changed their grant eligibility guidelines. If the 5,000 gallon residential bill exceeds 1% of the median household income, you become grant eligible. They went back to RD and reminded then WCSA was in line for \$4 Million in grant funds in 2010 and asked RD was the possibility of WCSA receiving grant funds now if WCSA reapplied. Mr. Cornett met with Robert Hilt and the State Program Director in February of 2015 and they were very optimistic. Mr. Cornett though by incorporated in the Abingdon Water Storage Tank in with this project because of the grant opportunity and a better interest rate. Mr. Cornett said until Wednesday of this week, WCSA believed they would receive \$3.4 Million in grant funds and they did not.

When RD does a credit analysis, they first look at the utilities ability to debt service the loan. If a utility has the ability to fund a loan, allowing them to do so is the route RD takes first.

Mr. Cornett said employees at the local RD office worked very hard to secure \$1 million in grant because the national office said no; this utility is strong enough to loan fund the entire amount.

WCSA is strong enough financially that when RD compared us to other utilities on the water side, it had a bearing on their decision for grant funds, stated Mr. Cornett. We did receive a better interest rate. The bottom line, said Mr. Cornett, is the additional debt service will be \$194,000 annually if WCSA accepts the loan from RD.

- Change from Early Thoughts

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- \$15,450,000 Loan Represents a \$0.43 EDU (Equivalent Dwelling Unit) Increase

Customer Financial Impact:

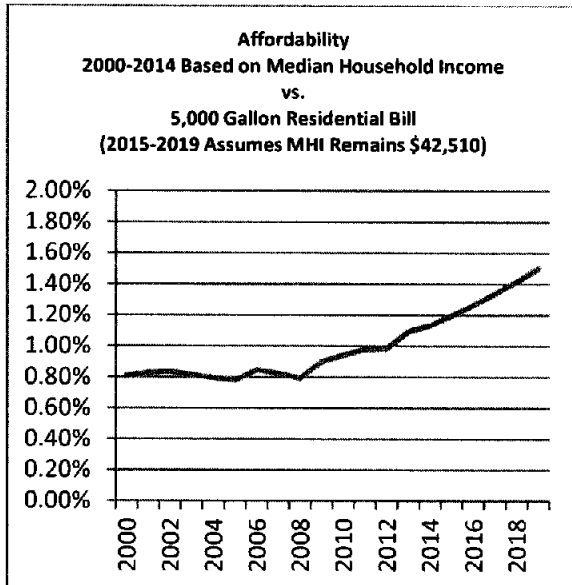
- Funding Represents a \$194,128 Increase in Expected Annual Debt Service Payments
 - Assuming Five Year Rate and Financial Plan is "on Target"
 - Equals 1.5% "Additional" Increase in Customer Rates
 - \$0.81/Month Increase
 - No Required Change Now

Mr. Cornett said water revenue is on target for the first year and expenses are below target. We have a good track record of keeping expenses at or below projections, stated Mr. Cornett. If we start allocating or obligating those funds now, they will not be available in later years, said Mr. Cornett.

Rate History:

Mr. Cornett referred to a graph that showed the monthly bill for a 5,000 gallon residential customer was about \$24 in 2001 and \$42 now. With the rate adjustments in place, it will be about \$53 per month in fiscal year 2019.

Mr. Cornett then referred to the graph below.

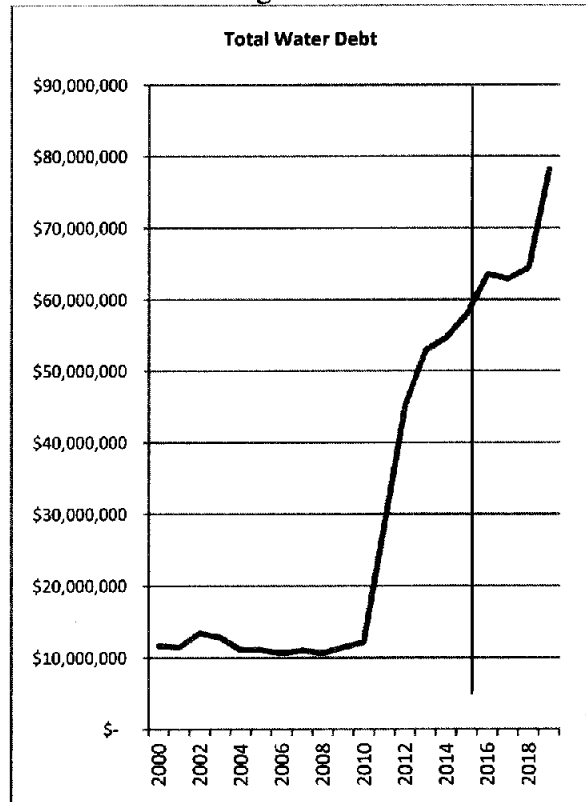


Late last year, RD changed their funding guidelines to from 1.5% to 1.0%. We wouldn't be there if they had not changed their guidelines to 1%, stated Mr. Cornett.

According to Ms. Hughes, the State Program Director, RD is looking at going to a nation-wide grant eligibility threshold of 2% as early as next year. The reason is water rates in the Southeast are significantly less than anywhere else in the country. As a result the federal government is looking at a uniform program across the country rather than applying it by region or by state.

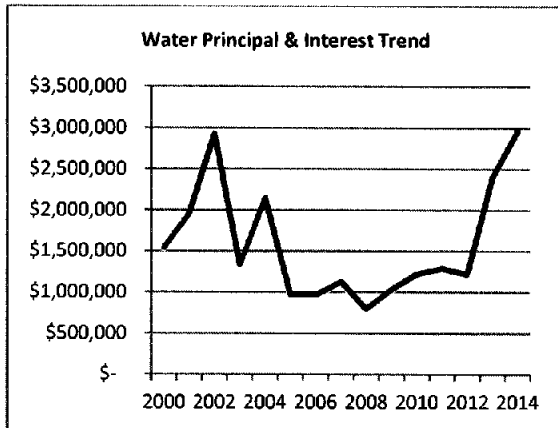
WCSA Financial Impact:

Mr. Cornett referred to the graph below that shows WCSA debt. As of 2015, WCSA is just under \$60 million in debt. Sick leave, vacation leave, retirement leave, liabilities and accruals are included in these figures.



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Mr. Cornett then mentioned principal and interest trends, shown in the graph below.



Debt Per Customer:

Mr. Cornett referred to a graph that showed the Debt per Customer for 2012.

- Buchanan County Service Authority - \$877.77.

Mr. Cornett said a lot of the reason Buchanan County has such a low debt per customer is because the Coal Severance has funded much of their water and sewer systems.

- 2011 Fitch AA Median Credit Rating per Customer - \$1,502.
- WCSA - \$2,176
- Pulaski County PSA - \$2,123
- Tazewell County PSA - \$3,537
- Giles County PSA - \$3,872
- New River Regional Water Authority - \$4,417
- Carroll County PSA - \$5,459

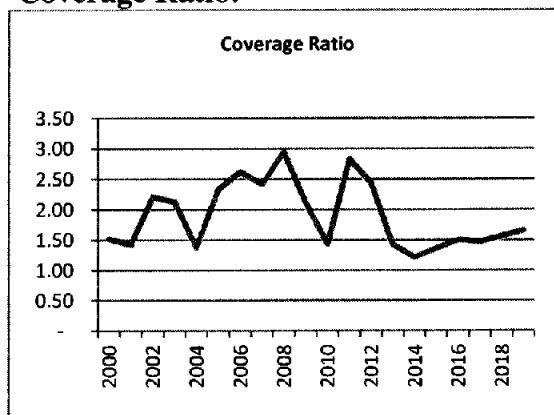
Where would WCSA stand if the currently if these numbers included the projected debt, Mr. Nelson asked.

Mr. Cornett said he was working on that projection.

Mr. Nelson said if you add existing debt to projected debt and divide it by our existing customers, what would that be?

Mr. Cornett said \$75 million divided by 21,000 is about \$3,571.

Coverage Ratio:



The minimum coverage ratio is 1.15. Mr. Cornett said WCSA did not miss their debt coverages last year.

WCSA Capital Improvement Plan:

- Busy Past Decade: \$83.5 Million Water & Sewer
 - \$72.5 Million Loan / \$11.0 Million Grant
- Future Water Unfunded:
 - \$8.1 Million Targeted Improvements
 - \$5.1 Million Targeted Extensions
 - \$60 Million Extension (Remainder of County)
 - \$73.2 Million Total

Mr. Cornett said there were about 1,000 existing residents in Western Washington County without public water.

- Future Wastewater Unfunded:
 - \$8.0 Million Treatment Plant
 - \$6.5 Million Conveyance System
 - \$29.1 Million Targeted Extensions
 - \$43.6 Million Total
 - \$116.8 Million Combined

Average Monthly Expenses:

- Electric - \$105
- Car Insurance in VA - \$93
- Cable - \$80
- Individual Cell Plan - \$71
- WCSA Sewer (2015) - \$65
- Internet - \$60

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- WCSA Water (2015) - \$42 (5,000 gallon bill)

Recommendation:

- Subject to Answering any Questions, Consider Accepting Rural Development Offer of Funding
 - Better Offer Doubtful Within Five Years
 - Both Projects Desperately Needed
- Future
 - Consider Acceptable Debt Range for WCSA
 - Don't Want to Over Extend
 - Pending Inter-Municipal Contracts a Plus
 - Energy Savings Possible but Require Capital
 - Other Savings Possible but Limited

Mr. Nelson asked if there were any monies remaining from Phase 2 that could be reallocated.

Rural Development said all that money had to be spent in Phase 2. Mr. Cornett explained that is where Division 5 came from.

Based on projections, you see no problems with debt service coverage if we increase the debt load; you see no problem with our current rate structure and can stay where WCSA is in the 5 Year Plan without modifying it now and you feel when all three phases are complete, the cost to maintain the lines will decrease significantly, stated Mr. Nelson.

Mr. Cornett said, yes. By 2020, WCSA expects to be in a position to reallocate some resources or through natural fruition, have fewer employees.

Mr. Nelson said the real question is, are we willing to accept an additional \$196,000 a year to make this project happen. We have the capacity to do that and have reserves available should we

need them. If we do not do this Project now, the interest carry costs will only increase. If we wait, more than likely the rates we see today will not be rates we can borrow on 5 years from now, stated Mr. Nelson.

Mr. Hutchinson said one of his concerns was this Project was estimated to cost \$10 million and we are now being offered \$14.65 million in loan. This project will not go to bid until 2018.

We will advertise for bids in 2017, and hope to complete the Project in 2018, stated Mr. Cornett.

Mr. Hutchinson asked what the possibility is the cost will exceed \$14.65 million.

Mr. Cornett said the Authority feels much better about knowing how much line needs to be replaced. It is anyone's best guess what labor prices and materials will cost when we accept bids. We have applied historical inflation factors to costs but some things are hard to gage like when fuel prices went up to almost \$5.00 a gallon in 2008. We will have opportunity in 2017 when we bid, if prices are high, to delay the project a year. We have applied historical inflation factors according to what was seen with Galvanized Line Phase 2 and rolled it forward to 2017, explained Mr. Cornett.

He continued saying, the \$14.65 million comes from efforts from TLG and WCSA staff did actual field surveying of all known remaining galvanized line so the 1 resolution is much better now than in 2010.

Mr. Nelson said the only change now is the grant money is not there and we are picking up \$3 million in loan

Yes, said Mr. Cornett.

Are we willing to accept an additional \$3 million amount? If all the numbers

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work, Mr. Nelson said he was certainly in favor of moving forward.

Based on what we see there (in the presentation), it is worth the risk to incur the additional \$196,000 a year to offset the \$3 million, and what we can gain from this (Project) improvement is certainly worth it considering all the debt that will drop off shortly, stated Mr. Hutchinson.

Mr. Nelson said the debt would always concern him, but it is the only way WCSA can move forward. We do not have the capacity to raise rates to not have the debt load. If WCSA does not want the debt load, we have to discontinue improving the system. The moderation we have tried to create is the right way to do it and we have to continue to look at the debt load, stated Mr. Nelson.

Mr. Hutchinson said he did not want to see WCSA delay infrastructure improvements to the point there is a catastrophe. Mr. Hutchinson thinks the Projects that have been taken to improve the system since 2010 have been well worth the debt.

Mr. Nelson said he thought there was opportunity for additional revenue that would leverage all this additional capital that has been spent. If we do some of the other things we have discussed, this improves the opportunity with the infrastructure, stated Mr. Nelson.

The galvanized pipe is costing us in more ways than one, so timing wise, we are there, stated Mr. Cornett.

If we accept this proposal, if additional grant monies come available we can seek those as well, said Mr. Nelson.

Mr. Cornett agreed. Mr. Cornett said he was surprised the funding agency allowed WCSA to go after other funds once funds were secured for the Project.

Mr. McCall asked what the total debt limit for WCSA was; it used to be \$75 million.

Mr. Nelson said this Authority was spun off the county but the county's debt load has nothing to do with ours.

Mr. McCall said state law sets our debt load.

Mr. Nelson said he had never seen that. There has to be a ceiling and Mr. McCall thought it used to be \$75 million when the Authority was formed in 1976.

Mr. Cornett has talked to creditors and to his knowledge there is no debt ceiling for Authorities.

The obligation is on the county to manage those working with the Authority to make sure the debt load does not go beyond what can be serviced. If it is out there, Mr. Nelson said he has never seen a limit to or reference to debt load in financials or footnotes.

Mr. Cornett offered to talk with WCSA's auditors and creditors about a debt ceiling, and said in his ten years, he has never seen or heard of a debt limit.

Mr. Cornett said he did recall most of Mr. Cornett said before his time, he did hear that at one time WCSA's debt was general obligation debt supported by the county and there was a debt ceiling at that time.

With general obligation bonds, there is a requirement in the State of Virginia to balance the budget. So with general obligations bonds, the tax rate has to cover those bonds, explained Mr. Nelson.

Mr. Cornett said the last time the county assisted WCSA with general obligation loans was in the 1990's. Those loans were refinanced in around 2008 which cleared the county of any obligation.

Mr. Cornett offered to extend the graph that shows when debt will be retiring.

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Mr. Taylor said he thought the RD offer was a good offer at this time. We have control in the future. As with any other business, you set the financial model and if it works it works, if it doesn't work you change it as you go. Mr. Taylor said he thought the offer, at this time, was a good deal and would like to move forward with it.

Mr. Miller said he would like to make a comment. If we accept the RD offer, we really need to scrutinize line extensions that will not pay for themselves. Mr. Miller said he thought the Board should really be careful about those (line extensions that do not pay for themselves).

WCSA cannot keep obligating ourselves and digging the hole bigger. We are obligating \$196,000 per year, stated Mr. Nelsons.

Mr. Hutchinson agreed.

Mr. Miller said accepting the loan was something that was needed, "we have to take care of our existing customers".

There was a brief discussion among the Board.

Mr. McCall said once you touch galvanized line, it only gets worse.

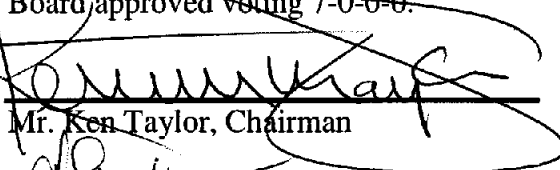
Pipe that may not be leaking can leak once you move it. The clay is what is holding the pipe together and when you move the pipe the clay comes off and the pipe leaks, explained Mr. Cornett.

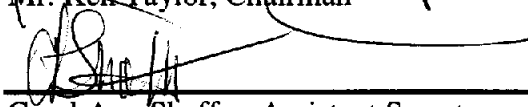
Mr. Nelson made a motion to move forward with funding as presented, that WCSA investigate to determine if there is a maximum debt load the Authority is required to be below and that we (the Board) scrutinize any new projects that require additional funding to insure WCSA has the cash flow available to service our debt.

Mr. McCall seconded and the Board unanimously approved voting 7-0-0-0.

5. Adjourn - Chairman

At 7:59 am, Mr. White made a motion to Adjourn. Mr. McCall seconded and the Board approved voting 7-0-0-0.


Mr. Ken Taylor, Chairman


Carol Ann Shaffer, Assistant Secretary