

Washington County Service Authority Board of Commissioners
February 25, 2013 Recessed Meeting Minutes (Held on March 25 2013; 5:00 PM)

The recessed meeting of the Washington County Service Authority Board of Commissioners was called to order by the Chairman at 5:20 PM.

ROLL CALL

Commissioners Present:

Mr. Joe Chase, Chairman
Mr. D.L. Stout, Vice President
Mr. Prince Coleman
Mr. Devere Hutchinson
Mr. Dwain Miller
Mr. Frank Stephon, IV

Commissioners Absent:

Mr. Kenneth Taylor

WCSA Staff Present:

Robbie Cornett, General Manager
Kimberly Harold, Controller
Carol Ann Shaffer, Administrative Assistant

Also Present:

Mrs. Dawn Figueiras, General Counsel

3. Approval of the Agenda

Mr. Cornett had no corrections to the Agenda. Mr. Stout motioned to approve the Agenda. The motion was seconded by Mr. Stephon and approved by a 6-0-0-1 Board vote.

4. Presentation and Consideration of the 2013-2014 Budget Fiscal Year Budget Mrs. Harold, Mr. Cornett

Mrs. Harold referred to the updated copy of the 2013-2014 Budget located at the Boards stations. She began saying, the budget analysis is the purpose of tonight's meeting. At this time, the Budget is incomplete as we are finalizing a few departmental changes. The Compensation and Benefits Committee is still reviewing that information. The capital project

projections will be updated as the months progress and work on capital projects continues.

Regarding capital projects, there is one that I want to draw your attention to, said Mr. Cornett; the Damascus Wastewater Plant. Hopefully by the June meeting, we will know more, but the Damascus Wastewater Plant exceeded its 95% capacity during January and February. If it does so during March, we have 90 days to submit a plan of action to DEQ to correct the issue, he added. This is not unexpected based on the report that was developed when we acquired Damascus, but we hoped that would be further into the future. With the rain in January, February and March it is not unexpected. We now will have to develop a plan of action to address that violation, Mr. Cornett stated. With regards to sewer projects in the Budget, we must be careful about planning capital projects until we see what it will take for Damascus since it will take priority. Mr. Cornett said a meeting with DEQ is scheduled for next week to discuss the plan of action. The Lane Group (TLG) used maximum day flow numbers in their report from the Town of Damascus. We discovered the meter that records incoming flow is only capable of reading 700,000 gallons per day. As soon as we acquired the system, we set up a way to measure flows in excess of 700,000 gallons per day, stated Mr. Cornett. TLG proposed measures that would handle 750,000 gallons per day based on the information that was available. In January, we had 1.5 million gallons per day and 900,000 gallons per day in February, Mr. Cornett stated. We are permitted at .25 million gallons per day. According to Mr. Cornett, top priority is confirming the accuracy of the meter now in place. No one can plan for

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design build improvements that address inaccurate meter readings. An immediate goal, and something we are working on now, is to replace the meter as it went out last Friday. Mr. Cornett is asking staff to replace it with the largest available meter, while still maintaining accurate readings at low flows. We have 90 days to figure out the cost of fixing the issue.

Mr. Chase asked Mr. Cornett what his best guess of the cost was.

Mr. Cornett answered saying TLG's recommendation was for ½ MGD equalization basin and an additional inflow and infiltration (I & I) study; in hopes the study would identify I & I that could be easily corrected.

We have had staff at the Damascus system or the Sinking Creek system in Bristol; or both; every work day since the first of 2013, Mr. Cornett said. We have had staff working on the Damascus system daily since it was acquired in August of 2012.

The bottom line is unless we confirm the way we have measured flow is wrong, the study with respect to what needs to be done is not even in the ball park.

Mr. Cornett said the rain events in January, February and March have been unusual. We also believe the meter is better than when the study was ongoing. Those two things have caused us to be in a position where we have to do something now, not later, Mr. Cornett added.

The cost, at this time, is unknown. I & I work is a roll of the dice. You may find infiltration issues and be able to dry up some of the flow. We hope to do that without having to hire a specialty firm, expressed Mr. Cornett. What it boils down to is determining if the issue is system wide. Are all the joints leaking?

If so, replacing lines or manholes is about the only option.

Is it that a few manholes are under water during rain events? Those are questions that have to be answered to be able to determine the cost of fixing the issues. The plan is due 90 days from March 31st. I & I projections are usually conservative. Unless you identify the I & I issue before you bid a project, you have effectively designed to handle the issue apart from I & I, stated Mr. Cornett.

Replacing lines takes time. It may be 20 years or more in replacing lines there, if that is the route we must go.

It is my guess, said Mr. Cornett, we will probably be putting in an equalization basin plus a plant expansion. Mr. Cornett suggested it would cost on the low end \$2 million and \$8 to \$9 million on the high end.

Mr. Miller said, I know January was very unusual, but we are going to have to do some I & I work because it will be very difficult to treat that much infiltration.

Mr. Cornett said the problem with an equalization basin is being able to hold the inflow. What if you get significant rains back to back or if it floods? My concern, stated Mr. Cornett, is being able to capture the flow during significant rain events.

We are taking steps necessary to decide what to do and when which will depend on when DEQ expects decisions to be made. We have current sewer commitments. My concern is having user fees at the current rate and having a sizeable debt service obligation hit. We will seek grant funds for this project, said Mr. Cornett, but will do well if we receive 50% grant funding for the project.

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Mr. Cornett then turned the Budget review back over to Mrs. Harold.

She reviewed page 1, the Administration Capital Budget, saying there were no noted changes.

For 2013-2014 there are \$105,000 in capital expenditures and \$40,000 in expenses. Mr. Cornett said expenses included things like the light bill and reoccurring monthly expenses.

Mrs. Harold explained that items under \$5,000 are expensed since the auditors consider items over \$5,000 fixed assets.

Mrs. Harold then discussed the Customer Service Budget on page 2. Listed under computer equipment, we have added an internet based out calling system that includes a payment option for \$2,470, she said.

Mrs. Harold said the Maintenance Budget was trimmed down from the February proposal.

Mrs. Harold said, the numbers on the Filter Plant's Production Budget on page 4 have been updated, showing the Membrane Plant and Chilhowie Plant's figures in compliance with Chilhowie's Budget, pending approval of the Steering Committee.

She then discussed page 5, the Distribution Budget. We added a line item under Improvements for the Twin Rivers Trail Road maintenance of \$2,000, said Mrs. Harold.

There were no changes to the Meter Departments Budget expect the modification of the meter vehicle previously approved by the Board.

Page 7, the Hall Creek Wastewater Budget had only small changes. The bottom two items were added since the February proposal, stated Mrs. Harold.

The Damascus Budget, on page 8 was then discussed. The amount requested in the 2012-2013 Budget was for improvements to the Damascus Plant

recommended by TLG and added to the CIP; which may change by June.

Those were non capacity related improvements identified in the study, commented Mr. Cornett. One addressed a regulatory issue that went unnoticed by DEQ. The other was to replace old equipment. If we do any sort of capital project to the Damascus Plant, these improvements will be included in that project, added Mr. Cornett.

Mrs. Harold then referred to the CIP plan on page 9 of the 2013-2014 Budget Proposal.

Mr. Cornett said the research and development betterment is something the Board took action on and is moving forward. That is upsizing the water line to serve Dr. Folks' new office at exit 7. The Route 58 road widening betterment will widen about 3 miles of Route 58, which is an agreement between WCSA and VDOT to ensure the water lines associated with relocation are proper size. W & L Construction was the low bidder for that Project and it is to start soon, Mr. Cornett added.

Mrs. Harold referred to page 10, showing figures for WCSA's wastewater projects. According to Mrs. Harold number 45, Exit 13 Phase 2A and Phase 3 Study, is newly added. Grant funding has been allocated to this study with \$2,000 remaining to be cash expended.

The next project on line 46, Exit 13 Phase 2A, has \$900,000 in fye 2014 that will be split between the next 2 years. We are looking at actually spending \$579,328 through February and have budgeted to spend \$1.3 million, totaling \$16 million for capital funded projects for the year, she added.

Page 11 shows total amounts for Departmental Capital Expenditures; how much we actually spent this year, budgeted amounts for this year and

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budgeted amounts for next year, Mrs. Harold explained.

Cash funded projects may still become grant or bond funded projects later, added Mr. Cornett. Some projects are cash, grant and bond funded.

Mrs. Harold then reviewed page 12, Projections for this year. Income available after debt services for water is \$1,062,782, wastewater is \$1.5 million; totaling \$2.5 million. After our capital projects and capital expenditures are factored in, the total reserves for the year is \$617,000

Mr. Cornett reminded the Board, the action the Board took in 2001 was to suspend contributions to reserve funds, so there is nothing in the reserve fund allocation. This is only through the upcoming fiscal year, then, ideally, we would go back to building up reserves. Bond convenient reserves are already met, so we are not in violation of our bond convenient. The Board took action in 2011 to forego rate increases due to the economy, and suspend contributions to reserves, he added.

Mrs. Harold discussed page 13, Projections for 2014. The income available for water and wastewater after debt services is \$390,000. The total projection for capital projects is \$3.4 million, showing a decrease in reserves of \$3 million. That \$3 million includes \$2.2 million in projects we intend to have funded, something other than cash, Mrs. Harold explained.

Mrs. Harold then discussed the supplemental information included in the Proposed Budget. The compensation schedule was the first bit of information she reviewed. This section is under review by the Compensation and Benefits Committee.

Mr. Cornett wanted to make the Commissioners aware of upcoming VRS

and healthcare changes. Mr. Cornett, Mrs. Harold, Mr. Chase and Mr. Stephon met with WCSA's health insurance representative last week. The Health Care Reform Act will result in some incredible changes for the Authority, said Mr. Cornett. We will provide more information as we receive and review information the Reform Act. Mr. Cornett stated compensation and benefits would go together now more than ever because of the Health Care Reform Act.

It was a very eye opening session for me, stated Mr. Chase. There is still so much uncertainty with the Health Care Reform Act.

Mr. Cornett said, additionally, the Health Care Reform Act changes compensation and benefits as well as how WCSA compares to other utilities and how to stay compliant with the Health Care Reform Act and VRS. The survey that was recently conducted is good but regardless of how good or bad some of those surveys may have looked, other utilities are in the same boat we are now, said Mr. Cornett. The Reform Act has certain provisions saying the insurance premiums employees pay cannot be more than 9.5 % of their base pay, and the company is penalized if the employees pay more than 9.5%. Some of the companies in the survey who are paying little toward employee benefits, may have to pay more; and some companies may pay less, Mr. Cornett added.

Mr. Chase said WCSA was fortunate to be working with Mrs. Patsy Akridge of Akridge Insurance is really staying on top of the reform act.

Mr. Stephon added, the Act is changing daily and so is very hard to keep up with. Mr. Cornett said, Mrs. Akridge has handled our health benefits for some time and she handles and other utilities

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and private sector folks. Given what we are looking at with reform we are very glad to be working with someone as knowledgeable as she is. There is now is an aspect of compliance; if we don't comply we pay. In some cases, paying the penalty is less than paying the benefits. I expect reform will continue to change and change tremendously in the next 5 years, stated Mr. Cornett. Mrs. Akridge believes this will lead to socialized medicine within the next 5 years.

Mrs. Harold said, one change was paying 9.5% of modified gross income. My question was; how are we to know what an employee's modified gross income is if they have other income. The Health Care Reform Act has since changed that from the employee's gross income to the employee's base pay at the company that provides the employees insurance.

There was a brief discussion among the Board regarding the Health Care Reform Act and why so many changes being made.

Mr. Cornett said WCSA subscribed to software that will allow us to input employee compensation and benefit information and the software will tell us if we are in or out of compliance with the Health Care Reform Act.

The exchanges are to be set up by the Government in the fall of this year. Then, we are to notify our employees they are able to go shopping for health care exchanges, said Mrs. Harold.

Mrs. Harold then referred to the next page of the proposed Budget. Benefits and compensation is currently under review by the Benefits and Compensation Committee.

The next page is the summary of the water system through February 2013, Mrs. Harold stated. We are just a little

under budget, said Mrs. Harold, but it has been a very wet season. We look to be on task for total income of \$1.2 million. With actual expenditures to be around \$1.3m, she added.

We are expecting a total income of \$831,000. As the month's actuals update, that amount will change.

For sewer, we projected \$1.4 million in revenue, the actual sold is \$1.5 million; a variance of a positive \$41,000 and total income projected for the year is \$1.3 million, Mrs. Harold explained.

The 2013-2014 Budget shows a projection of \$2 million in revenue and \$293,000 in income after expenses, she added. After adding all those together and subtracting depreciation and debt service, the 2013 Budget year gives a net cash flow of \$397,264. This year's projection is \$2.5 million, Mrs. Harold stated.

The following pages are for each department's expenditures for the year, said Mrs. Harold.

Mrs. Figueiras asked why there was such a big difference in the net cash flow line. The difference is because of benefits and compensation. We budget for a full staff, if we have open positions for part of the year, we do not spend the budget amount for compensation and benefits for the year, explained Mrs. Harold. Mrs. Harold explained the layout of the sewer sheet to and how the grant money is projected and detailed.

Mr. Miller asked about if cash reserves could be used for emergencies or for capital projects. Mrs. Harold answered saying reserves were not set aside as restricted reserves.

Mr. Cornett said reserves were more of a non-restricted savings account.

Mr. Chase asked if WCSA was mandated to put so much money into reserves from bond covenants each year.

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Mrs. Harold developed a list of reserve accounts that identifies all our reserve accounts; which are identified by bond covenants, the reserves established by Board policy and renewal reserves (identified in 2009 to start contributing capital to), said Mr. Cornett.

Mr. Cornett stated, some of the capital improvements project we just reviewed, will be paid for with cash. It is difficult to designate those since some will be paid for with bond or grant funding. These types of funds will become more prevalent as capital projects are paid for more with cash. We will then consider establishing a cash reserve account designated for capital projects only, he added.

Mr. Cornett said he knew of two utilities that had around \$300 million in cash reserves to pay for capital projects without debt funding. Mr. Cornett continued saying, the danger of not identifying what is to be done with those funds is scrutiny from the public. If we ever transition to more of a pay as you go approach to capital projects, we will be careful to establish a reserve account for that purpose and establish specifically what the funds are to be used for.

In closing, Mr. Cornett said, we have options between now and June in adopting the Budget. We really can't ask, and have no reason to adopt the Budget before June, said Mr. Cornett. Mr. Chase asked if the Board would be approving the Budget at the June meeting to be effective in July. Mr. Cornett answered, yes sir; because we are not changing rates, approval in June is fine.

Mr. Chase suggested having one Budget Workshop before the June meeting.

Mr. Hutchinson asked if any suggested changes to current rates, fees and

charges, as a result of the upcoming Rates, Fees and Charge Committee meeting, would affect the Budget.

By the time you schedule committee meetings; evaluate current rates, fees and charges at a committee level; take recommended changes, if any, to the Board for a consensus; develop proposed rates, fees and charges; advertise for and hold the required Public Hearings regarding changes to our rates, fees and charges; implementing those changes would take 8 to 12 months, Mr. Cornett explained.

The Board had a brief discussion about the Rates, Fees and Charge Committee charged with evaluating our current rates, fees and charges.

Mr. Cornett proposed the Board recess the May Board meeting and have a Budget Workshop before the June Regular Meeting at 5:00 pm for a final workshop. In the mean time, Mr. Cornett offered to provide the Board with supplemental information and answer any questions the Board may have before the Workshop.

5. Late Items

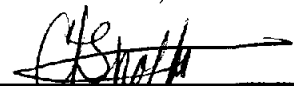
There were no late items.

6. Adjournment

At 6:36 pm, Mr. Miller motioned to Adjourn. Mr. Hutchinson seconded the motion and the Board approved voting 6-0-0-1.



Mr. Joe Chase, Chairman



Carol Ann Stauffer, Assistant Secretary