

**Washington County Service Authority Board of Commissioners
January 24, 2011 Recessed Meeting Minutes (Meeting Held February 28, 2011)**

The Washington County Service Authority Board of Commissioners' recessed meeting was called to order by the Chairman at 5:31 PM.

ROLL CALL

Commissioners Present:

Mr. Joe Chase, Chairman
Mr. D.L. Stout, Vice Chairman
(Note: Mr. Stout Arrived Late)
Mr. Devere Hutchinson
Mr. Dwain Miller
Mr. Frank Stephon, IV

Commissioners Absent:

Mr. Prince Coleman
Mr. Kenneth Taylor

Staff Present:

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

Also Present:

Mr. Mark Lawson, General Counsel

3. Approval of the Agenda

Mr. Cornett had no additions or changes to the agenda.

Mr. Miller moved to approve the agenda.

Mr. Miller's motion was seconded by Mr. Stephon and was approved by a 4-0-0-3 vote of the Board.

4. Consideration of the 2011-2012 Fiscal Year Budget.

Mrs. Harold presented the Board with the WCSA 2011-2012 Budget thus far. She expressed that the main goal of this meeting is to prepare the Board for a full budget analysis in the next few months. She plans to give a brief, full overview. However, if there are items the Board would like to receive in more detail, there is plenty of time for a more in-depth view. Due to advertising requirements, if WCSA needs to make adjustments to the rates, fees and charges

for the upcoming year, we would need to make changes by the March Board Meeting. At this meeting, Mrs. Harold wanted to update the Board on the budget's progress; the budget is incomplete at this time. WCSA is still finalizing a few departmental budgets, rate projections, and insurance projections.

WCSA's budget is basically a two-part approach. The first is to identify our capital needs for the upcoming year so we have a full understanding of the cash outlay that is needed. Mrs. Harold noted that we then work backwards through the budget to identify any necessary changes in the rates' structure or expenditures.

Mrs. Harold explained that the first item we identify is departmental capital needs. They met with department heads to determine the capital expenditures spent this past year, as well as what was anticipated for the upcoming year. She addressed the following departmental budgets: Administration, Customer Service, Maintenance, Water Production, Distribution, Meter and Sewer. Mrs. Harold discussed the Administration's highlighted Roof Update budget item and that Administration is \$56,000 under budget for the current fiscal year.

Mr. Cornett reiterated to the Board that any departmental request over \$1,000 warrants a short essay concerning the need for the item; they have found this to be a pretty good process to help decipher actual needs. Discussion erupted amongst the Board; Mrs. Harold explained some of the budget's details. Mr. Cornett added that, after reviewing the Budget tonight, if the Board has any questions, he or Mrs. Harold would be happy to talk, email or meet with them. Mr. Miller inquired what WCSA does

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with old backhoes. Mr. Cornett explained that they are changed out and surplused out; the same goes for WCSA vehicles. Mrs. Harold added that mileage is checked prior to purchasing and vehicles proceeding to be surplused out. Mr. Cornett affirmed this process for new vehicles, along with WCSA's spare departmental vehicles. Mr. Miller inquired if this also applied to fuel tanks. Mr. Cornett explained the process, along with the prospect of electronic swipe fuel cards.

Mr. Lawson inquired how frequently production has to purchase cartridges. Mr. Cornett noted that Mill Creek's cartridges last five to seven years. He expressed that all three were recently replaced; this year's budget is to acquire a few spares in case of needed repairs. Mr. Cornett also explained that Production's budget is significantly less this year. With the plant renovations underway, most items acquired in two years will be new; there is no need to replace these items currently.

Mr. Cornett discussed Distribution's vehicle tablets and SCADA Update budget items in more detail.

The Fiscal Year End (FYE) 2011 Operating and Capital Projection Summary was discussed next. The Water Budget projects that WCSA is expected to have \$2.4 million available after Debt Service, the Wastewater Budget to have \$539,000 available, for a combined total of \$2.9 million. When Capital Projects are figured in, along with \$1 million for the previously mentioned capital equipment, there is a total of \$2.6 million in Capital Expenditures for the year; this puts WCSA at \$307,000 to the positive for [FYE 2011]. At this time last year, WCSA was looking to possibly hit reserves for \$1.2 million. Currently,

WCSA is looking much more favorably: to actually surplus reserves for \$300,000. Mr. Cornett mentioned that WCSA hit reserves last year. He inquired with Mrs. Harold if that was anticipated; she affirmed it was. He asked how the [\$307,000] to the good compares to 2009. She affirmed that it puts us \$1.2 million to the better. Mrs. Harold noted that Municipal and Financial Services Group (MFSG) developed WCSA's Rate Model and we've asked them to work with WCSA again to update the model, since we've acquired all our new debt. She emphasized that we've closed out a lot of debt this year; all of the Rural Development (RD) debt has reserves that they will require to be funded. MFSG is 1) updating our consumption, and 2) how many customers we have at what rate/fee. Mrs. Harold expressed that WCSA has worked hard over the past year to improve customer classifications so they are correct. WCSA has also worked with Elliott, Lawson & Minor (EL&M) to determine a customer classification for where people should fall. Customer Service and Temporary Meter Technicians have checked on customer usage and coding. WCSA did discover that some businesses, like Pizza Plus, had been classified incorrectly. In response, MFSG has helped WCSA with improving its Rate Model to incorporate the new debt, along with the new figures. WCSA did have trouble extracting consumption this year, since we are updating our GIS and making all factors match. Therefore, the process is a little farther behind at this point than Mrs. Harold had hoped. The numbers, however, and the Rate Model are looking a lot better than we thought last year.

Mr. Cornett expressed that the \$1.2

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million in reserves that we hit was anticipated. As affirmed by Mrs. Harold, WCSA was expecting to hit reserves again this year, but we are generating more income than originally expected; MFSG should help WCSA confirm that by updating our Rate Model. Mrs. Harold affirmed that the total number of connections is where it should be, but the figures are higher than expected. Mr. Chase wanted to affirm that this was not because WCSA was overcharging customers; Mr. Cornett noted that WCSA was only \$100,000-\$200,000 from where it expected to be; this is because the shortfall is evening out. Mrs. Harold affirmed this and that the excess of connection fee revenue was due to the JMH connection's system fee. The total number of connections is where it should be, but the JMH fee definitely helped. She noted this would be explained in detail when reviewing the Line Items. Mrs. Harold moved on to review the FYE 2012 Budget Summary. She is still reviewing the expenses line item by line item. Mrs. Harold usually does this three to four times, as you can pick-up on something different each time; she has reviewed these items twice, to date. She noted that most of our insurance policy renewals do not hit until June. Therefore, one has to make sure the budget is being carried forward and that all line items are being tracked. Mrs. Harold noted what is to be expected for FYE 2012: for the Water Budget (\$611,000 to the positive, to be used towards Capital Projects) for the Wastewater Budget (\$505,000), for a total budget of \$1.1 million. Once capital project numbers are plugged in for the projects WCSA expects to cash fund over the next year, plus the capital equipment by department that was just reviewed, WCSA will have \$2.6 million

in capital expenditures. WCSA has \$1.1 [million] extra in operating expenses; reserves would be hit by \$1.5 million, which was anticipated last year as well. Mrs. Harold followed by reviewing Supplemental Budget information. She turned the floor over to Mr. Cornett to review WCSA Compensation. He reviewed this year's compensation projections (made last year at this time), including a 2% cost-of-living adjustment (COLA; this mirrored what WCSA anticipated COLA to be, when it actually was slightly more), along with a 1% performance adjustment. This brought WCSA's total anticipated compensation budget to \$3.5 million. Mr. Cornett is pleased to report that if WCSA rolls its numbers forward for this year, after this year's COLA and performance evaluations, WCSA's [FYE 2011] total compensation is \$3,437,452.20; this is about \$73,000 below anticipation. He noted that WCSA is under budget for compensation this year. The IRS COLA for this year is at about 1.6%; there is no way of knowing what it is going to be in June. Mr. Cornett explained that at present, WCSA would propose a COLA of 1.5% and again, a 1% average performance evaluation adjustment [for FYE 2012]. This would bring the total compensation to \$3,523,000; about \$12,962 more than what we expected it to be last year. Overall, Mr. Cornett thinks WCSA is doing about \$73,000 better than expected from last year. There are three open positions that are factored into the budget, two of which have been advertised: Operations Manager and Cross Connection Control Director. Whether or not WCSA needs to advertise the third position is yet to be seen. Mr. Cornett concluded his summary of the 2011-2012 WCSA

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Compensation Budget.

Mrs. Harold distributed the Capital Improvement Project List (Cash Funded and Grant Funded) and followed with Employee Health Benefit Information. When WCSA did insurance procurement back in August, and term renewals in October, WCSA did see a slight decrease in health insurance premiums, due to our good claim history; WCSA had paid more in premiums than [Anthem] paid in claims. In response, WCSA was able to see some significant savings this year. Dental premiums did increase by 9% last year; WCSA had budgeted an increase of 10%. Long Term Disability and Flexible Spending were basically unchanged; Long Term Disability went up a few cents per hundred. In regards to this upcoming fiscal year, Mrs. Harold noted that the health care environment is just as volatile as it was last year. Hopefully, WCSA will see those great savings again this year. She does have a meeting scheduled with Patsy, WCSA's insurance agent, for March 9 to discuss the healthcare market for this upcoming year. Any changes Patsy may anticipate would be seen in the next budget cycle. In response, WCSA typically budgets an anticipated 10% increase, which was built into this year's budget as well. Thankfully, WCSA was able to see a decrease in premiums.

Mrs. Harold went on to review WCSA's Line Item Revenue and Expense Budget. She referred to the far left column and noted that "100" indicates water, the middle two numbers signify the departments, and the last six numbers represent the expense account numbers; those that begin with a "4" represent revenue accounts. The budget's first set of three columns indicate the "Month-to-Date" figures, or where WCSA expected

to be through January 31, 2011. Month-to-Date, WCSA expected to have \$5.5 million in "rents" (also known as monthly user fees); we actually have \$5.7 million. In the second set of three columns, the 2010-2011 Budget is represented. WCSA had budgeted to have \$9.5 million in monthly user fees. Although the year is not finished, if one takes the \$5.7 [million] that WCSA actually has from the budget's first six months and projects it forward, the projection of rents is expected to be \$9.8 million. If the 3% increase that had been approved with the Rates, Fees and Charges is programmed, the far right column would budget WCSA with \$10.1 million for the next year. The second line item down represents connections. As of January, WCSA had budgeted \$215,000; we actually have \$566,000, attributed to the JMH connections. (Note: Mr. Stout arrived at 6:15 PM.) Mr. Cornett affirmed the connection fee revenue being higher than WCSA had budgeted. He clarified at the previous inquiry of a Board of Supervisor member. If WCSA does collect connection fee revenue greater than what was budgeted, the revenue still has to be used towards growth-related expenses. This connection fee revenue cannot be used towards Operations' expenditures. Although WCSA has one general fund, we have to be able to segregate that fund and demonstrate that connection fee revenue was used towards growth-related expenses. WCSA is not "double dipping"; we are not taking connection fee revenue and paying non-growth related expenses. The funds have to be used for the proper purpose. Mr. Cornett explained that if WCSA collected enough of that kind of revenue over time, growth-related loans could be paid

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off early or more of the principal could be paid now to eliminate future interest; there are many possibilities. In this case, WCSA was fortunate to sell a substantial connection fee this year. Again, we have to be able to demonstrate that WCSA has used all connection fee revenue for growth-related expenses.

Mr. Miller had questions regarding some of the figures; Mrs. Harold clarified the origin of those numbers. She noted that MFSG is going to help WCSA with future rate projections. We have sold fewer taps than we have before. However, as indicated by Mrs. Paukovitz's Building Permit Study, the economy is down; fewer taps will be sold either way.

Mr. Cornett expressed that WCSA may end up adjusting the Projected Connection Fee Revenue a little more as the budget is fine-tuned. Certainly, he does not think WCSA would want to budget a connection like Johnston Memorial's each year. However, as will be seen tonight in the General Manager's Report & Update, Mr. Cornett affirmed that the first seven months of this fiscal year (July 1, 2010- January [31,] 2011), WCSA has had people inquire about new connections. If all of these inquiries came to fruition, we would have essentially sold all of our capacity that we are building into the Water Treatment Plant in the first seven months of this [fiscal] year. This would involve millions of dollars in connection fees if they all came on and occupy five times the wastewater capacity that WCSA has. We would have sold all the water capacity we have available to sell within the first seven months of this year. Mr. Cornett noted that we cannot budget based on this because most of these connections probably will not come to

fruition. However, it is justification, and JMHS may be one reason, for WCSA to have a system fee. If hypothetically one of these big users were to come to town, it could mean more jobs for Washington County. On the other hand, if WCSA were to not have collected a connection fee from such a user to support the capacity they were using, the costs would be spread to all the other water customers, who may or may not be getting any benefit from that connection. Mrs. Harold referenced the two columns in the middle [of the Line Item Revenue and Expense Budget] that appear to be blank, which are the recurring and non recurring expenses; those figures come from the departmental budgets. The recurring expenses are numbers that we expect are coming, but that we would not want to project forward each year based on previous expenses. There are several figures she wants to single out and make sure this does not happen. Mrs. Harold provided an example of equipment depreciation by referencing the \$1.2 million MXU Meter Change Outs that will bring about \$100,000 in depreciation by FYE; she will adjust this number as it goes.

She noted that in the Line Item Budget, the section with the middle number of "50" represents Non-Departmental costs, "51" represents Commissioners, and "52" represents Administration.

Mr. Lawson asked about the reimbursement of legal fees through funding (i.e. for the Exit 13 Project, the Water Plant Expansion, etc.). He inquired where the reimbursement of these funds is indicated to offset legal fees. Mrs. Harold noted that these fees are worked into the budget of each loan and depreciated as an expense. However, these funds would be reimbursed only

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through received grants. Mr. Lawson noted that it is indicated on the Balance Sheet as a liability; Mrs. Harold clarified this to be a fixed asset. He asked where grants were indicated on the Line Item Budget. Mrs. Harold referenced grants at the very bottom of the budget in Department 80; Mr. Lawson found this information on Page 15. She expressed that as grant funds are received and deposited into the bank, Karen Lester makes sure these accounts reflect such. Mr. Lawson inquired if these funds were split out. Mrs. Harold explained that they could if the funds were indicated for a specific expense; she gave an example. She noted that Page 16 of the Line Item Budget provides a summary of the Water System. The projection column forecasts \$2.2 million and when depreciation is added, which is not a cash outlay expense, and the Debt Service is taken out, we arrive at \$2.4 million; this was on the summary page reviewed earlier. Mrs. Harold explained that the next section to follow indicates the Sewer Revenues. The "300"s represent Sewer, the middle two digits indicate the department, and the four accounts are the revenues. As of January 31, WCSA had budgeted \$730,000 in "rents". Month-to-date, through January 31, we had collected \$747,000. Budget Year-to-Date, or what WCSA expects to budget through the end of June, is \$1.2 million. If we project the \$747,000 forward, WCSA would have \$1.281 [million], although it seems it could be more than that; Mrs. Harold is going to check on that number. She reminded the Board that last year, WCSA had the Exit 13 Connection Fees that hit. However, we made sure to not double those and project them too far forward. She explained that on connection fees,

WCSA had budgeted Month-to-Date at [\$17,000]. Compared to the actual, we connected [\$16,000] of the regular connections and \$10,000 in connections put on payment plans.

Mrs. Harold led the Board to turn to Page 19, which is the end of the Sewer portion of the Budget, where [the Sewer Fund Projection] is [\$351,000]. When Depreciation of [\$650,000] is added back (of a non-cash outlay), with the Debt Service for sewer being [\$110,000], the Net Income is put to [\$539,000]. When looking at the budget year, WCSA is very close to being on budget for 2010-2011 [erroneously listed as 2011-2012].

She referenced the next two pages to follow, where the Water and Sewer Line Item Budgets were summarized.

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

Due to a lack of time, Mr. Cornett proposed to table this Agenda Item until a Recessed [February] Meeting for a Budget and Rates, Fees & Charges Workshop on Monday, March 21; the updated Rate Model is to be discussed at that time. Also, by meeting a week prior to the March Regular Meeting, this would allow WCSA to make any possible needed budgetary adjustments prior to the Board Meeting. The Board affirmed this meeting date for 5:30 PM. Mr. Cornett encouraged the Board to review all the presented information, along with the CIP List in detail. He noted some highlights of the CIP List and encouraged the Board to feel free to bring any questions to his or Mrs. Harold's attention.

Discussion erupted amongst the Board. Mr. Stout had some Exit 13 Phase 1 Project easement questions. Mr. Cornett

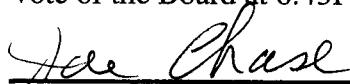
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affirmed that more information was to come at the February Regular Meeting at 7PM. Mr. Lawson and Mr. Cornett noted that about 50 landowners for about 75 parcels have outstanding easements. At the inquiry of Mr. Lawson, Mr. Cornett affirmed that the Board can adjourn this meeting and, if they are in agreement with scheduling the Budget and Rates, Fees & Charges Workshop on Monday, March 21, recess the February Regular Meeting.

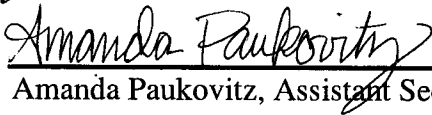
Mrs. Paukovitz noted that the January Regular Board Meeting Minutes, which are to be considered with the Consent Agenda at the February Regular Meeting at 7PM, cannot be approved; they are considered incomplete at this time, as the meeting had not yet been adjourned prior to distribution of the Board Books.

6. Adjourn

Mr. Miller made the motion to adjourn the January Recessed Meeting. Mr. Miller's motion was seconded by Mr. Stephon and was approved by a 5-0-0-2 vote of the Board at 6:43PM.



Mr. Joe Chase, Chairman



Amanda Paukovitz, Assistant Secretary