

Washington County Service Authority Board of Commissioners
June 27, 2011 Recessed Meeting Minutes (Meeting Held July 25, 2011)

The Washington County Service Authority Board of Commissioners' recessed meeting was called to order by the Chairman at 5:34 PM.

ROLL CALL

Commissioners Present:

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

Staff Present:

Robbie Cornett, General Manager
Kim Roberts, Controller
Amanda Paukovitz, Administrative Assistant
Mark Osborne, Technical Manager
April Helbert, Staff Engineer

Also Present:

Mr. Mark Lawson, General Counsel

3. Approval of the Agenda

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

Mr. Stout moved to approve the agenda. Mr. Stout's motion was seconded by Mr. Coleman and was approved by a 7-0-0-0 vote of the Board.

4. Roundtable Discussion of the Water and Sewer Line Extension Policy (Decision Tree)

Mr. Cornett referenced the Board Update Report, dated June 27, 2011, which summarizes the work in recent years towards developing Water and Sewer Line Extension Policy. Development of such policy is something Staff and the Board has discussed since 2006, even more actively since December 28, 2009. Mr. Cornett tried to provide various materials, such as presentations, Board meeting minutes, reports, etc. that have

been presented December 2009, January 25, 2010, February 5 and 22, 2010, March 3 and 22, 2010, May 24, 2010 and July 26, 2010.

Mr. Cornett explained that within the Decision Tree, which we refer to as "the Policy", WCSA has identified what we do now for Water and Sewer Line Extension Projects, some of which has been captured as policy and other as practice. The Decision Tree maps out the process for extending a waterline. He noted that the three basic types of extensions: 1) Private Developer Extensions (to extend service to undeveloped property, completed at the Developer's expense), 2) \$1,500 Extension Program (for which WCSA provides \$1,500 worth of materials for each participating resident) and 3) User Agreement Projects (most common type, especially on the sewer side; user agreements are circulated and a sufficient number of people sign user agreements to trigger the project moving forward with funding, design, construction, etc. Examples include the Exit 13 Sewer Project, Rich Valley Road projects, Whites Mill Road, etc.); the latter two types of extensions provide opportunities for existing County residents to acquire water or sewer service. Mr. Cornett noted there may be a few subtle changes, nothing significant, in any of the three methods of acquiring service. He believes that with the user agreement types of extensions, given the notable amount of work WCSA has done in the last 10 to 12 years, with an average of \$1 million in waterline extension work per year for ten years. The average construction cost per connection ranges from \$20,000-\$110,000 per connection (without interest and all additional administrative

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costs). Such projects have gotten the attention of the Board and WCSA Staff in recent years. The reasons for considering the Line Extension Policy was 1) to better control some of these costs, and 2) to have a guiding policy based on experience for Staff to follow and for prospective customers to understand in making decisions regarding these projects. There are several advantages to creating such a clear and concise policy. Mr. Cornett noted that Staff and the Board left off last year in regards to consideration of this chart with four components that were identified. He explained that the referenced chart is used early on to identify the four most notable elements of any user agreement project: User Agreements, Easements, Mandatory Connections and Funding. Mr. Cornett elaborated on WCSA's current policy, along with what Staff proposes (highlighted in yellow) regarding each element.

In regards to User Agreements, the current policy for water line extension projects is 50%+1 participation, which has become a matter of practice, as it is the minimum threshold for obtaining funding through the Virginia Department of Health State Revolving Fund. The current sewer policy minimum has never been specified, but is typically 90%. WCSA was just under 90% participation for Exit 13 [Phase 1] Project and over 90% for the Emory/Meadowview and Glade Spring Sewer Projects. A higher percentage requirement is not unobtainable, but does require a great deal of work for those involved. For example, solicitation of user agreements for the Exit 13 [Phase 1] project took six months; the project was just over 85% percent participation when we

discontinued solicitation of user agreements. With the Emory/Meadowview and Glade Spring Projects, the participation level was just under 100%.

Mr. Cornett later noted that proposed high participation for water or sewer has its advantages, such as 1) high participation is most likely an indication of how easements are going to go, 2) the same applies for mandatory connection and 3) high participation helps keep the cost per connection low. According to the report created by Municipal and Financial Services Group (MFSG), most utilities in Virginia support a percentage of participation higher than 50%; this is essentially where WCSA is now. Some utilities require participation as high as 90%. Mr. Cornett believes the Town of Abingdon is an example, as they require 100% participation and 100% submitted easements before they will construct a sewer project. Mr. Cornett expressed that upwards of 90%, along with 50% participation, is the exception to the rule. WCSA Staff proposes a requirement of 75% participation by existing residents via signed user agreements for both water and sewer projects before a project moves forward.

Moving on to Easements, the current water line extension project practice has been 100% participation required, easements are donated (no exceptions) and condemnation is not exercised. Mr. Cornett provided in detail the most recent example of a water project that failed to come to fruition due to the lack of one remaining easement, located on Alex Road in 2005/2006. The current sewer project practice before the Exit 13 Sewer Project was similar to the water line extension. Easements have been tied up in an indefinite number of errors. For

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example, a few easements were condemned for Emory/Meadowview and the Glade Spring projects; the Board may be willing to condemn easements on sewer projects in the future in order to advance those projects forward.

Mr. Cornett later noted that he proposes to leave the policy for easements somewhat open ended on a case by case basis [for both water and sewer projects], especially in light of the Board's more recent decision regarding the Exit 13 [Phase 1] Project. He explained that sometimes it is better to leave the plan open ended on a case-by-case basis. Otherwise, some individuals may hold out for a paycheck if they think condemnation will be practiced, such as the Alex Road resident scenario. He noted that Mandatory Connection is another important element. The current water practice has not enforced the existing Washington County ordinance on mandatory connection for water. Mr. Cornett is not sure why WCSA has not enforced this ordinance, but it has not. There is an ordinance on the books; to enforce such ordinance would be a Board decision. The current sewer practice has been to enforce mandatory connection, as 1) it has been made a necessity from funding agencies, especially RD, and 2) RD has historically been our source for grant dollars in the past. Without grant dollars, most sewer projects we have built would not have been feasible had WCSA attempted to fund the projects through other agencies. Mr. Cornett explained it has not been such a necessity, but there may also be advantages to enforcement of mandatory connection on water projects.

Mr. Cornett later noted that he proposes no change on the Sewer side and to

allow WCSA to enforce the existing Water Ordinance that is on the books. Such action would: 1) allow access to potential grant funds that we have not previously had access to, and 2) to make projects potentially more financially feasible, although this could leave a "bad taste in the mouth" of customers. Mr. Cornett explained we may want to consider looking at updating the County ordinance later. He reminded the Board that this is a County Ordinance. If they wanted to propose such changes, WCSA would have to petition the Board of Supervisors to consider updating the ordinance and identify what we would like to see updated. Simply said, Mr. Cornett explained that due to the way the ordinance is written, as some residents live quite a distance from the road, the ordinance will not impact everyone in a project area. For the ordinance to really be effective, the Commissioners may want the Board of Supervisors to consider such changes for improvement at a later time. Enforcing the ordinance as it is currently written will allow WCSA access to funding for projects that we have not had access to before. Mr. Taylor inquired how long the County's water ordinance has been in place. Mr. Cornett affirmed that the ordinance predates the beginning of his employment with WCSA in 1989. Mr. Stephon inquired if the water ordinance was put into place the same time as sewer enforcement in the mid 1980s; Mr. Cornett affirmed it may have been. He believes he recalls a decision tree being prepared, presented to the WCSA Board of Commissioners and subsequently being adopted in 1983; this may have been at the same time the County adopted the ordinance that is in place today. Mr. Cornett believes the main

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reason the County adopted the ordinance is for the same reason WCSA enforces it for sewer projects; it is the only way we can gain access to USDA RD Funds. He believes there must be a practice in some counties to have an ordinance on the books and not enforcing it. When WCSA was selected by Southern Rivers Watershed for funding on the Exit 13 [Phase 1] Project, DHCD noted a locality that had a connection ordinance on the books and when DHCD completed a post project audit, they found that over half the residents in the project area were not indeed forced to become a user or to pay a non-user fee. DHCD then had the referenced utility refund half the grant money back, as the locality did not do what they said they would. In the interview process for funding, agencies typically have a meeting and ask such questions.

Mr. Hutchinson inquired if anyone has ever asked the County for modifications to the ordinance since it has been adopted; not that Mr. Cornett is aware of. Mr. Hutchinson asked if the ordinance pretty well stands as written; Mr. Cornett affirmed this. He believes there is a Code requirement that states the date the ordinance was originally adopted, along with any revisions, are required to be kept with the ordinance itself. Mr. Lawson clarified this as a state statute. Mr. Cornett explained that if they later decide to ask the Board of Supervisors to approve upon or update the ordinance, WCSA would plan to share with the Board the language it bears today and proposed revisions separately. He explained it would be clear what WCSA proposes and how it would affect project areas. We would then have to explain the same to the Board of Supervisors, who would then

have to have two public hearings before they could change anything within the County Code. WCSA would also have to make presentations at both public hearings, the changes we propose they consider, along with justification for those changes before the Supervisors could make such changes.

Moving on to funding of line extensions, Mr. Cornett noted that WCSA typically manages such projects by increased monthly user fees. Other than the connection fees paid by residents receiving the service who eventually pay a monthly user fee, they are not receiving more or less than other customers. There have been no limitations or restrictions on that in the past, in terms of dollars per connection. This is at the willingness of the Board to increase rates sufficiently to cover costs. This practice has not always been understood. Mr. Cornett explained that some Commissioners in the past have not understood the relationship that "when X project moves forward, it necessitates Y rate increase." He expressed there is that reality that with debt comes a need to increase rates to cover payment.

Mr. Cornett later noted, that as recently as the last time we met to discuss a funding policy (close to a year ago), WCSA was looking at the Front Footage Fee method (a 50/50 split between the Front Footage Fee and Customer Rates) to pay for these extensions. A Front Footage Fee (FFF) is one of three methods that were identified by MFSG. FFF is a method that Mr. Cornett believes most closely mirrors a cost of service system fee for new connections. However, Mr. Cornett is not sure if the timing is right for WCSA to implement that type of repayment. This would require the Board of Supervisors to pass

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a resolution asking the Commissioner of Revenue to collect the FFF from residents when they collect personal property tax. Given the Board of Supervisors current disposition with respect to the system fee, Mr. Cornet believes the Front Footage Fee would perhaps aggravate an issue that we are presently contending with the Supervisors. He does not think the timing is right and WCSA probably does not want to try and cross that bridge right now. For that reason, Mr. Cornett proposes we forgo trying to implement the FFF and we pick up on the financial aspect of these projects later. The next time we review the financial aspects of these projects and their impact on our rates fees and charges would be when we do our strategic financial plan, which we should begin in the next six months. Mr. Cornett noted that would probably span a six to nine month planning process that we undergo and allow that process to give long term guidance on how we best manage all of our projects financially. WCSA has very little policy and guidance, whether Staff or Board level, in terms of how we govern ourselves, financially speaking. Mr. Cornett noted this will be our first financial planning initiative; this is almost unheard of for a utility of our size. Most utilities our size undergo a strategic plan every five years and analyze pointers for improvement through report card system updates annually. He feels this is a good time for WCSA to look at whether financing these projects truly makes sense. Mr. Cornett noted that WCSA finances about \$1 million in line extension project every year for 10 years; most of these are 20 years loans with roughly 3% interest. If WCSA continues that same pace for another 10 years, the principal interest

payments that we will be repaying will be \$1.6 million each year, not to mention the administrative costs associated with meeting project requirements, applying for loans, bidding process requirements, the 9-12 month environmental process, etc. Perhaps if WCSA can map out a long term strategy, we would eventually build up a line extension bank where we are inputting \$1 million each year; this would allow money to be available for line extensions without anyone having to apply for funding. Mr. Cornett believes there is some wisdom in getting away from debt financing of at least some of our projects. He thinks that level of financial care could be best solicited from our financial adviser and someone helping us with our strategic plan. At this time, Mr. Cornett feels it would be a mistake to engage the Supervisors to pass a resolution for implementation of a Front Footage Fee collection by the Commissioner of Revenue.

Mr. Cornett wanted to bring Commissioners up to speed that may have missed previous workshops the Board has had regarding this subject matter. He offered to answer any questions and asked the Board to consider taking action on the policy. Mr. Taylor explained that he tries to represent this rural area of jurisdiction fairly. He has been involved with the 50%+1 practice for water user agreements. However, he thinks the 75% requirement would be a little high. He wonders if 75% could work if a project is a certain size; it seems like 75% is a difficult number for some projects. In regards to easements, he believes a case-by-case policy is a good idea. Mr. Taylor thinks "to stop a project for one person is crazy". He would like to see and review the current water ordinance for

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mandatory connection; Mr. Taylor feels asking the Supervisors to update something right now is a bad idea. In regards to financing, he thinks FFF is a good thing; he is unsure. Mr. Taylor's biggest concern at this point is user agreements, and thinks maybe "if a Project is X, then Y". His goal is to supply people with water. He feels that someone who lives in Mendota and pays their taxes should have the same privilege and opportunity as everyone else in the County. He thanked Mr. Cornett for his presentation.

Mr. Stout explained that they did not have much choice with the Alex Road project. He explained that "the man who withheld the easement owned all the property in both directions and would not give an easement, even though his wife was [the Project Champion]. He just spent a lot of money on a new well too. This man thought he would get a big paycheck, as he works for the highway department obtaining right-of-ways and they condemn a lot of property; he just wanted a big check."

Mr. Chase wished he had spoke before Mr. Taylor, as he was going to suggest a requirement of more than 75% for user agreements. However, he can see where Mr. Taylor is coming from and maybe there is a way to have a smaller number of required easements for smaller projects. Mr. Cornett affirmed participation just depends on the community. He believes we would find it difficult to implement a policy of a lower percentage if there are a small number of residents involved. Mr. Cornett explained WCSA already does so to one extent, but this practice would automatically break projects into that smaller category; he provided an example of a 100 resident project

breaking into numerous 20 resident projects. He struggled with the numbers also and settled on a proposed requirement in the middle. Mr. Cornett affirmed WCSA will implement whatever the Board feels is appropriate. Mrs. Harold added that when WCSA does financials, VDH asks her to do cash flows on whether or not a project is going to cash flow. She has yet to see a smaller project yield enough revenue to pay for the project. WCSA has a higher likelihood to meet cash flows with 75% or higher participation requirement. She explained Mr. Cornett sees the cash flows on the project that we have to submit to VDH; Mrs. Harold has never seen a [smaller] project cash flow so that we bring in enough revenue to pay the debt service. Mr. Osborne affirmed this, especially in consideration of projects we have done recently like Rich Valley Road/Litchfield, Rich Valley Road/Maiden Creek and Mendota Phase 1. With projects that go through a long stretch of area with 6" or 8" line, if only 50% of a scattered population connects, there is a longer payback period than there would be for a denser populated project area, such as Exit 13 [Phase 1]. Mr. Cornett explained that everyone wants fireflow and WCSA wants to build lines large enough to allow the next area to be served. In little ways, the fewer people that connect on to a project can add up to a real large expense on WCSA's part. The more people that connect, the less expense there is, both from a debt-service perspective and an operation and maintenance perspective. Mr. Osborne provided the example of the Mendota Phase 1 Project. This was a good opportunity for better water quality. Little over 50% of residents connected to the project. The cost per

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connection for the project ended up being between \$90,000 and \$100,000 per connection. In calculating the residency time of the water, the water retained in the line 40 days until all was consumed; it was never flushed out. They had to install an automatic flush valve and or send someone out there to perform regular monitoring/recording to make sure there was quality water to serve the people of Mendota. Mr. Lawson referenced this as non-revenue water; Mr. Osborne affirmed this as water not being billed. He added that if the project had been 75% participation, the cost per connection would have been reduced to about \$75,000; \$25,000 per connection would have been saved with a 25% increase in participation.

Mr. Cornett looked at blowoff data the other day and affirmed WCSA is blowing off roughly 55,000 gallons of water each month at that particular blowoff [in Mendota]. WCSA does so for two basic reasons: 1) to keep residents from complaining of the water's bad taste/odor and 2) VDH requires we test for disinfection byproducts (DBP; organic growth in the water as it is in contact with chlorine) after a certain number of days. Probably in less than two weeks, DBPs begin to build in water unless the supply is either 1) consumed, or 2) removed from the system. WCSA has to quickly turn over water often to keep the supply within residency time requirements, especially considering residency times of 40 days, as previously discussed by Mr. Osborne. Mr. Cornett explained that up until this point in policy consideration, WCSA has only discussed the obvious financial impacts, aside from the impact of day-to-day operation of the system.

Mr. Miller noted that for the Mendota

project, there was the typical 51% participation. He inquired if any of the remaining 49% have come onto the system since the others were installed. Mr. Cornett explained we cannot say for sure, as we have not done that kind of analysis. WCSA has talked about doing so, as some have argued that give a project 5-10 years and all residents will hook on. WCSA has not seen many new constructions more than existing folks hooking on. As far as Mr. Cornett knows, WCSA has not gone back five to ten years and counted the number of connections. Mr. Osborne affirmed this practice to be project size dependent. Mrs. Helbert added that as far as residence time, VDH does not like to see over three to five days; 40 days is a really long time. She added that those guidelines are about to get much more strict. DBP begin to form immediately. Right now, we have probably eight sites that are averaged together. Those will soon become locational averages; all locations will have to meet guidelines, depending on the size of the system. Mr. Osborne affirmed this to require exponentially more water to be flushed over time.

Mr. Lawson is trying to figure out that which dictates what WCSA does in the first place; once we are up and running, WCSA is regulated everywhere. "Should WCSA require that people have skin in the game when they come asking for water or sewer service up their hollow?" He inquired if, in a place like Brumley Gap, VDH or any other governmental agency routinely audit well usage and say that residences can no longer use such wells? There was discussion amongst the Board. Mrs. Helbert affirmed that the Office of Drinking Water does not. She noted a personal

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experience when her son was small and her family was on well water, he went to the doctor and tested positive for E. Coli. Although it was not from her well, the local Russell County Health Department showed up at her house and tested her well. It tested negatively, but she does not know what would have happened if her well had tested positively.

Mr. Hutchinson inquired what happens in Washington County; are residents required to cap off the well on their property when WCSA puts in a new water system? Mrs. Helbert explained it is not required; residents simply cannot have their line and well interconnected in order to avoid potential backflow. Mr. Osborne affirmed they can keep their well, but it has to be physically disconnected from [WCSA's] system. Mr. Lawson explained that residents are interested in service because septic systems are failing, and they do not want to replace them. Mr. Cornett noted that some regulatory agencies do have the authority to condemn a private water supply or private septic system. Their practice, however, is not to condemn private supplies but to encourage residents to do whatever they can do to get off the private water supply if it happens to serve multiple residences. Mr. Cornett has seen VDH put more emphasis on the need to get public water for some projects, which has bettered our ability to get funding for these projects. Mr. Osborne noted the Lime Hill Road Project as a good example. Mrs. Harold inquired about private supply condemnation in Mendota; Mr. Cornett expressed no, they did not. He has never known [VDH] in Washington County to condemn anything. Mr. Lawson inquired if condemning means to prohibit the use of a supply; Mr. Cornett

affirmed this. He explained that Washington County came close to condemning a private water supply that served eight or nine families on Blackwell's Chapel Road in the middle of the project WCSA built. Mr. Cornett had heard from Senator Wampler that VDH condemned a well serving a school in Scott County; for that, [Senator Wampler] wanted the VDH to be dissolved. Mrs. Helbert clarified that would have been the action of the Office of Drinking Water (ODW) if the condemned well was serving a school; if a supply is serving more than 15 residences, it should be regulated by ODW, although that is not always the case.

Mr. Lawson clarified that WCSA is not obliged to do anything but be responsive. WCSA is going out on a limb, financing \$1 million in projects a year with respect to water. In regards to what [Mr. Taylor] said, WCSA may not be able to apply the same formula to a hollow with three residences, opposed to a street with 50.

Mr. Hutchinson noted that 75% participation via user agreements in some areas may be adequate, where in others it may not. Mr. Lawson inquired if we are in situations to say we are no longer able to afford such practice in smaller hollows, for example. Discussion erupted amongst the Board regarding the Hidden Valley Road Project. Mr. Lawson noted that WCSA may need to have a combination of project area density and percentage. Mr. Cornett explained that when the Hidden Valley Road project started, there were 100 homes in the area, all of which were surveyed. When the project was scaled back from 100 residences to 73 without losing anyone who had signed up, 44 of 73 had submitted user

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agreements, providing 50%+1 participation. There are projects that will still move forward even with a smaller area. He noted that of the two Rich Valley Road projects, one had 80% participation, while the other had 60%. On the Mendota Road Project, WCSA just barely had four of six connections. Mr. Stephon proposed that may be the smaller the project, the higher the commitment percentage requirement should be.

Discussion erupted amongst the Board. Upon inquiry, Mrs. Helbert noted WCSA received three of three user agreements on the Red Fox Lane Project; Mr. Osborne and Mrs. Harold affirmed. Mr. Cornett expressed that unless the Board has had enough discussion, we may need to recess tonight's meeting until August. Mr. Chase agreed that the Board definitely seems to need more discussion; maybe additional alternatives need to be discussed, but he cannot make a motion. The Board affirmed Mr. Chase.

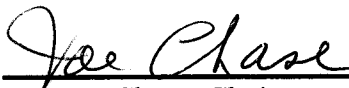
Mr. Cornett believes the percentage requirement cannot change depending on the size of the project. If different thresholds are implemented for different sized projects, people will gravitate towards the more favorable percentage; the other will be forgotten.

Mr. Chase inquired if the Board can have a limit for extenuating circumstances, if legitimate. Mr. Cornett expressed yes, the Board can. However, the Board will run the risk of any project that does not meet the user agreement threshold will bring about residents putting pressure on WCSA Staff to identify extenuating circumstances. Mr. Hutchinson added it is difficult to have a "one size fits all" policy, unless the Board said "X number of homes within a

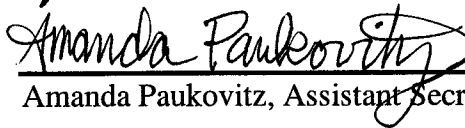
certain radius, then this would apply" [Note: Mr. Lawson clarified "X" as the density level]. Mr. Chase affirmed the Board has something to think about. Mr. Cornett affirmed that if the Board is willing to meet prior to the August Meeting, he is willing to meet with Staff prior to brainstorm about a density, cost per connection basis to look at additional models. He noted that the next meeting can pick up where this workshop left off. At Mr. Lawson's inquiry, Mr. Cornett clarified his recommendation that the Board adjourn this meeting and consider recessing the [July 25 Annual Meeting] until 5 PM, so the Board can meet and have dinner prior to the August Regular Meeting. The Board affirmed that meeting at 5 PM sounds agreeable. Mr. Taylor requested a copy of the [Washington County, Virginia] water ordinance for mandatory connection; Mr. Cornett affirmed he would provide it for Mr. Taylor.

5. Adjourn

Mr. Hutchinson made the motion to adjourn the June Recessed Meeting. Mr. Hutchinson's motion was seconded by Mr. Taylor and was approved by a 7-0-0 vote of the Board at 6:52 PM.



Mr. Joe Chase, Chairman



Amanda Paukovitz, Assistant Secretary