

BOARD OF THE METROPOLITAN SEWERAGE DISTRICT

MAY 7, 2003

1. Call to Order and Roll Call:

The regular monthly meeting of the Metropolitan Sewerage District Board was held in the Boardroom of MSD's Administration Building at 2:00 p.m., Wednesday, May 7, 2003. Chairman Blackburn presided with the following members present: Aceto, Ball, Bryson, Field, Gantt, Graham, Kelly, Pace, Sobol and Venable.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Gary McGill of McGill Associates, Larry Frost with NCDENR, Bette Jackson with the League of Women Voters, Martha Zeigler, Stan Boyd, Ann LeMieux, John Kiviniemi, Peter Weed, Monty Payne, Wayne Tipton and Sondra Honeycutt, MSD.

2. Approval of Minutes of the April 16, 2003 Meeting:

Mr. Kelly moved that the minutes of the April 16, 2003 meeting be approved as presented. Ms. Bryson seconded the motion. Voice vote in favor of the motion was unanimous.

3. Discussion and Adjustment of Agenda:

None

4. Informal Discussion and Public Comment:

Mr. Blackburn recognized Mr. Clarke who was selected by his peers to be included in the 2003 edition of "The Best Lawyers in America".

Mr. Blackburn recognized Ms. Bette Jackson with the League of Women Voters.

5. Report of General Manager:

Mr. Hartye presented information regarding Infrastructure Planning Group, Capital Improvement Program Expenditures, City of Asheville Billing, Praise and upcoming Board and Committee Meetings:

Mr. Hartye reported that he and Mr. Blackburn attended a meeting of the Managers, Mayors and Commissioners, Gantt and Ramsey to discuss infrastructure planning and coordination. He stated that this effort should foster a more organized and collective approach to providing services such as sewer, water, gas, electric, parks, schools, etc. and seek to take advantage of common goals. He further stated that this group's goals is similar to that of the District's Partnership in the Community Committee with the same mission, but MSD is now a partner at the table, not the driving force. Mr. Gantt stated that Ms. Jackson and her group, the Land Use Quorum, were instrumental in bringing this idea to the County Commission.

Regarding the CIP Budget, Mr. Hartye presented a graph depicting expenditures and projections for fiscal years 1994 through 2006 as requested by Mr. Sobol. In conjunction with this information, he stated that there is an additional graph in Power Point that shows the amount of pay-as-you-go versus bonds and included in the Board packet is an updated Cost of Treatment breakdown as requested by the Finance Committee.

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With regard to the City of Asheville Billing, Mr. Hartye reported that the District received its first quarterly billing report from the City along with raw billing data. Mr. Venable asked if the raw billing data is of any use to the District. Mr. Hartye stated that staff will look at the various aspects of the data, i.e. number of accounts, etc. and correspond some of the financial information with the quarterly report such as deposits. After receiving several quarterly reports, the District will be able to make a comparison of the information. He further stated that staff will evaluate the data and keep the Board informed of its findings. Ms. Ball reported that after the meeting regarding the billing, she met with the Finance Director who provided her with a response to the billing report that was put out. She stated that the City is interest is moving forward to resolve the issue and that she would provide Mr. Hartye with a copy for his review and comment before presenting it to the Board.

Mr. Hartye expressed his appreciation to System Services staff, John Fields, Eric Bradley and Rick Banks for a job well done. Mr. Blackburn asked Ms. LeMieux to express the Board's appreciation to staff for being so customer service oriented.

Mr. Hartye announced that the Right of Way Committee will meet May 28th and the next Board Meeting and Public Hearing on the District Budget will be held June 11, 2003.

6. Report of Committee Chairs:

Right of Way Committee

Mr. Pace reported that the Right of Way Committee met April 23, 2003 to consider condemnations on the Lower Ross Creek and Merrimon Avenue/Reed Creek Rehabilitation projects.

Finance Committee

Mr. Kelly reported that the Finance Committee met April 25, 2003 to consider the Annual Audit Contract, Fees and Charges and the proposed FY04 Budgets & Sewer Rates, which includes a 2.5% cost of living increase, a 2.5% merit increase and a 2% sewer rate increase. He stated that the Finance Committee recommends the Board adopt the Preliminary Budget for FY04 in the amount of \$33,409,219.

7. Consolidated Motion Agenda:

Mr. Hartye presented the Consolidated Motion Agenda Items.

a. Consideration of Acceptance of Developer Constructed Sewer Systems - Riverwood Subdivision and Woodland Triplex:

Mr. Hartye reported that Staff recommends acceptance of the developer constructed sewer systems. All MSD requirements have been met.

b. Consideration of Cost Recovery Projects - Holcombe Woods Subdivision and Kirkland Estates Subdivision:

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Mr. Hartye reported that staff recommends that the General Manager be authorized to disburse funds in the amount of \$14,084.00 upon acceptance of the Holcombe Woods Subdivision sewer system by the District and receipt of appropriate security.

Mr. Hartye reported that staff recommends that the General Manager be authorized to disburse funds in the amount of \$5,614.00 upon acceptance of the Kirkland Estates Subdivision sewer system by the District and receipt of appropriate security.

c. Consideration of Bid for Procurement of Replacement Grid Panels for Secondary Micro-screens at Treatment Plant:

Mr. Hartye reported that the following bid was received and opened on April 8, 2003: B&M Industries with a total bid of \$221,220.00. He further reported that staff recommends the Board authorize the General Manager to execute the purchase agreement to procure 1,200 of the 3,600 grid panels in the amount of \$73,740.00 necessary to facilitate the secondary micro-screen rehabilitation project.

d. Cost of Treatment:

Mr. Hartye presented a copy of the Wastewater Treatment Costs requested by the Finance Committee. He stated that the report shows the latest figures which include Fixed Costs, Variable Costs, Capital Costs and Total Combined Treatment Costs/MG. He further stated that the Variable Costs are approximately \$143/MG with a Total Combined Costs of \$863/MG. The AMSA average is \$961/MG.

e. Revenues & Expenditures for the period of 7/1/02 to 3/31/03:

Mr. Hartye reported that Third Quarter revenues are at 85% and expenditures are at 72%.

f. Consideration of Annual Audit Contract for year ended June 30, 2003:

Mr. Hartye reported that the Finance Committee recommends adoption of the resolution approving the Annual Audit Contract submitted by Gould Killian CPA Group, P.A. Mr. Hartye stated that there is a slight increase in the contract from last year due to the incorporation of the new GASB 34 accounting standards.

g. Consideration of Capital Projects Ordinance:

Mr. Hartye reported that this item is being pulled from the Consolidated Motion Agenda and combined with the Resolution adopting the Preliminary Budget under Item 7. by adding a paragraph.

h. Cash Commitment/Investment Report for Month Ended March 31, 2003:

Presented as information only.

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Mr. Aceto asked that Item 6.a (developer constructed sewer systems) be pulled from the Consolidated Motion Agenda so that he may be excluded from any discussion or vote because of a conflict of interest.

Mr. Venable requested that Item f. (Annual Audit Contract) be pulled from the Agenda.

Regarding Item 6.b. (Cost Recovery Projects), Ms. Ball asked if these projects are in the District. Mr. Clarke stated that the District is authorized to own lines outside the District. Ms. Ball referenced the Enka Village Project and asked if the District takes over lines that are currently maintained by a Homeowners Associations. Mr. Hartye reported that this line was TV'd and the Association was given a list of repairs that needed to be done before the District would take it over. Mr. Clarke stated that MSD's Counsel, has no objection to MSD taking over lines outside the District as long as taking flow from just outside the District and owning sewer lines is not inconsistent with MSD's purpose of providing for the health and welfare of the District. He further stated that taking over a good line

enables the MSD to use these revenues to fix lines within the District. Annually, less than 5% of flow is from outside the District Boundary. Ms. Ball stated that it would be helpful in the future if staff would indicate whether these projects are in or outside the District. Following a discussion regarding the 5-year revenues minus variable costs, Mr. Kelly moved that the Board approve Items b., c., d., e. and h. of the Consolidated Motion Agenda. Mr. Pace seconded the motion. Roll call vote was as follows: 11 Ayes; 0 Nays.

Mr. Blackburn called for a vote on Item a. of the Consolidated Motion Agenda. Roll call vote was as follows: 10 Ayes; 0 Nays. Mr. Aceto was excused by Chairman Blackburn from voting on this item.

Regarding Item f. (Annual Audit Contract) Mr. Venable stated that although the Auditors have done a good job during the past eight years, he feels it would be prudent for the Board to make a change, therefore, will vote against approval. Mr. Blackburn stated that due to changes in the Finance Department, staff did not feel this was the time to change Auditors. Mr. Pace stated he would object to changing Auditors every year, but requested that the Finance Committee decide how often the contract should go out for bid. Mr. Blackburn stated the Local Government Commission recommends going out for bid every three to five years. Ms. Graham stated that the real issue is implementation of new accounting standards (GASB 34) required for FY03. Mr. Kelly stated that in addition to someone new having to become familiar with the standards, when the contract is up, will the District give the contract to the lowest bidder or to the lowest qualified bidder. Giving the contract to the lowest bidder may mean a substantial increase in fees after the first year, whereas, the increase with the current Audit Contract is 5%. Ms. Ball asked if the District's Audit is ever audited. Ms. Zeigler stated that the auditing firm has to go through a peer review to make sure that set procedures are followed. Also, the Local Government Commission goes over the financial report for content, presentation and completeness. With no further discussion, Mr. Blackburn called for a vote. Roll call vote was as follows: 10 Ayes; 1 Nay (Mr. Venable)

7. Consideration of 2003-2004 Preliminary Budget:

Mr. Hartye called on Mr. Clarke to read the following paragraph to be inserted in the Budget Resolution with regard to the Capital Projects Ordinance.

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"That the Board of the Metropolitan Sewerage District does hereby authorize the General Manager to modify the start dates of any specific project in the ten-year Capital Improvement Program based on the best interests of the District and authorizes the encumbrance of funds for projects continuing into a future fiscal year provided that the total amount of funds expended and encumbered for the fiscal year beginning July 1, 2003 and ending June 30, 2004 does not exceed the appropriation in the Construction Fund of \$16,089,033".

Mr. Hartye stated that the purpose of the revision is to allow for flexibility. When a project falls behind schedule, another project can be moved up to replace it in order to get the same amount of lineal footage and expenditures in the year.

Mr. Hartye noted a correction behind Tab 5 of the Budget, which should read a \$200,000.00 contribution in the Fleet Equipment Replacement Fund instead of \$225,000.00. With regard to the proposed sewer rates for FY 04, Mr. Hartye stated that the Board will not be voting on a rate recommendation today, but will come before the Board at the June 11th meeting and he will give a presentation on the rates. Mr. Clarke reminded the Board that on or before May 15th of each year, the District must submit a Preliminary Budget to the Bond Trustee and the Local Government Commission.

Ms. Ball asked how much money is represented by the proposed 2% rate increase. Mr. Hartye referred to the 10-Year Financial Forecast and stated that the figure shown includes a 1% domestic growth. He stated that although the flow rate is going up for industrial users, actual revenues are going down due to a cut-back by one of the major industries. He went over the various Assumptions,

which the Forecast was based on, and stated that at the Finance Committee meeting he addressed some of the "what ifs" with regard to rates. Mr. Venable asked if the amount of increase in the domestic rate would be different if the projected domestic income of \$18,713,000 had been used instead of the approved budget figure of \$17,298,522. Mr. Hartye stated that the estimated actual of \$18,891,410 is used in the current projection and that the rates cover a long term financial plan. He further stated that the additional domestic revenues did reduce the rate increase for this year and if the trend continues, future rate increases could be reduced.

Ms. Ball asked if there has been any further consideration with regard to changing the percent of the pay-as-you-go element of the CIP. Mr. Hartye stated there had been more pay-as-you-go in the past and the current balance is approximately 50%, but there is a debt service coverage issue with the bonds, which affects ratings and the cost of borrowing. As a result these projections try to maintain a 1.5 minimum debt service coverage and seek a balance between the pay-as-you-go in the bonds. He further stated that staff did a 60/40 split (60% bonds, 40% pay-as-go) and ran into coverage problems 4 years out, but it did provide 5 years of 0% rate increases with 2.5% plus rates later on. Ms. Ball stated that she would not to vote to adopt the Preliminary Budget since the District has shown that it took in an additional \$1.5 million more than expected.

Mr. Aceto asked if there is a way of relating the increase in revenue to specific water or sewer billing or was it based on what was deposited last year. Mr. Hartye stated that up to this point the District has just been receiving deposits and until there is a history of billing, a track record cannot be developed, but he has noticed an increase in the residential customer base. He further stated that staff is in the process of looking at the raw data. Mr. Hartye discussed the AMSA rate averages compared to MSD, the region and the rest of the nation and the misconception that MSD's rates are higher, which is based on MSD's sewer use charge of \$2.93/ccf, however, the bottom line (monthly bill) is the same.

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Mr. Aceto stated that it is not just a matter of a press perception, since the rating agencies indicated as a negative factor, that MSD's rates were higher than average. Mr. Aceto asked how this might be related to the fact that MSD does not have data linking water use and metering to revenues. Mr. Hartye stated that this information will not only frame the rate discussion, but another discussion with regard to considering a flat residential rate next year and what the MSD is charging for the average bill per month. Mr. Aceto stated that considering the quality of the data, MSD must be conservative since it's not sure where the revenue came from. Mr. Kelly pointed out that the Board needs to look at both sides of the page, not just the fact that revenues were underestimated, since Salaries and Benefits are going up by \$1.2 million and Materials, Supplies and Services are going up by \$300,000 for 2004. Mr. Sobol stated that he will continue to ask what the benefit of a new ratepayer is and how much of the \$2.93/ccf, less variable costs, is profit. He further stated that the variable costs should not include power, since this is not new cost, therefore, MSD could be making as much as \$2.23/ccf for each new customer, which could be where the revenue is coming from.

Mr. Venable asked why there is a 2.5% increase in Director's Fees & Expenses for 2003-2004. He stated that unless there is a specific reason, it should stay the same since the rates are increased based on the budget. Mr. Blackburn stated that this figure includes travel expenses for Board Members. With no further discussion, Mr. Kelly moved that the Board adopt the Preliminary Budget with amendment of the Budget Resolution regarding the Capital Projects Ordinance. Mr. Gantt seconded the motion. Roll call vote was as follows: 9 Ayes; 2 Nays (Ms. Ball & Mr. Venable).

9. Consideration of Sewer Connection Fees:

Mr. Hartye reported that the Finance Committee recommends that the Board adopt the proposed non-residential fees as shown on Attachment E to become effective July 1, 2003. He presented Attachment D which shows the Old Fees for 1990, the Interim Fee for 2002 and the Full Cost Recovery Fee. He presented Attachment E, which shows Facility Fees for Single Family Residential, Mobil Homes and Affordable Housing. He stated that there is no change in the fee for Affordable Housing, but there is a new fee of \$100.00 for inspection of

developer installed taps on existing lines, which does not include extensions. Mr. Kelly moved that the Board approve the recommendation of the Finance Committee. Ms. Field seconded the motion. A discussion following regarding the typical pipe installation cost as shown in Attachment A. With no further discussion, roll call vote was as follows: 10 Ayes; 1 Nays (Mr. Sobol)

10. Old Business:

Consideration of Sewer Use Ordinance Revisions:

Mr. Hartye reported that at the recommendation of the Board, staff contacted the NC Restaurant Association to ask for input on revisions to the Sewer Use Ordinance. He further reported that all City and County inspectors were contacted in the past for acceptance of MSD grease trap/interceptor standards. Ms. Graham stated that the Restaurant Association reported that MSD representatives were kind and thoughtful in the way they approached this issue. Ms. Payne stated that he explained that MSD was not doing anything new except moving the regulations from the back of the present Sewer Use Ordinance and putting them into the body of the Ordinance and that they should see no impacts,

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additional costs or change to MSD's approach to restaurants. Ms. Field moved that the Board approve the Sewer Use Ordinance. Ms. Bryson seconded the motion. Roll call vote was as follows: 11 Ayes; 0 Nays.

11. New Business:

None

12. Adjournment:

With no further business, Mr. Pace moved for adjournment. Ms. Graham seconded the motion. Voice vote in favor of the motion was unanimous.

Jackie W. Bryson, Secretary/Treasurer