

**BOARD OF THE METROPOLITAN SEWERAGE DISTRICT  
AUGUST 17, 2005**

**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 PM, Wednesday, August 17, 2005. Chairman Aceto presided with the following members present: Ms. Ball, Ms. Bellamy, Mr. Bisette, Ms. Bryson, Mr. Gantt, Ms. Graham, Mr. Kelly, Mr. Pace, Mr. Sobol, Mr. VeHaun and Mr. Venable.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Gary McGill with McGill Associates, Robert Hobson with The Bank of America, Leah Karpen with the League of Women Voters, Joseph Martin with the Woodfin Sanitary Water & Sewer District, John Kiviniemi, Angel Banks, Ann LeMieux, Ed Bradford, Stan Boyd, Martha Zeigler, Julie Willingham, Brian Pearce, Sandra Moore, Jim Naber, Peter Weed, Steven Briggs, Eric Mann, Scott Powell, Jon VanHoff, Keith Lewis, Tim Coates, Pam Nolan and Sondra Honeycutt, MSD.

**2. Approval of Minutes of the July 20, 2005 Meeting:**

Ms. Bellamy moved that the minutes of the July 20, 2005 meeting be approved as presented. Mr. Pace seconded the motion. Mr. Aceto called for comments. There being no comments, voice vote in favor of the motion was unanimous.

**3. Discussion and Adjustment of Agenda:**

Mr. Venable asked that the report of the Personnel Committee be held in closed session following consideration of the Consolidated Motion Agenda. Ms. Ball requested that Item c. of the Consolidated Motion Agenda be pulled for a separate vote.

**4. Informal Discussion and Public Comment:**

Mr. Aceto welcomed Mr. Hobson, Ms. Karpen, Mr. Martin and Mr. McGill.

**5. Report of General Manager:**

Mr. Hartye presented information regarding ISO Certification, Accomplishments for FY 2005, Reading, Update on Bond Issuances and Board/Committee Meetings.

Mr. Hartye indicated that copies of The Volunteer Water Information Network (VWIN) technical report were available for the Board.

Mr. Hartye reported that the District recently received its ISO Certification pursuant to the new standards for the entire organization. He expressed his appreciation and recognized the following members of the ISO team for their efforts: Jim Naber, Gaynell Brigman, Jon VanHoff, Keith Lewis, Tim Coates, Sandra Moore, Brian Pearce, Steven Briggs, Julie Willingham, Pam Thomas, Wayne Tipton, Adrian Ellis, Grady Brooks and Mitch Hawes.

Mr. Hartye presented a copy of the District's accomplishments by division for the fiscal year ending July, 2005

Regarding Reading, Mr. Hartye presented an article on the Asheville Greenway System.

Mr. Hartye introduced Mr. Hobson with Bank of America to give an update on the District's Synthetic Fixed Rate and Variable Rate Bond Issuances. Mr. Hobson reported that in November, 2004 the District issued its first series of variable rate bonds in the amount of \$24 million dollars with interest budgeted at an estimated rate of 3.50%.

He stated that the actual average variable rate from issuance through June 30, 2005 was 2.12%, approximately 138 basis points below the budgeted amount, which resulted in actual savings of \$216,000.00 over the budgeted amount. Mr. Hobson reported that by issuing variable rate bonds versus fixed rate bonds, the District saved approximately \$238,000.00 in interest during FY 05. He stated that because interest rates have been at an all time low and are beginning to rise, future savings may not be that good. Mr. Sobol asked how much it would cost the District if it decided to cap the rate. Mr. Hobson stated that based on recent quotes he had gotten for another client, if the District decided on a 5% interest rate cap for a period of five years, it would cost about 12 basis points per year. The longer out in time the cap goes, the more expensive it will be.

With regard to reviewing refunding debt, Mr. Hobson reported that in January, the District issued \$34 million in variable rate refunding bonds, which involved a two part process where a swap (interest rate exchange) agreement was used to synthetically fix the variable rate bonds to a fixed rate. He stated that from January to June 30, 2005, the rate paid on the variable rate bonds was 2.28% and the amount received under the swap contract was 2.05% for a negative basis of -0.23%, which reduced the savings the District was originally estimated to achieve during that time. The actual cash interest savings during this period was \$70,522.00 instead of the projected interest savings of \$110,115.00. Mr. Hobson stated that if the -0.23 negative basis points were to continue until the bonds are paid off, instead of present value savings projected at \$2.5 million, the actual present value savings would be \$1.44 million and instead of having an 8% present value savings the District would have a 4.62% present value savings rate. He reported that since June 30, 2005 the -.23 negative basis points received on the swap agreement is now down to .17 basis points.

Mr. Venable asked what affects the LIBOR-based rate. Mr. Hobson stated that LIBOR is a taxable interest rate and under the swap contract Bank of America has executed with the District, the District is receiving from Bank of America, 59% of LIBOR on any given day plus 35 basis points, which hopefully will cover what the District pays on its variable rate bonds. Mr. Aceto asked what mechanism MSD has to continually review whether purchasing a cap is advised. Ms. Zeigler stated that she receives weekly interest rate notices and has at least a quarterly review with Mr. Hobson to determine if there is a long-term trend that the Board may want to take action on. Mr. Pace asked Mr. Hobson how often he looks at interest rates. Mr. Hobson stated daily. He further stated that the Board has the added comfort of knowing there is money in the bank that will produce more investment income to offset higher interest expense if interest rates increase, but it can also pay extra money for an interest rate cap. A discussion was held with regard to what the warnings would be that would prompt the Board to take action and where the warnings would come from. Mr. Sobol asked if the 3% figure previously mentioned would be the trigger. Mr. Hobson explained that the estimated savings started out at 8% assuming no negative basis points from the swap agreement. If the -23 basis points experienced through June 30<sup>th</sup> continued throughout the life of the debt, the originally estimated 8.03% present value savings would go down to 4.62%. He stated that if the District ended up with only 3% savings for the life of the transaction, which is the minimum recommended by the Local Government Commission for fixed rate refundings, it would have been a good decision. Mr. Sobol suggested that the District spend \$16,000.00 of the \$216,000.00 budget savings to put a cap on the variable rate debt and not risk losing the future savings over fixed rate debt. Ms. Bellamy suggested that this item be referred to the Finance Committee. Ms. Graham stated that the meeting should be held in the next couple of weeks with Mr. Hobson present to consider various "what if" scenarios.

With regard to Board/Committee Meetings, Mr. Hartye reported that the Right of Way Committee Meeting scheduled for August 24<sup>th</sup> has been cancelled. The Construction Committee will meet September 1<sup>st</sup> at 8:30AM and the next regular meeting

of the Board will be held September 21<sup>st</sup> at 2PM. Mr. Gantt noted that the Board Governance Committee will meet at 12PM on September 21<sup>st</sup> prior to the Board meeting.

**6. Report of Committees:**

**Right of Way Committee**

Mr. Pace reported that the Right of Way Committee met July 27, 2005 to consider compensation budgets for the Shelburn Road Rehabilitation Project and Craven Street Access Road Project. Also, a presentation was made on the Right of Way Clearing Pilot Program.

**Planning Committee**

Ms. Graham reported that the Planning Committee met August 9, 2005 to consider assisting developers with easement acquisition for a gravity sewer in lieu of a pump station. This item was referred to the Right of Way Committee to develop criteria. Ms. Graham further reported that a presentation was made by the developers of the Brookwood Golf Course, which is in the discussion phase. She stated that representatives from Henderson County were present to discuss a line approved by the Board of Commissioners that would initially serve a great portion of this development. Ms. Graham reported that the other two items discussed were the District's proposed policy to reimburse the original developer who extends a sewer line when a second developer connects a project to the line. She stated that staff has been asked to come back to the Committee with examples of total flow numbers, what the current wording of the policy should be to reflect ratio of flows to total flows, what other cities are doing and how its working, reverting money back to MSD if a developer's project fails and the cost/benefit of a gravity sewer vs. pump station. Also, the Committee discussed whether the District is a regional provider and issues with regard to the Districts' boundary and serving people outside the current boundary. Ms. Bellamy asked what the status is of getting legislative approval for extension of lines. Mr. Hartye stated that this issue will go back to the next Planning Committee for consideration. Ms. Graham stated that it would be best to outline this issue in terms of priority. She asked that staff come back with an outline of priorities from their perspective.

**7. Consolidated Motion Agenda:**

**a. Consideration of Compensation Budget – Shelburn Road Rehabilitation Project:**

Mr. Hartye reported that the Right of Way Committee recommends approval of the Compensation Budget for the Shelburn Road Rehabilitation Project.

**b. Consideration of Compensation Budget – Craven Street Access Road Project:**

Mr. Hartye reported that the Right of Way Committee recommends approval of the Compensation Budget for the Craven Street Access Road Project.

**c. Consideration of Developer Constructed Sewer Systems: Biltmore Lake Block D, Phase 1, Biltmore Lake Block F, Phase 1, Campus Crest Phase 1 and 2, Northview at Biltmore Lake, Mt. Carmel Commercial Center Phase 2 (Scenic Bluff), Willow Creek Village, Phase 2 and Lakeshore Hills Subdivision:**

Mr. Hartye reported that staff recommends acceptance of the developer constructed sewer systems and that all MSD requirements have been met.

**d. Consideration of Hydro Turbine Replacement for Water Reclamation Facility:**

Mr. Hartye reported that the hydro-electric facilities are equipped with 3 inductive turbines one of which is a variable pitched blade that has cracks and has reached the end of its effective service life after 14 years. He stated that this unit was custom designed by Voith Siemens, therefore, no competition exists for its repair or replacement. He further stated that staff recommends authorizing sole source procurement with Voith Siemens in the amount of \$195,813.00.

**e. Consideration of Sludge Cake Pump Replacement for Water Reclamation Facility:**

Mr. Hartye reported that the existing two sludge cake pumps are in excess of ten years old and are in need of replacement. He stated that these pumps are manufactured by Schwing, Inc. This requested replacement is for one of the pumps, which is the 1<sup>st</sup> phase of the replacement plan. He further stated that staff recommends authorizing sole source procurement of the replacement of the sludge cake pump from Schwing, Inc. at the negotiated price of \$158,000.00, because compatibility with the other pump is an overriding consideration, and authorize staff to proceed with procurement.

**f. Master Plan/Capital Improvement Program Quarterly Report:**

Mr. Hartye presented year end quarterly reports on MSD's collection system rehabilitation (actual linear footage for FY 05 and estimated linear footage for FY 06), pipeline maintenance totals by date completed and status report for all CIP projects. Mr. Bellamy asked what was done at the North Fork project. Mr. Bradford stated that MSD rebuilt the piers and line. Ms. Bellamy asked if the line at KOA was upsized and when it would be complete. Mr. Bradford stated that this line was upsized from 12" to 20" and is expected to be complete in about six months.

**g. Fourth Quarter City of Asheville Billing Report:**

Mr. Hartye presented a two-year comparison of quarterly billings and receivables from the City of Asheville. Ms. Bellamy asked whether the District was receiving all of the funds that it should. Mr. Hartye explained that MSD annual billings are approximately \$15.6 million per year, and of that amount, only \$60,000 is written off. He stated that the percent of receivables collected is approximately 99.6%. Ms. Zeigler added that MSD is making efforts to ensure that all of the money is being received in a timely manner, since twice in the past, the City remitted considerable sums of money to MSD which they had inadvertently held for several years because of accounting complications. She further stated that since that time, she monitors the situation by reconciling payments received and analyzing trends to try to make sure this does not happen again. Mr. Hartye stated that prior to the billing reports MSD only received deposits from the City of Asheville; no information on consumption, receivables, etc. He further stated that the first step is to compare the deposits received with this report and the consumption. Mr. Venable asked what "collected not remitted" means. Mr. Hartye stated that this is money collected by the City of Asheville that MSD has not received yet. Ms. Zeigler stated that money is collected every day and held in the City's account then transferred to MSD weekly.

**h. FY 05 Budget to Actual Review:**

Presented as information only.

**i. Cash Commitment/Investment Report for Month Ended 6/30/05:**

Presented as information only.

Mr. Pace moved that the Board approve Items a.b.d.e.f.g.h.i. of the Consolidated Motion Agenda. Ms. Graham seconded the motion. Mr. Aceto called for discussion. With no discussion, roll call vote was as follows: 12 Ayes; 0 Nays.

Mr. Venable moved that the Board approve Item c. of the Consolidated Motion Agenda. Ms. Graham seconded the motion. Mr. Aceto called for discussion. With no discussion, roll call vote was as follows: 11 Ayes; 1 Nay (Ms. Ball).

**8. Report of Personnel Committee:**

At 2:55 PM Mr. Venable moved that the Board go into closed session to discuss the evaluation of the General Manager. Ms. Graham seconded the motion. Voice vote in favor of the motion was unanimous.

At 3:05 PM Ms. Graham moved that the Board go back into open session. Mr. Pace seconded the motion. Voice vote in favor of the motion was unanimous.

Mr. Venable moved that the Board increase the General Manager's current salary to \$117,500.00; a 7% increase retroactive to July 1, 2005 for one (1) year. Mr. VeHaun seconded the motion. Mr. Aceto called for discussion. With no discussion, roll call vote was as follows: 12 Ayes; 0 Nays.

Mr. Aceto expressed the Board's appreciation to Mr. Hartye for an excellent job.

**9. Old Business:**

None

**10. New Business:**

None

**11. Adjournment:**

With no further business, Ms. Graham moved for adjournment at 3:15PM. Mr. Pace seconded the motion. Voice vote in favor of the motion was unanimous.

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Jackie W. Bryson, Secretary/Treasurer

