

**BOARD OF THE METROPOLITAN SEWERAGE DISTRICT  
DECEMBER 14, 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, December 14, 2005. Vice Chairman Sobol presided with the following members present: Ms. Ball, Ms. Bellamy, Mr. Bisette, Ms. Bryson, Mr. Gantt, Ms. Graham, Mr. Kelly, Mr. Pace, Mr. VeHaun, and Mr. Venable. Mr. Aceto was absent.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Gary McGill with McGill Associates, Joseph Martin with Woodfin Sanitary Water & Sewer District, Leah Karpen with the League of Women Voters, Jim Cargile, David Lee and Eric Nichols with Harris, Murr & Vermillion, Russell Coleman with Cherry, Bekaert & Holland, Stan Boyd, Martha Zeigler, Peter Weed, Ann LeMieux, John Kiviniemi, Scott Powell and Sondra Honeycutt, MSD.

**2. Approval of Minutes of the November 16, 2005 Meeting:**

Ms. Graham moved that the minutes of the November 16, 2005 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. Sobol welcomed Ms. Karpen, Mr. Cargile, Mr. Lee, Mr. Nichols, Mr. Coleman and Mr. Martin.

**5. Report of General Manager**

**Audit/CAFR**

Mr. Hartye presented a copy of the Fiscal Year 2004-05 Comprehensive Annual Financial Report (CAFR). He expressed his appreciation to Martha Zeigler, Scott Powell and Teresa Gilbert for preparation of the document. Mr. Hartye introduced Mr. Russell Coleman with Cherry Bekaert & Holland for a presentation of the Audit. Mr. Coleman reported that there are different factors in the financial statements that are a higher risk than others; therefore, they spent the bulk of their time in these areas. He referenced page 11 of the CAFR (Independent Auditor's Report). He stated the report is what they refer to as a "clean opinion" of the financial statements for the fiscal year ended June 30, 2005. He then called attention to a couple of the paragraphs appearing in the report. One paragraph refers to supplementary information which is not audited. The second refers to a "yellow book" report so named due to the color of the cover of the compilation of Government Auditing Standards. This report appearing on page 70 of the CAFR requires consideration of the District's internal control over financial reporting as well as tests of compliance with certain provisions of laws, regulations, contracts and grant agreements. Mr. Coleman affirmed there were no matters coming to light during the audit which required disclosure to management.

Regarding the Statement of Net Assets, Mr. Coleman reported that MSD's total assets increased by approximately \$26,800,000 with \$15,700,000 in current assets; cash, investments, receivables, inventories and prepaid expenses and the other \$11,100,000 in property and equipment. He stated that liabilities have increased approximately \$19,500,000. He further stated that the current liabilities went down approximately \$1

million, so the long-term debt, which is mostly made up of bonds, increased approximately \$20 million. The net effect was that net assets increased approximately \$7,400,000.

Regarding the Statement of Revenues, Expenses and Changes in Net Assets, Mr. Coleman reported that the increase in operating revenues is less than 1% while operating expenses increased by 6%. The net effect is that operating income is down 11% from the previous year. In addition, non-operating revenues such as capital contributions are down resulting in a change in net assets of \$7.4 million in 2005 as opposed to \$8.3 million in 2004.

Mr. Coleman discussed a significant accounting transaction recorded in 2005, whereby fixed assets in the amount of approximately \$68 million, which were inadvertently not recorded in MSD's accounting records at Consolidation, were restated. Depreciation balances for FY 03 and 04 were accordingly restated. The long-term effect is that MSD is a larger system by approximately \$60 million and depreciation expense will be slightly higher for the next 30 years (approximately \$1 million per year). He stated that in making this adjustment, MSD is recognizing the actual cost that has been incurred by the system since the 1900's. Failure to recognize this could lead to a false impression about what it costs to put the system back in place as lines deteriorate and need to be replaced or upgraded. Mr. Coleman went over the Statement of Cash Flows, Note 2 (deposits and investments) of Notes to Basic Financial Statements, and the Reports on Internal Control and Compliance. In addition, he stated that his firm is required to confirm that it's an independent auditing firm and if there are any disagreements with management. With regard to audit adjustments, Mr. Coleman reported that the only adjustment discovered in the course of the audit related to the restatement of fixed assets. However, recommended changes were made by management before the audit was finalized. Also, there were no adjustments recommended by the auditors that Management did not make. Mr. Coleman reported on two new accounting standards taking effect that may impact the District over the next couple of years. First, the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 45 with regard to benefits for retirees, which will be required to have been implemented by June 30, 2009. Second, is GASB 42 dealing with the impairment of long-lived assets, which will require the District to evaluate the financial effect of significant events and changes in circumstances upon those assets.

Regarding the Schedule of Revenues and Expenditures, Ms. Bellamy asked why the budgeted amount for facility and tap fees is lower than the amount actually received. Ms. Zeigler stated that the policy has been to conservatively budget those fees. Ms. Bellamy further questioned why revenues for domestic and industrial users are down. Ms. Zeigler stated that the consumption from the City of Asheville is down slightly, but the revenues are down even more because of write-offs and billing adjustments in connection with hurricane flooding in August and September, and it was a wetter year than in prior years. With regard to debt service, Ms. Bellamy asked why the principal and interest are not shown in the budgeted column and why the total amount was under budget. Ms. Zeigler stated that there was no need to break the principal and interest down since they knew what the total was. Also, the reason the total came in under budget was refunding due to savings resulting from the synthetic fixed rate refunding and the interest expense for variable debt was less than expected. Mr. Sobol asked Mr. Coleman if he sees a problem over the next several years with borrowing money to fund projects. Mr. Coleman stated that MSD has the ability to affect its rate structure to recover its costs and the worst thing a utility can do is not build, because the cost of catching up is far more expensive than getting ahead and paying a little more interest. Mr. Coleman stated that Asheville is a fast growing area and will continue that way in the foreseeable future and MSD's debt load is not exorbitant for its size. Mr. Hartye asked how the restatement affected the debt/equity ratio and its implications. Mr. Coleman stated that the restatement actually helped the debt/equity ratio because it tells where MSD really is and

that it's better off than the financial statements were previously showing. Mr. Coleman expressed his appreciation to the Board for selection of his firm to do the audit.

Mr. Hartye presented articles from Wachovia Economic Commentary on Setting the Framework: Financing the Future and What's Ahead for Inflation.

With regard to Board/Committee Meetings, Mr. Hartye announced that the Board Governance Committee met prior to the Board meeting and that Mr. Clarke will have a recommendation to the full Board at its next meeting on January 18<sup>th</sup>. The Planning Committee is tentatively scheduled to meet January 10<sup>th</sup> at noon.

## **6. Report of Committees:**

### **Planning Committee**

Ms. Graham reported that the Planning Committee met November 30, 2005 to consider a variance to allow a pumping station and force main for the proposed Highcliff development on US 74A (Minehole Gap, Charlotte Highway). Ms. Graham stated that the Committee considered the District's current policy on pump stations and what constitutes "extraordinary circumstances" if gravity sewer is not achievable. She further stated that the Committee recommends the Board approve a variance to allow a pumping station and force main for the proposed development based upon gravity sewer not being achievable. This recommendation will be presented at the January meeting of the Board. Ms. Graham reported that discussion regarding MSD reimbursement for rehabilitation of existing systems will be held at the next meeting of the Committee. Ms. Ball asked about discussion regarding a request for a surcharge for people who tie onto force mains. Ms. Graham stated that this issue was sent to the Finance Committee for consideration. Mr. Kelly asked that staff schedule a meeting of the Finance Committee for the first week of January.

### **Right of Way Committee**

Mr. Pace reported that the Right of Way Committee met November 30, 2005 to consider compensation budgets for the Glenn Bridge Road PRP, Rogers Place and Lennox Street rehabilitation projects. Also the Committee considered access easements for the Reems Creek Wet Weather Interceptor, Condemnation of the Shelburne Road Rehabilitation Project and Right of Way Committee Meeting Schedule. Mr. Sobol stated that staff gave a very professional and informative presentation on the Reems Creek Wet Weather Interceptor project. Mr. Venable requested that this item be pulled from the Consolidated Motion Agenda for further discussion.

### **Board Governance Committee**

Mr. Gantt reported that the Board Governance Committee met prior to the Board meeting to consider the issues of attendance, gifts/favors and disclosure. With regard to attendance, Mr. Gantt reported that the Committee recommends Members must be present to vote at all regularly scheduled Board meeting. In the case of special or emergency meetings the Chairman will have the right to decide if voting by telephone is permissible. Ms. Bellamy asked if there are any circumstances that would allow Members to vote by phone. Mr. Pace stated only at special or emergency meetings where members can not plan ahead. Regarding gifts and favors, Mr. Gantt reported that the Committee felt it is important to comply with state laws on this issue. On disclosures, the Chairman of the Board will ask members if there is any conflict of interest or appearance of a conflict before each meeting and there will be an affirmative obligation on the part of members to respond. Also, if there is a question as to whether there is a conflict, there is a provision where the Chairman or Board members can consult with Counsel prior to the

meeting. Mr. Gantt expressed his appreciation to Martha Zeigler, William Clarke, Tom Hartye and Committee Members for their input. Mr. Sobol stated that all recommendations of the Committee will be presented at the January meeting of the Board.

Regarding the Right of Way Committee report, Ms. Ball asked why the Committee only uses PIN numbers to identify projects for condemnation, since Board Members may be voting on an issue that is a conflict. Mr. Clarke stated that the reason for not using the names is to avoid a conflict of interest; however, the Committee might need to rethink its position on using PIN numbers only.

**7. Consolidated Motion Agenda:**

**a. Consideration of Compensation Budgets: Glenn Bridge Road PRP Rehabilitation, Rogers Place Rehabilitation and Lennox Street Rehabilitation:**

Mr. Hartye reported that the Right of Way Committee recommends approval of the Compensation Budgets

**b. Consideration of Access Easements – Reems Creek Wet Weather Interceptor:**

Pulled for discussion.

**c. Acceptance of Developer Constructed Sewer System – Appledorn Condominiums:**

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

**d. Presentation of Audit and CAFR:**

Presented under the Report of the General Manager. Mr. Hartye noted the statistical section of the CAFR, which includes information on the District.

**e. Amendment and Restatement of 457 Plan:**

Mr. Hartye reported that staff recommends the Board adopt the amended and restated 457 Plan document as reviewed by Counsel.

**f. Professional Investment Advisor Relationship:**

Mr. Hartye reported that when the District issued \$24 million of debt, the Finance Committee recommended that the District contract with a profession and investment advisor to oversee its investments. However, since the additional yield from the professional management is not anticipated to offset the professional fees, staff will terminate the contract with Columbia Management Group and take the investment function back in-house. Staff will continue to report investment yields monthly for Board oversight, and may consider recommending professional advisors in the future if appropriate. Mr. Venable asked if Columbia Management Group recommended the synthetic swap. Mr. Hartye said no.

**g. Cash Commitment/Investment Report – Month Ended October 31, 2005:**

Presented as information only.

With no discussion, Mr. Kelly moved that the Consolidated Motion Agenda items a.c.d.e.f.g. be approved as presented. Mr. Bissette seconded the motion. Roll call vote was as follows: 11 Ayes; 0 Nays.

Regarding item b. (Reems Creek Wet Weather Interceptor) Mr. Hartye reported that four options were identified for accessing a portion of the interceptor. He stated that this interceptor has experienced a few overflows caused by root intrusion and debris build-up and two aerial crossings were destroyed by recent floods. He presented a map showing the proposed Options and stated that Option 1 is the most feasible in terms of costs and technical standpoints and would involve no creek crossings. He stated that the Right of Way Committee directed staff to proceed with formal right of way negotiations with property owners. Mr. Venable asked about the possibility of condemnation if Option 1 is used. Mr. Hartye stated that the Committee hopes this will not be necessary. Mr. Venable asked if Weaverville allowed MSD to cross its property would there be condemnations involved. Mr. Hartye stated that the Weaverville Option was more expensive and would involve another property owner. Mr. Sobol stated that another issue that came up was the fact that this project is scheduled for replacement in 2008 so it's better to get the easements now. No vote was necessary on this item.

**8. Old Business:**

None

**9. New Business:**

None

**10. Adjournment:**

With no further business, Mr. Venable moved for adjournment at 2:55 PM. Mr. Gantt seconded the motion. Voice vote in favor of the motion was unanimous.

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Jackie W. Bryson, Secretary/Treasurer