

**BOARD OF THE METROPOLITAN SEWERAGE DISTRICT
JANUARY 17, 2007**

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 on Wednesday, January 17, 2007. Chairman Aceto presided with the following members present: Bellamy, Bissette, Bryson, Creighton, Gantt, Haner, Kelly, Newman, Sobol, VeHaun and Venable.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Gary McGill with McGill Associates, Leah Karpen with the League of Women Voters, Marilyn Westphal, Environmental Quality Institute, Stan Boyd, Martha Zeigler, John Kiviniemi, Ed Bradford, Peter Weed, Angel Banks, Ken Stines, Dave Nisbeth, Roger Watson and Sondra Honeycutt, MSD.

Mr. Aceto welcomed Mr. Max Haner, who was appointed by Buncombe County. Mr. Sobol presented Mr. Haner with the traditional manhole puller.

2. Inquiry as to Conflict of Interest:

Mr. Aceto asked if there were any conflicts of interest with the agenda items. No conflicts were reported.

3. Approval of Minutes of the December 20, 2006 Meeting:

Mr. VeHaun moved that the Minutes of the December 20, 2006 Meeting be approved as presented. Mr. Bissette seconded the motion. Mr. Aceto called for discussion. With no discussion, Mr. Aceto called for the question. Voice vote in favor of the motion was unanimous.

4. Discussion and Adjustment of Agenda:

None

5. Informal Discussion and Public Comment:

Mr. Aceto welcomed Ms. Karpen and Ms. Westphal.

6. Report of General Manager:

Mr. Hartye reported that a call was received from Mr. Don Penland of the Housing Authority complimenting MSD crews with a blockage on the authority's line. He expressed his appreciation to Jason Capizzi, Eric Sams, Grady Brooks and Kevin Devlin. Also, a call was received from Mr. Art Lawrence at 120 Carrier Street to compliment David Monteith for his response to a very cold night call on the weekend. The customer said he was thorough, kind and very professional a "real keeper".

Mr. Hartye presented an article in Southern City regarding Mayor Terry Bellamy who received the Rising Star Award from the N.C. Black Elected Municipal Officials. In addition, Mr. Hartye presented an article in WE&T on the recently completed MSD Septage Receiving Facility. He expressed his appreciation to Ed Bradford for drafting the article, Roger Watson, Design Engineer and Dave Nisbeth, Design Drafter who were responsible for the project.

Mr. Hartye stated that under "New Business" Mr. Aceto will discuss the possibility of scheduling a retreat to discuss new Goals and Objectives for the Board.

Mr. Hartye reported that the next ROW Committee meeting will be held January 24th at 2PM. The next Regular Board Meeting will be held February 21st at 2 PM.

Ms. Karpen asked if MSD has a sewer extension policy. Mr. Hartye said yes, that this will be discussed under "Old Business" along with a report on a meeting with Legislators regarding Special Assessment Authority.

7. Consolidated Motion Agenda:

a. Consideration of Annual Meeting Dates:

Presented as information only.

b. Consideration of Budget Calendar:

Presented as information only.

c. Consideration of Funding of VWIN Program:

Mr. Hartye reported that Ms. Westphal, Project Manager for The Volunteer Water Information Network (VWIN) was present to answer questions about its services contract with the District. He stated that these services are leveraged three-fold by volunteer activities in sample taking, laboratory analysis and reporting. He noted that in December, 2006, sampling at Beaver Lake alerted VWIN staff to notify MSD of a sewer leak, which helped mitigate the resulting stream and lake contamination. Mr. Hartye further reported that, in addition to stream monitoring, VWIN has assisted MSD with monitoring area lakes for baseline, baseflow and stormflow bacteria levels. He presented a map showing testing locations throughout the County.

Mr. Venable asked Ms. Westphal if she or anyone at VWIN has approached the County about funding. Ms. Westphal said yes; that it will be on the County's agenda this year. Mr. Gantt stated that the County will not meet again until next month, but feels this is something it should do and that he will support it. Ms. Westphal stated that more than half of the sampling is done in the County, therefore, feels they should support it. Mr. Venable stated that he realizes VWIN provides information MSD needs and uses, but has felt from the beginning that this is a County function they should provide funding for. Ms. Westphal stated that in addition to talking to the County, they have also talked to the City about collaborating on its Stormwater Management Program. Ms. Bellamy asked Ms. Westphal to address what the City's relationship is with VWIN and where its going. Ms. Westphal stated that the City has a schedule of what it wants to do and is still interested in VWIN's participation, but is not sure of the timeframe.

d. Report on Variable Debt Interest Expense:

Mr. Hartye introduced Ms. Zeigler for a Power Point presentation on Variable Debt. Ms. Zeigler went over the reasons why the District issued variable rate debt. She stated that historically short-term interest rates are lower than long-term interest rates, resulting in savings to the District. Other reasons include enhancing financial flexibility by diversifying the debt portfolio; better matching of assets with liabilities and the ability to pre-pay debt without penalty.

With regard to Diversification of Debt, Ms. Zeigler stated that Standard & Poor's reports that variable rate debt can enhance financial flexibility and reduce interest costs resulting in a positive impact on total credit quality. She further stated that the Local Government Commission recommends a maximum variable rate debt of 20-25% and currently the District is at 22%.

Ms. Zeigler reported that the disadvantages of variable rate debt include interest rate risk, on-going administration fees, which are higher than with fixed rate debt, and additional costs if conversion to fixed rate is desired. She stated that the reason the District went with variable rate debt in 2004 was because variable rates were about 1.6%, whereas fixed rate debt was at 5%. Other reasons for going with variable rate debt were that there were no factors of concern in the market and that professional managers were hired to invest bond proceeds. Based on the annual cost of \$40,000 to purchase an interest rate cap at that time, professional advisors felt it was not cost effective and the Board accepted this recommendation.

Ms. Zeigler presented a graph showing the history of interest costs on variable and fixed rate debt. She noted the disparity between the rates at the time of issuance in November, 2004, which showed an opportunity for considerable savings. She presented an additional graph showing the potential savings from variable rate debt as compared to fixed rate debt. She explained that if variable interest rates averaged 3%, the District could save \$3.8 million over the life of the debt. If the average was 3.5%, the savings would be \$2 million. If the rate went up to 4%, the savings would only be \$200,000 and if it went up to 4.85% there would be no savings since that was the fixed rate at the date of issuance. She stated that it was estimated that the savings at the time of issuance would be \$2 million. Ms. Zeigler further stated that if fixed rate debt was issued in November, 2004 the District would have paid an additional \$476,000 to date. Savings from refunding with synthetic fixed rate debt (swap) is \$251,000 and if this rate continues in the future, the District anticipates a saving of \$2 million on refunding.

Ms. Zeigler reported that the options for variable debt interest rate risk are: keep as is; purchase a cap; purchase a swap or issue fixed rate debt. She presented a diagram of how a swap works and explained that an interest rate swap is an agreement between two parties to exchange interest payments. Ms. Zeigler stated there are a few risks associated with a swap such as the Bank of America (counterparty) could default. Mr. Aceto asked if this would affect the District's ability to pay the principal. Ms. Zeigler said no. She stated that other risks are loss of tax-exempt interest advantage and a large unfavorable BMA-LIBOR variance, which is what the swap is based on. She added that the risk of any of these events is very low at this time and in the foreseeable future. She explained that the District pays the bond holders BMA rates and the Bank of America "swaps" by paying the District LIBOR rates.

Mr. Bissette asked what would happen if a swap agreement is terminated. Ms. Zeigler responded that MSD would be paying whatever the variable interest rate was at that time. She added that since a swap is a contract, it would take either Bank of America or the District saying it wants to terminate the contract. At that time, there could be a small amount of money that would change hands to break the contract. Mr. Clarke added that the counterparty gets a fee up front as part of the cost of issuance. Ms. Zeigler confirmed. Mr. Kelly asked if the Bank of America decided it no longer wants to be the counterparty, would the District go on the market and find another bank. Ms. Zeigler said yes. She stated that, moreover, if Bank of America got into financial trouble, it would have to put up money to guarantee that they would give the District the payments that were due. Mr. Sobol asked if the District can get out of the contract if interest rates are fluctuating. Ms. Zeigler said yes, but if interest rates are fluctuating, the District would probably want to stay in the contract because it would be doing its work by synthetically fixing the rate. Mr. Sobol asked why a cap was ever mentioned. Ms. Zeigler stated that in November, 2004 the District was issued \$24 million of new money, which is totally variable with no cap. Then in January, 2005 the District did a refunding with a swap on the refunding variable debt. Caps are not used in conjunction with a swap. Mr. Sobol asked how much the District could be on the hook for in a worst case scenario if the swap were

terminated. Ms. Zeigler stated that there is cash on hand which is earning interest at a higher rate than what is being paid for the variable debt, so the District would not be on the hook for any additional amounts. Or, if this strategy were not possible, an alternate tactic would be to give 30 days notice and then the District could take this money out of the bank and pay off the variable debt. Mr. Hartye stated that the whole idea is having money in the bank to hedge the interest rate being paid out versus the interest rate received. Ms. Zeigler stated that currently the District is paying an interest rate of 3.5-3.6%. If that rate goes to 4%, but investments are earning 6.2%, the District is not on the hook for anything. A discussion followed regarding the cost of the CIP, whether or not a cap should be purchased and who would make that decision. Ms. Zeigler stated that a decision on when to initiate the purchase of a cap would be made by her, Tom and the advisor. Ms. Bellamy asked what the percent of debt versus pay-as-you-go is. Mr. Hartye said approximately 50/50.

e. Cash Commitment/Investment Report – Month ended November 30, 2006:

Presented as information only.

Mr. Aceto called for a motion regarding the Consolidated Motion Agenda. Ms. Bellamy moved that the Board approve the Consolidated Motion agenda as presented. Mr. Kelly seconded the motion. Mr. Sobol asked Ms. Westphal if any of the tests performed have been expanded to check for chemicals in stormwater runoff. Ms. Westphal stated that they test for heavy metals and that water analyzed from Asheville streams test higher in heavy metals than other counties in the State. Mr. Sobol asked if they test for cadmium. Ms. Westphal stated that they no longer test for cadmium, nickel and other chemicals, because levels were always low. With no further discussion, Mr. Aceto called for the question. Voice vote in favor of the motion was unanimous.

8. Old Business:

Mr. Aceto reported that on Monday, January 15th he, Mr. Hartye, Ms. Bellamy, Mr. Bissette, Mr. Gantt, Mr. VeHaun, Mr. Creighton and Mr. Clarke met with legislators to present the District's concerns about the desire to have Special Assessment Authority. He stated that the legislators expressed their concerns and suggested the possibility of having extensions funded by some sort of additional sales tax assessment. Representative Thomas requested staff provide a business plan on the District's proposal. Mr. Venable asked if the legislators felt the political entities should do extensions themselves as opposed to MSD. Mr. Bissette stated that Senator Nesbitt did not feel homeowners should pay for extensions if they didn't want them; that it should be paid for by the political entities. Mr. Haner asked if he understands correctly, that the delegation did not embrace the idea of a special assessment. Mr. Bissette stated that Representative Goforth seemed to be more receptive to the idea than Senator Nesbitt, but felt there was a better understanding toward the end of the meeting.

Ms. Bellamy stated that MSD should educate the Legislators on its extension policy, since they may be under the impression that MSD does what it wants, instead of what the governing bodies want. Mr. Hartye stated that Representative Goforth is asking for an idea of how much an assessment might be. Since that meeting, staff has put together figures for the Reems Creek and Robinson Creek basins. He explained that MSD could assess for running interceptors to all of the properties or assess for running interceptors and all of the small mains to the properties. Depending on what the developers decide, the cost could range from \$500.00 to \$3,000.00 per household. With regard to MSD's role in the Land Use Plan, Mr. Hartye stated that MSD can define incentives to be focused in or linked to the primary areas and update the Master Plan to show where growth should occur beforehand, so that when developers want to install lines it will be MSD's plan they are implementing. Also, MSD may come up with the

easements that are necessary, as opposed to allowing pump stations. Mr. Haner stated that he would be interested in pursuing a special assessment if MSD could condition the request in such a way that would be acceptable to Senator Nesbitt and those who may not be supportive. Mr. Aceto stated that the best way to restate MSD's case is through the business plan that will be presented in a follow-up response as requested by Representative Thomas. Mr. Bissette stated that assessment authority is not a unique request and asked Mr. Clarke who has this authority. Mr. Clarke stated that cities, counties and regional water & sewer authorities do. Mr. Venable asked if, MSD does not get special assessment authority and does not do extensions, will this have any effect on the County's Land Use Plan. Mr. Creighton said it would, since one of the keys is controlling where utilities go, which will help the County control growth and set priorities.

9. New Business:

Mr. Aceto presented Minutes of the 2002 and 2005 Board retreats and went over the Goals and Objectives from those meetings. He asked the Board to consider what needs to be accomplished in the coming year and their thoughts on scheduling a retreat in February or March. Mr. Aceto instructed staff to coordinate dates with Board Members.

10. Adjournment:

With no further business, Mr. Gantt moved for adjournment at 3:14 PM.

Jackie W. Bryson, Secretary/Treasurer