

BOARD OF THE METROPOLITAN SEWERAGE DISTRICT
MAY 16, 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 2:00PM on Wednesday, May 16, 2007. Chairman Aceto presided with the following members present: Bissette, Bryson, Creighton, Gantt, Haner, Kelly, Sobol and Venable. Ms. Bellamy, Mr. Newman and Mr. VeHaun were absent.

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, Joseph Martin with the Woodfin Sanitary Water & Sewer District, Marcus Jones with Henderson County, Stan Boyd, Martha Zeigler, John Kiviniemi, Ed Bradford, Peter Weed, Ken Stines, Mike Butler, Kevin Johnson, Susan Pressley and Sondra Honeycutt, MSD.

2. Inquiry as to Conflict of Interest:

Mr. Aceto asked if there were any conflicts of interest with the agenda items. None were reported.

3. Approval of Minutes of the April 18, 2007 Board Meeting:

Mr. Aceto asked if there were any objections to adopting the minutes of the April 18, 2007 Board meeting as presented. With no objections, the minutes were adopted by acclamation.

4. Discussion and Adjustment of Agenda:

None

5. Informal Discussion and Public Comment:

Mr. Aceto welcomed Ms. Karpen, Mr. Martin and Mr. Jones.

6. Report of General Manager:

Mr. Hartye reported that the MSD received a "Pat on the Back" award from the Western North Carolina Regional Air Quality Agency for compliance with air quality rules and regulations during 2006. He further reported that MSD received a letter from B and B Associates of Virginia, Inc. expressing appreciation for a job well done to Mike Schraven, Stan Boyd, Kevin Johnson, Susan Pressley and Mary Alice Hunter. A letter was also received from the League of Municipalities congratulating the District on the improvement in its Workers Compensation claims and appreciation for the efforts of Jim Naber, Environmental Health and Safety Director. In addition, MSD received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the Comprehensive Annual Financial Report (CAFR). Mr. Hartye expressed his appreciation to Martha Zeigler, Scott Powell and Teresa Gilbert.

With regard to follow-up items from the Finance Committee, Mr. Hartye reported that affordability information for FY08 rates, based upon the Median Household Income, shows that the new monthly bill represents 0.68% of the Median Household Income for Buncombe County. This is about 1/3 of the EPA affordability index of 2%. Also, fees for additions to existing structures are not based upon additional flow, but are to recover the costs of MSD personnel having to mark-out sewer facilities. The fee is only applied to those additions where the footprint of the building changes.

Mr. Hartye presented a copy of House Bill 1121 regarding retainage payments on construction contracts along with MSD's response, which was sent to Board Members on April 20th. He reported that the Senate recently passed bill 1245 which raises the formal bid amount for publicly advertised construction contracts to \$500,000. He stated that the retainage provisions are substantially the same, but the interest-bearing escrow account portion of the bill was removed. He further reported that this bill will go to the Commerce and Judiciary Committees and that staff has been talking to the League of Municipalities who will be a part of these meetings. Mr. Hartye stated that after meeting with staff, he is confident MSD can come up with other ways of handling contractual matters to deal with the proposed retainage regulations, since most of the retainage has to do with restoration. Mr. Venable asked if anyone has talked to Senator Nesbitt about the bill. Mr. Hartye said no. Mr. Aceto asked the Board if it should take any other action. Mr. Clarke stated that the League of Municipalities will represent the various municipalities at these meetings. He further stated that the School Boards are firmly opposed to this legislation and will have some input.

Mr. Hartye reported that the next ROW Committee meeting will be held May 30th at 9AM. The next regular meeting of the Board and Public Hearing on the Fiscal year 07-08 Budget will be held June 13th at 2PM.

7. Report of Committees:

Finance Committee

Mr. Kelly reported that the Finance Committee met April 30, 2007 to consider the proposed Schedule of Sewer Rates & Fees for FY 07-08 and the Preliminary Budget for FY 07-08, both of which will be discussed following the Consolidated Motion Agenda.

8. Consolidated Motion Agenda:

a. Consideration of Amendment of Sewer Direct Billing Policy and Procedures:

Mr. Hartye reported that staff recommends that the Sewer Direct Billing Policy and Procedures be amended from consumption charged per month for single-family homes from 6 to 5 CCF.

b. Consideration of Developer Constructed Sewer System – Riverwalk Subdivision:

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

c. Consideration of Acceptance of Enka Park Sewer System:

Mr. Hartye reported that the Board previously reviewed the inclusion of the Enka Park sewer system into the District and that the Enka Park Commission has met all of the criteria brought forth at that meeting and staff recommends acceptance of the Enka Park sewer system.

d. Cash Commitment/Investment Report – Month ended March 31, 2007:

Presented as information only.

Mr. Bissette moved that the Board approve the Consolidated Motion Agenda as presented. Mr. Gantt seconded the motion. Mr. Aceto called for discussion. With no discussion, roll call vote was as follows: 9 Ayes; 0 Nays.

9. Consideration of Schedule of Sewer Rates and Fees:

Mr. Hartye referenced page 10 of the Preliminary Budget (Current Business Plan) which shows the projected sewer rates and fees for FY 2008. He reported that the fees were adjusted last year pursuant to the Board's decision to adopt a five year plan to recover revenues lost from industrial customers. Mr. Gantt stated that he feels spreading the costs out over a five-year period is predictable and is the best way to do it. Mr. Aceto called for a motion. Mr. Gantt moved that the Board adopt the Schedule of Sewer Rates and Fees as presented. Ms. Bryson seconded the motion. Mr. Aceto called for discussion. With regard to the inspection fee, Mr. Sobol asked what the inspectors are looking for. Mr. Boyd stated that the inspectors go out to locate the existing MSD sewer main. Mr. Sobol stated that he feels the cost to do this is excessive (\$450.00 currently and \$550.00 next year) and would like staff to look at ways to reduce this charge. Mr. Sobol moved that the inspection fee be reduced to \$200.00. A discussion was held regarding the number of inspections per year. Mr. Hartye stated that staff will come back with revised number for the final budget. Mr. Aceto called for an amendment to Mr. Gantt's motion to adopt the Schedule of Sewer Rates and Fees as presented. Mr. Gantt amended his motion adding, that staff come back to the Board with a fee that is related to the time and cost of doing inspections. Ms. Bryson accepted the amendment. With no discussion, roll call vote was as follows: 9 Ayes; 0 Nays.

10. Consideration of Resolution Adopting the Preliminary Budget for FY 2007-2008:

Ms. Zeigler presented the Preliminary Budget for FY 2007-2008. She reported that under Current Year Highlights, it is noted how the District is compensating for the loss of revenue from its largest industrial customer through timing of CIP projects and limiting the increase of operating expenditures and the proposed rate increase to 4.0% for the upcoming year. She explained that the rate increase and budgeted revenues are based on an assumption of a 1% growth in residential customers taken from consumption data. She stated that the long-range business plan introduced by Mr. Hartye incorporates these changes and projects that future rate increases will be 4% for the upcoming five years and gradually decline to 3% by the end of the following five years. She explained that the increase is necessary to provide for the District's responsibilities and objectives and represents a .87¢ increase in the monthly bill. She further reported that operationally, the System Services Department goals are to rehabilitate and replace at least 20,000 linear feet of line per year, while providing preventative maintenance for approximately 500,000 linear feet. The Wastewater Treatment Plant is continuing with systematic improvements as part of the completed Facilities Management Plan and the District will be updating its Collection System Master Plan in FY08.

Ms. Zeigler reported that the proposed Operating Budget for FY 07-08 is \$12.8 million and that the key to the budget is compensation and benefits, which represents 60% of expenses. She stated that some of the highlights of significant components and changes include the Personnel Committee's recommendation of a 3.6% merit increase based on the Employee Advisory Committee's recommendation to forego some health insurance benefits and have a slight premium increase of 1% in return for additional salary. She further reported that other highlights include a 12.4% decrease in overtime by establishing a second-shift first responder for the System Services Department to handle emergency calls between 4 p.m. and 11 p.m. and that Materials, Supplies and Services expenditures increased 2.2% over the prior year due to increases in professional/contractual services; equipment maintenance and the cost of utilities. Expenditures for the Capital Improvement Program are \$14.8 million, which is comprised of an estimated \$13.1 million in construction, \$700,000 of reimbursement and \$1 million in contingency.

Ms. Zeigler presented an overview of the Budget Process, Budget/Rate Forecast and Budget Summary, which shows a total budget of \$36.4 million. She stated that of the total expenditures, Operations and Maintenance is 35%, Capital Equipment is 2% and the remainder is dedicated to CIP (Construction Projects at 40% and Debt Service at 23%). Ms. Zeigler presented charts showing the budget for each individual fund, which is behind the Budget Resolution of money being appropriated for each. Regarding revenues, Ms. Zeigler presented a graph of historical revenues by type, which shows domestic sewer rates going up, but other revenues as being flat or going down. She stated that 62% of the revenues are from Domestic User and Billing Fees; 4% from Industrial Users and 6% from Facility & Tap Fees. The Available Funds of \$8.4 million (23%) is pay-as-you-go money that has been accumulated in prior years and will go toward the CIP. Regarding Revenue Trends, Mr. Venable asked if the trend line for the Domestic User Fees include the rate increase. Ms. Zeigler said yes. Mr. Venable asked if this has been looked at without the rate increase. Ms. Zeigler stated that there is a 1% growth in the number of households, but the consumption data has not increased.

Regarding the Operation & Maintenance (O&M) Fund, Ms. Zeigler reported that the O&M fund budget totals \$12,846,159, which represents a 3.87% increase over the previous year, and is split up between the divisions. She stated that the major factors that impact the O&M budget are repairs and maintenance, energy costs, debt administration expenses and salaries and benefits. She explained that the reason salaries and benefits are only going up by 2% is because there were several retirements and turnovers of highly paid employees and those positions are being filled by people at a lower level. Mr. Hartye stated that a major component affecting salaries was the overtime reduction.

Ms. Zeigler went over highlights of the Capital Improvement Program and reported that the CIP process begins with engineering staff developing projects, preparing cost estimates and a timetable for construction. She stated that significant collection system projects scheduled for the upcoming year include the final third of the Lower Smith Mill Creek interceptor which is 7,226 liner feet at a total cost of \$3.5 million and the Sweeten Creek at Rock Hill Road collector which is 5,600 linear feet at a cost of \$2 million. In addition to the CIP Program Summary, Ms. Zeigler presented a 10-year graphical representation of the CIP showing a decrease in interceptor work, whereas general sewer rehabilitation is increasing. In addition, major renovations are planned for the Water Reclamation Facility in 2010.

Ms. Zeigler reported that the District has established two Replacement Funds as part of its sewer rate stabilization strategy (Fleet Equipment Replacement and Wastewater Treatment Plant Replacement) with a third (Capital Reserve Fund) required under the Bond Order. She stated that the purpose of the replacement funds is to budget in advance for major equipment purchases. She noted that fleet equipment replacements for FY 08 include 5 pickup trucks, portable flusher truck, tank truck and backhoe. Treatment Plant expenditures include RBC rehabilitation and pump replacements. She further noted that because the Capital Reserve Fund is held for emergencies, no expenditures are being budgeted.

Regarding Insurance Funds, Ms. Zeigler reported that funding for the employer contribution is going up and the employee contributions are going down due to several employees who have retired; reaching age 65 and are no longer putting in 50% of the contribution. She stated that hopefully this will have an affect on claims being budgeted. She further stated that since some of the benefits are being limited and retirees are off the plan, the actuaries are budgeting a lower than expected claim liability.

With regard to General Liability claims, Ms. Zeigler reported that SSO claims are down and there have been no major deductible claims or other liability issues and that

the modifier factor for Worker's Compensation has come down due to the efforts of Jim Naber and all Supervisors.

Ms. Zeigler reported that the Appendix shows a detail of Capital and Non-Capital Expenditures. Regarding the Self-funded Employees Medical Program, Mr. Venable asked what "TPA" stands for under Aggregate & Stop Loss Premiums/TPA. Ms. Zeigler stated that this is a third party administrator; the company the District pays to take care of its claims. Mr. Venable asked if the District is looking for another company to take care of this. Ms. Zeigler stated that when the first estimates came back for renewal they were very high so staff got quotes from other municipalities. Since that time, MSD's current broker has gone out for additional quotes; however, MSD may or may not switch depending on the cost involved. Mr. Aceto called for discussion. Mr. Venable thanked Ms. Zeigler and the Finance Committee for the Preliminary Budget document. Mr. Kelly moved that the Board approve the Resolution adopting the Preliminary Budget for FY 07-08. Mr. Venable seconded the motion. Roll call vote was as follows: 9 Ayes; 0 Nays.

11. Old Business:

None

12. New Business:

Mr. Aceto reported that at the request of CIBO, he and Mr. Hartye were invited to speak at a quorum, along with Representative Goforth, Mayor Bellamy, Council members and Chairman Ramsey, regarding a regional water authority. He stated that their presentation was limited to clarifying that MSD has no position on this issue, but to remind the group that MSD is a primary model of a successful regional utility in the county and how that came to be. He further stated that Chairman Ramsey was very much in favor of combining water and sewer into a regional authority.

Mr. Aceto reported that Mr. McGill and Mr. Hartye met to compile the Planning Issues for 2007-2008, based on comments expressed at the Board Retreat. He presented a copy of the issues and stated that staff will schedule meetings to address these issues during the coming year.

13. Adjournment:

With no further business, the meeting was adjourned at 2:55PM.

Jackie W. Bryson, Secretary/Treasurer