

**BOARD OF THE METROPOLITAN SEWERAGE DISTRICT
SEPTEMBER 19, 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, Wednesday, September 19, 2007. Chairman Aceto presided with the following members present: Bellamy, Bryson, Bissette, Creighton, Gantt, Haner, Kelly, Sobol and VeHaun. Mr. Newman and Venable were absent.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Gary McGill with McGill Associates, Marcus Jones with Henderson County, Joseph Martin with Woodfin Sanitary Water & Sewer District, Leah Karpen with the League of Women Voters, Gary Jackson, Asheville City Manager, Ken Lackey and Brent Reuss with Black & Veatch, Paul Hyler with Riverwood Development, Stan Boyd, Martha Zeigler, Ed Bradford, John Kiviniemi, Angel Banks, Peter Weed, Ken Stines, Roger Watson, Scott Powell 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. Mr. Aceto reported that he had a conflict with Item c. (Springs of North Asheville) of the Consolidated Motion Agenda and asked Mr. Sobol to preside over the vote on this item. No other conflicts were reported.

3. Approval of Minutes of the August 15, 2007 Board Meeting:

Mr. Aceto asked if there were any objections to approving the Minutes of the August 15, 2007 meeting as presented. Mr. Haner asked if the vote on page three, second paragraph, is correct. Mr. Clarke said yes. With no further discussion, Mr. Haner moved that the Minutes of the August 15, 2007 meeting be approved as presented. Mr. Kelly seconded the motion. 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 Mr. Jackson, Mr. Martin, Mr. Lackey, Mr. Reuss, Mr. Hyler and Ms. Karpen. Mr. Aceto called for public comment. Ms. Karpen announced that the League of Women Voters is sponsoring a forum on Immigration to be held September 27th at 7PM, and a Candidates Forum will be held October 17th from 7-9PM for all City Council candidates. Both Forums will be held at UNC-A. Also, there will be a Forum for Black Mountain candidates.

6. Report of General Manager:

Mr. Hartye announced that the United Way Golf tournament is scheduled for September 20th at the Asheville Municipal Golf Course. He expressed his appreciation to Peter Weed, Mike Butler, Jim Naber, Barry Cook and Julie Willingham for heading up this year's tournament. He further announced that the Employee Picnic will be held October 11th at MSD.

Mr. Hartye reported that Mr. Aceto went before Asheville City Council to go over MSD Board Goals and Objectives for the coming year. He further reported that he met with the Buncombe County Commissioners to share MSD's Master Planning and Affordable Housing efforts.

Mr. Hartye announced that Ken Stines, Director of System Services and Marsha Kiser, Personnel Director were recently married and that Marsha will be leaving the MSD on November 1st.

Mr. Hartye expressed his congratulations to the Wastewater Treatment Plant personnel for receiving the NACWA Platinum 7 Award for 7 years of compliance with the NPDES (discharge) permit requirements and to Angel Banks for being elected the Southeast Region Chair of the International Right of Way Association (IRWA) covering a six state region. Mr. Aceto asked Ms. Banks to give an overview of what the Association does. Ms. Banks stated that the Association consists of Right of Way professionals who work both in the private and public sectors of the right of way industry. The IRWA provides both educational courses and networking opportunities. She further stated that the Association consists of approximately 10,000 members in the United States and Canada and new membership in Africa and Japan.

Mr. Hartye expressed congratulations to Roger Watson, from the Governor, for his service on the NC Sedimentation Control Commission, to Eric Sams for a job well done in an e-mail from Cory Maples of Arden, to Lisa Tolley, Ken Stines, Mike Stamey, Peter Weed, Eric Mann and Kay Farlow for conducting the annual Continuing Education class for Wastewater Collection Systems Operations, to Mike Sobol and the Town of Black Mountain for winning the Mayors Cup Race and appreciation to Sondra Honeycutt for planting and caring for the flowers in front of the building.

Mr. Hartye presented articles from the Asheville Citizen Times and Weaverville Tribune regarding the Woodfin Water Board's concern over sewer rates; excerpts from State and National surveys showing that wastewater rates are typically 23-24% higher than water rates; a table of all MSD member agencies water & sewer rates showing that the differential for Woodfin is about 15%, and that for the average, all member agencies water and wastewater rates are about the same and, a 2005 NACWA Survey for the Southeast region for rates and fees. Mr. Hartye presented a copy of a Budget/Rate bullet sheet showing budgeted revenues and expenditures; what is happening with the CIP, industry figures and what is behind rate adjustments. Mr. Aceto asked Ms. Bryson if she had any comments regarding the Woodfin Water Board's concern over sewer rates. Ms. Bryson stated that she and Mr. Martin presented information to Trustee James Latimore regarding the reasons for MSD rate increases. Mr. Aceto suggested that MSD offer to respond to any questions they may have.

Mr. Hartye presented a summary of MSD's Wastewater System Performance Annual Report (SPAR) for FY 2007. He stated that this report is required by the State and is published in the Asheville Citizen Times. The District also sends this out to all of its customers either with the bill for City of Asheville customers or by itself with the other member agencies.

Mr. Hartye reported that the Planning Committee will meet October 10th at 9 am; the next ROW Committee meeting will be held September 26th at 9 am and the next regular Board Meeting will be held October 24th at 2 pm.

7. Report of Committees:

None

8. Consolidated Motion Agenda:

a. Consideration of Secondary Microscreen Replacement Project – Design Contract:

Mr. Hartye reported that MSD recently completed a Comprehensive Facilities Plan for the Water Reclamation Facility (WRF), which assessed the condition, performance and future needs of the various unit processes and equipment within the WRF and that one of the primary recommendations from the plan is to replace the Secondary Microscreen System (SMS). He further reported that Request for Proposals was advertised in June, 2007 and the following three major firms were interviewed for the design of this project: Black & Veatch, CDM and Hazen and Sawyer. He stated that after careful consideration of each firm's capabilities and negotiation of a final design fee, the Selection Committee, comprised of Staff and

the Engineer of Record, recommends award of the engineering contract to Black & Veatch in the amount of \$650,000.00, subject to review and approval by District Counsel. He further stated that final design and budgeting will take place in FY09 with construction during FY10 and FY11. Mr. Aceto asked Mr. Hartye to explain how this system fits into the process. Mr. Hartye explained that the SMS is the final barrier in the treatment process; located immediately prior to disinfection and discharge into the French Broad River. He stated that this system has been problematic since construction in 1987 and has never given reliable, trouble-free performance and will need to be replaced as capacity and loading on the plant increases. He further stated that because the plant is aging, there are many processes that will need repair or replacement as time goes on and is critical to long-term permit compliance. Mr. Kelly asked if the \$650,000.00 proposal came in where the Committee thought it would as a pro-rata part of the total project. Mr. Hartye stated that, at this point, the final cost of the project has not been determined, however, the cost was higher before negotiations started and there are certain details staff can do that will bring the price down. Mr. McGill stated that the Committee is comfortable with this number based on the process. Mr. Haner asked if the existing chlorine contact chamber will be taken out of service. Mr. McGill stated that because the chlorine contact chamber is immediately behind the secondary microscreen building it will be impacted by what is done with the building, but that the disinfection process will be dealt with during the course of construction by diverting the flow either thru or around the building. Mr. Haner asked if they plan to keep the intermediate clarifiers. Mr. McGill said yes. Mr. Sobol asked Mr. Hartye to keep track of the savings that will result from using less power and smaller motors, since the project will cost more than originally estimated in the CIP. Mr. Hartye stated that the important aspect is the environmental impact, the ability of the new filters to clean to a level, where the existing filters cannot.

b. Consideration of Sweeten Creek at Rock Hill Road Project:

Mr. Hartye reported this project is for the replacement of an aged interceptor line within a growing commercial zone along Sweeten Creek Road, consisting of 5,356 LF of 8-inch through 16-inch DIP. He addressed the numerous difficulties associated with this line and reported that the project was advertised with the following bids received on September 6, 2007: Carolina Specialties LLC with a total bid of \$2,082,104.90; Payne, McGinn & Cummins, Inc. with a total bid of \$1,671,039.00; Terry Brothers Construction Company, Inc. with a total bid of \$1,625,809.00 and Buckeye Construction Company, Inc. with a total bid of 1,596,220.50. He further reported that staff recommends award of this contract to Buckeye Construction Company, Inc. in the amount of \$1,596,220.50, subject to review and approval by District Counsel. Mr. Hartye stated that the bid was over the Engineer's estimate of \$1,322,300.00 due to difficulties with the line, but that staff intends to utilize savings from two recently bid projects that were slightly under budget estimate.

c. Consideration of Cost Recovery for the Springs of North Asheville and Holcombe Acres Development:

Mr. Hartye reported that The Springs of North Asheville consists of 194 units, with site work currently underway and because an offsite gravity sewer extension was required for the development it qualifies for the District's cost recovery program. He stated that staff recommends that the General Manager be authorized to disburse \$40,000.00 to the developer (Eric Zetterholm) for cost recovery upon acceptance of the sewer system and receipt of satisfactory security.

Mr. Hartye reported that Holcombe Acres Development consists of 12 lots, which have been sold, and an additional 20 lots in future phases. He stated that the property was developed by Sharon Holcombe Banks, Holcombe Acres Development, LLC and Holcombe Properties, Inc. He further stated that an offsite gravity sewer extension was required for the development and therefore qualifies for the District's cost recovery program. He further reported that staff recommends

that the General Manager be authorized to disburse \$4,421.00 to Sharon Holcombe Banks for cost recovery for the Holcombe Acres Development upon receipt of satisfactory security.

d. Cash Commitment/Investment Report – Month Ended July 31, 2007:

Presented as information only.

Mr. Aceto called for a motion on items a. and b. of the Consolidated Motion Agenda. Mr. Bissette moved that the Board approve items a. and b. as presented. Mr. Creighton seconded the motion. Mr. Kelly asked if there is any chance that re-bidding item b. would result in a lower bid. Mr. Bradford said since the bids were so close, he believes the bid reflects current market values and did not think it would make a difference. With no further discussion, roll call vote was as follows: 10 Ayes; 0 Nays.

Mr. Sobol called for a motion on item c. (cost recovery for Springs of North Asheville and Holcombe Acres Development) of the Consolidated Motion Agenda. Mr. Gantt moved that the Board approve item c. as presented. Ms. Bryson seconded the motion. With no discussion, roll call vote was as follows: 9 Ayes; 0 Nays. Mr. Aceto was excused from voting.

9. Old Business:

Update on Investments in Commercial Paper and Investment Policy.

Mr. Aceto stated that following the amendment of the Investment Policy at the previous meeting, which would allow investment in any one issuer of commercial paper to be the greater of 1% of the portfolio or \$500,000, he was concerned about exposing the District to undue credit risk associated with the current commercial paper market. He asked Ms. Zeigler if MSD had bought any one issue in the amount of \$500,000. Ms. Zeigler stated that due to Mr. Aceto's request that the Board take another look at this policy at the subsequent Board meeting, she instructed that MSD not invest in any amount in excess of the previous policy. For this meeting Ms. Zeigler had prepared a written discussion of this issue, which included information that the policies of the City of Asheville and Buncombe County allowed maximums of 2% and 5%, respectively, in any one issuer of commercial paper. Furthermore, the Securities and Exchange Commission limits money market mutual funds to investing 5% of their portfolio in any one issuer. To illustrate what similar percentages would translate into dollar limits for the District, Ms. Zeigler's memo included a matrix of likely cash balances for the District ranging between a low point just below revenue bond issuance, current cash balance and a projected high point immediately after bonds issued with maximum amounts at 1%, 2% and 5%. Ms. Zeigler pointed out that the current \$500,000 limit remains more conservative than the City or County in almost every circumstance. Ms. Zeigler then discussed other ways the District is managing risk in the commercial paper market. Although there is great concern over the current credit crunch, all commercial paper is not the same and the District limits purchases to the highest grade of commercial paper of A1/P1 and any issues containing underlying more risky collateralized debt instruments are avoided. Ms. Zeigler pointed out that risk cannot be completely avoided by abandoning direct investment in commercial paper. Ms. Zeigler reported that before MSD went into its actively managed investment program, the majority of idle cash was invested in the North Carolina Cash Management Trust. This money market fund consists 99% of commercial paper. Alternatively, cashing in commercial paper and putting the money in the bank would not eliminate risk either, since banks are the ones providing the liquidity guarantees for companies issuing commercial paper. In conclusion, Ms. Zeigler pointed out that MSD staff is trying to be very thoughtful in this process and is managing the District portfolio more conservatively than other large local government entities. Mr. Aceto thanked Ms. Zeigler for her thorough response and that he appreciates the article (The Commercial Paper Market) also provided as background information. Mr. Powell added that the primary purpose of the \$500,000 threshold was to attract additional brokers who would compete for the District's business resulting in the highest possible rate of return for investment of idle cash.

10. New Business:

Ms. Bellamy thanked Mr. Aceto and Mr. Hartye for their presentations to the Asheville City Council.

11. Adjournment:

With no further business, Mr. Aceto called for adjournment at 2:45 PM.

Jackie W. Bryson, Secretary/Treasurer