

**METROPOLITAN SEWERAGE DISTRICT BOARD RETREAT
MARCH 19, 2008**

1. Call to Order and Roll Call:

The Board of the Metropolitan Sewerage District held a Retreat in the Boardroom of MSD's Administration Building at 11:30 AM on March 19, 2008. Mr. Sobol called the meeting to order with the following members present: Aceto, Bellamy, Bissette, Bryson, Creighton, Gantt, Haner, Kelly, Metcalf, Sobol and VeHaun. Mr. Russell was absent.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Gary McGill with McGill Associates and Sondra Honeycutt.

Mr. Hartye went over the meeting agenda.

2. 2007-2008 Goals & Objectives:

Mr. Hartye presented the Accomplishments and Progress Update on the Board's Goals and Objectives for 2007-2008. He reported that over the last several years, MSD's goal was to get as many people on the system as possible by providing developer incentives through MSD's Cost Recovery Program. Over the last year, the Board's philosophy has changed to focus development incentives on areas inside the District and primary areas to facilitate the orderly growth of the sewer system. These areas were identified by member agencies through the Buncombe County Land Use Plan and MSD's Master Plan as areas of future growth that will need public sewer.

Regarding pump stations, Mr. Hartye reported that this issue will continue with the Board deliberating over some pump stations where easements can not be obtained for gravity service. He said there are also many places in the District that need to be pumped due to elevation and will be shown as being pumped on the Master Plan. Mr. Sobol asked Mr. Hartye if he anticipates any pump stations not being approved. Mr. Hartye said it depends on who comes forward and with what. Mr. Sobol said although MSD has a pump station policy, some projects seem to make their way past it. Mr. Aceto said the fact that the Board is approving these projects for pump stations does not mean there is something wrong with the policy, but simply that the MSD Board is the last stop in the process. Mr. Hartye stated that for every request for a pump station that comes to the Planning Committee, five or more projects are denied by staff. Mr. Clarke stated that the current policy states that the General Manager makes the decision on pump station projects, but his decision can be appealed to the Planning Committee. Mr. Aceto said the Master Plan will help the Board understand when a pump station is a good option. Mr. McGill stated that one of the problems is developers have come to the Board requesting a pump station without knowing what the big picture is. Mr. Aceto asked the Board to look at these goals and objectives when considering new ones for the coming year.

Mr. Hartye presented the Reimbursement Incentives for Developers that currently exist, which reflects recent changes made as a result of the focus on facilitating orderly growth. He stated that caps were adjusted in order for MSD to facilitate installation of new interceptors as identified in the Master Plan. However, the Board will consider using the Cost Recovery Policy for affordable housing only, later in the meeting. Mr. Haner asked what growth level MSD needs to reduce user rates. He stated that he is concerned with the financial stress people are under, and if MSD can have a posture that looks toward reducing rates, this would fare well with not only the users, but with MSD's public image. Mr. Aceto asked if this is a question of long-term affordability for the users. Mr. Haner said yes. Mr. Hartye stated that this was the original intent, but if the question is whether the Cost Recovery Reimbursement had a bearing on people tying onto the system, there is no way to tell, except for affordable housing. Since the price of land has increased so much over the years, the relative cost of sewer is less.

Mr. Hartye presented a Wellness Program Comparison Schedule compiled by Buncombe County. He stated that because of the initiative of Ms. Bellamy, meetings

between the City, County and MSD were held to discuss a common insurance pool and wellness programs. It was the consensus of the group that an insurance pool would not help the group with its negotiation status and that the real place to cut costs is with disease management and wellness. Mr. Hartye stated that this issue will be discussed in more detail at the Personnel Committee meeting in April.

3. MSD Mission/Operations

Mr. Hartye presented MSD's Mission Statement developed by the Board and a version of that statement developed and used by staff. In addition he provided a copy of the Power Point Presentation that was given to the rating agencies; not only financial, but operational. He noted that MSD recently received an "AA" rating from Moody's, resulting in three (3) AA ratings. In an overview, Mr. Hartye reported that at the Board level, discussions were held largely about development, bonds and interest. The development aspect is how MSD interfaces with its member agencies on a day to day basis, but when talking about the operation of MSD, this is where all the time and money (\$34 million) is being spent. He stated that only 1% of that total is being spent on development and interest on bonds. Mr. Hartye reported that MSD's main mission is rehabilitation of the system to provide for future growth. Regarding the Mission Statement, Mr. Hartye stated that MSD's effective treatment, reduction in SSO's, Safety First, ISO 14001 Environmental Management Systems, rehab and preventative maintenance are all part of that mission. As far as Customer Service, courteous response is number one and second is quick response; 34 minutes during the day and 40 minutes at night by adding a "First Responder" shift. With regard to being cost effective, Mr. Hartye reported that MSD has its own registered engineers, project managers, contract management personnel and inspectors in-house to carry out projects. The other part of cost effectiveness is MSD's Financial Forecast or Business Plan which shows what appreciably affects MSD's rates and what has an impact on them. Mr. Hartye reported that Continuous Improvement is one of the most important parts of MSD culture, which includes ISO 14001 and Pipe Rating.

Mr. Hartye presented the 10-year Capital Improvement Program, which includes Interceptor and Wet Weather Rehab Projects, General Sewer Rehab projects, Pipe Rated Projects, Unclaimed Sewer Rehab Projects, Treatment Plant & Pump Station Improvements, Engineering Force Account and Budget Summary, which includes contingency and reimbursement project amounts.

Mr. Hartye presented the MSD Financial Forecast, which is presented to the Board and Finance Committee to talk about rates. He reported that The Active Plan CIP, which is the 10-year CIP Plan, shows the expense of those categories in the 10-year Capital Improvement Program. The \$24 million dollar bond issues are highlighted for FY 2005, 2011 and 2015. Mr. Hartye stated that some of Assumptions shown are conservative estimates of growth and that GASB-45 requirements are included. He further stated that there are Reserve Funds that are not shown; Insurance Reserve Fund, Debt Reserve Fund, Capital Reserve Fund and Fleet Reserve Funds. A reserve balance was maintained in these funds, which are used as a buffering for major fluctuations. Mr. Hartye also noted the Debt Coverage ratios.

Mr. Hartye presented FY 08 Rate/Budget Bullets and Charts showing Budgeted Revenues and Expenditures, which were compiled for use by the Board. Regarding the anticipated revenue loss of \$1,850,000 per year due to major industry loss, Mr. Hartye reported that he was concerned the rating agencies would take a hard look at this, which they did, but there is evidence that previous projections were right on, and that MSD has a strong plan going forward. Mr. Sobol requested that Mr. Hartye brief the Board on the economic emergency plan. Mr. Hartye stated that the first thing MSD would do is cut back on the CIP, which accounts for one third of the budget. He stated that he will draft something in general terms on how MSD would go about this.

Mr. Hartye reported that MSD did get its new Collection System Permit and was successful in negotiating 250,000 lineal feet over 5 years as opposed to 50,000 feet per year; giving MSD more flexibility in planning for expenditures.

4. Collection System Master Plan Overview:

Mr. McGill gave some background information on the Master Plan done in 2001 and gave a Power Point presentation on the Collection System Master Plan. He reported that last year a Facilities Plan was done at the Treatment Plant with some long-term planning. He stated that because of the capacity and aging of the facility, it was necessary to develop financial strategies to determine how to go forward with what needs to be done, regardless of the flow. He stated that the Collection System is under Permit, but MSD has not been able to determine exactly where it is heading growth wise. Therefore, this effort goes beyond the existing System into areas not served. Mr. McGill reported that MSD's role in land use planning is to support what others are doing in their planning efforts; allowing it to strengthen partnerships with the member entities. He further stated that MSD has a future service area it is planning for over the next 20 years and beyond, allowing for the efficient and orderly growth of the system, which is a big financial issue for MSD. Not only will it save a lot of time and effort up front, but it will help rates stay as low as possible.

Mr. McGill presented maps showing the future collection system layout. He stated that MSD is looking at areas inside the District that are un-served, because the system is not developed out to that point. Mr. McGill reported that the Buncombe County Land Use Plan has identified Primary areas that will need service over the next 10-20 years. Also, there are secondary and tertiary areas that go beyond that. He stated that some municipalities have planning areas that do not overlay on what Buncombe County has done, so these areas need to be considered as well. As far as the growth issue is concerned, MSD is trying to look at all of the sub-basins to create gravity flow where possible. He further stated that instead of using population projections, build-out projections will be done in these areas to determine what kind of flow MSD will have to handle in terms of residential, commercial and industrial usage now that it is focused on certain areas it plans to serve. He explained that these projections will be adjusted on the basis of characteristics within those basins. He stated that in the sub-basins, MSD is sizing pipes and laying pipes out in each of the basins on a gravity basis, so when someone comes in and wants to develop a piece of property, MSD's plans will show a sewer line for that parcel of land. He explained that they are using criteria to size these facilities. The DENR flow criteria is 880gpd per gross acreage, so MSD is keeping the peak flow factor at two and one-half and keeping the pipe half full so as things change over the next 10-20 years, MSD will have the capacity to accommodate that flow.

Mr. McGill reported that everything is put into MSD's GIS System; pipe size, manhole locations, rates and slopes. He stated that the reason this is working so well is because of the combined effort of McGill and MSD staff working through this information on a daily basis. He presented a map showing the existing District Boundary, (shown in grey). He stated that there are approximately 90-95 thousand acres of land in this basin of which MSD serves about 22-23%. However, within the District area, on a land mass basis, MSD serves less than half of the land that is in the District. Mr. McGill stated that in looking at the Buncombe County Land Use Plan, there are about 30 thousand acres in its primary areas (shown in red) that will add about 30 thousand acres to MSD's primary service area, which is what it will be focusing on during the next 20 years. He stated that in the blue areas, flow allocations are being done, but these projections are not to lay pipe. These areas are far enough out to where the parcels can change so much, the detail layout would not be very effective. He further stated that MSD is laying out interceptor lines along creeks with gravity flow in all of these areas, in order to know how the flows will get out of the basins, but not going any further.

Regarding local government involvement, Mr. McGill reported that they will go back to the each entity, including Henderson County, Hendersonville, Fletcher, Cane Creek, Mars Hill and Madison County to determine what they are doing in terms of planning for the future to make sure MSD's sewer system will support what they want to do. He touched on discussions held with each of the entities. Regarding Henderson County, Mr. McGill reported that they are doing planning now and will have a sizable amount of area they want MSD to serve.

Mr. McGill reported that MSD's approach in all of these areas starts out with aerial maps of the basins showing existing sewer lines, primary areas and sub-basins. He presented a map of existing lines under construction and explained that a skeletal model is developed showing all of the pipes, which is then inserted into a hydraulic model showing each manhole location, each line, size, slopes and carrying capacity, etc. He presented an example of a hydraulic model.

Mr. McGill reported that a couple of challenges facing MSD include achieving gravity sewer everywhere possible, depending on where the request comes in the basin, where its located in the basin and what is already there. Also, during this process, it will be necessary to cross the French Broad River, since some of the areas located outside the primary area do not flow by gravity to the plant, especially in the West Buncombe area. He presented a map showing areas that will have to cross the river. Mr. McGill reported that policy considerations include availability of services, the issue of pump stations and the cost of construction.

Regarding the Status of Master Planning, Mr. McGill presented a map showing areas that are complete and those areas inside the District that are being worked on in some form of mapping, flow projections, modeling and GIS. He reported that South Asheville will be done last, partly because Avery's Creek is the biggest primary area and they want to wait and see what Henderson County plans to do. Mr. McGill reported that flow projections are being done in un-served areas to predict what the build-out and dry weather flow will be. After this, flow monitoring will need to be done to determine what impact this will have on getting those flows to the plant. Mr. Sobol asked if the areas of Hendersonville, Cane Creek and Avery's Creek will fill up the two lines that run down the French Broad River and if flow projections have been done on these lines. Mr. McGill stated that all three areas are too much for the existing lines and will need to be upsized. Mr. Haner asked how pipe sizes are adjusted for areas that have a higher water usage than other residential areas. Mr. McGill stated that when each sub-basin is looked at, they look at what the Land Use Plan is for those basins and make adjustments based on what could develop. He stated that the conservative method of sizing pipes is two and one-half times the average flow for peak, which creates a great deal of flexibility over 20 years. Mr. Haner asked if industrial recruitment is factored in. Mr. McGill said yes, especially in South Asheville.

5. AGENDA BOOKS VS. COMPUTERS:

Because of time constraints, Mr. Aceto stated that this item will be discussed during the regular Board meeting.

6. GOALS AND OBJECTIVES:

Mr. Aceto asked the Board to consider in its Goal's & Objectives the following three issues: Master Plan process, Fiduciary responsibilities; how the Board can be proactive in meeting these requirements and Ridge top & Steep slope development. At his request, Mr. Aceto called on Mr. Clarke for a report on MSD's fiduciary responsibilities.

Mr. Clarke reported that MSD's power and authority is derived from Article 5 of Chapter 162A of the North Carolina General Statute. He pointed out MSD is supposed to exercise public and essential governmental functions to provide for the preservation and promotion of the public health and welfare. He further reported that in the 1960's the District adopted a Bond Order, then another Bond Order in 1985, when it first issued revenue bonds, then an Amended and Restated Bond Order in 1999. Mr. Clarke stated that the covenants of the Bond Order require the District to pay all principal and interest on the bonds, to establish reasonable rules, regulations and ordinances governing the use of the sewerage system and to maintain the system in good repair and sound operating conditions and make all necessary repairs, renewals and replacements.

Mr. Clarke cautioned the Board not to ignore these responsibilities, since the District has responsibilities under State law in the Collection System Permit as well as in the Bond Order. He stated that there are a number of examples out there that did not consistently maintain their system; one in Knoxville, one in Atlanta and one in Winston, North Carolina. Mr. Clarke stated that when MSD acquires another sewerage system facility certain findings under the Bond Order require that MSD have adequate funds and no material encumbrances. He further stated that when the District took over the sewerage systems from the City of Asheville and Buncombe County it took on the obligation to operate, maintain, repair and rehabilitate these systems. In addition, the District has the CIP Committee that recommends the 5-20 year plan. Mr. Clarke reported that there were some obligations with respect to extensions, where MSD would pay 35% of the cost. These projects were identified in the Consolidation Agreements and to date, only three (3) extensions remain. Mr. Clarke stated that all of the District's obligations are subject to available funding.

Mr. Aceto asked Mr. Clarke to address the issue of micromanagement. Mr. Clarke stated that the Board can micromanage if it likes, but it's important that both the Board and Staff attend to certain details. He further stated that the Board's overall obligation is to preserve the public health, operate, maintain, repair and replace the sewer system and to make sure there is enough money to do those things.

With regard to the District's fiduciary responsibilities, Mr. Sobol stated that the Board needs to consider whether it will go with variable rate or fixed rate bonds. Mr. Clarke stated that this will be discussed at the regular Board meeting, but no action can be taken until the Local Government Commission meets. Mr. Sobol stated that the Board needs to deal with the current financial situation that is facing the nation. He further stated that its part of the Board's responsibility to let elected officials know how the situation could possibly affect the MSD. Mr. Sobol asked that the Board pass a resolution that will go to Congressman Heath Schuler and Senators saying that the deregulation that has occurred over the past 28 to 30 years has come close to destroying the financial system of the United States. A discussion followed as to whether this issue should go before the Finance Committee. Mr. Sobol stated that he will discuss this further at the Board meeting.

Mr. Aceto asked the Board to consider how the Board refocused its objective of putting more people on the system to orderly growth of the system and if there is a broader role on how this system affects the community. Mr. Haner stated that the overall question is how the orderly growth of the system will affect the Districts ability to reduce rates.

Ms. Bellamy asked how the MSD is dealing with drought conditions like the City of Asheville and is this something that should be looked at long-term. Mr. Hartye stated that the average ccf per customer usage in the area is less than in other areas, so the drought doesn't have the same impact as in other areas of the state and country. A discussion was held regarding water conservation/irrigation and seasonal rates.

Ms. Bellamy asked if MSD could consider the acquisition of greenway rights while obtaining sewer easements. Mr. Hartye stated MSD had worked on the legal framework for this with the City of Asheville and Black Mountain. Mr. Clarke stated that under the existing agreements, MSD does not have the right to do a greenway, but the right to do a greenway could be acquired with some extra cost.

With no further discussion, Mr. Aceto asked Mr. Hartye and Mr. McGill to complete the list of Goals & Objectives for 2008-09 to be presented at a later meeting.

7. Adjournment:

With no further business, Mr. Aceto called for adjournment at 2:05 PM.

Jackie W. Bryson, Secretary/Treasurer

GOALS AND OBJECTIVES FOR 2008-2009

1. Don't Screw it up.
2. Master Plan Incorporation into Extension Policy
3. Board Fiduciary Responsibility:
 - a. Bonds – fixed vs. variable, trigger for change
 - b. Cost/Benefits of adding customers
 - c. Plan for External Economic Emergency
 - d. Impact of drought/conservation
4. Ridge top/Steep slope development policies alignment
5. Possibility of acquiring greenway rights with sewer easements