

**MINUTES OF REGULAR MEETING
OF BOARD OF DIRECTORS
OF LOCKWOOD WATER AND SEWER DISTRICT**

May 10, 2017

The regular meeting of the Lockwood Water and Sewer District Board of Directors was held on May 10, 2017. President Carl Peters called the meeting to order at 7:00 p.m. in the conference room of the Lockwood Water & Sewer District Office, 1644 Old Hardin Road, Billings, Montana.

Present at the meeting were Board members Carl Peters, Carlotta Hecker and Stuart Deans. Board members Nancy Belk and Merrill Walker were absent. Also present were LWSD Manager Mike Ariztia, Assistant Manager Tony Reed, Jill Cook of Morrison-Maierle, Andrew Rheem of Raftelis Financial Consultants, and Evelyn Pyburn of *Yellowstone County News*.

Attendance and Voting Record attached to minutes

PUBLIC COMMENT:

None.

APPROVAL OF MINUTES:

The minutes of the Board meeting of April 12, 2017, were presented for approval. The following corrections were noted: Page 2, Johnson Lane mainline extension, first paragraph, second line, correct the sentence to read, **“The District previously purchased property for construction of the Johnson Lane reservoir on June 30, 1977.”**

Page 5, Motion VI, move “Motion” to align with balance of paragraph.

Page 5, last full paragraph, six lines down, add, “so the irrigation district will not be **further** limited access-wise.”

Page 5, last full paragraph on page, change bottom sentence to read “President Peters **suggested** the District obtain a permit for this process.”

- I. Carlotta Hecker moved to approve the minutes of the Board meeting of April 12, 2017 as corrected. Stuart Deans seconded the motion. Motion carried.

NEW BUSINESS:

- * **Discussion on Aspen Air request to meter sewer flows**

Manager Ariztia reported he had been recently contacted by the owners of Aspen Air. In the case of Aspen Air, and pursuant to LWSD rules and regulations, sewer usage or sewer charges are based on their total water usage. Aspen Air is claiming that a majority of the water they use in their processes evaporates through the cooling towers, and therefore never discharges to the sewer system. Aspen has a 3/4" line that discharges from the cooling towers into the sewer system. They have installed a meter on the 3/4" discharge line and have been metering it for several months. Besides the cooling tower and the process water, they have an office building with bathroom facilities. They have a meter which meters the office separately, a meter that measures their current discharge into the sewer, and the main meter at the street that goes into the property, which is the one LWSD reads and bases its charges on.

In February of 2017, their water usage was 612,800 gallons. Normally they would be billed that full amount on their sewer usage. Based on their meter reading that goes into the office and their meter reading from the discharge from the cooling towers, it shows what was discharged into the sewer was 97,382 gallons, and that 515,000 evaporated. The numbers are not being disputed at this time, but verification is needed on the installation of the meters and their accuracy.

There are two issues that need to be addressed; one, verification that the meters are working and these are accurate numbers. Two, LWSD's billing system is not set up to calculate the main meter reading and subtract the meter reading from the cooling towers, so it would have to be done manually. Manager Ariztia will contact the City of Billings and other businesses in the area that may have this evaporation issue to ascertain how they handle it and report back to the Board.

*** Discussion on potential Phase 3 Sewer Subdistrict**

Now that Phase 2 construction is completed and residents are connecting to the sewer, Jill Cook and Manager Ariztia inquired of the Board as to whether it was interested in moving forward with a Phase 3 sewer project. Jill advised it would be a matter of applying for a planning grant, getting the grant, writing a PER update, and submitting the PER in the next funding cycle, which would be spring 2018. The application, if successful, would be awarded in the 2019 legislature, after which the boundary and bonding processes could commence.

If passed, there is a design process and bid. Consequently, if the District plans on construction in 2021, 2022, the time to start thinking about planning is now. The deadline for requesting grants is typically May 15 in even years. Planning money is available on July 1st, and TSEP typically has \$15,000 planning grants available that require an equivalent match. RRGL has a \$5,000 planning grant.

After further discussion regarding the boundaries to be included and grant sources, the Board directed Manager Ariztia and Jill Cook to begin the Phase 3 grant request process.

Jill also reported that warranty walkthrough on Phase 2 will be in June. There was a

one-year warranty, as RD does not allow a two-year warranty. It will be an 11-month walkthrough because substantial completion was granted in July. There are items that were issues after July, so that warranty period began when the items were fixed.

OLD BUSINESS:

Intake pump station design update

Jill Cook reported that they are continuing with design and are proceeding along the lines of what they had agreed to previously. Jill advised that one pump will still meet the District's current average flow. Currently there are two pumps that are 2100 GPM and one pump that's 1050. The initial planning for new pump station will have three 2000 GPM pumps and one 1500 GPM pump. The pumps will be operated in rotation. The pumps will be on variable frequency drive, so all can be ratcheted back, but the 1500 GPM pump will allow it to be turned down and still stay in the higher efficiency on the pump curve at lower flows. They are also looking at replacing two screens. The permit was filed with MRL last week. They are looking at starting construction in September or October after the Lockwood irrigation canal is turned off for the season.

Rate study update and discussion

- * Financial Plan update
- * Proposed usage rates

Andrew Rheem of Raftelis Financial, presented an update on the progress of developing system development fees and rates for the water and sewer District.

Andrew reiterated that ultimately the District needs enough to fund expenses, capital and operating reserves, and to do so in a stable and predictable environment.

Two different alternatives were brought before the Board. The alternatives look at whether we adjust the base charge, how we adjust it, and what we do with the volume charges. With regard to the residential and commercial water rates being the same, it was decided that may be looked at in the future, but for this study maintaining the existing structure is more important than adding an additional element of change.

Rate alternatives are revenue neutral, and the idea of doing smaller and more periodic adjustments is built in to both water and sewer. Each of the alternatives are essentially the same, where you take that structure and apply what we need on the rate revenue increase side across the board.

The second alternatives are a little different. On the water side, monthly service charges, which include a portion of the main distribution system as well as the customer and

billing costs, are built into the overall rate structure. It's similar to what is in effect today.

On the sewer side, we have the same volume rate for residences and commercial businesses. Because of the size of the base rate on the sewer side, this leaves the existing base rate alone, and we look at the volume rate to generate the additional revenue that is needed.

The following alternatives were presented for water usage based on a 3/4" meter:

Alternative 1: Base rate \$15 to \$17.55 in four years.

Alternative 1: Volume rate \$3.70/thousand

Alternative 2: Base rate \$15 to \$15.82 in four years. 4% incremental increase

Alternative 2: Volume rate \$4.67

Commercial rate same

Board prefers Alternative 2 - lower base rate; higher usage rate

The following alternatives were presented for sewer usage - 3% a year four-year increase

Alternative 1: \$46.30 base rate and usage rate go up incrementally the same

Alternative 2: \$46.30 base rate stays the same; usage rate higher - \$1.10 per thousand gallons to \$1.96 in four years

Board prefers Alternative 2 - base rate same; usage rate higher

Bulk water:

Alternative 1: \$5 per thousand gallons; in four years \$6 per thousand gallons

Alternative 2: \$4.50 per thousand gallons

Board prefers Alternative 1

System Development rates remain the same as set out in the April meeting, essentially moving forward with the Advisory Committee recommendation to arrive at a single system wide development fee assessed to new or increased development, and the mid-zone fee for areas served by the Noblewood pump station, to be phased in over a four-year period. On the sewer, it was agreed to move forward with the phasing-in of the SDF fees over four years. SDF fees to be charged were not solidified at this time.

FINANCIAL REPORTS:

Yellowstone County trial balance shows as of April 30, 2017, \$11,288.52 owing to the District.

Financial reports attached to the minutes are: Check/Claim Detail for the Accounting Period April, 2017; Trial Balance with Revenue and Expenditures for the Accounting Period April, 2017, Statement of Revenue Budget vs. Actual for the Accounting Period April 2017; Statement of Expenditures - Budget vs. Actual Report for the Accounting Period April, 2017.

- II. Stuart Deans moved to approve payment of the bills submitted on the Check/Claim Detail List. Carlotta Hecker seconded the motion. Motion carried.

OTHER BUSINESS:

None.

MANAGER REPORTS:

The water pumping record is as follows:

April, 2016	21,507,900
April, 2017	21,518,400

Wastewater record:

March, 2016	3,732,520
March, 2017	4,443,120

Manager Ariztia reported that there have been 56 sewer connections into Phase II, and there are another 22 that have paid their fees but have not hooked up.

The City of Billings water and wastewater rate report was received. The system development fee is paid to the City on every sewer that's connected in and is collected by the District and once a year is paid to the City of Billings. The City's system development fee currently is \$905 and will raise to \$920 per connection as of July 1, 2017.

The reserve capacity was not addressed as that is part of the City/LWSD contract, not rates. Currently, the reserve capacity fee is \$22,901 per month. For fiscal year 2018, which is starting July 1st of this year, the reserve capacity fee will be \$8,026 per month. For fiscal year 2019, it goes back up to \$20,555.

LWSD reserve capacity fee is based on what has been built. The City planned improvements to the treatment plant, and anticipated that by this current year those improvements would be completed, and assessed a rate of return on those facilities. For whatever reason, it was not built, and is being built now and that is why there is a drop in the

reserve capacity fee; they anticipated it would be done and it wasn't. Consequently the costs apportioned to the District are lower. It will go back up when it is completed in the second year.

Andrew suggested a separate City of Billings reserve account savings account to put aside the difference in the reserve capacity charge the District pays now and the lower one in effect on July 1, 2017.

The City of Billings usage rate is currently .919 per Ccf. It's dropping in fiscal year 2018 to .861 per Ccf, and then in FY 2019, it's back up to .882.

There was a surprise visit from the Montana Department of Labor and Industry for a safety inspection on the District. They inspected the office facility, the treatment plant, and the lift station. Overall the District looks good. There are some deficiencies that will be set forth in their full report. The District will have to provide supporting documentation and responses back to the Department for deficiencies that they found, but there was nothing significant found.

The District received notification from the TSEP program that the District has been awarded a TSEP grant of \$625,000 to complete improvement to the water system through the intake project.

The next item was the Resolution of Intention of the Lockwood Area/Yellowstone County Water and Sewer District to increase rates for the users of the District water and wastewater system. In addition, the Resolution will be setting the date for the rate hearing for May 23, 2017.

RESOLUTION NO. 141-A

Resolution of the Lockwood Area/Yellowstone County Water and Sewer District, Montana, to increase rates for the users of the District's water and sewer system.

WHEREAS, under Section 7-13-2301, Montana Code Annotated, the Board of Directors shall fix all water and sewer rates and shall, through the general manager, collect the sewer charges and the charges for the sale and distribution of water to all users.

WHEREAS, pursuant to Section 7-13-2275, Montana Code Annotated, the Board shall order a public hearing prior to the passage or enactment of an ordinance or resolution imposing, establishing, changing or increasing rates, fees or charges for the services of the facilities.

Section 1: Intent to increase water and sewer user charges. It is the intent of the District to implement a rate increase for users of the system as set forth herein.

Section 10: Public Hearing. A public hearing on the rate increase will be held on May 23, 2017, commencing at 7:00 p.m., at the Commons Room of the Lockwood Middle School, 1932 Highway 87 East in Lockwood, Montana.

Section 11: Notice. The District secretary is hereby authorized and directed to publish or cause to be published a copy a notice of the passage of this resolution in the *Billings Times* May 11th and May 18th, 2017, in the *Yellowstone County News*, May 12th and May 19, 2017, both newspapers of general circulation in the District, in the form and manner prescribed by law and to mail or cause to be mailed a copy of said notice to all customers of the District and owners of property in the District affected by the change at least seven days and not more than 30 days prior to the public hearing. The mailed notice must contain an estimate of the amount the property owner or customer will be charged.

Section 12: Effective Date of Resolution. This resolution shall be immediately filed with the District secretary and shall become effective upon passage.

Passed and approved this 10th day of May, 2017.

- III. Carlotta Hecker moved to adopt Resolution No. 141-A, intention to increase rates for users of the District's Water and Sewer System, and setting a date for the public hearing. Stuart Deans seconded the motion. Motion carried.

There being no further business to come before the Board, the meeting was adjourned at 10:40 p.m.

- IV. Carlotta Hecker moved to adjourn the meeting. Stuart Deans seconded the motion. Motion carried.

The next Board meeting will be held on June 14, 2017.

Carlotta Hecker
Attest

[Signature]
Attest