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

April 12, 2017

The regular meeting of the Lockwood Water and Sewer District Board of Directors was held on April 12, 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, Nancy Belk, Carlotta Hecker, Merrill Walker, and Stuart Deans. Also present were LWSD Manager Mike Ariztia, Jill Cook of Morrison-Maierle, Andrew Rheem of Raftelis Financial Consultants, Matt Hjelm of Wipfli, 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 March 14, 2017 were presented for approval. Two corrections were noted; Page 2, Old Business, 3rd paragraph, add "at" after "to arrive". Page 2, paragraph 5, add, District collects a "one-time system development" fee.

I. Stuart Deans moved to approve the minutes of the Board meeting minutes of March 14, 2017 as corrected. Merrill Walker seconded the motion. Motion carried.

NEW BUSINESS:

* **Presentation and approval of 2015-2016 Financial audit (Matt Hjelm - Wipfli)**

Matt Hjelm of Wipfli, LLP, presented the 2015-2016 fiscal year audit for Board review.

Wipfli's audit was based on district-wide figures, combining sewer and water. The audit opinion was unmodified and designated as "clean". There were no reportable issues.

II. Nancy Belk moved to accept the 2015-2016 Financial Audit of June 30, 2016, from independent auditor Wipfli. Stuart Deans seconded the motion. Motion carried.

* **Johnson Lane mainline extension and service for 102 Johnson Lane (D06615)**

Manager Ariztia was approached by the owner of property at 102 Johnson Lane. The District previously purchased property for construction of the Johnson Lane reservoir on June 30, 1977. As .part of the agreement made at that time, the District agreed to provide the owner a water service when they were ready. They are now requesting water service, and the closest source of water is at the tank. There are no mainlines running from the tank down south of the tank on Johnson Lane. The planned installation would be 350 to 450 feet of 12" pipe. This project would also fall within the master plan of connecting Johnson Lane and Highway 87. Construction cost is estimated at $80,000, and engineering cost at $20,000.

III. Nancy Belk moved to approve the Johnson Lane Mainline Extension - 350 to 450 feet of 12" pipe; construction cost not to exceed $80,000; engineering costs not to exceed $20,000. Merrill Walker seconded the motion. Motion carried.

Copy of map attached to minutes

OLD BUSINESS:

Rate study update and discussion

* Review of the System Development Fees (SDFs), and recap of recommendations from the system development advisory committee.
* Financial Plan update
* Introduction into 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.

To reiterate from the March Board meeting, a system development fee is a one-time fee assessed to new or increased development to defray the District's costs in providing capital facilities. The vast majority of customers on the system are the base 5/8 or 3/4" water meter size. Sewer is a smaller charge and increases by meter size. The footnote here is there is a City of Billings system development fee of $905, which is assessed by the District and passes through to the City of Billings. The District is also subject to a franchise fee of 4%, which is the District's wastewater treatment plant fee.

In Phase 1, the SDF for the City of Billings was prepaid, so the $905 doesn't apply, but within Phase II, it does. The City of Billings is currently doing a rate study. There are two main components of cost to the District from the City of Billings; the wastewater treatment plant operating costs, and the reserve capacity fee, which may or not be increased after the new rates are formulated.

The ultimate recommendation of the advisory committee was 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.

The system development fees are used for capital improvements, including development and repairs. The fees cannot be used for payment of other expenditures. These phases are funded and repaid through property assessments to repay the debt service. Over time as debt is paid off, that "downs" the equity, to use the term the auditor used, and increases your equalization fee, to buy into the system that others have paid through their assessments or through development fees that increase over time.

A series of slides with tables outlining the proposed phasing of charges for SDFs for water and sewer were presented, with comparisons to Bozeman, Laurel, Livingston, Billings Heights and Billings. Because of the diversity of divisions and costs shown, and the fact that the final amounts are not known and are subject to change, they will not be presented here.

Raftelis is also preparing an updated rate study, which will to some extent depend on the rate study and/or increases by the City of Billings. The new City rates should be known by the May Board meeting.

Manager Ariztia requested input from the Board. In answer to a question from President Peters, he stated that the figures used in the proposals are solid and could be defended to the public as revenue to replace the existing infrastructure and to meet infrastructure demands in the future.

The Board agreed to go forward on the four-year phase-in water rate structure as presented, with the intent that all of Lockwood would be one fee on the water system development fee side at the end of the four years. Manager Ariztia stated once the rate study is complete, the rates would be monitored internally, but he would like to do an update to it in five years from now to see how the plan worked, and if the forecasts for revenue are sufficient at the five-year mark. On the sewer side it was agreed to move forward with the phasing-in of the SDF fees over four years.

Mr. Rheem advised the next section of his report was rate alternatives on how various rate structures may impact different types of users. There are some assessments primarily dedicated to paying debt service, but for the most part it is user charges and development fees that fund everything the District does.

Two rate alternatives were identified for each utility, revenue neutral and smaller and periodic adjustments. The water rate alternatives consist of across the board increases applied to existing rate base and volume rate structure. The second is cost of service based on monthly service charges and volume rates necessary to meet cost of service. The proposal is to retain the monthly service charge, and adjust that or increase that by 4% year. On the volume side, the rate would also be increased by 4% a year.

The water fund is in good shape financially. There's a long-range capital plan, with anticipation of issuing some debt in the water system to fund periodic or bigger projects. Manager Ariztia's preference is more frequent, smaller periodic increases rather than larger adjustments. The goal is trying to recover costs from users in proportion to their use of the system.

The sewer rate alternatives are one: across the board increases applied to existing rate base and volume rate structure, and two; increase just the volume portion of the rate structure to generate additional revenues. The variable in the decision of either one of these alternatives is the City of Billings increasing their fees by 5%. Another increment to be considered is additional connections to the sewer system that will generate revenue, but also will produce more flows to the City and raise the District's liability.

Manager Ariztia advised he favored the option on the sewer side where the base rate stays the same, and the increase is on the usage rate, which should have less impact on the lower users or seniors. Hard numbers will be partially presented at the next meeting, with final numbers at the public hearing on May 23.

3/14/17 Final Memorandum from Raftelis attached to minutes

Raftelis' Contract Amendments

* **Development of Exxon SDF and usage rates**

A request for contract amendment was received from Raftelis for out of scope services with regard to the Exxon Sewer Rate, SDF analysis and memorandum, and assistance with the contract. The amendment requested is in the amount of $14,245. The anticipation is that Exxon will reimburse the District for this cost.

IV. Stuart Deans moved to accept Raftelis' request for contract amendment for out of scope services in the amount of $14,245, with regard to Exxon SDF and usage calculations. Merrill Walker seconded the motion. Motion carried.

* **Additional scope of work for services related to the 2017 City of Billings rate study.**

Raftelis requested a not-to-exceed contract related to the review and an onsite meeting with the City and City representatives regarding the City of Billings proposed sewer rates and SDFs. RFC requests a contract amount of $15,000 for on-call services.

V. Nancy Belk moved to approve Raftelis' request for a not-to-exceed contract in the amount of $15,000 related to consultations with the City of Billings regarding proposed sewer rates and SDFs. Merrill Walker seconded the motion. Motion carried.

* **Increase to original contract amount for additional work related to the Lockwood rate study.**

Raftelis requested a contract amendment to the original contract with regard to the Utility Cost of Service and Rate Study in the increased amount of $8,320 to cover out of scope items and/or sufficiently more complicated tasks to warrant a contract amendment request.

VI. Merrill Walker moved to accept Raftelis' request for an amendment to the original contract increasing the contract from $76,515 to $84,835, an increase of $8,320 for work done on the Lockwood rate study. Stuart Deans seconded the motion. Motion carried.

Raftelis' Three Requests Attached to minutes

* **Intake pump station design update**

Manager Ariztia advised that as he and Jill Cook got further into the design of the intake pump station, the small area and footprint presently at the river with the current intake situation, prompted them to look at different options because the initial design would not fit on that site. Two options were explored; redesigning and fitting it into where it's currently located, or the second option which is cutting the pipes and boring underneath the bridge at an angle and building the new pump station on Lockwood property where there is currently an old well and heater house.

The second option, however, will increase the cost three-quarters to a million dollars. So the logical option is to reduce the initial plan to staying at the present location and realigning the pump tubes and clean-outs. It would be a submersible pump versus a vertical turbine, and the pump tubes in the design they propose to move forward with, will be sitting on the front of the building below grade in a concrete encasement with a metal grate across the top, so the irrigation district will not be further limited access-wise. On the backside of the building there will be clean-outs for each one of the tubes in case they have to be cleaned out, but they will be in a vault below grade with a traffic grate over the top so the irrigation district can access their facilities. The pumps will be right next to the building and the clean-outs on the other side. President Peters suggested the District obtain a permit for this process. Manager Ariztia and Jill both advised the project will be permitted.

Copy of proposed site map for intake pump station attached to minutes

FINANCIAL REPORTS:

No trial balance was received from Yellowstone County.

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

VII. Nancy Belk moved to approve payment of the bills submitted on the Check/Claim Detail List. Merrill Walker seconded the motion.
Motion carried.

OTHER BUSINESS:

None.

MANAGER REPORTS:

The water pumping record is as follows:

March, 2016	23,177,300
March, 2017	21,362,800

Wastewater record:

February, 2016	3,072,748
February, 2017	3,599,376

Postcards were sent out in the Sierra Estate area in March to advise them that the waterline tie-in that ties into the Noblewood Booster Station and increasing their pressures, will be opened the beginning of May.

There being no further business to come before the Board, the meeting was adjourned at 10:45 p.m.

VIII. Carlotta Hecker moved to adjourn the meeting. Nancy Belk seconded the motion. Motion carried.

The next Board meeting will be held on May 10, 2017. A public meeting is tentatively scheduled for May 23, 2017 at the middle school commons room at 7:00 p.m.

Merrill Walker
Attest

Attest