

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

February 8, 2017

The regular meeting of the Lockwood Water and Sewer District Board of Directors was held on February 8, 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, MT.

Present at the meeting were Board members Carl Peters, Nancy Belk, Carlotta Hecker and Stuart Deans. Board member Merrill Walker was absent. Also present were LWSD Manager Mike Ariztia and Assistant Manager Tony Reed.

Guest present was Evelyn Pyburn of the *Yellowstone County News*.

Attendance and Voting Record attached to minutes

PUBLIC COMMENT:

None.

APPROVAL OF MINUTES:

The minutes of the Board meeting of January 11, 2017 were presented for approval.

- I. Nancy Belk moved to approve the minutes of the Board meeting of January 11, 2017 as written. Stuart Deans seconded the motion. Motion carried.

The minutes of the Special Board meeting of January 17, 2017 were presented for approval. One correction was suggested, to designate in paragraph 2 of Board members present, Board member Nancy Belk as being absent.

- II. Carlotta Hecker moved to approve the minutes of the Special Board meeting of January 27, 2017 with the correction as noted. Stuart Deans seconded the motion. Motion carried.

NEW BUSINESS:

*** Ordinance No. 2017-1, granting the petition of Superior Builders, LLP, (April 9, 2016), to include lands outside the existing Water District Boundary into the Water District Boundary and into Water District No. 1.**

Manager Ariztia noted an addition to the legal description of the property as "Sanctuary Canyon Subdivision, 1st Filing", and also provision 2.02 that the property is currently located outside of the Lockwood Sewer District boundary. If at any point in the future the District were to modify its Sewer Service Agreement or Sewer Service Boundary with the City of Billings to include this property, it would automatically become part of the joint Water and Sewer Service Boundary and be subject to all of its requirements.

The Certificate as to Ordinance and Adopting Vote was read into the record by Carlotta Hecker, as follows:

I, the undersigned, being the duly qualified and acting recording officer of the Lockwood Area/Yellowstone County Water and Sewer District, Montana (the "District"), hereby certify that the attached Ordinance is a true copy of an Ordinance entitled: "An Ordinance of the Lockwood Area/Yellowstone County Water and Sewer District, Montana, granting the Petition of Superior Builders, LLP, to include lands into the Water District boundary and into Water District #1" (the Ordinance), on file in the original records of the District in my legal custody; that the Ordinance was duly adopted by the Board of Directors of the District at a regular meeting on February 8, 2017, and that the meeting was duly held by the Board of Directors and was attended throughout by a quorum, pursuant to call and notice of such meeting given as required by law; and that the Ordinance has not as of the date hereof been amended or repealed.

I further certify that, upon vote being taken on the Ordinance at said meeting, the following Directors voted in favor thereof: Carl Peters, Carlotta Hecker, Nancy Belk and Stu Deans; voted against the same: None; abstained from voting thereon: None; or were absent: Merrill Walker.

WITNESS my hand and seal officially this 8th day of February 2017.
Signed by: Secretary/Treasurer LWSD and President Peters and signatures to be notarized.

III. Carlotta Hecker moved to adopt the Certificate as to Ordinance and Adopting Vote on Ordinance No. 2017-1. Stuart Deans seconded the motion. Motion carried.

The legal description is as follows: Sanctuary Canyon Subdivision, 1st filing, consisting of 20 residential lots; Fraction of the North ½ Section 28, LESS the NW¼ of the SW¼ of the NE¼ Section 28, Emerald Hills 2nd Filing, Emerald Hills 3rd Filing, Emerald Hills Westgate 2nd Filing, certificate of Survey 2674 Amended, and Emerald Hills Acreage Tracts Subdivision 5th Filing (Tax ID D06545).

Copy of Ordinance attached to minutes

*** Approval to change Phase II Sewer assessments on combined tax codes for 110**

Nightingale (C04492), 46 Laurretta (C04747A) and 138 Laurretta (C04751), from a multiple assessments per property to a single assessment per property.

- IV. Nancy Belk moved to modify the Phase II Sewer assessments for 110 Nightingale (C04492), 46 Laurretta (C04747A) and 138 Laurretta (C04751) from a multiple to a single assessment. The above-mentioned properties had begun the process of combining tax codes prior to construction of the Phase II Sewer Project, but after the adoption of Resolution #123 that approved the levies of special assessments within the Phase II Sewer Subdistrict for the purpose of repaying special assessment bonds that were issued to finance a portion of the cost certain improvements, consisting of extending a sewer collection system as part of the project. Any consolidation of properties/tax codes within the Phase II Sewer Subdistrict, other than those listed above, will be assessed in accordance with Resolution #123. Carlotta Hecker seconded the motion. Motion carried.

OLD BUSINESS:

Rate Study/SDF update and discussion

Andrew Rheem participated by telephone and through a slide presentation to provide the Board with an update on the rate study. They are in step 4 leading into step 5 next month, which is when they anticipate presenting to the Board at the March Board meeting, the progress on the plan and in what direction the rate study is taking.

The advisory committee has met three times. During those discussions, the committee zeroed in more on the facilities that make up the water and sewer systems, what has been invested, what the capacity and components of the system are, and how that's going to be incorporated into the overall rate structure.

During the third meeting the overall final numbers and updated numbers were presented, and there were some refinements made relative to the water fees as well as comparison to what neighboring utilities charge. Recommendations from the committee will be provided to the Board in the March, 2017 Board meeting.

Manager Ariztia added the advisory committee has been working on the System Development fees, which are the fees paid by new development to connect in or buy into the existing system, both water and sewer. Prior to the March meeting, the Board will receive information outlining what the costs are and how those figures were arrived at, and will then be able to review the recommendation from the advisory committee based on those figures. Andrew Rheem will be present at the March meeting.

As part of the rate study, Raftelis came up with the system development fees for Exxon. They are currently in the process of narrowing down and figuring out what the usage fee is going

to be for Exxon because there is a fee for transporting their wastewater from their refinery to the City of Billings.

The City of Billings is presently conducting a water and wastewater rate study. As part of LWSD's agreement with the City, LWSD is entitled to receive notification that the City is going through that process. Manager Ariztia feels it is important and would be beneficial to LWSD if Raftelis reviewed the rate study the City of Billings is having done, especially with regard to LWSD's charges.

Manager Ariztia emailed the City's finance director advising that per the agreement, LWSD is entitled to copies of the City's work papers, anything mentioning justification for their fees, and how they arrived at their rates. At this time, he has not heard back from the City.

Mr. Rheem advised that a cursory review of the City contract was done, and they found nothing on the surface of the agreement that would raise a problem with their assessments. The City is in compliance with industry standards and the contract itself, although the charges seem to be quite high, and Raftelis would like to dig deeper into the City's justification for its charges.

In reply to an inquiry by Carlotta Hecker, Manager Ariztia advised that one of the things Andrew and he had talked about earlier is verifying, especially as to some of larger improvements that the City is making at their treatment plant, that the District as a whole is only paying for the portion that benefits the District; that LWSD is not paying for the construction of additional capacity for the City of Billings.

Mr. Rheem added that the per person comparison is difficult and misleading in that one, the City of Billings has a different customer mix, and second, there are two components of LWSD's share of those charges. One of them has to do with the volumes, the flows that are being discharged, but the more significant item as it relates to the capital charges is ascertaining what they've been investing recently, and how they set a reserve capacity fee.

If Raftelis were to break out the District's portion of the wastewater treatment plant and compare that, including that reserve capacity fee per person, he would expect that comparison would be misleading just because it's not quite apples to apples. It would be useful and important to boil it down to a bottom line and look at the treatment plant portion for the City of Billings and its customers on a per million gallon a day and compare that to where the District is at including the reserve capacity portion.

Manager Ariztia asked Mr. Rheem if when they went through the rate study did he find justification for the reserve capacity fee going up three times between last year and this year. Mr. Rheem responded that he could see in the tables attributed costs tied to the capacity that the district has reserved and their relationship, but the remaining question and one of the items that he would like to get a better understanding of was what makes up the City's charges. The City has clearly been investing in the treatment plant and had capital facilities coming into service that second year that drove the substantially higher charges to the District, but he would like to

know what's behind that; what's in that number that ultimately the District is being charged for.

Manager Ariztia advised that because the question on the City's rate charges came in during the LWSD's rate study, there might be a new scope of work as Raftelis evaluation of the new rate study that the City of Billings is undertaking wasn't calculated into the original cost. Potentially there will need to be a new scope of work specifically for review of the City of Billings new rate study and also attending meetings between the District and the City of Billings.

Mr. Rheem advised there will have to be a public meeting before implementation of the new rate adjustments which are to be in force on July 1, 2017, along with the recommendations on the system development fees.

FINANCIAL REPORTS:

No trial balance from Yellowstone County was received.

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

- V. Nancy Belk moved to approve payment of the bills submitted on the Check/Claim Detail List. Carlotta Hecker seconded the motion. Motion carried.

OTHER BUSINESS:

Manager Ariztia reported that Phillips 66 and Yellowstone Pipeline, who are working on a joint project, had approached LWSD to amend the right-of-way easement currently held with Exxon, to allow a second pipeline to go through the easement. A clause was put in the agreement that should any time in the future they remove the existing pipeline, the right-of-way agreement would revert back to a single pipeline agreement. The agreement was reviewed and approved by LWSD legal counsel Terry Seiffert. A small fee will be paid to LWSD for the additional right-of-way.

MANAGER REPORTS:

The water pumping record is as follows:

January, 2016	20,130,300
January, 2017	21,887,800

Wastewater record:

December, 2015
December, 2016

3,937,472
3,839,484

Governor Bullock and a small group visited the LWSD facilities to review the project and funding for replacement of the raw water pump station. He toured the intake and plant facility. It appeared that the governor will push for the infrastructure funding package.

Manager Ariztia requested the March meeting be moved to March 14th as he will be gone from March 6th through the 10th.

Manager Ariztia attended and testified at the TSEP legislative session on Tuesday, January 17th in Helena, Montana.

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

There being no further business to come before the Board, the meeting was adjourned at 8:50 p.m.

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

Carlotta Hecker

Attest

[Signature]

Attest