

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

September 12, 2018

A combined Public and regular Board meeting was held on September 12, 2018, for the purpose of obtaining public comments regarding the possible expansion and future phases of the Lockwood Sewer System recommended by the 2018 sewer Preliminary Engineering Report (PER). The meeting was called to order by Board President Carl Peters at 7:00 p.m. at the Lockwood Fire Station Community Meeting Room at 501 Johnson Lane, Billings, Montana.

Lockwood Water and Sewer District Board members present were Carl Peters, Nancy Belk, Carlotta Hecker, and Stuart Deans. Board member Merrill Walker was absent. Also present were Lockwood Water and Sewer District Manager Mike Ariztia, Assistant Manager Tony Reed, Jill Cook, Morrison-Maierle, Inc., Judy Killen, *Yellowstone County News*, and Marilyn Niezwaag, Recorder.

Members of the public present were Peter Freivalds, Sue Vinton, representative of HD 56, Terry Seiffert, Taylor Brown of KGHL Radio AM 790, Keith Kober, Lockwood Fire Station, and Joe Lierow, ExxonMobil.

Attendance and Voting Record attached to minutes

PUBLIC COMMENT:

Representative Sue Vinton commented that as a water hauler, she was wondering if the Board might at some point discuss having someone on call to respond to after-hour breakdowns in the water station, which apparently was down over the weekend. Manager Ariztia replied that there is someone on call 24 hours a day, seven days a week. If there is an issue with the water station, call the normal number for the Lockwood Water office, which will then be routed to an automated system and subsequently to the answering service who will contact the on-call person. Manager Ariztia stated he would see that a sign is posted directing people what to do in case of a water dispenser problem.

Ms. Vinton's second comment was the possibility of a second water station. She has received positive feedback from a number of people who thought a second station would be beneficial to the community. Manager Ariztia updated Ms. Vinton on the Board's progress in obtaining a site for an additional water station.

PUBLIC MEETING

Jill Cook, of Morrison-Maierle, Inc., advised that the meeting represented the first public meeting in a possible series of public meetings, for the wastewater Preliminary Engineering Report (PER) update, which her and her firm are currently working on.

The meeting objectives are to review recent sewer progress and success, advise the public of the purpose of the PER process and evaluation study, and provide an overview of preliminary work and ranking criteria for future sewer service.

A Preliminary Engineering Report is meant to assist the District as a planning document. When there are many needs that have to be met, the PER reviews all of the needs and prioritizes them. It is to develop cost estimates, help identify potential funding sources or funding strategies; to find out if there are grants or loans available, or how to optimize a combination of the two to make projects affordable for users. The bottom line for all of this is to address the needs of the community.

The scope of the PER will look at future situations, such as historic population growth, population projections for development of wastewater flows, and then to look at alternatives to meet the needs that have been identified. As part of the alternative analysis, economics, constructability, environmental concerns and cultural artifacts, must all be looked at.

The PER is going to be done in two parts, this being an early planning phase. It will then be held in abeyance until 2020, and at that time environmental agencies will be asked for their comments or concerns. Subsequently, there will be a second public meeting held where costs will be discussed, and also any significant feedback from an environmental impact standpoint.

The reason for the delay until 2020 is the District is anticipating applying for funding from the different funding agencies of the state, whether it be grants or loans. The state programs have a short timeline where the environmental work needs to be completed a few months before the applications are submitted, so it is not work that can be done this far in advance.

After evaluating the alternatives, preparation on the preliminary layout of the sewer system, including phasing and estimates of cost, and a preliminary implementation schedule will be formulated.

Several factors contribute to the need for the project. Lockwood was previously the largest community without public sewer facilities in Montana. When the sewer projects were started in 1998, the population for service in the District was about 4,000. Presently the population is approximately 6,700. The projected growth rate at that time was 2.4%. Major commercial growth was going on at that time; the Flying J Truck Stop, two new banks, and fast food restaurants. There was also talk about hotels that were waiting on a sewer. Holiday Inn eventually came in, but was built with its own septic and drainfield.

At that time, approximately a half million gallons per day of wastewater was generated

and discharged through drainfields. 25% of those drainfields had failed and the county was having to permit nonstandard drainfields. There was concern for groundwater contamination and high nitrates.

Lockwood originally evaluated building its own system or connecting to the City of Billings. In 2008, an agreement was reached with the City of Billings to accept the District's wastewater. Lockwood pays based on the flow and a flat rate, along with a Reserve Capacity Fee. Residents pay System Development Fees to both the City and Lockwood.

In 2009, work began on the Phase 1 sewer. Phase 1 projected total cost was \$20,704,600, consisting of a GO Bond in the amount of \$14,000,000, which was based on taxable value, and a STAG Grant of \$6,704,600.

The actual total cost was \$19,400,000, consisting of grants and loans as follows: TSEP Grant - \$500,000; ARRA Grant - \$490,700; STAG Grant - \$6,704,600; SRF loan forgiveness - \$559,000; Final Bond - \$11.2 million; savings on Bond amount - \$2.8 million.

Phase 1 encompassed most of the commercial/industrial areas of Lockwood as the businesses needed and wanted sewer services to ensure their economic future and development.

Phase II was finished in 2016. That phase encompassed more of the residential areas. After the failure of the GO bond, LWSD did extensive public outreach. The District contracted with Morrison-Maierle and another contractor that specialized in public communications. Seven separate neighborhood meetings were held for input from the public. Through that process, the District was able to ascertain the areas of strongest support, and also identified that the public felt that as the project was directed into the residential areas, a special assessment or flat amount per parcel was more advantageous than a GO Bond.

The District had obtained grants for Phase 2 funding, and was in danger of losing the grants if public approval could not be obtained. As a consequence, the area was refined to a project that served approximately 640 properties instead of the original 1020 anticipated properties. The Phase 2 funding was obtained through grants in the amount of \$2,740,380, consisting of USDA-RD - \$1,890,380; TSEP - \$750,000; RRGL - \$100,000. Loans were obtained in the amount of \$6,000,000 from USDA-RD - \$3,000,000, 2.75% for 40 years; SRF - \$3,000,000, 2.5% for 30 years, and \$200,000 in loan forgiveness.

The Phase 2 assessment method was favorable to the public in that there was an equal amount per each tax code, the assessment was updated annually with additional new subdivisions within the sewer boundary, and prepayment of the assessment was allowed.

In order to leverage the District's funds and receive the maximum improvement for the

community possible, the focus was placed on partnerships. In internal coordination with the Lockwood Water Capital Improvements Project, in areas where the streets were already being dug up and sewer lines were being installed, they replaced water lines in many areas that were scheduled to be upgraded.

Along with the partnership scenario, MDU agreed to move gas lines and use the opportunity to upgrade. Concrete lanes at Johnson Lane intersection and county culverts were replaced. The materials were supplied by Yellowstone County and contractor installed. The County and LWSD also combined funds to pave various streets that were in poor condition.

Manager Ariztia explained the schematics showing the boundary lines on the maps. The blue dashed line is the overall District boundary. The red boundary is what the current service area is, so everything in the red boundary the District currently can provide service to.

With Phase I and 2 built, the District decided to start looking at the next step. Areas that are currently without sewer were studied as part of the future sewer planning area, and areas were divided into "basins". Each area was analyzed to develop a preliminary cost estimate. Growth potential and economic development were also explored. The prioritization criteria was project affordability, constructability, phasing, drainfield conditions and public support.

The highest ranked area at the end of that process was prioritized as the Phase 3 planning area. Service to the lower ranked areas is still contemplated, but that is not being considered at the present time. A Phase 3 planning boundary was established to allow for cost estimating and to look at alternatives of how to build Phase 3, whether it be one project or two projects. The actual boundary will have to be set through a legal boundary process, and that requires public notice and hearings, times for petitioning in and petitioning out, and then adoption by the Board of the final boundary.

Manager Ariztia clarified that the planning boundaries designated on the map are based on the information that was collected, reviewed and prioritized. The formal boundary setting will have to go through a formal process with public input.

Mr. Freivalds asked on the green and the orange area, even though one may be built before the other, is that considered one project, or is that going to be two different boundary sets.

Ms. Cook replied that is yet to be determined. The District could go through two boundary setting processes, they could set a Phase 3 boundary and then do the same thing for Phase 3-B. The other thing they could do would be to build in different projects as was done in Phase 1. The construction there was phased out to make the construction a size that local contractors could do.

Ms. Cook advised if Phase 3 was done in two projects, the District would look for

funding in 2020 through federal grants or low interest loans through the state SRF program or others, and would go through a separate process for Phase 3-B.

Tony Reed asked if the entire service area will be studied. Ms. Cook advised that it would.

President Peters asked if the green area on the map was top priority. Ms. Cook replied that green is recommended as the first project. He then asked why the orange area, which was indicated on the map as having a lot of repairs, wasn't included in the green area. Ms. Cook replied they had several criteria and one had to do with drainfield condition and repairs, but there were other criteria as well and it could be that area did not meet the other criteria.

Manager Ariztia indicated there is an option to do the entire area in green, but you are going to apply for funding once, and based on the income and where the District is at, they are pretty much fixed at a certain level. When it is looked at, it has the potential to be done in one phase should the Board choose to do that, which includes the orange area. Based on all those criteria, it was evaluated again showing that the light green and red/orange could be broken out into two separate projects.

Ms. Cook stated that also plays into the drainfield suitability analysis. If they are half acre lots, the engineers are less worried than if they are smaller lots as some of them were that were just done in Phase 2.

Mr. Brown asked if the decision in 2020, the decision about setting the boundary was whether to do A or B or both.

Manager Ariztia replied the District's intent is to try to go through the boundary setting process and the planning process between now and the 2020 timeline. That way when funding is applied for, the District has a better idea of what is being funded, and the costs will be available for the customers to know what they are actually looking at for their property taxing assessment.

President Peters asked how far up on Johnson Lane the sewer extends. Ms. Cook advised Emerald View Mobile Home Park is served and one house south of Emerald View. Manager Ariztia stated that more than likely this section in yellow on this side of the road would be included in the Phase 3 because the main line was in place and services were stubbed at each one of those properties.

The District plans to finalize the PER in 2020, and in the spring of 2020 apply to the TSEP program through the Montana Department of Commerce. Lockwood will also apply to the RRDL program through the DNRC. They will also be monitoring for any new federal funding that may be available.

For low income households that need financial assistance, there is help for paying for construction costs for the sewer line, or for septic tank abandonment, and that's through USDA-RD Rural Development. Lockwood has tried to be as proactive as possible in helping Home owners offset costs if they're in a very low income household.

Manager Ariztia advised there is information available at the District office for Rural Development assistance.

The next steps to be taken will be finalizing project prioritization and the future service areas, taking into account any public feedback. The process to establish the Phase 3 boundary will begin. There will be complete environmental review, funding strategy, and a second public meeting will be held on the PER in early 2020. The Preliminary Engineering Report will be finished, and grant applications will be submitted in 2020. Preparation for project implementation will be in 2021/2022.

Manager Ariztia stated the District would like to have everything in a nice package, so when it comes time to apply to the funding agencies for funding, everything is ready to give to them instead of waiting to see if the District gets funding and then start the final process at that point.

Terry Seiffert questioned why they were looking at 2020 for the boundaries instead of 2019. Ms. Cook replied the District may go forward with setting the boundaries in 2019, but it can't apply for funding until 2020.

Nancy Belk asked if \$750,000 was the maximum offered by TSEP. Ms. Cook replied that \$750,000 was the most that TSEP offers now, but TSEP funding comes in tiers based on your target rate, and the target rate is based on a percentage of the median household income in the boundary. The maximum the District can apply for is \$625,000.

Table 7-2 on Page 714 of the PER, shows the green area if done in one project in 2018 dollars, construction cost only, not including engineering, grant administration, or legal costs, was estimated at just over \$12 million. If that is pushed out to projected construction in a single project in 2021, it's approximately \$13.7 million. If it is broken up, the combined total cost goes to \$14 million. The first project, if done in two phases, would be approximately \$6.8 million, and the second would be approximately \$5.2 million in 2018 dollars, construction only. So when projected out and adding inflation to the projected construction year, it is \$7.8 million for the green area and \$6.2 for the orange area.

Questionnaires regarding public concerns or ideas on the project were available for the public to fill out. Manager Ariztia advised that the meeting outline and minutes would be on the website.

REGULAR BOARD MEETING

APPROVAL OF MINUTES:

The minutes of the August 8, 2018 Board meeting were presented for approval. No additions or corrections were found.

- I. Nancy Belk moved to approve the minutes of the August 8, 2018 Board meeting as written. Carlotta Hecker seconded the motion. Motion carried.

NEW BUSINESS:

* **Review of Change Order No. 2 to the Sewer Lift Station Upgrade Project**

Western Municipal Construction presented for payment Change Order No. 2 to the lift station project in the amount of \$2,945.00. Change Order 2 covers the existing California Controls panel which is unable to do special sequencing of the pumps. Western Municipal is requesting the change order due to the fact it had no knowledge of this panel being unable to handle the modified call sequence.

- II. Carlotta Hecker moved to approve payment of Western Municipal Change Order No. 2 in the amount of \$2,945 for replacement of panel PCO-002. Stuart Deans seconded the motion. Motion carried.

Copy of Change Order No. 2 attached to minutes

* **Approval of Western Municipal Construction pay application No. 2 for the Sewer Lift Station Upgrade Project**

Western Municipal Construction presented Pay Application No. 2 for payment in the amount of \$73,063.55 on the Sewer Lift Station upgrade project.

- III. Nancy Belk moved to approve payment of Western Municipal Pay Application No. 2 for the Sewer Lift Station Upgrade Project in the amount of \$73,063.55. Carlotta Hecker seconded the motion. Motion carried.

* **Approval of Western Municipal Construction Pay Application No. 10 for the Water Intake Project**

Western Municipal Construction presented Pay Application No. 10 on the Water Intake Project. Manager Ariztia requested the Board table this item until the next Board meeting. The lift station construction is pretty much complete, but the bigger issue is the VFDs that are

currently installed are undersized for the pumps that are in the river. There has been communication between the District engineer, the District, and the contractor regarding repair and monetary responsibility to ensure that the VFDs are functioning as designed. The matter is in the negotiating phase. Costs associated with the problem include the possibility of liquidated damages, unscheduled employment of the engineer, and other costs arising from the problem.

Western Municipal has submitted a formal letter to the District for the most part saying that it will take care of the issue at their cost, and make the pump station function like it was designed, with a few stipulations. One of the stipulations is that the District does not assess liquidated damages, and the second one is that the engineer stops tabulating unscheduled employment of the engineer as of a certain date. Also in the letter, it gave a cutoff date stating that if they do not have everything functioning correctly by March 31, 2019, that the District has the right to assess liquidated damages back to when substantial completion was due. What they are essentially asking for is a window to take care of the problem without having to worry about liquidated damages. This matter of responsibility includes not just the contractor, but the manufacturer of the VFDs and the supplier.

The contractor has been working with the District cooperatively on the project, and have been moving forward to try to rectify the situation. The letter from Western Municipal will be forwarded to District legal counsel for review, and to see if a written agreement can legally be signed verifying the completion date, and that if not met, they will be responsible for the liquidated damages. Overall, what the District wants is a functioning product. Jill Cook advised that in the interim, the pumps are able to supply District needs. They are not able to run at full capacity, but they are adequate at this time.

The Board gave its approval for Manager Ariztia to enter into an agreement with the contractor to allow it to resolve the issue by the end of March, 2019.

* **Approval of 2018 Mill Levy for Phase II Sewer G.O. Bond**

Manager Ariztia advised the taxable property valuation went up, so the mill levy went down. In 2017, the taxable property valuation was \$4,320,039, and the mill levy was 132. The taxable property valuation for 2018 was \$5,177,994, resulting in a mill levy for 2018 of 112.

- IV. Nancy Belk moved to approve the Phase II Sewer G. O. Bond 2018 Mill Levy of 112. Carlotta Hecker seconded the motion. Motion carried.

Copy of G.O. Bond Payment for Year 2018 attached to minutes

* **Discussion and possible approval of MOU with ExxonMobil to accept an additional 0.50 MGD of sewer flow**

Manager Ariztia presented for Board approval a draft Memorandum of Understanding between Lockwood Water & Sewer and ExxonMobil Corporation. The District has a formal agreement with ExxonMobil based on accepting 2 million gallons a day of flow from the Exxon refinery. Exxon has expressed its desire to have an additional 500,000 gallons per day of flow. Jill Cook with Morrison-Maierle did a revised study to determine capacity, and what, if any, upgrades would be necessary in the future to accommodate those flows. As of right now, it was determined that the District demands are not that high and in the next five, 10, 15 years potentially will not reach those maximum capacities, so there is available flow, but it's nothing that the District could guarantee Exxon permanently or indefinitely into the future.

The decision was made to propose a five-year block of time wherein the District would provide an additional half a million gallons a day for five years at a base rate of \$1,800 per month. During the fourth year the agreement would be revisited to ascertain the District's capacities.

- V. Nancy Belk moved to approve the Memorandum of Understanding between ExxonMobil Corporation providing for the addition of 0.50 MGD of flow per day for a total of 2.5 MGD for five years, at \$1,800 a month base rate. Carlotta Hecker seconded the motion. Motion carried.

Copy of MOU attached to minutes

FINANCIAL REPORTS

A Yellowstone County trial balance was not received.

Financial reports attached to the minutes are: Check/Claim Detail for the Accounting Period August, 2018; Trial Balance with Revenue and Expenditures for the Accounting Period August, 2018; Statement of Revenue Budget vs. Actual for the Accounting Period Statement, August; Statement of Expenditures - Budget vs. Actual Report for the Accounting Period August, 2018.

MANAGER REPORTS:

The water pumping record is as follows:

August, 2017	50,369,100
August, 2018	44,071,000

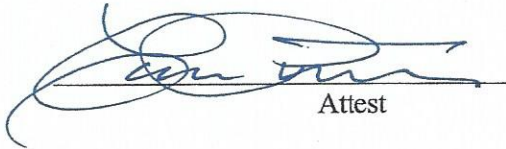
Wastewater record:

July, 2017	4,565,044
July, 2018	4,900,896

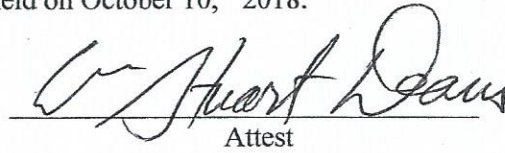
VI. Nancy Belk moved to adjourn the meeting. Carlotta Hecker seconded the motion. Motion carried.

There being no further business to come before the Board, the meeting was adjourned at 9:00 p.m.

The next Board meeting will be held on October 10, 2018.



Attest



Attest