

Belfair Sewer Advisory Committee

Special Meeting Minutes – Monday, December 29, 2014

http://www.co.mason.wa.us/ac/belfair_sewer/

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Special meeting called to order on December 29, at 12:12 pm by Jack Johnson, Chair.

Members: Jack Johnson, Judy Scott, Rob Drexler, Bob Harris, Greg Waggett, Lee Swoboda, Jennifer Hines (via teleconferencing), MC Commissioner Randy Neatherlin

Staff: None

Guests: Jeff Carey

Motion: Judy moved to accept the minutes of the December 23, 2014 special meeting as emailed. Rob seconded. Motion passed.

Motion: Judy moved to accept the agenda. Greg seconded. Motion passed.

Discussion item: Jeff provided four options for a Belfair sewer financial model that Jack asked him to prepare based on variations of the plan Randy presented at the Committee's December 18 regular meeting. All four assume adding an estimated existing 232 ERUs¹ (primarily the former "Phase 2"), which would add over \$250k to the annual revenue stream and eliminate the need for a ULID/BAC². Jack proposed that need for a ULID/BAC could be revisited in the future if revenue becomes insufficient to finance the costs of the system. Jack's assumptions are that low-pressure sewerage would be constructed throughout the Belfair UGA³ and that connection would be mandatory wherever sewer is available, as was the case in Phase 1.

Jeff summarized the basic assumptions in the four options (designated Options 9, 9A, 9B and 9C):

- 232 connections from 2017-2019;
- Monthly service charge would be constant at \$99 through 2016;
- No BAC would be assessed, therefore no ULID is required;
- Low-pressure sewerage construction would cost \$9.1m;
- An operational reserve would be accumulated at \$50k annually as Randy proposed;
- 0.09% sales tax and REET 2 supplement would be reduced as Randy proposed;
- An internal bond would be issued to fund construction penalties and retire selected debt as Randy proposed.

Randy reiterated that it is essential to have a sound financial plan in place to obtain the loans and grants necessary to construct the remaining sewer infrastructure (i.e., the low-pressure sewerage). He expressed two major concerns about the proposed options presented. Mandatory connection was unpopular in Phase 1 and he anticipates it will be similarly unpopular as applied to system expansion. He believes the ULID/BAC is necessary to obtain future loans and grants as well as to get DOE⁴ to agree to remove the new construction restrictions in the Belfair UGA.

Jack felt the ULID would be a "hard sell" and that using the same connection criteria as in Phase 1 would make the ULID unnecessary.

Greg expressed concern about the fairness to Phase 1 customers of any plan proposed for future buildout.

Jennifer expressed concern over the elimination of the ULID. She said Riverhill residents she asked had expressed concern over the upfront connection cost, but were amenable to connecting to a sewer if the costs could be spread across ten years as they would be in the ULID Randy proposed. She felt a

¹ Equivalent Residential Units

² Utility Local Improvement District and associated Benefit Assessment Charge, see Recommendation 4 of the Committee's report to the BOCC, June 24, 2014

³ Urban Growth Area

⁴ Washington Department of Ecology

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ULID the most structured way of spreading out connection fees. The connection could be mandatory, but the connection costs must be in installments.

Jack recommended including associated connection costs (decommissioning on-site septic systems, installing grinder pumps, etc.) in the construction costs as it was in the North Bay system. This would provide the customer with a turnkey system without having to contract for and finance these costs over and above the County's connection charge. It would allow the County to include the customer associated connection costs into the construction grants, which could be 85-95% funded by grants.

Randy stressed that the objective of his proposed plan is to protect the County and the Belfair sewer system from default, remove the current new construction restrictions, keep rates constant for as long as possible to allow surrounding rates to "catch up" making Belfair more competitive. He reiterated that he believes a ULID/BAC is necessary to obtain DOE grants.

Discussion item: Jeff presented Option 9C. Option 9 resulted in cash flow deficits from 2023-2034. Option 9C produces positive cash flow in all years by assuming a construction cost of \$4.5m as Jack estimated and 2 percent annual rate increases beginning in 2016.

Discussion item: Any financial plan the Committee endorses will require a "yea" vote by at least two (and preferably all three) Commissioners to execute. Commissioner Neatherlin has expressed his criteria, but the sense of the Committee is that we need information on what features other Commissioners will/will not support in a financial plan. Jack proposed he meet with Commissioner Jeffreys to explore her "does and dongs" for a financial plan. Rob volunteered to join him.

Action item: Meet with Commissioner Jeffreys⁵. **Action:** Jack and Rob.

Recess. Jack recessed the meeting at 1:59 pm until January 2, 2015 at 12:00 pm at the Port of Alllyn conference room.

The meeting was reconvened on January 2, 2015 at 12:02 pm by Jack Johnson, Chair, with Judy, Rob, Bob, Greg, Lee, Jeff and Commissioner Randy Neatherlin present.

Discussion item: Jack presented four new spreadsheet models he and Jeff developed (Options 11, 11A, 11B and 11C) and a spreadsheet listing the debt instruments for all of the County-owned sewer systems with estimates of the annual payments for each, which he calculates at about \$735k for the Belfair sewer debt. Randy indicated his model includes bond repayment and loan amortization, although Frank Pinter⁶ estimated a slightly higher total annual payment. A great deal of discussion ensued about the general assumptions for debt structures, revenue flows and other parameters included in all the models we have reviewed in the past two meetings.

Discussion item: Jack and Rob reported they met with Commissioner Jeffreys. They did not discuss specifics, but updated her on some of the details of Randy's plan and our Committee discussions. Their sense was that she is concerned about having a financial plan for the Belfair Sewer and will support a plan that makes sense and will work. Jack suggested that he should also meet with Commissioner Sheldon.

Discussion item: The sense of the Committee is that the modeling we are doing is providing variations of Randy's plan, but not affecting the basic structure of the plan (i.e., revenues=expenses) and that our best chance of influencing a financial plan is to endorse the concepts in Randy's model. We can still continue to examine various models to refine some of the details.

Motion: Judy moved that the Committee accept the concept and workings of the financial plan submitted by Commissioner Neatherlin with a caveat that the Committee be allowed to have input and oversee the figures as it worked through the process of changes. Lee seconded.

During discussion of the motion, numerous friendly amendments were suggested to refine the motion to make it a little more specific. Randy indicated he agreed with many of the ideas about the initial model the Committee raised during our discussions regarding ERU growth, incentives to connect earlier

⁵ Because only two members of the Committee are meeting with Commissioners and they will not be discussing decisions by the BOCC, meeting with Commissioners is not a "serial meeting," which would be a violation of the Open Public Meetings Act.

⁶ Mason County Budget Director

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rather than later, connection fees and other issues. He would like to work with Jeff in refining his model to reflect those ideas to present at the next Committee meeting. Jeff agreed.

Motion: Greg moved to table the motion. Rob seconded. Motion to table passed.

STAFF REPORT none

PUBLIC COMMENT none

Meeting adjourned at 2:00 pm.

Next meeting: January 15 at 6:00 pm in the Port of Allyn conference room.

Respectfully submitted,
Judy Scott, secretary
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