

LAKEHAVEN UTILITY DISTRICT
King County, Washington

SPECIAL BUSINESS MEETING
April 24, 2007

A special meeting of the Board of Commissioners of the Lakehaven Utility District, King County, Washington, was held on April 24, 2007 at Lakehaven Center, 31531 First Avenue South, Federal Way, Washington, 98003.

President Miller called the meeting to order at 1:35 p.m. and led the flag salute. Members/officials present were as follows:

| | |
|-----------------|--|
| Don Miller | President of the Board |
| Ron Nowicki | Vice President of the Board |
| Chuck Gibson | Secretary of the Board |
| Ed Stewart | Commissioner |
| Beverly Tweddle | Commissioner |
| Don Perry | General Manager |
| John Bowman | Engineering/Water Manager |
| Steve Pritchett | General Counsel |
| Morgan Dennis | Director of Finance/Information System |

CONSENT ITEMS

Upon motion of Commissioner Nowicki, which was duly seconded by Commissioner Tweddle, the Board **unanimously** approved the Consent agenda as presented below:

1. Accounts Payable Vouchers and Payroll Transactions with the warrant dates of 4/23/07

Payroll – Fund No. 11-333-0530 04/23/07

| | |
|-------------------------|-------------------------|
| Warrants: | \$ 6,876.10 |
| Direct Deposits: | \$ 152,785.53 |
| Benefit Warrants: | \$ 48,356.32 |
| | (Voucher nos.8441-8455) |
| <u>Withholding/FICA</u> | <u>\$ 66,547.28</u> |
| Total Amount of: | \$ 274,565.23 |

INFORMATION ITEMS

#1, Review of Water and Wastewater Rates: Ed Cebron of Financial Consulting Solutions Group was in attendance and stated he would be reviewing the District's Key Utility Rate Issues and began by briefly reviewing the presentation that was given at a prior meeting.

The topics of his presentation at this meeting were; Core Policy assumptions; key analytical assumptions; water rate forecast scenarios; sewer rate forecast scenarios; direction from the Board and a discussion of the next steps.

Discussion of the core policy assumptions included the following: 1) Revenue from capital facilities charges (CFC's) will only be used to fund capital improvement projects and will not pay for debt. Rate revenue will be used to pay for debt; 2) Rates will be set to provide an annual contribution toward capital needs at least equal to annual depreciation of assets (net of debt principal repayment); 3) Debt will be used to finance capital projects when cash resources are not adequate or when debt terms are advantageous; 4) Reserves will be maintained to manage revenue variability. Depreciation was discussed at length and how this affects the financial statements and budget of the District. Also discussed was the need to keep reinvesting in the infrastructure so reserves will be available for maintenance and repair of existing facilities. Mr. Cebron noted that the fact that the District does not spend the revenue that is budgeted for expenditures each year was factored into the assumptions. Staff reviewed six years of actual spending to determine a base, leveled the starting revenues and factored in 15% of the annual rate revenue. This provides a more stabilized reserve, instead of making adjustments on the prior year. Next, Mr. Cebron reviewed core financial performance policies. Key standards define minimum rate requirements based on cash – revenues must be sufficient to satisfy cash needs such as operating expenses, debt service, depreciation funding, additions to reserves; and coverage – revenues (excluding CFCs) must be sufficient to cover operating expenses plus 1.50 times annual debt service. Beyond the minimum cash needs, there must be a surplus that is budgeted to provide surplus in the system. Mr. Cebron then stated that since the District's operations and maintenance budgeted expenditures have historically been higher than actual expenditures, a budget realization factor was calculated using historical data in order to make the analysis more accurate.

Mr. Cebron then went on to provide three different water and sewer capital funding scenarios that included the following: 1) full depreciation expense, 2) no capital reinvestment and 3) depreciation expense net of debt repayment (phased in). He explained the impacts for all three scenarios; he stated he was recommending the Board consider moving towards fully funding from rate revenue and phase this in over time. He also reviewed the impacts, should the District continue on its current path. Future expenditures were also discussed and how these would be considered in the water rate forecast. Based on this discussion, Mr. Cebron suggested returning with a more robust funding scenario, which would include a larger percentage rate increase than the 3% increase per year that is being proposed at this time. He also stated he would include a few scenarios that include Second Supply Pipeline costs as well as 100% funding for Capital Improvement Projects (CIP). Mr. Cebron then provided three different scenarios for sewer capital reinvestment. He stated he felt the sewer fund is in very good condition. He explained each scenario and focused on Scenario #3. If this scenario was selected, by 2012, the District would be 100% funded, with the 3% increase in rates for three years, which would increase the bi-monthly sewer bill approximately \$6.00.

At this point, Mr. Cebron stated he was looking for direction from the Board as to what steps to take next. The Board then discussed their concerns and preferences and suggestions were made. Subsequent to this discussion, it was noted that Mr. Cebron would return to a future meeting and would provide the Board the additional information that they had discussed. They thanked him for the presentation.

STAFF REPORTS

General Counsel: Mr. Pritchett reported staff had hired a replacement for Linda Mogensen as Board Clerk and support for him. Her name is Lisa Alexander and her hire date is May 9th. He added both she and Mrs. Mogensen would attend the next Board meeting. He provided a work history of Mrs. Alexander and added staff was very pleased to have her on board.

General Manager: Mr. Perry reported there would be a Greater Federal Way Emergency Management Program on May 30th between 6:30 p.m. and 8:30 p.m. for public officials and added he would provide the Board with more information in their agenda packets. He next reported that the City of Edgewood is requesting changes in the boundaries to their service area, which should be acceptable given they were just to adjust the boundaries so as to not split properties in two (i.e. part could have sewers and part not).

ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at approximately 3:15 p.m.

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| _____ President Miller | _____ Yea | _____ Nay | _____ Abstain |
|---------------------------|--------------|--------------|------------------|

ATTEST:

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|  _____ Vice President Nowicki | _____ ✓ Yea | _____ Nay | _____ Abstain |
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|--|-------------------|--------------|------------------|
|  _____ Secretary Gibson | _____ ✓ Yea | _____ Nay | _____ Abstain |
|--|-------------------|--------------|------------------|

Edward G. Stewart
Commissioner Stewart

✓
Yea

Nay

Abstain

Beverly G. Twedde
Commissioner Twedde

✓
Yea

Nay

Abstain