

LAKEHAVEN UTILITY DISTRICT
King County, Washington

SPECIAL BUSINESS MEETING
May 3, 2007

A special meeting of the Board of Commissioners of the Lakehaven Utility District, King County, Washington, was held on May 3, 2007 at Lakehaven Center, 31531 First Avenue South, Federal Way, Washington, 98003.

Vice President Nowicki called the meeting to order at 1:30 p.m. and led the flag salute. Members/officials present were as follows:

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

Upon motion of Commissioner Tweddle, which was duly seconded by Commissioner Gibson, the Board unanimously **excused** Commissioner Miller from the meeting as he and Mr. Perry were attending a conference outside of the area.

INFORMATION ITEMS

#1, Review of Rates/Capital Facilities Charges: Ed Cebron from the Financial Consulting Solutions Group and Lynn Takaichi of Kennedy/Jenks Consultants were both in attendance to discuss the development of the rates and review the Capital Facilities Charges.

Mr. Cebron began with a review of the water and sewer rate revenue analysis follow-up. He provided scenarios for each, beginning with sewer. The first scenario called for 5% rate increases over three years as well as full funding for projects by 2010. However, this also indicates that coverage would not be met in 2009. The second scenario calls for equal increases for approximately two years, no increases for the next 3 years with minimal increases thereafter; this scenario provides for full coverage by 2010. He noted if 100% of the Capital Improvement Project (CIP) budget is spent; the rate increase would be approximately 12% the next two years, which would relate to an approximate \$3.00 monthly rate increase. He went on to explain other potential impacts, such as major shifts up or down in the Capital Facilities Charges (CFCs). The first two scenarios assume that approximately 70% of the CIP was spent. The last scenario assumes that 100% of the CIP is spent and equal rate increases for two years. The Lakota Wastewater Treatment Plant outfall project is not included in this scenario - the major expenditure that is included is the Redondo Outfall Project. The Board and staff then discussed

the three scenarios and Commissioners expressed their preferences. Mr. Cebron then reviewed a summary of the key sewer cost of service findings. This was based on a 2008 rate revenue requirement and a 5% increase. In summary, Mr. Cebron stated this analysis indicates a shift in the cost recovery between customer classes. Rates indicate a downward push on low-strength customer charges and an increase in other areas, such as restaurants, laundromats, etc. He stated there tends to be more cost in usage and went on to explain the sewer rate design, comparing existing rates to proposed rates. He stated he would recommend that there is a fixed charge throughout all of the classes. He added he felt the District has very reasonable sewer rates in comparison.

Mr. Cebron then moved to the two scenarios he prepared for the water rates. Scenario #1 included an 80% expenditure of the CIP and an 11.34% rate increase for three years and declining increases the next two years. The second scenario provided for a 100% expenditure of the CIP; to fund that would take a 13.5% increase for three years. The average water bill would increase approximately \$4.00 using the second scenario. He went on to discuss both scenarios with the Board and provided different proposals for the Board to consider in their discussion of the best way to proceed. Customer classes that were discussed included irrigation accounts, commercial accounts and public authority accounts. These classes have unique demands on the system. The other customer classes were then discussed and how they could be revised, taking into account both fixed rate and usage rates.

A discussion then ensued on the need to adjust the rates; Mr. Pritchett stated the purpose is to meet the financial objectives with debt coverage and appreciation funding and added the importance of funding depreciation as well. The capital reinvestment proposal is put in place in order to have available revenues to replace the older mains, pumps, etc.

Mr. Cebron went on to discuss Capital Facilities Charges. When a CFC is calculated and imposed, it is done based on an estimate of demand. Mr. Cebron suggested the Board consider the idea of a lease rate. A CFC lease rate allows a customer an option to purchase extra consumption per every one hundred cubic feet (CCF) in excess of allowed consumption instead of paying for an additional equivalent residential unit (ERU). Mr. Pritchett stated the District's demand was inventoried and it was determined if this procedure was implemented for commercial users, there would be a large increase in revenue and could, over time, possibly erase the need to increase rates. This would also provide the user more time – they could continue to purchase more ERUs if they chose. Whenever the CFC increases, the surcharge would also increase. Mr. Dennis stated that this would not be a rate; it is a guarantee that the District will have the capacity when and if it is needed. Mr. Cebron emphasized that this is just an idea for the Board to consider and added that some utilities have chosen to implement this procedure once they reach the end of their monitoring period. A discussion followed on the best way to proceed along with a proposed timeline. Subsequent to the discussion, it was the consensus of the Board to ask Mr. Cebron to come back to the Board when all Board members are in attendance with timeframes for the issues discussed.

Mr. Takaichi then presented a preliminary analysis of the Capital Facilities Charges for water. He noted he had observed that a large amount of the things that adversely affect Mr. Cebron's analysis cause reductions in the CFCs. He stated his presentation was only a preliminary and had not been presented to staff at this time. There are a number of elements that are considered when developing CFCs, including existing facilities, future facilities, credits and excise tax. The basic principals are in statute; however, interpretations are allowable as well. He noted he would be recommending some modifications; such as using a different interest rate for existing facilities, consider providing direct credit for the charge payable in lieu of assessment (CPILOA) paid and updating the ERUs (44,100). He went on to explain each proposed modification and the reasons for the suggestions. His suggested modifications to future facilities included escalating the cost estimates (2005-2007), updating the CFC allocation in relation to how much in capital costs would be allocated to the CFC and updating the ERUs (47,100). Mr. Takaichi then suggested modifying credits by modifying the discount rate and he had no suggested modifications to the excise tax.

Next was a discussion of preliminary CFCs for water. Mr. Takaichi stated that water usage could be calculated, based on a sampling of houses or developments in the area. He recommended a survey and billing data analysis be performed in order to develop a water demand model for the CFC assessment. He added he felt that if a model is developed using this information, it would have to be fairly simple as well as making it easy for a developer to understand.

Subsequent to the presentations by both consultants, the Board provided some information for them to consider when returning for the next presentation to enable the Board to come closer to a determination as to the next steps to take. The Board thanked both gentlemen for their presentations.

STAFF REPORTS

General Counsel: Mr. Pritchett reported that Lisa Alexander, who was taking the position of Board Clerk, would begin work on May 9th and would also be attending the Board meeting on May 10th.

ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at approximately 4:05 p.m.

ABSENT

President Miller

Yea

Nay

Abstain

ATTEST:

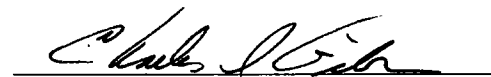


Vice President Nowicki

Yea

Nay

Abstain

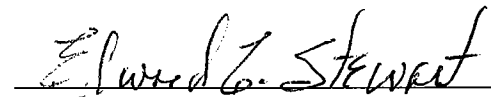


Secretary Gibson

Yea

Nay

Abstain

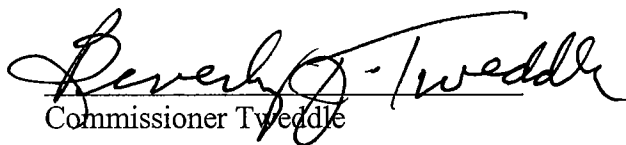


Commissioner Stewart

Yea

Nay

Abstain



Commissioner Tweddle

Yea

Nay

Abstain