

**LAKWOOD WATER DISTRICT
BOARD OF COMMISSIONERS
Minutes of Regular Meeting
Thursday, April 20, 2017**

The Regular Meeting was called to order at 3:30 p.m. at the District office. Present at the meeting were Commissioners L. R. Ghilarducci, Jr., J. S. Korsmo, Jr., and G. J. Rediske; General Manager R. Black; Superintendent I. Black; Finance Director D. Logan; and District Secretary C. Butler.

PUBLIC COMMENT:

No members of the public were present.

APPROVAL OF MEETING MINUTES:

Commissioner Rediske moved to approve the minutes of the March 16 Regular Meeting. Commissioner Ghilarducci seconded the motion, and it was therefore passed by a unanimous vote. Commissioner Korsmo recused himself from the process, since he was not in attendance at the March 16 meeting.

FINANCIAL INFORMATION:

The Finance Director presented the March financials to the Board.

Disbursements made from the General Ledger Fund for check number 36559 through 36713 totaling \$507,853.99, salary direct deposits totaling \$139,800.58, payroll taxes totaling \$57,011.93, and other electronic payments totaling \$92,251.15, for a grand total of \$796,917.65 were presented to the Board for approval. After review, Commissioner Rediske moved to approve the payables as listed. Commissioner Korsmo seconded the motion, and it was passed by a unanimous vote.

BOARD APPROVAL OF SELECTION OF DISTRICT UNDERWRITER FOR REVENUE BONDS:

The District put out an RFP (Request For Proposal) for bond underwriting services. District staff interviewed four firms over April 17 and 18 that were qualified to serve as the District's bond underwriter for the upcoming sale of almost \$8M worth of revenue bonds: Key Bank, D.A. Davidson, Piper Jaffray, and Martin Nelson & Co.

Of the four firms interviewed, Piper Jaffray stood out above the others. They went to the District's website and reviewed the District's last bond issuing covenants and offered additional options to the District moving forward. Piper Jaffray has an extensive sales delegation throughout the United States, providing a greater sales force to move the bonds. Piper Jaffray's bond fee was reported at \$5.82/\$1000 of bonds, but District financial advisor A. Dashen negotiated with them to bring that down to \$5.32, the average amongst the four firms. Martin Nelson, a firm that has served the District over many years in the past, was non-responsive on a couple of the RFP items.

The District has a AA- bond rating, a rating shared by a lot of other water and sewer districts. Two criteria used by the bond-rating agencies prevent the District from obtaining

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a higher rating: 1) the average mean household income (of Lakewood); and 2) District reserves. The District has no control over the average mean income of Lakewood, and it is significantly lower than other communities and especially lower than King County. The bond-rating agencies would like a water/sewer District to have reserves upwards to \$10M which is not practical for the District.

Alan Dashen participated with District staff in all four interviews and recommended Piper Jaffray as the best firm to serve the District at this time. President Ghilarducci recused himself from this process, as he has a personal business relationship with Martin Nelson. Commissioner Korsmo moved to proceed to employ Piper Jaffray as the District's bond underwriter. Commissioner Rediske seconded the motion, and it was therefore passed by a unanimous vote.

BOARD ADOPTION OF RESOLUTION NO. B-1439:

In the 2015 Audit conducted in 2016, the auditors informed the District it needed to define "retirement" as it relates to sick leave payouts to be in accordance with GAAP (Generally Accepted Accounting Principles) requirements. The General Manager therefore presented Resolution No. B-1439 to the Board for review, consideration, and approval, covering the District's sick leave policy, including criteria defining "retirement" as it relates to sick leave payouts.

Commissioner Rediske moved to approve Resolution No. B-1439. Commissioner Korsmo seconded the motion, and it was passed by a unanimous vote.

BOARD CONDITIONAL ACCEPTANCE OF COMPLETION OF THORNE LANE R&R PROJECT:

Pape & Sons Construction recently completed the Thorne Lane R&R Project to the satisfaction of the District. The Superintendent presented a memo requesting the Board grant conditional acceptance of the completion for this project. This step allows the District to start the process of accepting the job as complete, including final payroll and filing of final paperwork. Final acceptance of completion is granted once all the necessary paperwork on prevailing wage certification and other State-approved processes are completed and cleared by the various agencies and, at that time, the District can/will release the contractor's retainage.

TOWN OF STEILACOOM WHOLESALE WATER CONTRACT UPDATE:

The District (represented by the General Manager, Superintendent, and Finance Director) held its second meeting with the Town of Steilacoom regarding the renewal of the wholesale contract they have had with the District since 1997. The District discussed with the Town how the District's wholesale contract had developed over the last 20 years and how the contracts currently in place with other wholesale customers were structured. To bring the Town's contract in keeping with the District's current template contract and current active contracts would require some significant changes. These changes would result in an increase of approximately 80 percent.

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The Town has been benefiting from the District's entire system but has not been paying for it, receiving water supplied through the District's transmission mains 8 inches in diameter and larger, along with supply from some storage facilities beyond the designated Philip Tank site and View Road treatment facility. To bring this component in line with what the District's other wholesale customers are paying would result in this dramatically increased rate for the Town. The Town also benefited all these years from a very favorable early contract issued in the District's desire to be able to dissuade any assumption attempts by the City of Lakewood. The City incorporated in 1996; the wholesale contract with the Town was signed in 1997.

Understandably, the Town was not pleased with the increase in costs and is going to evaluate their options, such as building and upgrading their system within the Town to deliver their own water or contract with other wholesale providers such as Tacoma Water or Pierce County. The District has agreed to supply them with a comparison of the old contract with the new in an effort to help with the education of the Town Council. District Finance Director D. Logan will be working with the Town Administrator regarding this information so as to minimize the complexity of the rate model.

GENERAL MANAGER PROJECT UPDATES:

Wholesale Transmission Main Extension—Things continue to progress with wholesale contract matters. Firgrove Mutual Water Company has enlisted the services of FCSG (Financial Consultant Solutions Group) to conduct an analysis for them; Firgrove is now looking at taking 2 million gallons per day (mgd). Spanaway Water Company is still only looking to remain with the 1 mgd currently contracted. Spanaway's General Manager thinks new water rights will be available in the future. Two current court cases, Hirst and Foster, regarding limited water rights available, diminish that thought. Both Summit Water & Supply Co. and Rainier View Water Company are planning to contract for an additional 1 mgd for a total of 3 mgd each.

Finance Director D. Logan shared with the Board two scenarios of projected wholesale water sales revenues for 2019; one with 4.2 mgd taken/consumed of the available 9 mgd for a total of \$3,647,821 and one with all 9 mgd taken/consumed at a total of \$4,374,251.

BREAK:

At this time, approximately 4:20 p.m., the General Manager asked President Ghilarducci for a brief intermission from the agenda to make a presentation. District staff filled the room, and President Ghilarducci was presented with a beautiful water drop award in honor and recognition of over 35 years of service as a Commissioner, most of them as the President of the Board. President Ghilarducci graciously extended his thanks, and the staff excused themselves. The meeting resumed at approximately 4:25 p.m.

GENERAL MANAGER PROJECT UPDATES, resumed:

Ponders Treatment Replacement Project—Since last month's report, the District succeeded in securing all the equipment necessary to replace the existing treatment equipment, before the end of June deadline as per the agreement with DOE (Ecology).

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Kennedy/Jenks Engineers is working on the specs and design drawings for bidding the construction of the building and installing the equipment. It is anticipated the District will be ready to go to bid sometime in June or early July.

On the legislative front, the Senate budget identifies the \$1.8 million budget needed to fund the remaining costs for Ponders; however, the House side has only appropriated \$500,000. Bill Clarke, lobbyist for the District, has made contacts with Rep. Dick Muri's office to help navigate how to get the remaining \$1.3 million in the House budget.

City of Lakewood approval process for Tree removal.

Nothing new to report here; still in a holding pattern.

City of Lakewood for Cross Connection Control.

Same as above; the District is waiting for the City's Community Development Director to provide the District with a copy of the interagency agreement to provide the in-premise cross connection control service for the remainder of 2017. The General Manager will be reaching out to him for an ETA on the agreement and to inform the City of the \$18,500 cost for doing this work for another year.

SUPERINTENDENT'S REPORT:

The Superintendent's Report was provided to the Board in its entirety in the pre-agenda packets. Supplemental to his report, the Superintendent stated the Invitation to Bid for the Arrowhead Phase 1 R&R Project was being published Monday, April 24. Also, there is a \$350K project waiting in the wings, but it is uncertain at this time if it will get launched in 2017 in light of project over-runs and staying within the \$3.4M annual 50-year R&R Program budget. If possible, the District will execute this project, presently unnamed, at the old Costco, now Grocery Outlet site.

FINANCE DIRECTOR/OFFICE SUPERVISOR'S REPORT:

In response to Commissioner Korsmo's recent inquiry regarding high credit card banking fees, the Finance Director presented to the Board a credit card fee analysis. The rate for 2016 with current financial institution, Key Bank, was 2.06 percent, up from 2.02 percent in mid-2014 when the District moved from Columbia Bank to Key Bank. Prior years found the rate at 2.25 percent for the first half of 2014 and 2.60 percent for 2013 with Key Bank, and 4.32 percent for 2012, reflecting both Columbia and USBank.

The Finance Director also presented a current summary status of the District's 50-year R&R Program, showing funding (both revenue/cash and bond issuance), expenditures, and net cash flow/proceeds, capturing the program since its inception in 2014 through 2016.

OTHER BUSINES:

Board Acknowledgement of Employee Wage Increases—The Board acknowledged annual wage increases for employees S. Jorgensen, J. Lea, S. Skipworth, and Z. Smith.

Retiring Employee Sick Leave Payout—In light of the new retirement criteria in Resolution No. B-1439, the General Manager discussed the recent retirement of employee J. Michael Wall. Mr. Wall was only in the employ of the District 4.25 years; however:

1. He was paid out his sick leave according to Resolution No. B-1434 that was in authority at that time. While the District had discussed and determined its “retirement” criteria with the auditors during the course of the 2015 Audit (conducted 2016), that criteria had not been formalized or approved by the Board at the time of Mr. Wall’s retirement on March 31, 2017.
2. Mr. Wall first gave notice of his retirement and set the plan in motion in January 2016, under the authority and expectations as outlined in the District’s active Resolution No. B-1434. This was long before the auditors were on sight and before the District was asked to define retirement as it related to sick leave payouts in accordance and compliance with GAAP.
3. Mr. Wall had over 12 years’ vested in the State Department of Retirement Systems, as he had been in the DRS system under a previous employer; thus, he did meet the first part of the District’s new criteria.
4. The Employee Handbook defines retirement (and receipt of full benefit thereof) as a term of 4 or more years.
5. Legal Counsel K. Weber of Inslee Best said the District could not retrospectively apply/enforce this criteria just now approved by the Board and put into power.
6. Therefore, Mr. Wall’s retirement benefits were paid out as planned when he gave notice in January 2016, in accordance with then active Resolution No. B-1434.

With no additional business to address, President Ghilarducci adjourned the meeting at 5:03 p.m.

**LAKWOOD WATER DISTRICT
BOARD OF COMMISSIONERS**

BY:



ITS PRESIDENT

BY:



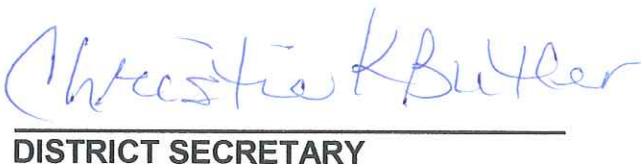
ITS VICE PRESIDENT

BY:

N/A

ITS SECRETARY

ATTEST:



DISTRICT SECRETARY