

**LAKWOOD WATER DISTRICT
BOARD OF COMMISSIONERS
Minutes of Special Meeting
July 2, 2015**

The Special Meeting was called to order at 8:30 a.m. at the District office. Present at the meeting: 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:

A Utility Privatization Specialist retained by Pierce County was present to hear about the privatization of Joint Base Lewis McChord. An associate joined him a little later in the meeting for a brief time and then excused herself.

PRIVATIZATION OF JOINT BASE LEWIS MCCHORD:

The matter of the privatization of Ft. Lewis came up in 2001, and the District responded to the military's Request for Proposals (RFP) in 2002. The District later withdrew its proposal in September 2003 due to too many uncertainties in regards to too many future costs, cost of capital, and inherent cost recovery lags and risks to accommodate and to accept contractually. The Commissioners believed that there were too many barriers to realizing any real financial benefit for the District and its ratepayers and, therefore, that it was not in the District's best interests to proceed any further.

Word of the possible privatization of the now Joint Base Lewis McChord first came up in April 2014. The District responded to the military's RFI (Request for Interest) via letter in December 2014. Two RFPs were issued June 20, 2015—one for the privatization of water and sewer for Joint Base Lewis McChord and one for power. The District would only be looking at water. The deadline for proposal submission was October 12, 2015, but it was extended one week to October 19, 2015 due to the delay in issuing the RFPs. It took two months for the military to issue the RFPs and yet only one week's extension was granted on the submission deadline. The District has requested an additional extension. Once the final deadline is set, the military will have 300 days to review proposals.

The General Manager, Superintendent, and Finance Director had been working their way through the RFPs but had not yet had opportunity to complete a read-through. The District has the Ft. Lewis 2005 Comprehensive Water System Plan and a report on the McChord utility system to consult for additional information. The current Comp Plan for JBLM is just now being revised by the State Department of Health.

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In the RFP, it is recommended to address all system deficiencies in the first five years. The base has not had a very aggressive schedule for capital improvements, as military/warfare/security equipment and supplies have been a bigger priority to the base over utility infrastructure and maintenance. There are 420,975 feet of pipe on the base, all asbestos-concrete. The General Manager stated he thought the replacement timeline would be over the 50-year contract period mentioned later in the meeting, but he was not yet certain.

District financial consultant D. Findlay of FCSG stated he believed there was a 75-80 percent probability JBLM would be privatized. There have been many more privatizations of military bases and forts across the country since 2003 than those seen previously. It is his professional opinion the military is endeavoring to reduce its costs and would rather pay an outside entity to have the utility systems run versus operating and maintaining the various systems themselves.

Commissioner Ghilarducci asked the general basis of the proposal. The General Manager replied the District would own the JBLM water system—facilities, pipes, tanks, meters, everything that delivers the water. This would not include the water rights; they would remain in the ownership of the federal government. When asked how many water rights the base had, the General Manager reported he did not know the total amount, and there was no mention of water rights in the RFP.

The Board asked what shape the base's water system was in, but the District did not yet know. There was such a time crunch to get a proposal prepared and submitted, there was no time to fully assess the system. Commissioner Ghilarducci asked why there was such urgency on the military's end. The General Manager reported there had been a congressional mandate to reduce military spending by way of sequestering all branches of the armed forces. The privatization would allow the military to shift dollars previously budgeted for utility system maintenance and operations to these areas of higher priority.

The District would conduct an evaluation and appraisal of the water system. It may not be worth a lot of money but it could be valuable enough to borrow against for outlined upgrades. As a federal water system, it would qualify for funds from WIFIA. The system would stand on its own and be run as a separate company; it would not affect the District's water system.

The General Manager asked the Finance Director to address the financial aspects of the proposal. The contract would be for 50 years with a 50-year renewal. The District would send the military 600 equal bills (plus a payment increase by a Consumer Price Index inflation factor each year) over 50 years with three components—operations & maintenance, R&R, and capital projects—and then credit them for their monthly portion of the appraised value. In 2003, the District was looking at a purchase price up front. Mr. Logan stated there would be a 4.5 percent rate of return to the District on \$10M in annual water sales, or \$450K a year.

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The District's average daily demand is 8.5M gallons, and JBLM is in that same range. For JBLM, there are six different water systems: 1) Army; 2) Golf; 3) Housing; 4) Military; 5) Warehouses; and 6) Storage. The District's O&M before depreciation is approximately 70 cents per cubic foot of water. The District was able to back out the cost of customer service and meter reading, as there would be no need for either. The District would end up with 200 meters on JBLM; there are 87 now. The annual markup would be \$472,500, 15 percent of \$3,150,000 (O&M from the 2015 Budget costs before Administrative & General capital cost allocation and depreciation). After administrative costs of \$1.4M, \$1,275,000 could be contributed to the District, significantly buying down future rate increases.

If the military would take their system back, they would pay the District's stranded costs. This was a problem with the 2003 proposal, in that the military could take back the system and there was no provision for them to reimburse anything back to the District. The General Manager stated that he, the Superintendent, and Finance Director had all agreed that if they found any concerns at all, they would bring them back to the Board and potentially pull the plug on the proposal. Today, the management team was looking for Board approval to move ahead with consultant work by FCSG (financial consultant) and Gray & Osborne (engineering). Gray & Osborne was the consultant working for Ft. Lewis in 2003. They have determined there is no conflict of interest for them to work for the District at this time, on this project. Mr. Findlay of FCSG had recommended the District hire an engineering firm of this caliber for this project. Gray & Osborne would perform an assessment of the condition of the water system, and the District will be able to benefit from their past knowledge of the system as well.

Costs to prepare the District's proposal were estimated at \$250K-\$400K. If the District was not awarded the contract, these would become stranded costs. If the District was awarded the contract, it would ask for its costs back and would write that in the proposal.

The new president of District financial consultant FCSG, S. Bash, will be advising and assisting the District if the Board decides to proceed with the preparation of a proposal. Mr. Bash has helped with three successful privatizations on the East coast.

There is a walk-through at JBLM on July 13 and 14. More questions, including those surrounding extension time, may be answered at that time.

At this time, the Superintendent summarized a list of pros and cons surrounding this venture. Besides the potential financial benefits to the District and its customers previously stated, pros included future growth and development for the District; options to move water through the base; increased ability to respond to emergencies; increased system redundancy and support; sharing of staff, e.g., GIS Technician and Engineer; eligibility for additional grants from the State Department of Health; greater opportunities

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for employee growth and promotion within the District's systems; and significantly decreasing likelihood of assumption due to the non-transferability of a federal contract.

Cons included the age of the facilities on the base and need for replacement/upgrade; the need to expand District staff; and the proposal costs, both fixed and stranded if the District was not awarded the contract. An additional con was the military's plan to reduce forces by almost one-third, which would mean one-third reduced revenues. Since the time of the meeting, it was announced JBLM forces would only be reduced by 1,250.

The District does not see that it would partner with another entity at this point, e.g., Pierce County to provide wastewater service, even though the base would prefer a water/wastewater service. The General Manager reported the District has a meeting with Pierce County on Tuesday, June 23, to discuss the matter. The District has a good relationship with the County, and there may emerge a Memorandum of Understanding on joint facilities of construction.

The General Manager recommended the Board authorize him to spend up to \$300K and come back to Board to determine whether or not to proceed beyond that point. Commissioner Rediske moved to proceed with the production of a proposal for the privatization of Joint Base Lewis McChord with expenditures not to exceed \$300K before coming back to the Board for direction/approval to proceed any further. This is an unbudgeted item. Commissioner Korsmo seconded the motion, and it was passed by a unanimous vote.

With no further business to address, President Ghilarducci adjourned the meeting at 9:57 a.m.

**LAKWOOD WATER DISTRICT
BOARD OF COMMISSIONERS**

BY:



ITS PRESIDENT

BY:



ITS VICE PRESIDENT

BY:



ITS SECRETARY

ATTEST:



DISTRICT SECRETARY