

TIMPANOGOS SPECIAL SERVICE DISTRICT
ADMINISTRATIVE BOARD MEETING MINUTES

APPROVED

December 17, 2015

6:00 p.m.

Conference Room

Board Members:

Present:	Tracy Wallace	Mark Johnson	Dale Ihrke
	Chris Condie	*Craig Whitehead	*David Bunker
	Jay Meacham	Craig White	*Spencer Kyle
	Brian Braithwaite	*Keith Blake	

Excused:

District Staff:

Jon Adams, District Manager, Shannon Hansen, Human Resource
Danette Smith, Board Secretary , David Barlow, District Engineer
Joe Martin, CPA, Ray Coddington, Mike Howlett, Craig Jorgensen, Kelly Penrod, Lee
Miller, Scott Rackman, Bret Collins, Jared Barnett, Luke Watkins, Bryce Grossgebauer,
Josh Brittain, Neal Ford, Russell Morse, Flinn Hutchinson, Alan Robinson, Brad
Christensen, Beau Chadwick, Mike Wall

Others:

Ken Spiers, Bowen, Collins & Associates
Craig Carlile, Ray, Quinney & Nebeker
David Sanderson, Lehi City
Carolyn Hoffman, Lehi City

Call to Order

Tracy Wallace, Board Chair, called the meeting to order. 6:05 p.m.

Public Comment

There was no public comment.

Tracy Wallace said there was one change in the agenda. Before going into the Public Hearing on the Tentative Proposed 2016 Operations and Maintenance and the Tentative Proposed 2016 Capital Budget, there would be a closed session to discuss litigation.

Chris Condie made a motion to go into Closed Session to discuss Pending Litigation. Brian Braithwaite seconded the motion. Those voting "Aye" – Tracy Wallace, Mark Johnson, Spencer Kyle, Brian Braithwaite, Chris Condie, Jay Meacham, David Bunker, Craig White, Dale Ihrke and Craig Whitehead. The motion passed with a unanimous vote. 6:08 p.m.

Closed Session

*Keith Blake arrived. 6:09 p.m.

*Craig Whitehead left closed session. 6:30 p.m.

Chris Condie made a motion to go out of Closed Session and go into Open Session. Keith Blake seconded the motion. Those voting "Aye" – Tracy Wallace, Mark Johnson, Spencer Kyle, Brian Braithwaite, Chris Condie, Jay Meacham, Keith Blake, David Bunker, Craig White, and Dale Ihrke. The motion passed with a unanimous vote. 6:41 p.m.

1 *Craig Whitehead joined open session. 6:41 p.m.

2
3 **Public Hearing**

4 **1. Hearing on the Tentative Proposed 2016 Operations and Maintenance and the Tentative Proposed**
5 **2016 Capital Budget**

6
7 **Tracy Wallace, Board Chair, opened the Public Hearing on the Tentative Proposed 2016 Operations**
8 **and Maintenance and the Tentative Proposed 2016 Capital Budget 6:42 p.m.**

9 Tracy said at the previous public hearing for this budget, there was a presentation by Lehi City. The Board
10 has taken that information in to consideration. Jon said he had received an email from Lehi resident, David Cox,
11 whom had previously been on the District Administrative Board. In the email, David Cox said he had seen the article
12 in the Daily Herald about the possibility of cutting user rates and as he would not be able to make it to the public
13 hearing, he wanted his opinion recorded for the board as opposing a rate cut. David Cox said the public would not
14 even notice a rate cut that could be afforded. The additional amount is and would be needed for the increasing costs
15 of growth, and if a decrease is approved it will have to be reversed in the future and there will be much more
16 opposition to that. It is better to leave rates alone rather than lowering and then raising it back up again. That is not
17 good public relations or practice.

18 There were no other comments.

19 **Tracy Wallace, Board Chair, closed the Public Hearing on the Tentative Proposed 2016 Operations**
20 **and Maintenance and the Tentative Proposed 2016 Capital Budget. 6:45 p.m.**

21
22 Tracy Wallace said Action Item 1, Adopt the 2016 Tentative Proposed Operations and Maintenance and the
23 2016 Tentative Proposed Capital Budgets as the 2016 Operations and Maintenance and the 2016 Capital Budgets,
24 would be moved up on the Agenda to accommodate a few Board members who need to leave early.

25
26 **Action Items**

27 **1. Adopt the 2016 Tentative Proposed Operations and Maintenance and the 2016 Tentative Proposed**
28 **Capital Budgets as the 2016 Operations and Maintenance and the 2016 Capital Budgets**

29 Tracy thanked staff for all their hard work in putting this budget together. There have been a number of
30 different requests and some issues brought up regarding the numbers; those have been taken care of as much as
31 possible. Tracy said there was discussion about the depreciation but there was never direction given to staff to
32 remove that, so it is still in this budget. Tracy said this could be adjusted; the Board would need to direct staff. If
33 there were a motion to adopt this budget, any changes that need to be made would need to be part of the motion to
34 adopt.

35 Chris Condie said he would like to discuss David Bunker's proposal from the work session regarding
36 depreciation, not necessarily getting rid of, but decreasing. David Bunker said if we look at our financial statement,
37 under capital assets, the depreciable value of those is \$126,103,064.00. Considering if the plant had a fifty-year
38 design life, and we were to fund that number over fifty years, that does not include inflation. We also have some
39 money set aside for depreciation. If we were to fund that at two percent per year, in fifty years we would completely
40 fund that number. If we depreciate that over fifty years, that number equals \$2.522 million. David Bunker said his
41 thought was to reduce the depreciation amortization, under our operating expense, to \$2,522,061.00 David said
42 depreciation is not a cash expense it is a booked expense. There is a cash component associated with that, in the
43 revenue side, because we are collecting money to help fund that. David said he proposes a corresponding decrease in
44 our operating revenue of the same exact amount, so that our budget balances. We would reduce our proposed 2016
45 wastewater treatment revenue to \$13,503,693.00. That would still leave a net increase in the net position of
46 \$2,992,212.00 for 2016. We would not change the rates tonight; this is a proposed amendment to this budget. We
47 would still need an action item, at a meeting the first of 2016, to translate this reduction in revenue to our user rates.
48 David Bunker said he is proposing that the proposed budget is reduced \$1,496,307.00, straight out of the depreciation

1 fund, but it would have a corresponding reduction in user rates that we would make in effect at the next board
2 meeting, so we can get it properly noticed on the agenda. To reduce rates we do not need a public hearing we can
3 lower rates quickly.

4 David Bunker said he appreciates David Cox's comments, they are valid, the last thing we want to do is
5 lower rates and then increase them right back up again. David Bunker said David Cox used to sit on this board and
6 has some good background for making a comment. The last increase of 13.8 % was brought about by the bond
7 covenant parameters and the coverage ratio required for those. In order to have that coverage ratio, we were forced
8 to increase our rates 13.8%. Now that we have defeased that bond with those requirements, we do not have to have
9 that increase any longer. That increase was not because we were short on revenue to operate the plant. It was strictly
10 a bond covenant requirement. David Bunker said he does not think we should get rid of depreciation; we need it
11 because every year that goes by the plant get a little older and we do need to be putting some money aside to retrofit
12 the plant. However, only for the portion that is depreciated, not for growth. David Bunker said his opinion we
13 should bond for the growth portion, if we need to expand this plant because we have more users coming online, then
14 that expansion would be funded through bonding. Those residents would pay as they go just as everyone else has.

15 Brian Braithwaite said that anytime an organization has cash sitting out there, there is going to be a level of
16 liability if you do not have a clear direction of where it is going to be used. One of the key points is that we need to
17 begin to create the plan of how those funds are going to be expended over the next fifty years. Brian said he does not
18 suggest we reduce our rates in January; we first ought to look at what our costs are to create and maintain that plan,
19 so it is clear. If anyone comes in and asks why we have cash on hand, we can say we are replacing specific items and
20 that will reduce any liability we have. Brian said he is favor of moving forward with the suggestion by David
21 Bunker, but he wants to make sure that we as a board agrees to how we are going to create the environment for the
22 use of these funds moving forward.

23 Tracy asked Brian if he understood where David Bunker got the number for reducing depreciation down
24 from \$4.18 million to \$2.522 million. Brian said yes, he believes so. Tracy said David proposed we reduce the
25 depreciation by \$1.496 million and remove that amount from our wastewater treatment revenue, which would bring
26 revenue down to \$13,503,693.00. Tracy said he does not know how we justify reducing the wastewater treatment
27 revenue until we actually know we reduce rates and know what that is. David Bunker said if we were going the other
28 way it would be a problem, but because we are reducing it is not a problem. The \$15 million revenue is a big round
29 number. That is because it is a proposed number; it is an estimate. Tracy said yes, but it is an estimate based on our
30 existing rates. David Bunker said if we do not revise the rates in January and they do not come down, then we would
31 over-collect our proposed budget. That is not going to be a problem, it is when you under-collect your revenues that
32 you are going to have a problem. David Bunker said we could reduce the rates in January. Tracy said if we reduce
33 the rates and know what that number is, then that would be the opportune time to come back and revise the budget.
34 David Bunker said we could do that. Tracy said he understands that David Bunker wants to tie this to the revenue so
35 it forces us to look at it. David Bunker said absolutely, we have been talking about this for over a year. We have had
36 several work sessions, and David Bunker feels like we keep going in circles a little bit. There has to be some point
37 what we say here is what we are going to do. By setting our proposed budget, we are saying that as a board we are
38 committed to look at this and get it right. If we do not reduce our rates, we will collect more money then what the
39 proposed budget is and we will have to budget amend. Either way we will probably need a budget amendment.
40 Tracy said we will, but he hopes we are close enough that we make it to July or August.

41 Chris Condie said he agreed with David Bunker and Brian. Chris said as David Bunker said the 13.8% rate
42 increase was not because the plant was not meeting the requirements to fund plant operations, it was because of a
43 bond ratio we had to meet. Since we have defeased that bond, Chris would like to do as much as we can to return to
44 what the rates were. This is one step that not only commits us, but also puts us towards that path. Chris said he
45 talked to a couple of people about the theory and approach of this and they told him something similar to what David
46 Cox said, to leave the rates where they are. Chris said he could not help but think that the rates were increased for
47 one issue, the issue was taken care of, and now the rates are artificially high in his mind. Brian said to clarify, the
48 rates were raised for two reasons, they needed to be raised anyway, and we just had to go a little more because of the

1 debt covenants. Chris asked what the percentage was to meet to the bond covenants. Tracy said it was 3%. Mark
2 clarified that David Bunker's proposal is not to decrease the 13.8%. David's calculations would be a decrease of
3 about 6% in rates. Tracy said that would be up to staff to figure out exactly what that number would be.

4 Mark said he likes David's proposal, but wanted to know if the proposal included a process of immediately
5 looking at asset management. David Bunker said yes, that is going to take a funding component, he does not know
6 what that will be. David Bunker said he thinks the asset management plan is many months down the road. It could
7 be 8 months to a year down the road before something is implemented. We can start formulating a plan of how to get
8 that done and what it looks like. Mark said he would like to see that get started as soon as possible. Mark said he
9 agrees with David Cox's statement; we hate to go back and forth. When we rose 13.8%, Mark said he had very few
10 comments from residents.

11 Craig White said in the 2016 Budget, the change in net position starts at \$4.4 million in the positive, of which
12 \$4 million is depreciation. If you do not factor in depreciation, we are really looking at about \$100,000.00. Craig
13 White said if you look at the Capital budget, we are \$4.6 million in the red, even if you include depreciation. If we
14 decrease depreciation then we are going to throw us even farther into the red. We are going in the opposite direction.
15 We keep talking about the cash we are generating, and we are operating in the red right now. We are not even
16 meeting our capital needs, yet we want to reduce it even more, which is concern to him.

17 David Bunker said Craig White has a valid point, other than the fact that we are not really in the red, if you
18 look at our total cash assets. Craig White said he is not looking at cash he is looking at our operating. David Bunker
19 said we could do that every year; we could have so many projects on our books that we show we are negative and
20 still bank money in our cash asset. We have \$40 million. Craig White said he agrees, but the problem is we have a
21 five-year plan we are operating, we are not financing that now, and now we are saying we are not going to finance it
22 as we move forward. We are going to need to start dipping into cash reserves. David Bunker asked Craig if he is
23 saying the 13.8% raise last time to cover a bond covenant is just going to get absorbed? Craig White said he thinks it
24 has to. Craig White said you have \$100 million in depreciation in our audited financial statement, and this plant is 40
25 years old. Craig White asked what we have in accumulated depreciation on our books today. That will justify your
26 depreciation account if you are looking for justification. David Bunker said if we had not had so many plant
27 expansions he would agree with Craig. The problem is we have had many plant upgrades. Even in our last upgrade,
28 there were portions of the plant that were upgraded, and some that were not like this building, but that is in the \$126
29 million bank of total assets. Craig asked how much of that has already been depreciated. Craig said that is going to
30 be a chunk of money.

31 Dale said he agrees that we need to move as rapidly as we can with an asset management program. It is
32 going to take at least a year to get a report on the current conditions, life expectancy and costs. Dale said in that year,
33 while we wait, he would hold where we are. We know the plant is 40 years old; we are going to have some costs
34 coming up that will be revealed in this assessment. Dale's guess is they are going to be higher than what we have on
35 the books now. We can reduce and end up increasing later, or we can stay where we are. Dale does not know if
36 there is a right answer one way or the other. As far as a rate reduction, the reason we raised rates was for the bond
37 covenant, it was implied that once that went away we would reduce some, so Dale thinks we should reduce. He is
38 not sure he is in favor of reducing the whole 13.8%, but 6% may be reasonable. Doing that through reduction of
39 depreciation gets you there, but he is not sure that the \$2.522 million is the right amount we should be banking. We
40 may need to bank more than that; we will not know that until the end of the study. Dale said to him there should be
41 some rate reduction, and he is going to wait and see what the report says and then we will all have a better picture of
42 where we are. Right now, we can go many different ways, but we will end up adjusting a year from now anyway.

43 Keith Blake said a good balance is what David Bunker has proposed. We talk about the plant being 40 years
44 old, but we just finished a major new addition. Keith Blake said long term he thinks the asset management plan
45 ought to be done. It is a good in between position to proceed and set the depreciation at \$2.522 instead of the \$4.018
46 million and to do that with the idea in mind of reducing the user fee. Meanwhile, we look at an asset management
47 plan and look at these issues again. Make it a priority to look at the bigger picture of what we should plan for long
48 term and the policy on bonding and depreciation. Keith Blake said he feels good to approve the budget with the

1 change in the proposed revenue, we cannot commit to what is not on the budget. All we can commit to is what the
2 budget is and to discuss further in January. Keith said that as Craig White pointed out, depreciation has a purpose
3 especially in a facility that is capital intensive. You have to repair it on an ongoing basis and you have to plan for
4 replacement. Keith said when the 13.8% increase was done he was frustrated because we were required to make it.
5 It is a good faith movement to plan a change in that, and with a budget proposal we can facilitate making a change in
6 January if that is agreed to.

7 Joe Martin said if you look at the fixed asset schedule, and see what assets we have on the books that are not
8 being depreciated because they are fully depreciated already; just the equipment is about \$3.8 million. They are not
9 included in that \$4.018 million depreciation account. In addition, land is not being depreciated. In the future, if the
10 District needs to get more land that is around another \$3 million. Therefore, there is about \$6.8 million of assets that
11 are on our asset schedule that are not included in that \$4 million. Brian said if we buy new land that is a new
12 acquisition, and that should be treated differently because those coming in are paying impact fees and that is what
13 that is for. Brian said land does not fall apart over time; he would never depreciate the land. David Bunker said
14 what also is not included is over \$400 thousand in repairs and maintenance that is already plugged into our current
15 budget. David Bunker said he expects that to continue, we do need to be replacing equipment that is wearing out and
16 the funds in that account will adjust over time as well. David said his point with depreciation is that by reducing it
17 down to the \$2.522 million, we are saying that \$126 million worth of depreciable assets will be funded within the 50
18 years. Jon clarified the \$400 thousand is repairs and maintenance, but it is not replacement.

19 Jon said the Board increased the 13.8% because they needed to, but if you reduce the rates, you reduce by
20 12.1%, as it is a bigger number now, to get you back where you were. We are talking about adding asset
21 management; that is not in the budget so you are going to increase costs and reduce rates. You can work through that
22 after the first of the year, but you need to keep that in mind. Jon said 2015, 2016 and going forward is going to give
23 the board a better idea where to base rates. Dale Ihrke said that even though you look at depreciation at 2%, by the
24 time you figure inflation, the replacement value of the plant would be more than the book value. Dale said he would
25 like to see a line added in this capital budget for asset management, he is not sure the correct amount to put, but he
26 would put \$500,000.00. We may not need to add more money into capital, because we have the \$1 million in
27 contingency and we can probably absorb that money into contingency and not change the capital budget amount.
28 Brian said we are artificially lowering the revenue, based on what our current rates are and he agrees we make that
29 adjustment, but we can add an expense at the same time we adjust the revenue. We do not need to do this in January;
30 we can do it in February or March. Let us direct staff to go out and start getting the bids, so we can identify how
31 much that cost is going to be. Brian said we could adjust the expense up and adjust the revenue down, when we
32 figure out what those numbers are, and make that as a onetime adjustment on both ends.

33 Tracy asked Ken Spiers that based on discussion, would this give Keith Larson more clarity on what we are
34 looking for on rates. Ken Spiers said he thought there are some other issues, policies relevant to the rate structure
35 that have been discussed here. Jay Meacham said he is in favor of the proposal to reduce the depreciation. He thinks
36 there was a reason to increase rates and there is justification to decrease them. Jay said he is also in favor of lowering
37 wastewater revenue, and that would push us into decreasing those rates quicker. Craig White said it does not matter
38 what you do with depreciation, you can zero it, when the auditors come in, and they are going to book depreciation as
39 what it is. They are going to book \$4 million. What we need to do if we want to do it right, is keep depreciation
40 where it is at, reduce revenue and let it come out of reserves. David Bunker asked how the auditors get the \$4
41 million. Do they come in and look at our assets? Craig White said yes they do every one of them. Craig said if you
42 start playing around with depreciation you are putting yourself over budget, under budget, you expend funds you do
43 not have. If you are doing it that way, reduce revenue, let it come out of reserves and see what it is doing to your
44 bottom line.

45 Spencer said the problem is that budgeting depreciation affects the rates and the debt coverage ratios are
46 affected because depreciation is in the budget. Craig White said only if you let them. Craig said the Board
47 determines if you are funding depreciation, and how much or not. That is a board decision. Brian said there is no
48 requirement to fulfill that. Brian said he agrees that it is crazy for an organization to recognize depreciation and

1 balance that, especially a capital-intensive organization like TSSD. Most organizations are not doing that. Craig
2 White said he disagrees with that. To the point that Lehi City, who came before the Board and said they are not
3 funding depreciation, are fully funding depreciation in their water fund, their sewer fund and their electric fund.
4 They are also transferring funds into their general fund and they still have a surplus. That member entity said the
5 District should not be funding depreciation. Lehi is doing it now and it is on their financial statements. Craig White
6 said many cities, in their enterprise funds, are funding depreciation, most not at 100%, but Lehi is funding at 100%
7 on those three funds. Brian said it is not an issue to fund at 100% because it is coming in negative in their books,
8 they do not look at it that way. Brian said that to him the biggest issue is we are trying to shoot for something that
9 we do not have clarity on, which is why the asset management program needs to be put in place. Once that is in
10 place we will see whether we need to raise rates, or we can reduce them. Right now, we are really just making our
11 best guess.

12 Dale said another issue we need to address in January or in the near future is what our financial policy is.
13 Are we going to bond or are we going to pay as we go, or a combination of the two. If we are going to bond, which
14 Dale thinks is expensive and should not be done, maybe asset management is not as necessary. When we have the
15 need, we go out and borrow money. We need to decide what our financial goals are and put a policy in place. Keith
16 Blake said he proposes to add \$500,000.00 in expense towards an asset management study. If we add that, our
17 bottom line net position would be about \$4 million. Tracy asked if that would be in professional services. Keith said
18 he would make it a separate line item. Tracy said if we take \$500,000.00 and put it in as a placeholder for the asset
19 management program, where would it be put in the budget. Brian Braithwaite asked why we would not wait until we
20 know what that amount is and put it in then. We are going to need to make an adjustment for the revenue side, why
21 not just make them both at the same time. Keith said budgets are for planning purposes; we are planning, so that is
22 the amount we start with and adjust if needed.

23 Tracy said before going further, that he would like to get a feel for how we would like to direct staff, and
24 where we are going with depreciation. Tracy asked each board member if they would like to fully fund depreciation
25 at \$4 million, decrease to \$2.522 as David Bunker proposed, or eliminate depreciation. David B: fund at \$2.522
26 million, Mark: fund it, not sure the amount, is ok to adjust it down a little bit until we get through the asset
27 management and adjust back up if needed, Keith Blake: fund at \$2.522, Craig White: fully fund, Dale Ihrke: fully
28 fund, and let it come out of ending fund balance, Craig Whitehead: fully fund, Jay: fund at \$2.522 million, Chris
29 Condie: fund at \$2.522 million, Brian: fund at \$2.522 million, Spencer: would decrease more, but will support the
30 \$2.522 million, as a compromise, Tracy: fully fund until we get more information, and he understands the funding of
31 depreciation.

32 Joe Martin said if you look at the audited 2014 financial report, there is a final budget, compared to our final
33 expenses. One of the main reasons we budget is because the state requires it, so everything we spend the public is
34 able to look at. If depreciation is funded at \$2.522 million, at the end of the year we will have booked \$4 million into
35 depreciation, so in December you will be raising the budget to be above what our expense is to be compliant on our
36 budget report. You can get to the same exact place by reducing the revenue, and having the money come out of
37 retained earnings. It is a compliance issue. At the end of the year, you want to make sure our budget does not show
38 we are budgeting \$2.522 million for depreciation, yet we actually dispensed \$4 million. Chris Condie said if he
39 understood right, there a time where the District did not fund depreciation at all. Joe said that was before his time.
40 Chris said he understands Joe and Craig's concerns, but when the District did not fund at all, did the same thing have
41 to happen. Chris said he would assume the same auditing requirement were there. Joe said auditing requirements
42 did change in the early 2000's. Chris Condie asked what the change was, and if that change compelled the District
43 to start funding depreciation. Joe said no. Chris said he agrees with what has been said, it is foolish not to fund
44 depreciation for this type of facility, so he is on board funding it. His concern is to be fair to the current users who
45 are paying for the facility that is here, they are paying more than they need to. If the funds are not in depreciation
46 and we still have to fund that at \$4 million at the end of 2016, we are still going to pull that money from reserves to
47 fund depreciation at whatever it comes in at the audit. Chris thinks we need to bring rates down to make it fair for
48 our users. Brian said the biggest confusion everyone has is that depreciation pulls out reserves and the natural

1 impression is you are taking cash out of the bank to plug into this. It does not come out of the bank, it is an
2 accounting thing that says your value went down so you have to take out cash (which you really do not take out) and
3 plug it in, to balance out, so the accountant says it matches. Brian said the bottom line is not one penny comes out of
4 your cash. That is the hard part, and Brian still gets confused. If the people here understand how that works and why
5 organizations allow depreciation to go in to the negative and a lot do not fund depreciation, that would help members
6 of the Board.

7 Joe said it depends on how you look at budgeting, if your purpose in budgeting is to set the rates, and then
8 you can say whether you want to include funding depreciation. You want to look at actual expenses, and get them as
9 close as possible. If you look at budgeting like the state forces us to, you want to make sure you are in compliance.
10 From an auditing perspective, we are taking the states approach and we are passing a budget so the public knows
11 what we are spending and making sure our expenses come in under what we budget. Joe said to him that is a
12 different budget than really trying to project exactly what we are going to spend and whether or not we include
13 depreciation when we are trying to determine what rates are. Brian said it scares people to say we are not in state
14 compliance; we will be, because we will move the money out of reserve into this. It is not cash; it is just a number
15 on the financial statements. Everybody on the board should know we will be in compliance, we have been in the
16 past, we will continue to be. Those who put no money aside for depreciation will also be in compliance. It is hard
17 when you are doing accrual accounting versus cash. We are trying to set aside enough cash so when we need it for
18 capital expenditures in the future, we will have this reserve. That is the concept of depreciation, when it reaches the
19 end of its life; you have set enough aside that you can actually rebuild it. The fundamental of what we are trying to
20 do is guess how much money we set aside, and until we get the asset program how do we know? Depreciation is an
21 accountant's best guess. It is based upon real numbers that they have used over years, but it does not necessarily fit
22 who we are exactly.

23 Dale said it gets back to the policy issue, do we want to pay as we go, pay cash for all or some portion of it,
24 or do we want to bond. If we are going to bond, we do not need to fund depreciation, we just borrow money. Tracy
25 agreed it is a policy issue we will need to discuss at the beginning of the year and have it intact so we can move on to
26 user rates and getting Keith Larson the information, and direction, so he can come back with numbers. Dale said the
27 asset management plan is a way to say we know the facility is aging and going to need to be replaced and we are
28 going to take some percentage and set it aside. Mark said asset management is part of the budget and it should be
29 handled now. He is concerned about what Craig White and Joe are saying. Mark proposed we take the \$15 million
30 wastewater revenue, and based on what David Bunker proposed, we would reduce that to about \$13.5 million, and
31 take \$500 thousand of that and create a category for asset management. We are actually reducing the revenue
32 \$1million. Mark believes this is a mechanism that drives us in the direction we all know we need to go. Mark said
33 we need to start on the asset management plan immediately, he hates to start on it without funding, and we now have
34 a mechanism to fund it.

35 *David Bunker left 7:48 p.m.

36 Joe said we went to this budget summary, partly for flexibility, most of the \$500 thousand will be spent on
37 professional services. Joe proposes we make a new account that is by itself within Caselle, but in the summary, it is
38 going to fall under professional services, under the Administration category. Tracy clarified, what this would
39 increase professional services by \$500 thousand, which will increase the Administration department accounts by
40 \$500 thousand. The revenue will reduce from \$15 million to \$14 million.

41 **Mark Johnson made a motion to adopt the budget presented to the Board with the following changes;**
42 **under operating revenue, the total wastewater treatment fund be reduced to \$14,000,000.00 and that we add**
43 **an additional \$500,000.00, under Administration and Operating expenses, where we have directed our**
44 **accountant to create a new category identifying those funds will be used in the development of the Asset**
45 **Management Plan. Brian Braithwaite seconded the motion.**

46 Dale said with a net \$1million decrease that means we are saying we are going to have a rate decrease of
47 \$1,000,000.00. Brian said all we are talking about is reducing our revenue number by \$1,000,000.00. We are not
48 saying we are going to decrease any rates or anything else. Brian said in his opinion, we are throwing out a magical

1 number of \$500,000.00; we do not know what the real number is. Brian does not want to reduce our rate until we
2 know a better number of what that is. When we know what that is, then we can adjust our revenue to the right place
3 and adjust our rates, or we may not adjust them at all. We are just understating our revenue by \$1 million. Brian said
4 we are doing this for a good reason, he agrees with it, and we should try to make a rate change if it applies.

5 **Mark Johnson amended his motion to clarify the adoption of the 2016 Tentative Proposed Operations**
6 **and Maintenance and the 2016 Tentative Proposed Capital Budgets as the 2016 Operations and Maintenance**
7 **and 2016 Capital Budgets. Brian Braithwaite accepted and seconded the amendment.**

8 **Tracy asked for a roll call vote. Tracy Wallace-Aye, Mark Johnson-Aye, Craig Whitehead-Aye, Dale**
9 **Ihrke-Aye, Craig White-Aye, Keith Blake-Aye, Jay Meacham-Aye, Brian Braithwaite-Aye . Chris Condie-**
10 **Nay, Spencer Kyle-Nay. The motion passed with a majority vote.**

11
12 Tracy said he appreciates staff, there was a lot of information given to them and they took this budget apart
13 and put it back together several times.

14 **Approval of Minutes**

15 **1. Approval of the November 19, 2015 Administrative Board Meeting Minutes**

16 **2. Approval of the December 3, 2015 Budget Work Session Minutes**

17 *Spencer Kyle left. 7:58 p.m.

18 **Chris Condie made a motion to approve the minutes of the Administrative Board meeting on**
19 **November 19, 2015 and the Budget Work Session on December 3, 2015. Keith Blake seconded the motion.**

20 Dale Ihrke said he had one change to the minutes of the December 3, 2015, Budget Work Session. Dale said
21 on page five, line two it states “Dale said he does not like bonding; we will pay \$60 million in interest”. Dale said he
22 recalled that we borrowed \$49 million and our interest was \$60 million. He wanted it to reflect that he had said we
23 borrowed the \$49 million.

24 **Chris Condie amended the motion to include the correction. Keith Blake accepted the amendment.**
25 **Those voting “Aye” – Tracy Wallace, Mark Johnson, Brian Braithwaite, Chris Condie, Jay Meacham, Keith**
26 **Blake, Craig White, Dale Ihrke, and Craig Whitehead. The motion passed with a unanimous vote.**

27 **Consent Calendar**

28 **1. Pay Request No. 8 Whitaker Construction- Alpine/Highland Segment III Sewer Line Project**

29 **2. Pay Request No. 10 Bud Mahas - Laboratory Project**

30 Tracy said if Board members have not had the opportunity to go through the new lab, they should take time
31 to do that. It should be up and operational hopefully by the end of January.

32
33 **Chris Condie made a motion to approve the Consent Calendar as presented - Pay Request No. 8**
34 **Whitaker Construction/Alpine Highland Segment III Sewer Line Project and Pay Request No. 10 Bud Mahas/**
35 **Laboratory Project. Dale Ihrke seconded the motion. Those voting “Aye” – Tracy Wallace, Mark Johnson,**
36 **Brian Braithwaite, Chris Condie, Jay Meacham, Keith Blake, Craig White, Dale Ihrke, and Craig**
37 **Whitehead. The motion passed with a unanimous vote.**

38 **Finance**

39 **1. Financial Report**

40 Brian made it clear that Highland City is now paid up on impact fees. Tracy said it is amazing looking at this
41 compared to what this looked like two to three years ago. There were cities that were 3 months behind. Now it looks
42 much better. Joe said when we go through the audit, which will start the first part of February; these numbers are
43 going to change with the accrual that we booked for payroll and payables. The final financial statements for 2015,
44 the Board will not see until March at the earliest. Chris Condie asked about the check register and the different visa
45 card payments. Chris asked if those visa cards are assigned to different departments. Joe said yes. Chris asked if

1 there is a way to know exactly what the charge is for on those cards. Joe said when we pay it, it is charged to that
2 correct expense account. The check register only shows the vendor that is paid; it does not show the account where it
3 was charged. Keith asked if Caselle would be able to print a check register with each line entry. Joe said it would
4 be very long, could be 40 pages. Keith said we are supposed to look at this as a board and understand, we may not be
5 able to tell by the description. Tracy said as someone who signs the checks, often times if the visa is administration it
6 is office supplies. We have an account for most of these places, but these are usually real specialty items. Keith
7 clarified that our procedures are watching those expenses. Tracy said yes. Jon said there are four credit cards, not
8 each department has one and they have to get approval before spending. Some places we do business with, you give
9 them the card or set up an account, and we may only use that vendor once. Everything is broken down; they are Visa
10 Cards, through American Fork Bank and can only be used on purchases under a certain amount.

11 Tracy thanked Joe and Shannon for all their hard work on the financials.

12 13 **Communication**

14 **1. Manager's Report**

15 Jon said the plant was in compliance for the month of November. Jon said we received notice from the
16 DWQ that they are going to open our UPDES Discharge permit and add a few more parameters that we will need to
17 monitor. We will be required to go to 7 days a week, we have been three times a week for most of the parameters,
18 but now it will be 7 days a week. Because of our compliance record, Jon thinks we will be able to negotiate that
19 down to 5 days a week. Jon said the purpose behind this is for us to gather the information for nutrients that the state
20 needs so that a limit can be determine. Brian asked what the cost would be on the plant, as it will be more
21 employees' time and the cost of the chemicals. Jon said yes we will have a few more testing supplies and the staff
22 we have should be able to handle it. Jon said the supplies line item was increased about \$1,500.00 in the budget.
23 Hopefully there will not be significant costs. Brian asked how much of an individual's time the increased testing
24 takes. Jon said about 15%-20% increase in time. This is just increased monitoring, the limits for those parameters
25 stays the same. We have guidelines on proposed limits and when they will be implemented. They are looking at
26 other things to see if they want to tighten those proposed limits down. Jon said we are participating in the water
27 research council. The council is looking at the same parameters, and have done research on the lake so we have our
28 own information on the receiving water body to come back and say whether a tighter limit is justified.

29 **2. Laboratory Building Construction Progress Report No. 10**

30 Brian said there is 5% retainage, what happens with that and how does Bud Mahas get that. Jon said
31 Bowen, Collins has issued a letter of substantial completion and we have an occupancy permit from Utah County.
32 Now we can move into the building. There are some punch list items, nothing big, that were noticed in the walk
33 through. Any of those items or deficiencies needs to be taken care of and then Bowen, Collins will recommend when
34 to release retainage. Ken Spiers said contractually is usually around 60 days.

35 **3. Alpine Highland Segment III Sewer Line Progress Report No. 8**

36 The Board reviewed the progress report.

37 Brian Braithwaite thanked staff for attending the meeting.

38 39 **Adjourn:**

40 **Chris Condie made a motion to adjourn. Jay Meacham seconded the motion. All present "Aye".**
41 **Meeting adjourned. 8:15 p.m.**