

TIMPANOGOS SPECIAL SERVICE DISTRICT
ADMINISTRATIVE BOARD MEETING MINUTES

APPROVED

September 17, 2015

6:00 p.m.

Conference Room

Board Members:

Present: Mark Johnson Dale Ihrke Chris Condie David Norman
David Bunker Jay Meacham Sean Fernandez Craig White
*Spencer Kyle

Excused: Tracy Wallace Craig Whitehead Keith Blake Brian Braithwaite

District Staff: Jon Adams, District Manager
Shannon Hansen, Human Resource
Danette Smith, Board Secretary
David Barlow, District Engineer
Joe Martin, CPA

Others: Ken Spiers, Bowen, Collins & Associates
Keith Larson, Bowen, Collins & Associates
John Mackay, Ray Quinney & Nebeker

Call to Order:

Mark Johnson, Vice Chair, called the meeting to order. 6:01 p.m.

Public Comment

Ken Spiers, Bowen Collins & Associates, expressed appreciation for the opportunity to work on the Plant Expansion project. Ken presented the District with an aerial photograph of the completed plant expansion. Ken said the photo is already outdated because the new lab building is almost finished. However, for purposes of historical record it will show the plant expansion as it was completed in 2014. Ken said Bowen Collins and Associates was grateful to the Board, Jon and staff, for the privilege of working on the project. Ken said there were challenges with the project, but in the end, the District has a plant that is functioning well and exceeding treatment goals at this time.

Approval of Minutes

1. Approval of the August 20, 2015 Administrative Board Meeting Minutes

Chris Condie made a motion to approve the meeting minutes from the August 20, 2015 Administrative Board Meeting. Jay Meacham seconded the motion. Those voting "Aye" – Mark Johnson, David Norman, Chris Condie, Jay Meacham, David Bunker, Craig White, Sean Fernandez, and Dale Ihrke. The motion passed with a unanimous vote.

Consent Calendar

1. Pay Request No. 5 Whitaker Construction/Alpine Highland Segment III Sewer Line Project

*Spencer Kyle arrived. 6:07 p.m.

1 Jon said there have been quite a few challenges with this project; the biggest challenge being the
2 telecommunication line that was discovered under the tracks. Most of the work this period was the bore pit. It was a
3 48” casing for the sewer line and 30” for the pressurized irrigation system for American Fork. Those were the big-
4 ticket items on the pay request. Jon said there was an extension granted due to that. The project is moving along and
5 the contractor has been good to work with.
6

7 **Craig White made a motion to approve the Consent Calendar as presented - Pay Request No. 5**
8 **Whitaker Construction/Alpine Highland Segment III Sewer Line Project. David Bunker seconded the motion.**
9 **Those voting “Aye” – Mark Johnson, David Norman, Spencer Kyle, Chris Condie, Jay Meacham, David**
10 **Bunker, Sean Fernandez, Dale Ihrke, and Craig White. The motion passed with a unanimous vote.**
11

12 **Finance**

13 **1. Financial Report**

14 Joe Martin asked if the Board preferred the financial statements to be one document in the dropbox or two
15 separate documents. Mark said he did not care, but would like the page numbers in the electronic documents to match
16 the page numbers in Joe’s hard copy. Joe said we could do that. Joe said the current portion of bonds is \$0 right
17 now. We do not have any principal bond payments until 2018 on the only bond we have left, the 2010 BAB Bond.

18 Wastewater Treatment income is up \$2,000,000.00 from last year. Last year at this time, we had
19 \$5,000,000.00 in impact fees; right now, we are at \$3.9 million. Mark asked if that was due to the lower impact fee
20 amount. Joe said it could be less impact fee permits and a lower impact fee. We are 67% through the year; our
21 revenues are above what we budgeted and our expenses are below budget. Mark said these financial reports are
22 much better then when he started on the board.
23

24 **Action Items**

25 There were no action items for consideration.
26

27 **Communication**

28 **1. Wastewater User Rate Update – Keith Larson, Bowen, Collins & Associates**

29 Keith Larson, Bowen Collins & Associates was present to discuss user rates with the board. Keith said he
30 would show where the District is today with user rates, the effect of defeasing the 2007 and 2010 A Bonds, and what
31 that means to the District from a cash flow and rate perspective. When this rate study was presented in 2014, there
32 were three major criteria relative to our rates. Those criteria were: 1) do we have enough revenue to fund projected
33 expenditures 2) do we meet the contractual obligations that we have through our debt service covenants and, 3) do
34 we have enough money to maintain the system, and to put aside to keep the system in good operating condition. In
35 the last study, we concluded that almost everything was being driven by rate covenant B; which is revenue without
36 impact fees. Keith said that one critical thing establishes the rates.

37 Keith said in 2014 we were projected to not meet our debt coverage ratio. At the time, it was recommended
38 that the Board adopt a 13.8% rate increase. The Board adopted that rate increase. That was done to get us back to
39 that 1:1 coverage, to cover the debt service. We later came back and asked if anything could be done with the bonds
40 to change this. The District defeased the 2007 Bonds, set aside money from reserves to pay the bonds and meet the
41 debt covenants a different way other than rates. Then we looked to see if we could defease the 2010 A Bonds, which
42 was done. Defeasing the 2010 A Bonds lowers cost for the District over the next few years. After that, the principal
43 costs that were in the 2010 A Bonds are transferred over to the 2010 B Bond in 2018.

44 Keith said they looked into what this would mean for rates. Keith calculated the average monthly sewer bill
45 per equivalent residential unit for the District as a whole. Keith charted the existing rates, the rates prior to the 2014
46 increase, and the minimum allowable rate (the minimum rate we could charge and still meet the bond covenant).
47 Keith asked, if we charge the minimum rate, would we have enough money going into the system to continue to fund
48 what is needed? Keith said they also looked at the reserve fund balance. Keith said he met with the Administrative

1 and Finance Committees several months ago. Those committee members said they would like put aside funds for
2 specific purposes. The committees also asked about setting some money aside associated with depreciation. In 2014,
3 the audited amount of depreciation was \$3.8 million a year. Keith took that \$3.8 million and subtracted everything in
4 the capital facilities fund that is going towards rehabilitation and replacement of existing infrastructure. That brought
5 that down to about \$2.5 million dollars. Keith planned setting aside about \$2.5 million a year in a depreciation fund,
6 which could be used to replace facilities as they wear out over time. The committees' direction to Keith was to make
7 sure we stay above the depreciation fund.

8 In 2023, there is a fairly large capital project penciled in associated with new trunk lines servicing some of
9 the west communities of the District. Keith said if we lowered rates down to the minimum allowable rate, we could
10 lower it for one year, but then would have to have a small increase in 2017 and a big increase in 2018. Keith said, as
11 a scenario, we could take rates down to pre-2014 rates, and leave them there until approximately 2020. At that point,
12 we would need to implement some small increases, if growth and cost projections are accurate. If we were to do that,
13 our balance would remain the same up until 2016-2017 then would actually put a little bit more money aside during
14 those couple of years. Spencer Kyle said we would most likely review our rates before 2023. Keith said yes.

15 Keith said there was also discussion about if the District lost composting and revenues associated with that,
16 along with additional hauling costs. That would require an increase, but we could wait to see what happens with the
17 compost. In conclusion, required rates continue to be governed by the bond covenant. The recent defeasance of
18 2007 and 2010 A Bonds will allow for a reduction of rates if the Board decides. A reduction of rates to pre-2014
19 levels would still maintain the long-term system investment goals. If there were a loss of composting it would result
20 in approximately a \$3.00 ERU increase on the monthly bill.

21 Chris Condie asked if there was a risk of holding onto too much money, whether it is in the general account
22 or operations account. Keith said he did not know the answer to that. Spencer said there have been a lot of
23 discussions on the fund reserve policy. Spencer said he could not remember if that policy was adopted or just
24 discussed. Craig White said the board discussed it, and legal counsel's advice was not to formally adopt; it is an
25 internal policy that can be changed at any time. Dale Ihrke questioned whether there is anything we are missing in
26 the next ten years projected expenditures. We have talked about if the new regulations kick in, we could see a \$10
27 million capital need for additional facilities; how does that play out in this analysis. Jon said that amount was
28 reduced to around \$6 million in the capital final proposal. The general guidance from the legal counsel recommended
29 that we not adopt a formal policy, but have a practice where we review it every year. As a guideline, we kept those
30 dollar amounts that were discussed previously, so if we had a development or regulatory requirement, we would have
31 enough to start while we were looking at our rates to make any adjustment we would need. Craig White said one of
32 the discussions the board had was to not do a rate decrease, keep the money aside to get debt paid off and be debt free
33 within a 10-year period. Then start setting money aside for the next expansion. Craig White said that by no means
34 was it a unanimous opinion, but it was an opinion that was expressed. Keith Larson said, from his perspective, we
35 have accounted for projected growth and system expansion, and also set aside an amount for replacement of
36 facilities. We are not covered for a change in regulations. There are always surprises but we have tried our best to
37 represent what those we know of.

38 David Bunker said yes, there was discussion about not doing a rate decrease, and keeping those rates at the
39 level they are and bank that money. David Bunker said he had a problem with doing that; as he feels we are double
40 charging the current users for this plant. We have double charged them in the past; we had to because of the rate
41 covenant. When we made this adjustment, it was exactly what has been presented, we had to meet our debt coverage
42 ratio of the 1:1 and we were not meeting that. Therefore, we used unrestricted funds in the form of rates to cover that.
43 Technically the majority of those would have been impact fee eligible expenses. David Bunker said the impact fee
44 law is so cumbersome; we have six years to collect an impact fee and spend it. If we try to collect impact fees in the
45 last six years before we have to upgrade this plant, more than likely we will not collect enough impact fees and we
46 would have to borrow. David Bunker said that is why he has asked Jon, in the past, to keep track of the unrestricted
47 funds that we spend on this plant or any project in the District that are impact fee eligible. We should be paying
48 ourselves back in the form of user rates to compensate as impact fees start to come in. This is going to have to be

1 something we look at carefully over and over again and try to time that and make sure we have a plan on how to do
2 that. It hit us this last time; we had to raise rates in order to cover the debt service ratio. It is going to happen again as
3 we approach that time where we have to replace this plant, because of the restrictions of impact fees. In David
4 Bunker's opinion it is time that we do lower the rates because the users have already paid their impact fees, their
5 rates were artificially high. It was not O & M costs that were driving that, it was a bond and the terms of the bond
6 that forced us to raise rates. Spencer said our rates are artificially high, and we have a chance to lower them.
7 Spencer thinks we should, because the residents in our District do not need to be paying extra for us to have a higher
8 fund balance, which is one of the main reasons we looked at defeasing those bonds. David Bunker said the question
9 at the time we were talking about raising rates was if we could get rid of some debt, to bring that requirement for
10 coverage back down and maybe not have to raise rates. David Bunker said we were told at the time that is not
11 possible, and then we went through a scenario where it was, which was great.

12 Mark said he does not think we can look at what is going to happen with the future of the composting
13 lawsuit. If we lose that suit, we have the opportunity to re-raise rates if we lower them now. Mark said as attractive
14 as it is to remove all of our debt, this is one of those circumstances in government where you have to consider that
15 sometimes debt is favorable. It is favorable to the current users we have now and for that reason, it makes sense to
16 say we cannot burden them with opportunity where we are in position to remove that debt. Spencer Kyle said we do
17 not want them paying for the expansion that has just been completed and paying again for the next expansion. We
18 want the users ten years from now to pay for the expansion, because they are the ones who will be benefitting from it.
19 Spencer said it is going to take years, but a big chunk is the legal liability fund and one way or another that will be
20 solved and everything will get reduced at that point. Mark said he can agree, but it is hard to see the legal liability
21 fund ever going away and not increasing in the future.

22 Chris Condie said he agrees with what has been said about lowering rates; if there is the opportunity to do
23 that we should. Jay Meacham said he agrees, with the defeasance of the bonds it gives us an opportunity to reduce
24 the rates and we ought to take that opportunity to do that. Sean Fernandez said he agrees with what has been said and
25 we ought to lower the rates if we can. Dale Ihrke said he wished we had a better long-term picture of what is going
26 on, he does not understand the need for debt, it just costs money that, if you planned for enough out in advance, you
27 wouldn't have to take that debt on which saves money. Dale Ihrke said he has mentioned before about a robust asset
28 management program, where we are looking out 30 years and doing condition assessments, and really know the
29 condition of every line out there. Dale said he has not seen a report on a condition assessment that lays out a 30-year
30 plan. When you have to spend money that are not impact fees, but replacement money and regulatory changes which
31 may be coming, those are rates. If we had a longer-term picture, Dale would feel a lot more comfortable. Dale said
32 we could not bank money without knowing what we are banking it for. He would love us to move in that direction
33 and one of the things the engineering committee has on the list to discuss. We are allowed to save money for
34 anticipated expenditures 10 years out if we want to. Dale is not saying we should keep the rates as they are, he does
35 not think we are ready to say that.

36 Keith Larson asked if the Board had direction for him. Spencer asked if this rate study was done for when
37 the Board comes back with the proposed budget in the next few months. Jon said he asked some of the members at
38 the committee meeting, to have discussions and get a feel from the Board; then as we go through the budgeting
39 process, we keep that in mind. Jon said, we can have money on hand, if you have too much you are criticized and if
40 you have too much without a plan that is worse. The other thing is when we talked about paying off the debt there
41 was a component in there, we do not want people to pay twice. Jon said we have asked, if we kept a little and got out
42 of debt, in the long term would all the rate payers be better off. Jon said the thing that was attractive to him was not
43 only getting out of debt but getting rid of those bond covenants. They have been very cumbersome and restrictive.
44 That was one of the drivers to get rid of the bond covenants sooner, but the board has to be comfortable where that
45 rate is. This is something the board can take action on; there can a be resolution prepared with a proposed rate and
46 could be ready to go anytime.

47 Dale asked Craig White if there is money to be saved by getting out of debt. Craig White said absolutely.
48 Craig White said his District defeased some bonds in the last two years and they are saving \$1.5 million a year in

1 interest payments. Craig said he might be in the minority; his opinion is if you are ever in the position where you can
2 get a government entity out of debt, and be prepared where you do not have to go into debt in the future. Dale asked
3 if it was worth looking at what it would look like if we were out of debt. Spencer said we are talking about what our
4 rates would look like over the next 10 years if we defeased the rest of our bonds. He would love to see what that
5 would look like. Spencer agrees with defeasing the bonds and getting rid of debt, except the one benefit of debt is the
6 people who are using the services pay for the services. However, if we are able to lower rates for everyone, in the
7 long term, that is a benefit to everyone. Spencer would love to see what that would look like. Mark said he has no
8 doubt that from a purely financial issue it is best to get rid of debt, but agrees it is the responsibility and
9 understanding of the ratepayers and what is fair that makes it a difficult issue. Mark said Jon spoke of meeting
10 somewhere in the middle. We could still have a small increase and gradually work on paying off the debt, but still
11 decrease from where we are now. Chris said he was thinking what the extra dollar would do. Jon said we have the
12 2010 B Bond Series left, that are callable in 2020. If we looked at keeping that dollar and paying it off early, that is
13 something we talked about and need to see what that would do. The 2010 B Bond is \$49 million. Keith said the
14 2010 B is the Build America Bonds with a subsidy associated with it. Chris asked what that means. Joe Martin said
15 we get about \$1 million back from the IRS every year for having those bonds. We are paying about \$3 million a year
16 in interest for that bond. Therefore, it ends up being about \$2 million per year. Dale asked what revenue we receive
17 per dollar increase per year. It would be about \$625,000.00. Spencer said we need to remember there are two
18 distinct revenue streams, impact fees (new users) and user rates (existing customers). When we are talking about
19 rates, the burden being on our existing customers and to the extent possible, Spencer would like to use impact fees.
20 If there were reasons that make financial sense to use user rates that is fine, but he would like to see how we are paid
21 back. If we are paying down debt, we need to set it up in such a way that we pay ourselves back, and keep our user
22 rates lower for longer.

23 Joe said as far as impact fees, we just defeased two separate bonds, a portion of those bonds we can pay
24 ourselves back with impact fees. Joe does not think we will bring enough revenue from impact fee in the next 6
25 years to pay ourselves back. Spencer said the board is just looking for a clean, clear accounting of that so whatever
26 we decide to do it is not hard to identify. Joe said if you have debt on the books and are making payments, impact
27 fee money could be used to pay a portion of the interest and debt. If the bonds are gone and we have no debt, what
28 do you do with money being brought in, in impact fees, if you do not have projects? Spencer said that is another
29 reason why the debt works because it helps with the impact fees. Dale asked if we actually track those impact fees
30 through those six years. Joe said yes. Dale asked what we have to do with the impact fees if we have not spent them
31 at the end of the six year. We would have to give them back, which we have never had to do. There is report filed
32 every year with the state. Mark asked if we get rid of all our debt are we going to put ourselves in a position that we
33 have to give impact fees back. David Bunker said you would borrow against your restricted fund balance to pay
34 with your unrestricted fund balance. You are basically borrowing from yourself, but you have to track it very
35 carefully. David Bunker said this is what we have asked to be done for the last couple of years because we knew we
36 were using unrestricted funds to pay for expenses that were impact fee eligible. There should be a balance there.
37 Jon said because of projects that are coming and paying ourselves back that we are not in jeopardy of giving impact
38 fees back for quite a while.

39 Keith Larson clarified what the Board would like him to do. Look at keeping rates where they are, lowering
40 our rates to pre-2014, and then something in the middle to look at those three scenarios. In addition, if the District
41 collects extra money, how can we pay off the bonds and how much money will we save. The Board will have some
42 specific numbers and will need to decide which is more important, saving money on interest costs or matching
43 expenditures over time with benefit of who is using the service. Mark said if this is in a spreadsheet, we could look
44 at dollar increments, and see at what point we pay off those bonds. Spencer said if the scenario is paying off debt, it
45 is not so much how much money could we save, but what effect that could have on rates. Keith said he could do that.
46 Chris asked if we pay off all our debts, then we have to figure out what to use impact fees for. Joe said no, we pay
47 ourselves back over time for the amount of unrestricted funding we use to pay down the debt. Keith Larson said if we
48 do pay off some of the bonds we could reduce the debt costs, and at that point, we would need to reduce our impact

1 fees. Based on the current scenario, regardless of what we do, we will bring in the same amount of money over
2 time; it is just that we will have to be careful about the accounting of it. Spencer said reducing the impact fees is a
3 great thing, what we don't want to do is decrease them for six years and then have to double them for the next six
4 years to make up for it. David Bunker asked Jon if he could finalize the number that we have already spent with
5 unrestricted funds to help us pay off those bonds. Jon said yes, we could figure how much of our money that we
6 have used that is reimbursable. Jon said we would go through another impact fee analysis at least every five years, if
7 not sooner. We would reduce those fees, if needed, to make sure we were not overcharging.
8

9 **2. Manager's Report**

10 The cabinets for the Lab project are shipping September 21. As soon as we can get the cabinets in and finish
11 the flooring we will be done with that project. Bud Mahas Construction has been good to work with. The plant was
12 in compliance for the month. We are in a little argument with the state right now; we renewed our permit, went
13 through that process, bantered back and forth and got the permit. Then here recently, the first of July, they sent us
14 new DMR reporting forms and there were new effluent parameters that they want us to monitor. They are not in our
15 permit, so we have been going back and forth with them. The District has been monitoring more parameters, more
16 frequently than has been required. The issue is, we get a letter and permit that says one thing, then the DMR is what
17 they want to use to govern you. We are going to duke it out a little, but we will stay compliant.
18

19 **3. Alpine Highland Segment III Sewer Line Progress Report No. 5**

20 Jon said David Barlow would talk to the Board about the Whitaker. Dale said he noticed under Whitaker that
21 time is 78% and expenditures are 62%. Dale asked if they are they going to run out of time. Jon said no, he thinks
22 they may get into a bind if they have any more delays, and the delays have kind of been forced upon them. It is not
23 because they aren't there working; there have been some restrictions in that development. There may be a legitimate
24 reason to grant some more time, but Jon does not think it will be much. Some big ticket items that have held them up
25 will soon be done, the other work should be pretty straightforward. The worst is over once they get through the
26 subdivisions and under State Street. David Barlow said that today Whitaker set a 7' base manhole where the old
27 alignment and the new alignment come together. They will still align that manhole and the other manhole next to it.
28 In the next week or two, they should finish that segment and the only other segment with the sewer would be through
29 the wetlands. David said he was really impressed with Whitaker and the job they are doing.
30

31 **Chris Condie made a motion to go into Closed Session for purpose of litigation. David Bunker**
32 **seconded the motion. Those voting "Aye" – Mark Johnson, David Norman, Spencer Kyle, Chris Condie, Jay**
33 **Meacham, David Bunker, Sean Fernandez, Dale Ihrke, and Craig White. The motion passed with a**
34 **unanimous vote. 7:11 p.m.**

35 Jay Meacham left. 7:11 p.m.

36 **Closed Session**

37
38
39 **David Bunker made a motion to go back into regular session. Spencer Kyle seconded the motion.**
40 **Those voting "Aye" – Mark Johnson, David Norman, Spencer Kyle, Chris Condie, David Bunker, Sean**
41 **Fernandez, Dale Ihrke, and Craig White. The motion passed with a unanimous vote. 7:29 p.m.**

42 **Adjourn:**

43
44 **Spencer Kyle made a motion to adjourn. David Bunker seconded the motion. All present "Aye".**
45 **Meeting adjourned 7:30 p.m.**
46