

## MINUTES OF THE MEETING OF THE COMMISSION

April 22, 2014

The regular meeting of the Board of Commissioners of Public Utility District No. 1 of Whatcom County was called to order at 8:00 a.m. by Commissioner Jeff McClure. Said meeting was open to the public and notice thereof had been given as required by law. Those present included Commissioner Mike Murphy, Commissioner Paul Kenner and Legal Counsel Jon Sitkin. Staff: Steve Jilk, General Manager; Ann Grimm, Administrative Assistant; Brian Walters, Director of Utility Operations; Annette Smith, Director of Finance; Duane Holden, Manager of Construction and Facilities; Rebecca Schlotterback, Manager – Contracts and Regulatory Compliance; Alec Strand, Project Manager; Lew Gaskill, Accountant 1; Mike Macomber, IT/SCADA Technician. Public attending: Matthew Goggins, Jeremiah Goggins, citizens; Greg and Karen Brown, citizens; Max and Carole Perry, citizens; Rick Maricle, Phillips 66; and Wes Kentch, citizen.

### ◆ Public Comment

Karen Brown had three comments: (1) she noted that after speaking with several people, she asked the Commissioners not to approve Agenda Item No. 5 (Whatcom County Franchise Providing Water Utility Agreement) indicating the agreement has been arranged behind closed doors and the agreement was not “publically” accessible; (2) Legal Counsel representing the PUD, City of Blaine and Port of Bellingham on water issues could present a conflict of interest; and, (3) the District’s website isn’t functioning properly. Greg Brown commented that the Franchise Agreement was not publically distributed and he finds it of great concern that work is being done behind closed doors creating less transparency, and felt others should be able to see the document.

### ◆ Approval of the Meeting Minutes and Claims

The Commissioners were presented with the Minutes of the regular meeting held April 8, 2014 and the following Claims of April 22, 2014.

VENDOR NAME	AMOUNT
AIR COMPRESSOR SERVICE	\$4,044.73
BANK OF NEW YORK	\$64,753.13
BELLINGHAM LOCK & SAFE, INC	\$250.96
BONNEVILLE POWER ADMINISTRATION	\$709,176.00
CENTRAL WELDING SUPPLY	\$61.29
CHMELIK SITKIN & DAVIS	\$7,328.25
COMCAST	\$172.01
FASTENERS, INC	\$0.98
FERNDALE ACE HARDWARE	\$28.21
FERNDALE LUBE	\$210.44
FERNDALE TRUE VALUE HARDWARE	\$0.55
GRAINGER	\$213.33
HARDWARE SALES, INC.	\$610.29
INTERNAL REVENUE SERVICE	\$11,427.34
JOHN DEERE FINANCIAL	\$59.80
KCDA PURCHASING COOPERATIVE	\$94.22
NESS CRANE SERVICE, INC	\$826.12
NEW CONCEPT CHEMICAL PRODUCTS	\$55.14
ON-SITE TESTING	\$69.00
PAYROLL	\$149,377.03
PLATT ELECTRIC SUPPLY CO	\$337.65
PORTAL WAY FARM & GARDEN	\$287.73
PUBLIC UTILITY RISK MANAGEMENT SERV	\$35,057.26
PUD #1 OF WHATCOM COUNTY	\$268.81
PUGET SOUND ENERGY, INC	\$770.77
QUALITROL CO LLC	\$6,482.40
RICOH USA FINANCIAL SVC	\$152.18
SAFETY WEST COAST SERVICES	\$30.00
SOFTWIRED	\$1,425.00
SOUND SHREDDING & RECYCLING	\$105.00
SPECIALTY ENGINEERING, INC	\$7,252.62
SSC - SANITARY SERVICE COMPANY	\$393.49
STREMLER GRAVEL, INC	\$8,660.70
UTILITIES UNDERGROUND LOCATION	\$29.76
WA FEDERAL VISA CARD MEMBER SERVICES	\$4,571.62
WA ST DEPT OF REVENUE	\$69,257.25

WESTERN CONFERENCE OF TEAMSTERS	\$5,449.50
WILLIAM SCOTTSMAN	\$847.86
<b>GRAND TOTAL</b>	<b>\$1,090,138.42</b>

**ACTION:** Commissioner Kenner motioned to approve the Minutes of the regular meeting held April 8, 2014 and the Claims of April 22, 2014. Commissioner Murphy second the motion. Motion passed unanimously.

◆ **Approve 2013 District Financial Report**

Finance Director Smith provided an overview of the 2013 District Financial Statement. The District's financial policies conform to the Generally Accepted Accounting Principles (GAAP) and the financial statements have been developed in compliance with the Governmental Standards Board (GASB) Statement 34 – Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The lines of the statement have been numbered and are discussed in more detail below.

	2013	2012	Variance 2013-2012	%	2013 Budget	Variance Actual - Budget	%
<b>OPERATING REVENUE</b>							
1 Service Revenues - Cherry Point	\$ 6,762,017	\$ 5,521,696	\$ 1,240,321	22%	\$ 6,461,947	\$ 300,070	5%
2 Service Revenues - Irrigation	57,770	41,779	15,991	38%	37,892	19,878	52%
3 Service Revenues - Grandview Utility	158,159	152,162	5,997	4%	156,108	2,051	1%
4 Service Revenues - Electric Utility	1,788,480	1,701,384	87,096	5%	1,781,224	7,256	0%
5 Misc, Business Service & Grant Revenue	136,431	5,581	130,850	2345%	50,000	86,431	173%
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 8,902,857</b>	<b>\$ 7,422,602</b>	<b>\$ 1,480,255</b>	<b>20%</b>	<b>\$ 8,487,171</b>	<b>\$ 415,686</b>	<b>5%</b>
<b>OPERATING EXPENSES</b>							
6 Operations	(4,324,579)	(3,691,225)	(633,354)	17%	(4,046,671)	(277,908)	7%
7 Depreciation Expense	(914,585)	(843,705)	(70,881)	8%	(1,821,415)	906,830	-50%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ (5,239,164)</b>	<b>\$ (4,534,930)</b>	<b>\$ (704,234)</b>	<b>16%</b>	<b>\$ (5,868,086)</b>	<b>\$ 628,922</b>	<b>-11%</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 3,663,693</b>	<b>\$ 2,887,672</b>	<b>\$ 776,021</b>	<b>27%</b>	<b>\$ 2,619,085</b>	<b>\$ 1,044,608</b>	<b>40%</b>
8 Net Non-operating Income (Expenses)	(1,440,443)	(1,481,077)	40,634	-3%	(1,115,923)	(324,521)	29%
<b>9 INCOME BEFORE EXTRAORDINARY ITEMS AND CAPITAL CONTRIBUTIONS</b>	<b>\$ 2,223,249</b>	<b>\$ 1,406,595</b>	<b>\$ 816,654</b>	<b>58%</b>	<b>\$ 1,503,162</b>	<b>\$ 720,087</b>	<b>48%</b>

- 1) *Service Revenues – Cherry Point* – Total water consumption for Cherry Point increased by 25.3% between 2012 and 2013. Usage figures in 2012 included the BP fire, less, and also the Phillips 66 turnaround, less, so as more of an apple-to-apple comparison, 2013 usage was 12% greater than 2011 usage. The 2013 revenues for Cherry Point increased from the 2012 revenues both due to the increase in rates for 2013 and the increase in usage.
- 2) *Service Revenues – Irrigation* – Water consumption for the Irrigation customers rose 28.8% in 2013 compared to 2012. Irrigation revenues are highly contingent upon the amount of rainfall during the year and therefore vary year to year.
- 3) *Service Revenues – Grandview Utility* – Water consumption for the Grandview utility decreased slightly by 1.3% in 2013 compared to 2012. The 2013 revenues for the Grandview utility rose 4% over 2012 and 1% over budget due to rate increases and customer changes.
- 4) *Service Revenues – Electric Utility* – This line includes Electric service revenues for District services only (O&M, admin, labor, etc.). The pass-through revenues for BPA power, transmission, and tax costs have been removed from this statement. The budget, 2013 and 2012 actual amounts are in line with expectations.
- 5) *Miscellaneous, Business Service and Grant Revenue* – This line includes any miscellaneous income along with revenue generated from business services and grants. The majority of the variance between actual, 2012 and budgeted amounts occurs in the grant revenue. In 2013, actual grant revenue totaled approximately \$130,000, of which none was budgeted, but all is offset in expenses, resulting in a net effect of zero. The one grant revenue that was budgeted for was for the completion of the Water Reclamation study which was not completed in 2013. This study is expected to be completed in 2014.
- 6) *Operations* – This line includes all operating, planning and business development, and administrative costs, including power costs for the water treatment plants, but excluding power costs passed through to Phillips 66. The Phillips 66 power costs are a straight pass-thru from BPA and have a zero net effect. The 2013 actual costs of \$4,325,000 resulted in an overall increase from 2012 of \$663,000, with \$443,000 of the increase coming from an increase in Outside Services due primarily to the expensing of the Water System Plan previously completed by MSA for \$395,000 and the expensing of the high-head pump rebuild for \$111,000. The major contributors to the \$278,000 increase between 2013 actual costs and the budget came from an \$117,000 increase in grant and business service

activities which are offset in Revenue, \$398,000 increase in Outside Services due mainly to the expensing of the Water System Plan mentioned above, a net decrease of approximately \$134,000 in labor mainly due to more electric labor being charged to capital projects, and a decrease of \$77,000 in Business Development due primarily to not spending \$50,000 budgeted.

- 7) *Depreciation Expense* – The actual amounts for 2012 and 2013 include depreciation expenses exclusively. The budgeted amount is actually the amount of the rate funded capital transfer referred to as funding depreciation from a budgetary stand point. The 2013 actual amounts increased from 2012 by \$71,000.
- 8) *Net Non-operating Income* – This line includes all revenues and expenses unrelated to the normal operations of the District. LUD assessments, interest income and interest expense being the major components. The reason for the increase of \$41,000 between 2013 and 2012 is due primarily to the decrease in interest expenses of \$43,000 due primarily to the refinancing of the 2004 bonds, an increase in assessment income of \$71,000, and a decrease in interest income of \$69,000. Our non-operating expenses exceeded our non-operating income for 2013 by \$1,440,000.
- 9) *Income Before Extraordinary Items* – This line is computed by subtracting expenses from revenue. The Net Income before Extraordinary Items and Capital Contributions in 2013 is \$2,223,000, an \$817,000 increase from 2012. Smith indicated that a portion goes to debt service that the District recoups each year from the rates. Maricle suggested that another line item be added to show the net amount.

The Commissioners received and reviewed the complete financial report and thanked Smith for the work on the report and presentation.

**ACTION:** Commissioner Murphy motioned to accept the District's 2013 Annual Financial Report. Commissioner Kenner second the motion. Motion passed unanimously.

◆ **Whatcom County Franchise Providing Water Utility Agreement**

Background – The District owns and operates several miles of water transmission lines in the County. Historically, the District has operated under several franchises with Whatcom County that had/have a 50 year term. Several of the individual franchises are up for renewal and/or need updating. To operate more efficiently and to plan for future operations of the District's facilities for the water utilities and to conform with Whatcom County regulations regarding use of County rights of way the District has, in working with County legal and public works staff developed a draft franchise for County Council approval that will provide a single 25 year franchise to the District to locate, operate and maintain District water facilities in County rights of way throughout Whatcom County.

The County will consider this franchise via an ordinance at a public hearing, yet to be set, and then consider approval of the franchise/ordinance following the hearing. This process conforms with County regulations.

Legal Counsel Sitkin explained that in September 2010, the Commission approved the District's Electric Franchise Agreement with the County and subsequently, the County Council approved the franchise agreement following the public hearing process in 2011. District legal counsel and staff have worked with County staff over a period of two years to reach agreement on the water utility franchise agreement. Sitkin said that what is different in the new franchise agreements is that the County is taking a "countywide approach" instead of designating certain roads/locations right of ways. The PUD has large high pressure water lines and previous franchise agreements could require relocation of the line at the PUD's expense if the water line is in the right-of-way. If the PUD was required to relocate a 24" line, it would be extremely expensive and disruptive of service. The PUD provided as-built drawings to the County and it was decided for the new agreement that the Unick Road right-of-way would be removed from the agreement due to its size and risk of relocation; and any water lines measuring twelve inches (12") in diameter or larger, existing lines, the County shall not require the PUD to relocate or adjust the elevations. These areas include:

- A. Along, under or within the Douglas Road Right of Way;
- B. Along, under or within the Aldergrove Road Right of Way;
- C. Along, under or within the Rainbow Road Right of Way;
- D. Along, under or within the Lake Terrell Road Right of Way;
- E. Along, under or within the Trigg Road Right of Way.

The new agreement also adds reference to two existing franchises that will be terminated. Pertaining to the same subject matter, these franchises were granted by the County and accepted by the PUD on June 17, 1965 and January 29, 1970. They will be superseded and replaced by this franchise agreement. The new agreement will remain in effect for a period of 25 years.

Sitkin expects the agreement to go before the County Council in May or June and then proceed with a public hearing. Jilk said it has taken a few years to process because the PUD is the first major public utility in the County in terms of a water franchise agreement to complete the new franchise form. The District's Electric Franchise Agreement was very straight forward and the water agreement much different with changes in County roads and the PUD's request to treat high pressure water lines differently.

Commissioner Murphy indicated that after hearing the public comments, he is unsure of the direction to take and suggested the item be tabled until the next Commission meeting. Murphy understands that the PUD must have the franchise (Right of Way) agreements in place and asked if the PUD has received any other comments. Jilk replied he has not had any calls or questions about the agreement. Greg Brown said he believes this is a big change going from individual areas to the whole County and all with no input from the public. His concerns are the rights for the entire County. Murphy added that the PUD is here to serve *all* of Whatcom County. Rick Maricle said he is in favor of the franchise agreement; especially if the PUD had a project to extend a line. The County will hold a public hearing and take testimony before considering approval of the franchise.

Commissioner Kenner said since the draft agreement was approved by Commission last September, and today there are only a few slight changes, he does not see a reason to hold off on today's approval. Karen Brown reiterated that the public isn't aware of the agreement and has submitted a public disclosure request to the County for the agreement. Again, she urged the Commission to delay approval. Murphy suggested the item be deferred to the May 13 meeting and if there are further questions, to contact Mr. Jilk.

Sitkin added that the franchise agreement is not exclusive and does not limit or prohibit other utilities from requesting a franchise for the same purpose, and is not a "service area" franchise – the franchise does not prohibit another water purveyor from building facilities in the county. It does create an opportunity for the PUD to respond to requests to provide services to other water purveyors in the county if physical infrastructure is needed.

**ACTION:** No action taken, item deferred to May 13, 2014 Commission Meeting.

◆ **Approve Purchase of Byron Jackson Pump Assembly from Pump Tech, Inc.**

Background: As part of the 2014 CIP budget, staff included the purchase and installation of a new pump/motor assembly for the Plant 2 Intake facility. A 150 hp pump and motor was selected to replace the existing 75 hp unit. The existing pump, 1970's vintage is the oldest and smallest pump in the Plant 2 intake facility. Replacement with the new larger pump/motor assembly will improve intake pumping reliability and capacity. The pump replacement wasn't scoped as part of the Plant 2 improvement project (RW-1), but is compatible with and enhances the upgrade.

The cost not to exceed estimate for the pump includes equipment, installation labor, and tax. The Byron Jackson pump was selected for compatibility with the other Byron Jackson pumps in the Plant 2 Intake in order to accommodate similar maintenance procedures and parts inventory. The equipment purchase is covered by a previous sole source resolution approved by the Commission.

Walters said that if approved, the purchase and installation of the pump/motor assembly will occur this coming summer after the Plant 2 project is completed by the District's contractor Stellar J. The new pump will be paired with a variable frequency drive (VFD) motor for better range of pumping.

Purchase and installation of the Byron Jackson pump and motor will have no impact on the District's 2014 budget. The project is included as CIP RW-11 and the cost estimate is less than the budget amount.

**ACTION:** Commissioner Murphy motioned to approve the purchase of the Byron Jackson pump assembly (RW-11) from Pump Tech Inc. of Bellevue, WA for the cost not to exceed price of \$128,558.40 and authorize the District's General Manager to proceed with the purchase. Commissioner Kenner second the motion. Motion passed unanimously.

◆ **Manager's Report**

April 19<sup>th</sup> Water Forum

Jilk participated in a Water Forum sponsored by the Rome Grange, held on April 19<sup>th</sup> at the Bellingham Public Library. Others on the panel included Doug Allen, Department of Ecology; Jon Hutchings, City of Bellingham; Carl Weimer, County Councilman; and Marty Maberry, farmer. There were about 80 in attendance at the event. Wes Kentch also attended the forum and said that it was a job well done. He added that it was much more informative than the previous two water issue forums presented by the League of Women Voters. Another water forum is planned for May 13 on the issues of available water and water usage at the Ten-Mile Grange.

WRIA 1 Planning Unit

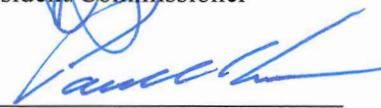
The Planning Unit is requesting \$20,000 in funding for facilitation from the County Council today. The funding is slated to come from the 2014 Whatcom County Flood Control Zone District Budget.

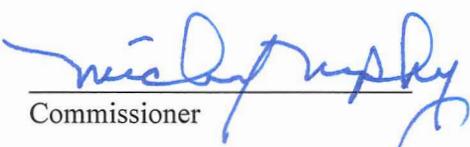
The next Planning Unit meeting is tomorrow, April 23 at 6 pm. Jilk is planning to attend.

◆ **Adjourn**

There being no further business for the regular meeting, the Commission adjourned the regular meeting at 8:50 a.m.

  
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President/Commissioner

  
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Secretary/Commissioner

  
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Commissioner