

MINUTES OF THE MEETING OF THE COMMISSION

November 11, 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; Annette Smith, Director of Finance; Brian Walters, Director of Utility Operations; Rebecca Schlotterback, Manager of Contracts and Regulatory Compliance; Duane Holden, Manager of Construction and Facilities; Jon Littlefield, Electric System Supervisor; Paul Siegmund, Manager of Automation and Technology Services; Mike Macomber, IT-SCADA Technician; Lew Gaskill, Accountant I; and Alec Strand, Project Manager;

Public attending: Carole and Max Perry, Greg Brown, Bob Burr, and Dave Brumbaugh, Citizens; Rick Maricle, Phillips66; Dave Olson, Cornerstone Management; and Pat Pollock, BP.

◆ Public Comment

Greg Brown congratulated Commissioner McClure on winning the election. Bob Burr also congratulated McClure on his re-election, said he developed a respect for McClure during the campaign, and felt the campaign raised the visibility of the District.

Burr made these requests of the Commission: (1) Move the Commission meetings to night time so people that work can attend. He added that this “under the radar” elected board needs more visibility; (2) More transparency: Burr said there is rumor that the PUD Commission had lots of communication with the recently formed Irrigation Districts. He said there is nothing in the Meeting Minutes that indicate this communication; (3) Restudy alternate and renewable forms of energy; (4) To not “lobby” on behalf of potential clients – citing McClure’s signing of a letter (along with several local dignitaries) sent to Commissioner of Public Lands Peter Goldmark regarding the Cherry Point Aquatic Reserve report. In Burr’s opinion, he felt this was a lobbying piece; and (5) To review the legal contract between the PUD and Petro Gas – Burr believes the agreement did not meet two of four standards in transferring water rights. Burr asked for legal review of the agreement or a statement that the agreement had been reviewed.

Commissioner McClure responded to Burr that the letter he had signed asked for greater clarity in the draft report of the Cherry Point Aquatic Reserve. General Manager Jilk responded to Burr’s comment regarding the Water Irrigation Districts (WID) in that there were one or two occasions where WID representatives gave presentations to the Commission which were done in open, public meetings. In regards to comments previously made about the Chevron/Petro Gas water agreement, and the “misrepresentation transfer of water rights”, Jilk said that no water rights were ever transferred with any agreement. Water *supply* for the agreement was committed not water rights.

◆ Approval of the Meeting Minutes and Claims

The Commissioners were presented with the Minutes of the regular meeting held October 28, 2014 and the following Claims of November 11, 2014:

VENDOR NAME	AMOUNT
3-D CORPORATION	1,155.00
CARLSON STEEL WORKS, INC	10.66
CDW/COMPUTER DISCOUNT WAREHOUSE	2,066.65
CENTRAL WELDING SUPPLY	61.29
CHMELIK SITKIN & DAVIS	18,167.15
CORNERSTONE MANAGEMENT, INC.	4,829.00
CULLIGAN NORTHWEST	62.35
DIEHL FORD, INC	72.66
EDGE ANALYTICAL LABORATORIES	267.00
FASTENERS, INC	13.16
FED EX FREIGHT	1,226.34
FERGUSON ENTERPRISES, INC	32.97
FERNDALE ACE HARDWARE	99.13
FERNDALE CITY OF	530.86
FRONTIER	758.48
GUARDIAN SECURITY SYSTEMS, INC	72.00
HD FOWLER CO, INC	35.28

HEALTH PROMOTIONS NORTHWEST	90.00
IVERSON EARTHWORKS	4,772.92
KCDA PURCHASING COOPERATIVE	57.57
NEOFUNDS BY NEOPOST	500.00
NESS CRANE SERVICE, INC	6,127.97
NORTHWEST MOWING & GARDENING	969.51
NORTHWEST PROFESSIONAL SERVICES	711.25
PLATT ELECTRIC SUPPLY CO	3,230.79
PORTAL WAY FARM & GARDEN	76.08
PROBUILD - OSO LUMBER	54.31
PUD #1 OF WHATCOM COUNTY	1,000.00
PUGET SOUND ENERGY, INC	30,000.00
REGENCE BLUE SHIELD	37,215.43
REISNER DISTRIBUTION, INC	2,636.79
RICOH USA	213.09
SNAPPER SHULER KENNER, INC	315.00
SSC - SANITARY SERVICE COMPANY	415.89
THATCHER COMPANY OF MONTANA	17,426.78
TRI-COUNTY DIESEL MARINE	1,186.84
VERIZON WIRELESS	1,423.84
WASHINGTON DENTAL SERVICE	2,435.15
WASHINGTON TEAMSTERS WELFARE	8,794.80
WESTERN FLUID COMPONENTS	116.54
XEROX CORPORATION	106.67
GRAND TOTAL	\$ 149,337.20

ACTION: Commissioner Kenner motioned to approve the Minutes of the regular meeting held October 28, 2014 and the Claims of November 11, 2014. Commissioner Murphy second the motion. Motion passed unanimously.

◆ **Department of Health Grant N20948 – Central City Water Association Consolidation into City of Ferndale System**

Background: The Washington State Department of Health has notified Whatcom PUD that DOH administration is providing \$30,000 in grant funding to Whatcom PUD to conduct administrative, legal, and engineering pre-construction work to facilitate consolidation of Central City Water Association customers into the City of Ferndale water system. The work may include:

- (1) Water system plan updates/amendments
- (2) Budget and rate analysis to support debt service
- (3) Historical, cultural and environmental review
- (4) Draft transition governance agreements if required
- (5) Preparation of engineering documents for infrastructure needed to enable consolidation.

Whatcom PUD will work with Dave Olson, Cornerstone Management to perform the technical work. Jilk asked Dave Olson to provide additional information of the projects.

Olson said the Central City Water Association serves about 120 connections, is located inside the Ferndale City limits and is completely staffed by volunteers. It does not have the technology, managerial or funds to keep up with DOH standards. The water currently is not treated. With the reconstruction of Church Road, timing was perfect to get the ball rolling with legal and technical items. The \$30,000 grant will cover the completion of the consolidation process and facilitate preparation for loan applications to pay for the replacement of water mains. Olson estimates \$20,000 for engineering and surveying work and \$10,000 for design standards.

◆ **Department of Health Grant N20947 – Feasibility Study for Roederland Water Association Consolidation into Skookum Chuck Water Association**

Background – The Washington State Department of Health has notified the Whatcom PUD that DOH administration is providing \$30,000 in grant funding to Whatcom PUD to conduct administrative, legal and engineering work to determine costs and feasibility for the consolidation of the Roederland Water Association into the Skookum Chuck Water Association. The work will focus on:

1. Gathering available data on Roederland and Skookum Chuck Water Associations; and
2. Develop a planning level hydraulic analysis, developing identifying recommended improvements, and defining associated costs.

Again, the District will work with Dave Olson, Cornerstone Management to perform the technical work. Olson provided these details on this project: The Skookum Chuck Water Association is well organized. It is about 1,500 feet away from the source and has about 51 connections. The Roederland distribution mains are adequate; however, pumps and pipes are not. The system deals with micro-biological contaminants.

Both studies must be completed by June 30, 2015 and Olson hopes to have everything ready about a month ahead of time. Murphy said both grants were good news and indicated he is very pleased with Olson's work. Olson said it is a good "neutral" risk to realize the technical assistance role when the community is asking for help. The role the PUD is playing is a very positive one.

ACTION Item No. 1: Commissioner Murphy motioned to approve Grant Agreement No. N20948 with State of Washington Department of Health for funding in the amount of \$30,000 to conduct administrative, legal and engineering pre-construction work to facilitate consolidation of Central City Water Association into City of Ferndale water system, and authorize the general manager to sign agreement. Commissioner Kenner second the motion. Motion passed unanimously.

ACTION Item No. 2: Commissioner Kenner motioned to approve Grant Agreement No. N20947 with State of Washington Department of Health in the amount of \$30,000 to conduct a feasibility study of the consolidation of the Roederland Water Association into the Skookum Chuck Water Association, and authorize the general manager to sign agreement. Commissioner Murphy second the motion. Motion passed unanimously.

◆ **Approve Amendment No. 3 to Professional Services Agreement and Task Orders No. 4 and 5 for Dave Olson, Cornerstone Management, Inc.**

Background: In September 2014, the Commission authorized the General Manger to apply for two grants available from the Washington Department of Health: (1) Grant No. N20947 will determine costs and the feasibility to consolidate Roederland Water Association (Roederland) customers into the Skookum Chuck Water Association (Skookum) water system; and (2) Grant No. N20948 is to support administrative, legal and engineering efforts to consolidate Central City Water Association into the City of Ferndale water system

The State subsequently approved the application and budget and, at the request of the Washington State Department of Health (DOH) and with the approval of the District's Commission, Whatcom PUD will manage the contract administration of Grant N20947 in the amount of \$30,000.00 and Grant N20948 in the amount of \$30,000.00 for a total of \$60,000.00.

Dave Olson is currently contracted to Whatcom PUD to provide technical services for the following:

- Task Order Nos. 1 and 2 – North Whatcom County Water Issues
- Task Order No. 3 – South Lake Samish Water Issues
- Task Order No. 4 – Services as scoped in the DOH Grant N20947
- Task Order No. 5 – Services as scoped in DOH Grant N20948

Olson's Professional Services Agreement will need to be amended to increase the maximum fee from its current budget of \$245,000.00 to include the \$60,000.00 total budget of the DOH grants for a new maximum fee of \$305,000.00.

Task Order No. 4 will allow Olson to perform the technical services as scoped in DOH Grant N20947. Technical services will include:

- Conduct administrative, legal and engineering work to determine costs and feasibility of consolidation of Roederland into Skookum Chuck water system and includes:
 - Gathering available data on Roederland and Skookum Chuck Water Associations.
 - Developing a planning level hydraulic analysis, developing identifying recommended improvements, and defining associated costs.

Task Order No 5 will allow Olson to perform the technical services as scoped in DOH Grant N20948. Technical services will include:

- Conduct administrative, legal and engineering pre-construction work to facilitate consolidation of Central City Water Association customers into the City of Ferndale and may include:
 - Water system plan updates/amendment.
 - Budget and rate analysis to support debt service.
 - Historical, cultural and environmental review.
 - Draft transition governance agreements if required.
 - Preparation of engineering documents for infrastructure needed to enable consolidation.

Total budget for Task Order No. 4 is \$30,000.00 and total for Task Order No. 5 is \$30,000.00 for total of \$60,000.00 for the two grants. There is no fiscal impact to Whatcom PUD. Funding is provided by DOH through Grant N20947 and Grant N20948 with a total budget not to exceed \$60,000.00.

ACTION: Commissioner Kenner motioned to approve Amendment No. 3 to Professional Services Agreement, and approve Task Orders No. 4 and 5 to perform technical services for Washington Department of Health Grant N20947 and Grant N20948 for Dave Olson, Cornerstone Management Inc. Commissioner Murphy second the motion. Motion passed unanimously.

Commissioner McClure asked Olson for a status report at an upcoming meeting on these projects.

◆ **Draft 2015 Operating and Capital Budget Presentation**

Background: The draft budget presentation is generally held at the end of October, and then the District hosts customer meetings for the Cherry Point and Grandview service areas in early November. Feedback from these meetings is next presented to the Commission for their consideration prior to the budget's public hearing. Due to absences at the last meeting, the budget presentation was postponed until today. Director of Finance Annette Smith presented the draft budget. Highlights included:

- Components of the Budget:
Capital Budget – based on multi-years.
Operating Budget – based on a single year.
The operating and capital budgets are linked through debt service and capital contribution.
- Raw Water System
Plant 2 rebuild is complete, new and improved.
Plant 1 was built in 1965 and is aging.
Water Transmission Lines were built in the late 1960's and early 1970's.
The Raw Water System has no storage.

Grandview System – the water source for the fire system is also the storm water drainage retention pond which includes fish habitat.

- Electric System
43% of the transmission line support poles were placed in 1954.
17 poles dating 1986 and newer have insect damage and must be replaced.
“H-frame” pole structures are an old design with two to three poles per structure.
- **Capital Budget – By Year**
Smith presented a snapshot of the capital budget, forecasted out to 2020. The total capital budget is forecasted at \$74,640,213.

The Raw Water Utility Capital Budget has placeholders of items which need to be addressed. These are not listed in any particular order and costs are estimated. The large projects highlighted for further engineering work in the next year include:

- Raw Water Utility – Water Distribution System Storage, budget estimate of \$18,151,162
- Raw Water Utility – Plant 1 Remodel/Refurbish, budget estimate of \$6,831,250
- Raw Water Utility – New Plant 2 Water Transmission Line, budget estimate of \$26,843,136
- Grandview Water System – Fire System Repair, budget estimate of \$1,068,967. The District is in the process of planning the repair, either to dig out the pond or plan for above ground storage.
- Electric Utility: Transmission line replacements, budget estimate of \$16,880,000.

In order to fund the capital projects, Jilk said a \$45 million bond could fund the raw water system projects and a \$13 million in two bond issues to fund the electric transmission line replacement. 2015 will be the year to review the capital improvement projects and capital improvement timeline with mechanical and civil engineering, as well as electrical engineers. The CIP figures represent the “worst” case scenario.

Jilk said the comments received from the two customer meetings last week were positive. Customers asked that we communicate more and work with the customer base on how we manage costs. And to complete the projects in the least expensive way (reserves/managing debt) while maintaining the best operational standards. Jilk added that in 2015, the District will have a better idea of engineering and planning efforts which will provide options for projects and funding.

Commissioner McClure asked about the study on the condition of the lines. Jilk replied that what level of stability and security our customers are willing to live with, using the risk analysis approach. We have the legal capacity to issue the debt and because we have a good rate structure. Commissioner Murphy inquired about the material of the transmission pole replacements – would they be composed of wood material or something different? Jilk said staff is looking at industry standards before a determination is made. Older poles from the 1950's are fine; it's the newer ones that have problems. Murphy suggested that staff look at other alternatives besides wood.

- **Operating Budget**

Personnel: There are no plans to increase staffing in 2015. The District tries to allocate staff via responsibilities/time spent to specific projects. There has been a shift with employees working on the capital projects back to operations and large maintenance projects as many of the large capital projects have been completed. Bulk of the increase is due to the health insurance billing, which is on a September-to-August calendar year.

Extraordinary Maintenance: Costs fluctuate depending on the project. Examples of some of the upcoming projects are the water plant mud basins cleanings, rebuild of the Douglas Road vault, D station improvements, and vegetation management. Due to staff time and cash flow he past several years, some projects have to be delayed.

On-Call Services: Will be mostly engineering projects, expenses related to the audit in 2015, and a rate study. The engineering and rate studies will be assigned to the appropriate utility, while the audit costs will be spread across all three utilities.

Miscellaneous and Election Costs: The District plans to have the 2014 election costs paid off by the end of the year. The County reallocated election fees which can vary depending on how many items are on the ballot. Hard costs remain the same and it is expensive to mail out the ballots.

Business Development: Includes staff and consulting costs associated with new water service contracts with customers and interaction with state and federal agencies; water resource management, and water right protection.

Business Services: Grants that the District are reimbursed for (such as ones noted above from DOH); water reclamation study which will be completed and reimbursed by BP in 2015.

Telecom and Noanet Debt Service: The District is not projecting paying into Noanet in 2015.

Next Steps: After the Commission has had the opportunity to review the budget, a second draft presentation and public hearing is scheduled for November 25, 2014. This presentation will include rates and charges. The final 2015 budget and rates are scheduled for Commission approval on December 9, 2014.

Commissioner Murphy commented that he would like to see an increase in reserves and feels the larger customers look at money differently to cover smaller costs. Jilk said he would review this, especially with the long term capital improvement projects, on how the District balances debt vs. reserves.

Commissioner McClure indicated under Business Services, he would like to see funding set aside for small water systems assistance – as a “water resource” for these associations. With the election now over, he would like to proceed with the District’s strategic planning. A meeting is planned later this week to plan the timeline.

Commissioner Kenner said he would like to see prioritization of the capital projects and managing the need for raising rates for our customers.

Today’s draft budget is presented to the Commission for informational purposes and the opportunity for further in-depth discussion of the draft budget and rates will be after the Public Hearing.

ACTION: No action requested. For information/discussion purposes only.

Following the budget presentation, Commissioners Murphy and Kenner indicated that they will not be available on November 25 and this meeting date will need to be cancelled and rescheduled.

ACTION: Commissioner Kenner motioned to cancel the November 25 public hearing/regular meeting and reschedule as a “Special Meeting” on Tuesday, December 2 at 8:00 a.m. Commissioner Murphy second the motion. Motion passed unanimously.

- ◆ **Federal Law – Utility Services to Marijuana Businesses**

Background: Since the state of Washington voters passed initiatives legalizing the growing, processing and sale of marijuana products in the state and marijuana is still a controlled substance under federal law, the use of electricity and water for these businesses, if the electricity and water is produced or owned/managed by federal agencies, such as Bonneville Power or the Bureau of Reclamation, can be found to be inconsistent between state and federal law.

Public Utility Districts in the state of Washington are dealing with requests for power and water service from businesses that are now licensed to grow, process, and sell marijuana products. Our District has had requests of this nature and the Commission is being requested to consider policies and direction as to how the District should respond to these requests for service in consideration of the District receiving power from BPA (Bonneville Power Administration) and potentially using some of that power to serve businesses and the use of that power to process and distribute water supply to the requesting business.

Legal Counsel Sitkin has been in discussion with other legal counsels of PUDs engaged in this type of service. Sitkin indicated most of the requests are for water to be used for fire flow and not necessarily irrigation of crops. There are many issues and circumstances surrounding this and Sitkin feels it is in the best interest of the District to create a comprehensive policy and charges for fire flow. The main issue at hand is that the fire flow connection is an interruptible supply. Businesses are seeking building and final occupancy permits work with Whatcom County and then anticipating tapping into the District's high pressure water lines for fire protection. It is not a simple procedure; several problems exist (Grandview fire pond for example) and connections are costly. Based on past history, the County has issued building permits issued even though the County has been made aware that the supply of fire water was interruptible. Sitkin said it is critical that the District work with the County, especially in the rural areas, not in cities, development, and soon as the County is in the process of updating the Comprehensive Plan.

A comprehensive, general water policy for service and liability protection, specifically noting the interruptible clause will be drafted and presented at the first Commission meeting in December.

ACTION: No action requested. For information/discussion purposes only.

◆ **Manager's Report**

State Department of Health's Office of Drinking Water Advisory Group

After discussions with the State Drinking Water Manager at the recent WPUDA meeting, the District is seeking the attention of the State DOH to receive fixed grant funding so the District can be a day-to-day resource for water associations which need assistance in Whatcom County. Jilk was invited to attend a meeting at the DOH offices in Kent on November 3 to speak about this topic. Whatcom PUD was one of three statewide PUDs chosen to attend. The successes of PUDs in acquiring, fixing up, and assisting small water systems were discussed.

Jilk described a proposal being developed by the PUD with help from ODW that would allow the PUD to serve as a source of technical and financial assistance for small water systems in Whatcom County. Jilk said the program, if implemented, would be modeled after agencies such as the Washington State University Extension service and would have the PUD help small systems comply with health regulations and become financially self-sustaining without the PUD acquiring them. Jilk hopes to hear by the end of the year whether or not the program will be implemented with OWD.

Commissioner Murphy indicated that Jilk did a great job in the presentation and getting ODW interest and support for this idea. Jilk also recognized thanked Derek Pell from DOH as he has helped raise Whatcom PUD's visibility in their organization and across the state.

WPUDA Annual Meeting

WPUDA's annual meeting is scheduled for December 3 – 5, 2014 in Vancouver, WA. If you are interested in attending, contact Ann Grimm to register. The WPUDA attorney's annual meeting is on December 3, in conjunction with the WPUDA annual conference and Sitkin plans to attend.

◆ **Executive Session**

Sitkin requested an Executive Session to discuss potential litigation on municipalities continuing disclosure obligation/municipal bond offerings. Sitkin stated no formal action will be expected to be asked of or taken by the Commission following the Executive Session. He estimated the time for the Executive Session will be approximately 15 minutes.

There being no further business for the regular meeting, the Commission adjourned at 9:15 a.m. to Executive Session.

Executive Session Adjourn

There being no further business for the Executive Session, the Commission reconvened to the regular meeting at 9:40 a.m.

◆ **Call for Special Meeting**

Commissioner McClure requested a special meeting to be held on Thursday, November 20, 2014 at 4:00 p.m. to discuss the SEC initiative on Municipal Continuing Disclosure Rules.

ACTION: Commissioner Kenner motioned to approve the request for a special meeting to be held on Thursday, November 20, 2014 at 4:00 p.m. at the District's Administration Office. Commissioner Murphy second the motion. Motion passed unanimously.

◆ **Adjourn**

There being no further business for the regular meeting, the Commission adjourned the regular meeting at 9:45 a.m.

President/Commissioner

Secretary/Commissioner

Commissioner