

RWSA BOARD OF DIRECTORS
Minutes of Special Board Meeting
October 9, 2002

A special meeting of the Rivanna Water & Sewer Authority Board of Directors was held on Wednesday, October 9, 2002 at 12:18 p.m. in the Conference Room , Administration Building, 200 Franklin Street, Charlottesville, Virginia.

Board members present: Mr. William Brent, Dr. Richard Collins – Presiding, Mr. Gary O’Connell, Mrs. Judith Mueller, and Mr. Robert Tucker

Board members absent: None

Authority staff present: Mr. Lawrence Tropea, Mr. Lonnie Wood, Mr. Chuck Kent, Mr. Bruce Edmonds, and Mrs. Mary Knowles

Also present: Mr. Kurt Krueger – RWSA Attorney, members of the public and media representatives

1.0 Call to Order

The special meeting of the RWSA Board of Directors was called to order by Dr. Collins on Wednesday, October 9, 2002 at 12:18 p.m., and a quorum was present.

2.0 Items From The Public

Mr. John Martin, Free Union, Virginia, stated that he wanted to address the Board today on the serious “drought in government” that the community is experiencing. He clarified that his reference to government included the Albemarle County Board of Supervisors and the Charlottesville City Council. He commented that tonight the Albemarle County Board of Supervisors would be considering an ordinance that would delegate broad authority and responsibility to the Executive Director of the Albemarle County Service Authority to establish water use restrictions, which could result in the imposition of Class 3 misdemeanor type penalties. Mr. Martin added that the Albemarle County Board of Supervisors has incorrectly taken the position that it has no responsibility for future water supply planning. He also noted that the City Council in Charlottesville has not yet formally acted on the future water supply recommendations submitted by RWSA.

Mr. Martin also informed the Board that one month ago he wrote a letter to Mrs. Sally Thomas and copied all the Board of Supervisors members. He stated that the letter referred to the Virginia Code which states that the City and the County should cooperate and mutually decide future water supply needs and enter

Special RWSA Board Minutes
2.0 Items From The Public Cont.
October 9, 2002

into a joint resolution to approve any new water supply addition. He stated that he never received a response or even an acknowledgement of the letter from the recipients.

Mr. Martin commented that another example of the “drought in government” is the situation where the RWSA is going bankrupt, through no fault of its own, because of the low water and wastewater flows. He stated that this type of problem has been evident for years due to the manner in which the RWSA budget is established. He further stated that the first step in addressing this situation is for the Board to review Section 15.2-5136 of the Authority’s Act, which states: “The rates for water (including fire protection) and sewer service (including disposal) shall be sufficient to cover the expenses necessary or properly attributable to furnishing the class of services for which the charges are made.”

Mr. Martin added that the RWSA Board of Directors has a fiduciary duty to ensure that Rivanna remains financially solvent by increasing the rates to cover expenses, if that is necessary. He lamented that he knew nothing was going to happen today due to the “governmental drought” and the lack of governmental leadership concerning water in this community. Mr. Martin concluded by stating that he felt the public had a right to begin to feel disgusted and angry about the way this community’s government is proceeding during this difficult drought time and with respect to our future water supply.

Mrs. Lois Rochester, an Albemarle County resident, speaking on her own behalf, asked if a public hearing was required if the Board were to approve an emergency drought rate increase today. She also stated that it costs her twenty cents per day for water, which includes the service charge. Mrs. Rochester commented that if more residents were encouraged to compute their daily water costs, they might be surprised by the figures.

In response to a question from Dr. Collins, Mrs. Rochester replied that her twenty cents per day/per person water cost was for the month of September and reflects her water conservation efforts. She stated that, in comparison, her personal water cost for previous months was about fifty cents per day.

Dr. Collins asked Mr. Krueger to address Mrs. Rochester’s question regarding the requirement for a public hearing. Mr. Krueger stated that Section 15.2-5136, subsection G, does not require a public hearing for a water rate increase, but it would require a public hearing for a wastewater rate increase.

Special RWSA Board Minutes
2.0 Items From Public Cont.
October 9, 2002

Ms. Martha Levering inquired if sewer rates for residents were based on the amount of water flow going into a home. Mr. Wood stated that a wastewater flow meter is located at the Moores Creek Wastewater Treatment Plant, and RWSA establishes the City's and Albemarle County Service Authority's allocations based on the retail sales and then bills its two customers. Mrs. Mueller added that RWSA only bills for the amount of wastewater that is actually treated. Dr. Collins stated that he felt citizens were uncertain as to what role the RWSA, the Albemarle County Service Authority, Albemarle County and the City of Charlottesville have in the rate-setting process.

In response to comments by Mr. Martin, Mr. O'Connell stated that he was going to wear his City hat for one minute. He stated that the word "fiduciary responsibility" was just used, and he felt he also had a fiduciary responsibility to provide a sufficient water supply for City residents, which had to be part of the picture. Mr. O'Connell added that there have been a number of City Council meetings, work sessions and discussion over the last two or three months at which the long term water supply was actively discussed. He stated that there has been a lot of effort on the City Council's part to talk about this issue. He commented that he thought from the City Council's perspective, if one of the City Councilors were here, they would say we are talking about the best interests of the community, not just the City. He added that he thought it was important to say this, given what had been said a few minutes ago.

Mr. Tucker stated that the Albemarle County Board of Supervisors has also met several times on the issue of water. He further stated that he felt part of Mr. Martin's frustration concerning his "drought in government" comment was with the structure under which Rivanna operates, which was created by the Albemarle County Board of Supervisors and the Charlottesville City Council. Mr. Tucker added that as a member of the RWSA Board of Directors, he felt he was representing the Board of Supervisors and Albemarle County residents. He also commented that any changes to the Rivanna structure would need to be made by the two governmental units.

3.0 Financial Impact of the Water Supply Emergency On The Rivanna Water & Sewer Authority Budget

Mr. Tropea stated that the purpose of today's meeting was to discuss the RWSA's budget dilemma, which is a product of the current water crisis. He further stated that the community has responded admirably to requests to conserve water, and since the first of October, the water consumption average has gone down to 7.63 MGD. He added that he personally commends the community's conservation

Special RWSA Board Minutes

3.0 Financial Impact of Water Supply Emergency on RWSA Budget Cont.

October 9, 2002

efforts. Mr. Tropea then commented that the decrease in water demand not only results in stretching our available reservoir volume, but also creates a RWSA budget shortfall in direct proportion to how well the community conserves water. He reported that RWSA's budget this year is based on the revenue generated from selling an average of 11.7 million gallons of water each day. He stated that yesterday's water demand was 6.977 million gallons per day, which is 59.6 percent of the flow-based budget or about 40 percent below the RWSA budget. Mr. Tropea expressed his desire for the water demand to fall to 5.9 MGD or lower, but he noted that at that point, RWSA would only be generating approximately 50 percent of the revenue that its budget is based on.

Mr. Tropea also reported that a wastewater deficit is concurrently also being created due to the wastewater flows falling as the water usage in the community goes down.

Mr. Tropea stated that he was recommending that the Board approve the staff recommended emergency water rate increase today. He commented that the proposed rate increase would not create a "windfall profit" but would only cover the current Board-approved budget. Mr. Tropea added that RWSA also has a series of significant, additional non-budgeted items that will require funds which are not included in the existing budget. He reported that the "Doomsday" strategy, for example, will need to be funded. He stated that other unbudgeted expenses include repairs on the North Fork Rivanna Water Treatment Plant and repairs for the 54-inch effluent line at the Moores Creek Wastewater Treatment Plant. Mr. Tropea also stated that the Board also needs to make a timely decision on "opportunity dredging" for the South Fork Rivanna Reservoir, a project which is supported by many residents.

Mr. Tropea added that the Board's approval of the recommended rate increase would allow the Authority to remain financially viable and also allow the Authority to proceed with the other much needed projects.

Mr. Wood then gave a PowerPoint presentation concerning the "Financial Impact of the Drought" (copy attached). He stated that 93 percent of RWSA's urban water and wastewater expenses are funded through flows and related rates. He further stated that a 50 percent reduction in water consumption would translate into an annual loss of \$5.2 million in water and wastewater revenues. Mr. Wood added that if you project those numbers from October 1, 2002 through the remainder of FY 2003, the deficit would amount to \$4 million based on flows alone.

Special RWSA Board Minutes
3.0 Financial Impact of Water Supply Emergency on RWSA Budget Cont.
October 9, 2002

Mr. Wood reported on additional unbudgeted financial needs which Rivanna is facing:

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| • 54-Inch Effluent Line Repair | \$200,000 - 250,000 |
| • Filter Repairs – North Rivanna Water Treatment Plant | \$ 50,000 |
| • “Doomsday” Strategy | \$ 310,000 |
| • Opportunity Dredging | \$500,000 - 1,000,000 |
| • Other Unanticipated Costs | \$100,000 |

Total: \$1,160,000 – 1,710,000

Mr. Tropea reported on the “Doomsday” strategy and its projected cost of \$310,000. He stated that RWSA is incurring additional costs beyond its budget because of the deteriorating water quality in the reservoirs. He added that the North Fork Rivanna water treatment plant is going to a 24-hour operation that will involve overtime pay for the operators and that a pressure sustaining valve appears necessary in the distribution system to ensure safe supply pressure. He commented that additional costs will also be incurred in drawing water from Lake Albemarle, from the Beaver Creek Reservoir, and to access the “heel” of water remaining in the South Fork Rivanna Reservoir. He further stated that he felt it was important for the Board to approve the rate increase now so RWSA can implement the “Doomsday” strategy when the reservoir levels reach the 20 percent level.

Mr. Wood continued his presentation by stating that the financial impact of reduced flows, plus the additional costs, will generate a budget deficit of about \$5,270,000 to \$5,750,000. He further stated that the current budgeted expenses have been reviewed, and RWSA believes there are no major cuts that can be made at this time. Mr. Wood added that RWSA has no cash reserves to draw upon to offset the deficit. He commented that revenue bonds are generally issued for capital expansion projects and should not be used to offset revenue shortfalls, especially in our case as we are already carrying a high debt load.

Mr. Wood stated that RWSA was proposing to establish one new emergency drought rate, as opposed to increasing the current rate, based on the water flows at a 50 percent target reduction level. He further stated that the rate would be effective on October 1, 2002, remain in effect for the remainder of the fiscal year,

Special RWSA Board Minutes

3.0 Financial Impact of Water Supply Emergency on RWSA Budget Cont.

October 9, 2002

and any “rebate” to the City and the Albemarle County Service Authority would be determined at the end of the fiscal year. He added that the proposed emergency drought rate was computed as an additional \$2.469 per thousand gallons above the current RWSA rates.

Mrs. Mueller commented that the word “additional” needed to be highlighted, as the new proposed rate of \$2.469 per thousand gallons is in addition to the existing rate. In response to a question from the Board, Mr. Wood replied that the new proposed rate doubled the existing rate. Mr. Tropea stated that the new rate was necessary to enable RWSA to remain financially viable and accomplish the additional projects. He repeated that RWSA is not attempting to create a “windfall profit,” but merely trying to stay at the Board-approved budget level. He commented that if the proposed rate increase was made effective on November 1, then the rate increase would need to be even higher, to reflect another \$400,000 deficit.

Mr. Wood clarified that if you add the new proposed emergency drought rate of \$2.469 per thousand gallons to the current rates being charged to the City of Charlottesville, you have a total rate of \$4.902 per thousand gallons.

Mr. O’Connell stated that one of the dilemmas being faced today is the recognition that RWSA is experiencing a deficit, but also that both the City and the Albemarle County Service Authority have just adopted rate surcharges as a water conservation incentive measure for their retail customers. Mr. O’Connell added that policy decisions have been made that City government and the Albemarle County Service Authority can help water customers invest in water-saving devices. He further stated that whatever the Board decides today, policy issues, such as financial incentives or disincentives to encourage water conservation, also need to be considered when adopting final water rates for customers in the urban water system.

Mr. Brent inquired as to the status of “opportunity dredging,” what permits would be required, and if the permitting process could be expedited. Mr. Tropea responded that Mr. Chuck Kent, RWSA engineer, would report on this issue.

Mr. Kent reported that RWSA is working cooperatively with Panorama Farms to allow their property to be used for placement of the dredged material. He stated that he recently met with local heavy equipment contractors at the reservoir. He added that the nature of the sediment unfortunately precludes the use of standard excavation equipment. Mr. Kent then described the dredging operation which he is proposing which involves setting up a crane on the shoreline and securing a line

Special RWSA Board Minutes

3.0 Financial Impact of Water Supply Emergency on RWSA Budget Cont.

October 9, 2002

to a barge in the reservoir. He stated that a clamshell scoop would then be pulled across the sediments and they would then be deposited along the shoreline and allowed to drain. Mr. Kent commented that there are about 155,000 cubic yards of accessible material at this location, and the estimated cost of the project is around \$1 million.

Mr. Kent reported that he had met with the Corps of Engineers and the DEQ yesterday concerning the permitting process. He noted that further meetings and discussions were planned through the Executive Director.

Mrs. Mueller inquired as to the time frame involved with this project. Mr. Kent responded that the “opportunity dredging” would be about a nine-month operation. He stated that the advantage of the dragline technique is that the dredging can continue even if the reservoir levels rise. Mr. O’Connell inquired as to the benefits of this dredging proposal. He responded that the removal of 155,000 cubic yards equals about four years of sediment and would add 30 million gallons of additional water storage capacity.

Dr. Collins inquired about the cost savings of undertaking the “opportunity dredging” now versus a more detailed study of the sediment issue leading to a larger scale future dredging program. Mr. Kent replied that the projected costs are much lower than previous estimates. Mr. Tropea noted that we have an opportunity before us today given the interest of Panorama Farms and the local contractors, plus our engineers will learn a great deal about reservoir dredging which will help us in the future.

Mr. O’Connell stated that the appeal of the “opportunity dredging” for him is making immediate investments now to assist with the longer-term water supply issues.

Mr. Brent stated that he felt the Board should take advantage of the current opportunity to remove sediment from the South Fork Rivanna Reservoir. He further stated that he discussed with Mr. Tropea the possibility that the Albemarle County Service Authority may consider offering \$1 million as a pre-payment towards their ultimate share of the cost for the future water supply strategy.

Mr. Brent also suggested that the Board establish the emergency water rate today based on the flow rate of 7.1 MGD and also give him 30 days to address the possibility of the Albemarle County Service Authority pre-funding the proposed dredging work in the amount of \$1 million.

Special RWSA Board Minutes

3.0 Financial Impact of Water Supply Emergency on RWSA Budget Cont.

October 9, 2002

Mr. Tucker stated that this action does not preclude the Board from coming back in a month or so, if necessary, to address the water rate need again.

Mr. O'Connell also stated that if the reservoir levels continue to decline, the Board would then look at the next budget deficit level and establish a new water rate to meet Rivanna's financial needs. Mr. Brent added that the Board would do whatever it takes to keep RWSA afloat. Mr. Brent also stated that the \$1.46 per 1,000-gallon water rate increase would give RWSA revenues to meet other expenditures. In response to a question from Mr. O'Connell, Mr. Brent affirmed that he was recommending that the emergency water rate identified at the 60 percent reduction level be approved in addition to the \$1 million loan for the "opportunity dredging." Mr. Brent also stated that if the Albemarle County Service Authority Board of Directors is not in favor of his proposal, then the Rivanna Board might be back next month seeking other funding sources.

Mr. Tropea asked why the Board would not want to set the rate at the 50 percent reduction level as recommended today by RWSA. Mr. O'Connell responded by stating that by setting the rate at the 50 percent reduction level now, it takes away the future incentive of further increasing the rate if the water crisis gets worse. He also stated that the community appeared to have responded quickly to each of the phases of water restrictions by reducing water consumption. Mr. Tropea then expressed concern that the rate increase being discussed by the Board would not provide adequate funds for the additional projects in the event that water demand continues to decrease as we hope.

There then was further discussion by the Board regarding the proposed rate increase and the impact of the \$1 million pre-payment proposed by the Albemarle County Service Authority. Mr. Brent proposed that at the next regular Board meeting that RWSA present a proposed emergency rate increase to handle the unbudgeted wastewater expenses, such as the 54-inch effluent line repair, advertise the new rate and hold a public hearing in December in order for the Board to act on this issue in a timely manner.

Mr. Brent clarified that the Albemarle County Service Authority cannot loan money. He stated that the funds would be applied as a future contribution of the Albemarle County Service Authority toward its share of the future water supply strategy.

In response to a question from Mr. O'Connell, Mr. Krueger stated that an increase in water rates could be adopted at today's Board meeting. He also stated that a proposed increase in sewer rates requires a 60-day notice to the public.

RWSA Board Minutes

3.0 Financial Impact of Water Supply Emergency on RWSA Budget Cont. October 9, 2002

Mr. Tucker stated that he was in support of Mr. Brent's proposal. He suggested that if the other members of the Board were not ready to take action today, that the Board should defer the issue and schedule another meeting in the near future to address the proposed rate increase and review supplemental financial documentation to be provided by RWSA.

The Board and the Executive Director then discussed the reservoir levels and the budget impact if water consumption continues to decrease.

Mr. O'Connell stated that it was sound policy to continue the incremental adoption of restrictions and necessary rate increases. He noted that if the reservoirs get to 45 percent, that there could be another rate increase in lieu of a surcharge. He further stated that this would address Rivanna's financial deficit and send a strong message to the community that conditions are getting worse, not better, and it is going to cost them a whole lot more money.

There was further discussion regarding delaying the vote for one to two days until the Board had time to more fully understand the financial implications as presented by RWSA at the meeting.

4.0 Board Action On Staff Recommendation

Mr. Brent stated that he was prepared to act today on the emergency water rate increase and therefore moved that the RWSA Board of Directors approve RWSA's request for a wholesale water rate increase to the City of Charlottesville and the Albemarle County Service Authority at an additional cost of \$1.646 per thousand gallons, retroactive to October 1, 2002, with the assumption that the Board may need to raise the rates again in 30 to 60 days. The motion was seconded by Mr. Tucker, and the Board of Directors approved the motion by a 5-0 vote.

Upon a motion by Mr. Tucker, and seconded by Mr. O'Connell, the Board of Directors voted to direct Mr. Brent to approach the Albemarle County Service Authority Board of Directors concerning the possibility of the Authority advancing funds in the amount of \$1 million to be used for "opportunity dredging," as had been discussed at today's Board meeting, with these funds being applied to the Albemarle County Service Authority's share of future water supply costs under a formula and a contract to be worked out between the City of Charlottesville and the Albemarle County Service Authority. The Executive Director of the Albemarle County Service Authority is further authorized to bring back all the documents necessary to implement the advancement of these funds

Special RWSA Minutes
4.0 Board Action On Staff Recommendation
October 9, 2002

upon approval by the Albemarle County Service Authority Board of Directors. The Board of Directors approved the motion by a 5-0 vote.

Upon a motion by Mr. Tucker, and seconded by Mr. O'Connell, the Board of Directors voted to authorize RWSA to develop an appropriate wastewater rate increase and present the proposed rate increase at the next Board meeting as it relates to the 54-inch effluent line repair. The motion was approved by a 5-0 vote.

5.0 Other Items From Board/Staff Not On Agenda

There were no other items from the Board or staff.

6.0 Adjournment

Upon a motion by Mrs. Mueller, and seconded by Mr. Tucker, the meeting was adjourned at 1:41 p.m.

Respectfully submitted,

Robert W. Tucker, Jr.
RWSA, Secretary-Treasurer