Rogers Waterworks and Sewer Commission

October 16, 2006

Minutes

The Rogers Waterworks and Sewer Commission held its regularly scheduled monthly meeting at 4:00 PM, Monday, October 16, 2006, in the Rogers City Hall. Commissioners present were Donnie Moore, Jerry Pittman, Donna Warren, and Don Kendall. Lon Pepple was absent. Others in attendance were Rogers Water Utilities staff Tom McAlister, Robert Moore, Mike Lawrence, Joyce Johnson, Mark Johnson, Everett Balk, Bob Anderson, William Evans, Luanne Diffin, and Earl Rausch. Others in the audience were Tom Gould, Robert White, Lori Harrison-Stone, Jason Kelley, Jason Ingalls, and Bill Platz. Chairman Moore called the meeting to order at 4:05 PM.

There was a motion by Pittman, second by Warren, to approve the September minutes as submitted. All in favor, motion carried.

Moore recognized Mark Johnson, Utilities Engineer. Johnson presented the Commission with a report detailing the status of several projects in which the Commission had a pecuniary interest. Johnson pointed out that there were two new projects on the list: A proposed 24-inch transmission main running west from S. 28th St. at Dogwood to the transmission main under contract north of Home Depot, and a new, two million-gallon elevated tank adjacent to the existing tank on S. 24th St. at Lilac. Johnson said that the funds for the projects would come from the proceeds of the recent bond issue.

Continuing, Johnson reported that the water and sewer construction planned in Stoney Brook Road was ready to start next week. He reported that all parties to the construction project had signed agreements. How long would the road be closed? Moore asked. Forty-five days was the reply. Johnson said that traffic would be rerouted through the Village on the Creeks development. Johnson said that the city street department was preparing signs to warn people to expect delays.

Johnson said that the S. 26th St. street improvement project had been reactivated by the City for spring of 2007. Pleasant Grove Road was set to be widened from I 540 to Bellview Road. To that end, Johnson presented the Commission with a proposed contract with McClelland Engineers, the City’s street engineer. Johnson estimated that the water and sewer relocations and adjustments would be about $400,000, and the engineering would cost another $70,000. Johnson said that the project would be designed and bid, and the bids would come back to the Commission for approval. There was a motion by Kendall, second by Pittman, to approve the contract with McClelland Engineers. All in favor, motion carried.
Continuing, Johnson presented the Commission with a letter from Northstar Engineering requesting aid to improve an off-site sewer for proposed Foxbriar Addition. Johnson said the developer of Foxbriar Addition (the old Longview Mobile Home Park) needed sewer service but a downstream sewer segment behind E. Sumac St. was a six-inch line, which had not enough capacity for the anticipated flow from the new subdivision. Since there was another large tract of land that could be developed and was tributary to the inadequate sewer, Johnson reasoned that it might be wise to help the developer with the anticipated cost. The engineer estimated the total cost to be $91,040. The developer was asking for half the cost, he said. Was the eight-inch line sufficient? Pittman asked. Johnson said that the eight-inch line was sufficient for most anticipated development in the area. There was a motion by Pittman, second by Kendall, to approve the requested cost share, up to a maximum of $45,000. All in favor, motion carried.

Pittman asked Johnson about the plans to expand the Water Utilities Building. Johnson said that final plans had been received last Friday. He said that he had not had a chance to review the plans. Pittman asked if the cost estimate for the building had been updated, since so much time had passed since the project had been originally approved by the Commission. Johnson said that the costs had not been updated, and that cost would probably increase due to jumps in price in labor, cement, steel and copper.

Moore recognized Everett Balk, Project Facilitation Engineer. Balk presented the Commission with a brief report detailing the activities of his section. He said that the workload was remaining fairly constant over the past several months.

Moore recognized Tom Gould of HDR, Inc., the Utilities’ rate consultant. Gould presented the Commission with a summary report of a comprehensive sewer rate analysis for the Commission. Gould explained his philosophy of ratemaking and the process that he used to derive fair and equitable sewer rates for all Rogers sewer customers. He talked about “cash basis budgets” and revenue requirements to pay for O and M and capital outlays. He explained that his rate making model assumed no rate increases and a $20 million dollar bond issue.

Kendall asked how Gould came up with a $20 million dollar bond issue. Gould said that he looked at the total capital requirements and sources of funds, and tried to minimize the amount borrowed. Pittman asked why there weren’t any “system development charges” indicated on the spreadsheet for the next couple of years. Gould said that the system development fees were just getting started, and that the fees realized in short term might better be used to refund the new debt.

Gould stressed that the key questions was, “How much capital could be funded from sewer rates?” He explained that the bond issue could be structured to levelize the debt service payments, since an existing bond issue would be paid off in 2011. He said that the debt service coverage ratio (a requirement in all bond covenants) must be maintained by keeping a buffer between the money that comes in the sewer department and the money that goes out. He showed a spreadsheet that indicated a deficit, if the Commission borrowed 20 million dollars, and no rate increase was imposed. Gould
showed that the debt service coverage ratio could not be maintained without a rate increase of 18% next year and an 11% increase the year after. He said that the rates should be reviewed again in a few years to determine sufficiency. He said that the average customer would see an increase in sewer rates of about $6.99 per month.

Gould talked about rate structure. He showed volumetric rates that reflected an across the board increase of 18% and 11%. There were a few questions about average bill increases and typical demand. Warren asked if it would better to have smaller increases annually? Gould said that would be better, but the Sewer Department had been “living on growth”, and growth had finally caught up with it. Finally Pittman asked, “What is the next step?” McAlister suggested that the Commission accept the report and recommend the rate increase to the Council, which had the ultimate authority over sewer rates. He also said that the state revolving loan fund, which the Utility had been pursuing for the last few years, would result in larger rate increases, since the maximum term for the RLF was twenty years. A bond issue could be thirty years or longer, reducing the annual payment and the amount of the sewer rate increase. For that reason and the onerous paperwork involved, McAlister requested permission to seek a sewer revenue bond as a source of funding, and to stop the RLF process.

There was a motion by Pittmam, second by Kendall, to accept Gould’s rate analysis and send it to the Council for consideration, and to allow staff to pursue a sewer revenue bond issue instead of the state revolving loan fund. All in favor, motion carried.

Next came the process of interviewing firms for legal representation. At the September meeting, the Commission had short-listed the firms of Mitchell-Williams, Warner-Smith-Harris, and Kelley & Kelley for interviews this month. McAlister announced that Alan Lewis of the Mitchell firm had called two hours earlier and said that he was unavoidably detained, and could not be at the meeting.

Moore recognized Alan Wooten of Warner-Smith-Harris law firm. Wooten said that his firm was headquartered in Fort Smith but had an office in Rogers. He introduced Asa Hutchinson III, who would be the primary contact person for RWU, if his firm was selected. Wooten said that his firm had a lot of experience in district and federal court. He said the RWU was a business, and needed to be represented like a business. He said his firm had a lot of experience counseling governmental agencies and in civil litigation. He mentioned that no one firm could do everything, and he mentioned the need for bond attorneys that would look after the Commission’s best interest, not the bond underwriter or the bond holders necessarily. Wooten said that his firm was involved in the Oklahoma Attorney General’s lawsuit against the Arkansas poultry companies.

Warren asked about the firm’s ability to respond quickly to day-to-day issues. Hutchinson assured the Commission that his office was adequately staffed to handle virtually any issue that might arise. What is the current billing rate? Pittman asked. Wooten said that the average billing rate was about $200 per hour. Hutchinson said that the firm proposed to charge a monthly retainer and not send billings for hourly charges,
unless there was a special situation, such as litigation. With that, Wooten and Hutchinson left the meeting, and Jason Kelley of Kelley & Kelley came in.

Kelly said that he and his wife formed a law firm a year and a half ago. He said that he had represented the Commission for a couple of years as deputy city attorney, and advised the Commission on the issue of impact fees two years ago. Kelley said he wanted to be accessible to the RWU staff. He said he could drive a to the RWU office and have a meeting in short order. Kelley said that he thought the key to being a good attorney would be to avoid legal trouble, to be proactive, to come to the meetings, to be helpful. Pittman asked about his current billing rate. Kelley answered, “$165 per hour.” He said that he thought that the current legal budget amount, $20,000, would be adequate. With that, the Commission thanked Kelley for his interest in the position, and rated the interviewees.

The ballots were then passed to McAlister for tabulation. Pittman asked if the firm selected would primarily be dealing with legal housekeeping issues, and that, if further legal help were needed, another, more specialized firm, might be brought in the mix? Kendall said that the issues of “foreseeable” and the “breadth of experience” were important. The Commission rated the firms in the following order: 1. Warner-Smith-Harris, 2. Kelley & Kelley, and 3. Mitchell Williams. The Commission instructed McAlister to negotiate an agreement with Warner-Smith-Harris, if possible.

Moore recognized Bob Anderson, Engineering Technician. Anderson said that the Help to Others (H2O) program was essentially ready to go. He said that the changes to the computer program had been done, and that a flyer had been produced to be included in the water bill that solicited monthly giving. He said that the first flyer would probably go out with the November bills, since the City wanted to include information on the fall leaf pick up program this month. Pittman asked if the front-end costs would be paid for out of the fund? Anderson said that the printing and mailing costs would be paid for by RWU. There was a motion by Kendall, second by Pittman, to approve the contract with OHC and get the program kicked off. All in favor, motion carried.

Moore recognized Mike Lawrence, Rogers Pollution Control Facility Manager. Lawrence presented the Commission with Resolution No. 07-06, waiving competitive bidding, and awarding a contract to Flottweg, Inc., for the purchase of a sludge centrifuge for $433,200. Lawrence explained that the centrifuge was in Germany in the final stages of manufacture, and could be installed and dewatering sludge as early as February 1, 2007. The cost savings over the competitive bidding process were significant, Lawrence said. He estimated that the Commission might save as much as $200,000 in centrifuge rental, since the lead-time for manufacture was 12 to 14 months. How much was budgeted for the centrifuge? Moore asked. Lawrence said that he had estimated the cost at about $575,000. There was a motion by Pittman, second by Kendall to approve the resolution. All in favor, motion carried.

Moore recognized William Platz, engineer for Hardy’s Subdivision in Benton County. Platz explained that the parcel to be divided was in the County but had water
mains existing, and that no extensions were required to serve the three lots. There was no sewer available, he said. There was a motion by Kendall, second by Pittman, to approve water service to the development, subject to final approval by the Council. All in favor, motion carried.

Moore recognized Luanne Diffin, RWU Lab Director and Industrial Pretreatment Coordinator. Diffin said she came to the Commission in her role as President of the Illinois River Watershed Partnership, a newly formed organization concerned with the preservation of water quality in northwest Arkansas. She emphasized the need for protection for the streams and lakes of Benton and Washington County through public education and community outreach. Diffin described her organization as a “chamber of commerce” of water quality professionals. She said the membership of the Partnership was very broad, encompassing municipalities and poultry companies, plus some officials in Oklahoma. She cited several grants that had already been received, and that the large municipalities are being asked for a grant of $10,000. Diffin said that the Mayor of Rogers had committed $5,000, if the Commission would pledge a matching amount.

Moore said that amount requested was very little compared to the potential cost of the looming issues with Oklahoma over the Illinois River. Pittman asked if the amount was a one-time request, or will this be an annual request? Diffin responded that the Partnership needed on-going sponsorships, but she would take whatever was offered. There was a motion by Warren, second by Pittman, to make a $5,000 matching sponsorship with the City of Rogers to the Partnership, for the next three years. All in favor, motion carried.

Moore recognized Joyce Johnson, Utilities Controller. Johnson presented the Commission with financial reports for September 2006. Johnson said that September had been a huge month for revenue, as all the bills for high water usage in August had been paid. Consequently, the unaccounted for water rate had dropped significantly last month. Johnson also noted that the second payment to Bentonville for the existing water transmission mains had been made in September. There were no exceptions taken to the minutes.

The meeting adjourned at 5:48 PM.

Respectfully submitted,

Tom S. McAlister, Acting Secretary
Waterworks and Sewer Commission

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