

SOUTH FORK WATER BOARD
MINUTES OF BOARD MEETING
February 22, 2017

Board Members Present: Russ Axelrod, West Linn Mayor, Vice Chair
Richard Sakelik, West Linn Councilor
Brian Shaw, Oregon City Commissioner
Bob Martin, West Linn Councilor

Board Members Excused: Dan Holladay, Oregon City Mayor, Chair
Frank O'Donnell, Oregon City Commissioner

Staff Present: John Collins, SFWB General Manager
Wyatt Parno, OC/SFWB Finance Director
Mark Cage, Senior Plant Operator, SFWB
Kim Brown, Technical Writer, SFWB

Others Present: Alice Richmond, West Linn Resident

General Board Meeting

(1) **Call to Order**

Vice Chair Axelrod called the meeting of the South Fork Water Board to order at 6:09 pm.

(2) **Roll Call**

(3) **Public Comments** – There were none.

(4) **Consent Agenda**

a. Approval of the Minutes of the January 25, 2017 Board Meeting.

Board Member Shaw moved to approve the Consent Agenda. Board Member Martin seconded the motion, which passed unanimously.

(5) **Review of SFWB Annual Financial Report for Fiscal Year Ending June 30, 2017**

John Collins, General Manager, explained how he and Mr. Parno work together each year to prepare the Annual Financial Report.

Wyatt Parno, OC/SFWB Finance Director, briefly reviewed his professional experience, noting he has reviewed South Fork's financial activities for a few years and was familiar with how SFWB operated financially. South Fork's finances were in very good order and Mr. Collins was doing an amazing job. He highlighted the audit from Merina & Company, LLC, which found no issues, deficiencies, or items of concern. He also reviewed key reports of the SFWB Annual Financial Report for FYE June 30, 2017, noting State requirements and audit procedures. The large pension liability was a result of recently updated County standards for how to calculate and report pension liabilities, which were listed as an asset in previous years. About 65 percent of the pension fund was related to employees who are already retired. However, new employees were under new tiers for PERS, so those benefits, and South Fork's liabilities, would be a lot less substantial in the future. In 2017, South Fork

would make its last long-term debt payment, thanks to Mr. Collin's decision in the past to refinance high interest loans and the Board's policy decision to reserve funds for future capital improvements and give South Fork significant savings on rates.

Mr. Collins confirmed SFWB now had nine employees, including a new position created last year.

Board Member Martin asked about the interest rate on Prior Year Obligations listed on Page 18, noting he was always looking for ways to refinance at lower interest rates. **Mr. Parno** replied he did not know the interest rate, but the amount was an actuarial calculated number that was essentially a true-up. He briefly explained how the number was calculated and the State requirements that impact the final amount reported for the Pension Liability.

Vice Chair Axelrod asked for details on the Restricted Cash Investments for Construction on Page 8. **Mr. Parno** explained those funds were the accumulated SDCs Reserves. He confirmed SDC revenue this year was significant with \$361,000 in water specific SDCs from new development. **Mr. Collins** added that by the end of the next fiscal year, South Fork was projected to have about \$3 million in SDCs.

Board Member Martin asked about the anticipated effect of the upcoming PERS shortfall on South Fork. **Mr. Parno** replied South Fork was in a very strong position. While PERS was listed as a liability that largely covered retired employees, the liability applied to the payroll of existing employees to ensure there were enough funds to make the pension payments. The new fiscal year, starting July 1, 2017, would include rate increases of three to four percent on the payroll. South Fork would be able to absorb this increase, but the rates might increase another three to four percent in subsequent two-year cycles. The financial report did not reflect this, as the \$700,000 was the present value of the cost that would be spent over time.

Mr. Collins stated that as SFWB's Budget Officer, he was very fiscally conservative. He and Mr. Parno put about a 1.5 percent cushion in the budget in case there were staffing changes or cost of living increases. The beauty of not using the cushion was that it was rolled over and adjusted for the next fiscal year. He clarified that of nine full-time employees, two or three were in Tier 1 and two were in Tier 3. He described how benefits were calculated for each tier and said eventually, he envisioned that the State's retirement system would not include a defined contribution given the recent Supreme Court decision. South Fork would have an unfunded liability until the defined contribution was completely phased out.

Mr. Parno added that when Tier 3 was established, the legislation included the right to make adjustments to the program. He explained how the economy in the 1980s led to certain employee benefit requirements, which were not possible in the current economy.

Board Member Martin asked if SFWB was taking savings from refinancing and putting it into another fund. **Mr. Collins** clarified that SFWB came under a technical default. He explained that bond covenant required 125 percent revenue over expenditures. When the market collapsed, SDCs were counted as SFWB revenues dropped to 116 or 117 percent over expenditures, which put the Board in an adverse position. At that time, Oregon City had an excess of more than \$25 million in cash, so he asked Oregon City to give SFWB a loan and split the difference in interest rates. The net value of lowering the interest rate was about \$500,000 in savings for South Fork and \$500,000 of additional revenue for Oregon City. As the loan repayments reduced over time, SFWB put the amount of money the payments were reduced by into Future Capital Expenditures. This would allow the Board to pay cash for some projects or leverage a future bond. In the last biannual budget, an additional one percent of the rate increase was added to Future Capital Expenditures to help fund the chemical feed building and pipe expansion projects. The goal was to have a minimal effect on South Fork's rates and pay cash for the projects.

(6) **Appointment of Budget Officer**

Board Member Shaw moved to appoint **John Collins** as the **Budget Officer** for the **2017/19 Biannual Budget Cycle**. **Board Member Sakelik** seconded the motion, which passed unanimously.

(7) **Appoint Citizen Representatives to the South Fork Budget Committee**

John Collins, General Manager, explained the Budget Committee had three citizen members from Oregon City and three citizen members from West Linn. He recommended Rocky Smith, who had served for eight years on the Board, to represent Oregon City and Levander Lincoln to represent West Linn.

Board Member Martin moved to appoint **Levander Lincoln** and **Rocky Smith** to the **2017/19 South Fork Budget Committee**. The motion was seconded by **Board Member Shaw** and passed unanimously.

(8) **Approval of Biennial 2017/19 Budget Schedule**

John Collins, General Manager, reviewed the State's requirements pertaining to the budget schedule. He described South Fork's process for preparing the budget schedule, noting the timeline for public notices, meetings, and hearings. The budget would be presented to the Board for final adoption in May, if there are no issues. State law required that the budget be adopted by the end of June, so final adoption could be postponed to June if the Board decided at the May meeting that the budget schedule needed more work. He recommended the Board approve the Biennial 2017/19 Budget Schedule. He clarified that he expected to have the first draft of the budget available to the Board no later than the last week of March. He encouraged Board members to send questions to himself or Mr. Parno and not to the entire Board due to public meeting law requirements.

Board Member Shaw moved to approve the **Biennial 2017/19 Budget Schedule**. The motion was seconded by **Board Member Martin** and passed unanimously.

(9) **Business from the Manager**

1) **Clackamas River Intake VFD Repair**

John Collins, General Manager, explained that a variable frequency drive (VFD) pump and motor was installed about 12 years ago at the Clackamas River intake. The

VFD has the capacity to pump 10 million gallons per day. This year, one of the three power modules on the VFD went out. SFWB has sufficient funding and money for repairs; however, the repair would cost between \$11,000 and \$15,000. The power module was currently at a factory in Texas where it would be repaired. SFWB was allowed to sole source equipment repairs, but as the Contract Review Board, the Board required him to solicit three informal quotes for repairs over \$5,000 and present them to the Board. Because this was a required repair on a \$270,000 piece of equipment, South Fork was able to sole source repairs but such items had to be brought before the Contract Review Board to be memorialized in the minutes. Therefore, putting this item on the agenda satisfied his requirements.

Vice Chair Axelrod noted the Board's approval of Mr. Collins actions regarding the repair.

2) Rate Calculations for Clackamas River Water

John Collins, General Manager, briefly reviewed background regarding the rate structure used with Clackamas River Water (CRW). One of CRW's general managers took issue with the rate structure and refused to pay SFWB's rate increase, which 18 months later, had resulted in litigation and CRW settled. The settlement agreement stated SFWB would adjust the rates every three years. CRW had received the 90-day notice he sent regarding a potential rate adjustment per the settlement agreement. He needed to hire a consultant to run the rate calculations because CRW needed SFWB's budget numbers for their budget. He recommended CH2M because of their experience, history with SFWB, and the existing open contract with SFWB for the Master Plan that already included rate methodology in the deliverables. He believed CRW and SFWB could agree on a methodology in time to raise water rates in July, rather than being delayed several months resulting in CRW paying retroactively.

The Board consented to direct the General Manager to hire CH2M for rate calculation services not to exceed \$12,000.

Mr. Collins confirmed he would negotiate with CH2M for the best possible price.

3) ACE in Philadelphia PA, June 10-15, 2017

John Collins, General Manager, said the American Water Works brochure would be scanned and sent to the Board. Funding was available for two Board members to attend the ACE conference and the Board had to decide who would go. He briefly described the events included in the conference. There was a discount for early bird registration and he had already pre-booked hotel rooms, which had free cancellation. He asked that Board members look at their schedules to see who was available to attend.

(10) **Business from the Board**

Vice Chair Axelrod said he and Board Member Holladay attended Kurt Schrader's Town Hall, which had a good turnout. Also, his State of the City address would be on Tuesday, February 28th.

John Collins, General Manager, noted the City of West Linn had done a good job advertising the State of the City address.

(11) **Executive Session –Adjourn regular meeting and convene Executive Session if needed.**

- A. To consider information or records that are exempt by law from public inspection pursuant to ORS 192.660 (2)(f).
- B. To consult with counsel concerning the legal rights and duties of a public body with regard to current litigation or litigation likely to be filed pursuant to ORS 192.660 (2)(h).

No Executive Session was held.

(12) **Reconvene Regular Meeting If Needed To take Any Action Necessary as Determined in Executive Session.**

Vice Chair Axelrod adjourned the regular meeting of the SFWB at 7:08 p.m.

Respectfully Submitted,

By Paula Pinyerd, ABC Transcription Services, Inc.
for John Collins, SFWB General Manager