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CITY OF STATESVILLE CONTINUED COUNCIL MEETING – March 14, 2011
CITY OFFICES BUILDING 2ND FLOOR TRAINING ROOM – 4:30 p.m.
STATESVILLE, NORTH CAROLINA

Mayor Costi Kutteh presiding:

Council Present:	**J. Johnson, Eisele, Stallard, Steele, M. Johnson, Gregory via speakerphone**
Council Absent:	**Matthews, Huggins**
Staff Present:	**Hites, Fugett, Salmon, Pressley, Triplett, Smyth, Hudson, Davis, Byerly**
Media Present:	**None**
Others:	**Andy Lovingood-McGill & Associates**

Call to Order

Mayor Kutteh called the meeting to order. He stated McGill & Associates was here in response to a request made by City Council at the retreat for them to provide more information in an effort to help Council make a decision whether or not to move forward with bidding the project and whether to continue pursuing the low interest financing of $17 million for the expansion of the Third Creek Wastewater Treatment Plant.

Denny Martin recalled that the instructions to McGill & Associates from Council was for further information as to what the financial implications of the 8 MGD wastewater treatment plant as proposed are, and information on any alternatives, specifically potentially phasing the project.

Mr. Martin stated he has three alternatives for Council to consider. The first alternative McGill & Associates has concluded that without significant additional revenue, the $30.8 million project is cost prohibitive and burdensome on the City's existing users at this time.

The second alternative would be to phase the project. Phase I would be a 6 MGD plant that could be added at some point at the cost of $23.7 million and the subsequent phase could be developed as needed over a twenty year period. This project is achievable with average annual additional revenue that would approximate the consumer price index as far as any additional burden on the users over the initial ten years of that time frame. Mr. Martin stated a project like this must be approached with the plan of having enough capacity so another major expansion does not need to be started while paying debt from the first expansion.

Mr. Martin stated that within that twenty year time frame the financial implications of the 6 MGD project makes much more sense from the capability of the enterprise fund to manage that debt and all the other issues in the City's operating budgets, plus the capital improvements program for that enterprise fund than does the 8 MGD project.

The third alternative is to improve the existing wastewater treatment plant from the standpoint of maintaining compliance with the state regulatory mandates and curing issues related to functional obsolescence of the plant and the age of the facilities that are there now. That project is estimated to cost $11 million. Mr. Martin stated that from a financial standpoint he was against this alternative because the City would be investing $11 million into a plant that is 40 years old and asking it to function another 20 years without gaining any additional capacity, which could be needed during the twenty years it will take to retire the debt.

As was discussed previously a deadline is approaching as to whether or not to go forward with bidding the 8 MGD project or to delay that process which is linked to the State revolving loan commitment that we have right now for the 8 MGD project. The implication of not proceeding with the bid is potentially losing the $17.5 million low interest loan that is associated with the 8 MGD project; However losing this funding is not an absolute and there is the possibility of requesting permission from the State to proceed with a smaller project and not lose the 8 MGD permit.

Council member J. Johnson asked if 6 MGD would be enough if Larkin were to suddenly come online. Andy Lovingood stated the 6 MGD plant would be a stair step toward the 8 and hopefully would allow the City to meet the upcoming TMDL limits from the State. It would also

be an investment in new technology and an investment towards the 8 MGD which would be added as capacity dictated. Denny Martin stated from a financial aspect, Phase I should provide the City enough capacity for ten years and if Larkin came online after that, any expansion beyond that could be managed through cash flow from their commitment. Mayor Kutteh stated he felt Council member J. Johnson was asking if Larkin built out according to their Proforma would 6 MGD be sufficient to receive their flow plus the existing flow. Andy Lovingood stated the existing paper commitment to the plant is around 2 ¾ MGD. Larkin is about 2.3-2.4 total build-out. Council member J. Johnson stated according to these figures, the City could not sustain any more expansion other than Larkin. Mr. Lovingood stated the 6 MGD expansion would keep the City from spending money trying to upgrade the existing plant and would have the new technology that can meet the stricter limits, plus it increases capacity by 2 more MGD

Mr. Lovingood stated McGill & Associates recommendation is to postpone the bid of the 8 MGD project. The project is in public notice now and is in the process of being permitted by NPDES. Once the permits are obtained, they will not expire until June 2014 which would give the City time for the economy to improve. This puts the City in a position with the most options. If the City wishes to be considered in the next round of funding, that would take place in December.

Mr. Martin stated if the City loses the $17.5 million low interest funding commitment, there are other alternatives that staff will have time to study and understand how they compare with that commitment. Other funding sources would be at a higher interest rate, but there may be some options available that are not cost prohibitive.

Mr. Lovingood stated the 6 MGD option had not been discussed with anyone else and would need to be discussed with the State. The Limits Page for discharge at 6 MGD's has not been received, and would need to be discussed with the State as well. The best case scenario for this project would be to secure the $17.5 million low interest funding to build the 6 MGD plant.

Mr. Lovingood stated he would be asking the State two questions: First, would they be amenable to funding the 6 MGD phase of this project since the City is ultimately going to expand the plant to 8 MGD as soon as economically feasible. Secondly, will the State grant the time needed to amend all of the documents from 8 MGD to 6 MGD. Mr. Lovingood warned this is doubtful but is worth discussing with them.

Mayor Kutteh asked what the timeframe is if Council postpones the bid. Mr. Lovingood answered that Council would need to consider in December whether or not it wanted to get back in line for CG&L or other funding. In advance of that December date, if there is a better solution that works or if we can remain in the $17.5 million pool, we would back a much sooner than that. If Council decides to pursue the phasing the project then McGill & Associates and City Staff will need to meet and determine when to reapply to the State. Mr. Lovingood stated regardless of the funding source, the City still wants to obtain the 8 MGD permit and the Authorization to Construct for future use.

Mayor Kutteh summarized that the City is not stopping the permitting process on the 8 MGD permit, it is simply saying that it does not make economic sense to continue the bidding on the $30.8 million project at this time.

Mayor Kutteh asked for a motion to accept or reject the recommendations from McGill & Associates.

Council member M. Johnson made a motion to accept the recommendation to postpone the bid of the $30.8 million project and for McGill & Associates to explore phasing the project and alternative financing, including an extension of CG&L's RTP funding, seconded by Council member Stallard.

Council member Steele recalled the discussion at the Council Retreat was that if the City fell out of line for the CG&L funding it would be much more difficult to obtain the funding due to the tier and point system in the new program being used by the State. Mr. Lovingood stated he would certainly like to try for that funding, but if we fall out of the $17.5 million there are alternative financing sources to try to replace the CG&L funding; however, those sources may be at a slightly higher interest rate and different terms.

Mayor Kutteh explained there is no revenue to support the 8 MGD plant. It is not possible to service the debt in an enterprise fund without an astronomical rate increase to the existing customer base, so at this point it doesn't matter if the interest rate is 1%, 3% or 10%.

Mr. Martin stated in his request to CG&L he would explain that the City needs and wants the 8 MGD permit, but due to the recession it cannot build it all at one time and would like to build it in two phases and in light of this would you allow us additional time with the commitment that we have now in order to adapt our plans to the ready to proceed status that you require and hang on to the $17.5 million permit.

Referring to Council member Steele's comment of the new tier and point system being used by the State, Mr. Martin stated that if the City loses the CG&L commitment, the new priority system is totally different. If the City reapplies for a new project, under the new system, the priority system will work against the City. Mr. Martin explained the new system emphasizes fixing deficient facilities as opposed to building a new facility or expanding the current one.

Mr. Lovingood stated not getting the CG&L funding is not an absolute and we may fair well in that; it depends on who is in the pool with us. Council member Stallard commented other municipalities are in the same situation Statesville is and does not feel losing the funding is a huge risk at this point.

Council member Steele asked how long the permit was good for. Mr. Lovingood replied till June 2014.

Mr. Martin stated it would be advantageous to the City to be on the LCG's December agenda if there is a possibility of doing this in two calendar years.

Council member Stallard asked if there have been any recent discussions with Larkin. Mayor Kutteh stated Mr. Pressley and Council member M. Johnson have both had conversations with Larkin. They have been asked to participate in the debt service until they get up and running. Larry Pressley stated according to Dale Stewart Larkin's Engineer, their first phase of system development fees comes to approximately $1.4 million. They were not told that the system development fees needed to be paid in advance, but it they chose to participate it would have to meet LGC requirements to be considered funding, which means it would be cash or a bond. There is a potential temporary lift station they have planned, but if the City builds its plant first their $1 million lift station would not need to be built. That would be the incentive for Larkin to invest in this now. Mr. Pressley stated staff had communicated with Larkin what the City's issues were and asked them if they were interested in entertaining that request. They did indicate they were willing to discuss this and would take it to their investors for consideration. Staff has not yet received a response from them.

Council member Stallard recalled a discussion at the retreat about getting the plant ready for Larkin to hook into. Mr. Lovingood explained when the project was first started the City was behind Larkin and now it seems like the City is ahead of them. Due to the size and complexity of this project, construction will take 18-24 months. Larkin is looking at a similar timeline, considering the deep sewers they must install to reach this plant. There is a good chance once we get our Authorization to Construct we can still stay ahead of them.

Mayor Kutteh called for a vote on the motion made by Council member M. Johnson and seconded by Council member Stallard. The motion carried unanimously.

Council member M. Johnson stated there is a risk in this strategy in that when Mr. Lovingood requests the State to change the permit from 9 MGD to 6 MGD, the State may say they are going to cap the permit at 6 MGD. The inherent danger is twenty years from now. Third Creek is going to carry 12 MGD under current standards, under the best of conditions, unless somebody develops quaternary wastewater treatment technology. The difference between 6 and 12 in that basin is $1 billion to $1.5 billion over term. This is an issue that has a practical limitation today, which we cannot do, and has a long term implication that will really determine how far Statesville is going to go. Council member M. Johnson stated his concern is once the TMDL is established the City will be on a basin wide assessment and if it loses the 8 MGD permit it will never be able to get it back. Mr. Lovingood stated we may get the flow back but the real issue is the pollutant load. The cost of those extra pounds of pollutants that will need to be discharged can be substantial. He explained in the permitting world, once a plant gets to 80% of its capacity it needs to be under study, once a plant reaches 90% it needs to be under construction, so that rule will trigger your permit to go up, but you may end up with a permit that has tight limits. Mr. Martin stated there is risk involved no matter what, even if the City builds the 8 MGD, the State could take the capacity away if all of it is not being used.

Council member M. Johnson stated if the City goes with the 6 MGD, and preserves the 8 MGD permit the compounded value of the revenue stream on the rate would be $2.2 million for sewer

and $1.4 million for water. He asked if Larkin bonded the difference, with the incentive that the City would trade it back to them in system development fees at a 2011 rate, would LGC approve. Mr. Martin stated as long as it was bond money it would.

Mr. Martin stated the Performance Bond is a great solution; the other is to sell capacity, which is commonly done in North Carolina, or to charge for their allocation or a combination of the three. Mayor Kutteh stated the City has already committed capacity in the expansion to Troutman.

Mr. Martin stated Council has flexibility in its solutions and the additional time that is involved with following the course it has adopted will allow the pursuit of those alternatives.

Council member M. Johnson stated if we refer back to the CIP, McGill & Associates' $11 million number is a retro fit on the new plant with the strictest TMDL limit included; now you are upgrading that plant and that is how you get to $42 million. If Third Creek is not upgraded, but the technology is completely changed in that plant it won't be a 2 for 1 deal, it will be something extraordinary. Council member M. Johnson felt that leaving that plant where it is at is probably north of $20 million. Mr. Lovingood stated he had not done a preliminary study, but the problem with the plant now is that there are a lot of components and treatment processes that need to be added, it is not designed to do biological nutrient removal which makes a significant difference in the technology used. It is a large endeavor taking this plant to a biological nutrient plant.

Council member M. Johnson stated if it was $11 million, we are at $23.7 and our increased load on sewer is 3%, which would be 46% of that number. If we back that out and put it into a new plant the 3% drops to 1.5% and that load is going to be put on the existing Statesville customer base one way or another. Mr. Martin stated the $11 million in the CIP may happen in 2012 it may happen in 2015, it depends on demand and regulatory issues. Council member M. Johnson emphasized that it could happen as early as within 18 months of 2014 if the new permit has TMDL's. Mr. Lovingood stated the "do nothing" alternative to the existing plant still has cost to it because there are numerous things that have been stacked up in the CIP that have not been considered because of the new plant. It is still an old plant and we will need to spend a lot of money and will have no more capacity.

Mayor Kutteh stated he was not saying that Larkin should bear the cost of the entire $23.8 million but, if Larkin, by itself, is going to produce 2.4 MGD it will not generate the system development fees in their project that will subsidize the cost of creating that capacity. He suggested that Council should revisit the system development fees while the economy is soft. The initial thought was that it would generate a lot of the plant construction costs so the City would not be forced to put new construction on the backs of the existing customers.

Council member Steele made a motion to adjourn, seconded by Council member Stallard. The motion carried unanimously.

Mayor

ATTEST:

City Clerk