

AT A RECESSED MEETING OF THE BOARD OF DIRECTORS OF THE JAMES CITY SERVICE AUTHORITY, JAMES CITY COUNTY, VIRGINIA, HELD ON THE 23RD DAY OF FEBRUARY 2010, AT 4:00 P.M. IN THE COUNTY GOVERNMENT CENTER BOARD ROOM, 101 MOUNTS BAY ROAD, JAMES CITY COUNTY, VIRGINIA.

A. CALL TO ORDER

B. ROLL CALL

Bruce C. Goodson, Chairman
John J. McGlennon, Vice Chairman
Mary Jones
James O. Icenhour, Jr.
James Kennedy

Sanford B. Wanner, Secretary
Leo P. Rogers, County Attorney
Larry Foster, General Manager

C. BOARD DISCUSSION

1. James City Service Authority FY 2010-2011 Budget Overview

Mr. Foster stated the purpose of the work session was to give the Board an update on the current James City Service Authority (JCSA) budget and the upcoming fiscal year. He stated that since the previous year's budget work session there were several unexpected factors that have impacted the JCSA and its revenues, including the current economic situation, the consent order from the Department of Environmental Quality which was still being considered, and the high levels of precipitation, which has impacted water demands. He stated that it was observed early that water demands had been reduced and proactive measures were taken to adjust spending. He commented that revenue is anticipated to follow a downward trend and staff expects a substantial reduction in revenues. He commented that the economy has had a significant impact on households and stated the proposed budget has no increase in service fees or connection fees. He reviewed factors impacting revenues including increased rainfall, reductions in demand from tourism, industrial needs, and new construction.

Mr. Bob Smith, Assistant General Manager, reviewed FY 2010 operating fund revenues and expenditures. Mr. Smith noted spending reductions including personnel and equipment costs. He commented on changes in rate structures and other measures to conserving electrical fees. He commented total savings were roughly \$800,000 for the remainder of the fiscal year. He reviewed revenue comparisons for the upcoming budget for planning purposes for an anticipated \$1 million shortfall over two years. He reviewed the anticipated reductions in the expenditure comparison and explained where the savings would be anticipated. He reviewed the Capital Improvements Program (CIP) fund revenues for FY 2010 and revisions to be made as a result of revenue shortfalls. He displayed revenue comparisons and CIP program projections and anticipated reductions. He summarized that there was a continued downward trend in revenues and spending reductions would allow for the budget to be balanced without increases in rates or connection fees.

Mr. Foster noted that while revenues were being reduced, there was still a consistent workload. He stated there may be reductions in operation costs in electricity or other costs, but it did not reflect a reduction in responsibilities. He stated that engineering staff has been reallocated to doing work on the Department of Environmental Quality (DEQ) Consent Order that would have otherwise been contracted out to an outside agency for a cost reduction.

Mr. McGlennon commented on CIP fund revenue comparisons. He noted that more proffers had been collected than anticipated.

Mr. Smith stated that some funds had been collected previously, but not allocated until this year.

Mr. McGlennon asked if it was correct that no proffer funds were anticipated next year.

Mr. Smith stated that proffers have not been historically budgeted because the funding is unpredictable.

Mr. McGlennon asked if this was a case of utilizing funding reserves.

Mr. Smith stated that was correct. He stated the funds were in the bank and never allocated for a specific project.

Mr. McGlennon stated there was no anticipated proffer funding for next year.

Mr. Smith stated there may be some carryover funds from this year of roughly \$30,000.

Mr. Foster stated that JCSA has been reluctant to try to anticipate proffer-related revenues.

Mr. McGlennon asked about the revenue projects in comparison to previous years related to weather as a factor in demand.

Mr. Fosters stated that peak demands in the summer have been dramatically reduced in the past year. He stated that the average demand over the year was a reduction.

Mr. McGlennon asked if this was a conservative estimate based on last year's numbers rather than a typical year.

Mr. Smith stated that the trends of the first six months of the year have been applied to the remainder of the fiscal year to develop the anticipated reduction numbers. He stated there was a conservative projection into FY 2011.

Mr. McGlennon commented that this estimate is based on an unusually low-revenue-generating year.

Mr. Foster stated it was a conservative estimate based on decreased demands.

Mr. Smith stated weather impacts could change.

Mr. Wanner commented that Eastern State Hospital and school demand would likely increase industrial consumption due to new buildings opening in the near future.

Mr. Foster commented that the new buildings were likely more efficient with water use than the current operations, but the schools would be new demand.

Mr. Kennedy asked how the demand was being estimated and impacted by water-efficient appliances.

Mr. Foster commented that the experiences from previous years were considered most often. He stated that hopefully the impacts in the long run would be helpful, but at this time it was difficult to factor in that information. He commented that a major determining factor was the weather.

Mr. Goodson commented that weather patterns over the years could be considered.

Mr. Foster stated that the reductions this year were significant and there was a noticeable reduction in new construction which contributed to the reduced demands.

Mr. Goodson stated that water was produced cheaper from traditional wells than from the desalination plants. He asked if D-SAL production was reduced when revenues were decreased in order to reduce costs.

Mr. Foster stated that is being evaluated more closely, but there seemed to be a balance of the costs for the production. He stated he felt there was not a dramatic difference in cost. He stated the electricity cost reductions were a more viable saving method.

Mr. Goodson stated that the energy usage of each plant could be evaluated to maximize the utility dollars.

Mr. Foster stated that was correct and noted that the Chief Water Engineer, Mike Vergakis, has been working on these matters.

Mr. Goodson asked to hear a report on this matter.

Mr. McGlennon asked about the absence of the replacement and upgrading of lines in neighborhoods. He asked if this was being deferred at this time.

Mr. Foster stated that some were being deferred and the details would be available when the budget moves forward.

Mr. McGlennon asked if they were totally eliminated.

Mr. Foster stated they were not.

Mr. Smith stated that some of the projects were being deferred past the five-year window due to decreased revenues.

Mr. McGlennon stated that when the water supply agreement with Newport News Waterworks was considered, the revenue sources were problematic and rates would need to be adjusted if connections were not increased. He asked that older water systems and private water systems be addressed more rapidly. He stated there was great success with the rebate programs and that if the average citizen was consuming less, a modest increase would still provide savings in the overall water bill.

Mr. Foster stated there were some water systems that have been taken over by the JCSA which were inadequate by the current standards. He stated the CIP revenues derived from connection fees were about \$3 million less than three years ago due to economic conditions. He stated that CIP projects were being moved that were necessary to improve the overall water system. He stated those details would be available during the budget process.

Mr. McGlennon commented that he was glad to see a downward trend in water usage, though it had a negative impact on revenues.

Mr. Icenhour commented on the FY 2010 budget. He asked if there was a Board action required to adjust the FY 2010 budget.

Mr. Foster stated he did not believe it was necessary and the action has been taken administratively. He stated that it could be done if the Board requested or the budget was exceeded.

Mr. Icenhour stated his concern for the operating reserve budget being eliminated. He asked about the fund balance and what flexibility it would provide.

Mr. Smith stated that there was roughly \$32 million in the bank and roughly \$8 million that could be allocated for emergencies.

Mr. Foster stated that as the water purchase process was moving forward, the rating agencies recommended having a high-level fund balance.

Mr. Icenhour stated that the budget has been reduced for the current year and the next year to roughly \$12 million and asked if there was any operating reserve left for next year.

Mr. Smith stated there was in the amount of \$160,000 remaining in FY 2011.

Mr. Foster clarified that the revenues based on projections were fairly flat.

Mr. Icenhour asked if charges for independent water systems had been considered to reduce the subsidy by ratepayers.

Mr. Foster stated that Board direction was needed. He stated it would mean doubling the developer contribution from \$4,000 to \$8,000 per lot and that it would require a two-month notice for a public hearing to do so. He stated it would not make a major impact on this budget, so it could be done outside the normal budget process. Mr. Foster informed the Board that the fees were implemented about four years ago, but nothing had been collected since no new independent water systems had come online to incur the fee.

Mr. Icenhour asked if this also applied to the development on Jolly Pond Road which would serve several lots in the area.

Mr. Foster stated that three developments would be subject to the fees, including Liberty Ridge, Westport, Summerplace, and perhaps the Colonial Heritage project.

Mr. Foster stated the fee would apply to lots as they were platted and a fee increase could not be retroactively applied.

Mr. Icenhour commented that the independent water systems should be considered in the budget this year.

Mr. Goodson stated that it could not be advertised in the budget.

Mr. Foster stated that it could not be advertised in time and it was a very unpredictable revenue source.

Mr. Icenhour stated he felt the Board should move forward on the matter in order to avoid losing the chance of recovering the revenue.

Mr. Foster stated that if the Board wished, a public hearing could be requested at the March meeting and the matter could be considered after a 60-day time frame.

D. RECESS

At 4:48 p.m., Mr. Goodson recessed the Board of Directors until 7 p.m.

At 8:09 p.m., Mr. Goodson reconvened the Board.

E. ROLL CALL

Bruce C. Goodson, Chairman
John J. McGlennon, Vice Chairman
Mary Jones
James O. Icenhour, Jr.
James Kennedy

Sanford B. Wanner, Secretary
Leo P. Rogers, County Attorney
Larry Foster, General Manager

F. CONSENT CALENDAR

Mr. McGlennon made a motion to adopt the items on the Consent Calendar.

The motion passed by a unanimous voice vote.

1. Minutes – January 26, 2010, Organizational Meeting

2. Right-of-Way Agreement with Dominion Virginia Power for Tewning Road

RESOLUTION

RIGHT-OF-WAY AGREEMENT WITH DOMINION VIRGINIA POWER FOR TEWNING ROAD

WHEREAS, the extension of electric power lines by Dominion Virginia Power to serve the relocated Convenience Center is necessary; and

WHEREAS, because of the long lead times for the installation of new electric infrastructure, the General Manager of the James City Service Authority (JCSA) signed an agreement in order to keep the project on schedule; and

WHEREAS, the Board has been apprised of the necessity of the easement and its location and is requested to endorse the General Manager's signature.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the James City Service Authority, James City County, Virginia, hereby acknowledges and endorses the General Managers signature of the Right-of-Way Agreement dated January 20, 2010, for JCSA property located on Tewning Road to provide access for necessary electric lines to service a relocated Convenience Center.

G. BOARD REQUESTS AND DIRECTIVES

Mr. McGlennon commented that there was a presentation during the work session about JCSA finances and commented on discussion on payment expected from developers for independent water systems outside the primary service area (PSA). He stated that the fee was supposed to be collected in order to balance the costs of the independent water systems to eliminate the subsidy from ratepayers. He asked that Mr. Foster bring forward a proposal to adjust the fees to cover those costs without adjusting the rates of ratepayers.

Mr. Goodson asked if there was a recent study on the cost to operate the independent water systems.

Mr. Foster stated he has and it was confirmed at \$4,000 per lot, typically a 3-acre lot. He clarified that Mr. Icenhour asked if revenues were proposed - deposited in a restricted account and the revenues would be applied to the expenses for operation of the independent water system.

Mr. McGlennon noted that he had a policy question.

Mr. Foster stated that he was clarifying for the sake of Mr. Icenhour.

Mr. Kennedy stated he would support evaluating that policy issue.

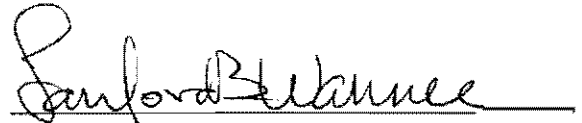
Mr. Goodson asked that the information be included in the memorandum.

H. **ADJOURNMENT** to March 23, 2010, at 7 p.m.

Mr. McGlennon made a motion to adjourn.

The motion passed by a unanimous voice vote.

At 8:12 p.m., Mr. Goodson adjourned the Board of Directors.

A handwritten signature in black ink, reading "Sanford B. Wanner", written over a horizontal line.

Sanford B. Wanner
Secretary to the Board

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