A regular meeting of the Rivanna Water & Sewer Authority (RWSA) and a special meeting Rivanna Solid Waste Authority (RSWA) Board of Directors was held on Tuesday, October 25, 2016 at 2:15 p.m. in the 2nd floor conference room, Administration Building, 695 Moores Creek Lane, Charlottesville, Virginia.

RWSA/RSWA Board Members Present: Mr. Tom Foley, Mr. Mike Gaffney – Chair, presiding, Ms. Kathy Galvin, Mr. Maurice Jones, Ms. Judith Mueller, Mr. Gary O’Connell (RWSA only) and Dr. Liz Palmer.

RWSA Board Members Absent: None.

RSWA Board Members Absent: Mr. Trevor Henry.

Staff Present: Mr. Mark Brownlee, Mr. Tim Castillo, Ms. Victoria Fort, Ms. Teri Kent, Mr. Doug March, Mr. Scott Schiller, Ms. Michelle Simpson, and Ms. Jennifer Whitaker.

Also Present: Ted Cole of Davenport & Company, members of the public, and media representatives.

1.0 Call to Order

a) The regular meeting of the RWSA Board of Directors and a special meeting RSWA Board of Directors was called to order by Mr. Gaffney on Tuesday, October 25, 2016 at 2:16 p.m., and he noted that a quorum was present.

b) Mr. Gaffney stated that the first item on the agenda was the appointment of Bill Mawyer, Jr. as the new Executive Director of the Rivanna Water and Sewer Authority and Rivanna Solid Waste Authority.

Ms. Mueller moved to appoint Mr. Bill Mawyer, Jr., as Executive Director of the Rivanna Water and Sewer Authority and Rivanna Solid Waste Authority at a base annual salary of $177,500 with an additional annual $5,000 contribution to be included for participation in the Deferred Compensation Plan – for a total base compensation of $182,500 per year. This appointment will be effective November 2, 2016. Dr. Palmer seconded the motion, which passed unanimously (7-0).

Mr. Gaffney read the following statement:
Bill Mawyer has been the Assistant Director of the Public Utilities Department in Henrico County, Virginia for the last 15 years. In this position, he was responsible for the treatment of drinking water and wastewater as well as refuse and recycling services for the 320,000 residents of Henrico County.

Bill’s career extends over 30 years and includes service with the Naval Facilities Engineering Command in Norfolk, Facilities Management at the University of Virginia, and the Engineering and Public Works Department in Albemarle County.

The Board is pleased to welcome Bill back to our community. He is very knowledgeable and experienced in water and wastewater as well as solid waste which we feel has prepared him well for this leadership role. We believe Bill’s strong engineering and utility management experience make him a great fit to lead Rivanna into the future.

2.0 Minutes of Previous Board Meetings

a) Minutes of the Regular Meeting of the RWSA Board on August 23, 2016
b) Special Joint Meeting Minutes August 15th, 2016
d) Special Joint Meeting Minutes September 22, 2016
e) Special Joint Meeting Minutes September 30, 2016

Mr. Gaffney asked if there were any changes or comments to the minutes.

Mr. Wood stated that at the meeting of August 15, 2016, Ms. Galvin had left early and didn’t certify the closed meeting, so that is part of this meeting’s agenda and will need to be noted within minutes of this meeting the confirmation of the closed meeting. Ms. Galvin stated that she had reviewed the certification resolution following the closed meeting and for the record approved that certification with respect to the portion of the closed meeting that she attended.

Mr. Foley stated that he had missed the meeting of September 22, 2016.

Dr. Palmer moved to approve the minutes as presented. Mr. Jones seconded the motion, which passed 6-0, with Mr. Foley abstaining from approval of the September 22 meeting minutes.

3.0 Recognition

There were no recognitions.

4.0 Executive Director’s Report

There was no Executive Director’s Report.

5.0 Items from the Public
No items from the public were presented.

6.0 Responses to Public Comments – No Responses This Month

There were no responses to public comments.

7.0 Consent Agenda

a) Staff Report on Finance
b) Staff Report on Operations
c) Staff Report on Ongoing Projects
d) Change Order – Upper Schenks Branch Interceptor

Mr. O’Connell moved to approve the Consent Agenda as presented. Dr. Palmer seconded the motion, which passed by a 7-0 vote.

8.0 Other Business

a) Bond Issue – Davenport

Mr. Wood reported that with the odor control project well underway, Rivanna has been looking at various mechanisms for funding, including a “bank qualified loan,” which Ted Cole of Davenport & Company would explain.

Mr. Ted Cole addressed the Board and presented several options for securing project financing, all of which would have been part of the guiding document for bond issuance – a trust indenture – which spells out how the mechanisms work, rates and charges. He said that in the past, the investment structure has been that a bank buys a single bond from Rivanna that is secured by water and sewer revenues, with one investor for that bond. Mr. Cole stated that as part of this process, Davenport solicited proposals from banks and other financial institutions for $10 million over 15 or 20-year terms at a fixed rate. He said that three proposals came back, including Carter Bank & Trust, BB&T Government Finance, and Capital One – all of which are experienced with debt issuance to localities and authorities.

Mr. Cole stated that one of the options provided was for an interest rate quote based on a bank-qualified bond or loan, which means that the RWSA can only designate up to $10 million under that status in one calendar year. He said that the $10 million limit resets on January 1, and if Rivanna moves forward with this $10 million, they would close bank-qualified options for this calendar year, but it would reopen in 2017. Mr. Cole stated that this allows some lenders to provide a more attractive interest rate. Carter Bank & Trust will offered bids under the bank-qualified designation only; BB&T offered the term of 15 years and offered a 2.17% rate with the designation or 2.40% without it. He said that lenders carrying the bank-qualified loan receive favorable tax treatment on the interest earned, which is an incentive for them, but Capital One does not provide a rate advantage for it.
Mr. Wood pointed out that there is more efficiency and less information required under a bank-qualified loan than with a regular bond issue – including no requirement for an engineer’s report that supports it, which helps with total bond issuance costs.

Mr. Cole stated that they have the ability to prepay the Carter Bank & Trust loan without penalties, with complete flexibility to pay it down ahead of time, and their only other requirement is that it close before December 9. He noted that the rates of 1.90% or 2.35% are fixed for the entire term of 15 or 20 years – 15 or 20 years – and would not require a bond rating on a continuing disclosure commitment, just Rivanna’s annual audit report. He said that typically with VRA or public bond markets, there is a 10-year no-call period that locks a borrower out of refunding – but that is not the case here. Mr. Cole noted that at this point, these rates are locked in, and should the RWSA Board choose to move forward on November 15, they would get the money on the closing date and those funds would be available for project costs. He said that the loan would function as any other loan outstanding, with interest paid twice per year and principle once a year, and liens on the revenues like any other piece of debt – which needs to be calculated into Rivanna’s rates and charges, as Mr. Wood has done.

Mr. Cole reported that Davenport had done a quick comparison with another AAA-bond issuer on a 20-year term, and their true interest cost based on the current market was about 2.63%. He stated that the bond issue is a good comparable at 2.35%, in addition to having a streamlined administrative process. He referenced the comparable bond issuances bid on, with a $10 million loan including $100,000 cost of issuance and $9.9 million for projects, noting that the information provided includes the breakdown of annual payments for 15 and 20-year terms. Mr. Cole stated that at their November 15 meeting, there would be a series of resolutions for the Board to approve to select the winning bank, with a potential closing date of December 1.

Mr. Wood mentioned that Rivanna has never done a 15-year bond on debt before, they have always done 20 or 30 year bonds, and the cost savings over the term would likely he less than the $1 million stated as shown here when the time value of money is taken into account. He stated that he likes to reserve potential cash flow for future bond issue and thus would probably recommend a 20-year term.

Mr. Cole said that they could provide a present-value of the different cash flows of the two terms to give a sense of what the cost difference would be.

Mr. Wood stated that once you start saving money, the dollar is worth less at the end of the term, which a present value calculation will show by restating the future cash flow savings in todays dollars.

Mr. Cole noted that with either bond structure, a 15 year is less than 2% fixed for the entire term, and at 20 years it’s 2.35%. He said that Rivanna has benefitted from refunding under restructured debt with VRA, and while interest rates have edged up lately, they are still quite favorable.

Mr. O’Connell asked if the budget accommodated this debt, and whether this would save money in debt service.
Mr. Wood responded that this was considered in the CIP projections along with all capital projects, and wastewater has $20 million earmarked for financing new projects. He said that these good rates would save money, and as projects are added to the CIP it would take some of those savings – which is why they reset the projection every year when doing the CIP. Mr. Wood said there was a $120,000 savings in the rate reset done in August. There isn’t a saving but a reduced rate of increases for wastewater’s fixed charges over what was previously estimated.

Mr. O’Connell noted that the ACSA had used the bank-qualified process for some of its financing and that these were very good rates.

b) Hydropower Evaluation

Mr. Schiller presented to the board options regarding the hydropower facility at South Fork Rivanna Reservoir. He began by providing some background information on the hydropower facility: it was built in 1987 and has a rate capacity of just under 1 megawatt. He stated that there is an exemption to licensure from FERC to operate the facility, and it was operational for a limited amount of time prior to June 2013 when there was a major flooding event. Mr. Schiller said there were some mechanical issues associated with the speed reducer and the generator prior to that time, and some of the electric and hydraulic equipment was coming to the end of its operational life – but the flooding issue made it permanently inoperable. He stated that as a result of those issues and inquiries from FERC, Rivanna hired the firm Gomez & Sullivan to perform a feasibility study on how the facility could be rehabbed and improved to get it back into operation. Mr. Schiller said that the firm looked at what would be needed in equipment, the costs, economic feasibility of performing that work, and regulatory approvals needed for a number of different approaches.

He stated that Gomez & Sullivan visited the site and did their own inspection and also worked with a specialty contractor to look at the mechanical issues – and through that effort identified a need of approximately $2.2 million to bring the facility up to operable standards. Mr. Schiller said that the firm looked at nine different economic scenarios, and only four of them resulted in a positive return on investment over a 30-year life cycle. He noted that three of the four positive scenarios had the highest energy escalation rates – 3%, 4%, and 5% – and as a result of those less than ideal economic results, Gomez & Sullivan provided three options.

Mr. Schiller reported that the first option is to rehabilitate and operate the facility, which would include replacement of electrical and hydraulic equipment, with a full overhaul of the mechanical turbine, with addition of some remote operation capabilities. He stated that the second option was to surrender the exemption from licensure from FERC and decommission the facility, which would involve a petition to FERC and some procedural requirements for long-term storage. Mr. Schiller reported that the third option involves transferring the exemption to a third party, which would be required to meet all responsibilities to rehabilitate the facility and perform the operations and maintenance work. He noted that there would be an agreement in terms of release of water supply and coordination with Rivanna staff for access to the facility.

Mr. Schiller reported that option one would provide an offset in terms of energy generation, with hydroelectric considered “green energy,” and Rivanna would control the release of the water
supply. He stated that negative aspects of this option are the unlikelihood of a positive return on investment, and possible environmental concerns because the hydro pulls cold water from the bottom of the reservoir which has a lower dissolved oxygen (DO), which could have impacts downstream. Mr. Schiller said that putting the facility back in operation would also add strain to operations and maintenance staff to make sure it is effectively used. Mr. Schiller stated that decommissioning the facility would allow Rivanna to wait until it is more economically feasible to operate it. He said that they had some concerns as to whether a third party can come in and take over the facility, but based on legal review, they don’t believe that is an issue – and the property belongs to the City of Charlottesville, so only the City and Rivanna have the rights to use it. Mr. Schiller said that once they got through the decommissioned plan, they would no longer be under FERC regulation. He stated that one negative aspect of this option is the need to work with FERC on the decommission plan as well as following through with all the necessary steps, and the opportunity lost by not generating energy from this site. Mr. Schiller emphasized that there would be costs associated with a decommissioned plan, but nowhere near the cost of rehabbing.

Mr. O’Connell asked how much of the water treatment plant energy needs would be addressed through hydropower.

Mr. Schiller responded that he did not know specifically, but on average they generated about 3,300 megawatt hours per year at the hydropower plant.

Ms. Galvin asked if it could be offset with solar.

Mr. Schiller responded that he thought it probably could.

Mr. Schiller reported that the third option would relieve Rivanna of maintenance and operational responsibilities, and green energy would be generated. He stated that Rivanna would still own the dam and have to deal with FERC regulations, would have to develop a third-party agreement as well as releasing the water supply, grant third-party access to the facility, and coordinate with maintenance and operations staff when necessary. Mr. Schiller said that in general, there would be no benefit to Rivanna with this option. He stated that in general, there are some environmental concerns as there may be impacts downstream with the release of colder water with lower dissolved oxygen in comparison to the water that typically spills over the dam – which is warmer and more oxygenated. Mr. Schiller said that there are also considerations related to the water supply itself, as the minimum flow to get a turbine to spin a generator is 45 MGD, which is quite larger than the minimum requirements – and any stress to the water supply would be exacerbated in low-water situations. Mr. Schiller stated that the third consideration is impact on maintenance and operations staff, and while Rivanna would try to increase remote operations capabilities, it would require additional support to effectively use the facility.

Mr. Schiller said that based on the Gomez & Sullivan report, legal assistance, and input from staff, Rivanna is recommending going with option two, which is surrendering the exemption and decommissioning the facility. He noted that the decommission plan would include cleaning up the facility from its current state, removal of electrical equipment, and “mothballing” mechanical equipment for long-term storage. Mr. Schiller pointed out that the engineers have indicated that the equipment could stay in its current condition indefinitely. He said that the Penstock is the
largest line providing water to the hydro unit, and there is some leakage of water through an
isolation gate, so that would be repaired in the process to prevent water from going through the
line that could affect the turbine. Mr. Schiller stated that as the energy industry changes, Rivanna
could keep track of the economic feasibility of performing this work – and could rehabilitate and
operate the facility once it became economically feasible.

Ms. Mueller stated that being from Niagara Falls, she is a big proponent of hydropower, but she
supports option two and is amazed at the deterioration of the facility. She said there may have been
a time when they could have done this, but perhaps they should focus instead on solar energy to
power the plant.

Dr. Palmer said that option two seems to be the only way to go, but she wondered if building a
hydropower plant today would be the same in terms of its construction and parts.

Mr. Schiller responded that the turbine itself had not changed much, although there may be some
changes in equipment, and if they had a brand new unit they might decrease the capacity so it could
run more frequently – as one of the issues now is potential impact on the water supply, with a
minimum release of 20 MGD. He stated that the reason that wasn’t included in his report is because
it would require a whole new FERC permit, as it would be a modification to the exemption.

Dr. Palmer asked why the facility had flooded previously.

Mr. Schiller responded that the throw ring on top of the turbine had been opened up to work on
the turbine, and there was a big wet weather event that caused the river levels to increase. He stated
that there was a means to install stop gates on the downstream side of the plant, but they were not
installed – so this allowed backwater to come in. Mr. Schiller noted that this would be resolved if
the plant was opened again in the future.

Ms. Galvin asked if the reason this would be visited when the industry changed was because oil
prices were so low.

Mr. Schiller responded that this was the reason, and the wholesale rates Rivanna pays Dominion
are pretty good – so to get a decent buyback, they would need to pay more. He added that there is
also not a market in Virginia for renewable energy credits, and the thought is that if the energy
market matures, there may be more incentive to use hydropower.

Mr. Gaffney commented that the projection that caused it to have a positive rate of return was a
5% yearly energy escalation rate.

Mr. Schiller said that was over 30 years.

Mr. Wood noted that the break-even point was even beyond that, and it becomes less predictable
as you get further out.

Mr. Schiller stated that out of the four positive scenarios, the one with the earliest break-even was
23 years, with the others being 29 and 30 years.
Mr. Wood mentioned that when the dam was built, it never stopped spilling – and now that it has stopped, it makes it a challenge to operate this type of facility.

Ms. Mueller moved to accept option two to surrender the exemption and decommission the facility, with staff relieved of pressure to meet a particular timeframe, since the process can often take a very long time. Mr. Foley seconded the motion, which passed 7-0.

Mr. Schiller noted that it could be two or three years.

Mr. O’Connell said that he would like to reflect in the record that staff should explore other green alternative energy sources in the future, so that this doesn’t get lost. He commented that they are giving that up and he recognizes that there are a lot of other capital projects pending, and he wanted to provide that guidance to staff.

Ms. Galvin mentioned that they would soon be developing a strategic plan.

Ms. Whitaker emphasized that the RWSA still has green renewable energy at the plant, and the staff sees a long-term commitment to more sustainable energy production at all Rivanna facilities. She added that there may be potential with solar, waste reuse, etc. – and that was not lost on staff.

Dr. Palmer asked what the grant opportunities were for an organization like Rivanna.

Ms. Whitaker responded that the grant availability and financing potential for hydropower came out of the 1970s, and there wasn’t a lot available now – as a lot of the money was focused towards nutrient removal. She said that the industry as a whole was pushing towards energy neutral, and she saw that expanding in the future.

Mr. Foley stated that if they started with a broader statement as part of the strategic planning process, it becomes a standard practice/principle rather than a decision every time something comes up, and this should also carry into the CIP.

Ms. Galvin said this should be a fairly early order of business for Rivanna in the coming year.

9.0 Other Items from Board/Staff not on Agenda

Mr. Gaffney recognized Mr. Wood for his work as Interim Executive Director, and asked Board members to make a motion granting Mr. Wood a bonus of $5,000 for his work. He stated that Mr. Wood’s temporary pay would end November 11, 2016 to coincide with Rivanna’s regular pay period.

Dr. Palmer moved to grant Mr. Wood a bonus of $5,000 for his work as Interim Director, and for his term to end November 11, 2016 to coincide with Rivanna’s regular pay period. Mr. Jones seconded the motion, which passed 7-0.

Ms. Galvin complimented Mr. Wood for his knowledge, ability, and expertise – particularly in terms of finance.
10.0 **Closed Meeting**
There was no closed meeting held.

11.0 **Adjournment**
Ms. Galvin moved to adjourn the RWSA Board meeting. Mr. Foley seconded the motion, which was approved by a vote of 7-0.

There being no further business, the meeting adjourned at 3:04 p.m.

Respectfully submitted,

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Mr. Thomas C. Foley
Secretary-Treasurer