

**PINETOP-LAKESIDE SANITARY DISTRICT**

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**REGULAR SESSION  
MINUTES  
April 12, 2017**

1. CALL TO ORDER

Board Chair Kengla called the Board meeting to order at approximately 6:01 PM.

2. OPENING CEREMONY

Board Chair Kengla led the Board, Staff and Legal Counsel in the Pledge of Allegiance.

3. ROLL CALL OF BOARD MEMBERS

Present were: Christopher C. Kengla, Board Chair, Paul W. Meier, Board Vice-Chairman, Diana W. Butler, Board Secretary and Patrick B. Place, Board Member. Staff Members present were: David Smith, District Manager; Mark Heberer, Finance Manager and Linda Lionberger, Executive Assistant. Mr. William R. Whittington, Legal Counsel for the Governing Board was also present.

Excused: Neal Whittle, Board Member

4. CONSENT AGENDA

*Board Vice-Chairman Meier made a motion approving the Consent Agenda, which included the minutes of February 08, 2017, Regular and Executive Sessions; the minutes of March 08, 2017, Regular Session; the Presentation, Approval, and Payment of Bills, Invoices, Warrants and Capital Purchases for the months of February and March 2017, as presented by Staff. Board Secretary Butler seconded. Motion passed unanimously.*

5. CALL TO THE PUBLIC

There were not any public members present.

6. REPORTS AND CORRESPONDENCE

Board Chair's Report.

The Board Chair did not have a report.

Board Secretary's Report.

The Board Secretary did not have a report.

Manager's Report.

Update – Plant and Collection System Departments activities.

The District Manager reported that the Staff was contemplating the purchase of a combination truck (Vac), which was used to clean and clear plugged sewer lines. The District Manager also reported that they reviewed two demonstrations, one from Super Products and one from Vactor. The District Manager indicated that the prices were higher than what Staff expected; the quoted pricing was at approximately \$500K. Some of the equipment on the vehicle that the Staff has requested was a recycling unit of the water, so that they could stay at the job site without having to waste time going to the District to fill the saddle tanks, the tanks hold approximately 1000 to 1500 gallons. The District Manager explained that the recycler equipment screens the water and cleans it so that the Staff can continue flushing the sewer lines and/or clear the blockage. The District Manager discussed that the water pump has been replaced a couple of times and that the cost to replace it was approximately \$7K and that the combination truck was purchased approximately 15 years ago.

Board Chair Kengla asked the District Manager were the trucks similar in their equipment. The District Manager responded to Board Chair Kengla that the current Camel truck was a Super Product Vac Truck that the District owns. The District Staff was given demonstrations from Super Products and Vactor. The rating of the trucks was how much CFM's are vacuumed, water volume and pressure.

The District Manager stated that when the Truck was purchased in 2002 it was \$272,000.00 and today they are bumping half a million.

Legal Counsel asked the District Manager if Staff could utilize a fire hydrant to fill the saddle tanks rather than purchasing the recycling equipment. The District Manager responded to Legal Counsel that there are regulations in utilizing a fire hydrant and that could require a water company representative to be onsite.

Board Secretary Butler asked the District Manager how many water companies would you have to set up with. The District Manager responded to Board Secretary Butler that there are several water companies that the District would have to set up with when there was a need to use their fire hydrant.

Board Member Place asked the District Manager if a water truck could be purchased to follow and off load water when necessary into the combination truck. The District Manager responded to Board Member Place that Staff could consider that.

The District Manager said that he wanted the Board to be aware of the possible replacement of the combination truck and the cost.

Board Vice-Chairman Meier asked the District Manager if there were any other issues with the current camel truck, because the cost of a pump was less costly to repair than a purchase of \$500K. The District Manager responded to Board Vice-Chairman Meier that the camel truck was originally brought as a demo, it has a blower unit, and the debris body is steel and could have metal fatigue. What you have to consider was in the future the blower could go out and when you get called out in the middle of the night you have to have the equipment available to clear the sewer line.

The District Manager also stated that he has checked through the government purchasing programs and there was a discount, but it was minimal. Board Vice-Chairman Meier asked the District Manager if there was any value that the District would receive from the current truck. The District Manager responded to Board Vice-Chairman Meier that the company has indicated that they will take it in trade and there is a local potential buyer for the truck. The range for the trade in and/or sales value was \$40K to \$80K.

The District Manager reported that the Collection System crew cleaned 11,240 linear feet of sewer lines and inspected 20 manholes finding no issues.

Board Vice-Chairman Meier asked the District Manager what was the average flows for the month of February 2017. The District Manager responded to Board Vice-Chairman Meier that they averaged 1.6 mgd.

The District Manager reported that the average flows for March 2017 was 1.1 mgd, organic removal was at 96% and that the District had two State inspections one for the biosolids and one for the Laboratory. The biosolids program passed with flying colors, the Laboratory inspection did have some minimal issues to clear up. One was ordering a Standard Methods Twenty-Two Book and for the Laboratory changing the bench sheets of when the temperatures were taken.

Board Member Place asked the District Manager if the District had 30 days to respond to the issues. The District Manager responded to Board Member Place that the District did have 30 days to respond after receiving the report from the State. The District Manager said that Staff had all the corrections done immediately after the State Inspector was here at the District.

The District Manager reported that the Composting Facility received 44 tons of paper/cardboard, compost produced was 190 tons and compost sold was 63 yards.

***The Manager's Reports and discussions concluded.***

Accounting Report

The Finance Manager reported that there were five new connections; one was a reconnect, one was taken off suspension and the three were new connections. The Finance Manager reported that there were 8126 sewer connections.

The Finance Manager reported that the revenue was on track and was within \$10K of the sewer user fee revenues. Other income increased \$3K that was derived from receiving recovery monies from the Local Government Investment Pool (LGIP) Lehman Brothers Investment. The Finance Manager explained that the LGIP monies received was probably the final payment. The Finance Manager also explained that the loss was approximately \$26K from the LGIP/Lehman Brothers Investment and that was written off the District's books several years ago when the loss occurred.

The Finance Manager stated that the Front Office Staff was doing well and that Ms. Theiner was doing very well and she had just completed her second residential billing.

***The Finance Manager's Reports concluded.***

7. BUSINESS

Discussion, consideration and possible action regarding Agenda Items for the Joint Meeting scheduled for Monday, April 17, 2017 at 6:30 PM.

The District Manager discussed with the Board the outline of the draft Agenda for the Joint Meeting and asked if there were any items that the Board would like to have covered in the meeting.

Board Chair Kengla asked the District Manager to discuss the Plant upgrades, the flows and the benefits the District was receiving from energy savings and the biosolid percentages.

Board Secretary Butler stated that because of the new Town Council Members and Staff at the Town, she would like to have some information regarding the Marsh and what the District does as a whole.

Board Member Place stated that he would like the recycling that the District was involved in to be discussed.

***The Board Members that indicated they planned to attend were: Board Chair Kengla; Board Secretary Butler and Board Member Place.***

***Mr. Whittington, Legal Counsel for the Governing Board indicated that he may be in Town and would attend.***

***Board Vice-Chairman Meier stated that he would not be able to attend.***

***Staff would check with Board Member Whittle to see if he would be able to attend.***

***There was no action regarding this agenda item only discussion.***

Discussion, consideration and possible action regarding the purchase of a replacement generator for the Shores Lift Station.

The District Manager reported that the generator was purchased in 1986, when the Lift Station was built and that it was the District's fourth largest Lift Station. The Lift Station processes approximately 15K gpd and because of its proximity to Rainbow Lake it was very important to replace the generator.

The District Manager reported that when Empire Equipment was doing their routine maintenance they noted that there were metals in the oil content and they suggested that the generator was replaced. The District Manager also reported that Staff asked the Homeowners Association if the District could have a little more room to work on the Lift Station and that they agreed to provide a letter to the District.

Board Vice-Chairman Meier asked the District Manager if the generator was gas, natural gas or diesel and how much it ran. The District Manager responded to Board Vice-Chairman Meier that it was diesel and that it has lasted 31 years, so it does run minimal.

Board Chair Kengla asked the District Manager does it kick on and off and was annual maintenance done. The District Manager responded to Board Chair Kengla that it was checked every week, they are load tested every other year and to check the functionality testing by our crew is to insure proper operation weekly.

Board Member Place asked the District Manager who does the maintenance. The District Manager responded to Board Member Place that Staff does the weekly test and that Empire Equipment does the annual maintenance.

The District Manager explained that the quote was received by Empire Power Systems and that it was \$24,626.00 plus tax, this was a price with the cooperative discount.

Board Vice-Chairman Meier stated that the District Manager has done his due diligence regarding the need to upgrade the generator and he suggested that as a Board we should move forward with the District Manager in the purchase of the generator.

Board Secretary Butler stated that she would like to see the District use local vendors.

Board Chair Kengla responded to Board Secretary Butler that the quote was from Empire Equipment and it appears that it comes out of their corporate offices. The generator that was being purchased was a special type of generator.

The District Manager stated that Empire was out of Show Low and that they get the generator through their main company. He also indicated that this was cooperative pricing and there was a minimal discount.

Board Member Place asked the District Manager if he contacted Mr. Greg Smith through the local Empire location. The District Manager responded to Board Member Place that contact was made through the local branch and that the purchase may come from a different department of Empire.

Board Vice-Chairman Meier stated to the District Manager that he was doing a good job and that he had done his due diligence in receiving a fair price and the proper discounts for the District.

***Board Vice-Chairman Meier made a motion approving the purchase of the replacement generator for the Shores Lift Station through Empire Power Systems with an amount not to exceed \$30,000.00. Board Secretary Butler seconded.***

Board Member Place asked the District Manager if this price included installation. The District Manager responded to Board Member Place that the District Staff will set up the generator and start up will be by Empire.

***Board Chair Kengla asked for a vote: Board Chair Kengla, yes; Board Vice-Chairman Meier, yes; Board Secretary Butler, yes and Board Member Place, yes. Motion passed unanimously.***

Discussion, consideration and possible action regarding the WWTP SCADA Upgrade Project: Change Order #1- PACE.

The District Manager discussed that the original contract was \$99,300.00; PACE has submitted a Change Order in the amount of \$11,550.00. PACE was claiming that there were several communication issues and their Staff spent several additional hours correcting the issues; programming valves and that the Chlorine was added to the SCADA and that was beyond the scope of the contract.

Board Vice-Chairman Meier asked the District Manager what was the networking cable replacement. The District Manager responded to Board Vice-Chairman Meier that they pulled cable from the Office up the hill. What they had was identifying the network of cable that took the bulk of hours involved solving network communication issues.

Board Vice-Chairman Meier asked the District Manager was there just one individual working on the SCADA. The District Manager responded to Board Vice-Chairman Meier that there were three individuals at certain times working on the communication of the equipment to the SCADA.

The District Manager explained that he had a very good discussion with Mr. Krebs of PACE and explained to him that it wasn't the District's error.

Board Vice-Chairman Meier asked the District Manager if the figure was higher than what was being presented this evening. The District Manager responded to Board Vice-Chairman Meier that after his discussion with Mr. Krebs the figure was decreased.

Board Chair Kengla asked the District Manager was there going to be additional Change Orders or did this fix the problem. The District Manager responded to Board Chair Kengla that the historian software builds the reports and citech is the product that takes in all the information and stores it and they weren't communicating because of the newest version of the citech software the District has loaded.

Board Vice-Chairman Meier stated that he recalls that the District Board went with PACE because they were the low bidder.

The District Manager discussed that the bids were very close and that the District was working with PACE regarding the upgrades. Mr. Krebs was going to be at the District on Thursday, April 13<sup>th</sup> to meet with him and they will discuss the contract. The District Manager stated that Mr. Krebs was very reasonable to work with.

Board Member Place asked Legal Counsel if he reviewed the contract. Legal Counsel responded to Board Member Place that he did review the contract and that the District Manager and he had several discussions and that he was not surprised of the Change Order and that the District was not alone in this type of situation.

The District Manager discussed that the Change Order was discussed with Mr. Krebs and it was decreased from the original request.

Board Member Place asked the District Manager if it was his recommendation to accept the Change Order. The District Manager responded to Board Member Place that he did recommend approval of the Change Order. The individuals that were here from PACE did work through weekends and late into the night.

Board Vice-Chairman Meier stated that he did agree with the District Manager that the communication issue sounded like a network problem.

The District Manager said that he asked PACE why fiber optics wasn't used and that PACE indicated it wasn't necessary. The District Manager indicated that he had PACE spec out the PLC to accept fiber optics if necessary in the future.

Board Vice-Chairman Meier asked the District Manager if the system was operational today and if there was any contingency the District could impose with the payment of the Change Order. The District Manager responded to Board Vice-Chairman Meier that he does trust Mr. Krebs to follow through with what they discussed and was agreed on.

The Finance Manager said that if the Staff can reduce the expenditures by monitoring the work being done through the contract, then Staff will discuss the items with the contractor. Most municipalities do not monitor the contract items and pay the full price, the District Staff works differently in this aspect.

Board Vice-Chairman Meier stated that it was evident that the Staff has discussed the Change Order request with PACE to reduce the amount that was requested by them.

***Board Vice-Chairman Meier made a motion approving Change Order #1 for the WWTP SCADA – PACE; in the amount of \$11,550.00, changing the contract amount to \$110,850.00. Board Member Place seconded. Motion passed unanimously.***

Discussion, review, consideration and possible action regarding the District's Operating and Non-Operating Budgets for Fiscal Year End 2016/2017 and 2017/2018: Rates and Fees; Revenue – Operational and Capital; Recap of Operations; Expenses – Collections, Treatment and Administration; Expenses and Revenue; Capital Funding Sources and Capital Project Expenditures.

The Finance Manager discussed the only increases to the Budget for FYE 2017/2018; were in the Rates and Fees Schedule that are tied to the Consumer Price Index. The Annexation Fee was increasing from \$4,498.00 to \$4,588.00; the Excess Density Fee was increasing from \$3,025.00 to \$3,085.80, which increases the Connection Fee from \$5,725.00 to \$5,785.50. There were not any proposed increases to the Sewer User Fees.

Board Chair Kengla asked the Finance Manager about the increase to the Annexation Fee and how that was derived. The Finance Manager responded to Board Chair Kengla that in the bylaws it was tied to the Consumer Price Index and adjusted annually. The other fees are increased by Budget justification.

Board Vice-Chairman Meier commented that the proposed Budget was pretty impressive that the District's Budget was maintained pretty level and for this year with the forecast was to be less than 2 million when we were almost at 2.3 million two years ago, that was a significant difference.

The Finance Manager explained that the areas of the Budget that were reduced were: the electrical costs with the new upgrades, the change from Chlorine tablets to gas and Staffing. The Administration Staff was being evaluated to see if there was a need for a third fulltime person. Right now the current Staff and the Planning and Design Staff member are keeping up with the workload.

The Finance Manager said that a Staff member was budgeted and that when the Auditors come and do their field work, Staff will evaluate the Auditor's comments regarding the Front Office Staffing.

Board Vice-Chairman Meier stated that after a full year of the Plant upgrades in place, it will be interesting to see how it affects the Budget with the reduction in expenses.

Board Member Place asked the Finance Manager what percent of the budget was payroll. The Finance Manager responded to Board Member Place that the payroll budget was approximately 70%; payroll taxes and benefits are included in this percentage.

The Finance Manager discussed that he would like to propose the implementation of a restricted fund for the \$1.00 that was collected from the Sewer User Fees. Back in 2014 the District reduced the Ad Valorem tax by \$1.00 and increased the sewer user fee a \$1.00. The thought behind the process was that all property owners of the District pay the Ad Valorem and may not be receiving the benefit of sewer. The \$1.00 that is collected from the user fee is dedicated to replacement of equipment under the operating budget; such as pumps, vehicles, motors and backhoes to service those customers that are benefiting from sewer service. There is approximately \$96,000.00 a year generated from the \$1.00 sewer user fee and the LGIP account has approximately \$900K. The Finance Manager indicated that he would like to take the step and fully fund the depreciated equipment; so that anything that was purchased this year, last year and as that equipment was fully depreciated the dollars that are collected are placed in a restricted account and are used for only the replacement of that item. If he takes the monies from the accounts that do not have a designated purpose at this time such as the emergency account and the LGIP operating account and combines them into the restricted account they would be designated for equipment replacement. These accounts currently have no guidelines of their use and were designated several years. The LGIP operating account is a combination account and if the District has a surplus of funds at the end of the fiscal year the funds are transferred to this account and if there was a shortfall the funds would be transferred out of this account. The operating account is a zero budget based account.

The Finance Manager stated that if he could get Board approval to move forward to set up the restricted fund account he will bring it back to the Board at the May 10, 2017; Board Meeting. The funds would be set aside and restricted to require Board approval to be transferred. The initial funds in the account would be the \$96,000.00 and the \$900,000.00; this would be the catch up funds as we move forward. The annual line item expense would not be build into the budget and that amount would be from \$112K to \$150K per year, based on new equipment and depreciation. The \$96,000.00 is already being collected from the active users, the other dollar amount could change based on the end of the fiscal year balance. If there was a bad year and expenses were higher and cash was short, the dollars would not be taken from another line item, this account would be the last thing to be funded. This should resolve replacement of equipment and is approved by the Board to use the funds from this account and implementation of this account would make the District a more sound entity as we move forward.

Board Secretary Butler asked the Finance Manager how it would be determined to be spent. The Finance Manager responded to Board Secretary Butler that the fund does require Board approval and would be set up in the Rules and Regulations. The Finance Manager said that he could set up a policy and procedure change to restrict the funds and only to be used by Board approval.

The Finance Manager explained the Capital Expenditures Funds usage and gave a brief history of how the Ad Valorem in the past was used for operational expenditures and that the operational expenditures should be used out of the operation funds collected from the sewer user revenues and not out of capital revenues.

Board Member Place stated that was not only a good idea, but also a good budgetary procedure and he would like to see the implementation of the policy and procedure for the restricted fund.

The Finance Manager stated that someday the District will hit the Plant capacity and there may have to be an upgrade and these monies are set aside. Staff does do due diligence in looking at replacement of equipment prior to bringing the item to the Board.

Board Chair Kengla verified with the Finance Manager that the amount was \$1.4 million combined. The Finance Manager responded to Board Chair Kengla verifying the amount and further explained that the \$1.00 being collected was being pulled out of the operating account instead of a repair and maintenance account and there was approximately \$100K, so there was approximately \$1.5 million.

The Finance Manager suggested that there should be a listing of what equipment the District would possibly need to replace in the future and what equipment does the District not use anymore, life expectancy of the equipment.

Board Vice-Chairman Meier asked the Finance Manager the Vac Truck has lasted approximately 15 years, then in 15 years the funds would be available to purchase a replacement truck. The Finance Manager responded to Board Vice-Chairman Meier that should be how the fund works, there may not be all the money but hopefully a good portion.

The Finance Manager asked for the Board direction to prepare the draft for the Policy and Procedure of the fund to be presented at the May 10, 2017; Board Meeting.

Board Chair Kengla stated that what would be nice would be a punch list of the items that Staff was looking at for replacement.

The Finance Manager responded to Board Chair Kengla that he and the District Manager were working on a list and there were items they did not agree on.

Board Member Place asked the District Manager, the list that was being worked on between the Finance Manager and him, what items are being discussed. The District Manager responded to Board Member Place that there were pages of inventory and some items are minor and have small dollar amounts. Board Member Place suggested that under a certain dollar amount the item should not be placed on the list.

The District Manager explained that his thought process was what it will take to keep the facility running. Does a piece of equipment need to be rented until it can be replaced? Office equipment such as a chair was minor and should not fall under the fund.

Board Member Place asked the District Manager what does rental of equipment fall under. The Finance Manager responded to Board Member Place that the cost would fall under operational expense.

***Board Vice-Chairman Meier made a motion to move forward with the proposed Budget and Rates and Fees Schedule for Fiscal Year End 2017/2018. Board Secretary Butler seconded. Motion passed unanimously.***

Discussion and review of the Open Meeting Laws and Board authority for the Pinetop Lakeside Sanitary District's Board of Directors.

The District's Legal Counsel reviewed with the Board: The Governing Board By-Laws/Rules of Procedure; Collection of Laws of Board Duties, Executive Sessions, Open Meeting Laws, Notice of Public Meetings, Agendas, Minutes, Conflict of Interest and the Board's Authority and Fiduciary Responsibility.

8. FUTURE AGENDA ITEMS

The Board requested that the following Agenda items to be scheduled for the Board Meeting of May 10, 2017:

- (1) Resolutions for the proposed Budget/Rates & Fees FYE 2017/2018.
- (2) Proposed policy and procedure regarding a restricted account.
- (3) Amendment to the PLSD Personnel Guidelines.

***Board Chair Kengla directed the Board Members if they have any items for the Agenda to contact the District Manager.***

9. ADJOURNMENT

The Board Secretary adjourned the meeting at approximately 7:30 PM.

Adopted and approved this 10<sup>th</sup>, Day of May, 2017.

/s/ Christopher C. Kengla  
Christopher C. Kengla, Board Chair