

Minutes of the
Board of Water and Natural Resources
Telephone Conference Call Meeting
523 East Capitol
Pierre, South Dakota

April 9, 2014
10:00 a.m. CDT

CALL TO ORDER: The meeting was called to order by Chairman Brad Johnson. A quorum of the board participated.

BOARD MEMBERS PRESENT: Brad Johnson, Gene Jones, Jr., Todd Bernhard, Dr. Paul Gnirk, Paul Goldhammer, and Jerry Soholt.

BOARD MEMBER ABSENT: Jackie Lanning.

OTHERS: Jim Feeney, Mike Perkovich, Elayne Lande, Andy Bruels, Dave Ruhnke, and Claire Peschong, DENR; Ali DeMersseman, Black Hills Council of Governments; Mayor Jerry Apa and Mike Stahl, city of Lead; Mark Watson and Kayla Tschetter, Black Hills Pioneer; Senator Jim White, Legislative Oversight Committee; Marlene Knutson, Central South Dakota Enhancement District.

APPROVE AGENDA: There were no changes to the posted agenda. Chairman Johnson approved the agenda.

LEAD REQUEST TO INCREASE CLEAN WATER SRF AND DRINKING WATER SRF FUNDING AWARDED ON MARCH 28, 2014: Andy Bruels reported that the city of Lead has requested a funding increase for its Highway 85 water and sewer main replacement project.

At the March 2014 board meeting Lead was awarded a \$440,000 Drinking Water SRF loan and a \$489,000 Clean Water SRF loan.

Bids for the project were opened by South Dakota Department of Transportation (DOT) on April 2, 2014, and costs have come in much higher than the estimate. With the anticipation that DOT's commission will accept the bids on April 10, 2014, for the highway portion of the project, Lead must secure the additional funding to allow them to award the city's sewer and water bids at this time.

The increase in Drinking Water SRF funding required is \$499,000 above the current funding, bringing the total Drinking Water SRF funding needed to \$939,000.

Lead's water rates are currently \$37.15 per 5,000 gallons. Debt coverage of a \$939,000 loan at the current water rates is approximately 138%.

The increase in Clean Water SRF funding required is \$448,000 above the current funding, bringing the total Clean Water SRF funding needed to \$937,000.

Lead's wastewater rates are currently a \$30 flat rate with \$20 of that rate going to the Lead Deadwood Sanitary District and the other \$10 going to the city for operation of the system. Debt

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coverage of a \$937,000 loan at current wastewater rates is approximately 100%, which is less than the required 110% for SRF loans.

Staff analysis indicated that a rate increase of approximately \$0.70 per user would generate sufficient revenue to provide the 110% percent debt coverage, bringing total wastewater rates for Leads users to \$30.70.

Mike Stahl, Lead city administrator, stated that in January 2014, the flat rate of \$20 that goes to the Lead Deadwood Sanitary District was increased to \$21. He noted that this week the city commission voted to move forward with this project and to try to acquire the necessary funding for the project.

Mr. Stahl stated that the city commission discussed the 20- and 30-year options for the SRF loans, and the commission voted to request that the loan funds be provided at 3 percent interest for 20 years.

Mr. Stahl said one of the questions raised by the commission was whether it is possible to refinance the SRF loans to the 30-year term at a future date.

Mr. Perkovich answered that he can't remember the board ever approving a change to the term of a loan from 20 to 30 years. Staff would have to consult with counsel to see if it can be done. However, there are other financing options available that the city could pursue, such as Rural Development funding.

Mr. Stahl requested board approval of a Drinking Water SRF loan totaling \$939,000 and a Clean Water SRF loan totaling \$937,000, with the terms of both loans being 3 percent interest for 20 years.

Mr. Stahl and DENR staff answered questions from the board.

The staff recommendation for the Drinking Water portion of the project was to rescind resolution #2014-41 and issue a new resolution for a Drinking Water SRF loan for \$939,000 at a rate of 3 percent for 20 years, and that the loan be contingent on the borrower adopting a bond resolution and the resolution becoming effective.

Motion by Gnirk, seconded by Jones, to adopt Resolution #2014-58 rescinding Resolution #2014-41 and approving the Drinking Water State Revolving Fund loan up to a maximum committed amount of \$939,000 at 3 percent interest for 20 years to the city of Lead for Phase III of a water main replacement project; and authorizing the execution of the loan agreement, the acceptance of the Local Obligation, the assignment of the Local Obligation to the Trustee, and the execution and delivery of such other documents and the performance of all acts necessary to effectuate the loan approved in accordance with all terms as set forth in the Indenture of Trust. The loan is contingent upon the borrower adopting a bond resolution and the resolution becoming effective. A roll call vote was taken, and the motion carried unanimously.

The staff recommendation for the Clean Water portion of the project was to rescind resolution #2014-26 and issue a new resolution for a Clean Water SRF loan for \$937,000 at a rate of 3 percent for 20 years, and that the loan be contingent on the borrower adopting a bond resolution and the resolution becoming effective and contingent upon the borrower increasing rates to a level sufficient to provide the required debt coverage.

Motion by Bernhard, seconded by Gnirk, to adopt Resolution #2014-59 rescinding Resolution #2014-26 and approving the Clean Water State Revolving Fund loan up to a maximum committed amount of \$937,000 at 3 percent interest for 20 years to the city of Lead for a sanitary and storm sewer separation project; and authorizing the execution of the loan agreement, the acceptance of the Local Obligation, the assignment of the Local Obligation to the Trustee, and the execution and delivery of such other documents and the performance of all acts necessary to effectuate the loan approved in accordance with all terms as set forth in the Indenture of Trust. The loan is contingent upon the borrower adopting a bond resolution and the resolution becoming effective and contingent upon the borrower increasing rates to a level sufficient to provide the required debt coverage. A roll call vote was taken, and the motion carried unanimously.

Mayor Apa asked if, since the loan will not be effective until the end of the construction project, the city would have approximately a year and a half to institute the raise in the Clean Water rates?

Mr. Feeney answered that the city will need to take action to raise the rate so the loan can be closed and funds will be available. The city can stagger the effective date of when the new rate would go into effect so that the city will have the coverage at the time the loan goes into repayment.

HIGHMORE REQUEST TO INCREASE CLEAN WATER SRF AND DRINKING WATER SRF FUNDING AWARDED ON MARCH 28, 2014: Clare Peschong reported that the city of Highmore has requested a funding increase for its Highway 47 water and sewer main replacement project.

At the March board meeting Highmore was awarded a \$225,000 Drinking Water SRF loan and a \$448,000 Clean Water SRF loan.

Bids for the project were opened by DOT on April 2, 2014, and costs have come in 83.9 percent higher than the estimate. With the anticipation that DOT's commission will accept the bids for the highway portion of the project on April 10, 2014, Highmore must secure the additional funding to allow them to award the sewer and water bids at this time.

The increase in Drinking Water SRF funding required is \$170,000 above the current funding, bringing the total Drinking Water SRF funding needed to \$395,000.

Highmore's water rates are currently \$36.45 per 5,000 gallons. An additional \$4 surcharge is anticipated and would bring rates to \$40.45.

The increase in Clean Water SRF funding required is \$231,000 above the current funding, bringing the total Clean Water SRF funding needed to \$679,000.

Highmore's wastewater rates are currently a \$20.00 flat rate. Staff analysis indicated that a rate increase of approximately \$3 per user would generate sufficient revenue to provide the 110% percent debt coverage bringing total wastewater rates for Highmore users to \$23.00.

The staff recommended the board rescind resolution #2014-47 and issue a new resolution for a Drinking Water SRF loan for \$395,000 at a rate of 3 percent for 30 years contingent on the borrower adopting a bond resolution and the resolution becoming effective and contingent upon the borrower establishing a surcharge sufficient to provide the required debt coverage.

Motion by Goldhammer, seconded by Soholt, to adopt Resolution #2014-60 rescinding Resolution #2014- 47 and approving a Drinking Water State Revolving Fund loan up to a maximum commitment amount of \$395,000 at 3 percent for 30 years to the city of Highmore for the Highway 47 utility replacement project; and authorizing the execution of the loan agreement, the acceptance of the Local Obligation, the assignment of the Local Obligation to the Trustee, and the execution and delivery of such other documents and the performance of all acts necessary to effectuate the loan approved in accordance with all terms as set forth in the Indenture of Trust. The loan is contingent upon the borrower adopting a bond resolution and the resolution becoming effective and contingent upon the borrower establishing a surcharge sufficient to provide the required debt coverage. A roll call vote was taken, and the motion carried unanimously.

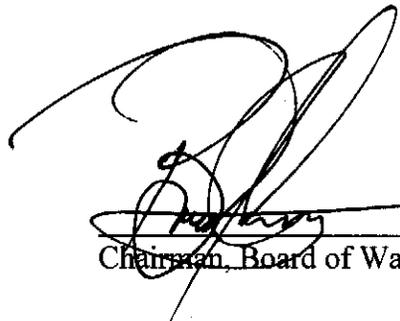
The staff recommended the board rescind resolution #2014-35 and issue a new resolution for a Clean Water SRF loan for \$679,000 at a rate of 3.25 percent for 30 years contingent on the borrower adopting a bond resolution and the resolution becoming effective, and contingent upon the borrower increasing rates to a level sufficient to provide the required debt coverage.

Motion by Jones, seconded by Bernhard, to adopt Resolution #2014-61 rescinding Resolution #2014-35 and approving the Clean Water State Revolving Fund loan up to a maximum committed amount of \$679,000 at 3.25 percent interest for 30 years to the city of Highmore for a Highway 47 utility replacement project; and authorizing the execution of the loan agreement, the acceptance of the Local Obligation, the assignment of the Local Obligation to the Trustee, and the execution and delivery of such other documents and the performance of all acts necessary to effectuate the loan approved in accordance with all terms as set forth in the Indenture of Trust. The loan is contingent upon the borrower adopting a bond resolution and the resolution becoming effective and contingent upon the borrower increasing rates to a level sufficient to provide the required debt coverage. A roll call vote was taken, and the motion carried unanimously.

ADJOURN: Motion by Goldhammer, seconded by Soholt, that the meeting be adjourned. The roll was called, and the motion carried.

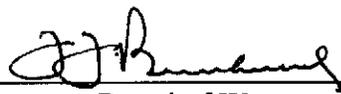
Approved this 26th day of June 2014.

(SEAL)



Chairman, Board of Water and Natural Resources

ATTEST:



Secretary, Board of Water and Natural Resources