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NORTH BEACH PUBLIC DEVELOPMENT AUTHORITY
SPECIAL MEETING
AUGUST 22, 2005

Special meeting held at Pacific County Fire District. The meeting was called to order at 6:00 PM.

Present: NBPDA Board Members Present:
 R. D. Williams Tom Downer Ken Karch
 Jim Hagen Brad Weatherby
Also Present: Phil Leach

The meeting was held to discuss the outstanding debt held by Ocean Park Water. We need to determine how and if we will assume the debt as part of the purchase price. Currently the operating ratio is 1.2, which will satisfy the banks for the loans. With the planned increases to Ocean Park Water rates to match the rates at Pacific Water, that number could increase to 1.4 or even 1.6.

Brad Weatherby asked if we couldn't just purchase Pacific Water outright. Tom Downer expressed concern that we really do not know the value of Ocean Park Water. "How can we know for certain the value unless we hire an appraiser?" RD reassured the Board that Herta Ingram, who had worked for the UTC and is now employed as Chief Financial Officer at the Thurston County PUD. Herta's financial analysis of OP Water included three methodologies:

1. Capitalized Net Operating Value, which uses historical financial data.
2. Reconstruction Cost Less Depreciation Valuation (RLCD), which adjusts historical cost of the infrastructure to current year construction costs.
3. Comparative Sales Valuation Technique, which calculates comparable sales.

Since Herta's analyses are respected by the UTC and the banking industry, it is assumed that the County Commissioners should be comfortable with the numbers if we are able to service the debt. It was noted that the banks would assume first position in the borrowing.

Phil assured the Board that the outstanding debt is for operating equipment – a pump station and an auxiliary generator. He stated that even though OP Water is a private company, because it is governed through the UTC, the Washington State Auditor's Office does a very thorough audit of operating revenues and expenses. This debt, if it is \$140,000 is 4.6% of the \$3 million purchase price.

Brad asked if the combined system would be worth more than the purchase price. Tom Downer felt that it definitely would be, as there are a lot of jobs reliant on our ability to put this together. Ken Karch expressed concern about not having a certified valuation. If the banks are comfortable with the numbers, we probably can be too and this should satisfy the County Commissioners also.

Tom Downer left the meeting for another commitment.
Jim Hagen re-emphasized the need to get an insurance policy to protect the Board.

Phil Leach stated that we are moving Ocean Park Water into the real world and making sure our kids and grandkids have good drinking water. We need to think of the big picture. Water companies are not bought and sold on a daily basis and very few of like transactions occur annually. He reassured the Board that once Pete signs the document, we still have 30 to 60 days to finalize the agreement. Phil stated that he could see that once the water companies were combined and the planned combined work is done, the value of the new company could increase by as much as \$1 million within a year or two.

Motion by Brad Weatherby, seconded by Jim Hagen, that we authorize Phil Leach to extend the offer not to exceed \$3.2 Million. Seconded by Jim Hagen. Ken Karch voted NO, feeling uncomfortable that the amount is not better tied down

As an update, RD reported that Tom Frare is negotiating with the contractor on the WPA ditch enhancement. Culverts are to be set after the Rod Run. If we fall under the dollar limit for Washington State Contracts, we will have Phil submit a bid to get the work done, as it is a key part of the operation. The storm sewer is much lower and the water line, which is pressurized and water tight, can be five feet away from the storm sewer.

RD assured the Board that he will keep them informed as to the amount of debt, etc.

Meeting adjourned at 7:25 PM.



R. D. Williams, President



Celsa Johnson, Secretary