

Clerk's Report for 2008 – to the 2009 Annual Meeting

The Prudential Committee met six times during 2008, usually with all the District officers. Committee attendance was perfect (100%) and each meeting was usually kept to within one hour. At the first meeting, Joseph McLaughlin, SSE, was re-elected Chairman, and the Committee reappointed Jerry Flanagan District Manager and Thomas Van Dzura Assistant Treasurer. It was another eventful year for the District and for District officials. While some developments were frustrating, most were quite hopeful and beneficial for the District's future.

The year 2008 began with high expectations that the water storage facilities planning study would be concluded this year. The study was launched jointly by the Town of Colchester and Fire Districts 1 and 3 in the fall of 2006 to determine the amount of water storage capacity all three would need by the year 2025 and how that capacity would be met. This initiative was prompted by the Town's desire to develop Severance Corners as its official 'growth center' yet CFD 3 lacks adequate water storage capacity for the proposed development. Sadly, after only one meeting of the project committee in 2008 (on 31 January), the project has gone no where. At that meeting, the final draft of the facilities planning study (done by Forcier, Aldrich & Associates) was reviewed, but as that study departed substantially from the drafts that had been submitted previously in terms of the computation of the parties' future water storage needs, the project cost, and the manner of sharing of costs, the representatives of the three Colchester entities who constituted the project committee could only agree to re-assess their needs. Before the end of February 2008, Manager Flanagan and the Chairman had completed their critique of the planning study and their recalculation of the District's projected water storage needs. Their work indicated that the District currently had sufficient capacity for the next ten years and might need only 24k gallons of additional capacity (rather than 101k gals) by 2027. At a meeting with Town officials in late February, requested by them, District officials not only shared their recalculations of the District's needs and their critique of the planning study data, but also stressed the need for the Town of Colchester to indentify what the Town's storage capacity needs were and what share of the total project cost for new capacity the Town was prepared to assume, neither of which had been addressed in any of the planning studies to date. They also proposed a cost-effective alternative for meeting the currently identified needs of the Colchester parties. All of the above was reviewed in detail with the Prudential Committee and District officers in early March. Since then there have been no further developments to report, except that tomorrow evening the Colchester Select Board will be holding a public hearing to approve its application to the State for the designation of Severance Corners at the Town's 'growth center'. The preliminary application reported that total water supply demand for the growth center would be 490k gpd, and then asserted there is 'nearly twice' as much water supply currently available to the town on Water Tower Hill for the growth center!

The above-reported February meeting was called because Town officials wished to explore the possibility of the Town's leasing some of the District's existing water storage capacity to help meet immediate needs for the Town's proposed 'growth center' at Severance Corners. Manager Flanagan and the Chairman, at that time still hopeful for a 'Colchester-wide'

solution to future water storage needs, indicated they would be willing to consider a short-term lease but they had to know how much capacity the Town needed, the temporal length of the lease, and what assurances the Town would provide to guarantee the District's recovery of the lease. To date, no answers to these questions have been provided nor has any request been received.

Since December 2005, District officials have been attempting to persuade Fletcher Allen Heath Care (FAHC) of its need to address identified problems in the water service lines of its Fanny Allen Campus. Although preliminary agreement had been reached in 2007 to a four-point remedial plan, FAHC officials later re-considered their position. During 2008, FAHC officials again reported they were "anxious to resolve any questions about the reliability of the water supply system" at FAC, but they have yet to propose or do anything in that regard. For its part, the District has repeatedly reminded FAHC of the significant risks it assumes by not dealing with the situation and has proposed a number of remedial steps that could be taken.

Last January, at a public hearing Superintendent Nadeau brought to the attention of the Colchester Select Board the results of his recent water loss audit at Windemere MHP; it showed a very large amount of metered water being lost. The park's owner, the Vermont Housing Authority (VHA), drew upon Mr Nadeau's water audit to support its application for a grant to finance an upgrading of the park's water and wastewater infrastructure. At a subsequent public hearing in October, after it was reported that VHA's funding application had been denied because of the lack of overall planning data for the park, the Select Board approved a measure to sponsor a comprehensive planning study of Windemere. That study is supposed to be completed before the scheduled commencement of construction of the 'campus connector' roadway in April 2009. Mr Nadeau conducted another water lost audit at Windemere in October 2008; it showed another large loss: about 5.9m gals per year. He also was asked to assist officials of the State Water Supply Division in doing a sanitary survey of Windemere. This survey, completed in December 2008, identified several deficiencies and recommended the owner pursue funding for the needed improvements through the State's revolving loan fund.

In 2008, the District greatly increased the scope of the capital improvement projects that it had started the previous year. The Prudential Committee approved three projects in the 2008 Water Capital budget: 1) the repair and replacement of the District's gate valves along College Parkway in anticipation of the State's scheduled repaving of that roadway in 2009; 2) the replacement of customers water meters and readers; 3) a possible realignment of water service to the PACE center in conjunction with FAHC's correcting the deficiencies in FAC's water system. The total amount budgeted was \$55k. Superintendent Nadeau saw to the successful completion of the first project during the summer. A few days ago (on 20-21 January) this investment provided substantial returns, as it enabled Mr Nadeau and his colleagues to identify, isolate and repair a major break in the Fire District's main on the west side of College Parkway, near the chapel, without any disruption of water service to our customers. As for the replacement of water meters, although Asst. Treasurer Van Dzura sent letters to all customers asking them to contact Mr Nadeau to schedule a time for their meters to be replaced, few customers responded: only 14 of the approximately 43 meters have been replaced. Plans are to send out a second letter shortly. Replacing meters also required Mr Van Dzura to combine double meter readings in the quarter when the replacements occurred and entailed Mr Nadeau having to recompute the readers on a couple of new meters. This project is scheduled for completion during 2009. As for the third project, nothing was done as the District awaited FAHC's decision on the FAC lines. However, a fourth project emerged late in the year. Mr Nadeau seized the opportunity presented

by the construction of a service line for Saint Michael's new Pomerleau Alumni Center to realign the service line for Salmon Hall to the new service line thus allowing the District to cut-and-cap its Lime Kiln Road main at the top of the plateau. Altogether, the District invested about \$30k in capital improvement during 2008, the largest amount in recent years, and thereby significantly upgraded its water system infrastructure.

In addition to seeing that the District's water system was well-maintained (e.g., flushing hydrants, exercising all gate valves, checking meters, overseeing new service connections, etc.), Superintendent Nadeau and his associates continued to see that all the District's hydrants were cleared of snow and did the quarterly readings of most customers' meters. In accordance with the CFD-CWD 'Shared Management Agreement', Mr Nadeau also provided semi-annual work plans and recommend a list of annual capital projects (see above) thereby facilitating a pro-active approach to the District's water infrastructure. At his recommendation, in 2008 the District joined the VT WARN program that provides a means of mutual aid between water systems in emergencies.

Toward the end of 2007, the Prudential Committee established an ad hoc finance taskforce (composed of the Manager, Treasurer, Asst. Treasurer and Chairman) to develop a strategy for improving the performance of the District's financial assets over the long-term. The taskforce met seven times and completed several projects for improving the performance of the District's financial assets. It established as a long-term objective that the District's total financial assets should be so positioned and managed as to preserve their purchasing power in the future; that is, they should produce an overall rate-of-return, over a five-year cycle, at least equal to the rate of inflation. Based on this objective the taskforce assessed past performance, adopted metrics for measuring past and projecting future performance, developed effective strategies for achieving the District's objective, and even assumed responsibility for managing the District's 'savings'. Accordingly, after seeking and reviewing proposals from two banks, the taskforce unanimously agreed in March to accept a new package of banking services proposed by TD Banknorth's Government Banking Division. The actual implementation of the changes took place during the second and third quarters of 2008, with Asst. Treasurer Van Dzura serving as the District's point-person with the bank and Treasurer Vincent serving as system administrator for the bank's WebExpress component. With fine assistance from the TD Bank officials and staff, the implementation proceeded smoothly and satisfactorily. By the end of the year, just about all customers had adjusted to the change-over and were sending their bills to the new lockbox. Under the new arrangements, all the District's financial assets automatically become 'working assets' (produce interest) upon receipt, and the structure of TD Bank's services simplifies the moving of funds into higher interest-earning vehicles. The Prudential Committee commended all those involved in this significant enhancement of the District's financial operations.

With respect to the finance taskforce's management of the District's 'savings', the past year provided a most challenging environment. The District's 2008 budget set a target of 3.6% rate-of-return on 'working' assets and 3.11% on all liquid assets; both translated to a record goal of \$9,811 in interest. At year's end, the total amount of interest earned was about \$9,597, which translates to a 3.44% rate-of-return on 'working' assets and 3.18% on all liquid assets. Since Federal Funds rates during 2008 averaged out at 1.86%, the District's performance was very good. The rate of inflation in 2008 (measured by the CPI-U), however, was 3.82%. The accompanying charts not only record what a tumultuous year 2008 was for liquid assets but also depict the major decisions the taskforce made to position and re-position the District's assets as

favourably as possible during the course of that year. The latter also taught the members of the taskforce a great deal, which should prove helpful as they wrap up their final project: drafting policy statements that embody the District's new strategy for improving the performance of the District's financial assets going forward.

Throughout 2008, Asst. Treasurer Van Dzura continued his good work of handling both the billing of customers and the accounting for the same, while at the same time dealing with the changes in banking arrangements, the meter-reading changes, and implementing an upgrade to the District's accounting software. Treasurer Vincent updated a valuable study of the District's water purchases/sales through 2007 and is in the process of updating it again through 2008.

The District's water rates remained unchanged in 2008 (they were last increased by approximately 5% as of 1 January 2007). However, CWD Wholesale increased its rate by about 6.5% as of 1 July 2008, due mainly to a significant decrease in industrial water sales, and in December reported that it expects to make an increase of 10.8% as of 1 July 2009. The District approved one new water service connection in 2008: 681 gpd for the Pomerleau Alumni Center.

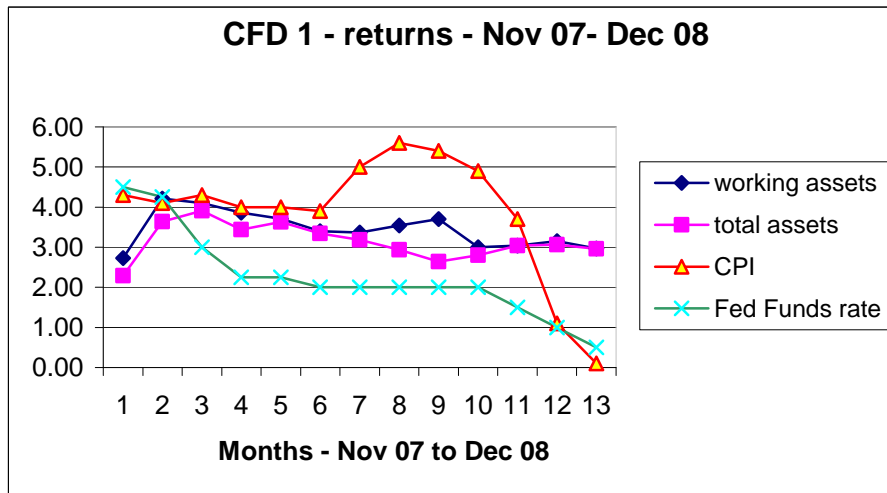
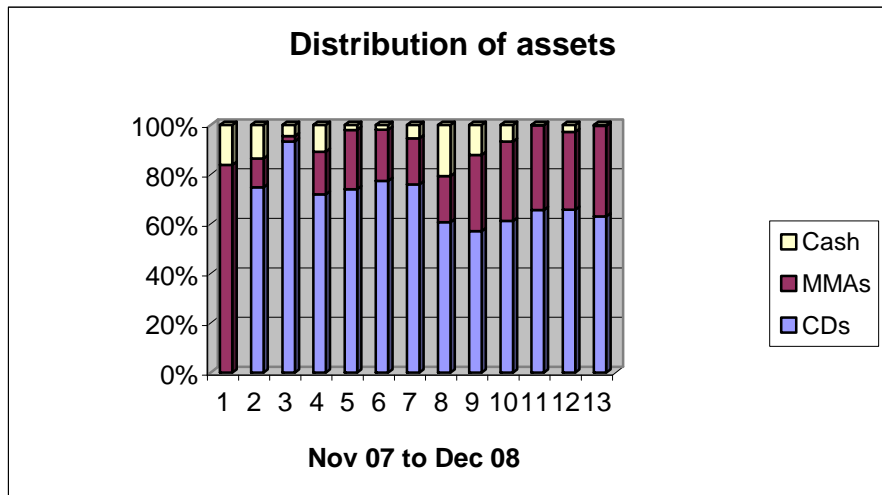
In February, Manager Flanagan executed the District's license agreement with VTANG (Vermont Air National Guard) that allows VTANG the use of up to 20 gpm (or 28.8k gpd) of the District's idle wastewater treatment capacity at South Burlington's Airport Parkway treatment plant for five years, subject to cancellation by the District at any time on a 120-day prior notice. Mr Flanagan and Attorney McNeil were commended for their good work on this project.

In view of the City of South Burlington's planned expansion and upgrade of the Airport Parkway wastewater treatment plant - whereby the Town of Colchester's total share of capacity will increase from 650k to 1m gpd (including the District's 310k) - Manager Flanagan and the Chairman, with assistance from Mr McNeil, developed a strategy they intend to use in pursuing discussion with Town officials about distinguishing the upgrading costs from the expansion cost and about the structure of the Town's wastewater rates so that District customers are spared expansion costs. The cost of the plant's expansion and upgrade is estimated to be \$25m, and it is unclear whether it would be eligible for funding under President Obama's proposed 'American Recovery and Reinvestment Plan'.

With respect to resolution no. 4 of the 2007 Annual Meeting, which approved the District's draft 2007 financial statements subject to end-of-year adjustments to be approved by the Prudential Committee, the Prudential made no adjustments. In accordance with resolution no. 5, which approved total disbursements of up to \$23k for stipends to District officers and the Committee members, the Committee approved the following: \$6k each for the Manager, Asst Treasurer, and Clerk, \$1.2k for the Treasurer, and \$50 per person for each officer and PC members' attendance at Prudential Committee meetings. The Chairman approved a \$500 bonus for the Asst. Treasurer. Total disbursement for 2008 came in under the \$23k stipulated. On 29 August, the District marked its 70th anniversary.

Respectfully submitted,

Joseph McLaughlin, SSE
Clerk, 26 January 2009



Comparative Data: annual rates of return

years	CFD's Assets		CPI-U	Fed	Fidelity	CFD
	Total	Working	all items	Funds	Cash Rev	budget
2000	4.00	4.68	3.4	4.97	6.19	
2001	3.47	4.07	2.8	3.23	4.09	
2002	1.65	1.94	1.6	1.35	1.62	
2003	1.06	1.17	2.7	1.13	0.09	
2004	0.65	0.76	2.7	1.67	1.06	
2005	1.57	1.84	3.4	3.38	2.93	
2006	2.37	3.02	3.2	4.97	4.75	
2007	2.24	2.75	2.8	5.05	5.06	4.00
2008	3.18	3.44	3.82	1.86	2.89	3.60
avg	2.24	2.63	2.94	3.07	3.19	3.80

26-Jan-09
JMcL

