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MEMORANDUM

Date: May 14, 2003

To: Jack Fastnaught, President LHEUC
LHEUC Board of Directors

From: M. Frank Heisey

Re: Analysis of Data – Water/Wastewater Treatment for Semi-Annual Report

The attached spreadsheet represents the beginning of the report to property owners related to the current state and projected state based on new construction underway and forecast for 2004.

Please note that I have indicated in red those parameters that move us into a state of having a defined plan and subsequent construction and expansion.

I have agreed with Chuck Brewer to write a DRAFT commentary for this spreadsheet and welcome any corrections to this data within the next few days. Chuck and I have reviewed the spreadsheet we have preliminarily concurred with the format.

We will need help from the LHEUC Board and LHCC Board to define the elements of an action plan to address all the capacity elements at 75% or higher. The planning parameters are defined at the bottom of the document but we will need to define some general agreed upon elements to address these issues between the LHCC and LHEUC Boards. Property owners will want to see some general statements about planning.

The following bullet points are my observations and suggestions for addressing some of these issues:

Priority No. 1:

1. The highest priority is to reduce the I & I and this should be expedited and as much work as possible completed before the winter sets in.
2. The scope of the project should be broad enough to have a significant impact in reducing the I & I.
3. I advise that as many poorly performing man holes as possible (feasible and affordable) be attacked through an RFP process that involves sealed bids opened by the LHEUC Board in open session. The scope of the project and specifications of work should be clearly defined in the RFP along with the qualifications of contractors to bid. The time line for completion of the work should be defined and include a penalty should the work

not be completed on schedule. A loan should be secured to fund this work and the debt service incorporated into the budget for 2004 and beyond.

4. The I & I repair project should have a single contact on the Board of Directors who should serve as the Project Coordinator with the contractor.
5. A joint meeting of the LHCC and LHEUC Boards should be held to address these performance measures and define the preliminary elements of an action plan. I will be glad to attend as an adviser.
6. When both the LHCC and LHEUC Boards meet, one of the items for discussion, clarification and definition should be which entity bears the cost of extension of the water and sewer lines. In previous legal counsel it was defined that LHCC is responsible for new lines and LHEUC is responsible for maintenance of the water/sewer infrastructure and for providing the service to property owners. In the case of the developer, they are responsible for the new water and sewer infrastructure and then LHEUC will be responsible for maintaining that service. Therefore, the developer should have an active role in the decision process.

Priority No. 2:

1. Based on the data provided, the next highest priority as we look at 2004 is to have planning underway for additional wells and enhancement of the capacity of the water treatment plants. The data supports plan development starting this year with the need to be seriously considering expansion of the water production and storage by the end of 2004. Construction will need to be underway by the end of 2004 for all three elements of water service.
2. The planning for the expansion of the wastewater treatment plant (WWTP) must be initiated simultaneously with the water service enhancements. The next approved phase of the WWTP project should be undertaken at the existing site. This gives the community a 200 to 250 home buffer and the expansion plan has already met the zoning and planning parameters. I understand that G.W. Clifford spoke at your last meeting stating that future expansion should occur below the dam. I think that should be considered as the site AFTER this next additional expansion is completed. That moves us out into 2005-2006.

Other thoughts:

1. Every effort should be made to plan to address these issues in a timely manner in order to prevent the need for a building moratorium. Just for the record, if and when a future building moratorium or quota is imposed, it CAN be imposed by the LHCC Board with the consensus and support of or upon recommendation from the LHEUC Board. This was already defined through legal counsel. We don't need DEQ or the Circuit Court to tell us this. WE can be proactive and act on this through appropriate planning. If we don't carry out our planning responsibilities in a timely and effective manner and fail to meet the needs of the property owners, then we can expect further action including legal action, which could result in a Sanitary District.

2. I am concerned that some of the new Board members have not taken time to be educated on the past decisions and past legal counsel. Much was accomplished by the seated Boards since 1998 and we SHOULD NOT be re-inventing the wheel and seeking legal counsel for things that have already been advised. For example, the scope of responsibility of the LHCC Board and LHEUC Board have been clearly defined. The governing documents and the SCC support the scope of responsibility. These are times for planning and action.
3. I think it is time to again bring forward the idea of exploring the sale of the utility company in collaboration with the LHCC Board. This should be done in an open session and with Board members coming with open minds to address the future vision for this community. True, there were no serious interested buyers 3 years ago. However, much has changed and this should be re-evaluated as part of both Boards carrying out their fiduciary responsibility in serving this community.
4. If there is anything that you all think I might be able to help shed some light on, please do not hesitate to call me.