

GREEN BAY METROPOLITAN SEWERAGE DISTRICT
PROCEEDINGS OF THE COMMISSION

Regular meeting of the Commission held May 29, 2013.

PRESENT: Commissioners Hasselblad, Mainz, Blumreich, Tumpach, and Hoffmann

ALSO PRESENT: T. Sigmund, P. McCarthy, P. Kaster, P. Wescott, B. Hafs, M. Pierner, B. Angoli, N. Qualls, M. Erschnig, B. Bartel, J. Kennedy, J. Czynski, T. Brown, T. Garrison, B. Vander Loop, M. Urbancic, J. Van Sistine, J. Nicks–Legal Counsel; R. Messing–CliftonLarsonAllen LLP; C. Malesky & R. Giardina–Red Oak Consulting; B. Della & D. Anderson–Public Financial Management, Inc.; P. da Silva–CH2M Hill; D. Martin–Village of Ashwaubenon; S. VandenAvond & C. Berndt–Village of Allouez; M. Heckenlaible–City of Green Bay; R. Loberger–Village of Suamico; E. Rakers–City of De Pere; G. Farr–Village of Howard; B. Balke–Village of Bellevue

Commission President Hasselblad called the meeting to order at 8:30 a.m.

1) Request Commission approval of the new rate methodology.

Commissioner Hasselblad stated that this has been over a three-year process. NEW Water started with 45 options, established the metrics, and narrowed it down to three options that the Commission will be looking at from Red Oak Consulting this morning. She stated after the presentation, those of you who would like to speak on the rate methodology will be given the opportunity.

C. Malesky from Red Oak Consulting reviewed the following:

- Rate Alternatives
- A: Status Quo (Current Methodology)
- B1: Fixed Monthly Charge With Uniform Rates, Equivalent Water Meters
- B2: Fixed Monthly Charge With Uniform Rates, Flows and Loadings
- Why Consider Alternative Methodologies
- Why Are Rate and Revenue Stability Important
- Unit Rates Comparison – Municipal
- Unit Rates Comparison – P&G
- Potential Impacts Are Varied Across Municipalities
- Status Quo Summary
- B1 Summary (Fixed Charge/Equivalent Meters)
- B2 Summary (Fixed Charge/Flows & Loadings)

C. Malesky stated both alternatives B1 and B2 result in more stable revenue, but Red Oak recommends alternative B1. Alternative B1 is more stable because the numbers of customers vary less than flows and loadings and the number of customers are less subject to the economy and weather. She stated alternative B1 is the best option, then B2, and then status quo.

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Commissioner Hasselblad asked if the Commissioners had any questions.

Commissioner Mainz stated NEW Water received a number of letters from its customers and asked if NEW Water could provide answers to those questions prior to the Commission making a decision.

Commissioner Hasselblad asked how many of the questions or concerns have not been responded to. P. Kaster replied the letters contained questions, statements, and opinions based on their desires or opinions for a particular alternative. He stated NEW Water has not formally responded.

Commissioner Hasselblad asked were there specific questions that were responded to in the past in adequate fashion or were they new questions. T. Sigmund replied some comments were made on Fox River Fiber (FRF) pretreating, which would be an 85% reduction in BOD. He stated one of the runs that Red Oak did assumed FRF and Thilmany would be pretreating. Thilmany has been purchased by another company and it does not have any information at this time on any planned pretreatment. Many comments received were with using a fixed charge for debt or capital only, and that is the preferred alternative. Red Oak recommended 15% of total revenue, which is about 40% of capital for 2014 – 2016 and then the Commission would re-evaluate. At the R2E2 workshop a comment was made to look at a different alternative, but there is no impact on any of the alternatives. A question was asked on what NEW Water could do for the two smaller municipalities that do pretreat to ease the cost to them and staff asked Red Oak to look at that. NEW Water was also asked about having a hybrid B1 and B2, half of the fixed charge comes from water meters and half from flows and loads, which would involve significantly more administrative work. One comment asked NEW Water to submit the rate methodology to the Department of Natural Resources (DNR) for review.

J. Nicks stated NEW Water can set rates without anyone's approval and there is an appeal right to the Public Service Commission (PSC). Provisions in the State Statutes and the DNR Rules are followed through the administration of the Clean Water Act (CWA) funding, which requires a billing system that is fair and equitable. This requires NEW Water to have a user charge system that requires classes of customers to pay in proportion to their use with respect to operation and maintenance charges. As part of the CWA application process, NEW Water will have to submit evidence that its rate methodology meets those general requirements.

Commissioner Mainz asked if NEW Water is going to formally respond to the letters received so the Commission can have a complete set of data. T. Sigmund replied yes. NEW Water has responded to specific questions throughout this process. He stated that he did not see a question in the recent letters that would cause the Commission to not make a decision today.

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Commissioner Hasselblad stated NEW Water staff will respond to the municipal customers' questions. She stated that it does not preclude the Commission from making a decision on rate methodology this morning. She stated none of the questions raised from the municipal customers would indicate a different path the utility should take. She then asked the municipal customers here this morning to address the Commission with questions they may have.

C. Berndt from the Village of Allouez stated the fixed charge is a good approach and Allouez supports that. Allouez prefers the rate methodology B2b, which is the flow and loading allocation for fixed charge and for operation and maintenance because it is the most accurate way to allocate costs to its customers. He stated when you calculate an equivalent meter in B1b, you are going through another calculation to arrive at that charge and Allouez feels it introduces variability and potential error into that assessment of a fixed charge. NEW Water is using 15% of the debt service and capital for the fixed charge. He asked where NEW Water intends to go with that in the future because it affects how Allouez allocates costs to its customers. Allouez does not support B1b because the equivalent meter basis allocates more cost to residential customers and less cost to industrial customers. He asked if NEW Water intends to submit this to the DNR for review at this time because of the cost impact. He stated depending on which alternative is approved and the cost impact, Allouez plans to pursue this further with the DNR or the PSC.

E. Rakers from the City of De Pere stated De Pere prefers alternative B1; however, one of the challenges De Pere has is there is so much variability as to who is or is not going to pretreat for BOD. He stated as these mills begin to pretreat, B2 comes a lot closer to B1 for impacts to De Pere. He stated De Pere's second choice is B2. He asked where is this going long-term with the percent of debt that is going to be a fixed charge. He stated De Pere is comfortable with the analysis of 15% with a fixed charge. He stated with FRF likely pretreating, there is a 23% reduction in BOD. He stated Mr. Sigmund mentioned that this does not impact the choice of R2E2. The De Pere Board would appreciate receiving a letter from NEW Water showing that this is still the best alternative.

M. Heckenlaible from the City of Green Bay stated Green Bay prefers the status quo alternative, primarily because of the ease of fitting into its current billing methodology. He stated changing to a fixed fee directly impacts their smaller industrial customers and their rates increase anywhere from 5 – 10 times what they are currently paying. He stated by modifying Green Bay's methodology to offset those customers, it now falls on their municipal customers. He stated in order to overcome that, the preferred fixed fee method is B2b debt service only. With the fixed charge, Green Bay would require NEW Water to provide the percentage of makeup of that fixed charge in flows and loads so Green Bay could apply that to the rates and basically go back to the status quo.

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D. Martin from the Village of Ashwaubenon asked if implementing a new process in which NEW Water is going to calculate the rate is going to cause undue hardship or additional personnel hours to accomplish that task. Ashwaubenon is concerned about the R2E2 Project, a new rate methodology structure, budgets, and a customer base trying to understand all of these changes so NEW Water can get a stable rate. Ashwaubenon is concerned that the stable rate base that NEW Water currently projects may be affected because the burden may be a little too large for everyone to handle and asked NEW Water to look at that. Ashwaubenon requests that at budget time NEW Water looks at all of these factors moving forward. The 15% fixed fee amount is a concern to several of us.

R. Loberger from the Village of Suamico stated Suamico supports status quo. He stated Suamico understands the ability of a fixed charge but doesn't understand the meter equivalent charge. Suamico believes flows and loadings would be the most fair. He stated Suamico's second preference is B2.

G. Farr from the Village of Howard stated Howard feels the status quo is the most fair option from the standpoint the customer has its discharge and strength measured and is billed in that manner. He stated this allows a customer to take some responsibility for its flows and loads so it has some ability to control its destiny in some regard because you can eliminate infiltration for example in your system. Flows and strength are measured and billed on a fair basis and Howard thinks that is a good system to model a rate methodology by. Howard does support changing the rate methodology to have a fixed component, but asked how is this done through equivalent meters or equivalent flows. Howard supports a fixed charge through flows and loadings. He stated municipalities that don't have an industrial component are really affected the most. He stated the flows and loadings version closely mirrors the current status quo. He stated B2 closely matches the status quo. He stated to change to a fixed methodology is a good choice and B2 meets an equitable distribution of those costs.

Commissioner Hasselblad asked three times if there is anyone else that would like to speak.

Commissioner Hasselblad stated the Commission appreciates that many of you have been through this three-year process with NEW Water and have expressed your concerns verbally and in writing. You represent your communities extraordinarily well. She summarized the comments made this morning. If there is anyone else that would like to correct my assumption or speak to the Commission further, she would entertain that now. Hearing none, she asked for comments from the Commission.

Commissioner Mainz stated that he stands by his previous comment that he would like to see a formal response to the letters prior to making this decision. He would also like to hear the consultant's response relative to what has been said this morning.

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Commissioner Hoffmann asked for comments from Red Oak Consulting as well.

Commissioner Blumreich stated that he doesn't know that there are any questions that haven't been answered in presentations or discussions here at the Commission level. He stated that he is swayed by the arguments on B2. He stated if NEW Water is going to make a component of the billing of a fixed charge, B2 is the preference. It allows individual municipalities if their customers do change their habits of use and reduce their flows to adjust it in the subsequent year. If NEW Water uses equivalent meters, that doesn't happen.

C. Malesky from Red Oak stated from what she heard this morning and what she read from all of the letters it is obvious the customers are looking at the alternatives from their own perspectives, and they have great points. She stated regardless if it is B1 or B2, it is important that everyone understands that it is that fixed charge, which is the revenue stability component. She stated some of the comments made regarding the equivalent meters, B1 is the most appropriate approach and lease variable. NEW Water keeps track of flows and loadings and is very good at adjusting the budget to the actual flows and loadings, so there wouldn't be any reduction in stability whether B2 is selected over B1. In terms of some of the other questions, it is true that the fixed charge has an impact on smaller customers. She also agrees the more the bill is fixed the higher the impact will be.

R. Giardina from Red Oak stated both B1 and B2 methodologies would meet the Environmental Protection Agency's regulations in regards to proportionality and meeting the legal standards out there.

Commissioner Hasselblad stated staff's recommendation and Red Oak's recommendation is B1 with fixed meters. She asked staff to address B2 in terms of a utility. T. Sigmund stated the amount of fixed charge from B1 to B2 is the same. He stated NEW Water does a very good job in keeping track of flow and loads and making adjustments to the budget accordingly. Staff would support alternative B2b as well.

Commissioner Hasselblad stated NEW Water has answered the specific questions raised, but staff will formally respond to each of the municipalities with questions received in closing the loop. T. Sigmund agreed.

Commissioner Tumpach stated many of the representatives are here and suggested asking them if they are comfortable in the Commission making a decision ahead of responding to the letters.

Commissioner Hasselblad asked for any commentary from the representatives in receiving the letters in the near future.

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M. Heckenlaible from the City of Green Bay stated if the Commission approves a fixed charge, Green Bay would like to be assured to get that information so it can appropriately bill its customers. Commissioner Hasselblad replied absolutely. T. Sigmund replied the fixed charge is broken down by the five billing parameters.

Commissioner Mainz suggested Red Oak Consulting allocate some time to NEW Water customers to assist in the transition. T. Sigmund replied Red Oak has worked directly with four of the municipalities on their billing structure. NEW Water can certainly make this available in a letter to its customers.

Commissioner Blumreich stated that he is concerned with the hybrid approach for the smaller municipalities. C. Malesky replied it is a shorter term loan for the smaller customers for the near term and they would pay that back within the next few years to even out the impact of the first year, which is the highest. T. Sigmund stated it isn't a subsidy, but a short phase in period for two of the smaller municipalities that do their own pretreatment.

Motion #13-033

It was moved by Blumreich, seconded by Tumpach, and unanimously agreed to approve alternative B2 as the new rate methodology. (See Commission File 13-002)

2) 2012 financial audit presented by CliftonLarsonAllen LLP.

P. Kaster stated R. Messing from CliftonLarsonAllen will provide a high level view of the audit process.

R. Messing from CliftonLarsonAllen distributed a summary of a high level view of the audit process and financial results for 2012. She reviewed the following:

- Significant Audit Areas
- Auditors' Report
- Financial Results
- Cash Flow
- Balance Sheet
- Net Assets
- Significant Disclosures
- Auditor's Communication Letter

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Commissioner Hasselblad asked what the top two or three significant risks are. R. Messing replied the process of collecting the bills from NEW Water customers and allocating those to the appropriate revenue accounts and the subsequent reconciliation of the bank and investment accounts, and insuring all cash disbursements follow the internal control procedures that NEW Water has in place with the appropriate approvals prior to processing into the general ledger.

Commissioner Hasselblad asked if a calendar was developed so staff and the auditors were working on the same time line and prepared in advance of the schedule. R. Messing replied yes.

Commissioner Mainz asked if NEW Water staff provided CliftonLarsonAllen with complete access to everything that it needed to complete the audit. R. Messing replied yes.

Commissioner Hasselblad asked Ms. Messing how she would characterize a trend in NEW Water's internal accounting. R. Messing replied NEW Water is making continuous progress.

- 3) **Convene in closed session under State Statute 19.85 (1) (c) for the purpose of considering employment, promotion, compensation or performance evaluation data of any public employee over which the governmental body has jurisdiction or exercises responsibility, and under State Statute 19.85 (1) (g) for the purpose of conferring with legal counsel for the Commission who is rendering oral or written advice concerning strategy to be adopted by the Commission with respect to litigation in which it is or is likely to become involved:**
 - a) Consultation with auditors regarding review of Accounting staff
 - b) Georgia-Pacific litigation

Motion #13-034

It was moved by Blumreich, seconded by Mainz, and unanimously agreed to convene in closed session under State Statute 19.85 (1) (c) for the purpose of considering employment, promotion, compensation or performance evaluation data of any public employee over which the governmental body has jurisdiction or exercises responsibility, and under State Statute 19.85 (1) (g) for the purpose of conferring with legal counsel for the Commission who is rendering oral or written advice concerning strategy to be adopted by the Commission with respect to litigation in which it is or is likely to become involved.

- 4) **Reconvene in open session.**

Motion #13-035

It was moved by Mainz, seconded by Blumreich, and unanimously agreed to reconvene in open session.

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Commissioner Hasselblad stated that staff has asked that items 8, 10, and 11 be moved up after item 6 because they require Commission approval.

5) **Presentation of debt financing of the Resource Recovery and Electrical Energy Project by Public Financial Management, Inc.**

P. Kaster introduced David Anderson and Brian Della from Public Financial Management, Inc. (PFM). PFM was hired in 2012 as NEW Water's financial advisor to take a look at NEW Water's debt process, including the debt associated with the R2E2 Project.

D. Anderson from PFM reviewed the following:

- Existing Debt: Clean Water Fund Loans (CWFL)
- Existing Debt: Other
- Debt Service by Repayment Source
- Debt Instrument Options – CWFL
- Debt Instrument Options – Capital Markets
- CWFL vs. Capital Markets
- Capital Markets Interest Rates (AAA-Rated)
- R2E2 Financing Requirements
- Future Interest Rates
- Three Example Plans of Finance
- Example No. 1: 20-Year Level Debt
- Example No. 2: 25-Year Level Debt
- Example No. 3: 25-Year Debt (P-Project)
- Summary of Three Example Plans
- First Borrowing Considerations

6) **Request Commission approval to sell \$20,000,000 General Obligation Bonds.**

P. Kaster requested Commission approval for the borrowing of \$20,000,000 General Obligation Bonds over a 25-year period. If the Commission approves the borrowing today, PFM & legal counsel will go into the market and get the bonds set up and approved, and then a special Commission meeting will be scheduled for the Commission to approve the sale of those bonds. He stated at the next Commission meeting the Commission would authorize a resolution.

Commissioner Tumpach stated if FRF pretreats, the BOD would reduce by 23%. His concern is the recovery part of the savings for the R2E2 Project is dependent upon the BOD. T. Sigmund replied the municipal BOD is only one element of it.

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Commissioner Tumpach stated that staff has indicated that the reduction in BOD does not affect the decision to go with the R2E2 Project. He asked if NEW Water should redo some analysis work to make sure the R2E2 is still the best option and make sure the change in BOD does not change the savings it would generate in future years. T. Sigmund stated CH2M Hill is going to present some of the information, such as reduction in sizing of the facilities and some cost savings during construction. He stated it is about an 8% drop in overall solids reduction, but it's about a 2% drop in construction cost. He doesn't believe we have a decision that would change the alternative.

P. McCarthy suggested running a reduced gas production through the energy model.

Commissioner Tumpach asked if the Commission approves the debt, does it have to go towards R2E2 or if NEW Water changes its thought process, can the new debt be used towards the alternative. T. Sigmund replied yes.

Motion #13-036

It was moved by Blumreich, seconded by Hoffmann, and unanimously agreed to approve the sale of \$20,000,000 General Obligation Bonds.

8) **Approval of minutes of Commission meeting held April 25, 2013.**

Motion #13-037

It was moved by Mainz, seconded by Hoffmann, and unanimously agreed to approve the April 25, 2013 minutes as distributed.

10) **Request Commission approval of the land lease agreement for compressed natural gas fueling station.**

P. Kaster stated an opportunity was presented to NEW Water by two separate entities, Clean Energy and Gain Clean Fuels.

Commissioner Mainz asked if both companies know that this is taking place today and which company is being recommended. P. Kaster replied yes.

P. Kaster stated a request for proposal was put together with the assistance of Godfrey & Kahn and provided to both entities. The proposals were reviewed on a legal perspective and then scored on initial revenue projections, potential revenue growth, facility description, safety issues, and project understanding. Clean Energy would like to put forth a liquid natural gas station, and Gain Clean Fuels a compressed natural gas station. Gain Clean Fuels was more favorable for potential revenue growth.

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P. Kaster stated Gain Clean Fuels is proposing to give NEW Water 2% of the revenue it derives from sales and the lease amount would be \$1,000 per month with a 10-year lease with renewal options. Staff contacted Wisconsin Public Service regarding any safety issues. He requested Commission approval of the land lease agreement with Gain Clean Fuels. The Executive Director would execute the final contract.

Commissioner Hasselblad stated that she will recuse herself because she sits on a Board that has as its non-ranked part of its business plan Integrys Transportation Fuels, which is CNG. She asked Commissioner Blumreich to moderate the conversation and call for the vote.

Commissioner Mainz asked if the contract includes environmental cleanup by Gain Clean Fuels. P. Kaster replied the contract states the property must be restored to its current state prior to the contract. Commissioner Mainz asked if that is environmental cleanup if there is a problem. J. Nicks stated NEW Water has controlled the contractual documentation and he will verify that is included.

Commissioner Mainz asked if there is enough property for both. P. Kaster stated there is enough property for both; however, Gain Clean Fuels would not entertain a competitor on the same property and Clean Energy would like the option to change to a compressed natural gas.

Motion #13-038

It was moved by Mainz, seconded by Hoffmann, with Hasselblad abstaining, to approve the land lease agreement with Gain Clean Fuels for a compressed natural gas fueling station.

11) Request Commission approval of the City of De Pere request to relocate a portion of the GBMSD Charles Street Interceptor and collector sewer.

M. Pierner stated the City of De Pere has requested to relocate some of the Charles Street Interceptor, which would allow construction of a new Walgreens store near the east side of the Claude Allouez Bridge. The request would also include relocation of 114 ft. of 8-inch collector sewer. Staff has four concerns to be resolved: easement granted to NEW Water, the building foundation design, geotechnical analysis be done, and the sidewalk area strengthened to about 6 – 8 inch of concrete. He requested Commission approval and to delegate final approval to the Executive Director for satisfaction of those issues to keep the project moving forward.

Motion #13-039

It was moved by Mainz, seconded by Hoffmann, and unanimously agreed to approve the City of De Pere request to relocate a portion of the GBMSD Charles Street Interceptor and collector sewer and delegate final approval to the Executive Director.

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Commissioner Blumreich departed at 10:30 a.m.

7) Resource Recovery and Electrical Energy Project update and Value Engineering presentation by CH2M Hill.

P. Da Silva from CH2M Hill reviewed the following:

- R2E2 Update
- FRF Pretreat
- Schedule
- Digester samples & centrifuge Testing
- Digester Work & Centrifuge Testing
- Basis of Design Report
- Cost Reduction Ideas
- Facilities changes
- Project Scope Reductions/increases
- Cost Estimate
- Value Engineering
- Industrial Discharger Pretreatment
- Schedule

9) April financials.

P. Kaster reported operating revenues for April were favorable to budget by 4% or \$137,000. He stated operating expenses were favorable to budget due to less expenditures than budgeted. Net Income for the month was \$1,600,000 from operating income.

12) Update of projects:

- a) **Resource Recovery and Electrical Energy (R2E2)**
- b) **De Pere Facility UV Disinfection System Expansion**

N. Qualls reported the project is out for bid and staff plans to request award of the construction contract and construction related services contract at the June Commission meeting.

c) West Tower Drive Interceptor Relocation

M. Pierner reported flow is going through the new pipes and currently working on restoration of streets in various areas. Staff is also working with the contractor on the change order for the highway crossing difficulties encountered.

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d) **De Pere Facility East Service Area Interceptor Rehabilitation**

M. Pierner stated work is substantially complete and working on final restoration.

13) **Operation report:**

- a) **Effluent quality for April**
- b) **Air quality for April**

P. Wescott reported there was a 45-second deviation caused by a false positive pressure reading on Incinerator #2. Preventative measures that have been taken are regular cleaning out of the incinerators secondary chamber and weekly system cleaning and checks by Electrical & Instrumentation staff. He stated this is a system safeguard to have the bypass dampers perform in this manner.

14) **Executive Director's report:**

- a) **June Commission meeting**

The June Commission meeting will be held June 26 beginning at 8:30 a.m.

- b) **NACWA 2013 Summer Conference**

Registration begins in June for the NACWA 2013 Summer Conference.

Staff will meet with WIPFLI next week to view the first draft of the benefits survey.

Commissioner Tumpach asked if Brown County and the City of Green Bay were included in the survey. T. Sigmund replied yes.

There being no further business to come before the Commission, the meeting adjourned at 11:15 a.m.

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Secretary