

Board of Public Utilities

Special Meeting Minutes

Monday, January 9, 2017
4:00 p.m., DPW Conference Room
1199 8th Avenue



City of South Haven

1. Call to Order by Stickland at 4:00 p.m.

2. Roll Call

Present: Bob Burr, Mike Henry, Dennis Palgren (ex-officio), Bill Roberts, Ross Stein (ex-officio), Barry Winkel, Bob Stickland

Absent: Alan Overhiser (ex-officio)

Also present: Larry Halberstadt, City Engineer; Wendy Hochstedler, Finance Director

3. Approval of Agenda

Motion by Henry, second by Winkel to approve the January 9, 2017 Special Meeting Agenda as presented.

All in favor. Motion carried.

4. Interested Citizens in the Audience Will be Heard on Items Not on the Agenda

None at this time.

REPORTS

5. Cost of Energy from Indiana-Michigan Power Company (AEP)

- A. 2016 Billings – All Charges
- B. 2015 Billings – All Charges

Burr pointed out that, unlike in the past, the true-up will be passed directly on to the customer. Stickland noted that the regulations that allow us to do that have been in for years, we just haven't done it.

6. Financial Reports

- A. Electric Fund – Financial Statement
- B. Electric Fund – Review of Percentage Billed
- C. Water Fund – Financial Statement

- D. Water Fund – Review of Percentage Billed
- E. Sewer Fund – Financial Statement

Roberts asked about the Factory Condo project; Burr noted that the state is having trouble getting neighbors to sign releases to clean up the soil under their houses. Discussion ensued regarding how many houses are affected. Roberts wondered if we know how much electricity the remediation is going to use, to which Burr responded, "We do not." Burr noted we have a 12-month easement for access to the property that will have to come back for renewal due to the delay.

Burr reviewed the amount of water pumped.

NEW BUSINESS

7. Water & Sewer rate recommendations.

Warren Creamer III, Managing Director, Public Finance with Robert W. Baird & Co. Commended the city for being very pro-active with their capital improvement program; noting that doing these never gets cheaper. Stated that today we are looking at rates; have made some further enhancements earlier today which will bring the rate increases down somewhat.

Creamer referenced Option A and Option B. Explained that to mitigate the impact that first year, in a creative move on Hochstedler's part, the DDA and LDFA will be moving funds to the city which allow the city to get over the hump of project completion and then full amortization of the debt. Creamer explained that by building up rate increases, but slowing the growth rate of the rate increases, the recommendation is for annual rate increases of not to exceed 9.95%, beginning effective March 1, 2017; next January 1, 2018 and each January 1 thereafter through 2021. After that there will continue to be inflationary pressures on the system which will have to be addressed as you continue to move forward; this plan conservatively provides for increases of 2.5% annually. Creamer commended the city for their participation in state revolving loan funds at lower interest rates funding an aggressive repair and replacement program for things like lift station pumps, electric control panels, etc. with about \$370,000 per year being set aside for those purposes.

Discussion ensued regarding the DDA and LDFA with Henry asking for confirmation that these donations have been approved by motion which Burr confirmed. Creamer explained that the numbers being presented today will be refined by Thursday but is quite confident the rate increase will not exceed 9.95%.

After Roberts asked for clarification, Burr pointed out there is interest on top of that. Discussion ensued regarding what the interest will be and what the first payment will be. Creamer noted that these payments are based on receipt of cash from the Clean Water State Revolving Fund. Funds are requested as construction progresses and the repayment amounts will ramp up as additional funds are received. Upon full completion of the project your annual debt will be approximately \$625,000 plus or minus \$5,000, contingent upon the actual amount borrowed from the Clean Water State Revolving Fund. After questions from Roberts, Creamer noted that Option A is closest to what we expect to see.

Discussion ensued regarding inflationary pressures that might be faced and savings that might result as a result of system improvements. It was noted that other things, such as consumption, can change.

Henry asked whether this assumes retaining a certain fund balance. Creamer explained each year we are starting fresh; excess funds could be used administratively. "These rates don't assume any change in fund balance or change in consumption."

Discussion ensued regarding whether bond payments can be paid early, which Creamer addressed, noting, "You will pay a huge interest rate or premium if you prepay in two or three years after bond issue; but 10 years out, it is feasible." Creamer also noted that investments higher rates of interest would be wiser than pre-paying low interest debt.

Motion by Burr, second by Henry that the Board of Public Utilities recommend a series of sanitary sewer rate increases beginning March of 2017, running through the fiscal year 2021, with a not-to-exceed 9.95% on an annual basis.

All in favor. Motion carried.

8. Financing availability fees.

Halberstadt reviewed the staff report which has descriptions of fees new customers have to pay. Reimbursement for inspection fees for new connections; tap fees paid when the crew has to go into the field and build service lines to the property; intangible fees such as a payment for capacity within the system (availability fees). Presently a new connection for a single family home in the city is \$17,380. Fees appear to be even higher in South Haven and Casco Townships. We are looking at allowing people to finance their availability fees and enter into a payment plan with the city to pay those off over a period of time. Discussion has been ranging between five and 15 years to allow them to pay that amount back.

Henry asked how many hookups Halberstadt sees per year to which Halberstadt responded approximately 13 per year. Stein spoke about the way South Haven Township handles it, "We finance for up to twenty years at 6.5% because rates were higher when we started this." Stein says this proposal indicates five years (for repayment) but you need to decide on that. Stein also noted that the Installation Payment Agreement talks about City Manager needing to approve and the intent of the water sewer authority is that it would be transferred from one owner to another owner which some financial institutions won't allow. Stein also pointed out that the balance due shows up as a lien (on the property taxes) if the property owner cannot make the payments. If it goes up for tax sale, the county treasurer pays the municipality and she is the one chasing the money. Stein suggests taking out the city manager's discretion on that.

Discussion ensued regarding these showing up as a lien. Stein noted policy varies per title company. Halberstadt said one of the reasons we are looking into this is one developer wondering if he could finance these and roll it over to the new owner. If the title company will not allow it, it is not the city's problem at that point, according to Halberstadt.

After a question from Stein, Halberstadt noted that our city attorney put this resolution together and we are trying to have flexibility. Central Lofts is developing Phase 3 right now;

it is one parcel and will be divided up into 19 units. Stein said in the township there would be a contract for each parcel, to which Halberstadt responded, "Right, there has to be a contract for each parcel."

Roberts questioned calling these liens; Hochstedler said this is recorded with the county as a lien. Burr noted this proposal is to try to provide consistency with the townships. Halberstadt said it is an effort to try to be more like the township as we move into the authority. Stein noted that there is a \$50 fee and he thinks there might need to be a bigger fee attached to that. Halberstadt noted that can be discussed with our attorney to decide how the city wants to handle that.

Burr thought there was a limit on what we could charge. Halberstadt said we charged 4.5% on all special assessments, but the reality is that we are not allowed to charge more than the interest rate we get on the bonds; for those special assessments we cannot charge more than the bond rate. This is not a bond so we can decide what to charge. Halberstadt recommends being consistent and using 4.5%.

Discussion ensued regarding the time period. Halberstadt stated he would recommend 4.5% for 15 years. Henry thought that sounded reasonable.

Motion by Roberts to recommend the draft resolution to Council to amend the City's Utility Policy to Authorize Payment of Water and Sewer Availability Fees in installments with the payments spread over not more than 15 years at 4.5% annual interest.

Halberstadt suggested the city manager portion that was questioned be taken back to the attorney.

9. DPW Director Comments

After discussion Stickland stated that the next regular scheduled meeting is March 14, 2017. Halberstadt pointed out that a special meeting can be called if a meeting is needed before March 14.

Motion by Burr, second by Henry to have the next scheduled meeting on March 14, 2017.

All in favor. Motion carried.

10. Board Member Comments

Roberts: Asked whether the dollars for hookup goes into the utility funds to which Burr responded yes. Stickland explained those dollars are part of the operating budget.

Winkel: North Beach is fine.

There were no other comments.

11. Adjourn

Motion by Winkel, second by Henry to adjourn at 5:06 p.m.

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All in favor. Motion carried.

RESPECTFULLY SUBMITTED,

Marsha Ransom
Recording Secretary