

# Board of Public Utilities

## Regular Meeting Minutes

Monday, May 23, 2016  
4:00 p.m., DPW Conference Room  
1199 8<sup>th</sup> Avenue



City of South Haven

### 1. Call to Order by Stickland at 3:58 p.m.

### 2. Roll Call

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

Absent: Alan Overhiser (ex-officio), Barbara Rose (ex-officio)

Also present: Wendy Hochstedler, Finance Director

### 3. Approval of Agenda

Motion by Henry, second by Roberts to approve the May 23, 2016 Regular Meeting Agenda as presented.

All in favor. Motion carried.

### 4. Approval of Minutes for the Record

#### A. April 25, 2016 Regular Meeting Minutes

Motion by Roberts, second by Winkel to approve the April 25, 2016 Regular Meeting Minutes as written.

All in favor. Motion carried.

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

None at this time.

## REPORTS

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

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

A brief discussion ensued regarding the cost of energy.

## 7. 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

Electric: Halberstadt spoke to Roberts' question from last month; Hochstedler noted, "We may be close but won't hit the three million dollar number exactly." Stickland commented that sales are down. Halberstadt commented that true-up costs will be in before the end of the year.

Water: Burr and Hochstedler discussed the debt payment and negative projection. Stickland noted there is nothing that was not anticipated. In response to a question by Burr regarding showing a negative or positive balance, Stickland noted there has to be enough cash growth to pay for budgeted depreciation. Discussion ensued regarding new state rules and how they will be handled and what will be done by the state if there are questions about anything. Hochstedler and Halberstadt both commented that they have not heard details about requirements.

Stickland noted that accounted for in water sales is up 3 tenths of a percent, even better than the electric fund. Burr pointed out that estimated reads affect this figure during the first quarter.

Sewer: Discussion ensued regarding assessments, revenue and interest on special assessments. Hochstedler noted the balance of the Kalamazoo Street project has not been started, so that money is reflected in the figures. Stickland noted that the interest line is just on investments and that will be going up. Burr asked whether we are fully depreciated now or will still be depreciating \$30,000 to \$60,000. Hochstedler said we decided not to special assess the whole amount and the assessments will go on the Dec. 1 bills unless not finished.

Robert asked how much of the money is already committed. Hochstedler discussed the bond issue and noted we have not obligated any of the reserve for that. Roberts asked if this is over and above the committed projects to which Hoch responded yes.

Discussion of the Projected Balance date showing 2013, which Hochstedler noted is in error and the correct year is shown in another spot on the spreadsheet.

## 8. Revised Quarterly Outage Report

Halberstadt reminded of last month's question about the map and table not matching, explaining that Ryan Bosscher, GIS Tech, corrected the map to match the table and noting that Bosscher had accidentally pulled an old map for the previous month's report. There is

no new information other than the map was fixed. Roberts and Stickland discussed the conclusion drawn from the report is that the two leading causes of outages are animal and tree contact. The area where tree trimming was done is showing zero tree outages, per Burr and Halberstadt.

## NEW BUSINESS

### **9. Board will be requested to review water, sewer and electric rates for the 2016-17 fiscal year.**

Hochstedler spoke about raising water and sewer rates two and one-half percent, noting there is funding for all the big SRF projects. Hochstedler also pointed out that while there is not a final breakdown of funding, that will come this fall, so for next month we are going for a two and one-half percent increase in water and sewer.

Burr asked about the official rate study to which Halberstadt responded that bond counsel will be making a recommendation on debt service for the first round of projects in the fall. Rate counsel will probably be coming in the fall, but Abonmarche has to complete some additional televising of sewer lines and prep the review and rating of sewer pipes (asset management ratings) then long-term budgeting can be done, determining when you think that asset is going to need work done, then bring in the rate counsel to determine how much we need to close the gap so when the time comes to do the work, it will not be necessary to borrow a chunk of money.

In response to Stickland's question about whether the rate counselor is part of the SAW grant, Halberstadt said, "Yes." Hochstedler added, "We are working on rates for debt service, coverage, etc." Halberstadt noted that the city has applied and been approved for a State Revolving Fund loan. Discussion ensued regarding timing on the bonding; rates and cost of consultants. Roberts asked if there will be a portion of the bond for the sewer and Hochstedler explained the way debt service coverage plays into the calculations. Halberstadt said the State Revolving Fund will only pay for the sewer and the restoration above the sewer; while the city wants to do more work so will have to acquire a separate conventional bond. Halberstadt noted there will be special assessments for the water and sewer funds.

Hochstedler added that when the plan is finished they will be issuing bonds, probably in September. Henry asked if the rates will be adjusted at that time to which Hochstedler noted that staff will have to get draft resolutions to the state, which will be for a number of years.

Roberts commented on what the SAW grant looked at and discussion ensued about the S2 Study, which covered the areas where it was thought that the city had problems, and that the project list that was developed from that is what staff is planning to start on this fall. Roberts asked if this would cover all identified problems but there will be new problems identified and Henry noted that there will be projections for 30 years. Stein noted that most of the township infrastructure is new, so won't be needing upgrades, with the exception of the areas of Evergreen Bluff and South Haven Trailer Park.

Stein asked when the first installment will be due on the bonds issued in September and Hochstedler responded that the first interest payment will be in May, adding that these budgets are a plan but the exact amounts have not been pinned down.

Henry said the sewer rates are proposed to have a 2.5 percent increase for July 1 and asked what the anticipated lag is going to be spread over. Hochstedler said as soon as we get that information we will bring it back to the board; the plan has not been completely developed yet. Discussion ensued regarding the scope of the projects identified and planned. Halberstadt noted that the grit building was rolled into the scope due to it being in deteriorated condition, which necessitated a bit of an increase in what staff originally planned. Stickland noted it will probably be similar to what we are doing in water.

Burr commented on a grant that will be available for 60 days which Halberstadt explained is offered by the Michigan Economic Development Commission (MEDC). Halberstadt said we are going to try to get one million dollars the Indian Grove Lift Station project.

Roberts said two and one-half percent sounds reasonable and asked how that is done. Discussion ensued regarding timing on simplifying the charges so they are not as confusing.

Burr reviewed the electric rates and projection that were made in the past; our capital budget is just over one million dollars per year. "After expenses, our cash will increase and that's our starting point. There will be rate increases from Indiana & Michigan on the demand side; we're trying to capture the increase in the demand charge (apply to all customers). The rate increase will also include two percent for cost of operations. In addition, the PJM transmission charges will be fully passed through to the customers as part of the monthly fuel adjustment. Roberts noted the city has no control over the costs being charged to us. Burr noted the increases for residential customers create the peak in summer, so we try to say they are responsible for 25 to 30 percent of the increase in the demand cost. Discussion ensued regarding the large commercial customers and small commercial customers. Burr noted the last two rate increases have not been passed on to the small commercial, small stores and small restaurant customers. It was noted that of the rate increase of six percent, roughly half is cost of power.

Motion by Roberts to recommend that City Council amend the Code of Ordinances to adopt new utility rates, effective July 1, 2016. Second by Winkel.

All in favor. Motion carried.

**10. Board will be requested to review the Cost Based Formula Rate Agreement for Full Requirements Electric Service with Indiana Michigan Power Company.**

Halberstadt explained that if we stay with our current contract it can continue to deliver full requirements electric service to the City of South Haven until May 31, 2026. The agreement permits the city to give notice to cancel the contract, which has to happen before June 1 of a given year. If we give notice we have four years of additional service. Halberstadt stated that if we are going to provide notice this year, we need to move quickly.

Discussion ensued about the group that did negotiations with the following questions: Is anybody making a recommendation to do this? Is this is good thing? Is there risk analysis available?

Halberstadt noted that GDS Associates, with whom we can work closely, feels the city would be getting better pricing in the market than with Indiana & Michigan. In response to Roberts'

question about whether there is any guarantee for the rates; Halberstadt said it depends on how we phrase the Request for Proposal (RFP). Henry commented that this just gives the city the opportunity to negotiate. Halberstadt pointed out that it is his belief that I & M will probably be right there at the table negotiating with us, “but they won’t come to the table while we still have a contract with them. Working as a group with other IMMUDA members would be better than standing alone.”

Stein asked about risk analysis which Halberstadt said there have been people who have looked at that, in fact, GDS has something in these materials about that. Roberts noted the new supplier could be more diversified. Roberts asked if we determined that the PJM costs will remain the same to which Halberstadt responded that there may be minor adjustments for point to point, but that is not the largest portion of the costs.

Burr noted that if we do this we have to have a special City Council meeting Friday morning.

Motion by Henry to recommend that City Council consider a Resolution authorizing the Mayor to provide written notice of cancellation to Indiana & Michigan Power Company prior to June 1, 2016, shortening the Delivery Period to terminate on May 31, 2020. Second by Winkel.

All in favor. Motion carried.

#### **11. City Engineer Comments**

There were none.

#### **12. Board Member Comments**

Henry: Spoke about his plans to be gone during the months of June, July and August.

Stein: Stated this is a complaint. A new customer paid their 4 thousand dollars and front desk passed a question about standby charges to Ross Stein. Stein would appreciate front desk staff doing their job and not passing questions to him.

#### **13. Adjourn**

Motion by Henry, second by Roberts to adjourn at 5:29 p.m.

RESPECTFULLY SUBMITTED,

Marsha Ransom  
Recording Secretary