

Board of Public Utilities

Committee Minutes

Tuesday, June 10, 2014
12:00 p.m., Water Filtration Plant Conference Room
60 Water Street



Introduction by Brian Dissette: The purpose of this meeting is to keep key stakeholders up to speed. Noted that Abonmarche has been working with the city, studying and evaluating the sewer system in connection with assisting with timelines for grant and SAW applications to fund future capital projects with sanitary sewer and developing a five (5) year plan. There will be an overview by Chris Cook, President and CEO of Abonmarche and Scott Smith, City Attorney, will go over legalities.

1. Call to Order by Stickland at noon.

2. Roll Call

Present: Burr, Overhiser (Ex-officio), Rose (Ex-officio), Stein (Ex-officio), Stickland
Absent: None

3. Approval of Agenda

Stickland approved the agenda as written.

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

None at this time.

NEW BUSINESS

5. Board will be requested to discuss regional issues pertaining to the Water and Sewer Systems.

Chris Cook, Abonmarche: Gave a brief review of the work done thus far and where it is heading, referencing a handout distributed to everyone.

Page 2: Looked in every manhole and other areas within and without the city; reviewed flow records; did flow metering and computer modeling to see how things would react to a storm; did smoke testing which piggy-backed onto the city's smoke testing; televised key areas in addition to the city's videoing. Outlined the Project Plan; looking for funding through the state revolving fund and other funding mechanisms. Expects to complete the study by the end of 2014.

Page 3: Did utility mapping; verified and added data to a map.

Page 4: Shows where flow meters were placed to show how it is during dry periods and during storm events.

Page 5: Smoke testing. As the study progressed we found areas we wanted to focus on. Also shows connections that shouldn't be there.

Page 6: Indicates televising done between 2002 and 2012 by the city and from there Abonmarche picked up and sent video cameras through the sewers to find structural issues need to be dealt with.

Page 7: Phases and sub-phases color-coded. Red: Coordinate with Dyckman bridge project. Tan: Continuation of work on Kalamazoo Street, Center Street and other nearby streets, as well as Indian Grove pump station (which carries flow from city and township). Yellow: Phase 2. Indiana Avenue, North Shore Drive including ongoing regular sewer maintenance requests and video discoveries of areas needing work. Phase 3: Big project including the head works at wastewater treatment plant. Phase 4: Inflow & Infiltration removal.

Page 8: Current cost estimates for work described above.

Burr brought up whether the streets will be dug up to get to the sewers, to which Cook and Halberstadt responded that there are some trenchless technologies, but there are various issues, including alignment with the existing sewers.

Burr asked if this project plan still includes moving the lift station to the sewer plant. Dissette asked for details. Cook noted that the plan takes the two lift stations near the plant and moves them closer to the head works of the plant and increases the size. In the past, sewer overflows have happened; this should fix that situation. Modeling shows the main lift station, even after Infiltration and Inflow will still be undersized, so in the process will make that station larger.

Burr questioned whether the lift station by the fish station will be going away. Halberstadt indicated it will probably be south of the tall brown head works building. Cook said that lift station will be located away from Dunkley. Halberstadt confirmed it will be within the fenced area of the treatment plant.

Stickland asked whether the size of pipe going into the main lift station has sufficient capacity to which Cook responded that the modeling shows that will be okay.

Cook indicated that the cost of the main work is approximately four million dollars (\$4M) and Indian Grove an additional seven hundred thousand dollars (\$700,000). That approaches half of the costs. Eleven million dollars (\$11,000,000) in construction and almost thirteen million dollars (\$13M) in total to be funded through the state revolving fund. Interest rate now is 2.5%.

Page 8: Project schedule, based on SAW grant, city will be in Phase 2, maybe fall 2014 or spring 2015. Noted that funding for Phase 1 has been delayed as the state works through

bonding issues, particularly related to the Detroit bail-out. Getting started fall 2014 might be ambitious, but that was the original plan. Some of the dates will slide a bit. Generally flows from 2014 up to 2022, with first phase projected to do ravine work this year and next; Kalamazoo Street 2016 to 2017; Indiana Avenue through 2019; main pump station could span 2017 to 2021 between design through construction. We want to push that (main pump station) off a little because it is costly, but also to see how the flow tactics affect things. Final phases will run through the 2020s. The projects are phased to ration out the funds and equalized a bit to try to equalize the impact from a rate payer standpoint and in reasonably sized chunks, as well.

Cook concluded, "That's where we've been and where things are headed. Questions?"

Rose asked how much SAW will cover to which Cook responded that of the \$750,000 for design work in Phases 1 through 3, ninety percent (90%) state funded and ten percent (10%) local.

Dissette indicated that there are no surprises in Chris Cook's presentation. We are looking at big dollars as relates to the sewer system. Circumstances forced staff to look at the water plant; it involved all of us; negotiated buy-back agreements with water and sewer authority and Covert Township. Dissette noted that he is not sure about how much is available in the sewer fund, but there is a window of opportunity during which we have about five (5) years before major work occurs on the sewer plant. Today is an opportunity to start the discussion on how we fund the improvements to benefit all of our users. Dissette is "hoping to engage in a series of conversations about future capital needs, wastewater treatment and across the infrastructure." Dissette noted that he has been talking with Scott Smith about contracts and the future of how these things are handled. "We have some time, but not a ton of time, to figure out how to fund these capital projects."

Dissette indicated that Smith will talk about ways he can see to fund this.

Smith asked Cook if what he hears Cook saying is that as the Infiltration & Inflow removal proceeds, flow at the lift stations will decrease and determine how they are designed, which Cook agreed is correct. Smith noted that it sounds like the treatment plant has plenty of capacity and wondered, "Have the townships done studies on future needs and future growth patterns?" Overhiser, Casco Township Supervisor, stated that when the township refinanced they looked at the future in a definite way. Smith questioned whether Cook has factored growth into his estimates to which Cook indicated that a growth factor, based upon other regional studies, that the average flow would exceed .45m gallons per day. A year or so ago we metered and they were below that, but when a rain event occurred, they definitely exceeded the .45m gallons per day. Chris said wet weather flow in the township experiences the same thing. Smith asked if townships need to identify some of the areas they can correct. Stein, South Haven Township Supervisor said they have identified some problems and done some corrections.

Smith asked, "Do the parties like the current situation where you have a supplier of services and customers, or do you want to look at common ownership through an authority, where effectively you own and operate the system." Smith indicated that he likes to ask those questions when the right people are in place to have cooperative/collaborative conversations that can reach a rational result. This is a good point in time to ask those questions; we have leadership in place in all communities that are able to have those

conversations. Smith stated he is not presupposing what answer is best for you in your communities. The advantages with an authority are that everyone shares in all costs, particularly if it's a larger authority providing resources. There may be work in Inflow and Infiltration, and other areas, in the townships as well as in the city. Another of those advantages is in sharing and spreading those costs. Same things can happen in terms of expansion of the systems; figure out how best to share costs of expansion. We all know if there are expansions in plant capacity it is hard to pass that on to a developer. Dissette thought we might start the discussion on what that might look like. Authorities can be set up in different ways; depending on what you all want to do.

Smith gave some examples of structuring. Rose said Covert has water only; the other townships have water, sewer and electric. Smith said all entities could be done the same or have different authorities for each entity; Smith wants to collaborate with the engineers to bring about what the various entities want to do.

Dissette said we have a large capital project coming down the pike but the model we have right now is confusing. When we're working on a Meijer's, an Aldi's or a residence customers have to go to city hall, then to the township and on to public works; it is confusing and there are lots of layers of government. There may be a window of opportunity to fine tune the system we have created.

Stickland questions what the problems are with the existing agreement we have as we look to the future. Smith indicated that from his perspective, there are myriad agreements that all overlap and create some rights and we are constantly flipping back and forth from various documents to figure out what goes with what. When we're dealing with somebody outside the community, we have to say this group does this, that group does that, and so forth; this is confusing for people working on the outside. Smith also noted that the city is constantly billing various funds and accounts back and forth for work that gets done. When we look at funding capital improvements, we have to determine which township is responsible, or is the city responsible. Smith continued, "Do we pro-rate and bill? Is it workable? Yes. Can we continue the way we are? Yes. Has it been acrimonious? Mostly not. Occasional flare-ups when one party thinks one thing and another thinks it means something else. Is it terribly broken? No. Could it be better? Yes."

Dissette said we did capacity buy-back agreements; worked out capital buy back agreements because there were still available capacity, estimated the cost of the plant and value of used capacity then wrote a check back to those two different bonds. As we moved forward, if you are in Covert or Casco a new customer, in addition to paying the local fee, pays the city an availability fee that funds debt service on this plant. The authority does not appear to have exceeded daily capacity but that day is coming. Also know that we need to do for this project (sanitary sewer/wastewater treatment plant) what we did for this (water filtration) plant. Smith interjected, "From the township perspective, would you rather be an owner than a customer?" Dissette indicated that the city has a lot of toes in the water as relates to regional authority. Stein commented that he is not opposed but the only thing is that the South Haven and Casco townships have some major debts out there that we have to take care of which you would not want an authority to undertake. Stein pointed out that there are some issues on this project that are a little different than this water plant. The township authority has no issues with some of the lift station issues; the issue is what the rates would be to the township customers for the local system for the city and how debt is going to be allocated. These rates could mean different things to a township customer than

a city customer. Stein noted that South Haven Township has some old sewer pipes, such as on Cherry and Lambert, while there are significantly less in Casco.

Smith asked how much South Haven Township's debt is which Stein approximated at around twenty million dollars (\$20M). Addressing that debt would be an issue per Stein. Complaints regarding mandatory connection to sewer has calmed down a bit according to Stein; the township just sent out a ninety (90) day notice in April. Stein remarked that at least four (4) people have contacted them, who are already connected. "Why didn't they contact us when we sent out the first two letters?" Stein also indicated that there are approximately forty properties outstanding because "we haven't been able to contact due to foreclosure or receivership." Stein's question is to figure out how this baggage would all meld together.

Overhiser noted that in the 1980s the agreements said the townships were to receive the value of a new plant. It becomes a little more problematic to rationalize obsolescence and growth when you look at the sewer plant. Stickland commented that a determination on what is trunk line and what is plant would be helpful.

Smith asked if Stein knew what the interest rate is on the township's bonds. Stein responded that the township has just refinanced some for two per cent (2%). The interest rates on most of the bonds is under five per cent (5%), but Stein is not sure what the interest rates are per se. Stein reiterated that he is not opposed but he is aware that there are some obstacles that are going to have to be addressed.

Stickland said even if we go to an authority, those things have to be addressed. There are, according to Smith, a number of ways that could be accommodated, if it makes financial sense to everybody to do that. Resulting rate structure could be done in a way that is fair to all users and that users perceive as fair. Stein said the local things that have to be done in the city are easy to address, the ways a township person will benefit may be more difficult. Smith said if we do local things and potentially reduce the capacity, we need to determine what the other things are. Smith said there may at least be a conversation to be had about it. Stein noted that he is a little versed on what is going on, but the biggest issue will be the residents. Smith said if the debt is shared and they see the quid pro quo that might be the way; we can look and see if it makes sense and then talk about it. Disette says we realize we have some costs, Indiana Street, for example, cannot be tied back to the farmers in South Haven Charter Township. Disette said the county drain commissioners are doing assessment districts. That is a possible way to address local versus township costs; might be a good way to explain it locally.

Smith noted that the state is now forcing you to fund a replacement and coverage requirements are being enforced. The SAW grants requires that. There may be changes in the accounting standards coming, too. The thinking is that we need to pay the cost of wear and tear as we go along. Disette said Chris has big numbers but that's only half of it; there are also sewer treatment plant costs.

Stein said we can talk about the pros and cons, how to handle township debts, how to keep them separate and make sure they are funded. This can be complicated, but Stein is not opposed to funded depreciation; "Have the locals take care of infiltration and trunk lines; taking care of infiltration is the cheapest plant capacity out there. Run some numbers, run some scenarios so we could see how things are funded." Overhiser is not opposed to any

relationship and noted that the current relationship is working. Convincing the residents that we need more capacity is difficult because “they’re fine; their toilet flushes.”

Dissette asked how bad the hit was that you guys took related to the water agreements. Stein said we get the same complaints the city gets; plunking down those four thousand dollar (\$4,000) fees. Developers are screaming that the utilities are stifling growth in South Haven Township. Stein noted that Casco has high end homes so their development is going quite nicely; South Haven Township could be helped to grow is to make it more inexpensive to build homes for the more moderate priced people.

Stickland asked if our connection fees are out of line with other communities. Stein said that is hard to determine; in cities some of the connection rates might be kind of low but you do not necessarily know (if it is an apple for apple comparison) because the city may have lower connection rates to stimulate development but charge more in taxes.

There was discussion regarding the cost for a new construction connection, which Smith said seems to be approximately twenty-five thousand dollars (\$25000). Most places in South Haven Township the reason for us to have water is that wells are not available. “We have a high water base so it’s difficult to get a septic system; ‘Indian mounds’ are twelve to fifteen thousand (\$12,000 to \$15,000) and guaranteed to fail in twenty (20) years.”

Dissette questioned how to address capacity questions; how could we share some of the existing costs and whether the township supervisors feel that the boards would be receptive to (forming an authority). Overhiser noted that if you look at water we are really there. It is going to be an educational exercise on convincing everyone we need to be able to grow and this is the crossroads at some point. The last link we do not have is the sewer system and the authority. Dissette asked if the supervisors could see a real battle coming, asking people to give up the utility board. Overhiser does not think it would be. Halberstadt interjected that the townships would be giving up the township board for a seat on a different board.

Stickland asked if part of the issue persuading constituents that this needs to be funded/spent. Overhiser explained that our residents looked upon this board as the townships not having a say. With an authority, at least the residents would have a vote; that would be a benefit. When South Haven Area Emergency Services (SHAES) was organized the townships paid more. Limited capacity might limit our capacity to grow. Overhiser pointed out that Casco Township has developments approved; infrastructure in; “we are going to hit the ceiling before we get them filled up.”

Burr asked if there is an existing city/township somewhere we could look at to model after. Smith said there are some authorities; Northwest Ottawa Water System in Grand Haven. Kalamazoo just did something. Smith also noted that there are a variety of ways to do this; any way your mind can imagine, it can be configured that way. The statutes are pretty flexible. Outstanding debt has to be addressed; systemic engineering problems have to be addressed. Have to pay debt service. Fees have to be roughly proportional to the benefit people are receiving; someone cannot be subsidizing someone else. Smith concluded, “Within those givens, if it’s possible that it makes fiscal sense, we can structure it.”

Dissette said the most recent authority with which the city has been involved is the Recreational Authority. The way that is structured, if they want additional debt, that goes to the voters as a millage. Smith said we would be using a different statute than the Recreation

Authority used. The statutes are very easy, very versatile; however, if you were to levy a tax, you would have to have a vote. Overhiser asked about debt to which Smith responded “You (an authority) can issue debt” and further explained that the mechanism chosen is dependent on how you want to fund it. Smith noted that there is some borrowing coming that will bring benefit to all, but ultimately there will be more debt coming; if we don’t deal with it now, we will be back in five (5) years or less. Smith stated that the council has signed off on other authorities; the council has consistently placed a lot of trust in appointed officials and this is a proactive way to take care of debt.

Overhiser asked about special assessment districts. Dissette noted that the Indian Grove Lift station has benefit to both city and township. However, the utility is struggling with “can we do that without the authority’s formal blessing?” Dissette is not sure.

Smith asked if Dissette has the last South Haven Township Audit. Dissette said they pulled it from the Treasury. Stein commented on the length of time left on those. Overhiser said half of our debt is what we re-funded twelve (12) years ago.

Stein brought up indirect to direct hookup fees. Halberstadt said if we have to build a new service between the main and the property line, infill developing, it is four thousand dollars (\$4000) for sewer and two thousand dollars (\$2800) for water. Halberstadt clarified, “that’s adding a new service to a lot that has never been serviced before.” After questions regarding availability fees for water & sewer, Halberstadt informed that it is about seventeen- to eighteen thousand dollars (\$17,000 to \$18,000) for everything. Stein pointed out the difference of developments where the developer put the infrastructure in as opposed to individual tap fees. Township tap fees are probably about the same, including the four thousand dollar (\$4,000) connection fee. Debt service is in the monthly bills. Dissette said for Casco Township debt service and availability fees are seventy dollars (\$70) per month before they turn on the spigot.

Smith suggests assembling a fee schedule: Connection Fees, Special Assessment, Interest Rates, Bonds, as much data as we can get. Halberstadt noted that the treatment plant study is already done. Smith responded, “Then get with Chris (Cook) and try to crunch foreseeable numbers and see if it is feasible at all or if it is something we should shy away from and just continue as we are.” Stickland noted that Casco has a larger share of the pie. Stein noted if you have a fairly large amount of infiltration at Dyckman, if we could do away with that it, will add quite a percentage. Smith pointed out that may reduce everybody’s cost.

Dissette interjected that over the next two (2) months he would like the city attorney and the city engineer to partner up and put together your best thoughts, then he would like to catch you an hour or two before the August Board of Public Utilities (BPU) meeting and get this working group together again.

Dissette said there may be another carrot out there – SAW funds – that’s just another reason to have these conversations – put together a regional application. Rose asked about Governor’s partnership – Dissette said we have applied for that for attorney fees – whether or not we will apply again in upcoming fiscal year, don’t know, but if you’re not applying shame on you.

6. Other Business

Dissette: Barbara Rose has contacted us on issues related to the water system in Covert. Roger Huff, Department of Public Works Director, was working on this issue. Huff's accident has set the city back quite a bit on quite a few issues. Dissette explained that the city is going to owe some money to Covert. "Could we have gotten a final answer to you sooner? Yes, we could have; we have been slow but we will get that to you." After questions, Rose commented the issues are related to maintenance issues. "Rendell asked who would pay for the water tower along with other issues which were raised. In our contract having gone from a retailer to a wholesaler, some things may have slipped through the cracks; we're all working together to get some answers, so thank you."

Burr, on funding depreciation, asked what percent is mandatory, to which Smith responded there is a formula built into some of the SAW grants he has seen. This is usually what the engineers and accountants do, but Smith knows it is there and coming. Cook noted that it falls into the permitting process and agreed it is coming soon. Smith we already have to account for depreciation. Burr said when we do rates next year that will be an issue. Overhiser asked if there has to be a dedicated fund. Smith said no, the state just wants you to start doing this, going forward it is a good thing to get out of this debt cycle. Dissette asked if this is done as revenue bonds, would we have to do a bond reserve for Chris' work and funded depreciation. Smith explained that the utility is supposed to collect what is needed every year so if you lose a large customer, or have people not paying en masse, the funds are still available to keep your system running.

7. Adjourn

Stickland declared the meeting adjourned at 1:40 p.m.

RESPECTFULLY SUBMITTED,

Marsha Ransom
Recording Secretary