

# Minutes

## NEW BERLIN UTILITY COMMITTEE

March 06, 2001

Members Present: Alderman Wysocki, Alderman Bullermann, Alderman Patzer, Mike Holzinger (Director of Finance and Utilities) Robert Dude (Citizen Member)

Others Present: Jeff Chase (City Engineer), Larry Wilms (Division Engineer) John Knepel (Virchow, Krause & Co) Steve Schultz (Ruekert & Mielke) Tom Krumplitsch (Utility Operations Manager)

Alderman Bullermann called the meeting to order at 8:01a.m.

ITEM 2A-01 Approval of Minutes, February 06, 2001

Motion by Mike Holzinger to approve the minutes for the February 06, 2001 meeting. Second by Mr. Dude and passed unanimously.

ITEM 06-01 Water Utility Rate Study Recommendation

ITEM 07-01 Waste Water Utility Rate Study Recommendation

- Mr. Knepel stated that based on the 2001 forecasted information provided by City staff the City shows a negative rate of return of approximately 1.2%. The PSC has authorized the City to generate a 9.75% rate of return, and because the Utility has had no increase in the rate since 1987, it has created an ever expanding gap. Their study based on the 2001 Operating and Capital budgets from the City, they are recommending an increase of approximately 48% in water rates. That would generate a return on investment of 8%. Mr Knepel also reviewed the sewer rates, and recommends a 3% increase. They too have not been adjusted in quite some time.
- Alderman Bullermann questioned why there has been no increase in 14 years.
- Mr. Holzinger replied that is unknown.
- Mr. Dude questioned how this will fit in with the proposed Storm Water utility fee.
- Mr. Holzinger replied that the rate for those customers will be approximately \$5.00 per month, or \$60.00 per year.
- Mr. Dude states that an increase of 48% will not sit well with the customers
- Mr Knepel replies that is the danger in no increase for so long a period
- Alderman Bullermann questions why increase must be done in one year, could it not be done over two or three years
- Mr. Knepel responds that the PSC tends not to allow phases in increases unless accompanied by multiple phases of major construction projects
- Alderman Bullermann then asked how often can a rate increase be requested outside of those parameters
- Mr. Knepel replies that you could go every year
- Mr Dude suggests the City go for an increase of 3 or 3½% every three years.
- Mr. Wilms relates that once you have gone thru a detailed rate increase where they have been able to go thru all of your programs and costs, you can do a simplified rate increase which can be done every year for nominal increases without the effort of making a large study, as long as you meet the eligibility requirements.
- Mr.Chase adds that conclusions for recommendations have to make significant assumptions about the future of water utility and we are expecting significant capital expenditures to meet quality and supply demands. He asks what has happened in the most recent history to put us in a position to look at a 48% increase. He believes that part of that is the deferred assessment

revenues that we would be appreciating now. He believes that further study would be beneficial for cause and effect in policies.

- Alderman Wysocki remarks that in the historical perspective, the Utility Committee was non-existent, everything was done thru COW and Council, to get it back on board took a real effort. He wondered if other than normal day to day costs, the increase in development and customers are part of the increase.
- Mr. Knepel states they tried to identify known developmental increases in customer base, and that is factored into the revenue stream.
- Alderman Wysocki states that from a historical perspective, over the last 14 years with all the development we have had, and most of that development being utility users, what happened relative to the revenue that would have generated. Was that not enough to cover it.
- Mr. Knepel responds it was enough to keep cash flow, but creating a slow drain. You want to recover not just operating costs, but depreciation on the plants so there are funds on hand to replace that plant without having to borrow or to increase rates. You have been using the cash generated by the depreciation to fund operations and current capital expansion.
- Alderman Wysocki asks whether we have designated funds identified for those capital improvements
- Mr. Holzinger replies that we have reserve capacity and impact fees
- Alderman Wysocki asks how those funds are doing over the years. Are they adequately growing.
- Mr. Holzinger replies yes, but on both water and sewer they have all ready been designated. When water and sewer and CIP budgets were approved we knew we would have to do something. We had about one million five for reservoir work included. Even if we do a bond issue, we will still have to make debt service payments, and we will, in the future need to look at step increases for either Lake Michigan, or shallow wells. I believe we need the rate increase. Over the years, there has been dissension, with the different make up in Mayors and Councils, but I would rather not go over history, rather, move on to address the rates.
- Mr. Dude states that if we have some capital budget requirements going forward, we need to fund the depreciation and put a number on that. I am not adverse to having an increase, but I do not like the idea that we are saying we have not had an increase in 14 years, and therefore we will make it up this year. If we have a target on the other hand, then I can agree to it, and the taxpayers can live with that. I do not know that we have that number. I would like to know what my target is.
- Mr. Knepel replies that the reserve of the utility is being eaten up. We are trying to stop erosion. The target would be the 8% return. That is the benchmark of the PSC . You have the option of asking for less. Going from 8½% to 7½% rate of return would result in a 5% decrease in the rate increase. Asking for a 7½% rate of return would mean a 43% increase in rates. As long as you can justify the cash flow with the PSC, they will listen to any reasonable request.
- Mr. Dude states he would rather back into an increase. He can justify that.
- Alderman Bullermann voices the opinion that the timing of this stinks.
- Mr. Holzinger makes note that the last three audits recommended that the rates be analyzed. The numbers are not pulled out of the air. They were approved. That surplus falls into undesignated, but we use it as working capital for quite a few projects. There were many projects that were deferred year to year, and I believe that is how the utility has been able to get by. Working capital has been used to replace the fleets. Some increase is necessary.
- Alderman Wysocki says he would prefer the phase in process. I would like to go to the PSC with 3%.
- Mr. Knepel questions whether Alderman Wysocki means a 3% increase in rates, or a 3% rate of return
- Alderman Wysocki clarifies, a 3% rate of return
- Mr. Knepel says that would drop the rate increase down to about 18%. Also bear in mind that there is a covenant for the City to maintain rates at a certain level. Generally operating income must equal 1.25:1 of annual debt service . Operating income, by covenant, must be around that number. There are some adjustments that can be made to accommodate that. A 3% rate of return would provide for that.

- Alderman Wysocki believes that this is probably just a phase as we consider land use and planning issues. The City has sufficient documentation to alert the PSC that we will be back again within a very short time.
- Alderman Patzer states we are here to do what should have been done 14 years ago. Whether or not there was a utility committee, the board of public works should have addressed this issue. Now we are in a situation where we must make a tough choice because of our own ineptness in policy decisions. I believe Mr. Chase is correct that we have taken the easy way out by deferring and deferring, and now it is costing the reserve fund. In essence we are here robbing Peter to pay Paul. We paid for the study, now we have to do what they are telling us to do. We have no guarantee that the PSC will grant an increase if we return next year.
- Alderman Bullermann agrees with Alderman Patzer, but says he is concerned about public perceptions and what conclusions they will draw based on recent community issues. On the other hand, we do not know what the next council will do, and what their strategy will be. For 14 years, no one has addressed this issue. We need to fix it now.
- Alderman Wysocki agrees we need to do something, but does not believe we are in dire straights. I know people who simply cannot afford this all at once. Based on this financial advice, I think we should be looking at some type of phase in with your recommendation on how we get to the target, tied closely to our capital improvement plan. I do not want to over exaggerate the issue of deferred assessments. Lets be careful about punishing the good intentions of our predecessors. I would like to get the actual numbers on the table. Another point is that we have two different utilities here; not everyone is on both sewer and water; and rates are more substantial for residential than for commercial customers, which raises the issue of the rate structure among our users. Is this something that we need to address. The political realities are that we need to address the whole picture for the entire City, and we need to be careful. While I appreciate their help, the beancounters do not make the final decision.
- Alderman Bullermann asks what the committee would like to do with this. Do we want to defer this.
- Mr Holzinger states we should decide what percentage we find acceptable, make a motion and pass it to the Common Council. It will take the PSC at least 90 days to make a decision at any rate, so the first bill to be impacted would be the October utility bill.
- Mr. Dude questions what number do we actually need in terms of rate of return over the three or four year period to get us back where we need to be.
- Mr Knepel responds that based on the data we have been given, the 8½% rate of return is what is required to cover all capital, debt service and operating costs of the utility going forward. If you want to get half of that now, and half two years from now, that would be one plan. The Utility is not in dire straights, and certainly has adequate reserve, but it is our recommendation to do it all now, or, my personal recommendation would be to do it in two; half now, half two years from now.
- Mr Dude believes that will give Mr Holzinger time to lay out some numbers to support that expansion. There are going to be funding issues in the future, bonding etc. Please give me some numbers, and a plan
- Mr Holzinger sites a report put together by Ruekert & Mielke for the reason we are doing the water studies of shallow wells and Lake Michigan. That study of impact fees identified a ten year plan in which we need to consider the installation of one or more would be approx five million dollars. We know we will have to do something, whether that is reservoirs or iron filtrations, we will certainly be paying for oversizing pipes, and we need to factor that into the figures given to Virchow, Krause. Until we know that, we will not know what the dollar cost will be.
- Mr Dude states he could support a motion to pay half of it.
- Alderman Bullermann would like a forecast of the ramifications of doing half
- Alderman Patzer suggests looking at increments with several scenarios. He believes that just because there is no crisis does not mean we should do nothing, but he does want to know why. What can we live with.
- Mr Knepel will run scenarios
- Alderman Wysocki would like the scenarios split between the utilities rather than combined.
- Mr Holzinger raises the issue that this is not an overall utility bill, and it must be understood that on the sewer side we are collecting 2¼, 2½ million dollars on the MMSD capital charge. That is

another political ball, and how we choose to collect it is a big question. We are probably the only community charging customers on utility bills rather than on the tax bill. One side of the argument says, if put on the tax bill the non profits are not going to pay, the flip side being, the non profits do not have a value so they are not part of the overall computation, but they are currently paying for it now thru the rates. The way to drop what people are currently paying would be to put the MMSD cap charge on the tax bill.

Motion by Alderman Bullermann to defer this item to next meeting, March 20<sup>th</sup>. Second by Mr. Dude, and carried unanimously.

#### ITEM 08-01 Authorize Expansion of Scope of Well Siting Study

- Mr Chase talks about the scope expansion which is actually part of the existing well site study by Ruckert & Mielke. Part of the study included drilling holes in the earth for exploration of sub surface geology and water structure. Starting with review of maps and documentation and previous studies and then based on that, looked at areas that may be promising. Based on that, focused in on the most promising areas and probed those areas. Budget included \$30,000 for this exploration. Good news, there are some promising areas, bad news, the cost much higher than anticipated. We are suggesting that the Council authorize additional funds for additional drilling. We are now looking at \$76,000 We are looking for authorization to spend an additional \$46,500

Motion by Mr. Dude to authorize additional \$46,500 for drilling. Second by Alderman Bullermann, with discussion following

- Alderman Wysocki asks if this is the \$155,000 contract.
- Mr Schultz responds that when the contract was presented, it was in pieces, but put together, and we have one contract for roughly \$200,000, but in the initial presentation, yes, this would have been part of the \$155,000
- Alderman Wysocki for the record, would like to recognize that we have one contract for the Utility, and one contract for the City. Verifies with Mr Holzinger that all of these studies are coming out of the same account, and requests that they be legally documented as one. One of the concerns for one of the identified sites is the cost to bring water to the utility area. Is the additional amount for the utility area for the west side.
- Mr Schultz responds that it is for the west side of the city
- Alderman Wysocki states that the majority of the cost, because of the depth you are going to, is for the west sites. Having said that, we recognize that even if we to determine that there is this wealth of water out there, to get it to the utility is another issue in regards to cost. In your opinion, is it worth making these kinds of investments for research.
- Mr Shultz responds in the affirmative because we must realize how costly these studies are, and that it is getting increasingly difficult to site wells. It is important to look at these sites, and protect them for future development.
- Alderman Wysocki reads a newspaper quote by Ruckert & Mielke saying there is not enough water in the sand and gravel aquifer to provide wells everywhere. Are you also considering the land use plans that the City has agreed to. Have you looked at that growth. I would request you look at that very closely. We need to parallel track these studies. You have indicated that you have a concern on one area about potential contamination. One last concern is leaching out contaminates at the Muskego landfill area
- Mr Schultz replies that we are staying away from the sites with potential contamination
- Mr Holzinger asks if the other two sites look promising
- Mr Schultz responds that they are more promising than the golf course site, and the high school site. The other two sites for everyones information are the old drive in theater, and Gatewood Park.

Upon voting, the motion carried unanimously

#### ITEM 09-01 Status Report of Lake Michigan Water Study

#### ITEM 10-01 Status Report of Well Siting Study

- Mr Chase explains that while they are not prepared to give a formal update, they can elaborate about the timing for the future and various additional information
- Mr Schultz states that in January we were on hold until we could do these borings and more closely identify where the best source of groundwater was. If the best place is on the west side of town, that has a real impact on the cost, and therefore on the comparison between providing Lake Michigan water and staying on ground water. Borings were set to start this week. We have the \$30,000 approved, and the driller said he would be down today and mobilize within the next two days, and begin drilling. The borings could be done in about two weeks. That allows us to finalize the cost estimates in the study. I would estimate that approximately three weeks after the end of the borings, we can deliver a draft report to you
- Mr Schultz discusses the Great Lakes Governors, and talks about water allocation outside the basin, and regulation of ground and surface water. Letters have been written asking for legal opinions. He also states that they have talked about cost sharing with the City of Milwaukee in regards to the delivery of water to the border, and have had a similar discussion with West Allis.
- Alderman Wysocki wonders whether Ruekert & Mielke is convinced that getting water from Oak Creek is not a viable option, and discusses the fact that New Berlin currently supplies water to Lake Michigan from our ground water aquifers and puts it into Lake Michigan.
- Mr Schultz verifies that Oak Creek is not a viable option

#### ITEM 03-01 Public Water Supply Site Concerns

- Mr Holzinger talks about the utility shop water availability. There was concern from a local citizen regarding the condition of the site on Christmas Day. The other concern is the amount of water that goes out of that point. Do we continue this practice. If so, we will need to make adjustments.
- Alderman Wysocki voices concerns about the fact that we make this available at all, and that we have some real liability concerns.
- Mr Krumplitsch states that we could talk to the City Attorney regarding adding signage with liability issues

Motion by Alderman Bullermann to discontinue the practice with a thirty day posted notice. Second by Mr Dude and carried unanimously

#### ITEM 35-00 Rehab Program Engineering

- Alderman Patzer states that this is something that really needs to be addressed, and acted on, but will be deferred to next meeting.

Motion to close by Alderman Wysocki, second by Mr Dude and carried unanimously