

**MINUTES
City of New Berlin
Utility Committee Meeting
Tuesday August 25, 2009**

Members Present: Alderman Harenda, Alderman Ament, Alderman Wysocki, and Commissioner Bob Dude

Excused: Commissioner Jim Morrisey

Others Present: Rick Johnson (Utility Manager), Ralph Chipman ((Accounting Manager), Mayor Jack Chiovatero, City Attorney Mark Blum, JP Walker (City Engineer) and Sue Hanley (Administrative Supervisor Utilities & Streets)

Alderman Harenda called the meeting to order at 5:02p.m. with roll call and declared a quorum with 3 members present. Commissioner Jim Morrisey was excused and Alderman Ament was expected shortly.

H-09 Approval of Minutes from the July 28, 2009 Meeting

Motion by Alderman Wysocki to approve the minutes from the July 28, 2009 Utility Committee Meeting. Seconded by Alderman Harenda and upon voting the motion passed unanimously with Commissioner Dude voting present.

UT 12-04 Milwaukee Water Expansion- update

Johnson: Everything is working on the Milwaukee water side. We need to program one of the altitude valves at Valley View pumphouse, a SCADA upgrade at Well 8.

UT 05-07 Water Conservation Measures

Harenda: The subcommittee will be finalizing a draft during the next couple of weeks that identifies what we can do to reduce our 2020 requirements for a 10% reduction and will bring it to the Committee.

UT 05-08 Westward Manor Lift Station Reconstruction

Harenda: Council took action a few meetings ago and the project is in progress.

UT 07-09 Discussion regarding the procedures used to authorize the payments of costs and fees for utility consultants and contractors

Harenda: All of the Committee members receive a YTD budget report and payables for the Utility.

Dude: Ralph prepared a Wastewater Utility Statement of Revenues, Expenses and Changes in Net Assets to compare where we are in 2009 and project it out and compare it to 2008 actual totals to see where we will be at year end. He cannot do it for the Water Utility because of the Milwaukee water rate issue at this time. There is a large drop in the investment income from \$541,000 to \$195,000 this year, we budgeted a higher number; we are showing a \$120,000 loss, a \$516,000 operating income loss and \$265,000 loss in net assets. This will be the 2nd year of change in net assets. On the Water budget, Ralph told me we are looking at about a \$400,000 profit.

Closed Session: No new information. The committee did not go into closed session

UT 13-09 Request to Install Sanitary Sewer and Water Main to 4986 Small Road

Harenda: This was referred to Plan Commission and we are waiting recommendation from them.

UT 17-09 Discussion and Possible Action on the 2009 & 2010 Utility budgets

Harenda: Commissioner Dude went over some of the 2009 operational issues. He will be sitting down with staff to review the 2010 budgets in September.

Dude: In the 2009 budget we are looking at a loss of about \$500,000 on the wastewater side and a profit of \$400,000 on the Water side.

Wysocki: Would that require any action on our part if we are in the hole by that amount?

Dude: The Wastewater Utility balance sheet is in an excellent position. In 2005 we had a net operating loss of 334,000, 2006 +686,000, 2007 profit of 1,064,000 and 2008 we had a loss of 1.1 million and this year we will have an operating loss. We have a strong balance sheet, but I have difficulty operating at a loss, but the vast majority of expenses are not controllable by the Committee or the council. In this year's budget if you included I & I, 81.5% is controllable by MMSD. The only thing we can control is our revenues and about 20% of the expenses. Even though we have a good net worth situation, we have to keep showing an operating profit to keep building up the bottom line and ultimately will have to replace the pipe in the ground. This year's utility budget may show an increase to our customers, but we have not had a rate increase for wastewater in over 10 years.

Wysocki: Do we receive notifications ahead of time from MMSD what impact they would have on our wastewater budget to realistically deal with it.

Chipman: The Acting Comptroller meets with us in September or October after they have gone through their commission and gives us a close estimate to what the capital charges will be and what the quarterly disposal charges will be. This year they were within \$40,000. Those two numbers make up over 70% of the Sewer budget and until we find out what those numbers will be, it is hard to develop a budget. If you look at the past history it has bounced up and down partially dependent on what water course work gets done, which determines if we receive credits or additional charges.

Dude: You get the amount for next year's budget in October, so it gives you 2 months to react. I have never seen a 2 or 3 year plan. This year it is \$7.9 million, last year \$7.8 million, but not long ago it was in the \$5 million range.

Harenda: We were getting credits for the water course work that was being done.

Dude: They could charge us \$13 million next year and we couldn't do a thing about it. We have to look at long term what our net worth is not in the ground, but the total free capital we have, and that is \$22 million dollars right now, but if they bump it up, there is no way we can get that back in 1 year.

Wysocki: There is some rhyme or reason; doesn't MMSD have some capital planning process?

Chipman: The base charge is based on our equalized charges x taxable rate, but the 2nd part is the course work credits that come through. Those are based on estimates and they have been having trouble getting accurate estimates to determine what their future charges will be. They have a budget but as far as actually getting work done it hasn't been matching up well. They have a lot of projects going on, they are buying land by the medical center, but they have never given us more than next year's charge.

Wysocki: From our perspective, it is difficult to plan because the charges can swing \$3-4 million.

Chipman: They haven't swung that much and it doesn't appear it will go that much up and down. There are 2 other factors, since it is based on equalized value and a rate. The increase in our equalized value and an increase in their rate affects it. There is also a variable for their capital.

Dude: The I & I is somewhat controllable by us, but they also want you to do the I & I, and in order to build more things you have to have clean basins. I don't know how much more I & I we have, but I think the majority has been completed. We have average \$900,000 or so over the years and that should be decreasing.

Harenda: From what Rick said, it will be an ongoing O & M task future grouting manholes.

Johnson: We have completed a lot of the major problems and now it is just smaller projects – sewer relining, manhole grouting, lateral work. Next year I am projecting \$735,000 rather than \$1 million.

Harenda: At what point are you projecting going in for a rate increase.

Chipman: We are extremely close this year. It depends on what the MMSD number comes in at. If it comes in a little lower, we can probably get by another year, but if it comes in higher we will look at reviewing it and possibly increase it. It is a big planner in our bottom line budget and impacts it.

Dude: If you add depreciation in, you now have 88.6% of the budget not controlled by the Utility. It is nice to cut the operating budget, but in reality most of it is not controlled by us.

Harenda: Because we don't control the budget, can we put out automatically escalators, if the cost goes up the rates have to go up.

Chipman: The water rates go through the PSC, the sewer rates go by ordinance.

Dude: Our current ratio is fantastic. You have \$16.8 million of working capital which means the current ratio is 63:1. Liquidity is not an issue. We have assets of almost \$60 million, but if you take away the assets in the ground of \$37.9 million you are down to free capital of \$22 million. Some of that is replacement, so is construction, leaves you approximately \$18 million for unrestricted. The sewer utility has no debt. The water utility debt to equity ratio is .18 or 4:1 but when you take away the stuff in the ground; you have \$7.1 million in long term debt and only \$6.6 million unrestricted net worth, which leaves a debt to equity ratio of about 50:50. Frankly the stuff in the ground, you can't sell. It allows you to produce revenue going forward. The water utility has fine liquidity, 99.6:1 current ratio, \$7 in working capital. The issue is long term with all of the issues with Milwaukee water. The PSC does get involved and they get a little shaky when they get 1:1. We will get close to that without any more debt.

UT 19-09 Milwaukee Water Rate Increase & possible Purchased Water Adjustment Clause Application

Chipman: Milwaukee went to the PSC to get an automatic rate increase of 3.8% increase this year. I am requesting the Committee to approve application for a purchased water adjustment clause. What that means is when the wholesale supplier increases the rate, we can go through the PSC without going through a full rate case to increase our rates to offset the additional charges from our supplier.

Wysocki: The issue we raised last time about Milwaukee's potential rate inquest requirement that includes that nebulous that they want money for their general fund. I would be uncomfortable automatically accepting that. Last time Mayor Chiovatero said it would be contacting other communities. Do you have anything on that issue and how we might present a case to the PSC that that component of their charge might not be legitimate?

Chiovatero: I contacted the Mayor of Greenfield who was on board, but thought that Milwaukee was going to do what they wanted but if a letter was going to be written to the PSC he was for it. Same thing with the Mayor of West Allis. I have contacted the Mayor of Wauwatosa, but have not received a call back. I was told to call the City of Franklin who in charge of the ICC. I have a call out to him and he is checking on it.

The Utility managers have met and they are planning on doing something. There was an email that came out today and the follow up that I passed on to Alderman Harenda.

Johnson: This is a request for a water rate analyst to look at the Milwaukee water justification for their increase.

Harenda: There is some dialog about putting together a RFP and hiring a consultant.

Wysocki: The City Attorney pointed out that there are 2 avenues of appeal. One way was more informal and a more direct way as opposed to an actual legal challenge. I don't want to lose that opportunity to make the case. We pay a 25% premium already to Milwaukee because it is outside their city boundaries.

Blum: We have signed up to get notifications as to actions that Milwaukee is taking, but having a rate analyst take a look at the case they would submit would be a good idea. As I indicated in the follow up correspondence there is a provision under the state statute that does allow for a contribution to the general fund based upon revenue from the utility. There could be a question as to the amount that would be requested and that is where the rate analyst would be critical. I would recommend participating.

Wysocki: Does the extra 25% that we pay go directly to the Water Works or is that in the purview of the City itself to deal with what they want to do with it.

Blum: It is my understanding it goes directly to the Milwaukee Water Works; however pursuant to that statute money collected can in turn be provided to the City's general fund. I think our connection is with the utility in that regard, they are collecting the money for the service they are providing.

Wysocki: My real concern is long term. If it is not challenged, who is to say what the limit will be? I don't think it is right. I think it is worth pursuing. With the motion in front of us, do we automatically then accept the additional charge without further discussions?

Dude: There are 3 increases. In our budget we made an assumption that we would go on Milwaukee Water July 1st. We only missed by 13 days – not too bad. Starting with July we put an increase to our customers based on where the Milwaukee rates were, basically an increase of 21%. The customers receiving Milwaukee water for the 1st time will experience a bigger savings by not using salt and turning off the water softener. We didn't have to pay out \$4 million to clean up our wells and have the DNR come back a few years later and ask us to do additional work and spend another \$4 million. The 3.8% increase from Milwaukee water, would be a 1.2% increase on top of that. The 3rd piece is what they want over and above the 3.8% increase. That is the big chunk of money that goes back to the city. We pay more than they charge their residents. For example, if they charge their residents a 20% increase, they may charge wholesale customers 25%. At the end of the day if the PSC says it is OK, the wholesale rate is connected to the people of Milwaukee who vote.

Chipman: This purchased water adjustment clause is dealing strictly with the 3.8%. When the next request of 36% becomes final, we could do another purchased water adjustment clause based on their increases at that time. This is strictly for the increase of our water. It keeps us current and allows us to do an automatic increase when the next one comes along also.

Harenda: They haven't even filed an application to the PSC for the other increase yet correct?

Chipman: I looked at the PSC filings and I have not seen it there yet.

Chiovatero: I just wanted to say for the record, after all of the costs were shaken out, when we went to Milwaukee water, the increase was about 14%, not 21%.

Alderman Ament arrived at 5:40 p.m.

Harenda: We have already approved the increase for the 14%; the 3.8% is the next one and the big one if Milwaukee does officially file that request.

Chipman: The increase that took effect July 1st was the rate case and a separate issue.

Motion by Commissioner Dude to approve to apply to the PSC for a purchase water adjustment clause for the increase for Milwaukee water. Seconded by Alderman Wysocki and upon voting the motion passed unanimously.

Harenda: The other communities are looking to get together to hire an outside consultant to do a review of the water rate analysis. I assume giving the Mayor, Ralph and Rick some direction.

Wysocki: Do we need a consultant or can Ralph do this?

Chipman: They are talking about an extensive specialized study on the overall structure that Milwaukee water works has. In my opinion a consultant is needed and it would take a significant amount of time.

Harenda: Alderman Wysocki made a good point. If we don't challenge this, it sets a precedent and open the door for Milwaukee to make future adjustments at will. They are discussing RFPs and that would come back to the Committee and we would pay a portion of the cost of the consultant. The Mayor is talking to other communities to see who would join us in this.

Johnson: We are trying to get different consulting firms to look at if they would be able to do it. The only one that has said they could so far is Ruekert & Mielke.

Harenda: That information would be used to add legitimacy to our claims with Milwaukee Water. This is still in the information collection process.

UT 20-09 Preliminary cost estimate for water main replacement Parkland Green

Harenda: The water main replacement and the cost to redo the roads in the area would also impact potential utility rate increases in the future.

Wysocki: I would like all Utility Committee members present to further discuss this. It would have an impact on the utility rate and our CIP budget with regards to streets. That work has to be done and we have a good policy to do the utility work before we do the street project, especially since the glass grid is becoming a prominent extender to the life of our road. Thank you JP. I would like to keep this on the agenda and will try to champion this. It will require a utility rate increase, but it is a utility asset. Construction bids should be favorable and it is work that is necessary. We have had 20 breaks there over the past few years. We no longer put sleeves, we replace pipes. I would like to discuss this next time.

Harenda: The roads in this specific area according to JP have been held off until the infrastructure work is done for the utility. We are looking at \$1.2 million. Is that part of the CIP or Roadway Maintenance? The Utility work is \$2.5 million.

Walker: The road work is part of the CIP request for the 2010 Roadway Rehabilitation program and it has been on hold for 3 years.

Harenda: What is the utility rate increase for this?

Johnson: This would be a 3% increase for 20 years to cover the utility work.

Dude: The water utility averaged over the last 10 years a \$940,000 increase in net assets per year. From whatever rates we charged since 1999, we had this average increase per year. Our balance sheet shows \$6.5 million unrestricted and long term debt of \$7.1 million. You have more equity than \$6.5 but I am subtracting out the \$31 million of pipes in the ground, because we can't sell those pipes, as a matter of fact you will have to replace the piping. Without the \$2.5 million project you are about 1:1 in the debt ratio. The point being, when you reach this rate the PSC starts getting concerned and they basically say raise your rates. I am not saying, don't spend the \$2.5 million, but at the current rate it will take us 3 years to get us back to that ratio, you aren't going to have a lot of money left to do other things. You are going to have to do a rate increase.

Harenda: Rick has been looking at this project a few years and JP has been waiting on the road work, if we do increase the rate, what other projects do you have to deal with. This is #1 on the list anyway.

Johnson: Right.

Harenda: This will present this to us in the budget process and the capital improvement projects.

Wysocki: The assets in our ground are on our book. Commissioner Dude has taken this out in his analysis. Would you take it out?

Chipman: Yes, because even though it is a rather large asset, it is not a liquid asset. Utilities have always had it on there. You could compare New Berlin to Brookfield and look at their overall investment

and assets and see how far they have depreciated and get a relative idea what kind of life your assets have. The only way for example to tell what kind of shape your roads are in, if you are driving around and you know it, we have a \$100 million worth of roads on the books, what does that mean. Maybe you can compare to other cities, but it is something they make you put on there.

Dude: In an accounting sense you are taking a fixed asset and shifting it over to the equity side. You can't sell it.

New Business

Information Utility Payables, Monthly Financials

UT 21-09 New Berlin Comprehensive Plan Discussion

Harenda: During the past 1 ½ years the City has been going through a Comprehensive Plan update to meet the Smart Growth legislation for the state. There will be some open houses, a public hearing and discussion at the Plan Committee and Common Council. It has impact on the future growth of New Berlin. Commissioner Dude sits on a subcommittee and Alderman Ament also.

Wysocki: If one drives in one direction committing to development and the supportive services such as utility are not informed of the impacts of that, we could be in trouble. We need to have input in the final discussion on the comprehensive plan where it may impact the utility in terms of commitment of resources and support to the development. I would like a discussion before this committee before the final plans are approved for comments and suggestions.

Dude: I have served on that planning committee and have something that finally got on the agenda. JP, Greg Kessler and I met this morning and there is a planning meeting Monday night where the results will be made public. We are trying to do a 10 year strategic plan with dollars. Here is what this 2020 plan says in terms of development. This will produce how much taxable income or tax base to the City. Greg will try to put it out in time. For example if we do Section 35 in the future, we will build it out when building starts. Other areas of the city won't increase at all because they are already built out. If we add 2% tax increase per year as the council has been approving, that will be that increase plus whatever the new building brings in. We have worked out costs on a per capita basis for the police, for fire, for building roads, etc. One of the things we should include is the utility. How much will residential, commercial and industrial development do? If this plan goes, we will write the assumptions down and we should include the revenue and costs that go with it. We can also look at what the utility plans to do in the next 10 years in capital projects.

Harenda: Do you want the Utility Committee to discuss it as it progressing through the Plan Committee?

Wysocki: I received a CD rom on the plan and I want the opportunity to make a comment at this committee and discuss it. I would also like a CD for Commissioner Morrissey.

Dude: Monday August 31st at 6:00, Greg Kessler will present this in concept at the Council Chambers.

Harenda: The only impact on the Utility will be Section 35. Area J or Mill Valley areas will be handled by the City of Muskego Utility.

Wysocki: I didn't know if there were any changes through our GDMP that we talked about and developed over the past years within the Utility itself. Any change of zoning that could change the impact and demand on utility services.

Harenda: There are some changes in Section 35, not to the residential base, but we expanded the industrial base a little to the west in that section.

Motion by Alderman Wysocki to adjourn at 6:02 p.m. Seconded by Commissioner Dude and upon voting the motion passed unanimously.

Please Note: Minutes are not official until approved by the Committee

*Respectfully submitted,
Suzette Hanley – Administrative Supervisor, Utilities & Streets*