



Minutes of November 5, 2019

A meeting of the Wausau Water Works Commission was called to order at 1:30 p.m. in City Hall on November 5, 2019. In compliance with Wisconsin Statutes, this meeting was posted and receipted for by the Wausau Daily Herald on November 1, 2019.

Members present: President Mielke, Commissioners Force, Gehin, Miller.

Others present: Eric Lindman, Dave Erickson, Cheryl Sell, Bobby Splinter, MaryAnne Groat, Valerie Swanborg, Steve Opatik/Becher Hoppe, Tonia Westphal/Clark Dietz, Mike Gerbitz/Donohue, Brian Roemer/Ehlers, Inc.

1) Approve Minutes of the October 1, 2019 Meeting.

Gehin moved to approve the minutes of the October 1, 2019 meeting. Seconded by Miller and the motion carried 4-0.

2) Director's Report on Utility Operations.

Gehin moved to place the Director's Report on file. Seconded by Force. Motion carried 4-0.

Gehin provided an update regarding Well 3. He, Opatik and Boers met with the team that came in from the DNR and EPA along with our consultant. The focus is to try to discontinue the use of Well 3, the only well on the East side. It probably won't and we didn't expect it to happen overnight however, he thought the EPA representative was open in trying to work with us on it. Our first goal would be that Well 3 not be piped back to the new water treatment plant. We are hoping to hear something in the next month or so.

Force asked for clarification on the Public Information Meeting on November 20th under the Wastewater Treatment Plant Update. Is there a time set for that and how will that be publicized? Lindman responded it went out on a Class 1 notice starting this week so it will be publicized this week. Class 1 is a formal notice in the Wausau Daily Herald. We will also be putting out a press release as well as a notice over social media. We will publicize once or twice a week. Force asked if this meeting will be in the evening so people are able to attend. Lindman advised it will start at 5:00 pm in the Council Chambers.

Gehin advised it wasn't mentioned but Erickson and his staff were able to get a lot of sludge out on to the fields and empty the barn. Erickson advised that staff put in a lot of long hours when they had the chance. Additional trucks were lined up through DPW and Riverview

Construction. Brad, Mark and Scott put in some really long days and we should appreciate that effort. Brad was able to line up some new farm fields east of town and deserves a lot of credit. Erickson advised we were further behind in hauling sludge than he had ever seen and now are pretty much caught up. If the weather would cooperate we'd be in even better shape. Gehin advised we should thank the staff through Erickson's leadership for that effort. He knows we had a difficult time getting rid of the extra biosolids this past winter. It's a great accomplishment and commitment by staff.

Force brought attention to the work done on the siphons by Memorial Park. He noticed some complaints on social media about trees coming down. Do we have a plan for replanting trees or re-landscaping areas that were torn up? Lindman said he hadn't heard of any complaints. If there were some on social media, he did not get those complaints. Force advised there were a few. Lindman asked it was on the park side. Force confirmed it was on the park side. Lindman advised he would take a look back on social media.

Force also wanted to clarify whether the Thomas Street siphon line is going upstream or downstream of the bridge. Lindman advised it would be going downstream. Force asked if it would cross by the wastewater plant or closer to the bridge. Opatik explained it would connect very near where the existing siphon is, into a manhole in the parking lot of Kolbe & Kolbe on the west side of the river. Force asked if it comes out of the bluff area, will we see the same level of disruption and visibility to the public as we did with Memorial Park such as trees and access. Opatik responded that as far as access goes, during construction it will cut off a lot of the parking lot for the Health Care Center. There will be some tree removal on the river bank and he would have to confirm but he believes that area will be put back with rip rap because of the steepness of the slope.

3) Presentation by Ehler's on the Utility Capital Borrowing, Debt Issuance and Proposed Rate Increases Moving Forward.

Brian Roemer, Municipal Advisor with Ehlers began his presentation:

There are documents included in the packets. The power point presentation and the 2019 Long-Range Cash Flow Analysis – Water & Sewer Tables.

We've conducted a multi-step process and this is really step one in contemplating what rates need to look like and how the utilities should look to operate and handle the impact of both the drinking water treatment facility and wastewater treatment facility. These are 2 big projects being taken on simultaneously.

We've done a long range cash flow analysis and is what he's going to walk through today. Looking at how we're going to finance these projects and any other capital needs coming up. He will go over what the utility rates will look like, go over some of the restrictive measures specifically in Wisconsin when it comes to water utilities and some next steps.

A quick summary: the major impacts are the water treatment facility for approximately \$40 million and the wastewater treatment facility for approximately \$70 million. The lowest cost of financing would be through the DNR state revolving fund loan program, environmental improvement funding. For wastewater it would be the Clean Water Fund Loan and for water it would be the Safe Drinking Water Fund Loan. This plan is also inclusive of other capital needs, it's important to note that the utilities will not shut down other capital improvements, such as street repairs and equipment that needs to be replaced.

Looking at financing, there are 2 options. For the State of Wisconsin to legally obligate the city is a General Obligation Pledge but with the size of these projects, that would significantly

hinder what we would be allowed to do. Secondly we've looked at some interim financing as it relates to the State Revolving Fund Loan because they want to have certain revenues in place when you close on the loan. The Capital Finance Office at the Department of Administration ultimately determines whether or not a utility can take on any loan through the DNR's program. They are now willing to look at scenarios where you don't need interim financing because they understand it's a construction loan, as you need the money, you draw the money. You aren't paying off the loan until there is substantial completion of construction, so there is time to build up revenues. On the sewer side, this can be done with step increases. On the water side it gets a little trickier because of PSC control on rates. It can be cumbersome for any increase outside of an inflationary adjustment or a simplified rate case. Anything other than a 3% increase can take 8-12 months to complete after an application is submitted.

Ultimately, the rates that we need to get to on the Sewer side can be done through resolution and the Water side needs to be done through the PSC. Both utilities are rated by Moody's which means that there is an extra set of eyes on the utilities and their financial performance. A benchmark is to look at cash reserves and money available to cover emergencies. Typically this is 6 months of operating expenses and debt payments. It is a benefit to the utility to be rated, specifically if they have these controls in place to be financially viable where they can actually go to market and get lower interest rates.

Some highlights for Water, we are looking at \$56 million in Capital from 2019-2023 with the main project being the water treatment facility for \$40 million. What's being proposed to take care of that is a PSC rate case which is underway and a future rate case for a two-step increase. The rates can only go into effect once those assets are in service. The difficulty there is taking out a loan but not raising rates until those assets are placed into service. For the Safe Drinking Water loan program, we won't be paying principal payments but will be paying interest on those loans. Rate increases cannot be done congruent of each other but can be done over time, which is why we're looking at two increases. The first rate increase in 2020 is more of a catch up case which is essentially the revenue for our assets that we've had in service since the last rate case, including a lot of main work and equipment purchases. The PSC will allow a utility to collect a rate of return on those assets placed into service, currently at 5%. The second increase will be around 2022 after placing the water treatment plant into service

It's been good that the utility has been keeping up with the simplified rate increases as operational costs never seem to go down. In 2020, we're looking at a 30% rate increase, the PSC will go through an auditing process and make any adjustments. Then in 2022, a second rate increase once the water treatment facility is in service. Essentially what we're looking at is an overall water rate increase of 69.5%.

The PSC will do a cost of service study to allocate the costs and rates so they are applied equitably across customer classes, an industrial class acts differently than a residential customer. The 69.5% is the increase in revenues needed not necessarily a direct increase for each user. It's important to note that they don't know what our operating expenses are going to be year to year as those fluctuate and can be volatile. They've looked back over 10 years and inflated those costs by 3-4% from year to year.

The two planned rate increases will be enough to prove coverage and close on the loans. Coverage needs to be above 1.25% and we'll be at about 1.5% given the rate increases. As we start getting bids, things could adjust but this is where we need to be to start on the loan. Force asked how that coverage is computed. Roemer explained it is essentially total revenue available for debt less operating expenses, not inclusive of depreciation.

Once the bids come in and we know the full amount we need this could change but it's important to note this is something they and the rating agencies monitor. Force clarified that if

the new debt goes up, the revenue needed could also go up forcing a larger rate increase than anticipated. Roemer agreed, that is correct.

The projections and the rate of return is essentially looking at what the PSC looks at and what a utility is allowed as far as an increase. Right now, the benchmark rate of return is 4.9% and historically the benchmark rate of return has been closer to 5%.

Gehin asked what the life of the debt is. Roemer responded that with both utilities, the DNR is shifting how they handle this. Historically it has been 20 years however, they've tended to accept 30 years for anything that is main related or lineal. They say usually mains last a lot longer than 20 years and certainly longer than 30. The revolving fund loan program is warming up to the understanding that these assets are lasting much longer and should allow utilities to issue longer for that. With that said, everything shown in the presentation is specific to 20 years. Nothing has been set in stone. The future rate increase will bear itself out once we know what the debt will be.

--See Water Tables included in packet.

For sewer, the methodology remains the same as the water, there is higher capital and it is non-regulated. They met with the Department of Administration along with city staff and the project engineers. They are allowing for step increases, gradually putting the needed rates in place. There has been similar projects happening in Dodge County and it's been quite beneficial as the DOA realizes that doing so is a benefit to them and the utilities, a lot of times they are over borrowing since they are looking at project costs that are not completely finalized. The step increases vary from the water as we are looking at what is the ultimate rate increase needed for the 20 year debt on this project as well as other projects taken on and then taking that in a stepped amount. The DOA has granted us 4 steps for those rate increases however, this will bear itself out once bids are awarded and the DOA does their final financial review. The wastewater facility will be placed into service in 2022 and that will be when principal payments begin. They've taken what's been needed to get to a healthy coverage to ensure we can close on that loan along with any subsequent loans and divided that by 4. The rate increases can always be done using a different approach. Once the bids come in and we know what the increase needs to be they can devise a few scenarios on how to adjust rates.

This is a significant amount of capital. From 2019-2023 we are looking at a total of a 115%-116% rate/revenue adjustment to have the coverage to take on this debt.

--See Sewer Tables included in packet.

Looking at revenue increases, there will be a cost service study on the sewer side as well to allocate costs between the residential and industrial customers. Ultimately by 2023, we are looking at a change of \$19.70 or about 67% in the water quarterly bill and a change of \$30.00 or about 115% in the sewer quarterly bill.

There's no resolutions needed until the DOA does their review as they will provide what they'd like to see in order to close on the loan. The water is PSC based and the DOA is willing work with the utility on how we want to take on the loan.

The PSC timetable can vary from the DNR timetable. However, so far the PSC has been willing to work with us. It's just a matter of making sure that they have the rates in place. The DOA has been willing to work and adjust with what the PSC wants to do.

Force asked how Ehlers is representing us. Roemer advised they are representing us as a municipal advisor and have a fiduciary duty to look out for the utilities best interests including financial viability, ensuring we'll keep the rating that we're currently at and be in a place to successfully close on the loans needed in order to pay for these projects. Force asked when they meet with the PSC and so on, is city staff involved in those conversations. Roemer advised they

have been included in all of those conversations.

Force asked Lindman what the ratio is between residential and industrial revenues. Lindman does not know that information but can get that for him. (*This information was provided after the meeting; attached to minutes*)

Force asked if we are bidding both jobs at about the same time. Lindman responded they will be staggered, Water will go first and anticipate opening bids in late February and then Wastewater.

4) Discussion and Possible Action Amending the Engineering Agreements with Donohue and Associates and Becher Hoppe Engineers to Include Construction Representative Services for the Upcoming Projects.

Gehin asked if this will be for water and wastewater. Lindman advised it would be for both. Gehin left the room for the discussion on this agenda item.

Lindman explained that right now we have an engineering agreement, one with Becher Hoppe and one with Donohue. Those agreements carry us through the bidding process. The next step in that process once the bids come in will be entering into construction services, a contract with a contractor and we will need someone on site for construction related services. From his past experience, he recommends that we stay with the engineering firms who designed the facilities to oversee the construction. They are obviously more familiar than others with the designs and documents. The costs for the construction services have been estimated in the budgets that have already been approved. The \$41 million for the drinking water plant and \$80 million for the wastewater plant. Before he proceeded with the amendment agreements, he wanted to know what the commission's stance is on moving forward with amending those agreements.

Force asked if this is something they need to do now. Lindman advised it is not, he would bring them back in December and have the amendments detailed for a formal decision. Force asked if the possible action needed here would be that they recommend that we continue those negotiations. Lindman advised that is correct.

Force moved to approve the recommendation to move forward with negotiations. Seconded by Miller. Motion carried 3-0.

5) Discussion and Possible Action to follow the Municipal Water Coalition Initiative to Address PFAS Sources.

Erickson explained that basically what they are suggesting is that we should pursue our industries and see if there are significant sources of this contamination.

Motion by Force that we follow the guidelines set forth by the Coalition. Seconded by Miller. Motion carried 4-0.

6) Request Approval for the Sole Source Purchases of Water Treatment Chemicals; Aqua Ammonia, Clarion 415 and Clarion 700.

Lindman explained that these are annual purchases that we go through and are patented chemicals that we use for the water treatment plant.

Motion by Force to approve these sole source purchases of chemicals. Seconded by Miller. Motion carried 4-0.

7) Request Approval for the Purchase of Water Treatment Chemicals; Hydrated Lime, Sodium Silicate, Sodium Hypochlorite & Liquid Carbon Dioxide. Quotes Opened at the October 22nd BOPW Meeting.

Lindman advised these are the chemicals that we get competition for and use at the water

treatment plant. These are the bids that we received back and recommends that we go with the low bids.

Motion by Force that we accept the low bids. Seconded by Gehin. Motion carried 4-0.

Force shared concerns he has with household hazardous waste. His time in the water environment federation for a number of years acquainted him with efforts that communities make to help citizens get rid of the junk that's in their basements and garages. This includes paints, solvents, bug spray, pesticides, etc. As far as he knows the only way to legally get rid of this stuff is to dispose of it at a landfill. In view of the success we've had with the large item pickup and electronic recycling program, he's wondering if we couldn't look at some type of a hazardous waste pick up in conjunction with those events. He realizes there are details such as cost, a hazardous waste handler and adequate publicity but his request would be that we bring this up for consideration at a future meeting. Unless we think this is really something we shouldn't do, he doesn't want to pursue something that is impossible.

Mielke said that in speaking with Lindman, he's open minded but there would be a fee, there's no getting around it. It is something we will definitely take a look at. We have time as the next large item pickup isn't until April. Lindman will work with the landfill, ask some questions and see if it would be feasible for the city to do. Force mentioned that fees tend to keep people away so maybe there is another source, he's not suggesting where that might come from but first we should find out what the cost would be.

8) Adjourn.

There being no further business to discuss, motion was made by Miller to adjourn the meeting. Seconded by Force. Motion carried 4-0.

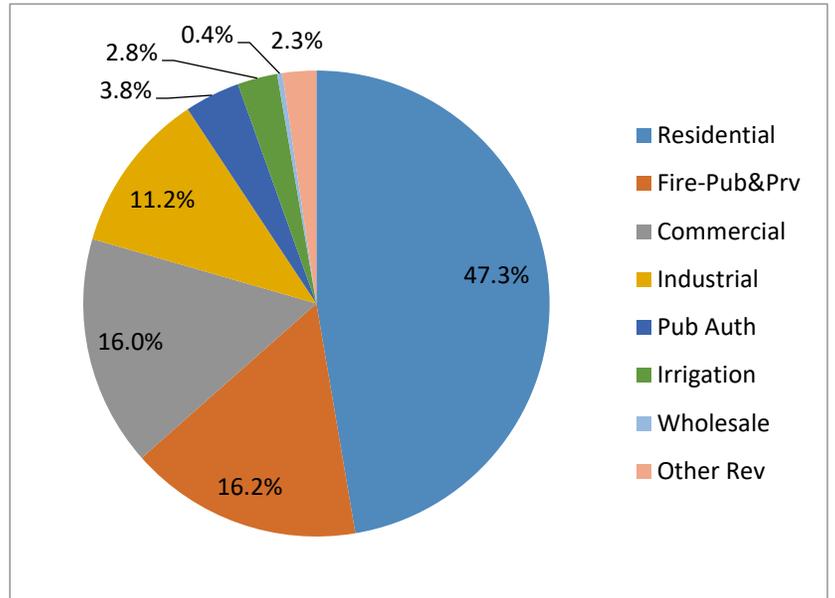
WAUSAU WATER UTILITY REVENUE ANALYSIS

SEP 2019 to DEC 2018 to DEC 2017 COMPARISON AS OF SEPTEMBER 30, 2019

Water Revenue Detail SEP 2019

Residential	\$ 1,957,369	47.3%
Fire-Pub&Prv	668,051	16.2%
Commercial	661,203	16.0%
Industrial	464,356	11.2%
Pub Auth	158,818	3.8%
Irrigation	114,574	2.8%
Wholesale	14,859	0.4%
Other Rev	96,706	2.3%
	<u>\$ 4,135,935</u>	

Water Rev SEP 2019



Water Revenue Detail 2018

Residential	\$ 2,640,234	45.0%
Fire-Pub&Prv	877,034	14.9%
Commercial	906,978	15.4%
Industrial	585,391	10.0%
Pub Auth	249,092	4.2%
Irrigation	328,716	5.6%
Wholesale	19,618	0.3%
Other Rev	265,030	4.5%
	<u>\$ 5,872,093</u>	

Water Rev 2018

