UTILITIES SERVICE BOARD MEETING
December 5, 2011

Utilities Service Board meetings are recorded electronically or stenographically and are available during regular business hours in the office of the Director of Utilities.

Board President Swafford called the regular meeting of the Utilities Service Board to order at 5:01 p.m. The meeting was held in the Utilities Service Board room at the City of Bloomington Utilities Department Administrative Building in Bloomington, Indiana.

Board members present: Tom Swafford, Julie Roberts, Sam Frank, Pedro Roman, John Whikehart, Jason Banach, and ex-officio member Tim Mayer. Staff members present: Patrick Murphy, John Langley, Tom Axsom, Vickie Renfrow, Jon Callahan, Mike Bengtson, Michael Horstman, Mike Hicks, Rachel Atz, Phil Peden, and Jane Fleig. Others present: Angie Steeno and Michel Amore representing Crowe Horwath, David Wimmer representing Hilliard Lyons, Dennis Otten representing Bose MkKinney 4 Ever, Larry Jacobs representing the Chamber of Commerce, Gretchen Frazee representing WFIU, Sue Mayer, and Grace and Molly Frank.

MINUTES

Board member Roberts moved and Board member Roman seconded the motion to approve the minutes of the November 21st meeting. Motion carried, 6 ayes, 1 member absent, (Ehman).

CLAIMS

Board member Roberts moved and Board member Roman seconded the motion to approve the claims as follows:

Vendor invoices submitted to the controller's Office on November 30th included $250,781.73 from the Water Utility; $187,211.52 from the Wastewater Utility; and $20,265.36 from the Wastewater/Storm water Utility. Total Claims approved, $458,258.61.

Motion carried, 6 ayes, 1 member absent, (Ehman).

Wire transfers and fees for the month of October:

Board member Roberts moved and Board member Roman seconded the motion to approve the wire transfers and fees for the month of October in the amount of $56,701.34.

Motion carried, 6 Ayes, 1 member absent, (Ehman).

APPROVAL OF RECOMMENDED SEWER RATES AND CAPITAL PROJECTS:

Utilities Director Murphy said the same Power Point presentation the Finance Subcommittee had seen would be shown. He will walk through some of the historical perspective of the Wastewater Utility. Angie Steeno of Crowe Horwath will talk about bonds and other related costs with respect to this rate increase, and Utilities Assistant Director of Engineering Bengtson will give a presentation on some of the items that are proposed to be funded by one of the bonds.

The Power Point presentation is attached to these minutes.

Board member Banach asked for more explanation of the "other" category in the Operations and Maintenance budget. Ms. Steeno said the other category is comprised of everything she did not identify specifically. The majority of it is personnel expenses, and also supplies, utility bills for the Service Center, on going repairs and maintenance. Mr. Banach asked if anything is covered in the "other" category that would not be something that is paid today. Ms. Steeno said there is not.

Mr. Banach asked about the interest rate difference between the 2012B Taxable bonds as compared to other types of bonds, and also how the overall increase in debt load might impact the bond rating. Ms. Steeno said the Sewage Utility does not have an underlying bond rating. Most of the debt is issued through the State Revolving Fund, or the Indiana Bond Bank. By doing that the Utility does not need to purchase bond rating on its credit alone. Also, when bond insurance was available Utilities bought that for some debt without ever looking at the underlying rating. This will be the first time the Sewage Works will be requesting an underlying bond rating for debt issuance. When you look at taxable bonds, you would expect a big difference between the issue rates. This is a short five year amortization, so the debt is being paid off quickly. The short term rates are historically low right now so Ms. Steeno does not anticipate a huge difference between the two. Mr. Banach asked if the rate adjusts over a five year period, and if so, how does it adjust. Ms. Steeno said it would be a fixed rate. Once the bonds are sold with a fixed rate it will be possible to know exactly what the payment is over the life and maturity of the debt.

Board member Banach asked what the sum total of all the debt obligations is. Ms. Steeno said that the principal and interest together is $72 million. Mr. Banach asked how she would characterize that level of debt in the Utility world. Ms. Steeno said that the rates for Bloomington's Utility customers are very competitive. While $72 million of debt sounds like a large number, because most of the debt was issued through the State Revolving Fund or the Indiana Bond Bank the interest rates have been low and competitive. Mr. Banach said he understands that a lot of the way the rates have been kept competitive is due to the way the bonds have been financed.

Mr. Banach asked Ms. Steeno to compare the cash flow/dept of the Utility to the cash flow/debt of other Utilities. She said the Utility is going to be in line with where it needs to be. The rate increase is allowing cash to be built up which is needed. Mr. Banach said the Utility is borrowing to get the cash where it should be. Ms. Steeno said the working capital piece that is included is building up the cash. In the bond ordinances, and what the market expects, they want to see there is enough cash. If something happens the funds should be there to access if necessary.

Mr. Banach asked how the Utility ended up with deficient surety policies. Ms. Steen said in the past it was common when revenue debt was issued the market required a debt service reserve to be set aside. That means that for the life of the bonds Utilities is required to set aside a specific amount of cash over the life of the debt. So if for some reason the debt service couldn't be paid the reserve would be set aside to meet that payment. Mr. Banach asked if Utilities holds that reserve. Ms. Steeno said for the majority of the bonds Utilities held the reserve with cash. There are four bonds for which a surety policy was purchased which was very common. It was like a bond insurance policy. Instead of having to use Utilities' set aside cash an insurance policy was bought. It was a one time fee ranging between $25,000 and $75,000 that was paid out of bond proceeds. At that time there were four or five insurers in the nation that were rated triple A. Since then the credit ratings for those insurers have slowly

declined, and the monetary value of those insurance policies are no longer recognized. Some times when new debt is issued the bond ordinance requires that any surety policy had to be rated in a top tier category. None of the bond insurers who had provided Utilities surety are rated where they need to be. Because of that Utilities is in the position where that cash needs to be funded up with monies today. Mr. Banach asked if that is for the newly issued bonds. Ms. Steeno said it is for the old issued bonds. That's why it must be a taxable bond. It is not possible to issue debt now for a bond issue that occurred in the past. It can now be done in a couple of ways; Utilities can issue a taxable debt, or build up cash revenues to get to that value. Issuing taxable debt is the most efficient way rather than using revenue. That is why it is being amortized over five years, to get it done as quickly as possible. Mr. Banach asked if the bond insurers are still in existence. Ms. Steeno said they are still around, although their ratings aren't what they should be. Mr. Banach asked if the policies still exists. Ms. Steeno said the policies will continue to exist. Mr. Banach said it is just a question of whether or not they would be paid if there was a problem. Ms. Steeno said there have been a few law suits where issuers are suing these companies because they want the value back on their policies. There is one insurer who is still rated in a double A category but it got downgraded to double A- just this week.

Board member Roman said it is not easy to ask anybody, in this case the City Council, to raise rates 53%. He thinks it is a good plan, and they should move forward with it because it provides everything Utilities needs, and it will resolve the problem of the health insurance. It provides some money for Engineering to do all the things they need to do. He said this is a very hard thing to do. He thanked Utilities Director Murphy.

Board member Frank told the USB that the Finance Committee had met last Thursday, which was the first chance they had to look at this report. That meeting was continued until today when it reconvened at 4:00 pm which gave them the time over the weekend to take a good look at the report and be able to ask questions of Ms. Steeno, and Utilities Assistant Director of Engineering Bengtson. During discussions with the Finance Committee, who were all reluctant to have such a large rate increase for the public at this time, but they also felt it is the proper thing to do from the standpoint of stewardship. However one of the things that were brought up is that the rate increase doesn't really leave any room for any kind of emerging requirements, such as if the City were doing a road project and wanted to have some Utility work done before it. It would be very difficult for the Utility to contribute to that. In the past the Utility has done a great job working with the City in a partnership, and collaborating with them to take advantage of opportunities at they arise.

Mr. Frank said the committee members had discussed trying to review rates more regularly in a two year period, so there won't be such big rate increases.

The Finance committee did agree to send a recommendation to the USB to go ahead and approve the rate increase.

Board member Roberts said she agrees with Mr. Frank that even though it is a big increase, it is going to be tight. That makes her very nervous. The things that Assistant Director of Engineering Bengtson talked to the USB about must be done. When it rains all the time, as it has been, is when any weakness in the system becomes apparent.

Ms. Roberts pointed out that after the water and wastewater increases the Utility will be right in the middle of the average rates for similar cities in Indiana. She said Bloomington Utilities has the cleanest most efficient systems in the state, not only the water that comes out of the tap, but also the water that is returned to the environment. It is a very high quality system. Having

said that, she feels it is inexcusable to have gone for six years without a rate increase which causes people to be hit this hard. Next year she intends to start mentioning the need to start reviewing for the next rate increase. It should be done every two years. It is not something that has to go to the Indiana Utilities Regulatory Commission. It is something that can be taken care of locally. Even though it is unpopular it needs to be done regularly so it isn't as big as this increase is. She said she wanted to point out to the public that the increase in water rates was for a massive project, whereas this is just for keeping the current system from falling apart. It is just bad timing that both happened in a couple of months.

Board member Banach said he agreed with most of his colleagues comments and that he wants the public to know that a raise for the members of the USB was not included.

Board member Whikehart said he would echo what the other USB members have said. Their intentions may have been to not pass costs along to users, but the unintended consequence of that is they find themselves in a position like this. He supports the idea that this kind of review take place on a regular basis so they don't have to deal with such a large increase at one time.

Ex-officio board member Mayer said he wanted to thank the USB for its commitment to do a more frequent review of where things are. He also thanked the staff and Crowe Horwath for getting things to this point, and the Finance Committee for all their review work and the USB for moving it forward. It is necessary and must be done. The next step will be requesting approval from the City Council which will be scheduled for December 21st.

Board President Swafford said he agreed with the rest of the USB. They have been working on this for a long time, it's been talked about in house, and Crowe Horwath has been working on it for sometime. A lot of work goes on behind the scenes to get a rate increase. It takes a great deal of effort from a lot of people to pull all the information together. They are all in agreement that this has to be done. The timing is never good. More importantly, the USB is committed to reviewing water and sewer rates on a two year basis. That doesn't mean they will be raised, but they should be looked at every two years so they won't have to go through what they did this time for both water and sewer.

Utilities Director Murphy thanked the USB for their consideration; the staff has appreciated the opportunity to present this. He said he knows that in this climate every penny counts for citizens. He reminded that this is a system where if usage is decreased the bill will go down. Also the budget that was passed increased the qualifying guidelines for need from 150% of poverty to 200%. There is also some flexibility in extending the duration of those payments. Utilities works with CAP on this. He asked that customers approach Utilities for help before there is a problem.

Board member Roberts moved and board member Roman seconded the motion to approve the resolution to increase the sewer rates to $6.52 for the monthly service charge and $6.36 for each 1,000 gallons of usage. Motion carried, 6 ayes, 1 member absent, (Ehman).

Board member Roberts moved and board member Roman seconded the motion to approve the sale of the bonds. Motion carried, 6 ayes, 1 member absent, (Ehman).

OLD BUSINESS:

Board member Roman said the last time the storm water fees were raised was 2003. He suggested it would be a good idea to look at those rates soon. Utilities Director Murphy agreed.

NEW BUSINESS:

No new business was presented.

SUBCOMMITTEE REPORTS:

The Finance Subcommittee met and was reported on earlier in this meeting.

STAFF REPORTS:

Utilities Director Murphy said the true up report was filed with the Indiana Utility Regulatory Commission on November 28th for the new, lower water rate. They have 15 days to respond. It's highly unlikely they will be unwilling to except a lower rate. A letter will be included in the next bill informing the customers the report has been filed, what the old rate was, what the new one will look like, and what the bill will look like. It will probably be mailed twice, and the new rate will be reflected in January's bill.

PETITIONS AND COMMUNICATIONS:

Rachel Fleishman, President of the Sherwood Hills II Homeowner's Association, gave a letter from the association to the USB. For many years they have had ongoing problems with their water service due to the fact the City of Bloomington Utilities has only six meters to serve 89 units. The units are privately owned. One meter serves about 15 units. Since they lack individual meters from the City what happens is the homeowners association pays the full bill to the City, and then individual owners are billed. It's a small homeowner's association without a lot of money, and it has caused a lot of problems. One of the biggest issues is if there is an owner who is delinquent on their water bill the rest of the association has to pay their bill since there is no way to shut off their water without having individually metered units. Depending on how well they have maintained their individual water shut off valves, if there is a broken pipe it may be necessary to shut off water to about 15 individual units in order to get it fixed. They would prefer to have individual meters since with a flat rate billing there would be no incentive to conserve water. This decision was made in 1994 when the PUD was developed. They realize it is an expensive problem to fix, but they are hoping the City will consider rectifying it. They would be willing to pay part of the costs, but can not afford to do it on their own. Board President Swafford said he would give this to the staff and have them respond in writing what can be done if anything at all can be done. Utilities Director Murphy suggested she just meet with Utilities' staff. He said they would be in touch with her.

ADJOURNMENT:

The meeting was adjourned at 6:13 p.m.

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L. Thomas Swafford, President