UTILITIES SERVICE BOARD MEETING
March 9, 2015

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 5:00 p.m. The meeting was held in the Utilities Service Board room at the City of Bloomington Utilities Administrative Building in Bloomington, Indiana.

Board members present: Tom Swafford, Jim Sims, Sam Frank, Jeff Ehman, Jason Banach, and Tim Mayer, Ex-Officio. Staff members present: Patrick Murphy, Efrat Feferman, John Langley, Tom Axsom, Mike Bengtson, Nolan Hendon, Jon Callahan, Cindy Shaw, Michelle Waldon, Mike Hicks, Greg Small, and Kim Alexander.

Other: John Skomp, Andy Ruff.

MINUTES

Board Member Ehman moved and Board Member Frank seconded the motion to approve the minutes of the February 23rd meeting. Motion carried, 5 ayes, 1 member absent, (Roberts).

President Swafford noted a couple of misspellings in the minutes of February 23: his name on page 3 and page 4, which have been corrected.

CLAIMS

Board Member Ehman moved and Board Member Frank seconded the motion to approve the claims as follows:

Vendor invoices submitted to the Controller's Office on March 4, 2015 included $654,918.89 from the Water Utility; $277,852.35 from the Wastewater Utility; and $29,091.51 from the Stormwater Utility. Total Claims approved, $961,862.75.

Motion carried, 5 ayes, 1 member absent, (Roberts).

Board Member Ehman moved and Board Member Frank seconded the motion to approve the utility claims as follows:

Utility invoices submitted to the Controller's Office on March 4, 2015 included $16,704.97 from the Water Utility; $22,411.85 from the Wastewater Utility; and $0.00 from the Stormwater Utility. Total Claims approved, $39,116.82.

Motion carried, 5 ayes, 1 member absent, (Roberts).

Wire transfers and fees for the month of February:

Board Member Ehman moved and Board Member Frank seconded the motion to approve the wire transfers and fees for the month of February in the amount of $308,976.27.

Motion carried, 5 ayes, 1 member absent, (Roberts).

Board Member Ehman moved and Board Member Frank seconded the motion to approve the customer refunds as follows:

Customer refunds submitted to the Controller's Office on March 4, 2015 included $464.21 from the Water Utility; $1,284.21 from the Wastewater Utility; and $0.00 from the Stormwater Utility. Total Claims approved, $1,748.42.

Motion carried, 5 ayes, 1 member absent, (Roberts).

REVIEW OF CROWE HORWATH SERVICE CONTRACT FOR RATE INCREASE

The Finance Subcommittee moved and Board Member Ehman seconded the motion to approve the Crowe Horwath Service Contract, not to exceed $40,000, as follows:

Motion carried, 5 ayes, 1 member absent, (Roberts).

Patrick Murphy, Director, introduced John Skomp, Partner with Crowe Horwath. Mr. Murphy gave some background information on the history of the current proposed rate increase. We discussed a rate case in May 2010, and the Council passed a rate increase of 57%. It went into effect in March and November 2011 - it was phased in - with the final rate being approximately 45.5%. We are trying to do a rate increase approximately every three years. Director Murphy also noted that during the Finance Subcommittee meeting, there was a discussion concerning where we were last time with respect to the cost of services study and the implications associated with that, and where we are now. Mr. Skomp then presented a proposal on behalf of Crowe Horwath to provide professional services regarding the preparation of an across-the-board rate and financing analysis for the Bloomington Municipal Water Utility.

As noted, the last increase was in 2011; by the time this process is finished it will have been five to six years since the last increase. Mr. Skomp indicated that a good practice is to do an increase every two to three years. Due to the interruptions of City Hall last year which were beyond CBU's control, the rate increase was not put forward. As far as timing, the study should be completed in six to eight weeks. At that time, Mr. Skomp will bring it back to the working group before it goes to the Board, putting it near the middle to end of May. Once approved by the Board, it will then proceed to vetting before the full Council. The Council would then hear it, have a public hearing and comment, then move the process forward. He is hoping to give the Council and the Board as much time as possible to hear the matter so that Crowe can file the proposal with the Indiana Utilities Regulatory Commission
(IURC) by September. September would be the latest they could file. The IURC has final approval of the rates and any debt that would be issued. They have a rule that a test year cannot be any more than 270 days old by the time evidence is filed. The Commission then has 300 days (ten months) after we file our case to issue an order. Given that timeframe, rates should be in place by July or August 2016, and funds would be coming in by August/September.

Mr. Skomp is proposing an across-the-board increase at this time because of financial pressure on the water utility and would like to move it forward as quickly as possible. The cost of services study would add approximately three to four months to process, just on a preliminary basis. Preliminary figures were gathered in 2010 for a cost of services study which was discussed at that time. The committee that the Commission put together on conservation rates had meetings while our rate increase was being processed; theirs was a bit of a dilemma because the Commission, by statute, is required to have cost-based, fair and equitable rates; conservation rates are policy based. Bloomington's rates are about as close to full conservation rates as any utility in Indiana. CBU currently has a flat rate for every gallon a customer uses; most water utilities in Indiana have a

declining rate block which means that the more you use, the cheaper it is per gallon. In 2010, 77% of CBU's residential customers used 5,000 gallons or less, which is phenomenal according to Mr. Skomp. In Indiana, the average customer uses 5,000 gallons. Ninety-six percent (96%) of customers use less than 10,000 gallons which is very good. Crowe looked at these figures again recently and found that 85% use 5,000 gallons or less, and 99% of customers were at less than 10,000 gallons. It appears that the flat rate currently in place is driving conservation. Crowe would not suggest a study on the conservation side at this point, as we are already seeing positive results from rates in place. The most expeditious thing to do now is an across-the-board rate increase which is what this contract addresses.

Board Member Ehman asked for a clarification about the cost of services study which was done but never finalized in 2014. He asked if the two scenarios presented were necessary in order to adjust the rates so that they would be equitable across user classes, and would the different user classes have differential rate adjustments to make sure they paid for the cost that it takes to deliver the water. Mr. Skomp clarified that it was looked at last spring and discussed the two scenarios that Mr. Ehman referred to. He explained that one scenario covered the cost, and the other fully covered the cost of capital improvements. Mr. Ehman asked if the study itself found inequities among the different user classes. Mr. Skomp answered yes. He emphasized that cost of services studies are fluid. Mr. Ehman continued to say that he is frustrated that we cannot use the cost of services study that was done, and move toward an equitable rate structure. He does understand the reality of today, and that we need the funding to come forth as soon as possible (July 2016). Mr. Ehman asked if other cities in Indiana have been able to move toward a greater level of equity, and what their method for doing so is. He asked Mr. Skomp about his experience with the IURC approving those types of changes, and the length of the process.

Mr. Skomp responded that the process, once it is filed with the Commission, whether it is across-the-board or cost based, is 300 days. The cost of services study takes quite a bit longer up front to be prepared to file with the IURC. We are not required by statute or by the IURC to go all the way to full services in one jump. Mr. Skomp explained the process by which the IURC proceeds toward a full cost of services rate approval. Over two or three increases, you would phase it in. Mr. Ehman stated his position that he would be willing to support the rate increase now, but is committed to working toward an equitable rate structure where different user classes pay according to the cost to deliver. Mr. Skomp said that the earliest we could move toward that equitable rate would be after this rate increase is in place. He feels that it is too much to take on doing the cost of services study at the same time they are proceeding with the rate increase. July 2016 would probably be the earliest a cost of services study could commence.

Director Murphy followed up the discussion by saying that we plan to bring this study back to the working group and the USB by the end of May. He will coordinate with the mayor's office and the legislative process as to the discussion that has taken place about a cost of services study. He acknowledged that when we did this in 2010, we specifically talked about a cost of services study and looked at that. Our intent was to fulfill that obligation. He stated that he shares the concern about the commitment that was developed between CBU, the Council and the Board. He added that because of the rate increase, we have been able to expand the water treatment plant and accomplish other important goals. He feels that the utility, due to the people that surround him, is running well. The utility has gotten its fiscal house in order under Mike Horstman, and now Efrat Feferman. Director Murphy stated that he would appreciate the support of the Board in going forward. He committed once again to revisiting the cost of services study in order to implement an equitable distribution of rates over two or three rate increases in the future.

APPROVAL OF CARDNO ATC DILLMAN LANDFILL GROUNDWATER REPORTING

Board Member Ehman moved and Board Member Frank seconded the motion to approve the Cardno ATC contract as follows:

Motion carried, 5 ayes, 1 member absent, (Roberts).

Deputy Director John Langley presented the proposal from Cardno ATC of Indianapolis to provide the expertise and services to perform the semi-annual statistical analysis of groundwater monitoring data from the wells surrounding the Dillman Road WWTP Sludge Landfill. This work is mandated by the Indiana Department of Environmental Management (IDEM). The amount of the contract is $4,412.50. We have used Cardno for this task for the past several years. Cardno collects data in order to calculate a trending analysis; this is required twice a year from an active landfill under our operating permit. CBU collects the samples for data, and then Cardno coordinates with CBU about the findings of the data. Mr. Langley recommended approval of the contract. President Swafford asked what we do with the information once we receive it. Mr. Langley replied that it is sent to IDEM.

OLD BUSINESS:

N/A

NEW BUSINESS:

N/A

SUBCOMMITTEE REPORTS:

Board Member Frank reported on the Finance Subcommittee which met immediately prior to this meeting today at 4:30 p.m. The members reviewed the Crowe Horwath Service Contract, and recommended sending it forward to the full Board for approval.

STAFF REPORTS:

Director Murphy reported that with the improvement in the weather we will be getting our construction crews moving. Superintendent Tom Axsom (T&D) reported that his crews will be laying a 12" water main on Jordan Ave. from 3rd Street to Atwater Avenue beginning the week of March 16. The street will be closed during the construction, with the work probably taking two to three weeks. This is the main project going on now, with main breaks and keeping the storm drains clean adding to the workload.

Assistant Director of Engineering Mike Bengston updated Board Member Ehman on whether or not we own our sewer flow meters; he stated that we do own them.

Director Murphy asked Nolan Hendon, Conservation and Energy Resource Manager, to speak about the energy feasibility analysis. Mr. Hendon gave a brief update including the fact that consultants will be visiting the building this week.

PETITIONS AND COMMUNICATIONS:

N/A

ADJOURNMENT:

The meeting was adjourned at 5:36 p.m.

L. Thomas Swafford, President