

# UTILITIES SERVICE BOARD MEETING

December 8, 2009

***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, Jeff Ehman, Pedro Roman, Jason Banach and ex-officio member Tim Mayer. Staff members present: Patrick Murphy, John Langley, Mike Bengtson, Mike Hicks, Michael Horstman, Tom Staley, Jane Fleig, Rachel Atz and Jon Callahan. Others present: John Skomp representing Crowe Horwath, Hank Hewetson and Lynn Coyne representing Indiana University, Mark Schmitter representing Washington Township Water Co., Dave McGimpsey representing Bingham McHale Attorneys and Sue Mayer.

Board President Swafford said he would like to move the item for Subcommittee Reports to the beginning of the agenda.

## **SUBCOMMITTEE REPORTS:**

Finance Subcommittee Chair Frank reported that the Finance Subcommittee had met at 4:30 prior to this Regular Session. There were three items on the agenda.

First was a discussion of an extension of the support contract with Technology Service Corporation through 2010. The terms are the same as in the current contract.

The next item was a write off of bad debt as allowed by the Indiana Code for amounts that are under \$40. There were 425 uncollectable wastewater accounts for a total of \$6,259 which is about \$14 or \$15 per account. The amounts were too small for a collection agency to give those accounts much priority. There were 333 uncollectable water accounts that are at least 90 days overdue with a balance of about \$6,084 which is about \$20.00 per account which is also too little for it to be profitable for a collection agency to pursue.

The final item was an increase in the petty cash fund from \$150.00 to \$500.00 which will allow the Utility to set up a cashier's drawer.

The Finance Subcommittee recommended approval of all three items.

***Board member Roman seconded the recommendations of the Subcommittee regarding all three items.***

Board member Banach asked if a record of uncollectable amounts is maintained even if they are written off. Assistant Director of Finance Horstman said it is kept on the account, in an inactive status. If the customer should come back in to ask for service they will have to pay the amount owed first.

***Motion carried, 6 members present, 1 member absent, (Whikehart).***

## MINUTES

**Board member Roberts moved and Board member Roman seconded the motion to approve the minutes of the November 24<sup>th</sup> meeting. Motion carried, 6 ayes, 1 member absent, (Whikehart).**

## CLAIMS

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

**Claims 0991556 through 0991595 including \$79,676.27 from the Water Operations & Maintenance fund for a total of \$79,676.27 from the Water Utility; Claims 0930917 through 0930945 including \$61,106.46 from the Wastewater Operations & Maintenance fund for a total of \$61,106.46 from the Wastewater Utility; and claims 0970096 through 0970097 for a total of \$4,011.93 from the Wastewater/Storm water Utility and \$435.00 from the Storm water Construction fund for a total of \$4,446.93 for the Wastewater/Storm water Utility. Total claims approved – \$145,229.66.**

Board member Roberts asked about a claim for Mallor, Clendening, Grodner and Bohrer. The explanation in the claims said it was for legal fees for the Dillman Road NPDES permit appeal. Ms. Roberts asked if this was for a regular application or if the permit had been rejected and had to be appealed. Utilities Deputy Director Langley said it was just for the regular application.

**Motion carried, 6 ayes, 1 member absent, (Whikehart).**

## UPDATE ON COST OF SERVICES STUDY:

Utilities Director Murphy said he had asked John Skomp of Crowe Horwath to attend this meeting to give the USB an update on the Cost of Services study. He has several scenarios to walk them through.

Mr. Skomp gave a power point presentation that is attached to these minutes.

Utilities Director Murphy said he thought the analysis that had been presented was very detailed. There have been internal discussions about focusing on residential rates in a tiered manner, a cost of services based conservation rate that would focus on charging large users and residential users who use over 5,000 gallons a higher rate and an across the board flat rate increase. Mr. Murphy said he was inclined to go for the flat rate but he wanted Mr. Skomp to come and present details so the USB could evaluate it for themselves. This is intended to be an informational session and no decision is necessary at this time. There may also be some other approaches to a rate increase that should be considered.

Mr. Murphy said he had also invited Dave McGimpsey with Bingham McHale who has provided rate counseling as Utilities' attorney with the IURC.

Board member Ehman asked what the process would be for approving the report. He said the presentation was excellent and very informative. Mr. Skomp said the reports and information could be supplied in as much detail as the Board wants. They are preparing a report on an across the board increase at this time. Mr. Ehman said his preference would be to make one

copy available to everyone. Mr. Skomp said he would include a summary sheet. He should be able to get it to them sometime in the next week. Mr. Ehman asked if the staff would be reviewing this work. Mr. Skomp said he had been reviewing it with the staff as they went along. Mr. Ehman asked if the USB would need to sign off on this. Utilities Director Murphy said he would defer to the USB about that since he isn't sure what the preferred approach would be. He believes the USB owns the report and they will move it forward to the Council with whatever approach is chosen. Mr. Ehman said he would prefer to look at the different scenarios rather than basing his decision on a power point presentation. He asked if the reports will be indexed and summarized in some way so they will be understandable. Mr. Skomp said they have not put together a narrative for all the reports. He said he will put that together and he would be happy to sit down with any of the Board members to discuss it.

Board member Ehman referenced slide seven which assessed the changes for particular customers. He felt it wasn't clear what the numbers meant. Mr. Skomp said it was mainly the class the customer may be in, i.e. residential, commercial or industrial and the volume of water usage. Because once the rate and structure changes on the cost of services, depending on what class they are in, and the average amount of water they use (?).

Mr. Ehman said that slide 16, which showed the average maximum and minimum, would be more useful if the volume of water used were shown. The irrigation class is shown but the volume of water used would show the significance. Mr. Skomp said he had it broken down in percentages as well. Mr. Ehman also asked that the total number of users be shown in one table. He asked if in slide 22 Mr. Skomp was referring to just the larger customers. Mr. Skomp said in doing the cost of services they could be very aggressive in how costs are allocated to the larger users. When he says aggressive he means aggressive in intervention as well. That would mean they would be in the 80 to 95% range rather than 43%. On slide 23 Mr. Ehman asked if in that case they would be targeting water reduction, not necessarily conservation. He asked Mr. Skomp to explain the difference between the two terms. Mr. Skomp said conservation would mean there was some inefficient water usage so some behavior that would gain efficiencies would be encouraged. Often, if all the inefficiencies have been taken care of the only way to reduce use would be to reduce production possibly by laying off employees. The aim is to get people to be efficient in the water they use. If people are just told to reduce their use it can cause some unintended consequences.

Board member Roman said it would be valuable if some of the reports were available to be read. He said he would like to think about this for a couple of weeks. He has two issues. When conservation is talked about it is in terms of efficiency but lots of people understand it to be preservation of the resource itself. To them preserving the resource has a value of its own. Sometimes they would be willing to sacrifice employees or other kinds of development. When the word conservation is used it should be clarified if it means efficiency or preservation of the resource.

Mr. Roman said the flat rate increase without the expansion project would need a 12% increase. With the project it would be 43% increase. The approximate income for the water utility is about \$10 or 12 million per year. If the rate is increased 12% it would bring in about \$1.5 million. He is concerned that would not be enough. For the past few years there has been an operational deficit of about \$1.73 million per year and most of it was the water utility. Because a rate increase can not be asked for every year it should cover several years. Another 5 or 6% would be needed. About \$7 million has been spent from Extensions and Replacements in 2008 and 2009 to cover the deficit. Mr. Skomp said if just the minimum Extensions and Replacements were done it would be 30% of the debt service coverage which

would be a 9% increase (?). If the depreciation expense were fully funded it would be closer to 21 or 22%. Mr. Roman said he thinks about \$2.5 million dollars a year just for the water utility. He suggests a 23 to 24% increase. If it is a flat rate he would consider a 32 to 33% increase just to cover (?). Mr. Skomp said he would be happy to show Mr. Roman the scenarios on that as well. He said they went back and looked at the highs and lows and looked at the historical spending, which has been suppressed because the money wasn't available, 12% would work. If the depreciation is going to be fully funded with a flat rate it would be in the low 20's.

Board member Roberts said she would like to re-state that. A 12% increase would be enough to just get by with a cost of living increase. Mr. Skomp said that would allow the expenses to be caught up on but the dollars on capital expenditures would have to be watched. Ms. Roberts asked about some definitions. She said she was not familiar with the terms "master meter" and "non-master meter" for IU. Assistant Director of Engineering Bengtson said there are 5 master meters surrounding the main campus which means there are five inlet points into a system that is run by IU. They have their own piping system internal to and beyond those five meters. IU also owns other properties that are individually metered outside of the main campus and those are the non-master meters. All the buildings on the main campus are without a meter. They are billed according to the five master meters.

Ms. Roberts asked if the irrigation section means that each customer's usage is broken down according to the water that goes to their lawn and the water that goes inside or is it just irrigation for farm use. Mr. Skomp said a lot of the irrigation is metered separately. Ms. Roberts asked if it is just residential usage if a hose is just attached to the outside of a house. Mr. Skomp said it is. Ms. Roberts asked if the six months that are averaged for the regulatory commission would start after the council approves the rate increase. Mr. Skomp said it would be after the commission makes a ruling.

Board member Banach said there were a couple of slides that were enlightening for him. One of them was that 96% of the residential customers use 10,000 gallons of water per year or less. Mr. Skomp said it was actually 92% of the bills that are sent out. Mr. Banach said he infers from that that there really is not a conservation problem. Secondly he asked that the number be put in the context of how other municipalities compare. Mr. Skomp said Utilities does not have a conservation problem other than the one already trying to be addressed through the irrigation route. A lot of other communities, when he looks at their consumption, even when customers have a separate irrigation meter it still shows up in their residential usage. The irrigation numbers are included with the residential usage. They don't break it down into a separate class. What he ends up comparing in other communities is everything lumped together in the residential class whereas Bloomington's Utilities breaks irrigation out into its own class. There is not a conservation problem that is not already being addressed by the irrigation rate. Trying to address what is left in the residential customer class will be a hard task. With other communities that could be done because the irrigation is included in their residential consumption. Mr. Banach asked if that meant that overall Bloomington Utilities would be average. Mr. Skomp said he can't compare the numbers very well. The residential indicators look very favorable compared to other communities.

Mr. Banach asked if Utilities has looked for all possible efficiencies that would cut expenses when a rate increase is being considered. Utilities Director Murphy said that has been done. The way Utilities has tried to make do with their revenues can be seen by looking at the revenue projections, the budget and the costs that have increased. Almost all overtime has been eliminated. The vehicle purchases have been severely constrained over the last five years other than the vector truck. Travel has been cut back. There are some capital issues

that must be confronted which is the place with the most impact. As was demonstrated during the budget, the Extensions and Replacements have been compressed. There are some costs that can't be controlled. There is a need for a rate increase. The USB will have to make the decision about what the increase should be. It has been necessary to cover increased salaries, pension benefits and all those things.

Mr. Banach observed that if they went overboard with conservation or asking customers to reduce their water usage it will reduce the total revenues which would require a larger rate increase at some point. Mr. Skomp said if they are very aggressive toward the larger customers and their water usage goes away it would be awhile before it comes back.

Ex-officio board member Mayer thanked the other USB members for talking about the 12% increase. He asked if the 43% increase, if they do go ahead with the plant expansion, is in the same range that will allow Utilities to just get by. Mr. Skomp said the capital budget is higher. The staff felt that budget is appropriate. The minimum coverage is based on 30% of the annual debt service. If the project goes forward the debt service would be higher so the 30% gives a larger number. It would not fully fund depreciation.

Mr. Mayer said the Mayor, in his State of the City Address, did mention bringing plant expansion forward to the Council.

Board President Swafford said he thinks the Cost of Service report is going to be very useful. It will look at all the different rate users. He thinks it is important to know which rate class is consuming the most water. If the consumption from 2005 to 2009 is looked at it should be possible to get an idea of which class of customers is causing the growth making it necessary to expand the water treatment plant. Mr. Swafford said he still supports the expansion and believes it will be needed. It will probably take at least six months to get approval from the Council so it would be sometime in the Autumn of 2010 before the rate hike would go into effect. He said he is not sure he supports an across the board rate increase. Once the Cost of Service report is done it might show ways to do other things. One of the possibilities mentioned by Mr. Skomp was having different rates for customers in the city and outside of the city. He doesn't think that a water conservation rate will do much when 77% of the customers use less than 5,000 gallons per month, and 96% use less than 10,000 gallons per month. Mr. Swafford said he would like the USB to be able to make a recommendation at the next meeting if the reports can be made ready in time.

Mr. Skomp said he had not done a cost of service study on different rates inside and outside of the city. Mr. Roman said it can be done by class of customers because it is known, more or less, which ones are outside. Many of the residential customers outside are customers of CBU. He asked that there be a report on each class of customers and what their cost is to Utilities. Also he would like an estimate of the growth in population. So far the census indicates growth of one percent City wide and ten percent countywide within ten years. That is also a determination that is important. His main concern with the plant issue is he wants the people who create the cost to pay for it.

#### **OLD BUSINESS:**

Utilities Director Murphy said he would like the USB to make a decision about how to handle a water forgiveness policy. It should probably be discussed first in an Administrative Subcommittee.

**NEW BUSINESS:**

Utilities Director Murphy said USB officers for 2010 need to be chosen. Board President Swafford said he would send an email to board member Whitehart who is the Chair of the Administrative Subcommittee.

Board member Ehman said because there is a concern about getting the plant on line based on running out of water during peak months he would like to know there is a contingency plan in place for how this would be managed. Mr. Murphy said he has talked to Assistant Director of Engineering Bengtson about that. Board President Swafford said there is a 2000 action plan that was put together for the Y2K concerns. It could be updated. There was a lot of work put into that plan.

**STAFF REPORTS:**

Utilities Director Murphy said the Holiday Luncheon would be tomorrow, December 9<sup>th</sup>, at noon at the Shrine Club.

**PETITIONS AND COMMUNICATIONS:**

There were no petitions or communications.

**ADJOURNMENT:**

The meeting was adjourned at 6:29 p.m

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**L. Thomas Swafford, President**