UTILITIES SERVICE BOARD MEETING

March 2, 2010

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 5:04 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, Jason Banach, Pedro Roman and ex-officio member Tim Mayer. Staff members present: Patrick Murphy, John Langley, Jane Fleig, Michael Horstman, Phil Peden, Mike Hicks, Mike Bengtson, Missy Waldon, Jon Callahan, Mike Trexler and Vickie Renfrow. Others present: Isabel Piedmont, Steve Volan and Mike Satterfield representing the City Council, John Skomp and Angie Steeno representing Crowe Horwath, Dave McGimpsey representing Bingham McHale, Mark Menefee, representing Indiana University, Larry Jacobs representing the Chamber of Commerce, Dan Sherman representing the Office of the City Council and Sue Mayer.

MINUTES

Board member Roberts moved and Board member Roman seconded the motion to approve the minutes of the February 16th meeting. Motion carried, 4 ayes, 3 members absent, (Ehman, Frank and Whikehart).

CLAIMS

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

Claims 1090222 through 1090271 including $128,558.00 from the Water Operations & Maintenance fund and $200.00 for water hydrant meter rental for a total of $128,788.00 from the Water Utility; Claims 1030117 through 1030146 including $78,267.30 from the Wastewater Operations & Maintenance fund for a total of $78,267.30 from the Wastewater Utility; and a total of $375.76 from the Wastewater/Storm water Utility. Total claims approved – $207,431.06.

Motion carried, 4 ayes, 3 members absent, (Ehman, Frank and Whikehart).

CHANGE ORDER NO. 2 WITH WEDDLE BROS. FOR THE JORDAN RIVER RECONSTRUCTION, LINNEMEIER CULVERT:

Utilities Engineer Fleig said this is a deduct change order. There are two items on it. The first is a deduction for $3,000. When the bid was put together it included 50 cubic yards of undistributed rock excavation. It's never possible to know just how much rock will need to be excavated so an extra amount is included just in case it is needed. As it turned out only 30 cubic yards had to be excavated so there is a credit for 20 cubic yards at a rate of $150/cubic yard.

The other credit is for fencing that was installed on the site. The developer took the building down and gave Utilities access to the site but there was a slight delay. The developer was concerned about the safety and security of the site so Utilities had the fencing installed after having asked for quotes. Utilities' portion of the cost was pro-rated and the developer paid the rest. Once the contractor arrived they would have had to put up fencing anyway so Utilities worked out a deal with them to cost share. They paid half and Utilities paid half of the portion Utilities had originally paid for. That is another $275 deduction giving a total Change Order in the amount of $3,275 back to CBU.

Board member Roberts moved and board member Roman seconded the motion to approve Change Order No. 2 with Weddle Bros. for the Jordan River Reconstruction, Linnemeier Culvert. Motion carried, 4 ayes, 3 members absent, (Ehman, Frank and Whikehart).

APPROVAL OF THE RESOLUTION TO DECLARE AN EMERGENCY FOR INVITING BIDS FOR A PUBLIC WORK PROJECT:

City Attorney Renfrow said this resolution is authorized under the provision of the Public Construction Statute that allows an expedited bidding process under certain circumstances. The circumstance is when there is a determination by the Board that an emergency exists. This provision was used on two other occasions in the past couple of years. One was when there were problems with Maddox, who was working on the Water Treatment Plant. They were significantly behind schedule but things were worked out with them so it was not necessary to bid the remainder of the project to another company. This was also used for the repairs for the North Dunn St. Bridge. This was a situation that developed where Utilities needed to move as quickly as possible.

At the last USB meeting the Board had approved an agreement to have the engineering services, plans and specifications done for the repair of the effluent filters at Dillman Road WWTP. This is the next step in the process to move things along as quickly as possible. With this resolution in hand, when the specifications are ready it will be possible to go ahead and solicit bids from two contractors who do this kind of work, award the contract and get the work done.

The reason for using this expedited process is that Utilities won't have to advertize the project. Under the statute, going through the advertizing adds about three weeks to the whole process. In this case the advertizing would not produce the benefit intended because this is the kind of work that is very specialized and there are only a few companies that would consider doing this kind of project. There are a couple of companies that will be specified because the Statute requires that the minutes of the meeting reflects the companies that bids will be solicited from. It doesn't limit Utilities to those companies. The companies being considered are Roberts Water Technologies, Inc. and All Service Contracting Corporation.

Utilities Deputy Director Langley explained that these are the final filters that allow the release of an effluent that is very high quality with minimal impact to the stream. The concern is that if half the filters are out of service and there is high flow it may not be able to maintain the quality the community is used to and the staff, as professionals, likes to see. There have been no violations of the NPDES permit but there is a provision in the permit that requires any device that the permit is calculated on to be maintained in good operating order. The spring rains are coming so there is a need to be as expedient as possible in being able to maintain the high quality of the effluent.

Board member Roberts asked if Utilities had used either of the mentioned companies before and where they are from. Assistant Director of Engineering Bengtson said neither of the companies had been used before because the under drains have never been replaced. What is in the plant is the original equipment. He said he wasn't involved in building the original plant so he doesn't know who did the work at that time. These are just the two contractors he knows of that do this kind of work. Ms. Roberts asked how long it will take from the time they start the project to when the filters are back on line. Capital Projects Manager Hicks said the work will be done on the under drains and the media above them. This work can go quickly and the products needed are available without a long lead time. Once a contractor mobilizes he anticipates it will take about 10 days to 2 weeks.

Board member Roberts moved and board member Roman seconded the motion to approve the Resolution to Declare an Emergency for Inviting Bids for a Public Work Project. Motion carried, 4 ayes, 3 members absent, (Ehman, Frank and Whikehart).

PRESENTATION AND DISCUSSION OF THE CROWE HORWATH RATE STUDY:

John Skomp, representing Crowe Horwath, said he would present the Rate and Financing report and would discuss the available options for completing either part of the plant expansion or maybe just the line or the full plant expansion or the rate increase that would be needed just to go forward and pay the operating expenses without any plant expansion.

Mr. Skomp asked the USB to look at the restricted asset section and the current and accrued assets on Utilities' balance sheets. He pointed out that the cash balances have been going down since the end of 2006. Utilities last rate increase was approved by the IURC in November of 2005 and implemented at the beginning of 2006. An 11% increase had been requested from the commission but the Commission brought the irrigation rate down and then gave a 12.3% increase to make up for the lost revenue. The reason for the 2005 rate increase was because Utilities needed to issue a bond to complete some capital improvements that had been planned in the 2003, 2004 time frame. The bond was for a little over $5,000,000 which was only intended to cover completion of the projects.

If the construction fund is compared to the construction work in progress it shows the construction fund has gone down as projects have been completed which is how it is designed to work. If the Cash with Fiscal Agent is considered along with the operating fund it can be seen that there were about $3.7 million in other funds that is now down to about $500,000. This indicates that Utilities is currently in need of a rate increase not just for expansion but because the rates have run out of their useful life and are not providing the revenue needed for the daily expenses.

The Balance Sheet is on page 3. The key thing on the liability and equity side of the balance sheet is the outstanding long term debt. Currently that figure is at about $28 million. The details for that start on page 4. A lot of the debt is from the Indiana State Revolving Loan Fund, (SRF). The interest rates for the 2000 SRF loan were 2.9% which is a pretty good rate. Page 5 shows the 2003 SRF loan with an interest rate of 3.3% and page 6 shows the 2003, Series B had a 3.3% interest rate as well. There are a couple of loans that are not through the SRF that might be re-funded but the 2003 bonds have already been re-funded with pretty good rates. The 2006 bonds, on page 8, shows there isn't an opportunity for saving through re-funding on those bonds. The current outstanding debt is set and the rates are pretty good so it isn't possible to re-fund.

Page 9 shows one of the concerns about the outstanding debt. When revenue bonds are issued there is a requirement that some kind of debt service reserve must be funded. That is usually at the level of the maximum annual principal and interest of the loan. There are several different ways that it can be funded, with cash out of the bond proceeds or the cash could be built up over five years or if it isn't funded with cash a common practice is to buy a surety bond from a triple A rated insurance provider. They would hold a surety so Utilities would not have to hold the cash on hand for the maximum annual principal and interest. There are four bond issues that Utilities has surety policies for and one that was funded with cash, the 2006 bond. When the surety bonds were bought from these companies they were triple A rated, which was pretty common, but because of the economic crisis and the financial crisis many of the surety bond providers lost their triple A rating. After a series of buy-outs the surety bonds are now held by the National Public Finance Guarantee Corporation. Utilities still has one surety bond policy, the 2000, Series A that needs to be replaced with cash. It's the one held by Ambac which has a rating that will not allow Utilities to depend on that surety bond anymore. Mr. Skomp said he will talk about that later when he discusses setting rates.

Page 10 has the income statements. The total operating revenue shows that in 2007 the revenues were at about $10.2 million. It has been pretty steady since then. The total Operation and Maintenance expense has been fairly steady, taking inflation into account. It has been driven up a bit by the water treatment expenses. When this is analyzed as to what is causing the upward pressure on expenses it can be seen that the cost of chemicals is mostly responsible. This is something that all Utilities are struggling with. The line has been held on expenses as much as possible but very little can be done to keep the cost of chemicals down. As gas and oil prices fluctuate the chemicals go with it.

Mr. Skomp said revenues have been pretty steady with a slight increase in expenses. Interest income has gone down as the cash balances have decreased.

Page 12 shows how things should look going forward based on a test period starting in August, 2009. This was done by adjusting the operating revenues to come up with the way things should look for the immediate future. There was an attempt to portray what a normal year's finances would look like so rates could be set according to that.

One of the first adjustments, which looks like a big one, about $2.2 million, happened because when some revenues came in they got classified as residential sales when they were really multiple family dwelling sales. That was just a re-class adjustment, not an increase or decrease in revenue.

Some adjustments were made on the operating expenses side which is detailed on page 13. In item three it can be seen that one of the things taken into consideration in the expenses going forward is the effect some kind of conservation plan might have. Mr. Skomp said he knew the USB and the Utility have worked to come up with a conservation policy. There is a plan to add a position for a conservation coordinator which will allow some conservation programs to be considered. At this time conservation rates are not being considered but there are some conservation programs that could be implemented. At the bottom of the page, on adjustment five, it can be seen that some money was included, ($100,000) so the Conservation Coordinator can implement some of these programs. All the adjustments are detailed on pages 13 and 14.

The next section shows different scenarios for the USB to consider how different possible rate increases might look given different things that could be accomplished. Page 15 lists the revenue requirements for the Utility. This shows the revenue necessary to cover the expenses, debt service and other things that are drawing on the revenue. The adjusted Operation and Maintenance expense is about $6.7 million per year. There was also an adjustment for taxes other than income tax. Then the estimated five year debt service was calculated.

On scenario one the rate needed to pay the current operation and maintenance expenses and the current debt service is figured. Page 16 shows a combined debt service schedule for the current bonds that are outstanding. About $2.8 million per year would be needed to pay for the debt service. That number is included on page 15. The State Statute requires a Utility to have a capital improvement program that considers the amount of money needed to expand over a three to five year period. An average of the amount needed for that may be included, or the depreciation expense may be recovered. In this scenario the depreciation expense was used. That would be about $1.9 million per year which would allow for some projects to be paid for or the upfront costs on future projects could be covered.

The operating fund has been depleted over the last few years. Part of the bond ordinance is a covenant that two months of Operations and Maintenance expenses, at a minimum, be maintained in the operating fund. This fund has been depleted below that level. The required balance would be about $1.2 million but the fund is at a little less than $500,000. Over the next three years about

$240,000 needs to be brought in to replenish the operating fund and get it up to the required balance. Taking all of that into consideration would require a 22% overall increase in revenues.

The next scenario, on page 17, is a look at what would be needed for only the water line project, which is to run a redundant water line from the plant to the City. This does not include any plant expansion. The first two lines showing Operations and Maintenance and taxes are the same as in scenario one, as is the amount shown for annual working capital requirements. The changes can be seen in the annual five year debt service. A bond issue is proposed for the line-only project. The bond issue would be about $28,000,000 that would cover the project and all the costs of issuance, the IURC proceedings and everything it would take to accomplish that. Page 19 shows an amortization schedule for that loan. One thing to note is that what is called "wrapping the debt around the current debt" was done. It was wrapped around some old bond issues so that when they went down this would ramp up. That shows that no principal would be paid on this bond before July, 2020. Page 20 shows in the total column that the debt service has been leveled. As some of the other bond issues fall off the proposed 2010 bond issue ramps up. On page 17 it can be seen that if this is accomplished about $4,000,000 to 4,500,000 will be needed for debt service.

For capital improvements, since most of it will be paid by debt service, it reduces the amount needed for Extensions and Replacements to the minimal amount for coverage. The bond ordinance requires that before additional debt is issued there must be coverage for $1.25 million, i.e. 25% of the debt service. That money could be used for capital improvements. Note A indicates that the figure of 30% was used. That way if someone should calculate a little bit differently it wouldn't end up at 22% or something like that. If it is at 27% or 28% the bond can still be issued.

Note C at the bottom of page 17 shows that replacement of the bad surety policy would be built into the rates. It gets replaced with cash over a five year period. SRF approval would be needed for any additional debt. It has been seen that they do want any of the surety policies that are no longer triple A replaced with cash. They have allowed a five year build up of that.

For the line extension only about 35% more revenue would be needed than is currently available.

The final scenario is the plant expansion with the redundant water line. The Operations and Maintenance expense, taxes other than income and working capital are all the same from scenarios 1 and 2. There would be a larger bond issue that is detailed on page 22. This shows construction costs of about $36.3 million. On page 23 the bond issue is shown. Because this is a larger bond some of the principal will have to be paid up front. By July of 2021 the principal payments start going up. Page 24 shows that once again the debt service remains relatively level. To do the entire expansion of the plant and water line and also deal with the working capital and surety bond and pay the current level of operating expenses would require a 47% increase in the current operating revenues.

The final section shows what these different scenarios would mean to the customers. The current schedule of rates and charges are shown on page 25. Page 27 shows what each of the scenarios would mean to a customer with a 5/8 meter at various usage levels.

For scenario one a customer who uses 1,000 to 2,000 gallons per month would experience less than a $2 increase. A customer using 5,000 to 6,000 gallons per month will have less than a $4 increase just to pay for the operating expenses and current debt service.

For scenario two, which includes the line project along with the expenses and debt service, there would be about a $3 increase for someone at the low end of the scale. At the higher end it would be an additional $5 or $6 on their bill.

For the final scenario, which adds the plant expansion to everything else, there would be an increase of $3 to $4 per month. Someone using 4,000 to 6,000 gallons per month would see an increase of about $8 per month.

Mr. Skomp said that he thinks it's pretty important to move forward with this quickly considering the financial condition of the Utility. The IURC should also be asked to consider this as quickly as possible.

Board President Swafford asked how quickly this could be done under a best case scenario. Mr. Skomp said the best to expect would be new rates by the beginning of 2011. It might be possible to push them to finish by the end of this year but that seems less likely.

Board member Banach said that more than anything he is concerned about how things got to the point they are now. To ask for a 22% rate increase in one year when it could have been spread out over several years seems difficult. He asked Mr. Skomp how he would characterize what had brought things to this point. Is it a matter of being over leveraged in the past, coupled with unforeseen expenses? Mr. Skomp said the last rate increase was to fund the bond issue so the construction project being worked on at the time could be completed. It didn't do anything to increase the expense dollars. Beginning at the end of 2006 and in 2007 this plant expansion project started to be seriously considered. There has been work on how to fund it since then. Also, Utilities that are regulated by the IURC don't tend to go to the Commission on a yearly basis since it is a long and laborious process. The reason it is a 22% now is because there has been some pressure from expenses going up, the last rate increase passed only took care of the additional debt. Now things are at a point where if only the additional 22% increase is done it would mean just catching up on expenses and giving some capital improvement dollars in case some other things have to be done. This would bring in about $1.9 million a year to pay for capital improvements. Mr. Skomp said when he is dealing with Utilities that have to go through the lengthy IURC process it is not at all uncommon to wait until there is a greater need.

Mr. Banach asked if the increase was averaged over the last 10 years what it would look like. Mr. Skomp said he hasn't looked at that. He thinks it would be close to the rate of inflation or maybe a little bit more. For the last increase 2003 was used for the test year. For this one 2009 in being used which is 22% over a period of 6 years.

City Controller Trexler said he would like to add a little context to that. He said the City's maximum levy increases by about 4% per year. It increases by the amount that is the average income growth in the state. There is nothing inherent to the Utility rates to automatically make that kind of adjustment. The City's levy will grow because the maximum levy grows with the total amount brought in by taxes and as the assessed value grows. Utilities have to go through this IURC process every time a rate increase is needed instead of the automatic increases. Mr. Banach said he is just interested in the how the Utility rate averaged over time. Mr. Trexler said he just wanted to add the context that this increase is roughly the same as the City's over that period.

Mr. Banach said Mr. Skomp had talked about delaying principal payments for a period of years to allow the debt payment to stay consistent. He asked if in the end more would be paid because of delaying the principal payments. Mr. Skomp said that is correct. With these types of bonds the interest rates that are charged for the out years are higher than are charged for the early years. Also a significant amount of the principal is kept out longer than if it were amortized in a normal rapid fashion. In total more interest is paid. In trying to come up with the minimum rate increase for this, that was the best way to accomplish it. If the goal was to pay the least amount in total principal and interest on the bond the principal would be put up front. Mr. Banach asked if he had run those scenarios at all. Mr. Skomp said he didn't have the answer for that off the top of his head but he could go back and find it. Mr. Banach said it is actually a policy question and Mr. Skomp agreed. Mr. Banach asked if overall, as a Utility, they would want to pay less money over 20 years or have lower payments on an annual basis. Mr. Skomp said he would send that information to Mr. Banach.

Mr. Banach then asked about the SRF approval on any additional debt. Mr. Skomp said SRF is a lower interest loan program than could be got by issuing the tax exempt bonds on the open market. It is a program that leverages some federal dollars and gives pretty low interest rates on debt. One of the conditions of that is that before any additional debt can be issued their approval is required. It is not a lengthy process it just means they are informed that more debt is being issued and they sign off on it. They are given a copy of the consultant's report that is prepared anyway when the bonds are going to be issued. In the past that has just been a matter of checking off a list to make sure the financial condition is good. This is a very quick process. However as the surety providers have gone south, one of the additional things the SRF looks at is where the surety policies are at and are they still good. If someone had to call on the surety policy is the provider still good for it? Mr. Banach said the bottom line is the SRF wants to make sure their investment is good. Mr. Banach asked what Mr. Skomp's experience has been with other municipalities with SRF in this recent environment. Mr. Skomp replied that if it can be demonstrated that these things are being fixed they have been very good about it. Mr. Banach asked if he thought, based on the scenarios, they would approve of CBU's financial condition. Mr. Skomp said he believed so.

Ex-officio board member Mayer asked how CBU compares to other Utilities in the State with regard to water rates. Mr. Skomp said CBU is competitive and would stay competitive with any of the scenarios. On page 23 it shows that even with the highest range of the scenarios somebody using about 5,000 gallons would be paying around $22 per month. That is about mid-range for the State.

Board member Roberts said that at one point in time there had been consideration of having different rates for different classes of consumers. She asked if the rate increases in the scenarios are across the board. Mr. Skomp said pages 25 and 26 show that currently there are different rates for different classes of customers. All the scenarios would call for all the rates to be increased at the same percentage. He had looked at conservation rates. Many of the cities in the State have what are called declining rate blocks rather than having a rate per class. For the first block of water used a certain rate would be applied and then the next block used would have a lower rate applied, etc. There may be one or two more blocks with the rate going down for each. CBU is further along in the conservation arena than a lot of the others are since a flat rate per thousand gallons is used for each class. The plan is to keep the class structure for rates but they will all be increased by the same percentage.

Ms. Roberts said there had also been some discussion of whether or not it would be possible to phase in the rates with a certain percentage added each year until the target rate is reached. Mr. Skomp said he believes that would be possible. He doesn't think there is a lot of ability for phasing in the 22% increase because that is intended to bring things up to where the current expenses and debt service can be met. That probably needs to be done right away. However if the rates are going to go up to 35% or 47% that could be phased up from 22%. The one concern he would have with that is if there is increasing pressure on expenses and it took 3 years to step up to the 47% increase, the expenses might put things a little behind by the time the target rate was reached. That would be done by working with the principal and interest payments of the bonds issued so they would stair step up to match any phasing. Mr. Skomp said he would want to take any phase in plan to the IURC.

Ms. Roberts asked how long these rates would be good for. Is this something that needs to be done every four or five years? Mr. Skomp said he would recommend a rate review every two years. The life span of Utility rates often goes with the capital improvement budgets.

Board member Roman asked if Mr. Skomp knew when the 2005 rate increase had been approved by the USB and the City Council. Mr. Skomp said he didn't know, he remembered working on it in November and December. Mr. Roman said there had basically been one rate in ten years and it was to provide the revenue required for the bond. CBU is at the lower level compared to costs around the State. He said he would like to recommend to the USB that they follow Mr. Skomp's advice to look at the rates every 2 years so a situation like this can be avoided.

Mr. Roman said he wanted to make it clear that any of these rate increases would be for the water portion of a customer's bill only.

Mr. Roman said the 22% increase would cover the current expenses and obligations. A flat rate increase is being applied to all the rates. Mr. Skomp agreed.

Mr. Roman asked if the table on page 27 that shows the change in the monthly bill for a customer is for residential customers only. It doesn't include industrial, commercial, etc. Mr. Skomp confirmed that.

When the cost of the different projects is discussed the principal must be considered but Mr. Roman said he also likes to look at how much the customers will end up paying. On page 20 the cost of scenario two which covers the current needs plus the redundant line, is shown. The cost of the construction is about $9 million but what the rate payers end up paying for this is $55,800,000. Can the same be said for scenario three on page 24? The cost of construction that includes everything is $41,000,000. The rate payers would be paying $79,300,000. Mr. Skomp said that page 23 shows that the principal and the interest is about $79 million. This would be paid over a 20 year period.

Board member Banach asked Mr. Skomp what the scenario would be if nothing were done. Mr. Skomp said the cash balances have been declining and are now below the level that has been covenanted in the bond ordinances. At some point as a deficit situation is reached these will have to be paid or there will be a default on the bond. There are several dooms day scenarios. Mr. Banach asked if the expenses can be lowered. Mr. Skomp said he's not sure where the expenses could be lowered. If rates aren't going to be raised another plan must be made which could be cutting expenses or somebody else putting money into the operation, maybe from City funds or something else. Utilities get their revenue from their customers. If the amount of revenue is not being brought in that is needed, either expenses must be cut, which is pretty difficult when running a water utility and trying to make sure the water quality is what it should be, or some other City fund would have to come into the operation. Since CBU serves customers outside the City limits and wholesale customers it doesn't seem likely that City dollars could be used. Mr. Banach said that scenario could happen if the IURC did not approve the rate increase.

Ex-officio board member Mayer said, just to clarify things, that typically when a Utility does a rate increase it is set up so that there would be an expectation of declining cash balances. Mr. Skomp said as the rates start to run their useful life the cash balances do come down. That is one way to monitor when it is time to look at the rates again.

Board President Swafford asked if, based on the best case scenario whichever rate is recommended, is Mr. Skomp saying it would probably be about a year before the rate would go into effect? Mr. Skomp said it might be possible to implement it by the end of this year but it would be best to plan on the first of 2011. Mr. Swafford said if the assumption is made that the 47% increase is approved, given the time it would take to design the project, buy the land, etc for the redundant line it would be another year to 18 months before construction could be started. In the end it might be another 12 to 18 months before construction would be started on the plant expansion. He asked if the water rates could be phased in over a period of two or three years. Could there be an issue with the IURC? Mr.

Skomp said no, that has been seen before. The issue is that as construction moves forward will the money be needed for the various steps be available.

Board member Roman said it is normal for a Utility to have a decrease in funds as they come to the end of the life of the rate. Mr. Skomp said maybe not this far down but yes the cash balance does start to fall. Mr. Roman said the cash balances have been going down for four years.

At this time Board President Swafford asked for comments from the public.

Mike Biggs asked if it is true that the wholesalers use 24.4% of the water but only pay for 15.8% of it. Mr. Skomp said that where the revenue comes from shows that the wholesale consumption is around 25%. The wholesalers do have a different rate so the revenue from it is a smaller percentage. He doesn't have that number at this time but it would be less than 25%. Mr. Biggs suggested that if the wholesalers paid the full cost, especially since Bloomington is not growing at the rate of the wholesalers, and if incremental pricing were used where the more units if water used the more is paid wouldn't that pay for the increase neede. Incremental pricing is done all over the world. just not in Indiana. The incremental rate would encourage people to conserve water, which can be difficult to get them to do. That should reduce the amount of water being used from the current level for 50 to 100 years. Wouldn't building a couple of water tanks take care of any peak demand for another 50 to 100 years after that? Couldn't the upfront needs be paid for? The expansion would not be needed if the tiered pricing were implemented and wholesalers paid the full price of the water.

Mr. Skomp said there is a lot of misinformation. He has heard quite a bit about the wholesale customers causing the need for the expansion of the plant because their customer base is growing so much more quickly than in the City. In 2003 the wholesale contractors used about 1.1 billion gallons of water per year. Then for a few years their usage went down below that, then back up, then down again. They have really been pretty steady in the amount of water they have used since 2003. If the rate of growth is a lot higher outside of the City, it isn't showing up in the amount of water being sold to the wholesale customers. Most of the growth has been in residential and multi-family dwellings. It isn't really the wholesale customers causing the growth. Another piece of misinformation is that everybody else has the conservation rates with the inclining rate blocks. There are some Utilities out west that have the inclining rate blocks. Denver has these, but Denver gets its water from snow melt. The melting snow fills the reservoirs and when it is gone, it is gone. Denver let their residents vote on it, but that's not an option here when going through the IURC. A lot of the Utilities out west that are water starved have a flat rate like the one CBU has. It is not an automatic thing that everybody does inclining rate blocks. It is the exception even out west where water is a scarce resource.

Dave McGimpsey, an attorney with Bingham McHale, an outside rate counsel for the Utility, said that Indiana has a statutory scheme which calls for cost based rates. It is very difficult to cost justify an inclining set of rates. He has not seen cost based rates support an inclining block rate scale. Other states have different statutory requirements so it might be different in them. He doesn't think it would be possible to get that through the IURC. A quick rate increase is needed so it doesn't become an emergency. The way to do that is to go with an across the board rate increase. Those typically go much more quickly than trying to play around with the rate design. It could take a lot of time, money and resources trying to get a different rate design pushed through.

City of Bloomington Controller Trexler said the other aspect that was mentioned is that there is a discrepancy between the percentage of water the wholesalers use and the percentage of revenue they generate. That makes perfect sense because the costs associated with wholesalers are lower. For a residential customer a line to the house and a meter must be provided and maintained along with Customer Service, a website, and all the things that are additional costs for providing water to a residential customer rather than a wholesale customer who would take care of those additional costs themselves.

City Council President Piedmont-Smith said given the requirement of the IURC for cost-based rates she wondered whether CBU's current rates accurately reflect the cost of delivering water to the different classes of customers. She said it has not been shown to her that the rates charged for the wholesalers, industrial, commercial and residential customers reflects the real cost of bringing them water. She said she knows that Mr. Skomp indicated that it would be very hard to get variable percentage rate increases for the different consumers passed by the IURC. But if the bottom line for the IURC is that rates need to be cost based, and an across the board increase is being planned, she thinks the starting point should be whether the current rates are really based on the cost. Ms. Piedmont-Smith said she would like to see a study of this. She said she believes a Cost of Service Study has been done. She would like it to be completed and have the results provided since she believes the USB authorized a significant amount of money for such a study. Ms. Piedmont said the rate payers deserve to see where the money went and what the results were. She stated that her main concern is that any inequities that are in the current rates, where some classes may be paying more than their fair share, not be perpetuated in any rate increase that the City Council approves. She asked that the USB consider that when they move forward in making a recommendation to the Council.

Mike Biggs asked if anybody wanted to comment on the possibility of building a couple of water tanks rather than doing the plant expansion. It would be much cheaper than the expansion.

Utilities Deputy Director Langley said that CBU's experience with long term water storage is that the water quality diminishes significantly over the time it is stored. Water storage does not seem to be a good option. What would happen is expenses might be deferred for a little while but the quality would be significantly diminished.

City Council member Steve Volan said he shares many of the views expressed by Mike Biggs and Isabel Piedmont-Smith. He said it would be useful to have a more thorough break down of where the rates go. How much is for laying the pipe, how much for running the water through it, how much is processing, how much goes for equipment. If these costs were broken down it might quell some of the issues about the rates. Another concern he has is that most people don't think of their utilities separately. They think of water, wastewater and storm water as all one bill. He said he is surprised that he hasn't seen how much this increase would affect the typical total cost of someone's bill. Having heard the testimony today he is convinced this is an issue that needs to be addressed. As a Council member he doesn't want to take any time more than necessary to address those questions. Getting a better idea of the total costs will allow the Council to expedite their decision.

Mr. Volan also pointed out that the citation of the number of gallons used is a better indicator of usage per class than the total population. The figures used to determine growth are estimates. The census does a growth estimate every year but it is not as accurate as the decennial census. Unfortunately those numbers won't be available until the end of the year and a decision needs to be made before that. He suspects the census will show a more significant growth in the City of Bloomington than the estimates have suggested.

Board member Roman said the IURC sets policies that are basically opposite to those the City of Bloomington has in most cases. They reward those who waste and consume more water. If people want to change things they should ask the Council to remove the City Utility from the IURC. He would like that.

He looked at the numbers provided to him by Utilities Director Murphy and Assistant Director of Finance Horstman from 2000 to 2007, class by class. Wholesalers use 24.4% of the water and pay 15.8%. He said he doesn't know if that corresponds to the actual cost of the water or not. Wholesalers grew by 11% during that time period. Whether a CBU customer lives inside or outside the City limits they are still CBU customers. When the City annexed people from the area for annexation they moved tens of thousands more people into the City. These people are now getting direct service from CBU when they weren't before. That was what gave the appearance of similar growth for the wholesalers and the City. If the wholesalers alone are considered they had 26% growth in five years. Also, there has been a lot of growth in multi-family residences in downtown Bloomington that have brought many new people to Bloomington.

Mr. Roman said he understands that a 22% rate increase is necessary. He does have a problem with raising rates 47% to build a $79,000,000 plant using a flat rate that charges everybody the same. The problem is paying for the plant with a flat rate not so much paying for immediate needs. There should not be the same urgency for building the plant. He said rates needed to be raised 22% over a year ago. That is not a surprise. He thinks the plant expansion and any other projects should not be linked to the need to raise rates. They are two different things.

Ex-officio board member Mayer asked Utilities Deputy Director how long water is typically held in the storage tanks. Mr. Langley said that last year a decision was made, based on data collected, that water was being held too long. The quality was diminished because of that. Typically the tanks are turned over every 24 hours. Also, at this time the Dyer tank is out of service simply because it isn't needed.

Board member Banach thanked everyone for their comments. He said he is a little surprised, although he understands why, about the plan to delay paying principal for ten years. He would be interested to see what the cost of that is. He can see that millions of dollars will be paid by the rate payers by delaying paying principal for ten years. It's rather like always making a minimum payment on a credit card. He has some serious concerns about that.

Board member Roberts said she seconded Mr. Banach's comments. There is a persistent notion that if more tanks are built a plant expansion won't be needed. It doesn't work that way. Water must be fresh or it creates by-products, the chemicals that keep it clean become poisonous if they sit for awhile. It's not just a flavor issue. She wants people to understand that it is not possible to solve the issue by building more storage tanks.

Board President Swafford thanked Mr. Skomp for the report and everyone for their comments. He said the USB has been working on this for about two years. A recommendation has to be made. Water quality is very important. CBU has some of the best water in the Country. He encourages people to travel around the Country and compare the water in other communities. He has had people come back to tell him what great water Bloomington has. That needs to be maintained. There also must be water for the future. The USB will have to make a recommendation. There will be several Board members absent for the next meeting in two weeks so he is prepared to call a special meeting.

Utilities Director Murphy asked the USB members to let him know whether or not they will be able to attend the meeting on the 16th. If there won't be a quorum some other plan must be made. He also suggested waiting until after Spring Break for the special meeting.

Board member Banach pointed out that the next meeting will fall on Spring Break. Since many people will be out of town he feels it would be best, in the interests of public disclosure, to postpone a decision about the rate increase until after Spring Break.

Board President Swafford asked if the USB would be ready to address the issue of the rate increase on March 23rd. They agreed to try to schedule that meeting.

OLD BUSINESS:

No old business was presented.

NEW BUSINESS:

No new business was presented.

SUBCOMMITTEE REPORTS:

There were no subcommittee meetings. Utilities Director Murphy said he would like to schedule an Administrative Subcommittee meeting sometime soon to discuss a customer issue.

STAFF REPORTS:

Utilities Director Murphy said the weather had hampered operations but it gave an opportunity to paint the inside of the garage which looks very nice. There haven't been many main breaks.

PETITIONS AND COMMUNICATIONS:

There were no petitions or communications.

ADJOURNMENT:

The meeting was adjourned at 6:27 p.m

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L. Thomas Swafford, President