

UTILITIES SERVICE BOARD MEETING

01/19/2021

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

Board Vice President Burnham called the regular meeting of the Utilities Service Board to order at 5:00 p.m. The meeting was held via Zoom and Facebook Live.

Board members present: Jim Sherman, Jason Banach, Megan Parmenter, Jeff Ehman, Julie Roberts, Amanda Burnham, Jim Sims (ex-officio), and Scott Robinson (ex-officio).

Board members absent: Jean Capler

Staff present: Vic Kelson, Laura Pettit, Holly McLauchlin, LaTreana Teague, Chris Wheeler, Brandon Prince, Brad Schroeder, Jane Fleig, James Hall, Tom Axsom, Nolan Hendon, Missy Waldon, and Dan Hudson.

MINUTES

For the January 4 meeting minutes, Roberts noted the first motion was Sherman motioning and Parmenter seconding. All the claims should be Roberts motioning and Parmenter seconding.

Roberts moved, and Board member Parmenter seconded the motion to approve the January 4 meeting minutes with the proposed changes. Motion carried, 6 ayes.

CLAIMS

Roberts moved, and Parmenter seconded the motion to approve the payables claims as follows: Vendor invoices submitted included \$258,627.98 from the Water Utility, \$1,297,575.47 from the Wastewater Utility, \$66,880.00 from the Wastewater Construction Fund, \$600.00 from the Wastewater Sinking Fund, and \$20,120.16 from the Stormwater Utility.

Total Claims approved: \$1,643,803.61. Motion carried, 6 ayes.

Roberts moved, and Parmenter seconded the motion to approve the standard claims as follows: Vendor invoices submitted included \$882.89 from the Water Utility, \$10,203.32 from the Wastewater Utility, and \$67.32 from the Stormwater Utility.

Total Claims approved: \$11,153.83. Motion carried, 6 ayes.

Roberts moved, and Parmenter seconded the motion to approve the utility claims as follows: Utility invoices submitted included \$74,960.72 from the Water Utility and \$26,349.08 from the Wastewater Utility.

Total Claims approved: \$101,309.80 Motion carried, 6 ayes.

Roberts moved, and Parmenter seconded the motion to approve the wire transfers, fees, and payroll in the amount of \$559,813.99. Motion carried, 6 ayes.

Roberts moved, and Parmenter seconded the motion to approve the customer refunds as follows: Customer refunds submitted included \$14.78 from the Water Fund and \$3,144.28 from the Wastewater Fund.

Total Claims approved: \$3,159.06. Motion carried, 6 ayes.

CONSENT AGENDA

CBU Director Kelson presented the following items recommended by staff for approval:

- Terminix, \$4,500.00, Pest control at Dillman WWTP
- Terminix, \$5,000.00/year, On-call services
- Terminix, \$392.40, Pest control at Blucher Poole WWTP
- Perfect Power, Inc., \$7,249.98, Annual preventative maintenance on (UPS) units
- Hollers Welding, \$8,500.00, Welding repairs on rotary screen housing at Dillman WWTP
- Miller Pipeline, (\$35,919.60), Change order #1 for 2019 & 2020 Sewer Rehabilitation
- Arus Andritz-Ruthner, Inc., dba, Andritz Separation, Inc., \$24,800.00, Service work for Komline belt presses at Blucher Poole WWTP

As no items were removed from the Consent Agenda by the Board, agreements approved. Total contracts approved: \$14,522.78.

REQUEST FOR APPROVAL OF RESOLUTION 2021-01, RECOMMENDING THE WATER RATE CASE AND FORM OF ORDINANCE TO CITY COUNCIL

Burnham asked attendees to make comments or ask questions via Zoom or Facebook Live after the staff presentation and report from Finance subcommittee Chair Sherman.

Board member Banach made a statement to the board that due to the fact that his employer is CBU's largest customer, and he is involved in deliberations related to the rate increase with his employer, out of an abundance of caution, he recused himself from the discussion and abstained from the vote.

Kelson presented the 2021 Water Works Rate Review. CBU completed the last water rate review in 2016. At the time, the rate review's objective was financial stabilization and improving drinking water quality, mainly dealing with a disinfection byproducts problem, implementing the smart meter infrastructure, replacing aging infrastructure throughout the system, and improving asset management planning. As a result, there was a 22% increase. Council asked CBU to conduct rate cases regularly, so rate cases will be completed every four years. This rate case was due for completion in 2020 but was delayed to 2021 due to COVID.

The city has never had a comprehensive water main replacement program. In Bloomington, about a quarter of the pipes are 70 years old or older. The pipes have a life expectancy of about 100 years. CBU began replacing water mains in 2017 after the

last rate case. About 1.7 million dollars per year is spent on water main replacement; about 2 miles per year. At this rate, CBU is on a 200-year replacement schedule.

We want to increase our investment in the water main replacement program to 2 million dollars in 2022 and 3 million dollars in 2025 to be on a 100-year replacement plan.

The water rate case goes through the board, the Council, and the Indiana Utilities Regulatory Commission. A case taken to the commission is based on a test year that represents financials. The IURC requires the test year to be within a year of the rate case, and our test year ended on 3/31/2020.

There are also 2021 rate case capital plans. We intend to do bonding to pay for the capital program. Our revenue requirements are in two phases. Phase one would happen after the IURC approves the rates. The IURC has 300 days after they receive the submission to review the proposal. The second phase would cover the replacements for the ongoing water main replacement program. This rate case is a 22.2% increase in revenues and is distributed across various customer classes. During the last rate case, all classes were increased by the same amount. The board members and the Council members asked us to do a cost-of-service study on the next rate case. The purpose of this is to make the price of water for each of the customer classes reflect the cost of serving that particular customer class. The cost-of-service is based on the methodology published by the AWWA. If there is an overall 22% revenue rate increase, some classes will pay more, and some will pay less. The residential customers, single-family and multi-family, are relatively overpriced compared to their cost-of-service. All of the other customer classes are relatively underpriced compared to their cost-of-service. The residential customers subsidize the commercial, institutional, irrigation, and wholesale water prices. CBU is taking steps to move to a cost-of-service based pricing model. At the end of the cost-of-service analysis, the overall increases come in two phases. The commodity charge per thousand gallons of water for single- and multi-family is \$3.73; after two phases, it would go up to \$4.33, for an overall increase of about 16%. Commercial, governmental, and interdepartmental has an increase of about 33%. Industrial customers are on cost-of-service and have an increase of about 51%. Wholesale would be about 33%, Indiana University about 40%, and irrigation about 165%. The irrigation increase and our plant and infrastructure capacity means that we have to size the plant and infrastructure for the largest demand days. The largest demand days are in the summertime when there is a lot of watering. Our peak is about 25 million gallons/day. Our average is about 20 million, the rest of the year is about 15 million. About 20-25% of our system's overall capacity, all the built infrastructure, and the plant. It has been built to supply that extra incrementing capacity only to serve irrigation. Given the service study cost analysis, we developed a rate request in cooperation with our contractors. We structured changes, so no category receives more than a 20% increase in either phase. All the categories will be charged cost-of-service pricing after phase two except for irrigation and residential. Irrigation rates will still be low, and residential will still subsidize irrigation. Staff found it impractical to ask irrigation customers to take on a 165% rate increase at this time. We also proposed to merge the industrial category with the commercial category. The reason for this is that our industrial class is small compared to the commercial category. Because it is small, changes that may happen with either the size of that class or the cost-of-service of that class would spread over a small community.

We recommend the industrial category simply be merged and pay the same rate as the commercial category at the end of phase two. This has almost a negligible effect on the rate for the commercial category. For metered sales, the residential class, per thousand gallons, would see an overall increase from \$3.73 to \$4.54 for an increase of 21.7%. For commercial, governmental, and interdepartmental, it would total up to a 32.9% increase. For industrial, it would be a 44% increase, and at the end of phase two, they would be paying the same per thousand gallons as commercial and governmental. The wholesale customers would get a 33.1% increase, IU would get 39.7%, and irrigation would be around 44%. There is a site charge and a fire charge in the cost-of-service for residential customers. Our residential customers would experience from \$3.74 per month for 3500 gallons of usage, which is our average that is around 16% for a $\frac{5}{8}$ inch meter. And a smaller percentage increase of \$3.16 per month for a home served with a $\frac{3}{4}$ inch meter. For comparison of other utilities, based on a 5000-gallon usage, our water service is \$26.50. It would place our utility to just below the midpoint statewide.

Board member Ehman expressed support for the move to cost-based rates.

Roberts asked if the irrigation class includes residents watering their lawns or residents with irrigation systems; Kelson answered only irrigation systems with a separate meter. She also asked who, other than golf courses in the city of Bloomington, has irrigation systems. Kelson said IU is the largest irrigation customer; the second is the City of Bloomington Parks and Recreation Department, the third-largest is MCCSC, and the fourth-largest is Monroe County Parks and Recreation. Roberts expressed her support for the rate case.

Sherman asked, although IU does a lot of irrigation, they fall under a separate category. Are they not included in the irrigation amounts? Kelson answered IU has regular usage meters and irrigation usage meters. Sherman asked if they fall under two categories; Kelson said yes, and even if irrigation gets to the cost-of-service amount, it would still be smaller than water plus sewer. One big difference about the irrigation rate is, water purchased from an irrigation meter does not go to the sewer, so there is no sewer charge.

Burnham asked, there had been some conversations with the commercial and industrial groups in merging those two classes. Have those conversations begun? Kelson responded staff has reached out to them but have not received a response. The reason for merging the classes is to mitigate the impact on the small industrial class. Kelson clarified that an event was held with the Chamber of Commerce, and the process was explained to them. Burnham asked, realizing that if this does go through City Council, it goes to IURC for their review; if approved, when would customers expect to take on the increases in their bills. Kelson answered phase one could presumably be in 2022 and phase two in 2024. The IURC usually makes modifications to the proposal as they go through the process. Burnham said that there is a process for additional people to review this, and it could be that these numbers do not go through. Kelson said the recommendation is what we think we need to do to sustain our infrastructure improvements while keeping the rates applicable to the various classes paying for our rates. Burnham asked how does one know what size meter they have on their house? Kelson answered it is on the water bill, or one can call customer service for help.

The board recognized Keith Thompson of IU, the Assistant Vice President for Facility Operations, for public comment. Mr. Thompson voiced IU's view and said that IU is not happy with a 40% rate increase, even if it is coming in two phases. He stated that IU faces a 17.3% increase in phase 1 and a secondary increase of 19.1%. There is significant infrastructure at the Bloomington campus for IU, including over 14 million dollars of water piping infrastructure, and water is distributed to the buildings. Mr. Thompson said he felt that IU's investment in this campus is not considered in this rate increase. If the rate case increase is approved, IU will likely intervene in the case, hire expert witnesses, and work through the allocation process with CBU. He suggested the capital improvements could be spread out over a longer period of time, or some of the increases should be spread out over a longer period of time or until after the debts are paid off. He noticed that there are debts due to roll off in 2028. He stated that IU is trying to protect the rates that are charged to the students. This is a significant increase, and IU wants the board to understand the general opposition to this significant increase all at one time. Burnham thanked Mr. Thompson for his comments.

City Attorney Wheeler asked the board if they would like to review the Resolution. Burnham told the board that the Resolution was gone over in detail at the finance subcommittee before the regular meeting and found it satisfactory.

Ehman moved, Roberts seconded the motion to approve Resolution 2021-01. Motion carried with five votes in favor and one abstention.

Roll call vote:

Parmenter- aye

Burnham-aye

Sherman-aye

Roberts - aye

Banach-abstain

Ehman -aye

OLD BUSINESS: None

NEW BUSINESS: None

SUBCOMMITTEE REPORTS: Finance Subcommittee Chair Sherman reported to the board that the subcommittee held three meetings, where there have been presentations from CBU staff and discussions with Wheeler. Sherman said 3-4 years ago, there was a rate increase, but there had not been any increase in rates in about ten years before that. The USB and CBU had fallen on keeping the rates where they needed to be given all of the projects that needed to be done. We decided to have rate increase discussions every 3-4 years and be on a consistent water, sewer, and stormwater schedule. The reason for the necessity for the current increase is for all the necessary projects. If people expect, and they should, clean water, then we need to keep up with replacements. Our infrastructure is old, and if we do nothing, it would fall apart and cost more in the long run. After this set of projects, we believe that the necessity for cost

increases will significantly flatten out. And by the time we have our next rate increase, we expect it will be for cost-of-living. We also discussed the cost-of-service study and the necessity. As Vic pointed out, residential users had been subsidizing all other categories of users until now, which is simply not fair to residential users. In making this increase, our goal was to, as much as possible, have various categories pay their fair share. We could do this for all categories except irrigation because the cost would be too much. It is a matter of two things, making sure we can conduct all of the projects and make the cost-of-service fair to all categories. A formal vote was not conducted, but the subcommittee felt that the request was fair and in line with our goals.

STAFF REPORTS:

- Kelson said there would be some ongoing discussions about facilities and facilities planning for CBU. The staff would like to initiate some discussions about long-term issues for the Winston Thomas site's master-planning process.

PETITIONS AND COMMUNICATIONS: None

ADJOURNMENT: Roberts moved to adjourn; the meeting was adjourned at 5:57 pm.

Jean Capler, President

DATE