

DULUTH PUBLIC UTILITIES COMMISSION

Meeting Minutes

October 13, 2010

Members Present: John Bruggeman, Councilor Jay Fosle, Councilor Daniel Hartman, Pat Huston, Jennifer Vossen Julsrud, Linda Ross Sellner

Staff Present: Bob Asleson, Jim Benning, Dan Berg, Leanna Gilbert, Mark Proulx, Eric Shaffer, Glenn Strid

Members Absent: Councilor Kerry Gauthier

Call to Order: The meeting was called to order at 5:30 p.m. by President Julsrud.

Approval of previous meeting minutes

The minutes were approved after they were revised to read: "President Julsrud and Commissioner Fosle mentioned that the median household income in Duluth is about \$30,000 to \$35,000 and many are below poverty level, so we would have to take that into account if we consider rate increases."

Old business:

Bylaws and Mission Statement

President Julsrud consulted a lawyer about bylaws for the commission, and he recommended talking to other municipal public utility commissions. President Julsrud contacted Grand Rapids. Their PUC was established in 1910, and they updated their bylaws and code of ethics in 2006. President Julsrud used their documents as a backbone and then sent them to Bob Asleson for corrections. Bob's primary changes were to remove language that was already in the ordinance that created the commission. Various sections of the bylaws were discussed before the commissioners decided to postpone approval until the next meeting after a revised draft had been distributed. Approval of the ethics policy will also be postponed until the next meeting. President Julsrud will be sending out information regarding the mission statement.

Other old business

Commissioner Bruggeman brought up the subject of revenues and transfers to other funds. On review of the financial statements, he noticed that \$4M was going from the gas fund to the general fund. He was looking for money to accelerate maintenance of the water system. That money is gone already. He suggested using revenues from the street lighting fee. Jim Benning and Commissioner Fosle explained that the revenue pays for electricity (\$680,000) and 3 full-time staff to maintain the signal and lighting systems (120 at about \$200,000) throughout the city. There is not even enough revenue generated from this fee to cover their costs. Commissioner Fosle suggested using the 1.1% franchise fee and the 1% sales tax. Commissioners can hear the presentation from Lisa Potswald on Monday if they have any more questions about the street lighting fee, franchise fee, or sales tax. This commission does not have any control over the street lighting utility. Commissioner Bruggeman mentioned the conservation rate that is required by the Department of Natural Resources. He thinks that in northern Minnesota, cheap water is our competitive advantage. This will be discussed later on in the meeting.

New business:

I&I appeals and Water & Gas Appeals Board

Jim Benning mentioned three appeals processes that had gone before the Building Appeals Board before this commission existed: the private sewer grant program appeals (I&I), the water and gas service hearing board (shutoffs), and revocation of certificates of noncontribution appeals. He believes this commission would be the appropriate body to handle these appeals. He suggested the commission draft a resolution for City Council consideration concerning these three appeals processes. The Ordinance process by City Council will take about 45 days. The majority of commissioners agreed to have Bob Asleson begin drafting the Ordinance (Commissioner Bruggeman abstained). Commissioners agreed that if there were any appeals, the hearings should probably be held in Council Chambers.

Water utility budget and infrastructure

Jim Benning received a document from WLSSD stating our yearly charges. The charges went up considerably from last year (\$435,426 or 5.4%). In the past we had considered proposing that these charges become a pass-through to the residents so they would not affect our capital budget. Jim suggested that the commission consider have an annual rate increase or rate decrease dependent and directly related to the proposed WLSSD charges for the next year. Glenn Strid mentioned that these charges may be adjusted at the end of the year. Eric Shaffer suggested that the utility bills could be split out to reflect the different charges. Commissioners should look through these documents before the next meeting.

City staff provided a water supply system diagram for reference. Eric Shaffer and Dan Berg explained that the main lines are 36" and 42" diameter pipes made of plate steel that is bent and riveted. The pipes are old and are leaking. Our welders fix holes when necessary. However, if there were any major leaks, the line would be down for a few days before we could get it fixed. Commissioner Fosle asked if there was any concern about Red Cliff digging for barrels again. Mark Proulx said that many people are concerned, but there is no scientific evidence of any pollution. Commissioner Fosle mentioned a video that he had seen that documented testing with a Geiger counter. Commissioner Hartman asked if the barrels were near our water lines. Mark Proulx said they are not near our intake now, but the barrels move around with the currents. Commissioner Fosle was also concerned that we are showing foreign visitors our infrastructure.

The next item for discussion was 2011 budget documents. Jim Benning explained that the water budget is split across divisions, but they are all rolled up into one fund. The main number that commissioners should be concerned about is the Budget Reduction Needed, which is \$1,097,200 in the water fund. This will allow us to have an adequate fund balance available to cover debt service in February 2011. This is the amount we would have to cut out of capital projects or have a rate increase (about 10%) to cover it. Commissioner Fosle asked how many vehicles there are in the department and what we pay Fleet to service the vehicles. Glenn Strid said that there are about 200 vehicles and that Fleet charges a shop rate (hourly fee). These expenses are listed in the 2011 City Budget document. Bob Asleson explained that these charges are cost allocations which would include employee salaries as well as the cost of supplies. Commissioner Hartman asked what we are gaining or losing from all these transfers. Jim Benning said we could have the answer for the next meeting. Commissioner Hartman asked if the 2010 budgeted Water for Resale was expected to be near what is listed in the 2011 City Budget document. Glenn Strid said that we do expect it to be pretty close to the budgeted amount. Commissioner Hartman asked if we were considering an increase of rates in areas other than Metered Water Sales, such as Water for Resale. Jim Benning answered that our last water rate study showed that our rates for water resale were already high. We have a consultant doing a water cost of service study, and they will present their findings to us in the spring. Commissioners should look over the budget documents. The budget presentation to City Council for Public Works & Utilities is scheduled for October 25th. Commissioner Bruggeman suggested bonding for more water projects. Jim Benning said that he would prefer not to bond more. Eric Shaffer mentioned that we will be bonding for the Highland booster station and the Highland water storage tank, which will be about \$4.5M of bonding. These are state loans through the Minnesota Public Facilities Authority (PFA), so they have low interest rates. Glenn Strid explained that auditors help us estimate what the debt service would be at certain amounts of bonding to help us determine whether we can afford to bond or not. Jim Benning said we usually reserve our bonding for larger projects, such as the Highland tank and the upcoming West Duluth Reservoir roof replacement. There are also many street projects scheduled that include utility improvements.

City staff provided copies of the conservation rate statute that we are required to adopt by the end of 2012. Jim Benning suggested the commission wait for the results of the water cost of service study before they address this. The company that is doing this study for us sends out a flier. Glenn Strid found an article that showed anticipated 2011 rate increases for various cities throughout Minnesota. City staff also provided a rate comparison of various municipal utilities from 2007 for reference and a reference sheet of various water organizations.

At a previous meeting, one of the commissioners had asked about utility fund transfers to the general fund. Glenn Strid made up a schedule of transfers from the water fund from 2006 to budgeted 2011 and a history of water rate changes from 1995 to present.

City staff provided the number of water main breaks per year from 1938 to 2009. The number has increased exponentially. President Julsrud and Commissioner Hartman asked how much these breaks actually cost us. Dan Berg will look into it.

Jim Benning suggested that commissioners watch "Liquid Assets", a production of Penn State. President Julsrud has a copy to share and Jim Benning has some as well.

Public relations

Commissioner Bruggeman had suggested that we make a press release to the public. Bob Asleson explained the open meeting law at President Julsrud's request. Commission agendas and minutes are distributed to City Council, media contacts, and anyone who requests them. Commissioner Bruggeman suggested we contact the newspaper to let the people know what's going on here, that there is a need to improve the water system and that there may be a rate increase. After some discussion, the commissioners agreed that President Julsrud would collaborate with Jim Benning to do a newspaper article about the water system.

Agenda for next meeting

Jim Benning volunteered to send out a proposed 2011 calendar.

The next meeting will be on Wednesday, November 10, 2010 at 5:15 p.m. at the WLSSD board room. The commission will discuss old business items first and then move on to the sanitary sewer presentation.

Tour of facility

Mark Proulx led the tour of Lakewood Pump Station and the Lakewood Treatment Plant after the meeting.

Adjournment: The meeting was adjourned at 7:25 p.m.

A recording of this meeting is available upon request.