

A SPECIAL MEETING OF THE SEWER BOARD OF THE CIVIL CITY OF NEW ALBANY, INDIANA, WILL BE HELD IN THE THIRD FLOOR ASSEMBLY ROOM OF THE CITY-COUNTY BUILDING ON THURSDAY, MARCH 11, 2010 AT 4:00 P.M.

Present: Mr. Harbison, Mr. Brinkworth, Mr. Wilkinson, Mr. Christmas, Mr. Sartell, Mr. Marinaro, Mr. Crawford, Mr. Fifer, Ms. Welsh and Mindy Milburn

CALL TO ORDER:

Mr. Harbison called the meeting to order at 4:21 p.m.

PLEDGE OF ALLEGIANCE:

APPROVAL OR CORRECTION OF THE FOLLOWING MINUTES:

BIDS:

COMMUNICATIONS - PUBLIC:

Mr. Harbison asked that anyone who is here to speak about the sewer rate increase please wait to do so until after the presentation because that may answer some of their questions.

Mr. DA Andrews stated that they would like to commend the Sewer Board for the way they have handled this situation and how they have opened communication with the public and the Town of Georgetown will back them with whatever increase they pass.

Katherine Martin stated that her comments have to do with the current rate structures and stated that it is completely discriminatory to the people who use the system the least. She asked if they would like to see the breakdown of the billing and stated that they seem to take this very lightly but it is a serious matter that needs to be addressed to make it fair for everyone.

Mr. Brinkworth stated that he understands what she is talking about and it is definitely something that they could talk about possibly at a future meeting.

Mr. Fifer stated that this is something that cannot be addressed before the rate increase. He explained that in order to do this they would need a base rate study that would take up to 90 days and cost \$50,000.00 and they simply don't have the money to do this. He stated that he is not trying to minimize the validity of the comment or the issue but they cannot do it at this time.

Mr. Skomp stated that there are two different ways that this is done and explained that every customer pays a base charge with usage added on or a minimum which is what New Albany has. He stated that their base charge is set at 1500 gallons and anyone that used that amount will pay the minimum of \$10.08 and they may have a lot of revenue coming in from that amount so they can't just waive this without knowing how much revenue is being brought and how it would affect their financial operations. He explained that they would need to reevaluate their usage and how many customers are paying a minimum and how this waiver would affect the rate structure. He state that these surveys are very expensive and he suspects when they got done the minimum bill would still be higher than the \$10.08. He explained that they really don't have time to do this type of study right now or the money but it is something they could look at in the future.

Katherine Martin stated that if they had the base fee that everyone had to pay then it would bring in more money and they wouldn't be in the situation that they are in right

now because the base fee would give a lot more revenue to the city and as it stands they are only taxing the poor and the least using of the system and it clearly isn't bringing in enough revenue.

COMMUNICATIONS - CITY OFFICIALS

Mr. Malysz stated that he has a memo from the Mayor for the Council and the public that overviews his perceptions and views on what is going on and he is very happy that they are having this technical workshop to deliver information to the public. He stated that the Mayor wants to point out some things that the boards may already know but the public doesn't know. He explained the process of how the increase goes through and the makeup of the Sewer Board, he talked about the expertise of the members of the board and stated that between the two appointments they have a intelligent board and one that is able to make decisions for the citizens of New Albany. He stated that they are not acting in a vacuum but that they seek the advice from several other professionals in the field. He stated that the session that they are going through is important because it will sketch out the history of the utility and the fiscal situation of the utility. He explained that the Mayor has initiated conversation with the leadership of EMC to discuss an early termination to the management contract that the city has with EMC and is taking this on and hopes that it is something that will help the sewer utility in the long run to operate more fiscally responsible. He presented the board with a memorandum from Ice Miller that answers several legal questions posed by council members; said memo is on file with the City Clerk's office.

Mr. Brinkworth stated that they need to hold off all questions until after the presentations and explained that they would have four presenters tonight; Mr. Marinaro who will present and overview of the sanitary sewer system and a national comparison with other costs and projects, Mr. Christmas who will discuss the history of the sewer system and the 2001/amended CAP, Mr. Wilkinson who will discuss various financial information and Mr. Skump who will discuss the rate increase. He stated that this is an informative session for everyone to enlighten the public and they do appreciate everyone coming to the meeting to get a better understanding of what is going on. He explained that they are there to serve the public and they do not like raising the rates but it is something that they have to do.

SEWER ADJUSTMENTS:

NEW BUSINESS:

Item #1 - Tim Marinaro re: Power Point discussing the sewer improvements and needs

Mr. Marinaro stated that he is currently the City Engineer and graduated from the University of Kentucky in 1994. He explained that he will talk about the New Albany sewer rate structure and their operation and maintenance cost and how they weigh in with the national average. He stated that the National Association of Clean Water Agencies put out a triennial survey that states that sewer rates are going up more than double the CPI and explained that if they had a 3% increase in their rates right now they would need to double that to match how their operation and maintenance are going up. He explained that the climate changes affects the amount of flow going through the plant which means that they are treating a lot more water now which means that because the majority of their system is still clay pipes the possibility of water getting in and out is greatly increased. He stated that they are not the only city in the nation that is dealing with these issues because they have all neglected what goes on underneath all the roads and buildings that

they are so worried about getting built. He stated that they can't forget about the EPA because they are required by law to report any overflows to them and they have had a lot this year because of the rain events and they want to get the EPA out of the city. He explained the cost to run the sewers side by side with the revenue that is coming into the city and the only way to do this is with a rate increase. He discussed the cost to treat on a national average and stated that it has almost doubled since 1998, New Albany's has not, and they have EMC to thank for that. He stated that if you can't function as a utility and do the improvements that need to be done then the number is too low. He gave a breakdown of the expenditures of on the national average compared to New Albany and explained that they are so far behind it is going to take them some time to get things back in line. He explained what it would look like if they accept the 37% rate increase and SRF help. He stated that they are handing them the money to finish up the projects to get the EPA off their back and the rate increase will allow them after those two years to continue to do improvements to satisfy the EPA. Memo of presentation is on file with the City Clerk's office.

Mr. Brinkworth asked if the cash balance build up is capital projects

Mr. Marinaro stated that it was but they don't have to do it because they are getting the loan from SRF to do these for the next two years.

Mr. Skomp explained that it is the money to replenish their operating fund and put into debt services reserve.

Mr. Christmas gave a history of the relationship with the EPA as well what has been done with the sewer system and what is still left to do. He stated that Clark Dietz got involved with the city in 2001 and negotiated the amended Capacity Assurance Plan (CAP) and discussed the benefits of the CAP including a reduction of \$16M in fines and the frequency of sanitary sewer overflows (SSO's). He stated the consent decree was amended with the EPA and that is what they operate under now. He discussed the transport and treat methodology for addressing SSO's. He stated that they had to establish a level of control on how much they were going to get and treat and it was agreed that a 5 years 24 hour event was going to be used for that level of control which equaled out to approximately 3.90 inches of rain in a 24 hour period. He explained that Model Improvements were based on January 2-3 2000 rain event which was decided would be the base for the CAP and when that was completed 11 projects were identified and completed at a cost of \$44M that addressed documented chronic SSOs but that left many chronic SSO's that had previously been unidentified to still be corrected. Seven (7) subsequent capital projects were completed to address these SSOs, and just because they were not included in the original CAP does not mean that they weren't necessary. He stated that after completion of the CAP and subsequent improvements the system operated for 2 years with very limited SSO's and the ones that did occur were during storms that were above the design storm. He explained that since December 2007 they have had 18 overflow events and some of those were above the design storm and some were less. He discussed reasons that some of these would have occurred under the design storm and what they plan to do to address the issues. He discussed hydrologic conditions and the historic monthly precipitation on a national average and New Albany's average as well as SSO Volumes and rainfall amounts stating that in 2009 they were within 4 inches of the most rainfall ever in a given year for the last 109 years. He discussed the amended CAP plan to address the remaining problems and stated that they are going to shift focus from transport and treat to rehabilitation which includes I/I removal and capacity related improvements. He explained what I/I is and how it affects the system and the clay pipes under the city which makes up about 71% of the pipes and is most susceptible to cracking. He stated that another problem is illegal connections to the sanitary sewer and discussed smoke testing that was authorized to identify some of these connections and hopefully through education the public can start policing themselves. He discussed I/I rehab flow monitoring, smoke testing, and close circuit televising and explained that they

will go ahead with the rehab work which will included mainline lining, manhole lining and property service connections lining. He discussed the Capital Improvement Division including Basin 14, Basin 27 and McLean Lift Station which are in the vicinity of the remaining reported SSO's

Mr. Wilkinson discussed the areas that were affected by these basins. He did a comparison of where the assets are, what they are, and what they amount to. He explained that the collection system is made up of 207 miles of gravity flow in the system and another 12.2 miles of pressure lines and along with those in the city are running electric cable, natural gas and these all cross one another which makes any work to be done costly and timely. He stated that there is over \$100M in piping system that people never see and those have to be maintained which costs even more money and on top of that there are the lift stations along with all the other operating and maintenance cost for the new facility is approximately \$205M already established in the system. He explained that by comparison the maintenance cost on this facility is only 2.3% and the cost of maintenance on your home would equal about 4%. He stated that the answer to the question that comes up a lot about the money is that they have a giant facility that they have to maintain and there are 35 people involved which run very efficiently. He addressed some information that was given to the council members and stated that everyone thinks they are doing the right thing for the public and they are all working hard to keep the rates as low as possible. He explained that it would be hard to sway a board like theirs to an agenda that wasn't best for the public for a couple of reasons such as because the bids are all awarded to the lowest bidder and they do not control that at all, all jobs over \$5000 are bid out, and the utility cost are a straight line pass through from the utility to the city. He discussed the actual rate increase as opposed the recommended ones that they have had over the last few years and explained that they have lost money every single year because of that with the deficit was almost \$3M at the end of 2009

Mr. Skomp, Crowe Horwath addressed the board and stated that they were hired to come in and look at what kind of rate increases would be needed to get the utility back on its feet and he gave a history of the report that was given to the board in January. He explained that at the time it was only option that they had even though they had met with SRF there was no funding being offered before they saw the board move forward. He discussed the new offer on the table with SRF which includes a 36% increase now with an additional 19% increase to follow in 2012. He explained that they currently have \$11M a year in operating expenses and bond services with about \$9.1M coming in and they currently have a \$2.7M deficit which made paying bills and paying bond interests impossible and their rating with the bond market has suffered. He stated that after the discussions with SRF they came to a solution and they stepped up to help the city fix the surety bond problem and they will let the city dip into some of their reserve funds to pay the BAN that is outstanding but the entire amount would need to be made up within a 10 year period. He explained that this will help them get their debt services and capital improvement money aligned where it need to be in 2012 and after and to do that SRF would load them money right now do get started on the EPA mandated projects and this is something that they could not do on their own because of the financial condition of the utility. He went over handouts regarding the typical monthly rate for customers inside and outside the city, the history of the rate increases for the utility, as well as a survey of the sewer rates for Indiana Cities and Towns over 30,000 populations. Said handouts are on file with the City Clerk's office. He explained that SRF understands that the March 31st deadline may not be doable but they are looking to see a decision on this very quickly.

There was a lengthy discussion regarding the additional 3% increase per year for four years that was not proposed by SRF but proposed to keep up with the CPI.

Mr. Smith asked if they will lose the interest rate reset because of the delay.

Mr. Skomp stated that this is designed to bring in the amount of money that is needed to

do the projects and they will be borrowing at April rates and they have no idea what that rate will be as SRF is doing their study right now for the quarter reset.

Ms. Denhart asked if this would keep them from being fined with the EPA

Mr. Skomp explained that it is designed to complete the projects on time but how those projects relate to the EPA they would have to speak with an engineer but it is designed to bring in the amount of money that is needed to do the projects that the EPA are requiring.

Mr. Christmas explained that in December of 2009 they submitted an amended CAP to the EPA for their approval and that plan was to address the remaining SSO's that they are concerned with now. He stated that once that plan was formally approved by the EPA they are going to move forward with it and they are confident that they will buy into the plan because it is a good solution to the problem so it should avoid any EPA fines if they implement the amended CAP because they will be in agreement with the EPA on that plan before they move forward.

Mr. Zurschmiede asked why the CAP plan in 2001 failed because he doesn't want the new one to do the same thing.

Mr. Christmas stated that it didn't fail and it was very successful in what it did. He explained that the rehabilitation maintenance of the system has not been enough to offset the deterioration that continues to occur within the system and if they continue to not have the funding to do the rehabilitation and maintenance that does need to be done there are going to continue to be new sites that pop up. He stated that they need to be proactive with the repairs and get ahead of the problem with a commitment to stay ahead of it.

Mr. Fifer stated that if the system was performing as it is today in 1990 or 2001 they would never have been under EPA review. He stated that there were 97% more overflows than what they have today and the real problem is that they are the only "sanitary sewer only" system in the immediate area. He explained that other systems allow them to have overflow in rain events to some extent and they can perform at less than 100% but New Albany has to perform at 100% as a sanitary sewer only system.

Mr. Zurschmiede stated that he understands that they have submitted an amended CAP to the EPA which hasn't been approved and asked how likely it is that they could require more if they see other issues that need to be addressed. .

Mr. Fifer stated that based on what their lawyer told him they plan has received some comments during the process of the putting together amended CAP.

Mr. Christmas stated that \$2M a year is pledged for rehabilitation and there will be some other money to go towards other projects. He explained that they did have communications with the EPA to make sure they were all moving in the same direction on how to approach the remaining projects so there is that comfort level and the specifics of that is before them now for review and they fully expect them to find favorably in support with what they have proposed.

Mr. Gahan stated that the last memorandum of understanding that he saw was from 2006 and asked if they were still operating under that or if there had been an addition.

Mr. Fifer stated that was probably the last amendment to consent decree and explained that what has triggered this is that the overflows that occurred last fall. He explained that the consent decree is still the controlling document.

Mr. Messer stated that his concern is that after all of these repairs there isn't going to be any money for growth if they have a company that may want to come in.

Mr. Skomp explained that they do have a capital improvement budget but it isn't specifically for growth but if they are looking for a new business to come in there are several ways to get that money including help from the developers.

Mr. Christmas stated that there is going to be \$3M a year that is going to be available each year for rehabilitation and there will be some other money to go towards other projects. He explained that by doing these projects and taking care of SSO's it creates capacity for new developments because the reason some of them can't connect to the system is because they have SSO's somewhere else in the system and they are under the oversight of the EPA which will prevent them from connecting. So there will be money for new growth and money to fix issues that will allow additional growth.

Mr. Brinkworth stated that they do have a project at Basin 4 that will run a new line from Corydon Pike over to Old Vincennes Road which they have to do because of a contractual obligation. He explained that when Georgetown comes off the system they will need that growth to make up for the lost revenue but it will allow for a lot of sewer taps to come in.

Mr. Fifer stated that the board members are staying as well as the consultants so if there are any additional questions they will all be available for the council public hearing.

Ms. Hartman stated that she asked why they are in the need that they are in and how did they get to this place and she explained that she was told that a lot of it was lack of payment for sewer bills and asked what the percentage was of unpaid bills.

Mr. Brinkworth stated that this year has been the worst year that it has been in a long time which obviously has something to do with the economy but the amount of money outstanding does not make a big difference in what they are doing.

Mr. Harbison stated that it makes a difference but it is not the answer. He stated that the reports that bills are going to double and triple just aren't true.

Mr. Skomp stated that if they look at the sewer only portion of their bill and add 36% that is how much it would go up.

OLD BUSINESS:

1. Clark Dietz Update
2. Donahue Update

CLAIMS

ADJOURN:

There being no further business before the board, the meeting adjourned at 6:07 p.m.

Roger Harbison, President

Mindy Milburn, Deputy City Clerk
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Sewer Board
March 11, 2010

