

Meeting Minutes

Board of Water and Sewage Commissioners

Monday, April 14, 2008, 12:00 p.m.

PRESENT: Paul Adamski, Eugene Tubbs, and Carl Rasmussen.

ALSO PRESENT: Kim Halverson, Eric Niffenegger, Joel Lemke, Brenda Thomas, Rob Molski, Jaime Zdroik, John Andres of Virchow Krause and Angel Gebeau of Earth Tech.

EXCUSED ABSENCE: Jim Cooper and Mae Nachman.

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1. Approval of minutes of the March 10th, 2008 meeting.

II. ACCOUNTING

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3. Discussion on water rate review.

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V. ADJOURNMENT

I. ADMINISTRATION

1. Approval of minutes of the March 10th, 2008 meeting.

Motion made by Eugene Tubbs, seconded by Carl Rasmussen to approve the minutes of the March 10th, 2008 Water & Sewage Commission meeting.

Ayes all. Nays none. Motion carried.

II. ACCOUNTING

2. Discussion and action on audit reports for the Water & Wastewater Departments.

John Andres of Virchow Krause presented the audit reports for the Water & Wastewater Departments.

WATER DEPARTMENT - INCOME STATEMENT

- There was a one-half million gallon reduction in gallons sold from 2006 to 2007.
- There was a significant water meter adjustment made for New Page in 2007. There was \$149,000 less revenue as a result of the refund to them.
- Operating revenues overall are down in 2007 due to customers conserving and less water being used by New Page.
- There was also a decrease in operating income of \$95,493.00.
- The Water Rate of Return for 2007 was 4.82%. We are authorized for a 6.50% rate of return.

SEWER DEPARTMENT - INCOME STATEMENT

- The amount of wastewater treated was very close to the amount treated from 2006.
- Operating revenues increased \$79,133 from 2006 to 2007.
- The last rate increase was April 2006 so 2007 shows the full impact of the rate increase.
- Operating income essentially unchanged from one year to the next.
- The Clean Water Fund requires an overall debt ratio of 1.10 and we were at 1.09 in 2007, so we are not meeting the requirements. Therefore, that is why a sewer rate increase will need to be decided.

WATER DEPARTMENT - BALANCE SHEET

- Unrestricted cash and investments increased \$760,924.00.
- There is almost one year's worth of unrestricted cash on hand. This shows that the Water Department is financially strong.
- The water utility owns 92% of the plant in service. This shows that the water utility does not have a lot of debt.

SEWER DEPARTMENT - BALANCE SHEET

- There was a reduction in Unrestricted Cash & Investments of \$26,625.
- Restricted Cash & Investments is money set aside to make the debt payment and for equipment replacement.
- There is three months of unrestricted cash on hand. This is the minimum target amount recommended.
- The sewer utility owns 53% of plant in service. This shows the Sewer Department has more debt than the Water Department. Virchow Krause does not like to see this percentage under 50%.
- The debt for building the sewer treatment plant will be paid off in 2012.

MANAGEMENT & INTERNAL CONTROL LETTER

The audited financial statements are fairly stated and in agreement with the financial records.

There were new audit procedures they were required to follow for the 2007 audit. One of the new concepts is the adequacy of internal control documentation. Many governments do not have adequate written documentation of the internal control processes within their organization.

Brenda spent a lot of time reviewing the internal control process looking for any areas where problems could arise. Then Virchow Krause also reviewed the internal control process. The management and internal control letter covers this information and any areas where problems could arise. The Commission and management will have to decide which items suggested by the auditors will be addressed.

Brenda has implemented cross training in the office which Virchow Krause feels is a good step in regards to the internal control process.

There is another new auditing standard which requires Virchow Krause communicate with the governing body, which in this case is the

Commission. Virchow Krause wanted the Commission to know if they had any questions or concerns that they could contact them directly.

Virchow Krause only had to make four adjustments while doing the audit so the records are accurate.

3. Discussion on water rate review.

John Andres of Virchow Krause was present to explain the water rate review to the Commission.

The rate increase application will be submitted to the Public Service Commission. The P.S.C. is running behind by approximately six months with the reviews, so any rate changes that might occur will probably not be effective until sometime this fall.

The overall calculated rate increase for 2008 is \$612,381. The major factors requiring the increase are as follows:

1. The addition of nitrate removal equipment at Well #5.
2. The upgrading of mains and services on Fourth Avenue, Plover Street and Shaurette Street.
3. The reduction in sales to New Page.

The Public Service Commission has to approve the Well 5 nitrate removal project. This has not occurred yet but the P.S.C. will need this before they can approve the rate increase. If something would happen with the Well 5 project between now and the time the P.S.C. would approve it the amount of the increase would drop.

The increase would be just under \$9.00 a quarter for the average residential customer.

Last time the rates were increased was April 1st, 2006.

Virchow Krause recommends we submit the rate increase application to the P.S.C. The P.S.C. might adjust or revise the proposed rates based on their decision for the Well 5 nitrate removal project.

A public hearing will be held when they set the rates.

4. Discussion and action on sewer rate review.

John Andres of Virchow Krause explained the sewer rate review to the Commission.

The sewer utility rates are set by the Commission and recommended to the City Council for final approval. The Public Service Commission does not have direct authority over the sewer rates but if customers felt we were unfairly charging them they could complain to the P.S.C. and then the P.S.C. would investigate to make sure rates are fair and equitable.

Under the column titled Existing Rates Forecasted for 2008 it shows a revenue deficiency of \$907,235. That's the amount we would need to increase the rates by. The 2008 Revenue Bond is \$573,900 and the Collecting System Depreciation Account is \$360,600 which combined totals \$934,500. These are two very critical elements of the revenue we are required to collect in rates. This is the reason we need to have a rate increase. There are some latitude and policy decisions that need to be decided on regarding the rates.

The 2008 Revenue Bond Debt Coverage for \$573,900 relates to borrowing five million dollars over 20 years at 4.5% and borrowing 1.5 million over 10 years at 4.5%. 6.5 million would cover the approximate cost of the projects as follows: UV System Replacement \$375,000, 4th Avenue Main Project \$412,900, Patch Street Project \$5,500,000, Plover Street Main Project \$148,900, Shaurette Street Main Project \$84,500, Storage Garage \$400,000 and miscellaneous purchases \$13,400. Actual costs of the construction projects will not be known until they are bid.

We need to determine how much of a rate increase we need to put in place to do replacement of the collection system projects and the others.

The average residential customer would pay \$90 per quarter an increase of \$22 based on average use of 2500 cubic feet per quarter.

The Commission and management agreed the best way to do the rate increase would be in steps, one half of the rate increase to be effective June 1st, 2008 and the other half to effective June 1st, 2009.

Virchow Krause will have to redo the figures to reflect the steps which will be provided in May.

Motion made by Carl Rasmussen, seconded by Eugene Tubbs to approve the sewer rate increase to be implemented in steps, one half of the increase to be effective June 1, 2008 and the other half to be effective June 1, 2009.

Ayes all. Nays none. Motion carried.

5. Consideration of claims for the Water and Sewage Treatment Utilities.

Paul Adamski presented the statement of claims for the Water Utility for March. The balance as of March 1, 2008 was \$2,068,602.55; the bank deposits recorded in March 2008 were \$381,984.33. Checks issued since the March 10th, 2008 meeting numbered 42076 through 42114 were in the amount of \$327,394.13. Checks numbered 42115 through 42149 for \$57,599.99 were presented for action on April 14th, 2008. The net balance on hand April 14th, 2008 was \$2,065,592.76.

Motion made by Eugene Tubbs, seconded by Carl Rasmussen to approve the water utility claims for the month of March 2008 as audited and read.

Ayes all. Nays none. Motion carried.

Paul Adamski also presented the statement of claims for the Sewage Treatment Utility for March. The balance as of March 1, 2008 was \$2,485,241.31; the bank deposits recorded in March 2008 were \$196,203.11. Checks issued since the March 10th, 2008 meeting numbered

26082 through 26111 were in the amount of \$352,726.81. Checks numbered 26112 through 26146 for \$72,572.82 were presented for action on April 14th, 2008. The net balance on hand April 14th, 2008 was \$2,256,144.79.

Motion made by Carl Rasmussen, seconded by Eugene Tubbs to approve the sewage utility claims for the month of March 2008 as audited and read.

Ayes all. Nays none. Motion carried.

6. Discussion and action on replacing Water Department pick-up truck.

Joel recommended approving the low quote from Scaffidi Motors for the 2008 Ford F-350 in the amount of \$23,100 and the quote from Monroe Truck Equipment for the utility box in the amount of \$9,505.

Motion made by Eugene Tubbs, seconded by Paul Adamski to approve the low quote from Scaffidi Motors for the 2008 Ford F-350 in the amount of \$23,100 and the quote from Monroe Truck Equipment for the utility box in the amount of \$9,505.

Ayes all. Nays none. Motion carried.

III. WATER OPERATIONS

7. Report on water distribution operations.

The report was distributed.

A total of 88 valves were operated in 2008.

A total of 0 business properties have been checked for backflow preventors in March 2008 for a total of 0 in 2008.

Kim stated construction will start on Plover and Shaurette Streets this month. The Fourth Avenue project bids cannot be awarded until July 3rd.

8. Report on water supply operations.

Our pumpage in March was 173,209,000 gallons, a decrease of 13,655,000 gallons of water from March 2007.

9. Consideration of large meter testing quotes.

Kim recommends approving the low quote from Vanguard Utility Service Inc.

Motion made by Carl Rasmussen, seconded by Eugene Tubbs to approve the low quote from Vanguard Utility Service Inc. for our large meter testing for 2008 and 2009.

Ayes all. Nays none. Motion carried.

IV. SEWAGE TREATMENT OPERATIONS

10. Report on Collection System Maintenance.

Rob stated some televising had been done and there were problems found in the 15" main in Park Ridge. This item will be negotiated with Park Ridge.

11. Report on sewage treatment operations and new U.V. equipment.

Eric stated the Trojan system is now installed and it was just turned on today. They will be doing testing on it to make sure it is working properly.

The Commission will be able to tour the new U.V. system after next months meeting.

Eric stated the plant is running well.

B.O.D. (3.73 ppm), Phosphorus (0.775 ppm) and Suspended Solid (5.70 ppm) limits were met for the month of March 2008.

The next Water & Sewage Commission meeting will be May 12th, 2008 at noon.

V. ADJOURNMENT

Motion made by Eugene Tubbs to adjourn the meeting.

Ayes all. Nays none. Motion carried.

MEETING ADJOURNED

1:27 p.m.

BOARD OF WATER AND SEWAGE COMMISSIONERS

EUGENE TUBBS, SECRETARY

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