

PERSONNEL/ADMINISTRATIVE AFFAIRS COMMITTEE

SEPTEMBER 4, 2003

A meeting of the Personnel/Administrative Affairs Committee was held on Thursday, September 4, 2003 at 7:00 p.m. in the Aldermanic Chamber.

Chair James R. Tollner presided.

Members of the Committee present: Alderman-at-Large Paula I. Johnson
Alderman Robert A. Dion

Members Not in Attendance: Alderman Timothy B. Nickerson
Alderman Stephen C. Lamos

Also in Attendance: Alderman-at-Large David W. Deane
George Crombie, Div. Director, Division of Public Works
Carol Anderson, Chief Financial Officer/Comptroller
David Fredette, Treasurer/Tax Collector
Grant Hoag Director of Financial Services, Brown & Caldwell
Steve Freeman, Brown & Caldwell
Steve Clifton, Underwood Associates
Jim Mealey, Deputy Director, Admin., Dept. of Public Works
Rick Seymour, Dep. Director, Waste Water Treatment Plant

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Chair Tollner

Alderman Lamos sent me a memo. He is out of town on travel. Director Crombie is here tonight to make a presentation on reducing the flow charge rate for the calculation of the sewer user fee. Before he does that I would like to take care of some housekeeping items. There is a resolution and an ordinance. I would like to take care of those so that those individuals who are here don't have to wait through the presentation. We can take care of those right now if the committee would allow me to make an exception.

MOTION BY ALDERMAN TOLLNER TO GO OUT OF THE REGULAR ORDER OF BUSINESS THEREBY CONDUCTING THE PRESENTATION AT THE CONCLUSION OF THE OTHER ITEMS ON THE AGENDA
MOTION CARRIED

COMMUNICATIONS - None

APPLICATION TO LICENSE HAWKER'S, PEDDLER'S, ITINERANT VENDOR'S LICENSE - None

APPOINTMENTS BY THE MAYOR - None

UNFINISHED BUSINESS - None

NEW BUSINESS – RESOLUTIONS

R-03-240

Endorsers: Mayor Bernard A. Streeter
Alderman Marc W. Plamondon
Alderman Kevin McAfee
Alderman Kevin E. Gage

OFFICIALLY NAMING THE FIELD INSIDE HOLMAN STADIUM BEHIND THE
OUTFIELD AT THE NEW BRIDGE “ANNIVERSARY PARK”

Alderman Johnson

Could I kind of get a little briefing here as to why?

Chair Tollner

I think Alderman Plamondon has worked with the members of the neighborhood. Maybe Mr. Crombie would like to come up.

George Crombie

Mr. Chairman, members of the Board, the reason for the proposal to name it Anniversary Park was in representing part of the celebration for the city’s anniversary this year. It would be a lasting park that would represent this – this has been discussed with a number of members that were on the committee, and that is how it came about.

Chair Tollner

Has this also been discussed at a Board of Public Works meeting or was a communication sent to the Board of Public Works?

George Crombie

I don’t know if it was discussed at the Board of Public Works.

Alderman Johnson

Does it need to go to the Board of Public Works for their recommendation?

Chair Tollner

No it doesn't.

Alderman Johnson

I just want to make sure because everything seems to have to go to the Board of Public Works for their recommendation.

Chair Tollner

This doesn't.

MOTION BY ALDERMAN DION TO RECOMMEND FINAL PASSAGE ON THE QUESTION

Chair Tollner

George if you could just let the Board of Public Works know that the Board of Aldermen will vote on this that would be great.

MOTION CARRIED

NEW BUSINESS – ORDINANCES

O-03-197

Endorsers: Mayor Bernard A. Streeter
Alderman Lori Cardin
Alderman Marc W. Plamondon
Alderman-at-Large David Rootovich
Alderman Steven A. Bolton
Alderman Scott A. Cote
Alderman Kevin E. Gage
Alderman Kevin McAfee
Alderman Robert A. Dion
Alderman-at-Large Frederick Britton
Alderman-at-Large James R. Tollner

CHANGING THE NAME OF THE "HEALTH AND COMMUNITY SERVICES DIVISION"
TO THE "DIVISION OF PUBLIC HEALTH AND COMMUNITY SERVICES"

MOTION BY ALDERMAN DION TO RECOMMEND FINAL PASSAGE
MOTION CARRIED

Chair Tollner

Is there anybody in the audience that is here to be interviewed this evening? Nobody? Okay. Thank you.

MOTION BY ALDERMAN JOHNSON TO TAKE FROM THE TABLE R-03-205
MOTION CARRIED

R-03-205

Endorser: Alderman-at-Large Paula I. Johnson

PROPOSING AN AMENDMENT TO THE CITY CHARTER RELATIVE TO THE
MAYOR'S
REPORTS AND RECOMMENDATIONS

MOTION BY ALDERMAN JOHNSON TO RECOMMEND FINAL PASSAGE

Alderman Johnson

I am sorry I wasn't here at the last meeting, but I was out of town in North Carolina. Basically my changing in the legislation is almost like a housecleaning measure. It has to do with the Mayor shall be the Chief Administrative Officer of the administrative branch of city government and one little sentence I am adding, which will be "He shall keep the Board of Aldermen informed of the condition and needs of the City, and shall make such reports and recommendations as he may deem advisable." I am adding in here "for which the Board of Aldermen shall deem advisable" basically. It becomes more of a partnership so if we need additional information we can get it and we can help make this decision. I am just putting in a little piece of a sentence here, and it is just a housecleaning measure. Actually it is in our best interest too as a Board. I wouldn't understand why this Board would be against it.

Chair Tollner

Is there any further discussion? The only reason why – I'm relatively hesitant in changing the City Charter on a piece of legislation that you may – you have your opinions – I think it is not a significant piece of legislation – I do not want to mess around with the City Charter. I will not be supporting this.

Alderman Johnson

We mess around and tinker a lot more in the Charter than maybe we should, and we make a lot of rules and regulations that we can't even uphold in this city this all of these stop signs in the city. This is housecleaning. This benefits us as a Board. I find it ironic that you wouldn't want to put something in the Charter – add a sentence here that would benefit us too as a Board. Far be it, but I hope we are not doing this because of personalities here on this Board that seems to be jumping into everything lately. It is about a measure that helps us as a Board no matter who the Mayor is that we have the right to get information if we deem it is important. Thank you.

Chair Tollner

Is there any further discussion?

MOTION FAILED

MOTION BY ALDERMAN DION TO RECOMMEND INDEFINITE POSTPONEMENT OF R-03-205

MOTION CARRIED

Chair Tollner

Again we could also discuss this at the full Board meeting if people want to.

Alderman Johnson

That is fine Mr. Chairman. I think it is all about personalities now and now about what is right or wrong.

MOTION BY ALDERMAN JOHNSON TO TAKE FROM THE TABLE R-02-71
MOTION CARRIED

R-02-71

Endorser: Alderman-at-Large Paula I. Johnson

SUBMITTING TO THE VOTERS AT REFERENDUM THE QUESTION OF WHETHER

THE CITY SHALL USE ALL AVAILABLE MEANS TO TERMINATE THE BROAD STREET PARKWAY PROJECT

Chair Tollner

Is it your intention to vote on it tonight?

Alderman Johnson

I figure while Mr. Crombie is here maybe he can give everybody a little bit of an update on the Broad Street Parkway.

Chair Tollner

We have some consultants here tonight that are here to make a pretty lengthy presentation on the sewer user fee so if you would like to pull it from the table and you have a few questions that is fine, but I don't want to get into a dissertation on the Broad Street Parkway right now when we are waiting for the presentation.

Alderman Johnson

That is okay. It will just be a very brief few questions.

Chair Tollner

Okay.

Alderman Johnson

Thank you Mr. Chairman. Mr. Crombie I just want to get an update on where we are with the Broad Street Parkway and the design.

George Crombie

As you know there has been significant discussion over the last year on the Broad Street Parkway. There was a citizen's committee put together by Mayor Streeter to evaluate the Broad Street Parkway both from its merits as well as its impact to the neighborhoods along that track. Through a number of meetings, review, etc. the committee reached consensus on what they believe would be the best layout and analysis of the impacts of the Broad Street Parkway. That work was completed a few months ago and since that time there have been meetings with both the State New Hampshire DOT and the Federal Government to discuss the next steps to move this project forward at this time.

Alderman Johnson

So in other words the design we are currently proposing to the feds and to the State is not the original design – what was on the table?

George Crombie

That is correct.

Alderman Johnson

So in essence eventually this would have to be again voted on most likely by the voters unless killed because it is not the original design. That is what this legislation was all about because the voters voted on one design and now we have totally changed it.

George Crombie

I think what the voters voted for was the alignment of the Broad Street Parkway that is very close to what the original alignment was. I would have to go back and research the wording of the question to the voters in order to answer that question and get legal advice.

Alderman Johnson

Mr. Chairman can we have this put on the agenda within at least the next month or so to get an update and see what the wording would be?

George Crombie

I would like to invite any of the Aldermen to the Board of Public Works. They will be having a meeting on I believe it is September 17th where there will be a comprehensive presentation of the Broad Street Parkway. We would be more than willing to come to a meeting as requested by the Board of Aldermen as well.

Alderman Johnson

Mr. Chairman I would request that we get it on our agenda here too for Personnel/Administrative Affairs because sometimes there are always conflicts at night. We always have one or two meetings so I would appreciate it if we could get an update on the Broad Street Parkway. Thank you.

MOTION BY ALDERMAN JOHNSON TO HOLD R-02-71 IN COMMITTEE
MOTION CARRIED

HELD IN COMMITTEE

Appointments by the Mayor

- Ethnic Awareness Committee

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Olga J. Tines (New Appointment)
83 Ledgewood Hills Drive
Nashua, NH 03062

Term to Expire: December 31, 2005

- Ordinances

-
O-03-173

Endorser: Alderman-at-Large David W. Deane
Alderman-at-Large Paula I. Johnson
Alderman Stephen C. Lamos
Alderman Kevin E. Gage
Alderman Scott A. Cote

REDUCING THE FLOW CHARGE RATE FOR THE CALCULATION OF THE SEWER
USE FEE FROM \$1.67 TO \$1.22 PER ONE HUNDRED CUBIC FEET

O-03-189

Endorser: Alderman-at-Large James R. Tollner
Alderman Marc W. Plamondon

PROHIBITING THE SALE TO OR POSSESSION OF SPRAY PAINT BY A MINOR

O-03-192

Endorser: Alderman Marc W. Plamondon
Alderman Kevin E. Gage

PROHIBITING URINATING AND DEFECATING IN PUBLIC

MOTION BY ALDERMAN TOLLNER TO RETURN TO THE REGULAR ORDER OF
BUSINESS
MOTION CARRIED

DISCUSSION

Chair Tollner

Before I hand it over to Director Crombie I will let the committee know that they are here tonight with some consultants to make a presentation on the sewer user fee. The reason why we have not received a copy of the presentation prior to tonight's meeting was even as of this morning city staff was still putting the final touches on the presentation. This legislation has been held in committee if I am not mistaken since June 5th. The reason why for the public's information is we were waiting for the results of negotiations on a request that we have made to the federal government to change the order, which about, if I am not mistaken, 3 or 4 weeks ago we did get approval of that change, couldn't start work on this presentation until we knew exactly what that change order looked like. That is what they have been working on over the last 3 weeks, and they are here tonight to present that to us.

George Crombie

As Alderman Tollner indicated for a number of months now a number of the members of the Board of Aldermen have been asking is there going to be any adjustment in the rates. We have had requests from Alderman Britton, Alderman Deane, Alderman Lamos, Alderman Dion, the Mayor, Alderman Johnson, and a number of the Aldermen who have requested a position relative to the rates. If you go back in history a little bit back in 1997 was the last time there was a sewer rate increase. There was a doubling of the rate. It was based on the consent order that was in place by the EPA to separate the sewer system. About three years ago Mayor Streeter asked the Division of Public Works to take a look at the consent order and see whether or not there were any opportunities to deal with the existing order. What we did is we went out and hired the firm of Metcalf & Eddy to come in to do an analysis of that system to see whether or not there were other opportunities. They have been looking at different technologies, looking at better ways in order to manage the system. At the same time or about a year later the Division of Public Works started a contract on looking at our rates, our rate analysis. The team that was put together was Underwood Associates and Brown and Caldwell to come in and start that process. We knew that two things were going to happen; either we would be in front of the Board of Aldermen with a recommendation to double the sewer rate or we would be in a position to make some other recommendation depending on our negotiations with EPA.

About a month ago after significant negotiations with EPA we were able to announce that we came up with a plan that would not only improve the water quality, but we could make the improvements into the sewer system with a savings of about \$100 million to the city. At the time, Bob Varney, the EPA Regional Administrator, called it a model both for the northeast as well as the country. That opened the door to give us the opportunity to finish our analysis of the rate structure and be able to take a look at what we could do with the rate over the next 5-8 years from that point. Along with that

we requested by the Chairman of this committee to come forward with proposed recommendations. I want to stress this evening that the presentation that you are seeing is the opportunity to get a sense of the process that we went into to come up with the rate. We certainly are not asking this committee tonight to make the recommendation but the opportunity to take a look to see the presentation and then we would be more than willing to come back at a later date to update this committee or to answer any questions that people have relative to the sewer rate and the goals of the program.

Some things that went into the rate analysis are the following – one was looking at the term – we wanted to make sure that we looked at more than one year. You can do anything over one year relative to a rate. The important thing is that we look out into the future in how the rate would be impacted. The second thing is we wanted to make sure that we meet the requirements and the obligations relative to both the operational as well as the capital improvements that we need to make in the sewer system as well as the treatment plant. The third was to review all funding mechanisms to give the most favorable rate and opportunity to the community. Putting this together we worked with a number of people. Our internal people, Jim Mealey, who is a Deputy Director for Administration and Finance for the Division of Public Works, Rick Seymour, who is the Deputy Director for Wastewater, Carol Anderson, our CEO of the city, and David Fredette, the Treasurer. We all worked on this to bring this piece together. As Alderman Tollner said we were working on this as late as today making some further modifications.

Our internal team teamed up as I indicated with Underwood Associates and Brown & Caldwell – the three individuals that are here tonight are Grant Hoag who is the Director of Financial Services for Brown & Caldwell who will be making portions of the presentation, Steve Freeman from Brown & Caldwell and Steve Clifton from Underwood Associates. The presentation will also be made by Rick Seymour and Jim Mealey of our facility. It has been a team approach in putting this together. There are a lot of different aspects to this, but we think once we have made the presentation the Board will have good information and a good understanding of where we think the wastewater rates ought to be moving in the next 5-8 years. With that I would like to begin the presentation.

Chair Tollner

Could I just ask that copies of tonight's presentation be given out to the entire Board and not just the individuals that are here tonight? I think the packets are going out tomorrow. We're not going to have another meeting of this committee for I think 3-4 weeks. It doesn't necessarily have to be rushed in the mailboxes tomorrow, but some time next week if we could get them out and make sure that each member of the Board has a copy of it.

George Crombie

That would be fine.

Rick Seymour

I will start with an overview of the CSO construction projects that are part of the administrative order that was recently sent to the city from the EPA (*speaker refers to presentation packet provided to*

committee members – copy on file with City Clerk). The yellow subsections are the structures – we have a screening disinfection facility somewhere around East Hollis Street, two storage tanks; one at Burke Street and one at Farmington, and then we have a wet weather treatment unit that is located at the wastewater treatment facility. The optimizations are also in blue – most of those are fairly inexpensive. They are raising weirs, increasing connections between sewer interceptors and CSOs, moving flap gates – they are fairly inexpensive. The blue section is probably about less than a million dollars. The yellow sections are where most of the money for the capital improvement of the CSO system will come from.

Alderman Deane

How much was the cost of the yellow? The blue was a million and the yellow was?

Rick Seymour

The yellow as about \$41 million total. The next slide illustrates all the different improvements and the costs. On the left you can see the number is the CSO number – 002 is the Salmon Brook CSO. There is no CSO abatement activities there, and the cost is zero obviously. As you go down you can see the different numbers CSOs. The reason they are numbered is they are EPA permit numbers. For instance, Farmington Road has a dry weather connection and a 40,000-gallon storage tank for \$2.5 million so that includes both of those costs. Usually you can in this chart pull out the optimizations – they are usually the smaller numbers. We have the wet weather treatment unit at the bottom. The water education center is second from the bottom and then various CSO improvements. Those are all detailed in the administrative order that was reviewed in front of the Board of Aldermen a couple of months ago. There is nothing new in that particular area.

Alderman Deane

I have a question on the water quality education center. Could somebody explain that? What is that a building?

George Crombie

There is really three parts of the water educational center – one is a building – the located has not been chosen at this time, but there is probably a high percentage that we would be recommending the Mine Falls Park adjacent to the gatehouse. There is money in there for an endowment for a water quality educator and funding in there to allow grants to small volunteer groups such as Boy Scouts, Conservation Commission, students, etc. – others that want to deal with water quality. There will also be a small lab in that facility. The goals and objectives of that facility is that there is a sustained investment into water quality education in storm water in the city and that has a lasting impact.

Alderman Deane

Are there going to be employees stationed there and things of that nature?

George Crombie

There would be – the proposal right now would be a teacher or a water quality educator that would be at that location.

Alderman Deane

Was that added by the EPA or did the city add this?

George Crombie

That was discussed with EPA. We went back and forth with negotiations. It is something that the city put on the table. If you recall the negotiations up in Manchester there were items like this and it was something that we felt as part of the negotiations would help us finding common ground and something that we believed was worthwhile.

Alderman Deane

What you are saying George is the city put this – offered this as part of the administrative change order then as a substitute?

George Crombie

As part of the negotiated package.

Alderman Deane

Thank you.

Rick Seymour

The next slide gives you an idea of what the CSO program costs are going to be over the next 10 years. The top box illustrates the administrative order of \$45.5 million, a projected sewer rehab program of \$15 million - \$1.5 million per year for the next ten years, an inflow/infiltration program of approximately \$1 million for a total of \$61.5 million. Also under the administrative order there were two CSO sewer separation projects that were noted that needed to be completed. They are projects that are already being completed. They are under construction or in design phase and those are the Ledge Street and South Main Street Phase II – the estimated cost to finish off South Main is \$3.8 million and Ledge Street is \$1.5 million.

Alderman Johnson

Where on Ledge Street is this?

Rick Seymour

It is almost the whole length of Ledge Street from the lower part.

Alderman Deane

Inflow and Infiltration program – can you define exactly what that is doing? For instance we have, I believe, up in the Northwest park isn't that where we have that interceptor that is currently taking in a ¼ of a million gallons of groundwater a day that is going to the treatment plant?

Rick Seymour

That is exactly what this study will do is – inflow is basically water entering the system – usually inflow is considered water that is coming in through a CSO that is submerged or infiltration typically is looking at situations where you have cracks or bad joints on pipes or manholes. The one million dollars is not a lot of money, but what it does is it gives us the ability to go out and to do a comprehensive study of the city to look at flows in different areas – low flow situations like you go out in that particular part of the city or any part of the city and look at the flows during the low part of the flow period during the day, which would be probably around 3:00 or 4:00 at night you would note what kinds of flows you had throughout the city. If you have high flows in an area that typically shouldn't have high flows then you would go in and do some kind of remediation, you would try to identify that remediation as part of this program. It would tie into what we are already doing with video camera equipment and some of the work that we are doing identifying some problem areas.

Alderman Deane

Will the ... tape inaudible ... be out using the truck and cameras?

Rick Seymour

We will be working in concert with this – typically a full blow infiltration program means you will have to probably have to hire an outside contractor to bring in 20 or 30 meters so you do huge sections or basins of the city where you look at flows, you calculate the problem areas, you may even hone in on those areas and do some more flow and measuring and the like. Some of that will pay for metering and possibly some quick fixes.

Alderman Deane

Thank you Rick.

Rick Seymour

As George mentioned the DPW hired Underwood engineers about a couple of years ago, and that was about the year after M&E had already been hired to do work on the long-term control plan. We knew we were going to need some kind of a rate study to determine where we were going to be once this whole project had come to a finish. A sewer rate financial analysis was completed and only when we had the CSO cost figures so we really only had the cost figures for about 6-7 weeks

where we could really plug those into the model that Underwood and Brown & Caldwell put together. As George mentioned they are working together with Brown & Caldwell as a partnership.

Grant Hoag

I am the Director of Financial Services within Brown & Caldwell. Steve Cipton and I formed the financial team to evaluate your sewer services throughout the community. By way of background I am a registered civil engineer as well as having an MBA, and I have been providing municipal utility financial services for the last 18 years.

Sewer fee modeling assumptions were developed in order to provide a background assumption necessary to develop the financial model. As a matter of perspective the current fees is for your typical single family residential home \$296 per year. That is based on a monthly charge of \$7 for a typical residential water meter at 5/8" plus a commodity charge of \$1.67 per 100 cubic feet of water usage. Almost 80% of the sewer accounts in the community are for these single-family dwellings. The assumptions that we have can be segregated into three basic groups. The first group there will provide you will inflationary assumptions. As you heard we wanted a multi-year financial model in order to look at not just on year's worth of revenue requirements, but rather a set of years in order to develop an adequate projection of your long-term enterprise financial health.

The second part provided the assumptions for potential state revolving fund loan as well as assumptions regarding the level of grants that you may anticipate. In regards to the loan we believe that the city can receive a 4%, 20-year term loan on any of the CSO projects they wish. Furthermore we believe that the city is eligible for a 20% grant funding for all eligible projects. Finally and most reflective of current situation we integrated into the model the fact that the sewer enterprise currently has \$17 million in unappropriated available cash for utilization both for working cash needs as well as repair and replacement funding, and finally unanticipated project contingencies. Of that \$17 million we believe, on the basis of our study, that you need roughly \$10 million or \$9.7 million as an appropriate target reserve level for long-term financial planning. In short the remaining monies are available to help fund the new administrative order.

In order to adequately identify the range of alternatives the city has to comply with the EPA's order we developed 5 different funding scenarios. For each of these we have looked at a different pay as you go cash funds as well as state revolving fund loans for the costs of the CSO projects. The first two of the scenarios are based exclusively on cash without the use of any SRF loans. The last three alternatives are the state revolving fund loan options that include a combination of total SRF funding with the residual – with the impact on sewer rates, and then finally a combination of both pay as you go cash as well as grant funding. For each of these we will now go into a summary of the findings and conclusions.

Chair Tollner

Can I ask before you go into these different scenarios have the financial department been privy to this information?

Carol Anderson

... tape inaudible ...

Chair Tollner

After we go through these is it your plan to provide comments on 4 or 5 of these scenarios pro and con?

Carol Anderson

Unless anyone disagrees we were anticipating having a working session where I would comment at that time. ... tape inaudible ...

Chair Tollner

Thank you.

Grant Hoag

The emphasis of this presentation is to give you general background about the assumptions and concepts and preliminary findings. For the first scenario we have presumed that the capital projects required under the order are going to be funded 100% with cash. Furthermore we plan to maintain on an annual basis the targeted \$9.7 million in reserves. As a result and because the CSO project expenditures are irregular over the next ten years we would require significant changes on an annual basis in the sewer fees. In short, under 100% cash scenario the rates are

very unstable. For example, under this scenario next year your sewer fees must be increased by 90%. Over the projection period, that would mean that the current \$296 typical fee for a residential customer would grow to \$561, but within that projection period we would also see that projection fee reduced to \$272, which is below the current rates.

Chair Tollner

I want to pause here for anyone who is watching this on TV these are a number of scenarios that are options – the city isn't going forward with this particular scenario or the other 5 right now, these are just options for us to discuss. People listening at home I don't want them to think when they get up tomorrow morning that their sewer user fee will go up 90% because we won't be here next week if that is the case.

George Crombie

These are options that we looked at because there are a number of questions with spreading it out, paying cash – what we want to do is give you those analysis and identify the work that we did to come to the conclusions that we came to.

Chair Tollner

As we go through these different scenarios if you could just preface it before each one this is an option for the city to consider just so if someone jumps in and is watching TV they don't jump out of their windows. Thank you.

Grant Hoag

With 100% cash funding debt service will not change from the current levels of existing debt, which is approximately \$1 million in debt service costs per year. Then finally at the end of the projection period the sewer rates would stabilize at \$272, which is somewhat below the current level. The benefit of this is that after roughly ten years of cash based funding of your capital programs you may see sewer fees that are somewhat lower than today. Unfortunately the advantage of this alternative is that next year your rates would have to be increased by 90%. In the following years you would see fairly wild swings in sewer service charges. It would be kind of the equivalent of a business attempting to operate with customers one year being twice the prior year and half the following year or expenditures for a small business wildly gyrating from year to year. It is a very difficult way to operate a business.

On the next slide, these very tiny numbers represent one of the ten tables that were utilized in preparing the different scenarios. If you have binoculars or if you can see the handouts you would see in the very bottom line the typical residential fee would as we mentioned double in FY '04-'05 to \$561 and then they would drop by 21% one year, go up to 5% a couple of years later, down 26% several years further, and then yet again to the bottom rate. Essentially what this represents is a very difficult sewer fee structure in which to operate either a household or a business presuming that your other revenues are stable.

Alderman Deane

Where did all of these numbers come from?

Grant Hoag

These rate models are developed in Excel Microsoft spreadsheets and these tables are printouts of the different worksheets in Excel's rate model and are based on the specific scenarios that we have developed for this cash only scenario.

Alderman Deane

How did you derive these numbers – this is your modeling?

Grant Hoag

The rate model for background purposes consists of a series of interlinked tables – one table is the projections of annual O&M – operating maintenance costs, it starts with the current budget and then

extrapolates forward based on inflationary escalations as well as changes in total service loads. Another table incorporates the capital program under the EPA order. A third table provides assumptions about funding for these capital programs whether they be exclusively cash or some amount of SRF loans. Another table provides a projection of non-operating revenues such as interest earnings and the like. The final tables combine all of these elements into an annualized cash flow with findings on reserve levels or year ending balances that then roll over to the following year.

Alderman Johnson

Could I ask a question – does this take into consideration if you have any money already put aside for your CSO projects – let's say we have \$35 million put aside does it show how you carried your money across and how it is being spent or is it just basically just an example of numbers?

Grant Hoag

That is an excellent question, and yes as I mentioned earlier that as of July 1 of this year the sewer enterprise had \$17 million. That \$17 million is carried forward from one year to the next where in each year the net income or net revenue that remains from that year's expenditures and capital projects, etc. is added to or subtracted from as the case may be those reserves in that fashion from one year to the next. We can see what the residual fund balance is within the sewer enterprise. In fact the year-end reserve level is the one key of a financial health of a municipal entity like the sewer enterprise is.

Alderman Deane

When you look in your summary when you go into '04 and '05 your costs for CSO projects in '04 and '05 double and your waste water treatment and other project costs also double and then when you go into '05 and '06 they come back down almost 50%. Why is there such a large jump in that one year?

Unidentified Speaker

The reason is because we still have a sewer separation program that we are required to complete and that overlaps the administrative order. If you look at the sewer separation projects while we are still finishing up the sewer separation project we have to start in on the administrative order projects so there is a serious amount of capital that comes in the first year and that is because of that particular overlap.

Alderman Deane

That is that South Main Street one you are working on...

Unidentified Speaker

South Main Street, Ledge Street, and then we have to start working on the storage tank, our

sewerage treatment system at the treatment plant, plus the system optimization so we are basically – that is a bad year as far as capital is concerned, but unfortunately it is the overlap from the present program, and the new program and the old program that we don't have any choice but to complete.

Alderman Deane

Thank you.

Grant Hoag

In contrast to the irregular expenditures of the projects you can see several lines down under WWTP Operating Expenditures, which stands for the wastewater treatment plant operating expenses, that the annual expenditures are quite stable at around \$3.6 million in the current year with escalations for inflation.

We will then turn to the next slide. This is an illustration of the key components of the cash flow on the prior table where you can see that the red bars are the revenues, the hollow blue bar are the expenditures, the net income is that solid blue bar right there, which is obviously negative in the first year, and then finally the reserve levels are shown as that solid black line. As we said our objective in this 100% cash flow alternative was to match our expenditures with our revenues in order to maintain a fairly flat cash reserve level of \$9.7 million, and as such it does so, but unfortunately you can see that annually the fee-based revenues vary annually starting at a very high level and then declining periodically. As a result we have this irregular fee that causes me so much distress about instability in the program.

Next slide – This is scenario II – in scenario II like scenario I we pay for our CSO program exclusively with cash and do not borrow, but in this case we do not change the current fee levels. As a result you can see that we would have to draw from the reserves that the enterprise have and after they are depleted then we would have to be funded through the general fund transfers into the enterprise. Unfortunately because of the robust nature of our capital expenditures that \$17 million in reserves would be depleted in the first year and we would be left with roughly \$300,000, and from that year on we would be drawing from the general fund. As you can see that we are \$5 million in the hole by FY '06, and by the end of the project we are roughly \$30 million in the hole. That would be \$30 million that would be developed through the transfers from the general fund.

Obviously the disadvantage of this method is that a previously self-supporting sewer enterprise would become a great burden on the city's general fund. The advantage as weak as it is, is that your sewer service fees would be very stable – a small benefit given that your general fund would have to come up with the difference.

On the next slide – again this table is provided in your handout and illustrates that the draw down from the reserve on the enterprise – when you take a look at it you will see that in the first 5 years every year between \$6 million and \$12 million are drawn from the enterprise reserves and as a result we go into the hole to the tune of roughly \$23 million by FY '09.

Next slide – Again as with the first scenario we have an illustration of that – obviously things are

quite out of balance. You can see the reserves drop below the index in the first year. I guess what is best shown here is that our expenditure levels represented by the hollow blue bars are far in excess of the reserves. Incidentally you can see how the climb very gradually and that is as a result of the 1% per year assumed growth rate within the city.

Next slide – Now I believe in the handout this particular slide came up somewhat earlier and I skipped it – I didn't intend to skip over it but rather to describe it in its place. We were requested because of the initial findings of the cash based scenarios to explore the – what would the financial impact on the sewer enterprise if we were to go to the state revolving fund for borrowing, and we have identified a handful of reasons that it was worthwhile to examine the SRF loans in trying to identify an appropriate sewer rate to fund the program – the CSO program.

Alderman Johnson

The state revolving loan fund didn't we use that for the landfill?

George Crombie

Yes.

Alderman Johnson

On this, and I kind of briefly read ahead and I probably shouldn't have skipped ahead here, but I have that bad habit – I need to see what the end of the chapter is before you get there. If you did the revolving loan fund let's say 10 years out and the interest rates went up above 4%, how much more are we going to be paying in interest versus our overall cost?

Grant Hoag

– That is a fair question. It is not one that I can calculate in my head and not withstanding my position as a financial planner – we could get back to you on that. I would like to say that interest rates are generally tagged to two things – one being Mr. Greenspan, but also to the underlying rate of inflation plus the cost of capital. Historically and that is the only perspective I am eligible to mention, the cost of capital has been roughly 2-3% above underlying inflation and so for that reason financial planners tend to use a single interest rate for their projections. Again that doesn't answer your question adequately, but simply says that I think we are comfortable with having a single interest rate for the projection.

Unidentified Speaker

I could add to that too. We have also had SRF for the digester at the treatment plant and once you lock in the rate with the State the rate will stay there until it comes due and Steve from Underwood can verify that also. We have been told that if the rate goes down we can take advantage of the lower rates. Right now the State rate for SRFs is 3.7%. One of the things to understand too with SRF is that we don't have to pay the loan or start paying on the loan until one year after substantial completion so for instance with the digester the digester construction started in 1999 and the

digester was completed at the end of 2000, we didn't have to pay a loan payment on the digester until 2002 so we got basically three years of no payments. It is very inexpensive up front to buy the loan. It is cheaper than any other types of loans if the money is available, and we are told that the State would have more than sufficient money to finance all of our projects for the next 10 years.

Alderman Johnson

With their new budget coming in who knows – I wouldn't guarantee on anything right now with the State, but when we do the loan with the SRF borrowing loan – you don't pay it for let's say 3 years until after is that interest calculated out 3 extra years? Is it like a front lending interest? How is the interest – is it deferred interest?

Unidentified Speaker

No. When you start paying the loan it is almost like you took the money out of the bank that day even though it is 3 years later. You do pay a 1% transition loan on construction, but because construction basically ramps up during the process you don't actually pay 1% of the total loan because you never borrow 100% of the whole project until you finish the project.

Alderman Johnson

That 1% would calculate out to – give us an example of what that 1%...

Unidentified Speaker

It is probably about ½ a percent.

Alderman Johnson

No percentage on real dollars because that is what we are paying real dollars not the percentage. Is it like \$1 million, \$2 million?

Unidentified Speaker

It is a percentage based on the total of the loan.

Grant Hoag

If we were to borrow \$10 million a 1% per year would be \$100,000.

Alderman Johnson

That is what I want everybody to hear exactly what that boils down to because percentages is fine, but let's face it we pay in real dollars and that is what we have to make a check out for --after the percentage then the loan amount is calculated. Thank you.

Grant Hoag

We have identified a handful of reasons to have explored the SRF loan scenario. The first is that by the city's borrowing we are permitted to have a potential decrease in the sewer rates. In fact, when we ran the five borrowing scenarios we found that this was true – we have been able to incorporate reduced sewer fees. The second one is the lower sewer rates puts money into people's pockets. Essentially the city has the financial ability through the State of borrowing at a very, very low rate, and as a result we will be able to reduce the sewer rates. With reduced sewer rates that essentially or literally puts money into the people's pockets and this money we presume will be utilized to pay down credit card debt or to allow them to make their own investments using their own decisions. In short, lower rates provide an opportunity for the people to have more control over their money.

Alderman Johnson

Mr. Chairman may I ask a question here – I guess this is where I would like to come up with the question – the press conference that the Mayor just had was the sewer rates calculated – the decrease calculated on the borrowing scenario the 20% -- was that calculated on this?

George Crombie

It was based on SRF loan.

Alderman Johnson

It was based on SRF loan.

George Crombie

Which is a traditional way of managing capital projects.

Alderman Johnson

The reason I was kind of curious because I don't believe it mentioned that in the paper it just mentioned that there was a 20% decrease.

George Crombie

I think it is based on the SRF funding program – was put together by the federal government after the grant program dried up, and it was to give municipalities the opportunities to make further improvements in their sewer at a significant reduction in funding. One of the things that Grant is going to talk about tonight is a cost of money over time and that is a very significant principle to be able to understand this rate calculation.

Alderman Johnson

May I ask another question Mr. Chairman? Thank you. Also I read in the paper not only did it talk about 20% decrease but also mentioned I think in about year 2010 the rates would then start

climbing up again.

George Crombie

They would start climbing up again, however, in real money it would be lower than what is paid today to what we are recommending.

Alderman Johnson

That means we would have to drop it down far enough below \$200 a year to make it lower than real ...

George Crombie

I think if you give us the opportunity to ...

Alderman Johnson

I just wanted to throw that out on the table.

George Crombie

To let Grant go through this and lay this out – what we have tried to do is we have tried to come up with – it is a complex model, but we believe that it is the best model in the interest of the rate payer.

Alderman Johnson

I just wanted to see in 2010 how much lower it will be than where it is today at the average family with the loan and everything that we have to do – with the interest – that is a big part. I would like to know how much interest we will be paying and how many years are we talking about borrowing. Is it 10 years, 20 years, 30 years? I think the interest needs to be calculated also.

George Crombie

We have done that, and we can...

Alderman Johnson

Thank you.

Grant Hoag

The third item that we want to illustrate is that any rate increase today has a greater impact – hurts more than the same rate increase in 10 years. We struggled over this expression. I originally sought to present a dissertation if you will on the time value of money net present value calculations,

the discounting of future cash flows to current dollars, and I was overruled and asked to give an example. In essence the example is this – if we were to undergo a 20% rate increase for example I am sure that everyone in this room would prefer to do it 10 years from today rather than tomorrow. In essence, any increases in costs that are pushed into the future have a reduced impact on us than the same one done today.

The fourth issue and it is a particularly important one from municipal utilities is that borrowing insures that the beneficiaries pay as they use the facilities. When we talk about borrowing money it is not for operational expenditures but is exclusively for our sewer facilities. Those sewer facilities are primarily the underground pipelines that we have benefited from for essentially our lifetime. We believe that it is inappropriate for today's rate payers to be paying all the costs of rehabilitation and replacement ... tape flipped ... by utilizing the SRF loans we are able to assure that the city's residents who are benefiting from these improved sewer systems and improved quality of health will be at the same time paying for the repaying those loans. Otherwise the alternative is that we pay today in cash so that the future customers will not have to pay for the benefits that they are deriving. The fifth item is that as was illustrated in the first scenario with cash only we have terrible rate instability and a result enormous fluctuations in the revenues to the revenue requirements to fund the utility. This instability in utility expenditures as well as revenues to the city is in a word ugly essentially because it is impossible to plan a household as well as a business when your costs of living are as irregular as they are shown in scenario 1. One of the great benefits of paying for your regular capital expenditures with loans is it stabilizes and flattens the expenditure rate so that people can plan adequately for the cost of living.

With those issues for making a case for borrowing I would like to turn to the final three scenarios that identify different levels of borrowing as well as different rate adjustments to support that. Scenario III – in this scenario we utilize the SRF loans for the capital projects. We have an immediate 20% rate decrease – I should say in FY '04-'05 and then in the year 2010 we then turn around and increase the rate by 10%. This reduction is predicated on the update to the administrative order. Originally we were believing that the rates were going to be yet again increased but have done the 1997 rates based on a much higher anticipated expenditure. Since that capital expenditure has been reduced based on the city's negotiations with the EPA we can now pass on the benefits of that negotiation to our community through reduced sewer service charges. The other reason we were able to provide for this decrease is that the original rate increase did not contemplate SRF loans that we are able to address in this possible scenario III. As a result of the 20% reduction we will see the current typical sewer fee per household of \$296 reduced by \$59 per year to \$237. That reduction will be obviously lasting over the next 6 fiscal years, and then we would see a 10% increase in the FY '11. Finally at the end of the projection period we would approximately hit our target reserve level of \$9 million plus change.

The benefits of Scenario III here are that not only are the sewer fees stable, but also they are under a reduced rate, which puts money back into the people's pockets for their own expenditures as I mentioned whether it is to pay down their credit card debt or to pay for the essential needs of running a household. The disadvantage is that 7 years hence we will see a 10% rate increase, however, as we've spoken before because of the time value of money the 10% rate increase in 7 years has a far smaller impact on that level of increase today so we have been able to push out rate increases as far as possible under this scenario.

Finally the methodologies that we used for utility rate modeling in projection are valid and accurate to 5 years and perhaps to 7, but I tend not to prefer to utilize them past that period because of lack of confidence in inflationary escalations, growth rates, and also the city's actual construction projects in contrast to the current capital improvement plan schedule. For that reason I have a high degree of confidence for our projections for the first 5 years, I am comfortable with the 6, 7, 8th year, but beyond that usually rate modeling lacks the sophistication to be able to project beyond.

Next slide – The following slide is again a set of little tiny numbers that reflects the summary cash flows of Scenario III. What I can illustrate here in the first year with a 20% reduction we will see the sewer fees for a typical household drop from \$296 to \$237 and as a result we see that the city's total fee revenues from our community will be reduced from \$9.6 million to \$7.7 million thus leaving an additional almost \$2 million in the community for other expenditures.

Next slide – In regards to the retained earnings – I like to call it cash because retained earnings means other things to private enterprise and for this municipal utility cash is a better indicator. In any case, you can see that by the end of the projection period our available cash drops down to the target level of \$9 million plus change. Because of planning purposes I feel confident for the period up to here I feel comfortable with what the level here and years beyond that are simply a guess. This is the best guess we have. Doing financial planning 10 years out if I was confident enough to do good financial planning and be able to estimate interest rates, inflation, growth rates in the community, the city's ability to construct under the CIP ten years out I would probably be a president of an engineering firm as opposed to a director of financial planning. Incidentally for that reason alone I recommend that rate schedules like this be updated for a city that is not undergoing a large capital program every 5 years. For yours because of that program every 2 years, and that way you can maintain a good level of comfort for the projected 5+ years.

Next slide – Scenario IV – in this scenario instead of using a 20% rate reduction we decided to see what would happen if we only reduced user fees by 15%. For continuity we kept the 10% rate increase just like in the prior scenario in the same year, FY '11, the result is that we see a reduction in annual fees of \$44, which is less than the \$59 per year that we had in the prior scenario. In short, we go down to around \$252 per year. The biggest impact is that by the end of the projection period instead of the roughly \$9 million plus change, the target reserve levels, we are up at \$15 million, which is beyond what our requirements are. In fact, that is an advantage to have more cash. It is certainly attractive that you have it now because the monies that have been put aside reduce the level of funding that you must do in the future. The disadvantage is that with all due respect of the city's finance officer I believe that the residents of the community believe that they have a better judgment in investing their money than the city does and so excess monies unnecessary for the fiscally prudent running of a sewer utility thus be returned to the community.

Alderman Deane

What you are saying is basically that the citizens should be taxed for what it costs to operate.

Grant Hoag

-

That is the fundamental concept that I work under yes. A municipal utility should cost the community only what it costs to operate properly.

Alderman Dean

Maintaining fund balances wouldn't fall under that category?

Grant Hoag

Maintaining fund balances absolutely do, but if the fund balances are in excess of defensible requirements based on expenditure programs and good asset management then no the enterprise doesn't need to serve as a bank but rather as a utility service.

Alderman Deane

Thank you.

Grant Hoag

Next slide – Again the slide full of tiny little numbers for Option IV. The best I can point out here is under this reduced rate adjustment we can see that our current fee based revenues go from \$9.6 million down to \$8.1 million, which reduces the total fees by \$1.4 million. It is something less than the 20%. Then finally if you can look on your handout you will see that the projected year-end reserve levels a year \$10 or \$15.5 million above the appropriate \$9.7 million.

Alderman Deane

Where is that figure?

Grant Hoag

That would be ending year reserves carried all the way across – I obviously cannot read these any better than you, but I can find it on my table. That would be the \$15.5 million.

Alderman Deane

That keeps rising right across the board – starts at 21 and goes to 24, 25, 26, 27, then it goes up to 32 and then it starts leveling off and from 9-10 it drops down to 29 and that is where you are recommending a 10% increase in the rate that year?

Grant Hoag

Yes sir. Again the 10% rate increase was for continuity and consistency with the other SRF loans. I wanted to illustrate apples for apples. At this point in the revenue planning exercise it is better to show a consistent set of options. When one becomes clearly better over the others then you can

start to focus in on the best rates to set. It becomes an issue that you would want to address with a bond consultant specialist with the State as opposed to a utility rate planner such as myself.

Alderman Deane

If we choose to bond.

Grant Hoag

If you choose that option. Yes, thank you. Next slide – This slide illustrates the changes and how the ending cash reserve levels drop down to around \$15 million there that in the initial period we are actually building up reserves and then depleting them in the final years. Next slide – The final rate sewer rate scenario that we wish to illustrate tonight is Scenario V and in this one we have a 10% decrease in the sewer fees, we used the State revolving fund for all CSO projects and then finally for the sewer rehabilitation we rely more extensively on cash available funding. As a result at the end of the projection period we hit the target again of \$9 million plus change, however, over the projection period we see a net decrease in cash of only roughly \$2 million. The advantage of this alternative is that the rates remain stable. The disadvantage, however, is that with a rate reduction of only 10% the enterprise is essentially retaining too much cash through the projection period even though it depletes at the end, and as a result there is less money returned to the community. You can see that in the following two slides.

Alderman Johnson

I have noticed here that this is the first time the ... tape inaudible ... it hasn't been in here. You haven't mentioned it up until this part. The education center. It hasn't been mentioned on any of the other scenarios. Could you tell me why?

Grant Hoag

It would be an oversight only – we were trying to identify the key elements of this. In all five scenarios the educational center is included in the capital programs. We haven't attempted to mislead or modify the scenarios. I apologize for that.

Alderman Johnson

Would the education center then become under the revolving loan fund also or would that be just strictly cash?

Grant Hoag

I believe that is strictly cash.

George Crombie

It could be SRF. We are still looking at that.

Grant Hoag

So the State hasn't yet informed on whether that would be eligible for ...

George Crombie

Right.

Grant Hoag

I am sorry to have ...

Alderman Johnson

So that could go either way at this point in time.

Grant Hoag

Since the center is \$3 million and the current cash reserves as well as the annual net cash available from rate based revenues exists and finally because my model essentially pouts all available monies into a bucket at the end of every year the issue of whether that particular project is funded with cash that is available to date or SRF because that cash has been spent on another project is almost academic. The key point that you point out correctly is that yes the center is included in all the scenarios.

Alderman Johnson

Well this is an education. Can't we get it for the State to pay a certain percentage under the school's revolving loan fund?

Grant Hoag

The best information we can get out of this particular table of Scenario V is that essentially compared to Scenario II the city is collecting in the initial years roughly a million dollars per year than we really need, and that is illustrated better in the following slide. This illustrates that the year-end cash reserve levels are fairly robust at \$23 million and decline only towards the end of the period down to our target levels. As I mentioned before this money could in my opinion be better returned to the community for their own reinvestment and expenditure. This illustration completes my prepared presentation on the 5 scenarios modeled in our sewer enterprise cash flows. With that I would be happy to turn the presentation over.

Jim Mealey

The intent of the next slide is to put all the viable scenarios in one place so you can see them in relation to each other and in relation to both this top line is the old consent order would have required a doubling of the fee as George mentioned earlier to about \$600 per year and also in

relation to the State average, which is this line right here, which currently is \$361 and we used an inflation rate of 2.4% per year. That is based on what has happened to that rate in the previous years. You can see the cash scenario in which we fluctuate the rates is very high to begin with, is above the state average until about half way through and then it gets down below and stabilizes at \$272 per year. The black line – dotted line, is the scenario in which, which was the last scenario just mentioned by Grant where it is a combination of some cash and some SRF loans, the 10% decrease initially and then a 10% increase in year 2010. The last scenario you can see is the 20% decrease initially and then another 10% increase in 2010. You can see that is still the lowest as far as the ratepayer is concerned. It is still below the stabilization rate of the cash model.

Alderman Deane

Jim where is the 15% one?

Jim Mealey

We didn't include that one. It would be just it would go down not quite as low as the \$237 and then it would still be above the \$261 right there. The numbers are obviously in the charts that you have. We didn't want to have too many numbers on this graph here. Next slide please. Just to put things in perspective the financial impact of the sewer fee scenarios again utilizing the same ones we just graphed in comparison to the old consent order over the next ten years would have cost a typical household \$600 per year or a total of \$6,000 – no savings because that is our base number we are using. In scenario I ranging from \$272 all the way up to \$561 – the ten year cost would be \$4,075 for a savings compared to the old consent order of \$1,925. Scenario number II the 100% cash would stabilize rates \$296 total cost of \$2,960, but obviously with the debt that would be incurred you can't really realize a savings. Scenario III the 20% decrease with a 10% increase in 2010 goes down to \$237 and then back up to \$261 would cost \$2,466 over 10 years and would be a savings of \$3,534 in comparison with the old consent order. Then Scenario IV the 15% decrease and the 10% increase would cost \$2,620 and save \$3,380. Then the last one the partial cash and SRF would range from \$266 to \$293 and would cost \$2,768 for the typical household and they would realize a savings of \$3,232.

We did a similar look at the impact to large businesses using a base business it would cost \$160,000 under the old consent order and that would be \$1,600,000 over 10 years. Under Scenario I it would cost them \$1,086 and they would see a savings of \$513,000. Scenario II – that is the one it is impossible to look at because of debt incurred. Scenario III they would see a savings of \$942,000. Scenario IV they would see a savings of \$901,000 and then Scenario V that business would see a savings of \$861,000.

Next slide – This goes back to Alderman Deane's question earlier regarding where are these numbers coming from. Again you can't make them out very well here, but Grant referred to how the models work and these are the numbers. This first one is the cash scenario, which numbers did we use for primary tank, rehabilitation and so on are all here, and then when would we see that cost – in what year? That goes back to the question you asked earlier Alderman Deane.

Alderman Deane

Those are guesstimates or are those actual numbers?

George Crombie

Those are working numbers. There will always be changes in those numbers as we move along.

Alderman Deane

Plus or minus – what do you think George?

George Crombie

I don't know Alderman Deane I think overall we will be fine, but there will be differences depending on contracts and makeup as we move along.

Jim Mealey

Next slide – Doing the same for the SRF scenario where obviously some of these payments get delayed until the anticipated completion date plus one year so you can see the costs incurring as I said a year after anticipated completion of those particular projects. These numbers are the same to begin with.

Next slide – The last slide we have here is to put things in perspective. As we have been talking about the net present value and the time value of money, here is our current rate, which was established in 1997 so that is the base year I used, and given an average inflation rate of 3% per year paying \$296 in 1997 is like paying \$287.38 in the following year and \$279.01 in the year after that and so on so if you look at when we did that 10% increase in 2010 to the original 20% decrease, paying that \$261 in 2010 is equivalent to paying \$177 in 1996. You can utilize this chart to see any number that the rate is shown at you can see what that is equivalent to in any particular year to the base year of 1997 when the current rates were established.

George Crombie

Another way of looking at – if you have a rate of \$261 and let's say you got up \$100, which is close to a 50% increase and you go out 10 years let's say go out to 2011 you are looking at real dollars at that time value of \$265. This issue of using the SRF fund really gives you a huge advantage. It gives a huge advantage to the ratepayer and allows us to do what we are recommending.

Mr. Chairman that concludes our presentation.

Chair Tollner

Are there any further questions from the committee members on the presentation?

Alderman Johnson

I would like to get an opinion basically from Mrs. Anderson because all hear is we always have a good scenario why we need to borrow money. The answer to it is always let the future generation pay. There is always a future generation so we have been bonding and doing lease purchases, and the future generation should pay for some of this also, but I guess my concern is I don't want to strap anybody in this generation in the next generation and come out like California is right now, and we can't afford to survive because we left massive debt all over. I have a lot of concerns. Although things look good on paper all the time how does it really play out on a good scenario?

Carol Anderson

One of the things you need to take into consideration us the city as a municipality is in a unique situation to be able to bond from the State revolving loan fund. It has better rates than you would even do if you go out for tax-exempt bonding. Another consideration you need to think about is that when you have these capital projects I think pay as you go is something you really need to take into consideration when you are looking at capital. Right now we have a reserve fund. We have money – a working capital that has been built up – that has already been built up by residents that we have now and if you are going to take and say we want to pay all cash for this then you will be really taxing them in one form or another within the next couple of years to pay for all of that future cost too. Those are considerations I think that we need to be making as we go forward. I also believe that you should be cautious about indebting your future generations, but this is what is happening now is that you would be strapping your current generation with costs that are really going to be – should be expensed over the future generations so I think those are considerations we need to take into account.

Alderman Johnson

What I would like to do is I would like to get an update really on what exactly we have for CSO money at this point in time, what exactly do we anticipate expending between now and the end of the year, and where do we see us going between now and the end of the year of all of this money that we have. I think we have a clearer picture of 20% reduction looks good and it is \$59 a year on the household even 15% less \$44 on the household – it is like \$14.75 a quarter whatever – I don't think that is the real issue. I think the real issue is that everybody feels that they are really paying too much. If you probably said to somebody \$159 a year that will probably be better to pay their credit card debt but at \$159 or \$59 that is not the issue what they can do with it – the issue is what are we going to do today, how are we going to expend this, how are we going to strap people between today and ten years from now and then all of a sudden there will be that spike again. I want to be very careful before we make this decision on how we are going to be spiking and how we are going to be getting the loan. Also interest rates are rising. We don't know what Greenspan is going to be doing over the next 6-9 years also so what looks good on paper right now at 4% we could be hit with 6-7% if the interest rates start climbing completely. We don't know what will happen, but the interest rates are going up right now. I want to be very cautious as we step into this because this is a very big investment.

Carol Anderson

I would just like to say that I believe that is what this packet, all of these scenarios address those

types of issues. The current year has been looked at. When we talk about the interest rates I would say that for if some reason state revolving loan fund historically is always less always behind whatever the bond market is. The bond market seems to be your benchmark because historically, and I am sure Rick will comment on that, it is incredible the rates you get from this revolving loan fund especially in those early years when you are in construction. That is unheard of. When I first came here to see one percent on what you are borrowing – that to me is unheard of. You wouldn't get that in the business sector at all. Those are considerations we need to be looking at as we go forward. I understand what you say about increasing bond rates, but this is a unique opportunity I think for the city.

Alderman Johnson

I understand that, but I think I would like to see how much loans between now and what we are going to be retiring in the next 3-5 years because I think that is also important. Although we can be dropping in one area we can be increasing for our property taxes on other bonding issues. You can get a savings on one hand, but we are taking it back on another hand. I just want to be real cautious and make sure of what we are planning to bond and how much more money we are planning to borrow because you don't want to get with one and take back with the other.

Carol Anderson

We have our work cut out for us, but I think we have the tools to work with it now.

Chair Tollner

I think what might be a good idea is for us to get this packet out. I will send a memo to the rest of the Board. We need to get the packet out to the rest of the Board, ask them to review the minutes of this meeting as well as the packet. If they have any questions they can direct them to either George or Rick or Jim Mealey. We probably should have another working session with George people from your department, Carol people from your department, and try and make sure that we have full compliment of the Board of Aldermen. I know what we would like to see for this legislation whether it is to be amended even further to be voted on in this term and the effect it takes place before the next sewer user fees go out.

Alderman Deane

When are the next set of bills scheduled to go out in December?

Chair Tollner

In December.

Alderman Deane

When is the final readings?

David Fredette

I don't think we were discussing having this changed by December of this year. Sometime in the next half of the fiscal year, which is January through June. Remember how the sewer fee works – it is based on winter readings. Those bills going out now are based on last winter and that will stay that way until next July I believe then they will use this winter's readings. You know how it works once you get that first bill it stays the same bill for the 4 quarters.

Chair Tollner

Why would we not be able to make this adjustment this year?

David Fredette

You have a lot of issues when you make changes like that. It just doesn't happen in one week.

Chair Tollner

If we were to back up from when the bills go out I think – I can't speak for the endorsers of this legislation, but I am sure that they would like to see the change take place possibly at the next tax bill. How soon would we have to pass this legislation to allow your staff to send out the appropriate billings?

David Fredette

I don't think I could answer that tonight. I would talk to Carol and Maureen and get you an answer some time early next week.

Chair Tollner

That would be great.

Alderman Deane

That is fine and well, but I still think there are a lot of unanswered questions. As Carol had stated – I would like to thank you for your presentation. It was nice. There are still some issues that have to be looked at – the possibility of commingling some of these plans perhaps – the other issue at hand is that these minutes of this conversation will not be typed unless you request it because it is a presentation and they don't do presentations verbatim.

Chair Tollner

I will request that to Sue.

Alderman Deane

I would like to thank the Division of Public Works for coming forward with this presentation. I think it is a step in the right direction – George and Rick and people that helped – Jim Mealey, Carol, and Dave Fredette. I think lowering the sewer users' fee is a good thing for everyone in the community. I am glad we are addressing it. Thank you.

Chair Tollner

I will request that the presentation be typed up. Mr. Fredette you will get a memo to the Board of Aldermen – just give us an idea of how far in advance we would have to pass this legislation. We may not be able to, but I would like to know because it is a question that I think a lot of people will ask.

David Fredette

Next week I will give you a memo.

Alderman Deane

As the endorser of this legislation I would just assume wait until everything was figured out and that everyone was comfortable with the proposed reduction – the Division of Public Works is comfortable, the Finance Department was comfortable so that we weren't revisiting this in another year because we made an error by rushing it through. It has been at this rate – I would just assume that everything is done properly and looked at twice and we all agree and it is feasible and will cover the expenses, and then amend it accordingly if necessary and then pass it. I don't think we should be in any hurry to push this out the door. I would rather be safe than sorry.

Carol Anderson

My only comment and this isn't to disagree with you Alderman Deane, but I would hope that we could possibly do this before the end of this term only in that it is a complex issue and where we are working with all the existing Aldermen – we will have some of the Aldermen on the Board that will not be running again, and I think to start this process all over again becomes more difficult so if possible – I am not trying to rush through it – do a complete and thorough job, but really put our minds to working on this so that hopefully we can vacate it before the end of this calendar year and then we can move into when it can take affect.

Chair Tollner

I would agree with that.

Alderman Deane

When is your next Personnel meeting the end of November?

Chair Tollner

The beginning of October. If we have to add another one we could add another one. We have these meetings once a month.

Alderman Deane

We can basically have this in December?

George Crombie

Mr. Chairman I think there are two other things we have to keep into consideration – we are under an administrative order meaning that we have deadlines that we have to meet so we are going to have to begin processing right away. The second thing is if we go the SRF loan process we have to move very quickly on that and not lose those opportunities as we move along here.

Chair Tollner

Just for everyone's information here we can schedule another meeting in two weeks or whenever – as many meetings as we need to get this done in time. Carol maybe you could get together with George and put together a time frame of when you need this to get done in order for us to meet the decree and Carol we will use that night totally as we need this to be approved this term because in all likelihood as it stands now there could be 4, 5, 6, maybe more new Aldermen next term and we would have to start this process all over, but if we had to do that we still wouldn't meet the decree timing.

George Crombie

I think the other thing that is important is that any questions that you can get us prior to the meeting would be helpful so we have the opportunity to prepare.

Alderman Deane

I understand Carol's issue. I don't understand the sense of urgency of passing this because we are reducing the rate. How would a reduction in the rate affect applying for an SRF loan or dealing with the consent order?

George Crombie

I think what we want to do is we want to get our framework in place so that we understand how we are moving forward. If you decide to go cash that is a different scenario and we have to plan for that. Treasurer Fredette indicated that there are time gaps here. I think what we want to do is get our overall framework for this program in place because we've got a lot of work to run and manage this project in order to meet the consent order so the quicker we can move through this then that is time and opportunity we have to work on meeting the order that we are dealing with.

Alderman Deane

If we had this done by December 1st that would be fine?

George Crombie

That would be fine.

Alderman Deane

Why don't we shoot for December that way it gives everybody ample opportunity to ...

Chair Tollner

I want to thank you for the presentation – everybody that was involved in the presentation. I also want to thank – I don't know who developed the slides when Jim Mealey started his presentation – I liked that graph because it gave a snapshot of what it would look like with the different scenarios as well as the impact on the homeowner and businesses. That was great. Are there any other questions?

ADJOURNMENT

MOTION BY ALDERMAN DION TO ADJOURN
MOTION CARRIED

The meeting was declared closed at 8:46 p.m.

Alderman-at-Large James R. Tollner
Committee Clerk Pro Tem