

**Minutes of the Board of Water Commissioners Meeting
WI PSC Public Rate Case Hearing
Wednesday, February 24, 2010**

The meeting was called to order by President Van De Kreeke at 9:50 a.m. and the Pledge of Allegiance was recited.

Those present included President Gerald Van De Kreeke, Secretary Ray Haen, Commissioner Art Stewart, Superintendent Joe Trueblood, Accounts Manager Terry Scherer, Citizens Jim Krause, Henry Capetillo, Carter Pawlus, Keith Rusch, Curtis Lienau, Anthony Lorenz, Nancy Lorenz, Marjory Mattern and Others.

President Van De Kreeke explained to the Citizen Members attending that the meeting will be conducted via telephonic conference by an Administrative Law Judge of the Public Service Commission (PSC). The PSC will also be meeting in Madison. Jodi Dobson of Baker Tilly Virchow Krause, LLP will also be attending.

The hearing was called to order at 10:00 a.m. by Michael Neumark.

Those present from the PSC included Vishwa Kashyap and Michael Neumark, Administrative Law Judge.

The Docket Number for the hearing is 5370 WR 104, Sheboygan Water Utility Application to Increase Rates.

All documents and comments made pertaining to the hearing will be forwarded to the Division Administrator who will make the decision as to if and what the rate increase will be. All documents will be identified and the hearing will be recorded.

Public citizens will be allowed to make comments as part of the hearing process.

Utility Documents

The Utility documents were identified as the Notice of Public Hearing (Reference #127058) and the Rate Application, which has two parts: the Excel portion (Reference #123266) and the Report (Reference #123265).

Joe Trueblood Comments

Superintendent Joe Trueblood will speak on behalf of the Sheboygan Water Utility. Superintendent was sworn in and stated he was familiar with the documents and that they were complete.

Superintendent Trueblood also stated the rate case is in response to ongoing infrastructure costs and is part of the overall financial plan to pay for debt service of the Erie Avenue Reservoirs, which is a major new expense.

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Vishwa Kashyap Comments

Vishwa Kashyap, who is a member of the Rate Engineer Division of the PSC was sworn in and testified Exhibits #124820 and #127018 are complete and accurate.

Mr. Kashyap stated another factor in the requested increase is the approximately 16 percent reduction in water usage since the last rate increase. Even with the proposed increase, Sheboygan will have one of the lowest rates in the state.

Citizen Member Comments

Henry Capetillo

Mr. Henry Capetillo, who represented a nonprofit organization which provides affordable housing for the citizens of Sheboygan was sworn in.

He stated he is opposed to the increase and the PSC should look at the impact this increase will have not only for Water Utility customers, but for all utilities. He calculated the proposed increases he has or will receive for gas, electric and water to amount to approximately 22 percent over last year's costs.

Mr. Capetillo explained the individual income in his housing units average \$12,000 annually. Because of the proposed increase in water rates, he will need to increase the rental rates he charges. This is not only affecting him negatively, but also those on Social Security and other nonprofit groups. Mr. Capetillo stated it is possible to shop for most consumer items, but not for utilities. With Wisconsin being the third highest state in the country for taxes, he wonders what impression it gives to businesses.

He further commented that he does realize the infrastructure projects need to be paid for, but believes the present increase should be reduced and spread out over time so it does not have such a dramatic impact. It could be revisited when the economy is better. This large of an increase at one time is way too much.

Carter Pawlus

Mr. Carter Pawlus was sworn in. He stated he is in opposition to the increase in the water bill, tax, or fee, whatever it is called. Reasons include: Sheboygan is already in the third highest taxed state, the City's unemployment rate of over 10 percent, there are too many people out of work, too many jobs being lost, along with too many homes being foreclosed. Officials are looking to raise taxes on the taxpayer, who already cannot afford it.

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Mr. Pawlus also stated he strenuously objects to calling the meeting at 10 a.m. Out of the population of Sheboygan of approximately 60,000, there are only 10 people in the room, and the business community is not represented, nor is a member of the Sheboygan County Taxpayers Alliance. He further explained he believes City government is out of control. Departments have grown into monsters and he does not want to see the Water Utility grow into one of these monsters.

As a taxpayer, he opposes the increase.

Jim Krause

Mr. Jim Krause was next sworn in. He stated he is a homeowner and also president of the Settlement at Lost Creek Homeowners' Association. He represents 33 other homeowners.

He explained each home has their own meter, along with an outside meter owned by the condo association. He questioned if increasing the rates will also affect sewer usage charges.

Mr. Vishwa Kashyap explained that this hearing is just for water rates, not for sewer rates. The PSC does not have jurisdiction over sewer rates.

Mr. Krause stated he agrees with the previous speakers and acknowledges some type of increase is needed, but that an increase of 12 percent seems excessive. He explained there are other ways to cut costs which should be investigated. As an example, the public sector has been giving wage increases while the private sector is still suffering. He believes the Sheboygan Water Utility and the PSC should examine where else something can be cut out of the budget to reduce this rate increase.

Curtis Lienau

Mr. Curtis Lienau was sworn in. Mr. Lienau stated he agrees with the previous speakers. He would like to bring to everyone's attention that the public has not received an increase in Social Security. Furthermore, grocery stores have changed from private to public ownership, which has resulted in decreases in the number of employees of the different departments. He feels the city also needs to decrease their employment. Perhaps they need to let some employees go and rehire them back at a lower rate to reduce the Utility's payroll. City employees cannot have further increases.

Mr. Capetillo asked if questions can be asked after one has spoken. Mr. Kishyap stated that the hearings usually do not do question and answer sessions, but he will entertain one or two questions.

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Mr. Capetillo stated that he received three handouts, but was wondering if there is information available on debt structure for the Utility and if that was forwarded to the PSC.

Vishwa Kashyap stated that debt structure is part of the application and Jodi Dobson stated it is on page 34 of the application and is part of document Reference #123265.

Mr. Capetillo questioned if that debt structure was already in place when the reservoirs were built and if it is set for a period of time or if it can be changed. To clarify, he wanted to know if a set bond was already created or if the Utility was looking to do something in the coming year.

Superintendent Trueblood stated the bonds taken out were 20 year Public Revenue Bonds. Each year there are principal and interest payments, similar to a mortgage payment. These payments are new fixed costs that the Utility did not have two years ago.

Mr. Capetillo questioned how the debt was being paid before this rate increase.

Superintendent explained the Utility had additional cash that was planned to be drawn down, which has occurred. At this time the Utility needs to obtain additional revenue to meet these payments. This has been part of the long range financial plan from the beginning.

Mr. Capetillo expressed his concern that the increase should be examined and it should be reduced to something a bit less. He agrees an increase is needed at some point, but believes that in this economy, one really needs to take a look at an increase of this size.

Superintendent explained that when the financial path was layed out, they first looked at an increase to cover all the debt at one time, but decided to implement the increases in phases. This increase is Phase Two, which has already been deferred in the time line from the original plans. This deferment was able to occur because of the cash available that was drawn down.

Mr. Capetillo questioned is if there is any way to defer this increase into more increments at lesser amounts.

President Van De Kreeke explained that the proposed increase for the average household in the City of Sheboygan is \$1 per month or \$12 per year.

Mr. Capetillo explained that he is looking at the increase for business and, speaking for his organization, it is a big increase. He is afraid of other businesses leaving Sheboygan.

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President Van De Kreeke explained that if they are leaving, it is not because of the cost of water.

Mr. Neufeld of the PSC stated the hearing will not take any more second comments. President Van De Kreeke offered the Board will answer any questions after the Public Hearing.

Adjournment of PSC Hearing

The PSC Public Hearing was adjourned at 10:29 a.m.

Question and Answer Period

Mr. Pawlus questioned how much the Utility owes and how much interest is being paid.

Superintendent responded that the debt for the reservoirs is approximately \$6 million. There is a Clean Water Drinking Loan at approximately 3 percent and Revenue Bonds at approximately 4.25 percent interest.

Mr. Pawlus questioned if it is being amortized or if it is simple interest.

President Van De Kreeke stated that it is initially interest at the beginning, like any type of loan. Superintendent offered that if it is possible to find a lower rate, refinancing would be done. President Van De Kreeke offered that there could be penalties for refinancing and that given the current market, one would not find money for these low rates. He further reiterated that the Board really wanted the rate increase last fall, but the Utility was able to hold the line on costs, allowing the Board to push back the increase until now.

He explained the process for a rate increase is not a quick process. The State of Wisconsin will allow up to a 7 percent Rate of Return on assets. The Sheboygan Water Utility has always been well below this mark because we do not want to increase rates. The Board looked at a 4 to 6 percent Rate of Return and picked 4 to 5 percent so rates do not have to be increased every year.

President Van De Kreeke explained that a lot of the Utility's infrastructure needs work. The Plant is 80 years old and some of the water mains are even older and will eventually fail. The Utility staff is trying to keep up with preventative maintenance and does much of its own work to save money by not hiring contractors, but there are some things they

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cannot do. The Utility has tried to hold the line on wages and is going to mediation to settle the current labor agreement being negotiated. In addition, the Utility has worked very hard to hold the line on costs. The Utility is run very lean to save as much money as possible, but the Utility does not have control over everything. While the Utility is owned by the City, it is operated separately. The Water Utility is the largest property taxpayer in the City of Sheboygan.

Mr. Pawlus questioned whether the Water Utility is subject to state laws concerning the amount of cash it is required to keep on hand.

President Van De Kreeke explained that bonding does require we have a set amount of cash in reserve. He also further reiterated that if we did not need to have this increase, we would not be sitting here today. The Utility has been reducing its staff, but cannot operate the plant 24 hours a day without people to staff it.

Citizen Member Marjory Mattern commented she agrees with the testimonies given by the Citizens, but also realizes Utility management is between a rock and a hard place. She questioned who actually decides what the rate will be.

President Van De Kreeke explained that the Utility asks for an increase, but the Division Administrator from the Public Service Commission has the authority to set rates.

Superintendent Trueblood explained that because public utilities are monopolies, the PSC is the regulatory body that protects the consumer and monitors any increases.

Ms. Mattern questioned that it really doesn't matter what we say?

President Van De Kreeke explained that it is definitely taken into consideration. Just because the Utility asks for a certain amount increase doesn't mean they will get that percentage. Rate increases are communicated to the Sheboygan Common Council and are referred to the Finance Committee. In the past, the Finance Committee has requested the Utility to take a lower rate increase.

Ms. Mattern commented that the Board should definitely go to mediation/arbitration.

President Van De Kreeke stated that the Board has stood up for what they believe and that is evident by Sheboygan having the lowest rates in the State of Wisconsin.

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Mr. Capetillo commented that he would like to point out that it is not just the Water Utility rate increase, but he is looking at a 22 percent increase in all utility costs in one year. The Sheboygan School Board currently has a \$2 to \$3 million deficit and wondered what that will do to them and where the money will come from to pay for these increases. When all the different utilities' increases are added up, it amounts to a lot.

President Van De Kreeke explained that the Water Utility rate increase is not a flat, across-the-board increase. There are different classes of customers, being wholesale, industrial, commercial and residential. The increase will depend upon the makeup and usage of the customer.

Mr. Capetillo commented that he can see the frustration happening at the county level. They want their increase, or will have to have layoffs or cuts in services.

Another Citizen Member commented he sees tax increases in the future for the School Board, County and City, while people are not getting raises and have the same amount of income.

President Van De Kreeke commented that the Board has looked at that and has not taken that situation lightly.

Mr. Capetillo stated that even if the increase does go through, the Board should look at refinancing to reduce costs. He commented he does not always have faith in arbitration and believes the comparables should include positions in the private sector.

Secretary Haen offered that just so everyone understands the Board's dilemma, the Utility currently has fewer suppliers of materials to treat water and the costs are up dramatically. When the sources of supply are limited, it forces costs up. Compounding the problem, consumption is down, but it is not costing less to produce the drinking water. The Utility's largest consumer has cut back 25 percent and the Utility has lost two of its top ten customers. So while consumption is down, the cost to produce the drinking water is not. The infrastructure that is in place also needs maintaining. The Water Utility is also tied to any projects the City puts into their budget. The Water Utility has to come up with funds to finance their portion of the project. It doesn't make sense to fix sewer mains and come back in a few years and tear everything up to put in water mains.

A Citizen Member commented that he believes the Sheboygan Water Utility does a good job and would like to compliment them on that fact. He knows they are trying to keep rates down and believes the City has a tremendous benefit in the lake.

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Secretary Haen added that when compared to other utilities on the lake, Sheboygan's rates are much lower.

Ms. Mattern offered that other cities pay more for their water and it is of much lower quality.

Secretary Haen commented that many large cities are looking at privatizing their water utilities. Foreign countries will come in and take over the utility operations and don't really care about the quality of water. When a city has a large payment due, this option is favorable in the short term, but not the long term.

Superintendent Trueblood stated the Utility remains vulnerable to the loss of major users.

Secretary Haen explained that because our rates are low, not many customers are looking into conserving because it is not cost effective.

Mr. Pawlus commented that municipalities are facing a much more astute taxpayer today than 20 or 30 years ago.

Mr. Capetillo questioned when the rates will go into effect, to which Superintendent Trueblood explained it will probably be March or April, depending upon the PSC.

Mr. Keith Rusch asked if the Utility has been short of cash a number of years, why, when the reservoir was built, did it spend \$750,000 to \$1 million on cosmetic appearances of the reservoirs?

President Van De Kreeke explained that the Board looked very hard at the costs for esthetics of the structures and the actual numbers are not anywhere near that. The Board did examine several different types of structures and materials, but the costs were not that much different. Yes, the Board did look at esthetics because the reservoirs are an entrance to the community. The Board also looked at different sites, but this site they were able to acquire for much less. Certain pressures were also examined, such as hydraulics, different sizes of reservoirs, the configuration of the structures. The project was studied for several years before implementing the plan.

Secretary Haen added that the maintenance of the material is low, which was a major consideration.

Superintendent added that the Board talked about using cheaper materials, but in the long run, it was not a cost savings.

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Ms. Nancy Lorenz commented that with all the pharmaceuticals in the water these days, the costs to treat the water will go up.

Superintendent Trueblood confirmed that the Utility's costs will reflect that. To date though, from the testing that is done, the Utility has not had evidence of pharmaceuticals.

Secretary Haen added that the Board has scaled back its plans. As an example, the new intake has been delayed. The Utility is having icing issues every year because of the aging infrastructure, and the icing could shut the Utility down. Fortunately, the reservoirs have given the Utility a cushion to assist in managing the icing.

Superintendent Trueblood added that the Utility has experienced two icing events this winter so far.

Secretary Haen stated in the event of an icing emergency, the Utility would have to make calls to industries alerting them to cut back. He explained the Utility is dealing with an antiquated system and facility, along with a lot of old water pipe, which is a ticking time bomb. One never knows when it will go. He would like to say it is a rosy picture, but it is not. With having no money to perform maintenance, there will come a time of reckoning in the future.

Mr. Pawlus commented he would like to applaud the conscientiousness of the Sheboygan Water Utility, but they will have to make cuts. Period.

President Van De Kreeke stated that is looked at every month but the Board does not have a choice with some things. The Board would like to do more improvements and get better equipment, but this has to be put off. However, it cannot put off things that would be a detriment to the citizens of Sheboygan.

Superintendent explained that as an example, the Utility has done the legwork for a new intake, which is estimate at \$12 to \$16 million. It will be needed at some point and needs to pushed ahead, but that is not possible at this point.

Mr. Capetillo suggested there needs to be more coordination with all branches of government with regard to increases, so they can discuss plans coming down the pike. Each municipality needs to keep in mind how increases will affect the taxpayer.

President Van De Kreeke explained the Utility currently does do this with the City. The Utility needs to know about any upcoming projects or if the City would decide to annex property.

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Superintendent Trueblood offered that the Utility does try to work with other forms of government.

Mr. Capetillo commented that between Sheboygan County and the Sheboygan School Board, the increase will kill the taxpayer. He further explained he sees the Water Utility's dilemma and knows our rates are low. Consumers are paying for the expensive buildings of other utilities; the Sheboygan Water Utility buildings are not the Taj Mahal. He believes other utilities should look at freezing their rates.

Adjournment

The meeting was adjourned at 11:06 a.m. on a motion by President Van De Kreeke and seconded by Commissioner Stewart.