

**ELK RIVER MUNICIPAL UTILITIES
REGULAR MEETING OF THE UTILITIES COMMISSION
HELD AT THE UPPERTOWN CONFERENCE ROOM**

April 11, 2023

Members Present: Chair John Dietz, Vice Chair Mary Stewart, Commissioners Paul Bell, Matt Westgaard, and Nick Zerwas

ERMU Staff Present: Mark Hanson, General Manager
Sara Youngs, Administrations Director
Tom Geiser, Operations Director
Melissa Karpinski, Finance Manager
Chris Sumstad, Electric Superintendent
Mike Tietz, Technical Services Superintendent
Dave Ninow, Water Superintendent
Chris Kerzman, Engineering Manager
Tony Mauren, Governance & Communications Manager
Jenny Foss, Communications & Administrative Coordinator
Parker Theisen, IT/OT Technician

Others Present: Jared Shepherd, Attorney; Andrew Berg, CPA with Abdo

1.0 GOVERNANCE

1.1 Call Meeting to Order

The regular meeting of the Utilities Commission was called to order at 3:30 p.m. by Chair Dietz.

1.2 Pledge of Allegiance

The Pledge of Allegiance was recited.

1.3 Consider the Agenda

Moved by Commissioner Westgaard and seconded by Commissioner Bell to approve the April 11, 2023, agenda. Motion carried 5-0

1.4 Resolution Recognizing 2023 Drinking Water Week

Mr. Ninow presented his memo on 2023 Drinking Water Week, occurring May 7-13. Mr. Ninow explained this event is a great time to educate our customers, connect with the public, and promote awareness regarding the critical work ERMU staff does every day to bring our customers high quality drinking water.

Chair Dietz commented on the importance of sharing good news about the great job the water department does in providing safe, reliable water service.

Moved by Commissioner Stewart and seconded by Commissioner Zerwas to adopt Resolution 23-3 Recognizing Drinking Water Week, May 7-13, 2023. Motion carried 5-0

1.5 Resolution Recognizing 2023 Lineworker Appreciation Day

Mr. Sumstad presented his memo on 2023 Lineworker Appreciation Day. Mr. Sumstad noted this event is an opportunity to recognize ERMU lineworkers for all of their hard work and dedication to maintaining electric service.

Chair Dietz commented that ERMU's exceptional service record is a direct result of the hard work of the lineworkers.

Moved by Commissioner Bell and seconded by Commissioner Westgaard to adopt Resolution 23-4 Recognizing Lineworkers and Designating April 18, 2023, as Lineworker Appreciation Day. Motion carried 5-0

2.0 CONSENT AGENDA (Approved By One Motion)

Chair Dietz commented that he thought the scholarship winner wrote an excellent essay and asked if they would be able to attend a future commission meeting. Ms. Foss shared that Natalie Murphy is planning to attend the May 9, 2023, commission meeting.

Chair Dietz asked Mr. Hanson if there were any issues with the termination of the Voltus, Inc. contract. Mr. Hanson replied there were no issues and ERMU is still considering Voltus, Inc. as a possible partner in 2024.

Moved by Commissioner Stewart and seconded by Commissioner Bell to approve the Consent Agenda as follows:

2.1 Check Register – March 2023

2.2 Regular Meeting Minutes – March 14, 2023

2.3 Commission Policy Review – G.1d – Vision Statement

2.4 Resolution Electing Not to Waive Statutory Tort Limits for Liability Insurance

2.5 ERMU's Tom Bovitz Memorial Scholarship Award Winner

2.6 Termination of Voltus Distributed Energy Agreement

Motion carried 5-0.

3.0 OPEN FORUM

No one appeared for open forum.

4.0 POLICY & COMPLIANCE

4.1 2022 Financial Audit

Mr. Berg presented the 2022 Financial Audit. He stated that the auditors issued an unmodified opinion on the financials, including legal compliance, for a completely clean audit.

Mr. Berg noted overall total cash and investment balances for both electric and water show consistency over time with a decrease from 2021 to 2022 due to the spending of the bonds proceeds that were issued in 2021 for the new field services building project.

Commissioner Stewart asked if there would be any challenges with the Governmental Accounting Standards Board (GASB) or imputed interest if ERMU were to utilize an interdepartmental loan from water to electric for capital projects to avoid taking on additional bonds. Mr. Berg replied there would not be a problem with this approach and imputed interest would not be necessary.

Chair Dietz asked for clarification as to how ERMU had an increase in its net position while profits were down. Mr. Berg stated the water department largely impacted the net position with its significant increase in connection fees in 2022.

Chair Dietz asked if the transfers to other city funds of \$1.5 million was the payment in lieu of taxes (PILOT) ERMU pays to the City and if it is tied to the maintenance of vehicles. Ms. Karpinski replied the \$1.5 million is the PILOT, however, the maintenance of vehicles is listed elsewhere as an expense.

Chair Dietz asked if this was the largest amount we have ever paid the City for PILOT. Mr. Berg replied that it was. Ms. Karpinski added it was due in part to paying PILOT on the power cost adjustment (PCA).

Commissioner Stewart asked for clarification on the inclusion of the PCA with the PILOT as she thought the PCA was considered a pass through and not revenue. Ms. Karpinski reported that per policy PCA is considered revenue and therefore included in the PILOT.

Chair Dietz asked for the rate of interest on cash deposit investments and if ERMU would move its investments due to low interest rates. Ms. Karpinski said the interest rate varies and that ERMU usually waits for the investment to mature before reinvesting, also noting staff has built a ladder system with ERMU investments. She further explained UBS Financial Services helps determine when and where to invest.

Chair Dietz commented on the beneficial lease income from permitting the attachment of communications infrastructure to water towers. Ms. Karpinski stated this is a new GASB standard so going forward you will see this income in the audit.

Chair Dietz asked if the communications companies can renew their leases and if their rates increase year to year. Ms. Karpinski confirmed they can renew their lease agreements and that there is an annual rate increase.

Commissioner Bell asked where the lease income information was reported in the past. Mr. Berg replied it was listed under revenues, and now it shows up as a lease receivable on the balance sheet.

Chair Dietz asked for clarification on the interest rate of our outstanding bonds. Mr. Berg replied that they have a variable interest rate over their lifetime.

Chair Dietz asked staff to provide the total amount of interest being paid on the building and if there is an opportunity to pay early. Staff provided that information later in the meeting during item 6.1.

Moved by Commissioner Westgaard and seconded by Commissioner Stewart to receive and file the 2022 Annual Financial Report. Motion carried 5-0.

4.2 **2022 Year End Reserve Balances**

Ms. Karpinski presented her memo on the 2022 Year End Reserve Balances. As in previous years, staff recommended unrestricted reserve balances above target levels for electric be designated for future capital infrastructure costs and electric service territory transfer costs with balances from the water reserves being designated towards future capital projects.

Ms. Karpinski noted budgeting to absorb the first \$500,000 of the Energy Adjustment clause had been removed, per commission direction.

Chair Dietz sought to confirm that ERMU held \$16 million in electric reserves currently. Ms. Karpinski confirmed this.

Chair Dietz asked for clarification of the calculated reserves numbers. Ms. Karpinski explained that the \$9 million listed as Unrestricted Designated Reserves is for operating costs per policy, the \$1.8 million listed as Restricted for Debt Service is dedicated for debt service per policy, and the remaining \$5.2 million are considered unrestricted reserves which are the funds staff is proposing to be designated towards future capital projects and electric service territory transfer costs.

Chair Dietz asked if the roughly \$5 million could be applied to any project such as the upcoming Advanced Metering Infrastructure (AMI) plan. Ms. Karpinski said it could

possibly be used for AMI however projects have already been identified in the budget where unrestricted reserves would be applied.

Chair Dietz asked if the unrestricted reserves for both electric and water were comparable to prior years and expressed trouble deciding whether ERMU have too much or too little.

Ms. Karpinski replied electric is very similar to prior years and water is a little higher than prior years with the exception of 2021 which shows unspent bond proceeds for both. She explained there are a number of large projects coming up and the higher unrestricted fund balance from water will help electric avoid taking out additional bonds.

Commissioner Westgaard shared his understanding from previous discussion that unrestricted reserves were going to be left in place for unforeseen expenses related to the Highway 169 Redefine project. Ms. Karpinski stated most of the Highway 169 Redefine project has already been paid.

Mr. Hanson further explained that the \$5 million in electric unrestricted reserves are not available funds above and beyond the budgeted Capital Improvement Plan (CIP) projects. Rather this \$5 million is budgeted to help fund the 2023 CIP projects.

Moved by Commissioner Stewart and seconded by Commissioner Westgaard to approve the unrestricted reserve balances above target levels for the Electric Utility fund be designated for electric service territory transfer costs, capital infrastructure costs; and for the Water Utility fund to be designated for future capital infrastructure costs. Motion carried 5-0.

4.3 **2022 Utilities Performance Incentive Compensation Distribution**

Ms. Karpinski presented her memo on the 2022 Utilities Performance Incentive Compensation Distribution. Ms. Karpinski noted that staff met all performance metrics in 2022, and that per policy, this makes qualifying employees eligible for a 2.0% distribution. It was noted the rate of distribution will increase to 2.5% in 2024 and 3.0% in 2025.

Commissioner Zerwas asked what the total payout amount would be at 2.0% of all qualifying employees' base pay. Ms. Karpinski replied it is \$81,115.

Moved by Commissioner Bell and seconded by Commissioner Westgaard to award the Performance Metrics and Compensation Distribution of 2.0% to qualifying employees per the terms of the policy. Motion carried 5-0.

5.0 **BUSINESS ACTION**

5.1 **Financial Report – February 2023**

Ms. Karpinski presented the Financial Report for February 2023. Usage YTD is up for both electric and water. Overall YTD both are performing favorable to budget.

Chair Dietz asked Mr. Ninow if connection fees in 2023 would be on the same level as in 2022. Mr. Ninow stated his doubt that they would.

Ms. Karpinski explained that staff would be continuing its initiative to provide commissioners necessary background information to understand complex utilities operations by presenting an explanation of selected General Ledger (GL) expense accounts.

Mr. Sumstad explained Plant Supplies & Other Expenses consist of supplies directly used for the field services building such as general shop supplies, plywood for shelves, inventory pallet racks, janitorial products, cleaning supplies, napkins, paper towels, utensils, and monthly cleaning expenses. There was discussion.

Chair Dietz asked for clarification on who determines which budget code to use for these items. Mr. Sumstad explained that Mr. Plude, ERMU's inventory & procurement foreperson, will code the invoices prior to authorization and they are reviewed for consistency prior to approval.

Chair Dietz asked how these costs were split between the electric and water departments. Ms. Karpinski stated costs are shared between electric and water in an 87.5% / 12.5% split at the field services building. The split in the administrative offices is an 80% / 20% split.

Mr. Ninow explained that the Sampling GL account includes all labor, supplies, and shipping fees related to water quality testing.

Chair Dietz asked if there was a separate account for per- and polyfluoroalkyl substances (PFAS) testing. Mr. Ninow replied that although ERMU took part in voluntary testing for PFAS it did not have a separate budget code for this item alone.

Ms. Karpinski presented a visual budget analysis of both the electric and water departments which illustrated both departments are doing well YTD. The commission expressed their appreciation for the additional budget graphs. These graphs were added to the public commission packet after the meeting.

Moved by Commissioner Zerwas and seconded by Commissioner Stewart to receive the February 2023 Financial Report. Motion carried 5-0.

5.2 **2022 Annual Reliability Report**

Mr. Tietz presented his memo on the 2022 Annual Reliability Report, sharing that ERMU's robust system and superb response times from our local line crews contributed to a very good year with regard to reliability numbers.

Chair Dietz noted that outage time for 2021 was considerably higher than any other year. Staff responded they would provide a further explanation of the reason for this once they were able to review the data.

Chair Dietz asked if the communications department will be reporting the strong reliability numbers. Mr. Mauren stated these numbers and upcoming reliability awards information will be used in future communications.

Chair Dietz asked if other municipal utilities calculate reliability numbers like ERMU does. Staff replied they do. There was discussion.

Chair Dietz asked if the contractor for tree trimming is still active. Mr. Sumstad stated they are no longer trimming for ERMU at this time however staff continues.

Moved by Commissioner Bell and seconded by Commissioner Westgaard to receive the 2022 Annual Reliability Report. Motion carried 5-0.

5.3 **2022 Year in Review**

Mr. Mauren presented the 2022 Year in Review, formerly known as the Annual Report. The review provides key organizational information along with community engagement events staff participated in, which highlight the message of this edition – "Hometown Pride, Hometown Service."

Mr. Mauren explained that the 2022 Year in Review will be printed and distributed to all ERMU customers with their April billing statement.

Mr. Mauren also commended Ms. Foss's efforts in creating the 2022 Year in Review.

Moved by Commissioner Stewart and seconded by Commissioner Zerwas to receive the 2022 Year in Review. Motion carried 5-0.

6.0 **BUSINESS DISCUSSION**

6.1 **Staff Updates**

Mr. Hanson commended ERMU's team for the performance in the American Public Power Association Lineworkers Rodeo.

Commissioner Bell asked for an update to the process of fulfilling the responsibilities of the recently vacated conservation & key accounts manager position.

Ms. Youngs and Mr. Hanson provided an update on the process for reviewing responsibilities and deciding the best path forward based on ERMU's current needs.

Commissioner Bell shared his hope that conversation efforts continue to be a priority for ERMU.

There was discussion about the Cold Weather Rule ending on April 30.

Ms. Karpinski followed up with Chair Dietz's question on the amount of interest ERMU would pay for the bonds to construct the field services building, with that amount being \$5.5 million.

She added that the dates in the pre-payment provision are August 1, 2031, for electric bonds and August 1, 2030, for water bonds.

Mr. Geiser provided updates on the work being done to prepare for the second year of the Highway 169 Redefine project. He noted there were no major efforts scheduled this year.

Mr. Tietz corrected his staff update to state the electrical technicians completed 194 service tickets.

Mr. Ninow informed the Commission that one of the gates of the Lake Orono Dam had been opened for the first time in 2023 to maintain the lake level.

Mr. Kerzman sought Commission consensus to move forward with an application for the Grid Resilience and Innovation Partnerships grant mentioned in his staff update. The Commission provided consensus to pursue the grant.

6.2 City Council Update

Commissioner Westgaard provided an update from the City Council including approved industrial construction, a concept review for a 9-unit residential subdivision on Lake Orono, and a conditional use permit for vehicles sales.

6.3 Future Planning

Chair Dietz announced the following:

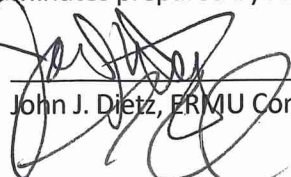
- a. Regular Commission Meeting – May 9, 2023
- b. 2023 Governance Agenda


6.5 Other Business

7.0 ADJOURN REGULAR MEETING

The regular meeting of the Elk River Municipal Utilities Commission adjourned at 4:53 p.m.

Minutes prepared by Jenny Foss.



John J. Dietz, ERMU Commission Chair

Tina Allard, City Clerk