

LINCOLN PIPESTONE RURAL WATER SYSTEM

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Meeting Minutes

March 30, 2015

The regular scheduled meeting of the Lincoln Pipestone Rural Water (LPRW) System Board of Commissioners was held at the LPRW office in Lake Benton on Monday March 30 2015, starting at 10:00 a.m. Chairman Frank Engels called the meeting to order with Commissioners Earl DeWilde, Mitch Kling, Ken Buysse, Jerry Lonneman, Randy Kraus, Bill Ufkin, Brent Feikema, Joe Weber, Rod Spronk and Jan Moen present. Also present were Board Attorney Ron Schramel, Auditor Matt Taubert, CEO Mark Johnson, Field Superintendents Tom Muller and Shawn Nelson, Operations Manager Jason Overby and Enterprise Technician Jodi Greer present with DGR Engineer Darin Schreiver arriving late.

Agenda: M/S/P-U. Lonneman/Buysse to approve the agenda.

Minutes: M/S/P-U Ufkin/Weber to approve the Regular Board minutes, Special Minutes of March 4, 2015 and the read minutes, the Water Resources and Equipment Committee Meeting of March 26, 2015 and the two Personnel Committee Meetings of March 9 and March 30, 2015.

Auditor's Report at 10:00 a.m.: Matt Taubert then presented the auditor's report. His report is a clean, unqualified audit report. He had no issues with Management in doing the audit. There were no weaknesses reported. No new debt was issued in 2014 and debt decreased by \$4.1 Million with \$2.9 Million being escrowed monies paying off the 2013 refunded bonds. The remaining \$1.2 Million of this decrease were per scheduled debt reduction payments. Total assets of the system were \$84 Million versus \$89 Million in 2013. Equity decreased slightly to \$50, 279,527 or by \$331,837 due mainly to increased depreciation. Operating revenues were \$4,471,698 and increased \$321,637 over 2013 revenues. The operating expenses were \$6,555,876 and increased slightly by \$77,568 over 2013 expenses. Contributed capital is what has changed the depreciation schedule in 2014. Discussion then evolved as to the peer review and Taubert will furnish a copy to LPRW. He also does audits for other utility systems which are comparable to LPRW. The schedule and cost basis of how depreciation is done and how it affects the profit and loss was discussed but it was a consensus not to change the methodology at this time. The assets and depreciation are based on actual costs at the time of being placed in service not current costs. M/S/P-U Lonneman/Moen to accept as presented the auditor's report.

Then Ufkin presented his analysis of capacity costs following the format of Darin Schreiver but based on actual use over design use while both are based on current asset costs. This sharply increases what the capacity fees should be. Taubert encouraged it to be looked at but really could not help here. The matter is turned over to the CEO to follow up with the appropriate committee of the Board, most likely the Budget and Finance Committee.

Treasurer's Report: M/S/P-U Kling/Buysse to approve the Treasurer's report. The CEO that revenues are down from budgeted during the winter months but Engels states that revenues should go up soon when spraying season starts. The CEO related and explained other line items.

Pending Bills: The CEO presented the bills to be paid. M/S/P-U Feikema/DeWilde to approve the payment of the bills. The DGR bill includes both Operations and Capital Improvement billing. Some of the DGR capital billing should be RD eligible for reimbursement.

The bills to be paid are as follows:

- DeWild, Grant, Rechert and Associates Company: General Services Invoice #161 = \$ 20,128.28 ; and New Water Development ppe - #80= \$ 4,181.2.
- Schramel General Legal Services =\$ 4,932.32.
- Leggett, Brashears, & Graham, Inc. Burr Wellhead Protection Plan Sevices Invoice # 201502202 = \$ 5,410.59.

Attorney's Report:

- **Drought Restriction Laws and Policy Guidance:** Schramel took up this matter next, presenting the Minnesota Water Allocations Statute 103G.261. He related that the statute permits LPRW to dial back the cities in accordance to first the lowest level priority to the top level. It is easy to handle LPRW's direct use customers over the Cities' customers but it can be done. To go about this LPRW should send a letter to the Cities and notify them of LPRW's drought policy and its terms. Ufkin asked if LPRW can levy fines on city customers. Weber asked if we can physically dial back the water use. Engels felt the best alternative is to levy fines. Lonneman emphasized that if there are drought restrictions then there should be no more hookups. It was pointed out that if the person had already sign-up then the hookup should be allowed to go forward. But no more sign ups during the drought restriction period. Schramel said he can write a policy but wanted to know what the Board wanted? Nelson asked how do we find them. The CEO noted a green lawn from sprinkling could be from before the ban was put into place and make it difficult to enforce the policy properly. This policy will have to rely on Public support as the staff cannot go searching for violators when they have other daily duties. Notice should be done via Radio, website and emails when possible. Weber asked when do we know we need a ban. Overby stated that would be per well and aquifer levels. Buysse related a that a ban put into place can always be lifted. Droughts can be localized in effect as well as widespread. Red Rock Rural Water system needs to be included. As when to place a ban the management and staff need to make the decision. Moen asked about new homes trying to establish new lawns. Lonneman related we should err on the conservative side when implementing bans.
- **Meter House and Piping City Policy Guidance:** Then Schramel discussed the existing contracts with cities and that LPRW is stuck with the specific language of the contract and that even though the contract allows LPRW to change its rule and regulations that these changes cannot circumvent more specific language in the contract. Thus they are contracted for the lowest rate until the contract expires. And what the language in the contract states as to meter and piping controls. But LPRW can let a city know what it has been doing with other cities and see if they agree to doing the same.
- **Bankruptcy Protection Guidance for Facilities on Non LPRW Owned Land:** Easements are not subject to bankruptcy protection as they run with the land and Federal bankruptcy laws cannot interfere with state rights as to land easements. Lease are subject to bankruptcy protection and can be voided by the Trustee in the interest of the bankruptcy estate.
- **Notice Requirements for Meetings:** MN statute 116 differs from the statute that governs cities and has no strict notice provisions. But it is good policy to take the high

ground and anytime that there is a quorum of board members present that if no notice has been given that no meeting be called to order and no action be taken and otherwise to properly notice meeting where they are called to order and action could be taken.

Then Nelson asked as to issues with Ghent and Russell about ownership and maintenance under city contracts. Russell per contract is to pay the electric but has not even though he has approached the city about doing this. Russell has caused the electric bill to increase due to adding their own city controls. Ghent is the same standing issue about who can control the equipment and who pays the cost to raise the meter out of the pit. Buysse thinks this meter should be put outside the city limits. But Engels thinks that Ghent Council will soon come around through the help of Dawn Vlaminck, the Ghent city administrator. Kling asked if the Board wants Schramel to renew the contracts. Schramel has a standard contract he will present at the next board meeting.

When a contract expires then there is an "at will" contract. Following this concept and upon Weber's question as to Red Rock Rural Water System the half signed contract signed by Red Rock officials but not by LPRW is now a contract because of part performance over the many years and Red Rock will need to be given two years notice. Weber then stated that Red Rock should help with the LPRW water main to be developed from Tyler to Russell. Ufkin stated the CEO and a small group needs to meet with Red Rock about the several issues, helping fund this main, boundaries and a formal contract.

Engineer's Report: Schriever presented the following:

- **Dawson and Madison:** Nothing new to report.
- **Clarkfield:** The city will have a public meeting on April 14, 2015. Kling is concerned that Clarkfield is on and off again constantly. He will visit this meeting as an interested party only and report back to the Board.
- **RRRWS:** Potential Joint Project: RRRWS continues with their water exploration efforts. They are hoping to run a pump test by May 1st. The LPRW sales at the meter near Balatan had previously been discussed.
- **Lewis and Clark:** Lewis and Clark provided a preliminary cost for a tap at Magnolia. The cost is for a 14" main and providing 400 gpm. Current allocation for LPRW is 1.1 mgd (765 gpm in 24 hours) and future total of 1.77 mgd (1180 gpm). To handle this higher flow a 16 inch main is needed. DGR estimates this to be \$160,000 incremental cost for 3.5 miles of piping. DeWilde stated that LPRW needs to enlarge the main as whenever has LPRW ever oversized a line. All the transmission mains in the system are maxed out. Muller related that currently at Edgerton over 400 gpm could be sent to Chandler and 200- 300 gpm in other directions and help Holland. Lonneman stated that the L&C Board has stated that while the LPRW Magnolia connection lays dormant there will be no minimum usage charge as it is not the original point of taking and LPRW has to fund this connection. The allocation may be floated and there could be water taken above allocation on an unguaranteed basis. It is our cheapest water outside Verdi. M/S/P 6-5 roll call vote Ufkin/Lonneman to accept as designed and with upgrade quote if it is \$50,000 and under and leave it up to the Chairman's discretion to approve

accepting the upgrade. Weber asked what if it is close. The Chairman can then use his discretion. Those voting yes were Feiklema, Kling, Moen, Kraus, DeWilde and Buysse with Kling, Moen, Kraus and Buysse qualifying their yes vote for if the upgrade quote is \$50,000 or less. Voting no were Engels, Ufkin, Lonneman, Weber, and Spronk.

- **New Users Requests:** Continuing to work on these as they come in.
- **Holland Permit:** Waiting to see what happens with potential legislative language changes.
- **CIP Program:** Adjustments have been made. Schriever then presented a upgraded project list for the first priority that the cost thereof. He present on Table 6 the miscellaneous distribution improvements. He had taken the Ihlen main out due to rock in the area. Then looking at the Tyler to Russell part there is no need for a main near the Don Jai lei area according to staff so it was removed. Weber pointed out that there is a development that is being planned in the area. The CEO expressed that any transmission main there should be a cost of the development not LPRW. Nelson reported that there is no low pressure problems in this area. Lonneman stated that the Tyler to Russell main should wait until the SD Verdi wells are tested for a year or two to see what they can supply to this main. Kling and staff agreed. Staff noted that until more is done there that during peak periods for a day or two there could be low or no water and pressure to some customers but if water restrictions were placed on certain lawn sprinkler users then that could help avoid these times of low or no flow. Schriever had down sized this line and eliminated the main to Lynd from this estimate. But it was felt by Ufkin better to wait on this project and also to see if Red Rock Rural Water System would help fund this line to help itself too. With Verdi being our cheapest source and if it can produce the water needed for this main then it is best to wait to see what size to design it for instead of guessing. Schriever emphasized that this line does not get water to the Clarkfield area and that a new water source well placed near there would be more economically favorable. LPRW wants to use its cheapest source for budgetary and debt service reasons. Can pipe size be up later in the PER with RD. Schriever will check but delaying could lose LPRW the current low pipe pricing. Then Schriever turned to Table 8 showing the cost of the Priority 1 projects and he was direct to reduce the cost for the Lewis and Clark connection from \$650,000 to \$550,000 and to remove the Tyler to Russell main. Ufkin asked whether Priority 1 has to be completed before Priority 2 can be started. Schriever stated No. Do grants apply to Phase 1? Yes but are paid last. M/S/P-U Kling/Moen to approve Priority 1 changes and remove the Tyler to Russell main project from this priority with an now cost estimated to be \$3.5 Million.
- **RD Funding:** A draft PER addendum has been sent to RD. Megan mentioned the possibility of announcing a project on Earth Day, April 10. (This is actually April 22.)

Regional Water Development Report:

- **Bluegrass Dairies /Clarkfield:** This was discussed previously.
- **Lewis and Clark:** Discussed previously.

- **Rock County:** The CEO want the Board to formally adopt and recommend a Thank You letter be sent both to the Rock County Commission and Rock County Rural Water System for their cooperation with LPRW on the Magnolia L&C connection. M/S/P-U Kling/Feikema to send a letter of acknowledgement and thank you to both boards.

Field Superintendent's/ Operations Manager's/ and Enterprise Technician's and Water Operator's Reports:

- **Tom Muller:** The engineer for Heron Lake wants a quote from LPRW to serve the city. The board is of the consensus that there is a gentlemen's agreement on borders with Red Rock and the city will need to go to Red Rock for any quote. He has talked with Doug Westerman of Osceola Community Rural Water System about conducting a test to see if Osceola water can be moved even further in the system while supplying the maximum water to Worthington. The Rushmore Tank seems to last 4 days before it has to be supplemented.
- **Shawn Nelson:** Nelson has attended a management school that lasted 3 days and learned a lot.
- **Jason Overby:** There are issues about rehabbing the Verdi wells and it is best to get the SD Verdi wells up and running before doing these wells so that could be this fall or early next spring. Also this delay will give good background information as to how Holland does from its rehab program. Jamie Mayes of Utility Service Group will be in this week and can then visit our tanks for giving us a quote on a service contract.
- **Jodi Greer:** The Paymentus contract is signed and the credit card payment program is being set up now with an expectation date to be in service May 1st. The Marcos agreement would be valuable for LPRW to implement. Even without a contract Marcos has analyzed the LPRW system and made valuable recommendations on its internet service which has been limiting and affecting its SCADA service. LPRW needs the Marcos IT support as Marcos can weigh in on the IT issues it sees as LPRW upgrades its SCADA system. This contract is a 3 year contract with a 90 day out feature. The base contract price of \$1,333.00/ month is based on the number of employees and not number of devices and LPRW has many devices per certain employees. Marcos has recommended certain equipment that needs to be bought and these items are RD fundable provided they are open bid. Schriever has included these costs in the projects for Priority 1. M/S/P-U Spronk/DeWilde to proceed with the Marcos IT contract.

CEO's Report:

- **Truck Bids-Lockwood Motors Chevrolet Awarded Bid:** The CEO reported he took other truck bids since the last board meeting and Lockwood was the only bidder to address all the bid requirements plus was the lowest bidder without and with trades.
- **Capacity Study & Progress:** The CEO reported he has tabularized the results of his capacity study based on the 3rd highest use from the highest years for when each capacity rate was in effect. The issues of cost recovery and decommissioning capacities can begin. But he recommends that since it is so close to the peak usage period that any program be implemented following this season and include data from this season.

- **Long Range Planning:** The CEO stated that Engels thought it might be time to have a long range planning meeting this year. There was no committal among the Board members.
- **MDH Survey Verbal Comments:** The CEO had just gotten the actual letter which he placed in dropbox from MDH but stated that he had not been able to review it. However, based on John Blomme's comments there is really nothing different than from the previous survey. LPRW has been addressing those comments already during the past year, i.e. a valve exercise program.
- **Brookings-Deuel Rural Water Rate Increase:** The CEO presented the notification that Brookings-Deuel will be raising its water rate from \$1.85 to \$1.95/ 1000 gallons.

Committee Reports:

- **Executive Committee:** Nothing.
- **Personnel Committee: March 9, and 30, 2015 Meetings Recommendations:**
Moen expressed that there are a number of employees that recently passed their next higher license test and the CEO had recommended to the committee that they should currently be given step raises as per their classification and not held back because of lack of seniority in years therewith. Some of the operators will have to wait years before being given a raise for their new licensing. This is a disincentive to them getting higher licensing sooner. With the higher licensing they take on more responsibility toward the MDH and for LPRW and thus higher risks and should be currently rewarded for this. It is the overall goal of LPRW classified as an "A" system to have all its water operators achieve Class "A" licensing as soon as possible. Accordingly the personnel makes this recommendation. M/S/P 7-3 Feikema/Kling to approve giving raises on a license basis rather than the license plus years of service basis. It was asked during the discussion time if this matter could be addressed at Budget time. Kling stated that the cost for the 4 current employees is only about \$4,000 in salary.

Weber then mentioned that he thinks personnel policies should only be looked at once per year. Also he wanted to know who called committee meeting and when employees would be invited or not. The CEO stated that committee meetings have been initiated by him through the board chairman and the committee chair as to issues he sees arise and need attention from his daily management duties; the board chairman has called committee meeting as well as committee chairs. Only recently have the staff committees been put together by the CEO and when he reported this to the Board, Spronk thought it a good idea to involve these committees with the Board committees to help facilitate and enhance those meetings. Weber pointed out that there were a lot of staff at his last committee meeting; it was cumbersome but he could see that there was usefulness in this. The CEO responded and said yes there were a lot of staff there as the subject matter of infrastructure projects cover very broad and many areas of the system. The committee he thought might want input from the staff involved in each of these areas. Most committee meetings will have much more limited staff and staff won't be

involve in non-public or sensitive matters, especially likely to arise with the personnel committee. Lonneman said it was good that the staff got to see what the board is going through and what it takes to fund these projects and felt they better learned how LPRW operates to remain fiscally sound and keep water rates stable.

- **Water Resources Committee:** The Moeller contract is expiring. Any renewal should not be for cropping these 19.4 acres but should be placed in CRP so that LPRW is consistent with the message of conservation it is giving about protecting its well fields from possible contaminants from farming operations. The rent rate per acre was discussed for any adjustments due to change of farming allowance under the contract. CRP payments are increasing as well. The current rent is thus reasonable. Since Moeller has probably planned to plant this year then he should be allowed to contract to crop the land for this year and then next year place it in CRP. M/S/P-U Lonneman/Kraus to have the Water Resource Committee meet with Moeller and work out an agreement to extend the contract and put this land into CRP in 2016. The CEO is to redraft the contract.
- **Budget and Finance Committee:** Nothing to report.
- **Joint Powers Board Representative:** Nothing to report.

Other Business:

- **Moeller Contract:** Handled already.
- **LBG's Proposal for Desk Top Study for Well Sites Near Holland:** The CEO renewed the information of this proposal presented at the last regular Board meeting. Overby related that the staff had looked into their records and any previous study was limited. There was not much to be gained from Liesch either as the finding of the aquifer at Holland was early on and its development were a limited search process. However, the Board was of the consensus to hold off on this matter with other options, especially with the Lewis and Clark Magnolia connection coming into play for helping the Holland service area.
- **Elkton Land Sale:** Moen had presented to the CEO the matter of land selling March 31st at auction that is within 1 ½ miles of the SD-Verdi well field and that seems to have partially another aquifer vain than the wells at SD and MN Verdi have. He only presented it as an opportunity, not as a necessity since it is down stream of Verdi and the farming technics do not have ramifications on Verdi. However it could further firm up the Verdi source. It has an irrigation well that produces 800 gpm. The Board was of the consensus to focus on its existing SD-Verdi project before buying more wellfield land.

Public Comment: None

Adjournment: M/S/P-U Ufkin/Lonneman to adjourn at 4:00 p.m. The next meeting will be held Monday, April 27, 2105 at 7:00 p.m. at the main office in Lake Benton.

_____, Janice Moen, Secretary.