JOURNAL OF COMMISSION WORK SESSION
February 1, 2011

City Commission Work Session Mayor Winters presiding

CALL TO ORDER: 5:45 p.m.

ROLL CALL: City Commissioners present: Michael J. Winters, Bill Bronson, Fred Burow, Mary Jolley, and Robert Jones. Also present were the City Manager, Deputy City Manager, City Attorney, Directors of Fiscal Services, Park and Recreation, Planning and Community Development, Public Works, Executive Director of the Housing Authority, Fire Chief, Police Chief, and the Administrative Secretary.

1. UTILITY RATES

Public Works Director Jim Rearden provided a PowerPoint presentation on the City of Great Falls 2011 Utility Rate Analysis. He reported the City of Great Falls Utilities provides water, sewer, and storm drain services to approximately 18,700 residential properties and 2,300 commercial properties, a little over 64,000 users when including Black Eagle and Malmstrom Air Force Base. Services include operations, maintenance, replacement, and upgrade of 650+ miles of utility pipes, treatment plants, and appurtenances.

Mr. Rearden explained the proposed rate adoption process. After the current presentation, the City Commission will set a public hearing date at their February 15, 2011, meeting. Public notices will be published three times, and individual customer notices will be mailed. A public hearing is anticipated to be held at the March 15, 2011, City Commission meeting. New rates will take effect at least 10 days after adoption by the Commission. That proposed date is April 1, 2011.

Mr. Rearden noted the rates provide an ability to serve the customer base by providing operations and maintenance (O&M), cover debt payments, and provide for future capital improvement programs (CIP). An aggressive capital improvement program results in lower maintenance costs, lower future capital improvement costs, and lower future rate increases.

Mr. Rearden reported a CIP is approximately 50% of the total rate structure. When considering life cycle costs, a CIP schedule for replacement of pipe is 100 years, structures (buildings) are 50 years, and equipment (pumps, etc.) is 25 years. Consideration must be given to the cost of replacing the entire system and replacing parts of the system at the end of each part's useful life. Determination must be made of how much should be spent each year, with an average over five years. The amount that can be replaced is also determined by the proposed rates.

Mr. Rearden reported that when considering life cycle costs, the City should be spending about $42 million for water and $31 million for sewer replacement over five years. With the proposed rates, the City will be able to spend about $30 million for water and $15 million for sewer replacement.

Mr. Rearden displayed a map of the City water utility including the main pumping station water treatment plant located by the Warden Bridge and three other main pressure zones including the East, Skyline, Hill 57, and Gore Hill Booster Districts. Since the City sits in a bowl, one pound of pressure is lost for every 2.3 feet of elevation. The City must pump out to tanks and boost to the various areas.

Over the last five years, 20 water main replacement projects have been completed. Water pressure has been increased to the Sunnyside area (approximately 900 homes). Water treatment plant projects completed include sludge pond lining, flocculation upgrades, clarifier modifications, and head house floor replacement. Also, additional looping in the Mountain View Mt. Olivet area was completed.

Future capital needs include replacing 40 blocks annually of water main; larger transmission main projects (16 inch and above); an additional tank in the East Booster District; Ella, Skyline, and Gore Hill tank rehabs; removal of Boston Heights tanks; a couple water plant upgrades; and upgrades to two low pressure areas (Skyline Heights and Gore Hill).

Mr. Rearden displayed a chart of water mains installed by decades. Approximately half of the system (150 plus miles) was built in between 1950 and 1980. However, some pipes were installed near the turn of the century.

An aggressive water main replacement program has been in place the last few years. After having 122 breaks in 1996, rate increases through a capital program allowed water main replacements that brought that number down to 35 main breaks in 2009.

Mr. Doyon asked the reason for the spike from 35 to 43 from 2009 to 2010. Mr. Rearden responded that he couldn't attribute that increase to any particular cause. However, after replacing one area, another area starts showing its age. Aggressive water main replacement continues; Mr. Rearden anticipates a continued reduction in that number. He noted there have been more problems with pipe after war periods (1920's and 1950's). In the 1980's, ductile iron pipe was used that has not worked well. PVC pipe has been used for pipe replacement in the last 15-20 years.

Mr. Rearden also reported work is needed on the interior of the Gore Hill Tank, the 33rd St. Reservoir, and Ella Tank.

To determine the amount of annual capital needed, Mr. Rearden explained projects are cash-flowed over a five-year period. He displayed a Water Fund cash flow analysis projections chart showing revenues and expenses. He noted operations and maintenance (O&M) costs for the Water Fund have gone down, and he attributed that to fewer main breaks. When targeting revenues to meet needs, bonds, capital improvements, and O&M are considered.

Mr. Rearden reported that a February 15, 2011 Work Session has been proposed for analysis of original adjudication and historic water rights provided by Steve Brown, Garlington, Lohn & Robinson. Water Rights Solutions is currently reviewing Basin 41Q, and PBS&J is investigating the availability of additional water rights.

Mr. Rearden displayed a chart of low pressure district improvements: Valley View (about ten years ago); a couple areas in Riverview; Fairway Drive (turning valves, letting down the high pressure zone); and Sunnyside (built transmission main to increase pressure for about 900 homes).

Mr. Rearden reported the proposed 2011 water rate increase is 5%, or $1.24/month (a monthly average of $25.99).

Mr. Rearden displayed a chart of the wastewater system and a picture of the inside sewer break on Bay Drive that was lined for approximately 1,000 feet past the Federal Courthouse. He noted the majority of the eastern part of the city flows down to the 6th Street Lift Station. The south interceptor is south of 10th Avenue South, across to Fox Farm, to a major lift station on the Sun River, up to a 30-inch force main, and gravities down to the wastewater plant. The northeast interceptor ends at the Sixth Street Station.

Five-year completed wastewater projects include annual trenchless sewer main rehab; the Bay Drive force main replacement and the downstream main rehab; 35th Street South main replacement and upsize; Wastewater Treatment Plant (WWTP) projects; and three lift station upgrades and repairs.

Future capital needs include upsizing and capacity issues in Riverview and the northeast interceptor; lining ten blocks per year of sewer main; wastewater treatment plant aeration upgrades and permit related upgrades; refurbishing large diameter gravity mains; and a regional lift station in north Great Falls.

Permit related expenses include replacing chlorine with ultraviolet disinfection; a mixing zone update related to river discharge; plant flow meter upgrades; a diffuser in the river; aeration upgrades; and nitrification.

Mr. Doyon noted wastewater is treated and discharged into the river. He asked if the study will determine how the wastewater is mixing into the river. Mr. Rearden explained the study will determine what must be done to assure the wastewater is mixing properly. He added that EPA is looking nationwide at total maximum daily loading in streams. Eventually there will be a tie of discharge from wastewater plants with storm drainage systems for a total maximum daily load the river can accept. He believes cities are easy targets and that a lot of the pollution is from septic tanks, livestock operations, and feed lots.

Mr. Rearden reported that EPA believes treatment can be done either to the level of best technology or what a community can afford. That is determined by 1-2% of median household income is considered to be what a community can afford for wastewater rates. HDR Engineering, Inc., Missoula, works with the cities in Montana on wastewater and storm drain issues. Based on EPA's matrix, they determined the people in Great Falls can afford $52 sewer rates; current rates average $13-$14.

Mr. Doyon expressed concern and asked for further information on the process EPA must go through. Mr. Rearden responded the EPA believes residents should be able to pay up to 2% of median household income, but the state has been trying to get that number closer to 1%. Instead

of measuring the discharge by water and consumption, Mr. Doyon asked for clarification on how the charge will be based. Mr. Rearden responded that the charge will be based on how much a community can afford or the best available technology. Mr. Doyon noted that information has major implications for everyone. Mr. Rearden stated the City currently has a five-year permit. However, the implications in five years are unknown.

Mr. Rearden reported the five-year capital outlay needs for the sewer fund were plugged into the cash flow and bond proceeds. A 7.5% sewer rate increase has been proposed. However, he noted that if permit related upgrades and nitrification are needed, a 7.5% increase will not cover those expenses. The current rate is approximately $16/month; a 7.5% increase will increase that rate to approximately $17/month.

Mr. Rearden displayed a chart of the Great Falls Storm Drain Utility. He noted 16 inch and larger pipe and numerous retention and detention facilities. A large portion of the essential pipe is located on Ninth Avenue South and 14th and 15th Streets and carries the main part of the city.

Storm drain utility projects completed the last five years include main extensions at Portage Meadows, Grande Vista, 9th Street NE, 10th Avenue North, and 6th Street NW; improvements to outfalls at West Bank; outfall rehab at Giant Springs; and NE retention pond expansion by Countryside Village.

Mr. Rearden reported that storm drain utility future capital needs include upsizing/extensions on 18th Street South and Valeria Way and the Northwest Great Falls study. Regulation expenses include monitoring and testing two outfalls; a storm drain code re-write to meet State requirements; and possible future treatment including installing separator manholes in some of the steeper areas to collect winter sanding grit. Regarding the North Great Falls Master Plan, negotiations are underway with property owners for a new regional detention pond west of Eagles Crossing.

Mr. Doyon commented that Public Works is meeting with Planning and Community Development every two weeks, looking ahead to new development and working together.

Mr. Rearden reported the five-year capital improvements storm drain plan was plugged into cash flow. No increases are proposed. He noted that most storm drain projects have been completed with cash. There have been only two projects bonded – the 14th/15th Street upgrades and West Kiwanis system.

Mr. Rearden explained the proposed monthly utility service rate increase is $2.43 average usage for a 7,500 sq. ft. residential lot. Great Falls currently has the lowest combined rates of the seven largest cities in the state. He noted that Great Falls is lowest in water, and close to the bottom in sewer. Missoula has a private water system. Kalispell has a state-of-the-art sewer plant. Butte had 600-700 main breaks per year and rebuilt almost their entire distribution system. He added that ten years ago, Billings was the lowest. Great Falls has been becoming more efficient.

2. MONTANA BIOFUELS UPDATE

Great Falls Development Authority Brett Doney reported they have been pursuing three goals:

(1) to grow the economy fast enough to create jobs for kids coming out of high school and college; (2) to diversify the economy so Great Falls is not so dependent on defense; and (3) to create higher wage job opportunities so Great Falls is not a low wage city in a low wage state. Mr. Doney reported the Montana Biofuels project accomplishes all three objectives. It also covers three of the four target industries that Great Falls has competitive advantage – ag processing; energy; and high growth entrepreneurial companies.

Given its location, some of the additional benefits include infrastructure that will be needed to service the plant can be used for the Great Falls Ag Tech Park, or vice versa. An ag processing operation provides a double win – the project itself with the tax base and jobs, and the support of ag producers. The type of ag products that the Great Falls plant will purchase will complement, not compete with other ag processing operations. The plant will also support other companies in Great Falls, including ag producers, because the cost of goods that now have to be imported will be reduced.

Mr. Doney stated he looks forward to working with City staff on the next step to present a specific proposal regarding public infrastructure and tax increment financing.

Montana Advanced Biofuels LLC President Gary Hebener stated the company is owned by Montana Ethanol. He noted his group has been trying for decades to build a world class grain processing facility of Great Falls, but haven't been able to finalize financing for the project. Mr. Hegener reported the project will convert barley and wheat into food, feed, and fuel.

Mr. Hebener reported changes over many years have improved the opportunity for success this time. The market for the products has grown dramatically. Technology for producing the products has improved and reduces costs. Also, the U.S. government has determined that reducing dependence on foreign oil and reducing air pollution from automobiles are two important priorities. To help meet those priorities, the federal government has developed a program for loan guarantees to qualifying projects. He added the program was actually developed in 2005, but federal agencies have taken nearly five years to develop all of the rules. Consequently, not many projects have been financed.

Mr. Hebener reported that last week a project in Louisiana was announced to receive a $241 million federal loan guarantee to produce biodiesel. Mr. Hebener anticipates the Great Falls plant may be the next project to receive that guarantee. Three goals must be met in order to qualify for the federal loan guarantees. Corn cannot be used as feed stock because the federal government believes there are adequate amounts of ethanol plants already using corn. The plant must have a very clean carbon footprint; the life cycle carbon analysis must allow ethanol to be produced with a carbon footprint of half or less that of gasoline. Also, a strong economic profile is needed to prove the loan can be paid.

Mr. Hebener noted that all requirements have been met and the company is currently working with DOE under part two of the federal loan guarantee program. That application was submitted in December (one copy weighed 19¾ pounds). However, he noted there is no assurance of the loan guarantee. If the federal loan guarantee is not received, the money probably cannot be borrowed in today's banking market.

Mr. Hebener asked the Commission to authorize City staff to study the re-creation of a tax increment bond district that would help pay for certain infrastructure such as roads, railroad, and utilities to support the plant. A similar request was made a long time ago and the City created a tax increment bond district for the site. Because the plant couldn't be built, the increment didn't come and that district is now near the end of its life cycle and will expire. Bond counsel has advised the City Commission reconsider the request, rather than piggyback on the decisions of prior Commissions.

Commissioner Jolley inquired the expected timeframe to receive a decision on part two of the federal loan guarantee program. Mr. Hebener responded the government is obligated to give an answer in 90 days; an answer is expected in sixty days. He stated they are already engaged in almost daily e-mail exchanges and conversations with various groups in the DOE, answering questions regarding the application. If a positive answer is received in sixty days, a final phase of negotiations on the terms of the guarantee will begin with the federal government, on to the documentation phase. Mr. Hebener stated the best estimate for finalizing the loan is June 1, 2011, commencing construction in June. The contractor has done sufficient pre-design work and will finalize their plans and seek approval for the needed permits.

Commissioner Bronson asked if the government has set up a process whereby anyone can contest approval of a DOE loan guarantee. Mr. Hebener responded that no specific process calls for a public hearing or requests public comment. Because lengthy comment periods were held for all stakeholders during the years the rules were being established, meeting the criteria is a very stringent test of environmental responsibility. To qualify to enter the program, technology must be at a level to produce ethanol (a motor fuel) at 50% or less of the greenhouse gas emission from gasoline. He believes the program tries very hard to be responsible to what the public wants in renewable energies.

Commissioner Bronson asked if any additional federal permitting is needed. Mr. Hebener responded that a project of this size must have a MDEQ Air Quality Permit. A new permit application has been submitted. A previous MDEQ Air Quality Permit was obtained and he believes the new permit will be granted. He expects a similar timeline as described toward loan closing. At a point in the process, MDEQ will advertise and invite public comment, followed by public hearings.

Mr. Hebener provided industry literature to provide insight into the ethanol industry and address typical questions.

Mayor Winters noted the presentation will be considered and brought before the Commission.

ADJOURN

There being no further discussion, Mayor Winters adjourned the work session of February 1, 2011, at 6:37 p.m.