LINCOLN PIPESTONE RURAL WATER SYSTEM

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**SPECIAL MEETING MINUTES**

**June 17, 2014**

The special scheduled meeting of the Lincoln Pipestone Rural Water (LPRW) System Board of Commissioners was held at the LPRW office in Lake Benton on Tuesday, June 17, 2014, starting at 6:00 P.m. Chairman Frank Engels called the meeting to order with Commissioners Norris Peterson, Ken Buysse, Jerry Lonneman, Mitch Kling, Jan Moen, and Brent Feikema, Earl DeWilde, Bill Ufkin, Rod Spronk and Joe Weber were present. Also present were Board Attorney, Ron Schramel, CEO, Mark Johnson, and Operations Manager, Jason Overby. Also joining the meeting was Matt Taubert, Auditor of Muelebroeck,Taubert & Co. Arriving at 7:00 pm were Meagan Gernentz, Rural Development; Darin Schriever, DGR Engineer and Tom Muller, Field Superintendent.

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

**Auditor’s Report:** Taubert presented the audit and called attention to pages 3-5 and related that this is a unqualified or clean audit opinion. Then he directed the board to pages 26-28 where he pointed out that the current cash and investments are $1,256,705 and current assets are $1,663,368. Restricted Assets show cash and investments of $7,722,110 but it consists of the escrowed funds of $2,950,000 from refinancing and used to pay the old bonds off in March. Thus this the real effect is that there has not been much change over 2012. Property and Equipment has a value of $99,406,526 and nets $64,540,196 after depreciation. Total assets are $89,572,698. Current Bonds payable are $3,891,403 and includes the liability of having to pay the old bonds off in March. Thus the bond principal for last year was about $1,000,000. After looking at Long-term liabilities and total liabilities, the total equity is $50,581,364. Then he had the Board look at pages 30-31 for the Income Statement. Total revenues were $4,420,061. The capacity charge component of the Worthington sales is included here. Looking at the expenses he pointed out that the Total Source Supply/Pumping expenses are up due in large part from higher expenses in the areas of New Water Source/Well Head Protection and Water Purchases. SCADA is about the same and Distribution is up about $40,000. In General and Administrative the Outside Services for Legal for $46,000, Engineering for $80,000, Auditing for $11,600 and the one-time charges for Healy Consulting and Recruiting Firm at $40,000 caused the differences over the previous year. After accounting for depreciation there is an operating loss of $2,058,247. Non-Operating Income netted $266,894 and then adding back depreciation the ending balance for Retained Earnings was $11,833,279. Then Taubert called attention to pages 33-35 and stated there were no found material weaknesses. Finally he communicated that he did not have any difficulties or disagreements with management and that there were no significant accounting policy changes adopted and used by Lincoln Pipestone Rural Water. If such had been the case he would have already communicated those matters to the Board.

Board members clarified with Taubert about the escrowed funds and how to adjust the numbers for better comparison from one year to the next. Also they clarified that the Worthington capacity charge was a part of the sales revenue component and not reflected under other income. Then Taubert was asked about his advice if Lincoln Pipestone Rural Water should borrow monies at this time? Taubert said it would be best to wait a couple of years. M/S/P-U Ufkin/Buysse to accept the Auditor’s Report.

**Rural Development Report:** The Board then welcomed Gernentz to the meeting for a time of questions and answers about how the Rural Development funding and process works. Of prime importance to the Board is that if the Capital Improvement Program is delayed what effect that has on borrowing money. She responded that the Board has the option to delay projects and the PER but then it would need to resubmit an update and a new environmental statement. This would add cost to the Engineering expenses already incurred. She offered that the Board could authorize the PER and ER go forward and that monies be allocated at the expected interest rate coming out June 30 at 3.125%; then hold the project for 5 years or do segments for 5 years. Until the monies transfer to the projects being completed there is no charges. Delaying the projects does not take funds from other applicants. The Board would need to prioritize its projects and she will work with these priorities to give them grant funding as they are built. During the construction time this priority list is not set in stone and can be reordered or leaped. However the PER needs to be broad enough to cover any project to be done; no new ones under the approved PER can be added to be funded from these funds. Then the issue of how grant funding is determined and the grant funding percentage was asked. Gernentz then related that Lincoln Pipestone Rural Water technically qualifies in the range up to 45% grants but that historically it has been in the 25% range but she will need to complete the analysis for this. Grants are determined based on first what can a utility pay for debt service before they become effective. This ability to pay and grants are based first at looking at what the economic level of households of the community served. For LPRW that is $45,000. Then that amount is multiplied by one and one-half percent and calculated per month: here $56. Then for commercial customers and equivalent economic unit factor is developed and multiplied by the household the ability to pay dollar amount. Then these numbers are totaled accordingly for the all the customers and types throughout the system. Bulk customers are added in at their actual payments and a certain amount of commercial customers are classified as bulk. When added and totaled this is the revenue available for paying first operations and maintenance; existing debt service, and short lived asset annual depreciation. Any remainder can be used for new debt and above that amount for what qualifies for grants. Getting toward LPRW’s maximum grant % would be a function of more debt. Accordingly, water rates are an essential part of the ability to fund for projects and scheduled water rate increases may be a necessary part of getting RD funding. Gernentz is willing and available to help LPRW through the RD process. When asked, Gernentz stated that LPRW needs to fund annually $431,000 for short lived assets. LPRW does fund these in its budget as maintenance items or small capital purchases as planned or as actual need arises and thus should have most if not all this short lived asset funding amount covered.

**Water Resources Committee Report:**

**Capital Improvements:** Weber reported that the committee had met and that it had considered what it considers the highest priority of the capital improvements program to be completing the South Dakota wells at Verdi but putting in a smaller but adequate raw water main to get the water to the existing raw water main. However, the committee has to defer to the Budget committee about what funding is available. Discussion evolved about the SD permit requirements and it is felt LPRW has met the 20% construction requirement and will need to complete both wells by 2017 and have them in use by 2019. However, Weber would like to see these wells tested for nitrates and pumpage through putting them into use as early as the Budget process will allow. Schriever is to get numbers for developing the wells and for limiting the raw water main to an adequate size.

**Wellhead Protection Program:** Then Weber pointed out that the committee had reviewed the well head protection conservation programs available from various groups. The committee had discussed whether to recommending adding any dollar incentives to these programs from LPRW. Weber had found in his contacts with Nicole Schwebach of the Pipestone FSA that as to the previous pending offer to Mr. Hurd that he is now considering doing the RIM program without inducement of LPRW incentives but is waiting until next year when he can do both RIM and CRP. Also Hurd’s nephew, who bought the adjacent property, is also considering doing the same without asking for LPRW incentives but must wait until he has owned the property for a year. Further the lands likely to enter RIM and CRP are marginal grass or pastureland and not cropland. Incentive monies should not be used for such marginal land which is more likely to be put into these programs by the owner whether there are extra incentives or not. It all depends upon the owner not the programs and LPRW whether the owner will place his property into conservation practices. And giving an incentive dollar amount to a conservation program may precipitate too many applicants and more than the LPRW budget can accommodate while not aiding in getting croplands and lands with pivots out of production within the essential parts of the well head protection area.

**Lewis and Clark:** Lonneman and the CEO had participated in a conference call earlier in the day consisting of the L&C MN JPB, Troy Larson, Director L&C, and state officials handling the L&C tax bill. From these discussions the tax bill has many questions and no answers and will have to have language clarifications to the statute in the next session as how Federal Funds should be used first to lay pipe before paying the bonds down and how to better structure the tax aid portion of this bill. The tax bill does not obligate LPRW to pay bonds but allows Nobles and Rock Counties and the Cities of Luverne and Worthington. There is a possibility not all will participate. However, Nobles County has reprioritized its bonding schedule to delay but not stop certain project funding to place L&C to the head of the table to be funded as water is so critical to life, health and economic wellbeing of Nobles County. As to the cash bond bill the $22 Million cannot be used beyond Magnolia and $5.1 Million from L&C must be used in this segment. If there is money left over then there are two projects within this segment for a tank and pump station where this money could be applied. It all should be used up per the plans and specifications and cost estimates on hand. Then as to the matter of the alternative plan, the Bureau of Reclamation will not adjust the approved plans and it has been stated that the Federal rules are less restrictive than the Davis Bacon Minnesota rules as to costs. Although the alternate plan to install pipe in Minnesota does have substantial cost savings LPRW has done its best before the powers at L&C, with the MN JPB and in informing the legislators that it wants to use public monies most efficiently and wisely. And with the fact L&C needs to move forward to serve others and Lonneman as the L&C representative of the Board to L&C needs direction from the LPRW Board; M/S/P-U Ufkin/Feikema that Lincoln Pipestone Rural Water drop the alternative plan and be supportive of the L&C plan as a whole.

**Holland:** The CEO then presented that he is taking a strong relook at how to handle the Holland discharge issue with the MPCA. The lagoon method and the irrigation methods would still need approval from MPCA and are nearly as expensive to install as the BIOTTTA treatment. Thus with the budgetary problems this could leave the Holland system with impaired pumping not having the RO system as to treatment and havintg to operate with low nitrate wells and limited ability to blend. Thus he was investigating to see what level of impairment would actually be and how far this would pump against peak day use so as to establish a maximum boundary line for a new and impaired Holland Service area. Then the L&C water would be used to fill the void. Studying this he had begun to look at the possiblities and was surprised to see nitrate levels and blending levels that might be of a higher pump rate than he had been lead to believe previously. Thus he will continue his studies and will begin a more aggressive in-house nitrate monitoring program on the influent wells for blending without RO treatment while Worthington waits on L&C and the MPCA action is somewhat stayed by statute.

**Other:** The CEO then presented a bill from Carollo. This bill had been presented late and remains outstanding but the CEO was not sure why or if it could have been captured in a previous payment. The CEO recommended approving paying the bill subject to his review of the matter. The Board was of the consensus to defer this matter to the next meeting coming up soon on June 30th. Further the final report as to Manganese testing needs to be submitted before this bill should be paid.

**CEO Performance Evaluation:** M/S/P-U Buysse/DeWilde to close the meeting to evaluate the CEO. Schramel advised that the CEO could object and have the meeting opened for this evaluation which offer he declined and left the meeting. All other personnel and attendees outside the Board Members and Schramel had left. Whereupon M/S/P-U to reopen the meeting. Noting was discussed in the closed meeting. The Board wants Jodi Greer to resend out the link to Drop Box with CEO survey results to the Board Members. The Personnel Committee was directed to visit with the CEO about the review. They plan to meet with the CEO tomorrow at 10:00 am pending the CEO’s availability.

**Public Comment:** None.

**Adjournment:** M/S/P-U Ufkin/Feikema to adjourn at 9:47 pm. The next regularly scheduled meeting is set for Monday, June 30, 2014 at 6:00 pm.

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