

Approved
City of the Village of Minnetonka Beach
Utilities Commission Regular Meeting Minutes
April 28, 2021

1. Call to Order and Roll Call

Chair Alan Carlson called the meeting to order at 7:01 p.m.

Roll call– Utilities Commission Members Present: Chair Alan Carlson, Santiago Abraham, Bill Raisbeck, Mike Lang and Council Liaison Steve Howarth. Absent: Jason Mohr

Staff present: Mayor Jaci Lindstrom, Ryan Capelle, Stantec and Patrick Melvin, City Administrator

2. Approve Agenda –

(Raisbeck motion, Santiago second to approve agenda; All ayes.) Motion passed.

3. Old Business

- 3.1. Review the Minnetonka Beach WTP Condition Evaluation Report
- 3.2. Review past Utility Committee Minutes and recommendations

Commission Chair Alan Carlson indicated that he reviewed the Report and Minutes which are good and tells us where we have been but he did not feel we needed to go back unless somebody from the Commission felt it was necessary. None of the Commissioners indicated a preference to go back so Chair Carlson moved to the updated Report by Stantec's Ryan Capelle.

4. New Business –

- 4.1. Discuss updated WTP Condition Evaluation Report and options with Ryan Capelle, Stantec

Stantec updated its 2019 report with the goal of being to provide additional information to help make a decision, however this is not a financial analysis but is from an engineering perspective and from a capital cost comparison. The Report evaluated three options; 1) Maintenance of existing plant; 2) replace existing plant by demolishing the majority of it, salvaging the well and constructing a new plant and; 3) purchasing water from Orono. These three options, although different, are analyzed trying to make them comparable to one another.

The 2020 water treatment plant project work separated the chemical rooms and was driven by the Department of Health 's determination that this was a health and safety issue. The City did some security improvements, installed security doors and replaced an exhaust fan. The work cost \$85,000 but was previously estimated at \$175,000. The twenty year outlook has been updated and looked like \$2.9 million in 2019 and now is \$3,475,630 after including contingencies and a premium which Stantec has experienced challenges with supply chain in a post covid reality. There is an added 20% for mobilization and a new realization that when conducting work in an emergency there will be significantly higher expenses for labor. The City is fortunate that it has not required a lot of emergency repairs despite the equipment being beyond useful life.

Stantec's Darren Amundsen gathered information from Orono to estimate the cost of purchasing water from Orono. This resulted in Capelle's analysis focusing on distribution since the risk of

failure and a number of other issues become the responsibility of Orono and no long Minnetonka Beach in the scenario of purchasing water from Orono. Capelle's analysis is based on capital costs, not operational. Operation cost is something extra that should be considered for options 1 and 2 but was included in option 3.

Commissioner Lang inquired about the useful life of the current water treatment plant. Capelle indicated some parts are beyond useful life. Some parts can go 30-40 years but some at the water treatment plant are triple their projected useful life and cannot be counted on going forward. The framework of the water treatment plant is a single wide without an insulated cavity block which would have given the building a longer useful life. Mayor Lindstrom indicated that the roof was currently in need of replacement and Capelle indicated he would fit it into year two or three as an expense.

Chair Carlson called attention to a memo from the Minnesota Department of Health dated February 16, 2021 in which attention was called to the multiple deficiencies of the water treatment plan.

Stantec's Capelle explained Appendix A. Projects in the 2019 estimated expenditure column come from the Report and were completed or delayed based on whether or not a health and safety issue. Some projects are highlighted in red because it is interpreted to be a health and safety item, however that is subject to interpretation. For instance, the insulation on the walls is styrofoam glued to wall and could be potential fire hazard. However the styrofoam could be removed, with the only downfall being the City would incur higher heating costs. However the heating expenses most likely would not amount to \$36,000. These costs not incurred in 2019 are advanced to future years.

Carlson explained that Capelle is showing expenses in year 2-5, 6-10, 11-15 and 16-20. In years 16-20 the cost to the City for option 1, maintaining the plant would be \$1.6 million. Capelle indicated that doing piecemeal work incurs more premium and a higher contingency. Disproportionately higher engineer costs at about 30% are incurred doing piecemeal projects and repair verses 18% engineering costs for doing a new plant. Capelle reminded everyone that the Engineer still has to go through State review, obtain quotes, secure contracts and oversee work to get done on smaller projects similar to large projects to justify a higher expense.

Capelle indicated that there are some repair projects that do not need an engineer or a plan review such as those that Brian Berent did in 2019. Plan review is needed for anything involving the treatment of water and the Department of Health wants to be notified of anything impacting the publics drinking water.

Commission Lang inquired about the 16-20 year column and the filter replacement scheduled at \$717,000. He inquired weren't these the \$10,000-15,000 filters and didn't the City already do that replacement. Capelle indicated this was based on a similar project and the entire skid or two pressure vessels and control logic were replaced. That \$717,000 includes significant ancillary work and is the primary function of the filtration system to remove iron and manganese. Commissioner Howarth questioned and Commissioner Lang agreed that he was referring to the filter media which is the sand inside and significantly less expensive than the replacement of the vessels.

Option 2 is replacement of a major portion of the plant. A portion around the well will be salvaged. The new water treatment plant building could be built possibly onto the garage space or further back in the woods. The water treatment plant in Appendix C is a \$4.8 million dollar water project. This is water delivery ready and would take about 1.5 years to build from when construction started. The City could construct the water treatment plant in a different location on

site and use the existing plant until ready for transition. The two could run concurrently until having to change over.

Commission Carlson how do we compare new plant that has expenses as it ages. Capelle made reference to Appedix C where the divisions are identified and indicted there should be water rates set aside to assist in funding replacement of some of this equipment as it ages. Well maintained equipment can require minimal repair and even sometimes well maintained equipment has repairs.

Carlson inquired about operational costs and would new building be less than maintaining existing building. Capelle indicated that he did not do this evaluation. Operating costs should be less for new plant and he would steer the City to a concrete structure with a gravity fed plant verses our current pressurized water system. Blasting and repainting the current water plant is much more expensive than the modern water plant with a gravity system and constructed out of cement.

The question was asked does the \$4.8 million include the cost associated with keeping both running up and until transition to the new water treatment plan. Anything aesthetic can be allowed to slide for a year or two Capelle mentioned if the City is working towards building a new water treatment plant.

Howarth inquired about the maintenance cost of new facility, inquiring how can we ballpark the maintenance costs? Capelle does not have a rule of thumb. Best source would be to look at current maintenance costs as it will be similar but with a new plant it should be more efficient. He has tried this analysis before and seen that it really varies. Capelle thought operating costs are between \$70,000-\$100,000 a year and questioned do you include salaries in operating costs?

The span of time is the most decisive of these three scenarios. Does the City want to remain in the water business, Commission Abraham asked There is a rate of return that should cover the cost. If the City is more inclined to purchase water and always know they have a consistent water source than purchasing from Orono is the choice. Also what does the City want for autonomy and is being subject to Orono pricing acceptable.

Option 3

Carlson inquired with Lindstrom about the Orono treatment plant which Mayor Lindstrom had spoken with him earlier about. She indicated the orono water treatment plant was built for a larger capacity than what is currently needed for the City of Orono. She learned from Darren Amundsen that the Orono plant is relatively new and is a good working water treatment plant. Appendix D shows how the costs would escalate if purchasing water through the City of Orono. Darren included additional costs that would be incurred, including water mains, sealing wells and plant demo. Purchasing water from the City of Orono over the next 20 years would cost Minnetonka Beach \$6.3 million.

Carlson inquired what does \$5.8 equate to with an annual interest rate increase. Howarth highlighted the big wild card is years of service. New plant is 100 years of service. Unless maintenance cost increases significantly the 100 year spread makes it a simple decision. Looking out twenty years you get a different analysis. Most likely the 20 years is the payment period for the bond. Two perspectives to consider with different terms- 1) cost to the residents and 2) benefit to the City. Carlson commented it might make sense to purchase Orono water if it has significant reserves already built into their cost for water.

Howarth shared that the Council has done more general taxing and less emphasis on water fees supporting improvements. This changed in the last couple years as demonstrated by the water tower's reliance on 100% water fees to pay the bond back.

Lang asked Capelle are there other communities in our same situation and what did they do? Capelle mentioned that he is working with Corcoran that is purchasing water from Maple Grove and is looking at doing something on their own. Very different community being that Corcoran is not built out like Minnetonka Beach. Stacey Minnesota also did a 300-400 gallon per minute treatment plant but had radium in their water and got funding assistance for a \$2.8 million dollar water treatment plant.

Maple Plain is a 700 gallon per minute plant and Minnetonka Beach is a 400 gallon per minute plant. A \$3 million plant was done in 2017 for Maple Plain. Rarely do costs come down. Capelle will inquire with Corcoran about the cost of water from Maple Grove to share with the Commission.

Commission Abraham asked the finance question. We are already in the water business, how does ours compare. Do all three options result in safe drinking water? Capelle responded Minnetonka Beach does not have any primary water issues, its more aesthetic but no health issues. Public Works Superintendent Hilgers has been doing tests and a new plant would more consistently achieve a better quality of water. This also could be achieved through purchasing from Orono.

The City's view is long-term but resident view is 20 years. Chris Zinn will engage with our financial advisors from Ehlers to consider these options. Building a new plant would have debt service over a period of 20 years to match the bond.

Capelle talked about divisions that need replacement within 20 year timespan. A new plant will last 50 years but the roof and pumps will need replacement sooner. Capelle suggests looking more closely at when those items will likely require replacement for instance within 20 years.

The suggestion was made to have the Finance Commission conduct the financial analysis of these three options. Options 1 and 2 need fine tuning. Purchasing from Orono at wholesale rate Carlson wonders if further discussion would not result in possible lower rate for water. MB is less than 1/10 of Orono and not a great economy of scale however it does make sense to revisit with Orono and find their lowest and best offer for Minnetonka Beach to purchase water.

Mayor Lindstrom suggested a joint meeting of the Utility and Finance Commission.

Commissioner Lang suggested reaching out to the City of Corcoran to learn what they are paying Maple Grove for their water to compare to what Orono is offering Minnetonka Beach. Capelle will inquire with Corcoran. Capelle offered to also inquiring with New Brighton who purchases water from Minneapolis. Carlson indicated that from the information from Darren Orono is putting a significant amount into water reserves.

March 2, 2019 Mayor Walsh gave Minnetonka Beach a quote. Commissioner Howarth acknowledged significant increases recently in water rates from Orono to Minnetonka Beach Lafayette Ridge residents. The increase was 35% in 2020, 10% in 2021 and 3% thereafter.

Howarth suggested that the Utility Committee send this issue to the Finance Commission to do the analysis and then have the joint meeting after the analysis is completed. Carlson will work with Capelle to come up with an apples to apples comparison. Capelle will supplement his data with what maintenance expenses one could reasonably expect with a new plant.

Carlson inquired if that would be additional work and Howarth suggested it would be refining the work already done. Capelle asked for more staff work on the current operating costs of the water treatment plan. The maintenance plan per Howarth has been unstructured and would not lend to good insight on costs. Capelle will provide useful life for certain divisions and refine pumps and valves to a realistic life expectancy and that can be used by the Finance Commission to compare costs over an extended period of time.

Capelle felt for the most part the equipment in the new plant will last twenty years. Howarth believes in a twenty year analysis. Howarth questions do you analyze what is the next step after year 20 and do you at that point invest in a new water treatment plant? Capelle indicated that if you work to maintain the existing plant it would extended beyond the 20 year scenario. The question was posed would you ever propose building a new plant? Capelle believes the block building is bad and cannot continue to be extended. Capelle agrees that the most the current building can continue is one more 20 year period. Santiago felt that the 50 to 100 year projection for a new building should be 75. Capelle is putting together the repairs of water treatment plant for the next 20 years. Minnesota Department of Health may think we are currently at the replacement stage, but not Stantec.

Abraham made a motion to have the Finance Commission complete an analysis of the options inclusive of a 40 year view of costs and the financial feasibility of option 1 and 2 and equivalent of the City purchasing water through Orono from a longer term City and shorter term resident point of view. All three options provide a high quality of water, what is the impact to city finance and residential water rates. Carlson stated there should be a joint meeting or a report to the Finance Commission. Alan Carlson, Steve Howarth, Chris Zinn and Bruce Kimmel should have a meeting to iron out assumptions. Following that the Finance Commission can do their analysis and bring their conclusions to a joint Finance, Utility Commission meeting. This analysis would look at a 20 year, 40 year and 75 year impact as recommended by Howarth.

Capelle shared some thoughts on option 1 and concluded that the City should not invest the \$717,000 at year 16-20 if they have plans to demolish and build new. That plant can't stand for another 20 year period. The cost would be \$3.4 million times 2 for 40 years and not reasonable. Capelle would not put the filter equipment at \$717,000 in during the 16-20 when the only possible option is to demolish and rebuild or buy water from Orono. Capelle will remove the \$717,000 investment in year 16-20.

The question was posed would finance run their financial analysis for 20,40 and 75 years?. There was agreement to drop the 40 year analysis since the plant cannot survive 40 whereas useful life should be anchored to 20 year and 75 year time period. Carlson suggested letting the Finance Commission decide on the appropriate period of time. Howarth spoke in favor of more direction.

Santiago motion, Raisbeck second to do a complete analysis of the options following a joint meeting of the Utilities and Finance Committees. All ayes, motion passed.

Capelle will do a breakdown of useful life of division for scenario 2 and he needs a 1.5 weeks to complete.

5. Council Liaison Report – Steve Howarth

Any questions about Council, Howarth asked Jaci to supplement. Components of the water tower are being delivered this week with 3-4 trucks parked in front of Arcola Lane. Final construction will occur over the next two months. Tower will be operational in September.

Utility Rate Study has not been done in a while and Treasurer Zinn will begin study soon.

Additional water mains will have to be addressed in the near future, three years out.

Mayor Lindstrom updated the Commission on her work with HF 2051, a bill requesting funding to assist Minnetonka Beach with the water treatment plant. Kelly Morrison introduced and authored the bill and she and Mayor Lindstrom presented it to Committee. Dean Phillips is in support. Water infrastructure is a priority right now and the State would fully fund the \$4.8 million dollar water plant for Minnetonka Beach.

6. Adjournment –

(Santiago motion, Lang second to adjourn; All ayes.) Motion passed.

With no other business, Chair Carlson adjourned the meeting at 9:18 p.m.

Minutes taken by City Administrator Patrick Melvin.

NOTE: The next meeting where these would have been approved was May 10, 2023. Due to the length of time between meetings and turnover in membership the April 28, 2021 Utilities Commission meeting minutes were unable to be approved. These minutes were approved by Utilities Commission Chair Alan Carlson.