

**CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
MARCH 13, 2012, 6:00 PM
Park Rapids Public Library-Lower Level
Park Rapids, Minnesota**

1. CALL TO ORDER: Mayor Nancy Carroll called the City Council Workshop for March 13th, 2012, to order at 6:00 p.m.

2. ROLL CALL: Present: Mayor Nancy Carroll, Councilmembers Dave Konshok, Sue Tomte, and Paul Utke. Absent: Councilmember Pat Mikesh. Staff Present: Administrator Bill Smith, Treasurer Angela Brumbaugh, Public Works Superintendent Scott Burlingame, and Clerk Margie Vik. Others Present: Ulteig Engineer Jon Olson, Rod Nordberg, Glen Chiodo, Tammy Omdal, Ben Glynn, and Dave Bergeron.

3. DISCUSSION:

3.1. Energy Efficiencies presented by Johnson Controls: Ben Glynn and Dave Bergeron from Johnson Controls, and Tammy Omdal from Northland Securities introduced themselves to the Council.

Glenn Chiodo stated what the city is looking at is very similar to what we did for the school system. Over the past three years we've had a series of ongoing fixes that we've had to take care off, mainly in the boiler area. Our boilers were nickel and diming us to death. Two years ago, in the middle of the winter, we had one that completely went out on us. We were hoping we could get through the rest of the winter, with just one. At that point, the board and I discussed where we wanted to go with that. We started off by talking to Dave Bergeron. Our primary focus was the boilers. Everything in our infrastructure is 1960 vintage. As we started the process, Johnson Controls was instrumental in helping us put a total project together. They laid out the financing and how it would work. We looked through a menu of things as to what we wanted. We initially came up with a Christmas list of items, then we picked and parceled together what made sense.

Chiodo stated our biggest problem was the financing. We were looking at some pretty significant dollars. At that time, there was some federal dollars with a slight interest rate that schools could apply for. Johnson Controls put all the paperwork together, basically everything that we needed to get that grant. We were one of nineteen schools in the state that were awarded the grant. We were in select company there. It was an \$11.5 million project. We changed from steam to hot water heat, and everything that connected to it. Our school was torn up and we couldn't use it that summer. The project dates worked. We worked very closely with Johnson Controls with regular meetings. The finance piece was the trickiest for us, and knowing how it would impact the taxpayers. We would have never been able to do that on our own, and yet we needed to get those boilers fixed. With the help of Johnson Controls we got the project put together. They did all the heavy

lifting. All we had to do was make the decision to go forward with the project. We couldn't be happier with where it's gone.

Chiodo stated we currently have a service contract with Johnson Controls. We meet and talk to them regularly. Along the way, there are always those little glitches. The people affiliated with the project always took care of them. We came away from it not feeling out of sorts as far as how the project came together. Our experience was very positive. We've had a relationship with them before. We knew a little of what we were getting into, but this was by far the biggest project that we've had. We've had a relationship with Johnson Controls, exclusively in the high school. We had that for many years. After the Century building was constructed, they ended up having a service contract with another provider. We had Johnson Controls in one spot, and another provider in another spot. It was a constant battle with the other one. Every time we had an issue we couldn't get anyone up here to help us. Now we have one service contract, with Johnson Controls, across the district. They did do some work at Century School also, but the high school project was extensive.

Ben Glynn stated we've made several trips here to talk with Bill Smith and the Finance Committee. In looking at the goals and challenges for Park Rapids, there are two consistent issues, yet focused on the same thing, water. The issues are the quality of the water with the nitrate issues and the loss of water. We're looking to see what changes the Main Avenue Project will have on the system, but based on the information from a few weeks ago there was still a pretty high water loss. We're trying to figure out what that is. We understand your engineering firm is reviewing your water quality, and what you might do about that, possibly a treatment plant. That is an option. We have worked with several cities with that same issue. Because a treatment plant is the most expensive option, we try and look at that as a last resort. We like to exhaust all the other options first, because you may not need a water plant, or possibly a small plant. You want you to look at all of those options because this is a big ticket item.

Glynn stated with the shrinking LGA funds you have more citizen push down, whether it's raising taxes, or utility rates, they're saying enough. Maintaining ageing infrastructure is another concern. They are taxing events, such as a possible water plant or an infrastructure project that would involve fees. You have some things that you know of that you'll have to look at from a financial side. Providing effective and valued public service, and maintaining the high quality of life of your taxpayers is also a priority.

Glynn stated Johnson Controls takes a very comprehensive approach. There are other people that so similar stuff, but we look at it from the top to the bottom. We don't want to come in and just change your light bulbs. We're looking at the issues that you are facing, your challenges, and we address those issues. We look for increasing city revenues, reducing costs that you are spending, and to reduce energy inefficiencies. Anything that we can do to cover those three topics is what we will talk with you about. You may have an interest in doing all of them, or only a few, but we'll be able to show you what they are and recommendations to move forward.

Glynn stated with the municipal market these are some of the things that we focus on. Controls is one division of what we do. There are a lot of things that we focus on, like lighting, water, waste water, building envelope, to give you a complete, comprehensive result.

Dave Bergeron stated the school had a lot of issues different from yours. Your issues are underground. The school district was in a reactive mode. They were dealing with issues after something happened and how are we going to pay for it. The project has given them a path to make the needed improvements to their infrastructure moving them from a reactive mode to a proactive mode. Today they are in a financial position because of their management to proactively better the educational experience for the kids. They were so reactive that they just could not do that. I see some similarities from the information that we were able to gain, and how do we get ahead of the ball. I find that we can help you find a financial path to help you get there.

Bergeron stated we can do studies but if we don't have a financial path we don't have anything. You can have plans sitting on the shelf because you don't have a financial plan to get them done. You have legislative initiatives at your fingertips, like performance contracting, and your levy capacity. Both of those financial solutions would require no additional taxation. There are also solutions that do have a tax impact.

Bergeron stated we utilize all those things that are at your fingertips to put the best technical and best financial project together. That's what sets us apart. Over time our infrastructure systems become inefficient just because of where it is. The market place creates new and different ways that can handle efficiencies. Often it takes a capital investment to do it, and we struggle with making capital investments.

Bergeron stated performance contracting is grounded in Minnesota Legislation, 471.345. It's been on the books for twenty years. It's specific to cities and counties. Essentially it enables you to update technology to be able to gain efficiencies within your infrastructure, utilize the efficiencies gained by making that technology. Take those dollars and pay for the improvements. In effect you have a self-funded way to make the improvements. In Minnesota, as long as those improvements pay for themselves over a twenty year period, and are guaranteed by the contractor that puts those in for you. It is driven by technology, taking the dollars that you're already spending, make the improvements, have the efficiencies pay for themselves. It's a self-funded way, tax neutral and budget neutral.

Bergeron stated in your case, we talked about what we've done with your city, we've taken a cut at the potential within your city. We've called your lost water a benefit, simply because you're producing it and you're not able to sell it. You're losing it somewhere. We've had one of our project engineers take a look at your water loss. We're taking into account the Main Avenue project. There was significant water loss in that area. We're still estimating that you're losing \$50,000.00 to \$60,000.00 a year in water benefit. You're losing that water and are not able to gain the benefit of selling it. We've walked through your facilities and looked at your total utilities. There's about \$15,000.00 to \$20,000.00 in possible energy savings through your electrical and mechanical systems. The performance contracting was what the school used that they will pay back in fifteen years. That project actually pays for itself starting in year one and generates additional dollars for reinvestment for the school. Not every project does that. Some other operational benefit, increasing your technology allows you to better enable efficiencies today. We're walking into homes and running down the meter numbers, turning it in, and billing on a quarterly basis. There are some efficiencies to be gained by automating those types of things. We see \$100,000.00 to \$120,000.00 in operational efficiencies. Simply math will

tell you if you talk \$120,000.00 over twenty years, not factoring in financing, you should see \$2,200,000.00 in improvements that could be handled through this.

Bergeron stated we could throw out any numbers but we have to be conservative because the risk is going to be ours to bring back a project to you that fits in those perimeters, or you don't pay us. We try to make it risk free.

Tammy Omdal stated Northland Securities helps the city, presently, with capital financing. We were approached by Johnson Controls to see if we were interested in partnering with them here in Park Rapids. We provide financial services to more cities in Minnesota than any other firms. We have a lot of experience. Our role is issuing debt. So how do you pay that back without raising fees or property taxes? We would be looking at something tax neutral. We look at your existing levy capacity over the next several years as you begin to pay off existing debt and the capacity that presents. You may have other projects that you've planned for that, and we'd need to take that into account. Other potential, either from operational savings, you'd be spending less on operations over a period of time, you'd be spending it on servicing that debt for the project that you could issue or other revenue sources. That would be a piece of the long term financial planning. One of the options is how do you do this on a cost neutral basis without looking at tax increases.

Bergeron stated when we look at performance contracting and the potential of looking at your debt load and how we might be able to, very similar to the school, they did have some federal funding, and expiring debt six years down the road, at a minimal interest rate we were able to back load some of that debt to minimize the tax impact. That project was \$3 million so the tax impact was fairly minimal. As we look at that type of ability, keeping you tax base neutral, present value of \$4.5 million of improvements that could be funded through utilizing your existing tax base. The combination of performance contracting, utilizing dollars you are already spending, and your future levy capacity, you see an opportunity of about \$6.7 worth of improvements that could be funded in your city without impacting taxes. There are some things that could have a potential tax impact or fee. Omdal stated if you decide to go forward, on a neutral basis, what does that mean to potential tax levy capacity and fees as we plan into the future?

Bergeron stated when we put the project together for the school, they had performance contracting and an opportunity to do some things without impacting taxes, but it didn't quite solve all of their long term issues, so they choose to utilize some taxing, and then spread that tax to enable them to take a long term approach to the construction.

Bergeron stated the first thing we do is communicate. The Council's priorities may be different than the residents. We go through a value definition process. If we want to look at a long term approach to your city, what is it that everybody values? What are the most important things to the Council, to the department heads, and to the citizens. It's a two hour session for everyone. We're not solving problems. We're trying to identify the important things. There's a series of questions that we ask everyone. We'll categorize them, and then prioritize them. If you're going to do something long term, it needs to be something that everybody wants. We find out what that is. We're doing these assessments to gain data and information so you can make informed decisions. We identify your problem areas, and your options. We work with your engineering firm because they can help us with these assessments. We review your facilities and operations, and your owner specific assessments.

Bergeron stated once we assess things, and you have the information, then we can develop your long term solutions. Without that information, it's hard to know which way to go. Once we develop the long term solution, then we can develop your financial options. We know upfront there's an opportunity with your city. We identify what the true needs are and their cost, and what kind of a payback we'll do. Once you have data and information to make an informed decision, we go into the decision process. You as stakeholders decide the approach you want to take. At that point there may be issues that require a community discussion. You decide whether that needs to happen. You could hold a public forum, or utilize the media. Once we've taken feedback, then the Council approves it. Then a project is implemented. The assessment phase takes ninety to one-hundred days to put together. The decision process generally thirty to sixty days depending on your process. The implementation phase could take up to one year.

Carroll questioned does the public have any input at the very beginning when we're doing the values definition? Bergeron stated we can certainly do that as a third group. What we've found with these is we have a hard time getting people to come. Tomte stated we have done things like this and we've gotten significant community involvement and feedback. Bergeron stated we charge the Councilmembers with inviting people. We want people who sometimes disagree. We want them to be part of the process to develop a long term strategy. Carroll stated if you're not bringing them in until you're at the decision process they may feel they really didn't have a say. Bergeron stated we can do that, and I appreciate you bringing it up. It's fun to bring the public in and get them involved. Tomte stated others that have come to this community to help do projects have been impressed with the amount of involvement. Bergeron stated we are very process driven. It usually takes you to a successful solution.

Glynn stated we have references from cities. The first is with the City of Rochester. It was a completely self-funded project. The total cost was \$5.5 million. It saved them \$600.00 a year, and their costs over a twelve year period, and we had some rebates in there as well. It was a very similar process to what we did here. We talked about the issues and the challenges that they were facing, and then did a preliminary analysis. There was interest so we did a more detailed study. In that case there were twenty buildings. Their project was very building focused. The project created jobs, and we used local resources as much as we can.

Bergeron stated I've been involved with the Park Rapids, DGF, Walker, Karlstad, and Thief River Falls Schools . With them we started with this process. In all of these projects, they were multi-funded. In all cases we led the master plan. We went through the community engagement. We're at the implementation stage with Thief River Falls. We do a lot of this throughout Minnesota.

Bergeron stated we do understand the challenges that you're dealing with. With the assistance of Northland Securities we can utilize your financing to implement a project. The performance project side of it is budget and tax neutral. The degree of tax sensitivity of these projects is completely up to you and what you want to do for the long term. In performance contracting the performance and costs are guaranteed, as well as the savings and benefits. We have over \$2 million in guaranteed savings in the State of Minnesota. You have minimal risk. We take the risk. Johnson Controls is a Fortune 20 company. Last year's sales were \$47 billion. We can afford to take some risk. We're stable. We've been around for one-hundred and thirty years. When Park Rapids Schools

had a problem, they called one of two people, and things were taken care of. We have a single source of accountability. There are always going to be issues with a large construction project. How you address them is the key. We have experience in city planning, construction, and renovation.

Bergeron stated we're not here to do a study. We don't make any money off of studies. Our dollars come if you see the project completed. Our role is not to help you put a study together, it's to help you come up with the information to put a plan together. The next step is approval of a professional development agreement. The charge for that next step is \$35,000.00. The risk is ours. We need to bring back a project that fits and is tax sensitive, that is good for the taxpayers of Park Rapids, that fits what you want to do as a governing board, long term, and that financially makes sense. The only time you'll pay us is if we don't bring something back, or we bring something back that fits all that criteria, and you choose not to move forward. We'll put more than \$35,000.00 into this. That's the risk we're willing to take because we're confident that we can do that. We'd enter into a professional development agreement, go through the values definition and priorities process with key stakeholders, put together the comprehensive detailed assessments for your infrastructure, so you have information and data to make informed decisions, develop solutions and financial options, and then you approve any of those solutions and options.

Tomte questioned who's your main competition? Bergeron stated when I started in 1994 it was Honeywell. We don't see them all that much anymore. There is Community Service Group, and Ameresco. I don't think any of them delve into community involvement and long term planning.

Smith stated the benefit for operational benefit under the water category you projected \$50,000.00 to \$60,000.00 a year that could be captured. I'm assuming that you're talking about additional revenue, just stopping a water leak doesn't increase revenues. Bergeron stated from an operational side, you're manually reading. Smith questioned you're talking labor costs? Bergeron stated how a city handles that is at your discretion. The opportunity is there based on the technology. Smith stated that would be tough. We're running two man shops. Bergeron stated what we've seen other cities do is move those positions to something different, secondary. That's not our role, but the opportunity exists. Smith stated it would be tough to get \$60,000.00 savings that way. Bergeron stated it doesn't include all of that. There is a certain amount of dollars that you are out sourcing for repairs. If we fix the system, you will save. What we do in the next step is go back through your books for the last three years, and wherever you've been outsourcing for those types of things, work with you to identify what those costs are. Those are coauthored by the city and Johnson Controls. Those are not for Johnson Controls to determine, those are for you to determine. In the end, you have to live with this financially. We can help you to put the financial solution together. Smith stated if I understand correctly, you're taking the risk.

Carroll stated we discussed changes in the meters so they could be read monthly, and yet not having to dedicate the staff to that monthly. Having the meters read automatically might be a better way for our constituents to afford those monthly bills instead of quarterly bills. That would require a lot of money. Bergeron stated a lot of people look at replacing water meters. There's certainly water savings in that, but customer service dramatically improves by billing monthly. Depending on far you want to go, it can be automatically billed, right to someone putting it in the envelope. There are different

variations of that technology. Carroll stated if there's a problem with the bill it's discovered right away.

Bergeron stated identifying what's important to your city is the next step. We don't know enough right now to tell you that. The numbers we've put in front of you are conservative. Burlingame stated we've talked about changing to radio read meters for years. Tomte stated aren't there other efficiencies that you can do with controlling your heating and variations on that theme.

Glynn stated Burlingame is doing all the right stuff. We've talked with him about the issues and the challenges. We focused on that because it's been a recurring theme. That's not the only thing that we're looking at. We spread a wide net and bring you a bunch of ideas. You may be interested in all of that, or maybe just 10% of them. That's up to you. You decide which ones to go through with.

Tomte questioned are things such as the carbon footprint, and looking at all those different levels, because we're Green Park Rapids and trying to be energy efficient. Decisions aren't always made in that regard because it's cheaper to do something today. Glynn stated that seems to be a nice benefit, but it's not a driving factor because of cost involved. Sometime it isn't worth the payoff. We do analysis that for you. You can decide if it makes sense for you.

Smith stated I want to be reassured that we won't relive the days of Jimmy Carter when offices were so cold in the winter and hot in the summer. Bergeron stated with today's technology, you can save on energy and still be comfortable.

Konshok stated there are other companies that do this type of packaging that includes financing. Using the meters as an example, there's a lot of things we haven't figured out how to pay for it. What could help is you could identify a long term schedule for financing. I think we're in a reactive mode at this point. It would be nice to be ahead of the wave.

4. ADJOURNMENT: A motion was made by Konshok, seconded by Tomte, and unanimously carried to adjourn the workshop at 7:00 p.m.

[seal]

Mayor Nancy J. Carroll

ATTEST:

Margie M. Vik
City Clerk