

**CITY OF MANISTEE
OIL AND GAS INVESTMENT BOARD
MEETING OF APRIL 19, 2013**

There will be a meeting of the Oil and Gas Investment Board held on Friday, April 19, 2013 at **11 a.m.** in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660.

AGENDA

I. ROLL CALL.

II. OLD BUSINESS.

- a.) Aztec Update – Ed Bradford

III. NEW BUSINESS.

- a.) Approval of Minutes from January 18, 2013
- b.) Bartlett Investment Update
- c.) Oil and Gas Loan to Marina and Boat Launch (Motion)
- d.) Oil and Gas Payment to Water and Sewer in 2013-2014 Budget (Motion)

IV. COMMUNICATIONS.

V. PUBLIC COMMENT.

VI. ADJOURN.

- c. Colleen Kenny, Chair
Catherine Zaring, Council Representative
Ed Bradford, Vice-Chair
Doug Parkes
Steve Brower
Mitch Deisch, City Manager
George Saylor, City Attorney
Woody Uible, Investment Advisor

OIL AND GAS INVESTMENT BOARD MEETING OF JANUARY 18, 2013

The City of Manistee Oil and Gas Investment Board held a regular meeting on Friday, January 18, 2013 at 12 p.m. in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660. Meeting was called to order by Chair Colleen Kenny.

MEMBERS PRESENT: Colleen Kenny, Catherine Zaring, Ed Bradford, Doug Parkes, Steve Brower, Mitch Deisch

MEMBERS ABSENT: None

OTHERS PRESENT: City Attorney George Saylor

Old Business.

Aztec Update - No contact in recent months, nothing to report.

New Business.

Minutes - Minutes from the August 28, 2012 meeting were reviewed. **MOTION** by Doug Parkes, second by Catherine Zaring to accept the minutes and place them on file. All in Favor - motion carried.

Investment Advisor Update and Commentary – By conference call Woody Uible and Troy Snider of Bartlett presented the Investment Update as of December 31, 2012. Information in the report includes Market Outlook, Indices, Asset Allocation, Fixed Income Characteristics, Portfolio Performance and holdings. Bartlett noted no exceptions or anything unusual in the report. Numerous questions and comments by Board members and responded to by Bartlett representatives.

Discussion on Spending Rule. Bartlett and the Oil Gas Board had previously discussed the spending rule percentage, asset allocation and local certificates of deposit. Bartlett feels that this is the ideal time to revisit those discussions. Bartlett feels the Spending Rule is a little on the high side which lowers future purchasing power which affects the Capital Improvement Fund. Bradford would also like to reconsider the policy language that requires 10% be held in local certificates of deposit as he feels better returns could be achieved through the investment advisor. Bartlett also feels the 50/50 asset allocation is too conservative and that there are compelling reasons to consider a 60/40 or 65/35 mix at this time. Discussion followed.

MOTION was made by Ed Bradford, second by Doug Parkes to lower the spending rule percentage to 4%. All in favor – motion carried.

MOTION was made by Doug Parkes, second by Catherine Zaring to change the asset allocation mix to 65/35. All in favor – motion carried.

MOTION was made by Doug Parkes, second by Catherine Zaring to remove the policy requirement to hold 10% in local certificates of deposit. All in favor – motion carried.

Finance Director Ed Bradford will make these recommended changes to the Investment Policy and forward them to City Council for approval.

Meeting Dates for 2013. Agenda was amended to add discussion on meeting dates for 2013. Consensus to schedule meetings for:

Friday, January 18, 2013 at 12 p.m.
Friday, April 19, 2013 at **11 a.m.**
Friday, August 16, 2013 at 12 p.m.
Friday, October 11, 2013 at 12 p.m.

Communications.

Bylaws should be reviewed on an annual basis. Copies of the current bylaws as last amended in 2011 were distributed. No changes were proposed at this time.

Public Comments.

None

Adjourn.

Next regular meeting is scheduled for Tuesday, April 19, 2013 at 11 a.m. in the Second Floor Conference Room, City Hall. **MOTION** by Catherine Zaring, second by Steve Brower to adjourn at 1:15 p.m.

Respectfully submitted,

DRAFT

Cynthia Lokovich, Recording Secretary

- c. Manistee City Council
Board Members
Mitch Deisch, City Manager
George Saylor, City Attorney



Finance\Treasurer's Office

Memo to: Oil & Gas Board

From: Edward Bradford, CFO *EB*

Re: Internal Loans

Date: April 11, 2013

Previously, the Water & Sewer Utility had made internal loans to the Boat Launch and Municipal Marina to help finance the Arthur Street launch upgrades and the Marina Building replacement. The balances on these loans are \$118,539 and \$249,851 respectively. The amortization schedules for these loans are attached.

At the time the loans were issued, the Water & Sewer utility had ample cash reserves to finance these projects. Unfortunately, due to a significant decline in the revenue being received from the Oaks Prison, there is an urgent need to replace these loans from another source.

Administration has advised Council that the best place to replace these loans from is the Oil & Gas Fund. It has already done this for the smaller Boat Launch loan and needs to do so for the Marina Loan by the end of May.

The loans have an interest rate of 2%. The Oil & Gas fund will receive all principle and interest payments. These loans can be thought of as another investment in the portfolio of the Oil & Gas fund.

Compound Period: Monthly

Nominal Annual Rate: 2.000%

CASH FLOW DATA

Event	Date	Amount	Number	Period	End Date
1 Loan	8/1/2010	135,000.00	1		
2 Payment	2/10/2012	8,000.00	1		
3 Payment	10/31/2012	14,535.58	10	Annual	10/31/2021

AMORTIZATION SCHEDULE - Normal Amortization

	Date	Payment	Interest	Principal	Balance
Loan	8/1/2010				135,000.00
2010 Totals		0.00	0.00	0.00	
1	2/10/2012	8,000.00	4,176.49	3,823.51	131,176.49
2	10/31/2012	14,535.58	1,897.66	12,637.92	118,538.57
2012 Totals		22,535.58	6,074.15	16,461.43	
3	10/31/2013	14,535.58	2,392.62	12,142.96	106,395.61
2013 Totals		14,535.58	2,392.62	12,142.96	
4	10/31/2014	14,535.58	2,147.53	12,388.05	94,007.56
2014 Totals		14,535.58	2,147.53	12,388.05	
5	10/31/2015	14,535.58	1,897.48	12,638.10	81,369.46
2015 Totals		14,535.58	1,897.48	12,638.10	
6	10/31/2016	14,535.58	1,642.39	12,893.19	68,476.27
2016 Totals		14,535.58	1,642.39	12,893.19	
7	10/31/2017	14,535.58	1,382.15	13,153.43	55,322.84
2017 Totals		14,535.58	1,382.15	13,153.43	
8	10/31/2018	14,535.58	1,116.66	13,418.92	41,903.92
2018 Totals		14,535.58	1,116.66	13,418.92	
9	10/31/2019	14,535.58	845.80	13,689.78	28,214.14
2019 Totals		14,535.58	845.80	13,689.78	
10	10/31/2020	14,535.58	569.48	13,966.10	14,248.04
2020 Totals		14,535.58	569.48	13,966.10	
11	10/31/2021	14,535.58	287.54	14,248.04	0.00
2021 Totals		14,535.58	287.54	14,248.04	
Grand Totals		153,355.80	18,355.80	135,000.00	

Compound Period: Monthly

Nominal Annual Rate: 2.000%

CASH FLOW DATA

Event	Date	Amount	Number	Period	End Date
1 Loan	7/1/2010	190,000.00	1		
2 Loan	9/1/2011	80,000.00	1		
3 Payment	10/1/2012	30,637.55	10	Annual	10/1/2021

AMORTIZATION SCHEDULE - Normal Amortization

	Date	Loan	Payment	Interest	Principal	Balance
Loan	7/1/2010	190,000.00				190,000.00
2010 Totals		190,000.00	0.00	0.00	0.00	
Loan	9/1/2011	80,000.00		4,481.68	4,481.68-	274,481.68
2011 Totals		80,000.00	0.00	4,481.68	4,481.68-	
1	10/1/2012		30,637.55	6,006.94	24,630.61	249,851.07
2012 Totals		0.00	30,637.55	6,006.94	24,630.61	
2	10/1/2013		30,637.55	5,043.08	25,594.47	224,256.60
2013 Totals		0.00	30,637.55	5,043.08	25,594.47	
3	10/1/2014		30,637.55	4,526.47	26,111.08	198,145.52
2014 Totals		0.00	30,637.55	4,526.47	26,111.08	
4	10/1/2015		30,637.55	3,999.44	26,638.11	171,507.41
2015 Totals		0.00	30,637.55	3,999.44	26,638.11	
5	10/1/2016		30,637.55	3,461.77	27,175.78	144,331.63
2016 Totals		0.00	30,637.55	3,461.77	27,175.78	
6	10/1/2017		30,637.55	2,913.24	27,724.31	116,607.32
2017 Totals		0.00	30,637.55	2,913.24	27,724.31	
7	10/1/2018		30,637.55	2,353.64	28,283.91	88,323.41
2018 Totals		0.00	30,637.55	2,353.64	28,283.91	
8	10/1/2019		30,637.55	1,782.75	28,854.80	59,468.61
2019 Totals		0.00	30,637.55	1,782.75	28,854.80	
9	10/1/2020		30,637.55	1,200.34	29,437.21	30,031.40
2020 Totals		0.00	30,637.55	1,200.34	29,437.21	
10	10/1/2021		30,637.55	606.15	30,031.40	0.00
2021 Totals		0.00	30,637.55	606.15	30,031.40	
Grand Totals		270,000.00	306,375.50	36,375.50	270,000.00	



Finance\Treasurer's Office

Memo to: Oil & Gas Board

From: Edward Bradford, CFO *WB*

Re: 2013-2014 Proposed Water & Sewer Utility Contribution

Date: April 11, 2013

The Water & Sewer Utility is experiencing significant revenue challenges due to a sharp reduction in sales to its largest customer, the Oaks Prison. At the same time, state-mandated sewer separation projects have necessitated incurring several million dollars in additional debt to finance the projects.

The combination of these has led to the need to significantly raise water & sewer rates in the proposed 2013-2014 budget. If the shortfall were to be addressed by rate increases alone, the increase would be 15%.

The City Manager's proposed budget instead proposes raising the rates 10% and making a contribution of \$125,000 from the Oil & Gas fund to help moderate the rate increase. This plan splits the burden 2/3 rate payer and 1/3 Oil & Gas fund.

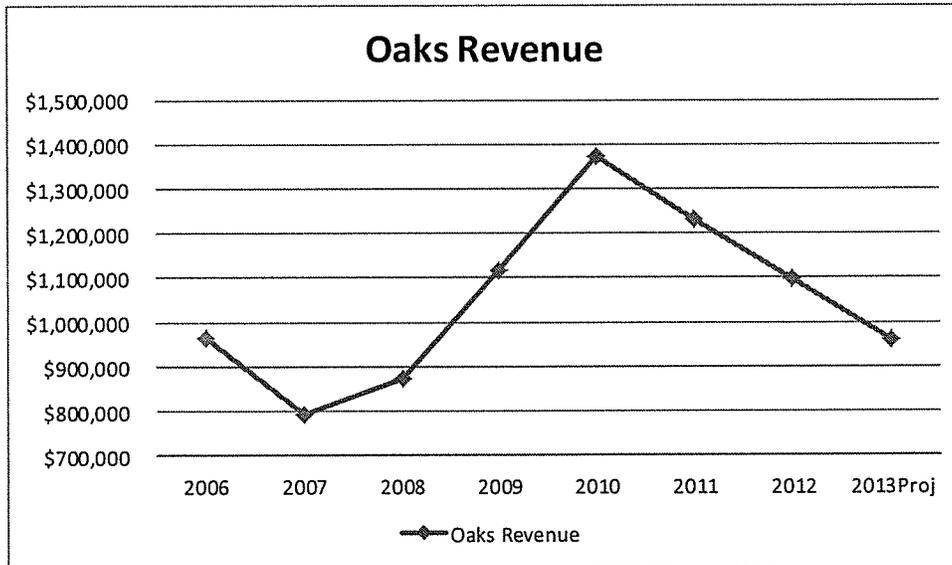
As you recall, the earnings from the Oil & Gas fund are pledged to support the debt service of prior revenue bond debt issued by the water and sewer utility. The City weaned the utility off of these payments over several years in order to be able to redeploy these revenues elsewhere. However, given the unique nature of the challenge, it now is necessary to reinstitute this rate-payer assistance, at least in the short term, until the crisis has passed.

The \$125,000 contribution is in addition to the annual 4% spending rule. However, this transfer will have an immaterial impact on the fund as a whole.

Issue Page

Water & Sewer Rates & Revenue

The primary source of revenue for the City’s water and sewer utility is the money raised by customer charges for water and sewer service. These are billed monthly and are currently \$3.03 per 1000G of water and \$6.06 per 1000G of sewer. The total of these charges typically account for 80% of the annual revenue of the utility. The City’s largest customer, the Oaks Prison made up about 50% of this total from June of 2008 until May of 2012. Since that time, the Oaks has undertaken a significant water saving initiative that has reduced their actual usage from 190,000 GPD to 75,000 GPD, a reduction of 60%! Per their contract with the City, the Oaks has a guaranteed minimum volume of 145,000 GPD. The reduced flows equates to a reduction in revenue of \$300,000 per year from budget.



Since 2006, the City has raised water and sewer rates by 42%, or an average of 5.0% per year. This is about twice the rate of inflation. The expansion of the WWTP and mandated Jones and Cedar St. sewer separation projects are the main reason for the increase. Over this period, it has also become apparent that our customers have somewhat reduced their consumption as prices have increased. This behavior is referred to as price sensitivity, or price elasticity of demand. It is the degree to which the price of a product affects consumers purchasing behaviors. As rates of a product rise, consumption of that product tends to fall. Management believes that this trend will continue, but to a lesser degree than in the past.

The preliminary budget anticipated a \$390,000 deficit without any rate increase. This deficit was after operating and capital expenses had been scrutinized and reduced where possible. In order to make this deficit up, rates would need to be raised 15%. Different scenarios were looked at:

1. Raise rates 15%
2. Raise rates 10% and transfer \$125,000 from the Oil & Gas fund this year.
3. Raise rates 8% and increase the ready to serve charge by 50%.

After much discussion, the proposed budget incorporates Option 2. This increase is 7.6% in addition to the mandatory inflationary increase of 2.4%. This option raises the needed revenue for this year by putting the burden 2/3 on the ratepayer and 1/3 on the Oil & Gas fund thru a one-time transfer of funds.

It is important to keep in mind a few other factors that will determine rate increases in the future.

1. The level of consumption at the Oaks Prison.
2. The sensitivity of customers to rate increases.
3. The timing and magnitude of additional customers in Filer and Manistee Townships. It is estimated that Filer Township will contribute an additional 38,000 GPD once hooked up which will generate an additional \$80,000 in revenue. Manistee Township flows are indeterminate at this point.
4. The need for additional capital expenditures. The list is extensive and is outlined in the Capital Improvement Plan.

No one likes to raise rates any more than is necessary. One way to keep rate increases down is to expand the customer base. Our efforts to cooperatively partner with Filer and Manistee Township will help increase our customer base and lower dependency on large customers.

We will also be partnering with the Michigan Rural Water Association over the summer and fall to conduct a rate study to ensure/validate that we are charging appropriate rates for the needs of our system and bring an additional level of transparency to our rate setting.