

REGULAR MEETING

The HBPW Board of Directors met
May 7, 2018
at 4:00 p.m.
in the Service Center Board Room
625 Hastings Ave.
Holland, Michigan

Chair Hemingway called the meeting to order at 4:02 p.m.

Members Present: Tim Hemingway, Diane Haworth, Sue Franz, Phil Miller, City Council Liaison Brian Lynn, and Ex Officio Members Keith Van Beek and Bob Shilander

Members Absent: Jim Storey, Brian Lynn

Staff Present: Dave Koster, Janet Lemson, Ted Siler, Becky Lehman, Chuck Warren, Joel Davenport, Jane Monroe, Jon Hofman, Kevin Koning, Anne Saliers, Steve Bruinsma, Barry Rutherford, Tamara Black, Pete Hoffswell, Tracy Jousma

18.162 **Board Minutes – Regular Meeting of April 9, 2018; and Study Session of April 23, 2018**

As part of the Consent Agenda, the Board of Directors approved the minutes as presented.

18.164 **Magna Services of America, Inc. Lease Extension and Amendment**

Magna Services of America, Inc.(Magna) leases a building owned by HBPW, located at 49 West Third Street in Holland. The original lease term was May 1, 2013, through April 30, 2018, with an annual base rent of \$95,000. The May 1, 2013, lease provided Magna with the unilateral right to extend the lease for two additional five-year terms, at a market rent mutually agreeable to Magna and HBPW at the beginning of each renewal term. The original lease also had another Magna entity, Magna Mirrors of North America LLC, serving as a third party indemnifier. In the May 1, 2018, extension, the base annual rent is increased from \$95,000 to \$166,722. This new base rent was negotiated with Magna using rates currently in effect at other similar properties in the Holland area as a guide. During the five-year term of the initial lease, Magna fulfilled all of its financial and other commitments. Considering Magna's performance, and their willingness to forego the second unilateral five-year lease extension under the original lease, HBPW has agreed to remove Magna Mirrors of North America, LLC, as a third party indemnifier.

As part of the Consent Agenda, the Board of Directors approved the Magna Services of America, Inc. lease extension and third amendment of the May 1, 2013, lease agreement. The extension term will be May 1, 2018, through April 30, 2023; and the annual base rent will be increased from \$95,000 to \$166,722, payable in equal monthly payments and forwarded to City Council for approval.

18.165 **Dark Fiber Lease Agreement With 123.NET**

123.Net has been an ISP partner for many years providing services to Holland businesses via HBPW active Ethernet connections. A dark fiber lease agreement with 123.Net will provide added capacity and redundancy for customers in the Holland area. The path requested is a long haul run between Jenison and Holland. This is a fiber path that already exists and would require minimal construction and splicing.

As part of the Consent Agenda, the Board of Directors approved an agreement with 123.Net for a ten-year term, pending approval as to form by the City Attorney and forwarded to City Council for approval.

** Red italics indicate information or discussion added during the meeting and/or action taken.*

18.166 **Dark Fiber Lease Agreement with Holland Public Schools**

Holland Public Schools has been a broadband customer since 2003 when we connected many schools through the OAISD project. Recently, they have been investigating options and would like to change their service over to a dark fiber solution. The route is to connect eight locations to Holland High School which is used as their main hub. This would require a minimum amount of construction because they are already connected to the HBPW fiber system.

As part of the Consent Agenda, the Board of Directors approved an agreement with Holland Public Schools, pending approval as to form from the City Attorney and forwarded to City Council for approval.

18.167 **WRF Disinfection Tanks Project Construction Services Agreement and Transfer from Contingency**

The WRF Disinfection Tank project includes the replacement of two sodium hypochlorite tanks used for disinfection and their associated piping. The existing tanks are 18 years old and at the end of their useful life. The tanks are being replaced by three smaller tanks with the same total volume, but will provide additional redundancy. New tank level sensors and transmitters will also be procured and installed by WRF maintenance staff as part of the project.

Bids to provide and install the tanks were requested in March 2018 and received from two qualified mechanical contractors. The following table summarizes the received bids.

Bidder Name	Business Location	Bid Amount	Meets Specification	Previous Contracts
Allied Mechanical Services	Kalamazoo, MI	\$93,900	Yes	Yes
Northwest Kent Mechanical	Cedar Springs, MI	\$129,700	Yes	Yes
Franklin Holwerda	Wyoming, MI	No Bid	N/A	N/A

As part of the Consent Agenda, the Board of Directors approved a contract with Allied Mechanical Services in the amount of \$93,900 and a 5% contingency of \$4,700 for a total of \$98,600, pending approval as to form from the City Attorney. In addition, approve a transfer from contingency of \$10,000 to the WRF Disinfection Tank project budget for a revised budget total of \$110,000 and forwarded to City Council for approval.

18.168 **WRF West Administration Building HVAC Replacement**

The HVAC condensing unit for the WRF West Administration Building failed during the summer of 2017. A temporary fix was enacted to get the system through the cooling season. After the cooling season was over, the condensing unit was inspected and found to be in need of replacement. This is an unplanned project due to the system failure.

Multiple quotes were sought for a replacement-in-kind of the condensing unit. The lowest replacement quote price is \$10,750. A 10% project contingency of \$1,075 is being requested to bring the total cost to \$11,825.

As part of the Consent Agenda, the Board of Directors approved a transfer from contingency in the amount of \$11,825 for the replacement of the WRF's West Administration Building HVAC condensing unit and forwarded to City Council for approval.

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18.169

Additional NTH Services for Coal Yard Remediation and Ash Pond Closure

NTH Consultants is providing environmental consulting services for the remediation of JDY's coal yard and ash pond system closure. Their services include developing the plans, documentation and reports required to remediate the coal yard and ash ponds for compliance with the EPA rules for clean closure and MDEQ Part 201 soil remediation requirements. Their services also include developing and implementing the groundwater monitoring program for the site.

During the course of the remediation work, subsurface conditions were discovered that required extensive additional investigations, testing and documentation to meet MDEQ requirements. In addition, the JDY site's native soils consist largely of lake bed dredge material, peat and silt due to its origin. The visually uncertain nature of the native soil is requiring additional verification, testing and documentation in order to meet the MDEQ's soil clean up requirements. NTH's additional services will ensure the HBPW meets all of the criteria required to achieve EPA clean closure status and the MDEQ nonresidential status for the site.

This Change Order will increase NTH's contract to a total of \$379,780 and does not require a transfer from contingency. In addition, due to the uncertain nature of the site's subsurface conditions, a contract contingency is being requested to allow staff to resolve remediation issues as they arise.

As part of the Consent Agenda, the Board of Directors approved a change order to NTH Consultants' services agreement for additional environmental technical support services for a not-to-exceed cost of \$59,680 and a contingency of \$15,000 for a total of \$74,680.

18.170

Energy Risk Management Policy Deviation

The Holland Board of Public Works has an established Energy Risk Management policy that establishes the framework for wholesale market activities. Within that policy, the organization has established minimum and maximum hedge criteria that staff works within when hedging purchased power and fuel. Among these criteria are maximum hedge volumes at 90% of forecasted need for the current or next fiscal year, 80% for the second fiscal year forward, and 70% for the third fiscal year forward.

Due to the continued favorability of the natural gas futures market, HBPW staff is seeking additional flexibility for fiscal years 2020 and 2021. To this effect, staff is seeking approval from the Board to increase the maximum hedge volumes in 2020 (the current second fiscal year forward) and 2021 (the current third fiscal year forward) from the policy levels of 80% and 70%, respectively, to 90% and 80% instead.

It is important to note that the total hedge calculations for the HBPW include all ownership entitlements (Belle River, Campbell 3, Renewables), power arrangements (bilateral agreements), and natural gas arrangements. As such, the hedge values in the policy do not mean that natural gas is being hedged to those values. Instead, the percent of natural gas hedged is generally expected to be 10%-20% lower than the total hedge.

It is also important to note that HBPW staff is seeking this approval as a one-time deviation from policy. Staff believes that the limitations as outlined in the policy are reasonable under normal market conditions and as such are not recommending any permanent changes to the policy at this time.

As part of the Consent Agenda, the Board of Directors approved a deviation from HBPW Results Policy R008 Energy Risk Management to increase the maximum hedge volumes for fiscal years 2020 and 2021 from 80% and 70% respectively, to 90% and 80% respectively.

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18.171 Action on Consent items:

Motion to approve, accept, or adopt Consent Agenda items	<i>Haworth</i>
Second	<i>Miller</i>
Favor	<i>4</i>
Oppose	<i>0</i>

18.172 **Communications from the Audience**

Coming up this month on Saturday, May 19 is the BPW's Recycle/Rewards Event at the BPW Service Center Parking Lot; rebates are available.

Visitors visiting HEP: the first public tour event happened just over a week ago. It was very well received; the next public tour event is Friday, May 18. There are four one-hour tour slots available. Advertising for this will be on our Facebook page as well as HollandEnergyPark.com. Since we've been open to reservations from the public, there have been 2,200-2,300 visitors to HEP. Many schools groups have visited.

18.173 **Major Project Update**

For information only

18.174 **~~CLEAR~~result Strategic Energy Management Program Item Tabled For a Future Meeting**

Community Energy Services has been able to achieve the Commercial and Industrial kWh savings goal each year, as mandated by the passage of Michigan Public Act 295 in 2008, primarily from lighting upgrades. As businesses complete conversion to LED technology, it will become much more difficult and expensive for both customers and HBPW to find kWh savings to meet goal. Additionally, HBPW would like to move away from incentives for lighting because the prices of LEDs are so low. This educational pilot program would help us discover and explore other energy saving options, especially from process energy and behavior change opportunities.

The purpose of the Strategic Energy Management program is to help large industrial customers achieve measurable, robust, and persistent energy savings through continuous improvement and employee engagement practices. It applies the total quality management technique of plan-do-check-act to identify and prioritize energy savings over the course of a 15-month structured curriculum (see SOW) that includes training, onsite consulting, and cohort discussions. Rather than traditional tactical equipment change measures, SEM is strategic and process focused, looking at behavioral changes and streamlining equipment projects. The value goes beyond energy cost reduction.

Being able to meet future kWh goals from non-lighting measures is a benefit to HBPW in starting the groundwork now. The SEM program will also deepen customer relationships by bringing added value to our large industrial customers using a structured approach and access to experts in finding O&M savings.

CLEARresult is the leading provider of energy efficiency services in North America offering a comprehensive portfolio in program filing, planning and design, implementation, measurement and evaluation, and pilots. For and in the State of Michigan, CLEARresult operates under the Efficiency United brand, including implementing SEMCO's EWR programs.

It is highly likely that SEMCO will partner with us in the program. For our customers, this means the inclusion of natural gas measures, thus making the program more robust and holistic for them. It will likely result in easier recruitment of companies to participate. Partnering with SEMCO would not change the pricing to HBPW. The price presented represents a focus only on electric

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consumption. Adding gas measures is incremental in the amount of time spent at each customer site and the breadth of content in the reports each receive.

While new to HBPW, CLEAResult has engaged more than 700 facilities in 14 states and provinces in SEM. On average, the electricity load saved is 4.9 percent.

The cost per customer is a fixed fee of \$18,500, which will be evenly split over the 15 months of implementation. As tuition and skin in the game, customers will be charged 30 percent, or \$5,550, at the start the program. Our top six industrial customers (annual kWh) will be offered the opportunity to participate first. We will continue down the list by size until the roster is full.

If approved, the program would start June 4 with a kickoff meeting and recruitment of six (maximum eight) industrial customers, starting with the largest and going down the list. This timing allows us to spread the costs (\$111,000 - \$148,000) over three fiscal years and two program years, and will fulfill much of the C&I pilot and education requirements of PA 295 for the next two years. Expense recovery from tuition is \$33,300 - \$44,400 and will fall in FY 19. Customers will be given the option to deduct tuition from their 2019 incentive cap in lieu of cash payment.

Recommendation: The Board of Directors approved the CLEAResult Master Services Agreement and the implementation of its Strategic Energy Management program in the amount of \$18,500 per customer, with customers contributing thirty percent (\$5,550), for a maximum of eight customers and \$148,000 (\$103,600).

<i>Motion to approve recommendation</i>	<i><Name></i>
<i>Second</i>	<i><Name></i>
<i>Favor</i>	<i>#</i>
<i>Oppose</i>	<i>#</i>

18.175

Compensation Program Revisions

Through its strategic planning process, the HBPW has identified Workforce as a critical organizational issue. Annually, the HBPW evaluates and adjusts its salary structures in an effort to attract, retain, and reward the performance of its utility professionals.

Every three years, the HBPW also retains the services of an external compensation consultant to review each of the utility's non-union job classifications and to provide current market-based salary data for comparison purposes.

During FY2017, the HBPW retained compensation consultant Jeff Rahmberg, of Rahmberg, Stover & Associates to perform a market analysis of 76 non-union utility job classifications. Rahmberg has previously performed similar market analyses for the HBPW in 2008, 2011 and 2014.

The most recent market analysis found that on an overall basis, actual employee salary levels at HBPW were at 98.2% of the "broad employer market." These findings indicate that, on aggregate, actual employee compensation at HBPW is market competitive.

However, the market analysis also noted that HBPW current salary structures – the "BM" and "BP" wage tables – generally constrain the HBPW from compensating above the broad market midpoint, regardless of the employee's level of performance, education, or experience. This can create issues with recruitment, retention, and compensation for leading performance.

Updated Salary Structures

As a result of this FY2017 market analysis and its findings, the HBPW is recommending replacing its BM and BP salary structures with updated salary structures that are more representative of current market data.

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Existing structures would be replaced by a Professional Salary Scale (P Scale), a Management Salary Scale (M Scale) and a Director Salary Scale (D Scale). The levels in these scales are built around the market midpoints of the job classifications relating to that scale. Allowable wage ranges are then established from 85% to 115% of the midpoint.

If these structures are approved, current employees will be transitioned to them as part of the HBPW's fiscal year-end performance and compensation review process (effective July 1, 2018). The scales would also become immediately effective for use in filling current utility staff vacancies (rather than hiring into the old scales, and then transitioning the new hires into the new scales within their first few months of employment). As of the date of this recommendation, the HBPW has five professional and/or managerial position vacancies.

Updated Performance Matrix

The recent market analysis also recommends updating the performance matrix used by the HBPW in awarding base wage adjustments to employees.

This performance matrix identifies an allowable range for each individual's compensation increase by comparing the employee's overall performance rating to the relationship of their current wage to the range midpoint. The HBPW recommends adopting the performance matrix as proposed by the Rahmberg study.

Impact Upon Payroll

The HBPW has performed extensive analysis of the potential impact on payroll of adopting the proposed salary structures and performance matrix. Moving from the current compensation program to the proposed program has the potential to impact payroll in July 2018 by 1.5% to 1.9% more than if the HBPW continued using the current "BM" and "BP" compensation structures. However, if this recommendation is not adopted, the Rahmberg study results would need to be applied to the "BM" and "BP" wage tables. Doing so could negate this differential due to job classification reassignment within those wage structures.

Because of the way the performance matrix works, the overall impact of moving to the proposed program will not be immediate, but will occur over several annual performance review cycles. The overall impact is also dependent in large part upon individual employee performance levels.
Implementation as a Pilot Program

Because this recommendation involves transitioning from legacy salary structures (the "BM" and "BP" wage tables) to a market mid-point based wage range, the HBPW recommends that this transition be implemented as a five-year pilot program for job classifications in the "M" and "P" wage tables.

The HBPW will track and annually report to the Board of Directors the following data, to assist in analysis of the longer-term impact of moving to the revised salary structures:

- Distribution of annual overall performance ratings for covered employees
- The overall compa-ratio for each wage table (ratio of actual wage to market range midpoint)
- Distribution of employee wage to range midpoint for covered employees
- Employee turnover rates

Job Classification Revisions and Staffing Adjustments

The HBPW is also recommending multiple staffing adjustments that will take place as part of these compensation program revisions. These adjustments will allow the HBPW to align its workforce with current utility needs and are requested to take effect immediately. The following adjustments will be incorporated into the proposed HBPW Job Classification Tables:

Classification being retired

Administrative Assistant – Business Services (BP-02)
Engineering Specialist (BP-08)
Administrative Assistant – Operations (BP-03)

New classification

Safety Program Coordinator (P-06)
Electric System Engineer (P-13)
Water/Wastewater Process Engineer (P-12)

These classification revisions have already been included in FY19 budget. Additional details regarding the new classifications are attached to this recommendation.

One additional recommended revision involves the HBPW’s Facility Maintenance job classification. This is an hourly (union) job classification with one incumbent. The HBPW is recommending revisions to this job classification that are significant enough to warrant additional compensation. These revisions include more involvement in work coordination, planning, and contractor interaction. As a result, this position’s wage range will be proposed to be increased.

Recommendation: The Board of Directors approved the attached D, M and P salary structures, job classification tables, and job classification revisions and forwarded to City Council for approval.

Motion to approve recommendation

Second

Favor

Oppose

Miller

Haworth

4

0

BOARD COMMENTS

None

ANNOUNCEMENTS

Reminder: Next meeting is May 21, 2018, a Study Session.

ADJOURNMENT

A motion to adjourn the meeting of May 7, 2018, was made by *Haworth* supported by *Miller* and agreed upon by the Board of Directors present.

The Board Meeting of May 7, 2018, adjourned at *5:59 p.m.*

Minutes respectfully submitted by,

Janet Lemson Secretary to the Board