



NEENAH-MENASHA SEWERAGE COMMISSION

101 Garfield Avenue • Menasha, Wisconsin 54952-3397

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August 30, 2012

Mayor Don Merkes
City of Menasha
140 Main Street
Menasha, WI 54952

RE: NMSC Wastewater Treatment Plant Modification Project

Dear Mayor Merkes;

This is a follow up to our meeting today with yourself and other City of Menasha employees to discuss the status of the NMSC project – where we are and what actions need to occur for us to proceed with the project and to obtain Clean Water Fund (CWF) financing.

- In October 2011, the NMSC obtained short term financing (bond anticipation note) to bridge the gap in financing until CWF proceeds would be obtained. The projection at that time was to receive CWF proceeds by May 2012. The short term financing is structured with a December 1, 2012 due date.
- Plant equipment was bid and ordered.
- The project included the NMSC building a bio-solids storage building in the Town of Greenville, and as you are well aware, that effort fell apart and did not occur.
- The results of not building in the Town of Greenville created delays in completing the plant design; uncertainty of a bio-solids site created design delays due to the uncertainty of where some pieces of equipment related to solids dewatering may be placed in the plant design.
- Eventually decisions were made which allowed for the continuation and completion of the plant design.
- The delay in the plant design also delayed when we would receive CWF proceeds.
- The NMSC is now in a situation of the short term financing coming due on December 1, 2012 and CWF proceeds now are projected to be obtained in January 2013 creating the need to redo the short term financing. The short term financing needed will exceed the limit our local institution is able to provide and they will need to seek additional funding with other financial institutions to meet the immediate needs of the NMSC.
- To obtain the additional short term financing, the NMSC is expected to provide assurances to the local bank we have commitments from the communities they will obtain CWF financing for the NMSC project. The local bank indicated the conditional approvals already passed would be problematic in redoing the short term financing.
- The bid opening for the Wastewater Treatment Plant Modification project is scheduled for September 13.
- Special Meeting to award bids – contingent on financing, is scheduled for September 18.

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- There are some equipment delivery timing issues that require us to have a contractor on site by mid-October.
- The project includes replacing the backup generator to comply with current EPA air emission standards and to continue receiving income from WPPI as a stand-by unit (\$58,000/yr). Failure to have this unit installed and operational by December 31, 2012 to meet current air emission standards will require us to spend an additional \$1,000,000 (approx.) to meet the new air emission standards.
- As indicated earlier, the current schedule for anticipated receipt of CWF proceeds is now January 2013. We have met with the other communities and anticipate their support and removal of restrictions placed on the NMSC for obtaining the CWF.
- During this entire process, the NMSC Attorney has been working on obtaining some form of guarantee from Sonoco; Sonoco has not said no to having a form of guarantee. We feel we are moving closer to reaching an acceptable agreement.

Items needed by the NMSC to continue:

- Community commitment to the Project and CWF borrowing from all communities with no conditional approvals.
- All communities to accept the Agency Agreement in concept (copy attached).
- Submittal of the variance request to the State to receive the variance to issue taxable CWF Bonds (copy attached).
- Signing the Clean Water Fund Application.

Thank you for your consideration of these important issues. We will be available at the September 4, 2012 City of Menasha Council meeting to answer questions, but in the meanwhile please don't hesitate to call to discuss this further.

Very Truly Yours,



Randall Much
General Manager

McMAHON

ENGINEERS ARCHITECTS

June 29, 2012

Mayor Don Merkes
City of Menasha
140 Main Street
Menasha, Wi 54952

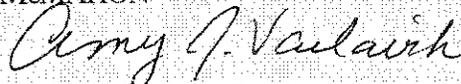
Re: Variance Request for Clean Water Fund Loan
Neenah Menasha Sewerage Commission
McM. No. N0008-910101.21

Dear Mayor Merkes:

Normally Communities that obtain funding through the Clean Water Fund (CWF) issue tax-exempt bonds or notes. Due to the fact that U.S. PaperMills, Inc. is a contract customer of the Neenah-Menasha Sewerage Commission tax-exempt bonds cannot be issued because the IRS would view this as benefiting a private entity. Tax exempt bonds or notes cannot be issued to private entities. Each member community needs to submit a Variance Request to the Department of Administration (DOA) to be allowed to issue taxable, rather than tax-exempt bonds or notes to the State in evidence of the CWF. This change will not impact the interest rate of the CWF borrowing. In the past the DOA has readily issued these variances.

The attached letter has been developed with the assistance of Rebecca Speckhard, Quarles & Brady. Formal action is not required by your governing board for this request to be processed. It is requested that this letter be submitted to the DOA by July 31, 2012. Thank you for your assistance. Please call myself or Rebecca Speckhard if there are questions.

Very truly yours,
McMAHON



Amy J. Vaclavik, P.E., BCEE
Associate / Sr. Project Engineer

Enclosure

cc: Tom Stoffel, Comptroller – City of Menasha
Roger Voigt, NMSC
Rebecca Speckhard, Quarles & Brady
Raymond Zielinski, NMSC
Kathy Bauer, NMSC

July , 2012

Mr. Mike Huebsch, DOA Secretary
Department of Administration, 10th Floor
P. O. Box 7864
Madison, WI 53707-7864

RE: Variance Request for City of Menasha Clean Water Fund Loan

Dear Secretary Huebsch:

The City of Menasha plans to file an application for a Clean Water Fund (CWF) Loan in the approximate amount of \$5,575,700 to fund improvements to the Neenah-Menasha Sewerage Commission's (the "Commission") wastewater treatment plant. The Cities of Menasha and Neenah, the Town of Menasha, the Town of Neenah Sanitary District #2 and the Waverly Sanitary District constitute the active members of the Commission. These improvements are required to replace the aging equipment and maintain treatment capacity to ensure long-term economic viability of the area served by the Commission. Pursuant to Wisconsin Administrative Code Section Adm. 35.09, the City of Menasha requests a variance to allow it to issue taxable, rather than tax-exempt revenue bonds to the State in evidence of the CWF Loan.

The Commission is engaged in negotiating an amended service agreement with an industrial user, U.S. Paper Mills, Inc. (U.S. Paper) whose usage accounts for approximately 17 % of the capacity of the wastewater treatment plant. Several members of the Commission have asked that U.S. Paper guarantee its capital share of the project expenses under the service agreement. The Commission has, in the past, used such an agreement with its large industrial users to ensure that such user pays for the portion of the treatment plant that is allocable to its expected use even if the industry closes its operations. The members of the Commission desire to afford that level of financial protection to their residents and customers. The City of Menasha is advised by bond counsel that the take-or-pay nature of the proposed agreement will cause the bonds issued to the State to be taxable.

If the City of Menasha is unable to issue taxable obligations to the Clean Water Fund Program, the members of the Commission, including the City of Menasha and their residents will suffer significant financial hardship. Either the Commission will have to forego the guarantee under the industrial agreement, in which case the other users of the Commission's sewer system, including those in the City of Menasha, would have to pay the industrial user's share of the cost of this project if for any reason the industry closed down or relocated; or alternatively, the Commission would have to sell taxable obligations on the commercial market, which would result in an increased cost to the users of the Commission's sewer system.

Mr. Mike Huebsch, DOA Secretary
July , 2012
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The potential effect on the City's sewer rate payers of either of the options described above is very significant. Without an industrial contract in place, the average charges to the member communities could increase approximately 25% to 40%. We are also concerned that passing along the increased costs of non-CWF taxable financing to the industrial user may jeopardize the financial viability of its operations in layoffs and plant closings; and therefore, we want to do all we can to not add any additional costs to the industrial user that are not absolutely necessary. U.S. Paper is one of the area's major employers with approximately 105 employees.

The City of Menasha respectfully requests that a variance be granted to allow it to issue taxable obligations to the State Clean Water Fund Program for this project.

Sincerely,

Mayor Don Merkes

cc: Aaron Heintz, Department of Administration
Roger Voigt, NMSC
Amy Vaclavik, McMAHON