



M E M O R A N D U M

DATE: July 18, 2011
TO: Neenah-Menasha Sewerage Commission
FROM: Mayor George Scherck, Finance and Personnel Committee Chairman John Ahles
RE: Sewer Facilities Capital Improvement Project

As you are aware, City of Neenah officials Mayor George Scherck and Director Of Finance Mike Easker were participants at the meeting held June 29 with the Neenah-Menasha Sewerage Commission at the Town of Menasha regarding both the planned \$21 million upgrade of the sewer facilities as well as the recommended means of financing the project.

At its July 11 committee meeting, the City of Neenah Finance and Personnel Committee were presented with information from that meeting. This included copies of handouts from both McMahon Engineering and Architects and Wisconsin Public Finance Professionals. Items discussed at the committee meeting included the following: the projected cost of the project; the proposed timing of the project and related schedule for borrowing; the projected sewer rate increase necessary to fund the improvements; the ability of the Sewerage Commission to use Clean Water Fund borrowing through the member municipalities versus another borrowing option; the City of Neenah potential share of the borrowed funds; and a discussion regarding the makeup of the Sewerage Commission and the City's ability to influence decisions made by the Commission. The Committee also discussed the fact that the Commission has not made a formal proposal to the City for it to consider.

It first should be noted that the Committee applauds the Commission for its decision to pursue the lowest cost option of Clean Water Fund financing, even though such a decision inevitably has created greater scrutiny and input by member municipalities. That said, having reviewed the preliminary set of facts and issues, the Finance and Personnel Committee has determined the following to be City of Neenah priorities relative to the proposed project plan:

- Based upon the preliminary schedule on page 9 of the McMahon report, the Commission delay any solicitation of equipment bids for this project until a final approved financing plan is in place.
- That the member municipalities not be responsible to borrow a higher proportionate share of the Clean Water Fund debt to provide upfront financing of the 16-17% Sonoco U.S.Mills capacity requirement, and that instead an alternative option be negotiated with Sonoco that minimizes member municipality risk.
- Restructuring of the existing 2003 Revenue Bond Debt to allow for maximum flexibility when "layering in" the new debt repayment schedule.

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Office of the Mayor

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- Suspending the current \$223,200 Annual Depreciation Fund contribution until 2016 as suggested on page 8 of the McMahon report, then using those funds towards repayment of the restructured 2003 debt.
- That the Commission strongly consider delaying implementation of this project or related financing plan for at least one year. This would put the Clean Water Fund borrowing at no earlier than June/July 2013. This, in concert with the 2003 debt refinancing and the application toward debt repayment of the Annual Depreciation Fund contribution, could delay any debt payments on the Clean Water Fund debt until after the refinanced 2003 Revenue Bonds have been paid in full. **Such an arrangement would minimize the rate impact of the new debt to the greatest degree possible.**
- Assuming a delay in Clean Water Fund borrowing until June/July 2013, that the Commission pass a "reimbursement resolution" in early 2012 to allow the Commission to reimburse itself for project costs incurred prior to the debt issuance. Typically, such a resolution would allow for any debt issuance to include capital costs that were incurred up to 18 months prior to the issuance of the debt.
- That the Commission consider issuance of a short-term debt obligation to cash flow any capital needs in the interim period, if necessary.

The City of Neenah respects the Commission's foresight in looking ahead and seeking out the most cost effective solution to a necessary capital project. We also believe that there would be much added value to the rate payers of all of the member municipalities from our stated priorities relative to the initial project plan. We do ask that those priorities be given thorough consideration before the process continues any further. Please feel free to contact Mayor Scherck or Director of Finance Easker with any questions or comments.

cc: Jeffrey Sturgell, Town of Menasha
Donald Merkes, City of Menasha
Jan DeKeyser, Town of Neenah
Cathy Girdley, Waverly Sanitary District
James Godlewski, City of Neenah