

## Steam Utility Assets

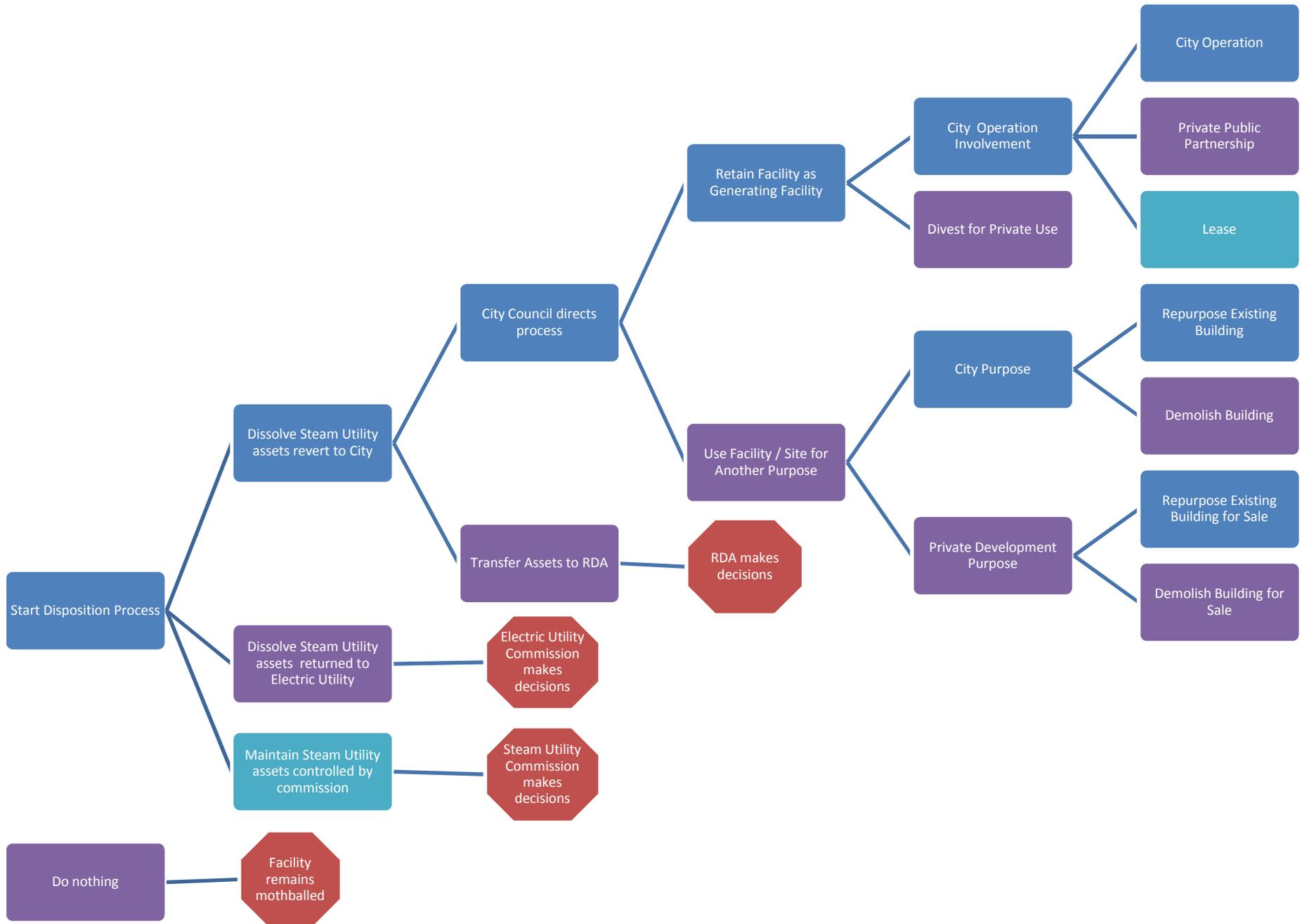
Based on discussions with Schenck, our auditors, the assets of the steam utility need to be transferred by 2012 year end since they are no longer an enterprise fund of the Utility, the facility has been non-operational since October 2009, and the bondholder settlement happened January 2012. These assets are considered impaired and have been written down in value from the original value book value and as of December 31, 2011 are booked at \$12,456,065.

The options discussed and considered is a transfer to the City or the electric utility:

- Transfer to the Electric Utility (MEU)
  1. In order for the assets to be transferred to the electric utility approval would be needed by the Public Service Commission (PSC) of Wisconsin based on the rate order dated March 12, 2010. A justification of the benefits to the electric utility and the electric ratepayers would need to be explained and under condition 8 of the rate order will need approval of the interdepartmental arrangement. In our view, it is very unlikely that the PSC would approve such a transfer given the history of the steam project and the PSC's unprecedented approval of the electric utility asset sale/leaseback to facilitate resolution of the bondholder settlement and insulate the electric utility and electric ratepayers from the effects of the bondholder lawsuit. Furthermore, if the steam assets are sold then the proceeds would be required by law to remain with the electric utility to be used to fund electric operations unless additional PSC approval was granted under condition 13 in the order declaring the proceeds surplus and authorizing distribution to the City of Menasha. We believe the PSC would not declare the funds surplus and approve distribution of the proceeds and would instead require the electric utility to use them to benefit electric ratepayers, by either funding operations or buying back the electric distribution system assets from WPPI. Condition 13 also states that MEU may not become surety, guarantor or endorser upon any obligation, contingent or otherwise, for another Menasha-owned utility without prior PSC approval.
  2. Under the WPPI lease agreement there are several provisions that prohibit a transfer of assets to the Electric Utility. Under provision 4.6 it states there will be no subsidization of other City departments and interdepartmental arrangements would need approval. Under provision 4.9 it further states that Menasha Electric Utility shall be maintained as a separate utility for all purposes and shall not be combined with any other utility that the City may own or operate, including but not limited to any water, steam, telecommunication, energy services or generation facilities. All of these lease provisions were adopted by the PSC as conditions in the order, and the PSC has the authority to independently enforce them.
  3. Under the WPPI asset purchase agreement under Sections 5.10 and 6.1(k) one condition to closing was that the electrical utility held only assets used for electrical distribution.

The language in Recital D demonstrates that the parties expected that the electric utility would not later be combined with any other utility operations, which reinforces those related provisions in the lease.

- Transfer to the City
  1. This would not require PSC or WPPI approval and would not violate the PSC rate order or the WPPI lease agreement
  2. Currently the City is paying the operational costs of the Steam Facility
  3. The current General Obligation (GO) debt is funded by the City of Menasha and if the steam assets are sold then those funds could be utilized to pay down the GO debt.



Start disposition process		Do nothing	
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>•Brings conclusion and certainty to community</li> <li>•May bring in funding to pay down debt</li> <li>•May bring in additional jobs at facility</li> </ul>	<p><b>Challenges</b></p> <ul style="list-style-type: none"> <li>•May involve additional costs to market, rehab, or demolish</li> </ul>	<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>•Delays final decision</li> <li>•Economy may improve and facility become more marketable</li> </ul>	<p><b>Challenges</b></p> <ul style="list-style-type: none"> <li>•Costs for mothballing facility continue to accumulate</li> <li>•Annual cost to keep facility mothballed including heat</li> <li>•Security and insurance difficult for vacant buildings</li> <li>•Equipment continues to deteriorate</li> <li>•GE Lease agreement may be called and city required to return equipment to Chicago</li> </ul>
<p>Potential Costs:  sale or lease to other entity – unknown potential revenue  demolition or partial demolition – up to \$1,000,000  marketing – unknown depending on options</p>		<p>Potential costs:  heat &amp; maintenance \$35,000  return GE equipment \$78,960  Insurance - unknown</p>	

Dissolve Steam Utility assets revert to City control		Dissolve Steam Utility assets returned to Electric Utility (see attached handout)		Maintain Steam Utility assets controlled by Commission (current status)	
<b>Strengths</b> <ul style="list-style-type: none"> <li>•Decisions made at elected official level</li> <li>•Funding available through city budget process</li> <li>•Does not require PSC or WPPI approval</li> <li>•If assets are sold funding could be used to pay down existing debt</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>•Decisions may be politically based rather than business based</li> <li>•Funding for projects or studies would be born by the taxpayers</li> </ul>	<b>Strengths</b> <ul style="list-style-type: none"> <li>•Cost impacts not with taxpayers</li> <li>•Utilities staff has more background information on facility</li> <li>•Utilities staff has more background with potential purchasers</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>•Decisions made could require a second level of approvals through the common council</li> <li>•Justification of the benefits to the ratepayers would need to be approved by the PSC</li> <li>•Proceeds from sale of assets would be retained by electric utility</li> <li>•Lease requires approval from WPPI for interdepartmental arrangements</li> <li>•Lease condition that electric utility holds only assets used for electrical distribution</li> </ul>	<b>Strengths</b> <ul style="list-style-type: none"> <li>•Cost impacts not with taxpayers</li> <li>•Utilities staff has more background information on facility</li> <li>•Utilities staff has more background with potential purchasers</li> <li>•Does not require PSC or WPPI approval</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>•Decisions made could require a second level of approvals through the common council</li> <li>•Utility has no sources of funding</li> <li>•Utility doesn't currently operate as an enterprise fund, auditor has recommended dissolving if there are no planned business operations</li> </ul>
Potential Costs:		Potential Costs:		Potential Costs:	

## City Council directs progress

## Transfer Assets to Redevelopment Authority

### Strengths

- Decisions made at elected official level
- Funding available through city budget process
- Does not require PSC or WPPI approval
- If assets are sold funding could be used to pay down existing debt

### Challenges

- May involve additional costs to market, rehab, or demolish

### Strengths

- Business experience of members of RDA
- Cost impacts not with taxpayers

### Challenges

- Decisions made could require a second level of approvals through the common council

Potential Costs:

Potential Costs:

## Retain Facility as Generating Facility

## Use site or facility for Other Purposes

Strengths	Challenges
<ul style="list-style-type: none"> <li>•Building was designed for this purpose / investment made</li> <li>•Equipment in relatively good condition and mothballed for future reuse</li> <li>•Job opportunities</li> <li>•Potential tax base or PILOT payment</li> <li>•May offset settlement debt load</li> <li>•May avoid costs of removing and returning GE leased equipment still housed at facility</li> <li>•Avoids demolition costs</li> </ul>	<ul style="list-style-type: none"> <li>•Waterfront may not be best for industrial use in future</li> <li>•EPA remains unresolved</li> <li>•City and citizens may not have appetite for continued risk or expenditures</li> <li>•Market for renewable energy produced has not materialized</li> <li>MISO market pricing for energy remains low</li> <li>•Natural gas prices remain low for producing steam</li> <li>•Opposition by environmental groups towards coal</li> <li>•Lack of support of renewable fuel combustion by environmental groups</li> <li>•May require emission control</li> <li>•May require investing in outside help to develop an RFP proposal and distribution list</li> <li>•Purchaser of energy from plant difficult to secure due to low demand.</li> </ul>

Strengths	Challenges
<ul style="list-style-type: none"> <li>•Waterfront location</li> <li>•Nearby industrial users could be interested</li> </ul>	<ul style="list-style-type: none"> <li>•Generation equipment would need to be removed</li> <li>•Site is constrained</li> </ul>

Potential Costs:

Potential Costs:

## City Involvement in operations of Generating Facility

## Divest for Private Use as Generating Facility

### Strengths

- Job opportunities
- Potential tax base or PILOT payment
- May offset settlement debt load
- May avoid the cost of removing and returning the GE equipment still housed at the facility
- Avoids demolition costs

### Challenges

- City and Citizens may not have the appetite for continued financial risk.
- EPA Notice of Violation remains unresolved
- Due diligence to ensure business plan is correct

### Strengths

- Job opportunities
- Potential tax base or PILOT payment
- Proceeds may offset settlement debt load
- May avoid the cost of removing and returning the GE equipment still housed at the facility
- Avoids demolition costs
- Lower risk than city involvement

### Challenges

- EPA Notice of Violation remains unresolved
- Will likely involve upfront costs for marketing
- Weak market for both steam and electricity
- Potential contamination onsite
- Limited number of potential purchasers
- Time it may take to complete due diligence and sale may be extended

Potential Costs:

Potential Costs:

City Operation as generation facility		Public Private Partnership as generation facility		Lease Facility as generation facility	
<b>Strengths</b> <ul style="list-style-type: none"> <li>•Potential PILOT payment</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>•City and Citizens may not have the appetite for risk.</li> <li>•EPA Notice of Violation remains unresolved</li> <li>•May require outside services to develop business plan</li> </ul>	<b>Strengths</b> <ul style="list-style-type: none"> <li>•Potential tax base or PILOT payment</li> <li>•Financial risk is shared with an outside entity</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>•City and Citizens may not have the appetite for risk.</li> <li>•May require outside services to develop RFP and Proposal</li> </ul>	<b>Strengths</b> <ul style="list-style-type: none"> <li>•Potential PILOT</li> <li>•Avoids buyer issues with any potential contamination</li> <li>•Maintains options for future development as riverfront changes</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>•May require outside services to develop an RFP Proposal and distribution list</li> </ul>
<ul style="list-style-type: none"> <li>•Job opportunities</li> <li>•May offset settlement debt</li> <li>•May avoid the cost of removing and returning the GE equipment still housed at the facility</li> <li>•Avoids demolition costs</li> </ul>	<ul style="list-style-type: none"> <li>•Renewable energy market soft</li> <li>•MISO market low</li> <li>•Cost to produce steam with gas low</li> <li>•opposition to coal from environmental groups</li> <li>•Lack of support from environmental groups for renewable fuel</li> <li>•May require emission control</li> <li>•EPA unresolved</li> </ul>	<ul style="list-style-type: none"> <li>•Job opportunities</li> <li>•May offset settlement debt</li> <li>•May avoid the cost of removing and returning the GE equipment still housed at the facility</li> <li>•Avoids demolition costs</li> </ul>	<ul style="list-style-type: none"> <li>•Renewable energy market soft</li> <li>•MISO market low</li> <li>•Cost to produce steam with gas low</li> <li>•opposition to coal from environmental groups</li> <li>•Lack of support from environmental groups for renewable fuel</li> <li>•May require emission control</li> <li>•EPA unresolved</li> </ul>	<ul style="list-style-type: none"> <li>•Job opportunities</li> <li>•May offset settlement debt</li> <li>•May avoid the cost of removing and returning the GE equipment still housed at the facility</li> <li>•Avoids demolition costs</li> </ul>	<ul style="list-style-type: none"> <li>•Renewable energy market soft</li> <li>•MISO market low</li> <li>•Cost to produce steam with gas low</li> <li>•opposition to coal from environmental groups</li> <li>•Lack of support from environmental groups for renewable fuel</li> <li>•May require emission control</li> <li>•EPA unresolved</li> </ul>
Potential Costs: Highest Risk		Potential Costs: Medium Risk		Potential Costs: Lowest Risk	

## Use Facility / Site for City Purpose

## Sell Facility / Site for Private Development

### Strengths

- Provides opportunities reuse of building to provide city services
- Potential to preserve historic architecture
- Provides opportunities for land banking for future projects
- Alleviates need for city to purchase land for service needs
- Provides additional space for use by city functions or storage
- Allows salvage to defray costs
- Salvage value may exceed costs
- Could save demolition costs

### Challenges

- Site remains tax exempt
- Property location distant from other city facilities
- Costs for demolition could exceed salvage value
- Rail infringes on two sides of property
- GE System needs to be resolved
- Building was originally designed for specialized purpose may not be easily adapted
- Structural status after removal of generating equipment unknown
- Site small for limited parking/storage space
- zoning

Potential Costs:

### Strengths

- Potential for additional jobs on site
- Potential reuse of building
- Offers flexibility for new use
- May open riverfront property for new development
- May allow salvage to defray costs
- Sale outright may reduce demolition costs to city
- Sale would place building on tax roll
- Rail access
- Industrial area

### Challenges

- Active rail bed between site and waterfront
- Unique site will be challenging to market, will likely have upfront costs associated with to be successful
- Industrial area bordering residential area
- GE System needs to be resolved
- Costs for demolition may exceed salvage value
- Constrained site
- Zoning
- May require relocation of fiber system and radio system

Potential Costs:

## Repurpose Building for City Purpose

## Demolish Building and use site for City Purpose

**Strengths**

- Allows salvage to defray costs
- Salvage value may exceed costs
- Continues use of serviceable building
- Saves demolition costs
- Provides additional space for use by city functions or storage

**Challenges**

- Use unknown
- Property location distant from other city facilities
- Property remains tax exempt
- Building was originally designed for specialized purpose may not be easily adapted
- Structural status after removal of generating equipment unknown
- Site small for limited parking/storage space
- GE System needs to be resolved

**Strengths**

- Offers most flexibility for new use

**Challenges**

- Use unknown
- Property location distant from other city facilities
- Costs for demolition will likely exceed salvage value
- Small site
- Rail infringes on two sides of property
- GE System needs to be resolved
- Property remains tax exempt

Potential Costs:

Potential Costs:

## Repurpose Building for Private Development

## Demolish Building and use site for Private Development

**Strengths**

- Allows salvage to defray costs
- Salvage value may exceed costs
- Continues use of serviceable building
- Saves demolition costs
- Increases potential sale price of property
- Sale would place building on tax roll
- Rail access
- Industrial area

**Challenges**

- Building was originally designed for specialized purpose may not be easily adapted
- Structural status after removal of generating equipment unknown
- Site small for industrial use limited parking/storage space
- Industrial area bordering on residential area
- GE System needs to be resolved
- Marketing costs for unique building

**Strengths**

- Offers most flexibility for new use
- Opens riverfront property for new development

**Challenges**

- Costs for demolition will likely exceed salvage value
- Industrial area bordering residential area
- Small site
- Rail infringes on two sides of property
- GE System needs to be resolved
- Marketing costs for unique site

Potential Costs:

Potential Costs: