

Cuyahoga Falls City Council
Minutes of the Finance and Appropriations Committee Meeting

October 2, 2017

Members: Carol Klinger, Chair
Russ Iona
Mike Brillhart

Mrs. Klinger called the meeting to order at 6:30 p.m. All members were present.

The minutes of the 7-24-17 and 9-18-17 Finance Committee meetings were approved as written.

Legislation Discussed

Temp. Ord. B-70

Temp. Ord. B-71 (Sub. Dated 10-2-17)

Temp. Ord. B-72

Temp. Ord. B-73 (Sub. Dated 10-2-17)

Discussion:

Temp. Ord. B-70

An ordinance authorizing the Director of Public Service to enter into a contract or contracts, for the sale of Cuyahoga Falls Bulk Electric System (BES) 138KV assets to American Transmission Systems Inc. (ATSI), a First Energy Subsidiary, and declaring an emergency.

Mrs. Klinger stated the handout that she presented to everyone before the meeting is some facts to help understand an electric system. Located on page 6 of the handout are some acronyms. FERC is the Federal Energy Regulatory Commission. NERC is a nonprofit agency that's overseen by FERC. Their purpose is reliability. Reliability means the system is up and running and providing electric service to customers. They are an enforcement arm and they are the ones that put out all the fines. Noncompliance fines can run up to \$1 million a day. This legislation also talks about PJM. That is a regional transmission organization that covers the Northeastern United States, including Northeastern Ohio. Cuyahoga Falls is a part of that. PJM manages the wholesale distribution of electrical and high-voltage electrical costs in that part of the country. The ordinance also talks about ATSI. That's a subsidiary of First Energy. They're a voting member of PJM and they're a transmission owner. They control about 7,500 pole miles of transmission lines. First Energy and ATSI will be used synonymously tonight.

Mrs. Klinger stated that, in looking at Cuyahoga Falls' electric system, they have 138 kilovolts at the Valley and Theiss Substation, plus there are 1.87 miles of 138 kilovolt lines on West Portage Trail Extension. On page 2 of the handout, it talks about the difference between transmission-level voltage, that's 138 kilovolts, and distribution-level voltage. These, along with all the related equipment that works with it, have put the City's electric system into a classification of a transmission owner. In July of 2016, the City was a compliant transmission owner, but, to continue to be a compliant transmission owner, there are significant regulations that are onerous and costly that must be overcome. These include building and creating a control room that must be operated

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by certified operators. It would have to run 7 days a week, 24 hours a day. That cost, alone, on a contractual basis is about \$180,000 a year. The cost of setting up that control room is estimated to be another \$100,000. This legislation is basically to sell the City's system to ATSI, or First Energy, and relieve it of the transmission owner regulations. The sale must be approved by FERC, the Federal agency. The Federal regulations set the sales price. The sale price is the book value price of \$1,621,000. Both Hudson and Wadsworth have started down the same route to sell their bulk systems that is being proposed tonight. AMP Ohio has been consulted on this, and they're agreeing that this is in best interest of the City's electric system and customers.

Mrs. Klinger stated that, today, Cuyahoga Falls and First Energy have access to some of the City's equipment on a joint basis, and this will continue. First Energy will have to replace the protective systems and then they're only going to have access to those panels. Cuyahoga Falls will also have to buy a separate battery bank for the system, and that will cost \$27,000. Prior to this proposal and the new regulations, the City's transmission costs were forecasted to go up by 10 percent a year over the next 5 years. In looking at the overall proposal, it is merely moving costs. For example, the City spends about \$50,000 a year in contractual labor to maintain their 138 kV systems. That maintenance will stop and will no longer be in the Electric Department's consulting cost. First Energy will be responsible for that maintenance, and the City's two miles of line will be absorbed into their 7,500 miles of pole mile lines. First Energy, with the economies of scale, can perform this service more cost effectively than the City can. It is believed that it will cause transmission costs to increase at a slower rate than projected in the rate study that was done a few years ago. In terms of reliability, NERC sets the standards for the maintenance of the equipment and the operation, so there is not going to be any change in reliability by turning this system over to First Energy.

Mrs. Klinger stated that she would like verbal verification tonight that the sale of these assets is not going to trigger any debt covenant issues or any default in debt covenant issues. Mr. Michael Dougherty, Electric Superintendent, stated that it shouldn't. The City will be getting a payment that would go into the Electric Fund. The expectation is that the expenses the City has every year should go down, as First Energy will spread the cost of doing that work over their whole footprint, and the City would only pay a portion of that and not have those expenses anymore. It should be favorable to the City's debt covenants. Mrs. Klinger stated that she would like to know if ATSI would consider including in the contract the right of first refusal for future transfers or a right to repurchase the system, at some point in the future, if who knows what happens to regulations or this hasn't worked out and the City would need to purchase those assets back. There isn't a contract to read. As that contract is developed, she would like to see that type of language in the contract if the regulations allow it. Also, the proceeds from this sale are going to go into the peak shaving generators that are going to be discussed in the next ordinance. In summary, the sale will not have an impact on the electric service to Cuyahoga Falls customers, and it should result in minimal increases in transmission costs. This legislation is the first step in the process to go into a sales contract that FERC will have to approve with the hope that there would be final implementation by the first quarter of 2018.

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Mr. Dougherty stated that he hasn't spoken to First Energy about the right of buying it back if they go to sell, so he doesn't know what their opinion is on that. He handed out a few things to show the location of the transmission lines that would be for sale. It's the high lines on Portage Trail Extension between the two points that are on the map that are marked with a black permanent marker to show approximately where it starts and ends on Portage Trail Extension. The other drawing is Valley and Theiss. The equipment that would be sold in those substations is circled. Not everything would be sold in those substations. It is only what is considered 138 kV bulk system that falls under NERC. The transformers or any of the low-voltage switch gear would not be sold. The expectation is that the City would be out from under NERC regulations. The City may still be a distribution provider, but it would own no equipment that falls under any of the rules, so its NERC obligation is gone for all practical purposes.

Mr. Iona stated that it's not going to affect the citizens; it's just something they need to do to streamline the process. Mr. Dougherty stated that PJM covers the operations. NERC covers the maintenance of this equipment. None of that is going to change. First Energy would be responsible for that, just as the City would be. Mrs. Klinger stated that it would be for the better, because these regulations are very onerous. They're hard to read and they change all the time. The fines could be \$1 million a day. If a mistake is made, it could cost people a lot of money. The City doesn't want to fall into the trap. Ms. Nichols-Rhodes asked what percentage of the City's assets they are selling and is this going to affect the rates. Mr. Dougherty stated that it will affect transmission rates that the City is charged, because, instead of paying for them out of the Electric Fund, First Energy is now going to incur those expenses. They're going to roll that into what's known as revenue requirements, which get spread over ATSI's footprint, of which the City will pay a portion according to what percentage of what peak load that's on First Energy's peak hour of the year. What the City ends up paying for addition to transmission costs is going to be very minimal compared to the expenses that the City is no longer going to be incurring directly. Ms. Nichols-Rhodes asked how much of the assets are being sold compared to how much the City would retain. Mr. Dougherty stated that it is approximately 50 percent of the assets in each substation, Valley and Theiss. Mrs. Klinger stated that, to clarify, that is not 50 percent of the total assets of the electric. Mr. Dougherty stated it is just what is in those two substations.

Mr. Rubino asked if there was a representative from First Energy here and would he be permitted to ask him some questions. Mr. Milo Pokrajac, Director of the Business Development Group for First Energy, stated that he has been very much involved with the regulatory process for many years. If Council has any questions about the transfer and rates, he should be able to answer those questions for them, and, if not, he will get back with them. Mr. Rubino asked why First Energy would want to do this. Mr. Pokrajac stated that First Energy has one of the most extensive transmission networks in the country, with 23,000 or 24,000 miles of transmission systems across its territories. In the ATSI zone, which is the subportion of First Energy's system located predominantly in Ohio, they have approximately \$45 billion of investment. Cuyahoga Falls' piece of the \$1.6 billion financially is not anything for First Energy, but it is an operational concern for them. Cuyahoga Falls has a requirement from NERC to behave in a certain way and have documentation that it is, in fact, maintaining its equipment in a certain way. First Energy must do

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that in all their systems; not just one segment. Cuyahoga Falls is integrated with their system with assets that are in a direct network path. Cuyahoga Falls is also in an ATSI zone, so they are a transmission customer that pays a transmission rate based on network peak load, essentially contributing to the total network peak load. In the total electric bill that ATSI has per year, Cuyahoga Falls will probably use less than half a percent of that electric. By First Energy absorbing the City's facilities into their system, from that point on, First Energy will have to essentially maintain those facilities. When they need to be replaced, they would need to replace them. For example, a ring bus structure would be expensive to replace. Today, it may not have a lot of value from a depreciated basis, but if the City is required to replace it, it would be \$5 million to \$10 million. For First Energy, a \$5-billion company, it is not a lot of investment; however, these components can affect their grid, as well. A failure in Cuyahoga Falls' system can directly impact all the customers in First Energy's footprint. They want to make it reliable for everybody, so the cost of these investments they pay for now will be absorbed by the entire zone. Any system is only as strong as its weakest link. Cuyahoga Falls is not the weakest link, but First Energy does not have operational control. They have one of the most modern control centers in the world. They want to control those assets and maintain them in the most efficient operational manner, so that it provides the greatest level of service to all their customers. Cuyahoga Falls is one of First Energy's wholesale customers. In fact, transmission is a wholesale service, so every connection point in their grid is a wholesale connection point.

Mr. Rubino asked why it is timely now, as opposed to three or four years ago. Mr. Pokrajac stated that NERC has an actual real liability and has identified Cuyahoga Falls and is in the process of identifying all transmission owners that could potentially affect the bulk electric system. The time may be driven by that, because the City approached them and asked if they would be interested in operating their assets that are under NERC regulations. That's when First Energy said it makes more sense to own those facilities, so that any improvements that need to be made to them in the future can be made by them. First Energy does not like to operate facilities it doesn't own. It does make sense for them to own all transmission facilities within their zone. This is a situation where Cuyahoga Falls ended up with an electric transmission facility, that, in his view, it probably should have never had to begin with. It would be better to operate all as one system.

Mrs. Pyke asked if First Energy is working with all the municipalities within AMP Ohio that are involved with the NERC regulations. Mr. Pokrajac stated that they are currently working with several of those. Cuyahoga Falls does not have to sell its system to First Energy. If the City wants to own it and operate it, it must comply with NERC regulations. First Energy thinks it makes sense for them to own and operate it and keep an eye on it, just as they would any other asset in their footprint. Their intention would be to work with all entities that own network transmission in their zone, whether it's in Ohio or any other place. That's something that is a part of increasing regulations and ever-increasing awareness about national security and transmission being part of that. Those types of requirements are getting stricter and stricter each day; because of that, they tend to recognize that it is in everybody's best interest if they operate those facilities.

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Mr. Dougherty stated that some of the AMP members, but not all of AMP members are in the First Energy zone. Mr. Pokrajac stated that if they're not in their zone, they have no ability to talk with them. Mrs. Pyke asked if this would affect the City's relationship with AMP Ohio. Mr. Dougherty stated that there is a contract that AMP designed with First Energy that explains how transmission services would be delivered. That contract would have to be modified, but, other than that, for all practical purposes, it really shouldn't change anything. That contract will have to be modified as to who owns what and how the City will be billed for transmission services. Mrs. Pyke asked if they could see a transmission decrease. Mr. Dougherty stated that the customer will not see that on their bill. It is not going to be largely noticeable, but it should have the effect of taking the cost down. Ms. Nichols-Rhodes asked if the contract for a finite period. Mr. Dougherty stated that what happens is ATSI is a transmission owner, just like Cuyahoga Falls is right now, except the City is not a full transmission owner under PJM yet. They would have to do more things to fully be a transmission owner under PJM, but ATSI, or First Energy does what any transmission owner of size typically does, and they file for revenue requirements. They will continue to do that as long as they own the asset. As long as the City is in their zone, it will continue to be charged transmission charges.

Mr. Iona moved to bring out Temp. Ord. B-70 with a favorable recommendation, second by Mr. Brillhart. Motion passed (3-0).

Temp. Ord. B-71

An ordinance authorizing the Director of Public Service to enter into a contract or contracts, without competitive bidding, with OMEGA JV1 for the "as is" purchase of all JV1 assets on City property and to terminate the OMEGA JV1 lease agreement, and declaring an emergency.

Mr. Brillhart made a motion to amend Temp. Ord. B-71 with Temp. Ord. B-71 (Sub. Dated 10-2-17), second by Mr. Iona. Motion passed (3-0).

Temp. Ord. B-71 (Sub. Dated 10-2-17)

An ordinance authorizing the Director of Public Service to enter into a contract or contracts, without competitive bidding, with OMEGA JV1 for the "as is" purchase of all JV1 assets on City property and to terminate the OMEGA JV1 lease agreement, and declaring an emergency.

Mrs. Klinger stated that the change in these next two ordinances is to put a cap in place, because they are to enter into a contact and there is no copy of the contract for Council to read tonight. This ordinance was discussed in the budgets to take the six generators that are behind Substation 5 in the Electric Building and convert them to be EPA compliant. To do that, these generators must be purchased from JV1 at a cost of \$108,000. That cost was established by a price that was set by a third party. The ordinance that will discussed next is to hire the contractor to basically start working on bringing them into compliance, so they can be used to shave energy during peak generation time to save money. The total cost of the project to bring these into compliance is about \$1.2 million. It is going to take a series of ordinances to get there, but the first step is to purchase the units from JV1.

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Mr. Dougherty stated that there is a map that he passed out with the location of JV1 at the Service Complex circled and highlighted. It also indicates where they would be connecting to the system when it's all done. He also handed out a spreadsheet that shows the value of 9 megawatts of peak saving generation. Typically, when AMP does a study based on determining power expense savings, they will assume 66 percent of the possible savings in their calculation. That's indicated in the last column. If these generators were run during all the peaks, which will be the top five hourly peaks each year in PJM and the top one-hour peak in ATSI each year, they will get 100 percent of that estimated value. It is set for 2018. Anything after that is estimated, but transmission costs are estimated to be going up at about 10 percent a year for at least the next 5 years. In adding up 2018 and 2019 in the last column, it equals about \$1.3 million on the conservative side, so the City should make up its expense in no more than two years and possibly around a year or a little more than a year. After that, it can be called pure profit, but is actually cost avoidance. The estimated savings are, on the conservative side, at 66 percent, or, if all the peaks are hit, what the savings would be per year. It is estimated that, with minor repairs and converting the equipment with the equipment necessary to comply with the EPA, they would get at least get five years out of these. It's possible to get up to 10. There may be more repairs to make them last 10 years. There is going to be a cost-benefit analysis each year about how each generator is running and whether it's worth it to keep it going. Mrs. Klinger stated that if these were purchased new, they would be paying between \$6 million and \$8 million.

Mrs. Pyke asked if these were natural gas or diesel generators. Mr. Dougherty stated that they were diesel. Mrs. Pyke asked if they were also calculating in the cost of the diesel when calculating the savings on the peak. Mr. Dougherty answered no and stated that this is just purely the savings. The expenses to run them each year is independent of that; approximately \$50,000 a year for maintenance and for diesel costs. They expect to run them only about 60 to 100 hours to try to get those peaks, so that's not very much running time. They would also be run for the kind of testing that is needed on an annual basis.

Mr. Brillhart moved to bring out Temp. Ord. B-71 (Sub. Dated 10-2-17) with a favorable recommendation, second by Mr. Iona. Motion passed (3-0).

Temp. Ord. B-72

An ordinance authorizing the Director of Public Service to enter into a contract or contracts for the purchase of two automated packer trucks for use by the Sanitation Division, and declaring an emergency.

Mrs. Klinger stated that this request is to pull ahead the purchase of two cab and chassis that are already built. Right now, with the hurricane situation, the demand for these vehicles has increased significantly. They are concerned that there wouldn't be any availability, which means they would have to wait for these to be manufactured, and that could take upwards of a year or longer. The idea is to pull these purchases ahead from 2018 into this year. There are two on hold at a dealership. There would not be any purchases made in 2018. The City is making a purchase that

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wasn't planned for. There was a \$1.7 million unencumbered balance in the Sanitation Fund at the end of August that will allow the City to make the purchase and make it earlier.

Mr. Charles Novak, Street Commissioner, stated that they are hoping to purchase these two trucks now, being a little proactive, knowing that, out in the industry, the trucks are being bought up and headed down south. Mr. Brillhart asked if the trucks were going to be Autocars. Mr. Novak stated that both the cab and chassis are the Autocar with the 12-liter engine. Mr. Brillhart stated that, from his experience and different information that he has gathered, those are the highest-rated trucks, so he thinks it is a wise choice.

Mr. Iona moved to bring out Temp. Ord. B-72 with a favorable recommendation, second by Mr. Brillhart. Motion passed (3-0).

Temp. Ord. B-73

An ordinance authorizing the Director of Public Service to enter into a contract or contracts, according to law, for professional services necessary for engineering, bidding and management of the JV1 upgrade project, and declaring an emergency.

Mr. Brillhart made a motion to amend Temp. Ord. B-73 with Temp. Ord. B-73 (Sub. Dated 10-2-17), second by Mr. Iona. Motion passed (3-0).

Temp. Ord. B-73 (Sub. Dated 10-2-17)

An ordinance authorizing the Director of Public Service to enter into a contract or contracts, according to law, for professional services necessary for engineering, bidding and management of the JV1 upgrade project, and declaring an emergency.

Mr. Dougherty stated that this ordinance would be to approve a contract with Mesa Associates. The purpose of this would be to engineer the diesel oxidation catalyst retrofit for these six generators. They need to retrofit all six of them with this equipment to meet EPA requirements. This firm would also look over the shoulder of the firm that would file the paperwork for getting these re-permitted to run them for peak shaving, as well as do the engineering on connecting them to the power system. They are currently connected to the City's power system, but, since that substation will be upgraded within the next year and three months, they will be retrofitted so they will be connected to the 23-kV system. Mrs. Klinger stated that there are going to be several more ordinances coming to get through this entire process. There will be a separate contract to handle the EPA filing. While they may get verbal approval, it may take two to four months for written approval from the EPA to even use the generators. Mr. Dougherty stated there would be a separate contract for the purchase of the digital oxidation catalyst equipment and a contract for installation of that equipment. There will be a contract for purchase of the electrical equipment to attach them to the grid and then for the construction work to attach them. Mrs. Klinger stated that they put a cap in this ordinance, because there isn't a contract in front of them, and they want to make sure if there's any changes in these dollar amounts, that it is brought back into the public's eye and discussed further.

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Mr. Brillhart moved to bring out Temp. Ord. B-73 (Sub. Dated 10-2-17) with a favorable recommendation, second by Mr. Iona. Motion passed (3-0).

Mrs. Klinger stated that she would like to yield the floor to Mayor Walters for a special presentation this evening.

Ms. Lindsey Kuhn, on behalf of Auditor David Yost, stated that she was here this evening to present an award that is the highest honor that one can achieve from their office. Auditor David Yost likes to call it the gold standard of auditing. They audit about 5,900 government entities across the State of Ohio, and a little under five percent of government entities receive the Auditor of State Award with Distinction. She stated she would like to read a part of the letter from Auditor Yost to give everyone an understanding of what this award deals with: "Clean and accurate recordkeeping are the foundation for good government, and the taxpayers can take pride in your commitment to accountability. The clean audit report means that your financial audit did not contain any findings for recovery, material citations, would show weaknesses, significant deficiencies or questionable costs." She stated that she would like to point out that a lot of folks believe that the audit process is about crunching numbers and making sure things reconcile. That is a substantial portion of the audit process, but so much of it is about compliance. Bryan Hoffman, Finance Director, and his team work so well with Council and the Mayor and really are experts at their craft and really have an understanding. Ms. Kuhn stated that they are very pleased to present this award and thank everyone so much for being excellent stewards of taxpayer dollars.

Mayor Walters thanked Ms. Kuhn for reaching out to the City for this great award. They are incredibly honored to receive the Auditor of State Award with Distinction from Auditor David Yost. He is very proud of the Finance team at the City of Cuyahoga Falls for continuing to produce exceptional financial reports in the spirit of transparency and full disclosure. This distinguished award for the Finance team from the Auditor of State is in addition to the recognition that was received earlier this year, in the Financial Health Indicators Report, that rated the City of Cuyahoga Falls with a perfect positive outlook of financial health in 17 out of 17 categories. The City's Finance Department has also continued to receive the Certificate of Achievement for Excellence in Financial Reporting annually. Mayor Walters congratulated Finance Director, Bryan Hoffman, and the Finance team for a job well done.

Mr. Bryan Hoffman stated this would not be possible without the strong leadership of the Mayor and the entire Finance Department and all the other City departments that are here tonight and whom the audit touches, which is pretty much the entire city. They are proud of this award, because they strive to be transparent and provide strong financial reporting. An award like this reinforces the job they are doing for the citizens of Cuyahoga Falls. Mr. Hoffman stated that he wants to thank Auditor of State Dave Yost's office for presenting them the award for an exceptional audit.

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Mrs. Klinger congratulated Mr. Hoffman and the entire Finance Department. It was a team approach and took a lot of work and a lot of long evenings to bring everything into compliance to have a clean audit.

The meeting adjourned at 7:17 p.m.