



**CITY OF HART  
 407 S. STATE ST.  
 HART, MI 49420  
 REGULAR MEETING OF CITY COUNCIL - COUNCIL PROCEEDINGS  
 September 26<sup>th</sup>, 2023  
 MINUTES – Approved**

**PRESENT:** Councilors: Mayor Vicki Platt, Justin Adams, Jim Evans, and Amanda Klotz

**ABSENT:** Catalina Burillo, Dean Hodges, and Kris Trygstad

**OTHERS PRESENT:** City Manager – Rob Splane, City Clerk – Karla Swihart, DPW Superintendent – Brad Whitney, Energy Superintendent – Mike Schiller, Julie and Robbie Buchanan, Paul Erickson, Gayle Forner, Sharon Hallack, Dick Huntington, Maria Ingram Kirby, Lawrence and Tracy Lipps, Thomas Osborn, Dennis Powers, Joe Rieley, and Bill Volpp

Mayor Platt called the meeting to order; following the roll call, then led the Council in the pledge of allegiance.

**APPROVAL OF AGENDA:**

- o J. Admas motioned to approve the agenda and was supported by J. Evans
  - Ayes: 4 Nays: 0 Absent: 3

**PUBLIC COMMENTS:**

- Paul Erickson – Big thank you to the City of Hart for all their help during the 2023 County Fair. As always, the City was there for any needs the fair needed from the DPW department to the Police Department. The County Fair is grateful for all the support received to make it another successful event.
- Dick Huntington – Thank you to the City Council, City Manager, and builder for meeting with the Creeks HOA to discuss possible changes to make the lots more appealing for future sales. Please keep the HOA informed of upcoming meetings on these changes.

**CORRESPONDENCE, EVENTS, PRESENTATIONS:**

- i.) City of Hart Power Board Presentations:  
 Dawn Lund UFS – Hart Energy Financial Study and Proposed Rate Design

**INTRODUCTION**

This report was prepared to provide the City of Hart with a long-term financial projection and rate track. The Specific purposes of this financial plan are identified below:

- 1) ***Determine electric utility’s revenue requirements for fiscal year 2024.*** The Electric Utility’s revenue requirements were projected for the period from 2024 – 2028 and included adjustments for the following:
  - a. Anticipated power costs,
  - b. Capital improvements currently underway and scheduled over next five years. The Utility provided capital improvement information.
- 2) ***Projected rate adjustments needed to meet targeted revenue requirements.*** The primary purpose of this study is to identify appropriate revenue requirements and the rate adjustments needed to work toward requirements. The report includes a long-term rate track for the City of Hart to help ensure the financial stability of the utility in future years. The rate track was designed after discussions with management to work towards targets, while keeping rate adjustments to a certain threshold to minimized rate impact to customers.

The City of Hart retained Utility Financial Solutions, LLC to review the above items and report on findings on the appropriate course of action. The report includes results on long-term financial projection.

**Utility Revenue Requirements**

Revenue requirements for the City of Hart were projected for 2024 – 2028 based on 2022, actual, and fiscal year to date 2023 expenses. Revenues and expenses were analyzed with adjustments made to actual expenses to reflect projected operating characteristics.

Table one is projected financial summary for the Electric Department from 2024 -2028 without rate adjustments. Projections indicate an operating loss of (\$214,333) in 2024 and losses increase to an operating loss of (\$507,782) in 2028. Cash balances decline and do not meet minimum targets starting in 2026.

**Table One – Projected Financial Summary – (Without Rate Adjustments)**

Fiscal Year	Projected Rate Adjustments	Capital Improvements Plan	Debt Coverage Ratio	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Projected Cash Balances	Targeted Minimum Cash
2024	0.0%	950,000	N/A	5,949,630	5,735,297	(214,333)	465,958	3,172,484	2,357,336
2025	0.0%	627,000	N/A	6,037,555	5,758,037	(279,518)	485,395	2,699,873	2,383,267
2026	0.0%	520,000	N/A	6,716,923	6,401,722	(315,201)	501,515	2,319,155	2,499,957
2027	0.0%	945,000	N/A	6,767,994	6,377,361	(390,633)	530,810	1,465,402	2,529,903
2028	0.0%	2,460,000	N/A	6,950,366	6,442,583	(507,782)	607,070	(956,669)	2,423,912

1. The five-year capital improvement plan was provided by the Utility
2. Financial projections should be updated during the budgeting process each year as expenses and capital expenditures change from prjections.

**DEVELOPMENT OF FINANCIAL TARGETS**

When evaluating rates to charge customers, three key factors must be considered:

1. Deby Coverage Ratio
2. Minimum Cash Reserves
3. Optimal Net Income

Each of these factors is discussed below:

1. **Debt Coverage Ratio** – The minimum targeted debt coverage ratio for prudent financial planning purpose is 1.45 for the outstanding revenue bonds on the Electric Department. Maintaining a debt coverage ratio of 1.45 is good business practice and helps to achieve the follwing:
  - a. Helps to ensure adequate funds are available to meet debt services payments in years when sales are low due to cold summers or loss of a major customer(s).
  - b. Obtain higher bond rating, if revenue bonds are sold in the future, to lower interest cost.

Currently, the Electic Department holds no debt.

2. **Minimum Cash Reserve Target** – To help ensure timely completion of capital improvements and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be established. Minimum cash reserves attempt to quantify the minimum amount of cash the utility hshould keep in reserve, actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets that are currently in service. The methodology used in this report is based on certain assumptions related to percent of operation and maintenace, rate base. Capital improvements, and debt service. The establishment of minimum cash reserves should consider a number of factors including:

- **Working Capital Lag** – Timing differences between when expenses are incurred, and revenues received from customers. Establishing a minimum cash reserve helps to ensure cash exists to pay expenses in a timely manner.
- **Investment in assets** - Catastrophic events may occur that require substantial amounts of cash reserves to replace damaged assets. Some examples of catastrophic events include Ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to cover the cost of damages from FEMA; however, FEMA reimbursements can take between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies.
- **Annual debt service** – Debt service payments do not occur evenly throughout the year and often occurs at periodic times typically every six months. The utility has to ensure adequate cash reserves exists to fund the debt service payment when the payment is due.

- **Capital improvement program** – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

The minimum cash reserves calculation for the Electric Department is \$2.4 million. The projected cash reserves do not meet minimum targets starting in 2026. Table two provides the minimum cash reserve calculation.

**Table Two – Minimum Cash Reserves – 2024 – 2026 (Without Rate Adjustments)**

Description	Risk %	Projected				
		Projected 2024	2025	2026	2027	2028
Calculated Minimum Cash Level						
Operation & Maintenance Less Depreciation Expense	12.3%	\$ 242,356	\$ 248,683	\$ 255,193	\$ 261,892	\$ 268,785
Purchase Power Expense	15.7%	563,654	564,448	659,027	653,925	663,069
Historical Rate Base	3%	450,927	469,737	485,337	513,687	391,658
Five Year Capital Improvements - Net of bond proceeds	20%	1,100,400	1,100,400	1,100,400	1,100,400	1,100,400
<b>Minimum Cash Reserve Levels</b>		<b>\$ 2,357,336</b>	<b>\$ 2,383,267</b>	<b>\$ 2,499,957</b>	<b>\$ 2,529,903</b>	<b>\$ 2,423,912</b>
<b>Projected Cash Reserves</b>		<b>\$ 3,172,484</b>	<b>\$ 2,699,873</b>	<b>\$ 2,319,155</b>	<b>\$ 1,465,402</b>	<b>\$ (956,669)</b>

**Cash reserves do not meet minimum targets starting in 2026.**

**Notes:**

1. Operation and maintenance expenses exclude purchased power costs and exclude depreciation expenses.
2. Rate base is historical investment in plant and equipment.
3. Average five-year capital is budgeted capital improvements for next five years and excludes capital improvements funded through debt issuances.

**3. Optimal operating income targets** – The optimal target for setting rates is the establishment of a target operating income to help ensure the following:

1. Funding of Interest Expense on the outstanding principal on debt. Interest expense is below the operating income line and needs to be recouped through the operating income balance.
2. Funding of the inflationary increase on the assets invested in the system. The inflation on the replacement of assets invested in the utility should be recouped through the Operating income.
3. Adequate rate of return on investment to help ensure current customers are paying their fair share of the use of the infrastructure and not deferring the charge to the future generations.

As improvements are made to the system, the optimal operating income target will increase unless annual depreciation expense is greater than yearly capital improvements. The target established for the projection period is approximately \$518,000. The rate of return falls below the targeted minimum throughout the projection period.

**Table Three – Optimal Operating Income Targets Compared to Projected**

Description	Risk %	Projected				
		Projected 2024	2025	2026	2027	2028
Target Operating Income						
System Equity	6.89%	\$ 465,958	\$ 485,395	\$ 501,515	\$ 530,810	\$ 607,070
<b>Target Operating Income</b>		<b>\$ 465,958</b>	<b>\$ 485,395</b>	<b>\$ 501,515</b>	<b>\$ 530,810</b>	<b>\$ 607,070</b>
<b>Projected Operating Income</b>		<b>\$ (214,333)</b>	<b>\$ (279,518)</b>	<b>\$ (315,201)</b>	<b>\$ (390,633)</b>	<b>\$ (507,782)</b>
<b>Rate of Return in %</b>		<b>6.9%</b>	<b>7.0%</b>	<b>7.1%</b>	<b>7.1%</b>	<b>6.4%</b>

**The projected operating income is below optimal targeted operating income throughout the projection period.**

**SUMMARY OF FINANCIAL POSITION**

**Proposed Rate Track**

Table Four below is the financial projection with proposed rate increase of 3.5% in 2024- 2028. The rate track was set to establish and operating income instead of losses. The rate track should be reviewed with the budget process as changes in expenses and capital can impact the rate track.

**Table Four – Projected Financial Summary (With Rate Adjustments)**

Fiscal Year	Projected Rate Adjustments	Capital Improvements Plan	Debt Coverage Ratio	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Projected Cash Balances	Targeted Minimum Cash
2024	3.5%	950,000	N/A	5,949,630	5,936,033	(13,597)	465,958	3,373,219	2,357,336
2025	3.5%	627,000	N/A	6,037,555	6,169,910	132,355	485,395	3,313,485	2,383,267
2026	3.5%	520,000	N/A	6,716,923	7,033,340	316,417	501,515	3,567,453	2,499,957
2027	3.5%	945,000	N/A	6,767,994	7,237,671	469,677	530,810	3,580,251	2,529,903
2028	3.5%	2,460,000	N/A	6,950,366	7,540,569	590,203	607,070	2,266,740	2,423,912

**Significant Assumptions**

This section outlines the significant assumptions for the City of Hart electric study.

**Forecasted Operating Expenses**

Forecasted expenses were based on 2023 adjusted for power supply costs and inflation. Inflation for the period is expected to be 3.5% in 2024 and 2.9% in 2025-2028

**Power Supply**

Power supply costs were provided by the Utility.

**Sales Forecast**

Growth rates were projected to be 0.0%

**Revenue Forecast**

The revenue forecast was based on 2022 usages adjusted for growth and rate change assumptions.

**Capital Improvement Program**

The capital improvement program was provided by the Utility and is listed below. The system is currently anticipating transformer replacement in 2028

Fiscal Year	Capital Improvements Plan
2024	950,000
2025	627,000
2026	520,000
2027	945,000
2028	2,460,000

**Electric Department Findings**

1. The projection indicates current revenues are not adequate to maintain the long-term financial health of the Utility. The financial projection indicates projected 3.5% rate increases should be considered for 2024-2028. The rate track should be reviewed closely as part of the annual budget process as costs, revenues and capital may vary from projections and affect the rate track and bonding requirements. To ensure the utility meets financial targets and remains financially healthy, the following rate track should be considered.

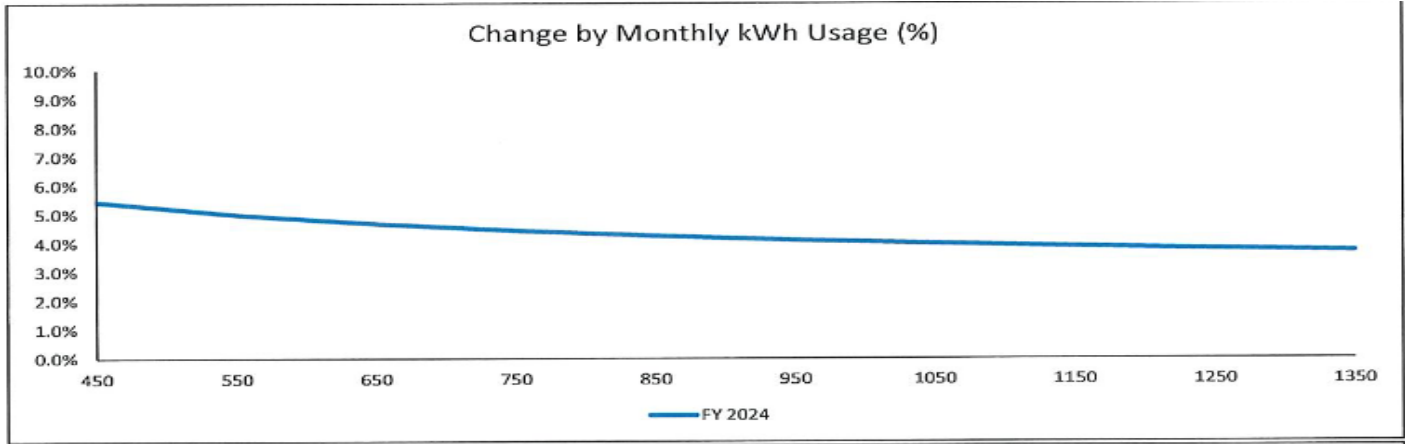
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- The financial projection revenue, expenses and cash flow should be updated annually with the budget process to determine if the rate track is on target. The rate track was set at a minimum and any changes in capital or expenses can affect the future rate track.
- The utility currently has several transfers and administration charges that should be reviewed and determined with an appropriate allocation study or other defensible measure.
- The Power Cost Adjustment (PCA) should continue to be calculated and charged as monitored for true-up. If a PCA is consistently above \$0.01, the remainder should be tured up into base rates.

Customer Class	Projected Revenues Under Current Rates	Projected Revenues Under Proposed Rates Year 1	Projected Percentage Change Year 1
	Residential	\$ 1,135,189	\$ 1,188,615
Commercial	1,250,033	1,300,563	4.0%
Street Lighting	11,648	12,172	4.5%
Demand Customer	593,488	610,763	2.9%
Industrial Customer (exceeding 2,000,000 kWh annually)	2,599,053	2,675,077	2.9%
Industrial Customer (Primary)	63,747	65,705	3.1%
<b>Totals</b>	<b>\$ 5,653,159</b>	<b>\$ 5,852,895</b>	<b>3.5%</b>

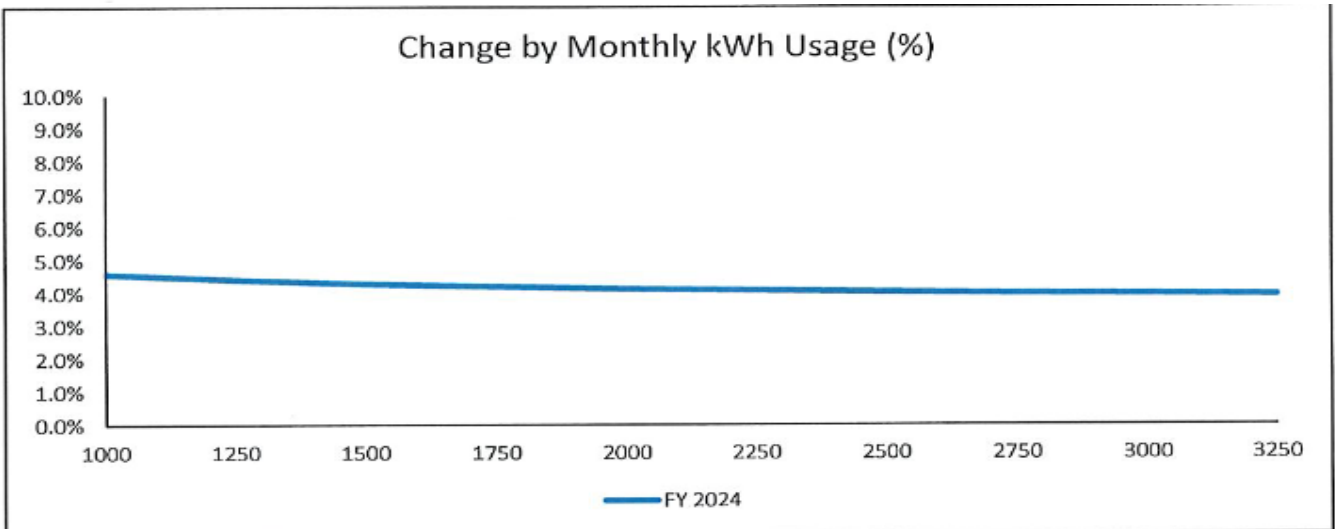
#### RESIDENTIAL

Rates	Current	FY 2024	
<b>Monthly Facilities Charge:</b>			
Single Phase	\$ 8.50	\$ 10.50	
Three Phase	\$ 20.50	\$ 22.50	
<b>Energy Charge:</b>			
All Energy	\$ 0.08560	\$ 0.08900	
<b>Energy Optimization</b>			
All Energy	\$ 0.00130	\$ 0.00130	
<b>Power Cost Adjustment:</b>			
All Energy	\$ 0.03836	\$ 0.03836	as calculated by the utility
Revenue from Rate	\$ 1,135,189	\$ 1,188,615	
Change from Previous			4.7%



**Commercial**

Rates	Current	FY 2024
<b>Monthly Facilities Charge:</b>		
Single Phase	\$ 19.50	\$ 22.00
Three Phase	\$ 22.00	\$ 24.00
<b>Energy Charge:</b>		
All Energy	\$ 0.1010	\$ 0.1060
<b>Energy Optimization</b>		
All Customers	\$ 4.43	\$ 4.43
<b>Power Cost Adjustment:</b>		
All Energy	\$ 0.03836	\$ 0.03836 <i>as calculated by the utility</i>
Revenue from Rate	\$ 1,250,033	\$ 1,300,563
Change from Previous		4.0%

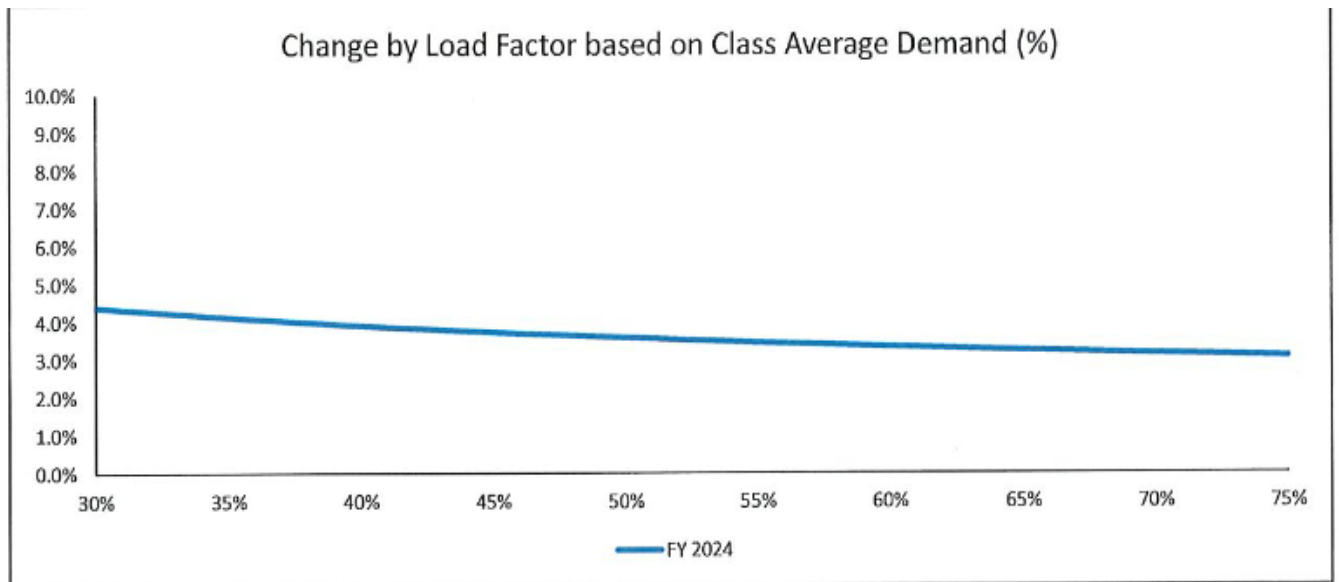


**STREET LIGHTING**

Rates	Current	FY 2024
<b>Monthly Charge:</b>		
All Lights	\$ 10.91	\$ 11.40
Revenue from Rate	\$ 11,648	\$ 12,172
Change from Previous		4.5%

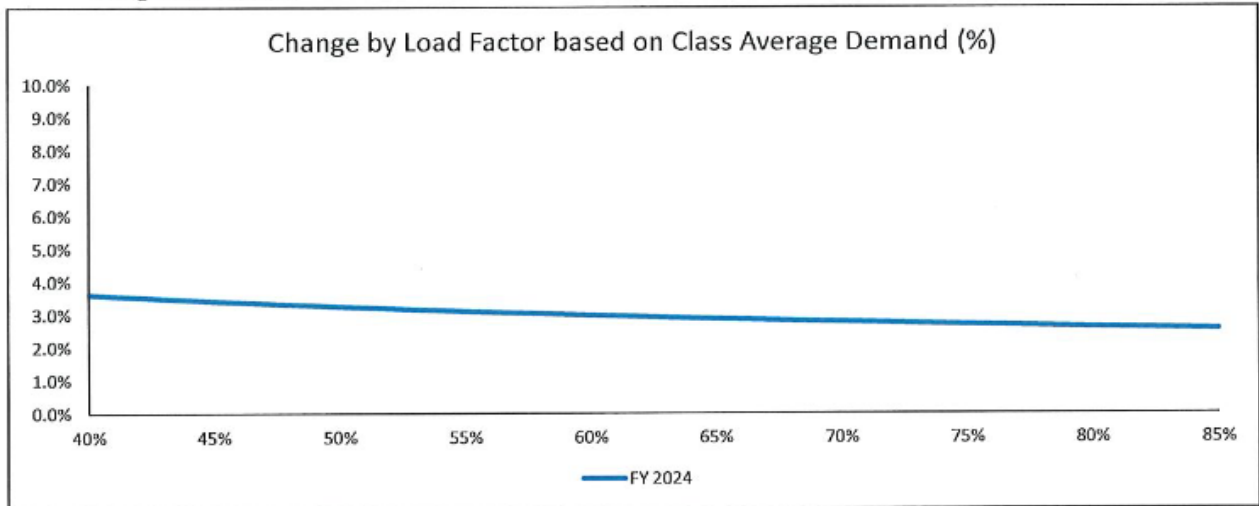
**DEMAND**

Rates	Current	FY 2024
<b>Monthly Facilities Charge:</b>		
Monthly Charge	\$ 90.00	\$ 93.00
<b>Energy Charge:</b>		
All Energy	\$ 0.06370	\$ 0.06550
<b>Demand Charge</b>		
All Demand	\$ 9.00	\$ 10.00
<b>Energy Optimization</b>		
All Customers	\$ 4.43	\$ 4.43
<b>Power Cost Adjustment:</b>		
All Energy	\$ 0.03836	\$ 0.03836 <i>as calculated by the utility</i>
Revenue from Rate	\$ 593,488	\$ 610,763
Change from Previous		2.9%



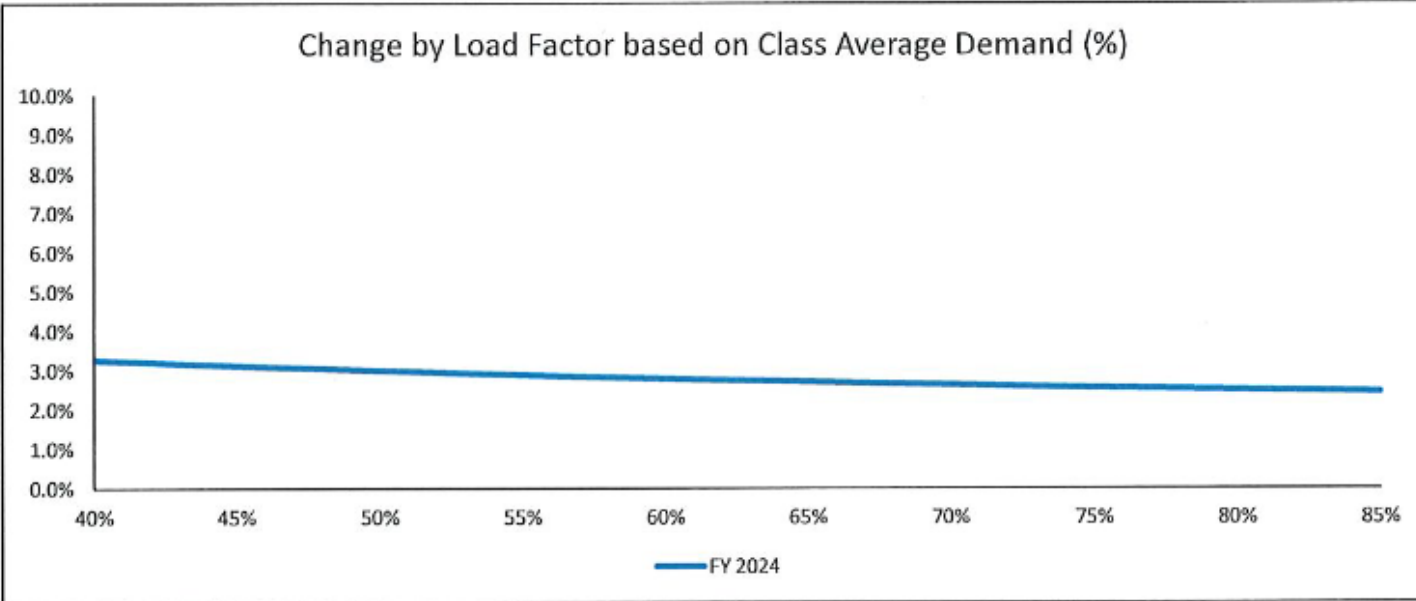
**INDUSTRIAL CUSTOMER (exceeding 2,000,000kwh annually)**

Rates	Current	FY 2024
Monthly Facilities Charge:		
Monthly Charge	\$ 150.00	\$ 155.00
Energy Charge:		
All Energy	\$ 0.05906	\$ 0.06030
Demand Charge		
All Demand	\$ 9.00	\$ 10.00
Energy Optimization		
All Customers	\$ 215.24	\$ 215.24
Power Cost Adjustment:		
All Energy	\$ 0.03836	\$ 0.03836 <i>as calculated by the utility</i>
Revenue from Rate	\$ 2,599,053	\$ 2,675,077
Change from Previous		2.9%



**INDUSTRIAL CUSTOMER (Primary)**

Rates	Current	FY 2024
Monthly Facilities Charge:		
Monthly Charge	\$ 150.00	\$ 155.00
Energy Charge:		
All Energy	\$ 0.05906	\$ 0.06
Demand Charge		
All Demand	\$ 9.00	\$ 10.00
Energy Optimization		
All Customers	\$ 215.24	\$ 215.24
Power Cost Adjustment:		
All Energy	\$ 0.03836	\$ 0.03836 <i>as calculated by the utility</i>
Revenue from Rate	\$ 63,747	\$ 65,705
Change from Previous		3.1%



**CONSENT AGENDA:**

- Approval of minutes from August 12<sup>th</sup>, 2023.
- Bills, Claims, Payroll
- Reports of Boards, Commissions, and Committees
- Department Reports – Police/BioPure/Public Works/Energy/C&E Dvlp
  - J. Adams motioned to approve Consent Agenda and supported by J. Evans
    - Ayes: 4 Nays: 0 Absent: 3

**ACTION ITEMS:**

- Resolution 2023-39 Hart Pizza Social District Approval  
 Authorize City Staff to approve Social District Permit Application and Sign Local Government Unit Approval Form – HP105, LLC  
 WHEREAS, the State of Michigan through PA 124 of 2020 has authorized the creation of Social Districts in communities throughout the State; and  
 WHEREAS, the ongoing limitations placed on business as a result of the COVID-19 pandemic has led communities to be creative in supporting businesses which includes passage of regulations permitting the creation of a local Social District; and  
 WHEREAS; the City Council must approve a Social District Permit for each licensee to engage in participating in Social District business activities per MLCC direction.  
 NOW, THEREFORE BE IT RESOLVED THAT THE CITY COUNCIL  
*Authorizes City staff to approve City of Hart Social District Permit Application and sign the Michigan Department of Licensing and Regulatory Affairs Liquor Control Commission Local Government Unit Approval for Social District Permit form, pending HP105, LLC DBA: Hart Pizza submitting proper Downtown Hart Social District Permit Application paperwork.*
  - A. Klotz motioned to approve Resolution 23-39 and supported by J. Adams
    - Ayes: 3 Nays: 1 Absent: 3
- Mayoral Appointment – Noble Graham – Hart Economic and Redevelopment Team
  - J. Adams motioned to approve Noble Graham to HEART and supported by A. Klotz
    - Ayes: 4 Nays: 0 Absent: 3
- Mayoral Appointment – Caleb Griffis – Hart Tax Increment Finance Authority
  - J. Adams motioned to approve Caleb Griffis to TIFA and supported by J. Evans
    - Ayes: 4 Nays: 0 Absent: 3

**DISCUSSION ITEMS:**

- Hart Parks and Recreation Department

With John Gurney Parks contract up for renewal the City is looking for guidance from City Council on if a new contract should be submitted or if the City should look in a different direction as to taking the park back over.

- Congregational United Church  
Tom Osborn – after 55 years the last service for Hart Congregational United Church will be closing its doors after the Christmas mass. The Church would like to see it go to good use and not just sit there empty. The Church would like to offer it to the City for \$1.00. With that being said the City manager will reach out to the City's TIFA board.

#### **CITY MANAGER'S REPORT:**

##### **UPDATES:**

- Audit is 90% complete, finishing up some retirement data. The plan is to have the audit team present the audit findings to Council on December 12<sup>th</sup>.
- Griswold Street and Polk Road Utility Improvement projects are in process. Griswold Street, Phase three is now in progress, which includes the Polk Road closure, we anticipate this to last up to 4 weeks. Prein and Newhof are maintaining a website for construction updates.
- Hart BioPure projects are in progress and moving along. With ongoing coordination with our contractors and City staff to best plan for plant operations during construction.
- Riverside lift station construction will begin in October and take a total of 4-6 weeks, no residential service will be disrupted.
- 2017 plan to automate electric and water meters is ready to move forward again. Water nodes were not available until this year. City Council will be reviewing a proposal soon to deploy the meters to every home in Hart.
- Oceana County Housing Needs Assessment Presentation – Wednesday September 27<sup>th</sup>, 9am at the West Michigan Research Center.
- City working with multiple contacts to identify solid investment strategies, council will need to approve the proposal prior to proceeding.
- Art Walk downtown Hart Saturday October 7<sup>th</sup> – HArt Prize voting opens, photo contest in pocket park.

##### **Legacy Topics:**

- The Charter review committee has met with the City attorney. The City Attorney is working on verbiage to be approved by Council, the attorney general, and the governor. The amendments will be processed for ballot approval at the next general election.
- Safe Routes to School trail project – pending state approval projected start date June 2024.

##### **Upcoming Topics:**

- Adoption of 2022-2026 Park and Rec Master Plan
- Veteran's Memorial Park final design approval
- Water, Wastewater, and Energy rate studies
- Council review of rental inspection policies, procedures, and implementation.
- BioPure biosolids hauling contract RFQ

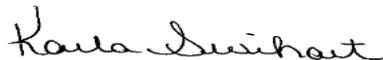
#### **COMMUNICATIONS FROM THE MAYOR AND COUNCIL:**

- J. Evans, October 18<sup>th</sup> is Pints for Polio at Big Hart Brewery, Event begins at 6pm every donation helps.
- Mayor Platt, thank you for cleaning up around the old Ceres property it looks very nice.

#### **ADJOURN:**

- There being no further business to come before the Council, the meeting adjourned upon a motion by A. Klotz and supported by J. Evans. The next regularly scheduled meeting will be on October 10<sup>th</sup>, 2023, at 7:30 pm.

Respectfully Submitted



Karla Swihart, City Clerk