

**City of Woodbury
Audit and Investment Commission Minutes**

October 6, 2022

Pursuant to due call and notice thereof, a meeting of the Audit and Investment Commission was held at Woodbury City Hall, 8301 Valley Creek Road, on the 6th day of October, 2022.

Item 1: Call to Order

Chair Blake Darsow called the meeting to order at 7:30 a.m.

Roll Call

Upon roll call, the following members of the Audit and Investment Commission were present: Blake Darsow, Frank Gilbertson, Jeanine Kuwik, Alec Sonsteby, Annmarie Weiser. John Lehman was in attendance via Microsoft Teams.

Absent: Cody Groth, Andrew Naylor

Others present: Angela Gorall, Assistant City Administrator; Mary Hurliman, Public Works Director; Jim Westerman, Assistant Public Works Director; Jason Schirmacher, CFO/Controller; Kim Wilson, Council Member; Roxy Nowicki, Recording Secretary; Ryan Miles, Ehlers; and Mark Ruff, Treasurer.

Item 2: Approval of Minutes – June 24, 2022

Moved by member Gilbertson, seconded by member Kuwik to approve the June 24, 2022 minutes.

Voting in favor: All present Voting Against: None Absent: Cody Groth and Andrew Naylor

Item 3: Quarterly Investment Results Review with Ehlers

Mr. Miles began his presentation by stating that this update is going to be a combined Q2 and Q3 (rather than just Q2) to be more up to date.

In summary, Mr. Miles highlighted the following in his presentation:

- All funds have been fully re-invested with eye on liquidity and short duration. The overall portfolio duration has been reduced from 2.92 years to 2.27 years while maintaining an average credit rating of AA for the overall portfolio.
- Funds have largely been reinvested in US Treasuries and highly rated commercial paper, while being mindful of the commercial paper restrictions in the Investment Policy.
- Ehlers will continue to monitor and intend to reduce portfolio duration further to minimize the impact of unrealized losses in the portfolio.
- Ehlers will continue to monitor Fed policy decisions and rate changes. The next few decisions will be key to longer term portfolio construction.
- The recommended plan for next quarter is to continue to monitor cash flow for appropriate liquidity for year end, mindful of next year's project plans, and reinvest maturities on the short end of the yield curve to reduce duration/market price sensitivity.

Audit and Investment Commission Minutes

October 6, 2022

Page 2

Member Gilbertson asked what today is cash yielding and what are we getting for an interest rate on long term position. Mr. Miles stated that cash or treasuries or commercial paper is earning 3.5 to almost 4 percent. The longer dated bonds are in the 2.5-3 percent range and he further reviewed some of the longer term positions of the portfolio.

Member Kuwik asked if treasuries can be different duration. Mr. Miles stated yes. Two to three month T-bills is what they have been purchasing, which are extremely liquid.

Member Darsow stated that there is not much difference in three month to 10 year. Mr. Miles stated that is correct and that the yield curve will probably invert over the next couple periods where cash will be earning more than the 10-year bond.

Member Lehman asked Mr. Schirmacher if he thinks if we will make budget for 2022, 2023 and 2024.

Mr. Schirmacher stated that he anticipates we will exceed budget slightly for 2022, but also noted how year-end financial statements would reflect unrealized gains. For 2023, we budgeted conservatively as far as interest rates go, we will probably exceed what we preliminarily budgeted for 2023.

Chair Darsow thanked Mr. Miles for his presentation.

Item 4: Introduction to system-wide Treatment for PFAS Project and Water Rate Study

Mary Hurliman, Public Works Director, thanked the commission and introduced herself and Jim Westerman, Assistant Public Works Director. She stated that they are two of the seven people on the big water treatment team. She also introduced Mark Ruff, who filled in as part-time treasurer when the City had some vacancies in the Finance Department. He has been consulting with the group.

Ms. Hurliman began her presentation by stating she would start by giving a basic overview of water treatment and PFAS, so the Commission has a better understanding of why it is important to the community when staff talks about funding, rate study and bonding. She also shared that Woodbury water meets all state guidelines and standards for PFAS.

The City has been working on this for four years in partnership with the state to determine how they are going to use the state settlement and what the water treatment plant will look like. The preliminary design phase is being completed and will be moving into 18 months of design.

She then shared a short video from the Minnesota Pollution Control Agency (MPCA) and Minnesota Department of Health (MDH) on how to keep our drinking water safe. She went on to detail Woodbury's temporary treatment facility and program and use of granular activated carbon treatment (GAC). The MDH is the resource that tells us what is safe for drinking water – not just for PFAS but all aspects of our water.

Audit and Investment Commission Minutes

October 6, 2022

Page 3

After the video, Ms. Hurliman continued her presentation by briefly reviewing a high level timeline of PFAS. A more detailed timeline is available on the City's website.

Chair Darsow stated that between 2007 and 2018, the state lowered the threshold twice. Mr. Westerman stated that yes that is correct. There is a large family of PFAS chemicals, so when the state lowers a standard, it is not across the board – it is sometimes on specific chemicals.

Mr. Westerman continued reviewing some of the further history of PFAS and the impact to the environment.

Member Weiser asked if 3M disposed of these chemicals when they were done using them in their manufacturing process. Mr. Westerman stated that 3M and other manufacturers of these chemicals disposed of those incomplete chemical reaction by-products. They were disposed of at four disposal site locations – Woodbury, Lake Elmo, Oakdale and Cottage Grove.

Ms. Hurliman stated that it is important to note this is all emerging science. Every year a lot of new information comes out.

Member Gilbertson stated he had two questions:

1. When it is determined that the filters are saturated, what is the duration by which the filter is replaced. For example, if one house is at saturation, how long does a house a mile down the road have to wait for their water to become back to standard?
2. How are filters disposed of once they have concentrated PFCs in the filters – just burning them does not break all the bonds, it just aerates them?

Ms. Hurliman stated regarding the first question, when we are working with the municipal system, it is all one water. The City tests from the treatment plant or different well sites.

Related to the carbon disposal, Woodbury is still piloting whether to use the GAC or ion exchange in the final water treatment plant. Staff noted that a lot of that technical piece is still being determined and they further reviewed research by the Environmental Protection Agency (EPA) and Department of Defense on what to do with this concentrated media. These carbon fluorine bonds are very difficult to break, but they can do it at high temperatures – 1,800-3,000°C. Once they are broken down, there is some concern about sub products that are developed through that process. The alternative is to dispose of these materials in a hazardous waste landfill, which is temporary management strategy.

Ms. Hurliman stated that when MDH first established the standards, Woodbury was under the standards. However, standards have since dropped.

A discussion ensued about the MDH standards and wells that are taken out of commission.

Following discussion, Ms. Hurliman continued her presentation reviewing the timeline.

In 2019, City staff and resident volunteers began participation on State Working Groups to develop the Conceptual Drinking Water Supply Plan (CDWSP). When the 2018 settlement was created, the direction was given that the MPCA and Department of Natural Resources (DNR)

Audit and Investment Commission Minutes

October 6, 2022

Page 4

would be the co-trustees of this settlement. They brought together all 14 municipalities that were impacted and created three separate working groups:

1. Policy Working Group – Ms. Hurliman and Mr. Gridley were in group
2. Technical Working Group – Mr. Westerman was in group
3. Citizen and Business Working Group – two residents - Mike Madigan and Dave Filipiak

These groups met on a monthly basis and have been advising the state on how this settlement is going to be split between these communities.

Ms. Hurliman continued her presentation talking about the Temporary Water Treatment Plant. With the construction of the plant in 2020 and expansion in 2022, six of the wells have been placed back into service with treatment. The temporary plant was built in six months' time – it is a short-term infrastructure. The water treatment plant will be an 80-100 year piece of infrastructure. Any components from the temporary plant that can be reused for the new plant will be.

Ms. Hurliman continued reviewing the timeline noting that in 2022 Woodbury began the water rate study.

Ms. Hurliman stated that there are two major emerging scientific issues. One is the waste issue that was brought up earlier, which is emerging and being studied. Also, the EPA released what they believe are going to be new standards. If these standards were to pass, there is no scientific way to test to that level. It is likely that the scientific community and EPA will set the rate to what can be tested. Standards are going to drop and there will likely be more wells in Woodbury receiving health advisories.

Ms. Hurliman continued with her presentation. The new treatment plant will be located at Radio Drive and Hargis Parkway. Water from all the wells will be funneled to that treatment plant regardless of where those wells are.

Member Sonstebly asked what HI meant. Ms. Hurliman stated HI is the health index. Mr. Westerman said the health index provides more of a synergetic analysis of all these chemicals together or a subset of all these chemicals. It is a ratioed average of these chemicals that sets the threshold at 1. Anything above 1 is not good; below 1 is okay based on health and science as it exists today.

Member Lehman asked if 3M is capped at the \$850 million settlement that was agreed upon. Ms. Hurliman reviewed the details of the settlement and other litigation applicable in this matter. The Commission and staff further reviewed the long-term funding plan as it currently stands.

After reviewing the project timeline which will be updated in November, Ms. Hurliman continued talking about upcoming major Council decisions. Council needs to make two big decisions:

1. System-wide treatment – Council has indicated that the direction they intend to go is to treat the whole system, but that decision will be confirmed at an upcoming workshop.

Audit and Investment Commission Minutes

October 6, 2022

Page 5

2. Softening – a decision needs to be made about citywide water softening. Ms. Hurliman then reviewed the benefits of citywide softening.

After a short discussion, Ms. Hurliman continued talking about the utility rate study. The priority is determining rate impacts to fund water treatment facilities. Some possible areas of study: changes to tier rate structure; billing frequency; conservation; best nexus between rate charged and cost drivers; and sewer, stormwater and street lighting utilities.

Member Lehman said in the proposed 2023 budget there is an 11.8 percent increase for Tier 1 proposed in 2023 over 2022 and asked if that is a normal rate increase or does it reflect anything to do with the presentation.

Ms. Hurliman stated the City had a planned escalation rate based on the last rate study and that would fall into the normal expectations.

A discussion ensued about the state funding, grants and lobbying.

Chair Darsow thanked Ms. Hurliman and Mr. Westerman for their presentation.

Meeting adjourned at 9:00 a.m.