

**ELK RIVER MUNICIPAL UTILITIES
REGULAR MEETING OF THE UTILITIES COMMISSION
HELD AT THE UPPERTOWN CONFERENCE ROOM**

July 9, 2024

Members Present: Chair John Dietz, Vice Chair Mary Stewart, Commissioners Paul Bell, Matt Westgaard, and Nick Zerwas

ERMU Staff Present: Mark Hanson, General Manager
Sara Youngs, Administrations Director
Melissa Karpinski, Finance Manager
Tony Mauren, Governance & Communications Manager
Tom Geiser, Operations Director
Chris Sumstad, Electric Superintendent
Mike Tietz, Technical Services Superintendent
Dave Ninow, Water Superintendent
Chris Kerzman, Engineering Manager
Jenny Foss, Communications & Administrative Coordinator
Megan Zachman, HR Generalist
Derek Palmer, Water Operator
Bill Courtright, Water Utility Worker
Michael Atwood, Water Operator

Others Present: Jared Shepherd, Attorney; Sarah Towne, Consulting Manager with Baker Tilly;
Cal Portner, City Administrator

1.0 GOVERNANCE

1.1 Call Meeting to Order

The regular meeting of the Utilities Commission was called to order at 3:30 p.m. by Chair Dietz.

1.2 Pledge of Allegiance

The Pledge of Allegiance was recited.

1.3 Consider the Agenda

Chair Dietz requested the addition of item 6.4 Landscaping and Commissioner Zerwas requested the addition of item 6.5 Per-and polyfluoroalkyl substances (PFAS) Litigation Update.

Moved by Commissioner Westgaard and seconded by Commissioner Bell to approve the amended July 9, 2024, agenda. Motion carried 5-0

1.4 Water Operator Certification Verbal Acknowledgement: Michael Atwood – Class D, Bill Courtright – Class C, Derek Palmer – Class A

Mr. Ninow shared that following completion of the state’s water supply system operator exam, three members of ERMU’s water department earned certifications. Mr. Ninow added that Derek Palmer’s Class A license is a testament to his initiative, as ERMU’s system requires only a Class B license. Mr. Ninow congratulated staff.

Chair Dietz asked if all staff is working towards a Class B license.

Mr. Ninow stated that they were, even though ERMU is only required to have one Class B licensed operator. He added it is very much to ERMU’s advantage to have all staff licensed to give them skills and knowledge to operate independently.

Chair Dietz commended staff for their accomplishment.

The Commission and the rest of the staff gave them a round of applause.

2.0 CONSENT AGENDA (Approved By One Motion)

Moved by Commissioner Bell and seconded by Commissioner Zerwas to approve the Consent Agenda as follows:

2.1 Check Register – June 2024

2.2 Regular Meeting Minutes – June 4, 2024

2.3 Update Cogeneration and Small Power Production Tariff – Schedules 1 and 2

Motion carried 5-0.

3.0 OPEN FORUM

No one appeared for open forum.

4.0 POLICY & COMPLIANCE

4.1 Commission Policy Review – G.2f - Commission Officer Roles, Responsibilities, and Succession

Mr. Mauren presented his memo, requesting the Commission’s review of the policy. Neither staff nor the Commission had any comments, questions or recommended changes.

4.2 **Annual Strategic Plan Review**

Mr. Hanson presented the memo which offered background on the strategic plan review process. He highlighted the fact that one of the items from last year's plan, a review of ERMU's Mission, Vision, Values policies, will be brought back at a later meeting. He noted that the structure of the strategic plan may change with updates to those policies but as those updates have not been approved, this plan maintains the same structure as versions from previous years. Mr. Hanson explained that the primary focus in this process was to not create minor strategic initiatives that could distract from major initiatives like the Advanced Metering Infrastructure (AMI) implementation. Mr. Hanson then invited the Commission to discuss the plan.

Commissioner Westgaard shared his agreement with reviewing the Mission, Vision, and Values policies for update, as well as focusing on the remaining nine initiatives, in particular AMI.

Commissioner Stewart commended staff on completing the tasks they had.

Chair Dietz stated his opinion that more focused strategic initiatives is a good approach.

The Commission reached consensus on high level strategic themes and dashboard initiatives.

4.3 **Employee Handbook Annual Update**

Ms. Zachman presented her memo on the 26 updates to the Employee Handbook, produced in cooperation with Campbell Knutson. She explained the revisions consisted largely of updated labor law language and approved wage and benefit changes. There were also changes to improve clarity, consistency, and conciseness. Ms. Zachman added that the biggest changes were adapting previous language for ERMU's sick time policy to meet state guidelines that went into effect on January 1, 2024, and including Family Medical Leave Act language.

Chair Dietz asked how employees were notified of the changes.

Ms. Zachman responded that electronic and/or hard copies are provided to staff and that she personally presents changes in meetings.

Commissioner Westgaard asked if there were significant changes to the drug and alcohol policy with particular regard to recreational cannabis legalization.

Ms. Zachman explained that drugs and alcohol are separate topics outside of ERMU's Employee Handbook. She noted that a previous edition of the handbook had anticipated those changes and updated the language, making it general enough to not require major

edits for this round. She added that the Commercial Driver's License drug policy is under review by legal staff to ensure that language matches across all publications.

Moved by Commissioner Stewart and seconded by Commissioner Westgaard to adopt the revised ERMU Employee Handbook. Motion carried 5-0.

5.0 BUSINESS ACTION

5.1 2024 Compensation Study Update

Mr. Hanson provided a summary of the discussion from the June commission meeting. He then talked through his memo, discussed potential costs depending on the selected plan, and presented methods of implementation. Mr. Hanson explained that following commission direction from the June meeting, he had asked Baker Tilly to create a seven step slightly market leading plan, where the seventh step was in line with the ninth step in June. For the purpose of comparison and providing the Commission with options, he also had Baker Tilly staff create a seven step slightly market lagging plan with the seventh step matching step eight from June.

Mr. Hanson also highlighted the section of his memo which addressed the question from the previous month about how many comparable utilities had performance compensation programs like ERMU's Utilities Performance Metrics Incentive Compensation (UPMIC). He explained that six of the ten had some form of performance compensation, with two interested in implementing a performance-based program, and two that were not.

Mr. Hanson described the tables in the report which quantify total cost through 2027 for a 4% annual wage adjustment.

He then reminded the Commission that \$135,000 had been set aside in the 2024 budget towards a compensation adjustment. He pointed out the portion of the chart that explained that depending on the implementation scenario, the Commission could potentially have the option to back pay the adjustment to January 1, 2024, while other scenarios would need to begin in August to meet the 2024 budget.

Mr. Hanson explained that there is a cost benefit to implementing the current step plan in 2024 as opposed to beginning any plan in January 2025, namely that a plan that began August of 2024 could have a lower cost, having not been in place for the first eight months of the year. Also bringing employees into the plan at their current step, which generally places them further along in their respective pay plans, will mean having fewer step increases than the closest step implementation.

Mr. Hanson confirmed a point raised at the June meeting that the costs to implement either pay plan could be paid by margins while keeping the Utilities within policy and not

requiring a rate increase specifically due to this matter. This is also due to spreading costs over multiple years and a partial first year of implementation.

Mr. Hanson explained that staff is looking for Commission approval on one of the payment plans, an implementation scenario, and the effective date.

Chair Dietz distributed and presented his proposal titled *New ERMU Compensation Plan 7/2/24*, which was added to the packet after the meeting. There was discussion.

Regarding Chair Dietz's proposal there was concern that limiting performance compensation to employees who had been in their last step for one calendar year would affect benefits for newer employees and impact the environment of shared goals across all staff that the program is intended to create. Commissioners also felt employing the half step increases could confuse the issue and would create an eighth step when the Commission requested a seven-step plan at the June meeting.

Mr. Hanson shared that under Chair Dietz's proposed plan some employees will have a pay decrease in total compensation, in particular for those who have a smaller pay increase due to their role being appropriately compensated currently.

Commissioner Westgaard shared his perspective that the pay plan selected should be market leading and that the current step implementation made the most sense to him. He added his stance that benefits such as the UPMIC should be calculated in an employee's total compensation. He continued by stating his expectation that any plan would take effect on approval without necessarily including back payment.

Commissioner Stewart shared her prepared comments stating that she was neutral to the number of steps the plan consisted of, having gone from nine the previous month to seven. In focusing on the UPMIC and Longevity pay bonus programs, Commissioner Stewart restated the fact that six of the ten comparable utilities have performance compensation plans with two researching the option. She highlighted the fact that UPMIC is not guaranteed and can be withheld if certain budget thresholds are not met. She explained that in human resources this is commonly classified as "at risk" pay which cannot be counted on as income. Commissioner Stewart shared her belief that it is important to keep the UPMIC and Longevity Pay programs, adding her perspective that removing them to allow pay increase is a "shell game." She stated that the Commission chose to do the study because ERMU is behind in pay, and that money had been reserved to implement the plan which has been developed for a year and through significant investment to have it done professionally. She stated that the proposed pay plans do not make ERMU the gold standard in pay but bring the Utilities up to a market average. Commissioner Stewart stated that she agreed with the current step implementation scenario. Commissioner Stewart stated her appreciation for Chair Dietz sharing his ideas on compensation study but shared that she was in favor of focusing on the recommendations from the consultant.

Commissioner Bell stated his opinion that the pay for staff should be market leading, be implemented this year, and at the current step. He added his belief that some goals on the UPMIC are not challenging or affected by circumstances outside of staff's control, such as a large storm causing major outages, reducing reliability statistics. Commissioner Bell shared that he thinks the UPMIC is a beneficial program but suggested creating more difficult to obtain goals while removing items out of staff's control.

Commissioner Stewart noted that the goals for the UPMIC are approved by the Commission in December for the following year.

Mr. Hanson offered to have staff bring options for updates to the UPMIC program in response to Commissioner Bell's comments.

Ms. Karpinski noted that staff has not always achieved 100% of UPMIC goals. She also advised that the Commission could adjust the weighting of the individual goals. Ms. Karpinski shared her perspective that the program helps staff take pride in their work.

Commissioner Zerwas shared that he would be open to reworking UPMIC, in particular how items are weighted. He stated his position that the plan should be slightly leading market pay with the current step implementation. He added that he was not interested in significant back pay, rather the plan would start moving forward. He shared his perspective that the Commission needed to "bite the bullet" to address the compensation issue.

Commissioner Westgaard asked if variable components like benefits were factored into the study.

Mr. Hanson responded that they were not.

Commissioner Westgaard stated his belief that benefits should be factored in, and while longevity pay is not significant to these considerations, he asked how the UPMIC could be factored into the calculations.

Mr. Hanson explained that guidance from Baker Tilly was to keep the pay plan and employee benefits as separate issues; suggesting the body approve the plan, implementation scenario, and effective date and then address changes to benefits after a set period of time had passed. Mr. Hanson added that updates to the UPMIC could be brought to the Commission before December so there was time to discuss options.

Mr. Hanson sought confirmation on his understanding of the discussion at that point. He stated the consensus appeared to be selecting a market leading plan, a current step implementation scenario, and an effective date that met the budgeted amount of

\$135,000. Mr. Hanson estimated that would allow the plan to begin around mid-August. There was no dissent from the Commission.

Commissioner Zerwas inquired as to what it would look like to hold the \$135,000 budgeted funds to be put towards a January 1, 2025, effective date.

Mr. Hanson replied that approach negates the data in the table as it would require the full implementation cost for the first year of the plan with the addition of any wage adjustment. Mr. Hanson restated that the cost advantage in implementing the current step plan in 2024 is the budgeted amount limits the total first year implementation cost to only the last four months of the year.

Ms. Towne explained that the cost advantage is due to the one-time cost to change people over to the new plan. She added that wage data is perishable and delaying implementation could mean going from meeting the market to an estimated lag of about 5 percent.

There was discussion about how step increases would be initiated going forward; whether they would occur on a calendar year cycle or at the anniversary date as they currently occur. This is to be decided after plan approval.

Commissioner Westgaard proposed the Commission consider selecting a market leading plan, with the current step implementation, and an effective date of August 27 based on pay periods and budget calculations.

Chair Dietz stated that he was not prepared to vote until he receives more information on the comparable utilities' performance incentive programs. He asked to see a chart of the actual percentage of payout from previous years and be provided details about the other six comparable utilities performance compensation plans.

Commissioner Stewart asked the rest of the Commission if they were prepared to vote.

Commissioner Zerwas stated he was fine with the August 2024 start to the plan but added that he doesn't want to force a vote if a member does not feel prepared to vote.

Commissioner Bell stated he would like to discuss the UPMIC further.

Chair Dietz reiterated that he wanted to hear more about other utilities.

Ms. Towne again recommended keeping base pay and benefits decisions separate.

Commissioner Stewart reminded the group that any changes to the UPMIC could not be made until later in 2024 for a 2025 measurement period, suggesting the UPMIC could be updated even with an approved payment plan.

Mr. Hanson made the point that the pay plan is no longer market leading if the Commission chose the market lagging plan and reduced or eliminated the UPMIC, adding the Commission could choose a market leading payment plan and decide to remove the UPMIC program when the policy is reviewed later in the year. He encouraged the Commission to make these decisions separately as there appeared to be consensus on the plan, implementation, and effective date.

Ms. Towne again supported that approach, noting there are many potential variables to supplemental income whereas the base pay being proposed is more stable year to year.

Ms. Karpinski followed up with information on the UPMIC payout, explaining that over the last six years it had been paid out at the full amount twice.

The Commission agreed, with there being no impact to the effective date, it would be preferable to wait to vote at the August regular meeting when the requested information could be provided.

Moved by Commissioner Zerwas and seconded by Chair Dietz to postpone action to the August regular commission meeting. Motion carried 5-0.

5.2 **Financial Report – May 2024**

Ms. Karpinski presented the May 2024 Financial Report.

Ms. Karpinski highlighted a reduction in the Cash line item of the Electric Balance sheet due to removing \$7 million from savings to be placed in investments. She confirmed there was still an amount staff was comfortable with in savings.

She reported generally that as of May, the finances were looking good.

Moved by Commissioner Westgaard and seconded by Commissioner Stewart to receive the May 2024 Financial Report. Motion carried 5-0.

5.3 **Advanced Metering Infrastructure Update**

Mr. Tietz presented his memo to the Commission. There was discussion.

6.0 BUSINESS DISCUSSION

6.1 Staff Updates

Mr. Hanson and Ms. Karpinski informed the Commission that they had meetings about a potential energy transmission investment opportunity that, if viable, would be brought back for a future meeting.

Mr. Mauren highlighted the bullet on his update sharing the Communications & Administrative Coordinator Jenny Foss had been invited to be a presenter at the American Public Power Association's Customer Connections Conference in October in Louisville, KY. Mr. Mauren commended all of Ms. Foss's great work, which has made her a leader amongst her peers.

Mr. Mauren informed the Commission that the August 13 meeting would occur at the field services building per the approved meeting calendar as the city would be using the Uppertown Conference Room for the Primary Election.

This being his last meeting with ERMU, Mr. Kerzman shared that he enjoyed his time working for the Utilities and that he valued it a lot.

Chair Dietz thanked Mr. Kerzman for his work overseeing the field services building construction project.

6.2 City Council Update

Commissioner Westgaard provided a city council update.

6.3 Future Planning

Chair Dietz announced the following:

- a. Sherburne County Parade – July 20
- b. MMPA Annual Meeting – July 23 – Le Sueur, MN
- c. Regular Commission Meeting – August 13, 2024 – Field Services Building
- d. 2024 Governance Agenda

6.5 Other Business

Chair Dietz explained that a citizen had drawn his attention to the landscaping at the field services building, in particular weeds growing in the mulch and the potential need to remove the tree that is dropping the seeds, which also appears to be dying.

Mr. Hanson explained that he had met with the construction manager and that tree would be removed. He added that the eastern portion of the lot was originally planned to

be prairie grass however the lot had been planted as regular lawn grass and would be treated as such going forward.

Commissioner Zerwas requested an update on the filing of paperwork for the settlement with DuPont and 3M due to introducing PFAS to public drinking water systems.

Attorney Shepard confirmed that he had been in contact with the law firm Lockridge, Grindall, Nauen who is submitting documents and that they were prepared to meet the July 12, 2024, filing deadline.

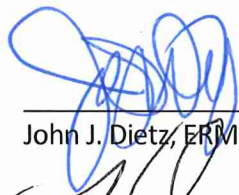
Commissioner Zerwas asked if the City was pursuing settlements for non-drinking water system contamination.

Mr. Portner responded that they were not at that point.

7.0 ADJOURN REGULAR MEETING

Moved by Commissioner Bell and seconded by Commissioner Zerwas to adjourn the regular meeting of the Elk River Municipal Utilities Commission at 5:25 p.m. Motion carried 5-0.

Minutes prepared by Tony Mauren.



John J. Dietz, ERMU Commission Chair



Tina Allard, City Clerk