

## MEMORANDUM

**TO:** Mayor Toland and City Council

**FROM:** Raymond French, Management Analyst

**DATE:** January 13, 2015

**TITLE:** **Resolution Approving Hydroelectric Licensing and Kinnickinnic River Corridor Planning Strategy**

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### RECOMMENDED ACTION

Adopt the resolution that provides staff direction regarding the hydroelectric licensing process including:

- a. endorsing a draft Kinnickinnic River Corridor Planning strategy,
- b. setting aside gains from operation toward plan implementation, and
- c. increasing financial oversight by the Utility Advisory Board of expenditures related to hydroelectric facilities during the planning process timeframe.

### BACKGROUND

At the December 9, 2014, Workshop, the Utility Advisory Board (UAB) and City Council were presented with a summary of the hydroelectric licensing options from the City's consultant, Rita Hayen of TRC. Also discussed was the financial performance and history of hydroelectric operations.

A continuation of the workshop will occur on January 13 prior to the City Council meeting. City Council members indicated a desire to have a working resolution to consider as soon as the January 13 City Council meeting that outlines direction for staff.

### DISCUSSION

#### Options

The licensing options discussed at the December 9 Workshop were:

1. Federal Energy Regulatory Commission (FERC) License Extension
2. FERC License Application (Full Relicense)
3. FERC License Application with Settlement Agreement
4. FERC License Surrender with Facilities in Place
5. FERC License Surrender with Dam Removal

### Council Priorities

The priorities of City Council when considering options appear to be (1) providing opportunities for wide and thorough community input; (2) retaining flexibility for future decision making; and (3) spending limited resources wisely.

### Kinnickinnic River Corridor Planning

The primary purpose of the licensing path is to provide the time necessary to complete the Kinnickinnic River Corridor Plan. The Kinnickinnic River corridor has also been identified as a strategic initiative of the City Council through the adoption of the 2015 Strategic Plan.

Incorporating the hydroelectric facilities into the overall corridor planning process allows for the community to drive the decision of whether to continue generating power and leave the facilities in place. The process timeline outlined on the next page will be used by staff to document the benefits of granting a license extension in the application to FERC.

Finally, because there is no compelling financial incentive of immediately rushing into relicense or surrender of the hydroelectric facilities, staff recommends Council support a more deliberative process like what is detailed above in the Kinnickinnic River Corridor Planning process.

### Recommendation for License Extension

To meet the goals of the community reflected by the City Council, as outlined in the priorities above, staff recommends that a five to ten-year license extension is the best option. A draft timeline for an approximately 7½ year license extension follows on the next page as Exhibit 1.

The timeline allows for preliminary preparation period, followed by a thorough community planning process for the Kinnickinnic River corridor beginning in 2016. The corridor planning period would result in an adopted Kinnickinnic River Corridor Plan on or about January 1, 2020. The Plan would be adopted prior to the required time at which FERC requires notification of whether a licensee intends to relicense their project.

Exhibit 1 -DRAFT KINNICKINNIC RIVER CORRIDOR STRATEGY & TIMELINE

Year	License Extension to December 31, 2025	Phase
2015	<p>February – Preliminary studies planned with stakeholders</p> <ul style="list-style-type: none"> <li>Likely related to sediment and recreation</li> </ul> <p>May – FERC grants license extension</p> <p>July – Glen and Hoffman Park Master Plans adopted (current Park plans)</p> <p>Spring/Summer – Preliminary studies completed</p> <p>Summer/Fall – RFP and Selection of River Corridor Planning consultant</p>	Preliminary
2016	<p>Beginning of community process for Kinnickinnic River Corridor Plan</p> <ul style="list-style-type: none"> <li>Planning group formed: identifying Vision/Mission and Goals</li> <li>Engaging in issue identification, assessing existing conditions, and breaking down objectives</li> <li>Public communication throughout: newsletters, social media, etc.</li> </ul>	Kinnickinnic River Corridor Planning
2017	<p>Through Spring, continuing preliminary analysis for planning process.</p> <p>Public input process beginning in Spring/Summer</p> <ul style="list-style-type: none"> <li>Establishing working groups</li> <li>Publishing surveys</li> <li>Community meetings and open houses</li> </ul>	
2018	<p>Begin preparing summary reports/drafts to the Corridor Planning Group</p> <ul style="list-style-type: none"> <li>Drafts prepared for each section of the Plan</li> </ul> <p>Continue public input meetings on drafts of Plan</p> <p>Continue Plan review by Corridor Planning Group</p>	
2019	<p>Development and of action and funding plans.</p> <p><b>Kinnickinnic River Corridor Plan</b> recommendation finalized and sent to Boards and City Council for approval.</p>	
2020	<p><b>Kinnickinnic River Corridor Plan:</b></p> <ul style="list-style-type: none"> <li>Adopted by Boards and City Council by January 1, 2020</li> </ul> <p><b>Between July 1 and December 31, 2020:</b></p> <ul style="list-style-type: none"> <li>Must notify FERC whether licensee intends to file or not to file an application for a new license (<a href="#">18 C.F.R. §16.6</a>)</li> <li>If continued licensing of hydros selected, must submit Pre-Application Document at time of notice of intent</li> <li>If eventual surrender is selected, within 90 days from notice, must file a schedule for the filing of a surrender application</li> </ul>	Future FERC licensing/surrender process
2021	Continuing licensing process or preparing for surrender of license and decommissioning of facilities.	
2022		
2023		
2024	<p>If surrendering:</p> <ul style="list-style-type: none"> <li>After December 31, 2023, FERC provides existing licensee with written notice that no timely applications for the project have been filed. (<a href="#">18 C.F.R. §16.26(a)</a>)</li> <li>Preparing Surrender Application (<a href="#">18 C.F.R. §§6.1-6.5</a>)</li> </ul>	
2025	<b>License expires December 31, 2025</b>	

Hydroelectric Operations Financials

The long-term financial impact of the hydroelectric operations on the Electric Utility and rate-payers is minimal under current conditions. Throughout the course of the current license, the hydroelectric facilities have consistently operated with positive cash flows. However, when compared to the cost of purchasing and selling non-renewable energy as a replacement for that generated power over the license period, the hydroelectric facilities generate less revenue.

The hydroelectric facilities are a small percentage of the Electric Utility's power generation, revenues, and expenses. This allows a decision on the future of operations and the vision for the Kinnickinnic River to include a broader community discussion than just the financials. Financials do not appear to be a limiting factor in future decisions nor do they lend themselves to any immediate action to modify resulting net income.

At the December 9 Workshop, cost estimates and the expected "payback" were also presented to the UAB and Council. The following chart shows the estimated high and low costs of studies and licensing costs for each option, and the estimated year of payback based on the current financial performance of the hydroelectric facilities:

<b>OPTIONS</b>	<b>LOW</b>	<b>PAYBACK</b>	<b>HIGH</b>	<b>PAYBACK</b>
<b>License Extension</b>	\$2,000	Immediate	\$223,000	2019
<b>Relicense</b>	\$218,000	2019	\$444,000	2021
<b>Relicense (w/ Agreement)</b>	\$191,000	2018	\$397,000	2021
<b>Surrender (w/ Facilities)</b>	\$24,000	Immediate	\$236,000	2019
<b>Surrender (w/ Removal)</b>	\$660,600	2023	\$4,450,000	None

It is important to note that for all but the last option, the estimated costs for the first four options are only the immediate costs for environmental studies and licensing. They do not include the future estimated costs for maintenance or the final disposition of the facilities.

Option 5, on the other hand, includes the costs of studies and the narrow scope of the removal of the hydroelectric facilities outside of the development of a future Kinnickinnic River Corridor Plan. The high payback number on dam removal is due to the unknown necessity and costs related to potential sediment removal.

The payback year in the table above was determined by adding the option's expense to a forecast of the future revenues and expenditures of operations, based on the current conditions of the facilities, and is the year the accumulated net revenues since 2015 become positive.

Continued Fiscal Planning

Also a point of discussion at the last workshop was placing a so-called "Do Not Resuscitate" order on the hydroelectric facilities. The initial financial analysis of the hydroelectric facilities concluded that they currently have a positive cash flow. However, years that include a

significant expenditure for the maintenance of the facilities quickly turn the annual balance from positive to negative. As the City enters into a more comprehensive planning process that will conclusively identify the future disposition of the facilities, it is prudent for there to be additional review to maintain the financial viability of the facilities.

In addition to current purchasing and expenditure authority policies, the Council may wish to consider adding a much lower threshold for expenditures than the current \$25,000 authority the Utility Division currently enjoys. A lower threshold could be monitored by a representative citizen board in the form of the Utility Advisory Board throughout the extension period in the following manner:

- Expenditures for repairs and maintenance of the hydroelectric facilities and the dams of \$5,000 or greater require prior approval of the Utility Advisory Board.

Currently, the hydroelectric facilities contribute approximately \$50,000 - \$70,000 per year to Electric Fund balance. Over the course of ten years, this could result in \$500,000 to \$700,000 in funding for resulting implementation of actions outlined in the adopted 2020 Plan. Therefore, Council may wish to commit net cash revenues of the hydroelectric operations as discussed in a separate memorandum report.

## **CONCLUSION**

In the interest of retaining the community's flexibility in determining the future vision of Kinnickinnic River Corridor and for responsible financial stewardship, staff recommends that the Council pursues a license extension request from FERC, in consultation with the regional resource agencies and stakeholders.

Staff recommends Council adopt the attached resolution that supports a license extension request for the hydroelectric facilities, supports the Kinnickinnic River Corridor Planning Process, and enhances the responsible fiscal management of the hydroelectric facilities.



RESOLUTION NO.

**RESOLUTION APPROVING HYDROELECTRIC LICENSING  
AND KINNICKINNIC RIVER CORRIDOR PLANNING STRATEGY**

**WHEREAS**, City staff, the Utility Advisory Board, and City Council have reviewed the licensing options available for the River Falls Hydroelectric Project; and

**WHEREAS**, the priorities of the City Council are to provide opportunities for wide and thorough community input, retaining flexibility for future decision making, and spending limited resources wisely; and

**WHEREAS**, the City Council is not prepared to immediately surrender the license; and

**WHEREAS**, the City Council does not expect that a full license renewal is the likely path to be taken; and

**WHEREAS**, a license extension provides the greatest flexibility and allows adequate time for a thorough and comprehensive community planning process for the Kinnickinnic River Corridor; and

**WHEREAS**, the hydroelectric facilities are currently providing positive cash flow,

**WHEREAS**, significant expenditures for repair or maintenance would likely result in negative cash flow,

**WHEREAS**, additional financial monitoring is recommended so that significant maintenance expenditures are reviewed to maintain the financial viability of the facilities while the community process is undertaken;

**NOW, THEREFORE, BE IT RESOLVED** that the Common Council of the City of River Falls supports a license extension request to the Federal Energy Regulatory Commission for the River Falls Hydroelectric Project (P-10489); and

**BE IT FURTHER RESOLVED** that the Common Council of the City of River Falls supports the Kinnickinnic River Corridor Planning process; and

**BE IT FURTHER RESOLVED** that the Common Council of the City of River Falls, in addition to current purchasing and expenditure authority policies, approves the following review of hydroelectric facilities maintenance expenditures during the extension period:

- Expenditures for repairs and maintenance of the hydroelectric facilities and the dams of \$5,000 or greater require prior approval of the Utility Advisory Board.

Dated this 13th day of January, 2015.

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Dan Toland, Mayor

ATTEST:

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Lu Ann Hecht, City Clerk

## MEMORANDUM

**TO:** Mayor Toland and City Council

**FROM:** Raymond French, Management Analyst

**DATE:** January 13, 2015

**TITLE:** Resolution Approving Commitment of Fund Balance and Net Position

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### RECOMMENDED ACTION

Adopt the resolution approving the commitment of net cash revenues related to hydroelectric operations in the Electric fund, and Park Land Dedication fees collected in the Park Land Dedication fund. Committing these balances provides an additional level of reporting that the balances are designated for a specific purpose.

### BACKGROUND

The City of River Falls previously updated the terminology used for fund balance reporting on the balance sheets of Governmental Funds in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54. That statement requires certain terminology to be used in fund balance reporting to improve transparency and accountability in financial statement presentation.

Fund balances are the balances in a fund at the end of the fiscal year, usually a positive balance, but sometimes a deficit balance for various reasons. Positive fund balances are acquired by increased revenues over expenditures by one or more years. Fund balances are typically reported as:

- non-spendable (typically inventory),
- restricted (by external agreements),
- **committed** (by the governing body),
- assigned (governments' intended use), and
- **unassigned/unrestricted** (surplus).

The term **net position** is used in lieu of fund balance for the City's enterprise funds, including the Electric Fund.

## **DISCUSSION**

### Electric Fund - Hydroelectric Operations

The hydroelectric facilities have traditionally operated as a separate department within the Electric Fund. There are likely significant costs associated with the possible future surrender requirements related to the disposition of the hydroelectric facilities.

On a cash basis, the hydroelectric facilities are currently operating with positive net position. Currently, this just adds to the overall net position of the electric utility and the balance is reported as unrestricted. While considering options for the future of the hydroelectric facilities, including potential surrender and dam removal, coupled with the current positive cash flow, it may be desirable to commit those net cash revenues to future costs related to the hydroelectric project. Staff recommends that the City Council approve the commitment of Electric Fund – Hydroelectric Operations net cash revenues beginning on January 1, 2015.

### Park Land Dedication Fees

Park Land Dedication Fees are currently collected per the Municipal Code [Ordinance 16.20](#) and are reported as a separate fund. As part of the 2015 Strategic Plan adopted by the City Council, one strategic initiative supporting the goal of Connecting Community Members is that of *Positioning our Parks for the Future*.

To assist in the future park planning efforts, the Park Land Dedication Fees collected may be committed for the purpose of funding the projects and initiatives that result from the planning efforts.

## **FINANCIAL CONSIDERATIONS**

The actual fund balances will not be impacted by these commitments, only how those areas are reported.

## **CONCLUSION**

Staff recommends the City Council adopt the resolution approving the commitment of net position for the Electric Fund – Hydroelectric Operations and the fund balance of the Park Land Dedication Fund. This action will better distinguish net assets gained from the hydroelectric facilities, and better position our parks for the future per the improved reporting of Park Land Dedication Fees.



RESOLUTION NO.

**RESOLUTION APPROVING COMMITMENT  
OF FUND BALANCES AND NET POSITION**

**WHEREAS**, the City of River Falls previously updated the terminology used for fund balance reporting on the balance sheets of Governmental Funds in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54; and

**WHEREAS**, it has become necessary to commit the net cash revenues of the hydroelectric operations of the Electric Fund in order to facilitate the adequate financing of future projects; and

**WHEREAS**, to assist in future park planning efforts, the Park Land Dedication Fees collected per Ordinance 16.20 should also be committed to future park land and improvement projects; and

**WHEREAS**, the commitment of net position of the Electric Fund-Hydroelectric Operations beginning on January 1, 2015 and fund balance of the Park Land Dedication Fund are recommended for approval by the City Council;

**NOW, THEREFORE, BE IT RESOLVED** that the Common Council of the City of River Falls hereby approves the above fund and net position commitments.

Dated this 13th day of January, 2015.

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Dan Toland, Mayor

ATTEST:

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Lu Ann Hecht, City Clerk