

**CITY OF ROCK ISLAND
CITY COUNCIL STUDY SESSION
January 14, 2019 - 5:30 p.m.**

**City Council Chambers, City Hall, 3rd Floor
1528 Third Avenue, Rock Island, IL**

1/13/2020 - Minutes

ADMINISTRATION: JOHNSON CONTROLS PERFORMANCE CONTRACT

Ermin Arslanagic, Account Executive for Johnson Controls came to the front to discuss the Performance Contract. He introduced his team, including Joe Bosh, General Manager, Amanda Sheperd, Lead Engineer, Bob Zimbalin, also a lead engineer, Darryl Baker, Operations Manager, Jeff Carstenson, Account Executive in the Moline branch office. Mr. Arslanagic discussed the objectives Johnson Controls had as they prepared their proposal. He discussed how the project evolved after they were awarded the project development agreement for \$675,000. He said the study identified possible savings, current inefficiencies, and the drawing up of a possible contract. He said they reviewed the facilities, water metering, waste water, street lighting, and solar energy.

Mr. Arslanagic summarized the project benefits, including significant capital needs in many areas. Initially, the project was estimated to cost around \$17 million, but he said the proposal ended up with the estimate of \$14.6 million, with over \$11 million described as savings put into more productive use. He said the contractors would be local, using union labor. He said the project would be delivered in a timely fashion over a period of twelve months, and will carry a price guarantee with no changes. Mr. Arslanagic discussed the difference between being proactive or reactive regarding infrastructure. He also confirmed that City staff were involved in every step of the development process, having bi-weekly meetings. He then listed the savings of labor hours and the managing of separate contracts as benefits of their proposal.

Mr. Arslanagic then reminded Council that this was procured through the Illinois Local Government Energy Conservation Act, and that there were three key elements to the procurement. He said that Johnson Controls would meet them, and they identified energy and operational inefficiencies, then quantified them. He said he reviewed these with City Manager Randy Tweet and was advised on what was needed. He said a goal was to identify what was already being spent on this infrastructure to determine how to spend it in more productive ways such as better equipment. He said there would be a guarantee of twenty years on the product and implementation.

Mr. Arslanagic used the overhead projector to present the difference between performance and conventional contracting. He discussed the benefits of performance contracting under one company versus using various contractors and engineering firms, which would result in numerous contracts to manage. He then showed the project costs over time, identifying the disbursement of monies, the savings per project, and available rebates of \$569,000. He then showed the same data over a twenty-year span, which showed utility and meter operation savings.

Alderman Spurgetis asked about the balance column on the slide. Mr. Arslanagic confirmed with him by reviewing the slide that in the last year of the contract, the balance would be \$6. Alderman Spurgetis then confirmed the total loan amount in the proposal of \$20,539,000, which would be financed over twenty years if the entire proposal was completed. Mr. Arslanagic explained that numerous iterations were prepared for the City, but the proposal presented was

seen as the best fit for what was deemed necessary by Johnson Controls and City staff. Alderman Spurgetis requested clarification on the savings slides. Mr. Arslanagic explained the difference between measured and non-measured savings for the proposal. Alderman Spurgetis then asked for clarification on capital avoidance. Mr. Arslanagic explained that is the capital dollars that the City would need to contribute on an annual basis to match the proposed project, some of which the City will need to complete anyways. He said the intent is to create a holistic solution for the City as opposed to replacing like-for-like. He referred to the finance proposal as a stepped approach, and that the City has its' own ideas about how to contribute.

City Manager Randy Tweet explained the stepped approach is one where the payments are lower at first, but get higher as years pass. He said the City would likely take a flat approach, meaning the annual cost would be lower than the proposed examples due to less interest. Alderman Spurgetis asked about the four options presented to Council, specifically number three. Mr. Tweet replied that the City would always borrow the money, but each plan has varying degrees of savings. He said that is why the recommendation is to do the entire project, to use savings from some areas to offset costs in other areas. Alderman Parker asked if 100 percent of the project would for certain be locally sourced. Mr. Arslanagic replied that short of engineering and some project management, the answer was yes. Alderman Parker asked how the Prevailing Wage Act applied to this project. Mr. Arslanagic replied that everything covered by the proposal is subject under the Act, and he was confident that the companies were all Union. Alderman Geenen asked if there was a fee to the guarantee proposed by Johnson Controls. Mr. Arslanagic confirmed a yearly fee of \$51,000, and that clients treat the fee like an insurance, which is cancellable.

Mr. Arslanagic then discussed specific projects, starting with water meter replacement. He noted that most water meters were installed in 1998-1999, and they took statistical samples of metering populations to arrive at their recommendation. He said the larger meters were inaccurate, but the smaller 5/8 residential meters are 99 percent accurate, even with an inefficient way of reading them. He continued with a summary of current City measuring procedures, stating that how much water the City produces and sells is difficult to figure, which also makes determining losses and inefficiencies difficult. As a result, he stated that the project focused on the more necessary large water meters.

Mr. Arslanagic discussed the project before the development agreement was signed, and what has been determined since. He said that the project not only addresses savings, but also addresses capital needs the way they should be. He said the proposal brought before Council was the optimum situation that took five months to compile. He discussed replacing streetlights to make them safer, more reliable, better looking, more than fifty percent savings, and better illumination. Mr. Arslanagic called up Mandy Shepherd, who thanked City staff for their input. She discussed the five project options for waste water treatment, specifically focusing on the Mill Street and Southwest waste water locations. The Mill Street location has an aeration process that is 20 years old, and the equipment has a lifespan of 20 years. The Southwest location is more dire, with the equipment being 40 years old. Ms. Shepherd showed solutions for both locations. Alderman Spurgetis requested more information on the waste water tanks. Ms. Shepherd replied that the tanks at both locations were from the 1970s, and steel tanks like those are prone to deteriorate over time. She suggested the tanks should be repaired because there was no sense in delivering a new system to currently failing tanks.

Mr. Arslanagic returned to the streetlight discussion. He said the City streetlights that do not have LED setup already will be retrofitted to achieve the 50 percent energy savings, with a white colorant as opposed to yellow. He said the lights will also be equipped for future upgrades if necessary. Alderman Parker asked if this was for just City lights as well as highway lights within the City, or if it also included MidAmerican-owned lights, and Mr. Arslanagic confirmed they were for the City and highways. He then discussed the facilities portion of the proposal, and introduced Jeff Carstensen to discuss them. Mr. Carstensen discussed a holistic approach to

upgrading facilities. He began with City Hall, noting the age of the utilities, specifically the current failure of the boiler. The proposal suggested replacing the current boiler with two steam boilers to provide redundancy and backup. He also suggested a new components on the air handler to improve efficiency, as well as new digital controls to replace ones from the 1960s, and new condensing units. He discussed replacing the traps on the radiators for better efficiency, as well as placing the proposed digital controls on a server for better operation. Mayor Thoms asked for clarification on steam versus hot water boilers. Mr. Carstensen replied the cost to replace with hot water boilers did not offset the cost of replacing all of the steam piping in the building. Mr. Tweet added that all options were presented to staff, but steam was the recommendation due to cost.

Mr. Carstensen moved to proposed fire station improvements, starting with boilers. The boilers have degraded heat exchangers due to poor water treatment. He recommended replacing the chiller, which is close to 35 years of age and inefficient. The air handler can be retrofitted with better controls to become more efficient. He discussed the Public Works facility next, focusing on the rooftop units and increasing repair costs. Alderman Spurgetis asked about what packaging meant, and Mr. Carstensen explained that the definition is all components functioning under one unit as opposed to remote components. He then moved to the Martin Luther King, Jr. Center and the failing units on the older rooftops of the building, and the lack of controls. He suggested variable air volume controls for the center to provide comfort. He discussed the Library, noting a recommendation to replace chillers, adding a boiler, and retrofitting the air handler to variable air volume controls. He noted fan coil failure and plugged pipes are causing poor control, and added that dehumidification is possible with a new system, which is important for libraries. He moved to RIFAC, recommending a retrofit of the two boilers and going with hot water instead of steam, then installing domestic hot water heaters. He also suggested retrofitting air handlers and having everything under digital controls. Alderman Spurgetis asked for confirmation that the boilers would be used for heating and hot water heaters would be used for things like showers, and Mr. Carstensen confirmed with yes. Alderman Poulos asked for clarification on 'redundant boilers', asking if that would increase the daily operational costs. Mr. Carstensen explained that two boilers can be utilized in efficient ways and one can operate if the other is down. Alderwoman Swanson asked what equipment was actually failing. Mr. Carstensen explained what is meant by failure of equipment, and explained what the standard life expectancy of equipment is. Mr. Tweet added clarification on what is already being spent versus what the proposal could offer, specifically the elimination of contract maintenance for multiple facilities. Alderman Poulos discussed the removal of pneumatic controls for digital, and what the standard was for efficiency of digital and lifespan of pneumatic. Mr. Carstensen said support for pneumatic was nearly gone, and the industry was no longer teaching it, and it needs quarterly calibration. He added that Johnson Controls are reverse compatible and life expectancy is 20 to 30 years. Alderman Hurt asked what the life expectancy of new boilers would be, and Mr. Carstensen answered 30 years for boilers and 25 years for chillers. Alderman Parker asked if Johnson Controls has warranties on installation above manufacturer's warranty, and Mr. Carstensen answered they have a one-year parts and labor guarantee. Mr. Arslanagic stated that the guarantee was a standard, and he recommended the proposed service agreement. He then added more information about boilers. Alderman Hurt asked if Council could get numbers for the stated service agreement options. Mr. Tweet added that not all budgeting for maintenance would be eliminated, only for emergencies.

Mr. Arslanagic discussed solar options under the proposal, adding that many options were considered. He said in order to qualify for rebates, they considered options that were for 10 kilowatt or less installations. They looked at 17 buildings with more than 10 kilowatts of consumption and recommended solar for them, and with available incentives, the solar project pays for itself in 20 years. He discussed Power Purchase Agreements with other cities, and Alderman Geenen asked if the City pursues this type of agreement, would Johnson Controls assist the City independent of the contract. Mr. Arslanagic confirm that was correct. Alderman Geenen said there is no upfront cost with this type of agreement, and the amount of power

produced could lower overall electricity by 30 to 40 percent if the big-scale project takes place. Mr. Arslanagic said the challenge is to not sell the electricity wholesale, and that this option is the most cost effective. Ms. Shepherd said the savings through a PPA depend on the terms, and the pursuit of that type of agreement was valid, but the 10 kilowatt option was the best solar option for the City. Alderman Spurgetis asked if the intention regarding the solar part of the project was for the City to use it. Mr. Arslanagic confirmed this was the case, and would eliminate the retail cost of energy. Ms. Sheperd said many buildings could handle a larger solar array, but incentives drop off after 10 kilowatts. Alderman Geenen confirmed with Mr. Arslanagic that this proposal involved the City buying the solar panels. Mr. Arslanagic said the proposal presented showed the City owning the panels because they are a wash financially.

Mr. Arslanagic completed the presentation discussing financing, of which Johnson Controls makes no money. He said they have staff to structure financial deals. Alderman Parker asked how financing would affect the City's bond rating. Finance Director Stephanie Masson said the financing would add to the City's debt, but added it was hard to say how the investment community would view such debt, and that it had a good story. She added in the City's favor were the guaranteed savings, and Mr. Tweet added that a large chunk of financing would come from enterprise funds. She said the majority of the payments would come from water and waste water funds, Alderman Poulos said his main concern was that the City would have no alternative but to raise taxes. Mr. Tweet said most of the project would be paid out of enterprise funds and reductions in the budget in other areas, as well as the \$150,000 already reserved for capital improvement. He said there would be no increase in property tax as a result of the proposed project. Ms. Masson reminded Council that many departments had already requested HVAC improvements before. Alderman Spurgetis asked if other projects would be impacted by the City spending gaming revenue on this project. Mr. Tweet said most of the other projects mentioned were already funded by local gas and municipal fuel taxes.

Alderman Parker asked if the City's own consultants agreed with the findings of the proposal, and Mr. Tweet confirmed yes. Alderman Parker asked if the agreement is extendable going forward. Mr. Arslanagic said additional phases over time could be reviewed. He said the project was structured to address real, current needs with nothing fancy. Alderman Parker then asked if there were numbers to show a reduction in the City's carbon footprint. Mr. Arslanagic said they could provide that, and added that staff would have time freed up due to a lack of incoming bids, and also by addressing the inefficiencies in existence. Mr. Tweet asked for additional direction from the Council. Alderwoman Swanson requested a study session regarding the impact of the proposal. Alderman Spurgetis said he liked option three that had positive return and used savings to fund other projects without incurring additional costs, but would consider agreeing to all projects if the financial impact was not negative. Alderman Hurt said he would wait for more information from study session with American Water. Alderman Parker agreed the improvements needed to be made, and asked Council to consider other communities that do not invest in infrastructure go to the verge of collapse. He said they had an opportunity to afford infrastructure improvements with unique financing. Alderman Geenen preferred the larger option that helps the City reduce their carbon footprint, and this was the time to do the project. Alderman Poulos was for all options provided a guarantee existed where taxes were not raised as a result. Mayor Thoms favored option three, and that the majority of the discussion does not effect whether to privatize water or sewer. Alderwoman Swanson expressed concern that limiting revenue means expenses still must be paid.

Mayor Thoms ended this portion of the study session and Mr. Tweet confirmed they would get the information needed.

COMMUNITY AND ECONOMIC DEVELOPMENT DEPARTMENT: DARI ECONOMIC DEVELOPMENT SERVICES AGREEMENT

Economic Development Manager Tarah Sipes provided background on DARI, saying the City

has worked together with the group to create opportunities. She said City staff was asked to explore additional partnership. She listed how the City has supported DARI the past three years, including programmatic expenses, the Live-Work Rock Island program contribution, and District events. She showed on a slide that a \$40,000 growth contribution was budgeted but not claimed. She then presented the proposed support to DARI from 2020-2022. She said that the organization has requested instead of a growth contribution the funds would be moved to DARI. Mr. Tweet said the dollar amount for this program was \$300,000, and the discussed items were already in this year's budget, but would be directed to a different area. Alderman Spurgetis asked to confirm that these were City expenditures, and Mr. Tweet confirmed that all discussed expenditures were already approved in the budget. He said this was a way to refocus the money to enhance the agreement and increase services.

Ms. Sipes said the goal was to increase efforts in retail or commercial business attraction, business retention and expansion, support and engagement of local businesses, and marketing of Rock Island. She said DARI has proposed development of four new committees to assist in engaging citizens and businesses. The committees include business development, real estate development, economic development, and marketing or events. Ms. Sipes showed a breakdown of the proposed service costs.

Ms. Sipes showed the next steps in the process. The first would be negotiating terms of an agreement with DARI, then if approved, working with DARI staff to develop a work plan. Mr. Tweet explained that Council asked staff to look at expanding the relationship with DARI to further economic development. He noted the open position in Community and Economic Development, which would be paid by DARI but funded by the monies paid to DARI. Mayor Thoms asked if it was possible for Council to be on any DARI committee. Mr. Tweet said it would be discussed but would be expected. Alderman Parker thanked DARI and said he has tried to work closely with them since he has been on Council, and expressed excitement over the public and private partnership. He then expressed disappointment that the agreement would not be up for vote at the next Council meeting. Mr. Tweet elaborated on the reasons why it may not make the next session. Alderman Hurt agreed to continue with the discussion of this agreement. Mr. Tweet asked DARI to confirm if their open committee positions would be filled by May, and reiterated that he wanted to get permission to move before moving to the next part of the agreement. Alderman Spurgetis supported the proposal as presented and looked forward to working with DARI. Alderwoman Swanson expressed agreement with the discussion but wanted to take time to do it right. Alderman Poulos agreed that it was important to do this right. Alderman Geenen agreed that the sooner the better with the proposal.

Mayor Thoms said it was a great partnership with DARI and concluded the study session.

Josh Adams, Deputy Clerk