

CARSON CITY UTILITY FINANCIAL OVERSIGHT COMMITTEE

Minutes of the November 27, 2018 Meeting

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A regular meeting of the Carson City Utility Financial Oversight Committee was scheduled for 1:00 p.m. on Tuesday, November 27, 2018 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

PRESENT: Chairperson Andrea Engleman
Member Randy Bowling
Member Bruce Scott
Member Mike Spell

STAFF: Darren Schulz, Public Works Department Director
Sheri Russell, Chief Financial Officer
Pamala Ganger, Deputy Chief Financial Officer
Eddy Quaglieri, Water Utility Manager
Andy Hummel, Wastewater Utility Manager
Iris Yowell, Deputy District Attorney
Kathleen King, Chief Deputy Clerk

NOTE: A recording of these proceedings, the committee's agenda materials, and any written comments or documentation provided to the Clerk, during the meeting, are part of the public record. These materials are available for review, in the Clerk's Office, during regular business hours.

CALL TO ORDER AND ROLL CALL (1:01:09) - Chairperson Engleman called the meeting to order at 1:01 p.m. Ms. King called the roll; a quorum was present. Vice Chairperson Bennett had previously advised of his absence.

PUBLIC COMMENT (1:01:27) - Chairperson Engleman entertained public comment; however, none was forthcoming.

1. POSSIBLE ACTION ON APPROVAL OF MINUTES - August 21, 2018 (1:01:42) - Chairperson Engleman introduced this item, and entertained suggested revisions. When no suggested revisions were forthcoming, Chairperson Engleman entertained a motion. **Member Bowling moved to approve the minutes. Member Scott seconded the motion. Motion carried 4-0.**

2. MEETING ITEMS:

2(A) PRESENTATION, DISCUSSION, AND POSSIBLE ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS UPDATED FINANCIAL POLICIES FOR ENTERPRISE FUNDS (1:03:04) - Chairperson Engleman introduced this item and, at her request, each of the City staff members introduced themselves for the record. Mr. Schulz introduced Mr. Hummel, and provided a brief overview of his experience. In response to a question, Mr. Quaglieri provided a brief overview of his Public Utilities Commission experience. Ms. Russell presented the agenda materials and responded to questions of clarification.

At Chairperson Engleman's request, Member Spell discussed the importance of the updated financial policies. "Any governmental organization should have systemwide policies and procedures for financial management. ... After the study, they generated them more specifically for the enterprise funds. The reason we went and did this amendment ... is that the first attempt was very confusing ... you really only have two fund balances. You have your operating reserves and then your capitalization. But, originally, it looked like we had about six different fund balances. So it's taken us awhile but we're finally there."

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Member Spell thanked Ms. Ganger “for giving us a lot more information on compliance with breaking down each account and showing the amount of unspent bond proceeds in the fund. She’s given us everything we really need to see on how they are determining compliance with all of our reserves ...”

Ms. Russell clarified that the Citywide Financial Policies include six enterprise funds. The UFOC is over three of those funds. Ms. Russell advised that all six enterprise funds are in compliance with the Citywide Financial Policies. Chairperson Engleman entertained additional questions or comments and, when none were forthcoming, a motion. **Member Spell moved to recommend the revised financial policies to the Board of Supervisors for approval. Member Scott seconded the motion. Motion carried 4-0.**

2(B) PRESENTATION OF FY 18 FINANCIAL REVIEW REGARDING UPDATES ON REVENUES AND EXPENDITURES FOR THE SEWER (WASTEWATER), WATER, AND STORMWATER DRAINAGE FUNDS (1:14:19) - Chairperson Engleman introduced this item, and Ms. Ganger presented the agenda materials in conjunction with displayed slides. Ms. Ganger noted that the figures presented were year-to-date actual and technically still unaudited. “... the numbers we’re talking about ... most likely will be our final numbers and we don’t expect any changes but I just have to note that the Board of Supervisors has not approved these yet.”

In reference to Schedule F-2 of the Water Fund, at page 29 of the agenda materials, Member Spell noted that the “cash looks really good but it’s not good because we held off \$5 million of capital acquisitions. So I think this is another reason this study is going to be critical for water. We’re just not getting the revenue.” Mr. Schulz acknowledged the accuracy of the statement. “What we’re spending, it’s in the bank because we haven’t spent it yet but it’s committed ... and we just need to understand that when we look at this bottom line. That money is committed ... that cash is going to go away and this is looking at [FY] 18.” Ms. Ganger noted that “the water fund, for several years in a row, did not meet its financial policies and, therefore, had no money to spend on capital expenditures. So the water fund especially has a build up of projects that need to be done that are ... for all intents and purposes, behind schedule because, in the past, they didn’t have the money. ... that’s just something to think about going forward and for planning purposes.”

In response to a question, Ms. Ganger advised of no problems with arbitrage. Mr. Schulz explained that “the majority of the bond was for the Curry Street project and the South Carson Street project. ... the Curry Street project is wrapping up so we’ll finish that billing ... in the next couple months. And then South Carson is under design but almost \$3.5 million is going to that project as well. So that won’t actually be ... charged probably until 2020 in terms of the contractor putting in the installation of it. ... so that bond money is going to sit in that account for a couple more years ...” In response to a question, Ms. Russell advised that the City has three years to spend the money. Ms. Ganger responded to additional questions of clarification. Chairperson Engleman entertained additional questions or comments; however, none were forthcoming.

2(C) UPDATE ON WATER, WASTEWATER, AND STORMWATER REFRESH (1:32:39) - Chairperson Engleman introduced this item, and Mr. Schulz presented the agenda materials. Mr. Hummel reviewed the time line for hiring the consultant and presenting the contract to the Board of Supervisors. He anticipates that the results of the rate study will be available for presentation in May. Mr. Hummel and Mr. Schulz responded to questions of clarification.

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Member Scott expressed the opinion “this is a really important study, a really important project because we have just finished the fifth year of a rate increase that was programmed with the original work for water and sewer. We see that in sewer we’re beginning to get to be in better shape financially. Water is still upside down and ... there’s capital budget items that have been delayed. Other items continue to be added to the pot of capital improvement needs, in the water fund particularly, that we haven’t addressed. And I’m hopeful that the process can include trying to educate people regarding the value and the need for the ongoing funding of the utility, not in terms of a huge change in rates ... but more in terms of you really have to look at a sustainable way of funding and financing your enterprise funds and, obviously, most of that if not almost all if it, comes from rate payers. But there are different ways to do that and ... the rate refresh can look at some of those things. Obviously, you can look at rate structures and that sort of thing. We see with the ... increase in rates, we see reductions in uses. So if you’re not careful, your rate increase reduces your demand which reduces your income which creates other problems. So I’m hopeful that this can be a process that isn’t necessarily in the corner and all of the sudden comes back to the Board of Supervisors, presumably through this committee, but we’re going to need folks ... in the community ... and at the elected level. And ... that’s really going to be important if we’re going to be successful in what I hope is maybe developing a more sustainable process with regard to rates rather than this periodic hiatus or this periodic consultant review discussion. Consultants are extremely ... economical and useful but we don’t want to use them too much. And, at the same time, there may be some sustainable ideas that the Board would consider favorably that would allow for a longer term perspective and a better planning perspective from a financial position.” Chairperson Engleman expressed agreement with Member Scott’s comments.

In response to a question, Mr. Schulz reviewed the process for selecting the consultant and negotiating the contract. “That process includes developing a scope and then they provide what the fees are as related to that scope. And that’s where the negotiation happens between the consultant - the contractor - and the staff in terms of what that looks like and how much it costs. Eventually, we end up with something that we accept that’s appropriate and ... that’s the document that we would bring to the Board of Supervisors for ... the award of the contract in January.” Chairperson Engleman requested for the committee to be involved in the process, and discussion followed. Member Scott commented that “the successful conclusion and implementation of this study could conceivably initiate the demise of the need for this committee. So that could be a real goal for staff.” Chairperson Engleman acknowledged that similar presentations to the committee, as were done by former consultant FCS Group, would be agreeable. Chairperson Engleman entertained additional questions or comments; however, none were forthcoming.

2(D) PRESENTATION OF THE DIRECTOR’S REPORT ON PERSONNEL, PROJECTS, AND PLANNING (1:49:45) - Chairperson Engleman introduced this item, and Mr. Schulz presented a report on stormwater projects. (1:52:04) Mr. Quaglieri provided an overview of his presentation on the Water Utility. He advised of upcoming retirements and corresponding transitional preparations. He discussed stricter EPA guidelines recently imposed for the Quill Surface Water Treatment Plant, and advised that certain water supplies have consequently been shut off. “We’re currently not taking water from Ash Canyon. We’re currently not taking water from the Marlette and Hobart Reservoirs. We’re still taking water from the east slope catchments which come through the Marlette and Hobart water systems. So Kings and the East Slope Water Catchments we’re down to. It’s dwindling in supply.” Mr. Quaglieri advised that he is pursuing an engineering report to explore options. He reported that a new induction well on the river is being considered in partnership with other organizations. He further reported that infrastructure is being studied in the areas of the upper and lower Voltaire Canyon zones due to anticipated development. Another area to be studied is the East Valley Zone which takes water from the East Carson tank up to the Highway 50 tank, which also has more development potential. Booster pump station upgrades are being considered for the two study areas. Mr. Quaglieri reviewed projects being considered

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for the coming year: the east / west connection of the Minden Town water; rehabilitation of the Goni Canyon water tank; a Well #3 redrill; well pump rehabilitation projects. Mr. Quaglieri also reported that the Stewart Facility will soon be turned over to the City. New water mains are being installed by the state, and the City will serve each individual building once the facility is turned over. Chairperson Engleman entertained questions or comments of the committee members and, when none were forthcoming, she commended Mr. Quaglieri's presentation.

(1:59:26) Mr. Hummel reviewed recent and anticipated retirements from the Wastewater Utility, and advised that Jennifer Lopez was recently appointed to the position of Plant Operations Supervisor. Mr. Hummel advised that Phase 1 of the Reclamation Facility was recently awarded the American Public Works Association Project of the Year. He reported that Phase 2 is underway and approximately 20 percent complete. Mr. Hummel advised that lift station rehabilitations are being prioritized. He reviewed the list of annual sewer rehabilitation projects, and detailed the time lines. He advised that valving and assessments, as well as the emergency action plan, are being planned for the Brunswick Canyon Dam. Mr. Hummel further advised that he is considering long-term options for disposal of treated effluent, and will be hiring a consultant to assist.

At Chairperson Engleman's request, Member Scott commented on the history of the disposal of treated effluent. "... part of the issue is to look past the current short-term situation and into the longer term. This past year, as we've heard, we've been able to pretty much eliminate the contributions from the water system to the sewer system to offset the shortage in effluent. But, long term, there are a number of things that have been kicked around. And I know there's been a lot of discussion and a lot of alternatives but, if I understand what you're trying to do here ... you're trying to take everything that's out there and kind of bring it current and then look forward with current conditions, current projections of supply ... and also determine if there are long-term planning implementation matters that should be considered for the effluent. And I assume that that's pretty much what you're trying to do, not another study but rather taking the information that's out there and really looking forward with it." Mr. Hummel acknowledged the accuracy of the statement. "There's been a lot of great work done over the years and that's kind of been my initial task is reviewing that history and our permit situation with the state. The Division of Environmental Protection actually permits the discharge of that water and that's an ever-moving target over the years. ... it's what's been done to date and how do we use that projecting forward into the future to keep Carson in a good position moving forward." Chairperson Engleman commended Mr. Hummel's report.

Mr. Schulz commended Mr. Quaglieri and Mr. Hummel and expressed the opinion that they will serve the public very well into the future. Member Bowling advised of having known Mr. Hummel for a number of years and commended Mr. Schulz on hiring him. He described Mr. Hummel as a "great addition to the City," and commented that he "joins a great operation."

2(E) DISCUSSION REGARDING THE UTILITY FINANCE OVERSIGHT COMMITTEE'S ACTIVITIES AND ROLES CURRENTLY AND INTO THE FUTURE (2:07:55) - Chairperson Engleman introduced and provided background information on this item, and entertained comments of the committee members. Member Scott stated, "One of the areas that's been important to me is the consideration and ... still a project in need of further implementation regarding connection fees. I think that this committee has had some impact on the adjustment in those connection fees to begin to bring them a little bit higher on a progressive basis and I think, potentially, that is one of the items that may come out of the rate refresh as well. But, to me, that's another important element that is, in my mind, a work in progress but ... still has some ways to go ..."

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Member Spell concurred and noted all the development referenced in Mr. Quaglieri and Mr. Hummel's presentations. "We're sitting with the water fund that has no money. We need new infrastructure. We need new treatment. And then Bruce ... said the best thing ever. If we can find a stable, systematic process that will work, you won't need us. I just don't see any need for this committee because the number one complaint is water rates and it's a catch 22 system. I'm going to charge you more if you use more. Well, I'm not going to use more. It's counterproductive to funding capital reserves. So we have to keep that in mind ... with this study. Is growth going to pay for growth? We're not going to pay for it through rates. You want to tie into our system, you're going to pay the price. Personally, when I saw that the connection fees were dropped to \$750 two years after I paid \$3,000 for mine, why? I never balked at \$3,000. That was part of doing the business. We've got to get away from let's save every little nickel and dime for economic growth. We have to be reasonable about all this stuff. ... not just rates, what can we get if we want to keep growing and that's the push in this state now. Economic development, more growth. How are we going to get growth to pay for growth?"

Member Bowling expressed support for the previous comments. "I think the stability of the rates is so important. But coupled with that is the consistency so that whether it's a new resident or a developer coming in, they know ... what to expect over the years so that something isn't changed six months after it's enacted or recommended to the Board. I think there has to be consistency which I think we've accomplished. The other thing I want to do is to describe it as a committee. It think it's important ... that we provide oversight. I think the worst thing that we could do is to go down the rabbit hole and start managing what is Darren [Schulz's] responsibility. And I think that Darren's done a bang-up job and, if there's anything that we can help provide input on, review any recommendations that Public Works is going to make to the Board, that's our job and we're happy to do it. But to drill down and become a manager or to offer experience or judgments on items beyond our purview, I think would be inappropriate. So I think we've gone down the road where we should be going. So I think we've made great progress."

Chairperson Engleman offered Mr. Schulz the opportunity to comment, and he advised of having taken notes. In terms of moving forward, he suggested a discussion with the Board of Supervisors. "... like you say, this was developed, it was put into motion. There was very little guidance given as to what to do ... Do we owe it to them to check back in? ... I'm taking notes of what's being said here."

Chairperson Engleman advised of having kept in touch with Supervisor Abowd, who appointed her, and with other members of the Board. "In general, they've been very complimentary to this committee and everything is presented as a committee. ... the Board's been very pleased. ... I think what we have done is the work that the Board wants to see done that they don't have time for and where they wanted a little more drilling down on all these numbers and so forth and they don't always have time for it. ... that's what we're here for." Chairperson Engleman provided historic information on the committee. "I agree. I think at some point the Board will decide what they want to do with this committee, how they see it moving forward. If you recall, our initial resolution had us expiring after five years and then when we re-did the resolution, the Board took that out and now we serve at their pleasure. So this committee could be gone next week if the Board so decided. I want everybody here to know how much I appreciate all of you and the time and effort that you've given on this committee. As I say, I think this rate study is an important point for this committee to move forward on so that the rate payers know and understand that somebody's looking out for them at the same time that we're working on possibly raising rates again." Chairperson Engleman expressed agreement with Member Scott regarding connection fees.

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Chairperson Engleman entertained additional comments. Mr. Schulz advised of not having heard from the Board of Supervisors that change is needed. He agreed that the value of the committee to the Board of Supervisors, especially relative to rate and rate increases, are the five citizens who are not elected and who are vetting this and will be paying the rates.

2(F) DISCUSSION REGARDING POSSIBLE DATES, TIMES, AND LOCATIONS FOR RECURRING COMMITTEE MEETINGS FOR CALENDAR YEAR 2019 (2:22:25) - Chairperson Engleman introduced this item. Mr. Schulz advised of having reviewed the meeting schedule over the past two years, and of having a brief discussion with Finance Department staff. He suggested the following meeting dates in 2019: Tuesday, March 26 at 1:00 p.m.; Tuesday, May 28 at 1:00 p.m.; Tuesday, September 24 at 1:00 p.m.; and Monday, November 18 at 1:00 p.m. The committee members concurred and, following a brief discussion, consensus indicated that additional meetings could be scheduled as necessary.

3. INFORMATION REGARDING FUTURE AGENDA ITEMS

4. PUBLIC COMMENT (2:31:59) - Chairperson Engleman entertained public comment; however, none was forthcoming.

5. ACTION TO ADJOURN (2:32:16) - Chairperson Engleman entertained a motion to adjourn at 2:32 p.m. **Member Scott so moved and Member Bowling seconded the motion. Motion carried.**

The Minutes of the November 27, 2018 Carson City Utility Finance Oversight Committee meeting are so approved this 26th day of March, 2019.

MICHAEL BENNETT, Vice Chair