

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the January 24, 2003 Meeting

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A Carson City Utilities Advisory Committee meeting was scheduled for 3:00 p.m. on Friday, January 24, 2003 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

PRESENT: Chairperson Ron Knecht
John Degenkolb
Craig Mullet
Larry Osborne
James Riggs

STAFF: Tom Hoffert, Utilities Operations Manager
David Heath, Finance Director/Risk Manager
Nick Providenti, Accounting Manager
John Bonow, Consultant
Kathleen King, Recording Secretary

NOTE: A tape recording of these proceedings is on file in the Clerk-Recorder's Office and is available for review and inspection during regular business hours.

A. CALL TO ORDER AND DETERMINATION OF A QUORUM (1-0001) - Chairperson Knecht called the meeting to order at 3:08 p.m. Roll was called; a quorum was present. Vice Chairperson Martel and Members Langson, Polito, and Smeath were absent.

B. ACCEPTANCE OF CLERK'S MINUTES (1-0008) - None.

C. PUBLIC COMMENTS (1-0012) - None.

D. MODIFICATION OF AGENDA (1-0019) - None.

E. DISCLOSURES (1-0024) - None.

F. PUBLIC MEETING ITEMS:

F-1. PRESENTATION BY CONSULTANT AND DISCUSSION REGARDING SEWER COMPUTER RATE MODELS (1-0028) - Mr. Bonow referred to the materials included in the agenda packets, and referenced one of the Committee's objectives to use the winter average of water consumption as the baseline for setting sewer rates. The amount of water actually flowing into the sanitary sewer is fairly regular year round because the spikes in water usage are usually for outdoor or non-consumptive use. Therefore, the predictability of sewer system flows are based on the minimum use of water which is typically found in winter months. Mr. Bonow advised that the test year had approximately 4.1 - 4.2 billion gallons of water flow through the system. The consumption level, that which actually flows through the sanitary sewer, is a little less than half that amount.

Mr. Bonow advised that the sewer utility includes three primary types of charges, two of which constitute most of the revenue: The fixed capitalization charge which is based on the number of equivalent residential units ("ERU"); the variable capitalization charge which is a very small number based on consumption; and the user charge which is the largest consumption-based charge. Mr. Bonow advised there are also a number

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of surcharges which generate a relatively small amount of revenue. He referred to the six primary customer categories designated in the water model, and advised that there are a larger number of customer categories in the sewer model which are distinguished by the way they contribute wastewater to the system. Examples are bakeries, restaurants, mortuaries, etc.

Mr. Bonow advised that cost causation is not considered on the sewer side because of the fairly regular amount of flow. As a result, allocating costs to base and extra capacity is not applicable to sewer rates. Revenue requirements and the amount of adjustment needed to ensure the system generates enough revenue given projected demand and use are the focus. Mr. Bonow referred to the two "Capital Funded w/Debt + Revenues" charts included in the agenda materials, and advised that three funding methods were considered: All pay-as-you-go and all debt financing are both unrealistic scenarios but they frame the "bookends." Mr. Bonow explained that the same relative percentage of debt versus pay-as-you-go was considered as for the water side for the last scenario. He reviewed the Revenue Requirements and Adjustments chart and the Summary of Potential Bill Adjustments table.

In response to a question, Mr. Bonow advised that the "Capital Funded w/Debt + Revenues" scenario in the Summary of Potential Bill Adjustments table has the impact of necessitating substantial increases in the near term based on the percentage of projects to be debt financed. The pay-as-you-go drives the higher cumulative percentage through 2008. Debt financing everything delays, to the maximum extent, the required rate increases. Pay-as-you-go will require a higher revenue requirement; the question is when it occurs. He referred to the "20-Year Capital Improvement Program (Inflation Adjusted Costs)" graph and reviewed the same. He advised that the water program had a substantial amount of capital costs "but they weren't as dramatically spiked and front loaded as the sewer costs." This is a combination of many factors, not the least of which are sewer plant expansion requirements which have been delayed over time. Mr. Bonow pointed out the huge increase in capital requirements in 2005, and advised that rates are adjusted for the sewer utility every two years because of the irregular nature of capital costs. He noted that it is very difficult to smooth out the irregularity of capital requirements without debt financing projects.

Mr. Bonow referred back to the "Capital Funded w/Debt + Revenues" Scenario in the Summary of Potential Bill Adjustments table and reviewed projected bill adjustments for average and low discharge residential customers. He reiterated that the biggest driver in revenue requirements is the capital program. Operating expenses don't increase dramatically from year to year. Mr. Bonow advised there is some question as to whether the capital program can actually be implemented in the next couple years so there is the possibility of delaying some of the projects. He acknowledged that the model will be able to adjust the information accordingly. He referred to the Projected Periodic Rate Adjustments graph, and advised that the 9.10% rate increase in 2004 will allow a more gradual adjustment to meet the 2005 and beyond capital requirements.

In response to a question, Mr. Bonow advised that the 2008 rates depicted in the Summary of Potential Bill Adjustments, "Capital Funded w/Debt + Revenue" Scenario are compared to current rates on a cumulative basis under the funding approach. In response to a further question, Mr. Bonow advised that the increase depicted in the "20-Year Capital Improvement Program" for 2011 consists of approximately 20 different projects which just happen to be coming due in that year according to the current schedule. Mr. Hoffert advised that another plant expansion is scheduled to begin in 2009 and be completed in 2011/2012. Program costs for phase 2 of the freeway project are also included. Mr. Bonow reviewed the "Capital Funded w/Debt + Revenues" Table, and advised of conferring with staff to ensure that debt service

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coverage numbers are adequate. Mr. Bonow reviewed the figures depicted in the Connection Fees table. Chairperson Knecht inquired as to how the base connection fee compares to neighboring communities. Mr. Hoffert advised that the fee is approximately mid-range of the regional picture. Mr. Bonow reviewed base connection fees for Douglas, Washoe and Lyon Counties at the request of Member Osborne.

Mr. Bonow commented that once a method of calculation is determined, being consistent with it has varying, sometimes unanticipated results. He advised that the figures depicted are consistent with the methodology used for the water model. Mr. Bonow responded to questions regarding water and sewer utility average total bill increases and decreases for residential and commercial customers. Mr. Hoffert responded to questions regarding projected costs listed in the Capital Projects, Cost Allocations, and Funding Options table. Mr. Bonow compared the capital costs and the required revenue adjustments graphs. Mr. Hoffert advised that the Utilities Department is in the midst of reviewing the capital projects program to ensure proper timing and coordination. Member Mullet expressed support for coordination of projects.

Mr. Bonow noted that there is a fair amount of debt required to implement the program given the near term nature of the capital costs. Staff will continue to revisit that because at some point it will become a large amount of debt which may be inconsistent with maintaining the City's good credit rating. The near term nature of the costs require an approximate 9% increase in each of the next couple of years to absorb the capital program.

In response to a question, Mr. Bonow advised that Mr. Hoffert provided information on adjustments for many individual commercial customers which use water in their manufacturing process but don't contribute a great deal of water to the sewer system. Adjustments are made both ways; bills are decreased from what they otherwise would be for considering only winter average water consumption or increased if the customer's contribution to the sewer system, even if it's lower than the winter average, is "particularly nasty." Mr. Hoffert advised that the Utilities Department Industrial Pre-Treatment Program adjusts the sewer bills of all commercial customers according to the strength of the sewage, together with the quantity contributed. Monitoring and compliance programs are in place to ensure customers stay within regulated parameters in order to avoid upsetting the overall balance of the sewer system. Accounts are established with clients at the time of connection and reviewed annually to determine the need for adjustment.

In response to a question, Member Osborne advised that he attended the last Builders Association of Western Nevada ("BAWN") Board meeting, wherein the water model was presented. He indicated there was very little feedback from the BAWN Board members. Member Osborne commented on the importance of presenting the models in total because obviously the sewer model is not "as rosy a scenario as the water rate scenario."

F-2. DISCUSSION AND ACTION TO APPROVE FINAL SEWER COMPUTER RATE MODELS WITH PROPOSED RATES AND FORWARD TO BOARD OF SUPERVISORS (1-0917)

- Mr. Bonow discussed adjustments to the water rate model since the last meeting, distributed copies of a Rate Analysis Summary to the Committee members and staff, and reviewed the same. He responded to questions regarding capital requirements, rate adjustments, and funding options. He advised that there will be equity balance among all customer classes after five years; every customer class will pay its share of its costs regardless of how the costs are funded.

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Chairperson Knecht expressed appreciation for Mr. Bonow's explanation. Member Riggs advised that he had reconsidered his vote on the water rate model and that he would like to change it to a yes vote. Chairperson Knecht noted this information would be forwarded to the Board of Supervisors.

Member Mullet moved to accept the presented sewer rate methodology and the rate increases or decreases, as they should come out, as presented this evening; and to present it to the Board of Supervisors as the Committee's recommendation. He acknowledged he was referring to the preferred scenario discussed throughout the meeting. In response to a question, Mr. Bonow advised that the same percentage adjustment was made for all different types of charges based on the same funding mix of debt and pay-as-you-go. **Member Degenkolb seconded the motion.** Member Osborne expressed support for the motion, and commented that the most important thing is for the methodology remain the same. Member Riggs expressed the opinion that this is the "best method that we could choose at this time." Chairperson Knecht called for a vote on the pending motion; **motion carried 5-0.**

F-3. DISCUSSION ON PRESENTATION MATERIAL FOR PUBLIC WORKSHOP ON JANUARY 30, 2003 (1-1212) - Mr. Hoffert distributed a sample packet to be presented at the public workshop and which would establish the foundation for the February 6th Board of Supervisors presentation. He reviewed the contents of the sample packet, and discussion took place regarding revisions and additions. Mr. Hoffert responded to questions regarding advertisement and publicity of the Committee meetings and public workshop, and the workshop format. Mr. Bonow acknowledged that he would be in attendance at the workshop. Additional discussion took place regarding the Board of Supervisors presentation on February 6th.

G. ADJOURNMENT (1-1655) - Member Osborne moved to adjourn the meeting at 4:45 p.m. Member Mullet seconded the motion. Motion carried 5-0.

Respectfully submitted this 16th day of April, 2003.

ALAN GLOVER, Clerk-Recorder

By:

Kathleen M. King, Deputy Clerk/Recording Secretary
to the Carson City Utilities Advisory Committee