A meeting of the Carson City Utilities Advisory Committee was scheduled for 3:00 p.m. on Friday, February 21, 2003 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

PRESENT: Chairperson Ron Knecht
Vice Chairperson Glen Martel
Larry Osborne
James Riggs
Jeffrey Smeath

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

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 QUORUM (1-0013) **-** Chairperson Knecht called the meeting to order at 3:00 p.m. Roll was called; a quorum was present. Members Degenkolb, Langson, Mullet, and Polito were absent.

B. ACCEPTANCE OF CLERK'S MINUTES (1-0025) **-** None.

C. PUBLIC COMMENTS (1-0030) **-** None.

D. MODIFICATION OF AGENDA (1-0038) **-** None.

E. DISCLOSURES (1-0042) **-** Member Osborne advised of having provided a report on the last Committee meeting to the Chamber of Commerce Board of Directors and the Builders Association of Western Nevada Board of Directors. Chairperson Knecht expressed appreciation to all of the Committee members for being diligent to keep in touch with their respective constituencies.

F. PUBLIC MEETING ITEMS:

F-1. DETERMINE THE REVENUE IMPACTS FOR EQUALIZING RATES PER 1000 GALLONS FOR EACH CUSTOMER CLASS; F-2. DETERMINE REVENUE REQUIREMENTS FOR EACH CUSTOMER CLASS; AND F-3. DETERMINE THE PERCENTAGE RATE ADJUSTMENT FOR EACH CUSTOMER CLASS IN THE NEW BASELINE (1-0059) **-** Mr. Heath expressed appreciation to the Committee for returning for an additional meeting, and explained the circumstances by which it was necessary. He provided an overview of the agenda materials and explained staff's preference for an equal tier/equal rate structure which is close to the Committee's previous recommendation in terms of administrative effort, efficiency, and ease of explanation to the Board of Supervisors and the community. He advised of the difficulty of explaining the model and the economic theory behind cost causation to the Board and the public. He requested the Committee's consideration of staff's recommendation.

Mr. Bonow reviewed the Revenue Impact from Equalization of Rates/000 Gallons (by Customer Class) table which was distributed prior to the start of the meeting. He explained that the table would be used to show what will need to be done going forward under one of two general approaches, as follows: maintain the concept of cost causation and allocation of costs to customer classes and vary from the base in order that each class pays for itself; or eliminate the concept of revenue requirements by class, consider every customer as part of a homogenous customer base, and reduce or increase rates by the same percentage for every customer. Mr. Bonow explained that both approaches were varied based on how much the fixed meter charge was decreased. He acknowledged that the analysis is an artificial equalization of rates and not based on actual costs of delivering service. In response to a question, he explained that the monthly meter charge, which is the same per ERU for every customer class, was not addressed as pertaining to changes among the classes. The connection fee per ERU is the same regardless of customer class, and the consultants and staff did not assume any revision to the connection fee further than that which had already been decided upon.

Mr. Bonow explained that it will be very difficult to compare discussions from this meeting with what has been done in the past as pertaining to revenue requirements by customer classes in that a number of things have changed since the last Board of Supervisors meeting. The discussion regarding whether the State will be treated the same as every other customer is approximately "a $300,000 to $600,000 issue" depending upon how capital is funded. If the State is unable to add revenue to the bottom line, every other customer class has to "soak that up." In addition, there is a shift in the capital costs because of accelerating the freeway project. In response to a question, Mr. Hoffert advised that he has begun to schedule meetings with State representatives, and has reviewed the contract to determine the possibility of revising it. He suggested beginning discussions to renegotiate the contract now will ensure a new contract can be ready for submission to the 2005 Legislature. He responded to questions regarding the expiration date of the existing contract, provisions for contract negotiation, and previous revisions to the contract which involved rates. In response to an earlier question, Mr. Heath advised that staff is assuming the City will not be receiving any additional revenue from the State in the near term. The City will aggressively pursue increasing rates, and Mr. Heath advised that a definite objective is to bring the State's rate to a level commensurate with the other customer classes.

Mr. Bonow referred to the Rate Analysis Summary, and suggested considering the impact on average customers given typical usage on the various customer classes if every customer pays the same rate per thousand gallons, whether or not the customer class designations are maintained. He referred to the "10% Meter Charge Decrease; SAME RATES" line item, and reviewed impacts to the revenues and the bills for each of the customer classes. He referred to the Comparison of Typical Water Bills tables included in the agenda materials and reviewed the net impact to residential and commercial customer bills. He emphasized there are two phases to the adjustment, the first to bring every customer into equilibrium and then adjusting from there. In response to a comment, he advised that the impact of the scenario for most customers is either very little change or a dramatic decrease in the case of the commercial customer's bill. If a determination was made regarding the need for additional revenue in the future, increases could take place across the board. Mr. Bonow commented that the scenario is "overly simplistic on one level, but it's certainly easy to explain." He noted that the costs for each customer class will continue to be monitored. With regard to the subsidy, he noted that in the first year there is a net increase in most residential customer bills and a net decrease in commercial customer bills. He suggested this is "heading in the right direction; the question is, 'how far are you heading?'" He expressed the opinion that the scenario presented was consistent with consideration of the impacts on the net results. In addition, the calculation methodology is much simpler to explain to the average citizen. Mr. Bonow reiterated staff's preference for the approach because of the ability to explain the results. He noted that the approach is also consistent with the general objectives to reallocate revenues among the customer classes.

In response to a question regarding disposition of the fire sprinkler charge, Mr. Bonow advised that leaving the charge in place would still result in a decrease in the commercial customer bill. He expressed the understanding that the Board of Supervisors was interested in the validity of the methodology for eliminating the fire sprinkler charge and spreading the cost system wide. He noted the Committee's recommendation to spread the costs among all of the customer classes. He advised that specific answers are readily available with regard to leaving the charge in place or eliminating it. Member Osborne agreed with eliminating the sprinkler charge.

Mr. Bonow acknowledged that the ALL DEBT scenario was one of the bookends, and advised that this option would have the least impact on current bills. It would also provide no flexibility for absorbing revenue decreases. In response to a further question, Mr. Bonow advised that the total capital requirements vary dramatically from year to year. In FY2004, \$6-6.5 million in capital will be required which would result in a 7-8% margin of error on revenue estimations. In response to a further question, Mr. Heath advised that capital requirements over the next five years will average approximately \$4 million per year. In response to a question regarding the \$400,000 in revenue requirements, Mr. Bonow explained that a number was selected which would provide a reasonable level of protection for over-estimating revenue. The \$400,000 is a 10% estimate of the average costs over the next five to ten years of annual capital requirements. He referred to the Revenue Requirements graph included in the agenda materials, and advised that an assumption was made, for modeling purposes, that the revenue requirements are 10% of the capital costs.

Vice Chairperson Martel discussed the process for converting the City's Building Department to an enterprise fund. He explained that a fund balance was maintained for unknowns and short years, and expressed understanding for the purpose of the \$400,000 to be used to rebuild the utility fund balance if it is not needed for capital requirements. He inquired as to how rate decreases will be determined and how the \$400,000 will be used if it is needed. Mr. Bonow explained that the \$400,000 will only materialize if the City debt finances more capital because the costs will still be there. If the costs aren't there, revenue will still be generated and presumably the City could debt finance less capital or debt finance the same amount and allow the \$400,000 to go toward building the fund balance. This is how the annual review of rates will be relevant.

In response to a question regarding the projected rate path over the next five years, Mr. Bonow referred to the Annual Commodity Charge Adjustments portion of the SAME Rates/000 Gallons for Each Class table included in the agenda materials and reviewed the same. He explained that if the City debt finances all capital except approximately \$400,000 per year, there would be increases on the consumption side by approximately 9% down to 4% to 5% as a revenue base is built up and the large amount of capital costs, primarily associated with the freeway and the Safe Drinking Water Act, get absorbed. An assumption has been made that, after the meter charge is decreased by 10%, it would be increased at the rate of inflation or slightly less, such as 1.8% to 3% per year, thereafter. The major factors influencing the figures are capital costs and how they are financed, and whether growth occurs at a robust rate. If growth occurs at a robust rate, connection fee revenue would increase and there would be less reliance on consumption charges. Mr. Bonow pointed out that after the first year, things stabilize because of the larger base. In each of the years following FY2003, every customer would be paying the same rate per thousand gallons. The decreases reflected in the first year are necessary to establish every customer on the same footing. Mr. Bonow emphasized that no increase was assumed for the State over the next five years other than the initial equilibrium. He advised that every customer's rates will be decreased if the City is able to increase the State's rates. The magnitude of decrease would be on the order of $200,000 to $300,000 worth of revenue which, given the total revenue base, would be 6% to 8%. Mr. Bonow acknowledged that the 21.47% commodity rate increase for the residential customer would net a total bill impact for the year of a 5.57% increase; and the 21.47% commodity rate increase from the adjusted base level for the commercial customer would net a 38% annual bill decrease. He emphasized that those changes reflect a subsidy to the State by every customer class. He explained that the $6 FY2004 Net Total Revenue Result reflects the total revenue of the system equaling the total revenue requirements of the system even allowing for the fact that the State wouldn't be able to be increased to same level as every other customer. It's the "worst case" if the State can't participate to the same degree. In response to a question, Mr. Bonow explained that all other customer classes are subsidizing the State in the amount of $300,440. He acknowledged that the 5.57% increase is for the average residential customer and the 21.47% increase is to the commodity charge component of their bill. In response to a question, he advised that 6-8% of the increase in consumption charge is due to not being able to count on additional revenue from the State.

Member Riggs advised that State budgets have not yet been finalized, and suggested there may still be an opportunity to renegotiate the contract. Mr. Heath advised that the City is currently paying $.20 per gallon for the water purchased from the State, which is very economical. Initial indications are that the State wants to raise the City's rate, and Mr. Heath advised that a conservative, prudent assumption would be that it will "wash." If the City can come out ahead on the transaction, it will certainly be passed through.

Member Osborne noted that the total operating expenses are projected at an approximate 10% increase, particularly for FY2004. He expressed the understanding that the Board of Supervisors has requested all City departments to consider reducing budgets by 2-3%. He suggested there may be a "swing" there also in the short term. Mr. Hoffert acknowledged there may be a short term swing, but noted that as consumption increases, costs for delivery of additional water supply increase. Mr. Heath commented that one of the advantages of the proposed pricing scenario is every year, when the budget is presented to the Board, the Utilities Department will be required to justify every dollar of any increase, especially capital money. Member Osborne referred to Member Riggs' earlier comments, and suggested that if the State's contract cannot be renegotiated at this time, there may be savings which would result in less than a 21.5% increase in FY2004. Mr. Bonow advised of four areas which will impact the potential increase: (1) Debt finance more capital which he noted would not be advisable because of losing some flexibility; (2) Decrease other expenses so that the revenue requirement decreases; (3) Any debt impacts from the State which will benefit the City will impact the percentage; and (4) Whether there is any general reduction in the capital requirements. He referred to the capital projects listed under Non-Operating Expenses on the SAME Rates/000 Gallons for Each Class table and reviewed the same.

In response to a question, Mr. Bonow reviewed the capital projects to be funded in FY2004 and FY2005, and discussed the relationship of the freeway expansion. Mr. Hoffert advised that the portion of the freeway bypass which is presently contracted is already funded. Mr. Bonow clarified that the capital projects reviewed are net of what has already been funded, i.e., costs that don't already have revenues or bond proceeds available. In response to a further question, Mr. Bonow expressed the opinion that the proposal should be characterized in terms of the impacts anticipated in FY2004. Mr. Heath advised that several of the Supervisors have expressed the intent of keeping increases level and to a minimum. He expressed the opinion that it will be difficult to have increases over 5% approved unless "there is an extremely dire capital need." He advised of hearing a lot of cynicism about the existing capital plan, and suggested that the advantage to the proposal is the only thing to focus on, in term of annual increases, is whether the costs are justifiable. He reiterated that it is difficult for people to buy into the process if they can't understand it. Mr. Bonow advised that the tool developed to consider the "arbitrary allocation of costs" has some science to it. He suggested that, in discussions with State representatives, it may prove useful to point out that the City is only receiving half the revenue expected. Mr. Heath agreed that the model is useful going forward, and noted that it has proven issues which help justify a fairly significant change in rates whichever scenario is chosen.

Chairperson Knecht commented that the variable financing options discussed raise a certain inherent weakness in the cost allocation method. He observed that the direction of the alternative proposal has a lot in common with what he would have anticipated to come out of the marginal cost and economic approach to rate design which he suggested early in the process. He expressed the opinion that it would have dispensed with customer classes per se and probably would have led to some results in common with the proposal. He indicated that the results are interesting and fully responsive to the Supervisors' comments. He clarified that his comments were not intended to endorse or reject the proposal. He suggested that regardless of whether one embraces the cost allocation principles and methods, the model is very worthwhile and the whole exercise has been very worthwhile and produced a very useful product on an ongoing basis in that it provides a dynamic, multi-period horizon accounting, rate making and assessment model. [Chairperson Knecht recessed the meeting, and reconvened at 4:28 p.m.]

F-4. DISCUSSION AND POSSIBLE ACTION ON RECOMMENDATIONS TO THE BOARD OF SUPERVISORS (1-1215) **-** Vice Chairperson Martel expressed the opinion that the proposal accomplishes some of the Committee's main objectives. In response to a question, Mr. Heath advised that staff is fully supportive of the proposal. Mr. Hoffert agreed. Member Osborne agreed with some of the concerns expressed by Chairperson Knecht prior to the recess. He commented that the Committee spent a great deal of time moving toward one scenario, but acknowledged the importance of the Committee's recommendations being in the best interests of the community. He advised of having remaining questions, but acknowledged staff's indication that City staff, the citizens, and the Board of Supervisors have to be diligent to review the model annually and make adjustments accordingly. He indicated that although the proposal represents a change to the methodology previously considered, it does "get us to the point we all wanted to try and get to." He commented that the proposal brings equality to the system users, all customers would be paying the same rate, and it eliminates the fire sprinkler charges. He expressed the opinion that the proposal is adequate and represents the best answer at this time. Member Riggs expressed support for the proposal. He agreed that the direction was changed "right at the last;" however, the goal was reached to bring equality and to phase in rate increases over a period of time. He reiterated his support for the proposal with the understanding that the model will be reviewed annually. He expressed the belief that his constituents will be pleased with the proposal. Member Smeath agreed that the direction of the Committee has been changed, but indicated that the working model is a good one and the cross-subsidies will be eliminated. He expressed support for presenting the proposal in a manner the community can understand. He agreed that the citizens and staff will be responsible for holding the Board of Supervisors accountable to adjust rates as necessary in order to avoid the "situation we're already in." He expressed support for the proposal "if this gets us where we need to be," and expressed a preference for ensuring "we can get there as quick as possible." Chairperson Knecht commented on an earlier concern regarding representation of residential customers, both single family and multi-family. He referred to a previous suggestion by Member Polito to present the Board of Supervisors with a range of options which would include a 5% annual residential bill increase as one of its bookends. Chairperson Knecht suggested that a 5.57% initial year annual residential bill increase "is not at all beyond the pail of what [Member Polito] represented as his comfort zone in presenting options to the Board on behalf of residential rate payers." He expressed the opinion that residential rate payers will in no way be improperly surprised or handed some result that is unfair to them. He commented that one of the things learned from a brief review of marginal costs was that the commodity costs were substantially less than the existing rates or future rates. He discussed approaches to the proposal which could have been taken, and indicated that nothing in the proposal "violates any part of [his] comfort zone based on an alternative approach. Nothing in it seems unfair, unreasonable, inequitable, or economically inefficient." Mr. Heath assured the Committee that staff will present the budget to the Board every year, with justifications for rate increases, if any. He advised he has no interest or intention of building fund balances other than what would represent prudent debt service and operating reserves. The City will reduce the debt load to the extent any extra reserves are built up or possibly propose to the Board that they offer rate decreases. Chairperson Knecht referred to the situation surrounding the State customer class, and observed that the class cost allocation approach showed definitively that the State was paying too little. He commented that the proposed approach likewise shows that the State is paying too little, so both approaches confirm the issue. He suggested that the proposed approach, combined with the results of the cost allocation, provides a stronger case to make to the State to renegotiate the contract.

Mr. Bonow advised that the residential class is being used as a base line because it is the largest class. The remainder of the analysis is tailored around the residential class which is only prudent because staff and the consultants have considered the cost allocation and the residential customer class is not generating more revenue than it proportionately would under this approach. Mr. Bonow suggested singling out the State customer class with regard to its meter charge. Although the State has a separate contract for consumption, it pays the same meter charge as the other customer classes. Because the City will not be able to rely on the consumption revenue from the State, Mr. Bonow suggested preserving the meter charge element of the State's revenue to buy some time and not see a continued undercollection of revenue from the State customer class.

Mr. Bonow suggested key points to include in the motion, as follows: (1) A 10% decrease in the meter charge per ERU; (2) A 21.5% increase in the consumption charge for every tier after all customers are brought in line with the residential customer class in terms of the per thousand gallon rates per tier; (3) That some consideration possibly be given to excepting the State from the meter charge reduction in light of ongoing negotiations. **Vice Chairperson Martel moved that the Utilities Advisory Committee recommend to the Board of Supervisors adoption of a 10% decrease in the water meter charge; that the approximate 21.5% increase in the consumption fee be implemented after the rates are brought into equilibrium across the user classes; and that the State be exempted from the meter fee decrease to attempt to bring their funding into line until renegotiation of the contract.** In response to a comment, **Vice Chairperson Martel amended his motion to include that the recommendation be effective in FY2004 and that the Committee highly recommends an annual adjustment, as necessary, to maintain adequate funding. Member Smeath seconded the motion.** Mr. Bonow recalled some consideration to enacting rate adjustments in the winter or spring to take effect immediately in order that it would have a full year's worth of impact in FY2004. He inquired as to the intent of Vice Chairperson Martel's motion with regard to the time table for enacting the changes. In response to a question, he suggested there may be an element involved that while there is more of a typical bill in place, given consumption, at this point in time and into the spring what we're showing the Board will be more representative of the bills the customers will see. The annual review would determine whether or not there would need to be a slightly lower adjustment in FY2005 if the rates are in place for a couple of extra months. Mr. Bonow explained he was simply trying to adjust the policy question of when to implement the change and it is certainly the case that if it is implemented prior to the end of June, they would be in effect for all of FY2004. In response to a question, Mr. Heath suggested leaving the decision to the discretion of the Board. Chairperson Knecht called for a vote on the pending motion; **motion carried 5-0.**

Mr. Heath acknowledged that the recommendation would be presented to the Board of Supervisors at their March 6th meeting. Discussion took place with regard to agendizing a time for the presentation and whether or not to schedule an additional public workshop. Member Osborne thanked Mr. Bonow for all his assistance and effort. Chairperson Knecht thanked his fellow Committee members and congratulated them on a job well done. He expressed appreciation for the opportunity to have worked with the Committee. He commended Mr. Bonow and his firm on a fine job. He thanked City staff for a fine and cooperative job.

G. ADJOURNMENT (1-1753) **-** Vice Chairperson Martel moved to adjourn the meeting at 5:05 p.m. Member Smeath seconded the motion. Motion carried 5-0.

Respectfully submitted this 15th day of April, 2003.

ALAN GLOVER, Clerk-Recorder

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