

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the April 11, 2002 Meeting

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A regular meeting of the Carson City Utilities Advisory Committee was scheduled for 5:30 p.m. on Thursday, April 11, 2002 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

PRESENT: Chairperson Ron Knecht
Vice Chairperson Glen Martel
John Degenkolb
Ryan Langson
Craig Mullet
Larry Osborne
James Polito
James Riggs
Jeffrey Smeath

STAFF: John Berkich, City Manager
Andrew Burnham, Development Services Director
Larry Werner, City Engineer
Tom Hoffert, Utilities Operations Manager
David Heath, Finance Director/Risk Manager
Nick Providenti, Senior Accountant
Kathleen King, Recording Secretary

NOTE: Unless indicated otherwise, each item was introduced by Chairperson Knecht. 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 5:33 p.m. Roll was called; a quorum was present. Member Mullet arrived at 5:37 p.m. Member Langson arrived at 5:41 p.m.

B. APPROVAL OF MINUTES - March 14, 2002 (1-0076) - Discussion took place to clarify references to the various rate classes. (1-0132) Chairperson Knecht requested a revision to page 5, and discussion took place with regard to the same. **Vice Chairperson Martel moved to approve the minutes as amended. Member Polito seconded the motion. Motion carried 9-0.**

C. PUBLIC COMMENT (1-0007) - Mr. Berkich expressed appreciation to the Committee members for their time and interest in this process. He discussed the importance of the process to the future of the community. In response to a comment, he discussed his experience with the Public Service Commission.

D. MODIFICATION OF AGENDA (1-0187) - Chairperson Knecht suggested modifying the agenda to address item F-2 prior to item F-1, and item F-6 prior to item F-5. Mr. Hoffert distributed a revised page 2 to the agenda.

E. DISCLOSURES (1-0221) - Chairperson Knecht advised of conversations with School Board President Bob Crowell and various city officials. Member Mullet advised he had announced his involvement with this Committee at a recent meeting of the Manufacturer's Association. Vice Chairperson

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Martel advised of providing a briefing on the last two Committee meetings to the Builders Association of Western Nevada. Member Osborne advised of a great deal of conversation with the public regarding the 1% water and sewer franchise fees. Member Riggs advised of contacting the Retired Senior Volunteer Program to discuss the purpose of the Committee.

F. PUBLIC MEETING ITEMS:

F-1. PRESENTATION BY DISTRICT ATTORNEY'S OFFICE ON NEVADA OPEN MEETING LAW AND CLOSED SESSION REQUIREMENTS - Deferred.

F-2. PRESENTATION BY CARSON WATER SUBCONSERVANCY DISTRICT DIRECTOR REGARDING THE CARSON WATER SUBCONSERVANCY DISTRICT'S ROLE AND PLANS (1-0260) - Ed James, General Manager of the Carson Water Subconservancy District ("CWSD"), provided background information on the development and mission of the CWSD. He provided information on the proposed regional system for the Carson City/Lyon County reach. He discussed goals of a regional water system, including enhanced water supply reliability, enhanced fire flows, meeting new federal water quality objectives, benefits to the environment, and lowering overall costs to communities. Several projects have been identified, and federal funding has been requested. Mr. James reviewed the project list, as follows: A 10" bore hole on the Marlette/Hobart system, a 10" pipe from water tanks on the Marlette/Hobart system to Carson City, a 12-16" pipe from Carson City to Moundhouse, injection and extraction wells, pipelines from Dayton/Stagecoach, the Carson City recharge basins, and the Stagecoach recharge/extraction basin. He discussed the funding sources and explained the benefit to Carson City of participating in the regional system. Mr. James displayed photographs of the Marlette/Hobart regional water system, explained the method by which water is currently conveyed, and discussed concerns associated with the existing conveyance system. He pointed out the locations/routes of the proposed projects on a displayed map. Chairperson Knecht requested copies of Mr. James' presentation for the Committee members and staff.

In response to a question, Mr. Hoffert advised that the costs presented by Mr. James are not included in the City's five-year capital plan. Most of the costs included in the five-year plan are associated with arsenic compliance and development of drought tolerant systems to meet peak demand during irrigation season. Mr. Hoffert acknowledged that the proposed bore hole and the associated projects would reduce the deficit projected in the five-year plan. He advised that the arsenic program was funded in the five-year plan because of the established compliance deadline. If the funding requested by the CWSD becomes available, the five-year plan will need to be blended with the regional system and the financial picture reviewed and revised.

Mr. James responded to questions regarding sources for the matching funds, the areas in which water would be stored in the Stagecoach area to avoid arsenic contamination, and the time frame for the bore hole project. Mr. Hoffert responded to additional questions regarding the time frame for and details regarding the bore hole project. Mr. James advised that he has met with congressional representatives and requested letters of support for the projects. He noted that the Environmental Protection Agency gives funding priority to regional programs. Chairperson Knecht thanked Mr. James for his presentation. Mr. James thanked the Committee for their efforts.

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F-3. EVALUATE, DISCUSS AND TAKE ACTION FOR A CHANGE OF VENUE FOR MEETINGS AND POSSIBILITY OF TELEVISING FUTURE MEETINGS (1-0783) - Mr. Hoffert referred to the meeting schedule/work plan included in the agenda materials. Mr. Heath introduced John Bonow and Katherine Ong and invited them to the meeting table. Mr. Bonow advised of a conflict with the existing meeting schedule. In response to a question, Mr. Heath advised that the consultants will need to be present for most of the Committee meetings. Ms. Ong indicated that Mr. Bonow will be the project manager and that their two functions are not interchangeable. Discussion took place regarding other possible meeting days, and Mr. Hoffert advised that staff would research the availability of meeting rooms and dates. Chairperson Knecht requested staff to poll the Committee members once possible dates have been identified. At Mr. Hoffert's request, the Committee members provided scheduling information. Discussion took place regarding the possibility of televising the meetings, and consensus of the Committee was to do so if it can be easily accommodated. No formal action was taken.

F-4. DISCUSSION OF 1% WATER AND SEWER FRANCHISE FEES AND THEIR RELEVANCE (1-1082) - Chairperson Knecht provided background information on this item, and advised of speaking with Mayor Masayko regarding the same. Mr. Heath explained the purpose of the franchise fees to fund new public safety dispatcher and deputy sheriff positions. He acknowledged that the fees will apply to water and sewer service. Member Riggs expressed a concern that the fees are unrelated to the services provided, and Mr. Heath acknowledged that this is the only fee being allocated to an unrelated cost. He explained that the Board of Supervisors was provided an exhaustive list of options and chose this franchise fee in addition to those which will be negotiated with Sierra Pacific Power Company and Southwest Gas Corporation. In response to a comment, Mr. Heath indicated that Mayor Masayko's dissenting vote was reflective of his concern over the increase in gas and power franchise fees. In response to a question, Mr. Heath advised the franchise fees will be effective July 1, 2002 and that no sunset period has been established. In response to a further question, he advised that the Public Utilities Commission does not have to approve implementation of the franchise fees.

Member Riggs suggested that consideration will need to be given to rate increases in light of these franchise fees. Member Osborne suggested agendizing a presentation regarding the storm water master plan and, in response to a question, Mr. Heath indicated that storm water utility fees could have an additional impact in terms of cost allocation. Member Riggs expressed a concern regarding citizens on a fixed income. Mr. Heath acknowledged that the Committee will not be involved in allocating the franchise fees. Member Riggs commented on the importance of separating the franchise fees from other consumer charges, and discussion took place with regard to the same. In response to a question, Member Osborne provided an overview of his comments presented at the Board of Supervisors meeting at which this item was agendized. He suggested that the storm water utility fee will have a direct impact on the issues being addressed by this Committee. He concurred with Member Riggs' concerns regarding the water/sewer franchise fees, but pointed out that the issue is beyond the scope of the Committee. Mr. Burnham advised that staff would be happy to agendize a presentation on the storm water master plan. He explained that storm water utility fees will be part of the water/sewer bill and the charges will be based on impervious surface. In response to a question, he advised of the purpose of the Storm Drainage Advisory Committee.

F-5. COST ALLOCATION POLICIES PREVIOUSLY ADOPTED BY CARSON CITY; AND F-6. REVIEW OF CARSON CITY'S CURRENT WATER AND SEWER RATE STRUCTURE (1-1414) - Mr. Hoffert referred to the documents included in the agenda materials and reviewed the same. He responded to questions regarding the sewer fund capitalization charge, the

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designated average gallons per day (“GPD”) sewer contribution and water usage, the “Meter Only” and “City Installed Service” charges, the Quasi-Residential Commodity Charge, fire sprinkler service charges for residential structures, and the differences between variable capitalization charges and user charges.

Member Osborne reviewed the August 2, 1993 memo included in the agenda materials. He provided background information on the agreement between the Board of Supervisors and the business community at that time to equalize the rate structure between residential and commercial classes over a period of time. Chairperson Knecht noted that the information contained in the memo will be part of the Committee’s future policy discussions.

F-7. REVIEW OF CARSON CITY UTILITY RATE STRUCTURE OBJECTIVES AND SCOPE WITH HOBBS, ONG & ASSOCIATES, INC.; AND F-8. DISCUSSION AND ACTION ON RECOMMENDING UTILITY RATE OBJECTIVES TO THE BOARD OF SUPERVISORS (1-1906) - Mr. Heath distributed revised Utility Rate Structure Objectives to the Committee members, staff, and the consultants. He explained that the objectives were developed by City staff and the consultants prior to the Board of Supervisors’ requesting that a committee be formed. He requested input from the Committee members with regard to the objectives and, in response to a question, indicated that the work schedule contemplates the availability of the next Committee meeting to form a final recommendation. Chairperson Knecht suggested that this item be reagendized for the May meeting, and that the Committee members be prepared to take formal action at that time. In response to a question, Mr. Bonow advised that the consultants would serve to clarify the objectives and any outstanding scope of service items. [Chairperson Knecht recessed the meeting at 7:20 p.m. and reconvened at 7:25 p.m.]

Mr. Bonow provided background information on development of the objectives, and explained that the consultants are not in the business of providing details such as engineering costs. He advised that the consultants would provide the least expensive method by which to generate revenue to cover costs, consistent with the policy guidance of the Committee and other City officials. If the Committee desires to change how costs are being derived or identified, the consultants will provide input, if requested, but they will not generate the engineering costs. Member Polito inquired as to the implication of Mr. Bonow’s comments in relation to the marginal cost study discussed at the March Committee meeting. Mr. Bonow explained that his comments regarding incremental costs of service are distinguished from different methods of allocating and justifying costs. He advised that the consultants will be able to discuss various methods of considering incremental costs that pertain to customers on a macro level. Mr. Hoffert acknowledged that staff will be able to provide information on engineering costs, if necessary.

Chairperson Knecht discussed his preliminary ideas for the water and sewer cost analysis, as follows: (1) The water resource - determine the costs for Carson City at the margin to acquire another cubic foot of water, together with the associated water quality issues, and for sewage treatment and wastewater use; (2) The existing water and sewer infrastructure and additional infrastructure-design and cost drivers. Chairperson Knecht referred to comments by Member Degenkolb that all infrastructure is not necessarily based on servicing the domestic needs of businesses and residences. A substantial safety and fire protection design element in sizing and layout is included, the cost causation of which should be addressed by the Committee; (3) The new water and sewer service as distinguished from the existing system. Chairperson Knecht acknowledged that the existing rate structure reflects payment of individual service drops, but pointed out the need to consider system expansion costs. This element would also include operations and maintenance, replacement and upgrades of the existing system both for service to existing customers and

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that which is caused "upstream of new development." Mr. Bonow acknowledged that the elements described by Chairperson Knecht are familiar, but pointed out that no two rate studies are the same and that costs vary from jurisdiction to jurisdiction. He advised that costs can be identified, but reiterated that the consultants do not generally provide engineering cost estimates. He suggested that if the Committee wishes the consultants to conduct a marginal cost study, they will be able to determine a method to recover costs through a rate mechanism, a revenue generating mechanism, cost decreasing mechanism, etc.

Chairperson Knecht referred to the allocated, embedded cost study conducted by Guastella Associates. He expressed the understanding, and Mr. Bonow acknowledged, that the general plan for the consultants' work would be an allocated, embedded cost study. In response to a question regarding comparisons from allocated, embedded costs to rates and rate designs, Mr. Bonow reiterated that there is no standard approach to the study. He suggested that the method of approaching an allocated, embedded cost study is fairly standard "to a point" between different customer classes as they may exist; however, it is a very low level of commonality. The differences surface quickly beyond that largely due to policy. Mr. Bonow advised that the direction taken will start with a base common in all rate studies but will eventually be based upon the direction provided by the Committee. Chairperson Knecht suggested that the next step would be to consider the existing rate structure and levels, and compare how each of those relates to the allocated, embedded class and function costs. He inquired as to whether the consultants will stop at the class and function level or go on to compare the allocations to the revenue generated by the existing rate structure and levels. Mr. Bonow advised that the consultants attempted to develop a scope of service which would accommodate "every what if" and the central feature is the model proposed to evaluate the issues. Given sufficient data, Mr. Bonow indicated the consultants would have no problem approaching the study as outlined by Chairperson Knecht. He indicated the data is often hard to come by, and advised that the existing scope of service accommodates as broadly as possible what the direction of the Committee could be. With appropriate engineering cost data, Mr. Bonow acknowledged that the consultants will be able to provide a limited marginal cost study based on a regional approach. He advised that the consultants did not envision a marginal cost study in the traditional sense when the scope of service was developed. Chairperson Knecht clarified that his intent was to determine the functional elements of service. Mr. Bonow suggested discussing the objectives and other items which may influence whether or not a marginal cost study, however defined, is worthwhile.

Chairperson Knecht expressed the opinion that the objectives should be established separately from the designated rate study technique. He explained the purpose for advocating a marginal cost study. Mr. Bonow expressed understanding for the distinction between the two study techniques and the need to develop costs "with an eye toward the future." He advised that the feedback provided by the consultants regarding rates and rate structures will accommodate that need.

Discussion took place regarding the method by which to review and establish the rate structure objectives, and Mr. Bonow suggested the Committee members review the objectives based on an understanding of what they are to address. Vice Chairperson Martel suggested briefly reviewing and discussing the objectives at this meeting, and that the Committee members be prepared to discuss them in depth at the next meeting. Member Osborne expressed the understanding that the resolution which formed the Committee specified the purpose and the objectives, with the understanding that the scope could be widened. In response to a request for clarification of the second sentence in the first objective, Mr. Bonow explained that a tiered structure, as opposed to a flat rate, was desirable to address the commodity charge concept. Member Osborne requested that the sentence be revised to better reflect this concept. Mr. Bonow

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expressed the opinion that some form of inverted block rate structure would address the fact that the amount of capital needed to invest in the utility is driven by high water usage months. He suggested that high end users drive the costs and, for that reason, incremental costs become more expensive in terms of financing. In response to a question, he indicated that the value of an inverted block tiered rate structure has less to do with seasonality than absolute flows. In response to a further question regarding the use of seasonal rates, he indicated that this would be driven by the desire of the decision makers.

Member Polito suggested that a more appropriate distinction would be as to the high end user rather than between commercial and residential users. He further suggested consideration of how the tiered structure could be used to provide a framework which will allow movement toward rate equity. The tiered structure could then be used to develop a single commodity charge. Appropriately designed tiers would also initially preserve a distinction between residential and commercial. A framework would then be in place which, over time, would allow a “glide path” for compressing tiers and placing everyone on the same commodity based rate schedule. Member Polito acknowledged that there is nothing in the classification of the customer that necessarily, by itself, drives water delivery costs. He referred to an earlier comment regarding the variables involved in cleaning returned water, and suggested that the monthly user charges will need to be considered in addition to commodity costs. Chairperson Knecht commented that commodity and service costs are based on the commodity and the service given rather than identification of the customer as being in one class or another. In response to a question, Mr. Bonow indicated that his view is to first and foremost consider covering costs. A determination needs to be made as to how costs are generated, and the rate structure should address how the revenues materialize. He noted that the comments of the Committee members and staff indicate that costs should be equitably covered based on contribution. He referred to an earlier comment regarding the differences between water and wastewater, and discussed the difficulty in determining who is generating costs associated with the various levels of wastewater cleansing. He responded to questions regarding establishing reserves and bonding.

Chairperson Knecht requested input from the Committee members regarding subsidy versus cost-basis. Member Polito discussed the need to consider rate shock, previously stated/adopted policy objectives of the Board of Supervisors, and the costs any particular class will incur as equity is approached. Member Osborne acknowledged that the Chamber of Commerce still favors cost-based rates and movement toward them. Member Polito referred to comments by Mr. Heath at the last meeting regarding potential financing problems once connection fees begin to taper off as the City moves toward build out. He suggested considering a method by which to move toward a structure that will persist over time, which can also be replicated from year to year.

Chairperson Knecht requested input from the Committee members regarding their objectives. Member Langson concurred with Member Polito’s objectives, and included conservation as an additional objective. He expressed a preference for every consumer to “pay their own fair share.” Member Riggs expressed a concern that provision be made for future expansion and emergencies, that rates be equitable and that the change be made over a period of time. He stated a desire to see financially conservative reserve and cash management. Member Mullet discussed the importance of equitable rates with proof that costs are fairly allocated. He agreed with Member Polito’s objective to establish a system that includes incremental changes from year to year, and Member Riggs’ objective to establish a reserve for emergencies and expansion. Chairperson Knecht expressed favor for a cost-based, equitable, economically-efficient rate structure and moving toward it with “due dispatch.” He expressed understanding for the problem of rate shock, and discussed the importance of rate and planning policies which would minimize the total cost to

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everyone. He expressed agreement with Member Mullet's comments that the cost assessment needs to be certain, and reiterated his preference for marginal cost analysis. Vice Chairperson Martel agreed with moving toward equity in a timely manner, and concurred with Member Polito's concern that a plan should be established in the event connection fees begin to taper off toward build out. In response to a question, Mr. Heath indicated that objective 8 is a standard requirement.

Mr. Bonow suggested that providing flexibility in recovering costs in the least expensive manner may require access to certain funding/financing techniques such as bond sales. He discussed requirements for debt service. With regard to minimizing the cost of service, he suggested giving consideration to covering all costs attributable to the utilities. Chairperson Knecht clarified that his comments related to minimizing the actual costs of water and sewer service and not the rates paid, which should reflect the costs.

Member Osborne reiterated the objective of determining parity and moving toward it, and expressed a preference for developing a rate structure that will assure continued operation and meeting the needs of the community in the future. He agreed that a system should be established which will be valid from year to year. He acknowledged that minimizing costs of service is subject to the constraint of providing adequate, safe, and reliable service. Member Smeath discussed the commercial side of not subsidizing residential rate payers. He concurred with Member Osborne's comments regarding consideration of future needs. He acknowledged that the process should be dynamic to reflect the underlying changes in the City's resource needs and to establish a water/sewer rate design system that continuously self-updates. Member Degenkolb expressed disagreement with the Guastella report based on its focus on residential use instead of fire service requirements. He advised of speaking with the Fire Marshall and the Chief Building Official regarding installation of adequate pipes. He suggested that fire service requirements should be a priority in water distribution. Mr. Bonow acknowledged that the consultants are prepared to consider cost allocation and assessment in terms of domestic service and fire service infrastructure. He indicated that these are the most difficult set of costs to generate because for certain customer classes the costs would be comingled. To the extent that the costs can be estimated, a sense of the potable water delivery requirement and associated costs can be established. In addition, given the fire suppression requirements, a determination can be made regarding incremental costs to the system. Those that benefit from that fire suppression would then provide the base over which the costs would be distributed. Mr. Bonow noted that this would not be confused with public fire hydrants versus other types of fire suppression systems.

In response to a question, Mr. Hoffert discussed the benefits of regional water systems to reduce costs which will be reflected in revenue recovery requirements that, in turn, will affect rates. He acknowledged that the Committee's decisions cannot be based upon the possibility of receiving federal grants, and that the rate structure has to be based on the possibility that Carson City will not be part of the regional system. He referred to the phase II objectives on page 2 of the utility rate structure objectives and reviewed the same. He advised that the regional picture presented by Mr. James is more relevant to the phase II objectives. Member Polito pointed out that the Committee will not be involved in approving the expansion plan. Mr. Bonow suggested that the direction of the Committee to minimize costs is probably not sufficient for decision makers to determine whether to fund or explore a regional means by which to minimize the costs. Mr. Hoffert discussed the purpose for agendizing Mr. James' presentation. Discussion took place regarding the differences between establishing rates and studying costs.

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G. INTERNAL COMMUNICATIONS AND ADMINISTRATIVE MATTERS (1-0124) - Member Riggs expressed appreciation for the copies of the income statement provided by the Finance Department. He requested a copy of the balance sheet, and Chairperson Knecht requested that copies be provided to each of the Committee members.

G-1. FUTURE AGENDA ITEMS (1-3718) - City staff and the consultants acknowledged they had sufficient direction to prepare for the next meeting. Chairperson Knecht encouraged the Committee members to contact staff with any questions or comments. In response to a question, Mr. Hoffert indicated that the utility rate structure objectives will be revised based on the comments and concerns expressed in this meeting. He requested that the Committee members further evaluate the objectives, discuss them among their various constituents, and provide any revisions to staff as soon as possible.

Member Osborne acknowledged his request for a presentation on the storm water master plan as soon as possible, but not necessarily for the next meeting. Member Polito suggested limiting the next agenda to discussion of the rate objectives. Mr. Hoffert indicated he would ask the District Attorney's staff to present a brief overview of the Nevada Open Meeting law, either orally or in writing. He advised that the meeting date and location will most likely be determined outside a formal meeting, but will be agendized for action at the May meeting. In addition, the rate structure objectives will be reagendized. Mr. Bonow suggested culling the implementation objectives.

H. ADJOURNMENT (1-3935) - Vice Chairperson Martel moved to adjourn the meeting at 8:33 p.m. Member Osborne seconded the motion. Motion carried 9-0.

The Minutes of the April 11, 2002 meeting of the Carson City Utilities Advisory Committee are so approved this 9th day of May, 2002.

RON KNECHT, Chair