A regular meeting of the Carson City Utilities Advisory Committee was scheduled for 5:30 p.m. on Thursday, May 9, 2002 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Andrew Burnham, Development Services Director
Larry Werner, City Engineer
Tom Hoffert, Utilities Operations Manager
David Heath, Finance Director/Risk Manager
Nick Providenti, Senior Accountant
Jason Woodbury, Deputy District Attorney
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, DETERMINATION OF A QUORUM (1-0001) **-** Chairperson Knecht called the meeting to order at 5:36 p.m. Roll was called; a quorum was present. Chairperson Knecht advised that Member Degenkolb provided notification in advance of the meeting that he would be out of town. He distributed information provided by Member Degenkolb to the Committee members and staff.

B. APPROVAL OF MINUTES - April 11, 2002 (1-0020) **-** Vice Chairperson Martel moved to approve the minutes. Member Smeath seconded the motion. Motion carried 8-0.

C. PUBLIC COMMENT (1-0032) **-** None.

D. MODIFICATION OF AGENDA (1-0040) **-** None.

E. DISCLOSURES (1-0044) **-** Vice Chairperson Martel advised of providing a report of the Committee's activities to the Builders Association of Western Nevada Board at its last meeting. Member Osborne advised of providing a monthly status report of the Committee's activities to the Manufacturer's Committee of the Chamber of Commerce. Chairperson Knecht advised of an extended conversation with School Board President Bob Crowell. He discussed Mr. Crowell's input regarding the rate structure objectives distributed yesterday by fax to the Committee members. Chairperson Knecht advised he will continue to talk with the public and representatives of public entities.

F. PUBLIC MEETING ITEMS:

F-1. DISCUSSION BY DISTRICT ATTORNEY'S OFFICE ON "NEVADA OPEN MEETING LAW" AND OTHER MATTERS RELATED THERETO (1-0080) **-** Mr. Hoffert introduced Mr. Woodbury and discussed his purpose for attending the meeting. Mr. Woodbury distributed a synopsis of the Nevada Open Meeting Law and reviewed the same. He responded to questions regarding what constitutes Committee deliberation and materials distributed in relation to agendized items. Chairperson Knecht thanked Mr. Woodbury for his presentation.

F-2. DISCUSSION BY DEVELOPMENT SERVICES ENGINEER REGARDING THE CITY'S DRAFT STORM WATER MASTER PLAN (1-0342) **-** Mr. Hoffert introduced Mr. Werner, who reviewed the April 25, 2002 memo included in the agenda materials. Mr. Werner explained that the storm water master plan cost allocation basis is "an impervious surface system, based on contribution to the storm water issue not on the benefit received from any projects in the storm water program and on the idea that there is an equivalent residential unit." He advised that approximately $300,000, in an average year, to approximately $800,000, in a flood year, is being spent on flood-related mitigation with no preventive programs. The proposed program requires development of a preventive program for storm water quality. National Pollution Discharge Elimination System ("NPDES") permits are due to be issued in March 2003, which will trigger many changes in the storm water operation. The shift in storm water planning will be toward water quality rather than flood damage.

In response to a question, Mr. Werner advised that costs of service will consider administrative and regulatory programs. He responded to additional questions regarding the possibility of a credit system, the proposed two-tiered residential rate structure, and the definition of impervious surface. Mr. Hoffert advised that the storm water master plan will be submitted for public comment in the near future.

F-3. DISCUSSION AND ACTION REGARDING A CHANGE IN MEETING DATES AND TIMES (1-0527) **-** Mr. Hoffert referred to the memorandum distributed to the Committee members and staff prior to the start of the meeting and reviewed the same. He recommended keeping the regular meeting date, as previously scheduled, on the second Thursday of each month at 5:30 p.m. in the Sierra Room. He advised that teleconferencing equipment is available in the Sierra Room, and that Mr. Heath confirmed with the consultants that this approach would be agreeable. Chairperson Knecht commended staff on the efforts to accommodate the consultants' and the Committee members' schedules, and the Committee members on their contribution to this process. Since there was no alternative date available which would accommodate everyone's schedule, he concurred with Mr. Hoffert's recommendation to continue with the meeting date, time, and place as previously scheduled. **Member Osborne moved to continue with the meeting date, time, and place and allow the consultant to be part of the meetings via conference call. Member Smeath seconded the motion. Motion carried 8-0.**

F-4. DISCUSSION AND ACTION ON RECOMMENDING WATER AND SEWER FINANCIAL RATE OBJECTIVES TO THE BOARD OF SUPERVISORS (1-0645) **-** Chairperson Knecht reviewed the materials pertinent to this item. Member Polito distributed an additional set of proposed rate structure objectives and provided a brief overview of the same.

Mr. Heath reviewed the revised Carson City Utility Rate Structure Objectives included in the agenda materials. At his request, Mr. Hoffert provided background information on the purpose of the sixth objective to replace the existing commercial connection fee structure. Mr. Hoffert responded to questions regarding refunds to businesses. Mr. Heath advised that the phase II objectives need to be considered in the next few years. He suggested that they may complicate the current process and may be more appropriately considered after the rate structure is established. With regard to objectives 7-10, Member Polito suggested that the Committee focus on allocation of costs rather than levels of costs. Mr. Heath indicated that the purpose for including objectives 7-10 was staff's intention to establish a clear understanding of the City's financial position and a determination regarding needs. Chairperson Knecht expressed a concern with regard to considering funding objectives 7-10 prematurely. He suggested requesting staff and the consultants to address cost levels and funding objectives and provide options to the Committee. In response to a question, Mr. Heath suggested it may be difficult to make a sound recommendation without giving some consideration to cost levels. Chairperson Knecht acknowledged that cost levels and funding objectives would not be included as part of the rate structure objectives but would be addressed in the future. Member Polito suggested modifying the work plan accordingly, and discussion took place with regard to the same. Consensus of the Committee was to keep objectives 7-10 within the scope of the work plan but not the rate structure objectives. Chairperson Knecht requested staff to advise the Committee if, at any point, a supplemental charge or budget is needed as a result.

Chairperson Knecht referred to the objectives he distributed by fax to the Committee members and staff and reviewed the same. With regard to objective 2, Mr. Werner advised that since the process is covered by the Nevada Open Meeting Law, nothing is inaccessible to the public. Chairperson Knecht discussed the purpose for including the proposed objective, and Mr. Werner expressed a concern that it could imply the process, at some point, has not been open to the public. Vice Chairperson Martel referred to the special use permit noticing requirements, and commented that objective 2 may "unintentionally muddy the waters." Member Osborne concurred and advised that none of the advisory committees and commissions on which he serves have stated a specific objective to be open to the public. He referred to the synopsis distributed by Mr. Woodbury, reviewed pertinent points, and expressed the opinion that there is no need to state this Committee will be open to the public. Chairperson Knecht reiterated the purpose for including the proposed objective, and clarified that he in no way meant to imply that this or any other committee has not satisfied the open meeting requirement. In response to a question, Mr. Werner advised that the City is subject to the Freedom of Information Act, and suggested inserting the words "continue to" in the language of objective 2. Member Mullet suggested that the objective could imply this Committee is going to "build a new mechanism to distribute information to the community." He pointed out that the Open Meeting Law is designed to include public participation "if someone really cares to get involved." Chairperson Knecht agreed with Mr. Werner's suggestion to revise the language to read, "The public shall continue to have free and open access ..."

Chairperson Knecht reviewed objective 1. Mr. Werner discussed the option of commercial property owners to install irrigation meters which results in not being charged a sewer fee. In response to a question, Mr. Hoffert advised that 90% of the businesses in Carson City have installed the irrigation meter and have realized a payback within five years. In response to a further question, Mr. Werner advised that the majority of difference for commercial properties between summer and winter is customer based and generally affects the wastewater system. Mr. Hoffert advised that several public entities have installed the irrigation meter. Mr. Werner advised that several of the schools have converted to reclaimed water. Member Smeath expressed the opinion that commercial properties should pay for “exactly what we’re using” because of the option to pull out sprinkler systems. Chairperson Knecht deleted the words “and other summer irrigation users” from the second bullet of objective 1.

Member Osborne commented on the issue of “rate shock” and expressed an objection to specifying a time frame for moving toward cost-based rates. Chairperson Knecht acknowledged that the proposed three-year time frame was arbitrary, and explained that the idea was to put some force behind it so that it does not languish. He suggested deleting the words “within three years” and Member Osborne agreed. Member Mullet commented that the industrial users would “applaud” the achievement of cost-based rates within one year, and discussed the need to establish a mechanism by which staff can “run new numbers every year.” Chairperson Knecht expressed the desire to “see a cost-based orientation ... and some movement.” Member Polito suggested presenting the Board of Supervisors with alternative scenarios so that the Committee is not making choices for the Board. Discussion took place with regard to the same, and Mr. Hoffert acknowledged that City staff and the consultants are willing and able to develop a reasonable set of numerical alternatives.

In response to a question regarding bullet 3 of objective 1, Chairperson Knecht suggested that too often rate design results in too much focus on the customer classes. He indicated that the statement reflects discussion from a previous meeting wherein consensus of the Committee was that the nature of the customer is irrelevant; that the focus should be on the nature of the service provided.

Member Polito reviewed the proposed utility rate structure objectives he had distributed. He advised an additional objective should have been included, as follows: “Replace existing commercial connection fee structure to eliminate post audit and adjustment process.” He suggested that a fourth rate making alternative could be included: A marginal cost study that includes rate rebalancing. He acknowledged that the “traditional, ‘historical’” alternative refers to allocated, embedded costs and that a marginal cost study can be implemented incrementally. He expressed a concern that any benefit gained by a marginal cost study may be lost in the complexity. He suggested that, based on the consultants’ proposal, they are used to reviewing the book costs and developing a traditional, functional allocation across classes which the lay person more easily understands. Chairperson Knecht suggested that the marginal cost is simpler in its execution and clearer in terms of people’s intuition. Member Polito suggested that it will be easier to communicate to the public that book costs were reviewed and a determination made regarding costs associated with water, transmission, and distribution, and that the cost was then spread across the classes.

Chairperson Knecht recessed the meeting at 7:07 p.m. and reconvened at 7:15 p.m. He solicited comments and input on the proposed objectives from each of the Committee members. Member Langson commented on the many similarities between the three sets of proposed objectives. He concurred with the suggestion of presenting multiple alternatives to the Board of Supervisors. Member Riggs agreed with striking Chairperson Knecht’s proposed objective 2 and with Member Polito’s suggestion to present three alternatives to the Board of Supervisors. He suggested taking points from each set of proposed objectives and developing a fourth set for review and approval at the next Committee meeting. Member Mullet commented that each of the three sets of objectives ultimately cover the same points although they are stated in different ways. He suggested using any one of the three and adding clarification.

Chairperson Knecht agreed to remove his proposed objective 2. With regard to the choice between marginal cost and allocated, embedded cost studies, he advised that each study will provide a different answer. He expressed the opinion that one type "gives a meaningful, useful answer" and the other gives a different answer which is neither meaningful nor useful and which lends itself to debate "between parties and their experts on how to allocate historical costs that are inherently joint costs in nature and therefore inherently unallocable." He concurred with Member Polito's suggestion to avoid debate over one study versus another by proceeding with a marginal oriented analysis and an allocated, embedded cost analysis and then reviewing the results. With regard to Member Polito's suggestion of a fourth alternative, Chairperson Knecht suggested that any rate design can be analyzed in terms of both a marginal and an embedded cost study to determine how well it "squares up" with the allocation. He suggested that the third rate making alternative example be considered as a third rate design approach that is analyzed in both terms and that, in fact, the allocated, embedded cost rate design should be analyzed in marginal cost terms and vice versa. He advised he is "not a fan of tiered rates." In economic analysis, there are certain factual circumstances that may lead to tiered rates and he suggested this should be an outcome not a goal of rate making. Except under the circumstances he noted, he opposed tiered rates as a matter of principle and expressed a preference for moving toward everyone paying the economic cost for every thousand cubic feet, every thousand gallons, etc. He stated that capitalization costs, in terms of replacement, are inherently a cost and a factor recognized under both approaches, but that capitalization fees are more an embedded cost concept. The equivalent marginal cost concept is the residual monthly customer charge. In either case, the issue is generating the utilities' revenue requirements, but in two different ways. In one case, the revenue requirement is divided and in the other actual costs are considered and a rate design is developed accordingly. He expressed opposition to a point that indicates having capitalization fees because it tends to presume an allocated, embedded cost approach. Chairperson Knecht referred to the City's proposed rate structure objectives, and expressed opposition to including financial coverage issues. He suggested that connection, user, and capitalization fees should be set at an amount adequate to provide for plant capacity to build out in the new neighborhoods.

Vice Chairperson Martel expressed agreement with the previously stated viewpoints. In response to a question, Mr. Heath advised that the consultants' contract doesn't necessarily provide for a marginal cost analysis, but "a little room" was left to cover unforeseen issues. He indicated that staff will work with the consultant to fit in a marginal cost analysis. In response to a further question, Mr. Heath advised that the consultant contemplated three different rate designs. He acknowledged that the work to generate and analyze the three designs is already in the contract; however, it did not include doing one of them on a marginal cost basis. Member Polito clarified there are two methods but each one can produce various alternatives. In response to a comment, Chairperson Knecht expressed the opinion that a consultant is needed to develop a competent embedded cost study. A more refined marginal cost analysis results in more accuracy and reliability. Chairperson Knecht suggested that it would be useful to have the consultant "put a little bit of time" into the marginal cost analysis.

Vice Chairperson Martel indicated he had no problem with having two study methods which will result in three proposals if there is a benefit and if it doesn't result in an unreasonable cost increase for consultants. He expressed opposition to going forward with two methods when the effect on the budget is unknown. He stated that if staff can assure the Committee that the existing budget will cover the "extras," the concern is alleviated. Mr. Heath stated he is "fairly comfortable" that the marginal cost analysis can be worked into the consultants' contract. He advised that if, for some reason, it is not possible the issue can be revisited. In response to a question, Mr. Heath expressed the opinion that the consultants will be able to provide an indication of what the marginal cost method would yield versus an historical study. Vice Chairperson Martel expressed a concern regarding the time frame for the Committee's work program. He agreed with emphasizing the need to move quickly toward full cost-based rates without specifying a time frame. He indicated he was "leaning toward the City's outline just to start with" and suggested clarifying the wording as necessary. He indicated that the tiered structure "still makes sense" with regard to indicating impact on the system as well as providing for a conservation method.

Member Osborne expressed appreciation for the time and effort invested by Chairperson Knecht and Member Polito to develop the proposed objectives. In reviewing them, he determined the points of agreement between all three sets. He indicated he didn't see anything in the staff's proposed objectives which would prohibit the Committee from presenting more than one alternative to the Board of Supervisors. He suggested not specifying three alternatives, and expressed the opinion that the intra-class subsidies must be reduced. He indicated he "can live with the tiered rate structure" because of the conservation element. Overall, he leaned toward staff's proposed objectives because there were fewer items with which he disagreed. He indicated he would be willing to incorporate some of the ideas from the other two proposed objective papers into the overall City objectives.

Member Smeath expressed appreciation for all the work by Chairperson Knecht and Member Polito. He agreed with Member Osborne in starting with the City's objectives and incorporating points from the other two proposals, with not limiting the number of proposals to present to the Board of Supervisors, and with considering winter averages for residential customers and split rates for wastewater. He indicated that he "sees both sides" of the tiered rate structure issue, and suggested that it may be most fair to leave the tiered structure for the residential user and implement a flat rate system for the commercial user. Chairperson Knecht commented that an implicit assumption in connecting a tiered rate structure with conservation is that if the initial block rate is increased, the rate for the tail block will be decreased. That is how to diminish the conservation incentive. The alternative view is to leave the tail block where it is and decrease the monthly customer service charge when the first tier block is increased. Chairperson Knecht suggested that this could be an outcome of the analysis but not something specified at the beginning. If the trade off is between the first tier and the monthly customer charge, conservation is supported by increasing the first tier and decreasing the customer charge.

Member Polito suggested choosing one set of objectives as a point of departure and revising it. He reviewed changes to his proposed objectives and suggested using it as the basic framework. Mr. Werner suggested that the Committee provide staff a general consensus of the main points, allow staff to draft a new set of objectives, and present it at the next meeting in the form of an issue paper which the Committee can review and adopt. Member Polito expressed a concern with regard to keeping to the work plan schedule, and discussion took place with regard to the same. Chairperson Knecht requested staff to do as Mr. Werner suggested and the specific points were reviewed and discussed to ensure a proper understanding of the Committee's direction. No formal action was taken.

G. INTERNAL COMMUNICATIONS AND ADMINISTRATIVE MATTERS (1-0577) **-** Chairperson Knecht referred to the combining balance sheet included in the Committee members' agenda materials, and Mr. Hoffert explained that this was requested by the Committee at the last meeting. In response to a question, Chairperson Knecht advised that the Committee members are allowed and encouraged to consult with City staff.

G-1. FUTURE AGENDA ITEMS (1-2765) **-** Chairperson Knecht requested staff to agendize action on the final version of the rate structure objectives. Member Riggs acknowledged he would like to have discussion on the balance sheet and income statement agendized.

In response to a question, Mr. Heath indicated that the consultant can begin to move in the direction of developing rate methodologies. He acknowledged that Mr. Bonow will be available by phone during the June 13th meeting. Chairperson Knecht requested staff to emphasize to Mr. Bonow the need for a fairly explicit, detailed, extensive proposal because of the necessity of interacting by telephone. Member Polito suggested providing the Committee's proposed objectives to Mr. Bonow as soon as possible. Discussion took place regarding the possibility of videoconferencing. In response to a question, Mr. Werner discussed the policy statements provided to the Storm Drainage Advisory Committee for discussion and adoption of issue papers. Vice Chairperson Martel suggested implementing a similar procedure for this Committee. Chairperson Knecht requested an explanation of the standards from Mr. Bonow.

Mr. Hoffert advised that the Committee will need to consider who will present the finalized rate structure objectives to the Board of Supervisors. Chairperson Knecht requested staff to agendize this as a separate item.

H. ACTION ON ADJOURNMENT (1-2975) **-** Chairperson Knecht expressed appreciation for staff's response, guidance, and assistance; for Member Polito's proposed objectives; and for the Committee members' intelligent, effective, useful, and cooperative efforts. Member Smeath moved to adjourn the meeting at 8:15 p.m. Member Langson seconded the motion. Motion carried 8-0.

The Minutes of the May 9, 2002 meeting of the Carson City Utilities Advisory Committee are approved this 13th day of June, 2002.

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RON KNECHT, Chair