



"Providing Life's Essential Services"

Utility Advisory Committee Meeting Highlights – March 5, 2008

Committee Members present:

John McCubbin, Deena Monteiro, Michael Napoli, Alan Schroeder, Sarah Velasquez, Arthur Reker

Committee Member absent:

Sharon Schilling

Staff present:

Lon Martin, John Watkins, Cindy Williams, May Albiani, Sarah Rubin, Rene Ramirez, Steve Hogg, Carla Watkins, Consultant Tom Gaffney, Consultant Adam Lynch, David Bogdanov/JSA

3. Unfinished and New Business

- Facilitator Sarah Rubin reported some sad news. Chair Sharon Schilling has found out that she has lung cancer and needs to start treatment immediately. She is not, and does not want to resign from the Committee. So, for tonight, our Vice Chair, Deena Monteiro will lead our meeting. As we find out more as far as what is happening with Chair Schilling we will figure out our next steps for future meetings.
- Lon Martin, Assistant Director, explained that, per Sharon's wishes, we have an alternate for her - John Hutson past UAC member. Councilmember Dages is supportive of her decision.
- David Bogdanov, JSA Account Coordinator, distributed the current issue of the Serviceline utility mail stuffer. Serviceline is an educational tool used to reach all of our customers.

1. Recap of Action Items

- Lon Martin, Assistant Director, reviewed the Action Item List.

2. Wastewater and Sewer FY2009 Rate Model

- Steve Hogg, Assistant Director, Wastewater Management Division briefed the Committee on sewer collection and treatment activities.
- The annual budget for wastewater treatment is about \$27 million and sewage collection is \$5 million.
- The large expenditures are energy/power, chemicals at \$3 million and biosolid disposal is about \$3 million each year. The Division has about \$19 million in debt service and adding an additional \$1.9 million.
- Staffing is broken up into several sections: Environmental Services, Operations, Maintenance, Technical Services, and Administrative Support.

- There are 123 employees in Wastewater Treatment and another 37 employees in Sewer Collection.
- The Facility is operational 24 hours day everyday including holidays with employees working around the clock.
- The Wastewater Management Division is nationally recognized as the best pretreatment operation in the Country and has received numerous awards including the State's 2006 Plant-of-the-Year, as well as Plant Safety and Plant Supervisor-of-the-Year awards, the California Water Environment Association Plant-of-the-Year 2005, Best Mechanical People three years running.
- History of rates; 1999, 2000 was directed by the City Manager to move forward without the Council pre-approved rate increase and the only way to meet debt coverage and to continue operations was continuous efficiency improvements including a 25% reduction in staffing.
- Consultant Tom Gaffney delivered a PowerPoint outlining the 2008 rate model updated assumptions. Tom recommended policy makers get in habit of smaller rate increases tied to the Consumer Price Index; however, he explained that opportunity was not here.
- The rate will be under \$26.00 all the way to the year 2010. He reported the statewide average was \$30.86 (FY07).
- Vice Chair Deena Monteiro inquired if the average rate was determined by the size of a community. Tom responded it is not community size but the total average.
- Tom reported what is driving costs was energy and more stringent state regulatory requirements which were voted on by citizens and that the City is required to comply to. The States study concluded that to implement the new Waste Discharge Requirements (WDR) for collection systems could be as much as \$72 a month per customer, and Fresno is in the process of implementing them.
- Committee member Sarah Velasquez inquired if the Waste Discharge Requirements that staff works under were a result of a special requirement because of doing something wrong in the past? Tom reported there are no special requirements only standard requirements. However, Fresno does not discharge into rivers or the ocean and so we have an advantage and in someway and a disadvantage in others over those that discharge to a surface water. Fresno's is under a different Basin Plan than Sacramento, but basically each agency follows the same requirements.
- Current debt service is \$19 million and \$21 million more with the bond sales.
- Rates pay all the operating costs. There is going to be some catching up in the costs, inflation --but the rates are really driven by the huge capital projects. Most of the projects are in the first 4 years.
- Committee member Michael Napoli asked how the slowing economy adversely affects the capital projects driven by growth and need for capacity. Steve Hogg said there is a good portion of the capital needed to continue to meet standards and the plant is continuing to see similar flows even though the housing market is down. We still must maintain and rehabilitate the plant and aging collection system (some of the pipelines are more than 75-year old and need to be replaced and rehabilitated.) Staff keeps a close watch on growth. There is an EPA requirement to design and construct when you reach 75% of plant capacity. We are a little bit behind now.
- Steve Hogg stated right now we are saying that the proposed bond sale is 20% for rehabilitation and 80% for growth and we know the number is a little higher...closer to 60/40, we see it shifting.
- Consultant Tom Gaffney reported the analysis assumes rehabilitation is to be funded by user fees and come up with a development fee to connect to the system to pay for new capacity. We are doing that right now and that is one way to allocate costs. Fresno's Wastewater Facility fee is consistent with other communities and it is for treatment only. Tom has done studies and what he has found is the higher the connection fees, the faster the rate of growth which raises the money to have capacity

in your infrastructure for development. He found when you do rate increases, you have to have development paying its full share. The connection fee, known as the capacity fee, is paid by the developer at time of building permit here in Fresno. Rates need to be determined to be fair; you may have to defend them in Court.

- You can not pledge development fees as revenue for bond coverage. You can use it to pay for debt service when you get it. Tom explained you use capacity charges collected from developers, a one-time charge for new development to build your reserves or pay bonds.
- Committee member Deena Monteiro stated in a declining economy when builders profits are going down, she understands there is a need for money; however, she was having a hard time swallowing these fees.
- Tom explained the two revenue sources: development connection fees and user rates. Staff's calculations need to be fair and equitable. Think of it like squeezing the balloon here it pops out else where. Figure what the budget is and then we have to do it and then pay for it the most equitable way.
- In response to the bad economy, Consultant Gaffney advised, there is no better time than now and that is why he is a proponent indexing it the cost of living.
- Committee member Michael Napoli suggested we change the model in order to address the slowing growth.
- Steve Hogg reported the previous 2006 UAC discussions considered the plant's capital projects to add capacity in two phases and learned it would cost a lot more. It cost more due to the scale of economies. The longer you put off the project, the more it will cost to build it. For example, the project estimate for the Organics Upgrade project 3 years ago was \$48 million, when it was bided it was actually \$105 million seeing a 50% increase. What we did now is based on the Master Plan that is a couple of years old. Wastewater has a five-year capital project plan as well as master plans. While a project is under construction, plans for meeting future capacity needs are being analyzed and developed.
- The rate increases you should not miss are the first couple years while the later years are the ones that may have flexibility.
- Construction costs for housing are dropping, but we are not seeing the same in heavy mechanical and electrical construction. Steve noted the reduction in construction costs is more market driven; not material driven.
- Raising developer fees do not affect the housing prices; the marketing fees are what cuts into the developer costs.
- Well or septic system installations cost more than a City connection and connecting to the sewer system eliminates ground water contamination.
- In response to Committee member John McCubbin, Tom stated it is against the law to use connection fees to fund O&M; connection fees must be used for capital/facilities. User fees are where you get the money for replacements.
- The 65-year old pipe is worn out, but has capacity; so 60% cost to current and 40% for future users. Because you are paying for capacity. Allocated the cost of the bonds issued to future and current users.
- Committee member Sarah Velasquez asked since Proposition 218 addressed rate increases and not the developer fee; how often can the developer fee change? Staff recommends indexing them to the price index and that can be adjusted once a year.
- Lon reported it has been City Manager direction not to adjust those fees and delay the update of fees because the Parks and Streets Divisions fees were the recent priority. Lon said the Utility's Department now has the green light to re-address Wastewater Development Fees.
- Steve Hogg cautioned the discussion regarding fees was not subject to the same provisions as Proposition 218; however subject to AB1600 regulations. As part of the Mitigation fee act it still has to go to a public hearing, just not the voting/election process.

- Sewer Enterprise Funds will get their own rating when going through the bond rating process. We will not know the final plan until 2010. Need to maintain the 120% promised rate covenant for rate debt service coverage. So if you don't do it by 2111, then if you lower the rate increases you can not catch up. If you don't raise rates, you will not go into technical default, but you would not sell bonds and would not build your capital.
- Wastewater is depleting their fund balance. Water and sewer need to invest in the infrastructure each year always building into it. There is 60-day operating reserve in the Water Division; one reason being they are converting to meters and you have seasons of heavy water usage. However, in Wastewater, a 45-day reserve is fine. Should also have a capital reserve of up to \$100 million. \$100 million is only 2% of the replacement costs.
- Facilitator, Sarah Rubin, asked for questions and reactions to the presentation.
- In response to Committee member Napoli, the Fresno-Clovis Regional Wastewater Reclamation Facility (RWRF) provides wastewater treatment and disposal for the Fresno-Clovis metropolitan area. The plant's treatment incoming capacity annually is 80 million gallons per day (mgd). Currently it is 70 mgd with daily peaks around 85 mgd. The highest months are about 73 mgd monthly average.
- Staff does not anticipate a significant decrease in wastewater with the implementation of water meters because 70 percent of residential water consumption comes from outdoor usage. With new construction, retrofitted toilets and new appliances are already designed to conserve water. And, commercial accounts are already using meters.
- Industrial users such as Gallo are metered, however, it not practical for residential sewage to be metered. For commercial and smaller industrial users there is a correlation with water use and they are bill using the water meters. Many of the commercial accounts have two separate water meters, one for landscape and one for building usage; the building usage meter is used to calculate the sewage usage.
- Over the past 8-10 years we have not seen the same trend line in capacity flow as we did in the late 1990s when we had a real steep trend line; that has flattened out; however, we see the concentration level (the higher level of pollutants in the wastewater) is up and this may be because of water conservation that has already happened.
- Committee member Sarah Velasquez asked in looking at the trend, why the sewer fund did not have an increase last September? There was a 19%, 0% and another 19%. Steve Hogg responded the Sewer fund did not need an increase last September like some of the other funds to avoid technical default of bonds. We could have flattened out but additional money was not needed to meet coverage until bonds were issued. User fees must be pledged to guarantee the City will meet debt coverage.
- Tom noted there would have been an even greater increase sooner had you been given the direction. The various utility fees went to the Council all at once. The initial plan was to coincide with the budget but since the other divisions were going in April, Wastewater Division did as well.
- Committee member John McCubbin said he believed there should be a capital reserve policy, a scheduled 20 percent per decade so the replacement reserve may be unknown stuff but is still planned out.
- Steve Hogg said historically the City has been reactive to infrastructure replacement. Historical assumption was that the useful life of a pipeline was 50-75 years replacement, but many have been show need for rehabilitation much sooner; Fresno's sewers are so flat, corrosive gases are generated because it stays in the line approximately 10-12 hours. The corrosive activity significantly shortens the useful life.

- In response to Committee member Michael Napoli, Steve Hogg explained we are doing a lot of trenchless rehabilitation technology but it is still an expensive process.
- Committee member Alan Schroeder referred back to Solid Waste Management Division facing a 16-20 percent rate increase and then learning about the delay in implementing developer fees for utilities. He suggested staff should be more aggressive in putting pressure on the legislature to implement on developer fees. Committee member Alan Schroeder said he wanted to see developer fees looked at and addressed in 2009 and revisit the other fees as well.
- Committee member Deena Monteiro said she was new in the area and understands you can not change the past, but was not happy with the rate increase at all and maybe smaller incremental increases would be wise.
- Committee member Art Reker said he understood chemicals are a huge cost being an international commodity that the City is battling, but what is staff doing about energy usage? Steve advised there is a huge hit on petroleum based chemicals, along with lighting retrofits and replacement of motors with higher efficient motors. The Wastewater plant produces a by-product of methane gas that is mix with natural gas and is used to produce energy for the plant. Wastewater plant uses their own power plant to generate the majority of the plant's power rather than purchasing it. The plant also uses the heat energy from the methane gas. Staff is looking at other kinds of waste processes such as the fats, oils and greases to use as a fuel source at the plant for more fuel and energy. He noted on the gas side, gas prices are going up.
- Rates need to continue to go as presented or we are headed for disaster.
- Sarah Rubin separated the rate increases from the other recommendations for discussion and asked the Committee members if they were okay with the already adopted increase of \$21.01 per month?
- Committee member Art Reker stated he was okay with the adopted rate.
- Committee member Michael Napoli stated he was not, saying unless there is an alignment of the stars allowing staff to take advantage of the decline in the economy and growth to capitalize on a more steady increase over a longer period of time that does not hammer the rate payers and would come in consistently for a longer rate plan average allowing the City to have more money to upgrade infrastructure, he could not support the adopted rate adjustment.
- Committee member Sarah Velasquez agreed with Michael saying there is a need to have a long-term index plan. She stated she was okay with the adopted rate.
- Committee member Art Reker said he was okay with the adopted rate being more than the index rate, but agreed with Committee member Napoli and wanted to see the index plan in the UAC final report.
- Committee member John McCubbin said he was okay with the adopted rate -- minimally okay, but to put the recommendation to dedicate funds for replacement of infrastructure. He too stated he supports the cost tied to the index.
- Committee member Alan Schroeder said he was not okay with the adopted rate, but was not objecting to it. He stated he wants to be on the UAC Committee in 2012 saying it is hard to watch this as a Committee member and rate payer.
- Committee member Deena Monteiro said she was not okay with it. She said she understand old infrastructure needing to be replaced and bonds, but wants to see more put off for several years to do smaller increases at this time.
- Committee member John McCubbin asked how do you plan for a possible recession within the next two years or even a ten year depression? Lon replied you catch it before you sell bonds or you would have to get the regulators to back-off on the requirements.
- Committee member John McCubbin opined the Police Department has a budget and they export all their problems to the State or County, but the DPU doesn't do so; and

that's a story you should tell. He said it seems to him DPU provides a lot of service and a lot of work and DPU does not shed it off. DPU is doing a terrific job that's cheap and that's great.

- Steve Hogg discussed a performance measure showing the plant running at 890 million gallons which is \$890 per million per gallons treated. The industry average is \$2,000 per thousand gallons treated.
- Committee member Napoli said he can agree more, with Committee member McCubbin, but still doesn't want to throw money at it. Things change as time goes by.
- Committee member Alan Schroeder inquired if the City of Clovis was diverting wastewater from the Fresno Wastewater Treatment Facility since they are building their own plant. Staff responded the Clovis Plant will be built only to handle their future growth, the current capacity and need will continue to go to Fresno. They need the water supply for growth to off-set portable water.
- Lon Martin added what staff and consultants are doing is maintaining, we are not building a Mercedes, but a Chevy. That is one of the main reasons for the tours to see what type of facility, engineering, and conservative approach we take when building our facility and operation. You can see driving around town and compare to other cities our capital costs, that we are not building anything close to what other agencies are. So to articulate the visuals look at what we are doing. Look at trucks, buildings and you will see an extremely conservative business approach -- dollars of water treated and philology goes into building and designing our facilities.
- Committee member Monteiro said we know you do the best with what you have, but are you going back to those above you. We are just asking for checks and balances.
- Committee member Michael Napoli expressed his view saying the tours were counter-productive in his case he does not see crumpling infrastructure or an emergency situation. He sees new City trucks much newer than what he drives and so he asks what is enough... enough infrastructure in place and enough material in place. He said he was not ready to spend more money.
- Committee member John McCubbin, as a citizen's committee, we can say to the City Council a mistake was made and we are no doing catch-up and we need to tell them not to make the same mistakes in the future.
- Committee member Deena Monteiro advised we need leaders to say this is what is needed.
- Committee member McCubbin rebutted saying it is our job to say to Council what is needed, ten years of no increase is not right and you need to do this to fix it.
- Committee member Napoli opined, he just didn't think we can sell it.
- Committee member Deena Monteiro advised she understand from staff, but how do we get through the layers such as the City Manager to have them trust staff and how do we get the Council to understand the City Manager needs to listen to staff.
- John Watkins responded you (the UAC) are the solution. John reported, Tucson, Arizona created a Utility Advisory Committee in the 1970s and today there is no problem.
- Committee member Art Reker expressed the department tours were incredible.
- Consultant Tom Gaffney reported some agencies pass rate increases based on CPI increase and Council has to go out of the way to stop it.
- Committee member Art Reker requested a narrative from Tom for the final report.
- Facilitator Sarah Rubin asked for clarification from the discussion and to go through the recommendations.
- Recommendation: Complete the wastewater development fee update and approach, and we want to be assured growth pays for growth:

Committee member Alan Schroeder –yes

Committee member Sarah Velasquez – yes
Committee member Michael Napoli – only agree with it only if it can go up or down.
Committee member Art Reker – yes and likes the statement higher fees bring growth.
Committee member Alan Schroeder commented, I think it means government has their act together.

Committee member Deena Monteiro -- yes and related to the value of the home, the construction price index will do that if it goes down.

Committee member John McCubbin -- yes, complete the connection fee amount and develop a fee index which will be automatic after we specify what it is. Index it and implement the recommendation so it continues on.

Yes support of update and approach idea.

- Recommendation: City and UAC should implement capital reserve policy. It was noted this recommendation is in the original report and we can reiterate that in the current report.

Can you live with the rate increase adopted by the 2006 UAC last year?

Committee member Art Reker – support

Committee member Michael Napoli - no

Committee member Sarah Velasquez - yes

Committee member John McCubbin - yes

Committee member Alan Schroeder agree not to oppose

Committee member Deena Monteiro no “I oppose”

- Sarah advised the presentation will be the general consensus, and confirmed there can be a majority report saying last year each one had a chance to speak their mind before City Council.
- Committee member Deena Monteiro said we need to place in the report the reasons why the minority view point was different and a full report is not required, but the detail is.
- It was noted the City Council will do what they want in setting policy and Utility Advisory Committee is an advisory group that will submit recommendations for Council’s consideration.
- Lon Martin advised we are looking at the assumptions to see if something has significantly changed; the assumptions for Solid Waste Management Division are the only assumptions with two possible scenarios. Wastewater and Water Division assumptions have not had any significant changes.

Meeting adjourned 9:25pm