



"Providing Life's Essential Services"

Utility Advisory Committee Meeting Highlights – March 13, 2008

Committee Members present:

John McCubbin, Deena Monteiro, Michael Napoli, John Hutson for Sharon Schilling, Alan Schroeder, Sarah Velasquez

Committee Member absent:

Sharon Schilling, Arthur Reker

Staff present:

Lon Martin, John Watkins, Cindy Williams, May Albiani, Connie Hamlin, Sarah Rubin

Welcome

- Committee member Sarah Velasquez greeted the Fresno City College Political Science students and the public.
- Director Rene Ramirez reported absent Committee member Sharon Schilling was recovering from her recent surgery.
- Director Rene Ramirez provided an overview on the Department of Public Utilities (DPU), the Utility Advisory Committee (UAC), and the City of Fresno.
- Facilitator Sarah Rubin called the meeting to order and lead the Pledge of Allegiance to the Flag. There were self-introductions of the Committee members and staff.

ITEM 2A – Utility Advisory Committee Draft Cover Letter

- Facilitator Sarah Rubin began the group discussion regarding Item 2A, the drafted UAC Transmittal Letter. Committee member John McCubbin spoke on behalf of himself and Committee member Art Reker and explained the process they went through.
- Committee member John McCubbin commented on page 2 noting indexing or small annual increases saying this last sentence may be premature.
- John Hutson provided background on the 2006 UAC's studies and deliberations "looking to where to cut the fat" and why raising rates resulted from it becoming evident ample bond coverage in the Utility Department was needed as well as maintenance of infrastructure.
- Committee member Michael Napoli said he agreed with Mr. Hutson's statement of looking for an opportunity to "cut the fat" and believed as well that rate increases need to be considered. He added he desired to see sentences when drafting this letter, that the Committee has agreed to move with the adopted rates; however the UAC prefers lower rate increases that would not upset the ratepayers all at once. The letter needs to reflect and incorporate more informational verbiage regarding increase spikes and refer to a long term plan. Committee member Michael Napoli said he could work on a sentence to modify that.

- Assistant Director Lon Martin stated he would email the document out and allow Committee members to do editing between meetings.
- Committee member Deena Monteiro opined while there is consensus on recommendations, referred to paragraph 4 saying let it be known it is Michael and her who are in the minority. We are in a downturn in the economy and something needs to be brought into the picture as to the reason why we are in the minority.
- Committee member Michael Napoli opined the letter needs to state we followed the opinions of the last UAC closely and we are doing it; but we are moving toward fixing the problem now so the next committee can use an indexed rate adjustment.
- John Hutson opined a 2-3 percent raise in rates every year based on no past funding history; did not protect the public's assets for the Department. He added need a recommendation for a more prudent plan is in order.
- After some discussion Facilitator Rubin confirmed there was consensus on the intent of the letter. There were head nods to Lon Martin's statement that the committee was 98% there.
- Committee member Alan Schroeder asked about the process and thanked Committee member John McCubbin for drafting the letter.
- Committee member Sarah Velasquez stated it was only fair the Committee includes the minority opinion and the real meat will be in the pages behind the cover letter.

ITEM 2-B - Draft of 2008 Utility Advisory Committee Recommendations

- Assistant Director Lon Martin advised this document is a key recommendation for the September 1, 2008, rates recommendation prior to approval of this year's City Budget. The Utility Advisory Committee's primary goal is the 2008 rate recommendations. There may be some items that are not addressed that the UAC will continue to work on. The high arching items will be transmitted to City Council in the next few months.

Item 1 - The UAC wants to enter into a discussion of greater detail regarding the possibility of Community Sanitation joining forces with Solid Waste. However, time is of the essence and the first priority of the UAC is to address the September rate adjustment. The UAC will review this issue when they reconvene later this summer.

- Committee member John McCubbin stated he thought we need to beef up the letter we did not explain the rate models enough. Because there are different rate models, but to key it down and that they are already approved and we are not changing them it needs to be stated.
- Committee member Sarah Velasquez – agrees with it.
- Committee member Deena Monteiro agreed noting the Community Sanitation issue was not a high priority right now.
- UAC consensus on Item 1.

Item 2 - The development of reserve policies for all utilities should include a risk analysis justifying the amount of reserves for each Division.

- Committee member Alan Schroeder asked should we quantify it instead of the way we have been doing it in the past?
- UAC consensus on Item 2.
- Committee member Deena Monteiro was not sure if it should be identified as a final report item or as a future action item.
- Lon said he would rephrase and re-tabulate some of these items as future items.

- Committee member John McCubbin opined item 2 should be deferred so it can be more complete.
- Committee member Sarah Velasquez opined the rate models are driven by reserves--the purpose; she thinks it is the heart and soul of the matter and needs to be part of the final report.
- Lon Martin advised this is a general statement and if Council adopts it, then staff will act on it and hire outside staff in the next year to do the analysis.
- Committee member Alan Schroeder said he was concerned that Solid Waste had the same reserves as Wastewater or Water. We should address the 45-day reserve because we may be able to save the rate payer some money by adjusting the Solid Waste reserve.
- The Committee asked for clarification - Are we limited to the rates and/or developer impact fees? Would capital reserves be included in the final report as well? Are we separating the rate increase or including all of them together?
- Lon responded he used the same format that was used in the past. A separate recommendation on the dollar amount and then there were general recommendations for capital. Capital programs, UGM updates go across all divisions, and we will have other board recommendations.
- Committee member Alan Schroeder recommended using a footnote saying the UAC will look at it the future.
- Committee member Deena Monteiro stated the UAC should focus on what is most important --which are the things on the Council's radar. Then determine what is on the UAC radar. Her suggestion is the risk analysis should not be included in the upcoming report but presented in the future.
- Committee member John McCubbin opined that each block on the draft document should have a recommendation and state which ones we will revisit at a later time so we have closure on it at this time.
- John Hutson likened the reserve policy to a bank account and said we should remind the City Council to have reserves. It should be in the report. There needs to be a bank account and the City Council needs to hear this recommendation over and over again. He reiterated reserves policies need to be mentioned in report; because if you do not have a bank account you are living on the edge.
- Committee member Michael Napoli noted the reserves policies are adjustable but we will be conducting a risk analysis in the future. He added the need to have a long term plan; once the amount is determined it needs to be incorporated and stay with it as we go on.

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Item 3 - Solid Waste Impact fees – Upon completion of the study, UAC recommends that Council adopt the proposed impact fees next fiscal year. The revenue generated from the developer impact fees will lessen the burden of new trucks and containers on current customers.

- Keep staff on board in pursuing implementation of those fees and not to hold off.
- Committee member Deena Monteiro advised address impact fees in the rough draft; add the word “possible” increase fees.
- John Hutson advised impact fees come from developers the developers pay the political campaigns. The longer the impact fees are deferred, the longer the developers keep the money; however Public Utilities must pay their fair share and we need to put the statement in the report.
- Committee member Alan Schroeder stated there has been northern growth and now growth is moving southeast and without certain fees, we are putting the burden on the ratepayer and it is an important policy--impact fees; and that the City Council needs to take a closer look at this. He added we need to be more aggressive with the

recommendations and put it out there because staff cannot say it. UAC needs to get some of the public's and staff's ideas out there.

- Committee member Michael Napoli said it seems clear to him the Committee is unified in the recommendation. Fees are appropriate, but reasonable to pay their fair share but not to subsidize other areas.

Item 4 - FY09 Solid Waste Rate Adjustment: Current adopted rate adjustment is 16.7% (\$3.62) for residential customers only. Two options presented to Committee, 1.) Adopted rate 16.7% (\$3.62) or 2.) 12% (\$2.60). Committee members did not come to a consensus.

Deena Monteiro – 12%

Allan Schroeder – 12%

Sarah Velasquez – Adopted Rate 16.7%

Sharron Shilling – Adopted Rate 16.7%

Art Reker – Adopted Rate 16.7%

Michael Napoli – 3%

John McCubbin – Absent

The Committee struggled coming to a consensus for several reasons. During the deliberations it was clear that the UAC is concerned with the impact of this rate adjustment on customers. The difference in opinions revolved around how the rate model showed in future years, customers incurring a higher increase if the lower 12% rate adjustment is implemented in September 2008. Some members felt that it is better to keep rates as low as possible now and make adjustments as necessary in the future. Also, UAC members were concerned that we don't want this Council to fall into the historic rate setting philosophy of doing nothing resulting in infrequent large rate adjustments.

- Lon Martin said the key issue for Solid Waste is that we have not come to consensus.
- Committee member Deena Monteiro does support the 12%. She wants added as we have been keeping in mind the bond coverage. Both opinions need to be equally balanced. She concluded but she still thinks it is too high and too big of a jump.
- Lon advised right now our object is drilling down and getting your position. Is the percent correct by your name? There were head nods.

Item 5 - FY09 Water Rate Adjustment: Current adopted rate adjustment is 23% (\$4.28) for all customers.

John McCubbin - Adopted Rate 23%

Allan Schroeder - Adopted Rate 23%; agreed not to oppose

Art Reker - Adopted Rate 23%

Michael Napoli - No, 3% Rate Adjustment

Sarah Velasquez - Adopted Rate 23%

Sharon Schilling - Adopted Rate 23%

Deena Monteiro – Absent

The UAC deliberated and developed a consensus for the Water rates. In general the UAC recognized the funding requirements for several large capital programs especially the water meter program are driving the September 2008 rate adjustment. The rate model includes the shifting of some projects to later years and current engineering estimates for several projects reflect increasing costs. Once this steep adjustment in water is implemented the rate model shows that, barring any emergencies, future rate adjustments can be adjusted based on an index, significantly reducing the impact to customers.

- It was confirmed the percentages are correct.
- Committee member Deena Monteiro stated she didn't agree with them, but didn't oppose.

Item 6 - Wastewater Impact fees – Upon completion of the study, UAC recommends that Council adopt the proposed impact fees next fiscal year. The revenue generated from the developer impact fees will balance the responsibility of plant capacity between new growth and existing customers.

- We can include it.

Item 7 - UAC recommends that Council implement an indexed rate policy for all Divisions. This Index policy shall include all impact and/or development fees.

- Committee member Michael Napoli said it may not be unanimous.
- Regarding a developer fee or an impact fee when a new house is built, there will be drinking water, sending waste to the wastewater plant and contributing to existing capacity.
- Committee member John McCubbin asked to change the title to the description of proposed recommendations since this is not really what we would be recommending.
- Committee member Sarah Velasquez said no to Item 7, she said she needs more discussion on that because the discussion needs to be infrastructure. She supports it but not carte blanche, because this does not allow for large expenditures like a landfill capacity.
- Committee member Alan Schroeder said his understanding after the fees were determined was they would be pegged to some index. Lon Martin responded yes this is what it is.
- Committee member Deena Monteiro stressed the need to get across to City Council the way the utilities are run needs to be changed so this does not happen in the future.
- Committee member Michael Napoli agreed with Committee member Deena Monteiro to get across our recommendation and keep separate the two items between the impact fees and the index rate policy tied to the cost of living index. Lon agreed it was mixing two revenue sources.
- There is an index for both types of fees but it would be different for the two types of fee structures.
- Lon will revise the language and return it to the group to consider or to pull out.
- Committee member Deena Monteiro referred back to Item 7, saying she would like it pulled from the final report but to have it looked at closer.

Item 8 - Reemphasize the need to develop and implement a capital reserve policy for all Divisions.

- UAC consensus on Item 8.
- Committee member Deena Monteiro requested Item 8 be included in the final report as a future action item.
- Committee member Michael Napoli would like Item 8 combined with Item 2; there were head nods to do so.
- John Hutson said the Committee was not saying how much as in the “bank account” i.e., reserve policy, but that a reserve policy is necessary.
- Committee member Deena Monteiro rebutted this needs to be well thought out and a lot more research needs to be done before we come out with a capital reserve recommendation.

Item 9 - *FY09 Wastewater Rate Adjustment Current adopted rate adjustment is 18.9% (\$3.34) for all customers.*

Art Reker - Adopted Rate 18.9%

Michael Napoli - No Rate Adjustment

Sarah Velasquez - Adopted Rate 18.9%

John McCubbin - Adopted Rate 18.9%

Allan Schroeder – Agree to not appose

Sharon Schilling - Absent

Deena Monteiro – No Rate Adjustment

The UAC deliberated and developed a consensus for the Wastewater rates. In general the UAC recognized the funding requirements for several large capital programs especially the first phase of the plant expansion. Depending on actual costs for the first bond the rate model does reflect an opportunity for a reduced rate adjustment in September of 2009. Also, barring any emergencies, the rate model shows that after 2009 future rate adjustments can follow an index.

- Committee member Michel Napoli modified his statement for the record on the Item 9 to recommend a 3% rate increase.

ITEM 2C – Rough Draft of Tray Memo Subject: September 1, 2008, Rate Recommendations

- Lon proposed putting together a subcommittee of a couple of key folks and writing the report between meetings and push it out to the Committee has a whole for feedback.
- John Hutson referred to paragraph four under the Conclusion saying a lot of work went into it and would like the paragraph to remain in the tray memo.
- Committee member Deena Monteiro asked to add Items 3 and 4 of the recommendations to the Tray Memo. The minority opinion could go into cover letter.
- Committee member Michael Napoli inquired how the information will it be transmitted?
- Lon advised Item 2C contains several big topics and the next step now that he understood the Committee's tone and what they want, will be to take the recommendations and interpret them into the next version of the tray memo. We are going to expand the recommendations and interject them into the tray memo.
- Committee member Michael Napoli expressed that the three different philosophies of various members need to be included.
- Facilitator Sarah Rubin asked if Committee members preferred an assumption be placed in the final report or as an appendix?
- Committee member Napoli – undecided.
- John Hutson – yes.
- Committee member McCubbin undecided. He added you need to say where the reference is and where you find it.
- Committee member Schroeder does not object to an appendix, he added he would like thank John and Art for being the editors.
- Lon asked for direction on process.
- Committee member Monteiro volunteered to be on the subcommittee with Michael Napoli so their minority view would be noted.
- Committee member John McCubbin asked to list what we are going to do each fiscal year.

- Sarah Rubin confirmed the initial feed back was to place the assumptions in the Appendix, and Committee member Deena Monteiro will be the over arching editor and that Lon will email out the process to the Committee.

4. Public Comments

Students from Fresno City College asked the following questions:

How long have you been a committee?

- Original UAC began deliberations in July 2006 and presented their Final Report November 2006 to the City Council. The current committee began deliberations in November 2007.

Which Councilmember to you represent?

John McCubbin	Blong Xiong
Michael Napoli	Brian Calhoun
Deena Monteiro	Larry Westerlund
Sharon Schilling (John Huston)	Mike Dages
Allan Schroeder	Henry Perea
Sarah Velasquez	Mayor
Arthur Reker	Mayor

How much impact will the recommendations have once they are presented?

- John Hutson reported the 2006 UAC recommendations impacted rate adjustments for each utility, a lifeline program was identified, and the recommendation of a Municipal Utility District is being addressed.
- Committee member Michael Napoli concurred saying he believes the UAC makes a difference and that their opinions are listened to and noted it does not always go the way we would like to see it go.
- Committee member Sarah Velasquez said the difference is a public rate discussion. She encouraged students to communicate with the elected officials and to tell them what they want.

Where do funds for the rate increase go?

- Assistant Director Lon Martin reported funds go toward each utility operation. He acknowledged employees' wages are a part of it, based on union MOUs. He explained for the most part, the law requires the funds be retained for what they were received. For example, we cannot use water funds and build a park. Lon mentioned there are charges to the General Fund such has computer services, legal services, rent, etc.

Why isn't the billing cycle monthly?

- Lon Martin reported it is an economic decision to have a 2-month billing cycle verses an once-a-month cycle which would require more postage and paper equaling over \$200,000 in expenses. This issue has been an ongoing debate with Council.

Can rates be reduced because of energy savings?

- Lon Martin responded, yes, Council can reduce the rates.
- John Hutson reported a *Municipal Water District* would take the decision making away from City Council and the District's sole purpose is to look at utilities. District representatives would be directing the best way to serve the customers.

Are all UAC meetings open to the public?

- Lon responded to an inquiry saying yes, these are *public meetings* that are noticed and were advertised in 2006, while they continue to be noticed, there has been no advertising in 2007/2008.

Meeting adjourned 8:59pm