City of FRESNO

Meeting Recap -- Wednesday, October 13, 2010

Committee Members Present: Laura Whitehouse; Gladys Deniz; Marvin Harms; Alec Plumb; Sharon Schilling; Sarah Velasquez; Nick Webber; and Nick Yovino. Absent: Carol Maul

1. Welcome and Opening Remarks

Laura Whitehouse, Utility Advisory Committee (UAC) Chair, opened the meeting, welcomed attendees and began a round of introductions. Christal Love, Center for Collaborative Policy (CCP) facilitator, reviewed the meeting agenda and packet materials. She explained the meeting would focus on the second wastewater rate model presentation, and the UAC would seek consensus on a rate model recommendation. She reviewed the group's charter, highlighting that the UAC is a consensus-seeking body. If there is no consensus, the recommendation would move forward with a majority vote and a minority vote would be captured in the meeting notes.

Ms. Love introduced the group to the gradient of agreement. She clarified that members who state a position between 1(Fully Endorse) and 4 (Stand Aside) would count towards consensus, whereas 5 (Disagreement/Neutral) and 6 (Full Block/Veto) would vote against a proposed recommendation. She further explained that conditional agreements were acceptable, as the conditions could be included in the assumptions section of the UAC recommendations document.

Ms. Love introduced Alex Handler and Tom Gaffney, Bartle Wells Associates, to present the Wastewater Division Rate Model.

2. Wastewater Rate Adjustment Model Review

Mr. Gaffney noted that the UAC had asked Bartle Wells Associates to revise the rate model to incorporate four elements: to prioritize Capital Improvement Plan projects in order to lower the initial rate increase, to bring the recommended rate increase below 3%, to show a history of the City's reserves, and to ensure rate equity compliance. He emphasized the importance of best financial practices, namely prudent reserves, smaller, consistent rate increases, pay-as-you-go for recurring expenses, debt for capital spikes, adequate connections fees, and long term financial plans. The City of Fresno currently integrates all of these practices.

The 3% rate discussed during the August 11th UAC meeting was decreased by postponing some expansion projects for the Capital Improvement Plan. They also recommended drawing down the reserve funds to a total minimum target of $31

million. These funds would be allocated to pay down the bond debt service, to leave adequate reserves for operation and maintenance, and to plan for future projects. They stressed that smaller, consistent rate increases prevent large future increases. With the current recommendation, the typical residential bill increase approximately two cents a day. The proposed City of Fresno wastewater rate is significantly lower than the statewide average.

Overall, Mr. Gaffney and Mr. Handler recommended the following:

- Small annual rate increases for the next five fiscal years
    - Residential and Schools – ADA: 2.5% annual increases
    - Other Classes: 3.0% annual increases
    - Average: 2.65%
- Fund $378 million of Capital Improvement Plan projects in current and subsequent five fiscal years
    - Roughly $228 million bond-funded and $150 million cash-funded
- Draw down fund reserves by $38.4 million
    - From $83.0 million on 6/30/10 to $44.6 million on 6/30/16
- At the end of five years, revenues generate roughly $16 million per year for pay-as-you-go Capital Improvement Plan projects
- Meet recommended minimum reserve targets
- Achieve debt service coverage >1.40x
    - Covenant = 1.25x
- Achieve all best financial management practices

Mr. Gaffney described the rate structure in greater detail. He explained the residential and school ADA rates should increase less than commercial and industrial rates based on rate equity analysis. Commercial customers are currently divided into three classes: low, medium, and high strength. Mr. Gaffney and Mr. Handler recommended adding a medium-high class to better classify businesses like car washes, restaurants, and mixed-use. They proposed evaluating the multi-family and senior rates when more metered water use data is available, and to re-evaluate all rates in five years, after a few years of water use data is available.

UAC members posed the following questions and comments:

- What is the 20% in Operating reserve/emergency fund?
    - The 20% figure, which will amount to $11 million dollars in 2010/11, is based on the current debt service. It is a fairly fixed figure until another bond is issued. The new debt in 2012 and 2018 will add the debt to the reserve.
- Will water conservation measures affect wastewater revenues?
    - The residential customers pay a flat rate, so there will not be a significant effect. Even if flow and strength decrease, the operating costs will stay relatively the same.
- What is the replacement cost for the entire system?
    - The replacement plan for wastewater collection includes adequate funds to address infrastructure needs. The division is also working on a recycled water distribution system. Operation, filtration, and distribution costs will be

partially funded by a 2012 bond. The distribution project is phased to spread out the cost.

- Are there any mandates driving the recycled water program?
    - The Tulare Lake Basin Plan has goal, though regulators have interpreted the goals as a mandate. Another factor is the effluent we treat now goes into the ponds in the treatment area. Though recycled water is expensive, it is a reliable water supply source.
- Is drinkable recycled water possible?
    - The technology is available, but the problem is public perception. In fact, the human health requirements are stricter on wastewater than potable water.
- This plan is very good. Are we continuing to build and expand in anticipation of more population or are we slowing down expectations for growth?
    - The projects have been shifted or postponed due to the slowing growth.

A member commented that the 2002 plan had assumed 1.5% growth, and observed that 1% growth is a fair assumption, but needs to be verified often. He strongly recommended the consultants watch the growth rate closely, citing Fresno's irregular growth trends.

- Would it take a significant amount of growth to reach Fresno's water capacity?
    - The City is required by state mandate to begin design and construction when 75% of capacity is met. We'll have to start in a few years; we're getting to the point where we need to prepare the design.
- Can the reserve funds be transferred out to the general fund?
    - No, wastewater reserve funds are not accessible to the general fund.
- Are there any postponed projects unrelated to the growth issue, such as quality improvement?
    - None of the postponed projects addressed regulatory mandates.

3. Departmental Updates

Robert Andersen, Department of Public Utilities, reported that the DPU staff is working with the Mayor's office to schedule a meeting between members of the UAC and the Mayor. The meeting will likely take place in mid to late November. A City Council workshop to discuss the privatization of commercial solid waste will likely occur in mid November. Mr. Andersen encouraged members of the solid waste writing group to contact him if they had questions.

Mark Scott, Fresno City Manager, updated the group on the commercial solid waste privatization decision. The bid analysis is nearly complete, and he reiterated he can meet with the solid waste writing group in November.

4. Group Discussion: Wastewater Division Rate Model

UAC members held robust discussion of the proposed 2.65% rate increase. Some members spoke of the balanced logic in composing the rate model. Others expressed concern that City Council would not accept the recommendation, that the rate was

still too high, or that the wastewater rate should be evaluated in light of the other divisions' potential rate increases. The group discussed the Capital Improvement Plan in depth, detailing which projects were postponed and why certain projects were necessary.

Ms. Love reminded the group of the consensus-seeking process. She explained that the five-year rate plan was recommended by division, based on the information presented. It was suggested that staff postpone additional Capital Improvement Plan projects to facilitate lowering the rate increase to 2%. Others found the remaining projects focal to keeping future costs down. The recycled water projects were extensively discussed as they relate to the decreasing groundwater supply, the water division rate model, and Fresno's water supply. The group also addressed the significance of the reserve fund targets.

5. UAC Decision: Wastewater Division Rate Model Recommendation

The group could not reach consensus. With one member absent, a quorum had been established and the group voted on the proposed recommendation:

- Small annual rate increases for the next five fiscal years
    - Residential and Schools – ADA: 2.5% annual increases
    - Other Classes: 3.0% annual increases
    - Average: 2.65%
- Fund $378 million of Capital Improvement Plan projects in current and subsequent five fiscal years
    - Roughly $228 million bond-funded and $150 million cash-funded
- Draw down fund reserves by $38.4 million
    - From $83.0 million on 6/30/10 to $44.6 million on 6/30/16
- At the end of five years, revenues generate roughly $16 million per year for pay-as-you-go Capital Improvement Plan projects
- Meet recommended minimum reserve targets
- Achieve debt service coverage >1.40x
- Achieve all best financial management practices, as outlined by Bartle Wells Associates
- Evaluate the multi-family rate when single family metered water use data is available
- Set the Senior rate at a flat discount of $2.50 per month, and evaluate when single family metered water use data is available
- Add a medium-high strength class
- Re-evaluate the rate structure in five years

UAC members conveyed the following concerns with the proposed recommendation:

- The 2.65% rate increase does not allow as much flexibility as the previously-proposed 3% rate increase
- Members would like to see more information about the recycled water program
- What rate increases will the City Council accept in the current economy?

- Small rate increases over time allow for better wastewater program planning and rate stability
- The wastewater increase should be evaluated in context with the other division rate increases
- Members would like to see more details about the Capital Improvement Plan, including the name of the program, the cost, and the expected effect if the program does not occur
- Members encouraged DPU to monitor the reserve funds and the growth rate closely

The recommendation passed with seven members for the recommendation, one member against, and one member absent. The dissenting member will include a minority report in the UAC recommendations document.

6. Public Comment

Loran Harding, general public, commented that the reserve fund structure was very difficult to understand. He indicated that drinkable recycled water is available, and suggested that the City spend a portion of its funds on a public relations campaign to change the perception of recycled water. Mr. Harding also reiterated that Stanford engineers have developed a high-speed electrified nano filter to kill the bacteria in water instead of filtering the bacteria out.

Clint Olivier, Fresno City Councilmember Elect for District 7, thanked the UAC for the invitation to observe the meeting. He communicated he has been learning a lot about Fresno's utilities system. He also spoke of the citizens' concerns he heard during his campaign; he heard from constituents that they are worried about the economy and how much their rates are going to increase, particularly in light of the water meter installation. Mr. Olivier repeated that he understands the alternative to raising the rates, and he wanted to share what he has heard from the community.

Mr. Scott thanked Mr. Harding and Mr. Olivier for their comments. He remarked that the purpose of the UAC is to give their best technical advice, rather than to be concerned with the public opinion.

Chair Whitehouse expressed appreciation for all attendees' input, and adjourned the meeting.

7. Next Meeting

The next UAC meeting will take place on **Monday, October 25th, from 6:00 to 9:00 PM** at Fresno City Hall. For additional questions, please contact Nicole Ugarte at nugarte@ccp.csus.edu.

Additional Attendees:
Robert Andersen, City of Fresno
Anthony Cody, City of Fresno
Steve Hogg, City of Fresno
Mark Scott, City of Fresno
Carla Watkins, City of Fresno

John Watkins, City of Fresno

Tom Gaffney, Bartle Wells Associates
Alex Handler, Bartle Wells Associates

Clint Olivier, Fresno City Councilmember Elect, District 7
Loran Harding, General Public

Christal Love, CSUS, Center for Collaborative Policy
Nicole Ugarte, CSUS, Center for Collaborative Policy