City of FRESNO

Meeting Recap -- Wednesday, December 8, 2010

Committee Members Present: Laura Whitehouse; Gladys Deniz; Marvin Harms; Alec Plumb; Sarah Velasquez; Nick Webber, and Nick Yovino.

Absent: Carol Maul; Sharon Schilling

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 reviewed the group's ground rules and reminded participants that the last part of the meeting is reserved to allow members of the public the opportunity to share their comments.

Ms. Love described the UAC's next steps to completing the rate plan report to the City Council. The UAC will reconvene on January 12th from 6 – 9 PM in the usual meeting room to compile and review the draft text. The Wastewater and Solid Waste writing subgroups confirmed they would send their draft text to the facilitation team by January 1st. The Water subgroup confirmed their section would be sent to the facilitation team by January 5th. Ms. Love reminded the group the facilitation team will help with formatting and minor editing. A UAC member requested that the editing is done in tracked changes.

CCP will send the draft report to the UAC by January 12th.

2. Water Division Rate Model Review & Recommendation Discussion

Martin Querin, Department of Public Utilities (DPU), presented three rate scenarios for the UAC's consideration. During the last Water Rate meeting on October 25th, the UAC had asked DPU to refine these three scenarios. Because water rates vary by service size, use, and lot, the scenarios were determined by overall revenue increases. Mr. Querin explained the scenarios were developed in terms of comparison with the Metro Plan, annual expenditures, financial plans, scenario advantages, scenario disadvantages, threats, and impact on Single Family Residential Bills, as an example.

Scenario 1 – Current Budget (No Metro Plan)
Average Overall Revenue Increase: 2% (FY12 – FY16 2%)

- $115M for 11 years, FY11 - FY21
    - $115M cash from rates
    - No new debt

- All FY11 – FY 21 expenditures are pay-as-you-go
- No Metro Plan Capital Improvement Plan (CIP) projects beyond the current budget
- No proactive pipeline removal and replacement (R/R) capital included.

Advantages:

- Minimal rate increases

Disadvantages

- Does not provide for implementation of the Metro Plan
- Continued excessive over-drafting
- Continued water waste; failure to meet conservation mandates
- No planned pipeline replacement

Threats

- Possible loss of some of Fresno's surface water allocations
- Implementation of TCP Maximum Contaminant Level (MCL) and loss of up to 31 wells
- Possible lawsuit for continuing over-drafting (i.e. Consolidated Irrigation District Lawsuit)
- Possible limitations on groundwater pumping and groundwater conservation fees
- Lack of staff to handle current CIP
- Lawsuits due to violation of the City's Master Environmental Impact Report (MEIR)

Scenario 4 – Metro Plan with $8M annual Pipeline Replacement
Average Overall Revenue Increase: 9% (FY12 – FY13 15%, FY14 – FY16 5%)

- $549M for 11 years, FY11 - FY21
    - $202M cash from rates
    - $347M new debt
- Metro Plan CIP projects beyond the current budget
- Proactive pipeline R/R capital included ($8M annually)

Advantages:

- Reduces threat of lawsuit for impacting groundwater table
- Price point pressure will provide incentive for conservation, cultural landscaping, and irrigation technology improvements
- Reduction in the use of pumping power, conjunctive use, conservation, etc
- Reduces threat of loss of resources
- Mitigates threat of loss of groundwater water production in Southeast Fresno through implementation of MCL for TCP
- Increases ability to maintain local control over allocation of revenues for local benefit

- Reduces likelihood of major damages and loss of service due to catastrophic failures of aged distribution pipelines (100 year plan for full R/R)
- Price point after 5 years is still only 70% of the 2009 state average

Disadvantages

- Still over-drafting (at a reduced rate and on track to comply with Metro Plan goals by 2025)
- Price point at the end of 5 years is still only 70% of the 2009 state average (with higher rates the City would be eligible for lower interest rates)

Threats

- Not in complete compliance with the Metro Plan until build-out at 2025

Scenario 5 – Metro Plan with $4M annual Pipeline Replacement
Average Overall Revenue Increase: 8% (FY12 – FY13 10%, FY14 9%, FY15 – FY16 5%)

- $505M for 11 years, FY11 - FY21
    - $169M cash from rates
    - $336M new debt
- Metro Plan CIP projects beyond the current budget
- Proactive pipeline R/R capital included ($4M annually)

Advantages:

- Reduces threat of lawsuit for impacting groundwater table
- Price point pressure will provide incentive for conservation, cultural landscaping, and irrigation technology improvements
- Reduction in the use of pumping power, conjunctive use, conservation, etc
- Reduces threat of loss of resources
- Mitigates threat of loss of groundwater water production in Southeast Fresno through implementation of MCL for TCP
- Increases ability to maintain local control over allocation of revenues for local benefit
- Reduces likelihood of major damages and loss of service due to catastrophic failures of aged distribution pipelines (200 year plan for full R/R)
- Price point after 5 years is still only 67% of the 2009 state average

Disadvantages

- Still over-drafting (at a reduced rate and on track to comply with Metro Plan goals by 2025)
- Price point at the end of 5 years is still only 67% of the 2009 state average (with higher rates the City would be eligible for lower interest rates)

Threats

- Not in complete compliance with the Metro Plan until build-out at 2025

UAC members posed the following questions and comments:

- Does Scenario 1 include the cost of water meters?
    - Yes – the water meters are already included in the budget.

- Is the $8M in Scenario 4 to replace aged infrastructure?
    - Yes, this scenario proactively replaces aged infrastructure.

- In Scenarios 4 and 5, the Northeast plan will treat 60 million gallons per day (MGD) in 2020, then 80 MGD in 2015. Will that include the Southeast Growth Area (SEGA)?
    - Yes, there is capacity in the Northeast plant for SEGA, and in the meantime, the additional capacity will provide surface water to the community to allow groundwater to rebuild.

- Does the plan to allocate the additional capacity to rebuild the groundwater table assume that SEGA will not build out until 2025?
    - The plan is based on Fresno's projected population growth, not on SEGA development plans.

- When does the current 5-year rate model expire?
    - June 30, 2011. We include FY11 to show where we are today.

- Where is the additional water coming from?
    - We have an annually renewed contract to receive water from the Kings River.

- What is the likelihood that the contract would be nullified?
    - We would like to establish a longer contract, but at a point that it is in the best interest for Fresno.

- Is there concern we won't capture revenue from the metered rates?
    - Yes, there is concern. The fund balance is set to account for fluctuations.

- If the UAC recommends Scenario 1, and TCP is found in the wells, what can the City do?
    - There will be no money to address the problem, so a Do Not Drink order will be issued.

- When the last rate schedule was put in place, was there discussion about the CIP projects?
    - During the process for the 2006 5-year rate plan recommendation, the revised Metro Plan was not completed. There were not cost estimates for the projects and conservation was overestimated. The growth projections were incorrect because there were imbalances of how the rates were set

up to meet the demands for different customers. Additionally, the TCP contamination was not expected.

Ann Kloose, DPU, presented a comparison of Fresno's water rates to other Californian cities and similar cities across the country. The tables showed that Fresno's rates will be relatively lower than all peer cities. She also presented a sample utility bill for a single family residential unit with the recommended rates for Wastewater, Solid Waste, and the proposed Scenario 1, 4, and 5 rates for an unmetered unit.

- Combined with Wastewater and Solid Waste, and the Scenario 1 Water rate, the total bill showed a total .4% increase
- Combined with Wastewater and Solid Waste, and the Scenario 4 Water rate, the total bill showed a total 3.5% increase
- Combined with Wastewater and Solid Waste, and the Scenario 5 Water rate, the total bill showed a total 2.9% increase

Ms. Kloose highlighted that the difference between Scenarios 4 and 5 was .6%, or $2.20 for the example bill.

A UAC member recommended that this analysis is included in the rate plan report, and that it is emphasized that the rates between Water, Wastewater, and Solid Waste were determined separately. Ms. Kloose additionally recommended that the UAC consider including Scenario 2 (discussed during the October 25th UAC meeting) in the rate report to demonstrate what options were considered.

A UAC member expressed concern that the projections for this 5-year plan would also be incorrect. DPU staff explained the projections were affected by unexpected events, such as the economy, and that the UAC evaluates the rate plan every year to be responsive to incoming data.

3. Water Rate Recommendation Decision

Ms. Love reviewed the gradients of agreement for the UAC. She explained that the group would seek consensus, but members were welcome to abstain from the vote.

The group discussed their concerns with the scenarios. Many members expressed that Scenario 1 could not be considered due to the need to plan for the future concerns that projects would not be completed. Members also stressed the need to account for the poor state of the economy, and the rates' impacts on middle or lower class families. It was noted that lower class families often use less water. Some members asserted that Scenarios 4 and 5 are too large and how Fresno must live within its means. A member expressed concern that the City Council and the Public would view Scenario 4 as extravagant. Ms. Love recounted Mark Scott, Fresno City Manager's message to the group; their role is to make a recommendation in a technical advisory capacity.

The group voted 6 to 1 in favor of Scenario 4. Two members in favor of the decision expressed minor concerns in light of the economy and for clarification of a continued water source for the Southeast Plant. The dissenting member reiterated concerns that one must live within one's means, and expressed discomfort with the data figures. The dissenting member was invited to write a minority report for the rate plan report.

4. Solid Waste Franchising Update

John Watkins, DPU, announced a public workshop for the City Council was held on November 16th. The third party consultant from HFH reviewed the procurement process and how the assessment was completed. The assessment recommends the contractors Midvalley should be chosen for the North end of Fresno, and Allied for the South end. The City Council will decide on December 9th on a resolution of intention to move forward on a hearing to award the contracts, scheduled for January 6th. Mr. Watkins noted that the January 6th hearing would include two incoming council members.

UAC members posed the following questions and comments:

- Can the January hearing reverse the decision to privatize the enterprise?
    - Council members may change their vote in January if there is new information since the December vote occurred.

- How much will the privatization plan cost the businesses in comparison to keeping the enterprise public?
    - HFH has those figures, but the rates should be nearly even to the current rate. 5% rate caps are built into the contract.

- How can the private businesses continue the operation at that rate and still earn profit?
    - The analysis is available in the staff report, distributed to the UAC. The businesses generally pay lower wages, fewer benefits, and the trucks have only one operator.

DPU Staff confirmed they would inform the UAC of the December 9th City Council decision.

7. Next Steps & Wrap Up

Ms. Love reminded the UAC of the January 12th meeting to review the draft rate plan report, and to send their draft text to the facilitation team by January 1st (Wastewater and Solid Waste) or January 5th (Water).

8. Public Comment

Loren Harding, general public, reported there is 15% unemployment in Fresno compared to 9% in the nation, noting the danger of deflation. He reminded the group of direct potable reuse and the funds it could save for other uses.

Additional Attendees:
Ann Kloose, City of Fresno
Henry McLaughlin, City of Fresno
Martin Querin, City of Fresno
John Watkins, City of Fresno

Tom Pavletic, Municipal Financial Services

Loren Harding, General Public
Joshua Vanderbilt, General Public

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