

# CARSON CITY UTILITIES ADVISORY COMMITTEE

## Minutes of the March 14, 2002 Meeting

### Page 1

A regular meeting of the Carson City Utilities Advisory Committee was scheduled for 5:30 p.m. on Thursday, March 14, 2002 in the City Hall Capitol Conference Room, 201 North Carson Street, Carson City, Nevada.

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

**STAFF:** Andrew Burnham, Development Services Director  
Tom Hoffert, Utilities Operations Manager  
Larry Werner, City Engineer  
David Heath, Finance Director/Risk Manager  
Tom Minton, Deputy Finance Director  
Nick Providenti, Senior Accountant  
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 AND DETERMINATION OF A QUORUM (1-0001)** - Mr. Hoffert called the meeting to order at 5:33 p.m. Roll was called; a quorum was present. Members Degenkolb and Smeath were absent. Member Langson arrived at 6:30 p.m.

**B. APPROVAL OF MINUTES - March 2, 2002 (1-0162)** - Vice Chairperson Martel moved to accept the minutes, as presented. Member Polito seconded the motion. Motion carried 6-0.

**C. PUBLIC COMMENT (1-0189)** - None.

**D. MODIFICATION OF AGENDA (1-0197)** - None.

**E. DISCLOSURES (1-0200)** - Chairperson Knecht advised that he will be scheduling a meeting with his constituents in the near future and providing a report to the Committee.

**F. PUBLIC MEETING ITEMS:**

**F-1. INTRODUCTION OF MEMBERS, DISCUSSION AND ACTION ON ELECTION OF CHAIRPERSON AND VICE CHAIRPERSON FOR THE CARSON CITY UTILITIES ADVISORY COMMITTEE (1-0016)** - Each of the Committee members introduced themselves and provided information on their background and experience. Mr. Hoffert introduced himself and, at his request, the other City staff members introduced themselves. Mr. Hoffert called for nominations for Chairperson. **Member Osborne nominated Member Knecht for Chairperson. Member Riggs seconded the nomination. Nomination carried 5-0-1, Chairperson Knecht abstaining.** Chairperson Knecht called

## CARSON CITY UTILITIES ADVISORY COMMITTEE

### Minutes of the March 14, 2002 Meeting

#### Page 2

for nominations for vice chairperson. **Member Osborne moved to nominate Member Martel as Vice Chairperson. Member Mullet seconded the motion.** Chairperson Knecht called for additional nominations and, when none were forthcoming, **Member Osborne moved to close nominations. Member Riggs seconded the motion. Motion carried 6-0; nomination carried 5-0-1, Vice Chairperson Martel abstaining.**

**F-2. REVIEW DRAFT WORK PLAN, MODIFY AS NECESSARY. DISCUSSION AND ACTION ON ADOPTING A WORK PLAN (1-0213)** - Chairperson Knecht referred to the draft work plan included in the agenda materials. In response to a question, Mr. Werner estimated each meeting to last between 2 and 2½ hours. **Vice Chairperson Martel moved to adopt the work plan as presented by staff subject to changes in venue as required to accommodate public testimony. Member Osborne seconded the motion.** In response to a question, **Vice Chairperson Martel amended his motion to include additional meetings as required. Member Osborne continued his second. Motion carried 6-0.** Discussion took place regarding alternate meeting locations, and staff agreed to check into available meeting rooms.

**F-3(A) STAFF OVERVIEW OF THE HISTORY OF MONTHLY USER CHARGES (1987 TO PRESENT) (1-0320)** - Mr. Hoffert referred to the monthly user charge history included in the agenda materials, and advised that the rates are reflective of residential charges. He further advised that information regarding connection fees is available from the City Finance Department. He explained that after adoption of the Guastella report by the Board of Supervisors in 1992, fees were adjusted to begin “bridging the gap” between commercial, residential, and industrial rate classes. He acknowledged that the only changes reflected in terms of rate design are those which took place in 1993, and that the other changes in 1988 and 1991 are reflective of rate level increases.

In response to a question, Mr. Hoffert explained that Guastella Associates developed several recommendations, one of which was to attempt to equalize the charges between rate classes. The Board of Supervisors chose to implement that recommendation gradually. Member Osborne commented that the gradual implementation was orally agreed to between the Board of Supervisors and the business community in light of the discrepancy which existed at the time between residential and commercial rates. He advised that this was the only action taken in 1993 and that “there was never any follow up” on the part of the Board of Supervisors, City staff, or the business community to continue implementing rate changes to achieve parity. Mr. Heath acknowledged that allocation of costs across the rate classes resulted in rates different than those actually implemented.

In response to a question regarding the 1993 decrease in sewer rates, Mr. Hoffert explained that impacts to residential rate payers were of utmost concern. The ending fund balance and cash reserves available in the sewer fund at that time needed to be reduced. This was accomplished by decreasing the sewer rates and increasing the water rates with almost a net zero effect to the residential rate payers, while maintaining minimum working capital and reserve funds. In response to a comment, Mr. Hoffert advised that there has been no need to increase rates in order to fund budgets and five-year capital plans. Mr. Heath acknowledged that expansions were to be covered by bond issue and ultimately through connection fees. In response to a question, he advised that connection fees were theoretically to be kept in reserve; however, no provision has ever been made and connection fees can be tracked as part of contributing capital. Mr. Heath acknowledged that connection fees were not allocated to a separate fund. He responded to additional questions regarding accounting of general improvements versus customer-specific or area-specific improvements and the purpose for connection fee charges to fund capital expansion and replacement.

## **CARSON CITY UTILITIES ADVISORY COMMITTEE**

### **Minutes of the March 14, 2002 Meeting**

#### **Page 3**

Chairperson Knecht suggested that issues such as these are matters of policy which should be addressed by the Committee. In response to an additional question, Mr. Heath indicated there are no statutes or restrictions on establishing reserves. He acknowledged that connection fees cover future capital costs and debt service and that ongoing fees cover operations and maintenance on a commodity basis. He further acknowledged that the amounts are reflected in the operating statements.

In response to a further question, Mr. Heath advised of the build out forecasted in the next 15-20 years and discussed the need to determine the capacity required to accommodate the same. Chairperson Knecht noted that consideration will need to be given to development of assets and resources to the build out point without overshooting. Mr. Werner commented that these are the policy issues which will be presented to the Committee as part of the rate structure discussions. Member Riggs expressed an interest in exploring the possibility of establishing reserve capital accounts. Chairperson Knecht reviewed the percentage decrease and increase in sewer and water rates respectively over the last 15 years.

**F-3(B) STAFF OVERVIEW OF THE 1990 GUASTELLA ASSOCIATES, INC. CARSON CITY WATER AND SEWER UTILITIES COST ALLOCATION AND RATE DESIGN STUDY (1-0630)** - Mr. Heath distributed information regarding utilities connection fees to the Committee members and staff, and reviewed the same. He acknowledged that, in principal, customers pay in accordance to the cost imposed on the system. He reviewed the increase in water connection fees since 1989, and noted that there has never been an increase in sewer connection fees. He explained that the Guastella study calculated the water connection fee at \$2,000 and the sewer connection fee at \$1,600; however, the Board of Supervisors did not lower the fees at that time. Mr. Hoffert advised that the Board of Supervisors chose to allocate the difference to a fund in the water account for the purpose of accumulating a reserve which would be used to secure future water rights. Sufficient water rights were eventually purchased to accommodate the population base designated by the maximum growth level.

Mr. Heath noted an additional recommendation of the Guastella study was to equalize commercial and residential rates. He advised that the consultant recommended by staff conducted the study for the Truckee Meadows Water Authority, which is attempting to equalize commercial and residential rates and utilize a commodity-based approach. He discussed the load factor of the water system in conjunction with peak demand during the summer. Discussion took place regarding commercial fire service requirements for water storage and the method by which water usage for fire service is measured. In response to a question, Mr. Hoffert discussed the creation and purpose of the plant expansion reserve account. With regard to fire flows and hydrants, he advised that 20% of the City's storage facilities are dedicated to fire suppression. The cost for fire hydrants which serve more than one property is absorbed into the operation and maintenance portion of the budget. Fire hydrants which serve only one facility are considered private and assessed a monthly fee. The Guastella report revealed that the capital improvements needed to maintain the fire flow aspect in addition to residential and other uses had a dollar amount associated with it; however, the charges established in the budget were not adequate to recover the true costs.

Mr. Heath reiterated that the Board of Supervisors decided not to accept the commodity-based charge recommended by the Guastella report. The Board of Supervisors did modify the rate structure from a five-tier block to a three-tier block which includes residential, commercial and municipal. In response to a question, Mr. Heath acknowledged that the Guastella study is based on allocated, embedded costs rather than marginal costs. Mr. Heath advised that the Board of Supervisors also chose the winter-average basis for sewer fees, although this was not recommended by the Guastella report. Mr. Hoffert explained that the easiest approach to bridging the gap between the rate classes was to use a sewer average approach for

## CARSON CITY UTILITIES ADVISORY COMMITTEE

### Minutes of the March 14, 2002 Meeting

#### Page 4

residential rate payers. This was a major milestone for the commercial sector and, at the same time, the City allowed commercial customers to consider the cost benefits of installing separate irrigation services which would have no associated sewer charge. In response to a question, Mr. Werner provided background information regarding how the disparity between commercial and residential customers originated. In response to a question, Member Osborne discussed the public's response to implementation of the last rate structure. Mr. Hoffert discussed the public meetings conducted prior to the implementation.

Member Langson arrived at 6:30 p.m. Chairperson Knecht recessed the meeting at 6:33 p.m. and reconvened at 6:37 p.m.

**F-3(C) STAFF OVERVIEW OF THE 2002 WORKING CAPITAL FIVE (5) YEAR PLAN FOR WATER AND SEWER (1-1140)** - Mr. Heath reviewed the sewer fund projections and responded to questions regarding the purposes for working capital and adding back depreciation. He advised that the working capital amount needs to be revised. Mr. Hoffert referred to the wastewater capital improvement plan distributed by Mr. Heath and provided an overview of the same. He advised of the recently completed wastewater and reuse master plan which includes the phases of the next sewer plant expansion. Mr. Heath continued reviewing the sewer fund projections and, in response to a question, acknowledged that to an extent costs are increasing faster than the population and economic base. Mr. Hoffert reviewed costs associated with replacing aging sewer lines, disposal of treated water from the reuse system, the Brunswick Canyon reuse storage facility, and rerouting facilities which have been permitted in NDOT freeway rights-of-way. Discussion took place regarding sewer line replacement and technology improvements at the wastewater treatment plant. Chairperson Knecht requested Mr. Hoffert to provide anecdotal information from time-to-time regarding line replacements, retrofit costs, etc. which can be used to educate the public.

In response to a question regarding the wastewater treatment plant expansion, Mr. Hoffert referred to the bond proceeds reflected in the sewer fund projections for FY 2001-02 and 2003-04. Mr. Heath pointed out that the \$6 million in replacement costs should have been recovered in the form of connection fees. He discussed the need to develop an estimate of future costs and make provision for the same. In response to a question, he advised that the Board of Supervisors approves the capital improvement plan.

Mr. Heath advised that the water fund projections will need to be revised in accordance with new mandates of the Safe Drinking Water Act. Mr. Hoffert responded to questions regarding the mandatory standard for arsenic, Safe Drinking Water Act effective dates, and the cost to implement the standards. Mr. Heath referred to the water capital spreadsheet and reviewed the same. Mr. Hoffert responded to additional questions regarding fines for non-compliance, water testing procedures and cycles, the regulatory authority, the possibility of financial assistance from state and federal agencies, and pending litigation. He reviewed the phases of the expansion project, and discussed possible extensions for compliance deadlines. He responded to additional questions regarding required changes to the system.

**F-4(A) REVIEW OF HOBBS, ONG & ASSOCIATES, INC. CONTRACT FOR WATER AND SEWER RATE STUDY FEE PROPOSAL. DISCUSSION AND ACTION ON RECOMMENDING TO THE BOARD OF SUPERVISORS THE CONSULTANT CONTRACT (1-1632)** - Mr. Heath provided background information on Hobbs, Ong & Associates and John Bonow of Public Financial Management ("PFM"). He acknowledged that there are no RFP requirements for professional services. Mr. Hoffert discussed the purpose for submitting the proposal to the Committee for review. Chairperson Knecht solicited input from the Committee members regarding objectives or scope of work elements. Member Riggs expressed a concern that no other proposals have been requested in light

## CARSON CITY UTILITIES ADVISORY COMMITTEE

### Minutes of the March 14, 2002 Meeting

#### Page 5

of the cost estimate provided by the consultant. Mr. Heath responded to questions regarding Mr. Bonow's experience. Mr. Burnham provided information on the City's procedure regarding professional services contracts, and discussion took place regarding the consultants' experience. Member Polito expressed concerns with regard to adopting a scope of work prior to reviewing the utility rate structure objectives, the lack of specificity for Task 5, and the role of the Committee in allocating costs to the rate classes. Mr. Heath advised that the consultant will be looking to the Committee for input regarding the number of rate classes and the allocation philosophy. He acknowledged that he is confident in Mr. Bonow's ability to provide a tailored funding model which will meet the specifics of Carson City's situation. He discussed Mr. Bonow's computer science experience and his motivation to satisfy the concerns of all involved.

Chairperson Knecht discussed the differences between allocated, embedded cost studies and marginal cost studies. He expressed a preference for the consultant to produce marginal costs together with allocated, embedded costs and to indicate how the two can be combined with the revenue requirement and the results of the allocated, embedded cost study so that the information can be used at the time of implementation and from year to year thereafter. He pointed out that this approach is practical both from a utility regulation standpoint as well as in economic practice. He noted that he has no problem with the recommended consultants' qualifications, the cost, or the scope of work. He offered to work with staff to provide a marginal cost of service assessment. Mr. Heath indicated that he would have Mr. Bonow contact Chairperson Knecht. Mr. Werner expressed a concern with regard to being able to provide the necessary data for the consultant to perform the marginal cost study. Discussion took place regarding marginal cost assessment for differential elevations, the increase in cost to include the marginal cost study, the benefits, and the purpose and focus of the study. Consensus of the Committee was to request Mr. Heath to ask the consultant for additional information and quotes. Mr. Burnham advised that a contingency of \$15,000 is included in the proposed contract amount. Additional discussion took place regarding the benefits of including the marginal cost aspect of the study, and Mr. Heath pointed out that the contract can be amended at a later time. He requested that the Committee allow staff to present the contract to the Board of Supervisors, and agendaize the benefit of the marginal cost study for discussion at a future meeting. Member Mullet expressed a concern regarding the reality of the forecasted build out, and discussion took place regarding the City's existing growth policy. Mr. Minton noted that marginal cost information is valuable for estimating capital costs to build out in addition to establishing rates.

**Vice Chairperson Martel moved to accept staff's recommendation to move forward with the Hobbs, Ong & Associates contract for water and sewer rate study fee proposal with the additions discussed: that they pursue the addition of a marginal cost study and return to the Committee with information on the cost benefit and the clarification on task 5 that the program be customized to reflect the procedures and objectives of Carson City's particular situation. Member Langson seconded the motion.** Member Riggs requested an amendment that the information be used for projecting plant need rather than for establishing rates. Vice Chairperson Martel explained the intent of his motion. Discussion took place regarding the wording of motion in conjunction with the wording of the agenda item, and **Vice Chairperson Martel amended his motion to clarify that staff move forward with the recommendation for approval of the contract in the amount of \$45,000, with contingencies in the amount of \$15,000, and the additional request for information on the marginal cost study. Member Langson continued his second. Motion carried 6-0.**

**CARSON CITY UTILITIES ADVISORY COMMITTEE**

**Minutes of the March 14, 2002 Meeting**

**Page 6**

**F-4(B) REVIEW OF CARSON CITY UTILITY RATE STRUCTURE OBJECTIVES. DISCUSSION AND ACTION ON RECOMMENDING TO THE BOARD OF SUPERVISORS THE OBJECTIVES** (1-1945) - Member Osborne advised of having reviewed the utility rate structure objectives and indicated he had no additions or comments. He left the meeting at 7:15 p.m.; a quorum was still present. (1-2820) Mr. Heath suggested that the Committee would benefit from meeting with the consultant to refine the objectives. He provided background information on development of the objectives and recommended that the Committee review and be prepared to discuss them at the next meeting. **Vice Chairperson Martel moved to continue item F-4(B) to the next meeting and, at this point, there is no particular action to recommend to the Board of Supervisors. Member Mullet seconded the motion. Motion carried 6-0.**

**G. INTERNAL COMMUNICATIONS AND ADMINISTRATIVE MATTERS**

**G-1. FUTURE AGENDA ITEMS** (1-0179) - Mr. Hoffert suggested scheduling a presentation by Carson City District Attorney's staff on the Nevada Open Meeting Law. (1-2962) Chairperson Knecht noted the continuation of item F-4(B). Mr. Heath suggested agendaing discussion of the benefit of a marginal cost study. Member Riggs requested copies of operating statements for last fiscal year and the current year. Chairperson Knecht requested that the District Attorney's presentation include information on the possibility of a closed session to discuss contract matters where the City's costs of operation "may be at stake." He requested that the continuation of item F-4(B) include discussion of other terms and conditions of service such as usage constraints. Mr. Hoffert referred to the work plan and advised that review of the current rate structure and development of utility rate objectives will also be agendaed. He noted that these items can be combined with F-4(B). He referred to the current City ordinances addressing rates which were included in the agenda materials.

**H. ACTION ON ADJOURNMENT** (1-3165) - Vice Chairperson Martel moved to adjourn the meeting at 8:00 p.m. Member Mullet seconded the motion. Motion carried 6-0.

The Minutes of the March 14, 2002 meeting of the Carson City Utilities Advisory Committee are so approved this 11<sup>th</sup> day of April, 2002.

---

RON KNECHT, Chair