

CARSON CITY UTILITY FINANCIAL OVERSIGHT COMMITTEE

Minutes of the March 15, 2016 Meeting

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A meeting of the Carson City Utility Financial Oversight Committee was scheduled for 10:00 a.m. on Tuesday, March 15, 2016 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

PRESENT: Chairperson Andrea Engleman
Vice Chairperson Michael Bennett
Member Randy Bowling
Member Bruce Scott
Member Michael Spell

STAFF: Darren Schulz, Public Works Department Director
David Bruketta, Utility Manager
Sheri Russell, Deputy Chief Financial Officer
Pamala Ganger, Accounting Manager
J. Daniel Yu, Deputy District Attorney
Kathleen King, Chief Deputy Clerk

NOTE: A recording of these proceedings, the committee's agenda materials, and any written comments or documentation provided to the Clerk, during the meeting, are part of the public record. These materials are available for review, in the Recording Secretaries Division of the Carson City Clerk's Office, during regular business hours.

1 - 2. CALL TO ORDER AND ROLL CALL (10:00:40) - Chairperson Engleman called the meeting to order at 10:00 a.m. Ms. King called the roll; a quorum was present.

3. PUBLIC COMMENT (10:01:11) - Chairperson Engleman entertained public comment; however, none was forthcoming.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - February 29, 2016 (10:01:26) - Member Scott moved approval of the minutes, as presented. Member Bowling seconded the motion. Motion carried 5-0.

5. AGENDA ITEMS:

5(A) REVIEW AND DISCUSSION ON COST ALLOCATIONS FOR THE WATER, SEWER, AND STORM WATER FUNDS (10:01:56) - Chairperson Engleman introduced and provided background information on this item. In response to a question, Ms. Russell explained the method by which the cost allocation plan is prepared by an outside consultant, Mahoney & Associates. She advised that the Board of Supervisors had approved the Cost Allocation Plan on February 18, 2016, "with the caveat that we would look into doing a roll-forward true-up adjustment." Ms. Russell advised of having researched the matter. "... in 2012, we estimated the '14 numbers. ... that estimate was \$2,075,000 and what actually was charged for salaries and everything in '15 was \$2,087,000. So our adjustment would only be about \$12,000. For '13, we would have estimated the '15 numbers, and that estimate was \$2,117,000. The total actual expenses, again, were \$2,099,000. So, in that case, we did over-allocate a little bit by \$18,000. The other one was an underestimation of \$12,000. So, in total, the Public Works [Department] allocation is not a huge amount off. However, in between sewer and water and what they're actually doing versus what we estimated, that could be a definite adjustment. So, we will definitely be doing that true-up." Chairperson Engleman entertained questions or comments; however, none were forthcoming.

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5(B) REVIEW AND DISCUSSION ON THE PROPOSED SEWER FUND BUDGET FOR FY 16 / 17 AND ITS COMPLIANCE WITH ADOPTED FINANCIAL POLICIES, WITH POSSIBLE ACTION TO PROVIDE RECOMMENDATIONS TO THE BOARD OF SUPERVISORS (10:05:56) - Chairperson Engleman introduced this item. Mr. Bruketta provided an overview of the agenda materials for the subject and following items. He then reviewed the agenda materials pertinent to the subject item, in conjunction with displayed slides. Ms. Russell clarified that the budget model, included in the agenda materials, is developed in order to demonstrate the financial policies on a cash basis. "... our reserves are based on the cash we have. The budget is based on full accrual because we run this like a business." Ms. Russell, Mr. Schulz, and Mr. Bruketta responded to additional questions of clarification, and discussion ensued.

Chairperson Engleman entertained additional questions or discussion, and Member Bowling commended staff on the method by which the spreadsheet is organized. Chairperson Engleman requested the current ratio of debt to equity in the sewer fund. Mr. Schulz offered to email the information, and Chairperson Engleman requested to have the information "included in the future." Mr. Bruketta asked questions of clarification and a brief discussion followed.

Chairperson Engleman entertained a motion. **Member Scott moved to recommend to the Board of Supervisors approval of the sewer fund budget for FY 2016 / 17; we're making progress and it is consistent with the adopted financial policies, recognizing a phased approach to meeting the policies; complete financial policy compliance is expected to be met the first year after the complete five-year rate phase in. Member Spell seconded the motion.** Chairperson Engleman called for a vote on the pending motion.

RESULT:	Approved [5 - 0]
MOVER:	Member Bruce Scott
SECOND:	Member Mike Spell
AYES:	Members Scott, Spell, Bowling, Vice Chair Bennett, Chair Engleman
NAYS:	None
ABSENT:	None
ABSTAIN:	None

5(C) REVIEW AND DISCUSSION ON THE PROPOSED WATER FUND BUDGET FOR FY 16 / 17 AND ITS COMPLIANCE WITH ADOPTED FINANCIAL POLICIES, WITH POSSIBLE ACTION TO PROVIDE RECOMMENDATIONS TO THE BOARD OF SUPERVISORS (10:36:46) - Chairperson Engleman introduced this item, and Mr. Bruketta reviewed the agenda materials in conjunction with displayed slides. Mr. Bruketta and Mr. Schulz responded to questions of clarification, and discussion ensued. Member Scott expressed the understanding that reserves objectives cannot be met; revenue is significantly less; and staff's recommendation is that we effectively extend the time to reach the goals with regard to reserve development in favor of what are considered to be critical, immediate issues that are going to cost significantly more in the future if they are dealt with as emergencies rather than in a "capital budget kind of way." Mr. Bruketta acknowledged the accuracy of Mr. Scott's statements and, in reference to the FY 2019 budget, noted that "we're still spending money on improving capital. So, the money isn't like historical issues ... where the money went to maybe an operating expense. The money's still staying in capital and we're still making capital improvements to it. So, it's just how it looks on the spreadsheet. So we still think there's benefit in doing those projects." Mr. Schulz commended Mr. Scott's summary, and clarified "we're not asking today that the goal or the phase-in be extended. ...

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we're not there yet. But we may ask for that next year depending on what happens this year. ... We asked for the reduction to help out in the drought. Sure enough, people followed what we asked them to do, but it had a direct impact on our model. When we did these rates, from a 30,000-foot level, we were directed by the Board of Supervisors to base the rates specifically on what it costs to provide water to that user. ... But what happened, as part of the earlier discussion, is then the base rate stays lower. You don't have an established amount of money come in. It's based on usage. Well, as soon as usage fluctuates up or down, this is what happens to your fund. So, it's not that we didn't go into this knowing this might happen. We didn't want it to happen, but following the direction as to how those rates were set, this is the result of that. Now, it may cause us, in future rate studies, to look at modifying that approach with approval to change that base rate to a point where you could stabilize your fund more over time ...”

Member Scott observed “that sewer revenues are relatively stable compared with water which tells me that the in-house uses, the non-discretionary uses are still there. It's the outside uses that are affected by the rate increase that are probably impacting the water fund ... quite a bit.” He suggested the committee's responsibility is to “review and make recommendations to the Board regarding the issues as related to the water and sewer, primarily, and ... storm drainage to some degree, financing and the status ... of those ... enterprise funds.” Member Scott further observed “a reduction in revenue over what was anticipated. Obviously, the rate increases have had an impact on increasing some of the revenue. But, we have to sort of grapple with the idea ... of do we try to look at significant capital adjustments to meet the guidelines that were originally ... the genesis for our formation? Or do we provide other recommendations or related recommendations to the Board as, potentially, a committee that ... is here to try to understand some of the background and provide recommendations, going forward, to the Board of Supervisors?”

At Chairperson Engleman's request, Mr. Yu advised that the committee has “a little bit of latitude with respect to the recommendations it makes to the Board of Supervisors.” He further advised that the “committee can make recommendations based on certain adjustments that it thinks is appropriate. It can aspire to, basically, strictly comply with those policies that the Board of Supervisors has adopted.” He clarified that the committee's recommendations must relate to those financial compliance policies, “but there's no absolute, narrowly defined ... requirement with respect to what sort of adjustments and ... assumptions that this committee can make ...”

In response to a question, Mr. Bruketta reviewed the capital planning process, and advised that capital projects are reprioritized, based on the professional experience of the water team, in the event of insufficient capital reserves. In response to a further question, he explained that the asset management plan is “something that we're building and growing toward. And, yes, ... it'll play a critical role ... So, eventually, we want to get all of our assets into the software ... so that ... we can list out projected lives and life cycles and life spans so that we can get a better idea when we budget into future years, especially beyond five years.”

Member Spell expressed concerns “because of the revenues.” He commended staff on reducing the CIP list by \$17.5 million from last year. He expressed additional concern over a “flaw in our rate structure now; that we can't accomplish what you need to accomplish with infrastructure.” In response to a question, Mr. Schulz advised that staff is considering the impact to the water fund from landscape revisions. “It does go back to, we're where we are. We didn't think the impact would be as much as it is, but it really comes down to the way we established the rate structure. But we established the rate structure with the direction and what we knew at the time, with certain assumptions.” Mr. Schulz agreed “maybe that has changed,” and advised that adjacent jurisdictions are “going back to that base rate.”

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Mr. Bruketta advised of an additional water meter operations foreman “that got left out in the mix, and we didn't ... catch until recently. And that would actually increase the salary and benefit line item by a little over \$95,000.”

In response to a question, Mr. Schulz reminded the committee that “these rates are going up faster than people are cutting back. So, take that into perspective from where we were years ago. We're better off. We're making improvements and that's continuing. It's just the margin isn't as much as we projected. So, as you know, and this goes through all of our utility accounts and other things within the City, capital accounts, is just continuing to defer maintenance as we don't want things to cost more money. And that grows and that grows over time. So, what we tried to do with these accounts was, ... let's face that now, let's adjust so that we can fix that. And that's where the rates came from. So, we took a big chunk out of it. And we will continue to do that even where we are. So, it's better than it was before, when it was defcon. It's just not as projected. ... what we're trying to inform the public is that, with those rates, we said we would look at all of our assets and replace so much a year. Because those rates aren't coming as projected, we can't do that as we said we would.” Member Scott acknowledged that the capital budget is less than anticipated. He expressed a preference “to have the connection fees adjusted and the process that this committee recommended last year implemented.”

Chairperson Engleman entertained additional discussion and, when none was forthcoming, a motion. **Vice Chairperson Bennett moved to recommend to the Board of Supervisors approval of the water fund budget for FY 2016 / 17; due to a significant projected revenue shortfall in FY 2015 / 16, complete compliance with the financial policies won't be achieved without the elimination of critical capital improvements; the capital program should be reassessed next fiscal year to see if the revenue shortfall continues or improves, as expected. Member Bowling seconded the motion.** Chairperson Engleman called for a vote on the pending motion.

RESULT:	Approved [5 - 0]
MOVER:	Vice Chair Mike Bennett
SECOND:	Member Randy Bowling
AYES:	Vice Chair Bennett, Members Bowling, Scott, Spell, Chair Engleman
NAYS:	None
ABSENT:	None
ABSTAIN:	None

In response to a question, Mr. Bruketta advised that the committee's recommendation relative to connection fees included an implementation date of July 1, 2016. Chairperson Engleman entertained additional discussion; however, none was forthcoming.

5(D) REVIEW AND DISCUSSION ON THE PROPOSED STORM WATER FUND BUDGET FOR FY 16 / 17 AND ITS COMPLIANCE WITH ADOPTED FINANCIAL POLICIES, WITH POSSIBLE ACTION TO PROVIDE RECOMMENDATIONS TO THE BOARD OF SUPERVISORS (11:04:30) - Chairperson Engleman introduced this item, and Mr. Bruketta reviewed the agenda materials in conjunction with displayed slides. Mr. Bruketta and Ms. Russell responded to questions of clarification.

In response to a question, Mr. Schulz advised of having presented a stormwater fund overview to the Board of Supervisors, in consideration of the possibility of future rate increases to fund stormwater capital needs.

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The next phase is to develop a plan for those rates and what they would pay for; then to review the plan with the committee and eventually the Board of Supervisors. In response to a comment regarding the recommended motion, Mr. Schulz expressed the belief it's the same motion offered last year. "But, what it comes down to, ... the financial policies that got put into place for three funds, they never should have been put into place for stormwater because we didn't do the rates at the same time. We only did water and sewer rates over a five year plan to fund those financial policies. And, for whatever reason, that's in the past, that got handled. So, the reason we wrote the motion like that was to give some explanation as to we're never, ever going to meet those financial policies for stormwater because we don't have the rates to support it. But, you're welcome to modify that however you see fit." Discussion followed, and Mr. Schulz clarified the intent of the recommended motion to "not put [the committee] or the Board of Supervisors in a corner. We were just trying to explain why the financial policies that were put in place can't be met."

Chairperson Engleman entertained a motion. **Vice Chairperson Bennett moved to recommend to the Board of Supervisors approval of the storm water fund budget, for FY 2016 / 17; while recognizing that it is evident there is not sufficient revenue within the fund to meet the adopted financial policies, Vice Chairperson Bennett further recommended reviewing alternatives for additional revenue within the stormwater fund. Member Scott seconded the motion** for purposes of discussion. He referred to an earlier inquiry of Member Spell's as to whether the Board of Supervisors wants the stormwater fund to meet the financial policies. Discussion followed.

At Chairperson Engleman's request, Vice Chairperson Bennett reiterated his motion. **Vice Chairperson Bennett moved to recommend to the Board of Supervisors approval of the stormwater fund budget for FY 2016 / 17; while recognizing that there is apparently not sufficient revenue within the fund to meet adopted financial policies, if it is the intent to meet adopted financial policies, staff should review options to increase revenue within the fund. Member Scott seconded the motion** for purposes of discussion, which followed. Member Bowling summarized the discussion, as follows: (1) a recommendation to the Board to approve the stormwater budget; (2) the committee needs clarification from the Board if they want the stormwater utility to comply with financial policies; and (3) if, in fact, that's the case, additional work has to be done on the financial side.

In consideration of the discussion, Mr. Yu clarified that the committee does not have to "take all the data that Public Works provides ... as the absolute final spreadsheet." He advised the committee members to "digest the information, use your discretionary authority in compliance with ... that resolution which created the body." He further advised that the committee can make recommendations which "deviate from what staff has provided ..." He suggested a better approach may be to "recommend to the Board of Supervisors approval of the stormwater fund budget, as proposed by staff, but with the caveat that perhaps additional clarification is needed with respect to whether or not these financial objectives, adopted previously by the Board, also apply to this particular fund." He reminded the committee that the Board will make a final decision on the recommendation.

Following additional discussion, Vice Chairperson Bennett expressed the opinion "it needs to be clear that this fund is not currently able to comply with the financial policies; nor will it likely ever be able to comply with the financial policies." In response to a question, Mr. Schulz explained that stormwater "was lumped in with water and sewer; but ... there was no rate structure as part of it that would allow us to meet those goals. ... It really was a bit of an oversight. Either (A) that it got included or (B) that there should have been a rate structure plan that went with it if it was going to be included as part of those financial policies. So, our response hasn't changed since it ever started. It was always ... this is included with water and sewer but, until we have ... rates, we're not going to meet the policies. And we've just constantly been saying that

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to the Board of Supervisors as well to this committee; just knowing that's kind of hanging out there.” Mr. Schulz acknowledged it's a goal that we can never meet.

In response to a question, Mr. Schulz explained that “the stormwater has been an issue for a couple years, off and on, and it's been our feeling that most are aware that, to fix the problem, we have to raise rates. Raising rates is nothing anybody likes to do and that kind of sums it up.” Mr. Schulz acknowledged that the problems needing to be fixed are meeting the adopted financial policies and identifying capital projects. “Even if we didn't have the financial policies on the record, as we do now, we still have a problem of unfunded capital in stormwater all over this City.”

In consideration of Mr. Schulz's explanation, Vice Chairperson Bennett reiterated the opinion “we need to address revenue at some point,” and advised he would not modify his motion. At Chairperson Engleman's request, Ms. King read back the motion. Chairperson Engleman called for a vote on the pending motion.

RESULT:	Approved [5 - 0]
MOVER:	Vice Chair Mike Bennett
SECOND:	Member Bruce Scott
AYES:	Vice Chair Bennett, Members Scott, Bowling, Spell, Chair Engleman
NAYS:	None
ABSENT:	None
ABSTAIN:	None

6. PUBLIC COMMENT (11:36:15) - Chairperson Engleman entertained public comment; however, none was forthcoming. Mr. Schulz announced that the water service is doing a lot of pipe flushing which is causing water discoloration in certain parts of the City. He advised that impacted areas are being notified, and assured the water is safe. He explained the discoloration as minerals being stirred up within the pipe that will be flushed out over a 24 to 48 hour period. He requested anyone concerned to contact the Public Works Department. Mr. Schulz further announced a groundbreaking ceremony for improvements at the Water Resource Recovery Facility, scheduled for 10:00 a.m. on Monday, March 21st.

7. ACTION TO ADJOURN (11:38:04) - Vice Chairperson Bennett moved to adjourn the meeting at 11:38 a.m. Member Bowling seconded the motion. Motion carried unanimously.

The Minutes of the March 15, 2016 Carson City Utility Financial Oversight Committee are so approved this 26TH day of September, 2016.

ANDREA ENGLEMAN, Chair