



STAFF REPORT

Report To: Board of Supervisors

Meeting Date: April 20, 2017

Staff Contact: Ande Engleman, Chair of the Utility Finance Oversight Committee

Agenda Title: For Possible Action: To adopt the budget report from the Chair of the Utility Finance Oversight Committee from the March 28, 2017 meeting (Ande Engleman, andelee@sbcglobal.net).

Staff Summary: The Utility Finance Oversight Committee (Committee) met on March 28, 2017 to review tentative FY18 budgets for sewer, water and storm water funds, along with a proposed storm water rate increase and to make recommendations to the Board of Supervisors. The Committee Chair will provide a verbal report related to the tentative budgets. The report from the Committee Chair on the proposed storm water rate increase will be presented at a future date.

Agenda Action: Formal Action/Motion

Time Requested: 10 minutes

Proposed Motion

Move to adopt the budget report from the Chair of the Utility Finance Oversight Committee from the March 28, 2017 meeting.

Board's Strategic Goal

N/A

Previous Action

None

Background/Issues & Analysis

N/A

Applicable Statute, Code, Policy, Rule or Regulation

N/A

Financial Information

Is there a fiscal impact? Yes No

If yes, account name/number: NA

Is it currently budgeted? Yes No

Explanation of Fiscal Impact: NA

Alternatives

NA

Board Action Taken:

Motion: _____

- 1) _____
- 2) _____

Aye/Nay

(Vote Recorded By)

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A regular meeting of the Carson City Utility Finance Oversight Committee was scheduled for 1:00 p.m. on Tuesday, March 28, 2017 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Darren Schulz, Public Works Department Director
David Bruketta, Utility Manager
Sheri Russell, Deputy Chief Financial Officer
Pamala Ganger, Accounting Manager
Dan 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 (12:59:45) - Chairperson Engleman called the meeting to order at 12:59 p.m. Roll was called a quorum was present.

3. PUBLIC COMMENT (1:00:10) - Chairperson Engleman entertained public comment. (1:00:54) Donna Hulett advised that she and her husband own property "that is adjacent to the storm drain that you are looking at from Gordon Street to Morgan Mill. And, in fact, it runs adjacent to our property. The property has been flooded, due to the storm drain inadequacy, four times in the last twenty years, and we are here hoping that we can get some response from you folks on addressing this storm drain. It is draining waters all from the corner of College Parkway and Highway 50 and, as the last corner is developed which is right across from SlotWorld and we've just had a corner developed which is the new truck stop there, the Maverik, all that water is coming down to that one storm drain and the storm drain overflows and it cannot carry the water properly. Subsequently, backing up into our back yard and flooding our home. So, we've just had floods in January twice. The Public Works [Department] was out with approximately 500 sand bags which we just had removed last week and so we are hoping to find out when this area will be addressed and how soon because, going forward, we don't know what we can do as far as our property values ..." Chairperson Engleman explained the committee's purview to consider "the financial side of it to see how the money's going to be spent ..."

In reference to a newspaper article, Ms. Hulett advised that "it said from Gordon Street to Morgan Mill was allocated approximately \$1,100,000 to address that and that is the exact area where we're having our problem." Chairperson Engleman noted there were no other citizens present in the meeting room.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - January 30, 2017 (1:03:47) - Chairperson Engleman entertained suggested revisions and, when none were forthcoming, a motion to approve the minutes. **Member Bowling so moved. Member Spell seconded the motion. Motion carried 5-0.**

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5. AGENDA ITEMS:

5(A) POSSIBLE ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS APPROVAL OF THE TENTATIVE SEWER FUND BUDGET FOR FY18, AND ACKNOWLEDGE THAT IT IS CONSISTENT WITH THE ADOPTED FINANCIAL POLICIES (1:04:45) - Chairperson Engleman introduced this item, and Mr. Bruketta reviewed the agenda materials in conjunction with displayed slides. Member Spell inquired as to the method by which the \$10,331,829 figure was calculated for 2018 System Reinvestment Funding. Member Spell suggested “that would be imbedded within your total fund balance ... It’s the amount that you would have collected that year that was left over through the system reinvestment funds and it should be basically in that \$6.9 million ... Because that \$6.9 million that exceeds your 2% for your capital contingency reserve ... should include any unspent debt proceeds as well. That’s why you’re exceeding it so much. And everything looks good for ‘16 and ‘17 when you look at the System Reinvestment Funding. And I just cannot figure out how we can have \$10 million which even exceeds the whole total cash on hand. It should be part of that \$6.9 million.”

Mr. Bruketta explained “where that’s coming from is the acquisition of the capital assets, the bond payments, principal and interest, and the bond proceeds. So I guess what you’re questioning is the bond proceeds, the \$6 million for the proceeds, would be put into the capital contingency reserve.” Member Spell referred to last year’s spreadsheet “which broke out perfectly everything that made your fund balance. This ... is distorting the picture. I don’t know if that \$10 million is what you’re saying you collected, part of your fees ... for system reinvestment funding. But it’s really not part of your fund balance and that’s what we’re looking for. So this schedule you did last year, ... it showed out of our fund balance how much is for operating, how much is for debt service, and how much is for system reinvestment. And, like I said, it looks really good for ‘16 and ‘17; that it would be imbedded in ... the balance that exceeds your capital contingency reserve minimum.”

Mr. Bruketta explained, “What we were trying to do this year with this, and maybe this is just working through this process, we were trying to align ... That spreadsheet that you saw last year was a mixture way of doing things and there was confusion that led to how we did it and then what was being reported by Finance for the total budget. So this process is trying to align it to more of a standardized method. So maybe these are some bugs that we’re going to work through on this one since this is the first time we’re preparing it this way.”

In reference to the System Reinvestment Funding figure for FY 2016, Member Spell stated, “that’s what is left in that reserve, your cash on hand that was actually collected through your system reinvestment funding and that’s what we want to see. That’s what you’re supposed to be building your fund balance with so we don’t have to bond; we can do more pay as you go. ... and it looks really good for estimated 2017. ... in ‘16, ... our goal was \$3.5 million. ‘17, we finally got out of the hole which was a problem in our last year’s budgets is we weren’t meeting our goals. We finally got out of it but ... then to go from \$3.6 million to \$10 million ... That does not make sense as far as what our fund balance is.”

Ms. Russell expressed understanding and advised that she would work with Public Works Department staff to “get these where they need to be. ... I see what you’re saying. The reserve should be some breakout of the fund balance available.” Member Spell reiterated “there should be a dollar amount that would be imbedded in the \$6.9 million. Remember like last year, we showed everything that went into the fund balance. ... if I knew this was actually ... what was in the fund balance from your system reinvestment funding and I knew that you had to have 2% of it in capital contingency reserve, basically, the rest would have to be bond proceeds.” Mr. Bruketta explained “it’s the \$6 million bond that we would be proposing this year.” Member Spell clarified “a bond is not system reinvestment funding in your fee schedule. Bond

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proceeds are completely different. ... what we're looking for in this fiscal policy is did you collect \$3.5 million, which was your goal, for system reinvestment funding. ... So you're saying most of that \$10 million is bond proceeds. ... I don't care about bond proceeds. ... in actuality, you can't have bond proceeds sitting around on hand."

Following a brief discussion, Member Spell explained that the Operating Reserve and Capital Contingency Reserve figures are added together for year-end cash-on-hand. "We far exceed what our 2% is for capital contingency so the residual will be made up of unspent bond proceeds and system reinvestment funds. And our goal was to meet the depreciation. You wanted the depreciation amount in the fund balance each year. And, if that's the case, ... you're not going to meet your goal of \$3.5 million of system reinvestment funding in your fund balance for 2018. Because you're saying \$6 million of that \$6.9 million is bond proceeds."

Mr. Bruketta explained that the system reinvestment funding is not classified as a reserve. Ms. Russell further clarified that the system reinvestment funding is "actually what they spent in the year." Member Spell stated, "That's not how you treated it last year. We had it as a line item and that was the confusion is people thought it was a separate fund balance. No. If you go back to the report, it said imbedded within the contingency is the amount of funds you would have available for system reinvestment funding. And then, like last year, you gave us a CIP project list that showed how much system reinvestment funding was going to be used to pay, how much bonds were going to be used for the CIP. And that's where it was really nice to show ... the consumers: this is where your fees are going. ... people think these are all separate funds. No, they're not. You only have one fund balance. Within it, you have operations and maintenance that we've got to break out. And then we have capital contingency which ... that fund, the rest of it, better be at least 2%. And anything over that 2% is going to be unspent bond proceeds and the money that we have collected for system reinvestment."

Mr. Bruketta expressed understanding, and reiterated "it was viewed not as a reserve. It was viewed as a funding source that we're showing how much we're actually spending from that funding source, system reinvestment funding. So, it's not a reserve. That's ... the point of confusion." Member Spell reiterated that bond proceeds are not part of system reinvestment funding. "That's not part of your fees. That's separate. And, here again, ... wasn't that what system reinvestment funding was for? ... to get away, get more money into our fund balance so we don't have to bond as much?" Mr. Bruketta explained "the idea behind the system reinvestment funding was to create a funding source for repair and replacement of equipment, of facilities, ... of capital items. ... we're saying that ... from the rates, we're showing this as a line item here that there would be a proposed \$10.3 million spent from those three different sources ... which is the acquisition of the capital assets, the bond payments, principal and interest and the bond proceeds."

Mr. Schulz explained that "for this upcoming year, 2018, the target is \$3.5 million ... but we are spending \$10.3 million. So \$6 [million] of that \$10.3 [million] is a lump sum coming from a bond. So, now those bond payments that are going to be spread out over the next 20 years, those will be shown in this line item that we put towards capital reinvestment. So we're spending the \$6 million now, but the payment of that will get shown spread out over the next 20 years as that's reinvestment funding that went into the system. The goal is to get away from responding or spend-as-you-go. But for this line item here, if you took the \$6 million out of the \$10.3, you'd end up with \$4.3 so, basically, we would be spending \$4.3 million which we are this coming year, '18, in reinvestment funding." Mr. Schulz responded to questions of clarification, and discussion ensued. Mr. Schulz further explained, "the idea was to get away from the imbedding so that it's very clear as to meeting these goals. But I understand the perspective of looking at it from last year how maybe we confused the issue. We were trying to make it simpler." Member Spell reiterated, "The

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problem last year is people kept thinking they were separate funds. It's all one fund balance and ... it was perfectly laid out. ... We went with the 2% operations and maintenance first. Then we had to have the 2% and then ... bond proceeds. Of course, we cannot mess with those. Those can only be spent on capital projects. And then anything residual would have had to have been the amount of funds that you had for system reinvestment funding."

Ms. Russell clarified that the 2018 operating reserve and capital contingency reserve figures are the "total cash that we expect to be on hand as of the end of 2018. So those are the two total reserves. What we've done with the system reinvestment funding ... is where the craziness lies because that's more what we've spent as opposed to what actually is in that capital contingency reserve figure." Discussion followed, and Ms. Russell explained, "we budget both the proceeds of the bond and the project. So we've budgeted that all to be spent in '18. Whether that actually happens or not, we've budgeted it to be spent. So, in these projections, there shouldn't be much bond proceeds in that \$6.9 million [figure]. ... we've pretended that we've spent it all in '18 even if we have to carry it over in reality." Member Spell stated, "So, in essence then, if there are no bond proceeds in the \$6.9 million, then you have fulfilled your \$3.5 million. In essence, you have more than \$3.5 million of system reinvestment funding because you want to fulfill the \$2.7 for contingency. So you will have that extra \$4 million and that's what I think would be a great number to show all your rate payers. ... look, this is going to come help us fund down our debt." Ms. Russell acknowledged understanding.

In response to a question, Member Spell reiterated that the 2016 and 2017 figures are fine. "... everything penciled out. I knew the capital contingency was covered. The only thing I did not know is were there any bond proceeds left in that ending fund balance. That is a number that would be key is, ... if there is any, if we just flag it, how much bond proceeds are. ... maybe we do have to go back to this line item that shows here's what our fund balance is made up of. And I think that would probably be much easier for a Board member who does not have a lot of time ..." In response to a question, Mr. Schulz discussed the goal "to simplify it, to make it match. But I can understand, from the conversation, that there are some missing pieces that would help fill in the blanks. That's just a little step. This is a work-in-progress ..."

Mr. Bruketta advised that staff would work with Member Spell to fine tune the financial policies table, and continued reviewing the agenda materials in conjunction with displayed slides. At Member Scott's request, Mr. Bruketta provided additional detail of the estimates for connection fees. In response to a question, Mr. Schulz explained that "when we first ... got all the news, all the press, before that July 1 deadline where they went up, we saw a little bit of a spike of people coming in and grabbing some before they had to pay more. Since that time, we haven't seen ... a lot of people trying to come in early to meet that July 1 deadline." Mr. Schulz acknowledged that connection fees are paid with the pulling of a building permit.

In response to a question, Ms. Russell advised that the year-to-date actuals figures are as of December 16, 2016. In response to a question, Mr. Schulz advised that "we're comfortable that the \$65,000 figure [reflected in the 2017 - 18 proposed fiscal summary] is too low. But, depending on how things shake out over the year, working with developers, we just don't know. We can't estimate that very well." Ms. Russell explained that revenue is always budgeted conservatively and expenses are budgeted "a little higher because, at the end of the day, the money comes in and we'll be ahead of the game and then we can spend it on whatever we need to. But, as far as a budget standpoint, we never want to overbudget revenue." Member Scott pointed out that the connection fees estimated for 2016 - 17 "are about 1.3 percent of our total expenditures. So you can see how small connection fees, even now, are in relation to the overall cost of the sewer operation."

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In response to a question, Mr. Bruketta explained that the 14.97 percent increase, between the 2016 - 17 estimated and 2017 - 18 proposed Charges for Service, is due to “one more year of rate increases.” Mr. Bruketta referred to the worksheet for additional detail. Mr. Schulz and Ms. Russell responded to additional questions regarding the Water - Effluent Supplement line item, and salary increases. Mr. Bruketta and Ms. Russell responded to additional questions regarding specific detail of the budget preparation worksheet, and discussion followed.

Mr. Bruketta reviewed the proposed capital projects for FY 18 - 22, in conjunction with a displayed slide. Mr. Bruketta, Mr. Schulz, Ms. Ganger, and Ms. Russell responded to questions regarding the “Reuse - Eagle Valley Golf Course Rehabilitation” line item; the “Groundwater Protection - Sewer Maintenance” line item; and the “Professional Services” line item.

Chairperson Engleman entertained public comment and, when none was forthcoming, a motion. **Member Scott moved to recommend to the Board of Supervisors approval of the tentative Sewer Fund budget for FY 18, recognizing Member Spell’s request for additional clarification for future needs. Vice Chairperson Bennett seconded the motion.** Chairperson Engleman called for a vote on the pending motion. **Motion carried 5-0.**

5(B) POSSIBLE ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS APPROVAL OF THE TENTATIVE WATER FUND BUDGET FOR FY18, AND ACKNOWLEDGE THAT IT IS CONSISTENT WITH THE ADOPTED FINANCIAL POLICIES

(2:01:45) - Chairperson Engleman introduced this item, and Mr. Bruketta expressed understanding that Member Spell’s comments also applied to this item. Mr. Bruketta reviewed the agenda materials in conjunction with displayed slides, responded to questions of clarification, and discussion ensued. Mr. Schulz stated, “Our goal is to rely less and less on bonds, especially for this fund, and more pay-as-you-go. It just takes us some time to get healthy, to build that up. Then you add and compound the fact that our revenues are coming in below expectations due to people saving. It makes it even worse and it takes us longer to get there ...” In response to a question, Mr. Schulz advised that the increase scheduled for July 1st will be 6.5 percent.

Mr. Bruketta entertained questions or comments relative to the fiscal summary and budget worksheets which were included in the agenda materials. In reference to the financial policies, Member Spell requested support for debt management and debt service coverages. “I can reconcile 2016 to CAFR but I do not have access to ... the debt equity ratio unless I know what your projected fund balances will be and what your total debt will be.” Mr. Bruketta acknowledged the supporting information could be provided.

Mr. Bruketta reviewed the five-year capital improvement plan, which was included in the agenda materials. Mr. Bruketta and Mr. Schulz responded to questions of clarification regarding the communications - fiber - SCADA line item; and the well redrilling line item. Vice Chairperson Bennett commented on the number of assets in the water utility, and stated, “What I’m seeing for capital is pretty minimal. I get that’s a function of the revenue that’s coming in.” Vice Chairperson Bennett expressed concern over deferred maintenance, and inquired as to the amount of maintenance being deferred. He suggested “it doesn’t make a lot of sense to say ... we’re complying with policy but we get to the end and there’s a ten-year projection out and we’re \$15 million upside down. I know we’re doing, we’ve got the little green check box on the system reinvestment but that’s debt service. We’re paying off the credit card for the groceries we bought on the credit card.”

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Mr. Bruketta advised of having anticipated the question, and reviewed the capital improvement plan for the last couple years. "... when you look at the capital improvement plan for water, for 2016, it was \$23 million. For 2017, it was \$13 million. And now the current is being proposed at \$6 million. So, ... those are activities that we do need to do, but we realize that ... there's budget constraints. So we're trying to do the best job we can with the structure that we're given." Mr. Schulz added, "It goes back to our rates. We're built up around a model with projected revenue ... And then we had a blip. And we're not the only ones. Everybody around us had the same blip. So now ... we don't want to react. We want to just sit back and see. Was that just a blip? Or what's going to happen in terms of usage in water over the next year or two. And that will help us project moving forward exactly what's going to happen here. Recently, some of the agencies around us ..., they had the same blip we did. ... They have the same problem we have and they said, 'We gotta look forward and we gotta fix this.' And so they did a two-year rate, 3% a year for two years, an adjustment they called it, to overcome that blip that was caused by people using less water." Mr. Schulz responded to a question of clarification. "In terms of us, we're not projecting that. We're not saying that. We're not ready to make that call yet in terms of this is spiraling down and we're not going to come out of it. We really need some more data in terms of usage that's going up. Now, we have one of the wettest years we've had around here so I don't see any sprinklers running where, last year at this time, sprinklers were running ... That's where the revenue's coming in is for that irrigation. So, those are all moving parts in terms of the future and conversations will have to happen." Discussion followed.

In response to a question referencing the budget preparation worksheet, Mr. Schulz advised that penalties and interest are not written off. "It eventually gets collected." Ms. Russell acknowledged that the water delinquencies line item is a year-to-date figure, collected in one year. In response to a question, Ms. Russell offered to review the journal entry for the sewer fund line item. She assured the committee it's in the fund. In response to a further question, Ms. Russell advised that the year-to-date actuals for the tapping fee, meter box set, and complete service lateral line items could be added to. Member Scott noted that connection fees are less than one percent of the total revenue. He additionally reviewed the figures attributable to full-time employees.

Chairperson Engleman entertained additional committee member questions or comments and, when none were forthcoming, public comments. When no public comments were forthcoming, Chairperson Engleman entertained a motion. **Vice Chairperson Bennett moved to recommend to the Board of Supervisors approval of the tentative water fund budget for FY 18, and acknowledge that it is consistent with adopted financial policies. Member Scott seconded the motion. Motion carried 5-0.**

5(C) POSSIBLE ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS APPROVAL OF THE TENTATIVE STORM WATER FUND BUDGET FOR FY18 (2:21:29) - Chairperson Engleman introduced this item, and Mr. Bruketta reviewed the agenda materials in conjunction with displayed slides. Mr. Bruketta acknowledged there are 2.5 positions in the Storm Water Fund. Chairperson Engleman expressed uncertainty as to the reason for a "separate storm water department. In other areas, ... it's all part of the sewer department." In response to a question, Mr. Bruketta explained "this is a program that we'd set up back in 2003. It's actually, in the next one, a history. So we set this up as a program to deal with it. In the other areas, referring to Reno, Sparks, Washoe County, or even Clark County, ... they have flood districts. They set up separate accounts. I'm not sure that they are all in the sewer department. They could be part of the streets department also; there's connection between streets. So, it is different than ... how the other ones were set up but it is something that was adopted by the Board back in 2003."

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In response to a further question, Mr. Schulz advised that “we share now. When we do our projects, we try and share. But, for instance, a camel, which is a vehicle that cleans out storm drains; we have a camel in storm drain and we have a camel in sewer, but we’re not allowed by the state to interchange those because of the material you’re picking up. So, I can’t just buy one piece of equipment and share it back and forth. ... So, the ... only other equipment in storm drain are the ... street sweepers. Well, ... that has nothing to do with sewer so we wouldn’t be sharing there anyway. So, ... the goal back in 2003 / 04 was this is a unique utility that needs to stand on its own and be funded on its own to serve as some sort of level of service for storm water.”

Chairperson Engleman advised of having reviewed the storm water ordinances, and that “very few of them are being enforced. ... you can’t with 2.5 people. ... People buy a piece of property and ... the Planning Department says, ‘To avoid flooding, you have to put in a drain in the back and it’s up to you to keep it up.’ And they don’t keep it up. And so flooding occurs and the fact is, with 2.5 people, they can’t go check everybody’s drain ... and fine them. It’s a violation to not keep up with this ... It’s a source of revenue that could be utilized ...” Following a brief discussion, Chairperson Engleman stated, “There’s no doubt in my mind that some sort of rate hike is needed ..., but ... I’m seeing that, even with our present budget, ... there are some things that could be done that aren’t being done ... there needs to be, whether it’s working with the Building Department to go out and check these things, or the Planning Department which puts these requirements in when somebody does a project and they’re required to put in a drain. Who checks for those things?” Mr. Schulz advised that, “When it gets built, it gets checked and inspected that it was built properly. As time goes on, who’s going around and monitoring it? No one, unless we have a complaint.” Discussion followed. Chairperson Engleman reiterated the opinion “there are areas where we could bring in some revenue that we’re not utilizing.

Vice Chairperson Bennett commended City personnel on handling the extraordinary amount of precipitation this year. He expressed certainty that “it didn’t get paid for out of this storm water fund. ... I see ... we have almost a non-existent capital plan but yet we’re looking at a budget and we’re looking at our financial policies and we’re showing we’re meeting all of our financial policies. Now, I’m going to fast forward to the next agenda item which I know we’re not talking about yet, but that is going to be a discussion on raising rates. So, ... as a committee member, I’m in a catch-22. We’re already meeting our financial policies but yet we need more money. ... I don’t know how to reconcile that.” Ms. Russell explained that the budget is based on “what we have today. We haven’t raised rates. The last time, it went up \$1 ... in 2013 and that was ... to pay for debt. That wasn’t anything else. It was a \$1 increase so we could afford some debt to do some projects. So, because we haven’t had that increase, we’re slowly running out of money for capital. We can’t do any improvements at this point. That’s what this budget is showing you. However, because of the flood, we know there are improvements we need to do and ... that’s what the next item is showing you.” Mr. Bruketta advised that the next agenda item would “show the lack of capital funding. So, basically, the revenue generated from the storm water is going to meet what we have now. But, when you look at the five-year CIP, it’s unfunded. We can’t do the vehicle replacements that we’re proposing in FY 20, 21, and 22. So, the CIP is planned out five years, but we’re only looking at the financial policies for next year. So, what we’re saying is that we meet the financial policies, which is actually a very small reserve, and we’ll meet the financial policies for FY 18, but we’ll have very, very limited capital money to make any kind of capital improvements. FY 19, that’ll get worse and by FY 20, we won’t have the money to be able to fund these additional projects.”

Member Scott observed that “21% of the budget is tied with interdepartmental transfers and that seems like something that doesn’t help the situation, particularly in light of what we have facing us out there on the ground.”

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Chairperson Engleman entertained public comment and, when none was forthcoming, entertained additional discussion of the committee members. When no additional discussion was forthcoming, Chairperson Engleman entertained a motion to approve the storm water fund budget. **Member Bowling so moved. Member Scott seconded the motion** for purposes of discussion. Chairperson Engleman entertained discussion on the motion. Member Spell expressed “a problem with this budget for numerous reasons we’ve discussed and discussed. Let’s just start with the financial policies. This budget was never studied, was never in the analysis for having to meet these goals, as we know. We have ... system reinvestment funding, collect \$295,000 a year. That’s not even part of your fee schedule. ... it was not built in, was it? So how can we meet that goal?” Mr. Bruketta acknowledged the validity of the question, and stated, “When we re-did the scope of the Utility Oversight [Committee], the decision was made to include this in there. So, as staff, we were directed to put this together. And so, unless we get other direction, ... we put this together as here’s your financial policies. Here’s money that we put in the reserve account.”

Member Spell expressed “no problem with the O&M and the capital contingency because you’re covering those, no problem. And everybody should have a 45-days O&M. That’s just good business practice. But to ... say that we’re going to put in system reinvestment funding which we don’t even have built into the system, it puts you guys and us in a bad ... and I know we tried to make a broad scope because everybody wanted the whole government entity ... and ... financial policies. That’s my concern when it comes to saying on a recommendation that they’re in compliance.” In response to a question, Member Spell expressed the opinion “they’re not in compliance with system reinvestment funding because there’s never been anything built into their fee.” Chairperson Engleman reminded the committee members that “last year, we went before the Board and ... asked them to approve the budget, but we pointed out that it was not in compliance. ... we’ve never hidden anything from the Board. What we discuss here is exactly what the Board hears.”

Member Scott suggested that item 5(D) may “bear on this same thing but, potentially, a recommendation similar to last year, perhaps coupled with our action on the next item, might be a way to provide the Board our concern and, at the same time, recognize that staff is trying to put a square peg in a round hole.” Vice Chairperson Bennett suggested deferring action on the subject item until after item 5(D). **Member Bowling withdrew his motion. Member Scott withdrew his second.** Chairperson Engleman tabled the subject item.

(3:47:25) Discussion took place regarding the appropriate action. Chairperson Engleman entertained a motion. **Member Scott moved to recommend to the Board of Supervisors the approval of the tentative storm water fund budget for FY 18, with the recognition that the storm water fund does not meet the same criteria as the water and sewer funds, and that further consideration of storm water rates are necessary to allow us to treat them the same way we treat the water and sewer.** Vice Chairperson Bennett seconded the motion. **Motion carried 5-0.**

5(D) POSSIBLE ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS A STORM WATER RATE INCREASE, AS PROPOSED BY STAFF, TO SUPPORT AN IMPROVED CITYWIDE STORM WATER PROGRAM (2:37:35) - Chairperson Engleman introduced this item, and Mr. Bruketta introduced Storm Water Engineer Robb Fellows. Mr. Bruketta reviewed the agenda materials in conjunction with displayed slides.

In response to a question, Mr. Schulz advised that four bonds are currently being paid. “The first one gets reduced in about nine years from now. ... There’s one that was just done ... last year. 2025 is when the first one drops off.” In response to a further question, Mr. Fellows explained that the bonds are for “the

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northwest drainage projects, everything associated with the freeway. ... When the freeway was contemplated, there were improvements related to that that the City was bound to do and those bond funds paid for those improvements.”

In response to a question, Mr. Bruketta explained that “in our current five-year capital plan, in year 2020, there ... needs to be replacement on some of the equipment. So in our fleet management program, part of our asset management, ... we look at our current usage, we look at the repair costs associated with it. As the infrastructure ages, there’s more operational costs associated with it but that’s a recommendation from Fleet to be able to start replacing some of this equipment because it’ll exceed its useful life.” In response to a question, Mr. Fellows explained that “under the CRS Program and under the MS4, there’s a stormwater maintenance component and, currently, we’re getting credit for that. And, if that drops off, then we could drop.” Mr. Fellows acknowledged that insurance premiums could increase as a result.

Chairperson Engleman expressed concern over rate design. In response to a question, Mr. Bruketta explained “it’s a compilation of hearing ... where some of these significant needs are. There are many more needs out there than this, but these are relative prioritized needs.” In response to a further question, Mr. Bruketta explained “we have the \$9.7 million in needs for the capital projects and so we said, ‘How do we get \$9.7 million?’ There’s additional operating activities ... like professional services ... So, we considered different options. We looked at five years. We looked at one year and we came up with two years. ... It’s an approach to try and minimize the continued impact. ... We did a five-year rate increase for water and sewer and, every July 1, we hear from the consumers about it. I get it that ... this is an impact and no one wants rates to go up. But, on the flip side, if rates don’t go up, we have a nonsustainable program.”

Chairperson Engleman reiterated concern “with how this was done.” She inquired as to whether a \$1 rate increase was considered for the first year; \$2 the second year; and another \$2 the third year. Mr. Bruketta reiterated “we looked at multiple options. We can do that. Now, again, if we want to do a ten-year CIP and we delay, then the items on the bottom of the CIP fall off. Or we reprioritize based on policy direction. But the sooner that we implement rates, the better off we are especially as we start looking at some of the equipment and the repair of what we have.”

Chairperson Engleman expressed concern that the customers “are going to get hit with ... a 6.5 percent hike in July and also this \$2 and some cents addition on the bill. I’m very concerned about how that’s going to hit the average person who is having a lot of trouble paying their water bill. ... I would have been happier if we’d gotten some choices here. I would have been happier if we had some notice so that we could have a public hearing ... We have a lot of people in this community that are pretty smart and do rate design at the Public Utilities Commission ... that might have been able to give us some suggestion. ... I have no doubt about your needs. ... I know they’re needed and there’s no doubt that we need to do a rate hike. My concern is how we’re doing it. To take a motion before the Board of Supervisors and say, ‘This is the best possible rate design that we think you should adopt,’ I’m uncomfortable with that because we’re not looking at anything else. We’re only looking at one set. Even when you did the whole five-year water thing, the Board had choices. The consultant gave them choices. ... I’m uncomfortable that we have no choices. I’m uncomfortable that we’re sort of backed into a corner. We definitely want to get these things done but I’m also concerned about the people having to pay the bills, and what’s feasible. ... In good rate design, you always start off as slow as possible and build and so that’s why I was hoping we could do something that was more along maybe \$1 the first year, and then build.”

Mr. Schulz advised that staff is “very open to discussion and alternatives. What David did and what the team did was what are our needs? What do we need to do? And then we backed into the rate. And it

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sounds like, what I'm hearing, is you're mostly concerned with the phasing portion of the rate. ... it was under my direction that, what have we done in the past? What worked? What didn't work? Let's come up with ... our idea of what is the best for that, knowing very well that, between this committee and the Board of Supervisors, that could change. But as soon as I give you five options to choose from and I give somebody else five options to choose from, we're going to end up somewhere. The idea of what came before you today is staff's best, all the knowledge we have put together that this is going to prove the best. If we have to phase this in over five years, we can do that. We can make that work. But what we recommended ... this is what we felt was the best from us. And I don't feel like there's anything wrong with a recommendation from this committee back to us that, 'We do not like the two-year phase in. We would like to see it over four years.' And that would be your recommendation going up."

Chairperson Engleman suggested phasing in the rate increase over three years. "The public's going to get hit with a 6.5 percent rate hike July 1st and then that stops. So then, it's a bit easier in the following years to add on these other rates. ... I have not discussed this with any members of the committee. This is all new to them, but this is an area where I have been involved at the Public Utilities Commission, the Public Service Commission, and so forth. And I had really expected that when we got to the area of discussing rates that it wouldn't just be a fast thing; that it would be something where we would look at it and hold the public hearing and get input from the public. Because once you do that, then the public owns it. There are fewer complaints."

Mr. Schulz offered to schedule a public open house "in the next couple months." He advised that a public open house was held "a year, year and a half ago when this had forward momentum. Other things got in our way. We did hope for some more public here today. This has been agendized it and was noticed and everybody is aware of it. But that's certainly a recommendation that you could send us to do ..."

Member Scott advised of a "slightly different reaction. ... as a commercial property owner, in the wintertime, I find my storm drain element of my utilities bill is pretty significant. But I think the biggest concern here is really the individual residential folks. And, when I look at \$2 a month increase one year and, essentially \$2 a month the second year, I'm not overwhelmed by that personally in terms of whether it's \$1.50, \$1.50, and \$1 or something like that, I think for the most part, I would see that as less critical than taking advantage of people's awareness to really understand what the needs are. We have huge needs out there. This list of 21 capital improvement plan elements with almost a \$10 million budget is sort of a drop in the bucket. That'll make a huge difference but, at the same time, we have a lot of other areas that I think we ... could put monies into. This is a resource issue in my mind in many ways. And we've got regulatory elements which we need to keep and FEMA is there with not exactly a velvet hammer, but certainly a hammer. That can be difficult and you run into that in different places. So, personally, I'm ... open to discuss, but I'm not as concerned about the \$2 a month followed by \$2 a month over two years for residential folks because I think, right now, the residential is a pretty limited amount of impact on a person in their utility picture or in their overall ownership of a residence picture. And, frankly, I think the need is sooner rather than later." Discussion followed.

Vice Chairperson Bennett expressed agreement with Member Scott's comments. Vice Chairperson Bennett expressed relief "to see this going forward. It's been a concern of mine every time we vote that we talk about storm water funding. ... we're meeting those targets but the targets don't tell the whole story so now we're starting to tell the whole story. It's been agendized, as Darren pointed out. It hit the front page of the newspaper this morning. The only public comment we had relative to this item was that somebody had supported it, wanting to know when a project was going to happen near their house because they're being impacted by it. I get the sense of ... we'd like to see more options but, at the end of the day, we need to

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provide the revenue to do what we need to do for the fund. And this is a step in that direction so I'd like to see it move forward."

Chairperson Engleman reiterated the suggestion to increase the rate by "\$1 the first year and then the balance the second year." Vice Chairperson Bennett expressed support, and stated, "I personally would not like to see it go past the two years. I think we've waited long enough."

In reference to the ten-year capital plan, Member Spell commented, "These are critical projects. Let's say after ten years, how much mediation are we really going to see if we have another really bad flood? Will there be enough outcry that ... 'you doubled my rates and I still don't see that much.' The \$4 doesn't mean anything to me but is press publicity. Doubled the rates and what did we get for it? Is this maybe not even enough to really have a significant impact if we have serious flooding again?" Mr. Schulz explained that "the operations side is very critical too in terms of maintaining the current systems that we have. There are ditches all over town that have never been cleaned. So that's integral too. So, at the end of ten years, this is all done, this is built, this program is going and we have the same storm that we just had, the normal resident from Carson City is, in fact, going to see a substantial difference in the damage that is caused by flood water." In response to a question, Mr. Schulz advised that the Public Works Department is responsible for cleaning culverts. "The other thing ... in terms of this last event, we're getting a lot of interest in our Streets Department. Well, Streets have been covering, helping storm drain for years and years and years because, as you said, 2.3 FTEs just doesn't get it done. So ... it's one more reason to try and really establish this as a stand-alone enterprise fund that they're working on the things that they should be working. It doesn't mean our Streets crews won't work on storm drain projects but, just like we do on our other funds, there should be a tabulation of that and that should get charged to storm drain and they should reimburse our Streets Division. That would be the plan moving forward."

Member Bowling reflected back on his history as a consultant to the City, and commented, "We did a lot of the analysis back then of 'where's the cause' and it primarily came from large, impervious surfaces. Parking lots, car dealerships. Well, that's the engineering side of things. Then when you get down to ... who's going to pay. Well, you saw the result of the analysis. It's a political decision and rightfully so. The monthly rates based on the type of land use is what came out of the sausage-making process. It's what we have, but what we also have is the fact we need money to do projects. Otherwise, the danger is just going to increase year after year after year." Member Bowling expressed agreement "that we should get as much done as we can as quickly as we can. I'd love for it to be free but it's not going to be free. We have to pay for it and the sooner we can address these problems and issues, ... the more quickly we can get on a corrected road so we don't have to look back and ... wish we would have done this sooner. ... the focus ... is ... we have to take some action and we have to get revenue into the storm water fund."

Member Scott observed "we had a lot of things that went really well with the storm drain, from the storms we had and the system that we had in place. ... we had a lot of water in King Street, but we didn't have that much sediment. And we didn't have a storm drain on Washington Street full of sediment that took months to clean out and thousands and thousands of dollars. We have ... obviously a lot of sensitive areas but ... the drainage up on the water company property in Kings Canyon worked extremely well. And, incidentally, as a recharge program, maybe the water utility should think about that. There's a lot of things that worked well. NDOT did tremendous things for this community in their freeway construction. We got ... 100-year storm drain detention in a lot of areas in a lot of watersheds. So, now's the time when we can focus on where didn't have improvements and where we need them but I think we have to remember, a lot of things

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worked pretty well. And a lot of people worked very well. The City's organization, from the '87 flood on, ... when the Attorney General's office became a conduit for water flowing down King Street, ... the mobilization and the steps that were taken by the City to manage the runoff ... was done very well.

"We need to keep that momentum and we need to focus on the fact that these events have allowed people to see we still have a lot to do. When it's dry and nothing's happening, ... you forget about it. A year later, it's just all in the past. I think there's two sides to this but I think we're only just the first few steps into the process of really helping this community to be solidified as far as a whole lot more flood resistance, particularly in the areas where we've had some problems. And a lot of the problems are not huge. But ... there are some that are pretty significant. There also may be some opportunities for cost sharing grants and other things that we can utilize for water quality benefits or sedimentation benefits or other related aspects. That's not factored in here and I don't think it should be but it may be a way that staff can make the money go further."

Chairperson Engleman advised that she came "prepared to not accept a motion on the rate hike which is my purview under *Robert's Rules of Order*." Chairperson Engleman offered to consider "a rate hike that started with \$1 and then went the whole way the second year." Member Scott suggested a phased increase, as follows: \$1, \$2, and \$2 "over a three-year program, and a five year ... total." Mr. Bruketta adjusted figures on a displayed spreadsheet, and discussion ensued.

In response to a question, Mr. Schulz advised that the suggested phased increase "comes down to getting the projects done faster and so, we would be coming to you, hopefully, in five years and presenting our capital budget moving forward. We would have more accomplished and then there would be funding there for future projects. We would have a new 10-year CIP and we would actually have projects on that 10-year CIP because we're not just funding debt service which is what we're doing now. So it's just going to speed all that up. That's what it will do. We're not going to turn around and add another person to the system or that sort of thing. It's just going to speed up this timing. Instead of 10 years, it'll compress that and we'll be able to do more projects in the future."

In reference to previous discussion, Member Bowling commented, "It's one thing to start developing a CIP based on observations in the field. I think we'll get a better bang for the buck and more efficient use of monies if the CIP is developed with the planning that is needed so much now but you're not able to get that planning done because there isn't sufficient funding for it. ... the planning effort is really important to ... develop a good CIP for the future."

Mr. Bruketta expressed appreciation for the comment, and advised that "with [Mr. Fellows'] history, we have ... a lot of bits and pieces; we just don't have a comprehensive plan. And that is part of ... moving into the next phase of storm water that we included and that's that planning aspect to be able to take these bits and pieces and putting them into a comprehensive program ... so that there are better expectations. And that's part of this element that would be included."

Discussion took place regarding the appropriate action, and Mr. Bruketta responded to questions of clarification in conjunction with displayed slides.

Chairperson Engleman entertained a motion to recommend to the Board of Supervisors that a rate increase is necessary; and to recommend a rate increase of 25%, 35%, 35% for residential customers and for the other rate categories for the FY 2017 / 18 budget. Following discussion, Chairperson Engleman reopened item 5(C).

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(3:53:14) Chairperson Engleman entertained a motion. **Vice Chairperson Bennett moved to recommend to the Board of Supervisors a storm water rate increase in the amount of 25% the first year, 35% the second year, and 35% the third year, to support an improved Citywide storm water program, and to further our goal of meeting the goals of the financial policies. Member Scott seconded the motion.** Vice Chairperson Bennett acknowledged the intent of his motion to increase rates across the board for every rate category. Following a brief discussion, **Vice Chairperson Bennett amended his motion to indicate an effective date of FY 2018. Member Scott continued his second. Motion carried 5-0.**

6. FUTURE AGENDA ITEMS (3:55:50) - Chairperson Engleman entertained suggestions for future agenda items. Mr. Bruketta advised that the next meeting date is scheduled for Tuesday, June 20th at 1:00 p.m.

7. PUBLIC COMMENT (3:56:30) - Chairperson Engleman entertained public comment; however, none was forthcoming.

8. ACTION TO ADJOURN (3:56:35) - Vice Chairperson Bennett moved to adjourn the meeting at 3:56 p.m. Member Scott seconded the motion. Motion carried 5-0.

The Minutes of the March 28, 2017 Carson City Utility Finance Oversight Committee meeting are so approved this _____ day of June, 2017.

ANDREA ENGLEMAN, Chair