

AGENDA ITEM: A-1

DATE: February 19, 2015

ACTION: Approved

CITY OF MORRO BAY
PUBLIC WORKS ADVISORY BOARD (PWAB)
SPECIAL MEETING – JANUARY 29, 2015
VETERAN’S HALL – 6:00 P.M.

SYNOPSIS MINUTES

PRESENT:	Marlys McPherson	Board Member
	Janith Golman	Board Member
	Deborah Owen	Board Member
	Steven Shively	Board Member
	David Sozinho	Board Member
	Stu Skiff	Board Member
ABSENT:	Ron Burkhart	Vice-Chairperson
STAFF:	Rob Livick	Public Services Director
	Kay Merrill	Administrative Utilities Technician
CONSULTANT:	Alex Handlers	Bartle Wells Associates

ESTABLISH QUORUM AND CALL TO ORDER
MOMENT OF SILENCE / PLEDGE OF ALLEGIANCE

Marlys McPherson called the meeting to order at 6:07 p.m., stating all Board members are present with the exception of Ron Burkhart and introduced Stu Skiff, new Board Member. Marlys McPherson asked for a moment of silence.

ANNOUNCEMENTS - None

PRESENTATIONS - None

PUBLIC COMMENT PERIOD

A. CONSENT CALENDAR

A-1 Approval of minutes from the PWAB meeting of October 16, 2014

MOTION: Steven Shively moved to approve the minutes. Janith Golman seconded the motion and the motion passed unanimously. (6-0).

B. OLD BUSINESS - None

C. NEW BUSINESS

C-1 Discussion of Preliminary Water and Sewer Rate Study

Rob Livick stated tonight’s meeting is a workshop session on the preliminary water/sewer rate findings that consultant Alex Handlers provided. He stated water rates have not been adjusted since the mid 1990’s and rates

have caught up with inflation and the City is not meeting the debt coverage ratio. Wastewater rates need to be adjusted as the City has a very expensive project in progress. Prop 218 will be addressed which will set maximum rates. Rob presented an update on the status of water supply including the following: The primary source of water comes the State Water Project, the City has ground water, brackish water which is treated through reverse osmosis, there are five seawater wells that can be treated at the desal plant, conservation is a source of water and reclaimed water is the City's future. State water is an interruptible water supply and allocations fluctuate every year. The City is currently in a severely restricted water supply mode and there are water restrictions the public is required to abide by.

The City has a new Facebook page which will provide current news, events and breaking news for the Public to access.

Rob Livick clarified the use of reclaimed water will be available in approximately six or seven years.

Alex Handlers presented the following water rate study power point presentation:

Presentation Overview

- Background
- Water Finances & Rates
- Sewer Finances & Rates
- Next Steps
- Questions/Discussion

Background

- City population = about 10,300
- City provides water & sewer services to 5,425 accounts
 - Almost 90% of accounts are residential
- City's water & sewer utilities are financially self-supporting
- Service charges are the main source of revenue
 - Rates currently account for roughly 98% of revenues
- Both water and sewer utilities are facing major financial challenges
- Substantial rate increases needed in upcoming years

Project Overview

- 10-Year Water & Sewer Financial Plans
 - Develop 10-year financial projections
 - Evaluate financial & rate scenarios
 - Determine overall rate increases
- Water & Sewer Rate Analyses
 - Review current rate structures
 - Analyze utility billing and water use data
 - Identify and evaluate rate alternatives
 - Develop new rates based on a cost-of-service approach
- Update connection fees and miscellaneous charges
- Obtain input for development of final recommendations

Water Finances

- Water rates have not been increased in almost 20 years
- Adjusted for inflation, water rates are 36% lower than in 1995
- Water utility operating in deficit mode
- Projected \$940,000 deficit in current fiscal year
- Fund reserves being drawn down
- City is out of compliance with CCWA Bond debt covenants
- Water enterprise facing substantial financial challenges

Financial Challenges

- Eliminate deficits & restore financial stability
- Roughly 30% rate increase needed to balance budget
- Capital needs & repair/replacement of aging infrastructure
- \$9 million of improvements over 10 years; \$6 million within 5 years
- 5-year projects include new storage tanks, desal plant improvements, AMR meters, replace aging water pipelines
- Plus future construction of recycled water facilities (debt financed)
- Reduced water sales = reduced revenues
Water sales have declined in recent years & may continue to decrease
- Customers who conserve buy less water and mitigate rate impact
- Ongoing operating cost inflation

Financial Projections

- BWA developed draft 10-year financial projections
- Evaluate funding requirements and rate increases
- Based on reasonable, slightly-conservative assumptions
- Operating costs based on current budget + 4% cost escalation
- State water contract expenses increase by 5% per year
- City's share of CCWA bond debt service is paid off in 8 years
- Water sales based on 98% of 2-year historical average and decrease by 1.5% for each 10% increase in rates
- Capital project costs escalated at 3% per year
- Assumes debt financing for \$3.5 million of capital projects next year
- Assumes 15-year bank loan; City should pursue low-rate I-Bank funding
- \$12 million recycled water system financed by SRF Loan (starting 2020/21)
- Includes \$300,000 of future operating costs for future recycled

Financial Findings

- Rates need to more than double over the next 5 years
- Need a larger increase in first year (45% - 50%)
- Help restore financial stability & eliminate deficits
- Meet legal debt service coverage covenants on CCWA bonds
- Position water utility to be able to finance \$3.5M of capital projects
- Additional increases can be phased in over subsequent 4 years

Current Water Rates

Rate Structure Observations

- Same rates apply to all accounts

- Fixed charges generate roughly 30% of total rate revenues
- Reasonable balance of revenue stability and conservation incentive
- Fixed charges are much lower than fixed expenses
- Small anomalies in quantity charge increases
- Lower use customers & second homes benefit from low fixed charges coupled with no charges for first 3 units of water
- 35% of bills at 3 units of water or less
- 32% of water use not billed
- Historically, inclining rates were justified for conservation incentive, but now rates may also need a cost basis (pending legal case)

Draft 4-Tiered Rate Option

- BWA developed draft 4-tiered water quantity rates
- Tier rates phase in over 5 years with larger increase in year 1
- Phased in charges for first 3 units of water (currently not billed)
- All customer affected the same in \$ increases
- Represents higher % increase for low users
- Fixed charge continues to recover roughly same % of revenues
- Impacts vary based on water use
- Higher \$ increases for higher levels of use
- But higher % increase for low users as first 3 units are billed
- *Many rate structure options are acceptable*

Draft 4-Tiered Rate Option

Other Rate Issues

- Pass-through for State Water Project cost increases
- Impact of Bay-Delta peripheral canal
- Surcharge for desal facility operations
- Only charged when desal is in use
- Seawater treatment: about \$1600/AF or \$3.70 per hcf
- Brackish water treatment: about \$1,000/AF or \$2.30 per hcf
- Should allow for annual inflationary increases
- Potential water shortage rate surcharges
- Implemented by Council authorization in response to water shortages and reduced water sales
- Goal: ensure revenue stability during periods of reduced water sales

Marlys McPherson opened Public Comment period.

Rick Drescher stated he was on PWAB 15 years ago and the Board wanted to increase water rates at that time but the City Council and the Mayor chose not to address the issue. He suggested in future presentations to not state that the lower use/rate payers are getting water for “free”. The lower tier is a base rate and the water bill is the same whether the water usage is one unit or three units.

Nancy Bast asked when does the Contract for State Water end and when can we stop paying 2.5 million dollars for a small amount of water.

Rob Livick stated the contract with CCWA is up for renewal in eight years which may coincide with other water sources supply with reclaimed water becoming more viable and the City’s ground water supply. A

proposed goal and objective for the City is water supply diversification and to look at other sources of water besides State Water. State Water is a limited, very expensive supply of water and it would benefit the City to get off State Water supply as soon as it is practical for the City.

Barry Branin asked if it's possible to not receive any State Water if the City diversifies.

Rob Livick replied at the end of the debt obligation to CCWA, the City will have the ability to return the City's allocation of water to the County Water Conservation and Flood Control District and they can sell the water to someone else.

Marlys McPherson closed Public Comment period.

Discussion amongst the committee, staff and the consultant included the validity of surcharges, obligation to pay for State Water even if the City receives no water, getting back in compliance will occur the first year of the rate hike and the way the covenant works is, the revenue needs to cover operating costs, state water costs and an additional 25% for the revenue stream to show adequate security. The extra 25% may be used for capital projects and other needs. Discussion continued in regard to the tier rate system and fixed charges, moving away from State Water and use brackish water and reclaimed water and clarification of the 5 and 10 year plan.

Marlys McPherson opened Public Comment period.

Nancy Bast asked what is the 32% of water use that is not billed?

Alex Handlers responded 32% of the City's water use falls in the first tier.

John G. (last name unintelligible) stated vacation rentals should pay for every unit of water consumed.

Marlys McPherson closed Public Comment period.

Alex Handlers responded the fixed charge is equal to three units of water so you have to a fixed rate whether you use one, two or three units of water. The City could have a fixed rate and then charge for each unit of water.

Marlys McPherson closed Public Comment period.

Discussion amongst the committee, staff and the consultant continued regarding the rates being in compliance in order to obtain loans from the State Revolving Fund (SRF) loan, updating water meters, conversion to automated meter reading (AMR) and billing service, water revenue and expense projections, the need for the base rate to be increased and budget for water pipes to be replaced and the water system master plan.

Alex Handlers presented the following sewer rate study power point presentation:

Financial Challenges

- Need to fund a new \$75 million wastewater treatment plant
 - "Reclamation ready" facility at Rancho Colima site
 - Cayucos expected to participate as partner or customer
 - \$10M of design, enviro, & other preliminary costs through end of 2016/17
 - \$65M 2-year construction phase starting 2018/19
 - Plant operational in about 5 years
- Capital needs & repair/replacement of aging infrastructure
 - \$10 million of improvements over 10 years; \$7.6 million within 5 years

- Mostly for rehab/replacement of aging sewer collection system pipelines
- Also anticipate \$2.3 million (in current and next 3 years) of deferred maintenance and repairs at existing treatment plant to meet permit req's
- Ongoing operating cost inflation

Financial Projections

- BWA developed draft 10-year financial projections
- Evaluate funding requirements and rate increases
- Based on reasonable, slightly-conservative assumptions
- Operating costs based on current budget + 4% cost escalation
- Sewer revenues account for a slight decline in volumetric charges
- Capital project costs escalated at 3% per year
- Assumes new treatment plant is funded by a 30-year SRF Loan at 3%
- Assumed City obtains SRF Planning Loan to fund design & preliminary costs on an interim basis; can be rolled into long-term SRF loan
- Assumes Cayucos SD pays 25% of treatment plant O&M, capital, and debt service for new facility

Financial Findings

- Rates need to increase by approx. 82% over next 5 years
- Single family charge increases from \$45.59 to \$83.00 per month
- Can phase in rate increases with a slightly bigger increase in year 1
- SRF financing debt service doesn't start until 2019/20
- Sewer utility needs to set aside 1 year of debt service in 2018/19
- Allows for cash funding of other near-term capital needs

Current Sewer Rates

Rate Structure Observations

- Residential rates
- Allowances vary widely
- Very little revenue collected from use over allowances
- Same fixed charge for all residential units
- Non-Residential rates
- Essentially 5 rate classes
- Minimum charge is higher than the residential rate

Draft Rate Option

- Draft Residential Rates
- Fixed monthly charge per dwelling unit (no add'l usage charges)
- Multi-family & condos pay a charge 80% of single family rate
- Need to determine number of multi-family dwelling units
- May be a big transition for some multi-family accounts
- Draft Non-Residential Rates
- Rates boiled down to 5 rate classes (based on strength)
- Two customer classes reclassified based on sewage strength
- Minimum charge recommended at reduced multi-family rate
- Based on updated draft cost allocations, each rate class increases by roughly the same \$ amount (not %)

Other Rate Issues

- Potential separate charge for new wastewater treatment facility
- Could be collected on property tax rolls (for residential accounts)
- Could be structured as a maximum charge that City could phase in
- Prefer to have flexibility to use the charge to help fund other capital projects in near term

Marlys McPherson opened Public Comment period, and seeing none, closed Public Comment period.

Discussion amongst the committee, staff and the consultant continued regarding the rate structure for sewer, keeping the existing plant running while building the new plant, the State Revolving Fund (SRF) fixed interest rate loan, preventing storm water from getting into system, Sewer System Master Plan (SSMP) and different strengths of wastewater.

Marlys McPherson opened Public Comment period.

Barry Brannin stated when the new reclamation facility is operating there will be seven acres on the beach where the old reclamation facility was and perhaps the City could lease the property and acquire some revenue.

Marlys McPherson closed Public Comment period.

Rob Livick clarified this item will be continued to the next PWAB meeting.

The next steps are:

- Jan-29: Obtain Preliminary PWAB input
- Feb-19: Potential additional PWAB review and input
- Feb-24: Council Workshop(Set Public Hearing & Approve Notices)
- March: Initiate Prop 218 process
 - Mail notices of proposed rates to all affected parcels
 - Hold public hearing at least 45 days after mailing notices
 - Rate increases subject to majority protest
- May 26: Council Meeting/Public Rate Hearing
- July 1: New rates become effective

Rob Livick stated the election of chair and vice-chair will be agenzized to the next PWAB meeting.

Rick Sauerwein announced the San Luis Obispo Council of Governments (SLOCOG) invites residents throughout the county to participate in the preparation of the 2014 Regional Transportation Plan. SLOCOG developed a "Budget Challenge" and created a tool on-line which allows residents to talk about how they would like regional dollars to be spent. Morro Bay has several projects that have been proposed in previous Regional Transportation Improvement Program (RTIP) and it is important to make the City's needs known to the decision makers and this is a great opportunity to do that. Google SLOCOG and click on the banner and you can voice your opinion there.

D. ADJOURNMENT

The meeting adjourned at 8:42 p.m. to the next regular PWAB meeting to be held at the Veteran's Memorial Building, 209 Surf Street, on Thursday, February 19, 2015 at 6:00 p.m.