

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
BOARD WORKSHOP NOTES**

DATE: February 6, 2014, 6:00 p.m.
 ATTENDEES: Tim Bledsoe, Shannon Cotulla, Debbie Henderson, Jessica Henderson, Paul Hughes, Linda Kosciolk, Ryan Lee, Paul Sciuto, Richard Solbrig, John Thiel
 BOARD MEMBERS: Chris Cefalu, Jim Jones, Eric Schafer, Kelly Sheehan, Randy Vogelgesang
 OTHER: Shawn Koorn, HDR
 MEMBERS OF THE PUBLIC: 27

TOPIC	ACTION
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<p>President Schafer called the workshop to order at 6:00 p.m.</p> <p>WATER AND SEWER SYSTEM UPGRADE: The theme of the presentation was “Facing up to the District’s Three Big Challenges”, and Richard began with an overview of District history, water and wastewater system facts, and with a photo tour elaborated on District operations. He also spoke on how the District has been “keeping it green” with recycling 100% of its biosolids and the prestigious awards won.</p> <p>The presentation focused on the major challenges (and risks) the District faces that include the legal requirement to install water meters on all properties by 2025, up to 1,500 homes not having adequate water flow to fight fires, an aging wastewater system increasing the threat of sewer spills and air pollution, and the aging recycled water system possibly breaking down leading to illegal spills and waste.</p> <p>Balancing risk and affordability to meet these challenges involves: 1) resolving challenges quickly to reduce risks, but leads to higher rates in the near term and is more affordable in the long-term; 2) delaying projects which increases risk and increases long-term costs, but is more affordable in the near term.</p> <p>Paul Hughes discussed cost control actions the District makes a priority by historically keeping rates about equal to inflation, facility projects deferred based upon risk analysis, cutting operations and maintenance budgets by 20%, restructuring debt and saving millions in interest expense, and not entering into post-retirement health benefits for employees. In addition, salaries and benefits have been cut by 3%, the District’s self-insured medical plan was replaced with a lower cost plan, and reducing staffing through attrition to name a few measures the District has taken to control costs.</p> <p>The presentation then outlined three alternative approaches under study: 1) no water or sewer improvements; 2) delayed</p>	<p>The next Board Workshop is March 26 at 1:00 p.m. The budget public meeting is May 15 at 6:00 p.m., and the budget goes to the Board of Directors for adoption on June 5.</p>
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water and sewer improvements; and 3) appropriate/adequate improvements. The challenge of installing meters on all properties by 2025 was discussed with a possible state zero-interest loan of \$21.5 million for a 20-year period. The remaining 8,300 properties would be a five-year installation project, and the loan application must be submitted in June 2014. The second challenge of upgrading the water system for fire flow would be \$48 million project over ten years.

Hughes discussed the rate impacts of implementing meters only with no water improvement, delayed improvements, and appropriate/adequate improvements scenarios and showed a graph comparing quarterly rate comparisons through the year 2019.

Challenge three of upgrading the sewer/recycled system was addressed next. The system needs \$58.5 million over the next ten years in projects including sewer pump stations, backup generators, and recycled water system irrigation improvements. Hughes again showed a rate comparison chart of quarterly sewer rates through 2019. He then elaborated on the combined water and sewer quarterly rates through year 2019 for the three alternatives discussed earlier.

Richard summarized by reiterating that the District must make upgrades and needs to evaluate how fast to complete upgrades to balance risk versus affordability and asked for public input. He mentioned that there will be future opportunities for the public to voice their opinion and reviewed the budget process and timeline. The Board will be selecting the preferred option in March, and ratepayers will be notified by Proposition 218 by March 26.

RATE REVIEW: Shawn Koorn, HDR consultant, presented the objectives of the independent review of the long-term financial plan for the District, developing a five-year rate plan to meet the operating and capital needs, as well as rate impacts of various alternate capital plans.

Shawn summarized capital funding alternatives comparing four alternatives: Least Risky (ten-year CIP with appropriate and adequate improvements totaling \$66.2 million with \$33.5 million in borrowing), Delayed A (ten-year CIP with accelerated waterline replacements at \$54.1 million with \$27.5 million in borrowing), Delayed B (CIP provided in the current ten-year plan for \$46 million with \$24.5 million in borrowing), and Delayed C (ten-year CIP with reduced waterline replacements at \$40.1 million with \$21.5 million in borrowing). All scenarios meet different reserve levels, debt service coverage, and capital needs.

Conclusion of the analysis shows rate adjustments being necessary to fund the District's operating and capital needs over the next ten-year period, rate impacts vary depending on the capital plan, and rates have been developed for each scenario.

Shawn then discussed the key water rate design assumptions: maintain current rate structure with an across the board adjustment, transitioning customers to metered rates, bill comparisons showing the impact of the level of different rate transition plans, flat rate customers' bills increased based on the overall rate adjustment, and the timing of proposed rate transition plans.

He reviewed customer consumption assumptions between single-family, multifamily, and commercial classes. The Consumption Summary graph shows that customers are using the same amount of water quarter-to-quarter as previous year(s).

Shawn developed increases (as shown on slide 27) to the base charge of the metered rate which captures a greater portion of the District's fixed costs.

The summary of the rate study update is rate adjustments are necessary to fund the District's operating and capital needs over the next ten-year period with the focus on the next five-year period; no proposed change in the rate structure as the study increased all components of the rate structure equally both with metered and unmetered customers; proposed rates fund the operating and capital needs of the District based on the timing of the current plan.

Questions from the public were centered on rate equity after all the meters are installed with local vs. out-of town customers and the Prop 218 notice. President Schafer discussed the risk of a multi-year Prop 218 notice if borrowing rates are not good or if there are unforeseen events and also that Prop 218 does not allow different treatment between customer types. He also mentioned that the Board has the ability to manipulate fixed and consumption, but there has to be a balance with the political reality of jeopardizing State grants/loans if the base rate is too high. Sciuto stated there is proposed legislation to individually meter new construction on multi-family and mixed residential/commercial construction. Also questioned was how the District prioritizes projects, and Sciuto explained the four criteria used for prioritization.

ADJOURNMENT: The meeting was adjourned at 9:04 p.m.