

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

DATE: March 26, 2014, 2:00 p.m.  
 ATTENDEES: Tim Bledsoe, Shannon Cotulla, Debbie Henderson, Paul Hughes, Susan Rasmussen, Paul Sciuto, Richard Solbrig, John Thiel  
 BOARD MEMBERS: Jim Jones, Eric Schafer, Kelly Sheehan, Randy Vogelgesang, (Chris Cefalu by teleconference)  
 MEMBERS OF THE PUBLIC: 20

<b>TOPIC</b>	<b>ACTION</b>
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President Schafer called the workshop to order at 2:03 p.m.	
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<p><b>SYSTEM UPGRADE AND RATE REVIEW:</b> The theme of this third public board workshop 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 elaborating 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. Hughes mentioned the export of wastewater is approximately one third of District sewer costs.</p> <p>Paul Sciuto discussed the major challenges (and risks) the District faces that include the legal requirement to install water meters on all properties and billing on a consumptive rate 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. He emphasized meeting the demand for firefighting and water production during the 2007 Angora fire, as well as our system requirements for preventing sewer spills.</p> <p>Sciuto then detailed challenge #1 on the state legal mandate for installing meters on all properties. Challenge #2 of upgrading the water system for fire flow and more was detailed with the appropriate and adequate CIP and the ten-year timeframe of nearly \$70 million in water projects and \$154 million over 20 years.</p> <p>Challenge #3 of upgrading the sewer/recycled system and the ten-year \$58.5 million CIP needs and \$130 million of upgrades in the 20-year horizon was shown. This includes upgrades to sewer pump stations, backup generators, and recycled water system irrigation improvements. Sciuto reiterated that all three challenges need to be met. He answered a question on generators storage and reliability.</p> <p>Paul Hughes explained the five-year Proposition 218 notice coinciding with the five-year meter installation plans and the</p>	<p>The next Board Workshop is April 17 at 6:00 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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zero-percent State loan. There was a question on where is the \$2 million saved on refinances, and Hughes explained debt service and how the \$21.5 million loan is just a small part of the entire CIP.

Hughes addressed balancing risk and affordability. He emphasized that the Board is not making any decisions on rate increases today, but rather at the June 5 board meeting. He showed how the District's water and sewer revenues are falling below prior year estimates and cost control actions to keep rates down. He gave detail on the 3% cut to overall salaries and benefits and how it was achieved, as well as showing the ten-year District rate history compared to CPI and comparison of District rates to other agencies.

Hughes presented a graph of the "appropriate and adequate" CIP rate increase scenario and a graph comparing quarterly rate comparisons through the year 2019. He emphasized that rate increases would be the maximum that could be adopted on Prop 218. He answered a question on where grant money has gone explaining it has gone to infrastructure projects while keeping rates down and below the ENR. Sciuto cited specific projects and use for the water conservation program. Solbrig gave insight into past funding and current grant programs where funding has been dwindling and how the zero-percent loan is a great deal.

Hughes then delineated the recommended metered water rate and the fixed/variable ratios of 75/25 or 80/20. He showed the various alternatives for the Prop 218 notice that the Board has been considering.

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 explaining that customers have ownership in the District's sewer and water systems. He further explained the Prop 218 process and emphasized the Board of Directors wants public input as they have decisions on the big challenges for the District meeting state metering mandates. He also reviewed what is next in the process leading to any new rate changes taking effect July 5, 2014, the timeline, and future opportunities for the public to voice their opinion.

After the one-hour presentation, the floor was opened for public comment and questions. After an additional hour, there were several questions on increased billings after being metered, ten-year plan CIP and rates, salaries and benefits, O&M cutbacks, frequency of vehicle replacements, other water companies bought by the District and if rate increases are paying for their infrastructure upgrades, taking

At the request of public member Bonder-Wenziger, Hughes will forward retirement/CalPERS specific numbers and ratios spent.

<p>over the Lukins water system, giving seniors a 10% discount, employees paying for all CalPERS benefits, difference in two/three toilet billing tiers, and if rates would be reduced after the five-year increases.</p> <p>Comments were also made on fee and rate increases from all utilities and agencies and STPUD's proposed rate increases being another burden; former Board Member Kortez reiterating how much grant funding is received and this being the best public agency anywhere and vital to the community; and more explanation on meter installation.</p>	
<p><b>PROPOSITION 218 DISCUSSION AND DIRECTION:</b> The Board then focused on two decisions to be made: a five-year Prop 218 notice and allocation of fixed v. variable costs. Currently the fixed portion of metered billing is 70%, and staff presented a 75% or 80% proposed base charge. Director Cefalu was in favor of 80%. Director Vogelgesang stated he is a strong proponent of 80% due to actual District costs closer to 80-85% and with a larger part of costs in infrastructure, 80% more closely matches reality. Directors Sheehan and Jones support 80% with Director Schafer favoring 75% but supporting 80% as well.</p> <p>On the Prop 218 notice, there was further discussion on rate increases and whether to go with a one or five-year notice. Director Jones felt the Board may need to consider even higher rates to keep in line with the CIP; he prefers a one-year 218 notice and mentioned considering future increases after the Board's strategic planning session in Fall. Director Vogelgesang suggested a 2.7% meter only rate on the five year and then year-by-year. Staff reiterated the State meter loan would be jeopardized if rates increases are not reflected in a five-year notice, as the District has to guarantee the loan would be secured and debt service met with at least 2.7% for five years or at least a 13.5% increase for this year only. Director Cefalu asked for clarification on creating a Special Assessment District, which was explained and not an option at this time.</p> <p>Directors discussed the efforts of staff and advantages of five-year noticing, as well as constraints over multiple years' noticing and not knowing what revenue will be. There was further discussion on the Prop 218 process as community communication and education, along with it being a piece of strategic planning. Hughes further clarified the alternatives to consider. Director Schafer emphasized the rate increase vote is June 5, and Prop 218 noticing is not set in concrete. All Directors were in agreement on the water meter loan priorities for rate increases.</p>	<p>The Board directed staff to prepare the Prop 218 with a 6.5% increase on water for four years (delayed version b) and 5% on year five and 6% in sewer all five years. Ratepayers will be notified by Proposition 218 next week.</p> <p>Staff was directed to go with an 80% base charge for the Prop 218 notice.</p>
<p><b>ADJOURNMENT:</b> The meeting was adjourned at 5:00 p.m.</p>	