

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

DATE: April 17, 2014, 6:00 p.m.
 ATTENDEES: Brian Bartlett, Tim Bledsoe, Shannon Cotulla, Melonie Guttry, Debbie Henderson, Paul Hughes, Susan Rasmussen, Paul Sciuto, Richard Solbrig
 BOARD MEMBERS: Chris Cefalu, Jim Jones, Eric Schafer, Kelly Sheehan, Randy Vogelgesang
 OTHER: Shawn Koorn, HDR Engineering
 MEMBERS OF THE PUBLIC: 3

| TOPIC | ACTION |
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President Schafer called the workshop to order at 6:03 p.m.

SYSTEM UPGRADE AND RATE REVIEW: The theme of this third public board workshop presentation was “Facing up to the District’s Three Big Challenges”, and Richard began with an introduction 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.

Paul Sciuto discussed the three 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, providing adequate water flow to fight fires (135,000 feet of undersized waterlines that need replacing), 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.

Sciuto then detailed challenge #1 on the state legal mandate for installing meters on all properties by 2025. Challenge #2 of upgrading the water system for fire flow and more was explained with the appropriate and adequate CIP and the ten-year timeframe of nearly \$70 million in water projects and \$154 million over 20 years.

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.

Hughes addressed balancing risk and affordability in meeting these challenges. He showed how the District’s water and sewer revenues are falling below prior year

The next public meeting is May 15 at 6:00 p.m., and the budget goes to the Board of Directors for adoption on June 5.

estimates and cost control actions to keep rates down and historically rates have been about equal to inflation. He presented detail on cost control actions to help keep rates down including restructured debt, cutting the operations and maintenance budget by 20%, 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 mentioned that rate increases have been listed in the Prop 218 notice mailed to all customers. He showed the rate structure the Board has agreed to as a maximum in the Prop 218 notice.

Hughes then delineated the recommended metered water rate and the fixed/variable ratios of 75/25 or 80/20. He showed the various rate alternatives and the direction of the Board that was noticed and will be considered at the June 5th adoption. The Appropriate & Adequate and Delayed Version A were eliminated with Delayed Versions B and C and meters-only rates are under consideration.

Richard summarized by reiterating that the District must make upgrades and needs to evaluate how fast to complete upgrades to meet the three challenges. He emphasized that the Board of Directors wants public input and encourages voicing your opinion. He also reviewed what is next in the process leading to any new rate changes taking effect July 5, 2014, and that Prop 218 ballots must be submitted by the June 5th Board meeting at 2:00 p.m. He reviewed the upcoming timeline for the May 15 public meeting and June 5 public hearing and rate approval.

During and after the presentation, there were questions on the California assessment fire fee for county residents and the District adjusting county customer rates, the average longevity of pipelines, adequate water supply if there is a drop on aquifer levels after three steady dry winters, and how much influence do meeting attendees and the public have on the rate structure review. There also was further explanation on the fixed vs. variable costs. A public member stated he is impressed with the presentation and recycling efforts of the District.

HDR PRESENTATION ON WATER RATE STUDY UPDATE: Shawn Koorn, HDR consultant, presented his rate analysis and options for Board consideration based on a prior report done and at the direction of the Board. The objectives of the water rate study were to provide an

independent review of the long-term financial plan, developing a five-year rate plan to meet the operating and capital needs, rate impacts of various alternate capital plans, and developing rates for the rate transition plan.

As developed with the District's ten-year plan, the analysis projected revenues and expenses, calculated rate revenues based on metered water data, and developed four capital funding alternatives.

Koorn showed the summary of the Delayed B analysis that makes sure funding level is appropriate for depreciation, debt service, O&M expense, and change in working capital. The model includes inflation and rates keeping up with it and new customers added to system. Conclusions of the analysis are rate adjustments being necessary to fund operating and capital needs over the next ten-year period and provide sufficient revenues to maintain and improve the system.

He then reviewed the rate structure and rate design assumptions. The proposed rates show 80/20 fixed/consumption from the current 70/30. Data on customer consumption and annual average uses among various user classes was presented along with the proposed quarterly single-family, multi-family, and commercial classes with the Delayed B option.

In summary rate adjustments are needed to fund the operating and capital needs of the District including funding the metering program to meet the state mandate. The proposed change in the rate structure and moving the fixed/consumption revenue to 80/20 increases all components of the rate structure equally between metered and unmetered customers while still showing a conservation goal on billing to meet state requirements for zero-percent loan opportunities.

Questions throughout the presentation were asked on why the District hired HDR, rate increases meeting District needs in 2019, how the District tracks line sizes for billing, and water usage of second homes vs. primary homes. There was also more explanation on multi-family and commercial customer CCF usage.

ADJOURNMENT: The meeting was adjourned at 8:00 p.m.