

Utilities Advisory Committee

DRAFT MEETING MINUTES (Meeting #11 on January 27, 2021)

1. ATTENDANCE

The following UAC members were present upon roll call: John James, Christine Roque, Rich Smith, Monty Dill, Dick Corneille, and Ernest Marquez. With one vacancy, a quorum of 6 members was established. City of Redlands staff present were: City Manager Charlie Duggan, MUED Director John Harris, Management Services Director Danielle Garcia, Fiscal Manager James Garland, Senior Systems Administrator Kevin Johnston, Utilities Operations Manager Kevin Watson, Engineering Manager Goutam Dobey, Senior Project Manager Ross Wittman, Wastewater Superintendent Fernando Mata, Construction Manager Kyle Wagner, Water Resources Specialist Cecilia Griego, Administrative Analyst Elizabeth Boehling, Senior Administrative Assistant Jane Weathers, and Raftelis Financial Consultants Sudhir Pardiwala and Lauren Demine. Chairperson James requested staff confirm if any guests appeared in Zoom's virtual meeting room (as Attendees) so they could be acknowledged and welcomed; there were two numbers that appeared to be members of the public.

2. CALL TO ORDER

Chairperson James called the 11th 2019 Utilities Advisory Committee (UAC) meeting to order at 6:03 pm. The meeting was conducted as a virtual teleconference meeting via Zoom. Votes were conducted by roll call.

3. PUBLIC COMMENT

Ms. Weathers stated she received no public comments.

4. APPROVAL OF MINUTES

A. January 21, 2021 Minutes

Chairperson James confirmed members' receipt of the draft minutes from their January 21, 2021 meeting. Further clarification was requested by Member Roque related to item 6A in the draft minutes. It was clarified that water meters for new developments must meet the fire flow requirements, and there may be instances where a $\frac{3}{4}$ " meter may remain in place rather than replacing it with a 1" meter.

A motion was made by Committee Member Dill and seconded by Committee Member Smith approving the meeting minutes of January 21, 2021.

Vote: 6-0 Passed.

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5. CONTINUED BUSINESS

A. Presentations of Water, Wastewater, and Non-Potable/Recycled Water Rate Models (MUED Staff & Consultant)

Director Harris acknowledged much information was provided and discussed at the last meeting on January 21. A general discussion that applied to all rates being reviewed is summarized below. A recap and continuation of water, wastewater, non-potable/recycled water discussions are in New Business items A, B, and C.

All agreed that reconvening the UAC in late 2021/early 2022 should be considered or recommended (to the City Council) to allow UAC and staff to review rates, revenues, and updated master plans for water, sewer and non-potable/recycled water – which are anticipated to be completed by November 2021. Reconvening will also allow for review of the City's population growth, utility connection rate, commercial development impacts (Transit Villages), other projects and plans (such as 2015 Urban Water Management Plan), and impacts these all may have on rates.

A concern was asked whether recommendations made now to City Council for 0% or no rate adjustments for any utilities reviewed could be modified when the UAC reconvenes. Proposed rate adjustments approved by City Council will begin with an issuance of a Proposition 218 public hearing notice (Prop 218) – indicating proposed rates, City Council public hearing date, and dates rates would be effective – followed by City Council adoption should the rates pass, and implemented according to effective dates on the Prop 218. When the UAC reconvenes and has an opportunity to review new information, the same processes would follow for any proposed rate adjustments recommended by the UAC to the City Council.

6. NEW BUSINESS

A. Discussion of Water Rate Model and Possible Recommendation of Water Rates

At their last meeting, the UAC considered recommending no potable water rate increases (0%) for years 1 and 2 (FYs 2021-2022 and 2022-2023) and 4% Years 3, 4 and 5 (FYs 2023-2024, 2024-2025 and 2025-2026, respectively), however, more time was requested to reflect on the data presented. With further clarification and review of the revised rate model presented, the committee agreed no water rate adjustment would be needed for the next two years. It would be best to review rates for Years 3 through 5 once master plans and other plans/projects mentioned above are finalized and incorporated into a future rate model.

A motion was made by Committee Member Corneille and seconded by Committee Member Dill to recommend to City Council no water rate increases for two years. (0% in Years 1 & 2 in the rate model are FYs 2021-

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2022 & 2022-2023).

Vote: 6-0 Passed

B. Discussion of Wastewater Rate Model and Possible Recommendation of Wastewater Rate

The UAC previously discussed at their January 21 meeting recommending 15% wastewater rate increases for Years 1, 2 and 3 (FYs 2021-2022, 2022-2023, & 2023-2024) and 5% rate increases in Years 4 and 5 (FYs 2024-2025 & 2025-2026). Since the UAC is not obligated to make recommendations longer than two years, the 15% increases were to be considered for the first two fiscal years of the five year outlook. It was clarified the City would anticipate acquiring \$20MM and \$25MM in bond debt. If possible, the City will utilize State Revolving Fund loans instead of bonds. The debt is necessary for upgrades at the City's Wastewater Treatment Plant (WWTP).

A brief recap of wastewater discussions over the last year ensued. Following the emergency failure of the WWTP's Membrane Bioreactors (MBRs), and the continued overarching concern of imminent WWTP failure, the consultant, Parsons, revised their recommendation which also revised the cost to rehabilitate the entire WWTP in phases. In order to recover the wastewater reserves used to purchase and replace MBRs and incorporate revised WWTP rehabilitation costs, rate increases and bond issuances of \$20MM and \$25MM (in FYs 2021-2022 and 2023-2024, respectively) would be necessary.

A thorough review and productive discussion ensued of the wastewater rate model presented. The next five year forecast for wastewater, other rate scenarios (with and without issuance of bonds), and the revenue impacts from each scenario was discussed. A demonstration of rate increases, without the City incurring debt, up to 50% in each next two fiscal years, predicted the wastewater fund balances to not be sufficient. In summation, the first two years of proposed 15% rate increases would fund the debt the City would incur to repair the WWTP by 2025. This would include a \$20MM debt in FY 2021-2022, \$25MM debt in FY 2023-2024, and \$7MM debt in FY 2025-2026. All agreed that a 15% rate increase to wastewater for the next two years was needed.

A motion was made by Committee Member Smith and seconded by Chairperson James to recommend to City Council a 15% wastewater rate increase in for two years (Years 1 & 2 in the rate model are FYs 2021-2022 & 2022-2023).

Vote: 6-0 Passed

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C. Discussion of Non-Potable/Recycled Water Rate Models and Possible Recommendation of Non-Potable/Recycled Water Rates

At their last meeting on January 21, no non-potable/recycled water rate increases were explored and none proposed for the next five years; further review was needed.

A discussion ensued regarding non-potable water/recycled water, including Development Impact Fees (DIF), Capital Improvement Program (CIP), Construction Cost Index (CCI), and Consumer Price Index (CPI) vs. the rate model's built-in inflation factors. If CPI is included in the rate model then inflation factors need to be removed from the rate model. Should UAC or staff recommend to instead use CPI adjustments then those proposed adjustments in later years would be included in subsequent Proposition 218 notices, and allow five years of rates to be proposed/implemented rather than two. Capital improvement costs are escalated by CCI, based on a 20 year average, and included in the current rate model. A question was asked if the City is not collecting enough DIF then will proposed non-potable/recycled water rate increases be offset by DIF. Noting that DIFs, which are highly variable and set conservatively, were last updated in 2014, it was suggested to perform a (DIF) nexus study so UAC may include in its future review of non-potable/recycled water rates. A consensus was reached for no proposed rate increases for non-potable/recycled water.

A motion was made by Committee Member Marquez and seconded by Committee Member Smith to recommend to City Council no rate adjustments in both non-potable and recycled water (0% in Years 1 & 2 in the rate model - FYs 2021-2022 & 2022-2023).

Vote: 6-0 Passed

D. Discussion and Possible Recommendation of Miscellaneous Fees and Charges

Chairperson James introduced the item of miscellaneous fees and charges which were presented to the UAC in July 2019 and recommended for staff to file and report these to the City Council. However, since the UAC's recommendations were delayed and later withdrawn, this item was being re-considered. The fees are based on cost of service, and with the exception of a couple fees now decreased in accordance with Senate Bill 998, have not changed since last presented to the UAC. These fees are not necessarily included in the Prop 218 notice and are not specifically identified for UAC's purview. Discussion included further justification and calculation of the fees should be clarified, for staff to seek City Council's recommendation or guidance, and determination whether this item falls under UAC's review.

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A motion was made by Committee Member Dill and seconded by Committee Member Roque for staff to present the recommendation of the proposed miscellaneous fees and charges to City Council to either implement or advise staff to further review.

Vote: 5-1 Passed with Committee Member Corneille voting no.

7. POSSIBLE AGENDA ITEMS FOR NEXT MEETING

With this assumed to be the last meeting for the 2019 UAC, words of appreciation were made and echoed by members, consultant, and staff, for the work that was done to facilitate a productive dialogue and thorough understanding of materials presented for review. Requests made for future UAC rate study consideration were: development impact fees (DIF), Urban Water Management Plan and City's General Plan, and that each align with the consultant's model. It was noted that rate studies have not occurred every two years. Typically, rate studies occur over several weeks, however, in instances where the study spans ~two years, extending the time between rate studies and budget cycles provides for more content to be reviewed.

A discussion followed regarding Chairperson James' preparation of a summary of the UAC's rate study and recommendations anticipated to be presented to City Council on March 16. An overview of the timeline for the Prop 218 notice period, public hearing, and proposed effective dates, should proposed rates be adopted, were also discussed.

8. ADJOURNMENT

The meeting was adjourned at 7:42 pm.

Jane Weathers, Senior Administrative Assistant