

PUBLIC UTILITY DISTRICT NO. 1
OF ASOTIN COUNTY, WASHINGTON
SPECIAL MEETING – BOARD WORK SESSION MINUTES
January 29, 2018

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President Don Nuxoll presiding, the Public Utility District No. 1 of Asotin County Special Meeting was called to order at 4:30 p.m. at the PUD Office at 1500 Scenic Way.

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ROLL CALL: PRESENT Commissioners: Don Nuxoll, Judy Ridge and Greg McCall.

PUD Staff: General Manager Tim Simpson, Treasurer Bob Sischo and Director of Operations Craig Riehle.

Invited Guests: David Stangel and LaDonne Harris, Murraysmith and Deb Galardi, Galardi Rothstein Group.

WORK SESSION:

Water System Plan Financial Analysis

The manager introduced the invited guests, David Stangel, PE and LaDonne Harris, PE engineering consultants with the Murraysmith engineering firm and Deb Galardi of the Galardi Rothstein Group. Mr. Stangel and Ms. Harris are the engineers working with the PUD to complete the update of the Comprehensive Water System Plan (Plan). The Plan is due by August of 2018. Ms. Galardi has been contracted as a part of the Plan update to complete the PUD financial analysis.

Ms. Harris introduced the presentation of the financial analysis by providing an overview of the topics that will be discussed during the work session.

Capital Improvement Plan

Ms. Harris reported on the Capital Improvement Projects (CIP) completed since 2012 and presented a PUD service area map which showed the pipe replacement projects completed and those remaining to be done. She stated that the PUD has made good progress on the CIP identified in the 2012 Plan and that many clients they've worked with, when they return to conduct another plan update, have not made any progress. She stated that many utilities are way behind and are working on a 400-500 year replacement schedule whereas Asotin PUD is working on a 100 year replacement which is industry standard. Mr. Stangel complimented the Board and staff on their commitment and responsible approach to replacing aging infrastructure. Ms. Harris went on to present the 6-year plan for projects through 2023 and the 20-year plan through 2028.

Commissioner McCall asked about the Meter Replacement identified in the 6-year plan and stated the difficulty of staying ahead of meter technology. Ms. Harris stated that the amount shown represented a set-aside to complete a meter replacement project in 2025. The financial piece of the presentation will look at replacing half of the 7200 meters next year using debt or saving to replace all automated meters and reading technology in 2025.

Financial Analysis and Options

Ms. Galardi introduced the next section of the presentation. She stated that the financial analysis goals were; Revenue Adequacy, ensuring overall rates are sufficient to meet projected requirements of operations and maintenance and capital improvements while maintaining adequate cash reserves; Rate Equity, ensuring water rates generate sufficient revenue to cover water-related expenses and reduce cross system subsidies; and Mitigate rate impacts by looking for opportunities to smooth increases/spread costs over multiple years while developing a plan to cover large, “one-time” projects like meter replacement.

Ms. Galardi stated that the financial plan development looked at sources of funds, operating expenses, capital funding and annual cash flow projections over an 8-year period to determine necessary annual system-wide revenue increases necessary to have a balance. The analysis also took into account the Financial Management Plan adopted by the Board last November with regards to debt, cash reserves and cash on hand.

Ms. Galardi presented a chart showing the PUDs current Monthly Minimum Charge and Consumptive Rate. She stated that the total water budget from metered sales is \$3.4 million. 45% of the revenue comes from the minimum charges and the 55% of the revenue comes from water consumptive charges. She stated that with other water-related revenue the total water budget is \$3.8 million. Commissioner Nuxoll asked if the percentage of revenue split is where it should be. Ms. Galardi stated that the split should be 50/50 or even 60/40 to ensure that during low water use years you do not have as big of an impact on the budget like it did in 2016 during a wet year.

Ms. Galardi went on to discuss the 2018 revenue requirements based on the budget the Board passed in November 2017. She noted that water system revenue is not adequate to fund water system operations and maintenance, capital projects and debt. She stated that the chart presented clearly shows that sewer system revenue is subsidizing water system activities. She stated that combining revenue from all utilities is acceptable practice and one the Board has adopted, however, if the Board intends for water to pay for water than the revenue from water sales, charges and fees is not adequate.

Ms. Galardi discussed key forecast assumptions, such as, growth in customer accounts, billed volumes, other revenue and operating and capital cost escalation of 3% annually. She stated that rate increases that will be shown and discussed are based on total water revenue meaning that both the base and consumptive rate would have to be increased.

Ms. Galardi discussed two funding scenarios, Scenario 1 being cash only capital improvements and building a reserve to pay for the meter replacement and Scenario 2 being both cash and debt; Cash to pay for capital improvements and taking on debt to pay for half of the 7200 meters. She showed a chart for Scenario 1 – All Cash, which identified pipe replacement, and other capital costs with all meters replaced in 2025. A line showed declining available water rate revenue if rates were not increased. Likewise, the Scenario 2 – Cash and Debt chart showed the same except with a 2019 meter replacement. Without rate increases there would not be enough cash for future projects.

Continuing on with Scenario 1 – All Cash Rate Increase, Ms. Galardi stated that in order to fund operation and maintenance, capital projects and pay the 2000 Public Works Trust Fund Loan debt through 2020 all while meeting policy identified reserves, a 12% rate increase would be required in 2019 followed by a 5% rate increase each year thereafter through 2025. Commissioner McCall asked if we could lower the rate increase identified for 2019. She stated that the reason the 2019 increase is so high is that there was no planned rate increase in 2018. Commissioner McCall asked why the reserves go up higher by 2025. She stated that, based on the PUD financial policy, as revenue increases so does the requirement for reserves and cash on hand.

Ms. Galardi next showed Scenario 2 – Cash and Debt Rate Increase. She stated that in order to fund operation and maintenance, capital projects, pay the 2000 Public Works Trust Fund Loan debt through 2020 and while meeting policy identified reserves and to pay the debt on loan for replacing half of the meters, a 9.0% rate increase would be required in 2019 followed by a 5.5% rate increase thereafter through 2025. Commissioner McCall asked where the debt would come from and what interest rate was used for the calculation. She stated that debt would be a loan from a local institution and the interest rate calculated was 4%. The manager stated that staff has talked with Umpqua bank regarding a loan and line of credit and the interest rate used is close to what was identified in the documents Umpqua provided.

Discussion ensued regarding each scenario and the meter replacement project. The manager stated that the preferred method would be the “All Cash” Scenario and set aside cash reserves from 2019 through 2024. All of the automated meters would be replaced at the same time in 2025 using the reserves set aside and the capital budget for that year. He stated that when the system was upgraded to automated meter reading starting in 2004 and concluding in 2012, approximately half of the meters were not replaced but retrofitted with a new electronic register. By 2024 these meters will be 30 plus years old and the technology used since 2004 has changed dramatically. He stated that AMR meter technology has improved significantly and costs with certain vendors is less expensive. Bob Sischo stated that replacing half now and waiting to replace the remainder later would be difficult because the technology will have changed by the time we complete the second half of the meters.

Ms. Galardi continued her presentation showing the projected rate increases and the outcome comparison between each scenario. Under the All Cash scenario, the minimum charge for a ¾-inch meter would increase from \$15.00 to \$22.51 and the water rate would increase from \$0.97 per unit to \$1.46 per unit by 2025. The average monthly bill would increase from \$33.28 to \$49.95. Likewise, under the Cash and Debt scenario, the minimum charge for a ¾-inch meter would increase from \$15.00 to \$22.54 and the water rate would increase from \$0.97 per unit to \$1.46 per unit by 2025. The average monthly bill would increase from \$33.28 to \$50.01. Under both scenarios, reserves would increase from \$1.70 million to \$3.2 million under the cash scenario and \$3.0 million under the debt scenario. The reserves increase proportionally to the budget at 33-37% meeting the adopted financial policy.

Ms. Galardi presented a chart showing current PUD water and base rates and what the consumptive rate increase through 2025 would look like as compared against other regional water utilities. She stated and showed that even with the rate increases through 2025, PUD rates would still be significantly lower than other utilities even if they didn't raise their rates, which, she stated is highly unlikely. She also compared the average monthly bill with other utilities, which is still lower with rate increases through 2025.

Ms. Galardi summarized the presentation and addressed items that the Board would need to consider and decisions that would need to be made related to PUD financial planning for operations, maintenance, capital projects and reserves.

Commissioner Nuxoll stated that a 12% rate increase in 2019 was too high and asked what the financial model and plan would look like if the increase were lowered in 2019 to 5% or 6% but keep the same increases shown from 2020 to 2025. Ms. Galardi put the suggested 2019 rate increase into the model and stated that it showed a significant decrease by 2025 in reserves and the ability to provide for operations and capital projects. She stated that essentially, sewer revenue would still be subsidizing water operations.

Ms. Galardi asked if the Board's would consider increasing rates this year before the irrigation season. Commissioner Nuxoll asked what a \$1.00 increase in the base rate and an increase in the water rate from \$0.97 to \$1.00 would look like in the model. She calculated the rate increase and it came to approximately 4.7%. She took those numbers and entered them into the model and reported that this increase percentage may work.

The manager stated that he will work with Ms. Galardi and Murraysmith to update the model and present the results to the Board at their next regular meeting on Monday, February 12th for their review and discussion. The Board concurred and thanked the group for the presentation and information provided.

ADJOURNMENT

The Special Meeting – Board Work Session was adjourned at 5:45 p.m.