

**UTILITY ADVISORY BOARD
MEETING MINUTES**

April 15, 2010

Public Works Department – Water Utility Conference Room

Board Members Present: Dick Behrends/Chair, Geoff Larson/Vice Chair, Scott Willis, George Porter, Leon Vance

Staff Present: Rod Swope, Joe Buck, Scott Jeffers, Jim Heumann, Liam Carnahan, Joe Myers, Laurel White

I. CALL TO ORDER

The meeting was called to order at 5:28 p.m. by Dick Behrends, Chair.

II. APPROVAL OF UAB MINUTES:

The minutes for the meeting of March 18, 2010, were presented and approved unanimously.

III. PUBLIC PARTICIPATION

None.

IV. ACTION ITEMS:

A. Board Decision on Next Meeting.

May 20, 2010 was suggested by staff for the next UAB meeting and the Board concurred.

V. INFORMATION ITEMS

A. Wastewater Utility Updates – Joe Myers

Mr. Myers asked for questions and/or comments from the Board. There were none.

B. Water Utility Updates – Liam Carnahan, P.E.

Mr. Carnahan asked for questions and/or comments from the Board. There were none.

C. Project Updates – Jim Heumann, P.E.

Mr. Heumann asked for questions and/or comments from the Board. There were none.

D. Verbal Status Reports

1. Discussion on Mr. Buck's Memo re: Rate Increase

Mr. Buck asked for discussion and input from the UAB about how to implement the needed rate increase for utility services for FY11. Mr. Buck stated that the rate models indicate an average 14% rate increase for water and sewer utilities in FY11, combined with ADEC loans of \$1.7 million for the JDWWTP incinerator repair and \$1.3 million for water utility's capital program. After receiving a call from Mr. Larson, it is evident that the Board prefers smaller, annual increases. Mr. Buck noted that at the present time, the water utility will have to borrow \$1 million annually to keep up with utility expenses.

Mr. Porter noted that decades ago, a 1% sales tax was dedicated to expand the water system. This was changed in the 1980s when it was decided to rely upon user fees to maintain the utilities.

Staff observed that if a 7% increase was implemented in 2011 and again in 2012, the rate models indicate it would be necessary to borrow \$3 million for water and sewer operations, \$11 million for sewer and \$1.5 million for water.

Mr. Buck remarked that the rate models will be re-assessed in the Fall. The rate structure may change for cost of service vs. an across-the-board rate increase.

Mr. Porter asked whether the 2% rate increase proposed for FY07 would have been sufficient. Mr. Buck responded that it would have; furthermore, the 2003 rate increase study recommended an 18% water rate increase and a sewer rate increase of 13% in FY07. Additionally, the study called for a 16% water rate increase and a 13% sewer rate increase in FY09. The 2008 Snettisham transmission line failure caused an increase in electrical services and the CBJ responded to this by postponing the utility rate increases until a later date. Staff has found alternative ways to maintain operation costs such as loans and grants.

Mr. Larson responded that in the present climate, staff did a good job securing appropriate financing but user fees should cover expenses, services used now and depreciation. The new model should address current use and revenue bonds secured where appropriate. It's not appropriate to implement forward-funding by having users pay for future assets.

Mr. Larson stated that not implementing the 7% increases, the utility is risking the ability to borrow money, as the utilities may be viewed as financially unstable

Mr. Swope asked the Board if they believe the utilities are operated in an efficient manner. Mr. Behrends responded that public perception is flawed (i.e., the public may see multiple workers performing a single task and believe that's inefficient). Mr. Behrends further stated that the utilities are being operated efficiently even though there is a shortage of personnel. Mr. Larson concurred, but stated the challenges are difficult to meet; for example, offering services to low densities with no hope of recovering the costs. Mr. Swope responded that the public looks at utility services simplistically; that is, they do not understand that user fees are not for the water itself, but for the infrastructure needed to provide water.

Mr. Swope suggested the Board make a statement to the public and Assembly supporting utility rate increases and an explanation of utility operating costs. Perhaps a presentation from the Board will be received better by the public rather than from City staff. Discussion ensued regarding information to be included with utility bills vs. a mail-out. Mr.

Heumann suggested topics for discussion such as OSHA requirements increasing costs, the need for secondary treatment, sewer lines to Douglas and the increased costs of regulatory requirements. Mr. Carnahan suggested a pro-active PR campaign.

Mr. Swope asked for the timeframe in which a rate increase was proposed. Mr. Buck responded FY11, July of this year. Mr. Swope suggested meeting with the Public Works Finance Committee; their next meeting is Monday. Mr. Buck responded that he would attend and be prepared to present this topic to the Committee.

Discussion ensued regarding the utility's reserves. Mr. Carnahan said that a \$1 million reserve for each utility is desirable and that is what we now have. With a 7%/7% increase, the reserves will be used up. Mr. Buck noted that if a 14% increase is implemented immediately, a net cash flow would result in a deficit of \$300,000 in 2011 but a positive cash flow in 2012.

2. Discussion on Annual Report to CBJ Assembly

Mr. Heumann reported that the Annual Report has been drafted; however, the rate increase discussion should clearly be presented as well as the position of the Board on this issue.

Mr. Carnahan noted that he read the Legislature appropriated \$3 million to CBJ sewer. Mr. Buck added that he does not know if this is for the incinerator and the language reads "sewer improvement and expansion." Mr. Swope replied that he forwarded about six projects to the Assembly, and the incinerator was noted as top priority.

3. Board Comment to Staff about Draft Backbill Policy

Jim Heumann noted that this policy was circulated at the previous UAB meeting. Mr. Jeffers summarized the policy, stating that the biggest change is a retroactive backbill of six years to government customers because they are an informed customer. Mr. Larson added that as a public entity, they don't pay property tax or sales tax. They need to pay their user fees. Mr. Carnahan stated that one purpose of this policy is to make it the Board's policy rather than the City Manager's policy.

Mr. Willis joined the meeting at 6:10 pm.

4. Discussion on Rate Study Preparations

Mr. Jeffers distributed the draft Rate Study Cost Allocation and Rate Design Study for CBJ Water and Wastewater Utilities. This has changed little from the previous document, other than the addition of item five, "Consideration of Alternatives and Issues for a Rate Structure".

5. Discussion about the Vacancy on the Board

Mr. Behrends noted that a certain segment of the community is designated for each position of the UAB. Mr. Behrends suggested another B&B owner, as Ms. Pearson represented that community. Mr. Behrends

suggested advertising in the newspaper for an “at-large” member and to mention the vacancy to B&B owners.

Mr. Larson asked for the status of the B&B Meter Read Study. Mr. Carnahan responded that only two B&B owners took advantage of the free meters for the study. The data has not been analyzed but there is two years of data for the general meter study. Mr. Larson asked whether inflow and infiltration issues will be accounted for. Mr. Buck replied that funding for this is proposed for FY11.

VI. NON-AGENDA ITEMS

Mr. Jeffers noted that the language in the resolution regarding the definition of a single family unit has been revised.

VII. ADJOURNMENT:

The meeting was adjourned at 6:30 pm.

Respectfully Submitted,

Laurel White, Administrative Assistant II
CBJ Public Works Water Utility