

UTILITY ADVISORY BOARD AGENDA

Thursday, March 7, 2019 – 5:15 p.m.
Water Utility Shop
2520 Barrett Avenue

- I. CALL TO ORDER**
- II. APPROVAL OF AGENDA**
- III. APPROVAL OF MINUTES**
 - a. January 10, 2019 Draft UAB Meeting Minutes
- IV. PUBLIC PARTICIPATION**
- V. ACTION ITEMS**
 - a. Meeting Location
- VI. INFORMATION ITEMS**
 - a. Pending Board Matters, pg. 4
 - b. Financial Picture – Dashboard update
 - c. Annual Report – Attached Examples: 2018 Annual Report and Minority Report, pg. 5
- VII. NON-AGENDA ITEMS**
- VIII. ADJOURNMENT – Next Meeting:**
 - April 11, 2019**
 - 5:15 PM**
 - Water Utility**

MINUTES
UTILITY ADVISORY BOARD
January 10th, 2018
5:15 pm

Members Present: Leon Vance, Chair; Geoff Larson, Vice-Chair; Bryan Farrell; Kevin Buckland

Staff Present: Mike Vigue, PW-Engineering Director; Brian McGuire, Superintendent; Catherine Foxwell

I. CALL TO ORDER

Meeting was called to order at 5:21 pm.

II. APPROVAL OF AGENDA

There were no additions or objections to the agenda.

III. APPROVAL OF MINUTES

A. June 14, 2018, final UAB Meeting Minutes

No objections.

B. September 9, 2018, draft UAB Meeting Minutes

Geoff Larson made a correction to page 3, lines 3 & 4, should read, "The dryer shall produce approximately 1500-2000 dry tons per year." Confirmed by Brian McGuire.

Correction to the spelling, Larsen should be Larson.

Minutes are approved with above corrections.

IV. PUBLIC PARTICIPATION

Adeline with KTOO was in attendance for the new facility tour.

V. ACTION ITEMS

There were no action items.

VI. INFORMATION ITEMS

A. Mike Vigue stated that Janet Sanbei was not in attendance due to travel.

B. Mike Vigue asked for attendee availability to determine the next meeting date. March 7th was determined based on everyone's availability. Mr. Vigue provided a quick briefing on the agenda for the next meeting to include running everyone through a tutorial of the dashboard for water and wastewater fund balances, walking through the model, how it works, and what the fund balances are. Planning to have a conversation with Finance Committee via a meeting to discuss. Will take an hour at next meeting to discuss.

C. Walkthrough tour of dryer facility begins, led by Brian McGuire.

V. NON-AGENDA ITEMS

There were no non-agenda items.

VIII. ADJOURNMENT

The next meeting is scheduled for March 7, 2019, at the Mendenhall Valley Treatment Plant. The meeting adjourned at 6:15 pm.

DRAFT

Utility Advisory Board

Pending Board Matters

Date: 9/13/2018

Requestor	Task/Matter	Capture Date	Estimated Date	Date Completed	Notes
Board	Board Orientation	5/10/2018	After first of year	Not Started	Clerks's office has offered to come to a UAB meeting
Board	As-built Organization timeline and cost	9/13/2018	12/13/2018		Mike to discuss with Manager



Engineering & Public Works Department

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DATE: April 30, 2018

TO: Mr. Jerry Nankervis, Chair
Assembly Committee of the Whole

FROM: Roger K. Healy, P.E.
Director of Engineering and Public Works

SUBJECT: Utility Advisory Board – 2017 Annual Report

The Utility Advisory Board is submitting their 2017 Annual Report. Four members voted for the report. Two members voted against the report. A minority report is included, and supported by the two members opposing the Annual Report.

MEMORANDUM

DATE: April 30, 2018

TO: City and Borough of Juneau Assembly

FROM: Utility Advisory Board (UAB)

SUBJECT: UAB Annual Report to the Assembly for May 2017 – April 2018

BACKGROUND

The Water and Wastewater Utilities did not have a rate increase from 1991 to 2003. The Utilities were in a precarious financial position because of this long period with no rate increases. A rate study completed in 2003 recommended an immediate rate increase of 19% for water and 39% for wastewater and recommended additional specific rate increases over the next 10 years. The Assembly approved the 19% and 39%, increases and due to the public outcry from this “rate shock”, the Mayor empaneled an Ad Hoc Utility Advisory Board (UAB) in February 2004. Made up of seven members of the public, the group’s task was advising the mayor and Assembly on Water and Wastewater Utility issues, including rates, and making recommendations regarding the advisability of a permanent Advisory Board. The Ad Hoc UAB presented their report in December of 2004, recommending, among other things, establishment of a permanent Utility Advisory Board. In February 2005, CBJ Resolution 2299 created a permanent Utility Advisory Board, with seven members of the public, six of whom served on the Ad Hoc UAB. Since its establishment, the UAB has continued to advise the Mayor and Assembly on Utility issues in accordance with the original resolution.

PURPOSE

The purpose of the Utility Advisory Board is to advise the Assembly on issues relating to water and wastewater utilities. The Board’s primary responsibilities concerning the status of water and wastewater utility issues are as follows: (a.) Review and make recommendations to the Assembly and Manager on all matters pertaining to the operation of the water system and the wastewater system, to the end that the consuming public is provided with the best possible service consistent with good utility management and cost containment; (b) Review annual budgets and funding plans and make recommendations for the efficient and economical operation of the water system and the wastewater system including bond issues, staffing, fiscal matters, and public relations; (c) Make recommendations on long-range planning for system expansion replacement, and priorities to meet future needs of the water and wastewater systems; (d) Make recommendations on water and wastewater utility rates to ensure that the rates are equitable and sufficient to pay for operation, maintenance, debt reduction, system replacement, and utility reserves necessary to ensure sustainable public utilities; (e) Make recommendations on measures to increase the efficiency and cost effectiveness of the

water and wastewater utility operations; and (f) Perform such other duties and functions related to the utilities as the Assembly or Manager may request.

MAY 2017- APRIL 2018 BOARD MEETINGS AND MEMBERSHIP

Between May 2017 – April 2018, the Board held five regular meetings and one work session. Leon Vance served as chair throughout the year. Geoff Larson continued to serve as vice-chair. Andrew Campbell and Geoffrey Larson’s terms expire in May 2018. They have re-applied for their seats.

The Board shall consist of seven members comprised of the listed qualifications:

To the extent practicable, appointments shall be made as follows: one engineer registered in the State of Alaska, preferably with training and experience in water, wastewater, and/or utility systems design and operation; one accountant, preferably experienced with utility financial management practices; one general contractor, preferably experienced in the construction of water and/or wastewater utility systems; two commercial customers of the City and Borough water and/or wastewater utility; one residential customer of the City and Borough water and/or wastewater utility; and one member of the general public.

The following is list of May 2017 – April 2018 members with their area of membership qualification(s):

Kevin Buckland – Accountant, Commercial Utility Customer, and Residential Utility Customer
Andrew Campbell – Alaskan Registered Engineer, General Contractor, Commercial Utility Customer, and Residential Utility Customer
Bryan Farrell – Commercial Utility Customer and Residential Utility Customer
Janet Hall Schempf – General Public
Geoff Larson – Commercial Utility Customer
Grant Ritter – Residential Utility Customer
Leon Vance – Residential Utility Customer

WATER AND SEWER RATES

Recommendations

- UAB recommends an annual increase of 2.5% for wastewater utility rates for each of next five fiscal years.
- At this time no increase is recommended for water utility rates for the next five fiscal years.

The Board spent a significant amount of time over the last six months reviewing and analyzing water and wastewater funding and expenditures. This culminated in identifying the appropriate utility rate changes to secure the financial health of the Utilities through FY2024. The projections for capital project spending beyond FY2024 become more speculative as time projections increase. Historically, both utilities have undertaken larger capital funding episodes about every ten years, coinciding with major expansions or reconstructions of major systems. Examples include: construction of Wastewater’s sludge incinerator in 1994; current construction of the Biosolids dryer and Headworks Improvements; Last Chance Basin Water Source Improvements 1993; Salmon Creek Disinfection Improvements 1998; Last Chance Basin Well Field Improvements 2014; and Salmon Creek Water Filtration 2016.

The Board identified a plan through FY2024 that continues the recommended rate increase of 2.5% for wastewater utility and no increase for water utility rates. This approach will allow the Utilities to maintain three to four months of operating cost and continue allocation to capital expenditure. However, this plan after 2024 will be unable to sustain fund balances that equal the financial reserve targets (three to four months operating costs + capital expenditure) as identified by the CBJ Finance Director. The UAB will continually monitor the financial health of the Utility and will make recommendations based upon any deviations from our forecast. Wastewater will fall below the \$7 million (\$3M operational + \$4M capital) financial reserve target in FY2027. Water will fall below the \$3 million (\$1M operational + \$2M capital) financial reserve target in FY2029.

Additionally, the financial reserve targets would be unmet in earlier years if periodic higher capital costs are experienced, such as in the past. While the CBJ's Capital Improvement Plan has a six year outlook for potential projects, the UAB's perspective regarding needed rate structure should adopt a ten year outlook as their horizon.

Objectives for May 2018 – April 2019

- Monitor financial health of the Utilities and make recommendations to the Assembly as needed
- Evaluate asset life expectancies
 - Begin implementing asset management software program
- Develop RFIs and/or RFPs for:
 - Asset evaluation/valuation model/assessment
 - Rate study with ten year outlook
 - Last rate study completed in 2014
 - 2014 rate study projections end in 2024

FURTHER INFORMATION

Engineering and Public Works staff for the UAB include:

Roger Healy – Engineering & Public Works Director
Autumn Sapp – Engineering & Public Works Business Manager
Holly Kveum – Administrative Assistant III

Information is also available on the Utility Advisory Board website at:

<https://beta.juneau.org/engineering-public-works/utilities-division/utility-advisory-board>

BOARD MEETING DATES

Meetings

November 9, 2017
January 11, 2018
January 19, 2018 (work session)
February 8, 2018
March 8, 2018
April 12, 2018

Meetings were not held from May through October due to lack of agenda items or lack of quorum.

**Utility Advisory Board Attendance
Regular Meetings (2017 – 2018)**

	11/9/2017	1/11/2018	2/8/2018	3/8/2018	4/12/2018	Meetings Absent	Meetings Attended
Buckland	Vacant	X	X	X			
Campbell	O	X	X	X			
Farrell	X	X	X	X			
Hall Schempf	O	X	X	X			
Larson	X	X	X	X			
Ritter	X	X	O	X			
Vance	X	X	O	X			

Special Meetings (2017 – 2018)

	1/19/2018 Work Session
Buckland	X
Campbell	O
Farrell	O
Hall Schempf	O
Larson	X
Ritter	O
Vance	X

Utility Advisory Board

2018 Minority Report



Background

CBJ Resolution 2686 codifies CBJ Advisory Boards Rules of Procedures; Rule 6 calls for advisory board members that are not in agreement with an annual report submitted by the majority to submit a minority report to accompany the annual report.

Accordingly, a minority of Utility Advisory Board (UAB) members respectfully submit this document for the Assembly's review and consideration. This document affords the Assembly alternative viewpoints and recommendations to consider that are not contained in the majority report.

Context and Overview

The majority's primary recommendation to the Assembly is to approve annual 2.5% wastewater rate increases beginning July 2019 that would run through June 2024.

On the surface the rates may appear relatively modest. But in the context of previous increases and upcoming increases already approved by the Assembly,¹ the situation is not so benign. Upon conclusion of the majority's recommended increases, adoption without revision would impose a more than 22% cumulative increase upon CBJ ratepayers (January 2018 - June 2024). With only a slightly longer look back, majority-recommended increases would constitute increases exceeding 66% (January 2015 - June 2024).

We firmly believe adoption of multi-year rate increases is ill advised - dampening the exigency and impetus to revisit the decision and akin to kicking the rate reform can down the same road we've been travelling on for 15 years since the 2003 rate study. There's no better time than the present to begin doing something different than the way we've always done it.

Rather, we recommend the CBJ Assembly refrain from approving multi-year increases this year and until serious, longstanding structural deficiencies in our rates and rate-setting methodologies are properly addressed.

In recent years, Juneau ratepayers have largely acquiesced to the repeated across-the-board one-size-fits-all rate increases that they've been experiencing. Adopting multi-year rate increases constitutes a rinse-and-repeat approach. CBJ ratepayers are overdue for relief from CBJ's current outmoded rate structure.

Declining to adopt multi-year rate increases at this time will afford the UAB and CBJ Public Works time to properly evaluate CBJ's existing rate structure as well as policies with regard to system financing and other issues that materially affect rates. Issues that need to be addressed include:

- Rate Equity and Rate Structures based upon Cost of Service Allocations

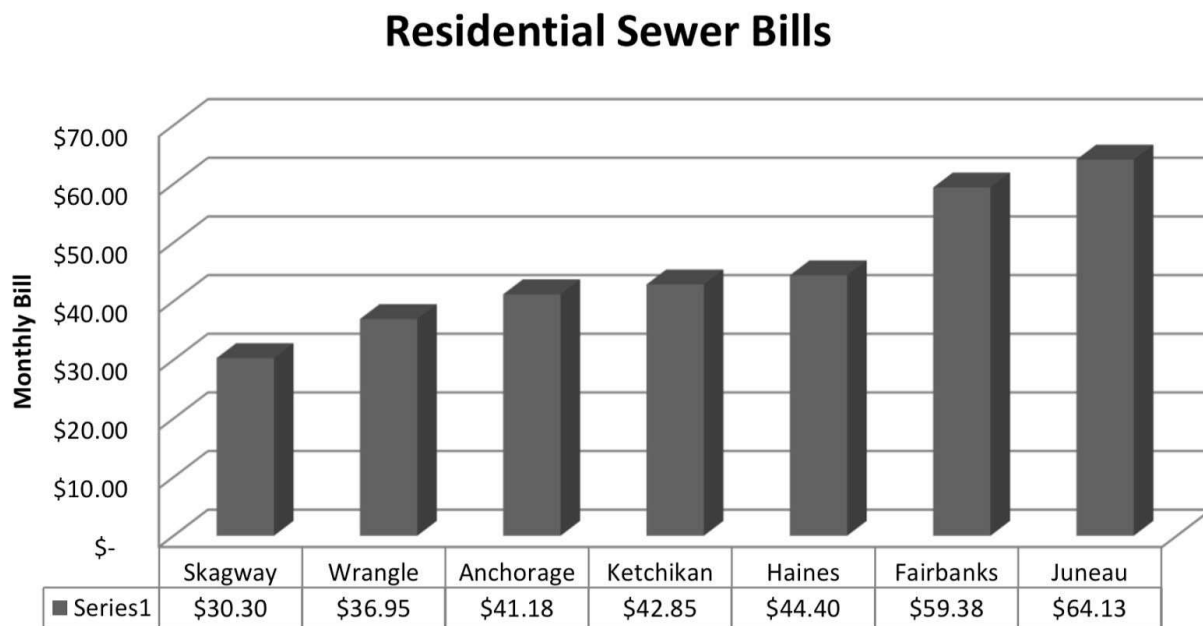
¹ The 2014 Assembly approved Ordinance 2014-36(b)(am) which will increase wastewater rates 8% effective July 1, 2018.

- Financing Capital Structure
- Capital Improvement and Replacement Program Levels
- System Replacement Funding

Once the UAB has properly examined areas of concern, we are hopeful to be able to make sound recommendations for the CBJ Assembly that will protect and significantly enhance the interest of CBJ ratepayers while still ensuring for a healthy utility system.

Rate Increases & Rate Comparisons

Unmetered CBJ residential sewer rates are the highest in the region:



Source: FCS Group Memorandum to Kirk Duncan, Public Works Director, November 11, 2014. ²

It is important to note that CBJ wastewater flat residential are now \$87.25 per month and increasing to \$94.23 per month effective July 2018, likely causing the regional disparity to increase.

After a long period of static rates, consultants to the CBJ Public Works Department recommended one-time across the board rate increases for the 2003 rate cycle, followed by a transitioning to cost of service-based rates.

² <https://tinyurl.com/FCS-Duncan-Memo>

In the 15 years since that time, no observable progress has been made towards this end. Rather, the UAB has only recommended across-the-board rate increases applied to all users, with absolutely no regard to relative system burden that our diverse ratepayer groups constitute and has not adopted a work plan or timeline to transition to cost of service-based rates. The end result is that low burden commercial ratepayers subsidize high burden users.

Potential areas of concern that warrant further analysis are not limited to commercial users, however.

Residential Disparity

An informal random sampling of metered residential homeowner association (HOA) utility bills indicate the average HOA unit pays significantly less for water and sewer while unmetered households shoulder a significantly larger burden.

	Typical HOA unit		Flat Residential ³	<i>Flat Residential \$ Premium</i>
Water	\$6.82	x 4.98 =	\$33.96	\$27.14
Sewer	\$25.34	x 3.44 =	\$87.25	\$61.91
Household Waste	\$4.00	x 1.00 =	\$4.00	\$0.00
Sales Tax	<u>\$1.61</u>	x 3.89 =	<u>\$6.26</u>	<u>\$4.65</u>
Monthly Bill	\$37.77		\$131.47	\$93.70

Commercial Inequity & Relative Competitiveness

Metered CBJ commercial users are charged the same rate regardless of the content of their wastewater. CBJ commercial metered rates have become uncompetitive with Anchorage, whose wastewater tariff utilizes a sliding rate relative to customers' estimated discharge strength as a proxy for charging relative to the system load that disparate ratepayers impose onto the system.

³ CBJ Unmetered Residential Rates as of July, 2017

Estimated Discharge Strength ⁴	Anchorage Usage Charge ⁵ per 1000 gal	Juneau Volume Charge ⁶ per 1000 gal
Low	\$5.08	\$12.53
Medium	\$6.75	\$12.53
High	\$7.88	\$12.53

Geography and unique operating challenges of Juneau aside, the Assembly should be provided with periodic regional comparisons when contemplating rate increases and consider whether CBJ rates have become a deterrent for business investment within CBJ.

Not enjoying the captive customers that CBJ's utilities have, water-intensive businesses with a high sensitivity to rates do not have the luxury to simply pass along the Assembly's annual rate increases without facing a significant risk of losing business. Repetitive increases result in deteriorating operating margins for businesses with rate sensitivity — and at some point investing capital in Anchorage — or any other city besides Juneau — eventually becomes preferable.

Conclusion

CBJ Water and Sewer Utilities are valuable and essential infrastructure that must be protected, safeguarded, and properly managed. As with any such monopoly, those who oversee delivery of essential services have a duty to ensure services are delivered to ratepayers in a responsible manner.

⁴ The Anchorage Wastewater Utility charges differentiated rates based on the following monitored or estimated wastewater loadings: Low (wastewater loadings \leq 275 mg/liter), Medium (wastewater loadings $>$ 275 mg/liter but \leq 450 mg/liter) and High (wastewater loadings $>$ 450 mg/liter).

⁵ Anchorage rates (as of January, 2018); excludes \$13.54 customer charge. Anchorage rates have been approved on an interim basis by the Regulatory Commission of Alaska (RCA) and are refundable should the RCA rule the rates are not justified. Juneau's water and wastewater utility rates are not subject to RCA review or approval as it has a provisional certificate of public convenience and necessity. CBJ is not subject to RCA jurisdiction as there are no competing water or wastewater cooperatives operating with CBJ.

⁶ Juneau volume charges effective July 2018. Does not include additional base cost of \$94.23; unadjusted for 4,000 gallon monthly allowance.

Year-after-year of across-the-board, one-size-fits-all rate increases has culminated in ratepayers suffering harmful unintended consequences and exasperated the inequity said rates cause to the various classes of ratepayers.

We recommend the CBJ Assembly refrain from approving multi-year rate increases for this year and revisit the issue next year after receiving the 2019 recommendations of the UAB.