

# **UTILITY ADVISORY BOARD AGENDA**

Thursday, April 11, 2019 – 5:15 p.m.  
Water Utility Shop  
2520 Barrett Avenue

- I. CALL TO ORDER**
- II. APPROVAL OF AGENDA**
- III. APPROVAL OF MINUTES**
  - a. March 14, 2019 Draft UAB Meeting Minutes
- IV. PUBLIC PARTICIPATION**
- V. ACTION ITEMS**
  - a. Annual Report – Attached Examples: 2018 Annual Report and Minority Report, pg. 3
- VI. INFORMATION ITEMS**
  - a. Rate Recommendation update – Mr. Larson and Mr. Campbell
- VII. NON-AGENDA ITEMS**
- VIII. ADJOURNMENT – Next Meeting:**
  - May 9, 2019**
  - 5:15 PM**
  - Water Utility**

**UTILITY ADVISORY BOARD MEETING  
MINUTES  
March 14, 2019, 5:15 PM**

**I. CALL TO ORDER**

The meeting was called to order at 5:18 pm.

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

Members Absent: Janet Schempf

Staff Present: Mike Vigue, Autumn Sapp

**II. APPROVAL OF AGENDA**

Agenda approved.

**III. APPROVAL OF MINUTES**

A. March 3, 2019 – Draft Utility Advisory Board (UAB) Meeting Minutes

Minutes were approved with one correction.

**IV. PUBLIC PARTICIPATION**

None.

**V. ACTION ITEMS**

A. Rate Recommendation

Discussion regarding an increase to the water and wastewater rates ensued.

Andrew Campbell moved the Utility Advisory Board make the recommendation to the Assembly for the rate increase described in the UAB White Paper and asked for unanimous consent.

5-Yes

1-No

1-Absent

The vote was not unanimous.

**VI. INFORMATION ITEMS**

None.

**VII. NON-AGENDA ITEMS**

None.

**VIII. ADJOURNMENT – Next Meeting**

Next meeting will be April 11, 2019, at 5:15 PM. Meeting adjourned at 7:43 pm.

DRAFT



**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.

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## 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

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### **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
<b>Buckland</b>	Vacant	X	X	X			
<b>Campbell</b>	O	X	X	X			
<b>Farrell</b>	X	X	X	X			
<b>Hall Schempf</b>	O	X	X	X			
<b>Larson</b>	X	X	X	X			
<b>Ritter</b>	X	X	O	X			
<b>Vance</b>	X	X	O	X			

**Special Meetings (2017 – 2018)**

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

# Utility Advisory Board

2018 Minority Report

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## 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.

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## 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,<sup>1</sup> 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

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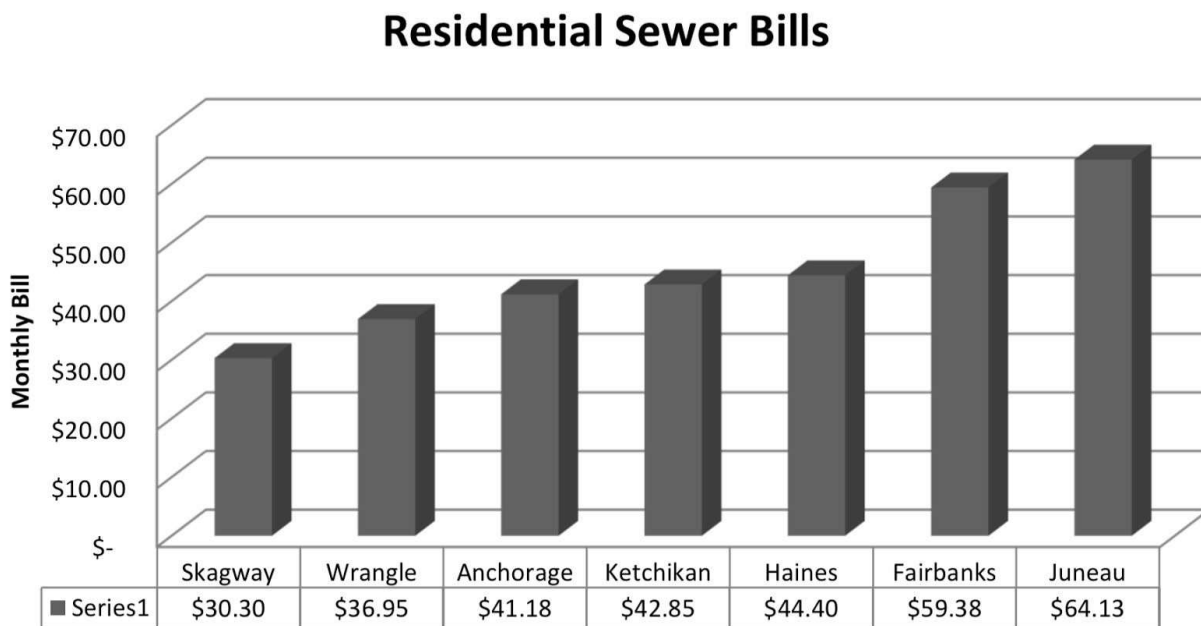
<sup>1</sup> The 2014 Assembly approved Ordinance 2014-36(b)(am) which will increase wastewater rates 8% effective July 1, 2018.

- 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. <sup>2</sup>

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.

<sup>2</sup> <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 <sup>3</sup>	<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.

<sup>3</sup> CBJ Unmetered Residential Rates as of July, 2017

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Estimated Discharge Strength <sup>4</sup>	Anchorage Usage Charge <sup>5</sup> per 1000 gal	Juneau Volume Charge <sup>6</sup> 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.

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<sup>4</sup> 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).

<sup>5</sup> 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.

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

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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.