CLARK COUNTY WATER RECLAMATION DISTRICT WASTEWATER RATES AND CHARGES
CITIZENS ADVISORY COMMITTEE
MINUTES

September 20, 2018, 11:30 AM

Las Vegas Metro Chamber of Commerce
575 Symphony Park Avenue, Suite 100, Las Vegas, Nevada

Committee Members Present:	Annette Bubak	Cliff Marshall
	Julie Cleaver	Edgar Patino
	Warren Hardy	John Restrepo
	Justin Harrison	Georgie Rucker
	Gene Houston	Dan Tafoya
	Jennifer Lewis	Virginia Valentine
Committee Members Absent:	None	
Staff Present:	Tom Minwegen	Brett Borek
	Shawn Mollus	Julie Chadburn
	Marty Flynn	Susan Heltsley
		Corey Synagogue
Others Present:	Terry Murphy, Guy Hobbs, Robert Wadsworth	

I. Call to Order- The meeting was called to order by Terry Murphy at 11:41 AM

II. Public Comment- *(For full public comment remarks, please visit www.cleanwaterteam.com/Pages/Rates-Review.aspx)* There were no persons wishing to speak.

III. Approval of Minutes-Justin Harrison made a motion to approve the minutes for the August 16, 2018 meeting. The minutes were unanimously approved by the committee.

IV. Approval of Agenda *Virginia Valentine* made a motion to approve the agenda for the September 20, 2018 meeting. The agenda was unanimously approved by the committee.

V. Receive a presentation on the Water Reclamation District's Finances.
Tom Minwegen presented the last 5-year average expenses and revenues. Tom Minwegen stated the agency is capital intense, over half of the expenses has been devoted to the Capital program. Tom Minwegen discussed the main revenue sources for the District, sewer service charges being the most stable. Tom Minwegen stated that if you look at expenses and revenues, there is about a S25.4M difference every year. For the past 5 years, we have

had to draw into reserves or cash. Tom Minwegen stated we are prudent with staffing, by leveraging consultants and term employees to deal with peaking work efforts. Tom Minwegen went through the current fiscal year budget. Guy Hobbs stated that the capital, combined with debt service and utilities, it is 2/3 of the budget, so not exercising much discretion. Georgie Rucker stated there wasn't much wiggle room. Dan Tafoya, obviously you must look for efficiencies, and asked about the disaster recovery. Guy Hobbs stated the reserve policy shows how the District approaches contingencies to deal with unforeseen types of things. Warren Hardy asked how this looks in comparison to other utilities. Warren Hardy stated he is surprised about maintenance part being so low. Tom Minwegen stated that the organization has embraced reliability centered maintenance. Julie Cleaver asked about outside services, Tom Minwegen stated it is professional service, IT support, security guards, and contracted services. Annette Bubak asked if the outside services has been stable or growing. Tom Minwegen stated growing, but we see it stabilizing. Dan Tafoya asked about efficiencies. Warren Hardy stated that the Outside Services help with efficiencies, so you can use outside help in the boom times. Dan Tafoya asked about the professional technical staff and asked how many technical staff and scientists are on staff. Tom Minwegen stated he will get that information back to the group. Tom Minwegen stated the organization to work from a sense of financial strength but also to be flexible and responsive. Cliff Marshall asked about deficit. Cliff asked why we didn't raise rates earlier, Tom Minwegen stated we had cash on hand based upon bond borrowing about the time the economy slowed, and we sat on cash earmarked for CIP projects that were took a hiatus due to the economy, and the Board of Trustees reduced the rates.

Guy Hobbs stated the District has a strong financial performance especially measured with its bond rating of AAA, which is one of the only local governments in the state. They have been able to cover ongoing capital needs because they had cash on hand but continued burn of fund balance becomes a threat. The ability to continue is not sustainable. They have been using Pay-As-You-Go Capital which has been at expense of fund balance. There is a lot of variation in capital expenditures.

VI. Receive a presentation on the Water Reclamation District's Rate Model and Capital Funding Options and make recommendations.
Guy Hobbs stated we have been discussing fundamental items that are built into rate models, such as reserve targets, assumptions for inflating revenues and expenses over time and what assumptions are used to grow revenues and expenses. Guy Hobbs showed a slide showing the assumptions for the ERUs and operating revenues. Guy Hobbs reminded the committee that the Quarter Cent Sales Tax expires at end of 2025. Beyond 2025, there is 0, which has financial implications for the rate models. The Board of County Commissioners has ability to extend sunset, hasn't occurred yet, but likely to occur, so baseline models show revenues without continuation of sales tax. Cliff Marshall asked if they will extend it in 2024. Guy stated we are trying to plan rates for next 10 years, and it would be nice if we knew it was or wasn't going to be extended to run the models accordingly. Warren Hardy stated that they could extend it at any time. Guy Hobbs stated that in the models we are assuming

the tax is going away. Dan Tafoya stated that there is a tax we have now that is revenue, and it can go away and impact financials, we know that housing costs are going up, best time to raise tax is when people are flush with cash, it is a perception issue. Guy Hobbs stated it is more art than science, we know that the trade off of not having it is rate impact. Guy Hobbs stated that the percentage growth will be put into the rate model. If you want to see other sensitivities, we can run those. Warren Hardy stated that for planning purposes, lets factor in the sales tax. Guy Hobbs stated we will show that in future models. Cliff Marshall agreed that we should look at it if the tax was continued. Virginia Valentine asked how much the sales tax effects the rates. Guy Hobbs stated he will give some examples when we get into the models. Guy Hobbs went over the expense assumptions. John Restrepo asked why it was 4% when the CPI is 2%. Guy Hobbs stated salaries are negotiated and collective bargaining agreements are in play and includes benefits and merit increases. Dan Tafoya asked if these employees are in PERS. Guy Hobbs stated yes. Dan Tafoya asked if the number includes the agency costs for PERS. Julie Cleaver asked how you consider large future projects. Guy Hobbs stated that we incorporate the projects we know about are included into the assumptions. John Restrepo asked if the ratio to expenses stays the same. Guy Hobbs said yes and that creates the funding gap. Guy Hobbs discussed the existing outstanding debt that the District has. The debt service averages $32M a year. Guy Hobbs stated that while we are paying it down, the debt service stays the same. Tom Minwegen stated that in 2015/16 we restructured our debt. Guy Hobbs stated if there are opportunities to refund the bonds or refinance, we will take advantage of the savings. Guy Hobbs stated that the total available revenues after O&M and debt service is $782 million compared to the planned expenditures of $1.50 billion, and we need to close that gap through the infusion of additional revenue. Guy Hobbs went over the baseline projections. The debt service coverage must be at 2 times coverage. There is a revenue test, where the revenue is twice what the debt service is, which is an important test as it is a policy matter that has been set by the District is issuing debt. It provides additional confidence and goes towards the high credit rating. Warren Hardy asked if the 2 times is aggressive. Guy Hobbs stated it isn't out of line. The LVCVA is 3-5 times. Guy Hobbs stated it is in the prudent range. Guy Hobbs stated this is the format that will be seen as we look at the scenarios. Guy Hobbs went over funding options. Guy Hobbs stated that if the sales tax was extended, it would mean an additional $46 million of additional revenues. John Restrepo asked if there will be a second sunset. Guy Hobbs stated he doesn't think there is a second sunset. Warren Hardy stated he thinks there isn't a second sunset. Guy Hobbs stated the sewer service charges are another funding tool. Guy Hobbs discussed that an increase of 9.85% per year from 2020 to 2027 could fund the entire capital program if only the sewer service charges were changed. Warren Hardy asked if the increase would be 70% and Guy Hobbs answered it is compounded. Justin Harrison asked what the rate reduction was in 2009. Tom Minwegen stated it went from $232 to $221 per ERU. Guy Hobbs showed a chart that shows what different sewer service charge increases would look like. Guy Hobbs went over connection fee funding options. Warren Hardy stated that even with combination of connection fee *increase and sewer service charge increase, you can't get close to the loss of the sales tax. Guy Hobbs stated that sales tax needs to be part of the analysis, but the question is do we raise connection charge right away, phase it in, index it, etc. How much cash funding and how much debt funding are the operative issues to address and the different sources of funding to address the issue. John Restrepo asked when the last time the connection fees were changed. Tom Minwegen state the connection fee stayed the same in 2013. Marty Flynn stated it was part of the 2008 review, but included the Clean Water Coalition surcharge, so it was perhaps 2012 when we took out that surcharge. John Restrepo asked about what the formula is to increase the connection fee to accommodate for expansion. Guy Hobbs stated the formula was developed by Raftelis that is widely used to help public utilities come up with connection charge and there should be a slide in the binder that shows the formula, it reflects costs over time that you should be recovering when you collect connection charge and theoretically you have people buying into the equity of the system. The $2765 number is what the connection charge should be now, but as we add more capital projects, we are getting behind that number. Indexing is a way to keep you on pace. Warren Hardy asked if the formula was likely to go up with indexing. Guy Hobbs explained that indexing is a way to build in incremental increases without going back to the governing board every year to make adjustments as infrastructure is added to the base. You could put collars around the index, so if the real number is less than index, you can go with the real number rather than the index. Guy Hobbs stated he suggests putting a collar on the index if that is a recommendation. Guy Hobbs went through a scenario to fund the capital with cash, no new debt, and a scenario to fund the capital program with debt coving the program and the third scenario is a blend of the two. Guy Hobbs said he will be looking for guidance from the committee to add variations into the scenarios. Guy Hobbs stated that if we went with the all debt option, and filled in the sales tax, the rate increase would go from 9.1% without the tax to 8% with the tax. Virginia Valentine wants to know why 2018-2027. Gene Houston asked if that is the end of the CIP. Tom Minwegen stated there definitely will be a CIP after 2027, the window of time we need the funding for is for the next ten years. The CIP will live on, but it is not nailed down beyond the ten-year window. Guy Hobbs stated that he can show the models extending beyond 2027. Dan Tafoya stated there are three things that can play into this, increase rates, increase connection fees, and maintain sales tax. Guy Hobbs stated that the third is to maintain the tax. Dan Tafoya asked if it has been looked at to raise the sales tax. Guy Hobbs stated we couldn't make that kind of assumption for the rate models because it would have to go to state legislature and then to the ballot. Guy Hobbs said that we can't use as a reasonable assumption for planning purposes. Warren Hardy stated it would have to be a ballot initiative, which would take 2 years. Terry Murphy stated that it was very difficult when it got passed the first time. Gene Houston asked what the difference is between the cost to fund it by cash and to fund with debt. Guy Hobbs stated the increase cost of debt service. Gene Houston asked what that dollar amount would be. Guy Hobbs stated he could extract that information. Guy Hobbs stated it could be about $1 billion dollars. Guy Hobbs explained the assumptions when accounting for debt, we assume*

30-year debt, current market rate plus 100 basis points, roughly in 5% range. Guy Hobbs stated the all debt option really isn't workable. Warren Hardy stated that it could affect the bond rating and Guy Hobbs responded that it could because of the over borrowing. Guy Hobbs discussed the hybrid of borrowing debt and paying cash. For the hybrid, we need to have discussion of what we are going to do with connection fees. Dan Tafoya asked how sensitive people are to the connection charges. Jennifer Lewis responded that the predictability of the charges is key. Jennifer Lewis stated that it is better if it is spread out more evenly. She understands need for a reliable system. Warren Hardy said that obviously option 3 is the best option, but the driver is the Capital Improvement Program itself, and would like to approve that plan, so he can approve the rates. Warren Hardy wants to justify the CIP itself, and the funding decision will be easy. Guy Hobbs stated that once you have the comfort level with the CIP, we need direction to run the models. Guy Hobbs asked Jennifer Lewis if a 3-year phase in of the connection charge with an indexing after that is acceptable. Jennifer Lewis stated that would more acceptable. Guy Hobbs said we could build a 3-year phase in, with index, and a collar around the index, however, connection charges are not as reliable as sewer service charges and asked if we need to concern ourselves with the level of connection charges. John Restrepo said we should cap the amount of connection charges that go into the model and then pick up from the reserves. Virginia Valentine stated she is concerned with level of reserves and asked if it can it be lower without affecting the bond rating. Guy Hobbs stated that the only way to test if the reserves are sufficient is to have a catastrophe. Guy Hobbs stated that the guidance suggests that between 3 and 6 months of operating reserves, no less than 3, and adjust for conditions peculiar to your agency, so for us that includes sales tax. When have you tapped reserve fund. Tom Minwegen stated there had been a collapse of sewer pipe on DI that required tapping into the reserve. Guy Hobbs said that the segregation of reserve funds has been in the past 10-15 years, people would just call it a proprietary fund. Virginia Valentine stated that some of the committee members must go back to our constituents what is being recommended for rates, and we need assurances that when we go back and say this is what they need, we are confident in the number. Guy Hobbs stated that 4 months operating cash for an essential public utility, can we conceive of things that would put us in the position where people might not be able to pay are extreme, but on other side, if we aren't able to provide service it is extreme. John Restrepo asked what the norm for utilities is this size. Guy Hobbs responded 3-6 months. Water Authority is 180 days, here it is 120 days. John Restrepo stated we have a concentrated economy based on discretionary spending, we should err on side on conservative approach with reserves. Guy Hobbs said that here you are so heavily dependent on people paying bills and it is a health-related commodity, it is different. Guy Hobbs stated that you could have a conversation with rating agencies to see how much confidence they are giving to how reserves have been managed in past. John Restrepo said this would be an important piece. Guy Hobbs said that in looking at the hybrid scenario, by adding sales tax, it helps rate, if we were to decrease the amount of debt incurring, the rate will go up. Guy Hobbs asked if the goal is rate minimization while keeping *targets. If we borrow an additional $50m, the rate will drop. Guys Hobbs said that the sweet spot of debt to pay-go I around $450 million, do you want us to test that. John Restrepo wants to see what that is in dollar amounts. Tom Minwegen asked what the tolerance level with the debt amount is. This is addition to the existing debt. Gene Houston asked what $450 million does to the debt service. Warren Hardy stated he isn't equipped to make that decision, but what is the best use of the money, with both sewer service fees and connection charges, as long as I can go to constituents and say this has been looked at from leveraging perspective and this is the best use of the money. Gene Houston said you may cripple yourself in 20 years. Virginia Valentine said we need to look at the debt. Gene Houston said we need to see what happens when next CIP comes along. Guy Hobbs said we pay debt service as part of rates, at what point are rates unreasonable. Guy Hobbs said that if got indication from rating agencies that $450 million will trouble them, then we need to look at that, otherwise we use credit rating to reduce the rate. Virginia Valentine asked about the general obligation backing from the County. Guy Hobbs said that the default is that if you can't pay with rates, you pay with property tax. Dan Tafoya said that if you look at economy, could we take a hit if another recession hit to be able to pay off debt service. Guy Hobbs asked if the direction is to go back to optimize the model to get the rate to the lowest point possible, while meeting the targets, with connection charges phased in, assuming sales tax stays in, Guy Hobbs asked if there any other variations, Guy Hobbs said we could possibly see what a 4.5% interest rate would do, John Restrepo said we should stay with 5% rate. Annette Bubak asked for an understanding of the forecasting for the assumptions for next 10 years. Guy Hobbs said we can look at going beyond 2027. Terry Murphy said that for the next meeting, lets better understand the problem and take a deeper dive into the CIP. Terry Murphy stated that we will try to get information out to everyone before the next meeting, we will tend towards blended approach, with a cap on connection fees in the model, focus on reserve fund, show the actual dollar amounts, not just percentages. Warren Hardy stated he wants to look at reserve policy to have smallest amount without affecting bond rating and the community. Terry Murphy asked if the committee thought they could make recommendation on rates at the next meeting if we extend the next meeting. Virginia Valentine stated that she needs a break to go back and get feed back from her members. Terry Murphy asked if 2 weeks is enough time to make the decision or should we push back the October 18 meeting. Justin Harrison asked if it is within the scope of discussion to look at if sales tax is the appropriate funding, should sales tax be paying for water and wastewater. Virginia Valentine thinks it is worth having the discussion. Terry Murphy stated we can give you charts and information to go back to your member with.*

VII. Public Comment-There were no persons wishing to speak.

VIII. Adjournment-The meeting was adjourned at 1:56 PM. The next meeting is on October 4, 2018 at 11:30 AM at the Las Vegas Metro Chamber of Commerce.