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

MINUTES

November 2, 2023, 11:00 a.m.

Meeting held in-person at the Clark County Water Reclamation District

Committee Members Present:

Paul Moradkhan
Gene Houston
Jennifer Lewis
Virginia Valentine (Virtual)
Andres Estrada
Warren Hardy
John Restrepo (Virtual)
Georgie Rucker
Julie Cleaver

Staff Present:

Tom Minwegen
Shawn Mollus
Charles Ocansey
Brett Borek
Mike Pierson
Srini Chundu
Greg Goussak
Tara Teegarden
David Stoft
Dan Fischer
Brenda Pappas
Corey Synagogue
Rick Donahue
Jolene Bradley
Michael Malinowski
Michael Phillips

Others Present:

Terry Murphy
Amanda Moss (SNHBA)
Guy Hobbs

Absent Committee Members:

Cliff Marshall
Lisa Ortega

I. Call to Order, and Roll Call – The meeting was called to order by Terry Murphy at 11:12am. Terry introduced herself and invited the committee members and staff to introduce themselves.

II. Public Comment – There were no persons wishing to speak.

III. Approval of Agenda – Terry Murphy made a motion to approve the agenda. The agenda was unanimously approved by the committee.

IV. Receive a Presentation about the Clark County Water Reclamation District's Operations and Finances *(For information only)* – David Stoft began with a recap of the 2018-19 Meetings. Coming out of those meetings the CAC agreed that a rate change was necessary. As a result, the District increased its Annual Sewer Service Charge and Connection Fee, proposed a $500 million debt issuance for program funding, and introduced a 15-year CIP program along with a cash reserve policy. All recommendations were approved by our Board of Trustees in February 2019. In 2020, we witnessed a pandemic that resulted in a significant surge in inflation. Since then, inflation and market pressures have caused project delays, raised construction labor expenses, and resulted in labor shortages. Contractors are utilizing force majeure clauses in their contracts, and there have been substantial price increases for capital construction, materials, chemicals, electricity, water, and disruptions in the supply chain for pumps, motors, computers, and electrical components. These ongoing inflation and market pressures have led to an additional cost of over $300 million. In essence, the $340 million bonds we issued in July 2023 only serve to counterbalance the increased costs compared to what was discussed five years ago. While the majority of these increased costs are related to our capital programs, some of them have spilled over into our O&M budget, resulting in higher operations and maintenance expenses. Two noteworthy projects to highlight are Project 19005 and Project 19100, both of which have essentially doubled in costs since 2018.

Julie inquired whether the cost increase for the Whitney Lift Station (Project 19100) was due to an expanded scope involving additional projects, or if it was a direct doubling of the original cost. Shawn Mollus clarified that the significant cost increase was primarily driven by the expense of sourcing materials, particularly specialty equipment, pumps, steel, and rebar. Furthermore, supply chain disruptions are causing additional delays of nine months to a year for certain components, further impacting costs.

Warren Hardy inquired whether the force majeure claims were solely tied to the COVID pandemic and if we should anticipate them continuing. Shawn Mollus explained that while it originated with the pandemic, there's a growing trend of more entities resorting to force majeure claims.

Tom Minwegen added that the District has explored the possibility of using grant funds to mitigate some of the increasing costs, but it hasn't yielded a viable solution. Additionally, bids have been turned down due to their excessively high nature.

Jennifer Lewis inquired if the Flamingo Wash Primary Sludge (Project 19102) was not part of the 2018 plans. David Stoft verified that the project was indeed a new addition, included as part of the plant expansion. Shawn Mollus elaborated that during the engineering and design phase, they assessed the most effective and efficient method to increase plant capacity, concluding that a facility dedicated to processing and thickening sludge separately would free up more capacity for the primary clarifiers.

Amanda Moss inquired as a follow-up to Jennifer's question, asking whether the District factored in reduced long-term maintenance costs due to the project's improved efficiency and other enhancements. She wondered if this was part of the 15-year capital plan. Shawn Mollus confirmed that it was indeed considered as part of the O&M budget but not specifically included in the Capital Improvement Program (CIP).

David Stoft informed the members that since the last updates provided in March, the District has added seven new projects to the capital improvement plan, amounting to $138 million, and seven projects with a combined value of $567 million have entered the construction phase. Shawn Mollus clarified that the seven construction projects primarily constitute the major components of the plant expansion, indicating that everything discussed in 2018 is now in the construction phase.

Warren Hardy asked if there will be any impacts on the property with the Hollywood expansion. Shawn Mollus stated that the District is coordinating with Public Works on the alignment, and no negative impacts are expected.

David Stoft mentioned that four projects with a total value of $49 million have been successfully completed since March.

David Stoft provided an overview of the District's 5, 10, and 15-year CIP program, with a focus on highlighting the changes in costs from just a year ago. He pointed out that the 5-year plan, valued at $1.2 billion a year ago, has increased by over $100 million within the 5-year horizon. There was a half-million-dollar increase in the 10-year plan, while costs remain relatively stable in the 15-year plan. He noted that it's challenging to identify CIP projects that need to be added to the plan 15 years from now, given the extended timeframe. A presentation slide was shared, illustrating how the District allocated funds from a CIP perspective. The slide highlighted a balanced distribution between capacity and expansion projects, as well as the distinction between new infrastructure initiatives and the rehabilitation or replacement of existing infrastructure. It's important to note that the District is currently facing a substantial financial commitment, with a projected expenditure of $1.9 billion over the next 15-years.

Tom Minwegen emphasized that the organization is recognized as capital-intensive, consistently reinvesting in infrastructure to benefit its customers and the community. The presentation slide illustrates a comprehensive spectrum of reinvestment in the sanitary sewer system, encompassing both the plant and collection aspects.

David Stoft presented a slide related to the District's Operational Cost Increases, highlighting a substantial 24% increase in the past year. The District expects another 14% increase as the year comes to a close, and there are concerns regarding significant cost escalations extending into the next year.

John Restrepo inquired about the rationale behind the projected 14% increase in FY23-24., and David Stoft explained that while a portion of it is a forecast, it's grounded in historical data from the first quarter of this year. Noting, the forecast seems to align with the estimated figure of $108 million.

David Stoft then proceeded to delve into the District's financial overview from the previous year, particularly focusing on the comparison of total revenue with O&M expenses, and debt service, excluding July's $340 million bond issuance.

V. Receive a Presentation on the Water Reclamation District's rate model and funding options and make recommendations, if appropriate. *(For Possible Action)*

David Stoft shared a presentation slide outlining the District's current sewer service charge at $253.20 per Equivalent Residential Unit (ERU), with a planned annual increase of 2.75% annually until 2029. Additionally, he noted connection fees are currently set at $3,020, with no proposed changes at this time. Subsequently, he displayed a slide that compared the annual rates per ERU for single-family residences among sister wastewater agencies. He pointed out that several of these agencies have already increased their rates, surpassing the rates currently in place at the District. Next, he showed a comparison chart illustrating the disparity between sewer charges and cost index, highlighting the significant divergence that began a decade ago and the growing gap between rising costs and where the District's rates currently stand.

Warren Hardy expressed appreciation for the presentation, acknowledging that it effectively showcased the District's commendable efforts within the valley. He hoped that the public would recognize these achievements beyond just observing their sewer bills.

Guy Hobbs introduced his rate study and rate model, emphasizing that the organization continuously models all operating costs, revenues, and expenditures to ensure they align with the original projections. He pointed out that due to the effects of various projects and operating expenses, significant changes have occurred since the committee's last review. The growth in ERU usage for connection revenues, which is at 1.2%, generally corresponds with population growth. The District also benefits from a portion of the quarter-cent tax for water and wastewater agencies, projecting a growth rate of 3.5% until 2025, and then 3% thereafter. Furthermore, they anticipate a 2.75% annual increase in the sewer service charge through 2029. Guy also mentioned a recent development since the last committee meeting, which involves making connection fees more affordable for affordable housing projects through discounts. This was considered in the model to understand its impact on future revenue, and it equates to about an 11% offset.

Warren Hardy inquired whether the discounts are mandated by law. Tom Minwegen explained that the county has instituted a program in which they determine which projects qualify for such reductions. According to their program, established wastewater connection charges can be reduced by up to 75% based on the project's qualifications. Noting that no additional funding is given to offset the loss of revenue. Amanda Moss noted that many jurisdictions are placing greater emphasis on master planning entitlements, including aspects such as density bonuses. She also highlighted that if a density bonus were to be implemented, it could have a negative impact on the budget, potentially exacerbating the deficit due to the 75% reduction. Warren Hardy expressed the need to closely monitor this situation as they project forward, expecting that there might be additional challenges to the budget in the future.

Guy Hobbs proceeded to outline some of the expenditure assumptions, noting that overall operating expenses are expected to grow within the range of 3 to 5%, with some variations slightly higher. Additionally, they have factored in a 4% annual construction cost inflation moving forward. He then presented a projected funding gap and pointed out the expected allocations in the years 2025-2028. This projection highlighted a significant disparity between the funding sources per year and the anticipated uses, largely due to the pace of project implementation. Guy further explained that one way to align the budget is by deferring capital projects, but doing so would mean delaying the completion of these projects on time. He added that many other agencies are grappling with similar challenges for similar reasons. Guy emphasized the importance of not falling below the reserve requirements, which encompass several aspects, such as maintain a specific number of days of operation cash and provisions for unforeseen and uncontrollable events that may occur. By 2026, there is a projection that the ending balance, which represents the relationship between revenues and expenses, will dip below the reserved targets. In 2028, it reaches another milestone by entering a negative balance unless debt is issued, or interest rates are raised. To address shortages, a couple of options are presented, including operating revenues, like raising rates to generate higher annual income.

Amanda Moss inquired about the year-over-year increase percentage in new connections, specifying whether it encompasses residential, multi-family, or single-family. Guy Hobbs clarified that the percentage is 1.2% and applies to all types of connection. Amanda then asked about the possibility of a plateau due to land availability, and Guy responded that there isn't one. However, he added that it's another factor to consider, along with water availability and connection fees. Warren Hardy and Guy discussed and verified that the growth and connection fee projections are historically conservative.

Warren Hardy inquired about statutory reserve requirements, and Guy clarified that they are not statutory but based on policy. Tom Minwegen added that the District aims to establish a robust financial plan program, where reserves play a foundational role, noting that this approach is on par with other infrastructure agencies.

Terry Murphy inquired about any additional questions related to the projected funding gap or the projected growth rate, but there were none remaining.

Guy Hobbs outlined strategies to address the funding gap, starting with a scenario involving rate increases without new debt issuances. The proposed rate hikes are set to begin at 15% in FY25, followed by 12.25% in FY 26, 12% in FY27, and 10% in FY28. Additionally, a hybrid model was suggested, incorporating bonding to offset rate increases as a measure to manage the overall impact on rates.

Georgie Rucker recommended a hybrid approach, emphasizing that it makes more sense to avoid placing a heavy financial burden on those with fixed incomes. Julie Cleaver expressed her belief that the ongoing projects aim to address all current user issues. Consequently, she voiced no opposition to having current users bear the associated costs, so long as it's not an unreasonable increase in rates, instead of spreading them out to future users. Guy clarified that approximately half of the data pertains to capital projects, encompassing the maintenance and rehabilitation of existing infrastructure, while the other half is allocated for new capacity. He further stated that the rates would essentially increase from the current $253 to $415 by FY29, and while this represents a significant rise from the District's current standing, it's important to note that, when compared to other local agencies, the District's rates remain lower. Warren Hardy emphasized that this increase would still position the District at a rate below what most entities its size are experiencing, and that should be a significant consideration. He continued by stating that, considering the current cost of money, he doesn't view additional bonding as a wise business decision. He pointed out that regardless of the approach taken, the ratepayers will bear the cost. Consequently, based on the options presented, he can't recommend any scenario other than raising rates. His reasoning is that, even with the rate increase, the District will still be significantly lower than most, or, at worst, in line with what other agencies are doing. Jennifer Lewis acknowledged the challenge of raising rates and expressed awareness that a hybrid approach might be potentially problematic. However, she indicated a preference for slightly lower rate increases, considering that ratepayers are already facing increases for other utilities. Ultimately, it was decided that Guy Hobbs will produce a second scenario, representing a hybrid approach that will be presented for consideration at the next meeting.

John Restrepo sought clarification on the debt coverage ratios, particularly questioning why some ratios appear high at 4 and 5%. Guy Hobbs cautioned that the later years' capital expenditures might not account for current projects or could be understated, affecting the coverage ratio. Tom Minwegen noted that before the recent bond issuance, Wall Street was impressed with the Distric's debt coverage ratio of 3.5%, contributing to premium pricing. They also acknowledged the District's high debt ratio, which was viewed favorably. John then inquired about the impact on rate increases if the District were to maintain a 3.5-4% coverage without going higher. Guy responded that it doesn't have any effect in the near term, which is where the rate increases are indicated.

David Stoft inquired if there were any additional questions, but none were raised.

VI. Public Comment – There were no persons wishing to speak.

VII. Next Meeting Date: November 30, 2023, at 11:00 am at the Las Vegas Metro Chamber of Commerce.

VIII. Adjournment – Meeting was adjourned at 12:45 PM