

**JOINT MEETING OF THE
INTEGRATED RESOURCE PLANNING ADVISORY COMMITTEE
AND FINANCIAL SUBCOMMITTEE
MEETING SUMMARY**

February 11, 2013, 4:00 p.m.

Colorado River Conference Rooms, Southern Nevada Water Authority
100 City Parkway, Seventh Floor, Las Vegas, Nevada

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| IRPAC Members Present | Tom Burns Thalia Dondero Bob Ferraro Mike Forman Warren Hardy Katherine Jacobi Carol Jefferies Bob Kasner | Jennifer Lewis Otto Merida Bobbi Miracle Phil Ralston John Restrepo Scot Rutledge David Scherer Virginia Valentine |
| IRPAC Members Absent | Kirk Clausen Garry Goett Joyce Haldeman | D. Taylor Danny Thompson |
| Financial Subcommittee Present | Brian McAnallen Jarmilla McMillan-Arnold Terry Murphy | Gay Shoaff Joe Woody |
| Financial Subcommittee Absent | Jay King | Tom Warden |
| Staff Present: | John Entsminger Phil Speight | Andy Belanger Katie Horn |
| Others Present: | Guy Hobbs | Brian Thomas |

PUBLIC COMMENT

Ed Uehling said it is inappropriate to discuss Agenda Item 2, *Review Funding Scenarios*, at this point in the process. He expressed his concerns about the public process related to the recent infrastructure surcharge, the Business Impact Statement, the results from the committee's rate attribute weighting exercise, and the number of customers impacted by the infrastructure surcharge.

SUMMARY OF ACTIVITIES

The Southern Nevada Water Authority's (SNWA's) Integrated Resource Planning Advisory Committee (IRPAC) and member agency financial subcommittee (Financial Subcommittee) met on Monday, February 11, 2013. The meeting began at 4:08 p.m.

Approve the January 14, 2013 meeting summary. There being no comments or questions, the meeting summary was approved by the committee.

Review funding and revenue scenarios. Dave Ebersold, Facilitator, advised the committee that this presentation includes generalized examples of ways to construct rates. The purpose of the rate examples is to provide the committee with a starting point for discussion.

Guy Hobbs of Hobbs, Ong & Associates, reminded the committee of rate model assumptions that were discussed at the January 14, 2013 meeting:

- Sales Tax revenues estimated to grow 3.5 percent annually
- SNWA service area population growth estimated at 1.07 percent
- Operating costs increasing at 4 percent annually
- Connection charges remaining steady through 2014, and then increasing with population growth
- Water sales projected to grow at 0.80 percent annually
- Maintain fund balance target of \$280 million

Referring to a slide depicting the SNWA's annual combined debt service, Mr. Hobbs pointed out that debt service spikes in years 2016, 2017 and 2018. He stated that the SNWA's objective is to construct rates that will provide adequate resources to pay the debt service.

Mr. Hobbs said that he is looking for committee input on the rate examples provided in today's presentation, such as:

- Are we on the right track?
- Are there other major variations that the committee would like to see?
- Are there any examples that could be eliminated from future consideration?
- Should the fireline charge increase proportionately or at some other rate?

Mr. Hobbs showed a chart titled *Revenue Requirements (2013-2016)*. According to the chart, the ending fund balance builds slightly from 2013 through 2015. Thereafter, the ending fund balance begins to decrease. Looking at a chart titled *Revenue Requirements (2017-2021)*, Mr. Hobbs pointed out that if no changes are made to the current rates there would be a negative ending fund balance beginning in 2019. Mr. Hobbs stated that even before reaching a negative ending balance, credit agencies would take note of its decline and this may lead to credit issues. Phil Ralston asked if the point of the two charts is to show that even with the infrastructure surcharge at its current level, the fund balance would go negative in 2019 due to the increase in debt service in 2016. Mr. Hobbs confirmed it was.

Also referring to the two charts, Mike Forman asked what rate was assumed in calculating interest income. Brian Thomas, Public Financial Management, said it was approximately two percent. Mr. Forman noted that the interest rate assumption can provide a small amount of relief. Mr. Hobbs said interest income and/or connection charge revenue could increase and suggested the committee consider the best way to make adjustments to the rate scenario should such increases materialize. He reminded the committee that any amount above the Fund Balance threshold of \$280 million could go into the Rate Stabilization Fund, which offsets the need for revenue.

Bob Kasner asked if there is a plan to finance commercial paper on a long-term basis or keep it as part of the debt portfolio for a long time. Brian Thomas noted that the SNWA has \$280 million of investments that are relatively short term and earn a low rate and \$400 million in commercial paper paying a low rate, which balance each other. He added that staff consistently watches the asset/liability match, and to the extent that it makes sense to adjust it in the future, staff could do that.

Next, Mr. Hobbs provided the committee with three rate examples:

- Example 1: Increasing the Commodity Charge
- Example 2: Increasing the Infrastructure Surcharge
 - Version A: No additional charge to the fire meters
 - Version B: Including an additional fire meter charge at 17.5 percent of the corresponding increase in the meter charge
- Example 3: Increasing both the Commodity Charge and Infrastructure Surcharge to fund 50 percent of revenues shortfall, respectively.
 - Version A: No additional charge to the fire meters
 - Version B: Including an additional fire meter charge at 17.5 percent of the corresponding increase in the meter charge

David Scherer stated that the City of Phoenix gets significant funding from a commodity charge. He asked if anyone has analyzed how cities with aging infrastructure, such as those on the East Coast, handle their bills—do they use a commodity charge or a mix. Mr. Thomas said that in Southern California examples are wide ranging. He noted that the Los Angeles Department of Water & Power charges all of their costs at the retail level on a commodity basis. The San Diego County Water Authority, a wholesaler, has a large program for emergency storage, the bulk of which is collected via a fixed charge or connection fees as opposed to commodity rates. Approximately 25 percent of the Metropolitan Water District of Southern California’s (MET) revenues come from a fixed charge called the readiness-to-serve charge, which is equivalent to the SNWA’s infrastructure surcharge. Mr. Thomas agreed that the City of Phoenix gets the bulk of their revenues from a commodity charge. He added that on the East Coast, there is a combination of revenue sources.

Mr. Scherer asked if a comparison of rate structures by “Best in Class” city was done. Mr. Entsminger reminded the committee that in the December 5, 2012 presentation, a chart was provided that gave a representative sample of fixed versus volumetric rates by water purveyor. He added that historically there was more emphasis on volumetric charges, but the success nationwide, particularly in the West, of conservation programs coupled with the effects of the great recession have the industry trending toward a fixed charge. Mr. Thomas said that a “Best in Class” designation depends upon circumstances. In

some areas, the goal of conservation necessitates a tiered or budget-based rate. He noted that due to the success of conservation messaging in the Southwest over the last several years, the trend is higher on the fixed charge side versus the commodity charge side (trending from zero percent fixed to 30 or 40 percent fixed). Mr. Hobbs said that a consideration that can vary agency-by-agency is the composition of fixed versus variable costs. Not all water agencies carry the same percentage of debt compared to ongoing operating costs.

Continuing with the presentation, Mr. Hobbs presented a sample bill with a commodity charge increase. Mr. Ebersold clarified that all of the example bills provided are Las Vegas Valley Water District (LVVWD) sample bills. Mr. Hobbs restated the purpose of the bills is to reinforce what portion of the overall bill is being discussed.

Example 1: Commodity Charge Increase

A commodity charge increase would impact customers that use more water because it is a consumption-based variable rate approach. Mr. Hobbs showed a chart titled *Example 1: Increase of Commodity Charge*. He noted that the current commodity charge is \$0.30 per 1,000 gallons. If the entire burden is put on the commodity rate, in 2016 the commodity charge would have to increase by \$0.37 per 1,000 gallons to meet funding obligations, resulting in a total commodity charge of \$0.67. In years 2017 and 2018, the total commodity charge would increase to \$0.93 per 1,000 gallons and then decrease slightly in years thereafter.

Mr. Ralston asked what the “Implicit Additional Reliability Surcharge” is on the chart. Directing Mr. Ralston back to the sample bill, Mr. Hobbs pointed out the “SNWA Reliability Surcharge” of 2.5 percent. He stated there would be additional revenue generated by the increase in the commodity charge because of the application of the 2.5 percent to an increased billing. The “Implicit Additional Reliability Surcharge” line is in the table to highlight the additional revenue that would also be coming from the reliability surcharge. Mr. Ralston asked if the numbers presented are in thousands. Mr. Hobbs responded yes.

Again referring to the sample bill, Mr. Kasner asked if Tiers 1, 2 and 3 are based on the amount of the commodity used. Mr. Hobbs said yes. Mr. Kasner asked why then the commodity charge listed on the sample bill was only \$34.20 and not closer to half the entire bill. Mr. Hobbs explained that the tiers pertain to the retail side of the bill, and the discussion about a commodity charge increase applies only to the wholesale part of the bill. Mr. Forman added that the tier rates are set independently of SNWA rates. Mr. Thomas explained that the tier rates are collected by the LVVWD, but the committee is focused on the SNWA (wholesale) rates.

(Excerpt from Sample Bill)

| | |
|--|-------------------------|
| Billing Period: 12/11/12 - 01/09/13 | Total # of Days: 30 |
| Meter #: 0415403 | Billed Usage 114 |
| Service Charge \$0.7419 x 30 Days | 22.26 |
| Tier #1 25 x \$1.16 | 29.00 |
| Tier #2 25 x \$2.08 | 52.00 |
| Tier #3 64 x \$3.09 | 197.76 |
| 1 x 1 1/2" Backflow(s) @ 0 | 7.46 |
| SNWA Commodity Charge 114 x \$0.30 | 34.20 |
| SNWA Infrastructure Charge 30 x \$2.4053 | 72.16 |
| SNWA Reliability Surcharge x 2.5% | 8.57 |
| Subtotal | \$423.41 |

Mr. Entsminger pointed out that the first Tier represents the first 25,000 gallons used; Tier 2 represents the next 25,000 gallons used; and Tier 3 represents an additional 64,000 gallons used. He explained that the sum of the tiers ($25+25+64=114$) multiplied by the \$0.30 SNWA Commodity Charge equals **\$34.20**. Mr. Entsminger said the amounts associated with the tiers (\$1.16, \$2.08 and \$3.09) are retail rates. Joe Woody asked if the retail rates are expected to stay the same. Mr. Entsminger noted that cities of Henderson and North Las Vegas recently increased rates. He does not believe Henderson, North Las Vegas or the LVVWD are expecting new rate increases in the immediate 2- to 3-year term.

Scot Rutledge asked if the local agencies increased the tier rates (conservation pricing) and water use declined, would that reduce the overall amount of water that the SNWA sold to its customers (the retail agencies). Mr. Entsminger responded yes and said that is one of the inherent uncertainties of volumetric charges and why, as discussed earlier, many agencies are partially moving away from it. He added that the uncertainty of the price elasticity is one of the major reasons why the SNWA Board of Directors supported the fixed infrastructure surcharge last year. Mr. Rutledge asked if the rates increase at the retail level, is there a mechanism for the SNWA to capture some additional revenues from the retailers. Mr. Thomas said the mechanisms are the SNWA Commodity Charge, the SNWA Infrastructure Charge and the SNWA Reliability Surcharge. He added that all of the retailers are public agencies that collect money to pay for their expenses, but no more. Therefore, there would not be a large surplus of funds. Mr. Rutledge asked what would happen to funds collected by a retail agency for an expense, such as infrastructure project, that did not get used. Mr. Thomas said those "extra dollars" would be returned to the ratepayers in the form of lower rates in the future, credits on the bill or other mechanisms, but that money is not owed to the SNWA.

Thalia Dondero asked what would happen if water use declined substantially and the SNWA was unable to collect its necessary revenues. Mr. Hobbs explained that although consideration of elasticity is built into the SNWA's calculations, if a reduction in usage exceeded the SNWA assumptions the price per gallon would have to increase.

Tom Burns asked what percentage of SNWA costs are fixed versus variable. Mr. Hobbs said that a pie chart was provided in an earlier presentation that answers this question. As he recalls, approximately 80 percent of the SNWA's costs are fixed.

Mr. Ralston asked for clarification of Mr. Hobbs' earlier response to Ms. Dondero's question—if a deficit existed would that trigger an automatic rate increase. Mr. Hobbs said a deficit would not trigger an automatic rate increase. He was speaking theoretically to explain the math relationship if costs remain the same but the gallons sold decreased. To correct the revenue deficiency, the rate would have to increase.

Mr. Hobbs informed the committee that he is still working on producing another way of interpreting the modeling results. He said it is one thing to look at a chart like *Example 1: Increase of Commodity Charge* and see the commodity charge increase from \$0.30 to \$0.67 to \$0.93, but it is another to apply it to a type of business or user class. Mr. Ralston said there has been quite a bit of committee discussion about the allocation of the initial infrastructure surcharge and limitation of the surcharge to \$5 per residential. Mr. Ralston asked if the new model interpretations will address a sliding scale of the residential surcharge increasing. Mr. Hobbs said that it would if the committee provides that direction. Mr. Ralston suggested a model wherein the residential infrastructure surcharge increases from \$5 to \$10 in addition to a blend of commodity and fixed rate increases. Mr. Hobbs said that Examples 2(A), 2(B) and 3 discuss scenarios similar to that described. With direction, he will model any additional variations requested and bring them back to the committee.

Example 2(A): Increasing the Infrastructure Surcharge with no Additional Charge to Firelines

This scenario increases the user's infrastructure charge, but the fireline charges would remain the same. In addition, it removes the \$5 ceiling from single-family residential customers. Mr. Hobbs showed a chart titled *Example 2(A): Infrastructure Charge Increase with no Additional Charge to Firelines*, which contained a sample bill of a fire meter (top of the bill) and a service meter (bottom of the bill). Next, Mr. Hobbs showed a chart titled *Example 2A: Increased Infrastructure Surcharge*. He explained that this chart shows how the funding gap could be covered using a fixed charge increase and no restriction on residential rates. Additionally, this example contains no additional charge to fire meters. Mr. Hobbs said the funding gap calculated on this scenario is based on the assumption that the current rates will continue into the future. The difference between revenues and expenditure requirements, primarily the debt service, is what needs to be covered. Mr. Restrepo asked if this is why the chart shows a jump from \$5 to \$11.06 in 2016 on the residential 5/8" and 3/4" meters. Mr. Hobbs said yes. Mr. Ralston said this addresses his previous comment. Mr. Hobbs said the chart assumes no additional burden will be placed on the fire meters beyond what they are currently being charged.

Referring to the chart, Mr. Forman said there does not seem to be consistency in the percentage increase for the residential and non-residential meters. Mr. Hobbs explained that American Water Works Association (AWWA) standards were used to determine the load that each meter size would carry; the increases are based on those standards and are not meant to be linear. Mr. Forman asked if the calculations represent typical usage for a given-size meter. Mr. Hobbs said yes. Referring to the \$5 charge for residential 5/8" and 3/4" meters, Mr. Ralston said that rate was a subsidized amount, and it doesn't mean everyone should have the same increase, especially at the residential level. Mr. Hobbs noted that as you look down the columns within the chart, there is not a relationship between the calculations (e.g., a four-inch meter is not exactly twice the cost of a two-inch meter).

Mr. Woody asked what percentage of the \$84 million shortfall is residential and what percentage is non-residential. Mr. Hobbs said the shortfall exists because current revenues do not provide funding to cover expenses. The committee will determine how the shortfall gets allocated between residential, commercial and other user classes. Mr. Ebersold suggested a review of past revenue percentages to see what was generated by residential and non-residential customers and compare it to percentages from after the last rate increase. Mr. Hobbs noted that at the last meeting Mr. Kasner asked for the portion of SNWA revenues paid by residential and commercial before the last rate increase compared to those same proportions after the last rate increase in order to see how much of a shift there was and to determine the residential and non-residential relative portion of the overall funding burden. Mr. Hobbs said he will provide that information at a future meeting. Mr. Thomas added that there would be different relationships between residential and commercial depending upon whether the increase is all on the fixed charge, the fire meter charge is capped or the commodity charge is increased.

Example 2(B): Infrastructure Charge Increase with an Increase to Firelines

This scenario increases the user's Infrastructure Charge, removes the \$5 ceiling from single-family residential customers, and increases the fireline charge correspondingly. Mr. Hobbs noted that the only difference between Example 2(A) and 2(B) is the fireline charge.

Mr. Scherer asked if the fireline charge increased along with the non-residential meter size, would that have a larger financial impact on commercial businesses. Mr. Hobbs said yes. Referring to Example 2(B), Mr. Entsminger added that the fireline charge is fixed at 17.5 percent. As the commercial meter increases so does the fireline charge; the percentage basis does not increase, but the absolute value does. Looking at a three-inch fire meter from Example 2(B), Mr. Hobbs pointed out that the charge of \$40.41 stays constant in 2013, 2014 and 2015. It increases to \$52.35 in 2016 and \$61.08 in 2017. He noted that the fire meter participates in funding the gap in the same manner that it participated during the last rate increase. Mr. Hobbs said that when the fire meters pick up a portion of the burden, it reduces the impact to the remaining commercial meters. Mr. Ralston added it reduces the burden to the residential meters too. Mr. Ralston pointed out that between Examples 2(A) and 2(B) everyone else has decreased. Mr. Hobbs said yes and noted that the fire meters generated significant discussion during the last rate increase and the treatment of the fire meters going forward would require additional conversation. Gay Shoaff asked if most residential meters are 5/8-inch and 3/4-inch. Mr. Hobbs said yes.

Example 3(A): Increase to Commodity Charge and Infrastructure Charge

This hybrid scenario increases new revenue by generating half from increasing the Commodity Charge and half from the Infrastructure Surcharge, but it does not impact fireline charges. Mr. Hobbs showed a slide titled *Example 3(A): Increasing both the Commodity Charge and the Infrastructure Surcharge to fund 50% of revenues shortfall respectively*. Mr. Hobbs noted that in 2016, the total commodity charge is \$0.48, which represents an increase of \$0.18 per 1,000 gallons. In 2017, the commodity charge increases to \$0.61 and it levels off in 2019 and thereafter. Mr. Hobbs added that in this scenario the fire meters participate at the current rate only and do not increase. Mr. Hobbs said the charge for residential 5/8" and 3/4" meter sizes increases from \$5 in 2015 to \$8.05 in 2016 and \$10.21 in 2017. The charge begins to level off in 2018.

Example 3(B): Increase to Commodity Charges, Infrastructure Charge and Fireline Charges

This hybrid scenario generates half the needed revenue from the Commodity Charge and half from the Infrastructure Charge, and it increases the fireline charges correspondingly. Showing a slide titled *Example 3(B): Increasing both the Commodity Charge and the Infrastructure Surcharge to fund 50% of revenues shortfall respectively*, Mr. Hobbs used the 3” fire meter as an example. He stated that the \$40.41 fire meter charge in 2013, 2014 and 2015 increases to \$46.53 in 2016 and \$51.00 in 2017. It begins to level off in 2018. The fire meter participation moderates the impact on the balance of the commercial meters so the impact is less than it was in Example 3(A).

Mr. Hobbs stated that the hybrid scenarios were calculated with 50 percent of the new revenue coming from the Commodity Charge and 50 percent coming from the Infrastructure Charge. He said these calculations were done as a starting basis, and he invited the committee to suggest other variations. Mr. Hobbs said that hundreds of different scenarios were run during the last rate process, and he has the ability to model a variety of scenarios. In addition, Mr. Hobbs noted that Mr. Ebersold will have discussions with the committee about a procedure for tweaking the models or running variations. Mr. Hobbs added that it will be helpful to the committee to have the previously-discussed user class information as they make different types of judgments.

Revisiting the beginning of the presentation, Mr. Hobbs asked the committee the following questions:

- Are we on the right track?
- Are there other major variations that the committee would like to see?
- Are there any examples that were not shown that could be helpful?
- How should the fireline charge be treated?

Mr. Forman asked if governmental entities, such as municipalities and fire departments, pay the Infrastructure Surcharge. Mr. Hobbs said yes. Mr. Forman asked if that includes the cities of Las Vegas, North Las Vegas, and Henderson. Mr. Entsminger said yes. Mr. Hobbs added that even non-profits are assessed the same charges. Mr. Forman then asked how fire hydrants are included in the mix. Mr. Entsminger explained that a fire hydrant does not have a meter. Within the service rules for retail purveyors, there are special provisions to access hydrant water. Mr. Ralston asked why fire hydrants are not treated like fire lines. Mr. Hobbs said that fire hydrants do not actually have meters on them.

Mr. Scherer asked which of the examples would be least burdensome to the commercial users. Mr. Hobbs said it is not as simple as choosing Scenario 1, 2 or 3, noting that consumption patterns would make each example affect the commercial user differently. Mr. Scherer said that most commercial properties are not heavy users and wondered if the fire meter places a heavier burden on commercial users. Mr. Hobbs said the vast majority of fire meters would be in commercial establishments. Therefore, a scenario that does not have the fire meters participating beyond their current participation would benefit commercial users in that respect. Mr. Hobbs added that the revenue not received from fire meters would still have to be recovered from the other charges, which could also impact commercial businesses. Mr. Scherer said those other charges would be less burdensome to commercial businesses. Mr. Scherer asked if there was way to separate out commercial users, who have a greater need for fire protection and/or are heavier water users so that they get charged proportionately. Mr. Hobbs said this brings up a discussion about relative needs for reliability and how a value is assigned. Mr. Hobbs suggested that reliability matters more to a business that uses more water such as a laundromat or

restaurant, and reliability carries a higher premium. Mr. Scherer asked if the committee could see the impact on smaller commercial businesses that are heavier water users and need more fire protection. He said he would like to see the size of the business and the usage. Mr. Hobbs said this is why he wants to provide the committee a breakdown of impacts by user class—so the committee can see the effect of the scenarios on a restaurant versus a hospital versus a golf course, etc. Mr. Ralston asked if the information is categorized that way (i.e., can the data be isolated by restaurant volume versus non-restaurant volume). Mr. Hobbs said he would have to find out what information can be provided on an aggregated basis. Mr. Entsminger said that a representative sample can be provided. Addressing Mr. Scherer’s question, Mr. Ralston asked if it is possible for the system to segregate billing so that special classes of users are allowed a separate rate structure. Mr. Entsminger said he was unsure of the system’s capabilities in this respect, but he would find out. He added that he does not know of any water utility that operates that way, because of the possibility of appearing to discriminate against one class of user versus another. Referring back to the rate structure attributes, Mr. Entsminger cited horizontal equity and vertical equity under the *Fair and Equitable* attribute. He said that when billing is based on meter size, it is fair. A customer with a 4” meter pays the same rate as every other customer with a 4” meter. Mr. Entsminger said that what Mr. Scherer is suggesting is dangerous ground for a governmental entity. Mr. Scherer noted that smaller businesses do not have the economy of scale and cannot spread that cost over a big platform. Mr. Ebersold asked if the issue raised by Mr. Scherer is part of the issue that the hybrid scenarios address. Mr. Thomas said this is the reason for scenarios that spread cost over meter size and commodity charges—so that some revenue is generated from each billing element. Mr. Thomas added that the impact of hybrid models could be assessed to see which various users are affected and in what ways.

Mr. Rutledge asked how meter sizes are determined. Mr. Thomas explained that meter sizes are determined at the time a building is being built based on a number of factors, such as size of building, type of use, etc. If a building is later reconfigured, the opportunity exists to reconfigure the meter—but that is often cost prohibitive.

Mr. Ralston noted that the samples provided today were all based on commercial use. He said it would be useful to see a residential example where the \$5 charge is included one and a variable is used in another. Referring back to the fire line charge, Mr. Ralston suggested that instead of going from flat to total participation, could the rate go from flat to a CPI-type adjustment so that the fire meter doesn’t ever participate on its full burden but it does carry a base year and escalates from there. Mr. Hobbs said he could model that, but he clarified by asking if Mr. Ralston was suggesting that the base fire meter rate established in the last process be indexed forward to maintain pace with inflation. Mr. Ralston said he is suggesting that the rate in place for 2013, 2014 and 2015 be adjusted by some CPI-type adjustment.

Mr. Restrepo asked if, in Mr. Ralston’s scenario, the fire meter rate would be inflated for three years and then capped or would it continue to inflate in perpetuity. Mr. Ralston said that in the A Models, there is no adjustment at all and in B Models the rates adjust to full weighted participation in 2016. He said he is suggesting that instead of having the fire meters participate at full participation in 2016, they participate at an escalated rate in perpetuity. Mr. Ebersold asked if Mr. Ralston thinks that “full participation” means the rate is going from 17.5 percent up to 35 percent. Mr. Ralston said no and referred the committee to any meter in Example 2(B) in the years 2016 and 2017. He said that in 2017, the rate is generally 50 percent greater than in 2016 and then it becomes relatively constant. Mr. Ebersold explains that rather than it staying fixed in a dollar amount (as in Example 2(A)), it stays fixed

as a percentage amount. Mr. Forman said that what Mr. Ralston is suggesting is a third alternative, which is the rate goes up with inflation over time which is less than it would be under the B scenarios but more than staying flat. Mr. Hobbs said that can be modeled using Producer Price Index (PPI).

Mr. Forman asked if there is a special rate for a fire suppression system attached to a common meter in a non-commercial building, such as a condominium, or if it is considered a residential meter. Mr. Entsminger said it is considered a residential meter. Mr. Forman said that although large condominiums do not have one meter per unit, they have more than one meter. He said he assumes in that scenario that there is one meter used for fire suppression that is much larger than the other meters. He asked if that larger meter is charged as a regular water meter. Mr. Entsminger said he would have to look at the specific account. Mr. Hobbs said a large residential building with a fire meter can play a role in funding the gap.

Referring back to Mr. Ralston's PPI escalation scenario, Mr. Restrepo asked when the escalation would start. Mr. Ralston said in 2016.

Mr. Restrepo then said that in looking at the revenue mix, the committee should look at the sales tax component of the revenue structure. He said that sales tax revenues are a little less volatile and return a little better than other revenue streams. He suggested a higher dependence on sales tax. Mr. Hobbs said that revenues can come from a fixed charge, a variable charge or from external sources, such as sales tax. Mr. Hobbs said the notion of injecting an increased level of an external source can be considered. Talking about sales tax specifically, Mr. Hobbs noted that another unit of sales tax would have to be approved by the Legislature, the outcome of which would be uncertain.

Mr. Ralston said the alternative is to assume the sales tax grows at 4 percent instead of 3.5 percent. Mr. Hobbs agreed. Mr. Restrepo said he is considering a new unit of sales tax. Mr. Hobbs said that it is doubtful a new sales tax could be considered during the 2013 legislative session. Therefore, it would not be considered until 2015. Mr. Hobbs said the committee can discuss external revenue sources but must be mindful that there are timing issues that must be evaluated with that line of consideration, as well. Mr. Hobbs added that one thing that is happening at the current legislative session is the revamping of the State's tax structure.

Referring to the slide titled *Types of Input from Rate Examples*, Mr. Hobbs asked:

- Are we on the right track?
- Are there other major variations that the committee would like to see?
- Are there any examples that could be eliminated from future consideration?
- Should the fireline charge increase proportionately or at some other rate?

Mr. Ebersold asked the committee if there are other major variations that the committee would like to see. Mr. Rutledge suggested using the commodity charge to fund the gap and an assumption that total water sales drop. Mr. Ralston asked if elasticity is already built in. Mr. Hobbs said yes, volume elasticity is built in. Mr. Ralston asked if it can be quantified. Mr. Rutledge said he is not just thinking about conservation, he is thinking worse-case-scenario projected out to 2040. Mr. Hobbs said what Mr. Rutledge is asking for is a variation on one of the base assumptions. Water sales are currently calculated as increasing by 0.8 percent a year. Mr. Hobbs said Mr. Rutledge is looking for a scenario that is not

based on an 0.8 percent growth in water consumption and in some point in time levels off and declines. To do that, Mr. Hobbs said he needs a basis for the numbers and asked Mr. Rutledge to provide that.

Mr. Hobbs suggested using Mr. Ralston's variation of indexing the fire meters. Mr. Ralston added that the timing should be consistent with the rest of the committee recommendations regardless of whether that is 2014 or 2016. Mr. Entsminger asked if the committee would like to see a model that ramps up in 2014. Mr. Ralston said, in his personal opinion, if the reserve fund doesn't require it, then the committee would not suggest implementing it in 2014.

Mr. Kasner asked if the SNWA has the right to increase property taxes without State legislation. Mr. Hobbs said no. Mr. Kasner believed the SNWA has the authority to increase property taxes. Mr. Entsminger said he can have legal counsel review the matter.

Mr. Scherer asked if Mr. Ebersold has gone through an integrated resource planning process with both MET and Pasadena. Mr. Ebersold said yes. Mr. Scherer then asked Mr. Ebersold's opinion as to what, if anything, this committee is missing. Mr. Hobbs suggested that the committee be aware of best practices, but reminded the committee of the uniqueness of the SNWA—the expenditure mix is different, growth profile is different. Mr. Thomas stated that MET has looked at all the same items being discussed by this committee. He advised that MET looked at, but did not adopt, automatic adjustments where rates would adjust to reflect inflation, cost of power or pass throughs. Mr. Thomas said this type of adjustment is being considered in Dallas and Houston—particularly in more arid regions. Mr. Hobbs said that the committee needs to recognize future contingencies that might arise. He said the committee needs to decide the duration it would want to recommend any rate increase lasts. Mr. Ebersold added that the 50-percent fireline credit expires in three years absent some action by the Board of Directors. He suggested that the committee needs to look at what the impact of that will be.

Mr. Ralston said a fireline does not use capacity on a regular basis since it is there for emergency. Therefore, it should not pay the same 100 percent rate as the other meters. Mr. Ebersold said that absent action from the Board of Directors, the fireline rate would go from its current 17.5 percent to 35 percent.

Mr. Rutledge withdrew his initial suggestion. Instead, he asked what window the committee is being asked to look at. He noted that the committee has not discussed what it would cost to build the Groundwater Development Project. He said if the committee is going to be asked to consider that, it should be considered now. Mr. Forman said that resource planning is the second part of what the committee will be asked to do—after it finishes the rate discussion. Mr. Ebersold said this is what Mr. Hobbs was talking about earlier. How far ahead does the committee look? How much of a formulaic approach is built into the structure to accommodate different types of variations?

Mr. Kasner said this is exactly why he brought up property taxes earlier. He said it would have been nice if a property tax question was put out for a public vote before \$3.2 billion was spent. He suggested that maybe it should be put out for a vote, and customers be told they can have an improved system, but it needs to be paid for.

Mr. Hobbs said that for the next meeting he will consider the planning horizon and contingencies.

PUBLIC COMMENT

Ed Uehling suggested the SNWA encourage indoor use to increase revenues and having the Public Utilities Commission determine rates.

ADJOURNMENT

The meeting was adjourned at 5:55 p.m.