



City of Davis
Utilities Commission Minutes
Remote Meeting
Wednesday, October 21, 2020
5:30 P.M.

Commissioners Present: Gerry Braun, Olof Bystrom, Linda Deos, Lorenzo Kristov, Elaine Roberts-Musser (arrived at 5:54pm), Johannes Troost (Chair), Matt Williams

Commissioner(s) Absent: Jacques Franco (Alternate)

Council Liaison(s) Present: None

Staff Present: Stan Gryczko, Public Works Utilities & Operations Director
Brian Mickelson, Assistant City Engineer
Matt Deusenberry, Water Division Manager
Adrienne Heinig, Management Analyst

Also in Attendance: Jerry Bradshaw and Susan Barnes, SCI Consulting
Doug Dove and Abigail Seaman, Bartle Wells Associates
Rob Peterson

1. Call to Order and Roll Call

Chairperson Troost called meeting to order at 5:31pm.

2. Approval of Agenda

L Deos moved to approve the agenda, seconded by M Williams. The motion passed as follows:

Ayes: Braun, Bystrom, Deos, Kristov, Troost, Williams

Noes:

Absent: Franco, Roberts-Musser

3. Brief Announcements from Staff, Commission Members, and City Council Members

- J Troost discussed one item:
 - He thanked staff for sending out the links to prior meeting packets containing stormwater-related items, and for the spreadsheet of water utility financial information that was sent to the Commission on October 20.
- S Gryczko discussed one item:
 - An update on the WAVE contract reviewed by the Commission at their meeting in September. He indicated that upon a requested update, he was informed that the City's legal team is still working on the agreement and there is no scheduled date to bring the item before Council.

4. Public Comment

One member of the public spoke to the Commission.

- Rob Peterson – indicated that he was a friend of one of the Commissioners, and was tuning into the meeting to listen to the discussion.

5. Consent Calendar

A. UC Draft Meeting Minutes – September 16, 2020

B. UC Draft Meeting Minutes with Suggested Revisions – August 19, 2020

C. South Davis Drainage Area (Informational)

D. West Davis Drainage Area and the Proposed CIP for County Road 99 Lake Boulevard/Covell Boulevard (Informational)

E. Historical Utility Bill Breakdown by Year for Average Single-Family Residence (Informational)

F. Monthly Utility Bill Breakdown for Average Single-Family Residence (Informational)

O Bystrom moved, G Braun seconded, to approve the Consent Calendar. Approved by following votes:

Ayes: Braun, Bystrom, Deos, Kristov, Troost, Williams

Noes:

Absent: Franco, Roberts-Musser

6. Regular Items

A. Stormwater Cost of Service Study - Rate Scenarios

The item was introduced by S Gryczko, and included a presentation from Jerry Bradshaw of SCI Consulting Group. The information in the presentation was re-packed material that had been presented at prior Utilities Commission meetings.

Discussion included the following:

- Clarification on the additional needs requested by staff, as presented in prior Stormwater Cost of Service study meeting documents.
- Utilizing a loan to undertake capital improvements would be a minimal rate impact based on the 30-year financial plan as presented by the consultant. Taking out a loan could enable necessary capital improvement projects to be completed within the next five to ten years.
- Acknowledgement that the capital improvement projects included within the rate study are all planned projects based on the assessment completed in 2016. With the ability to conduct studies in the future, it is likely that additional projects will be added. With the recommended rate structure pay-as-you-go capital funds are included, so depending on the nature of the project, it would be unlikely rates would need to be raised.
- A need for “shovel ready” projects to take advantage of grant funding, otherwise the City is less likely to receive grants when planning and/or design still needs to

- occur. Staff indicated that the City has received a planning grant for the H Street Pump Station, and continue to look for other grants.
- The request to understand the timing of the efforts to work with the County on the South Davis pump station cost share, specifically when staff anticipates that the issue would be resolved with the County. Staff indicated that the topic is complicated with a lot of moving pieces, and that there is no set timeframe at this time.
 - The request to understand the fiscal impact of the lack of County participation in the current costs around the South Davis stormwater station. Staff indicated that the costs of the pump station there are a moving target and difficult to provide.
 - The recommendation that the City Council set a target date to get the question of the funding of the South Davis pump station resolved.
 - A question of whether the consultant or staff anticipate investments in infrastructure to occur at the federal level, and if there are implications for the planned capital improvement projects should those investments become a reality. Staff and the consultant indicated they were unaware of a large-scale federal or state funding effort, but would adjust revenue needs as needed if the full CIP cost estimates can be offset with grants or other investments.
 - The importance of discussing how the City will choose to deal with debt instruments, and specifically ways to avoid lost money in borrowing. Receiving stimulus money or grant money and paying off debt earlier (if there is no penalty) can be achievable if the City takes the right approach to debt service.
 - Whether the Commission would have additional opportunities to provide input on the outreach strategy. Staff indicated outreach is dependent on action being taken by Council to move the rate recommendations forward.
 - A request that the Commission's availability to help with outreach on the rate adjustments be included in the minutes.
 - The recommendation that the rate adjustment messages focus on dollar impacts, rather than percentages, because relatively speaking the dollar amounts seem far less impactful than the steep percentages, e.g. increasing rates by 200% vs \$7 a month increase.
 - Clarification from staff that regardless of how the City determines to enact the debt, the revenue requirement for the utility does not change, since the percent the public pays in interest is not far off from the escalation of costs in future years.
 - The importance of understanding all of the costs associated with debt, and the recommendation to consider bonds, with the importance of using the experience the City had with the Cannery CFD as an example. The Cannery bonds ended up with \$7 million dollars in closing costs. If closing costs can be avoided, the requirement for debt service can come down substantially. It was recommended the City explore closing costs and look at borrowed money sources that aren't in the public sector.

- The importance of exploring the possibility of debt for the utility's infrastructure needs, and whether the Commission would be making a complete recommendation to Council if there is no suggestion on financing the improvements.
- Clarification from staff that the discussion of debt needs to occur after the rates are enacted. This is because the City currently cannot incur debt for the stormwater utility, as the revenue requirements are not in place to support any debt coverage. The consultant indicated there are a lot of unknowns with rates, due to impacts that could increase costs (projects) or decrease cost (grants, awards), which are variables constrained by the voter process. Consideration of these factors will create the "fiscal envelope" to approach managing the utility and the strategic approach necessary to complete the needed projects.
- Appreciation for the consultant's report and presentation.
- A suggested recommendation to enact lower rate adjustments than presented by staff, because the city is still in the midst of the COVID-19 outbreak (and economic downturn). The cost of capital projects is cheap right now, so the argument is that the steep increases seen in the water and wastewater utilities are not necessary. Rates should be down around CPI.
- The clarification that the general fund in principal can be used to support the capital improvements of the utility, but a reiteration the stormwater utility does not have the revenue to fund any type of debt instrument.
- The understanding that the rate increase is high, but the funding to replace the aging infrastructure is not likely to come from the general fund, so steep increases in rates are necessary, as not enacting the rate increases would figuratively speaking kick the can down the road.
- An appreciation that the Commission is focusing on system impacts of the rate adjustments and the utility, rather than focusing on only rates.
- The recommendation that should the proposed steep rate increases be adopted, that the infrastructure work occur without delay. Staff indicated that should the proposed steep rate increases be adopted; capital improvements will be completed in short order.
- The understanding that there are uncertainties at the national level and state level, with significant economic impacts of the COVID-19 pandemic, but the demographics of our community have generally not seen significant economic impacts. The City could help people who have been impacted by the economic downturn with targeted efforts of economic assistance.
- The recommendation that the city needs to be pressured to keep operations and maintenance costs at a minimum, in order to keep rate impacts lower. Staff indicated that the operations and maintenance levels and costs have been studied. The city has not seen staffing increases or increases to the operations and maintenance budget (despite having areas of maintenance added, such as the Cannery development), yet current levels of service are not at levels to meet industry service standards. Staff further indicted that regulatory requirements are

changing, as permits add costs for jurisdictions (including sampling, water quality regulations, trash amendments). Staff also noted that the recommendations in the report would not be responsible if they did not acknowledge the needs of the program. Lastly, staff indicated the rate study itself does not approve all expenditures (including operations, CIP, etc.), the approval of all expenditures is done through the budget process and by City Council determination.

- The clarification that some of the current operations and maintenance costs are associated with the maintenance of older equipment, and some costs (related to monitoring, and other tasks) could be reduced if the equipment were replaced. However, the new capital infrastructure would also need to be maintained with a commensurate cost associated with that maintenance.
- Further discussion about the Cannery development, and the flag of increased costs that are the direct result of not projecting correctly the impact of development.
- The recommendation to eliminate the ‘excess CPI banking’ component of the annual adjustment calculation.
- The concerns around deferred capital improvement projects, and the lack of a reserve for the utility to buffer against climate change impacts. Encountered huge surprises with the COVID-19 pandemic, and additional economic impacts of the pandemic to the city’s ability to raise enough tax revenue could be much more significant.
- The possibility of revisiting operations and maintenance costs, and to continue with the annual fund updates for each utility to review the need for rate increases in future years.
- The process for each utility study and fund update, and a request that the Commission see the template for fund updates to establish a core set of questions, or offer additional improvements or comments.
- A comment from staff that the slow-down of the review of the cost of service studies was intended to provide the commission with adequate time to look at the financial information of each utility, and the current discussion of the utility financial plan should have taken place during those meetings.
- The question of staff of whether or not the recommendation to not include the CPI banking would be problematic. Staff indicated there would be no significant issue with the removal of the excess CPI banking recommendation.
- The comfort with the clean and simple motion, and the desire to make it clear that when the motion reaches the City Council, that the Commission would include the discussion of financing, and a better understanding of the tradeoffs and timing of capital improvements and operations and maintenance on future agendas.
- The clarification from staff that the discussion of debt and the management of debt would likely be a topic for the Finance and Budget Commission.
- A request to understand how many city utility customers are in delinquency, and if the number is higher than previous years.

- Prior to the approval of the motion from E Roberts-Musser and G Braun, a friendly amendment of “with the inflationary factor not to exceed 3% in any single year, or the CPI for the San Francisco area, whichever is less” was added at the end of the motion by recommendation of M Williams. The friendly amendment was accepted by the mover and the second.

L Deos left the meeting at 6:45pm

Motion: The commission supports staff recommendation of the rate adjustments that are included in Scenario R – which is the average of Scenarios A-D, with the inflationary factor not to exceed 3% in any single year, or the San Francisco-Oakland-Hayward CPI-U, whichever is less.

Moved by E Roberts-Musser, seconded by G Braun. The motion passed by the following votes:

Ayes: Braun, Kristov, Roberts-Musser, Troost, Williams

Noes: Bystrom

Absent: Deos, Franco

There was no public comment on this item.

B. Water Cost of Service Study – Introduction to Rate Scenarios

The item was introduced by S Gryczko, and included a presentation from Abigail Seaman and Doug Dove of Bartle Wells Associates. The information presented included rate setting development and scenarios, as well as customer cost allocations.

Discussion included the following:

- Consultant discussion of the ratio between fixed and volumetric costs. The previous rates were set at a high percentage of variable volumetric costs, so that the current ratio for the rates has settled to 21% fixed, 79% volumetric.
- The question of whether or not Davis has a cost basis for a tiered rate structure, with staff indicating the calculation would be extremely difficult, because the rates are highly volumetric and it is hard to delineate tiers.
- Consensus by the Commission that maintaining a ratio of 21%/79% for water rates would be desirable.
- Within Proposition 218 law, as long as rates are not increased, current rates can be used in the year 2021; and the Commission could recommend a 5-year rate structure, making the further recommendation that Council extend the FY 2019/2020 year rates to year 2021.
- The consideration of recommending no increases for the first or second year of the five-year rate schedule, and suggesting reallocations across customer classes to account for where the water is consumed. A Proposition 218 process would be

necessary to reapportion the costs. Staff indicated that the same was done for wastewater rates in 2017.

- The consideration to slow down the discussion of the water rate adjustments, with a possible recommendation not to move forward with adjustments at this time, since the water fund is in good shape. Staff indicated that there will be a need to check in with the City Attorney on the cost allocation recommendations, and if the City would be obligated to reapportion rates if determined by the study.
- Given the amount of the water fund balance that is projected, if rate increases could stay flat or if the Commission should consider a rate decrease.
- Concern expressed by staff on decreasing rates, based on the previous experience with the wastewater utility, and the possibility of future rates needing to be higher to make up for forgoing rate increases. Staff also indicated that the recommendations for each year of rate adjustments would be before both the Utility Commission and Council, and the percentage within the Proposition 218 schedule would be a maximum allowable increase, but the determined increase could always be less than that.
- The request to discuss the fund balance in greater detail next month.

There was no public comment on this item, and no formal action was taken on this item.

L Deos returned to the meeting at 7:51pm

C. Solid Waste Annual Fund Review and Rate Recommendations.

The item was pushed to the November Commission meeting, and will be included first on the agenda.

There was no public comment on this item, and no formal action was taken on this item.

D. Review of Subcommittee on the Downtown Plan.

The item was introduced by J Troost, who asked what the current status of the Downtown Plan is, and if the Commission would have further opportunities to contribute. Staff indicated that an update was distributed to the Commissions by email. After a brief discussion, the Commission made the following motion:

Motion: Extend the Subcommittee on the Downtown plan until January 2021

Moved by M Williams, seconded by E Roberts-Musser. The motion passed by the following votes:

Ayes: Braun, Bystrom, Deos, Kristov, Roberts-Musser, Troost, Williams

Noes:

Absent: Franco

There was no public comment on this item.

E. Review of Subcommittee on Solid Waste.

The item was introduced by S Gryczko, and included a request by commissioners that Recology provide a report or presentation to the Commission, with the request that they speak to long term plan implications of climate change on their operations (including recycling) from their perspective. After a brief discussion, the Commission made the following motion:

Motion: Dissolve the subcommittee on Solid Waste

Moved by E Roberts-Musser, seconded by G Braun. The motion passed by the following votes:

Ayes: Braun, Bystrom, Deos, Kristov, Roberts-Musser, Troost, Williams

Noes:

Absent: Franco

There was no public comment on this item.

7. Commission and Staff Communication

A. Long Range Calendar

The item was introduced by S Gryczko, and included a brief overview of the meeting topics for the rest of the calendar year.

Discussion included the following:

- The request that staff provide staff reports and published agendas 10 days before meetings if possible.
- E Roberts-Musser discussed five articles for the Commission:
 - Public Policy Institute of California - *3 Lessons for California's Water Funding Challenges in Today's Recession*
 - Vulture.Com - *Danbury to Name Sewage Plant After John Oliver If He Visits*
 - Public Policy Institute of California - *Ensuring Water Equity and Utility Solvency Lessons from Phoenix*
 - Public Policy Institute of California - *Recession Safety Net Needed for State's Small Water Systems*
 - Times of San Diego - *Water Authority Sets Agricultural Water Discount in Exchange for Reliability*

8. Adjourn

The meeting was adjourned by consensus at 8:36pm.