



City of Davis
Utilities Commission Minutes
Remote Meeting
Wednesday, November 18, 2020
5:30 P.M.

Commissioners Present: Gerry Braun, Olof Bystrom, Lorenzo Kristov,
Elaine Roberts-Musser, Johannes Troost (Chair),
Matt Williams (arrived at 6:36pm)

Commissioner(s) Absent: Linda Deos, Jacques Franco (Alternate)

Council Liaison(s) Present: None

Staff Present: Stan Gryczko, Public Works Utilities & Operations Director
Adrienne Heinig, Management Analyst

Also in Attendance: Richard McCann

1. Call to Order and Roll Call

Chairperson Troost called meeting to order at 5:32pm.

2. Approval of Agenda

Prior to the approval of the agenda, it was amended to reflect Item 6B would be taken up before Item 6A. E Roberts-Musser moved to approve the agenda as amended, seconded by O Bystrom. The motion passed as follows:

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

Noes:

Absent: Deos, Franco, Williams

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

- E Roberts-Musser provided two articles for review:
 - Public Policy Institute of California – *New Laws Address Water Affordability and Wildfire Risks*
 - Public Policy Institute of California – *Priorities for California's Water*
- J Troost discussed one item:
 - He mentioned that he had an article to send to staff on resources around Senate Bill (SB) 1383, which included links to the legislation, the regulations and helpful videos.

- O Bystrom discussed one item:
 - He indicated that he would not be continuing with the commission after December, with the caveat that if there were not enough for quorum, he would attend the meeting. The Commission thanked O Bystrom for his service.
- G Braun discussed two items:
 - He indicated that he would ask staff to distribute an item titled *Municipal Actions for Building Energy Democracy and Energy Sovereignty*, about energy democracy, which included information that might be of interest to the Commission.
 - He asked that during the consideration of the Long Range Calendar, the Commission consider adding an item to the December agenda on a review on the year, to discuss what went well, and what the Commission learned, especially in looking ahead with the election of officers in mind.

4. Public Comment

There was no public comment.

5. Consent Calendar

B. Staff Clarification on Stormwater Item from Commission Meeting on 10/21 *(Informational)*

C. Delinquent Utility Accounts (Current vs. Historical) *(Informational)*

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

Prior to the approval of the Consent Calendar, the draft minutes for October 21, 2020 were pulled for comment. E Roberts-Musser moved, O Bystrom seconded, to approve the Consent Calendar without Item 5A. Approved by following votes:

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

Noes:

Absent: Deos, Franco, Williams

A. UC Draft Meeting Minutes - October 21, 2020

G Braun requested that in circumstances where the Commission has a split vote, identifying the different opinions on the motion to clarify for the City Council what deliberation occurred would be good practice. G Braun also requested that context regarding the deliberations and discussions of the Commission on specific topics be forwarded to any other Commissions asked to weigh in or provide guidance on those topics.

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

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

Noes:

Absent: Deos, Franco, Williams

6. Regular Items

B. Solid Waste Annual Fund Review and Rate Recommendations

The item was presented by S Gryczko, with a brief PowerPoint presentation on the Solid Waste Utility fund update, and recommendations on the rate adjustments from staff.

Discussion included the following:

- The earliest anticipated date that the fund would potentially need to look to borrow from another fund to maintain a positive fund balance. Staff indicated that with no changes, the fund would need to obtain a loan as early as the end of the current fiscal year.
- Challenges associated with having a private company as solid waste hauler, since the majority of expenditures related to the fund are cost of contract for services, and there is an inability to see contingency planning of the hauler in regard to what may be on the horizon. A question was raised on whether the volatility of the recycling markets experienced in recent years would continue to be a concern, and a possible impact to the hauler's costs.
- The process to request a detailed rate review of the solid waste costs from either the City or Recology, and what it would entail. Staff indicated that Recology has not voiced a desire to request such a review.
- The reduction in revenue from loss or reduction of commercial services due to COVID and its effect on local businesses, and if there are corresponding reductions in costs that the City pays Recology. Staff indicated that the invoice for Recology has been slightly reduced in recent months, but not proportional to the full reduction in commercial account services that has resulted from COVID.

Public Comment:

Richard McCann – Indicated that his comment relates to the calculation of the Solid Waste utility reserve fund, and stated that he assumed the reserve fund was calculated solely on City expenditures, with no reserve funds held for passthrough to Recology. Staff indicated Recology is responsible for its own reserve fund.

M Williams joined the meeting at 6:36pm

Further discussion included the following:

- Concerns about the increasing budget for city overhead costs, and the discrepancy between budgeted and actual expenditures for the fund, specifically related to the budget for citywide administrative costs (increasing by 10% per year) and street sweeping (increasing by 30% per year)
- If the City could smooth out the increase in rates for January 2021 by adjusting the increase in the rates more slowly at the outset than the recommended 18% for the year 2021 (over January and July 2021), with higher than planned increases in the last two years of the Proposition 218 scheduled rates (through 2023). Staff

indicated this would likely require a loan to cover the shortfall between solid waste revenues and expenditures.

- If the City would be able to increase the existing \$3 million loan from Wastewater, or obtain another loan from another City utility, if the determined recommendation by the commission would not be to increase rates as staff recommended.
- In anticipation of an economic recovery in the second half of 2021 (especially with the advent of a vaccine for COVID-19), the request that the City adjust rates by 6% in January 2021, 6% in July 2021, and 8% each January 2022 and 2023 (the total would still equal the approved increase of 41.5% over the five years). A substitute motion was offered for this recommendation, however it failed for lack of a second.
- The anticipation that with the current financial plans developed for the cost of service studies, the capital improvement projects associated with the utilities are known and within the budget, making it likely that future rate adjustments with each of the utilities will be smaller and more predictable in coming years.
- To assure the City Council that the Utilities Commission will be checking in with the Solid Waste Fund on a regular basis (every 6 months), to look for possible contingencies that might impact the Solid Waste Fund.
- Frustration with the issuance of unfunded mandates from the State, specifically in regulatory matters, and the assumption that jurisdictions can take on additional reporting, education and monitoring requirements without additional funding.
- The need to increase rates by 18% in the year 2021 as suggested by staff, to avoid accumulating more debt in the solid waste utility, rather than fiscally “kicking the can down the road” yet again as had already been done once before.
- Prior to the approval of the motion, a friendly amendment was offered by G Braun to include the language related to six-month contingency check-ins every six months. This was accepted by the mover and the second.

Motion: To approve the [Solid Waste] rates recommended by staff, with contingency check-ins every six months.

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

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

Noes: Bystrom

Absent: Deos, Franco

In his dissent, O Bystrom underscored that the current economic uncertainties associated with the COVID-19 pandemic are still a reality, and a large second wave is likely upcoming. With the additionally stated uncertainties around the increases in budgeted expenditures over actuals, and the likelihood of an economic recovery in the second half of 2021, he indicated that the rate adjustments should either be postponed entirely, or

lowered in the next year, with increases in anticipated adjustments in 2022 and 2023 to recover the full recommended rate adjustments from the 2018-19 cost of service study.

A. Discussion of the Historical Utility Bill of the Average Single-Family Property 2010-2023

The item was presented by M Williams, who provided a PowerPoint presentation to the Commission. He outlined the impetus of the discussion of historical utility bills, the data that was collected, and provided a description of the Excel spreadsheet he developed for the Commission to review. The spreadsheet contained data from the City's Comprehensive Annual Financial Reports (CAFR) and year-end fund balances from annual Budget documents, in addition to what was provided by staff on historical rates. The spreadsheet can be used to model all of the City's utility rates with the view of balancing rates, and model impacts of rate alternatives when discussing rate adjustments with the Commission.

Discussion included the following:

- Appreciation from the Commission to M Williams for developing the spreadsheet.
- Clarification from staff that the utilities are not balanced against each other when reviewing rate adjustments, rather the spreadsheet demonstrates the ebb and flow of utility bills over time, and is very useful in understanding the overall impact of rates to ratepayers.
- Reminder that the City Council can enact a rate adjustment *lower* than set by a Proposition 218 schedule.

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

C. Water Cost of Service Study – Fund Balance Discussion

The item was introduced by S Gryczko, who reviewed a memo presented to the Commission. He outlined that the current fund balance for the Water Utility exceeds the enterprise fund reserve target. However revenue for the utility is approximately matching expenditures, so from that perspective the utility is fiscally balanced. He provided an example, with the wastewater utility adjustment, of what can happen when expenditures exceed revenue, even with a large fund balance. The cost allocations for the wastewater utility were adjusted in 2017, but rates had not been increased since 2015. The end result was a significant drop in fund balance, which could mean higher than anticipated rate adjustments would be required (higher than CPI) to restore the balance of expenditures and revenue. He also recommended to the Commission that work on the water cost of service study be shelved, as the fund is in good fiscal shape. Annual fund updates will provide necessary check-ins until it appears a rate adjustment is needed.

Discussion included the following:

- Clarification that the large expenditure in 2019/2020 shown in the water fund was the payoff of the i-Bank loan.

- Recommendation that the Commission continue with the 21%/79% variable to fixed rate structure for the water utility when the Proposition 218 rate adjustment schedule does go forward.
- A request to revisit the Enterprise Fund Reserve Policy for the water fund, to review the calculation for the rate stabilization percentage and determine if the percentage is appropriate for the fund or should be updated. It was discussed that the percentage (currently at 10% of annual operating revenue) should be around 20% of annual operating revenue, due to the highly volumetric rate structure.
- Clarification that discussions related to the expenditure of fund balance over the City's reserve targets would be within the purview of the Finance and Budget Commission, with input from the Utilities Commission. Expenditures could include paying down debt, or Capital Improvement Project allocations (debt financed or pay as you go).
- If staff are aware of any possible federal programs (existing or upcoming) that could be of benefit to the utilities. Staff indicated awareness of some of the plans of the upcoming administration, and if the opportunities are rolled out as grants, the City would actively pursue them. However, the City would probably rank lower on priority for grant funding since grant efforts prioritize disadvantaged communities, and the City is not an economically disadvantaged community.
- Questions on the wastewater fund balance example, specifically what expenditures impacted the balance since 2015. Not adjusting the rates for water would be different from holding rates static for wastewater. Staff clarified that the difference between the wastewater fund rate freeze, and the suggested shelving of the current water cost of service study would be that the wastewater expenditures exceeded the revenue, so that the draw-down of the fund balance for ongoing expenditures brought the wastewater fund to the recommended reserve level and then below that level in the last five years. The recommendation not to lower water rates or use fund balance for ongoing costs would maintain the balance of fund expenditures against revenue and prevent the fund from getting into trouble in the same way. The water fund balance is currently high, and well above the recommended reserve target.
- Highlighting that the wastewater fund balance is \$5 million over the current number, as the fund has two loans outstanding to the solid waste and stormwater utilities.
- Suggestion that the City Attorney review the language of the Proposition 218 law to determine if it's legal for the City to adjust rates by CPI outside of a Proposition 218-approved rate schedule.

Motion: The UC recommends that the current water cost of service study be suspended until annual fund updates indicate a rate adjustment is necessary.

Moved by M Williams, seconded by G Braun. The motion passed by the following votes:
Ayes: Braun, Bystrom, Kristov, Roberts-Musser, Troost, Williams

Noes:

Absent: Deos, Franco

There was no public comment on this item.

D. Review Fund Update Process.

The item was introduced by A Heinig, who provided an overview of the memo presented to the Commission on the structure of the annual fund updates for each of the City's utilities. The update process included 1) Sources of funds; 2) Uses of funds; 3) Fund balance; 4) Current fund status; 5) Projections/rate recommendations; 6) Current events or projected events (for example a change in regulations); 7) Staff recommendation on rate adjustments; 8) Next steps (to City Council; Prop 218). Each section of the annual fund update was detailed for the discussion.

Brief discussion included the following:

- Within both the revenue and expenditure sections of the report, significant variances in the budgeted versus actual should be highlighted, along with material to show why the differences are present.
- Expenditure discussions should include highlights of where utilities have achieved efficiencies that bring down costs (this would be in the Uses of Funds section). It was suggested that the reports include initiatives, targets for those initiatives, and progress on achieving the cost savings.
- Changes in financial reporting and accounting from the City's Finance Department are underway, which will likely impact the way that annual fund updates are presented.
- Within the fund balance section, fund balance should be shown as both gross fund balance, and net fund balance.
- A fund update is not a full cost of service study, rather a snapshot of that year.

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

7. Commission and Staff Communication

A. Long Range Calendar

The item was introduced by J Troost, with discussion of the long-range calendar as presented by S Gryczko.

Discussion included the following:

- The request that staff include an update on Senate Bill (SB) 1383, and how it will impact City of Davis utilities. Requested to be added to the agenda in January as a placeholder, with an informational overview sooner (December). Also requested that staff send an informational item summarizing information provided on SB 1383 to date, in addition to J Troost's prepared document discussed in Brief Announcements.

- Commission reappointments, and a request that the Commission receive an update on the appointment process in December. Also requested that applicants be invited to the December meeting. Staff indicated that some Commissions might have appointment recommendations before Council as soon as December.
- A request that staff give the Commission credit for comments and helpful suggestions that come out of the Commission discussions when preparing reports for the City Council. Staff indicated that when staff and the Commission do not agree on a recommendation, detailed descriptions are provided, but ideas and thoughts of the Commission that contribute to the goals of the City should be included.
- The addition of a “year in review” discussion for the Commission in December, to have in advance of the Chair/Vice Chair election. It was discussed that it would be a little odd to select the Chair/Vice Chair before the Commission is seated, however it was remarked that the Commission could end up with only three Commissioners remaining, and having elections in December would be effective as the current body knows the members, and upcoming tasks. It was suggested that the elections be added to the agenda in December, and can be shifted if necessary.

8. Adjourn

The meeting was adjourned by consensus at 8:18pm.