Council Meeting:	6/03/15
Item:	B-1
Minutes:	3/24/15

MINUTES OF A SPECIAL MEETING OF THE MADERA CITY COUNCIL CITY OF MADERA, CALIFORNIA

March 24, 2015
12:00 p.m.

Council Chambers
City Hall

CALL TO ORDER

The special meeting for 3/24/15 was called to order by Mayor Poythress at 12:00 p.m.

ROLL CALL:

Present: **Mayor Robert L. Poythress**
Mayor Pro Tem William Oliver
Council Member Charles F. Rigby
Council Member Sally J. Bomprezzi
Council Member Andrew J. Medellin
Council Member Donald E. Holley
Council Member Derek O. Robinson Sr.

Others present were City Administrator David Tooley, City Attorney Brent Richardson, City Clerk Sonia Alvarez, Director of Community Development David Merchen, Director of Financial Services Tim Przybyla, City Engineer Keith Helmuth, Public Works Operations Director David Randall.

PUBLIC COMMENT:

The first fifteen minutes of the meeting are reserved for members of the public to address the Council on items which are within the subject matter jurisdiction of the Council. Speakers shall be limited to three minutes. Speakers will be asked to identify themselves and state the subject of their comment. If the subject is an item on the Agenda, the Mayor has the option of asking the speaker to hold the comment until that item is called. Comments on items listed as a Public Hearing on the Agenda should be held until the hearing is opened. The Council is prohibited by law from taking any action on matters discussed that are not on the Agenda, and no adverse conclusions should be drawn if the Council does not respond to public comment at this time.

No comments were offered.

AGENDA ITEMS

1. **Workshop to Discuss Financial Plans and Receive Direction from Council Regarding the Establishment of Water and Sewer User Fee Rates**

Public Works Operations Director Dave Randall stated he won't belabor it with a lot. They have his staff report which tells sort of how they got here. He noted that it obviously is a very important issue and that is why they have taken the time out of their day to get here. He advised that with them today is Habib Isaac from Raftelis, the firm they hired to go through this process. He commented that to date it has involved an awful lot of efforts from all the different departments pulling together data, looking at the various issues, looking at the CIP, the capital projects, looking at all the utility data, etc. so there is a lot of data that has gone into that. He advised that today's meeting is to look at some of the principles of what they are talking about, look at some of the options and give some direction to staff so that the consultants can go back, come up with a set of rates that will be brought back to Council. At that time they will acknowledge that they are ok with the specific rates then they get published for 45 days. He noted that is

the public's opportunity to be forewarned and then after that 45 days they hold the 218 hearing where they can decide whether or not they want to accept it. He commented that the public also has that opportunity to file protest to the rates. He stated that unlike the lighting and landscaping districts, they don't need a majority of a vote. They just have to not have more than 50% of the utility users file protests which they don't think would be the case but you never know. Mr. Randall introduced Mr. Isaac.

Habib Isaac stated he is a manager at Raftelis and this is all they focus on water, wastewater, and stormwater. He has a background in applied mathematics so they can imagine they are very fun to hang out with at conferences. In all seriousness he is going to go over the City's current financials of the utilities as its own separate enterprise funds, show what their current position is, show the most appropriate way where they want to be in the next 3 to 5 years, even looking farther out in 10 years. He commented that the Prop 218 noticing period is usually 5 year increments but they don't want to leave the City in a situation where in years 6 or something, something huge is coming online and they didn't look a couple years farther out to set them up for success. From there he will take one of the scenarios he came up with in terms of financial plan and use that scenario to show them how rates are developed. He commented that these are just preliminary rates and based on the feedback today there might be refinements. They still need to do their internal quality review, assurance and then based on the feedback they get they will calibrate it and then provide the City with what will be the final rates for consideration prior to the Prop 218 notice.

Mr. Isaac advised that they are going to review the water and sewer financial plans. As he mentioned, their current position as well as the 5/10 year outlook and also they came up with some scenarios because they can get to the end results many different ways so they came up with two viable options. With sewer, the City is in a pretty good situation right now so it looks like coming up with multiple options wasn't really necessary and he will show them what that scenario is as well. When they look at the scenarios they are going to look at what is the effect on the utility primarily before they even talk about rates. He wants them to understand the utilities health so then when they look at rates and they see a dollar amount on the rate, if they want to change that, maybe for example it is not palatable to their customers, they know what they are changing on the financial plan that then affects the health of the utility. He noted there are two sides of the coin that they have to balance. They will talk about rate design, what are the recommendations as well as some of the requirements in terms of Prop 218 compliance, and then next steps. He asked that they keep in mind that this is a workshop so besides Q&A at the end, they should feel free to ask questions during the presentation. He noted that it is rather lengthy but it is very thorough and he thinks it will generate good discussion.

Mr. Isaac stated he would start with the water utility. Regarding their current financials there is a slight negative cash flow and this is assuming no rate adjustment. They are just going to stay with their current rates as is and he doesn't believe the City has any further rate adjustments in the future. In 15/16 they also see a deficit and that is what their first year is starting in 15/16, July 1st of this year. He commented that the primary driver of this is the capital improvement expenses. He noted that the City just had their master plans updated and utilities in general are very, very capital intensive so it is very important that they make sure they do collect revenues, not just to fund their capital but also to fund repair and replacement so they reinvest in their system just like they would their house. He referred to debt coverage noting that they do have debt outstanding. There are bond covenants related to what coverage is required and they are not meeting that currently so another thing they want to do is shift, make sure they change their path, and they comply with their bond covenants which is 120% of their debt. He commented that they do have some healthy reserves in both utilities but based on the current position they would end up using their reserves to make up the difference. They will be able to use that but only for basically two years and then it would be depleted primarily because of the capital. Speaking of the capital, in the next 5 years their average annual expense is almost $6 million. He advised that there is a low of $1.5 million and a high of $14 million. He commented that the $14 million high is related to storage facility improvements.

Mr. Isaac referred to the display may be a little small and stated this is basically the same thing he just discussed but in numeric format. Those are their current revenues. He restated that this is no revenue adjustments as indicated in the title. He pointed to their operating expenses and then there is also their

debt obligations. They will see that after they pay their debt they have a negative balance which means they have to use reserves to cover that. He commented that in terms of O&M they have sufficient revenues to cover their annual expense but the debt is where they take a little hit. He noted that the bottom percentages are their bond covenants. They want to be at 120%. He noted these are things they take into account but there are also reserves that they consider as well because, besides making sure they have enough revenue from a year to year basis, they also want to make sure their utility has healthy reserves. He referred to the next table which shows their two reserves which primarily is their operating reserve and their capital repair and replacement reserve. Currently it is $7.2 million so the way they set up operating their capital typically, best industry standard is for O&M reserve, they want to have 90 days of cash on hand and that is usually where they want to be if they collect revenue on a monthly basis. If they collect revenue on bi-monthly basis then it is recommended to have 6 months. He advised that is an example. With their capital it is based on their 5 year average so the thought there is that they should have a year's worth of capital in their reserve so then scheduling doesn't become an issue. They continue to schedule the capital as it is needed and they could take care of ebbs and flows in revenues with their reserves. They can see that after the two years they would then have a negative balance in their reserve because they would be depleted mainly because of their capital. He commented that their capital shows up in their repair and replacement reserve. He pointed to the area on the display noting there is a pretty significant dollar amount and that is where their capital is being funded through.

Mr. Isaac commented that besides numerically, another good way to show this is graphically. He referred to the first graph. He noted that the bars represent their operating position. He commented that this does not include capital just their yearly operating. He referred to the green trend line which is their current revenues. They want their revenues to be over the bars and because it is not that is why they see those red color bars underneath the zero line so they have a slight negative balance. He referred to the next graph which is their capital plan. He advised that the bars represent the extent of capital each year. They will see that it really spikes up in years 2021 and the next year. That is where those significant facilities are, the storage facilities. He noted that because it is being funded through their reserve this is a good way to show how it is affecting their utility. They are assuming that capital has to be funded which then means that their capital repair and replacement reserve takes the hit and then it shows as a negative fund balance. They can think about that $14 million in FYE 2020 that is hitting their reserve as if it is being funded. He noted that money has to come from somewhere.

Mr. Isaac stated these are the things that they want to adjust. They have two financial plan scenarios that gets them to the end result of having healthy reserves and looking at a positive net cash flow. They have a step down adjustments and they have a level adjustments. He explained that the level adjustments, they are able to achieve that by shifting capital improvements. He advised that they don't do any of the shifting themselves but working with City staff they made some adjustments in their capital to be able to mitigate any type of significant revenue adjustments. He stated he would show them the first one, capital as it is, and then the second one.

Mr. Isaac referred to the step down adjustments. He commented that some of the items that they want to achieve is first, they want to have positive net income each fiscal year and then with reserves they want to build them up over the next 5 years which is that Prop 218 noticing period. They want to leave them in a good situation. He commented that in this scenario, the step down adjustments, their minimum reserve requirement of having the 90 days of O&M reserve and the 5 year average of their capital for their repair and replacement reserve is met in year 3. He noted that the capital is funded through a combination of issuing debt as well as pay as you go. For this to even be successful they would need a debt issue in 19/20 to fund that storage facility replacement. He stated that it also makes sense to look at issuing debt as well because of the life of that particular improvement. That useful life is going to be 30 years or more so for it to be equitable to all their customers today and in the future that is where using debt also makes sense so they are not burdening just the customers of today to fund something that significant. He commented that total capital facilities over the 5 year period equals $32 million just to give them an idea especially when they start looking at the next year when they shift capital. He noted that he already mentioned the storage facility. Also, a big component is that debt coverage is met this next fiscal year. So they are not meeting it today but with these revenue adjustments that they are going to show they meet it in 15/16. Mr. Isaac stated that for these revenue adjustments, he is giving them an idea of the

extent. It would be two years of 30%, 20%, 10%, and 3%, and the first adjustment would occur July 2015. He noted that those are pretty significant numbers. He also wanted to point out that revenue adjustment doesn't mean rate adjustment because their rates are a combination of a monthly fixed charge as well as a variable charge based on usage. He added that it really depends on how much usage they have whether or not they have a 30% increase. He stated that right now today it would translate but they are also going to recommend structuring rates in a tiered structure so then those that use water not as efficient as others pay more for that cost.

Council Member Bomprezzi stated that is PG&E, tier 1, tier 2, tier 3.

Mr. Isaac stated that similar to the other graphs of current position, he also likes to show this graphically. He stated that what this is showing is the bars are just those revenue adjustments the 30, 30, 20 and then that green trend line that spikes up and comes back down, that is their bond coverage. It is showing what is their current expected bond coverage. He commented that it makes sense that it spikes up because they are correcting it and then, the reason why it comes down is because they are issuing that new bond issue. He restated that is why it comes back down and then it levels off. It shows that they are meeting their bond covenants if they do decide to issue debt in the future. He noted that they have plenty of time for that and actually that bond issue is even outside the 5 year planning horizon of the notice but just something to be aware of. He referred to the financial position. He noted that now those red colored bars are on top which means surplus funds above their O&M that then allows it to go into their reserves. He showed their capital expense noting that it is the same thing but now what they did is they color code it based on how it is being funded. The green represents pay as you go which is cash on hand and the purple represents that it is being funded through bond proceeds. They can see that they are funding a big portion of the major facility cost through the issuance of bonds so then they get those funds right away and they can take care of that improvement. With reserves, they will see that the red trend line that goes across is their minimum requirement and they are almost hitting in the first few years. Their O&M, their operating reserve, is hitting it every single year, the 90 days, but the slight dips are really just a function of the capital in that year so this is where it makes sense. They have a capital reserve and then they utilize that reserve during times where they need it. It might dip in to fund capital because it is a little bit higher that year but then as long as they see that it recovers and it is still building up then he would recommend that it is ok to see it go slightly underneath. He referred to the spike in the middle which is the 2020. That is where bond proceeds are available and it goes into the reserve to fund capital so it will be used in that year. Mr. Isaac asked if there are any questions on that. No questions were asked.

Mr. Isaac stated where they could come up with something a little bit better, in terms of being more palatable to their customers, in terms of just revenue adjustments. He commented that they will still achieve the same metrics, positive income each fiscal year. He noted that debt coverage 120% is met in the first year. As he mentioned now certain capital projects are deferred to future years so this is from the due diligence of your City staff of what makes sense. He commented that total capital facilities over the 5 year period is now $17 million. In the previous one it was over $32 million so there is slight movement. He noted there is still funding for everything but maybe certain items could be shifted for a little bit later. He commented that the storage facility was also shifted over by a year so now it is in year 2021 and that extra year allows them to do lower revenue adjustments that then can build up over time and be ready to be utilized in that year that they need it.

Mr. Isaac referred to reserves. He commented that operating reserves, again just like the other one, is achieved each year. Capital reserve is leveraged to fund projects in certain years and they still have a bond issue but now it is shifted over one year in 2020/21, $25.5 million again for the same improvements. This gives them a little bit more time but they can see just this slight shifting of capital costs, the revenue adjustments now come down to almost level, 4 years of 16% and then it goes down to single digits. He stated that again this will still have a revenue adjustment in July 2015. He noted that 16% sounds like a lot but what does that mean. He is going to show them what that means in terms of rates. Again they are going to be recommending tiered rates. They will see that even with the revenue adjustments some that are efficient won't really see much of a difference and others that are inefficient will see more of a difference. He showed it graphically. He pointed to the revenue adjustments. They can see the four bars are level at 16. Their bond coverage is met every year. It dips down when they see that potential

new bond issue and their financial position is excellent. They need to keep in mind that those red bars is what they want to see that then is able to flow into their reserves. He referred to the purple bar noting that the width expands in 2020 and 2021 and that is because of the new debt amount so now they have a new debt obligation that gets added. He referred to capital. He noted it is the same overall capital plan but shifting over a little bit and they see how it is funded. He noted that almost all of it is pay go until they have those major improvements in the later years. He stated again, the Prop 218 noticing is only the first 5 years so 2015 through 2020. This is just letting them know that they expect that they are going to want to do a bond issue later on but it is not going to be in the noticing period for this time period. He showed their reserves. Again, as he mentioned, they are leveraging their capital reserve for the couple of years. They will see it is slightly under that recommended minimum but their operating reserve is always that 90 days. It never takes a hit. Once they have that bond issue they recover. Mr. Isaac stated he could answer questions on this or he could keep going with sewer. He asked if everything makes sense. No questions were asked by Council.

Director of Financial Services Tim Przybyla referred to Mr. Isaac's presentation that they are projecting for those years after 2020 some certain amount of rate increases.

Mr. Isaac responded revenue adjustments.

Mr. Przybyla asked Mr. Isaac if he was going to show them what those figures are at some point.

Mr. Isaac responded they are in single digits and they go down to like, one was 9% then it goes down to 5's and 3's.

Mr. Tooley stated before they go to sewer he would like to raise a quick decision point regarding the business decision. He noted that there are an infinite number of rate schedules they could provide to the Council. They have provided two. He commented that obviously the cheaper one looks more attractive. Here is the business decision. In the next 5 years their primary focus is going to be on the internal circulation system. Their ability to balance the water demand within the City. If they push some of the capital program back into the second 5 year period, they are backloading some of their expenses and in their second 5 year period he anticipates they are going to be having a discussion about paying for the importation of water and potentially a water treatment plant. So if they push some of those capital costs back in order to impact the ratepayer less in the first 5 year period, they may be doubling up some costs 5 years out. He asked if that makes sense to the Council. Council concurred. Mr. Tooley stated that is their business decision.

Council Member Rigby asked if that is assuming that they will put a bond issue in front of the City or is that something that they are already tied into. He asked if it is a magic bond.

Mr. Tooley responded that the bond would be supported by the rates. He added that the bond would not require voter approval just simply the approval of the City Council. He commented that in either of the two alternatives they should anticipate that a bond is going to be the most efficient financial tool unless of course they get a grant or something that sounds like that.

Council Member Robinson asked about the annexation of Parksdale and Parkwood.

Mr. Tooley responded that the annexation remains a possibility. At this point they have not factored any consideration for capital improvements in Parkwood simply because they don't know the full scope of the deferred maintenance in Parkwood. Again because it is not within the City's jurisdiction right now there is no basis for them to assume that in their rate structure. He noted that Council Member Robinson is correct in expressing a concern that there might be some costs there.

Council Member Medellin referred to Mr. Isaac's comment that revenue adjustments don't necessarily mean rate adjustments. He asked that he expand on that or maybe give him other options if it is not a rate adjustment.

Mr. Isaac stated that the only way it would be one to one is if it was like gas; everything was recovered by just a unit price. He noted that is not the case in how they collect revenue. They have a fixed charge that if you have an account, you don't use any water, then you still collect that fixed amount of $7.91, something to that extent from every single customer. Because it is a hybrid of collecting it from a monthly fixed charge as well as a percentage of their revenue comes from usage, that is why it doesn't correlate to being one to one.

Council Member Robinson stated so the more water you use the more it is going to cost.

Mr. Isaac responded yes. He stated he will show them the rate design of how they came up with break points of when do you pay more for water. He added that with the drought conditions they are in, they are seeing a lot of agencies moving to tiered rates and also, a lot of agencies now, looking even more so into budget based rates where you give a very specific allotment to every single parcel that is unique to them. He noted that is a lot more data gathering and a lot of GIS data, things of that sort. But based on where they are today he thinks that might be a step that they may want to look at in 5 years or so.

Mr. Isaac stated he would now go over the sewer financial and then from there he will transition into rate design for water. Similar to how he presented water, with sewer, again there is also a negative cash flow starting in 15/16 and again its primary driver is existing debt and capital expenses. He added that the debt coverage is also not met. He noted that the sewer utility has about $8 million in reserves so it definitely has a good cushion but for it to be sustainable it would be depleted in 4 years if again with no revenue adjustments, just living off reserves. In terms of capital, the average is $1.9 million, roughly $2 million, and in 2021 there is a capital increase of $5 million. He stated that is outside of their planning horizon but this is a good example where they want to set them up for success. It would be providing them a disservice if they just looked at the 5 years and all of a sudden their capital goes up by $5 million year 6, and they don't want to see a huge spike in rates.

Council Member Bomprezzi stated no. They were already there once before.

Mr. Isaac displayed the revenues for their sewer utility, again just with no revenue adjustments. He pointed to the operating expenses and then they have their debt obligation for sewer. They also see, after paying their debt, there is a negative cash flow and then their coverage. With the reserves, as he mentioned, they do have $8 million. He commented that it is all unrestricted but for them to look at what is appropriate for a target, they have 90 days for operating and on this they do 100% of the annual depreciation. He explained that for sewer they did annual depreciation because that was a higher dollar amount than the 5 year average. They want to make sure that they collect enough to make sure that they maintain their level of service, which with depreciation, at least collect that much to then reinvest back into their utility whereas with water, the 5 year average was a higher dollar amount. They will see that they have negative balance in the third year. Mr. Isaac commented that they would look at this graphically. They see the bars of expenses, O&M and debt. He noted that the debt in the sewer is a little bit higher. They see their green trend line is not going over the bars so they have red deficit. He showed their capital expense. They will see that in 2021 they have that increase in capital that goes up by about $5 million so they need to account for that future capital that is coming on the horizon in terms of revenue adjustments. So they slowly build up not just to cover the cost of today but also that they are not going to have a huge spike later on as well. He commented that again they are going to achieve these metrics positive net income each year, reserves will be met in the first year, the fund balance meets the minimum reserve requirement, and in this scenario they actually don't need to issue debt even with that $5 million increase in 2021. They could fund everything through pay as you go 100% so once cash is on hand they fund their capital and debt coverage is achieved in all years. With these metrics the revenue adjustments would be single digits, 9%'s for the first three years, and then 10%'s the last two years. He commented that the slight ratchet up in those last two years is because of 2021. He restated that the first adjustment would occur in July of this year. He stated that in the grand scope of things and even just from other projects, their sewer utility is pretty healthy and it doesn't take much to continue down that path. He added that with these revenue adjustments they also see, in the later years, after they see the three years of nines and the two years of ten, it then drops down to 3%, and then it goes down basically to cost of living adjustment. He displayed the City's financial position moving forward with those revenue

adjustments. He also displayed the City's capital all funded through cash and their reserves. He noted that they will see that they are building up reserves in those first years so they are definitely well over the minimum but it is also to account for that 2021 because then it dips down because they are using cash on hand to fund that $5 million increase in their capital and then it levels off. He commented that from this standpoint it is very prudent in how they do the revenue adjustments of maybe 1% here, 1% there compared to water where it was like thirties and then sixteens. Mr. Isaac asked if the Council has any questions.

Director of Financial Services Tim Przybyla asked if the rate increases equal the revenue increases.

Mr. Isaac responded no.

Mr. Przybyla asked if they also have fixed and variable factors included.

Mr. Isaac responded that probably closer just because residential is flat already but they do allocate costs between customer classes so based on what percentage of costs goes to each customer class would dictate how much of that percent increase they get. He noted that it is not an even distribution of cost. He commented that some customers get more of the cost than others because of their strength flows, the volume of flow as well as the concentration of that flow then that is a factor of how much cost they should pay. He advised that he will show that as well.

Mr. Isaac referred to water. He commented that with water, when he is talking about looking at the cost, looking at the rates, looking at fixed charge, variable charges, they are using the level adjustment scenario which was that 16%. He asked that they keep in mind that the rates he is showing them are preliminary rates and they are not final in any way but at least it gives them a conceptual idea of what will be the impact to their customers and it already includes that 16% revenue adjustment in this upcoming fiscal year.

Mr. Isaac advised they would now talk about how revenue is recovered, their existing rate structure, Prop 218 requirements, and then the proposed rate design. He referred to water rates and noted that due to Prop 218 there needs to be a clear nexus between cost and rates noting that is very important especially when they do tier rates. He commented that a lot of agencies, when they want to promote conservation or have a price signal to say look we want you to use water efficiently, it would just be a multiplier. For example, let's make sure the tier two rate is twice as much as the current rate and then tier three let's make it three times so it is a lot more like economic drivers but with Prop 218, and with the more scrutiny that is involved, they have to show what costs are equated that are in those higher tiers. That is what they do very well in these current times. Mr. Isaac commented that tiers should be built up and show the cost in each tier and the unit price in each tier. He added that as additional tiers are introduced it is more difficult to justify rates. He noted that a real easy way to justify rates is multiple water supplies. He commented that agencies may have groundwater, surface water, and imported water and then they would correlate how much of the demand can groundwater take care of and then there is a certain point where there is no more groundwater then the next water supply takes over and then that would dictate the breakpoint. He stated that in those situations very easy. He stated that the tier rates and the number of tiers would be based on the specific cost of the utility. He noted that another example of costs that gets spread differently to the tiers is electricity costs. He stated that electricity costs are essentially tiered so those that put more demand on the system should pay more of that cost. Also, they could view capital as well. They put more demand on the system, those capital repair and replacements are needed quicker.

Regarding water rates, Mr. Isaac referred to the recommendation of the design. For single family, they recommend three tiers. Tier 1 is by coming up with what is the required water for indoor needs. The way they looked at it was their master plans and what their metered customers are currently using and they are roughly around 65 gallons per day per capita. He advised that what they have done is that they take the density in Madera, multiply 65 gallons times the billing period of 30 days and that comes out to 10 units of water. He noted that 1 unit of water is 100 cubic feet which is 748 gallons and that is a tremendous amount of water. He commented this is so they understand what the water units are.

Mr. Isaac referred to tier 2 which is outdoor. With outdoor what they do is they look at the usage patterns of their single family customers in the hottest season which is their summer quarter average and they look on average how much do your customers use in water for that time period because their outdoor demand goes up for irrigation and on average their customers use 33 units of water. They want to make sure that tier 2 covers the average outdoor need. He commented that the breakpoint for tier 2 is up through 33 units. Anything about indoor and outdoor would be considered over the amount needed for indoor and outdoor.

Mr. Isaac commented that for multi-family they do a similar rate structure. He noted that tier 1 is also indoor needs which is the 65 gallons per capita per day but the difference here is it is multiplied by every single dwelling unit so if it is master metered and it is a fourplex, then it is 10 units times 4 so it would be 40 units for that indoor need. He added that because multi-family has so many different configurations some may not have any outdoor, some may have outdoor and there are different degrees of outdoor, they just have two tiers. He noted that basically they will set their allotment for tier 1 and tier 2 is anything above their indoor needs because they don't have the data to quantify how much is one outdoor need compared to another or do they even have outdoor needs and that is not data that is available at this time.

Council Member Bomprezzi asked how do they quantify when people are using water whether they are using for indoor and outdoor.

Mr. Isaac responded that indoor would go based on what is needed for indoor use on a per capita basis so that is how they come up with the breakpoint. He referred to the SB X7-7 which is reduce 20% consumption by 2020. Their target by the state legislation is to get down to 55 gallons per capita per day but they also don't want them to have to change their customers behavior overnight so they are going off of now 65 gallons and then maybe in the next five years they will get used to that and then they could ratchet it down to achieve that target of 55 gallons per capita per day. He noted there is matrix of how much water is needed for indoor on a per person basis.

Council Member Bomprezzi stated they have already cut down the days that people can water from three days to two days and asked if this scenario took that into consideration.

Mr. Isaac responded not for indoor but that would be reflected in the usage patterns that they are using for the breakpoint in the outdoor, the 33 units.

Council Member Rigby commented so the answer is yes.

Mr. Isaac agreed.

Council Member Bomprezzi stated she just can't understand how they can distinguish between indoor and outdoor.

Mayor Poythress commented that what Mr. Isaac is saying is that indoors average 65 gallons, outdoors 33 and you lump it all together. He thinks based on that total of 65 / 33 and then tier 3, then you add it up, and everything over that gets...

Council Member Bomprezzi asked what if someone chooses not to water and have a desert.

Mayor Poythress responded that they are actually going to be able to use more gallons indoors, and asked if that is right?

Mr. Isaac responded no and clarified that the indoor breakpoint is 10. Essentially what it means is that they would just be paying tier 1 rate and they would never be paying tier 2 because they don't go into that bracket.

Mayor Poythress commented then tier 2 is higher charges.

Mr. Isaac responded yes.

Mayor Poythress stated so if somebody decides to go desert and they use 65, they are good at tier 1.

Mr. Isaac stated that tier 1 is the 10 unit break, tier 2 is 33 so the amount they get for tier 2 is 23 and they are going off of overall averages of their customers because they are not drilling down to do budget based rates where then they look at every single parcel and their spatial area, things of that sort.

Council Member Holley asked if for indoor and outdoor they are looking at 43 units.

Mr. Isaac responded 33 units.

Council Member Holley asked if the 33 is for indoor and outdoor.

Mr. Isaac responded yes and commented that the 33 is the average that their single family customers use in summer total. They want to make sure that is reflective of indoor and outdoor combined.

Council Member Holley stated that if a person doesn't use outdoor water, they are still paying at the 33 until it drops back down to 10 units.

Mr. Isaac responded they will be charged the tier 1 rate which he will show them in later slides what that rate is. Essentially tier 1 is going to be a lower rate compared to tier 2 and tier 3 so then there is incentive for their customers to be efficient with their water use because then they are going to see the benefits on their bill. He added that those that see that and know, and choose to continue to water and potentially in an inefficient manner, then that is to their discretion.

Mr. Isaac commented that with non-residential, that would be commercial, industrial, landscape, they recommend they just maintain a uniform rate. They will still be allocated their share of cost based on the total usage and total demand they put on the system but with commercial there are so many different uses that to be equitable within that particular category, it is most equitable just to have a uniform rate with them instead of trying to fit everybody into the mold of one particular type. For example, the library compared to a Starbucks. They are both non-residential but the usage, noting that Starbucks could be extremely efficient with their water, but they just use a high volume of water whereas the library or a strip mall retail could be very inefficient with their water but they don't use enough to get into another tier so they recommend uniform rates. He stated they should keep in mind that they are still paying their proportional share of costs based on their total usage based.

Mr. Isaac gave an example of that breakpoint for tier 1. They looked at the density of the City of Madera which is 3.56. They take the 65 gallons per person, times it by the number of days and then divide that by what is 100 cubic feet. He advised that 100 cubic feet is 748 gallons and what that equates to is 9.41 and they round up to 10 units so they are actually giving about 350 extra gallons. He noted that it is also maybe hard for their billing system to just do a decimal point for a breakpoint and it is hard for customers to understand. He commented that it is better just to do a whole number.

Mr. Isaac referred to the next slide on how revenue is recovered. He noted that this goes to the question of how is it not one to one in terms of revenue adjustments versus rates. He stated that revenue is covered through two components. There is fixed revenue through the monthly charge and variable revenue which is based on the water that they use.

Mr. Isaac referred to fixed revenue. There are two primary ways to spread costs for the fixed charge. He noted that costs are either apportioned evenly over accounts or they are spread over size of the meter where those that have a bigger size meter pay more of a cost. They are using both scenarios for this. He advised that is very common with all utilities. He added that it is really a function of what costs are they talking about in their expenditures. It is what does it cost for spreading over accounts, customer service,

billing. He commented that everyone gets a bill. Customer service, everyone can pick up the phone and call. It doesn't matter the size of the meter so in that scenario that cost should be spread over all accounts uniformly as a base. For example, if you have an account you get charged five dollars. He noted that there are also other costs such as capital expenses where they want to spread it based on the potential demand that a customer can put on the system and one way of measuring that is by the size of the meter. In those circumstances, in those types of costs, they would spread it based on the size of the meter. He advised that he would show them how the two get put together. He added that what is also very important is to know how much revenue is being recovered through the fixed charge because they want to model that and that is a good baseline to start with. He advised that they are recovering roughly 34% of their revenue through their monthly fixed charge noting that is really good. He commented that a lot of agencies are more like 25%, 20%. They actually have been seeing agencies shifting more. Before it was you put more cost on the usage then you are going to show a stronger signal to conserve but then it is also more volatile to the utility in terms of revenue. Now they are seeing more of a shift of people ratcheting back up the fixed charge but putting more differentiation in the tier rates so they still show that price. They don't want to say look we want you to conserve but then we are going to come back and hit you up for a rate increase but you were successful. He restated that 34% is really, really good. They also need to consider that they do have non-metered accounts. He commented that all the non-metered accounts should be viewed as fixed revenue. With them included, they are at 44%. He added that through time those non-metered customers are going to become metered.

Mr. Isaac displayed the City's current rates. On the left-hand side is their monthly fixed charge. They are modeling this very similar where the size of the meter does play a factor in how much they pay. On the right hand side they see the flat rate customer of $9.93 and the volumetric charge of all customers at $0.86 per 100 cubic feet. He advised that their customers get 748 gallons of water for $0.86. He noted that is a really good rate in relation to other agencies that works in.

Mr. Isaac provided a summary of Prop 218. He advised that it is an umbrella that covers taxes, assessments, fees, utility charges. He noted they would go over what it means in terms of utility charges. He commented that an agency cannot collect revenue beyond what is necessary to provide service so they can't charge more than what is necessary but reserves can be considered part of the cost so they could fund reserves. He commented that revenues derived by the charge shall not be used for any other purpose other than for which the charge was imposed. He added that the amount of the fee may not exceed the proportional cost of service for the parcel. He commented that with this one there are some court cases one of which was the Pajaro Valley Water District where someone was saying wait that is more than my proportional cost because you didn't show what is my cost for my parcel, you just show the overall cost and how you allocated it to customer classes. He noted that the court said that by virtue of spreading cost to the customer classes based on their demand and the fact that you are within that particular class then you are showing proportionality to the parcel so this reinforces that. He commented that the main thing that they have to show is that they are spreading costs proportionately to the customer classes based on their demand and their usage patterns and then as long as they recovered just that revenue from the accounts in that class then they are complying with this part of Prop 218. Mr. Isaac added that no charge may be imposed for a service unless that service is actually used or immediately available to the owner of the property. Mr. Isaac noted that there was one agency that got a little bit in trouble with this when it came to recycled water. They were charging everyone for recycled water. The court said yes recycled water can be viewed as additional water supply where it benefits everybody but the administrative record didn't describe it sufficiently enough so they had to adjust their rates. Another Prop 218 requirement, which Mr. Randall mentioned already, is that they have to send out a notice 45 days before holding a public hearing. At the public hearing they have to actually have active participation 50% of all the affected customers must provide protest for it not to go back to the City Council for consideration.

Mr. Isaac commented on what do they do with costs. They look at all their costs and they basically put them into cost components. They look at how that cost is incurred whether it be water supply costs which is their groundwater, whether it is based on the peaking of their customers based on how much usage, like electricity, that would fall under peaking. Conservation would also fall under peaking. Then they will

have customer service and that is billing, things of that sort. They look at those costs and then they are able to allocate those costs appropriately to customers based on the demand they put on the system.

Mr. Isaac referenced the cost components that they have for the City including water supply costs, base and for base they think of just general operation to provide the average amount of water on an annual basis. Max day and max hour are also cost components. He advised that is when their customers peak. He added that conservation is a small component but they like to always have it as a separate component just in case they start to increase their conservation programs. One thing they could do is if they say we want to promote conservation, we want to have programs where there are rebates or we even will help customers with their improvements then that is where they will uptick that from $56,000 to $100,000, $200,000 whatever the case may be and they could easily show what the impact to rates is by increasing that amount. He added that customer service and fixed demand are also cost components and their total revenue requirement was $7.6 million.

Mr. Isaac commented that on the left hand side of the slide they show those cost components and then on the columns to the right they show how that cost should be recovered. He advised that the columns highlighted in green are going to cover fixed charge and the items in blue will be recovered through the variable charges. He noted that the one thing that they would like to do, as much as possible, is to keep the cost components 100% in either fixed or in variable because it is easy for customers to understand. For example water supply, that is a variable component, 100% to water supply. Base, which is ongoing operations, that is under delivery. When they see delivery that means every single unit of water discharged gets a portion of that cost. He noted that it doesn't matter about peaking. It is just for the $0.86 that they have today, $0.10 of the $0.86 goes for operations for delivery. Then they have conservation, max day, max hour, and that is based on peaking. He noted that should be spread based on the demand they put on the system based on usage. They have fixed demand. That is where a lot of that has to do with capital improvements. They want to allow that to be recovered through the fixed charge and then they have customer service. They will notice that instead of being spread based on meter size they are spreading it to all accounts evenly just because they have an account. By doing that they can show what percentage of their cost is being recovered through the fixed charge and the variable charge and they are able to model their 34%/66% revenue split and that is where they want to be. He recommends that they continue to recover that.

Mr. Isaac referred to the next slide. As he mentioned, this reflects the proposed charges based on scenario 2. Scenario 2 was level adjustments at 16%. He advised that they would put dollar amounts into these charges and calculate the rates. He referred to the fixed costs. As he mentioned they have at the beginning the customer service costs which was $1 million. They have the total number of accounts which is 11,000 and that would be a divided by b equals c which is $7.12. He explained that this is saying that regardless of their meter size their starting fixed charge cost is $7.12 for every account but then on top of the $7.12 there are related costs such as capital costs and that is going to be spread over the size of their meter so they will see that the denominator for number of equivalent meters is 33,439. What that is doing, is that they are saying what if they take all the size meters and convert them as if they are all 5/8" meters and because of that they have a higher number of equivalencies. He noted that every 5/8" meter gets $1.67. He advised that the 5/8" meter which is their baseline is the sum of $7.12 plus $1.67 which is $8.79.

Mr. Isaac provided another scenario that they could do as an example. Instead of accounts they could also spread it based on number of units if they wished where then master metered customers, besides getting one charge for their meter charge, they will also get charged something less than $7 for every dwelling unit that is connected. They don't do that right now but they do have the number of units in the database of their customers and that is something they could consider. He thinks they did that and it only went down by like $0.60.

Mr. Isaac referred to the next slide. The table shows how the cost is calculated for every single meter size. He noted that they have $7.12 going all the way down. They show the capacity ratio which is that equivalency. He explained that the capacity ratio is based on the amount of flow that could come through that meter, the size of the meter. For example, 3/4 inch is 30 gallons per minute versus 20 gallons per

minute of the 5/8 so that is why they get 1.50. He commented that every single meter size, the AWWA standard shows what is the amount of flow that comes out and then they just convert it to a multiplier. He added that based on that $1.67 for the 5/8 that they calculated in the previous slide, they then take that multiplier to ratchet it up based on meter size and then the sum of the two equals the fixed charge by size. They compare it to the current fixed charge and they show the difference all the way down. He stated that this already includes the 16% revenue adjustment. Mr. Isaac asked if there are any questions on that.

Council Member Medellin referred to Mr. Isaac's comment that on the Prop 218 vote they could only charge for service and asked if this would actually fit into that formula.

Mr. Isaac responded yes.

Council Member Medellin asked if there is an actual percentage that they can max out if they wanted to increase their reserves or because reserves is considered part of the cost, is there a ceiling or maximum percentage.

Mr. Isaac responded that for this part of their rates, which is fixed charge, their notice would show the dollar amounts in bold, and this is just for 15/16, and it would show for each of the next five years. He explained that this would be their ceiling. He noted that every single fixed charge and variable charge, every single dollar they collect of everything, collects some portion for reserve. He commented that reserves are kind of a global amount that gets recovered. He referred to the 16% that is flowing into this. If they find out that in the next year they are doing great and they actually don't need to do a 16% revenue adjustment, then they would just ratchet it down from these dollar amounts but these are going to be their maximums without having to re-notice. Mr. Isaac asked if that answers his question.

Council Member Medellin responded yes and stated there is nothing wrong with healthy reserves.

Mr. Richardson commented that he wasn't sure if Council Member Medellin was asking if there was a max reserve they could put in there period in the 218 scheme. He noted that if that is the case it just has to be a reasonable relation to the cost.

Council Member Medellin noted that they can't just say we want to have healthy reserves so we are going to...

Mr. Richardson responded no and stated there has to be a reasonable setting of where they set them. He commented that the reason for having a company like this do a study is it validates the need for those reserves. Typically what their recommendation is going to be, kind of where they would ideally go because it is supported by their study.

Council Member Medellin commented that is where he was going and stated that answers the question.

Mr. Tooley added that there are two courts here. There is the legal courts and then there is the court of public opinion. He thinks that from a defensibility standpoint they want to set their reserves at no more than an industry standard. To the extent that they have additional money, they need to specifically identify how that money is going to be spent. They anticipate that in three years they are going to have an additional capital expense related to... He thinks in terms of their representation of the public they need to consider both.

Mr. Isaac referred to variable charges. He noted this is where it represents 66% of their overall revenue. To remind them on the tier rate structure, they have tier 1 for indoor, tier 2 for outdoor and the price goes up, and then tier 3 which is over the tier 1, tier 2. He advised that they already discussed this before. Tier 1 is for indoor, 65 gallon per capita per day over the billing period of 30 days. Tier 2 is outdoor which is to cover the average usage of their single family customers in summer which is 33 units. He commented that it is not going to be perfect for everybody but on average it is. He stated that these are traditional tiers and then tier 3 is anything above that. Mr. Isaac advised that now what they want to do is

come up with what costs are in which tiers. He stated this is essentially the goal of what they are looking at. For tiers 1, 2 and 3, their water supply right now is 100% ground water so every single tier gets that. For delivery that is coming from the baseline of operations and every tier gets that. He added that they will notice that the check marks are the same size so it is all the same rate. For conservation, there is nothing in tier 1 because conservation benefits those that use more water. They are trying to mitigate their usage and if they do mitigate their usage with a successful program then they will lose usage, they will lose revenue, but then they also could lose that program because it has been successful. They are trying to also correlate it to costs that could be avoidable as well and that is why it is only in tier 2 and tier 3. For peak, an example is portion of capital but also electricity costs. From that standpoint tier 1 should get some of that cost but then tier 2 and tier 3 gets a higher proportional amount. He advised the he would show the unit costs.

Mr. Isaac referred to the water supply. What they have done is that they have that bucket of water supply costs which is $645,000. They look at the total usage of their customer classes. They look at percentage of annual use and then they spread it based on that percentage and essentially what it comes out to is that everyone is being charged the same rate. He commented that peaking doesn't matter; everyone is getting ground water. If they had another water supply then he would say peaking does matter because then they are going to use the cheapest water for health and safety, indoor first, and then whatever is left over, once that is gone, those that use more water will have to pay for that higher cost.

Mr. Isaac referred to delivery which is a similar approach for ongoing operations. He commented that everyone gets their prorata share $0.49 so they are showing proportionality and then they have peak costs. What this is doing, besides looking at usage they are looking at what is the peak demand of these customers on their system. What is their peak demand in relation to their average annual usage? They see that single family peaks at 1.60; multi-family 1.40; and non-residential 1.70 which makes sense because non-residential also has irrigation only accounts. What they do here in terms of percentages is that they are going to take the peak factor but then they are going to look at how much volume is generating that peaking characteristic so they are going to weight it based on the amount of water coming in. He stated that single family has a huge amount of water and then that dictates how peak costs get spread to the customer classes. He noted that it is not just the peak factor itself, it is also the volume that is generating that peak so that it is fair and equitable. For example, even though non-residential has a higher peak, the amount of water that generates that is very small compared to the overall amount. He restated that is showing proportionality.

Mr. Isaac commented that for single family they have $634,000 being allocated to that however, with single family they also have tiers. They are going to take that $634,000 and then they are going to spread it to the tiers proportionately. The way they do that is that they are going to take the similar approach that they just took with customer classes. They are going to take the accounts that fall on each tier. Basically what they are doing is grouping accounts by tier and now they can think of the tiers as subclasses. They did this with the usage information that they had. He noted that there are customers that stay in tier 1 all the time. He added that there are customers in tier 2 and tier 3 and obviously if they are in that tier, their usage characteristics are similar to each other because they don't use more than the next person. They show that the tier 1 allotment is 10; the average usage of tier 2 customers is 19 which makes sense it should be in that tier 2; and the average usage of customers that are always in tier 3 is 53 units. He commented that in terms of how much more demand tier 2 customers and tier 3 customers put in relation to tier 1, where tier 1 is the baseline, 19 is 1.93 more and then tier 3 is 5.31 more. He noted that for that $634,000, they are going to do the same thing. Now they have the peak factors by the tiers and they are going to look at how much volume of water is used in that tier to come up with what percents of that $634,000 should be spread to each tier and that allows them to come up with the unit price. He stated again, even though it is a high peak amount for tier 3, there also is a very, very low amount of total water so in terms of percentage, they are still not getting a huge percentage even though they see this huge peak factor. He noted that makes sense too. They expect that even though the rate is going to be high, the amount of revenue that they are relying on is going to be substantially less and that is how they come up with the unit prices.

Mr. Isaac commented that they do a similar approach with conservation. The same thing as peak, jump into the cost, spread it over to the customer classes. Then they do the same thing with the tiers and now they get to populate that graph where they had the check marks and they put the prices in there. They see that the water supply is $0.18 all the way down. Delivery is $0.49 all the way down. Conservation, as they remember, tier 1 didn't have any, tier 2 $0.02, tier 3 $0.06 and then peak demand are those costs that they showed in the other slide populated. Then basically tier 1 through tier 3 is the sum of the components that make up those tiers. He commented that it is very clear, easy to understand, a+b+c=d. He restated that this already includes the 16% revenue adjustment and because they are using tiers, if they recall their current rate is $0.86, and tier 1 is $0.79 even though they are doing a 16% revenue adjustment. He advised that tier 2 is slightly more at $0.93, tier 3 is $1.37. Mr. Isaac displayed the rates for their customer classes, single family, multi-family, and non-residential has a uniform rate.

Mr. Isaac referred to flat rate customers. He noted that they do have quite a few different flat customers. He commented that they can't model what their usage is because they are non-metered. What they have done is basically kept their customer classes intact for non-metered. They looked at the amount of revenue that they are currently generating which essentially they could view that as how much cost is being allocated to them. What they are doing is that they are just allocating that same percentage to them so they are recovering their same amount that they have been recovering historically as a percentage. Once they become metered then they will go into those other customer classes and being charged based on actual usage.

Mr. Isaac referred to the impact. The slide shows a histogram of usage from 10 units of water, 16, 33, up to 50 and they are showing it visually. He explained that the green is their current bill, the blue is the proposed monthly bill. They are also showing the dollar amounts and the dollar difference. They can see, even with the 16% revenue adjustment in the first year, if someone stays in tier 1 they are going to see a difference of $0.66. That is primarily driven by the fixed charge going up but then there is some savings on the unit price of water that then nets out to $0.66 even though the fixed charge is going up by more than $1.00 and then it slowly goes up from there with those that use a substantial amount of water are going to pay more of that cost. He added that they are also set up in a way where, if they do see how their customers conserve and that usage is gone, they lose revenue but then they are also going to lose a portion of costs as well. Mr. Isaac also displayed the 30% of revenue adjustment which is that first scenario just to show them the impact. He noted that even though it is a huge percentage their rates are fairly low in relation to other agencies that he has worked with. He commented that even a 30% increase is still overall $3.00 on the efficient user. Mr. Isaac asked if the Council has any questions.

Mr. Isaac referenced the sewer rates. He noted this is a little bit quicker so it won't be as extensive as the water side. He displayed the current rates noting that their residential are essentially flat rates on a monthly basis and they recommend doing the same thing. On commercial for those that have their water metered, it is based on their water usage.

Mr. Isaac commented that with revenue recovery they do a similar approach where the blue is variable and the green is fixed. He advised that the blue components are flow which is volume of discharge. Then they have BOD and TSS which both come out of the strength concentration. He noted that they basically allocate those costs to customers based on their particular total volume and their strength concentrations of that discharge. He stated that they still also want a fixed charge that they collect on a monthly basis and 40% of their revenue is coming from that. He noted that they are actually recovering more than 40% because their residential customers, after they allocate the variable component to them, they then make it a flat amount every single month. He explained the reason for that is that they don't want to penalize their residential customers for outdoor use that doesn't go into the sewer. He commented that typically what they do is that they take the 10 units of water for indoor from what they will discharge and then that is how they come up with the flat rate.

Mr. Isaac advised that similar to water they have the flow related costs. They have the BOD costs, the suspended solids, and customer service costs. For multi-family they have the same components so they are each being allocated their pro-rata share of costs of every component even the variable costs however, similar to what they are doing today, they are just recovering it at a fixed monthly rate and then

the customers also know what to expect every single month. He added that this already includes that revenue adjustment and in sewer it is 9% in that first year.

Mr. Isaac referred to the non-residential charge, of which $48,000 gets allocated to them divided by the total customer equivalencies of 301, so their flat charge is $13.30 to start on a monthly basis. He also displayed the non-residential discharge rates. He commented that they didn't compare it to their current rates because they are moving to a different approach. Before they had group 2, 3, and 4 but it didn't really tie to clearly identify which types of uses were which groups. What they did is they took the State Water Control Board concentration factors. They have concentrations by use and they used that to allocate the costs to these different customers. Basically what they did was regroup customers that have like discharge concentrations together because they view them as a similar customer class and then they came up with rates. He advised that if they want they can still compare them to their current charges which is $1.12 up to $2.93 and then looking at these rates, they go from $1.59 to $3.62. He commented that it is relatively in that same ballpark but it also has the 9% revenue adjustment.

Mr. Isaac referred to the monthly flat sewer charges. He commented that similar to what they do with water, they looked at how much cost is being allocated to their non-metered, non-residential customers and they are recovering that same percentage because there is no way for them to determine what their actual discharge is. He advised that the slide shows current versus proposed. They will see that essentially it is just a slight increase. He stated this one is more of that 9%/10% correlation.

Mr. Isaac stated that besides any type of comments or questions the Council may have, they definitely want to receive feedback input from Council as well as staff. He added that in terms of next steps what they anticipate is refining these rates, recalibrating it, make sure they are dead on with the feedback they get, then draft the report and provide an administrative record of basically his PowerPoint but in narrative form. Then they can schedule a meeting to present that report to the Council and the public.

City Administrator David Tooley commented that there is one item that they haven't covered in the presentation that he thinks is important to raise. At their last meeting they talked about landscape maintenance zones and there was a recognition that over some course of time, he thinks they would all agree, they are going to have to change their landscape standard. He noted that those zones use a lot of water. He advised that one of the alternatives they could consider would be to add to their conservation element of their rate study and provide money for conversion of landscape maintenance zones or perhaps an incentive program for individuals to change out their showerheads and toilets in their homes. He asked if there is an interest, once Council provides some direction on rate structures, of bringing back a discussion of an additional rate component. As an example, they have done some preliminary work at the staff level and the capital costs of changing out a landscape zone, depending on what they include, is $2 to $7 a square foot. By way of an example, if they dropped in a rate component that generated half a million dollars a year and it is on the high end of $7 a square foot, they are not converting too much area are they but he thinks that is one of the questions Council should consider is do they want to up the conservation element and provide for that kind of opportunity.

Mr. Isaac referred to the slide that shows the rate components, and commented that because of the level of their conservation programs they are looking at spreading it. It was like $56,000 that correlates to $0.02 / $0.06. As they increase their program of $56,000 to half a million or more, that is where these unit prices would go up. If they think about the magnitude, $56,000 correlates to $0.02 / $0.06. If they bump this up they are looking at cents being increased not dollars and dollars.

Mr. Tooley stated to generate half a million probably add another $0.20 to their structure and again it is going to impact their high water users which is where they want to make a dent in terms of their use pattern. He stated that again, choices, business decisions.

Mayor Poythress asked if the conservation element would be specific to a landscape zone or would it be across the board. He asked if it could be drilled down to that small of a component. He knows there might be some landscape districts where people don't want changes and are willing to pay more and there might be some that want to go more to a low water usage type of thing.

Mr. Tooley responded that it is a nexus kind question. He stated that the easiest way to address it is through the landscape maintenance zone itself. Mr. Tooley asked Mr. Isaac if he foresees any limitations on charging something to high tier users but landscape zones are scattered in different parts of the City. He asked Mr. Isaac if he sees a nexus issue they might have to deal with.

Mr. Isaac responded that he doesn't see a nexus issue. He sees more of a data issue of being able to clearly identify which accounts are in which zones to then spread that cost to them. He stated that a lot of agencies have pump charges for different elevations so then those at higher elevation pay more of the cost of the water to get it to them. He noted that it would be a similar approach but with those they use GIS to clearly identify which accounts are in the higher zones. He added that it takes some time to get that data.

Mr. Tooley stated that based on that feedback he thinks, noting that it is an additional work element and he is looking to Mr. Randall and Mr. Przybyla, that they could identify which customers are in which landscape zones and they could identify that additional cost component to them. He thinks they could probably be that specific.

Mr. Randall responded that they could and they have that capacity to do that. He noted that currently the way the rates are set up those wouldn't be tiered rates. Those would be non-residential rates.

Mr. Tooley stated that is a good point. He added that the short question is it might take a little bit of analysis. He thinks the business question is does the Council want them to pursue it as an additional consideration.

Council concurred.

Council Member Medellin stated he thinks conversion and conservation is going to be huge in the future. Whether they get water in the near future or not he thinks it is something that they certainly have to pursue.

Mr. Tooley stated he thinks there are a couple of decision points here but the primary one that they would like to get some feedback on today is that they have provided the Council with two kinds of rate alternatives. One, using his City Manager vernacular, they kick the can down the road to a certain degree on the capital but the lesser rate structure would certainly be less ugly to rate payers. They probably need some feedback from the Council on where the tipping point is on that discussion.

Council Member Rigby commented that Mr. Tooley brought up something interesting. He doesn't know how much talk has gone through this. He asked what foundation are they laying with the talk of a possible water treatment plant in the near future and in his professional opinion does he perceive that to be something that they need to seriously consider within the next 15-20 years, and are they taking steps now towards that.

Mr. Tooley responded that it kind of depends on which question they are asking so he will answer a couple. He stated there have been some very preliminary discussions with Madera Irrigation District (MID) and he wants to characterize them as just that, preliminary. He commented that there may be an allocation of water that they could contract for or that they could enter into an agreement with MID which would be an external delivery of water to Madera County and that surface water would then require a surface treatment plant. He stated this is just the beginnings of a conversation and it may or may not go anywhere but reasonably speaking they are probably 5 years at a minimum of having beneficial use of that water. They have been fairly careful about not including those kinds of cost components in this 5 year cycle because they can't measure what those are but in terms of addressing their water needs he thinks that there is a very real conversation to have in the next 5 year cycle about the importation of water and treatment for municipal use. He thinks that is an ugly economic reality. He thinks it is going to be an absolute necessity. He asked Council Member Rigby if that gets him what he needs.

Council Member Rigby responded yes and added that helps him wrap his head around some of these other numbers.

Mr. Randall added that currently, as their CIP program is configured, it doesn't include a program element to pursue those types of things. He noted that there are two different things they have to consider in the rates. One is when they are purchasing water, and Mr. Tooley is correct in that they wouldn't be looking at that for a number of years because those have to be accounted for in terms of how much, the volume as well as the cost, and because they don't have that data, they really can't put them into the rates now. What they can put in the rates right now, which may be prudent is within the CIP program. They can put some seed money to pursue those issues, to do feasibility studies, to do the things they might need to be able to secure those alternate water sources.

Council Member Rigby stated that helps.

Mr. Randall stated that is another direction staff would like to get from Council if they want staff to pursue that. They could add that element to the work plan.

Council Member Rigby asked if that would fall under conservation.

Mr. Isaac responded that it would fall under capital plan.

Mr. Randall agreed and noted it would be spread against everything.

Mayor Poythress commented on staff's question about whether to go with higher rates now or kicking the can down the road and allowing folks in the 5 to 6 years to potentially experience a pretty great amount of sticker shock. He thinks they see the State of California and the federal government and other agencies, they love the kick the can down road type of an approach. He thinks they have seen what it has gotten them into. It has gotten them into about $120 billion deficit for road funding. The City of Los Angeles is looking at a $15 billion infrastructure cost for replacement of their systems. They can just name them on and on and on. It is called don't deal with it now, deal with it later on. He thinks they should take the opposite approach, which he thinks is the most financially responsible, and look at paying higher rates now. They don't know what the future holds; that is unknown. They could delay additional costs right now and costs for improvements and so forth down the road could be triple or quadruple than what they think they are going to be right now. Mayor Poythress stated that would be his conviction as far as what approach they should take.

Council Member Medellin stated he couldn't agree with the Mayor more. He thinks it would be prudent for them to have some of the seed money put aside and he thinks as far as the ratepayer is concerned, in his opinion, it becomes a service like anything else whether it is garbage or water or sewer or landscape maintenance zones, it is what are you doing City or City Council with my money. He thinks to show what their plan is would certainly be prudent in that particular case. He restated that he couldn't agree more with the Mayor on that point.

Mayor Poythress stated he keeps hearing that name Parkwood keep coming up in the back of his mind.

Council Member Holley stated he totally agrees with what they are talking about. He would rather see them do it now that way they will be ahead of the game because they can always deduct later on down the line but it is hard to get it after a while. If they can get on the road to make this happen now, look toward the future, there might be a brighter light at the end of the tunnel. He stated that at least they are ahead of the game and if it is brighter they can always give it back to their residents somewhere down the road.

Council Member Robinson asked when the last time was that the water and sewer rates were increased and how much.

Mr. Tooley responded that generally they do these in 5 year cycles. He believes their last 5 year cycle had an average increase of 4% per year. As they know, this time the Council directed staff to do a complete cost of service analysis. They identified their deferred maintenance issues and that is why they are seeing such a significant increase in the recommendation before them.

Council Member Robinson stated they are almost in a difficult drought.

Mr. Tooley responded there is no almost about it, they are.

Council Member Robinson stated they said it might last 7 years and that is why he said almost.

Council Member Bomprezzi stated she totally agrees with what her colleagues have suggested however, she would like to see in their neighborhood watch programs a conservation piece in there. She stated it is getting more and more serious. One thing she wants them to do is make sure they have more outreach than they did on the landscape maintenance districts so that people realize the situation they are in and why they are doing it. She asked if 2006 was the year where they had the big, big increase to the water and sewer.

Mr. Tooley responded that the meeting that took place at the Bergon Center is burned into his mind.

Council Member Bomprezzi agreed that it was ugly.

Mr. Tooley responded that he thinks it is an excellent recommendation and they will make best efforts but even if they made each and every neighborhood group association they are only going to get a small portion of the population.

Council Member Bomprezzi stated that it may have been 4 or 5 years ago and somehow Public Works had gotten some flow free showerhead devices and stuff. She asked if they have access to that again.

Mr. Randall responded that they do and they have some that they hand out at the fairgrounds, etc. They are trying to find those things that tend to make a difference but sometimes it is a game of inches or drops. They do their best.

Council Member Rigby stated he feels like they are echoing the same thing but it feels like the word here is responsibility and he feels like it would be very responsible if the Council would pursue the recommendations that have been laid out before them today. He commended the team for bringing out those numbers for them. He added that however, he does feel like, as Mr. Tooley brought up before them, that one of the largest things is that if they are going to increase resident's revenues of facility usage, he thinks they have to do something about what is happening in the landscape. They need to be honest in layman's terms. Nobody is going to care how much they are getting charged if what is happening outside of their house looks good. So if they are not taking care of the medians, and again just to echo something that the Mayor had challenged them to at the last Council meeting, is that they are going to have to get out and really get on their feet, knock on some doors, and make sure that the things that they are bringing before their constituents, their voters, are passed. He stated that this Prop 218 regarding the irrigation of parkways and different things throughout neighborhoods is a big deal. He thinks that people wouldn't mind paying the extra, whatever it is, as long as they see that the City is making a conscientious effort to not only keep their City looking great but even to conserve where they can in some of these programs. It is his personal opinion that he would like staff to pursue what it would look like to bring in a program that would help maybe transition them out of some of the landscape areas in the public sphere, whatever that looks like whether it is half a million or whatever it is. He is curious at what that number might look like to add that.

Mayor Pro Tem Oliver stated he completely agrees with the points that have been shared. He thinks that in this day and age it is no longer going to be an outlier. He thinks this is the new normal and they have to prepare as such. He definitely thinks there is going to be a need to diversify their water portfolio so he would definitely encourage looking at seed money so they can fund those things in the future. They

talked about the storage facility. He asked Mr. Randall to take a moment and talk about their current capacity, where the stresses are in their system, and what that project in the future might look like.

Mr. Randall deferred to the City Engineer who can tell them a little bit more about the plan that is defined in their plan.

City Engineer Keith Helmuth stated for their current storage they have a one million gallon tank. That provides a couple of things for the City. It provides extra storage but it also represents a safety valve in terms of pressure fluctuations in the system but it is a million gallons and during the last summer they saw it go down to as little as 30%. He noted that if it goes down and it hits close to zero, it has a reverberation in the system in terms of the pressure and the pressure within the zone of the tank will plummet. He advised that the seven million gallon tank as they proposed it, what that does is allow them to compensate in the future if the water table continues to drop and their ability to handle that drop diminishes then tank takes over during peak hours which range somewhere between about 10:00 p.m. and 2:00 a.m. when the landscaping starts getting watered. He added that when the wells can't keep up the tank jumps in.

Mr. Randall stated that the idea of that tank saves them some money in that as they drill more wells there is a lot of uncertainty in those and when they lose those. He commented that the additional wells normally aren't needed for overall capacity because a lot of times they are only running four of the 16 wells. He noted that it is that peak issue so that tank takes away that and at $1.5 million a well it is pretty quick that they make a choice, they have a tank or they have wells. He added that wells have a very limited life and a lot of uncertainty with the groundwater being what it is. That is the other reason they are looking at doing that.

Mr. Richardson referred to the discussion about trying to build something in, if he understood it correctly, relative to converting some of the landscape zones over. He commented that is possible only to the extent they can directly tie it with a cost to providing the service to the end users. He will leave it to the consultant as to whether they think they can kind of put that together in something defensible but he kind of wanted to at least temper the discussion that they can't just do whatever they want. It has to be tied to providing that service somehow.

Mr. Tooley stated they will work on the nexus issue. His understanding of the Council's direction is that they want staff to pursue the step down rate program; they would like to see some options with regard to a rate component for conservation; they would also like to see some options with regard to a rate component where they make an investment looking forward in terms of acquisition of water and treatment outside of the immediate area. He asked if he has fairly captured the Council's interest.

Council concurred.

Council Member Robinson commented that during the winter and fall some people don't use their sprinklers and on variable rates if you are not paying for the water then their prices go down and asked if that is right.

Mr. Tooley responded yes. At that point their consumption would go down and they would be paying their fixed cost and their variable costs depending on usage would obviously be much less and that is one of the key attractions to a demand driven system is that you pay a base rate plus only what you use.

Mr. Tooley asked if there is any additional direction with regard to water and is there any direction the Council would like to provide with regard to the discussion of sewer rates which they see as a fairly minimal cost overall.

Council Member Medellin asked if with this new proposal is their admin cost changed at all or are they pretty much the same amount of employees with the same amount of time in their billing. He commented that he is assuming.

Mr. Randall responded that there are some different changes. He commented that some of them were already occurring as they are in the third schedule of drought so they have to by mandate pick up four personnel there to do water conservation but there is not a significant shift. He added that there are some with the meters, and they will see in the next year's budget, there is a proposal for some additional people because they have 14,000 meters to take care of but there is not a huge overhead change. He commented that the ability to do the billing, etc. is somewhat the same. He noted that the new proposed software will help more than anything but nothing significant. He added that in the capital program there is an item for some studies, what they talked about in terms of feasibility, in terms of doing repair and replacement, in terms of condition assessment to make sure their capital program is being efficient in replacing the appropriate items. He stated those are some of the things they have deferred and not done in the past and they are losing money. He commented that a good example would be an additional cost, but it is a savings, is flushing water lines. Right now they don't see anybody open hydrants and flushing water. Nobody wants a pitchfork in their back or torch in their ears; they are not going to do that right. He noted that the reality is that is really not a good thing. There are a lot of case studies that will show them that if they are not flushing the water in their lines, they are having sediments and corrosion issues increasing so they actually lose water. They are wasting water by not doing their maintenance. What they are looking at is going in and doing a program where they do what is called unidirectional flushing. It has higher velocities but the water is captured and it is reused. He commented that there are some things they have proposed doing that will have some increased costs but they may have offsetting benefits. They are basically going from a different model. They basically, up to this point, waited until something broke and then they would go fix it. They are trying to get ahead of that curb and make sure they understand what their liabilities and assets are, do the preventative maintenance they need to do, and be good stewards of those assets. He noted that there is some change. They will see some costs but there are normally offsetting benefits. They always look at that benefit analysis to make sure they are not just polishing the truck.

Council Member Medellin agreed that it may not look good to have water flowing down the curb but if they look at what the cost would be to fix those lines if they don't flush them could be more.

Council Member Bomprezzi asked what is going on at National and Accornero.

Mr. Randall responded that was last week and it was a break. He knew they were going to get a lot of calls on that one.

Council Member Bomprezzi commented that there is a sign that says the break has been reported.

Mr. Randall responded that they do those because what happens is that they can't dig for 48 hours. They are like everybody else, they have to call USA. He advised that on Saturday they went in and shut the water off and they are scheduling it with all their other breaks. They are short people but they have to repair them as they do. They did want to get in there and shut the water off so it is not flowing any longer.

Mr. Tooley directed his comment to the consultant. He would like to huddle with him after their visit today and talk about that nexus issue. Mr. Tooley asked the consultant if there is any additional feedback he needs from the Council at this point in terms of next steps.

Mr. Isaac stated he believes he has everything.

Mr. Tooley stated that unless the Council has questions, he thanks them very much.

2. Council Reports

Council Member Holley invited everyone to the McNally Games kick off this Saturday at McNally Park from 11:00 a.m. to 2:00 p.m. Council Member Holley asked Council Member Medellin to read a letter for him.

Council Member Medellin passed the letter to Mayor Poythress.

Mayor Poythress read the letter which gave an overview of Council Member Holley's roots in the community including his schooling, military service, and the support system which eventually led to his wanting to serve as a role model for the youth in the community. He eventually became involved in the McNally Park Jesse Owens Games and has served as their director for the past 28 years with this being the final year. The letter also talked about the many volunteers and organizations that have contributed to the success of the program. Although this is his last year, he hopes that he will still be an active member of the community. The last McNally Park Jesse Owens Games is scheduled Saturday, May 9, 2015 at Martin Luther King Jr. Middle School.

Council congratulated Council Member Holley.

Council Member Holley reported that he attended the egg hunt the City put on. It was well attended. There were over 400-600 kids out there and there were 10,000 eggs. He commended staff for organizing it so well.

ADJOURNMENT

The meeting was adjourned by Mayor Poythress at 1:52 p.m.

CONSISTENCY WITH THE VISION MADERA 2025 PLAN

Approval of the minutes is not addressed in the vision or action plans; the requested action is also not in conflict with any of the actions or goals contained in that plan.

Sonia Alvarez
SONIA ALVAREZ, City Clerk

ROBERT L. POYTHRESS, Mayor

CITY OF MADERA INCORPORATED March 27, 1907 CALIFORNIA