Las Cruces Utilities
Minutes of the Work Session Meeting on
Thursday, February 13, 2020
2:00 pm
Utilities Board Room 225

Board Members Present:
William Little, Chairman
Ed Archuleta, Vice-Chairman
Johana Bencomo, Commissioner
Jim Carmichael, Commissioner
Dr. Harry Johnson, Commissioner
Gill Sorg, Commissioner

Board Members Absent:
Steven Baumgarn, Commissioner

Ex-Officio Members Present:
Jorge A. Garcia, Utilities Director
William Studer, Assistant City Manager

Others:
Becky Baum, RC Creations, LLC
Cassie McClure, Public Outreach Consultant
Suzanne Michaels, Public Outreach Consultant
Greg Shervanick
Erik Harrigan, RBC
Harry Romine, JCI

City Staff Present:
Candace Brown, Internal Auditor
Robert Cabello, Sr. Assistant City Attorney
Carl Clark, Deputy Director ENV/TS
Rhonda Diaz, Water Conservation Program Coordinator
Jeff Dillard, Business Systems Analyst
Charlene Gomez, Business Systems Analyst
Jose Provencio, Deputy Director Business Services
Mario Puentes, Gas Business Analyst
Peggy Risner, Administrative Assistant
Domonique Rodriguez, Rate and Economic Analysis Manager
Alma Ruiz, Senior Officer Manager
James Stafford, Management Analyst
Delilah Walsh, Utilities Assistant Director
Adrienne Widmer, Deputy Director Water
Lisa LaRocque, Sustainability Officer

Chair Little called the Work Session to order at approximately 2:00 p.m.

Chair Little: I’m going to begin by welcoming out newest Member of the Board. Commissioner Bencomo thank you for coming. Thank you for agreeing to serve.

Bencomo: Absolutely.

Chair Little: I think you are going to find it interesting and challenging.

Bencomo: I already have. Thank you.

Chair Little: Then with that, go ahead.
1. **Investment Grade Audit Phase II Wastewater:**

Dr. Garcia: Thank you Mr. Chairman. We have a two-part presentation. As you know like we announced last time, we have the second part of our Investment Grade Audit dealing with Wastewater and Energy. The first presentation will be by Mr. Romine with Johnson Controls, Inc. (JCI) and the second part will be the Financials with Eric Harrigan our financial advisor. Okay, so we'll do a two-part presentation. The Financials will include the potential impacts of this project and other projects that we have planned in terms of financing. Let's hear first from Mr. Romine. You've met him before with the Advanced Metering Infrastructure (AMI).

a. **ESPC (Energy Savings Performance Contracting) Services Phase II Project – Wastewater & Lighting Improvements Presentation:**

Romine: Thank you Dr. Garcia, Mr. Chair, Commissioners. Good afternoon. Pleasure to visit with you again today. As Dr. Garcia said, we're finishing up our Phase I Performance Contract for the AMI and the water meters. What we're presenting today is kind of the results of the Investment Grade Audit for the Wastewater Operations.

Just kind of a refresher, you know ESPC it's a procurement vehicle that allows you to make improvements today and to pay for those improvements over a term using revenues and savings that are generated from the upgrades. It's called Performance Contracting because the results are guaranteed, that is one of the benefits that you get. For example, the project that we're going through today we're guaranteeing about $500,000.00 a year in benefits. After year one, if the actual benefits are only $400,000.00, we have to bring the City (City of Las Cruces) a check for $100,000.00 for that year to make up the difference. The results are guaranteed—one of the benefits of performance contracting.

Just had one slide on Phase I just to give you a little more update. We are 100% complete on installation of all the meters and the leak sensors. Now there was some allowance money that was left over in the contract, so we are doing some additional meters with that allowance money right now, but the meters that were in the original contract, it's all complete. As far as the AMI communication reading every meter, we're very close, about 95%. We found a few parts of town that the coverage wasn't good enough, so we have to install a few more repeaters to pick up those, but it's almost complete as well. You know our guarantee doesn't officially start until substantial completion of the entire project. We're not quite there yet, but we did some quick calculations - on have the revenues increased so far with the new meters during construction and our quick calculations show that, yes, they've increased like over $500,000.00, you know just on the meters that we
addressed during the project. It does appear to be actually outperforming; our guarantee for construction was only about $200,000.00 in increased revenue. It's doing very well so far.

I'll move into what we're here today for, which is Phase II. First, I just would like to highlight a few things of what we found during the Investment Grade Audit. We did look at three years of operating costs. We partnered with Molzen Corbin to assist with the audit. They were already very familiar with your Wastewater Operations. We had multiple workshops with staff to come up with the best solution of improvements. This just gives you a summary of your three Wastewater facilities. Obviously, Jacob Hands is the oldest and much larger than the other two and so logically we found most of the good opportunities at the Jacob Hands facility. One thing that we uncovered with your staff is that you have a very organized SCADA (Supervisory Control and Data Acquisition) system for your water supply and your water distribution systems, but that's not the case for the wastewater side. There's a real urgent need to put in a new SCADA system to operate the wastewater system more efficiently.

Next, is that Jacob Hands facility we actually did a pretty thorough model of this facility that we tried to match your current operating parameters. What the model did is it verified that the facility's operating very well, but it also uncovered some good opportunities for improvements. One of those improvements is you have these two 334 kW (kilowatt) Co-Generations (Co-Gen) units as you know at the facility. They started operating about January 2019, and they have already reduced the operating cost of the facility, but the facility operators have to limit the output of these two Co-Gen units right now because there's currently no interconnection with El Paso Electric to their grid. You're still kind of in a limited operation of those two units right now. That was an opportunity.

East Mesa, that facility is operating very well. We did identify one potential opportunity that I'll go into a little more here in a minute and kudos to the Utility Department and the City for the Solar PV (Photovoltaic) system out there. I mean it's working well. It's already cut the purchase of electricity in half, so it's working very well.

West Mesa facility, this facility has some old equipment there, some old blowers that were moved from another facility, but the current loads this facility are very low. They will probably increase over the years but due to the low load we didn't find any good opportunities at this facility right now. I mean you only need one of these four blowers, so you have three standbys.
already. We're not going to be recommending anything there except for the SCADA.

This is actually an improvement that we looked at after we presented to the Board maybe about a year ago, but in the Phase I project we tested accuracy of your water meters, we installed new meters, and we tied it into the AMI wireless reading system. Dr. Garcia said, "Let's look at my Wastewater Reclaim meters too." There's only about 20 of them, so we did, and these are the results of the accuracy tests. We were able to test about half of them, 10 of them, and you can see that about half of them are 100% accurate which is good but the other half, there's some improvement opportunity on those.

All right, that's enough of the audit. I'll talk about our recommended improvements a little bit. I mentioned this already, a wastewater SCADA system. We will install a new SCADA system that provides wireless communication to the three facilities and to the Utilities Dispatch center. It'll reduce your operating costs and provide continuous monitoring of all your critical parameters in your Wastewater system.

Next, Jacob Hands facility, the first improvement there is aeration improvements. This is the largest improvement we're recommending. You currently have four natural gas driven blowers. They're over 20 years old, they've exceeded their useful life. That picture on the top that's outside the buildings where these things are inside there. Actually, even though you have four, one of the four is not operable right now and they're actually scavenging parts off of that one to keep the other three running and then only two of the last three have the Air Regulation Permit. The third is still a backup and you can use in an emergency. There's real need to replace these. We'll be replacing them with new efficient electric blowers. That picture at the bottom right, that's a picture of one of the new blowers. On the aeration basin controls and there's a couple of return activated sludge valves that we're upgrading, which will reduce your operating costs.

Second improvement at Jacob Hands is primary sludge pumping improvements. This one we're just replacing the sludge grinders and pumps with new more efficient equipment and modifying some of the piping. The facility is spending quite a bit of money a year keeping these running so they're definitely ready to replace these. The last improvement at Jacob Hands, which I mentioned a little bit, is at the Co-Gen facility. These negotiations were a little painful and a little long, but we feel very good that we did get successful in negotiating an interconnection agreement with El Paso Electric and what we're real happy about is that they agreed to the net metering, which is very similar to a Solar PV system. If you have 20 hours a month that these Co-Gen's actually export to the grid, then they'll just
subtract that kWh (kilowatt-hour) from the purchase kWh that came to the facility. The other thing is they originally wanted to change the facility to a much higher power rate, but they agreed to keep it at the low rate that it's on. We pretty much got what we were asking for there, which is good. What this is going to is allow the facility to operate these two units at full capacity continuously except when they're down for routine maintenance, which that's where Co-Gen units operate most efficiently is at their full load. Really want to operate at a full load all the time, if you can. The other benefits of this is it'll eliminate any flaring of the digester gas that you still have to do at times. That goes away, that's pretty wasteful. It is going to also, the interconnection will set the facility up for the future when they do some upgrades to the digester facility, that's actually going to generate a lot more digester gas, fuel for these Co-Gen units, though with the interconnection now they'll be able to run them at full output.

All right, so next I'll move over to the East Mesa facility. Like I said, we had just one improvement there. You have a North and South Fork Lift Station that's sending influent to this facility and because of the way it's currently set up in the piping they don't really work as one contiguous unit like they should so we're going to make some improvements there that will reduce some operating costs. The next improvement is the Wastewater Reclaim meters. There's about 19 of them and some of them we're going to have to replace with a new meter, but all of them will be connected to the AMI system. They're currently manually read now. They'll be automatically read through the AMI system and in some cases you actually have a customer owned Wastewater meter so in this improvement we will install a new meter that's owned by the Utilities Department versus them reading their own meter and providing that information to the Utilities. Dr. Garcia wanted to get all his own meters for all of these customers.

Got a few more small improvements. This would be for the whole Utilities Department. There are some lighting improvements, LED lighting at most of the facilities. The last one is there's a few HVAC (heating, ventilation, and air conditioning) upgrades and Energy Management System at the Administration Building, the Water Quality Laboratory that'll help reduce some additional electric costs. This last one is the one I really like because it doesn't cost the Utility any money. We have a person Al Gallardo on our team that worked at El Paso Electric for about 25 years and he went through all your electric bills and he found several accounts that all we've got to do is switch it to a better rate and you're going to save, I can't remember what it was, it was somewhere maybe around $50,000.00 a year, I think. We like to find those. Those don't cost you anything and they help the overall payback.
All right so, here's the numbers, the price breakdown. You've got the SCADA system. You've got the three improvements at Jacob Hands. The large one is obviously the aeration improvements. The interconnection at Jacob Hands, there is some of that cost you're paying El Paso Electric for the equipment on their side and then there is some cost on your side to make it work properly. Then you got the new Wastewater Meters, Lighting, HVAC, and Energy Management System. Then you've got some of the other costs associated with the construction, the Investment Grade Audit, and GRT (Gross Receipts Tax). Your total is almost $9.4 million if you included all of these improvements.

To look at it from a cost and savings standpoint it's about $300,000.00 in electric savings a year, $25,000.00 in gas, the new wastewater meter generated about $20,000.00 in revenues, there is substantial O&M (Operating & Maintenance) cost savings at Jacob Hands from not having to maintain this old equipment, so a total of about $540,000.00 a year, which results in a simple payback of about 17 years.

From a financing standpoint, some of you may remember when we looked at this project a while back, we were anticipating that the Utilities was going to have to put in about $1 million to keep it under a 20-year term. Well with some of the other improvements that we found since then you can see you're not having to put any cash into this deal. It will cash flow on a 20-year term. That interest rate is actually a little high. I think Erik is going to share with you that, we were being conservative at the time this was put together and should be a better interest rate than that, which obviously helps.

I just I thought I'd put together; you don't typically want to take the term of a performance contract out longer than expected life of what you're putting in. You can see on all the major equipment that we're putting in the expected life is at least 20 years and some of them are longer.

Chair Little: Question.

Romine: Yes.

Chair Little: Back to the interest rate.

Romine: Yes.

Chair Little: You said that that was a little high. I certainly thought so too. If you have a more realistic interest rate does it shorten the payback period?
Archuleta left the meeting at 2:18 p.m.

Romine: I think it's a little tight. I mean, Erik I think will be able to answer that a little more when he comes up, but I believe the way he ran it he was still using 20 years. I think it's close where we maybe we could, when we finally get down to locking in the rates you could maybe look at it from a 19-year possibly. This is the last slide and so I feel like it and I think I know you all do in the City that your carbon footprint, any time we can reduce that that's a good thing. You can see from some of these figures this will have a big impact on reducing your carbon footprint; 3,400 acres of pine forest that takes in CO2 (Carbon Dioxide) is equivalent to the reduction we're doing in electricity kWh. Almost 6,000 barrels of oil so it's going to be a nice project for the City to share from a carbon footprint.

Also, you know the City has these renewable energy goals for the whole City and this will have a great impact for that because, one, it's going to take more digester gas that you can run the Co-Gen's off of and other we're reducing your baseline of electricity so that automatically increases your renewable energy percent for the whole City. It'll have two things that it will benefit to help the City towards its renewable energy bill.

Archuleta returned to meeting at 2:21 p.m.

Sorg: Yes, question.

Chair Little: Go ahead.

Romine: Yes.

Sorg: You're saying that what we're going to do is going to be the total of all of these?

Romine: No, this comes from the EPA (Environmental Protection Agency) website...

Sorg: Okay.

Romine: ...they put this calculator together, so each one.

Sorg: I was hoping.

Romine: It'd be nice if you could add them together, but no it's just one or the other.

Chair Little: Okay. Go ahead. Other questions.
Archuleta: I have a question.
Chair Little: Go ahead.
Romine: Yes sir.
Archuleta: Will the Wastewater SCADA system be integrated with the Water system or separate stand alone?
Romine: It will be a separate system from the Water.
Archuleta: Stand alone?
Romine: Yes sir, and it'll have its own server.
Dr. Garcia: Yes, Mr. Chairman and Commissioner. The system is more of a PLC (Programmable Logic Controller) type system. More advanced controls for Wastewater. But we had talked to Harry about bringing certain alarms in the basics at least for dispatch purposes. The integration is not on the SCADA side but more on the monitoring side.
Romine: That's correct. And we looked into whether you could expand the one you have. It's almost full so it was going to be a major upgrade and working with our SCADA experts they said, they recommended this other system fit better with what the Wastewater side needed versus what the Water was doing.
Archuleta: Okay.
Romine: We did consider trying to expand that one from a cost standpoint.
Archuleta: Some benefits to having them integrated.
Romine: Yes. I'm sure there is.
Dr. Garcia: Yes, and if I may add the Water system is mainly monitoring. Some control in terms of on/off pumps and things like that, whereas on the Wastewater system it's going to be logic controllers, right.
Romine: Yes.
Dr. Garcia: You will be able to program the operation. It's much more advanced.
Archuleta: Right.
Romine: There's a lot more programming in it and a lot more points than what's in the Water side. We did look at it. It was recommended to go with this other system. If we could've expanded the Water one I think it might have been feasible.

Archuleta: Is the SCADA system going to be for all three facilities or just the Jacobs Hands?

Romine: It's going to be for all three.

Archuleta: All three?

Romine: There'll be wireless communication between all three.

Archuleta: You'll be able to operate the Jacob Hands facility with this SCADA system?

Romine: Yes sir.

Archuleta: Okay.

Romine: You'll be able to operate the other two facilities from where you're connected to the internet and you have the right IP address to get into the system.

Archuleta: Okay. Good, thank you.

Chair Little: Anything else?

Bencomo: Yes, I have a question.

Chair Little: Go ahead.

Bencomo: Do SCADA systems generally have to be updated every 20 years, because I'm seeing, we would pay one off by the time we would need a new one.

Romine: It's a good question. Some of them definitely last longer than 20 years. These are industrial type controls so they're very durable, but there's parts of it that you would have to replace at 20 years possibly. I wouldn't think the whole system and some of your, a lot of your first cost investment is the infrastructure for the communication and that probably could last 40 years.

Chair Little: Anything else?
Dr. Garcia: Shall we have the...Mr. Harrigan? Let’s look at the financials and then we will need some discussion as to whether you want us to move forward with this project after you see the financials. I need to take it to the City Council with our recommendation for bonding, and then bring a contract back to you for approval subject to the finances. Like we did on the prior project.

Chair Little: The sequence is this is a Work Session.

Dr. Garcia: Correct. There's just some consensus whether we move forward or not will be sufficient today. Mr. Harrigan can run his numbers and tell you what assumptions he had, and he incorporated this. He will also talk about some additional financing we will need for Fiscal Year 2021 (FY21) on projects for Water/Wastewater. He included everything that is anticipated for next FY, not just this project.

b. JCI ESPC Project – Phase II ECM Summary:
Harrigan: Good afternoon. My name is Erik Harrigan. I'm with RBC (Royal Bank of Canada) Capital Markets and we're the City's Municipal Advisor. The Utilities Department asked that we take a look at the numbers associated with what was presented by JCI but also that the Utilities has some new money projects for both the Water and the Wastewater system. What would the impact of that along with the Energy Performance Contract on a standalone basis, then on the overall impact to the Utility and the coverage, and what that looks like. As discussed, a little bit earlier, so in the JCI...we're famous for having really small print here so.

Sorg: That's why we have these.

Harrigan: I will try to blow this up a little bit. We took the cash flow that was provided by JCI and ran numbers that are a little bit closer related to what the current market is. We're also adding in some conservatism in those rates. We'll talk about rates at the end of this presentation but there's obviously a lot of significant things happening in the world that are impacting where interest rates are, so we do want to be conservative because there has been a lot of volatility and fluctuation in interest rates.

Just to kind of give you an idea that if you were to price the bonds right now, right today, you would be looking at a rate closer to 2.4%. When we factor in a little bit of potentially if the Coronavirus issue gets solved and rates were to kind of go back up because of that and that maybe the health of the worldwide economy is not so much in jeopardy and rates were to go back up we want it to be conservative, so we ran it at 3%. With that the savings generates about $24,000.00 to $25,000.00 a year over the life of the bonds,
which is about $500,000.00. I think there was a question asked earlier, "Well with the lower rate could you shorten the debt?" I think the question would be how much annual savings do you really want to have? What's sort of that limit if you try to shorten up the debt? If you take that $500,000.00 shorten up, you could probably shorten the debt by about a year. If rates were at 2.4% you would probably be able to shorten it up maybe by two years, but your annual savings would be very thin. That would be a discussion of how close do you want to put the annual debt service with your annual savings and how thin do you want those savings to be on an annual basis. There could be some opportunity to shorten it up a little bit. That kind of comparison with JCI shows that they were showing about $11,000.00 in annual savings, just to kind of give you a comparison.

Moving on to sort of the capital infrastructure needs that the Water and Wastewater have. There was about $10.5 million of Wastewater or excuse me of Water utility needs that were identified and about $3.2 million, $3.3 million of Wastewater utility identified. When looking at long-term projections of debt service coverage, which is where investors and the rating agencies really look at, the Utility has a very strong bond rating of Aa2. That's two notches below the highest possible rating that you could possibly have. Part of that is that the Utility has had historically strong debt service coverage levels and the objective would be to try to continue to maintain those levels.

From a senior lien basis on a long-term, from a long-term standpoint you would want to see debt service coverage of about 1.75, 1.7 times. What that means is that the pledge revenue, the net revenues is 175% of the annual debt service and that's important because having that coverage allows the Utilities money after payment of debt service for pay as you go capital as well as renewal and replacement in the Utility system on an ongoing basis. On a subordinate lien (sub lien) basis of about 1.5 times. As you may recall in 2018 when the City did its initial Performance Contract financing for the Water system, that was done on a sub lien basis. This would be the Performance Contract for the Wastewater and would be recommended to do on the sub lien as well.

Right now, the Utility is going through the process of refinancing some prior debt for savings as well as funding $1.2 million in equipment purchases and we expect to be in the market next Wednesday to price and lock in those interest rates. This table here shows you what the current debt service requirements including the refunding and the proposed $1.2 million new money and you'll see that debt service coverage after 2020 it's a minimum of about 1.8 times and on a sub lien basis it's about 1.48. This is on the 2019 audited pledge revenue. When we look at just using the 2019 pledge
revenues and adding in the new money and the Performance Contract, not taking into consideration any revenues being generated from the Performance Contract, and the 2019 pledged revenues you'll obviously see that the debt service coverage goes down. I think it's important to note that the 2019 revenues only include seven months' worth of revenue from the rate increase from the Water and one month of revenue from the Wastewater rate increases that were approved. When we factor in the Performance Contract benefit or revenues that were identified by JCI, comparing that to your 2019 pledge revenues and including those Performance Contract revenues you'll see the coverage is about 1.76 on the senior lien and about 1.5 on a sub lien basis. Then for 2020 the Utilities provided estimated pledge revenues for 2020, which include essentially a full year worth of the new water. There's seven months of the phased in water and one month of the phased in wastewater. That coverage, assuming no Performance Contract revenue is coming in, about 1.94 on a senior lien and about 1.55 on a sub lien. When we factor in the Performance Contract revenues you're looking at coverage levels of a little over two times on a senior lien basis and about 1.76 on a sub lien basis.

That kind of gives you an idea. The issuance of both the new money and Performance Contract does meet those minimum coverage levels that we were targeting and we'll kind of, before we go into the...I've got a couple of slides on just what's been kind of going in the market. Are there any questions that you have with what I've covered so far?

Chair Little: Seeing none. Go ahead.

Harrigan: Okay. I'm going to kind of skip this first page and go on to the second page of the market update. One of the things that we track pretty closely is the amount of money that flows into municipal bond funds and that's directly correlated to the demand for municipal funds. We've seen a pretty unprecedented level of inflows into those funds. Dating all the way back to mid-December of 2018 we have seen consecutive money flows into tax exempt municipal bond funds and over the last four weeks we've seen about $6.5 billion of money flowing into municipal bond funds which is pretty unique given that we have hit historically low interest rates.

Generally, speaking, investors are looking at what's the best return for my risk profile? When rates get very, very low investors will typically take their money and go into the stock market or wherever because they're saying, these rates are so low we're going to look for another investment alternative. You're not really seeing that. Money is continuing to flow into these municipal
bond funds and demands for tax exempt debt remain very, very, very strong.

Chair Little: Question.

Harrigan: Yes.

Chair Little: Can you raise that up a bit so we can see the X axis? Okay yes. There, that's what we need. Thank you.

Harrigan: Yes. When you take a look at what municipal or what tax exempt rates have done over the last 10 years as well as what is currently happening, you'll see that in 2018 we hit a low in tax exempt municipal rates and that was really sort of at the end of the recession if you will. That’s when the Federal Reserve stopped their quantitative easing. You saw rates spike up quite a bit. Then in December 2018 or November, tax exempt rates hit about a three-year high. Since that point in time because of the pressures on the world wide economy, the potential that the U.S. could move into a recession, and that the federal reserve was starting to cut interest rates you saw a fairly prolonged decline in interest rates from November 2019 to the point that we are today that two weeks ago we hit the all-time low ever in municipal tax exempt rates. Part of that is driven by the fear of what's happening to the global economy due in part to what's been going on with the Coronavirus. It's obviously plays a significant part in slowing down the global economy and the fears that it could impact that. When you take a look at...yes, was there a question?

Sorg: You have three separate lines there on the graph. What's the difference between them?

Harrigan: It's the 10, 20, and 30-year rate.

Sorg: Okay, thank you.

Harrigan: If you take a look at going all the way back through history in time going all the way back to the 1960s and you look at what have interest rates done, tax exempt rates. When you look at the rate today it has been 99.97% higher over the last 50 years than it is today. Just to kind of give you from a historical perspective where interest rates are. With that I’d be happy to answer any additional questions on the market or the financing that we covered.

Carmichael: Just in layman's terms, it's not clear to me what other financing was rolled into it. You mentioned the Water Utility needs over the next few years and the Wastewater Utility over the next few years. Which analysis rolled that in?

Harrigan: On all of the coverage analysis that we showed it, it does include it specifically. If you turn to page four under the column 2020B, New Money, this is the roughly $10 million of Water and $3 million of Wastewater requirements. The annual debt service associated with that over a 20-year repayment is about $950,000.00 roughly. On the coverage amount that I covered that includes both the Performance Contract funding for the wastewater and the new money component of the capital needs that the Utility has.

Carmichael: Right. I think the main question any of us would have and I'm sure staff has gone through this from several different directions, but that we're not going to have to defer something that is either in the Capital Improvement Plan or that we need to do to maintain the systems.

Dr. Garcia: Yes. Mr. Chairman, Commissioner Carmichael. You're absolutely correct. The reason we wanted to do the analysis with all of the money needs is because we have about $10 million worth of projects that we need to begin in Fiscal Year 2021 on the Water Utility. We did not want to skip those for the sake of doing the Performance Contract on the Wastewater side. Next month we're going to discuss each of those on a work session for the budget. Unfortunately, the timing worked out that we need to address this now, but there's several projects such as tank rehabilitation, replacement of a couple of wells, a bunch of street utility rehabilitations, so we'll go through each of those projects. They add up to about what $10.56 million. On the Wastewater side we have the Carl will talk today about the Primary Clarifier design portion. Well we need the construction for that. That's one. The Wastewater we have some disinfection system upgrades of the facility, that's a big going to UV (ultraviolet). We'll discuss those as part of the CIP, the Capital Improvement Plan, but we prioritize all those projects and inserted them in here because if we're going to do bonds, we need to include all the needs of FY21 and then the Performance Contract. The answer is yes, the needs for FY21 are there.

The second thing is, and Erik you might want to elaborate. You may have mentioned this, but the projections that we gave you do not include the third tier of rate increases on both utilities.

Harrigan: That's correct. Under the pages, and this would be page six and seven, this shows the projected pledge revenue for 2020. This includes seven months of the second phase for Water, one month of the second phase for Wastewater,
and doesn't provide for any of the future that the additional increase. We've assumed that revenues just are level, to be conservative.

Dr. Garcia: Yes, so Mr. Chairman. There is the third-tier rate increase in Water and Wastewater are not in this 20-year projection. That's our safety factor.

Carmichael: Thank you.

Chair Little: Anything else? Apparently not. Go ahead.

Harrigan: That concludes my presentation.

Chair Little: Okay, as I said earlier, this is a Work Session and so we have heard from the presenters on both the fiscal aspects of the contract, proposed contract, and I'll say the fiscal impacts they have. The next step is to nod our heads over asking the City, sorry the Utility to go forward to present these data to the City Council and following their discussions to return to us with a performance-based contract to implement these recommendations. Do we have any real qualms about asking the Utility to go forward and present? Dr. Johnson.

Johnson: One thing that we hadn't talked about here and I think I intuitively know what it is, is the effect on when we next have to go back for a rate increase in these two utilities. Is the Performance Based Contract, my guess is it extends that period of time out, but I'm not sure how in the world you project it.

Dr. Garcia: Mr. Chairman, Commissioner Johnson. There are no future rate projections in an of this pledge revenues. In fact, like I mentioned earlier, the third increase in Water/Wastewater are not in here.

Johnson: Right.

Dr. Garcia: Which are already approved, but we're not making any expectations or assumptions of future rate increases needed to make this work.

Johnson: Certainly, the Performance Based Contract should obviously be eliminated.

Dr. Garcia: Correct. Just like the...

Johnson: It should extend out because what would be more efficient in operations. It's pushing it further in the future which I think we need to do.
Dr. Garcia: That's correct but if you recall from our strategic plan point of view, we committed to do the review with the Board annually of where we are in Revenue Requirement.

Johnson: Right.

Dr. Garcia: Review rates every four years.

Johnson: Right.

Dr. Garcia: Now we may determine that it's a negligible increase and we decide not to do anything, but we will still do the reviews every four years officially and we'll run the model every year because that's what the Board requested.

Johnson: I think at some point we're going to be able to come back and say, "We don't need an increase at every four years."

Dr. Garcia: Correct.

Johnson: Now it looks like we go five or six years, something like that.

Dr. Garcia: That is correct. You could still review them and decide you don't change them, right. Yes, correct.

Johnson: I look forward to that day. I haven't seen it yet.

Dr. Garcia: The problem is things keep getting more and more expensive. Yes, we will be reviewing those, but again from the assumptions in this project we did not include any of that. The other thing you need to, if you recall from the rate discussions we don't have any growth assumptions in our rate reviews.

Johnson: Don't have any what?

Dr. Garcia: Growth assumptions.

Johnson: Right.

Dr. Garcia: We did a status quo test year to test year, right.

Chair Little: We're always planning by only looking in the rearview mirror.

Archuleta: Can I ask a question of Dr. Garcia?
Chair Little: Go ahead.

Archuleta: Dr. Garcia. The gentleman from JCI talked about 12 months construction, but based on all the approvals that have to be made, etc. When do you see construction starting and finishing?

Dr. Garcia: Mr. Chairman, Commissioner Archuleta. I'll defer to Erik on the issuance of the bonds, but if we can issue the bonds sometime this summer, we could probably start construction early fall, Harry do you think? Assuming we get the monies in the summer because you've done a lot of the preliminary design as part of the IGA. Can you jump in?

Romine: Sure. I mean most of the engineering has been done. There will be some final engineering once we get a notice to proceed but some of the larger equipment, it's just a matter of we got submittals ready, we turn it into staff, they approve it, and we can order it. We can move pretty quick. Yes, I would say in the fall we're starting construction on some of this stuff.

Archuleta: Okay, good. Thank you.

Bencomo: Mr. Chair. I have a question as well for Dr. Garcia.

Chair Little: Go ahead.

Bencomo: Dr. Garcia. You just said that you don't have any growth assumptions or something like that. Do you mean like the City growth?

Dr. Garcia: Customer growth.

Bencomo: Customer growth.

Dr. Garcia: Commissioner Bencomo. When we do Cost of Service analysis, we use audited numbers and then any known and measurable changes at one point in time, and then we calculate what the revenue needs are today. When we set rates, we do it for our actual cost. We don't say, you know we need to project our costs for five more years of salaries or on the revenue side we're having 2% growth in customers. That is reconciled at the time of the next rate. It's at one point in time. We don't make assumptions of future expenditures and future growth of customers.

Bencomo: Okay.
Dr. Garcia: Even though we are growing. That's sort of another safety factor that we have.

Bencomo: Then my last question that I have now forgotten. I should've written it down.

Sorg: It happens all the time.

Chair Little: It will come to you.

Bencomo: It will come to me.

Chair Little: Commissioner Carmichael.

Carmichael: Just wanted to comment. I think it's a very good opportunity, the pay back is better than what the numbers show. I've tried to develop some information over the years of my career and trying to put a cost on deferred actions. Not doing what we ought to do sooner than we did, and so I just...my gut feeling is that there's a cost of deferred action, but if you don't do this we'll see more costs that we really can't put a number on. I'm fully in favor of it.

Bencomo: Mr. Chair. I remember.

Chair Little: Go ahead.

Bencomo: Thank you. When is the next rate review for Water and Wastewater?

Dr. Garcia: Mr. Chairman, Commissioner Bencomo. I'm anticipating we'll be looking at our consultant and the numbers in 2022.

Bencomo: Okay.

Dr. Garcia: We started in 2018 so we'll do it in 2022 again for Water and hopefully it's not going to be, you know originally as we explained to you when we had a little orientation that we went almost 10 years. Now every four years we're committed to look at it and hopefully if you see an increase, increases are going to be much smaller than the $2.25 that we started and we have to phase over three years, etc., etc.

Bencomo: Thank you.

Chair Little: Thank you. Okay, as far as the possible eventual contract it will look like the one that we did before. Basically, it says go and do and that's the last we see of any procurement actions, right?
Dr. Garcia: Correct.

Romine: That is correct.

Chair Little: Okay. Any other comments or questions?

Dr. Garcia: If I may Mr. Chairman. The agreement, we're anticipating being very similar to the AMI. If you recall there's language there that even though we will be at City Council with Work Session before then and we will their concurrence, any agreements you approve, since this is new money it's not in the CIP, in the budget itself for FY20, then the agreement you approve is subject to final blessing from the Council on the money side. It's going to be in that sense identical to that. Then you're right, you don't see it other than updates that Carl makes when we're actually building it.

Chair Little: Okay. Anything else? Okay. Is it the consensus of the Board that the Utility staff can proceed to present this to City Council?

Johnson: Yes.

Sorg: Yes.

Chair Little: And let the process... Okay.

Dr. Garcia: We'll proceed with that then. Thank you.

Chair Little: Thank you and thank you too.

Dr. Garcia: That's all we have for the Work Session.

Romine: Thank you very much for your time.

Chair Little: Let us adjourn the Work Session. The Regular Meeting is scheduled to begin immediately after the Work Session. It’s less than 10 minutes until 3:00 o’clock, let’s plan on convening at 3:00 o’clock for the Regular Session.

Meeting was adjourned at approximately 2:52 p.m.