



CITY OF AZUSA
MINUTES OF THE REGULAR MEETING
OF THE AZUSA UTILITY BOARD/CITY COUNCIL
MONDAY, FEBRUARY 22, 2016 – 6:30 P.M.

Chairman: Edward J. Alvarez
Vice-Chairman: Angel A. Carrillo
Boardmember: Joseph Romero Rocha
Boardmember: Uriel Edward Macias
Boardmember: Robert Gonzales
Secretary: Jeffrey Lawrence Cornejo, Jr.

The Utility Board/City Council of the City of Azusa met in regular session, at the above date and time, in the Azusa Light and Water (ALW) Conference Room, located at 729 North Azusa Avenue, Azusa, California.

Chairman Alvarez called the meeting to order at 6:30 P.M.
Pledge to the flag was led by Mr. Charles Alvarez.

ROLL CALL: Roll call was taken by Secretary Cornejo. Board member Macias joined the meeting at 6:34 p.m., after roll call.

PRESENT: BOARD MEMBERS: ROCHA, MACIAS, GONZALES, CARRILLO, ALVAREZ
ABSENT: BOARD MEMBERS: NONE

ALSO PRESENT

Elected Officials: Secretary Cornejo.

Staff Members: City Manager Butzlaff, Utilities Director Morrow, Assistant Director Customer Care Solutions Kalscheuer, Utility Programs Specialist Reid, Assistant Director Resource Management Lehr, Utilities Administrative & Financial Services Manager Johnson, Assistant Director Electric Operations Langit, Engineering Associate Barbosa, Director of Recreation & Family Services Jacobs, Recreation Supervisor Chavez, Police Captain Hunt, Storekeeper Alvarez, Management Analyst Lacasella, Administrative Technician Juarez

PUBLIC PARTICIPATION

Mr. Jorge V. Rosales expressed concerns regarding the recommended water rate increase and Debt Service Obligation Ratio increase and requested clarification as to the reason for the increase is needed.

UTILITIES DIRECTOR COMMENTS

Utilities Director Morrow reported that the California Energy Commission is requesting to become a governing body for the Utility Department. An update on the Lagunitas Brewery was provided.

UTILITY BOARD MEMBER COMMENTS

Vice-Chairman Carrillo inquired about the size of the Lagunitas connection and whether it would be larger than the Miller Brewery connection, to which Mr. Morrow reported that they will both be 12 inch services, which is equivalent to the Miller Brewery.

CONSENT CALENDAR

Moved by Board Member Gonzales, seconded by Vice-Chairman Carrillo, to approve Consent Calendar Items D-1 through D-3 by the following vote of the Board:

AYES: BOARD MEMBERS: ROCHA, MACIAS, GONZALES, CARRILLO, ALVAREZ

NOES: BOARD MEMBERS: NONE

ABSTAIN: BOARD MEMBERS: ALVAREZ (from Item D-1 only)

1. The minutes of the regular meeting of January 25, 2015 were approved as written.
2. Resolution No. UB-1-2016 accepting a Grant of Easement for the property at Lots 12 and 13 Tract 68355 in Book 1354 Page 37-41 and entitled:

A RESOLUTION OF THE UTILITY BOARD/CITY COUNCIL OF THE CITY OF AZUSA ACCEPTING A CERTAIN GRANT OF PERMANENT EASEMENT AND DIRECTING THE RECORDING THEREOF

3. A 10% contract increase of \$4,723 to NBS for additional services provided in preparation of the updated Water Utility Cost of Service Study, to a total not-to-exceed amount of \$51,953 was approved and the Director of Utilities was authorized to approve the addendum to the contract with NBS.

SCHEDULED ITEMS

Review of Water Cost of Service Study

Utilities Administrative & Financial Services Manager Johnson presented the staff report stating that rates have not increased since 2010. An Executive Order issued by Governor Brown mandated a 25% percent state-wide urban water usage reduction which resulted in a significant loss of Utility revenue. The primary financial goal of the Water Utility is to meet the 1.25 minimum debt coverage requirement and the maintain sufficient cash reserves. Revenues from current draft penalties and planned water leased revenues will help to meet the 1.25 requirement for Fiscal Year 2016 but beginning in Fiscal Year 2017, financial projections do not meet the minimum target.

NBS was hired to prepare an updated water cost of service study in order to determine whether or not ALW's current rates would adequately meet revenue requirements and ensure that rates reflect water supply costs. A proposed rate structure was recommended by NBS and included a rate increase of 19.75 percent in Fiscal Year 2017 and an annual 2 percent increase through Fiscal Year 2021.

Ms. Kim Boehler, NBS Consultant, presented the key rate study assumptions stating that the elimination of drought penalties on July 1, 2016 will have a negative 11.5% rate impact; the Debt Coverage targets will be 1.35 percent in Fiscal Year 2017 and 1.5 the following years. ALW is currently projected to end Fiscal Years 2017 with \$21.5 Million and a revenue of over \$14 Million. Should the net revenue requirements be removed, ALW will end Fiscal Year 2017 with approximately \$17.8 Million. If ALW continues with current levels of operating and capital expenditures, it is projected that all reserves will be spent within the five year period. The rate proposal would allow Utility to meet their expenditures moving forward as well as meet the \$19 Million reserve fund target by the end of the 5 year period.

The current Debt Coverage Ratio would decrease to .57 percent at the end of the 5 year period. The proposed rate would result in a Debt Coverage Ratio of 1.36 percent for Fiscal Year 2016 and 2017 and at least 1.5 thereafter.

NBS recommended that current meter size rates be unbundled which results in the larger meter sizes seeing higher rate impacts than customers with smaller meter sizes. Changes to the consumption charge were also proposed resulting in a 3 tiered rate split with tier one increasing from \$1.00 per unit to \$1.05 per unit and up to \$2.17 in Tier 3. NBS also recommended retaining a uniform monthly rate for those receiving the Golf Course rate.

Staff further stated that the reduction in water sales have adversely affected the water system finances and rate adjustments are necessary in order to maintain a viable utility operation and meet Debt Service coverage requirements each year as well as maintain a decent amount of cash reserves.

Utilities Director Morrow responded to the public comment made and explained that while the per unit fixed fee will increase if it is being spread more across a lesser amount of units, the bill actually does decrease.

Discussion ensued regarding the 19.75 percent rate increase. Utilities Director Morrow responded to questions posed by the Board stating that rate changes are done as a last resort and the five year plan allows for changes to be made if needed; the majority of customers are residential; unbundling rates allows ALW to properly charge customers as they were being overly generous with cheap water for the commercial customers and in a drought behavioral situation the rate structure was not appropriate; and NBS looked at alternatives to smooth out the rate increase over the next five years but in order to meet the debt coverage, the rates must have a steep increase in FY 2017. Further discussion ensued regarding the minimum debt service coverage of 1.25; based on City of Azusa's utility size, the industry average debt coverage ratio is over 2.0.

City Attorney Ferre responded to questions posed by the Board stating that that ALW can charge more outside of its boundaries than inside its boundaries and clarified that what is in place now is not a violation of Prop 218 and what is being discussed only applies to service rates. He advised Staff to ensure that the laws in place are followed accordingly when the rates are updated. Staff recommended removing the surcharge on Irwindale fixed rate components only.

Staff recommended that the Utility Board consider the information provided. No action was needed for this item.

STAFF REPORTS / COMMUNICATIONS

Fiscal Year 2015-2016 Second Quarter Budget Reports for Electric and Water Funds

The Fiscal Year 2015-2016 Second Quarter Budget Reports for Electric and Water Funds were provided to the Board for review.

CLOSED SESSION

None

ADJOURNMENT

The meeting was adjourned by consensus of the Utility Board.

TIME OF ADJOURNMENT: 7:46 P.M.



CITY CLERK/SECRETARY

NEXT RESOLUTION NO. UB-2-2016

Next Regular Meeting: March 28, 2016

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