

Las Cruces Utilities
Minutes of the Work Session on
Thursday, January 9, 2020
1:30 pm
Utilities Board Room 225

Board Members Present

William Little, Chairman
Ed Archuleta, Vice-Chairman
Jim Carmichael, Commissioner
Dr. Harry Johnson, Commissioner
Gill Sorg, Commissioner
Gabriel Vasquez, Commissioner

Board Members Absent:

Steven Baumgarn, Commissioner

Others:

Becky Baum, RC Creations, LLC
Cassie McClure, Pubic Outreach Consultant
Suzanne Michaels, Public Outreach
Consultant
Beth Bardwell, League of Women Voters
Greg Shervanick
Julie Herlands, TischlerBise

City Staff Present:

Robert Cabello, Sr. Assistant City Attorney
Carl Clark, Deputy Director RES/TS
Jeff Dillard, Business Systems Analyst
John Mrozek, Deputy Director Wastewater
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
Victoria Strouse, Senior Office Assistant
Delilah Walsh, Utilities Assistant Director
Adrienne Widmer, Deputy Director Water

Chair Little called the work session meeting to order at approximately 1:30 p.m.

Water and Wastewater Development Impact Fees:

Chair Little: I'm going to call the work session to order. The subject of the work session is the Water and Wastewater Development Impact Fees and I will turn the session over to Dr. Garcia.

Dr. Garcia: Mr. Chairman, Commissioners. Today again is just a work session. You're going to have the opportunity to review the study with the consultant that did the work and then at the end of the presentation we'll talk about the process. What comes next for action by the Board. With that Domonique you'll want to introduce yourself, introduce the consultant.

Rodriguez: My name is Domonique Rodriguez. I'm the Rate and Economic Analysis Manager. On February 6, 2019 we entered into a contract with TischlerBise. On October 17th we presented a draft report to the Capital Improvement Advisory Committee, and on December 19th the Capital Improvement Advisory Committee or CIAC approved the final Water and Wastewater Impact Fee update with the consultant's recommendations which include a decrease of the Water Impact Fee and an increase of the Wastewater Impact Fee. We have today Julie Herlands. She's with TischlerBise and she worked on the report. She is here to present the PowerPoint presentation to you.

Harlands:

Thank you. Good afternoon. Good to be here with you this afternoon. I do have a PowerPoint presentation we go through in quite some detail the components of the report and then we'll take questions and answer questions at the end of the presentation. Just by way of overview, just to touch base on development impact fees, what they are and what they aren't. Development impact fees are one time payments for growth related infrastructure. They are usually collected the time building permits are issued. They are paid typically by new development or by a change in use. The funds cannot be used for operations and maintenance or replacement of existing infrastructure. It is for additional capacity. It's for expansion of your existing system. While it generates revenue it is not a tax. It is really a land use regulation that's tied back to development activity. Because of that, because it is a regulation there are three requirements that need to be met in order to implement impact fees and I use development impact fees, development fees, and infill development impact fees interchangeably so those are talking about the same thing.

Three requirements need to be met. There is a need for the infrastructure that growth is creating demand for expansion of the system. In this case Water and Wastewater utility systems. That there is a benefit received by the fee payer that ultimately that infrastructure gets built in a timely manner after the fee is collected and again this is at the system level improvement, and that the fee payer pays their fair share or the proportionate share of the capacity increase, so their cost to expand the facility. They're not paying more than their fair share.

To meet those requirements the Utility Department embarked on an impact fee study in all jurisdictions that implement impact fees, nationally do that, and we do work nationally on impact fee studies with quite the experience elsewhere on all types of impact fees. This is, these are the elements that we'll go over for both the Water and Wastewater. Once we go through the Water part the Wastewater will be, will come a little bit quicker since they're sort of the same building block components that we'll talk about.

The first step in the calculation is to identify current levels of service and that's current usage of the system. This is current Water usage and again because this is tied back to land use we want to identify the distinction between residential usage and non-residential usage. Really to get down to what's that bottom line amount of usage by a residential unit and that's that 315 gallons per day per residential customer, per residential unit. Then using that factor we can scale it to meter sizes and these are specific to the City, to Las Cruces. The types of meters that are utilized and that are built and implemented here. The fee schedule will be specific, will be tied back to this fee schedule and this is really creating that relationship between the residential meter size which is



that baseline five-eighths or three-quarters, if you have three-quarter meter at the 315 gallons per day. That will be scaled, that will be the baseline and the rest of the meters scaled back to that baseline usage. We'll see this similar type of figure toward the end with the resulting fee schedule once we go through the calculations.

Again, getting back to current usage and divvying up between residential and non-residential. Again, this is just to establish that the demand, the current usage, a starting point for the system to then project outward on what future growth in the City will result in in terms of water usage. The bottom line here is getting to projections on additional customers, additional usage, grand total of gallons per day, which is adding to the baseline today and how many, and what does that translate into EDUs. Now these are projections. If there's faster growth these numbers would increase. If they're slower growth they would decrease and the fee collection, the fee revenue and expenditure would be scaled proportionately. As you grow faster, there will be a need for additional infrastructure. You grow slower, it'd be less and the fee collection would be commiserate with that pace. Again, to establish the current levels of service, current usage and capacity. What's in the ground today? This is just identifying that there is about an 83% utilization of the system today which is getting to establishing again that baseline usage and capacity.

Next we go into the next part once we've identified the current level of service, the relationship between land uses and demand for infrastructure. We look at the cost. The cost for the individual components in the utility system. Again, this is under the Water part of the two components. The sub-components here first is on supply and what that costs is per gallon per day for water supply. This information is current costs including both principal and interest and again to get to that bottom line cost per gallon per day which is \$1.05.

The next sub-component under the Water system is transmission and this is the value, the cost to get into a cost per equivalent dwelling units today of the value in the ground today. This is what's in the ground today. This is not future needs so this is really getting to what is that cost per EDU to provide the same level of service to the next EDU that comes into the City. That's that bottom line number there. Do the same thing on water valves. Again, just getting to the sub-component parts of the system to get to what's that current value today to continue to provide that same level of service for new development as it occurs in the City. Same concept on water booster pumps. Again this is current inventory not future needs, but again to establish that relationship between what's the need for future development.



On the water storage sub-component, this is establishing usage with what's in the ground today. The demand per EDU and then the cost to provide that same level of service moving forward in the future. Then future water development. Again the same, but a little bit different, this is a planned projects and those costs to provide that additional capacity in the future. You'll see there there are years identified and the out-years, we're in 2020, so happening currently or to be occurring, and the amount of water capacity that will provide to get to a cost per gallon—that bottom line.

Finally the last sub-component here is the Water Quality Lab. This is one project that then is split between Water and Wastewater. The portion allocated to Water here is at 30%. The remainder is allocated to Wastewater and this is the activities imbedded in the activities that will occur within those facilities and the cost of this facility. Because it will serve development in the future you'll see there there's a projected total Water demand over 20 years. This cost is spread out over demand in the future because it is, you're building it today to serve new growth in the future. That's the cost element that bottom line cost per gallon per day.

We also include within the calculation a debt service credit. There is outstanding debt on a portion of the existing capacity and the concept here is we want to ensure that a payer of the impact fee who's also paying rates that are going to pay down the debt are not paying twice for the same capacity. We've identified those cost components for which rates may be used to pay down the debt and calculate a credit off to account for that. That's imbedded in the calculation, in the final fee schedule.

All of those elements combined get implemented, get imbedded into, put into the fee schedule. You'll see here the cost components and the demand, the appropriate demand for equivalent dwelling unit as well as that bottom line cost per EDU for the Water transmission fees which is the component parts of the transmission lines, the valves, the booster pumps. That's an aggregation of those costs to get to a gross cost that then we net out the debt service cost to get an ultimate net capital cost per equivalent dwelling unit and then that's applied to, and that ultimately becomes the fee for a residential unit with a three-quarters inch main, meter. That then is used to, and you'll see the next slide that's the fee schedule by meter size. I do want to say also on this slide that the utilities current policy of allocating the impact fee to the builder, the customer service charge, the fee to rate base, that's shown there; the 50%, 28%, 22%. There's a note here this is current policy that's in place. This has not been, this is not necessarily, this reflects on our, from our perspective a policy decision that is not an impact fee requirement or a recommendation necessarily of the consultant but happy to discuss that further if necessary.



The bottom line here of \$2,125.00 is the fee for residential unit. That then is used to scale again to the meter size and this would be the new impact fee schedule by meter size if adopted at this rate.

Comparing this new fee to the fee that's in place today, there is a slight reduction and essentially it's attributed to the storage costs per gallon are lower in this impact fee study update compared to the previous one. Again we're showing here the current policy in place of the three allocations; the fee to the builder, the customer surcharge, and the fee to rate base.

From there just a point of information and to close the loop to put this back into the projections, the growth projections. What we've shown here are if the City continues to grow at the pace, the projections that we included in the fee these are the growth related needs. This is the bottom line growth related needs based on that amount of growth. Again if it's faster it'll be higher amount of growth, if it's slower it'd be lower, but about \$15 million worth of growth related needs over the next 10 years. Then compared that to the amount of revenue generated again over that same period of time there's a slight shortfall and this is due to one, the debt service credit and the projection over the water support facilities which serves development over 20 years so it's not a full capture, over 20 years and overall growth, over all development, excuse me so there's only growth is only paying a portion of that cost and the water development also is over 20 years so we're getting 10 years' worth of that revenue for that component.

I'll continue with Wastewater and we'll open it up to questions. Same process on the Wastewater approach. This is the parallel, the similar table for Water but this is specific to Wastewater. This is the Wastewater usage and you'll see there the 176 gallons per day versus the 315 for Water so this is actual data current and this was test year 2018. This is then used to establish that, again ultimately to be used to establish the impact fee schedule based on meter size and type. Again similar construction of the Water usage. We want to bring that 2018 year to current and this is the current Wastewater demand in the system for fiscal 2019.

Using the same projections we project out the Wastewater demand. Again using base line numbers of customers, adding the projected new customers, projected new demand on the system so average gallons per day and ultimately getting to about 12.4 million gallons per day increase over the 11.2 today. EDU's are also shown here as well and these are used throughout the analysis to project those growth related needs and revenues.



Then we turn to the components of the fee. First we look at the treatment element and this is current capacity in the system today at about 15 million gallons per day and the cost to continue to provide that same level of service, about \$4.80 per gallon. The collection component is the next in the building blocks of the fee and this is what's in the ground today. Again this is not planned improvements, this is the value of the system today and what that costs per EDU to provide that same level of service in the collections system. It's about \$1,800.00 per EDU. Same concept here on the lift stations. This is what's in the ground today, what the capacity is, what the cost to continue to provide that same level of service at about \$85.00 per EDU. Then the other portion that's the remainder of the water quality lab at 70%. This is again attributed to demand over 20 years. This is a facility again with excess capacity and the resulting costs per gallon.

We do the same thing here on the debt service credit to account for potential double payments. Debt that was issued and this is any debt that was issued for Wastewater capacity expansions where rates, again where rates would be potentially used to pay down that debt we provide a credit so there is potential, eliminating that potential for a double payment. Then the bottom line here of the cost components taking each of those elements and putting them into the fee schedule. The bottom line of the net capital cost once we net out that debt service credit is \$2,726.00 and that then becomes the fee for a residential unit for that meter size. Same information here. The same caveat here on the distribution on that 50% to the builder, customer surcharge, free to rate base, etc. This is just remaining, the carryover from the existing schedule and not an impact fee requirement or a recommendation at this time from us.

Taking that base line fee for the three-quarters meter, five-eighths, three-quarter meter, applying that to the meter types and meter sizes you'll see on the right, again the fee schedule that would be applicable to each of those fee the types and sizes. The change from the existing fee schedule is an increase over the current fee and this is attributed to increased cost factors and the components that are in the Wastewater fee and addition of the support facility in this year, in this update for this study.

Projecting out the growth related needs on the Wastewater system is about \$20 million over 10 years. The fee revenue is close to that with a slight shortfall, again for those same reasons with the debt service credit imbedded in the calculation as well as that the support facility piece that is allocated over all development and over a longer period of time so this 10 year period won't capture all of that cost. With that I'm happy to take questions and have further discussion. Thank you for your time.



- Carmichael: A couple of questions. One, I assume it's just calculation methodology but back on the Water the calculation of gallons per day per person versus customer, I was trying to decide how that relates to our conservation calculation because the numbers are different. I'm assuming that something's in here that's not in conservation or vice versa. Is that a fair statement?
- Dr. Garcia: Mr. Chairman, Commissioner Carmichael. You are correct. They are close though. This is residential customer. The numbers you've seen before is gallons per person per day so we have to divide by 2.43 or so. I believe because of the test year versus the calendar year that we do on conservation is within 4.5% or so. You can't have both identical numbers. It depends what data set you use but it's very close.
- Carmichael: I understand.
- Dr. Garcia: It's 120, almost 324 gallons per person per day versus 130 I think is rounded.
- Carmichael: 130 is what's in here.
- Dr. Garcia: Yes. It's 123 the number that we stated for 2018 calendar.
- Carmichael: Okay.
- Dr. Garcia: It's not exactly the same number but the data set is not the same. We went through that with staff.
- Carmichael: Okay. What I was looking at was 2017 conservation.
- Dr. Garcia: Which was lower.
- Carmichael: Which was higher.
- Dr. Garcia: Actually, I believe ...
- Carmichael: Projected.
- Dr. Garcia: ... 2016 may have been lower and 2017 higher if you divide by the number of the density in an average density in a residential home. We're using 2.43 so staff on conservation was using slightly a different number so I asked them to recalculate that based on what Tischler did because that's what we're using on all the other plans including the Parks. Park Impact Fees and all, so we're trying to use one data set for the whole City. That's a good point because they're not exactly the same number.



Carmichael: The actuals are better.

Dr. Garcia: Correct.

Carmichael: Today even what we had in the plan and I guess I just haven't been following (*inaudible*).

Dr. Garcia: We continue to update that number as we report to the state engineer.

Carmichael: Right. Okay. My other question I guess is in all this data what's the best place to look to see a summary of the need? I'm not following exactly you know like page, I think it's probably page 21 but I haven't had a chance to really work through that and understand that. Am I understanding that in those five categories that's where added capacity will be needed given the projected growth?

Harlands: Yes. That's the summary for each of those components. These are impact fee related capacity expansion so there may be other projects and other plans and other things happening apart from this but this is isolated to those components. It's the supply and what we've shown on this chart is the gallons, the additional gallons per day and then the cost factor that goes along with that. That green column is the ultimate cost, the projected cost over 10 years. Where it's indicated as GPD those are gallons per day. The EDU's are the additional EDU's are being served and all the way down.

Carmichael: Right, so where we will see action plans and items to accomplish that given the growth plays out will be through a combination of projects that staff brings forward and some of which I guess is in the Capital Improvement Plan.

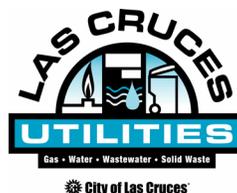
Dr. Garcia: Mr. Chairman, Commissioner Carmichael. Actually they started with the Capital Improvement Plan so you're right. In the next five and 10 years you're going to see this capacity related projects come to you.

Carmichael: Okay. I was just trying to.

Dr. Garcia: To bring transmission lines, additional wells, additional storage, but this is just capacity related.

Carmichael: Yes.

Dr. Garcia: Now when we build it we don't have a separate tank for new development and a separate tank for the existing residents. We build capacity. We may expand a tank, replace it and expand it, etcetera. You will see that in, if you go back



to some of the things that Mr. Clark does when he presents to you through the budget we tell you it's a development project versus a rehab project.

Carmichael: Right.

Dr. Garcia: Development ties to impact fees. That means "hey, we need this capacity, we need a transmission line." Right now I think it was last month he reported on a sewer line. You approved a sewer line sometime back up the Sandhill Road. That's a development road. We're building more capacity to bring sewage back from the East Mesa. That's classical development project, in that case Wastewater.

Carmichael: I'm just trying to tie all that load together in my mind.

Dr. Garcia: We will be separating because we have one system so it's not like a new park that only serves a brand-new subdivision. We build capacity ingrained in our system.

Carmichael: Right. Thank you.

Dr. Garcia: We bring those projects to you and say, "this is a development project, we need more capacity," or "this is a rehabilitation project."

Carmichael: Thank you.

Sorg: That Sandhill pipeline is deep in the ground. They have to go way down. I've been there.

Dr. Garcia: Mr. Chair and Councilor. You've been inspecting the pipes.

Sorg: Yes, I have.

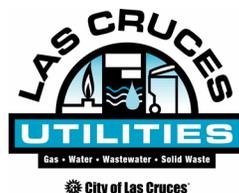
Dr. Garcia: That is a development project.

Chair Little: Other questions?

Archuleta: I have a question.

Chair Little: Go ahead.

Archuleta: In the population forecast which one did you use: low, medium, or high? Population growth. It's in the plan.



Harlands: Right. They're consistent with the Park Impact Fees. We also worked on the Park Impact Fee and so that would be outgrowth of the comp plan, the Comprehensive Plan that was happening at the time. I think it was a year ago. I think it was in the spring/summertime frame.

Sorg: Still going on.

Harlands: Okay. That was for the first part of the existing conditions plus the projections and so we coordinated with those folks.

Archuleta: Right but is it a low growth or a medium growth?

Harlands: I believe it's a medium level, but I could be wrong.

Archuleta: Medium growth?

Dr. Garcia: Mr. Chairman. If Commissioner Archuleta is talking about the 40-year water plan.

Archuleta: The 40-year plan.

Dr. Garcia: For the 40-year water plan is the low growth.

Archuleta: The low growth. Okay.

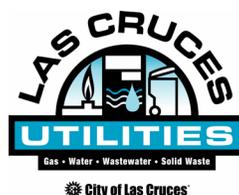
Dr. Garcia: When we compared to the other City plans because remember the plan is two years old or so. We looked at where does this other City plans lay, and it is extremely close to the low growth.

Archuleta: Low growth. Okay. I just want to make sure. Thank you.

Chair Little: Anything else? One clarification, as you calculated all of the various classes you didn't really pay any attention to, this may be the last you hear from me. (*inaudible*). Did you pay any attention to where things might happen or whether they might be more expensive here or there, right? It was just aggregates and averages, right?

Harlands: With local costs for projects. The intent is to get a large enough sample so we're identifying an average cost ultimately, but it is a point in time in average cost.

Chair Little: All right, thank you.



Dr. Garcia: Fun fact if I may add Mr. Chairman, the Capital Improvement Advisory Committee brought up that same question and staff and the consultant went back and revisited some of the cost based on our costs with the appropriate rather than having national average type cost. They did a good job in indexing the cost of the infrastructure to what we see.

Chair Little: Thank you.

Dr. Garcia: It was brought up before.

Chair Little: Anything else? Okay, go ahead.

Dr. Garcia: Can we talk about the process now? Domonique please.

Rodriguez: On February 24, 2020 we're taking this report to City Council during the work session. This request came from City Council. They wanted to talk and understand more about the allocation percentages between customer, rate based, and builder. Then from there we will be bringing back with the approval resolution in March 2020 to approve this report and then implement these recommendations by the consultant.

Dr. Garcia: If I may add, Mr. Chairman. This Board has authority to approve impact fees. You did in the past. You have no authority to change the allocation because there is Council resolution that dates back to 1995. City Council asked, and in fact I think it was Councilor Flores asked, we all want to know what is this about that the contribution of the rate based and all that. That's why we're taking, mainly that's why we're taking this to the Council to see if they want to change that allocation and then the allocation of course adds up to the total fee that you see right now. You do have authority under the bylaws to approve that.

Last time you approved it over a two year increments. The fees in 2014 and I believe in 2016 it was split in two increments but at that time we discussed that there were no recommended changes to the allocation. This time the Council requested that and so in a work session on the 24th of February we'll present a summary of this presentation but then I will explain the allocation where that came about and what it is right now and how it compares to the total revenue requirement of the utility too, because that was a question. How much is the rate payer subsidizing on that piece of the fee? What is that 22% or 28% in terms of dollars? That was it.

Chair Little: In the long run we will have nothing to say about that.



Dr. Garcia: Correct but when we bring it to you it will include any recommendations from the Council. If the Council says no there will be no allocations then we will have to do the sheets, the tariffs that we do to reflect that. That's why we want to wait until we go to work session and get some direction before we bring you something.

Chair Little: Very good. I wasn't aware that we were silent on that but anything else? What is next?

Dr. Garcia: Nothing else for the work session Mr. Chairman. We thought it was going to go much longer with the questions and that's why we scheduled it at 1:30.

Sorg: Did a good job.

Dr. Garcia: You can take a break and then we can, the meeting is scheduled, the regular meeting is schedule to immediately follow the work session so it's up to you to take a break and then move forward.

Chair Little: In defense of our lack of questions you all talk really fast. Thank you. We could be generous to ourselves and complete the work session now and give ourselves 15, 17 minutes to break and we'll start the regular session at.

Sorg: How about five minutes?

Archuleta: Five minutes.

Sorg: Five minutes.

Chair Little: You don't need any more than five minutes? Okay.

Archuleta: We've only gone 30.

Chair Little: In that case then at 10 minutes after we'll begin the regular session.

Meeting was adjourned at approximately 2:03 p.m.

William M. Little
Las Cruces Utilities Board Chair

Date

