



**City of Denton
MINUTES
PUBLIC UTILITIES BOARD**

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

Monday, July 9, 2018

9:00 am

Work Session Room

After determining that a quorum of the Public Utilities Board of the City of Denton, Texas is present, the Chair of the Public Utilities Board will thereafter convene into an open meeting on Monday, July 9, 2018 at 9:00 a.m. in the Work Session Room at City Hall, 215 E. McKinney Street, Denton, Texas

Board Members: Chair Randy Robinson, Vice Chair Susan Parker, Allen Bishop, Brendan Carroll, Charles Jackson and Lilia Bynum

Ex Officio Members: Bryan Langley, Deputy City Manager and Mario Canizares, Assistant City Manager

Absent: Todd Hileman, City Manager

WORK SESSION

A. PUB18-123 - Receive a report, hold a discussion and give staff direction on the proposed Water, Wastewater and Miscellaneous Rates for FY 2018-2019.

Nicholas Vincent gave the water presentation. There will be no increases in rates for residential and commercial water. There will be a three percent increase for wholesale water based on a cost of service model.

The residential and commercial rate comparison charts with other cities was shown.

Vincent then gave the wastewater presentation with two options.

Option 1 is based on modified cost of service 2019

Option 2 is across the board five percent decrease

Vincent then went through the different scenarios.

The comparison from current, cost of service and five percent across the board monthly was shown.

The residential and commercial rate comparison charts with other cities was shown.

Vincent then talked about on site sanitary sewer facilities permit fees. These fees have not been updated since 2006. Staff has looked at cost of service and it is recommended that these increase instead of decrease. The current and proposed fees were shown on a table.

Randy Robinson asked why there would have to be a re-inspection.

Deborah Viera spoke about the re-inspection fees. If staff shows up and the repairs are not taken care of accordingly, they may have to be re-inspected. This has to be done before it is put under ground.

Vincent then showed the rate comparisons.

Staff has also made changes to the delinquent service fees for wastewater, it is changed from \$46 to \$23, and residential reconnection charge has been reduced from \$61 to \$30. These reductions are attributed to the smart meters.

Brendan Carroll asked projections for the how the total revenue will change with the reductions. Vincent answered a five percent in the wastewater rates is about \$1.2 million in revenue.

Vincent stated they are looking for this Board to give direction on option 1 or option 2.

Carroll asked about questions regarding septic tanks, do we know now many we have with the annexations. Viera answered so far there are about 700 new sanitary sewer facilities as part of the annexation. The information was received from the County and had lost the data base for them years ago. Staff is working to complete the information.

There was some discussion.

Recommendation to proceed with option 1 was the consensus.

Staff will come back to this Board on July 23.

B. PUB18-126 - Receive a report, hold a discussion, and give staff direction regarding the proposed electric rates for FY 2018-2019.

George Morrow talked about this item.

Morrow started with the background. The rates are contained in Ordinance 2017-256. They are designed with flexibility to adjust quarterly with PUB approval. They are reviewed quarterly for over and under collection.

Rate change overview included the following:

- Temporary reduction of TCRF rate component
- No changes to ECA or RCA amounts
- ECA definition updated to be more specific about the types of power costs included and to explicitly credit all power sales revenue
- DME production plant costs included in ECA
- One change to base rate components
- Distributed generation from renewable sources rider changes

Impact to customers was shown on a table for residential and commercial. This decreases customer bills an average of 3.5 percent. The average residential and commercial monthly bill was also shown with the TRCF decrease.

Staff will come back to PUB on July 23 to get recommendations for approval.

Robinson asked if the TCRF is part of the RCA rate. Morrow answered he believes at some point in the past it was. Several years ago a new category was created for the TCRF rate.

There was some discussion regarding the rates.

C. PUB18-129 - Receive a report, hold a discussion, and give staff direction regarding the Solid Waste Department's Cost of Service and Rate Design Study provided by New Gen Strategies & Solutions LLC.

Ethan Cox introduced the presentation and Dave Yanke with New Gen Strategies & Solutions LLC.

Yanke gave information and background on his company.

Scope of analysis

- Conduct a comprehensive cost of serviced study that allocates costs to each specific solid waste service.
- Develop a five year revenue requirement forecast
- Calculate the revenues realized under current rates versus the projected five year revenue requirement
- Design rates for residential and commercial customers by type of service provided
- Conduct a Market Analysis
- Present findings to PUB and Council, develop a draft and final report

Cost of Service Methodology

- Develop the 'test year'
- Develop a revenue requirement forecast
- Allocate costs to service categories
- Allocate to customer classes
- Determination of billing units
- Cost of service calculation

Revenue requirement highlights

- O&M based on FY 2019 proposed budget
- Adjustments to budget were made to reflect recurring cash needs and investments
- Annual debt service payments to decline by \$2.8 million from FY 2019 to FY 2023
- By year 5, a significant amount of funding for equipment replacement to occur via the solid waste replacement fund

Cost Allocations both direct and indirect was shown on a list. Also shown was the five year revenue requirements by service. Yanke explained all the annual debt service and revenue funding using a table.

Total amounts for revenues realized under current rates are contingent on the following:

- Commercial cart amounts are accurately accounted for and billed accordingly
- Annual customer and tonnage growth rates follow the assumptions of the model established by City staff.

Findings and recommendations

- NewGen does not recommend any further decreases to residential rates
- Based on finding of the market analysis, NewGen recommends increasing the wholesale customer rate of disposal from \$23.00 per ton to \$24.50 per ton for FY 2019.
- Maintain commercial dumpster rates at current levels

Based on findings of the market analysis, NewGen recommends increasing the wholesale customer rate disposal from \$23.00/to

Recommended next steps

- Inventory and monitor container counts in the field for all customers, specifically commercial refuse and recycling customers
- Track BMR and composting tonnage more accurately
- Any over-recovery incurred on an annual basis should be set aside in a separate fund
- City to work with NewGen to develop a strategy to address rate subsidization

Board Member Parker asked on the requirements vs. revenue it shows a negative, is that from the recent reductions. Yanke answered there are many moving parts. There are 22 services that are difficult to allocate costs. You never know the costs until you go through the cost of service exercise.

Parker then verified that the rates are not so low that we are getting too much waste from the outside. Yanke stated many City's wrestle with how much is good to take from the outside, there is a balance.

There was further discussion regarding outside waste.

Ethan Cox then followed up on the Cost of Service Management response. He started with thanking staff that has worked very hard on this.

Rate Correction Strategy was first on the list.

The goal is cost recovery through equitable rate design. The approach would be to phase in corrections over time. This would maintain the fund's financial health. Reduce reliance of debt funding. Improve operational efficiency and evaluate subsidized programs and services.

Approach to Rate Classes

Residential – Maintain rates at existing levels

- Improve operational efficiency
- Assess & seek direction on underperforming programs

Commercial – Simplify rate structure and address over/under recovery

- Short Term; Utilize excess reserves to reduce over recovering rates
- Long Term; Slowly adjust rates toward cost recovery

Landfill – Address subsidization and remain competitive in the market

- Align rates with market and establish agreements
- Seek direction on subsidized operations

Next Steps

- Complete rate design and market study
- Partner with NewGen to craft rate correction strategy
- Seek PUB/Council direction on rate correction strategy
- Cost of Service – Council on July 17, 2018
- Department Budget – PUB on July 23 and Council on August 4

REGULAR MEETING

1. CONSENT AGENDA

- A. **PUB18-101** - Consider recommending that the City Council adopt an ordinance providing for, authorizing, and approving the execution by the City Manager, or his designee, of a Base Contract for Sale and Purchase of Natural Gas, between the City of Denton and Tenaska Marketing Ventures (“Tenaska”), a partnership affiliate of Tenaska Energy, Inc. and Tenaska Energy Holdings, LLC., with offices in Arlington, Texas; approving the execution of such other and further related documents deemed necessary to effectuate the transactions allowed under this contract by the City Manager or his designee; determining that specific information contained in said contract pertain to a “Competitive Electric Matter” as set forth under the provisions of §§551.086 and 552.133 of the Texas Government Code, as amended; allowing the public to inspect, but not reproduce, the Contract as redacted; and, providing an effective date.

Pulled from the agenda to be on a later agenda.

- B. PUB18-121** - Consider recommending adoption of an ordinance accepting competitive bids and awarding a public works contract for the construction of the Eagle Drive Drainage Improvements Phase II Project for the City of Denton; providing for the expenditure of funds therefor; and providing an effective date (IFB 6792- awarded to the lowest responsible bidder meeting specification, Jagoe-Public Company, in the amount of \$2,057,289.20).
- C. PUB18-131** - Consider recommending adoption of an ordinance approving a pipeline crossing contract by and between the City of Denton and the Kansas City Southern Railway Company relating to the location of a city water pipeline within the railroad right-of-way, located near the railroad's intersection with West Oak Street at Mile Post D104.78, Alliance Subdivision, within the City and County of Denton, Texas; authorizing the City Manager to execute the Agreement; authorizing the expenditure of funds therefore; and providing an effective date. (Westpark Phase 2, 12-inch water project.)
- D. PUB18-132** - Consider recommending adoption of an ordinance of the City of Denton, Texas, a Texas home-rule municipal corporation, ratifying and approving Change Order No. 2 to the contract between the City of Denton and Legacy Contracting, L.P. dba Control Specialist Services L.P. for the Emergency Replacement of Four (4) Pumps at Pecan Creek Water Reclamation Plant Raw Sewage Pump Station No. 2; providing for the expenditure of funds therefor; and providing an effective date (File 6470 - Change Order No. 2 in the amount of \$137,016.17 for a total contract award aggregating to \$622,771.17).
- E. PUB18-134** - Consider recommending adoption of an ordinance of the City of Denton, Texas, a Texas home-rule municipal corporation, authorizing the City Manager to award a contract with NewGen Strategies and Solutions, LLC, for a Utility Management Study for Electric, Water, and Wastewater; providing for the expenditure of funds therefor; and providing an effective date (RFP 6708- awarded to NewGen Strategies and Solutions, LLC, in the not-to-exceed amount of \$310,610).

There was a motion to approve items B, C, D and E by Board Member Parker with a second by Board Member Bynum. Vote 5-0 approved.

2. ITEMS FOR INDIVIDUAL CONSIDERATION

- A. PUB18-115** - Consider approval of the Public Utilities Board Meeting minutes of June 25, 2018.

Approved as submitted.

- B. PUB18-124** - Consider recommending approval of the Denton Municipal Electric Fiscal Year 2018-19 Operating and Capital Budget.

Antonio Puente gave the presentation to include the financial forecast and the budget.

Financial assumptions

-Pay off of \$28.6 million of 2010 TMPA Related Callable Scrubber Debt – February 2019.

-No Base Rate Change

-TCRF Suspended – re-evaluated annually

- ECA maintained at 0.0341 per kWh in FY 2018-19
- Update ECA Ordinance to reflect DEC costs
- Reduced purchased power cost
- Reduce capital improvement program
- Debt fund a portion of transmission CIP and cash fund remaining CIP

DME Five year forecast including revenues and expenditures was shown on a table.

Board Member Carroll asked do we evaluate the energy costs quarterly or annually. Puente answered quarterly, staff will comeback if there needs to be an adjustment.

There was a motion to approve by Board Member Jackson with a second by Board Member Parker. Vote 5-0 approved.

C. PUB18-130 - Consider recommending adoption of an ordinance of the City of Denton, Texas, authorizing the City Manager, or his designee, to execute an Advanced Funding Agreement, in a form substantially similar as attached hereto as Exhibit 2 and in the approximate amount of \$3,211,720.00 (amount to be finalized after bids are opened), by and between the State of Texas, acting through the Texas Department of Transportation (the “State”) and the City of Denton (the “City”), regarding water and wastewater improvements associated with the US 377 (Ft Worth Drive) roadway widening project, located between IH 35E to south of FM 1830 and within the City of Denton .

Chad Allen gave this presentation stating this is an advance funding agreement where we will be paying TxDOT to remove our utilities from their right-of-way.

Project overview TxDOT scope is to widen two lane roadway to six lane divided roadway, raised median from IH35E to just south of FM1830. Construct traffic signal improvement at IH35E, Daniel Street and James Street/FM1830. This will replace roadside drainage ditches with an underground storm drain system. Construct five foot wide concrete sidewalks on both sides of the roadway throughout the project limits.

Project overview City Scope is to relocate city water and wastewater lines including water meters and wastewater service cleanouts outside of TxDOT ROW or outside the proposed pavement area in accordance with TxDOT utility accommodation rules. Install new encased crossings of water and wastewater lines across TxDOT ROW. Modify the water and wastewater lines to avoid conflicts with proposed TxDOT storm drain improvements.

Advanced Funding Agreement – The draft agreement sets out terms and conditions for payment by the City to the State for utility adjustment work. Costs shown in draft agreement are based on construction cost estimates and are only approximate. The final costs will be based on bid prices provided by the contractor selected by TxDOT to construct the project. The estimates were shown.

Advanced Funding Agreement – Final

TxDOT will receive bids for the project on July 10. The total due to the State from the City will be recalculated based on the actual bid numbers and will be update in the AFA. A lump sum payment in the AFA is meant to be the maximum payment liability for the City on this project. If the City elects to add work through change orders, then the City would be responsible for paying those additional costs. The final AFA will be presented to Council on Tuesday, July 17.

Recommendation is to adopt an ordinance by the City to execute the Advanced Funding Agreement between the City and the State of Texas in the approximate amount of \$3,211,720 regarding water and wastewater utility improvements associated with the US 377 roadway widening project.

Chair Robinson questioned that increases would have to be requested by the City. Allen agreed, additional things could be found during construction that would warrant the requests.

There was a motion to approve by Board Member Bynum with a second by Board Member Jackson. Vote 5-0 approved.

D. PUB18-125 - ACM Update:

1. Future Agenda Items
2. Matrix

CONCLUDING ITEMS

Under Section 551.042 of the Texas Open Meetings Act, respond to inquiries from the Public Utilities Board or the public with specific factual information or recitation of policy, or accept a proposal to place the matter on the agenda for an upcoming meeting AND Under Section 551.0415 of the Texas Open Meetings Act, provide reports about items of community interest regarding which no action will be taken, to include: expressions of thanks, congratulations, or condolence; information regarding holiday schedules; an honorary or salutary recognition of a public official, public employee, or other citizen; a reminder about an upcoming event organized or sponsored by the governing body; information regarding a social, ceremonial, or community event organized or sponsored by an entity other than the governing body that was attended or is scheduled to be attended by a member of the governing body or an official or employee of the municipality; or an announcement involving an imminent threat to the public health and safety of people in the municipality that has arisen after the posting of the agenda

No new items

Adjournment: 10:19am

Approved on July 23, 2018