

MEMORANDUM

TO: Board of Trustees

THROUGH: Steven J. Pinkerton
General Manager

FROM: Joseph J. Pomroy, P.E.
Director of Public Works

SUBJECT: Review, discuss and possibly set the date/time for April 10, 2019 at 6:00 p.m. for the public hearing on the proposed amendments to Sewer Ordinance #2 "An Ordinance Establishing Rates, Rules and Regulations for Sewer Service by the Incline Village General Improvement District" and Water Ordinance #4 "An Ordinance Establishing Rates, Rules and Regulations for Water Service by the Incline Village General Improvement District" that Includes the Utility Rate Increase

DATE: January 25, 2019

I. RECOMMENDATION

That the Board of Trustees makes a motion to set the date/time of April 10, 2019 at 6:00 p.m. for a public hearing for the proposed amendments to IVGID Sewer Ordinance No. 2, entitled "An Ordinance Establishing Rates, Rules and Regulations for Sewer Service by the Incline Village General Improvement District" and IVGID Water Ordinance No. 4, entitled "An Ordinance Establishing Rates, Rules and Regulations for Water Service by the Incline Village General Improvement District"

II. DISTRICT STRATEGIC PLAN

The Utility Rate Study supports Long Range Principle #2, Finance; *The District will ensure fiscal responsibility and sustainability of service capacities by maintaining effective financial policies for operating budgets, fund balances, capital improvement and debt management.* Under Objectives for 2018-20, it specifically states, *Prepare a five-year projection of financial results for each audited fund for operations, capital improvement and debt service as a part of budget deliberations.*

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III. BACKGROUND

At the January 23, 2019 District Board of Trustees Meeting, Staff conducted a Utility Rate Study presentation that presented the next five years of operating and capital expenses and the projected revenue needs to provide sufficient and stable revenue during that time period. The Utility Rate Study from the January 23, 2019 Board of Trustees Meeting is posted on the IVGID website and the reader can review that document and listen to the presentation through the Livestream web services. The purpose of this memorandum is to set the date for the public hearing and to publish the Ordinance 2 and Ordinance 4 amendments for viewing by the public prior to the Hearing.

The proposal is to increase water rates by 4.0% and sewer rates by 4.0% for a total utility rate increase of 4.0%. The utility rates are scheduled for an average 3.5% increase for the next five years as detailed in the Five Year Utility Rate Study that was presented to the Board of Trustees on January 23, 2019.

The new water and sewer charges, connection fees, and miscellaneous fee schedules will be prepared separately from the ordinances and passed by individual resolutions. This is in anticipation of the water and sewer ordinances being incorporated into the new IVGID code. It is best practice to not include rates and fees in a governmental code. The full ordinance and all rate and fee schedules will be published and available to the public a minimum of thirty days in advance of the Public Hearing and will be included in the April 10, 2019 Board Packet in its entirety.

District Staff will publish the required notices in compliance with NRS 318.199 and have documents available for viewing by the public at the Administration Office, Public Works Office, and posted on the IVGID website. Customers will also be notified through the PW News that is made available to every utility account.

IV. FINANCIAL IMPACT AND BUDGET

The proposal is to increase water rates by 4.0% and sewer rates by 4.0% for a total utility rate increase of 4.0%. The utility rates are scheduled for an average 3.5% increase for the next five years to meet the projections presented in this memo.

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In 2018-19, total water and sewer revenues for Public Works are budgeted to be \$11.85 million and are proposed to be \$12.29 million in 2019-20 under this rate study. This is an increase in revenues of \$440,000 from increased commodity sales, additional users, and from the rate increase.

The utility rates are calculated from a rate model that determines the revenue needs to meet operating and capital expenses while maintaining prudent reserves. Once the revenue target is established, the water and sewer rates are adjusted to generate that revenue in the most equitable way possible. The revenue is also balanced among the various rate components to pay for fixed, variable, and capital components.

The reserve balance is a critical fund to be managed in Public Works. The amount of the bonding will be adjusted to insure the reserve fund remains at a prudent balance while also considering the costs of borrowing, the economic conditions in Nevada, and the susceptibility of the funds. The contributions to the reserve will be \$3.1 million over the next five years.

The reserve fund is set by Board Policy 7.1.0 and is currently a target value of \$1.88 million. In the five-year period of this rate study, reserves will be above target policy levels while the District accumulates additional savings to fund the Effluent Export Project. The net position for the utility fund on June 30, 2018 from page 30 of the Comprehensive Annual Financial Report is \$10,091,000 (NET POSITION; Unrestricted). The Utility fund meets this policy value.

The District also has Budgeting and Fiscal Management Level of Working Capital Practice 19.2.0 that is established to maintain Working Capital in the Utility Enterprise Fund. The definition of target amounts for Working Capital is measured as follows.

- Operations – 45 to 90 days of operating expenses. Operating expense excludes depreciation and interest
- Utilities Debt Service – up to one year's payments of interest expense, since current maturities of long term debt are already considered in determining working capital, when classified as a current liability.
- Capital Expenditure – up to 1 year of a 3 year average depreciation

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Table 1 presents two scenarios for working capital based on the fiscal year end results of 2018-19. All numbers have been rounded to \$1000 for clarity.

Table 1 – Working Capital Worksheet

Item	YE 2018-19	Working Capital with 45 Days of Operating Expenses	Working Capital with 90 Days of Operating Expenses
Operational Expense 2019-20	\$7,140,000	\$881,000	\$1,761,000
Utilities Debt Service 1 Year	\$134,000	\$134,000	\$134,000
1 year average depreciation	\$2,950,000	\$2,950,000	\$2,950,000
Sum		\$3,965,000	\$4,845,000

The Utility Fund working capital on June 30, 2018 is \$6,129,000 from page 30 of the Comprehensive Annual Financial Report, total current assets minus total current liabilities.

V. BID RESULTS

Not applicable.

VI. ALTERNATIVES

Not set a date for the public hearing and keep Ordinance 2 and Ordinance 4 the same and not increase water and sewer rates. This will have a long term negative impact on the assets and financial health of the District. Water and sewer systems have regulatory oversight so the District must meet operation and infrastructure standards regardless of available funds.

VII. COMMENTS

The applicable Nevada Revised Statute is as follows:

NRS 318.199 Rates, tolls and charges for sewerage or water services or products: Schedules; public hearings; adoption of resolution; action to set aside resolution.

1. The board of trustees of any district organized or reorganized under this chapter and authorized to furnish sanitary sewer facilities pursuant to NRS 318.140 or to furnish water facilities pursuant to NRS 318.144 shall establish schedules showing all rates, tolls or charges for services performed or products furnished.
2. Whenever the board of trustees proposes to change any individual or joint rate, toll, charge, service or product, or any individual or joint practice which will affect any rate, toll, charge, service or product, the board of trustees shall hold public hearings after 30 days' notice has been given to all users of the service or product within the district.
3. Notice shall be given by publication in a newspaper published in the county and if no such newspaper is published, then a newspaper published in this state which has a general circulation in the county. The notice shall not be placed in that portion of the newspaper where legal notices and classified advertisements appear and the type used in the headline of such notice shall not be smaller than 18 point.
4. All users of the service or product shall be afforded a reasonable opportunity to submit data, views or arguments orally or in writing at the place, date and time specified in the notice, or at any subsequent place or time to which the hearing may be adjourned.
5. If, after public hearing, the board of trustees determines that the proposed action is required, the board shall adopt a resolution establishing the new or changed rates, tolls, charges, services to be performed or products to be furnished.

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6. Within 30 days immediately following the effective date of such resolution, any person who has protested it may commence an action in any court of competent jurisdiction to set aside the resolution.
7. Within 30 days after the effective date of the resolution, the secretary of the district shall file a copy of the new schedules in the office of the district. The schedules shall be made available to any user of the service or product.

(Added to NRS by 1977, 541)

VIII. BUSINESS IMPACT

This item is a "rule" within the meaning of Nevada Revised Statutes, Chapter 237, but it does not impose a direct and significant economic burden on a business, or directly restrict the formation, operation or expansion of a business, and therefore does not require a Business Impact Statement.