

CITY OF PERRIS

MINUTES: Work Session of the City Council,
Redevelopment Agency, Perris Public
Finance Authority & Perris Public
Utilities Authority
Date of Meeting: 13 April 2004
Time of Meeting: 5:00 p.m.
Place of Meeting: City Council Chambers

1. CALL TO ORDER:

The Honorable Mayor Busch called the Work Session of the City Council, Redevelopment Agency, Perris Public Finance Authority and Perris Public Utilities Authority Meeting to order.

5:00 p.m. Called to Order

2. ROLL CALL:

Council Members Present: Motte, Rogers, Landers, Busch
Councilmember Yarbrough arrived at 5:08 p.m.

Councilmembers present.

Staff Members Present: City Manager Apodaca, City Attorney Dunn, Interim Finance Director Fructuoso, City Engineer Motlagh, and City Clerk Rey.

Staff Members Present.

3. WORK SESSION:

A. Discussion regarding Water System and Rates.

Introduced by: Habib Motlagh, City Engineer

City Engineer Motlagh introduced Joe Aguilar to present the Water and Sewer User Fee Study.

Joe Aguilar, a partner in the CPA firm of Vavrinek, Trine, Day and Company, explained that their firm's analysis of the City's water and sewer fees had included a three-phase approach which analyzed the costs allocated by the City to the Water and Sewer funds for administrative recovery; specific rates utilized by the Water and Sewer funds in recovering the operations costs; and compared the costs allocated and user charges currently assessed by the City to the results of the cost allocation plan and rate study. He explained the results that had been obtained based on the procedures they had performed and made recommendations based on their findings.

Joe Aguilar, from the CPA firm of Vavrinek, Trine, Day and Company, explained the firm's analysis of the City's water and sewer fees and made recommendations based on their findings.

City Engineer Motlagh explained that there had been much discussion regarding outsourcing since 1995. In 1996 a request for proposal for anyone's interest in purchasing the system was issued. No one was interested in purchasing the system because it was in such poor shape. Since then the City had spent well over \$4,000,000 and it would take another \$2,000,000 to \$3,000,000 before the end result of replacing the entire system would be realized. He was looking into outsourcing some of the operational departments including meter reading. He felt that a rate increase would be needed for both the water and sewer.

City Engineer Motlagh explained that he was looking into outsourcing some of the operational departments and that he felt that a rate increase would be need for both systems.

CITY COUNCIL QUESTIONS AND COMMENTS:

Councilmember Motte inquired if it was only operational costs that had gone up.

Councilmember Motte inquired about operational costs.

Mr. Aguilar responded that he believed it was the City's Capital Facility Cost that was the burden. There should have been about \$3,000,000 in the bank and there was only \$700,000. He stated that the City may want to look at Water or Sewer Revenue Bonds in order to get an inflow of cash. Capital costs would not go away and would actually get more expensive if not taken care of.

Mr. Aguilar responded that capital costs would not go away and would actually get more expensive if not taken care of.

City Engineer Motlagh added that the City had a \$2,000,000 loan that needed to be repaid.

City Engineer Motlagh added that the City had a \$2,000,000 loan that needed to be repaid.

Mayor Pro Tem Landers asked if the \$4,000,000 spent on the sewer improvements was the reason there was only \$700,000 in that account. He had understood that ten years ago, the water department was making around \$260,000 a year, and asked if that were so, what had happened.

Mayor Pro Tem Landers asked why the water department was no longer showing a profit.

City Engineer Motlagh responded that because of the City's inability to put money early on to repair the system, a lot was done at one time, so all the reserves that were in the water and sewer accounts were used.

City Engineer Motlagh responded that the City's inability to put money into the system earlier, depleted the reserves.

Mayor Pro Tem Landers asked if that was being replenished each year and how the City compared to EMWD as far as rates. He felt that that was something the City would need to know because if it needed to charge much more than EMWD, maybe it should get rid of the system. He stated that the system had gone out to bid and received a bid of \$2.5 million from EMWD about ten years ago.

Mayor Pro Tem Landers asked how the City compared to EMWD as far as rates and stated that the system had gone out to bid about ten years ago.

Mr. Aguilar responded that he had not done a comparison to neighboring agencies.

Mr. Aguilar responded that he had not done a comparison as to rates.

Betty Gibbel, from EMWD, remembered that the system had gone out to bid but did not remember the exact numbers.

Betty Gibbel, from EMWD, remembered when the system had gone out to bid but did not remember the amount.

Councilmember Yarbrough commented that EMWD had initially offered to take the system over because it was worthless. Then offers stated to come in and the City had the system appraised and it was valued at about \$6,000,000.

Councilmember Yarbrough commented that the system had been appraised for \$6,000,000.

Mayor Pro Tem Landers commented that the City had put \$4,000,000 more into the system to catch up on deferred maintenance. He understood that if the system was not making money, something would have to be done with it. He asked why it was unable to catch up.

Mayor Pro Tem Landers asked why the department was not able to catch up.

Mr. Aguilar responded that the City was fortunate that there were still reserve funds in the account, but that it was shrinking fast. He explained that the City's capital costs were too expensive and that that kept the system from making money.

Mr. Aguilar responded that the City's capital costs were too expensive.

Mayor Pro Tem Lander asked why the capital costs were so much more than they were back then.

Mayor Pro Tem Landers asked why capital costs are so much more now.

Mr. Aguilar explained that that was one reason his company had recommended studying the capital components. There would need to be a long term capital improvement plan to fix both systems.

Mr. Aguilar explained there would need to be a long term capital improvement plan to fix both systems.

Mayor Pro Tem Landers would like to see where the City was compared to EMWD.

Mayor Pro Tem Landers would like to see the City compared to EMWD.

Mr. Aguilar stated that because the City only served 1900 customers, it would need to be more expensive just because it was smaller. He explained that the pressures with water and sewer and the costs and the requirements to stay up with the environment issues was much tougher than with electric or gas utilities. He suggested that rates be raised over time and that selling or outsourcing to EMWD would be good to consider.

Mr. Aguilar stated because the City only served 1900 customers, it would naturally be more expensive. He suggested selling or outsourcing the system.

Mayor Busch explained that outsourcing the system to EMWD would allow the City to still own the water company and they would be the contract managers. He felt that this was something the City should look at and asked how Mr. Aguilar's company had recommended an urgency ordinance without having rate comparisons.

Mayor Busch explained that outsourcing the system would still allow the City to own the company. He asked why Mr. Aguilar's company had recommended an urgency ordinance.

Mr. Aguilar responded that they had suggested an urgency ordinance in order to get the Council to urgently address the issue.

Mr. Aguilar responded that the Council needed to urgently address this issue.

Mayor Pro Tem Landers asked if the City had not just spent a lot of money meter reading equipment.

Mayor Pro Tem Landers asked about money the City had spent on meter reading equipment.

City Manager Apodaca responded that a project had been implemented in which 100 meters had been but that the information collected had not been downloaded. The project would be brought to the Council in the near future.

City Manager Apodaca responded that a project had been implemented but had not been completed.

Councilmember Rogers asked if the City would get good offers on the system after spending the \$4,000,000 for improvements and wondered about the rate of return on the investment.

Councilmember Rogers asked about the rate of return on the \$4,000,000 investment to upgrade the system.

City Engineer Motlagh believed that the City would get good offers at this time. He believed that there had not been enough funds in 1995 to devote to the water and sewer systems. After 1996, the Council seriously considered implementing the capital improvement list and did the improvements on the systems.

City Engineer Motlagh believed the City would get good offers for the system if it was sent out to bid.

Mayor Pro Landers asked if the meters would make a big difference in the amount of revenue the City would be getting and if the scope of service could be broadened.

Mayor Pro Tem Landers asked if the meters would improve the revenue and if the scope of service could be broadened.

Mr. Aguilar responded that the study had shown that there was actually \$700,000 set aside to do this project. Out of that, within the first four years, that should be paid back and have revenue coming in. He said that the potential for broadening the scope of service was to around 3000 customers and that regulatory wise that was a good thing because the regulations are a lot less expensive for small water systems.

Mr. Aguilar responded that the potential for broadening the scope of service was to around 3000 customers.

Councilmember Rogers asked if the new system would reduce the overhead costs and if that information was taken into account for the fee increase recommendation.

Councilmember Rogers asked if the new system would reduce overhead costs.

Mr. Aguilar responded that they had not taken that into consideration, however, there was a lot of deferred maintenance that would be done that would save money over the long run.

Mr. Aguilar responded that there was a lot of deferred maintenance that would save money in the long run.

City Manager Apodaca commented that even with the maintenance, there was still inflation in other areas. Unless the City made kind of adjustment, regardless of which policy direction used, there would still be a growing gap because everything else would be going up in price and the rates are still at a certain level. Putting in a mechanical process, at least for the operational component, would re-address the necessary inflation factor in order to keep pace with everything else.

City Manager Apodaca commented that unless the City made some kind of adjustment there would be a growing gap because of inflation.

Councilmember Motte commented that one way to make a difference would be to drill a well.

Councilmember Motte suggested drilling a well.

Councilmember Yarbrough questioned why the Council did not know about the problems and have this information sooner. The majority of the City's customers were low income families and could not afford rate raises. He commented that he had been told that the City was paying too much for its wholesale water.

Councilmember Yarbrough commented that he had been told that the City paid too much for its wholesale water.

Mayor Busch thought that the City needed to do two things. One was to get a rate comparison study and the second was to have a progressive rate schedule brought to the Council. He did not

Mayor Busch thought this item should be brought back to the Council in a workshop.

believe that the City should sell the system but did think that some of the services could be outsourced. He thought this item should be brought back to the Council in a workshop.

Councilmember Yarbrough commented on the things that he thought needed to be done. One was a reappraisal of the system to find out exactly what it was worth. He also suggested a current RFP to find out what the City had to work with.

Councilmember Yarbrough suggested a reappraisal of the system and a current RFP.

Mayor Pro Tem Landers would like to know what the difference would be in the revenue if the City kept the system it currently had.

Mayor Pro Tem Landers asked the difference in revenue if the City kept its current system.

Mr. Aguilar responded that it would be over \$230,000 more per year.

Mr. Aguilar responded that it would be over \$230,000 per year.

Mayor Pro Tem Landers commented that he did not believe the City should sell a system that was making money and suggested that the City investigate why it was paying so much for water.

Mayor Pro Tem Landers commented that he did not believe the City should sell the system.

Mayor Busch believed that all this information should be brought back to a workshop along with the rate study to find out what the comparisons were.

Mayor Busch thought the information should be brought back to a workshop.

Mr. Aguilar stated that this was a good first step and believed that the Council was well on the way to resolving the issues.

Mr. Aguilar believed the Council was on the way to resolving the issues.

City Manager Apodaca stated that the City Engineer was still looking into well option but that there was a lot of preliminary work to be done.

City Manager Apodaca stated that the City Engineer was still looking into the well option.

City Attorney Dunn commented that the problem with the well was that there was a difference between being able to drill a well and what the water quality was. The reports that he had seen indicated that wells could not be drilled in certain areas and have good drinking water.

City Attorney Dunn commented that wells could not be drilled in certain areas and have good drinking water.

4. ADJOURNMENT:

By unanimous consent the Joint City Council, Redevelopment Agency, PPFA and PPUA Meeting was adjourned at 5:55 p.m.

5:55 p.m. Work Session of the City Council, RDA, PPFA & PPUA Adjourned

Respectfully Submitted,

Margaret Rey, City Clerk