

CAC MINUTES

FOR THE MEETING OF OCTOBER 21, 2010

CAC MEMBERS IN ATTENDANCE: Becky Long, Phil Lidov, Don Schlup, Rick Sackbauer, Mel Rettig, Carol Pace, David Spector, Jeff Willis, Jim Ives, Barry Hudson

GUESTS: Tim Flynn, Christie Honnen, Andrea Stein, Frank Lawrence

DENVER WATER STAFF: Marie Bassett, Joe Sloan, Ellen Cinchock, Todd Cristiano, Angela Bricmont, Stephanie Neimi

OPENING REMARKS, PUBLIC COMMENTS, AGENDA AND MINUTES

The September minutes and agenda were approved without comment.

CAC BUSINESS –

The CAC interviewed five applicants for the open CAC position for West Slope Representative.

Proposed 2011 Water Rates (Todd Cristiano) –

Todd Cristiano, the Manager of the Rates section for Denver Water, introduced himself to the committee and explained the need for a rate increase. Mr. Cristiano said the budget is reviewed in several ways: through ten year Capital and Operations & Maintenance plans, an annual review, and a review by the Budget and Planning Process Improvement group. Denver Water has four reserves to draw down funds. Currently Denver Water is drawing down funds but would like to start saving funds to prepare for future projects. Mr. Cristiano reviewed Denver Water's rate structure and created several three year plans and looked at the financial implications for each one. Mr. Cristiano explained how rates are developed, and said that capital projects and Denver Water's aging infrastructure are the main reasons for the rate increases. There are 99.1 million dollars in capital projects scheduled to be worked on over several years. Denver Water needs to plan for future uncertainties such as: conduit breaks, security breaches, climate change, watershed fires, and water supply contamination.

If the 2011 rates are approved they will take effect in March, 2011. Mr. Lidov said the general public is not interested in the start of the rate increase, rather how much the overall rate increase will be. Mr. Cristiano said a public comment period will be available at the November 10 and November 17, Board meetings. Mrs. Angela Bricmont noted Finance is looking for public input on block thresholds. Ms. Long opened the presentation to comments from the public, and advised the public they could also send their comments directly to the Denver Water Board or to the Citizens Advisory Committee. Below are comments from members of the public and members of the CAC on the proposed rate increases.

Members of the Public

Frank Lawrence - Appreciates DW has a clean and reliable source of water and did not mind paying for the water he used. He would like to see DW spread costs out to a 30 to 40 year period - not just 10 years(10 Year Plan). DW has been built up over the past 100 years. Everyone benefits from that history, and future generations will use the system, so the costs should be passed on to future generations. He would like see a system (water budgets) where every customer pays more if they waste water – not just large lots. Mr. Lawrence believes the current block thresholds are not fair to every customer and would like them to be set according to irrigation/lot size. Mr. Lawrence fears the rate increase will cause customers to pull out their lawns and stop planting trees.

Tim Flynn – Came to the meeting on behalf of the Distributors and represents special districts outside of Denver. Mr. Flynn is concerned about the health of the water and sewer districts and questioned the rate differential between the Master Meter areas and if it could be reviewed.

CAC Members

Carol Pace – The Denver Water rate-setting process is limited to being a pricing function and does not adequately address budgeting or the costs of operations and spending. Ms. Pace questioned why the DW Board does not have parameters on spending. She indicated that she was using the published 2010 Budget document as her resource on information, which has actual data for 2007 – 2009, with budget numbers for 2010. She said that her comments related mostly to the administrative costs of Denver Water, and not maintenance projects, remedial work (such as Hayman Fire aftermath), or new major capital projects (such as Gross expansion).

Although there was a modest growth in the number of fees, 4.7% and 3.8% in 2008 and 2009, Ms. Pace noted large increases in salaries/benefits for the same period, of up to 12%. Other categories which encompass personnel salaries/benefits, such as Professional Services, showed a 50% increase. Miscellaneous Expenses, also a category which identifies salaries and benefits, showed a 79% increase.

The Customer Service budget showed a 62% increase for 2010 from the 2009 Budget.

Overall the 2010 Administration budget was slated to increase 20% or \$7.4 million to a total of \$44.3 million, from the 2009 Budget. The severe economic downturn, the recession, began in this timeframe that the Denver Water budget was increasing sharply, and instead of making reductions to the budget there were enormous increases to Denver Water's budget—again, looking mostly at the administrative area. These double-digit increases for salaries/benefits and administrative expenditures are not mentioned as drivers to the huge rate increases that continue to occur. Denver Water lacks formal policies on spending, and these should be implemented. For example, there is no policy on having a balanced budget. The ten year plan is not formally approved. There is no legal debt limit for the company. The only policy statement is to “keep rates as low as good service will permit.” Other administrative examples include the change to monthly billing. The 2010 Budget book states that this has resulted in increased operating costs, including reading meters, printing and mailing bills, processing payments, additional vehicles required for meter reading, and increased fuel and maintenance costs. Such increased costs should result in an evaluation of the merits of this new system. Evaluation of operating expenses is needed.

David Spector—Transparency is crucial. Given the current economic climate and that most governmental and quasi-governmental entities are being forced to cut costs, David asked Finance for

data about whether the divisions have been forced to cut costs, and whether such cost cutting has been applied uniformly. David questioned if there was a deferred rate increase and was told by Marie Bassett that only the City of Denver received a deferred increase to help with their annual budget. David encouraged increased clarity in the messaging about the need for the rate increases and the actual rate impact to customers, as opposed to focusing on Denver Water's revenue requirement.

Don Schlup – The switch from bi-monthly to monthly billing is a big issue for customers with larger lots. Don asked if water budgeting for single family homes could be considered.

Barry Hudson –Mr. Hudson expressed his concern about the size of the rate increase for master meter districts and indicated that he feels it would have a negative impact on Wheat Ridge, where a high percentage have already abandoned lawns. He inquired as to what evidence Rate staff had about price elasticity in the water rate area, staff noted that this was being reviewed and data was being collected. Mr. Hudson also expressed concern that this information is greatly needed since water managers would like to have information regarding how many customers may resort to extreme conservation measures due to increasing prices, before making rate decisions. He noted that Denver has an artificial microclimate that benefits us with cooling in the summer, reducing air conditioning and power consumption needs, and added his concern that if additional lawns are abandoned the climate of Denver could be more comparable to that of Las Vegas.

The meeting was adjourned at 7:47 PM.