

**MINUTES OF A REGULAR MEETING OF
THE TORRANCE WATER COMMISSION**

1. CALL TO ORDER

The Torrance Water Commission convened in a regular session at 7:03 p.m. on Thursday, October 21, 2010 in the West Annex Meeting Room at Torrance City Hall.

2. ROLL CALL:

Present: Commissioners Lefevre, McGee, See, White*, and
Chairperson Deemer.

Absent: Commissioners Haddon and Lew.

Also Present: Public Works Director Beste,
Deputy Public Works Director van der Linden,
Senior Administrative Analyst Schaich,
Senior Administrative Analyst Lewis, and
Metropolitan Water District Director Wright.

*Commissioner White arrived at 7:38 p.m.

MOTION: Commissioner See moved to grant an excused absence to Commissioner Haddon for the October 21, 2010 Water Commission meeting. Commissioner McGee seconded the motion; a voice vote reflected unanimous approval.

3. FLAG SALUTE

Senior Administrative Analyst Lewis led the Pledge of Allegiance.

4. AFFIDAVIT OF POSTING

MOTION: Commissioner McGee moved to accept and file the report of the City Clerk on the posting of the agenda for this meeting. Commissioner See seconded the motion; a voice vote reflected unanimous approval.

5. APPROVAL OF MINUTES

5A. MINUTES OF SEPTEMBER 16, 2010

Minutes were not available.

6. ORAL COMMUNICATIONS FROM PUBLIC

None.

7. UNFINISHED BUSINESS

8. NEW BUSINESS

**8A. CONSIDERATION REGARDING TORRANCE MUNICIPAL WATER (TMW)
RATES FOR NEXT FIVE YEAR PERIOD—FISCAL 2011 THROUGH FISCAL
2015**

Senior Administrative Analyst Schaich introduced the item and welcomed Sudhir Pardiwala and Rebecca Sou from Raftelis Financial Consultants (RFC), Inc. He

recommended that the Commission support the findings of the Water Rate and Capital Funding Study and to recommend its approval to City Council. He noted a correction in the Supplemental Staff Report as follows: 1. Recommend implementation of a 5 year rate plan with internal rate adjustment of 6.5% in fiscal 2011 and 2012 and increases of a minimum of 2.5% or CPI in fiscal 2013, 2014, and 2015.

Mr. Pardiwala recalled that the Commission considered the first draft of the Water Rate and Capital Funding Study in August 2009 and noted that this revised scenario reflects recent regulatory changes. With the aid of a Power Point presentation, he noted no internal rate increases since 1995, a decline in water sales over the last three years, and the \$400,000 available water reserve.

In response to Commissioner Lefevre's inquiry, staff explained that at one time the reserve was \$10 million but that TMW has been drawing on reserves over the last 15 years to fund capital improvements.

Mr. Pardiwala stated that a rate increase was necessary to offset higher operating and capital costs, stabilize the revenue base, fund system infrastructure replacements, and fund local water supply projects to enhance reliability and lower long-term water costs. He reviewed key assumptions that the consultants used to prepare forecasts that include a 1% decrease in water consumption per year starting in 2011, inflation rates, reserve interest rates, account growth rate, and an increase in groundwater production.

He presented the current rate structure and pointed out that the ¾ inch meter has a disproportionately lower charge than other meters and has been corrected in cost of service calculations. He reviewed potable water usage characteristics in the City—36.7% single-family residence, 20.3% multi-family residence, and 21% commercial/institutional that includes parks and School District usage. He noted the significant commercial/industrial usage and pointed out the need to provide incentives for conservation in this sector.

Mr. Pardiwala reported that consultants looked at capital expenditures to design a revenue program, noting that development of wells will be significant in 2012, 2013, and 2014. He noted that the total \$53 million in major capital expenses over the next ten years as outlined in the Business Plan include well development \$22.5 million, main improvement \$13 million, and water system improvement \$8.2 million. He discussed the proposed \$22.5 million bond in fiscal 2012 and, in response to Commissioner McGee's inquiry, explained that it would need to be approved by City Council but not voted on by citizens.

MWD Director Wright discussed the importance of keeping the capital program going.

Mr. Pardiwala presented proposed revenue adjustments: a 6.5% increase in fiscal years 2011 and 2012, and increases of a minimum of 2.5% in fiscal years 2013, 2014, and 2015. He explained the Total Reserves chart, noting the high reserves in 2012 with the bond issuance and the approximate \$50,000 negative reserve in 2014. He provided information about Cost of Service methodology and explained how the costs are allocated and passed on to various customer classes. He stated that, based on the cost allocation process, monthly services charges were designed that are composed of two components—capacity charge and customer service charge. He noted that larger meters would receive a substantial reduction in their monthly meter

charges. He presented the recommendation for a four-tiered rate system that would provide an incentive to conserve water and that are based on current usage patterns and cumulative monthly usage. He stated that Tier 1--8 units of water---would be a good level of consumption for most single family residences, and that Tier 2 at 14 units, is the average of water used by single family residences in the City. He pointed out that Tier 3 and 4 customers who use 24 units or more of water would be paying substantially higher rates. He briefly reviewed proposed rates for Other Customers, Low Income Seniors and Disabled, and Fire Service Charge.

He presented Single Family Residence Bill Impacts, noting that customers who use less than 14 units of water will actually see a reduction in their water bills. He also showed projected monthly bills with the MWD 7.5% pass-through increases.

Responding to Chairperson Deemer's inquiry, staff advised that 95% of single family residences have ¾ inch meters.

Mr. Pardiwala reviewed a chart showing the Operating Financial Plan and discussed economic impacts of new local water sources, noting the 13 year payback period and 17% return of investment. He showed scenarios of 6% and 5% increases and concluded his presentation by briefly comparing TMW monthly residential water charges with other surrounding agencies.

Commissioner Lefevre noted that the proposal is a success oriented plan and initiated a brief discussion on a possible downside.

Public Works Director Beste stated that capital expenditures can be adjusted or delayed if necessary and explained why the 6.5% increase is being recommended. He explained the Proposition 218 requirements and noted that the public hearing is scheduled for January 11, 2011.

In response to Commissioner McGee's inquiry, Public Works Director Beste discussed increases in sewer rates and the utility users' tax.

MOTION: Commissioner Lefevre moved to recommend implementation of a five year rate plan with internal rate adjustment of 6.5% in fiscal years 2011 and 2012 and increases of a minimum of 2.5% or CPI in fiscal years 2013, 2014, and 2015. Commissioner McGee seconded the motion; a roll call vote reflected unanimous approval (absent Commissioners Haddon and Lew).

MOTION: Commissioner Deemer moved to recommend adoption of a new rate structure of four rate tiers for single family customers and two tiers for all other regular customers combined with a new method of computing a pass-through method to offset water supply charges from other agencies. The motion died for a lack of a second.

MOTION: Commissioner See moved to support the findings of the Water Rate and Capital Funding Study. Commissioner Lefevre seconded the motion; a roll call vote reflected unanimous approval (absent Commissioners Haddon and Lew).

The Commission was in recess from 8:20 to 8:25 p.m.

9. METROPOLITAN WATER DISTRICT DIRECTOR'S REPORT

MWD Director Wright distributed his October 19, 2010 letter to the Mayor and Council Members regarding October 2010 MWD activities. He announced that Jack

Foley was elected Chairperson of the MWD Board. He discussed the October 15, 2010 inspection trip to Lake Skinner Treatment Plant, Solar Farm, and Diamond Valley Lake. He also distributed a Statewide Summary of Water Year Data. He reviewed the Sacramento River Index Precipitation, and noted that environmental restrictions have more impact on the water supply than precipitation does. He provided information about the Colorado River Basin, noting that Lake Powell is 63% full but Lake Mead is only 40% of capacity. He mentioned that the elevation of Lake Mead is 1,086.4 feet and if it drops another 11 feet a shortage condition would apply.

Referring to MWD's Combined Reservoir Storage, he reported that MWD's storage has increased by 150,000 acre feet this year. He stated that water from Northern California is being put in Diamond Valley Lake but that they cannot put in Colorado River water because of the problem with mussels. He noted that, even though water sales have decreased, MWD will continue to put water into storage or sell it to agencies to put in their groundwater basins. He mentioned that MWD is keeping the Colorado River aqueduct full, intentionally created surplus, because of projects with Palo Verde Irrigation District and Imperial Irrigation District. He stated that they are also building a reservoir near the border to store water until Mexico needs it.

10. WEST BASIN WATER ASSOCIATION REPORT

No report.

11. ORALS

11A. Commissioners See, Lefevre, and McGee requested excused absences for the November 2010 Water Commission meeting and it was decided that the Commission would go dark in November 2010.

11B. Deputy Public Works Director van der Linden advised that City Council approved the extension of Commissioners' terms until January 31, 2011. He reminded Commissioners about Commissioner Certification Training and Ethics training.

11C. Deputy Public Works Director van der Linden discussed the Great California Shake Out drill on October 21, 2010.

12. ADJOURNMENT

MOTION: At 8:50 p.m., Commissioner See moved to adjourn the meeting to December 16, 2010 at 7:00 p.m. in the West Annex Commission meeting room. The motion was seconded by Commissioner Lefevre and, hearing no objection, Chairperson Deemer so ordered.

Approved as Submitted November 18, 2010 s/ Sue Herbers, City Clerk
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