

**Minutes for the Meeting of the Finance Committee
February 26, 2019
4:30 P.M. – Town Hall, Del Mar Civic Center**

Attendees

Council Liaison: Terry Gaasterland

City Staff: Scott Huth, Kristen Crane, Ashley Jones, Rosanna Arguelles,
Monica Molina, Joe Bride, Bryce Wilson, Sarah Krietor

Members: Tom McGreal (Chair), Al Corti, Clive Freeman, Bob Gans, Jas Grewal,
Scott MacDonald

Invited Guests: Alex Bugby, Corollo Engineers

1. The meeting was called to order at 4:32 P.M.
2. Council liaison Terry Gaasterland reported that the City's Goals and Priorities workshop had gone well, and complimented Chair Tom McGreal on the quality of his presentation at the workshop on behalf of the Committee.
3. City Management Analyst Sarah Krietor reminded Committee members of the following: (i) the deadline to submit Form 700 financial disclosures for the current year is Tuesday, April 2; and (ii) the City will host an ethics training seminar for members of City Council advisory committees, among others, on Friday, April 12. Ms. Krietor stated that an on-line ethics training course was available for Committee members unable to attend the April 12 session.

City Manager Scott Huth reminded Committee members of the Special Meeting to be held on Wednesday, March 5, principally for the purpose of reviewing the City's full-year Fiscal 2018 audited results, as well as the City's unaudited results for the first six months of Fiscal 2019.

4. On motion duly made and seconded, the minutes of the meeting of the Finance Committee held on January 22, 2019, were approved, with the following clarifications with respect to Item 6 of the minutes: (i) the Committee did not recommend that the City borrow from the General Fund to subsidize overages in Undergrounding Project costs during the current fiscal year; and (ii) the Committee recognized that there appears to be a commitment on the part of the City Council to proceed with the Undergrounding Project, but some doubt as to the Council's preferred timetable for implementation of the Project, which greatly impacts financing options.
5. Assistant City Manager Kristen Crane presented an overview of the City's proposed water

rates for the next five years. Ms. Crane began by introducing Alex Bugby of the firm Corollo Engineers, which served as the City's consultant in performing its water rate study, and whose reports were circulated to members of the Committee in advance of the meeting. Ms. Crane noted that water services in the City are funded by three separate standalone funds separate from the General Fund: (i) the Water Fund, which supports the provision of potable water to the City; (ii) the Wastewater Fund, which finances sewage services; and (iii) the Clean Water Fund, which primarily addresses urban runoff pollution to the lagoons and the Pacific Ocean. Ms. Crane stated that the Water and Wastewater Funds are self-sufficient, but that the Clean Water Fund requires annual subsidies from the General Fund.

Ms. Crane next provided an overview of the rate setting process, which includes the following steps: (i) conducting a cost of service study, which projects revenues, expenses (including capital expenditures), reserve levels, and water consumption over the next five years; and (ii) apportioning system expenses based on whether the costs are fixed (internal structure) or variable (external costs related to dependence on outside agencies), and ultimately based on customer type and meter size.

Ms. Crane proceeded to outline the project costs associated with the needs of each system. She began with the Water system, noting that projected cost increases are due to the following: (i) costs associated with acquiring water from the San Diego County Water Authority; (ii) cost of water treatment services from the City of San Diego; (iii) approximately \$1.8 million in capital projects associated with Del Mar's internal water delivery system; and (iv) approximately \$1.1 million to install an automated meter infrastructure throughout the community, to be funded by a 5-year surcharge of approximately \$67 per year for most single-family customers. Ms. Crane next outlined increased costs associated with the Wastewater system, through which the overwhelming majority of sewage is pumped to the San Elijo Water Reclamation Facility for treatment by way of a recently completed force main connection to Solana Beach. (Ms. Crane noted that installation of the force main, while a significant capital project, had resulted in greatly decreased costs over the prior practice of obtaining wastewater treatment services from the City of San Diego). Ms. Crane outlined approximately \$2 million in planned capital projects for the Wastewater system, comprised primarily of \$385,000 in urgent repairs to be completed in Fiscal 2020, and another \$1.5 million in annual high priority repairs to be completed over the following four years. With respect to the Clean Water program, Ms. Crane outlined approximately \$1.13 million in capital improvement projects over the next five years, the bulk of which were related to storm drain and overall drainage improvements.

Ms. Crane next reviewed the results of the cost of service study and apportionment, which resulted in the following proposed rate increases over the next five years: (i) Water = 6% for 2019, and 5% annually for 2020-24; (ii) Wastewater = 5% annually for 2019-24; and (iii) Clean Water = 11% for 2019, 9% for 2020; and 10% annually for 2020-24. Ms. Crane explained that the first increase would be implemented on July 1, 2019, with subsequent increases implemented on January 1 of each year thereafter. She further stated that these proposed rate increases had been arrived at after making every

effort to manage costs within the City's control. Ms. Crane also noted that one of the factors driving the rate increases, in addition to the various projects outlined above, was a depletion of reserves in recent years to counteract declining revenues resulting from decreased water usage, which is projected to continue into the future. Finally, Ms. Crane noted that the proposed increases would succeed in maintaining the self-sufficiency of the Water and Wastewater Funds, while also eliminating the need for the Clean Water Fund to receive subsidies from the City's General Fund at the end of the five-year rate increase period.

An extensive discussion ensued following Ms. Crane's presentation, which included the following topics: (i) the underlying reasons and rationale for the proposed rate increases; (ii) various aspects of the proposed capital projects; (iii) the desirability of outsourcing the City's water services as opposed to maintaining the current independent system; (iv) the extent to which Del Mar already outsources various aspects of its water systems and the resulting cost benefits; (v) the advantages and disadvantages of installing automated water meters pursuant to the proposed surcharge; (vi) the current allocation of City personnel salaries to one or more of the water funds as a means of monitoring costs; (vii) the extent to which capital improvement projects and reserve replenishment is driving the proposed rate increases; and (viii) the feasibility of ending the Clean Water Fund's dependence on contributions from the General Fund immediately rather than phasing over five years.

At the conclusion of this discussion, a consensus emerged in favor of delaying installation of automated meters pending completion of a cost-benefit study analyzing the impact of replacing the current meter system. Further, a majority of the committee members expressed the view that the proposed rate increases were justified, while a minority opposed the proposed increases.

Whereupon, on motion duly made and seconded, the Committee: (i) supported the rate increase recommendations for Water and Wastewater, as outlined in the Staff reports provided to the Committee; (ii) supported the rate increase recommendations for Clean Water, with the proviso that Staff prepare an additional scenario for Council consideration that would be calculated based on the requirement that there be no General Fund subsidies after Fiscal 2019, and would include the incremental rate increase needed to amortize the subsidized costs in both scenarios over a period of no more than ten years; and (iii) recommended deferral of any action on automated meters and the related surcharge pending the Committee's review of a more detailed cost-benefit analysis of this issue. The motion passed on a vote of 4 to 2.

6. Mr. McGreal reported that the Metrics Subcommittee has completed work on a variety of metrics, particularly with respect to debt, which the subcommittee intends to present to Staff shortly, in advance of presenting to the full Committee.
7. Mr. McGreal reported that the Pension Subcommittee is in the process of reviewing the most recent CalPERS performance reports, and hopes to be able to report to the full Committee at its next meeting.

8. Mr. McGreal reported that the Long Range Planning Subcommittee met with the Finance Subcommittee of the Undergrounding Advisory Committee, which resulted in the following recommendations: (i) the City should embark on a long-term project to underground utility lines citywide; (ii) neighborhoods or blocks should be prioritized for undergrounding according to the agreed upon criteria developed by the City and the Undergrounding Advisory Committee; (iii) undergrounding should begin by selecting a single neighborhood or block as the first project to test the concept, including logistics, costs, and community coordination and impact; and (iv) the City should develop its subsequent rollout plan based upon the results of the first area selected, using a manageable implementation timetable that minimizes City debt.
9. On behalf of the Affordable Housing Subcommittee, Scott MacDonald reported that the first proposal for an Accessory Dwelling Unit will be presented to the Design Review Board for approval at its next meeting.

There being no further business to come before the Committee, the meeting was adjourned at 6:38 P.M.

The next meeting of the Committee will occur on **Tuesday, March 5, 2019, at 4:30 PM**, in the Council Chambers, Town Hall, Del Mar Civic Center.

Respectfully submitted,

Bob Gans, Secretary for the meeting