KENNEWICK IRRIGATION DISTRICT

Minutes

KID Board of Directors Special Meeting
With the Water Rate Advisory Committee (WRAC)
Carl W. Petersen Board Room
Monday, May 23, 2011, 6:00 p.m.

President McKenzie called the meeting to order at 6:00 p.m. Mr. Freeman called roll.

Directors Present:
David McKenzie, President
Gene Huffman, Vice President
John Jaksch, Director
Patrick McGuire, Director
Kirk Rathbun, Director & WRAC Chair

Other Persons Present:
Gordon Smith, Consultant, FCS Group
Tim Berk, WRAC Member
Brian Iller, Legal Counsel

Staff Present:
Charles Freeman, District Manager
Ed Everaert, Engineering/Operations Manager
Colleen Storms, Comptroller/Treasurer
Scott Revell, Planning Manager
Teresa Horrocks, Customer Service Specialist
Susan Herriford, Receptionist
Lynda Rosenbaum, Assistant Planner
Con Higley, Asst. Operation/Maintenance Manager
Beth Smith, Asst. Operation/Maintenance Manager
Seth Defoe, GIS Specialist
Doris Rakowski, Executive Assistant

APPROVAL OF AGENDA: **Director Jaksch moved to approve the agenda. Vice President Huffman seconded the motion and it carried unanimously.**

President McKenzie welcomed the guests and Mr. Freeman introduced Gordon Wilson, the District's consultant.

WORKSHOP: Presentation by Gordon Wilson, Financial Consulting Solutions Group
Mr. Wilson described the purposes of the rate study. He said the primary focus was on irrigation rates, not domestic water rates. He noted that his recommended changes to the rate design were revenue-neutral. He said the rate design would be based on good data, tied to cost of service and be policy-based.

Mr. Wilson gave an overview of KID's pre-2009 rate design based on LIDs, which he said was equitable but administratively unmanageable. He said he would recommend continuing some aspects of the current method such as per acre allocation of the USBR loan for the original construction of the main canal. Additionally, no change was recommended to the allocation of repayments of capital construction for new Pump Pressurized Service Areas (PSAs).

Mr. Wilson described the simplified rate structure with two categories (pressurized and non-pressurized) and eleven tiers, which was used from 2009 to present.

Mr. Wilson said the goals of rate design were equity and administrative efficiency. He said his recommended rate design followed principles including:

- Assessments should distinguish properties based on the type of infrastructure serving them including source of water, whether KID were responsible for distribution lines, and whether the properties benefitted from distribution pumping.
- Within each infrastructure class, there should be a fixed charge and an acreage charge. Mr. Wilson discussed the idea of the cost of urbanization.

- The fixed charge should cover customer service costs and enough of the infrastructure costs to offset the long-term cost impact of urbanization.
- The acreage charge should cover the remaining infrastructure costs.
- Indirect (overhead) costs other than customer service should be recovered in proportion to direct costs.
- The equivalent annual value of the federal construction subsidy should be applied to properties with current agricultural uses that receive water through the main canal system. Mr. Wilson said agriculture differed from general use properties in that it provided a basic industry in the nation's interest, was a primary export product for the Tri-Cities, and that the income to pay the assessment for agricultural properties must come from the land itself and it took more land to do so. Mr. Wilson said passing on the subsidy which the federal government intended for agriculture was important. For the basis of the study, Mr. Wilson said he used County zoning with a two acre minimum to identify agricultural properties. He said that the District would need to adopt a procedure to deal with exceptions.
- The federal financing subsidy, which was more valuable than the federal construction subsidy, should continue to be applied to all KID customers.
- Capital assessment should have the same rate design as the operating assessment, rather than being a flat amount per account.
- Properties considered to be too small to benefit from the availability of irrigation water should be charged only a pro rata share of customer service costs.

Mr. Wilson described the recommended service area types: Transmission Only, PSA, Gravity PSA, Pump Private Line Area (PLA), Columbia Irrigation District-source PSA, and Well or Dam PSA. He described the source of supply, responsibility for distribution lines and benefit from pumping for each service area type.

Mr. Wilson listed the different types of charges he would recommend, including Canal Charge, Pipe Charge, Pump Charge, CID Charge, and Well/Dam Charge. Customers would only pay charges that applied to their property. He displayed a chart showing the applicability of charges to the various service area types.

Mr. Wilson described how he determined the canal charge, taking into consideration the previously discussed treatment of agricultural properties.

Mr. Wilson described the method of the cost of service analysis. He said it was based on the 2011 budget, and the intent was not to increase total revenue. He described how he allocated various costs including field operations labor, other labor costs, field and district overhead costs, R&R capital in proportion to a category's asset depreciation, and non-labor costs such as supplies and services.

Mr. Wilson discussed the impact of urbanization over the last 50 years. He said he found that 60% was the percentage of infrastructure costs assigned to fixed costs needed for the revenue increase to keep up with the long term costs increase. He said it equated to a fixed charge of $251.

He discussed details of the rate calculation and displayed a chart showing the number of accounts in each service area type, noting agricultural or general use, and a similar chart showing the number of acres.

Mr. Wilson discussed the sample rate table and went over two sample bills for different service area types. The examples compared the proposed system to the previous year's assessment. He provided greater detail on the calculation of the capital assessment.

Mr. Wilson discussed the impact of the recommended change in rate design. He said, though it would be revenue neutral to the KID, some customers would pay more while others paid less. He noted that those who were advantaged by the current system would be barely aware of that fact. He discussed possible ways to phase in the changes to mitigate impact on customers with steep increases. Mr. Wilson said that in general, within each service area type the cost burden would shift from smaller to larger parcels and for a given size parcel, the cost burden would shift from non-PSA to PSA areas, especially pump areas.

PUBLIC COMMENTS (Question and Answer Format):

- **Unidentified Guest: "Properties considered too small to benefit from irrigation water to be charged only pro-rated share of customer service cost." What would be considered too small?** Mr. Wilson said this did not refer to the portion of a parcel not covered with a building. It would be a parcel that was too small to build on, such as a parking strip, and less than about .075 acres (as in the current rate structure). Mr. Wilson noted that modifications would be made to the model over time, through availability of better data and the exception process. He discussed how to address equitable shares for townhouses and condos and said another refinement might be a partial pipe cost for downstream PLAs

  .

- **Unidentified Guest: Did you consider metering smaller lots?** Mr. Wilson replied no, because such a large part of the cost was how much infrastructure the water came through. The cost of the water was a small portion of the cost.

- **Unidentified Guest: Thank you for explaining how agricultural was considered. Why have assessments increased so much over recent years?** Mr. Wilson said that in the last four or five years, KID began to address the capital liability of its aging system. He said another factor might be that a greater spread was needed between PSA and Non-PSA parcels. He discussed cost of urbanization further.

- **Unidentified Guest: How would costs change or increase for a 60 to 70 acre agricultural parcel off the canal?** Mr. Wilson said that for a 70 acre parcel the assessment would probably go down, because the declining rate tilt in the current structure stops being tilted when you look at properties over eight acres. He said the very largest agricultural parcels would probably pay less, but he could not be specific without looking at the rate model. He noted that setting the budget level was separate from the rate structure design.

  Mr. Wilson later amended his statement based on calculations by Mr. Everaert. He said that the proposed method of allocating the capital assessment (no longer one rate per parcel) might offset the savings on the operations and maintenance portion of the assessment such that there might not be a reduction in the assessment.

- **Unidentified Guest: When would the USBR loan be paid off?** Mr. Wilson restated the question and said he did not know why the old note was not paid off yet. He said that did not affect the rate model and was outside the scope of his work.

Mr. Iller discussed the contract between the District and the federal government to build the system to service the new lands and most of the old lands. He noted that when the new contract was created, the old loan was superseded by the new loan in 1956. Mr. Revell noted the loan was for 66 years.

- **Unidentified Guest: The guest said she was upset by an article in the newspaper. She said this was an agricultural community and farmers should not be charged a lot because they grow our food and support us.** Mr. Wilson said her comments summarized his reasons for treating agricultural parcels differently. He said use of the federal subsidy was a way to determine how much difference there would be in treatment of agriculture.

  The guest asked why KID, and not cities, was supplying water to subdivisions. Why not fix the old stuff before building any more new areas? Mr. Wilson said city water systems and supply were not sufficient to supply irrigation needs. He said drinking water cost less because the cities did not have to provide the additional capacity for irrigation water.

  Mr. Wilson noted that it was a natural response for both the agricultural and general use groups to feel they were subsidizing the other, which was why it was important to do a study to determine what was most equitable.

- **Unidentified Guest: The federal government paid 45% of the original cost of building and the subsequent expansion of the system, and once that was paid off, the federal government's portion was taken care of. Would the federal government pay 45% of current costs for maintenance, repair and replacement, and if not, why were home owners subsidizing 45% of those costs?** Mr. Wilson said the federal government would not do so, but KID was still benefitting from the un-depreciated part of the original subsidy. Mr. Wilson said the discussion was about the 45% federal share for which rate payers were never charged, not the 55% local share on which the loan payments were being made. He said the subsidy had nothing to do with the loan, but with the asset that was built, for which he assumed an 80-year useful life.

  Discussion ensued regarding the loan. Mr. Revell recited an inventory of infrastructure built by the 1950s loan and federal funding. Mr. Wilson restated that the loan repayment structure would not change in the new rate model. Calculation of the federal construction benefit did not pertain to the loan; only to the other 45% of the original construction cost.

  The guest asked why non-agricultural residents were subsidizing the maintenance and operation of the entire system, and said everyone should pay for canal upkeep. Mr. Wilson said everyone was paying that cost. Discussion ensued.

  The guest said developers should pay for new infrastructure then turn it over to the KID as they would turn over streets to the city. Cost of urbanization was discussed.

  The guest asked how much of the $8 million budget was being paid by urban customers. Mr. Wilson said he would have to look at the model to answer. **Dale Walter (guest) said in 2009 they paid $6.7 million.** Mr. Wilson said he could not verify that, but that he designed the rate model to follow the principles discussed earlier. He said operations and maintenance costs, including capital costs of replacing and extending the life of the system, were charged to those who benefit.

Mr. Iller questioned the source of Mr. Walter's numbers and noted that staff had disagreed with his calculations in the past. He said that historically, operations and maintenance expenses were subsidized from land sales and reserves, but that recently the District made policy decisions to save reserves for future needs. Regarding old versus new usage, Mr. Iller said he doubted the District would have the right to deny a developer the use of water for residential purposes. He discussed the increasing costs due to aging infrastructure.

- **John Trumbo, Tri-Cities Herald Reporter: Regarding the various categories of services areas, which components of the system were included in transmission only?** Mr. Freeman reported that the board was reviewing a policy included definitions of these terms. He read the definition of transmission system. He reiterated that the rate model was policy driven and the model would be refined based on policy decisions. Mr. Wilson said that the definitions he used in this model would be refined as the Board formalized definitions and policy decisions.

  Mr. Trumbo noted that there could be a PLA which was not served by a pump. Mr. Wilson said they would be in Group 1, transmission only.

  Mr. Trumbo asked what was the reason for the difference between agricultural and non-agricultural, and if it had to anything to do with the subsidy. Mr. Wilson said the acreage charge was the sum of the applicable canal charges, pipe charge (if applicable), and pump charge (if applicable). He gave an example. Mr. Wilson said it related to the subsidy only in that the canal charge was different for agricultural and non-agricultural due to the federal construction subsidy for agriculture.

  Mr. Trumbo asked if the subsidy would ever sunset. Mr. Wilson said it would gradually reduce as the system was fully depreciated, and that he assumed an 80 year useful life.

  Mr. Trumbo noted that there was one member of the WRAC who thought the subsidy should be applied to all customers, not just agricultural. Mr. Wilson discussed how to acknowledge the difference between agricultural and non-agricultural parcels through policy. He said there was policy rationale for differential treatment of agricultural parcels. Regarding how to determine how much of a differential to use, Mr. Wilson said that the practice of selecting a round number and sticking with it was commonly done and could be justified, but it was better to find a way to estimate how much. He said using the federal subsidy was his response to that challenge. He further noted that he personally did not think the differential treatment of agricultural parcels should go away, but that mathematically it would if KID stayed with the same rationale over the years. He said the question would need to be addressed in twenty years.

- **Unidentified Guest: Were there materials for building or repairing the canal that would last 100 years?** Staff said they would like to hear about it if so.

  The Guest referred to a page in the meeting handout and asked what "11 acreage tiers" meant. Mr. Wilson said it referred to how the accounts in the District were sorted by size in the system currently in use.

- **Vic Johnson, guest: What changes or tweaks might there be in the future and did you consider whether it would be more economical for operations and maintenance to be provided by the KID or by the private sector?** Mr. Wilson said cost forecasts were a typical component of rate studies, but in this case, because the pressing issue was equity, the forecast component was laid aside. He said no determination of increased need was made. Mr. Wilson said he looked at existing capital infrastructure and the associated capital liability, estimated everything for which the District was currently responsible, then considered what percentage was transmission only or distribution pipes, etc. He acknowledged that the percentages might change over time, but said they were anchored in the existing inventory of assets.

- **Unidentified Guest: Who were the 95 accounts that could see an increase of over 100%?** Mr. Wilson described how he defined the various groups, and said that, in very general terms, the cost shifted from smaller to larger parcels, and from non-PSA to PSA.

Mr. Revell said public comment forms were available and asked guests to submit questions or comments.

President McKenzie verified that no one wished to make further comments or ask questions.

Mr. Freeman thanked the guests for their attendance and participation. He thanked Mr. Wilson, staff and the Board for their work.

Director Jaksch thanked the Water Rate Advisory Committee and Mr. Wilson. He noted that the Board had not made its final decisions and needed the public's comments.

Vice President Huffman moved to adjourn at 8:08 p.m. Director Jaksch seconded the motion and it carried unanimously.

Attest:

David McKenzie, Board President

Witness:

Charles Freeman

Charles Freeman, Secretary/Manager

Prepared by Doris Rakowski