

MINUTES OF THE WORK SESSION MEETING OF THE CITY COUNCIL OF THE CITY OF JERSEY VILLAGE, TEXAS, HELD ON MARCH 19, 2012 AT 6:00 P.M. IN THE CIVIC CENTER, 16327 LAKEVIEW, JERSEY VILLAGE, TEXAS.

A. The meeting was called to order by Acting Mayor Pro tem Jill Klein at 6:00 p.m. with the following present:

Acting Mayor Pro tem, Jill Klein
Council Member, Harry Beckwith III, PE
Council Member, Mark Maloy

City Manager Mike Castro
City Secretary, Lorri Coody

Mayor, Russell Hamley was not present when the meeting was called to order, but joined the meeting in progress at 6:08 p.m. Council Members Joyce Berube and Rod Erskine were not present at this meeting.

Staff in attendance: Mark Bitz, Fire Chief; Eric Foerster, Chief of Police; Danny Segundo, Director of Public Works; Isabel Kato, Director of Finance; and Michael Brown, Director of Parks.

B. Receive and Discuss the Results of the Water and Wastewater Rate and Financial Planning Study.

City Manager, Mike Castro presented the item. He introduced Ms. Jennifer Ivey with Red Oak Consulting Service and told Council that Ms. Ivey would present the finding from the Water and Wastewater Rate and Financial Planning Study.

Background information on the item is as follows: At its September 19, 2011 meeting, city council approved Resolution No. 2011-57, authorizing the City Manager to enter into a contract with Red Oak Consulting Service for completion of a Water and Wastewater Rate and Financial Planning Study. Over the past several weeks, Red Oak has conducted a review of historical usage and financial information from the Utility Fund. Utilizing an advanced econometric model, Red Oak is able to forecast the financial position of the Utility Fund for each of the next five years. Taking into consideration the capital needs of the city, Red Oak is prepared to discuss rate adjustments based on answers to several policy-related questions.

In general, the news presented by the consultant was good. The Utility Fund appears to be in sound shape, and will be able to meet operating and capital requirements for the next five years with modest changes to the rates currently charged to water and wastewater customers. Under a worst-case scenario, the required adjustment to the water rate is six percent. Under the same scenario, the adjustment for the wastewater rate is two percent. Various scenarios were discussed.

The discussion focused on the concept of equity in rate structure. Currently, the city's commercial customers are subsidizing residential water usage. As a class of customers, residential users are paying roughly 80 percent of what they should be paying while commercial users are paying approximately 120 percent. It is not unusual for cities to lean on commercial and industrial users to fund overall utility operations.

The City's current rate structure is based on a seven (7) block inclining structure - "the more one uses, the more one pays." Within this seven (7) block structure, the 1st block includes the base usage of 3,000 gallons. The Consultants are recommending changes to the existing rate structure which include eliminating the base charge from the first usage block, setting

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the first usage block low enough to accommodate low usage, and restructuring the remaining blocks. The new block structure could look something like:

- Block 1 = 0 to 3,000
- Block 2 = 3,000 to 6,000
- Block 3 = 6,000 to 12,000
- Block 4 = 12,000 to 25,000
- Block 5 = over 25,000

With this structure, 6,000 gallons represents the median customer usage and takes the city from a seven (7) block system to a five (5) block system which is more in line with what is seen in the industry.

Council engaged in discussion about the 6,000 gallon median usage and just what is included in this usage.

Council then reviewed two scenarios (A and B) illustrating cash flow projections. Figures in the work sheets included the complete implementation of the city's utility CIP program. The Consultant explained that scenario B recovers revenue from municipal accounts while scenario A does not. The Consultant explained how the payment schedule for these scenarios would be implemented over a five (5) year period using the new five (5) block rate structure.

Council had questions about and discussed:

1. Implementing the rate structure over the course of a five (5) year period;
2. Implementing the monthly service charge outside the first block
3. Sewer rate recommendations and implementation of same; and
4. Future rate increases by the City of Houston and effects of same on projected figures.

In completing the review of the scenarios and the information presented by the Consultant, Council considered the following questions in order to provide direction to Staff. Input from the Council is provided:

1. What is an acceptable rate increase for residential customers?
 - a. Council Member Maloy – Would like additional time to review the cash flow projections.
 - b. Council Member Klein – The 6% revenue increase as used by the Consultant in cash flow projections is adequate.
 - c. Council Member Beckwith – 10 to 20%, but no more than 20%.
2. Does the city desire to maintain a graduated rate structure (i.e. the more usage, the greater the proportional charge)?
 - a. Council Member Maloy – Yes, but move from seven (7) blocks to five (5) blocks.
 - b. Council Member Beckwith – Yes.

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3. Will any proposed water rate adjustments also apply to customers with a second (landscape) water meter?
 - a. Council Member Maloy – Yes, adjustments should be made so that payment is the same as the main water meter on the home.
 - b. Council Member Beckwith – Yes.
4. One possible scenario results in a billing decrease for extremely-low water usage customers. Is such a decrease acceptable to council?
 - a. Council Member Maloy – Yes.
 - b. Council Member Beckwith – Yes.
5. As currently structured, water revenue from commercial customers subsidizes residential customers. Does council wish to continue this subsidy?
 - a. Council Member Maloy – Residential and Commercial should pay fair share.
 - b. Council Member Beckwith – Residential and Commercial should pay fair share.
 - c. Council Member Klein – Residential and Commercial should pay fair share.
6. If council desires a more equitable rate structure (residential and commercial each pay their fair share), how quickly does council wish to achieve rate parity?
 - a. Council Member Beckwith – Would like to see it done in three (3) to four (4) years, but it may take five (5).
7. Should the Utility Fund charge the General Fund and Golf Course Fund for the cost of water service provided to these funds?
 - a. Council Member Maloy – Yes.
 - b. Council Member Beckwith – Yes.
 - c. Council Member Klein – Yes.

Mayor Hamley stated that more time was needed from him to consider the information presented in order for him to provide input and direction for Staff.

C. Adjournment.

The meeting was adjourned at 7:07 p.m.

Lorri Coody, City Secretary