

**SPECIAL BUDGET REVIEW MEETING MINUTES OF THE
PUBLIC SERVICE BOARD**

NOVEMBER 16, 2015

The special meeting of the Public Service Board was held Monday, November 16, 2015, at the El Paso Water Utilities Public Service Board Meeting Room located at 1154 Hawkins Boulevard, El Paso, Texas.

PSB MEMBERS PRESENT

Ruth Katherine Brennand, Vice-Chair
Terri Garcia, Secretary-Treasurer
Henry Gallardo, Member
Christopher Antcliff, Member
Bradley Roe, Members

PSB MEMBERS ABSENT

Dr. Richard T. Schoephoerster, Chair
Mayor Oscar Leeser, Ex-Officio Member

PSB EMPLOYEES PRESENT

John E. Balliew, P.E., President and Chief Executive Officer
Lupe Cuellar, General Counsel

EPWU EMPLOYEES PRESENT

Marcela Navarrete, Vice President
Alan Shubert, Vice President
Art Duran, Chief Financial Officer
Jeff Tepsick, Fiscal Operations Manager
Ana Pucella, Budget Analyst
Javier Camacho, Public Information Specialist
Felipe Lopez, Utility Engineer Division Manager
Christina Montoya, Marketing and Communications Manager
Robert Riley, Construction Engineering Division Manager
Gilbert Trejo, Chief Technical Officer
Lisa Rosendorf, Chief Communications and Government Affairs Officer
Matthew Behrens, Assistant General Counsel
Irazema Rojas, Capital Improvements Program Administrator
Scott Reinert, Water Resources Manager
Gretchen Byram, Computer Media Specialist
Georgette Webber, Executive Secretary

MEDIA

KVIA
El Paso Times

GUESTS

Sam Irriki, URS
Judy Ackerman, Citizen

The Public Service Board meeting was called to order by Ms. Brennand at 6:08 p.m. A quorum of its members was present. After a moment of silent prayer, those in attendance joined Ms. Lisa Rosendorf, Chief Communications and Government Affairs Officer, in reciting the Pledge of Allegiance.

REGULAR AGENDA

BUDGET WORKSHOP – FY 2016-17 WATER & WASTEWATER SUMMARY BUDGET; WATER & WASTEWATER OPERATING BUDGET DETAIL; CAPITAL BUDGET DETAIL; PROPOSED RULES AND REGULATIONS CHANGES; AND FEE ADJUSTMENTS.

Mr. John Balliew, President/CEO, made a PowerPoint presentation summarizing the FY 2016-17 Water, Wastewater and Reclaimed Water Budget (**entire presentation on file with EPWU Central Files**). He reviewed the schedule of budget meetings and stated this meeting is the second of possibly three budget meetings. He stated this meeting would focus on the water, wastewater and reclaimed water portion of the budget. He explained if an additional meeting is needed for questions, clarification and discussion, a third meeting will be held on November 30, 2015. If an additional meeting is not needed, the budget can then go directly to the Board for approval at the regularly scheduled PSB Meeting on January 13, 2016.

He began his presentation by reviewing some of the challenges EPWU anticipates facing in the upcoming fiscal year. Mr. Balliew discussed the expanding diverse portfolio of options to meet water supply needs. Currently, EPWU's water resources portfolio consists of surface water from the Rio Grande, water reuse, underground water, conservation and desalination. The Utility's goal is to add four additional resources which include near and far importation; advanced purified water treatment and agricultural drain purification. He also showed a graph of the average residential water/wastewater bill for eight border cities, including El Paso.

In reviewing the FY 2016-17 Water & Wastewater Budget summary, Mr. Balliew stated the total water, wastewater and reclaimed water budget is \$463.2 million. The \$93.9 million operating budget has increased by \$5.4 million. The capital budget is \$289.9 million with new funding requests of \$240.9 million. There is an increase in debt service, the Utility's payment to the City and contingencies. Mr. Balliew presented two graphs showing the effect the allotment of water received from the Rio Grande River has on the operations and maintenance budget. He reviewed the water and wastewater budget funding sources and said 28% is funded from water, 15% wastewater, 42% debt financing and 15% from other funding sources. As for budget usage, 63% is used for capital expenditures, 20% for operations and maintenance, 13% for debt service, 1% for contingencies and 3% for the Utility's payment to City for 10% of the Utility's water revenue. The operating budget is anticipated to increase to accommodate normal salary increases and 11 new positions; additional increases in chemical and surface water costs; anticipated rate increases for electricity and natural gas; and increases in sludge hauling and software/hardware expenses. Before introducing Mr. Alan Shubert, Vice President, Mr. Balliew addressed questions from the Board.

Mr. Shubert continued the presentation by reviewing the capital improvement program. A total of 16 projects were completed during FY 2015-16. He reviewed each of the projects and presented photos of the work completed. Next he reviewed 13 projects which are currently underway. Photos were presented to show the work in progress for each project. He reviewed the FY 2016-17 construction projects that will be funded through prior years' appropriations. Of those construction projects, there are five water construction projects equal to or over \$1 million each. There are six wastewater construction projects with cash flow over \$1 million each. Mr. Shubert presented the Board with information regarding the funding requests for new water and wastewater construction projects. There are 22 new water construction projects and 11 new wastewater construction projects requiring funding over \$1 million. The total capital improvements program new funding request for FY 2016-17 is \$240,857,000. Of that amount, \$125 million is allocated for water resource acquisition, \$77.3 million for water funding and \$38.5 million for wastewater funding.

In regards to the financial plan, Ms. Marcela Navarrete, Vice President, reviewed the operating ratio, projected fund balance and the projected debt service coverage based on the Utility's 5-year financial plan. She also discussed the Texas Water Development Board's State Water Implementation Fund for Texas Board Participation program which is long-term, fixed-rate financing made available through a temporary TWDB

ownership interest in a regional project. The terms are intended to allow entities to reasonably finance the total debt for an optimally sized regional project. EPWU would repurchase TWDB's interest under a repayment schedule that allows for the structured deferral of both principal and interest over 35 years. Board participation is limited to funding of the excess capacity portion of the project and up to 80% of the total project costs. Next, Ms. Navarrete discussed the other sources of funding received by EPWU. Approximately \$6.65 million have been received from other entities such as the U.S. Corps of Engineers, Bureau of Reclamation and the Border Environment Cooperation Commission. She continued the presentation by discussing the rate objectives. Staff proposed an 11% water and wastewater rate increase with a minor change to the rate structure.

Ms. Navarrete presented charts and discussed in detail the comparison between the current minimum water/wastewater charges and the proposed minimum water charge if an 11% increase is implemented. She also discussed the effects the increase would have on the Water Supply Replacement Charge, excess use charge and wastewater volume charge. She presented a chart to explain the impact the increase would have on residential and commercial bills. As for the rate structure, staff proposed subsidized rates for City of El Paso irrigation accounts and reclaimed water accounts. Currently, the Block 1 rate is charged for all consumption for current City irrigation accounts. Staff proposed that the rate class be phased out over a five year period to the Local Government Turf rate. Ms. Navarrete said the goal is to get local government agencies to be more efficient in their water usage. Currently, reclaimed customers only pay a portion of the Block 1 rate (80%). Staff proposed phasing reclaimed water customers to pay the entire Block 1 rate over the next ten years.

In summary, Ms. Navarrete presented graphs from a survey comparing El Paso's current and proposed average residential water and sewer bills to the ten largest cities in Texas. She also presented a graph comparing the current and proposed average residential water and sewer bill to other arid cities and those in the region. She said the total water, wastewater, and reclaimed water budget is \$463.2 million. The \$93.9 million operating budget increased by \$5.4 million and the capital budget is \$289.9 million with new funding requests of \$240.9 million. After the 11% rate increase the average monthly residential bill would be 1.51% of the local median household income, which is well below Fitch's affordability threshold of 2%. The recommendations from staff included increasing the water and wastewater rate by 11%; phasing out the subsidy for reclaimed water rates over the next ten years; and phasing out the subsidy for City Irrigation rates over the next five years. Mr. Balliew and Ms. Navarrete addressed questions from the Board regarding the budget presentation.

Ms. Brennan opened the floor to the public for comments and questions on the proposed budget. The Board heard comments from Dr. Phil Hargrove of the University of Texas at El Paso. The floor was then opened for discussion by the Board. Mr. Balliew, Mr. Shubert and Ms. Navarrete addressed questions and comments from the Board and public regarding various items presented on the proposed water, wastewater and reclaimed water budget.

PUBLIC COMMENT: THE PSB WILL PERMIT PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA. THE CHAIR MAY IMPOSE REASONABLE TIME LIMITS FOR EACH SPEAKER.

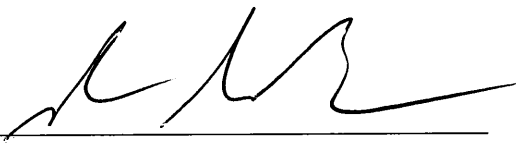
There were no additional comments from the public.

EXECUTIVE SESSION

The Board did not enter into Executive Session.


ADJOURNMENT

The meeting was adjourned at 7:22 p.m., November 15, 2015.



Chair

ATTEST:



Secretary-Treasurer