



BUDGET COMMITTEE MEETING MINUTES

1:00 p.m. Thursday, April 18, 2024
Utica Headquarters | 1168 Booster Way, Angels Camp, CA 95222

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UTICA BUDGET COMMITTEE MEMBERS

Director Tom Quincy
Director Caroline Schirato

ORDER OF BUSINESS

Agenda Items

1. Call to Order / Pledge of Allegiance

- The meeting was called to order at 1:01 p.m.

2. Roll Call

- **Directors Present**
 - Director Quincy
 - Director Schirato
- **Utica Staff Present**
 - Joel Metzger, General Manager
 - Stacie Walker, Administrative Specialist
 - Kyle Rasmussen, Conveyance Supervisor
 - Ryan Heryford, Conveyance and Compliance Specialist
 - Sebastian Martz, Senior Conveyance Operator
- **Other Present**
 - Michelle Gonzalez, COA Finance Director

- Jessica Self, UPUD General Manager
- Mike Chiminte, COA City Council
- Gary Conrado, Utica Board of Directors
- Rebecca Callen, COA Administrator (virtual)
- Shawn Koorn, HDR Consultant (virtual)

3. Public Comment

Members of the public may address the Board on items not listed on the agenda. Comments are limited to five minutes. No action will be taken on items not on the agenda. The public is encouraged to work with staff to put items on the agenda for Board consideration.

4. New Business

A. Approval of minutes from the March 22, 2024, Budget Committee Meeting

- Committee members reviewed the March 22 Budget Committee Minutes. They agreed it was an accurate reflection of the meeting and accepted it as the official record.

B. Discussion and Direction Regarding the Utica Financial Analysis Review

- Item 4B was heard after 4C – the discussion notes for Item 4B will follow 4C.

C. Discussion and Direction Regarding FY 2024-2025 Budget Development

- Mr. Metzger reviewed the goals of the Budget Committee and presented a slideshow that explained the components of the Draft 2024-25 budget. During the Budget Committee meeting, the committee reviewed the draft budget line by line to form recommendations that will refine the Draft 2024-25 Budget and close the deficit.

**Committee members asked clarifying questions throughout the presentation, and due to community interest asked for public comment after each section.*

- Director Schirato asked why the JPA funding was different from 2022-2023 to 2023-2024. Mr. Metzger explained that there was substantial carryover from FY 2022-2023 and Utica had a favorable water year that allowed for maximum hydropower revenues to be generated. Director Schirato asked how UPUD could fund \$490,000 in 2022-2023 and is unable to do so now. Ms. Self explained that UPUD's rate structure changed over the years, and the FY 2022-2023 a portion of the funds came out of UPUD's Utica reserves. Mr. Metzger added that UPUD's total number of customers was reduced as part of the rate study process in 2022.

- Public comment on operating income:

- Mr. Chiminte asked why Utica didn't build its budget using the maximum available funds each year, such as COA contributing all the Utica fees collected \$470,000, and then building the entire budget around that. Mr. Metzger explained that each year is a discussion between Utica and its JPA members, and agencies generally advocated to keep contributions to Utica low. Each agency must contribute half of any budget deficit approved by the Utica Board. Mr. Chiminte said that he felt the best practice is giving the maximum available funds to UWPA to use as needed and UWPA

would keep additional funding in reserves for when it was needed. Mr. Metzger said that Utica's historical approach has been to make as many cuts as possible to its budget first before asking for JPA member contributions, in order to reduce the impact on ratepayers. Mr. Metzger said that the current UPUD rate structure generates about \$370,000 in Utica fees.

- Mr. Metzger continued by explaining the interest income category. The budget committee recommended allocating the interest income to the general fund, rather than the reserves (as stated in the policy).
- Director Schirato asked if UWPA is maximizing rent at the Hunter's rental house. Mr. Metzger said that staff is recommending a 5% increase to rent, adding the tenant provides many services to Utica on the rental house and Hunter Reservoir emergency operations.
- Ms. Callen asked if there is an annual increase on the cal.net agreement. Mr. Metzger said there is an annual inflation increase, and Utica will send her the contract if she'd like to see it.
- Public comment about grant income:
 - Mr. Chimente asked if the lumber from the Hunters Reservoir Fuels Reduction Project would be chipped or sold. Mr. Metzger said there was minimal merchantable timber and that the clearing would be a combination of hand clearing and heavy machinery mastication.
- Director Shirato asked why the SDRMA (health insurance) increased so much from the prior year. Ms. Walker said that the prior year's budget had under-projected costs.
- Public comment about health insurance:
 - Mr. Chiminte asked if the health care has an employee match. Mr. Metzger said, Utica's health insurance is 100% employer-paid.
 - Ms. Gonzalas asked how the projection for SDRMA remains under budget in FY 2023-2024 if inflation costs were not built in. Ms. Walker said the low cost was due to an extended vacancy in a full-time position.
- Director Quincy asked if the Owners Dam Safety Plan (ODSP) audit could be done internally. Mr. Metzger said it has to be outsourced to a consultant, and that many FERC studies require outside consultants.
- Public comment on consulting services:
 - Mr. Chiminte asked if Utica could cut back on consultant fees. Mr. Metzger said if Utica is successful with the FERC exemption there would be a big drop in FERC-related consultant fees. Mr. Metzger said there will still be dam safety expenses and that there are many requirements that cannot be completed internally, even if staff is qualified. Mr. Chiminte asked if the Exemption process is going to slow/stop mandated studies. Mr. Metzger said all of the FERC requirements must continue until the exemption is approved. Utica remains regulated by FERC up until that point.
 - Mr. Chiminte asked what the annual audit cost consists of. Mr. Metzger explained the cost of the annual audit has been the same

- for the past three years and expects the cost difference has to do with the increased scope of work required in for the FY 2023 audit.
- Ms. Self asked if Utica hires a consultant for public outreach. Mr. Metzger said that outside contractors/consultants are hired occasionally to support public outreach efforts.
 - Director Schirato suggested reducing the cost of outreach by allocating FERC-related outreach to the FERC Exemption item line.
 - Ms. Self asked why Utica needs funds for website support. Mr. Metzger said website links sometimes break and occasionally there is a need for webpage design that is beyond staff capabilities.
 - Ms. Callen stated that the California Special District Association (CSDA) offers free HR resources and training to its members. Mr. Metzger said staff utilizes CSDA resources, but the service Utica is receiving from HR Partners is above and beyond what CSDA offers.
- Mr. Metzger highlighted that outside IT support services are more difficult to source than staff expected. Mr. Metzger said three companies had submitted proposals to provide IT support for Utica – no single company could take on the full scope. Director Schirato asked if Utica would have to write multiple contracts. Mr. Metzger said it was possible – there could be different companies handling different things such as administration, SCADA, servers, radios, etc. Director Schirato asked why the staff settled on a cost of \$25,000. Mr. Metzger said support from most companies costs a minimum of \$2,000 per month. Director Schirato stated she prefers cutting the IT budget and encouraged staff to build redundancies in-house.
 - Director Schirato recommends reducing the allocation for the Murphys Powerhouse Relay Protection Project to \$50,000. Mr. Metzger cautioned that the Relay Protection Project is a two-year investment and that \$50,000 would only cover the permitting, and an additional \$150,000 would be needed to complete the project next fiscal year.
 - Director Schirato asked for the level of importance of each project within the CIP. Mr. Metzger said he would work on priorities. Mr. Metzger said that Mr. Fields would prefer to move the Static Exciter Project forward and had indicated that replacing relays and the deflector project could be postponed. Director Schirato asked how many relays there are at Murphys Powerhouse (MPH). Mr. Metzger stated about 30.
 - Director Schirato asked if Utica's CIP would qualify for a loan from the USDA, and she encouraged staff to see what the USDA offers. Mr. Metzger said grants for powerhouse maintenance are difficult to find, but there are other loan opportunities that could be utilized such as California iBank.
 - Public comment about CIP:
 - Ms. Callen asked if Utica has looked at WaterSMART grants. Mr. Metzger said that staff has submitted a grant to WaterSMART that is focused on canal lining, which would fund more canal repair over time.
 - Ms. Gonzalez asked if Utica's staff has the capacity to complete the CIP projects listed for the upcoming year. Mr. Metzger said nothing is on the budget that the team doesn't expect to complete. The CIP is prioritized and scheduled to ensure there isn't too much at a time.

- Mr. Metzger highlighted the Murphys Forebay Trash Rack Project and explained that the equipment cost more than staff initially estimated, and that the \$135,000 budgeted in FY 2023-24 wasn't enough to make the purchase. Mr. Metzger stated the problem with the existing trash rack is the need for frequent maintenance and when the equipment is most needed, it often isn't working. He said the overtime wages paid to staff and safety concerns are both concerns about the existing trash rack. Mr. Metzger acknowledged that it is a big upfront cost, but it will create savings over time – namely the avoidance of filling the Murphys Forebay with debris, which would create the need for sediment removal. Director Schirato asked what the lifespan is for a new trash rack. Mr. Rasmussen estimated 50+ years.
- Ms. Schirato asked what the powerhouse priority is. Mr. Metzger said the Static Exciter project is a top priority for operations. Mr. Rasmussen stated that if the transformer goes down Utica would have over a year of not producing power.
- Director Schirato said due to the huge investment in infrastructure Utica should consider taking debt. She is very concerned about the transformer and recognizes that all of the CIP projects are important.
- Public comment about CIP funding:
 - Mr. Chiminte said that UWPA should look at Certificates of Participation as another option. It is a loan that school districts take. He then asked if there was a willingness to spend reserves or move FERC dollars. Mr. Metzger said the goal is to get the Budget Committee's input, revise the draft budget, get full Utica Board input, refine the draft, and have the Full Board go back to their respective Boards to finalize the decision.
- Director Quincy asked if Utica could spend the reserves to offset the deficit in the draft budget. Mr. Metzger said that could be done, but staff does not recommend spending reserves unless it is absolutely necessary.
- Mr. Metzger talked about feasibility studies. Mr. Metzger is anticipating a water reliability study that would share costs with the Highway 4 Unit (H4U). Director Quincy asked if this was a study for a lower tunnel tap. Mr. Metzger said the study could look at that to understand the impact. Mr. Metzger said H4U is an agency partnership for water reliability, emergency preparedness, and funding. The study would be looking for possible redundancies and opportunities for interconnections. Per discussions with CCWD, the study could cost \$100,000 or more. Ms Self is expecting to budget of not more than \$15,000 contribution from UPUD for the study and she said Mr. Minkler said CCWD was willing to take on a bigger cost portion. Director Schirato recommended a budget of \$15,000 for feasibility studies.
- Director Schirato asked about the conveyance manager's vehicle. The committee discussed drivers to drivers-to-vehicle ratio. Director Schirato is considering recommending cutting this cost but wants to make sure there is a plan for a vehicle purchase in the future.
- Director Schirato is considering reducing annual contribution to the FERC Exemption/Relicensing reserve by \$100,000. The committee discussed the

implications of reducing these contributions. The committee recommended allocating \$300,000 to the FERC Exemption/Relicensing Reserve.

- Public comment about reserves:
 - Ms. Callen asked if the 5-10 FERC Reserves would cover any costs for the FY 2024-2025 budget. Mr. Metzger agreed that some of the expenses in the consulting category could be covered by reserves.
 - Ms. Callen asked how much money has been spent on FERC studies already this year. Mr. Heryford stated that about \$55,000 in compliance-related tasks have been completed already. Ms. Callen suggested using the FERC 5-10 to the FY 2023-2024 budget to increase the carryover for the 2024-2025 budget. Mr. Heryford pointed out that inundation maps are coming due soon with a \$100,000 estimate this year, \$25,000 per map.
 - Ms. Self expressed concerns about Utica's CIP projects, and she questioned all project are practical. Mr. Metzger pointed out that staff had made nearly \$300,000 in cuts from the CIP initially proposed for FY 2024-2025, and reiterated that all projects on the list can be done.
- Director Schirato asked what the cost of the static exciter is. Mr. Metzger said an estimated \$70,000+, but a more detailed estimate is being developed. Director Schirato thinks the CIP changes should be left for the full Utica Board – Director Quincy agreed that the full Board should make the bigger decisions.
- Public comment about CIP funding:
 - Ms. Gonzalez suggested prioritizing the CIP by figuring out what can be reasonably accomplished in the first 6 months, then looking for grants, then loans, and then having a mid-year adjustment. Ms. Gonzalez warned Utica to be mindful of interest income fluctuations.
- Director Schirato asked for a priority list of CIP projects to help guide the Board on decision-making and how to allocate funds. Mr. Martz pointed out that a lot of the work is done in the month of November, so, most CIP will be addressed in the first six months. Director Schirato suggested staff to consider loans. Director Quincy agrees about debt service and noted that it could help the budget process for the next year. Director Schirato asked if staff requested earmarks from Washington D.C. Mr. Metzger confirmed appropriations request supporting Utica's CIP have been submitted.

Recess at 3:47 p.m.

Resume session at 3:57 p.m.

A. Discussion and Direction Regarding the Utica Financial Analysis Review

- Mr. Koorn began his presentation by explaining the purpose of the analysis. The goal was to complete a five-year plan to be used by the JPA member agencies in their rate study analysis. Mr. Koorn said that the scenarios in his presentation are based on the 2023-2024 budget and the draft budget that was presented before the Budget Committee's recommended cuts from earlier this meeting. Mr. Koorn presented the slideshow with four different funding scenarios and explained the funding methodology.

- Mr. Metzger stated the draft budget for FY 2024-2025 includes revenues for a water year (WY) 1. However, it would not be prudent to build models assuming the most favorable conditions, so a Water Year 2.5 was used for the years that are unknown. Mr. Metzger said it's important to understand that the member agencies didn't make any contributions to Utica for the first 18 years of its existence, and the current team is working on CIP and maintenance that was deferred for many years. Mr. Metzger is concerned that slashing reserve contributions and CIP will take the organization back to where it was before when maintenance was deferred and reserves were underfunded. Mr. Metzger said UWPA understands the financial challenges UPUD is facing and stated there are a lot of tough decisions to be made and no easy answers. Mr. Metzger said the agencies need to find a pathway to be a responsible owner of the sole water supply system serving 10,000 people and not regress. Mr. Metzger said that from a management perspective, he strongly believes that it's time to make a long-term financial commitment.
- Director Quincy said he would share this information with the UPUD Board, but he has nothing to recommend.
- Director Schirato stated she doesn't think the amounts needed from the JPA in the scenarios are feasible, especially with the political climate. Director Schirato expressed her concern about UPUD's challenges. However, Director Schirato agrees with an annual increase each year of the funding agreement to account for rising costs.
- Director Quincy asked for public comment:
 - Ms. Gonzalez said her rate study consultant is using 5% for inflation, so hearing of a 10-12% increase is quite significant. Mr. Metzger explained that the reason the percentage inflator is higher is because in that particular funding scenario the year one funding is very low.
 - Ms. Self believes the contribution amounts listed in the scenarios would put UPUD at risk for its rate study failing. Ms. Self said she wants to reduce UPUD rates rather than increase them. Ms. Self is concerned about UPUD's upcoming rate study and elections, and she thinks the strategy should be to consider the low-income customers and what they can afford.
- Director Schirato agrees that Utica should try to put UPUD in a position to pay \$370,000 this fiscal year.
 - Ms. Self said the community knows about the 218 process, and said UPUD wants to be responsive to the community feedback. Ms. Self said that UPUD will likely follow what COA is doing by building the Utica fee into its base rate and right now UPUD's rate consultant is trying to lower the rates to give customers a break.
 - Ms. Gonzalez said COA offers a customer assistant program offering of \$25 a month to offset water charges and cautioned when that funding runs out individuals will face increases unless the Council allocates more funding to the program.
 - Mr. Chiminte agreed that the political climate is challenging. He spoke about UPUD's legal problems, recent legislation, and inflation. He asked what would happen if the FERC Exemption goes through.

Mr. Metzger confirmed that funds being used for the FERC Exemption could be reallocated by the Board if the Exemption is approved. Mr. Chiminte asked about the cost of long-term CIP such as the Angels Penstock, and he asked if Utica had looked at decommissioning the projects rather than relicensing them. Mr. Metzger said that at this time hydro is paying for itself and subsidizing water and Utica's consultant stated that decommissioning could cost more than relicensing. Mr. Metzger said due to the exemption process, there are many unknowns. What is clear is that the water conveyance system has to stay operational, and maintaining the system is not cheap.

- Mr. Martz said that Utica staff could take projects like the Angles Penstock a little at a time – starting at the top working down, and replacing sections, much like the flumes. Mr. Martz said the majority of the penstock is above ground and he is optimistic that Utica's staff could take that on.
- Mr. Metzger stated that the reality of funding Utica is that if year one starts with a \$370,000 contribution, there will have to be significant cuts and in every five-year scenario, and 100% of Utica's \$505,000 Budget Balancing Reserve would have to be spent. Mr. Metzger said the Board may be comfortable with cutting CIP, spending reserves, and not saving, but as a Utica's manager that is not what he would recommend.
 - Ms. Callen pointed out that the Utica budget is based on several policy decisions that have been made by the Board over the past 5 years such as creating a CIP and a reserves policy. Ms. Callen noted that the Board could change those policies if they wanted reduce costs. Ms. Callen said that COA has flexibility in its water rates and and conservatively budgeted for a Wate Year 3. She stated the biggest issue is if the Exemption were to fail and Utica has to look at relicensing or decommissioning the powerhouses – where is the money coming from?
 - Mr. Chimente stated that he appreciated the Joint JPA meeting back in January and attending this budget committee. He said we are all in this together and it's good that these conversations are happening.
- Mr. Metzger said that he appreciated the engagement. He reiterated that Utica is reliant on its partner agencies to balance budgets each year.
- Director Schirato said she would like to cut more small things from the draft budget and put more money back into the CIP. Director Schirato said she would like to put the purchase of a backup transformer for MPH at the top of the list because the risk of failure is too great.

The Budget Committee recommended Utica do the following to prepare for the April 30 Regular Board meeting.

- Run additional five-year funding scenarios, including a scenario starting with a \$370,000 contribution from each member agency.
- Create a CIP priority list.
- Review the first six months of expenses to ensure staff can complete Utica's projects and maintenance schedule.

- Look into loan/debt options.
- Look for state and federal funding, such as earmarks.
- Review the smaller item lines on the budget and reduce where possible.

5. Upcoming Meetings and Calendar Events

A Budget Committee meeting will be scheduled between the April 30 and May 28 Regular Board meetings.

6. Adjournment

- The meeting was adjourned at 5:02 p.m.

Utica Mission Statement

We are committed to preserving and protecting local control of our water resources through effective fiscal and operational management and assuring a safe and reliable water supply for municipal and agricultural stakeholders, while ensuring the quality and quantity of this precious resource for generations to come.

Americans With Disabilities Act

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Questions?

Contact Utica at admin@uticawater.com or (209) 736-9419.