

Agenda Report

DATE: July 13, 1998

TO: CITY COUNCIL
Through the Deregulation Committee

FROM: CYNTHIA J. KURTZ, Acting City Manager

SUBJECT: GOVERNANCE STRUCTURE OF THE WATER AND POWER DEPARTMENT

RECOMMENDATION:

It is recommended that the City Council direct the City Attorney to prepare language which would amend the City Charter to allow the Water and Power Department to be operated and maintained by a non-profit Corporation created by the City instead of as a Department of the City. It is also recommended that the Council direct that the proposed Charter amendment be submitted to the voters for approval on November 3, 1998.

BACKGROUND:

The actions recommended in this Agenda Report are a direct result of the enactment of Assembly Bill 1890 (AB 1890) signed into law on September 23, 1996 and the Pasadena City Council action on November 18, 1996, authorizing direct access between electricity suppliers and Pasadena's electricity customers. The City of Pasadena has operated an electric utility since 1906 and a water utility since 1912. Both utilities were born out of a need for local control, customer responsiveness and lower rates for the City's residential, business and institutional customers. The early years were marked by head-to-head competition with the predominant investor owned-utility (IOU) on the electric side, and a number of water companies on the water side. The utilities thrived by focusing on lower rates and excellent service. Since their creation, the utilities have contributed significant benefits to the residents, institutions and businesses of Pasadena. For example, between 1985 and 1995, Pasadena electric customers saved cumulatively over \$200 million because its rates were lower than neighboring cities served by an IOU. During the same period, over \$80 million was transferred to the City's general fund to help pay for vital city services such as police, fire and recreation activities.

The Water and Power Department has served the City very well over the years in the areas of rates, service and local control as a City Department. However, with the deregulation of the electrical industry and major changes taking place in the water industry, it is improbable that the governance structure of a City Department will allow the utility to continue its past success in the future.

Governance and stranded investments are considered the major issues facing municipal utilities. At the 1998 annual conference of the American Public Power Association, Governance of municipal utilities was a major focus.

In 1997, City Council took several actions to manage the impact of deregulation of the electrical industry on the City of Pasadena and its Water and Power Department. Among the actions taken by Council were:

1. Establishment of a Council Deregulation Committee;
2. Hiring a Council consultant;
3. Development of a 10-year Financial Plan
4. Creation of a reserve for Stranded Investment;
5. Adoption of a Stranded Investment Surcharge;
6. Directing a review of Strategic Alliance; and
7. Approval of the downsizing of the Department's workforce by approximately 30%.

Council's consultant and Labor-Management recommended that a Governance Committee be established to determine if the governance structure of the Water and Power Department was appropriate for the future environment. The Deregulation Committee agreed with the recommendation of forming a Governance Committee.

Attachment 1, "Governance Committee Report" dated March 11, 1998, discusses several key factors, such as:

- Make-up of the committee members (Utility Advisory Commission, Chamber of Commerce, Labor-Management);
 - The process the committee used; and
 - Scenario planning.
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The Governance Committee Report also discusses the options available under California Law and the recommendations (see page 7). Those options are:

- Joint Powers Agency
- Municipal Utility District
- Public Utility District
- Nonprofit Corporation
- Limited Liability Company
- General Corporation

Additionally, the recommendation page of the Governance Committee Report, (page 11), has been revised to include the committee's subsequent work. The principal features of the recommendations are:

1. A new non-profit corporation, created by and subordinate to the City Council, would be established to operate and maintain the Water and Power Department.
2. The non-profit Corporation Board would be comprised of nine (9) members, initially approved by Council that must either live or work in Pasadena.
3. City Council would delegate to the new corporation Board the day-to-day responsibility for operations of the Utility.
4. City Council would retain approval authority over rates, Bond issuance, general fund transfer and the public benefit fund. This would provide Council the critical long-range oversight of the utility.
5. City Council would be kept abreast of the day-to-day activities of the Corporation by the budget, quarterly reports, and approval of corporate goals.
6. The Corporation would exist for the sole purpose of (a) providing safe, reliable, low-cost water and energy services to Pasadena and (b), returning economic and civic value to the City of Pasadena by operating an efficient and beneficial water and power utility.

Attachment 2, "Delegation of Authority," contains a summary of the delegation, a narrative of each line item, and Article IV, Boards of Nonprofit Corporation Pasadena Water and Power, a draft document illustrating the powers and functions of the corporation.

This new governance structure will allow the Board to focus exclusively on the utility; assuring success with improving customer satisfaction by providing timely responses to customer concerns, greater flexibility in solutions to customer problems, and providing business continuity. These are some of the elements that are necessary for the utility to be successful in the new environment.

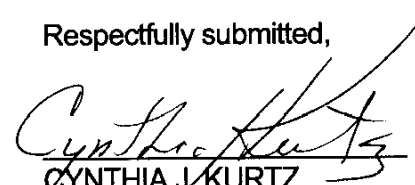
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The Utility Advisory Committee has approved the recommendations of the Governance Committee, except for the Board make-up. The Utility Advisory Committee believes that there should be no special designation of board members. Also, the Utility Advisory Commission included in their recommendation that no elected official be allowed to serve on the board. The Utility Advisory Committee's version is represented in Article IV, Boards of Non-Profit Corporations document.

FISCAL IMPACT:


The recommended Charter change and establishment of the non-profit Corporation would include the one-time startup cost (election costs and filing of Articles of Incorporation) and the anticipated expenses of the Board. The start-up costs are estimated to be approximately \$50,000 and the Board costs, including expenses, are estimated to be \$50,000-\$60,000 annually.

Respectfully submitted,



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Prepared by:



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