

DEPARTMENT OF CITY CLERK

CITY HALL

JUNE 20, 1996

The Committee of the City Council as a Whole meets this day in Committee Room "A", Department of City Clerk at 6:00 o'clock p.m.

PRESENT: Acting Council President Evelyn V. Fagnoli; Councilman Ronald Allen; Councilman Robert Clarkin; Councilman Joseph DeLuca; Councilwoman Josephine DiRuzzo; Councilman Thomas Glavin; Councilman David Igliazzi; Councilwoman Patricia K. Nolan; Councilman Kevin Jackson; Councilwoman Rita Williams; Councilwoman Balbina Young-11

ABSENT: Councilman John Lombardi; Councilman Mancini; Councilman Rollins-3.

Also present are Richard Rafanovic, Chief Engineer, Water Supply Board; Boyce Spinelli, Finance Director; John Milano, Public Utilities Commission; Andrew Annaldo; Steven Woerner, Internal Auditor; Michael Clement, City Clerk and Anna M. Stetson, Assistant Clerk.

**DISCUSSION RELATIVE TO THE AUTONOMY OF THE WATER SUPPLY BOARD**

COUNCIL PRESIDENT PRO TEMPORE FARGNOLI: The purpose of our meeting is to discuss the autonomy of the Water Supply Board which is being considered at the present time. The reason for this special meeting is that if it's to happen, it has to be before the September primary so that it can go on the docket. Mr. Rafanovic is here with us tonight, who previous to this night has distributed information to each of the Council people so that you would have a preview of exactly what the autonomy will accomplish.

MR. RAFANOVIC: Giving a very brief overview, in 1994 our Board considered the operation of the water system and after some discussions among themselves, made a recommendation through members of the City Council who are also members of Board to the City Council to consider the creation of a municipal corporation similar to the Civic Center Authority that would continue to be in the ownership of the city. The City Council took the issue up referred it to the Ordinance Committee. Concurrently, Providence Water was ordered to participate in a Management Study ordered by the Public Utilities Commission to review management practices and procedures. The results of the Management Study became public in October 1994 about the same time the Ordinance Committee was considering this request. At that time it was recommended that a City Council Public Utilities Task Force review the substance of the Management

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Study and the issue was continued based upon the Task Force review. Recently the Task Force has completed their ...I would say certain consideration and particularly, the recommendations of the consultants with the consulting group, the consultants who were hired for the Management Study, who also recommended that a municipal corporation be considered. The Task Force then referred back to this Committee, and the Ordinance Committee had one hearing, and considered a lot of issues and reviewed some documents and recommended that the City Council as a Committee of the Whole consider the issue.

The issues are that the management of the water system could be and should be somewhat separated from some of the processes that the City Charter requires of the Water Supply at this time. The only way this can be accomplished, or one of the best ways that it could be accomplished is to create a municipal corporation that would still maintain their ownership in the city, but that would give certain operational latitude to the Water Supply Board separate from the City with respect to finances, with respect to personnel and with respect to procurement. The Water Supply would be responsible for defending any lawsuits, and would have the right to sue. We are not a legal entity today. The city is the legal entity. So if anybody sues because of a water issue they can't sue the Water Supply Board, they sue the city today. After a municipal corporation is created, they would be suing the Water Supply Board. The issue of bonding would be more straight forward, would be simpler, and we could pledge revenues in a direct fashion without obligating the city's ----capacity. As time goes on we are going to have to take up a bigger and bigger share of the city's -----capacity. Many years ago the city enjoyed the benefit of a lower rate for water service for inside city residents versus outside residents. This no longer is the case. This has been lost about one to two years ago, and right now the city residents pay the same rate as anybody on the outside.

We, the Water Supply Board, in the name of the City pay taxes to the watershed communities and to any other community where we own real estate and have facilities, but we cannot pay the city one dollar, because the city owns us and you can't pay taxes to yourself. We have been in the past paying for indirect services which included rental for certain buildings like Academy Avenue, we can't do that anymore. So the City is really not receiving any direct benefits as a municipal corporation. The City, as a municipal corporation from the ownership of the water system.

The proposal is that as a separate subsidiary of the city, we would be paying the city an in lieu franchise fee. In the proposal it is from 7 to 15 percent of our water receipts from sale of water. Based on current rates that would be between \$2.2 and \$4.5 million annually. As our rates go up, that would go up correspondingly. The present value of a stream of money like that at \$2.2 million is about \$23 million dollars, and at \$4.5 is about \$50 million dollars. That's the approximate value of the present stream of revenue. How the city chooses to use this fund would be up to the city. If I was in the city's position, I would prefer a stream of money rather than some lump sum cash situation, but that's a city issue.

One of the charts in the handout shows where the water goes, and it basically shows that the City of Providence uses about 29 percent of the water, the other retail communities use about 23 percent, and the wholesalers use about 48 percent. So you can imagine that the revenue that we are receiving comes more or less along similar proportions, it's not exactly the same percentage.

What is the city gaining from continuing to operate as we are? I am saying to you, nothing. You no longer have any difference in rates, you have no chance of getting any tax revenues, and you have no chance of getting any franchise fees. If we were to become a municipal corporation, you would basically have all the things that you have and you could get these things. The only thing that you need to give up is that we will be responsible for our finances. We have a separate account now, but we can't write a check ourselves. The city writes a check for us. We cannot directly hire personnel, we have to do this in tandem with the city, and we cannot buy anything directly, we have to do it with tandem with the city. I have to be honest with you that in these three areas, we could move a lot faster than the city does, and we could still maintain similar controls by an expanded board. The recommendation is that there be an expanded board and that it include membership from the city, membership from the three retail communities and from the wholesale community, and the preliminary recommendation is that there would be five members from the city, one from each of the retail communities, which is North Providence, Cranston and Johnston, and one representing the wholesale communities. That's not necessarily set stone, a different form or a different arrangement could be made and that could be the prerogative of the City Council as to how they would feel comfortable with that kind of a mix. I am trying to say to you that this is not a new idea. This idea was introduced by Council people in 1986, I believe, but it wasn't the right time. In 1986 you had

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certain advantages that you don't have today. I propose to you that this is the right time, but of course it is your choice.

COUNCILMAN IGLIOZZI: Two questions. One, how did you come to the figure, and who would determine when and if that percentage would increase or decrease. Would that be vested? The city would send a bill saying that we are increasing your franchise fee this year to 25 percent and you would be stuck with it?

MR. RAFANOVIC: That's not how it would work. We are still regulated by the Public Utilities Commission and in order to receive any changes in rates, we are going to have to continue to put a filing before the commission. The commission does a very meticulous job of reviewing our requests. It is a lot more formal than budgetary review process.

COUNCILMAN IGLIOZZI: Who determines 7-15 percent? Where did that number come from?

MR. RAFANOVIC: I have put that number in the proposal based on what I feel are some reasonable limits.

COUNCILMAN IGLIOZZI: Separate and apart from when and if the PUC approves or disapproves your rate filing, does the Narragansett Electric Company send you a bill and they say your electric bill is "X", and you say you can't charge me "X" because the PUC is not going to approve my rate filing, and you stop paying Narragansett Electric....

MR. RAFANOVIC: No, I am trying to explain how the Public Utilities Commission determines rates.

COUNCILMAN IGLIOZZI: I know how they determine rates. I am saying our franchise fee that we send a bill to you has to be determined by us, not by the PUC and not by you.

MR. RAFANOVIC: That's why there are these limits, 7 to 15.

COUNCILMAN IGLIOZZI: You made up that number.

MR. RAFANOVIC: I made up that number because that's a number that is ...the upper end is close to stretching the limit of what is nationally considered. The lower end, I have looked at I have said, you have owned this system for 75 years and it's time that you get something, and less than 7 percent would not be satisfactory.

COUNCILMAN IGLIOZZI: My follow up question is it seems to me to get a franchise fee, if we were to ever consider this, has to be determined by us. Second, what we weigh that against is not what the nation average is, it's what the

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alternative privatization would be. If we could sell this and bring us a private management company that is going to give us 25 percent return, ....it's going to be what the market force is, not what is the national average, not what the PUC is going to prove their filing to you. Once we give up our control over the Water Supply Board, we are now going to send you a bill, and there is going to be a process by which we set a franchise fee, and whether you can get that approved with increased rate filings with the PUC there is going to be a problem with a whole set of different components to it. I don't know how this is written in the franchise fee, I would never agree to have our franchise fee tied to a -----.

MR. RAFANOVIC: I understand and I am not going to argue the case one way or another, I am going to say to you that franchise fees are normally a legislative action and they are either governed by state or by some municipal action. Most franchise fees in the State of Rhode Island are 3 percent, so it's better than double. But yes, I think those are issues that this body needs to consider. As far as privatizing is concerned, absolutely, that's an alternative. I am going to tell you that without any consideration. The only issue is what do you get? I am going to tell you what some of the downsides of a private company are. They can only get a return on investment on what the book value of the system is.

COUNCILMAN IGLIOZZI: I don't think the meeting today is to compare ----you are making a proposal that we go autonomous. It's going to be up to this body to seek out proposals from private companies to see whether or not that's a better alternative. I know that you have given us a schedule that you are looking for this ballot, but I personally think that there are a lot of questions that have to be answered and alternatives that have to be weighed long before we just tack on a 7 to 15 percent franchise fee and say that's what's going to be approved by the PUC. That bothers me, there's got to be a more legislation deliberation as to how franchise fees are determined. We can't look around the state and say what are the franchise fees. The difference between other types of franchises and this is that we really own it. We are not just giving you franchise, we are giving you assets to the tune of millions and millions of dollars.

MR. RAFANOVIC: There is a difference between what you want and what you can get.

COUNCIL PRESIDENT PRO TEMPORE FARGNOLI: The purpose of this meeting was to get as much information as possible because this Council certainly studies up on every issue and makes sure that they make a good decision.

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I have also invited to this meeting a former Council person who initially in 1986 introduced the autonomy for the Water Supply Board. So I asked him to upgrade his information and give us his views on why he in 1986 thought autonomy was the answer. Councilman Andrew Annaldo.

MR. ANNALDO: Thank you for inviting me. Evelyn was correct, it was in 1986 when I originally proposed that the system become autonomous. It was 10 years ago. I believe at that time we had talked about different forms of autonomy. One of the proposals that I was tossing around was a lease program where the system would be leased from the City of Providence to the corporate entity. And that entity would enter into a contract so some of those concerns that you had mentioned possibly could be overcome so that we don't get involved with rates from the PUC because as the Chief Engineer states, the PUC has ultimate authority on rates. I don't know if the City of Providence would want to get involved with rates. Maybe you would want to look at the lease programs and you could put CPI's in it and you could have the same result in this autonomy. I was on that Board for 8 years and saw a great deal of difficulty in the command of operations and the result of getting something done. That was one of the reasons why I had proposed that we need that autonomy because government is a political entity and the Water Supply Board system has certain needs and some of them are environmental. Things have changed. We have regulations in Washington that we have to follow, we had to upgrade our laboratory back in the '80's when I was on the Board, and we were very slow to move in that area. That Water System was built, it was oversized. It was built very well. A lot of times we build things, and we don't always run the operation to match up with what we built. I think we have seen some that today with the Convention Center. We have a beautiful Convention Center, but the operations of it were years behind what was going on, and you have seen what has happened to that. I think the opportunity is here to look at this now because we are not in trouble. The system is still very good. It's one of the best in the country. But it does need to do things in Capital improvements, and every decision that is made there should be made based on the water system and not the City government, not the bond indebtedness. There have been many studies that show that you could separate the system and the liability and the city would actually be enhanced in this financial stand, so maybe Mooney would consider that the City of Providence is in better shape. Especially after the fact that you are not giving up the equity position. You are only giving up operational control. I looked at the detail, and I have sat on the City Council, and I know how

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difficult it is to give up what you think is in the best interest of everybody, but we have to consider this entity that it supplies 60 percent of the water system of the State of Rhode Island and the people in this city have the foresight back in the '50's and '30's to build this magnificent system. I can tell you that we were remiss in acquisition of the watershed and we were amiss because we could never get to acquire. One of my proposals here states that the system itself should decide what it acquires so there is not erosion so that the salt and the sodium level...I can remember many times that the sodium level of the water system was very high so we had to stop the State of Rhode Island from salting the roads. These are the kids of things that are always occurring. I just think the separation of it could really make it operate to an optimum of what you need for that system. I can recall back in the '80's, we used to get \$1.3 million in lieu of real estate, and today we get \$600,000. You are going to see the PUC give less and less because they are not interested in what you own. They are only interested in their power authority and oversight in a utility. That's what it is, it's a utility. And it should operate as a utility. I know everything here, and what your best interest is and it's always your best interest of the public and the people as a whole. I would have concern that we don't create another beurocracy such as Narragansett Bay and I want to support that kind of takeover. I think it has to be controlled. It has to be regulated. Perhaps if this venue of revenues of 7-15 percent which is talked about is not the option, then maybe a lease is the option, so that's controlled what the revenues are. I just think it is something that should be considered. The Civic Center is somewhat the same operations. I know that we feel we are giving up something, but you really are not, because there are ways to do it where the equities are not changing. The primary goal in this has to be what's best to supply the Water Supply Board with the greatest amount of tools and financial ability available to do the best thing for the 600,000 people that it serves. If you go back to the '40's and '50's, the City of Providence had 250,000 people living in the city and it had great power and influence at the State House and that's why we had such great power and control over this system, but it's changed today. I know the things that will go in your mind on why you don't want to give it up, but done right there is no reason to maintain it, but there's a lot of reasons to transfer this autonomous authority for one sole purpose and direction so that the system runs for what the system needs and not for any other political reasons or anything else. That's what I wanted to say, and I know it's going to be a great debated issue, and there are going to be a lot things to consider, but if we can elevate it to the level

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then it's about what's best for the Water Supply System, it's future, the environmental concerns.

COUNCILMAN IGLIOZZI: It's interesting to hear what you are saying. What you are talking about is something different from what I hear is being considered. When you talk about leasing it, that would give the city government opportunity to review that lease at the end of each term and determine if it wasn't happy with the person or the entity that it was leasing to, it could get somebody else to lease it to. There has to be some way to constantly review that body. Not necessarily the Water Supply Board, but always leaving the City the option of leasing it to a private entity or another.

MR. ANNALDO: The debate on this is so important. I don't think that the Chief Engineer would disagree that there are options to consider and that there are three or four options to consider, and there's some that are better than others, but I think the debate should be how you get it done and on what forum.

COUNCILMAN IGLIOZZI: What you are saying is different than what we have before us.

MR. ANNALDO; It's different from a financial aspect, but it does the same thing for autonomy.

COUNCILMAN IGLIOZZI: Autonomy is misleading. Autonomy comes in many different forms. One that has a review process at the end of a lease. One that has a private entity involved. One that has a public entity involved. Before us is changing the Charter in such a way that there is no review process once it is done. I think I agree with you as far as getting control of the Water Supply Board in the framework of what's best in the Water Supply Board's system. We have all had that discussion. I have had discussions with the Chief and he has even indicated that there are several options to me, and ....I think the same kind of effort that went into this autonomy needs to be put into every single option, and the financial numbers need to be weighed very carefully as well as whether or not it's an end all solution. Once you make a decision if you are waiting to undue that decision after a review process, for instance going to privatization, if it leases the company for 5 years and they didn't do a good job, you could lease to another company, and you didn't foreclose the city from choosing a new vendor. What you are saying, lease, it's different from what we are talking about here. Look at the Providence Civic Center, it is an autonomous entity, but we don't have the asset that we can get anything from, yet we are forced because of our connection to subsidize. Really what should be happening now is the City of Providence



should own the Civic Center, and if there was a Civic Center Authority, whether it was a private entity or a public entity, we should be leasing the building. The City of Providence is paying for that building for over 20 years. I wouldn't want the same thing that happened to the Civic Center happen to the Water Supply Board.

MR. ANNALDO: So your view is that you are open on this.

COUNCILMAN IGLIOZZI: Yes.

COUNCIL PRESIDENT PRO TEMPORE FARGNOLI: The specifics have to be spelled out.

MR. ANNALDO: No one has a crystal ball. This was an idea that I had in 1986. I believed in it. I know the difficulty that we went through at the Water Supply Board. I know that the system has now many more millions available to it for Capital Improvement. When I was there, we didn't even have a Capital Improvement budget. This is how important it is to bring it to level of talking about if you could agree with the concept that it should be done, then debate the details. Because if you can't agree on it, then it's not going to happen.

COUNCILWOMAN NOLAN: Not this council. We don't agree and then debate the details.

COUNCILMAN IGLIOZZI: I appreciate your coming down. It's important for the Council to go through this process, but we are talking about several different options. We have only been getting one option presented to us. There are other options that need to be financially ferreted out here. That's why I get nervous and I get concerned when presented with this calendar of what we are supposed to meet for this....

MR. RAFANOVIC: I would just like to add one element to your alternatives. What about alternatives you choose to work on. In the end, they cannot be in conflict with the Charter because the Charter governs. Right now the Charter restricts you from basically looking to the alternatives, but it sets out the frame work in which you can do that and the freedom of operations right now are specified in the Charter and in some shape or matter, you will need to deal with these Charter issues, regardless of whether it's a municipal corporation or some lease arrangement because these things are right now your governing border.

COUNCILMAN GLAVIN: The other things that I noted when I read the study, I noticed a lot of points that they made in some cases are management situations. The thing that came to my mind is that maybe as this debate continues we should go point by point and we have to determine how much of this can be accomplished within the present structure and how much of it can't be

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accomplished in the present structure and if what can't be accomplished in the present structure is so important to the future of the Water Supply Board, then I think we look at how we want to change it from a Charter perspective because if we are really talking about personnel flexibility, ability to incur debt that would be directly funded through revenues generated by the Water Supply Board, maybe it doesn't have to go this way. I would think it should be a straight forward type of management type of thing. Lack of Capital Improvement plan that they noted in here. I am sure if anyone has taken a look at this. While the recommendation was to consider some type of autonomy, the points that they highlighted, aren't in support of that concept. The case wasn't as strong as I read this.

COUNCILWOMAN NOLAN: The one thing that bounced out at me is under Amend the City Charter, Section 2, ...."with the approval of the Commission, the city could levy a franchise tax amounting to a percentage of gross revenues to compensate for the use of public streets and ....", so it's clearly stating that the PUC has to approve that franchise. Why would they approve this if they are not approving for gas, electric, etc. We would love to get franchise fees from all of them. Secondly, in the other summary sheet, it says "probable" real estate taxes. That's very ambiguous.

MR. RAFANOVIC: Because I can't guarantee it.

COUNCILWOMAN NOLAN: I have a real problem with taking control out of the Board of Contract and Supply. It really and truly scares me. I have to say it, the no residency requirement, I could never go with it.

COUNCILWOMAN DIRUZZO: The Water Supply Board Task Force has looked at this and we passed it back to the Ordinance Committee with no recommendation because we do have a lot of questions, but the other thing is I think we need more time to look at it as well because I know from questioning the director that the Water Supply Board is not ready to take this autonomy on at this present time. It couldn't possibly be ready, although we are talking about that you want to put it on the ballot. The labor issues have not been addressed. We have to look at....The Charter amendment includes negotiations, for instance, would now be taken up by the director who would be in charge. It would be a very powerful position because now the director is in complete control of the Water Supply Board along with the proposed 9 member Water Supply Board. I am not so sure how you take the operation as you have it now with regard to the personnel. The Mayor and the administration would not be involved in the negotiations, which the PUC wants and the study recommends. All politics would be out of it, therefore

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the director would then be the chief negotiator. I don't know how you change that and he doesn't know that either. Going from the union, the employees that are represented by Local 1033 at the present time. How do you withdraw when an agency changes ownership. Whatever rights and benefits that the employees have at the present time, they will renegotiate with a different union. There are many questions that need to be addressed. I don't think that the director is ready to take that on at the present time. If we were to recommend autonomy, and it were placed on the ballot in November, it will be a rush to get this done. It's hardly ready for that. That's one question. The other thing is the taxes, the returns, we are not so sure you receive any taxes at the time. We had the Internal Auditor review it and he gave us a report, and he told us that we have....we have questions with regard why the City would expect to get taxes from the Water Supply Board when we never got any taxes from the Civic Center, so that's a question that we would have to look at much deeper than we are looking at right now. Guarantee on the franchise. They also talk about the summary of changes includes no residency requirement. That's no big deal compared to the others. The other thing is the purchasing would be done... Richard's problems and concerns are that he wants the hiring to be done by the Water Supply Board independently. We have all expressed concerns with regard to that. The fact that purchasing. We would like purchasing to be done without having to go before the Board of Contract and Supply because there is a lot of time there, and sometimes they need things and they can't get them quickly.

MR. RAFANOVIC: There was control of the finances, control of the personnel, our ability to do purchasing in a more efficient and expeditious manner. Those are the three main issues. When you are finished, I don't want to say that I have answers for everything, but I will summarize and fill in what questions that have been raised.

COUNCILWOMAN DIRUZZO: What Councilman Glavin mentioned with regard to what was received, it occurs to me more with management situation, and I have expressed my opinion a number of times, but we as a City Council are very concerned for a long time. The RIPEC Study was done and they brought back to this Council many of the points that were made in this Management Study that was done by this consultant group, which cost the taxpayers \$250,000. The rate payers. That's why the Task Force wanted the opportunity to review it. I will express this that I want to know what autonomy is going to do with improving the management of the Water Supply Board. If they

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are able to improve the management whether they are autonomous or not, they are going to improve it. That means very little to me with regard to management. I understand Richard's position, but I don't feel that we are ready to take that leap.

MR. ANNALDO: You are not wrong. How often do we hear that there's major mergers in corporate America and then all of a sudden it doesn't happen. All I'm saying is that is when the level of concern here that we should be talking about the detail. If you believe in the concept in how to get it done. You have to first believe that it should be done, and this corporate authority to be able to float bonds is a good thing. It's a better bond rating. Bond ratings across the country usually rate bonds on water systems better than municipalities. Taking away the liability from the corporation being the City of Providence enhances our ability to borrow also and it's better interest and it's less interest the taxpayers have to pay out. So these things are engaging. Those concerns I have also, but I think the debate is greater than that. You cannot let what happened in the '70's and '80's in the Water Supply system in some future port and time. That's what my concern is. You need bonding authority.

COUNCILWOMAN NOLAN: Everybody knows that I am not a great fan of the Narragansett Bay Commission, but what will stop the Water Supply Board...Narragansett Bay has improved the sewer system which was in disaster, but look at where the rates have gone. And look at where the rates are going to go when they do this little \$500 million dollar tunnel project they are going to do. They are going to go sky high. What's going to stop the water supply rates from going just as high? I have real concerns about that. I don't know even if now if we have any control over that, but it scares me.

COUNCIL PRESIDENT PRO TEMPORE FARGNOLI: We also have with us Mr. Milano from the Public Utilities Commission. If you have any questions you may want to direct to him, you may.

MR. MILANO: I would be glad to answer any questions you have. I just want to say that the Commission is in strong support that you move toward autonomy, and we have worked with the Task Force and covered a lot of these points. The move toward autonomy was the first recommendation of the Management Audit. Out of 77 recommendations, it was the primary recommendation. So this group of technical experts felt very strongly that this was a very good move for the city as well as for the rate payers. We strongly support it.

COUNCILMAN IGLIOZZI: I have had very little contact with the PUC and I know we have been very sensitive to the fact that the PUC is trying to get the best service to the rate payers at the right price. It's interesting when you look at totally other types of utilities, there was a recent serious controversy at Narragansett Electric or the Gas Company where they were cutting or laying off people and the Chief Operating Officer was getting a million dollar raise. That's what autonomy does. It takes that kind of accountability from people that are elected who have to answer the calls to the constituents and the rate payers and say the reason why the rates go up, we don't control that anymore. I agree with you, autonomy is good if you are willing to make that connection, but if we are going to make that disconnection, it's got to be either one with either some sort of ability to get the investment that this city has done, unlike we have been unable to get with the Civic Center. I don't know what the Civic Center cost when it was built, but we never got any of that money back. We have invested hundreds of millions of dollars here. PUC says you made that investment, step aside, we know what's best for the city. You may or may not, and ultimately that's your job, but I'm not so sure that the people in Providence who pay the tab on this place, whether it was when they had 250,000 or now that they have 160,000 people, they don't deserve any less value for their money.

MR. MILANO: One of the things is understanding the expansion of the system and let's say the municipalities ....whether you take the whole value of the system. Providence is paid for by all the rate payers. If you look at the revenues for the last 10 years, the last three years it's gone from \$17 million to an authorized value of about \$30 million through rate payers of the Water Supply Board, and the Commission has been supportive of doing the reconstruction work that is necessary and funded a great deal of improvement of the system from direct payment. It's not through bonding, it's considerable means going on in time. Franchise fees are a consideration that will be made through the Commission. I can't give you a valuation of the Commission on this because that's not mine to give.

COUNCILMAN IGLIOZZI: Those are the kind of guarantees that this body needs ahead of time.

MR. MILANO: If you were a utility that proposed to spend ex millions of dollars because you thought it was a good idea, the Commission may only allow you a portion of that, and the rest you will have to take from your shareholders. I think if you look at the gas decision, you will find out portions of those salaries

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came from the shareholders, not the rate payers. The Commission did work that way, but it has to go on a just and reasonable basis for any decision it makes. In a very simplistic form, rates are reflective of the investment and the operating cost of the utility.

COUNCILMAN DELUCA: We had to give the Water Supply Board \$4.5 million dollars in order for them to pay their expenses. You just explained that all of the last 10 years, the repairs and expansions have been paid by balance of state.

MR. MILANO: The rate payers. All the people who pay for the water ....

COUNCILMAN DELUCA: All the people, not just Providence. So why was Providence obligated to keep this going for \$4.5 million dollars. Why didn't all the rate payers kick in.....

MR. MILANO: That's covered in a great deal of detail in the rate cases.

COUNCILMAN DELUCA: It's simple. We can't make a profit, but if they need money, we have to give it them, but if they want to give it back to us, we can't.

MR. MILANO: I can't recall all the details, but there were questions on those expenses relative to their properness as far as the operation of the Water Board at that time. Subsequently there have been agreements that helped refinance the city. You have to go back to the cost cause as far as it being a reasonable cost and that was the thing being questioned. Any more than any other utility that would take on a debt that's improper.

COUNCILMAN DELUCA: What was some of that logic behind that number one recommendation?

COUNCILWOMAN DIRUZZO: I gave a summary.

MR. MILANO: It's under key recommendations. They have recommendation one, two.

COUNCILMAN DELUCA: I just want you to recall some of the highlights of the logic. I am not looking for a reading of each reason.

MR. MILANO: You wanted to operate as a stand alone business where it has it's own management, it makes it's own decisions, it hires it's own people, it pays salaries commensurate with responsibility. You do all the things that a good management would do operating a business and you don't have some of the multiple interests that are in the operation of the city, which even in the operation of the workforce, you have people and when you try to make a union ruling that covers a large group, it becomes more difficult because there are some functions that are unique to a water utility that had nothing to do with the operation of a

municipal city. There's value on both sides. There's value to the city that they don't have to become involved with that and develop the expertise. You had the expertise on board with the Providence Water Supply and the management team that is there now. You should make use of it, you should allow them to operate and to operate best when you are in a decision making mode. Not that you have to refer everything...

COUNCILWOMAN DIRUZZO: It does say that although this study is recommending autonomy, it is saying that the Water Supply Board has to be willing to be accept the many financial burdens and the operational responsibilities associated with autonomy without relying on the City.

COUNCILMAN DELUCA: I understand that other water municipalities around the country have taken the issue of profit above and beyond operating expenses to court and have won as high as 18 percent rate of return beyond the operating expenses. I have the documentation of some of those cases in my office. I would consider that an option.

MR. RAFANOVIC: Without becoming argumentative, those were municipalities that were not regulated by a commission. Those were court cases that dealt with a municipality and the outlining territory that they were supplying with water. Not every state regulates municipal utilities the way that Rhode Island does. But Rhode Island basically says if you serve outside of your jurisdictional limits, whether you are an investor in a utility, or a municipal utility, you have to be regulated by the commission so that there cannot be abusive rate charging by an agency of the others who are basically limited by a monopoly. Those are the cases.

COUNCILWOMAN NOLAN: Back when our forefathers decided to start this water supply company, I think it was very nice of Providence considering that it does support 60 percent of the State of Rhode Island. In one breath you are telling us, in fact when you explained that, you telling us we should run the Water Supply Board like a business and in the next breath you are saying we can't make a profit on it. So really we can't run it like a business the way things stand now. Also, the PUC doesn't always have the best interest of Providence at heart. I have seen that time and time whenever we talk about the Water Supply Board. You have been very favorably on our side when I talk about the Narraganset Bay Commission when people come in and they protest about some of the things that they are doing. But whenever the Water Supply Board comes up, everybody gets

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all excited. Why is it we are treated differently from all other utilities. I really believe we are treated differently.

COUNCILWOMAN DIRUZZO: The perfect example of that is when the request went in that the Providence rate payers pay less money for their water than the others who live outside of the city, and they were denied that privilege.

COUNCILMAN GLAVIN: I think that the Providence Water Supply System is not unlike what happened throughout America in the '60's and '70's when infrastructure and reinvestment and an attempt to keep taxes and rates low was the order of the day. It happened all across the country, it was not unique in Providence. All across the country people were trying to scramble to make up for that lost investment. What I would like to suggest is that I would like to go point by point and look these points and see how we can achieve and then determine what is the best vehicle to achieve at. I think that is the most intelligent way to go about it.

COUNCILMAN IGLIOZZI: I wanted to say personally for Mr. Milano for coming down here. I don't think the PUC has an ax to grind with Providence at all. Last year when the Narragansett Bay Commission was attempting to change legislation to take the Water Supply Board away from Providence, that was autonomy proposed, and everybody who is in this room lined up to go up to the legislature and stop that political dynamics from happening, and now we are back to autonomy. So it's not just autonomy. I don't think the PUC necessarily wants autonomy this way. They just want autonomy some way.

MR. MILANO: We have been keeping them informed of the progress we have made in the Task Force. Even though they haven't ruled on it, they still got a look at the details. I think they would look at any suggestion, but this was a well thought out suggestion that we could support to the Commission.

COUNCILMAN IGLIOZZI: Let me say this in closure, as Chairman of the Ordinance Commission, we will conduct a detailed hearing to determine all the alternatives in an effort to try to live up to the expectations of the PUC, but I tell you, I personally would not want to see another Narragansett Bay Commission. I think you and the PUC have known that they have gotten out of control and if it wasn't their close link to the State House, the people on the PUC might not be as easy going with regard to that agency. I think that things might change, so I think we have to be very careful because we weighing three things. We are weighing what's best for the rate payers, but also what's best, we are the "gate keepers", if you will, of the multi-million investment that this City of Providence taxpayers



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put into that place. I think we have to make, with all due respect to you and this recommendation, that those people get their value for that money if autonomy is the way we are going to go. I don't know about picking out numbers out of the sky, but maybe a reasonable rate of return based upon profits might be more appropriate.

On motion of Councilman Igliazzi, seconded by Councilman DeLuca, it is voted to adjourn the meeting at 7:35 o'clock p.m.

  
CITY CLERK

  
ASSISTANT CLERK