



**CITY OF LODI
COUNCIL COMMUNICATION**

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AGENDA TITLE: Consider Waiving CPI Increase for Water Fund for Fiscal Year 2009/10 and/or Amend Water Rate Schedule as Approved by Council on April 16,2008

MEETING DATE: May 20,2009

PREPARED BY: Public Works Director

RECOMMENDED ACTION: Consider waiving the CPI increase for the Water Fund for Fiscal Year 2009/10 and maintain the water rate schedule as approved by Council on April 16, 2008. (Alternative - direct staff to prepare resolution to amend the water rate schedule as approved by Council on April 16,2008.)

BACKGROUND INFORMATION: Under normal circumstances, a recommendation for a Consumer Price Index (CPI) adjustment would be brought to the City Council at this time. However, uncertainties relative to funding of future activities within the utility including but not limited to PCE cleanup, accelerated water meter installation, and infrastructure replacement suggest a rate increase nor decrease may not be justifiable. An increase in the water rate schedule at this time would require a Proposition 218 validation procedure. A rate decrease can take place by resolution of the City Council.

Over the period from 2002 to the present, the City Council has adopted a series of water-rate increases required to fund specific activities within the utility. Background information on each of these rate increases is provided below and a summary is presented in Exhibit A.

January 2002 The first of two 25-percent rate increases was put into effect to fund the water infrastructure replacement program. This rate has been adjusted using the Consumer Price Index for the past four years and is currently \$7.83 for a three-bedroom home.

May 2004 A 35-percent increase was put into effect to fund the Woodbridge Irrigation District (WID) water purchase and to fund ongoing PCE/TCE litigation-related expenses. Including CPI adjustments, this component of the rate is currently \$7.34 for a three-bedroom home and is divided \$4.12 for WID water purchase and \$3.22 for PCE/TCE expenses. The PCE/TCE component of the rate increase was also added to the wastewater rates at the same time. Resolution No. 2004-77 setting these new rates is provided as Exhibit B. Please note in Section 4 it states, "the rates associated with the Environmental Abatement (PCE/TCE) Program shall sunset in 2014."

January 2006 The first of three \$3.50 increases was put into effect to fund the PCE/TCE Cleanup Program, and this component of the rate is currently \$10.90 for a three-bedroom home. After reviewing the background report in which it assumed legal expenses would end in fiscal year 2008, it is clear the revenue from 2004 PCE/TCE increase was utilized to minimize this 2006 rate increase.

A breakdown of the current flat rate for a three-bedroom home into components of Base Rate, WID Water Purchase, Infrastructure Replacement and PCE/TCE Clean Up is provided in Exhibit C. Justifications for maintaining the current rates are provided below.

APPROVED:


Blair King, City Manager

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The Base, WID Water Purchase, and Infrastructure Replacement components of the rate comprise almost 75 percent of the total rate. The Infrastructure Replacement funds are at minimum levels to fund the replacement of old pipes and water services in the City in order to meet the 2026 State mandate to install water meters on all residential services. Also, as the City transitions to usage-based rates, there needs to be a reserves buffer to accommodate unknown revenue reductions resulting from user conservation.

The City is just entering the PCE/TCE cleanup phase and has yet to receive State approval of any required elements of the cleanup plan. Approval of three milestone documents is required over the next couple years. The Engineering Evaluation and Cost Analysis (EECA) and the Clean Up and Abatement Order (CAO) were submitted this year, and we are awaiting State comments. The final milestone is the Remedial Action Plan (RAP) and this will be started after approval of the EECA and CAO. State approval of the RAP is anticipated approximately 12 months after starting. Following State approval of the RAP, the City's cleanup requirements will be fully defined and documented, but until that happens there is insufficient new information relative to State cleanup requirements to set aside any portion of the 2006 rate action by the City Council.

In summary, waiving of the CPI adjustment at this time is predicated upon wide-ranging uncertainties over the funding requirements of future activities within the water utility and the lack of strong justification to either increase or decrease the rates. Any increase in the rate would trigger a Proposition 218 procedure. Any decrease is not justifiable due to the lack of any new information supporting a retreat from past City Council action.

FISCAL IMPACT: Deferral of the annual adjustment will reduce budgeted Fiscal Year 2009/10 revenues by 3 percent.

FUNDING AVAILABLE: Not applicable.



F. Wally Sappelin
Public Works Director

FWS/pmf

Attachments

Exhibit A

Water Rate Increase History

- July-08 3.84% CPI based
- July-07 3.44% CPI based; plus \$3.50 PCE/TCE final charge (total \$10.50)
- July-06 1.95% CPI based; plus \$3.50 PCE/TCE second charge (total \$7.00)
- January-06 \$3.50 PCE/TCE first charge
- July-05 2.2% CPI based
- May-04 35 % WID purchase and PCE/TCE expenses
- July-02 25% Infrastructure replacement program second step
- January-02 25% Infrastructure replacement program first step

RESOLUTION NO. 2004-77

A RESOLUTION OF THE LODI CITY
COUNCIL ESTABLISHING WATER SUPPLY,
WASTEWATER DISPOSAL, AND REFUSE
COLLECTION SERVICES RATES

WHEREAS, the Council of the City of Lodi finds as follows:

1. The City of Lodi provides water supply, wastewater disposal, and refuse collection services to its citizens;
2. The City charges customers of these utilities a charge to fund the on-going operation and maintenance of the water supply, wastewater disposal, and refuse collection services;
3. The City Public Works Director and staff have prepared a plan outlining the costs of operating these utilities, and the City Public Works Director has recommended increases to the current water, wastewater disposal, and refuse collection rates;
4. The Council directed that notice of a hearing thereon be given to the property owners in the City, with such notice to include, among other matters, the information required to be included pursuant to California law;
5. Such notice has been mailed to those property owners, at least 45 days before the hearing, as evidenced by a Certificate of Mailing on file with the City Clerk;
6. The Council also directed that notice of a hearing thereon be given with such notice to include the information required to be included pursuant to Government Code section 54354.5;
7. Such notice has been published once each week for two weeks, in accordance with Government Code section 54354.5, in the Lodi News-Sentinel as evidenced by Proofs of Publication on file with the City Clerk;
8. On April 27, 2004, the City Council conducted said public hearing, at which time the City Council heard all objections and protests to the proposed increased rates;
9. Written protests against the proposed increased rates were not presented by a majority of the property owners; and
10. The proposed water, wastewater disposal, and refuse collection service rates are not discriminatory or excessive, are sufficient under Government Code section 54515, comply with the provisions or covenants of any outstanding revenue bonds of the City payable from the revenues of the respective enterprise, comply with the provisions of Title 5, Division 2, Chapter 6 of the Government Code, and are in compliance with all other applicable law.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lodi as follows:

Section 1. Recitals. The foregoing recitals are true and correct.

Section 2. Levy of Charaes. Pursuant to Sections 13.08.010, 13.12.240, and 13.16.110 of the Lodi Municipal Code, the increased water, wastewater disposal, and refuse collection service rates as attached hereto as Exhibits "A, B & C are hereby approved.

Section 3. Subsequent Adjustments. The rates shown in Exhibits A, B, & C may be adjusted periodically by resolution, with Council approval following a public hearing, in an amount not to exceed the percentage change in the Consumer Price Index since the previous adjustment. The index used shall be the unadjusted San Francisco - All Urban Consumers Index as published by the United States Bureau of Labor Statistics or other index as approved by the City Council by resolution.

Section 4. Termination/Sunset Rate. The portion of attached rates representing an increase from immediately proceeding rates related to the 1) water purchase contract shall sunset in 2044, 2) rates related to the White Slough Water Pollution Control Facility improvements shall sunset in 2044, and 3) the rates associated with the Environmental Abatement (PCE/TCE) Program shall sunset in 2014.

Section 5. Effective Date. This resolution shall take effect from and after the date of its passage.

Dated: April 27, 2004

I hereby certify that Resolution No. 2004-77 was passed and adopted by the City Council of the City of Lodi in a special meeting held April 27, 2004, by the following vote:

AYES: COUNCIL MEMBERS - Hitchcock, Howard, Land, and Mayor Hansen
NOES: COUNCIL MEMBERS - Beckman
ABSENT: COUNCIL MEMBERS - None
ABSTAIN: COUNCIL MEMBERS - None



SUSAN J. BLACKSTON
City Clerk

Table A: Water Utility

	<u>Present Rate</u>	<u>May-04</u>
Residential Flat Rate (per month)		
Single Family Unit (one bedroom)	\$13.51	\$18.24
(two bedrooms)	\$16.22	\$21.90
(three bedrooms)	\$19.45	\$26.26
(four bedrooms)	\$23.36	\$31.54
(five bedrooms)	\$28.04	\$37.85
(six bedrooms)	\$33.64	\$45.41
(seven bedrooms)	\$40.35	\$54.47
Multiple Family Unit (one bedroom)	\$11.60	\$15.66
(two bedrooms)	\$13.91	\$18.78
(three bedrooms)	\$16.69	\$22.53
		+ 20% for ea. add'l bedroom
Commercial/Industrial Flat Rate	varies	add 35%
(Existing accounts only. New accounts are metered.)		
Metered Rate	\$0.524 per 100 cu. ft.	\$0.707
	approx. \$0.70 per 1,000 gallons	approx. \$0.91 per 1,000 gallons
plus monthly base charge:	\$11.43 ¾" meter	\$15.43
	\$17.14 1" meter	\$23.14
	\$22.85 1½" meter	\$30.85
	\$28.58 2" meter	\$38.58
	\$40.00 3" meter	\$54.00
	\$51.43 4" meter	\$69.43
	\$74.29 6" meter	\$100.29
	\$97.16 8" meter	\$131.17
	n/a 10" meter	\$762.04
Construction Water Charges:	\$0.524 per 100 cu. ft.	\$0.707

Note: Charges are total, including infrastructure replacement charge, which will remain the same and increase will be shown in the service charge.

Exhibit C

Water Rate Summary Three-Bedroom Home

Rate Component	Amount
Base Rate	\$17.43
WID Water	\$4.12
Infrastructure Replacement	\$7.83
PCE/TCE Clean Up	\$10.90
Total	\$40.28

The City of Lodi
**Public Works
Engineering**



Amend Water Rate Schedule



Recommended Action

Waive CPI Increase



Alternatives

- Implement 3.0% CPI Increase
- Other



Water Fund

Operations Cash Flow Summary

(Ending March 31, 2009)

Revenue	
Sales	4,824,238
Other (interest, rent, misc.)	127,647
Total Revenues	4,951,885
Expenses	
Operating	2,905,396
Debt Service	43,320
Cost of Services Payment To General Fund	795,092
Total Expenses	3,743,808
Net Increase in Undesignated Reserves	1,208,077



Water Funds Cash Balances (Ending March 31, 2009)

Operating (180)	507,522
Utility Capital / Infrastructure Replacement (181)	11,185,288
IMF (182)	(358,963)
PCE/TCE Settlements	14,661,592
PCE/TCE Rates (185)	2,255,511
Total	28,250,950



History

Date	Base	Infr Repl	PCE	WID	Total
Jan-02	\$12.45	\$3.11			\$15.56
Jul-02	\$12.45	\$7.00			\$19.45
May-04	\$19.26	\$7.00		\$4.12	\$26.26
Jul-05	\$23.43	\$7.15		\$4.12	\$30.58
Jan-06	\$15.93	\$7.15	\$3.50	\$4.12	\$26.58
Jul-06	\$20.06	\$7.29	\$7.00	\$4.12	\$34.35
Jul-07	\$20.75	\$7.54	\$10.50	\$4.12	\$38.79
Jul-08	\$21.55	\$7.83	\$10.90	\$4.12	\$40.28
Jul-09	\$22.20	\$8.06	\$11.23	\$4.20	\$41.49



Questions?