

**CITY OF LODI  
INFORMAL INFORMATIONAL MEETING  
"SHIRTSLEEVE" SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, JUNE 6, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, June 6, 2006, commencing at 7:01 a.m.

**A. ROLL CALL**

Present: Council Members – Beckman, Hansen, Johnson, Mounce, and Mayor Hitchcock  
Absent: Council Members – None  
Also Present: City Manager King, Deputy City Attorney Magdich, and Interim City Clerk Perrin

**B. TOPIC(S)**

B-1 "Continued presentation of the fiscal year 2006-07 recommended draft budget"

With the aid of a PowerPoint presentation (filed), Electric Utility Director Morrow reported that the fiscal year 2006-07 budget is balanced, the sales forecast is updated, which indicates that power costs will be lower, and the costs associated with normal capital have been included in the rates in order to avoid utilizing bond proceeds.

Council Member Beckman questioned how the capital costs are allocated through the rates (i.e. on a per kilowatt or a per customer basis), to which Mr. Morrow responded that they are paid from regular retail revenues equally from all rate classes. Electric Utility staff will be reporting to Council at a future Shirtsleeve Session regarding capital costs for line extensions, new development, and for cost recovery.

Mr. Morrow reviewed the breakdown of costs for administration, planning, operations, and construction and pointed out that capital costs were rolled into those figures, which explains the zero balance in capital for 2006-07 as compared to \$1.5 million in the current budget year. The total net effect between the two budget years is an increase of \$73,754.

In response to Council Member Hansen, Mr. Morrow explained that the increase in debt service was a result of the variable cost element in the swap agreement and the rising interest rates. Mr. Hansen stated that the City was at a fixed rate until the previous administration changed it to a variable rate, for which the City is now paying the price.

Deputy City Manager Krueger explained that there were several swaps for different purposes, which included changing from a fixed to variable rate as well as hedges that were intended to protect the City should variable rates increase too high. He noted that, on one of the swaps, the City received \$4.3 million in fiscal year 2003-04.

In response to Council Member Hansen, Mr. Krueger stated that he would provide Council with information on what the City was paying on the fixed rate, what it is paying now on the variable rate, and what the ceiling is.

Mr. King reported that the City's debt service payments for fiscal year 2006-07 for Electric Utility will be in excess of \$6 million and it is calculated that fiscal years 2007-08 and 2008-09 will increase to \$7 million.

Council Member Hansen commented that a rational approach would be to lock in at a fixed interest rate so as not to be subject to the volatility of the economy. The \$4.3 million received as a result of the change to the lower variable rate was a short-term cash infusion, but the risk was paying a higher price down the road.

Mr. Morrow reported that the capital budget includes the major capital projects that will be paid from bond proceeds. Those projects include the scaled-back Killelea Substation and completion of the extension of the west side 60kV line, which will connect to a new substation to the west. Net revenue for this current year is \$6 million and is projected to be \$13 million in 2006-07, which will cover the debt service and in-lieu of transfer. The 2006-07 budget moves the Utility from a negative \$7 million to a balanced budget. Retail revenues projected for the next fiscal year are \$65 million, which is a \$7 million, or 12%, increase. This figure includes a full year of the rate increases; whereas, in fiscal year 2005-06, those revenues were realized for a partial year. On the power supply side, the projected net income for fiscal year 2005-06 is on target.

Lodi's budget amount for the Northern California Power Agency (NCPA) for next year is \$41.9 million, which represents a 5% decrease. NCPA has four categories of costs: 1) generation, which includes the power plants it operates and maintains for the members; 2) transmission, which includes costs associated with the Transmission Agency of Northern California and the California Independent System Operator (CAISO); 3) management services, which includes legislative and regulatory, power supply management, planning, and its system operations; and 4) third-party revenue, which accounts for reductions in cost for sales that NCPA makes. NCPA's total budget for fiscal year 2006-07 is \$296 million, which is a decrease of 1.2%. After deducting \$30 million from sales in the third-party revenue category, the net bill to NCPA members is \$266 million, for which Lodi would pay its proportional share. NCPA is anticipating a significant drop next year as some of its debt service matures. In 2011, the geothermal, transmission, and combustion turbine bonds all pay off.

Mayor Pro Tempore Johnson questioned whether NCPA had a history of refinancing existing projects to fund future capital projects, to which Mr. Morrow responded that it does not; however, he believed that NCPA would take advantage of refinancing if there were favorable market conditions.

There are 167 full-time employees at NCPA, with the bulk of the employees in the power management side. The NCPA member cost forecast indicates a trend that costs have increased from last year and, for most members, it reflects an impact of the market and open position.

In response to Mayor Hitchcock, Mr. Morrow stated that Roseville is moving outside of the NCPA pool and will manage its own resources by either contracting the service out or hiring additional staff. The primary reason behind Roseville's decision is the issue on the control area. It has moved out of the CAISO controlled area and into the Western/Sacramento Municipal Utility District (SMUD) control area.

City Manager King added that the significance of Roseville stepping out of NCPA is that the fixed costs will be spread out over the remaining base and that costs will increase. NCPA's response has been to bring Bay Area Rapid Transit (BART) in as a member to replace Roseville. The city of Roseville will remain a part of NCPA on joint action and lobbying issues but not for power purchases.

Mayor Pro Tempore Johnson stated that the Roseville situation highlights the need for the City's interconnection to Western and he questioned, with the City's financial position, how that project could be moved to the forefront.

Mr. Morrow replied that the goal is to bring the transmission line project forward in conjunction with the Lodi project at White Slough, which is anticipated for 2009-10. It appears that the Lodi project now has a higher probability due to the fact that the Resource 500 project is deferred. There may be some ancillary benefits to other NCPA participants in that project, which could provide some financial support.

Council Member Hansen reported that significant improvement has been made at NCPA to create a policy to deal with member agencies leaving the joint powers authority. The plan is that members would provide a seven-year notice in order to allow time to make the necessary adjustments and to lessen the impact among the remaining members.

Mr. Morrow reported that NCPA has a concept of what each member should have in reserves, which can be stored at NCPA in its general operating reserve (GOR) or with the member agency directly. Because of the City's current financial condition, the GOR will be lower than what NCPA prefers. There are only two sources for the GOR: one is the difference between NCPA's estimated bill and the actual costs and the second is special payments received by NCPA for settlements of rate cases or lawsuits.

Mr. Krueger reported that the balance of the GOR in 1996-97 was \$18 million; earlier this fiscal year, it was \$700,000; and the current balance is \$2.5 million. In 1996, the GOR amount was not shown in the City's records; however, it is presently reflected in the City's Comprehensive Annual Financial Report (CAFR) with the amount updated each month upon receipt of a statement from NCPA.

Mr. Morrow added that the City will utilize a portion of the GOR this year to balance the budget; however, there is no plan to spend the GOR next year so that it may rebuild. The \$5 million reserve level is not reflective of what the Utility should have in total reserves because an additional amount should be included for working capital.

In response to Mayor Pro Tempore Johnson, Mr. Morrow explained that the GOR typically grows an average of \$70,000 to \$80,000 per month, or \$1 million annually.

Mr. Morrow reported that the charter for the CAISO is to monitor and operate the transmission system and its costs for doing so have grown dramatically from \$500,000 a month in 2003-04 to \$2.5 million a month starting in 2005. CAISO has instituted a new transmission service charge methodology for transmission from third parties. There is a new trend in the Federal Energy Regulatory Commission to allow higher rates of return for transmission, over which the City has very little control. The potential to see future increases does still exist, which is another reason to have a healthy reserve level.

In October 2005, the City purchased 115,070 megawatt hours at \$100 per megawatt hour for a total amount of \$11 million. Had the City purchased the power in April or May 2005, it would have saved \$4 million. The high point of the market came in December 2005, and had the City waited, it would have cost an additional \$1 million. Mr. Morrow demonstrated how vastly the market can fluctuate.

Council Member Hansen stated that the Council and City Manager were led to believe that the power had been purchased at the lower prices in April when they were not, which caused the need to make the purchase in October.

Mr. Morrow reported that debt service is projected to increase \$500,000, or 8%. The Electric Utility Department has three divisions: construction and maintenance; business, planning, and resources; and engineering and operations. The current staffing level is 45 full-time employees with 19 mandated vacancies. In addition, Electric Utility employs seven contract employees, three of which Mr. Morrow would like to transition into permanent positions: one energy specialist, one utility equipment operator, and one drafting technician. The funds to accomplish this are incorporated in the budget. The remaining contract employees (i.e. two meter readers and two estimators) are on a part-time basis, and Mr. Morrow recommended that those positions continue in that capacity.

In response to Council Member Hansen, Mr. Morrow stated that the two manager positions for the business, planning, and resources division and the engineering and operations division are not currently filled and funds have been budgeted for next year. Mr. Morrow reminded Council that Electric Utility absorbed seven additional positions for collections and meter reading that previously reported to the Finance Department.

City Manager King stated that, as part of tracking the history of the position control in Electric Utility, it was discovered that no regular position had been filled through Human Resources since 1996. It was speculated that those positions were filled as contract employees by unilateral action of the Electric Utility Director in order to bypass established City policies and procedures. Staff is now in the process of inventorying the positions to see which have gone through the approval process, in order to give everyone an equal opportunity to participate in the application and selection process.

Mr. Morrow reported that currently the City is rated BBB+ with a negative outlook that came out of last year's energy crisis. The core issue is that the City will not meet its liquidity target of \$3 million. Staff recently met with Fitch, one of the City's bond rating agencies, to convey this information, and it is unknown at this time what the outcome will be.

Mr. Krueger reported that the City is at the conclusion of a systematic reduction of resources in the Electric Utility Department. Staff anticipates having \$1.7 million in reserves at the end of this fiscal year. In 1996, the City's reserve level was \$23 million. Mr. Krueger outlined the various swaps that took place from 1999 through 2003.

Council Member Hansen stated that, had the electric rates been increased during that time, the City could have avoided the swap and the long-term ramifications that it is now facing. The management approach at the time was to borrow and move funds around, rather than dealing with the issue of increasing rates to pay for the cost of service.

Mr. Krueger agreed and stated that the City bought its way out of a ten-year Calpine contract for \$42 million, which was not reflected as a cost; it was shown as an asset that was amortized over several years. That alone reflected the need for a rate increase. The disadvantage of delaying the rate increase was that the City did not realize the full impact of the revenues. The City should have entered into one-year contracts to get the best price on energy, which is the City's current strategy.

City Manager King stated that the price for energy in the Calpine agreement was \$65 per megawatt hour; it was not a good deal and the contract was bought out. There was an additional debt load that the City took on to avoid the cost and no revenue was brought in to cover the additional piece. The cost should have been accounted for in the rates, and the buy out should have been hedged on the lower side.

Mr. Krueger reported that in 1996 the City had \$20 million in assets, a small amount of liabilities, and a good ratio between total assets and net assets, which then increased to \$40 million over the next few years. If Electric Utility had been sold at that time, the "book value" of those assets would have been \$40 million. In 1999, there was a debt issuance and the City's assets grew; however, the net book value declined. Another debt issuance was done in 2002-03 to buy out the Calpine contract, for which there was no value to that asset. That reduced the assets to a negative net book value, which meant that, if the City had sold the assets, it would have received less proceeds than the assets were worth. To reduce the negative net book value, a rate increase should have been implemented. Electric Utility was in its best financial condition in 1997-98. During the last ten years, there has been a change in practice to reflect the depreciation of resources that took place previously and to bring the value of those assets back up to a financially sound basis.

The in-lieu of and cost of services transfers were highest in 2002-03; however, since then, the percentage has decreased to reflect the actual cost in providing the service. In the past, it was a straight percentage of sales revenues.

In response to Mayor Hitchcock, Mr. Krueger reported that staff reviewed Electric Utility's quarterly report with representatives of Fitch. They are very concerned with the City's thin liquidity margin. The quarterly report was also sent to Standard and Poors; however, no representatives were available to review the information with the City.

In response to Mayor Hitchcock, Council Member Hansen responded that Fitch would like the City to implement a rate increase, possibly within the next six to nine months.

*Continued June 6, 2006*

**C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS**

None.

**D. ADJOURNMENT**

No action was taken by the City Council. The meeting was adjourned at 8:52 a.m.

ATTEST:

Jennifer M. Perrin  
Interim City Clerk



# CITY OF LODI COUNCIL COMMUNICATION

**AGENDA TITLE:** Continued Presentation of the Fiscal Year 2006-07 Recommended Draft Budget

**MEETING DATE:** June 6, 2006

**PREPARED BY:** City Manager

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**RECOMMENDED ACTION:** No action recommended.

**BACKGROUND INFORMATION:** A continuation of the recommended FY 06-07 Draft Budget will be presented. Attached are major highlights that George Morrow, Electric Utility Director, will be presenting for the Electric Utility Department. Other information will also be presented at the meeting.

**FISCAL IMPACT:** Not applicable.

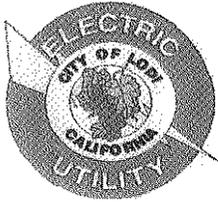
**FUNDING AVAILABLE:** Not applicable.

  
\_\_\_\_\_  
Blair King, City Manager

Attachment

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**APPROVED:**   
\_\_\_\_\_  
Blair King, City Manager



# ELECTRIC UTILITY DEPARTMENT

## Memorandum

**TO:** Blair King, City Manager  
**FROM:** George F. Morrow, Electric Utility Director   
**DATE:** June 1, 2006  
**SUBJECT:** Overview of EUD's Proposed FY07 Budget

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The Electric Utility Department (EUD) has completed its input into the draft FY07 city budget. Highlights of the proposed EUD budget include:

- A positive "net income" (\$9,294) for fiscal year after operating expenses, debt service payments and the in-lieu transfer. This will result in little additional contribution to EUD's cash reserves.
- A realistic projection of sales revenue (\$65,876,175). This reflects a full year impact of the December, 2005 retail rate increase and is an increase from prior year forecasted revenue of \$58,410,329.
- Power supply (NCPA) costs of \$41,955,968 – a 5.4% decrease from the projected FY06 costs. This estimate incorporates EUD's prior acquisition of market energy to supply 95% of its projected load for the fiscal year. The principal reason for the cost reduction is the lower cost of power supply resulting from EUD's acquisition of market energy on an advance basis.
- Budgeted debt service in FY07 is \$6,266,000. This is an increase of about \$1 million over the \$5,219,013 budgeted for debt service during the current year. The increase is due to the fact that a portion of EUD's debt is sensitive to changes in interest rates.
- Inclusion of ordinary capital-type expenses related to the day-to-day construction work of the electric utility within the operating budget to be funded by retail rate revenue. (In FY06, this type of capital expense is projected to total \$1.5 million and be funded by on-hand bond proceeds.)
- EUD will begin the fiscal year with 19 vacancies from its previously authorized staffing level of 64 positions. Management will be periodically reviewing staffing levels to ensure that is able to meet its operational obligations in a safe, reliable and customer responsive manner. In addition to recommended FY07 regular staffing level, the EUD budget provides funding for seven positions (3 full-time and 4 part-time) filled by former contract employees.
- Alignment of the electric utility department into three divisions – Construction & Maintenance (headed by the existing Manager of Electric Services), Engineering & Operations and Planning & Resources. The latter two divisions will be led by individuals hired/promoted into two previously authorized manager positions proposed to be filled in FY07.

I look forward to providing a further overview at next week's City Council Shirtsleeve session. Please let me know if I can provide anything additional to you in the interim.



the city of lodi

**Electric Utility Department**

# **FY07 Proposed Budget**

**City Council Shirtsleeve Session**

June 6, 2006



# FY07 Budget Overview

- **Balanced (breakeven) budget**
  - Little or no reserve contribution
- **Updated sales/revenue forecast (lower)**
- **Lower power supply (NCPA) costs**
- **All “normal” capital paid through rates**



# FY06 Accomplishments

- **Hired new Electric Utility Director**
- **Closed FY06 and FY07 open position**
- **Performed electric cost of service study**
- **Implemented needed Market Cost Adjustment increase**
- **Completed 5 year financial pro forma of electric utility**
- **“Trued up” electric utility rates**
- **Promoted Resource 500 and New Lodi Projects**
- **Adopted Risk Management Plan**
- **Established Risk Oversight Committee**



# FY07 Key Objectives

- Complete electric utility staffing assessment
- Enhance Risk Management Plan
- Advance new long-term resource opportunities
- Update 5 year financial plan
- Ensure that all customers are on appropriate rates
- Review options for economic development incentives
- Review of Public Benefits Program
- Explore Transmission Line to the West
- Update development cost sharing provisions
- Plan for new electric load growth



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Electric  
Department

# Operating Budget

	<b>FY06 Estimated</b>	<b>FY07 Budgeted</b>	<b>Change</b>
<b>Administration</b>	720,901	<b>695,235</b>	(25,666)
<b>Business Planning</b>	1,381,471	<b>1,679,013</b>	297,542
<b>Engineering &amp; Operations</b>	1,539,595	<b>2,336,089</b>	796,494
<b>Construction &amp; Maintenance</b>	2,541,434	<b>4,265,894</b>	1,724,461
<b>Bulk Power</b>	44,371,207	<b>41,955,968</b>	(2,415,239)
<b>Debt Service</b>	5,798,837	<b>6,266,000</b>	467,163
<b>PILOT</b>	6,050,000	<b>6,779,000</b>	729,000
<b>City Services</b>	2,898,246	<b>2,898,246</b>	0
<b>Capital</b>	1,500,000	<b>0</b>	(1,500,000)
<b>Total</b>	<b>66,801,691</b>	<b>66,875,445</b>	<b>73,754</b>



# Capital Budget

	FY07 Budget
Killelea Substation	\$3,478,444
60KV Westside Line	\$170,000
Total	\$3,648,444

Note: Funded from Bond Proceeds



# FY07 Income Statement

	<b>FY06 Estimated</b>	<b>FY07 Budget</b>
<b>Revenues</b>	\$ 59,641,772	\$ 66,884,739
<b>Expenses</b>	\$ 53,485,354	\$ 53,830,445
<b>Net Revenue</b>	\$ 6,156,418	\$ 13,054,294
<b>Debt Service</b>	\$ 5,798,837	\$ 6,266,000
<b>PILOT</b>	\$ 6,050,000	\$ 6,779,000
<b>Capital</b>	\$ 1,500,000	\$ 0
<b>Net Income</b>	<b>\$ (7,192,419)</b>	<b>\$ 9,294</b>



# Retail Revenue

FY04	FY05	FY06 "Budget"	FY06 Projected	FY07 Budget
\$52,899,000	\$53,792,000	\$60,072,000	\$58,442,552	\$65,876,175

**Change FY07 Budget from FY06 Projected:  
(+\$7,433,623 or +12.7%)**



# Power Supply (NCPA)

FY04	FY05	FY06 "Budget"	FY06 Projected	FY07 Budget
\$30,138,915	\$33,068,774	\$42,700,000	\$44,371,207	\$41,955,968

**Change FY07 Budget from FY06 Projected:  
( -\$2,415,239 or -5.4%)**



# Electric Department

# NCPA Budget

	FISCAL YEAR ENDED JUNE 30				
	Budget		Proposed		Forecast
	2006	incl(Dec)	2007	incl(Dec)	2008
<b>GENERATION RESOURCES</b>					
NCPA Plants	\$ 114,949,834	\$ 3,405,339	\$ 118,355,173	\$ (34,928,666)	\$ 83,426,507
Member Resources	76,028,300	(25,456,429)	50,571,871	(21,117,825)	29,454,046
Western Resources	13,558,400	4,870,906	18,429,306	1,335,386	19,764,691
Market Power Purchases	42,677,500	4,271,500	46,949,000	21,785,600	68,734,600
Other Resources	119,736	(5,936)	113,800	2,500	116,300
<b>TOTAL GENERATION RESOURCES</b>	247,333,770	(12,914,620)	234,419,150	(32,923,006)	201,496,144
<b>TRANSMISSION</b>					
NCPA Plant Transmission	3,205,464	16,054	3,221,518	(46,146)	3,173,372
TANC (billed as service to members)	4,423,196	59,246	4,482,442	(37,342)	4,445,100
Western Transmission	127,600	(127,600)	-	-	-
Independent System Operator	25,215,319	10,432,204	35,647,523	858,750	36,506,273
Other Transmission	563,864	-	563,864	-	563,864
<b>TOTAL TRANSMISSION</b>	33,535,443	10,379,904	43,915,347	773,262	44,688,609
<b>MANAGEMENT SERVICES</b>					
Legislative & Regulatory	3,266,128	636,464	3,902,592	(139,637)	3,762,955
Judicial Action	3,660,000	(1,335,000)	2,325,000	(300,000)	2,025,000
Power Management	12,693,055	(2,420,119)	10,272,936	241,354	10,514,290
Risk Management	-	560,790	560,790	(23,323)	537,467
Settlements	-	1,431,787	1,431,787	85,494	1,517,281
Member Service Agreements/Other Agencies	-	32,364	32,364	2,056	34,430
	19,619,183	(1,093,714)	18,525,469	(134,046)	18,391,423
<b>TOTAL ANNUAL BUDGET COST</b>	300,488,395	(3,628,430)	296,859,965	(32,283,790)	264,576,176
<b>LESS: THIRD PARTY REVENUE</b>					
Market Power Sales	13,791,500	(9,497,500)	4,294,000	1,045,000	5,339,000
Transmission Sales	32,872	1,128	34,000	-	34,000
Ancillary Services Sales	15,712,676	(9,666,481)	6,046,195	-	6,046,195
Reliability Must Run Sales	4,500,000	2,700,000	7,200,000	-	7,200,000
Other Sales & Income	3,754,233	9,145,242	12,899,475	(174,027)	12,725,448
	37,791,281	(7,317,611)	30,473,670	870,973	31,344,643
<b>NET ANNUAL BUDGET COST TO PARTICIPANTS</b>	\$ 262,697,115	\$ 3,689,181	\$ 266,386,296	\$ (33,154,763)	\$ 233,231,533

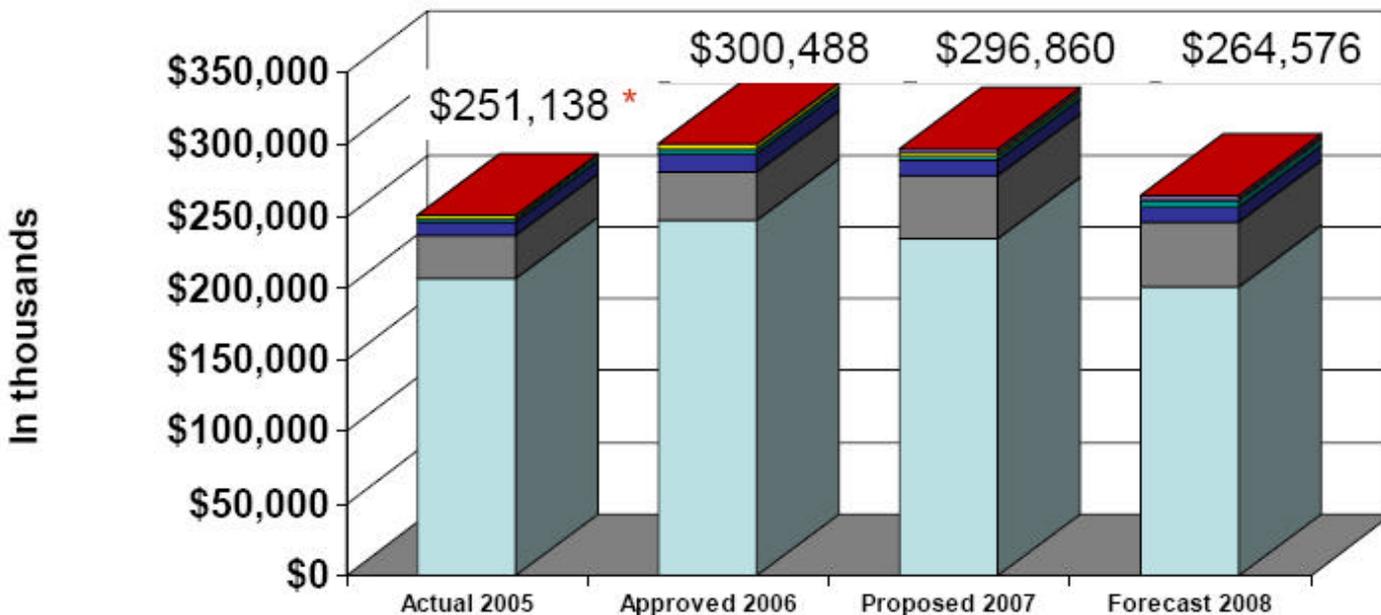
Note: Areas most controllable by NCPA are highlighted in yellow, which are up by 1.72% for FY 2007 and down by FY 2008 primarily due to a debt service reduction.



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# Electric Department

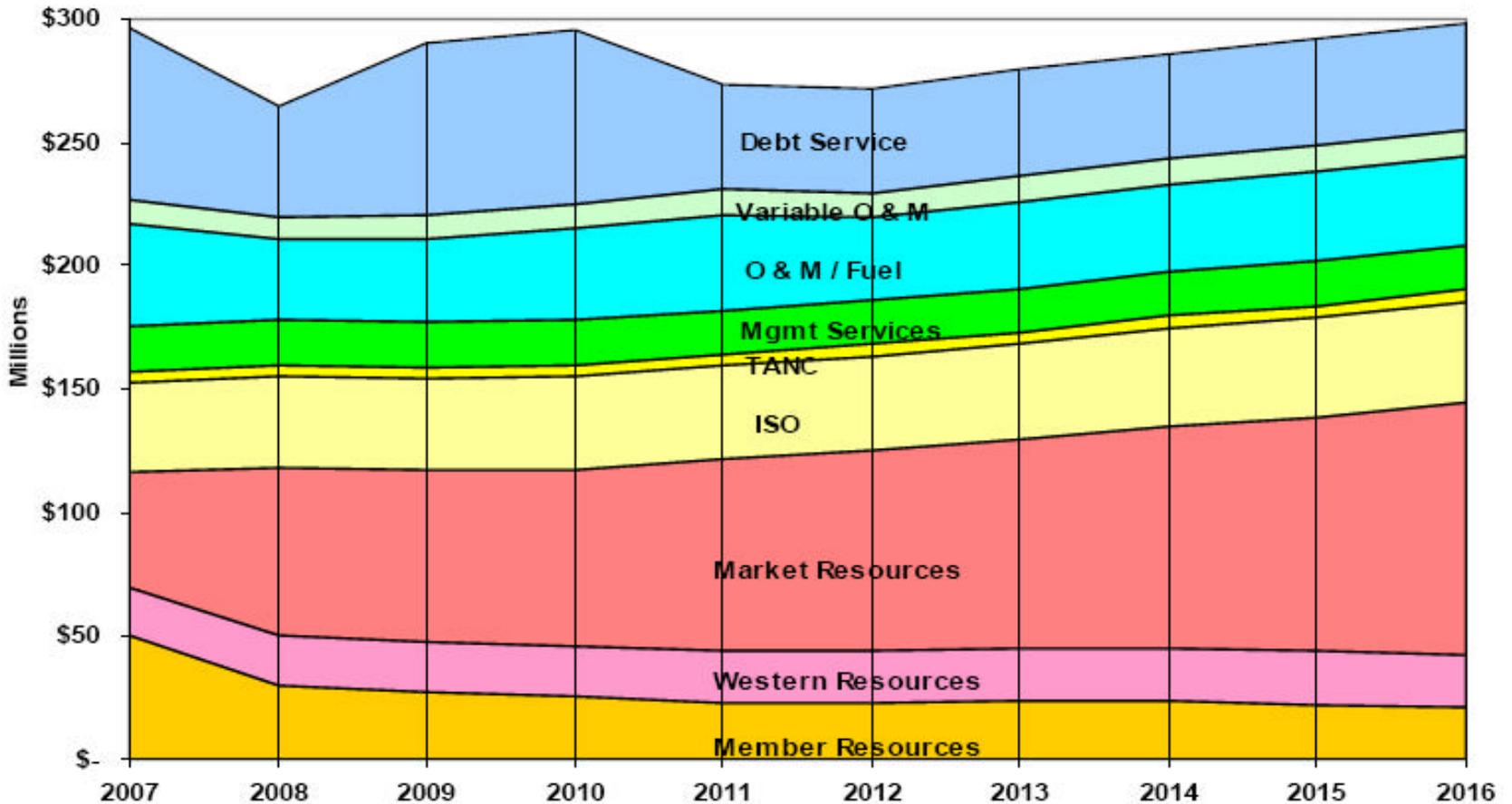
Proposed 2007 Budget reflects a 1.2% overall decrease from 2006



\* Actual 2005 was at 84% of approved budget

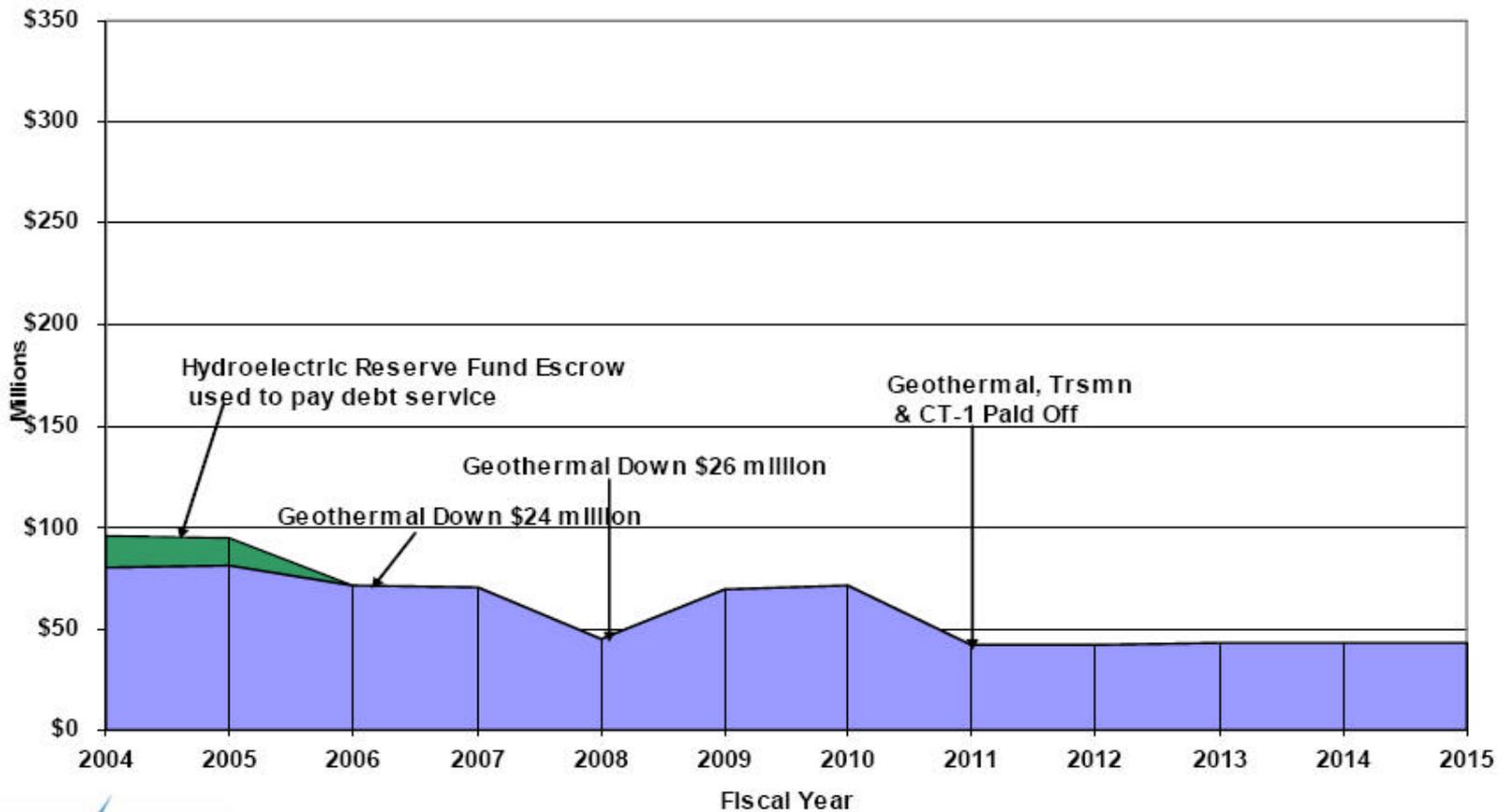


# NCPA Budget Forecast



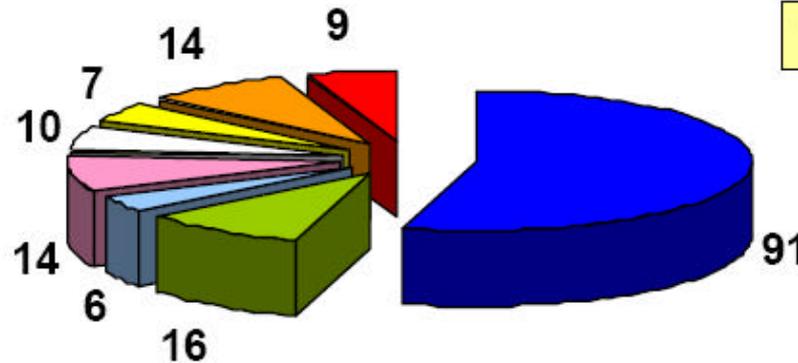


# NCPA Debt Service





# NCPA Staffing (FY07)



Total FTE - 167

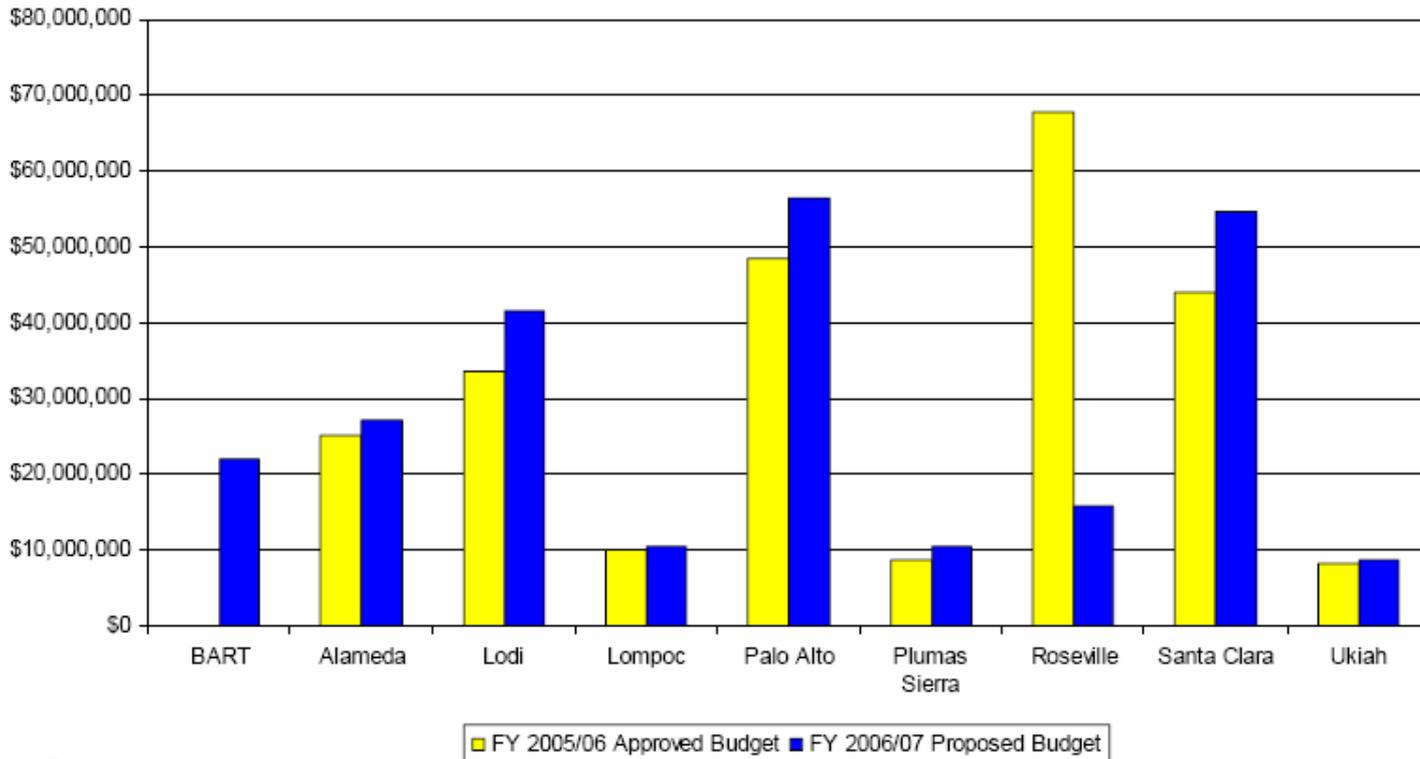
Majority of staff are project related

- |                                       |   |
|---------------------------------------|---|
| <b>■ Generation Services</b>          | <b>■ Power Management</b>                 |
| <b>■ Legislative &amp; Regulatory</b> | <b>■ Scheduling &amp; Dispatch</b>        |
| <b>■ Accounting &amp; Finance</b>     | <b>■ Power Accounts</b>                   |
| <b>■ Information Systems</b>          | <b>■ General Mgr &amp; Administrative</b> |



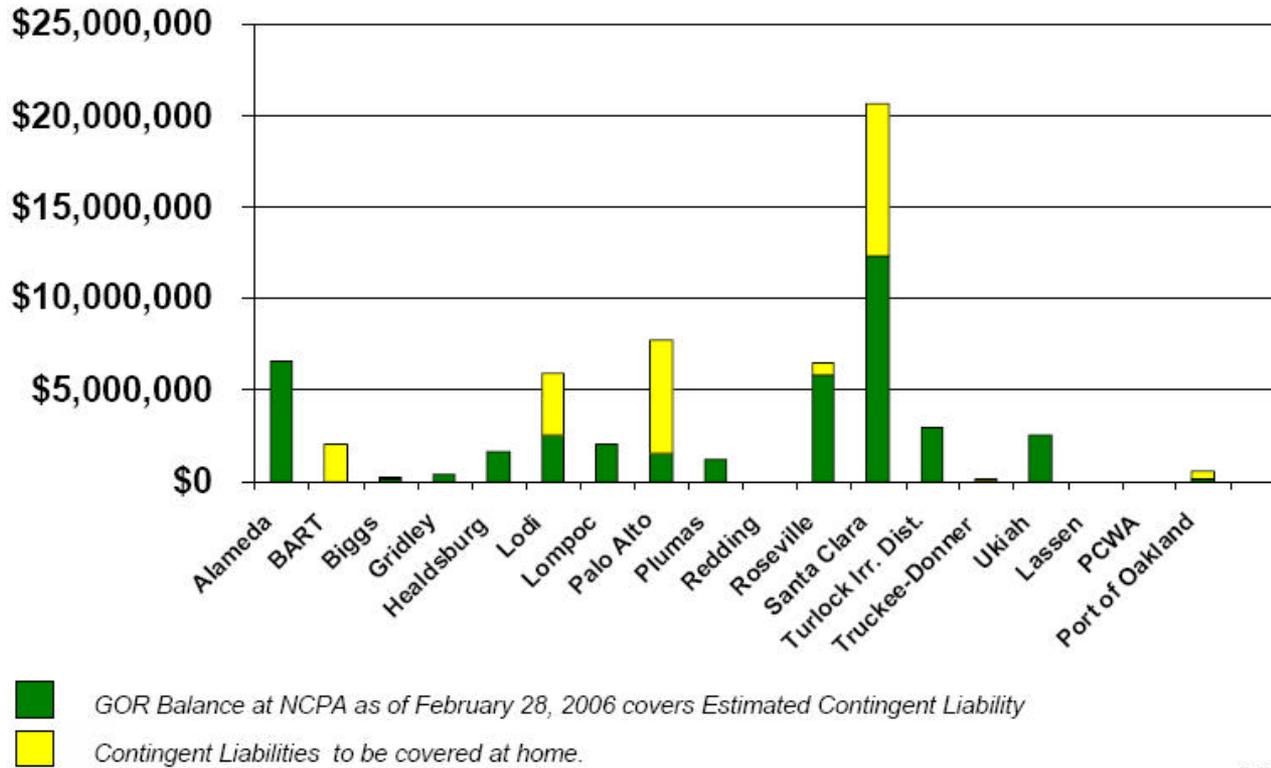
# NCPA Member Costs (FY07)

Large Participants





# NCPA Reserve Targets (FY07)

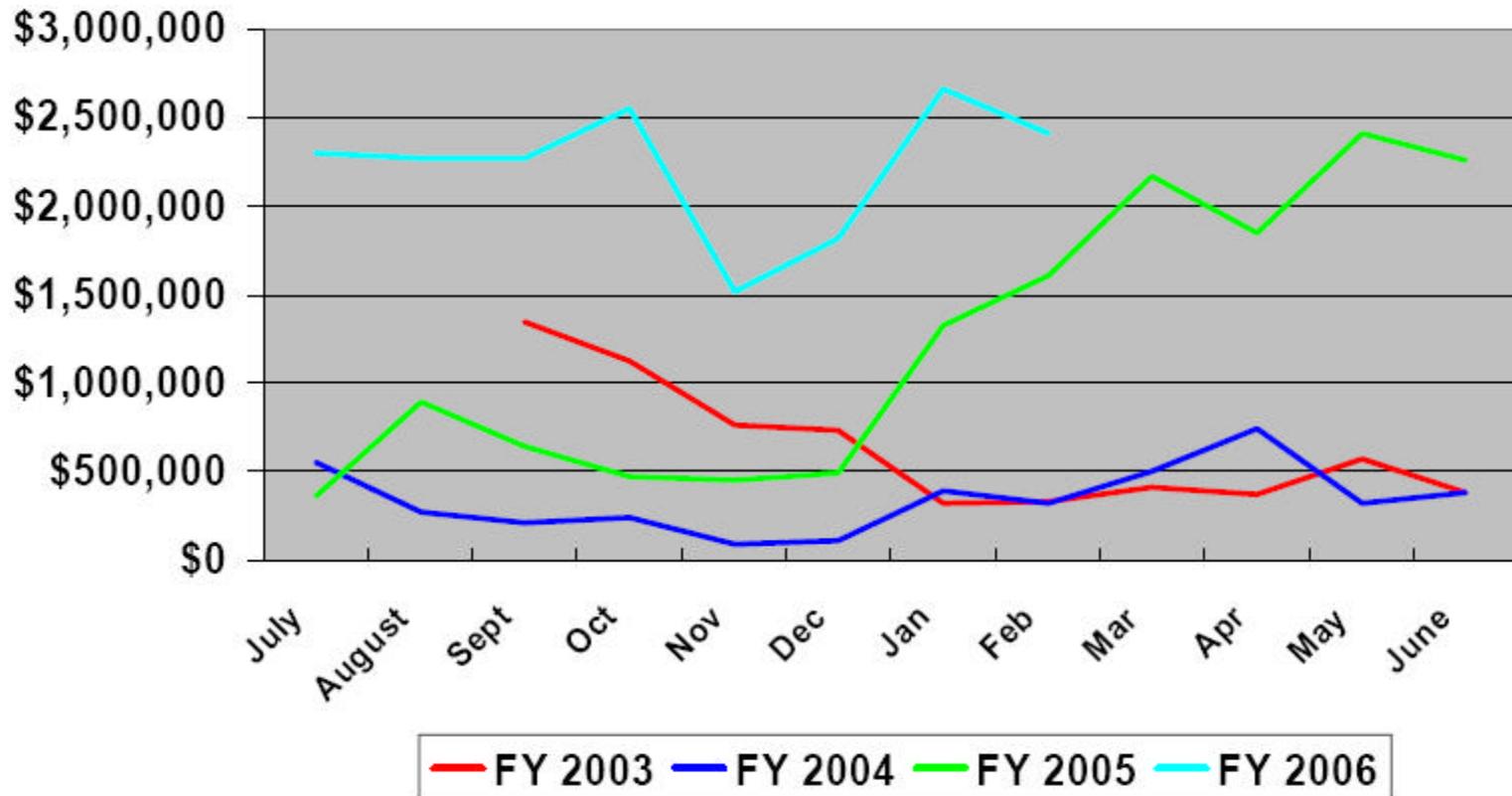




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# NCPA CAISO Charges





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# FY07 Energy Supply

Surplus/(Deficit)	Total		High Load Hours			Low Load Hours		
	Load	% of Load	Surplus/(Deficit)	Load	% of Load	Surplus/(Deficit)	Load	% of Load
(2,742)	53,047	-5.2%	(1,218)	33,241	-3.7%	(1,524)	19,807	-7.7%
112	50,317	0.2%	1,020	33,577	3.0%	(908)	16,740	-5.4%
1,591	43,514	3.7%	1,586	27,873	5.7%	5	15,642	0.0%
(56)	38,032	-0.1%	726	24,153	3.0%	(782)	13,878	-5.6%
(2,494)	35,704	-7.0%	(2,757)	22,530	-12.2%	263	13,175	2.0%
(2,142)	38,981	-5.5%	(1,881)	24,104	-7.8%	(262)	14,878	-1.8%
(5,081)	37,596	-13.5%	(2,873)	23,956	-12.0%	(2,208)	13,640	-16.2%
(3,408)	33,538	-10.2%	(1,689)	21,714	-7.8%	(1,719)	11,824	-14.5%
(1,774)	36,706	-4.8%	(880)	24,249	-3.6%	(894)	12,457	-7.2%
(3,485)	35,749	-9.7%	(2,669)	22,653	-11.8%	(816)	13,096	-6.2%
(1,937)	40,080	-4.8%	(1,121)	25,606	-4.4%	(816)	14,474	-5.6%
(1,627)	43,732	-3.7%	(1,019)	29,416	-3.5%	(607)	14,316	-4.2%
<b>(23,044)</b>	<b>486,997</b>	<b>-4.7%</b>	<b>-12,776</b>	<b>313,071</b>	<b>-4.1%</b>	<b>-10,268</b>	<b>173,926</b>	<b>-5.9%</b>



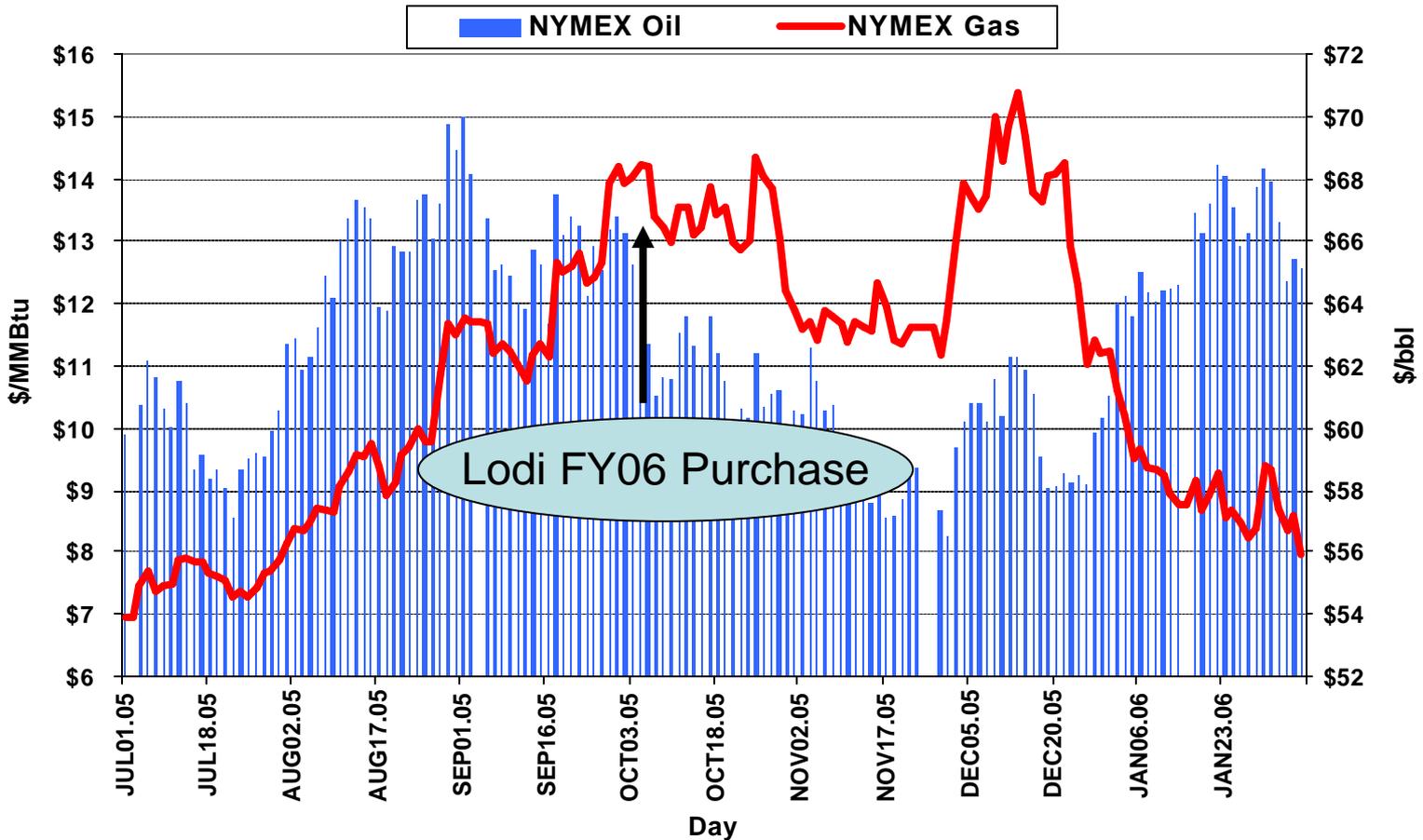
# FY06 Energy Purchases

- **In early October 2005, EUD closed remaining FY06 open position:**
  - 115,070 MWH @ average price of \$100.58
  - Total purchase amount of \$11,574,232
- **If purchased in April/May instead:**
  - Estimated average price of \$65.40/MWH
  - Total purchase amount of \$7,525,952
  - **Additional cost of \$4,048,280**
- **If purchased in December, 2006 instead:**
  - Estimated price increase of ~\$8/MWH or ~\$920,000



# Oil/Gas Market Prices

(July, 2005 through January, 2006)





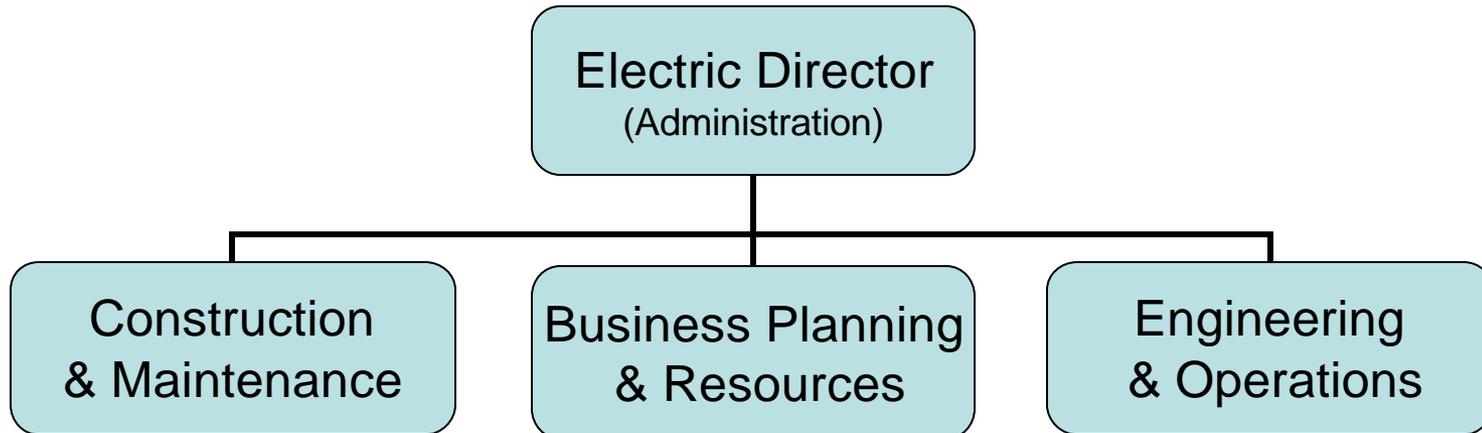
# Debt Service

FY04	FY05	FY06 "Budget"	FY06 Projected	FY07 Budget
\$7,895,000	\$6,572,000	\$5,619,000	\$5,798,837	\$6,266,000

**Change FY07 Budget from FY06 Projected:  
(+\$467,163 or +8.0%)**

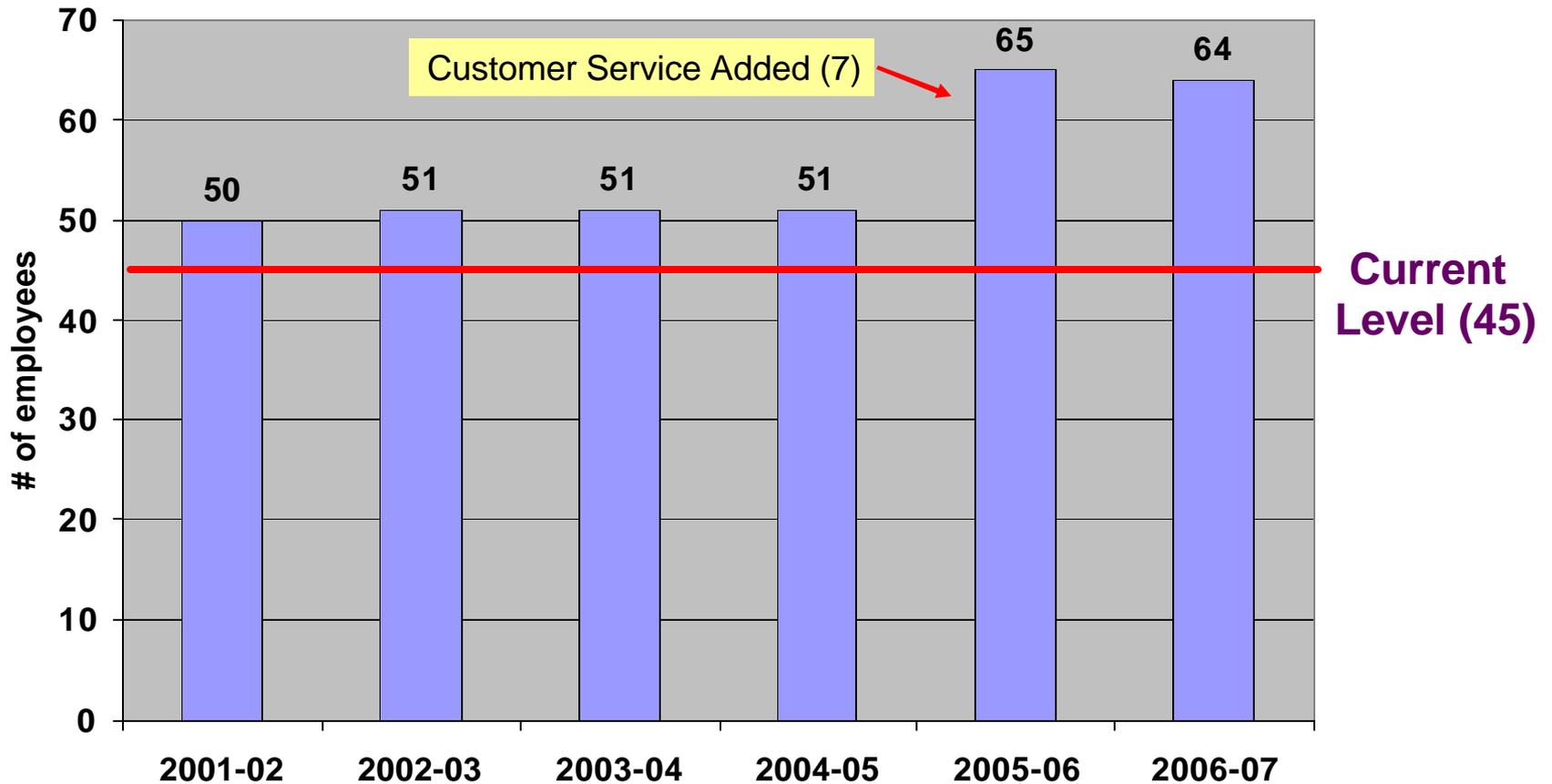


# EUD Organization





# Staffing Levels





# Former Contract Employees

- **Proposed FY07 Budget includes funding for 7 former contract positions** (4 to 8 years)
  - Energy Specialist (full-time)
  - Utility Equipment Operator (full-time)
  - Electrical Drafting Technician (full-time)
  - Meter Readers/FSRs (2 part-time)
  - Electrical Estimators (2 part-time)
- **Incumbents are currently in a temporary employee status**
- **Plan to follow City's hiring process to fill the 3 full-time positions on a permanent basis in near future**



the city of lodi

Electric  
Department

# Financial Forecast

\$ in 1,000s	FY06	FY07	FY08	FY09	FY10	FY11
<b>Revenue</b>						
Sales revenues	58,442	65,876	67,457	69,143	70,872	72,644
Transfer from Rate Stabilization Fund	-	-	-	-	-	-
Other Revenues	1,199	1,008	1,022	1,044	1,063	1,082
<b>Total Revenues</b>	<b>59,641</b>	<b>66,884</b>	<b>68,479</b>	<b>70,187</b>	<b>71,935</b>	<b>73,726</b>
<b>Expenses</b>						
Purchase Power	44,371	41,955	37,644	39,924	40,897	37,901
Non-Power Costs	9,114	11,874	12,965	13,953	14,959	15,483
<b>Total Expenses</b>	<b>53,485</b>	<b>53,829</b>	<b>50,609</b>	<b>53,877</b>	<b>55,856</b>	<b>53,384</b>
Net Revenue Available for Debt Service	6,156	13,055	17,870	16,310	16,079	20,342
<b>Debt Service</b>	<b>5,798</b>	<b>6,266</b>	<b>8,552</b>	<b>6,049</b>	<b>6,483</b>	<b>6,483</b>
Net Revenue Available for Other Purposes	358	6,789	9,318	10,261	9,596	13,859
In-lieu Transfer To General Fund	6,050	6,779	7,017	7,262	7,516	7,779
Capital Outlay Funding	1,500	-	1,500	1,575	1,653	1,736
Other changes in working capital	1,554	-	-	-	-	-
Net Increase (Decrease) in Working Capital	(5,638)	10	801	1,424	427	4,344
Working Capital BOY	7,342	1,704	1,714	2,515	3,939	4,366
<b>Working Capital FYE</b>	<b>1,704</b>	<b>1,714</b>	<b>2,515</b>	<b>3,939</b>	<b>4,366</b>	<b>8,710</b>



# Other Financial

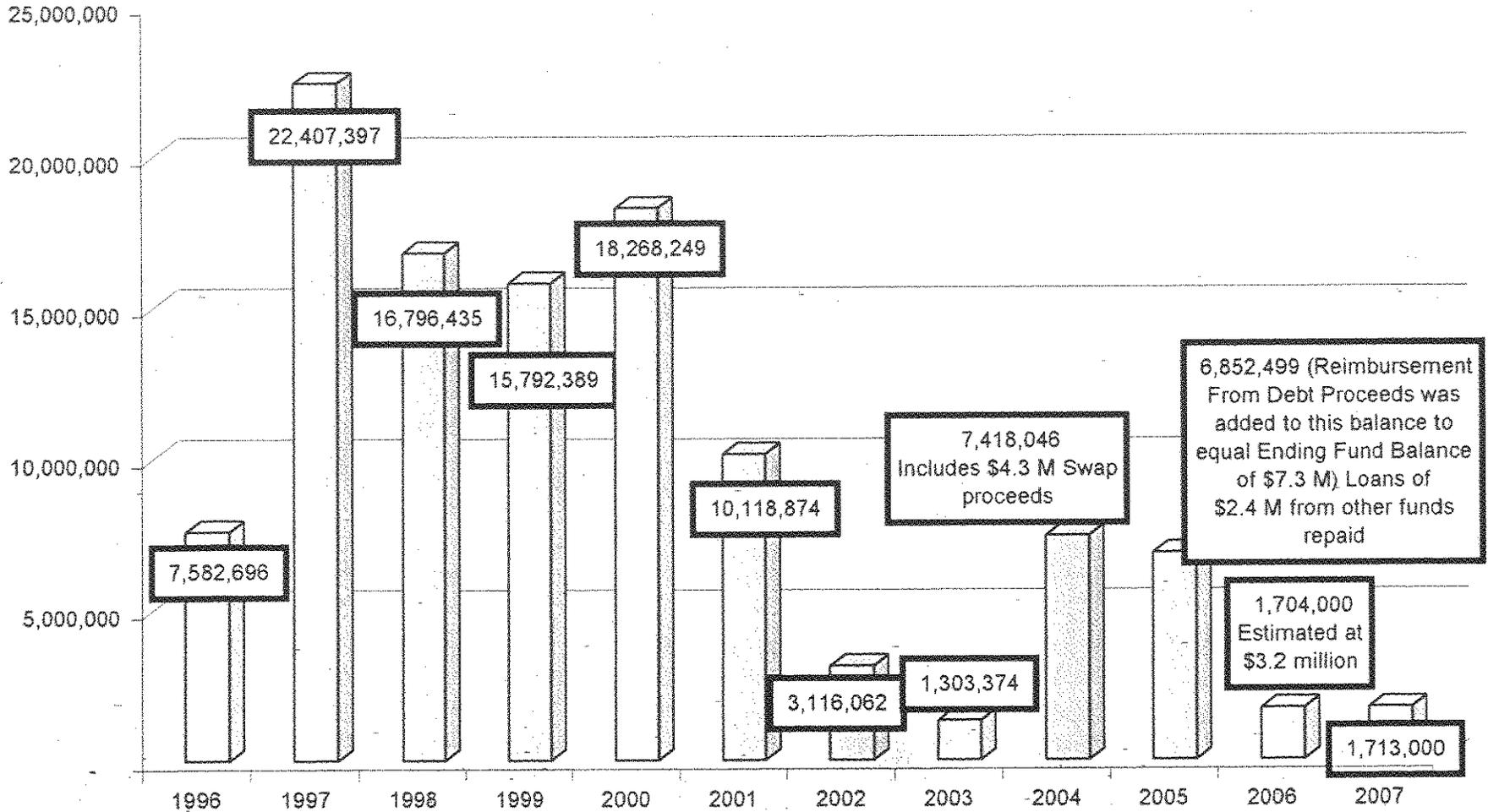
- Lodi Electric currently rated BBB+ with a negative outlook
- Failure to meet FY06 liquidity target (\$3.2 million) a concern
- Staff informed Fitch of FY06 projections
  - Decreased revenue (\$1.6 million)
  - Increased NCPA power costs (\$1.6 million)
- Fitch is once again reviewing EUD's bond rating



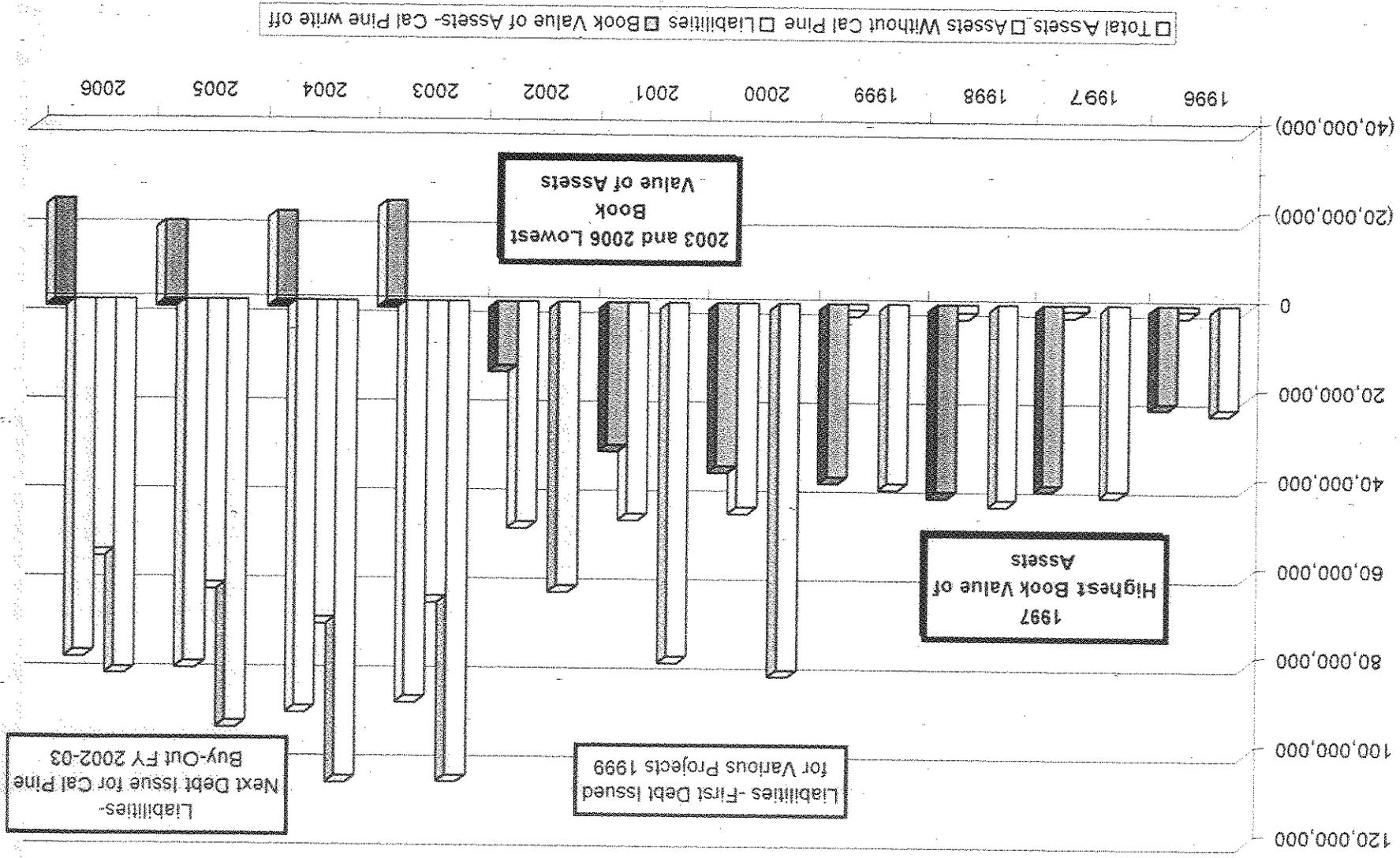
# Summary

- Projected FY07 EUD budget is lean, but balanced
- Little or no projected contribution to cash reserves
- Full year of additional retail rate revenue
- NCPA costs expected to decline due primarily to closing of open position
- Increase in debt service due to variable interest rate element
- “Normal” capital-type costs included in rates
- Liquidity and coverage ratios remain a concern at year end FY06

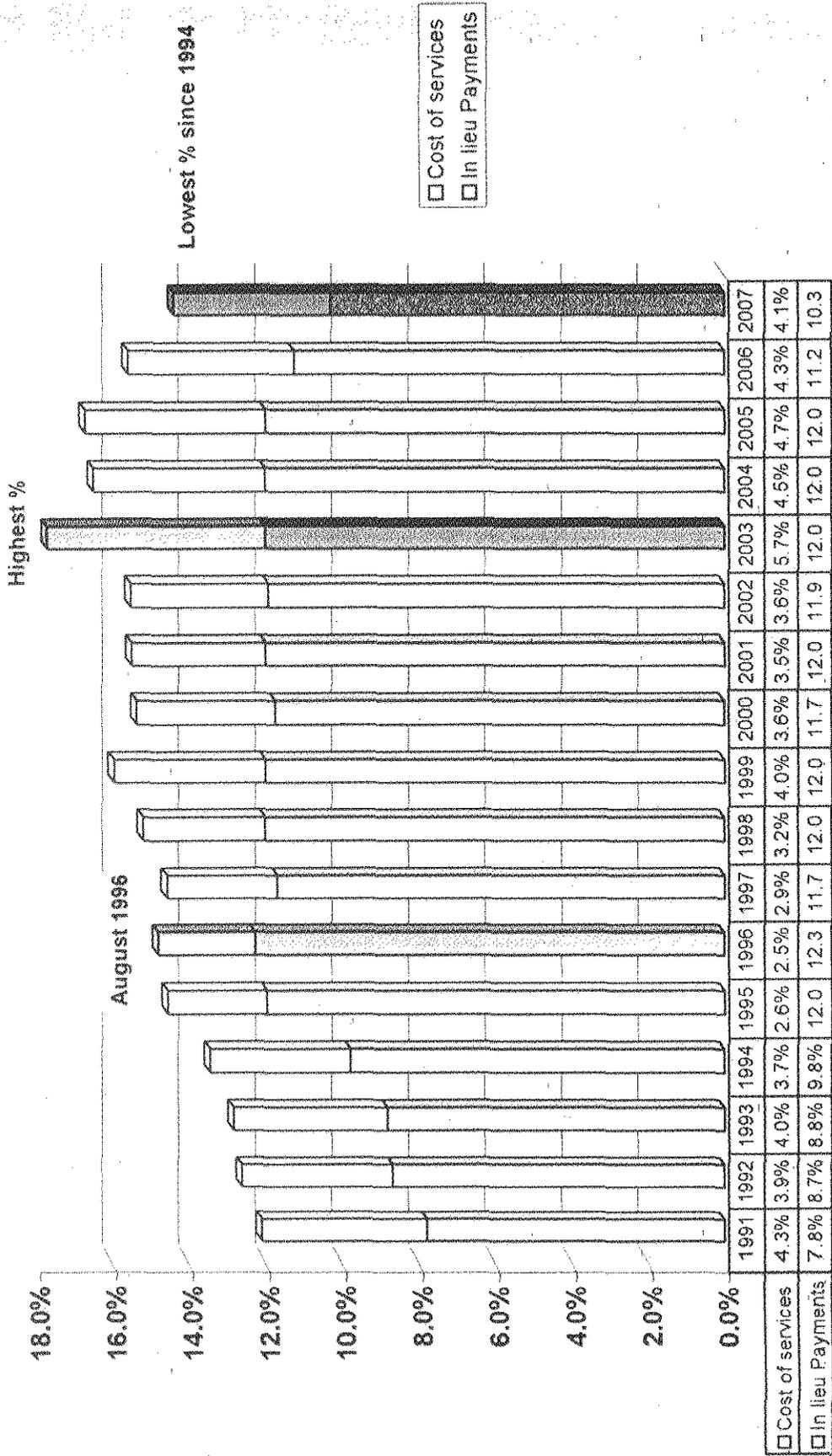
City of Lodi Electric Utility  
 Cash and General Operating Reserves (GOR)  
 [Fund Balances]



Lodi Electric, Net Book Value-Reduced by Cal Pine Deferred Charges

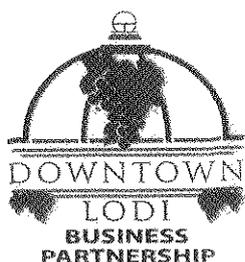


City of Lodi Electric Utility  
Operating Transfers History



Year of Transfer

B-1



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CITY CLERK  
CITY OF LODI

June 5, 2006

Lodi City Council

Some facts about our first six months of 2006...

Our 2006 year started off with the election of new Board Members and Executive Board and the hiring of a new Executive Director and implementing some new programs such as our Centennial Banner Program, KJOY radio, Downtown Lodi Live (tab in the Lodi News Sentinel) and developing with the Chamber of Commerce a "Shop Lodi" campaign. We have a new website with quick links to all other common goal entities within the city; such as the Chamber of Commerce, Conference and Visitors Bureau, Wine and Visitors Center, Wine Commission, Hutchins Street Square, Lodi News Sentinel and City of Lodi. We have reached out and received cooperation in our marketing events and programs with all of these common goal entities to continue to make Lodi the "Place To Be" and the envy of the San Joaquin Valley. We strive to make all our events and programs self-supporting through sponsorship, donations and fund raising.

Here is a thumbnail sketch of our 2006 budget. We employ one full-time Executive Director, one part-time Office Administrator and rent a small office to keep our costs down. Our total fixed expenses for salaries, rents, utilities, etc. are approximately \$95,000. Our proposed 2006 budget is approximately \$200,000. Our fixed income from our approximately 250 businesses in our Business Improvement District is approximately \$40,000. As you can see, we must generate approximately \$160,000 to maintain our small staff, office and to continue to put on our events and programs.

The Downtown Lodi Business Partnership is not only a partnership to our members but to the City of Lodi in that we are creating much needed tax revenues as a return on the investment of our revitalized downtown.

Thank You for your Support

  
Chuck Easterling

President

Downtown Lodi Business Partnership