

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MARCH 25, 2008**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, March 25, 2008, commencing at 7:00 a.m.

A. ROLL CALL

Present: Council Members – Hitchcock, Hansen, Johnson, Katzakian, and Mayor Mounce

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

B. TOPIC(S)

B-1 "Infrastructure Replacement Account"

City Manager King provided a brief introduction of the infrastructure replacement account.

Public Works Director Richard Prima provided a PowerPoint presentation regarding the infrastructure replacement charges and fund balance. Specific topics of discussion included, but were not limited to, an outline, water services funds, historical background, the problem, the cause, the fix, rate issues, progress, 2001 rate issues, reserves, infrastructure replacement, regulatory and other requirements, operations and maintenance costs, range of revenue requirements, recommendations, and supplemental information.

In response to Mayor Mounce, Mr. Prima stated the erroneous split was not previously discussed because it was sidetracked in light of the PCE/TCE issues and the cash was going to that effort regardless of the split.

In response to Mayor Pro Tempore Hansen, Mr. Prima stated the annual adjustment was done in 2004 in conjunction with the Proposition 218 Notice and was not effective until the following year for both water and wastewater.

In response to Mayor Mounce, Mr. Prima stated the annual amount collected from the relevant line item is \$2.2 million. He stated that staff understood the line item to provide for infrastructure on a broader and more general level.

In response to Mayor Pro Tempore Hansen, Mr. Prima stated from 2000 to the present the maintenance and operation costs have been increasing by approximately six percent per year and rates were raised at only three percent per year.

Discussion ensued between Mayor Pro Tempore Mounce and Mr. Prima regarding spending \$900,000 per year for capital replacement, the possibility of doing a current and future adjustment without retroactivity, the direct application of the \$2.2 million to infrastructure only, and the options associated with raising rates and rebalancing. Mr. King discussed the public policy for having an infrastructure replacement policy to address ongoing maintenance and operations needs, money advanced to PCE/TCE litigation, the ongoing creation of a deficit because the rates do not match the costs, the misinterpretation regarding rate application to infrastructure only, and the options of rate increases or a rebalancing to make up the difference.

In response to Council Member Katzakian, Mr. Prima stated the PCE/TCE costs are separate from the ongoing operations and maintenance costs and the money from the connection fee was included in the wastewater fund. Mr. King reiterated that the one-time payment for Flag City has not yet been received and it is difficult to apply one-time funding to ongoing needs such as operations and maintenance costs.

In response to Mayor Pro Tempore Hansen, Mr. Prima stated that the actual dollars spent on the line replacement are being charged to bond proceeds. He stated the \$6 million goes into the development fee impact fund and payments are made from there. Mr. Prima stated the transfers are used to pay debt service.

In response to Mayor Pro Tempore Hansen, Mr. Prima confirmed that the annual adjustment for Consumer Price Index (CPI) of approximately three percent is not covering the operations and maintenance costs of approximately six to eight percent for water and wastewater. He stated one option may be to increase the operations side only while leaving the capital side alone.

Discussion ensued between Mayor Pro Tempore Hansen and Mr. Prima regarding the understanding of how the line item money was to be distributed, specifics for debt service for water and wastewater, the need to assess how to make up the difference, debt service as a complicating factor, unfunded mandates for sewage treatment plant, PCE/TCE, the lack of multiple line items for other municipalities, and a single infrastructure line that is distributed as necessary.

In response to Council Member Katzakian, Mr. King stated they are looking at rebalancing now and there may be an ability to rebalance away from infrastructure to operations and maintenance. Mr. King stated another option is that the line item goes away and funds are spent generally on infrastructure and operations and maintenance. He also discussed approval of a capital improvement program to fund projects with the annual budget, efforts to avoid rate increases, restricted funds for infrastructure only while addressing operations and maintenance with an increase, or another hybrid approach of the same.

Discussion ensued between Mayor Pro Tempore Hansen and Mr. Prima regarding operations and maintenance cost growth over an extended period of time, the growing costs of materials and supplies, and the theory of CPI to assist in maintaining these increases.

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 8:03 a.m.

ATTEST:

Randi Johl
City Clerk



**CITY OF LODI
COUNCIL COMMUNICATION**

M

AGENDA TITLE: Infrastructure Replacement Account
MEETING DATE: March 25, 2008 (Shirtsleeve Session)
PREPARED BY: Public Works Director

RECOMMENDED ACTION: Receive information on the following:

- Rebalancing operations and capital sub-funds within the water and wastewater utilities
- Placing water/wastewater rate revenue into operations sub-fund and transferring to capital as needed through the budget process
- Simplifying billing by combining the separate "infrastructure charge" with the base charge but keeping the water PCE/TCE charge separate
- Updating revenue/rate models in FY 08/09

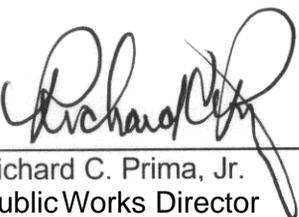
BACKGROUND INFORMATION: In 2001, the City Council approved significant water and wastewater rate increases. At Council's direction, the increase was itemized separately on customer bills as "replacement program".

As City staff implemented this specific direction and attempted to implement our interpretation of the Council's intentions, this revenue has been tracked separately and placed into the capital "sub-funds" within the respective utility enterprise funds. However, that rate increase was not solely intended to be for capital replacement. Increased operations costs, building an overall reserve within the enterprises, and meeting upcoming regulatory requirements were also part of the analysis that resulted in the rate increases, as described in the attached presentation.

Normally, staff would make these adjustments within the enterprise funds without specific Council direction. However, given that there is an impression that all the "infrastructure replacement" revenue is for one specific purpose, staff is presenting this for public information and will return to Council for further direction.

FISCAL IMPACT: No direct impacts, however, implementing the recommendations will make future rate and revenue analysis and presentation more efficient.

FUNDING AVAILABLE: Not applicable.


 Richard C. Prima, Jr.
 Public Works Director

RCP/PJF/pmt
 Attachment

APPROVED: 
 Blair King, City Manager

Water Services Infrastructure Replacement Charges & Fund Balance

City Council
Shirtsleeve Session
March 25, 2008

Outline

- Water Services Funds (and sub-funds)
- The “Problem”
- The Cause
- The Fix
- Rate History
- Rate Issues
- Recommendations

Water Services Funds

- Water and Wastewater enterprise funds both have “sub-funds” for Operations, Capital and Development Impact Mitigation Fees (IMF)
- State law requires separate fund for IMF
(not discussed further in this presentation)
- Standard practice provides separation of Operation and Capital funds

Historical Background

- All revenue from rates went to Operating fund
- Transfers to Capital fund would be made periodically as needed
- Council directed in 2001 that the rate increase be identified specifically on the bill for infrastructure replacement (not included in Resolution)
- Following 2002 rate increase, the “infrastructure” revenue was placed directly in the capital sub-fund

The Problem

- Both Funds have a large cash imbalance between operating (negative) and capital (positive)
 - Water Operating: (\$8.5 million)
 - Water Capital: \$7.5 million
 - Sewer Operating: (\$8.8 million)
 - Sewer Capital: \$11.3 million

The Cause

- Not all of the 2002 rate increase was for capital expenses
- Motion to approve rate increase included identification on bill, but was not discussed earlier
- Operating costs have increased greater than anticipated

The Fix

- Make transfers to rebalance operations and capital sub-funds within the water and wastewater utilities
- Place all rate revenue into operation sub-fund, transfer to capital as needed through budget process
- Simplify billing – combine “infrastructure charge” with base charge (keep water PCE/TCE charge separate)

Rate Issues

- Historically, the City went many years between rate increases
- Rate adjustments were not planned very far in advance
- Policies regarding internal charges (cost of services) and in-lieu transfer to the General Fund have varied considerably
- Reserve targets were not established

Water Services Rate Increase History

Water		Wastewater	
<u>Date</u>	<u>% Chg.</u>	<u>Date</u>	<u>% Chg.</u>
Jul-07	13%	Jul-07	3.4%
Jul-06	13%	Jul-06	2.0%
Jan-06	13%	Jul-05	25%
May-05	2.2%	May-04	25%
May-04	35%	Jul-02	35%
Jul-02	25%	Jan-02	35%
Jan-02	25%	Feb-91	15%
Jun-95	18%	Jan-90	15%
Aug-91	5%	Oct-88	15%
Mar-89	69%	Oct-87	15%
Jun-76	50%	Oct-86	15%
Jun-65	100%	Jan-78	
Aug-55			

Progress!

- Transfers to General Fund now cost of service formula based
- Revenue models developed periodically to help establish rate adjustments
- Annual adjustments based on CPI
- Policy to establish reserves

2001 Rate Issues

- Reserves
- Infrastructure Replacement
- Regulatory & Other Requirements
- Operations & Maintenance Cost
- Range of Revenue Requirements Discussed

Reserves

- Exhibit from 2001
- Reserves too low
- Financing issues

Water/Wastewater Reserves

- Present City Policy – Minimum of 15% of annual operating expenses.
- AWWA – 5% annual surplus revenue over total expenses; six to twelve months of O&M expenses, plus one year's debt service.
- City of Tracy – 25% of annual operating plus one year's debt service.
- City of Stockton – 25% of annual operating plus capital reserve (unspecified amount)
- State Of California (Loan Fund Revenue Guidelines – 10% to 50% of annual operating plus capital reserve
- Consultant (Washington State) – 10% of operating, plus \$250,000 contingency reserve (emergency repairs), plus one year's capital costs.
- Recommended Reserve for Lodi Water/Wastewater Utilities:
 - 15% of annual operating expenses, plus
 - \$300,000 capital reserve in Water
 - \$600,000 capital reserve in Wastewater

Infrastructure Replacement

- Exhibit from 2001
- Focus on some pipes
- Sewer trunk not included
- PCE/TCE issues

Infrastructure Replacement

- Major City Objective: Provide Resources to Maintain City 's Infrastructure.
- Critical Components of Water/Wastewater System Being Maintained
- Replacement of Underground Facilities – Water Distribution Mains & Services and Wastewater Collection Pipes Is Lagging
 - Replacements Being Done In Conjunction With Other Projects
 - Need to Move Into a Pro-Active Replacement Program Has Been Recognized
 - Staffing Now In Place to Begin Program
 - New Budget (2 – Year) Includes \$300,000 (W) & \$200,000 (WW) per year
 - ✓ Will replace about 2,400 Ft. of pipe
 - ✓ W/WW systems have about 2 Million feet of pipe
 - ✓ 2,400 Ft. represents 0.12% of the system's total footage
 - ✓ At that rate of replacement, a pipe installed today would have to last 824 years before it gets replaced
 - Replacement on a 100-year cycle would require funding of \$2.2 Million per year for water & \$1.8 Million for sewer
 - Replacement on a 75-year cycle would require funding of \$3.0 Million for water and \$2.4 Million for sewer

Regulatory & Other Requirements

- Exhibit from 2001
- Wastewater treatment costs
 - higher than anticipated
 - \$400 k Fed. grant used for pipes
- Water costs (PCE/TCE)
 - wildly higher than anticipated
 - getting under control now
- Water meter mandate not considered

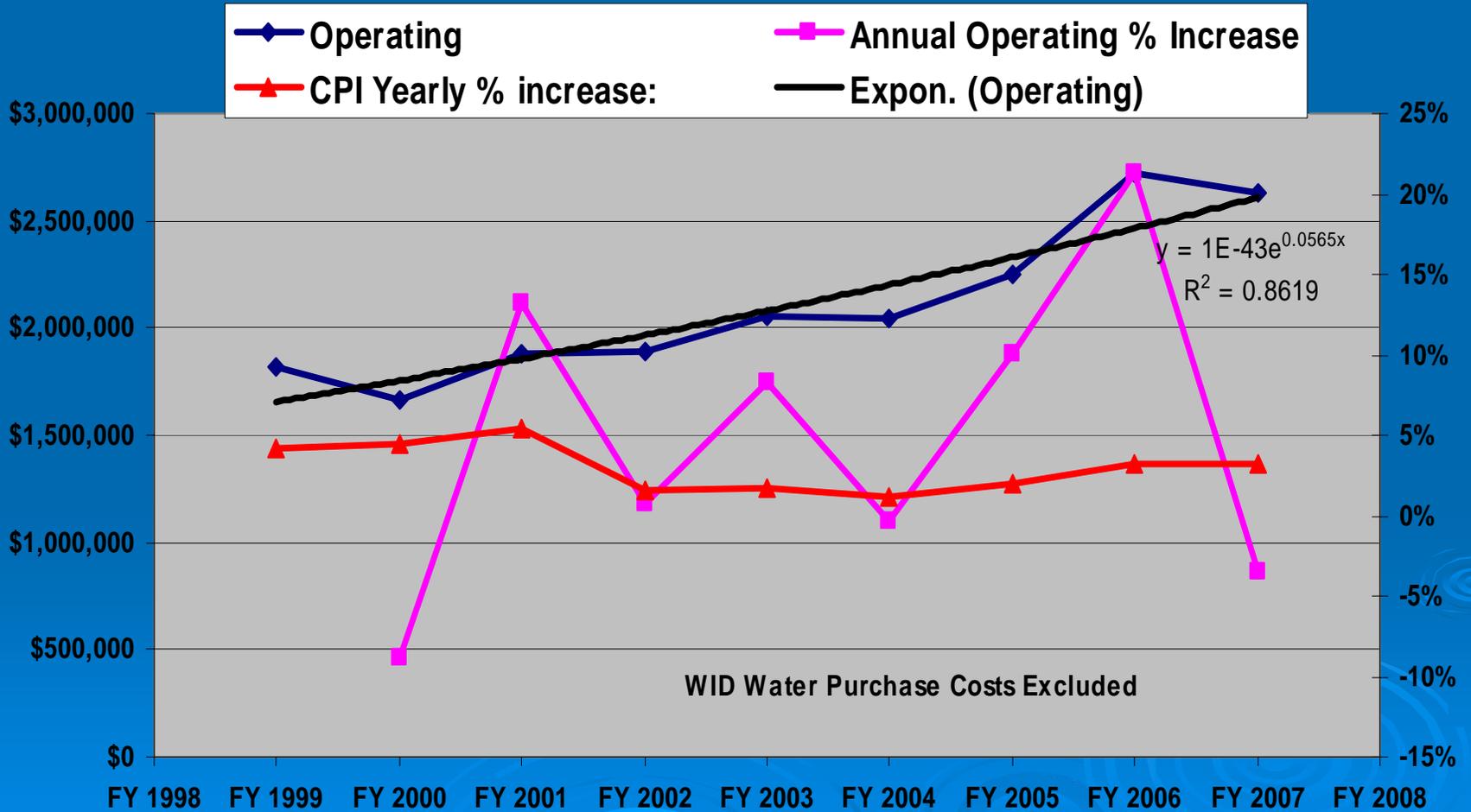
Regulatory and Other Requirements

- Wastewater
 - Meet New Discharge Permit Requirements
 - ✓ Estimates in \$34 Million Range
 - ✓ Other Agencies Seeing Additional Requirements & Cost
 - ✓ Some Portion of Cost Will Be Allocated To New Development
 - ✓ Possible Offsets – Grants & Project Partners
 - Energy Cost ? ? ?
 - General Cost of Living/Operations
- Water
 - Regulatory Requirements
 - ✓ Contaminants – DBCP, PCE/TCE, others
 - ✓ Naturally Occurring Elements – Radon, Arsenic
 - ✓ Fluoridation & Chlorination
 - ✓ Cost Impact Will Depend on Levels Established & Grant Funding
 - Provide Additional Supply
 - ✓ Wide Range of Potential Costs -
 - \$35+ M. for Surface Water Transport & Treatment (If Available)
 - \$2 to \$4 M. for Prelim. Engineering & Permits for County Project
 - ✓ Conservation
 - ✓ Possible Offsets – Grants & Project Partners
 - Energy Cost ? ? ?
 - General Cost of Living/Operations

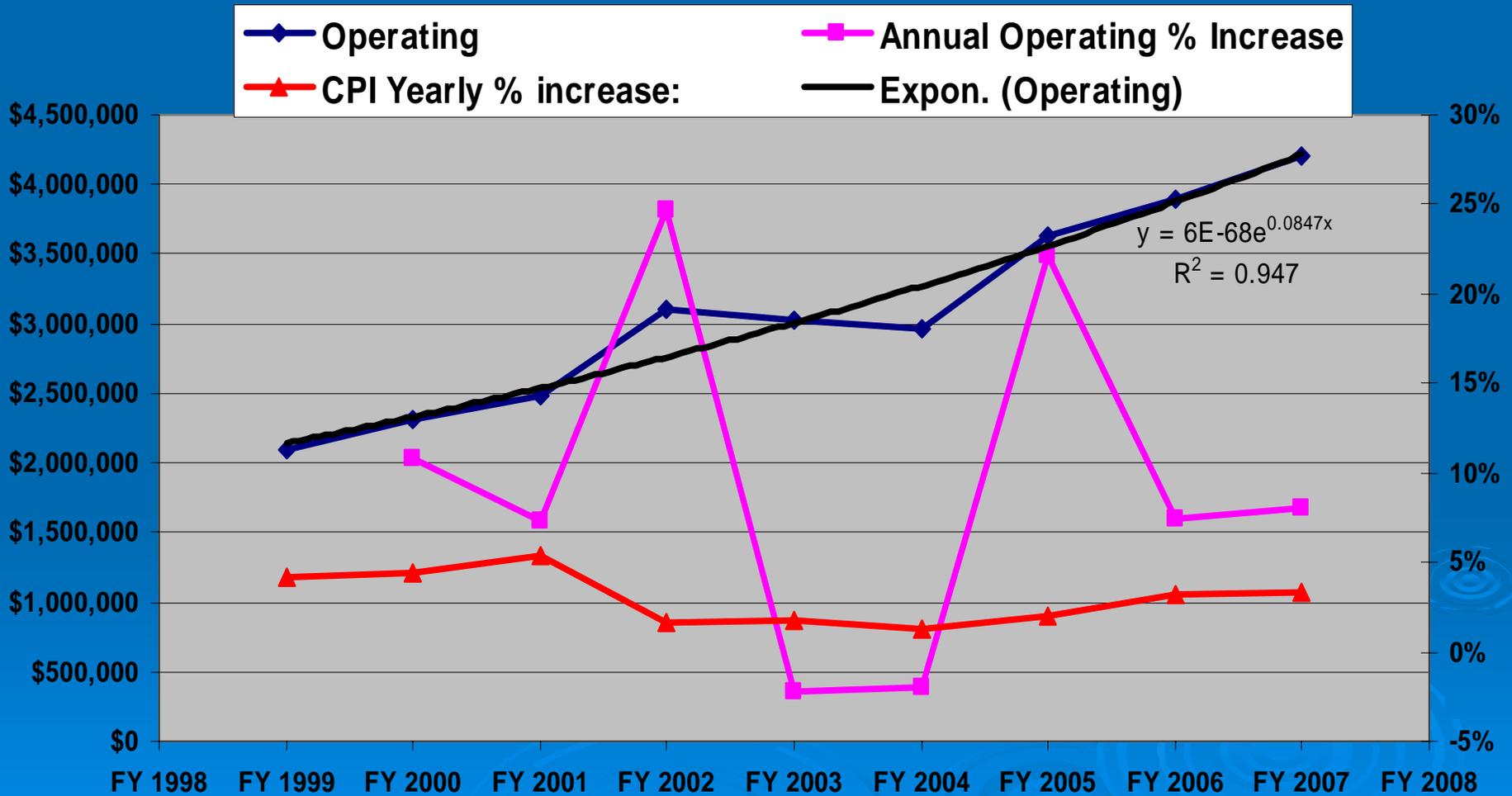
Operations & Maintenance Costs

- Vary from year to year
- Have exceeded inflation (+ 3%/year)
 - Water expenses: + 6%/year
 - Wastewater expenses: + 8%/year

Water - Operating Expenses



Wastewater Operating Expenses



Range of Revenue Requirements

- Exhibit from 2001
- Actual revenue lower:
 - Water – avg. \$2.0 M/yr
 - Wastewater – avg. \$2.3 M/yr

Increased Revenue Requirements

\$ Per Year

Water Utility

<u>Component</u>	<u>Recommended Program</u>	<u>Potential Program</u>
Sustain Fund Balance w/Reserve	\$45,000	\$ 45,000
Replace Infrastructure	\$2,200,000	\$2,200,000
Alternate Water Supplies	<u>\$ 20,000</u>	<u>\$2,000,000</u>
Total:	\$2,265,000	\$4,245,000

Wastewater Utility

Sustain Fund Balance w/Reserve	\$ 245,000	\$ 245,000
Replace Infrastructure	\$ 2,000,000	\$ 2,000,000
Wastewater Treatment Upgrades	<u>\$ 370,000</u>	<u>\$ 2,380,000</u>
Total:	<u>\$ 2,615,000</u>	<u>\$ 4,625,000</u>
Grand Total:	\$ 4,880,000	\$ 8,870,000

Recommendations

- Direct City Manager to:
 - Rebalance operations and capital sub-funds within the water and wastewater utilities
 - Place all rate revenue into operations sub-fund, transfer to capital as needed through budget process
 - Simplify billing – combine “infrastructure charge” with base charge (keep water PCE/TCE charge separate)
 - Update revenue/rate models in FY 08/09

OR

- Leave replacement program as is and consider rate increases to meet operational needs

Supplemental Information

- Minutes from 2001 Council meeting approving rates
- Water Rate Resolution 2001-231
- Wastewater Rate Resolution 2001-232

Minutes
from Oct. 3,
2001 City
Council
meeting

MOTION (#1) / VOTE:

The City Council, on motion of Council Member Hitchcock, Howard second, adopted Resolution No. 2001-231, pursuant to Section 13.08.010 of the Lodi Municipal Code, providing for and establishing rates to be charged for water service, and further directed staff to:

- add a line item on the utility bills identifying the water cost increase with a description specifying its purpose for infrastructure replacement;
- prepare a long-range, ten-year financial model spreadsheet identifying water, sewer, and electric expenses, including the dollar amount for the utility user tax over this period; and
- at the time of settlement related to the PCE/TCE issue, repay the water fund for the previous \$6 million expenditure, using the balance remaining after priority takes.

The above motion carried by the following vote:

Ayes: Council Members – Hitchcock, Howard, Pennino and Mayor Nakanishi

Noes: Council Members – None

Absent: Council Members – Land

MOTION (#2) / VOTE:

The City Council, on motion of Council Member Howard, Hitchcock second, adopted Resolution No. 2001-232, pursuant to Section 13.12.240 of the Lodi Municipal Code, providing for and establishing rates to be charged for sewer services, and further directed staff to:

- add a line item on the utility bills identifying the wastewater cost increase with a description specifying its purpose for infrastructure replacement; and
- prepare a long-range, ten-year financial model spreadsheet identifying water, sewer, and electric expenses, including the dollar amount for the utility user tax over this period.

The above motion carried by the following vote:

Ayes: Council Members – Hitchcock, Howard, Pennino and Mayor Nakanishi

Noes: Council Members – None

Absent: Council Members – Land

A RESOLUTION OF THE LODI CITY COUNCIL
 ADOPTED PURSUANT TO SECTION 13.08.010 OF
 THE LODI MUNICIPAL CODE, PROVIDING FOR AND
 ESTABLISHING RATES TO BE CHARGED FOR
 WATER SERVICE

WHEREAS, pursuant to the requirements of Government Code Section 54354.5, a Public Hearing was held on October 3, 2001, to consider adoption of a Resolution setting and establishing an amended fee schedule for water service rates.

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

Section 1: The schedule of water service rates for the City of Lodi shall be as shown as follows:

<u>Water Utility</u>	<u>Present Rate</u>	<u>January 2002</u>	<u>July 2002</u>
Residential Flat Rate (per month):			
Single Family Unit (one bedroom)	\$ 8.65	\$ 10.81	\$13.51
(two bedrooms)	\$10.38	\$ 12.98	\$16.22
(three bedrooms)	\$12.45	\$ 15.56	\$19.45
(four bedrooms)	\$14.95	\$ 18.69	\$23.36
(five bedrooms)	\$17.94	\$ 22.43	\$28.04
(six bedrooms)	\$21.53	\$ 26.91	\$33.64
(seven bedrooms)	\$25.82	\$ 32.28	\$40.35
Multiple Family Unit (one bedroom)	\$ 7.42	\$ 9.28	\$11.60
(two bedrooms)	\$ 8.90	\$ 11.13	\$13.91
(three bedrooms)	\$10.68	\$ 13.35	\$16.69
		+ 20% for ea. add'l. bedroom	
Commercial/Industrial Flat Rate	varies	add 25%	add 25%
Existing accounts only. New accounts are metered.			
Metered Rate	\$ 0.296	per 100 cu. ft. (approx. 40¢ per 1,000 gal.)	
		\$ 0.397	\$0.524
plus monthly base charge:	\$11.43	¾" meter	No change
	\$17.14	1" meter	No change
	\$22.85	1½" meter	No change
	\$28.58	2" meter	No change
	\$40.00	3" meter	No change
	\$51.43	4" meter	No change
	\$74.29	6" meter	No change
	\$97.16	8" meter	No change
Construction Water Charges:	\$ 0.296	per 100 cu. ft. (approx. 40¢ per 1,000 gal.)	
		\$ 0.397	\$ 0.524

Water Rate Resolution from Oct. 3, 2001 City Council meeting

Section 2: The rates established by this Resolution shall be effective January 2002 and July 2002, or applied to the next full billing cycle following the effective date.

Section 3: All resolutions and parts of Resolutions in conflict herewith are repealed insofar as such conflict may exist.

Dated: October 3, 2001

I hereby certify that Resolution No. 2001-231 was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 3, 2001, by the following vote:

- AYES: COUNCIL MEMBERS – Hitchcock, Howard, Pennino and Mayor Nakanishi
- NOES: COUNCIL MEMBERS – None
- ABSENT: COUNCIL MEMBERS – Land
- ABSTAIN: COUNCIL MEMBERS – None

Susan J. Blackston
 SUSAN J. BLACKSTON
 City Clerk

RESOLUTION NO. 2001-232

A RESOLUTION OF THE LODI CITY COUNCIL
ADOPTED PURSUANT TO SECTION 13.12.240 OF
THE LODI MUNICIPAL CODE, PROVIDING FOR AND
ESTABLISHING RATES TO BE CHARGED FOR
SEWER SERVICE

WHEREAS, pursuant to the requirements of Government Code Section 54354.5, a Public Hearing was held on October 3, 2001, to consider adoption of a Resolution setting and establishing an amended fee schedule for sewer service rates.

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

Section 1: The schedule of sewer service rates for the City of Lodi shall be as shown as follows:

Wastewater Utility	Present Rate	January 2002	July 2002
Disposal to Domestic System:			
Residential (per month) 1 Bedroom	\$ 5.34	\$ 7.21	\$ 9.73
2 Bedrooms (basis for 1 Sewage Service Unit) (SSU)	\$ 7.12	\$ 9.61	\$12.97
3 Bedrooms	\$ 8.90	\$12.02	\$16.23
4 Bedrooms	\$10.68	\$14.42	\$19.47
5 Bedrooms	\$12.46	\$16.82	\$22.71
6 Bedrooms	\$14.24	\$19.22	\$25.95
7 Bedrooms	\$16.02	\$21.63	\$29.20
Moderate Strength (annual per SSU) (Most commercial & industrial unless "high strength")	\$85.42	\$115.32	\$155.68
High strength user:			
Flow (per MG, annual basis)	\$ 411.02	\$554.88	\$749.09
BOD (per 1,000 lbs., annual basis)	\$ 201.14	\$271.54	\$366.58
SS (per 1,000 lbs., annual basis)	\$ 164.42	\$221.97	\$299.66
Grease Interceptor and Septic Holding Tank Waste within City Limits (per 1,000 gal.)	\$62.96	\$85.00	\$114.75
Septic (only) Holding Tank Waste Outside City Limits (per 1,000 gal.)	\$ 133.67	\$180.45	\$243.61
Disposal to Storm Drain System (per MG)	\$66.13	\$89.28	\$120.53

Wastewater Rate Resolution from Oct. 3, 2001 City Council meeting

Section 2: The rates established by this Resolution shall be effective January 2002 and July 2002, or applied to the next full billing cycle following the effective date.

Section 3: All resolutions and parts of Resolutions in conflict herewith are repealed insofar as such conflict may exist.

Dated: October 3, 2001

I hereby certify that Resolution No. 2001-232 was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 3, 2001, by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Howard, Pennino and Mayor Nakanishi

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – Land

ABSTAIN: COUNCIL MEMBERS – None


SUSAN J. BLACKSTON
City Clerk