

**LODI CITY COUNCIL
SHIRTSLEEVE SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, NOVEMBER 11, 2008**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, November 11, 2008, commencing at 7:01 a.m.

Present: Mayor Pro Tempore Hansen, Council Member Hitchcock, Council Member Johnson, Council Member Katzakian, and Mayor Mounce

Absent: None

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

B. Topic(s)

B-1 Infrastructure Replacement Program Update (PW)

City Manager King briefly introduced the subject matter of the wastewater infrastructure replacement program.

Public Works Director Wally Sandelin provided a PowerPoint presentation regarding the infrastructure replacement program. Specific topics of discussion included utility capital, annual revenues, wastewater project areas, White Slough sewer trunk lining, wastewater debt service correction, cash balances and debt correction, wastewater funds overview, impact mitigation fee fund balance, operating expenses, contributing factors, cash flow summary, funds overview, wastewater alternatives, and recommendations.

In response to Mayor Mounce, Mr. Sandelin stated previously there was not enough bidder interest because of the size of the smaller projects. He stated that, if the projects were combined to create a larger scale project, there may be additional interest from the bidders.

In response to Council Member Johnson, Mr. Sandelin confirmed that it may be a good time to move forward on the projects in light of the soft economy; although, there is a cash flow concern.

In response to Council Member Hitchcock, Mr. Sandelin stated the 2009, 2011, 2013, and 2015 projects are each \$2 million projects for a total of \$8 million. Mr. Sandelin stated there are other areas not listed, which will take an additional five- to ten-year period to complete.

In response to Mayor Mounce, Mr. Sandelin stated staff will be looking for direction from the City Council regarding cash flow to finish the current project because the funds are not there right now to cover the listed projects.

In response to Council Member Hitchcock, Mr. Sandelin stated the correction refers to the \$3.95 million amount listed, which is debt service that was paid for the 1991 Certificates of Participation (COPs). He stated the COPs were never offset by a matching revenue stream and believes there was no rate structure change to match the deficit from the COPs.

In response to Mayor Pro Tempore Hansen, Mr. King discussed the general process for COPs as it relates to performa and coverage factors for obtaining debt service. Mr. King stated his guess is that the performa involved a showing of new development, or an impact fee or rate increase was contemplated but not implemented.

In response to Council Member Hitchcock, Mr. Sandelin stated COPs existed for 1991, 2003, 2004, and 2007.

In response to Council Member Katzakian, Mr. Sandelin stated the existing COPs are 2003, 2004, and 2007, the term is generally 30 years, and the structure may vary.

In response to Council Member Hitchcock, Mr. Sandelin stated the one-time event for a connection fee for users may have been in 2004 or 2005 and he believed the rate reference referred to the current discussion and time period.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin stated the other designated options may be infrastructure replacement funds or rates.

Discussion ensued between Mayor Pro Tempore Hansen, Council Member Katzakian, and Mr. King regarding unfunded mandates set forth by the State, the permitting process, and requirements of the State to meet the standards at high costs.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin stated the structure refers to how personnel costs are allocated and accounted for.

In response to Council Member Hitchcock, Mr. Sandelin stated salary increases would be more comparable to the Consumer Price Index, and the structure referred to is time and costs for services by personnel and whether they are allocated to the water or wastewater funds.

In response to Mayor Mounce, Mr. King confirmed that the principle is consistent with each department being charged for their fully loaded cost and a cost allocation study indicating the same was also previously completed.

In response to Council Member Hitchcock, Mr. Sandelin stated that, while he does not have the exact numbers or percentages, he is estimating that the cost of services is about \$500,000, debt service increase is about \$500,000, and staff costs to monitor and report for current permit is about \$300,000 to \$700,000. Mr. Sandelin stated additional staff may be required for the additional White Slough monitoring and reporting requirements.

Discussion ensued between Council Member Johnson and Mr. King regarding some costs which should have moved through wastewater to water and did not, the process for making adjustments, the effect of any adjustments, and the overall principle of capturing the full cost of a program including people, equipment, facilities, etc.

In response to Council Member Johnson, Mr. Sandelin stated the matter is scheduled to come before Council for decision on January 7th.

In response to Mayor Mounce, Mr. Sandelin confirmed that operating and debt service was being covered by infrastructure funds.

In response to Council Member Hitchcock, Mr. Sandelin stated that, while preserving 2007 COP debt service is listed as an option, it is generally not recommended.

General discussion ensued between the City Council and City Manager King regarding how the City got to its current position, cash flow concerns, possible solutions including rate increases, public outreach to citizens, stability of funds, and how the water meter installation or other projects will affect the situation. Mr. King stated his understanding to summarize the discussion was staff will look at a full rate model while keeping infrastructure separate. He stated considerations will also include staffing, which is only allocated for the current and next year for

approximately \$4 million of projects, and how the water meter installation and other projects including the water treatment plant will play a part.

In response to Council Member Hitchcock, City Attorney Schwabauer stated that, while he understands there has been an overcharge of the groundwater for some time, it is important to note that it is being overcharged.

In response to Mayor Mounce, Mr. Sandelin stated the proposed bottom tier for water meters may address concerns regarding non-occupied properties.

Eileen St. Yves spoke in support of the City Council reviewing the infrastructure replacement program all together to get a bigger picture and provide a better understanding to the public. She also spoke of her concerns regarding charges for services on vacant properties.

Myrna Wetzel spoke in favor of the City Council reviewing the infrastructure replacement program all together to ensure that all the facts are taken into consideration.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:02 a.m.

ATTEST:

Randi Johl
City Clerk



**CITY OF LODI
COUNCIL COMMUNICATION**

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AGENDA TITLE: Infrastructure Replacement Program Update

MEETING DATE: November 11, 2008 (Shirtsleeve Session)

PREPARED BY: Public Works Director

RECOMMENDED ACTION: Information only.

BACKGROUND INFORMATION: Public Works staff will present an update and answer questions regarding the Infrastructure Replacement Program.

FISCAL IMPACT: Not applicable.

FUNDING AVAILABLE: Not applicable.

F. Wally Sandelin
Public Works Director

FWS/pmf

APPROVED:

Blair King, City Manager

Status Report

Wastewater

Infrastructure Replacement
Program

Shirtsleeve

November 11, 2008

Utility Capital/Infrastructure Replacement

July 1, 2002 – Sept. 30, 2008

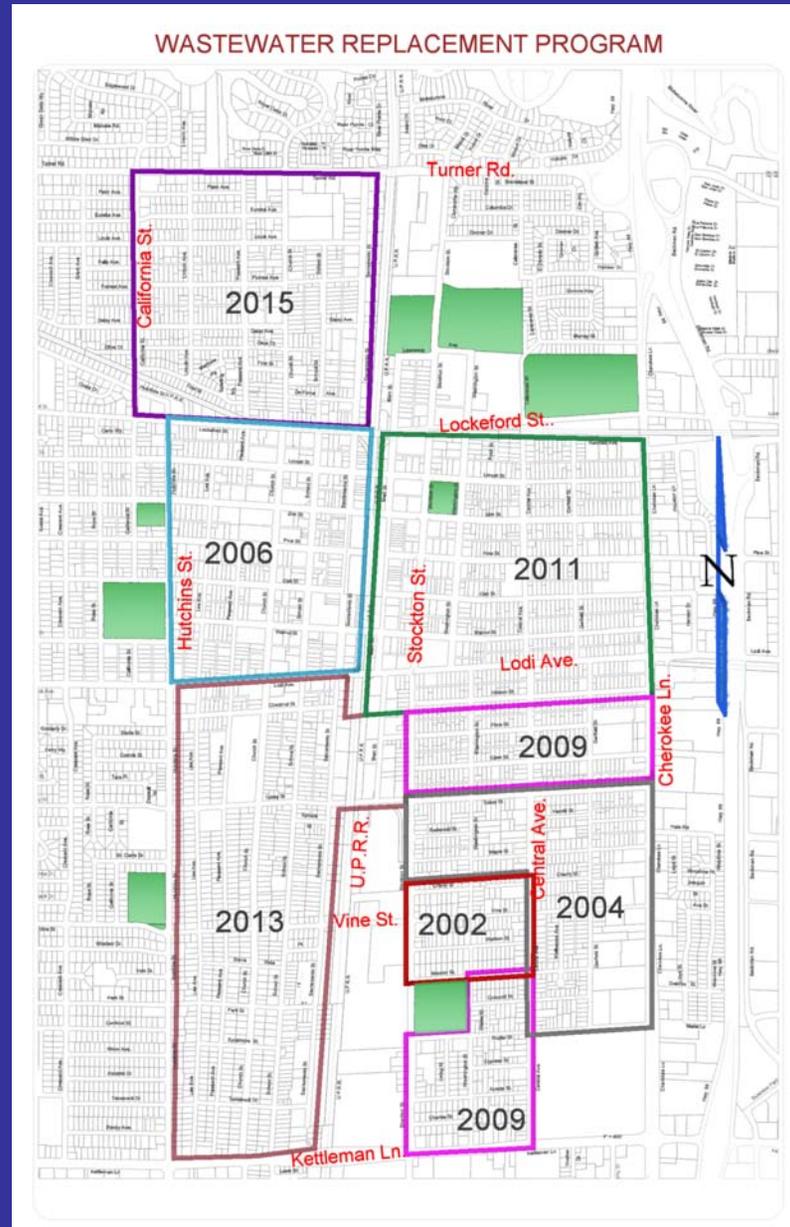
Infrastructure Revenue	\$14.41 million
Other Revenue	\$ 5.89 million
Capital Expenditures	\$(1.97 million)
Infrastructure Expenditure	<u>\$(3.27 million)</u>
Fund Balance (as of 9/30/08)	\$15.06 million

Infrastructure Replacement Annual Revenues

Wastewater

\$2.5 million

Wastewater Project Areas



White Slough Sewer Trunk Lining

- \$7.1 million cost
- Funded by 2007 COP's
- Qualifies as replacement project
- Operating Fund will pay most/all of the debt service

Wastewater Debt Service Correction

- Transfers are required to correctly assign past debt service for the period from June 30, 2004 to present - 38% to future users and 62% to existing users
- \$5,528,018 from the IMF Fund (173)
- \$4,660,000 to the Capital Reserve Fund (172)
- \$868,018 to the Operations Fund (170)

Wastewater Funds

Cash Balances & Debt Correction

(Ending June 30, 2008)

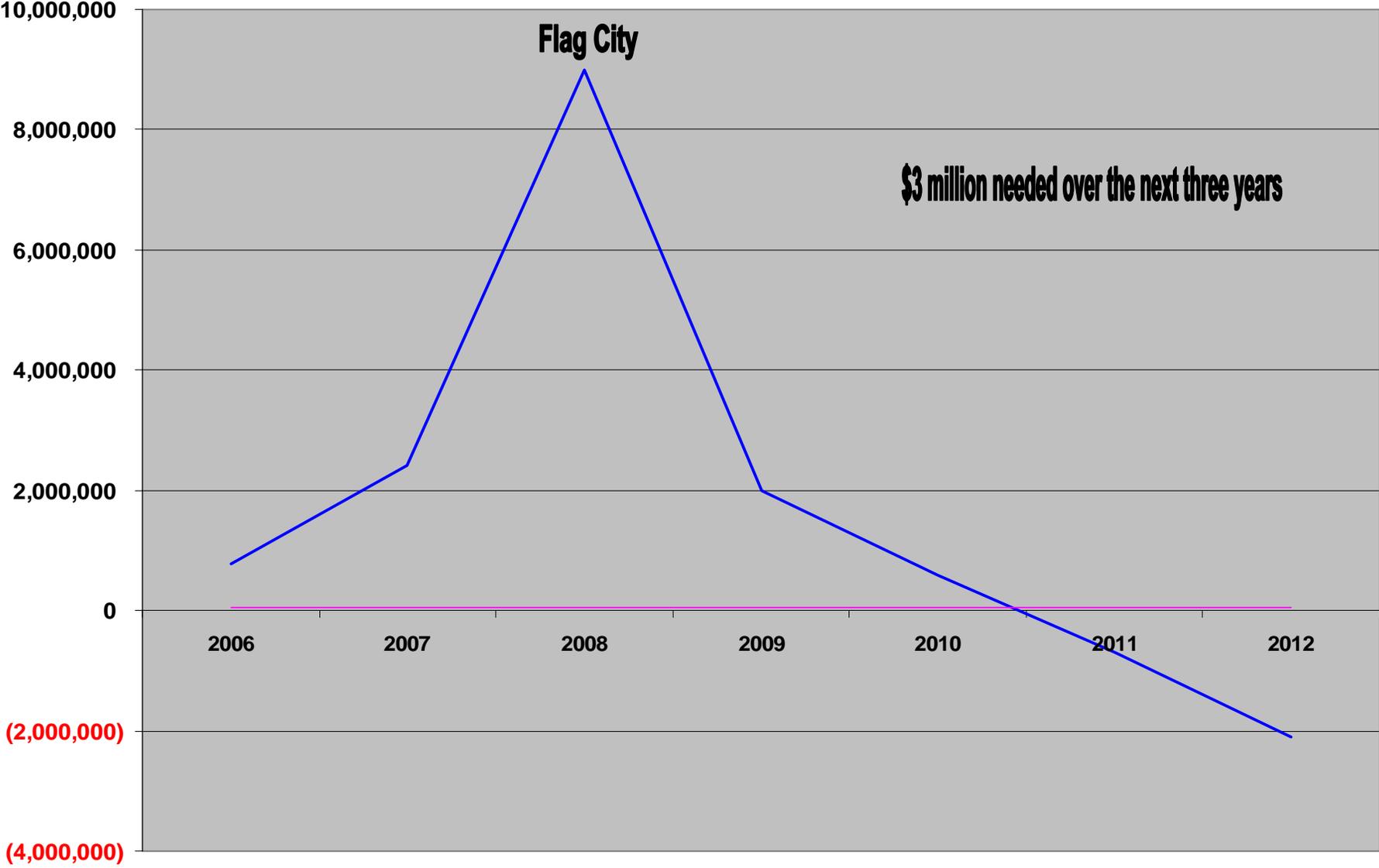
	FY 07/08 Actual	Debt Service Correction Impact Mitigation Fees	Adjusted Totals
Operating (170)	(\$8,047,274)	\$868,018	(\$7,179,256)
Infrastructure Replacement / Utility Capital (171)	14,466,841		\$14,466,841
Capital Reserve (172)	(\$8,615,688)	\$4,660,000	(\$3,955,688)
White Slough COP's Proceeds (172)	\$12,538,088		\$12,538,088
Impact Mitigation Fees (173)	\$8,962,593	(\$5,528,018)	\$3,434,575
Total	\$19,304,560	\$0	\$19,304,560

Wastewater Funds Overview

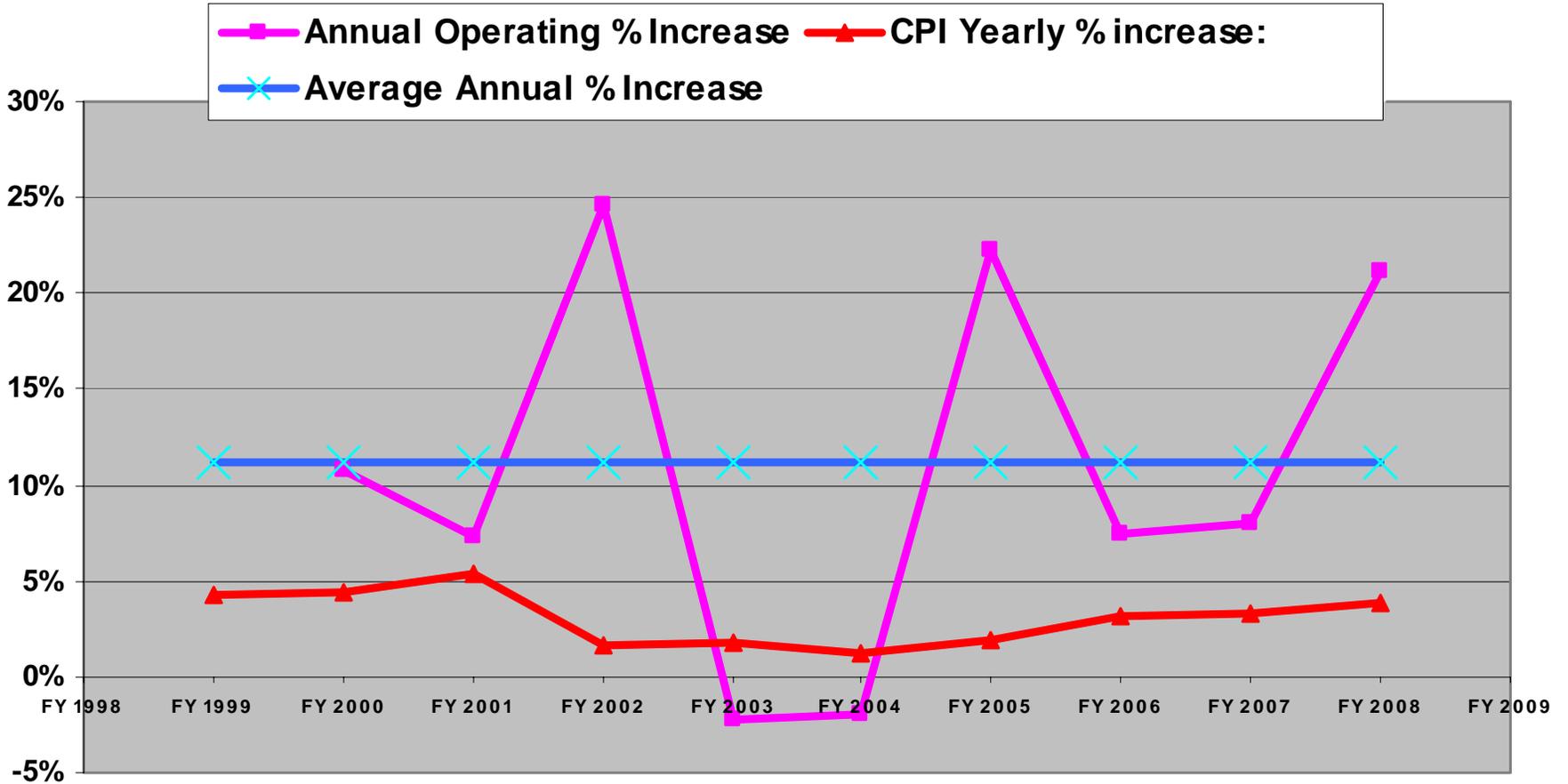
(Ending June 30, 2008)

1. Operations Fund (170)	(\$7,179,256)
2. Capital Reserve Fund (172)	<u>(\$3,955,688)</u>
Subtotal	(\$11,134,944)
3. Infrastructure Replacement	\$14,466,841
4. White Slough COP Proceeds	\$12,538,088
5. Impact Mitigation Fees	\$ 3,434,575

Wastewater IMF Fund Balance Coverage of White Slough Debt Service



Wastewater Operating Expenses



Contributing Factors

- Increase in White Slough monitoring, reporting and operations – 2008 Waste Discharge Permit
- Increase in Maintenance & Operations personnel costs – Accounting Practice
- Increase in debt service – 2007 COP's
- Increase in Cost of Services payment to General Fund

Wastewater Fund
Cash Flow Summary
Operations
(Ending June 30, 2008)

	FY 07/08 Actual
Revenue	
Sales	6,622,120
Other (interest, rent, septic, misc.)	1,155,766
Total Operating Revenues	7,777,886
Expenses	
Operating	5,102,050
Debt Service	2,320,786
Cost of Services Payment To General Fund	1,404,661
Total Operating Expenses	8,827,497
Net Decrease in Undesignated Reserves	(1,049,611)

Wastewater Funds Overview

(Ending June 30, 2008)

1. Operations Fund (170)	(\$7,179,256)
2. Capital Reserve Fund (172)	<u>(\$3,955,688)</u>
Subtotal	(\$11,134,944)
3. Infrastructure Replacement	\$14,466,841
4. White Slough COP Proceeds	\$12,538,088
5. Impact Mitigation Fees	\$ 3,434,575

Wastewater Alternatives

- Increase user rates to cover operating and debt service deficits and preserve Infrastructure Replacement funds
- Preserve 2007 COP proceeds for debt service exposure due to building slowdown
- Transfer funds from Infrastructure Replacement to Operations and Capital Reserve
- Reduce Infrastructure Replacement effort

Wastewater Recommendation

- Fund Infrastructure Replacement program at \$1.5 million/year
- Construct a \$2.0 million large project every other year and various smaller projects
- Assign \$1.0 million in revenue from Infrastructure Replacement to Operating Fund
- Implement Debt Service Correction from Impact Mitigation Fees
- Assign Infrastructure Replacement funds as follows:
 1. Fund Balance \$14,466,841 as of June 30, 2008
 2. Transfer to Capital Reserve \$ 3,955,688 Clears Pre-2004 debt service
 3. Reserve for Debt Service \$ 3,000,000 Building slowdown
 4. Transfer to Operating \$ 7,000,000 Sewer Trunk Lining Rebate
 5. Balance \$ 511,530
- Evaluate Rate Adjustments required to cover increased operating costs and to establish reserves

Questions

Water Operations Overview

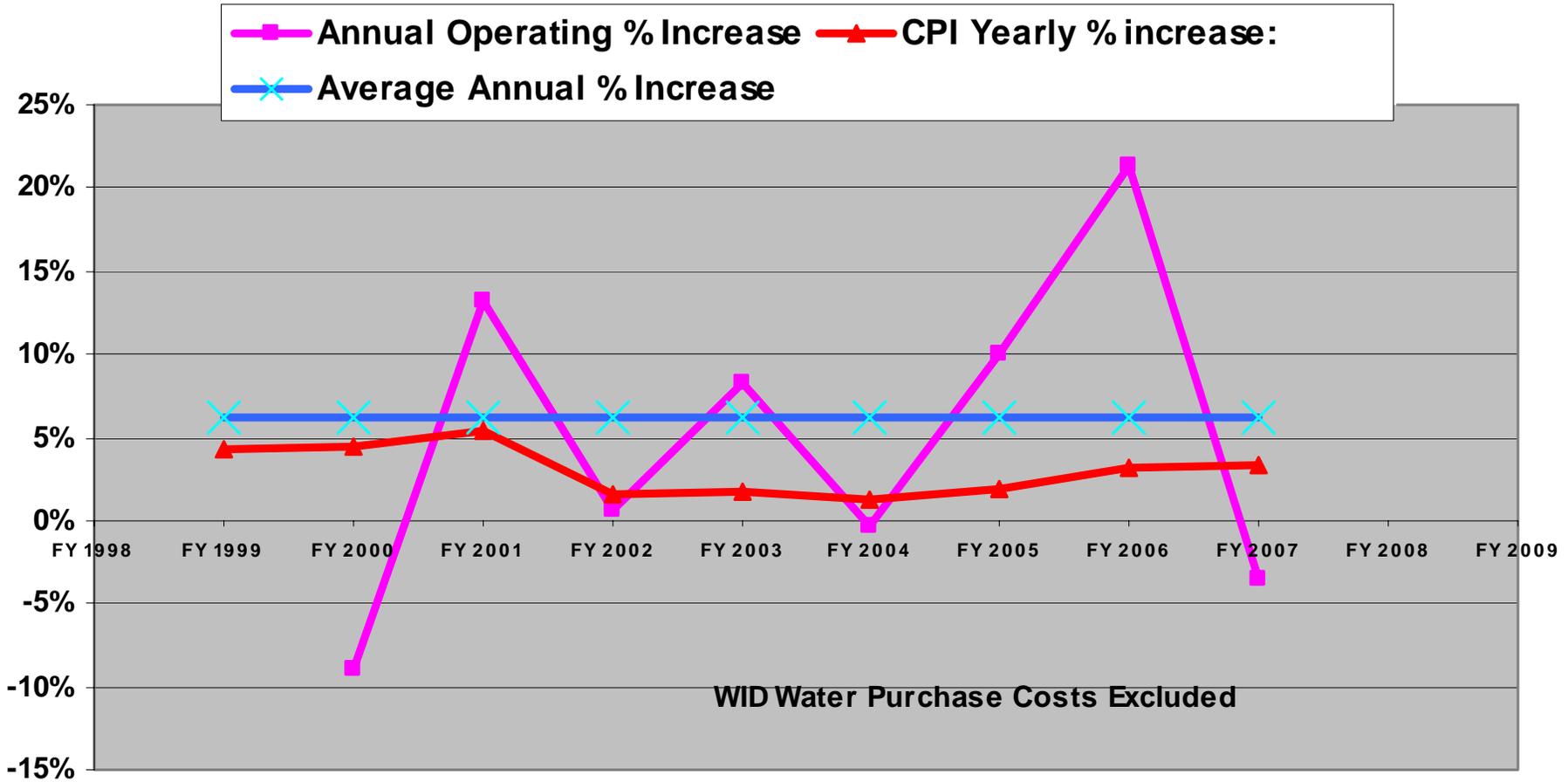
- Slight Operating Fund Surplus \$960,422 in 2008 after October 1, 2008 transfer
- Annual percentage cost increase exceeds CPI percentage adjustment (6% versus 3.4%)
- \$2.1 million surplus in Operations cash flow last fiscal year
- PCE/TCE Cleanup program funded
- Funding for the water meter installation program not established

Water Funds Cash Balances

(Ending June 30, 2008)

	FY 07/08 Actual	Transfers Reimbursing Past Litigation Expense	Adjusted Totals
Operating (180)	\$7,260,422	(\$6,300,000)	\$960,422
PCE/TCE Litigation (180)	(\$14,728,464)	\$13,000,000	(\$1,728,464)
Infrastructure Replacement / Utility Capital (181)	\$10,026,744		\$10,026,744
Impact Mitigation Fees (182)	\$1,259,057		\$1,259,057
PCE/TCE Settlements (184)	\$14,153,129	(\$1,700,000)	\$12,453,129
PCE/TCE Rates (185)	\$5,045,569	(\$5,000,000)	\$45,569
Total	\$23,016,457	\$0	\$23,016,457

Water - Operating Expenses



Water Fund
Cash Flow Summary
Operations
(Ending June 30, 2008)

	FY 07/08 Actual
Revenue	
Sales	6,349,290
Other (interest, rent, misc.)	1,075,496
Total Operating Revenues	7,424,786
Expenses	
Operating	4,201,707
Debt Service	62,676
Cost of Services Payments To General Fund	1,036,399
Total Operating Expenses	5,300,782
Net Increase in Undesignated Reserves	2,124,004

Water Alternatives

- Utilize the Infrastructure Replacement funds for water meter installation
- Reduce Infrastructure Replacement effort over time to insulate fund from future rate increases
- Increase rates to preserve Replacement funds and to fund water meter installation

Water Recommendation

- Fund Infrastructure Replacement Program at \$1.5 million/year
- Construct a \$2.0 million large project every other year and various smaller projects
- Assign \$1.0 million/year from Operating (180) and \$0.7 million/year from Infrastructure Replacement (182) for Water Meter Installations
- Allocate \$10 million of Infrastructure Replacement Program to Water Meter Installations
- Implement 5-year Accelerated Water Meter Installation Program (2009-2014)
- Evaluate Rate Adjustments required to cover increased operating costs and establish reserves

Expenditures

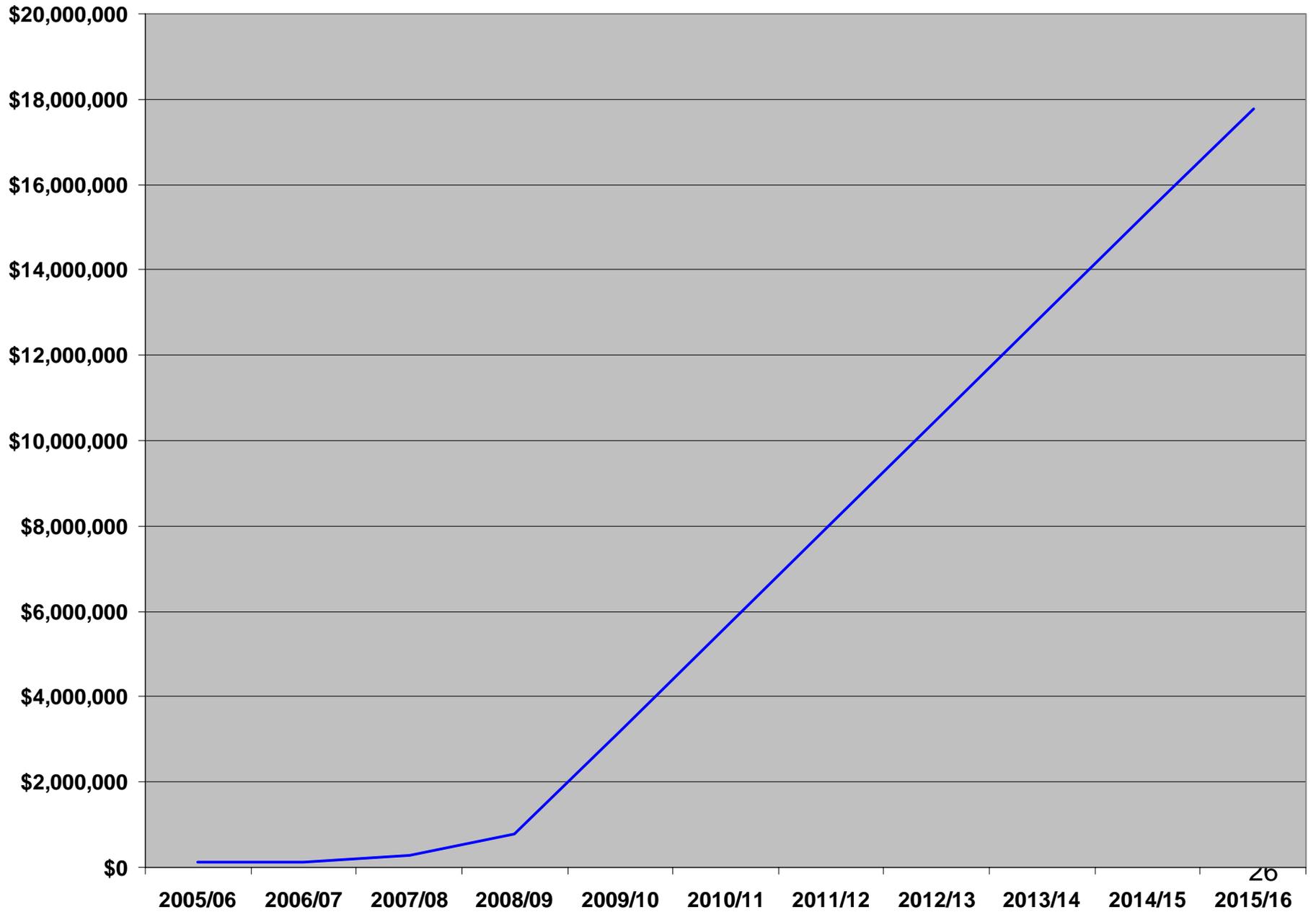
<u>Project</u>	<u>Water</u>	<u>Wastewater</u>
Stockton St. Reconstruct (Tokay to Lockeford)	266,264	327,867
Replacement Project No. 1 WW Main Replacement (Turner & Pleasant)	661,314	377,589 17,548
WW Main Replacement (Alley south of Pine)		96,027
Main St. Storm Drain Imprv. Replacement Project No. 2	1,155,938	169,878 888,401
Replacement Project No. 3 Water Main Replacement (Lockeford & Olive)	335,802	760,927
Water Main Replacement (Elm)	24,115	
Storm Drain Main Installation		<u>174,975</u>
	<u>\$2,443,433</u>	<u>\$2,813,212</u>

Questions

Annual Infrastructure Revenue

FY	Water	Wastewater
2001/02	\$0.26m	\$0.29m
2002/03	\$1.94m	\$2.23m
2003/04	\$2.03m	\$2.31m
2004/05	\$2.02m	\$2.35m
2005/06	\$2.08m	\$2.34m
2006/07	\$2.16m	\$2.40m
2007/08	<u>\$2.22m</u>	<u>\$2.49m</u>
Total	\$12.71m	\$14.41m

Water Meter Program Costs



- Increase in Debt Service to Fund 2004 and 2007 COP's
- Increase in Cost of Service Obligation
- Increases in Wastewater Treatment Costs
 - Switch to UV Disinfection (2005)