JOINT COUNCIL WATER COMMITTEE AND WATER ADVISORY GROUP MEETING OF JUNE 9, 2010

(PAGE 1)

PLACE: City Hall, Third Floor, Economic Development Conference Room, Wednesday, June 9, 2010, 11:30 a.m.

ATTENDANCE: Self introductions were made.

Council Water Committee:

Councilmember Diana Lowery, Chair
Councilmember Katherine Miller, Vice Chair
Dale Fritchen, Member

Water Advisory Group:

Bill Loyko, Vice Chair
Gary Giovanetti, Member
Andrea Hurford, Member
Doug Kuehne, Member
Jeff Sanguinetti, Member

Staff:

Mark Madison, MUD Director
Jeff Willett, MUD Assistant Director
Larry Parlin, Deputy Director Wastewater
Kirk Cloyd, Deputy Director Maintenance & Collections
Deedee Antypas, Program Manager III
Ralph Risso, Program Manager II
Guy Petzold, Deputy City Attorney
Mark Moses, Admin Services
Mike Taylor, City Auditor
Ava Langston-Kenney, Program Manager III
Betty Garcia, Office Specialist

Others:

John Beckman, Building Industry Association
Shawn Koorn, HDR
Sarah Modest, Kennedy Modeste Communications
John Bliss, SCI Consulting Group
Thomas Brightbill, SCI Consulting Group
Sylvia Kothe, Concerned Citizens Coalition of Stockton

AGENDA ITEM 10.01
PUBLIC COMMENT:

Ms. Sylvia Kothe, Chair person of the Concerned Citizens Coalition of Stockton, presented a list of concerns regarding the proposed rate increases for both Wastewater and Stormwater Utilities and the Municipal Utilities Department’s management of funds. The list of concerns is attached.

ISSUE #1

Wastewater and Stormwater Rate Studies Status Report (MUD)

COMMITTEE RECOMMENDATION

Recommend to the City Council: (1) Approve a resolution authorizing a Proposition 218 Notice and to schedule a Public Hearing for the August 17, 2010 City Council meeting to consider a Wastewater rate increase; and (2) Approve a resolution authorizing a Proposition 218 Public Notice and to scheduled a Public Hearing to consider mailing the ballots for a Stormwater rate increase.

COMMITTEE REPORT TO THE CITY COUNCIL

DISCUSSION

Background

Mr. Madison stated that staff would be asking for a recommendation from this committee to bring forth to the City Council for approval regarding the proposed rate increases for both Wastewater and Stormwater utilities on June 29.

Wastewater and Stormwater Rate Studies Status Report (MUD)

Mr. Madison briefly reviewed a power point presentation to the committee regarding the work efforts to date concerning the proposed rate increases. Mr. Shawn Koor reviewed the assumptions that were included in both Wastewater and Stormwater rate studies. After much discussion, staff was directed to select an appropriate CPI (Consumer Price Index) for both the Wastewater and Stormwater proposed utility rate increases and that a minimum increase not be set. Mr. Kuehne asked staff to provide proposed rate comparisons for both Wastewater and Stormwater with other communities as it applies to both Industrial and Commercial users.

Chair Lowery asked that staff continue to keep the stakeholders informed regarding the public information component and educational materials. Mr. Madison stated the Public Outreach awareness efforts would continue.
A motion was made/seconded by the Water Advisory Group (Sanguinetti/Giovanetti) to recommend the Council Water Committee make a recommendation to the City Council to approve a Resolution authorizing a Proposition 218 Public Notice and to schedule a Public Hearing for the August 17, 2010 City Council meeting to consider a Wastewater rate increase. The motion passed 4 to 1 with Bill Loyko casting a no vote.

A motion was made/seconded by the Council Water Committee (Miller/Lowery) to recommend to the City Council at their June 29, 2010 meeting to approve a Resolution authorizing a Proposition 218 Public Notice and to schedule a Public Hearing for the August 17, 2010 City Council meeting to consider a Wastewater rate increase. The motion passed unanimously.

A motion was made/seconded by the Water Advisory Group (Sanguinetti/Giovanetti) to recommend the Council Water Committee make a recommendation to the City Council to approve a Resolution authorizing a Proposition 218 Public Notice and to schedule a Public Hearing to consider mailing the ballots for a Stormwater rate increase. The motion passed 4 to 1 with Bill Loyko casting a no vote.

A motion was made/seconded by the Council Water Committee (Miller/Lowery) to recommend to the City Council at their June 29, 2010 meeting to approve a Resolution authorizing a Proposition 218 Public Notice and to schedule a Public Hearing to consider mailing the ballots for a Stormwater rate increase. The motion passed unanimously.

There being no further discussions, the meeting was adjourned at 1:00 p.m.

COUNCIL WATER COMMITTEE
June 9, 2010

Councilmember Diana Lowery, Chair

Councilmember Katherine Miller, Vice Chair

Dale Fritchkin, Member
CITY OF STOCKTON  
CITY COUNCIL COMMITTEE  
SPECIAL MEETING NOTICE  

JOINT COUNCIL WATER COMMITTEE/WATER ADVISORY GROUP  

DATE: June 9, 2010  
TIME: 11:30 a.m.  
PLACE: City Hall, 425 N. El Dorado Street  
Third Floor, Economic Development Conference Room  

COUNCIL WATER COMMITTEE MEMBERS:  
Diana Lowery, Chair  
Dale Fritchen, Member  
Katherine Miller, Vice Chair  
Susan Talamantes Eggman, Alternate  

WATER ADVISORY GROUP MEMBERS:  
Mike Locke, Chair  
Gary Giovannetti, Member  
Lynne Sutton, Member  
Andrea Hurford, Member  
Bill Loyko, Vice-Chair  
Doug Kuehne, Member  
Jeff Sanguinetti, Member  

STAFF NOTICED:  
Kevin O'Rourke, Interim City Manager  
John Luebberke, Interim City Attorney  
Katherine Meissner, City Clerk  
Mike Taylor, City Auditor  
Laurie Montes, Deputy City Manager  
Mike Callahan, Senior Engineer (MUD)  
Deedee Antypas, Business Services Mgr.  
Melissa Price, Program Manager III  
Jeff Willett, MUD Assistant Director  
Bob Granberg, MUD Deputy Director  
Florence Low, Program Manager  
Connie Cochran, Public Information Officer  
Betty Garcia, Office Specialist (Recorder)  

RESPONSIBLE DEPARTMENT AND STAFF FOR ITEMS ON THE AGENDA:  
Mark Madison, MUD Director  

OTHERS INVITED:  
The Record  

PUBLIC COMMENT  

ISSUE(S) TO BE DISCUSSED:  
Wastewater and Stormwater Rate Studies Status Report (MUD)  

cc: City Council  
For information contact Carolina Saqueton at 209-937-8215.
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<tr>
<th>Name</th>
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<td>Betty Garcia</td>
<td>MUD</td>
<td>8763</td>
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<td>Guy Petzold</td>
<td>City Attorney</td>
<td>937-8935</td>
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<tr>
<td>Jeff Sommers</td>
<td>ARA</td>
<td>927-6899</td>
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<td>Andrea Hurford</td>
<td>WAG</td>
<td>466-1401</td>
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<td>Doug Kuehne</td>
<td>WAG</td>
<td>741-5583</td>
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<td>Bill Loyko</td>
<td>WAG</td>
<td>981-5723</td>
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<td>Gary G. Giovannetti</td>
<td>WAG</td>
<td>605-5460</td>
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<td>Dana Louery</td>
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<td>Kathy Miller</td>
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<td>Shawn Toomey</td>
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<td>John Bliss</td>
<td>SCI Consulting Group</td>
<td>707-430-4300</td>
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<td>Thomas Brightbill</td>
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<td>Mark Moses</td>
<td>AEA</td>
<td>207-727-5778</td>
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<td>Ralph Risso</td>
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## JOINT COUNCIL WATER COMMITTEE
### WITH WATER ADVISORY GROUP
#### June 9, 2010
City Hall – 425 N. El Dorado Street
Third Floor – Economic Development Conference Room

### Sign-In Sheet

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<td>Larry Parkman</td>
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<td>Ava Langston-Bennett</td>
<td>COS Economic Development</td>
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<td>Mike Taylor</td>
<td>COS Audit</td>
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<td>Sylvia Koffe</td>
<td>Concerned Citizens</td>
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WASTEWATER & STORMWATER UTILITY RATE STUDIES FINAL REPORT

JOINT MEETING
Council Water Committee & Water Advisory Group
June 9, 2010

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What is needed from the CWC/WAG?

- Recommend to the City Council proceeding with Proposition 218 Public Notice proceedings consider a wastewater rate increase

- Recommend to the City Council proceeding with a Proposition 218 Public Notice and balloting procedure for a stormwater rate increase
Work Efforts To Date

- 11-09 - Introduced need for rate studies to CWC
- 12-09 - Council approved rate consultant RFP
- 1-20 - First introduction to WAG of rate studies
- 2-17 - Discussed debt service coverage with WAG
- 2-23 - Consultants interviewed
- 3-16 - Council approved HDR contract
- 4-6 - Kick-off meeting with consultant team
- 4-14 - Described work progression to CWC
- 4-21 - Explained work progress/involvement to WAG
- 5-12 - Discuss preliminary rate increases with CWC
- 5-19 - Discuss preliminary rate increases with WAG
- 6-9 - Present final financial plan for approval

Rate Comparisons

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<tr>
<th>City</th>
<th>Wastewater</th>
<th>Stormwater</th>
<th>Population</th>
<th>Total</th>
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<td>$6.24 (Tier 2)</td>
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<td>Tracy</td>
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<td>Lodi</td>
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*Modesto just passed a WW rate increase. It will increase again to $34.41 in 2014
Rate Comparisons-Bay Area

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<th>Stormwater</th>
<th>Population</th>
<th>Total</th>
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<td>$22.75</td>
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<td>Pleasanton</td>
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<td>In Wastewater</td>
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<td>Vallejo</td>
<td>$37.75</td>
<td>In Wastewater</td>
<td>116,760</td>
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<td>Livermore</td>
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<td>Richmond</td>
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<td>San</td>
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<td>Francisco</td>
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Wastewater Assumptions

**Wastewater calculations reflect:**
- Phase 3B increased staffing for wastewater
- Actual 2010-2011 Budget projections
- CIPs estimated over the next 20 years
- Plant upgrade costs estimated conservatively (+/- $20M)
- Plant upgrade design to begin in 2011-2012
- Plant upgrade construction begins in 2012-2013, lasts for 5 years
- Council Reserve Policy (50% of O&M) funded over 10 years
- Facility repair & replacement costs
- Debt service coverage ratio of app 1.25 (incl. connection fees)
- Annual CPI of approximately 3.0%
Wastewater Financial Plan

The following options are being recommended by the consultant to reduce initial impact of a rate increase:

- 1 year defeasance of current COP payments in 2010-2011.
- Bonds in 2012, 2015 & 2018 for plant upgrade and large CIPs
  - Assumed 30-year at 5.75%.
- Include additional $1M in revenue for increased debt service coverage requirement from new bonds
- Funding Council Reserve Policy over longer period (12-15 years) can reduce rate increase impacts
- Adopt an annual CPI of no less than 3%
- Fund a rate stabilization fund

Wastewater Analysis ($000's)

With Defeasance & Rate Stabilization

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<td>Total Rate Revenue</td>
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<td>$267,417</td>
<td>$277,417</td>
<td>$287,417</td>
<td>$297,795</td>
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<td>$317,795</td>
<td>$327,795</td>
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<td>Total Maintenance Revenue</td>
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<td>0</td>
<td>0</td>
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<td>O&amp;M Expense</td>
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<td>NET Debt Service</td>
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<td>5,057</td>
<td>6,047</td>
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<td>9,017</td>
<td>10,007</td>
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<td>Proposed Rate Increase</td>
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<td>Debt Service Coverage Ratio</td>
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</table>

*Net debt service is total debt service less connection charges used for debt service
**Funding Policy at 30% of O&M and Reserves Fund Balance

Approximately 83,880 customers total
78,900 residential, 4,750 commercial, 230 industrial/institutional
Commercial User
Medium Use, Medium Strength

- Present Rates:
  - Consumption ($/CCF) – 419
  - Monthly Total Charge - $469.21
- Proposed Rates:
  - Consumption ($/CCF) – 419
  - Monthly Total Charge - $559.58
- Rate Difference - $90.37

Schools & Church Customer

- Present Rates:
  - Consumption ($/CCF) – 138
  - Monthly Total Charge - $84.26
- Proposed Rates:
  - Consumption ($/CCF) – 138
  - Monthly Total Charge - $100.44
- Rate Difference - $16.18
Industrial User

- Present Rates:
  - Low Volume - $272.94
  - Medium Volume - $10,102.25
  - High Volume - $111,403.75

- Proposed Rates:
  - Low Volume - $324.80
  - Medium Volume - $12,021.57
  - High Volume - $132,569.53

- Rate Difference:
  - Low Volume - $51.86
  - Medium Volume - $1,919.32
  - High Volume - $21,165.78

Stormwater Assumptions

- **Stormwater calculations reflect:**
  - Phase 3B increased stormwater staffing positions
  - CIPs estimated over the next 20 years
  - Council Reserve Policy (50% of O&M) funded over 10 years
  - Lease payments to General Fund for land use
  - Jarvis Settlement repayment to General Fund
  - 0.5% annual customer growth beginning in 2014-2015
  - County reimbursement for joint oversight of NPDES permit
  - No current reserve balance
  - Using the same ERU calculation data as approved in 1994
  - Annual CPI of approximately 3.0%
Stormwater Financial Plan

- The following options are being recommended by the consultant to fund the utility:
  - □ Adopt an annual CPI of no less than 3%.
  - □ Bonds in 2013 may not be necessary
    - □ Dependent on timing of CIPs
    - □ If CIPs can be cash funded, funding debt service coverage requirements will not be necessary
  - □ Finance funding can include loans from either water or wastewater

Stormwater Analysis ($000's)

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<td>Total Miscellaneous Revenue</td>
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<tr>
<td><strong>TOTAL REVENUE REQUIREMENT</strong></td>
<td>$13,450</td>
<td>$13,825</td>
<td>$13,824</td>
<td>$16,960</td>
<td>$16,382</td>
<td>$16,882</td>
<td>$18,862</td>
<td>$17,354</td>
<td>$17,572</td>
<td>$17,676</td>
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<tbody>
<tr>
<td><strong>Proposed Rate Increase</strong></td>
<td>197.0%</td>
<td>7.0%</td>
<td>3.0%</td>
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<tr>
<td><strong>AVERAGE RESIDENTIAL MONTHLY ROLL</strong></td>
<td>$2.10</td>
<td>$2.20</td>
<td>$2.00</td>
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<td><strong>$ Difference</strong></td>
<td>$4.06</td>
<td>$5.69</td>
<td>$5.56</td>
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<td><strong>DEBT SERVICE COVERAGE RATIO</strong></td>
<td>0.00</td>
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Approximately 76,160 customers total
71,140 residential, 4,985 commercial, 35 industrial/institutional
Public Outreach

- Stakeholder groups have been interviewed.
- Keeping outreach message consistent with interview response
- July Utility Bill insert will contain educational material about MUD and the utilities
- Website under construction
  - Coordinating with Connie Cochran
- Scheduled Presentations:
  - Stockton Chamber of Commerce Board of Directors, 5-27
  - MIDR, 6-10, 7:30 am
  - BIA, 6-10, 10:30 am
  - Lion’s Club, 6-22, noon
  - SJ. Business Council Board of Directors, 7-15, noon

Rate Studies Prop 218 Timeline
Failure To Pass

- Failure to pass either rate increase will have significant negative affects
- Wastewater will fail to meet bond coverage covenants for a 3rd year
- City's bond rating will decline and affect future bond issuance
- Utility will be unable to fund required compliance work
- Stormwater will continue to be unable to fund operations
  - Non-compliance with NPDES permit requirements
  - Need assistance from General Fund to avoid severe penalties

Recommendations

Recommend to the City Council:

- Approve a resolution authorizing a Proposition 218 Public Notice and to schedule a Public Hearing for the August 17, 2010 City Council meeting to consider a wastewater rate increase
- Approve a resolution authorizing a Proposition 218 Public Notice and to schedule a Public Hearing to consider mailing the ballots for a stormwater rate increase
WASTEWATER & STORMWATER
UTILITY RATE STUDIES
STATUS REPORT

QUESTIONS?
My name is Sylvia Kothe, Chairperson of the Concerned Citizens Coalition of Stockton.

The rate study and the proposed increases are significant, especially to those already in financial stress. It would be hard to argue against a rate increase, given the constant flow of mandates from the state and the water board. But making sure the rate is correct and the revenue is managed properly is a great concern to our organization.

Our first concern is the increase does not detail what specific projects the new revenue will provide. The Municipal Utility Department is about to enter into a large project with an outside consultant to create the list of needed projects. There is mention that bonds will be issued and construction will begin in 2012. Construction on or of what... and how much will the bond issue be? We believe that the proposed rate increase should be put into effect AFTER the completion of the study in order to assure the residents of Stockton that rate increases are for specific reasons.

Second, we challenge the MUD department to re-examine its hiring program and look for efficiencies. Three years ago things looked one way and today they are different. The new proposed improvements could change things even more. The success or failure of current programs, like the fats, oil and grease project, could require more frontline staff than originally proposed. We believe that the right people for the job should be hired, not just a plan proposed years ago, frontline employees doing the work in the trenches, not just engineers sitting in offices. Is the current
MUD staff organized to effectively and efficiently carry out the MUD business plan?

Third, we have some concerns regarding MUD's management of its finances. There are many "reasons" why the MUD finances are in trouble. Over the past two fiscal years and the one on the horizon, revenue was not managed properly. Before retention bonuses were paid after privatization, was that something the MUD budget could handle? Before people were hired, was there money to meet that impact of new employees? When the business plan was written, were rate increases part of the plan? Was there foresight to see this need and draft it into the plan? If there are a significant number of projects on the horizon, why wasn't a study done three years ago? All this leads to a question of management of resources, and before we support a rate increase, we want to know that there will be better supervision of MUD revenues.

Finally, we don't want to sit on the sideline and critique from afar. We know that the MUD department has failed to meet certain bond covenants and a ratio of 1.25. Given the lawsuit settlements, the impending improvement study and new mandates, we would propose a rate increase in FY 2010-11 that would meet the 1.25 requirement and look at any long term rate increase after MUD has an idea of what actually must be done, the order in which projects must be completed and a better idea of the actual cost.