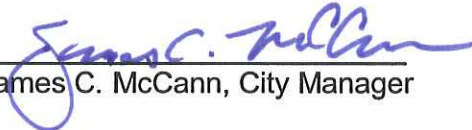


City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: David W. Spilman, Administrative Services Director/City Treasurer
DATE: September 16, 2008
SUBJECT: Fiscal Year 2008-10 Operating and Capital Improvement Budgets for the Water and Wastewater Funds

APPROVAL FOR FORWARDING:


 James C. McCann, City Manager

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ISSUE: Consideration of a Resolution adopting the Fiscal Year 2008-10 the Water and Wastewater Funds Operating and Capital Improvement Budgets.

RECOMMENDATION: Adopt the Resolution.

BACKGROUND AND DISCUSSION: The City practices a two-year budget process, which calls for an annual regular review, modification, update and new projections to reflect on-going and new economic conditions and local needs. This is a more comprehensive multi-year budgeting and planning process to review and update and is also a little more complex in the balancing multiple fiscal years than a typical single year budget process. However, to both the Council and staff, there are great advantages to reviewing revenues and costs over two or more years to better anticipate and plan for the inevitable changes.

Both the Water and Wastewater systems are complex operations that are heavily regulated by the State and Federal governments for public health safety and environmental impacts. Both systems depend on management of water resources, require a high degree of technical monitoring and maintenance to meet increasing regulatory requirements, and have high transportation, treatment and energy costs.

The cost to provide these services is typical of a small community and higher than that other larger communities that can spread costs over a larger number of users. The staff is continually looking at ways to reduce costs with flexible scheduling of staff, additions or improvements to use of technology and close monitoring and maintenance of the systems.

Both systems are under fiscal stress to address the always increasing requirements of regional regulations, to provide safe drinking water, effectively recycle wastewater, meet the needs of the community and, at the same time, keep the costs and user rates as low

31 as possible. Below is a summary discussion of the revenues and expenses of both
32 Water and Wastewater systems.

33

34 In May 2008, the Council adopted short-term and long-term priority projects to establish
35 areas of focus and budgeting direction. This direction emphasized the need to complete
36 existing major Capital Improvement Projects. Staff has incorporated this policy direction
37 into the development of the FY 08-10 budgets with updated water and wastewater rate
38 study, a comprehensive wastewater system assessment and master plan update, and
39 the completion of the Kimball Water Treatment Plant Improvements and the Mt.
40 Washington 1.5 million gallon storage tank.

41

42 Staff has long approached budgeting with strong emphasis on realistic projections of
43 revenue production, operating and capital expenses to during the fiscal year and that the
44 City's financial condition is accurately presented and that this financial position remains
45 sound. We continue these practices with for FY 08-10.

46

47 Attached is the recommended draft FY 08-10 Operating and Capital Improvement
48 Budget for the Water and Wastewater Funds. Below is a discussion of the major issues
49 in the budget.

50

51 **Revenues and Reserve Balances**

52

53 **Water Enterprise**

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55 The Water user rates have remained the same since January 2006. The user revenue
56 projections for FY 08-09, without a rate increase, will barely generate annual revenues
57 sufficient cover the costs of operations, less depreciation expense, and debt service, and
58 meet the required reserve capacity. In FY 09-10, the revenues will not meet the added
59 costs for that year. Included in this budget are preliminary recommended rate
60 adjustments of 5% for each fiscal year to offset inflationary costs, added regulatory
61 requirements, meet the maintenance and operations needs and fund additional
62 improvements.

63

64 Staff will be developing an update to the 2002 Water Rate Study in October for a
65 preliminary review by the City Council and then public review over the next two months.
66 The update will include revised projections on consumption, cost of maintaining
67 operations under more stringent regulatory requirements, development and capital
68 improvement needs over the next five to seven years. It is anticipated that there will not
69 be a major change in allocation of costs to the different users as there was in the 2002
70 study. There will also be various options to fund the water system from rates,
71 adjustments to the connection fee rate, grants and financing. These rate changes will be
72 part of the update to the Water Rate Study and review process, and recommended for
73 consideration and adoption in the winter. The budget resolution recommended for
74 adoption at this meeting will not change the current water rates.

75

76 The Connection Fees are one time development fees set to recover capital improvement
77 costs relating to new or expanded development. The connection fee revenues are
78 estimated based on known developments that are anticipated to proceed over the two
79 years and a reduced conservative estimate of other development. An estimated 80% of

80 the connection fees are used to pay for an estimated 60% of the annual debt service that
81 relates to the improvements benefiting new development. This is how new development
82 pays for improvements that allow for development. This also reduces the burden on
83 user rates. The Water Rate study will also review and adjust the connection fee rates to
84 account for future improvements and changes in costs to be recovered from new
85 development. The Water Connection Fee will likely increase with the allocation of the
86 higher costs for the Water Tank than was initially projected in the 2002 Rate Study and
87 additional main improvements.

88
89 In FY 08-09 and 09-10, the Water Fund maintains an operating reserve of 20% of
90 operating expenses or around \$393,000. In addition, the required Debt Service Reserve
91 is fully funded. The total working capital ending in FY 09-10 is projected to be \$759,000,
92 which is a low amount considering the ongoing system maintenance and capital
93 improvement needs of the Water system over the next five to seven years.

94 95 **Wastewater Enterprise**

96
97 The Wastewater Enterprise revenue projections for FY 08-09 and 09-10 do not
98 adequately fund the operations and meet the required reserve capacity. This budget
99 includes preliminary recommended rate increases of 5% for each year, which is barely
100 adequate to meet the costs of operations, less depreciation expense, and debt service,
101 and meet the required reserve capacity. This recommendation will need to be discussed
102 in the updated Wastewater Rate Study.

103
104 In June 2004, a five year Revenue Program was adopted and implemented. The annual
105 user rate changes were modest from 3% to 5% and the last increase was 4% in January
106 2008. The operating costs of the Wastewater Treatment Plant were greater than were
107 initially projected in the Revenue Program and the rate increases did not generate
108 sufficient revenues to adequately fund operations and reserves over the last several
109 years. Over the years, the Public Works staff has been working to reduce costs with
110 greater efficiency and changes in operations. However, with the growing regulatory
111 requirements there will be a need to increase future user rates over the next five to
112 seven years to adequately fund the wastewater operations.

113
114 As discussed above, staff will also be developing a Wastewater Rate Study in October to
115 project options to provide adequate funding of the Wastewater operations.

116
117 The Connection Fee revenues for Wastewater are similar to the Water Connection Fees
118 discussed above. The revenues are estimated based on known developments that are
119 anticipated to proceed over the two years and a reduced conservative estimate of other
120 development. An estimated 80% of the connection fees are used to pay for an estimated
121 40% of the annual debt service that relates to the improvements benefiting new
122 development. The Wastewater Rate study will also review and adjust the connection fee
123 rates to account for future improvements and changes in costs to be recovered from new
124 development.

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128 The Wastewater budget is projecting ending working capital for FY 09-10 at \$414,600,
129 which is less than a 20% operating and required reserve amount. Again, the Wastewater
130 Rate study will need to address this shortfall and present different options to reduce
131 costs and increase operating revenues to adequately fund the Wastewater System.

132
133

Expenditures

134

135 Last year, as part of the efforts to reduce future operating cost increases to meet
136 growing operating and regulatory demands of both the Water and Wastewater systems,
137 the City Council authorized an additional Plant Operator position to offset the high
138 overtime, standby and call out costs, and provide for better staffing flexibility. In addition,
139 there is a need for another Plant Operator position to start in January 2009 to provide for
140 the new Community Pool operations (30% of the time) and address the deferred
141 maintenance and operations of both the Water and Wastewater systems (the remaining
142 70% of time).

143

144 As discussed above, both systems are heavily regulated by various State and Federal
145 agencies and operate under various regulatory permits. Compliance letters over the
146 past years have required the City to address the concerns of the agencies and result in
147 increased staffing, monitoring and testing, technical studies and reporting and
148 corresponding expense to the service.

149

Water

150

151 The operating and equipment costs are projected to increase 15% in FY 08-09 from the
152 prior year, from \$2 million to \$2.3 million primary due to the additional positions and
153 required regulatory studies. The increase in FY 09-10 from FY 08-09 is just over 1%
154 primarily due to reductions in overtime, repairs and maintenance and completion of
155 studies.

156

157 The Water Operations budget includes continuation of water conservation programs and
158 replacement of equipment.

159

Wastewater

160

161 The operating and equipment costs are projected to increase 13% in FY 08-09 from FY
162 07-08 and are project to remain essentially the same in FY 09-10. The changes are due
163 to the additional positions, reduced overtime, various regulatory studies and, in FY 08-
164 09, an increase in sludge disposal costs.

165

166 The Wastewater budget includes the regulatory costs to renew the NPDES Discharge
167 Permit and replacement and new equipment for the Wastewater system.

168

169 Public Works staff will be available to answer any questions regarding the details to the
170 operating costs of the Water and Wastewater systems.

171

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177 **Special Projects**

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179 This new category of expenditures was added to reflect significant one time or short term
180 costs that are not really ongoing operating costs or capital improvements. It is
181 anticipated that major studies will be included in this category that are currently included
182 in the operations or capital improvements.

183

184 Staff will recommend some adjustments to the budget to shift costs from operations or
185 capital improvements over the next year to better show these types of special costs.

186

187 **Capital Improvement Projects**

188

189 Over the next 2 years, it is planned to spend \$8.1 million in Water System
190 improvements. This includes major projects of \$5.5 million for the Mt. Washington Water
191 Tank, \$1.4 million for Kimball and Water Treatment Plant improvements, \$115,000 to
192 improve security to the Water Treatment Plant, \$240,000 to upgrade water meters for
193 automatic reading and \$192,000 for replacement of mains. In addition, it is proposed to
194 perform a Cathodic Protection survey of mains and begin the review of repair of the
195 Fiege Canyon Water Storage Tank. There will also be future capital improvement costs
196 over the next five to seven years that will be part of the Water Rate Study projections.

197

198 In the Wastewater System, there is projected \$345,000 in improvements over the next 2
199 years. This includes a Wastewater System Assessment and Master Plan, upgrading of
200 pumps and design of a Grit Removal System to be installed in the following year. As a
201 result of the Assessment and Master Plan, there will likely be additional improvements
202 identified to maintain the Wastewater system. In the Wastewater Rate study, there will
203 be estimates of projected needs over the next five to seven years.

204

205 **Financing Improvements**

206

207 A typical method of funding needed improvements of enterprise infrastructure is with
208 short and long term financing. This spreads the costs of the major improvements over a
209 longer period that reduces the burden on the rate payers.

210

211 Included in the FY 08-09 and 09-10 Water System budgets are the completion of the
212 financing the Mt. Washington Water Tank. It is anticipated to issue a \$5.5 million
213 financing in FY 08-09.

214

215 In addition, it is recommended to continue the leasing of vehicles and certain major
216 equipment for both the Water and Wastewater systems

217

218 **Grants**

219

220 The staff has been pursuing grant opportunities (a Council goal) to reduce the Water and
221 Wastewater financial burden on the rate payers. In FY 08-09, the \$1 million USDA grant
222 will fund the majority of the Kimball Water Treatment Plant upgrade. Also, as part of the
223 Napa County Measure A funded projects, the City will request the annual funding of the
224 debt service (an estimated \$130,000 per year) for the \$2.5 million USDA loan that was
225 used for the Kimball pipeline replacement and improvements to the Water Treatment

226 Plant. In FY 09-10, a Proposition 50 grant for \$59,000 will be used to partially fund the
227 water treatment security upgrades.

228

229 We will continue to explore and pursue grant opportunities for grants associated with
230 Water and Wastewater Enterprise Fund improvements.

231

232 **Recommendation**

233

234 It is recommended that the Council review this material, discuss it during our meeting of
235 the 16th and adopt the attached Resolution approving the Fiscal Year 2008/2009 Budget
236 Update and the projected Fiscal Year 2009/2010 Water and Wastewater Operating and
237 Capital Improvement Projects Budgets.

238

239 **ATTACHMENTS:**

240

241 1. Resolution

242 2. Water and Wastewater FY 08-10 Draft Budget documents

RESOLUTION 2008- ____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA, COUNTY OF NAPA,
STATE OF CALIFORNIA, AMENDING THE WATER AND WASTEWATER FUNDS
OPERATING AND CAPITAL IMPROVEMENT BUDGET FOR FISCAL YEAR 2007/2008 AND
ADOPTING THE OPERATING AND CAPITAL IMPROVEMENT BUDGET FOR FISCAL YEAR
2008/2009 AND FISCAL YEAR 2009/2010**

1 **WHEREAS**, the Calistoga Municipal Code requires the City Manager to prepare and
2 submit an Annual Budget to the City Council for its approval; and

3 **WHEREAS**, it is good management practice to have a comprehensive Operating and
4 Capital Improvement Budgets to implement the various policies, programs and projects of the
5 City Council, and the City Council has established a policy to review and adopt rolling multiple
6 Fiscal Year (FY) Budgets; and

7 **WHEREAS**, the City Council on September 16, 2008 reviewed the Draft FY 2008/2010
8 Water and Wastewater Budgets; and

9 **NOW, THEREFORE BE IT RESOLVED** that the City Council of the City of Calistoga
10 does hereby amend the Operating and Capital Improvement Water and Wastewater Funds
11 Budgets for Fiscal Year 2007/2008 and approve and adopt the Operating and Capital
12 Improvement Budgets for Fiscal Years 2008/2009 and 2009/2010 as submitted by the City
13 Manager.

14 **NOW THEREFORE BE IT FURTHER RESOLVED** that,
15

- 16
- 17 1. Funds are appropriated from various funds for total expenditures by Department and
18 Capital Projects for Fiscal Years 2007/2008, 2008/2009 and 2009/2010 as
19 summarized in Exhibit A, attached hereto.
 - 20
 - 21 2. Transfers between funds are authorized and reserve amounts are established as
22 shown in the Budget Document on file with the City Clerk.
 - 23
 - 24 3. The City Manager is authorized to approve budget changes between accounts within
25 each Department and that any budget changes in the total budget of the
26 Department, Capital Project or Fund requires City Council approval.
 - 27
 - 28 4. The Fiscal Year 2007/2008 Budget is amended as a Final Budget as summarized in
29 Exhibit A, attached hereto, and that any unreserved and undesignated funds
30 remaining on June 30, 2008 are hereby designated as reserved for appropriation in
31 future Fiscal Years.
 - 32

33 **PASSED, APPROVED, AND ADOPTED** by the City Council of the City of Calistoga at a
34 regular meeting held this **16th of September 2008** by the following vote:

35
36 **AYES:**

37 **NOES:**

38 **ABSENT:**

39 **ABSTAIN:**

40
41 _____
42 **JACK GINGLES, Mayor**

43 **ATTEST:**

44 _____
45 **SUSAN SNEDDON, City Clerk**