

City of Folsom
Utility Commission
Draft Action Minutes
March 20, 2012 - 6:30 pm

CALL TO ORDER

Chairman Ryan called the meeting to order at 6:30 p.m.

ROLL CALL

Present: Commissioners: Bringgold, Cook, Davis, Kahlon, Oosterman, Ryan

Absent: Commissioners: Standley

Staff Present: Richard Lorenz, Public Works/Utilities Director; Todd Eising, Utilities Department; Evert W. Palmer, City Manager; James W. Francis, Finance Director/CFO; Terri Hemley, Finance Department; Kent Gary, Utilities Department; Darin Ajax, Utilities Department; Rick Shaw, Utilities Department; Stormy Hinkley, Utilities Department

Others Present:

1. **MINUTES**

Bringgold motioned to approve the minutes of September 20, 2011, and Ryan seconded the motion.

AYES: Bringgold, Cook, Davis, Kahlon, Oosterman, Ryan

NOES:

ABSTAIN:

ABSENT:

Bringgold motioned to approve the minutes of January 17, 2012, and Ryan seconded the motion.

AYES: Bringgold, Cook, Oosterman, Ryan

NOES:

ABSTAIN: Davis, Kahlon

ABSENT:

Bringgold motioned to approve the minutes of February 21, 2012, and Ryan seconded the motion.

AYES: Bringgold, Cook, Davis, Kahlon, Oosterman, Ryan

NOES:

ABSTAIN:

ABSENT:

2. **BUSINESS FROM THE FLOOR**

None

3. **NEW BUSINESS**

Eising briefed the Commission on the current drought situation stating that the City is working regionally for a potential Stage 2 Declaration. Staff will report back to the Commission as to the status. Davis asked for a monthly update on the water supply and Eising said he would provide that at the next meeting.

4. **OLD BUSINESS**

a. Water/Sewer/Solid Waste Rate Update

Lorenz discussed the City's overall budget process and the policies and procedures that are followed as the budget is being developed. He also discussed previous rate study information, the revenues, the proposed budget, the proposed Capital Improvement program, fund balance information and transfers out, which are direct charges to the Utilities Fund. He pointed out that the Finance Department is tasked with providing the City Council quarterly updates, which they do in some detail. They go through each fund and describe the status of the fund in relationship to the proposed budget each year. Finance also provides to the City Council each year a comprehensive annual financial report that is called the CAFER. It provides an overview of all the City's financial activities and presents the financial status of all the funds of the City. This document is prepared under the guidance of our Finance Department. However, it should be noted that much of the information presented in the document is a result of an independent audit.

Eising gave an overview of the financials for the Water Division and explained how the transfer numbers were formulated. Oosterman noticed that the printed handout given to the Commission had different numbers than what was being shown in the presentation. Eising stated that the handout had the transfers out being \$990,000, and new numbers had just become available in the last several days which now have transfer out being \$1.04 million. He stressed that these numbers are all preliminary and staff would continue to work through many of the budget numbers.

Eising then went on to discuss the Wastewater Division. Staff plans to implement several CIP project in the next year which will draw down the fund balance. This has however been planned for in the rate study budget and is with the healthy range. Oosterman asked for clarification on the summary sheet as to what was being represented by the two year block and asked that the formatting of this information be presented more clearly. Also, he wanted to know the bottom line for the debt covenant ratio for each fund. Francis fielded this question by stating that the numbers shown were from the rate study so he was not sure where those particular numbers came from. He stated that the water funds do have two bonds outstanding, one ratio being 115% and the other is a 120% and that is revenue to operating expense.

Gary presented the Solid Waste Division. He stated that the fund balance, as well as the trends, are right on the button and the fund balance is about \$3.2 to \$3.3 million. This however will be drawn down for the purchase on new garbage trucks to meet legislation as it comes forward for

recycling mandates in the next year. He discussed the transfers out number stating that staff is being very careful with Prop 218 and showed a slide of the breakdown of Solid Waste Department with the expenditure it has as it moves forward.

Eising showed a graph of several years of transfers for the four different categories that finance has allocated for transfers. This includes Admin, Solid Waste, Water and Wastewater. It is broken down into three different categories that the Commission asked for in the last meeting. He believed that the Commission referred to as an accountability report. Eising stated that he made an attempt to include the information being asked, as he understood it, which includes a breakdown of the cost allocation numbers and direct charges in job costing. It is a four year window of the allocations for these different areas. Lorenz wanted to spend time on the information being shown as it should answer many of the Commissions questions regarding costs. Davis inquired about salaries going up and asked is that was due to the addition of new employees or increases in salaries. Lorenz stated that in most cases the cost of an employee has gone up. The number of positions in Solid Waste has gone down over a period of time but employee cost has gone up. Davis asked for clarification that in fact staffing has gone down even though salaries and benefits have gone up. Lorenz stated that he thought that was correct, however salary costs have gone down, but the benefit costs may represent the increase. Davis asked for explanation regarding the transfers out for 2008/09 and 2009/10. Lorene stated that it was due to the landfill closure at the Corp Yard. Outside contractors were paid for the work done and that money is accounted for through transfers out.

Ryan asked to discuss in more detail the transfers out given that there continues to be a lot of fluctuation between this point and when the budget closes. Ryan also asked for clarification on how direct charges and transfers operate. With that understanding the Commission could then ask more poignant questions about how it is distributed to Utilities, effectively is Utilities paying more than its fair share.

Eising and Lorenz discussed several different ways allocations are arrived at. Davis asked if cost allocation is predicated on some real time and real numbers or is it a formula. Lorenz stated that direct charges are looked at differently than the cost allocation plan charges. The cost allocation plan is based more on the historical information and a formula developed by the Finance Department. Francis stated that it isn't one or the other it is a combination. The cost allocation numbers were initially developed by a consultant based on workload throughout the entire City. Based on that workload is how the allocation went. But, most are done by formulas which have been modified over the past years.

Davis asked if most of the Utilities revenue is part of an enterprise fund and if those revenues have to stay in that enterprise fund. Francis answered that all of them are and that they have to be used for purpose of providing the service of the enterprise fund. Davis asked if the enterprise funds could be raided to go to another department that are not doing quite as well budgetary wise, and wouldn't that distort the rate base then. Francis stated right, it would distort the rate base. Davis asked who looks at transfers to make sure. Francis stated that is done in Finance. Davis - so you look at those to make sure that they really are relevant to the enterprise fund and they are not just being shifted to cover somebody's deficit. Francis - we have not done that at all, we don't raid those funds at all for that purpose. They have to be done in accordance with the plan that is on file and how we would allocate those funds.

Ryan asked about the numbers in the City Managers budget why does it no longer show Admin Services and PIO. Francis stated that those have changed over time since the City Manager office has changed over time. They are included but not broken out and we are still using the same allocation process that would be in the plan. Francis stated that is still preliminary and will be till the Council gets it. Hopefully next week we will have finalized numbers that the City Manager wants to present.

Palmer addressed the Commission stating that Francis summed it up well and that the budget preparation is in its final stages. He doesn't expect much variability left in the Utilities budget. He also stated that along with Finance, he looks at the transfers to make sure they are appropriate as well as looking for trends. Transfers and operating expenses are going down and capacity is building within the Utilities funds to kick off several differed capital projects. Overall, he is very pleased with the state of the Utilities budget at this point and it is something he feels we should remain diligent for.

Davis thanked Palmer and Francis for attending to answer some of the question. At the last meeting the Commission asked for more detailed information on transfers and we asked for overtime budgets we haven't seen either one of those. Davis stated that he had spoken with Lorenz and Eising today about the possibility of getting a little more detail.

Davis stated that he knows police and fire take advantage of their overtime opportunities and he does not know if that is the case in Utilities. Palmer used Solid Waste as an example to address Davis's concerns. Overtime in Solid Waste is going to run about \$117,000 in 2012/13. That is what it has been for the past two years. The costs for overtime are staying relatively flat. That means the hours for over time are going down because the unit cost for labor is going up. What really drive overtime in Solid Waste are the holiday pickups. Holiday pickups are a strategic service delivery model that the City embraces. This is a service model we take great pride in even though it costs money. Miscellaneous incidentals such as missed pick-ups reflect about 25% of overtime costs. Ryan thanked Palmer for attending and appreciated and thanked staff for their support and hard work. Palmer thanked the Commission for their time; dedication and scrutiny because it make staff better and helps staff serve the community better.

Lorenz also addressed the overtime in Solid Waste by saying there has been a reduction in overtime due to the use of temporary employees, where possible, to supplement staff rather than having full time employees when there is an increase in demand on work load. The bulk of the cost is meeting our customer needs on holiday service.

Eising asked in the Commission would like to have the budget sub-committee meet again. The Commission agreed that they would like to have the sub-committee meet one last time. Francis stated that it would be extremely helpful if the sub-committee would meet this week. Eising will set up a meeting.

Utilities Reports

Sewer Update

Eising discussed the liner pipeline project within the historic district.

Water Update

Eising reported on the water line break on Folsom Auburn Road.

Solid Waste Update

Lorenz stated that an increased number of residents have taken advantage of a few of the new services due to the implemented rate structure that was not previously in place. Solid Waste will be taking delivery of six new vehicles this summer. There is no update on the transfer facility at this time; however staff will be putting together a work plan for that throughout the summer.

5. ADJOURNMENT

The meeting was adjourned at 8:01 p.m.

Submitted,

Stormy Hinkley, Administrative Assistant

Attachments: Agenda; Minutes; Handout on the budget update