MINUTES
CITY OF NORCO

SPECIAL MEETING – STUDY SESSION
CITY COUNCIL
CONFERENCE ROOMS "A" & "B"
NORCO CITY HALL – 2870 CLARK AVENUE
OCTOBER 25, 2010

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1. CALL TO ORDER: 1:04 p.m.

2. ROLL CALL:
Mayor Malcolm Miller, **Absent**
Mayor Pro Tem Berwin Hanna, **Present**
Council Member Kathy Azevedo, **Present**
Council Member Kevin Bash, **Present**
Council Member Harvey C. Sullivan, **Present**

3. PLEDGE OF ALLEGIANCE: Council Member Sullivan

4. PUBLIC COMMENTS OR QUESTIONS: No public comments received.

5. STUDY SESSION ITEMS:

A. Overview from the City Manager

City Manager Groves presented an overview of the financial condition of the Water and Sewer Funds and noted that the Public Works Director is responsible for the operation, maintenance, production and distribution of water to customers within the water system boundary. The City produces 40 percent of its water from 5 deep wells and purchases the remainder of its water from the Arlington DeSalter, the Chino DeSalter Authority and from Western Municipal Water District. Water is distributed through 101 miles of water mains, serving more than 7,600 customers. The City operates and maintains 120 miles of sewer collection pipelines and 10 sewer lift pump stations, with over 7,000 sewer connections within the City. The water and sewer service is an enterprise fund, which is a separate from the General Fund, and is operated by user fees, not general tax dollars

B. Budget Update -- Water and Sewer Funds **(The PowerPoint presentation and spreadsheets as presented are attached hereto and incorporated herein.)**

Deputy City Manager/Director of Finance Okoro, in collaboration with Public Works Director Thompson, presented the update on the Water and Sewer Funds.

Water Fund:
The key Water Fund cost components include purchased water & utilities, debt service, salaries & benefits, maintenance & supplies, reimbursements to the General Fund and other (equipment replacement/maintenance ISF). The Water Fund expense trends for the last five years were presented with the highest costs increasingly trending in purchased water and utilities. It was noted that in FY 2009-2010, the actual water consumption went down, but the total expenditures went up. Salaries and benefits remained steady throughout the past 5 years and staffing has remained essentially the same. Debt service costs remained steady up to the last fiscal year.

The Arlington DeSalter rates have gone up over the past few years as we are the only end-user of that water. The use of the City wells has steadily decreased due to requirements requiring the lowering of the arsenic levels and so required the City to appropriate additional funds for the treatment for the water. The prices for each source of water were presented and it was noted that one residential house in Norco uses approximately 1 acre foot of water. It was also noted that it will be two years in January of 2011 since rates were increased.

The City water source cost comparison cost per acre foot chart was presented that included the residential water rate. The Water Fund expenses versus revenues was presented showing FY 2009-2010 revenues of $6.6 million and actual expenditures of $7.7 million, noting the spike in purchased water and increase in debt service. The working Capital/Fund Balance trend was presented showing a FY 2009-2010 deficit of $551,847. The monthly fixed water rate trend for the 5/8-3/4 "meters was presented. The 2010 monthly residential water rate comparison 1" meter rates were presented based on 22 units used. Water consumption quantity rates per 748 gallons were presented at City of Norco's per unit flat rate of $1.33. It was noted that the other agencies and cities shown have instituted tiered water rate programs and the City of Norco is at the very low end of the rates in comparison.

Deputy City Manager/Director of Finance Okoro stated that the reserves are set aside for capital improvements. Director Thompson stated that customers could expect a 7 – 10 percent overall increase with the new smart meters installed, in response to questions from the Council Members. Deputy City Manager/Director of Finance Okoro noted that there is not enough information from data received to this date to determine increases in revenue resulting from the installation of the new smart meters.

Sewer Fund:
The Sewer Fund five-year expense trends were presented noting that the bulk of expenditures are the costs for the operation of the treatment facility, which is a pass-through cost from Western Municipal Water District dependent on the level of maintenance. The other major expenditure is the cost of debt service, the majority leveraged on a fixed rate schedule. Deputy City Manager/Director of Finance Okoro stated that in late 2008/early 2009, interest rates jumped to 20% and therefore, the debt was refinanced to a fixed rate. Additional debt has been accumulated to finance capital improvements, noting the River Road Bridge project. The Sewer Fund expenses versus revenues were presented, resulting in a situation where expenditures are now exceeding revenues due to the fixed cost in the debt service component, which will be a debt service expense for the next 20 plus years. The Sewer Fund Working Capital Fund balance was presented noting that the trend is going the wrong way due to the increase in debt service. The residential sewer rates (connected) were also presented.

Conclusions:
The current rate structure is not sufficient to cover costs in the Water Fund, as there are increased expenses due to the increase in the cost of purchased water and debt service. Capital projects adding to that debt service include the automated meter reading project, a loan for water & sewer facilities at Silverlakes, the CRC 4 million gallon reservoir, additional sewer capacity, and the CRC Navy facilities improvements. City Manager Groves stated that these Capital project titles will change in the new budget.

Increase in purchased water costs that the City is obligated to receive are a result of the existing infrastructure not being adequate to maximize domestic water production, and delayed implementation of the recycled water program. In response to the City Council questions, the River Road Bridge project delayed the recycled water implementation and that project will probably take an additional 16 months before implementation can begin.

A tiered rate schedule for water billing will need to be discussed in the future and additional information will need to be collected from the new smart meter project. An interim rate adjustment is needed and Sewer Fund rate adjustments are required due to the increase in debt service.

Deputy City Manager/Director of Finance Okoro stated that the stop-gap rate adjustments could be determined in-house. City Manager Groves stated that a rate study will need to be completed in order to determine tiered rate adjustments. It was further noted that water conservation plans are mandatory and a plan needs to be developed by every city. The tiered rates mandate the residents to cooperate in this. Director Thompson stated that the City's Development Impact Fees would need to be included in the fee study to determine rate adjustments.

In response to Council Member Sullivan regarding the need for a tiered rate structure, Director Thompson indicated that a tiered rate schedule would help with the water conservation program as mandated by the state. Director Thompson further noted that he believes that the tiered rate schedule would establish the lower end baseline units and would assist fixed income residents.

In response to Council Member Azevedo, Director Thompson stated that it is estimated that there will be a slight increase in water bills as a result of the installation of the new smart meters and that additional revenue goes directly into the Water Fund. Council Member Azevedo questioned if the increase in revenue from the installation of the smart meters would help bridge the gap with the expenditures. Deputy City Manager/Director of Finance Okoro stated that we would need a 50% increase in new revenues on the consumption side from the smart meters with the current fixed rate structure that is in place to meet the deficit.

Mayor Pro Tem Hanna stated that he went on the tour of the Delta, sponsored by the Western Municipal Water District, and discussions were held regarding the cities involved noting that Norco has the best program there is. He further commented on the State's mandatory conservation program.

6. ADJOURNMENT: There being no further business to come before the City Council, Mayor Pro Tem Hanna adjourned the meeting at 2:30 p.m.

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BRENDA K. JACOBS
CITY CLERK

/bj-76617
Attachment: PowerPoint Presentation

Study Session

October 25, 2010

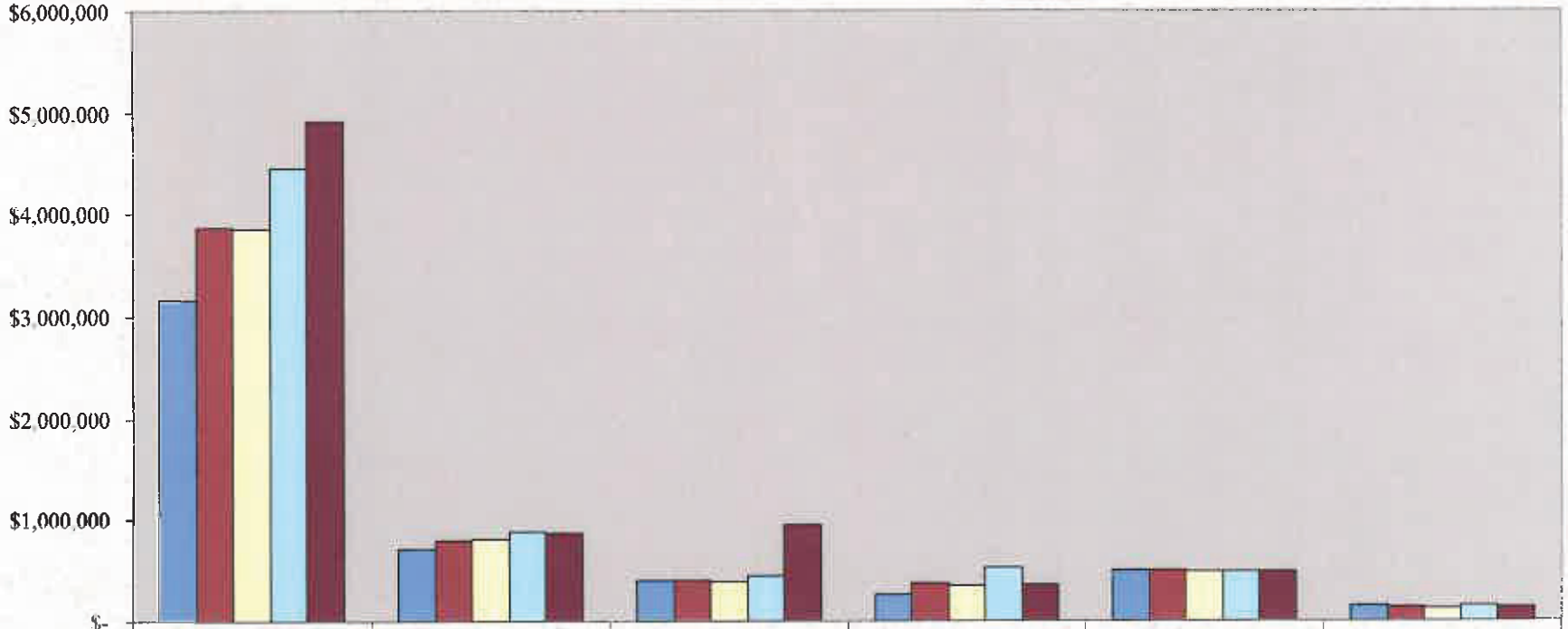
OVERVIEW

- Review the Financial Condition of Water and Sewer Funds
- Last Five Years Trend:
  - Revenue and Expenditures
  - Working Capital (fund balance)
  - Rates, Components of Water Costs
  - Comparison to Other Agencies
- Conclusions from the trend information

KEY WATER FUND COST COMPONENTS

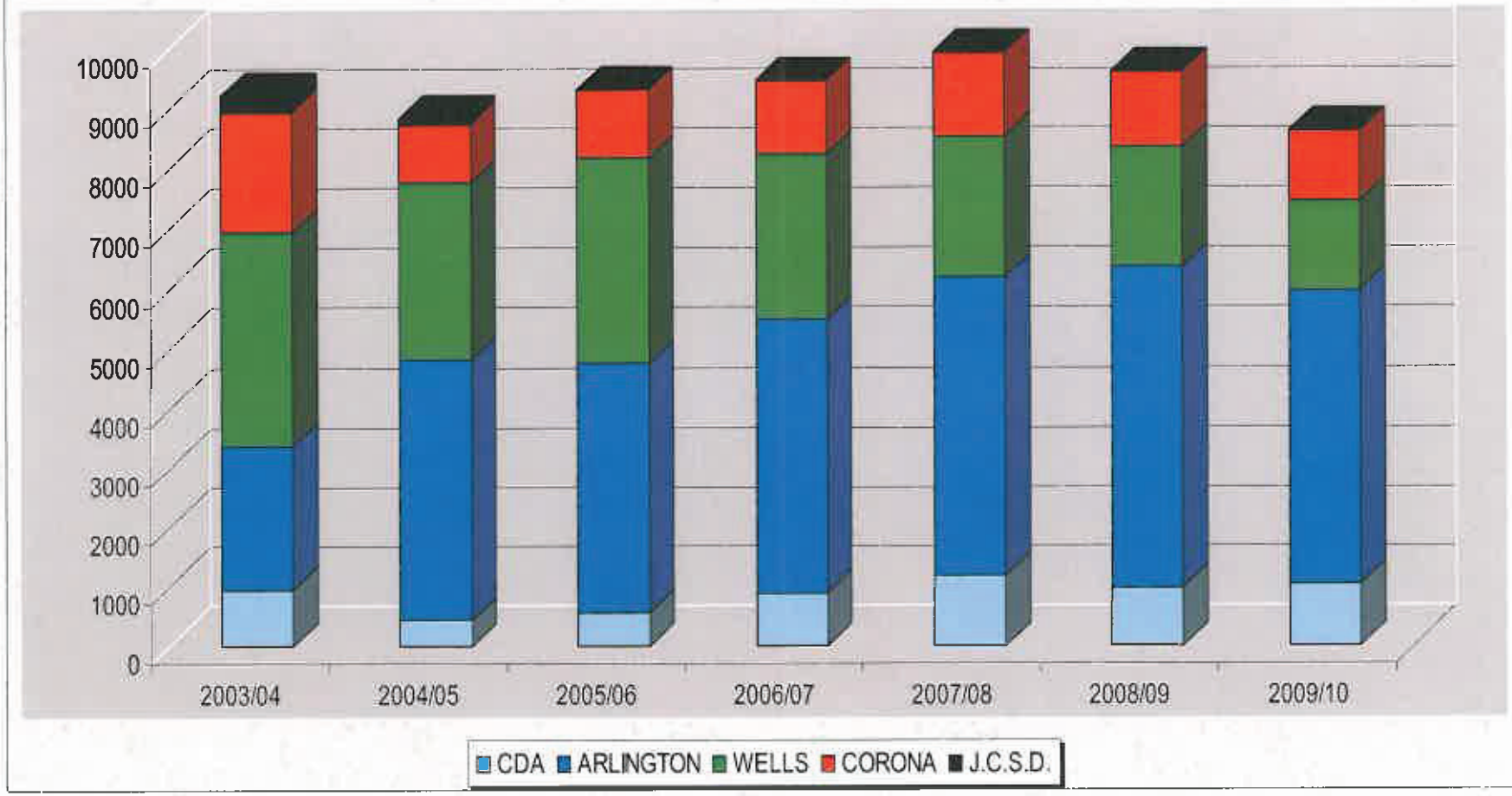
- Purchased Water and Utilities
- Debt Service
- Salaries & Benefits
- Maintenance & Supplies
- Reimbursements to General Fund
- Other – Equipment Replacement/Maint; ISF

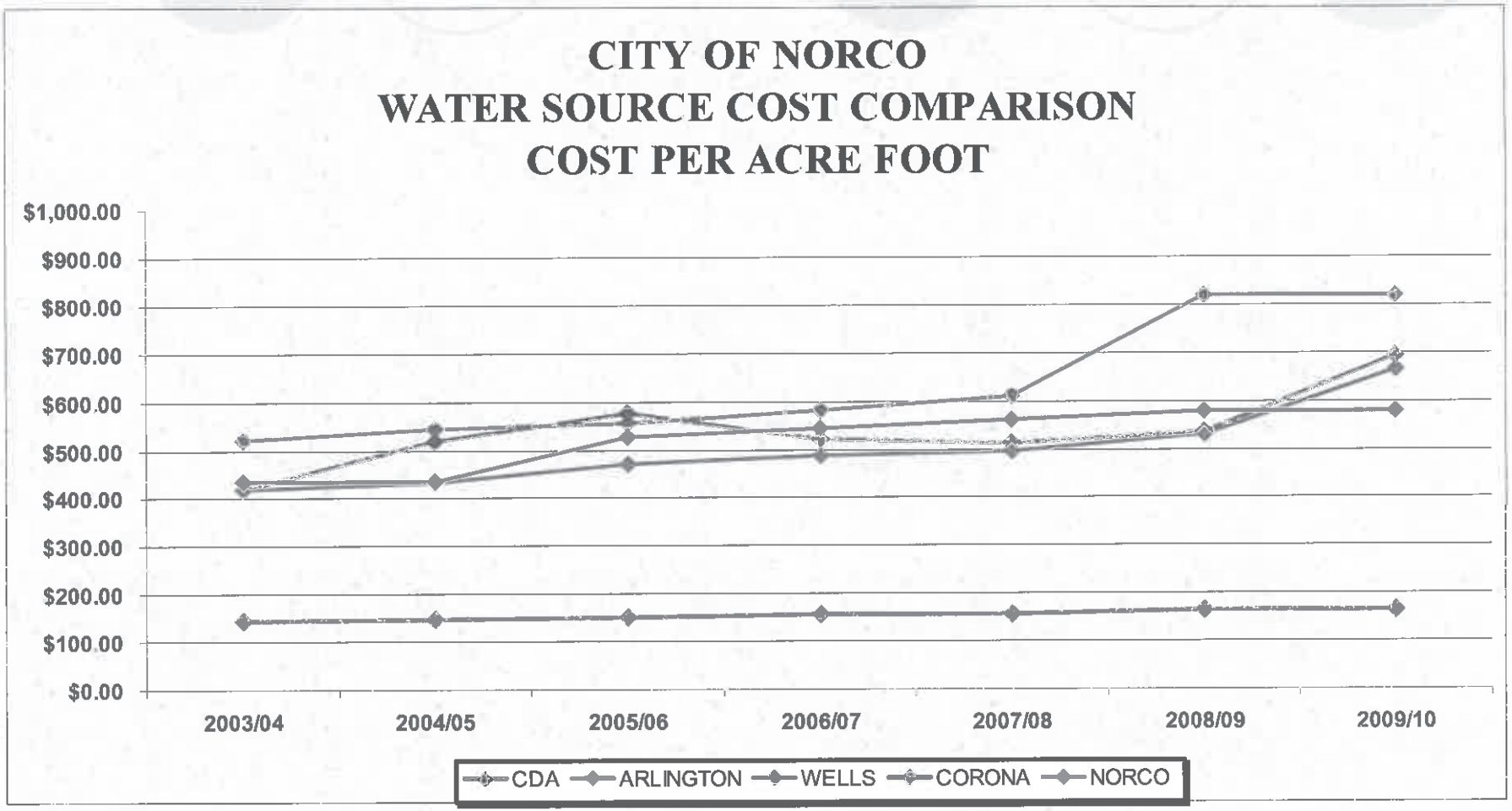
Water Fund Expense Trend - Last Five Years



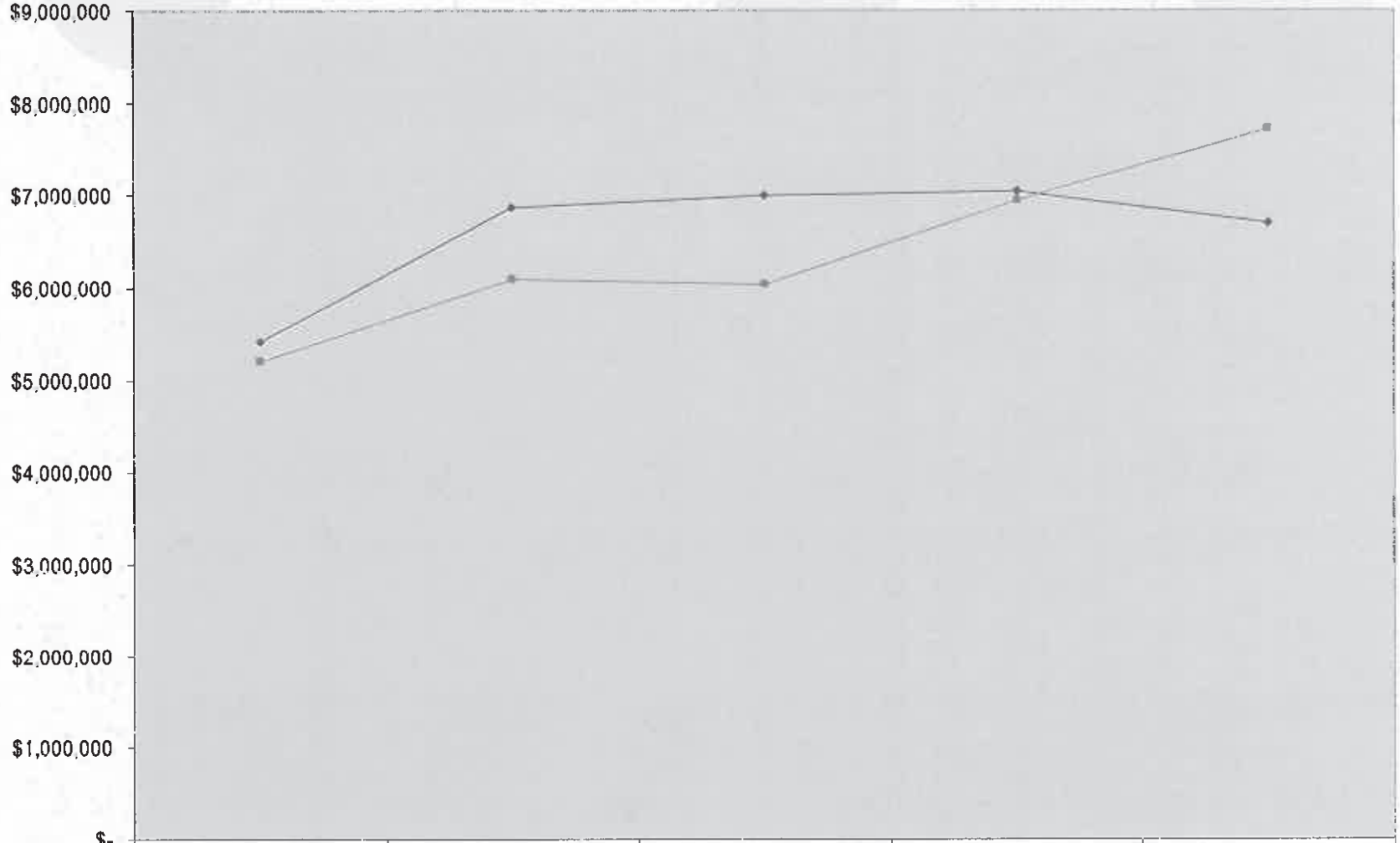
	Purchased Water and Utilities	Salaries and Benefits	Debt Service	Maintenance, Supplies & Services	Reimbursements to General Fund	Other
FY 2005/2006	$3,150,313	710,412	403,625	266,360	501,570	158,651
FY 2006/2007	3,870,939	794,804	401,762	376,614	501,570	136,040
FY 2007/2008	3,854,193	805,485	396,987	344,828	489,439	131,997
FY 2008/2009	4,445,637	875,591	444,705	531,499	489,439	149,829
FY 2009/2010	4,909,635	859,450	946,377	361,978	489,439	141,139

CITY OF NORCO
FISCAL YEAR PRODUCTION
BY SOURCE



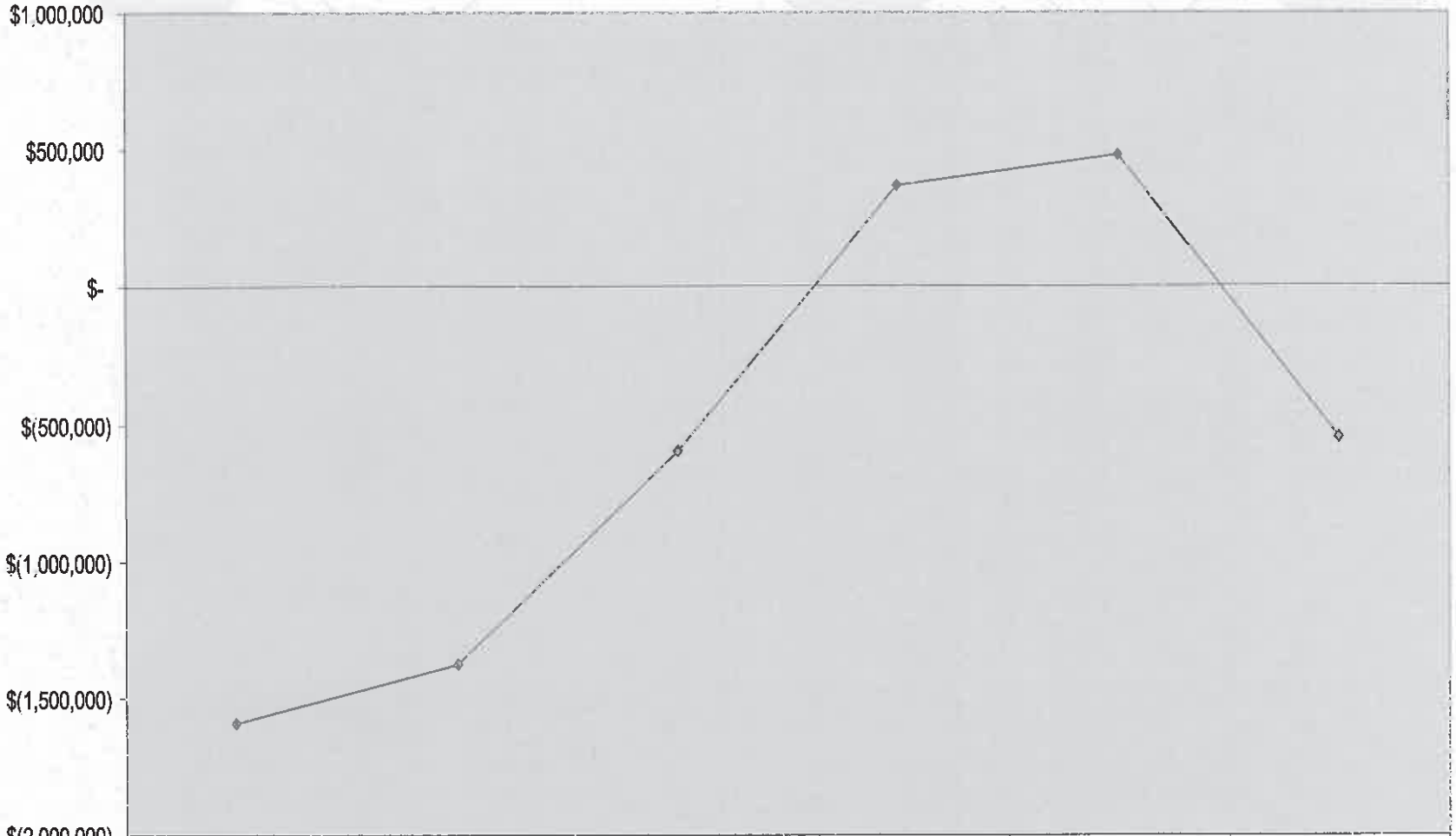

CITY OF NORCO
WATER SOURCE COST COMPARISON
COST PER ACRE FOOT
$1,000.00
$900.00
$800.00
$700.00
$600.00
$500.00
$400.00
$300.00
$200.00
$100.00
$0.00
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
CDA
ARLINGTON
WELLS
CORONA
NORCO

Water Fund Expenses Vs. Revenues



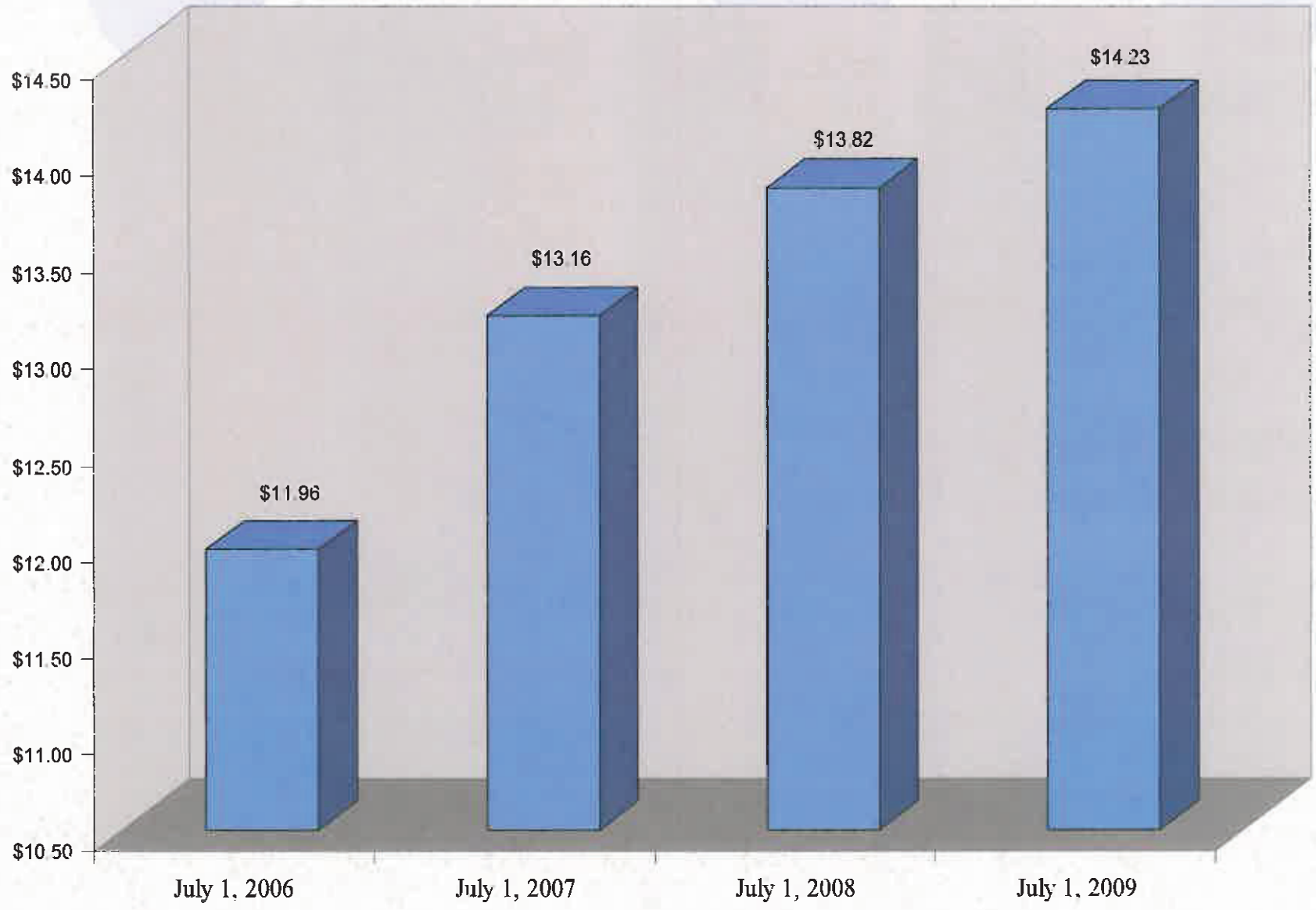
	FY 2005/2006	FY 2006/2007	FY 2007/2008	FY 2008/2009	FY 2009/2010
Total Revenues	$5,407,080	6,860,654	6,990,372	7,040,593	6,682,523
Total Expenses	5,190,931	6,081,729	6,022,929	6,936,700	7,708,018

Working Capital/Fund Balance Trend

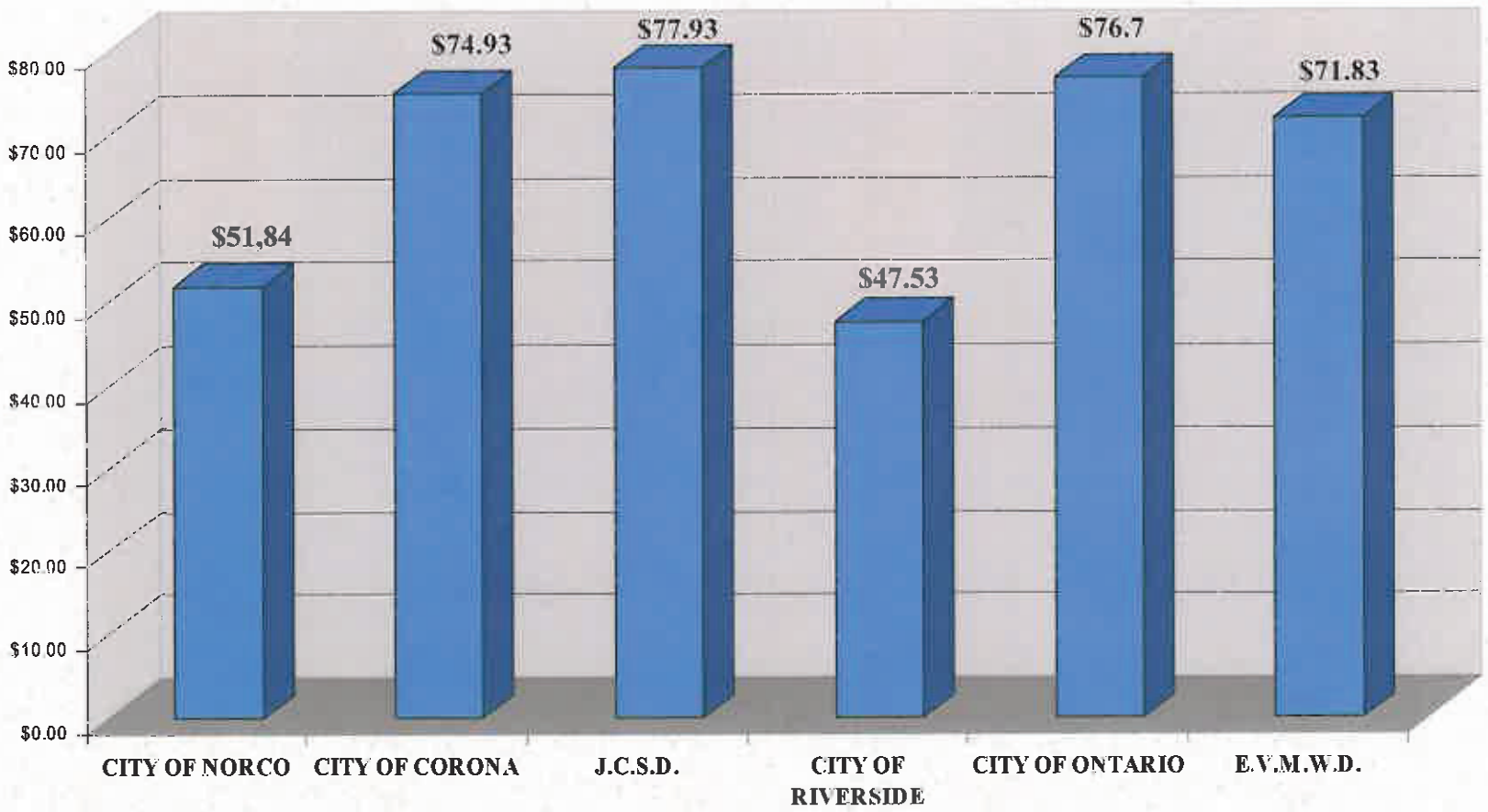


	FY 2004/2005	FY 2005/2006	FY 2006/2007	FY 2007/2008	FY 2008/2009	FY 2009/2010
Working Capital	$(1,592,762)	(1,376,613)	(597,688)	369,755	473,648	(551,847)

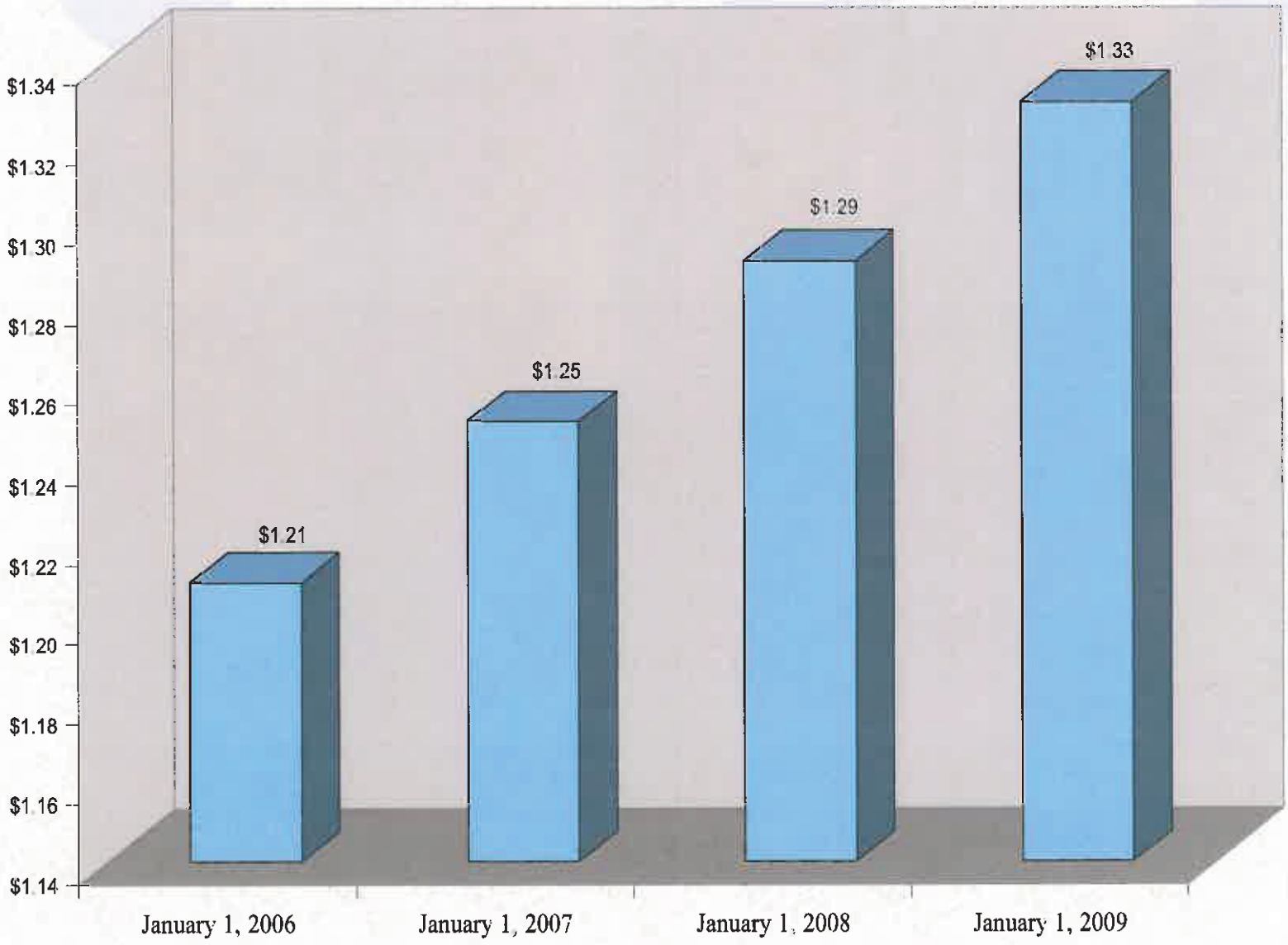
Fixed Water Rate Trend 5/8-3/4" Meters



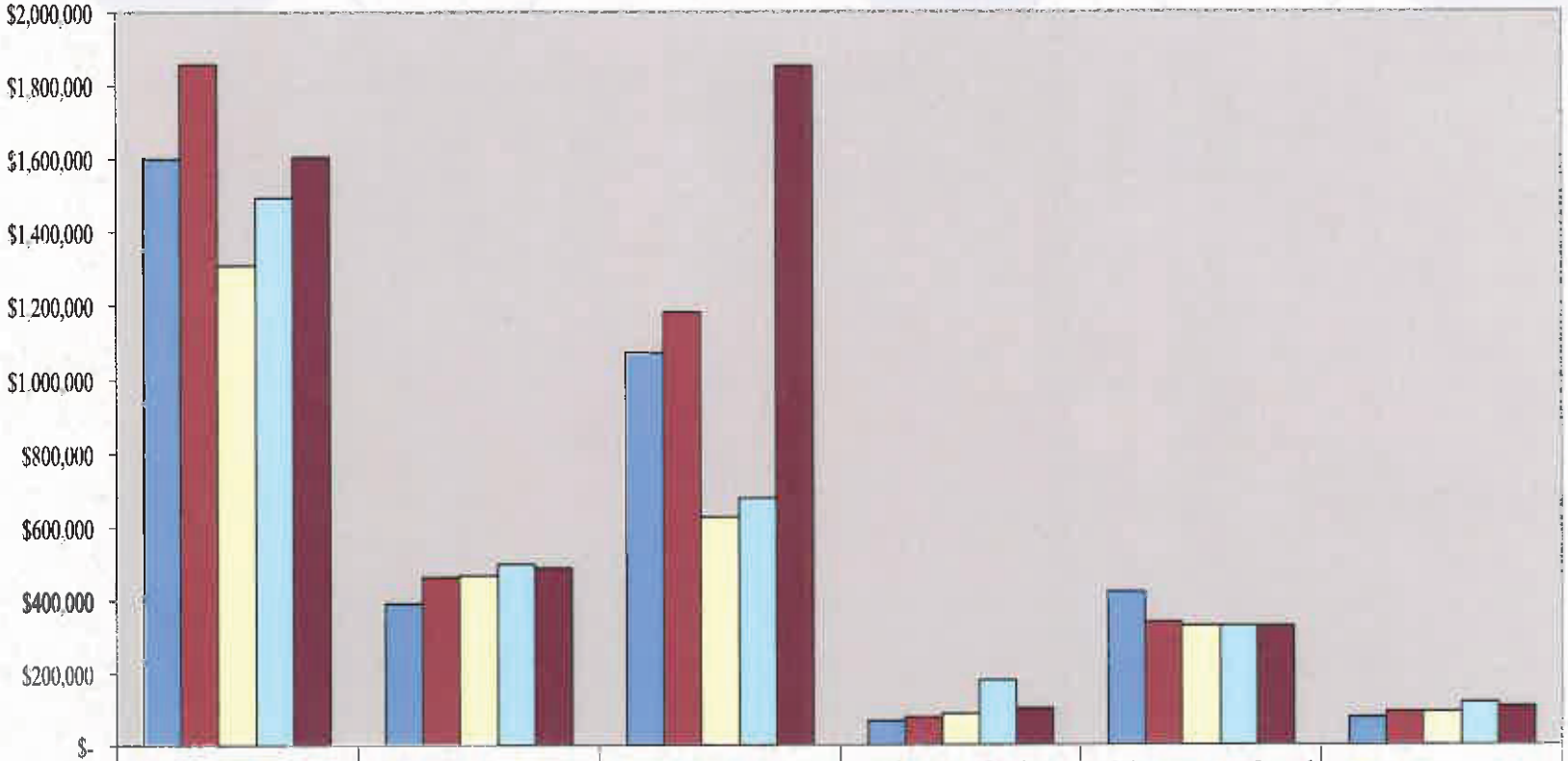
2010 Residential Water Rate Comparison
1" Meter
Based on 22 Units Used



Water Consumption Quantity Rates per 748 Gallons

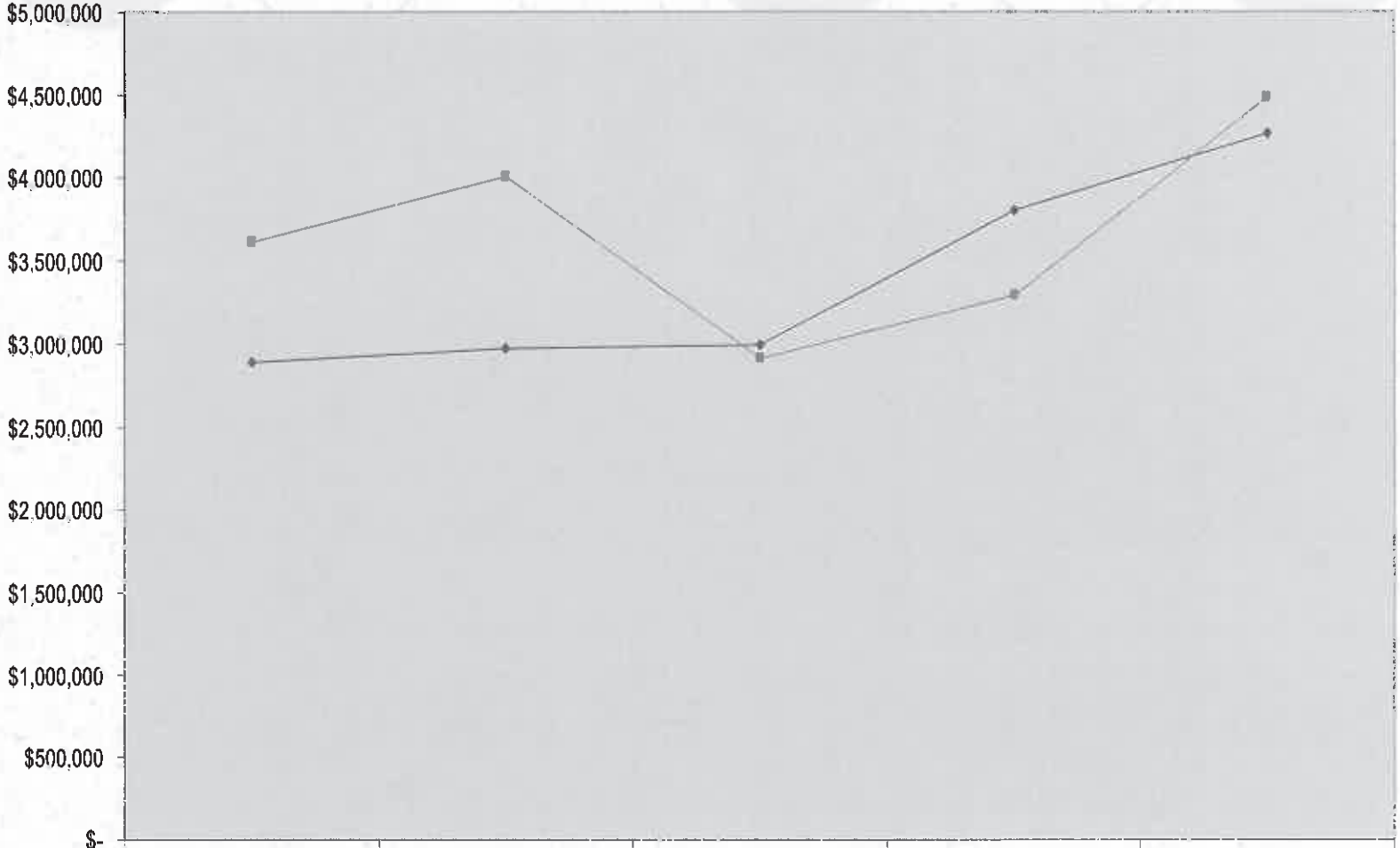


Sewer Fund - Five Year Expense Trend



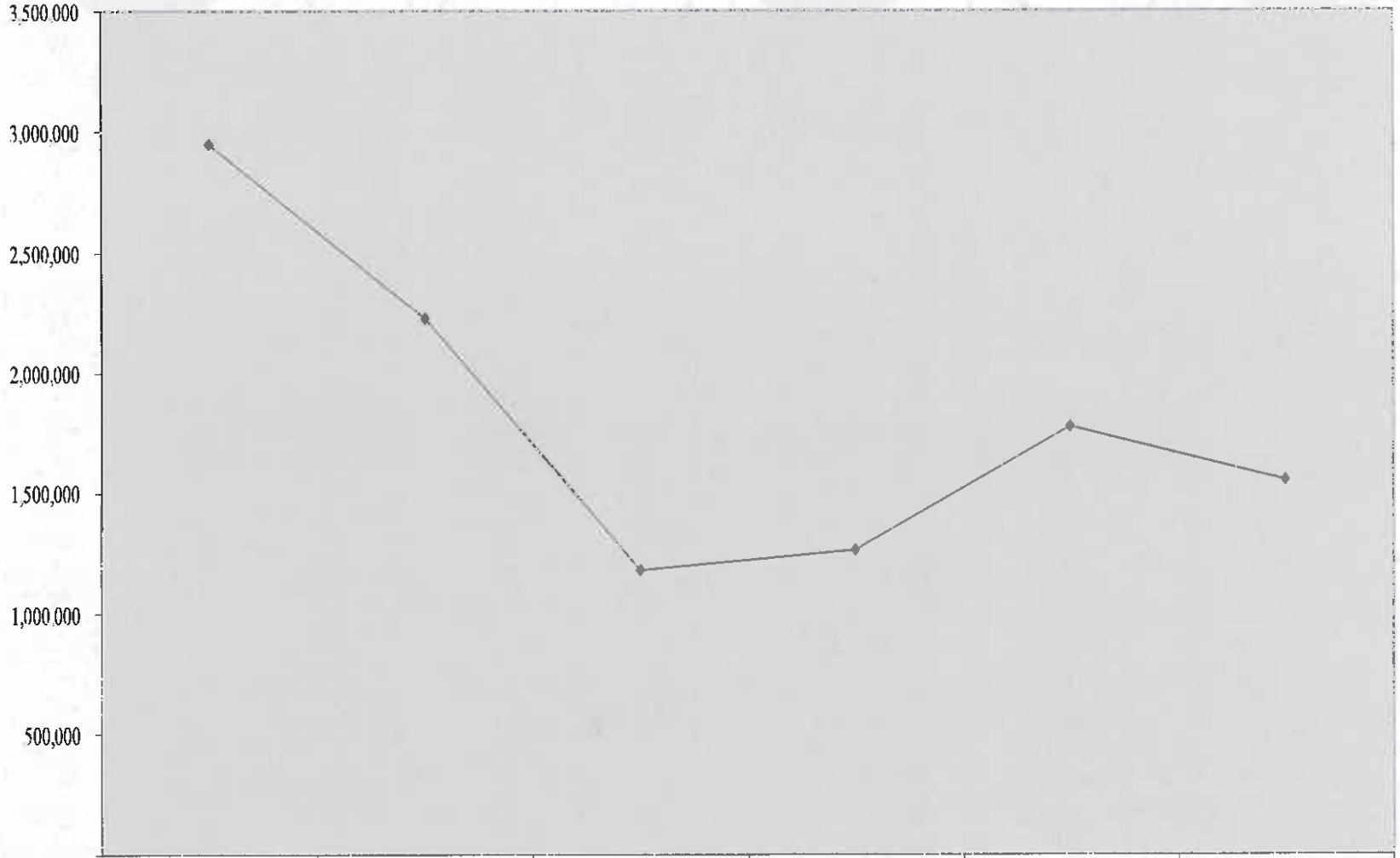
	Contractual Services	Salaries and Benefits	Debt Service	Maintenance, Supplies, Utilities, Services	Reimbursements to General Fund	Other
FY 2005/2006	$1,598,614	387,073	1,068,348	64,012	417,446	75,135
FY 2006/2007	1,855,067	461,028	1,180,540	76,681	339,353	92,061
FY 2007/2008	1,309,533	466,887	625,924	86,649	327,230	90,098
FY 2008/2009	1,492,905	494,121	674,943	178,908	327,223	119,120
FY 2009/2010	1,604,060	485,772	1,853,476	99,853	327,223	109,696

Sewer Fund Expenses Vs. Revenues



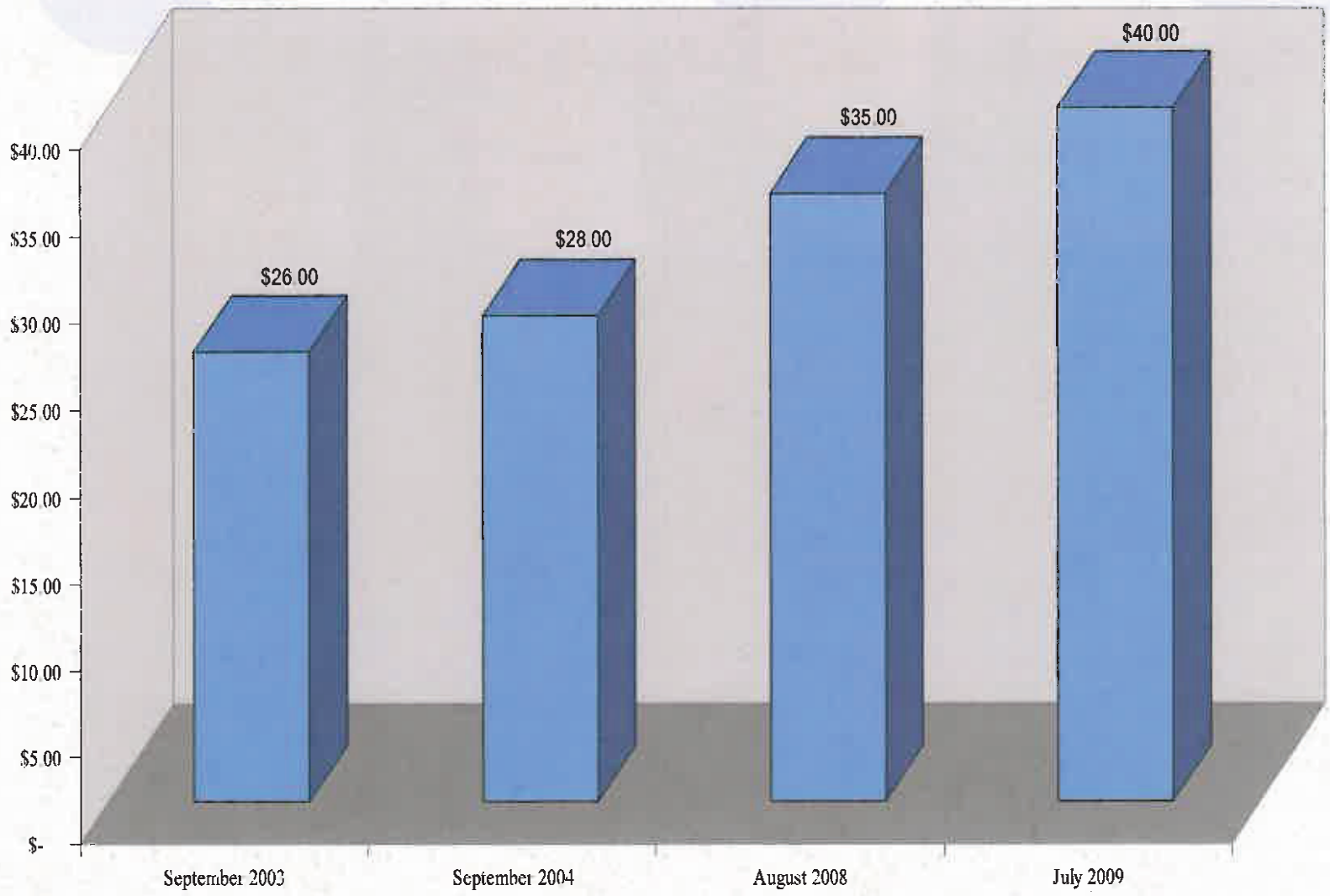
	FY 2005/2006	FY 2006/2007	FY 2007/2008	FY 2008/2009	FY 2009/2010
Total Operating Revenues	$2,889,144	2,966,248	2,986,549	3,795,791	4,260,592
Total Operating Expenses	3,610,628	4,004,730	2,906,321	3,287,220	4,480,080

Sewer Fund Working Capital/Fund Balance



	FY 2004/2005	FY 2005/2006	FY 2006/2007	FY 2007/2008	FY 2008/2009	FY 2009/2010
Working Capital	2,942,195	2,220,711	1,182,229	1,262,457	1,771,028	1,551,540

Residential Sewer Rates - Connected



CONCLUSIONS

- Current rate structure not sufficient to cover costs in the Water Fund
- Increase in expenses due to increase in the cost of purchased water and debt service
- Increase in debt service due to:
  - Additional debt issued in 2009 to finance water & sewer capital project improvements

(continued)

CONCLUSIONS

Examples of Capital Projects Financed

- Automated meter reading project
- Loan for water & sewer facilities at Silverlakes
- CRC 4 million gallon reservoir
- Additional sewer capacity
- CRC Navy facilities improvements

(continued)

CONCLUSIONS

- Increase in purchased water costs due to:
  - Cost of purchased water that City is obligated
  - Existing infrastructure not adequate to maximize domestic water production
  - Delayed implementation of recycled water program

(continued)

CONCLUSIONS

- Need to go to tiered rate in the future as part of water conservation program
- Stop-gap rate adjustment needed
- Sewer Fund rate adjustments have sustained expenses
- Due to increase in debt service, positive trend in the Sewer Fund has reversed