

**LODI CITY COUNCIL  
SHIRTSLEEVE SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, AUGUST 26, 2014**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, August 26, 2014, commencing at 7:02 a.m.

Present: Council Member Johnson, Council Member Nakanishi, Mayor Pro Tempore Hansen, and Mayor Katakian

Absent: Council Member Mounce

Also Present: City Manager Schwabauer, City Attorney Magdich, and City Clerk Robison

B. Topic(s)

B-1 Lodi Electric Utility Ten-Year Financial Forecast (EU)

Rates and Resources Manager Melissa Cadek provided a PowerPoint presentation regarding the Lodi Electric Utility (LEU) ten-year financial forecast. Specific topics of discussion included background, best financial practices, LEU rate history, review of LEU revenue and expenses, summary of LEU expenses, forecast assumption on non-power costs, forecast assumption on power costs, and findings and conclusions.

In response to Council Member Nakanishi, Ms. Cadek stated that the purpose of the large rate increase in 2005 was to catch up to costs.

In response to Mayor Pro Tempore Hansen, Ms. Cadek stated that expenses under the "distribution system" category include costs associated with maintaining and repairing the system, while costs associated with new improvements are under the "capital" category. The "other fixed costs" category includes the two debt service items, cost of service to the General Fund, and public benefits.

In response to Mayor Katakian, Ms. Cadek stated that the 2002 debt service will be paid off in fiscal year 2015/16, the savings will go toward paying down the 2008 debt service, and the net reduction in debt payments will go from \$8 million annually to \$5 million. In further response, Deputy City Manager Jordan Ayers stated that the 2002 debt service will be paid off July 1, 2015.

In response to Council Member Nakanishi, Ms. Cadek explained that the 2008 debt service was a refinance and conversion to a fixed rate debt. City Manager Schwabauer responded that the original debt was issued in 2000 to install a utility line to the White Slough Water Pollution Control Facility, build the LEU corporation yard, maintain infrastructure, and install street lights. It was structured as an interest rate swap and, because of how detrimental this debt service was to the City, former City Manager Blair King renegotiated the debt to buy the City out of the swap. It was an expensive move, but it represented a significant savings to the City in the end. In further response, Mr. Schwabauer stated that the 230 kV intertie project could require debt service, and this project would also result in a significant savings once the debt was paid. This project is dependent upon Pacific Gas & Electric (PG&E) participation, but he hoped the project would move forward sometime between the years 2020 to 2022.

Electric Utility Director Elizabeth Kirkley reviewed the list of projects on the ten-year capital improvement program and the costs associated with each.

In response to Council Member Johnson, Ms. Kirkley stated that the \$600,000 for the 230 kV project is for required engineering studies done prior to design and construction, some of which Council has previously approved.

Ms. Kirkley expressed the importance of maintaining the LEU distribution system in order to maintain the City's reliability with its customers. In response to Mayor Pro Tempore Hansen, Engineering and Operations Manager Jay Marchesseault stated that he believed the City's current reliability rating is around 99 percent, which takes into account the duration and frequency of outages.

In response to Council Member Johnson, Ms. Kirkley stated that the primary issue contributing to outages is the fact that the City has only one substation. The 230 kV project would give the City two substations, which would increase capacity. The existing system has serious concerns effecting reliability, such as aging cables that need to be replaced and vaults that need repair.

In response to Mayor Pro Tempore Hansen, Ms. Cadek stated that the electric utility reserve of 90 days operating expenses is for unexpected emergencies so as not to draw upon the existing capital budget.

In response to Council Member Johnson, Mr. Schwabauer stated that the General Fund has its own reserve for catastrophic events and LEU has its own separate reserve because to have one Citywide reserve would require that a significantly greater amount be set aside. He stated each utility should have its own reserve in case of a catastrophic event.

In response to Mayor Pro Tempore Hansen, Mr. Schwabauer stated that there are two separate requirements for the 90 days cash on hand for unexpected contingencies: one is a Council policy and the other is required by the Northern California Power Agency (NCPA) for gas purchases. Mr. Ayers explained that there are two types of reserves, but they overlap and are not duplicated; it is the same dollars for each pot of reserves.

In response to Mayor Pro Tempore Hansen and Council Member Nakanishi, Ms. Cadek stated that the City will meet the 30 percent renewable energy requirement by 2020, it will maintain that level beyond 2020, and during the time frame of 2021 to 2024 the City will make approximately \$3 million in renewable energy purchases.

In response to Mayor Katzakian, Ms. Cadek stated that large hydro projects are only included in the renewable requirement if there is an impact on fish, but the small hydro projects are included and are primarily done through geothermal projects.

In response to Mayor Katzakian, Mr. Ayers stated that the 2008 debt service will retire July 1, 2032. Mr. Schwabauer stated that staff will be meeting with the rating agencies in September and reminded Council that power purchases, which are long-term, forward contracts, are tied to the City's rating. Because of this upcoming meeting, it is important to move quickly on the rates in order to indicate to the rating agencies that the City is not deferring its maintenance and that it will ensure funds are in place to operate the system.

In response to Mayor Pro Tempore Hansen, Mr. Schwabauer stated that an agency's rating is tied to the cost of issuing debt, but it is also tied to purchasing power, adding that the less fiscally healthy an agency is, the more it will pay for power.

In response to Council Member Johnson, Ms. Cadek stated that the City purchases its power through NCPA. In further response, Mr. Ayers stated that, during a power purchase, rating agencies will look at NCPA's rating as well as all of the major participants. If the City's rating is low, it will play a significant role in how NCPA is ultimately rated and, in turn, increase the cost of

power for everyone in the group. Mr. Ayers added that NCPA has a variable rate, whereas, the participants have a fixed rate. Council Member Johnson stated that his main concern regarding the rating is what is best for Lodi and not necessarily to placate NCPA. Mr. Schwabauer stated that it is prudent that the City earn a positive rating of its own accord because it has an effect on the City's power costs.

Ms. Cadek provided a comparison of current Lodi residential rates, at an average 600 kWh and 750 kWh, to other agencies, stating that Lodi is in the middle range. Mr. Schwabauer pointed out that Palo Alto's rate is significantly lower because it went primarily to hydro power, and stated that the City made the decision decades ago against going in that direction. In response to Mayor Katzakian, Mr. Schwabauer stated that Palo Alto may experience some difficulties meeting the renewable energy requirement, but it will not cost them as much unless it were to change to a 50 percent requirement.

Mayor Pro Tempore Hansen stated that Lodi is often compared to PG&E in its rates and the City has made significant improvement in its rates and bond ratings. He stressed the importance of maintaining a positive bond rating, stating that Lodi would be negatively affected if other agencies in the NCPA joint powers agency had poor ratings.

In regard to the rate comparison, Ms. Cadek pointed out that many of the agencies on the list are currently undergoing rate adjustments and some of those rates will likely increase in the near future.

Council Member Nakanishi requested that staff provide a rate comparison with Stockton, Manteca, and other local cities.

In response to Council Member Johnson, Ms. Cadek stated that Lodi's industrial rates are favorable to the other agencies, and she would provide details on that comparison as well. Council Member Nakanishi pointed out that a past survey of industrial customers showed that they were more concerned with reliability than with the rate.

Ms. Cadek provided information regarding the current LEU fund balances with 2014/15 being the first year in the ten-year model. She pointed out that fiscal year 2015/16 will be the first year that the City will need to address the shortfall and by fiscal year 2023/24 the fund will be in the negative.

Mr. Schwabauer explained that staff is not recommending another 17 percent increase in rates; it will more likely be in the single-digit range initially and afterward, in order to avoid falling behind the costs, there would be an annual adjustment similar to the water and wastewater rates.

In response to Mayor Pro Tempore Hansen, Mr. Schwabauer stated that the issue of rates will come before Council in the very near future in order to communicate the City's efforts to the rating agencies.

Council Member Nakanishi suggested the rates be postponed until the newly-elected Council Members are seated and can vote on the matter. In response to Mr. Nakanishi regarding the value of the LEU, Mr. Ayers stated it has over \$80 million in assets, but he did not have numbers available regarding what it would be worth if it were sold in today's market. Mr. Schwabauer stated that there are various models used to value a business and he pointed out that, if the City were to ever sell this asset, the only entity that would be in the position to purchase the LEU would be PG&E.

Council Member Johnson, Mayor Katzakian, and Mayor Pro Tempore Hansen expressed support for moving forward on the rate issue now, rather than postponing it until the new Council was in

place. In response to Mayor Katzakian, Mr. Ayers stated the City is scheduled to meet with the rating agencies on September 2, a meeting that was initially scheduled for June, but was postponed.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:12 a.m.

ATTEST:

Jennifer M. Robison  
City Clerk