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Director

State of California—Health and Human Services Agency  
California Department of Public Health



ARNOLD SCHWARZENEGGER  
Governor

September 15, 2010

System No. 2410004

Richard N. Warne, City Manager  
City of Livingston  
1416 "C" Street  
Livingston, CA 95334

Dear Mr. Warne:

**RE: City of Livingston Water Rates and Budget Projection**

It has come to my attention that there was recently a recall election of some of the City's elected officials. I understand that the main reason for the recall election was to recall the elected officials who voted in 2009 to increase the water, wastewater, and solid waste service rates, in an effort to eliminate the rate increases and roll them back to 1995 levels. As a result of this information, I contacted you to discuss my concerns about the City having sufficient water rates to generate enough revenue to cover all of the water system's expenses including operation, maintenance, and capital improvements. I requested copies of the City's water system budget projection, capital improvement plan, and any other water system related financial documents. You subsequently provided me with copies of the City's 2009 Water Rate Study Report, Independent Auditor's Report for the fiscal year ended June 30, 2009, and Annual Budget for Fiscal Year 2010-2011.

The 2009 Water Rate Study Report reveals that the City has not increased the water rates since 1995. This report also states that the City's Water Enterprise Fund has operated under a deficit for several fiscal years. The Independent Auditor's Report for the fiscal year ended June 30, 2009, states that the Water Enterprise Fund had a net operating loss of \$454,506, which is prior to the City Council's adoption of the water rate increase. The Annual Budget for Fiscal Year 2010-2011 shows that since the water rate increase in 2009, the Water Enterprise Fund will have revenues of \$2,315,713 and expenditures of \$2,224,885, which will reduce its negative cash and investment fund balance by \$90,828 to a negative of \$1,306,988.

The California Safe Drinking Water Act, Article 3, Section 116375(g) requires the Department to adopt rules that define the minimum financial assurances necessary for water systems to demonstrate their capability to provide for the ongoing operation, maintenance, and upgrading of the system, including compliance with monitoring and treatment requirements and

contingencies. The development of a budget projection and prioritized capital improvement plan (CIP) is a common way for water systems to demonstrate this capacity. The financing plan for the CIP needs to be reflected in the system's operating budget in order to fully assess the financial capabilities of the water system. One such capital improvement that is needed is the installation of a treatment system at Well No. 15 for removal of the high levels of manganese, which exceed the secondary drinking water standard.

The budget projection is a critical feature of the water system's capacity assessment because it indicates whether the system's revenues and reserves will meet the system's expenses. It also is a necessary tool that will enable the water system to plan for future needs. If revenues are not sufficient to cover the proposed expenditures, the water system must submit a plan to increase revenues to cover expenditures.

Our office is concerned that the City will not have adequate financial capability to provide for the ongoing operation, maintenance, and upgrading of the system if the water rate increase is eliminated and the rates are rolled back to 1995 levels. It is important for the City to understand that if the City violates any of the drinking water regulations as a result of having insufficient funds to properly operate and maintain the water system, our Department will take the appropriate enforcement actions.

If you have any questions regarding this matter, please contact me at (559) 447-3132.

Sincerely,



Carl L. Carlucci, P.E.  
Supervising Sanitary Engineer  
Central California Section  
SOUTHERN CALIFORNIA BRANCH  
DRINKING WATER FIELD OPERATIONS

cc: Merced County Environmental Health Department