City of Milpitas, California

*14

BUDGET CHANGE FORM

Type of Change	From		To	
	Account	Amount	Account	Amount
Check one: ☒ **Budget Appropriation** ☐ **Budget Transfer**	450-2970	$2,045,672	450-910-4428 450-910-4429 450-910-4720	$1,555,816 431,602 58,254

Explain the reason for the budget change:

Wastewater from the City of Milpitas is treated and disposed by the San Jose/Santa Clara Water Pollution Control Plant (WPCP) and the process for allocating costs and invoicing for payments for WPCP services are governed by a Master Wastewater Agreement. This request is to authorize a budget appropriation of $2,045,672 and payment to the City of San Jose, WPCP Administrator, for unanticipated additional expenses occurring in FY2007-08. The additional expenses are made up of three components: Operations, Capital Program, and Debt Service.

A budget appropriation of $2,045,672 from the Sewer Fund reserve is required. This appropriation will cover the WPCP Operations, Capital, and Debt Service payments of $431,602; $1,555,816; and $58,254 described above. A budget appropriation form is included in the Council packet.

☒ **Check if City Council Approval required.** **Meeting Date**: June 16, 2009

Itemization of funds, if needed:	**Amount**

Requested by:	**Division Head:**	**Date:**
	Department Head:	**Date:**
Reviewed by:	**Finance Director:**	**Date:** 6/10/09
Approved by:	**City Manager:**	**Date:**

Date approved by City Council, if required: **Confirmed by:**

FI/24786/V

Form 30-222 (Rev. 1/92)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Environmental Services Department

May 29, 2009

Greg Armendariz
Public Works Director/ City Engineer
City of Milpitas, Public Works
455 East Calaveras Blvd
Milpitas, Ca. 95035-5479

Re: WPCP Capital Engineering Invoice #512760000008052

Dear Mr. Armendariz:

This communication is in response to your letter dated, April 17, 2009, in regards to the 2007-08, capital billings for the San Jose/ Santa Clara Water Pollution Control Plant.
The Environmental Services Accounting staff met with Milpitas City staff on May 19, 2009 to discuss our findings. Per your request, we are sending this letter to explain the additional billing for $1,015,266.

The original invoice of $2,185,852 sent on January 6, 2009 contained an error which inflated the costs allocated to Milpitas. This error occurred when the wrong allocation rate was applied to the debt service line item. The corrected new invoice amount for Milpitas, which includes the third quarter adjustment for 2007-08 as well as the third quarter installment for 2008-09, is $1,663,191. The revised invoice is enclosed.

Please refer to the attached Reconciliation Schedule which summarizes the calculation methodology for the third quarter adjustment for Milpitas. The schedule has two sections: 1) Total Expenditures and 2) Total Payments or Revenue Credits.

Total Expenditures Section:

- The total FY07-08 Proposed Capital Project Costs were $27,784,000 (Attachment A).
- Milpitas' allocation for the Proposed Capital Project Costs is 7.126% or $1,979,000.
- For FY07-08, the total *actual* spending for capital projects was $34,215,781.
- Milpitas' 7.126% share of the *actual* cost for FY07-08 is $2,438,217.
- The amount applicable for Milpitas' share of the Electrical Reliability and Capital Replacement reserves totals $480,312, as shown in detail on the Reconciliation Schedule.
- The total revised cost allocation for Milpitas for FY07-08 is $2,438,217 for project costs and $480,312 for reserves costs for a total of **$2,918,529**.

Total Payments or Revenue Credits

Milpitas' share of the expenditures if offset by revenues it received in FY07-08 and payments submitted to San Jose:

- Miscellaneous revenue income for Milpitas totaled $192,888.
- Cash payments for the 2nd and 4th quarter billings, totaling $600,060 were received.
- A prior year credit of $1,110,315 from FY06-07 was applied.
- The total available credits to Milpitas are **$1,903,263**.

Subtracting the total credits of $1,903,263 from Milpitas' total allocation share of $2,918,529 results in a net Third Quarter billing of **$1,015,266**.

Attachment B offers more detail by project for the proposed budget, amount invoiced, actual capital expenditures, and the modified budget for FY07-08.

If you have any further questions, please feel free to contact Principal Accountant, Laura Burke, at (408) 975-2599 or Administrative Officer, Kate Drayson at (408) 535-8553.

Sincerely,

John Stufflebean
Director, Environmental Services Department
City of San Jose

Cc: Kerrie Romanow, City of San Jose
Kate Drayson, City of San Jose
Laura Burke, City of San Jose
Kathleen Phalen, City of Milpitas

CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479
GENERAL INFORMATION: 408-586-3000, TDD: 586-3013, www.ci.milpitas.ca.go

April 17, 2009

Mr. John Stufflebean, Director
City of San Jose Environmental Services Department
200 East Santa Clara Street, 10th Floor
San Jose, CA 95113-1905

Re: WPCP Capital Billing Invoice # 512760000008052

Dear Mr. Stufflebean:

The City of Milpitas received the WPCP 3rd quarter capital billing invoice in the amount of $2,185,852. This invoice contains the regular $647,925 quarterly payment for Milpitas's share of the 2008-09 third quarterly capital billing, and another $1,537,927 that appears to be a negative credit applied as a result of past capital billing rectification. My staff has not been able to verify the cause of the error requiring rectification and so I am asking you for a written explanation. Staff cannot approve payment of the amount of this rectified invoice without our Council's approval because it substantially exceeds our 2008-09 budget for WPCP costs. I will need to clearly understand the cause of the invoice rectification before I can make a staff recommendation to my Council.

My staff has informally asked your staff responsible for preparing the 3rd quarter invoice for an explanation, but still remain unclear on the cause of the discrepancy. From our own analysis, it appears possible that what may have happened is that San Jose applied excessive capital credits amounting to about $550,000 in 2005-06 and about $1,000,000 in 2006-07 to Milpitas's Annual Transaction Reports, Schedules 1-b, and then caught these errors and applied a negative credit of about $1,550,000 in the 2008-09 Annual Transactions Report. However, we do not have sufficient financial information available to us to verify that this is correct. I am attaching a brief spreadsheet summary we prepared that shows the Milpitas capital payment and credit history for 2005-06 through 2008-09.

We are also confused by the fact that it does not seem that San Jose is allocating revenue contributions and credits to the various discharging agencies in the same proportionate manner each year. We would assume that all agencies would be granted a similar proportionate credit for the WPCP uncompleted capital construction, but, for example, the 2007-08 Transaction Report shows that San Jose made a partial first quarter payment and two full third and fourth quarter payments, while Milpitas was only asked to make a partial second and partial fourth quarter payment. Why should our accounting be allocated differently? In general, San Jose's practice of crediting back uncompleted capital construction payments into the subsequent fiscal years, without rebudgeting these costs into the WPCP budget, makes it very difficult for Milpitas to prepare its annual operating budget for this account. The credited funds (which are actually unexpensed payments) reside in our operating budget until it is closed at the end of the fiscal

year. These unexpensed funds are not available in the subsequent year unless we have been notified by San Jose that we will need to rebudget them to pay prior year expenses.

As an independent issue, I note that Milpitas purchased 1.0 MGD treatment capacity from West Valley Sanitation District (WVSD) in June 2006. The price of the capacity purchase is documented in a Technical Memorandum (attached) prepared by RMC Water and Environment dated March 30, 2008. As noted in Section 3 on page 13, the purchase transaction requires ledger adjustment transfers from WVSD to Milpitas in the amounts of $1,049,035 for the Capital Fund, and $62,946 for the Replacement Fund. Please provide documentation demonstrating that the ledger transfers have occurred.

As you know, Milpitas has also nearly completed a 0.75 MGD treatment capacity purchase from Cupertino Sanitary District (CuSD). Once the purchase price documentation is completed, we will forward information regarding the need for similar ledger adjustments from CuSD to Milpitas.

Finally, we would like to know the payoff amount of the debt that Milpitas is acquiring (including the various bonds and the State Revolving Fund loan) with its purchase of treatment capacity from CuSD. For simplicity, I suggest valuing this payoff amount as of June 30, 2009, or other any other nearby date that you may find more convenient.

Thank you for investigating the history of the WPCP capital program invoice. Since this is a complicated issue, I suggest a meeting with you and your staff to review the results of the investigation, as this would help us to expedite the invoice approval. Please contact Kathleen Phalen at 408 586-3345 or kphalen@ci.milpitas.ca.gov to schedule the meeting.

Sincerely,

Kathleen Phalen

for Greg Armendariz, Public Works Director/City Engineer

cc: Alan Kuratori, City of Santa Clara
Robert Reid, West Valley Sanitation District
Steve Machida, Cupertino Sanitary District
Tom Williams, City of Milpitas
Kathleen Phalen, City of Milpitas

Att: Summary of Milpitas Capital Payment and Credit History
RMC Tech Memo