

Lompoc Utility Commission Item



Utility Commission Meeting Date: March 9, 2015

TO: Utility Commissioners
Larry Bean, Utilities Director

FROM: Melinda Wall, Financial Services Manager
m_wall@ci.lompoc.ca.us

SUBJECT: Utility Enterprise's Financial Reporting as of December 31, 2014

Recommendation:

Please find attached financial reports for the City's utility functions through December 31, 2014. This report summarizes financial activity, by Division, for Water, Electric, Wastewater, Broadband and Solid Waste for the six month period of July 1, 2014 to December 31, 2014.

No action is required for the receipt of this report.

Background:

The table below is presented for each division to provide a clear and concise summary of the financial results for each utility.

	Full Fiscal Year Budget	Year to Date		Positive/ (Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Category	Column 1	Column 2	Column 3	Column 4	Column 5

The following index is provided to you to explain the makeup of the information presented on each separate utility summary.

Column 1 of the report shows the revised budget for the division for the fiscal year for the indicated category (revenue, expenditures, etc). The revised budget includes the current approved budget plus any prior year carryovers, prior year encumbrances and any supplemental appropriations approved for the various funds in the current fiscal year.

Column 2 of the report shows the cumulative monthly totals for the fiscal year. In this case, the amount represents 6 of 12 months for the fiscal year since the report is as of December 31, 2014. As requested, this column has been revised from the original report to reflect the fact that debt service has a designated payment period, a majority of those payments hit semi-annually rather than equally every month. Personnel services are recorded on a monthly basis while payments for services and supplies usually are processed after the expenditures have occurred.

Column 3 represents the actual year to date activity by category (revenue, expenditures, compensation, debt service, etc).

Columns 4 and 5 show the variance between budgeted and actual either for the monthly year to date (column 4) or the annual projected results (the annualized monthly year to date). For this report, since it is for the full fiscal year, the two columns are generally the same.

While not fully represented in the table above, highlights of the various categories are more fully described below:

Revenues reflect the operational charges received by each division for the services provided. Water, electric, solid waste and broadband are based on current charges provided. A majority of wastewater accounts are based on a six year winter averaging of water usage and reflect lower water usages from customers.

Expenses and Expenditure Detail show, in total and major categories, the individual division's costs including salary and benefits, services and supplies (operations), capital outlay, debt service, and other sources/(uses). Because of the timing of vendor payments, many operating supplies or services purchased in the month are not reflected in the expenditure detail until paid will be reflected in the following month's activity. As part of the ordinary yearend closing process in June, the City accrues payables for 45 days to reflect all purchases in the proper fiscal year.

Highlights:

Operating expenditures such as salaries and maintenance in all divisions are within their budgeted amounts and are under the control of the managers of their divisions.

Capital outlay projects often take planning, engineer reviews and going through a bid process prior to the actual acquisition or the start of construction of a project. While these projects are approved in a current budget cycle, often the project will require significant planning up front and could span multiple years before the project is completed. It may take a number of years before all the funds allocated for those projects are expended. This typically results in a positive variance for capital expenditures as the project completion lags the decision to budget for the project.

The figures and amounts presented in this report are based on six months of the fiscal year.

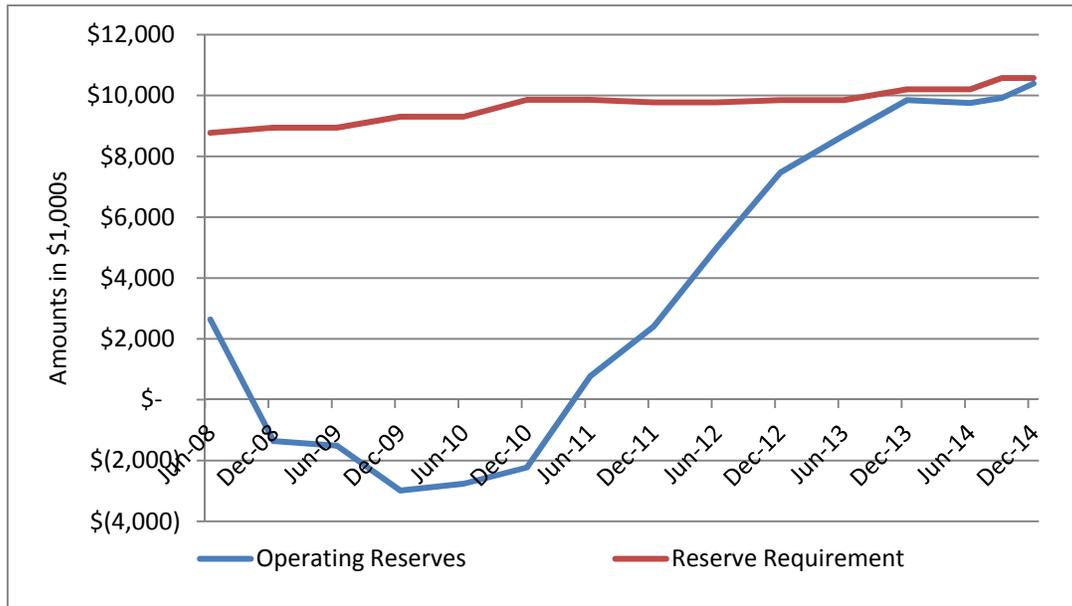
Additional highlights for individual funds are presented below:

- Water fund
 - Revenues
 - Actual revenues to date were \$5.87 million; this reflects the rate increase that went into effect on July 1, 2014 that was reflected in revenues starting in August and September. This is 52.5% of the anticipated total for the year.
 - Year to date revenues are 15.5% higher for the 6 month period ending December 31, 2014 than for the same 6 month period ending December 31, 2013.
 - The second year rate adjustment implemented on August 6, 2013 was 15%.
 - Expenditures
 - Salaries and operational costs were within the projected ranges at 46.83% (with half of the (13 of 26) payroll cycles complete) and 45.86% (6 of 12 months complete) respectively.
 - Scheduled debt service payments of \$307,512 were made in August. A majority of debt service is paid twice a year, in August and in February; February debt service payment will be \$904,383.
 - Capital outlay costs will vary due to the timing of the projects, most of the capital items have a lead time to get the projects started. To date, 10.71% of the anticipated costs have been spent towards capital projects.
 - Cash balance
 - Operational cash began the fiscal year with a negative \$101,534 and ended in the month of December with a positive \$1.5 million. To achieve a 15% cash reserve, there would need to be \$1.62 million in operating cash. To achieve a 25% (of budgeted operating costs) or 90 day cash reserve (as per City Council policy), there would need to be \$2.7 million in operating cash.
 - Goals of the rate adjustments for water
 - Ensure compliance with bond covenants in the first year of implementation.
 - Bond covenants require the Net Revenues plus any additional revenues, at least equal 125% of Maximum Annual Debt Service. In 2014, net revenues were at 2.11% of the water revenue bonds debt service requirement.

- Provide a positive net income by the second year of implementation; a positive net income has been achieved in the 2014 FY.
 - Eliminate the Water Utility operating reserve deficit during the fourth year of implementation; this may be able to be completed during the third year. Debt service cash reserve accounts need to set up prior to the completion of this task.
 - Provide a 25% or 90-day operating reserve by the fifth year of implementation.
 - Allow adequate funding for the Utility's capital repair and replacement program (R & R Reserve) by the end of the fifth year of implementation.
- Electric fund
 - Revenues
 - Total revenues to December were \$12.54 million and were within the estimated range at 55%.
 - Expenditures
 - Salaries and operational costs were 47% and 52% respectfully within the projected range at \$9.99 million and purchased power costs represent \$6.11 million of operational cost and is at 58% of its estimated budgeted.
 - Capital additions of \$593,084 reflect \$422,059 spent for the induction light retrofit (LED).
 - Cash balance
 - The Operating cash balance at the end of December was \$10.39 million in comparison with \$9.6 million at June 2014. The cash amount of the operating reserve policy set by Council was \$10.58 million for the 2014-2015 FY representing a 60 day operating expense reserve, a reserve for employee benefits, a stabilization reserve, and a major disaster reserve set at 6.5% of un-depreciated plant & equipment costs.

On the following page is a historical graph comparison of the Electric fund's operating reserves and the reserve requirement for the period of June 2008 to December 2014.

Electric Fund Operating Reserves and Reserve Requirements



- Wastewater fund

- Revenues

- Revenues through December are \$5.09 million and were less than originally budgeted.
 - Budget amounts are based on the consultant's recommendation of 17% for the second of five annual adjustments.
 - The approved increase of 10.5% is 6.5% lower than recommended.
 - Monthly revenues recognized since September are approximately 12% greater than revenue received in July (prior to implementation of the second year of the five year payment schedule).
 - The Wastewater treatment partners, Vandenberg Village Community Service District (VVCSD) and Vandenberg Air Force Base (VAFB), are charged for their direct usage in proportion to the overall costs in relationship to the City's usage. As the City's share has increased, the City's share of costs has also increased, resulting in a proportionately less revenue stream from the partners.

- Expenditures

- Salaries and operational costs of \$3.1 million were within projected ranges of 43% and 39% respectively.
 - Capital outlay cost of \$166,196 is 7% of budget due to the start up time needed for the capital outlay items, last year capital items have been carried over to this fiscal year.

- \$5 million in debt service payments were made in August for the State Revolving Fund (SRF). A majority of the debt service payments are in August and February. February's debt service is \$1 million.
 - Cash balance
 - Operating cash reserves at the end of December were a negative \$2.7 million for the Wastewater fund. The Restricted reserve balance for obligations related to the annual SRF payment as of December 31 is \$1.5 million.
 - The goal of the wastewater rate adjustments were:
 - Ensure compliance with bond covenants in the first year of implementation; because the revenue bonds have seniority, the bond covenants were met for their requirements, The State Revolving Fund (SRF) loan, funded in 2007 by the State Water Resources Control Board, relates solely to the Wastewater Utility, and requires similar covenants as the Revenue Bonds. One additional requirement of the SRF is the creation of a payment reserve equal to the annual SRF payment over the first 10 years of the 20-year loan.
 - Provide a positive net income by the second year of implementation;
 - Eliminate the Wastewater Utility operating reserve deficit by the fourth year of implementation;
 - Provide a 90-day operating reserve by the fifth year of implementation;
 - Allow funding for a significant portion of the SRF's payment reserve by the end of the fifth year; and
 - Allow funding for the Utility's capital repair and replacement program by the end of the sixth year of implementation.
- Broadband fund
 - Revenues
 - Revenues received for outside subscriptions and internal usage were \$257,825 as of December 31, 2014.
 - Expenditures
 - Salaries, operations, and debt service were within the projected range in the amount of \$212,238 as of December 31, 2014.
 - Capital outlays relates to the replacement of the City's fiber optic system provided under the City's cable franchise that ended in December. The project is substantially complete as of December 31, 2014.
 - Cash balance
 - Broadband's cash balance at the end of December is \$34,943. The City's external start up financing was paid off on October 24, 2014. With the final payment and the positive results of annual

operations, the existing \$4.3 million loan from the Electric fund that provided additional start up costs will begin to be repaid starting in the next fiscal year.

- Solid waste fund

- Revenues

- Revenues are \$3.8 million. This reflects the rate adjustments that were approved in June 2014 that was reflected in revenues starting in August and is 48% of anticipated revenues.
 - The rate increase adopted by City Council on June 3, 2014 was 3.6%.
 - Monthly revenues recognized since September are approximately 4.1% greater than revenue received in July (prior to implementation of the second year of the five year payment schedule).
 - Loan proceeds up to \$1 million will be paid to the City on a reimbursement basis for the Landfill Gas Collection (LGCCS) system once the project is under construction. After the City has met its required local match, loan proceeds will be recognized. The City received approval of the LGCCS on January 9, 2015 by the Santa Barbara County Air Pollution Control District. The system must be installed by July 9, 2016, 18 months following approval of the plan.

- Expenditures

- Salaries are at 48% and operations were at 41% of the budget and are within the projected range.
 - Capital outlays reflecting a positive variance is due to unexpected delays while waiting on the review of the LGCCS project. The LGCCS project was originally budgeted at \$1.2 million more than 4 years ago and will be carried over into this year.
 - Debt service had a positive variance due to refinancing of existing lease financing instruments with financing with lower interest rates. The budgeted debt service from the State for the LGCCS is on a reimbursement basis. Initiation of a payment schedule depends on the City expending the match and the timing of completion of construction which can be as late as July 9, 2016.

- Cash balance

- Solid Waste's cash balances were \$2.2 million at the end of the December. While this meets the interim 90 day operating expense reserve target of \$1.8 million, operating cash has not been reduced for restricted needs such as budgeted capital outlay appropriations including the estimated construction cost of the LGCCS. The rate increases adopted in July 2014 are necessary to pay the remaining balance of the operating loan to the insurance fund approved in 2010, the City's cost share of the landfill gas collection system,

necessary requirements to comply with operational needs, accrued benefit costs, and capital outlay costs.

Conclusion:

This report illustrates the costs associated with in the major Utility enterprises of the City as of December 31, 2014.

Respectfully submitted,



Melinda J. Wall, Financial Services Manager

Approved For Submittal to the Utility Commission:



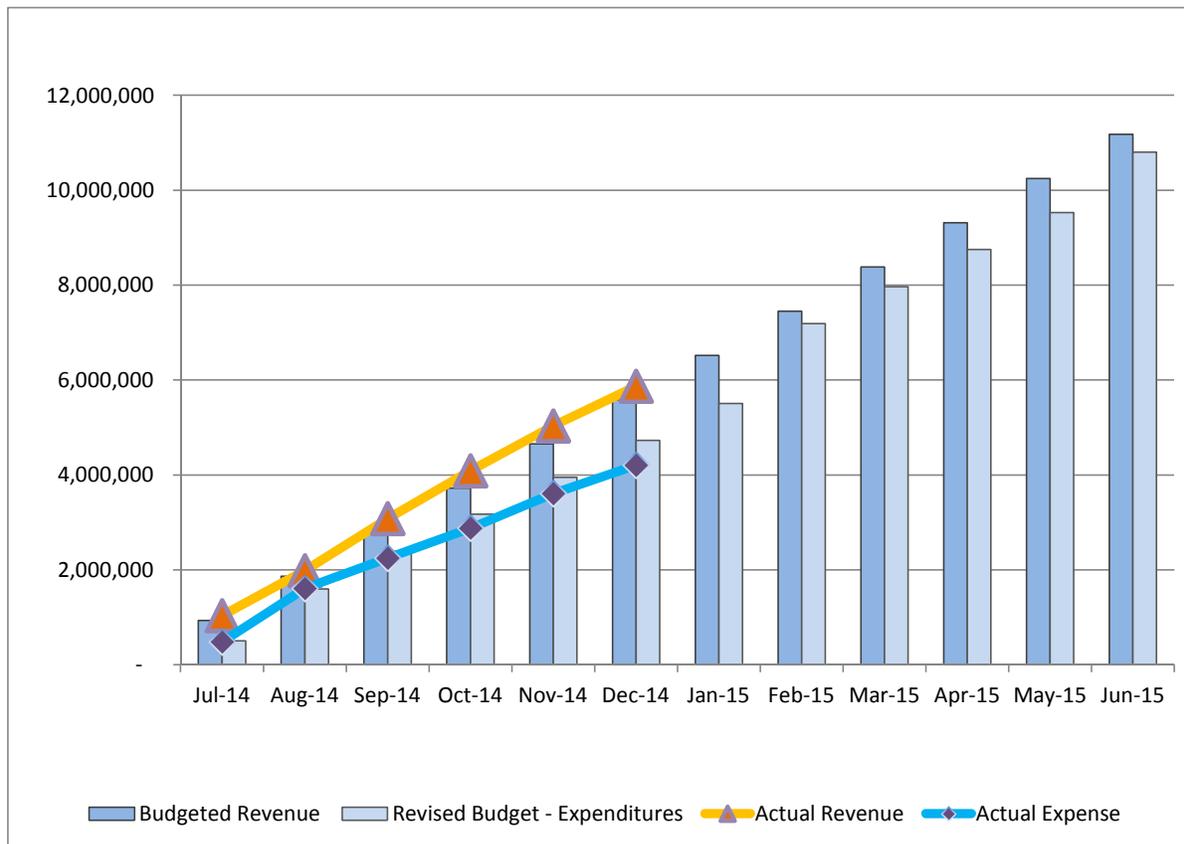
Brad Wilkie, Management Services Director

City of Lompoc

Periodic Financial Report for City Utility Funds - Water Fund
 Prepared for the City Utility Commission
 For the Period Ending 12/31/2014



Water	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Revenues	\$ 11,179,853	\$ 5,589,927	\$ 5,869,799	\$ 279,872	\$ 559,744
Expenses	10,800,449	4,729,964	4,206,105	523,859	1,091,819
Net position (Rev - Exp)	<u>\$ 379,404</u>	<u>\$ 859,962</u>	<u>\$ 1,663,693</u>	<u>\$ 803,731</u>	<u>\$ 1,651,564</u>
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 3,111,476	\$ 1,555,738	\$ 1,457,058	\$ 98,679	\$ 197,359
Operations	5,190,179	2,378,832	2,380,365	(1,533)	(3,066)
Capital outlay	1,342,838	615,467	143,788	471,679	943,358
Debt Service	1,475,242	339,570	384,458	(44,888)	(44,888)
Other Sources (Uses)	(319,286)	(159,643)	(159,564)	(79)	(944)
Total expenditures	<u>\$ 10,800,449</u>	<u>\$ 4,729,964</u>	<u>\$ 4,206,105</u>	<u>\$ 523,859</u>	<u>\$ 1,091,819</u>

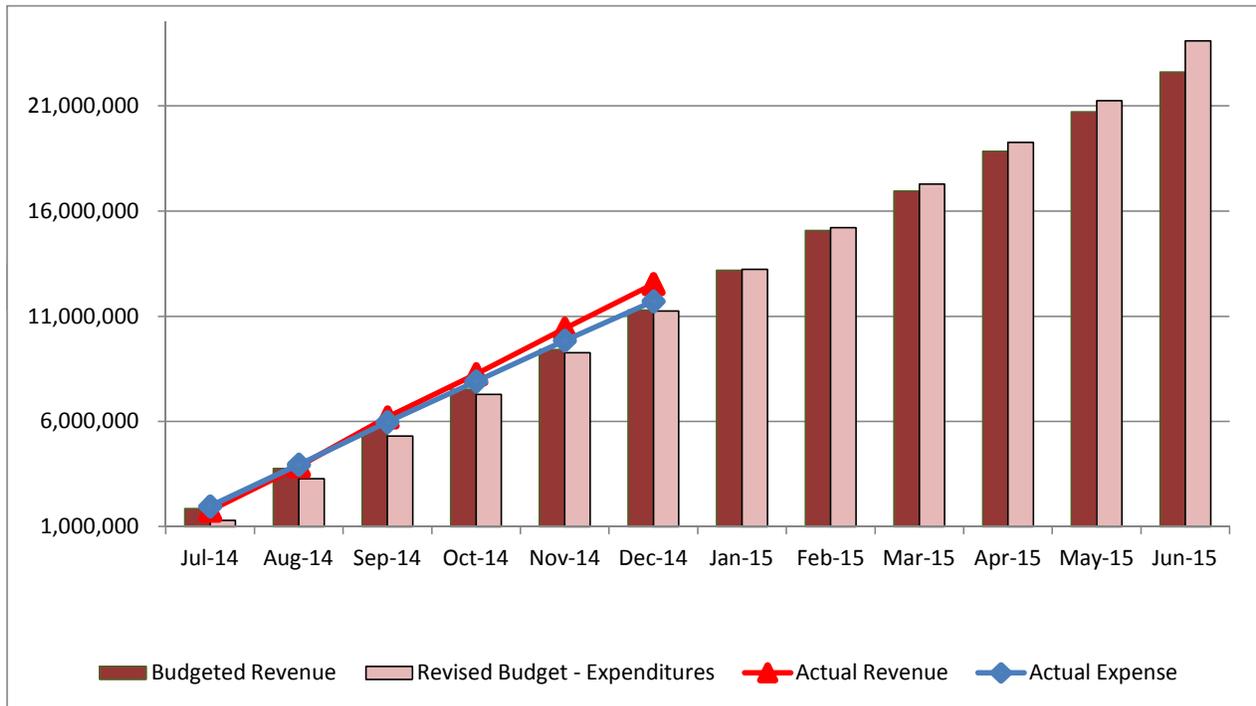


City of Lompoc

Periodic Financial Report for City Utility Funds - Electric Fund
 Prepared for the City Utility Commission
 For the Period Ending 12/31/2014



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Electric					
Revenues	\$ 22,605,203	\$ 11,302,602	\$ 12,539,614	\$ 1,237,012	\$ 2,474,025
Expenses	24,090,120	11,254,775	11,714,860	(460,084)	\$ 660,401
Net position (Rev - Exp)	\$ (1,484,917)	\$ 47,826	\$ 824,754	\$ 776,928	\$ 3,134,426
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 3,227,362	\$ 1,613,681	\$ 1,529,466	\$ 84,215	\$ 168,431
Operations	16,404,870	7,518,899	8,461,328	(942,429)	(517,785)
Capital outlay	2,094,004	1,047,002	593,084	453,918	907,836
Debt Service	322,615	54,559	116,678	(62,119)	89,260
Other Sources (Uses)	2,041,269	1,020,635	1,014,305	6,330	12,659
Total expenditures	\$ 24,090,120	\$ 11,254,775	\$ 11,714,860	\$ (460,084)	\$ 660,401

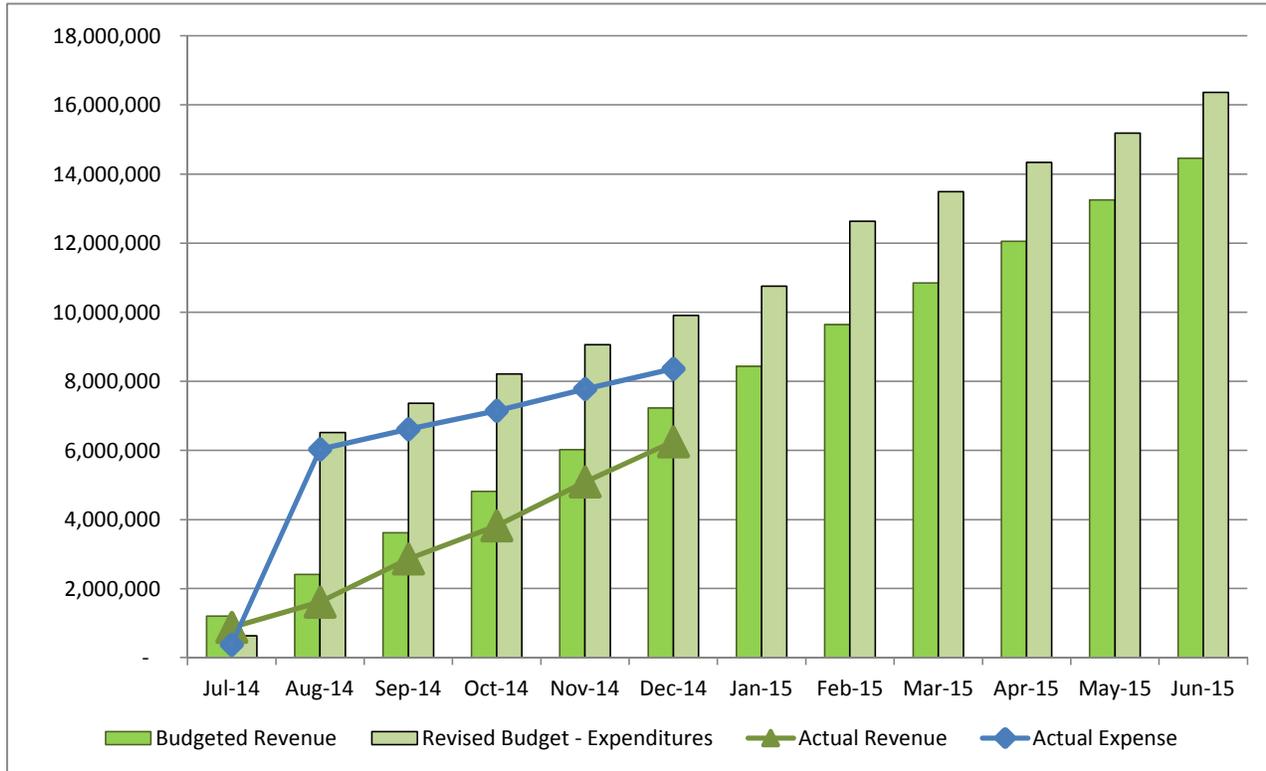


City of Lompoc

Periodic Financial Report for City Utility Funds - Wastewater Fund
 Prepared for the City Utility Commission
 For the Period Ending 12/31/2014



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Wastewater					
Revenues	\$ 14,458,324	\$ 7,229,162	\$ 5,090,859	\$ (2,138,303)	\$ (4,276,606)
Expenses	16,359,565	9,907,659	8,361,568	1,546,091	3,092,183
Net position (Rev - Exp)	\$ (1,901,241)	\$ (2,678,497)	\$ (3,270,709)	\$ (592,211)	\$ (1,184,423)
Expenditure detail					
Personnel Salary & Benefits	\$ 2,746,225	\$ 1,373,112	\$ 1,191,774	\$ 181,339	\$ 362,677
Operations	5,058,680	2,318,562	1,977,158	341,404	682,808
Capital outlay	2,365,121	1,182,560	166,196	1,016,365	2,032,730
Debt Service	6,189,540	5,033,425	5,026,441	6,984	13,968
Total expenditures	\$ 16,359,565	\$ 9,907,659	\$ 8,361,568	\$ 1,546,091	\$ 3,092,183

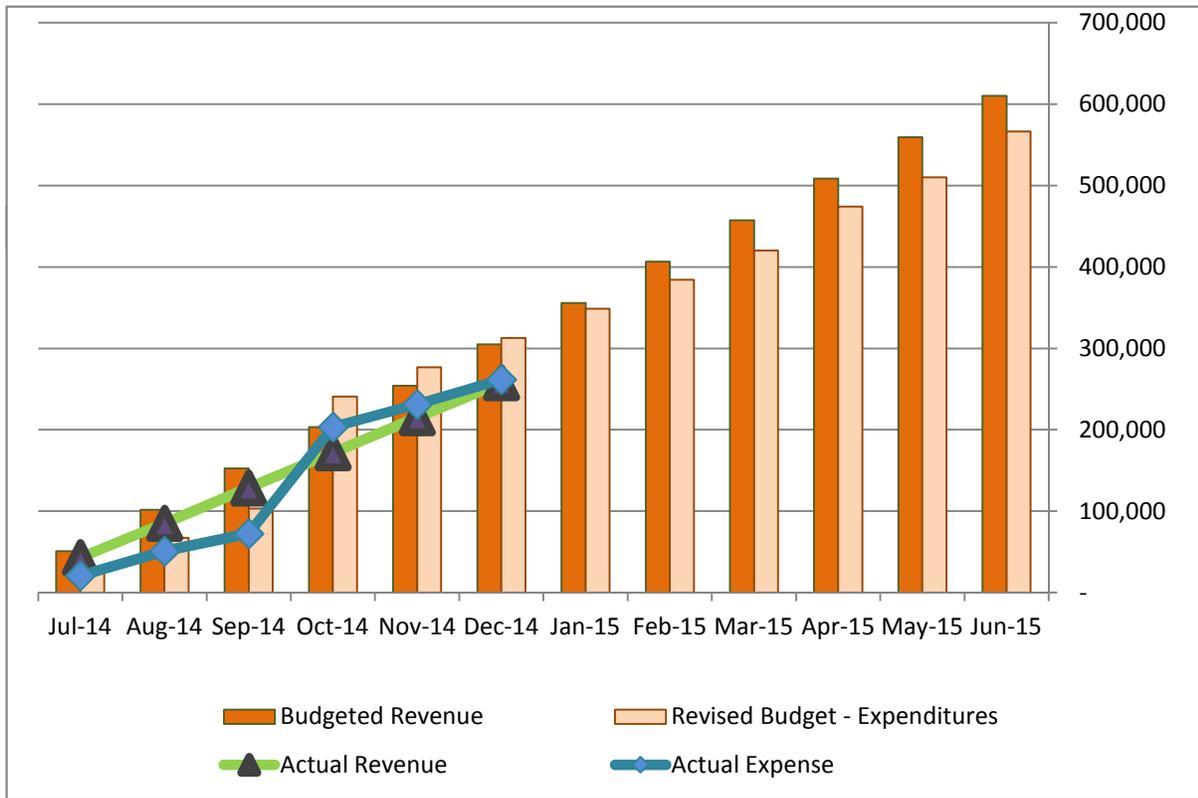


City of Lompoc

Periodic Financial Report for City Utility Funds - Broadband Fund
 Prepared for the City Utility Commission
 For the Period Ending 12/31/2014



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Broadband					
Revenues	\$ 609,967	\$ 304,984	\$ 257,825	\$ (47,159)	\$ (94,318)
Expenses	566,119	312,610	261,637	50,973	65,134
Net position (Rev - Exp)	\$ 43,848	\$ (7,627)	\$ (3,812)	\$ 3,815	\$ (29,184)
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 182,638	\$ 91,319	\$ 99,169	\$ (7,850)	\$ (15,699)
Operations	163,744	\$ 100,779	95,372	5,406	(27,000)
Capital outlay	144,227	\$ 72,113	17,697	54,416	108,833
Debt Service	75,510	48,399	49,399	(1,000)	(1,000)
Total expenditures	\$ 566,119	\$ 312,610	\$ 261,637	\$ 50,973	\$ 65,134



City of Lompoc

Periodic Financial Report for City Utility Funds - Solid Waste Fund Prepared for the City Utility Commission

For the Period Ending 12/31/2014



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
		Solid Waste			
Revenues	\$ 8,050,277	\$ 4,025,139	\$ 3,844,627	\$ (180,511)	\$ (361,023)
Expenses	8,930,864	4,200,940	3,158,173	1,042,767	2,614,518
Net position (Rev - Exp)	\$ (880,587)	\$ (175,801)	\$ 686,454	\$ 862,256	\$ 2,253,495
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 2,698,382	\$ 1,349,191	\$ 1,231,580	\$ 117,611	\$ 235,222
Operations	4,490,362	2,058,083	1,856,936	201,147	776,490
Capital outlay	1,500,483	750,242	39,674	710,568	1,421,135
Debt Service	213,002	29,107	29,244	(137)	154,515
Other Sources (Uses)	28,636	14,318	740	13,578	27,155
Total expenditures	\$ 8,930,864	\$ 4,200,940	\$ 3,158,173	\$ 1,042,767	\$ 2,614,518

