



Lompoc Utility Commission Item

Utility Commission Meeting Date: March 14, 2016

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, 2015

Recommendation:

Please find attached financial reports for the City's utility functions through December 31, 2015. This report summarizes financial activity, by Division, for Water, Electric, Wastewater, Broadband and Solid Waste for the six month period of July 1, 2015 to December 31, 2015.

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, 2015. 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:

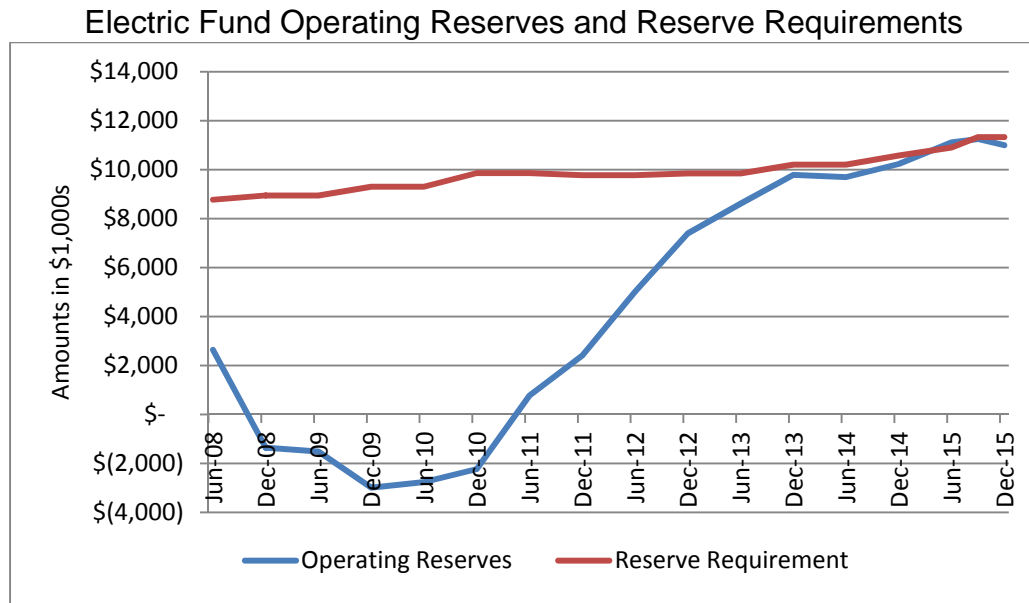
- Water fund
 - Revenues
 - Actual revenues to date were \$6.04 million in December 2015 in comparison to \$5.87 million as of December 2014; this reflects the rate increase that went into effect on July 1, 2015 that was reflected in revenues starting in August and September. This is 51.7% of the anticipated total for the year.
 - Year to date revenues are 2.9% higher ending December 31, 2015 than the same period ending December 31, 2014.
 - The third year rate adjustment implemented on August 6, 2013 was scheduled for 15%; Council approved a reduced rate increase of 7.5%.
 - Expenditures
 - Salaries and operational costs were within the projected ranges at 49.04% (with half of the (13 of 27) payroll cycles complete) and 43.96% (6 of 12 months complete) respectively.
 - Scheduled debt service payments of \$294,238 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 \$923,638.
 - 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, 27.26% of the anticipated costs have been spent towards capital projects. The original budget amount was \$1.3 million and \$0.883 million is attributable to capital projects that were carried over from the prior year. This revised the capital budget to \$2.25 million. The two major capital items are meters and water main replacement. \$546,919 was budgeted for Meters and \$86,805 had been spent by December 31, 2015. Water main replacement has budgeted at \$1.59 million and has spent \$0.5 million.
 - Cash balance
 - Operational cash began the fiscal year with a positive \$1.97 million in comparison with the negative \$101,534 cash balance on July 1, 2014 and ended in the month of December 2015 with a positive \$2.28 million in total operating revenue compared with the \$1.5 million cash balance in December 2014. \$0.883 million of the \$2.28 million is attributed to capital outlay reserves carried over from the prior budget. If all the budgeted capital projects had been completed by June 30, 2015, the available cash balance would have been \$1.397 million. The \$2.28 million has been allocated to

capital cash reserves of \$1.74 million and operational cash of \$0.54 million. To achieve a 15% cash reserve, there would need to be \$1.50 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 \$2.49 million in operating cash, or \$1.95 million more than the currently available.

- 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 2015, 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. Expenditure appropriations are greater the FY 2015-16 due to the capital project carry over in the amount of \$0.883 million from the FY 2014-15.
 - Eliminate the Water Utility operating reserve deficit during the fourth year of implementation; this may be able to be completed during the third year. Capital outlay reserves have been set up and 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 (\$2.49 million).
 - Allow adequate funding for the Utility's capital repair and replacement program (R & R Reserve) by the end of the fifth year of implementation. We have established a restricted cash account for capital projects to allocate specific funding for the current year. Actual CIP reserves for future major projects have not been set aside, only current budget items.
- Electric fund
 - Revenues
 - Total revenues to December 31, 2015 were \$12.58 million and were within the estimated range at 51%.
 - Expenditures
 - Salaries and operational costs were 45% and 47% respectfully within the projected range at \$10 million and purchased power costs represent \$5.8 million of operational cost and is at 52% of its estimated budgeted.
 - Capital additions of \$341,920 reflect \$169,015 spent on 4 KV conversions and \$131,825 spent on Electric meters.
 - Cash balance

- The operating cash balance at the end of December 2015 was \$10.94 million in comparison with \$10.39 million at December 2014. The cash amount of the operating reserve policy set by Council was \$11.33 million for the 2015-2016 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.

Below is a historical graph comparison of the Electric fund's operating reserves and the reserve requirement for the period of June 2008 to December 2015.



- Wastewater fund
 - Revenues
 - Revenues through December 2015 are \$6.7 million and are 47% of the amount budgeted in comparison with \$5.1 million at December 2014.
 - Budget amounts are based on the 10.5% for the third of five annual adjustments affirmed by City Council in May 2015.
 - The approved increase of 10.5% is 0.5% lower than recommended for year 3 and year 2 had been 6.5% lower than originally recommended.
 - Monthly revenues for residential and commercial sales are approximately 13% greater than the same residential and commercial sales as the revenues received in December 2014.
 - 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 from the partners.

- Expenditures
 - Salaries and operational costs of \$3.5 million were within projected ranges of 50% and 37% respectively.
 - The Capital outlay original budget was \$555,083 with \$1,567,267 carried over for a total budget of \$2,122,350. The capital cost spent to date is \$60,852 and is 3% of budget. Part of the small expenditures is due to unavailable cash and the start up time needed for the capital outlay items.
 - \$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 reserve at the end of December was a negative \$4.16 million for the Wastewater fund of which a positive \$2.12 million is needed for 25% operational costs and \$1.89 million is needed for capital projects. 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; In 2014, the Wastewater fund had a net loss of \$602,939, whereas in 2015, there was positive income of \$503,499.
 - 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; The Wastewater fund would need \$4.17 million in operating cash for a 90 day reserve.
 - 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 were \$73,642 as of December 31, 2015. This is 43% of the estimated reviews.
 - Expenditures
 - Salaries, operations, and debt service were within the projected range in the amount of \$82,190 as of December 31, 2015.
 - Capital outlays in the Broadband fund were \$4,047 to dated and consists of routers, connection kits and licenses
 - Cash balance
 - Broadband's cash balance at the end of December is \$47,686. The existing \$4.3 million loan from the Electric fund has been transferred to the Communication Internal Service fund and will begin to be repaid this fiscal year.

- Solid waste fund
 - Revenues
 - Revenues are \$4 million on December 31, 2015 in comparison with \$3.8 million on December 31, 2014. This reflects the rate adjustments that were approved in June 2014 that was reflected in revenues starting in August and is 46% of anticipated revenues.
 - The rate increase adopted by City Council on June 3, 2015 was 3.6%.
 - 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 (SBCAPCD). The system must be installed by July 9, 2016, 18 months following approval of the plan. Currently the City is asking for an extension for completion of the project as the City works with SBCAPCD for approval of specifications of the project.
 - Expenditures
 - Salaries are at 50% and operations were at 45% 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 is currently budgeted at \$1.6 million.
 - 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.

- Cash balance
 - Solid Waste's cash balances were \$2.7 million at the end of the December. While this meets the interim 90 day operating expense reserve target of \$2.35 million, \$746,466 of that amount has been reserved for capital outlay (this does not account for the \$1 million dollars for the LGCCS) The rate increases adopted in July 2015 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, 2015.

Respectfully submitted,



Melinda J. Wall, Financial Services Manager

Approved For Submittal to the Utility Commission:



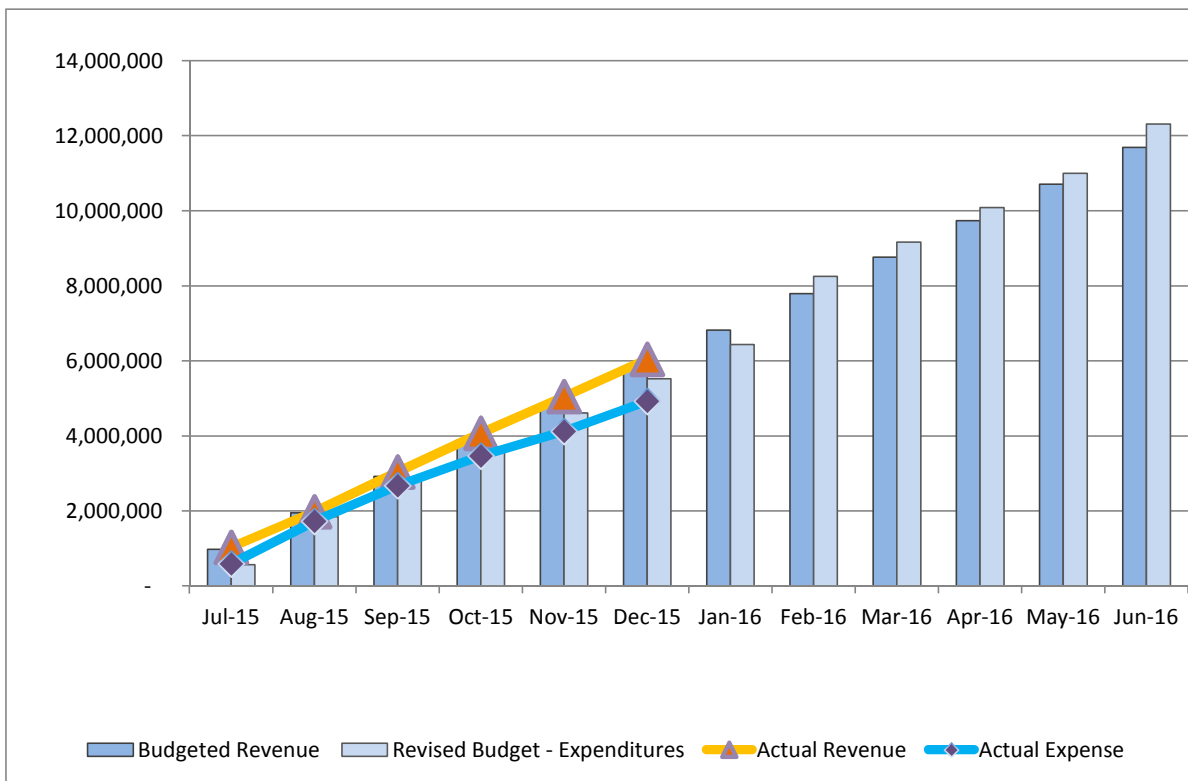
Brad Wilkie, Management Services Director

City of Lompoc

Periodic Financial Report for City Utility Funds - Water Fund
 Prepared for the City Utility Commission
 For the Period Ending December 31, 2015



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Water					
Revenues	\$ 11,685,551	\$ 5,842,776	\$ 6,042,174	\$ 199,398	\$ 398,796
Expenses	12,312,799	5,525,593	4,923,330	602,263	1,202,798
Net position	<u>\$ (627,248)</u>	<u>\$ 317,182</u>	<u>\$ 1,118,844</u>	<u>\$ 801,661</u>	<u>\$ 1,601,594</u>
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 3,030,114	\$ 1,515,057	\$ 1,486,101	\$ 28,956	\$ 57,912
Operations	5,818,716	2,666,912	2,558,113	108,799	217,598
Capital outlay	2,334,491	1,069,975	636,375	433,600	867,200
Debt Service	1,384,058	400,940	371,183	29,756	59,512
Other Sources (Uses)	(254,580)	(127,290)	(128,442)	1,152	576
Total expenditures	<u>\$ 12,312,799</u>	<u>\$ 5,525,593</u>	<u>\$ 4,923,330</u>	<u>\$ 602,263</u>	<u>\$ 1,202,798</u>

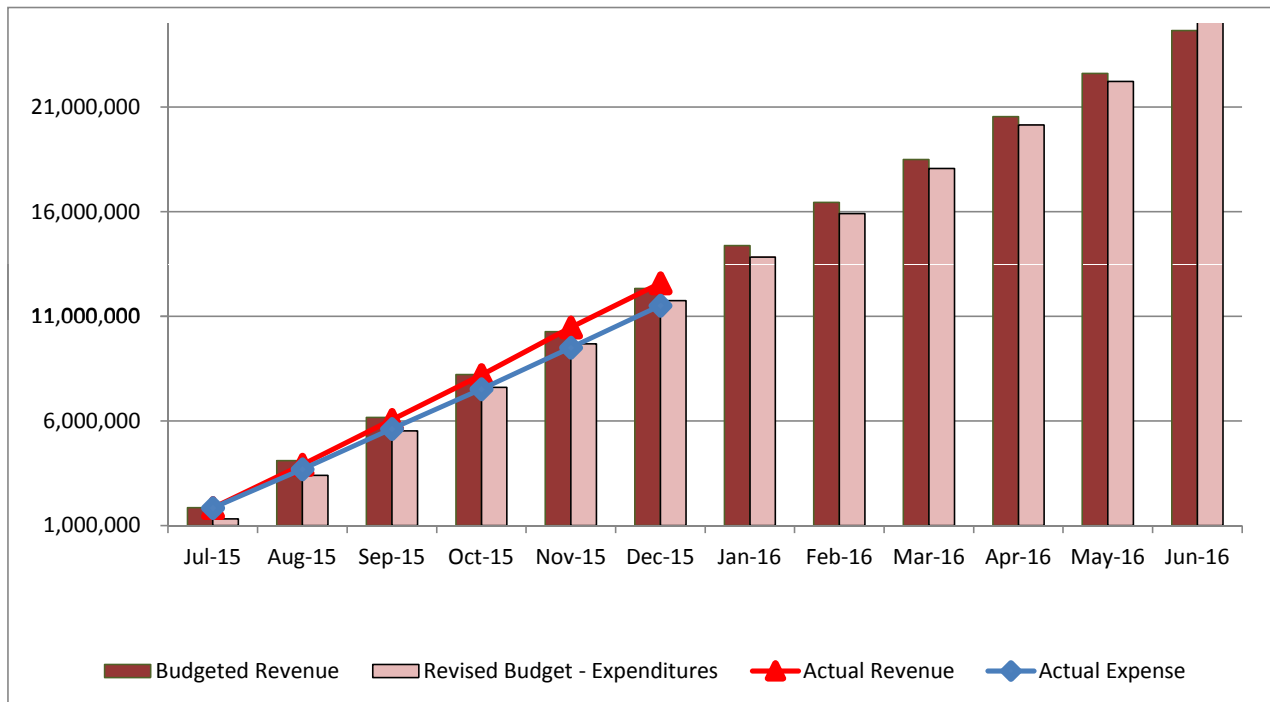


City of Lompoc

Periodic Financial Report for City Utility Funds - Electric Fund
 Prepared for the City Utility Commission
 For the Period Ending December 31, 2015



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Electric					
Revenues	\$ 24,656,499	\$ 12,328,250	\$ 12,586,795	\$ 258,546	\$ 517,091
Expenses	25,128,331	11,753,925	11,512,449	241,476	2,103,433
Net position	\$ (471,832)	\$ 574,324	\$ 1,074,346	\$ 500,022	\$ 2,620,524
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 3,544,763	\$ 1,772,382	\$ 1,588,745	\$ 183,636	\$ 367,273
Operations	17,954,938	8,229,346	8,470,374	(241,028)	1,014,190
Capital outlay	1,395,811	697,906	341,920	355,986	711,972
Debt Service	233,354	54,559	116,678	(62,119)	(1)
Other Sources (Uses)	1,999,465	999,733	994,733	5,000	10,000
Total expenditures	\$ 25,128,331	\$ 11,753,925	\$ 11,512,449	\$ 241,476	\$ 2,103,433

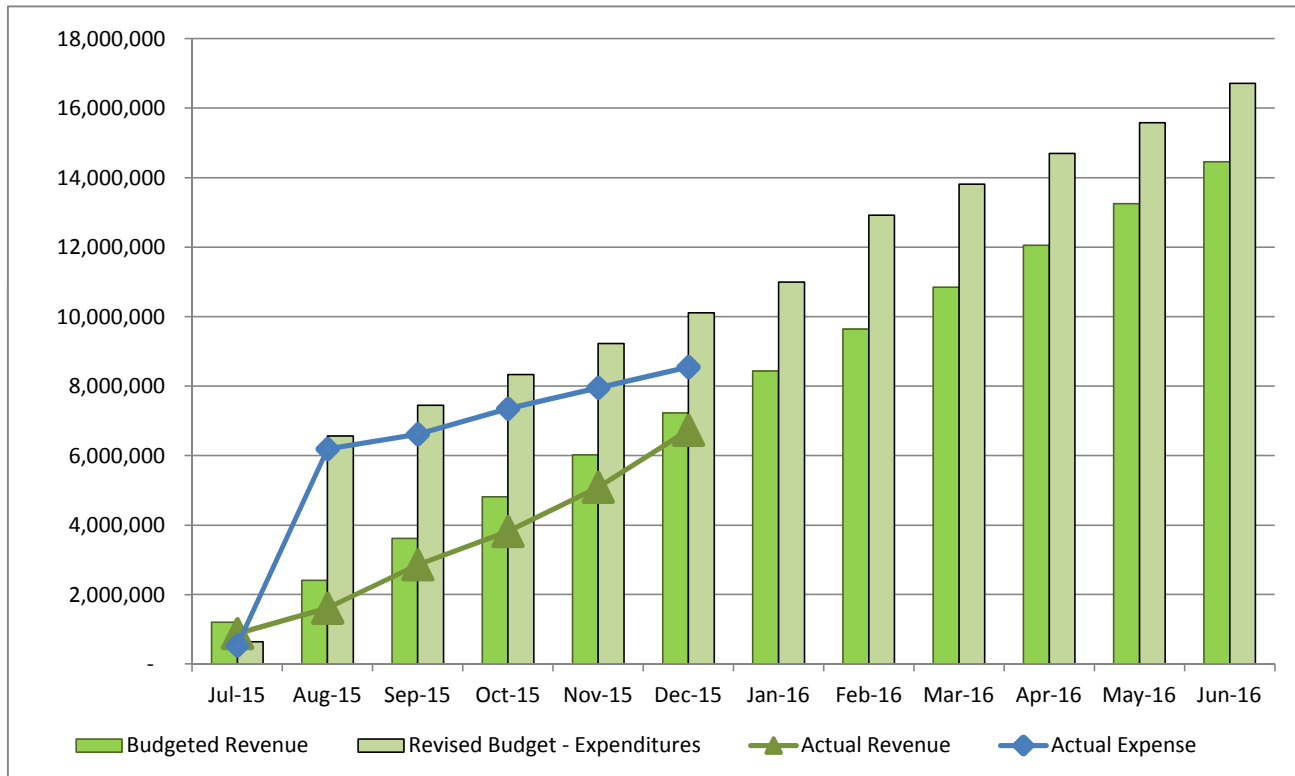


City of Lompoc

Periodic Financial Report for City Utility Funds - Wastewater Fund
 Prepared for the City Utility Commission
 For the Period Ending December 31, 2015



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Wastewater					
Revenues	\$ 14,458,326	\$ 7,229,163	\$ 6,732,251	\$ (496,912)	\$ (993,825)
Expenses	16,714,850	10,110,445	8,552,415	1,558,030	3,097,497
Net position	<u>\$ (2,256,524)</u>	<u>\$ (2,881,282)</u>	<u>\$ (1,820,165)</u>	<u>\$ 1,061,117</u>	<u>\$ 2,103,672</u>
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 2,688,152	\$ 1,344,076	\$ 1,347,078	\$ (3,002)	\$ (6,003)
Operations	5,829,314	2,671,769	2,129,623	542,146	1,084,291
Capital outlay	2,122,350	1,061,175	60,852	1,000,323	2,000,646
Debt Service	6,075,034	5,033,425	5,014,862	18,563	18,563
Total expenditures	<u>\$ 16,714,850</u>	<u>\$ 10,110,445</u>	<u>\$ 8,552,415</u>	<u>\$ 1,558,030</u>	<u>\$ 3,097,497</u>

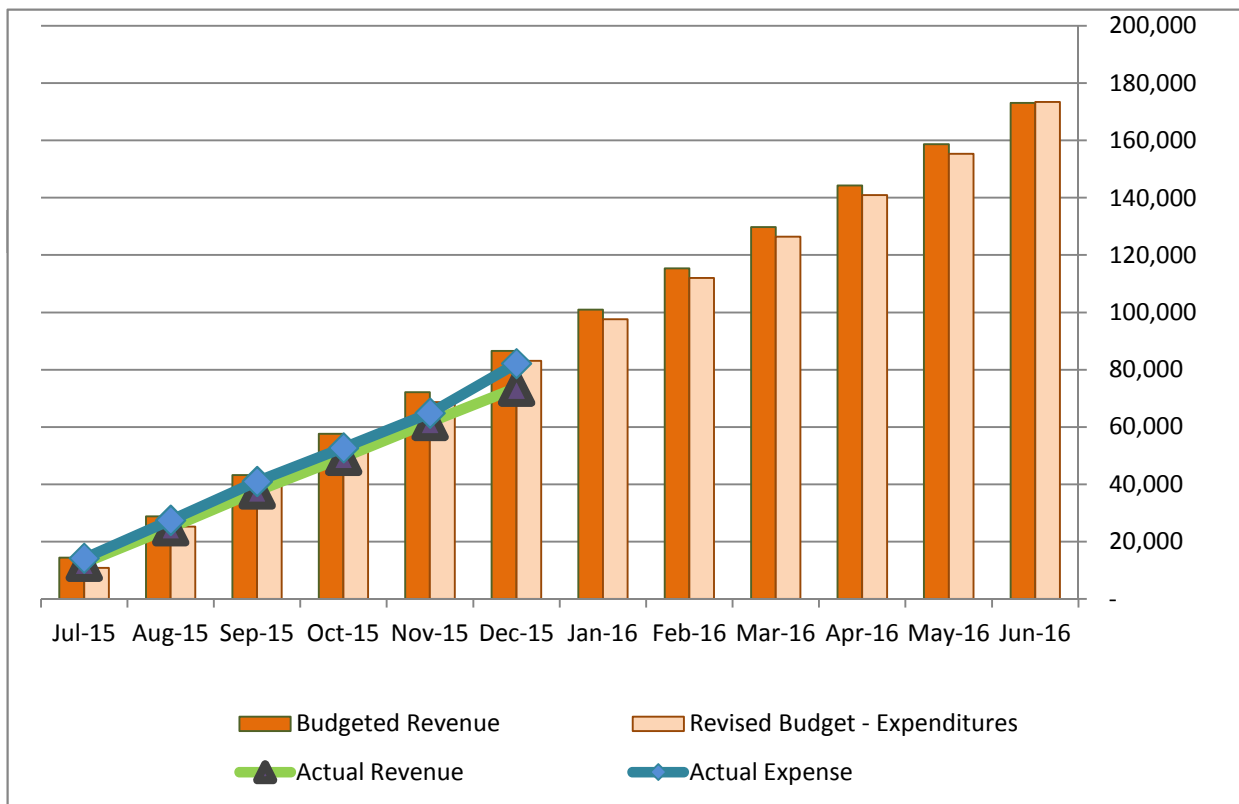


City of Lompoc

Periodic Financial Report for City Utility Funds - Broadband Fund
 Prepared for the City Utility Commission
 For the Period Ending December 31, 2015



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Broadband					
Revenues	\$ 173,070	\$ 86,535	\$ 73,642	\$ (12,893)	\$ (25,787)
Expenses	173,435	83,106	82,190	917	9,056
Net position	\$ (365)	\$ 3,429	\$ (8,548)	\$ (11,977)	\$ (16,730)
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 79,010	\$ 39,505	\$ 41,171	\$ (1,666)	\$ (3,332)
Operations	86,675	\$ 39,726	36,972	2,754	12,731
Capital outlay	7,750	\$ 3,875	4,047	(172)	(343)
Debt Service	-	-	-	-	-
Total expenditures	\$ 173,435	\$ 83,106	\$ 82,190	\$ 917	\$ 9,056



This statement will differ from the City's financials as it shows the cost of capital items (\$85,024) and principal payments (48,383) less depreciation (TBD).

City of Lompoc

Periodic Financial Report for City Utility Funds - Solid Waste Fund
 Prepared for the City Utility Commission
 For the Period Ending December 2015



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
		Solid Waste			
Revenues	\$ 8,797,671	\$ 4,398,836	4,030,349	\$ (368,486)	\$ (736,972)
Expenses	9,410,966	4,401,954	3,500,346	901,608	2,410,274
Net position	\$ (613,295)	\$ (3,119)	530,003	\$ 533,122	\$ 1,673,302
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 2,732,334	\$ 1,366,167	\$ 1,354,952	\$ 11,215	\$ 22,430
Operations	4,573,595	2,096,231	2,063,995	32,236	445,605
Capital outlay	1,802,399	901,199	54,139	847,060	1,694,120
Debt Service	199,139	29,107	26,013	3,094	147,113
Other Sources (Uses)	103,500	9,250	1,247	8,003	101,006
Total expenditures	\$ 9,410,966	\$ 4,401,954	3,500,346	\$ 901,608	\$ 2,410,274

