



Lompoc Utility Commission Item

Utility Commission Meeting Date: September 14, 2015

TO: Utility Commissioners
Larry Bean, Utility Director

FROM: Robert Cross, Utility Accountant
r_cross@ci.lompoc.ca.us

SUBJECT: Utility Enterprise's Preliminary Financial Reporting as of June 30, 2015

Recommendation:

Please find attached financial reports for the City's utility functions through June 30, 2015. This report summarizes financial activity, by Division, for Water, Electric, Wastewater, Broadband and Solid Waste for the twelve month period of July 1, 2014 to June 30, 2015 prior to recording year end closing transactions in preparation for the City's annual financial audit. 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	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 12 of 12 months for the fiscal year since the report is as of

June 30, 2015. This column reflects 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. As part of the City's customary and ordinary year end closing process, debt service, depreciation and fixed asset capitalization activity is analyzed and recorded using the accrual method of accounting, required for enterprise fund activities such as the City's Utility funds. Variations due to the timing of debt payments and the capitalization of projects are eliminated with the resulting use of resources allocated to the correct fiscal periods.

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 twelve months of the fiscal year.

Additional highlights for individual funds are presented below:

- Water fund
 - Revenues
 - Actual revenues to date were \$11.17 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 100% of the anticipated total for the year.
 - Year to date revenues are 8.3% higher for the 12 month period ending June 30, 2015 than for the same 12 month period ending June 30, 2014.
 - The revenue generated is due to the second year (of five) of rate adjustments of 15% implemented on August 6, 2013.
 - On May 5, 2015, the City Council implemented 50% (7.5%) of the 15% approved rate increase effective July 1, 2015 that will affect revenues of the utility beginning in August 2015.
 - Expenditures
 - Salaries and operational costs were within the projected ranges at 94.27% (with 100% of the payroll cycles complete – 26 of 26) and 97% of operational activity complete (12 of 12 months), respectively.
 - A majority of debt service is paid twice a year, in August and in February. Interest cost attributable to the fiscal year will be accrued as part of the customary and ordinary fiscal year end closing process.
 - 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, 21.47% of the anticipated costs have been spent towards capital projects. \$1.15 million of budgeted capital project costs have not yet been expended. For audited reporting purposes, all capital projects completed during the fiscal year will be capitalized and amortized over their useful life. All assets not fully depreciated at June 30, 2015 will have depreciation expense related to the Fiscal Year that is to be recorded as depreciation expense in the audited financial statements as part of the customary and ordinary fiscal year end process.

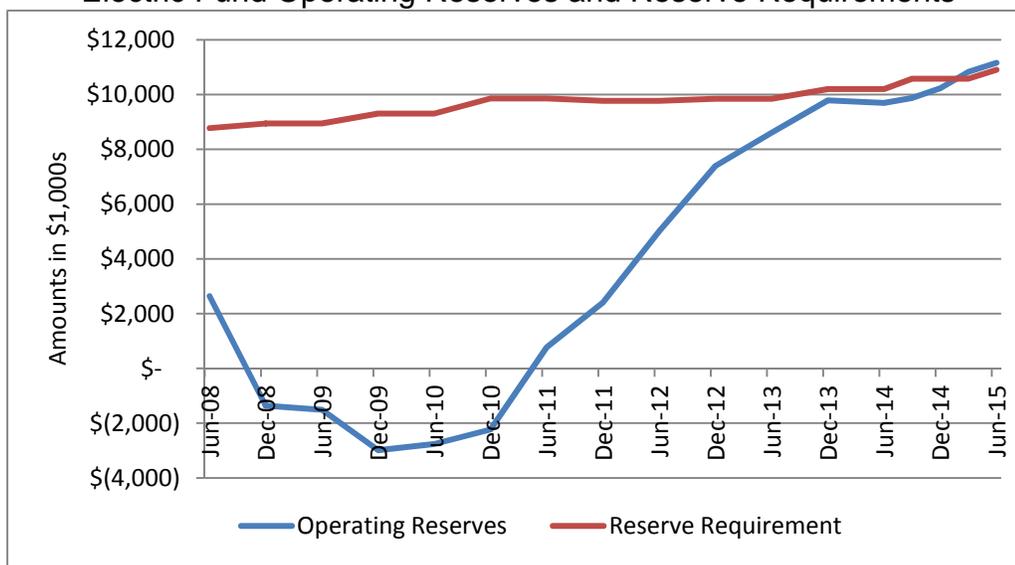
- The waterline replacement project approved by City Council on May 19, 2015 has a construction budget (not including design and planning costs) of \$616,110 with approximately \$26,000 expended by June 30, 2015.
- Cash balance
 - Operational cash began the fiscal year with a negative \$101,534 and ended in the month of June with a preliminary positive \$1.97 million. The preliminary cash balance is approximately a 15% cash reserve. 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.
 - Operational cash, adjusted for unexpended capital project costs would be \$824,087 at June 30, 2015 had all the projected budgeted projects for FY 2014-15 been completed and paid for by June 30, 2015.
 - The waterline replacement project approved by City Council on May 19, 2015 will reduce operating cash by \$616,110 over the course of construction.
- Goals of the rate adjustments for water are:
 - Ensure compliance with bond covenants in the first year of implementation by June 30, 2014.
 - 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 211%; in compliance with 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 depending on the level of capital outlay activity during the FY 2015-17 budget cycle. Debt service and Repair and Replacement cash reserve accounts need to set up and funded 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 June were \$24.14 million and were 106% of the estimated total for the year with 100% of the year concluded.

- Expenditures
 - Salaries and operational costs were 94% and 97% respectively within the projected range at \$19.80 million and purchased power costs represent \$11.16 million of operational cost and is at 106% of its estimated budgeted.
 - Capital additions of \$1,218,787 reflect \$439,678 spent for the induction light retrofit (LED). For audited reporting purposes, all capital projects completed during the fiscal year will be capitalized and amortized over their useful life. All assets not fully depreciated at June 30, 2015 will have depreciation expense related to the Fiscal Year that is to be recorded as depreciation expense in the audited financial statements as part of the customary and ordinary fiscal year end process.

- Cash balance
 - The preliminary operating cash balance at the end of June was \$11.19 million in comparison with \$9.6 million at June 2014. The operating reserve policy set by Council requires \$10.99 million at June 30, 2015 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.
 - Capital expenditures are \$865,248 less than anticipated for the year prior to customary and ordinary capitalization of projects, including the value of labor expended by the Utility on capital additions and improvements. Had all capital expenditures occurred by June 30, 2015, the operating reserve amount would be \$10.32 million or 93.9% of the policy level at June 30, 2015.

On the next page is a historical graph comparison of the Electric fund's operating reserves and the reserve requirement for the period of June 2008 to June 30, 2015.

Electric Fund Operating Reserves and Reserve Requirements



- Wastewater fund

- Revenues

- Revenues through June are \$13.17 million and are at 91% of budgeted.
 - Budget amounts are based on the consultant's recommendation of 17% for the second of five annual adjustments. The budgeted revenues for the FY 2015-17 cycle are based upon the approved rate adjustments from the August 6, 2013 City Council action.
 - The approved increase of 10.5% is 6.5% lower than consultant's recommended increase reflecting a 10 year implementation cycle rather than a 5 year implementation cycle.
 - Monthly revenues recognized by June 2015 are approximately 7.86% greater than the revenue received in June 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 stream from the partners.
 - On May 5, 2015, the City Council affirmed the 10.5% rate increase effective July 1, 2015. The recommended 5 year implementation anticipated an 11% increase effective July 1, 2015 while an alternative 10 year implementation plan anticipated an 8% increase effective July 1, 2015.

- Expenditures

- Salaries and operational costs of \$6.61 million were within projected ranges of 89% and 78% respectively thru 100% of the fiscal year.
- Capital outlay expenditures of \$222,677 are 10% 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. An additional \$1.8 million of capital outlay appropriations for FY 2013-15 have not yet been utilized.
- Revenue Bond payments are due semi-annually in February and August while the State Revolving Fund (SRF) is due annually in August. Debt service represents 38% of the total annual cost for Wastewater expenses. Interest cost attributable to the fiscal year will be accrued as part of the customary and ordinary fiscal year end closing process.
- Cash balance
 - Preliminary operating cash reserves at the end of June were a negative \$2.7 million for the Wastewater fund. Operating cash recovered approximately \$575,000 during the fiscal year ending June 30, 2015 prior to annual closing transactions in preparation for the City's external audit. The Restricted reserve balance for obligations related to the annual SRF payment as of June 30, 2015 is \$3.82 million representing 10/12 of the annual payment due on August 31 each year.
 - Capital expenditures are \$1.8 million less than anticipated for the year. Had all capital expenditures occurred by June 30, 2015, the operating reserve amount would be a negative \$4.5 million at June 30, 2015.
- The goal of the wastewater rate adjustments are:
 - Ensure compliance with bond covenants in the first year of implementation (by June 30, 2014); because the revenue bonds have seniority over other debt, 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 but is junior to the 1998, 2005 and 2007 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 \$509,100 as of June 30, 2015.
 - Expenditures
 - Salaries, operations, and debt service were within the projected range in the amount of \$384,900 as of June 30, 2015.
 - Capital outlays total \$85,000 to date and \$67,800 relates to the replacement of the City's fiber optic system provided under the City's cable franchise that ended in December 2014.
 - Cash balance
 - Broadband's preliminary cash balance at the end of June is \$81,827. 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.
 - In compliance with the City's approved FY 2015-17 budget, the internal and external component of Broadband are being split with the internal component realigned with the other internal service fund operations within the Communications Fund.
 - Solid waste fund
 - Revenues
 - Revenues are \$7.9 million. This reflects the rate adjustments that were approved in June 2014 reflected in revenues starting in August and is 98% of anticipated revenues.
 - The rate increase adopted by City Council on June 3, 2014 was 3.6%. City Council affirmed the second year's rate increase of 3.6% on May 5, 2015.
 - Monthly revenues recognized through June 2015 are approximately 7.6% greater than revenue received in the same period for June 2014.
 - CalRecycle has approved a Loan to the Solid Waste Utility with proceeds up to \$1 million paid to the City on a reimbursement basis for the Landfill Gas Collection and Control System (LGCCS) 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 (SBAPCD). The system must be installed by July 9, 2016, 18 months following approval of the plan. The FY 2015-17 budget has a placeholder of \$1.6 million for the LGCCS project; however, with the significant changes imposed on the project by SBCAPCD, the City will not know the actual project estimated cost until construction plans are completed and the project bids received.

- Expenditures
 - Salaries are at 94% and operations are at 87% of the budget and are in the amount of \$6.5 million 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. To date, capital outlay expenditures of \$74,697 have included costs of a security camera system, containers, drainage improvements and \$17,540 towards the LGCCS project.
 - With additional requirements imposed by both CalRecycle and the Santa Barbara County Air Pollution Control District (APCD) plus the delay in approval caused by the transfer of approving authority to APCD, it is all but guaranteed the original conceptual estimate of \$1.2 will be exceeded. Whether by \$200,000 or \$2 million is the unknown. The FY 2015-17 budget includes a capital outlay item for the LGCCS of \$1.6 million and expends reserves of \$495,000 and \$105,000 of current revenues for the City's share of the project.
 - Debt service had a positive variance due to refinancing of existing lease financing instruments with financing with lower interest rates. The budgeted debt proceeds from the State for the LGCCS is on a reimbursement basis. Initiation of a repayment schedule depends on the City expending the match and the timing of completion of construction which can be as late as July 9, 2016, the state mandated delivery date of a completed project.
 - Other sources expenditure detail shows the once a year transfer between the Solid Waste fund to the Landfill Closure fund to meet the State required set aside amount to close the fund. This year's contribution to closing the landfill was \$95,312.
- Cash balance
 - Solid Waste's preliminary cash balances were \$2.71 million on June 30, 2015. 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 (an \$159,400 annual expenditure), the City's cost share of the landfill gas collection system (currently estimated at \$600,000), potentially significant expenditures to comply with more stringent storm water requirements, necessary requirements to comply with operational needs, accrued benefit costs, and capital outlay costs.

- Capital expenditures are \$1.4 million less than anticipated for the year (\$0.4 million net of LGCCS loan proceeds). Had all capital expenditures occurred (and the LGCCS loan been fully disbursed) by June 30, 2015, the operating reserve amount would be \$1.71 million at June 30, 2015.

Conclusion:

This report illustrates the revenues, expenditures, debt service costs, and cash position associated with each of the major Utility enterprises of the City as of June 30, 2015.

Respectfully submitted,



Robert Cross, Utility Accountant

Approved For Submittal to the Utility Commission:



Brad Wilkie, Management Services Director

Attachment:

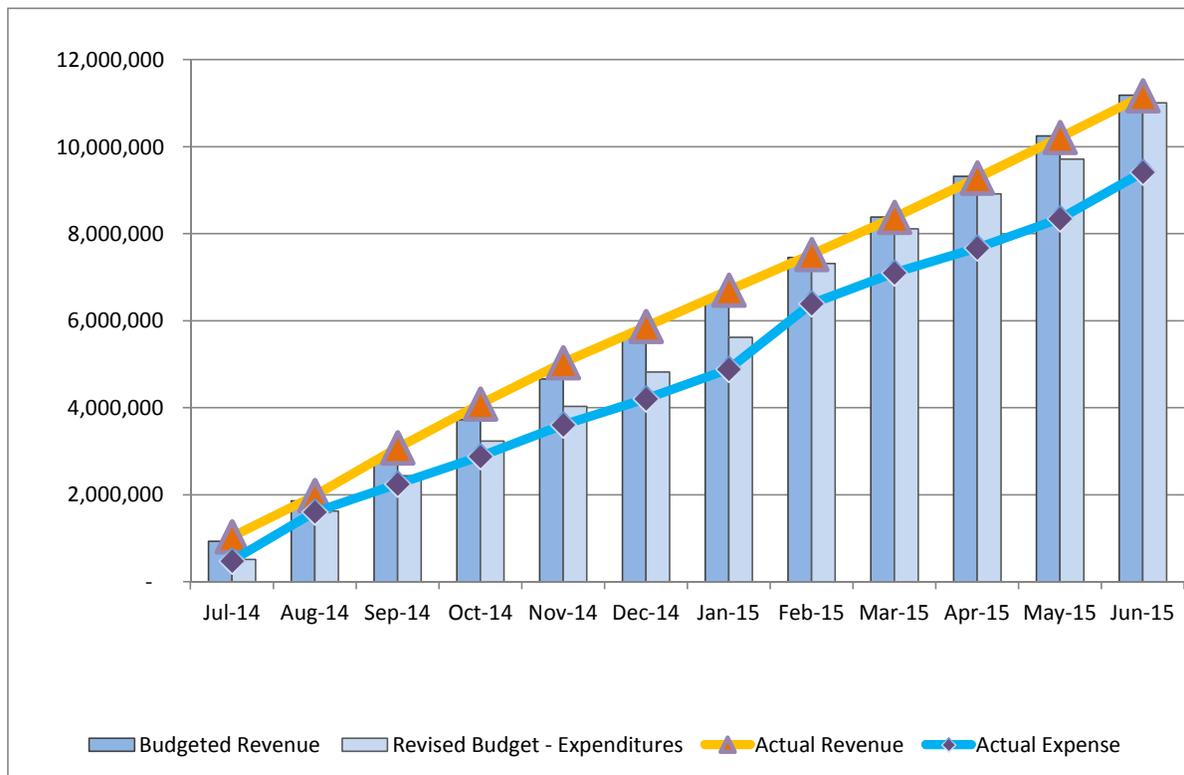
1. June 2015 Financial Reporting Graphs for Utility Funds

City of Lompoc

Periodic Financial Report for City Utility Funds - Water Fund
 Prepared for the City Utility Commission
 For the Period Ending 6/30/2015 (Preliminary)



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Water					
Revenues	\$ 11,180,023	\$ 11,180,023	\$ 11,167,936	\$ (12,087)	\$ (12,087)
Expenses	11,002,541	11,002,541	9,414,742	1,587,799	1,587,798
Net position	<u>\$ 177,482</u>	<u>\$ 177,482</u>	<u>\$ 1,753,194</u>	<u>\$ 1,575,712</u>	<u>\$ 1,575,711</u>
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 3,123,895	\$ 3,123,895	\$ 2,944,908	\$ 178,986	\$ 178,986
Operations	5,258,895	5,258,895	5,092,521	166,374	166,374
Capital outlay	1,463,795	1,463,795	314,325	1,149,470	1,149,470
Debt Service	1,475,242	1,475,242	1,383,106	92,136	92,136
Other Sources (Uses)	(319,286)	(319,286)	(320,118)	832	832
Total expenditures	<u>\$ 11,002,541</u>	<u>\$ 11,002,541</u>	<u>\$ 9,414,742</u>	<u>\$ 1,587,798</u>	<u>\$ 1,587,798</u>



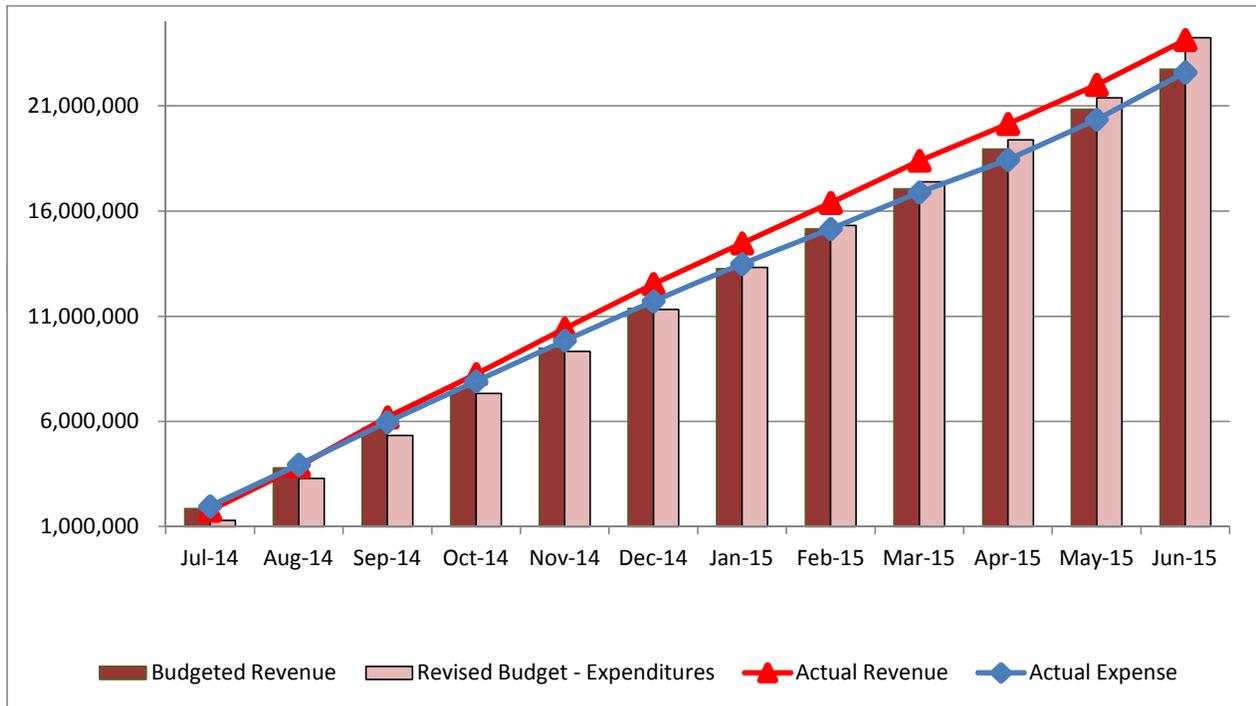
This statement will differ from the City's financials as it shows the cost of capital items (\$314,325) and principal payments (757,993) less depreciation (TBD).

City of Lompoc

Periodic Financial Report for City Utility Funds - Electric Fund
 Prepared for the City Utility Commission
 For the Period Ending 6/30/2015 (Preliminary)



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Electric					
Revenues	\$ 22,738,293	\$ 22,738,293	\$ 24,137,561	\$ 1,399,267	\$ 1,399,267
Expenses	24,245,028	24,245,028	22,593,988	1,651,041	1,651,041
Net position	\$ (1,506,735)	\$ (1,506,735)	\$ 1,543,573	\$ 3,050,308	\$ 3,050,308
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 3,239,664	\$ 3,239,664	\$ 3,037,419	\$ 202,245	\$ 202,245
Operations	16,557,445	16,557,445	16,079,204	478,241	478,241
Capital outlay	2,084,035	2,084,035	1,218,787	865,248	865,248
Debt Service	322,615	322,615	231,403	91,212	91,212
Other Sources (Uses)	2,041,269	2,041,269	2,027,175	14,094	14,094
Total expenditures	\$ 24,245,028	\$ 24,245,028	\$ 22,593,988	\$ 1,651,041	\$ 1,651,041



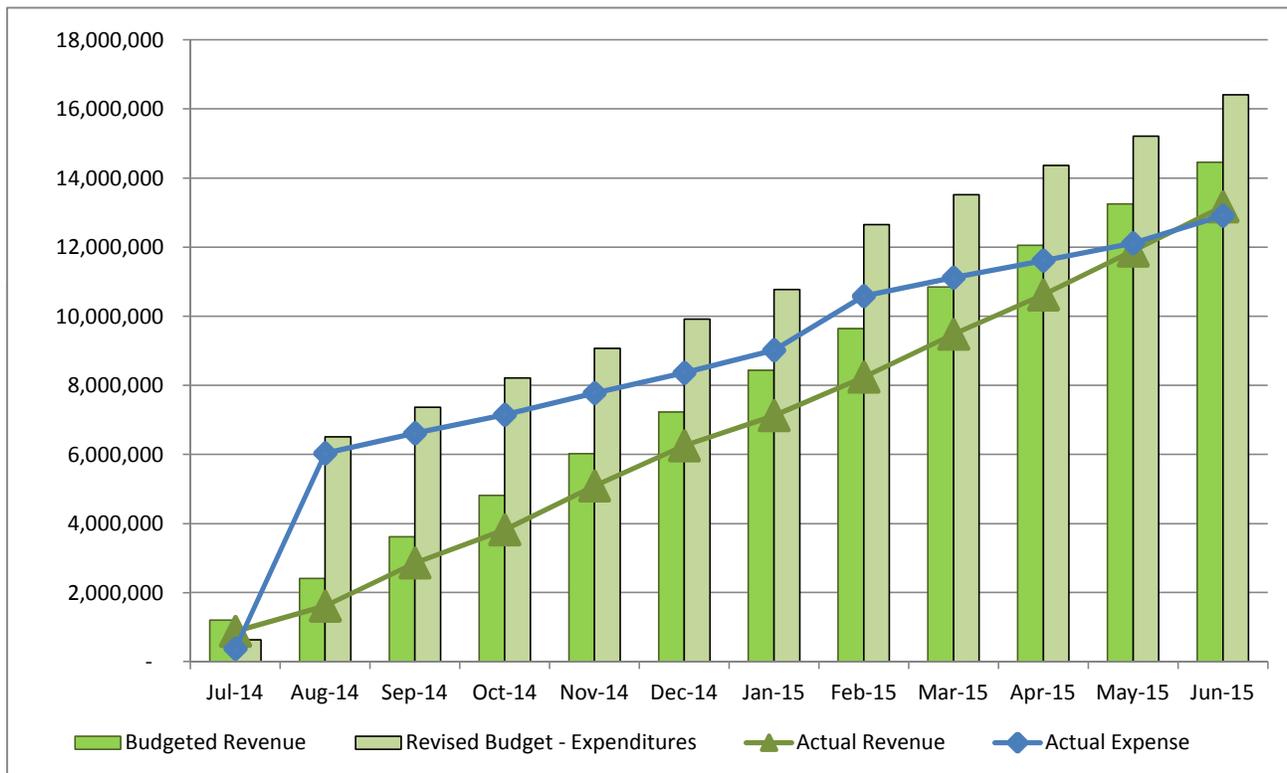
This statement will differ from the City's financials as it shows the cost of capital items (\$1,218,787) and principal payments (174,892) less depreciation (TBD).

City of Lompoc

Periodic Financial Report for City Utility Funds - Wastewater Fund
 Prepared for the City Utility Commission
 For the Period Ending 6/30/2015 (Preliminary)



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Wastewater					
Revenues	\$ 14,458,326	\$ 14,458,326	\$ 13,170,473	\$ (1,287,853)	\$ (1,287,853)
Expenses	16,405,523	16,405,523	12,913,063	3,492,460	3,492,460
Net position	\$ (1,947,197)	\$ (1,947,197)	\$ 257,410	\$ 2,204,607	\$ 2,204,607
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 2,782,077	\$ 2,782,077	\$ 2,465,397	\$ 316,680	\$ 316,680
Operations	5,306,786	5,306,786	4,149,297	1,157,489	1,157,489
Capital outlay	2,127,121	2,127,121	222,677	1,904,443	1,904,443
Debt Service	6,189,540	6,189,540	6,075,692	113,848	113,848
Total expenditures	\$ 16,405,523	\$ 16,405,523	\$ 12,913,063	\$ 3,492,460	\$ 3,492,460

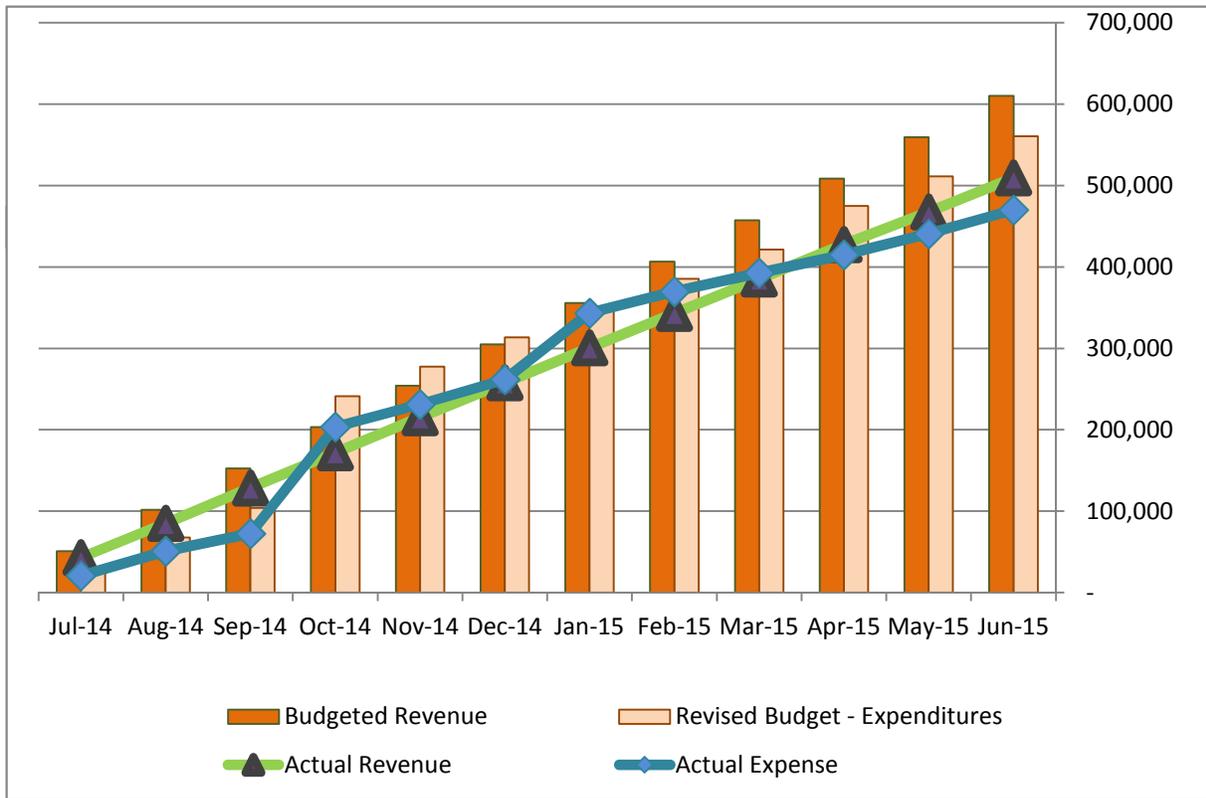


City of Lompoc

Periodic Financial Report for City Utility Funds - Broadband Fund
 Prepared for the City Utility Commission
 For the Period Ending 6/30/2015 (Preliminary)



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
Broadband					
Revenues	\$ 609,967	\$ 609,967	\$ 509,494	\$ (100,473)	\$ (100,473)
Expenses	560,479	560,479	469,894	90,585	90,585
Net position	\$ 49,488	\$ 49,488	\$ 39,600	\$ (9,888)	\$ (9,888)
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 183,330	\$ 183,330	\$ 197,197	\$ (13,867)	\$ (13,867)
Operations	151,013	\$ 151,013	138,274	12,739	12,739
Capital outlay	150,627	\$ 150,627	85,024	65,603	65,603
Debt Service	75,510	75,510	49,399	26,111	26,111
Total expenditures	\$ 560,479	\$ 560,479	\$ 469,894	\$ 90,585	\$ 90,585



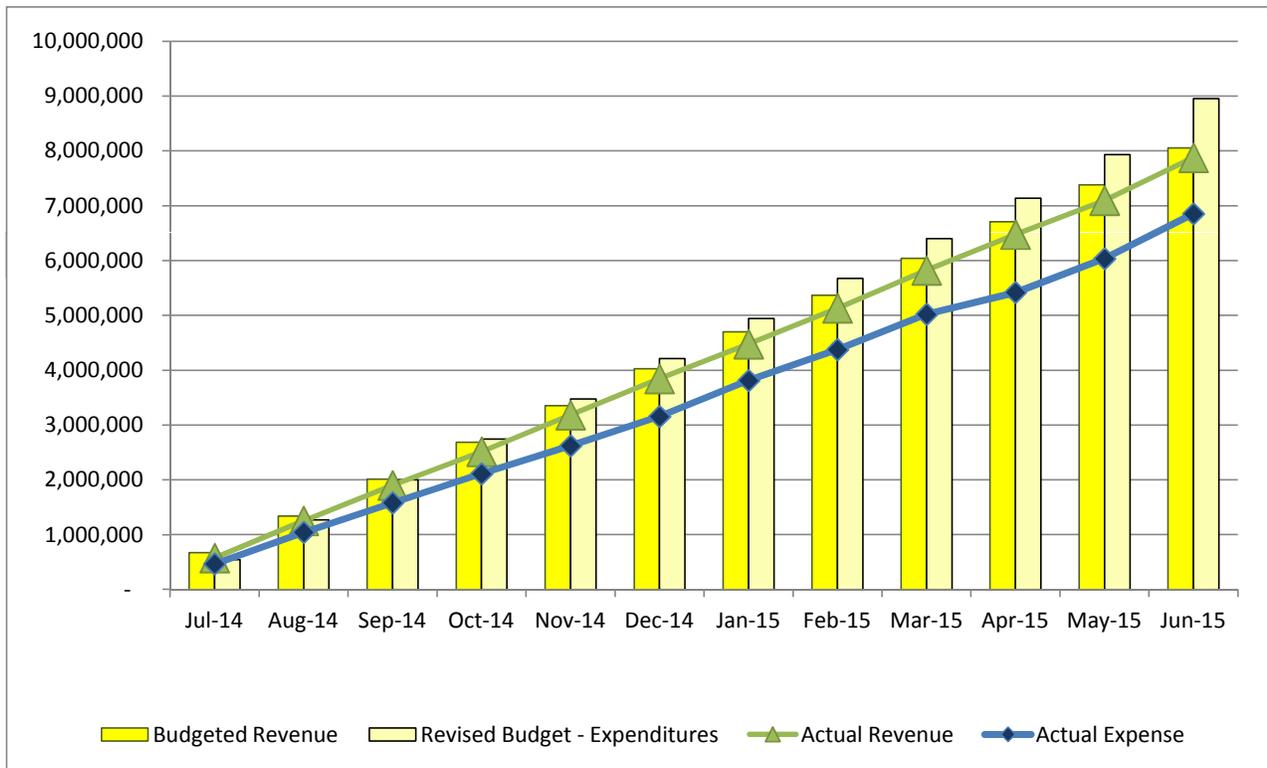
This statement will differ from the City's financials as it shows the cost of capital items (\$85,024) and principal payments (48,383) less depreciation (TBD).

City of Lompoc

Periodic Financial Report for City Utility Funds - Solid Waste Fund
 Prepared for the City Utility Commission
 For the Period Ending 6/30/2015 (Preliminary)



	Full Fiscal Year Budget	Year to Date		Positive/(Negative) Variance	
		Expected	Actual	Year to Date	Projected Full Year
		Solid Waste			
Revenues	\$ 8,052,482	\$ 8,052,482	7,877,916	\$ (174,566)	\$ (174,566)
Expenses	8,953,357	8,953,357	6,853,722	2,099,636	2,099,636
Net position	\$ (900,875)	\$ (900,875)	1,024,194	\$ 1,925,069	\$ 1,925,069
<u>Expenditure detail</u>					
Personnel Salary & Benefits	\$ 2,708,858	\$ 2,708,858	\$ 2,536,120	\$ 172,738	\$ 172,738
Operations	4,502,379	4,502,379	3,933,542	568,837	568,837
Capital outlay	1,500,483	1,500,483	74,697	1,425,786	1,425,786
Debt Service	213,002	213,002	211,310	1,692	1,692
Other Sources (Uses)	28,636	28,636	98,052	(69,417)	(69,417)
Total expenditures	\$ 8,953,357	\$ 8,953,357	6,853,722	\$ 2,099,636	\$ 2,099,636



This statement will differ from the City's financials as it shows the cost of capital items (\$68,529) and principal payments (186,154) less depreciation (TBD).