



Lompoc Utility Commission Item

Utility Commission Meeting Date: June 8, 2015

TO: Utility Commissioners
Larry Bean, Utility Director

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

SUBJECT: Utility Enterprise's Financial Reporting as of March 31, 2015

Recommendation:

Please find attached financial reports for the City's utility functions through March 31, 2015. This report summarizes financial activity, by Division, for Water, Electric, Wastewater, Broadband and Solid Waste for the nine month period of July 1, 2014 to March 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.

| | <u>Full Fiscal Year</u> | <u>Year to Date</u> | | <u>Positive/ (Negative) Variance</u> | |
|----------|---------------------------------|---------------------|---------------|--|--------------------------------|
| | | <u>Expected</u> | <u>Actual</u> | <u>Year to Date</u> | <u>Projected Full Year</u> |
| 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 9 of 12 months for the fiscal year since the report is as of

March 31, 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.

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 nine months of the fiscal year.

Additional highlights for individual funds are presented below:

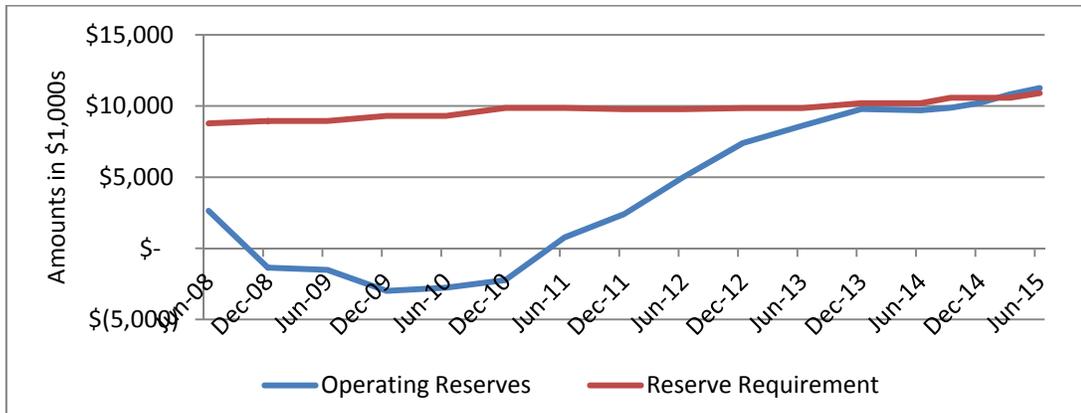
- Water fund
 - Revenues
 - Actual revenues to date were \$8.375 million; this reflects the rate increase that went into effect on July 1, 2014 that was reflected in revenues starting in August and September. This is 74.92% of the anticipated total for the year.
 - Year to date revenues are 10.6% higher for the 9 month period ending March 31, 2015 than for the same 9 month period ending March 31, 2014.
 - This is the second year 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
 - Expenditures
 - Salaries and operational costs were within the projected ranges at 71.98% (with 76.92% of the payroll cycles complete – 20 of 26) and 75% of operational activity complete (9 of 12 months), respectively.
 - Scheduled debt service payments of \$904,383 were made in February. A majority of debt service is paid twice a year, in August and in February.
 - 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, 13.12% of the anticipated costs have been spent towards capital projects. \$1.2 million of budgeted capital project costs have not yet been expended.
 - 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.
 - Cash balance
 - Operational cash began the fiscal year with a negative \$101,534 and ended in the month of March with a positive \$1,189,333. 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.
 - Operational cash, adjusted for unexpended capital project costs would be a negative \$4,407 at March 31, 2015 had all the projected budgeted projects for FY 2014-15 been completed by March 31, 2015.

- The waterline replacement project approved by City Council on May 19, 2015 will reduce operating cash by \$610,110 over the course of construction.
- Goals of the rate adjustments for water are:
 - Ensure compliance with bond covenants in the first year of implementation.
 - 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 March were \$18.39 million and were 81% of the estimated total for the year with 75% of the year concluded.
 - Expenditures
 - Salaries and operational costs were 72% and 73% respectively within the projected range at \$14.14 million and purchased power costs represent \$8.58 million of operational cost and is at 73.6% of its estimated budgeted.
 - Capital additions of \$691,944 reflect \$436,248 spent for the induction light retrofit (LED).
 - Cash balance
 - The Operating cash balance at the end of March was \$10.82 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.
 - Capital expenditures are \$1.4 million less than anticipated for the year. Had all capital expenditures occurred by March 31, 2015, the

operating reserve amount would be \$9.42 million or 89% of the policy level at March 31, 2015.

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

Table 1
 Electric Fund Operating Reserves and Reserve Requirements



- Wastewater fund
 - Revenues
 - Revenues through February are \$9.47 million and are at 66% of 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 consultant's recommended increase reflecting a 10 year implementation cycle rather than a 5 year implementation cycle.
 - Monthly revenues recognized by March 2015 are approximately 11% greater than the revenue received in March 2015.
 - 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 \$4.85 million were within projected ranges of 68% and 56% respectively.
 - Capital outlay cost of \$189,392 is 9% 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.
 - \$1 million in debt service payments were made in February on Revenue Bond obligations. Revenue Bond payments are due semi-annually in February and August while the State Revolving Fund (SRF) is due annually in August.
- Cash balance
 - Operating cash reserves at the end of March were a negative \$3.4 million for the Wastewater fund. The Restricted reserve balance for obligations related to the annual SRF payment as of March 31, 2015 is \$2.67 million.
 - Capital expenditures are \$1.9 million less than anticipated for the year. Had all capital expenditures occurred by March 31, 2015, the operating reserve amount would be a negative \$5.3 million at March 31, 2015.
- The goal of the wastewater rate adjustments are:
 - 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 \$385,170 as of March 31, 2015.

- Expenditures
 - Salaries, operations, and debt service were within the projected range in the amount of \$318,285 as of March 31, 2015.
 - Capital outlays total \$74,270 to date and \$63,798 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 cash balance at the end of March is \$29,095. 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 \$5.8 million. This reflects the rate adjustments that were approved in June 2014 that was reflected in revenues starting in August and is 72% of anticipated revenues.
 - The rate increase adopted by City Council on June 3, 2014 was 3.6%.
 - Monthly revenues recognized since March 2015 are approximately 6.7% greater than revenue received in the same period for March 2014.
 - Loan proceeds up to \$1 million will be 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. The system must be installed by July 9, 2016, 18 months following approval of the plan.
 - On May 5, 2015, the City Council affirmed the 3.6% increase approved by City Council in June 2014, effective July 1, 2015.
 - Expenditures
 - Salaries are at 72% and operations were at 56% 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. To date, capital outlay expenditures of \$57,185 have included costs of a security camera system, containers, drainage improvements and \$15,515 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.
- 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.
- Cash balance
 - Solid Waste's cash balances were \$2.44 million at the end of the March. 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.
 - 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 March 31, 2015, the operating reserve amount would be \$1.4 million at March 31, 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 March 31, 2015.

Respectfully submitted,



Melinda J. Wall, Financial Services Manager

Approved For Submittal to the Utility Commission:



Brad Wilkie, Management Services Director

Attachments:

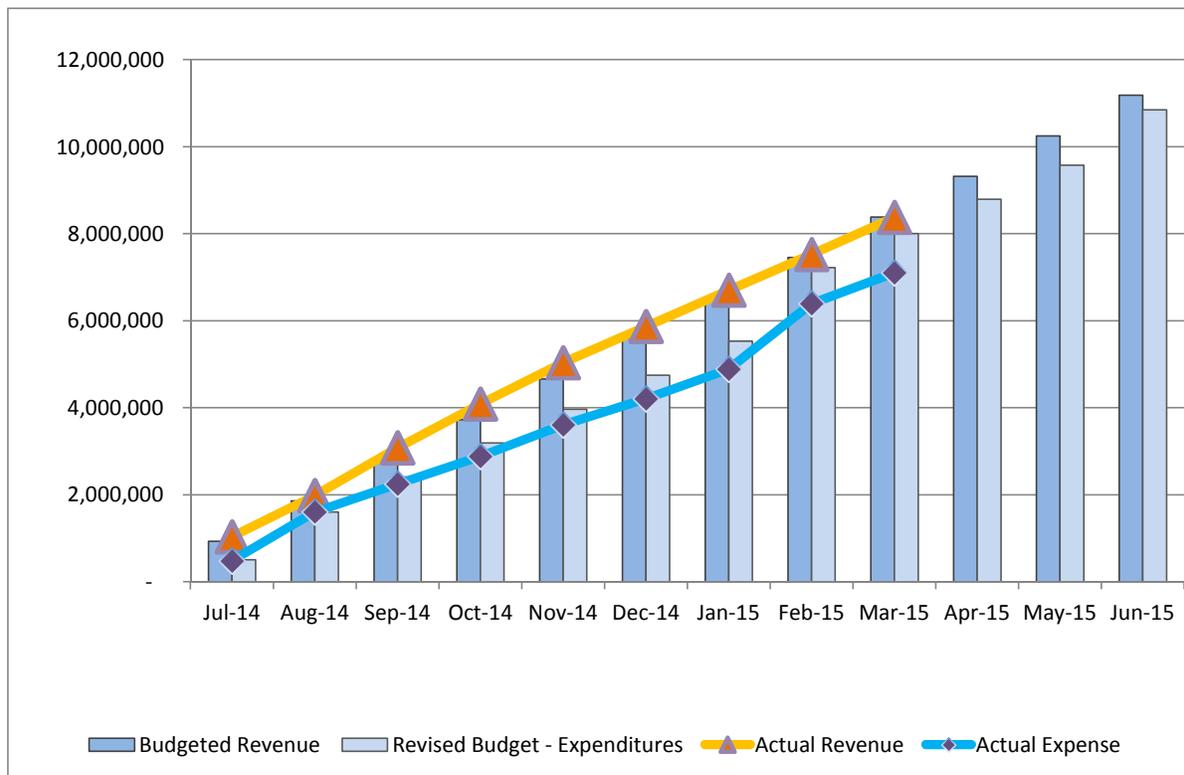
1. March 2015 Financial Reporting Graphs for Utility Funds

City of Lompoc

Periodic Financial Report for City Utility Funds - Water Fund
 Prepared for the City Utility Commission
 For the Period Ending 3/31/2015



| Water | Full Fiscal Year Budget | Year to Date | | Positive/(Negative) Variance | |
|-----------------------------|-------------------------------|---------------------|---------------------|---------------------------------|------------------------|
| | | Expected | Actual | Year to Date | Projected Full Year |
| | | | | | |
| Revenues | \$ 11,179,853 | \$ 8,384,890 | \$ 8,375,681 | \$ (9,209) | \$ (12,279) |
| Expenses | 10,845,403 | 8,001,265 | 7,098,652 | 902,613 | 1,262,881 |
| Net position | <u>\$ 334,450</u> | <u>\$ 383,625</u> | <u>\$ 1,277,029</u> | <u>\$ 893,404</u> | <u>\$ 1,250,602</u> |
| <u>Expenditure detail</u> | | | | | |
| Personnel Salary & Benefits | \$ 3,115,074 | \$ 2,336,305 | \$ 2,242,145 | \$ 94,160 | \$ 125,547 |
| Operations | 5,200,285 | 3,683,535 | 3,541,370 | 142,167 | 189,556 |
| Capital outlay | 1,374,088 | 973,312 | 180,348 | 792,964 | 1,057,285 |
| Debt Service | 1,475,242 | 1,247,576 | 1,375,815 | (128,239) | (128,239) |
| Other Sources (Uses) | (319,286) | (239,464) | (241,026) | 1,561 | 18,732 |
| Total expenditures | <u>\$ 10,845,403</u> | <u>\$ 8,001,265</u> | <u>\$ 7,098,652</u> | <u>\$ 902,613</u> | <u>\$ 1,262,881</u> |



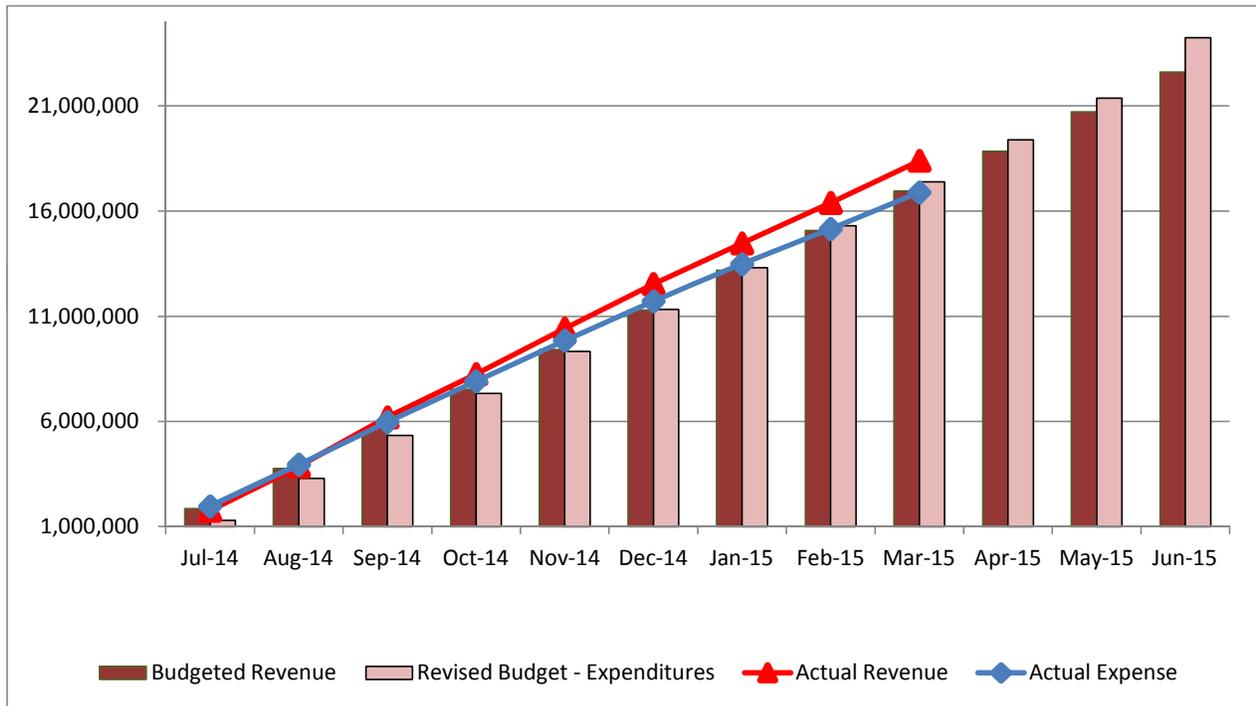
City of Lompoc

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

For the Period Ending 3/31/2015



| | Full Fiscal Year Budget | Year to Date | | Positive/(Negative) Variance | |
|-----------------------------|-------------------------------|---------------|---------------|---------------------------------|------------------------|
| | | Expected | Actual | Year to Date | Projected Full Year |
| Electric | | | | | |
| Revenues | \$ 22,605,203 | \$ 16,953,902 | \$ 18,396,217 | \$ 1,442,315 | \$ 1,923,086 |
| Expenses | 24,235,877 | 17,389,390 | 16,886,153 | 503,237 | 1,721,007 |
| Net position | \$ (1,630,674) | \$ (435,488) | \$ 1,510,064 | \$ 1,945,552 | \$ 3,644,093 |
| <u>Expenditure detail</u> | | | | | |
| Personnel Salary & Benefits | \$ 3,230,513 | \$ 2,422,885 | \$ 2,334,355 | \$ 88,530 | \$ 118,040 |
| Operations | 16,548,526 | 11,721,873 | 12,106,671 | (384,798) | 406,298 |
| Capital outlay | 2,092,954 | 1,569,715 | 691,944 | 877,771 | 1,170,361 |
| Debt Service | 322,615 | 143,965 | 233,355 | (89,390) | 11,474 |
| Other Sources (Uses) | 2,041,269 | 1,530,952 | 1,519,827 | 11,125 | 14,833 |
| Total expenditures | \$ 24,235,877 | \$ 17,389,390 | \$ 16,886,153 | \$ 503,237 | \$ 1,721,007 |

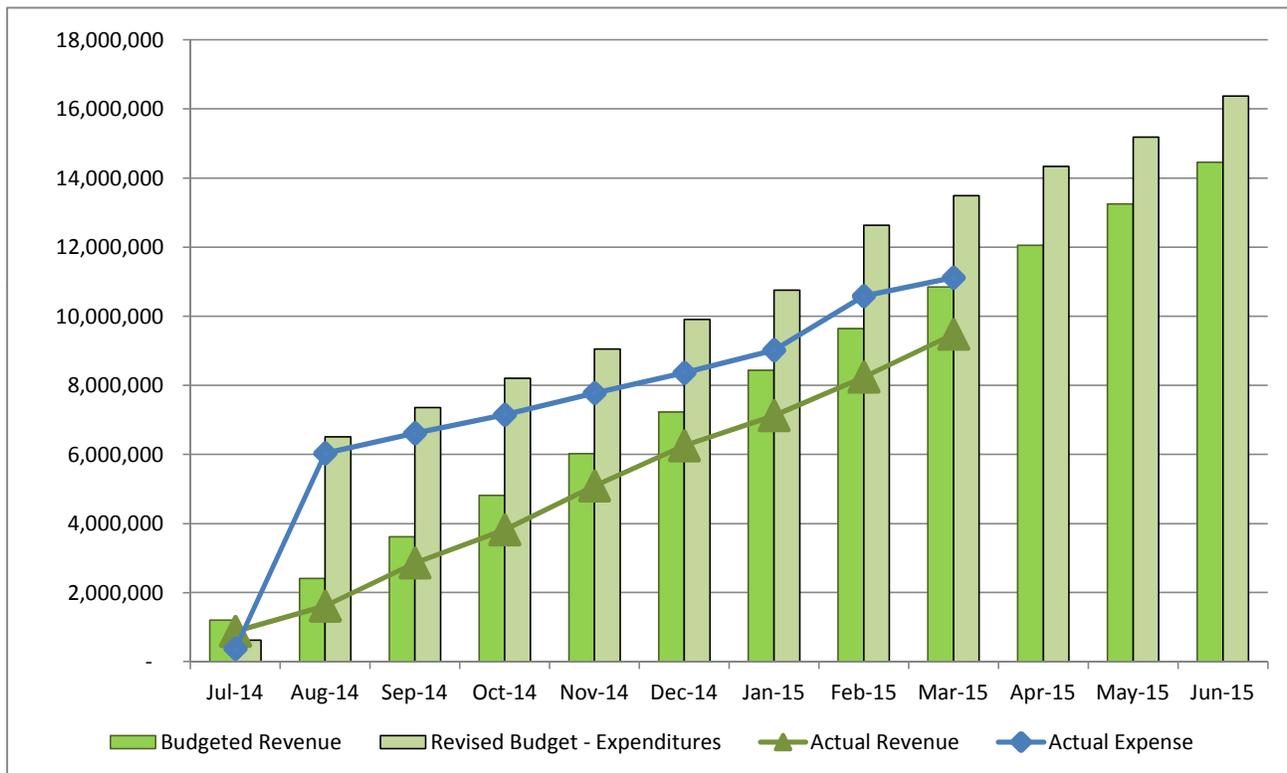


City of Lompoc

Periodic Financial Report for City Utility Funds - Wastewater Fund
 Prepared for the City Utility Commission
 For the Period Ending 3/31/2015



| | Full Fiscal Year Budget | Year to Date | | Positive/(Negative) Variance | |
|-----------------------------|-------------------------------|----------------|----------------|---------------------------------|------------------------|
| | | Expected | Actual | Year to Date | Projected Full Year |
| Wastewater | | | | | |
| Revenues | \$ 14,458,324 | \$ 10,843,743 | \$ 9,478,702 | \$ (1,365,042) | \$ (1,820,055) |
| Expenses | 16,372,583 | 13,488,372 | 11,115,359 | 2,373,013 | 3,165,179 |
| Net position | \$ (1,914,259) | \$ (2,644,629) | \$ (1,636,657) | \$ 1,007,972 | \$ 1,345,124 |
| <u>Expenditure detail</u> | | | | | |
| Personnel Salary & Benefits | \$ 2,749,137 | \$ 2,061,853 | \$ 1,857,164 | \$ 204,688 | \$ 272,918 |
| Operations | 5,306,786 | 3,758,973 | 2,993,111 | 765,862 | 1,021,149 |
| Capital outlay | 2,127,121 | 1,595,341 | 189,392 | 1,405,949 | 1,874,598 |
| Debt Service | 6,189,540 | 6,072,206 | 6,075,692 | (3,486) | (3,486) |
| Total expenditures | \$ 16,372,583 | \$ 13,488,372 | \$ 11,115,359 | \$ 2,373,013 | \$ 3,165,179 |

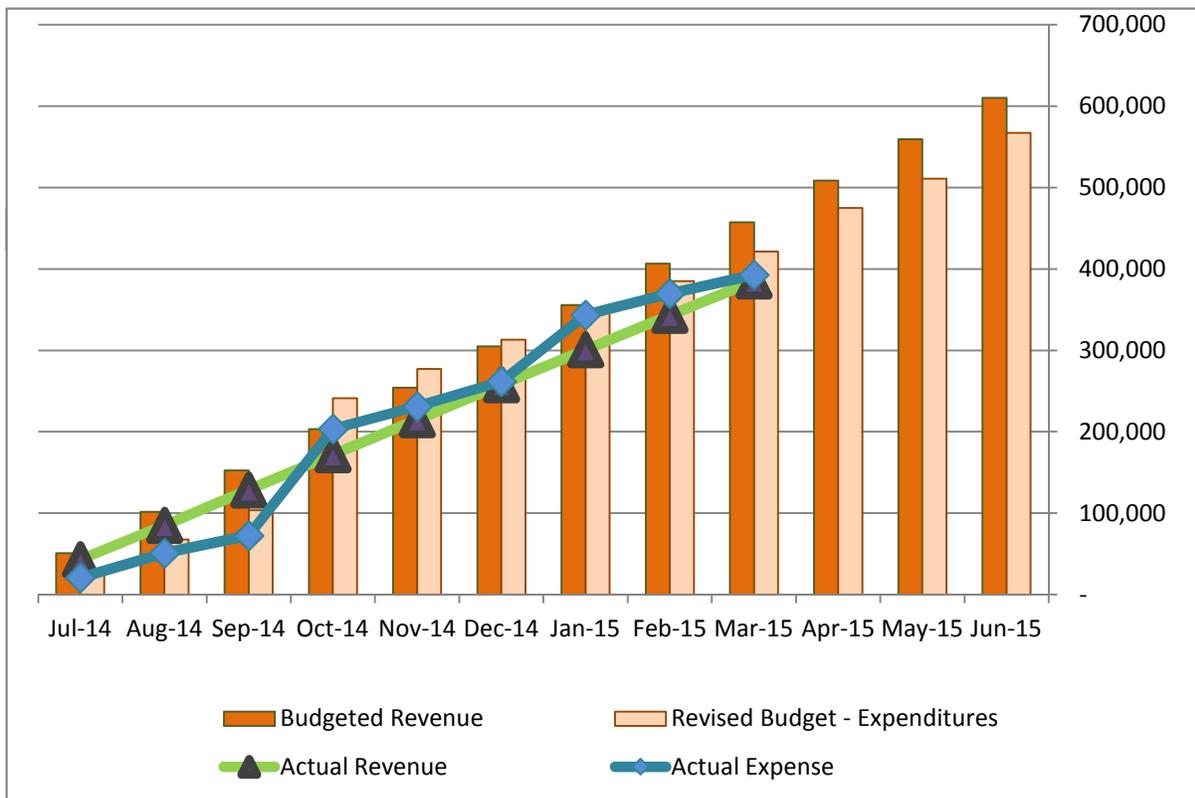


City of Lompoc

Periodic Financial Report for City Utility Funds - Broadband Fund
 Prepared for the City Utility Commission
 For the Period Ending 3/31/2015



| | Full Fiscal Year Budget | Year to Date | | Positive/(Negative) Variance | |
|-----------------------------|-------------------------------|-------------------|-------------------|---------------------------------|------------------------|
| | | Expected | Actual | Year to Date | Projected Full Year |
| Broadband | | | | | |
| Revenues | \$ 609,967 | \$ 457,475 | \$ 385,170 | \$ (72,306) | \$ (96,408) |
| Expenses | 567,111 | 421,154 | 392,555 | 28,599 | 33,060 |
| Net position | <u>\$ 42,856</u> | <u>\$ 36,321</u> | <u>\$ (7,385)</u> | <u>\$ (43,707)</u> | <u>\$ (63,347)</u> |
| <u>Expenditure detail</u> | | | | | |
| Personnel Salary & Benefits | \$ 183,322 | \$ 137,492 | \$ 153,104 | \$ (15,613) | \$ (20,817) |
| Operations | 161,652 | \$ 125,293 | 115,782 | 9,512 | 7,277 |
| Capital outlay | 146,627 | \$ 109,970 | 74,270 | 35,700 | 47,600 |
| Debt Service | 75,510 | 48,399 | 49,399 | (1,000) | (1,000) |
| Total expenditures | <u>\$ 567,111</u> | <u>\$ 421,154</u> | <u>\$ 392,555</u> | <u>\$ 28,599</u> | <u>\$ 33,060</u> |



City of Lompoc

Periodic Financial Report for City Utility Funds - Solid Waste Fund
 Prepared for the City Utility Commission
 For the Period Ending 3/31/2015



| | Full Fiscal Year Budget | Year to Date | | Positive/(Negative) Variance | |
|-----------------------------|-------------------------------|--------------------|--------------|---------------------------------|------------------------|
| | | Expected | Actual | Year to Date | Projected Full Year |
| | | Solid Waste | | | |
| Revenues | \$ 8,050,277 | \$ 6,037,708 | 5,822,872 | \$ (214,836) | \$ (286,447) |
| Expenses | 8,930,864 | 6,386,203 | 5,021,597 | 1,364,607 | 2,235,401 |
| Net position | \$ (880,587) | \$ (348,496) | 801,275 | \$ 1,149,772 | \$ 1,948,953 |
| <u>Expenditure detail</u> | | | | | |
| Personnel Salary & Benefits | \$ 2,698,382 | \$ 2,023,786 | \$ 1,918,570 | \$ 105,216 | \$ 140,288 |
| Operations | 4,490,362 | 3,180,673 | 2,872,851 | 307,822 | 659,893 |
| Capital outlay | 1,500,483 | 1,125,362 | 57,185 | 1,068,178 | 1,424,237 |
| Debt Service | 213,002 | 34,905 | 171,451 | (136,546) | (15,599) |
| Other Sources (Uses) | 28,636 | 21,477 | 1,540 | 19,937 | 26,582 |
| Total expenditures | \$ 8,930,864 | \$ 6,386,203 | 5,021,597 | \$ 1,364,607 | \$ 2,235,401 |

