



# 2012 Water & Wastewater Rate Study Presentation

City of Lompoc  
January 8, 2013



# Debt Covenants

The following is taken from the Official Statement of the 2007 Bond issue:

## **Coverage from Net Revenues:**

In addition, the City will separately fix, prescribe, revise and collect rates, fees and charge for the services and facilities furnished by the Water System and the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield the following:

1. Net Revenues at least equal to 100% of all Installment Payments and all payments of principal of and interest on Parity Debt and any Governmental Loans as they become due and payable during that Fiscal Year, ***and***
2. Net Revenues plus any transfers to the Water Fund or the Wastewater Fund from the Rate Stabilization Fund during that Fiscal Year at least equal to 125% of all Installment Payments and all payments of principal of and interest on Parity Debt and all Governmental Loans as they become due and payable during that Fiscal Year.



# Debt Covenants

The following is taken from the Official Statement of the 2007 Bond issue:

Net Revenues means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

Application of Water System and Wastewater System revenues...to pay when due the following amounts in order of priority:

1. All Operation and Maintenance Costs
2. The Installment Payments and all payments of principal of and interest on any Parity Debt
3. To the Trustee the amount of any deficiency in the Reserve Account established for the 2007 Bond and in any reserve fund established for Parity Debt...
4. Any other payments required to comply with provisions of the Installment Sale Agreement and any Parity Debt Documents; and
5. Any other purpose authorized under the Installment Sale Agreement



# Debt Covenants

The following is taken from the Official Statement of the 2007 Bond issue:

Any other purpose authorized under the Installment Sale Agreement may include:

- Payment of any subordinate obligations for any unsecured obligations
- The acquisition and construction of improvements to the Water System and Wastewater System
- The prepayment of any other obligations of the City relating to the Water System or the Wastewater System; or
- Any other lawful purposes of the City



# Debt Covenants

## NCPA Project Credit Ratings

Member	Ratings <sup>(1)</sup>		
	Moody's	S&P	Fitch
Alameda Municipal Power	-	A+ / Stable	A+ / Stable
Bay Area Rapid Transit District <sup>(2)</sup>	Aa2 / Stable	AA+ / Stable	AA+ / Stable
City of Biggs	-	-	-
City of Gridley	-	-	-
City of Healdsburg (Wastewater)	-	AA- / Stable	-
Lodi Electric Utility	A2 / Stable	A- / Stable	A- / Stable
City of Lompoc (Water and Wastewater)	A1 / Not on Watch	-	-
City of Palo Alto (Combined Utility)	Aa1 / Not on Watch	AAA / Stable	-
Port of Oakland <sup>(3)</sup>	A2 / Stable	A / Stable	A+ / Stable
Redding Electric Utility	A2 / Not on Watch	-	A / Stable
Roseville Electric	A2 / Negative	A+ / Stable	A+ / Stable
Silicon Valley Power	A1 / Stable	<b>A+ / Stable</b>	<b>A+ / Stable</b>
Truckee Donner PUD (Water)	-	AA- / Stable	-
City of Ukiah (Water and Wastewater)	A2 / Positive	-	-
<b>Associate Members</b>			
Placer County Water Agency	Aa2 / Not on Watch	AA / Stable	-
Plumas-Sierra REC	-	-	-
<b>NCPA Projects</b>			
Geothermal	A1 / Stable	A- / Stable	A+ / Stable
Hydroelectric	A2 / Stable	A+ / Stable	A+ / Stable
Capital Facilities (STIG)	A3 / Stable	A- / Stable	-
Lodi Energy Center (Issue One)	A3 / Stable	A- / Stable	A / Stable
Lodi Energy Center (Issue Two) CDWR	Aa2 / Stable	AAA / Stable	-



<sup>1)</sup> Ratings for electric system indentures, unless noted or for water agencies; <sup>(2)</sup> Sales tax revenue backed; <sup>(3)</sup> Senior most;



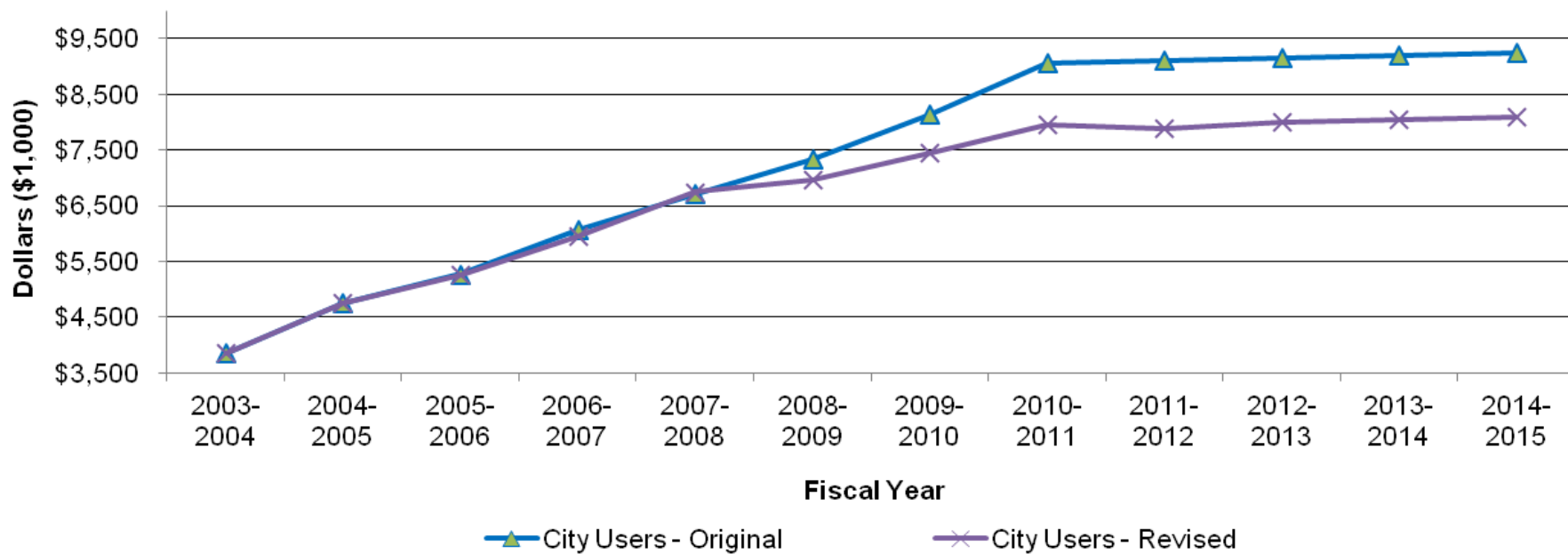
# Wastewater Utility

Comparative analysis – 2006 Rate Study  
projections to Actual Results through  
2012 and Projected Results through 2015



# Original 2006 Rate Study compared with Actual results to 2012 and Projected results to 2015 – City customers only – Wastewater Utility

## Wastewater user charge trends - City customers only - 2003-2015



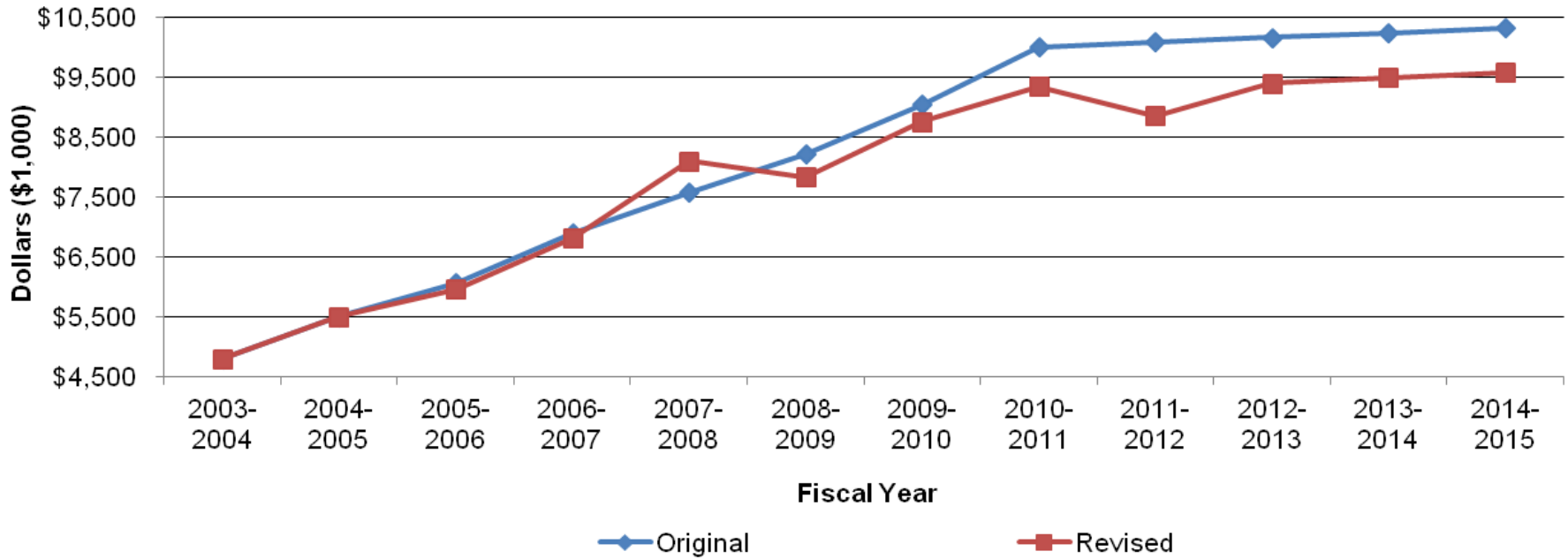
Actual and Projected results are based on rate increases approved with Resolution No 5363(06) on August 15, 2006.

Revenues through 2012 based on audited information. Revenues for 2012-2015 based on 0.5% consumption growth.



# Original 2006 Rate Study compared with Actual results to 2012 and Projected results to 2015 – All customers – Wastewater Utility

## Wastewater user charge trends - with all Treatment Plant users - 2003-2015

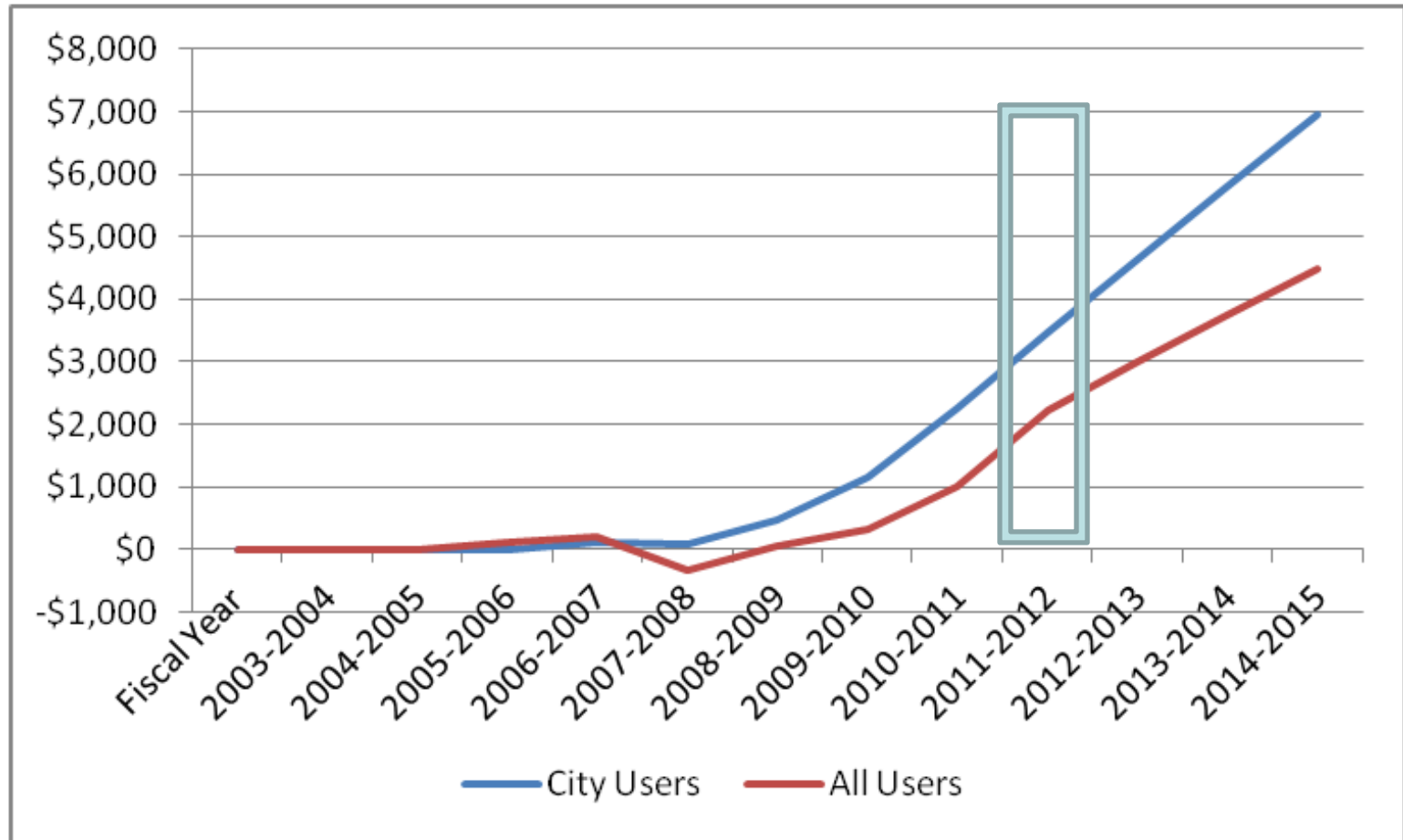


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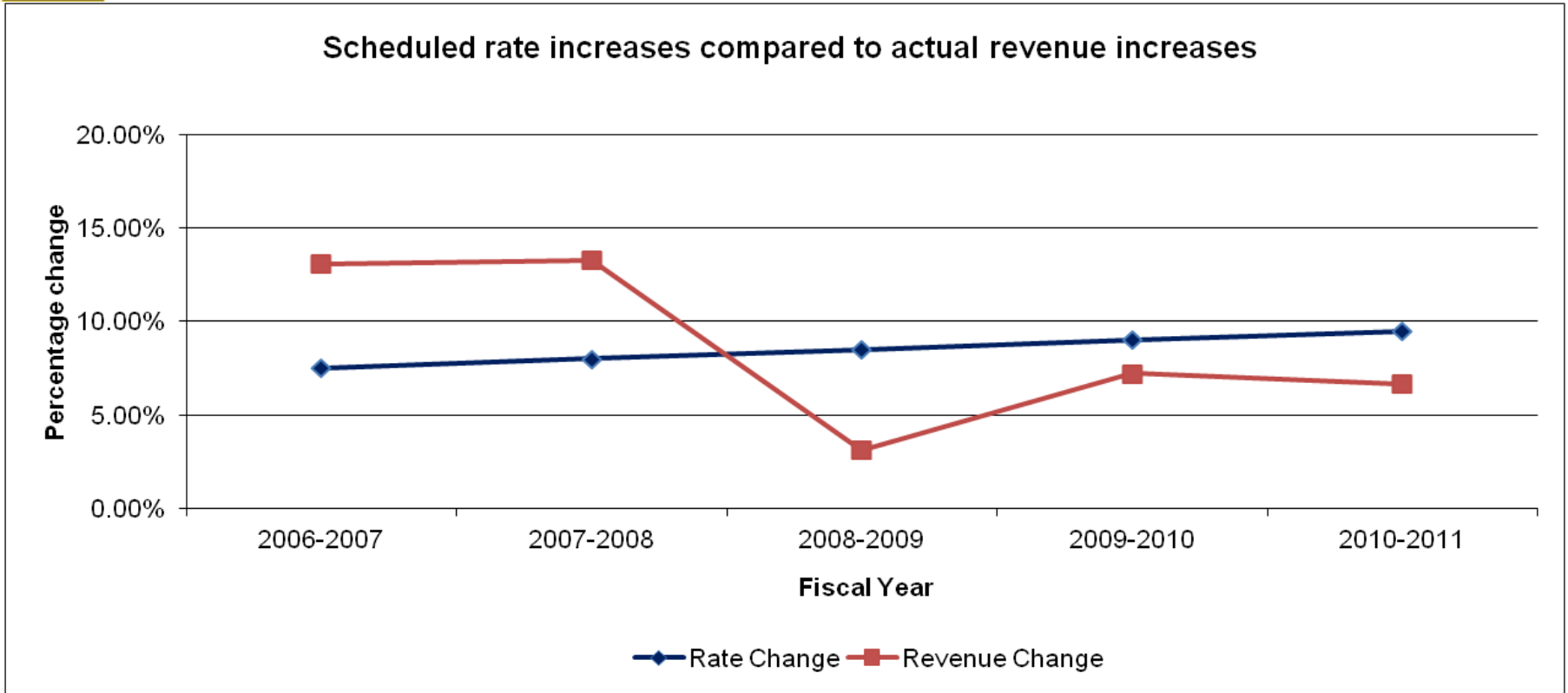
# Cumulative revenue deficiency between original 2006 study through 2015 and revised estimates based on actual activity through 2012 - Wastewater Utility



Revenue from Treatment Plant partners have been greater than anticipated over the 2006-2012 period, reducing the overall revenue deficiency as of June 30, 2012 by approximately \$1.3 million.



# Comparison between scheduled rate increases and actual revenue changes from September 1, 2006 to June 30, 2011 – Wastewater Utility



## Rate adjustments

9-1-06 – 7.5%

6-1-07 – 8.0%

6-1-08 – 8.0%

6-1-09 – 9.0%

6-1-10 – 9.5%

## Resolution

5363(06)

## Revenue changes

2006-2007 – 13.1%

2007-2008 – 13.3%

2008-2009 – 3.1%

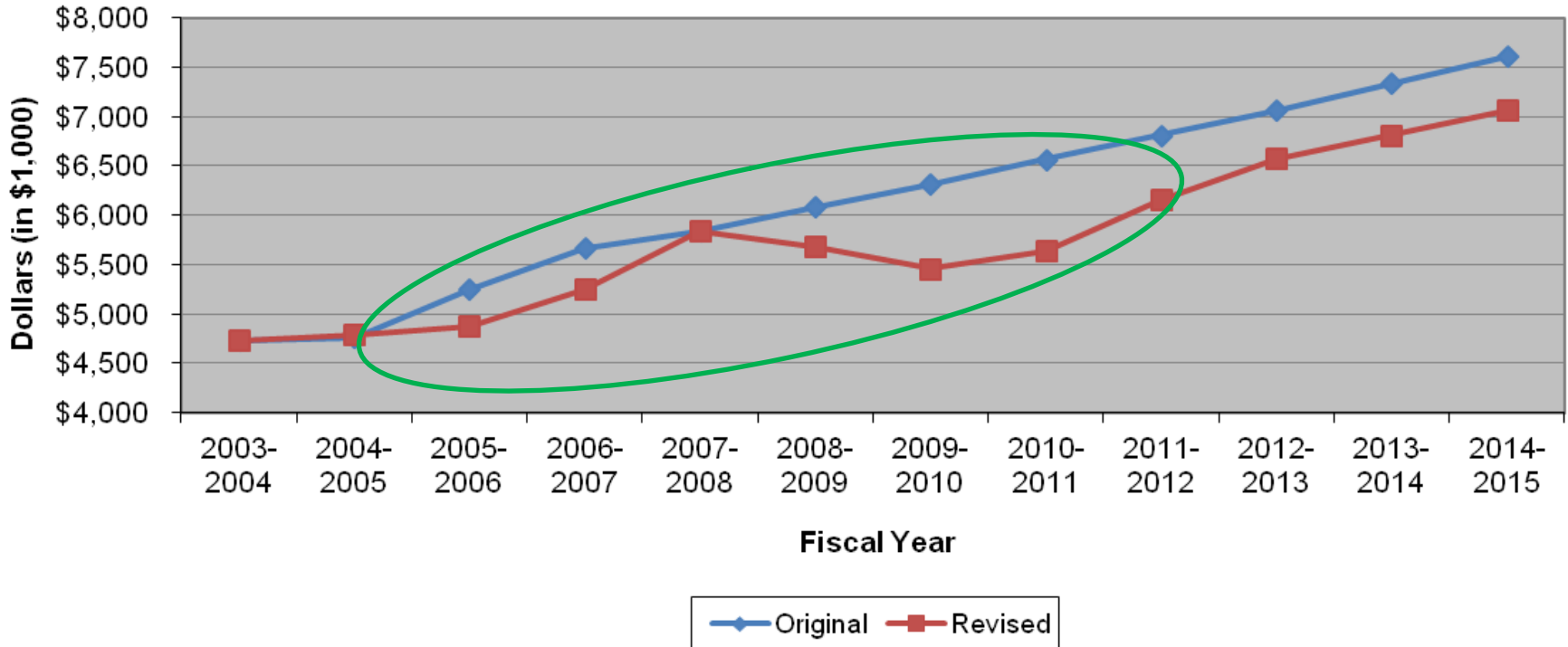
2009-2010 – 7.2%

2010-2011 – 6.7%



# Wastewater Utility

## Wastewater operating expense trend - 2003 - 2015



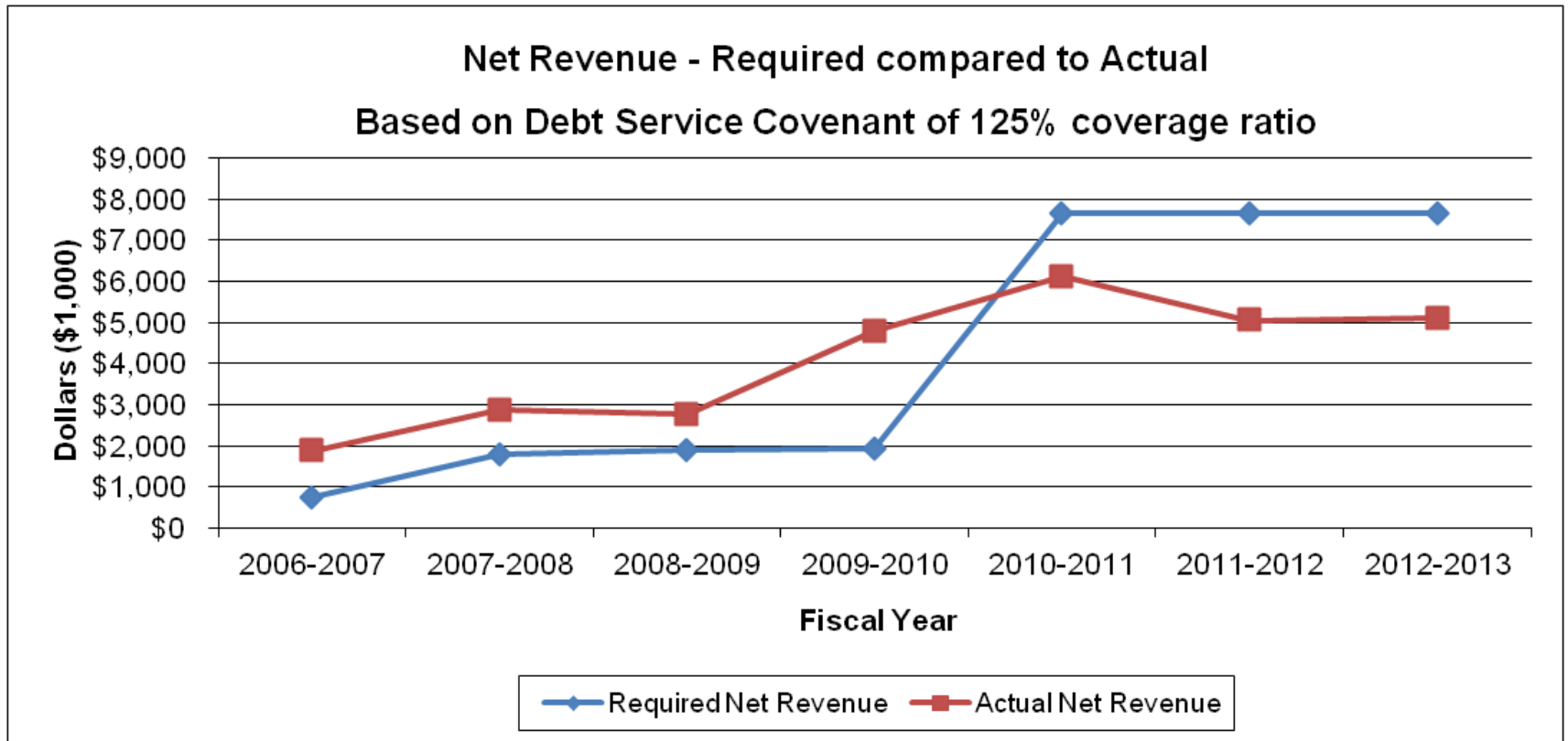
Cumulative actual operating expenses are \$3.6 million less than anticipated through June 30, 2012 compared to the 2006 Rate Study.

Debt Service costs are not a component of operating expenses.



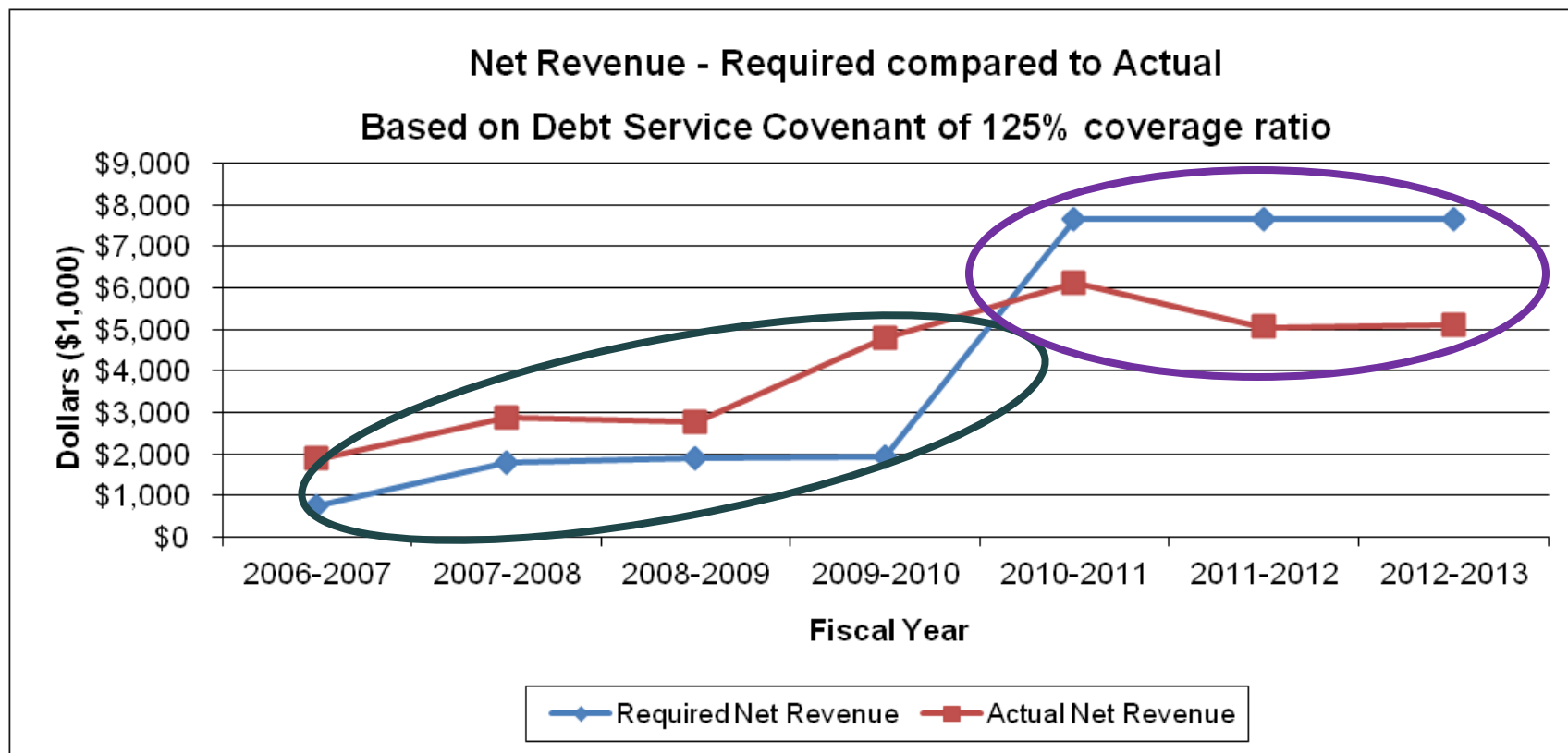
# Annual net revenue available to pay debt service for 2006 through 2013 – Wastewater Utility

	Actual 7.50% Year Ending 06-30-2007	Actual 8.00% Year Ending 06-30-2008	Actual 8.00% Year Ending 06-30-2009	Actual 9.00% Year Ending 06-30-2010	Actual 9.50% Year Ending 06-30-2011	Actual Year Ending 06-30-2012	Budgeted Year Ending 06-30-2013
Scheduled Rate increases							
Coverage Requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Debt Service obligation	597,537	1,425,267	1,512,730	1,537,220	6,123,627	6,124,733	6,124,733
Required Net Revenue	746,921	1,781,584	1,890,912	1,921,525	7,654,534	7,655,916	7,655,916
Net Revenues Available	\$1,870,444	\$2,861,428	\$2,771,841	\$4,786,751	\$6,114,270	\$5,048,752	\$5,102,896
Available/(Deficit)	<b>\$1,123,523</b>	<b>\$1,079,844</b>	<b>\$880,929</b>	<b>\$2,865,227</b>	<b>(\$1,540,264)</b>	<b>(\$2,607,165)</b>	<b>(\$2,553,020)</b>





# Annual net revenue available to pay debt service for 2006 through 2013 – Wastewater Utility

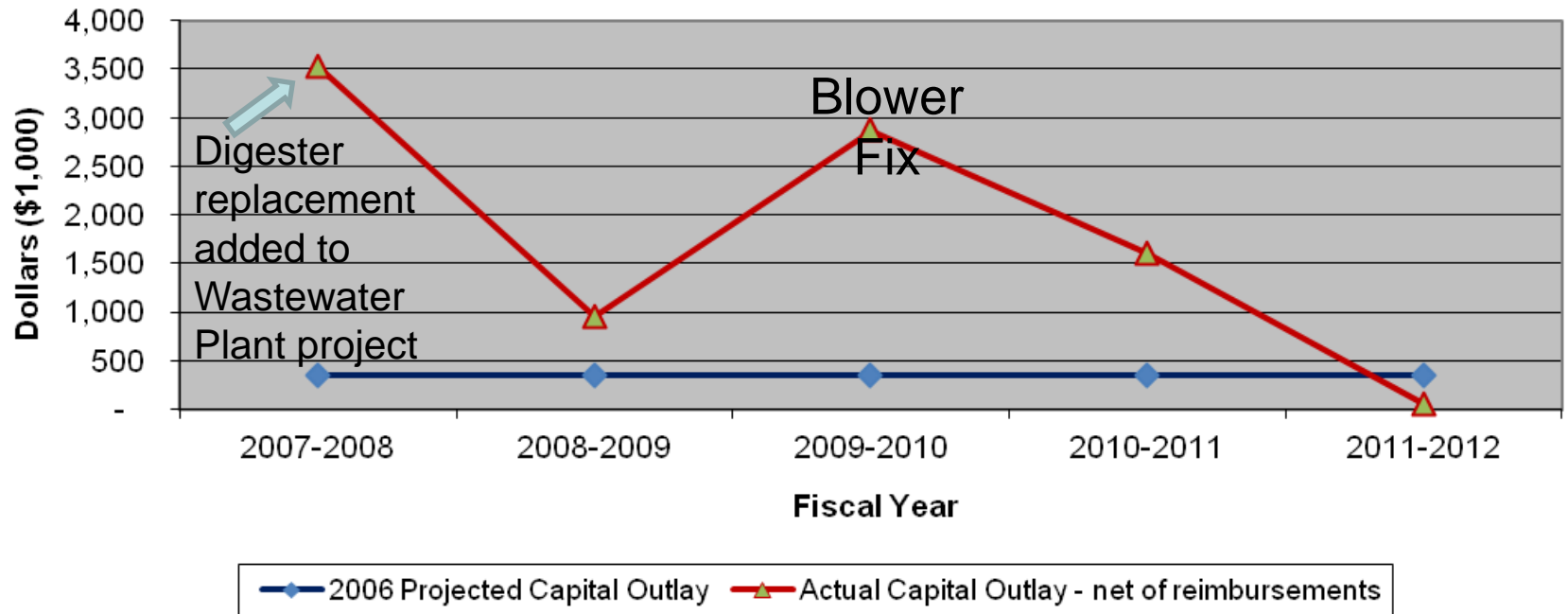


The dark green circle represents periods where net revenues are available for capital replacement programs or to create (or add to) reserves. The purple circle represents periods where net revenues do not meet the debt covenant levels. \$1.9 million of reserves were available to supplement deficits at June 30, 2010.



# Wastewater Utility – Pay-go capital expenditures – as projected in 2006 compared with actual expenditures from 2007 to 2012

### Capital Outlay - Projected vs Actual



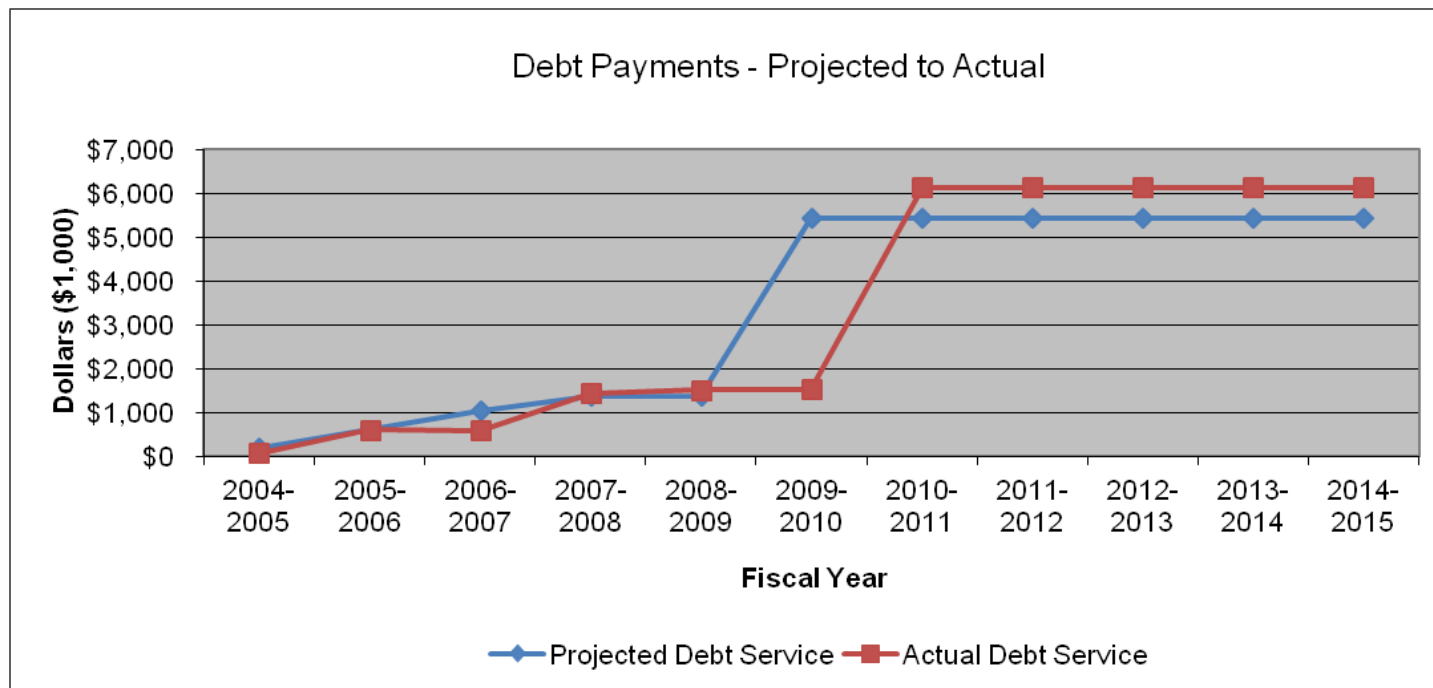
Debt requirements provide for the use of revenue in the following order:

1. Operating expenses
2. Debt payments (and any debt reserve requirements above debt payments)
3. Capital outlay or establishment of reserves



## Wastewater Utility

Debt Payment obligations - Original projection from 2006 Rate Study compared with Actual requirements through 2012 and Projected requirements through 2015



Actual annual debt service payments are approximately \$640,000 per year greater than projected in the 2006 Rate Study. Approximately 83% (\$533,000) is the result of a larger than anticipated State Revolving Fund loan and the remaining (\$103,500) is due to the larger than anticipated 2007 Bond issue funded after completion of the 2006 Rate Study.



# Debt incurred after 2006 Rate Study

The additional debt payments of \$533,000 for the State SRF and \$103,000 for the 2007 Bond represent approximately \$13,000,000 of additional debt incurred beyond the projections used to establish the Wastewater rates in 2006.

Total debt issued (the 1998, 2005 and 2007 Bond issues and the 2007 SRF loan) is \$115,942,098. The anticipated amount of debt used for the 2006 Rate Study was approximately \$102,800,000.

The actual amount of issued debt is approximately 13% greater than the debt anticipated in the 2006 Rate Study.



# Wastewater Utility

## Average bond payments per customer per month

	Monthly amount	Average per account	Total Accounts	Total Debt Svce
Wastewater	\$ 26.34	316.06	12,531	\$ 3,960,507
Total debt service per City customer per month			<b>\$26.34</b>	

Current minimum charge: **\$ 22.32**

For 2012-2013, 1,650 customers receive monthly minimum billings out of 12,500 total customers. Monthly billings for 2013-2014 will be based on the average water usage for January, February and March for the last 6 years – from 2008 to 2013.

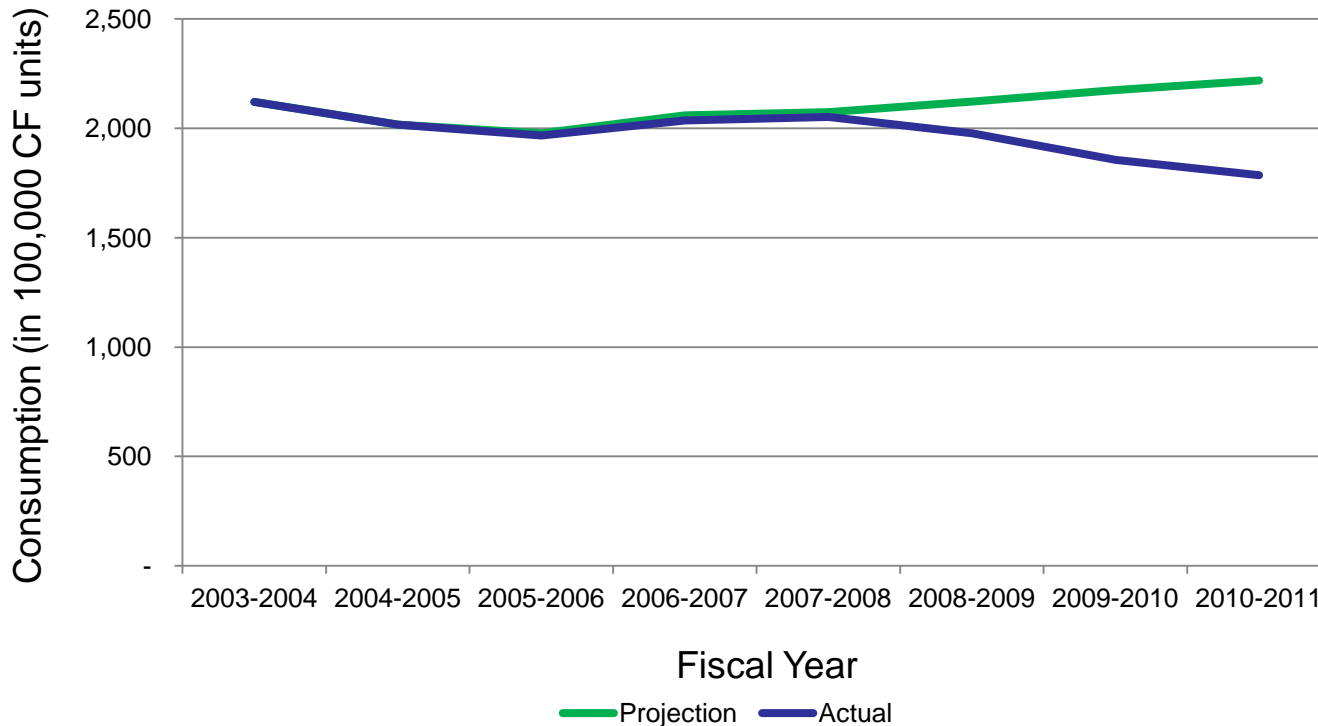


# Water Utility

Comparative analysis – 2006 Rate Study  
projections to Actual Results through  
2012



# Water Utility



Consumption reductions compared with projections were minimal until 2008-2009. Annual reduction in revenues due to reduced consumption in 2010-2011 (the last year of projections from 2006) was approximately \$1,200,000.

Consumption estimates for the 2006 Rate Study extended only to the 2010-2011 fiscal year and were based on increases in the number of connections (new homes) rather than on (existing) per capita consumption increases.



# Water Utility

## City of Lompoc

Utility Rates - effective 6-1-2009

Average number of meters for 2011-2012

	<u>Meter Size</u>	<u>Current Rate</u>	<u>Average Number</u>
	5/8"	\$ 23.04	8,927
	3/4"	23.04	627
	1"	39.10	561
	1.5"	75.99	133
	2"	122.01	96
	3"	246.34	29
	4"	384.41	10
	5"	766.67	-
	6"	1,226.90	3
usage	per 100 cf	\$ 2.75	
	per 1000 gal	\$ 3.68	

### 2006 Rate Study increase summary:

6.5% on 9-1-2006

6.5% on 6-1-2008

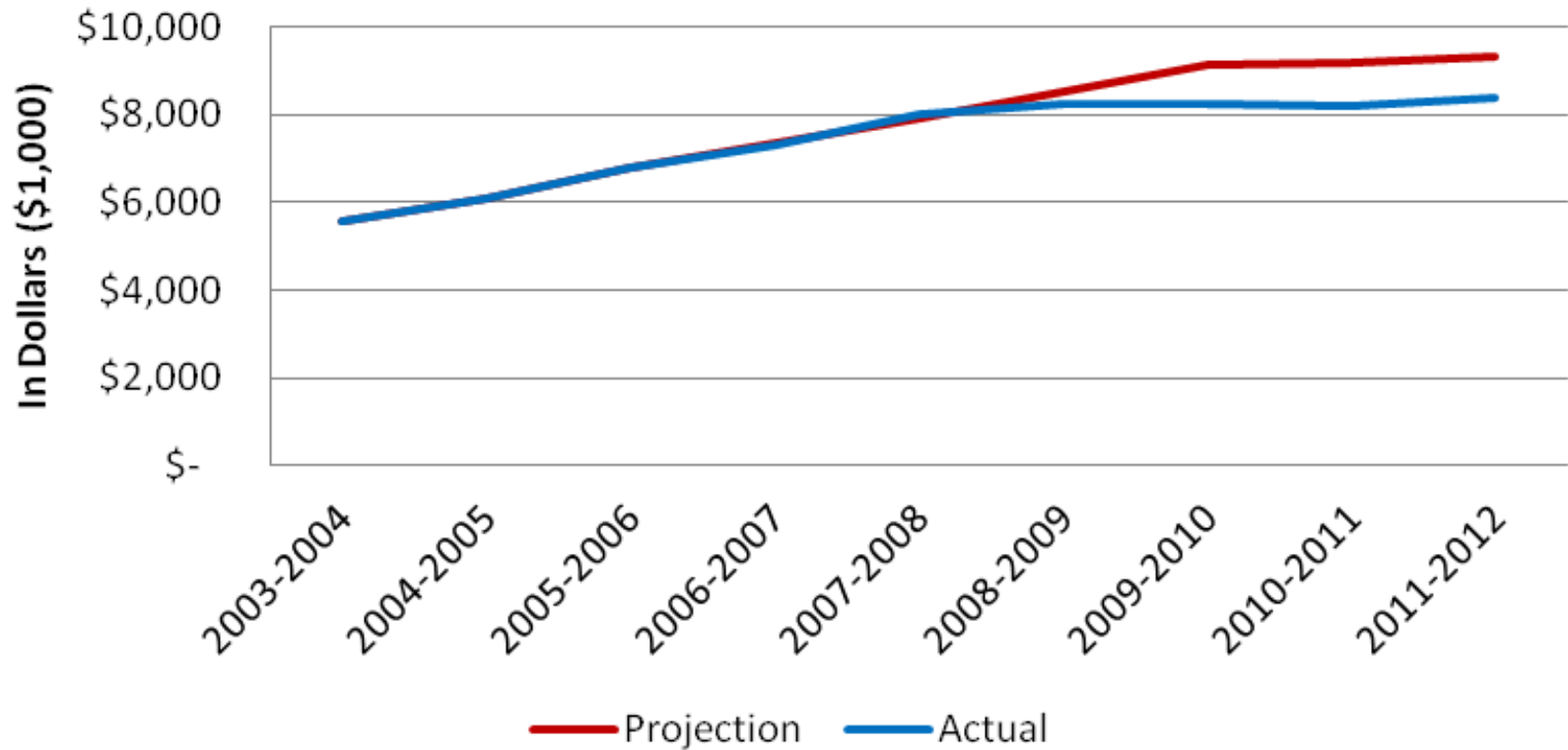
6.5% on 6-1-2007

5.5% on 6-1-2009



# Original 2006 Rate Study compared with Actual results to 2012 – Water

## User Fees - Water Utility

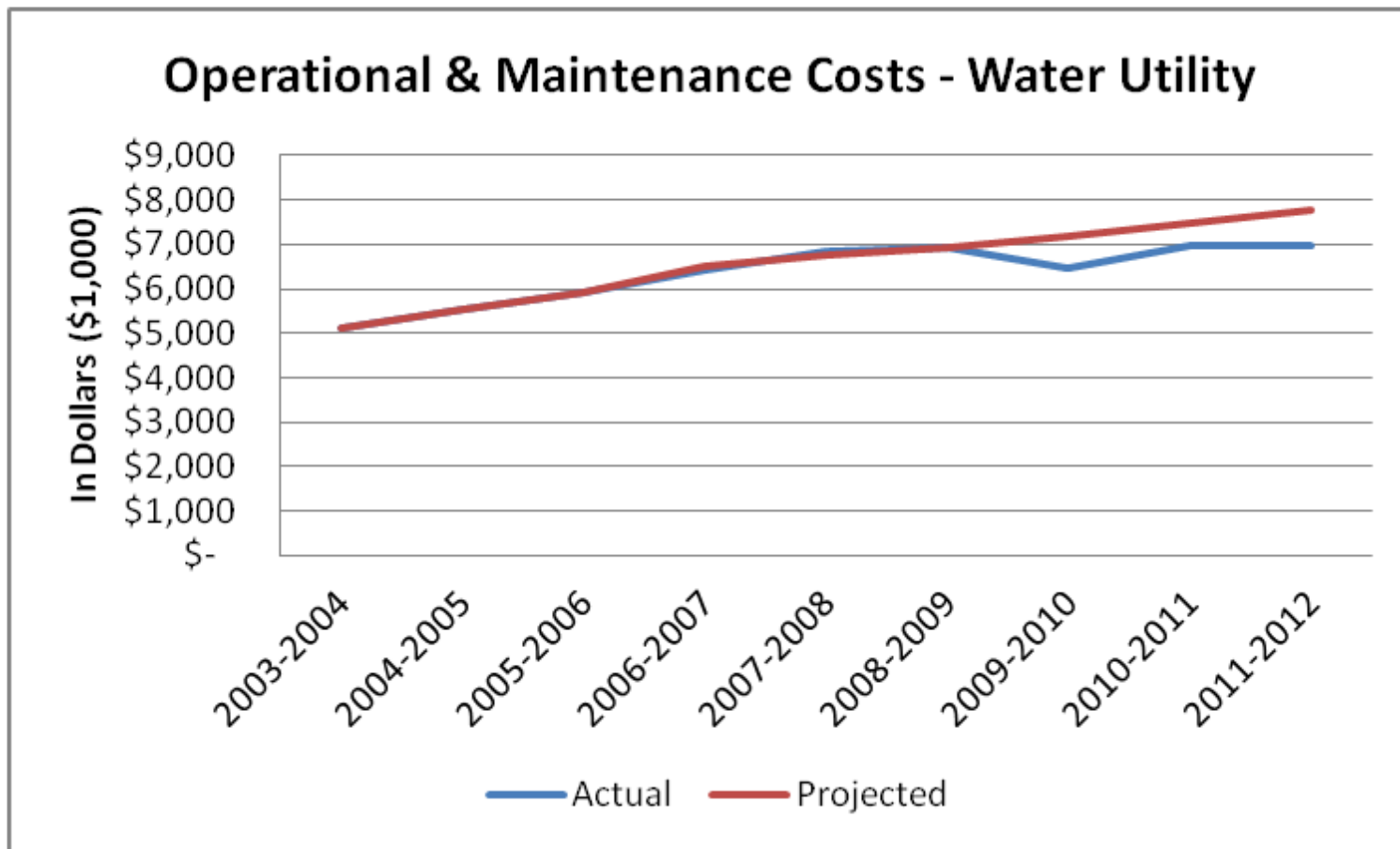


Actual and Projected results are based on rate increases approved with Resolution No 5362(06) on August 15, 2006.

Cumulative revenue deficiencies through 2012 are approximately \$3 Million.



# Water Utility



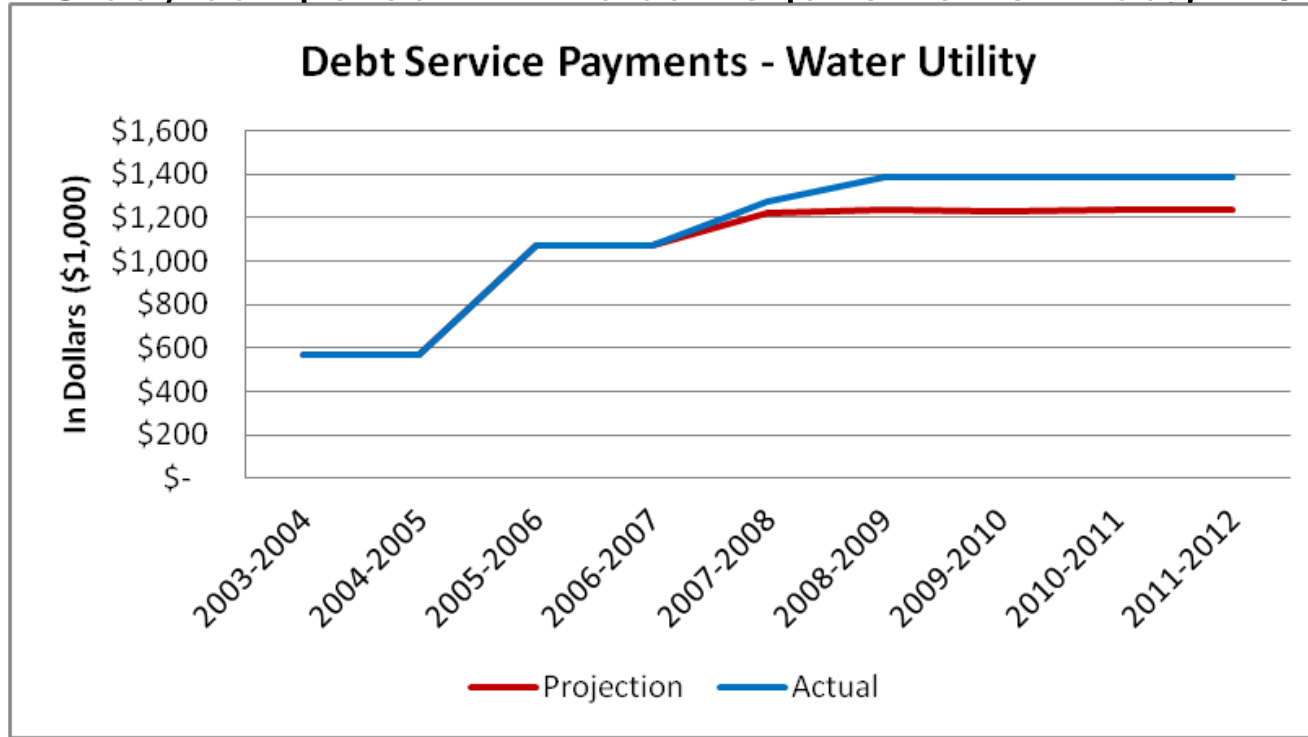
Cumulative actual operating expenses are \$2.1 million less than anticipated through June 30, 2012 compared to the 2006 Rate Study.

Debt Service costs are not a component of operating expenses.



## Water Utility

Debt Payment obligations - Original projection from 2006 Rate Study compared with Actual requirements through 2012



Actual annual debt service payments are approximately \$150,000 per year greater than projected in the 2006 Rate Study. The additional annual payment amount is due to lease debt entered into subsequent to the 2007 bond issue for such items as the SCADA system installation and ongoing capital replacements of water meters to radio read capable meters. The total approximate debt issued subsequent to the 2007 issue is \$4,000,000.



# 2012 Water & Wastewater Rate Study

- In early 2012, Willdan Financial Services was awarded a contract through a competitive bid process to review the City's Water and Wastewater revenue structure.
  - The scope of work emphasized the need to meet the City's various debt covenants from the 1998, 2005, 2007 bond issues and the 2007 State Revolving Loan while minimizing the effect of rate increase on the ratepayer.



# 2012 Water & Wastewater Rate Study

- Since the adoption of the most recent rate structures (in August 2006), State Proposition 218 has become applicable to water and wastewater rate setting processes through court actions.
  - While the City complied with Prop 218 noticing in 2006, we are now required to comply with the noticing process which includes the requirement to notify all affected parties at least 45 days prior to holding a hearing at which the Council could act on the proposed rates identified in the notice.



# 2012 Water & Wastewater Rate Study

- As the City is beginning the rate review process for the Solid Waste Utility for the 2013-2015 budget cycle, it is the recommendation of staff to coordinate the rate review process for the Water and Wastewater Utilities with the Solid Waste review process and to utilize the budget setting process to provide ample opportunities for council and public input.



# 2012 Water & Wastewater Rate Study

- The following presentation does not require any immediate action, although the intention of the process is to allow for the implementation of any approved rate structure such that the rates can begin to generate the necessary revenue for the 2013-2014 fiscal year to meet the City's bond requirements and to allow customers an opportunity to prepare for any increases.



# 2012 Water & Wastewater Rate Study

- Habib Isaac and Gregg Tobler are here tonight to present the results of the first stage of the 2012 Rate Study.
- Melinda Wall and I, along with Habib and Gregg will be available for questions during and after the presentation.