



City of Lompoc

Cost of Service Utility Rate Study

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Financial Plan Adjustments

- City provided 10-years of historical CIP costs
 - + CIP data used to create an alternative financial plan reflecting actual CIP costs
 - + Annual depreciation value not used as proxy to determine capital reinvestment
 - + Revenue adjustments slightly reduced
 - Doesn't necessarily reflect adequate funding level
 - Historical CIP funding may reflect available budget vs. necessary CIP
 - Additional funds are not set aside for future capital reinvestment
- Alternative scenarios created for City to review and compare
 - Scenario 1 = Previous 5-year plan presented in January
 - Scenario 2 = Historical 10-year CIP plan
 - Scenario 3 (hybrid) = Historical 10-year CIP plan plus modest R&R Reserve



WATER UTILITY

Current Water Utility Financials

- Last rate adjustment was in 2009
- O&M reserve has been depleted
- Revenues are currently not sufficient to set aside money to build up Capital Replacement Fund
 - Current depreciation value = \$1.2 million
- Utility has borrowed from other funds in recent years
- Enterprise is not self supporting

Water Utility Fiscal Objectives

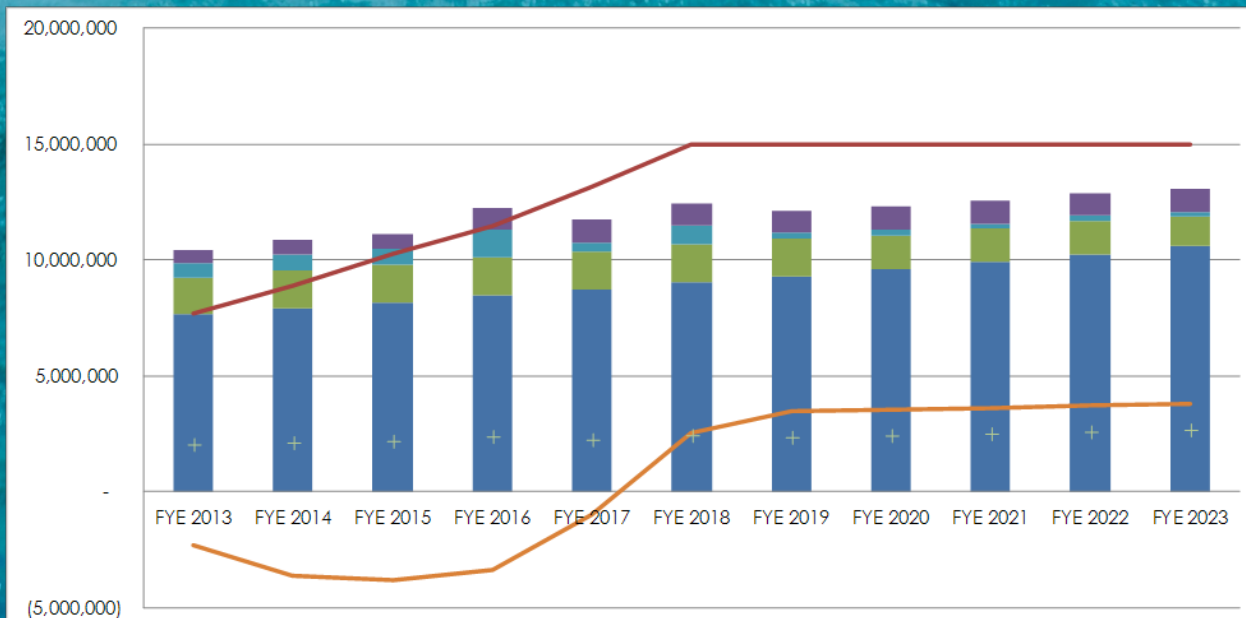
- Replenish operational reserve to 90 days of O&M
- Reinvest in capital infrastructure (Depreciation = \$1.2M)
- Establish a Repair/Replacement Reserve Fund
- Ensure compliance with existing bond covenants=125%
- Pay back Enterprise Pool Fund over 8 years
- Achieve self-supporting utility

Scenario 1 – (5-Year Plan)

- Reserves are not fully funded until 6th Year
- Negative net income in first year
 - Trending in a positive direction
- Internal loan paid back by Water Enterprise over 8yrs
- CIP funded with a combination of existing Debt/PAYGO
- Depreciation fully funded by 3rd year
- Revenue adjustments – 15%, 15%, 14%, 14%, 13%

Water Financial Plan – Scenario 1 (5-Year Plan)

	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Proposed Revenue Increase	15.0%	15.0%	14.0%	14.0%	13.0%	0.0%
Days of Operating Reserves (Gross)	-154.00	-159.00	-127.00	-39.00	94.00	132.00
Calculated Debt Coverage Ratio	255.0%	308.3%	347.3%	440.6%	471.0%	476.5%
Operating Income	775,363	1,921,731	2,612,143	4,874,382	5,962,721	6,276,519
Net Income	\$ (714,764)	\$ 433,226	\$ 1,125,760	\$ 3,386,796	\$ 4,473,382	\$ 4,791,372
Net Income w/ Depreciation	\$ (1,369,896)	\$ (221,906)	\$ 145,628	\$ 2,406,664	\$ 3,493,250	\$ 3,811,240

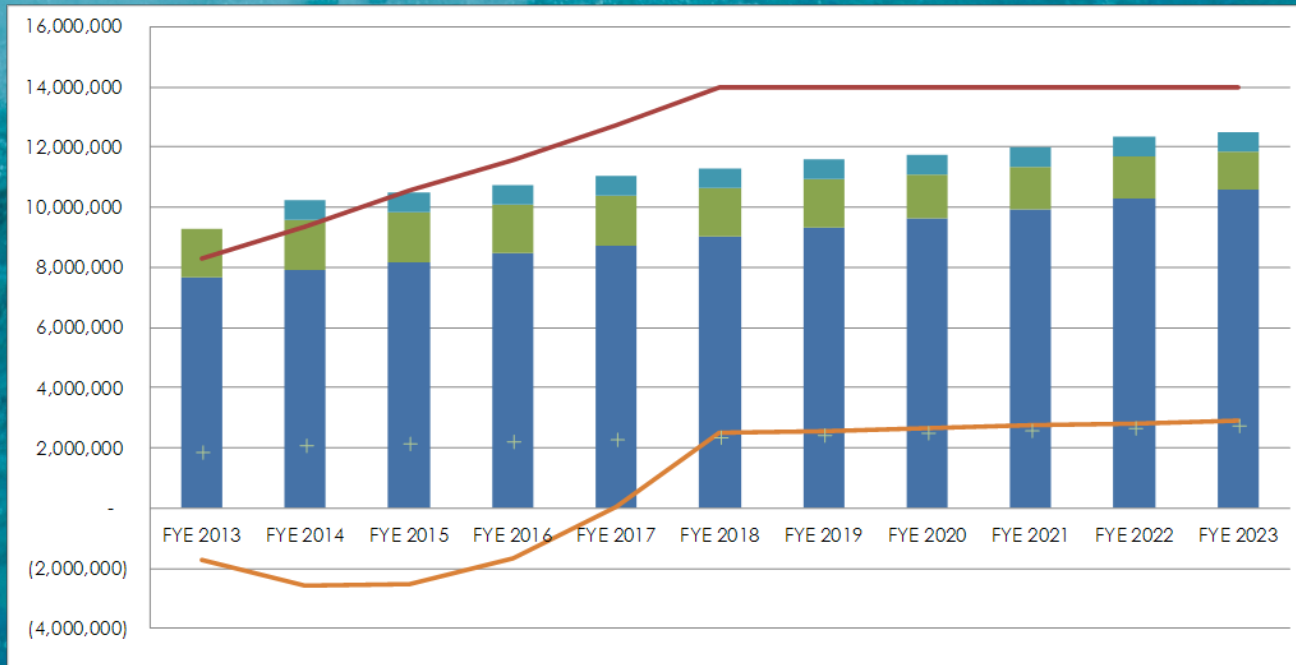


Scenario 2 – (10-Year CIP)

- CIP needs based on 10-year historical funding
- O&M Reserve is not fully funded until 5th Year
- R&R Reserve not actively recovered for in plan
 - Only funded if surplus funds are available
- Bond covenants satisfied
- Internal loan paid back by Water Enterprise over 8 yrs
- Revenue adjustments – 13%, 13%, 10%, 10%, 10%

Water Financial Plan – Scenario 2 (10-Year CIP)

	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Proposed Revenue Increase	13.0%	13.0%	10.0%	10.0%	10.0%	0.0%
Days of Operating Reserves (Gross)	-110.00	-103.00	-66.00	2.00	95.00	95.00
Calculated Debt Coverage Ratio	249.8%	296.0%	337.8%	383.1%	409.6%	393.9%
Operating Income	624,598	1,562,466	2,334,979	3,202,218	4,174,257	3,878,055
Net Income	\$ (865,528)	\$ 73,962	\$ 848,596	\$ 1,714,632	\$ 2,684,918	\$ 2,392,908

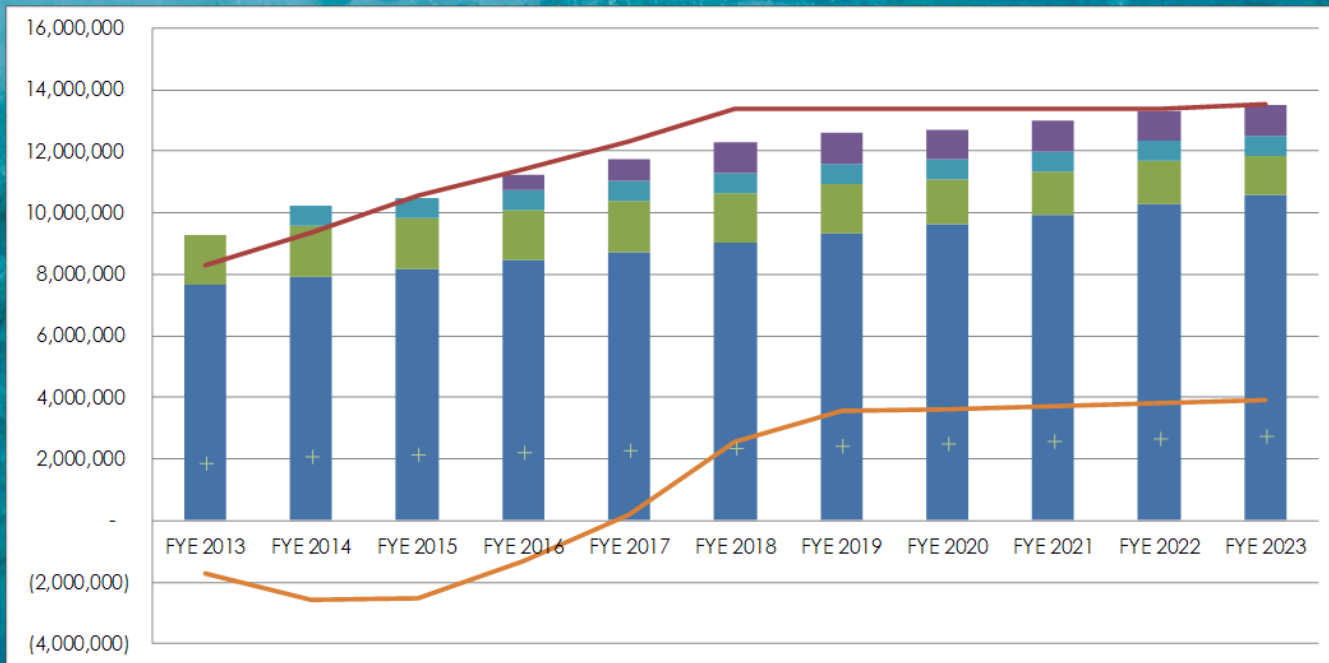


Scenario 3 – (10-Year CIP + R&R Reserve)

- CIP needs based on 10-year historical funding
- O&M Reserve is not fully funded until 5th Year
- R&R Reserve delayed for 1st two years then slowly built up over 5 years
- Bond covenants satisfied
- Internal loan paid back by Water Enterprise over 8 yrs
- Revenue adjustments – 13%, 13%, 13%, 10%, 10%

Water Financial Plan – Scenario 3 (10-Year CIP + R&R)

	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Proposed Revenue Increase	13.0%	13.0%	13.0%	10.0%	10.0%	0.0%
Days of Operating Reserves (Gross)	-110.00	-103.00	-54.00	8.00	96.00	130.00
Calculated Debt Coverage Ratio	249.8%	296.0%	348.5%	394.9%	422.5%	406.9%
Operating Income	624,598	1,562,466	2,646,879	3,545,318	4,551,657	4,255,455
Net Income	\$ (865,528)	\$ 73,962	\$ 1,160,496	\$ 2,057,732	\$ 3,062,318	\$ 2,770,308



Proposed Rate Structure

Existing Structure

All Accounts = Uniform Rate

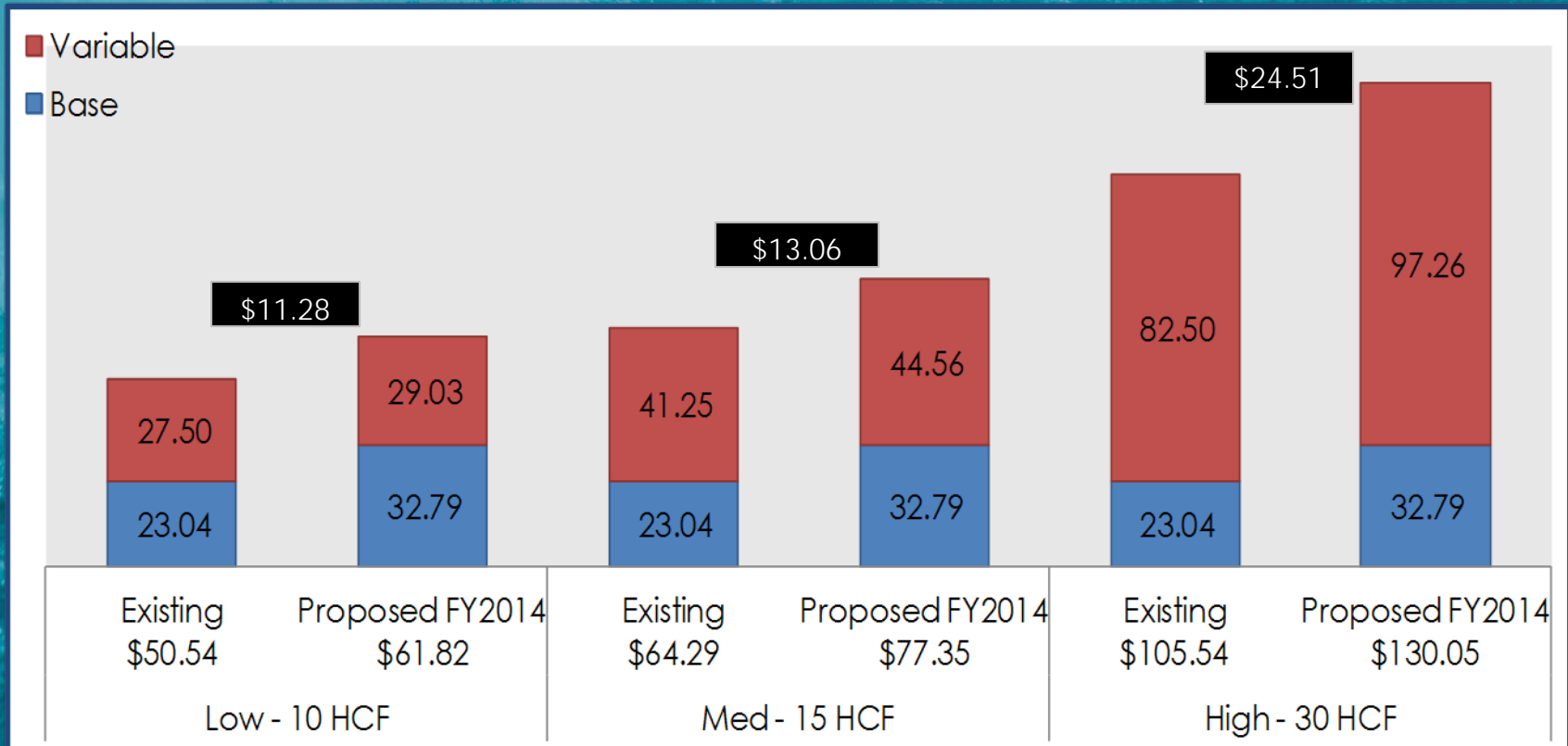
Proposed Rate Structure

SFR = 3 Tiers (T1: 0 - 10; T2: 10.01 - 20; T3: >20)

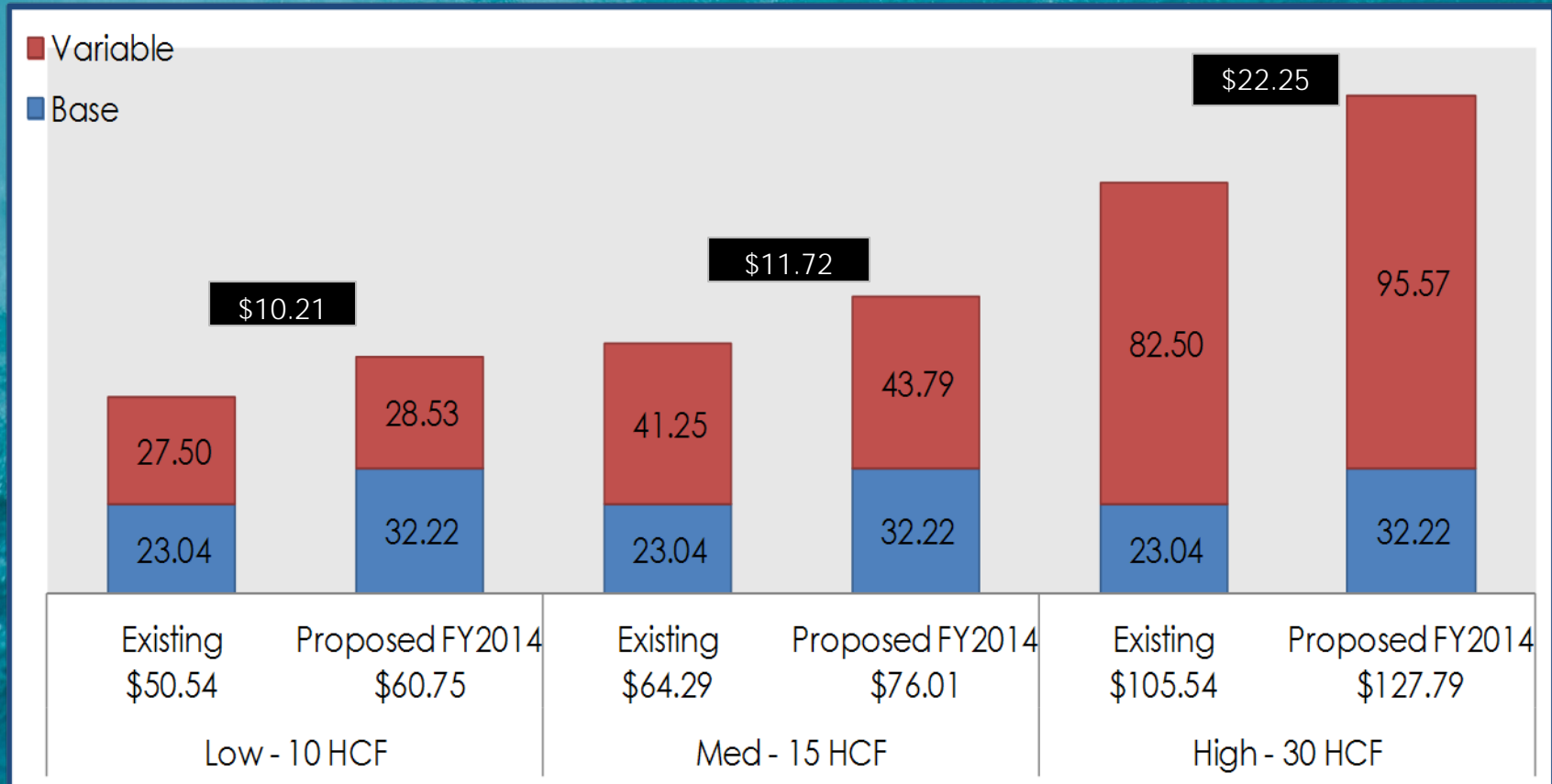
Non-Residential = Uniform Rate

Irrigation = Uniform Rate

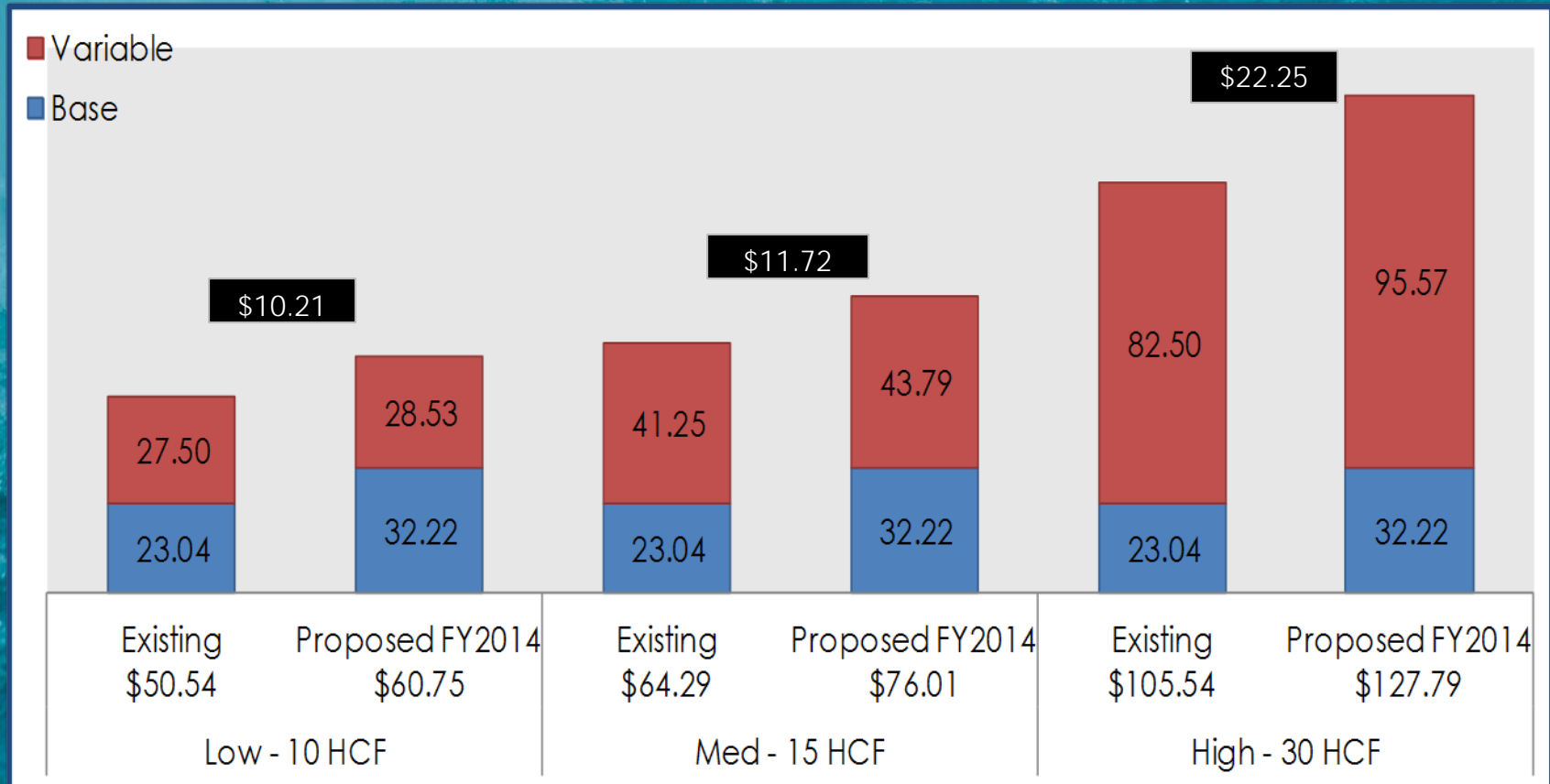
Customer Impact - (Scenario 1)



Customer Impact - (Scenario 2 – 10yr CIP)



Customer Impact - (Scenario 3 – 10yr CIP + R&R)





SEWER UTILITY

Current Wastewater Utility Financials

- Last rate adjustment was in 2010
- Negative fund balance
- Rate stabilization fund is depleting
- Revenues are currently not sufficient to set aside money to build up Capital Replacement Fund
 - Current depreciation value = \$1.5 million
 - With New Treatment Plant = \$5.0 million
- Utility has borrowed from other funds in recent years
- Outstanding bonds recently downgraded
- Enterprise is not self supporting

Sewer Utility Fiscal Objectives

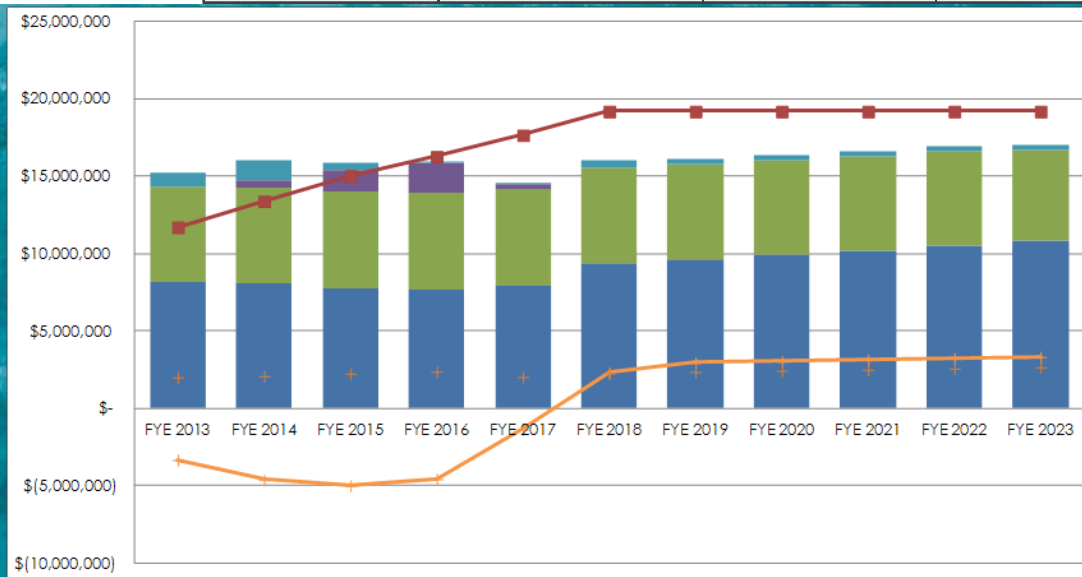
- Operation reserve at 90 days of O&M
- Reinvest in capital infrastructure
 - (Depreciation = \$1.5M)
- Establish a Repair/Replacement Reserve Fund
- Comply with existing bond covenants =
 - 125% coverage on Bond Debt through PFA
 - 100% coverage on SRF Loan
 - Build up required \$4.5M reserve
- Pay back Enterprise Pool Fund over 8 years
- Achieve self supporting utility

Scenario 1 – (5-Year Plan)

- Reserves are not fully funded until 5th Year
- Negative net income in the first year
 - Trending in a positive direction
- Internal loan paid back by Sewer Enterprise over 8yrs
- CIP funded with a combination of existing Debt/PAYGO
- Depreciation fully funded after 3rd year
- Revenue adjustments –21%, 17%, 11%, 11%, 11%

Sewer Scenario 1 – (5-Year Plan)

	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Proposed Revenue Increase	21.0%	17.0%	11.0%	11.0%	11.0%
Days of Operating Reserves	-198.00	-197.00	-172.00	-59.00	90.00
Debt Coverage Ratio (PFA)	265.2%	302.2%	353.2%	500.4%	544.5%
Debt Coverage Ratio (SRF)	135.9%	159.3%	191.3%	285.0%	313.4%
Net Income	\$ (290,486)	\$ 80,422	\$ 550,652	\$ 3,342,874	\$ 4,930,191
Net Income w/ Depreciation	\$ (1,294,069)	\$ (373,162)	\$ 425,068	\$ 3,218,291	\$ 3,646,608

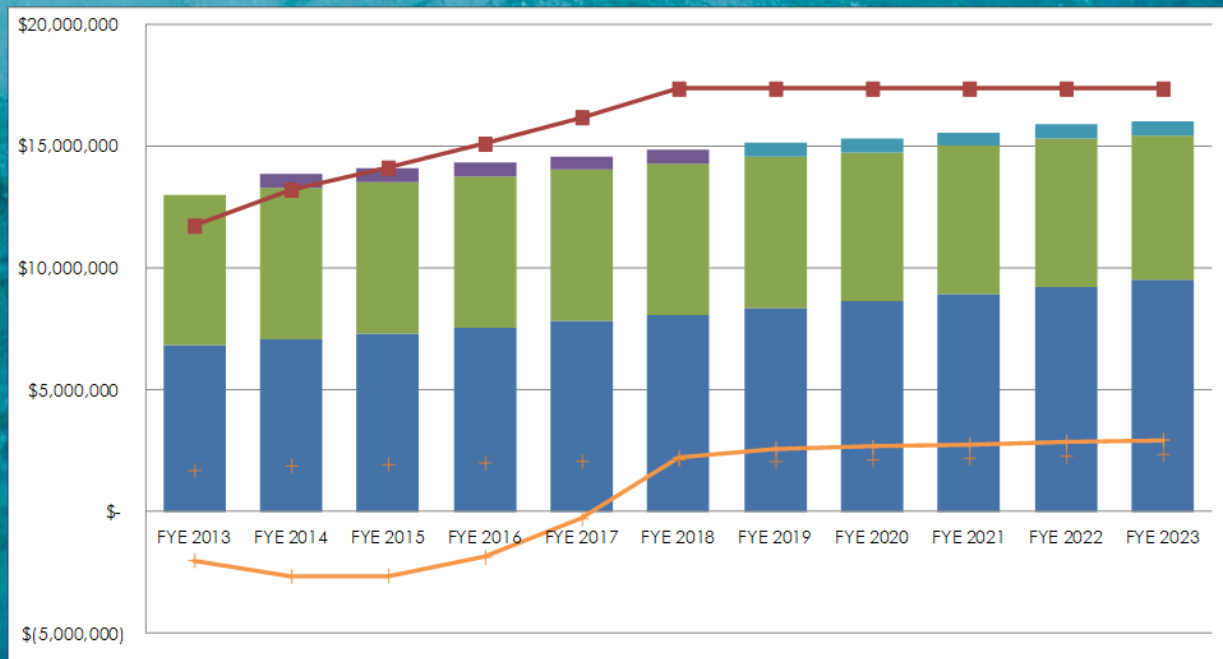


Scenario 2 – (10-Year CIP)

- Reserves are not fully funded until 5th Year
- Negative net income in first year
 - Trending in a positive direction
- Bond covenants satisfied
- Internal loan paid back by Sewer Enterprise over 8 yrs
- CIP funded with a combination of existing Debt/PAYGO
- Financial plan complies with bond covenants through high revenue increase in first year; then lower increases
- Depreciation fully funded in 3rd year
- Revenue adjustments – 18.5%, 9.5%, 9.5, 9.5%, 9.5%

Sewer Scenario 2 – (10-Year CIP)

	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Proposed Revenue Increase	18.5%	9.5%	9.5%	9.5%	9.5%	0.0%
Days of Operating Reserves	-127.00	-122.00	-84.00	-12.00	94.00	113.00
Debt Coverage Ratio (PFA)	253.0%	300.1%	360.4%	439.9%	461.1%	462.5%
Debt Coverage Ratio (SRF)	128.1%	157.9%	195.9%	246.6%	260.3%	260.5%
Net Income	\$ (645,930)	\$ 18,761	\$ 761,390	\$ 1,585,213	\$ 2,502,113	\$ 2,803,373

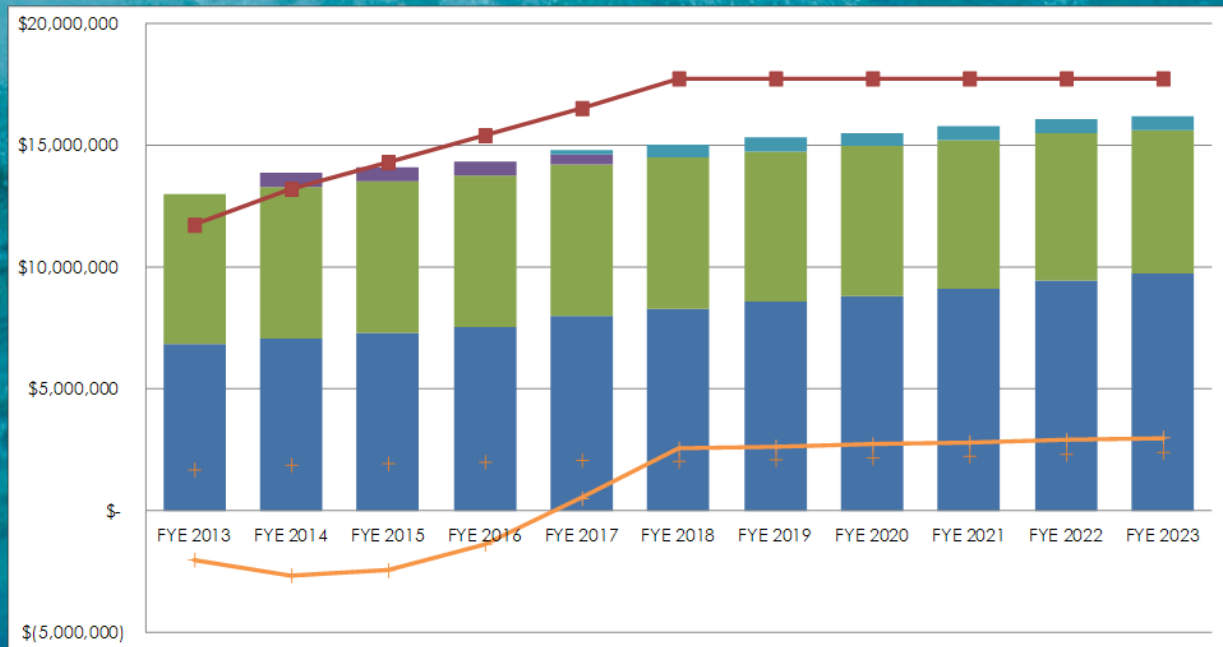


Scenario 3 – (10-Year CIP + R&R Reserve)

- CIP needs based on 10-year historical funding
- O&M Reserve is not fully funded until 5th Year
- Negative net income in first year
 - Trending in a positive direction
- R&R Reserve delayed for 1st two years then slowly built up over 5 years
- Bond covenants satisfied
- Internal loan paid back by Sewer Enterprise over 8 yrs
- Revenue adjustments – 18.5%, 11.5, 10.5%, 9.5%, 9.5%

Sewer Financial Plan – Scenario 3 (10-Year CIP + R&R)

	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Proposed Revenue Increase	18.5%	11.5%	10.5%	9.5%	9.5%	0.0%
Days of Operating Reserves	-127.00	-113.00	-61.00	22.00	113.00	113.00
Debt Coverage Ratio (PFA)	253.0%	306.6%	371.2%	456.9%	493.5%	475.5%
Debt Coverage Ratio (SRF)	128.1%	162.1%	202.8%	257.3%	281.0%	268.7%
Net Income	\$ (645,930)	\$ 208,261	\$ 1,074,590	\$ 2,078,277	\$ 3,445,891	\$ 3,178,873



Proposed Rate Structure

Existing Structure

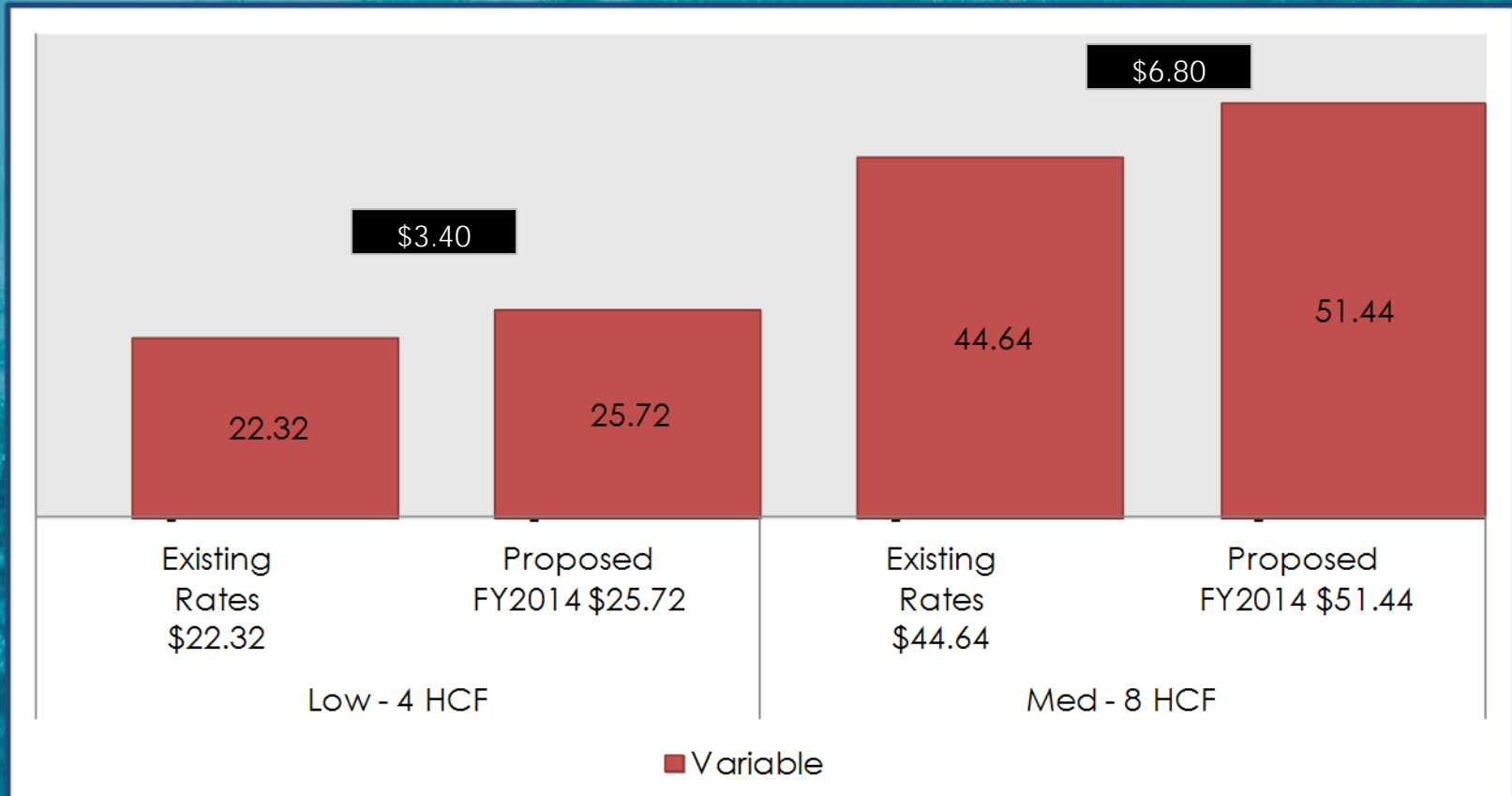
All Accounts = Uniform Variable Discharge Rate

Proposed Rate Structure

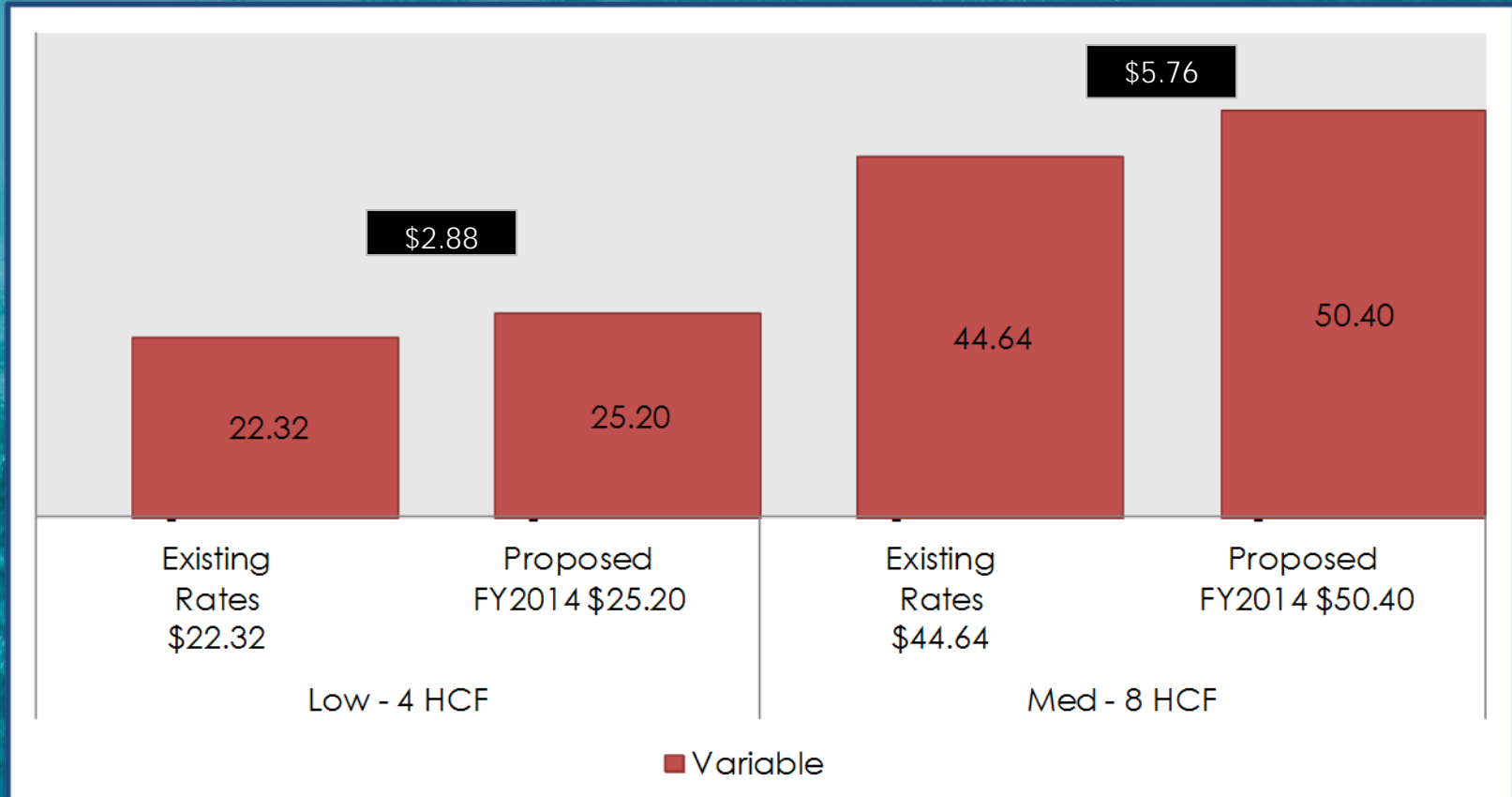
Variable Discharge Rates for all customer classes.

Individual Customer Class Variable Discharge Rates based on loading and strength characteristics of customer class

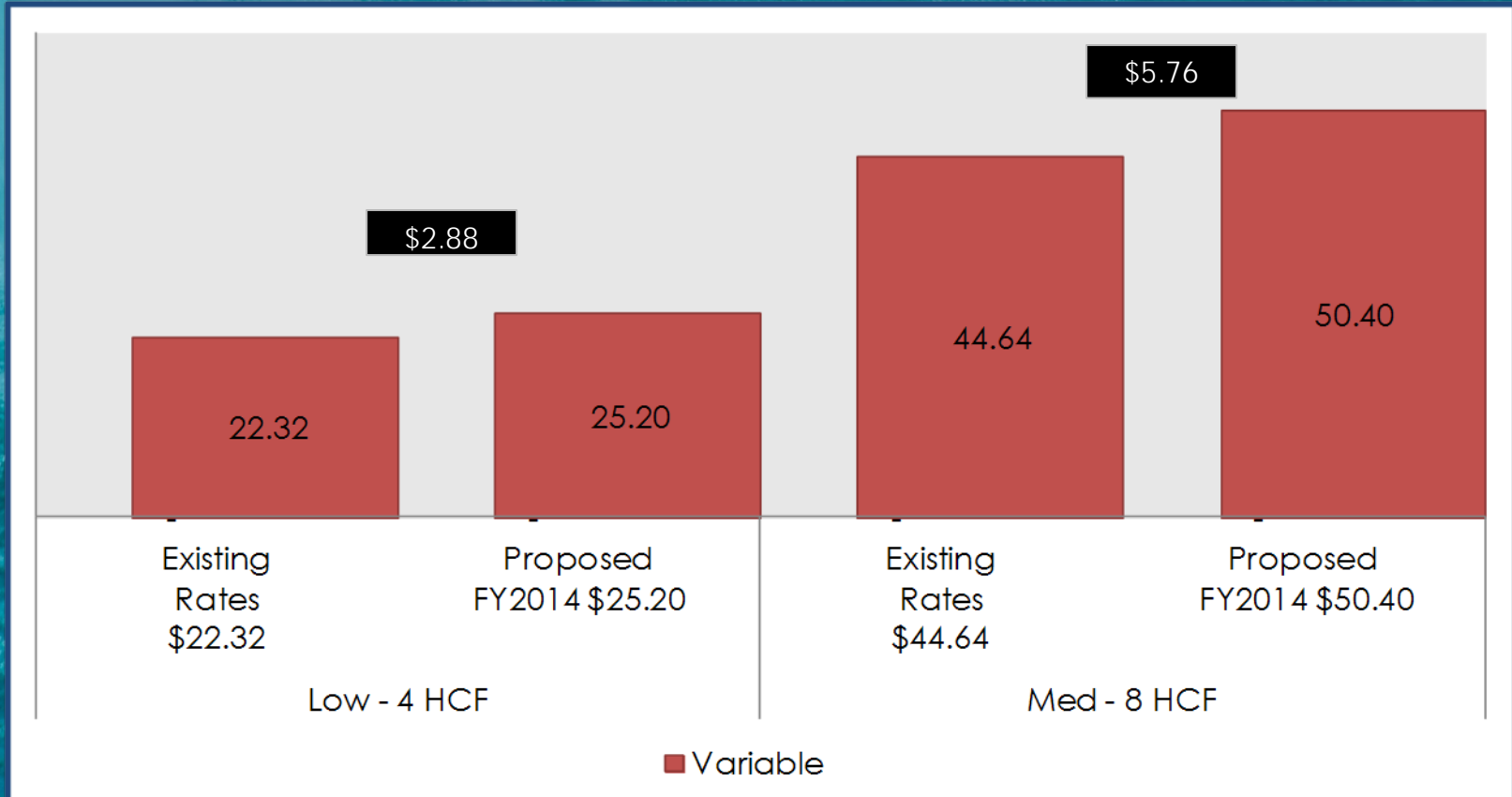
Customer Impact - (Scenario 1)



Customer Impact - (Scenario 2 – 10yr CIP)



Customer Impact - (Scenario 3 – 10yr CIP + R&R)



Questions and Answers

