

Lompoc City Council Agenda Item



City Council Meeting Date: June 21, 2005

TO: Gary P. Keefe, City Administrator

FROM: Rene M. Vise', Financial Services Manager
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SUBJECT: ESTABLISHMENT OF RATE STABILIZATION FUNDS FOR
WATER AND WASTEWATER FUNDS

RECOMMENDATION:

Establish Rate Stabilization Funds for the Water and Wastewater Funds to be used to meet bond coverage requirements for the 1998 and 2005 Water and Wastewater Revenue Bond issues and authorize staff to reserve excess revenues in the Rate Stabilization Funds.

DISCUSSION:

Under the terms of the 1998 and 2005 Water and Wastewater Revenue Bond issues, the City of Lompoc must establish rates and fees 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 any Governmental Loans as they become due and payable during that Fiscal Year.

Net Revenues equals normal operating revenues less normal operating expenditures, net of depreciation.

During fiscal years when the Water and Wastewater Funds have excess net revenues on hand at year-end greater than the amount needed to meet these bond covenant requirements, this excess may then be placed in a Water and/or Wastewater Rate Stabilization Fund.

An example may help.

Suppose that operating revenue for the fiscal year end is \$10,000,000 and operating expenses are \$8,500,000. The funds then have net revenues of \$1,500,000. Assume that total debt service is \$1,000,000 for the fiscal year. Therefore, the bond coverage for (1) is 150% ($\$1,500,000 / \$1,000,000$). The coverage for (2) is also 150%.

The excess amount in (2) of \$250,000 ($\$1,500,000 - \$1,250,000$) may be placed in rate stabilization funds to be used in future years to make the coverage for requirement (2).

Establishment of rate stabilization funds will aid in stabilizing rates and charges imposed by the City with respect to the Water and Wastewater Systems and provide additional protection against the City not being in compliance with bond covenant requirement (2).

Rene M. Visé
Financial Services Manager

APPROVED FOR SUBMITTAL TO CITY ADMINISTRATOR

John Walk, Management Services Director

APPROVED FOR SUBMITTAL TO CITY COUNCIL

Gary P. Keefe, City Administrator