

Provide a 90 day operating reserve by the fifth year of implementation; Table 4 below shows the operating cash in terms of days of reserves on hand.

Table 4

Build up Operation Reserve to 90 days of Budgeted Operating Expenses				
Water	Projected	Projected 15%	Projected	Projected
	2017 FY	Rate Increase	No Rate	Adopted Rate
		2018 FY	Increase	7.5%
			2018 FY	2018 FY
Estimated 90 Day Reserve Requirement (25%)	\$ 2,494,577	\$ 2,471,151	\$ 2,471,151	\$ 2,471,151
Estimated Operating Cash Balance:	\$ 1,346,309	\$ 2,236,708	\$ 516,582	\$ 1,376,645
Needed to meet 90 days:	\$ (1,148,268)	\$ (234,443)	\$ (1,954,569)	\$ (1,094,506)
Days of Reserves:	49	81	19	50

Wastewater Utility

The following provides a more comprehensive review of the City's Wastewater Utility.

The City's Wastewater Utility service is provided by a regional plant (Plant) that services Lompoc Vandenberg Air Force Base (VAFB) and Vandenberg Village Community Services District (VVCSD). The City has entered into separate contracts with both VAFB and VVCSD. The contract terms provide each entity pay the full cost of their share of operational costs and capital/debt service costs based upon contractual terms. The contracts also provide for each entity to hold cash reserves with the City.

The approved Wastewater Utility rate adjustments are scheduled over a five-year period and are a uniform 10.5% per year effective July 1 of each year from 2014 to 2017. The initial adjustment of 21%, under the current approved rate structure, occurred in August 2013. Table 5 shows the Wastewater recommended, approved and affirmed rates.

Table 5

Wastewater Rates	2013	2014	2015	2016	2017
Recommended	21%	17%	11%	11%	11%
Approved	21%	10.5%	10.5%	10.5%	10.5%
Affirmed	21%	10.5%	10.5%	10.5%	-

The proposed Wastewater Utility revenues generated by the rate structure are anticipated to achieve certain goals outlined in the 2013 rate study, but some of the goals may not be achieved by the end of the rate setting authority on June 30, 2018.

- The planned rate adjustment goals are to ensure compliance with bond covenants in the first year of implementation as shown in Table 6 below:

Table 6

Ensure compliance with Bond Covenants					
Wastewater	Actual 2015 FY	Actual 2016 FY	Projected 2017 FY	Projected Adopted Rate 10.5% 2018 FY	With No Rate Adjustment 2018 FY
Revenues	\$ 12,357,864	\$ 14,975,556	\$ 14,422,081	\$ 16,366,560	\$ 14,648,071
Operating Expenses:					
Personnel					
Costs	\$ 2,352,728	\$ 2,442,540	\$ 2,688,152	\$ 2,844,689	\$ 2,844,689
Operations	3,800,213	4,682,456	5,192,209	4,935,210	4,935,210
Subtotal	\$ 6,152,941	\$ 7,124,996	\$ 7,880,361	\$ 7,779,899	\$ 7,779,899
Amount Available:	\$ 6,204,923	\$ 7,850,560	\$ 6,541,720	\$ 8,586,661	\$ 6,868,172
Debt Service for Bonds	\$ 1,483,483	\$ 1,482,550	\$ 1,494,743	\$ 1,495,100	\$ 1,495,100
Debt Ratio req.1.25:	4.00	5.30	4.38	5.74	4.59
Available Balance	4,721,440	6,368,010	5,046,977	7,091,561	5,373,072
SRF Debt req: 1.00	\$4,580,079	\$4,580,291	\$4,580,291	\$4,580,291	4,580,291
Available Bal. after SRF	\$141,361	\$1,787,719	\$466,686	\$2,511,270	792,781

(No capital outlay or depreciation is included in this calculation)

- Provide a positive net income.

While the projected results for the Wastewater Utility generate a positive net income by June 30, 2016 and in 2017 there will be a lower net income shown in Table 7 below.

Table 7

Generate positive net income				
City Financial Statement	Actual	Projected	Projected	With No Rate
Wastewater	2016 FY	2017 FY	Adopted Rate Adj. 2018 FY	Adjustment 2018 FY
Operating revenues	\$ 14,975,556	\$ 14,422,081	\$ 16,366,560	\$ 14,648,071
Operating expenditures	10,988,632	12,426,283	12,325,821	12,325,821
Operating income (loss)	3,986,924	1,995,798	4,040,739	2,322,250
Nonoperating rev. & exp.	(2,027,335)	(1,929,142)	(1,751,679)	(1,751,679)
Net income (loss)	\$ 1,959,589	\$ 66,656	\$ 2,289,060	\$ 570,571

Goal: Fiscal Year 2018-19

- Reduce the Wastewater Utility operating reserve deficit by the fifth year of implementation of the rate structure.

While the days of cash on hand is dropping through FY 2015-2016, the rate of the drop is slowing which is resulting from the narrowing of the net loss from FY 2014-2015 to FY 2016-2017. Days of Cash on Hand will not begin to improve until the Wastewater utility has a positive net income and related positive cash flow.

Table 8

Build up Operation Reserve to 90-days of O&M expenses					
Wastewater	Actual	Actual	Projected	Projected	With No
	2015 FY	2016 FY	2017 FY	Rate Adj.	Rate
				2018 FY	Adjustment
					2018 FY
Estimated 90 Day Reserve Requirement (25%):	\$ 3,171,265	\$ 3,171,265	\$ 3,106,571	\$ 3,081,455	\$ 3,081,455
Operating Cash Balance	\$ (5,946,699)	\$ (3,661,624)	\$ (1,665,826)	\$ 2,374,913	\$ 656,424
Needed to meet 90 day reserve:	(9,117,964)	(6,832,889)	(4,772,397)	(706,542)	(2,651,021)
Days of reserves available:	(169)	(169)	(138)	(21)	(77)

Further rate adjustments may have to be made in the sixth year to: