

City of Lodi Debt, Fund Reserves

Budget Strategy Group
Session 5
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Reasons to borrow, build reserves

- Borrowing (debt) allows City to build facilities with 30- to 40-year lifespan, similar to home mortgage
- Borrowing results in the facility's users paying over time, not previous citizens
- Pay-as-you go requires accumulating large balances, long-term discipline – not always practical when reacting to new mandates

Reasons to borrow, build reserves

- Building undesignated reserves enhances financial ratings
- Reserves provide financial flexibility, ability to absorb unforeseen expenses, whether one-time or periodic, avoid rash decisions

Current City debt levels: \$192.2M

Fund	Amount
■ General Fund	\$21.9M
■ Electric Utility	\$77.4M
■ Water Fund	\$38.7M
■ Wastewater Fund	\$54.9M

(As of March 1, 2011)

General Fund debt

Item	%	Annual debt service	Balance	Purpose
Interest-only note payable April 1, 2012	6	\$14,700	\$245,000	2002 property purchase for Lodi Police Station
2002 Certificates of Participation, final payment 2031	1.4 to 4.95	\$1,673,800	\$21,655,000	Police Station construction, refinance HSS and Downtown/ Cherokee improvements
Total		\$1,688,500	\$21,900,000	4.1% of annual budget
Need for a replacement Fire Station 2 may incur additional debt				

Electric Utility Fund debt

Item	%	Annual debt service	Balance	Purpose
2008 Certificates of Participation, final payment 2032	4 to 5	\$2,963,280	\$54,596,566	Refinance variable rate debt, retire speculative swap
2002 Certificates of Participation, final payment 2015	2 to 5.25	\$4,401,490	\$22,848,456	Buy out energy contracts with Calpine
Total		\$7,364,770	\$77,445,022	9.6% of annual budget

Need to build power lines to Lodi Energy Center may result in additional debt.

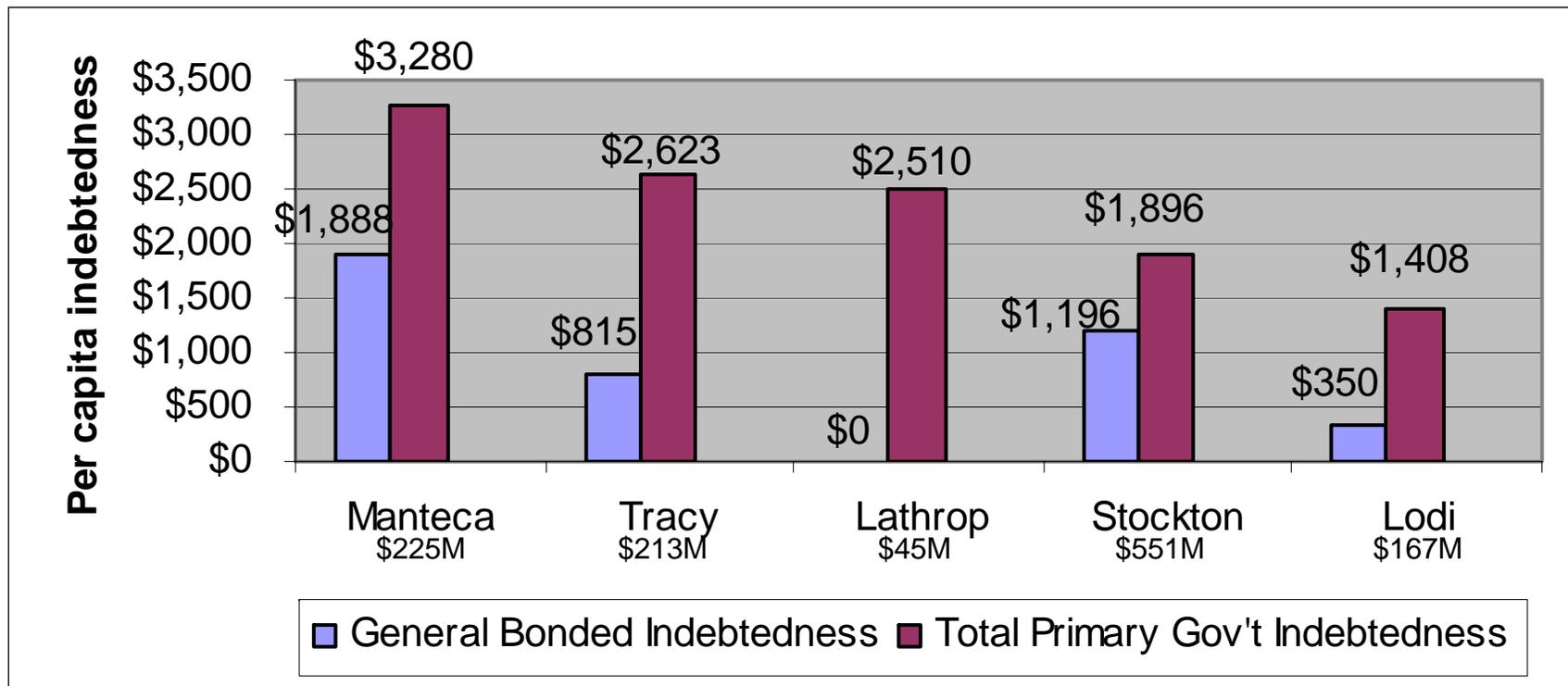
Water Fund debt

Item	%	Annual debt service	Balance	Purpose
2010 Water Revenue Bonds, final payment 2040	0.68 to 3.64	\$2,304,811	\$38,665,000	Surface Water Treatment Plant and Pump Station
				20% of annual budget

Wastewater Fund debt

Item	%	Annual debt service	Balance	Purpose
2003 Certificates of Participation, final payment 2023	2 to 5	\$383,640	\$3,684,351	Treatment Plant upgrades to meet new regulations
2004 Certificates of Participation, final payment 2024	2 to 5.375	\$2,152,600	\$21,723,196	Treatment Plant upgrades to meet new regulations
2007 Certificates of Participation, final payment 2037	4 to 5	\$1,591,600	\$29,502,477	Expansion, regulatory upgrades, line replacement
Total		\$4,126,840	\$54,910,014	29.1% of annual budget

How much debt is it?



June 30, 2010 figures (Stockton 6/30/09); Lodi Total Primary Gov't Indebtedness excludes Lodi Electric

Cash balances of major City funds

Fund	Cash on July 1, 2010	% operating budget	Days	March 1 balance
General	\$4.3M	10	38	\$1.3M
Electric	\$23.1M	31	115	\$24.4M
Water	\$14.1M	123	447	\$10.6M
Wastewater	\$6.8M	48	174	\$8.3M

Figures do not include cash in restricted PCE/TCE funds, unspent bond proceeds that are restricted to capital expenses

Reserves: How much is enough?

GFOA recommendations:

- Begin with 90-day level, adjust to specific needs
- Minimum of 45 days of operating expenses
 - Best fit for funds supported by taxes, transfers
- Larger amounts needed for funds that:
 - Transfer large amounts to other funds
 - Have volatile cash cycles
 - Concentrated customer base
 - Subject to variable demand for services
 - Have less control over rates

Reserves: How much is enough?

GFOA recommendations

- Other variables in determining reserves:
 - Asset age/condition
 - Control over expenses
 - Amount of restricted capital
 - Operating vs. capital needs
 - Type and amount of debt (fixed vs. variable, change in debt service payments, etc.)

Council-approved reserve policies

- General Fund
 - 8 percent economic reserve
 - 8 percent catastrophic reserve
- Electric Utility
 - 90 days operating expenses
- Water and Wastewater
 - 25 percent of operating expenses (adopted through approval of rate models)