

CITY OF BATAVIA

DATE: November 18, 2013
TO: Mayor & City Council
FROM: Bill McGrath, City Administrator,
Peggy Colby, Finance Director
SUBJECT: 2014 Budget Questions: Round 6 Questions. 1-6

Round 6

1. I am looking for the total of our general revenue bonds in the budget, and I am not landing on it at the moment. Can you explain what these are for and the remind me of the total. Do they have to do with Northern Illinois Municipal Power Agency (NIMPA)?

Response: See page xxxix – The City will have \$8.8 Million in outstanding GO Bonds as of 1/1/14. The Bonds are for the Bridge, Fire Stations and City Hall (one year left). NO, none of them are associated with NIMPA. See page xl where it references that NIMPA's debt is through a purchased power contract and not on the City's books as debt. It is footnoted in our Financial Statements.

2. Are we trying to get to the point where we can link the five-year financial projects with the strategic plan? Though I realize all is subject to change, I think it would give a good perspective.

Response: The initial 5-year projections are included with the budget for the General Fund. The departments have all linked their current budget with the strategic plan. It will take a few budget years and fine-tuning of the Strategic Plan for there to be a tight relationship. Some departments are less able to predict and thus make significant long-range plans, while others, particularly those maintaining large physical systems are, though regulatory issues and unforeseen issues can require plan changes. .

We'd like to discuss further. We are assuming financial projects mean capital projects. A review of the Appendix shows a fairly aggressive overall capital projects plan for our size staff. If there is a question as to five-year projections for the utility funds, a presentation for water and sewer was done 4 years ago and that is what resulted in the four-year rate increase. While it would be nice to be proactive and fund capital projects for the electric utility – we can't afford to do that. We can forward the rates provided to us for the 5-year budget for purchased power, however, those numbers have been subject to great change due to the start-up costs associated with Prairie State and thus the budget has been very volatile in 2013 and as projected for 2014. We had a budget projection one year ago of \$54/MWH for 2014 and it is now \$68/MWH.

3. What did you mean when you stated that “The money that be used for rate stabilization or emergencies is set aside.” By Council? Is this what we did about a year and a half ago?

Response: The rate stabilization fund was established in 2009. Up to \$2M of reserves was authorized to be used to stabilize the PPAF (Purchase Price Adjustment Factor). The calculation is done monthly and if power costs are such that the PPAF increases substantially then some of these funds are used. \$1,640,000 of the funds was used in 2009 and then they were recovered in 2010/2011. It is similar to a line of credit – it is accounted for internally when we calculate the PPAF with the specific purpose of keeping a level PPAF (to the extent possible).

4. Is this part of the PPAF? Where is the money set aside? Who has the authority to use the funds to stabilize rates? Staff?

Response: Yes, it is part of the PPAF. It is part of our reserves – cash on hand. The funds are meant to be replenished during better times – that is why once the full \$2M is used no more can be used until there is authorization through a Resolution. The rates the City has were not intended to have permanent draw down on reserves. In light of the situation, there will likely be a recommendation that further reserves be used but there is a limit to how low the reserves can go. **NOTE:** We have just calculated the October PPAF and the pressure on the PPAF was less than anticipated. Power sold on the market did better than in prior months and kWh used was higher than expected. The projected balance in the rate stabilization fund reported in the budget was projected at \$545,000 on an accrued basis. On a cash basis (the PPAF lags two months), Peggy estimates we will have approximately; \$1 million of the original \$2 million stabilization fund (from reserves) to continue to mitigate the PPAF.

Staff was given authority to use up to \$2M for rate stabilization when calculating the PPAF. The amount of money used (or returned to the Fund) is dependent upon what we are able to obtain for excess power in the market. This changes every day and is reported weekly, though the reports are from transactions 2 months in the past. If we see that we have been able to sell at a higher average then we can use less of the fund, and in fact replace some of it. If we have sold at a significant loss, the funds are used to reasonable keep the PPAF somewhat level. Attached is a schedule showing exactly how the Stabilization Fund has been used up until now.

5. What did you mean when you said, “But, we do not have \$4,000,000 to set aside, as there are minimums to keep in the reserves as a condition of some bonds. We would be able to use \$2,000,000.” Which bonds?

Response: We are currently estimating that there may be up to \$2M available to use without going below our Fund Balance Policy or below the Bond Covenants (promises) set out as part of the 2006 Electric Revenue Bonds issued for the 138kV project. These bonds are the only bonds the Electric Utility has issued – the 2006 Electric Revenue Bonds for the 138kV project. Bond covenants might be thought of as an escrow

account, but one that has to have a certain minimum which secures the bondholders' payments if regular revenues stopped coming in. These are standard with municipal bonds.

6. What did you mean by "formally approving \$2,000,000 in authority" What does authority mean here? By the Council?

Response: Yes, the City Council. See attached Resolution 09-95-R. We would be recommending a similar resolution.

Please don't hesitate to ask any other questions.

City Administrator Bill McGrath: bmcgrath@cityofbatavia.net 630-454-2060

Finance Director Peggy Colby: pcolby@cityofbatavia.net 630-454-2030

See attachments below

City of Batavia PPAF and Rate Stabilization Fund

Month of Power Cost		With Rate Stablization Adjustment	Month Billed	Funds Used or (Replenished)	Balance
					2,000,000
Nov-08	0.00823		Jan-09		2,000,000
Dec-08	0.00873		Feb-09		2,000,000
Jan-09	0.00583		Mar-09		2,000,000
Feb-09	0.00874		Apr-09		2,000,000
Mar-09	0.01263		May-09		2,000,000
Apr-09	0.01489		Jun-09		2,000,000
May-09	0.01436		Jul-09		2,000,000
Jun-09	0.02695	0.01496	Aug-09	425,000	1,575,000
Jul-09	0.03469	0.01498	Sep-09	680,000	895,000
Aug-09	0.03239	0.01499	Oct-09	615,000	280,000
Sep-09	0.01524	0.01499	Nov-09	7,500	272,500
Oct-09	0.02221	0.02180	Dec-09	12,500	260,000
Nov-09	0.02061		Jan-10		260,000
Dec-09	0.01613	0.01903	Feb-10	(100,000)	360,000
Jan-10	0.01330	0.01903	Mar-10	(210,000)	570,000
Feb-10	0.01306	0.01846	Apr-10	(180,000)	750,000
Mar-10	0.01393	0.01809	May-10	(150,000)	900,000
Apr-10	0.01656	0.01809	Jun-10	(50,750)	950,750
May-10	0.01031		Jul-10		950,750
Jun-10	0.00993		Aug-10		950,750
Jul-10	0.01026		Sep-10	(40,000)	990,750
Aug-10	0.00989		Oct-10	(32,000)	1,022,750
Sep-10	0.00886	0.00989	Nov-10	(261,564)	1,284,314
Oct-10	0.00885	0.00885	Dec-10	(305,186)	1,589,500
Nov-10	0.00048	0.00885	Jan-11		1,589,500
Dec-10	0.00140	0.00989	Feb-11		1,589,500
Jan-11	0.00989		Mar-11	(360,500)	1,950,000
Feb-11	0.00417		Apr-11	(50,000)	2,000,000
Mar-11	0.00300		May-11		2,000,000
Apr-11	0.00377		Jun-11		2,000,000
May-11	0.00624		Jul-11		2,000,000
Jun-11	0.00568		Aug-11		2,000,000
Jul-11	0.00404		Sep-11		2,000,000
Aug-11	0.01058		Oct-11		2,000,000
Sep-11	0.00738		Nov-11		2,000,000

City of Batavia PPAF and Rate Stabilization Fund

Month of Power Cost		With Rate Stablization Adjustment	Month Billed	Funds Used or (Replenished)	Balance	
Oct-11	0.00546		Dec-11		2,000,000	
Nov-11	-		Jan-12		2,000,000	
Dec-11	-		Feb-12	(161,500)	2,161,500	*Billing Adj
Jan-12	0.00239		Mar-12		2,161,500	
Feb-12	0.00715		Apr-12		2,161,500	
Mar-12	0.00900		May-12		2,161,500	
Apr-12	0.00887		Jun-12		2,161,500	
May-12	0.00177		Jul-12		2,161,500	
Jun-12	0.00525		Aug-12		2,161,500	
Jul-12	0.00556		Sep-12		2,161,500	
Aug-12	0.01097	0.01081	Oct-12	6,500	2,155,000	
Sep-12	0.01530	0.01081	Nov-12	150,500	2,004,500	
Oct-12	0.01092	0.01081	Dec-12	4,000	2,000,500	
Nov-12	0.01299	0.01081	Jan-13	70,500	1,930,000	
Dec-12	0.01488	0.01281	Feb-13	68,500	1,861,500	
Jan-13	0.00874	0.00879	Mar-13	(1,960)	1,863,460	
Feb-13	0.01218	0.01057	Apr-13	(1,770)	1,865,230	
Mar-13	0.01550	0.01306	May-13	148,231	1,716,999	
Apr-13	0.01443	0.01306	Jun-13	47,000	1,669,999	
May-13	0.01356	0.01375	Jul-13	(8,750)	1,678,749	
Jun-13	0.01717	0.01397	Aug-13	172,899	1,505,850	
Jul-13	0.02350	0.01808	Sep-13	209,500	1,296,350	
Aug-13	0.01994	0.01817	Oct-13	68,350	1,228,000	
Sep-13	0.02299	0.01817	Nov-13	166,500	1,061,500	
Oct-13	0.01953	0.01817	Dec-13	46,500	1,015,000	
Nov-13			Jan-14			
Dec-13			Feb-14			
Jan-14			Mar-14			
Feb-14			Apr-14			
Mar-14			May-14			
Apr-14			Jun-14			

**CITY OF BATAVIA, ILLINOIS
RESOLUTION 09-95-R**

ESTABLISHING AN ELECTRIC UTILITY RATE STABILIZATION SUBACCOUNT

WHEREAS, the City of Batavia owns and operates an electric utility; and

WHEREAS, the City of Batavia, previously adopted ORDINANCE 06-47: An Ordinance Authorizing And Providing For The Issue Of Not To Exceed \$30,000,000 Electric System Revenue Bonds, Series 2006, In One Or More Series, Of The City Of Batavia, Kane And DuPage Counties, Illinois, For The Purpose Of Constructing Improvements To The Existing System Of Said City, Prescribing All The Details Of Said Bonds, And Providing For The Collection, Segregation And Distribution Of The Revenues Of The System Of Said City; and

WHEREAS, ORDINANCE 06-47 allows for the establishment of an Electric Rate Stabilization Subaccount; and

WHEREAS, the establishment of such Subaccount will provide for the stabilization of large fluctuations in the monthly Purchase Power Adjustment Factor; and

WHEREAS, there are sufficient reserves to provide for such cash flow; and

WHEREAS, it is appropriate for the Mayor and City Council, at this time, to direct the establishment of an Electric Rate Stabilization Subaccount within the Surplus Account as defined in ORDINANCE 06-47 in an amount not to exceed \$2,000,000.

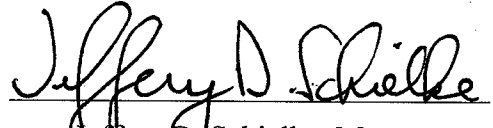
NOW, THEREFORE, BE IT RESOLVED by the Mayor and City Council of the City of Batavia, Kane and DuPage Counties, Illinois, as follows:

SECTION 1: The City of Batavia Finance Director is authorized and directed to create and provide funds for an Electric Rate Stabilization Subaccount to operate as follows: The City Council may at any time direct funding of or withdrawal from such Subaccount, including providing for funding or withdrawal as a part of a given Fiscal Year budget. Except as provided in the preceding sentence and in the proviso at the end of this sentence, amounts deposited into the Rate Stabilization Subaccount shall be subtracted from Net Revenues in the Fiscal Year of the deposit, provided, however, that if there remains on deposit to the credit of the Surplus Account an unallocated sum after such transfer, not less than two times Maximum Annual Debt Service, then the transfer shall not be subtracted from Net Revenues. Any amounts withdrawn from the Rate Stabilization Subaccount shall be added to Revenues in the Fiscal Year of withdrawal. All funds withdrawn shall be treated as Revenues on withdrawal and held in the Electric System Fund and credited to accounts of the fund as hereinabove provided.

CITY OF BATAVIA, ILLINOIS RESOLUTION 09-95-R


PRESENTED to and **PASSED** by the City Council of the City of Batavia, Illinois, this 19th day of October, 2009.

APPROVED by me as Mayor of said City of Batavia, Illinois, this 19th day of October, 2009.


 Jeffery D. Schielke, Mayor

Ward	Aldermen	Ayes	Nays	Absent	Abstain	Aldermen	Ayes	Nays	Absent	Abstain
1	O'Brien	x				Sparks	x			
2	Dietz	x				Wolff	x			
3	Miller	x				Barnard	x			
4	Volk	x				Schmitz	x			
5	Frydendall	x				Nelson	x			
6	Liva	x				Clark	x			
7	Tenuta	x				Brown	x			
Mayor Schielke										
VOTE:		14 Ayes	0 Nays	0 Absent	0 Abstentions					
Total holding office:		Mayor and 14 aldermen								

ATTEST:


 Heidi Wetzal, City Clerk