

Preliminary Financial Results - Utilities

City Council Meeting
October 21, 2014



Publicly Noticed Meetings for the Rates Process – How we got here

- 6-4-2011 - Rate Study approved in the FY11-13 budget
- 12-12-2011 - RFP issued
- 2-21-2012 – Award of Contract for Rate Study
- 3-14-2012 – Rate Consultant Contract executed
- 6-26-2012 - Draft studies completed
- 7-9-2012 – Preliminary rate study results presented to Utility Commission; changes requested by Commission
- 12-10-2012 – Second presentation of rate study results presented to Utility Commission

Publicly Noticed Meetings for the Rates Process – How we got here

- 1-8-2013 - Initial presentation of study results to Council
- 3-5-2013 – Second presentation of results to Council
- 3-19-2013 – Council approved initiation of Prop 218 process notifying customers of a public hearing and directed Staff to return in 2015 to provide annual review.
- 6-10-2013 – Utility Commission presentation and public hearing action
- 6-18-2013 – Council approved a public hearing to be held on August 6, 2013 regarding water and wastewater utility rate adjustments

Publicly Noticed Meetings for the Rates Process – How we got here

- 6-25-2013 – Prop 218 notices mailed to all parcels and customers
- 7-8-2013 – Utility Commission - Water Plant Efficiency Analysis
- 8-6-2013 – Public Hearings held for water & wastewater rate adjustments for 9-6-2013 and annually at 7-1-2014 to 7-1-2017
- 11-2013 – Initial rate adjustments applied to customers bills for consumption after 9-6-2013
- 3-25-2014 – Mid-Year Financial Review presented to Council including financial information regarding Water & Wastewater
- 5-6-2014 – Rates affirmed and Fiscal Reserve Policies adopted by Council



Moody's Rating Actions

- October 29, 2012 – Downgrade of rating from A1 to A2 with a negative outlook
 - Debt service ratio missed for 2012 and projected to be below required ratio in 2013
 - Rate studies in progress – didn't take into account the rate setting process in progress
- September 15, 2014 – Affirmed A2 rating and removed negative outlook



Rating action by Moody's 9-15-2014

- Removed the “negative” outlook from the Water and Wastewater revenue bond rating and affirmed the rating of A2 due to (in part):
 - Projected financial improvement in FY 2013-14 over FY 2012-13
 - Willingness to set rates to balance operations and to replenish cash reserves



Rating action by Moody's 9-15-2014

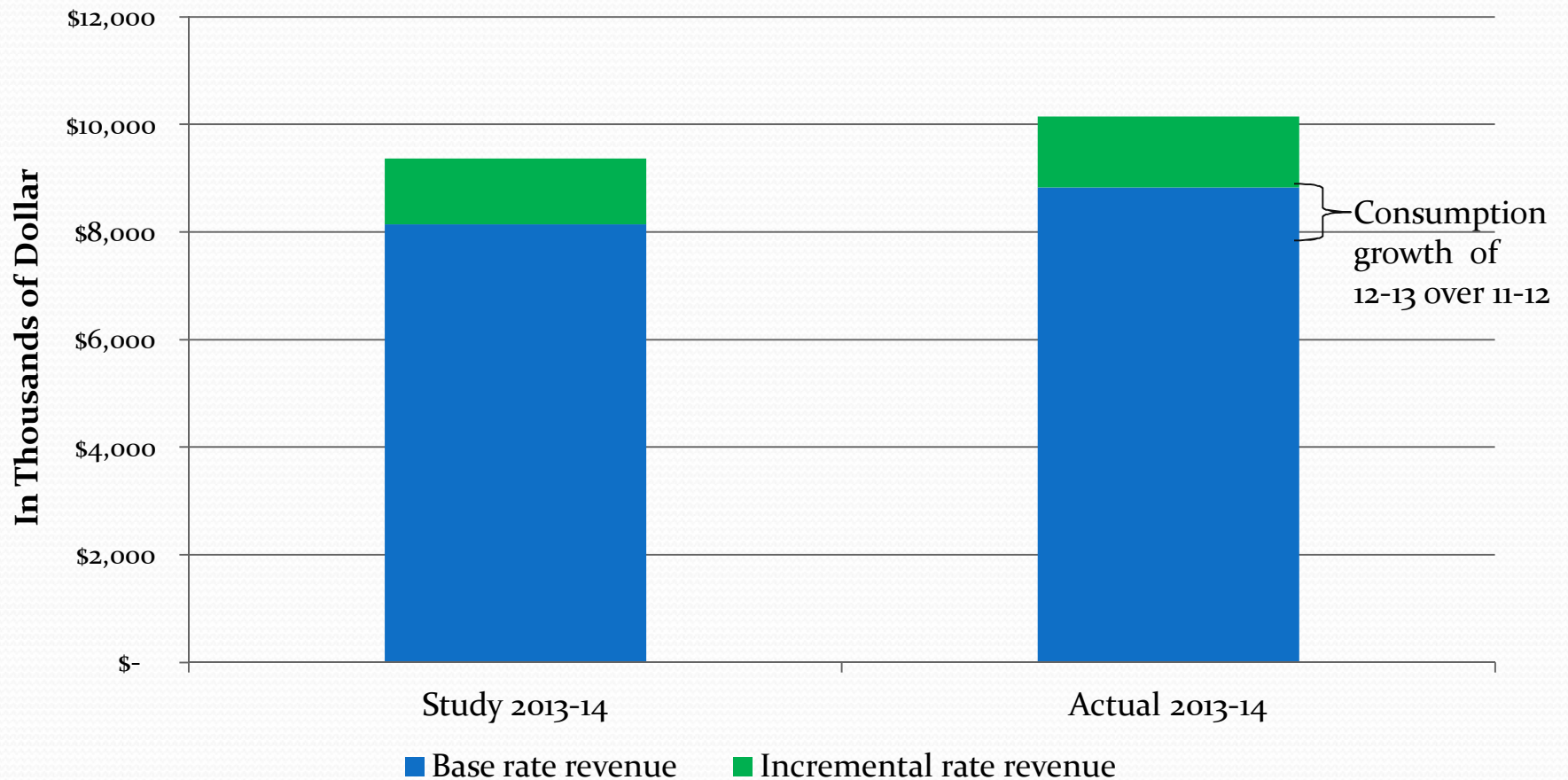
- Future results that could positively affect rating:
 - Achievement of projected coverage improvements
 - Material increase in system liquidity relative to debt
- Future results that could negatively affect rating:
 - Failure to realize projected growth in debt service coverage



Water Financial Summary

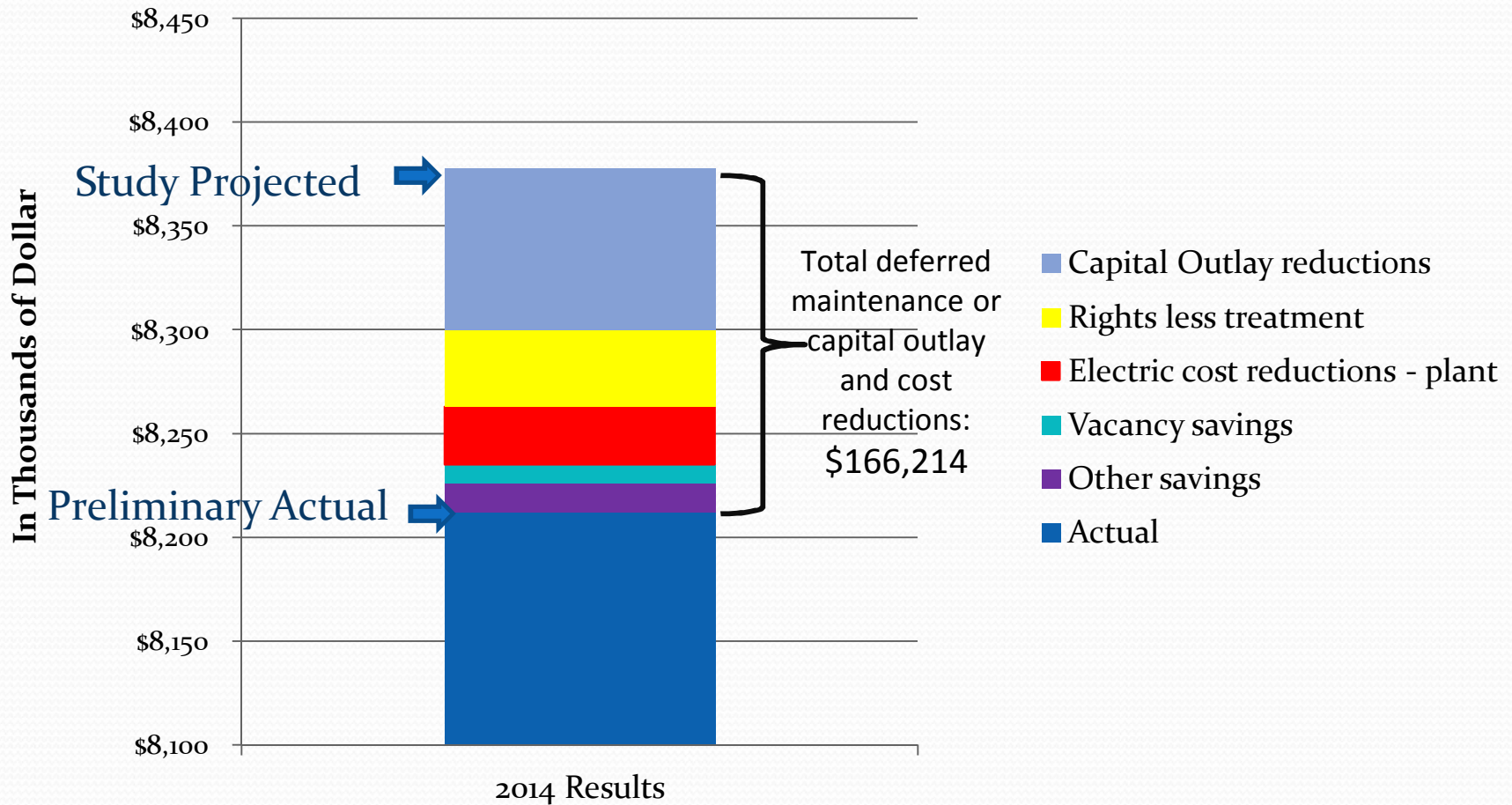
- Operating Revenue – Actual compared with 2012 Rate Study
- Operating Expense – Actual compared with 2012 Rate Study
- Cash Flow components – 2012-13 to 2013-14
- Cash on Hand – 2011-12 to 2013-14
- Debt Service measurements

Water – Operating Revenue 2013-14 Study to Actual



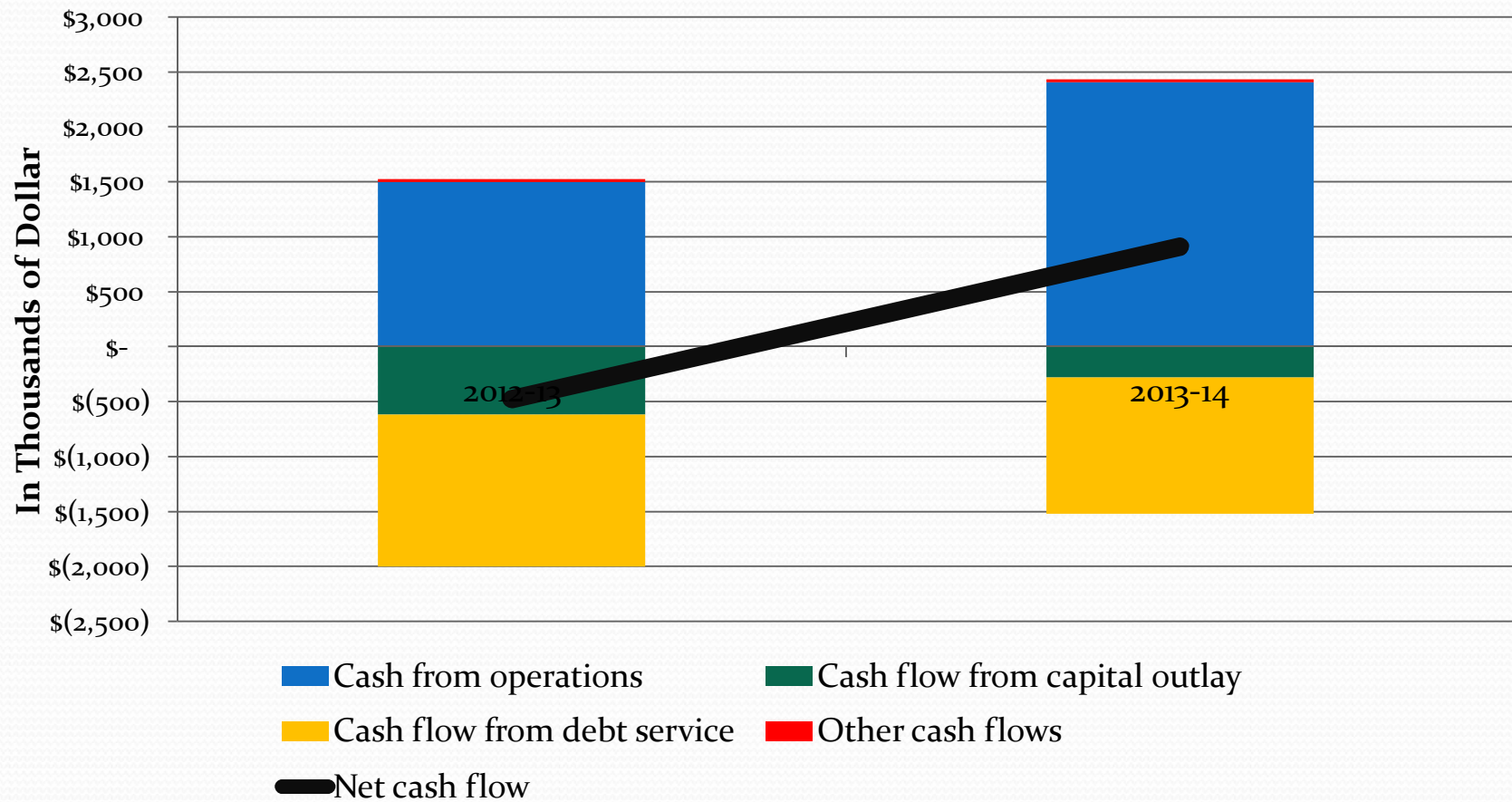
Water

Operating Expenses – 2013-14



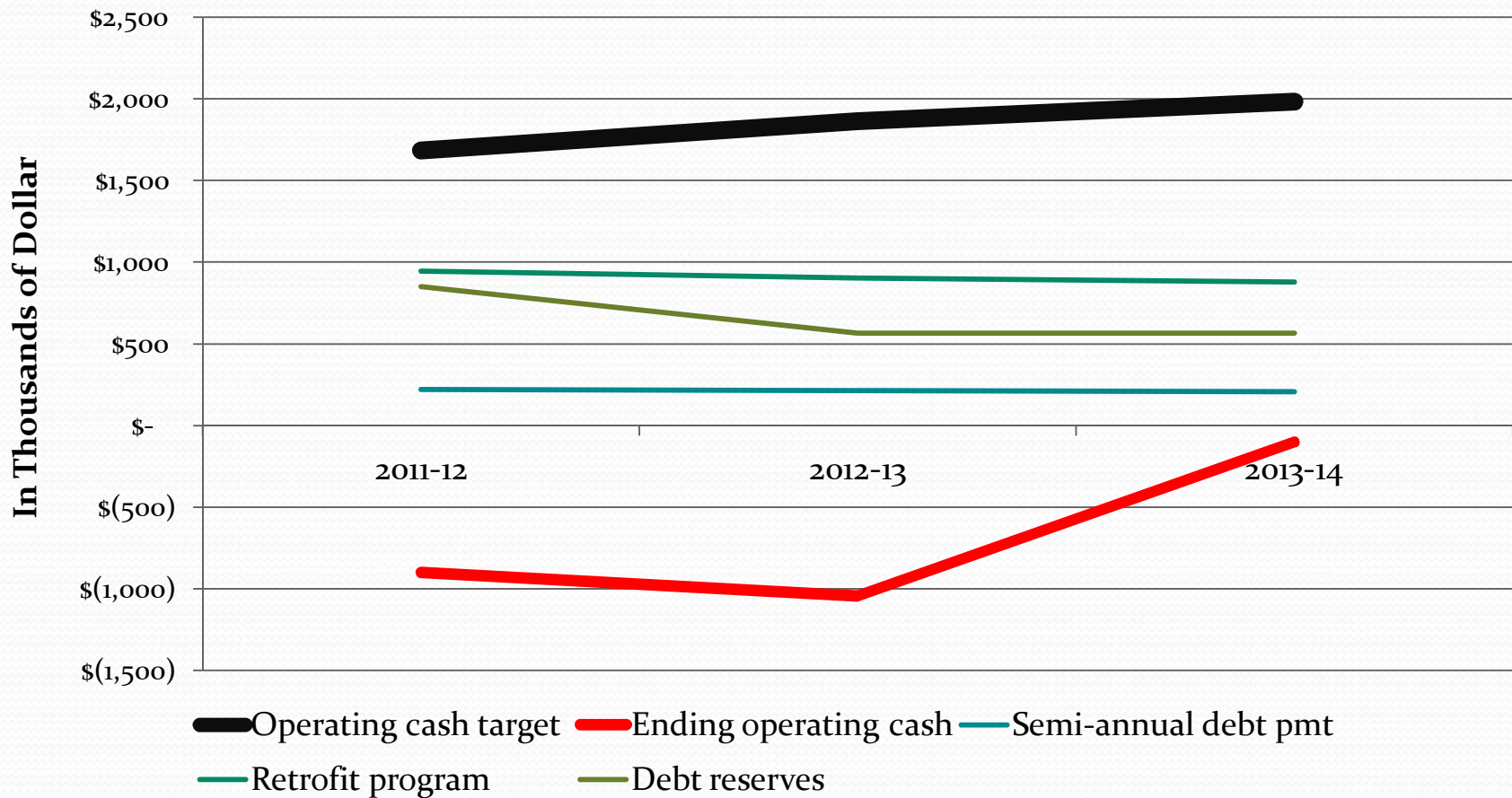
Water

Cash Flow trend – 2012-2014



Water

Cash on Hand – 2011-2014



Water

Debt Service measures

	2012-13	2013-14
Net revenue for debt service	\$ 757,862	\$ 1,936,609
Debt service obligations	\$ 1,383,045	\$ 1,237,774
Debt service ratio	0.55	1.56

Minimum required - Water Utility only

Required Net Revenue @t 1.00	\$ 1,383,045	\$ 1,237,774
Net revenue deficit	\$ (625,183)	\$ 698,835

Covenant required - Combined systems

Required Net Revenue @ 1.25	\$ 1,728,806	\$ 1,547,218
Net revenue deficit	\$ (970,944)	\$ 389,392

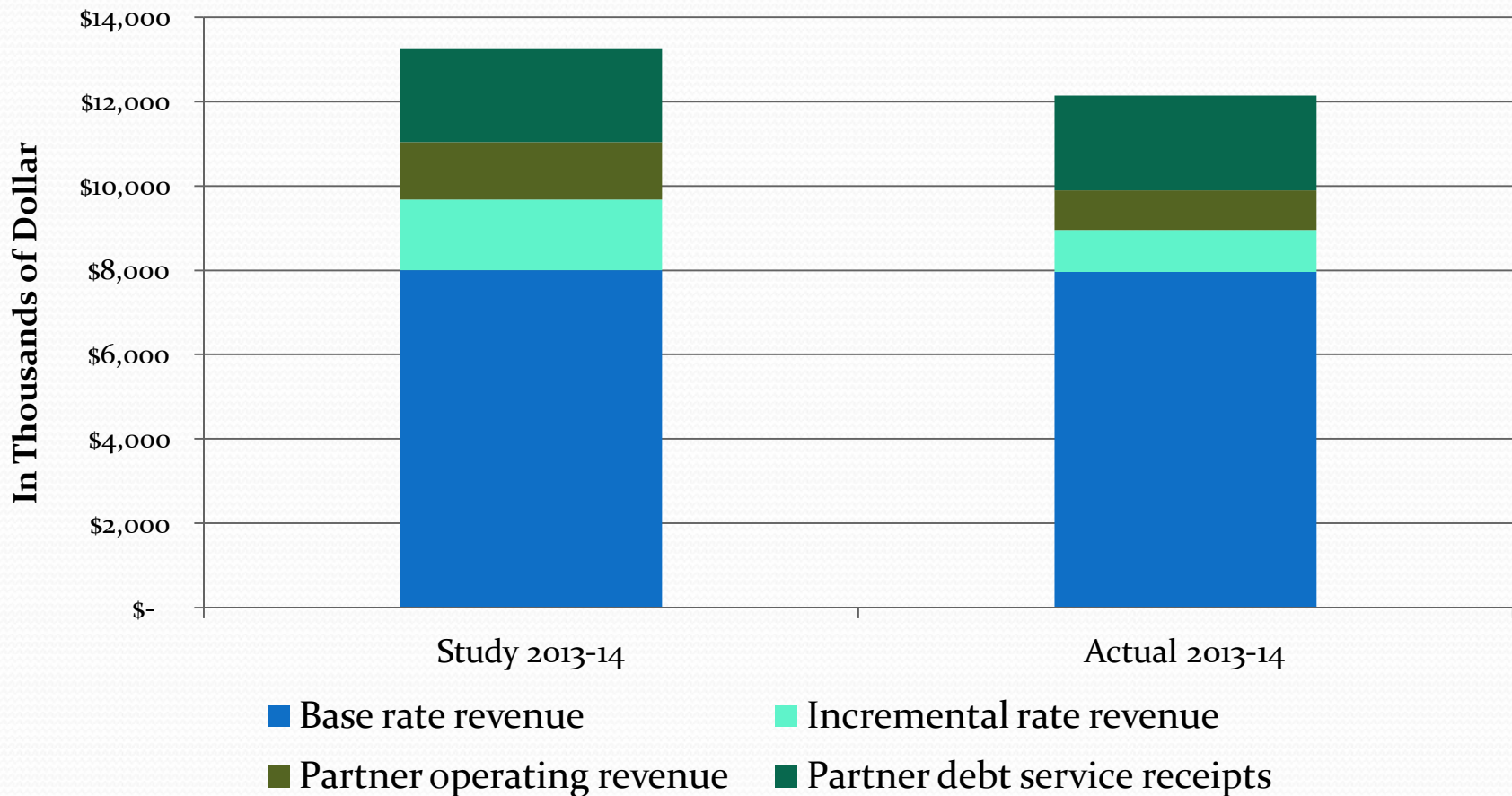


Wastewater Financial Summary

- Operating Revenue – Actual compared with 2012 Rate Study
- Operating Expense – Actual compared with 2012 Rate Study
- Cash Flow components – 2012-13 to 2013-14
- Cash on Hand – 2011-12 to 2013-14
- Debt Service measurements

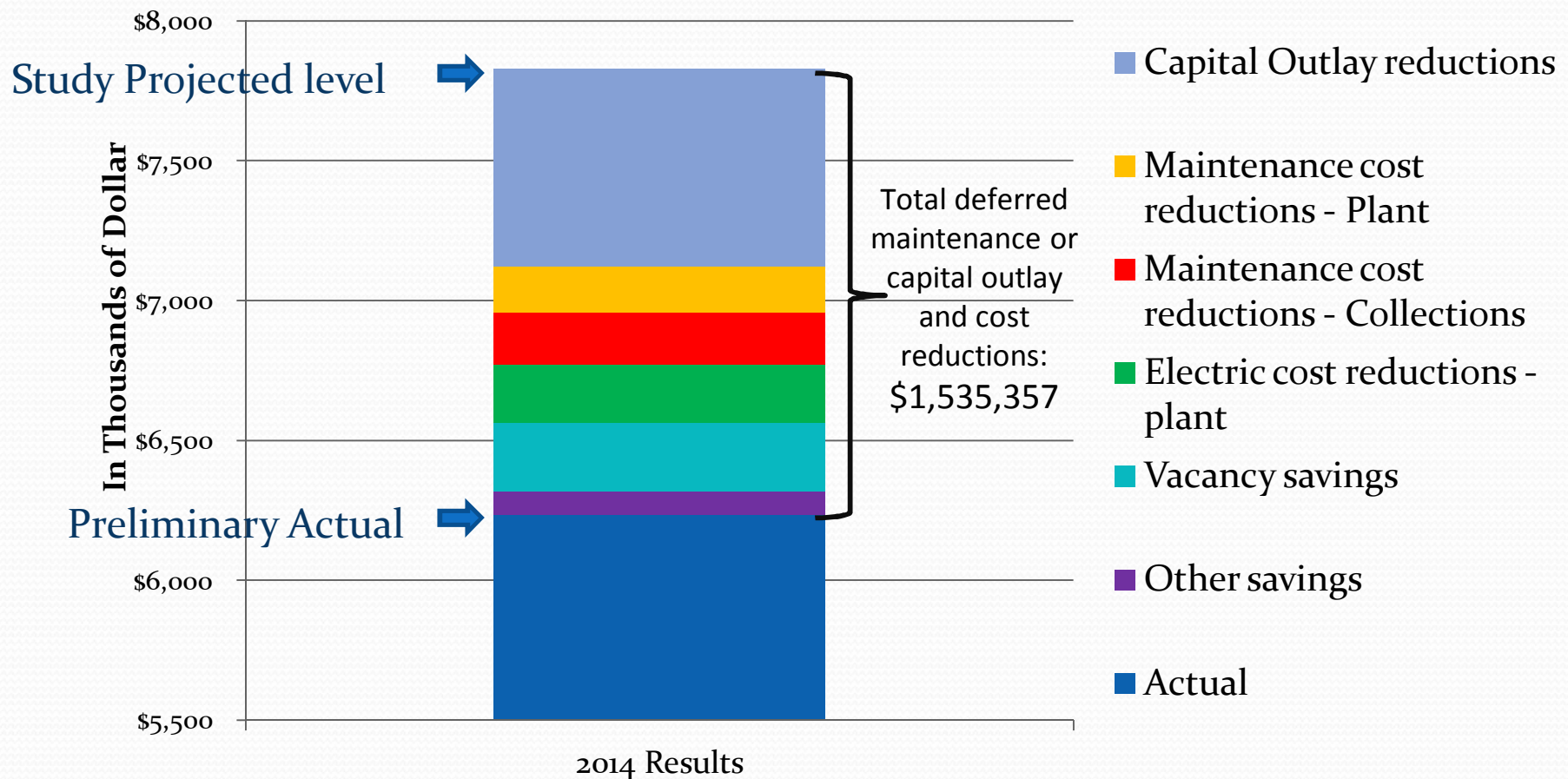
Wastewater – Operating Revenue

2013-14 Study to Actual



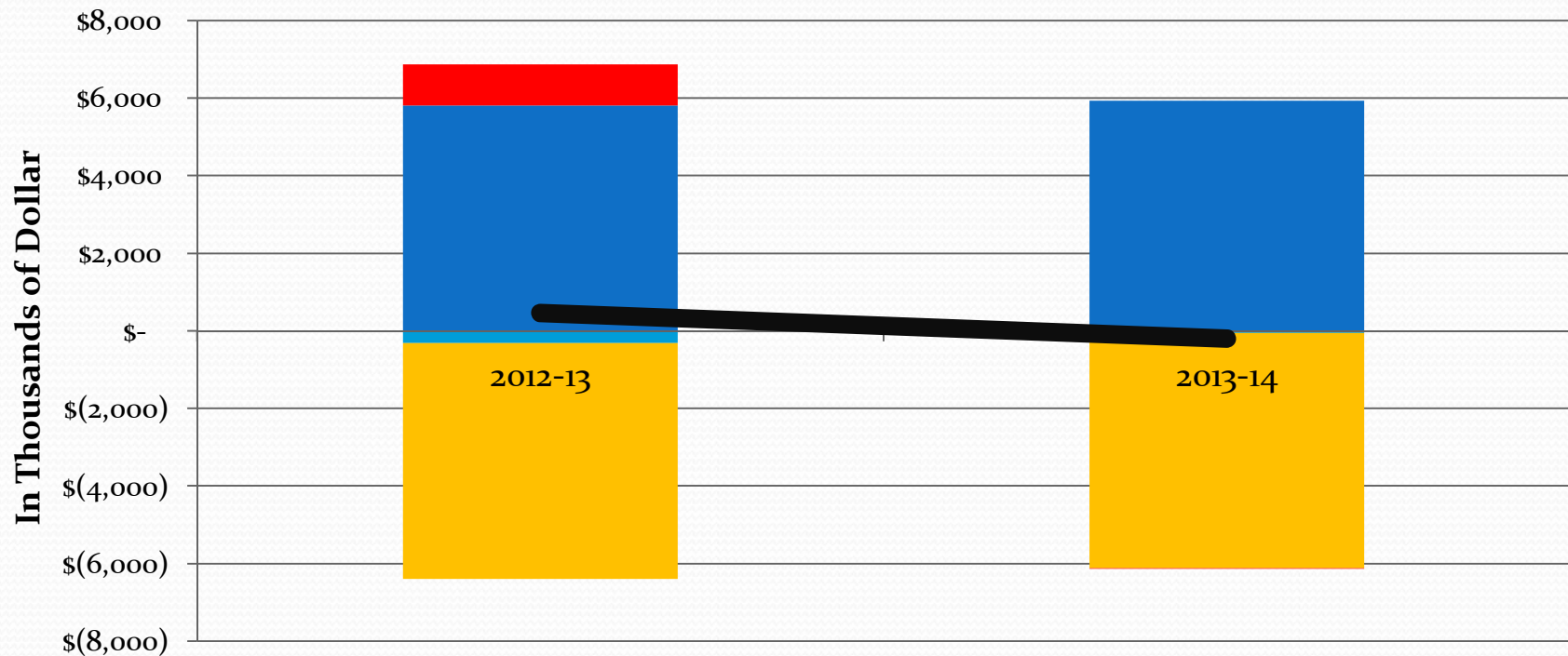
Wastewater

Operating Expenses – 2013-14



Wastewater

Cash Flow trend – 2012-2014



■ Cash from operations

■ Cash flow from capital outlay

■ Cash flow from debt service

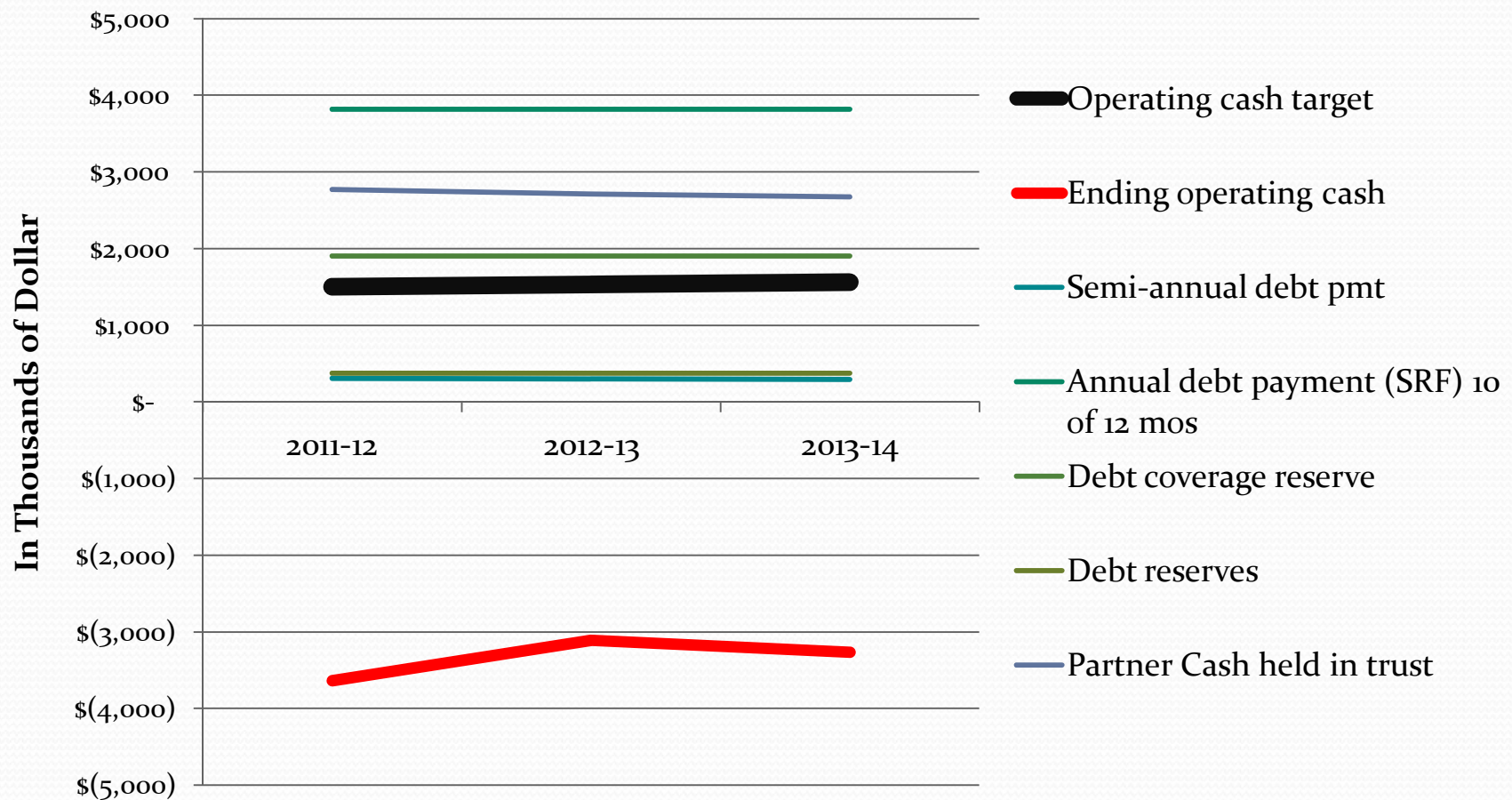
■ Other cash flows

— Net cash flow

2012-13 included \$1,500,000 settlement payment for plant construction

Wastewater

Cash on Hand – 2011-2014



Wastewater

Debt Service measures

	<u>2012-13</u>	<u>2013-14</u>
Net revenue for debt service	\$ 4,969,997	\$ 5,841,570
Debt service obligations	\$ 6,077,212	\$ 6,070,560
Debt service ratio	0.82	0.96

Minimum required - Wastewater Utility only

Required Net Revenue @t 1.00	\$ 6,077,212	\$ 6,070,560
Net revenue deficit	\$(1,107,215)	\$ (228,990)

Covenant required - Combined systems

Required Net Revenue @ 1.25	\$ 7,596,515	\$ 7,588,200
Net revenue deficit	\$(2,626,518)	\$(1,746,630)



Thank you