



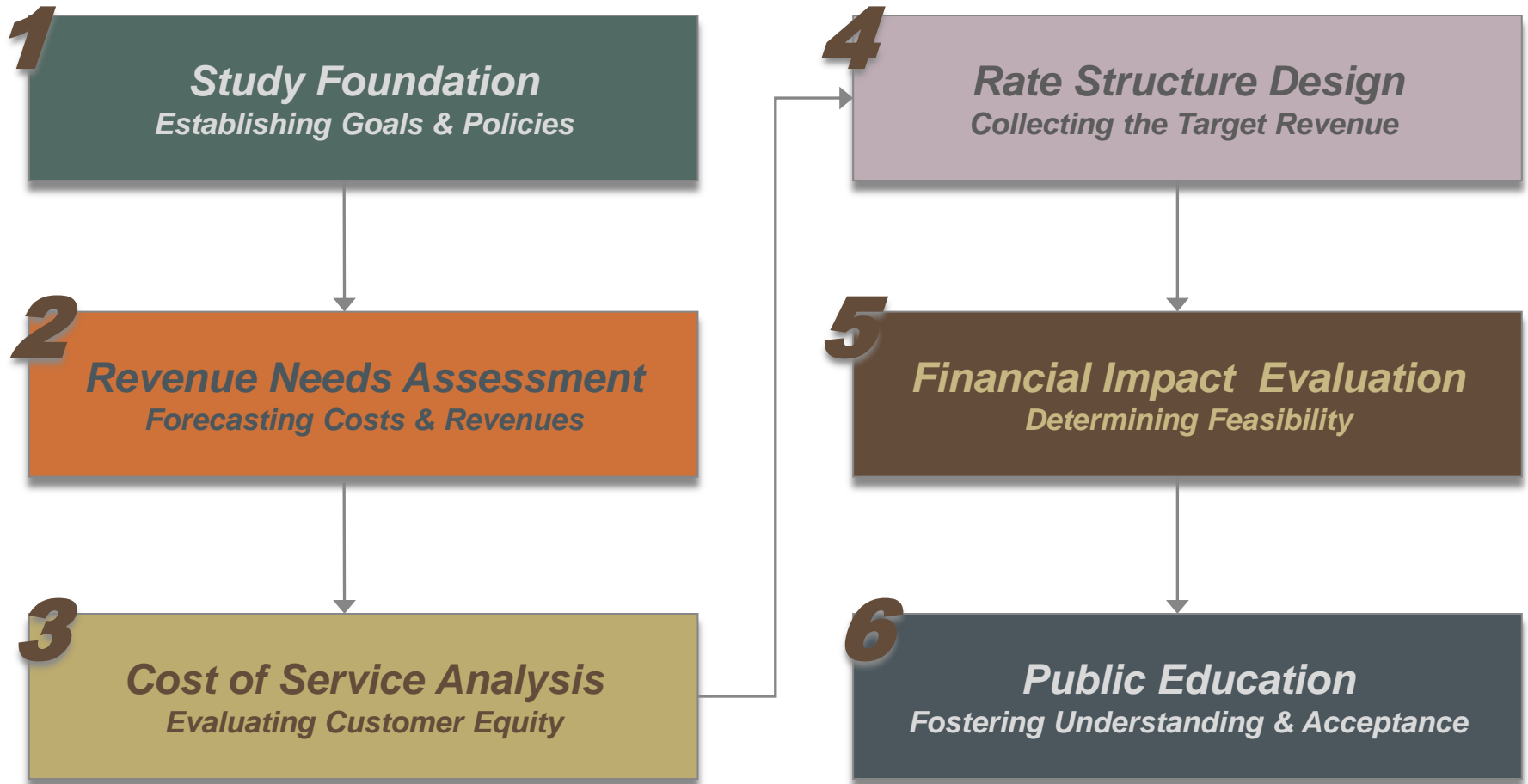
Carson City

Water and Sewer Rate Study

Utility Financial Oversight Committee

February 18, 2014

Steps to a Successful Rate Study



FINANCIAL POLICIES

Financial Policies

- Provide a means to manage risk and preserve a utility's financial integrity
- Establish the foundation for financial performance and measurement
- Facilitate an appropriate segregation of resources, ensuring that they are used for their intended purposes
- Improve ability to weather financial disruptions; allowing rates to be less conservatively set
- Identify needs-based uses for cash reserves
- Help to stabilize rates over time
- Provides credit worthiness for future debt

Financial Policies

Description / Objective

Recommendation

Operating Reserve

Provide sufficient cash flow (working capital) to meet daily operating expenses

*Operating account balance equal to:
Water – 60-90 days of O&M expense
Sewer – 30-45 days of O&M expense*

Capital Contingency Reserve

Provide a source of funding for emergency repairs, unanticipated capital expenditures and project cost overruns

Minimum balance in the capital account equal to 2% of system fixed assets (“nested” with system reinvestment, connection charges, transfers from operating and other capital resources)

System Reinvestment Funding

Maintain rate stability in support of ongoing system integrity; charge customers commensurate with use of system assets

Annually fund from rates an amount equal to annual depreciation expense; phase-in funding over study period

Debt Management

Balance debt and equity financing of capital to maintain credit worthiness; promote equity between existing & future ratepayers

Maintain debt to equity ratio of about 50/50; Debt finance no more than 75% of CIP within 5-year rolling period

Current ratios:

Water: 59% debt to 41% equity

Sewer: 24% debt to 76% equity

Combined: 45% debt to 55% equity

Debt Service Coverage

Ensure compliance with existing loan / bond covenants; maintain credit worthiness

Maintain net revenues of utilities to be at least 1.0 times total debt service, in compliance with covenants

The Source

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Water (Projected for FY 14/15)
Operating Revenues	\$ 14,042,131
Operating Expenses	
Salaries and wages	\$ 1,510,330
Employee benefits	729,239
Services and supplies	<u>4,483,247</u>
Total Operating Expenses	<u>\$ 6,722,817</u>
Depreciation	<u>\$ 3,171,979</u>

STATEMENT OF NET ASSETS

	Water
Total Assets	\$ 101,515,477
Liabilities	
Current liabilities	\$ 1,806,523
Current portion:	
G.O. bonds and note payable	<u>1,773,784</u>
Total Current Liabilities	<u>\$ 3,580,307</u>
Noncurrent liabilities	\$ 281,830
G.O. bonds and note payable	<u>56,737,047</u>
Total Noncurrent Liabilities	<u>\$ 57,118,877</u>
Total Liabilities	\$ 60,699,184
Net Assets	<u>\$40,816,293</u>

The Math

OPERATING RESERVE

Total Annual Operating Expenses	\$6,722,817
Divided by 365 days per year	18,419
Multiplied by 60 days	1,105,121
Multiplied by 90 days	1,657,681

SYSTEM REINVESTMENT FUNDING

Depreciation (includes FYE 2012 fixed assets, plus projected CWIP & CIP)	\$3,171,979
Multiplied by 40% (phase-in)	1,268,792

DEBT TO EQUITY (Historical FYE 2012)

Debt	\$58,510,831	59%
Equity	\$40,816,293	41%

CAPITAL CONTINGENCY

Fixed Assets (projected)	\$115,513,216
Multiplied by .02	2,310,264

SUPPLEMENTAL SLIDES

REVENUE REQUIREMENTS

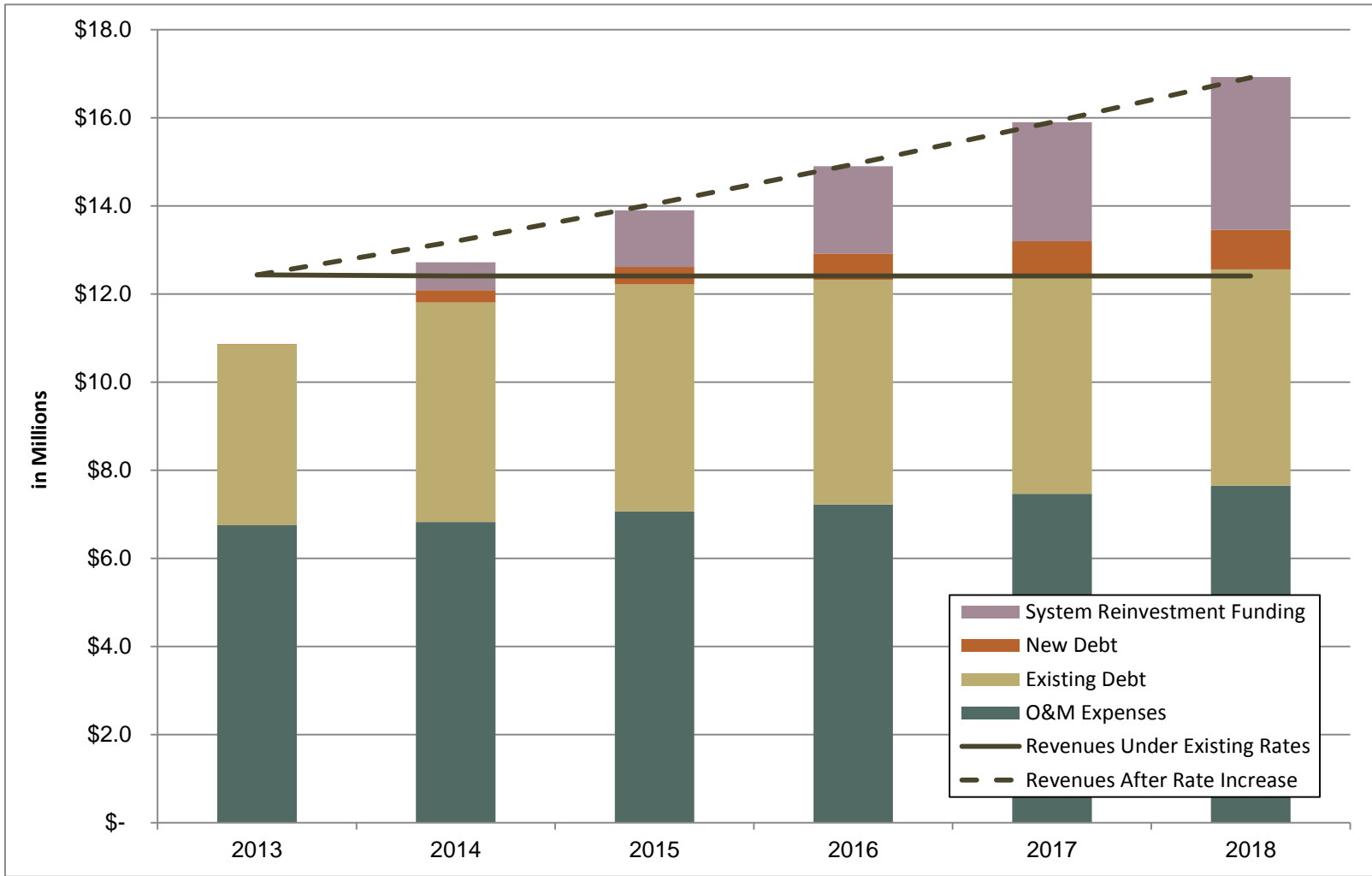
Water: Revenue Requirement Summary

	Base	Scenario A	Scenario B	Scenario C
Current O&M and Debt	Fully Funded			
CIP	None	Full		
Capital Reserve Target	None	2% of fixed assets (\$2.4 million)		
System Reinvestment	None		10-yr phase-in	5-yr phase-in

	Results			
% of CIP Debt Financed	N/A	91%	85%	65%
Ending Capital Fund Balance	\$3.8 million	\$2.8 million	\$4.3 million	\$5.9 million
Ending Debt-to-Equity	41% / 59%	48% / 52%	46% / 54%	42% / 58%
Rate Increases (per year)	0% (\$0 /mo/yr)	2.5% (\$0.98 /mo/yr)	4.0% (\$1.61 /mo/yr)	6.5% (\$2.65 /mo/yr)

Current Debt-to-Equity: 59% / 41%

Water: Revenue Requirement – Scenario C



Revenue Adjustment	FYE	2014	2015	2016	2017	2018
Annual Rate Adjustment		6.50%	6.50%	6.50%	6.50%	6.50%

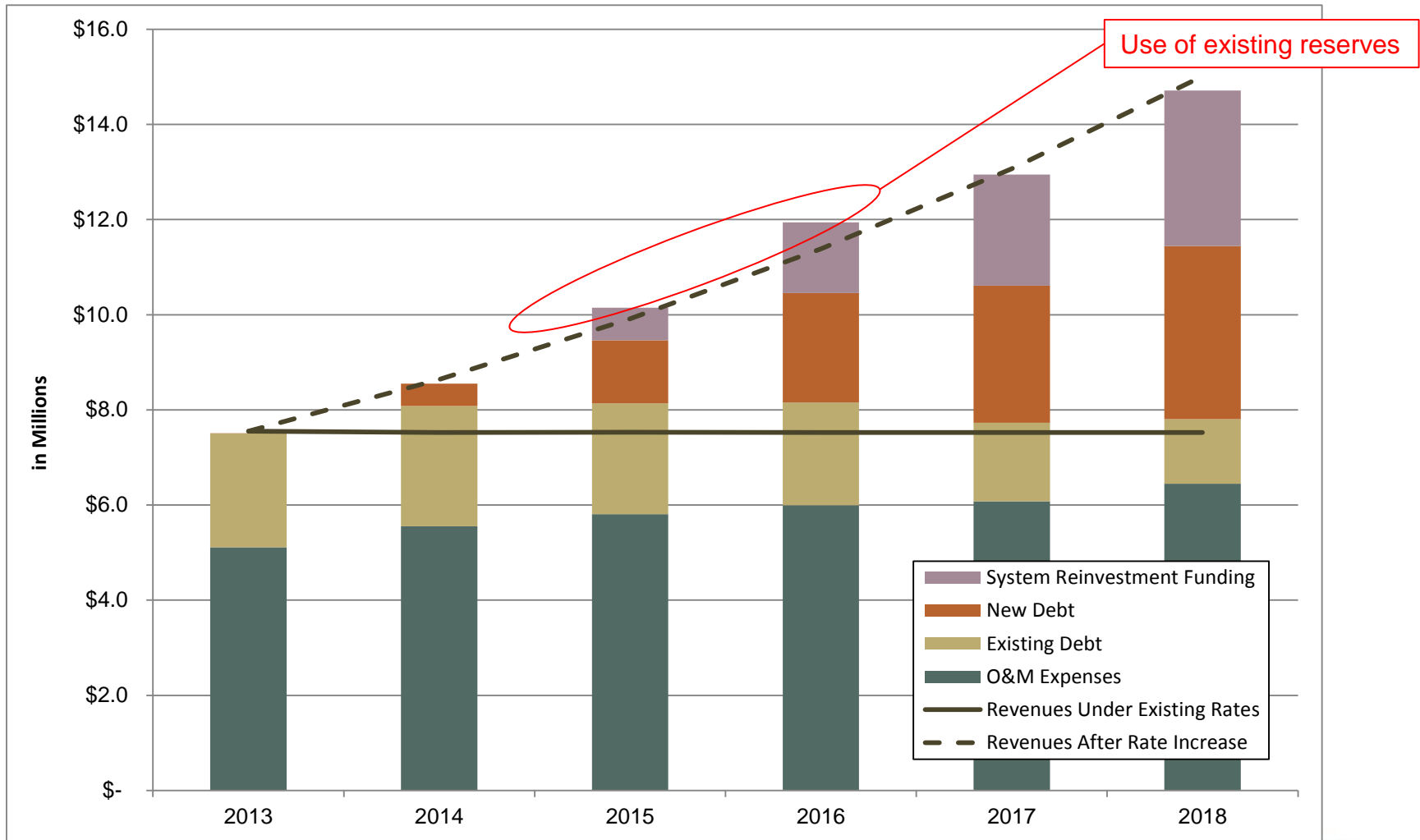
Sewer: Revenue Requirement Summary

	Base	Scenario A	Scenario B	Scenario C
Current O&M and Debt	Fully Funded			
CIP	None	Full		
Capital Reserve Target	None	2% of fixed assets (\$2.8 million)		
System Reinvestment	None		10-yr phase-in	5-yr phase-in

	Results			
% of CIP Debt Financed	N/A	99%	99%	95%
Ending Capital Fund Balance	None	\$0.6 million	\$5.5 million	\$6.8 million
Ending Debt-to-Equity	10% / 90%	44% / 56%	42% / 58%	40% / 60%
Rate Increases (per year)	0% (\$0 /mo/yr)	9.5% (\$3.02 /mo/yr)	13% (\$4.38 /mo/yr)	15% (\$5.26 /mo/yr)

Current Debt-to-Equity: 24% / 76%

Sewer: Revenue Requirement – Scenario C



Revenue Adjustment

FYE

2014

2015

2016

2017

2018

Annual Rate Adjustment

15.00%

15.00%

15.00%

15.00%

15.00%