



**2017-2018 Operating Budget and
2017-2021 Financial Plan, including
the implementation of previously approved rate increases
for 2017 for water, wastewater and recycled water.**

The El Dorado Irrigation District Board of Directors adopted the District's current operating budget during the December 12, 2016.

The Board adopted the budget and financial plan Option 2, Scenario 4 in the Agenda Item Summary (AIS).

EL DORADO IRRIGATION DISTRICT

Subject: Consideration of the 2017-2018 Operating Budget and 2017-2021 Financial Plan, including the implementation of previously approved rate increases for 2017 for water, wastewater and recycled water.

Previous Board Action:

March 20, 2000 – Board adopted a multi-year operating budget process.

December 8, 2014 – Board adopted the 2015-2016 operating budget and the 2015-2019 Financial Plan.

November 9, 2015 – Board adopted the 2016 mid-cycle operating budget and the 2016-2020 Financial Plan.

January 11, 2016 – Board approved 2016-2020 rate increases for water and recycled water of 5%, 5%, 4%, 3%, and 3%, and 0%, 5%, 4%, 3%, and 3% for wastewater, subject to future evaluation and downward adjustment.

October 24, 2016 – Board held a workshop on the 2017-2018 operating budget and the 2017-2021 Financial Plan.

November 14, 2016 – Board considered the adoption of the 2017-2018 Operating Budget and 2017-2021 Financial Plan, including the implementation of previously approved rate increases for 2017 for water, wastewater and recycled water and continued the item until the December 12, 2016 Board meeting.

Board Policies (BP), Administrative Regulations (AR), and Board Authority:

BP 3010: It is the responsibility of the General Manager to inform the Board about financial operations of the District so the Board can make informed decisions and fully discharge its legal responsibilities in a fiscally sound manner. The Board shall adopt a two-year operating budget and may modify it prior to the end of the year.

The Board shall also adopt every year a five-year Financial Plan.

AR 3011: It is the responsibility of the General Manager to develop the budget based on the priorities and needs of the District and its customers. The budget and any budget modification shall:

1. include, but not be limited to, operating expenses, debt, construction, and reserve funds;
2. meet all legal requirements;
3. support the District's mission;
4. maintain prudent levels of reserves in water, wastewater, hydroelectric, and recreation to fund contingencies that meet the District's debt service requirements;
5. allow the District to meet its financial obligations, including bond covenants;
6. be consistent with a financial plan that guides the District in satisfying its multi-year commitments; and
7. encourage public participation through required disclosures and public hearings.

Responsibility for overseeing the budget development process is assigned to the Director of Finance. Once the annual budget is prepared, the Board shall act on it.

AR 3012: The purpose of the 5-Year Financial Plan is to establish the cost of funding the operations and maintenance, capital expenditures, and debt expenses required to meet the District's mission of providing high quality water, wastewater treatment, recycled water, hydro-power, and recreational services in an environmentally and fiscally responsible manner, meeting the District's debt covenant requirements to its bondholders and matching future revenues to those costs. (Appendix 6)

Summary of Issues-Budget:

January 1, 2017 marks the beginning of the District's two-year operating budget cycle. In accordance with Board Policy 3010, the Board adopts a two-year budget and conducts a mid-cycle review to determine any changes that may be needed in the second year of the cycle.

At the November 14, 2016 Board meeting, staff presented its 2017-2018 Operating Budget and 2017-2021 Financial Plan, including the implementation of previously approved rate increases for 2017 for water, wastewater and recycled water (Attachment A), two other budget proposals by one Director and one other Director's alternative budget proposal. After discussion of the proposals, the Directors agreed to continue the budget discussion to the December 12, 2016 Board meeting. Director Coco asked staff to create a new alternative proposal to blend two of the Director proposals (Scenario 5) and bring that proposal back for discussion.

As a brief recap of the previous presentation, the differences among the scenarios are:

Scenario 1 – Staff's proposal, including previously adopted rate increases for 2017 of 5% for all utilities, 4% rate increases for 2018 for all utilities, and 3% in 2019 and 2020 for each utility.

Scenario 2 – Director Prada's proposal, eliminating the adopted 5% 2017 and 4% 2018 rate increases for wastewater service, but otherwise reflecting the same revenue assumptions as Scenario 1.

Scenario 3 – Director Prada's alternative proposal, reducing projected hydroelectric revenues from \$8 million to \$7 million per year, increasing projected Facility Connection Charge (FCC) revenue from \$5 million to \$7.5 million per year, eliminating the adopted 2017 and 2018 rate increases for wastewater, and reducing the adopted rate increases for water and recycled water from 5% in 2017 and 4% in 2018 to 3% in each year.

Scenario 4 – Director Coco's proposal, reducing the adopted rate increases for all three utilities from 5% in 2017 and 4% in 2018 to 3% in each year, but otherwise reflecting the same revenue assumptions as Scenario 1. This proposal was not received in time to be included in the November 14 agenda item summary, but staff presented it in the November 14, 2016 PowerPoint presentation.

Scenario 5 – Staff's blended proposal, requested by Director Coco, reflects the same assumptions as Scenario 4 above, but includes low-income rate assistance funds for wastewater customers of \$200,000 in 2017 and \$250,000 for each of years 2018-2021.

Five-year forecasts for each scenario are attached to this agenda item as Appendices 1-5. They show projected results by total district, water utility and wastewater utility by providing the beginning cash reserves, financing proceeds, revenues, operating expenses, debt payments, cash provided from operations after servicing the debt, CIP expenditures, debt prefunding, end-of-year cash balances, and senior debt coverages with and without FCC revenues.

In preparing for the 2017 operating budget, the Acting General Manager directed staff to develop their program budgets using a 2% or less increase over the current adopted 2016 operating budget. The 2% growth rate was also used in the Board-approved financial projections for the recently completed 2016A and 2016C bond refinancing transactions and the 2016B new money bond transaction. At \$46.456 million, the 2017 operating budget proposal reflects a 2.2% increase over the 2016 adopted budget of \$45.443 million for operating expenses, before the letter of credit (LOC) fee. The LOC backed the District's 2008A variable-rate debt obligations, and was cancelled effective October 26, 2016, when the variable-rate debt was replaced with fixed-rate bonds in the 2016C bond transaction.

With the successful 2016C bond transaction, the overall operating budget proposal for 2017 (\$46.456 million) is \$95,000 lower than the 2016 adopted operating budget, including LOC (\$46.551 million). In other words, the entire 2.2% proposed increase in 2017 operating expenses has been offset by the elimination of the annual LOC fee formerly supporting the 2008A variable debt.

For 2018, the operating budget is projected to increase 2% over the 2017 budget, consistent with how the forecasted budgets for 2018-2020 were presented to the bond community in Board-approved documents prepared for the recent financing transactions.

The District in 2016 continued to benefit from the weak financial market and also from the 2016 bond rating increases from S&P (A+ to AA-) and Moody's (A1 to Aa3). With the 2016A and 2016C refinancing transactions and the 2016B \$38.6 million new money bond issue (which produced \$49.3 million in proceeds for constructing and rehabilitating long-lived assets), the face value of the District's outstanding debt, by year end, will have increased by only \$7.2 million.

The staff-proposed 2017 operating expense budget is approximately \$100,000 higher than what was presented to the rating agencies in late August 2016 and to the bond-buying community in the District's Board-approved official bond statement dated September 20, 2016.

Summary of Issues-Financial Plan:

The Board annually adopts an ongoing five-year capital improvement plan (CIP) for the District. Additionally the District prepares a two-year budget which, in the off years, is adjusted and reapproved to meet changes in the District's financial situation for the upcoming year. In recent years, the District has linked these two financial documents by annually approving an ongoing five-year financial plan. The five-year financial plan is used to balance the ongoing operational financing needs with the capital needed to fund the ongoing CIP while providing safe and reliable services to our customers.

A long-term financial plan helps the District avoid making volatile rate adjustments, better manage the use of debt financing, structure debt payments, plan for the funding of capital projects and ensure that bondholder obligations will be met.

As set forth in Administrative Regulation 3012 (Appendix 6 the goals and objectives of the District's financial plan are to:

- Establish necessary operating and maintenance costs, debt expenses and funding available for pay-as-you-go projects.
- Generate sufficient revenues to fund those costs, meet bondholder obligations and maintain adequate cash reserves.
- Avoid customer "rate shock" through the use of small, annual rate adjustments.
- Maintain strong credit ratings to obtain lower interest rates when debt is issued (currently S&P, AA-; Moody's, Aa3).

- Maintain cash reserves between \$60 million and \$80 million.
- Maintain CIP funding levels to replace high-priority capital assets prior to end of life in order to avoid critical asset failures and provide safe and reliable services to our customers.
- Fund large monetary, long-lived assets via debt while using excess operational cash for smaller, pay-as-you-go projects.
- Maintain a 1.7x to 2.0x debt service coverage ratio with facility capacity charge (FCC) revenue included.
- Maintain at least a 1.25x debt coverage ratio when FCC revenue is excluded, with a minimum acceptable ratio of 1.0x.

Staff Analysis/Evaluation:

In anticipation of each two-year budget cycle and mid-cycle review, staff prepares projected operating revenues and expenditures for Board consideration. The Finance Department estimates items based on relevant economic factors such as interest rates, investments, and market trends. At the beginning of the budget review, Finance staff provides department heads and division managers with actual operating costs for the past two years as well as through the most recent month of the current year, along with projections to the current year's end. Based on past and current expenditures, operational commitments for the coming year, workload indicators, and budget goals, department heads and division managers developed the proposed budgets presented at the November 14, 2016 Board presentation.

During the November 14, 2016 budget and financial plan discussion of four budget scenarios, Director Coco requested a fifth alternative revenue scenario be presented when the budget is brought back for consideration to adopt. Scenario 5 reflects the same budget forecasts as does Scenario 4 except it includes a \$200,000 wastewater low-income rate assistance revenue adjustment proposed for 2017 and \$250,000 in 2018. Low income rate assistance can only legally be provided from non-rate revenue.

Analysis of Revenue Projections for Fiscal Years 2017-2018:

Table 1 reflects five different revenue projections for 2017. Appendices 1-5 attached will show each scenario's projected outcome for fiscal years 2017-2021 district-wide and individually for the water and wastewater utilities. The revenue differences in the scenarios are listed below, followed by an explanation of the items not changing between scenarios:

Scenario 1 -

- Adopted rate increase of 5% in each utility for 2017, 4% in 2018 and 3% in 2019-2020. A projected, but not approved or adopted, 3% rate increase is shown for 2021.
- FCC revenue projected at \$5 million in each year, 2017-2021.
- Projected hydroelectric income of \$8 million in each year, 2017-2021.

Scenario 2-

- Adopted rate increases of 5% in water and recycled water utilities for 2017, 4% in 2018 and 3% in 2019-2021 (2021 increase is not approved or adopted).
- 0% rate increase for the wastewater utility in 2017 and 2018 with 3% rate increases in 2019-2021 (2021 increase is not approved or adopted).
- FCC revenue projected at \$5 million in each year.
- Projected hydroelectric income of \$8 million in each year.

Scenario 3-

- a. Rate increase of 3% in water and recycled water utilities for 2017-2021 (2021 increase is not approved or adopted).
- b. 0% rate increase for the wastewater utility in 2017 and 2018 with 3% rate increases in 2019-2021 (2021 increase is not approved or adopted).
- c. FCC revenue projected at \$7.5 million in each year.
- d. Projected hydroelectric income at \$7.0 million in each year.

Scenario 4 -

- a. Adopted rate increase of 3% in each utility for 2017-2020. A projected, but not approved or adopted, 3% rate increase is shown for 2021.
- b. FCC revenue projected at \$5 million in each year, 2017-2021.
- c. Projected hydroelectric income of \$8 million in each year, 2017-2021.

Scenario 5 –

- a. Adopted rate increase of 3% in each utility for 2017-2020. A projected, but not approved or adopted, 3% rate increase is shown for 2021.
- b. FCC revenue projected at \$5 million in each year, 2017-2021.
- c. Projected hydroelectric income of \$8 million in each year, 2017-2021.
- d. Provides for low-income rate assistance in the wastewater utility of \$200,000 in 2017 and \$250,000 in 2018 and thereafter.

Table 1 compares the revenue projections for the five scenarios for 2017, and Table 2 for 2018. As noted above, 2017 revenues within the original budget proposal are projected to be about \$1.6 million higher than the 2016 revised forecast. Rate revenues are projected to increase about \$2.8 million from implementing the previously adopted 5% rate increases for 2017 (4% in 2018) for the utilities and a continuation of a normal water year. Non-rate revenues are projected to increase \$2.4 million as a result of a more normal water year in the hydroelectric system (\$2.0 million) and an increase in anticipated property tax revenue (\$0.4 million). All but \$1.5 million of these projected increases in revenues are offset by the projection of 2017 FCC revenues at \$5.0 million versus the \$8.7 million included in the 2016 revised projections.

The originally proposed revenue projections in Scenario 3 for 2017 and 2018 are the same as those presented to the rating agencies in late August 2016 and to the bond-buying community in the District's official bond statement dated September 20, 2016, with three notable adjustments. Surcharge revenue has increased approximately \$400,000. Property tax revenue has increased by about \$180,000 and recycled water rate revenue is adjusted upward by about \$170,000.

Hydroelectric power revenues for 2017 and 2018 are projected to be in the \$6-\$10 million range and are included at \$8 million. No revenue projection is included for water transfers because no contracts are in place for 2017 and beyond, and transfers are dependent on regulatory actions and approvals, timely through-Delta capacity, and hydrology.

Previously described Scenario 2 varies from Scenario 1 due to reduced wastewater revenue related to no increases in rates for 2017 or 2018. Scenario 3 wastewater rates for 2017 and 2018 are also proposed at 0%, while water and recycled water rates are lowered to 3% in 2017 and 2018. Other changes for Scenario 3 include a reduction in projected hydroelectric revenues to \$7.0 million and FCC collections increased to \$7.5 million in all years presented. Scenarios 4 and 5 have rate increases of 3% for each utility for 2017 and 2018 with all other revenue assumptions the same as Scenario 1. Scenario 5 differs from Scenario 4 related to a proposal for low-income rate assistance for the wastewater utility in 2017 of \$200,000 and 2018 of \$250,000. The impacts of Scenarios 2 - 5 are included in the attached Appendices 2 through 5 to this agenda item summary. Results are summarized in Tables 6 and 7 for budget years 2017 and 2018.

The revenue scenario projections discussed above for 2017 are shown in Table 1 below:

Table 1: Various Revenue Projections for 2017 (in millions)

(Complete 2017-2021 forecasts are attached as Appendices 1-5 and are broken down by total district, water utility and wastewater utility)

| | 2017 Scenario 1 (1)(2)(3) | 2017 Scenario 2 (2)(3)(4) | 2017 Scenario 3 (5)(6)(7) | 2017 Scenario 4 (8)(2)(3) | 2017 Scenario 5 (8)(2)(3)(9) |
|-------------------------------|---|---|---|---|--|
| Water Sales and Services | \$ 29.767 | \$ 29.767 | \$ 29.200 | \$ 29.201 | \$ 29.201 |
| Wastewater Sales and Services | 21.016 | 20.015 | 20.015 | 20.615 | 20.415 |
| Recycled Water Sales | 1.900 | 1.900 | 1.900 | 1.900 | 1.900 |
| Hydropower Sales | 8.000 | 8.000 | 7.000 | 8.000 | 8.000 |
| Investment Income | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 |
| FCCs | 5.000 | 5.000 | 7.500 | 5.000 | 5.000 |
| Debt Surcharges | 2.400 | 2.400 | 2.400 | 2.400 | 2.400 |
| Property Tax | 11.299 | 11.299 | 11.299 | 11.299 | 11.299 |
| Other Income | 2.016 | 2.016 | 2.016 | 2.016 | 2.016 |
| Recreation | 1.384 | 1.384 | 1.384 | 1.384 | 1.384 |
| Total Revenues | \$ 83.532 | \$ 82.531 | \$ 83.464 | \$ 82.565 | \$ 82.365 |

(1) 5% rate increase previously authorized for water, wastewater and recycled water

(2) FCC revenue \$5 million

(3) Hydroelectric revenue \$8 million proposed for budget

(4) 5% rate increases for water and recycled water and 0% rate increase for wastewater

(5) 3% rate increases for water and recycled water and 0% rate increase for wastewater

(6) Hydroelectric revenue \$7 million

(7) FCC revenue \$7.5 million

(8) 3% rate increase for water, wastewater and recycled water versus previously adopted 5% increases

(9) Includes a reduction related to a \$200,000 wastewater low-income ratepayer assistance program

The revenue scenario projections discussed above for 2018 are shown in Table 2 below:

Table 2: Various Revenue Projections for 2018 (in millions)

(Complete 2017-2021 forecasts are attached as Appendices 1-5 and are broken down by total district, water utility and wastewater utility)

| | 2018 Scenario 1 (1)(2)(3) | 2018 Scenario 2 (2)(3)(4) | 2018 Scenario 3 (5)(6)(7) | 2018 Scenario 4 (8)(2)(3) | 2018 Scenario 5 (8)(2)(3)(9) |
|-------------------------------|--|--|--|--|---|
| Water Sales and Services | \$ 30.958 | \$ 30.958 | \$ 30.076 | \$ 30.076 | \$ 30.076 |
| Wastewater Sales and Services | 22.031 | 20.175 | 20.175 | 21.404 | 21.154 |
| Recycled Water Sales | 1.992 | 1.992 | 1.973 | 1.973 | 1.973 |
| Hydropower Sales | 8.000 | 8.000 | 7.000 | 8.000 | 8.000 |
| Investment Income | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 |
| FCCs | 5.000 | 5.000 | 7.500 | 5.000 | 5.000 |
| Debt Surcharges | 2.408 | 2.408 | 2.408 | 2.408 | 2.408 |
| Property Tax | 11.525 | 11.525 | 11.525 | 11.525 | 11.525 |
| Other Income | 2.026 | 2.026 | 2.026 | 2.026 | 2.026 |
| Recreation | 1.411 | 1.411 | 1.411 | 1.411 | 1.411 |
| Total Revenues | \$ 86.101 | \$ 84.245 | \$ 84.844 | \$ 84.573 | \$ 84.323 |

(1) 4% rate increase previously authorized for water, wastewater and recycled water

(2) FCC revenue \$5 million

(3) Hydroelectric revenue \$8 million proposed for budget

(4) 4% rate increases for water and recycled water and 0% rate increase for wastewater

(5) 3% rate increases for water and recycled water and 0% rate increase for wastewater

(6) Hydroelectric revenue \$7 million

(7) FCC revenue \$7.5 million

(8) 3% rate increase for water, wastewater and recycled water versus previously adopted 4% increases

(9) Includes a reduction related to a \$250,000 wastewater low-income ratepayer assistance program

Analysis of 2016, 2017 and 2018 Budgeted Expense Projections:

Table 3 compares the adopted 2016 Board-adjusted budget and 2016 year-end expense projections to the 2017-2018 proposed budgets by department. As illustrated in the table, the proposed 2017 operating budget is forecasted to increase 2.2% over the 2016 adopted budget (before LOC expense). As stated earlier, the LOC expense is eliminated with the 2016C bond refinancing transaction. With the LOC operating expense taken into account, the overall proposed 2017 budget is \$95,000 lower than the adopted 2016 budget.

Table 3: Operating Budget Expenses for 2016, 2017 and 2018 by Department (in millions)

| Departments | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|------------------------------------|------------------------------------|---|-------------------------------------|-------------------------------------|
| Office of the General Manager | \$ 3.124 | \$ 2.754 | \$ 3.211 | \$ 3.275 |
| Communications | 0.433 | 0.317 | 0.348 | 0.355 |
| Finance | 6.659 | 6.439 | 6.581 | 6.713 |
| Human Resources | 2.260 | 2.344 | 2.436 | 2.485 |
| Information Technology | 2.151 | 2.104 | 2.028 | 2.069 |
| Engineering | | | | |
| -Engineering Administration | 0.372 | 0.389 | 0.499 | 0.509 |
| -Development Services | 0.270 | 0.425 | 0.656 | 0.669 |
| -Water / Hydro Engineering | 0.016 | 0.000 | 0.041 | 0.042 |
| -Wastewater / Recycled Engineering | 0.249 | 0.040 | 0.032 | 0.033 |
| -Drafting/GIS Services | 0.390 | 0.440 | 0.389 | 0.397 |
| -Construction Inspection | 0.153 | 0.175 | 0.036 | 0.037 |
| -Environmental Compliance | 1.299 | 1.284 | 1.342 | 1.369 |
| Operations | | | | |
| -Administration | 0.523 | 0.411 | 0.642 | 0.655 |
| -Water Operations | 11.227 | 10.743 | 11.363 | 11.589 |
| -Wastewater Operations | 10.808 | 10.950 | 10.892 | 11.109 |
| -Recycled Water Operations | 0.473 | 0.465 | 0.491 | 0.501 |
| -Hydroelectric Operations | 3.652 | 4.094 | 4.015 | 4.095 |
| -Recreation Operations | 1.384 | 1.395 | 1.454 | 1.483 |
| Subtotal | 45.443 | 44.769 | 46.456 | 47.385 |
| Letter of Credit Fee | 1.108 | 1.108 | 0.000 | 0.000 |
| Total Expenses | \$ 46.551 | \$ 45.877 | \$ 46.456 | \$ 47.385 |

Table 4 identifies budget expense by type.

The proposed 2017 personnel budget estimates a net increase of about \$525,000 or 2.0% over the adopted 2016 budget. Total wages are projected to decrease by about \$220,000. That projection does not account for any additional wage expenses associated with the approval of a new labor contract to replace the contract expiring at year-end 2016. The District's PERS contribution (see Table 4) will increase by about \$690,000 or 15.3%. For 2018 the PERS contribution is projected to increase by another \$537,000 or 10.3%. Making up the capitalized labor offset for 2017 are charges from Engineering (\$2.230 million), Operations (\$0.515 million), IT (\$0.188 million), and welding fabrication (\$0.021 million).

As Table 4 shows, Materials and Service expenses are proposed to increase by about \$488,000, or 2.6%. The driver for the slight increase in expenses over 2.0% is related to the increase in Repair Services and specifically in the Hydroelectric Division to fund 2017 repairs to Weber Dam and an area near Flume 5. Two separate small landslide events occurred in 2016 at Weber Dam and near Flume 5. Staff is working on design measures to repair the slides and have included these planned repair expenses in the 2017 operating budget.

Table 4: 2016 Adopted Operating Budget Expenses with 2017 and 2018 Proposed Budgets by Expense Type (in millions)

| | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|--|------------------------------------|---|-------------------------------------|-------------------------------------|
| Wages | \$ 17.936 | \$ 17.598 | \$ 17.717 | \$ 18.071 |
| Benefits (Table 4) | 11.555 | 11.617 | 12.420 | 13.101 |
| Salaries and Benefits | 29.491 | 29.215 | 30.137 | 31.172 |
| CIP and Development Reimbursement Labor Offsets | (2.833) | (2.321) | (2.954) | (3.013) |
| Net personnel expense | 26.658 | 26.894 | 27.183 | 28.159 |
| Materials and Services | | | | |
| -Operating Supplies | 3.524 | 3.496 | 3.921 | 3.999 |
| -Chemicals | 0.896 | 0.789 | 0.904 | 0.922 |
| -Administration | 3.427 | 3.221 | 3.453 | 3.522 |
| -Utilities | 4.601 | 4.294 | 4.386 | 4.474 |
| -Professional Services | 3.546 | 3.457 | 3.381 | 3.449 |
| -Repair Services | 1.047 | 1.047 | 1.674 | 1.284 |
| -Insurance | 0.922 | 1.171 | 0.777 | 0.793 |
| -Operating Capital Outlay | 0.322 | 0.400 | 0.277 | 0.283 |
| -Contingency | 0.500 | 0.000 | 0.500 | 0.500 |
| Total Materials and Services | 18.785 | 17.875 | 19.273 | 19.226 |
| Subtotal All | 45.443 | 44.769 | 46.456 | 47.385 |
| Letter of Credit Fee | 1.108 | 1.108 | 0.000 | 0.000 |
| Total Expenses | \$ 46.551 | \$ 45.877 | \$ 46.456 | \$ 47.385 |

Table 5 details the breakdown of employee benefits by type. Overall, the 2017 proposed budget for benefits is 7.5% higher than the 2016 budget, or about \$865,000. This increase is mostly attributable to the PERS pension contribution by the District increasing by 15.3% or about \$690,000 and retiree health insurance paid by the District, which is projected to be about \$106,000 higher than the 2016 budget. For 2018 the PERS pension contribution is already projected to increase by \$537,000, another 10.3%. As the Board has discussed on numerous occasions, there are also long-term unfunded actuarial liabilities (UALs) associated with both the PERS pension program and retiree health insurance benefits. The proposed 2017-2018 budget does not currently include any extraordinary payments to reduce either of these UALs.

Table 5: 2016 Adopted Employee Benefits by Type with Proposed 2017-2018 Benefits Budgets (in millions)

| Type | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|-----------------------|---------------------|--------------------------|----------------------|----------------------|
| Medical | \$ 3.550 | \$ 3.451 | \$ 3.600 | \$ 3.672 |
| Retiree Health | 1.331 | 1.467 | 1.437 | 1.466 |
| Dental | 0.356 | 0.330 | 0.350 | 0.357 |
| Vision | 0.042 | 0.035 | 0.045 | 0.046 |
| EAP | 0.006 | 0.006 | 0.006 | 0.006 |
| Life | 0.043 | 0.029 | 0.043 | 0.044 |
| Workers' Compensation | 0.293 | 0.293 | 0.295 | 0.301 |
| FICA | 1.325 | 1.274 | 1.302 | 1.328 |
| PERS | 4.515 | 4.579 | 5.205 | 5.742 |
| Medical Reimbursement | 0.040 | 0.056 | 0.060 | 0.061 |
| Vehicle Allowance | 0.030 | 0.030 | 0.036 | 0.037 |
| Other Employee Costs | 0.024 | 0.067 | 0.041 | 0.041 |
| Total Benefits | \$ 11.555 | \$ 11.617 | \$ 12.420 | \$ 13.101 |

Debt Service Coverage:

The Installment Purchase Agreements associated with the District's debt issuances require the District, to the fullest extent permitted by law, to fix, prescribe, and collect rates and charges so that the ratio of revenues to operating expenditures, including debt payments, is at least 1.25. The District may make adjustments from time to time in its rates and charges, but cannot reduce those rates and charges unless the District's net revenues from reduced rates and charges will at all times be sufficient to meet the debt service coverage ratio of 1.25.

The District's recent 2016C bond transaction has eliminated the uncertainty related to the forecasted debt payments required for the variable-rate debt by replacing it with fixed-rate debt. Table 6 shows the projected debt service coverage for 2017 for each of the five revenue scenarios and Table 7 shows them for 2018. The District is projected to meet the bond requirements in 2017 and 2018 in all five scenarios.

Table 6: Coverage Projections for 2017 using revenue scenarios 1-5 (in millions)

| | Scenario 1 2017 Projections (1)(2)(3) | Scenario 2 2017 Projections (2)(3)(4) | Scenario 3 2017 Projections (5)(6)(7) | Scenario 4 2017 Projections (8)(2)(3) | Scenario 5 2017 Projections (8)(2)(3)(9) |
|---|---|---|---|---|--|
| Estimated Revenues | \$ 83.532 | \$ 82.531 | \$ 83.464 | \$ 82.565 | \$ 82.365 |
| Estimated Operating Expenses | (46.456) | (46.456) | (46.456) | (46.456) | (46.456) |
| Net Revenues | \$ 37.076 | \$ 36.075 | \$ 37.008 | \$ 36.109 | \$ 35.909 |
| State Loans (pre-existing) | 1.079 | 1.079 | 1.079 | 1.079 | 1.079 |
| Available Net Revenues | 35.997 | 34.996 | 35.929 | 35.030 | 34.830 |
| Debt Service ⁽¹⁰⁾ | 25.125 | 25.125 | 25.125 | 25.125 | 25.125 |
| Debt Service Ratio | 1.43 | 1.39 | 1.43 | 1.39 | 1.39 |
| Internal (1.0) Debt Service Ratio ⁽¹¹⁾ | 1.23 | 1.19 | 1.13 | 1.20 | 1.19 |

⁽¹⁾ 5% rate increase previously authorized for water, wastewater and recycled water

⁽²⁾ FCC revenue \$5 million

⁽³⁾ Hydroelectric revenue \$8 million proposed for budget

⁽⁴⁾ 5% rate increases for water and recycled water and 0% rate increase for wastewater

⁽⁵⁾ 3% rate increases for water and recycled water and 0% rate increase for wastewater

⁽⁶⁾ Hydroelectric revenue \$7 million

⁽⁷⁾ FCC revenue \$7.5 million

⁽⁸⁾ 3% rate increase for water, wastewater and recycled water versus previously adopted 5% increases

⁽⁹⁾ Includes a reduction related to a \$200,000 wastewater low income ratepayer assistance program

⁽¹⁰⁾ Proposed budgets for 2016 and 2017 assume prepayment of the following year's maturing debt of \$3 million in each year. The District's prepayment in 2016 will reduce the debt service in 2017 by \$3 million.

⁽¹¹⁾ Internal 1.0 test is based upon available net revenues, excluding FCCs, being equal to or greater than, the debt service in a given year. Being equal to would be $(\text{available net revenues} - \text{FCCs}) / (\text{debt service}) = 1.00$.

Table 7 reflects projected debt service coverage for 2018 for the various rate scenarios listed before.

Table 7: Coverage Projections for 2018 using revenue scenarios 1-5 (in millions)

| | Scenario 1 2018 Projections (1)(2)(3) | Scenario 2 2018 Projections (2)(3)(4) | Scenario 3 2018 Projections (5)(6)(7) | Scenario 4 2018 Projections (8)(2)(3) | Scenario 5 2018 Projections (8)(2)(3)(9) |
|---|---|---|---|---|--|
| Estimated Revenues | \$ 86.101 | \$ 84.245 | \$ 84.844 | \$ 84.573 | \$ 84.323 |
| Estimated Operating Expenses | (47.385) | (47.385) | (47.385) | (47.385) | (47.385) |
| Net Revenues | \$ 38.719 | \$ 36.860 | \$ 37.459 | \$ 37.188 | \$ 36.938 |
| State Loans (preexisting) | 1.079 | 1.079 | 1.079 | 1.079 | 1.079 |
| Available Net Revenues | 37.640 | 35.781 | 36.380 | 36.109 | 35.859 |
| Debt Service ⁽¹⁰⁾ | 25.501 | 25.501 | 25.501 | 25.501 | 25.501 |
| Debt Service Ratio | 1.48 | 1.40 | 1.43 | 1.42 | 1.41 |
| Internal (1.0) Debt Service Ratio ⁽¹¹⁾ | 1.28 | 1.21 | 1.13 | 1.22 | 1.21 |

⁽¹⁾ 4% rate increase previously authorized for water, wastewater and recycled water

⁽²⁾ FCC revenue \$5 million

⁽³⁾ Hydroelectric revenue \$8 million proposed for budget

⁽⁴⁾ 4% rate increases for water and recycled water and 0% rate increase for wastewater

⁽⁵⁾ 3% rate increases for water and recycled water and 0% rate increase for wastewater

⁽⁶⁾ Hydroelectric revenue \$7 million

⁽⁷⁾ FCC revenue \$7.5 million

⁽⁸⁾ 3% rate increase for water, wastewater and recycled water versus previously adopted 4% increases

⁽⁹⁾ Includes a reduction related to a \$250,000 wastewater low income ratepayer assistance program

⁽¹⁰⁾ Proposed budgets for 2017 and 2018 assume prepayment of the following year's maturing debt of \$3 million in each year. The District's prepayment in 2017 will reduce the debt service in 2018 by \$3 million.

⁽¹¹⁾ Internal 1.0 test is based upon available net revenues, excluding FCCs, being equal to or greater than, the debt service in a given year. Being equal to would be $(\text{available net revenues} - \text{FCCs}) / (\text{debt service}) = 1.00$.

As a minimum requirement, the bond covenants to the District's bondholders require the District to meet the 1.25x coverage test as discussed above. Beginning with the first Certificate of Participation bond sale in 2003, the District has included FCC revenue in meeting its debt coverage requirements. In 2010, the Board imposed an internal requirement that the District's debt service ratio, excluding FCCs, be at least 1.0, with a 1.25 ratio as the goal. The test is identical to the bond document test of 1.25x coverage, except it excludes FCCs from the calculation. By creating budgets that meet this test, the District is assured it is meeting all of its obligations for a given year, including operating expenses and debt payments, without relying on FCC revenue or other potentially volatile forms of revenue as cautioned by Standard & Poor's and Moody's Investor Services in the recent comments to the District's bond transactions.

Past reliance on FCC revenues to meet debt coverage requirements masked the District's lack of rate or other non-rate revenues. When the economic downturn in 2008 devastated FCC revenues, the District did not meet its 1.25x coverage requirement in 2009. The District was not performing the internal 1.0x test then; had it been, the test would have been met only in 2006. This over-reliance on FCCs to cover operating expenses required multi-year double digit rate increases, significant employee layoffs, and a restructuring of the debt to enable the District to meet its ongoing bondholder obligations. The 1.0x test must always be met to avoid repeating the over-reliance on the FCC revenue that occurred from 2003 to 2009 for meeting bond covenants.

The District is projected to meet the minimum 1.0x test in both 2017 and 2018 in all five scenarios. However, the internal goal of 1.25x is not projected to be met under any scenario in 2017, and only under Scenario 1 in 2018 supporting the rate scenario adopted by the Board on January 11, 2016.

5 Year Financial Plan Review:

The 2017-2021 Financial Plan has been updated to reflect some revenue assumption changes for 2017-2021 discussed earlier and are reflected in Appendices 1-5 (Scenarios 1-5), and to include the results obtained from the 2016A, 2016B and 2016C bond transactions and reflected in the related operating forecasts included in the Board-approved Official Statements for those bond transactions. Projections for capital expenses reflect changes made to the 2017-2021 Capital Improvement Plan (CIP).

Following is a brief review of the previously adopted financial plan and some proposed changes.

Purpose of a Financial Plan

In November 2014, staff made a presentation to the Board discussing reasons the District needed to prepare long-term financial plan in order to balance the financial needs of operations with the need for capital improvements. The plan would be used to establish necessary costs for operations and maintenance, debt service, and pay-as-you-go construction projects. It would also establish the amount of total revenues needed to fund the operating costs and debt payments while also meeting bond covenants, and maintain adequate cash reserves.

Long-term financial plans are also used to plan, by year, rate adjustments needed to meet the financial goals of the District through the use of small annual rate increases without creating rate shock with large, double-digit increases. Additional financial plan goals include maintaining strong credit ratings and maintaining funding for critical asset replacement prior to end of life to avoid asset failures. With multiyear financial plans in place including rate increases showing the ability of a utility to meet its operational and financing obligations, the bond rating agencies gain confidence in the utility, rate its credit higher, and ultimately reduce the cost of borrowing.

In staff's opinion, the success of the District's 2016 financing transactions does not alter the District's need to implement the previously adopted rate increases for 2017-2020 which are presented in Scenario 1. The adopted rate increases were included within the Board-approved financial forecasts provided to the rating agencies and bond-buying community in each of the 2016 financing transactions, as were the resulting actual debt payment requirements for the new issues. District officials signed statements affirming that these projections did not make any material misstatements or omit any material information. These projections were also instrumental in the District obtaining its credit rating enhancements in July, and having them affirmed in September.

The 2017-2020 rate increases are already approved, with a Proposition 218 protest rate of less than 2%. The revenue associated with them provides opportunities for the District to address many different priorities, including making capital investments, paying down debt, making extra payments to begin addressing the pension and retiree medical UALs, maintaining adequate levels of unrestricted cash on hand, and establishing a buffer for necessary future increases in operating expenses.

Adopted Financial Plan

In November 2015, the Board adopted the 2016-2020 Financial Plan. The proposed 2017-2021 Financial Plan (Scenario 1) is a continuation of the previous plan with minor revenue adjustments. It is consistent with what was presented to the bond community and included in the Board-approved Official Statements for all three 2016 transactions. Although the Board's approved rate increases run only through 2020, all five financial plan scenarios use a 3% rate increase in 2021 to project revenues needed to cover ongoing increases in operating expenses. The proposed plans also project a \$50 million bond sale in 2021. Similar to the 2016 sale, this bond would provide capital needed to fund major future, long-lived CIP assets such as replacements of Silver Lake Dam and the El Dorado Hills Raw Water Pump Station, the continuation of the flume replacements, aged pipelines in the water and wastewater systems, and continued wastewater lift station reconstruction. The 3% rate increase included in 2021 projections will also help ensure adequate coverage for the future debt service on this projected 2021 bond sale.

Conclusion:

The 2017-2018 operating budget process presents a number of challenging financial issues because of increasing pension costs, a growing backlog of deferred maintenance at District facilities, and the uncertainty surrounding both national, state, and local economic conditions and next year's hydrology. Like all of EID's budgets, staff approached the process with two overriding priorities. One priority is to maintain a reliable level of service to customers that protects public health and safety, and the environment. The next priority is to demonstrate fiscal responsibility. Staff believes both of these objectives are met under the proposed 2017-2018 operating budget, Scenario 1. Staff also believes that if the projected revenues are met and the operating budgets are not significantly exceeded because of unforeseen circumstances, the 1.25 coverage requirements in the District's bond covenants will be met while the District's internal 1.25x or better goal, excluding FCCs, will also be met except in 2017.

Staff recommends Scenario 1 because it best meets the goals and objectives of the Financial Plan set forth in AR 3012:

1. It continues to limit future rate increases to 5% or less, thereby avoiding rate shock;
2. It generates cash flow each year in the desired \$10-\$14 million range to fund annual pay-as-you-go construction projects and allow debt financing to be used judiciously for specific large, long-lived capital projects (see APPENDIX 1, end of year Unrestricted/Unreserved cash balance);
3. It meets the required coverage tests for our bond holders (1.25x) and the internal coverage test (1.0x) in each year, and it meets the internal coverage goal (1.25) in each year except 2017;
4. It creates annual coverage requirements closer to 1.70x-2.00x with FCCs and 1.23x-1.64x without FCCs, in accordance with the AR3012 goals and objectives; and
5. It creates overall end-of-year cash reserves near the high end required under AR3012 without over-reliance on FCCs.
6. Days of cash available for operations (excluding restricted cash) is near 416 days in 2017, dropping to 285 days by 2021.

Further, Scenario 1 is consistent with the projections this Board and staff distributed to bond rating agencies and bond buyers in three 2016 bond transactions, including unanimous Board approval of the 2016C Bonds Official Statement only three months ago. These projections were an integral part of the information that Moody's and Standard & Poor's relied upon last summer when they upgraded the District's credit rating. The credit upgrades allowed the District to sell its bonds with its own ratings rather than purchasing municipal bond insurance to enhance the bonds. The District was able to obtain debt service reserve surety policies at attractive pricing due to the credit rating upgrades.

Each of these factors reduced the District's costs and contributed to the successful sale of both series of bonds.

The other scenarios will result in weaker financial performance and could potentially lead to the rating agencies requiring a surveillance review of the District's credit; such a review could potentially result in rating downgrades. The District's financial advisor, Robert Porr of the Fieldman Rolapp firm, also recommends Scenario 1 in a memo to staff that states, "We think to materially change the Financial Plan at this point, so close in time to the rating upgrades, could result in additional attention from the market and is therefore not recommended."

Staff does not recommend Scenario 2 for the following additional reasons:

1. It creates overall end-of-year cash reserves \$5 million lower by 2019 and \$9 million lower by 2021 than Scenario 1. The unrestricted cash reserve balance is negative in 2021.
2. It does not meet the 1.25x internal debt service coverage goal in 2017 or 2018.
3. Days of cash available for operations (excluding restricted cash) is reduced to near 407 days in 2017 dropping to 221 days by 2021.
4. It does not offer opportunities to address UALs, compared to Scenario 1.

Staff does not recommend Scenario 3 for the following additional reasons:

1. It creates overall end-of-year cash reserves \$2.7 million lower by 2019 and \$5.8 million lower by 2021 than Scenario 1. The unrestricted cash reserve balance is negative in 2020 and 2021.
2. It does not meet the 1.25x internal debt service coverage goal in 2017, 2018, 2019, or 2020.
3. Days of cash available for operations (excluding restricted cash) is near 404 days in 2017 dropping to 197 days by 2021. This is related to the reliance on higher FCCs to offset the operating rate reductions for this forecast.
4. The development impacts of growth-control Measure E, passed last June, are presently unclear, so increasing and relying on higher projected FCC revenues in any amount does not seem prudent.
5. Projecting \$8 million in annual hydroelectric revenues is justified. The current power purchase contract that produces those revenues came into effect on May 15, 2010. In the four non-drought years between 2010 and 2013, annual hydroelectric revenues averaged \$8.54 million, with three of the four years at \$7.88 million or higher. The lower revenues in 2014-2016 are the result of temporary conditions – the extended project outages required for Esmeralda Tunnel repairs, and drought.
6. This scenario also does not offer opportunities to address UALs, compared to Scenario 1.

Staff does not recommend Scenario 4 for the following additional reasons:

1. It creates overall end-of-year cash reserves \$4.0 million lower by 2019 and \$7.3 million lower by 2021 than Scenario 1. The unrestricted cash reserve balance is negative in 2021.
2. It does not meet the 1.25x internal debt service coverage goal in 2017 or 2018.
3. Days of cash available for operations (excluding restricted cash) is near 406 days in 2017 dropping to 232 days by 2021.
4. This scenario also does not offer opportunities to address UALs, compared to Scenario 1.

Staff does not recommend Scenario 5 for the following additional reasons:

1. It creates overall end-of-year cash reserves \$4.7 million lower by 2019 and \$8.5 million lower by 2021 than Scenario 1. The unrestricted cash reserve balance is negative in 2021.
2. It does not meet the 1.25x internal debt service coverage goal in 2017 or 2018.
3. Days of cash available for operations (excluding restricted cash) is near 407 days in 2017 dropping to 223 days by 2021.

4. Staff does not believe that the proposed low-income wastewater rate assistance program is feasible or equitable. Those most qualified for wastewater rate assistance are typically not District customers, because they are tenants of master-metered mobile home parks. Therefore, any rate assistance will go to the mobile home park owners, with no legally enforceable mechanism for ensuring that the savings are passed on to the tenants. Further, all property owners within District boundaries pay property tax, but only about half of District customers receive both water and wastewater service. Therefore, the property tax proceeds that would fund this program would be disproportionately earmarked for only a portion of the District's customer base.
5. This scenario also does not offer opportunities to address UALs, compared to Scenario 1.

Staff firmly believes the rate increases the Board adopted last January, through a Proposition 218 process that generated a customer protest rate of less than 2%, are still needed to adequately fund infrastructure replacement and maintain service levels in normal operations. Combined with the effect of the 2016 financing transactions, these rate increases produce improved projected debt coverage calculations for the financial plan's forecast period. Increasing FCC revenue projections, at this time, does not seem justified in the wake of the passing of Measure E and the uncertainty it has created for development within the County. The forecast also shows, moreover, that unrestricted cash will decline over time. Also, the financial plan currently includes no extraordinary actions to enhance the District's response to long-term unfunded pension and retiree healthcare liabilities; reducing the adopted rate increases will further constrain the District's ability to address this long-term financial challenge. Finally, a bond sale is projected to be needed in 2021 to fund the replacement and rehabilitation of long-lived assets planned for the next phase of major capital investments in years 2022-2026; maintaining the already-approved 2017-2020 rate increases will mitigate any rate increases needed in conjunction with that bond sale, avoiding rate shock at that time.

Board Decisions/Options:

- Option 1:** Adopt the El Dorado Irrigation District 2017-2018 Operating Budget and 2017-2021 Financial Plan (Scenario 1), including the implementation of previously approved rate increases for 2017 for water, wastewater, and recycled water.
- Option 2:** Take other action as directed by the Board.
- Option 3:** Take no action.

Staff/General Manager Recommendation:

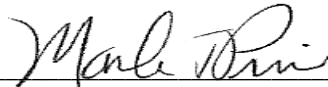
Option 1

Supporting Documents Attached:

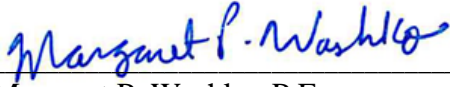
- Appendix 1: Scenario 1 2017-2021 forecast, pages 20-22
- Appendix 2: Scenario 2 2017-2021 forecast, pages 23-25
- Appendix 3: Scenario 3 2017-2021 forecast, pages 26-28
- Appendix 4: Scenario 4 2017-2021 forecast, pages 29-31
- Appendix 5: Scenario 5 2017-2021 forecast, pages 32-34
- Appendix 6: AR 3012, page 35

Attachments:

- Attachment A: November 14, 2016 Budget AIS
- Attachment B: November 14, 2016 Budget PowerPoint Presentation Slides



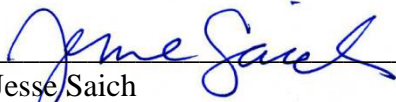
Mark T. Price
Finance Director



Margaret P. Washko, P.E.
Operations Director



Brian Mueller
Engineering Director



Jesse Saich
Public Information Officer



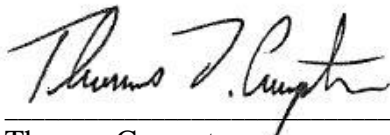
Jose C. Perez
Human Resources Manager



Tim Ranstrom
Information Technology Director



Brian D. Poulsen
Acting General Counsel



Thomas Cumpston
Acting General Manager

APPENDIX 1

| Scenario 1 | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 83.5 | 86.1 | 88.2 | 90.4 | 91.8 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 37.0 | 38.7 | 39.9 | 41.1 | 41.5 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.9 | 37.6 | 38.8 | 40.0 | 40.4 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 10.8 | 12.1 | 13.3 | 14.8 | 68.8 |
| Cash balance - January 1 | 123.4 | 109.9 | 87.9 | 75.5 | 74.2 |
| Total Cash Available for Capital Projects or Debt PrePayment | 134.2 | 122.0 | 101.2 | 90.3 | 143.0 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.9 | \$ 87.9 | \$ 75.5 | \$ 74.2 | \$ 123.9 |
| Senior debt service coverage (1.25x test) | 1.43 | 1.47 | 1.52 | 1.59 | 1.87 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.23 | 1.28 | 1.33 | 1.39 | 1.64 |
| Scenario 1 | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | 20.0 | 15.0 | 12.6 | 8.5 | 5.5 |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 109.9 | \$ 87.9 | \$ 75.5 | \$ 74.2 | \$ 123.9 |

| Water Utility only Scenario 1 | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 40.0 |
| Total revenues | 50.9 | 52.3 | 53.4 | 54.5 | 55.7 |
| Total maintenance and operation costs | 28.7 | 29.3 | 29.9 | 30.5 | 31.1 |
| Net revenues | 22.2 | 23.0 | 23.5 | 24.0 | 24.6 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 21.1 | 21.9 | 22.4 | 22.9 | 23.5 |
| Senior debt service | 15.3 | 15.6 | 15.6 | 15.4 | 13.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.8 | 6.3 | 6.9 | 7.5 | 49.7 |
| Cash balance - January 1 | 89.8 | 77.2 | 55.0 | 39.6 | 34.0 |
| Total Cash Available for Capital Projects or Debt PrePayment | 95.6 | 83.6 | 61.9 | 47.1 | 83.7 |
| total CIP | (16.7) | (27.0) | (20.7) | (11.6) | (12.6) |
| Pre funding debt | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Cash balance - December 31 | 77.2 | 55.0 | 39.6 | 34.0 | 69.6 |
| Senior debt service coverage (1.25x test) | 1.38 | 1.41 | 1.44 | 1.49 | 1.71 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| \$\$\$ of FCCs removed from calculation | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| Potential senior debt coverage (1.0x test) | 1.22 | 1.25 | 1.29 | 1.33 | 1.53 |

| Wastewater Utility only Scenario 1 | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 10.0 |
| Total revenues | 32.6 | 33.8 | 34.8 | 35.9 | 36.1 |
| Total maintenance and operation costs | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Net revenues | 14.9 | 15.7 | 16.4 | 17.1 | 16.9 |
| Pre-existing state obligations | - | - | - | - | - |
| Net revenues available after pre existing obligations | 14.9 | 15.7 | 16.4 | 17.1 | 16.9 |
| Senior debt service | 9.8 | 9.9 | 9.9 | 9.8 | 7.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.1 | 5.8 | 6.4 | 7.2 | 19.1 |
| Cash balance - January 1 | 33.6 | 32.7 | 33.0 | 35.9 | 40.3 |
| Total Cash Available for Capital Projects or Debt PrePayment | 38.7 | 38.5 | 39.4 | 43.2 | 59.4 |
| total CIP | (4.6) | (4.1) | (2.0) | (1.5) | (3.6) |
| Pre funding debt | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Cash balance - December 31 | 32.7 | 33.0 | 35.9 | 40.3 | 54.4 |
| Senior debt service coverage (1.25x test) | 1.52 | 1.58 | 1.65 | 1.74 | 2.17 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| \$\$\$ of FCCs removed from calculation | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| Potential senior debt coverage (1.0x test) | 1.25 | 1.32 | 1.38 | 1.47 | 1.84 |

APPENDIX 2

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Scenario 2 | | | | | |
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 82.5 | 84.2 | 86.3 | 88.4 | 89.7 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 36.0 | 36.8 | 38.0 | 39.1 | 39.4 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 34.9 | 35.7 | 36.9 | 38.0 | 38.3 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.8 | 10.2 | 11.4 | 12.8 | 66.7 |
| Cash balance - January 1 | 123.4 | 108.9 | 85.0 | 70.7 | 67.4 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.2 | 119.1 | 96.4 | 83.5 | 134.1 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 108.9 | \$ 85.0 | \$ 70.7 | \$ 67.4 | \$ 115.0 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.40 | 1.45 | 1.51 | 1.77 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.20 | 1.25 | 1.31 | 1.54 |
| Scenario 2 | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> |
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | 19.0 | 12.1 | 7.8 | 1.7 | (3.4) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 108.9 | \$ 85.0 | \$ 70.7 | \$ 67.4 | \$ 115.0 |

| Water Utility only Scenario 2 | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 40.0 |
| Total revenues | 50.9 | 52.3 | 53.4 | 54.5 | 55.7 |
| Total maintenance and operation costs | 28.7 | 29.3 | 29.9 | 30.5 | 31.1 |
| Net revenues | 22.2 | 23.0 | 23.5 | 24.0 | 24.6 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 21.1 | 21.9 | 22.4 | 22.9 | 23.5 |
| Senior debt service | 15.3 | 15.6 | 15.6 | 15.4 | 13.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.8 | 6.3 | 6.9 | 7.5 | 49.7 |
| Cash balance - January 1 | 89.8 | 77.2 | 55.0 | 39.6 | 34.0 |
| Total Cash Available for Capital Projects or Debt PrePayment | 95.6 | 83.6 | 61.9 | 47.1 | 83.7 |
| total CIP | (16.7) | (27.0) | (20.7) | (11.6) | (12.6) |
| Pre funding debt | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Cash balance - December 31 | 77.2 | 55.0 | 39.6 | 34.0 | 69.6 |
| Senior debt service coverage (1.25x test) | 1.38 | 1.41 | 1.44 | 1.49 | 1.71 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| \$\$\$ of FCCs removed from calculation | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| Potential senior debt coverage (1.0x test) | 1.22 | 1.25 | 1.29 | 1.33 | 1.53 |

| Wastewater Utility only Scenario 2 | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 10.0 |
| Total revenues | 31.6 | 32.0 | 32.9 | 33.9 | 34.0 |
| Total maintenance and operation costs | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Net revenues | 13.9 | 13.9 | 14.4 | 15.1 | 14.9 |
| Pre-existing state obligations | - | - | - | - | - |
| Net revenues available after pre existing obligations | 13.9 | 13.9 | 14.4 | 15.1 | 14.9 |
| Senior debt service | 9.8 | 9.9 | 9.9 | 9.8 | 7.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 4.1 | 3.9 | 4.5 | 5.2 | 17.1 |
| Cash balance - January 1 | 33.6 | 31.7 | 30.1 | 31.1 | 33.5 |
| Total Cash Available for Capital Projects or Debt PrePayment | 37.7 | 35.6 | 34.6 | 36.4 | 50.5 |
| total CIP | (4.6) | (4.1) | (2.0) | (1.5) | (3.6) |
| Pre funding debt | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Cash balance - December 31 | 31.7 | 30.1 | 31.1 | 33.5 | 45.6 |
| Senior debt service coverage (1.25x test) | 1.42 | 1.40 | 1.45 | 1.53 | 1.91 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| \$\$\$ of FCCs removed from calculation | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| Potential senior debt coverage (1.0x test) | 1.15 | 1.13 | 1.19 | 1.27 | 1.57 |

APPENDIX 3

| | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Scenario 3 | | | | | |
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 83.5 | 84.8 | 86.8 | 88.9 | 90.2 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 37.0 | 37.4 | 38.5 | 39.6 | 39.9 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.9 | 36.3 | 37.4 | 38.5 | 38.8 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 10.8 | 10.8 | 11.9 | 13.3 | 67.2 |
| Cash balance - January 1 | 123.4 | 109.9 | 86.6 | 72.8 | 70.0 |
| Total Cash Available for Capital Projects or Debt PrePayment | 134.2 | 120.7 | 98.5 | 86.1 | 137.2 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.9 | \$ 86.6 | \$ 72.8 | \$ 70.0 | \$ 118.1 |
| Senior debt service coverage (1.25x test) | 1.43 | 1.42 | 1.47 | 1.53 | 1.80 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 |
| \$\$\$ of FCCs removed from calculation | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 |
| Potential senior debt coverage (1.0x test) | 1.13 | 1.13 | 1.17 | 1.23 | 1.45 |
| Scenario 3 | | | | | |
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | 18.7 | 11.2 | 6.1 | (0.7) | (6.6) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 22.4 | 26.2 | 29.9 | 33.7 | 37.4 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 58.4 | 42.3 | 33.4 | 37.2 | 90.9 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 109.9 | \$ 86.6 | \$ 72.8 | \$ 70.0 | \$ 118.1 |

| Water Utility only Scenario 3 | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 40.0 |
| Total revenues | 50.6 | 51.6 | 52.7 | 53.8 | 54.9 |
| Total maintenance and operation costs | 28.7 | 29.3 | 29.9 | 30.5 | 31.1 |
| Net revenues | 21.8 | 22.3 | 22.8 | 23.3 | 23.8 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 20.8 | 21.2 | 21.7 | 22.2 | 22.7 |
| Senior debt service | 15.3 | 15.6 | 15.6 | 15.4 | 13.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.4 | 5.7 | 6.2 | 6.8 | 49.0 |
| Cash balance - January 1 | 89.8 | 76.9 | 54.0 | 37.9 | 31.5 |
| Total Cash Available for Capital Projects or Debt PrePayment | 95.2 | 82.5 | 60.1 | 44.6 | 80.4 |
| total CIP | (16.7) | (27.0) | (20.7) | (11.6) | (12.6) |
| Pre funding debt | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Cash balance - December 31 | 76.9 | 54.0 | 37.9 | 31.5 | 66.3 |
| Senior debt service coverage (1.25x test) | 1.35 | 1.36 | 1.40 | 1.44 | 1.65 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 |
| \$\$\$ of FCCs removed from calculation | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 |
| Potential senior debt coverage (1.0x test) | 1.12 | 1.13 | 1.16 | 1.21 | 1.39 |

| Wastewater Utility only Scenario 3 | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 10.0 |
| Total revenues | 32.9 | 33.2 | 34.2 | 35.2 | 35.3 |
| Total maintenance and operation costs | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Net revenues | 15.2 | 15.2 | 15.7 | 16.3 | 16.1 |
| Pre-existing state obligations | - | - | - | - | - |
| Net revenues available after pre existing obligations | 15.2 | 15.2 | 15.7 | 16.3 | 16.1 |
| Senior debt service | 9.8 | 9.9 | 9.9 | 9.8 | 7.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.4 | 5.2 | 5.8 | 6.5 | 18.3 |
| Cash balance - January 1 | 33.6 | 33.0 | 32.7 | 35.0 | 38.6 |
| Total Cash Available for Capital Projects or Debt PrePayment | 39.0 | 38.2 | 38.5 | 41.5 | 57.0 |
| total CIP | (4.6) | (4.1) | (2.0) | (1.5) | (3.6) |
| Pre funding debt | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Cash balance - December 31 | 33.0 | 32.7 | 35.0 | 38.6 | 52.0 |
| Senior debt service coverage (1.25x test) | 1.55 | 1.52 | 1.58 | 1.66 | 2.07 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 3.91 | 3.91 | 3.91 | 3.91 | 3.91 |
| \$\$\$ of FCCs removed from calculation | 3.91 | 3.91 | 3.91 | 3.91 | 3.91 |
| Potential senior debt coverage (1.0x test) | 1.15 | 1.13 | 1.19 | 1.27 | 1.57 |

APPENDIX 4

| | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Scenario 4 | | | | | |
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 82.6 | 84.6 | 86.6 | 88.8 | 90.1 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 36.1 | 37.2 | 38.3 | 39.5 | 39.8 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.0 | 36.1 | 37.2 | 38.4 | 38.7 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.9 | 10.6 | 11.7 | 13.2 | 67.1 |
| Cash balance - January 1 | 123.4 | 109.0 | 85.5 | 71.5 | 68.6 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.3 | 119.6 | 97.2 | 84.7 | 135.7 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.0 | \$ 85.5 | \$ 71.5 | \$ 68.6 | \$ 116.6 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.42 | 1.46 | 1.52 | 1.79 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.20 | 1.22 | 1.26 | 1.33 | 1.56 |
| Scenario 4 | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | 19.1 | 12.6 | 8.6 | 2.9 | (1.8) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 109.0 | \$ 85.5 | \$ 71.5 | \$ 68.6 | \$ 116.6 |

| Water Utility only Scenario 4 | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Debt Proceeds | - | - | - | - | 40.0 |
| Total revenues | 50.4 | 51.4 | 52.5 | 53.6 | 54.7 |
| Total maintenance and operation costs | 28.7 | 29.3 | 29.9 | 30.5 | 31.1 |
| Net revenues | 21.6 | 22.1 | 22.6 | 23.1 | 23.6 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 20.6 | 21.0 | 21.5 | 22.0 | 22.5 |
| Senior debt service | 15.3 | 15.6 | 15.6 | 15.4 | 13.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.2 | 5.5 | 6.0 | 6.6 | 48.8 |
| Cash balance - January 1 | 89.8 | 76.7 | 53.6 | 37.3 | 30.7 |
| Total Cash Available for Capital Projects or Debt PrePayment | 95.0 | 82.1 | 59.5 | 43.9 | 79.4 |
| total CIP | (16.7) | (27.0) | (20.7) | (11.6) | (12.6) |
| Pre funding debt | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Cash balance - December 31 | 76.7 | 53.6 | 37.3 | 30.7 | 65.3 |
| Senior debt service coverage (1.25x test) | 1.34 | 1.35 | 1.38 | 1.43 | 1.64 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| \$\$\$ of FCCs removed from calculation | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.20 | 1.23 | 1.27 | 1.46 |

| Wastewater Utility only Scenario 4 | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Debt Proceeds | - | - | - | - | 10.0 |
| Total revenues | 32.2 | 33.2 | 34.1 | 35.2 | 35.4 |
| Total maintenance and operation costs | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Net revenues | 14.5 | 15.1 | 15.7 | 16.4 | 16.2 |
| Pre-existing state obligations | - | - | - | - | - |
| Net revenues available after pre existing obligations | 14.5 | 15.1 | 15.7 | 16.4 | 16.2 |
| Senior debt service | 9.8 | 9.9 | 9.9 | 9.8 | 7.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 4.7 | 5.1 | 5.8 | 6.5 | 18.4 |
| Cash balance - January 1 | 33.6 | 32.3 | 31.9 | 34.2 | 37.9 |
| Total Cash Available for Capital Projects or Debt PrePayment | 38.3 | 37.4 | 37.7 | 40.7 | 56.3 |
| total CIP | (4.6) | (4.1) | (2.0) | (1.5) | (3.6) |
| Pre funding debt | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Cash balance - December 31 | 32.3 | 31.9 | 34.2 | 37.9 | 51.3 |
| Senior debt service coverage (1.25x test) | 1.48 | 1.52 | 1.58 | 1.67 | 2.08 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| \$\$\$ of FCCs removed from calculation | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| Potential senior debt coverage (1.0x test) | 1.21 | 1.25 | 1.32 | 1.40 | 1.75 |

APPENDIX 5

| | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Scenario 5 | | | | | |
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 82.4 | 84.3 | 86.4 | 88.5 | 89.9 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 35.9 | 36.9 | 38.1 | 39.2 | 39.6 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 34.8 | 35.8 | 37.0 | 38.1 | 38.5 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.7 | 10.3 | 11.5 | 12.9 | 66.9 |
| Cash balance - January 1 | 123.4 | 108.8 | 85.0 | 70.8 | 67.6 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.1 | 119.1 | 96.5 | 83.7 | 134.5 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 108.8 | \$ 85.0 | \$ 70.8 | \$ 67.6 | \$ 115.4 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.40 | 1.45 | 1.51 | 1.78 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.21 | 1.25 | 1.31 | 1.55 |
| Scenario 5 | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | 18.9 | 12.1 | 7.9 | 1.9 | (3.0) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 108.8 | \$ 85.0 | \$ 70.8 | \$ 67.6 | \$ 115.4 |

| Water Utility only Scenario 5 | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 40.0 |
| Total revenues | 50.4 | 51.4 | 52.5 | 53.6 | 54.7 |
| Total maintenance and operation costs | 28.7 | 29.3 | 29.9 | 30.5 | 31.1 |
| Net revenues | 21.6 | 22.1 | 22.6 | 23.1 | 23.6 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 20.6 | 21.0 | 21.5 | 22.0 | 22.5 |
| Senior debt service | 15.3 | 15.6 | 15.6 | 15.4 | 13.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.2 | 5.5 | 6.0 | 6.6 | 48.8 |
| Cash balance - January 1 | 89.8 | 76.7 | 53.6 | 37.3 | 30.7 |
| Total Cash Available for Capital Projects or Debt PrePayment | 95.0 | 82.1 | 59.5 | 43.9 | 79.4 |
| total CIP | (16.7) | (27.0) | (20.7) | (11.6) | (12.6) |
| Pre funding debt | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Cash balance - December 31 | 76.7 | 53.6 | 37.3 | 30.7 | 65.3 |
| Senior debt service coverage (1.25x test) | 1.34 | 1.35 | 1.38 | 1.43 | 1.64 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| \$\$\$ of FCCs removed from calculation | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.20 | 1.23 | 1.27 | 1.46 |

| Wastewater Utility only Scenario 5 | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 10.0 |
| Total revenues | 32.0 | 32.9 | 33.9 | 34.9 | 35.1 |
| Total maintenance and operation costs | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Net revenues | 14.3 | 14.8 | 15.4 | 16.1 | 16.0 |
| Pre-existing state obligations | - | - | - | - | - |
| Net revenues available after pre existing obligations | 14.3 | 14.8 | 15.4 | 16.1 | 16.0 |
| Senior debt service | 9.8 | 9.9 | 9.9 | 9.8 | 7.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 4.5 | 4.9 | 5.5 | 6.3 | 18.2 |
| Cash balance - January 1 | 33.6 | 32.1 | 31.5 | 33.5 | 36.9 |
| Total Cash Available for Capital Projects or Debt PrePayment | 38.1 | 37.0 | 37.0 | 39.8 | 55.1 |
| total CIP | (4.6) | (4.1) | (2.0) | (1.5) | (3.6) |
| Pre funding debt | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Cash balance - December 31 | 32.1 | 31.5 | 33.5 | 36.9 | 50.1 |
| Senior debt service coverage (1.25x test) | 1.46 | 1.49 | 1.55 | 1.64 | 2.05 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| \$\$\$ of FCCs removed from calculation | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.23 | 1.29 | 1.37 | 1.71 |

Purpose of the 5-Year Financial Plan

- The 5-year financial plan establishes the cost of funding the operations and maintenance, capital expenditures, and debt expenses required to meet the Districts' mission of providing high quality, wastewater treatment, recycled water, hydro-power, and recreational services in an environmentally and fiscally responsible manner, meeting the District's debt covenant requirements to its bond holders and matching future revenues to those costs
- Long term financial planning
 - Avoids volatile rate adjustments
 - Better manages debt
 - Better manages prepayment of debt
 - Funds the Capital Improvement Plan
 - Provides a plan for meeting debt covenant requirements
 - Sets clear, public goals and expectations

Goals and Objectives of Financial Plan

- Establish necessary operating and maintenance costs, debt expenses, and pay-as-you-go project costs
- Generate adequate revenues to fund those costs, meet debt covenants and maintain adequate cash reserves
- Avoid "rate shock"
 - Small annual rate adjustments are better than years of zero rate increases followed by double digit increase to make up the shortfall
- Maintain strong credit ratings with rating agencies (S&P, AA-; Moody's, Aa3)
- Maintain cash reserves between \$60 million and \$80 million
- Maintain CIP funding levels to replace high priority capital assets prior to end of life, avoiding critical asset failures
- Maintain 1.7 to 2.0 debt coverage ratio with Facility Capacity Charges (FCC)
- Maintain 1.25 debt coverage ratio without FCC's
 - In all years, meet Finance Control test that annual operating revenue, excluding FCC's, must equal or exceed total annual operating expenses plus debt payments

EL DORADO IRRIGATION DISTRICT

Subject: Consideration of the 2017-2018 Operating Budget and 2017-2021 Financial Plan, including the implementation of previously approved rate increases for 2017 for water, wastewater and recycled water.

Previous Board Action:

March 20, 2000: The Board adopted a multi-year operating budget process.

December 8, 2014: The Board adopted the 2015-2016 operating budget and the 2015-2019 Financial Plan.

November 9, 2015: The Board adopted the 2016 mid-cycle operating budget and the 2016-2020 Financial Plan.

October 24, 2016: The Board held a workshop on the 2017-2018 operating budget and the 2017-2021 Financial Plan.

Board Policies (BP), Administrative Regulations (AR), and Board Authority:

BP 3010: It is the responsibility of the General Manager to inform the Board about financial operations of the District so the Board can make informed decisions and fully discharge its legal responsibilities in a fiscally sound manner. The Board shall adopt a two-year operating budget and may modify it prior to the end of the year.

The Board shall also adopt every year a five-year Financial Plan.

AR 3011: It is the responsibility of the General Manager to develop the budget based on the priorities and needs of the District and its customers. The budget and any budget modification shall:

1. include, but not be limited to, operating expenses, debt, construction, and reserve funds;
2. meet all legal requirements;
3. support the District's mission;
4. maintain prudent levels of reserves in water, wastewater, hydroelectric, and recreation to fund contingencies that meet the District's debt service requirements;
5. allow the District to meet its financial obligations, including bond covenants;
6. be consistent with a financial plan that guides the District in satisfying its multi-year commitments; and
7. encourage public participation through required disclosures and public hearings.

Responsibility for overseeing the budget development process is assigned to the Director of Finance. Once the annual budget is prepared, the Board shall act on it.

AR 3012: The purpose of the 5-Year Financial Plan is to establish the cost of funding the operations and maintenance, capital expenditures, and debt expenses required to meet the District's mission of

providing high quality water, wastewater treatment, recycled water, hydro-power, and recreational services in an environmentally and fiscally responsible manner, meeting the District's debt covenant requirements to its bondholders and matching future revenues to those costs. (Appendix 1)

Summary of Issues-Budget:

January 1, 2017 marks the beginning of the District's two-year operating budget cycle. In accordance with Board Policy 3010, the Board adopts a two-year budget and conducts a mid-cycle review to determine any changes that may be needed in the second year of the cycle.

Projected 2016 revenues within the original budget proposal presented in November 2015 appear to be about \$2.1 million higher than the 2016 adopted budget. The increase in revenues is specifically driven by more FCC revenue being collected in 2016 (approximately \$3.7 million more than budgeted) and about \$400,000 more in surcharge revenues, offset by a reduction of \$2.0 million in hydroelectric revenue from the original adopted budget.

The 2017 revenues within staff's budget proposal from October 24, 2016 (Scenario 1 in this agenda item) are projected to be about \$1.6 million higher than the 2016 revised forecast. Rate revenues are projected to increase about \$2.8 million from the implementation of the 5% rate increases the Board previously adopted for all utilities in 2017 and the repeat of a normal water year similar to 2016. Another \$2.4 million increase in projected revenues is related to the return of more normal operations in the hydroelectric system and an increase in anticipated property tax revenue. Offsetting all but \$1.6 million of these increases is a forecast of \$5.0 million in 2017 FCC revenue, versus the \$8.7 included in the 2016 revised projections. For 2017, staff's proposed revenue budget (Scenario 1) is approximately \$750,000 higher than was presented to the bond community earlier this year in September.

Later in this agenda item summary, two additional revenue scenarios are presented, reflecting one director's suggested changes to revenue projections within the proposed 2017-2018 budgets and the 2017-2021 proposed Financial Plan. More detailed forecasts for each scenario by total district, water utility and wastewater utility are attached to this agenda item (Appendixes 2-4) and reflect the beginning cash reserves, financing proceeds, revenue for that forecast, operating expenses, debt payments, cash provided from operations after servicing the debt, CIP expenditures and finally the projected end-of-year cash balances.

The Scenario 2 proposal reflects the same revenue assumptions as does Scenario 1, except the adopted 2017 and 2018 rate increases for the wastewater utility (5% and 4%) would not be implemented.

Scenario 3 reflects the same assumptions as Scenario 2, plus three additional changes: the adopted rate increases for the water and recycled water utilities are proposed to be implemented at 3% in 2017 and 3% in 2018 (rather than 5% and 4%, respectively), hydroelectric revenues are adjusted to \$7 million per year instead of \$8 million, and FCC revenue is adjusted upward from staff's proposal of \$5 million per year to \$7.5 million per year.

In preparing for the 2017 operating budget, staff was given the direction to develop their program budgets using a 2% or less inflation rate over the current adopted 2016 operating budget. The 2% inflation rate was also used in the Board-approved financial projections for the recently completed 2016A and 2016C bond refinancing transactions and the 2016B new money bond transaction. At \$46.456 million, the 2017 budget proposal reflects a 2.2% increase over the 2016 adopted budget of

\$45.443 million for operating expenses before the letter of credit (LOC) fee. The LOC backed the District's 2008A variable-rate debt obligations, and was cancelled effective October 26 when the variable-rate debt was replaced with fixed-rate bonds in the 2016C bond transaction. With the successful 2016C bond transaction, the overall operating budget proposal for 2017 (\$46.456 million) is \$95,000 lower than the 2016 adopted operating budget, including LOC (\$46.551 million). In other words, the entire 2.2% proposed increase in 2017 operating expenses has been offset by the elimination of the annual LOC fee formerly supporting the 2008A variable debt.

For 2018, the operating budget is projected to increase 2% over the 2017 budget, consistent with how the forecasted budgets for 2018-2020 were presented to the bond community in Board-approved documents prepared for the recent financing transactions.

The District in 2016 continued to benefit from the weak financial market and also from the 2016 bond rating increases from S&P (A+ to AA-) and Moody's (A1 to Aa3). With the 2016A and 2016C refinancing transactions and the 2016B \$38.6 million new money bond issue (which produced \$49.3 million in proceeds for constructing and rehabilitating long-lived assets), the face value of the District's outstanding debt, by year end, will have increased by only \$7.2 million.

The staff-proposed 2017 operating expense budget is approximately \$100,000 higher than what was presented to the rating agencies in late August 2016 and to the bond-buying community in the District's Board-approved official bond statement dated September 20, 2016.

Summary of Issues-Financial Plan:

The Board annually adopts an ongoing five-year capital improvement plan (CIP) for the District. Additionally the District prepares a two-year budget which, in the off years, is adjusted and reapproved to meet changes in the District's financial situation for the upcoming year. In recent years, the District has linked these two financial documents by annually approving an ongoing five-year financial plan. The five-year financial plan is used to balance the ongoing operational financing needs with the capital needed to fund the ongoing CIP while providing safe and reliable services to our customers.

A long-term financial plan helps the District avoid making volatile rate adjustments, better manage the use of debt financing, structure debt payments, plan for the funding of capital projects and ensure that bondholder obligations will be met.

As set forth in Administrative Regulation 3012 (Appendix 1) the goals and objectives of the District's financial plan are to:

- Establish necessary operating and maintenance costs, debt expenses and funding available for pay-as-you-go projects.
- Generate revenues able to fund those costs, meet bondholder obligations and maintain adequate cash reserves.
- Avoid customer "rate shock" through the use of small, annual rate adjustments.
- Maintain strong credit ratings to obtain better interest rates when debt is issued (currently S&P, AA-; Moody's, Aa3).
- Maintain cash reserves between \$60 million and \$80 million.
- Maintain CIP funding levels to replace high-priority capital assets prior to end of life in order to avoid critical asset failures and provide safe and reliable services to our customers.

- Fund large monetary, long-lived assets via debt while using excess operational cash for smaller, pay-as-you-go projects.
- Maintain a 1.7x to 2.0x debt service coverage ratio with facility capacity charge (FCC) revenue included.
- Maintain at least a 1.25x debt coverage ratio when FCC revenue is excluded, with a minimum acceptable ratio of 1.0x.

Staff Analysis/Evaluation:

In anticipation of each two-year budget cycle and mid-cycle review, staff prepares projected operating revenues and expenditures for Board consideration. The Finance Department estimates items based on relevant economic factors such as interest rates, investments, and market trends. At the beginning of the budget review, Finance staff provides department heads and division managers with actual operating costs for the past two years as well as through the most recent month of the current year, along with projections to the current year’s end. Based on past and current expenditures, operational commitments for the coming year, workload indicators, and budget goals, department heads and division managers developed the proposed budgets presented at the October 24, 2016 Board workshop.

During the budget and financial plan workshop discussion, a Board member requested two alternative revenue scenarios be calculated and presented when the budget is brought back for consideration to adopt. Staff later met with the Board member and received clarifying direction. The first item asked for was a revenue forecast (Scenario 2) which reflects no rate increase for the 2017 and 2018 fiscal years for the wastewater utility. All other projections were to remain the same. The second alternative (Scenario 3) the Board member asked to be shown was to reflect a zero rate increase in 2017 and 2018 for wastewater and to reduce the adopted rate increases for water and recycled water for 2017 and 2018 to 3% in each year from the previously adopted 5% and 4%. For all utilities the 3% rate increases adopted for 2019 and 2020 remain the same and the 3% projected for 2021 remain unchanged.

Analysis of Revenue Projections for Fiscal Years 2017-2018:

Table 1 reflects three different revenue projections for 2017. Appendices 2-4 attached will show each scenario’s projected outcome for fiscal years 2017-2021 district-wide and individually for the water and wastewater utilities. The revenue differences in the scenarios are listed below, followed by an explanation of the items not changing between scenarios:

Scenario 1 -

- Adopted rate increase of 5% in each utility for 2017, 4% in 2018 and 3% in 2019-2020. A projected, but not approved or adopted, 3% rate increase is shown for 2021.
- FCC revenue of \$5 million in each year, 2017-2021.
- Projected hydroelectric income of \$8 million in each year, 2017-2021.

Scenario 2-

- Adopted rate increases of 5% in water and recycled water utilities for 2017, 4% in 2018 and 3% in 2019-2021 (2021 increase is not approved or adopted).
- 0% rate increase for the wastewater utility in 2017 and 2018 with 3% rate increases in 2019-2021 (2021 increase is not approved or adopted).
- FCC revenue projected at \$5.0 million in each year.
- Projected hydroelectric income of \$8 million in each year.

Scenario 3-

- a. Rate increase of 3% in water and recycled water utilities for 2017-2021 (2021 increase is not approved or adopted).
- b. 0% rate increase for the wastewater utility in 2017 and 2018 with 3% rate increases in 2019-2021 (2021 increase is not approved or adopted).
- c. FCC revenue projected at \$7.5 million in each year.
- d. Projected hydroelectric income at \$7.0 million in each year.

Table 1 compares the revenue projections for the three scenarios for 2017, and Table 2 for 2018. As noted above, 2017 revenues within the original budget proposal are projected to be about \$1.6 million higher than the 2016 revised forecast. Rate revenues are projected to increase about \$2.8 million from implementing the previously adopted 5% rate increases for 2017 (4% in 2018) for the utilities and a continuation of a normal water year. Non-rate revenues are projected to increase \$2.4 million as a result of a more normal water year in the hydroelectric system (\$2.0 million) and an increase in anticipated property tax revenue (\$0.4 million). All but \$1.5 million of these projected increases in revenues are offset by the projection of 2017 FCC revenues at \$5.0 million versus the \$8.7 million included in the 2016 revised projections

The originally proposed revenue projections in Scenario 3 for 2017 and 2018 are the same as those presented to the rating agencies in late August 2016 and to the bond-buying community in the District's official bond statement dated September 20, 2016, with three notable adjustments. Surcharge revenue has increased approximately \$400,000. Property tax revenue has increased by about \$180,000 and recycled water rate revenue adjusted upward by about \$170,000.

Hydroelectric power revenues for 2017 and 2018 are projected to be to the \$6-\$10 million range and are included at \$8 million. No revenue projection is included for water transfers because no contracts are in place for 2017 and beyond, and transfers are dependent on regulatory actions and approvals, timely throughput-Delta capacity, and hydrology.

Previously described Scenario 2 varies from Scenario 1 due to reduced wastewater revenue related to no increases in rates for 2017 or 2018. Scenario 3 wastewater rates for 2017 and 2018 are also proposed at 0%, while water and recycled water rates are lowered to 3% in 2017 and 2018. Other changes included a reduction in projected hydroelectric revenues to \$7.0 million and FCC collections increased to \$7.5 million in all years presented. The impacts of Scenarios 2 and 3 are included in the attached Appendix 3 and Appendix 4 to this agenda item summary. Results are summarized in Tables 6 and 7 for budget years 2017 and 2018.

The revenue scenario projections discussed above for 2017 are shown in Table 1 below:

Table 1: Various Revenue Projections for 2017 (in millions)

(Complete 2017-2021 forecasts are attached as Attachments 1-5 and are broken down by total district, water utility and wastewater utility)

| | 2017 Scenario 1 (1)(2)(3) | 2017 Scenario 2 (2)(3)(4) | 2017 Scenario 3 (5)(6)(7) |
|-------------------------------|--|--|--|
| Water Sales and Services | \$ 29.767 | \$ 29.767 | \$ 29.200 |
| Wastewater Sales and Services | 21.016 | 20.015 | 20.015 |
| Recycled Water Sales | 1.900 | 1.900 | 1.900 |
| Hydropower Sales | 8.000 | 8.000 | 7.000 |
| Investment Income | 0.750 | 0.750 | 0.750 |
| FCCs | 5.000 | 5.000 | 7.500 |
| Debt Surcharges | 2.400 | 2.400 | 2.400 |
| Property Tax | 11.299 | 11.299 | 11.299 |
| Other Income | 2.016 | 2.016 | 2.016 |
| Recreation | 1.384 | 1.384 | 1.384 |
| Total Revenues | \$ 83.532 | \$ 82.531 | \$ 83.464 |

⁽¹⁾ 5% rate increase previously authorized for water, wastewater and recycled water

⁽²⁾ FCC revenue \$5 million

⁽³⁾ Hydroelectric revenue \$8 million

⁽⁴⁾ 5% rate increases for water and recycled water and 0% rate increase for wastewater

⁽⁵⁾ 0% rate increases for water, wastewater and recycled water in 2017

⁽⁶⁾ Hydroelectric revenue \$7 million

⁽⁷⁾ FCC revenue \$7.5 million

The revenue scenario projections discussed above for 2018 are shown in Table 2 below:

Table 2: Various Revenue Projections for 2018 (in millions)

(Complete 2017-2021 forecasts are attached as Attachments 1-5 and are broken down by total district, water utility and wastewater utility)

| | 2018 Scenario 1 (1)(2)(3) | 2018 Scenario 2 (2)(3)(4) | 2018 Scenario 3 (5)(6)(7) |
|-------------------------------|--|--|--|
| Water Sales and Services | \$ 30.958 | \$ 30.958 | \$ 30.076 |
| Wastewater Sales and Services | 22.031 | 20.175 | 20.175 |
| Recycled Water Sales | 1.992 | 1.992 | 1.900 |
| Hydropower Sales | 8.000 | 8.000 | 7.000 |
| Investment Income | 0.750 | 0.750 | 0.750 |
| FCCs | 5.000 | 5.000 | 7.500 |
| Debt Surcharges | 2.408 | 2.408 | 2.408 |
| Property Tax | 11.525 | 11.525 | 11.525 |
| Other Income | 2.026 | 2.026 | 2.026 |
| Recreation | 1.411 | 1.411 | 1.411 |
| Total Revenues | \$ 86.101 | \$ 84.245 | \$ 84.771 |

(1) 4% rate increase previously authorized for water, wastewater and recycled water

(2) FCC revenue \$5 million

(3) Hydroelectric revenue \$8 million proposed for budget

(4) 4% rate increases for water and recycled water and 0% rate increase for wastewater

(5) 3% rate increases for water and recycled water and 0% rate increase for wastewater

(6) Hydroelectric revenue \$7 million

(7) FCC revenue \$7.5 million

Analysis of 2016, 2017 and 2018 Budgeted Expense Projections:

Table 3 compares the adopted 2016 Board-adjusted budget and 2016 year-end expense projections to the 2017-2018 proposed budgets by department. As illustrated in the table, the proposed 2017 operating budget is forecasted to increase 2.2% over the 2016 adopted budget (before LOC expense). As stated earlier, the LOC expense is eliminated with the 2016C bond refinancing transaction. With the LOC operating expense taken into account, the overall proposed 2017 budget is \$95,000 lower than the adopted 2016 budget.

Table 3: Operating Budget Expenses for 2016, 2017 and 2018 by Department (in millions)

| Departments | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|------------------------------------|------------------------------------|---|-------------------------------------|-------------------------------------|
| Office of the General Manager | \$ 3.124 | \$ 2.754 | \$ 3.211 | \$ 3.275 |
| Communications | 0.433 | 0.317 | 0.348 | 0.355 |
| Finance | 6.659 | 6.439 | 6.581 | 6.713 |
| Human Resources | 2.260 | 2.344 | 2.436 | 2.485 |
| Information Technology | 2.151 | 2.104 | 2.028 | 2.069 |
| Engineering | | | | |
| -Engineering Administration | 0.372 | 0.389 | 0.499 | 0.509 |
| -Development Services | 0.270 | 0.425 | 0.656 | 0.669 |
| -Water / Hydro Engineering | 0.016 | 0.000 | 0.041 | 0.042 |
| -Wastewater / Recycled Engineering | 0.249 | 0.040 | 0.032 | 0.033 |
| -Drafting/GIS Services | 0.390 | 0.440 | 0.389 | 0.397 |
| -Construction Inspection | 0.153 | 0.175 | 0.036 | 0.037 |
| -Environmental Compliance | 1.299 | 1.284 | 1.342 | 1.369 |
| Operations | | | | |
| -Administration | 0.523 | 0.411 | 0.642 | 0.655 |
| -Water Operations | 11.227 | 10.743 | 11.363 | 11.589 |
| -Wastewater Operations | 10.808 | 10.950 | 10.892 | 11.109 |
| -Recycled Water Operations | 0.473 | 0.465 | 0.491 | 0.501 |
| -Hydroelectric Operations | 3.652 | 4.094 | 4.015 | 4.095 |
| -Recreation Operations | 1.384 | 1.395 | 1.454 | 1.483 |
| Subtotal | 45.443 | 44.769 | 46.456 | 47.385 |
| Letter of Credit Fee | 1.108 | 1.108 | 0.000 | 0.000 |
| Total Expenses | \$ 46.551 | \$ 45.877 | \$ 46.456 | \$ 47.385 |

Table 4 identifies budget expense by type.

The proposed 2017 personnel budget projects a net increase of about \$525,000 or 2.0% over the adopted 2016 budget. Total wages are projected to decrease by about \$220,000. That projection does not account for any additional wage expenses associated with the approval of a new labor contract to replace the contract expiring at year-end 2016. The District's PERS contribution (see Table 4) will increase by about \$690,000 or 15.3%. For 2018 the PERS contribution is projected to increase by another \$537,000 or 10.3%. Making up the capitalized labor offset for 2017 are charges from Engineering (\$2.230 million), Operations (\$0.515 million), IT (\$0.188 million), and welding fabrication (\$0.021 million).

As Table 4 shows, Materials and Service expenses are proposed to increase by about \$488,000, or 2.6%. The driver for the slight increase in expenses over 2.0% is related to the increase in Repair Services and specifically in the Hydroelectric Division to fund 2017 repairs to Weber Dam and an area near Flume 5. Two separate small landslide events occurred in 2016 at Weber Dam and near Flume 5. Staff is working on design measures to repair the slides and have included these planned repair expenses in the 2017 operating budget.

Table 4: 2016 Adopted Operating Budget Expenses with 2017 and 2018 Proposed Budgets by Expense Type (in millions)

| | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|------------------------------|------------------------------------|---|-------------------------------------|-------------------------------------|
| Wages | \$ 17.936 | \$ 17.598 | \$ 17.717 | \$ 18.071 |
| Benefits (Table 4) | 11.555 | 11.617 | 12.420 | 13.101 |
| Salaries and Benefits | 29.491 | 29.215 | 30.137 | 31.172 |
| CIP and Development | | | | |
| Reimbursement Labor Offsets | (2.833) | (2.321) | (2.954) | (3.013) |
| Net personnel expense | 26.658 | 26.894 | 27.183 | 28.159 |
| Materials and Services | | | | |
| -Operating Supplies | 3.524 | 3.496 | 3.921 | 3.999 |
| -Chemicals | 0.896 | 0.789 | 0.904 | 0.922 |
| -Administration | 3.427 | 3.221 | 3.453 | 3.522 |
| -Utilities | 4.601 | 4.294 | 4.386 | 4.474 |
| -Professional Services | 3.546 | 3.457 | 3.381 | 3.449 |
| -Repair Services | 1.047 | 1.047 | 1.674 | 1.284 |
| -Insurance | 0.922 | 1.171 | 0.777 | 0.793 |
| -Operating Capital Outlay | 0.322 | 0.400 | 0.277 | 0.283 |
| -Contingency | 0.500 | 0.000 | 0.500 | 0.500 |
| Total Materials and Services | 18.785 | 17.875 | 19.273 | 19.226 |
| Subtotal All | 45.443 | 44.769 | 46.456 | 47.385 |
| Letter of Credit Fee | 1.108 | 1.108 | 0.000 | 0.000 |
| Total Expenses | \$ 46.551 | \$ 45.877 | \$ 46.456 | \$ 47.385 |

Table 5 details the breakdown of employee benefits by type. Overall, the 2017 proposed budget for benefits is 7.5% higher than the 2016 budget, or about \$865,000. This increase is mostly attributable to the PERS pension contribution by the District increasing by 15.3% or about \$690,000 and retiree health insurance paid by the District, which is projected to be about \$106,000 higher than the 2016 budget. For 2018 the PERS pension contribution is already projected to increase by \$537,000, another 10.3%. As the Board has discussed on numerous occasions, there are long-term unfunded actuarial liabilities (UALs) associated with both the PERS pension program and retiree health insurance benefits. The proposed 2017-2018 budget does not currently include any extraordinary payments to reduce either of these UALs.

Table 5: 2016 Adopted Employee Benefits by Type with Proposed 2017-2018 Benefits Budgets (in millions)

| Type | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|-----------------------|---------------------|--------------------------|----------------------|----------------------|
| Medical | \$ 3.550 | \$ 3.451 | \$ 3.600 | \$ 3.672 |
| Retiree Health | 1.331 | 1.467 | 1.437 | 1.466 |
| Dental | 0.356 | 0.330 | 0.350 | 0.357 |
| Vision | 0.042 | 0.035 | 0.045 | 0.046 |
| EAP | 0.006 | 0.006 | 0.006 | 0.006 |
| Life | 0.043 | 0.029 | 0.043 | 0.044 |
| Workers' Compensation | 0.293 | 0.293 | 0.295 | 0.301 |
| FICA | 1.325 | 1.274 | 1.302 | 1.328 |
| PERS | 4.515 | 4.579 | 5.205 | 5.742 |
| Medical Reimbursement | 0.040 | 0.056 | 0.060 | 0.061 |
| Vehicle Allowance | 0.030 | 0.030 | 0.036 | 0.037 |
| Other Employee Costs | 0.024 | 0.067 | 0.041 | 0.041 |
| Total Benefits | \$ 11.555 | \$ 11.617 | \$ 12.420 | \$ 13.101 |

Debt Service Coverage:

The Installment Purchase Agreements associated with the District's debt issuances require the District, to the fullest extent permitted by law, to fix, prescribe, and collect rates and charges so that the ratio of revenues to operating expenditures, including debt payments, is at least 1.25. The District may make adjustments from time to time in its rates and charges, but cannot reduce those rates and charges unless the District's net revenues from reduced rates and charges will at all times be sufficient to meet the debt service coverage ratio of 1.25.

The District's recent 2016C bond transaction has eliminated the uncertainty related to the forecasted debt payments required for the variable-rate debt by replacing it with fixed-rate debt. Table 6 shows the projected debt service coverage for 2017 for each of the three revenue scenarios and Table 7 shows them for 2018. The District will meet the bond requirements for all three scenarios in 2017 and 2018. The District will meet the internal goal for debt coverage of 1.25x for only Scenario 1 in 2018 and for none in 2017.

Table 6: Coverage Projections for 2017 using revenue scenarios 1-3 (in millions)

| | Scenario 1 2017 Projections <small>(1)(2)(3)</small> | Scenario 2 2017 Projections <small>(2)(3)(4)</small> | Scenario 3 2017 Projections <small>(5)(6)(7)</small> |
|--|--|--|--|
| Estimated Revenues | \$ 83.532 | \$ 82.531 | \$ 83.464 |
| Estimated Operating Expenses | (46.456) | (46.456) | (46.456) |
| Net Revenues | \$ 37.076 | \$ 36.075 | \$ 37.008 |
| State Loans (preexisting) | 1.079 | 1.0791 | 1.079 |
| Available Net Revenues | 35.997 | 34.996 | 35.929 |
| Debt Service ⁽⁸⁾ | 25.125 | 25.125 | 25.125 |
| Debt Service Ratio | 1.43 | 1.39 | 1.43 |
| Internal (1.0) Debt Service Ratio ⁽⁹⁾ | 1.23 | 1.19 | 1.13 |

⁽¹⁾ 5% rate increase previously authorized for water, wastewater and recycled water

⁽²⁾ FCC revenue \$5 million

⁽³⁾ Hydroelectric revenue \$8 million proposed for budget

⁽⁴⁾ 5% rate increases for water and recycled water and 0% rate increase for wastewater

⁽⁵⁾ 0% rate increases for water, wastewater and recycled water in 2015

⁽⁶⁾ 3% rate increases for water and recycled water and 0% rate increase for wastewater

⁽⁶⁾ Hydroelectric revenue \$7 million

⁽⁷⁾ FCC revenue \$7.5 million

⁽⁸⁾ Proposed budgets for 2016 and 2017 assume prepayment of the following year's maturing debt of \$3 million in each year. The District's prepayment in 2016 will reduce the debt service in 2017 by \$3 million.

⁽⁹⁾ Internal 1.0 test is based upon available net revenues, excluding FCCs, being equal to or greater than, the debt service in a given year. Being equal to would be $(\text{available net revenues} - \text{FCCs}) / (\text{debt service}) = 1.00$.

Table 7 reflects projected debt service coverage for 2018 for the various rate scenarios listed before.

Table 7: Coverage Projections for 2018 using revenue scenarios 1-3 (in millions)

| | Scenario 1 2018 Projections <small>(1)(2)(3)</small> | Scenario 2 2018 Projections <small>(2)(3)(4)</small> | Scenario 3 2018 Projections <small>(5)(6)(7)</small> |
|--|--|--|--|
| Estimated Revenues | \$ 86.101 | \$ 84.245 | \$ 84.844 |
| Estimated Operating Expenses | (47.385) | (47.385) | (47.385) |
| Net Revenues | \$ 38.719 | \$ 36.860 | \$ 37.459 |
| State Loans (preexisting) | 1.079 | 1.079 | 1.079 |
| Available Net Revenues | 37.640 | 35.781 | 36.380 |
| Debt Service ⁽⁸⁾ | 25.501 | 25.501 | 25.501 |
| Debt Service Ratio | 1.48 | 1.40 | 1.43 |
| Internal (1.0) Debt Service Ratio ⁽⁹⁾ | 1.28 | 1.21 | 1.13 |

⁽¹⁾ 4% rate increase previously authorized for water, wastewater and recycled water

⁽²⁾ FCC revenue \$5 million

⁽³⁾ Hydroelectric revenue \$8 million proposed for budget

⁽⁴⁾ 4% rate increases for water and recycled water and 0% rate increase for wastewater

⁽⁵⁾ 0% rate increases for water, wastewater and recycled water in 2018

⁽⁶⁾ Hydroelectric revenue \$7 million

⁽⁷⁾ FCC revenue \$7.5 million

⁽⁸⁾ Proposed budgets for 2017 and 2018 assume prepayment of the following year's maturing debt of \$3 million in each year. The District's prepayment in 2017 will reduce the debt service in 2018 by \$3 million.

⁽⁹⁾ Internal 1.0 test is based upon available net revenues, excluding FCCs, being equal to or greater than, the debt service in a given year. Being equal to would be $(\text{available net revenues} - \text{FCCs}) / (\text{debt service}) = 1.00$.

As a minimum, requirement the bond covenants to the District's bondholders require the District to meet the 1.25x coverage test. Beginning with the first Certificate of Participation bond sale in 2003, the District has included FCC revenue in meeting its debt coverage requirements. In 2010, the Board imposed an internal requirement that the District's debt service ratio, excluding FCCs, be at least 1.0, with a 1.25 ratio as the goal. The test is identical to the bond document test of 1.25x coverage, except it excludes FCCs from the calculation. By creating budgets that meet this test, the District is assured it is meeting all of its obligations for a given year, including operating expenses and debt payments, without relying on FCC revenue or other potentially volatile forms of revenue as cautioned by Standard & Poor's and Moody's Investor Services in the recent comments to the District's bond transactions.

As reflected in Table 8, past reliance on FCC revenues to meet debt coverage requirements masked the District's lack of rate or other non-rate revenues. When the economic downturn in 2008 devastated FCC revenues, the District did not meet its 1.25x coverage requirement in 2009. The District was not performing the internal 1.0x test then; had it been, the test would have been met only in 2006. This over-reliance on FCCs required multi-year double digit rate increases, significant employee layoffs, and a restructuring of the debt to enable the District to meet its ongoing bondholder obligations. The 1.0x test must always be met to avoid repeating the over-reliance on the FCC revenue that occurred from 2003 to 2009 for meeting bond covenants.

Table 8: Debt Service Coverage FY2003-2015 (in millions)

| Fiscal Year | Net Revenues | Debt Service | Coverage | FCCs | Coverage if FCCs Excluded |
|-------------|--------------|--------------|----------|----------|---------------------------|
| 2003 | \$13.044 | \$7.414 | 1.76 | \$12.775 | 0.04 |
| 2004 | 10.312 | 11.435 | 0.90 | 9.835 | 0.04 |
| 2005 | 18.578 | 11.624 | 1.60 | 15.884 | 0.23 |
| 2006 | 36.284 | 15.561 | 2.33 | 11.470 | 1.59 |
| 2007 | 27.349 | 15.276 | 1.79 | 15.237 | 0.79 |
| 2008 | 25.919 | 17.792 | 1.46 | 11.453 | 0.81 |
| 2009 | 12.125 | 14.755 | 0.82 | 1.099 | 0.75 |
| 2010 | 22.224 | 16.133 | 1.40 | 0.577 | 1.37 |
| 2011 | 32.888 | 19.865 | 1.69 | 2.773 | 1.55 |
| 2012 | 27.681 | 17.777 | 1.59 | 2.301 | 1.46 |
| 2013 | 35.886 | 16.406 | 2.27 | 5.453 | 1.92 |
| 2014 | 29.301 | 15.189 | 1.93 | 4.543 | 1.63 |
| 2015 | 39.383 | 15.513 | 2.54 | 13.924 | 1.64 |

5 Year Financial Plan Review:

The 2017-2021 Financial Plan has been updated to reflect some revenue assumption changes for 2017-2021 discussed earlier and are reflected in Appendixes 2-4 (Scenarios 1-3), and to include the results obtained from the 2016A, 2016B and 2016C bond transactions and reflected in the related operating forecasts included in the bond documents. Projections for construction payments reflect changes made to the 2017-2021 Capital Improvement Plan (CIP).

Following is a brief review of the previously adopted financial plan and some proposed changes.

Purpose of a Financial Plan

In November 2014, staff made a presentation to the Board discussing reasons the District needed to prepare long-term financial plan in order to balance the financial needs of operations with the need for capital improvements. The plan would be used to establish necessary costs for operations and maintenance, debt service, and pay-as-you-go construction projects. It would also establish the amount of total revenues needed to fund the operating costs, fund debt payments while also meeting bond covenants, and maintain adequate cash reserves.

Long-term financial plans are also used to plan, by year, rate adjustments needed to meet the financial goals of the District through the use of small annual rate increases without creating rate shock with large, double-digit increases. Additional financial plan goals include maintaining strong credit ratings and maintaining funding for critical asset replacement prior to end of life to avoid asset failures. With multiyear financial plans in place including rate increases showing the ability of a utility to meet its operational and financing obligations, the bond rating agencies gain confidence in the utility, rate its credit higher, and ultimately reduce the cost of borrowing.

In staff's opinion, the success of the District's 2016 financing transactions does not alter the District's need to implement the previously adopted rate increases for 2017-2020 which are presented in Scenario 1. The adopted rate increases were included within the Board-approved financial forecasts provided to the rating agencies and bond-buying community in each of the 2016 financing transactions, as were the resulting actual debt payment requirements for the new issues. District officials signed statements affirming that these projections did not make any material misstatements or omit any material information. These projections were also instrumental in the District obtaining its credit rating enhancements in July, and having them affirmed in September.

The 2017-2020 rate increases are already approved, with a Proposition 218 protest rate of less than 2%. The revenue associated with them provides opportunities for the District to address many different priorities, including making capital investments, paying down debt, making extra payments to begin addressing the pension and retiree medical UALs, maintaining adequate levels of unrestricted cash on hand, and establishing a buffer for necessary future increases in operating expenses.

Adopted Financial Plan

In November 2015, the Board adopted the 2016-2020 Financial Plan. The proposed 2017-2021 Financial Plan (Scenario 1) is a continuation of the previous plan with minor revenue adjustments. It is consistent with what was presented to the bond community and included in the bond documents for all three 2016 transactions. Although the Board's approved rate increases run only through 2020, all three financial scenarios use a 3% rate increase in 2021 to project revenues needed to cover ongoing increases in operating expenses. The proposed plans also project a \$50 million bond sale in 2021. Similar to the 2016 sale, this bond would provide capital needed to fund major future, long-lived CIP assets such as replacements of Silver Lake Dam and the El Dorado Hills Raw Water Pump Station, the continuation of the flume replacements, and many wastewater lift station reconstructions.

Conclusion:

The 2017-2018 operating budget process presents a number of challenging financial issues because of increasing pension costs, a growing backlog of deferred maintenance at District facilities, and the uncertainty surrounding both national, state, and local economic conditions and next year's hydrology. Like all of EID's budgets, staff approached the process with two overriding priorities: maintaining a reliable level of service to customers that protects public health and safety, and the environment; and demonstrating fiscal responsibility. Staff believes both of these objectives are met under the proposed 2017-2018 operating budget. Staff also believes that if the projected revenues are met and the operating budgets are not significantly exceeded because of unforeseen circumstances, the 1.25 coverage requirements in the District's bond covenants will be met while the District's internal 1.25x or better goal, excluding FCCs, will also be met except in 2017.

Staff recommends Scenario 1 because it best meets the goals and objectives of the Financial Plan set forth in AR 3012:

1. It continues to limit future rate increases to 5% or less, thereby avoiding rate shock;
2. It generates cash flow each year in the \$10-\$14 million range to fund annual pay-as-you-go construction projects and allowing debt financing to be used judiciously for specific large, long-lived capital projects (see APPENDIX 2, end of year Unrestricted/Unreserved cash balance);
3. It meets the required coverage tests for our bond holders (1.25x) and the internal coverage test (1.0x) in each year, and it meets the internal coverage goal (1.25) in each year except 2017;

4. It creates annual coverage requirements closer to 1.70x-2.00x with FCCs and 1.23x-1.64x without FCCs, in accordance with the AR3012 goals and objectives; and
5. It creates overall end-of-year cash reserves near the high end required under AR3012 without over-reliance on FCCs.
6. Days of cash available for operations (excluding restricted cash) is near 416 days in 2017, dropping to 285 days by 2021.

Staff does not recommend Scenario 2 for the following reasons:

1. It creates overall end-of-year cash reserves \$5 million lower by 2019 and \$9 million lower by 2021 than Scenario 1. The unrestricted cash reserve balance is negative in 2021.
2. Days of cash available for operations (excluding restricted cash) is near 407 days in 2017 dropping to 221 days by 2021.
3. It does not offer opportunities to address UALs, compared to Scenario 1.

Staff does not recommend Scenario 3 for the following reasons:

1. It creates overall end-of-year cash reserves \$2.7 million lower by 2019 and \$5.8 million lower by 2021 than Scenario 1. The unrestricted cash reserve balance is negative in 2020 and 2021.
2. Days of cash available for operations (excluding restricted cash) is near 404 days in 2017 dropping to 197 days by 2021. This is related to the reliance on higher FCCs to offset the operating rate reductions for this forecast.
3. The development impacts of growth-control Measure E, passed last June, are presently unclear, so increasing and relying on higher projected FCC revenues in this fashion does not seem prudent.
4. Projecting \$8 million in annual hydroelectric revenues is justified. The current power purchase contract that produces those revenues came into effect on May 15, 2010. In the four non-drought years between 2010 and 2013, annual hydroelectric revenues averaged \$8.54 million, with three of the four years at \$7.88 million or higher. The lower revenues in 2014-2016 are the result of temporary conditions – the extended project outages required for Esmeralda Tunnel repairs, and drought.
5. This scenario also does not offer opportunities to address UALs, compared to Scenario 1.

Staff firmly believes the adopted rate increases are still needed to adequately fund infrastructure replacement and maintain service levels in normal operations. Combined with the effect of the 2016 financing transactions, these rate increases produce improved projected debt coverage calculations for the financial plan's forecast period. Increasing FCC revenue projections, at this time, does not seem justified in the wake of the passing of Measure E and the uncertainty it has created for development within the County. The forecast also shows, moreover, that unrestricted cash will decline over time. Also, the financial plan currently shows no extraordinary actions to enhance the District's response to long-term unfunded pension and retiree healthcare liabilities. Finally, a bond sale is projected to be needed in 2021 to fund the replacement and rehabilitation of long-lived assets planned for the next phase of major capital investments in years 2022-2026; maintaining the already-approved 2017-2020 rate increases will mitigate any rate increases needed in conjunction with that bond sale, avoiding rate shock at that time.

Board Decision/Options:

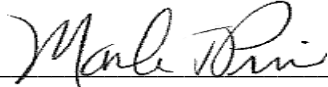
- Option 1: Adopt the El Dorado Irrigation District 2017-2018 Operating Budget and 2017-2021 Financial Plan (Scenario 1), including the implementation of previously approved rate increases for 2017 for water, wastewater and recycled water.
- Option 2: Take other action as recommended by the Board.
- Option 3: Take no action.

Staff/General Manager Recommendation:

- Option 1.

Supporting Documents Attached:

- Appendix 1: AR 3012, page 17
- Appendix 2: Scenario 1 2015-2019 forecast, pages 18-20
- Appendix 3: Scenario 2 2015-2019 forecast, pages 21-23
- Appendix 4: Scenario 3 2015-2019 forecast, pages 24-26



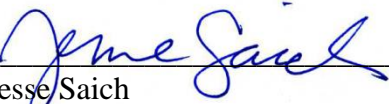
Mark T. Price
Finance Director



Margaret P. Washko, P.E.
Operations Director



Brian Mueller
Engineering Director



Jesse Saich
Public Information Officer



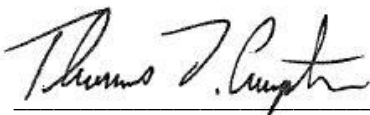
Jose C. Perez
Human Resources Manager



Tim Ranstrom
Information Technology Director



Brian D. Poulsen
Acting General Counsel



Thomas Cumpston
Acting General Manager

Purpose of the 5-Year Financial Plan

- The 5-year financial plan establishes the cost of funding the operations and maintenance, capital expenditures, and debt expenses required to meet the Districts' mission of providing high quality, wastewater treatment, recycled water, hydro-power, and recreational services in an environmentally and fiscally responsible manner, meeting the District's debt covenant requirements to its bond holders and matching future revenues to those costs
- Long term financial planning
 - Avoids volatile rate adjustments
 - Better manages debt
 - Better manages prepayment of debt
 - Funds the Capital Improvement Plan
 - Provides a plan for meeting debt covenant requirements
 - Sets clear, public goals and expectations

Goals and Objectives of Financial Plan

- Establish necessary operating and maintenance costs, debt expenses, and pay-as-you-go project costs
- Generate adequate revenues to fund those costs, meet debt covenants and maintain adequate cash reserves
- Avoid "rate shock"
 - Small annual rate adjustments are better than years of zero rate increases followed by double digit increase to make up the shortfall
- Maintain strong credit ratings with rating agencies (S&P, AA-; Moody's, Aa3)
- Maintain cash reserves between \$60 million and \$80 million
- Maintain CIP funding levels to replace high priority capital assets prior to end of life, avoiding critical asset failures
- Maintain 1.7 to 2.0 debt coverage ratio with Facility Capacity Charges (FCC)
- Maintain 1.25 debt coverage ratio without FCC's
 - In all years, meet Finance Control test that annual operating revenue, excluding FCC's, must equal or exceed total annual operating expenses plus debt payments

APPENDIX 2

Scenario 1

| Total District | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | 50.0 |
| Total revenues | 83.5 | 86.1 | 88.2 | 90.4 | 91.8 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 37.0 | 38.7 | 39.9 | 41.1 | 41.5 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.9 | 37.6 | 38.8 | 40.0 | 40.4 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 10.8 | 12.1 | 13.3 | 14.8 | 68.8 |
| Cash balance - January 1 | 123.4 | 109.9 | 87.9 | 75.5 | 74.2 |
| Total Cash Available for Capital Projects or Debt PrePayment | 134.2 | 122.0 | 101.2 | 90.3 | 143.0 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.9 | \$ 87.9 | \$ 75.5 | \$ 74.2 | 123.9 |
| Senior debt service coverage (1.25x test) | 1.43 | 1.47 | 1.52 | 1.59 | 1.87 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.23 | 1.28 | 1.33 | 1.39 | 1.64 |
| Breakdown of end of year cash balance | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
| Unrestricted/Unreserved | \$ 20.0 | \$ 15.0 | \$ 12.6 | \$ 8.5 | 5.5 |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 109.9 | \$ 87.9 | \$ 75.5 | \$ 74.2 | 123.9 |

| Water Utility only | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 40.0 |
| Total revenues | 50.9 | 52.3 | 53.4 | 54.5 | 55.7 |
| Total maintenance and operation costs | 28.7 | 29.3 | 29.9 | 30.5 | 31.1 |
| Net revenues | 22.2 | 23.0 | 23.5 | 24.0 | 24.6 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 21.1 | 21.9 | 22.4 | 22.9 | 23.5 |
| Senior debt service | 15.3 | 15.6 | 15.6 | 15.4 | 13.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.8 | 6.3 | 6.9 | 7.5 | 49.7 |
| Cash balance - January 1 | 89.8 | 77.2 | 55.0 | 39.6 | 34.0 |
| Total Cash Available for Capital Projects or Debt PrePayment | 95.6 | 83.6 | 61.9 | 47.1 | 83.7 |
| total CIP | (16.7) | (27.0) | (20.7) | (11.6) | (12.6) |
| Pre funding debt | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Cash balance - December 31 | 77.2 | 55.0 | 39.6 | 34.0 | 69.6 |
| Senior debt service coverage (1.25x test) | 1.38 | 1.41 | 1.44 | 1.49 | 1.71 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| \$\$\$ of FCCs removed from calculation | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| Potential senior debt coverage (1.0x test) | 1.22 | 1.25 | 1.29 | 1.33 | 1.53 |

| Wastewater Utility only | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 10.0 |
| Total revenues | 32.6 | 33.8 | 34.8 | 35.9 | 36.1 |
| Total maintenance and operation costs | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Net revenues | 14.9 | 15.7 | 16.4 | 17.1 | 16.9 |
| Pre-existing state obligations | - | - | - | - | - |
| Net revenues available after pre existing obligations | 14.9 | 15.7 | 16.4 | 17.1 | 16.9 |
| Senior debt service | 9.8 | 9.9 | 9.9 | 9.8 | 7.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.1 | 5.8 | 6.4 | 7.2 | 19.1 |
| Cash balance - January 1 | 33.6 | 32.7 | 33.0 | 35.9 | 40.3 |
| Total Cash Available for Capital Projects or Debt PrePayment | 38.7 | 38.5 | 39.4 | 43.2 | 59.4 |
| total CIP | (4.6) | (4.1) | (2.0) | (1.5) | (3.6) |
| Pre funding debt | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Cash balance - December 31 | 32.7 | 33.0 | 35.9 | 40.3 | 54.4 |
| Senior debt service coverage (1.25x test) | 1.52 | 1.58 | 1.65 | 1.74 | 2.17 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| \$\$\$ of FCCs removed from calculation | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| Potential senior debt coverage (1.0x test) | 1.25 | 1.32 | 1.38 | 1.47 | 1.84 |

Scenario 2

| | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total District | | | | | |
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | 50.0 |
| Total revenues | 82.5 | 84.2 | 86.3 | 88.4 | 89.7 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 36.0 | 36.8 | 38.0 | 39.1 | 39.4 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 34.9 | 35.7 | 36.9 | 38.0 | 38.3 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.8 | 10.2 | 11.4 | 12.8 | 66.7 |
| Cash balance - January 1 | 123.4 | 108.9 | 85.0 | 70.7 | 67.4 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.2 | 119.1 | 96.4 | 83.5 | 134.1 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 108.9 | \$ 85.0 | \$ 70.7 | \$ 67.4 | 115.0 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.40 | 1.45 | 1.51 | 1.77 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.20 | 1.25 | 1.31 | 1.54 |
| | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | \$ 19.0 | \$ 12.1 | \$ 7.8 | \$ 1.7 | -3.4 |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 108.9 | \$ 85.0 | \$ 70.7 | \$ 67.4 | 115.0 |

| Water Utility only | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 40.0 |
| Total revenues | 50.9 | 52.3 | 53.4 | 54.5 | 55.7 |
| Total maintenance and operation costs | 28.7 | 29.3 | 29.9 | 30.5 | 31.1 |
| Net revenues | 22.2 | 23.0 | 23.5 | 24.0 | 24.6 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 21.1 | 21.9 | 22.4 | 22.9 | 23.5 |
| Senior debt service | 15.3 | 15.6 | 15.6 | 15.4 | 13.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.8 | 6.3 | 6.9 | 7.5 | 49.7 |
| Cash balance - January 1 | 89.8 | 77.2 | 55.0 | 39.6 | 34.0 |
| Total Cash Available for Capital Projects or Debt PrePayment | 95.6 | 83.6 | 61.9 | 47.1 | 83.7 |
| total CIP | (16.7) | (27.0) | (20.7) | (11.6) | (12.6) |
| Pre funding debt | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Cash balance - December 31 | 77.2 | 55.0 | 39.6 | 34.0 | 69.6 |
| Senior debt service coverage (1.25x test) | 1.38 | 1.41 | 1.44 | 1.49 | 1.71 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| \$\$\$ of FCCs removed from calculation | 2.39 | 2.39 | 2.39 | 2.39 | 2.39 |
| Potential senior debt coverage (1.0x test) | 1.22 | 1.25 | 1.29 | 1.33 | 1.53 |

| Wastewater Utility only | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 10.0 |
| Total revenues | 31.6 | 32.0 | 32.9 | 33.9 | 34.0 |
| Total maintenance and operation costs | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Net revenues | 13.9 | 13.9 | 14.4 | 15.1 | 14.9 |
| Pre-existing state obligations | - | - | - | - | - |
| Net revenues available after pre existing obligations | 13.9 | 13.9 | 14.4 | 15.1 | 14.9 |
| Senior debt service | 9.8 | 9.9 | 9.9 | 9.8 | 7.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 4.1 | 3.9 | 4.5 | 5.2 | 17.1 |
| Cash balance - January 1 | 33.6 | 31.7 | 30.1 | 31.1 | 33.5 |
| Total Cash Available for Capital Projects or Debt PrePayment | 37.7 | 35.6 | 34.6 | 36.4 | 50.5 |
| total CIP | (4.6) | (4.1) | (2.0) | (1.5) | (3.6) |
| Pre funding debt | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Cash balance - December 31 | 31.7 | 30.1 | 31.1 | 33.5 | 45.6 |
| Senior debt service coverage (1.25x test) | 1.42 | 1.40 | 1.45 | 1.53 | 1.91 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| \$\$\$ of FCCs removed from calculation | 2.61 | 2.61 | 2.61 | 2.61 | 2.61 |
| Potential senior debt coverage (1.0x test) | 1.15 | 1.13 | 1.19 | 1.27 | 1.57 |

APPENDIX 4

Scenario 3

| Total District | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | 50.0 |
| Total revenues | 83.5 | 84.8 | 86.8 | 88.9 | 90.2 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 37.0 | 37.4 | 38.5 | 39.6 | 39.9 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.9 | 36.3 | 37.4 | 38.5 | 38.8 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 10.8 | 10.8 | 11.9 | 13.3 | 67.2 |
| Cash balance - January 1 | 123.4 | 109.9 | 86.6 | 72.8 | 70.0 |
| Total Cash Available for Capital Projects or Debt PrePayment | 134.2 | 120.7 | 98.5 | 86.1 | 137.2 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.9 | \$ 86.6 | \$ 72.8 | \$ 70.0 | 118.1 |
| Senior debt service coverage (1.25x test) | 1.43 | 1.42 | 1.47 | 1.53 | 1.80 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 |
| \$\$\$ of FCCs removed from calculation | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 |
| Potential senior debt coverage (1.0x test) | 1.13 | 1.13 | 1.17 | 1.23 | 1.45 |
| Breakdown of end of year cash balance | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
| Unrestricted/Unreserved | \$ 18.7 | \$ 11.2 | \$ 6.1 | \$ (0.7) | -6.6 |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 22.4 | 26.2 | 29.9 | 33.7 | 37.4 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| Reserved | 58.4 | 42.3 | 33.4 | 37.2 | 90.9 |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Total | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 109.9 | \$ 86.6 | \$ 72.8 | \$ 70.0 | 118.1 |

| Water Utility only | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 40.0 |
| Total revenues | 50.6 | 51.6 | 52.7 | 53.8 | 54.9 |
| Total maintenance and operation costs | 28.7 | 29.3 | 29.9 | 30.5 | 31.1 |
| Net revenues | 21.8 | 22.3 | 22.8 | 23.3 | 23.8 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 20.8 | 21.2 | 21.7 | 22.2 | 22.7 |
| Senior debt service | 15.3 | 15.6 | 15.6 | 15.4 | 13.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.4 | 5.7 | 6.2 | 6.8 | 49.0 |
| Cash balance - January 1 | 89.8 | 76.9 | 54.0 | 37.9 | 31.5 |
| Total Cash Available for Capital Projects or Debt PrePayment | 95.2 | 82.5 | 60.1 | 44.6 | 80.4 |
| total CIP | (16.7) | (27.0) | (20.7) | (11.6) | (12.6) |
| Pre funding debt | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Cash balance - December 31 | 76.9 | 54.0 | 37.9 | 31.5 | 66.3 |
| Senior debt service coverage (1.25x test) | 1.35 | 1.36 | 1.40 | 1.44 | 1.65 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 |
| \$\$\$ of FCCs removed from calculation | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 |
| Potential senior debt coverage (1.0x test) | 1.12 | 1.13 | 1.16 | 1.21 | 1.39 |

| Wastewater Utility only | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | - | - | - | - | 10.0 |
| Total revenues | 32.9 | 33.2 | 34.2 | 35.2 | 35.3 |
| Total maintenance and operation costs | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Net revenues | 15.2 | 15.2 | 15.7 | 16.3 | 16.1 |
| Pre-existing state obligations | - | - | - | - | - |
| Net revenues available after pre existing obligations | 15.2 | 15.2 | 15.7 | 16.3 | 16.1 |
| Senior debt service | 9.8 | 9.9 | 9.9 | 9.8 | 7.8 |
| CIP expenditures | - | - | - | - | - |
| CIP - IT Master Plan | - | - | - | - | - |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 5.4 | 5.2 | 5.8 | 6.5 | 18.3 |
| Cash balance - January 1 | 33.6 | 33.0 | 32.7 | 35.0 | 38.6 |
| Total Cash Available for Capital Projects or Debt PrePayment | 39.0 | 38.2 | 38.5 | 41.5 | 57.0 |
| total CIP | (4.6) | (4.1) | (2.0) | (1.5) | (3.6) |
| Pre funding debt | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Cash balance - December 31 | 33.0 | 32.7 | 35.0 | 38.6 | 52.0 |
| Senior debt service coverage (1.25x test) | 1.55 | 1.52 | 1.58 | 1.66 | 2.07 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 3.91 | 3.91 | 3.91 | 3.91 | 3.91 |
| \$\$\$ of FCCs removed from calculation | 3.91 | 3.91 | 3.91 | 3.91 | 3.91 |
| Potential senior debt coverage (1.0x test) | 1.15 | 1.13 | 1.19 | 1.27 | 1.57 |

**Consideration of the
2017-2018
Operating Budget
and
2017-2021
Financial Plan**

El Dorado Irrigation District

November 14, 2016

Presentation Summary

- **Previous Board Action**
- **Board Policies/Administrative Regulations**
- **Summary of Issues**
- **Staff Analysis/Evaluation**
- **Board Discussion/Guidance**

Previous Board Action

- **Mar. 20, 2000:** Board adopted a multi-year operating budget process
- **Dec. 8, 2014:** Board adopted the 2015-2016 operating budget and the 2015-2019 Financial Plan
- **Nov. 9, 2015:** Board adopted the 2016 mid-cycle operating budget and the 2016-2020 Financial Plan
- **October 24, 2016:** Board held a workshop on the 2017-2018 operating budget and 2017-2021 Financial Plan

Board Policy/Administrative Regulations

- **BP 3010: Board shall adopt a two-year operating budget and may modify it prior to the end of the year.**

Board Policy/Administrative Regulations

- **AR 3011**: It is the responsibility of the General Manager to develop the budget based on the priorities and needs of the District and its customers.
- Responsibility for overseeing the budget development process is assigned to the Director of Finance.

Board Policy/Administrative Regulations

- **AR 3012: Purpose of 5-Year Financial Plan**
 - Establishes the cost of funding required to meet the District's mission of providing high quality of services in a fiscally responsible manner for:
 - Operations and maintenance
 - Capital expenditures
 - Debt expenses
 - Meet requirements of District's outstanding debt obligations to the bondholders
 - Avoid volatility in rate adjustments
 - Maintain strong credit ratings (S&P, AA-; Moody's, Aa3)
 - Maintain cash reserves \$60-\$80 million

Summary of Issues

- **Staff analysis/evaluation**
- **2017–2018 revenue projections**
- **2017–2018 operating budget expense projections**
- **Debt service coverage**
- **2017-2021 five-year forecast**
- **Projected cash reserve balances by scenario**

October 24, Budget Workshop

- Results
 - Staff presented 2017 and 2018
 - Revenue projections with previously adopted rate increases
 - Operating expense proposals
 - Projected results of operating revenues, operating expenses, debt, CIP expenditures and debt coverage

October 24, Budget Workshop

- Results

- A Board member asked staff to create two additional proposals:

- Proposal 1 - adjust the 2017 and 2018 wastewater rate increases down to 0% versus previously adopted 5% for 2017 and 4% for 2018
 - Identified as Scenario 2 later in this presentation

October 24, Budget Workshop

- Results

- A Board member asked staff to create two additional proposals:

- Proposal 2 –

- Adjust water and recycled water rate increases to 3% for 2017 and 2018 and wastewater to 0% for 2017 and 2018 versus previously adopted 5% for 2017 and 4% for 2018

- Adjust Hydroelectric revenues from \$8.0 million to \$7.0 million

- Adjust FCC revenues from \$5.0 million to \$7.5 million

- Identified as Scenario 3 later in this presentation

October 24, Budget Workshop

- Results
 - A second Board member asked staff to create an additional proposal subsequent to the posting of the budget AIS:
 - Proposal –
 - Reduce rate increases to 3% for 2017 and 2018 (down from 5% and 4% respectively) and retain previously adopted 3% increases for 2019 and 2020
 - No changes to hydroelectric or FCC revenues
 - Identified as Scenario 4 later in this presentation

October 24, Budget Workshop

- Results
 - Budget proposals will be presented later in this presentation as follows-
 - Scenario 1 – original staff proposed budget from Board Workshop on October 24, 2016
 - Scenario 2 – first proposal from Board member
 - Scenario 3 – second proposal from Board member
 - Scenario 4 – proposal from second Board member



2017-2018 Operating Budget Expense Projections



2016-2018 Operating Budget Summary by Expense Type

(in millions)

| | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|------------------------------|------------------------------------|---|-------------------------------------|-------------------------------------|
| Wages | \$ 17.936 | \$ 17.598 | \$ 17.717 | \$ 18.071 |
| Benefits (Table 4) | 11.555 | 11.617 | 12.420 | 13.101 |
| Salaries and Benefits | 29.491 | 29.215 | 30.137 | 31.172 |
| CIP and Development | | | | |
| Reimbursement Labor Offsets | (2.833) | (2.321) | (2.954) | (3.013) |
| Net personnel expense | 26.658 | 26.894 | 27.183 | 28.159 |
| Materials and Services | | | | |
| -Operating Supplies | 3.524 | 3.496 | 3.921 | 3.999 |
| -Chemicals | 0.896 | 0.789 | 0.904 | 0.922 |
| -Administration | 3.427 | 3.221 | 3.453 | 3.522 |
| -Utilities | 4.601 | 4.294 | 4.386 | 4.474 |
| -Professional Services | 3.546 | 3.457 | 3.381 | 3.449 |
| -Repair Services | 1.047 | 1.047 | 1.674 | 1.284 |
| -Insurance | 0.922 | 1.171 | 0.777 | 0.793 |
| -Operating Capital Outlay | 0.322 | 0.400 | 0.277 | 0.283 |
| -Contingency | 0.500 | 0.000 | 0.500 | 0.500 |
| Total Materials and Services | 18.785 | 17.875 | 19.273 | 19.226 |
| Subtotal All | 45.443 | 44.769 | 46.456 | 47.385 |
| Letter of Credit Fee | 1.108 | 1.108 | 0.000 | 0.000 |
| Total Expenses | \$ 46.551 | \$ 45.877 | \$ 46.456 | \$ 47.385 |

2016 – 2018 Employee Benefits by Type

(in millions)

| Type | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|-----------------------|---------------------------|--------------------------------|----------------------------|----------------------------|
| Medical | \$ 3.550 | \$ 3.451 | \$ 3.600 | \$ 3.672 |
| Retiree Health | 1.331 | 1.467 | 1.437 | 1.466 |
| Dental | 0.356 | 0.330 | 0.350 | 0.357 |
| Vision | 0.042 | 0.035 | 0.045 | 0.046 |
| EAP | 0.006 | 0.006 | 0.006 | 0.006 |
| Life | 0.043 | 0.029 | 0.043 | 0.044 |
| Workers' Compensation | 0.293 | 0.293 | 0.295 | 0.301 |
| FICA | 1.325 | 1.274 | 1.302 | 1.328 |
| PERS | 4.515 | 4.579 | 5.205 | 5.742 |
| Medical Reimbursement | 0.040 | 0.056 | 0.060 | 0.061 |
| Vehicle Allowance | 0.030 | 0.030 | 0.036 | 0.037 |
| Other Employee Costs | 0.024 | 0.067 | 0.041 | 0.041 |
| Total Benefits | \$ 11.555 | \$ 11.617 | \$ 12.420 | \$ 13.101 |



2017-2021 Revenue Projection Scenarios

Scenario Differences

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------|------|------|------|------|------|
| Rates | | | | | |
| Scenario 1 | | | | | |
| Water | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Wastewater | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Recycled water | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Scenario 2 | | | | | |
| Water | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Wastewater | 0.0% | 0.0% | 3.0% | 3.0% | 3.0% |
| Recycled water | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Scenario 3 | | | | | |
| Water | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Wastewater | 0.0% | 0.0% | 3.0% | 3.0% | 3.0% |
| Recycled water | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |

Scenario Differences

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------|------|------|------|------|------|
| Rates | | | | | |
| Scenario 4 | | | | | |
| Water | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Wastewater | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Recycled water | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |

Scenario Differences

(in millions)

2017 2018 2019 2020 2021

Other revenues

Scenarios 1 & 4

| | | | | | | | | | | |
|---------------|----|------|----|------|----|------|----|------|----|------|
| FCCs | \$ | 5.00 | \$ | 5.00 | \$ | 5.00 | \$ | 5.00 | \$ | 5.00 |
| Hydroelectric | \$ | 8.00 | \$ | 8.00 | \$ | 8.00 | \$ | 8.00 | \$ | 8.00 |

Scenario 2

| | | | | | | | | | | |
|---------------|----|------|----|------|----|------|----|------|----|------|
| FCCs | \$ | 5.00 | \$ | 5.00 | \$ | 5.00 | \$ | 5.00 | \$ | 5.00 |
| Hydroelectric | \$ | 8.00 | \$ | 8.00 | \$ | 8.00 | \$ | 8.00 | \$ | 8.00 |

Scenario 3

| | | | | | | | | | | |
|---------------|----|------|----|------|----|------|----|------|----|------|
| FCCs | \$ | 7.50 | \$ | 7.50 | \$ | 7.50 | \$ | 7.50 | \$ | 7.50 |
| Hydroelectric | \$ | 7.00 | \$ | 7.00 | \$ | 7.00 | \$ | 7.00 | \$ | 7.00 |

2017 Revenue Projections by Scenario

(in millions)

| | 2017 Scenario 1 (1)(2)(3) | 2017 Scenario 2 (2)(3)(4) | 2017 Scenario 3 (5)(6)(7) |
|-------------------------------|---|---|---|
| Water Sales and Services | \$ 29.767 | \$ 29.767 | \$ 29.200 |
| Wastewater Sales and Services | 21.016 | 20.015 | 20.015 |
| Recycled Water Sales | 1.900 | 1.900 | 1.900 |
| Hydropower Sales | 8.000 | 8.000 | 7.000 |
| Investment Income | 0.750 | 0.750 | 0.750 |
| FCCs | 5.000 | 5.000 | 7.500 |
| Debt Surcharges | 2.400 | 2.400 | 2.400 |
| Property Tax | 11.299 | 11.299 | 11.299 |
| Other Income | 2.016 | 2.016 | 2.016 |
| Recreation | 1.384 | 1.384 | 1.384 |
| Total Revenues | \$ 83.532 | \$ 82.531 | \$ 83.464 |

Scenario 4 reduces Scenario 1 rate revenues as follows: water-\$0.566 million and wastewater-\$0.401 million, for a combined total of \$0.967 million

2018 Revenue Projections by Scenario

(in millions)

| | 2018 Scenario 1 <small>(1)(2)(3)</small> | 2018 Scenario 2 <small>(2)(3)(4)</small> | 2018 Scenario 3 <small>(5)(6)(7)</small> |
|-------------------------------|--|--|--|
| Water Sales and Services | \$ 30.958 | \$ 30.958 | \$ 30.076 |
| Wastewater Sales and Services | 22.031 | 20.175 | 20.175 |
| Recycled Water Sales | 1.992 | 1.992 | 1.900 |
| Hydropower Sales | 8.000 | 8.000 | 7.000 |
| Investment Income | 0.750 | 0.750 | 0.750 |
| FCCs | 5.000 | 5.000 | 7.500 |
| Debt Surcharges | 2.408 | 2.408 | 2.408 |
| Property Tax | 11.525 | 11.525 | 11.525 |
| Other Income | 2.026 | 2.026 | 2.026 |
| Recreation | 1.411 | 1.411 | 1.411 |
| Total Revenues | \$ 86.101 | \$ 84.245 | \$ 84.771 |

Scenario 4 reduces Scenario 1 rate revenues as follows: water-\$0.882 million; wastewater-\$0.627 million; recycled water by \$0.019 million, for a combined total of \$1.528 million

Scenario 1

5-Year Forecast

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 83.5 | 86.1 | 88.2 | 90.4 | 91.8 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 37.0 | 38.7 | 39.9 | 41.1 | 41.5 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.9 | 37.6 | 38.8 | 40.0 | 40.4 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 10.8 | 12.1 | 13.3 | 14.8 | 68.8 |
| Cash balance - January 1 | 123.4 | 109.9 | 87.9 | 75.5 | 74.2 |
| Total Cash Available for Capital Projects or Debt PrePayment | 134.2 | 122.0 | 101.2 | 90.3 | 143.0 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.9 | \$ 87.9 | \$ 75.5 | \$ 74.2 | \$ 123.9 |
| Senior debt service coverage (1.25x test) | 1.43 | 1.47 | 1.52 | 1.59 | 1.87 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.23 | 1.28 | 1.33 | 1.39 | 1.64 |

Scenario 1

5-Year Forecast

Projected End of Year Cash

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | \$ 20.0 | \$ 15.0 | \$ 12.6 | \$ 8.5 | \$ 5.5 |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | <u>57.1</u> | <u>39.8</u> | <u>29.7</u> | <u>32.2</u> | <u>84.7</u> |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | <u>32.8</u> | <u>33.1</u> | <u>33.3</u> | <u>33.5</u> | <u>33.8</u> |
| Total | <u>\$ 109.9</u> | <u>\$ 87.9</u> | <u>\$ 75.5</u> | <u>\$ 74.2</u> | <u>\$ 123.9</u> |

Scenario 1

5-Year Forecast

- Scenario 1 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.43-1.59x for others
 - 1.2-1.6x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$18 million annually
 - Days of cash available
 - 2017-416 days
 - 2021-285 days

Scenario 2

5-Year Forecast

| | <u>Projected 2017</u> | <u>Projected 2018</u> | <u>Projected 2019</u> | <u>Projected 2020</u> | <u>Projected 2021</u> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 82.5 | 84.2 | 86.3 | 88.4 | 89.7 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 36.0 | 36.8 | 38.0 | 39.1 | 39.4 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 34.9 | 35.7 | 36.9 | 38.0 | 38.3 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.8 | 10.2 | 11.4 | 12.8 | 66.7 |
| Cash balance - January 1 | 123.4 | 108.9 | 85.0 | 70.7 | 67.4 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.2 | 119.1 | 96.4 | 83.5 | 134.1 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 108.9 | \$ 85.0 | \$ 70.7 | \$ 67.4 | \$ 115.0 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.40 | 1.45 | 1.51 | 1.77 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.20 | 1.25 | 1.31 | 1.54 |

Scenario 2

5-Year Forecast

Projected End of Year Cash

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | \$ 19.0 | \$ 12.1 | \$ 7.8 | \$ 1.7 | \$ (3.4) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 108.9 | \$ 85.0 | \$ 70.7 | \$ 67.4 | \$ 115.0 |

Scenario 2

5-Year Forecast

- Scenario 2 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.39-1.51x for others
 - 1.2-1.5x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$17 million annually
 - Reduces cash available for operations in the wastewater fund by \$9 million
 - Unrestricted/unreserved cash balance is negative by 2021
 - Does not offer opportunities to address UALs
 - Days of cash available
 - 2017-407 days
 - 2021-221 days

Scenario 3

5-Year Forecast

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 83.5 | 84.8 | 86.8 | 88.9 | 90.2 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 37.0 | 37.4 | 38.5 | 39.6 | 39.9 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.9 | 36.3 | 37.4 | 38.5 | 38.8 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 10.8 | 10.8 | 11.9 | 13.3 | 67.2 |
| Cash balance - January 1 | 123.4 | 109.9 | 86.6 | 72.8 | 70.0 |
| Total Cash Available for Capital Projects or Debt PrePayment | 134.2 | 120.7 | 98.5 | 86.1 | 137.2 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.9 | \$ 86.6 | \$ 72.8 | \$ 70.0 | \$ 118.1 |
| Senior debt service coverage (1.25x test) | 1.43 | 1.42 | 1.47 | 1.53 | 1.80 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 |
| \$\$\$ of FCCs removed from calculation | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 |
| Potential senior debt coverage (1.0x test) | 1.13 | 1.13 | 1.17 | 1.23 | 1.45 |

Scenario 3

5-Year Forecast

Projected End of Year Cash

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | \$ 18.7 | \$ 11.2 | \$ 6.1 | \$ (0.7) | \$ (6.6) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 22.4 | 26.2 | 29.9 | 33.7 | 37.4 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | <u>58.4</u> | <u>42.3</u> | <u>33.4</u> | <u>37.2</u> | <u>90.9</u> |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | <u>32.8</u> | <u>33.1</u> | <u>33.3</u> | <u>33.5</u> | <u>33.8</u> |
| Total | <u>\$ 109.9</u> | <u>\$ 86.6</u> | <u>\$ 72.8</u> | <u>\$ 70.0</u> | <u>\$ 118.1</u> |

Scenario 3

5-Year Forecast

- Scenario 3 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.43-1.53x for others
 - 1.1-1.5x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$17 million annually
 - Reduces cash available for operations by \$12 million with Unrestricted/unreserved cash negative in 2020 and 2021
 - Does not offer opportunities to address UALs
 - Development impact of Measure E is unclear so reliance on higher FCC forecast may not be prudent
 - Reducing hydroelectric revenues is questionable:
 - Current contract began 5/15/10
 - Four non-drought years (2010-2013) revenues averaged \$8.54 million (3 of 4 years averaged \$7.88 million or more)
 - Lower revenues in 2014-2016 resulted from temporary conditions- extended project outages for Esmeralda Tunnel, drought
 - Days of cash available
 - 2017-404 days
 - 2021-197 days

Scenario 4

5-Year Forecast

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 82.6 | 84.6 | 86.6 | 88.8 | 90.1 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 36.1 | 37.2 | 38.3 | 39.5 | 39.8 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.0 | 36.1 | 37.2 | 38.4 | 38.7 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.9 | 10.6 | 11.7 | 13.2 | 67.1 |
| Cash balance - January 1 | 123.4 | 109.0 | 85.5 | 71.5 | 68.6 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.3 | 119.6 | 97.2 | 84.7 | 135.7 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.0 | \$ 85.5 | \$ 71.5 | \$ 68.6 | \$ 116.6 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.42 | 1.46 | 1.52 | 1.79 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.20 | 1.22 | 1.26 | 1.33 | 1.56 |

Scenario 4

5-Year Forecast

Projected End of Year Cash

| | <u>Projected 2017</u> | <u>Projected 2018</u> | <u>Projected 2019</u> | <u>Projected 2020</u> | <u>Projected 2021</u> |
|---------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | 19.1 | 12.6 | 8.6 | 2.9 | (1.8) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 109.0 | \$ 85.5 | \$ 71.5 | \$ 68.6 | \$ 116.6 |

Scenario 4

5-Year Forecast

- Scenario 4 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.39-1.52x for others
 - 1.2-1.6x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$17 million annually
 - Reduces cash available for operations by \$7 million with Unrestricted/unreserved cash negative in 2021
 - Does not offer opportunities to address UALs
 - Days of cash available
 - 2017-407 days
 - 2021-232 days

Summary

- Staff recommends Scenario 1 as best meeting AR 3012 goals and objectives
 - Continues to limit rate increases to 5% or less;
 - Generates sufficient cash flow each year to fund annual pay-as-you-go construction projects;
 - Development impact of Measure E is unclear;
 - Creates positive unrestricted/unreserved cash balances and overall end-of-year cash reserves near the high end required by AR 3012 without over reliance on FCCs.
- No scenario includes any extraordinary actions to address UALs

Other Director Items

- In addition to the proposals included in Scenario 2 and 3 the Board member also requested the consideration of the following:
 - Increasing the debt prepayment each year from \$3 million to \$6 million
 - Providing low-income rate assistance
 - 2017-\$200,000 for water customers and \$200,000 for wastewater customers;
 - 2018-\$250,000 for water customers and \$250,000 for wastewater customers

Staff Responses to Other Director Items

- Increasing debt prepayment
 - Although this would improve the debt coverage in the subsequent year, unrestricted/unreserved cash would continue to decrease under Scenarios 2, 3 and 4
 - Prepayment is not considered by rating agencies reviewing the District's financial performance
 - Recommendation: increase prepayment only if a significant impact to operating revenues is foreseen for the following year

Staff Responses to Other Director Items

- Low-income assistance
 - Reduces operating income
 - Known and unknown costs to operate program, reducing resources for day-to-day operations
 - Equity issue if funding source is property taxes
 - Recommendation: await state's AB401 implementation
 - May make our action unnecessary
 - Might have to alter a program created now

Board Decision/Options

Option 1: Adopt the El Dorado Irrigation District 2017-2018 operating budget and the 2017-2021 Financial Plan (Scenario 1), including the implementation of previously approved rate increases for 2017 for water, wastewater and recycled water.


Option 2: Take other action as recommended by the Board.

Option 3: Take no action.

Staff/Acting General Manager's Recommendation

- Option 1

Discussion/Questions



**Consideration of the
2017-2018
Operating Budget
and
2017-2021
Financial Plan**

**El Dorado Irrigation District
December 12, 2016**

Presentation Summary

- **Previous Board Action**
- **Summary of Issues**
- **Staff Analysis/Evaluation**
- **Public/Board Discussion**
- **Board Action**

Previous Board Action

- **Mar. 20, 2000:** Board adopted a multi-year operating budget process
- **Dec. 8, 2014:** Board adopted the 2015-2016 operating budget and the 2015-2019 Financial Plan
- **Nov. 9, 2015:** Board adopted the 2016 mid-cycle operating budget and the 2016-2020 Financial Plan
- **Jan. 11, 2016:** Board adopted 2016-2020 rate increases of 5%, 5%, 4%, 3%, 3% (water, recycled water) and 0%, 5%, 4%, 3%, 3% (wastewater), subject to future evaluation and downward adjustment
- **Oct. 24, 2016:** Board held a workshop on the 2017-2018 operating budget and 2017-2021 Financial Plan
- **Nov. 14, 2016:** Board considered the 2017-2018 operating budget and 2017-2021 Financial Plan and continued it to the December 12, 2016 meeting

Summary of Issues

- **Staff analysis/evaluation**
- **2017–2018 operating budget expense projections**
- **2017–2018 revenue projections**
- **Debt service coverage**
- **2017-2021 five-year forecasts**
- **Projected cash reserve balances by scenario**

November 14 Budget Proposal

- Results

- Staff presented 2017 and 2018 proposed budgets
 - Operating expense proposals were accepted as proposed
 - Four different rate revenue scenarios with varying projections for other revenue sources
 - Projected results of operating revenues, operating expenses, debt, CIP expenditures and debt coverage for each scenario

November 14 Budget Proposal

- Results
 - Director Coco asked staff to create an additional proposal to meld Scenarios 3 and 4:
 - Budget Scenario 5 has been added
 - Rates, revenues, and expenses match Scenario 4, except:
 - Adds a Wastewater Utility low-income assistance program
 - » For 2017- \$200,000
 - » For 2018 and beyond - \$250,000

November 14 Budget Proposal

- Results
 - Budget proposals will be presented later in this presentation as follows-
 - Scenario 1 – original staff proposed budget from Board Workshop on October 24, 2016
 - Scenario 2 – first proposal from Director Prada
 - Scenario 3 – second proposal from Director Prada
 - Scenario 4 – first proposal from Director Coco
 - Scenario 5 – second proposal created for Director Coco



2017-2018 Operating Budget Expense Projections



2016-2018 Operating Budget Summary by Expense Type

(in millions)

| | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|------------------------------|------------------------------------|---|-------------------------------------|-------------------------------------|
| Wages | \$ 17.936 | \$ 17.598 | \$ 17.717 | \$ 18.071 |
| Benefits (Table 4) | 11.555 | 11.617 | 12.420 | 13.101 |
| Salaries and Benefits | 29.491 | 29.215 | 30.137 | 31.172 |
| CIP and Development | | | | |
| Reimbursement Labor Offsets | (2.833) | (2.321) | (2.954) | (3.013) |
| Net personnel expense | 26.658 | 26.894 | 27.183 | 28.159 |
| Materials and Services | | | | |
| -Operating Supplies | 3.524 | 3.496 | 3.921 | 3.999 |
| -Chemicals | 0.896 | 0.789 | 0.904 | 0.922 |
| -Administration | 3.427 | 3.221 | 3.453 | 3.522 |
| -Utilities | 4.601 | 4.294 | 4.386 | 4.474 |
| -Professional Services | 3.546 | 3.457 | 3.381 | 3.449 |
| -Repair Services | 1.047 | 1.047 | 1.674 | 1.284 |
| -Insurance | 0.922 | 1.171 | 0.777 | 0.793 |
| -Operating Capital Outlay | 0.322 | 0.400 | 0.277 | 0.283 |
| -Contingency | 0.500 | 0.000 | 0.500 | 0.500 |
| Total Materials and Services | 18.785 | 17.875 | 19.273 | 19.226 |
| Subtotal All | 45.443 | 44.769 | 46.456 | 47.385 |
| Letter of Credit Fee | 1.108 | 1.108 | 0.000 | 0.000 |
| Total Expenses | \$ 46.551 | \$ 45.877 | \$ 46.456 | \$ 47.385 |

2016 – 2018 Employee Benefits by Type

(in millions)

| Type | 2016 Adopted Budget | 2016 Revised Projections | 2017 Proposed Budget | 2018 Proposed Budget |
|-----------------------|---------------------------|--------------------------------|----------------------------|----------------------------|
| Medical | \$ 3.550 | \$ 3.451 | \$ 3.600 | \$ 3.672 |
| Retiree Health | 1.331 | 1.467 | 1.437 | 1.466 |
| Dental | 0.356 | 0.330 | 0.350 | 0.357 |
| Vision | 0.042 | 0.035 | 0.045 | 0.046 |
| EAP | 0.006 | 0.006 | 0.006 | 0.006 |
| Life | 0.043 | 0.029 | 0.043 | 0.044 |
| Workers' Compensation | 0.293 | 0.293 | 0.295 | 0.301 |
| FICA | 1.325 | 1.274 | 1.302 | 1.328 |
| PERS | 4.515 | 4.579 | 5.205 | 5.742 |
| Medical Reimbursement | 0.040 | 0.056 | 0.060 | 0.061 |
| Vehicle Allowance | 0.030 | 0.030 | 0.036 | 0.037 |
| Other Employee Costs | 0.024 | 0.067 | 0.041 | 0.041 |
| Total Benefits | \$ 11.555 | \$ 11.617 | \$ 12.420 | \$ 13.101 |



2017-2021

Revenue Projection Scenarios

Scenario Differences

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------|------|------|------|------|------|
| Rates | | | | | |
| Scenario 1 | | | | | |
| Water | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Wastewater | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Recycled water | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Scenario 2 | | | | | |
| Water | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Wastewater | 0.0% | 0.0% | 3.0% | 3.0% | 3.0% |
| Recycled water | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% |
| Scenario 3 | | | | | |
| Water | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Wastewater | 0.0% | 0.0% | 3.0% | 3.0% | 3.0% |
| Recycled water | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |

Scenario Differences

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------|------|------|------|------|------|
| Rates | | | | | |
| Scenario 4 & 5 | | | | | |
| Water | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Wastewater | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Recycled water | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |

Scenario Differences

(in millions)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|------|------|------|------|------|
|--|------|------|------|------|------|

Other revenues

Scenarios 1, 4, & 5

| | | | | | |
|---------------|---------|---------|---------|---------|---------|
| FCCs | \$ 5.00 | \$ 5.00 | \$ 5.00 | \$ 5.00 | \$ 5.00 |
| Hydroelectric | \$ 8.00 | \$ 8.00 | \$ 8.00 | \$ 8.00 | \$ 8.00 |

Scenario 2

| | | | | | |
|---------------|---------|---------|---------|---------|---------|
| FCCs | \$ 5.00 | \$ 5.00 | \$ 5.00 | \$ 5.00 | \$ 5.00 |
| Hydroelectric | \$ 8.00 | \$ 8.00 | \$ 8.00 | \$ 8.00 | \$ 8.00 |

Scenario 3

| | | | | | |
|---------------|---------|---------|---------|---------|---------|
| FCCs | \$ 7.50 | \$ 7.50 | \$ 7.50 | \$ 7.50 | \$ 7.50 |
| Hydroelectric | \$ 7.00 | \$ 7.00 | \$ 7.00 | \$ 7.00 | \$ 7.00 |

Scenario Differences

(in millions)

2017 2018 2019 2020 2021

Low-income assistance

Scenario 5

| | | | | | |
|----------------|---------|---------|---------|---------|---------|
| Water | \$0.000 | \$0.000 | \$0.000 | \$0.000 | \$0.000 |
| Wastewater | \$0.200 | \$0.250 | \$0.250 | \$0.250 | \$0.250 |
| Recycled water | \$0.000 | \$0.000 | \$0.000 | \$0.000 | \$0.000 |

2017 Revenue Projections by Scenario

(in millions)

| | 2017 Scenario 1 (1)(2)(3) | 2017 Scenario 2 (2)(3)(4) | 2017 Scenario 3 (5)(6)(7) | 2017 Scenario 4 (8)(2)(3) | 2017 Scenario 5 (8)(2)(3)(9) |
|-------------------------------|---|---|---|---|--|
| Water Sales and Services | \$ 29.767 | \$ 29.767 | \$ 29.200 | \$ 29.201 | \$ 29.201 |
| Wastewater Sales and Services | 21.016 | 20.015 | 20.015 | 20.615 | 20.415 |
| Recycled Water Sales | 1.900 | 1.900 | 1.900 | 1.900 | 1.900 |
| Hydropower Sales | 8.000 | 8.000 | 7.000 | 8.000 | 8.000 |
| Investment Income | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 |
| FCCs | 5.000 | 5.000 | 7.500 | 5.000 | 5.000 |
| Debt Surcharges | 2.400 | 2.400 | 2.400 | 2.400 | 2.400 |
| Property Tax | 11.299 | 11.299 | 11.299 | 11.299 | 11.299 |
| Other Income | 2.016 | 2.016 | 2.016 | 2.016 | 2.016 |
| Recreation | 1.384 | 1.384 | 1.384 | 1.384 | 1.384 |
| Total Revenues | \$ 83.532 | \$ 82.531 | \$ 83.464 | \$ 82.565 | \$ 82.365 |

2018 Revenue Projections by Scenario

(in millions)

| | 2018 Scenario 1 (1)(2)(3) | 2018 Scenario 2 (2)(3)(4) | 2018 Scenario 3 (5)(6)(7) | 2018 Scenario 4 (8)(2)(3) | 2018 Scenario 5 (8)(2)(3)(9) |
|-------------------------------|---|---|---|---|--|
| Water Sales and Services | \$ 30.958 | \$ 30.958 | \$ 30.076 | \$ 30.076 | \$ 30.076 |
| Wastewater Sales and Services | 22.031 | 20.175 | 20.175 | 21.404 | 21.154 |
| Recycled Water Sales | 1.992 | 1.992 | 1.973 | 1.973 | 1.973 |
| Hydropower Sales | 8.000 | 8.000 | 7.000 | 8.000 | 8.000 |
| Investment Income | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 |
| FCCs | 5.000 | 5.000 | 7.500 | 5.000 | 5.000 |
| Debt Surcharges | 2.408 | 2.408 | 2.408 | 2.408 | 2.408 |
| Property Tax | 11.525 | 11.525 | 11.525 | 11.525 | 11.525 |
| Other Income | 2.026 | 2.026 | 2.026 | 2.026 | 2.026 |
| Recreation | 1.411 | 1.411 | 1.411 | 1.411 | 1.411 |
| Total Revenues | \$ 86.101 | \$ 84.245 | \$ 84.844 | \$ 84.573 | \$ 84.323 |

Scenario 1

5-Year Forecast

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 83.5 | 86.1 | 88.2 | 90.4 | 91.8 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 37.0 | 38.7 | 39.9 | 41.1 | 41.5 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.9 | 37.6 | 38.8 | 40.0 | 40.4 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 10.8 | 12.1 | 13.3 | 14.8 | 68.8 |
| Cash balance - January 1 | 123.4 | 109.9 | 87.9 | 75.5 | 74.2 |
| Total Cash Available for Capital Projects or Debt PrePayment | 134.2 | 122.0 | 101.2 | 90.3 | 143.0 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.9 | \$ 87.9 | \$ 75.5 | \$ 74.2 | \$ 123.9 |
| Senior debt service coverage (1.25x test) | 1.43 | 1.47 | 1.52 | 1.59 | 1.87 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.23 | 1.28 | 1.33 | 1.39 | 1.64 |

Scenario 1

5-Year Forecast

Projected End of Year Cash

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | \$ 20.0 | \$ 15.0 | \$ 12.6 | \$ 8.5 | \$ 5.5 |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | <u>57.1</u> | <u>39.8</u> | <u>29.7</u> | <u>32.2</u> | <u>84.7</u> |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | <u>32.8</u> | <u>33.1</u> | <u>33.3</u> | <u>33.5</u> | <u>33.8</u> |
| Total | <u>\$ 109.9</u> | <u>\$ 87.9</u> | <u>\$ 75.5</u> | <u>\$ 74.2</u> | <u>\$ 123.9</u> |

Scenario 1

5-Year Forecast

- Scenario 1 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.43-1.59x for others
 - 1.2-1.6x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$18 million annually
 - Days of cash available
 - 2017-416 days
 - 2021-285 days

Scenario 2

5-Year Forecast

| | <u>Projected 2017</u> | <u>Projected 2018</u> | <u>Projected 2019</u> | <u>Projected 2020</u> | <u>Projected 2021</u> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 82.5 | 84.2 | 86.3 | 88.4 | 89.7 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 36.0 | 36.8 | 38.0 | 39.1 | 39.4 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 34.9 | 35.7 | 36.9 | 38.0 | 38.3 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.8 | 10.2 | 11.4 | 12.8 | 66.7 |
| Cash balance - January 1 | 123.4 | 108.9 | 85.0 | 70.7 | 67.4 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.2 | 119.1 | 96.4 | 83.5 | 134.1 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 108.9 | \$ 85.0 | \$ 70.7 | \$ 67.4 | \$ 115.0 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.40 | 1.45 | 1.51 | 1.77 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.20 | 1.25 | 1.31 | 1.54 |

Scenario 2

5-Year Forecast

Projected End of Year Cash

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | \$ 19.0 | \$ 12.1 | \$ 7.8 | \$ 1.7 | \$ (3.4) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 108.9 | \$ 85.0 | \$ 70.7 | \$ 67.4 | \$ 115.0 |

Scenario 2

5-Year Forecast

- Scenario 2 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.39-1.51x for others
 - 1.2-1.5x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$17 million annually
 - Reduces cash available for operations in the wastewater fund by \$9 million
 - Unrestricted/unreserved cash balance is negative by 2021
 - Does not offer opportunities to address UALs
 - Days of cash available
 - 2017-407 days
 - 2021-221 days

Scenario 3

5-Year Forecast

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 83.5 | 84.8 | 86.8 | 88.9 | 90.2 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 37.0 | 37.4 | 38.5 | 39.6 | 39.9 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.9 | 36.3 | 37.4 | 38.5 | 38.8 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 10.8 | 10.8 | 11.9 | 13.3 | 67.2 |
| Cash balance - January 1 | 123.4 | 109.9 | 86.6 | 72.8 | 70.0 |
| Total Cash Available for Capital Projects or Debt PrePayment | 134.2 | 120.7 | 98.5 | 86.1 | 137.2 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.9 | \$ 86.6 | \$ 72.8 | \$ 70.0 | \$ 118.1 |
| Senior debt service coverage (1.25x test) | 1.43 | 1.42 | 1.47 | 1.53 | 1.80 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 |
| \$\$\$ of FCCs removed from calculation | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 |
| Potential senior debt coverage (1.0x test) | 1.13 | 1.13 | 1.17 | 1.23 | 1.45 |

Scenario 3

5-Year Forecast

Projected End of Year Cash

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | \$ 18.7 | \$ 11.2 | \$ 6.1 | \$ (0.7) | \$ (6.6) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 22.4 | 26.2 | 29.9 | 33.7 | 37.4 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | <u>58.4</u> | <u>42.3</u> | <u>33.4</u> | <u>37.2</u> | <u>90.9</u> |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | <u>32.8</u> | <u>33.1</u> | <u>33.3</u> | <u>33.5</u> | <u>33.8</u> |
| Total | <u>\$ 109.9</u> | <u>\$ 86.6</u> | <u>\$ 72.8</u> | <u>\$ 70.0</u> | <u>\$ 118.1</u> |

Scenario 3

5-Year Forecast

- Scenario 3 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.43-1.53x for others
 - 1.1-1.5x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$17 million annually
 - Reduces cash available for operations by \$12 million with Unrestricted/unreserved cash negative in 2020 and 2021
 - Does not offer opportunities to address UALs
 - Development impact of Measure E, rising interest rates is unclear so reliance on higher FCC forecast may not be prudent
 - Reducing hydroelectric revenues is questionable:
 - Current contract began 5/15/10
 - Four non-drought years (2010-2013) revenues averaged \$8.54 million (3 of 4 years averaged \$7.88 million or more)
 - Lower revenues in 2014-2016 resulted from temporary conditions- extended project outages for Esmeralda Tunnel, drought
 - Days of cash available
 - 2017-404 days
 - 2021-197 days

Scenario 4

5-Year Forecast

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 82.6 | 84.6 | 86.6 | 88.8 | 90.1 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 36.1 | 37.2 | 38.3 | 39.5 | 39.8 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 35.0 | 36.1 | 37.2 | 38.4 | 38.7 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.9 | 10.6 | 11.7 | 13.2 | 67.1 |
| Cash balance - January 1 | 123.4 | 109.0 | 85.5 | 71.5 | 68.6 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.3 | 119.6 | 97.2 | 84.7 | 135.7 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 109.0 | \$ 85.5 | \$ 71.5 | \$ 68.6 | \$ 116.6 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.42 | 1.46 | 1.52 | 1.79 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.20 | 1.22 | 1.26 | 1.33 | 1.56 |

Scenario 4

5-Year Forecast

Projected End of Year Cash

| | <u>Projected 2017</u> | <u>Projected 2018</u> | <u>Projected 2019</u> | <u>Projected 2020</u> | <u>Projected 2021</u> |
|---------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | 19.1 | 12.6 | 8.6 | 2.9 | (1.8) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 109.0 | \$ 85.5 | \$ 71.5 | \$ 68.6 | \$ 116.6 |

Scenario 4

5-Year Forecast

- Scenario 4 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.39-1.52x for others
 - 1.2-1.6x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$17 million annually
 - Reduces cash available for operations by \$7 million with Unrestricted/unreserved cash negative in 2021
 - Does not offer opportunities to address UALs
 - Days of cash available
 - 2017-407 days
 - 2021-232 days

Scenario 5

5-Year Forecast

| | Projected <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> | Projected <u>2021</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total Debt Proceeds | \$ - | \$ - | \$ - | \$ - | \$ 50.0 |
| Total revenues | 82.4 | 84.3 | 86.4 | 88.5 | 89.9 |
| Total maintenance and operation costs | 46.5 | 47.4 | 48.3 | 49.3 | 50.3 |
| Net revenues | 35.9 | 36.9 | 38.1 | 39.2 | 39.6 |
| Pre-existing state obligations | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net revenues available after pre existing obligations | 34.8 | 35.8 | 37.0 | 38.1 | 38.5 |
| Senior debt service | 25.1 | 25.5 | 25.5 | 25.2 | 21.6 |
| Cash Available from Current Year Activities for Capital Projects or Other Improvements | 9.7 | 10.3 | 11.5 | 12.9 | 66.9 |
| Cash balance - January 1 | 123.4 | 108.8 | 85.0 | 70.8 | 67.6 |
| Total Cash Available for Capital Projects or Debt PrePayment | 133.1 | 119.1 | 96.5 | 83.7 | 134.5 |
| total CIP | (21.3) | (31.1) | (22.7) | (13.1) | (16.1) |
| Pre funding debt | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Cash balance - December 31 | \$ 108.8 | \$ 85.0 | \$ 70.8 | \$ 67.6 | \$ 115.4 |
| Senior debt service coverage (1.25x test) | 1.39 | 1.40 | 1.45 | 1.51 | 1.78 |
| Alternative senior debt coverage | | | | | |
| Total FCCs in revenue above | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| \$\$\$ of FCCs removed from calculation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Potential senior debt coverage (1.0x test) | 1.19 | 1.21 | 1.25 | 1.31 | 1.55 |

Scenario 5

5-Year Forecast

Projected End of Year Cash

| | <u>Projected 2017</u> | <u>Projected 2018</u> | <u>Projected 2019</u> | <u>Projected 2020</u> | <u>Projected 2021</u> |
|---------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Breakdown of end of year cash balance | | | | | |
| Unrestricted/Unreserved | 18.9 | 12.1 | 7.9 | 1.9 | (3.0) |
| Restricted-debt reserves | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Restricted-Growth CIP (FCCs) | 21.2 | 23.7 | 26.2 | 28.7 | 31.2 |
| Restricted-CIP from bonds | 32.4 | 12.7 | 0.0 | 0.0 | 50.0 |
| | 57.1 | 39.8 | 29.7 | 32.2 | 84.7 |
| Reserved | | | | | |
| Operating | 11.6 | 11.9 | 12.1 | 12.3 | 12.6 |
| Capital replacement reserves | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Routine capital replacement reserves | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Self insurance reserves | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | 32.8 | 33.1 | 33.3 | 33.5 | 33.8 |
| Total | \$ 108.8 | \$ 85.0 | \$ 70.8 | \$ 67.6 | \$ 115.4 |

Scenario 5

5-Year Forecast

- Scenario 5 –
 - Meets cash reserve targets of AR 3012
 - 1.7-2.0x coverage only in 2021 and 1.39-1.52x for others
 - 1.2-1.6x internal coverage test (1.25x or higher desired)
 - Generates cash flow for pay-go projects from \$10-\$17 million annually
 - Reduces cash available for operations by \$7 million with Unrestricted/unreserved cash negative in 2021
 - Does not offer opportunities to address UALs
 - Days of cash available
 - 2017-407 days
 - 2021-223 days

Scenario 5

5-Year Forecast

- Scenario 5 wastewater low-income assistance
 - Feasibility issues
 - Most qualified recipients typically tenants of master-metered mobile home parks, not direct District customers
 - Assistance would go to park owner
 - No legally enforceable mechanism to ensure pass-through
 - Equity issues
 - All property owners within the District pay property taxes
 - But tax proceeds would be disproportionately earmarked to this portion of District customers

Bond Coverage Comparisons

Bond Covenant

| Total District | | | | | | |
|----------------|--|---------|---------|---------|---------|---------|
| | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| Scenario | | | | | | |
| 1 | | 1.43 | 1.47 | 1.52 | 1.59 | 1.87 |
| 2 | | 1.39 | 1.40 | 1.45 | 1.51 | 1.77 |
| 3 | | 1.43 | 1.42 | 1.47 | 1.53 | 1.80 |
| 4 | | 1.39 | 1.42 | 1.46 | 1.52 | 1.79 |
| 5 | | 1.39 | 1.40 | 1.45 | 1.51 | 1.78 |

Bond Coverage Comparisons

Bond Covenant

| Water Only | | | | | | |
|------------|--|---------|---------|---------|---------|---------|
| | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| Scenario | | | | | | |
| 1 | | 1.38 | 1.41 | 1.44 | 1.49 | 1.71 |
| 2 | | 1.38 | 1.41 | 1.44 | 1.49 | 1.71 |
| 3 | | 1.35 | 1.36 | 1.40 | 1.44 | 1.65 |
| 4 | | 1.34 | 1.35 | 1.38 | 1.43 | 1.64 |
| 5 | | 1.34 | 1.35 | 1.38 | 1.43 | 1.64 |

Bond Coverage Comparisons

Bond Covenant

| Wastewater Only | | | | | | |
|-----------------|--|---------|---------|---------|---------|---------|
| | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| Scenario | | | | | | |
| 1 | | 1.52 | 1.58 | 1.65 | 1.74 | 2.17 |
| 2 | | 1.42 | 1.40 | 1.45 | 1.53 | 1.91 |
| 3 | | 1.55 | 1.52 | 1.58 | 1.66 | 2.07 |
| 4 | | 1.48 | 1.52 | 1.58 | 1.67 | 2.08 |
| 5 | | 1.46 | 1.49 | 1.55 | 1.64 | 2.05 |

Bond Coverage Comparisons

Internal Test (w/o FCCs)

| Total District | | | | | | |
|----------------|--|---------|---------|---------|---------|---------|
| | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| Scenario | | | | | | |
| 1 | | 1.23 | 1.28 | 1.33 | 1.39 | 1.64 |
| 2 | | 1.17 | 1.20 | 1.25 | 1.31 | 1.54 |
| 3 | | 1.13 | 1.13 | 1.17 | 1.23 | 1.45 |
| 4 | | 1.20 | 1.22 | 1.26 | 1.33 | 1.56 |
| 5 | | 1.19 | 1.21 | 1.25 | 1.31 | 1.55 |

Bond Coverage Comparisons

Internal Test (w/o FCCs)

| Water Only | | | | | | |
|------------|--|---------|---------|---------|---------|---------|
| | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| Scenario | | | | | | |
| 1 | | 1.22 | 1.25 | 1.29 | 1.33 | 1.53 |
| 2 | | 1.22 | 1.25 | 1.29 | 1.33 | 1.53 |
| 3 | | 1.12 | 1.13 | 1.16 | 1.21 | 1.39 |
| 4 | | 1.19 | 1.20 | 1.23 | 1.27 | 1.46 |
| 5 | | 1.19 | 1.20 | 1.23 | 1.27 | 1.46 |

Bond Coverage Comparisons

Internal Test (w/o FCCs)

| Wastewater Only | | | | | | |
|-----------------|--|---------|---------|---------|---------|---------|
| | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| Scenario | | | | | | |
| 1 | | 1.25 | 1.32 | 1.38 | 1.47 | 1.84 |
| 2 | | 1.15 | 1.13 | 1.19 | 1.27 | 1.57 |
| 3 | | 1.15 | 1.13 | 1.19 | 1.27 | 1.57 |
| 4 | | 1.21 | 1.25 | 1.32 | 1.40 | 1.75 |
| 5 | | 1.19 | 1.23 | 1.29 | 1.37 | 1.71 |

Summary

- Staff recommends Scenario 1 as best meeting AR 3012 goals and objectives
 - Continues to limit rate increases to 5% or less;
 - Generates sufficient cash flow each year to fund annual pay-as-you-go construction projects;
 - Development impact of Measure E is unclear;
 - Creates positive unrestricted/unreserved cash balances and overall end-of-year cash reserves near the high end required by AR 3012 without over reliance on FCCs.
 - Needed to adequately fund capital replacement, maintain service levels, provide flexibility to address pension, retiree health UALs, prepare for 2021 debt issuance

Summary

- Scenario 1 is consistent with 2016 Official Statement projections
 - 2016C OS was unanimously approved by Board three months ago
 - Moody's, S&P relied on OS projections to upgrade and reaffirm District's credit rating
 - Upgrades reduced District's costs, aided success
 - Other scenarios weaken financial performance, could lead to surveillance review, possible downgrade
 - District's financial advisor therefore recommends against material change, and for Scenario 1

Board Decision/Options

Option 1: Adopt the El Dorado Irrigation District 2017-2018 operating budget and the 2017-2021 Financial Plan (Scenario 1), including the implementation of previously approved rate increases for 2017 for water, wastewater and recycled water.

Option 2: Take other action as recommended by the Board.

Option 3: Take no action.

Staff/Acting General Manager's Recommendation

- Option 1

Discussion/Questions