

Lehigh County Authority
Forecast Report
2017 Q3 FC

SUMMARY - INCOME

	<u>Forecast</u>	<u>Budget</u>	<u>Last FC</u>	<u>Variance to</u>	
				<u>Budget</u>	<u>Last FC</u>
INCOME STATEMENT					
Suburban Water	(21,018)	(34,673)	(240,736)	13,655	219,718
Suburban Wastewater	326,504	(237,977)	(235,352)	564,481	561,856
City Division	<u>(9,723,562)</u>	<u>(10,217,568)</u>	<u>(10,277,443)</u>	<u>494,006</u>	<u>553,881</u>
TOTAL LCA	<u><u>(9,418,077)</u></u>	<u><u>(10,490,218)</u></u>	<u><u>(10,753,531)</u></u>	<u><u>1,072,141</u></u>	<u><u>1,335,454</u></u>

- Suburban Wastewater positive, Suburban Water and City negative
- All 3 funds showing increase in FC
- All 3 funds are favorable to Budget

SUMMARY – CASH FLOWS

	<u>Forecast</u>	<u>Budget</u>	<u>Last FC</u>	<u>Variance to</u>	
				<u>Budget</u>	<u>Last FC</u>
CASH FLOW STATEMENT					
Suburban Water	3,726,974	(81,469)	8,746,795	3,808,444	(5,019,821)
Suburban Wastewater	(501,737)	7,121,675	37,287,310	(7,623,412)	(37,789,047)
City Division	<u>(4,095,791)</u>	<u>(4,479,360)</u>	<u>(4,538,598)</u>	<u>383,569</u>	<u>442,807</u>
TOTAL LCA	<u><u>(870,554)</u></u>	<u><u>2,560,846</u></u>	<u><u>41,495,507</u></u>	<u><u>(3,431,400)</u></u>	<u><u>(42,366,062)</u></u>

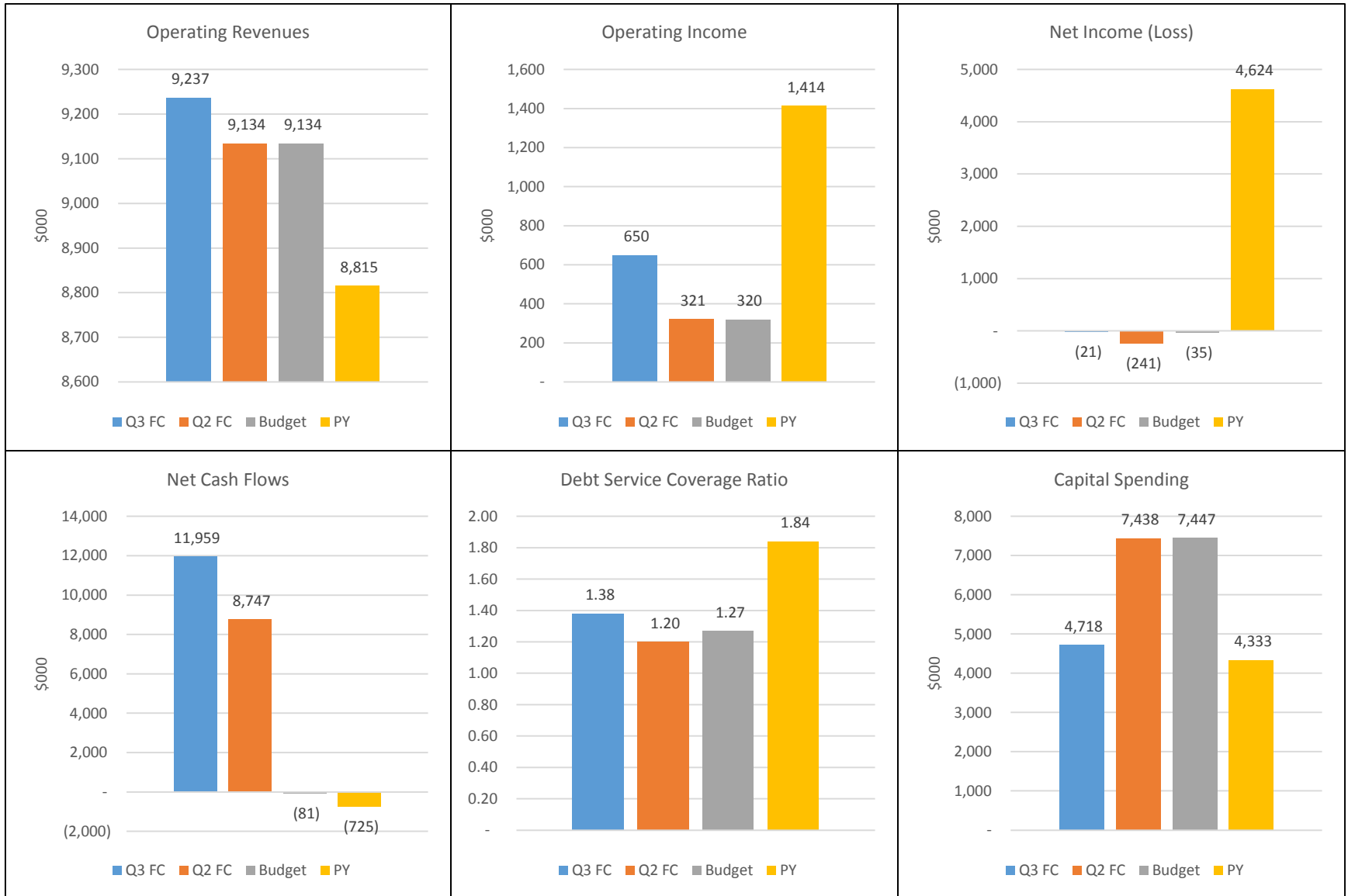
- Suburban Water positive, Suburban Wastewater and City negative
- City better than last FC, Suburban Water & Suburban Wastewater unfavorable due to change in borrowing levels
- Suburban Water & City better than last Budget, Suburban Wastewater unfavorable due to change in borrowing needs

SUMMARY – DSCR

	<u>Forecast</u>	<u>Budget</u>	<u>Last FC</u>	<u>Variance to</u>	
				<u>Budget</u>	<u>Last FC</u>
DEBT SERVICE COVERAGE RATIO					
Suburban Water	1.38	1.27	1.20	0.12	0.19
Suburban Wastewater	7.96	2.45	2.52	5.51	5.44
City Division	1.21	1.21	1.18	0.00	0.03

- All 3 funds better than last FC
- All 3 funds better than Budget
- All 3 funds better than 1.20 target

Dashboard – Suburban Water



SUBURBAN WATER

SUBURBAN WATER	2017 Q3 FORECAST - FULL YEAR				
Income Statement	Forecast	Budget	Last FC	Bud Var	L FC Var
Operating Revenues	9,236,985	9,134,000	9,134,469	102,985	102,516
Operating (Expenses)	(8,586,734)	(8,814,412)	(8,813,792)	227,678	227,058
Operating Income	650,251	319,588	320,677	330,663	329,574
Non-Operating Revenues (Expenses)	790,886	794,000	790,798	(3,114)	88
Income Before Interest	1,441,136	1,113,588	1,111,475	327,549	329,661
Interest Income	124,715	200,000	81,539	(75,285)	43,176
Interest Expense	(1,586,870)	(1,348,261)	(1,433,750)	(238,609)	(153,120)
Capital Contributions	-	-	-	-	-
NET INCOME	(21,018)	(34,673)	(240,736)	13,655	219,718
SUBURBAN WATER	2017 Q3 FORECAST - FULL YEAR				
Cash Flow Statement (Indirect)	Forecast	Budget	Last FC	Bud Var	L FC Var
Net Income	(21,018)	(34,673)	(240,736)	13,655	219,718
Add: Depreciation & Amortization	2,949,984	2,950,000	2,949,984	(16)	-
Add: Non-Cash Interest Expense	(12,000)	-	9	(12,000)	(12,009)
Add: Capex Charged to Expense	103,765	100,000	100,243	3,765	3,522
Principal Payments	(1,636,596)	(1,833,796)	(1,833,779)	197,200	197,183
Investments Converting To Cash	1,159,937	284,000	284,000	875,937	875,937
New Borrowing	5,900,500	5,900,000	14,925,000	500	(9,024,500)
Net Cash Available For Capital Spending	8,444,572	7,365,531	16,184,721	1,079,042	(7,740,149)
Capital Expenditures	(4,717,598)	(7,447,000)	(7,437,926)	2,729,402	2,720,328
NET FUND CASH FLOWS	3,726,974	(81,469)	8,746,795	3,808,444	(5,019,821)

Income (Q3 FC vs. Q2 FC)

- **Higher by \$220k**
 - Operating revenues
 - Operating expenses
 - Non-operating rev(exp)
 - Interest income
 - Interest expense

Income (Q3 FC vs. Budget)

- **Higher by \$14k**
 - Operating revenues
 - Operating expenses
 - Non-operating rev(exp)
 - Interest income
 - Interest expense

Cash (Q3 FC vs. Q2 FC)

- **Lower by \$5.0m**
 - Cash From Operations
 - Principal payments
 - Capex
 - Borrowing proceeds

Cash (Q3 FC vs. Budget)

- **Higher by \$3.8m**
 - Cash From Operations
 - Principal payments
 - Capex
 - Borrowing proceeds

SUBURBAN WATER

Operating Revenues

- Overall revenues are up from last FC and since that was already up to budget we are showing a more favorable variance to budget
- Forecast was based upon historical earning percentage – 47.6% in H1 & 52.4% in H2 (Budget was are forecasted to be higher than H1)
- H1 actuals were better than budget and that rolls to H2 as well, mostly in industrial/commercial segment

Operating Expenses

- Operating expenses are reduced from last FC and as a result are even better compared to budget
- Finished H1 with significant favorable variance to budget
- H2 will be higher and erode some of that favorable variance but we will still finish the year with lower expenses than budget

SUBURBAN WATER

Operating Expenses (continued)

- Some of the additional spending required that was budgeted but was not spent in H1:
 - Valve exercising by Valvetek
 - Additional regulatory testing in the lab
 - Work on storage tanks by Utility Services
 - Additional water purchases
 - Equipment for Watershed Monitoring

Non-Operating Revenues (Expenses)

- A little bit favorable to last FC
- Last FC was unfavorable, so we made up a little ground but still unfavorable to budget
- Behind on capex related revenues: inspection & planning revenues and reimbursement
- H2 activity on these are forecasted to be higher but will not get to budget based upon overall capex

SUBURBAN WATER

Interest Income

- The FC went up from last forecast but we have been running unfavorable to budget and we will end up unfavorable to budget
- Will get some help from the bond proceeds invested in US government Securities, but that will not be enough to get to budget
- Budget was a bit too high to begin with as some of the investments we did have matured earlier

Interest Expense

- We pushed this expense up compared to last FC reflecting fees that were not forecasted correctly previously.
- We borrowed more than budget and that is creating the unfavorable variance to budget
- We borrowed for a three year capex horizon and took in \$14.9m from bond proceeds compared to the budgeted borrowing of \$5.9m for a 1 year horizon

Capex

- Down \$2.7m to last forecast and down the same amount to budget for the year
- Were down to budget for H1 and while H2 spending is forecasted higher, we will not get to budget and some spending will carry over

Dashboard – Suburban Wastewater



SUBURBAN WASTEWATER

SUBURBAN WASTEWATER	2017 Q3 FORECAST - FULL YEAR				
Income Statement	Forecast	Budget	Last FC	Bud Var	Last FC Var
Operating Revenues	18,189,323	18,259,000	18,257,758	(69,677)	(68,435)
Operating (Expenses)	(18,457,240)	(18,557,349)	(18,505,437)	100,109	48,198
Operating Income	(267,916)	(298,349)	(247,679)	30,432	(20,238)
Non-Operating Revenues (Expenses)	806,124	793,000	794,302	13,124	11,822
Income Before Interest Expense	538,208	494,651	546,623	43,556	(8,416)
Interest Income	4,669	119,000	55,223	(114,331)	(50,554)
Interest Expense	(216,373)	(851,628)	(837,199)	635,255	620,826
Capital Contributions	-	-	-	-	-
NET INCOME	<u>326,504</u>	<u>(237,977)</u>	<u>(235,352)</u>	<u>564,481</u>	<u>561,856</u>
SUBURBAN WASTEWATER	2017 Q3 FORECAST - FULL YEAR				
Cash Flow Statement (Indirect)	Forecast	Budget	Last FC	Bud Var	Last FC Var
Net Income	326,504	(237,977)	(235,352)	564,481	561,856
Add: Depreciation & Amortization	4,376,328	3,925,000	4,376,328	451,328	-
Add: Non-Cash Interest Expense	34,164	-	35,135	34,164	(971)
Add: Capex Charged to Expense	301,034	300,000	-	1,034	301,034
Principal Payments	(473,999)	(1,127,348)	(1,175,224)	653,349	701,225
Investments Converting To Cash	-	-	-	-	-
New Borrowing	-	10,875,000	41,056,000	(10,875,000)	(41,056,000)
Net Cash Available For Capital Spending	4,564,031	13,734,675	44,056,888	(9,170,644)	(39,492,857)
Capital Expenditures	(5,065,768)	(6,613,000)	(6,769,577)	1,547,232	1,703,809
NET FUND CASH FLOWS	<u>(501,737)</u>	<u>7,121,675</u>	<u>37,287,310</u>	<u>(7,623,412)</u>	<u>(37,789,047)</u>

Income (Q3 FC vs. Q2 FC)

- **Higher by \$562k**
 - Operating revenues
 - Operating expenses
 - Non-operating rev(exp)
 - Interest income
 - Interest expense

Income (Q3 FC vs. Budget)

- **Higher by \$564k**
 - Operating revenues
 - Operating expenses
 - Non-operating rev(exp)
 - Interest income
 - Interest expense

Cash (Q3 FC vs. Q2 FC)

- **Lower by \$37.8m**
 - Cash From Operations
 - Principal payments
 - Capex
 - Borrowing proceeds

Cash (Q3 FC vs. Budget)

- **Lower by \$7.6m**
 - Cash From Operations
 - Principal payments
 - Capex
 - Borrowing proceeds

SUBURBAN WASTEWATER

Operating Revenues

- Revenues are down to last forecast and down to budget as well but only a bit to budget (0.4%)
- H1 revenues were somewhat split
 - WLI service area revenues were up to budget
 - WTP revenues were down to budget
- Forecast for H2 is up slightly based upon historical phasing & that will be across signatories and WTP so we will make up almost all of the first half shortfall

Operating Expenses

- Lowered expenses from last FC and since we had previously forecasted favorable to budget we are more favorable this time around
- Have run very favorable to budget in H1
- H2 will be \$1.5m higher
 - Costs for easement clearing
 - Capital costs from Contract Operator
- Even with additional H2 costs expenses are forecasted to be lower than budget

Non-Operating Revenues – no major variances

SUBURBAN WASTEWATER

Interest Income

Lower than budgeted investment volumes. Have run unfavorable to budget in H1 based upon lower invested balances and that will continue throughout H2

Interest Expenses

Not forecasting any borrowing against budget of \$10.9m. We have enough capital reserves to cover forecasted capex spending for the rest of this year

Capex

- Have run below budget for H1
- Phasing has been an issue
- Not expecting to get to all of the projects

Dashboard – City Division



CITY DIVISION

CITY DIVISION	2017 Q3 FORECAST - FULL YEAR				
Income Statement	Forecast	Budget	Last FC	Bud Var	Last FC Var
Operating Revenues	32,031,496	31,809,000	31,844,653	222,496	186,843
Operating (Expenses)	<u>(22,122,780)</u>	<u>(22,462,068)</u>	<u>(22,422,257)</u>	339,288	299,477
Operating Income	9,908,716	9,346,932	9,422,396	561,784	486,320
Non-Operating Revenues (Expenses)	<u>(3,619,799)</u>	<u>(3,406,000)</u>	<u>(3,420,995)</u>	<u>(213,799)</u>	<u>(198,804)</u>
Income Before Interest Expense	6,288,917	5,940,932	6,001,401	347,985	287,516
Interest Income	448,021	302,000	181,448	146,021	266,573
Interest Expense	<u>(16,460,500)</u>	<u>(16,460,500)</u>	<u>(16,460,292)</u>	-	(208)
Capital Contributions	-	-	-	-	-
NET INCOME	<u>(9,723,562)</u>	<u>(10,217,568)</u>	<u>(10,277,443)</u>	<u>494,006</u>	<u>553,881</u>
CITY DIVISION	2017 Q3 FORECAST - FULL YEAR				
Cash Flow Statement (Indirect)	Forecast	Budget	Last FC	Bud Var	Last FC Var
Net Income	(9,723,562)	(10,217,568)	(10,277,443)	494,006	553,881
Add: Depreciation & Amortization	5,400,000	5,600,000	5,600,000	(200,000)	(200,000)
Add: Non-Cash Interest Expense	3,412,779	3,412,778	3,412,570	1	209
Add: Capex Charged to Expense	7,959,887	7,904,000	7,897,855	55,887	62,032
Principal Payments	-	-	-	-	-
Cash Outlays on Lease & Lease Reserve	<u>(508,000)</u>	<u>(508,000)</u>	<u>(508,000)</u>	-	-
Investments Converting To Cash	-	-	-	-	-
New Borrowing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Available For Capital Spending	6,541,104	6,191,210	6,124,982	349,894	416,122
Capital Expenditures	<u>(10,636,895)</u>	<u>(10,670,570)</u>	<u>(10,663,580)</u>	33,675	26,685
NET FUND CASH FLOWS	<u>(4,095,791)</u>	<u>(4,479,360)</u>	<u>(4,538,598)</u>	<u>383,569</u>	<u>442,807</u>

Income (Q3 FC vs. Q2 FC)

- **Higher by \$554k**
 - Operating revenues
 - Operating expenses
 - **Non-operating rev(exp)**
 - Interest income
 - **Interest expense**

Income (Q3 FC vs. Budget)

- **Higher by \$494k**
 - Operating revenues
 - Operating expenses
 - **Non-operating rev(exp)**
 - Interest income
 - Interest expense

Cash (Q3 FC vs. Q2 FC)

- **Higher by \$443k**
 - Cash From Operations
 - Principal payments
 - Capex
 - **Borrowing proceeds**

Cash (Q3 FC vs. Budget)

- **Higher by \$384k**
 - Cash From Operations
 - Principal payments
 - Capex
 - **Borrowing proceeds**

CITY DIVISION

Operating Revenues

- Favorable to last forecast and even more favorable to budget
- Last forecast was already higher than budget and we just forecasted an even better revenue figure

Operating Expenses

- Favorable to last forecast and even more favorable to budget
- Last forecast was already lower than budget and we forecasted lower expenses this time around
- Were very favorable to budget for H1 - \$619k
- Will spend more than that in H2 - \$899k more
- We will still end up being favorable to budget (by \$339k)
- The higher spending is on services and supplies
- Higher spending for tank inspections and flood dike maintenance

CITY DIVISION

Non-Operating Revenues

- Unfavorable to last forecast
- More unfavorable than budget
- We dropped this for the last forecast and made it even lower this time around
- Lower tapping fees is the primary driver

Interest income

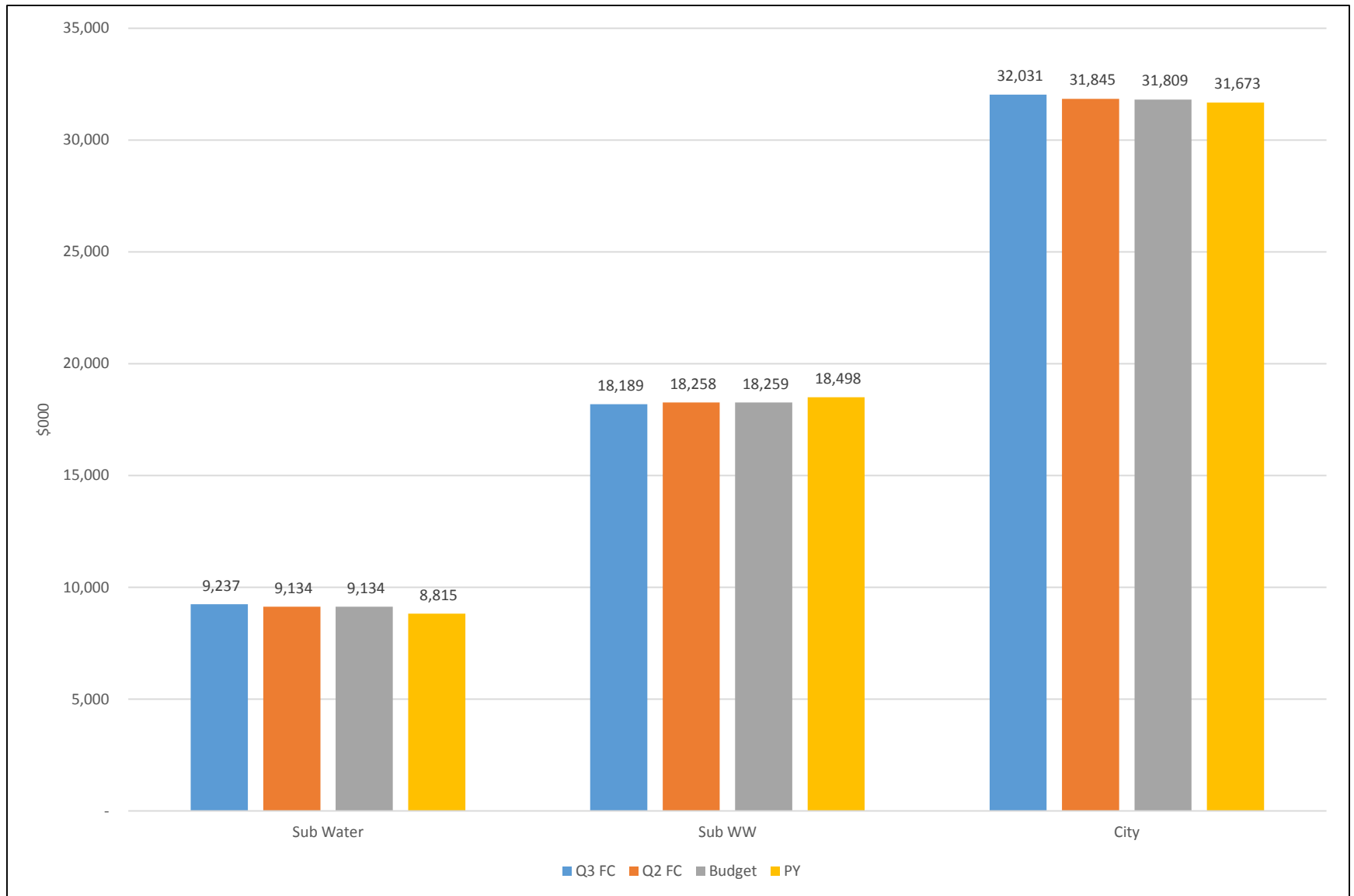
- H1 was better than budget
- Expecting the same relative performance for H2
- Higher invested balances from higher capital reserves
- This is the only fund showing good news on this

Interest Expenses – in line with budget for the year

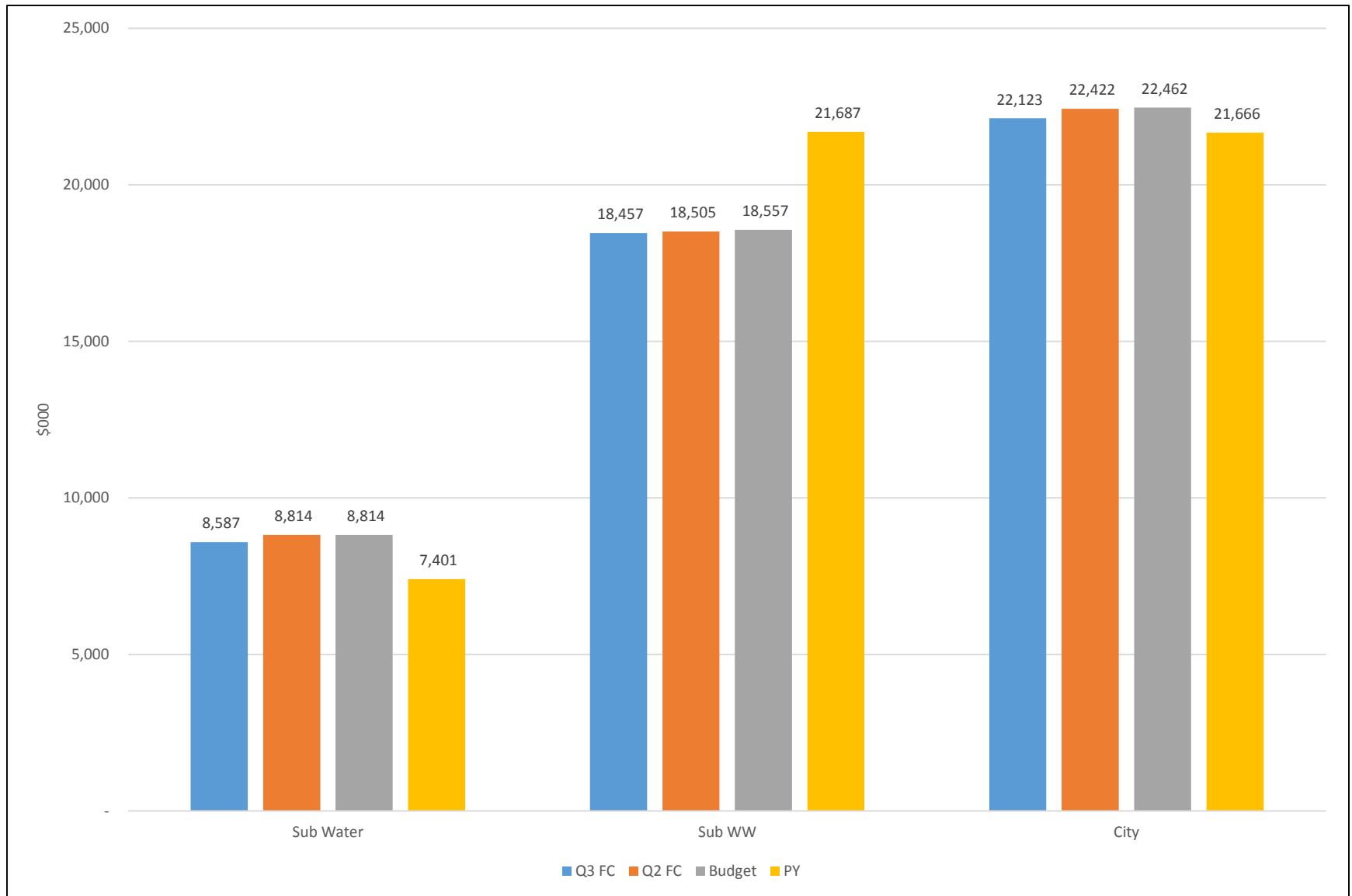
Capital Spending

- Dropped the forecast
- This drop made capex spending even lower than budget
- Phasing issues
- Not able to complete all of the projects although, on a relative basis, this variance is not as high as the other two funds

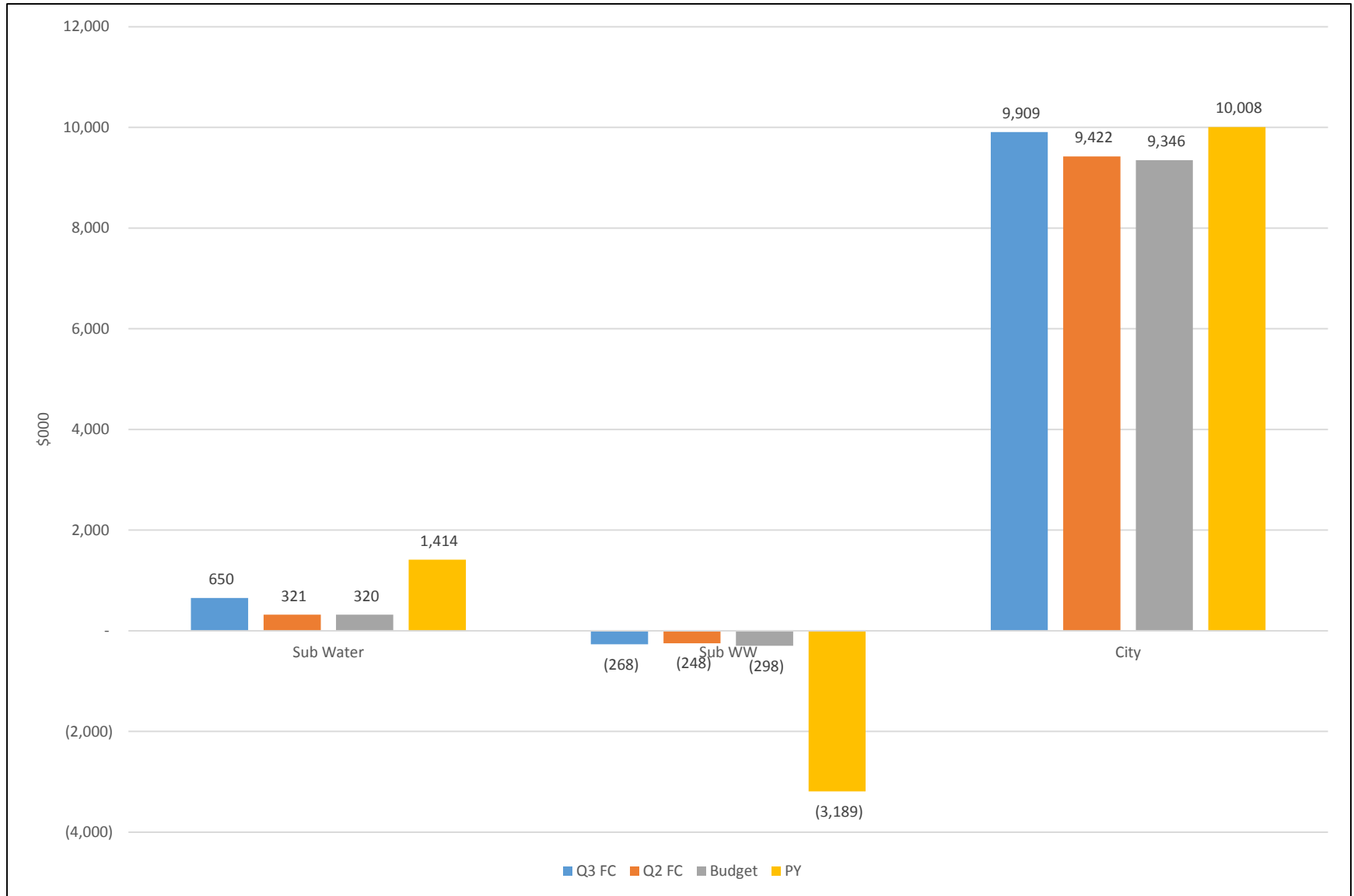
Dashboard – Operating Revenues



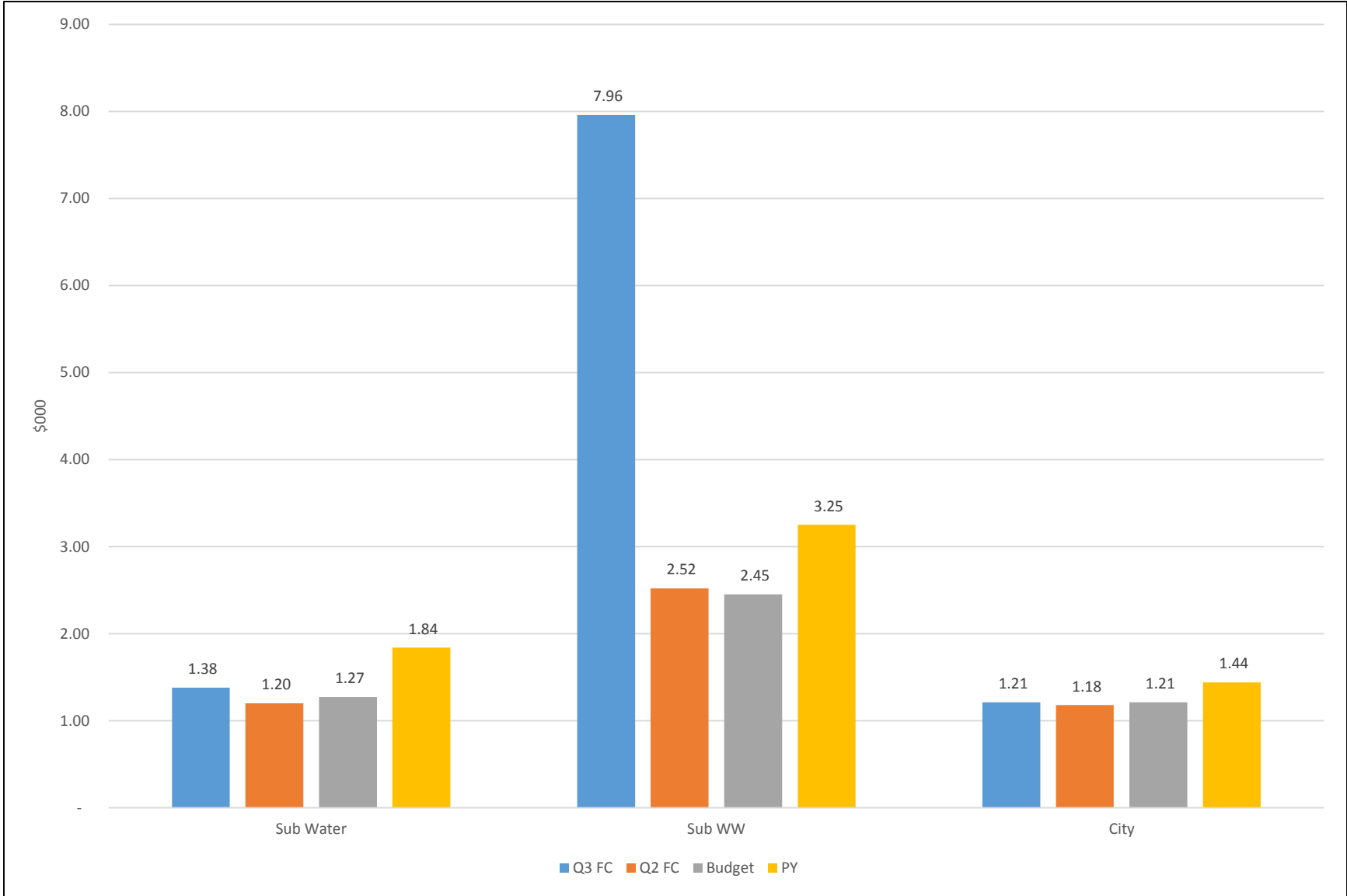
Dashboard – Operating Expenses



Dashboard – Operating Income



Dashboard – DSCR



Dashboard – Capex

