Board Meeting 04/25/16
Revenue Model
What are we trying to Achieve?

- Long-term
  - Financial Stability
  - Financial Sustainability
  - Stability of Rates

- What does that mean?
  - Change in net position Not <0
  - Cash Flows not <0
  - Compliance with all Indenture Requirements
  - Lower levels of debt
What are we trying to Achieve?

- It also means that we:
  - Have operations revenue fund
    - All O & M expenses
    - Capex Spending
    - Debt service – both Interest & Principal
  - Have NO borrowing for
    - O & M
    - Debt service
    - Capex spending required by regulations and planned system maintenance through our asset management program
What are we trying to Achieve?

- It also means that:
  - Borrowing is limited to:
    - New Revenue generating opportunities
    - Unplanned events
How do we get there?

- Recover full costs of the Authority
- Reduce costs
  - O & M Costs
  - Project costs
  - Costs of capital
    - Interest expense
- Start working on the reduction on debt
Where are we?

- Running negative changes in net position – expenses exceed revenues
  - Suburban Water - Budgeted change in net position is negative
  - Suburban WW - negative in last two years and negative 3 out of the last four years
Where are we?

- Running negative cash flows – cash out exceeds cash in
  - Suburban Water – budget for 2016 is negative, we were slightly positive for 2015
  - Suburban WW – budget for 2016 is negative
- High levels of debt with high interest expense
### Where are we?

<table>
<thead>
<tr>
<th>Suburban Water</th>
<th>Net Rev/ Exp</th>
<th>Net Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>130</td>
<td>810</td>
</tr>
<tr>
<td>2013</td>
<td>527</td>
<td>1,818</td>
</tr>
<tr>
<td>2014</td>
<td>1,146</td>
<td>1,528</td>
</tr>
<tr>
<td>2015</td>
<td>1,297</td>
<td>76</td>
</tr>
<tr>
<td>2016</td>
<td>(96)</td>
<td>(1,071)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Suburban WW</th>
<th>Net Rev/ Exp</th>
<th>Net Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>996</td>
<td>(1,548)</td>
</tr>
<tr>
<td>2013</td>
<td>(1,169)</td>
<td>3,196</td>
</tr>
<tr>
<td>2014</td>
<td>1,143</td>
<td>3,481</td>
</tr>
<tr>
<td>2015</td>
<td>(942)</td>
<td>624</td>
</tr>
<tr>
<td>2016</td>
<td>(327)</td>
<td>(953)</td>
</tr>
</tbody>
</table>
The Full Cost Model of Revenue

- Concepts
  - Considers the effects of all costs and expenses
  - Considers the effect of all major cash flows
    - O & M
    - Debt related
    - Project related (Capex)
    - Meets the Financial Criteria
      - Net position change not $<0$
      - Cash Flow not $<0$
      - Avoids constant use of debt
The Full Cost Model of Revenue

- Calculation

  Total Operating Expenses (including Depreciation)
  Add: Non-Operating expenses
  Less: Non-Operating fees – tapping & connection fees
  Add: Interest expenses
  Add: Capital Reserve
  Add: Cash reserve

  = TOTAL REVENUE POOL
# The Full Cost Model of Revenue

<table>
<thead>
<tr>
<th></th>
<th>Sub Water</th>
<th>Sub WW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Revenue</td>
<td>8,787</td>
<td>16,045</td>
</tr>
<tr>
<td>Model Revenue</td>
<td>9,806</td>
<td>16,381</td>
</tr>
<tr>
<td>Increase $</td>
<td>1,019</td>
<td>336</td>
</tr>
<tr>
<td>Increase %</td>
<td>11.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Net Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td>(96)</td>
<td>(327)</td>
</tr>
<tr>
<td>Model</td>
<td>684</td>
<td>0</td>
</tr>
<tr>
<td>Cash flow</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td>(1,071)</td>
<td>(953)</td>
</tr>
<tr>
<td>Model</td>
<td>191</td>
<td>939</td>
</tr>
</tbody>
</table>
# The Full Cost Model of Revenue

<table>
<thead>
<tr>
<th></th>
<th>Sub Water</th>
<th>Sub WW</th>
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</thead>
<tbody>
<tr>
<td><strong>Is Change in Net Position &gt;0</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Model</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Is Cash Flow &gt;0</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Model</td>
<td>YES</td>
<td>YES</td>
</tr>
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<td></td>
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<tr>
<td><strong>DSCR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td>1.56</td>
<td>2.25</td>
</tr>
<tr>
<td>Model</td>
<td>2.06</td>
<td>3.44</td>
</tr>
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</table>
Fundamental Issues With Model

- Works on the Suburban side of the business where we can control the revenue rates
- Not so good on the City side of the business where we are limited in rate controls. Have not really incorporated City into this model discussion
Things to Watch For

- Spikes in Principal Repayment create rate fluctuation issues – have to be normalized. This requires looking at repayments over a period of time.
- Same thing with respect to Capex spending
So What Do We Do?

- Adopt the model for the Suburban business
- Maximize other revenues for both City and Suburban
  - Tapping fees
  - Connection fees
  - CCRC
- Initiate a water rate study to work the revenue requirements down through the customer chain
So What Do We Do?

- Revamp the capital planning process
  - Shorten the time frame to 5 years
  - Focus on drivers of capital projects
  - Focus on the projects with higher probability of completion to be incorporated into rates
- As add-on to Revenue Model, adopt the policy of borrowing only for unplanned major issues and new revenue generating opportunities
So What Do We Do?

- Adopt the new statement format as the format for reviewing status of changes in net position and cash flows (have seen this for January and February)
- Resolve City Revenue issues
- Incorporate all into the 2017 Budget, especially the use of the revenue model for determining budgeted revenue pool
Concluding Thoughts

- We have a great opportunity to clearly manage our revenue to enhance our net position and cash flows.
- Doing that will allow this Authority to have the funding necessary to successfully operate in a quality manner and to maintain and enhance the system to be the water and wastewater service our customers expect for a long time.