

City of Columbia – City Utility Financials

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City Utility Financial Presentation

- Utility Rates Timeline Change
- Budget Process for FY 2019 and FY 2020
- Cash Reserves
- Debt Coverage
- Financials
 - FY 2019 Adjusted Budget
 - FY 2019 Mid-Year Assessment (Estimated)
 - FY 2019 End of Year Financials (Actual Unaudited)
 - FY 2020 Budget (Adjusted) - removed revenue increases & adjusted to reflect FY 2019 actual unassigned cash reserve impact to FY 2020 budget
- Water and Electric Increasing Operating Expenses

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Utility Rates Timeline Change

- During June 10, 2019 Council Retreat staff proposed no longer requesting utility rate changes as part of the fiscal year budget. This timeline change was reiterated during the August 26, 2019 Council Budget Worksession.
- Staff would plan to bring forward any proposed utility rate changes to Council for a public hearing in January each year.
- Staff is proposing to evaluate the previous year financials once all revenues/expenses are available after the fiscal year is over.
 - This approach will allow staff to have a better financial picture of how the utilities fared to determine whether a revenue increase is necessary.
- Proposing a revenue increase for utilities during the budget process in April/May is complicated by the fact that a majority of the Water and Electric utility revenues are significantly impacted by the summer months (June thru September).
- In addition, this approach would allow staff an assessment of the impact of past water rate changes prior to requesting the next one.

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Utility Rates Timeline Change

- Utilities, specifically Water and Electric, are impacted by the summer months (June – September), in which we don't start receiving this information until mid-July (just prior to the CM proposing the upcoming fiscal year budget to City Council)
- The next slide shows the budget process begins well before the Utilities have 6 months of data (revenues and expenses).

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Budget Process for FY 2019 & FY 2020

| Task | Budget Year | Begin Work | Due to Budget | Comment |
|---|-------------|----------------|----------------|--|
| Begin 5 Year Forecasts: Estimates and Budget | FY 2019 | March 1, 2018 | March 30, 2018 | Begin budgeting and estimating prior to having 6 months of data and prior to the summer months (June – Sept) which generally has the highest impact to the utilities |
| | FY 2020 | March 1, 2019 | March 29, 2019 | |
| Enter Estimates and Budget #'s | FY 2019 | March 26, 2018 | April 20, 2018 | Two levels of budget entry done during this timeframe. |
| | FY 2020 | March 26, 2019 | April 19, 2019 | |
| Finance Budget Meetings | FY 2019 | | June 12, 2018 | Meet with Finance Dept to review budget prior to meeting with CM |
| | FY 2020 | | June 11, 2019 | |
| City Manager Budget Meetings | FY 2019 | | June 25, 2018 | Meet with CM to review budget prior to finalizing for Council |
| | FY 2020 | | June 20, 2019 | |

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Cash Reserves

- Policy Resolution 256-13, approved on December 16, 2013 by Council states: *“The City shall maintain unassigned cash reserves equal to twenty percent (20%) of the Water and Light Department’s total annual expenses plus enterprise revenue funding requirements for capital projects. Funding for capital projects will be addressed by excluding the enterprise revenue for current fiscal year’s capital projects and adding the projected enterprise revenue for capital projects the following fiscal year”*
- Cash reserve policy:
 - Should identify **minimum** cash reserve level
 - Cash should be allowed to be above the minimum level
 - Cash reserves will fluctuate over time depending on age of assets and capital improvement program
 - Falling below minimum levels could trigger a rate increase or bond issuance for large improvements

Source: American Public Power Association, Performing a Utility Financial Check-up In-House Training

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Cash Reserves

- Reason for minimum cash:
 - Pay bills
 - Catastrophic events (wind, ice, equipment failure)
 - Changes in power supply costs
 - Capital costs
 - Debt service
- Maintains stable rates for customers:
 - Allows the utility to draw down on reserves for an unexpected event rather than issue debt or substantial rate increases
 - Allows the ability to phase in large rate adjustments when needed
 - Reduces the chance of a significant transfers to City to reduce cash levels

Source: American Public Power Association, Performing a Utility Financial Check-up In-House Training

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Cash Reserves

- Most Common Policy: Number of Days of Operations and Maintenance (O&M):
 - 90 - 120+ days
 - Higher bond rating 150+ days

*Currently the City of Columbia's cash reserve policy of 20% of the Water and Light Department's total annual expenses plus enterprise revenue funding requirements for capital projects, would be ~ 73 days

Source: American Public Power Association, Performing a Utility Financial Check-up In-House Training

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Debt Coverage

- Debt coverage ratio:
 - Identifies cash generated by operations above the debt service payment
 - Debt coverage ratios mandated by covenants and established in bond ordinances
 - Know your requirements and calculate with the yearly budget process
- Typical requirements are 1.25

* City of Columbia's requirement is a **minimum** of 1.10 (per bond covenant)

Source: American Public Power Association, Performing a Utility Financial Check-up In-House Training

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Debt Coverage

- When setting rates a safety factor must be built into the coverage ratio for planning purposes:
 - Electric sales dependent on weather
 - Power supply prices fluctuate
 - Unexpected expense can occur
 - Unexpected transfer to city
- Potentially causes the utility to fall below coverage requirements
- Safety factor of 0.2 is typically added to Bond Coverage requirement (Ex: $1.25 + 0.20 = 1.45$)

Source: American Public Power Association, Performing a Utility Financial Check-up In-House Training

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Debt Coverage

- Not Meeting Debt Coverage:
 - Technically in default even if making payment but not meeting debt coverage ratio
 - DEFAULT OF LOAN:
 - Affects ratings and ability to issue bonds in future
 - Affects interest rate in the future = higher risk
- Why ratings are important:
 - Higher rating = lower cost of issuing debt
 - Significant impacts on future bond ratings of the Utility
 - Ability to use revenue bonds instead of General Obligation bonds

Source: American Public Power Association, Performing a Utility Financial Check-up In-House Training

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Water Financials

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FY 2019 Financials- Water

| | FY2019 Adjusted Budget | FY 2019 Estimated | FY 2019 Actual (Unaudited) | FY2020 Budget (Adjusted) |
|--|------------------------------|----------------------|----------------------------------|--------------------------------|
| Sources | \$27,165,380 | \$27,758,704 | \$27,338,810 | \$28,142,141* |
| Uses w/o CIP | \$26,118,218 | \$25,061,782 | \$23,729,296 | \$28,274,965 |
| Uses CIP | \$350,000 | \$350,000 | \$350,000 | \$1,675,000 |
| Financial Sources Over/(Under) Uses | \$697,162 | \$2,346,922 | \$3,259,514 | (\$1,807,824) |
| Unassigned (Unrestricted) Cash Reserve | \$5,875,183 | \$10,470,920 | \$10,148,020 | \$8,340,196 * |
| Budgeted Cash Reserve Target | \$5,587,705 | \$5,587,705 | \$5,616,701 | \$7,329,993 |
| Above/(Below) Budgeted Cash Reserve Target | \$287,478 | \$4,883,215 | \$4,531,319 | \$1,010,203 |
| Debt coverage ratio | 1.19 | 1.50 | 1.62 | 1.12 |

* Revised projected revenues without revenue increase & adjusted to reflect FY 2019 actual unassigned cash reserve impact to FY 2020 budget 13

FY 2019 Financials- Water

- Unassigned cash reserve is significantly higher for FY 2019 **estimated** (\$10,470,920) compared to FY 2019 **budget** (\$5,875,183) for the following reasons:
 - In FY 2019, water connection fees (\$2,945,977) moved from restricted cash to unrestricted cash. The restricted cash was previously included in Cash and Marketable securities and restricted for capital projects.
 - There was a 4% water revenue increase that took effect in January 2019. We did not do a budget amendment for FY 2019 for this increase.
 - High vacancy rate resulted in lower personnel costs and less capital and maintenance expenditures
- Unassigned cash reserve is very close for FY 2019 **actual** (\$10,148,020) compared to FY 2019 **estimated** (\$10,470,920)

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FY 2020 Financials (Adjusted)- Water

- FY 2020 budget currently assumes a 3% revenue increase.
- Due to being approximately \$4.5 million above the cash reserve target in FY 2019 staff does not feel that a revenue increase is needed to generate additional revenues for FY 2020.
- FY 2020 Unassigned cash reserve target without a revenue increase will be \$1,010,203 above cash reserve target and debt coverage ratio will be 1.12 (minimum 1.10)
- FY 2019 summer weather conditions were mild (cool and wet), which did not allow staff to assess the impact of the rate structure change when compared to a typical summer

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FY 2019 & FY 2020 Financials- Water

No 4% revenue increase (3% debt & 1% O&M)

| | FY 2019 Estimated | FY 2019 Actual (Unaudited) | FY2020 Budget (Adjusted) |
|--|----------------------|----------------------------------|--------------------------------|
| Above/(Below) Budgeted Cash Reserve Target | \$3,953,215 | \$3,601,319 | \$94,203 |
| Debt coverage ratio | 1.33 | 1.45 | 0.96 |

No 1% O&M revenue increase

| | FY 2019 Estimated | FY 2019 Actual (Unaudited) | FY2020 Budget (Adjusted) |
|--|----------------------|----------------------------------|--------------------------------|
| Above/(Below) Budgeted Cash Reserve Target | \$4,650,715 | \$4,298,819 | \$781,203 |
| Debt coverage ratio | 1.46 | 1.57 | 1.08 |

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Water Increasing Operating Expenses

| Maintenance | Estimated Cost | Current Budget | Funding Needed |
|--|----------------|----------------|-----------------------------|
| Removal of Lime Softening Residuals from lagoons | \$1,000,000 | \$500,000 | \$500,000 |
| Water Main Replacements (1% annually) | \$4,000,000 | \$363,000 | \$3,637,000 |
| Tower and Reservoir Maintenance | \$3,000,000 | \$300,000/year | \$300,000/year (5 years) |
| Convert all water meters to remote read technology | \$8,220,000 | \$0 | 1,644,000/year (5 years) |
| TOTAL | | | \$6,081,000 |

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Electric Financials

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FY 2019 Financials- Electric

| | FY2019 Adjusted Budget | FY 2019 Estimated | FY 2019 Actual (Unaudited) | FY 2020 Budget (Adjusted) |
|--|------------------------------|----------------------|-------------------------------|------------------------------|
| Sources | \$135,139,026 | \$138,570,140 | \$132,572,199 | \$138,712,454* |
| Uses w/o CIP | \$132,967,794 | \$130,378,920 | \$120,238,760 | \$140,122,447 |
| Uses CIP | \$5,550,000 | \$5,550,000 | \$5,550,000 | \$5,650,000 |
| Financial Sources Over/(Under) Uses | (\$3,378,768) | \$2,641,220 | \$6,783,439 | (\$7,059,993) |
| Unassigned (Unrestricted) Cash Reserve | \$30,377,170 | \$36,397,158 | \$45,492,526 | \$38,432,533 * |
| Budgeted Cash Reserve Target | \$31,932,063 | \$31,932,063 | \$31,932,063 | \$33,674,489 |
| Above/(Below) Budgeted Cash Reserve Target | (\$1,554,893) | \$4,465,095 | \$13,560,463 | \$4,758,044 |
| Debt coverage ratio | 1.31 | 1.73 | 2.09 | 1.11 |

* Revised projected revenues without revenue increase & Adjusted to reflect FY 2019 actual unassigned cash reserve impact to FY 2020 budget 19

FY 2019 Financials- Electric

- Unassigned cash reserve is significantly higher for FY 2019 **estimated** (\$36,397,158) compared to FY 2019 **budget** (\$30,377,170) for the following reasons:
 - FY 2019 a 2.5% revenue increase took effect in October
 - For the first six months of FY 2019, electric usage was up 1.3% over the same time last year due to a colder winter
 - Estimated financial uses to be under budget by approximately \$2.6 million
 - * Utility Services and Misc
 - * Transfers out:
 - (PILOT, due to the decrease in property tax portion being paid to the General Fund)

FY 2019 Financials- Electric

- Unassigned cash reserve is significantly higher for FY 2019 **actual** (\$45,492,526) compared to FY 2019 **estimated** (\$36,397,158) for the following reasons:
 - Actual financial sources down (\$5,997,941) due to a mild summer. Billed usage was down 4.4% or 52,738,536 kWh's compared to FY 2018
 - Actual financial uses are down (\$10,140,160) due to the following:
 - * Power Supply (\$8,523,192) – see next slide for more details
 - * Utility Services & Miscellaneous (\$2,100,174)

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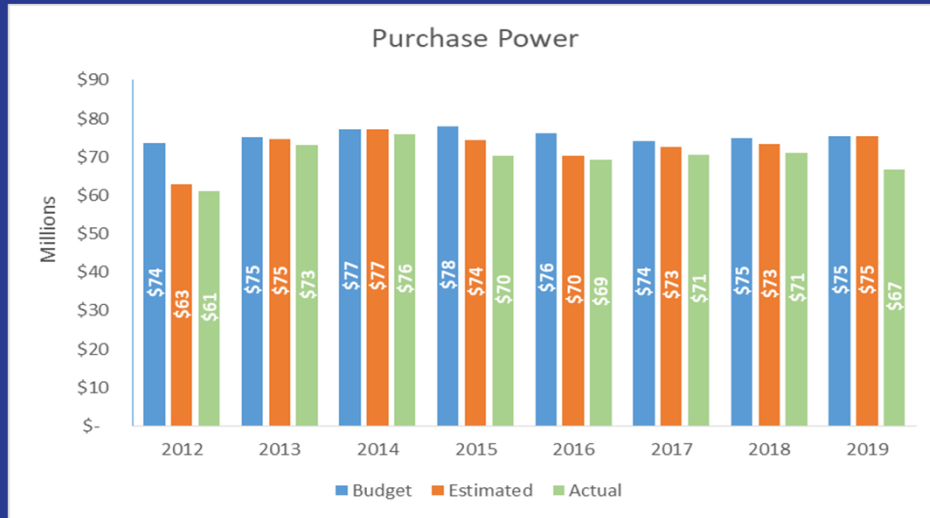
FY 2019 Financials- Electric

Power Supply expenses were down significantly for FY 2019 for the following reasons:

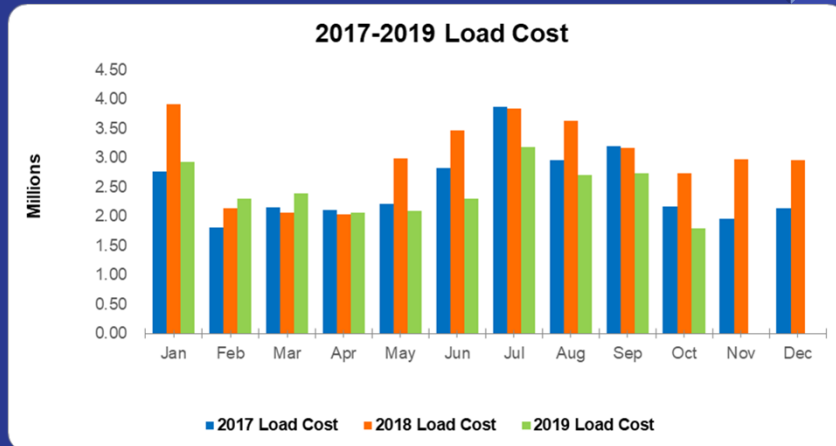
- Natural gas prices were lower for the majority of the year
- FY 2019 – we purchased less from the market (7,072 MWHs) compared to FY 2018 (42,366 MWHs) due to bigger outages at Sikeston and Iatan, as well as one unit being down at Prairie State
- Summer hedge purchase in FY 2019, August shows us selling back 10,000 MWHs, compared to buying 22,106 MWH's in FY 2018
- Market purchases in May, June and July 2019 all well below FY 2018, due to smaller load and more generation from Purchase Power Agreements (PPA's)
- Load is down, which means we have had to buy less from market, approximately 39,000 MWHs

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Electric – Purchase Power Costs



Electric - Load



FY 2020 Financials- Electric

- FY 2020 budget currently has a 1% revenue increase for operating costs
- Due to being approximately \$13.5 million above the cash reserve target in FY 2019 staff does not feel that a revenue increase is needed for FY 2020.
- FY 2020 Unassigned cash reserve target without a revenue increase will be \$4.7 million above cash reserve target and debt coverage ratio will be 1.11 (minimum 1.10)

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Electric Increasing Operating Expenses

| Maintenance | Estimated Cost | Current Budgets | Funding Needed |
|---|----------------|-----------------|--------------------|
| 13.8 kV Overhead System Replacement | \$1,000,000 | \$500,000 | \$500,000/year |
| 13.8 kV Underground System Replacement | \$750,000 | \$200,000 | \$550,000/year |
| 161 & 69 kV Transmission System Replacement | \$500,000 | \$200,000 | \$300,000/year |
| 13.8 kV Conversion of Overhead to Underground | \$1,000,000 | \$500,000 | \$500,000/year |
| Upgrade Electric Meters from AMR to AMI | \$8,000,000 | \$0 | \$1,600,000/year |
| TOTAL | | | \$3,450,000 |

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Sewer Financials

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FY 2019 Financials- Sewer

| | FY2019 Adjusted Budget | FY 2019 Estimated | FY 2019 Actual (Unaudited) | FY 2020 Budget Adjusted |
|--|------------------------------|----------------------|-------------------------------|----------------------------|
| Sources | \$25,210,498 | \$24,987,864 | \$25,294,642 | \$25,037,807 |
| Uses w/o CIP | \$23,836,111 | \$21,644,096 | \$19,204,940 | \$23,517,167 |
| Uses CIP | \$10,321,850 | \$10,321,850 | \$10,321,850 | \$895,000 |
| Financial Sources Over/(Under) Uses | (\$8,947,463) | (\$6,978,082) | (\$4,232,148) | \$625,640 |
| Unassigned (Unrestricted) Cash Reserve | \$7,707,659 | \$9,419,459 | \$12,512,954 | \$13,138,594 * |
| Budgeted Cash Reserve Target | \$7,953,035 | \$7,953,035 | \$7,953,035 | \$5,598,433 |
| Above/(Below) Budgeted Cash Reserve Target | (\$245,376) | \$1,466,424 | \$4,559,919 | \$7,540,161 |
| Debt coverage ratio | 1.34 | 1.56 | 1.81 | 1.30 |

* Adjusted to reflect FY 2019 actual unassigned cash reserve impact to FY 2020 budget

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FY 2019 Financials- Sewer

- Unassigned cash reserve is higher for FY 2019 **actual** (\$12,512,954) compared to FY 2019 **estimated** (\$9,419,459) for the following reasons:
 - Sources (Revenues) were higher than anticipated (~\$300k)
 - Operating expenses (Uses w/o CIP) was significantly lower than anticipated due to the following:
 - * Personnel services – numerous vacancies throughout the year (~\$700k)
 - * Budget cuts in FY 2020 were partially implemented in FY 2019
 - * Less Wetland berm repairs due to flood waters

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Solid Waste Financials

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FY 2019 Financials- Solid Waste

| | FY2019 Adjusted Budget | FY 2019 Estimated | FY 2019 Actual (Unaudited) | FY 2020 Budget (Adjusted) |
|--|------------------------------|----------------------|-------------------------------|------------------------------|
| Sources | \$23,503,295 | \$24,064,813 | \$24,530,881 | \$23,746,513 |
| Uses w/o CIP | \$23,992,548 | \$22,579,268 | \$18,847,720 | \$23,090,483 |
| Uses CIP | \$1,555,000 | \$1,555,000 | \$1,555,000 | \$4,110,000 |
| Financial Sources Over/(Under) Uses | (\$2,044,253) | (\$69,455) | \$4,128,161 | (\$3,453,970) |
| Unassigned (Unrestricted) Cash Reserve | \$9,662,892 | \$11,503,986 | \$16,380,213 | \$12,926,243 * |
| Budgeted Cash Reserve Target | \$6,293,990 | \$6,293,990 | \$6,293,990 | \$8,728,097 |
| Above/(Below) Budgeted Cash Reserve Target | \$3,368,902 | \$5,209,996 | \$10,086,223 | \$4,198,146 |

* Adjusted to reflect FY 2019 actual unassigned cash reserve impact to FY 2020 budget

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FY 2019 Financials- Solid Waste

- Unassigned cash reserve is significantly higher for FY 2019 **actual** (\$16,380,213) compared to FY 2019 **estimated** (\$11,503,986) for the following reasons:
 - Sources (revenues) were higher than anticipated (~\$500k)
 - Operating expenses (Uses w/o CIP) was significantly lower than anticipated due to the following:
 - * Personnel services – due to numerous vacancies throughout the fiscal year (~\$700k)
 - * Less in Landfill closures/post closure costs (~\$500k)
 - * Less in capital additions (fleet replacement) due to fleet ordered, but not received until FY 2020 (~\$2.4 m)

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Storm Water Financials

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FY 2019 Financials- Storm Water

| | FY2019 Adjusted Budget | FY 2019 Estimated | FY 2019 Actual (Unaudited) | FY 2020 Budget (Adjusted) |
|--|------------------------------|----------------------|-------------------------------|------------------------------|
| Sources | \$3,054,040 | \$3,074,175 | \$3,180,508 | \$3,656,449 |
| Uses w/o CIP | \$1,869,333 | \$1,755,606 | \$1,341,992 | \$1,795,414 |
| Uses CIP | \$975,000 | \$975,000 | \$975,000 | \$1,829,943 |
| Financial Sources Over/(Under) Uses | \$209,707 | \$343,569 | \$863,516 | \$31,092 |
| Unassigned (Unrestricted) Cash Reserve | \$1,761,138 | \$1,895,000 | \$2,904,226 | \$2,935,318 * |
| Budgeted Cash Reserve Target | \$1,343,120 | \$1,343,120 | \$1,343,120 | \$2,189,026 |
| Above/(Below) Budgeted Cash Reserve Target | \$418,018 | \$551,880 | \$1,561,106 | \$746,292 |

* Adjusted to reflect FY 2019 actual unassigned cash reserve impact to FY 2020 budget

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FY 2019 Financials- Storm Water

- Unassigned cash reserve is significantly higher for FY 2019 **actual** (\$2,904,226) compared to FY 2019 **estimated** (\$1,895,000) for the following reasons:
 - Sources (revenues) were slightly higher than anticipated (~\$106k)
 - Operating expenses (Uses w/o CIP) was significantly lower than anticipated due to numerous personnel vacancies (~\$130k), which led to storm water maintenance work not being completed

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Summary

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FY 2019 Financials- Summary

- Unassigned cash reserve was above the budgeted cash reserve target for all Utilities in FY 2019
- Debt coverage (per bond covenant) was met for Water, Electric and Sewer in FY 2019
- No utility revenue increases are proposed for FY 2020