

City of Columbia – City Utility Financials

Monday, February 15, 2021

Water & Electric Financial Presentation

- Utility Rates Timeline Change
- Cash Reserves
- Debt Coverage
- Financials
 - FY 2020 Budget Projections
 - FY 2020 Mid-Year Assessment (Estimated)
 - FY 2020 End of Year Financials (Actual Unaudited)
 - FY 2021 Budget (Adjusted) - removed revenue increases & adjusted principal and interest in Electric for refunding that occurred in Aug/Sept 2020 and was not adjusted in FY 2021 budget

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 rate increase is necessary.
- Proposing a rate 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.

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)

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

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

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

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

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

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

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

Water Financials

FY 2020 Financial - Water

	FY2020 Budget	FY 2020 Estimated	FY 2020 Actual (Unaudited)	FY2021 Budget (Adjusted)
Sources	\$28,926,689	\$27,053,212	\$27,213,401	\$27,902,488
Uses w/o CIP	\$28,804,561	\$26,675,349	\$25,009,924	\$28,660,786
Uses CIP	\$1,675,000	\$1,675,000	\$1,675,000	\$740,000
Financial Sources Over/(Under) Uses	(\$1,552,872)	(\$1,297,137)	\$528,477	(\$1,498,298)
Ending Cash Reserves	\$8,595,149	\$8,850,884	\$10,818,273	\$9,319,975
Budgeted Cash Reserve Target	\$7,423,219	\$7,423,219	\$7,423,219	\$6,482,810
Above/(Below) Budgeted Cash Reserve Target	\$1,171,930	\$1,427,665	\$3,395,054	\$2,837,165
Debt Coverage ratio (w/PILOT)	1.16	1.20	1.54	0.88
Debt coverage ratio (w/o PILOT)	1.67	1.72	2.05	1.40

FY 2020 Financial - Water

- Unassigned Cash Reserve is higher for FY 2020 actual (\$10,818,273) compared to FY 2020 estimated (\$8,850,884) for the following reasons:
 - Financial sources were higher \$160,189 due to higher connection fees than estimated
 - Supplies & Materials were down (\$338,455) due to less spent on construction materials, equipment parts and fuel for vehicles/equipment
 - Utilities, Services & Other Miscellaneous was down (\$541,880) due to reduction in operating projects due to COVID and media replacements in the filters at WTP did not occur.
 - Interest Expense was down (\$334,096) due to the refunding of bonds that occurred and the budget amount not being adjusted
 - Transfers out were down (\$214,131) due to the total amount of PILOT (payment in lieu of taxes) transfer to the General Fund was lower than anticipated because of the decrease in the property tax portion
 - Capital Additions were down (\$186,716) due to items purchased coming in under budget
 - No revenue increases were proposed for FY 2020.

FY 2021 Financials (Adjusted)- Water

- FY 2021 budget currently assumes a 3% revenue increase for debt that was postponed in FY 2020.
 - Implemented 3% of the total 11% for the 2018 Water ballot issue
- Due to being approximately \$3.4 million above the cash reserve target in FY 2020 staff does not feel that a rate adjustment is necessary at this time to generate additional revenues for FY 2021.
- FY 2021 Unassigned cash reserve target without a revenue increase will be \$2,837,165 above cash reserve target and debt coverage ratio will be .88 w/PILOT and 1.40 w/o PILOT

Electric Financials

FY 2020 Financial - Electric

	FY2020 Budget	FY 2020 Estimated	FY 2020 Actual (Unaudited)	FY2021 Budget (Adjusted)
Sources	\$140,037,287	\$130,120,023	\$132,336,734	\$132,255,425
Uses w/o CIP	\$140,646,592	\$129,881,284	\$121,532,611	\$128,166,724
Uses CIP	\$5,650,000	\$5,650,000	\$5,650,000	\$4,780,000
Financial Sources Over/(Under) Uses	(\$6,259,305)	(\$5,411,261)	\$5,154,123	(\$691,300)
Ending Cash Reserves	\$39,233,221	\$40,081,265	\$53,698,429	\$53,007,129
Budgeted Cash Reserve Target	\$33,794,565	\$33,794,565	\$33,794,565	\$31,173,494
Above/(Below) Budgeted Cash Reserve Target	\$5,438,656	\$6,286,700	\$19,903,864	\$21,833,635
Debt Coverage ratio (w/PILOT)	1.14	1.21	1.95	1.69
Debt coverage ratio (w/o PILOT)	1.43	1.51	2.24	2.19

FY 2020 Financial - Electric

- Unassigned Cash Reserve is higher for FY 2020 actual (\$53,698,429) compared to FY 2020 estimated (\$40,081,265) for the following reasons:
 - Financial sources were higher \$2,216,711
 - Other Local Revenues higher due to estimating error for fiber optics ~700k
 - Slight increase in Residential revenues & PILOT than estimated ~\$575k
 - MISO Transmission revenue ~1.06 million than estimated. This is almost impossible to estimate because it's all about the congestion in the market and what hedges we put on, which change month to month
 - Purchase power was down (\$4,954,557) due to the following:
 - City load was down ~4%, so less purchases were needed
 - The average day ahead LMP (locational marginal pricing) for the Columbia node was down ~24% which is driven by the market
 - The Energy Authority (TEA) optimization strategy for Iatan and Sikeston has contributed to lower purchased power costs
 - Supplies & Materials was down (\$725,781) due to less spent in construction materials, operational supplies and equipment parts
 - Utilities, Services & Other Miscellaneous was down (\$1,359,665) due to less contractual services for overhead line maintenance, boiler repairs and repairs at the Columbia Energy Center
 - Capital Additions were down (\$1,595,997) due to items not being received in FY 2020 and carried over to next fiscal year or items purchased were under budget.
 - No revenue increases were proposed for FY 2020.

FY 2021 Financials (Adjusted)- Electric

- FY 2021 budget currently assumes NO revenue increase.
- Due to being approximately \$19.9 million above the cash reserve target in FY 2020 staff does not feel that a rate adjustment is necessary at this time to generate additional revenues for FY 2021.
- FY 2021 principal and interest amounts have been reduced by \$3.8 million due to the refunding of debt in August 2020; however, they were not adjusted in the FY 2021 budget document. This adjustment results in the cash reserve target being \$21.8 million above the target. Debt coverage ratios are impacted as well.

Debt coverage ratios	W/ PILOT	W/O PILOT
FY 2021 Budget document	1.10	1.43
FY 2021 After Adjustment	1.69	2.19

- The amounts for FY 2022 and beyond will be adjusted in the budget and five year forecast.

Sanitary Sewer Financials

FY 2020 Financial – Sanitary Sewer

	FY2020 Budget	FY 2020 Estimated	FY 2020 Actual (Unaudited)	FY2021 Budget (Adjusted)
Sources	\$25,037,807	\$25,231,994	\$25,149,395	\$25,479,769
Uses w/o CIP	\$23,388,224	\$21,993,153	\$19,380,490	\$22,571,231
Uses CIP	\$895,000	\$895,000	\$895,000	\$3,743,456
Financial Sources Over/(Under) Uses	\$754,583	\$2,343,841	\$4,873,905	(\$834,918)
Ending Cash Reserves	\$13,267,537	\$14,856,791	\$16,968,492	\$16,133,574
Budgeted Cash Reserve Target	\$5,598,433	\$5,598,433	\$5,598,433	\$8,257,702
Above/(Below) Budgeted Cash Reserve Target	\$7,669,104	\$9,258,358	\$11,370,059	\$7,875,872
Debt Coverage ratio	1.32	1.48	1.87	1.51

FY 2020 Financial – Sanitary Sewer

- Unassigned Cash Reserve is higher for FY 2020 actual (\$16,968,492) compared to FY 2020 estimated (\$14,856,791) for the following reasons:
 - Supplies & Materials was down (\$530,525) due to less spent in construction materials, fuel, parts for fleet maintenance, and outside repairs to fleet
 - Utilities, Services & Other Miscellaneous was down (\$1,925,785) due to less contractual services due to the following:
 - No inflow & infiltration (I&I) investigations - \$600k
 - Collection systems model with contractor was not completed and rolled over to FY 2021 - ~\$600k
 - Sewer cost of service study was not completed and rolled over to FY 2021 - ~\$50k
 - Less centrifuge work - ~\$279k
 - No digester gas cleaning - ~\$207k
 - No activated carbon replacement - ~\$162k
 - Debt coverage ratio is 1.87 for FY 2020 actual
 - No revenue increases were proposed for FY 2020.

FY 2021 Financials (Adjusted)- Sanitary Sewer

- FY 2021 budget currently assumes NO revenue increase.
- Due to being approximately \$11.4 million above the cash reserve target in FY 2020 staff does not feel that a rate adjustment is necessary at this time to generate additional revenues for FY 2021.
- Debt coverage ratio is at 1.51

Solid Waste Financials

FY 2020 Financial – Solid Waste

	FY2020 Budget	FY 2020 Estimated	FY 2020 Actual (Unaudited)	FY2021 Budget (Adjusted)
Sources	\$23,735,513	\$22,738,498	\$23,775,508	\$23,942,543
Uses w/o CIP	\$23,155,412	\$22,115,492	\$19,977,691	\$25,214,173
Uses CIP	\$4,110,000	\$4,110,000	\$4,110,000	\$3,200,000
Financial Sources Over/(Under) Uses	(\$3,529,899)	(\$3,486,994)	(\$312,183)	(\$4,471,630)
Ending Cash Reserves	\$12,850,314	\$12,893,219	\$14,737,369	\$10,265,739
Budgeted Cash Reserve Target	\$8,728,097	\$8,728,097	\$8,728,097	\$8,242,835
Above/(Below) Budgeted Cash Reserve Target	\$4,122,217	\$4,165,122	\$6,009,272	\$2,022,904

FY 2020 Financial – Solid Waste

- Unassigned Cash Reserve is higher for FY 2020 actual (\$14,737,369) compared to FY 2020 estimated (\$12,893,219) for the following reasons:
 - Supplies & Materials was down (\$1,029,014) due to less spent on construction materials, fuel, parts for fleet, and large containers
 - Utilities, Services & Other Miscellaneous was down (\$1,463,605) due to the following:
 - Less in consulting fees at Landfill - ~\$275k
 - Less in closure/post closure costs for Landfill - ~\$664k
 - Less in equipment rentals for Landfill - ~\$130k
 - Less in contractual services for Commercial operations & Landfill - ~\$281k
 - No revenue increases were proposed for FY 2020.

FY 2021 Financials (Adjusted)- Solid Waste

- FY 2021 a 5.5% revenue increase for residential services was approved for FY 2021 to fund an add pay for residential refuse collectors. This increase will impact residential customers by approximately \$0.85/month.
- Due to being approximately \$6.0 million above the cash reserve target in FY 2020 staff does not feel that a rate adjustment is necessary at this time to generate additional revenues for FY 2021.

Storm Water Financials

FY 2020 Financial – Storm Water

	FY2020 Budget	FY 2020 Estimated	FY 2020 Actual (Unaudited)	FY2021 Budget (Adjusted)
Sources	\$3,656,449	\$3,731,247	\$3,727,261	\$3,782,425
Uses w/o CIP	\$1,790,810	\$1,698,190	\$1,336,300	\$1,523,964
Uses CIP	\$1,829,943	\$1,829,943	\$1,829,943	\$2,386,000
Financial Sources Over/(Under) Uses	\$35,696	\$203,114	\$561,018	(\$127,539)
Ending Cash Reserves	\$2,939,922	\$3,107,340	\$3,266,885	\$3,139,346
Budgeted Cash Reserve Target	\$2,189,026	\$2,189,026	\$2,189,026	\$2,690,793
Above/(Below) Budgeted Cash Reserve Target	\$750,896	\$918,314	\$1,077,859	\$448,553

FY 2020 Financial – Storm Water

- Unassigned Cash Reserve is slightly higher for FY 2020 actual (\$3,266,885) compared to FY 2020 estimated (\$3,107,340)
- No revenue increases were proposed for FY 2020.

FY 2021 Financials (Adjusted)- Storm Water

- FY 2021 budget currently assumes NO revenue increase. Any future revenue increases will have to go to the citizens to vote on.

Summary

FY 2020 Financials- Summary

- The actual cash reserve target was above the budgeted and estimated cash reserve target for all Utilities in FY 2020
- Debt coverage (per bond covenant) was met for Water, Electric and Sewer in FY 2020
- No utility revenue increases are proposed for FY 2021