

TO: James L. App, City Manager
FROM: Doug Monn, Public Works Director
SUBJECT: Timing of Water Capital Projects
DATE: November 15, 2011

NEEDS: For City Council to establish priorities for water system capital projects.

- FACTS:**
1. Water Fund reserves are being drawn down to pay operating and Nacimiento Water Project expenses due to delays in implementing adequate water rates. Additionally, water sales have dropped 23% since 2007 while operating and Nacimiento Water Project costs are increasing.
 2. Water rate increases adopted in April of this year go into effect on January 1, 2012, with annual increases through January 1, 2016.
 3. As is evident on the attached tables, even with the adopted water rate adjustments over the next 5 years, the adjustments are not adequate to fund needed repair, replacement, and new facilities to serve the community.
 4. Two planned capital projects are of particular importance to the City: a) a water treatment plant is needed to treat and deliver the City's share of Nacimiento Water; and b) the 83-year-old 21st Street Reservoir is in poor condition and is at the end of its useful life.
 5. Timing and sequence of planned capital projects must consider the Water Fund status and the City's ability to fund such construction (see Tables attached).

**ANALYSIS &
CONCLUSION:** Two projects that are critical to the water system operations are replacement of the 21st Street Reservoir and construction of a water treatment plant:

21st Street Reservoir

Built in 1928 with the roof added in the 1950s, 21st Street Reservoir has been in use more than 80 years and is at the end of its life span. The substantial degradation of the reservoir inlets and outlets (gunnite tunnels), roof, and supporting structure are of particular concern.

This 4 million gallon reservoir regulates water pressure throughout the entire west side. It also provides firefighting water storage, regulates peak demand, and satisfies emergency water needs. An unplanned loss of the 21st Street Reservoir would trigger emergency operations consisting of mandatory water use restrictions and would significantly diminish our ability to respond in the event of fire or provide water for basic health and sanitation in the event of a significant supply disruption.

The expected cost to replace the reservoir is \$7.4 million.¹

¹ All costs in 2011 dollars unless otherwise noted. Capital costs inflated 4% per year to year of construction.

Water Treatment Plant

The regional Nacimiento Water Project is up and running, however, the City needs a water treatment plant before introducing Nacimiento water into the system.

Nacimiento water is key to reliably meeting summertime demands, improving water quality, and reducing demand on the groundwater basin. Without a plant, the City runs the risk of outpacing its well production, particularly if water conservation relaxes, significant growth occurs, or well production declines due to ever increasing competition for groundwater.

Various plant capacities have been considered over the years at varying costs:

6 MGD Capacity	\$41 million
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Considered in 2008, a 6-million gallon per day (MGD) plant would serve a population of 44,000 and would include blending facilities to Main East and West Zones, full scale operations facility, and peaking capacity.

4 MGD Capacity	\$25 million
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Considered in 2009, a 4 MGD plant would enable use of the full 4,000 AFY Nacimiento entitlement and operate year-round but without peaking capacity.

2 MGD Capacity (Phase II +4 MGD plant	\$10.7 million +\$22.4 million)
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Now in consideration, a 2 MGD plant could be built with cash, operating only seasonally to meet peak demands. This means that Nacimiento water would be supplied for 6 months out of the year to keep pace with warmer weather water demand. This deviates from the City's goals of providing consistent, softer supplies to customers and is a compromise approach given the delay in water rate adoption. A later addition would be needed to bring total capacity to 6 MGD and to operate year-round.

The varying size plants listed above are not all like-for-like so the costs vary. For example, early plans for the treatment plant included more storage for blending with well water, backup power, landscaping and architectural treatments, etc. Constructing a Phase II +4 MGD treatment facility, for example, does not cost the same as the stand-alone 4 MGD plant because some site work and power provisions will have been installed in Phase I.

The more affordable 2 MGD is a realistic first phase in water treatment that likely could be built with cash and ward off seasonal watering restrictions, followed by a plant expansion to satisfy City needs through build-out.

Both the 21st Street Reservoir and the water treatment plant are important to the operations and reliability of the City's water system, however, the Water Fund cannot

afford simultaneous undertakings (see attached Tables). One will have to precede the other. Considerations along that line:

21st Street Reservoir First

Replacing the 21st Street Reservoir project first would all but eliminate the risk of its collapse but would delay completion of the treatment plant. No plant would mean no Nacimiento water. No Nacimiento water would result in ongoing watering restrictions, continuing water quality deficiencies, increasing pressure on the groundwater basin, and inadequate supplies to support growth. Watering restrictions mean low water sales, low revenues, and pressure to cease building.

Seasonal Treatment Plant First

Building the 2 MGD seasonal treatment plant in FY 15/16 (the earliest that the Water Fund could afford it) would usher in Nacimiento. This would provide supplies necessary to keep the City from imposing mandatory watering restrictions while allowing growth to occur until the additional capacity is constructed. It would mean delaying 21st Street Reservoir, extending the risk of a 21st Street reservoir failure, then building the year-round treatment plant expansion once 21st Street is completed.

Both Phases of Treatment First

A third option would be to dedicate available resources to the phased treatment plant first, bringing on-line the year-round plant ahead of the 21st Street Reservoir project. That would extend the risk of a 21st Street reservoir failure until 2021.

POLICY

REFERENCE: Water Master Plan, 2010 Urban Water Management Plan, Integrated Water Resources Plan, General Plan.

FISCAL

IMPACT: Having \$20.7 million in reserves is insufficient to continue system operations, pay Nacimiento debt, and pay for both the 21st Street Reservoir replacement and a full-scale water treatment plant right away. The timing, sequence, and amount of borrowing are all discretionary, but in all cases, annual water rate increases beyond the adopted five year rate plan will be needed for water system operations. It is important to note that these capital projects, even if fully built-out as described, will only have the capacity to serve development within the current City limits, as contemplated by the General Plan, and not any properties that could be annexed.

The fiscal impacts of three capital project timing options were examined:

1. Seasonal Treatment Plant First: The Council could choose to make construction of a 2 MGD seasonal water treatment plant the first priority. Under the financial projections (**Table 1**), the seasonal plant could be operating by FY 15/16 and the City could replace the 21st Street Reservoir two years after that. Improving the

treatment plant to a year-round 6 MGD plant could be completed in FY 21/22. Borrowing would be required and water rates would increase an average of 7.1% each year from 2017 to 2016 as shown in **Table 1**.²

2. 21st Street Reservoir First: Alternatively, replacing the 21st Street Reservoir first and having it operational by FY 15/16 was also examined (**Table 2**). This would delay start-up of the 2 MGD seasonal treatment plant until FY 16/17, require the City to incur debt, and require future annual rate increases averaging 6.9% each year as shown in **Table 2**.
3. Year-Round Treatment Plant First: Last, the Council could make the phased construction of the water treatment plant (2 MGD followed by a +4 MGD expansion) a priority and defer 21st Street Reservoir repairs until later. This approach would also require borrowing and future annual rate increases averaging 8% per year as shown in **Table 3**.

Each forecast indicates Water Fund performance at the currently-adopted rates and fees, and then estimates the magnitude of required future borrowing and annual rate increases.

Alternatives to these financial forecasts were examined such as:

What would it take to build the treatment plant and 21st Street Reservoir on an all-cash basis? -The City would have to increase water rates by more than 25% each year to avoid borrowing. Such proposed increases would be subject to majority protest.

Were there any other funding options considered to expedite construction of the treatment plant? - Yes, other municipal funding experts were asked about private financing in an effort to build a plant sooner while holding water rates steady. It was determined that this would require either pledging money from the General Fund, resulting in unacceptable risk to the solvency of the City, or borrowing via the Wastewater Fund and increasing wastewater rates beyond needed levels, resulting in a difficult public message and probable failure of needed wastewater rate increases. While private financing may be available, it is unacceptably costly. There are no other feasible funding alternatives.

The Water Fund has been hit hard by delayed rate implementation and low water sales. The City needs both a new water treatment plant and 21st Street Reservoir repair to deliver Nacimiento water and to keep the storage system in good working order. Current infrastructure planning does not encompass annexations; more water supply and completion of the combined 6 MGD treatment plant would be needed to serve any annexations.

² Water rate and fund balance forecasts shown in Tables 1, 2 and 3 are estimates only. Factors such as actual capital project costs, water sales, pace of growth, inflation, etc. will impact the Water Fund such that future water rate analyses will be needed.

- OPTIONS:**
- a. City Council determines that construction of a 2 MGD seasonal water treatment plant is a priority such that next steps would be to:
 - Authorize staff to begin contract negotiations with AECOM for final design of the plant (prior design work focused on the 4/6 MGD full capacity options – design of a smaller seasonal plant is yet to be done);
 - Advertise for construction bids, award, and construction management services, and;
 - Confirm the continuing validity of the February 2009 Negative Declaration for the project.
 - Plan on similar steps for the 21st Street Reservoir as the next priority.
 - b. City Council determines that replacement of the 21st Street Reservoir is a priority such that next steps would be to:
 - Authorize final design for the reservoir project, and;
 - Advertise for construction bids, award, and construction management services.
 - Plan on similar steps for the 2 MGD seasonal water treatment plant as the next priority.
 - c. City Council determines that construction of a phased year-round water treatment plant is a priority such that next steps would be to:
 - Authorize staff to begin contract negotiations with AECOM for final design of the 2 MGD plant;
 - Advertise for construction bids, award, and construction management services, and;
 - Confirm the continuing validity of the February 2009 Negative Declaration for the project.
 - Plan on similar steps for the +4 MGD additional capacity as the next priority.
 - d. Amend, modify, or reject the above options.

*Prepared by: Christopher Alakel, Water Division Manager, and
Christine Halley, TJCross Engineers*

TABLE 1

WATER ENTERPRISE PROJECTED FINANCIAL PLAN
Timing and Funding of Capital Projects - November 2011 (2 MGD WTP, then 21St Reservoir, then 4 MGD WTP)

Description	Projected		2 MGD Online		NEW 5 YEAR RATE PLAN		4 MGD Online		NEW ADD'L RATE INCREASES									
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26		
Revenues																		
Fixed Monthly Service Charges	\$2,217,900	\$1,113,200	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Consumption Charges	\$3,432,000	\$4,987,000	\$7,472,700	\$9,083,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,149,500	\$14,632,600	\$15,909,400	\$17,456,000	\$18,945,700	\$20,233,500	\$21,139,500	\$22,131,200	\$23,219,300		
Total Operating Revenues	\$5,649,000	\$6,100,200	\$7,472,700	\$9,083,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,149,500	\$14,632,600	\$15,909,400	\$17,456,000	\$18,945,700	\$20,233,500	\$21,139,500	\$22,131,200	\$23,219,300		
Operating Expenses																		
Utility Billing and Administration (Div 127)	\$605,200	\$604,400	\$622,600	\$641,200	\$660,300	\$680,100	\$700,500	\$721,100	\$743,200	\$765,600	\$788,600	\$812,200	\$836,500	\$861,700	\$887,600	\$914,200		
Water Production and Distribution (Div 165)	\$4,459,00	\$4,132,300	\$4,273,500	\$4,423,700	\$4,574,00	\$4,613,700	\$4,656,800	\$4,721,100	\$4,862,800	\$5,049,700	\$5,222,300	\$5,409,900	\$5,586,200	\$5,747,000	\$5,913,100	\$5,985,100		
Water Treatment Operations (Div 265) (a)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Regional Naci O&M Cost Share	\$1,431,800	\$1,091,1900	\$1,173,500	\$1,232,300	\$1,289,300	\$1,450,300	\$1,498,800	\$1,544,700	\$1,584,300	\$1,645,400	\$1,797,500	\$2,431,700	\$2,519,100	\$2,609,700	\$2,703,900	\$2,790,000		
Existing Plasmation Pipeline Debt Service	\$1,173,00	\$810,296	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,205,000	\$4,205,000		
Total Operating Expenses	\$7,670,100	\$6,638,900	\$10,269,600	\$10,467,200	\$10,703,700	\$11,765,500	\$13,065,600	\$15,023,800	\$15,603,900	\$15,939,500	\$16,985,600	\$19,321,200	\$20,021,400	\$20,477,100	\$20,966,300	\$20,966,300		
Net Operating Revenue	\$2,020,200	(\$3,538,700)	(\$2,796,900)	(\$1,413,300)	(\$370,600)	(\$412,600)	(\$653,700)	(\$1,623,300)	(\$397,1,300)	(\$30,100)	(\$595,400)	(\$312,300)	(\$1,118,100)	\$1,654,100	\$2,253,000			
Non-Operating Revenue (Expense)																		
Interest Revenue (c)	\$693,300	\$621,500	\$353,600	\$256,700	\$236,000	\$236,400	\$269,400	\$282,400	\$286,300	\$295,200	\$325,200	\$347,200	\$353,300	\$460,000	\$409,900	\$385,600		
Water Connection Fee Revenues	\$37,180	\$887,500	\$1,031,000	\$1,175,000	\$1,762,000	\$2,261,000	\$2,356,000	\$2,325,000	\$2,400,000	\$2,700,000	\$2,225,000	\$1,762,500	\$1,175,000	\$1,050,000	\$1,525,000	\$470,000		
New Debt Service (d)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Total Non-Op Revenues/Expenses	\$1,065,100	(\$1,116,000)	(\$1,364,500)	\$1,431,700	\$1,986,500	\$2,465,400	\$3,615,400	\$4,853,900	\$6,625,300	\$7,988,200	\$8,081,200	(\$4,437,600)	(\$74,4,200)	(\$40,000)	\$84,900	\$2,055,000		
Net Income Before Capital Activity	(\$955,100)	(\$4,684,700)	(\$1,412,400)	\$18,400	\$1,627,900	\$2,261,800	\$2,765,700	\$3,263,600	\$3,230,600	\$5,654,000	\$7,868,100	\$9,040,600	(\$421,900)	\$787,100	\$2,539,000	\$4,288,600		
Capital Expenditures																		
NACI Reserve Requirement: add back FY 14-15	\$1,467,10	\$0	\$327,000	\$708,000	\$85,295,000	\$11,291,000	\$12,314,600	\$13,079,400	\$15,131,100	\$20,970,700	\$47,170,00	\$14,571,800	\$17,688,000	\$10,544,000	\$2,394,000	\$2,548,000	\$3,349,000	
WTP Costs/Schedule (Costs in CIP Row- Shown as an FY1)	\$1,467,10	\$2,395,745	\$487,130	\$0	\$1,805,700	\$10,341,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Capital Financing/Proposed New Debt Issuance																		
Proposed Debt Issuance (d)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Net Change in Funds Avail. After Capital Activity	(\$2,422,000)	(\$3,535,400)	(\$3,226,500)	(\$899,600)	\$34,447,000	(\$9,234,200)	\$2,057,700	\$78,600	\$3,262,000	\$6,100,100	\$29,346,600	(\$2,4,74,600)	(\$3,111,000)	(\$1,669,900)	(\$8910,000)	\$282,600		
Beginning Cash Balance	\$23,110,000	\$20,717,200	\$11,781,800	\$8,555,300	\$7,885,700	\$12,313,600	\$12,314,600	\$13,079,400	\$15,131,100	\$20,970,700	\$47,170,00	\$14,571,800	\$19,918,400	\$18,443,800	\$15,332,900	\$15,332,900	\$12,853,000	\$12,853,000
Ending Cash Balance (e)	\$20,717,96	\$11,781,800	\$8,555,300	\$8,249,000	\$8,352,000	\$8,883,000	\$9,533,000	\$10,541,000	\$10,802,000	\$10,970,000	\$12,299,000	\$12,961,000	\$13,011,000	\$13,239,000	\$13,483,000			
Target Reserve Fund Balance (f)	\$6,835,000	\$7,819,000	\$8,135,000	na	na	na	na	na	na	na	na	na	na	na	na			
Debt Svcs Coverage (No Connection Fee Revs in New Debt)																		

Description	Proposed Rates and Projected Changes in Accounts and Water Usage														
	Proposed Fixed Rate Increase (g)	Proposed Usage Rate Increase (g)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)	Proposed Uniform Usage Rate (\$/CIP) (1/12)	Proposed Fixed Change in Accounts/Demands	Net Water Sales Consumption (AF)	Conservation/Lasts Adjustment Factor	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Fixed Rate (\$/Account/Month) (1/12)	\$18.00	\$0.00	\$0.00	\$0.00	\$4.10	\$3.70	\$20,620	\$23,500	\$0.00						
Proposed Uniform Usage Rate (\$/HCF) (1/12)	\$1.32	\$2.50	\$3.70	\$20,620	\$23,500	\$23,500	2 MGD Online	21 St Online	\$0.00						
Proposed Uniform Usage Rate (\$/CIP) (1/12)	\$14,870	\$17,750	\$20,620	\$23,500	2 MGD Online	21 St Online	6,019	6,045	6,082	6,133	5,963	5,919	6,037	6,214	6,239
Proposed Fixed Change in Accounts/Demands	5,969	5,994	6,019	6,045	6,082	6,133	100%	100%	100%	97%	97%	99%	100%	100%	100%
Net Water Sales Consumption (AF)	10.0%	8.0%	15.6%	10.8%	13.6%	10.0%	6.4%	6.4%	6.8%	6.8%	9.8%	9.8%	4.8%	4.8%	4.4%
Conservation/Lasts Adjustment Factor	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Notes: O&M costs for 2 & 4 MGD plant, and CIP per City 9/2011. Naci Pipeline Debt Reserve reflected as O&M per City finance, modeled per contract (reserved and released by fund performance).

Assumes the fixed charge is eliminated in January 2012 and a uniform water usage rate structure commences.

(a) 2MGD WTP scheduled to operate approx 6 months/year: 4 MGD WTP full time at 4,000 AF/Yr.

(b) Depreciation Funding is primarily scheduled to begin in FY 17-18 and is based on estimated replacement cost new values, plus 2.5% of new CIP (assumes no bond proceeds).

(c) Interest earnings are conservatively set to equal prior year value following a new debt issuance to avoid improper use of new bond proceeds.

(d) Both new bond issuances based on a 30-year term at 6% interest rate.

(e) Ending FY 10-11 estimated for City Finance, pending final ending cash values. Additional liability and legal support set aside included in FY 11-12 and FY 15-16 performance.

(f) Target reserves based on 50% of annual operating expenses (25% ops reserve & 25% economic uncertainty), plus \$1M Emergency and 1-year's average cash CIP (estimated at \$2 M).

(g) Percent rate increases for FY 11-12 are based on projected increases in revenues as the utility converts to all variable rates.

TABLE 2

WATER ENTERPRISE PROJECTED FINANCIAL PLAN

Timing and Funding of Capital Projects - November 2011 (21St Reservoir, then 2 MGD WTP)

Description	Projected		21St Resv		2 MGD Online		NEW 5 YEAR RATE PLAN		4 MGD Online		NEW ADD'L RATE INCREASES						
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25		
Revenues																	
Fixed Monthly Service Charges	\$2,217,900	\$1,113,200	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Consumption Charges	\$3,432,000	\$4,987,000	\$7,472,700	\$9,063,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,459,500	\$14,632,600	\$15,909,400	\$17,456,000	\$18,955,700	\$20,233,500	\$21,136,500	\$22,063,500	\$23,015,000	
Total Operating Revenues	\$5,649,000	\$6,100,200	\$7,472,700	\$9,063,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,459,500	\$14,632,600	\$15,909,400	\$17,456,000	\$18,955,700	\$20,233,500	\$21,136,500	\$22,063,500	\$23,015,000	
Operating Expenses																	
Utility Billing and Administration (Div 127)	\$605,200	\$604,400	\$622,600	\$641,200	\$660,300	\$680,100	\$700,500	\$721,100	\$743,200	\$765,600	\$788,600	\$812,200	\$836,500	\$861,700	\$887,600	\$914,200	
Water Production and Distribution (Div 165)	\$4,459,00	\$4,132,300	\$4,273,500	\$4,423,700	\$4,574,00	\$4,725,500	\$4,962,800	\$4,721,100	\$4,862,800	\$5,049,200	\$5,222,300	\$4,490,900	\$4,542,700	\$4,747,000	\$4,913,100	\$5,085,100	
Water Treatment Operations (Div 265) (a)	\$0	\$0	\$0	\$0	\$0	\$0	\$1,100,300	\$1,137,300	\$1,171,500	\$1,206,000	\$1,247,100	\$1,274,000	\$1,335,900	\$1,344,900	\$1,387,400	\$1,387,400	
Regional Naci O&M Cost Share	\$1,431,800	\$1,091,904	\$1,173,500	\$1,232,300	\$1,289,300	\$1,307,400	\$1,348,800	\$1,544,700	\$1,584,300	\$1,645,400	\$1,797,500	\$2,431,700	\$2,519,100	\$2,689,700	\$2,703,900	\$2,703,900	
Existing Plasmation Pipeline Debt Service	\$1,173,00	\$810,296	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	
Depreciation Expense (b)																	
Total Operating Expenses	\$7,670,100	\$6,638,900	\$10,269,600	\$10,467,200	\$10,703,700	\$10,917,000	\$10,967,400	\$11,030,600	\$11,065,400	\$11,309,600	\$11,595,900	\$11,931,300	\$11,980,400	\$12,059,800	\$12,126,300	\$20,468,300	\$20,957,500
Net Operating Revenue	\$2,020,200	(\$3,538,700)	(\$2,796,900)	(\$1,413,300)	(\$370,600)	\$436,900	(\$653,500)	(\$1,850,100)	(\$963,200)	(\$21,900)	\$967,600	\$355,900	\$331,100	\$1,126,800	\$1,595,200	\$2,057,400	
Non-Operating Revenue (Expense)																	
Interest Revenue (c)																	
Water Connection Fee Revenues																	
New Debt Service (d)																	
Total Non-Op Revenues/Expenses																	
Total Income Before Capital Activity	\$693,300	\$621,500	\$353,500	\$256,700	\$236,000	\$293,800	\$176,500	\$117,700	\$167,100	\$285,500	\$449,100	\$566,500	\$474,100	\$424,700	\$389,100		
Capital Expenditures																	
NACI Reserve Requirement: add back FY 14-15																	
WTP Costs/Schedule (Costs in CIP Row- Shown as CIP Row- Shown as an FY1)																	
21st St Res Costs/Schedule (Costs in CIP Row- Shown as an FY1)																	
Capital Financing/Proposed New Debt Issuance																	
Proposed Debt Issuance (d)																	
Net Change in Funds Avail. After Capital Activity	\$2,422,200	(\$3,535,400)	(\$3,226,500)	(\$3,899,600)	(\$5,260,900)	(\$7,242,300)	(\$1,062,000)	\$1,646,600	\$3,280,900	\$6,119,00	\$29,365,700	(\$2,454,000)	(\$3,078,000)	(\$1,647,100)	(\$554,100)	\$100,500	
Beginning Cash Balance	\$23,110,200	\$20,717,200	\$11,781,800	\$8,555,300	\$7,885,700	\$13,122,600	\$5,384,300	\$3,922,300	\$5,988,900	\$8,849,800	\$14,969,400	\$44,336,100	\$18,882,100	\$15,803,200	\$14,156,100	\$13,302,000	\$13,402,500
Ending Cash Balance (e)	20,717,96	\$11,781,800	\$8,555,300	\$7,885,700	\$13,122,600	\$5,384,300	\$3,922,300	\$5,988,900	\$8,849,800	\$10,968,000	\$11,245,000	\$12,925,000	\$12,951,000	\$13,006,000	\$13,234,000	\$13,479,000	
Target Reserve Fund Balance (f)	\$6,835,000	\$7,819,000	\$8,135,000	\$8,249,000	\$8,352,000	\$8,459,000	\$9,533,000	\$10,655,000	\$10,788,000	\$10,968,000	\$11,245,000	\$12,925,000	\$12,951,000	\$13,006,000	\$13,234,000	\$13,479,000	
Debt Svcs Coverage (No Connection Fee Revs in New Debt)																	

Description	Proposed Rates and Projected Changes in Accounts and Water Usage															
	Proposed Fixed Rate Increase (g)	Proposed Usage Rate Increase (g)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)	Proposed Uniform Usage Rate (\$/Account/Fee) (1/12)	Proposed Uniform Usage Rate (\$/Connection Fee) (1/12)	Growth Based Changes in Accounts/Demands	Net Water Sales Consumption (AF)	Conservation/Elasticity Adjustment Factor	0.0%	0.0%	0.0%	0.0%	0.0%		
Proposed Fixed Rate (\$/Account/Month) (1/12)	\$18.00	\$0.00	\$0.00	\$0.00	\$4.10	\$4.40	\$5.00	\$5.85	\$6.65	0.0%	6.4%	6.8%	9.8%	9.8%		
Proposed Uniform Usage Rate (\$/HCF) (1/12)	\$1.32	\$2.50	\$3.20	\$20.620	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	0.0%	6.3%	6.7%	8.3%	8.3%		
Proposed Uniform Usage Rate (\$/Account/Fee) (1/12)	\$14,870	\$17,750	20,620												\$23,500	
Proposed Uniform Usage Rate (\$/Connection Fee) (1/12)																
Growth Based Changes in Accounts/Demands																
Net Water Sales Consumption (AF)	5,969	5,984	6,019	6,045	6,082	6,133	5,963	5,885	5,919	97%	99%	6,037	6,214	6,239	6,244	6,253
Conservation/Elasticity Adjustment Factor	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Notes: O&M costs for 2 & 4 MGD plant, and CIP per City 9/2011. Naci Pipeline Debt Reserve reflected as O&M per City finance, modeled per contract (reserved and released by fund performance).

Assumes the fixed charge is eliminated in January 2012 and a uniform water usage rate structure commences.

(a) 2MGD WTP scheduled to operate approx 6 months/year. 4 MGD WTP full time at 4,000 AF/Yr.

(b) Depreciation Funding is primarily scheduled to begin in FY 17-18 and is based on estimated replacement cost new values, plus 2.5% of new CIP (assumes no bond proceeds).

(c) Interest earnings are conservatively set to equal prior year value following a new debt issuance to avoid improper use of new bond proceeds.

(d) Both new bond issuances based on a 30-year term at 6% interest rate.

(e) Ending FY 10-11 estimated per City Finance, pending final ending cash values. Additional liability and legal support set aside included in FY 11-12 and FY 15-16 performance.

(f) Target reserves based on 50% of annual operating expenses (25% ops reserve & 25% economic uncertainty), plus \$1M Emergency and 1-year's average cash CIP (estimated at \$2 M).

(g) Percent rate increases for FY 11-12 are based on projected increases in revenues as the utility converts to all variable rates.

TABLE 3

WATER ENTERPRISE PROJECTED FINANCIAL PLAN
Timing and Funding of Capital Projects - November 2011 (2 MGD WTP, then 4 MGD WTP, then 21St Reservoir)

Description	Projected										NEW 5 YEAR RATE PLAN		21St Res		NEW ADD'L RATE INCREASES	
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenues																
Fixed Monthly Service Charges	\$2,217,900	\$1,113,200	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Consumption Charges	\$3,432,000	\$4,987,000	\$7,472,700	\$9,083,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,195,900	\$14,632,600	\$15,909,400	\$17,465,000	\$18,955,700	\$20,571,900	\$22,017,500	\$23,562,500	\$25,193,900
Total Operating Revenues	\$5,649,000	\$6,100,200	\$7,472,700	\$9,083,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,195,900	\$14,632,600	\$15,909,400	\$17,465,000	\$18,955,700	\$20,571,900	\$22,017,500	\$23,562,500	\$25,193,900
Operating Expenses																
Utility Billing and Administration (Div 127)	\$605,200	\$604,400	\$622,600	\$641,200	\$660,300	\$680,100	\$700,500	\$721,100	\$743,200	\$765,600	\$788,600	\$812,200	\$836,500	\$861,700	\$887,600	\$914,200
Water Production and Distribution (Div 165)	\$4,459,00	\$4,132,300	\$4,273,500	\$4,423,700	\$4,574,00	\$4,643,700	\$4,721,100	\$4,802,800	\$4,882,800	\$4,963,500	\$4,982,800	\$4,982,800	\$4,982,800	\$4,982,800	\$4,982,800	\$4,982,800
Water Treatment Operations (Div 265) (a)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Regional Naci O&M Cost Share	\$1,431,800	\$1,091,900	\$1,173,500	\$1,232,300	\$1,289,300	\$1,450,300	\$1,498,800	\$1,544,700	\$1,584,300	\$2,082,100	\$2,286,600	\$2,437,600	\$2,437,600	\$2,437,600	\$2,437,600	\$2,437,600
Existing Plamido Pipeline Debt Service	\$1,173,00	\$810,296	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000
Depreciation Expense (b)																
Total Operating Expenses	\$7,670,100	\$6,638,900	\$10,269,600	\$10,467,200	\$10,703,700	\$11,765,500	\$13,065,600	\$15,082,800	\$15,482,500	\$17,483,400	\$18,905,900	\$19,554,100	\$20,120,500	\$20,000,400	\$20,456,100	\$20,945,300
Net Operating Revenue	\$2,020,200	\$3,538,700	\$2,796,900	\$1,413,300	\$370,600	\$412,600	\$853,700	\$1,623,300	\$1,627,900	\$1,623,300	\$1,627,900	\$1,627,900	\$1,627,900	\$1,627,900	\$1,627,900	\$1,627,900
Non-Operating Revenue (Expense)																
Interest Revenue (c)																
Water Connection Fee Revenues																
New Debt Service (d)																
Total Non-Op Revenues/Expenses																
Net Income Before Capital Activity	\$693,300	\$821,500	\$353,500	\$256,700	\$236,000	\$369,400	\$92,400	\$53,600	\$227,900	\$227,900	\$48,400	\$448,400	\$360,400	\$329,800	\$341,800	
Capital Expenditures																
NACI Reserve Requirement: add back FY 14-15																
WTP Costs/Schedule (Costs in CIP Row- Shown as an FY1)																
21st St Res Costs/Schedule (Costs in CIP Row- Shown as an FY1)																
Capital Financing/Proposed New Debt Issuance																
Proposed Debt Issuance (d)																
Net Change in Funds Avail. After Capital Activity	\$2,422,000	(\$3,935,400)	(\$3,226,500)	(\$3,899,600)	\$34,447,000	(\$9,232,000)	\$2,038,700	\$2,478,300	\$8,280,000	(\$912,100)	\$4,205,000	(\$4,464,400)	(\$2,668,000)	(\$1,020,500)	\$492,200	\$2,084,400
Beginning Cash Balance	\$23,110,000	\$20,717,200	\$11,781,800	\$8,555,300	\$7,885,700	\$12,314,600	\$3,079,400	\$5,119,100	\$7,597,400	\$15,857,400	\$15,657,400	\$14,945,300	\$15,145,800	\$14,681,400	\$12,013,000	\$10,982,500
Ending Cash Balance (e)	\$20,717,96	\$11,781,800	\$8,555,300	\$7,879,400	\$12,313,600	\$8,883,000	\$9,533,000	\$10,541,000	\$10,746,000	\$11,742,000	\$12,253,000	\$12,610,000	\$12,777,000	\$13,000,000	\$13,228,000	\$13,473,000
Target Reserve Fund Balance (f)																
Debt Svcs Coverage (No Connection Fee Revs in New Debt)																

Description	Projected										Proposed Rates and Projected Changes in Accounts and Water Usage					
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Proposed Fixed Rate Increase (g)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Usage Rate Increase (g)																
Proposed Fixed Rate (\$/Account/Month) (1/12)	\$18.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Proposed Uniform Usage Rate (\$/MCF) (1/12)																
Connection Fee (1/12)	\$1,32	\$2.50	\$3.20	\$4.10	\$5.00	\$5.50	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500
Growth-Based Changes in Accounts/Demands																
Net Water Sales Consumption (AF)	5,969	5,994	6,019	6,045	6,082	6,133	5,963	5,985	6,019	6,045	6,082	6,133	5,963	5,985	6,019	6,045
Conservation/Lastly Adjustment Factor	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Notes: O&M costs for 2 & 4 MGD plant, and CIP per City 9/2011. Naci Pipeline Debt Reserve reflected as O&M per City finance, modeled per contract (reserved and released by fund performance).																
Assumes the fixed charge is eliminated in January 2012 and a uniform water usage rate structure commences.																
(a) 2MGD WTP scheduled to operate approx 6 months/year. 4 MGD WTP full time at 4,000 AF/Yr.																
(b) Depreciation Funding is primarily scheduled to begin in FY 17-18 and is based on estimated replacement cost new values, plus 2.5% of new CIP (assumes average 40 year useful life). Minimal \$/M is available for funding under this rate plan.																
(c) Interest earnings are conservatively set to equal prior year value following a new debt issuance to avoid improper use of new bond proceeds. If funds are projected to carryover.																
(d) Both new bond issuances based on a 30-year term at 6% interest rates. The new 4 MGD WTP issuance is shown as a split issuance for cash flow purposes. We would assume a capitalize interest plan with one submittal upon issuance.																
(e) Ending FY 10-11 estimated per City Finance, pending final ending cash values. Additional liability and legal support set aside included in FY 11-12 and FY 15-16 performance.																
(f) Target reserves based on 50% of annual operating expenses (25% ops reserve & 25% economic uncertainty), plus \$1M Emergency and 1-year's average cash CIP (estimated at \$2 M).																
(g) Percent rate increases for FY 11-12 are based on projected increases in revenues as the utility converts to all variable rates.																

Notes: O&M costs for 2 & 4 MGD plant, and CIP per City 9/2011. Naci Pipeline Debt Reserve reflected as O&M per City finance, modeled per contract (reserved and released by fund performance).

(a) 2MGD WTP scheduled to operate approx 6 months/year. 4 MGD WTP full time at 4,000 AF/Yr.

(b) Depreciation Funding is primarily scheduled to begin in FY 17-18 and is based on estimated replacement cost new values, plus 2.5% of new CIP (assumes average 40 year useful life). Minimal \$/M is available for funding under this rate plan.

(c) Interest earnings are conservatively set to equal prior year value following a new debt issuance to avoid improper use of new bond proceeds. If funds are projected to carryover.

(d) Both new bond issuances based on a 30-year term at 6% interest rates. The new 4 MGD WTP issuance is shown as a split issuance for cash flow purposes. We would assume a capitalize interest plan with one submittal upon issuance.

(e) Ending FY 10-11 estimated per City Finance, pending final ending cash values. Additional liability and legal support set aside included in FY 11-12 and FY 15-16 performance.

(f) Target reserves based on 50% of annual operating expenses (25% ops reserve & 25% economic uncertainty), plus \$1M Emergency and 1-year's average cash CIP (estimated at \$2 M).

(g) Percent rate increases for FY 11-12 are based on projected increases in revenues as the utility converts to all variable rates.

TABLE 1

WATER ENTERPRISE PROJECTED FINANCIAL PLAN
Timing and Funding of Capital Projects - November 2011 (2 MGD WTP, then 21St Reservoir, then 4 MGD WTP)

Description	Projected		2 MGD Online		4 MGD Online		NEW ADD'L RATE INCREASES											
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26		
Revenues																		
Fixed Monthly Service Charges	\$2,217,900	\$1,113,200	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Consumption Charges	\$3,432,000	\$4,987,000	\$7,472,700	\$9,083,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,145,900	\$14,632,600	\$15,909,400	\$17,465,000	\$18,955,700	\$20,233,500	\$21,139,500	\$22,131,200	\$23,219,300		
Total Operating Revenues	\$5,649,000	\$6,100,200	\$7,472,700	\$9,083,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,145,900	\$14,632,600	\$15,909,400	\$17,465,000	\$18,955,700	\$20,233,500	\$21,139,500	\$22,131,200	\$23,219,300		
Operating Expenses																		
Utility Billing and Administration (Div 127)	\$605,200	\$604,400	\$622,600	\$641,200	\$660,300	\$680,100	\$700,500	\$721,100	\$743,200	\$765,600	\$788,600	\$812,200	\$836,500	\$861,700	\$887,600	\$914,200		
Water Production and Distribution (Div 165)	\$4,459,00	\$4,132,300	\$4,273,500	\$4,423,700	\$4,574,00	\$4,613,700	\$4,656,800	\$4,721,100	\$4,862,800	\$5,049,700	\$5,222,300	\$4,490,900	\$4,542,700	\$4,747,000	\$4,913,100	\$5,085,100		
Water Treatment Operations (Div 265) (a)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Regional Naci O&M Cost Share	\$1,431,800	\$1,091,1900	\$1,173,500	\$1,232,300	\$1,289,300	\$1,450,300	\$1,948,800	\$1,544,700	\$1,584,300	\$1,645,400	\$1,797,500	\$2,431,700	\$2,491,700	\$2,519,100	\$2,609,700	\$2,703,900		
Existing Plasmation Pipeline Debt Service	\$1,173,00	\$810,296	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,205,000	\$4,205,000		
Total Operating Expenses	\$7,670,100	\$6,638,900	\$10,269,600	\$10,467,200	\$10,703,700	\$11,765,500	\$13,065,600	\$15,082,800	\$16,603,900	\$15,939,500	\$16,985,600	\$19,321,200	\$20,021,400	\$20,477,100	\$20,966,300	\$20,966,300		
Net Operating Revenue	\$2,020,200	(\$3,538,700)	(\$2,796,900)	(\$1,413,300)	(\$370,600)	(\$412,600)	(\$653,700)	(\$1,623,300)	(\$397,1,300)	(\$30,100)	(\$595,400)	(\$312,300)	(\$1,118,100)	\$1,654,100	\$2,253,000			
Non-Operating Revenue (Expense)																		
Interest Revenue (c)	\$693,300	\$621,500	\$353,600	\$256,700	\$236,000	\$236,400	\$269,400	\$282,400	\$254,300	\$254,200	\$254,200	\$225,000	\$175,000	\$175,000	\$160,000	\$409,900		
Water Connection Fee Revenues	\$371,800	\$887,500	\$1,031,000	\$1,175,000	\$1,762,000	\$2,261,000	\$2,261,000	\$2,261,000	\$2,000,00	\$1,700,000	\$7,050,000	\$7,050,000	\$581,000	\$581,000	\$525,000	\$385,600		
New Debt Service (d)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Total Non-Op Revenues/Expenses	\$1,065,100	\$1,116,000	\$1,364,500	\$1,451,700	\$1,998,500	\$2,465,400	\$3,615,400	\$4,853,900	\$6,255,300	\$7,988,200	\$7,988,200	\$8,081,200	(\$4,437,600)	(\$74,4,200)	(\$40,000)	\$584,900	\$2,055,000	
Net Income Before Capital Activity	(\$955,100)	(\$4,684,700)	(\$1,412,400)	\$18,400	\$1,627,900	\$2,261,800	\$2,765,700	\$2,765,700	\$2,765,700	\$2,765,700	\$2,765,700	\$2,765,700	\$9,940,600	(\$421,900)	(\$787,100)	\$2,539,000	\$4,288,600	
Capital Expenditures																		
NACI Reserve Requirement: add back FY 14-15	\$1,467,10	\$0	\$327,000	\$708,000	\$85,250,000	\$11,291,000	\$12,314,600	\$13,079,400	\$15,131,100	\$20,970,700	\$47,170,00	\$4,571,800	\$1,768,000	\$10,544,000	\$2,394,000	\$2,689,000	\$2,548,000	
WTP Costs/Schedule (Costs in CIP Row- Shown as in FY1)	\$1,467,10	\$2,295,745	\$487,130	\$0	\$1,805,700	\$10,341,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
21st St Res Costs/Schedule (Costs in CIP Row- Shown as in FY1)	\$10,000	\$10,400	\$10,800	\$11,200	\$11,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Capital Financing/Proposed New Debt Issuance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Proposed Debt Issuance (d)																		
Net Change in Funds Avail. After Capital Activity	(\$2,422,000)	(\$3,595,400)	(\$3,226,500)	(\$899,600)	(\$4,447,900)	(\$9,234,200)	(\$2,057,700)	(\$78,600)	(\$2,262,000)	(\$6,100,100)	(\$29,346,600)	(\$2,474,600)	(\$3,111,000)	(\$1,669,900)	(\$3810,000)	(\$3810,000)	(\$282,600)	
Beginning Cash Balance																		
Ending Cash Balance (e)	\$23,110,200	\$20,717,200	\$11,781,800	\$8,555,300	\$7,885,700	\$12,313,600	\$3,079,400	\$5,131,100	\$5,131,100	\$5,209,700	\$47,170,00	\$14,571,800	\$14,918,400	\$18,943,800	\$15,332,900	\$12,963,000	\$13,663,000	\$12,853,000
Target Reserve Fund Balance (f)																		
Debt Svcs Coverage (No Connection Fee Revs in New Debt)																		

Description	Proposed Rates and Projected Changes in Accounts and Water Usage															
	Proposed Fixed Rate Increase (g)	Proposed Usage Rate Increase (g)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)		
Proposed Fixed Rate Increase (g)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Proposed Usage Rate Increase (g)	0.0%	8.0%	28.0%	15.6%	10.8%	7.3%	13.6%	10.0%	6.4%	6.8%	6.4%	9.8%	4.8%	4.3%	4.4%	4.2%
Proposed Fixed Rate (\$/Account/Month) (1/12)	\$18.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.40	\$5.00	\$5.50	\$6.25	\$6.65	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Proposed Uniform Usage Rate (\$/HCF) (1/12)	\$1.32	\$2.50	\$3.20	\$20.620	\$23,500	\$23,500	2 MGD Online	21 St Online	23,500	23,500	23,500	23,500	23,500	23,500	23,500	23,500
Growth Based Changes in Accounts/Demands																
Net Water Sales Consumption (AF)	5,989	6,019	6,045	6,082	6,133	5,963	5,985	6,000	5,97%	6,037	6,091	6,214	6,239	6,244	6,244	6,245
Conservation/Lasts Adjustment Factor	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Notes: O&M costs for 2 & 4 MGD plant, and CIP per City 9/2011. Naci Pipeline Debt Reserve reflected as O&M per City finance, modeled per contract (reserved and released by fund performance).

Assumes the fixed charge is eliminated in January 2012 and a uniform water usage rate structure commences.

(a) 2MGD WTP scheduled to operate approx 6 months/year: 4 MGD WTP full time at 4,000 AFY's.

(b) Depreciation Funding is primarily scheduled to begin in FY 17-18 and is based on estimated replacement cost new values, plus 2.5% of new CIP (assumes average 40 year useful life). Minimal \$1M is available for funding under this rate plan.

(c) Interest earnings are conservatively set to equal prior year value following a new debt issuance to avoid improper use of new bond proceeds.

(d) Both new bond issuances based on a 30-year term at 6% interest rate.

(e) Ending FY 10-11 estimated per City Finance, pending final ending cash values. Additional liability and legal support set aside included in FY 11-12 and FY 15-16 performance.

(f) Target reserves based on 50% of annual operating expenses (25% ops reserve & 25% economic uncertainty), plus \$1M Emergency and 1-year's average cash CIP (estimated at \$2 M).

(g) Percent rate increases for FY 11-12 are based on projected increases in revenues as the utility converts to all variable rates.

Rev 11/7/2011
Kennedy/Jenks Consultants

Timing of Capital Improvements
Slow Growth and Conservation

TABLE 2

WATER ENTERPRISE PROJECTED FINANCIAL PLAN

Timing and Funding of Capital Projects - November 2011 (21St Reservoir, then 2 MGD WTP)

Description	Projected		21St Resv		2 MGD Online		NEW 5 YEAR RATE PLAN		4 MGD Online		NEW ADD'L RATE INCREASES					
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenues																
Fixed Monthly Service Charges	\$2,217,900	\$1,113,200	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Consumption Charges	\$3,432,000	\$4,987,000	\$7,472,700	\$9,063,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,459,500	\$14,632,600	\$15,909,400	\$17,456,000	\$18,955,700	\$20,233,500	\$21,136,500	\$22,063,500	\$23,015,000
Total Operating Revenues	\$5,649,000	\$6,100,200	\$7,472,700	\$9,063,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,459,500	\$14,632,600	\$15,909,400	\$17,456,000	\$18,955,700	\$20,233,500	\$21,136,500	\$22,063,500	\$23,015,000
Operating Expenses																
Utility Billing and Administration (Div 127)	\$605,200	\$604,400	\$622,600	\$641,200	\$660,300	\$680,100	\$700,500	\$721,100	\$743,200	\$765,600	\$788,600	\$812,200	\$836,500	\$861,700	\$887,600	\$914,200
Water Production and Distribution (Div 165)	\$4,459,00	\$4,132,300	\$4,273,500	\$4,423,700	\$4,574,00	\$4,725,500	\$4,968,800	\$5,174,00	\$4,862,800	\$5,049,200	\$5,222,300	\$4,490,900	\$4,542,700	\$4,747,000	\$4,913,100	\$5,085,100
Water Treatment Operations (Div 265) (a)	\$0	\$0	\$0	\$0	\$0	\$0	\$1,100,300	\$1,137,300	\$1,171,500	\$1,206,000	\$1,247,100	\$1,284,700	\$1,345,900	\$1,444,900	\$1,587,400	\$1,703,900
Regional Naci O&M Cost Share	\$1,431,800	\$1,091,904	\$1,173,500	\$1,232,300	\$1,289,300	\$1,307,400	\$1,498,800	\$1,544,700	\$1,584,300	\$1,645,400	\$1,797,500	\$2,431,700	\$2,519,100	\$2,689,700	\$2,703,900	\$2,703,900
Existing Plaminto Pipeline Debt Service	\$1,173,00	\$810,296	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000
Depreciation Expense (b)																
Total Operating Expenses	\$7,670,100	\$6,638,900	\$10,269,600	\$10,467,200	\$10,703,700	\$10,917,000	\$10,967,400	\$11,030,600	\$11,065,900	\$11,593,300	\$16,493,400	\$16,589,800	\$19,902,400	\$20,049,000	\$413,000	\$419,700
Net Operating Revenue	\$2,020,200	(\$3,538,700)	(\$2,796,900)	(\$1,413,300)	(\$370,600)	\$436,900	(\$653,500)	(\$1,850,100)	(\$963,200)	(\$21,900)	\$967,600	\$355,900	\$331,100	\$1,126,800	\$1,595,200	\$2,057,400
Non-Operating Revenue (Expense)																
Interest Revenue (c)																
Water Connection Fee Revenues																
New Debt Service (d)																
Total Non-Op Revenues/Expenses																
Total Income Before Capital Activity	\$1,065,00	(\$1,116,000)	\$1,364,500	\$1,431,700	\$1,986,500	\$2,493,800	\$3,707,500	\$4,267,700	\$4,661,000	\$7,909,500	\$8,093,100	(\$4,425,900)	(\$721,000)	(\$2,225,900)	\$89,700	\$2,049,100
Capital Expenditures																
NACI Reserve Requirement: add back FY 14-15																
WTP Costs/Schedule (Costs in CIP Row- Shown as an FY1)																
21st St Res Costs/Schedule (Costs in CIP Row- Shown as an FY1)																
Capital Financing/Proposed New Debt Issuance																
Proposed Debt Issuance (d)																
Net Change in Funds Avail. After Capital Activity	\$2,422,000	(\$3,535,400)	(\$3,226,500)	(\$839,600)	\$5,260,900	(\$7,242,300)	(\$1,062,000)	\$1,646,600	\$3,280,900	\$6,119,00	(\$2,454,000)	(\$3,078,000)	(\$1,647,100)	(\$1,054,100)	\$100,500	
Beginning Cash Balance	\$23,110,000	\$20,717,200	\$11,781,800	\$8,555,300	\$7,865,700	\$13,122,600	\$5,984,300	\$3,922,300	\$5,988,900	\$8,849,800	\$14,969,400	\$4,336,100	\$18,882,100	\$15,803,200	\$14,156,100	\$13,302,000
Ending Cash Balance (e)	\$20,717,96	\$11,781,800	\$8,555,300	\$7,865,700	\$13,122,600	\$5,984,300	\$3,922,300	\$5,988,900	\$8,849,800	\$10,968,000	\$11,245,000	\$12,925,000	\$12,951,000	\$13,006,000	\$13,234,000	\$13,479,000
Target Reserve Fund Balance (f)	\$6,835,000	\$7,819,000	\$8,135,000	\$8,249,000	\$8,352,000	\$8,459,000	\$9,533,000	\$10,655,000	\$10,788,000	\$10,968,000	\$11,245,000	\$12,925,000	\$12,951,000	\$13,006,000	\$13,234,000	\$13,479,000
Debt Svcs Coverage (No Connection Fee Revs in New Debt)																

Description	Proposed Rates and Projected Changes in Accounts and Water Usage														
	Proposed Fixed Rate Increase (g)	Proposed Usage Rate Increase (g)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/HCF) (1/12)	Proposed Uniform Usage Rate (\$/Account/Fee) (1/10)	Proposed Fixed Rate (\$/Account/Fee) (1/10)	Proposed Uniform Usage Rate (\$/Account/Fee) (1/10)								
Proposed Fixed Rate Increase (g)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Proposed Usage Rate Increase (g)	0.0%	8.0%	28.0%	15.6%	10.8%	7.3%	13.6%	10.0%	6.4%	6.8%	6.4%	9.8%	4.8%	3.8%	3.6%
Proposed Fixed Rate (\$/Account/Month) (1/12)	\$18.00	\$0.00	\$0.00	\$14.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Proposed Uniform Usage Rate (\$/HCF) (1/12)	\$1.32	\$2.50	\$3.70	\$2.3500	\$20.620	\$23.500	\$23.500	\$23.500	\$23.500	\$23.500	\$23.500	\$23.500	\$23.500	\$23.500	\$23.500
Growth-Based Changes in Accounts/Demands	5,969	5,984	6,019	6,045	6,082	6,133	6,163	6,193	6,224	6,259	6,291	6,324	6,354	6,384	6,414
Net Water Sales Consumption (AF)	100%	100%	100%	100%	100%	100%	100%	100%	97%	99%	99%	100%	100%	100%	100%
Conservation/Elasticity Adjustment Factor															

Notes: O&M costs for 2 & 4 MGD plant, and CIP per City 9/2011. Naci Pipeline Debt Reserve reflected as O&M per City finance, modeled per contract (reserved and released by fund performance).

Assumes the fixed charge is eliminated in January 2012 and a uniform water usage rate structure commences.

(a) 2MGD WTP scheduled to operate approx 6 months/year. 4 MGD WTP full time at 4,000 AF/Yr.

(b) Depreciation Funding is primarily scheduled to begin in FY 17-18 and is based on estimated replacement cost new values, plus 2.5% of new CIP (assumes no bond proceeds).

(c) Interest earnings are conservatively set to equal prior year value following a new debt issuance to avoid improper use of new bond proceeds.

(d) Both new bond issuances based on a 30-year term at 6% interest rate.

(e) Ending FY 10-11 estimated per City Finance, pending final ending cash values. Additional liability and legal support set aside included in FY 11-12 and FY 15-16 performance.

(f) Target reserves based on 50% of annual operating expenses (25% ops reserve & 25% economic uncertainty), plus \$1M Emergency and 1-year's average cash CIP (estimated at \$2 M).

(g) Percent rate increases for FY 11-12 are based on projected increases in revenues as the utility converts to all variable rates.

TABLE 3

WATER ENTERPRISE PROJECTED FINANCIAL PLAN
Timing and Funding of Capital Projects - November 2011 (2 MGD WTP, then 4 MGD WTP, then 21St Reservoir)

Description	Projected										NEW 5 YEAR RATE PLAN		21St Res		NEW ADD'L RATE INCREASES			
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26		
Revenues																		
Fixed Monthly Service Charges	\$2,217,900	\$1,113,200	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Consumption Charges	\$3,432,000	\$4,987,000	\$7,472,700	\$9,083,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,195,900	\$14,632,600	\$15,909,400	\$17,465,000	\$18,955,700	\$20,571,900	\$22,017,500	\$23,562,500	\$25,193,900		
Total Operating Revenues	\$5,649,000	\$6,100,200	\$7,472,700	\$9,083,900	\$10,333,000	\$11,265,900	\$12,206,900	\$13,195,900	\$14,632,600	\$15,909,400	\$17,465,000	\$18,955,700	\$20,571,900	\$22,017,500	\$23,562,500	\$25,193,900		
Operating Expenses																		
Utility Billing and Administration (Div 127)	\$605,200	\$604,400	\$622,600	\$641,200	\$660,300	\$680,100	\$700,500	\$721,100	\$743,200	\$765,600	\$788,600	\$812,200	\$836,500	\$861,700	\$887,600	\$914,200		
Water Production and Distribution (Div 165)	\$4,459,00	\$4,132,300	\$4,273,500	\$4,423,700	\$4,574,00	\$4,643,700	\$4,662,800	\$4,721,100	\$4,862,800	\$4,935,500	\$4,982,800	\$4,930,900	\$4,982,800	\$4,747,000	\$4,913,100	\$5,085,100		
Water Treatment Operations (Div 265) (a)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Regional Naci O&M Cost Share	\$1,431,800	\$1,091,900	\$1,173,500	\$1,232,300	\$1,289,300	\$1,450,300	\$1,498,800	\$1,544,700	\$1,584,300	\$2,082,100	\$2,286,600	\$2,437,600	\$2,431,700	\$2,519,700	\$2,689,700	\$2,703,900		
Existing Plamido Pipeline Debt Service	\$1,173,00	\$810,296	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,200,000	\$4,184,000		
Total Operating Expenses	\$7,670,100	\$6,638,900	\$10,269,600	\$10,467,200	\$10,703,700	\$11,765,500	\$13,065,600	\$15,082,800	\$15,482,500	\$17,483,400	\$18,905,900	\$19,554,100	\$20,120,500	\$20,000,400	\$20,456,100	\$20,945,300		
Net Operating Revenue	\$2,020,200	\$3,538,700	\$2,796,900	\$1,413,300	\$370,600	\$412,600	\$853,700	\$1,623,300	\$1,627,900	\$1,627,900	\$1,627,900	\$1,627,900	\$1,627,900	\$1,627,900	\$1,627,900	\$1,627,900		
Non-Operating Revenue (Expense)																		
Interest Revenue (c)	\$693,300	\$621,500	\$353,600	\$256,700	\$236,000	\$236,400	\$269,400	\$282,400	\$325,000	\$325,000	\$325,000	\$325,000	\$325,000	\$325,000	\$325,000	\$341,800		
Water Connection Fee Revenues	\$37,180	\$887,500	\$1,031,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000		
New Debt Service (d)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Total Non-Op Revenues/Expenses	\$1,065,100	\$1,116,000	\$1,364,500	\$1,431,700	\$1,986,500	\$2,465,400	\$3,615,400	\$4,853,600	\$7,277,900	\$7,365,900	\$7,365,900	\$7,365,900	\$7,365,900	\$7,365,900	\$7,365,900	\$7,365,900		
Net Income Before Capital Activity	\$955,100	(\$4,684,700)	\$1,412,400	\$18,400	\$1,627,900	\$2,051,800	\$2,763,700	\$3,203,300	\$4,418,000	\$5,788,900	\$5,155,500	\$1,111,400	\$20,900	\$1,203,000	\$2,689,000	\$3,751,200	\$6,050,400	
Capital Expenditures																		
NACI Reserve Requirement: add back FY 14-15	\$1,467,100	\$327,000	\$708,000	\$1,249,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,346,000		
WTP Costs/Schedule (Costs in CIP Row- Shown as FY11)	\$1,467,100	\$327,000	\$708,000	\$1,249,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,291,000	\$1,346,000		
Capital Financing/Proposed New Debt Issuance																		
Proposed Debt Issuance (d)																		
Net Change in Funds Avail. After Capital Activity	(\$2,422,000)	(\$3,535,400)	(\$3,226,500)	(\$3,899,600)	\$34,447,000	(\$9,234,200)	\$2,036,700	\$2,478,300	\$8,280,000	(\$912,100)	\$4,205,000	(\$4,464,400)	(\$2,668,000)	(\$1,020,500)	\$492,200	\$2,084,400		
Beginning Cash Balance	\$23,110,200	\$20,717,200	\$11,781,800	\$8,555,300	\$7,865,700	\$12,314,600	\$3,079,400	\$5,119,100	\$7,597,400	\$15,857,400	\$15,657,400	\$14,945,300	\$19,145,800	\$14,681,400	\$12,013,000	\$10,992,500	\$11,394,700	
Ending Cash Balance (e)	20,717,196	\$11,781,800	\$8,555,300	\$7,865,700	\$12,313,600	\$3,079,400	\$5,119,100	\$7,597,400	\$14,945,300	\$17,742,000	\$17,464,000	\$17,253,000	\$12,610,000	\$12,777,000	\$13,000,000	\$13,228,000	\$13,473,000	
Target Reserve Fund Balance (f)	\$6,835,000	\$7,819,000	\$8,135,000	\$8,249,000	\$8,352,000	\$8,883,000	\$9,533,000	\$10,541,000	\$10,746,000	\$11,742,000	\$12,253,000	\$12,610,000	\$12,777,000	\$13,000,000	\$13,228,000	\$13,473,000		
Debt Svcs Coverage (No Connection Fee Revs in New Debt)																		

Description	Proposed Rates and Projected Changes in Accounts and Water Usage															
	Proposed Fixed Rate Increase (g)	Proposed Usage Rate Increase (g)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/MCF) (1/12)	Proposed Uniform Usage Rate (\$/MCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/MCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/MCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/MCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/MCF) (1/12)	Proposed Fixed Rate (\$/Account/Month) (1/12)	Proposed Uniform Usage Rate (\$/MCF) (1/12)	
Proposed Fixed Rate Increase (g)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Usage Rate Increase (g)	0.0%	8.0%	28.0%	15.6%	10.8%	7.3%	13.6%	10.0%	6.4%	6.4%	6.8%	9.8%	6.3%	7.1%	5.6%	0.0%
Proposed Fixed Rate (\$/Account/Month) (1/12)	\$18.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.40	\$0.40	\$5.50	\$5.50	\$6.25	\$7.50	\$0.00	\$0.00	\$0.00	\$0.00
Proposed Uniform Usage Rate (\$/MCF) (1/12)	\$1.32	\$2.50	\$3.20	\$2.35	\$2.0620	\$177.90	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500	\$23,500
Growth-Based Changes in Accounts/Demands																
Net Water Sales Consumption (AF)	5,989	6,019	6,045	6,082	6,133	5,963	5,985	6,000	6,037	6,037	6,077	6,124	6,239	6,244	6,244	6,245
Conservation/Elasticity Adjustment Factor	100%	100%	100%	100%	100%	100%	97%	97%	99%	99%	100%	100%	100%	100%	100%	100%

Notes: O&M costs for 2 & 4 MGD plant, and CIP per City 9/2011. Naci Pipeline Debt Reserve reflected as O&M per City finance, modeled per contract (reserved and released by fund performance).

Assumes the fixed charge is eliminated in January 2012 and a uniform water usage rate structure commences.

(a) 2MGD WTP scheduled to operate approx 6 months/year. 4 MGD WTP full time at 4,000 AF/Y.

(b) Depreciation Funding is primarily scheduled to begin in FY 17-18 and is based on estimated replacement cost new values, plus 2.5% of new CIP (assumes average 40 year useful life). Minimal \$/M is available for funding or funding under this rate plan.

(c) Interest earnings are conservatively set to equal prior year value following a new debt issuance to avoid improper use of new bond proceeds. If funds are projected to carryover.

(d) Both new bond issuances based on a 30-year term at 6% interest rates. The new 4 MGD WTP issuance is shown as a split issuance for cash flow purposes. We would assume a capitalize interest plan with one submittal upon issuance.

(e) Ending FY 10-11 estimated per City Finance, pending final ending cash values. Additional liability and legal support set aside included in FY 11-12 and FY 15-16 performance.

(f) Target reserves based on 50% of annual operating expenses (25% ops reserve & 25% economic uncertainty), plus \$1M Emergency and 1-year's average cash CIP (estimated at \$2 M).

(g) Percent rate increases for FY 11-12 are based on projected increases in revenues as the utility converts to all variable rates.