

# 050879  
Submitted @  
meeting

## Outline

- Current Financial Profile
- Financial Planning
- Rating Agency Perspective
- Balancing Act
- Current Efforts

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## Current Financial Profile

- Financial Position (2005 audited)
  - Gross Revenues of \$254.1m
  - Expenses of \$177.6m
    - \$106.3m is Fuel Expense
  - Strong Cash Position of \$52.4m
  - Long-Term Debt of \$435m
  - Aggregate Debt Service of \$24.9m
  - Net Utility Plant of \$732.4m
  - Strong Aggregate DS Coverage of 3.07
  - Good Total DS Coverage of 2.16
- Highly Rated Public Power Utility

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# Financial Planning

- Multiple Considerations:
  - Revenue forecasts
  - Expense projections
  - General Fund Transfer estimates
  - Debt Service Payments
  - Utility Plant Improvement Fund Contributions
  - Reserve Requirements
  - Key Financial Ratios

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# Financial Planning

- Revenue Forecasts
  - Prepared by Strategic Planning
  - Assumes customer and usage growth rates
- Expense Forecasts
  - Prepared by all departments
  - Reviewed by Finance
- Revenue less Expense equals Net Revenues

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# Financial Planning

- GFT Estimates
  - Transfer established by formula
- Debt Service Payments
  - Two components
    - Debt service on previously issued debt
    - An estimate of future debt and associated annual payments
- UPIF Contributions
  - Established by formula

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# Financial Planning

- Reserve Requirements
  - Reassessed annually
  - Based on Sources of Risk such as:
    - Revenue at Risk
    - Catastrophic Events
    - Construction Risk
    - Contingent Financial Liabilities

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# Financial Planning

- Key Financial Ratios/Indicators
  - Debt Service Coverage
    - Aggregate
    - Total
    - Fixed Charge
  - Debt to Equity
  - Days Cash on Hand
  - General Fund Transfer
    - Percent of Gross Revenues
    - Percent of Net Revenues
    - Percent of City Operating Fund

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## Rating Agency Perspective

- Function: To provide for independent credit ratings, research and financial information to the markets
- Rate debt for safety of principal and interest payments

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## Rating Agency Perspective: Utility Ratings Criteria

- Management
- Operations
- Competitive position
- Markets
- Regulation
- Service area economy
- Finances
- Legal Provisions

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## Rating Agency Perspective: The Reports

- S&P
  - “The AA rating reflects the following strengths:
    - The combined utilities’ solid operational profile and low production costs,
    - Generally strong financial profile characterized by low debt-to-capacity level, and reasonably strong liquidity, despite the declining balance in the utility’s rate stabilization fund,
    - Experienced and proactive management team, and
    - A stable economy with a growing customer base.”

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## Rating Agency Perspective: The Reports

- S&P
  - “These strengths are somewhat offset by the following:
    - Transfers to the general fund that are a large percentage of total revenues (11%), and
    - A shift toward greater debt financing of the capital program since 2003, increasing to 62% from 30%.”

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## Rating Agency Perspective: The Reports

- Moody's
  - The Aa2 rating is based on the system's
    - Relatively competitive electric power costs
    - Well-managed financial operations with good debt service coverage and strong cash position
    - Stable economic base
    - Good utility management

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## Rating Agency Perspective: The Reports

- Comments relative to new generation:
  - S&P: “Standard & Poor’s will not incorporate the risks attendant to new plant construction and financing into the utility’s overall profile until GRU establishes related terms and conditions.”
  - Moody’s: “Moody’s will review the financing plan and expected coverage ratios along with the impact on system rates at the time of the proposed issuance.”

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## Balancing Act

- Financial decisions made are influenced by many factors
  - Rate Competitiveness
  - Affordability
  - Rating Agency Criteria
  - Bond Holder Security
  - Key Financial Indicators
  - Operational Needs
  - Types of Risk
  - Policy Direction

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## Current Efforts

- Rating Agency Visit to Moody's and S&P
  - Introduction of Interim GM
  - Plan for GM Search
  - Update on Energy Supply Plans
- The Message
  - Financially strong and well managed
  - Receive policy direction from the CCOM
  - Will continue to update frequently

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## Current Ratings

- Standard and Poor's - AA: Very strong capacity to meet its financial commitments.
- Moody's Investors Service - Aa: Issuers or issues demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues.

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