

# City of Dover

Financial Reporting &  
Information Flow  
November 13, 2006

# Chronology

## ■ April 2006

- Meeting with Burns & McDonnell to start rate analysis 4/26/06;
- Provided \$84 mWh for power supply/generation based on contract negotiations; including preliminary budgets and approximately \$3 million each year for capital improvements. Rate stabilization reserve would be used to reduce first year rate increases. Not enough time to analyze demand charges, will do after contracts & budgets are finalized;

## ■ May 2006

- Power supply and plant operation contract negotiations; Contract approved by City Council 5/3/06, start date 5/4/06
- Budget preparation for plant (since the assumption was the plant was revenue neutral, it was considered to be included in the \$84 mWh)
- Budget hearings with City Council 5/10 – 5/17

## ■ June 2006

- Budget hearings continued 6/6 – 6/9
- First formal meeting with PACE to discuss Risk Management Concepts 6/6/06
- PACE verbally provided conservative estimate for plant revenue of \$1.2 million
- Financial Forecast & Rate Analysis Presentation by Burns & McDonnell 6/6/06 based on draft budgets, \$84 mWh for power supply & plant, historical trends, and use of rate stabilization reserve in 2007.
- Council update of transition by Jim Utt of PACE on 6/6; Confirmed target rate of \$84 mWh achievable
- Public Hearing for Electric Fund Budget 6/12/06; Plant budget still included in power supply line item
- Changes to Draft Budgets based on motions made in Budget Hearings

# Chronology

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## ■ July 2006

- Plant budget finalized, insurance coverage by City of Dover, additional \$300,000; Total \$6.1 million; Still included in power supply budget as approved by City Council;
- City budgets finalized and downloaded into financial system;

## ■ August 2006

- Review of July operating results indicated that revenues were not coming in at expected levels; PACE & Burns & McDonnell were contacted immediately to assist in analyzing the difference;
- Preliminary evaluation indicated seasonal differences and kWh difference for June and July months; Summer and Winter rates blended, which will cause less revenue in summer months and greater revenues in winter months;
- Meeting with Burns and McDonnell on 8/23/06 to establish time table for review and update of the rate model and to incorporate demand and plant cost;
- Revenues were still off and plant was not able to generate the revenue anticipated;
- Review of July report from PACE highlighted the \$1.24 mWh for incentive which was not included in the budgeted rate of \$84 mWh for power supply & operations; Explained accounting rules require it to be budgeted for as it is an expense of the current year.

# Chronology

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## ■ September 2006

- Met with Burns & McDonnell on 9/18 and 9/19 and analyzed complexity and rate model line by line.
- Identified corrections needed and changed the model to reflect the final budget numbers, incentive and incremental capacity.
- Revenues still not as expected; Finance Director communicated concerns to Council on 9/18 regarding cost to operate the plant, insurance cost, and an update that the rate analysis was underway including incorporating all the elements of the final contracts.

## ■ October 2006

- Finance Director communicated to Council on 10/5 that it appeared the power cost adjustment was not included in the base rate which approximates \$7.2 million annually as well as some other changes made to the rate analysis.
- Burns and McDonnell provided the updated rate analysis to City Council highlighting the shortfall in revenues and the need for another rate increase on 1/1/07. It was explained the June 6 presentation misrepresented the overall revenue increase as 38%.
- PACE updated Council with quarterly results; Revised estimate on plant shortfall to \$4.5 million;

# Residential June 6 Rate Increase

- Blended rate = average winter and summer rates; no power cost adjustment
- Presented as a 24% increase to rates on June 6 versus a 15% increase to energy & customer charges on October 23
- January 1 additional rate increase of 8% would bring total increase up to 24% for FY07
- Cause(s) of shortfall –
  - a) PCA?
  - b) Reduced growth rate and no reduction in fixed cost; Plant all fixed cost; Departmental Budgets approximately 70% fixed cost

	Blended Rate	Proposed Rate	Energy & Customer Charge Increase
Residential	.0902	.1146	24%
PCA	.0096	---	
Total Bill Increase	.0998	.1146	15%

# Sample Residential Account

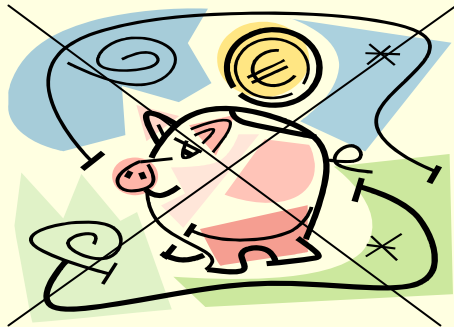
	Fiscal Year 2006			July 1, 2006 Increase		Proposed as of 10/23 Jan 1, 2007 Increase		Chg. FY06/FY07 % Increase
	KWH	Energy Bill + PCA	0.1003 Rate	0.1146 Rate	% Increase	Rate	% Increase	
Jul	2,107	214.92	0.1020	241.46	12.3%	261.69	8.4%	21.8%
Aug	2,515	256.53	0.1020	288.22	12.4%	312.36	8.4%	21.8%
Sept	2,581	263.26	0.1020	295.78	12.4%	320.56	8.4%	21.8%
Oct	2,111	215.33	0.1020	241.92	12.3%	262.19	8.4%	21.8%
Nov	758	76.78	0.1013	86.87	13.1%	94.14	8.4%	22.6%
Dec	965	94.18	0.0976	110.59	17.4%	119.85	8.4%	27.3%
Jan	994	97.01	0.0976	113.91	17.4%	123.45	8.4%	27.3%
Feb	848	82.76	0.0976	97.18	17.4%	105.32	8.4%	27.3%
Mar	717	69.98	0.0976	82.17	17.4%	89.05	8.4%	27.3%
Apr	742	72.42	0.0976	85.03	17.4%	92.16	8.4%	27.3%
May	942	91.94	0.0976	107.95	17.4%	117.00	8.4%	27.3%
Jun	1,256	122.71	0.0977	143.94	17.3%	156.00	8.4%	27.1%
12 Mo Total	16,536	1,657.82	0.1003	1,895.03	14.3%	2,053.77	8.4%	23.9%
AVG	1,378	138.15	0.1003	157.92	14.3%	171.15	8.4%	23.9%

# Electric Fund Bond Covenant

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- A covenant is a promise to your bond holders
- The rate model is a 5 year forecast (long-term) prepared on the basis we use for our Comprehensive Annual Financial Report to communicate to the public we are fulfilling the promise we made
- Electric Bond Covenant – The City of Dover promised it will insure it has sufficient net revenues to cover the maximum amount of its debt obligation 1.25 times
- Net Revenue is the difference between revenues we collect from our ratepayers and the payments we make to our employees, vendors, and suppliers
- Current net revenue required to meet the promise is \$3.3 million, or 1.25 times \$2.6 million maximum annual debt payment
- The promise does not include using savings to cover expenses
- FY08 includes a \$20 million bond issue; Rating Agencies will be reviewing FY07

# Rating Agencies & Bondholders



- Use of savings/reserves is not addressing the problem when expenses are greater than revenues; Creates alarm;
- Rating Agencies & Bond Holders expect to see a willingness to set rates to cover cost of operations plus a sufficient amount for debt
- Healthy budget balance does not equal positive net revenue
- Expect to see reserves used for intended purpose, i.e. capital replacement, rate stabilization
- Communication - KEY

# FY07 Projected Net Revenues

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Suppliers

**\$85,111**

Customers

**\$83,009**



# Budget Balance



FY 07 - Power Supply \$6.7 month

FY06 - Power Supply \$4.1 month

- Cash on hand
- Sufficient funds to cover daily cash flow needs and fluctuations
- Recommended practice is 45 days of budgeted expenses or 12%
- Not as critical if you have other accounts to borrow from for temporary fluctuations

## FY07 Summary Budget with Plant Break Even October 23, 2006

Beginning Balance	\$ 4,974,107
Sales to Customers	85,431,205
Duke Contract Revenue	758,000
Transfer from Rate Stabilization Reserve	5,000,000
<b>TOTAL REVENUE</b>	<b>\$ 96,163,312</b>
Total Plant Operations & Power Supply	\$ 66,964,600
Payments to Employees/Suppliers/Contractors/Interfund Services	12,446,806
Payment to General Fund	5,700,000
Debt Service (less \$440,000)	2,149,048
Rate Stabilization Fund	1,258,000
Budget Bal. - Work. Capital	7,644,858
<b>TOTAL EXPENSES</b>	<b>\$ 96,163,312</b>
Budget Balance % of Revenue (includes additional \$3.1 million & Plant Net Revenue \$0)	8.9%
Budget Balance % of Revenue without additional \$3.1 million	5.4%
Budget Balance % of Revenue without \$3.1 million & Plant Net Revenue = <b>-\$4.5 million</b>	0.0%

# FY 07 Financial Reporting Summary

<b>Bond Covenant Calculation - Promise 1.25</b>	
Gross Revenue (1)	\$ 86,189,205
Current Expenses (2)	85,111,406
Available for Debt Service	\$ 1,077,799
Max Annual Debt Service	\$ 2,644,620
Calculation with \$3.1 million & Plant Net Revenue = \$0	0.41
Calculation without \$3.1 million & Plant Net Revenue = \$0	<b>-0.78</b>
Calculation without \$3.1 million & Plant Net Revenue = <b>Deficit \$4.5 million</b>	<b>-2.48</b>
(1) Excludes Beginning Balance & Transfers from Reserves; Includes I & E Fund Interest;	
(2) Excludes Budget Balance, Transfers to Reserves, & Debt Service;	

# FY07 Presentation Comparison with Plant Break Even Comprehensive Financial Report June 6 versus October 23

In thousands (000's)	June 6	October 23	Change
Rate Revenue	\$81,554	\$78,606	\$(2,948)
Other	2,492	2,328	(164)
Utility Tax	1,778	1,441	(337)
Interest	384	634	250
<b>Total Revenue</b>	<b>\$86,208</b>	<b>\$83,009</b>	<b>\$(3,199)</b>
Power Supply	\$67,329	\$60,775	\$(6,554)
Operating Expenses	13,103	18,636	5,533
Transfer to General Fund	5,700	5,700	---
<b>Total Expenses</b>	<b>\$86,132</b>	<b>\$85,111</b>	<b>\$(1,021)</b>
Net Revenue	<b>\$76</b>	<b>\$(2,102)</b>	<b>\$(2,178)</b>
Reserve Transfers	5,440	---	(5,440)
Additional Increase	---	3,144	3,144
Adjusted Revenue	\$5,516	\$1,042	<b>\$(4,474)</b>
Interest on Long-Term Debt	(885)	(859)	26
Depreciation & Amortization	(4,505)	(4,274)	231
<b>Net Income as Reported in CAFR</b>	<b>\$126</b>	<b>\$(4,091)</b>	<b>\$(4,217)</b>

# Summary of Presentation Changes – FY07

## June 6 versus October 23

### Change to Rate Revenues

- Growth assumption changed from 3% to 1%; Reduction \$2.9 million

### Change to Other Revenues

- Duke Rebate – reduction in revenue \$964,000
- Street Lights – addition to revenue \$840,000
- Interest Earnings – added to include I & E Fund \$250,000
- Utility Tax – reduction to revenue \$337,000
- Other final budget adjustments \$40,000
- Net \$251,000 other revenue reduction

### Reserves

- Reserves changed to transfer in and not included in revenue \$5,000,000 Rate Stab. & \$440,000 Bond Reserve

### Change to Expenses

- Reduction in final budget power supply \$1,464,000
- Pace Incentive Fee – addition to expense \$973,000
- Excess capacity (6 mgw) – addition to expense \$63,000
- Final expense budgets – reduction to expenses \$256,000
- Utility Tax – reduction to expense \$337,000
- Net decrease in expenses \$1,021,000

# Plant Cost Recovery

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- Budget \$6.1 million
- Cost Recovery \$1.6 million
- Deficit \$4.5 million
- Equates to a 6% rate increase
- Future results will be impacted by regulation

# Options

## Short term

- Additional 8% rate increase – promise kept
- Reduce expenses – promise kept
- Reduce budget balance
- Reduce or eliminate transfer to rate stabilization reserve
- Transfer from reserves \$4.5 million needed to cover the plant
- Combination of above



Rate Increases  
or  
New Revenue  
Sources

## Long term

- Insure net revenue sufficient to cover promise on bonds
- Conduct revenue generating potential of the plant including capacity and regulation markets; PACE expected to complete by March 31;

Expense  
Reductions

