

## Financial Analysis To Support Water Fund Rate Increase For FY14

The total amount of working capital in the Water Fund is exactly on target with where the Water Master Plan projected it to be as of June 30, 2013 - \$950K.

In FY13, the Water Fund generated \$554K of working capital; of this, \$400K was designated for capital expenditures. As a result, \$154K of positive working capital was generated during the year.

What is critical to note, however, is that the Water Fund continues to have negative undesignated working capital despite generating positive working capital in FY13. Negative Working Capital was (\$663K) at the end of FY13. This means that the Water Fund has designated more working capital for future capital expenditures than it currently has on hand. Were all of these working capital designations to become cash requirements in a short period of time, the Water Fund would be required to borrow to meet its obligations.

IN FY14, earnings before interest and depreciation are projected to decline by (\$48K) or 8.9%. The additional designations of working capital are small for FY14, just \$65K. Thus, were revenues to remain flat (i.e., no rate increase put in place), this would reduce the projected increase in working capital to roughly \$335K for the year.

What is important to note, however, is that the Water Master Plan did not plan for working capital expenditures for an alternative water source. The change in drinking water treatment regulations was not known at the time the Plan was formulated. Once the capital requirements for an alternative water source can be determined with certainty, the demands on the water fund to produce positive annual working capital will grow substantially.

For these reasons, enacting the water rate increase recommended by the Water Master Plan for FY14 is prudent financially and recommended.