

Attachment A

The Capital Improvement Charge (“CIC”) is a volumetric rate (charged on each billing unit of water sold) that provides revenue to fund long-term capital investment in the Water System. A portion of the CIC revenues is dedicated to debt service on revenue bonds issued to fund CIC related projects and the remainder is used to provide pay-as-you-go (“Pay-go”) funding for the CIC capital expenditures. Pasadena Water and Power (“PWP”) PWP has historically targeted a Pay-go funding ratio of about 35%, with the remaining 65% debt financed.

A smaller amount of funding for the total water system capital investments program is provided by revenues generated by the Distribution and Customer Charge (“D&C”). D&C revenues are primarily used to fund capital assets with shorter life spans, specifically meters, technology projects and vehicles. It is industry best-practice to fund these shorter-lived assets with a portion of pay-go funding instead of long-term financing. Other sources of funding for capital projects may include contributions-in-aid of construction from private development, federal and state grants for specific projects and regional funding from the Metropolitan Water District.

Table A-1 provides five-years’ of historical data and a five-year forecast of Water System capital investment, funding, and debt service. It identifies amounts associated both CIC- and non-CIC funded components of the capital program. The revenue requirements from the CIC rates for Pay-go and debt service funding are highlighted in the table.

The five-year projections are based on the approved FY2016 Capital Improvement Plan budget and assume that the CIC rate formula is applied as proposed for the remainder of FY2016 and again in FY2017. It is important to note that funding for construction of the Recycled Water project is not included. PWP staff continues to seek funding from other sources for the Recycled Water project, including grants and low-interest State loans. In the event that alternative funding sources are not available, the CIC may become a source of revenue for the Recycled Water project and would require additional adjustment.

Table A-1 - Five Year Detail CIP Expense and Funding and Five Year Forecast

| | Historical Actual/Projected | | | | Forecast | | | | Five-Year Average | | | | |
|---|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|----------------|-----------------|-----------------|-------------|
| | FY2011 | FY2012 | FY2013 | FY2014 | FY2015* | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | Historic | Forecast | Change |
| Actual Annual Sales (million BU) | 12 | 12.3 | 13.2 | 13.8 | 12.4 | 9.6 | 9.9 | 10.3 | 10.6 | 11.0 | 12.74 | 10.28 | -19% |
| System Average CIC Rate** | \$0.63 | \$0.64 | \$0.64 | \$0.64 | \$0.64 | \$1.09 | \$1.11 | \$1.11 | \$1.11 | \$1.11 | \$0.64 | \$1.11 | 74% |
| Water Capital Expenditure | | | | | | | | | | | | | |
| CIC CapEx | \$8.60 | \$7.40 | \$12.30 | \$15.70 | \$7.10 | \$9.80 | \$12.40 | \$11.90 | \$13.20 | \$7.20 | \$10.22 | \$10.90 | 7% |
| Non-CIC CapEx | \$2.90 | \$3.20 | \$2.90 | \$4.80 | \$0.10 | \$5.50 | \$5.80 | \$5.60 | \$4.90 | \$4.90 | \$2.78 | \$5.34 | 92% |
| Total Capital Expenditures*** | \$11.50 | \$10.60 | \$15.20 | \$20.50 | \$7.20 | \$15.30 | \$18.20 | \$17.50 | \$18.10 | \$12.10 | \$13.00 | \$16.24 | 25% |
| CIC-Funded Capital Expenditures | | | | | | | | | | | | | |
| Pay-go as % of Total CIC | 35% | 35% | 35% | 35% | 35% | 30% | 35% | 35% | 35% | 35% | 35% | 35% | 0% |
| a Pay-go CIC CapEx | \$3.00 | \$2.60 | \$4.30 | \$5.50 | \$2.50 | \$3.00 | \$4.30 | \$4.20 | \$4.60 | \$2.50 | \$3.58 | \$3.72 | 4% |
| Bond funded CIC CapEx | \$5.60 | \$4.80 | \$8.00 | \$10.20 | \$4.60 | \$6.90 | \$8.00 | \$7.70 | \$8.60 | \$4.70 | \$6.64 | \$7.18 | 8% |
| Total CIC CapEx | \$8.60 | \$7.40 | \$12.30 | \$15.70 | \$7.10 | \$9.80 | \$12.40 | \$11.90 | \$13.20 | \$7.20 | \$10.22 | \$10.90 | 7% |
| Water System Debt Service | | | | | | | | | | | | | |
| b CIC Debt Service (DS) | \$5.10 | \$5.60 | \$5.50 | \$6.00 | \$6.00 | \$6.00 | \$7.10 | \$7.50 | \$7.50 | \$7.80 | \$5.64 | \$7.18 | 27% |
| Non-CIC Debt Service (DS) | \$0.90 | \$1.00 | \$1.00 | \$1.10 | \$1.10 | \$1.10 | \$1.30 | \$1.30 | \$1.30 | \$1.40 | \$1.02 | \$1.28 | 25% |
| Total Debt Service | \$6.00 | \$6.60 | \$6.50 | \$7.10 | \$7.10 | \$7.10 | \$8.40 | \$8.80 | \$8.80 | \$9.20 | \$6.66 | \$8.46 | 27% |
| CIC Cash Flow Balance | | | | | | | | | | | | | |
| CIC Revenues | \$7.60 | \$7.90 | \$8.40 | \$8.80 | \$7.90 | \$7.40 | \$11.04 | \$11.48 | \$11.82 | \$12.26 | \$8.12 | \$10.80 | 33% |
| Annual CIC Expense (a+b) | \$8.10 | \$8.20 | \$9.80 | \$11.50 | \$8.50 | \$9.00 | \$11.40 | \$11.70 | \$12.10 | \$10.30 | \$9.22 | \$10.90 | 18% |
| Surplus (Shortfall)**** | (\$0.50) | (\$0.30) | (\$1.40) | (\$2.70) | (\$0.60) | (\$1.60) | (\$0.36) | (\$0.22) | (\$0.28) | \$1.96 | (\$1.10) | (\$0.10) | -91% |
| Non-CIC Expenditures (Info only) | | | | | | | | | | | | | |
| Non-CIC CapEx | \$2.90 | \$3.20 | \$2.90 | \$4.80 | \$0.10 | \$5.50 | \$5.80 | \$5.60 | \$4.90 | \$4.90 | \$2.78 | \$5.34 | 92% |
| Non-CIC Debt Service (DS) | \$0.90 | \$1.00 | \$1.00 | \$1.10 | \$1.10 | \$1.10 | \$1.30 | \$1.30 | \$1.30 | \$1.40 | \$1.02 | \$1.28 | 25% |
| Total Non-CIC Expenditures | \$3.80 | \$4.20 | \$3.90 | \$5.90 | \$1.20 | \$6.60 | \$7.10 | \$6.90 | \$6.20 | \$6.30 | \$3.80 | \$6.62 | 74% |

* FY2015 data not final

** Assumes CIC formula rate applied for FY2016 and FY2017. Rate held constant beyond FY2017

*** Projected Cap Ex reflects adopted FY2016 CIP budget. Does not include funding for construction of non-potable (recycled) water pipeline project

**** Shortfalls funded from cash reserves, additional debt financing, and other sources such as grants