Section G – Financial Ratios

Reserve Requirements

		Original Budget 2014		Projection 2014		Proposed Budget 2015		Proposed Budget 2016
Reserve Requirements:								
Electric	$	42,751,524	$	42,467,307	$	42,781,173	$	42,817,644
Water		10,674,864		10,328,404		10,558,475		10,718,195
Wastewater		12,349,837		12,583,560		12,532,762		12,773,191
Gas		6,471,228		6,772,530		6,927,978		6,968,781
GRUCom		4,021,381		3,964,890		3,935,011		4,261,590
		76,268,834		76,116,692		76,735,400		77,539,402
Reserve Funded:								
Rate Stabilization Fund		69,344,756		62,476,592		61,284,643		64,714,663
Utility Plant Improvement Fund		16,044,633		14,720,975		17,771,112		17,329,336
		85,389,389		77,197,567		79,055,755		82,044,000
Amount (Over)/Under Funded	**$**	**(9,120,555)**	**$**	**(1,080,875)**	**$**	**(2,320,355)**	**$**	**(4,504,598)**

Description

Risk, in general, is the quantifiable likelihood of loss or less-than-expected returns. Risk management is the process of analyzing exposure to risk and determining how best to handle such exposure. Staff has identified the utility's financial risk and risk mitigators, and established a framework for setting reserve fund levels where other mitigators aren't present.

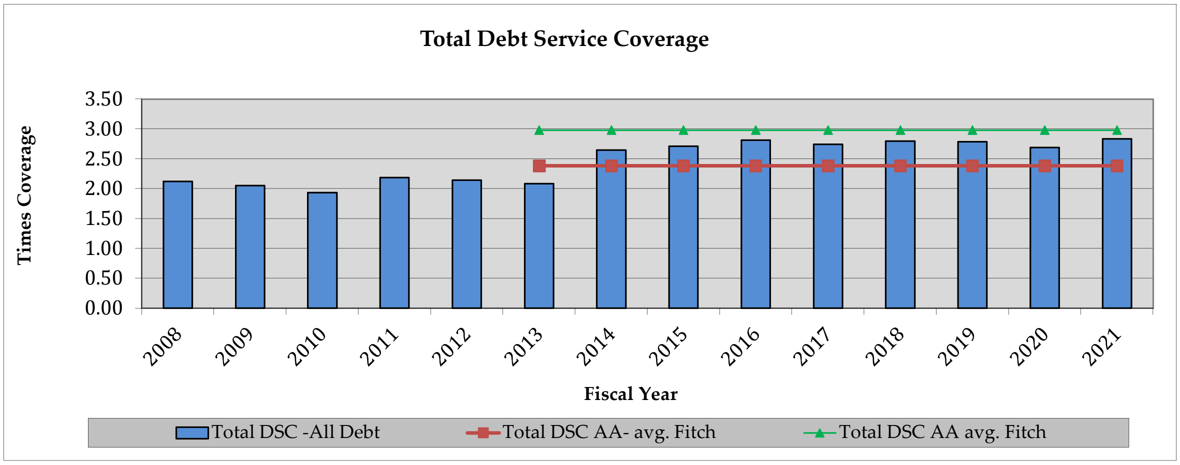
The utility is exposed to five major categories of risk: operating cash flow, catastrophic event, construction, regulatory and environmental, and contingent financial liabilities. A reserve fund level that is formula-driven by the primary indicators of risk is necessary as the levels of risk can vary markedly through time. There are two funds established within the Bond Resolution that can be used to provide financial reserves: the Rate Stabilization Fund and the Utility Plant Improvement Fund.

These reserve funds can provide financial insurance to allow the utility to reliably meet its financial obligations under adverse circumstances and can also serve as a means by which to mitigate required rate changes (particularly rate increases). Maintaining minimum financial reserves contributes to financial strength.

Budget Highlights

- The reserve requirement for FY14 is projected to be below the original FY14 budget due to lower FY15 expense projections built into the FY15 budget.
- As revenues increase, Revenue at Risk also increases. This risk excludes the amounts collected for fuels.
- Fixed Non-Fuel O&M is fluctuating over the planning horizon due to reasons outlined in the flow of funds narratives. These expenditures must be covered through reserves to hedge against the possibility that critical business systems could be lost and revenues would not be collected.

- Construction Risk is intended to cover contingent liabilities associated with capital project construction. These could include potential cost overruns or project delays. This amount generally moves in tandem with capital spending.
- The level of funding available for required reserves is projected to be slightly more than sufficient for FY14, with better than required amounts for FY15 proposed budget. This increase is occurring largely in the Electric System. Rate Stabilization Fund balances will continue to grow over the planning horizon to meet reserve goals in each system.

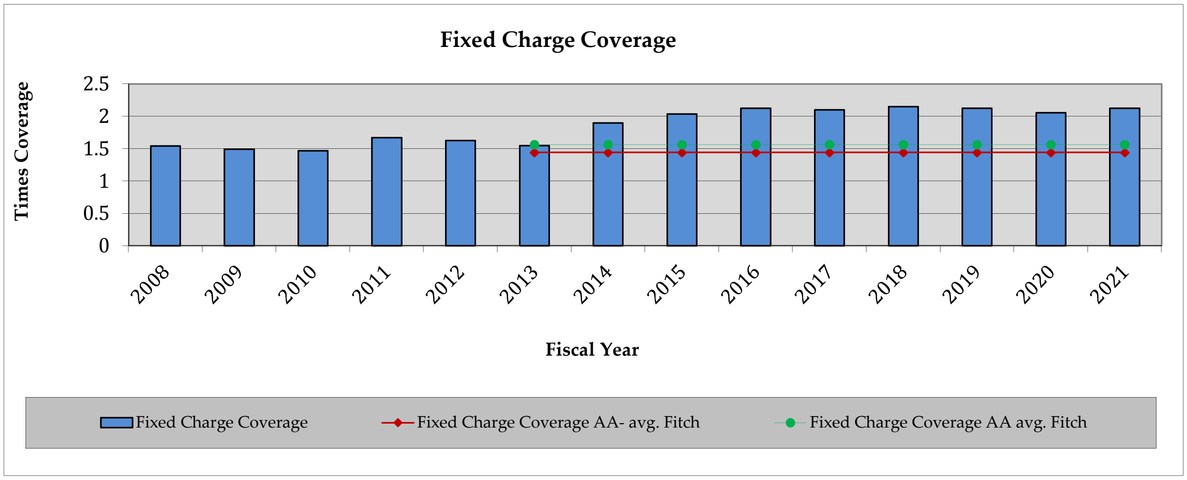


Total Debt Service Coverage: Number of times total debt service payments are covered by net revenues

Calculation: Net revenues divided by principal and interest of all debts (senior lien and subordinated)

This ratio indicates the amount of cash flow available to meet payments due for all debt. The ratings agencies refer to this ratio as an indication of financial strength and a measure of a company's ability to weather unexpected events. A ratio of less than 1 indicates that there are insufficient cash flows to cover the debt. The coverage ratio can be improved through increased revenues or a decrease in debt payments.

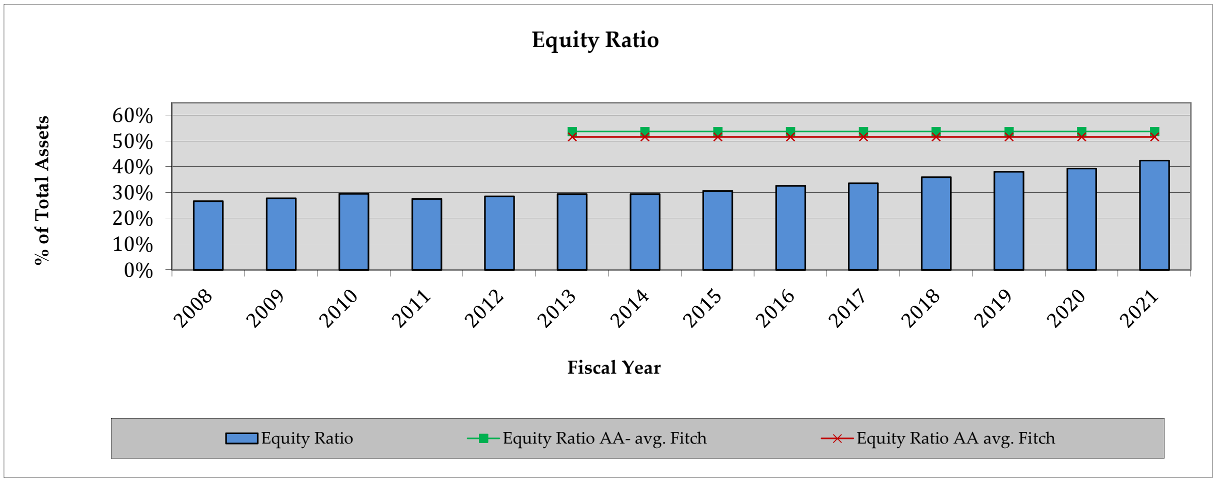
Due to a debt restructuring and refunding in FY12, debt service coverage is expected to rise substantially in FY14 and stay higher than historical through FY21. This metric will become healthier as either existing Debt Service per year decreases, Net Revenues increase, and as we contribute more equity toward our capital improvement program.



Fixed Charge Coverage: Number of times total fixed charges are covered by net revenues

Calculation: Net revenues less General Fund Transfer (GFT) divided by principal and interest of all debts including (senior lien and subordinated)

This traditional ratio indicates the amount of cash flow available to meet payments due for all debt after the GFT payment. Fixed charge indicates a payment other than operating expenses that is required and static. The ratings agencies refer to this ratio as an indication of a company's financial strength and general ability to weather unexpected events. A ratio of less than 1 indicates that there are insufficient cash flows to cover operating expenses, debt service and the GFT payment. This coverage ratio can be improved by increasing net revenues or decreasing fixed charges.

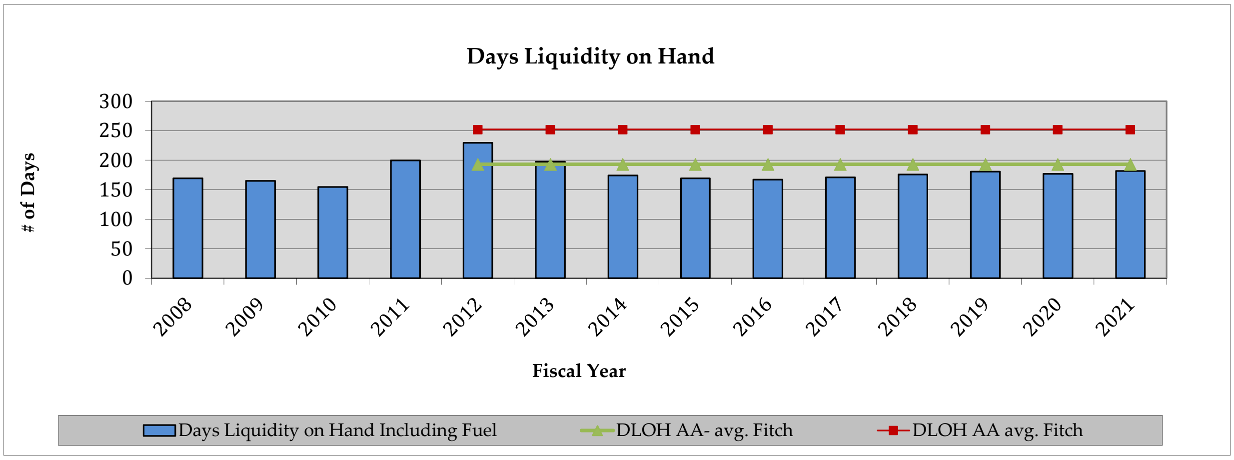


Equity Ratio: Percent of assets that are not leveraged

Calculation: Net assets divided by total assets

This ratio is an indication of leverage and the financial health of an organization. The percent is the amount of total assets that are owned by the company. This gives an indication of a company's ability to handle extraordinary events, and is a measure of a company's solvency. A higher percentage of equity to total assets is preferred. It is also important to note that total assets are in the financial statements on a cost basis and have not been adjusted for an actual market value.

GRU's policy is to increase equity use for capital funding either through directly funding such construction, or using it to offset debt service for capital. This is depicted in the overall increase seen in the graph, growing over time through FY21.



Days Liquidity on Hand: # of operating days liquidity on hand

Calculation: Short term liquid assets divided by average daily operating expenses

This ratio is used as an indication of a company's liquidity. It shows how many days of operations can be funded from existing cash and short-term investments. This ratio gives an indication of a company's flexibility and ability to respond to unexpected events. This is sometimes referred to as a company's agility.

This ratio is based on unrestricted cash and short-term investments including rate stabilization balances. In recent years, this metric has been at or above 150 days, which is consistent with GRU's peer ratings. However, Days Liquidity on Hand is projected to be below 150 days but grow over the planning horizon.

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