

**Lake County Public Works Department**

**REPORT TO THE PUBLIC WORKS COMMITTEE**

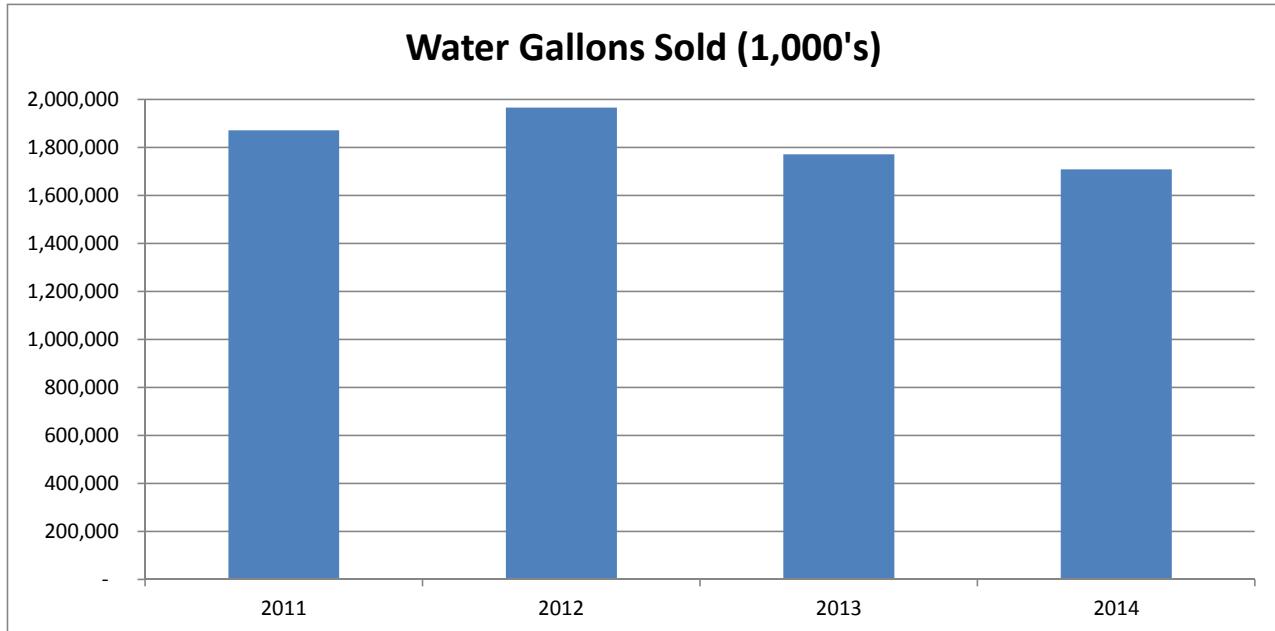
**June 3, 2015**

Presented By:

Baker Tilly Virchow Krause, LLP  
John Andres, CPA, Retired Partner  
Jodi Dobson, CPA, Partner  
Ryan O'Donnell, CPA, Senior Accountant

Note: Actual data was derived from current and prior years audited financial statements

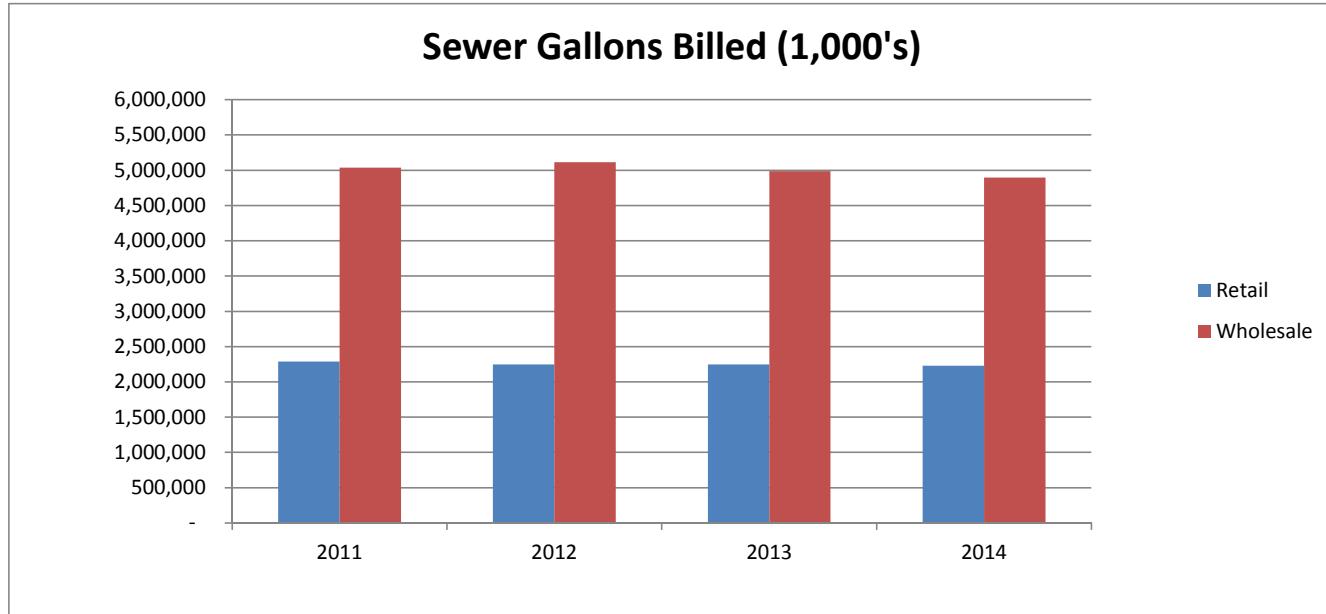
## Lake County Public Works Department



### What it means....

The water sales growth in 2012 was mainly due to the drought conditions that existed. The 2013 and 2014 sales returned to the declining trend reflecting customer conservation. This decline, expected to continue in future years, results in reduced sales revenue.

# Lake County Public Works Department

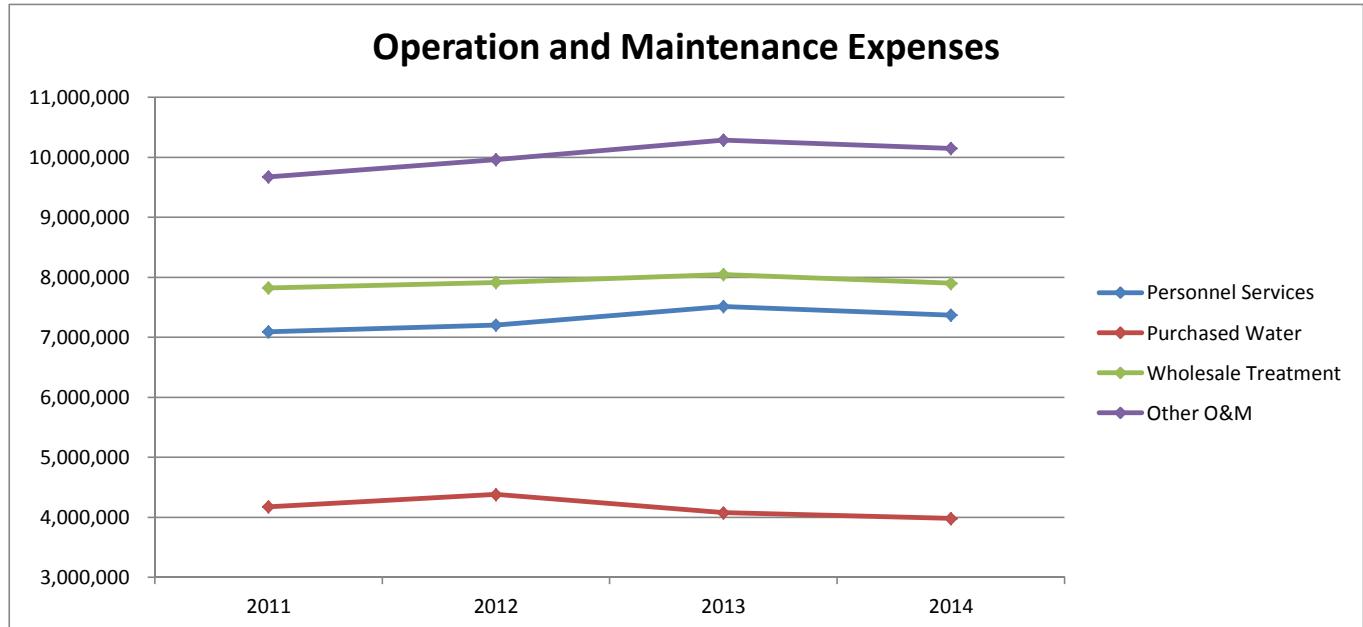


	2011	2012	2013	2014
Retail	2,286,590	2,244,834	2,249,146	2,228,594
Wholesale	5,034,791	5,112,978	4,988,169	4,897,853
Total	<u><u>7,321,381</u></u>	<u><u>7,357,812</u></u>	<u><u>7,237,315</u></u>	<u><u>7,126,447</u></u>

### What it means....

Retail sewer gallons billed for 2014 were essentially flat while wholesale gallons billed mirror the decline of water sales other than the 2012 weather related spike. Again, this trend results in reduced revenues.

# Lake County Public Works Department

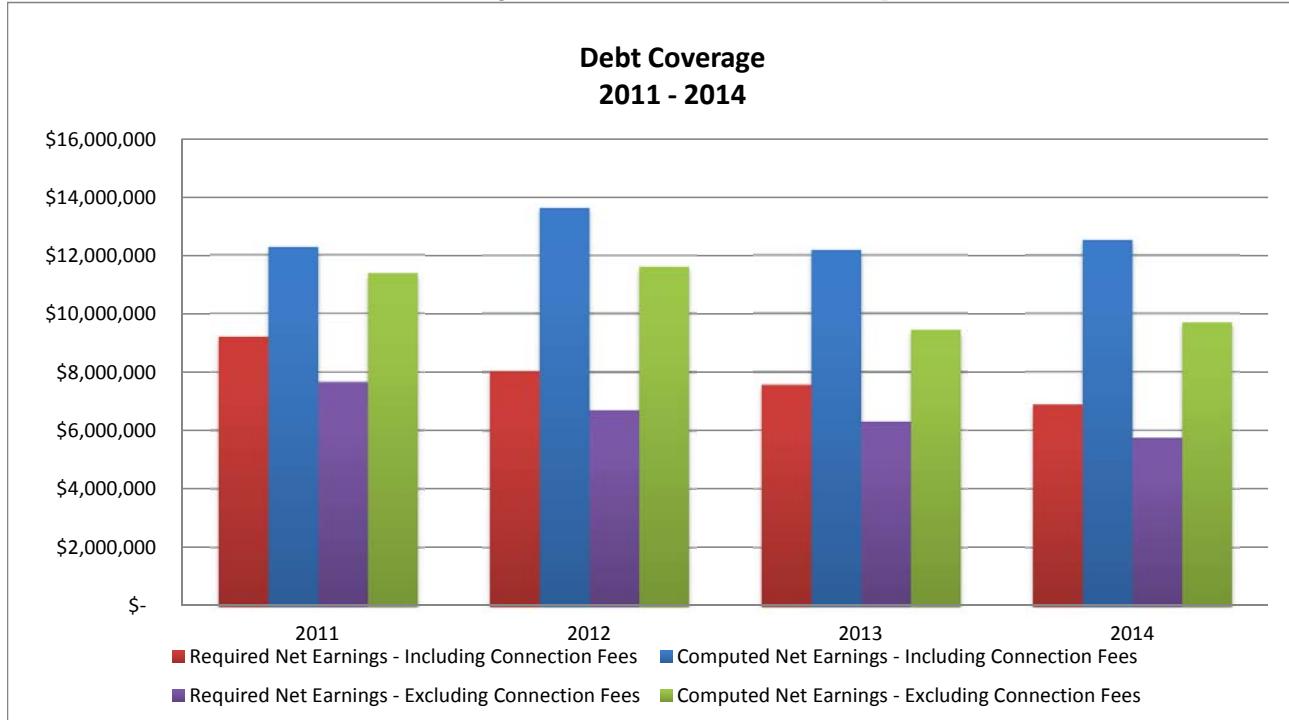


	2011	2012	2013	2014
Personnel Services	7,093,223	7,205,792	7,514,185	7,372,349
Purchased Water	4,176,863	4,380,111	4,075,896	3,979,836
Wholesale Treatment	7,821,591	7,914,371	8,045,413	7,901,063
Other O&M	9,673,055	9,960,423	10,287,120	10,151,067
Total Operating Expenses	<u>28,764,732</u>	<u>29,460,697</u>	<u>29,922,614</u>	<u>29,404,315</u>
Less Depreciation				

## What it means....

Operating expenses generally result from providing services and delivering goods in connection with the department's principal ongoing operations. The current year lower expenses reflect decreased personnel costs and miscellaneous expenses. Purchased water and wholesale treatment expenses fell from 2013 which was in line with the reduced gallons sold.

## Lake County Public Works Department



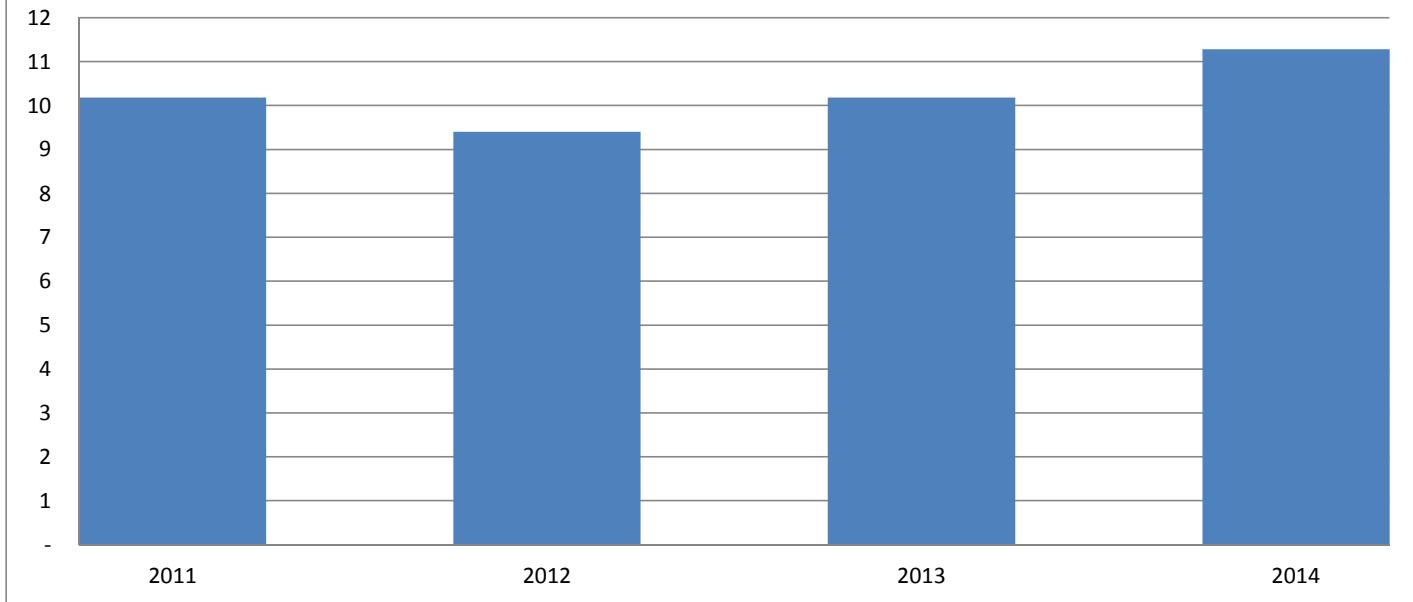
	2011	2012	2013	2014
Operating Revenues	\$ 37,557,721	\$ 38,834,554	\$ 37,655,774	\$ 37,886,643
Investment Income	1,307,352	1,082,314	613,783	166,460
Connection Fees	920,267	2,018,693	2,746,818	2,828,976
Interest Rate Subsidy	423,644	368,898	339,309	341,585
Property Taxes	859,567	815,521	755,770	734,146
Less: O & M Expenses	<u>(28,764,732)</u>	<u>(29,460,697)</u>	<u>(29,922,614)</u>	<u>(29,404,315)</u>
Computed Net Earnings - Including Connection Fees	<u>\$ 12,303,819</u>	<u>\$ 13,659,283</u>	<u>\$ 12,188,840</u>	<u>\$ 12,553,495</u>
Computed Net Earnings - Excluding Connection Fees	<u>\$ 11,383,552</u>	<u>\$ 11,640,590</u>	<u>\$ 9,442,022</u>	<u>\$ 9,724,519</u>
Debt Service Requirements				
Serial Bond Deposits	\$ 3,810,000	\$ 3,230,000	\$ 3,045,000	\$ 2,635,000
Interest	2,333,494	2,139,782	2,008,179	1,971,731
Total Debt Service Requirements	<u>\$ 6,143,494</u>	<u>\$ 5,369,782</u>	<u>\$ 5,053,179</u>	<u>\$ 4,606,731</u>
Minimum Coverage Factor - Including Connection Fees	1.50	1.50	1.50	1.50
Minimum Coverage Factor - Excluding Connection Fees	1.25	1.25	1.25	1.25
Required Net Earnings - Including Connection Fees	<u>\$ 9,215,241</u>	<u>\$ 8,054,673</u>	<u>\$ 7,579,769</u>	<u>\$ 6,910,097</u>
Required Net Earnings - Excluding Connection Fees	<u>\$ 7,679,368</u>	<u>\$ 6,712,228</u>	<u>\$ 6,316,474</u>	<u>\$ 5,758,414</u>
Actual Coverage - Including Connection Fees	2.00	2.54	2.41	2.73
Actual Coverage - Excluding Connection Fees	<u>1.85</u>	<u>2.17</u>	<u>1.87</u>	<u>2.11</u>

### What it means....

The bond resolutions require that revenues from the system be greater than 1.5 times the revenue bond annual debt service including connection fee revenue and 1.25 times the revenue bond annual debt service excluding connection fee revenue. The revenues include sources of operating revenues and non-operating revenues as defined by the basic bond ordinance. Lake County Public Works has met the requirements for all periods reflected above.

# Lake County Public Works Department

## Months of Operating Cash on Hand



	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Average Monthly Operating Budget Expenditures	\$ 2,515,942	\$ 2,837,169	\$ 2,874,658	\$ 2,547,308
Actual Unrestricted Funds on Hand	\$ 25,621,318	\$ 26,673,295	\$ 29,279,020	\$ 28,741,074
Months on Hand - Minimum of 4.5 months	10.2	9.4	10.2	11.3

### What it means....

Your bond covenants require you to maintain 4.5 months of the Department's budgeted operating expenditures in unrestricted funds to cover operations in a normal business operation cycle plus a contingency.

This shows that the utility's cash reserves have been sufficient over the past 4 years.

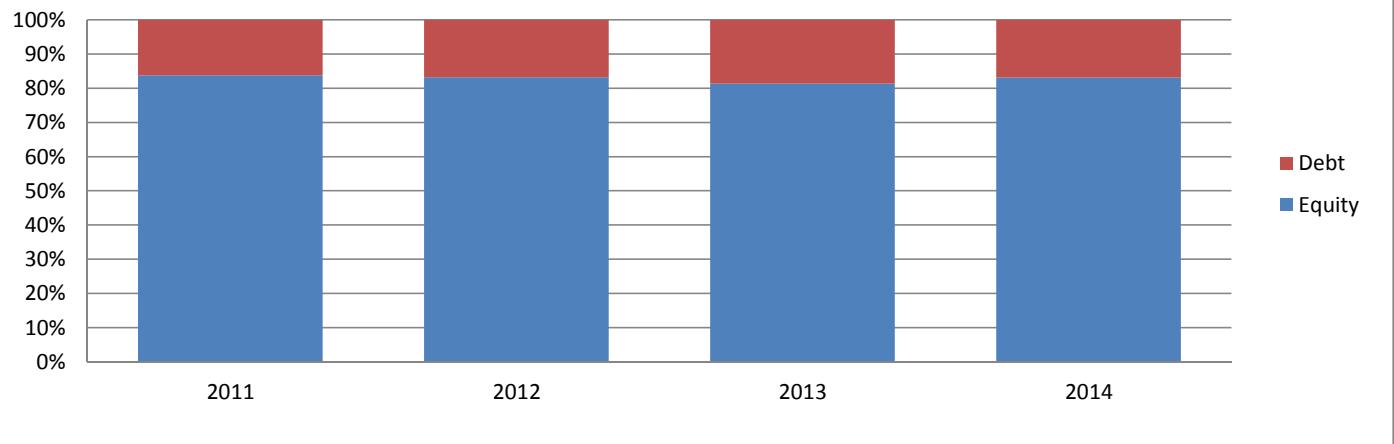
### Restricted Cash and Investments

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Bond interest, principal and reserve fund	\$ 9,117,954	\$ 8,796,625	\$ 8,460,397	\$ 8,541,059
Depreciation, extension and improvement fund	37,123,497	38,344,513	34,934,165	27,632,248
Construction account	6,001,284	273,791	55,439	280,366
Crossover refunding escrow account	17,025,223	16,995,105	500	-
Total restricted cash	<u>\$ 69,267,958</u>	<u>\$ 64,410,034</u>	<u>\$ 43,450,501</u>	<u>\$ 36,453,673</u>

Refer to Note 4 of the audit report for descriptions of each of the funds listed above.

# Lake County Public Works Department

## Net Plant Funding 2011 - 2014



	2011	2012	2013	2014
Net Investment in Capital Assets	\$ 180,513,597	\$ 184,815,490	\$ 183,821,143	\$ 193,657,122
Net Property, Plant, and Equipment	\$ 215,324,130	\$ 222,164,026	\$ 225,878,808	\$ 232,870,753
Percent of Net Plant Funded by Equity	84%	83%	81%	83%
Percent of Net Plant Funded by Debt	<u>16%</u>	<u>17%</u>	<u>19%</u>	<u>17%</u>

### What it means....

Obtaining financing for capital improvements is normally a necessity for capital intensive utilities. Management should keep their related debt to a manageable level as this allows you to be less aggressive seeking rate relief and provides more options to address unanticipated expenses. A general target is 50% or more equity and 50% or less debt.