

MEMORANDUM

To: Director of Evergreen Water Department
From: Andrés Bas
Re: Financial Forecast of EWD for 2019-2023
Date: February 6th, 2019

Financial Projections

The appendix presents a summary of the projected financial results of Evergreen Water Department for the years 2019-2023, assuming its financial policies are met each year. The most relevant findings are:

- Revenues will increase 15.7%, from US\$ 372 million to US\$ 431 million
- Operating costs will increase 16.4%, from US\$ 258 million to US\$ 300 million
- Debt service will increase 13.3%, from US\$ 80 million to US\$ 91 million
- Net income will increase 15.7%, from US\$ 34 million to US\$ 39 million
- A total of US\$ 46 million will be transferred to the reserve fund in five years
- Debt service coverage will remain above 1.38 for the whole period
- 7% of each year revenue comes from the net income of the previous year

Rate Adjustments

In order to achieve the results mentioned above, EWD needs to adjust its rates each year. For 2020, an additional US\$ 20 million need to be raised through user fees in order to meet the 10% net income policy. This amount translates into an average 5.8% rate increase for that year. In 2021, the extra demand from the new breweries helps to partially offset the additional debt payments from the bond issuances, and rates only need to increase 2.3%. Further debt reduction the following years helps to reduce the rate increase needed to 0.3% and 0.6% for 2022 and 2023 respectively. Each year, the binding constraint for rate increases is the financial policy that requires net income to be at least equal to 10% of the sum of operating costs and debt service. As mentioned before, the service coverage policy exceeds the minimum threshold of 1.25 in all years.

Further Considerations

I propose a change in customer classes so EWD can differentiate between clients using existing facilities and those clients using the new infrastructure that requires additional investments. Each existing customer class would be divided in two and different rates would apply to them according to cost of service.

The new suburban neighborhoods and breweries would have to pay higher rates until the extra debt has been completely paid off. The existing customers, in each class, should not see their rates increased more than the growth in operating costs or investments that affect them directly.

Lastly, as an equity component to this measure, I would establish a minimum amount of water that people have the “right” to consume per year, and set a special low rate to all residential demand up to that level. This would apply to both existing and future customers.

Appendix

Financial Forecast (US\$)		2018	2019	2020	2021	2022	2023
Revenues From Previous Year Net Income			25,064,331	25,393,500	27,023,906	28,512,784	28,927,170
Revenues From Water Sales			347,373,669	370,957,125	391,163,592	395,752,371	401,847,328
Total Revenues		367,610,193	372,438,000	396,350,625	418,187,498	424,265,155	430,774,498
Current Operating Costs		248,771,084	258,100,000	267,778,750	277,820,453	288,238,720	299,047,672
New Operating Costs					1,250,000	1,296,875	1,345,508
Operating Costs		248,771,084	258,100,000	267,778,750	279,070,453	289,535,595	300,393,180
Existing Debt Service		85,420,000	80,480,000	75,540,000	70,600,000	65,660,000	60,720,000
Bond Issue #1				17,000,000	17,000,000	17,000,000	17,000,000
Bond Issue #2					13,500,000	13,500,000	13,500,000
Total Debt Service		85,420,000	80,480,000	92,540,000	101,100,000	96,160,000	91,220,000
Net Income		33,419,108	33,858,000	36,031,875	38,017,045	38,569,560	39,161,318
Debt Service Coverage		1.39	1.42	1.39	1.38	1.40	1.43
Net Income / Op Cost + Debt Serv		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Transfer to Reserve Fund		8,354,777	8,464,500	9,007,969	9,504,261	9,642,390	9,790,329
Water Volume Growth #1				0.9%	0.9%	0.9%	0.9%
Water Volume Growth #2					2.2%		
Revenue with Water Volume Growth				350,500,032	382,456,796	394,684,065	399,314,142
Extra Revenue Needed				20,457,093	8,706,796	1,068,306	2,533,186
Rate Increase Needed				5.8%	2.3%	0.3%	0.6%