Section G – Financial Ratios

Reserve Requirements

	Budget 2015	Projection 2015	Original Budget 2016	Revised Budget 2016
Reserve Requirements:				
Electric	$ 42,652,603	$ 40,310,535	$ 42,923,763	$ 42,208,775
Water	10,531,845	11,455,801	10,734,214	12,069,222
Wastewater	12,492,824	13,062,099	12,805,451	13,384,155
Gas	6,907,658	4,822,673	6,989,004	5,281,476
GRUCom	3,916,891	3,998,292	4,279,509	3,949,856
	76,501,821	73,649,400	77,731,940	76,893,484
Reserve Funded:				
Rate Stabilization Fund	61,325,022	67,426,118	64,536,858	72,250,424
Utility Plant Improvement Fund	17,686,652	20,000,958	17,295,256	20,993,086
	79,011,674	87,427,076	81,832,114	93,243,510
Amount (Over)/Under Funded	**$ (2,509,853)**	**$ (13,777,676)**	**$ (4,100,174)**	**$ (16,350,026)**

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.

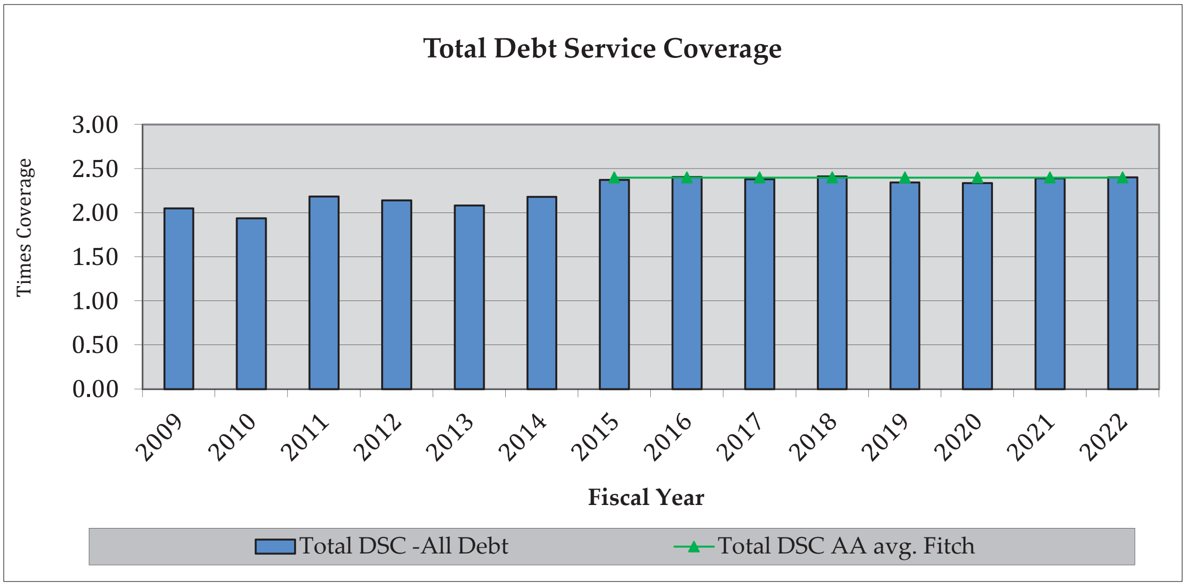
The utility is exposed to five major categories of risk: operating cash flow, catastrophic event, construction, regulatory and environmental, and contingent financial liabilities. A reserve fund level that is formula-driven by the primary indicators of risk is necessary as the levels of risk can vary 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 FY15 is projected to be below the original FY15.
- 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 significantly more than sufficient for FY15, with better than required amounts also for FY16 revised budget. Rate Stabilization Fund balances will continue to grow over the planning horizon to meet reserve goals in each system except for GRUCom.
- The anticipated $10 million settlement to be received in FY16 significantly impacts combined reserve levels. Since this settlement will be used over two years, the amount of reserve overfunding will increase in FY16 and return to more traditional levels in FY17.

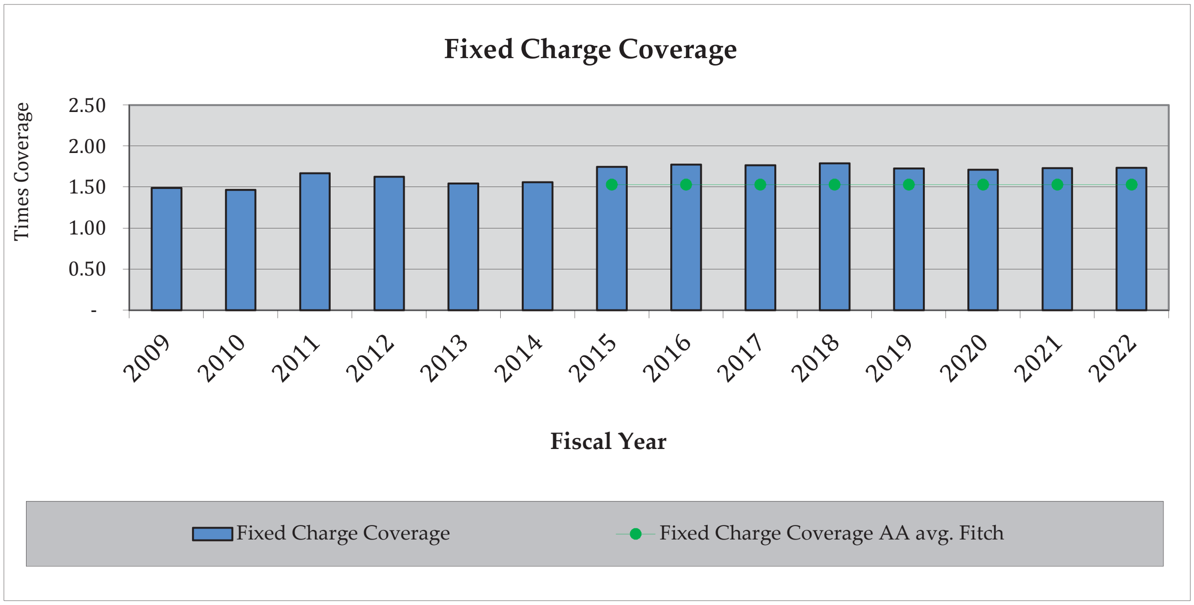


Total Debt Service Coverage: Number of times total debt service payments are covered by net revenues

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. Debt Service is reduced by the anticipated Build America Bonds Subsidy.

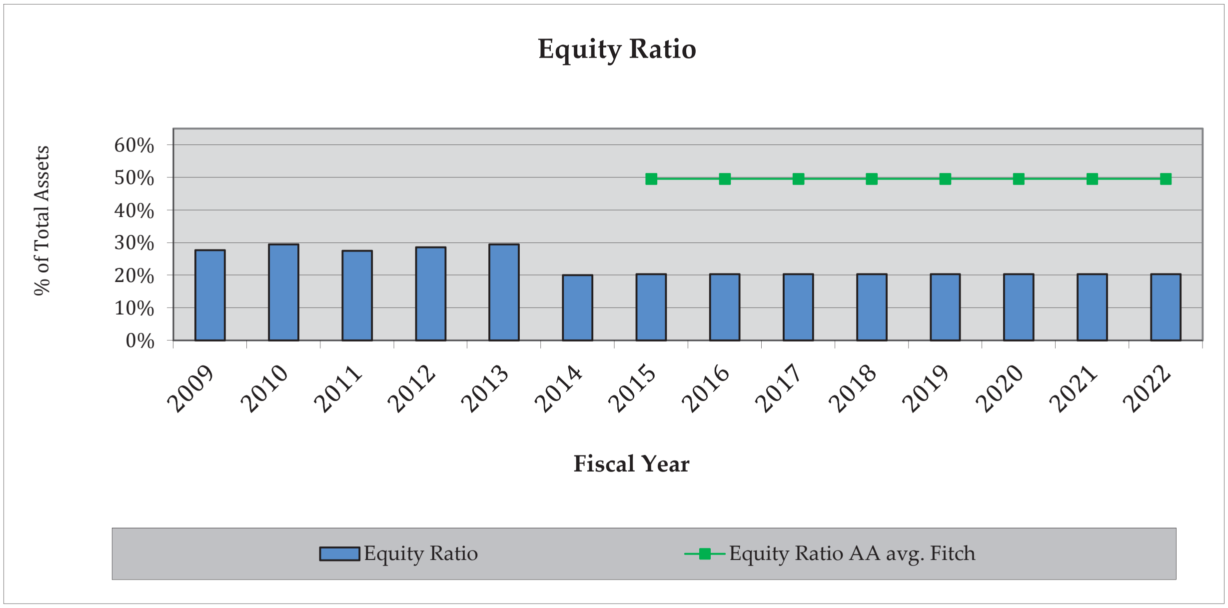
Due to a debt restructuring and refunding in FY12, debt service coverage rose in FY14 and is expected to stay at approximately 2.4 through FY22.



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.

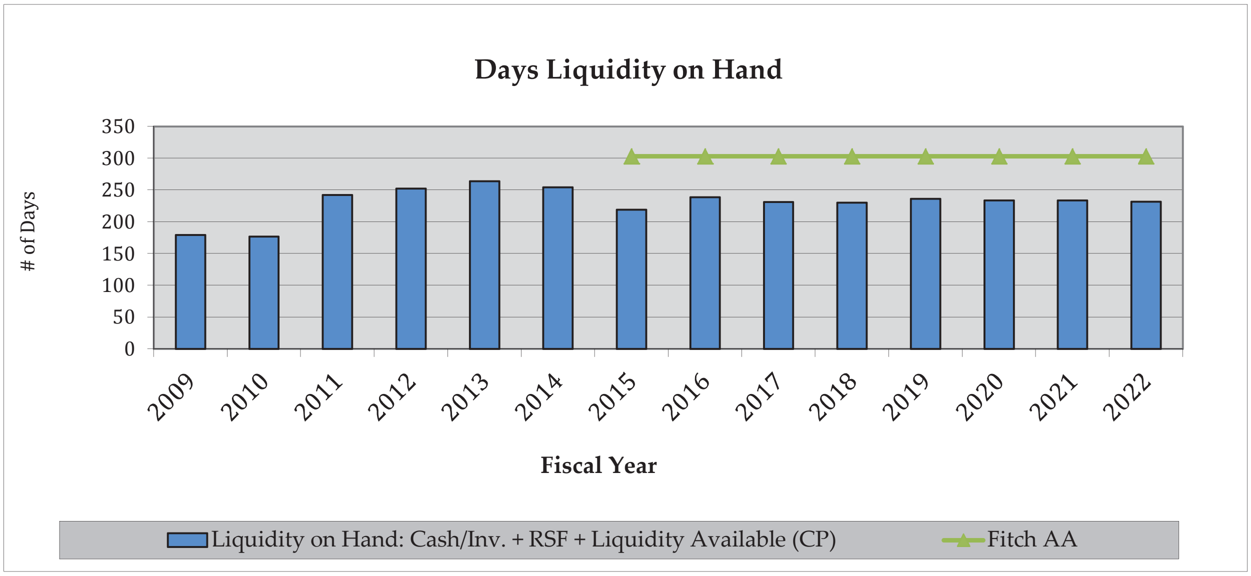


Equity Ratio: Percent of assets that are not leveraged

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.

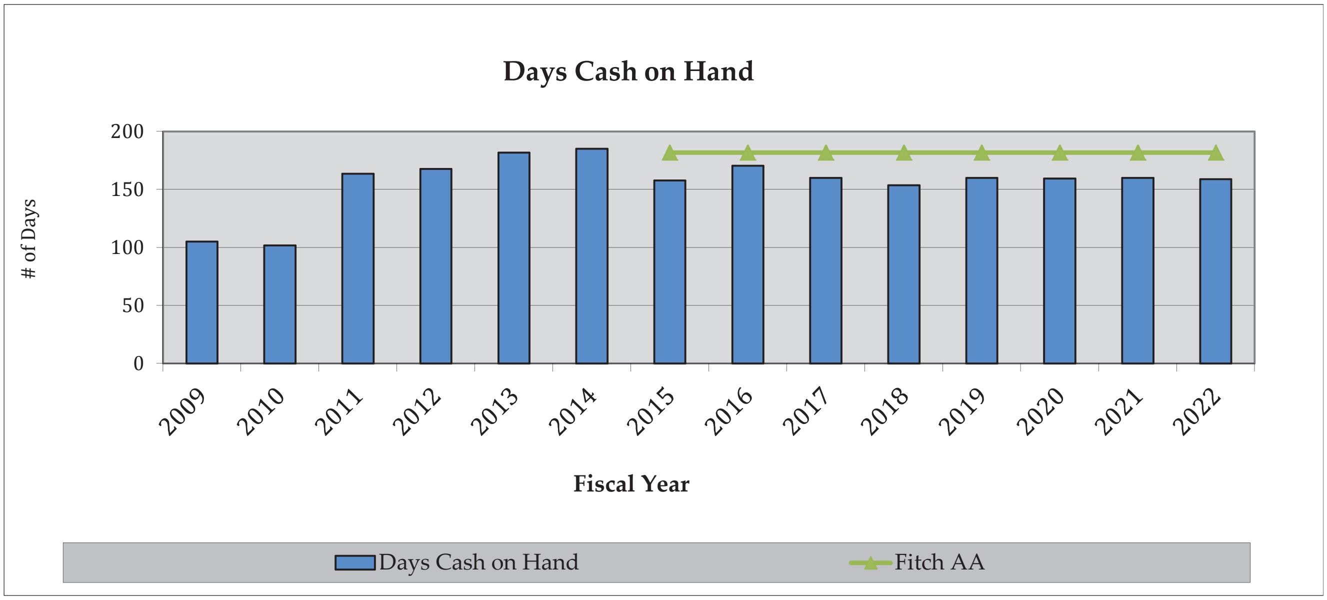


Days Liquidity on Hand: Number of operating days liquidity on hand

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, investments and available lines of commercial paper. 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.

In recent years, this metric has been at or above 200 days, which is consistent with GRU's peer ratings. Days Liquidity on Hand is projected to remain above 200 days over the planning horizon.



Days Cash on Hand: Number of operating days cash on hand

Calculation: Cash and cash equivalent assets divided by average daily operating expenses

This ratio is used as an indication of a company's ability to meet current liabilities with available cash measured at fiscal year-end. It shows how many days of operations can be funded from existing cash. 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.

In recent years, this metric has been near 175 days, which is consistent with GRU's peer ratings. Due to an increase in fuel expense, Days Cash on Hand decreased in FY15. The metric rose in FY16 due to the recognition of the CR3 settlement to be received in FY16. Days Cash on Hand is projected to remain above 150 days over the planning horizon.