

VALENCIA WATER COMPANY
2017 BUSINESS PLAN
(000s)
Revised 10/24/16

<u>Statement of Income</u>	Outlook	Plan
	2016	2017
(1) Operating revenue:	\$26,404	\$31,682
(2) Operating expenses:		
(3) Purchased power	1,864	2,022
(4) Purchased water	7,437	7,927
(5) Purchased water - recycled	248	268
(6) Total Water Costs	9,549	10,217
(7) Operation and Maintenance	5,366	5,401
(8) General and Administrative	4,609	4,910
(9) Property taxes	200	210
(10) Depreciation	2,750	2,838
(11) Total Operating Expenses	12,925	13,359
(12) Contr. to Inc. from Operations	3,930	8,106
(13) Income taxes	(1,174)	(2,823)
(14) Contribution to income	2,756	5,283
(15) Interest income	27	25
(16) Interest expense	(1,160)	(1,152)
(17) Other income (expense)	129	54
(18) Net Income	\$1,752	\$4,210

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Balance Sheet

	Outlook	Plan
	2016	2017
Current Assets:		
(1) Cash	\$12,541	\$14,670
(2) Metered and other Receivables	2,675	2,650
(3) Materials and supplies	427	427
(4) Prepaid expenses	758	750
(5) Total current assets	<u>16,401</u>	<u>18,497</u>
(6) Property, plant and equipment	176,265	186,492
(7) Accumulated Depreciation	<u>(72,732)</u>	<u>(77,435)</u>
(8) Total Property, Plant, and Equipment	<u>103,533</u>	<u>109,057</u>
(9) Other Assets	<u>23,951</u>	<u>24,860</u>
(10) Total assets	<u><u>\$143,885</u></u>	<u><u>\$152,414</u></u>
Current liabilities:		
(12) Bank Line of Credit	\$0	\$0
(13) Accounts payable/ Accrued Expenses	<u>2,721</u>	<u>4,236</u>
(14) Total current liabilities	<u>2,721</u>	<u>4,236</u>
Long-Term Liabilities		
(16) Deferred Income Taxes	27,841	28,123
(17) Advances for Construction	8,902	8,206
(18) Contributions in Aid of Construction	55,390	59,408
(19) Long-Term Debt	<u>24,000</u>	<u>24,000</u>
(20) Total long-term liabilities	<u>116,133</u>	<u>119,737</u>
(21) Total liabilities	<u>118,854</u>	<u>123,973</u>
Stockholder's equity:		
(23) Capital Stock and Surplus	7,744	7,744
(24) Retained Earnings	<u>17,287</u>	<u>20,697</u>
(25) Total stockholder's equity	<u>25,031</u>	<u>28,441</u>
(26) Total liabilities and equity	<u><u>\$143,885</u></u>	<u><u>\$152,414</u></u>

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Statement of Cash Flows

	Outlook	Plan
	2016	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
(1) Net Income	\$1,752	\$4,210
Adjustments to reconcile net income to net cash provided by operating activities:		
(2) Depreciation and amortization	3,082	2,895
(3) Deferred revenues	(140)	(54)
(4) Deferred income taxes	(481)	(670)
(5) (Increase)decrease in receivables	(63)	25
(6) (Increase)decrease in inventory	(10)	0
(7) (Increase)decrease in prepaid assets	158	8
(8) (Increase)decrease in other assets	0	0
(9) Increase(decrease) in payables & accruals	66	72
(10) Increase(decrease) in income taxes	109	1,443
(11) Net cash provided(used) by operations	<u>4,473</u>	<u>7,929</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(12) Purchase of property & equipment	(3,225)	(10,352)
(13) Proceeds from property retirements, net	15	0
(14) Net cash provided(used) by investments	<u>(3,210)</u>	<u>(10,352)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(15) Refunds of construction advances	(696)	(696)
(16) Increase in CIAC	517	5,348
(17) Increase in deferred revenues	419	700
(18) Net increase (decrease) in other long term liabilities	607	0
(19) Dividends Paid	(800)	(800)
(20) Net cash provided(used) by financing	<u>47</u>	<u>4,552</u>
(21) Net increase(decrease) in cash	1,310	2,129
(22) Cash, beginning of period	<u>11,231</u>	<u>12,541</u>
(23) Cash, end of period	<u><u>\$12,541</u></u>	<u><u>\$14,670</u></u>

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2017 BUSINESS PLAN
ASSUMPTIONS
REVISED 10/24/16

REVENUE

- 1) Customer growth is based on information obtained from developers for projected home site sales. There is a one to two year lag from date of lot sales to VWC customer growth. Projected growth is consistent with the currently pending general rate case.

	<u>2017</u>
Total Growth	203
Total Connections	31,635

- 2) Rates:
 2017 rates are based on the rates approved in the 2015 general rate case, plus the increased Revenue Adjustment Surcharge approved in 2016.
- 3) Usage per customer by customer class is based on a 20% reduction from actual 2013 usage levels. However, recycled water usage is based on actual 2015 sales levels.

WATER COSTS

- 4) Purchased Water expense of \$7,927,000 is based on the most recently approved CLWA variable rate for 2017, and a projected 3% increase in fixed charges over 2016 actual fixed charges:

Variable Cost / AF	\$218.18
Purchased Water (AF)	<u>12,756</u>
Variable Purchased Water	\$2,784,000
Fixed Purchased Water	<u>\$5,143,000</u>
Total Purchased Water	<u>\$7,927,000</u>

Recycled Purchased Water expense of \$452,000 is based on the following:

Cost / AF	\$598
Purchased Recycled Water (AF)	<u>448</u>
Purchased Recycled Water	<u>\$268,000</u>

5) <u>Water Production and Mix:</u>	
	<u>2017</u>
Purchased Water Mix	50%
Purchased Water (AF)	<u>12,756</u>
Groundwater (AF)	<u>12,756</u>
Total Production (AF)	<u>25,512</u>
Purchased Water – Recycled (AF)	<u>448</u>

Due to the Revenue Stabilization Account, any changes in water costs due to a deviation from the adopted water mix and change in unit price will be passed through and billed or refunded to customers in the future.

- 6) Purchased Power expense is based on total water production at the following estimated Edison rates.

Edison Cost / Kwh	\$0.130
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OTHER EXPENSES

In general, expenses are increased by 3% to cover inflationary and other expense increases, based on the current general rate case application.

- 7) The business plan reflects the addition of 1 new employee in 2017 resulting in additional salary expense of \$45,000 in 2017.

- 8) Outside Services expense includes legal and other professional services.

	<u>2017</u>
Legal	\$309,000
Consulting	<u>468,000</u>
Total	<u>\$777,000</u>

- 9) Conservation expenses are primarily focused on residential, commercial, and irrigation customers. It includes education, water audits and various rebate programs.

	<u>2017</u>
	<u>\$655,000</u>

- 11) Depreciation Expense is calculated based on a depreciation rate of approximately 3% and planned VWC funded fixed asset additions.

- 12) Income tax provision is based on a blended federal (34%) and state (8.84%) rate of 40%.
- 13) Interest expense is based on the existing \$24 million Modern Woodmen note payable at 4.62% interest rate and amortization of financing costs at \$43,000 per year.

BALANCE SHEET

- 1) Property and equipment: Property and equipment additions funded by VWC are based on estimates of infrastructure and equipment needs which benefit all customers. Property and equipment additions funded by others are based on information obtained from developers for their projects.
- 2) Contributions in aid of construction (CIAC): Additions to CIAC correlate to the developer funded additions to property and equipment above. Depreciation applicable to such utility plant assets is charged directly to the CIAC account rather than to depreciation expense in the income statement. The charges continue until the cost applicable to such utility plant assets has been fully depreciated or the asset is retired.
- 3) Refunds of Advances for construction: Advances for construction represent cash received from developers for extensions of the distribution system. Valencia no longer accepts new advances for construction. These old advance contracts are being refunded to developers over a 40-year period in accordance with the Commission's Rule 15.
- 4) Dividends paid: Dividends are assumed to be \$800,000 per year, consistent with recent history.