

EXHIBIT M

MEMO

TO: MODESTO CITY COUNCIL
FROM: DAVE THOMAS and ERIC REIMER
RE: RESPONSE UNDER THE PUBLIC COMMENT PERIOD TO

*DRAFT REPORT ON REVIEW OF WATER UTILITY COSTS OF SERVICE
 RATE STUDY CITY OF MODESTO OCTOBER 18, 2006*

DATE: 14 November 2006

Good evening. Once again we appear here to discuss water rates. Once again, there is confusion about what to do with water rates. Once again, we address you on mistakes made in a water rate report.

We acknowledge the professionalism of Mr. Rudnansky and his colleagues in preparing this report. This Council gave them a charge, and they created a report required by the letter of the charge. They performed admirably in staying within that very narrow charge.

Our primary criticism of this exercise is exactly the question this Council asked Mr. Rudnansky to answer. This Council believes the current rate structure is inadequate, i.e., the revenues are too low. So it asked Mr. Rudnansky to explain a projected reduction in projected revenues generated by increased water rates. But it is totally meaningless to evaluate the correctness of a water rate by looking only at revenues. It is costs that should generate a proper rate. This council has refused to address costs during the entire rate review process, and thereby avoided having a meaningful discussion. In fact, the most important criticism we can make of this entire process is that the Council remains ignorant as to the most important factor regarding utility rates.

This Council and City staff have refused to provide details of the cost of providing water to its 75,000 customers, despite dozens of requests for that information.

Again, our first criticism of the Draft is that its conclusions provide no help in determining the adequacy of the current water rate structure. This fact is dramatically emphasized by the comment in the Draft itself, i.e., "The corrected projections, like the Foresight projections, are simply projections. They don't determine the future." One might ask, "Why did we take eight months and spend \$25,000 to come to this conclusion?"

Nonetheless, we suspect that you want some detailed criticism of this Draft. After all, it amounts to many more pages than the original Report it is supposed to correct. Thus, we submit several points that you should consider in understanding the Draft.

- The Draft makes the error of confusing a "rate" with "revenue". As an example, the "35% rate increase" is said to have resulted in far less than a 35% increase in revenues. Well, it should be simple to understand. If you apply a 35% increase for only six months, it will not generate an annualized 35% revenue increase. In fact, stacking rate increases must absolutely result in revenues less than the nominal rate.
- The "35% rate increase" was charged to only 40% of the total water customers. Some customers received a lower increase, but some were charged an increase of 60% to 81%. Trying to explain why "35%" did not work is like spitting into the wind.
- The Draft wants you to believe that Foresight used an incorrect number of water hookups, and this caused a huge revenue differential. That is simply nonsense. First, every different number of hookups published or bantered about is statistically insignificant. Second, if you produce less water to serve fewer customers, you reduce costs, meaning you do not need as much revenues. (Whoops, there is that nasty concept, "costs".) Third, when City staff says they do not know how many customers they have, in the 21st century, I think "termination". How can you allow staff to tell you they do not know how many water hookups you serve? That is preposterous. Finally, the revenue not generated by even 1,500 fewer residential customers, would amount to about 0.016% of the total revenue. That factoid should not grace this Draft.

- The Draft correctly points out that Foresight made arithmetic errors. It attempts to "correct" those errors, but uses different logic. Thus, we come back to the same fact we discussed in 2004 and in meetings this year, that is, Foresight made arithmetic errors. This exercise is like trying to determine how many angels can dance on the head of a pin. Even a good guess is not very meaningful.
- We go back to the "projections" comment quoted above. Asserting that a current projection of revenues is different than a former projection of revenues, is not an explanation, it is a tautology.
- Which brings us to a simple question; "Why are we dealing with projections, when we have years of known water fund results. We are 19 months into the rate increase, having had three increases. **These revenues, and costs, are known.**
- The Governmental Accounting Standards Board (GASB) tells us, "Where a significant profit or loss will occur, mid-year rate adjustments should be made." In fact, this Council told us it would review the water fund performance every year, and make adjustments. You were adamant that the scheduled rate increases were going to be scrutinized. Mrs. Keating demanded that a "Utility Guru" be hired who would evaluate and report on the performance of all utilities. This Council has done none of the oversight it knows should be done. And this Draft reminds me of what soldiers use to obscure what is really going on, smoke.

Let me summarize our comment by repeating the essence of the questions the Draft attempts to answer, and the actual answers.

Questions: 1. Is there now, and will there be in the future, discrepancies between the revenue projected in Foresight and the revenue actually received?

2. Why did the apparent discrepancies occur?

Answers: 1. Yes.

2. Incorrect data provided by staff, false assumptions and bad arithmetic.

We strongly admonish the Council by saying, you owe us a real answer to the adequacy of the current water rates. We believe that

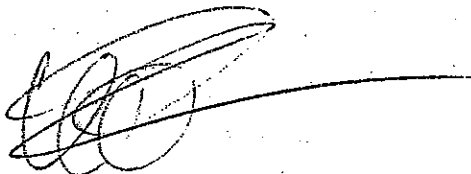
the current rates will produce a huge profit in the very near future. After all, our water rates have been doubled, so the revenues must certainly be doubled. You must ask the same question of staff that we have asked dozens of times. That is, how much does it cost to produce a gallon of water?

Now we come to another matter. This is a very serious issue, and demands explanation. The attached document is a summary of water fund performance as reported in three reports. The three reports purport to identify the profit, or surplus, created by the water rates as adopted by the Council. As you look at it, the column on the left is a summary of the profits (surplus) as reported in the Rudnansky Draft. The column in the middle is the profit as reported in Forsight. The column on the right is the surplus as reported in the "Historical and Projected Revenue and Expense" contained in the 2006 A Bond Official Statement (the Bond Offering Document).

We believe that all three of these profit amounts cannot be true. We are very concerned that the Draft's profits are designed to inform the Council as to the inadequacy of the current rates, but the Bond Document is designed to prove to the bond market that our current rates are hugely sufficient.

We ask for an explanation, and we want it soon.

Thank you very much for your consideration.



Dave Thomas



Eric Reimer

COMPARISON OF WATER FUND NET OPERATING REVENUES (SURPLUS) AS REPORTED BY THREE CURRENT REPORTS

OR, HOW TO MANIPULATE REPORTS TO FIT THE BUREAUCRATIC NEEDS

F/Y	RUDNANSKY/FARNKOPF REPORT TO CITY COUNCIL	ORIGINAL FORESIGHT REPORT	PADILLA BRITTON ** BOND OFFERING DOCUMENT
2004	\$(3,295,059)	\$(3,302,000)	\$6,321,736
2005	(2,971,757)	(1,316,639)	6,655,626
2006	2,871,662	8,701,936	17,918,897
2007	9,322,868	16,134,215	17,371,000
2008	2,809,709	10,076,524	15,596,880
2009	<u>2,425,945</u>	<u>10,177,673</u>	<u>15,592,192</u>
TOTALS	\$11,163,368	\$40,471,709	\$79,456,331

- ** Notes:
1. For all years, gross expense includes operating expense and all debt service.
 2. For FY's 08 & 09, revenues (charges for services) were increased by 5% per current City ordinance.
 3. For FY's 08 & 09, debt service corrected to reflect amortization schedule for 2006 A offering.

Rudnansky and Farnkopf were hired by City Council to prove that the Original Foresight Report produced a water rate increase insufficient for needs. Padilla and Britton are City Finance Director and City Manager who authored the bond offering document.

Historical Operating Results

The following table summarizes operating revenues, operating expenses and net income of the Water Utility System for the five fiscal years 2001-02 through 2005-2006. The information for the four fiscal years ended June 30, 2005 was prepared by the City on the basis of its audited financial statements.

WATER UTILITY SYSTEM Historical Debt Service Coverage

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006 ⁽¹⁾
GROSS OPERATING REVENUES					
Charges for services	\$27,376,240	\$27,986,082	\$ 31,353,046	\$31,315,920	\$42,670,821
DBCP Settlement	230,241	214,803	210,834	2,960,781	1,259,010
Connection charges ⁽³⁾	1,248,689	1,169,995	1,159,296	1,371,958	1,728,973
Interest and Rental Income	929,353	964,817	316,688	279,616	532,794
Draw from (Deposit to) Rate Stab. Fund	0	153,200	0	0	(153,200)
GROSS OPERATING REVENUES	<u>\$29,784,523</u>	<u>\$30,488,897</u>	<u>\$33,039,864</u>	<u>\$35,928,275</u>	<u>\$46,038,398</u>
OPERATING EXPENSES:					
Total operating expenses	\$25,968,732	\$27,815,253	\$26,757,108	\$29,227,465	\$25,884,448
Less: Depreciation	(2,297,851)	(1,884,768)	(2,173,845)	(2,305,953)	N/A
T&DA debt service component paid to MID ⁽²⁾	(6,715,638)	(6,713,244)	(6,700,881)	(6,705,344)	(6,690,994)
Property taxes	71,579	77,676	89,921	82,673	84,556
Plus: Operating Transfers	0	0	0	218,902	95,385
TOTAL OPERATING EXPENSES	<u>17,026,822</u>	<u>\$19,294,917</u>	<u>\$17,972,303</u>	<u>20,517,743</u>	<u>19,373,395</u>
NET OPERATING REVENUES	<u>\$12,757,701</u>	<u>\$11,193,980</u>	<u>\$15,067,561</u>	<u>\$15,410,532</u>	<u>\$26,665,003</u>
TOTAL DEBT SERVICE:					
Revenue bonds:					
1997 Certificates of Participation	\$ 1,771,768	\$ 1,774,093	\$ 1,780,288	\$ 1,784,908	\$ 1,790,658
Treatment & Delivery Agreement	6,715,638	6,713,244	6,700,881	6,705,344	6,690,994
CDWR Loan	264,654	264,656	264,656	264,654	264,454
TOTAL DEBT SERVICE	<u>\$ 8,752,060</u>	<u>\$ 8,751,993</u>	<u>\$ 8,745,825</u>	<u>\$ 8,754,906</u>	<u>\$ 8,746,306</u>
DEBT SERVICE COVERAGE					
(Net Operating Revenues/Total Debt Service)	1.46	1.27	1.72	1.76	3.05

⁽¹⁾ Reflects estimated, unaudited amounts.

⁽²⁾ Based on debt service paid pursuant to the Treatment and Delivery Agreement.

Source: City of Modesto.

Capital Improvement Program

The capital improvement program of the City for the Water Utility System for fiscal years 2006-07 through 2014-15 includes budgeted or planned programs and projects expected to be funded by the City from annual revenues. Among the projects planned are new wells, well head treatment, Turlock Irrigation District Water Treatment Plant design work, water main extensions and pump replacements. Total expenditures for fiscal year 2006-07 are estimated to be approximately \$15.7 million. Improvements associated with the expansion of the Water Treatment Plant (in addition to the 2006 Project) are planned for fiscal years 2007-08 and are expected to be financed through additional Parity Obligations.

The City's capital improvement program is a 10-year plan revised annually. Consequently, projects planned for future years may be cancelled, and new projects not presently anticipated may

From CAP 2006 A
Official Statement

be undertaken. To the extent that total funds required exceed cash available, the City expects that the projects will either be funded by bond proceeds or deferred or terminated.

Summary of Projected Operating Results of the Water Utility System

The City has prepared the following table of projections of operating results of the Water Utility System for the fiscal years ending June 30, 2007 through 2011. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary from those set forth herein.

**WATER UTILITY SYSTEM
Projected Operating Results**

	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
GROSS OPERATING REVENUES					
Charges for services ⁽¹⁾	\$48,105,000	\$49,257,000	\$50,233,000	\$51,472,000	\$52,743,000
DBCP Settlement	--	--	--	--	--
Connection charges	2,677,000	2,995,000	2,995,000	3,495,000	3,495,000
Interest and Rental Income	431,000	431,000	431,000	331,000	231,000
Draw from (Deposit to) Rate Stab. Fund	--	--	--	--	--
GROSS OPERATING REVENUES	\$51,213,000	\$52,683,000	\$53,659,000	\$55,298,000	\$56,469,000
OPERATING EXPENSES:					
Total operating expenses	\$31,283,000	\$34,173,000	\$36,458,000	\$43,851,000	\$44,253,000
Less: Depreciation	--	--	--	--	--
T&DA debt service component paid to MID	(6,687,000)	(6,682,000)	(6,672,000)	(10,601,000) ⁽²⁾	(10,580,000) ⁽²⁾
Property taxes	--	--	--	--	--
Plus: Operating Transfers	--	--	--	--	--
Expenditure Adjustment	500,000	500,000	500,000	500,000	500,000
TOTAL OPERATING EXPENSES	\$25,096,000	\$27,991,000	\$30,286,000	\$33,750,000	\$34,167,000
NET OPERATING REVENUES	\$26,118,000	\$24,692,000	\$23,373,000	\$21,548,000	\$22,302,000
TOTAL DEBT SERVICE:					
Revenue bonds:					
1997 Certificates of Participation	\$ 1,794,000	\$ 1,792,000	\$ 1,792,000	\$ 1,795,000	\$ 1,794,000
Treatment & Delivery Agreement	6,687,000	6,682,000	6,672,000	10,601,000 ⁽²⁾	10,586,000 ⁽²⁾
CDWR Loan	265,000	265,000	265,000	265,000	265,000
2006 Certificates	--	1,255,000	2,028,000	1,959,000	1,959,000
City Bond Tier 2	--	--	627,000	1,254,000	1,254,000
TOTAL DEBT SERVICE	\$ 8,746,000	\$ 9,993,000	\$11,384,000	\$15,873,000	\$15,858,008
DEBT SERVICE COVERAGE					
(Net Operating Revenues/Total Debt Service)	2.99	2.47	2.05	1.36	1.41

⁽¹⁾ Estimated based on projected increase in rates of 5% on each of July 1, 2007 and July 1, 2008 and of 2.5% on each subsequent July 1.

⁽²⁾ Assumes additional MID debt in an aggregate amount which yields net spendable proceeds of \$52.7 million.

Source: City of Modesto.

Impact of Proposition 218 on Water System Fees and Charges

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative

EXHIBIT N



CITY of MODESTO

FINANCE DEPARTMENT
MEMORANDUM

TO: City Council
Richard Rudnansky, Special Counsel

FROM: Wayne Padilla, Finance Director

SUBJECT: Response to Information Received Concerning the Water Rate Study Review

DATE: December 8, 2006

The information presented in the memo dated November 14, 2006 from Mssrs. Thomas and Reimer was discussed during the public hearing on the Water Rate Study Review that was held on that date. Included on page 5 of their document was a schedule listing values from three different sources for the 2004 through 2009 fiscal years. Through their comments made in the public hearing, Mssrs. Thomas and Reimer emphasized that these values were comparable to one another. During the public hearing, the Finance Director offered comments explaining why these amounts are not comparable. What follows is a narrative that further highlights why these amounts are not comparable.

The Thomas/Reimer schedule labeled, "Comparison of Water Fund Net Operating Revenues (Surplus) As Reported By Three Current Reports" presents information from the Rudnansky/Farnkopf Report to the City Council, the original Foresight Water Study and from two tables (Projected Operating Results, p. 44 and Historical Debt Service Coverage p. 42) that were included in a draft version of the city's latest Water Revenue Bond Official Statement (the Official Statement). It should be noted that the values shown in the Thomas/Reimer schedule as being from the "Water Bond Offering Document" (their term for the Official Statement) for the 2008 and 2009 fiscal years are those that Mssrs. Thomas and Reimer created and were not taken from information contained solely in the Official Statement. As indicated in the footnotes to their schedule, Mssrs. Thomas and Reimer have increased revenues and altered debt service amounts so that they no longer reflect those values as they were reported in the Official Statement.

As the Finance Director pointed out during the public hearing, each of the amounts shown in the Thomas/Reimer document represent sub-totals drawn from certain revenue and expenditure details. What is not apparent in the information shown by Mssrs. Thomas and Reimer is that there are materially different assumptions and values contained in the calculations of the sub-totals they have presented in addition to the changes that they have made to the city's data described above.

Attached to this report are six worksheets. Each worksheet separates by year, the sub-totals taken from the three sources of information that were included in the Thomas/Reimer schedule. As shown in the worksheets, the detail of revenues and expenditures that were used to obtain each value is provided.

Differences in Revenue Values

The information presented in the Official Statement complies with the reporting requirements established by the bond investment community for such reports. The two schedules that are referred to by Mssrs. Thomas and Reimer in their memo are used to provide both a historical and prospective representation of the water enterprise fund's ability to generate sufficient revenue to meet its debt service obligations in accordance with these reporting requirements. Accordingly, the revenues reflected in the two schedules referred to above (Historical Debt Service Coverage and Projected Operating Results) include user fee revenues from metered and flat-rate water customers, other service charges, late fees, litigation settlement payments, connection fees, interest income and adjustments to the rate stabilization reserve. In 2004, the revenues received from sources other than metered and flat-rate water customers' user fees were material, adding approximately \$5.7 million dollars to the revenue total for the water enterprise program.

The revenue values used to obtain the sub-totals shown in the Thomas/Reimer schedule that were taken from the Rudnansky/Farnkopf Report and the Foresight Study do not include revenues other than those that were estimated as coming from metered and flat-rate customers' user fees.

The differences between the Rudnansky/Farnkopf Report and the Foresight Study revenue values are due to the change in assumptions regarding the level of user fee revenues that will be obtained from the water rate increases, as shown in the Rudnansky/Farnkopf Report. (*Refer to Exhibit F on page 14 of the Rudnansky/Farnkopf report and Table 7-1 on page 30 of the Foresight report*).

As pointed out above and as shown in the footnotes provided in the Thomas/Reimer schedule, the original revenue values shown in the Official Statement for the years 2008 and 2009 have been altered by Mssrs. Thomas and Reimer. They state that they have inflated the charges for services amount shown in each year by 5% to reflect the current city ordinance. However, as shown in the table on page 43 of the Official Statement, the footnotes indicate that the appropriate increases are reflected in the revenue values included in that exhibit.

For each of the years from 2004 through 2009, the attached reconciliation worksheets provide details of those revenue amounts that are included in the Official Statement but not in the Rudnansky/Farnkopf Report and the Foresight Study sub-totals.

Expenditure Values

Capital Costs

The expenses that are included in the sub-totals taken from both the Rudnansky/Farnkopf Report and the Foresight Study are from Table 4-1 on page 17 of the Foresight Study. (*The Rudnansky/Farnkopf report uses the information shown in Table 4-1 of the*

Foresight Report in its "Revised Foresight Table 7-1" shown in Exhibit F, page 14.) Included in the Foresight cost assumptions is an estimate for capital spending of approximately \$1.9 million per year.

In contrast, no assumption for capital spending was included in the two tables shown on pages 42 and 44 of the Official Statement because the investment industry standard for measuring debt service coverage requires that no capital costs are to be included in this calculation. The calculation assumes that debt service costs are discretionary while operating costs tend to be fixed over a period of time. In order to issue new debt, the city agreed to a rate covenant that requires rates to be set high enough to ensure that the enterprise fund's minimum debt service coverage is equal to 125% of the annual debt service. This type of rate covenant is normal and customary for all public agency revenue bond debt issues.

Debt Service Cost Assumptions

Other differences between the expense values reported in the Official Statement and the two other reports include the use of different assumptions regarding debt service costs. At the time the Foresight Study was completed, it was assumed that debt would be issued with a 20-year term and significantly higher interest rates compared to what has been realized. The most recent financing for which the Official Statement was prepared reflected debt with a 30-year term and an interest rate of 3.48%. Timing differences also exist. For example, it was assumed that the Modesto Irrigation District's new water treatment plant expansion would be completed during the first quarter of 2008 and that debt service would commence during that year. For the water revenue bond offering document it is assumed that debt service will commence in 2010.

Mssrs. Thomas and Reimer have indicated in the footnotes to their schedule that they have altered the debt service costs shown in each of the years 2008 and 2009 and that these changes have affected the amounts shown as coming from the Official Statement. The amount of the change that they made in either year is not known.

Operating Cost Assumptions

The operating cost assumptions made at the time of the Foresight Study included an increase in costs of up to \$1.2 million per year starting in 2006 related to the new meter installation program. To date, these higher costs have not been realized, as shown in the actual results that were reported for the years 2004 through 2006. Further, both the Public Works and the Finance Departments have worked to contain the growth in operating costs so that the debt service coverage requirement is maintained in spite of the lower revenue forecasts.

One item that is shown in the spending assumptions for future years in the Official Statement is the "Contingent Expenditure Allowance" amount of \$500,000.00. This amount is used to represent a contingency for unforeseen expenditures that have not been included in the budget forecast. While this line item is exclusive to the Official Statement disclosure, it is presented there to show that the enterprise program can absorb a limited amount of unplanned spending while still maintaining compliance with the minimum debt service coverage requirement.

Reconciling A Single Year

Using both the information provided above and the analysis shown in the attached worksheets, the differences between the sub-total shown in the Rudnansky/Farnkopf Report and the value actually contained in the Official Statement for the 2008 fiscal year is explained below. (Refer to Column C in the worksheet for the 2008 fiscal year)

Rudnansky/Farnkopf sub-total	\$ 2,809,709
<i>Add:</i>	
Non-rate revenues:	\$ 1,846,291 (all sources included in official statement)
Operating Expense Savings:	\$ 1,218,224 (includes contingent expense allow.)
COPS/State Loan Debt Svc. Savings	\$ 1,776
MID - T & DA Debt Service Savings	\$ 442,000 (revised to current figure)
MID Treatment Plant Debt Service	\$ 4,110,000 (will occur later in time)
Tier 1 Debt Service Savings	\$ 2,363,000 (lower payment/capitalized interest)
Capital Costs	\$ 1,907,000 (not part of official statement disclosure)
Revised Sub-total:	<u>\$14,698,000</u>

What is a Sub-total and what is a Surplus?

To this point, the values referred to in the Thomas/Reimer schedule have been called sub-totals, because the sum of the revenues and expenses that comprise these amounts do not fully reflect the financial elements of the water enterprise budget plan for any of the years shown. These omitted elements include:

- Cash-funded capital projects
- Reserve set-asides to create a 25% unrestricted reserve level
- Reserve set-asides to allow future spending on cash-funded capital projects
- Adjustments needed to maintain a rate stabilization reserve at \$3.0 million

The city's most recent Capital Improvement Project Budget which was adopted on October 3, 2006 is the city's plan for financing capital projects and reflects the anticipated expenditure of the following cash amounts for each of the years shown:

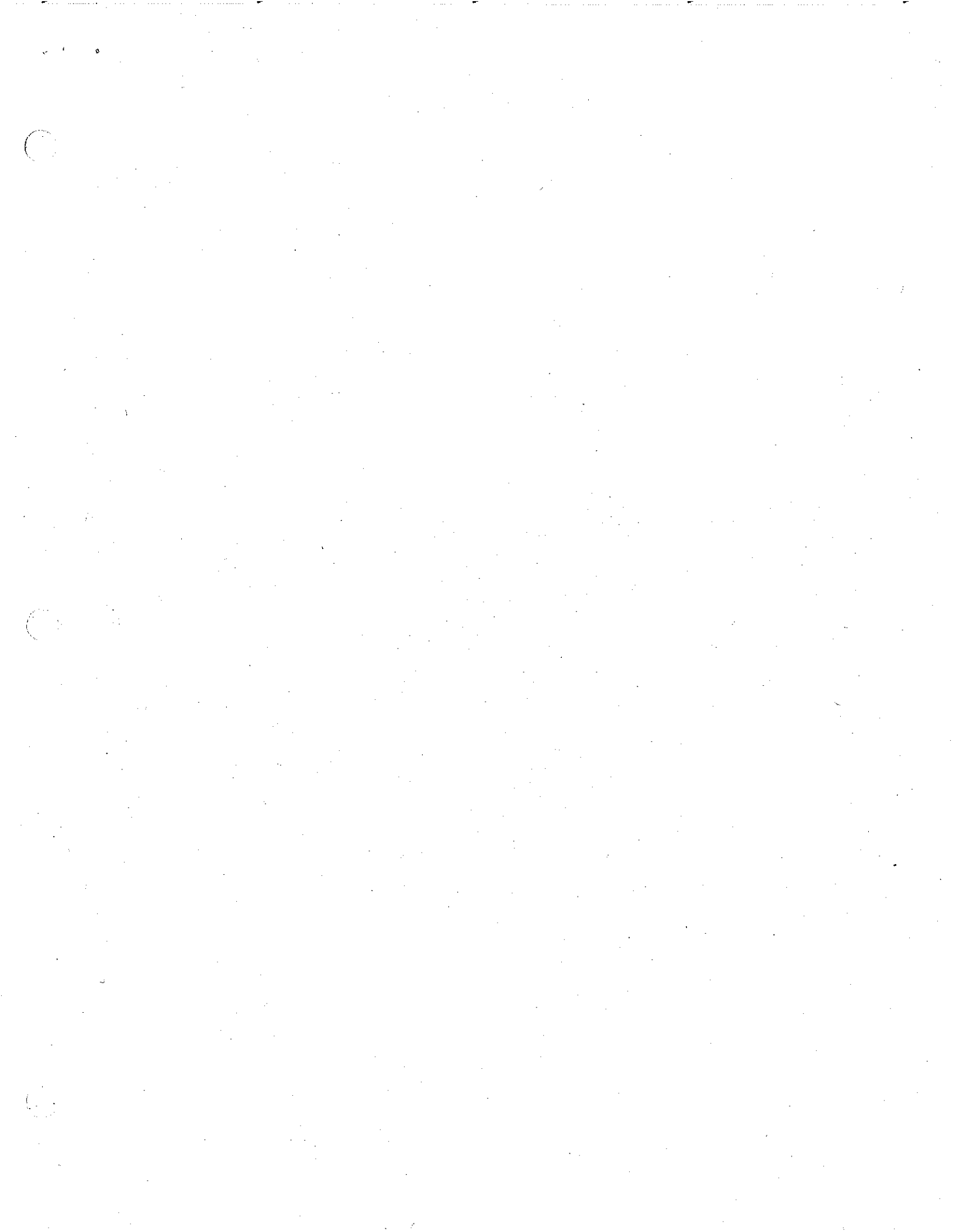
- FY 2007 \$20,769,630 (\$63.8M less bond proceeds of \$43.0M)
- FY 2008 \$12,263,000 (\$39M less bond proceeds of \$26.7)
- FY 2009 \$14,506,500

Taking the FY 2007 through 2009 estimates for cash-funded capital projects shown above and comparing it to the sub-totals for each of those years as taken from the official statement, it is obvious that the enterprise program is forecast to spend more than the sub-totals for the year period, as shown below:

FY 2007 Official Statement sub-total:	\$17,371,000
FY 2007 Cash-funded capital costs:	<u>(\$20,769,630)</u>
Deficit (taken from reserves):	<u>(\$ 3,398,630)</u>
FY 2008 Official Statement sub-total:	\$14,698,000
FY 2008 Cash-funded capital costs:	<u>(\$12,263,000)</u>
Surplus (available for reserves):	<u>\$ 2,435,000</u>

FY 2009 Official Statement sub-total:	\$11,989,000
FY 2009 Cash-funded capital costs:	<u>(\$14,506,500)</u>
Deficit (taken from reserves):	<u>(\$ 2,517,500)</u>

The differences shown above, which are the result of netting the total anticipated revenues and the projected operating, debt service and capital costs for each year, represent the surplus and deficits that are forecast for these fiscal years.



**Analysis of Water Fund Net Revenue Sub-total Values Presented
by Dave Thomas and Eric Reimer**

Fiscal Year 2004 Values

	A	B	C	Difference Between
	<u>Rudnansky/Farnkopf Report</u>	<u>Foresight Report</u>	<u>Water Bond Official Statement</u>	<u>Columns A and C</u>
	Exhibit F, p. 14	p. 30	Historical Debt Svc. Coverage p. 42	
Revenues:				
Water Service Fee Revenue:	\$27,372,941	\$27,366,000	\$27,372,941	\$0
Other Service Charges	\$0	\$0	\$3,980,105	\$3,980,105
DSCP Settlement	\$0	\$0	\$210,834	\$210,834
Connection Charges	\$0	\$0	\$1,159,296	\$1,159,296
Interest Income	\$0	\$0	\$316,688	\$316,688
Sub-total:	\$27,372,941	\$27,366,000	\$33,039,864	\$5,666,923
Expenses:				
Operating Expenses (including MID T&DA)				
New Meter Reading & Billing Costs	(\$20,030,000)	(\$20,030,000)	(\$17,972,303)	\$2,057,697
New Meter and Service Operating Costs	\$0	\$0	\$0	\$0
Debt Service - 1997 COPS & State Loan	(\$2,045,000)	(\$2,045,000)	(\$2,044,944)	\$56
MID T&DA Debt Service	(\$6,724,000)	(\$6,724,000)	(\$6,700,881)	\$23,119
Capital & Other Uses	(\$1,869,000)	(\$1,869,000)	\$0	\$1,869,000
Sub-total	(\$30,668,000)	(\$30,668,000)	(\$26,718,128)	\$3,949,872
Sub-total	(\$3,295,059)	(\$3,302,000)	\$6,321,736	\$9,616,795

The sub-total shown at the bottom of Column C is derived by taking the Net Operating Revenue Value and subtracting the total debt service cost as shown in the Official Statement

**Analysis of Water Fund Net Revenue Sub-total Values
Presented by Dave Thomas and Eric Reimer**

Fiscal Year 2005 Values

	A	B	C	Difference Between Columns A and C
	<u>Rudnansky/Farnkopf Report</u>	<u>Foresight Report</u>	<u>Water Bond Official Statement</u>	
	Exhibit F, p. 14	pgs. 17 & 30	Historical Debt Svc. Coverage p. 42	
Revenues:				
Water Service Fee Revenue:	\$30,522,187	\$32,177,305	\$29,963,983	(\$558,204)
Other Service Charges	\$0	\$0	\$1,351,937	\$1,351,937
DBCP Settlement	\$0	\$0	\$2,960,781	\$2,960,781
Connection Charges	\$0	\$0	\$1,371,958	\$1,371,958
Interest Income	\$0	\$0	\$279,616	\$279,616
Sub-total:	\$30,522,187	\$32,177,305	\$35,928,275	\$5,406,088
Expenses:				
ng Expenses (including MID T&DA)	(\$22,324,000)	(\$22,324,000)	(\$20,517,743)	\$1,806,257
Service - 1997 COPS & State Loan	(\$2,044,944)	(\$2,044,944)	(\$2,049,562)	(\$4,618)
MID T&DA Debt Service	(\$7,124,000)	(\$7,124,000)	(\$6,705,344)	\$418,656
Capital & Other Uses	(\$2,001,000)	(\$2,001,000)	\$0	\$2,001,000
Sub-total	(\$33,493,944)	(\$33,493,944)	(\$29,272,649)	\$4,221,295
Sub-total	(\$2,971,757)	(\$1,316,639)	\$6,655,626	\$9,627,383

The sub-total shown at the bottom of Column C is derived by taking the Net Operating Revenue Value and subtracting the total debt service cost as shown in the Official Statement

**Analysis of Water Fund Net Revenue Sub-total Values Presented
by Dave Thomas and Eric Reimer**

Fiscal Year 2006 Values

	A	B	C	Difference Between Columns A and C
Source:	<u>Rudnansky/Farnkopf Report</u>	<u>Foresight Report</u>	<u>Water Bond Official Statement</u>	
Page Reference:	Exhibit F, p. 14	pgs. 17 & 30	Historical Debt Svc. Coverage p. 42	
Revenues:				
Water Service Fee Revenue:	\$40,785,226	\$46,615,500	\$41,107,414	\$322,188
Other Service Charges	\$0	\$0	\$1,563,407	\$1,563,407
DBCP Settlement	\$0	\$0	\$1,259,010	\$1,259,010
Connection Charges	\$0	\$0	\$1,728,973	\$1,728,973
Adjust Rate Stabilization Fund	\$0	\$0	(\$153,200)	(\$153,200)
Interest Income	\$0	\$0	\$532,794	\$532,794
Sub-total:	<u>\$40,785,226</u>	<u>\$46,615,500</u>	<u>\$46,038,398</u>	<u>\$5,253,172</u>
Expenses:				
g Expenses (including MID T&DA)	(\$26,730,000)	(\$26,730,000)	(\$19,373,395)	\$7,356,605
Service - 1997 COPS & State Loan	(\$2,049,564)	(\$2,049,564)	(\$2,055,112)	(\$5,548)
MID T&DA Debt Service	(\$7,124,000)	(\$7,124,000)	(\$6,690,994)	\$433,006
Capital & Other Uses	(\$2,010,000)	(\$2,010,000)	\$0	\$2,010,000
Sub-total	<u>(\$37,913,564)</u>	<u>(\$37,913,564)</u>	<u>(\$28,119,501)</u>	<u>\$9,794,063</u>
Sub-total	<u>\$2,871,662</u>	<u>\$8,701,936</u>	<u>\$17,918,897</u>	<u>\$15,047,235</u>

The sub-total shown at the bottom of Column C is derived by taking the Net Operating Revenue Value and subtracting the total debt service cost as shown in the Official Statement

c:\my documents\water model docs\water rate study table analysis

**Analysis of Water Fund Net Revenue Sub-total Values Presented
by Dave Thomas and Eric Reimer**

Fiscal Year 2007 Values

	A	B	C	
	<u>Rudnansky/Farnkopf Report</u>	<u>Foresight Report</u>	<u>Water Bond Official Statement</u>	<u>Difference Between</u>
	Exhibit F, p. 14	pgs. 17 & 30	Projected Operating Results p. 44	<u>Columns A and C</u>
Revenues:				
Water Service Fee Revenue:	\$47,653,458	\$54,464,805	\$48,105,000	\$451,542
Other Service Charges	\$0	\$0	\$0	\$0
DBCP Settlement	\$0	\$0	\$0	\$0
Connection Charges	\$0	\$0	\$2,677,000	\$2,677,000
Adjust Rate Stabilization Fund	\$0	\$0	\$0	\$0
Interest Income	\$0	\$0	\$431,000	\$431,000
Sub-total:	<u>\$47,653,458</u>	<u>\$54,464,805</u>	<u>\$51,213,000</u>	<u>\$3,559,542</u>
Expenses:				
Operating Expenses (including MID T&DA)	(\$27,139,276)	(\$27,139,276)	(\$24,596,000)	\$2,543,276
Contingent Expenditure Allowance	\$0	\$0	(\$500,000)	(\$500,000)
Debt Service - 1997 COPS & State Loan	(\$2,055,314)	(\$2,055,314)	(\$2,059,000)	(\$3,686)
MID T&DA Debt Service	(\$7,124,000)	(\$7,124,000)	(\$6,687,000)	\$437,000
Capital & Other Uses	(\$2,012,000)	(\$2,012,000)	\$0	\$2,012,000
Sub-total	<u>(\$38,330,590)</u>	<u>(\$38,330,590)</u>	<u>(\$33,842,000)</u>	<u>\$4,488,590</u>
Sub-total	<u>\$9,322,868</u>	<u>\$16,134,215</u>	<u>\$17,371,000</u>	<u>\$8,048,132</u>

Not shown are cash-funded capital costs of \$20,769,630 that will be paid from the sub-total shown at the bottom of Column C

The sub-total shown at the bottom of Column C is derived by taking the Net Operating Revenue Value and subtracting the total debt service cost as shown in the Official Statement

**Analysis of Water Fund Net Revenue Sub-total Values
Presented by Dave Thomas and Eric Reimer**

Fiscal Year 2008 Values

	A	B	C	Difference Between Columns A and C
	<u>Rudnansky/Farnkopf Report</u>	<u>Foresight Report</u>	<u>Water Bond Official Statement</u>	
	Exhibit F, p. 14	pgs. 17 & 30	Projected Operating Results p. 44	
Revenues:				
Water Service Fee Revenue:	\$50,836,709	\$58,103,523	\$49,257,000	(\$1,579,709)
Other Service Charges	\$0	\$0	\$0	\$0
DBCP Settlement	\$0	\$0	\$0	\$0
Connection Charges	\$0	\$0	\$2,995,000	\$2,995,000
Adjust Rate Stabilization Fund	\$0	\$0	\$0	\$0
Interest Income	\$0	\$0	\$431,000	\$431,000
Sub-total:	\$50,836,709	\$58,103,523	\$52,683,000	\$1,846,291
Expenses:				
Operating Expenses (including MID T&DA)	(\$29,209,224)	(\$29,209,224)	(\$27,491,000)	\$1,718,224
Contingent Expenditure Allowance	\$0	\$0	(\$500,000)	(\$500,000)
Debt Service - 1997 COPS & State Loan	(\$2,058,776)	(\$2,058,776)	(\$2,057,000)	\$1,776
MID T&DA Debt Service	(\$7,124,000)	(\$7,124,000)	(\$6,682,000)	\$442,000
New MID Treatment Plant	(\$4,110,000)	(\$4,110,000)	\$0	\$4,110,000
Tier 1 Downstream	(\$3,618,000)	(\$3,618,000)	(\$1,255,000)	\$2,363,000
Tier 2 Downstream	\$0	\$0	\$0	\$0
Capital & Other Uses	(\$1,907,000)	(\$1,907,000)	\$0	\$1,907,000
Sub-total	(\$48,027,000)	(\$48,027,000)	(\$37,985,000)	\$10,042,000
Sub-total	\$2,809,709	\$10,076,523	\$14,698,000	\$11,888,291

Not shown are cash-funded capital costs of \$12,263,000 that will be paid from the sub-total shown at the bottom of Column C

Note that the sub-totals shown for the water bond official statement column are actually from that document and are not those created by Msrs. Thomas and Reimer. The sub-total shown at the bottom of Column C is derived by taking the Net Operating Revenue Value and subtracting the total debt service cost as shown in the Official Statement

**Analysis of Water Fund Net Revenue Sub-total Values
Presented by Dave Thomas and Eric Reimer**

Fiscal Year 2009 Values

	A	B	C	Difference Between
	<u>Rudhansky/Farnkopf Report</u>	<u>Foresight Report</u>	<u>Water Bond Official Statement</u>	<u>Columns A and C</u>
	Exhibit F, p. 14	pgs. 17 & 30	Projected Operating Results p. 44	
Revenues:				
Water Service Fee Revenue:	\$54,232,601	\$61,984,329	\$50,233,000	(\$3,999,601)
Other Service Charges	\$0	\$0	\$0	\$0
DBCP Settlement	\$0	\$0	\$0	\$0
Connection Charges	\$0	\$0	\$2,995,000	\$2,995,000
Adjust Rate Stabilization Fund	\$0	\$0	\$0	\$0
Interest Income	\$0	\$0	\$431,000	\$431,000
Sub-total:	\$54,232,601	\$61,984,329	\$53,659,000	(\$573,601)
Expenses:				
Operating Expenses (including MID T&DA)	(\$31,410,071)	(\$31,410,071)	(\$29,786,000)	\$1,624,071
Contingent Expenditure Allowance	\$0	\$0	(\$500,000)	(\$500,000)
Debt Service - 1997 COPS & State Loan	(\$2,056,586)	(\$2,056,586)	(\$2,057,000)	(\$414)
MID T&DA Debt Service	(\$7,124,000)	(\$7,124,000)	(\$6,672,000)	\$452,000
New MID Treatment Plant	(\$4,110,000)	(\$4,110,000)	\$0	\$4,110,000
Tier 1 Downstream	(\$3,618,000)	(\$3,618,000)	(\$2,028,000)	\$1,590,000
Tier 2 Downstream	(\$1,619,000)	(\$1,619,000)	(\$627,000)	\$992,000
Capital & Other Uses	(\$1,869,000)	(\$1,869,000)	\$0	\$1,869,000
Sub-total	(\$51,806,657)	(\$51,806,657)	(\$41,670,000)	\$10,136,657
Sub-total	\$2,425,944	\$10,177,672	\$11,989,000	\$9,563,056

Not shown are cash-funded capital costs of \$14,506,500 that will be paid from the sub-total shown at the bottom of Column C

Note that the sub-totals shown for the water bond official statement column are actually from that document and are not those created by Messrs. Thomas and Reimer. The sub-total shown at the bottom of Column C is derived by taking the Net Operating Revenue Value and subtracting the total debt service cost as shown in the Official Statement