Anaheim Housing and Public Improvements Authority, California

Electric Utility Distribution System Revenue Bonds
New Issue Report

Ratings

New Issues

$93,500,000 Second Qualified Obligation Revenue Bonds, Series 2016A	AA–
$199,200,000 Second Qualified Obligation Revenue Bonds, Series 2016B	AA–
$70,200,000 Second Qualified Obligation Revenue Bonds, Series 2016C (taxable)	AA–

Outstanding Debt

$201,400,000 Qualified Obligation Bonds, Series 2014 and 2015B, issued by CMFA	AA–
$50,000,000 Second Qualified Obligation Variable Rate Bonds, series 2015A, issued by the CMFA	AA–
$400,200,000 (pre-refunding amount) Qualified Obligation Bonds, series 2007A, 2009A, 2011A and 2012A, issued by APFA	AA–

CMFA – California Municipal Finance Authority. APFA – Anaheim Public Financing Authority.

Key Utility Statistics

(Fiscal Year Ended June 30, 2015)

System Type	Retail
NERC Region	WECC
No. of Electric Customers	115,682
Annual Revenues ($ Mil.)	425.9
Peak Demand (MW)	584
Retail Energy Sales Five-Year Average (%)	0.3
Residential Sales (%)	21
Debt Service Coverage (x)	2.1
Coverage of Full Obligations (x)	1.3
Days Cash and Investments	132
Debt/FADS (x)	6.8
Debt/Capitalization (%)	69.2

NERC – North American Electric Reliability Corporation. WECC – Western Electricity Coordinating Council. FADS – Funds available for debt service.

Related Criteria

U.S. Public Power Rating Criteria (May 2015)

Revenue-Supported Rating Criteria (June 2014)

Analysts

Kathy Masterson
+1 512 215-3730
kathryn.masterson@fitchratings.com

Shannon Groff
+1 415 732-5628
shannon.groff@fitchratings.com

New Issue Details

Sale Information: All three series of bonds priced on Sept. 28, 2016.

Security: The 2016 bonds will be issued by the Anaheim Housing and Public Improvements Authority (AHPIA) and secured by purchase payments made by Anaheim Public Utility (APU), an enterprise fund of the city of Anaheim, in accordance with the installment purchase agreement. Payments from the city to AHPIA are absolute, unconditional and are made from surplus revenues of the city's electric utility system. The ratings reflect the payment obligation of the city's electric system.

Purpose: Proceeds will be used to finance a portion of the utility's capital improvement plan, refund all or a portion of the outstanding series 2007A, 2009A and 2011A revenue bonds fund the debt service reserve fund for the bonds and pay cost of issuance.

Final Maturity: 2016A – 2041; 2016B – 2035; 2016C – 2026.

Key Rating Drivers

Mature Service Area: APU provides retail electric service to 115,682 customers within the city of Anaheim. The service area benefits from the tourism-driven local economy and labor market of the greater Los Angeles area. The customer base is stable, with limited growth.

Required Power Supply Conversion: The state's renewable mandate and greenhouse legislation require APU to implement changes to its predominately coal-based power supply in favor of renewable generation to meet a 50% renewable portfolio supply by 2030. APU is on schedule to meet the state requirements, but, similar to other Southern California municipally owned utilities, the utility will need replacement energy and/or capacity after 2027.

Rate Adjusters Provide Flexibility: APU's rate structure includes periodic adjustment mechanisms that recover escalating power supply and environmental and regulatory costs, the two areas of cost uncertainty in the California power markets. As it occurred in fiscal 2016, the cost increases are periodically rolled into base rates. There has been strong support from city council for the base rate increases, when needed.

Healthy Financial Performance: Financial margins and debt service coverage (DSC) have been healthy the past three years. DSC is still low compared with the rating category median, but is expected to remain around an acceptable 2.0x. Liquidity levels are robust.

High Debt Levels: APU's debt levels are high compared with similarly rated utilities, especially after including off-balance-sheet debt issued by joint action agencies. Leverage is expected to remain at an elevated level due to the use of debt financing for a majority of capital needs.

Rating Sensitivities

High Leverage: Should APU's continued reliance on debt to fund its capital program begin to pressure financial margins, a negative rating action could occur.

Rating History

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	9/13/16
AA–	Affirmed	Stable	6/15/15
AA–	Affirmed	Stable	9/19/14
AA–	Affirmed	Stable	7/15/14
AA–	Affirmed	Stable	7/18/12
AA–	Affirmed	Stable	4/13/11
AA–	Affirmed	Stable	5/20/10
AA–	Affirmed	Negative	10/21/09
AA–	Affirmed	Stable	2/10/09
AA–	Affirmed	Stable	11/14/08
AA–	Affirmed	Stable	6/16/08
AA–	Affirmed	Stable	12/20/06
AA–	Upgrade	Stable	8/24/06
A+	Affirmed	Stable	5/28/04
A+	Assigned	Stable	3/19/03

Source: Fitch.

Related Research

2016 Fitch Analytical Comparative Tool (FACT) — Public Power (June 2016)

U.S. Public Power (Peer Study) (June 2016)

2016 Outlook: U.S. Public Power and Electric Cooperative Sector (December 2015)

The Carbon Effect 2.0 (Reassessing the Challenges for Public Power) (October 2015)

Credit Profile

APU is an enterprise system of the city that provides retail electric service within the city limits of Anaheim. The city's service area is largely dependent on tourism, dominated by The Walt Disney Company (Issuer Default Rating A/Outlook Stable). Given Disney's credit quality and its ongoing investment in its Anaheim location, Fitch Ratings does not view the city's dependence on Disney as a credit concern. Anaheim's retail electric sales have grown by an average of 1.1% annually since 2011, which incorporates weather-related fluctuations.

Governance and Management Strategy

Budgets, resource plans and base rates require the approval of the Anaheim city council. A seven-member public utility board is responsible for making recommendations to city council on the operation of the electric and water systems, the capital plan, the annual budget, bond issuances and base rates. Members of the public utility board are appointed by the city council and serve four-year terms, limited to serving two consecutive terms. The council ultimately makes any decisions in regards to the water and electric systems. Recent approved rate increases show the council's support of APU's management and of meeting financial targets.

Financial Policies

APU operates with a strategic plan that has been in place for a number of years. The plan includes specific financial targets, including a 1.5x debt service coverage minimum, a target rate stabilization adjustment (RSA) fund balance of $50 million and a debt to assets ratio of less than 50%.

The RSA target balance is sized to approximate the actual increase in purchased power costs experienced during the western energy crisis in 2001–2002. The RSA has a balance of $91.8 million at year-end 2016 (unaudited). Management's financial projections intend to bring the RSA balance down to the $50 million target by fiscal 2021.

General Fund Transfer Policy

APU has a relatively low required transfer to the general fund at 4% of gross revenues, which is capped by the city charter. In comparison with other California utilities rated by Fitch, APU's top-line Fitch-calculated DSC has been lower. However, given the small size of APU's transfer, cash flow available after transfers is comparable with other systems that have both higher starting DSC and high transfers.

Customer Profile and Service Area

Located 30 miles south of Los Angeles, the city is the most populous in Orange County and the 10th-most populous in the state. The city has benefited from consistent population growth, with a current population of approximately 350,000. Tourism is one of the city's leading industries, which includes Disney, a professional baseball team (the Los Angeles Angels) and a professional hockey team (the Anaheim Ducks).

The tourism-driven economy is dominated by Disney, which accounts for 12% of the city's assessed value. The entertainment conglomerate recently completed over $1 billion in renovations to the California Adventure Park, including the opening of Cars Land in June 2012, and is expected to invest a comparable amount in building Star Wars Land over the next several years. In addition, the Anaheim Convention Center expansion is expected to be completed in fiscal 2018.

Sales Information

(Years Ended June 30)	2012	2013	2014	2015	2016
Peak Demand (MW)	549	542	549	578	584
Total Electric Sales (MWh)	2,966,119	3,074,637	4,078,706	3,625,386	2,903,000
Sales Growth (%)	(0.33)	3.66	32.66	(11.11)	(19.93)
Total Retail Sales (MWh)	2,379,295	2,416,825	2,357,695	2,380,323	2,402,000
Retail Sales Growth (%)	0.36	1.58	(2.45)	0.96	0.91
Residential Sales (% of Total)	19.51	19.61	13.98	14.21	20.91
Commercial and Industrial Sales (% of Total)	60.71	58.99	43.83	51.45	61.83
Wholesale Sales (% of Total)	19.78	21.39	42.20	34.34	17.26
System Load Factor (%)	49.5	50.9	49.0	47.0	47.0
Total Customers	115,113	115,418	115,474	115,682	117,593

Source: Anaheim Public Utilities.

While residential customers make up the largest class, residential energy sales only accounted for 21% of total energy sales in fiscal 2016, with industrial and commercial sales accounting for approximately 35% and 27%, respectively, of retail sales in fiscal 2016. There is some customer concentration, with the 10 largest customers accounting for 20% of MWh sales and the largest customer (Disney) accounting for 12% of sales.

The city and APU have experienced economic growth in the past five years, with new large customers taking up residence, record transient occupancy tax collections and assessed valuation reaching pre-recession levels. After the economic downturn, APU lost some of its largest industrial and commercial customers (Alstyle Apparel and Boeing) and saw a significant reduction in another large customer (AT&T). Panattoni Development Company began buying Boeing's vacant space in 2007 and the lost industrial load has been replaced.

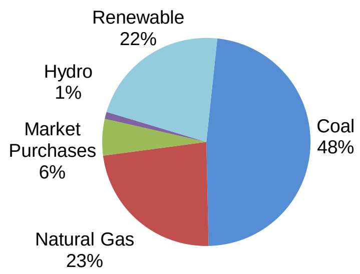
Despite continued economic growth in the service area, residential sales have been modest, as in many parts of the country, reflecting industry developments in energy efficiency and conservation. Anaheim's retail electric sales have averaged 1.1% annual growth since 2011, which incorporates weather-related fluctuations. Wholesale sales show greater fluctuation in volumes of energy sales, but are dependent on market opportunities and natural gas pricing. Anaheim's wholesale sales represent a relatively modest amount of net margin.

Assets and Operations

APU's resource mix consists primarily of jointly owned resources. The resources are predominately coal-based, which accounted for 48% of energy supplies, including wholesale sales, in 2015. The remainder of the fiscal 2015 total energy supply was natural gas (23%), renewable (22%), large hydro (1%) and market purchases (6%). When only retail sales are considered, APU generated 33% of its energy from renewable resources in calendar 2015.

The combined generation capacity of 811 MW is more than sufficient to serve APU's system peak demand of 549 MW, although the 811 MW of capacity includes 246 MW of peaking

Delivered Energy by Fuel Type
(Fiscal Year 2015)



Source: Anaheim Public Utility.

capacity (including the Canyon power project owned by the Southern California Public Power Authority [SCPPA]) that is only used to generate during short peak load time periods each summer and 63 MW in purchased power wind contracts. APU also owns 118 MW of the Magnolia Power Project, a combined cycle natural gas plant owned and operated by the SCPPA. Magnolia provided 19% of APU's energy requirements in 2015. APU has no nuclear generation and very limited large hydroelectric generation.

Reducing Coal Dependence; Capacity Needed After 2027

APU's largest single-generation resource is its entitlement share in the two-unit, coal-fired Intermountain Power Project (IPP), operated by Intermountain Power Agency (IPA). Anaheim is the second-largest project participant with a 13.2259% entitlement (237 MW), pursuant to a power sales contract that terminates in 2027. IPP is APU's largest source of power, accounting for almost 40% of fiscal 2015's total energy supply.

California state legislation enacted in 2006 limits new long-term contracts for coal-fired resources. The IPP participants are exploring options to repower the project as a gas-fired resource near the end of the contract. Although APU does not expect to participate in the repowering, it will continue to receive its 13.2259% share in the plant through the termination date of its power sales agreement through 2027, whether or not the plant is repowered. APU expects to replace the baseload capacity from IPP after 2027 with a purchase contract. However, land is owned within the service area that is available to host additional generation capacity, if that option is deemed more economic closer to 2027.

San Juan is APU's other large source of carbon emissions. APU has direct ownership of 10% of generating unit 4 (50 MW) through a participation agreement that expires in 2022. San Juan is a coal-fired steam electric generating unit located in San Juan County, NM. San Juan has provided APU with a generally stable source of energy that accounted for 8% of total energy needs in 2015. However, APU has negotiated a transfer of its ownership interest by December 2017 in response to federal and state environmental regulations that are expected to increase the cost of power at the plant following environmentally mandated capital investments. APU accelerated the remaining debt allocable to San Juan and there be no outstanding debt related to San Juan after the transfer of ownership occurs. The loss of the 50 MW of capacity is not expected to prompt a need for additional capacity or energy in APU's resource portfolio, given recent additions of renewables to comply with California's renewable portfolio standard (RPS).

With the exiting of the San Juan project and expiration of the IPA contract in 2027, APU is expected to be coal-free by 2027. APU is scheduled to receive allowances for the state's cap and trade program through 2020. The continuation of the state's cap and trade program past 2020 is assumed but is the subject of litigation and legislative uncertainty.

Anaheim Public Utility Power Supply Resources

Source	Fuel Type	Contract Expiration	Capacity (MW)	Actual Energy (GWh)	% of 2015 Energy
Owned Generating Facilities					
San Juan	Coal	2017 Exit	50	325	8.6
Combustion Turbine	Natural Gas	Owned	46	47	1.2
Total			**96**	**372**	**9.8**
Contracted					
Intermountain Power Project (IPA)	Coal	2027	237	1,493	39.4
Magnolia Power Project (SCPPA)	Natural Gas	2037	118	719	19.0
Hoover Project (SCPPA)	Hydroelectric	2018	40	41	1.1
Renewable Resources	Various	Various	120	834	22.0
Canyon Power Project (SCPPA)	Natural Gas	2040	200	115	3.0
Total			**715**	**3,202**	**84.5**
Purchased Power					
Non-Firm Purchases	Various	N.A.	—	215	5.7
Total			**0**	**215**	**5.7**
Total			**811**	**3,789**	**115.0**

IPA – Intermountain Power Agency. SCPPA – Southern California Public Power Authority. N.A. – Not applicable.
Source: Anaheim Public Utility.

California Renewable Portfolio Standard

(%)	
2013	20
2016	25
2020	33
2024	40
2027	45
2030	50

Source: Fitch.

Renewable Portfolio Standard

California has enacted increasingly ambitious RPS requirements for retail utilities over the past decade. The required percentage of retail load to be served from renewable energy — California's requirement is on an energy basis and not capacity, as is the case with some other state requirements — has increased to 50% by 2030 (SB 350 adopted in 2015), to 33% by 2020 (SBX 1–2 adopted in 2011), from 20% by 2017 (SB 1078 adopted in 2002).

APU's RPS strategy has evolved over this period. APU was a cautious entrant into long-term renewable contracts in the early years of renewable development in California, delaying entry into longer-term contracts and ownership positions in favor of purchasing renewable energy certificates and short-term renewable contracts. However, in the past few years, APU has entered into longer-term contracts. APU's renewable portfolio consists of purchase power agreements that are either fixed-price or have a defined escalation index.

Renewable Power Supply Contracts

Source	Fuel Type	Contract Expiration	Capacity (MW)
Iberdrola (2004)	Wind	2024	2.0[a]
Iberdrola (2005)	Wind	2025	30.0[a]
Ormat with SCPPA (2006)	Geothermal	2033	8.4
Brea Power Partners (2007)	Landfill Gas	2040	27.0
MWD Hydro (2008)	Hydro	2023	10.0[a]
Cyrq Energy (2009)	Geothermal	2029	11.0
San Gorgonio Farm (2014)	Wind	2024	31.0
Noble Power and Gas (2014)	Landfill Gas	2016	22.5
Bowerman Power (2016)	Landfill Gas	2036	19.6
Westside Assets (2016)	Solar	2031	2.0
Anaheim Energy LLC (2017)	Biomass	2037	4.0
Total			125.5

[a]Non-firm contracts; Anaheim assumes the wind contracts will have a 33% load factor. SCPPA – Southern California Public Power Authority. MWD – Metropolitan Water District.
Source: Anaheim Public Utility.

Anaheim Power Content Label

(%)	2013	2014	2015
Coal	34	41	37
Large Hydro	2	2	2
Natural Gas	17	24	22
Nuclear	0	0	0
Renewable	33	27	33
Unspecified	14	6	6
Total	100	100	100

Source: Anaheim Public Utilities.

APU received 33% of its energy supply from renewable sources in 2015 according to its power content label, required to be filed annually with the state by each California electric utility. The power content label measures resources as a percentage of retail load as opposed to percentages cited by Fitch on the prior page that include all generation, some of which being sold in the wholesale market. The majority of APU's renewable energy was provided by landfill gas (15%) with another 11% provided by wind and 6% from geothermal.

Cost and Rate Structure

Electric base rates are set by Anaheim's city council and are not subject to approval by any federal or state agency. In addition to electric base rates, APU has a RSA in its rate structure that provides management some discretion to respond to direct cost changes. In practice, cost adjustments are initially absorbed by the RSA annually, then periodically transitioned into permanent base rate increases.

The RSA has two components, the power cost adjustment (PCA) and the environmental mitigation adjustment (EMA). The PCA collects for changes in power production and purchased power costs above those assumed in the base rates. The EMA recovers environmental mitigation and regulatory compliance costs, such as greenhouse gas emission costs and the marginal cost difference between renewable energy and traditional energy resources, if one exists. At present, the cost of APU's aggregate renewable contracts are comparable with conventional generation resources.

Fitch views APU's rate structure favorably, in that it provides management with the ability to adjust rates quickly to counter unexpected costs. The RSA flexibility is actively used by management and no issues have arisen during the periodic transition of costs into base rates, which most recently occurred in 2015 when base rates were increased by 17% for residential customers and 16% for non-residential customers. This was the first base rate adjustment since 2011 and represented a revenue-neutral movement of PCA and EMA charges into base rates. At the time of the base rate adjustment, the PCA was reset to $0.0/kWh and the EMA was reset to $0.0045/kWh, which collects costs related to mandated energy efficiency and conservation measures.

Summary of Rate Actions

Date	Type of Increase	Residential	Commercial/Industrial
November 2008	Base Rate	5%	5%
April 2009	EMA	$0.005/kWh	—
August 2009	PCA	$0.005/kWh	$0.005/kWh
April 2010	EMA	$0.005/kWh	$0.005/kWh
August 2010	PCA	$0.005/kWh	$0.005/kWh
December 2010	Base Rate	5%	5%
August 2011	PCA	$0.005/kWh	$0.005/kWh
December 2011	Base Rate	5%	5%
March 2012	Temporary PCA	$0.009/kWh	$0.0045/kWh
August 2012	Temp PCA Removal	($0.009/kWh)	($0.0045/kWh)
August 2012	PCA	$0.005/kWh	—
August 2013	EMA	$0.005/kWh	$0.005/kWh
August 2014	PCA	$0.005/kWh	$0.005/kWh
September 2015	Base Rate	17%	16%
September 2015	PCA	Returned to$0.00/kWh	—
September 2015	EMA	Returned to$0.0045/kWh	—

EMA – Environmental mitigation adjustment. PCA – Power cost adjustment.
Source: Anaheim Public Utilities.

Both the PCA and EMA can be increased up to 0.5 cents per kWh in a 12-month period. They can each be increased by an additional 1.0 cent per kWh above the limit (until all associated costs are collected) in certain circumstances, such as power supply or fuel costs that increase by more than 10% of budget or higher costs associated with the loss of a major generation or transmission resource. The temporary higher increase was exercised once, for a six-month period in 2012 during an unexpected outage at IPP. The full cost of buying replacement power was recovered during that six-month period through the temporary PCA increase. Projections include continued periodic use of the PCA and EMA to absorb costs increases over the next five years, but the full $0.005/kWh headroom in each adjuster is not assumed to be used each year.

Even with the consistent rate increases shown above, APU maintains adequate rate flexibility. Residential rates are below average for the region, as compared with municipal and investor-owned utilities. Residential rates averaged approximately 14.9 cents/kWh, according to EIA data from 2014, as compared with the state average of 16.25 cents/kWh. Rates include a 4% surcharge on all bills dedicated to the undergrounding of overhead lines within the city.

Financial Performance and Legal Provisions

Fitch-calculated debt service coverage was over 2.0x in fiscals 2013–2015 and, based on preliminary information for fiscal 2016 (unaudited), appears to continue at that level. Fitch-calculated debt service coverage includes rates collected through APU's RSA adjustments, although these receipts are placed in a deferred account for future recognition as revenues. For example, in fiscal 2015, APU collected $51.2 million in the RSA adjusters but recognized $65 million in that year as revenues (as shown in the audited financial statements). Fitch's debt service coverage of 2.1x in fiscal 2015 includes the $51.2 million in cash received. With the inclusion of the full $65 million recognized from accounting treatment methodology, debt service coverage was 2.36x. Fitch's calculation also includes repayment of $11.2 million of the subordinate Wells Fargo revolving credit agreement (RCA) loan. Fitch coverage of full obligations has ranged from 1.30x–1.35x in fiscals 2013–2015.

Reserve Balances

The table below shows the trend of receipts, accounting recognitions and balances of the RSA. In all years except 2015, APU collected more RSA receipts than it chose to recognize in that year. After the rate adjustment in 2015, which was in effect for most of fiscal 2016, the receipts from the RSA will be significantly lower since the cost recovery was moved into base rates instead. RSA collections in fiscal 2017 are expected to be modest. In future years, APU management expects to recognize more revenues from the RSA balance than the level collected, to bring the RSA balance closer to the $50 million target goal.

Anaheim RSA Collections and Balances

($000, Years Ended June 30)	2012	2013	2014	2015	2016
RSA Beginning Balance	46,304	59,392	67,963	89,098	75,342
RSA Collected[a]	37,088	49,570	47,635	51,244	23,539
RSA Recognized in Audit	(24,000)	(41,000)	(26,500)	(65,000)	(7,000)
RSA Ending Balance[b]	59,392	67,963	89,098	75,342	91,881

[a]Through both the PCA and EMA Adjustments in rates. [b]Policy goal is $50 million balance. RSA – Rate stabilization adjustment.
Source: Anaheim Public Utilities.

Unrestricted reserve levels are healthy with a year-end 2015 balance of $121.8 million, or 132 days cash and investments on hand. This balance includes the RSA balance noted above but not additional discretionary funds held at SCPPA and IPA on APU's behalf. When the available RCA balance is included, APU has 197 days liquidity on hand.

Large Debt Burden

The utility has a sizable debt burden with around $735 million of direct debt at the end of fiscal 2015. This will increase with the approximately $100 million in new money debt in the 2016A bonds, which will be included in the fiscal-2017 year-end debt ratios. The $100 million debt increase follows the $85 million in new money debt issued with the 2015A&B bonds. The proceeds are being used to fund distribution-related capital needs in fiscals 2015–2019.

Leverage, as calculated by debt/funds available for debt service (FADS), was 6.8x at the end of fiscal 2015, compared with the rating category median of 4.7x. With scheduled amortizations, debt/FADS should remain around 6.9x at the end of fiscal 2017, even with the $100 million issuance. If Anaheim's approximately $677 million of joint powers authority debt is included, APU's debt/FADS increases to 13x. The utility is working to accelerate its debt repayment but debt levels will likely remain elevated. In addition to the series 2016 bond issuance, APU expects to issue $114 million in additional debt in the next five years to finance about 57% its 2017–2021 five-year capital plan.

Electric System Capital Plan

($000)	2017	2018	2019	2020	2021	Total
Transmission and Distribution	45,702	32,940	30,623	34,492	42,332	186,089
System Undergrounding	26,223	15,903	14,417	15189	15,063	86,795
New Substations	8,855	36,968	21,908	0	0	67,731
Other Capital Projects	9,002	9,453	1,992	1,233	1,170	22,850
Substation Improvements	0	0	961	10,117	2,834	13,912
Total	**89,782**	**95,264**	**69,901**	**61,031**	**61,399**	**377,377**

Source: Anaheim Public Utility.

The 2017–2021 capital plan totals $377.4 million, reflecting plans for spending on transmission and distribution improvements within the service are to accommodate growth and improve reliability. This total also includes approximately $87 million for the undergrounding of overhead lines, a longtime city initiative, and is funded from a dedicated surcharge on all utility bills.

Variable-Rate Debt Exposure

At the end of fiscal 2015, APU had $50 million in outstanding variable-rate bonds (series 2015A) and $26 million drawn from a RCA with Wells Fargo, which accounted for a modest 10% of its direct debt portfolio. Anaheim's repayment obligation to Wells Fargo under the terms of the RCA is junior to APU's payment obligation on both the qualified obligations and subordinate qualified obligations. However, Fitch-calculated debt service coverage ratios include the repayment of $11.2 million per year on the RCA loan. The RCA loan will be repaid down prior to fiscal year end 2017. The loan proceeds were used in 2013 to repay the series 2002B bonds, the last outstanding debt related to the San Juan generation asset. APU does not have any interest rate swaps on its direct debt.

Legal Provisions

APU has issued bonds through multiple issuers. Each of the structures includes an IPA between the city of Anaheim and the issuer. Bondholders are secured by the unconditional payments made by the city of Anaheim’s electric system to the issuer, which are not subject to appropriation risk.

The 2016 bonds are being issued by the AHPIA. AHPIA is a new joint powers authority, created by the city of Anaheim and the Anaheim Housing Authority. This issuance is the inaugural bond issuance for AHPIA.

Qualified Obligation Bonds

APU’s qualified obligation bonds are considered the working lien of the system. The bonds are secured by net revenues of the electric system. Legal provisions include a1.25x rate covenant, a 1.25x additional bonds test and a debt service reserve fund is generally required by each supplemental indenture equal to the lesser of 10% of par, 1.25x annual debt service or 1.0x maximum annual debt service.

Second Qualified Obligation Bonds

APU’s second qualified obligation bonds are secured by a third lien on the net revenues of the electric system. The third lien was established in 2004 and includes more modernized provisions that provide less bondholder protection. Legal provisions include a 1.1x rate covenant, a 1.1 additional bonds test, and the ability to issue bonds without a debt service reserve fund. Following the refunding of the outstanding second lien obligations in 2014, the 2015A bonds are the only debt issued on the second lien. The 2015A bonds are outstanding in the variable rate mode with a final maturity in 2045.

Financial Summary — Anaheim Housing and Public Improvements Authority, California

($000, Audited Years Ended June 30)	2011	2012	2013	2014	2015
Debt Service Coverage (x)					
Debt Service Coverage	1.77	1.98	2.23	2.26	2.10
Adjusted DSC (Including Deferred Revenues and RSF Transfers)	1.74	1.73	2.06	1.83	2.36
Adjusted DSC (Including Purchased Power Adjustment as D/S)	1.31	1.41	1.47	1.47	1.43
Adjusted DSC (Including Transfer/PILOT/Dividend as O&M Expense)	1.44	1.69	1.90	1.91	1.76
Coverage of Full Obligations (PP as D/S and Transfer/PILOT/Dividend as O&M Expense)	1.18	1.29	1.35	1.34	1.30
Liquidity Metrics					
Days Cash and Investments on Hand	71	108	129	136	132
Days Liquidity on Hand	71	108	171	190	197
Leverage Metrics					
Debt/FADS (x)	8.4	6.8	6.3	6.0	6.8
Adjusted Debt (Including PP Adjusted)/Adjusted FADS (Including PP Adjusted) (x)	8.2	7.3	7.0	6.8	7.3
Debt/Total Retail Customers ($)	6,324.6	6,174.5	6,426.0	5,693.5	6,350.2
Net Debt/Net Capital Assets (%)	81.4	75.2	74.9	62.0	69.7
Equity/Capitalization (%)	31.4	31.8	32.1	34.9	30.8
Debt/Capitalization (%)	68.6	68.2	67.9	65.1	69.2
Adjusted Debt/Capitalization (%)	79.7	79.7	80.2	78.9	80.8
Other Financial and Operating Metrics					
Operating Margin (%)	10.4	11.2	14.9	10.0	16.8
Retail Electric Revenue/kWh (Cents/kWh)	13.7	14.8	15.7	15.5	15.1
Transfer and PILOT and Tax/Total Operating Revenue	4.2	3.8	3.9	4.0	3.8
Capex/Depreciation and Amortization (%)	146.5	104.6	108.8	159.2	143.3
Debt Service/Cash Operating Expenses (%)	13.8	14.4	13.3	12.5	13.4
Income Statement					
Total Operating Revenue	381,496	397,931	451,958	426,051	453,697
Total Operating Expense	341,739	353,226	384,735	383,505	377,511
Operating Income	39,757	44,705	67,223	42,546	76,186
Adjustment to Operating Income for Deferred Revenue	46,584	59,725	50,530	67,636	32,326
FADS	86,341	104,430	117,753	110,182	108,512
Total Annual Debt Service	48,731	52,859	52,875	48,732	51,792
Balance Sheet					
Unrestricted Funds (Cash and Liquid Investments)	59,374	93,185	121,855	127,653	121,765
Restricted Funds	260,358	237,108	255,640	149,672	185,511
Total Net Assets/Member's Equity	331,298	330,989	349,991	351,905	326,305
Total Debt	725,191	710,764	741,670	657,452	734,608
Cash Flow Statement					
FCF (FADS — Transfer and PILOT — Total Annual Debt Service)	21,568	36,504	47,374	44,323	39,569
Capex	55,333	40,781	43,501	66,491	59,558
FCF Less Capex	(33,765)	(4,277)	3,873	(22,168)	(19,989)

DSC – Debt service coverage. RSF - Rate stabilization fund. D/S – Debt service. PILOT – Payment in lieu of taxes. O&M – Operations & maintenance. FADS – Funds available for debt service. PP – Purchased power.
Source: Anaheim Public Utilities Department (CA) and Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.