



City of Anaheim
PUBLIC UTILITIES DEPARTMENT

DATE: NOVEMBER 9, 2011

TO: CITY MANAGER/CITY COUNCIL

FROM: PUBLIC UTILITIES GENERAL MANAGER

Marcus S. Edwards

SUBJECT: 2011 UNAUDITED DRAFT INCOME STATEMENTS

This item is for information only.

Summary

Each fiscal year, the Public Utilities Department (Department) undergoes an independent audit of its financial statements to ensure their reasonableness and material accuracy. Attached are the unaudited draft income statements, in modified form for ease of understanding, as presented to our audit firm KPMG. We have 95% confidence that the attached unaudited income statements are correct and we fully expect them to be finalized by the end of November at which time you will receive a final copy. However, we thought you might appreciate a more subjective summary of the information, rather than having to review the entire audit and try to derive the appropriate conclusions. Therefore, that information is provided below.

Electric

The Electric Utility was able to show an increase in net assets or "profit" in Fiscal Year (FY) 2011 of \$8.1 million as compared to its FY 2010 "profit" of \$3 million, even as retail sales dropped by another 3.3% (with an 8.8% total drop since FY 2007). This was accomplished through a combination of cuts to operating expenses, a reduction of power costs, and the implementation of rate changes. Debt Service Coverage, a metric used by the investment community to determine the organization's ability to pay its debts, increased from 1.6 in FY 2010 to 1.7 in FY 2011, a positive variance. This means that, for every dollar paid in principal and interest, the Electric Utility earned \$1.70 thereby increasing the overall financial health of the organization.

It is important to note that this positive change in net assets is reinvested back into the electric system through capital spending, reduction of debt, or increases in prudent reserves to protect against unforeseen circumstances.

Each year, three independent credit rating agencies review the Department's creditworthiness by reviewing financial statements, financial metrics, and the relationship, experience and stability of the executive team and its policy makers. During this most recent review, two out of the three credit rating agencies rated Anaheim's electric system "AA-" and the third rated it "A+", with all three noting that the Department is stable,

meaning that they do not feel that the rating will drop in the near future. This independent review is used by investors to determine the interest rate they will need to receive in order to invest in the Department's bonds. These investment grade ratings ensure that the Department will continue to pay record low interest rates on its debt, saving its electric rate payers millions of dollars over the life of each bond.

Water

The Water Utility had a "loss" in FY 2011 of \$690K compared to a "profit" in FY 2010 of \$1 million. This was due primarily to sales that were 5% lower than FY 2010 (18.9% lower than FY 2007) coupled with higher non-cash expenses, including non-cash transfers to other City departments and increased depreciation expense as large capital projects such as Nohl Canyon Tank came online. The Water Utility was still able to maintain a debt service coverage ratio of 2.2 as compared to 2.25 in FY 2010 - a healthy ratio.

The three credit rating agencies have all recently affirmed the Water Utility's "AAA" rating as stable. AAA is the highest credit rating conferred by the agencies.

The Department is prepared to answer any questions and you may refer those questions to Marcie Edwards, City of Anaheim Public Utilities General Manager, at 714-765-4590.

Attachment:

1. Draft Unaudited 2011 Income Statements

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND
Draft Unaudited Income Statement
Years ended June 30, 2011 and 2010
(In thousands)**

	2011	2010	Variance	% Variance
Revenues:				
Retail sales of electricity	\$ 300,522	\$ 282,967	\$ 17,555	6%
Wholesale sales	54,725	60,437	(5,712)	-9%
Rate stabilization revenues	22,500	31,200	(8,700)	-28%
Interest income	7,438	12,326	(4,888)	-40%
Grants and capital contributions	9,633	5,002	4,631	93%
Other revenues	3,749	2,783	966	35%
Total revenues	398,567	394,715	3,852	1%
Expenses:				
Power	261,260	263,189	(1,929)	-1%
Operating expenses	42,707	45,923	(3,216)	-7%
Interest expense	30,079	29,243	836	3%
Net transfers to other City funds	18,602	17,401	1,201	7%
Depreciation	37,772	35,926	1,846	5%
Total operating expenses	390,420	391,682	(1,262)	0%
Net Income	\$ 8,147	\$ 3,033	\$ 5,114	169%

CITY OF ANAHEIM
WATER UTILITY FUND
Draft Unaudited Income Statement
Years ended June 30, 2011 and 2010
(In thousands)

	2011	2010	Variance	% Variance
Revenues:				
Water sales	\$ 54,871	\$ 54,449	\$ 422	1%
Rate stabilization revenues	-	1,300	(1,300)	-100%
Interest income	840	1,111	(271)	-24%
Grants and capital contributions	2,862	1,021	1,841	180%
Other operating revenues	727	619	108	18%
Total revenues	59,300	58,500	800	1%
Expenses:				
Water and treatment expenses	33,208	33,675	(467)	-1%
Operating expenses	11,204	11,556	(352)	-3%
Net transfers to other City funds	3,694	2,346	1,348	57%
Interest expense	2,920	1,746	1,174	67%
Depreciation	8,964	8,103	861	11%
Total expenses	59,990	57,426	2,564	4%
Net income/(loss)	\$ (690)	\$ 1,074	\$ (1,764)	-164%