

Comparison of Capital Financing Methods

Item 16

Monterey Peninsula Water Management District
Board Meeting
May 20, 2013

How is Cal-Am Actually Financed?

- 1) Depreciation each year
- 2) Equity Return = Book Value x 9.99% x 53%
- 3) Debt Return = Book Value x 5.0% x 47%

4) But Ratepayers have to cover income taxes and uncollectibles:

$$[(\text{Pre-Tax Return Required} \times (1 - \text{State Tax Rate})) \times (1 - \text{Fed Tax Rate})] \times \text{Collection Rate}$$

Or

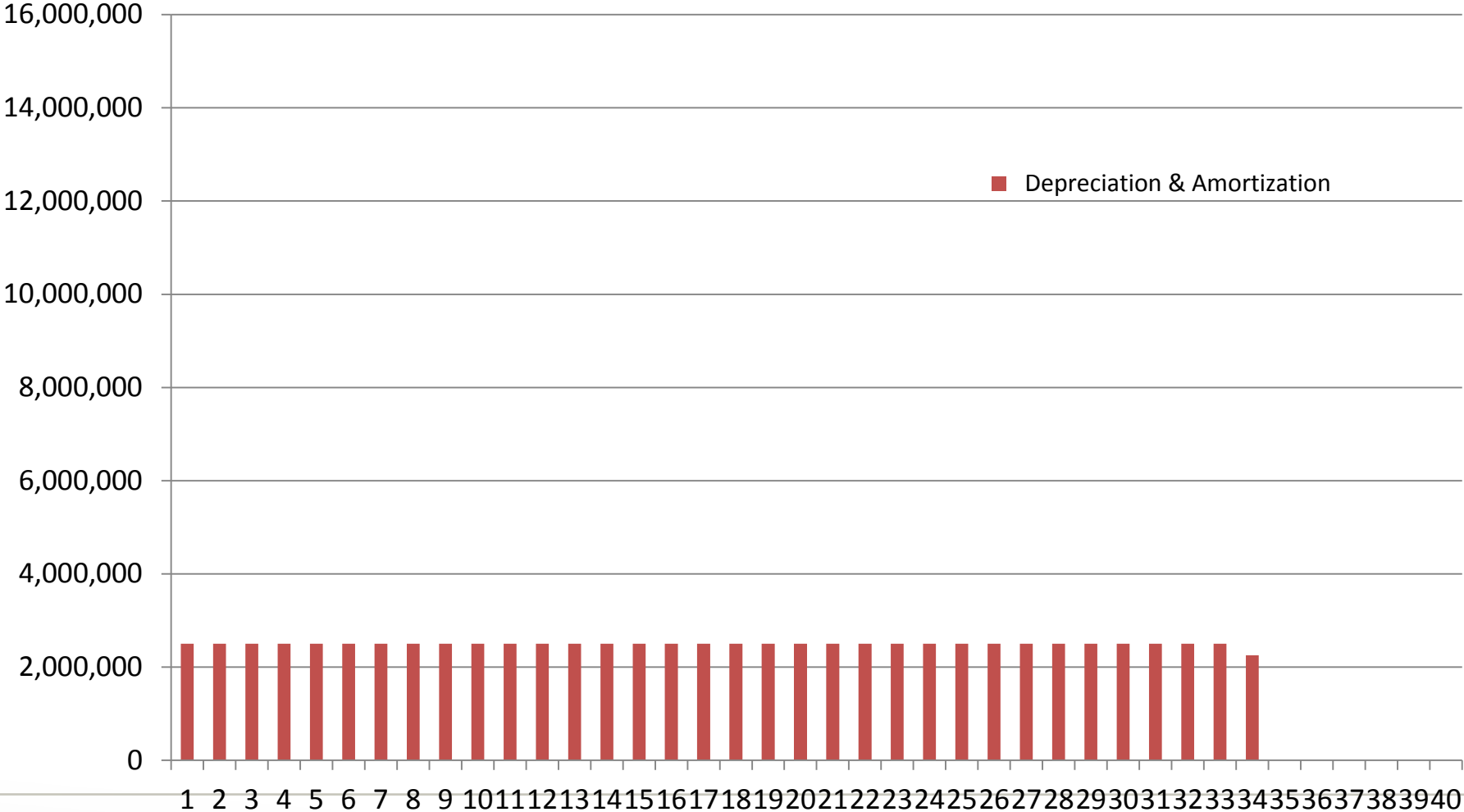
$$= [(\text{PTRR} \times .9116) \times (.65)] \times .99736 = \text{PTTR} \times .590976$$

Or

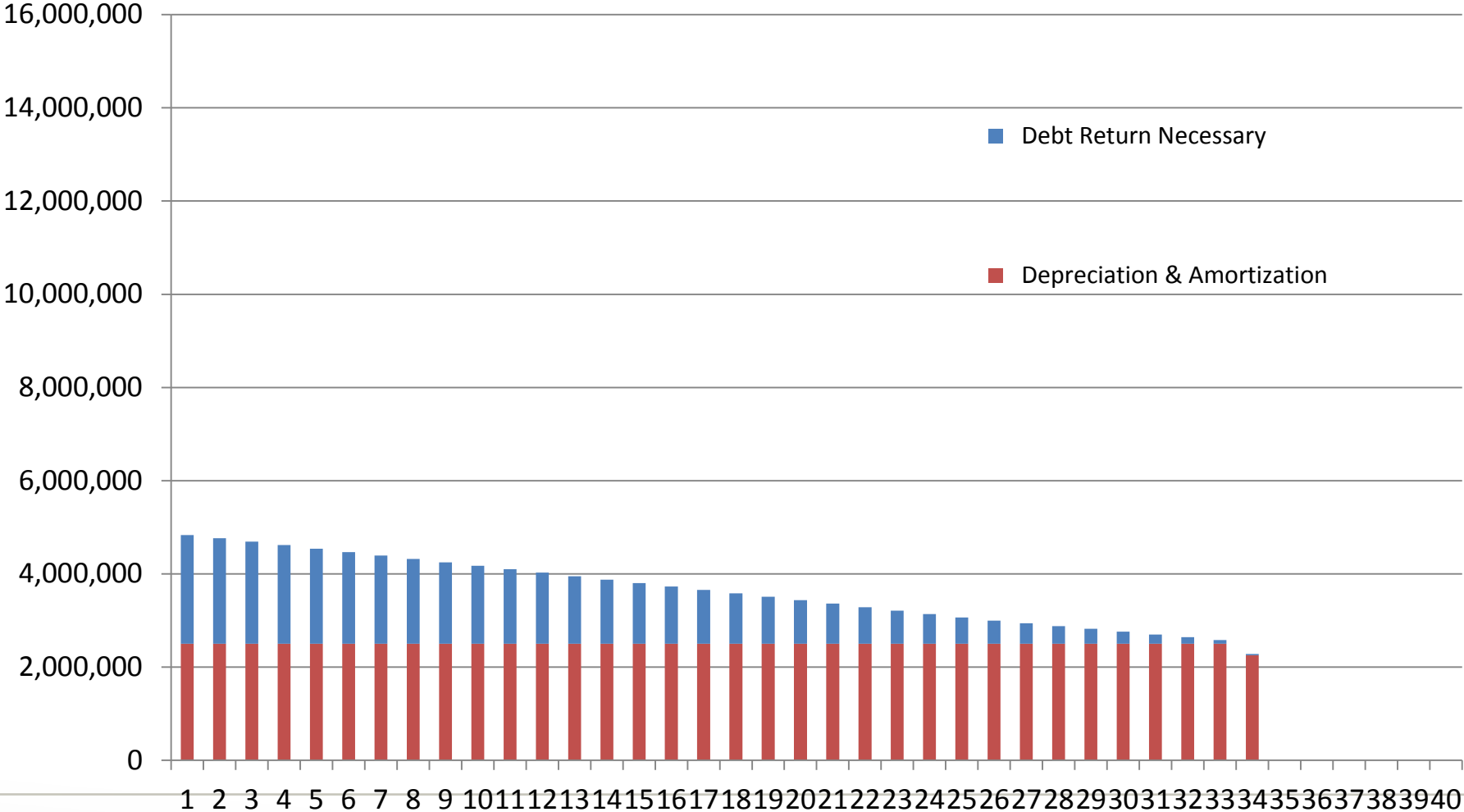
$$\text{Combined Return} \times 1.69 = \text{Pre-Tax Return Required}$$

- 5) But, must adjust for interest deduction, a credit back equal to the Debt Return x Effective Tax Rate x Gross-Up Factor
- 6) And Property Taxes

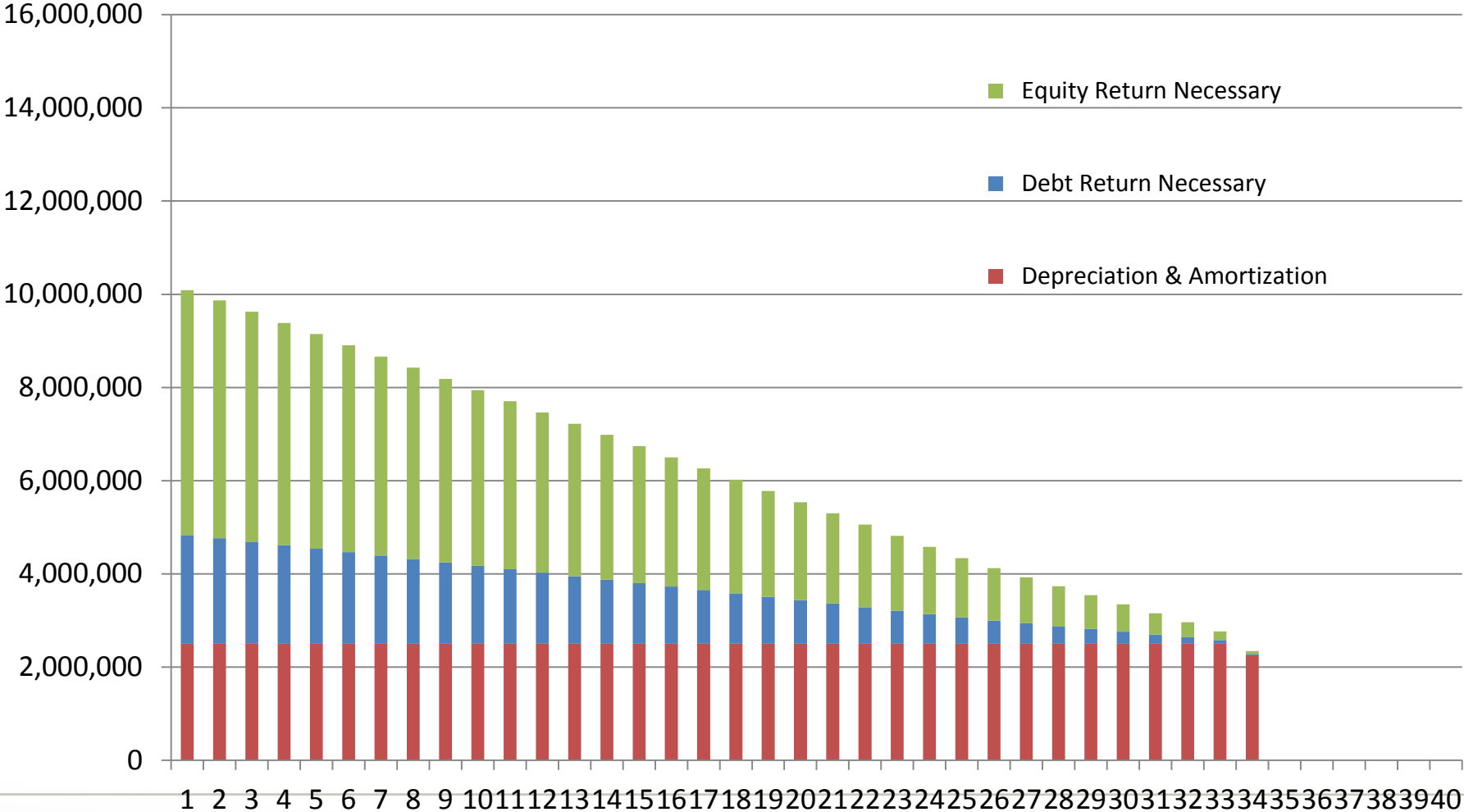
Generic \$100 Million Cal-Am Capital Recovery



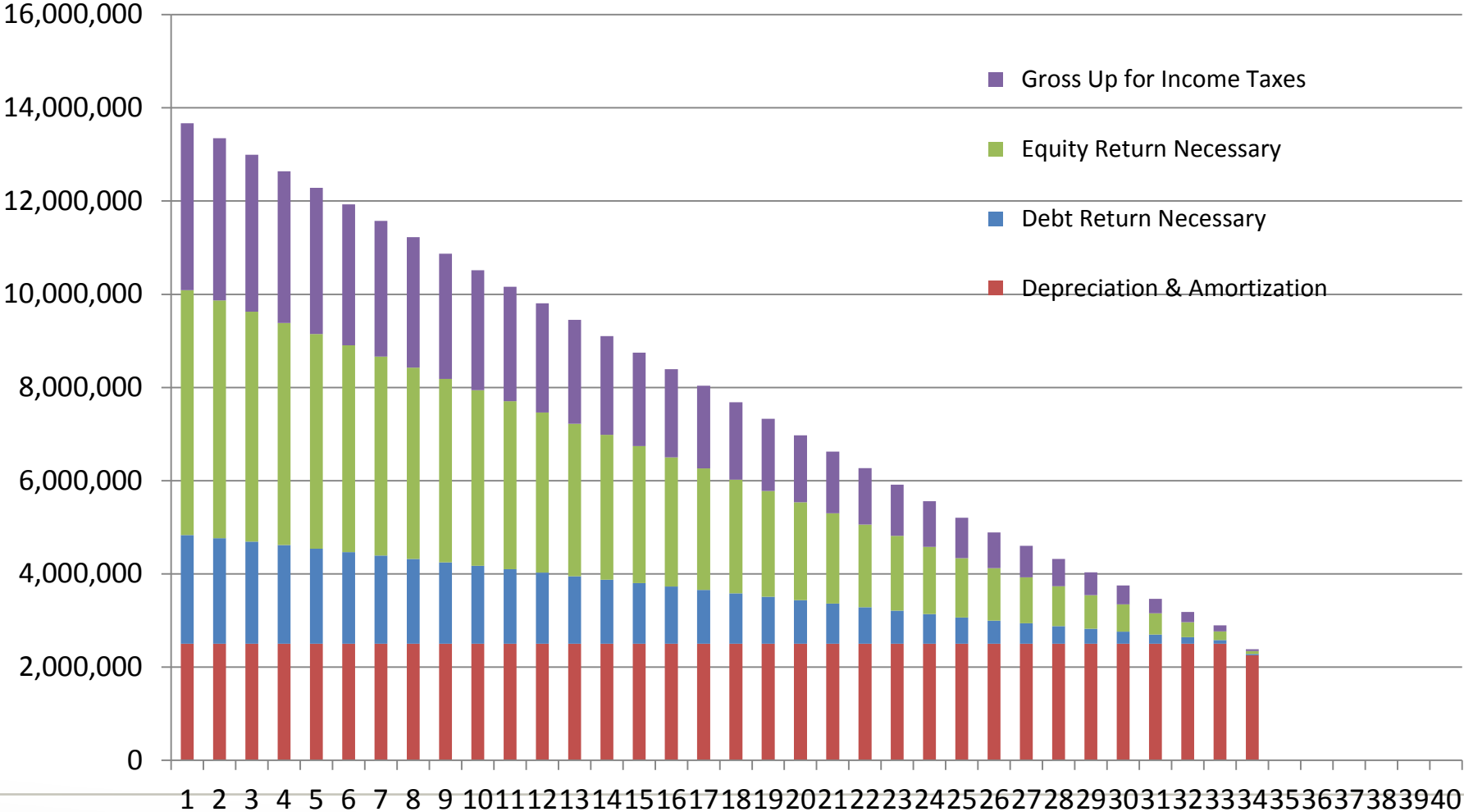
Generic \$100 Million Cal-Am Capital Recovery



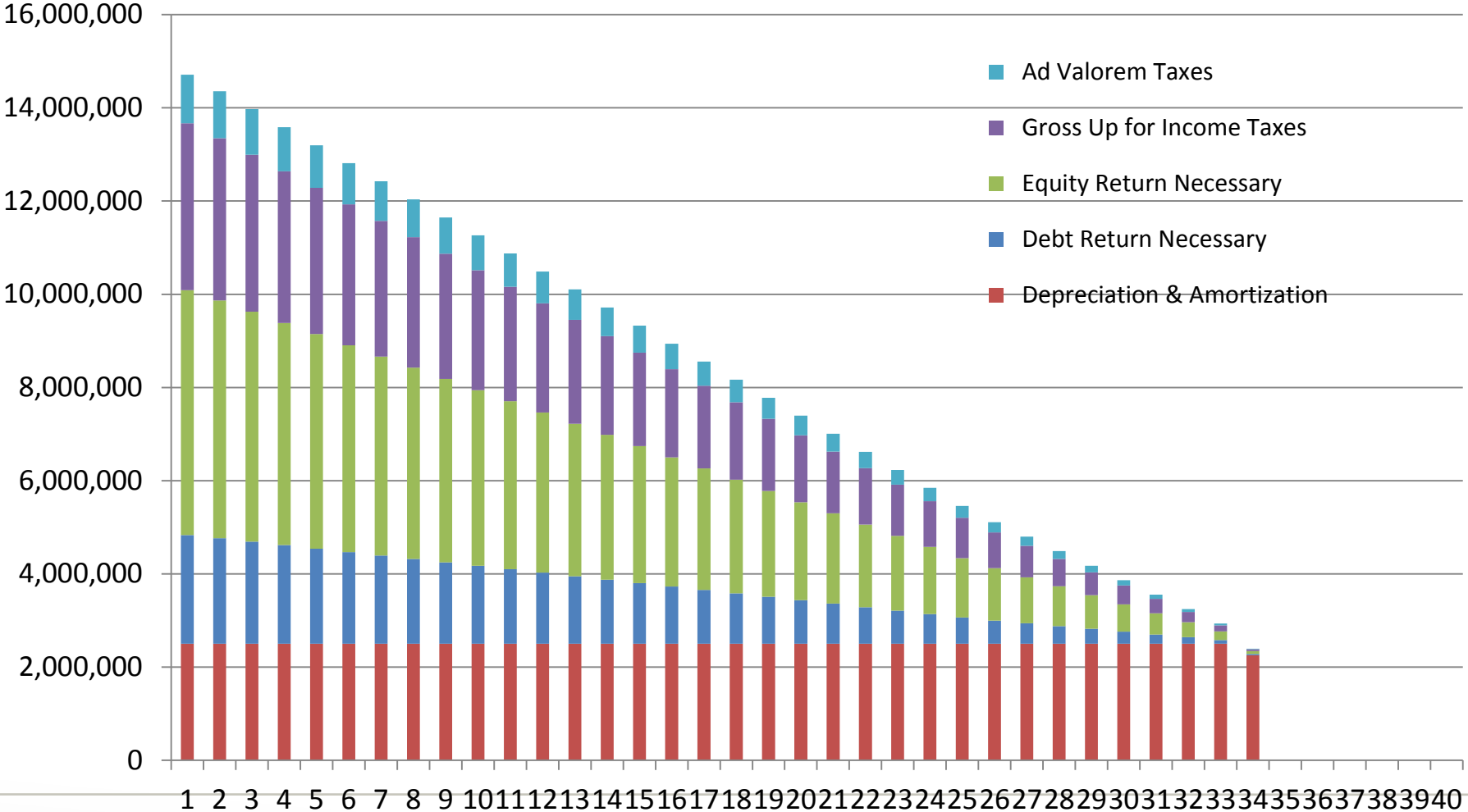
Generic \$100 Million Cal-Am Capital Recovery



Generic \$100 Million Cal-Am Capital Recovery



Generic \$100 Million Cal-Am Capital Recovery



How is Public Debt Actually Financed?

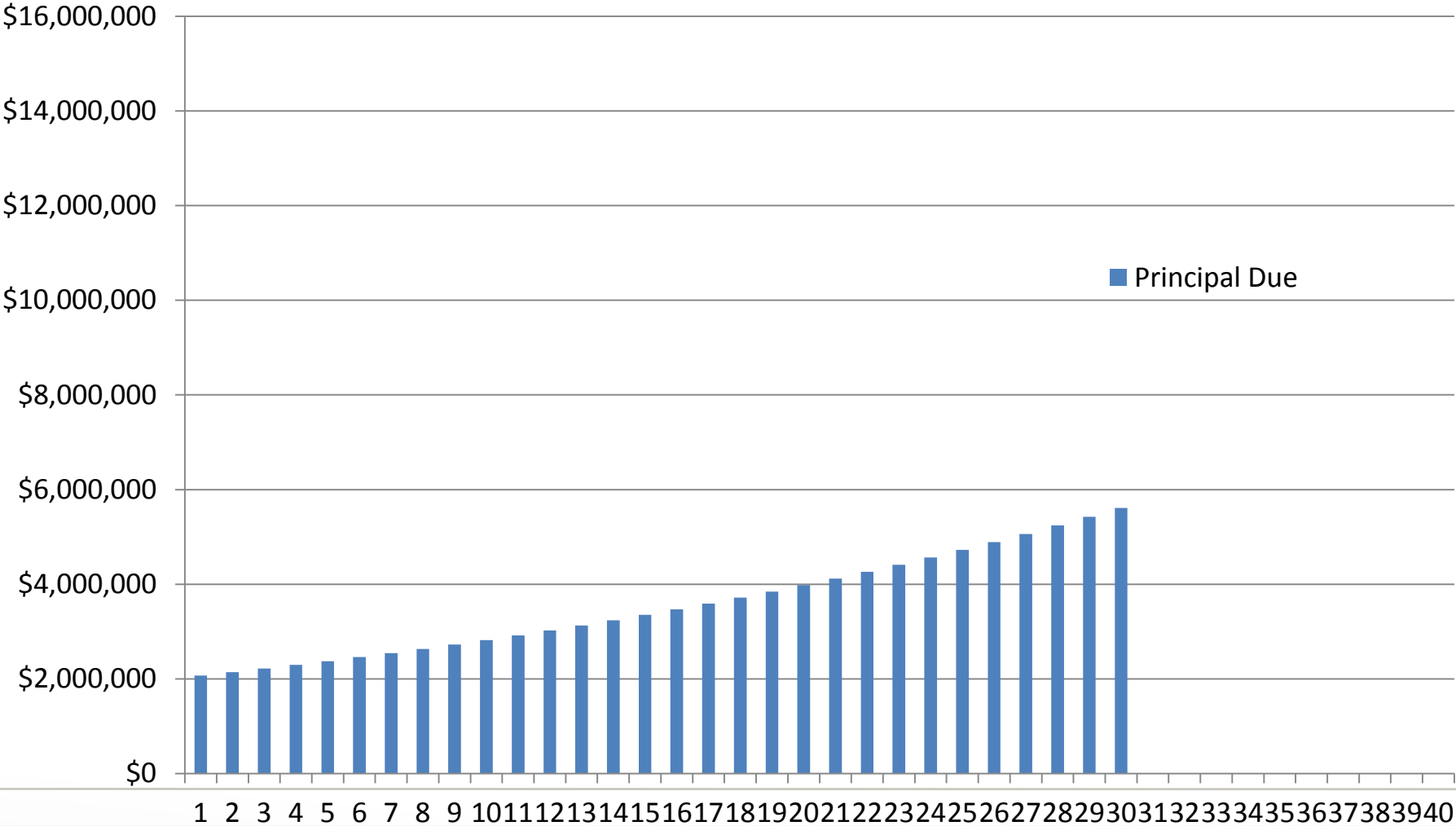
Public debt must include borrowed interest during construction, issuance costs, and a reserve fund.

Bond Sizing:

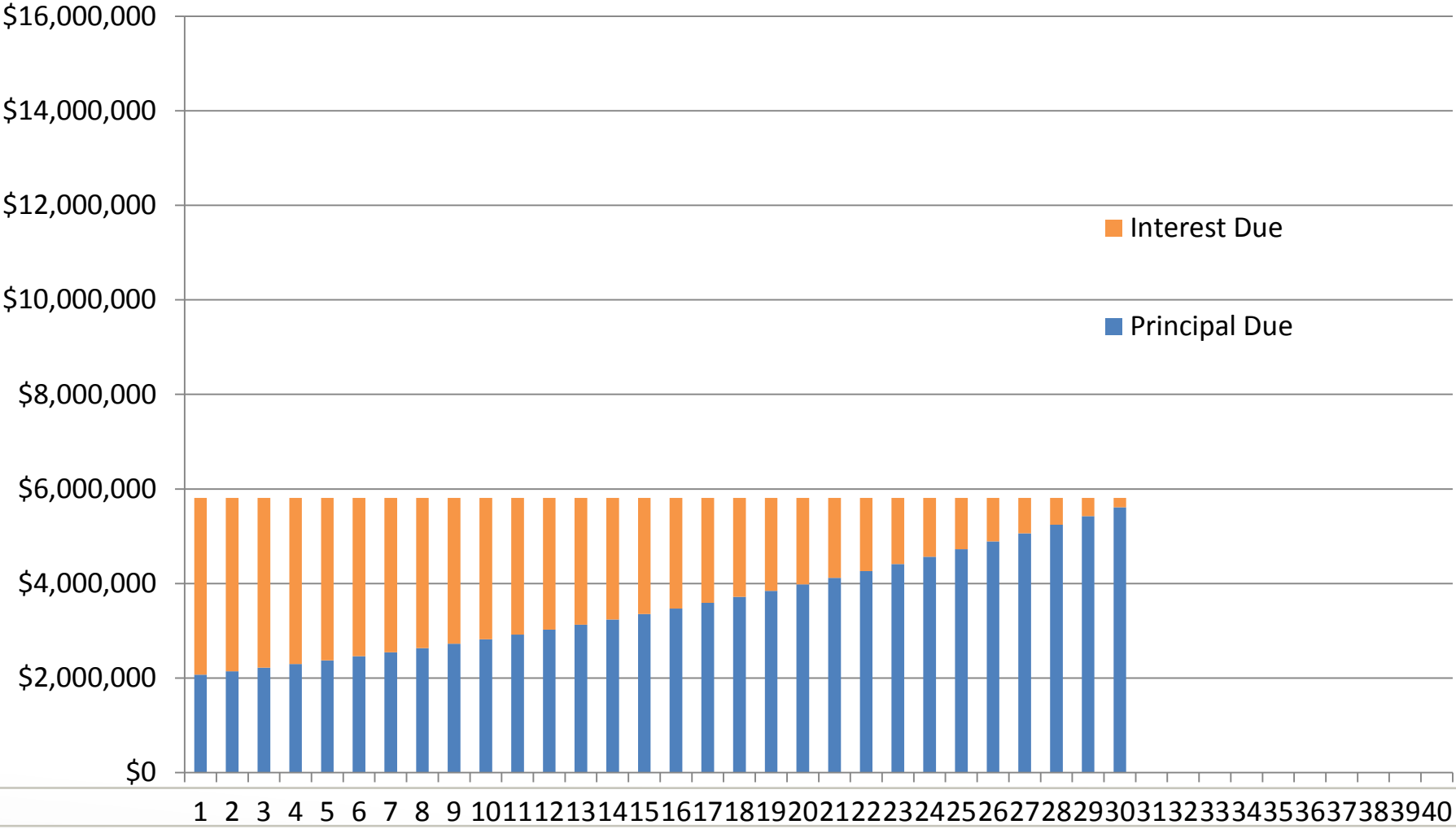
Proceeds	100,000,000
Capitalized Interest	0
Debt Service Reserve Fund	5,810,392
Debt Issuance Costs	1,058,104
Balancing Amount	<u>-3,496</u>
Issuance Amount	106,865,000

Public debt is offset by earnings during construction, reserve fund earnings, and reserve fund in final year.

Generic \$100 Million Public Debt Repayment



Generic \$100 Million Public Debt Repayment



Problems With Single “Test Year” Comparisons

- Period for capital amortization may be different
- Cal-Am capital recovery is front-loaded
- Different costs of capital, tax treatment, principal and interest recovery
- Look at Net Present Value of lifecycle costs

Comparison of Public v. Cal-Am

