

VALENCIA WATER COMPANY
2018 BUSINESS PLAN
(000s)

<u>Statement of Income</u>	Outlook	Plan
	2017	2018
(1) Operating revenue:	\$30,731	\$34,011
(2) Operating expenses:		
(3) Purchased power	1,737	2,303
(4) Purchased water	8,973	8,474
(5) Purchased water - recycled	234	255
(6) Total Water Costs	10,944	11,032
(7) Operation and Maintenance	5,405	6,321
(8) General and Administrative	4,485	3,729
(9) Property taxes	192	96
(10) Depreciation	2,741	2,790
(11) Total Operating Expenses	12,823	12,936
(12) Contr. to Inc. from Operations	6,964	10,043
(13) Income taxes	(2,380)	0
(14) Contribution to income	4,584	10,043
(15) Interest income	73	25
(16) Interest expense	(1,161)	(3,516)
(17) Other income (expense)	54	
(18) Net Income	\$3,550	\$6,552

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Balance Sheet

	Outlook	Plan
	2017	2018
Current Assets:		
(1) Cash	\$15,039	\$14,915
(2) Metered and other Receivables	4,300	3,984
(3) Materials and supplies	407	421
(4) Prepaid expenses	671	626
(5) Total current assets	<u>20,417</u>	<u>19,946</u>
(6) Property, plant and equipment	179,254	194,236
(7) Accumulated Depreciation	<u>(76,072)</u>	<u>(80,680)</u>
(8) Total Property, Plant, and Equipment	<u>103,182</u>	<u>113,556</u>
(9) Other Assets	<u>25,004</u>	<u>167</u>
(10) Total assets	<u>\$148,603</u>	<u>\$133,669</u>
Current liabilities:		
(12) Bank Line of Credit	\$0	\$0
(13) Accounts payable/ Accrued Expenses	<u>3,565</u>	<u>2,546</u>
(14) Total current liabilities	<u>3,565</u>	<u>2,546</u>
Long-Term Liabilities		
(16) Deferred Income Taxes	28,506	0
(17) Advances for Construction	8,209	7,516
(18) Contributions in Aid of Construction	55,346	65,212
(19) Long-Term Debt	<u>24,000</u>	<u>24,000</u>
(20) Total long-term liabilities	<u>116,061</u>	<u>96,728</u>
(21) Total liabilities	<u>119,626</u>	<u>99,274</u>
Stockholder's equity:		
(23) Capital Stock and Surplus	7,744	7,744
(24) Retained Earnings	<u>21,233</u>	<u>26,651</u>
(25) Total stockholder's equity	<u>28,977</u>	<u>34,395</u>
(26) Total liabilities and equity	<u>\$148,603</u>	<u>\$133,669</u>

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<u>Statement of Cash Flows</u>	Outlook	Plan
	2017	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
(1) Net Income	\$3,550	\$6,552
Adjustments to reconcile net income to net cash provided by operating activities:		
(2) Depreciation and amortization	2,797	2,833
(3) Deferred revenues	(54)	0
(4) Deferred income taxes	(713)	(3,650)
(5) (Increase)decrease in receivables	(1,222)	625
(6) (Increase)decrease in inventory	5	0
(7) (Increase)decrease in prepaid assets	174	0
(8) (Increase)decrease in other assets	0	0
(9) Increase(decrease) in payables & accruals	(323)	(166)
(10) Increase(decrease) in income taxes	673	(271)
(11) Net cash provided(used) by operations	4,887	5,923
CASH FLOWS FROM INVESTING ACTIVITIES:		
(12) Purchase of property & equipment	(4,847)	(13,267)
(13) Proceeds from property retirements, net	4	0
(14) Net cash provided(used) by investments	(4,843)	(13,267)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(15) Refunds of construction advances	(693)	(693)
(16) Increase in CIAC	2,185	11,325
(17) Increase in deferred revenues	1,136	0
(18) Net increase (decrease) in other long term liabilities	(1,066)	0
(19) Dividends Paid	(800)	(200)
(20) Net cash provided(used) by financing	762	10,432
(21) Net increase(decrease) in cash	806	3,088
(22) Cash, beginning of period	14,233	11,827
(23) Cash, end of period	\$15,039	\$14,915

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2018 BUSINESS PLAN
ASSUMPTIONS

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.

	2018
Total Growth	201
Total Connections	31,705

- 2) Rates:
 2018 rates are based on the rates proposed in the 2018 rate case, plus the Purchased Water Pass-Through proposed in the 2018 rate case. Rates also include the existing Revenue Adjustment Surcharge approved in 2016.

2018 revenues include \$4.6 million related to the Revenue Adjustment Surcharge, and \$554,000 related to the Purchased Water Pass-Through.

- 3) Usage per customer by customer class is based on a 20% reduction from actual 2013 usage levels, consistent with usage projected in the 2018 rate case.

WATER COSTS

- 4) Purchased Water expense of \$8,474,000 is based on the approved CLWA variable rate for 2018, and a projected 3% increase in fixed charges over 2017 actual fixed charges:

Variable Cost / AF	\$223.18
Purchased Water (AF)	<u>13,339</u>
Variable Purchased Water	\$2,977,000
Fixed Purchased Water	<u>\$5,497,000</u>
Total Purchased Water	<u>\$8,474,000</u>

Recycled Purchased Water expense of \$255,000 is based on the following:

Cost / AF	\$608
Purchased Recycled Water (AF)	<u>419</u>
Purchased Recycled Water	<u>\$255,000</u>

5) <u>Water Production and Mix:</u>	
	<u>2018</u>
Purchased Water Mix	50%
Purchased Water (AF)	<u>13,339</u>
Groundwater (AF)	<u>13,339</u>
Total Production (AF)	<u>26,678</u>
Purchased Water – Recycled (AF)	<u>419</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	\$0.1339
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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 anticipated cost savings related to the planned merger in 2018, including a reduction in payroll expense due to reflect only half year salaries for the General Manager and the Vice President & Controller, and reduced insurance premiums.

The business plan also reflects an increase in medical and dental benefit costs and retiree medical costs anticipated after the merger.

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

	<u>2018</u>
Legal	\$225,000
Consulting	<u>544,000</u>
Total	<u>\$769,000</u>

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

	<u>2018</u>
	<u>\$465,000</u>

- 11) Depreciation Expense is calculated based on a depreciation rate of approximately 3% and planned VWC funded fixed asset additions.
- 12) 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. Additional debt service related to the inter-fund loan with CLWA is reflected for half the year in 2018.

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 \$200,000 per quarter, consistent with recent history. Dividends for 2018 are reflected for the first quarter only, due to the anticipated merger into the Santa Clarita Valley Water Agency.