6. FINANCIAL FORECAST

The financial plan, or revenue requirement analysis, forecasts the amount of operating and capital costs to determine the annual revenue required. The objective of the financial forecast is to evaluate the sufficiency of the current level of rates in meeting the total revenue requirements of the system. In addition to annual operating costs, the revenue of the utility must also meet debt covenant requirements and minimum reserve level targets.

Although the financial plan is completed for the 20-year time horizon of the WRFP, the rate strategy focuses on the shorter term planning period of FY 2013 through FY 2018. It is imperative that the City review the proposed rates and rate assumptions annually to ensure that the rate projections developed remain adequate. Any significant changes should be incorporated into the financial plan and future rates should be adjusted as needed.

Table 4 summarizes the annual revenue requirement for the 6-year horizon based on the forecast of revenues, expenditures, fund balances and fiscal policies. The summary for the 20-year horizon can be found on page 1 in Appendix A.

Table 4: 6-Year Financial Forecast

Revenue Requirement	FY 2012 / 2013	FY 2013 / 2014	FY 2014 / 2015	FY 2015 / 2016	FY 2016 / 2017	FY 2017 / 2018
Revenues						
Rate Revenues Under Existing Rate	$ 4,814,700	$ 4,862,847	$ 4,911,475	$ 4,960,590	$ 5,010,196	$ 5,060,298
Capitalzation Fees Towards Debt	50,034	50,836	49,097	49,753	-	-
Non-Rate Revenues	152,171	154,885	157,652	160,474	163,352	166,287
Total Revenues	**$ 5,016,905**	**$ 5,068,568**	**$ 5,118,224**	**$ 5,170,817**	**$ 5,173,548**	**$ 5,226,585**
Expenses						
Cash Operating Expenses	$ 2,770,801	$ 2,847,189	$ 2,933,397	$ 3,605,693	$ 3,695,681	$ 3,583,452
Existing Debt Service	914,522	953,731	826,515	413,905	413,955	413,828
New Debt Service	-	-	1,750,477	1,750,477	2,487,064	2,487,064
Rate Funded System Reinvestment	1,376,007	1,300,000	1,300,000	1,300,000	2,300,000	2,300,000
Total Expenses	**$ 5,061,330**	**$ 5,100,920**	**$ 6,810,390**	**$ 7,070,076**	**$ 8,896,700**	**$ 8,784,344**
Net Surplus (Deficiency)	**$ (44,426)**	**$ (32,352)**	**$ (1,692,166)**	**$ (1,899,259)**	**$ (3,723,152)**	**$ (3,557,758)**
% of Rate Revenue	**0.92%**	**0.67%**	**34.62%**	**46.49%**	**74.31%**	**70.31%**
Annual Rate Adjustment	**2.50%**	**14.50%**	**14.50%**	**10.00%**	**9.00%**	**7.00%**
Cumulative Annual Rate Adjustment	**2.50%**	**17.36%**	**34.38%**	**47.82%**	**61.12%**	**72.40%**
Rate Revenues After Rate Increase	$ 4,935,068	$ 5,707,159	$ 6,600,044	$ 7,332,649	$ 8,072,513	$ 8,723,965
Net Cash Flow After Rate Increase	**75,942**	**811,960**	**(3,597)**	**472,800**	**(660,835)**	**105,908**
Coverage After Rate Increases	**2.89**	**3.58**	**1.50**	**1.53**	**1.59**	**1.85**

The City increased rates by 2.5 percent in FY 2013. The financial forecast indicates the need to follow this with 14.5 percent rate increases in FY 2014 and FY 2015, followed by a 10.0 percent increase in FY 2016, a 9.0 percent increase in FY 2017, and a 7.0 percent increase in FY 2018. The rate increases are needed to cover the existing level of O&M expenses, meet the debt service requirements related to the capital program and maintain adequate ending fund balance targets.