The truth about why EID credit ratings are rising

From: Greg Prada
To: Bill George, Alan Day, Richard Esposito
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Jim Abercrombie's prepared comments for his June 25th General Manager's Report (see next page) again is a carefully crafted mix of fact and fiction.

The truthful portion states that EID's credit ratings have been raised. The untruthful portions are his gross mischaracterization as to why the credit ratings have been raised.

The S&P and Moody's reports* both emphasize that EID's rate increases were the leading factor in why the ratings were increased. And nowhere in their reports do they state anything vouching about EID cost cutting.
*(see copies in the Board Packet EID_Board_Packet_20120625_RB_p.pdf)

Yet General Manager Abercrombie whimsically asserts *"…the investment community has faith in the District's ability to manage its finances in a prudent manner, as demonstrated by our continued commitment to hold down costs….first, the District significantly cut its expenditures by about $4.7 million….Lastly…implementing a new rate structure…"*

It further is instructive to note that in Jim Abercrombie's first two years as General Manager, EID gross operating expenses have surged **$4.8 million** annually…this while government units most everywhere else have been cutting budgets.

If General Manager Abercrombie truly had held EID's spending "flat" or "nearly flat" (as EID propaganda has claimed the last two years), he would not need to resort to "kicking the can down the road" on repaying **$4 million** of debt in each of the next four years in order to make debt coverage ratios.

And, by not extending the debt repayment term, he wouldn't be creating more than $10 million of additional interest ratepayers ultimately will be paying for EID failing to repay the 2003 debt by 2021 as originally committed.

(Scroll down for June 25th General Manager Jim Abercrombie's Report)

General Manager's Report
June 25, 2012

I am pleased to report that the District has received an A+ credit rating to its Revenue Bond Series $54 million series 2012A and $1.9 series 2012B certificates of participation (COPs) from Standard & Poor's Rating Services. Additionally, Moody's Investor Service has assigned an A1 rating to the same COPs. The forecast on all ratings is considered stable. These revenue bonds are those which were approved for refinancing in our June 11, 2012 Board meeting.

At the same time, Standard & Poor's Rating Services raised its underlying rating to A+ from A on the district's previously issued revenue COPs, and Moody's Investor Service has affirmed its A1 rating on the same COPs.

This is very good news for the District as it illustrates that the investment community has faith in the District's ability to manage its finances in a prudent and sound manner, as demonstrated by our continued commitment to hold down costs.

According to Standard & Poor's Primary Credit Analyst Paul Dyson, "This rating action also reflects our view of the District's improved financial performance in fiscal year 2010 and 2011, including increased debt service coverage and liquidity, largely as a result of rate increases but also because of strong hydroelectric revenue. The ratings on the COPs further reflect our opinion of the District's:

- very strong unrestricted cash balances totaling $75 million in fiscal year 2011, representing 670 days' cash on hand;
- improved debt service coverage of 1.60 in 2011, up from 1.40 in 2010 and just 0.7 5 in 2009;
- diverse, primarily residential customer base with strong income levels;
- ample water supply and treatment capacity; and
- board-adopted rate increases through 2014 that the Board anticipates will be sufficient to produce sufficient recurring revenue to meet rising operating expenses and debt service."

Jonathan Ash, of Citigroup, the group involved in the refinancing team for EID, commented that all the COPs that the District has outstanding that are rated by S&P, have been migrated upwards and thus, in their view, EID's entire system bears that credit. "It's quite a statement and once again gives testament to your achievement, Likewise, Moody's affirmed "A1" and "Stable" outlook blankets EID's revenue COPs and Bonds," he stated.

To review how the District accomplished this feat, first, the District significantly cut its expenditures by about $4.7 million from $46.3 million in 2008 to $41.6 million in 2011. Secondly, the District successfully negotiated a power sales agreement increasing non-rate revenue by over $4 million. Lastly, the District reduced its reliance on Facility Capacity Charge (FCC) revenue to pay for infrastructure needed for regulatory compliance and service reliability by conducting a comprehensive Cost of Services (COS) Study and implementing a new rate structure based upon new methodologies contained within the study.

It is important for customers to pay for infrastructure that they directly benefit from. When FCC's begin flowing back into the District, due to new construction, they will be used to pay down debt or for "pay as you go" capital projects.

I would like to thank EID Finance Director Mark Price for working diligently with the rest of the COS committee team to prepare a five-year financial plan that helped us achieve these ratings. I also want to thank the EID Board of Directors for adopting the COS plan, rate increases for the next few years, the five-year financial plan, and the restructure/refinance plans.

Staff will continue to search for ways to be more efficient as we move forward in our day-to-day work.