# Comparison of Capital Financing Methods

April 2013

Monterey Peninsula Water Management District

# 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:

[(Pre-Tax Return Required x (1- State Tax Rate)) x (1-Fed Tax Rate)] x Collection Rate

Or

= [(PTRR x .9116) x (.65)] x .99736 = PTTR x .590976

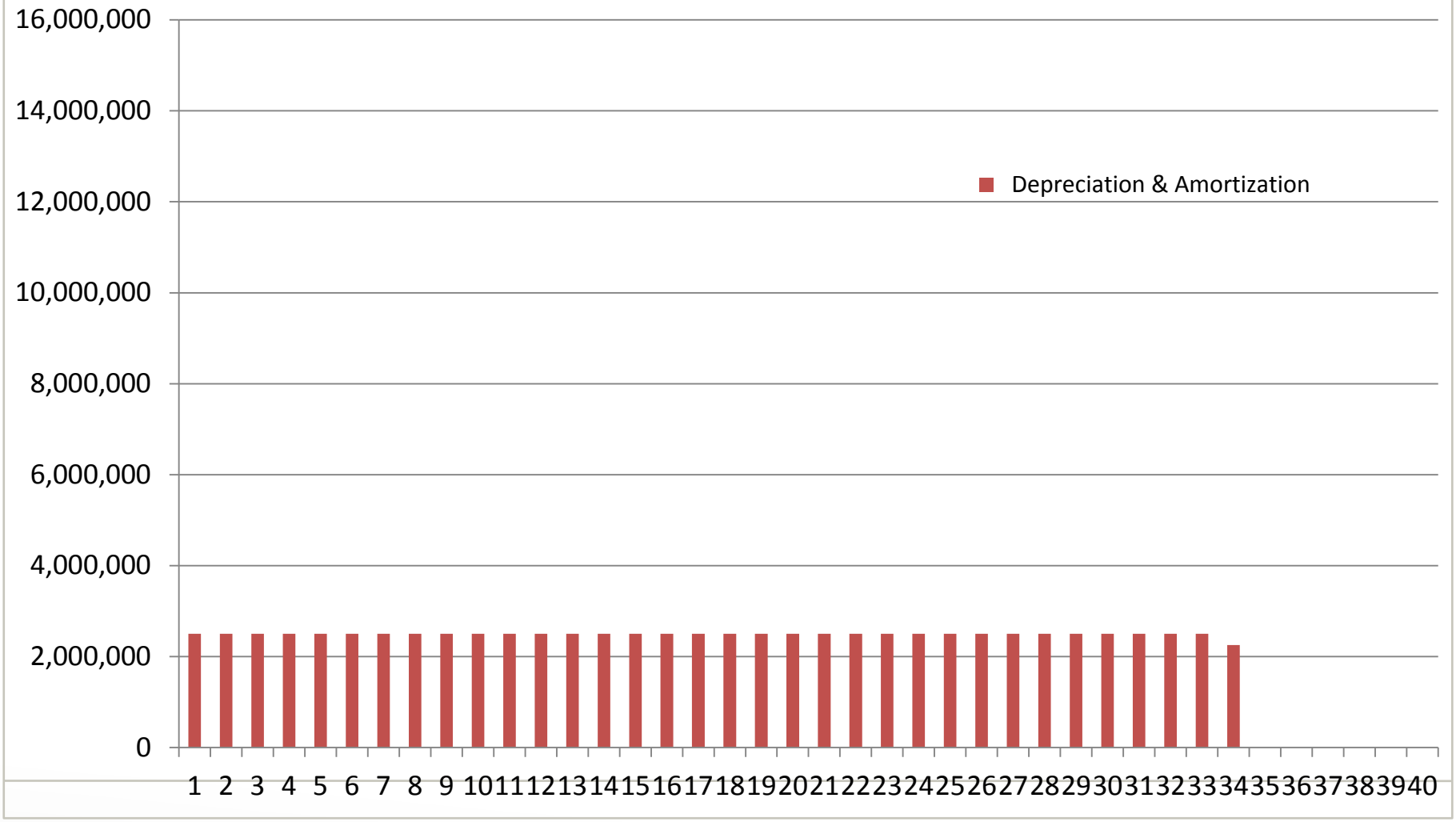
Or

Combined Return x 1.69 = 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



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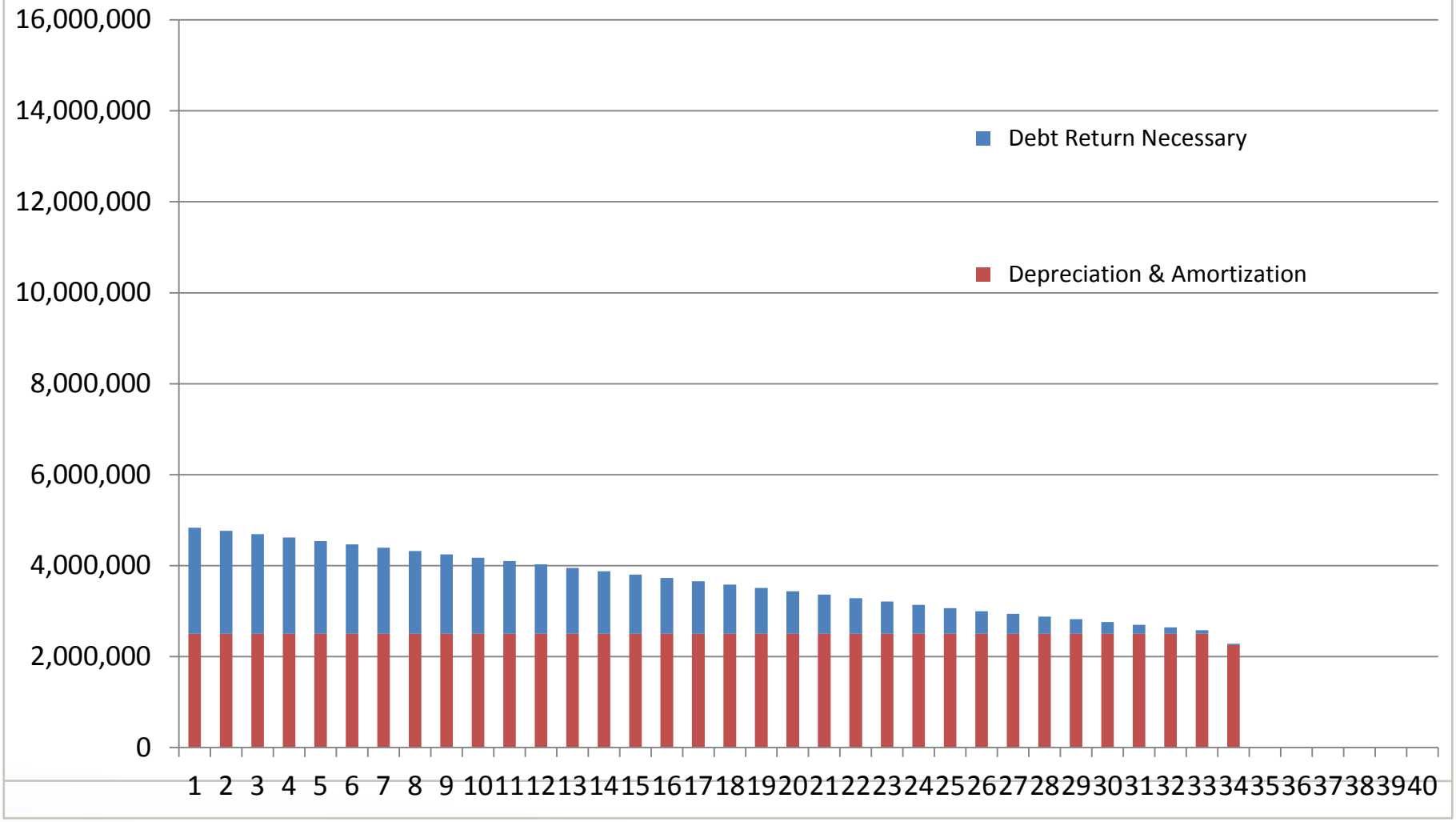

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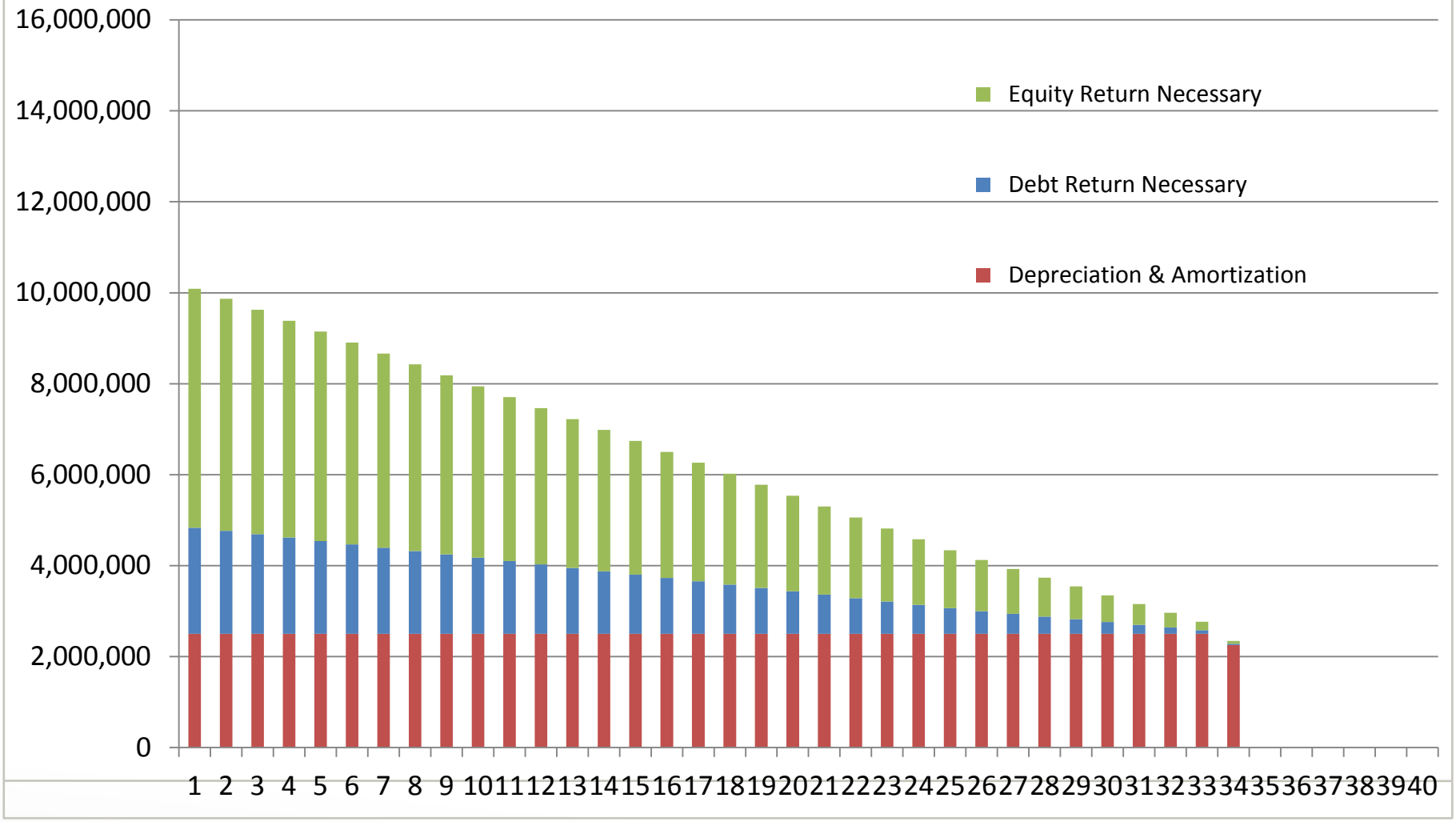

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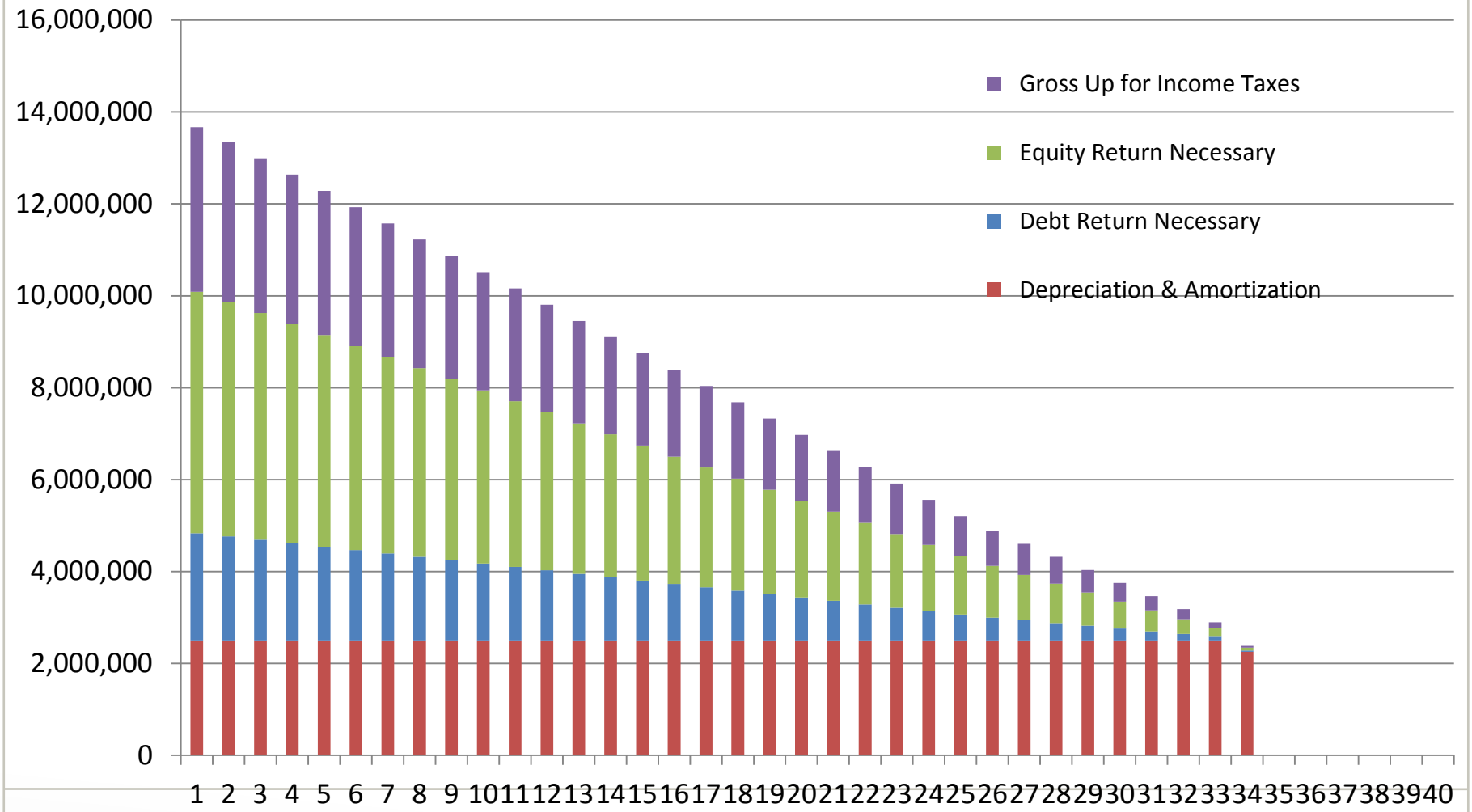

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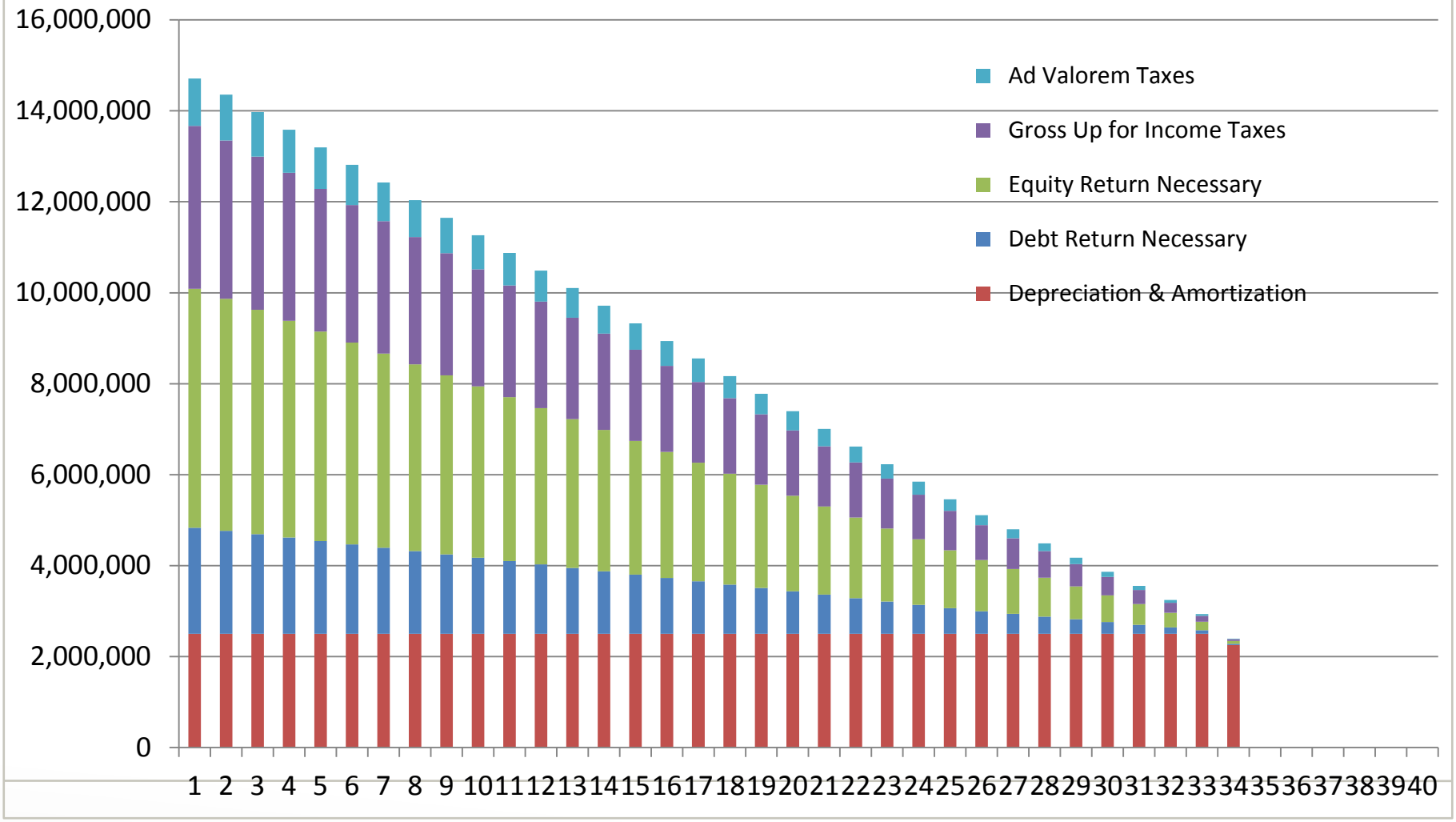


# How is Public Debt Actually Financed?

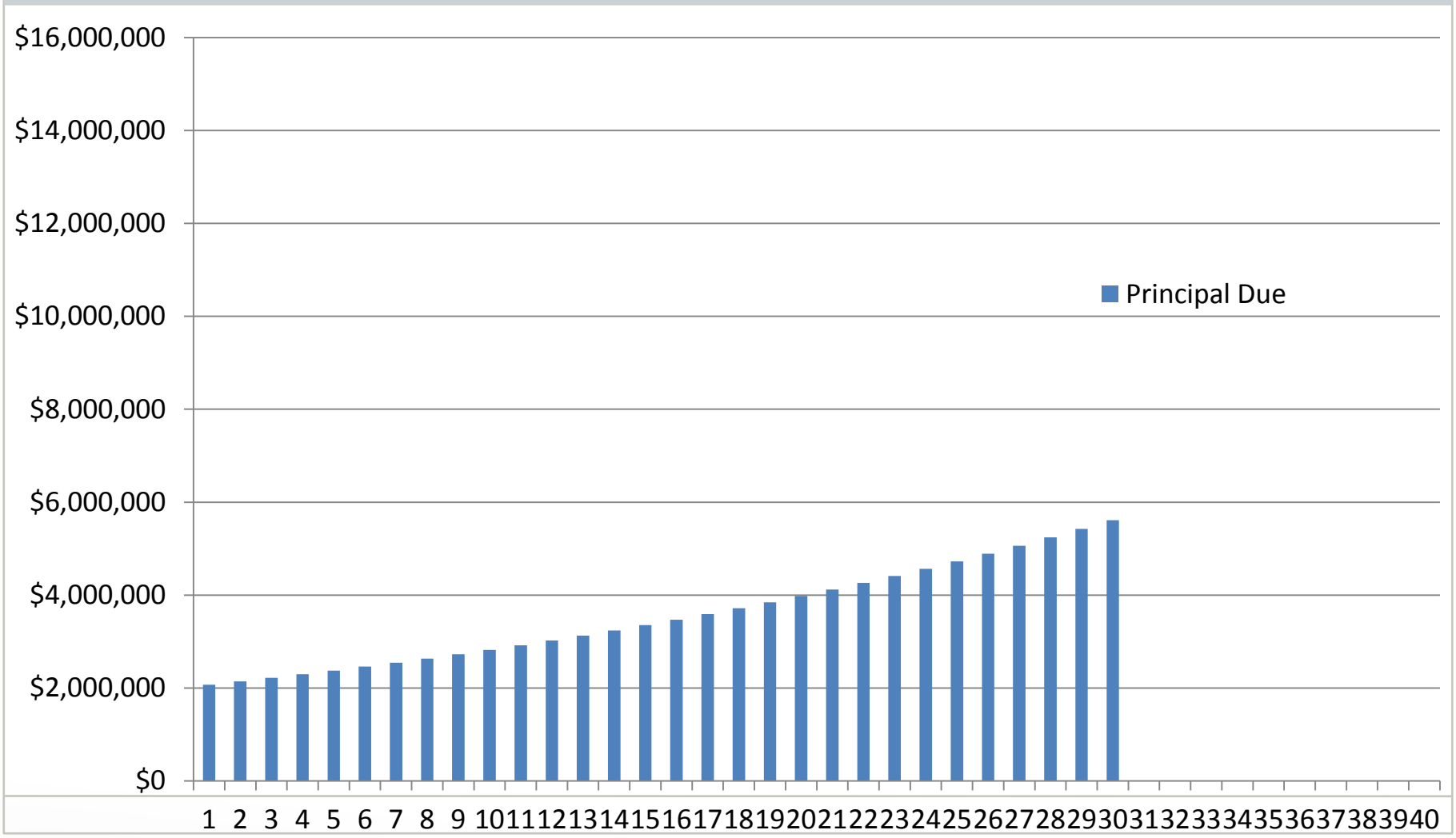
Public debt must include borrowed interest during construction, issuance costs, and a reserve fund.

**Bond Sizing:**

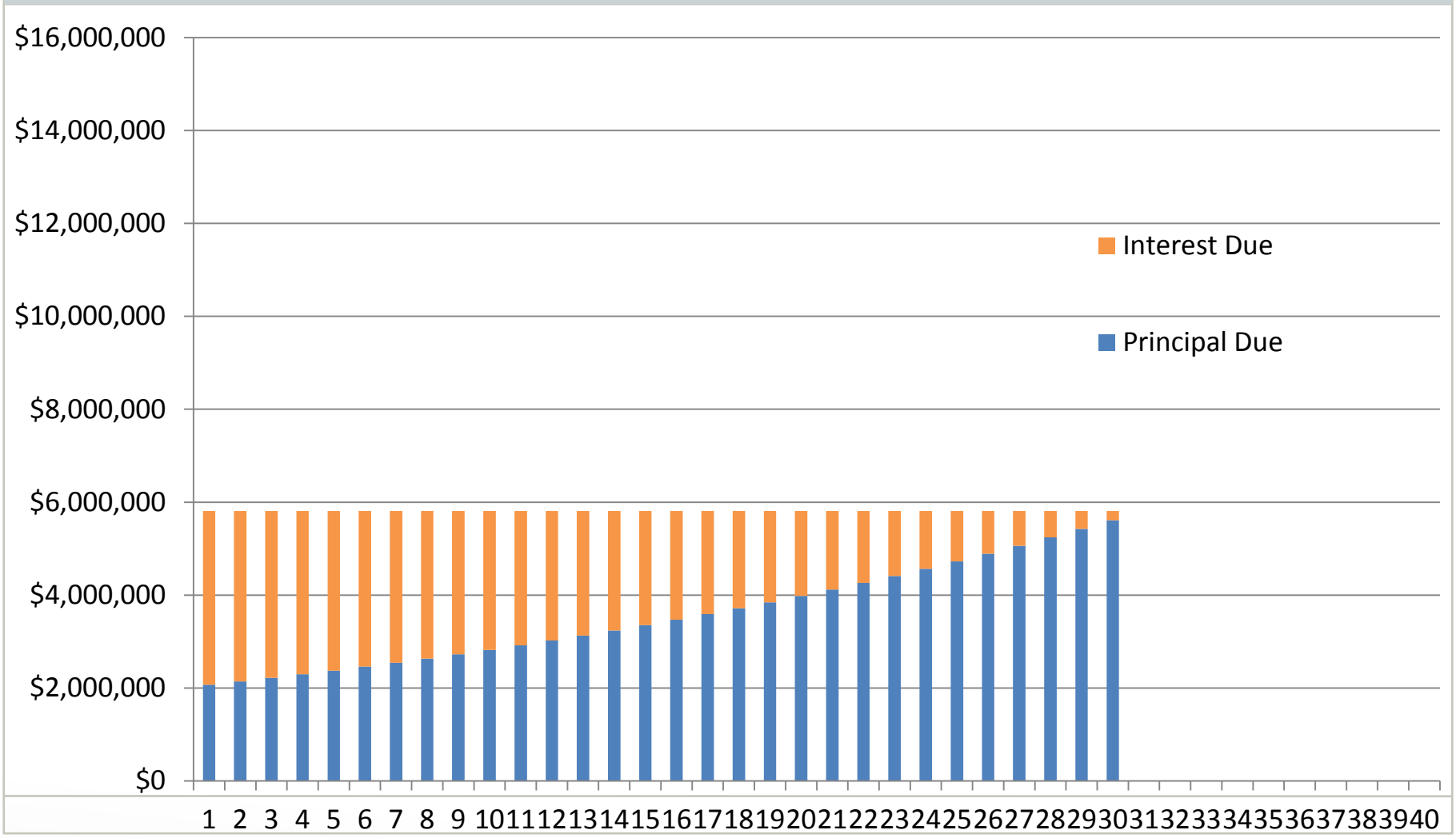
| | |
|---|---|
| Proceeds | 100,000,000 |
| Capitalized Interest | 0 |
| Debt Service Reserve Fund | 5,810,392 |
| Debt Issuance Costs | 1,058,104 |
| Balancing Amount | -3,496 |
| Issuance Amount | 106,865,000 |

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