Los Alamos County, NM

Financial Assessment Report

February 5, 2025

UTILITY FINANCIAL SOLUTIONS, LLC

Submitted Respectfully by:
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UTILITY FINANCIAL SOLUTIONS, LLC

February 5, 2025

Utah Associated Municipal Power Systems
155 North 400 West Ste 480
Salt Lake City, UT 84103

Dear UAMPS:

We are pleased to present this executive summary report for a financial assessment of the Electric Department of Los Alamos County, NM, for fiscal year 2024. This report was prepared to provide the City with a comprehensive examination of its existing financials by an outside party.

The specific purposes of this financial projection and assessment are:

1) Analysis of key financial targets such as:
    a. Days Cash on Hand
    b. Rate of Return
    c. Debt Coverage Ratio
    d. Debt to Equity
    e. Age of System
    f. Capital Reinvestment
    g. Capital Contributions
    h. Transfer to the City
    i. Administrative Charges
    j. Loans (to) and from
    k. Sales Mix
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        iii. EV
        iv. Solar
        v. Connection/Impact Fees

This report is intended for information and use by management and the Board of Directors for the purposes stated above and is not intended to be used by anyone except the specified parties.

Sincerely,

Utility Financial Solutions, LLC
Dawn Lund, Vice-President

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EXECUTIVE SUMMARY

This is an executive summary of a financial assessment for Los Alamos County, NM.

The utility has operated at losses in 2021, 2023 and 2024; below Industry standards of +4-6%. Willingness to change rates consistently is a key factor in keeping the utility financially sustainable. The utility and the Los Alamos National Laboratory (LANL) are partners in an Electric Coordination Agreement (ECA) that has been in effect since the mid 1980's. The ECA acts as a PCA for the utility's electric distribution customers as the cost of power is determined by the month combined and allocated costs of the ECA.

The utility has large, restricted cash of $24.8 million and non-restricted cash of $42.4 million in 2024 due to a settlement which increased non-restricted cash to 290 days, up from 7 days in 2023. The utility has a debt-to-equity ratio of 23% which meets industry standards.

There are transfers to the County in the four years reviewed, which is consistent utility practice. The capital invested in the utility was low in two of the four years and the capital improvement plan should be reviewed or established. In general, a utility should invest at the rate of depreciation which is $3.1 million on average for this system. The remaining net book value is 33% indicating an aged system. However, there was a large loss on disposal of an asset in 2023 and the disposal could be skewing the age of the system for 2024. The current residential monthly fixed service charge is $12.60, which is below the industry standard of approximately $15-25. As the utility adjusts rates, the customer charges in all classes should be increased while watching impacts to customers. Industry's best practice is to assess the customer charge as a fixed monthly fee in addition to a kWh, kW and PCA charge for the energy usage.

The utility should review policies and practices related to rate changes, large loads, and impact/connection fees. A cost of service study should be completed every 3 to 5 years, with yearly financial projections with the budget process.

KEY FINANCIAL TARGETS

Days Cash on Hand

This can be a key indicator of cash flow viability of the utility. It is a measurement of the days of cash available compared to total operating expenses. The typical range for a utility is 90-150 days. Bond rating agencies typically like to see a higher rated utility closer to 200 days. Cash has fluctuated over the past three years. According to the 2024 Audit, the utility has $42.4M of non-restricted cash or 290 days cash on hand. There is a large restricted balance of $24.8M which brings days cash on hand to 459 day total. This is a significant shift from the 2023 cash balances. According to the audit, there was a judgement and settlement receipt of $58 million. The restricted balance is classified as a current asset, and can be used for utility operations.

Healthy utilities will typically approve a cash reserve policy and hold something higher than their minimum with cash fluctuating according to age of system and the capital improvement plan.

	2021	2022	2023	2024
Cash and Cash Equiv	$ 1,818,433	$ 3,773,586	$ 1,116,334	$ (2,761,829)
Investments	-	-	-	$ 45,216,425
Restricted Cash	14,629,857	14,354,906	14,494,653	24,820,485
With Restricted	16,448,290	18,128,492	15,610,987	67,275,081
Net of Restricted	1,818,433	3,773,586	1,116,334	42,454,596
Total Expenses	$ 46,522,696	$ 45,222,806	$ 59,217,494	$ 52,826,400
Transfer	623,658	254,000	726,983	623,361
Total Expenses	$ 47,146,354	$ 45,476,806	$ 59,944,477	$ 53,449,761
Days Cash on Hand	**14**	**30**	**7**	**290**
With Restricted	127	146	95	459

Rate of Return (ROR)

The rate of return helps to ensure current rate payers are paying their fair share of the expenses and use of infrastructure to serve them. If a proper rate of return is not being met, the current rate payers are being subsidized by future rate payers. A typical rate of return for a municipal utility is 4-6% but depends on the age of the system. The utility's operating income has had losses in the past three of four years illustrating the lack of consistent incremental rate increases. Current rates are not meeting utility operational expenses, and it will be a unique challenge to balance the settlement cash and ensuring long-term financial sustainability.

	2021	2022	2023	2024
Operating Income	$ (607,015)	$ 3,528,990	$ (1,970,836)	$ (1,827,020)
Transfer to City	(623,658)	(254,000)	(726,983)	(623,361)
Operating Income (Loss)	(1,230,673)	3,274,990	(2,697,819)	(2,450,381)
Net Book Value (NBV)	$ 67,853,060	$ 64,121,829	$ 43,283,168	$ 46,434,591
Rate of Return (ROR)	**-1.81%**	**5.11%**	**-6.23%**	**-5.28%**

Debt Coverage Ratio

Debt coverage ratio is a measurement of debt affordability. It measures the cash flow from operations in each year to pay the debt service payment. Typical revenue bonds require a 1.25 debt coverage ratio. General obligation bonds typically do not have a specified ratio, but prudent financial planning would target at least a 1.0 and closer to 1.25 as required by revenue bonds. For financial planning purposes, 1.5 should be targeted as a buffer for extraordinary expenses or periods of declining sales. The utility had large non operating adjustments and changes in depreciation that is affecting the debt coverage ratio. In 2023 assets were written off that affect depreciation and in 2024, a settlement was booked as non operating revenue.

	2021	2022	2023	2024
Change in Net Position	$ (1,128,739)	$ 695,282	(23,592,281)	$ 56,385,618
Depreciation	3,773,140	3,193,646	2,448,402	1,852,424
Interest Expense	718,952	639,445	601,324	547,274
Non Operating Adjustments	(44,073)	1,689,499	20,976,658	(57,959,099)
Cash Flow from Operations	$ 3,319,280	$ 6,217,872	$ 434,103	$ 826,217
Debt Payment	$ 3,864,767	$ 1,866,246	$ 1,598,186	$ 1,597,296
Debt Coverage Ratio	**0.86**	**3.33**	**0.27**	**0.52**

Debt to Equity Ratio

This can be a key indicator of the debt practices of the utility. It is a measurement of the Net Book Value (NBV) of the utility with the outstanding debt. The typical range for a utility that generates and distributes is 50 – 70%. A utility that distributes only is typically between 30 – 50%. However, utilities can fall within the full range from no debt, to close to full debt. The utility's current debt to equity ratio is 23% and within industry standards.

	2021	2022	2023	2024
Current of LTD	$ 1,190,512	$ 975,694	$ 1,027,378	$ 1,100,704
Long-term Debt	12,765,532	11,753,549	10,705,003	9,581,655
Total Outstanding Principal	$ 13,956,044	$ 12,729,243	$ 11,732,381	$ 10,682,359
Net Book Value (NBV)	$ 67,853,060	$ 64,121,829	$ 43,283,168	$ 46,434,591
Percent Leveraged	**20.6%**	**19.9%**	**27.1%**	**23.0%**

Age of System

This can be a key indicator of capital reinvestment practices of the utility. It compares the historical investment in assets to accumulated depreciation. If a utility is reinvesting in the system at least at the rate of depreciation, the remaining NBV of the utility will be 50% or more. If a utility hasn't historically invested at the rate of depreciation, the remaining NBV will be less than 50% and can be an indicator of an aging system. The current remaining NBV is 33%. This is low and would indicate an aging system. There was a large loss in disposal of an asset in 2023. It is also noted that the system was acquired at one time from LANL. The utility's capital plan should be updated every year with the budget process.

	2021	2022	2023	2024
Land	-	-	-	-
Utility Plant in Service	178,042,885	177,922,582	130,661,896	132,802,889
Machinery and Equipment	2,794,608	2,842,730	2,290,768	1,870,324
Accum Depreciation	(118,650,775)	(121,644,073)	(91,277,602)	(92,191,904)
CWIP	5,666,342	5,000,590	1,506,038	2,357,142
Right-to-use asset			102,068	1,596,140
NBV	67,853,060	64,121,829	43,283,168	46,434,591
Historical	$ 186,503,835	$ 185,765,902	$ 134,560,770	$ 138,626,495
Remaining NBV	36%	35%	32%	33%

Capital Reinvestment

As a general proxy, the utility should reinvest at the rate of depreciation for an average depreciated system. If the system is highly depreciated, the capital improvement plan may need to be more aggressive. If the system is newer, in the short term, the utility may invest less than deprecation. This is a key area to ensure reinvestment is appropriate. Utilities can artificially keep rates low and build cash by not reinvesting in the system.

The utility has reinvested less than the rate of depreciation in two of the last four years. The capital improvement plan should be evaluated and updated yearly.

	2021	2022	2023	2024
Capital Invested	$ 1,098,168	$ 1,228,328	$ 3,055,828	$ 2,206,395
Depreciation	3,773,140	3,193,646	2,448,402	1,852,424
	Low	Low	Acceptable	Acceptable

Capital Contributions

Capital contributions are assets or money received towards the purchase of an asset. The money did not come from ratepayers of the utility and is usually in the form of an asset donation from a developer, a special project requested by an outside entity which they contribute towards the purchase of the asset, or grants. The utility shows a small amount of capital contributions in 2021 and should be aware of the recording requirements for contributed capital. Typically, the asset is signaled as contributed in the fixed asset listing. This is important for the rate setting process as contributed capital asset depreciation is removed when setting rates.

	2021	2022	2023	2024
Capital Contributions	$ 6,058	$ -	$ -	$ -

Transfer to the County

The transfer to the City/County is a common operating expense for municipal utilities. The typical range for cash only transfers is 4.8% according to APPA's national survey. The City/County transfer is becoming a very political point of interest with communities across the country, especially if the utility services customers outside the City. The utility board may want to be aware of the interest in this area.

The percent of sales transferred appears consistent in the years reviewed. The transfer policy should be evaluated. It is a one for one upward pressure on rates for the transfer.

	2021	2022	2023	2024
Sales	$ 45,915,681	$ 48,547,321	56,999,472	$ 50,598,367
Transfers	1,141,982	1,127,136	1,112,594	1,142,241
Actual % of Revenues	**2.5%**	**2.3%**	**2.0%**	**2.3%**
APPA country-wide	4.8%	4.8%	4.8%	4.8%

Administrative Charges

The utility has an allocation study performed for shared expenses to determine what is fair and equitable for the utility to contribute.

Loans (To) and From

Currently, it does not appear the utility has interfund loans. Should there be any in the future, a proper payment schedule should be created with a standard interest rate.

Sales Mix

The sales mix of a utility can help assess the risk to revenues should customers leave the system.

ELECTRIC SALES MIX

	Cust Count	FY2024 Revenue per ACFR	% of Retail Revenue	% of Total Revenue
Residential	7829	8,062,090	54.4%	15.8%
Commercial	623	4,410,353	29.8%	8.6%
Municipal	160	1,754,446	11.8%	3.4%
Educational	55	592,858	4.0%	1.2%
Subtotal	8667	14,819,747	100.0%	
Wholesale (LANL Partnership)		35,489,128		69.6%
Misc. & Lighting		690,505		1.4%
Revenue Per ACFR		50,999,380		100.0%

Revenues from the five largest customers

CUSTOMER	TYPE OF CUSTOMER	KWH SOLD	ANNUAL ELECTRICAL BILLINGS
1. Los Alamos Medical Center	Large Commercial	3,473,760	$325,976
2. Smith's Marketplace	Large Commercial	2,932,750	$274,619
3. New Mexico Consortium	Large Commercial	2,387,040	$223,258
4. LA Research Park	Large Commercial	1,758,960	$164,779
5. Enterprise Bank & Trust	Large Commercial	1,256,520	$117,768

System Loss Factors

Losses occurring from the transmission and distribution of electricity can vary from year to year depending upon weather and system loading. Losses can be higher if there are non-billed sales in the system, such as for street lighting. The sales and purchases were the same which is due to production providing distribution.

Sales to Customers kWh	478,508,301
Purchased kWh	478,508,000
System Losses	0.0%

Rate Change Assessment

Willingness to change rates is an important factor in keeping the utility financially sustainable. Small yearly rate adjustments to keep up with changing costs and inflation is the best practice. The utility has operated at losses and does not appear to have consistent rate adjustments. The utility has a service charge which appears to be the same for all commercial classes. A cost of service study should be completed every 3 to 5 years with yearly financial projections.

Residential Customer Charge

The monthly customer charge recovers the relative fixed cost of the system such as meter reading, billing, customer service, and a portion of the distribution system. It is important to ensure the customer charges are set at appropriate levels to help stabilize revenues during periods of declining sales. The typical residential customer charge is between $15.00 and $25.00 per month. For rural systems, customer charges are typically higher.

The residential fixed service charge is $12.60/month. In general, for all the rate classes, the customer charges are typical standard structure but low. Any changes in customer charges should be done in increments over time to help mitigate the impact on customers. A cost of service study should be completed every 3-5 years to help guide rate structures.

Power Cost Adjustment (PCA)

A PCA is a major factor in ensuring the current and future financial stability of the utility. The utility and the Los Alamos National Laboratory are partners in an Electric Coordination Agreement (ECA) that has been in effect since the mid 1980's. The ECA acts as a PCA for the utility's electric distribution customers as the cost of power is determined by the month combined and allocated costs of the ECA.

EV Rates and Policy

The utility recently modified the Rules to include an EV rate for county owned EV chargers available to the public.

Solar Rates and Policy

Solar Rates and Policy are included in Los Alamos County Department of Public Utilities Rule E-5. Rule E-5 states "the credit to the Customer for energy supplied to the Utility will be based on the wholesale cost. The wholesale cost is the Utility's Electric Coordination Agreement (ECA) total capacity and energy costs, for a twelve-month rolling average, calculated from the Los Alamos County Resource Pool invoices."

Connection or Impact Fees and Policy

It appears the utility does not have connection and impact fees as they are not recorded in the financial statements.

STUDY SUMMARY OF FINNCIAL INDICATORS

Financial Indicator	2023 Factor	2024 Factor	Comments
Days Cash on Hand	7	290	Was declining; large settlement increased the cash balance
Rate of Return	-6.23%	-5.28%	Losses in three of the past four years
Debt Coverage Ratio	0.27	0.52	Large loss on disposal of capital asset in 2023; principal payments were not levelized
Debt to Equity	27%	23%	Acceptable
Remaining NBV	32.2%	33.5%	Low; check capital plan; and large loss on disposal in 2023
Capital Reinvestment	$ 3,055,828	$ 2,206,395	Acceptable in 2023 and 2024; low in 2021 and 2022 consistent with age of system
Capital Contributions	n/a	n/a	Very small amount in 2021
Transfer to the County	2.0%	2.3%	Consistent, below industry average
Administrative Charges			The utility has an allocation study
Loans (to) from	n/a	n/a	No loans (to) from
Sales Mix			Partnership with LANL, remainders is fairly evenly distributed
System Loss Factor	0.0%	0.0%	Production provides distribution
Rate Change assessment	n/a	n/a	Low customer charges, declining cash and losses
Customer Charges	Low		Low
PCA	ECA	EC	Partnership with LANL acts as PCA
EV			Recently added EV rate to Rules for county owned EV chargers available to the public
Solar			Included in Rule E-5
Connection/Impact Fees	None Known		Not listed in financial statements