

Key Financial Indicators Exercise



UNC
ENVIRONMENTAL
FINANCE CENTER



1. Operating Ratio

Operating ratio measures self-sufficiency. The revenue you get from daily operations, divided by the expenditures or expenses you make to keep operations running.

Natural Benchmark: > 1.0; higher preferred

1a.

Operating Revenues (1)

=

Operating Expenses (including depreciation) (2)

1b.

Operating Revenues (1)

=

Operating Expenses (excluding depreciation) (2-3)

2. Debt Service Coverage Ratio

A measure of the ability to pay debt service with operating revenue

Natural Benchmark: > 1.0, though funders often set requirements above 1.0 (usually >1.2)

2.

Operating Revenues (1)

-

*Operating Expenses (2-3)
(excluding depreciation)*

=

Principal & Interest on Long-Term Debt (4)



3. Days of Cash on Hand

A measure of the ability of the utility to weather a significant temporary reduction in revenue to continue paying for daily operations.

Benchmark? At least enough to last a billing cycle or when you expect a substantial inflow of cash. The median for Fitch A rated systems is 285 days, and the median for Fitch AA rated systems is 418 days.

3.

$$\frac{\text{Unrestricted Cash \& Cash Equivalents (5)}}{\text{Operating Expenses (excluding depreciation) (2-3)} / 365} = \text{[]}$$

4. Current Ratio

A measure of short-term liquidity: ability to pay your current bills

Natural Benchmark: >1.0; >2.0 is preferred

4.

$$\frac{\text{Unrestricted Cash \& Cash Equivalents (5)} + \text{Receivables, net (6)}}{\text{Current Liabilities (7)}} = \text{[]}$$