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# Capital Planning & Debt Management

## *Ratios, Reserves, and Rates*

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PALMETTO POWER CITIES  
JUNE 8, 2026

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## The Balancing Act

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Provide Affordable Service  
Provide Reliable Service  
Plan for Growth

Pay Bills  
Maintain Current System  
Expand System

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## Steps to Meeting Goals

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Determine the revenue requirement.

- Power Supply Projections
- Operating Budget
- Capital Improvement Plan
- Minimum Cash Reserve Requirement

Decide how to meet the revenue requirement.

- Electric Revenue
- Cash Reserve Fund
- Capital Project Fund
- Grants / Bonds / Loans

## Determine the Revenue Requirement

### Utility Basis vs Cash Basis

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Utility Basis – used by IOU's, cooperatives, some public power systems

- Power Supply
- Other Operating Expenses
- Depreciation Expense
- Interest Expense
- Financial Targets – TIER, RoR
  - TIER = Times Interest Earned Ratio
  - RoR = Rate of Return

Cash Basis – used by most public power systems

- Power Supply
- Other Operating Expenses
- Debt Service
- Capital Outlays
- Financial Targets –DoCH, DSC
  - DoCH = Days of Cash on Hand aka Cash Reserves
  - DSC = Debt Service Coverage

## Cash Reserve Fund

Used to bridge the gap between when expenses are paid and revenue collected.

Manages revenue fluctuations due to seasonality, outages...

Calculation is based on a specified time-period (5 years) and these five factors.

- Power Supply
- Other Operating Expenses
- Rate Base / Age of Plant
- Capital Projects
- Dept Service

## Reserves for Power Supply

Largest expense by far.

- 50% to 80%

Recovery is affected by seasonality and the lag in revenue recovery.

- When moving from a shoulder month to a peak month, power bill will be high when revenue is low.

Maximum Monthly Power Supply	\$6,000,000	a
Days of Working Capital	45	b
Days per Month	30	c
Factor	1.5	d = b/c
Cash Reserves for Power Supply	\$8,877,000	a * d

## Reserves for Other Operating Expenses

Reserves are used to meet expenses as revenues fluctuate.

Calculation uses the average annual expenses for the specified time-period.

Operating Expenses	\$37,629,000	a
Power Supply	<u>\$34,357,000</u>	b
Other Operating Expenses	\$3,272,000	c = a - b
Days of Working Capital	45	d
Days per Year	365	e
Factor	12.3%	f = d / e
Cash Reserves for Other Operating Expenses	\$403,000	c * f

## Reserves for Rate Base / Age of Plant

Maintenance expenses are proportional to the age of plant.

Calculation uses current Plant and Accumulated Depreciation balances.

Gross Utility Plant net Land	\$50,000,000	a
Accumulated Depreciation	\$25,000,000	b
Percent of Total	50.0%	c = b / a
Determine Factor		
Less than 50%	1%	
Between 50% and 55%	2%	
More than 55%	3%	
Factor Based on Percent of Total	<u>2.0%</u>	d
Cash Reserves for Rate Base	\$1,000,000	a * d

## Reserves for Capital Projects

Calculation uses annual averages for the specified time-period.

Capital Projects	\$11,500,000	a
Other Funding	\$0	b
Capital Projects net Other Funding	\$11,500,000	c = a - b
Time Period (years)	5	d
Cash Reserves for Capital Projects	\$2,300,000	c / d

## Reserves for Debt Service

Calculation uses the payments based on period not loan payments.

- Example      Loan 1's payment is \$25,000 every 6-months, January & June
- Loan 2's payment is \$30,000 every January
- The maximum loan payment is \$30,000, but the maximum monthly payment is \$55,000 in January when both loan payments align.

January Debt Service Payment	\$55,000	a
June Debt Service Payment	\$25,000	b
Cash Reserves for Debt Service	\$55,000	max ( a, b )

## Recommended Cash Reserve Fund

### Typical Days of Cash on Hand

- Target VARIES
- 45-90 days for larger utilities
- 90-180 days for smaller utilities
- 120 days
- 150 – 300 days

May be set by policy.

Replenished by margins.

Power Supply	\$8,877,000	
Operation & Maintenance Expenses	\$403,000	
Rate Base	\$1,000,000	
Capital Improvements	\$2,300,000	
Debt Service	\$55,000	
Recommended Cash Reserves	\$12,635,000	a
Total O&M Expenses	\$37,629,000	b
Days per Year	365	c
O&M Expenses per Day	\$103,093	d = b / c
Days of Cash on Hand	123	a / d

## Current Ratio

Measures short-term financial health.

Target – 1.5

Current Ratio = Current Assets / Current Liabilities

Current Ratio and Days of Cash on Hand are Liquidity Ratios.

## Debt Service Coverage

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Measures the ability to cover principal and interest payments.

Critical for bond holders.

Target – 1.5 to 2.0

$DSC = (\text{Principal} + \text{Interest}) / (\text{Operating Revenue} - \text{Operating Expenses})$

## Other Coverage Ratios

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Fixed Charge Coverage – broader than DSC

- Includes lease payments and other fixed and unavoidable obligations.
- Examples of Other - take or pay contract obligation, regulatory or settlement obligations
- $(\text{Net Revenues} + \text{Fixed Charges}) / \text{Fixed Charges}$
- Target – 1.5 to 2.0

Cash Flow-to-Debt - indicates overall debt affordability, financial flexibility.

- $\text{Cash Flow from Operations} / \text{Total Debt}$
- Target – 12% to 20%

## Leverage Ratios

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Debt-to-Asset – measures capital structure risk

- Total Debt / Total Assets
- Target - 50% to 60%

Debt-to-Revenue – indicates how leveraged revenues are

- Total Debt / Annual Operating Revenue
- Target - 3.5 to 5.0

Debt per Consumer – higher values indicate higher rate pressure

- Total Debt / Number of Consumers
- Target - \$3k to \$6k

## Operating Performance Ratios

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Operating Margin – reflects profitability before capital costs

- $(\text{Operating Revenue} - \text{Operating Expenses}) / \text{Operating Revenue}$
- Target – 10% - 25%

Net Margin – indicates sustainability not profit

- Net Income / Operating Revenue
- Target – 2% to 15%

O&M Expense – tracks cost efficiency

- O&M Expenses / Operating Revenues
- Target – 55% to 75%

		Actual	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Operating Revenue</b>							
Electric Sales		\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Service Charges	0.0%	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Total Operating Revenue		\$40,050,000	\$40,050,000	\$40,050,000	\$40,050,000	\$40,050,000	\$40,050,000
<b>Operating Expenses</b>							
Power Supply	2.5%	\$31,500,000	\$32,288,000	\$33,095,000	\$33,922,000	\$34,770,000	\$35,639,000
Other Operating Expenses	2.5%	\$3,000,000	\$3,075,000	\$3,152,000	\$3,231,000	\$3,312,000	\$3,395,000
Total Operating Expenses		\$34,500,000	\$35,363,000	\$36,247,000	\$37,153,000	\$38,082,000	\$39,034,000
<b>Debt Service</b>							
Principal Retirement		\$2,500,000	\$2,500,000	\$2,500,000	\$500,000	\$0	\$0
Interest and Other Charges		\$125,000	\$125,000	\$62,500	\$10,000	\$0	\$0
Total Debt Service		\$2,625,000	\$2,625,000	\$2,562,500	\$510,000	\$0	\$0
Capital Outlay		\$1,000,000	\$1,000,000	\$1,000,000	\$5,500,000	\$2,500,000	\$2,500,000
Margins		\$1,925,000	\$1,062,000	\$240,500	(\$3,113,000)	(\$532,000)	(\$1,484,000)
Recommended Cash Reserves		\$12,635,000					
Cash Reserve Balance		\$9,500,000	\$10,562,000	\$10,802,500	\$7,689,500	\$7,157,500	\$5,673,500
Days of Cash on Hand	123	101	109	109	76	69	53
Debt Service Coverage	1.5 - 2.0	2.1	1.8	1.5	5.7		

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17

## Meeting the Revenue Requirement

### Increase rates

- Base rates if requirement is long-term
- Power cost adjustment to meet short-term power supply variances

### Grants

- Project specific, do not need to be repaid

### Bonds

- Revenue Bonds
- General Obligation Bonds

### Loans

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18

# Revenue Bonds

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Primary financing tool for municipal utility systems.

## Features

- Backed by utility revenues
- Long term, 20-30years
- Fixed or variable rates

## Pros

- Lowest cost of capital
- Aligns payment with asset life

## Cons

- Must maintain a certain level of DSC

# General Obligation Bonds

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Less common for municipal utilities.

## Features

- Backed by the municipality
- Long term, 20-30years
- Fixed or variable rates

## Pros

- Lower interest rates
- More investor demand

## Cons

- Must maintain a certain level of DSC
- Politically sensitive
- Competes with other municipal needs.

# Loans

Best for interim financing, smaller capital needs, bridge to bond financing.

## Pros

- Faster
- Terms are flexible
- Lower insurance costs, no underwriting

## Cons

- Shorter, 5-15 years
- Higher rates
- May have stricter covenants

		Actual	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Operating Revenue</b>							
Electric Sales	0.0%	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Service Charges	0.0%	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
<b>Total Operating Revenue</b>		<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>
<b>Operating Expenses</b>							
Power Supply	2.5%	\$31,500,000	\$32,288,000	\$33,095,000	\$33,922,000	\$34,770,000	\$35,639,000
Other Operating Expenses	2.5%	\$3,000,000	\$3,075,000	\$3,152,000	\$3,231,000	\$3,312,000	\$3,395,000
<b>Total Operating Expenses</b>		<b>\$34,500,000</b>	<b>\$35,363,000</b>	<b>\$36,247,000</b>	<b>\$37,153,000</b>	<b>\$38,082,000</b>	<b>\$39,034,000</b>
<b>Debt Service</b>							
Principal Retirement		\$2,500,000	\$2,500,000	\$2,500,000	\$500,000	\$0	\$0
Interest and Other Charges		\$125,000	\$125,000	\$62,500	\$10,000	\$0	\$0
<b>Total Debt Service</b>		<b>\$2,625,000</b>	<b>\$2,625,000</b>	<b>\$2,562,500</b>	<b>\$510,000</b>	<b>\$0</b>	<b>\$0</b>
Capital Outlay		\$1,000,000	\$1,000,000	\$1,000,000	\$5,500,000	\$2,500,000	\$2,500,000
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<b>Debt Service</b>							
Principal Retirement		\$2,500,000	\$2,500,000	\$2,500,000	\$500,000	\$0	\$0
Interest and Other Charges		\$125,000	\$125,000	\$62,500	\$10,000	\$0	\$0
<b>Total Debt Service</b>		<b>\$2,625,000</b>	<b>\$2,625,000</b>	<b>\$2,562,500</b>	<b>\$510,000</b>	<b>\$0</b>	<b>\$0</b>
<b>Capital Outlay</b>		<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$5,500,000</b>	<b>\$2,500,000</b>	<b>\$2,500,000</b>
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23

		Actual	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Operating Revenue</b>							
Electric Sales	0.0%	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Service Charges	0.0%	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
<b>Total Operating Revenue</b>		<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>
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<b>Debt Service</b>							
Principal Retirement		\$2,500,000	\$2,500,000	\$2,500,000	\$500,000	\$0	\$0
Interest and Other Charges		\$125,000	\$125,000	\$62,500	\$10,000	\$0	\$0
<b>Total Debt Service</b>		<b>\$2,625,000</b>	<b>\$2,625,000</b>	<b>\$2,562,500</b>	<b>\$510,000</b>	<b>\$0</b>	<b>\$0</b>
<b>Capital Outlay</b>		<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$5,500,000</b>	<b>\$2,500,000</b>	<b>\$2,500,000</b>
<b>Margins</b>		<b>\$1,925,000</b>	<b>\$1,062,000</b>	<b>\$240,500</b>	<b>(\$3,113,000)</b>	<b>(\$532,000)</b>	<b>(\$1,484,000)</b>
<b>Recommended Cash Reserves</b>		<b>\$12,635,000</b>					
Cash Reserve Balance		\$9,500,000	\$10,562,000	\$10,802,500	\$7,689,500	\$7,157,500	\$5,673,500
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24

		Actual	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Operating Revenue</b>							
Electric Sales	0.0%	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Service Charges	0.0%	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
<b>Total Operating Revenue</b>		<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>
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<b>Debt Service</b>							
Principal Retirement		\$2,500,000	\$2,500,000	\$2,500,000	\$500,000	\$0	\$0
Interest and Other Charges		\$125,000	\$125,000	\$62,500	\$10,000	\$0	\$0
<b>Total Debt Service</b>		<b>\$2,625,000</b>	<b>\$2,625,000</b>	<b>\$2,562,500</b>	<b>\$510,000</b>	<b>\$0</b>	<b>\$0</b>
<b>Capital Outlay</b>		<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$5,500,000</b>	<b>\$2,500,000</b>	<b>\$2,500,000</b>
<b>Margins</b>		<b>\$1,925,000</b>	<b>\$1,062,000</b>	<b>\$240,500</b>	<b>(\$3,113,000)</b>	<b>(\$532,000)</b>	<b>(\$1,484,000)</b>
<b>Recommended Cash Reserves</b>		<b>\$12,635,000</b>					
Cash Reserve Balance		\$9,500,000	\$10,562,000	\$10,802,500	\$7,689,500	\$7,157,500	\$5,673,500
Days of Cash on Hand	123	101	109	109	76	69	53
Debt Service Coverage	1.5 - 2.0	2.1	1.8	1.5	5.7		

		Actual	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Operating Revenue</b>							
Electric Sales	0.0%	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Service Charges	0.0%	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
<b>Total Operating Revenue</b>		<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>	<b>\$40,050,000</b>
<b>Operating Expenses</b>							
Power Supply	2.5%	\$31,500,000	\$32,288,000	\$33,095,000	\$33,922,000	\$34,770,000	\$35,639,000
Other Operating Expenses	2.5%	\$3,000,000	\$3,075,000	\$3,152,000	\$3,231,000	\$3,312,000	\$3,395,000
<b>Total Operating Expenses</b>		<b>\$34,500,000</b>	<b>\$35,363,000</b>	<b>\$36,247,000</b>	<b>\$37,153,000</b>	<b>\$38,082,000</b>	<b>\$39,034,000</b>
<b>Debt Service</b>							
Principal Retirement		\$2,500,000	\$2,500,000	\$2,500,000	\$500,000	\$0	\$0
Interest and Other Charges		\$125,000	\$125,000	\$62,500	\$10,000	\$0	\$0
<b>Total Debt Service</b>		<b>\$2,625,000</b>	<b>\$2,625,000</b>	<b>\$2,562,500</b>	<b>\$510,000</b>	<b>\$0</b>	<b>\$0</b>
<b>Capital Outlay</b>		<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$5,500,000</b>	<b>\$2,500,000</b>	<b>\$2,500,000</b>
Grant Funding / Capital Project Fund					\$4,500,000		
<b>Margins</b>		<b>\$1,925,000</b>	<b>\$1,062,000</b>	<b>\$240,500</b>	<b>\$1,387,000</b>	<b>(\$532,000)</b>	<b>(\$1,484,000)</b>
<b>Recommended Cash Reserves</b>		<b>\$12,635,000</b>					
Cash Reserve Balance		\$9,500,000	\$10,562,000	\$10,802,500	\$12,189,500	\$11,657,500	\$10,173,500
Days of Cash on Hand	123	101	109	109	120	112	95
Debt Service Coverage	1.5 - 2.0	2.1	1.8	1.5	5.7		

		Actual	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Revenue							
Electric Sales	0.0%	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Service Charges	0.0%	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Total Operating Revenue		\$40,050,000	\$40,050,000	\$40,050,000	\$40,050,000	\$40,050,000	\$40,050,000
Operating Expenses							
Power Supply	2.5%	\$31,500,000	\$32,288,000	\$33,095,000	\$33,922,000	\$34,770,000	\$35,639,000
Other Operating Expenses	2.5%	\$3,000,000	\$3,075,000	\$3,152,000	\$3,231,000	\$3,312,000	\$3,395,000
Total Operating Expenses		\$34,500,000	\$35,363,000	\$36,247,000	\$37,153,000	\$38,082,000	\$39,034,000
Debt Service							
Principal Retirement		\$2,500,000	\$2,500,000	\$2,500,000	\$500,000	\$814,387	\$855,106
Interest and Other Charges		\$125,000	\$125,000	\$62,500	\$10,000	\$225,000	\$184,281
Total Debt Service		\$2,625,000	\$2,625,000	\$2,562,500	\$510,000	\$1,039,387	\$1,039,387
Capital Outlay		\$1,000,000	\$1,000,000	\$1,000,000	\$5,500,000	\$2,500,000	\$2,500,000
Bond / Loan Funds					\$4,500,000		
Margins		\$1,925,000	\$1,062,000	\$240,500	\$1,387,000	(\$1,571,387)	(\$2,523,387)
Recommended Cash Reserves		\$12,635,000					
Cash Reserve Balance		\$9,500,000	\$10,562,000	\$10,802,500	\$12,189,500	\$10,618,113	\$8,094,727
Days of Cash on Hand	123	101	109	109	120	102	76
Debt Service Coverage	1.5 - 2.0	2.1	1.8	1.5	5.7	1.9	1.0

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27

		Actual	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Revenue							
Electric Sales	0.0%	\$40,000,000	\$40,000,000	\$40,000,000	\$41,000,000	\$42,025,000	\$43,075,625
Service Charges	0.0%	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Total Operating Revenue		\$40,050,000	\$40,050,000	\$40,050,000	\$41,050,000	\$42,075,000	\$43,125,625
Operating Expenses							
Power Supply	2.5%	\$31,500,000	\$32,288,000	\$33,095,000	\$33,922,000	\$34,770,000	\$35,639,000
Other Operating Expenses	2.5%	\$3,000,000	\$3,075,000	\$3,152,000	\$3,231,000	\$3,312,000	\$3,395,000
Total Operating Expenses		\$34,500,000	\$35,363,000	\$36,247,000	\$37,153,000	\$38,082,000	\$39,034,000
Debt Service							
Principal Retirement		\$2,500,000	\$2,500,000	\$2,500,000	\$500,000	\$180,975	\$190,024
Interest and Other Charges		\$125,000	\$125,000	\$62,500	\$10,000	\$50,000	\$40,951
Total Debt Service		\$2,625,000	\$2,625,000	\$2,562,500	\$510,000	\$230,975	\$230,975
Capital Outlay		\$1,000,000	\$1,000,000	\$1,000,000	\$5,500,000	\$2,500,000	\$2,500,000
Bond / Loan Funds					\$1,000,000		
Margins		\$1,925,000	\$1,062,000	\$240,500	(\$1,113,000)	\$1,262,025	\$1,360,650
Recommended Cash Reserves		\$12,635,000					
Cash Reserve Balance		\$9,500,000	\$10,562,000	\$10,802,500	\$9,689,500	\$10,951,525	\$12,312,175
Days of Cash on Hand	123	101	109	109	95	105	115
Debt Service Coverage	1.5 - 2.0	2.1	1.8	1.5	7.6	17.3	17.7

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28

# Meeting the Revenue Requirement Review

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## Increase rates

- Base rates if requirement is long-term
- Power cost adjustment to meet short-term power supply variances

## Grants

- Project specific, do not need to be repaid

## Bonds

- For large / long-term projects
- Revenue Bonds, backed by utility revenues
- General Obligation Bonds, back by the city/town

## Loans

- For shorter periods

# Questions

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## Data Centers and South Carolina

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### Current Incentive-Based Framework

- South Carolina offers tax exemptions and FILOT agreements to attract data center investments.

### Legislative Proposals for Regulation

- Senate Bill 867 introduces siting permits and oversight to address infrastructure and environmental concerns.

### Restrictive Legislative Approaches

- Bills propose eliminating incentives, requiring energy independence, and imposing moratoriums on new projects.

### Policy Shift Toward Sustainability

- New laws emphasize accountability, environmental sustainability, and taxpayer protection.

## Data Centers in Other States

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### Virginia's Mature Data Center Market

- Virginia hosts the world's largest data center concentration, driven by long-term sales tax exemptions now under regulatory review.

### Georgia's Balanced Incentive Approach

- Georgia offers tax exemptions and credits but requires large users to fund grid upgrades, balancing growth with infrastructure impact.

### North Carolina's Reliance on Incentives

- North Carolina heavily depends on tax exemptions but faces pressure to reform due to rising energy costs and taxpayer concerns.

### Regional Legislative Trends

- Southeastern states shift from aggressive incentives to policies focusing on cost recovery, sustainability, and competitiveness.