



Captive Goals

- Provide Financial Protection for Earthquake
- Improve Investment Earnings
- Stronger Reserves

Captive Set-Up

- Mesa Water Risk Retention Corporation
 - Subsidiary of Mesa Water
- Board of Directors:
 - Current Mesa Water Board
 - Utah Attorney
 - President & Vice-President
- Consultant Selection
 - Strategic Risk Solutions (Management Company)
 - Kirk McConkie Law Firm (Utah Attorney)
 - Bickmore Actuarial (Actuarial Services)



3

Funding Capital Budget With Captive

- Model Assumptions
- Budget Growth
- Necessary Funding Contributions
- Resulting Growth in Assets
- Dividends



4

General Assumptions of Funding Model

- Captive Funded with \$30M During Initial Two Years
- Potential Additional Contributions Starting in Year Three
- Funding Continues for a Target Number of Years
- Then Dividends are Issued from Captive to Fund District Capital Budget in Perpetuity with Investment Returns

5



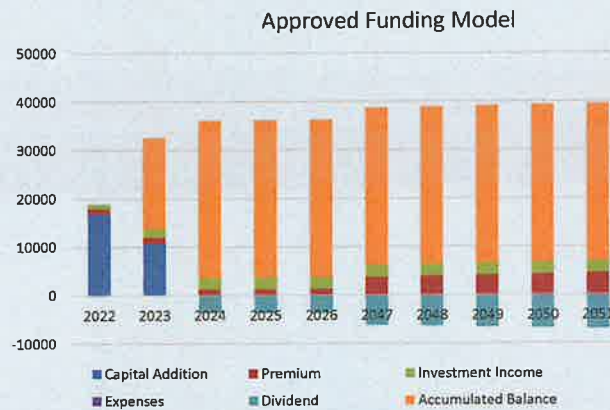
Approved: \$30MM Funding Over 2 Years

- Captive Funded with \$30M Total in Years 1 & 2
- Captive Funded with Additional Premiums at the Beginning of Each Year Starting in Year 3
- Investment Income Accrues at 8% per year
- Dividends equal to Captive Net Income are Issued from Captive to District at the End of Each Year Starting in Year 3
- Additional Premiums each year consist of two pieces:
 - Premiums for EQ Risk increase by 5% per year
 - Premiums for Captive Operating expenses increase by 3% per year

6



Approved Funding Model Results (\$000's) at 8% Return



7

Potential Goal: Additional Contribution to Fund Capital in Perpetuity

- Contributions Increase by 5% Per Year
- Contributions Continue Until Year Before Dividends
- Capital Budget Starts at \$8M in Year One
- Dividends Continue in Perpetuity to Fund Budget
- Scenarios Considered
 - 12, 15, and 20 Year Accumulation Periods
 - 3% Inflation on Capital Budget
 - 6% and 8% Annual Investment Return



8

Budget Growth

Capital Budget in Year Following Accumulation (\$000's)

Inflation Rate	12 Years	15 Years	20 Years
3.00%	11,406	12,464	14,449

- These are the estimated budget amounts the captive needs to be able to fund with dividends in the year after assets have been accumulated.
- These estimated budget amounts continue to increase annually at the assumed annual inflation rate of 3%.
- Dividends should be sufficient to fund the capital budget in perpetuity.



Necessary Funding Contributions

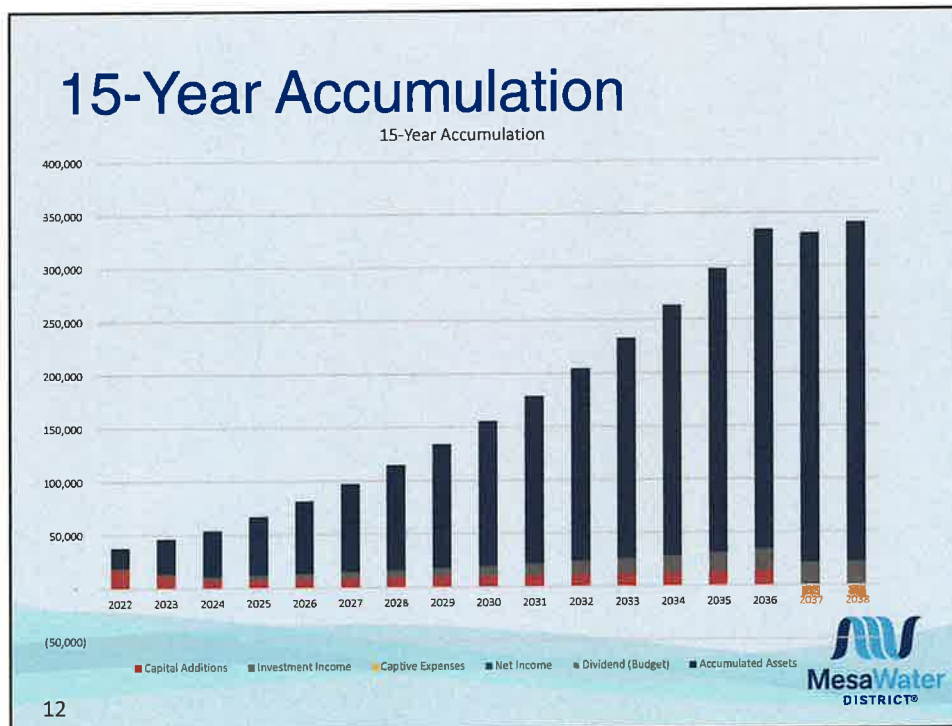
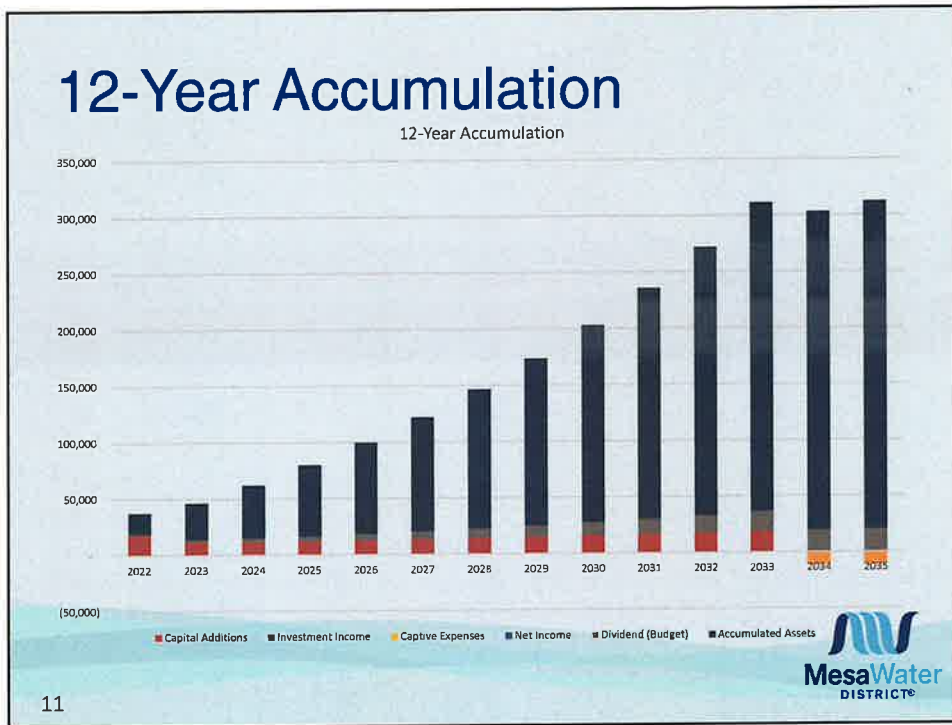
Required Year 3 Contributions to Captive (\$000's)

Assuming 3% Inflation Rate

Investment Return	12 Years	15 Years	20 Years
6.00%	26,462	18,956	12,142
8.00%	11,970	8,110	4,669

- The amounts above are the estimated contributions that should be put into the captive in Year 3 under the various scenarios.
 - Contributions in years 1 and 2 total \$30M in initial capitalization for the captive.
- These amounts continue to increase annually at 5% per year until the final year of accumulation.





Resulting Growth in Assets

Accumulated Assets in Year Before Dividends (\$000's)

Assuming 3% Inflation Rate

Investment Return	12 Years	15 Years	20 Years
6.00%	481,099	525,704	609,461
8.00%	274,928	300,413	348,286

- These are the amount of accumulated assets the end of the year before dividends begin under the various scenarios.
- Once dividends begin there are no additional contributions.
- Future additions to assets come from investment returns in excess of dividends.



Target Dividends for Capital

Target Dividends in Year Following Accumulation (\$000's)

Inflation Rate	12 Years	15 Years	20 Years
3.00%	11,406	12,464	14,449

- These are the target dividends the captive needs to be able to issue in the year after assets have been accumulated.
- These target dividends continue to increase annually at the assumed annual inflation rate of 3%.
- Dividends should be sufficient to fund the capital budget in perpetuity.



Questions

