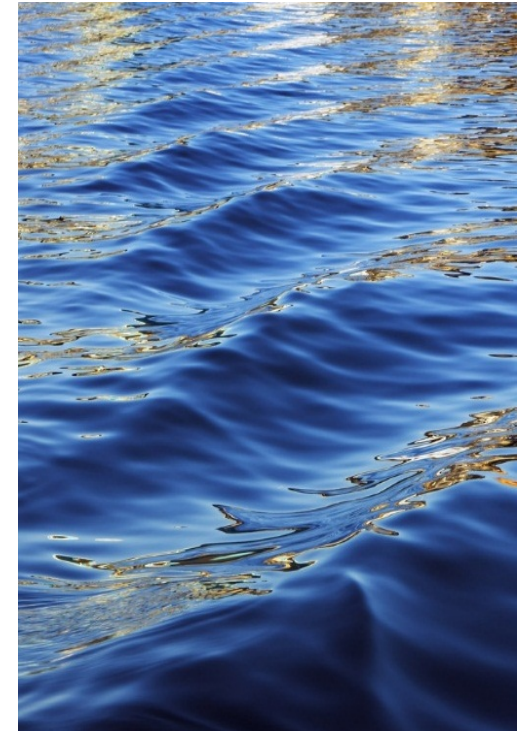
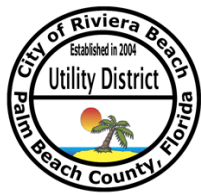


Fiscal Year 2018 Utility Revenue Sufficiency Study and Wholesale Rate Evaluation

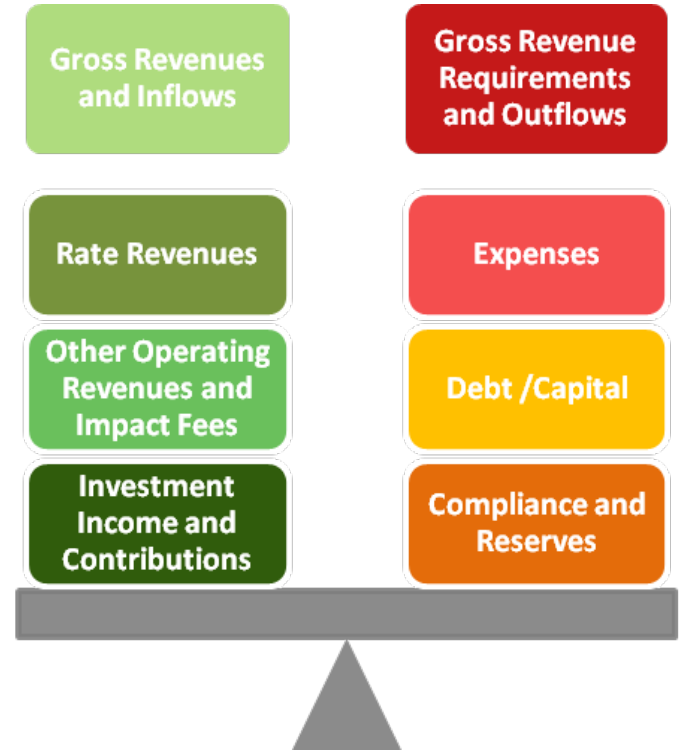


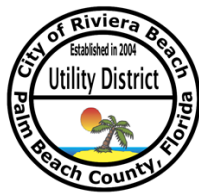
Public Resources Management Group, Inc.



Summary of Study Purpose

- Objective: Develop Sustainable Rate and Financial Plan
- Evaluate the Sufficiency of Revenues
 - Review of Historical Trends in Revenues and Expenses
 - Forecast of Operating Expenses and Revenues
 - Summary of Capital Needs
 - Develop Capital Funding Plan
 - Identify Available Cash/Funding Resources
- Develop Financial Plan
 - Revenue Requirements (Funding Needs)
 - Bond Covenants
 - Financial Targets
 - Identify Rate Implementation Plan



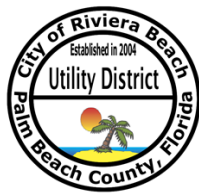


Previously Adopted – Rate Adjustment Plan

- Resolution No. 12-15D
 - Modified Previously-Adopted 10-Year Rate Adjustment Plan based on Updated Operating Projections
 - Revised Rate Adjustments for Fiscal Years 2016-2019 of Plan
 - Modified Rates to Reflect the Following Changes in the District’s Projected Operating Results
 - Increased Capital Funding from the East Central Regional Wastewater Reclamation Facility (“ECRWRF”)
 - Make-Up from Non-Implementation of Fiscal Year 2015 Adopted Rate Adjustments
 - Issuance of the Water and Sewer Revenue Bonds, Series 2016, which Funded Approximately \$40 Million in Capital Improvements

Resolution No. 12-15D - Rate Adjustment Plan (Remaining Years)		
	2018 In Effect	2019 Adopted
Water System Percent Adjustment	3.05%	3.05%
Wastewater System Percent Adjustment	11.69%	8.79%
Combined System Average Adjustment	7.52%	5.92%

Existing Rates



Fiscal Year 2018 – Monthly Charges for Service (Rates)

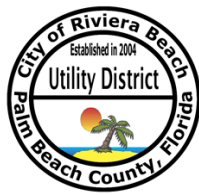
	<u>Water</u>	<u>Sewer</u>
Readiness-to-Serve Charge		
Single-Family 3/4-Inch Meter	\$17.63	\$16.12
Usage Charges (per 1,000 Gallons)		
0 - 5,000 Gallons	\$2.53	\$2.59
5,001 - 10,000 Gallons	3.46	2.59
10,001 - 20,000 Gallons	4.57	N/A
20,001 and Above	5.73	N/A
Readiness-to-Serve Charge – Commercial		
3/4-Inch Meter	\$17.65	\$16.12
1-Inch Meter	26.16	25.53
1-1/2-Inch Meter	47.31	48.84
2-Inch Meter	74.19	76.94
3-Inch Meter	132.73	142.55
4-Inch Meter	216.73	236.24
6-Inch Meter	425.89	470.29
8-Inch Meter	671.75	751.24
10-Inch Meter	957.63	1,079.11
Usage Charge (per 1,000 Gallons)		
0 - 10,000 Gallons	\$4.54	\$4.66
10,001 - 30,000	5.65	4.66
30,001 and Above	6.81	4.66

Monthly Charges for Service

- Readiness-to-Serve Charge Includes Readiness-to-Serve based on ERCs and Meter Replacement Charge
- Usage Charges – Water Includes Conservation Tiers and Residential Sewer Capped at 10,000 Gallons

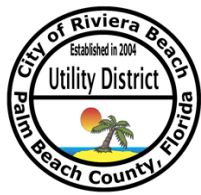
Resolution No. 12-15UD “Rate Resolution”

- Adopted Fiscal Year 2019 (Last Year of Plan)
 - Water = 3.05% / Sewer = 8.79%
 - Recognized Implementation in Financial Plan



What Was Presented Previously

- Prepared Rate Adjustment Plan – Fiscal Years 2020-2023
- Intended to Meet the Following Issues:
 - Increasing Operating Expenses from Effects of Inflation
 - Increased Debt Service Requirements – Fund \$33.4M in Water Treatment Plant Improvements
 - Increased Wastewater Treatment Costs based on Then-Current ECRWRF Capital Improvement and Funding Plan
 - Increased Capital Funding Allowance from Operations (Rates)
 - Proposed Higher Transfers to Renewal and Replacement (R&R) Fund (to Replace Aging Utility Plant that is Old and has Reached Service Life)
 - **Effect** => Reduces Need to Issue Future Long-Term Debt
 - **Effect** => Provides Flexibility in Funding and Promotes Long-Term Rate Sustainability



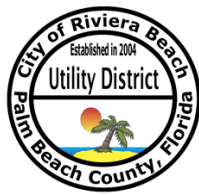
What Was Presented Previously

- Prepared Rate Adjustment Plan – FY 2020 – FY 2023





Previously Presented Rate Adjustments				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Annual Price (Inflation) Index Adjustment	1.68%	1.68%	1.68%	1.68%
Additional Water Adjustment	5.00%	5.00%	5.00%	5.00%
Additional Sewer Adjustment	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Combined System Adjustment	4.64%	4.69%	4.75%	4.81%
Increase to Residential Monthly Bill @ 6,000	\$2.90	\$3.07	\$3.24	\$3.43
Cents per Day	\$0.10	\$0.10	\$0.11	\$0.11

- Index Applied to All Rates – Inflation Recovery
- Water Rates Need Adjustment – Includes Funding Water Treatment Plant Expansion
- Sewer Rates No Further Adjustment above Inflation
- District Board Requested Rate Implementation Alternatives

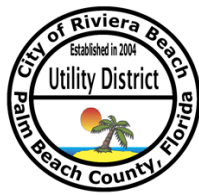
What Has Changed



Revised Assumptions Included In Rate Implementation Alternative

	<u>Revised Assumptions</u>	<u>Effect on Revenue Requirements</u>
1	Operating Expenses Increased to Account for Six (6) Additional Water Treatment Plant Operators (Annual Cost Approximately \$500,000)	
2	Wastewater Treatment Costs at ECRWRF Declined Due to ECR Board Decision to Issue Debt to Fund Capital Improvements – Reduced ECR R&R Deposits	
3	Increased Estimated Debt Issuance Required to Fund Water Treatment Plant (Increased From \$33.4M to \$38M)	
4	Lower Annual Transfers to the Renewal and Replacement Fund to Finance Future R&R Capital Improvements	

- Total Effect of Revised Assumptions on the Forecast Period was a Reduction to Gross Revenue Requirements of (\$3,000,000)

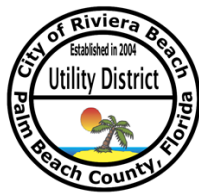


Results – Rate Adjustment Plan

- Annual Price Index Adjustment
 - Recurring Adjustment to Account for Inflation/Maintains Existing Operating Margins
 - Based on Predetermined Index (Consumer Price Index [“CPI”])
 - Reduces Rate Impact to Customers by Implementing Small Annual Changes vs. Single Large Adjustment
 - Average Annual Change for Last 10 Years = 1.68% Annually
- Adopt Fiscal Years 2020-2022 (3-Year) Water-Only Rate Adjustment Plan
 - Reduced Water-Only Rate Adjustment (Current 2.0% for 3-Years / Previous 5.0% for 4-Years)
 - Moves Water System Closer to Full Recovery Basis

Proposed Rate Adjustments for Financial Forecast				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Annual Price Index Adjustment	1.68%	1.68%	1.68%	1.68%
Additional Water Adjustment	2.00%	2.00%	2.00%	0.00%
Additional Sewer Adjustment	0.00%	0.00%	0.00%	0.00%
Combined Average System Adjustment	2.86%	2.87%	2.88%	1.68%
Increase to Residential Monthly Bill @ 6,000	\$1.92	\$1.98	\$2.05	\$1.26
Cents per Day	\$0.06	\$0.07	\$0.07	\$0.04

Financial Risk



● Three Primary Credit Risk Factors:

1. Debt Risk

- Ability to Attract External Funds for Capital Financing and Interest Costs
- District has a High Debt-to-Net Plant Ratio
- Proposal Requires Larger Debt Financing of Water Treatment Plant (Previously = 33.4M / Proposed = \$38.0M)
- Rate Plan does not Fully Fund Issuance of New Bonds for the Water Treatment Plant (Estimated Additional Rate Adjustment 7.0% - 9.0%)

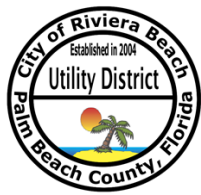
2. Pay-As-You-Go Capital Reinvestment

- Reduced Annual Renewal and Replacement Fund Transfer (Previous Plan Target 12.5% of Rate Revenues / Current Plan Target = 6.7%)
- Less Funds Available for Future Capital Improvements and Increases Potential Reliance on Future Debt

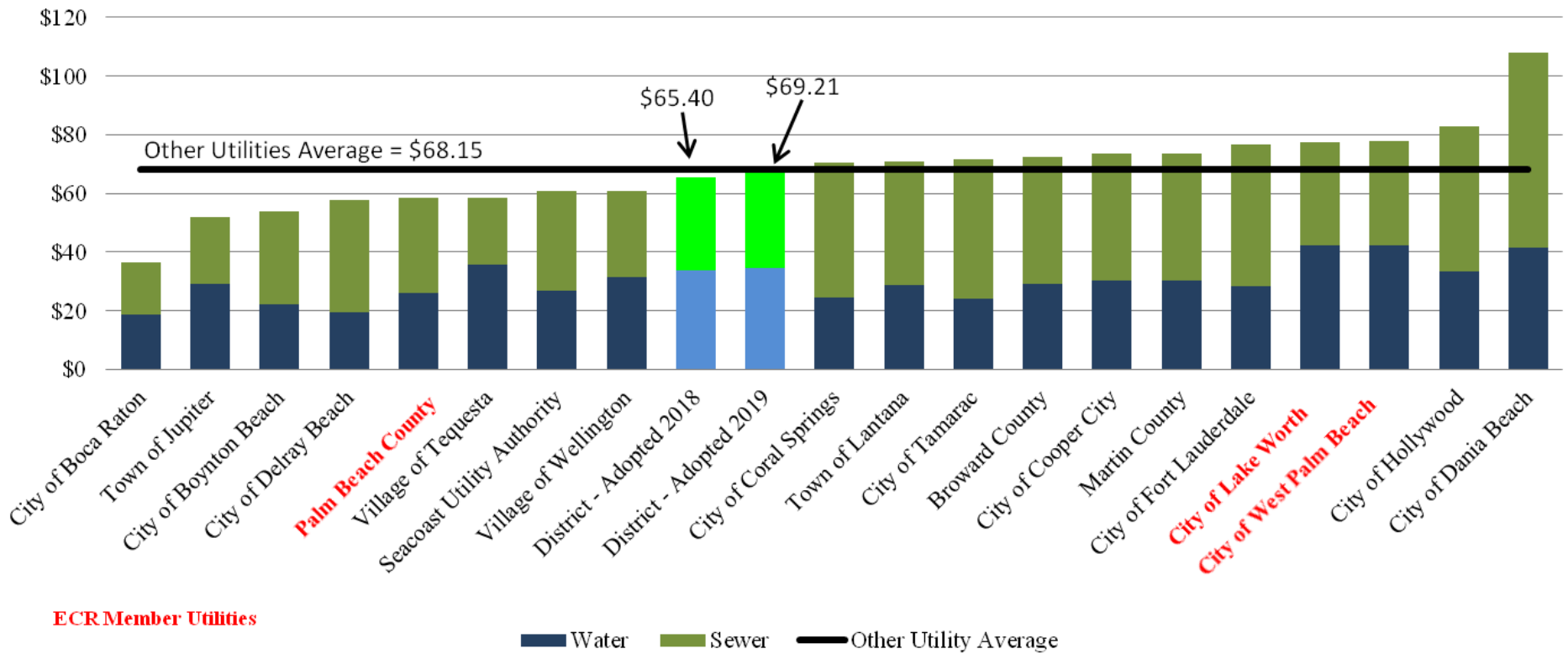
3. Liquidity (Cash Reserves)

- Lower Reserves at End of Forecast (Cash) (Previous = \$14.8M / Current = \$11.6M)

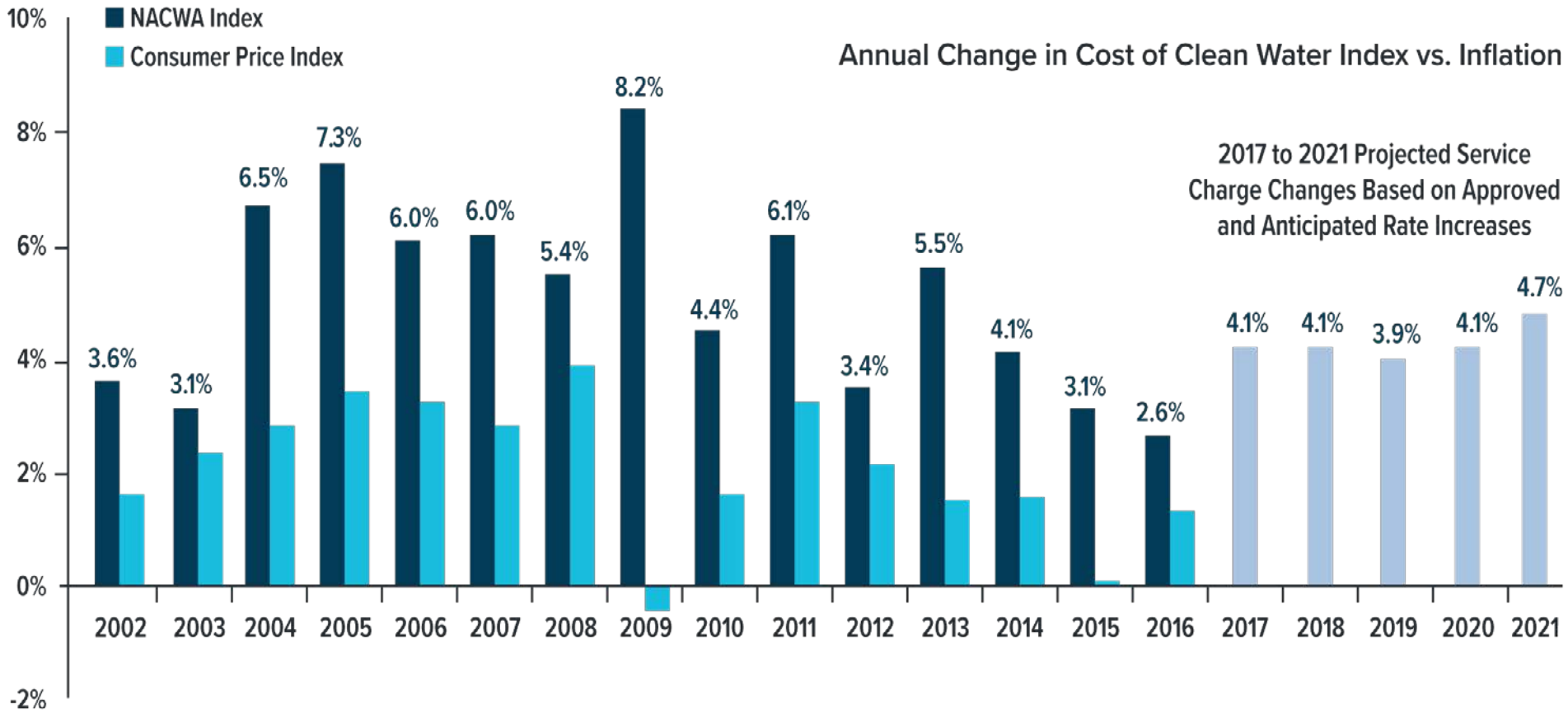
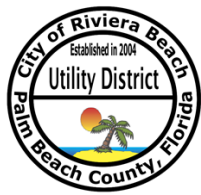
Comparison of Monthly Residential Bill Combined Water and Wastewater at 6,000 Gallons



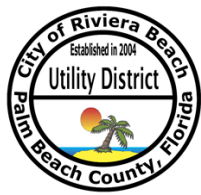
Comparison of Fiscal Years 2018 & 2019 Combined Bill at 6,000 gal



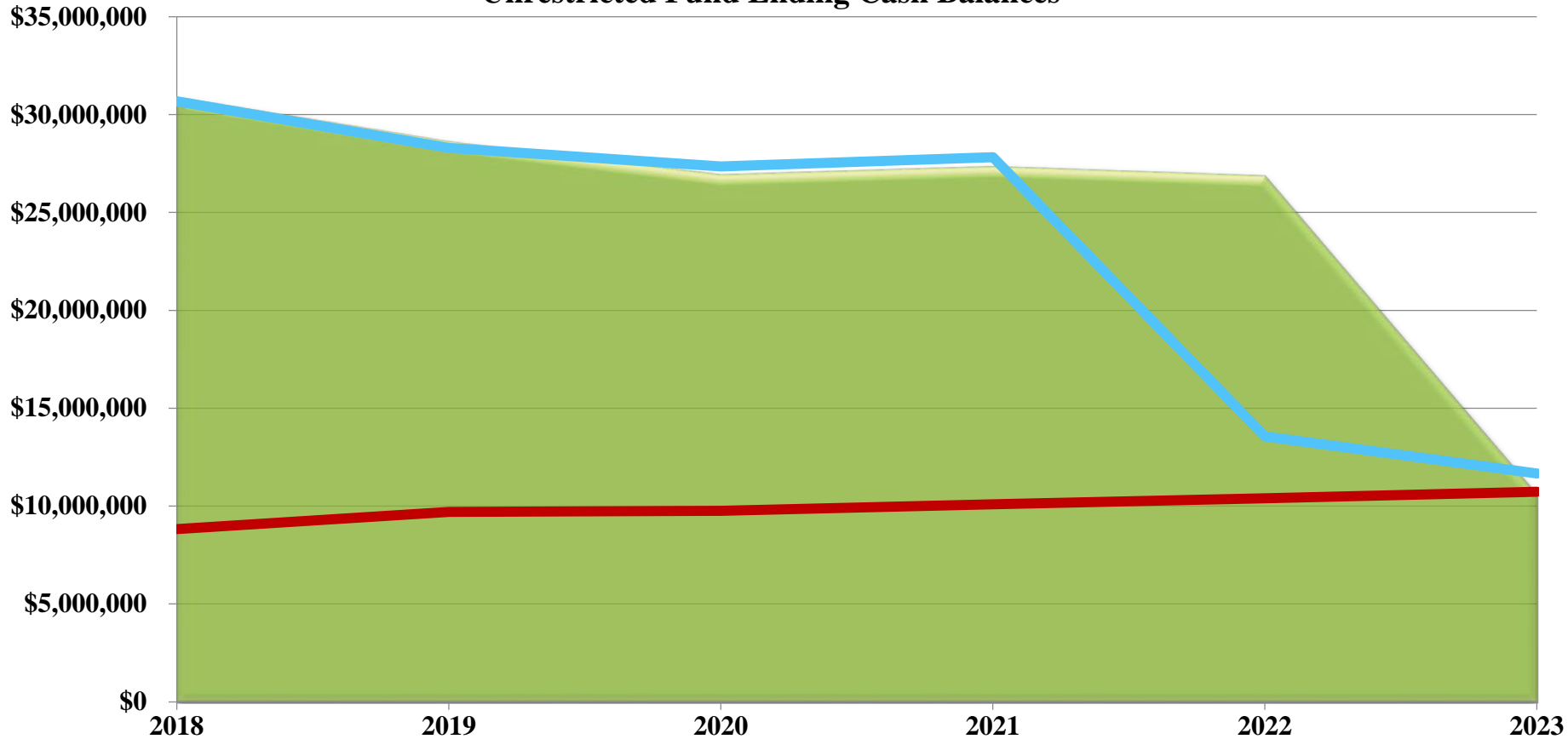
National Annual Charge Changes



Results – Operating Reserves

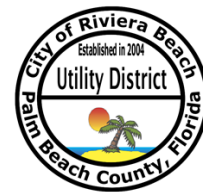


Unrestricted Fund Ending Cash Balances

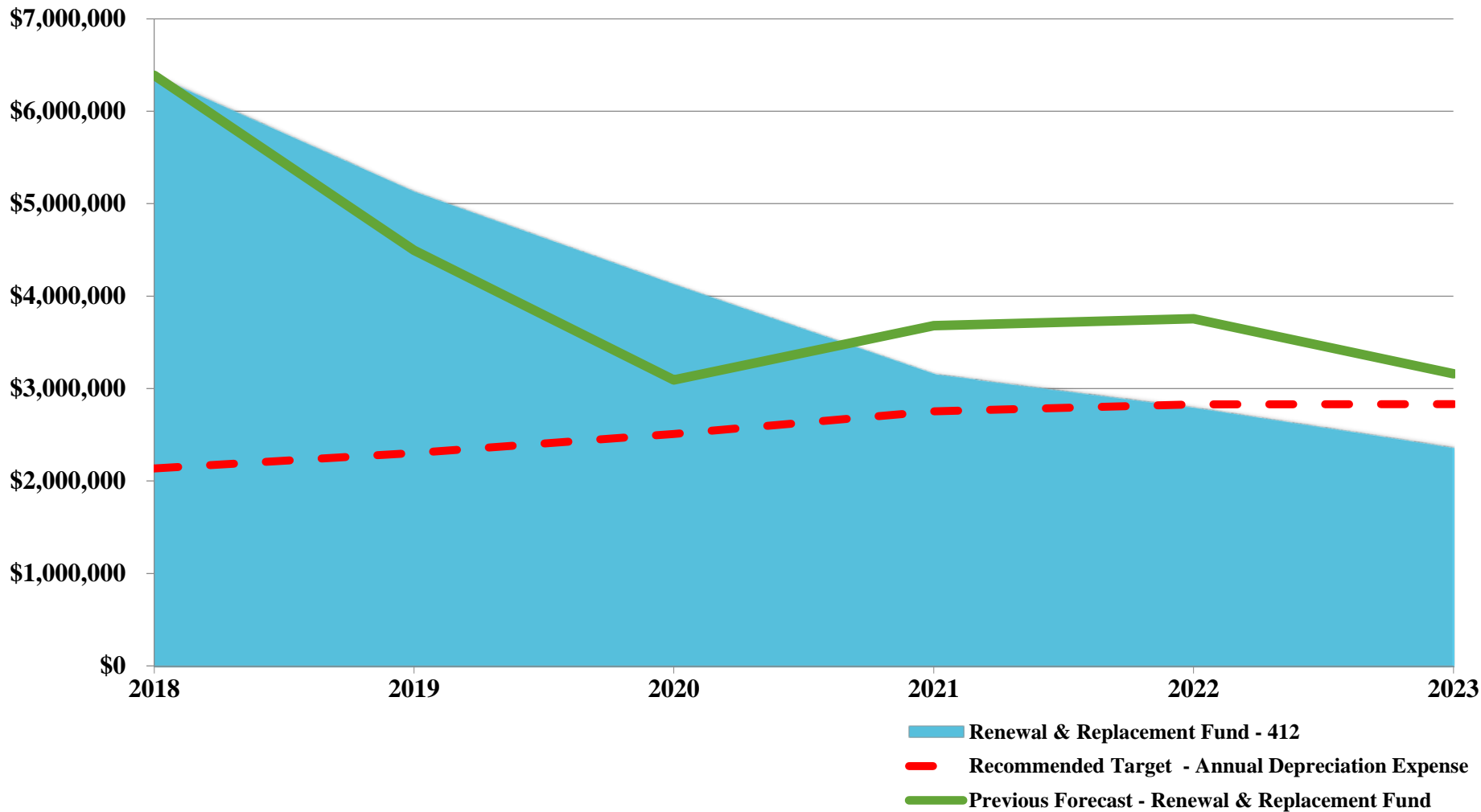


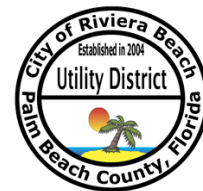
Revenue Fund - 411 Recommended Target - 180 Days of OpEx Previous Forecast - Revenue Fund

Results – Capital Reserves



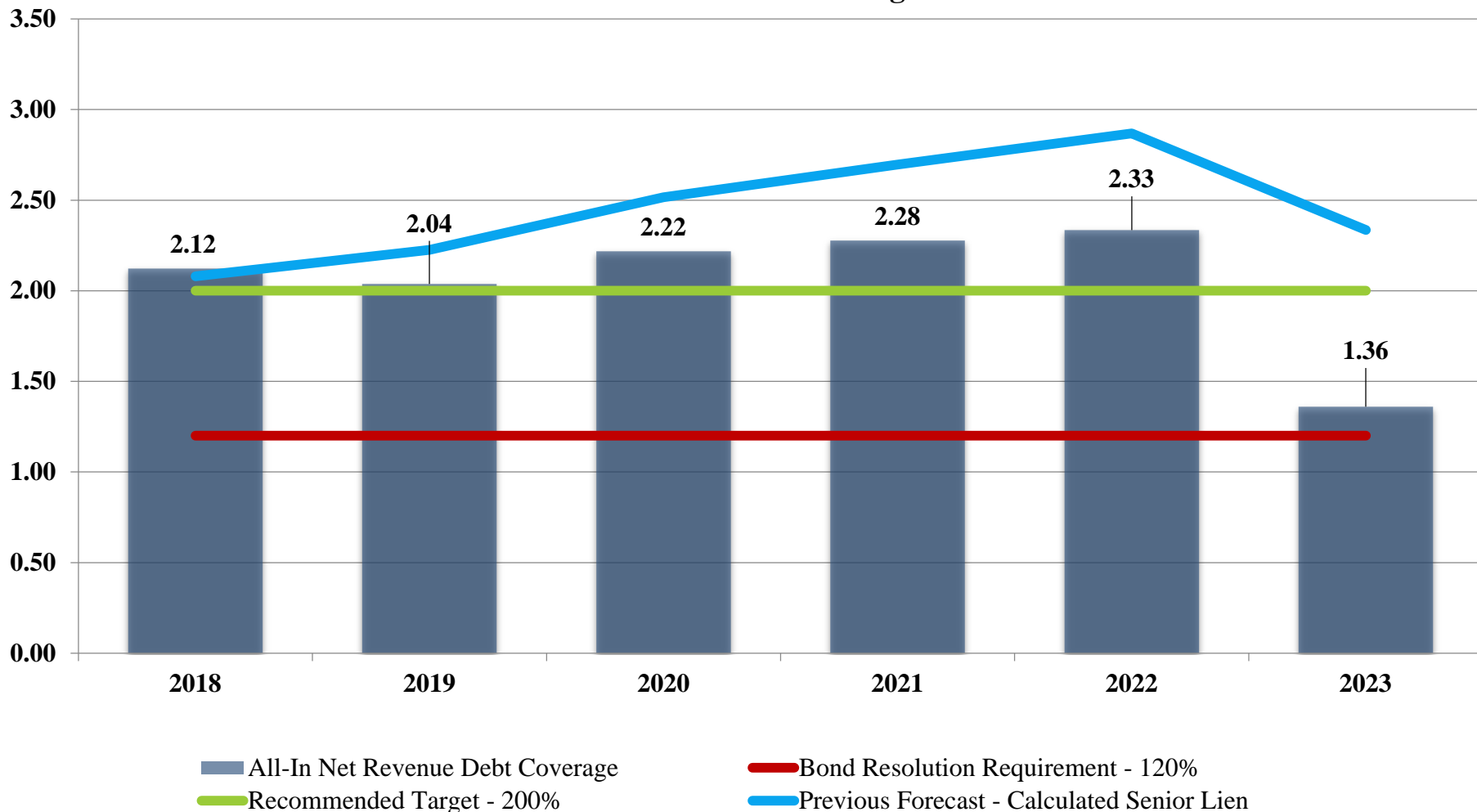
Fiscal Year Ending Cash Balance by Capital Funds

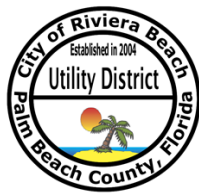




Results – Debt Service Coverage

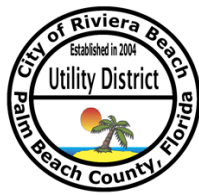
All-In Debt Service Coverage





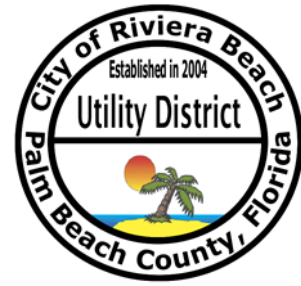
Observations and Recommendations

- Fiscal Year 2019 Represents Final Year of Adopted Rate Plan
 - Must Implement Adopted Rates – Continue the Plan
- System Requires Future Rate Adjustments After Fiscal Year 2019
 - Inflation on Cost of Operations (CBO Forecast – 2.4% Annually)
 - Old System with High Asset Replacement Needs
 - Requires Funding from Rates – Deposit to R&R Fund
 - Cannot “Over-Leverage” System – Must Limit Future Debt to Large Expenditures
 - Increased Debt Service Requirements – Fund \$38.0M in Water Treatment Plant Improvements
 - Assumes Debt Issued April 2023; Issuing Debt Will Require Additional Rate Adjustments
 - Must Maintain a Strong Financial Credit to Issue Additional Bonds at Attractive Interest Rates
 - Credit Rating Agency Focus => Debt Coverage and Cash Reserves



Observations and Recommendations

- Adopt Fiscal Years 2020-2023 Rate Plan
- Price Index Adjustment:
 - Adopt Annual Index to Recover Inflation on Rates
 - Calculated Annually/Effective Each October 1st
 - Continues Beyond the Fiscal Year 2023 Since Inflation Continues
 - Limit Index to Not More Than 3% and Not Less Than 0%
- Water Rate Adjustment
 - Additional Increase Above Price Index of 2.0% Annually for Fiscal Years 2020-2022
- Sewer Rate Adjustment
 - No Additional Increase Above Annual Price Index
- Re-evaluate Rate Plan No Later than Three Years
 - Additional Bonds will Require Future Additional Rate Adjustments



Questions and Comments

Fiscal Year 2018
Utility Revenue Sufficiency Study

