Water Rate & Fee Study: Financial Plan

Agenda Item C.1
Finance and Administration Committee
January 25, 2024

Agenda

1. Schedule
2. Summary of 2019 Study
3. 2019 Study Postmortem Results
4. 2024 Study Projections
    - Expense projections
    - Revenue projections
5. Preliminary Findings

Schedule

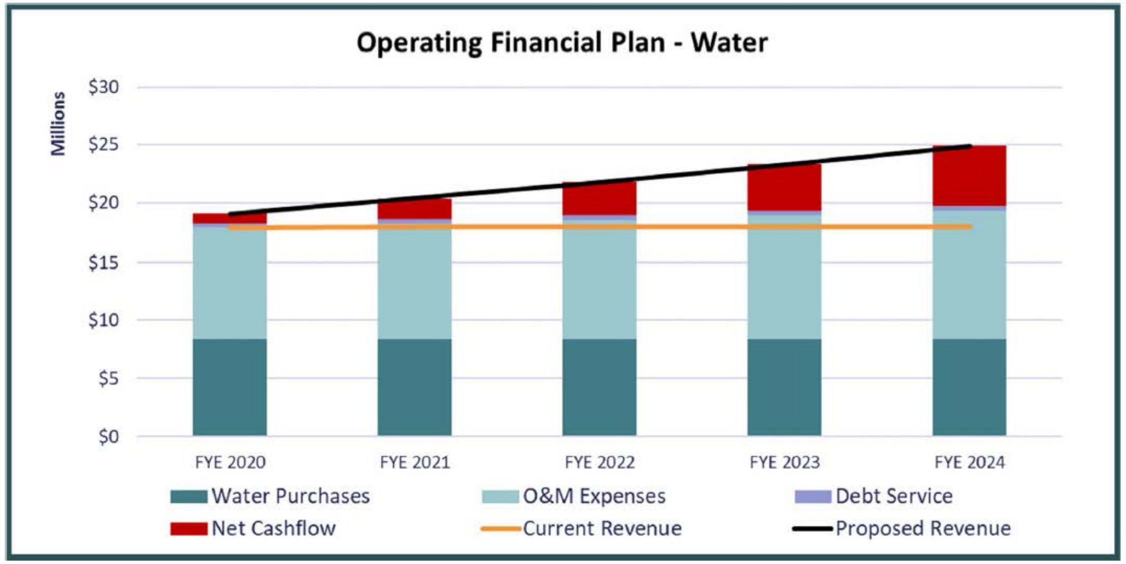
May '23:	**(F&A)**	Water Rate and Fee Study kickoff
Jan '24:	**(F&A)**	Water Rate and Fee: Financial Plan
TBD	**(F&A)**	Water Rate and Fee: Rate & Fee Design
TBD	**(BOD)**	Water Rate and Fee: Approve Study, Authorize Public Hearing Notice
TBD	**(BOD)**	Prop 218 Notice
TBD	**(BOD)**	Public Hearing: Adopt Rate and Fee Update
July 1, 2024:		Effective Date

	2019 Study					2024 Study				
Fiscal Year	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**

Summary of the Previous (2019) Study

- Annual rate adjustments were recommended to keep the District's revenues in line with projected expenses
- Last District-driven rate adjustment was October 2019
- Energy pass-throughs were also recommended, but not implemented
- Most adjustments were not implemented

Figure 3-4: Proposed Operating Financial Plan



Recommendation Was **Not** Implemented

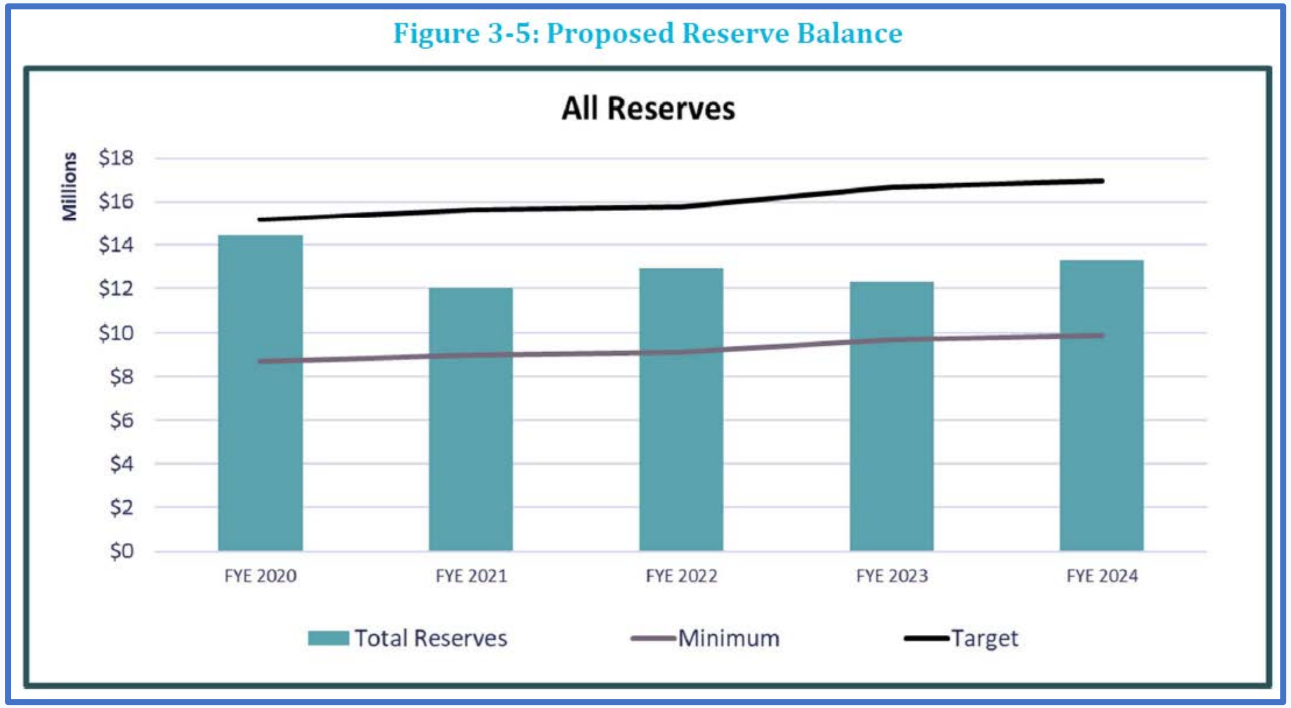
Implemented

Table 1-1: Financial Plan Recommendations

	FYE 2020	FYE 2021	FYE 2022	FYE 2023	FYE 2024
Revenue Adjustments	7.0%	7.0%	7.0%	7.0%	7.0%
Pass-through of SDCWA costs	Yes	Yes	Yes	Yes	Yes

Summary of the Previous (2019) Study

- Based on those revenue and expense projections, the District's ending reserve balance was projected to fall within acceptable limits



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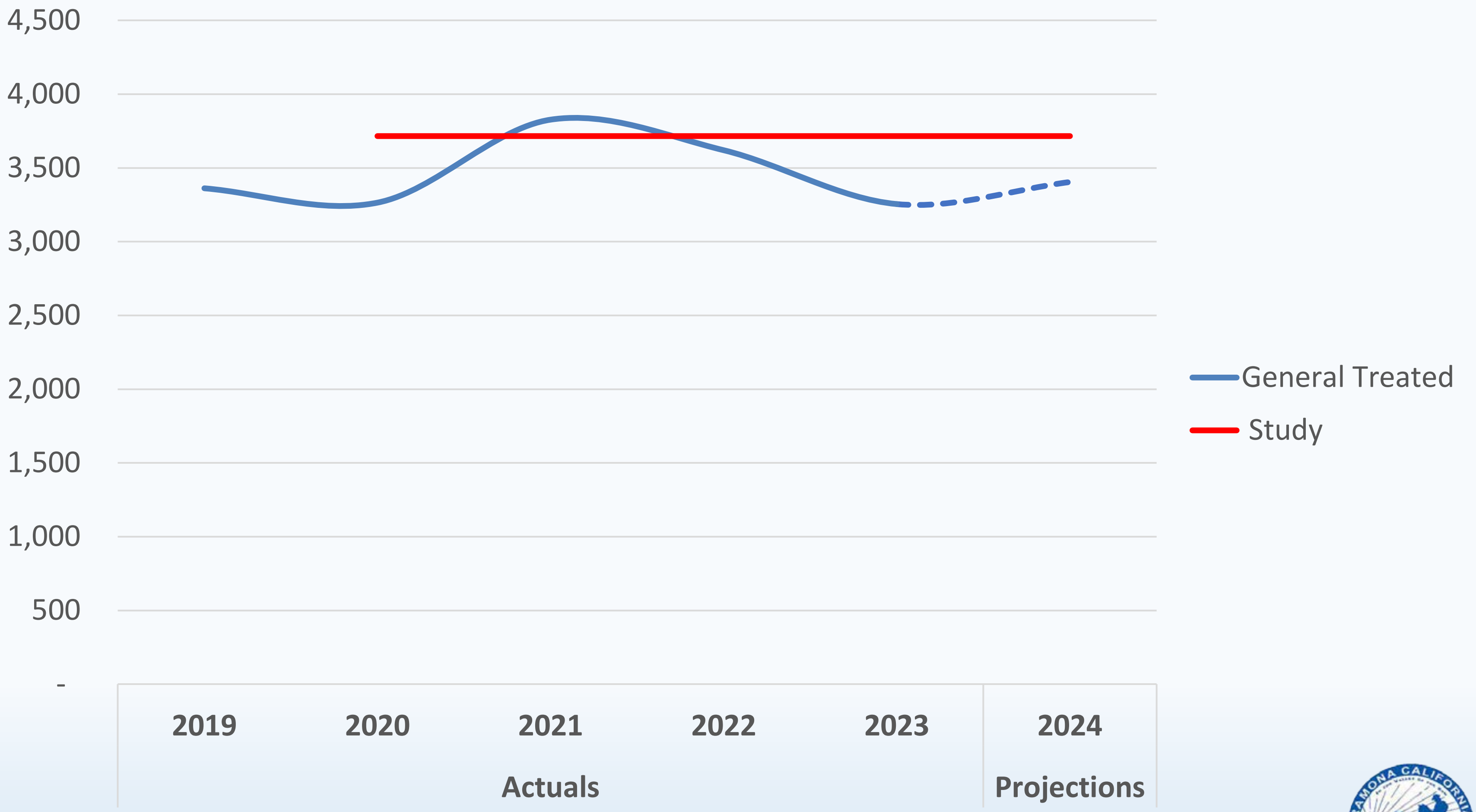
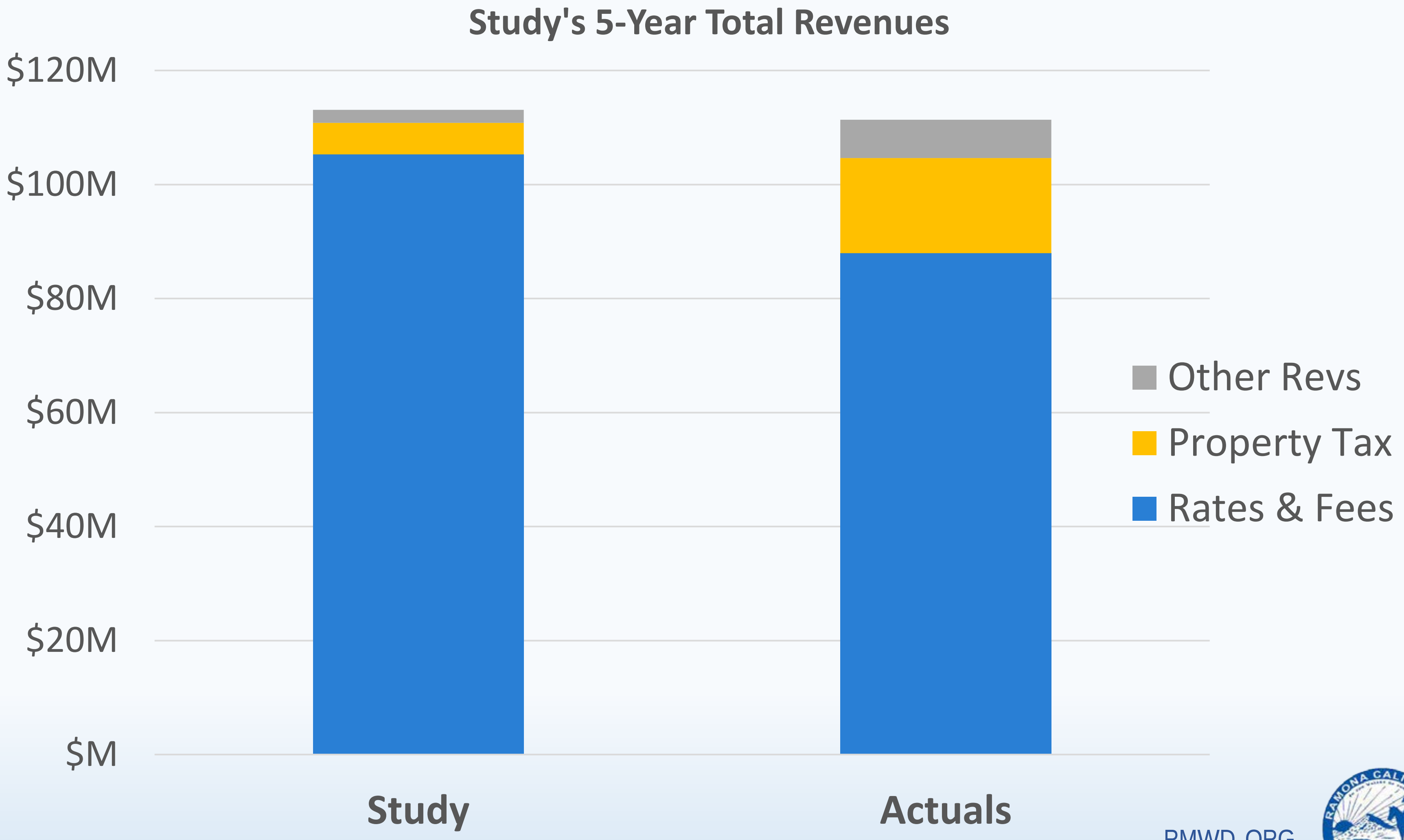
2019 Study Postmortem Results: Water Sales (AF)

- General Treated Sales came in (6.5%) lower than anticipated
- Total water sales (not shown) came in (9.8%) lower than anticipated



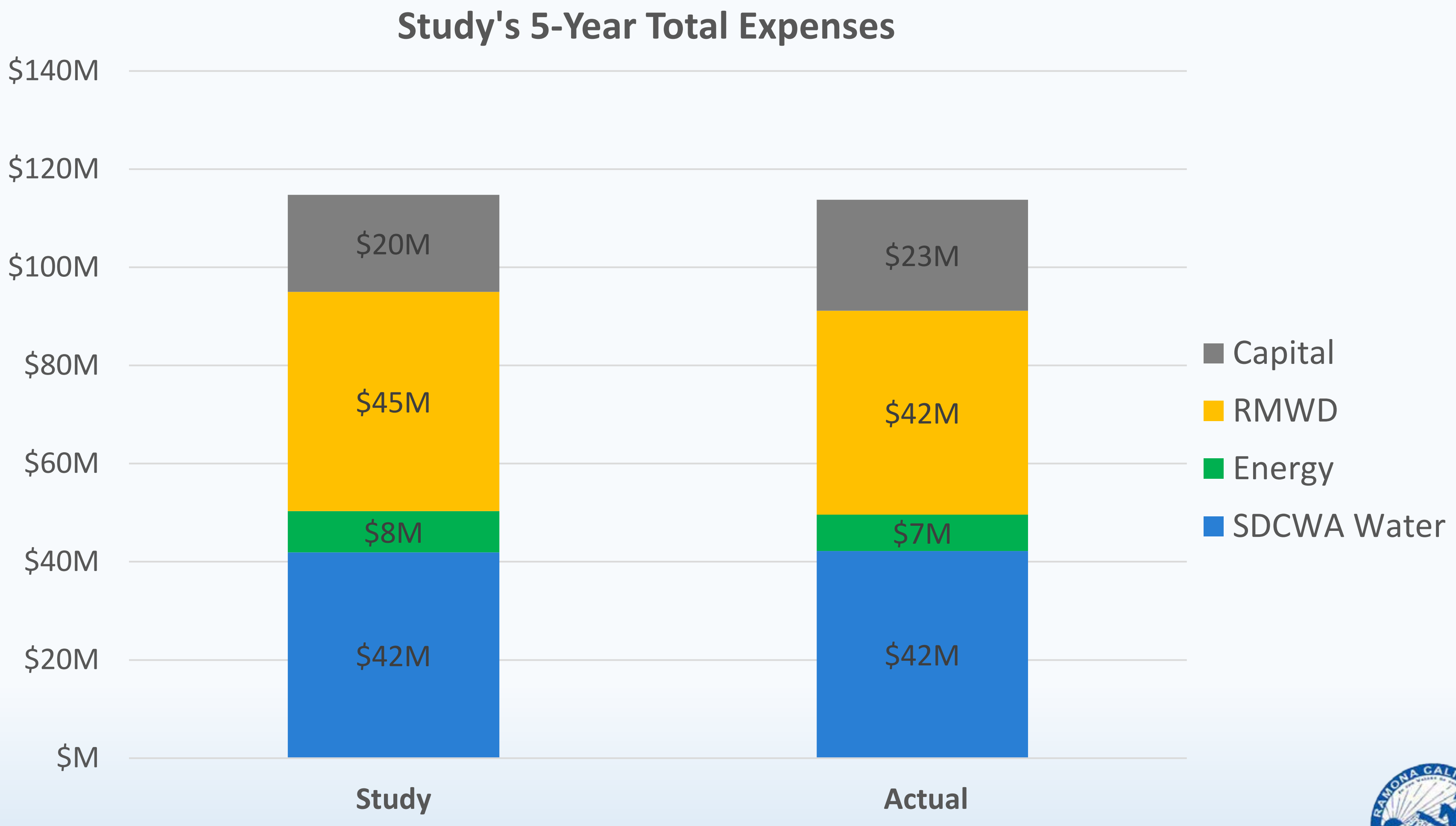
2019 Study Postmortem Results: Revenues

- Instead of raising rates and hitting sales projections, revenues were supplemented by an additional $9M in property tax revenue
- Rates and fees have not grown at the same rate as expenses (not sustainable)



2019 Study Postmortem Results: Expenses

- Despite less water sales than projected, expenses came in line with projections
- Capital spending varies significantly year-to-year but will exceed the study's projection



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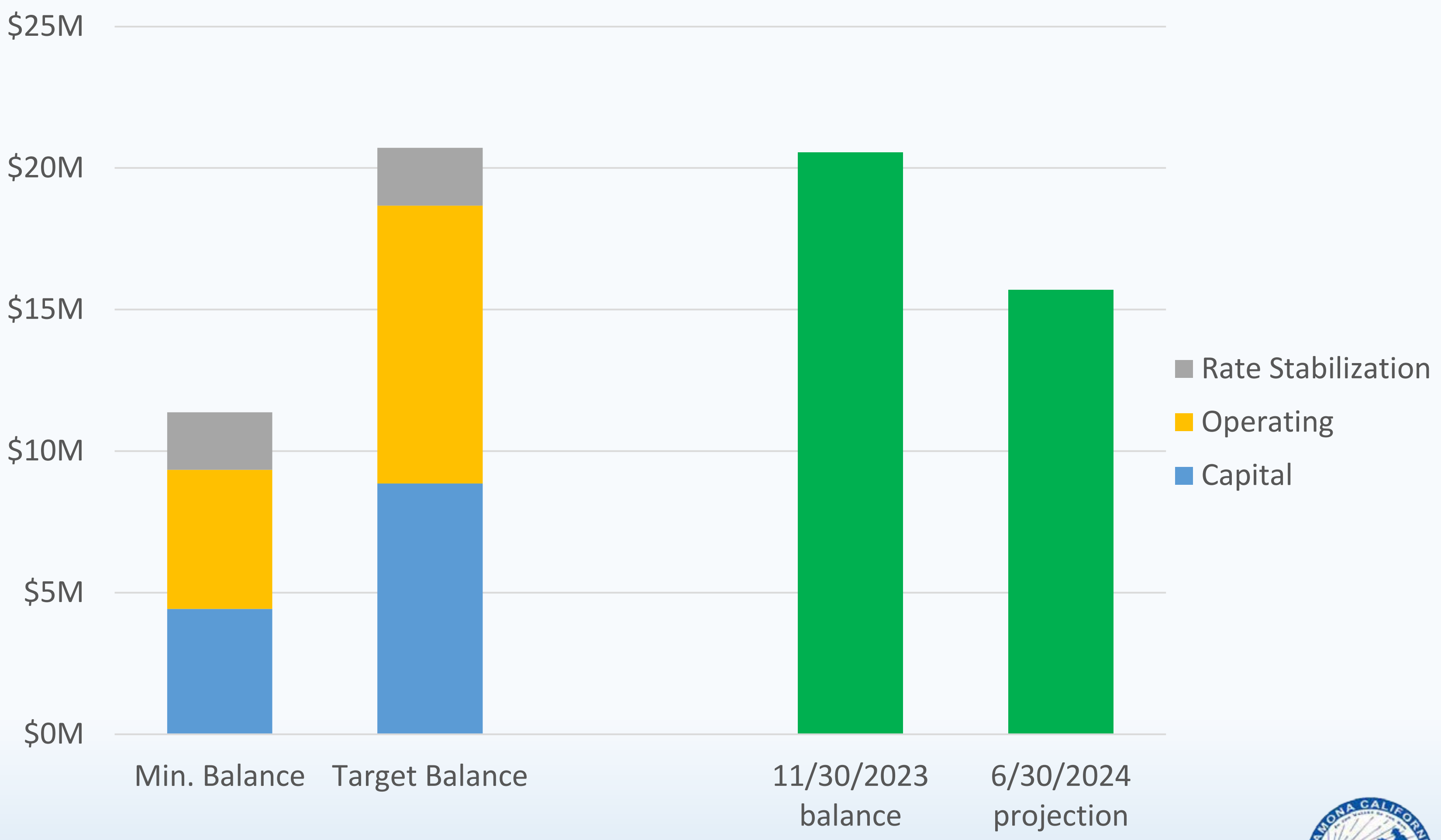
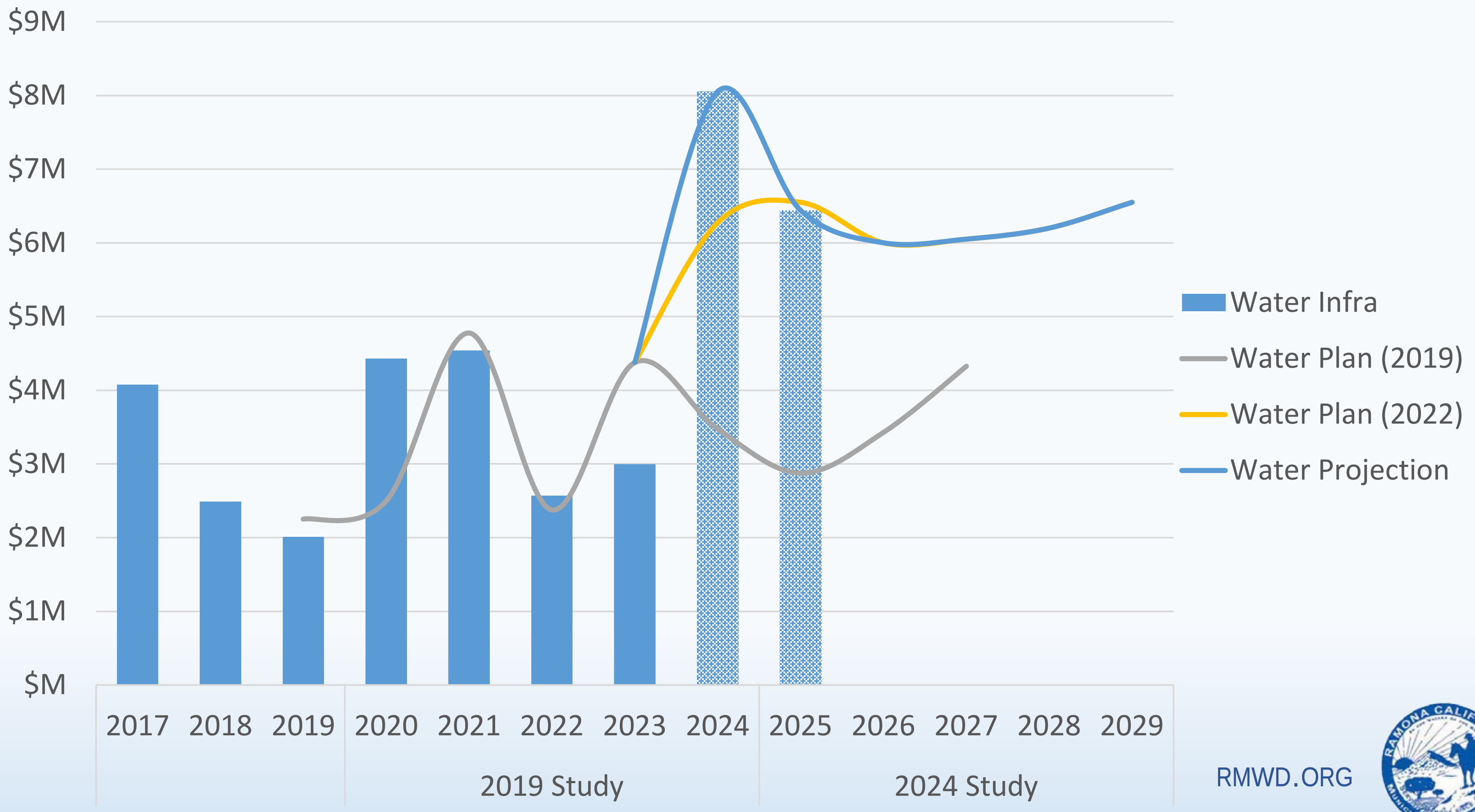
2019 Study Postmortem Results: Reserve Balance

- Rate stabilization balance has been absorbed
- Need rates and fees to meet revenue requirements going forward
- Reserve requirements outlined in Legislative Code and AWWA guidelines



Expense Projections: Capital Spending

- Previous spending will exceed the 2019 Water Plan's projection ($3.5M / yr)
- 2022 Water Plan = $6.3M / yr
- Water plan does not incorporate inflation



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Expense Projections: Capital Spending

	2024	2025
Costs Incurred To-date	$ 1,893,252	
Additional Completed / In-Progress, pending invoice		
Paso Robles Tank Rehab	1,506,428	
B, H, 4th, 5th, 11th, 12th St Waterline Replacement	879,000	
Engine Overhaul	400,000	
Water Quality Database	41,500	
Other projects	105,853	
30" Pipeline	3,128,443	$ 6,140,770
	$ 7,954,476	$ 6,140,770

Expense Projections: Capital Spending

These projects are approximately 75% complete in their design and will be shovel-ready.

- FEBRUARY 2023 -

Task	Project Title	1 FY 23/24	2 FY 24/25	3 FY 25/26	4 FY 26/27	5 FY 27/28	6 FY 28/29	7 FY 29/30	8 FY 30/31	9 FY 31/32	10 FY 32/33	TOTAL
1	Radio Read Meter Replacement Program (One Year Remaining (FY 23/24))	$ 350,000										$ 350,000
2	Pump and Motor Efficiency Program (Ongoing)			$ 150,000		$ 150,000		$ 150,000			$ 150,000	$ 600,000
3	Pipeline Replacement Program (Ongoing)	$ 1,200,000	$ 1,200,000	$ 3,750,000	$ 5,500,000	$ 1,100,000	$ 4,400,000	$ 3,200,000	$ 4,500,000	$ 6,000,000	$ 6,000,000	$ 36,850,000
3.01	Main Street Cast Iron Waterline Replacement Project (Between 5th and 12th)	$ 1,200,000	$ 800,000									$ 2,000,000
3.02	Replacement of Existing 14-in Transmission Main (Ongoing)		$ 400,000	$ 3,750,000	$ 4,500,000							$ 8,650,000
3.03	Replacement of Waterline Loop on HWY-78 East of Magnolia Ave.				$ 600,000							$ 600,000
3.04	Upsize of SDCE 12-in Transmission Main to 16-in					$ 100,000	$ 2,400,000					$ 2,500,000
3.05	Replacement of 8-in and 10-in Cast Iron Pipeline							$ 200,000	$ 1,500,000	$ 3,000,000	$ 3,000,000	$ 7,700,000
3.06	4-in & 6-in Pipeline Replacement Program (Ongoing)				$ 400,000	$ 1,000,000	$ 2,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 15,400,000
4	Tank & Reservoir Rehabilitation Program (Ongoing)	$ 1,500,000	$ -	$ 1,950,000	$ 150,000	$ -	$ 2,000,000	$ 2,500,000	$ -	$ -	$ 1,700,000	$ 9,800,000
4.01	West End Tank (3 MG)	$ 1,500,000										$ 1,500,000
4.02	Bargar Clearwell (2 MG)			$ 1,300,000								$ 1,300,000
4.03	Black Canyon Tank (0.62 MG)			$ 650,000								$ 650,000
4.04	Gillette Treated Tank (0.02 MG)				$ 150,000							$ 150,000
4.05	Boulder Tank (0.88 MG)						$ 2,000,000					$ 2,000,000
4.06	Woodson Reservoir (10 MG)							$ 2,500,000				$ 2,500,000
4.07	Kennedy West Tank (5 MG) (Conversion from UT to Treated)										$ 1,700,000	$ 1,700,000
5	PRV Rehabilitation Program (Ongoing)	$ 125,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 50,000	$ 175,000	$ -	$ 1,250,000
5.01	Relocate PRVs in vaults to above ground	$ 125,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000				$ 1,025,000
5.02	New PRV From Woodson/Bargar to Downtown/West End								$ 50,000	$ 175,000		$ 225,000
6	18-in Poway Transmision Pipeline Replacement (30-in)	$ 3,100,000	$ 5,200,000									$ 8,300,000
7	16-in Elm Street Transmission Main				$ 250,000	$ 4,800,000						$ 5,050,000
8	12-in Downtown Transmission Main							$ 200,000	$ 1,800,000			$ 2,000,000
9	8-in Snows Loop										$ 500,000	$ 500,000
10	8-in Chavez Loop										$ 650,000	$ 650,000
11	12-in Kennedy Pipeline										$ 2,850,000	$ 2,850,000
	Sub Total District Funded Projects Cost	$ 6,275,000	$ 6,550,000	$ 6,000,000	$ 6,050,000	$ 6,200,000	$ 6,550,000	$ 6,200,000	$ 6,350,000	$ 6,175,000	$ 11,850,000	$ 68,200,000
12	12-in Wildcat Canyon Road Pipeline**	$ 1,300,000										$ 1,300,000
13	8-in Acres Waterline Improvements (Alternative 1A)***	$ 100,000	$ 1,920,000									$ 2,020,000
14	8-in Acres Waterline Improvements (Alternative 2 & 3B)***	$ 50,000	$ 940,000									$ 990,000
	Sub Total Project Cost (Paid by Others)	$ 1,450,000	$ 2,860,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ 4,310,000
	Projected Total Expenditures Fiscal Year	$ 7,725,000	$ 9,410,000	$ 6,000,000	$ 6,050,000	$ 6,200,000	$ 6,550,000	$ 6,200,000	$ 6,350,000	$ 6,175,000	$ 11,850,000	$ 72,510,000

Notes:

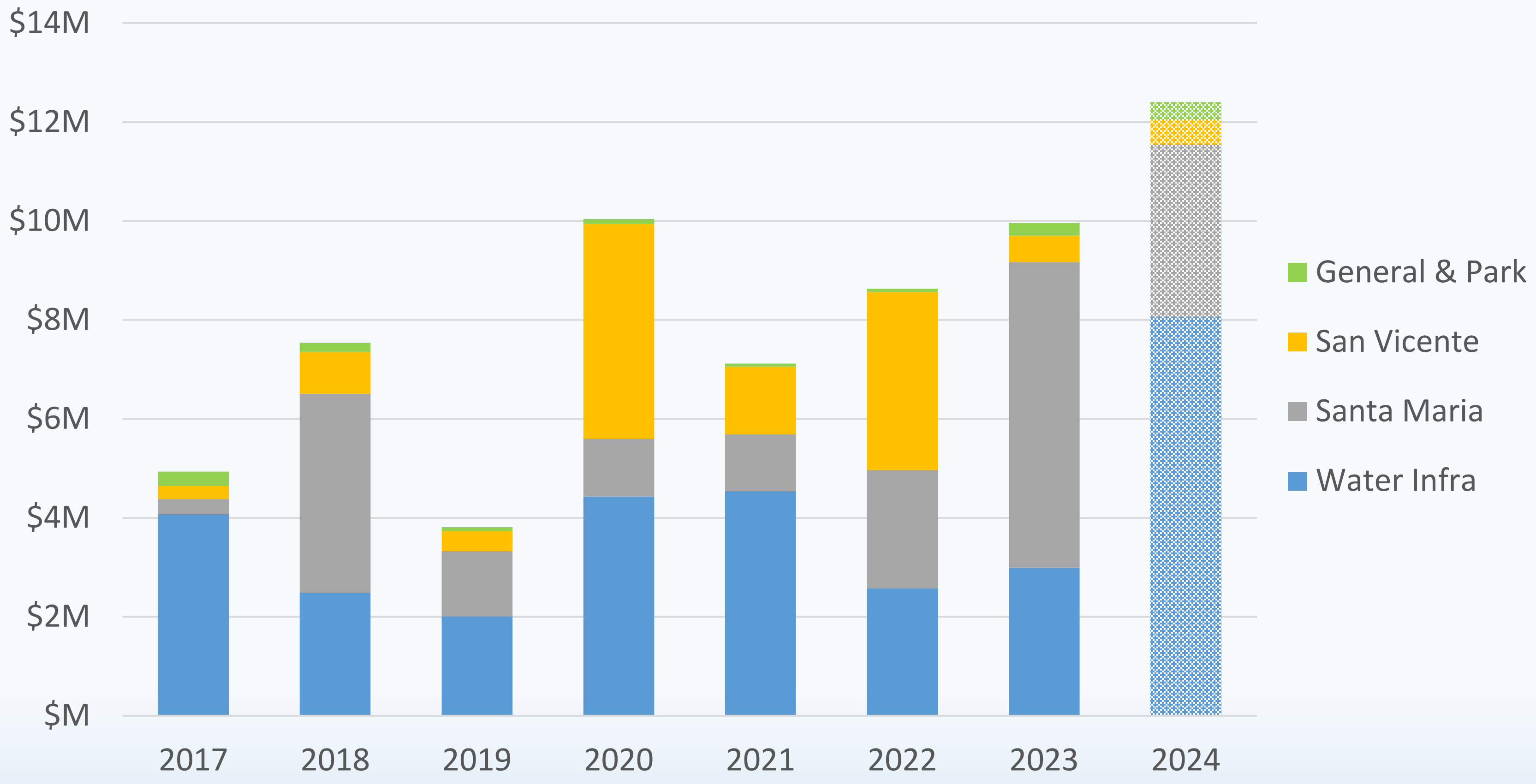
* - The planning level costs shown are represented in 2023 dollars. These values must be adjusted for inflation and to reflect increased project definition when developing budgets for future years.

** - All RMWD expenses will be reimbursed and paid by developer

*** - All RMWD expenses will be reimbursed and paid under a grant.

Expense Projections: Capital Spending

- Spending on water infrastructure has been slow in recent years due to peak activity in sewer
- District's focus shifted to water infrastructure in 2024



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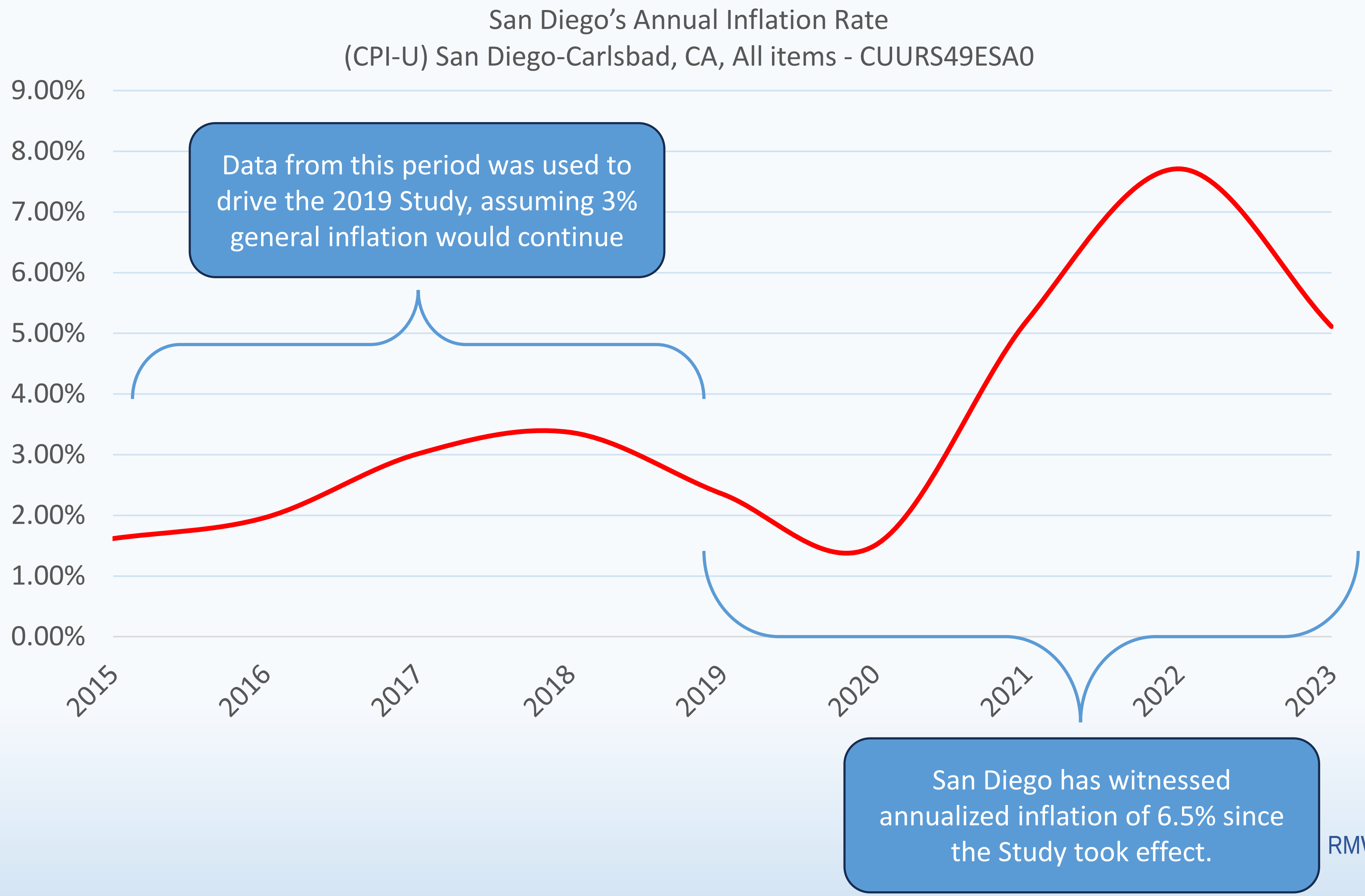
Expense Projections: Inflationary Factors



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Expense Projections: Inflationary Factors

Category (in order of significance)	2025	2026	2027	2028	2029	Notes
SDCWA Purchased Water	10%	10%	10%	10%	10%	Pass-through will rely on actual results.
Salary & Benefits	6-9%	6-7%	6%	3-5%	3-5%	Driven by labor negotiations, CalPERS, and healthcare
Overhead	4%	3%	3%	3%	3%	Primarily labor related
Maintenance	3%	3%	3%	3%	3%	
Natural Gas	14%	10%	10%	10%	6%	San Diego's last 4 years was 15% annually
General	3%	3%	3%	3%	3%	
Electricity	8%	8%	8%	8%	8%	San Diego's last 4 years was 9% annually

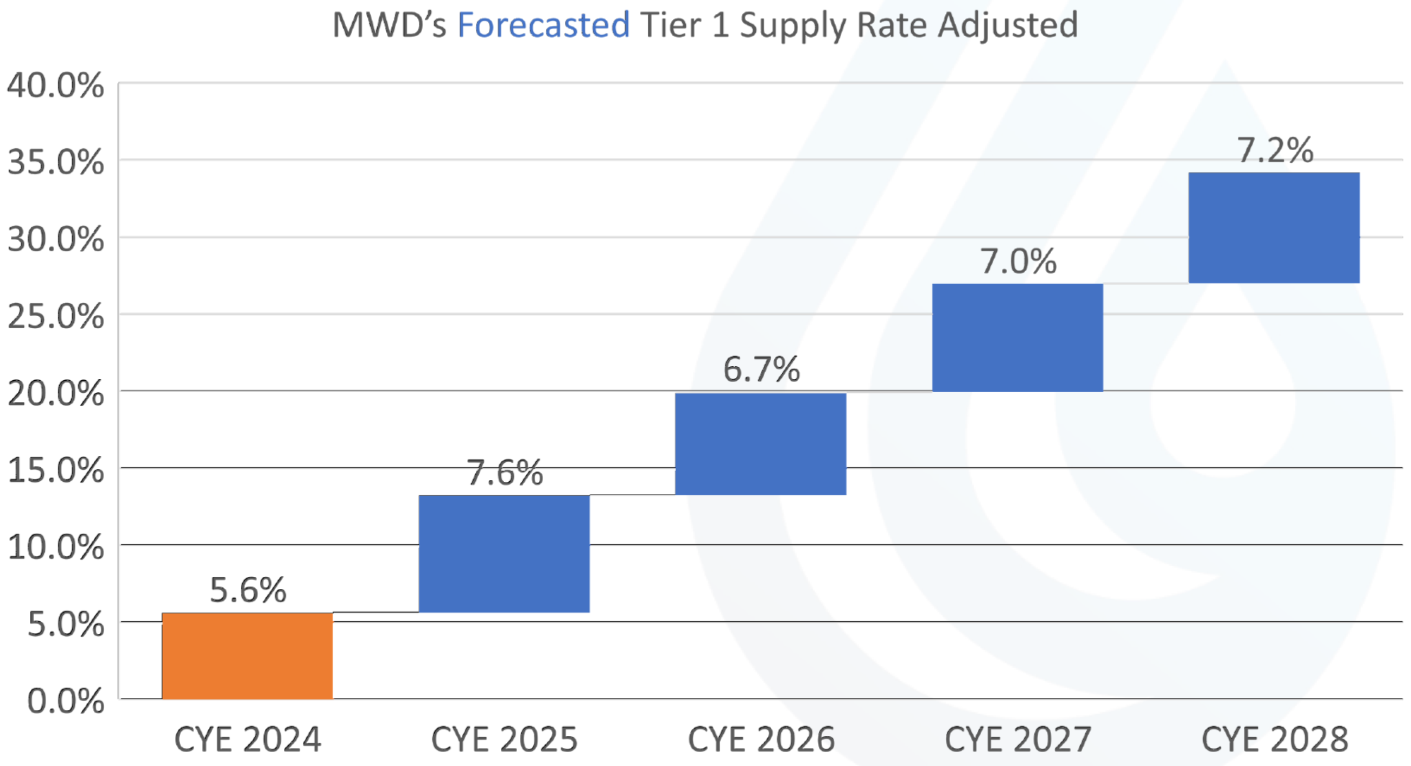
- Many expense forecasts require inflationary factors to be incorporated. Staff rely on historical trends, recent evaluations, and third-party reporting to support its inputs.
- Generally, adjusting these inputs +/- 1 or 2% has little effect on the conclusion of the study though.

Expense Projections: Inflationary Factors

- Slide is from SDCWA, highlighting anticipated water cost increases
- Increases do not account for inflation, SDCWA known factors, or the impact of Fallbrook & Rainbow leaving SDCWA

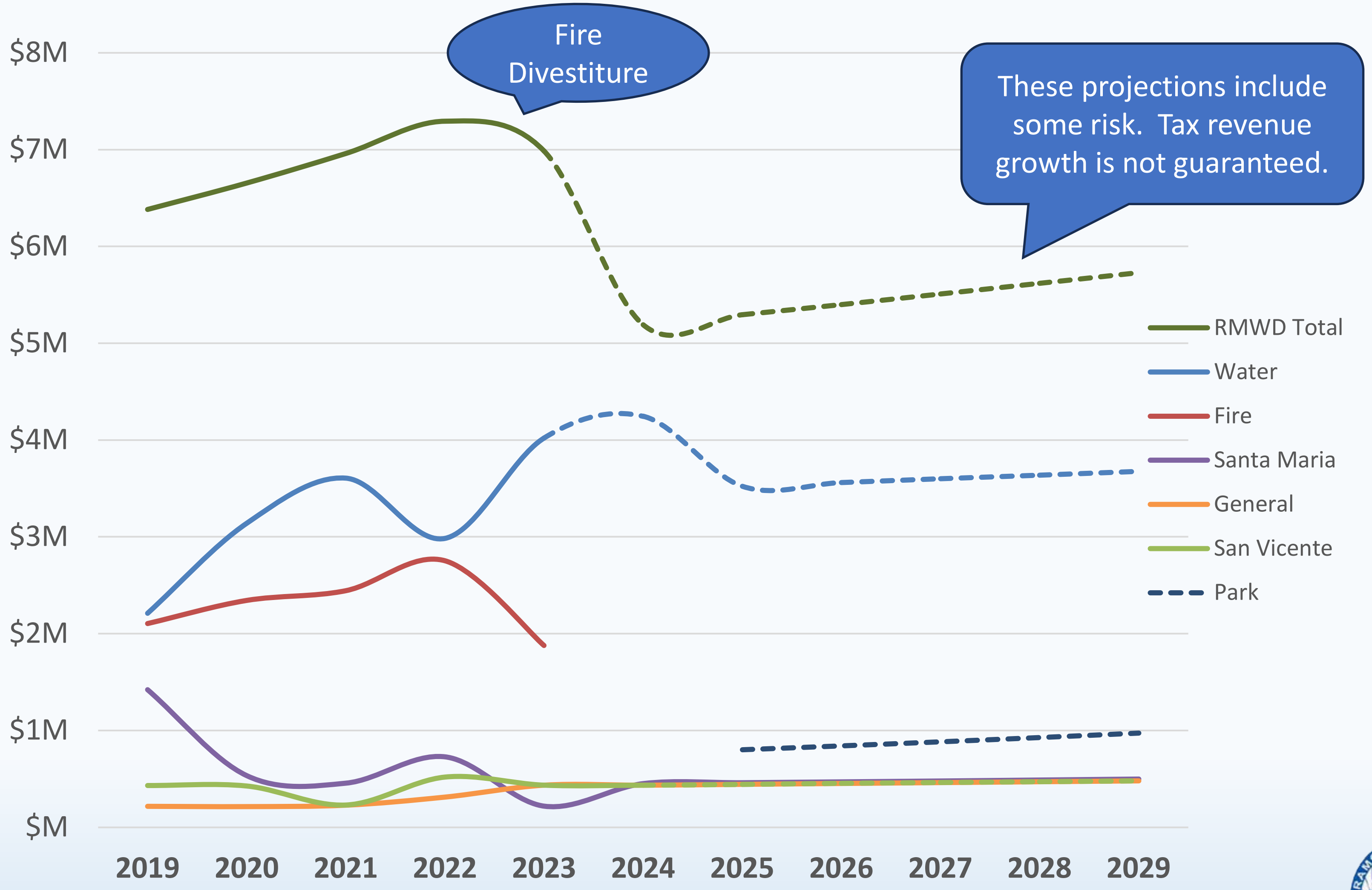
35% Increase Forecasted by MWD by 2028

Estimates do not include many anticipated costs or recent inflation



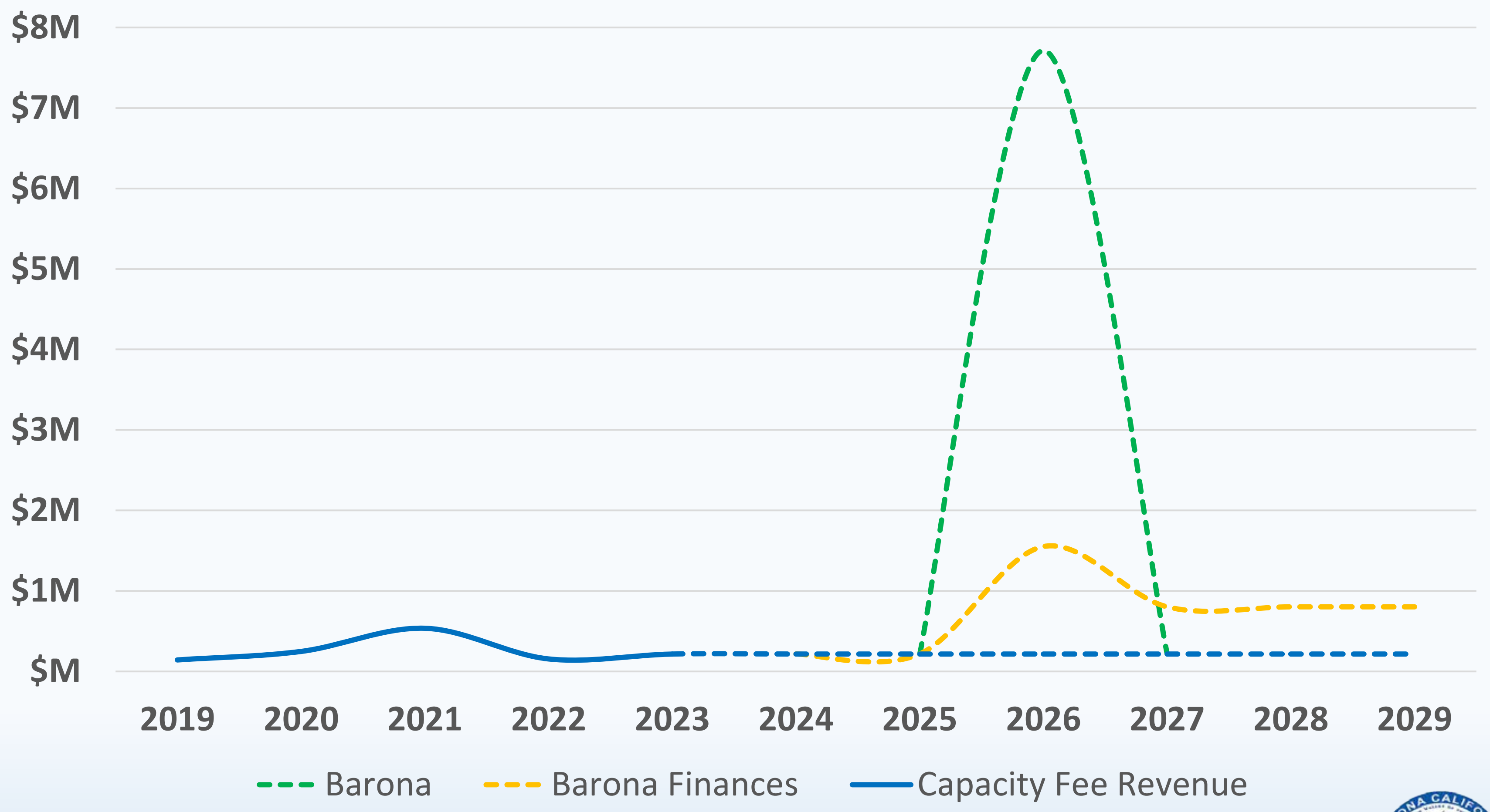
Revenue Projections: Property Tax (unrestricted)

- Tax revenue projections are made in light of the entire District
- Assumes there are not any significant risks within the other funds over the next 5 yrs
- Other funds need support for larger projects in later years, therefore, projection is not sustainable long term.



Revenue Projections: Capacity Fee Projection

- Barona Capacity Fee would provide significant support to reserve levels
- One-time capacity fees do not align ongoing rates to the expense projections though

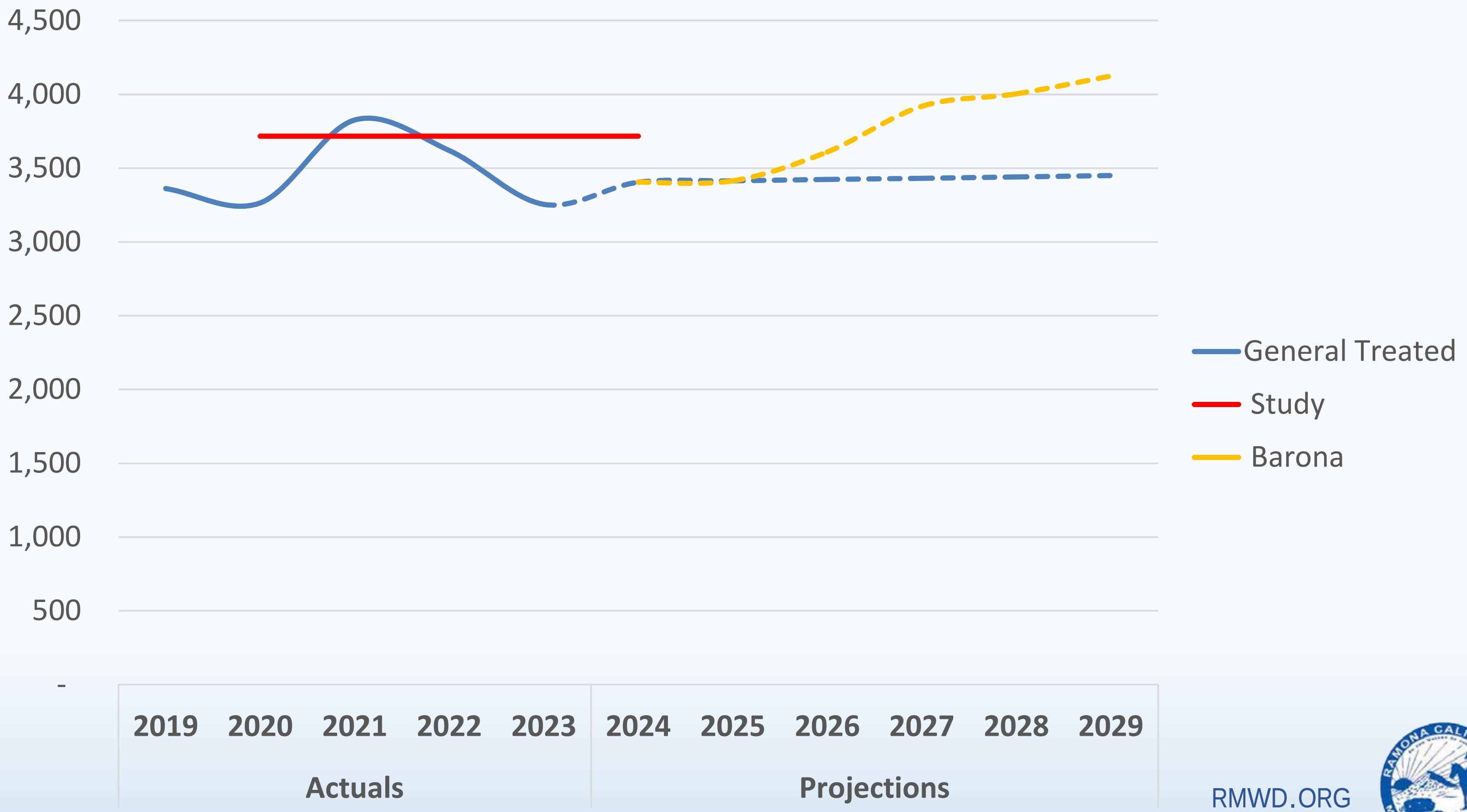


Revenue Projections: Meter Count

- Based on the 2022 Water Master Plan, we can anticipate a 0.26% growth
- Meter count assumptions will not play a significant factor in the study

Revenue Projections: Water Sales (AF)

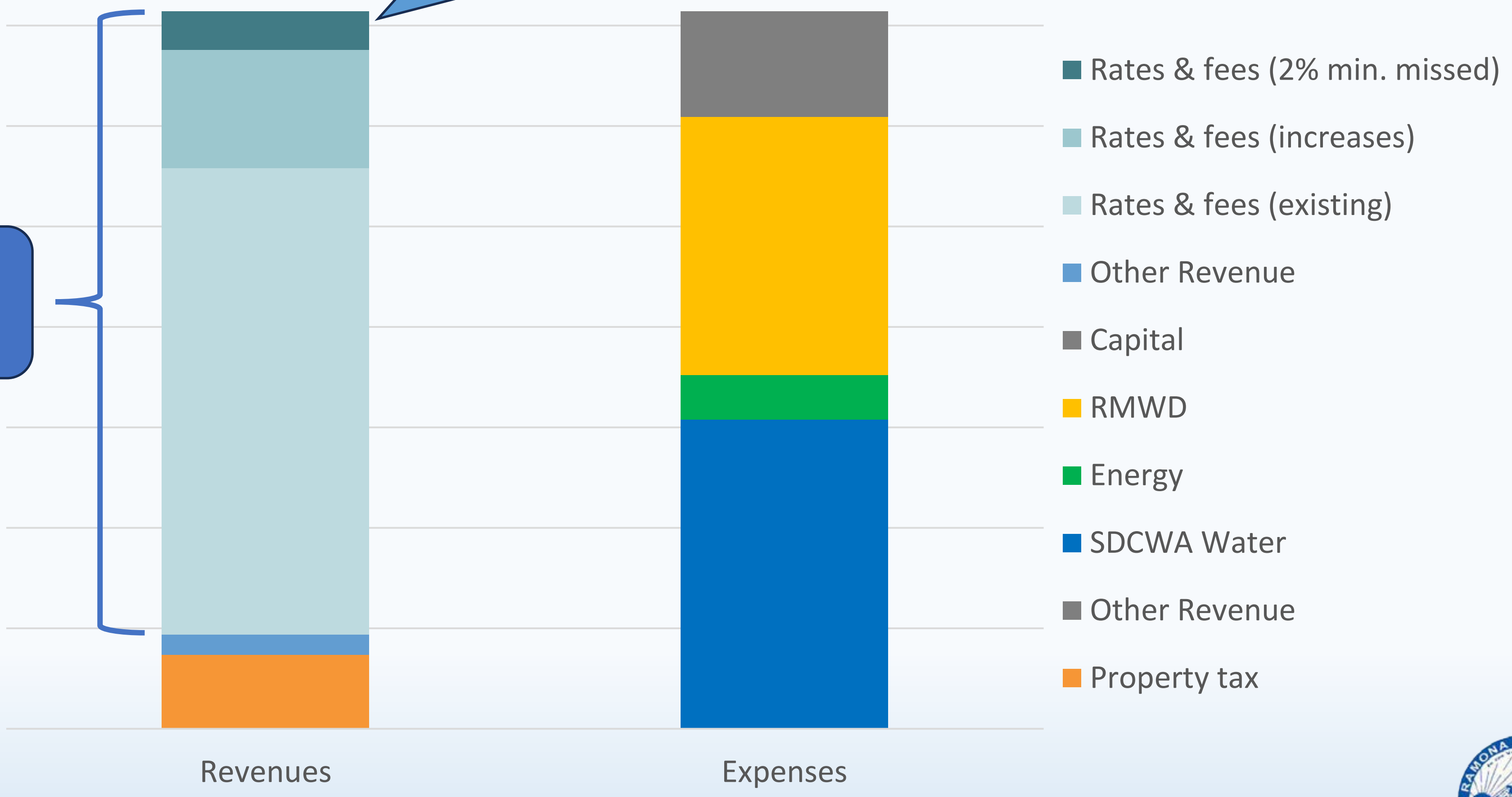
- Projection: previous 98% of previous 5-year average plus 0.26% meter count growth
- Barona 750 AF max (start 1/2026, gradual utilization increase)



Preliminary Findings

Had the District increased rates by a minimum 2% annually in the past, significant adjustments would have been avoided now

Revenue requirement from rates and fees



Preliminary Findings: Goals

Safety & Compliance:

- Projections show the reserve balances never fall below the minimum target

Sustainable:

- Rate and fee revenues support projected expenses throughout 5- and 10-year projections

Defensible:

- District minimizes rate increases
- Rates are cost-based

Revenue Stability:

- To the extent needed, rate increases are consistent year over year

Preliminary Findings

2024 Study 2025 - 2029		Approx. Customer Impact	Barona Assumption: Barona	Barona Assumption: Barona finances	Barona Assumption: No Barona	Implications
SDCWA passthrough	**Yes**					
Annual Adjustment	**9.0%**	$ 16				Fully funds plan and capital at ~$5.5/yr, reserves at minimum unless capital slow-down
	8.0%	$ 14				Requires Barona, **or** temporary capital slow-down (~$4.5M/yr)
	7.0%	$ 12				Requires Barona, **or** temporary capital slow-down (~$4.2M/yr)
	6.0%	$ 11				Requires Barona **and** temporary capital slow-down (~$5.0M/yr), **or** long term capital slow-down (~$3.5M/yr)
	5.0%	$ 9				Requires Barona **and** temporary capital slow-down (~$4.3M/yr), **or** long term capital slow-down (~$3.0M/yr)
	4.0%	$ 7				Requires Barona **and** temporary capital slow-down (~$3.9M/yr), **or** long term capital slow-down (~$2.7M/yr)
	3.5%	$ 6				Requires Barona connection **and** long term capital slow down (~$3.9M/yr), **or** long-term capital slow-down (~$2.2M/yr)
	3.0%	$ 5				Requires Barona connection **and** long term capital slow down (~$3.4M/yr), not sustainable long term otherwise

- healthy option
- some risk, but reasonable option
- additional challenges, short and long term risks
- not sustainable long term
- not viable

2019 Study (reference) 2020 - 2024	
SDCWA passthrough	**Yes**
Annual Adjustment	**7.0%**

Summary is provided for discussion purposes only. Study is in progress and subject to change.

Preliminary Findings: hypothetical scenario

2024 Study		Barona Assumption			Implications
2025 - 2029		Barona	Barona finances	No Barona	
SDCWA passthrough	**Yes**				
Annual Adjustment	**9.0%**				Fully funds plan
	8.0%				Fully funds plan
	7.0%				Fully funds plan
	6.0%				Fully funds plan
	5.0%				Requires Barona, **or** short term capital slow-down (~$5.1M/yr)
	4.0%				Requires Barona, **or** long term capital slow-down (~$4.6M/yr)
	3.5%				Requires Barona, **or** long term capital slow-down (~$4.0M/yr)
	3.0%				Requires Barona, **or** long term capital slow-down (~$3.8M/yr)

- healthy option
- some risk, but reasonable option
- additional challenges, short and long term risks
- not sustainable long term
- not viable

Hypothetical only: Had the District implemented a 2% rate increase each of the last 4 years instead of 0%, the District's financial outlook would have been much healthier.

Recommendation

Review and discuss as appropriate.

Financial Plan – Preliminary Illustration

- In addition to revenue adjustments, pass through SDCWA costs
- Adopt plan in between fully funded plan and Barona option.
- If Barona is delayed or falls through, District stalls capital spending to accommodate

Illustration Only!