2023 Water & Sewer Rate Study
Financial Planning #1

November 7, 2022

Rate Fairness Board
Agenda

1. Rate Study Updates
2. Expenditures Analysis
3. Revenue Sufficiency
4. Next Steps
5. Timeline
Rate Study Update

Completed

- Stormwater charge methodology
- Fund Balance Analysis
- Volumetric Projections
- Expenditure Projections
- CIP Scenario Review

In Progress

- Peer agency survey
- CIP Finalization
- Revenue Needs Assessment
- Preliminary Rate Revenue Adjustments
- Affordability Analysis
- Cost of service analysis
- Rate design
- Community outreach
Rate Study Process

Policy & Rate Structure Review
- Financial Policies
- Sources of revenues
- Uses of Funds
- Long-term investments

Revenue Requirement Analysis
Compares the revenues of the enterprise to expenses to determine the level of rate adjustments needed.

Cost of Service Analysis
Equitably allocates the revenue requirements between customer classes

Rate-Design Analysis
Design rates for each customer class to meet the revenue needs of the utility along with other rate design goals

Integrated Public Outreach & Messaging
Develop a cohesive messaging and outreach program that harmonizes technical cost of service requirements and community values
Revenue Sufficiency Analysis

Rate Revenues = O&M + Capital Costs - Non-Rate Revenues

Financial Planning Criteria:
- Debt Service Coverage
- Operating Reserve
- Cash Funded Capital
- Predictability of Rates
- Affordability of Rates
EXPENDITURES ANALYSIS
Model Assumptions

Operating Assumptions

• FYE 2022 actuals incorporated
• FYE 2023 & FYE 2024 operating expenses set to budget
• FYE 2025 escalated using:
  • Projected Cost of Living Adjustment for Salaries
  • 4.4% projection for Fringe Benefits
  • 3% for non-labor based on local Consumer Price Index (CPI)
• Evaluating the use of Budget Execution Factors

Capital Assumptions

• Capital spending is currently based on February 2022 Capital Improvement Plan (CIP)
• Currently evaluating an updated 10-Year Capital Plan with Enterprises
• All future debt is assumed to be revenue bond funded
• Debt issuance schedule will be refined with Capital Finance team
Forecasted Water Enterprise Expenditures

*Expenses shown assume 100% of budget is executed*
What Is Driving Increased Water Expenditures?

**Capital expenditures**
- Average annual increase in debt service for 10-year financial plan is 3.0%
- Average annual budgeted amount for revenue-funded capital expenditures is $62.1 million
- Additional capital investments may be added to the final CIP

**Operating expenditures**
- Average annual increase for 10-year financial plan is 4.3%
- 14.8% increase in expenses are modeled for FY 2022

**Wholesale/retail allocations impacted by drought**
- Less wholesale conservation in FYE 2021 and FYE 2022 increases wholesale allocation of costs, shifting some costs away from retail customers
- Future allocations are uncertain, but projected for wholesale share of costs to return from current 70% to historic 66%
Forecasted Wastewater Enterprise Expenditures

*Expenses shown assume 100% of budget is executed*
What Is Driving Increased Wastewater Expenditures?

Debt-funded capital expenditures

• Average annual increase in debt service for 10-year financial plan is 13.4%
• Additional capital investments may be added to the final CIP

Operating expenditures

• Average annual increase for 10-year financial plan is 3.8%

Revenue-funded capital expenditures

• Average annual budgeted amount is $128.6 million
Revenue Sufficiency
### Water Rate Revenue Forecast: Existing Rates

<table>
<thead>
<tr>
<th>FYE</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
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<td>Retail Rate Revenues Under Existing Rates</td>
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Forecasted Water Enterprise Revenues: Existing Rates

DSC = Debt Service Coverage
## Wastewater Rate Revenue Forecast: Existing Rates

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<thead>
<tr>
<th>FYE</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
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<tr>
<td>Retail Rate Revenues Under Existing Rates</td>
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<td>372.1</td>
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Forecasted Wastewater Fund Balance: No Rate Adjustments

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<tr>
<th>Year</th>
<th>DSC Current</th>
<th>DSC Indenture</th>
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<td>2023</td>
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<tr>
<td>2033</td>
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Next Steps
Next Steps

- Review Operating Execution Factors with Enterprises
- Finalize CIP for Water and Wastewater Enterprise
- Establish a Capital Financing Plan
- Develop Set of Alternative Financial Plans
- Review Alternatives with the Steering Committee
- Bring Proposed Alternative the RFB
- Initiate the Cost-of-Service Analysis
<table>
<thead>
<tr>
<th>Approximate Timing (Week of)</th>
<th>Topic</th>
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</table>
| December 19                  | • Proposed Alternative Schedule of Rate Adjustments  
                                  • Cost of Service Assumptions  
                                  • Rate Design Process                   |
| January 23                   | • Preliminary Rate Structure Alternatives  |
| February 13                  | • Discussion of Preferred Rate Structure  
                                  • Final Schedule of Rates              |
| February 27                  | • Review of Draft Report  
                                  • Review of Proposal to Commission     |
| March 20                     | • Prepare for Prop 218 Hearing             |

Schedule will likely adjust as we proceed with the rate study.
Discussion & Questions