

Presentation of Ten-Year Financial Forecast

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Purpose of Presentation

- ❖ History of Rate Adjustments
- ❖ Significant Issues and Events
- ❖ Proposed Findings and Rate Requirement Plan
- ❖ Customer Impact



History of Rate Adjustments

❖ Since 2013 Rate Adjustments Enacted by Board

- Only Annual Price Index (Inflation) Adjustments
 - As provided by Rate Resolution
 - Annual Adjustment Cannot Exceed 2.5%
 - Index Application Sunsets After FY 2025
 - Based on Index Published by FPSC

Fiscal Year	Effective Date	Adjustment
2012	October 1, 2011	0.56%
2013	October 1, 2012	1.18%
2014	October 1, 2013	2.41%
2015	October 1, 2014	1.63%
2016	June 1, 2016	1.57%
2017	June 1, 2017	1.29%
2018	June 1, 2018	1.51%

- 7-Year Average = 1.45%



Issues / Risks Facing Utility

- ❖ Changes in Customer Growth / Declining Water Use
 - Reduced Revenues Earned per Customer
- ❖ Continued Long-term Inflation on the Utility Business
 - Municipal Cost Index (Expenses) = 2% Last 5 Years
 - Construction Cost Index (Projects) = 3% Last 10 Years
 - Competition of Resources in Industry
- ❖ Need to Increase PAYGO Capital Improvement Funding
 - System is Aging / Increases Need for Capital Re-investment
 - Limits as to Amount of Debt System can Absorb
 - Total Gross Plant Investment (2017) = \$406 Million (includes land)
 - Promote Going Concern / Business (Utility)
- ❖ These Risks Considered in Financial Forecast



Utility Financial Forecast

- ❖ Scope = Ten-Year Financial Forecast / Revenue Sufficiency Analysis
- ❖ Evaluation of Ability of Rates to:
 - Fully Recover Identified Cost of Providing Service
 - Fund the Capital Improvement Program (Primarily Renewals and Replacements / Extension Program)
 - Compliance with Rate Covenants – Bond Resolution
 - Maintain Creditworthiness of Utility
 - Adequate Operating / Capital Reserves
 - Proper Levels of Debt Use
 - Long-term Sustainable (Affordable) Rates

Goal = Maintain Current Credit Rating of "AA"



Utility Financial Forecast

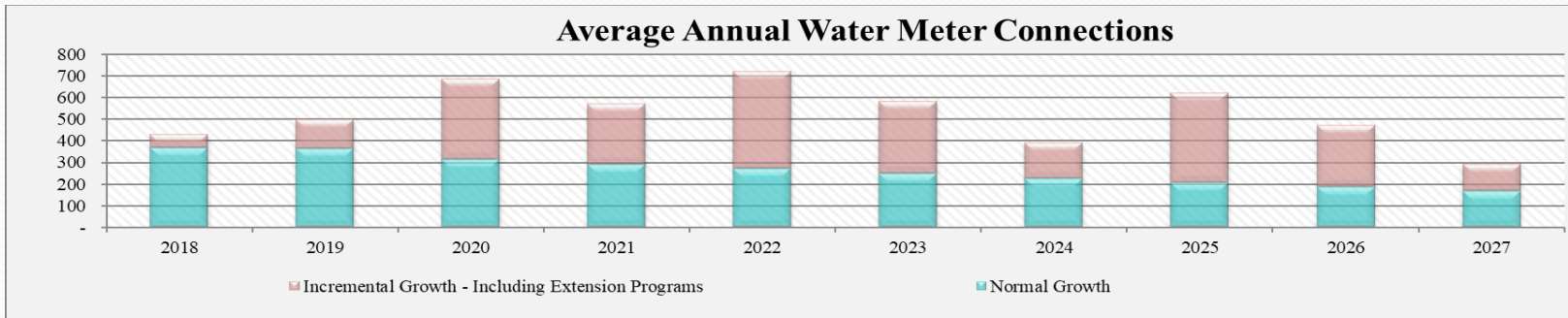
- ❖ FITCH Ratings – 2018 Affirmed AA-Rating w/Stable Outlook
 - "Solid Financial Performance Expected to Continue"
 - Strong "All-in" Debt Service Coverage (Last Five Years Averaging 2.4x)
 - Strong Liquidity Position (Last Five Years Averaging 400 days)
 - "Rates are Considered Affordable and Increased Annually by County's Policy Generally Tracking.... Inflation"
 - "Debt Burden Equated to low 31% of Net Plant and Sufficient Capacity at Current Rating Level to Absorb Additional Debt"
 - "Flexible and Affordable Capital Program"



Utility Financial Forecast

❖ Primary Assumptions

- 10-Yr. Customer Growth – New Development & Extension
 - Water = 5,583 Total ERCs / 2,219 ERCs Extensions = 1.40% Compounded



- Sewer = 5,082 Total ERCs / 2,405 ERCs Extensions = 1.73% Compounded





Utility Financial Forecast

- ❖ Operating Expenses
 - Represent 60% of Total Expenditures
 - Projected Increase = 3.3% Annually
- ❖ 10-Year Capital Improvement Plan = \$182.9 Million
 - Includes Allowances for Inflation

Project Type	Amount	Percent
Renewals and Replacements	\$88.1 Million	48.2%
Water / Wastewater Extension	66.8 Million	36.5%
Expansion / New Facilities	<u>28.0 Million</u>	<u>15.3%</u>
Total 10-year CIP	\$182.9 Million	100.0%



Utility Financial Forecast

❖ 10-Year Capital Improvement Plan = \$182.9 Million

- Proposed Funding Plan

Funding Source	Amount	Percent
Rate Revenue (Ongoing Operations)	\$1.1 Million	0.6%
Operating Reserves	24.5 Million	13.4%
Capital Facility Charges	16.6 Million	9.1%
Renewal and Replacement Fund	67.7 Million	37.0%
Grants	1.5 Million	0.8%
Low-Interest / Muni. Assessment Note	59.5 Million	32.5%
Existing and Additional Bonds	<u>12.0 Million</u>	<u>6.6%</u>
Total Funding Sources	\$182.9 Million	100.0%

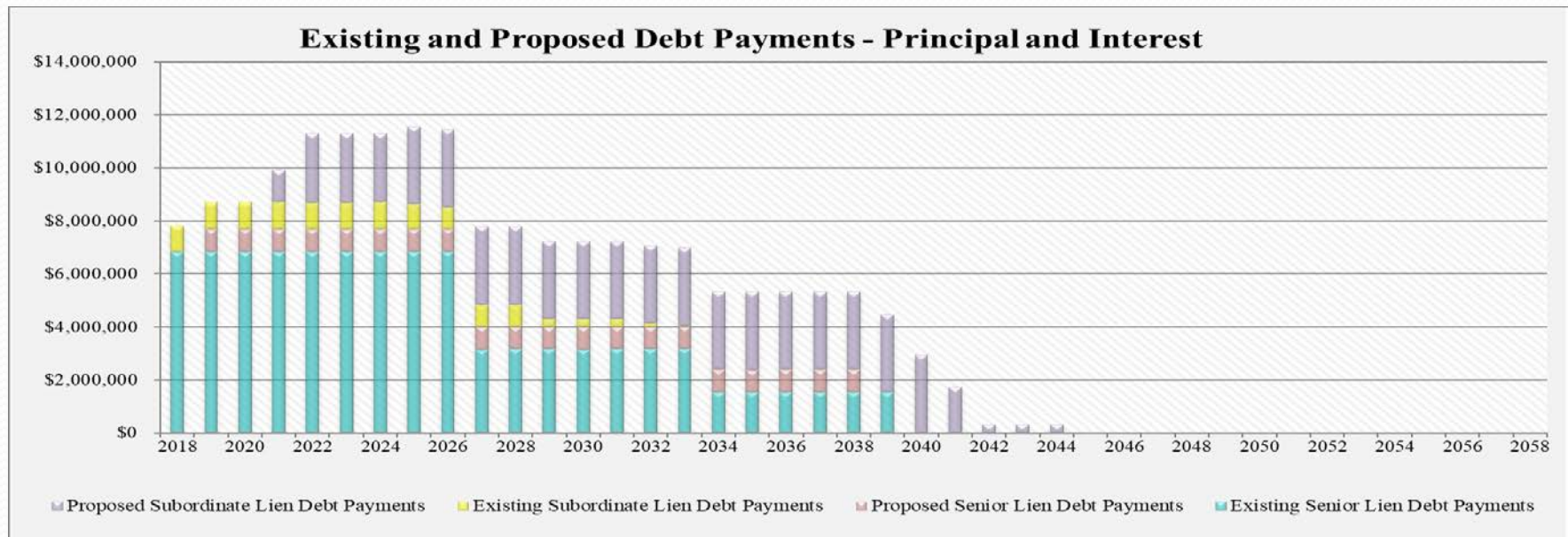
- 60.1% of Capital Plan Funded from Internal Sources (e.g., Operations)
- 32.5% of Capital Plan for Extension-related Projects funded by SRF Loans
 - Repay Begins after Construction Completed / Connections Begin
 - Repayment Secured Primarily by Assessments to Property Owners



Utility Financial Forecast

❖ Debt Service and Capital Funding

- Senior Lien Debt – Issued Per Bond Resolution
- Subordinate Lien Debt – Paid after Senior Lien Debt
 - SRF Loans for Extension Program
 - Payments Begin After Project Completion / Matches Customer Connections



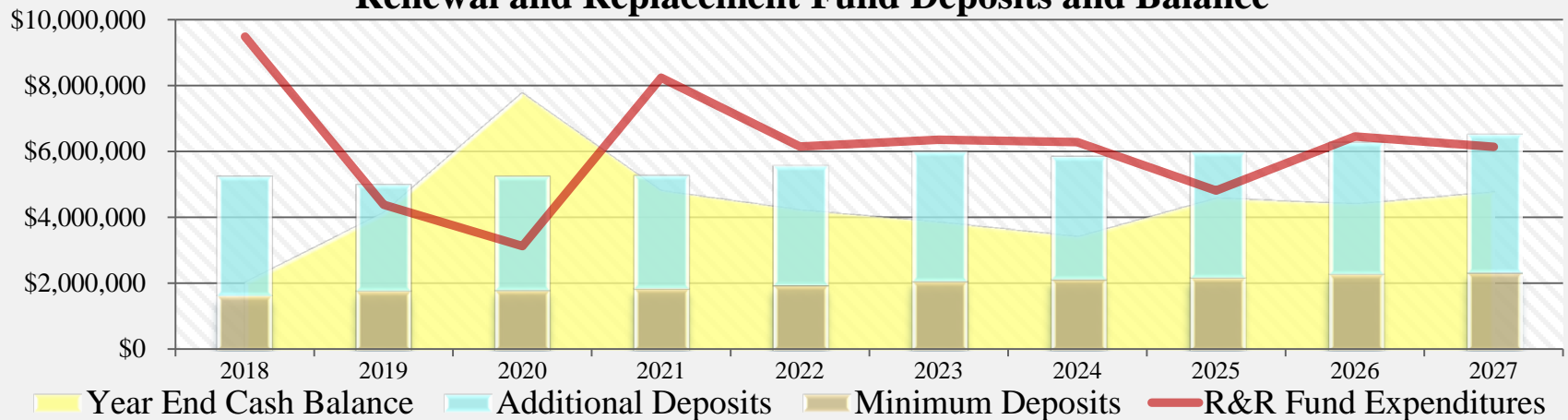


Utility Financial Forecast

❖ Debt Service and Capital Funding

- Renewal and Replacement Fund Deposits
 - Provides On-going Capital Reinvestment from Rates / Limits Future Debt Issues
 - Minimum Deposit per Bond Resolution = 5% of Previous Year Gross Revenues
 - Average Deposit = \$2.0 Million
 - Total Depreciable Assets (2017) = \$390.4 Million
 - Assuming a 1.5% Deposit Rate of Plant in Service = \$5.9 Million

Renewal and Replacement Fund Deposits and Balance





Fiscal and Rate Recommendations

- ❖ Continue Price Index Adjustment Every Year
 - Applied Uniformly to Monthly Rates
 - Not Applied to Capital Facility Charges
 - Rate Resolution = Index Sunsets after 2025
 - Continue Evaluation of Financial Plan and Consider Additional Index Application Term
- ❖ No Additional Increases Identified At This Time
- ❖ Index Assumed to Average 1.6% through 2025



Customer Impact

- ❖ Average Residential Customer Uses 6,000 Gallons of Monthly Service

Rate Comparison

Single-Family Residential Service – Change in Bills at 6,000 Gallons

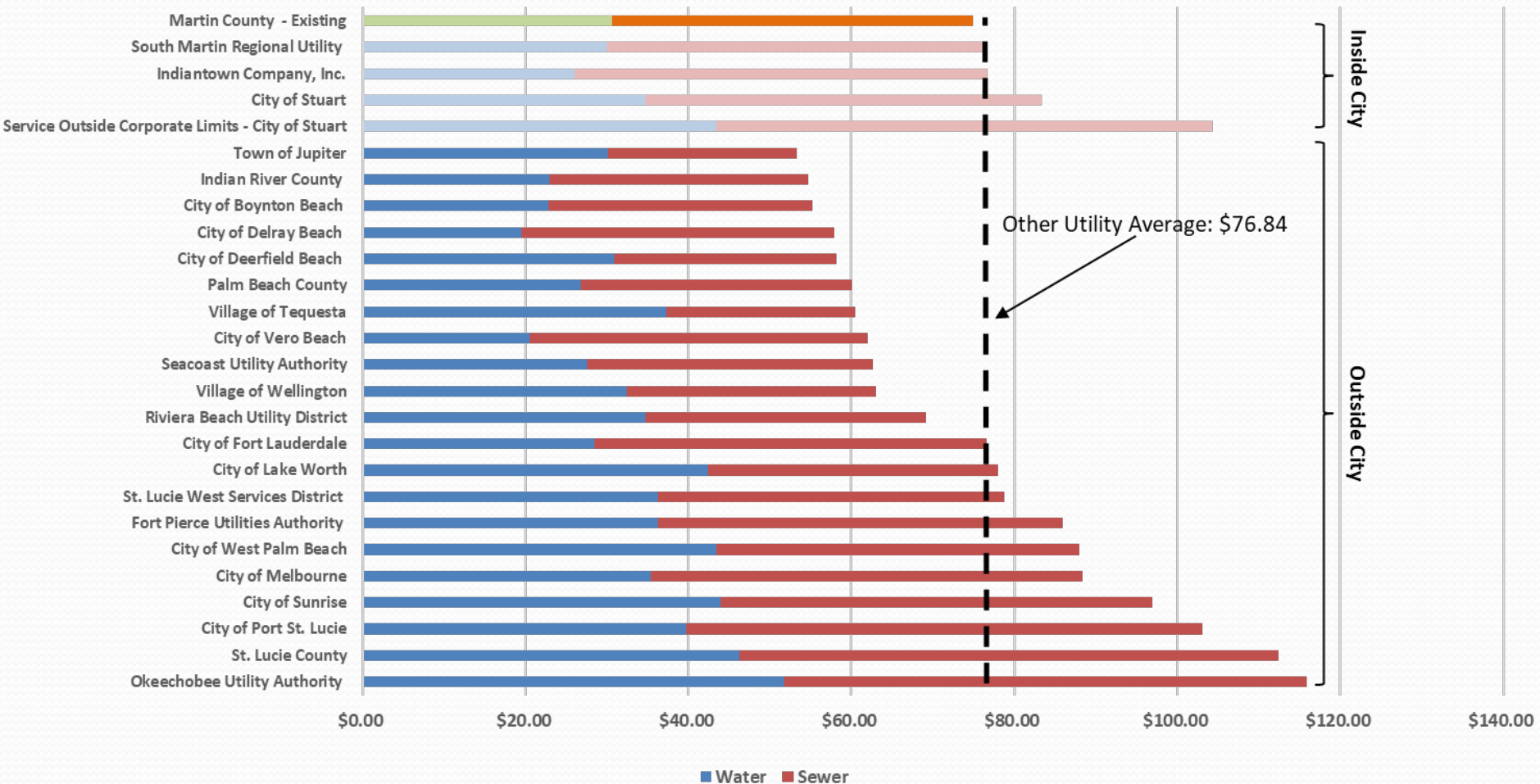
	Water Bill	Wastewater Bill	Total Bill
Current Rates (6/1/18)	\$30.63	\$44.23	\$74.86
Indexed Rates (6/1/19)	<u>\$31.17</u>	<u>\$45.03</u>	<u>\$76.20</u>
Difference:			
Amount ^[*]	\$0.54	\$0.80	\$1.34

[*] Total Customer Impact = about 4¢ per Day



Rate Comparison

Comparison of Monthly Water and Sewer Utility Bill - Residential Customers (5/8" Meter) Using 6,000 Gallons



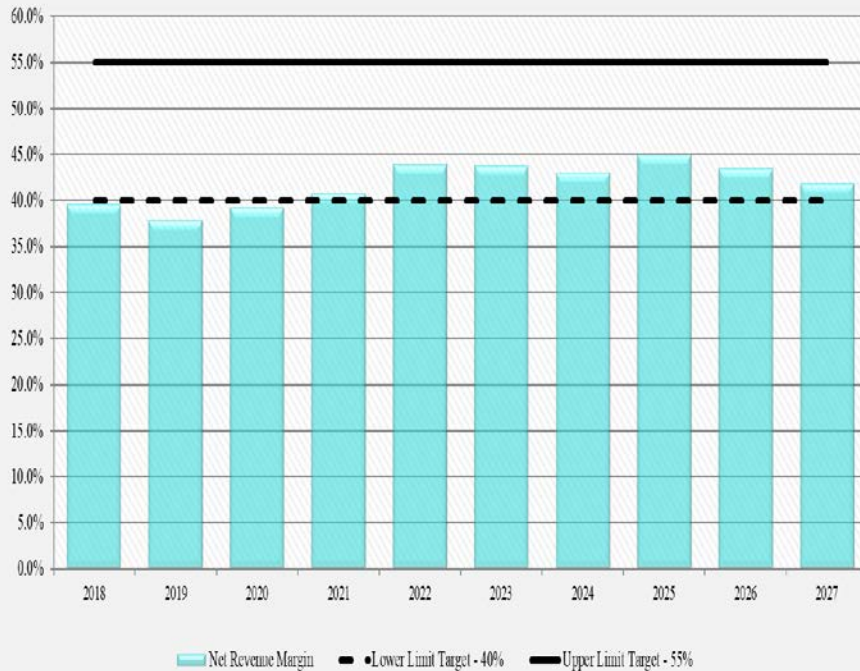


Rate Plan – Supports Strong Fiscal Position

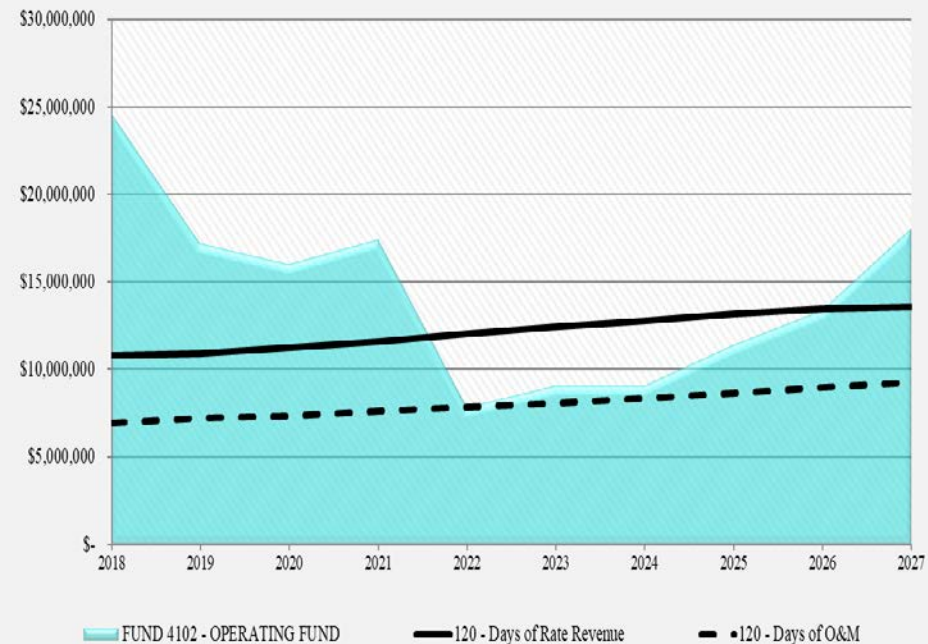
- ❖ **Net Revenue Margin** – Contribution After Operating Expenses for Debt / Capital Funding
- ❖ **Observation** – Favorable Position; Positive Trend

- ❖ **Operating Reserves** – Liquidity to Limit Financial Operating Risk and Debt Repayment
- ❖ **Observation** – Average Position; Ending with Favorable Trend

Net Revenue Margin



Operating Reserves Ending Cash Balance



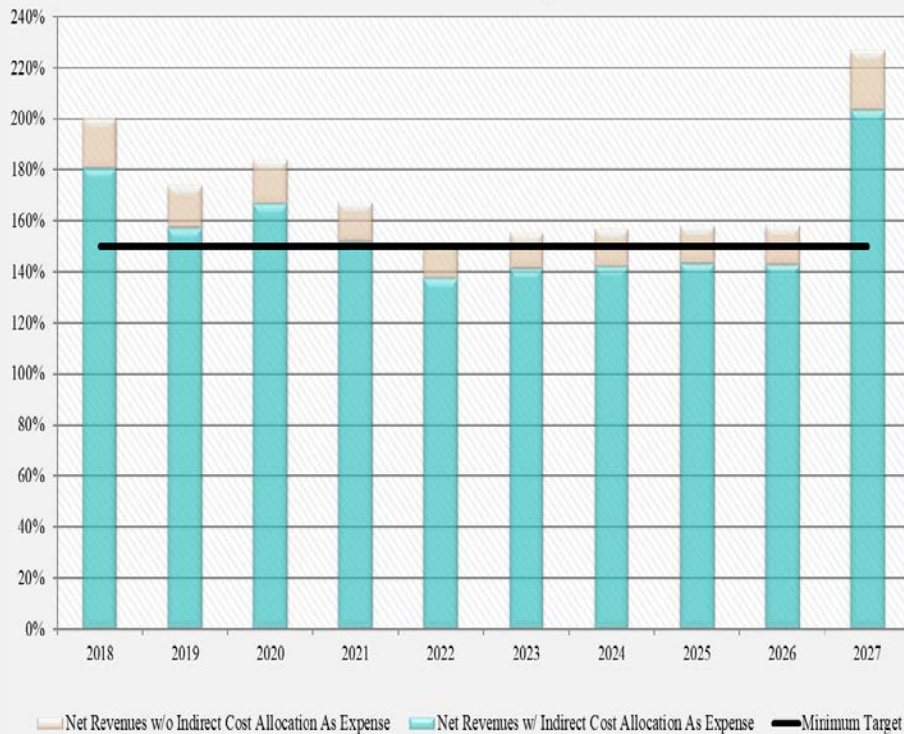


Rate Plan – Supports Strong Fiscal Position (cont'd.)

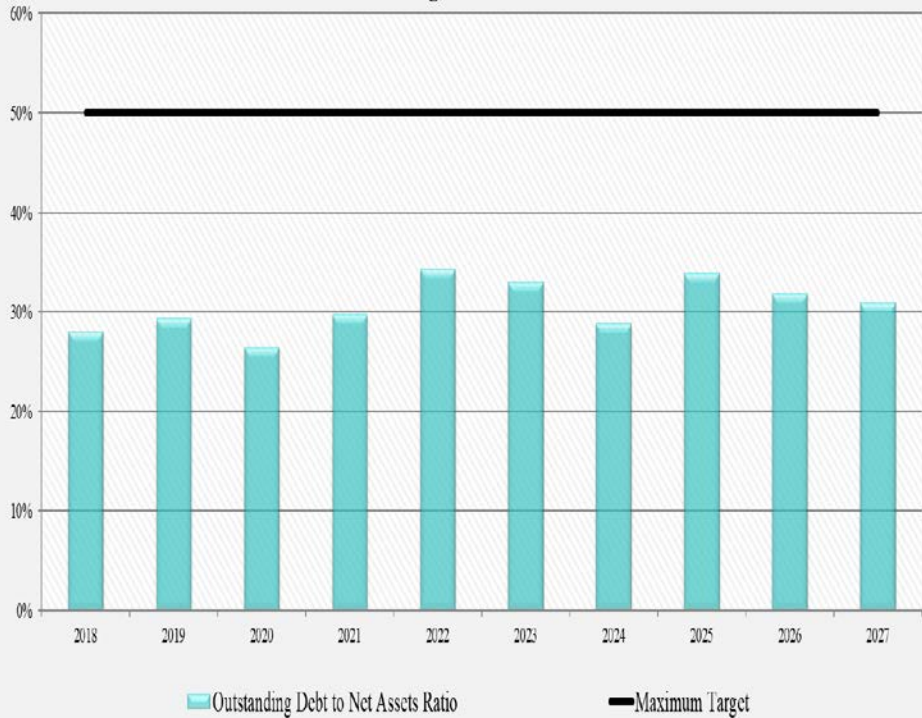
- ❖ **All-In Debt Coverage** – Ability to Pay All Debt; Coverage Provides Funds for Capital Re-investment / Renewals & Replacements
- ❖ **Observation** – Favorable Position / Improves in 2027 When Debt Reduces

- ❖ **Debt to Net Plant Investment** – Measures Use of Debt for Capital Funding and Leverage Position
- ❖ **Observation** – Strong Position; Additional Debt Leveraging Capability Available

All-In Debt Coverage



Debt Outstanding to Net Plant Investment





Summary and Observations

- ❖ "Stay with the Plan" To Maintain Favorable Fiscal Position and Long-term Sustainable Rates
 - Continue Application of Annual Price Index Adjustment
 - Applied Uniformly Only to Monthly Rates
 - Re-evaluate After June 1, 2025 (6 Years)
 - Maintain Renewal and Replacement Funding Deposit at 15% of Current Gross Revenues
 - Extension Program Recognized Use of Low-Interest SRF
 - Must Connect Customers
- ❖ Constantly Evaluate / Update the Financial Plan as Conditions Change



Commission Questions and Discussions