

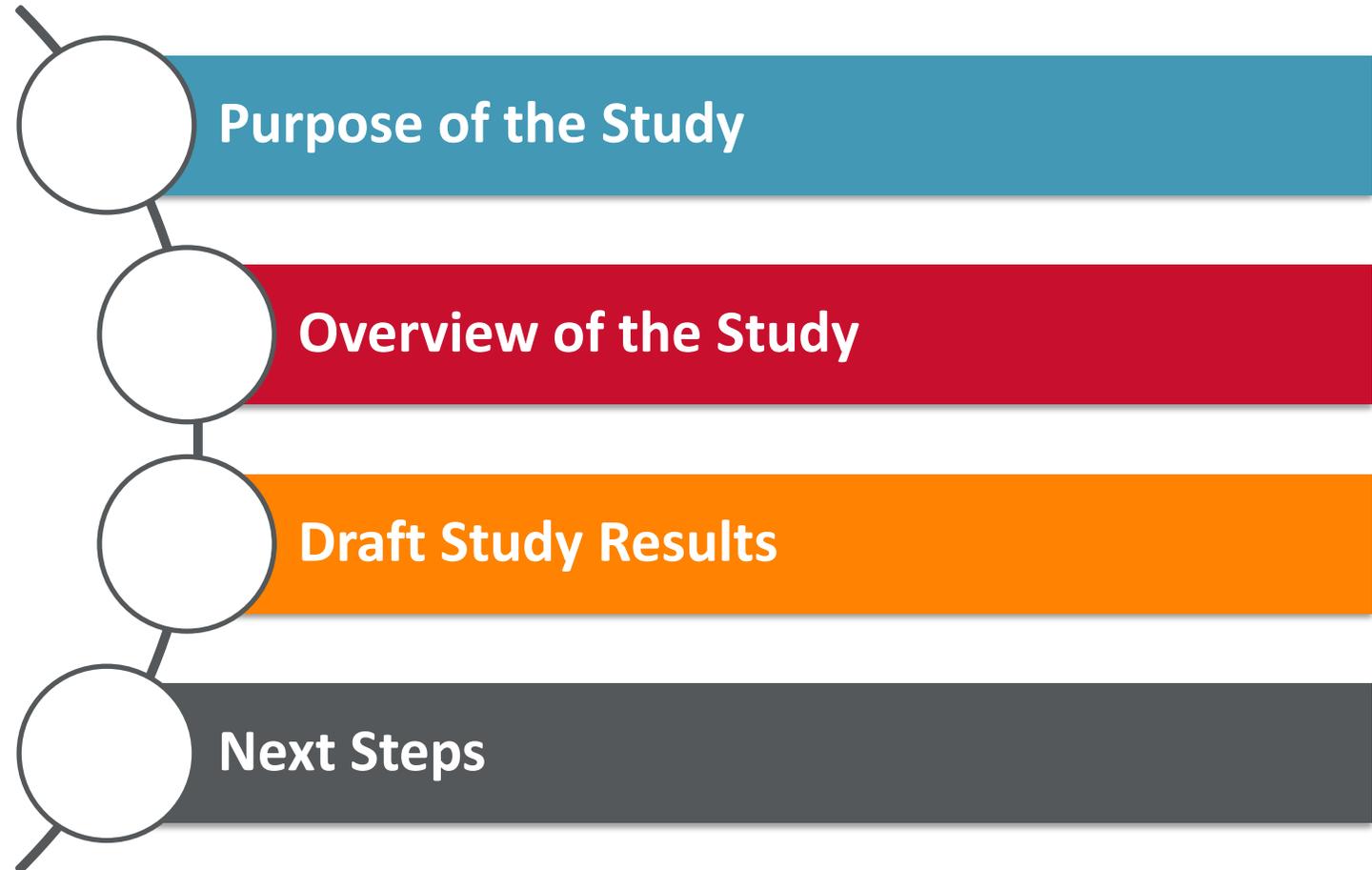
Wastewater Rate Study Update

Draft Results

February 22, 2023



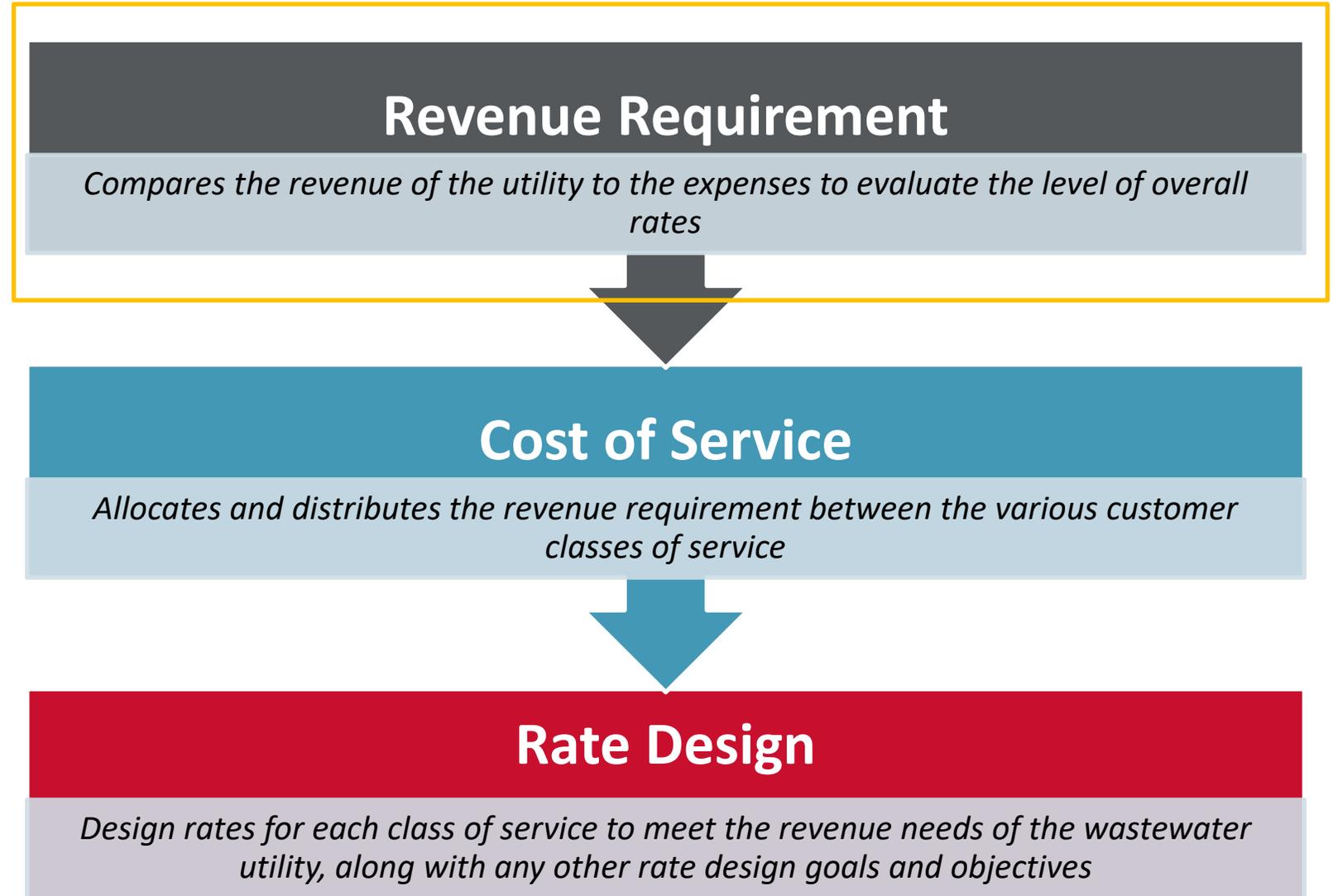
Overview of the Presentation



Purpose of the Study

- Update the rate study completed in 2022 to develop a projection of rate impacts including Replenish Big Bear (RBB) costs for Board consideration
 - Only RBB preconstruction costs were included in prior rate study per Board direction
- Developed a projection of rates for the following:
 1. Update the BBARWA (no RBB) analysis to develop baseline rate projection
 2. Include RBB costs (debt and O&M)
 3. RBB costs less other agency contributions
- Review the projection of rates with the Board to gain feedback and establish the basis for the rate for the next five-year period
 - Recommending alternative 3, assuming no contributions at this time

Establishing Cost-Based Wastewater Rates

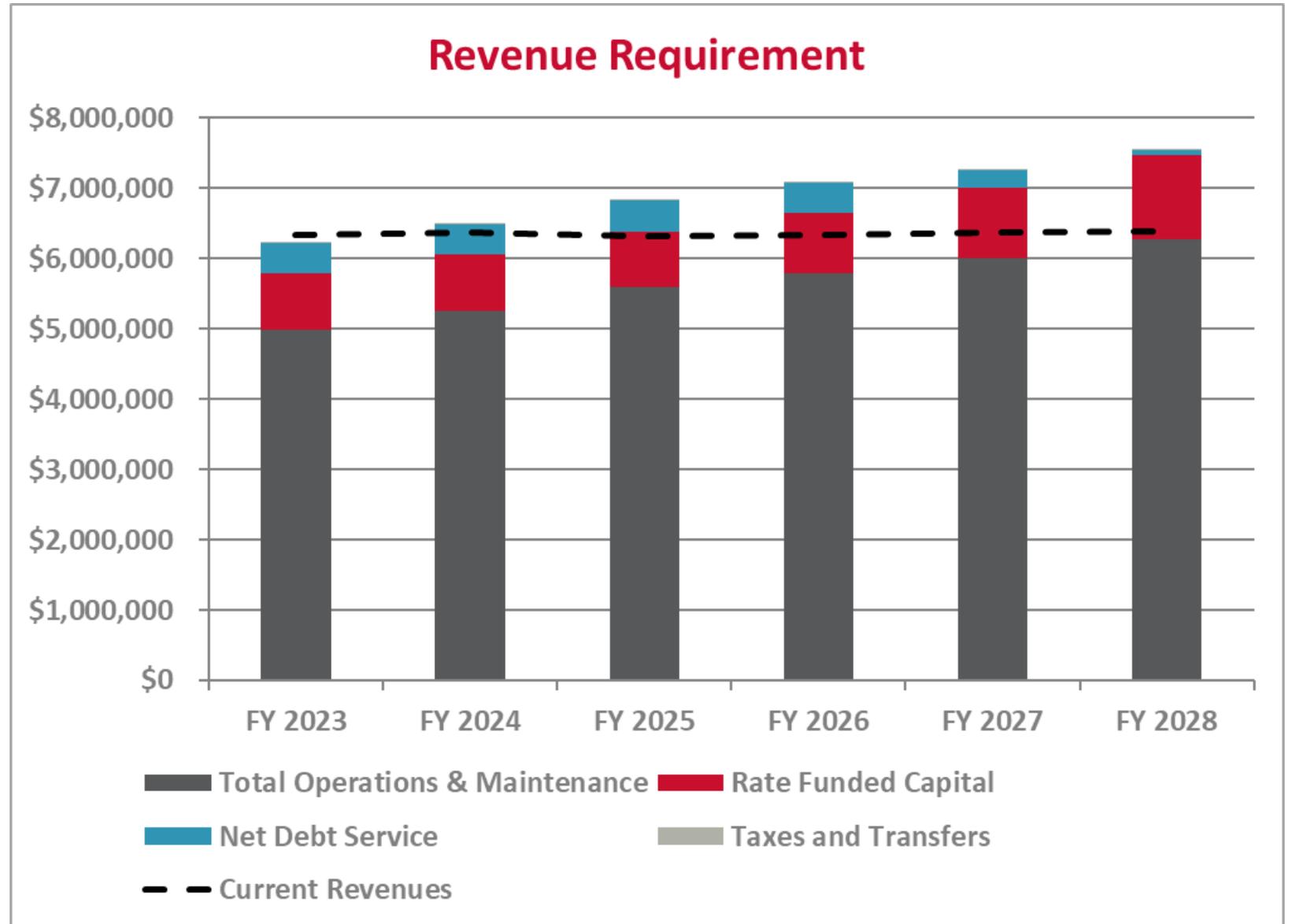


Basis for the cost of service and rate design is the study completed in 2022

BBARWA Revenue Requirement - Key Assumptions

- Revenues based on current adopted rate (FY 2023)
 - Less RBB rate component
- Assumed minimal customer growth
 - ~45 EDUs per year
- O&M based on the FY 2023 budget
- Annual O&M increase based on assumed escalation factors
 - Averages approximately 4.7% annually through FY 2028
- BBARWA capital improvements based on current capital plan
 - Rate funding and available reserves fund capital needs
 - No additional long-term debt

Summary of the BBARWA Revenue Requirement Analysis



Draft BBARWA Summary

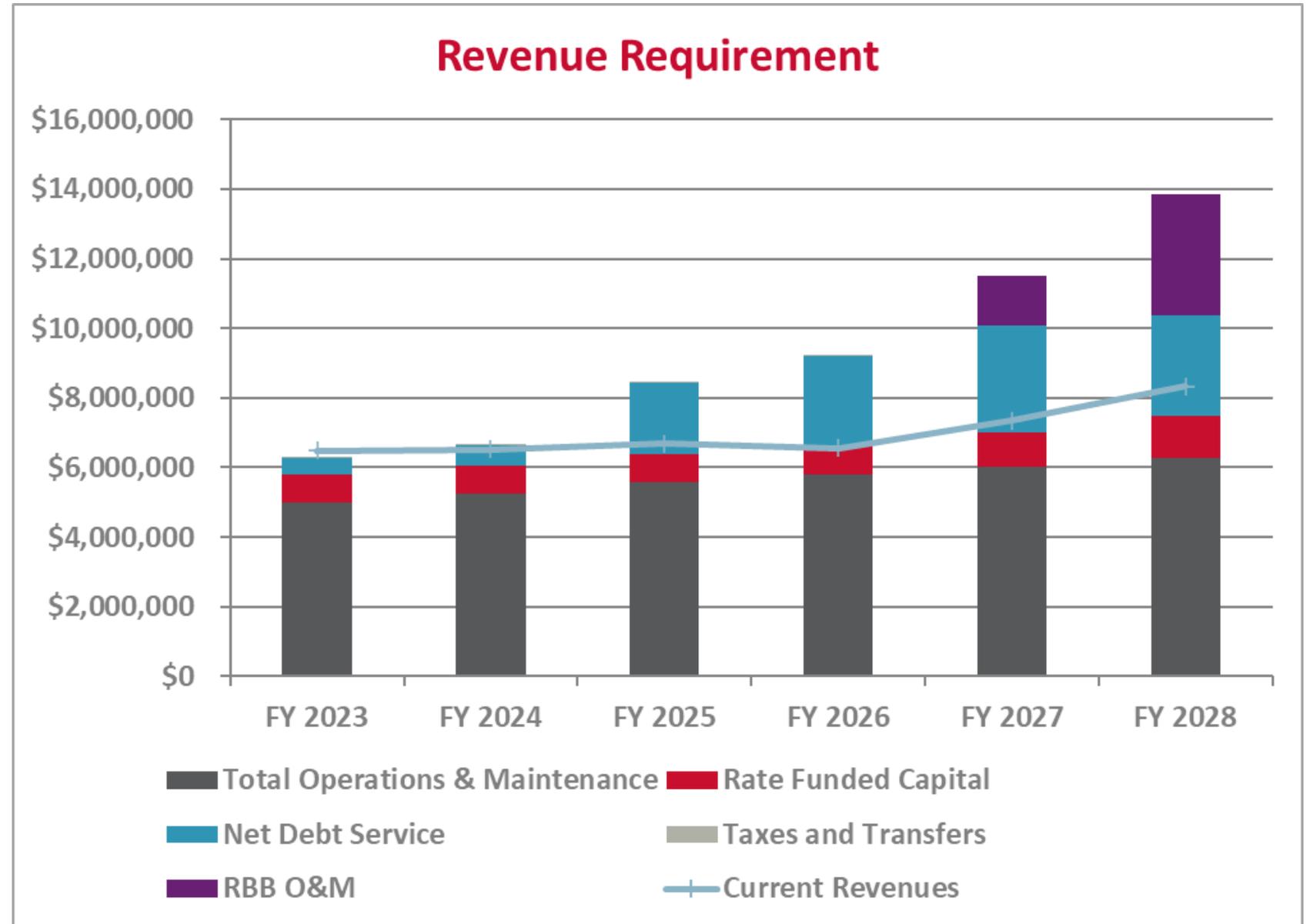
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Debt Service Coverage (DSC) Ratio <i>[all debt – w/o connection fees]</i>						
Before Rate Adjustment	3.02	2.57	1.81	1.43	1.67	2.06
After Proposed Rate Adj.	3.02	3.05	2.79	2.94	4.83	10.70
Target Reserve Levels (\$000s)						
Operations Fund – Liquidity	\$2,525	\$2,658	\$2,827	\$2,933	\$3,038	\$3,172
Operations Fund - Contingency	\$832	\$875	\$931	\$966	\$1,001	\$1,045
Capital and Replacement Fund	\$644	\$1,395	\$304	\$263	\$1,239	\$1,543
Emergency Reserves	\$500	\$500	\$500	\$500	\$500	\$500
Debt Service Fund	<u>\$509</u>	<u>\$509</u>	<u>\$509</u>	<u>\$509</u>	<u>\$330</u>	<u>\$150</u>
Total Target Minimum	\$5,011	\$5,938	\$5,071	\$5,171	\$6,106	\$6,410
Total Ending Reserve Funds	\$6,757	\$7,109	\$6,578	\$7,213	\$8,165	\$8,302
1 EDU*	\$241.04	\$250.68	\$260.71	\$271.14	\$281.98	\$291.85
Annual \$ Change		\$9.64	\$10.03	\$10.43	\$10.85	\$9.87
Annual % Change		4.0%	4.0%	4.0%	4.0%	3.5%

For comparison purposes only, base rate excludes \$5.79 for RBB included in adopted rate

RBB Revenue Requirement - Key Assumptions

- RBB construction starts in FY 2024 and completed in FY 2027
 - Updated project estimate of \$71 M
- RBB funded through long-term debt (primarily low interest loans) and grants
 - Annual debt service assumes interest only through construction
 - Principal and interest at completion of construction (FY 2027)
 - Grants assume current awarded, no additional
- Additional annual O&M expense starting in FY 2027
 - FY 2027 is a partial year (~\$1.5 M)
 - FY 2028 is escalated and starts at ~\$3.5 M
- Annual debt service of ~\$2.8 M in FY 2027
 - Reflects total annual RBB debt service
- Future Capex included in FY 2028 (~\$350K)
- Other Agency contributions included in FY 2027
 - Partial year in FY 2027 (\$785K)
 - Full year starting in FY 2028 (\$1.7 Mil) increasing annually by 2.5%

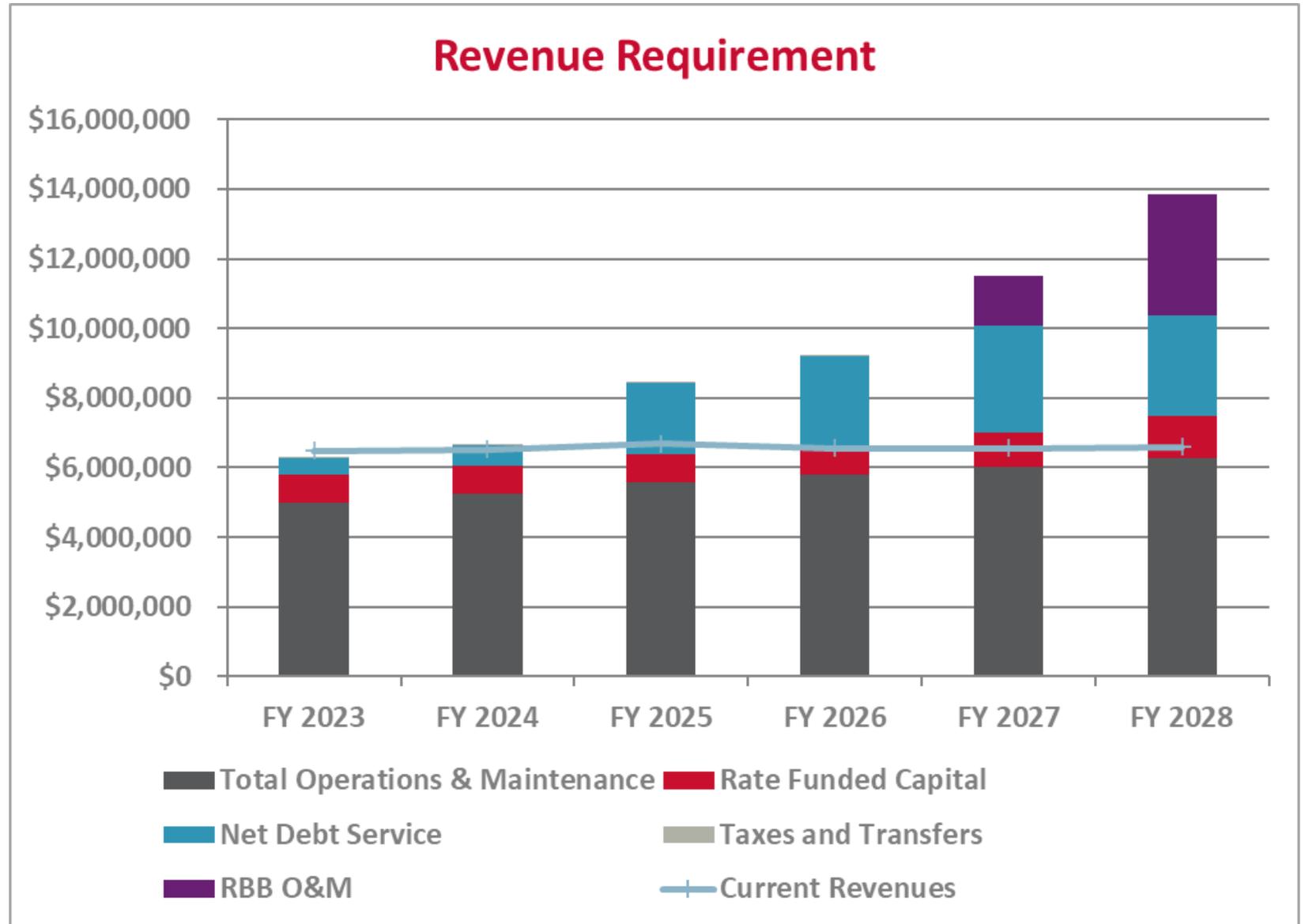
Summary of the RBB Revenue Requirement Analysis



Draft RBB Summary

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Debt Service Coverage (DSC) Ratio <i>[all debt – w/o connection fees]</i>						
Before Rate Adjustment	2.72	1.94	0.51	0.29	0.00	0.00
After Proposed Rate Adj.	2.72	4.09	1.81	1.85	1.71	1.88
Target Reserve Levels (\$000s)						
Operations Fund – Liquidity	\$2,525	\$2,658	\$2,827	\$2,933	\$3,771	\$4,945
Operations Fund - Contingency	\$832	\$875	\$931	\$966	\$1,242	\$1,629
Capital and Replacement Fund	\$644	\$1,395	\$304	\$263	\$1,239	\$1,543
Emergency Reserves	\$500	\$500	\$500	\$500	\$1,000	\$1,000
Debt Service Fund	<u>\$550</u>	<u>\$654</u>	<u>\$2,126</u>	<u>\$2,636</u>	<u>\$3,144</u>	<u>\$2,964</u>
Total Target Minimum	\$5,051	\$6,082	\$6,688	\$7,298	\$9,895	\$11,581
Total Ending Reserve Funds	\$7,614	\$45,943	\$27,711	\$13,071	\$13,018	\$14,204
1 EDU	\$246.83	\$302.37	\$355.28	\$408.57	\$461.69	\$521.71
Annual \$ Change		\$55.54	\$52.91	\$53.29	\$53.11	\$60.02
Annual % Change		22.5%	17.5%	15.0%	13.0%	13.0%

Summary of the RBB No Contributions Revenue Requirement Analysis



Draft RBB No Contributions Other Rev Summary

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Debt Service Coverage (DSC) Ratio <i>[all debt – w/o connection fees]</i>						
Before Rate Adjustment	2.72	1.94	0.51	0.29	0.00	0.00
After Proposed Rate Adj.	2.72	4.09	1.83	1.97	1.74	1.85
Target Reserve Levels (\$000s)						
Operations Fund – Liquidity	\$2,525	\$2,658	\$2,827	\$2,933	\$3,771	\$4,945
Operations Fund - Contingency	\$832	\$875	\$931	\$966	\$1,242	\$1,629
Capital and Replacement Fund	\$644	\$1,395	\$304	\$263	\$1,239	\$1,543
Emergency Reserves	\$500	\$500	\$500	\$500	\$1,000	\$1,000
Debt Service Fund	<u>\$550</u>	<u>\$654</u>	<u>\$2,126</u>	<u>\$2,636</u>	<u>\$3,144</u>	<u>\$2,964</u>
Total Target Minimum	\$5,051	\$6,082	\$6,688	\$7,298	\$9,895	\$11,581
Total Ending Reserve Funds	\$7,614	\$45,943	\$27,749	\$13,427	\$13,487	\$14,581
1 EDU	\$246.83	\$302.37	\$356.79	\$421.02	\$496.80	\$586.22
Annual \$ Change		\$55.54	\$54.43	\$64.22	\$75.78	\$89.42
Annual % Change		22.5%	18.0%	18.0%	18.0%	18.0%

Rate Impact Comparison

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Base Rate*	\$241.04	\$250.68	\$260.71	\$271.14	\$281.98	\$291.85
Annual \$ Change		\$9.64	\$10.03	\$10.43	\$10.85	\$9.87
<i>Annual % Change</i>		4.0%	4.0%	4.0%	4.0%	3.5%
RBB Rate	\$5.79	\$51.69	\$94.57	\$137.44	\$179.70	\$229.85
Annual \$ Change		\$45.90	\$42.89	\$42.86	\$42.27	\$50.15
Base Rate plus RBB	\$246.84	\$302.37	\$355.28	\$408.57	\$461.69	\$521.71
Total Annual \$ Change		\$55.54	\$52.91	\$53.29	\$53.11	\$60.02
<i>Total Annual % Change</i>		22.5%	17.5%	15.0%	13.0%	13.0%
RBB Rate No Contributions	\$246.84	\$302.37	\$356.79	\$421.02	\$496.80	\$586.22
Annual \$ Change > RBB		\$0.00	\$1.51	\$12.44	\$35.11	\$64.51
<i>Total Annual % Change</i>		22.5%	18.0%	18.0%	18.0%	18.0%

For comparison purposes only, base rate excludes \$5.79 for RBB included in adopted rate



Summary

- ❖ Analysis provides the basis for necessary revenue adjustments to meet RBB funding needs
- ❖ Recommend alternative without other agency contributions
- ❖ Proposed rates reflect the cost of service analysis completed in 2022

Next Steps

- ❖ Gain feedback and input from the Board
- ❖ Finalize rate setting approach for RBB
- ❖ Present final study recommendations and proposed rates

**Thank You
and Discussion**

