



Montecito Water District

Finance Committee Meeting

Five-Year Rate Study

February 23, 2024

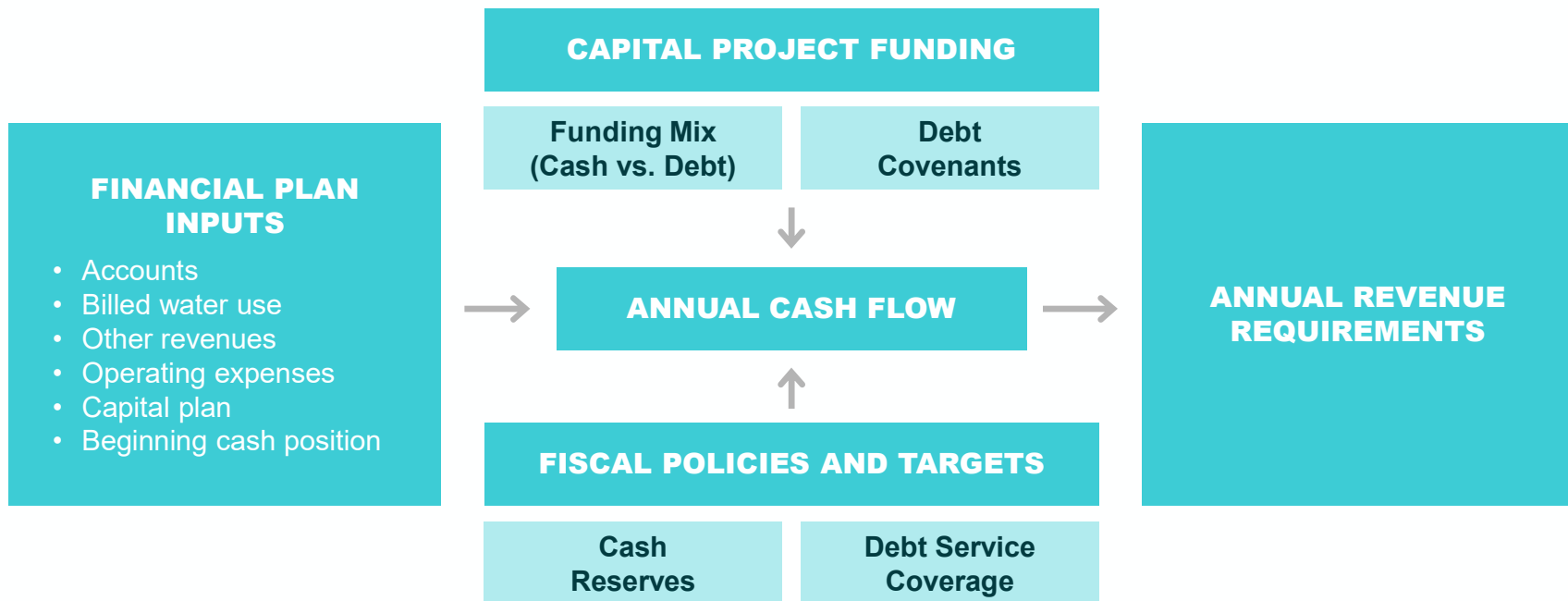


Agenda

- 1. Financial Plan Model Refresher**
 - a. Updated cost projections from Prior Year / Prior Study**
 - b. CIP & CIP Scenarios**
 - c. Financial Plan Options**
- 2. Cost of Service Analysis Update**

Financial Plan Model

FINANCIAL PLAN ELEMENTS



Financial Plan Model

- Primary inputs:
 - › Fiscal Year (FY) 2025 projected revenues (water demands, customer accounts, other revenues)
 - › FY 2023 Actuals & FY 2024 Budget
 - › Updated 10-year CIP Schedule
 - › July 1, 2023 (FY 2024) beginning cash balance
 - › Financing terms and assumptions (2020 Revenue Bonds Covenants and Proposed State Revolving Fund (SRF) for ASADRA)
 - › Current and proposed reserve policies are utilized within the financial plan model (\$5 million board-allocated reserve target)

Significant Areas of Change from 2020 Rate Study

- Extraordinary Inflationary pressure on operating costs, generally
- WSA costs (Operating and Capital)
- Capital Improvement Project (CIP) costs
 - › Higher cost projections due to extraordinary inflation
 - › Average increase of approximately \$3.6 million per year
- SRF Loan Terms for ASADRA Projects
 - › Maximum Annual Debt Service (MADS) requirement

Desal Cost Comparison

- Average annual increase of approximately \$2.4 million per year
 - › WSA Operating Cost: \$1.9 million
 - › WSA Annual Capital Cost: \$500k
- Cumulative five-year (FY 2025-2029) difference from rate study projections: \$11.8 million

| WSA Costs | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 2020 Rate Study | \$4,983,161 | \$5,049,453 | \$5,117,821 | \$5,188,325 | \$5,126,096 |
| 2024 Rate Study | \$7,172,892 | \$7,308,680 | \$7,451,101 | \$7,600,483 | \$7,757,169 |
| Difference (\$) | \$2,189,731 | \$2,259,227 | \$2,333,280 | \$2,412,158 | \$2,631,073 |

CIP Comparison

- Average annual increase of approximately \$3.6 million per year
 - › Same amount of pipeline annually, result of extraordinary inflation only
- Cumulative five-year (FY 2025-2029) difference from rate study projections: \$18 million

| Capital Improvement Program | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 2020 Rate Study | \$2,520,560 | \$2,337,375 | \$2,781,850 | \$2,320,175 | \$2,681,500 |
| 2024 Rate Study | \$5,727,710 | \$5,578,674 | \$5,675,191 | \$6,702,175 | \$6,992,229 |
| Difference (\$) | \$3,207,150 | \$3,241,299 | \$2,893,341 | \$4,382,000 | \$4,310,729 |

CIP Scenarios

- Base CIP: 20-year schedule
 - › Accelerated pipe is no longer needed
 - › Includes Recycled Water Project design costs in FY 2025 and FY 2026
 - \$1 million total
 - › Highline Project
 - Cash funded option: 15-year schedule beginning FY 2027
 - Debt-funded option: 4-year schedule beginning in FY 2031
- ASADRA
 - › Up to date cost projection and project timing (FY 2025-FY 2030)
 - › SRF loan repayment beginning FY 2031, one year after completion

Financial Plan (FP) Options Detail

FP Option 1:

- Base CIP
- Cash Funded Highline (Over 15 years starting in FY 2027)

FP Option 2:

- Base CIP
- Debt Financed Highline (\$28 M debt proceeds in FY 2031 over 4 years)

FP Option 3:

- Base CIP + ASADRA
- Cash Funded Highline (Over 15 years starting in FY 2027)

FP Option 4:

- Base CIP + ASADRA
- Debt Financed Highline (\$28 M debt proceeds in FY 2031 over 4 years)

FP Option 5:

- Base CIP + ASADRA
- Cash Funded Highline
- Partially Debt Financed R&R CIP (\$14 M proceeds FY 2027 over 2 years)

Financial Plan (FP) Options Comparison

| | <i>FY</i> 2025 | <i>FY</i> 2026 | <i>FY</i> 2027 | <i>FY</i> 2028 | <i>FY</i> 2029 | <i>FY</i> 2030 | <i>FY</i> 2031 | <i>FY</i> 2032 | <i>FY</i> 2033 | <i>FY</i> 2034 |
|----------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Option 1 | 11% | 11% | 11% | 11% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% |
| Option 2 | 11% | 11% | 11% | 5.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Option 3 | 11% | 11% | 11% | 11% | 2% | 2% | 2% | 2% | 2% | 2% |
| Option 4 | 11% | 11% | 11% | 7.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Option 5 | 12.5% | 6% | 6% | 6% | 6% | 6% | 6% | 6% | 6% | 6% |

Alternative Reserve Policies

- Current Reserve Policy: \$5 million unrestricted cash
- Recommended minimum of 90 days cash
 - › FY 2020 = \$4.5 million
 - › FY 2025 = \$6.3 million
 - › FY 2029 = \$7.2 million
- Alternative Reserve Targets Consideration
 - › Operating: 90-180 days O&M expenses
 - › Capital: 1-2% asset replacement cost
 - › Rate Stabilization: difference in rate revenue for 100-500 AF demand reduction

Financial Plan Update Discussion

- CIP expenditures are significantly higher than projected in the 2020 rate study
- Desal/WSA costs are higher than projected in the 2020 rate study, primarily due to increased operating costs, and partially due to the capital component
- Cost pressure reduces existing debt coverage, future debt capacity, and projected cash balances
- FP Options 1-4 all require similar near-term increases which does not allow for incremental increases over the long-term
- FP Option 5 requires one significant increase followed by uniform annual increases in gross rate revenues

Slide 12

NT0

See comment on slide 6. Is another reason that 5-years of desal expense are included rather than 3.5 years?

Nick Turner, 2024-02-23T15:24:01.340

Cost of Service Update

- Updated rates will rely on the cost of service analysis conducted with the 2020 rate study
 - › Updating data and cost allocations where necessary
- Private fire line costs by customer class
 - › Customer class fire flow requirements will be used to evaluate private fire service charges differentiated by customer class

Table 2 – Required Fire Flow Storage

| Reservoir Name | Pressure Zones | Service Area Land Use | Fire Flow Requirement | Duration | Required Fire Flow Storage |
|-----------------|----------------------------------|-----------------------|-----------------------|----------|----------------------------|
| | (HGL) | | | | |
| Terminal** | 1022, 866, 582 | School | 1,500 | 2 | 0.18 |
| Cold Springs* | | | | | |
| Hot Springs | 798, 579 | Commercial | 1,500 | 2 | 0.18 |
| Park Lane* | 540, 328, 291 | School | 1,500 | 2 | 0.18 |
| Romero** | | | | | |
| Buena Vista | 745 | Residential | 750 | 2 | 0.09 |
| Bella Vista* | 1270, 1249, 1074, 1058, 873, 550 | Residential | 750 | 2 | 0.09 |
| Toro Canyon | 496 | Residential | 750 | 2 | 0.09 |
| Doulton | 1820, 1529 | Residential | 750 | 2 | 0.09 |
| Ortega** | 710, 590, 497, 403 | Commercial | 1,500 | 2 | 0.18 |
| SCC Turnouts*** | 455, 379, 350 | Commercial | 1,500 | 2 | 0.18 |

* Indicates rectangular reservoir.

** Indicates non-symmetrical reservoir. Volumes determined from stage vs. storage curve for reservoir.

***Turnouts do not have storage.

Cost of Service/Rate Update

- Raftelis conducted a peaking analysis using the District's most recent year of water use
 - › Demand patterns and peak use characteristics are materially the same as last rate cycle

| Customer Class | Peaking Factors 2020 | Peaking Factors 2023 |
|----------------------|----------------------|----------------------|
| Residential | 1.68 | 1.71 |
| Tier 1 | 1.14 | 1.14 |
| Tier 2 | 1.62 | 1.68 |
| Tier 3 | 2.35 | 2.45 |
| Commercial | 1.31 | 1.40 |
| Institutional | 2.32 | 2.09 |
| Agriculture | 2.09 | 2.17 |
| Non-Potable | 2.13 | 2.53 |

Rate Review

- Maintain existing rate classes
- Maintain existing Residential tiers and tier definitions, unless otherwise directed by the Board to modify tiers/tier definitions

| Tier | 2020 Study Tier Definition | Tier Basis | 2023 Data |
|--------|----------------------------|-------------------------------|-----------|
| Tier 1 | 9 hcf | 55 gpcd * 4-person household | N/A |
| Tier 2 | 35 hcf | Average Summer Use (Jul-Sept) | 35.37 hcf |
| Tier 3 | > 35 hcf | All use greater than Tier 2 | > 35 hcf |



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