



# Montecito Water District

## Board Workshop #1

Five-Year Rate Study

February 28, 2024

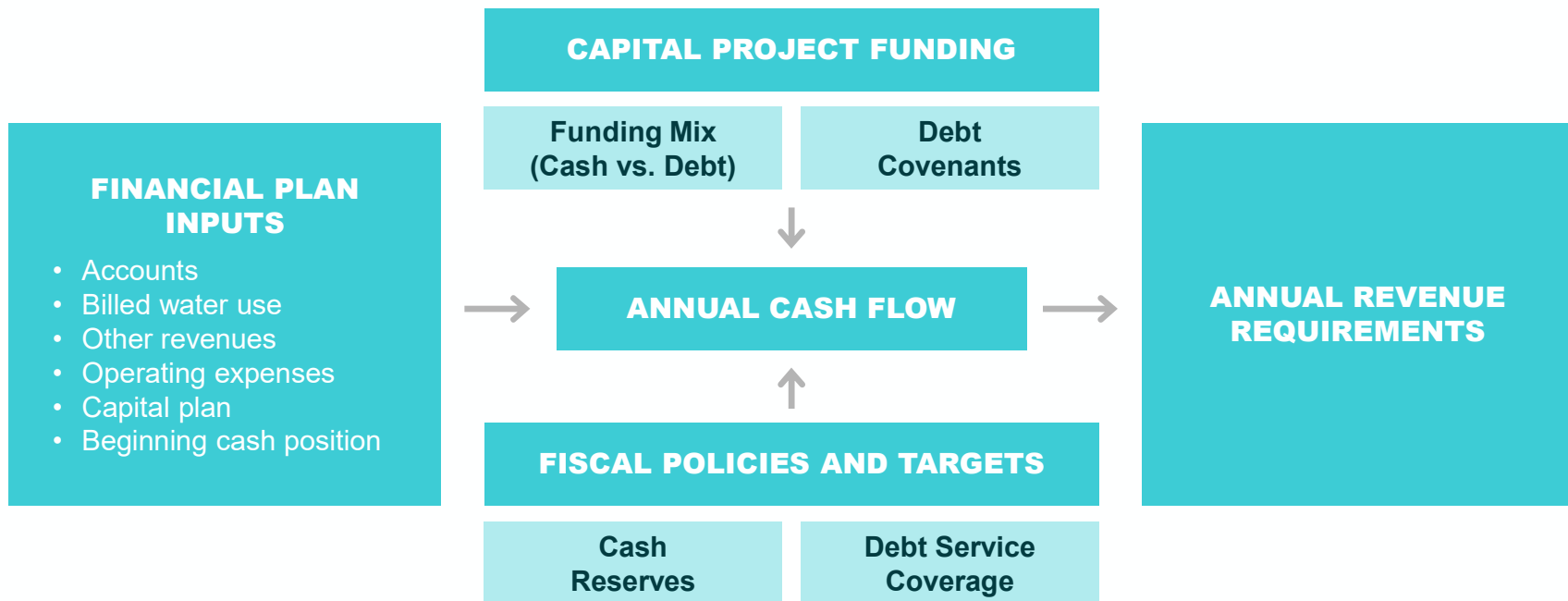


# Agenda

- 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 (Desal) costs (Operating and Capital)
- Capital Improvement Project (CIP) costs
- SRF Loan Terms for ASADRA Project
  - › Maximum Annual Debt Service (MADS) requirement

# WSA (Desal) Cost Comparison

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

WSA (Desal) 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
<b>Difference (\$)</b>	<b>\$2,189,731</b>	<b>\$2,259,227</b>	<b>\$2,333,280</b>	<b>\$2,412,158</b>	<b>\$2,631,073</b>

# 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
<b>Difference (\$)</b>	<b>\$3,207,150</b>	<b>\$3,241,299</b>	<b>\$2,893,341</b>	<b>\$4,382,000</b>	<b>\$4,310,729</b>

# CIP Scenarios

- Base CIP: 20-year schedule
  - › Updated based on draft Asset Management Plan
  - › 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 and WSA (Desal) expenditures are significantly higher than projected in the 2020 rate study
- 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
- ASADRA projects have a modest effect on the financial outlook, with repayment occurring at the same time other debt is retired
- External borrowing in the early years reduces annual cash needs and helps to smooth long-term increases

# 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
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Buena Vista	745	Residential	750	2	0.09
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Toro Canyon	496	Residential	750	2	0.09
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Ortega**	710, 590, 497, 403	Commercial	1,500	2	0.18
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Customer Class	Peaking Factors 2020	Peaking Factors 2023
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Tier 1	1.14	1.14
Tier 2	1.62	1.68
Tier 3	2.35	2.45
<b>Commercial</b>	<b>1.31</b>	<b>1.40</b>
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<b>Non-Potable</b>	<b>2.13</b>	<b>2.53</b>

# 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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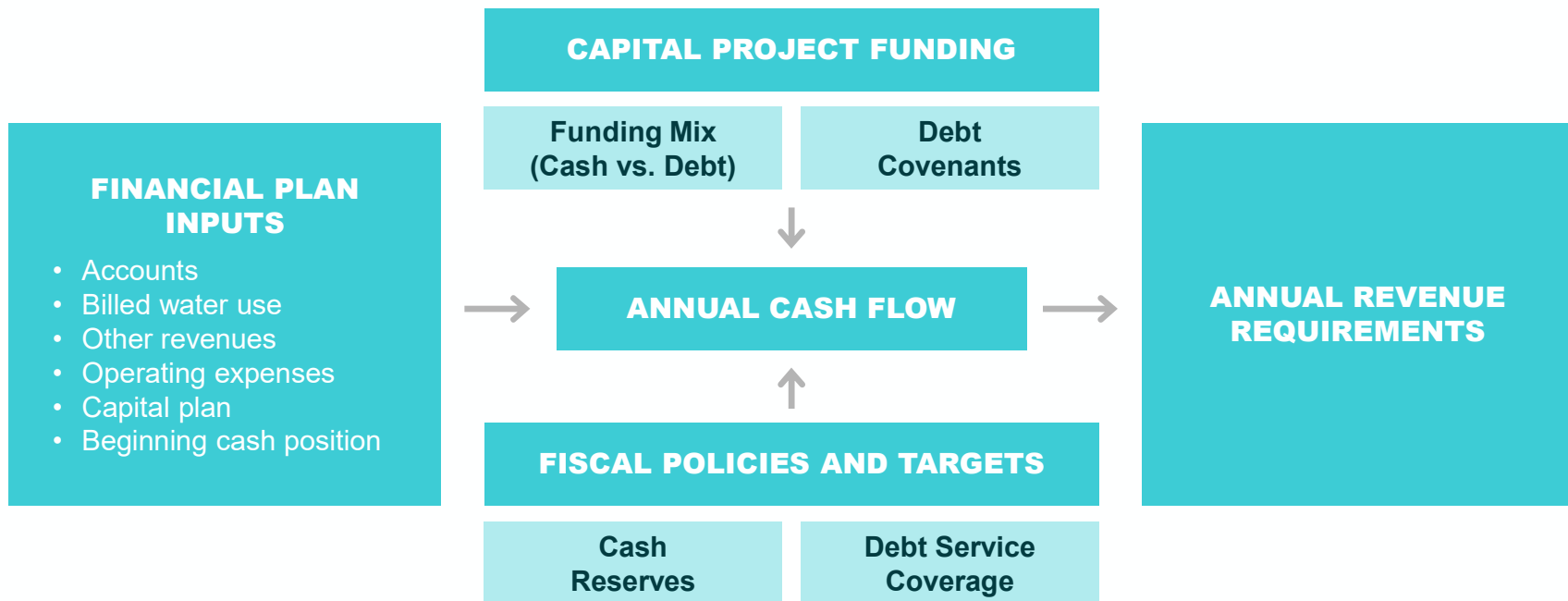


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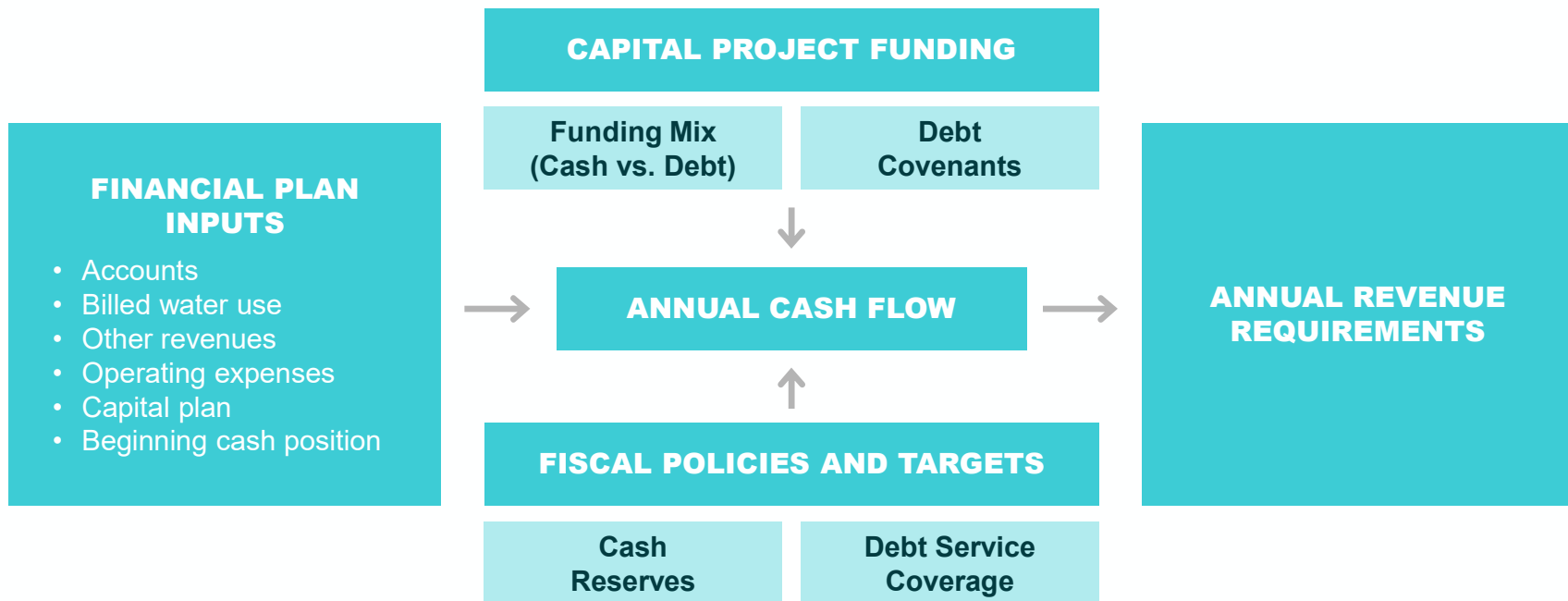


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# Montecito Water District

## Board Workshop #1

Five-Year Rate Study

February 28, 2024

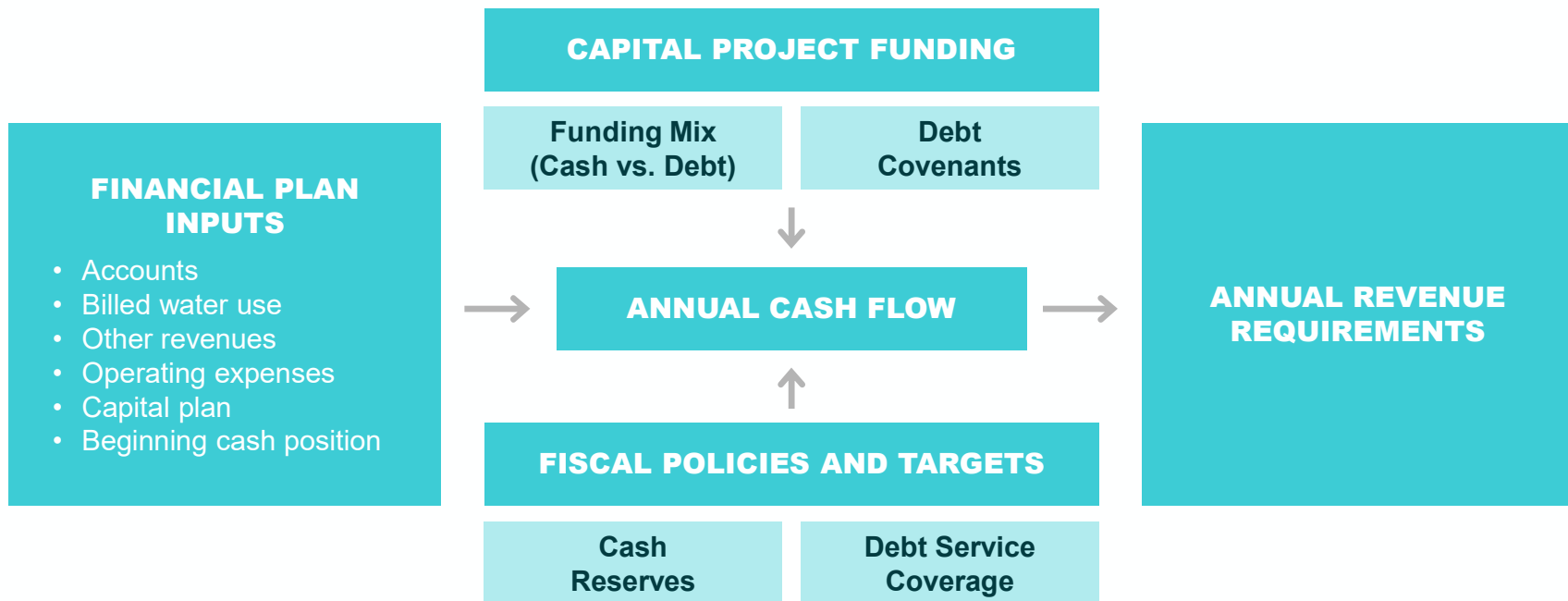


# Agenda

- 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**

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## FINANCIAL PLAN ELEMENTS



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- 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
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- Capital Improvement Project (CIP) costs
- SRF Loan Terms for ASADRA Project
  - › Maximum Annual Debt Service (MADS) requirement

# WSA (Desal) Cost Comparison

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

WSA (Desal) 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
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# CIP Comparison

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# CIP Scenarios

- Base CIP: 20-year schedule
  - › Updated based on draft Asset Management Plan
  - › 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
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# Financial Plan (FP) Options Detail

## FP Option 1:

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## FP Option 2:

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# 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%
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Option 5	12.5%	6%	6%	6%	6%	6%	6%	6%	6%	6%

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Table 2 – Required Fire Flow Storage

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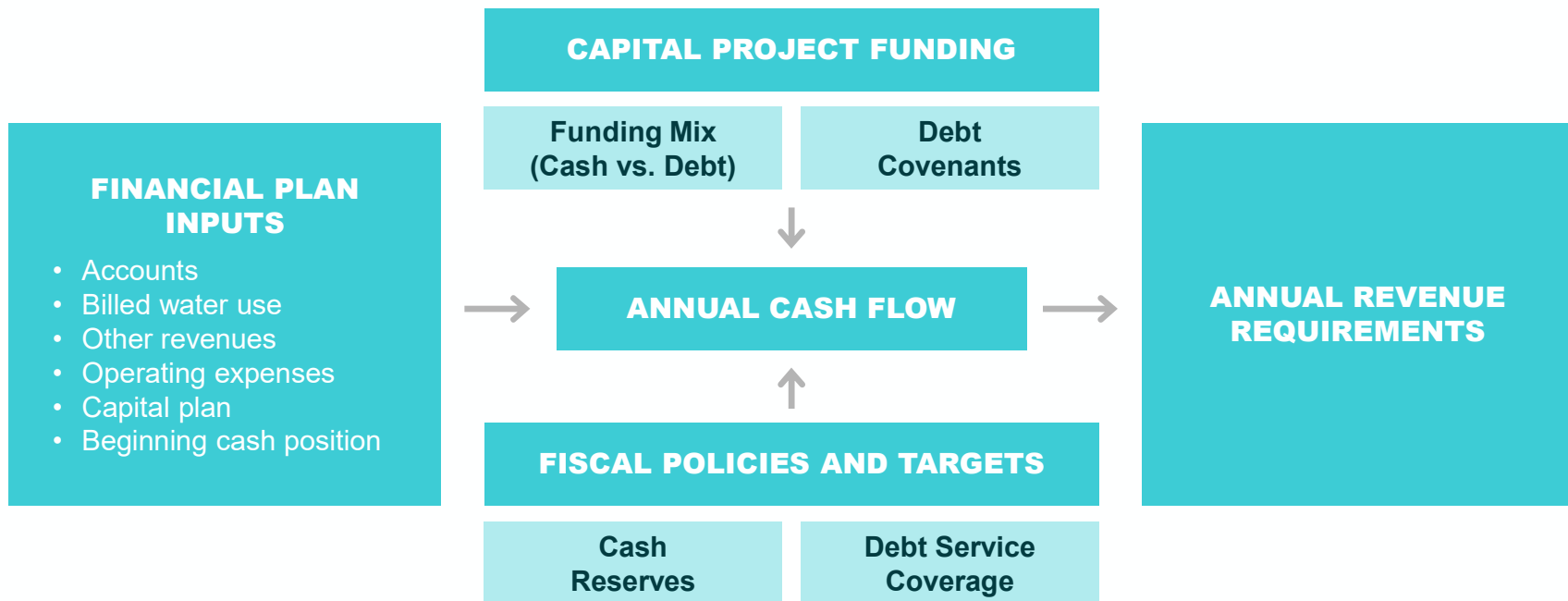


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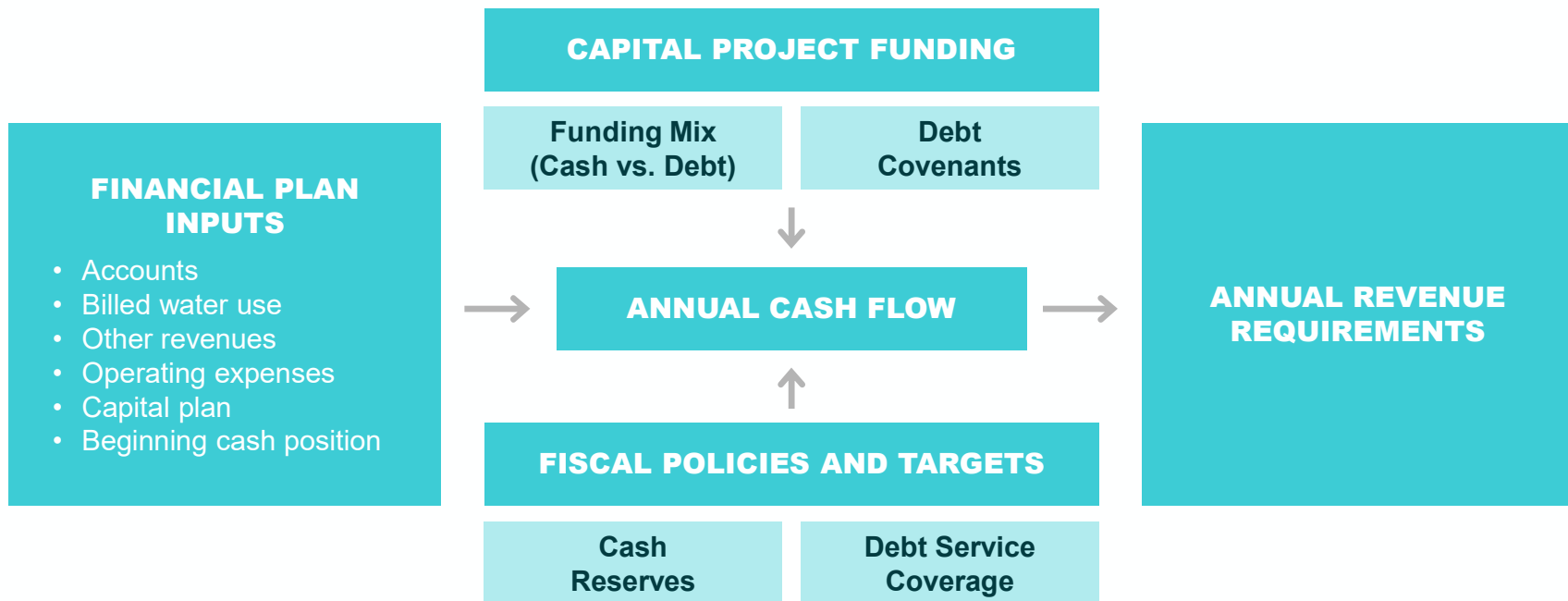


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# Montecito Water District

## Board Workshop #1

Five-Year Rate Study

February 28, 2024

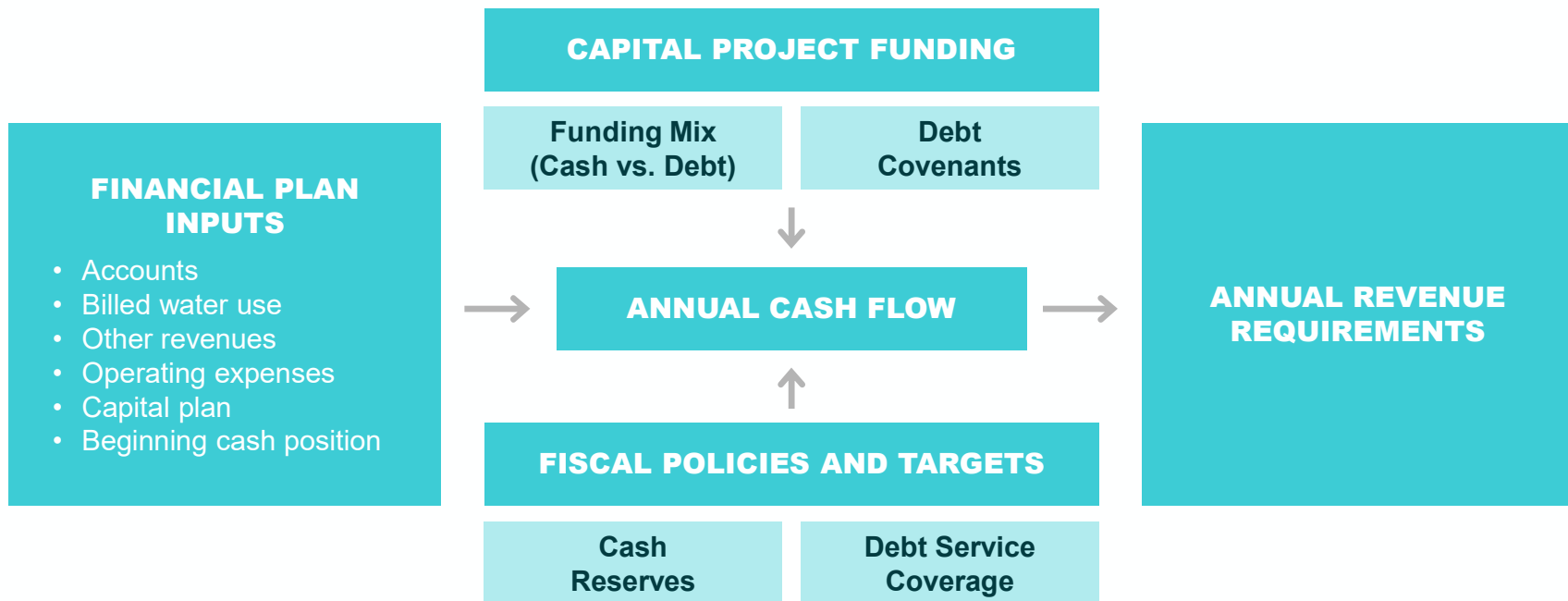


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- 1. Financial Plan Model Refresher**
  - a. Updated cost projections from Prior Year / Prior Study**
  - b. CIP & CIP Scenarios**
  - c. Financial Plan Options**
- 2. Cost of Service Analysis Update**

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- Primary inputs:
  - › Fiscal Year (FY) 2025 projected revenues (water demands, customer accounts, other revenues)
  - › FY 2023 Actuals & FY 2024 Budget
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- Extraordinary Inflationary pressure on operating costs, generally
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- Capital Improvement Project (CIP) costs
- SRF Loan Terms for ASADRA Project
  - › Maximum Annual Debt Service (MADS) requirement

# WSA (Desal) Cost Comparison

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

WSA (Desal) Costs	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
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- Base CIP: 20-year schedule
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  - › Accelerated pipe is no longer needed
  - › Includes Recycled Water Project design costs in FY 2025 and FY 2026
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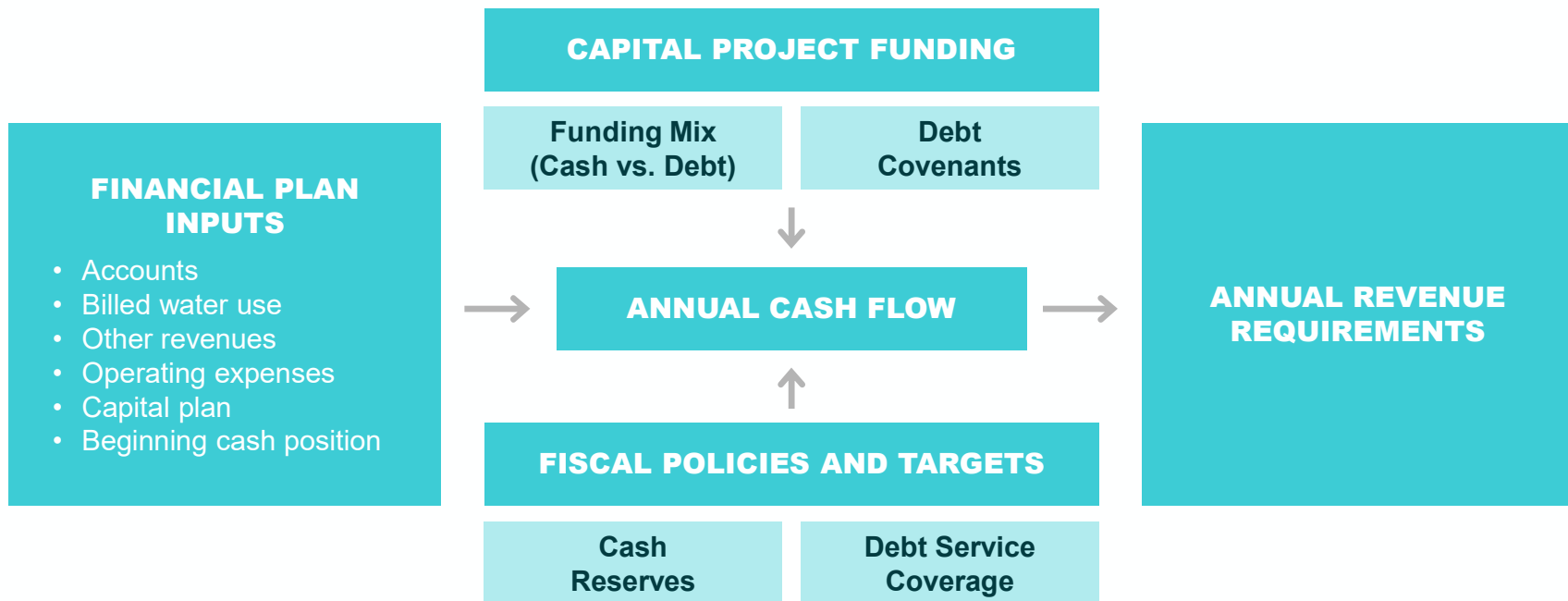


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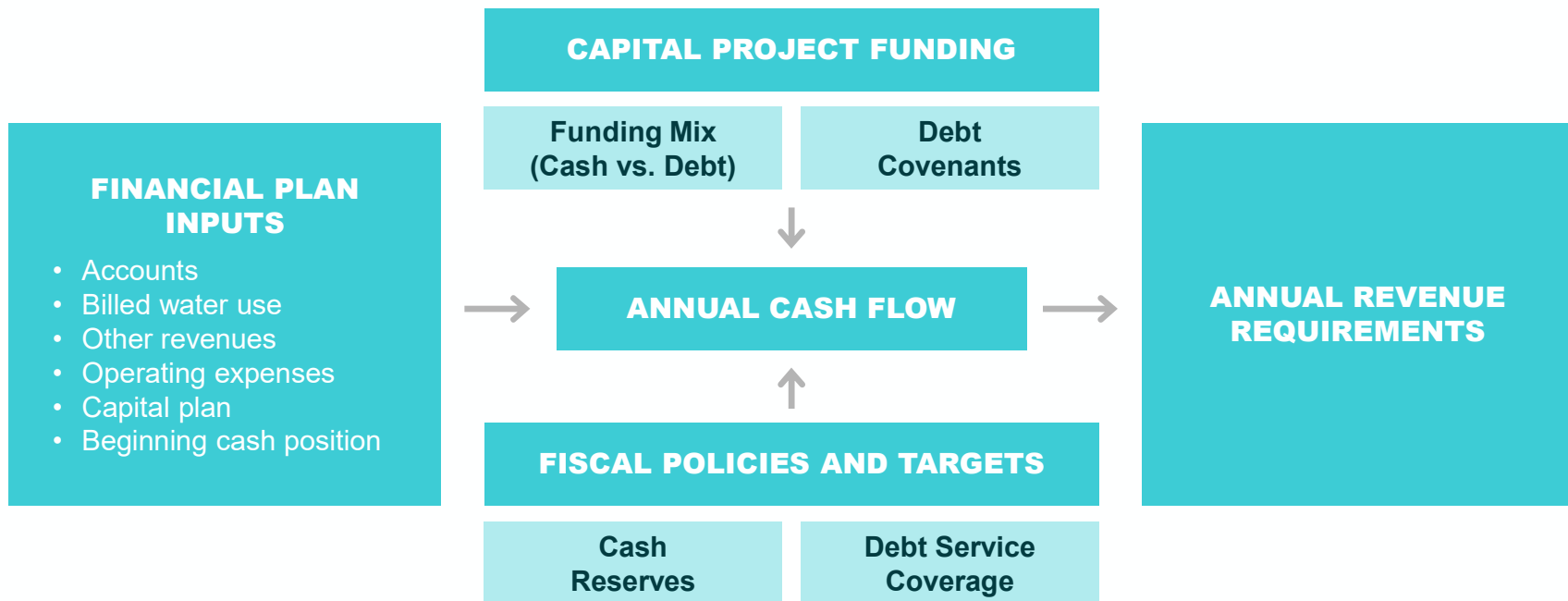


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Bella Vista*	1270, 1249, 1074, 1058, 873, 550	Residential	750	2	0.09
Toro Canyon	496	Residential	750	2	0.09
Doulton	1820, 1529	Residential	750	2	0.09
Ortega**	710, 590, 497, 403	Commercial	1,500	2	0.18
SCC Turnouts***	455, 379, 350	Commercial	1,500	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
<b>Residential</b>	<b>1.68</b>	<b>1.71</b>
Tier 1	1.14	1.14
Tier 2	1.62	1.68
Tier 3	2.35	2.45
<b>Commercial</b>	<b>1.31</b>	<b>1.40</b>
<b>Institutional</b>	<b>2.32</b>	<b>2.09</b>
<b>Agriculture</b>	<b>2.09</b>	<b>2.17</b>
<b>Non-Potable</b>	<b>2.13</b>	<b>2.53</b>

# 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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