CITY OF

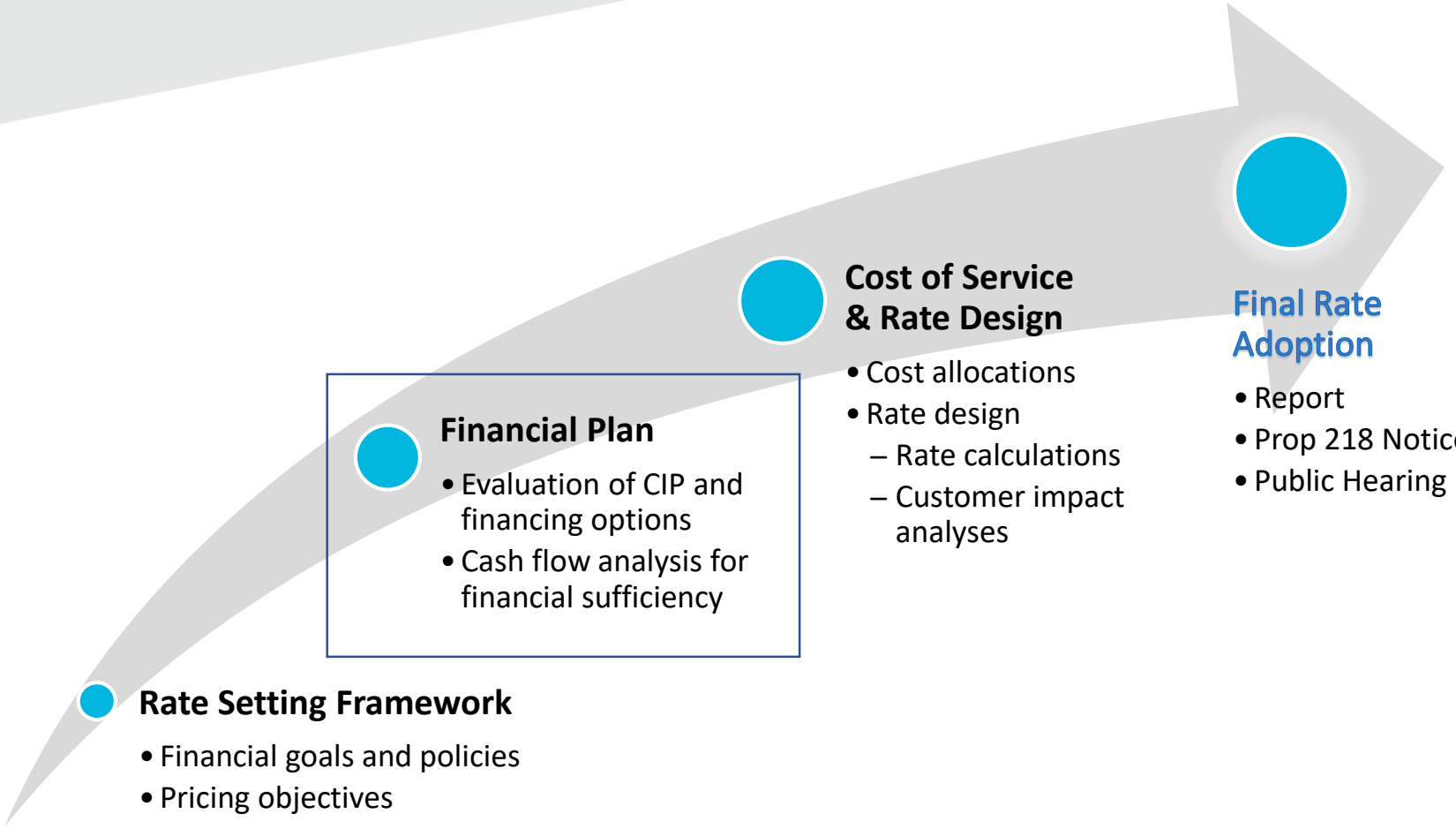
Dixon

Water Enterprise Financial Plan Update

City Council Meeting – September 18, 2018

RAFTELIS

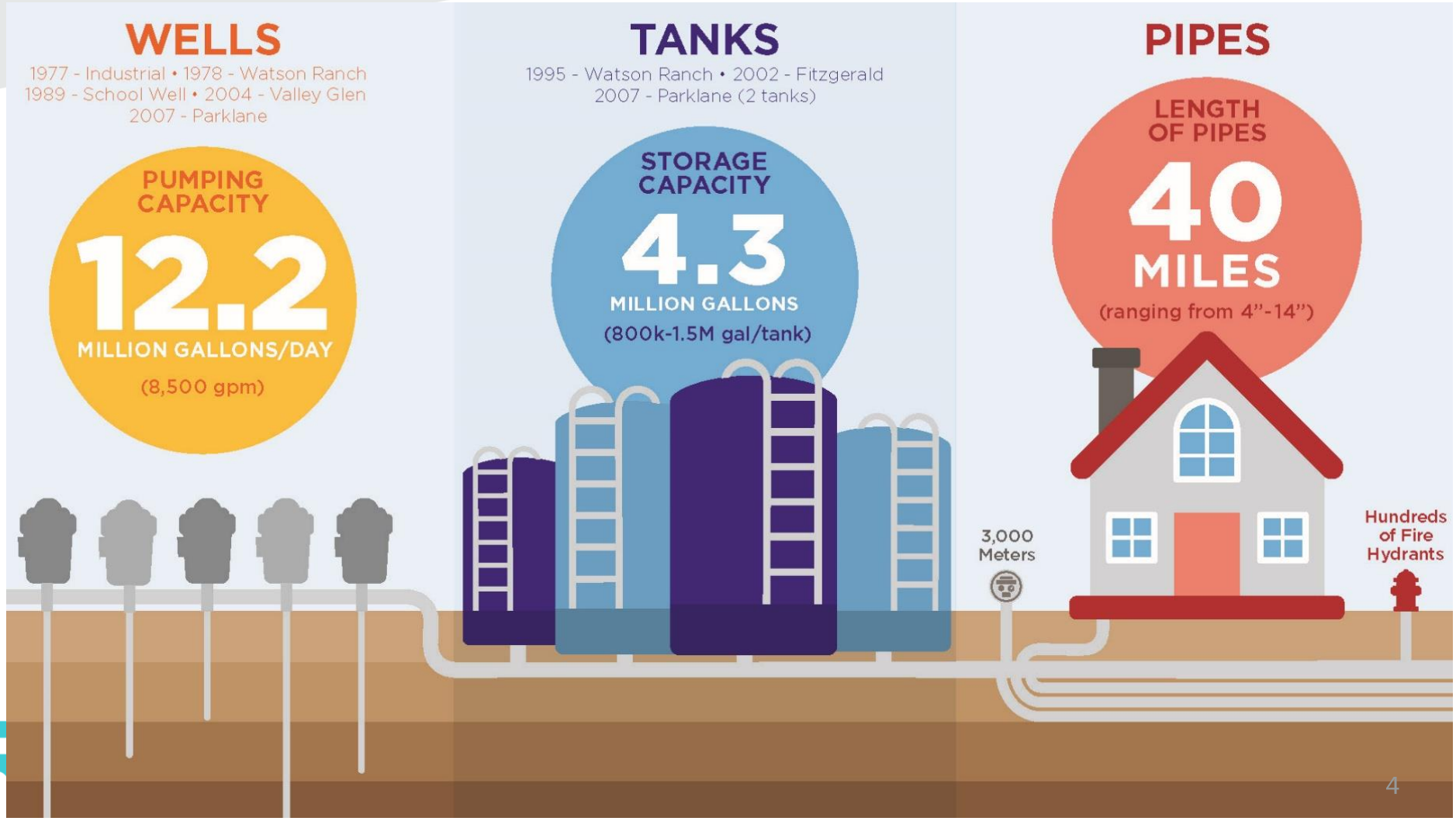
STEPS IN CONDUCTING A RATE STUDY



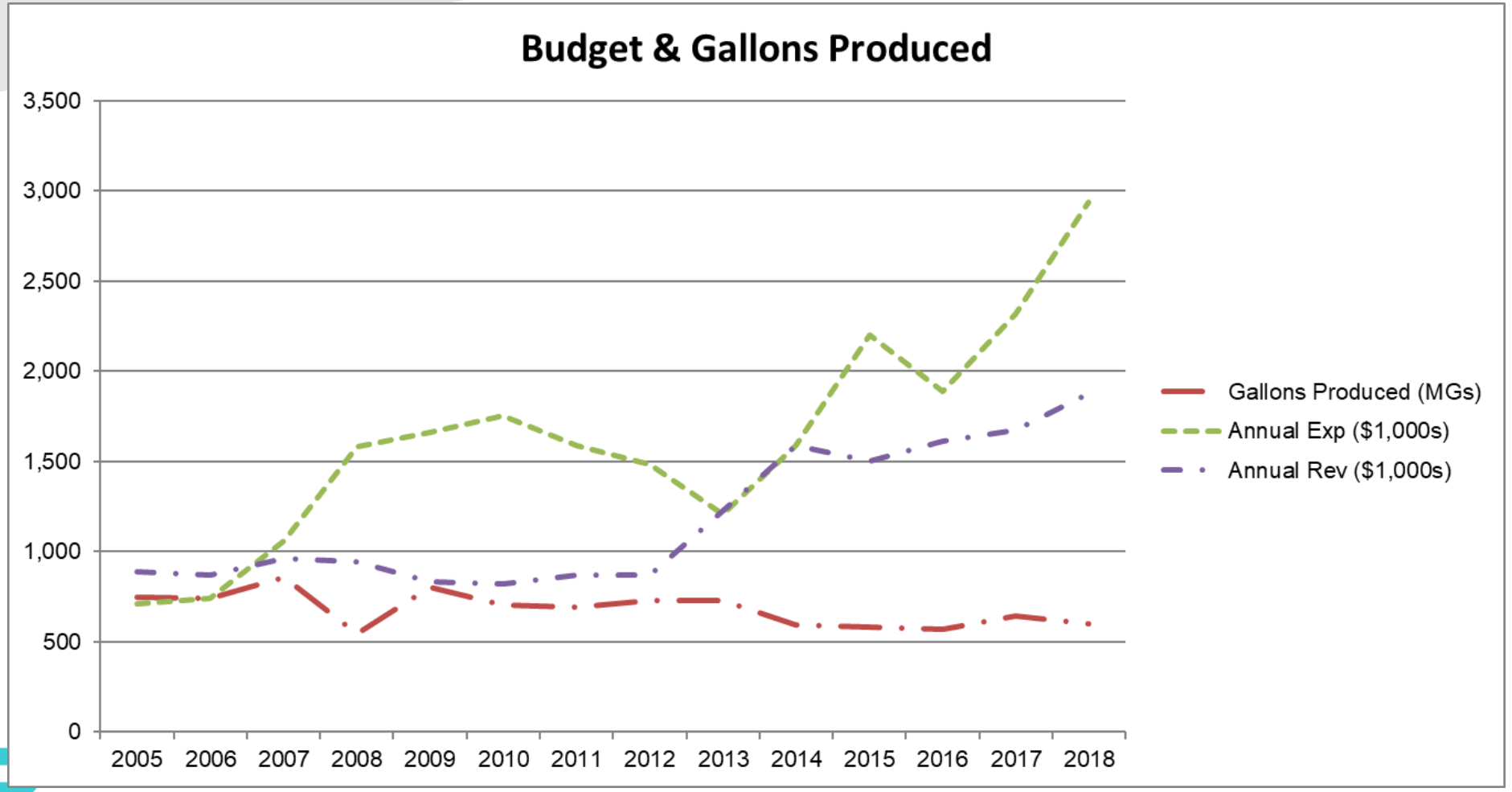
OPERATIONS & CIP EVALUATION

- Determine Need for Increase in Revenue
  - Components of System
  - Cost of Operations & Maintenance & CIP
  - Capital Improvement Program (CIP) scope/need

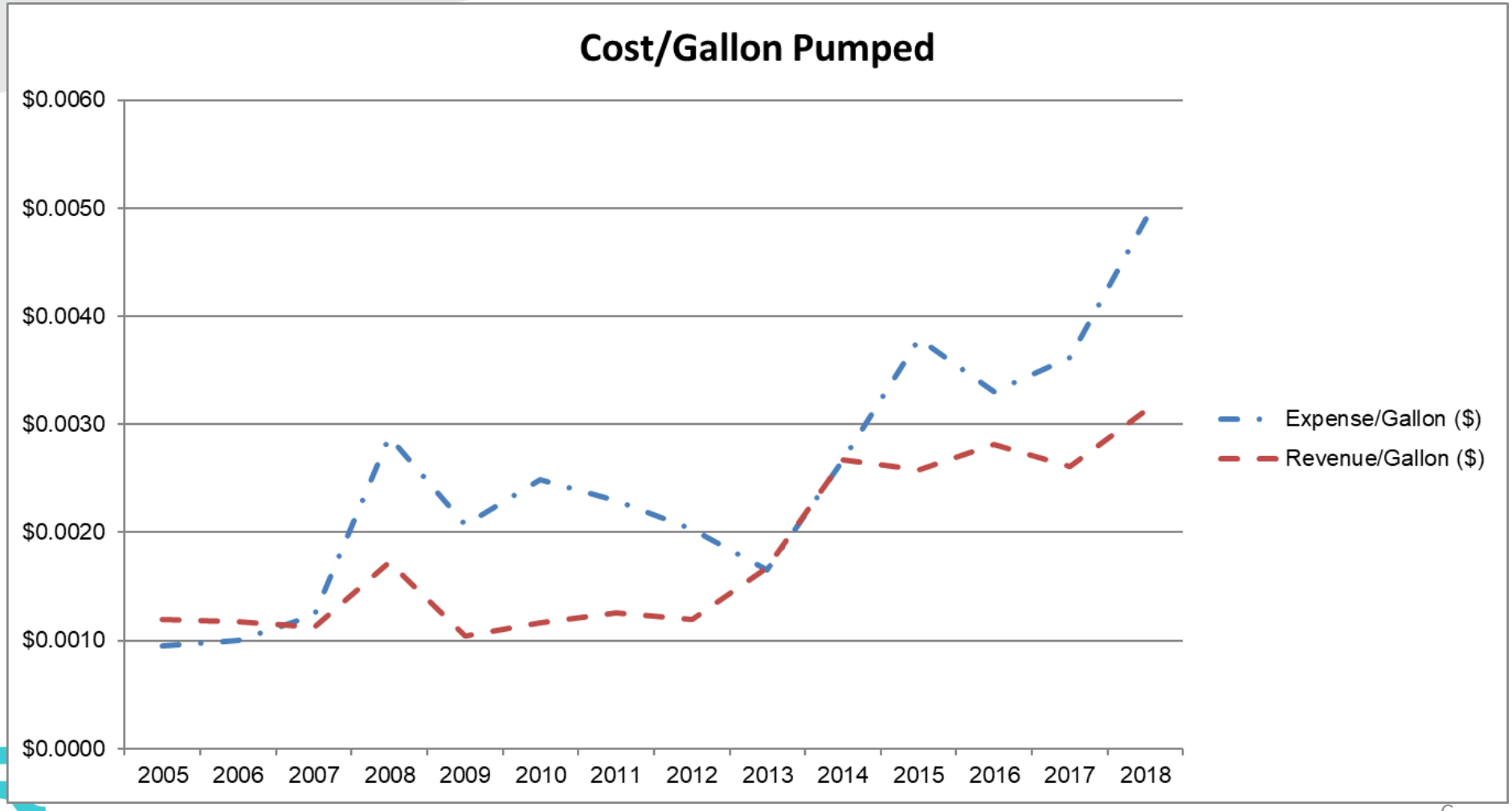
COMPONENTS OF SYSTEM



COST OF O&M/CIP



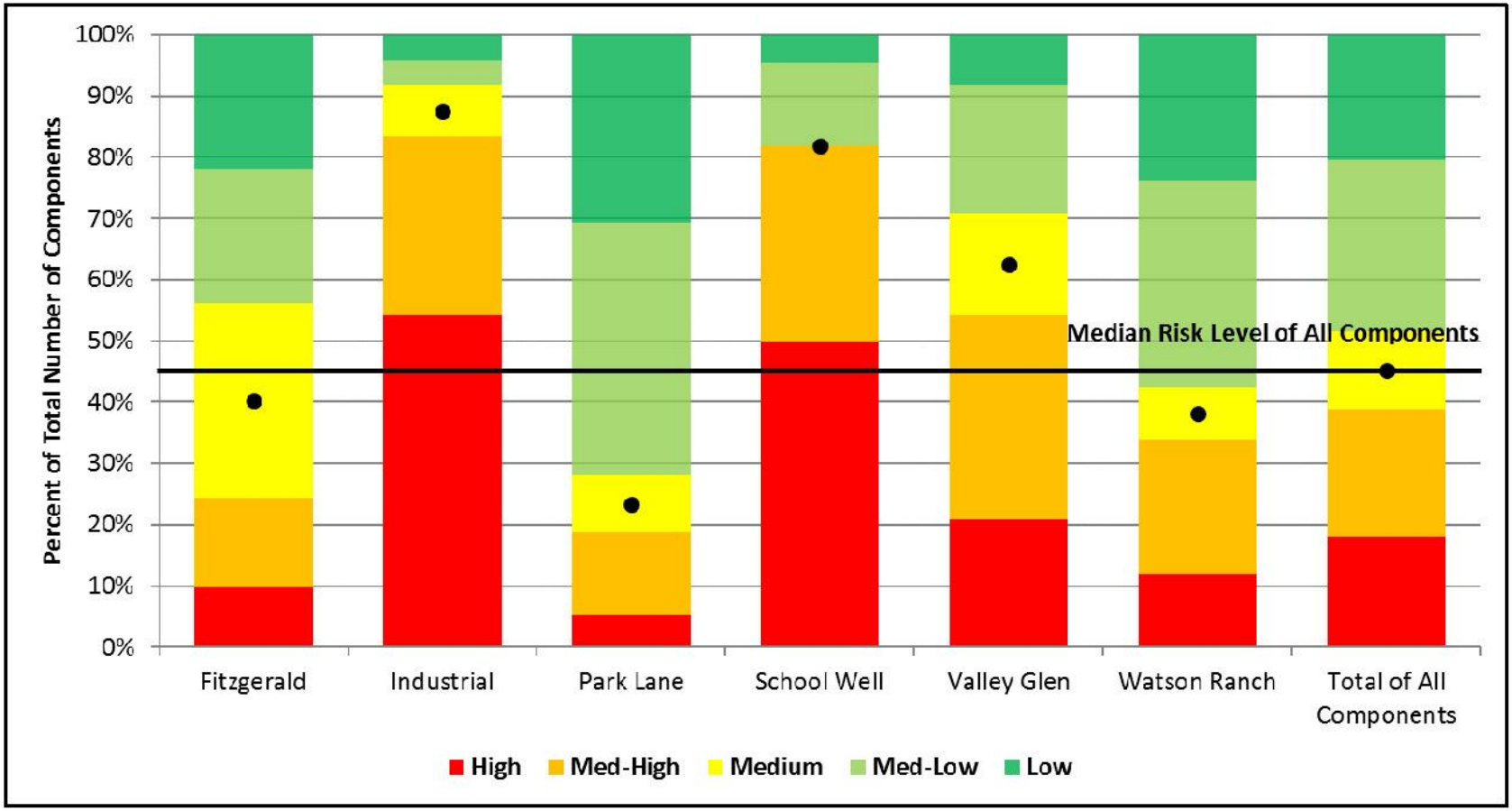
COST OF O&M/CIP



STRATEGIC ASSET MANAGEMENT PLAN

STRATEGIC ASSET MANAGEMENT PLAN

Figure 9-3. Risk Levels of Assets, Percent of Total



Black dot represents the Median Risk Level for the facility

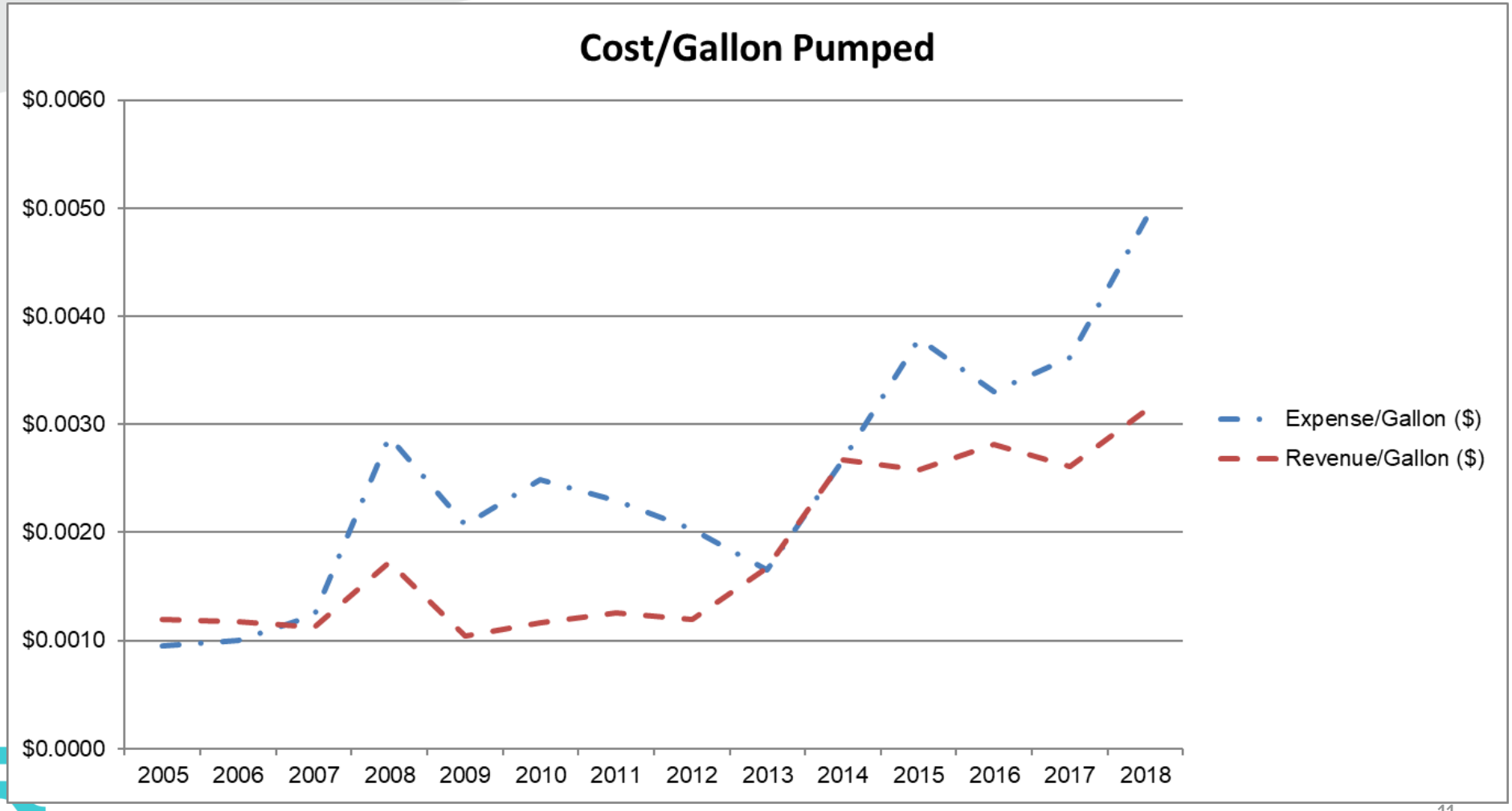
SIGNIFICANT O&M COST INCREASES

- Additional Staff Member (authorized on 8/28/18)
- Annual On-Call Service Contracts
  - Generator Maintenance
  - Pump/Motor evaluation/servicing
  - SCADA/Electronics servicing
  - Well maintenance
  - Tank inspection
  - City-owned Backflow device servicing
  - Laboratory services
- Deduct for Cal Water service contract when full time Supervisor is hired.
- Leak Repairs/Existing Customer meter replacements.

SIGNIFICANT CIP COSTS

- 2021, 2022 & 2023 – 3 wells replaced
  - School Well (1989), Watson Ranch (1978) and Industrial Well (1977)
  - $8.8M, including design, construction, inspection, etc.
- Water meter replacement
  - Inefficient meters = loss of revenue to operate system
- Asbestos pipe replacement
  - Could be deferred but not recommended
- Electrical/controls systems upgrades
  - $400-500k/site for Industrial, Watson Ranch & School Well
- Tank Seismic upgrades
- Watson Ranch Subdivision service line replacement

COST OF O&M/CIP



COST PERSPECTIVE

Soda = $1.90/gal

Sports Drink = $3.96/gal

Water = $0.50/gal

AGENDA

- Preliminary Financial Plan Model Overview Update
  - Inflation/escalation assumptions
  - Proposed and projected O&M
  - Projected growth in accounts & usage
  - Proposed Reserve Policies
  - Capital Improvement Plan (CIP) - updated
- Preliminary Revenue Requirements and Rate Adjustments
  - CIP Pay as You Go
  - CIP Proposed Debt Financing

Financial Plan Overview

ESCALATION FACTORS (FY 2019-FY 2027)

	Annual Escalation
Budgetary Inflation Factors	
Salary	3.0%
Benefits	7.0%
Materials/Supplies/Operational Expenses	3.0%
Repairs & Maintenance	3.0%
Power & Utilities	3.0%
Contractual Services	3.0%
Administration	3.0%
Construction	3.0%
Non-Operating Revenue Growth	2.0%

- Historic CPI averages have been roughly 3%.
- Historic 20-City CCI (construction cost index): average of 3% annual increase over past decade.

O&M EXPENSES

	Estimated FY 2018	Budgeted FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027
Categories										
Salary	$67,045	$317,680	$327,210	$337,027	$347,138	$357,552	$368,278	$379,327	$390,706	$402,428
Benefits	$30,805	$122,038	$130,581	$139,721	$149,502	$159,967	$171,165	$183,146	$195,966	$209,684
Materials/Supplies/ Operational Expenses	$114,875	$88,851	$91,865	$94,985	$98,217	$101,563	$105,029	$108,619	$112,337	$116,189
Repairs & Maintenance	$560,000	$121,955	$125,614	$129,382	$133,264	$137,261	$141,379	$145,621	$149,989	$154,489
Power & Utilities	$359,595	$393,000	$404,790	$416,934	$429,442	$442,325	$455,595	$469,263	$483,340	$497,841
Contractual Services	$639,145	$489,110	$256,583	$264,281	$272,209	$280,375	$288,787	$297,450	$306,374	$315,565
Administration	$43,908	$144,560	$148,897	$153,364	$157,965	$162,704	$167,585	$172,612	$177,791	$183,124
Transfer to General Fund	$148,485	$161,449	$166,292	$171,281	$176,420	$181,712	$187,164	$192,779	$198,562	$204,519
Total	**$1,963,859**	**$1,838,643**	**$1,651,832**	**$1,706,975**	**$1,764,155**	**$1,823,460**	**$1,884,981**	**$1,948,816**	**$2,015,066**	**$2,083,838**

ACCOUNT & USAGE GROWTH

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Account Growth	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%
Water Demand Factor	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Accounts										
5/8"	1	1	1	1	1	1	1	1	1	1
3/4"	2,383	2,383	2,383	2,383	2,383	2,383	2,383	2,383	2,383	2,383
1"	269	315	362	410	460	512	566	621	677	735
1.5"	50	51	52	53	54	55	56	57	58	59
2"	67	68	69	70	71	72	73	74	75	76
3"	7	7	7	7	7	7	7	7	7	7
4"	5	5	5	5	5	5	5	5	5	5
6"	2	2	2	2	2	2	2	2	2	2
Total - Accounts	**2,784**	**2,832**	**2,881**	**2,931**	**2,983**	**3,037**	**3,093**	**3,150**	**3,208**	**3,268**
Water Sold (Acre-feet)	**1,715**	**1,744**	**1,773**	**1,803**	**1,834**	**1,865**	**1,896**	**1,928**	**1,961**	**1,994**

*Note that all ¾” account growth is attributed to 1” meters due to new 1” minimum meter size.

CIP SUMMARY

Year	R&R	Other CIP	Total CIP
FY 2018	$125,000	$40,000	**$165,000**
FY 2019	$659,000	$42,518	**$701,518**
FY 2020	$4,450,115	$298,700	**$4,748,815**
FY 2021	$5,686,424	$28,644	**$5,715,068**
FY 2022	$4,415,710	$6,913,684	**$11,329,394**
FY 2023	$4,400,739	$509,855	**$4,910,595**
FY 2024	$3,466,229	$11,593	**$3,477,822**
FY 2025	$2,181,534	$11,941	**$2,193,474**
FY 2026	$2,425,311	$12,299	**$2,437,610**
FY 2027	$2,202,913	$12,668	**$2,215,581**
TOTAL	$30,012,976	$7,881,901	**$37,894,877**

*Note that FY 2022 includes $6.9M of CIP to be funded by developer agreements.

Financial Policies

WHY DO WE NEED RESERVES?

- Nature of municipal utility system
  - Capital intensive
  - Highly fluctuating capital costs
  - Risk and liability → unknown liability costs
  - Emergencies or capital infrastructure problems that may arise
- Healthy reserves help provide financial and rate stability
- Healthy reserves levels → better credit ratings → lower interest rates for future debt

FINANCIAL HEALTH INDICATORS

1. Reserve Balances:
   1) ***Operating Reserve***: to meet daily working capital for operating expenses
   2) ***Capital Replacement Reserve***: for future capital expenditures
   3) ***Rate Stabilization Reserve***: to be used during periods of short-term revenue shortages (recession, drought) to prevent rate-shock and phase in any necessary rate adjustments
   4) ***Emergency Reserve***: funds available in case of asset failure or natural disaster
2. Debt Coverage Ratios
   - To meet Official Statement requirements
   - To achieve credit ratings from rating agencies

PROPOSED RESERVE POLICIES

Healthy Reserves

- Operating Reserve – results from positive cash flow
  - Suggested policy: 25% of annual O&M
- CIP Reserves – Can award contracts quickly and speed up projects if necessary
  - Suggested policy: 100% of average 5-year R&R (excluding well replacements)

Debt Coverage Ratio

- Exceed Official Statement requirements
- Achieve / Maintain good credit ratings

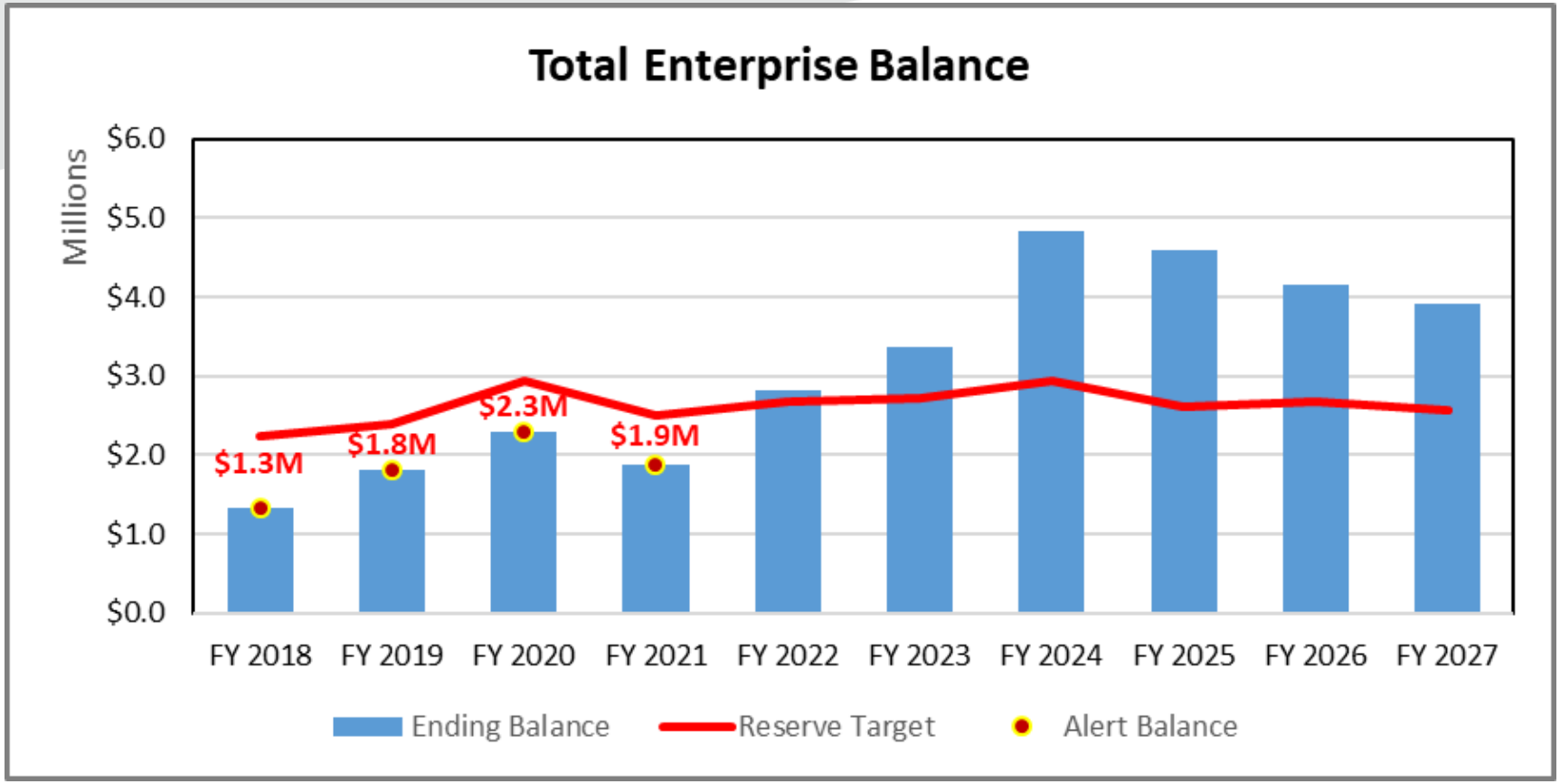
Preliminary Revenue Requirements

FINANCIAL PLAN SCENARIOS

1. PAYGO CIP:
   - 300% revenue adjustment in April 2019
   - -50% revenue adjustment in April 2024
   - No debt funding for CIP

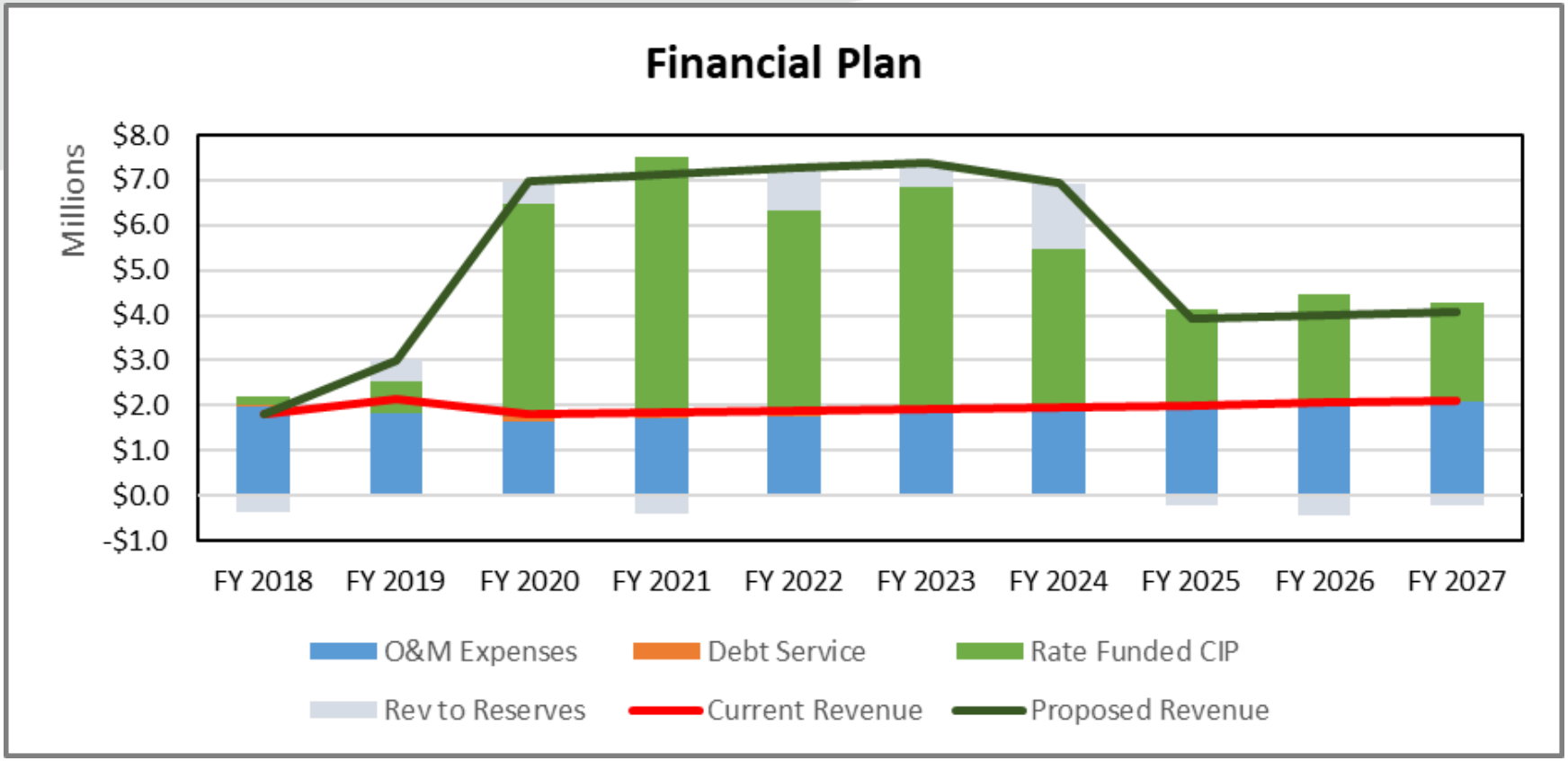
2. Debt Financed CIP
   - 205% revenue adjustment in April 2019
   - $7M debt issue in FY 2021 to help fund CIP

FINANCIAL PLAN
SCENARIO 1: PAYGO CIP



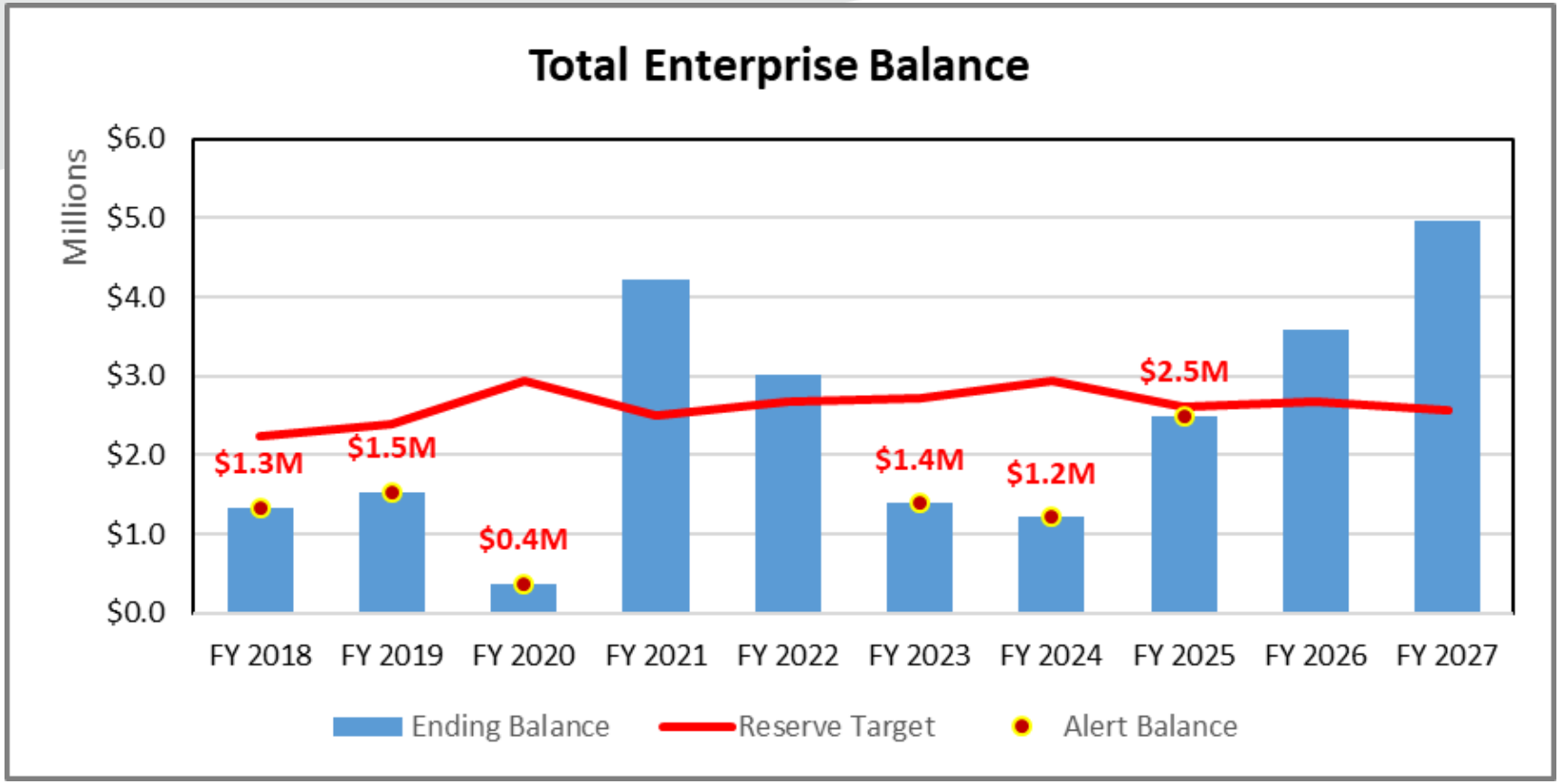
- 300% revenue adjustment in FY 2019
- -50% revenue adjustment in FY 2024
- No debt-funded CIP

FINANCIAL PLAN
SCENARIO 1: PAYGO CIP



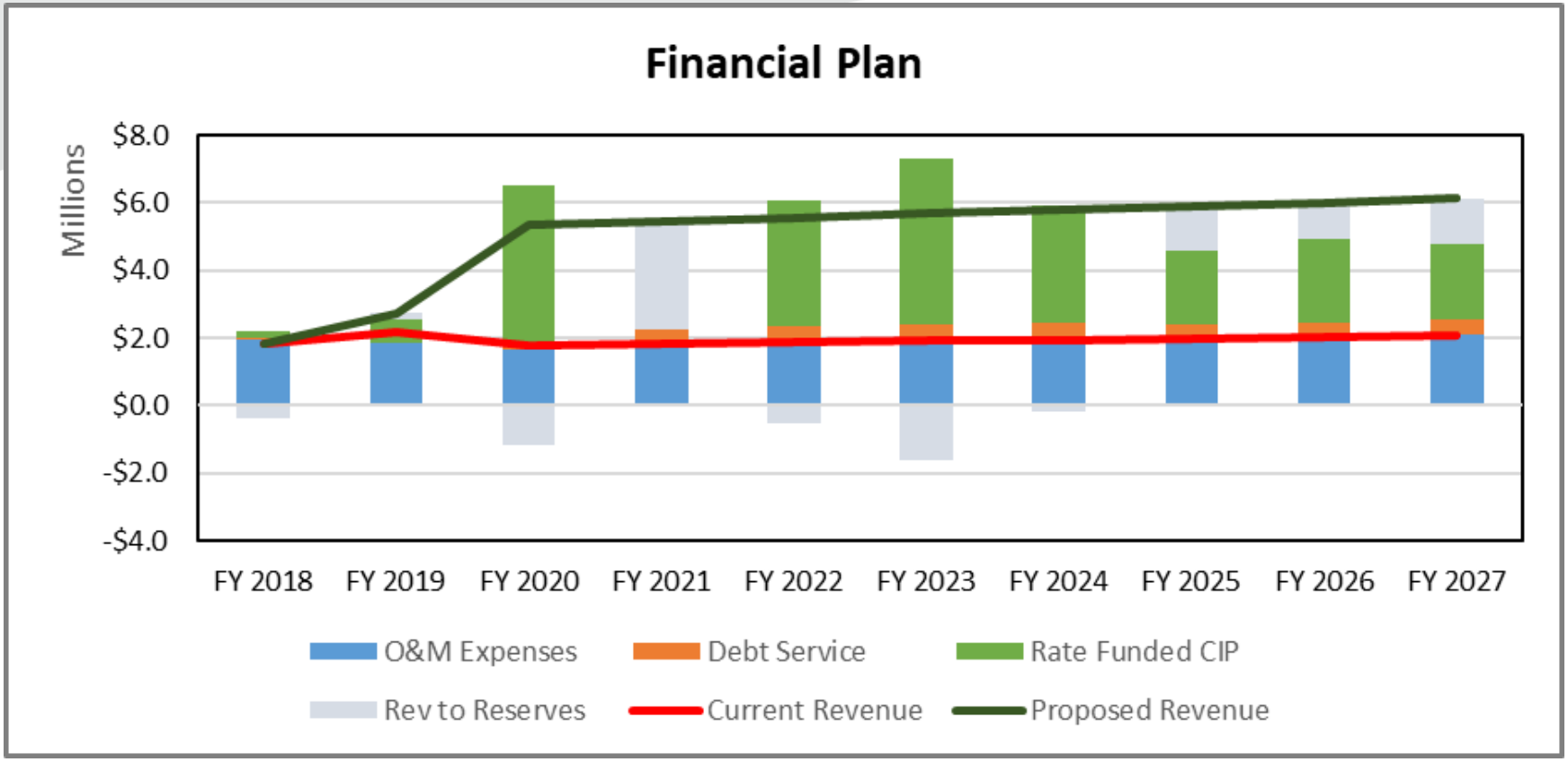
- 300% revenue adjustment in FY 2019
- -50% revenue adjustment in FY 2024
- No debt-funded CIP

FINANCIAL PLAN
SCENARIO 2: DEBT FINANCED CIP



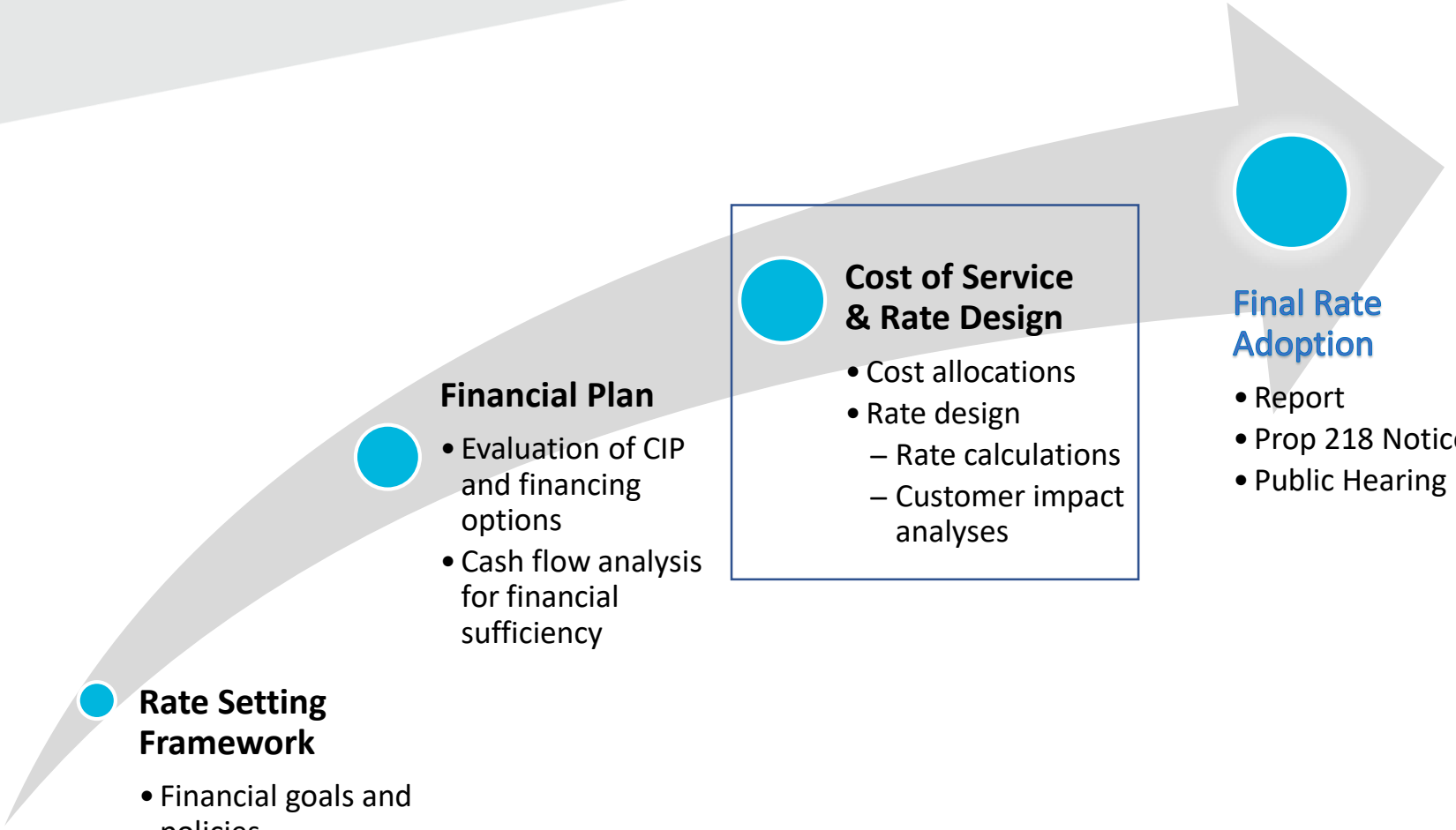
- 205% revenue adjustment in FY 2019
- $7M debt issue in FY 2021 to fund CIP

FINANCIAL PLAN
SCENARIO 2: DEBT FINANCED CIP



- 205% revenue adjustment in FY 2019
- $7M debt issue in FY 2021 to fund CIP

NEXT STEPS


Rate Setting Framework
• Financial goals and policies
• Pricing objectives
Financial Plan
• Evaluation of CIP and financing options
• Cash flow analysis for financial sufficiency
Cost of Service & Rate Design
• Cost allocations
• Rate design
– Rate calculations
– Customer impact analyses
Final Rate Adoption
• Report
• Prop 218 Notice
• Public Hearing

Raftelis is a Registered Municipal Advisor within the meaning as defined in Section 15B (e) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder (Municipal Advisor Rule).

However, except in circumstances where Raftelis expressly agrees otherwise in writing, Raftelis is not acting as a Municipal Advisor, and the opinions or views contained herein are not intended to be, and do not constitute “advice” within the meaning of the Municipal Advisor Rule.

Thank you!

Contact: Sally Van Etten
510 813 8704 / svanetten@raftelis.com