


Agenda Report Reviewed by:
City Manager: 

CITY OF SEBASTOPOL
CITY COUNCIL
AGENDA ITEM

Meeting Date: October 3, 2023
To: Honorable Mayor and City Councilmembers
From: Ana Kwong – Administrative Services Director
Dante Del Prete – Public Works Superintendent
Toni Bertolero – Engineering Consultant
Subject: Presentation of Water & Sewer Financial Plan Scenarios and Receive Feedback
Recommendation: That the City Council Receive the information, provide staff direction on the options in order to develop the utility rate.
Funding: Currently Budgeted: Yes No Not Applicable

Account Code: 500/510-44-02-4210

Costs authorized in City Approved Budget: Yes (Finance Initialed AK) No (Finance Exempt)

INTRODUCTION/PURPOSE:

The item is to request Council receive the information, provide staff direction on the options in order to develop the utility rate. This agenda report has been prepared in conjunction with the City’s Financial Consultant, Raftelis, and Ratelis will be presenting this information at the Council meeting.

BACKGROUND:

In May 2023, the City contracted with Raftelis to conduct a Utility Rate Study for both Water and Wastewater Enterprise Funds. A rate study is recommended to be done approximately every five years to ensure the City will have sufficient water and wastewater revenues to meet ongoing operational and capital obligations. Over the past 10 years, the City has conducted two prior rate studies: a study in 2012 (done in-house) with a five-year rate structure approved by the Council on February 20, 2012 and a subsequent study in 2019 (prepared by outside consultant, Willdan) with a four-year rate structure approved by the Council on January 7, 2019.

Due to workload demand, staff initiated the current rate study later than anticipated even though it was determined that revenues from the existing rate structure are insufficient to fund increased infrastructure and capital project needs in the City’s water and wastewater systems. Staff worked closely with Raftelis to produce the comprehensive review of the City’s utility rates including an extensive review of current water and wastewater rates and future operating and capital costs to the Water and Wastewater Enterprise Funds. The desired outcome of this study was to ensure that the rates are sufficient to cover costs associated with ongoing maintenance and operations of the water and wastewater utilities. The rates should also fund anticipated capital improvement costs for much needed infrastructure improvements and water resiliency projects while supporting debt service obligations and maintaining reserves equal to at least six months of typical maintenance and operations expenditures in accordance with industry standards.

DISCUSSION:

The objective of this rate study is to conduct a cost-of-service analysis and develop a rate structure that allows the City to equitably divide the costs for providing service to defined classes of ratepayers.

Study Process:

City staff have held multiple meetings with Raftelis to confirm financial planning and rate setting goals, discuss financial model assumptions, and provide the financial data necessary for Raftelis to complete modeling long range financial plan options (scenarios). The current rate study will also evaluate the significant reduction in water revenues that resulted from a large reduction of water usage due to both water conservation efforts coupled with the COVID pandemic in the last four years. These revenue losses of approximately \$600,000 (water) & \$1,200,000 (sewer) create the need to build back water reserve balances that were used due to lower than anticipated revenues. Lastly, the rate study also incorporated much needed CIP (Capital Improvement Program) projects, debt service funding and coverage requirements for water meters project to the water system upgrades.

Water Financial Plan:

Based on the initial findings in the financial plan, Raftelis has developed three scenarios for water rate revenue increases that are summarized below:

- » Scenario 1: O&M Only
 - » This scenario allows for the currently in progress CIP projects for FY 2023-24, though no other CIP projects will be implemented beyond FY 2023-24
 - » Assumes one additional water maintenance staff person is added in FY 2024-25
 - » Requires a 60% increase in rate revenue for FY 2023-24, a 5% increase in revenue for FY 2024-25, and 2% annually thereafter through FY 2032-33
- » Scenario 2: Right the Ship
 - » This scenario allows for all currently planned CIP through FY 2032-33
 - » Assumes one additional staff person is added in FY 2025
 - » Requires a 125% adjustment in FY 2023-24, and no further adjustments through FY 2032-33
- » Scenario 3: CIP Phase-in
 - » This scenario allows for all currently in progress CIP projects for FY 2023-24 and defers approved, but not yet implemented CIP projects; gradually ramping up capital spending to reduce cost pressures in the short term
 - » Assumes one additional staff person is added in FY 2025-26
 - » Requires a 75% increase in FY 2024-25 and gradually reduced rate increases through FY 2032-33

Scenario 1: O&M Only

This scenario only allows for CIP projects that are currently in progress for FY 2023-24. For every year after that, no CIP spending is included. This means all costs, outside of the in-progress CIP projects (namely the Parquet Street Water Replacement Project), are purely related to O&M. Table 0-1 shows the month and fiscal year the rate revenue adjustment would take place, the percentage increase of rate revenue, and the proposed CIP completion rate. For the O&M only scenario, the 91% CIP Completion represents the currently in progress CIP projects that will be completed, with the remaining 9% representing the balance of projects in the CIP that are not in progress and therefore will not be completed. Under this scenario 1, from FY 2024-25 to FY 2032-33, there are no proposed CIP projects. While the City has only approved a 5-year CIP, for purposes of this rate study, a 10-year CIP has been assumed with a “placeholder” amount of \$1.06 million (uninflated) per year added to FY 2028-29 through FY 2032-33. The placeholder years can be modified once the City updates its Water System Master Plan (currently planned for FY 2025-26).

Table 0-1: O&M Only Projected Rate Revenue Increase and Proposed CIP Completion

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	60%	91%
January	FY 2024-25	5%	0%
January	FY 2025-26	2%	0%
January	FY 2026-27	2%	0%
January	FY 2027-28	2%	0%
January	FY 2028-29	2%	0%
January	FY 2029-30	2%	0%
January	FY 2030-31	2%	0%
January	FY 2031-32	2%	0%
January	FY 2032-33	2%	0%

Figure 0-1 shows the ending reserve balances through FY 2032-33. As shown in the graph below, the utility would be operating with a negative cash balance in FY 2023-24 but would reach the target reserve balance by FY 2026-27.

Figure 0-1: Reserve Balances Under O&M Scenario

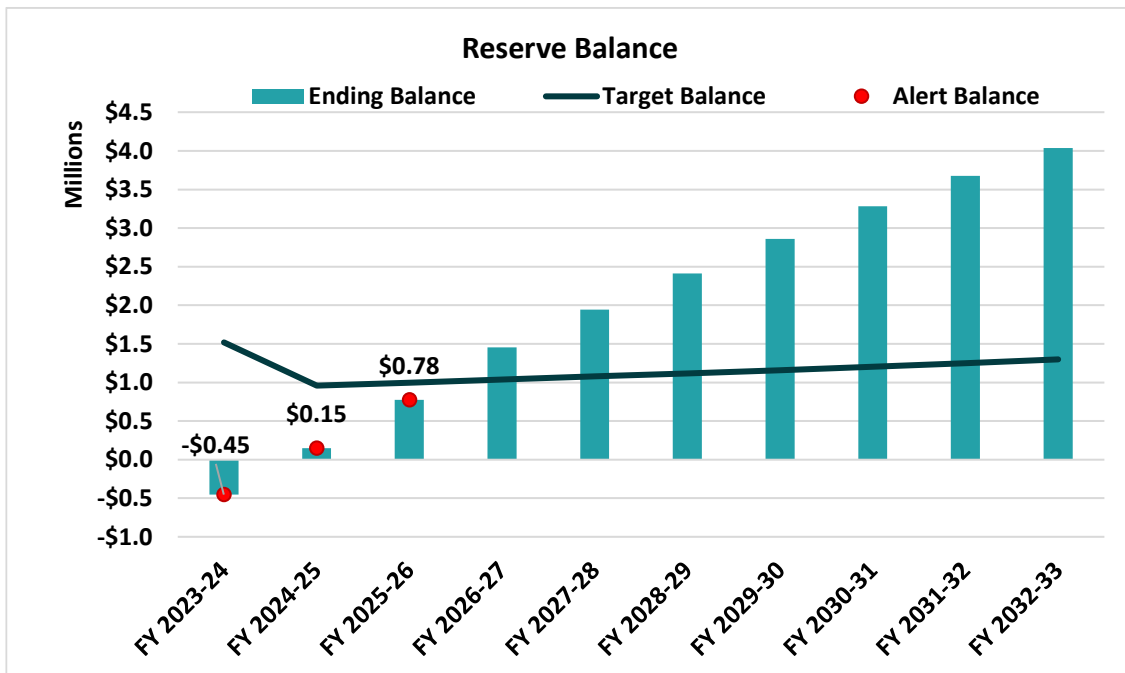
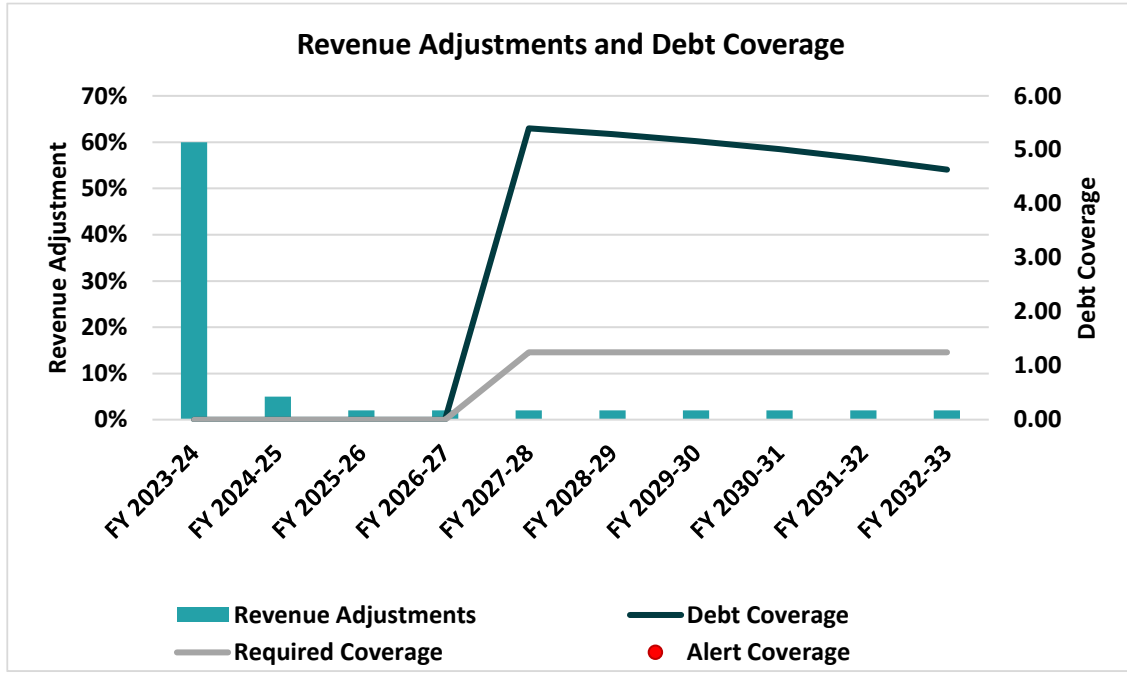


Figure 0-2 shows debt coverage requirements and expected revenue adjustments.

Figure 0-2: Revenue Adjustments (left) and Debt Coverage (right) Under the O&M Scenario



Scenario 2: Right The Ship

This scenario allows for recovery of all O&M and all planned CIP projects. Table 0-2 below shows the month and year the rate revenue adjustment would take place, the percentage increase of rate revenue, and the proposed CIP completion rate.

Table 0-2: Right The Ship Projected Rate Revenue Increase and Proposed CIP Completion

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	125%	100%
January	FY 2024-25	0%	100%
January	FY 2025-26	0%	100%
January	FY 2026-27	0%	100%
January	FY 2027-28	0%	100%
January	FY 2028-29	0%	100%
January	FY 2029-30	0%	100%
January	FY 2030-31	0%	100%
January	FY 2031-32	0%	100%
January	FY 2032-33	0%	100%

Figure 0-3 shows the ending reserve balances through FY 2032-33. As shown in the graph below, the utility would be out of a negative cash position in FY 2023-24 and will achieve the target reserve balance FY 2025-26.

Figure 0-3: Reserve Balances Under Right The Ship Scenario

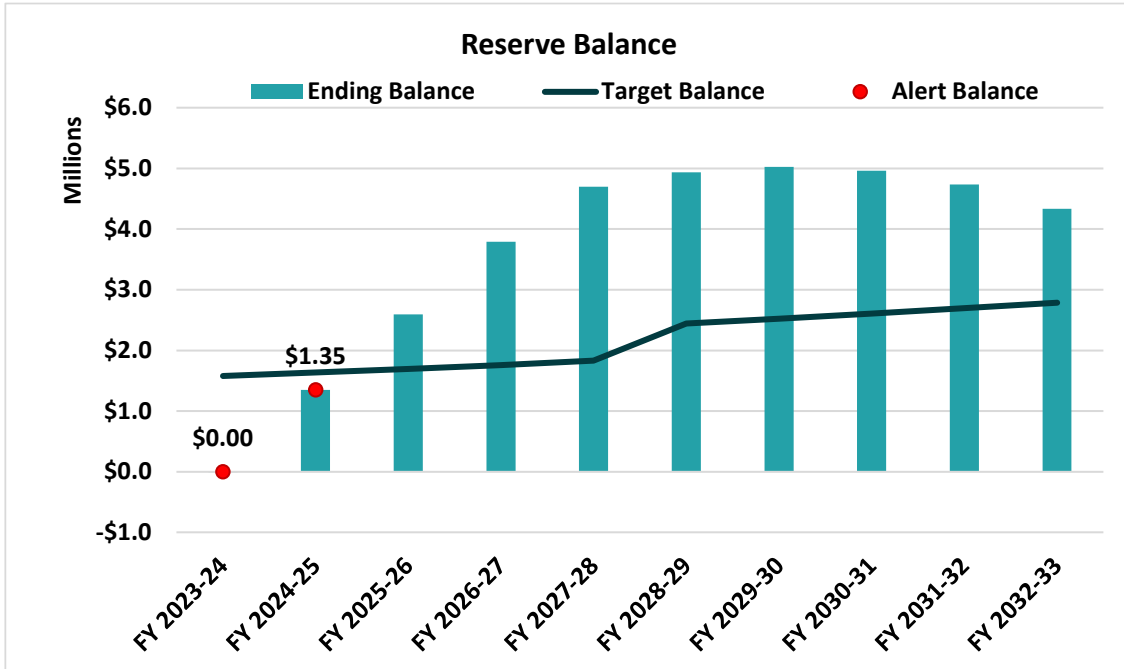
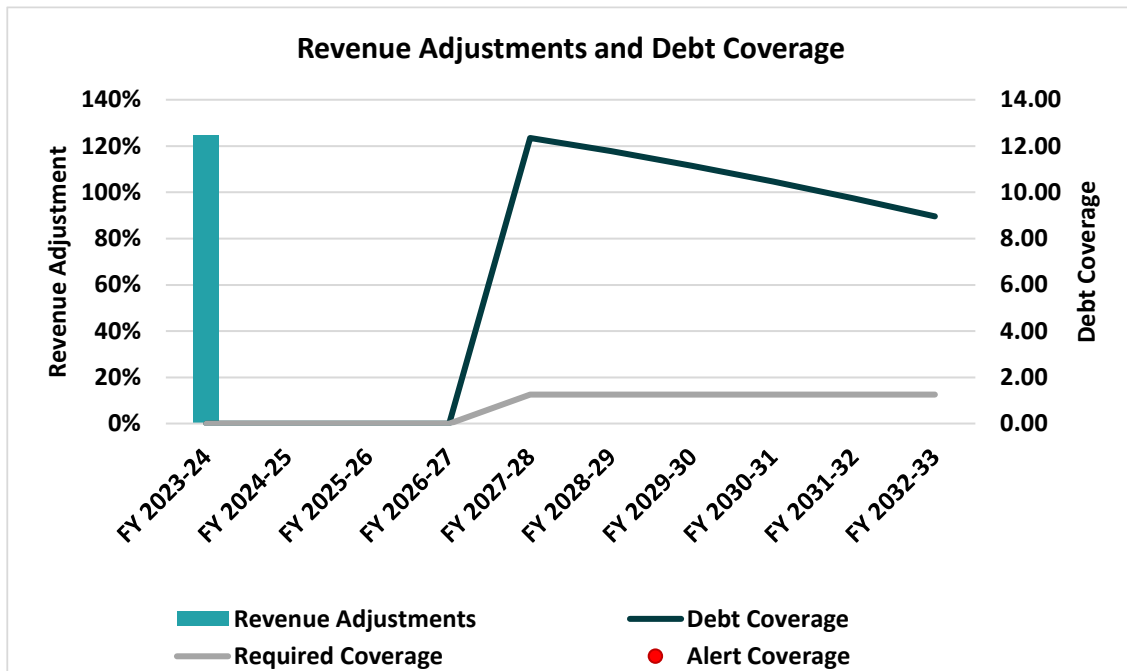


Figure 0-4 shows debt coverage requirements and expected revenue adjustments.

Figure 0-4: Revenue Adjustments (left) and Debt Coverage (right) Under the Right The Ship Scenario



Scenario 3: CIP Phase-In

As discussed in the beginning of this section, this scenario allows for currently in progress CIP to be completed before deferring all remaining CIP. FY 2025-26 has some CIP spending and starting in FY 2026-27, there is catch-up spending of CIP to make up for the deferred CIP. This scenario also has a large rate increase in FY 2023-24, with gradually reduced rate increases through FY 2032-33. Table 0-3 shows the month and year the rate revenue adjustment would take place, the percentage increase of rate revenue, and the proposed CIP completion rate.

Table 0-3: CIP Phase-In Projected Rate Revenue Increase and Proposed CIP Completion

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
February	FY 2023-24	50%	91%
January	FY 2024-25	12%	0%
January	FY 2025-26	10%	50%
January	FY 2026-27	10%	125%
January	FY 2027-28	8%	125%
January	FY 2028-29	5%	103%
January	FY 2029-30	5%	100%
January	FY 2030-31	5%	100%
January	FY 2031-32	5%	100%
January	FY 2032-33	5%	100%

Figure 0-5 shows the ending reserve balances through FY 2032-33. As shown in the graph below, the utility would be in a negative cash balance for the first year but will achieve the target reserve balance in FY 2025-26, FY 2026-27, and in FY 2032-33.

Figure 0-5: Reserve Balances Under CIP Phase-In Scenario

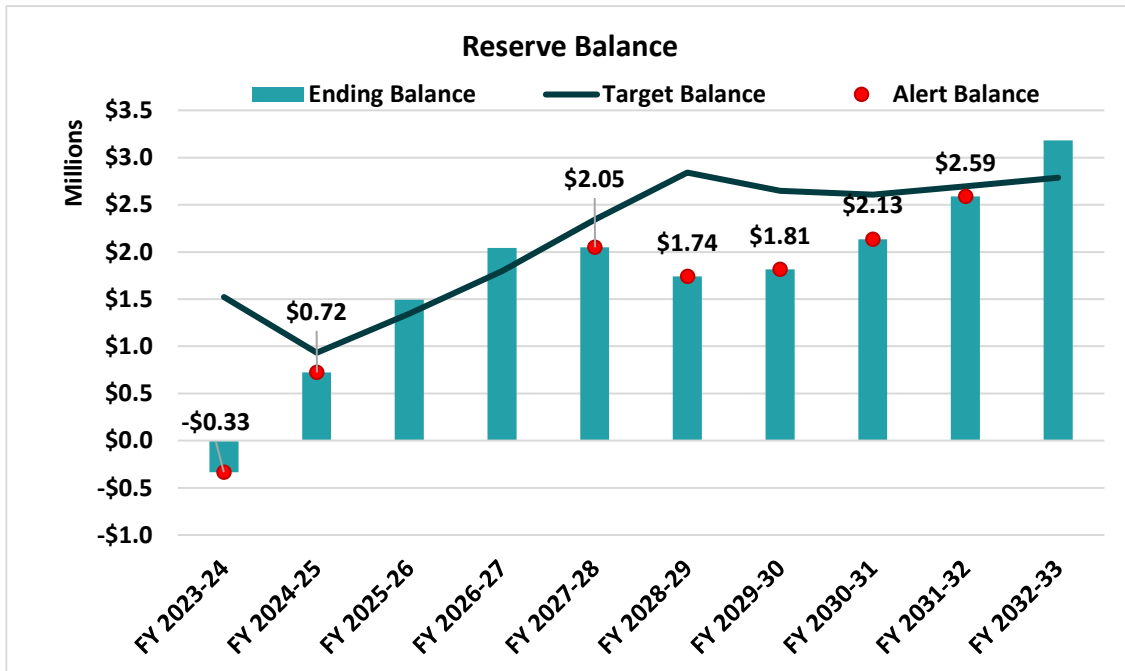
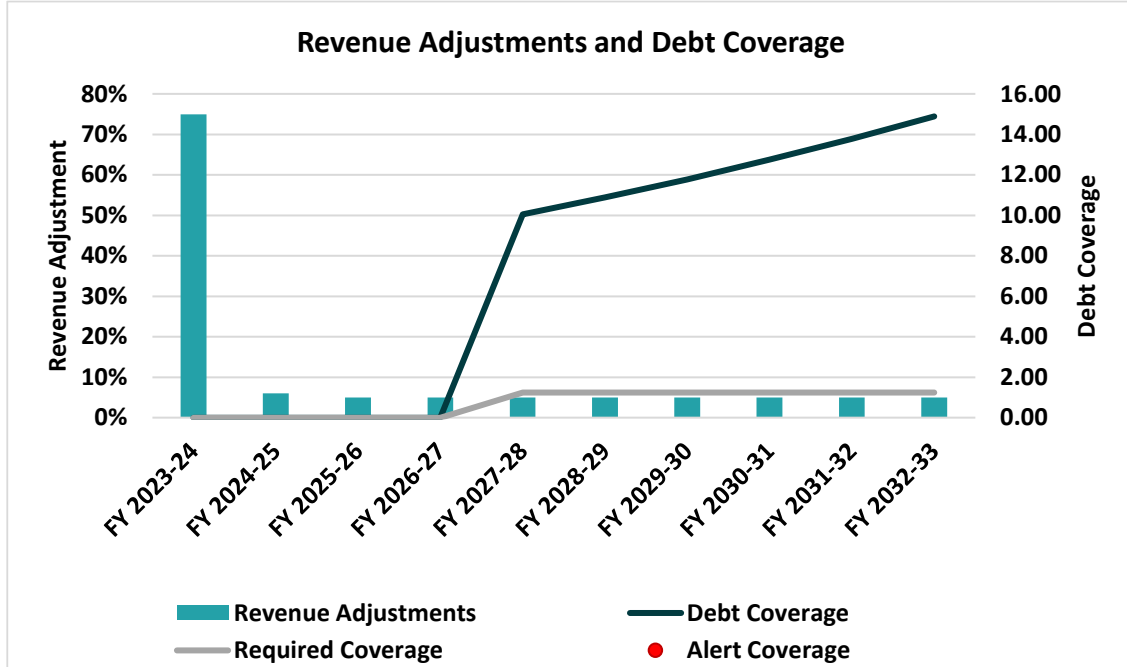


Figure 0-6 shows debt coverage requirements and expected revenue adjustments.

Figure 0-6: Revenue Adjustments (left) and Debt Coverage (right) Under the CIP Phase-In Scenario



Summary of the Water Financial Plan Options

Table 0-4 below summarizes the annual rate increases for each scenario, and Table 0-5 summarizes the CIP completion rate for each of the discussed scenarios for FY 2023-24 to FY 2032-33.

Table 0-4: Rate Revenue Increase Scenarios

Scenario	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Scenario 1: O&M Only	60.0%	5.0%	2.0%	2.0%	2.0%
Scenario 2: Right the Ship	125.0%	0.0%	0.0%	0.0%	0.0%
Scenario 3: CIP Phase-In	75.0%	6.0%	5.0%	5.0%	5.0%

Table 0-5: CIP Completion Scenarios

Scenario	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Scenario 1: O&M Only	91.0%	0.0%	0.0%	0.0%	0.0%
Scenario 2: Right the Ship	100.0%	100.0%	100.0%	100.0%	100.0%
Scenario 3: CIP Phase-In	91.0%	0.0%	50.0%	105.0%	115.0%

Wastewater Financial Plan Options

Based on the findings in the financial plan, Raftelis developed three scenarios for wastewater rate revenue increases:

- » Scenario 1: O&M Only
 - » This scenario allows for the currently in progress CIP for FY 2023-24, though no other CIP beyond FY 2023-24
 - » Assumes one additional wastewater maintenance staff person is added in FY 2025-26

- » Requires a 125% increase in rate revenue for FY 2023-24 and no further increases through FY 2032-33.
- » Scenario 2: Right the Ship
 - » This scenario allows for all currently planned CIP through FY 2032-33
 - » Assumes one additional staff person is added in FY 2025-26
 - » Requires a 175% adjustment in FY 2023-24, though no further rate increases are required for the ten year horizon
- » Scenario 3: CIP Phase-in
 - » This scenario allows for all currently in progress CIP for FY 2023-24 but defers some CIP and gradually ramps up capital spending to reduce cost pressures in the short term
 - » Assumes one additional staff person is added in FY 2025-26
 - » Requires a 125% increase in FY 2023-24 and no further increases through FY 2032-33.

Scenario 1: O&M Only

This scenario only allows for CIP that is currently in progress for FY 2023-24 (namely the Parquet Street Sewer Line Replacement Project). For every year after that, no CIP spending is included. This means all costs are purely related to O&M. Table 0-6 below shows the month and year the rate revenue adjustment would take place, the percentage increase of rate revenue, and the proposed CIP completion rate. For the O&M only scenario, the 96% represents the currently in progress CIP that will be completed, with the remaining 4% representing CIP that is not in progress; therefore, it will not be completed. From FY 2024-25 to FY 2032-33, there is no proposed CIP spending.

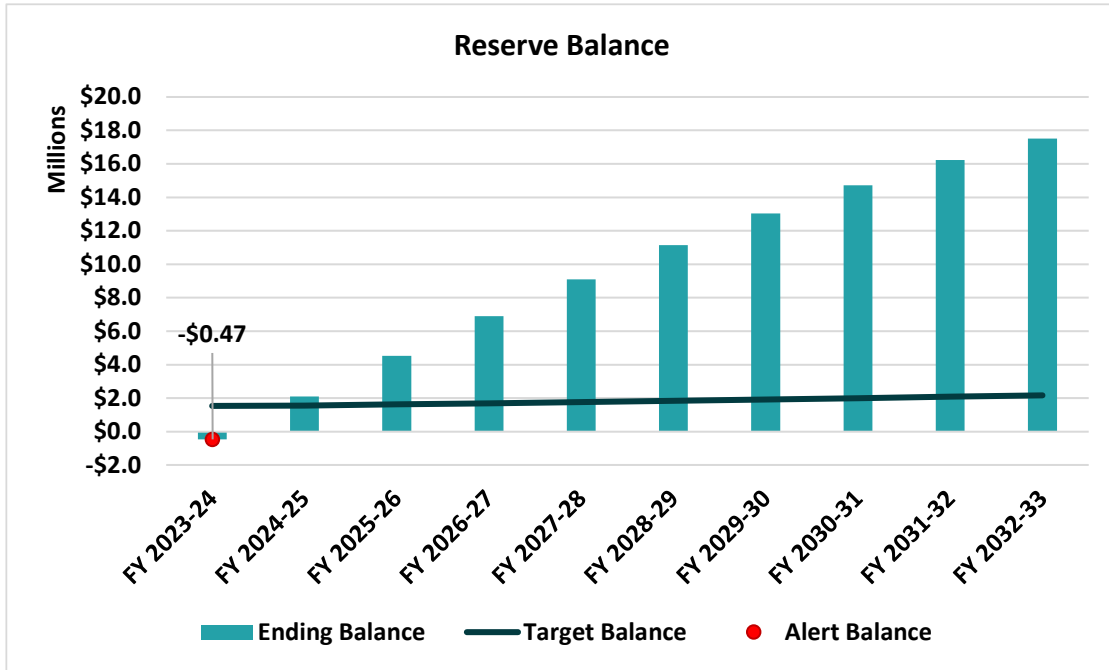
Table 0-6: O&M Only Projected Rate Revenue Increase and Proposed CIP Completion

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	125%	96%
January	FY 2024-25	0%	0%
January	FY 2025-26	0%	0%
January	FY 2026-27	0%	0%
January	FY 2027-28	0%	0%
January	FY 2028-29	0%	0%
January	FY 2029-30	0%	0%
January	FY 2030-31	0%	0%
January	FY 2031-32	0%	0%
January	FY 2032-33	0%	0%

Figure 0-7 shows the ending reserve balances through FY 2032-33. As shown in the graph below, the wastewater enterprise fund would be operating with a negative cash balance in FY 2023-24 but will reach the target reserve balance in FY 2024-25.

As the wastewater scenarios do not include debt, the revenue adjustments are shown in table format, and the revenue adjustment / debt coverage graph is not shown for the wastewater scenarios.

Figure 0-7: Reserve Balances Under O&M Scenario



Scenario 2: Right The Ship

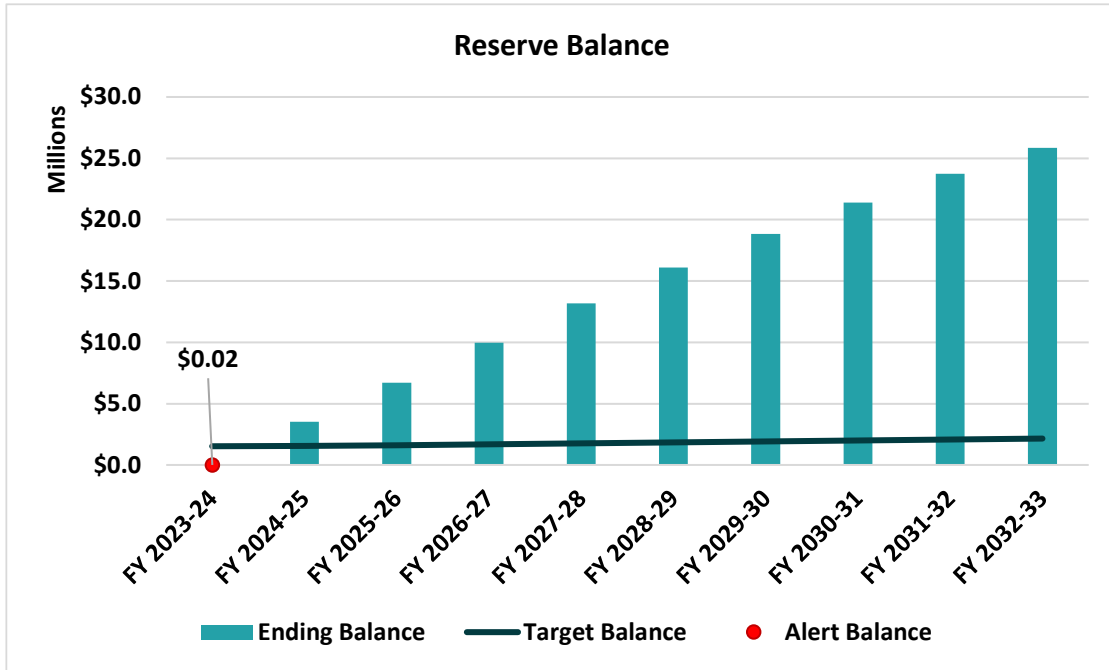
This scenario allows for all currently planned CIP projects. Table 0-7 shows the month and year the rate revenue adjustment would take place, the percentage increase of rate revenue, and the proposed CIP completion rate.

Table 0-7: Right The Ship Projected Rate Revenue Increase and Proposed CIP Completion

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	175%	100%
January	FY 2024-25	0%	100%
January	FY 2025-26	0%	100%
January	FY 2026-27	0%	100%
January	FY 2027-28	0%	100%
January	FY 2028-29	0%	100%
January	FY 2029-30	0%	100%
January	FY 2030-31	0%	100%
January	FY 2031-32	0%	100%
January	FY 2032-33	0%	100%

Figure 0-8 shows the ending reserve balances through FY 2032-33. As shown in the graph below, the utility would be out of the negative cash position in FY 2023-24 and would reach the target reserve balance in FY 2024-25.

Figure 0-8: Reserve Balances Under Right The Ship Scenario



Scenario 3: CIP Phase-In

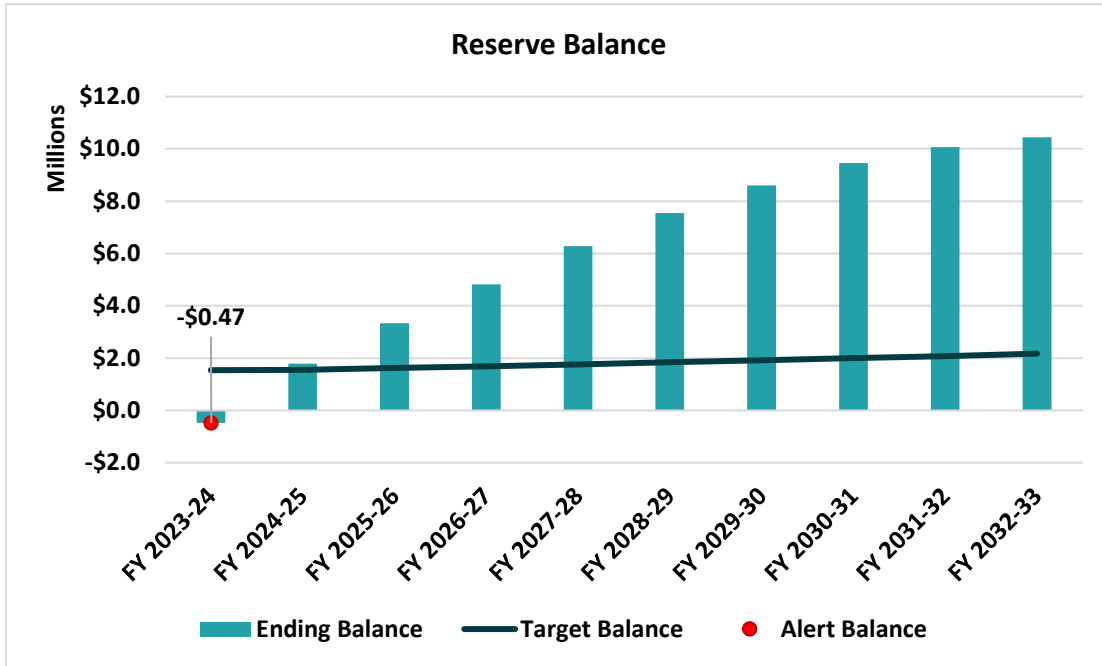
As discussed in the beginning of this section, this scenario allows for currently in progress CIP to be completed before deferring remaining CIP projects. Catch up spending starts in FY 2025-26 to make up for the deferred period. This scenario also has a large rate increase in FY 2023-24, with no further increases anticipated through FY 2032-33. Table 0-8 shows the month and year the rate revenue adjustment would take place, the percentage increase of rate revenue, and the proposed CIP completion rate.

Table 0-8: CIP Phase-In Projected Rate Revenue Increase and Proposed CIP Completion

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	125%	96%
January	FY 2024-25	0%	50%
January	FY 2025-26	0%	108%
January	FY 2026-27	0%	120%
January	FY 2027-28	0%	120%
January	FY 2028-29	0%	100%
January	FY 2029-30	0%	100%
January	FY 2030-31	0%	100%
January	FY 2031-32	0%	100%
January	FY 2032-33	0%	100%

Figure 0-9 shows the ending reserve balances through FY 2032-33. As shown in the graph below, the utility would be in a negative cash position in FY 2023-24 but will achieve the reserves policy target in FY 2024-25.

Figure 0-9: Reserve Balances Under CIP Phase-In Scenario



Summary of the Wastewater Financial Plan Options

Table 0-9 below summarizes the annual rate increases for each scenario, and Table 0-10 summarizes the CIP completion rate for each of the discussed scenarios for FY 2023-24 to FY 2032-33.

Table 0-9: Rate Revenue Increase Scenarios

Scenario	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Scenario 1: O&M Only	125.0%	0.0%	0.0%	0.0%	0.0%
Scenario 2: Right the Ship	175.0%	0.0%	0.0%	0.0%	0.0%
Scenario 3: CIP Phase-In	125.0%	0.0%	0.0%	0.0%	0.0%

Table 0-10: CIP Completion Scenarios

Scenario	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Scenario 1: O&M Only	96.0%	0.0%	0.0%	0.0%	0.0%
Scenario 2: Right the Ship	100.0%	100.0%	100.0%	100.0%	100.0%
Scenario 3: CIP Phase-In	96.0%	50.0%	108.0%	120.0%	120.0%

In Summary

Staff is seeking feedback and direction regarding the proposed scenarios for both water and wastewater funds as described in this agenda report. The financial option scenarios are:

1. O&M Only – for both water and wastewater, this scenario removes CIP spending (except for in-progress CIP project, namely the Parquet Street Water and Sewer Replacement Project) and instead is focused on increases to O&M expenditures for two additional personnel (one each for water and wastewater). This scenario does not allow for any CIP spending beyond FY 2023-24.

2. Right The Ship – for both water and wastewater enterprise funds, this scenario is focused on fixing the negative cash balance in FY 2023-24 with one large increase in rate revenue and in turn allows for all planned CIP spending and increased O&M spending.
3. CIP Phase-In – for both water and wastewater, this scenario defers CIP spending and gradually ramps up the spending.

Actual bill impacts to individual customers rely on the overall revenue increase (financial plan), the cost-of-service analyses, and the rate structure. For example, an overall utility-wide increase of 50% may translate into a 10% impact for one customer and a 40% increase for another. These impacts are not included in this financial planning portion and will result from the proposed rates after Raftelis completes the cost-of-service analyses and any rate restructuring.

ENVIRONMENTAL REVIEW:

The proposed action is exempt (Yes No Not a project under CEQA) from the requirements of the California Environmental Quality Act (CEQA)

GOALS:

This action supports the following City Council Goals and General Plan Actions:

Goal 2: Maintain, Improve and Invest in the City infrastructure (Water, Sewer, Streets, Circulation, Parks, Storm Drains and Public Facilities)

PUBLIC COMMENT:

As of the writing of this staff report, the City has not received any public comment. However, staff anticipates receiving public comment from interested parties following the publication and distribution of this staff report. Such comments will be provided to the City Council as supplemental materials before or at the meeting. In addition, public comments may be offered during the public comment portion of the agenda item.

PUBLIC NOTICE:

This item was noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to schedule meeting date.

FISCAL IMPACT:

No fiscal impact by receiving the information and provide staff and consultant the option presented in order to move forward to develop a rate structure.

RECOMMENDATION:

Staff recommends the Sebastopol City Council receive the information, provide staff direction on the scenarios in order to continue with the development of the water and wastewater rates.

Attachments:

PowerPoint Presentation

City of Sebastopol

Water & Wastewater Financial Plan Scenarios

October 3, 2023



Raftelis Team



Kevin Kostiuk
Project Director



Theresa Jurotich,
P.E., PMP
Project Manager



Cleo Koenig
Lead Consultant



Key Focus Areas

- Why Conduct a Rate Study
- Financial Plan Assumptions
- Scenario Results
 - Water
 - Wastewater

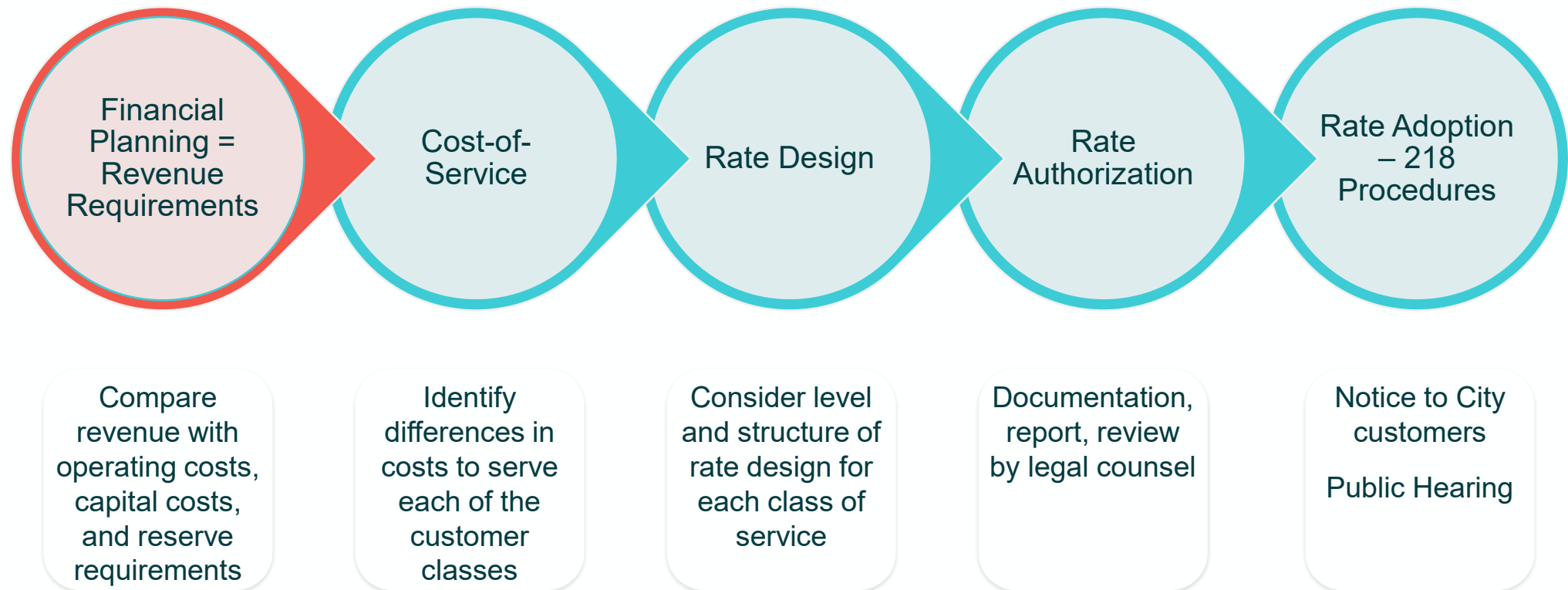


RAFTELIS

Why Would the City do a Water Rate Study?

- Rates must keep up with the costs to operate the City's water & wastewater systems
- The City's water and wastewater utilities (enterprise fund) are each self-funding enterprises – they are not like other government services (e.g., public safety, city facilities and/or street maintenance) that are funded by tax dollars from the General Fund
- By law (Proposition 218), rates must be based on the cost to operate and maintain the water and wastewater systems

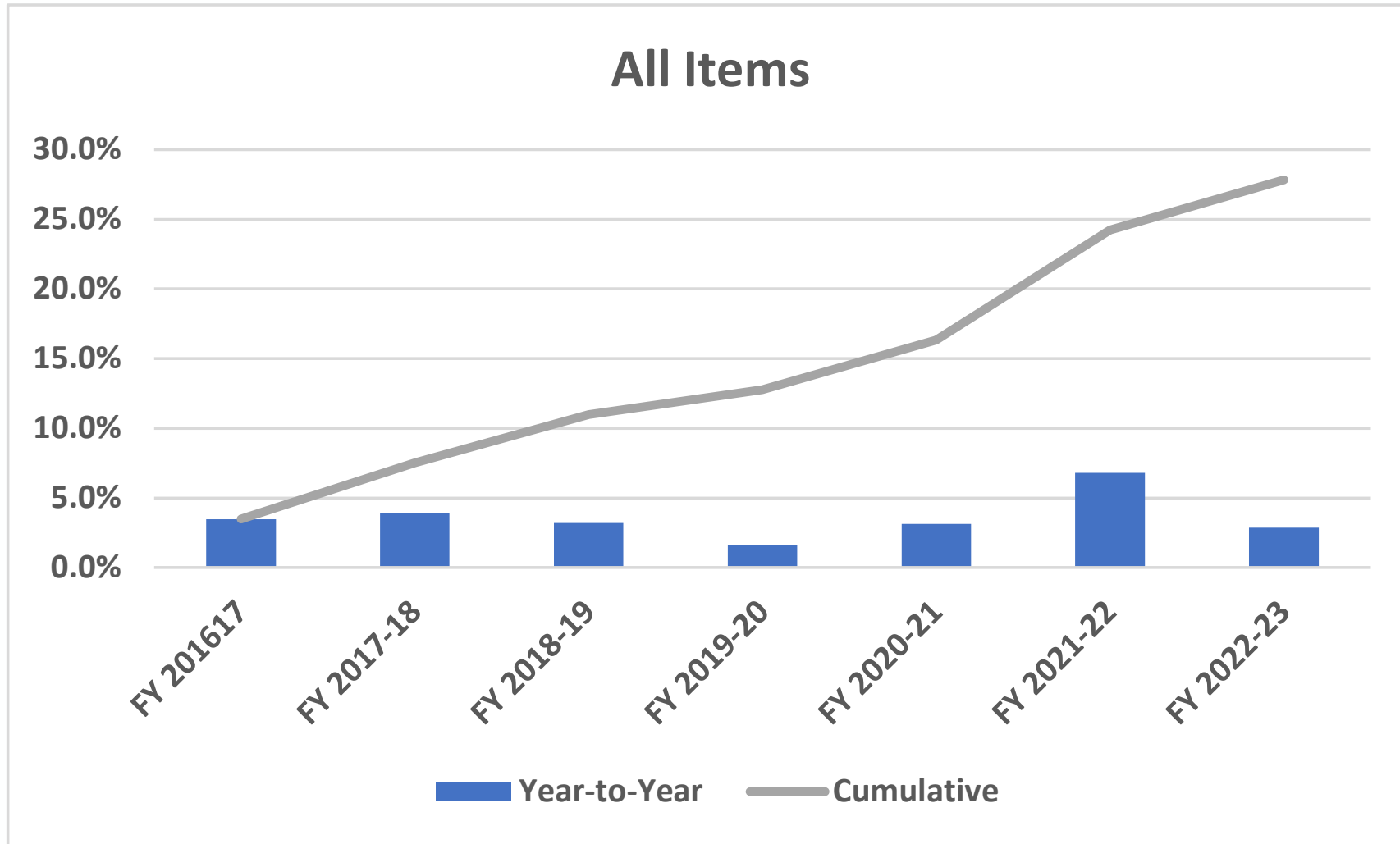
Key Steps in Conducting a Rate Study



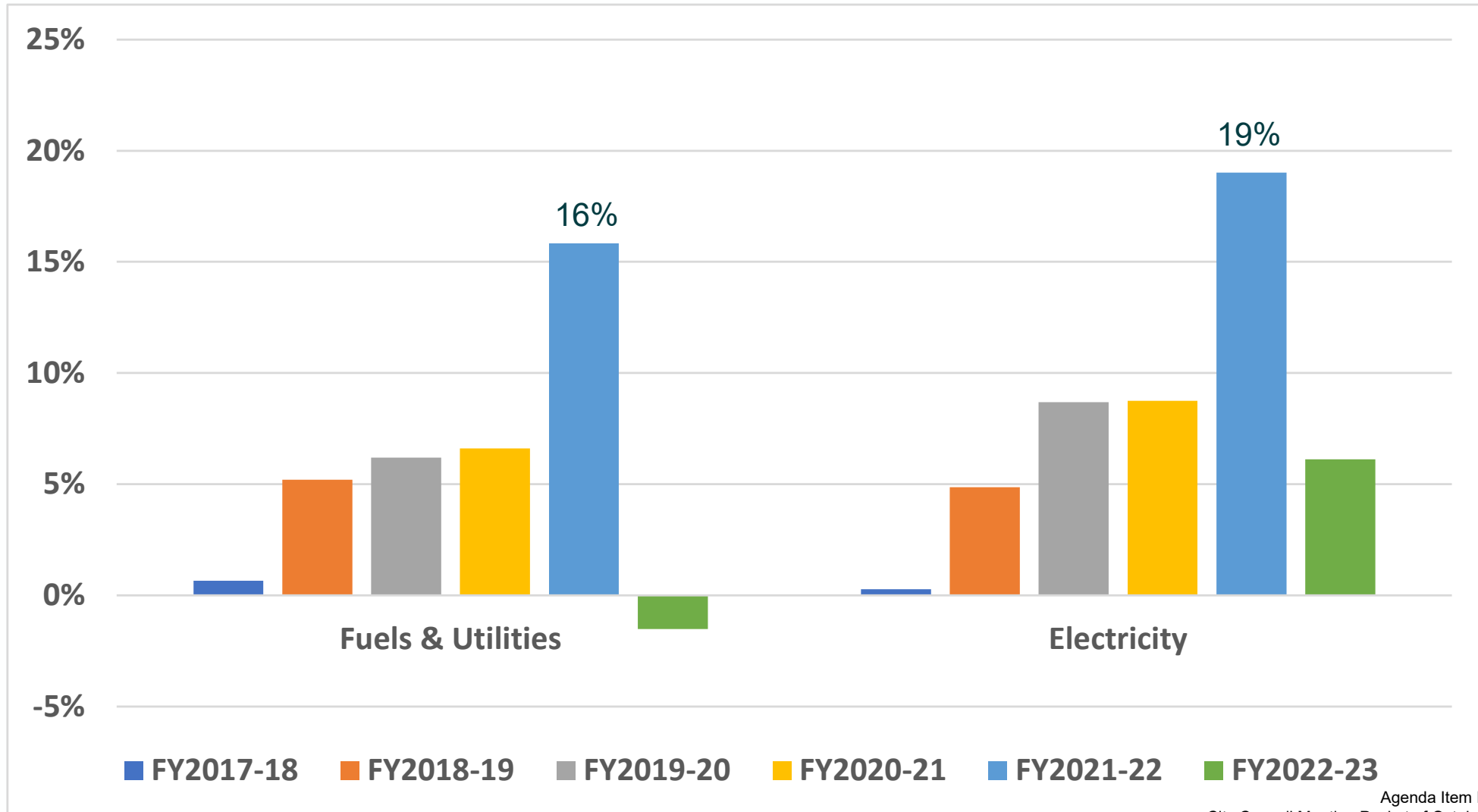
Water Financial Plan Assumptions



Consumer Price Index: San Francisco-Oakland-Hayward, CA



Consumer Price Index: San Francisco-Oakland-Hayward, CA



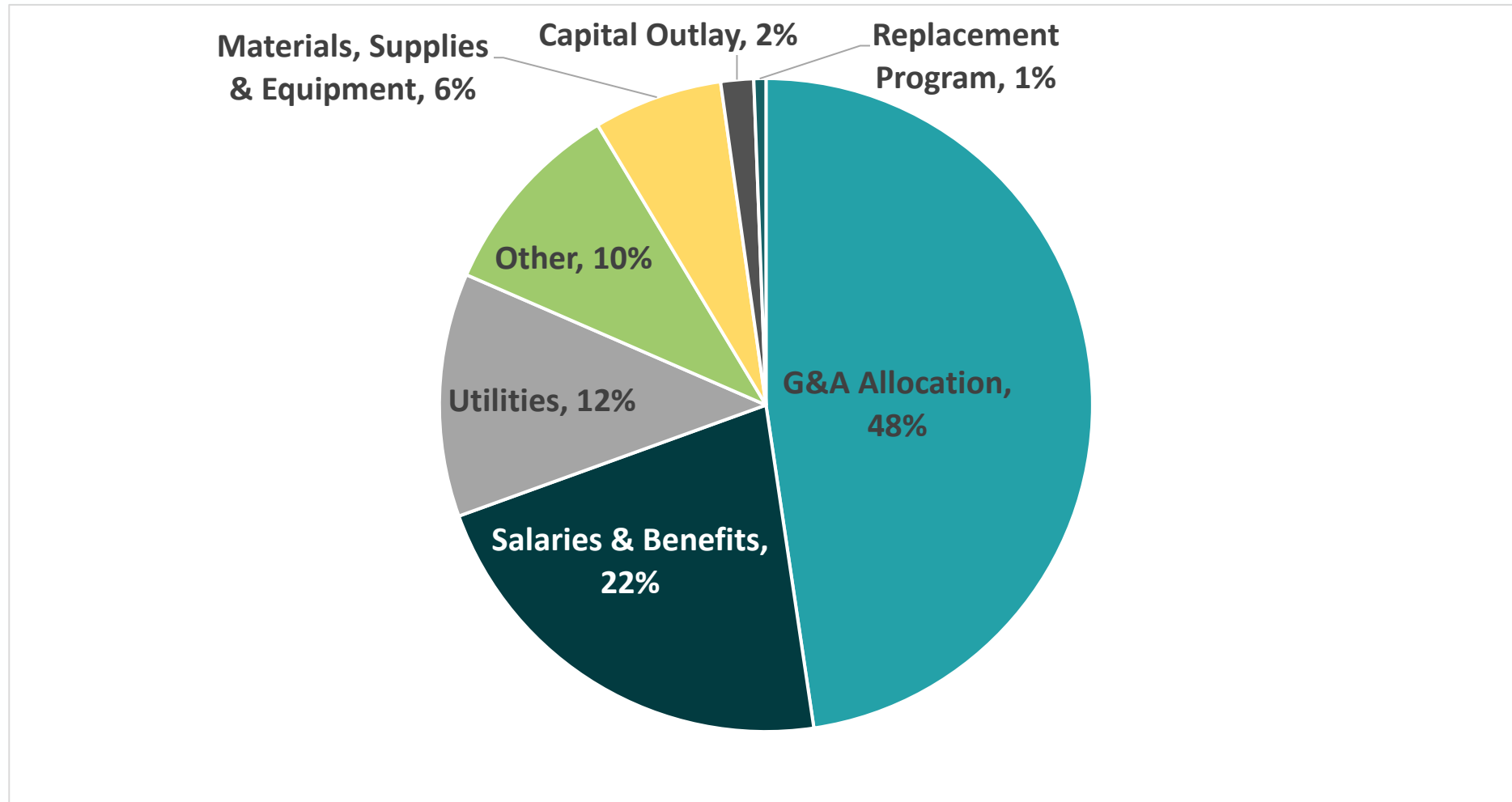
Assumptions – Water Demand

- Assumed 0.5% per year new connection growth for residential users
- Assumed usage per account stays flat (no increase/decrease in usage beyond that due to new accounts)
- All other connection types are assumed to have no growth

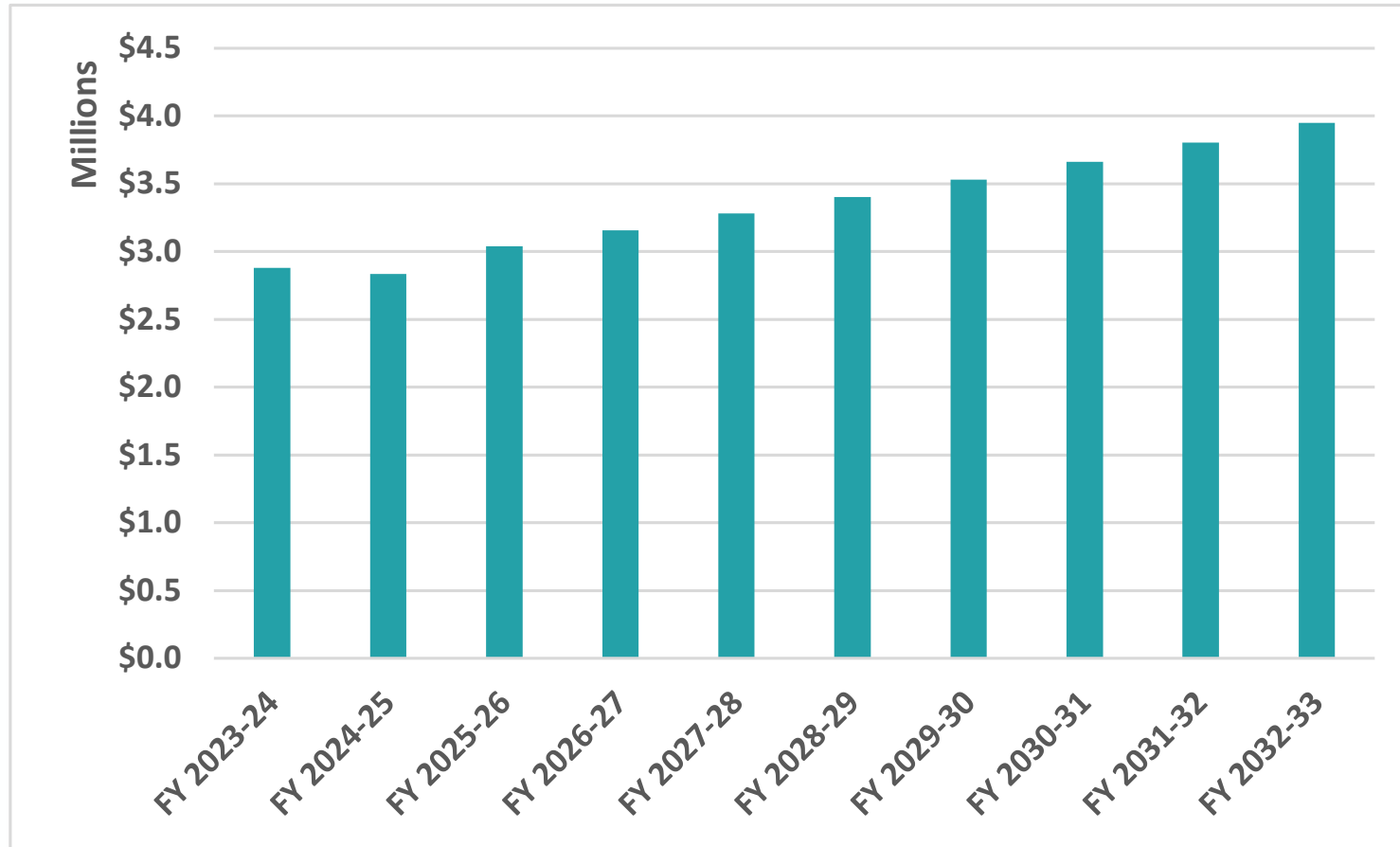
Assumptions – Inflationary Escalation

Expense Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33
O&M Expenses										
General	Budget	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Salary	Budget	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Benefits	Budget	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Utilities	Budget	10.0%	10.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Capital Expenses										
Capital		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

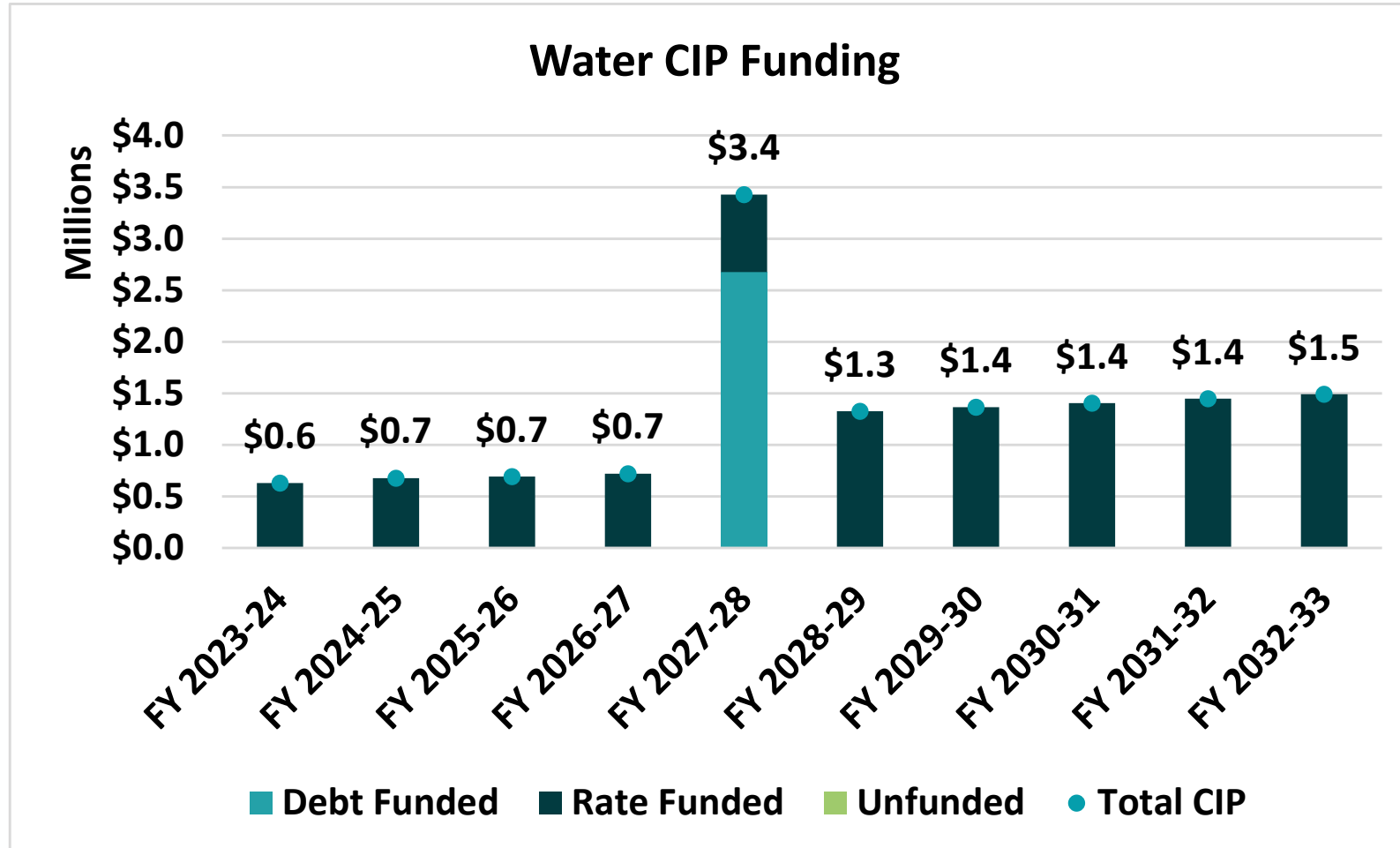
O&M Expense Summary 5 Year Average - Water



O&M Annual Expense (alternative slide)



Capital Improvement Program



Note: The values displayed are inflated by the 4% capital inflator

Assumptions – Water Reserve Policies

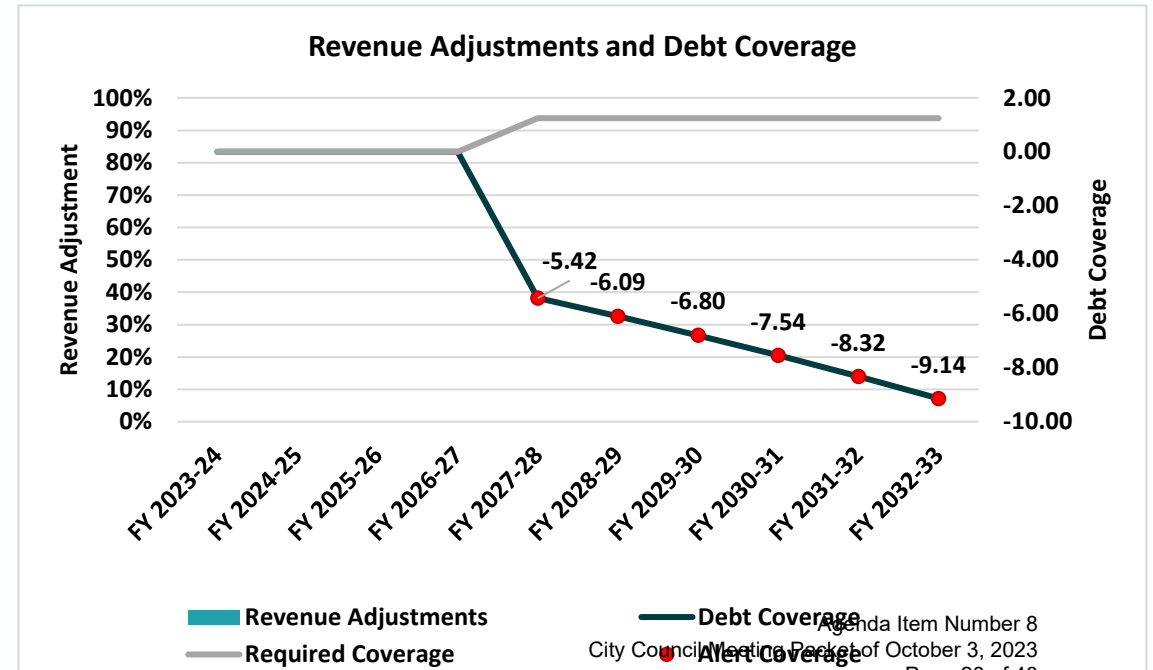
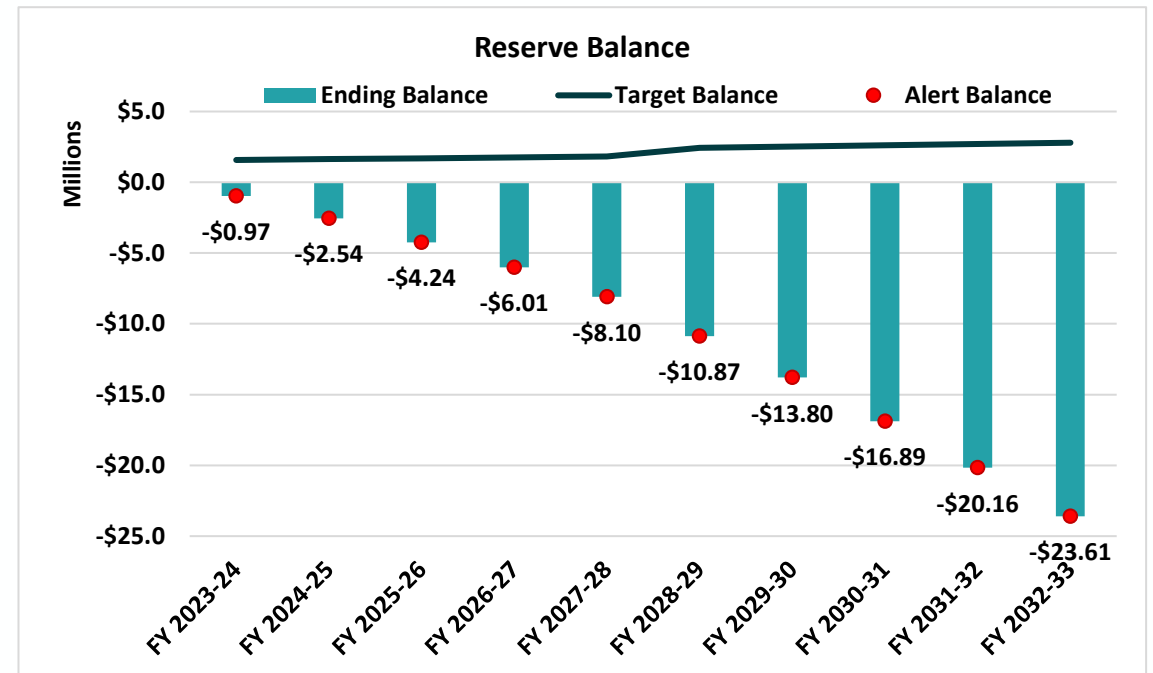
- Cash Reserves
 - › Operations Reserve: 33% of annual O&M (approximately 4 months of expenses)
 - › Capital Reserve: One year of Cash-funded CIP
- Debt
 - › Current debt does not have a coverage requirement
 - › Future debt assumes a minimum coverage of 1.25x

Water Financial Plan



Status Quo

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	0%	100%
January	FY 2024-25	0%	100%
January	FY 2025-26	0%	100%
January	FY 2026-27	0%	100%
January	FY 2027-28	0%	100%
January	FY 2028-29	0%	100%
January	FY 2029-30	0%	100%
January	FY 2030-31	0%	100%
January	FY 2031-32	0%	100%
January	FY 2032-33	0%	100%



Water Financial Plan Projections

1) O&M Only Scenario:

- Allows currently in progress CIP for FY 2023-24; no other CIP beyond FY 2023-24
- Additional Staff are added in FY 2024-25
- 60% increase required in FY 2023-24, 5% in FY 2024-25, 2% annually thereafter through FY 2032-33

2) Right The Ship Scenario:

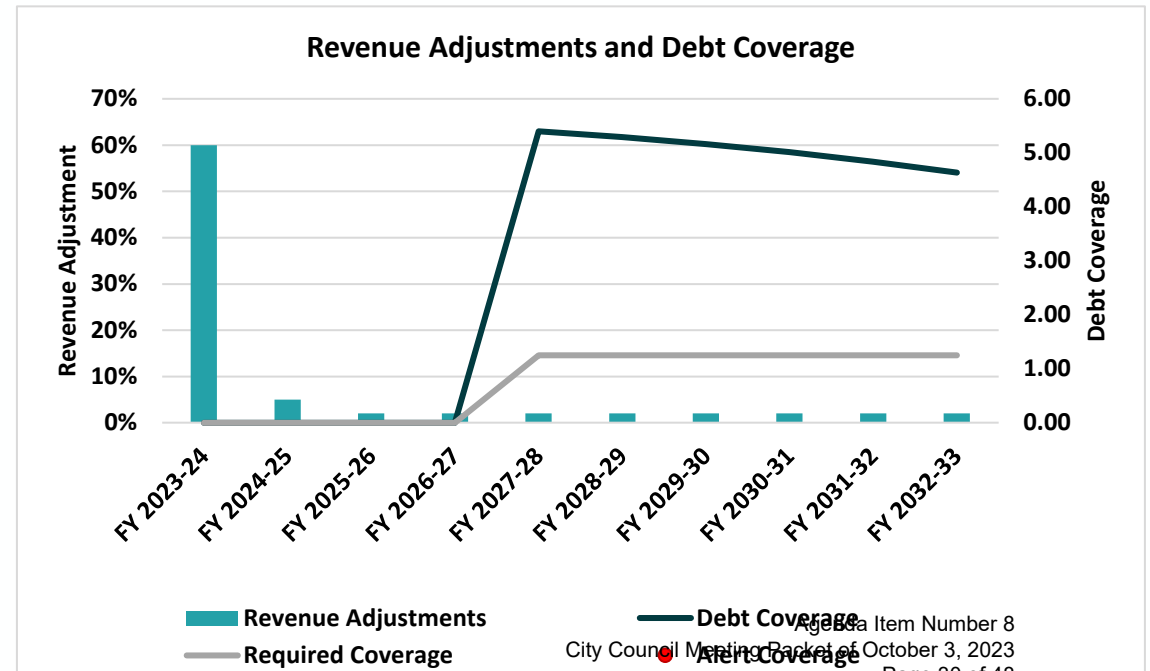
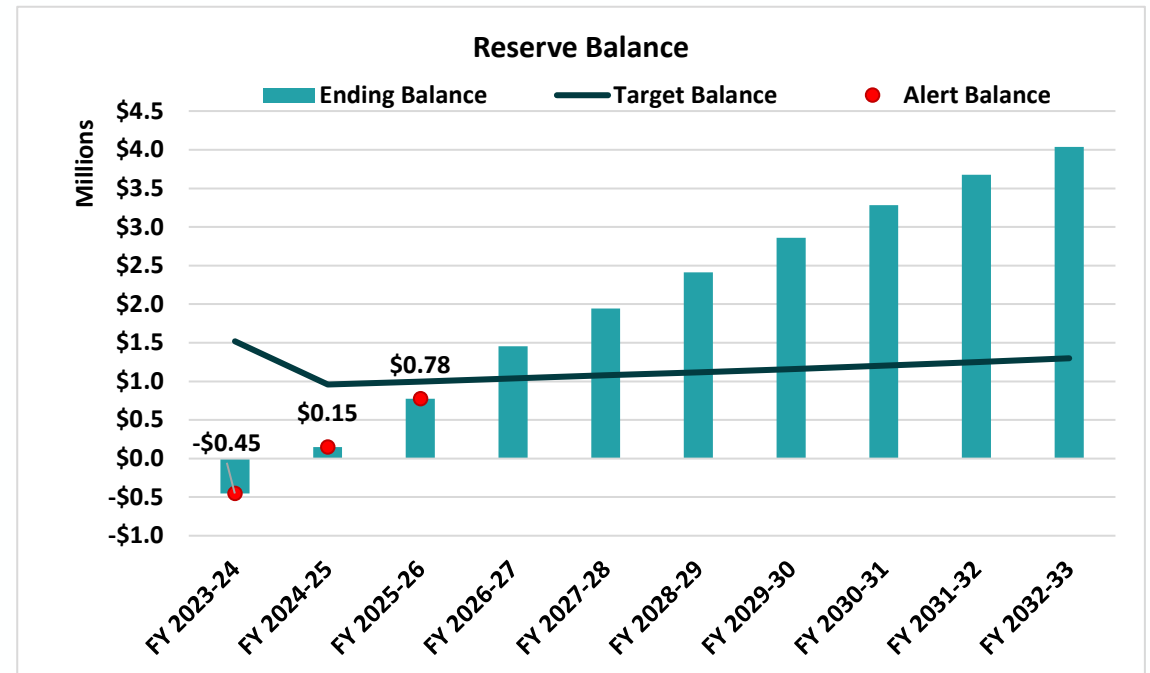
- Allows all currently planned CIP
- Additional Staff are added in FY 2024-25
- 125% adjustment in FY 2023-24, no additional adjustments through FY 2032-33

3) CIP Phase-In Scenario:

- Allows currently in progress CIP for FY 2023-24; defers some CIP and ramps up capital spending gradually
- Additional Staff are added in FY 2025-26
- 75% increase in FY 2023-24, reduced rate increases through FY 2032-33

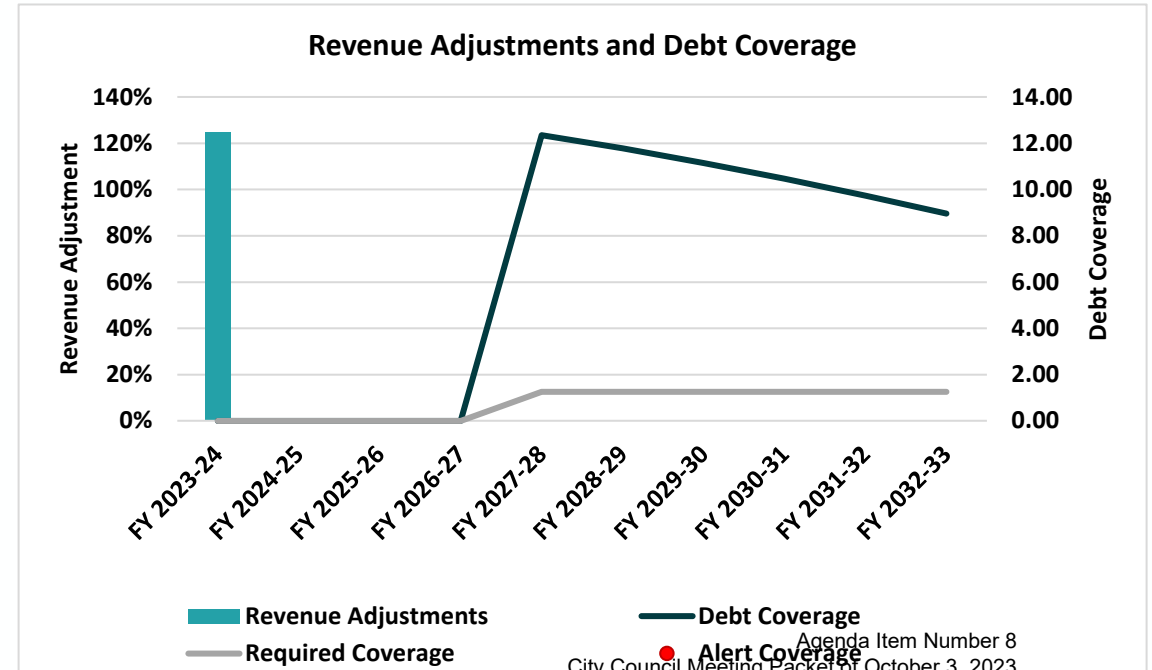
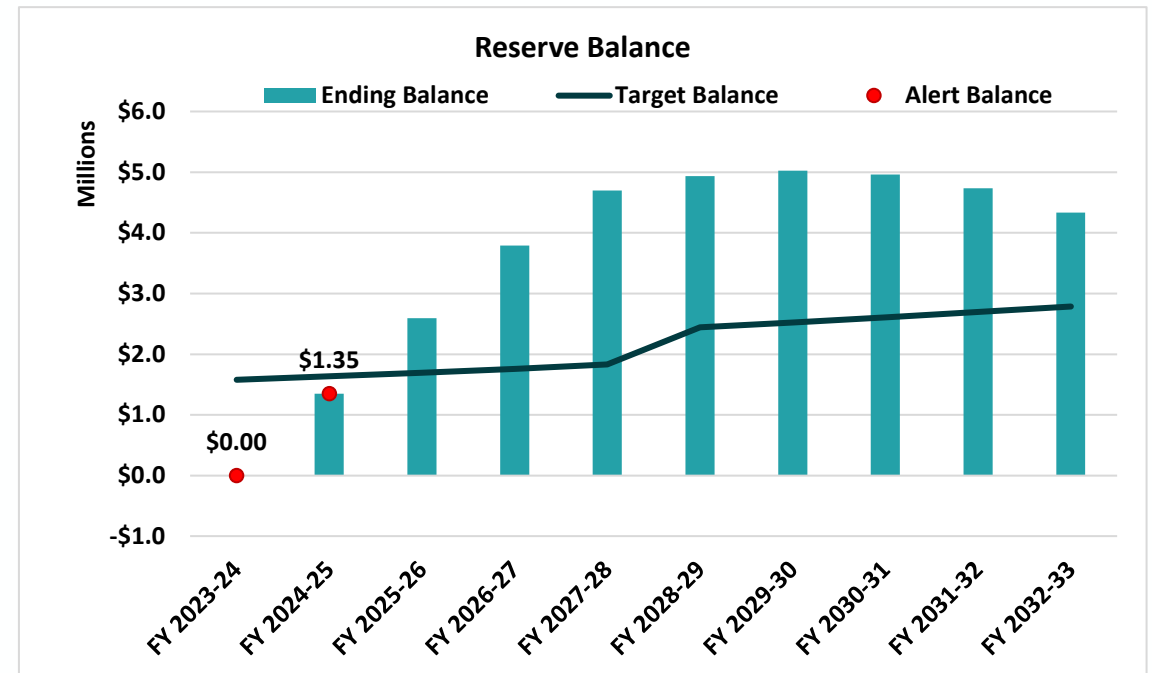
1) O&M Only

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	60%	91%
January	FY 2024-25	5%	0%
January	FY 2025-26	2%	0%
January	FY 2026-27	2%	0%
January	FY 2027-28	2%	0%
January	FY 2028-29	2%	0%
January	FY 2029-30	2%	0%
January	FY 2030-31	2%	0%
January	FY 2031-32	2%	0%
January	FY 2032-33	2%	0%



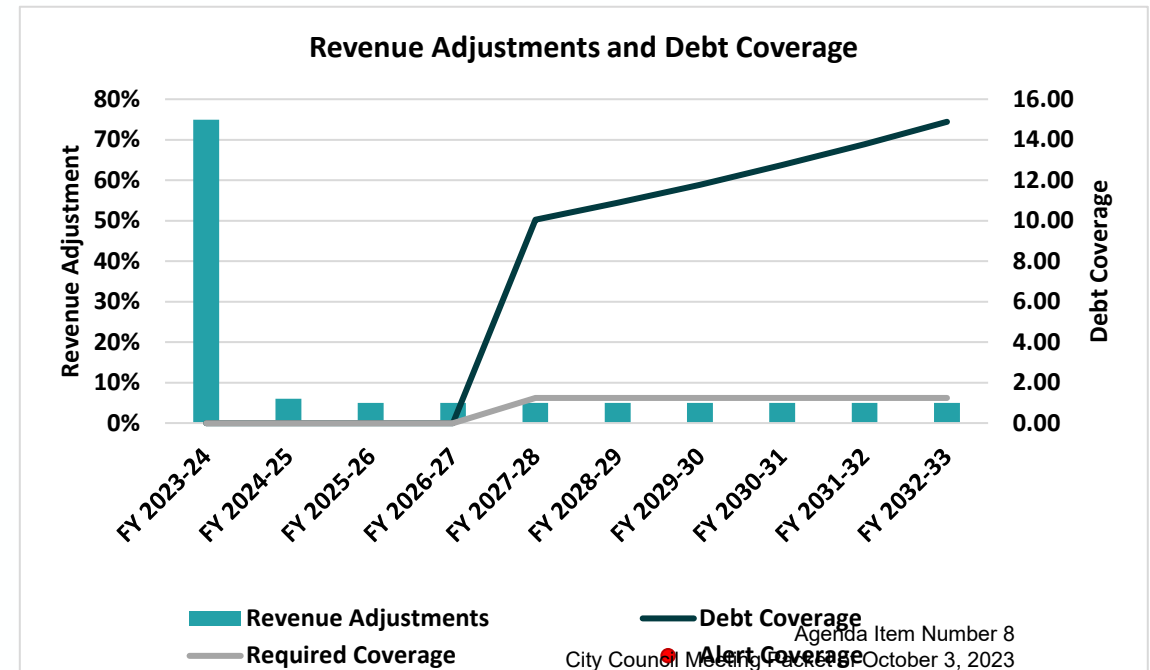
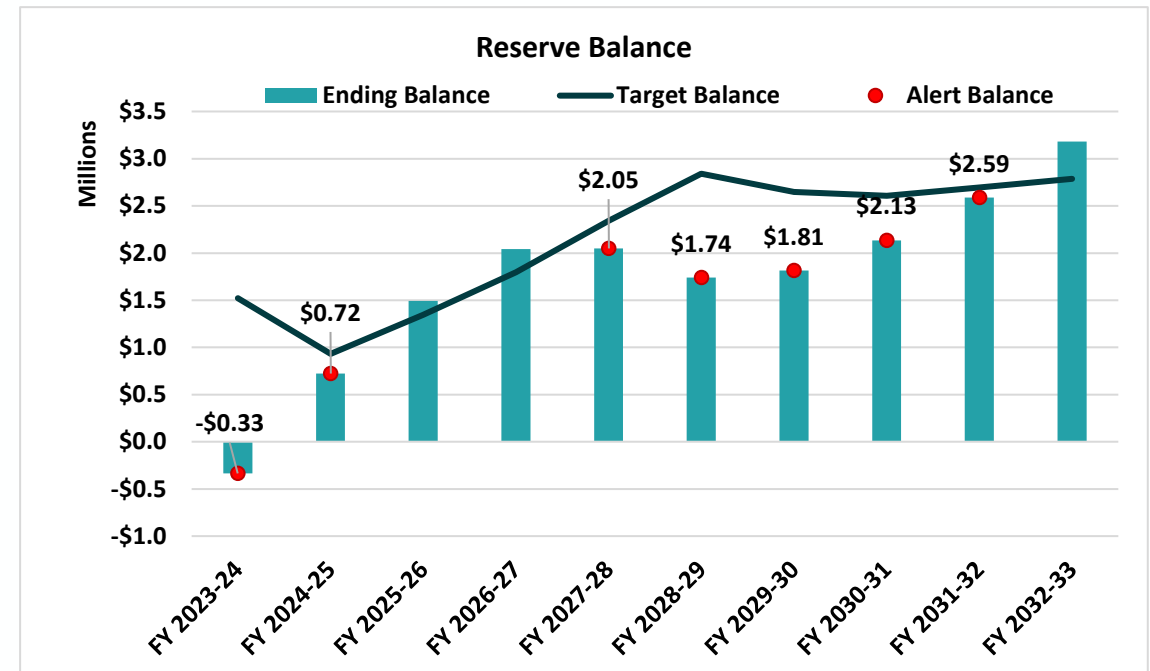
2) Right the Ship

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	125%	100%
January	FY 2024-25	0%	100%
January	FY 2025-26	0%	100%
January	FY 2026-27	0%	100%
January	FY 2027-28	0%	100%
January	FY 2028-29	0%	100%
January	FY 2029-30	0%	100%
January	FY 2030-31	0%	100%
January	FY 2031-32	0%	100%
January	FY 2032-33	0%	100%



3) CIP Phase-in

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
February	FY 2023-24	50%	91%
January	FY 2024-25	12%	0%
January	FY 2025-26	10%	50%
January	FY 2026-27	10%	125%
January	FY 2027-28	8%	125%
January	FY 2028-29	5%	103%
January	FY 2029-30	5%	100%
January	FY 2030-31	5%	100%
January	FY 2031-32	5%	100%
January	FY 2032-33	5%	100%



Water Financial Plan Scenario Summaries

- Revenue Adjustments Required (%)

Scenario	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Scenario 1: O&M Only	60.0%	5.0%	2.0%	2.0%	2.0%
Scenario 2: Right the Ship	125.0%	0.0%	0.0%	0.0%	0.0%
Scenario 3: CIP Phase-In	75.0%	6.0%	5.0%	5.0%	5.0%

- Percent of Planned CIP Completed

Scenario	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Scenario 1: O&M Only	91.0%	0.0%	0.0%	0.0%	0.0%
Scenario 2: Right the Ship	100.0%	100.0%	100.0%	100.0%	100.0%
Scenario 3: CIP Phase-In	91.0%	0.0%	50.0%	105.0%	115.0%

Wastewater Financial Plan Assumptions



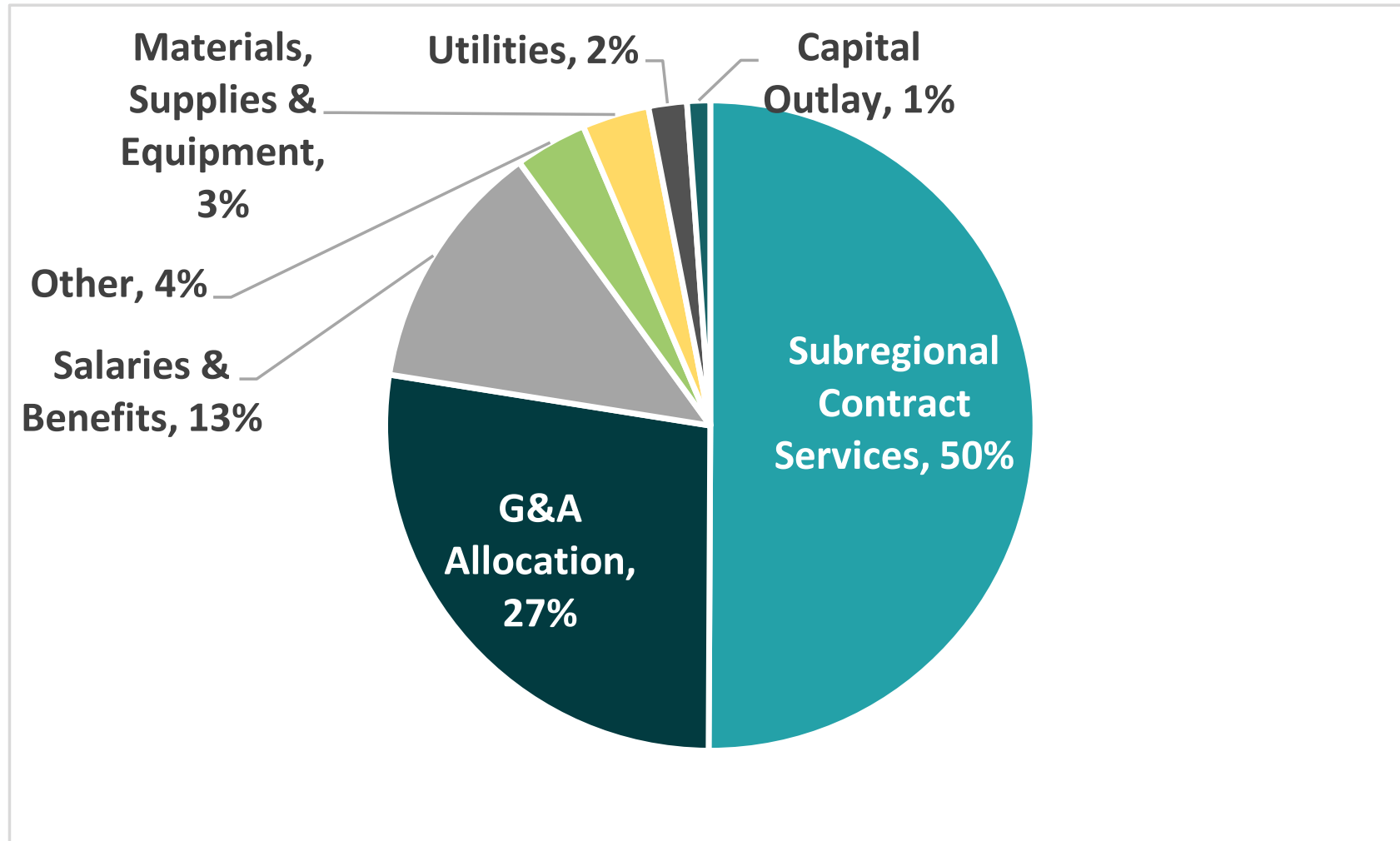
Assumptions – Wastewater Demand

- Assumes current wastewater flows represent baseline
- Modest new connection growth (0.5%) assumed for 5/8” through 1” meters (aligning with new Residential connections on the water side)
- No growth for all other connection sizes

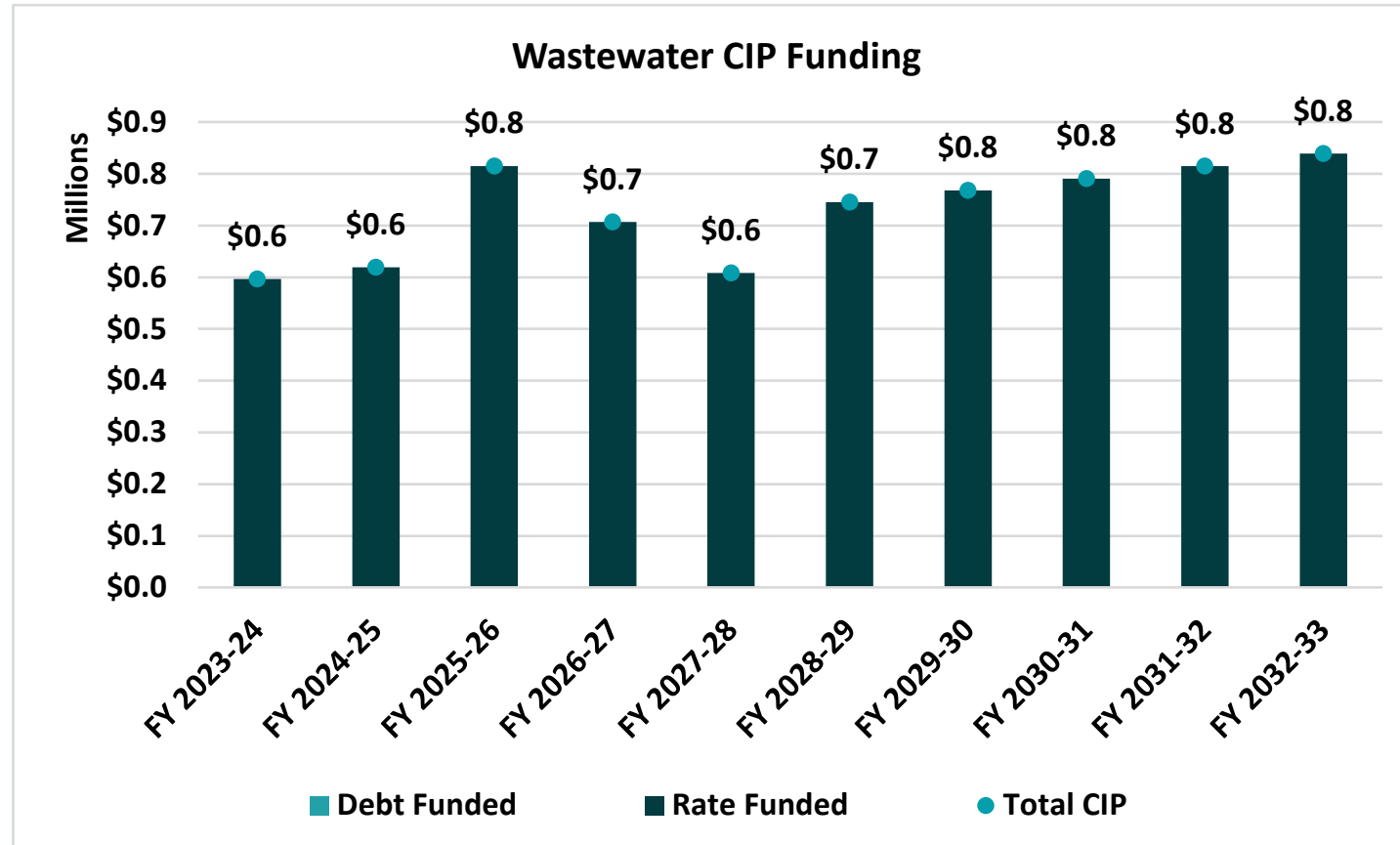
Assumptions – Inflationary Escalation

Expense Category	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33
O&M Expenses											
General	Actuals	Budget	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Salary	Actuals	Budget	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Benefits	Actuals	Budget	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Utilities	Actuals	Budget	10.0%	10.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Subregional Contract Services	Actuals	Budget	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Capital Expenses											
Capital	Actuals	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

O&M Expense Summary 5 Year Average - Wastewater



Capital Improvement Program



Note: The values displayed are inflated by the 4% capital inflator

Assumptions – Wastewater Reserve Policies

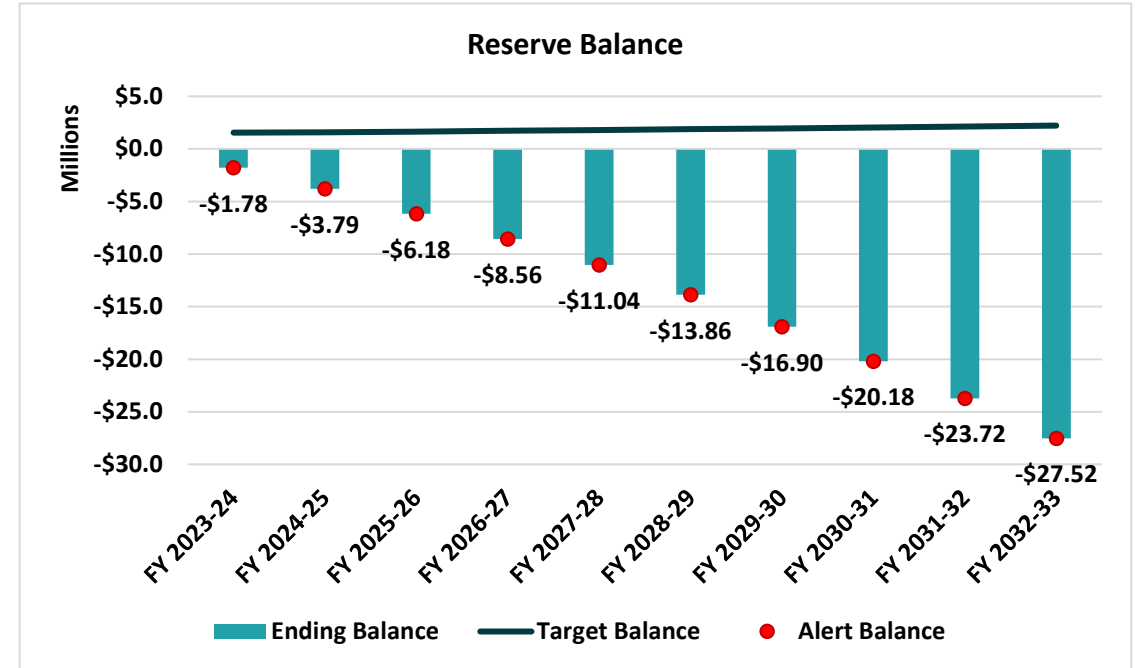
- Reserves
 - › Operations Reserve: 33% of annual O&M (approximately 4 months of expenses)
 - › Capital Reserve: Based on Emergency repair needs estimated at \$200,000
- Debt
 - › Current debt does not have a coverage requirement
 - › Future debt – no presumed new debt

Wastewater Financial Plan



Status Quo

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	0%	100%
January	FY 2024-25	0%	100%
January	FY 2025-26	0%	100%
January	FY 2026-27	0%	100%
January	FY 2027-28	0%	100%
January	FY 2028-29	0%	100%
January	FY 2029-30	0%	100%
January	FY 2030-31	0%	100%
January	FY 2031-32	0%	100%
January	FY 2032-33	0%	100%



Wastewater Financial Plan Projections

1) O&M Only Scenario:

- Allows currently in progress CIP for FY 2023-24; no other CIP beyond FY 2023-24
- Additional Staff are added in FY 2025-26
- 125% increase in FY 2023-24, no increases through FY 2032-33 (initial increases generates sufficient revenues over the 10-yr horizon)

2) Right The Ship Scenario:

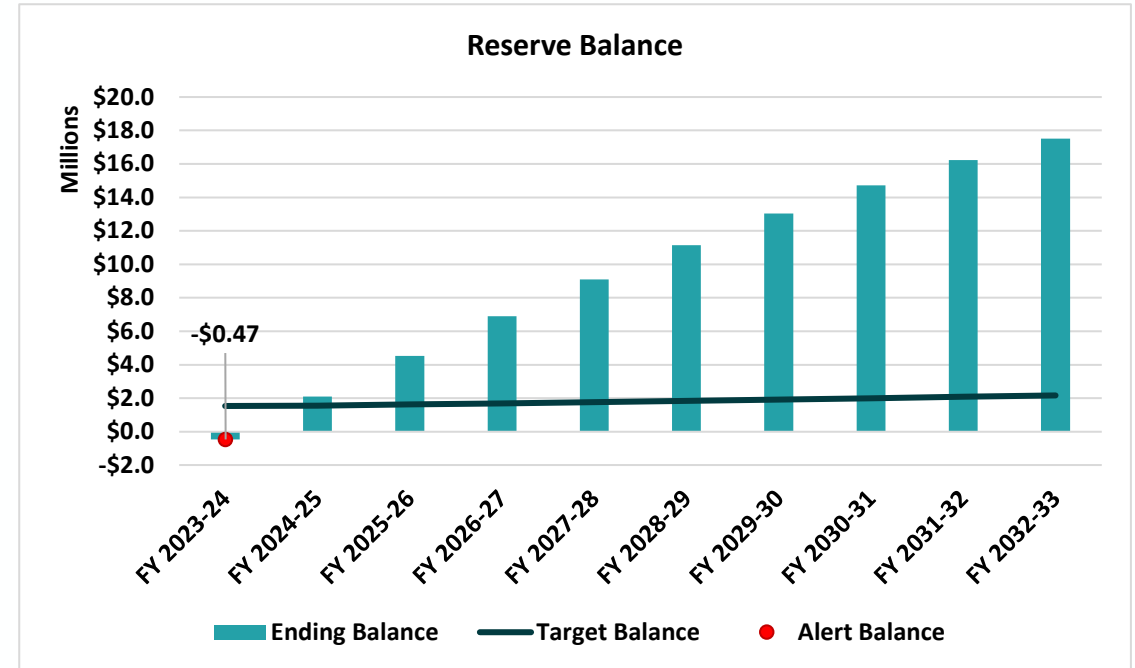
- Allows all currently planned CIP
- Additional Staff are added in FY 2025-26
- 175% adjustment in FY 2023-24, no future rate increases through FY 2032-33 (initial increases generates sufficient revenues over the 10-yr horizon)

3) CIP Phase-In Scenario:

- Allows currently in progress CIP for FY 2024; defers some CIP and ramps up spending Additional Staff are added in FY 2026
- 125% increase in FY 2024, no increases through FY 2032-33 (initial increases generates sufficient revenues over the 10-yr horizon)

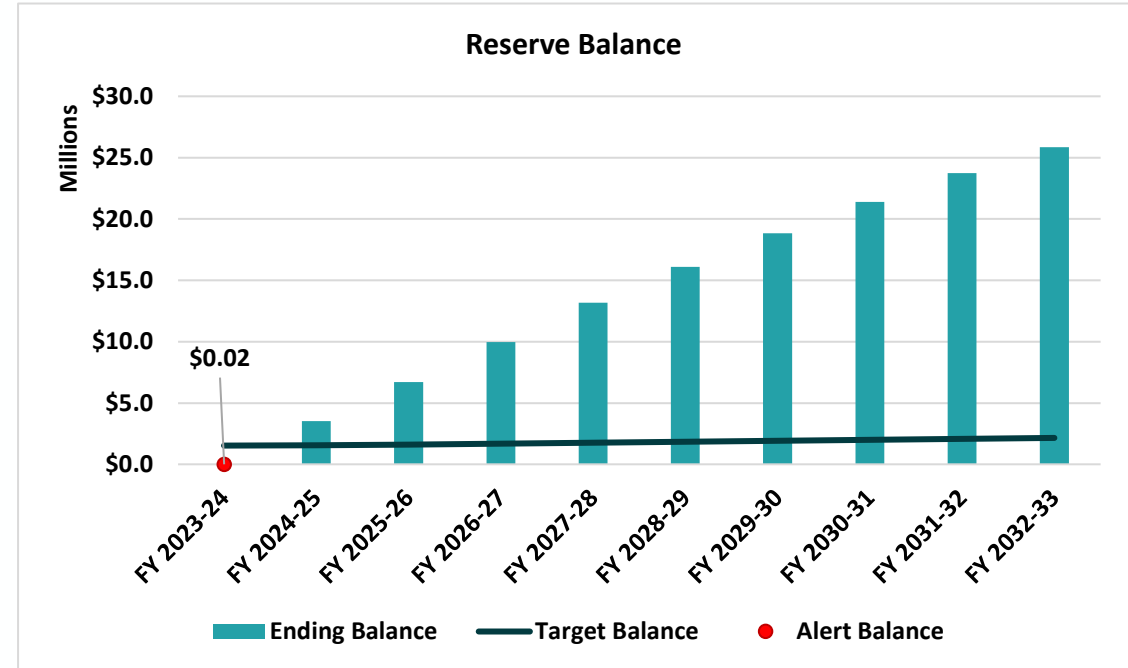
1) O&M Only

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	125%	96%
January	FY 2024-25	0%	0%
January	FY 2025-26	0%	0%
January	FY 2026-27	0%	0%
January	FY 2027-28	0%	0%
January	FY 2028-29	0%	0%
January	FY 2029-30	0%	0%
January	FY 2030-31	0%	0%
January	FY 2031-32	0%	0%
January	FY 2032-33	0%	0%



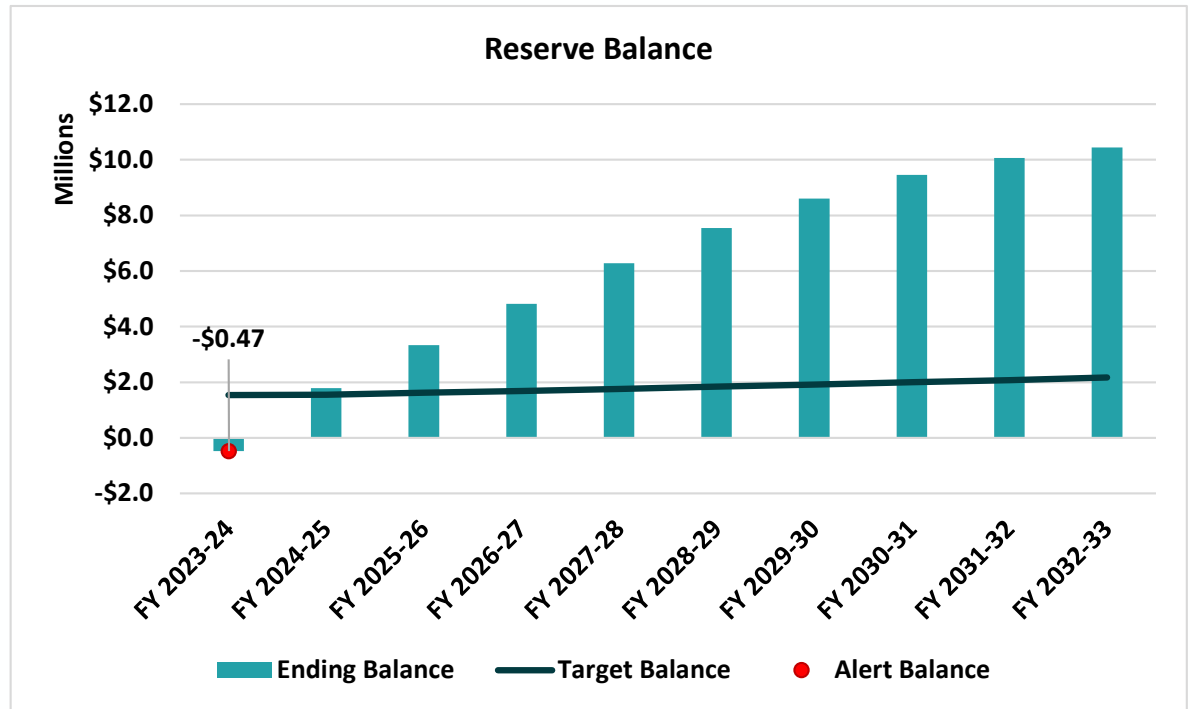
2) Right the Ship

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	175%	100%
January	FY 2024-25	0%	100%
January	FY 2025-26	0%	100%
January	FY 2026-27	0%	100%
January	FY 2027-28	0%	100%
January	FY 2028-29	0%	100%
January	FY 2029-30	0%	100%
January	FY 2030-31	0%	100%
January	FY 2031-32	0%	100%
January	FY 2032-33	0%	100%



3) CIP Phase-in

Month	Fiscal Year	Rate Adjustment	Proposed CIP Completion
March	FY 2023-24	125%	96%
January	FY 2024-25	0%	50%
January	FY 2025-26	0%	108%
January	FY 2026-27	0%	120%
January	FY 2027-28	0%	120%
January	FY 2028-29	0%	100%
January	FY 2029-30	0%	100%
January	FY 2030-31	0%	100%
January	FY 2031-32	0%	100%
January	FY 2032-33	0%	100%



Wastewater Financial Plan Scenario Summaries

- Revenue Adjustments Required (%)

Scenario	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Scenario 1: O&M Only	125.0%	0.0%	0.0%	0.0%	0.0%
Scenario 2: Right the Ship	175.0%	0.0%	0.0%	0.0%	0.0%
Scenario 3: CIP Phase-In	125.0%	0.0%	0.0%	0.0%	0.0%

- Percent of Planned CIP Completed

Scenario	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Scenario 1: O&M Only	96.0%	0.0%	0.0%	0.0%	0.0%
Scenario 2: Right the Ship	100.0%	100.0%	100.0%	100.0%	100.0%
Scenario 3: CIP Phase-In	96.0%	50.0%	108.0%	120.0%	120.0%

Schedule

Present Financial Plans to Council	Oct. 3, 2023
Present Initial Rates to Council	Nov. 7, 2023
City Council Meeting – Authorize Final Rate Proposal & Prop 218 Notice	Nov. 21, 2023
Notice Mailed to Customers	Dec. 6, 2023
Public Hearing on Rate Adoption	Feb. 6, 2024
New Rates Effective Date	Mar. 1, 2024



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.

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