

# BUILDING A WORLD OF DIFFERENCE

19 February 2013

## **WATER & WASTEWATER COST OF SERVICE STUDY**

REVENUE REQUIREMENTS: ASSUMPTIONS,  
CONSTRAINTS & SCENARIOS

INDEPENDENT RATES OVERSIGHT COMMITTEE



**BLACK & VEATCH**  
Building a world of difference.®

# AGENDA

**ASSUMPTIONS /  
MAIN DRIVERS**

**REVENUE REQUIREMENT  
COMPONENTS**

**DEBT FINANCING ASSUMPTIONS  
& CONSTRAINTS**

**QUESTIONS &  
DISCUSSION**

# WHERE WE ARE TODAY



**Drought hits California**

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**Recession affects all CA agencies**

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**Sustainable Water Supply Policy**

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**PUD streamlining**

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**PUD efficiency initiatives**

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**PUD considers IPR**

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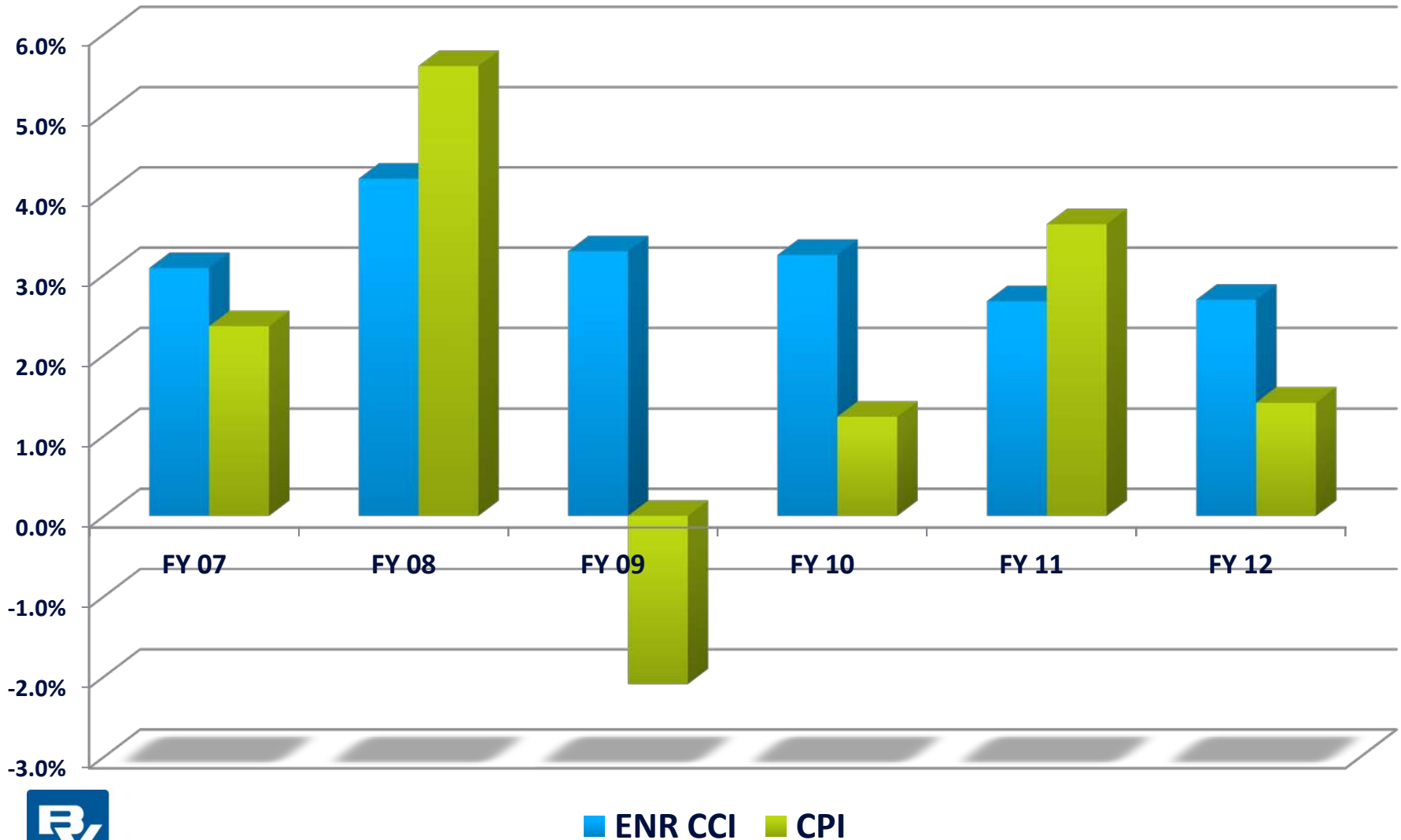
**CWA signs Desalination deal**



## 5 YEAR O&M / CIP ASSUMPTIONS

- **O&M:** Inflation factors based on City's 5-year Financial Outlook dated October 24, 2012
  - Personnel & Benefits @ 0.0%
  - Supplies & Contracts @ 1.0%
  - Energy & Utilities @ 5.0%
- **CIP:** Inflation factor based on Engineering News Record Construction Cost Index (ENR-CCI)
  - 5-year annual average @ 2.27%
  - Project Execution Constraints: Mandates, Master Plan prioritizations, maintenance and assessment of systems, available funding and resources for execution

# ENR/CPI INDICES



# PRIORITIZING PROJECTS

1. Complete all mandated (DPH, EPA) projects
2. Examine annual water and wastewater prioritization lists based on Council Policy and PUD sub-criteria
  - High Priority Projects: Health & safety, mandated, under construction & grant/loan funded projects
3. Implement water and wastewater main replacement projects
  - Reduce water main breaks and sewage spills to a minimum
  - Reduce unaccounted for water





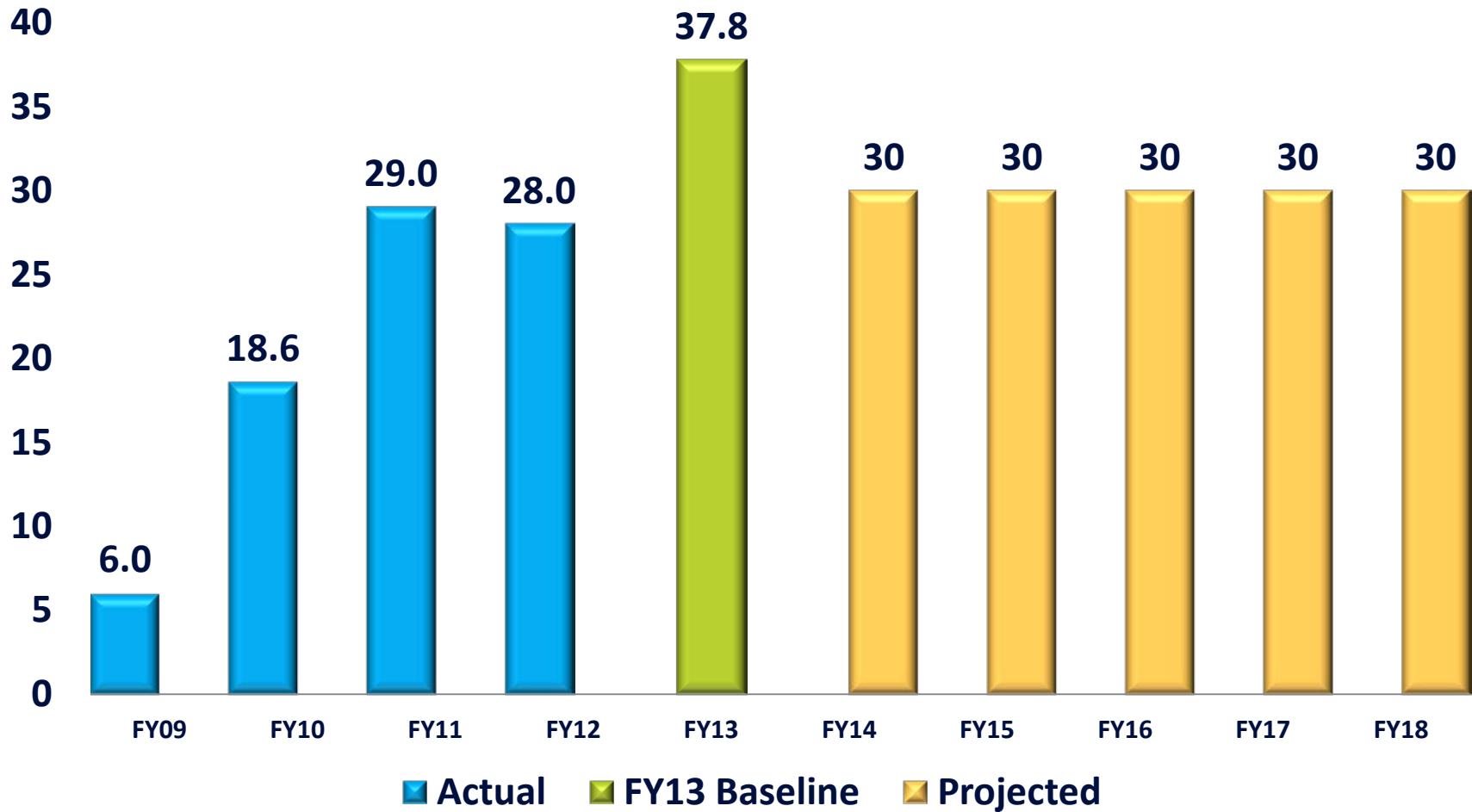
# COUNCIL PRIORITIZATION CRITERIA

Criteria	Weights
Health & Safety	25%
Regulatory/Mandated	25%
Implication of Deferring Project	15%
Recurring Costs or Increased Longevity	10%
Community Investment	10%
Agreement w/ General/Community Plans	5%
Project Cost & Grant Opportunities	5%
Project Readiness	5%



**8 Council Criteria, 25 PUD Sub-criteria**

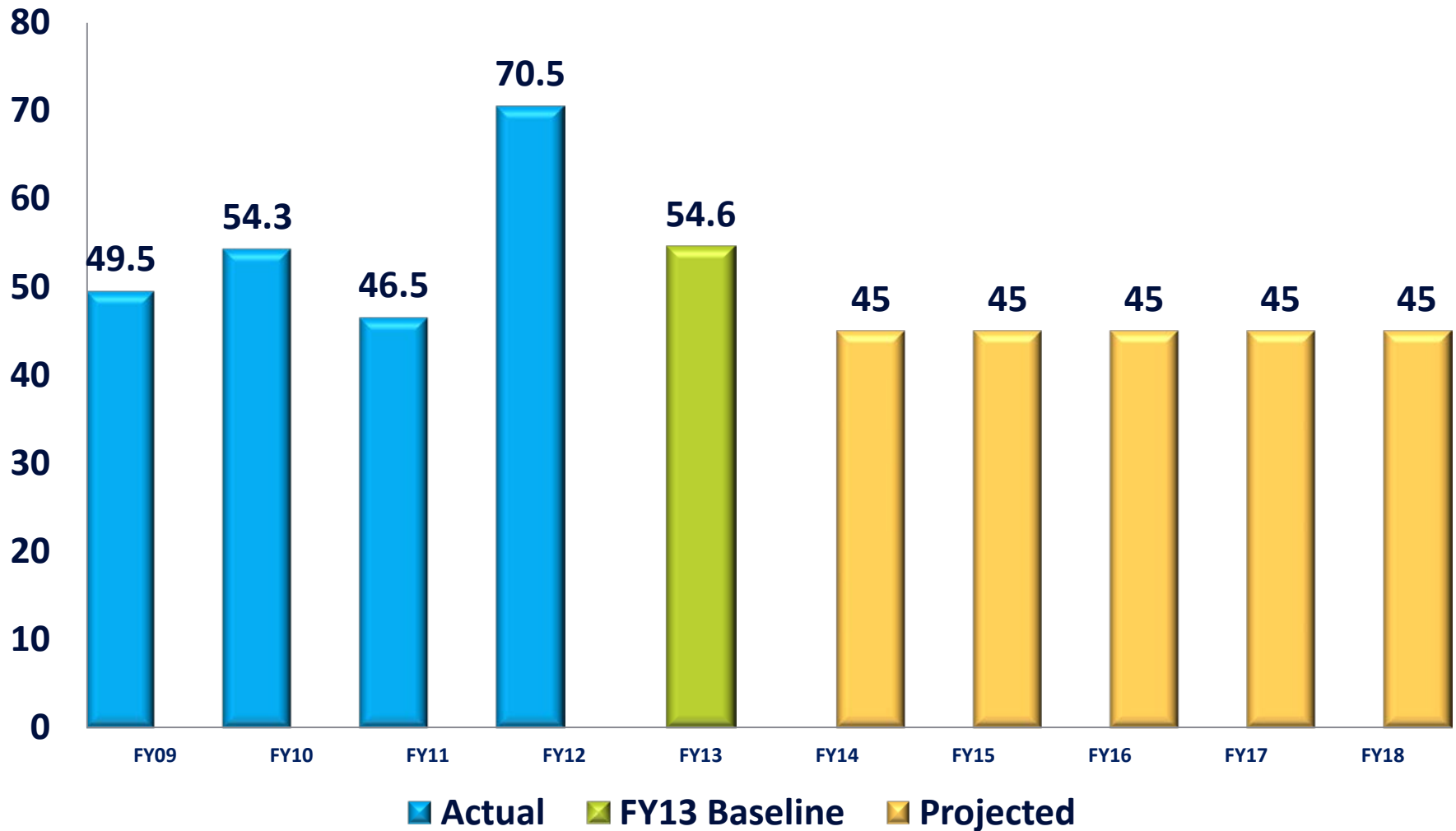
# WATER REPLACEMENT MILEAGE



Typical benchmark is 1% replacement/yr



# WASTEWATER MILEAGE (W. R&R & POINT REPAIR)

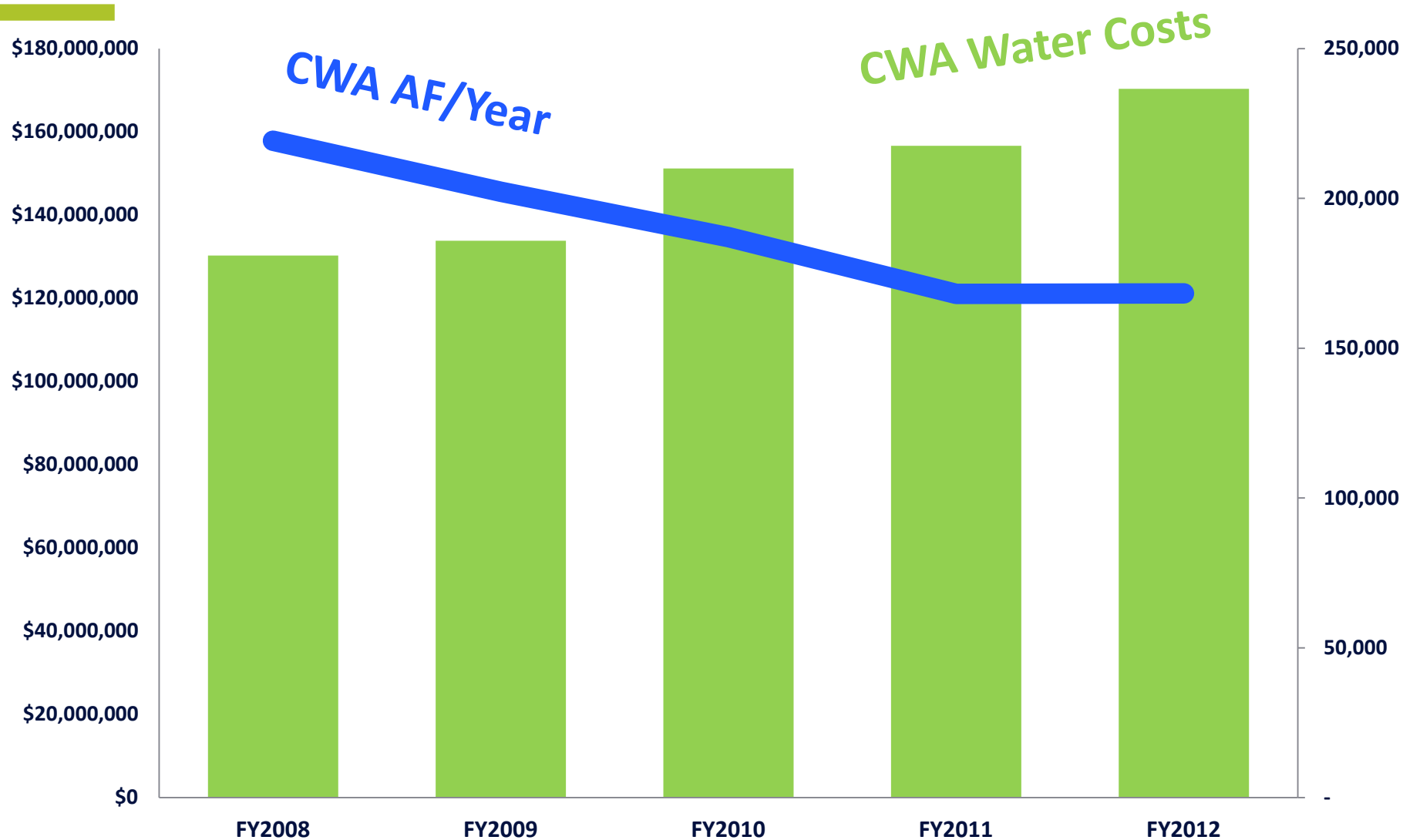




# WATER PURCHASE ASSUMPTIONS

- **Projected local draft of 20,000 AF in FY14 – FY18**
- **Purchases: 89% untreated, 11% treated**
- **CWA pass-through**
  - MWD has approved rate increases for CY14 (also affects RTS, Capacity Charge & Treated Surcharge)
  - CWA has advised PUD that CWA CY14 charges may be in the 5% - 9% range
  - If future increases absorbed, total CY12 – CY14 deficit would impact reserve levels and financial ratios

# FY08 – FY12 WATER PURCHASES – AF & COST



■ Annual CWA Water Purchase Costs

— Amount of Purchased Water (AF/yr)

# CUSTOMER ACCOUNT & USAGE GROWTH:

## WATER

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Customer Connections</b>					
Single Family	0.00%	0.00%	0.50%	0.50%	0.50%
Multi Family	0.00%	0.00%	2.00%	2.00%	2.00%
Commercial, Industrial & Outside City	0.00%	0.00%	0.50%	0.50%	0.50%
Construction	0.00%	0.00%	0.20%	0.20%	0.20%
Irrigation	0.00%	0.00%	0.75%	0.75%	0.75%
Cal American	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Usage (HCF)</b>					
Single Family	0.00%	0.00%	0.50%	0.50%	0.50%
Multi Family	0.00%	0.00%	1.00%	1.00%	1.00%
Commercial, Industrial & Outside City	0.00%	0.00%	1.00%	1.00%	1.00%
Construction	0.00%	0.00%	0.50%	0.50%	0.50%
Irrigation	0.00%	0.00%	1.40%	1.40%	1.40%
Cal American	0.00%	0.00%	1.00%	1.00%	1.00%



# CUSTOMER ACCOUNT & FLOW GROWTH:

## WASTEWATER

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Customer Connections</b>					
Single Family	0.00%	0.00%	0.50%	0.50%	0.50%
Multi Family	0.00%	0.00%	2.00%	2.00%	2.00%
Commercial	0.00%	0.00%	0.50%	0.50%	0.50%
Industrial	0.00%	0.00%	0.50%	0.50%	0.50%
<b>Usage (HCF)</b>					
Single Family	0.00%	0.00%	0.64%	1.07%	1.05%
Multi Family	0.00%	0.00%	0.55%	1.10%	1.09%
Commercial	0.00%	0.00%	5.88%	0.00%	0.00%
Industrial	0.00%	0.00%	0.00%	1.69%	1.67%

# FINANCING ASSUMPTIONS

- **Grants: None over forecast period**
- **Guideline of 80% Bonds / 20% Cash Financing (PAYGO)**
- **SRF Loans (executed agreements only)**

## Wastewater

- \$117.3M in SRF revenues (FY13 - FY16)
- Annual Debt Service ranges from \$6.1M in FY13 to \$14.1M in FY18

## Water

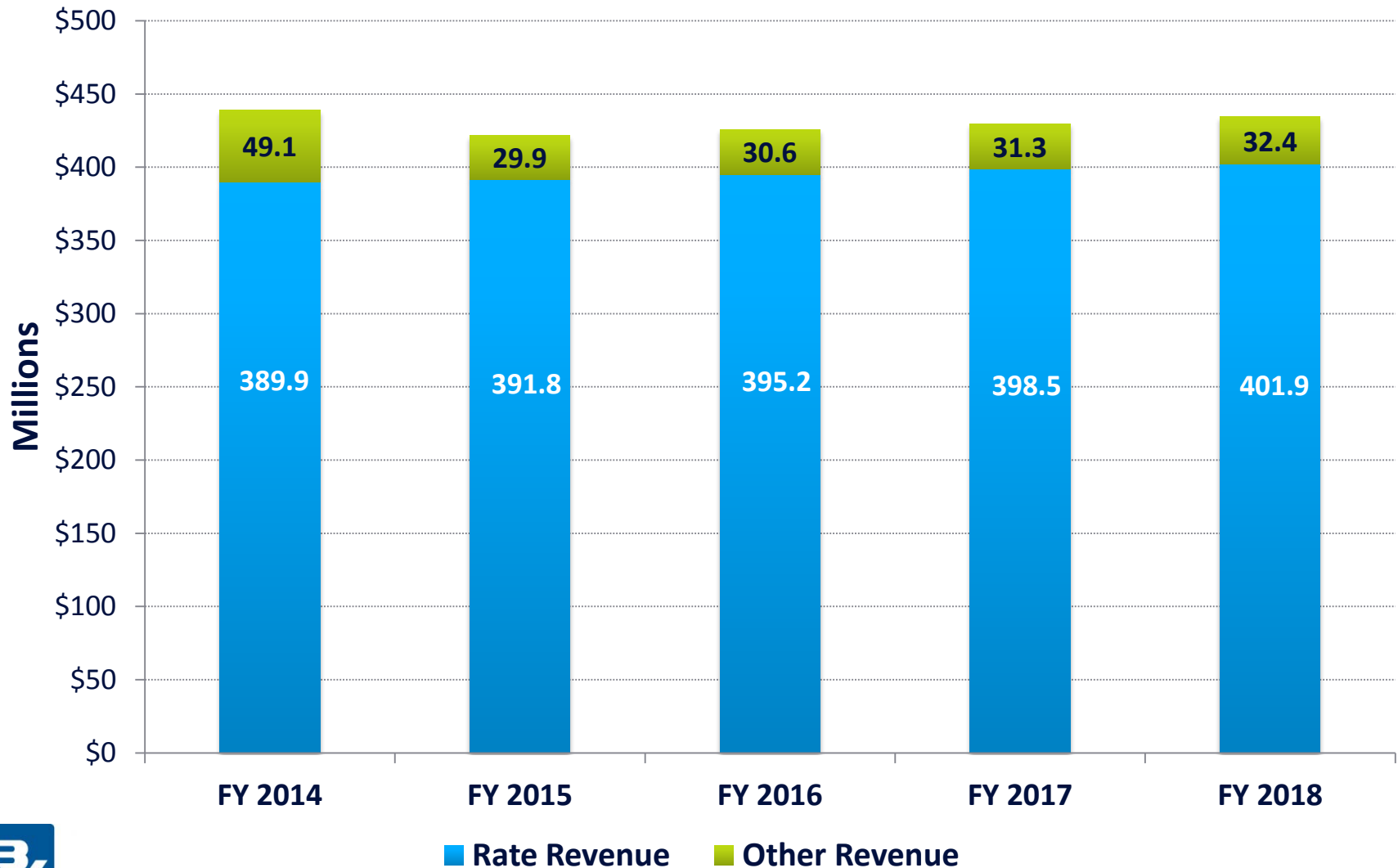
- \$17.5M in SRF revenues (FY13 – FY14)
- Annual Debt Service ranges from \$4.5M in FY13 to \$5.6M in FY15



# REVENUE REQUIREMENT COMPONENTS

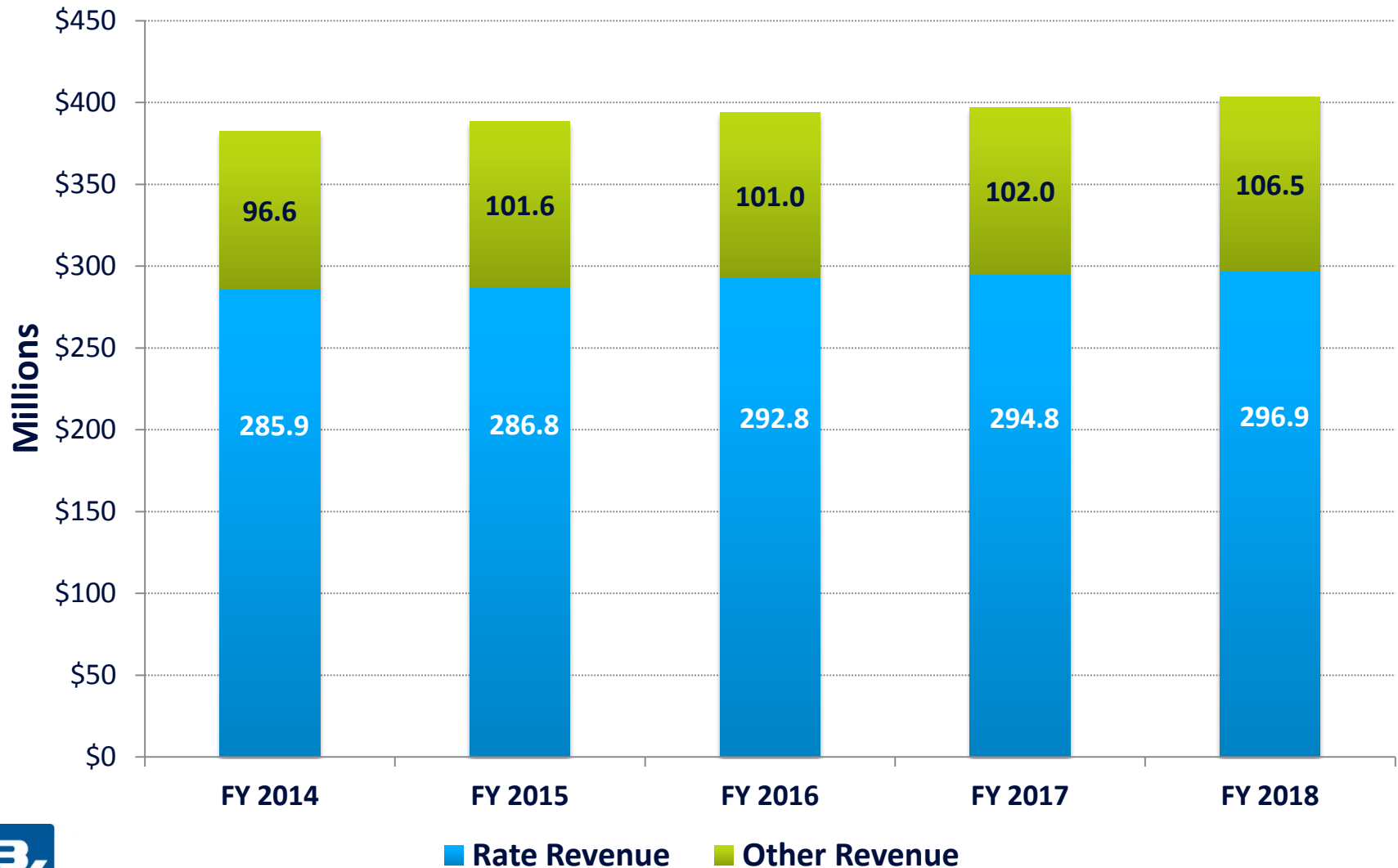


# WATER REVENUES FY14 – FY18

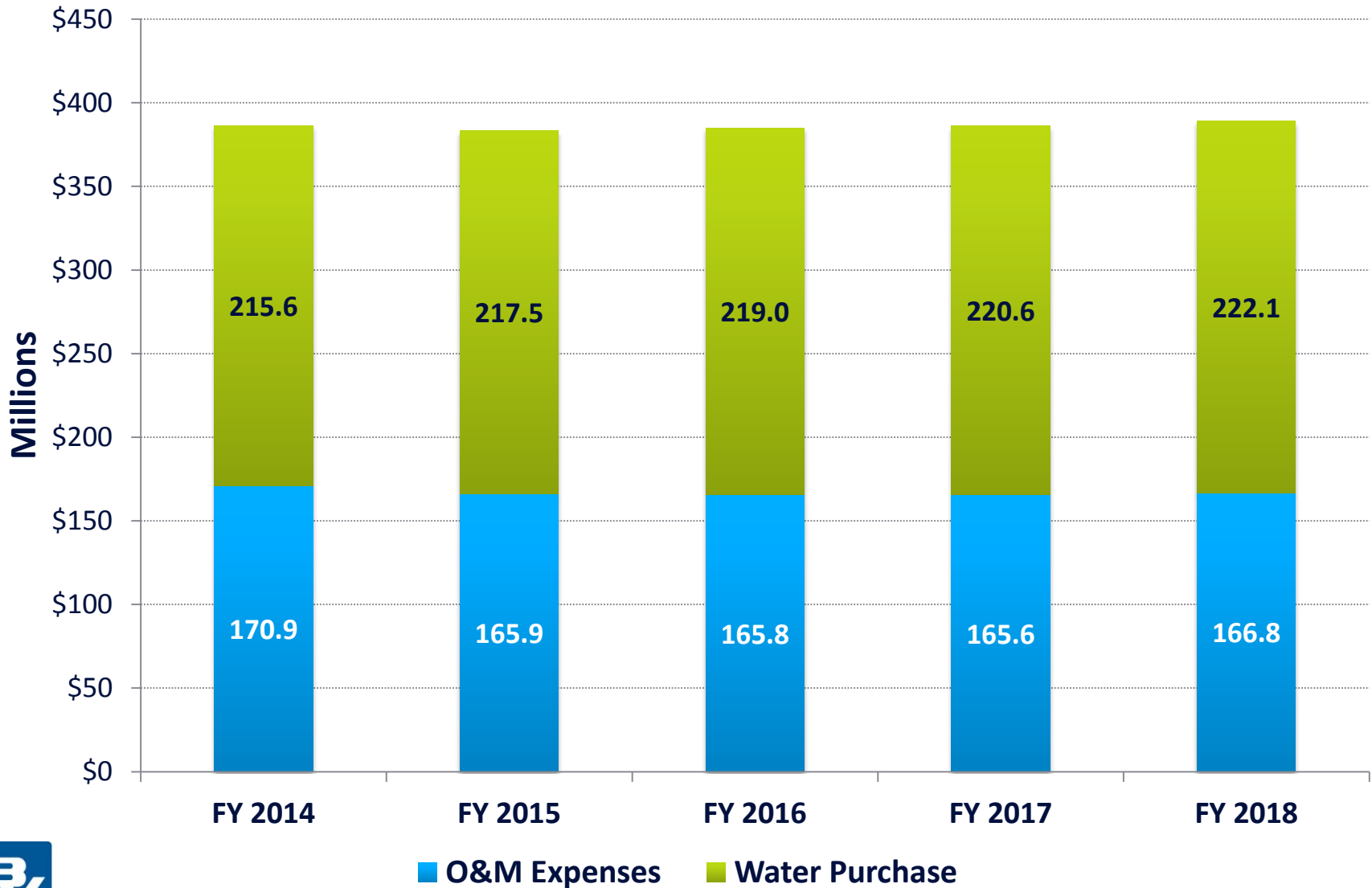




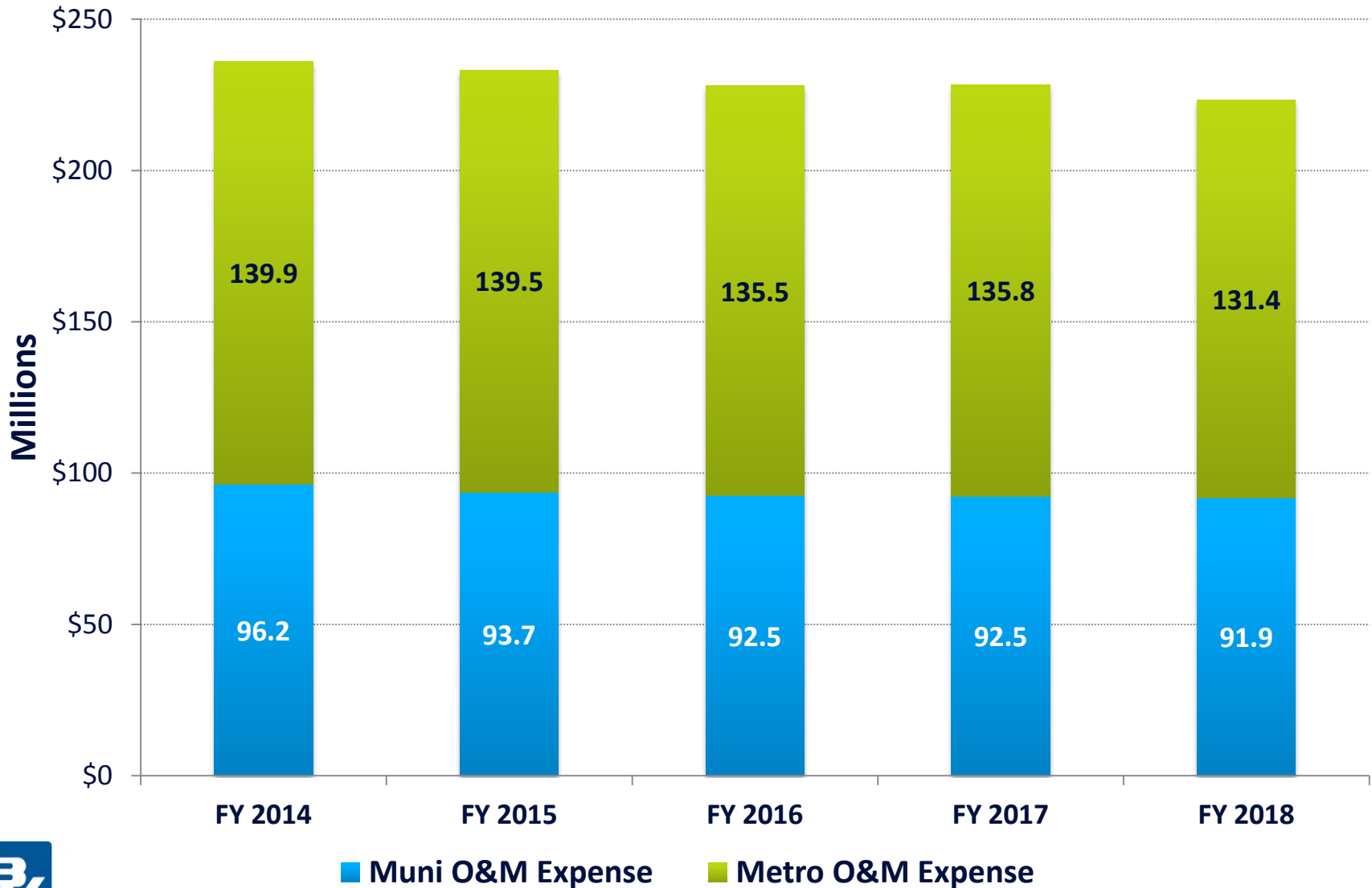
# WASTEWATER REVENUES FY14 – FY18



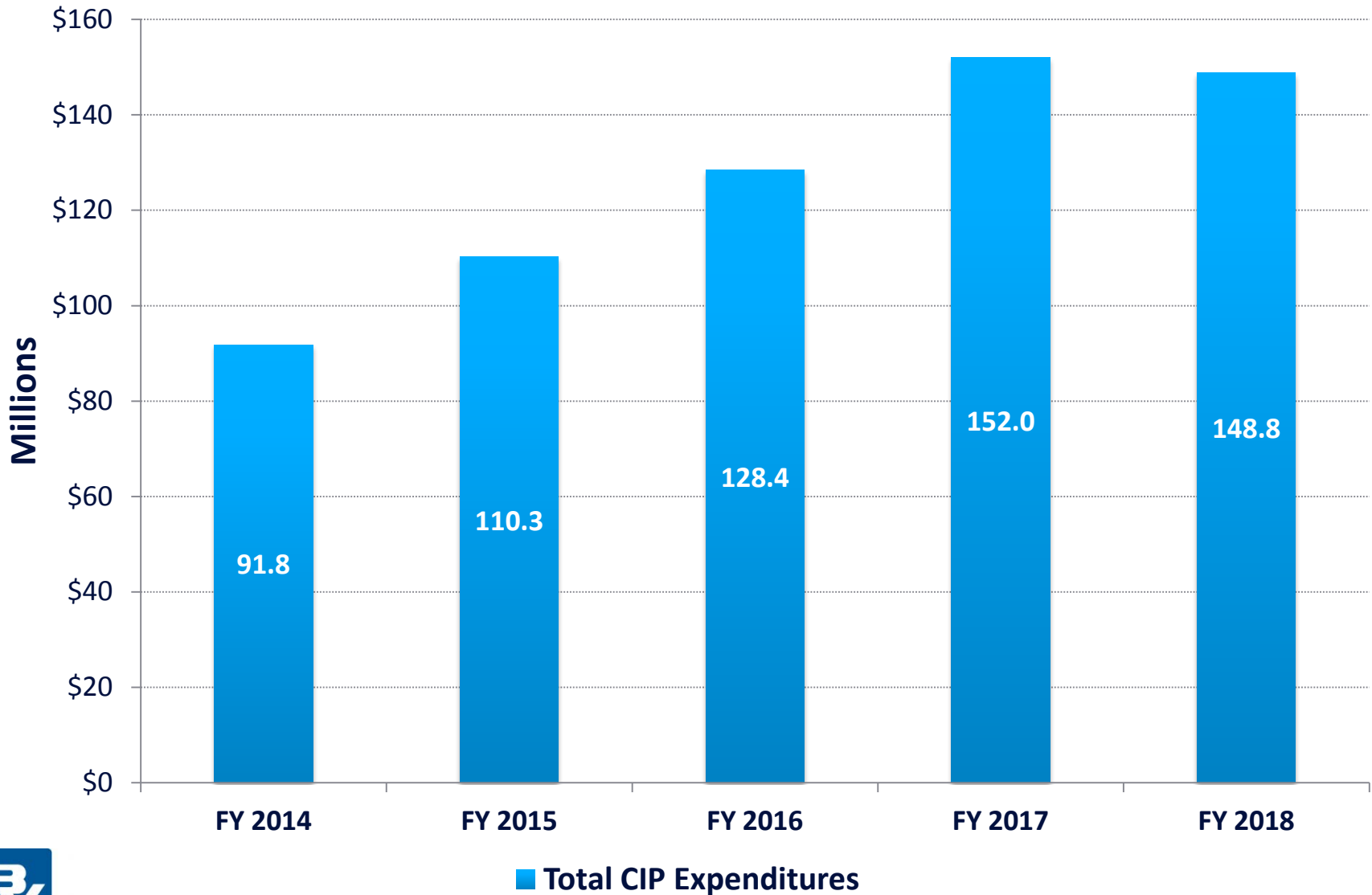
# WATER O&M FY14 – FY18



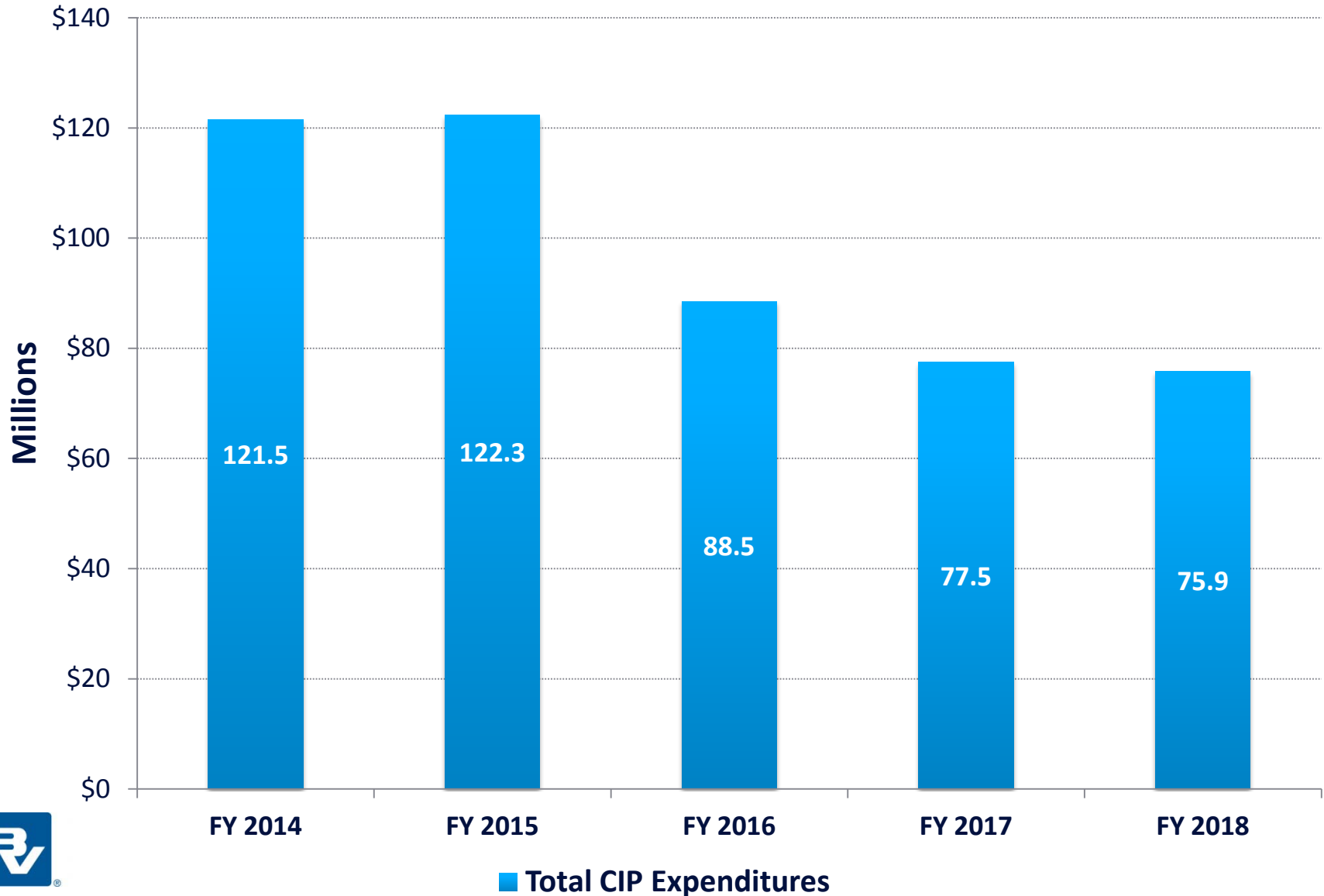
# WASTEWATER O&M FY14 – FY18



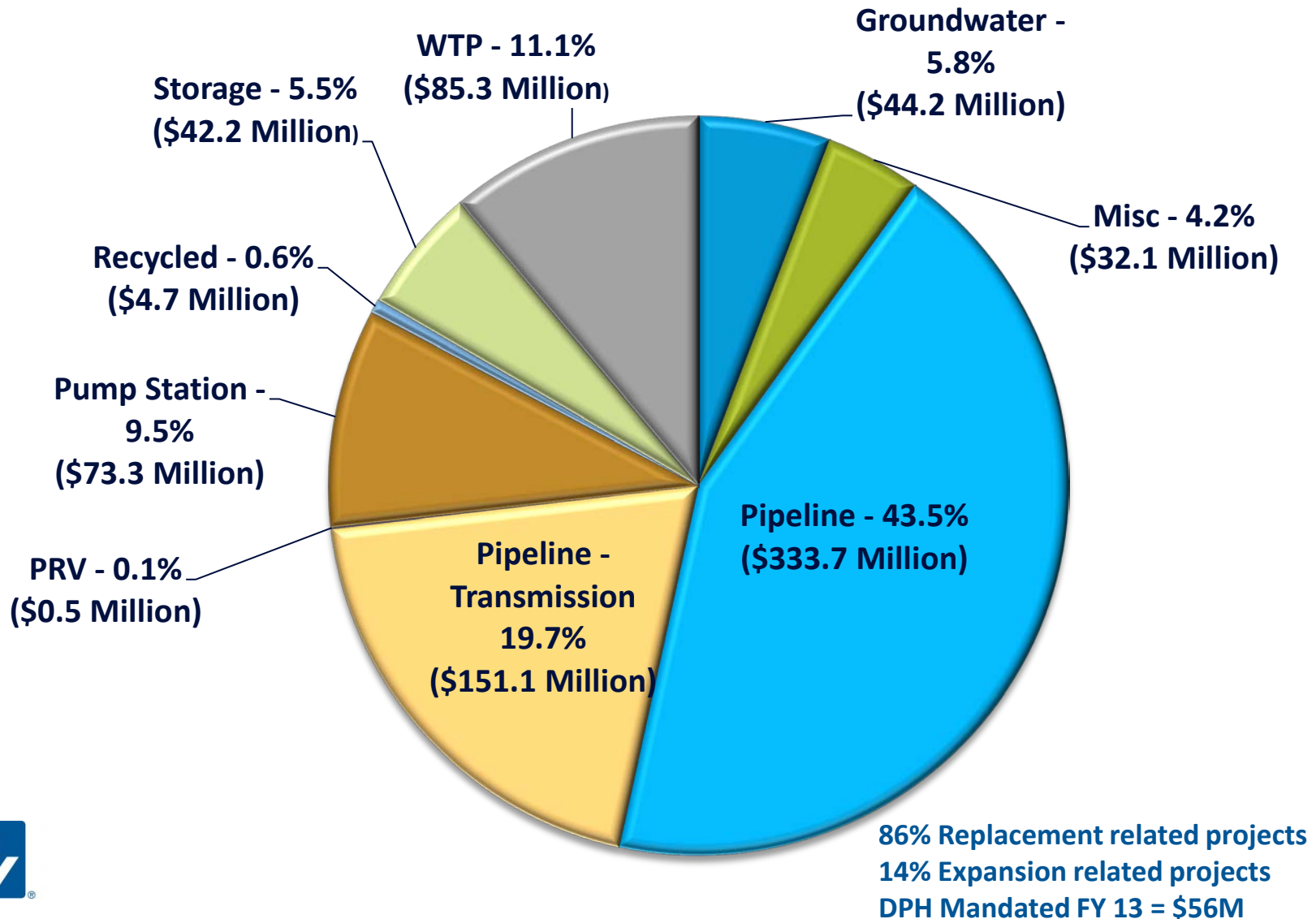
# PROJECTED WATER CIP BUDGET FY14 – FY18



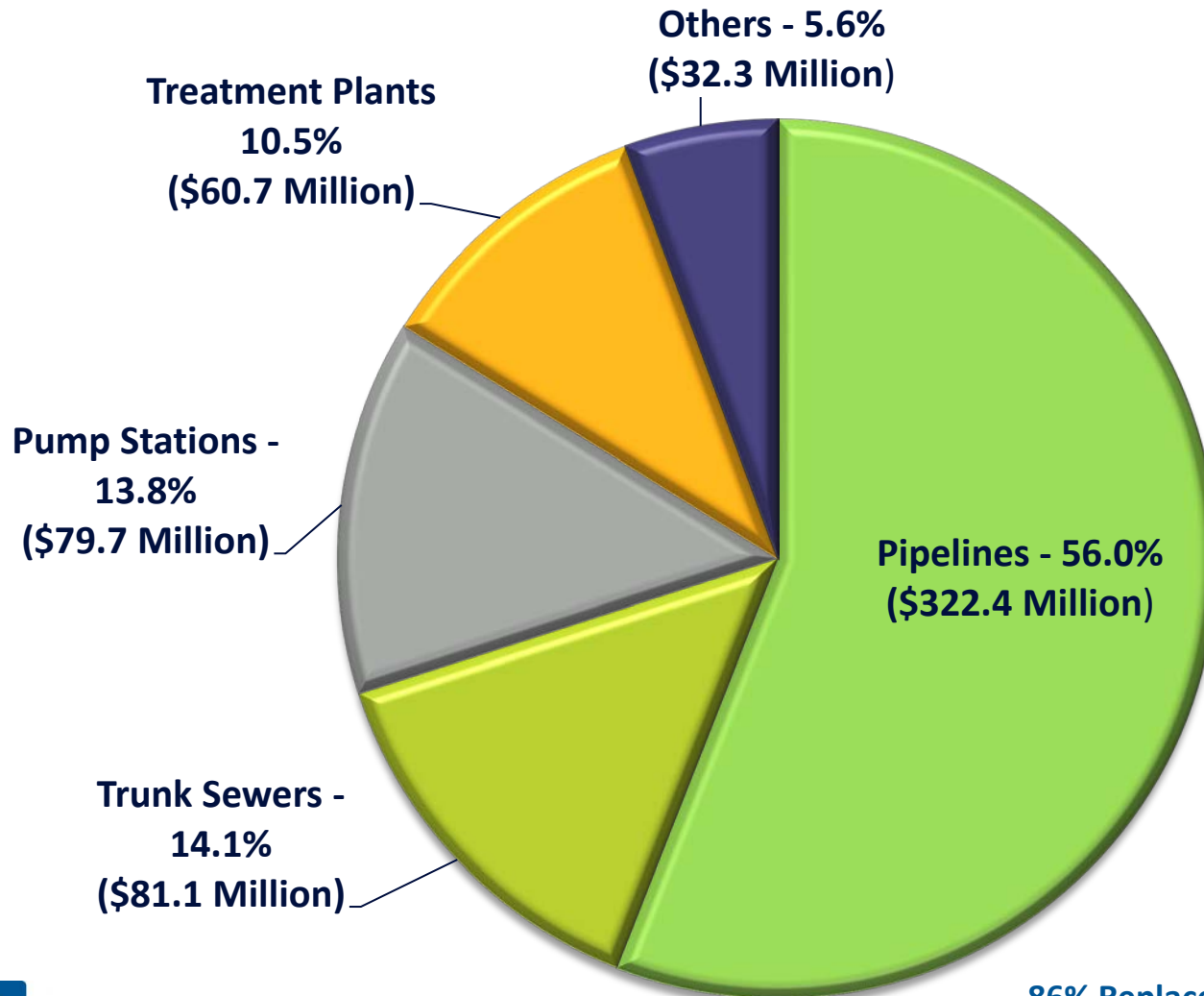
# PROJECTED WASTEWATER CIP BUDGET FY14 – FY18



# FY14 – FY18 WATER CIP PROJECTED EXPENDITURES

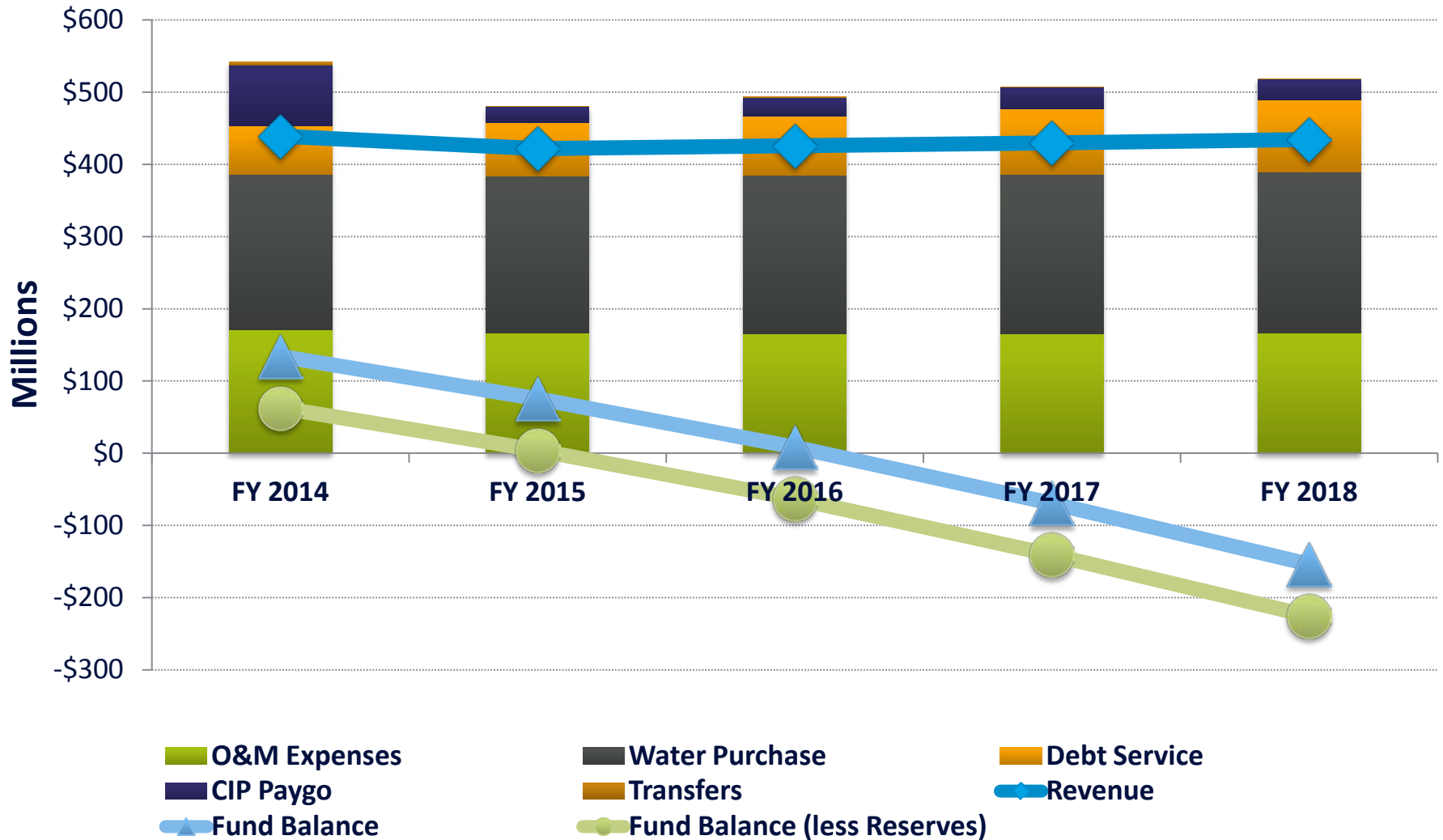


# FY14 – FY18 WASTEWATER CIP PROJECTED EXPENDITURES



86% Replacement related projects  
14% Expansion related projects  
EPA Mandated in FY 13 = \$42M

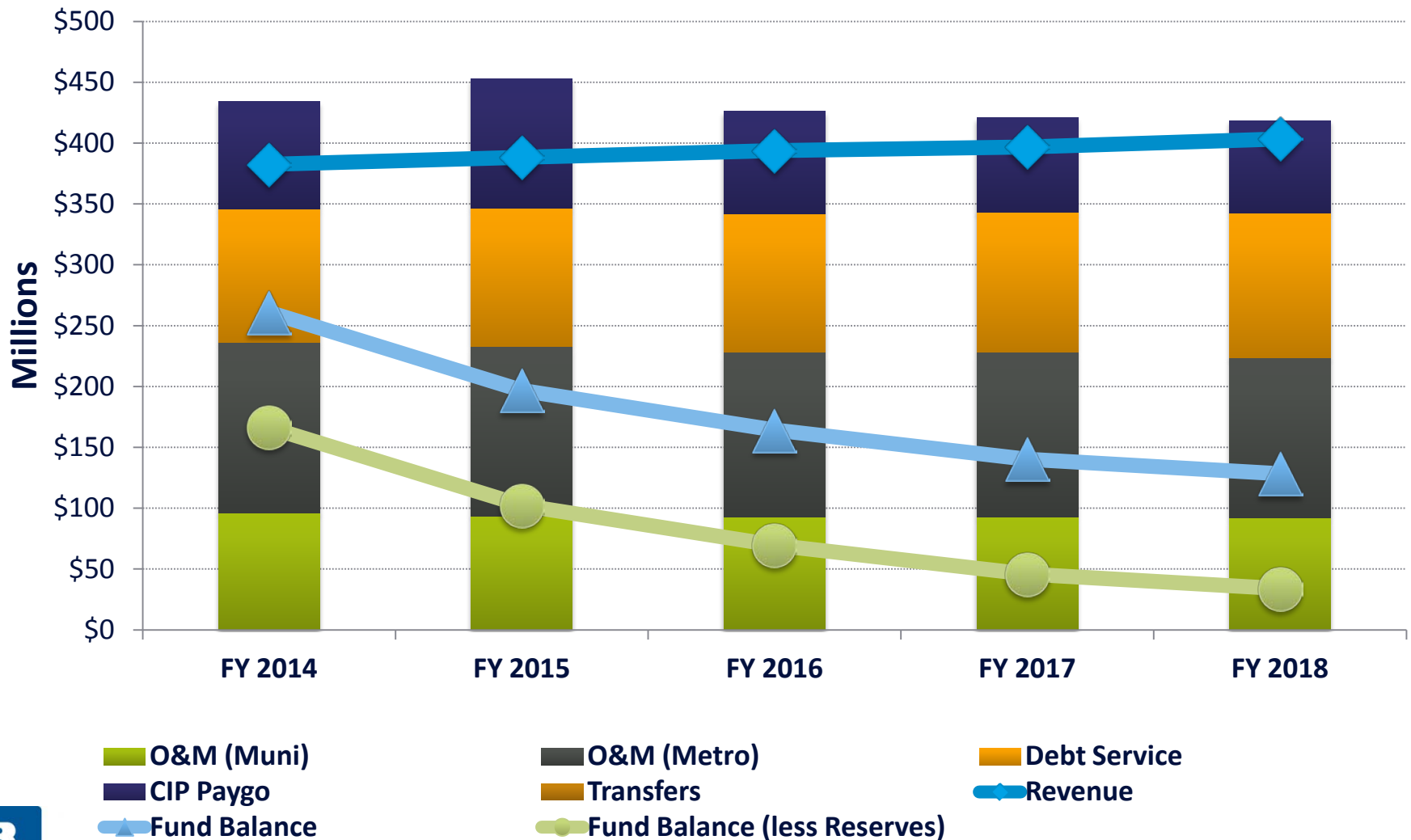
# FY14 – FY18 REVENUES & REVENUE REQUIREMENTS: WATER



\*Revenue requirements do not include future CWA increases



# FY14 – FY18 REVENUES & REVENUE REQUIREMENTS: WASTEWATER



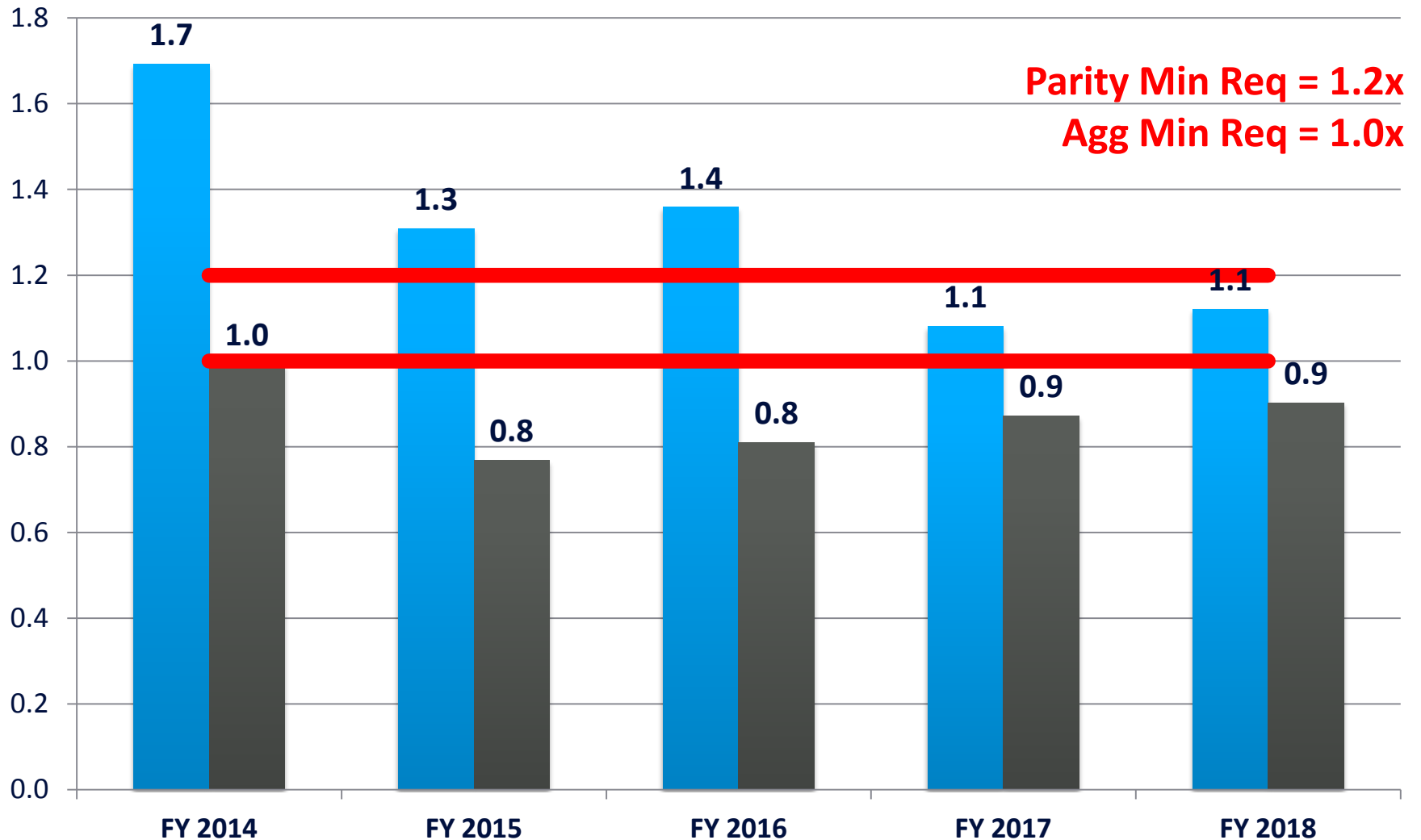


## DEBT FINANCING CONSTRAINTS

- **City re-entered bond market in 2009 – maintaining good ratings critical**
- **Covenants in each existing Installment Agreement and SRF Loan agreement**
  - If covenants violated, technical default or full default could occur
  - Future bonding could become more expensive
- **Debt Coverage Ratios and Liquidity two of the more important metrics**

# WATER DEBT SERVICE COVERAGE

## FY14 – FY18



Parity DSC

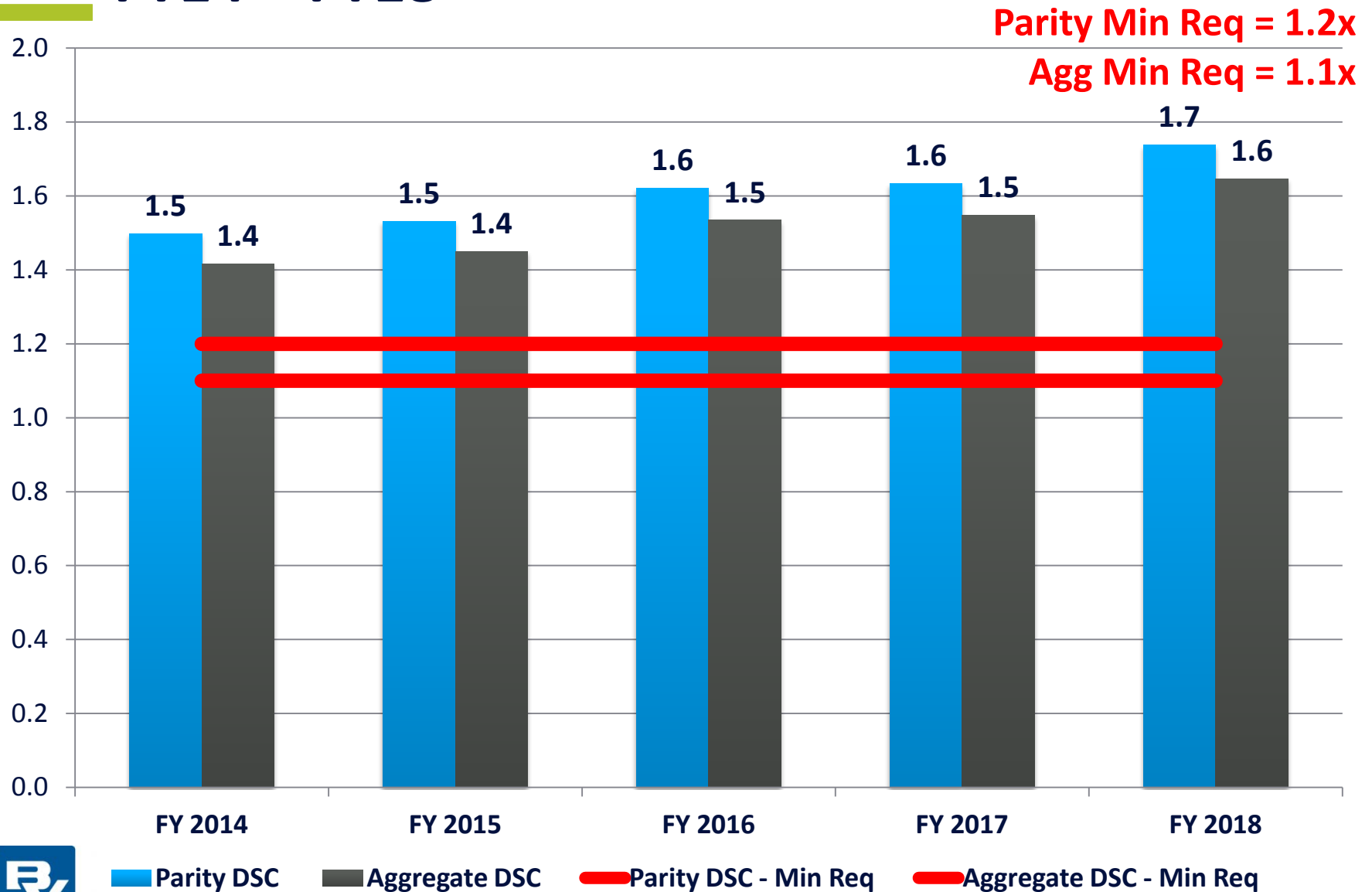
Aggregate DSC

Parity DSC - Min Req

Aggregate DSC - Min Req

# WASTEWATER DEBT SERVICE COVERAGE

## FY14 – FY18





## **EXCLUDED FROM THIS COS ANALYSIS**

- **Cost of desalination**
- **Secondary treatment at Pt Loma**
- **AMI Costs beyond those authorized by R-307885**
- **IPR**
- **Recycled water pricing study**
- **Water allocation budget structure**

# QUESTIONS