



Soquel Creek Water District

Board of Directors
Financial Plan Examples

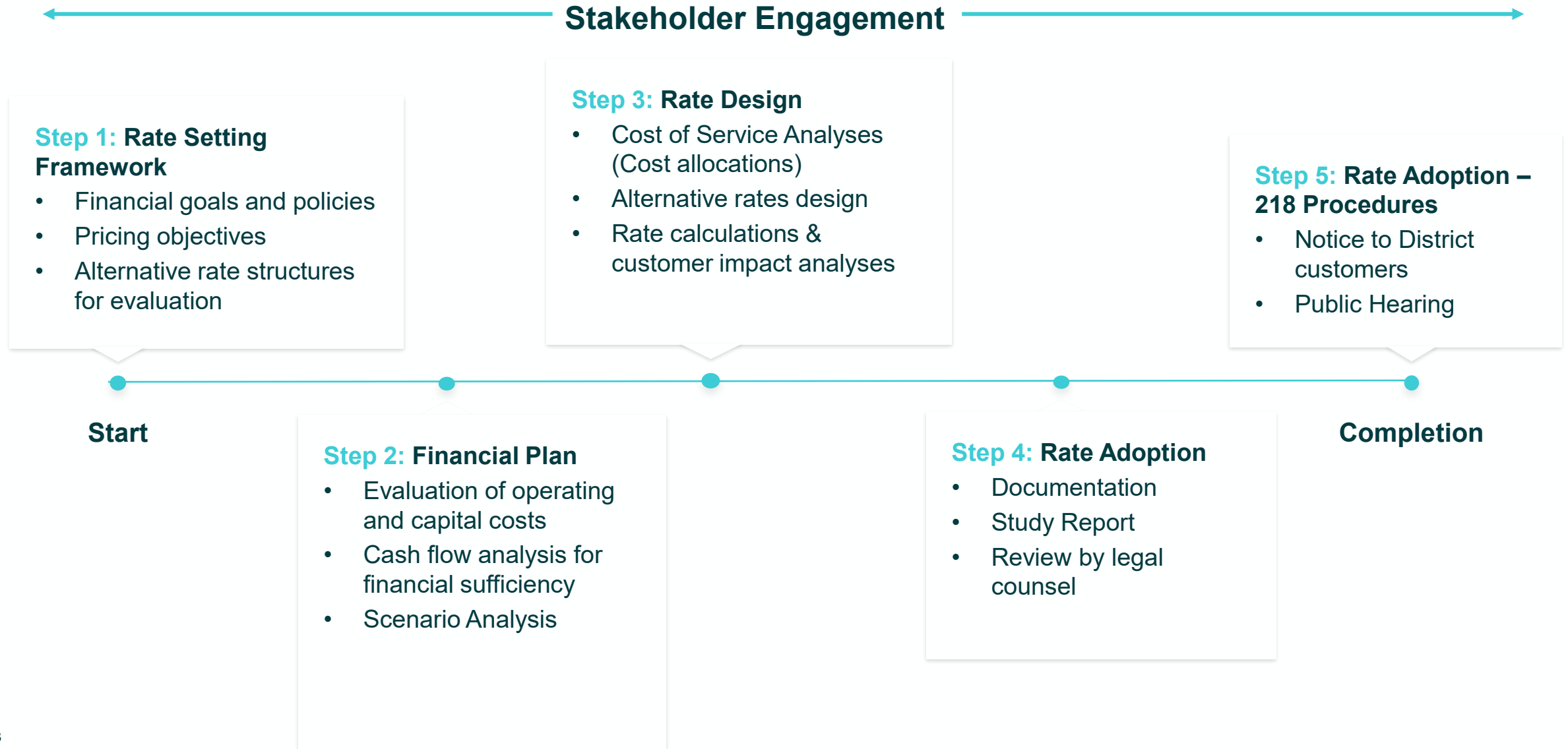
October 17, 2023

Presentation Format

- Utility Financial Planning
 - › Key assumptions and model inputs
 - › Presentation of results (financial plan examples)
- Rate Design Discussion
- Rate Study Schedule

- Public Outreach

Rate Study Process



Long-Range Financial Plan



Financial Nature of a Water Utility

Properties of Utility System

- Capital intensive
- Highly fluctuating capital cost
- Unknown liability
- Increasing regulatory demand

Acceptance of Rates

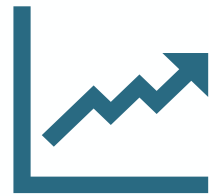
- Rate stability
- Affordability
- Equity
- Environmental stewardship

Soquel Creek Water District – Policy and Pricing Objectives

Key Priorities

- Financial Sustainability:
 - › Reduce risk through reserves and conservative cost and water use estimates
 - › Relatively high degree of fixed revenue recovery
- Social Equitability:
 - › Fairness in capital re-investment
 - › Fairness in rates
- Legal Defensibility:
 - › Well documented financial policies and programs
 - › Straightforward cost allocations and rate rationale

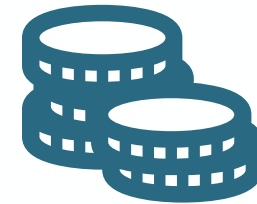
Long-Range Financial Plan Drivers



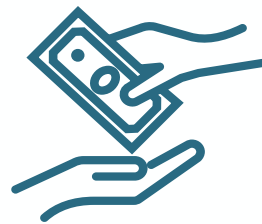
Inflationary Pressures



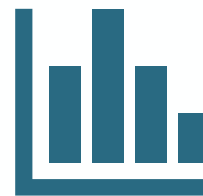
Supply Sources and Costs



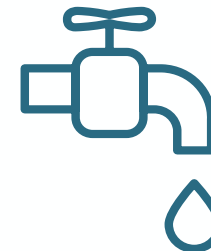
Cash Reserves



Future Borrowing Terms and Assumptions

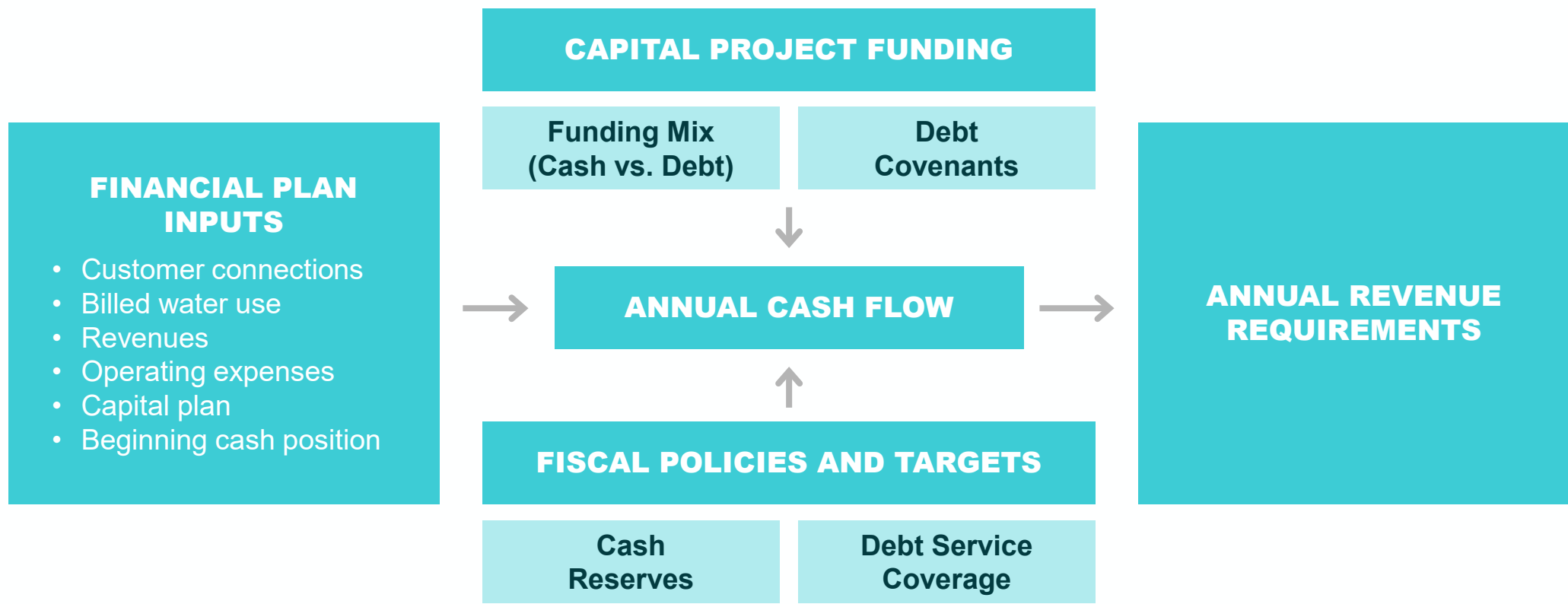


Baseline Water Sales Estimates



Capital Reinvestment

Financial Plan Elements



Financial Health Indicators

Cash Reserves

- Operating Reserve – results from positive cash flow
- Capital Reserve – can award contracts quickly and speed up projects if necessary
- Rate Stabilization – funds used during periods of revenue shortages (i.e., drought)
- Emergency – funds available in case of asset failure or natural disaster

Debt Coverage Ratio

- Exceed Official Statement requirements
- Achieve/maintain debt coverage policy targets
- Achieve/maintain good credit ratings
- If there is no debt, what is the utility's debt capacity?

Model Assumptions

- No account growth or change in water demand for the planning period
- Demand projected at 2,600 AF (lower baseline than prior study)
- Cost escalation assumptions higher for FY 2025 and FY 2026 to account for recent increases in inflation
- Pure Water Soquel (PWS) capital repayment begins in FY 2030
- PWS O&M begins next fiscal year (pre-funding this year)
- Capital Improvement Program (CIP) projected at \$6.5 M on average each year for the next five years
- Targeting existing reserves policies (no changes)
 - › 40% O&M, \$2 million rate stabilization, and one year of debt service
 - › Minimum debt service coverage ratio (DSCR) of 120% and target of 170%

Financial Plan Examples



Financial Plan Examples

Example 1:

- 2,600 acre-feet (AF) annual water demand
- 10% adjustments from fiscal year (FY) 2024-2033
- No new debt for capital projects (excluding PWS)
- Reserves drawn down to only Operating Reserve levels before rebuilding to target

Example 2:

- 2,600 AF demand
- 25% adjustment FY 2024 and 7.5% FY 2025 and beyond
- No new debt for capital projects
- Achieves reserve target in most years
- Improves debt coverage in all years relative to Scenario 1

Example 3:

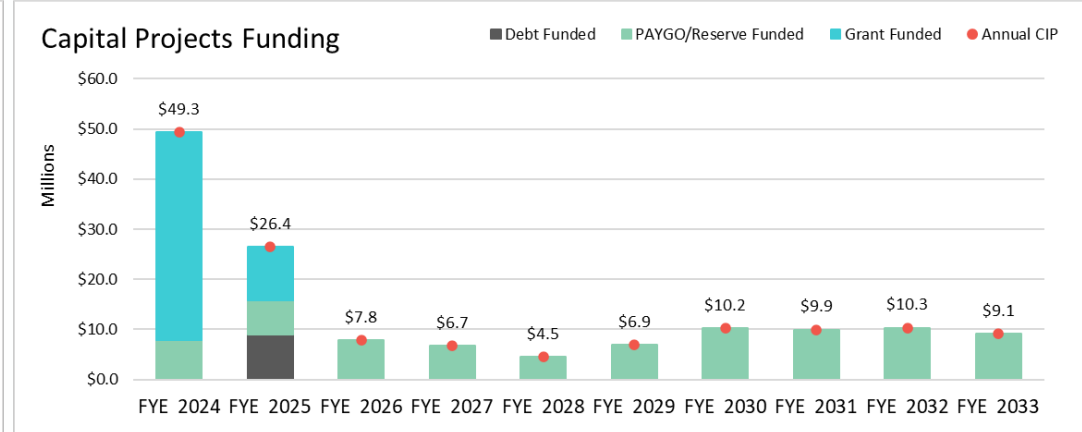
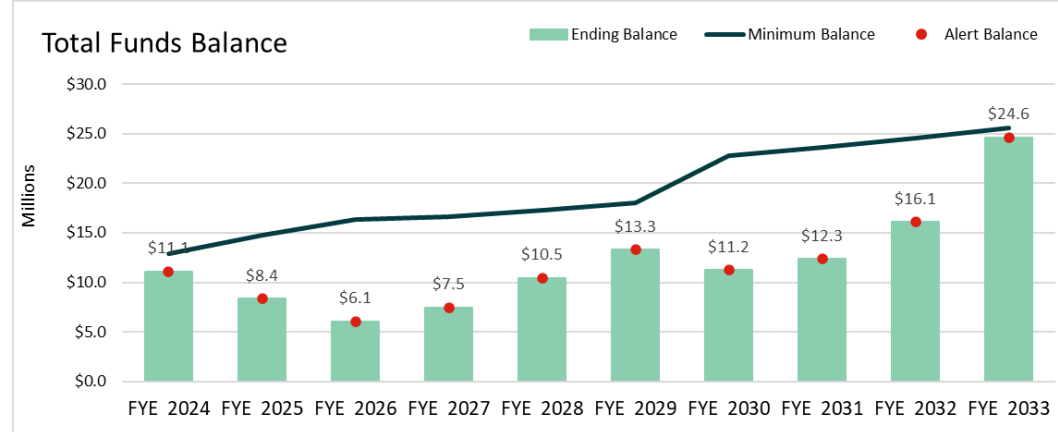
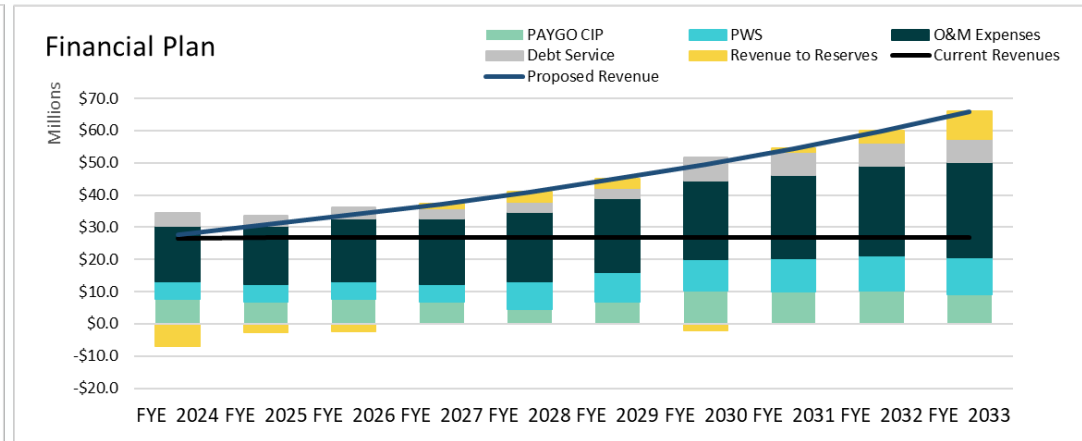
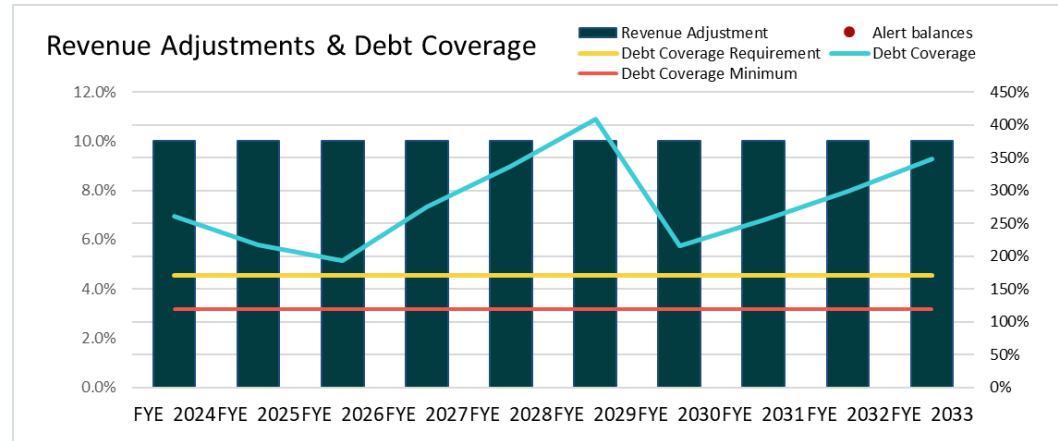
- 2,600 AF demand
- 12% adjustments FY 2024-2028 and 5% adjustments in FY 2029 and beyond
- No new debt for capital projects
- More modest increase in the first year, compared to Scenario 2

What-If Example 4:

- 2,900 AF demand
- Demand matches projections from previous study
- 8.5% adjustments FY 2024 through FY 2033
- No new debt for capital projects
- “What-if” scenario to compare apples-to-apples with prior study

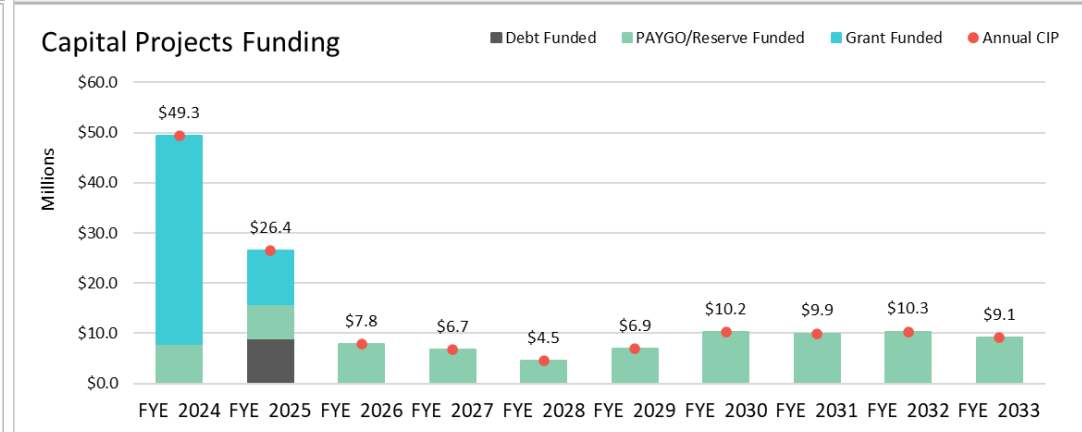
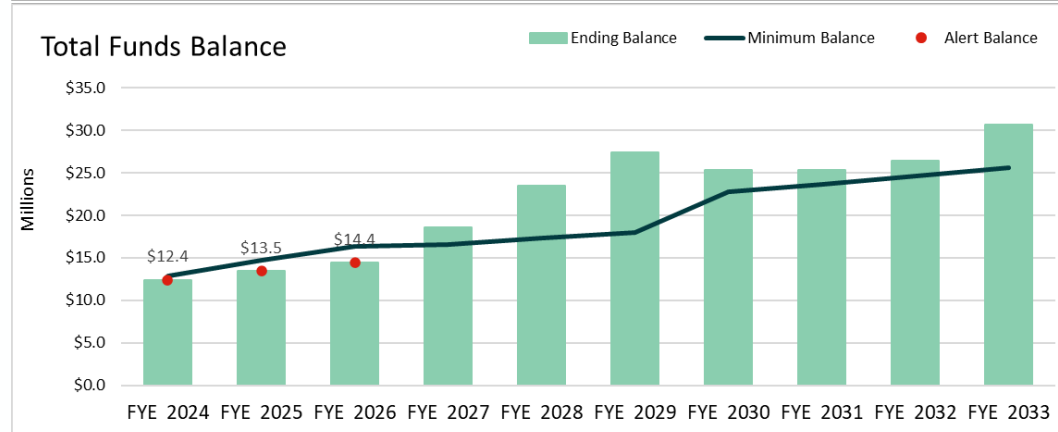
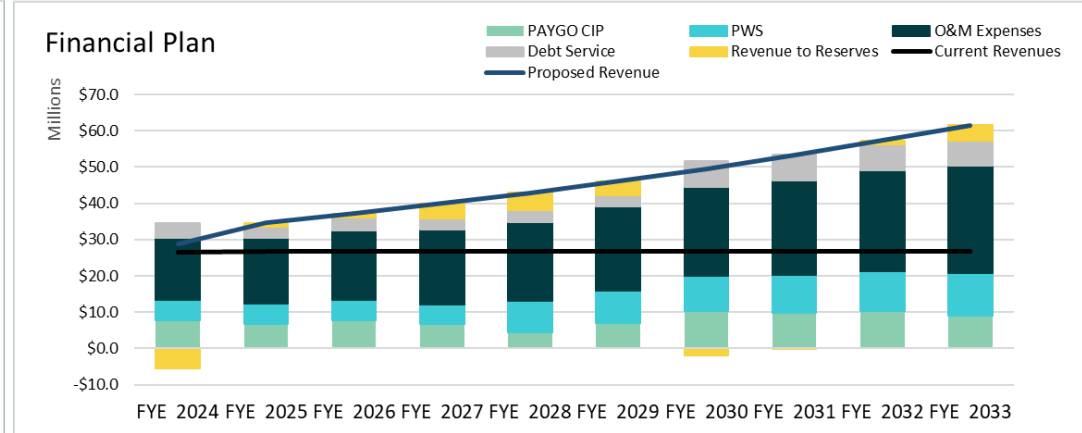
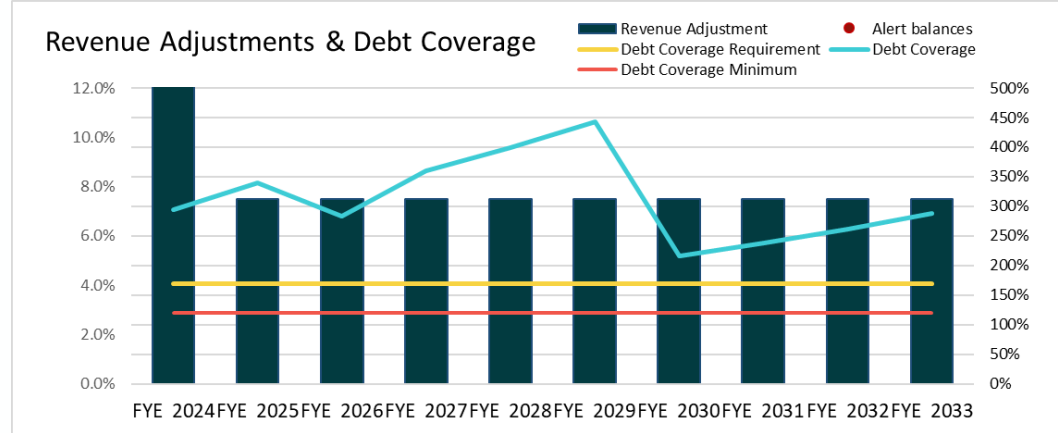
Example 1: Minimize Increases & Reserves

	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
Rev Adjustments	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
New Bond Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water Demand Factor	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Potable Water Sales	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF



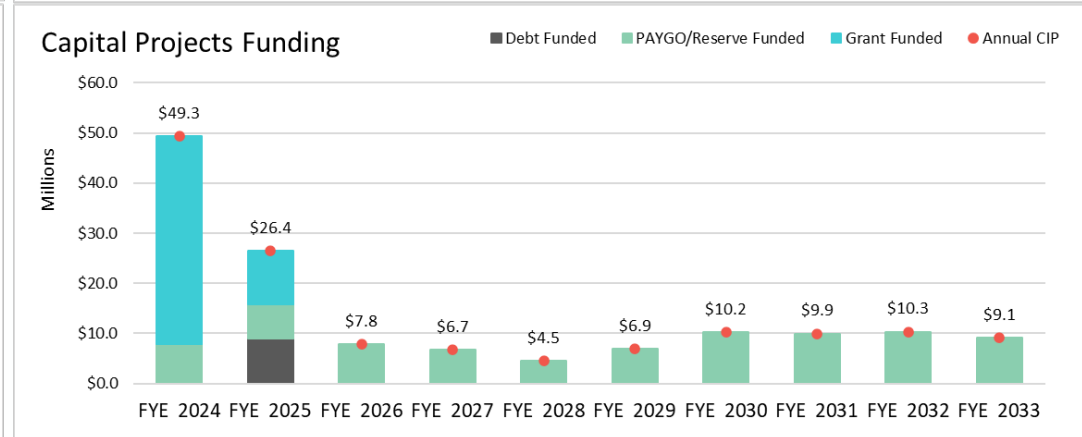
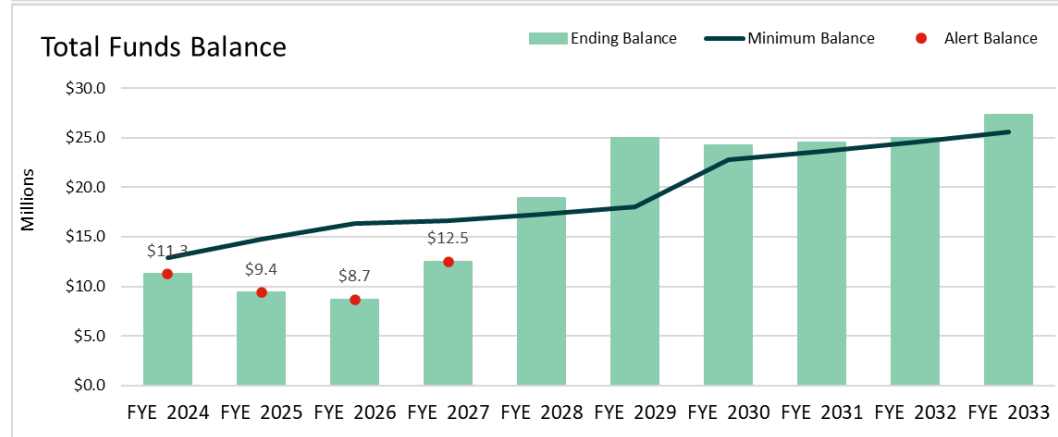
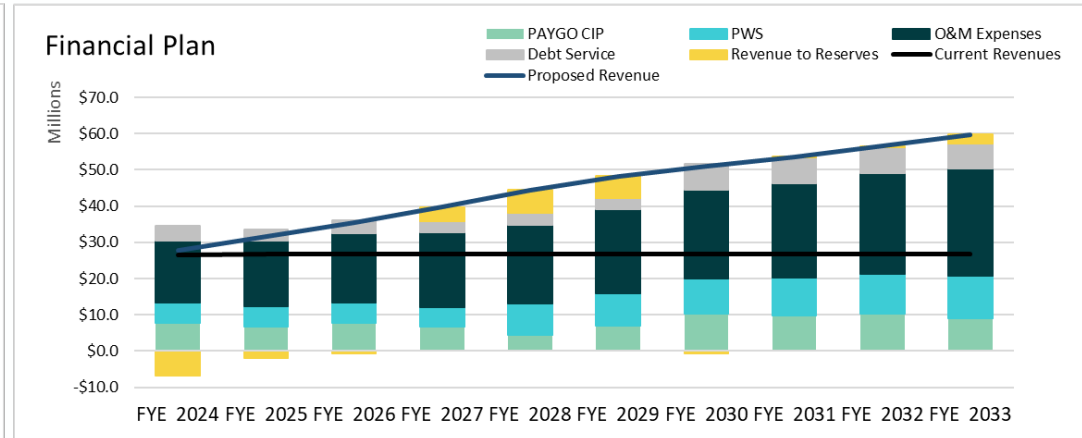
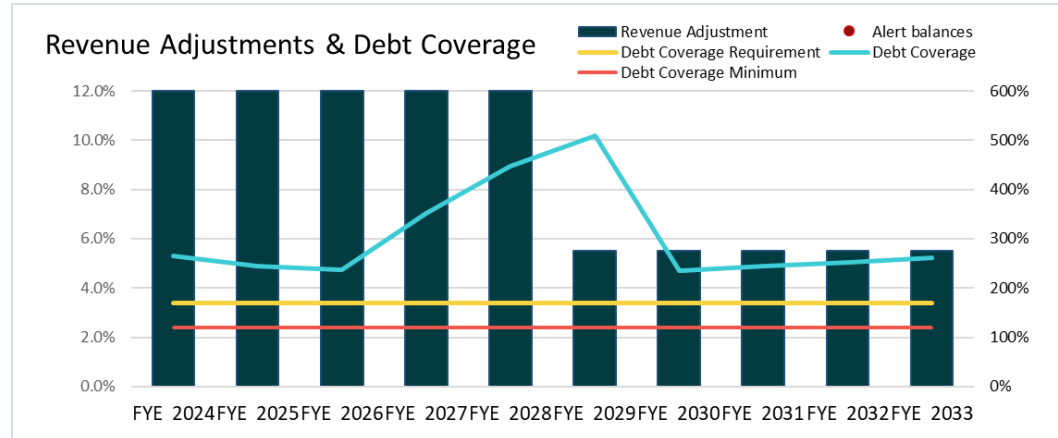
Example 2: Front Load Adjustments

	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
	March	January	January	January	January	January	January	January	January	January
Rev Adjustments	25.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
New Bond Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water Demand Factor	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Potable Water Sales	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF



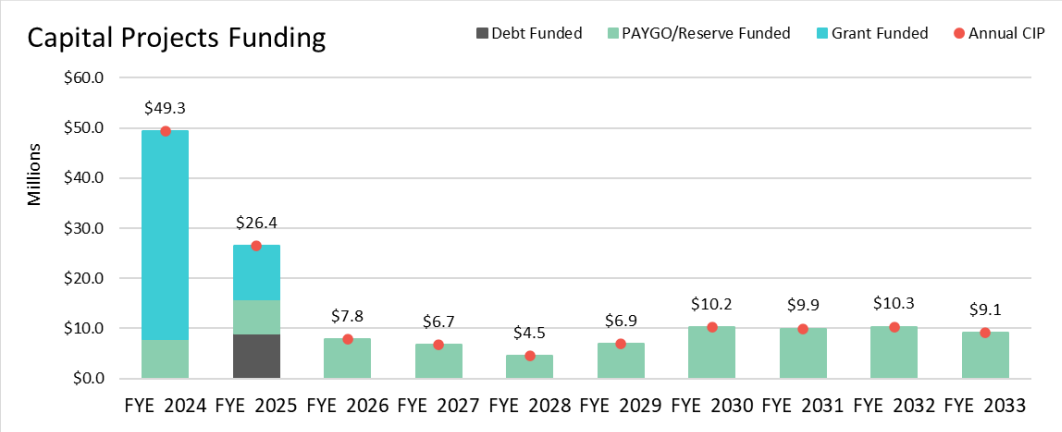
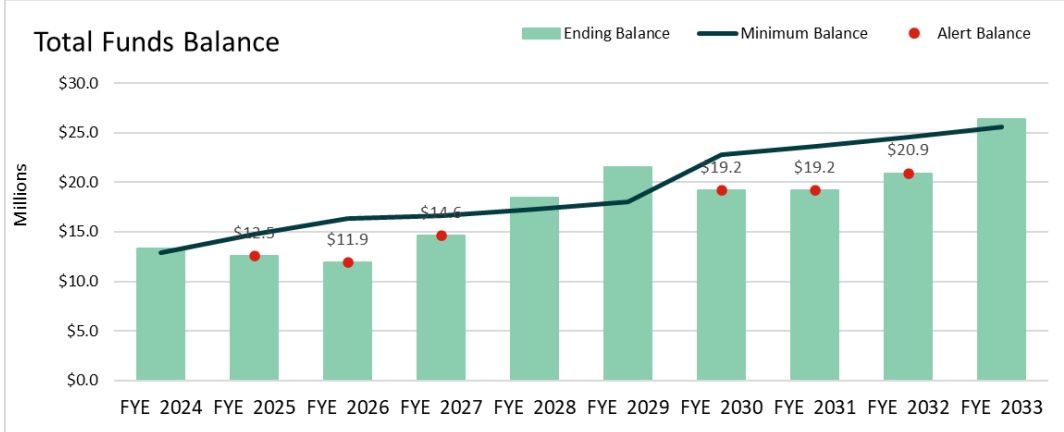
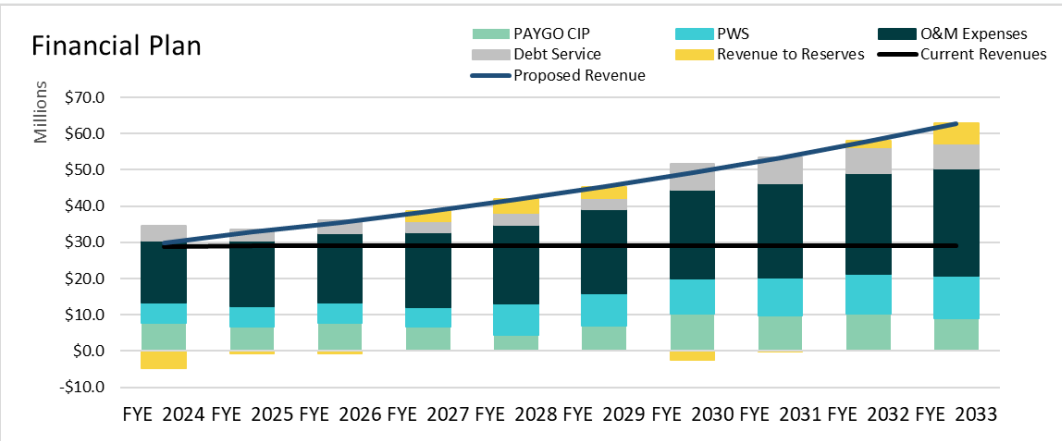
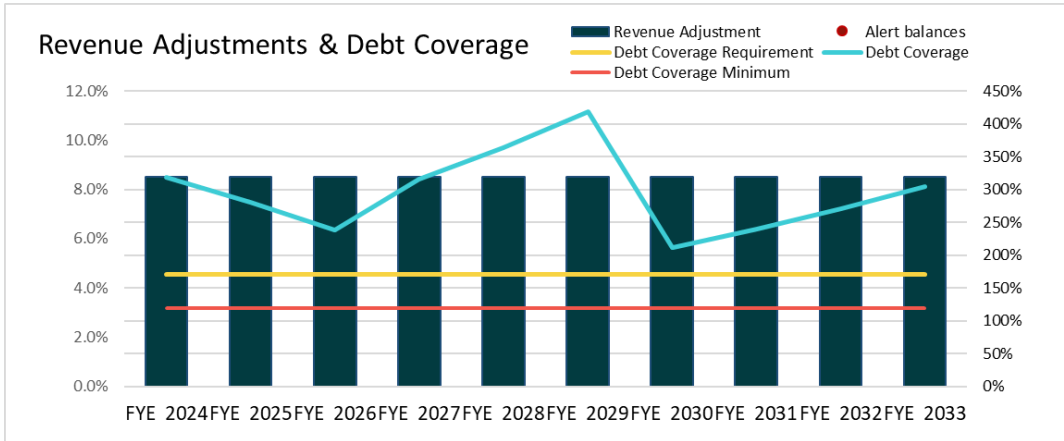
Example 3: Middle Ground

	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
	March	January	January	January	January	January	January	January	January	January
Rev Adjustments	12.0%	12.0%	12.0%	12.0%	12.0%	5.5%	5.5%	5.5%	5.5%	5.5%
New Bond Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water Demand Factor	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Potable Water Sales	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF



What-If Example 4: Hypothetical 2,900 AF Demand

	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
	March	January	January	January	January	January	January	January	January	January
Rev Adjustments	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
New Bond Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water Demand Factor	115.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Potable Water Sales	2,939 AF	2,939 AF	2,939 AF	2,939 AF	2,939 AF	2,939 AF	2,939 AF	2,939 AF	2,939 AF	2,939 AF



Revenue Adjustment Comparison

Examples	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Example 1	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Example 2	25%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Example 3	12%	12%	12%	12%	12%	5.5%	5.5%	5.5%	5.5%	5.5%
What-If Example 4	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%

The italicized and bolded font represents the years within the four-year rate adoption for this study

Revenue Adjustment Comparison

Examples	Current FY 2023	Proposed FY 2024	Proposed FY 2025	Proposed FY 2026	Proposed FY 2027
Example 1	\$106.85	\$117.53	\$129.29	\$142.22	\$156.44
Example 2	\$106.85	\$133.56	\$143.58	\$154.35	\$165.92
Example 3	\$106.85	\$119.67	\$134.03	\$150.12	\$168.13
What-If Example 4	\$106.85	\$115.93	\$125.79	\$136.48	\$148.08

- Sample bills are calculated using a 5/8” meter size and 5.99 hcf of monthly water usage
- ***Calculations assume across-the-board increases, but actual bill impacts will vary by customer class and tier after cost of service and rate design***

Financial Plan Discussion

- Example 1 presents significant financial risk
- What-if example represents a comparison to previous assumptions (2,900 AF of annual water sales)
- Examples 2 and 3 mitigate risk, achieve policies, and fully recover costs
 - › Example 2 does so with one significant increase followed by modest increases
 - › Example 3 does so more uniformly and stepwise over two rate cycles
- Any additional examples would fall between Examples 2 and 3

Task Name	Meetings	Dates
WRAC Meeting	Rate Concepts and Rate Alternatives	October 12, 2023
Board Meeting	Financial Planning and Rate Concepts	October 17, 2023
Cost of Service Analysis & Rate Alternatives	Webinar w/SqCWD staff	Mid-October
WRAC Meeting	Preliminary Rate Alternatives	October 26, 2023
Rate Alternatives	Webinar w/SqCWD staff	Late October
WRAC Meeting	Revised / Final Rate Alternatives	November 13, 2023
Outreach Event One	Community Webinar	November 16, 2023
Board Meeting	Rate Proposal	November 21, 2023
Board Meeting	Rate Proposal (if necessary)	December 5, 2023
Outreach Event Two	Community Open House	TBD (December)
Rate Study Report	Draft for Legal and SqCWD Review Revised Draft for Board Packet	November / December 2023
Board Meeting	Rate Authorization	December 19, 2023
Outreach Event Two	Community Open House	TBD (January)
Public Hearing	Rate Adoption	February 20, 2024
Rate Implementation	N/A	March 2024

Next

- Cost of Service Review (w/SqCWD Staff)
- Raftelis Rate Design Alternatives
- Financial Plan Options
- WRAC Meeting October 26 – Preliminary Rates



Thank you

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