



1923  
2013

*EAST BAY MUNICIPAL UTILITY DISTRICT*

# **General Manager's Proposed Budget & Rates FY 2014 and FY 2015**

Board Workshop  
April 9, 2013

# Workshop Agenda



- Introduction
- Recap of February Board workshop
- Budget highlights
- Proposed budget FY 2014 & FY 2015
- Break
- Prop 218 rates and charges
- Financial forecast
- Board discussion

# Recap of February Board Workshop

# Strategic Plan Update



Goals	Highlights
Long-Term Water Supply	<ul style="list-style-type: none"><li>• Improved reliability</li></ul>
Water Quality & Environmental Protection	<ul style="list-style-type: none"><li>• Added renewable energy</li></ul>
Long-Term Infrastructure Investment	<ul style="list-style-type: none"><li>• Completed master plans</li></ul>
Long-Term Financial Stability	<ul style="list-style-type: none"><li>• Minimized customer impacts during recession</li></ul>
Customer Service	<ul style="list-style-type: none"><li>• Implemented new Customer Information system</li></ul>
Workforce Planning & Development	<ul style="list-style-type: none"><li>• Partnered for future workforce development</li></ul>

# Budget Context



## *Fiscal challenges from drought & recession*

- Reduced sales volumes, capacity charge revenues, and interest earnings

## *Multi-year effort to mitigate rate increases*

- Enhanced revenues, contained operating costs, deferred capital investments, refinanced/re-structured debt

## *Some mitigation strategies unsustainable*

- Increasing maintenance backlog, aging infrastructure, customer impacts, “negative outlook” on AAA rating

# Mitigation Strategies



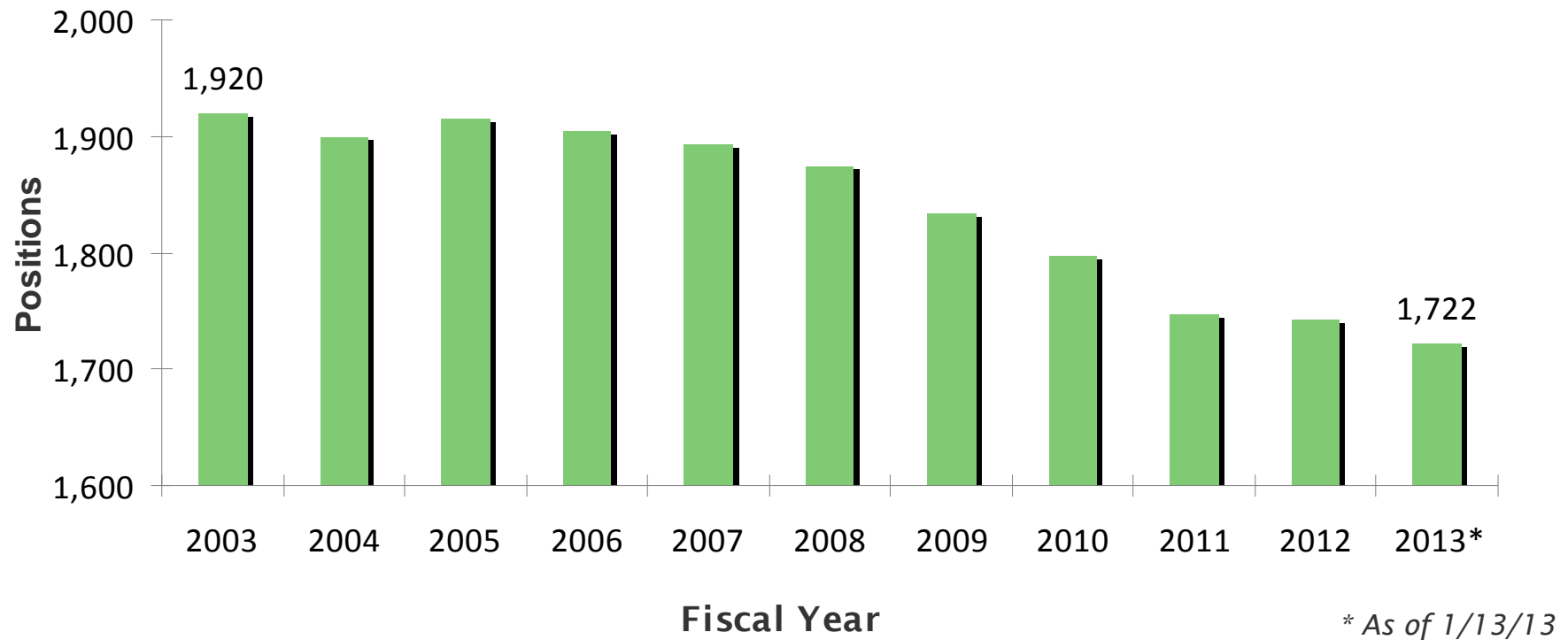
**Since FY2010, \$194+ million in expenditure reductions/deferrals:**

- Debt savings and refinancing (\$59 million)
- Hiring freeze (\$37 million)
- No general salary increase for FY12-13 (\$14 million)
- Decreased discretionary/contract expenses (\$5 million)
- Operational efficiencies (\$2 million)
- Capital projects deferrals/reductions (\$77 million)

# Reduced Staffing Levels



## Staffing Levels

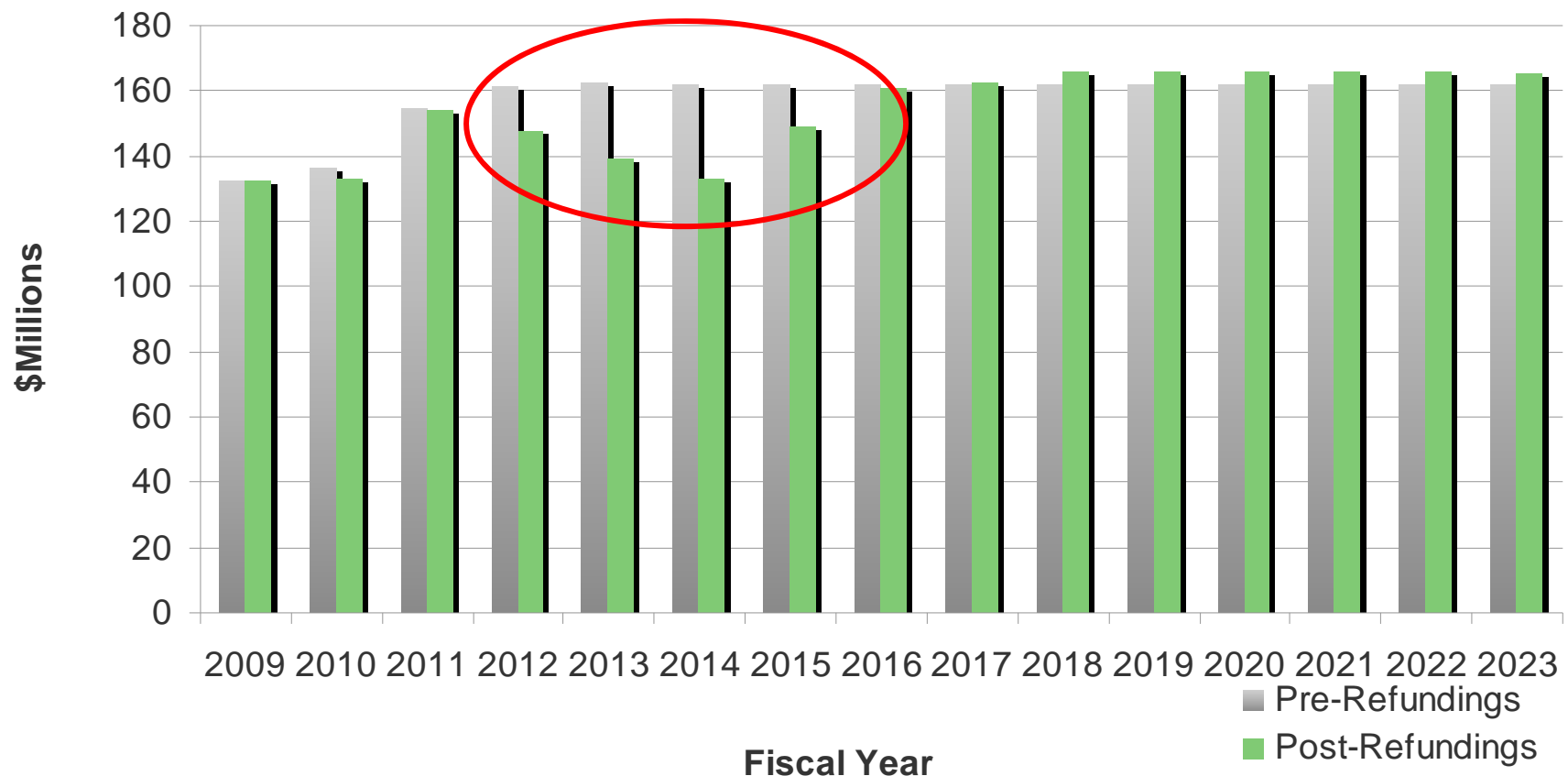


- *FY13 staffing is 10% less than in FY03*

# Impact of Refundings and Restructuring on Water System Debt Service



*Annual Water System Debt Service*

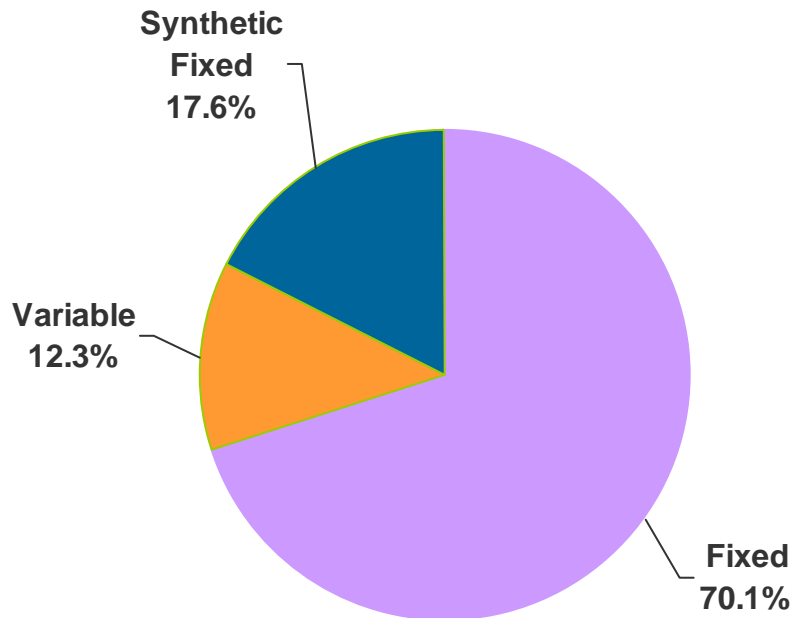




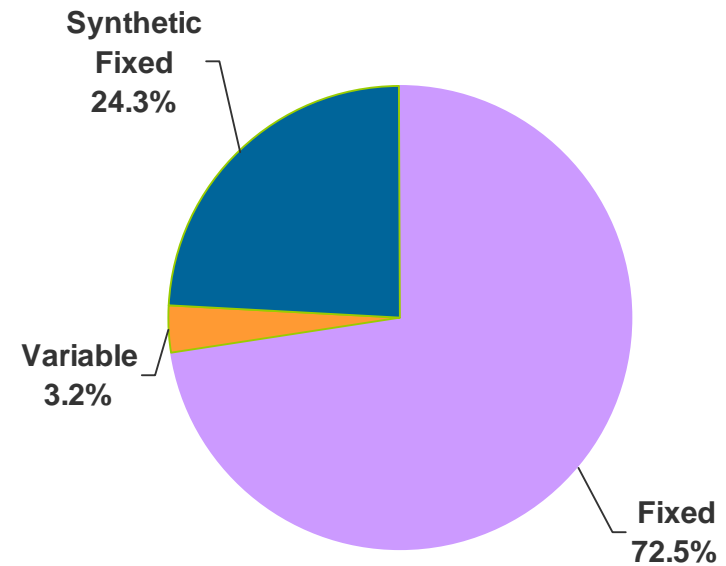
# District Debt Overview



**Water System**  
**\$2.54 Billion**



**Wastewater System**  
**\$463.7 Million**



# Credit Considerations



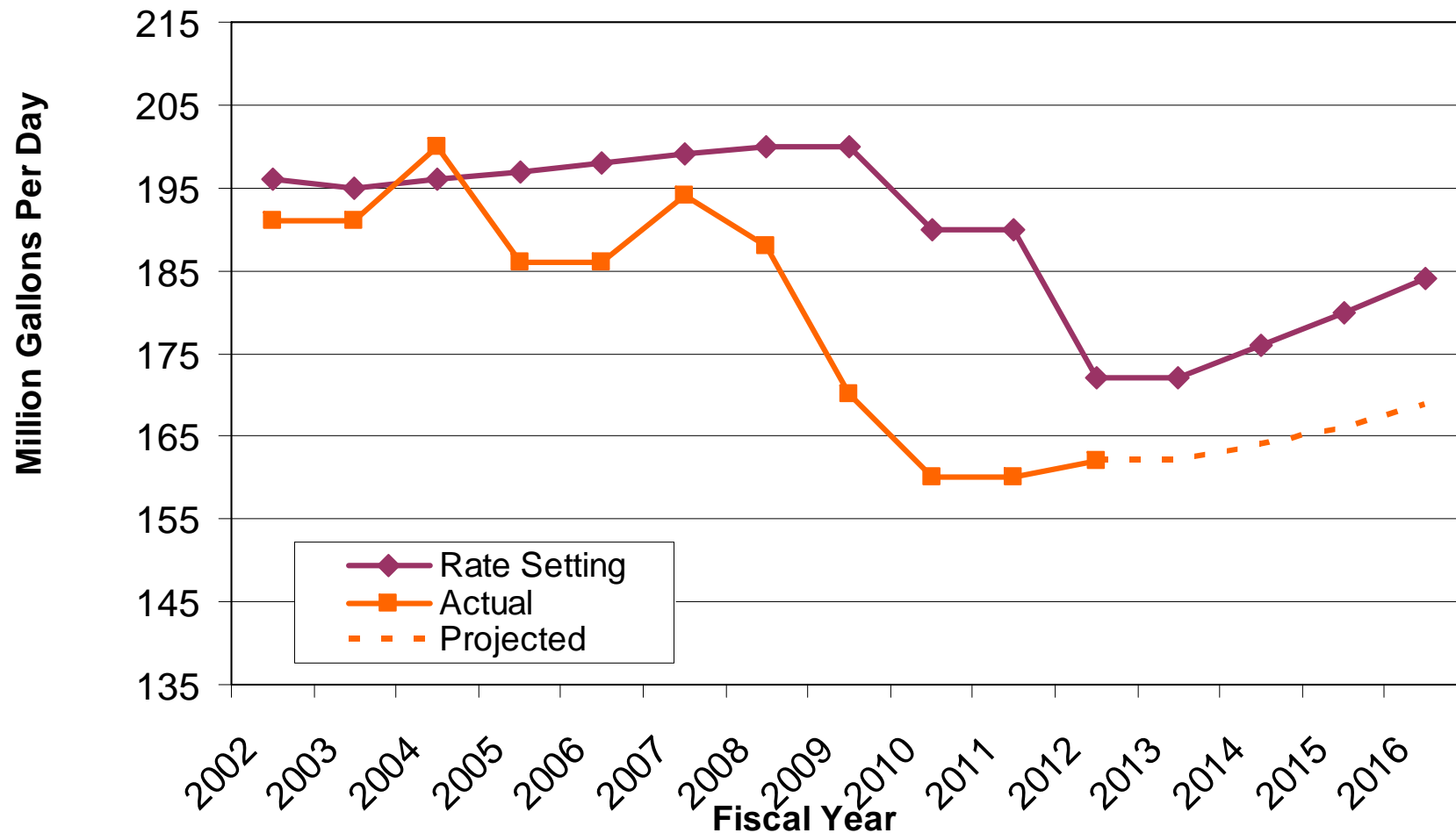
## Water

## Wastewater

<b>Credit Strengths</b>	<ul style="list-style-type: none"> <li>• Strong water supply</li> <li>• Service area demographics</li> <li>• Strong management</li> <li>• Independent Board w/ rate setting authority</li> <li>• Strong liquidity</li> <li>• Comparatively lower rates</li> </ul>	<ul style="list-style-type: none"> <li>• Dry-weather treatment capacity</li> <li>• Limited future CIP</li> <li>• Service area demographics</li> <li>• Strong management</li> <li>• Independent Board w/ rate setting authority</li> <li>• Strong liquidity</li> </ul>
<b>Credit Concerns</b>	<ul style="list-style-type: none"> <li>• Missing Board policy target for coverage of 1.6x</li> <li>• Use of one-time strategies to address fiscal imbalance</li> </ul>	<ul style="list-style-type: none"> <li>• Missing Board policy target for coverage of 1.6x</li> <li>• Ultimate requirements of consent decree</li> </ul>

- *Upcoming biennial budget and rate package will be key to long-term fiscal stability and the maintenance of strong ratings*

# Reduced Projected Sales Volumes



# Water System Revenue Shortfall

Revenue Estimates \$ Millions		2013	2014	2015	2016
Water Sales	Old	342.0	367.0	392.8	420.3
	New	<u>323.5</u>	<u>341.6</u>	<u>362.4</u>	<u>385.6</u>
		-18.5	-25.4	-30.4	-34.7
System Capacity Charges	Old	40.1	38.2	35.0	30.0
	New	<u>40.1</u>	<u>23.7</u>	<u>23.3</u>	<u>24.6</u>
		0.0	-14.5	-11.7	-5.4
Interest Earnings	Old	12.4	10.3	9.3	9.2
	New	<u>1.5</u>	<u>3.0</u>	<u>4.7</u>	<u>4.7</u>
		-10.9	-7.3	-4.6	-4.5
<b>Total Shortfall</b>		<b>-29.4</b>	<b>-47.2</b>	<b>-46.7</b>	<b>-44.6</b>

# Wastewater System Revenue Shortfall



Revenue Estimates \$ Millions		2013	2014	2015	2016
Resource	Old	7.3	8.0	8.0	8.0
Recovery	New	<u>8.8</u>	<u>7.1</u>	<u>6.5</u>	<u>6.0</u>
		1.5	-1.0	-1.5	-2.0
	Old	6.1	6.1	6.1	6.1
Power/Other	New	<u>4.5</u>	<u>4.7</u>	<u>4.7</u>	<u>4.7</u>
		-1.6	-1.4	-1.4	-1.4
Interest	Old	2.5	2.5	2.1	1.7
Earnings	New	<u>0.4</u>	<u>0.9</u>	<u>1.0</u>	<u>0.8</u>
		-2.1	-1.6	-1.1	-0.9
<b>Total Shortfall</b>		<b>-2.2</b>	<b>-4.0</b>	<b>-4.0</b>	<b>-4.3</b>

# Budget Themes



- Add resources in priority areas
  - Invest in aging infrastructure
  - Enhance effective maintenance
  - Improve customer service levels
- Plan for long-term financial stability
  - Continue cost containment efforts
  - Utilize conservative budget assumptions
  - Address structural revenue shortfall
  - Meet Board's financial policy goals

# February Workshop Discussion



- Address priority areas
- Make reasonable budget assumptions
- Meet financial policy goals
- Understand need for rate increases
- Highlight what ratepayers are getting
- Consider advancing rate increase

# Budget Highlights

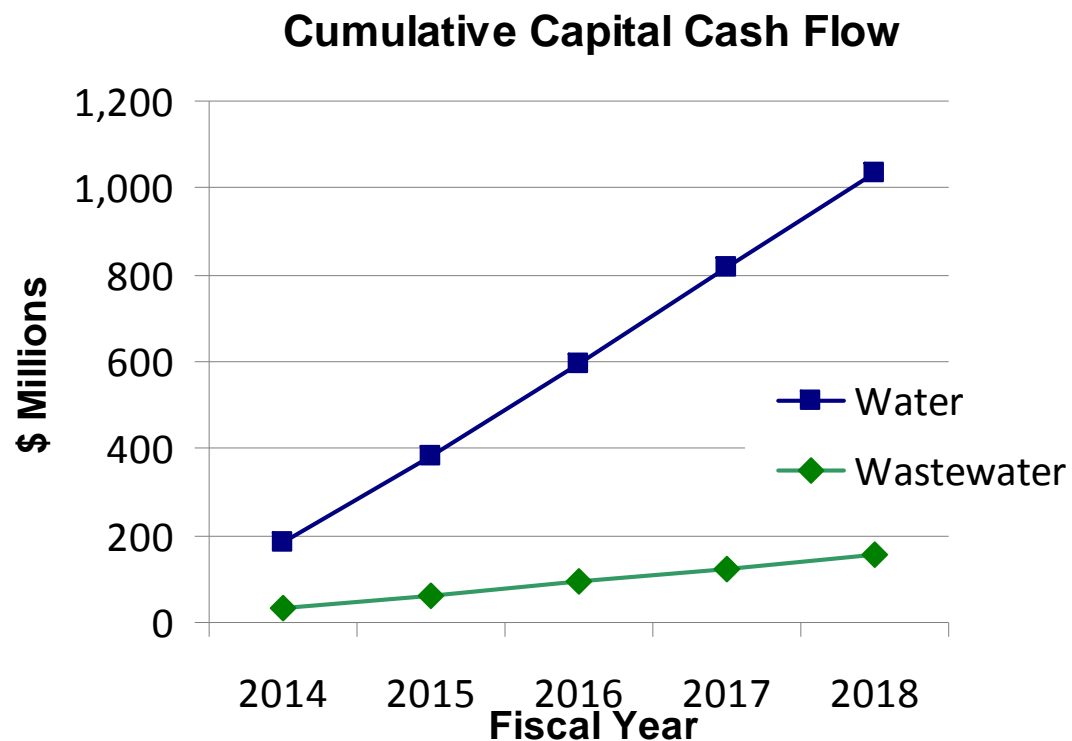


# Budget Snapshot



- Invest in capital
  - Increase 5-year CIP by 15% or \$157 million
  - Increase cash funding of capital and meet debt service coverage targets
- Invest in operations
  - Fund 47 additional positions to enhance maintenance, renew infrastructure, and improve customer service
- Plan for long-term financial stability
  - Revise assumptions for sales volumes, capacity charges, interest earnings, Resource Recovery, and electricity sales

# Renew/Rehabilitate More Infrastructure



- Increase two-year spending 6% from prior budget
  - \$420 million vs. \$444 million
- Increase five-year spending 15% from prior budget
  - \$1,035 million vs. \$1,192 million
- Increase cash funding of five-year CIP to 58% (Water), and 85% (Wastewater)
- Meet debt service coverage ratio of 1.60x by FY14 (Water), FY15 (Wastewater)

# Increase Renewal of Aging Infrastructure



- Key Investments
  - Pipelines, Regulators, Appurtenances
  - Pressure Zone Improvements
  - Reservoir Rehabilitation
  - Pumping Plant Rehabilitation
  - Wastewater and Water Treatment Plants
  - Wastewater Interceptors
- 43% Increase in miles of pipe replaced vs. prior CIP

# Enhance Effective Maintenance



- Fund 44 additional positions for O&M

Job Grouping	Count
Pipeline System Maintenance	18
Meter Maintenance	12
Electrical / Structural / Mechanical Maintenance	8
Building / Grounds Maintenance	6



# Reduce Maintenance Backlog

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2013

- Enhance key maintenance programs



# Improve Customer Service



- Meet customer expectations of technology
  - Leverage capabilities of new billing system to enhance web self service
- Manage contact center call volume
  - Replace phone system
  - Replace integrated voice response system
  - Fund 3 additional positions in contact center

# Recommended Rate Increases



		2014	2015
Water	Increase \$/month*	9% \$3.65	9% \$3.97
Wastewater	Increase \$/month*	8% \$1.15	8% \$1.36

\* Monthly increase based on typical single-family residential customer.

# **General Manager's Proposed Budget FY 2014 & FY 2015**



# District Budget Summary

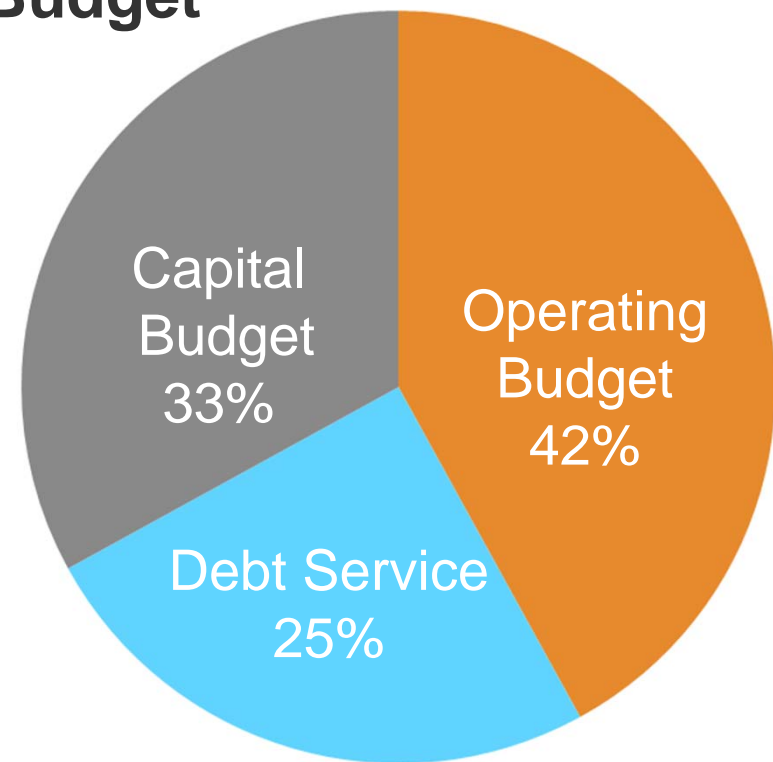
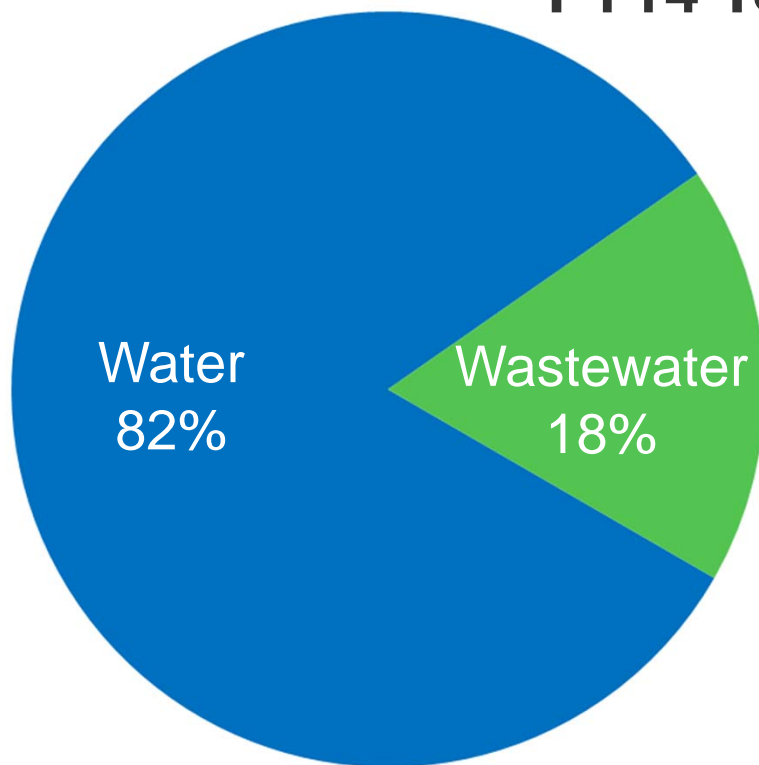


Proposed Budget (000's)	FY14				FY15		
	Water System	Wastewater System	Total District		Water System	Wastewater System	Total District
Operating Budget	236,875	60,848	297,723		246,930	63,358	310,288
Debt Service	147,463	33,689	181,152		163,213	34,307	197,520
Total Operating	384,338	94,537	478,875		410,143	97,665	507,808
Capital Appropriation	198,710	33,216	231,926		180,594	45,634	226,228
Grand Total	583,048	127,753	710,801		590,737	143,299	734,036

# District-Wide Budget



**\$710.8 million  
FY14 Total Budget**

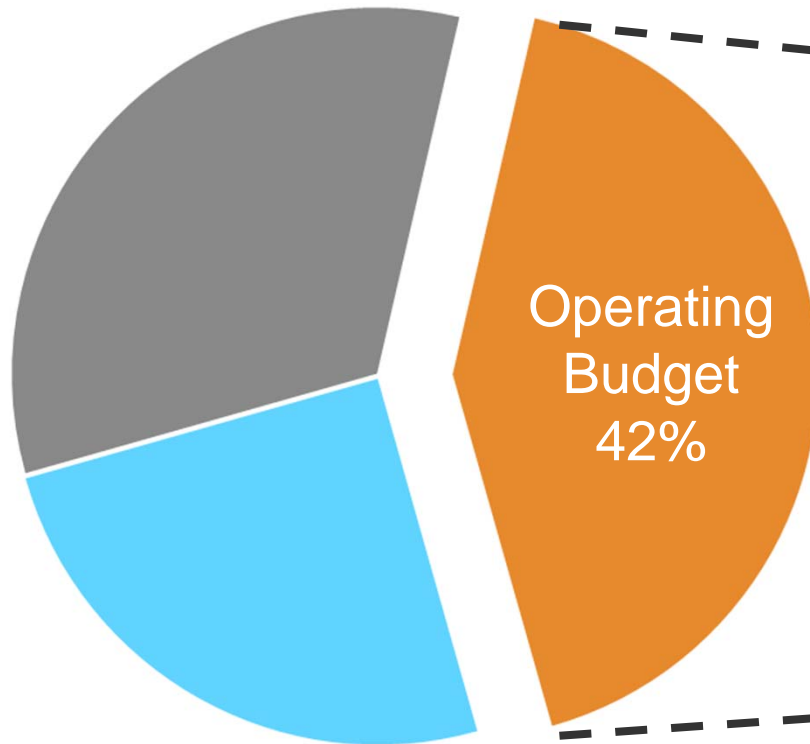


- Water budget 4.5x wastewater budget
- 58% of budget is capital investment-related

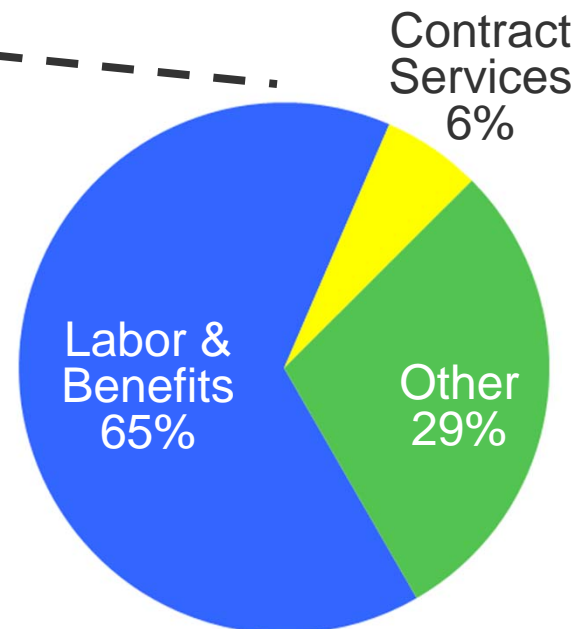
# Operating Budget by Category



**\$710.8 Million**  
**FY14 Total Budget**

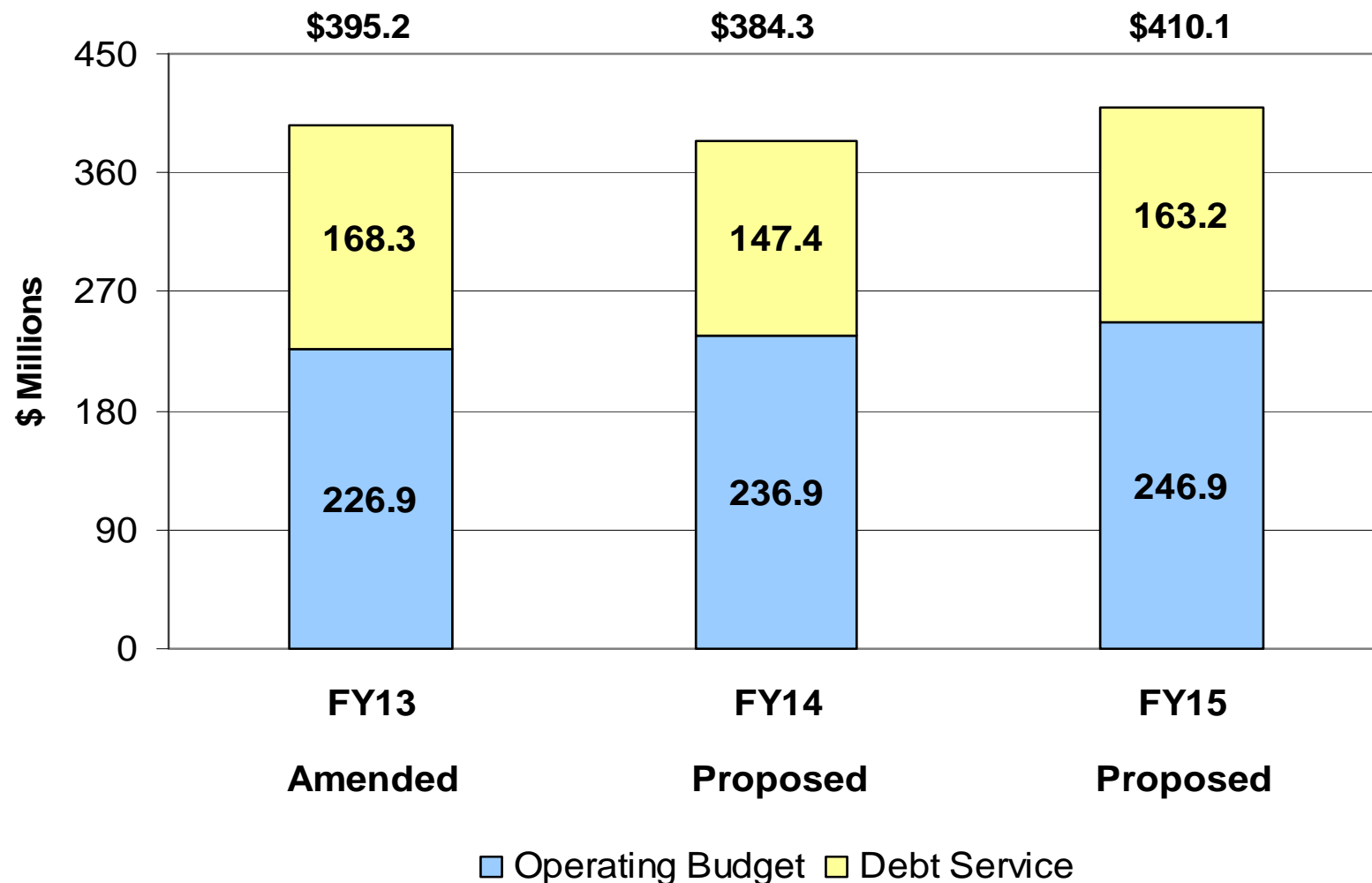


**\$297.7 Million**  
**FY14 Operating Budget**

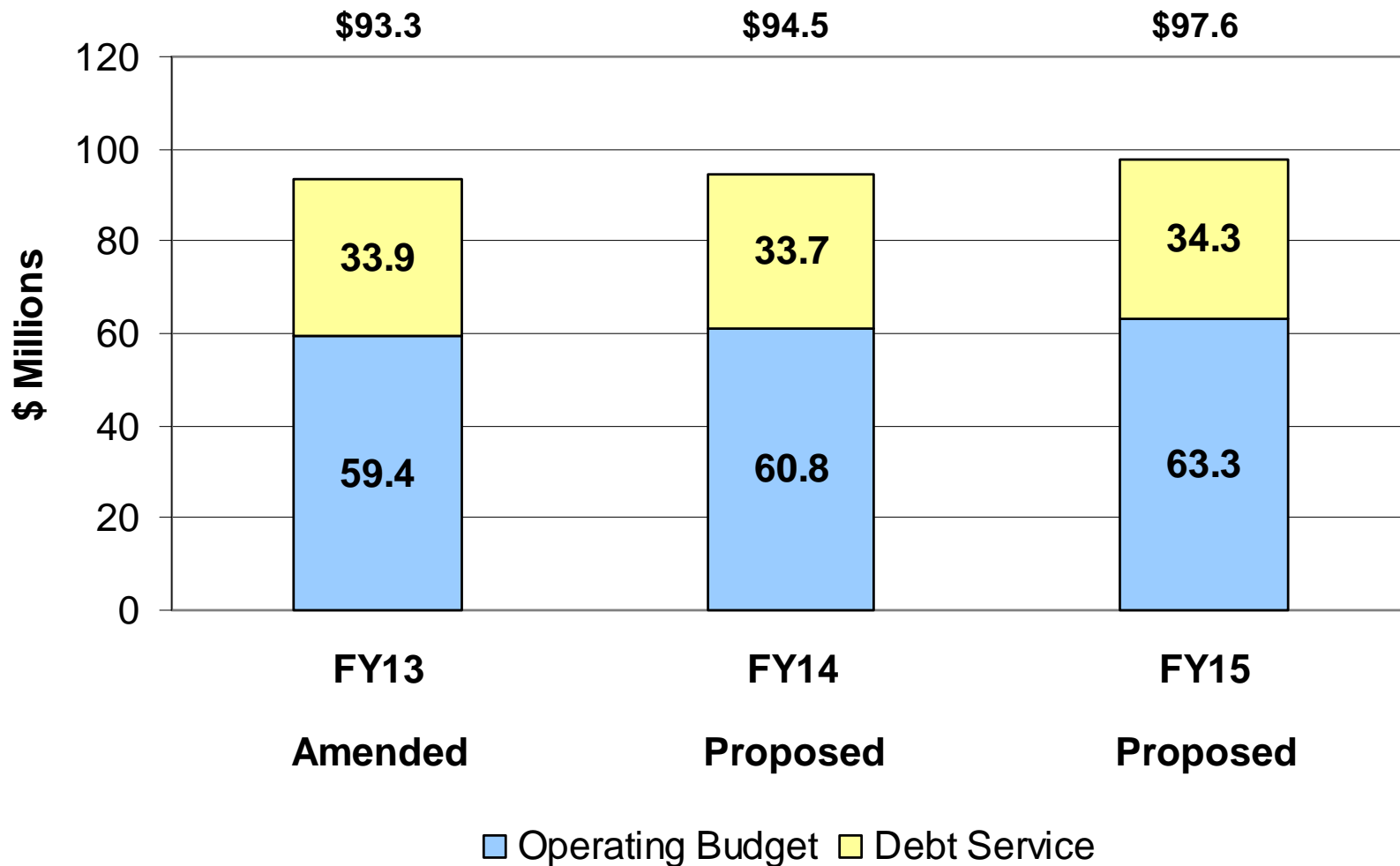


- Labor & benefits is 65% of Operating Budget
- Operating Budget labor and benefits is \$192.3 Million

# Water System Operating Budget Comparison



# Wastewater System Operating Budget Comparison



# Capital Budget

# Approach to CIP



## **Inter-Departmental Review:**

- Use master plans, strategic plan, existing and proposed regulations to guide recommendations
- Develop scope of work and cost estimates
- Prioritize projects using expert judgment of engineering and operations staff

## **Resulting CIP:**

- Work addresses top priorities
- Increases investment in infrastructure while minimizing overall costs

# CIP Priorities Reflected in Proposed Budget



Priority	Example
1. Safety	Replace deteriorated electrical gear that poses a safety hazard.
2. Regulatory	Implement private sewer lateral program.
3. Critical Reliability	Address reliability issues that may affect customers, e.g., seismically vulnerable backwash supply tank for Orinda WTP.
4. Cost Effectiveness	Replace or rehabilitate infrastructure that is cost-effective, such as replace pipes with major leak history, recoat steel tanks.



# Capital Improvement Program

## Cash Flows (\$ Millions)



	FY14	FY15	FY16	FY17	FY18	5-Year Total
Water	\$186	\$196	\$210	\$225	\$219	\$1,036
Wastewater	\$32	\$31	\$31	\$31	\$31	\$156
Total	\$218	\$227	\$241	\$256	\$250	\$1,192

Discounted cash flow includes Administrative & General

# Capital Improvement Program

## Major Water System Projects (\$ Millions)



Project	Cash Flow <u>FY14-18</u>
– Pipelines, Regulators & Appurtenances	\$ 323M
– Pressure Zone Improvements	\$ 107M
– Reservoir Rehabilitation Program	\$ 76M
– Pumping Plant Rehabilitation	\$ 75M
– Water Treatment & Transmission	\$ 75M
– Aqueduct Program	\$ 71M



# Capital Improvement Program Major Water System Projects



## Project Benefits

- Replace pipelines, valves, meters and hydrants to improve system reliability
- Upgrade or replace reservoirs and pumping plants to increase reliability and improve water quality
- Replace coating systems and cathodic protection on distribution reservoirs to maintain system reliability at an effective cost
- Build new and upgrade existing facilities to meet current and projected water demands
- Recoat, reline and make seismic improvements to raw water aqueducts to ensure the availability of the water supply





# Capital Improvement Program Major Wastewater System Projects

(\$ Millions)



## Project

- Treatment Plant Infrastructure
- 3<sup>rd</sup> Street Sewer Interceptor Rehab
- Odor Control Improvements
- Concrete Rehabilitation at MWWTP
- Digester Upgrades

## Cash Flow FY14-18

\$ 21M

\$ 19M

\$ 17M

\$ 17M

\$ 16M



# Capital Improvement Program

## Major Wastewater System Projects



### Project Benefits

- Rehabilitate sewer interceptors and install cathodic protection systems to address corrosion
- Make odor control improvements to improve the air quality in communities along the collection system and at the wastewater treatment plant
- Rehabilitate concrete structures, channels and gates at the wastewater treatment plant to ensure efficient operations
- Rehabilitate digesters to stabilize waste water solids before disposal



# Capital Improvement Program Appropriations (\$ Millions)



	FY14	FY15	2-Year Total
Water	\$199	\$181	\$380
Wastewater	\$33	\$46	\$79
Total	\$232	\$227	\$459



# FY14-15 Major Appropriations Water System (\$ Millions)



## Project

- Large Diameter Pipelines \$ 53M
- Pipeline Infrastructure Renewals \$ 44M
- Service Lateral Replacements (Poly) \$ 20M
- Pumping Plant Rehabilitation \$ 16M
- WTTIP Water Treatment Plant Improvements \$ 15M
- Raw Water Improvements \$ 14M



# FY14-15 Major Appropriations Wastewater System (\$ Millions)



## Project

- 3 <sup>rd</sup> Street Sewer Inceptor Rehab	\$24M
- Digester Upgrades	\$10M
- Treatment Plant Infrastructure	\$ 8M
- Alameda Sewer Inceptor Rehab	\$ 7M
- Odor Control Improvements	\$ 3M





# Position Resolution

FY14-15

# Proposed Position Changes



## Full Time Equivalents

+ 0	Additions
- 13	Deletions (12 FY14, 1 FY15)
<hr/>	
- 13	Net Change

1 Flex Staffing Change

1 TC Conversion

# FY14-FY15

## Proposed Position Changes



FY14	FY15
<p><b><i>Deletions (-12 FTE)</i></b></p> <p>11 Temporary Construction</p> <ul style="list-style-type: none"><li>- 6 Customer Information Systems (CIS)</li><li>- 3 Freeport</li><li>- 1 San Pablo Dam Upgrade</li><li>- 1 Mok Aqueduct Temperature Anchor Upgrade</li></ul> <p>1 Regular</p> <ul style="list-style-type: none"><li>- Word Processing</li></ul> <p><b><i>Flex Staffing Change</i></b></p> <ul style="list-style-type: none"><li>• 1 Attorney I/II/III/Special Assistant II to Attorney I/II/III</li></ul> <p><b><i>Conversion - TC to Regular</i></b></p> <ul style="list-style-type: none"><li>• 1 Senior Construction Inspector</li></ul>	<p><b><i>Deletion (-1 FTE)</i></b></p> <p>Temporary Construction</p> <ul style="list-style-type: none"><li>- 1 Mok Aqueduct Interconnection Project</li></ul>

# Break

# **Recommended Rates and Charges**

# Recommended Rates & Charges

- Proposition 218 rates & charges
  - Proposition 218
  - Water
  - Wastewater
- Rate topics follow-up
  - Private fire service
  - Leak adjustment process
  - Bill proration

# Proposition 218

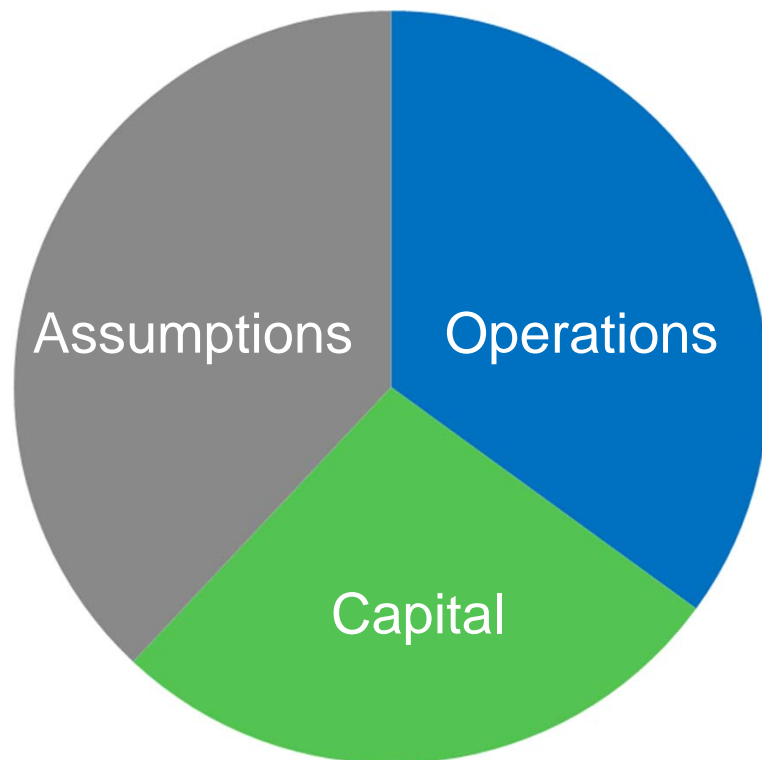


- Charges based on cost of service
- Notice requirements
  - Notice sent no less than 45 days in advance of Public Hearing, June 11, 2013
  - Written protest by majority
- Draft notice included in Board materials
- All notices postmarked no later than 4/26

# Water Rates



# Water Rate Drivers



**Operations**—additional funded positions, labor & benefits, and non-labor costs

**Capital**—rate funded capital, debt service, and debt service coverage

**Assumptions**—water sales volumes, capacity charge revenue, interest earnings

# FY14-FY15 Prop 218 Water Rate Revisions



- Recommended Water System changes:
  - 9% (FY14) and 9% (FY15) increase:
    - Service Charge
    - Water Flow Charge
    - Seismic Improvement Surcharge
    - Elevation Surcharge
    - Private Fire Service Charge

# Recommended Water Rates & Charges

## FY14 and FY15—Fixed Charges



		<b>FY13</b>	<b>FY14</b>	<b>%</b>	<b>FY15</b>	<b>%</b>
<b>Rates</b>		<b>Current</b>	<b>Proposed</b>	<b>Change</b>	<b>Proposed</b>	<b>Change</b>
<b>Service Charges</b>						
	<b>5/8" and 3/4"</b>	<b>\$12.23</b>	<b>\$13.33</b>	<b>9.0%</b>	<b>\$14.53</b>	<b>9.0%</b>
	<b>2"</b>	<b>46.31</b>	<b>50.48</b>	<b>9.0%</b>	<b>55.02</b>	<b>9.0%</b>
	<b>4"</b>	<b>129.07</b>	<b>140.69</b>	<b>9.0%</b>	<b>153.34</b>	<b>9.0%</b>
	<b>18"</b>	<b>1540.85</b>	<b>1679.53</b>	<b>9.0%</b>	<b>1830.69</b>	<b>9.0%</b>
<b>Seismic Surcharges</b>		<b>varies</b>		<b>9.0%</b>		<b>9.0%</b>

# Recommended Water Rates & Charges



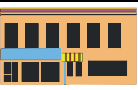

## FY14 and FY15—Volumetric Charges



		<b>FY13</b>	<b>FY14</b>	<b>%</b>	<b>FY15</b>	<b>%</b>
<b>Volume Charges</b>		<b>Current</b>	<b>Proposed</b>	<b>Change</b>	<b>Proposed</b>	<b>Change</b>
<b>SFR</b>	<b>Tier 1 up to 7 Ccf</b>	<b>\$2.42</b>	<b>\$2.64</b>	<b>9.1%</b>	<b>\$2.88</b>	<b>9.1%</b>
	<b>Tier 2 up to 16 Ccf</b>	<b>3.00</b>	<b>3.27</b>	<b>9.0%</b>	<b>3.56</b>	<b>8.9%</b>
	<b>Tier 3 over 16 Ccf</b>	<b>3.68</b>	<b>4.01</b>	<b>9.0%</b>	<b>4.37</b>	<b>9.0%</b>
<b>MFR</b>		<b>3.06</b>	<b>3.34</b>	<b>9.2%</b>	<b>3.64</b>	<b>9.0%</b>
<b>OTHER (commercial/industrial)</b>		<b>3.17</b>	<b>3.46</b>	<b>9.1%</b>	<b>3.77</b>	<b>9.0%</b>
<b>Seismic surcharge (comm/ind)</b>		<b>0.13</b>	<b>0.14</b>	<b>7.7%</b>	<b>0.15</b>	<b>7.1%</b>
<b>Non Potable</b>		<b>2.64</b>	<b>2.88</b>	<b>9.1%</b>	<b>3.14</b>	<b>9.0%</b>
<b>Elevation</b>						
	<b>Band 2</b>	<b>0.46</b>	<b>0.50</b>	<b>8.7%</b>	<b>0.55</b>	<b>10.0%</b>
	<b>Band 3</b>	<b>0.93</b>	<b>1.01</b>	<b>8.6%</b>	<b>1.10</b>	<b>8.9%</b>

# Average Customer Monthly Impact

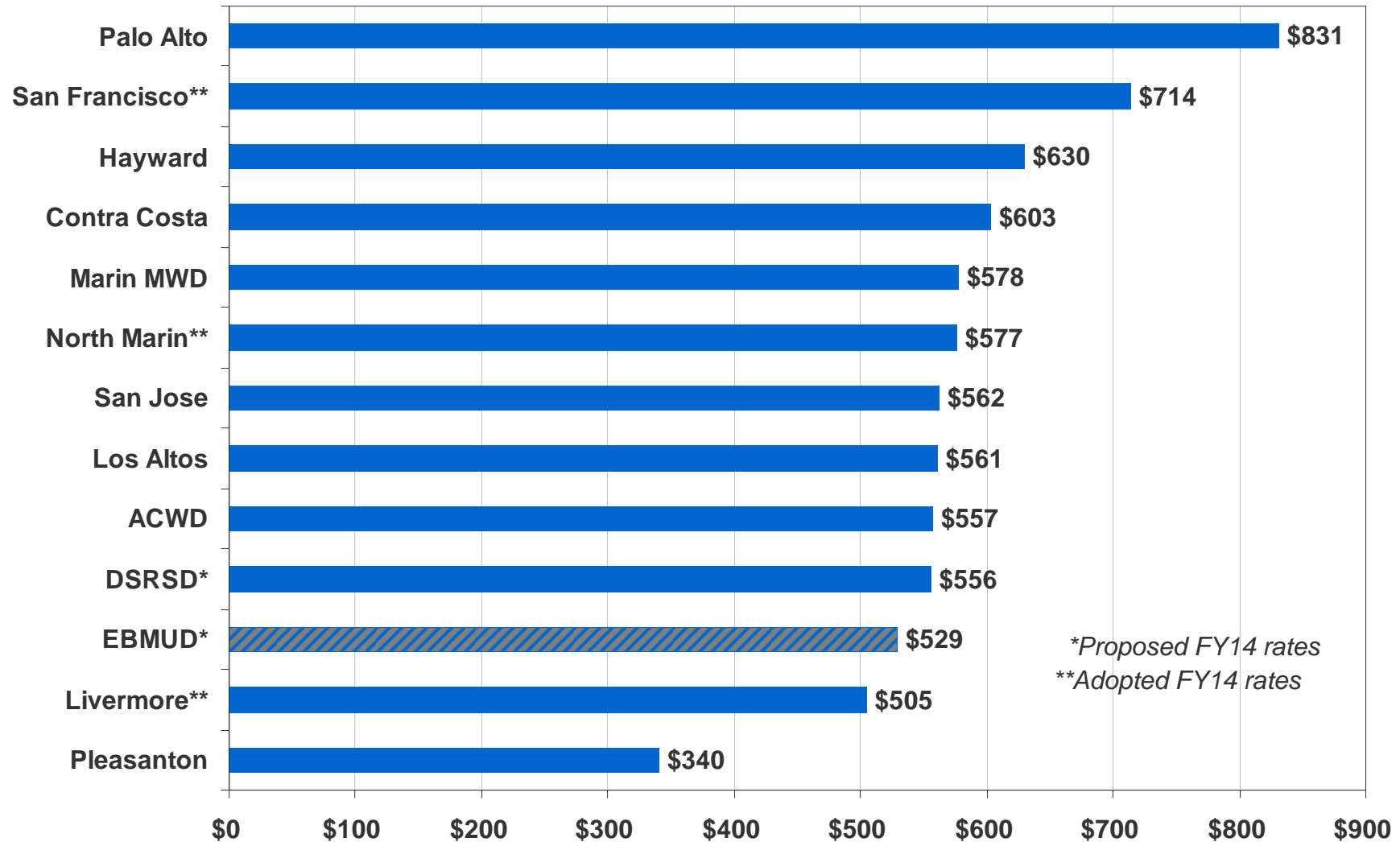


FY13 Current	FY14 Proposed	Change \$ %	FY15 Proposed	Change \$ %
 <b>\$40.45</b> <b>SFR</b>	<b>\$44.10</b>	<b>\$3.65 9.0%</b>	<b>\$48.07</b>	<b>\$3.97 9.0%</b>
 <b>180.91</b> <b>MFR</b>	<b>197.42</b>	<b>16.51 9.1%</b>	<b>215.16</b>	<b>17.74 9.0%</b>
 <b>187.53</b> <b>COM</b>	<b>204.56</b>	<b>17.03 9.1%</b>	<b>222.77</b>	<b>18.21 8.9%</b>
 <b>1705.48</b> <b>IND</b>	<b>1860.48</b>	<b>155.00 9.1%</b>	<b>2025.92</b>	<b>165.44 8.9%</b>

Average Consumption for Single Family Residential (SFR) 10 ccf,  
Multi-Family (MFR) 50 ccf, Commercial (COM) 50 ccf, Industrial (IND) 500 ccf

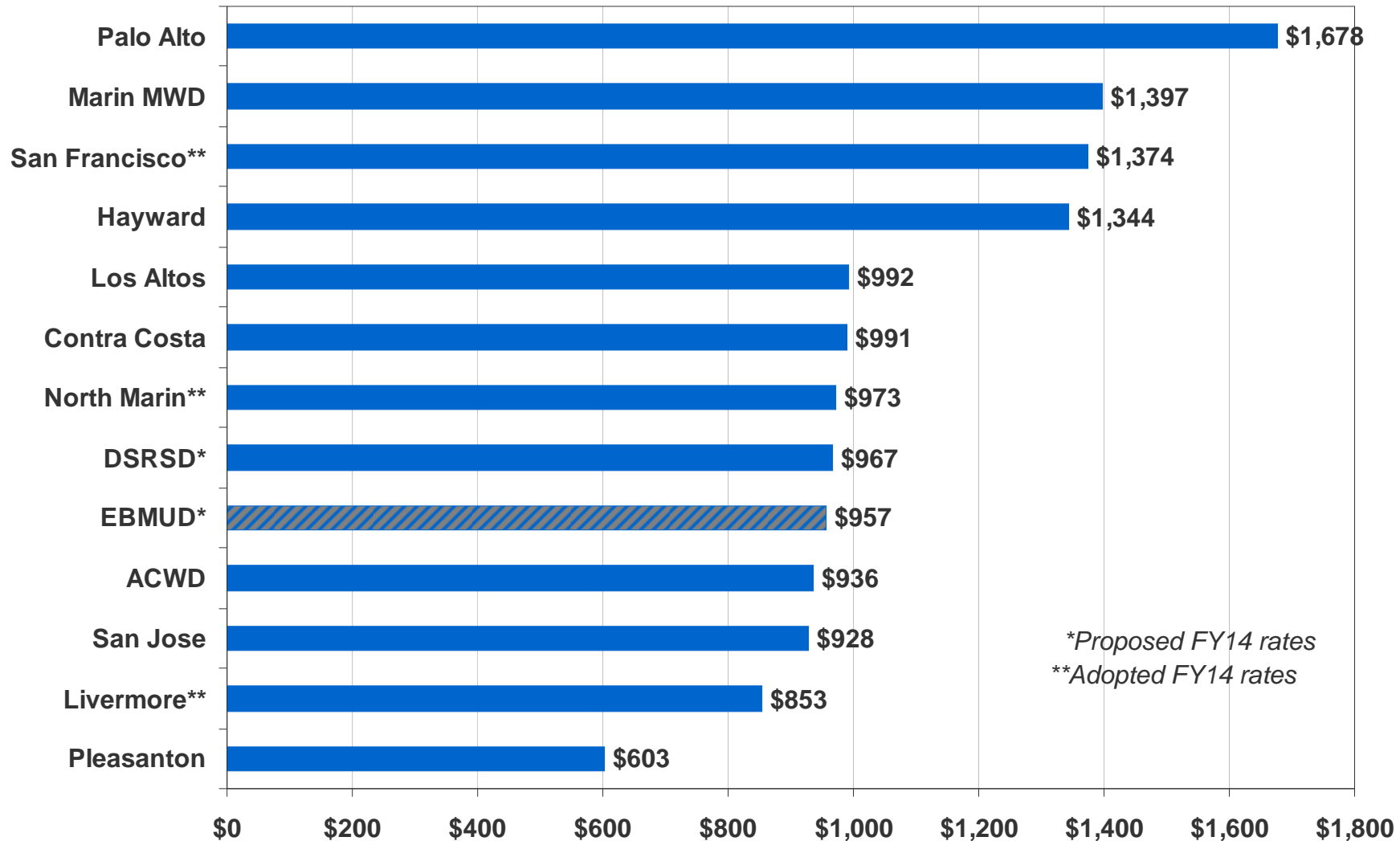
# Comparative Residential Water Charges

## Annual Charges for 10CCF/Mo – April 2013



# Comparative Residential Water Charges

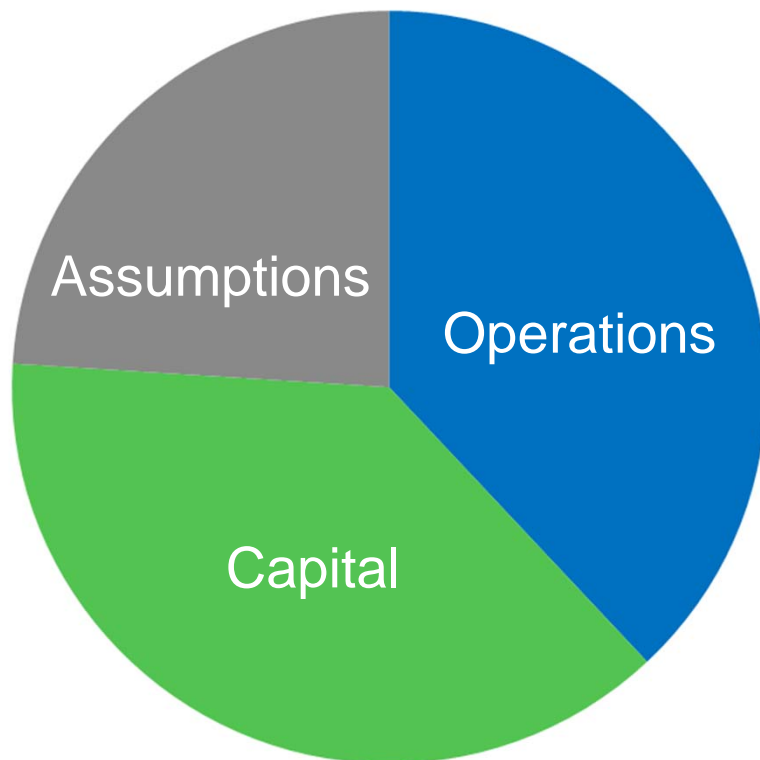
## *Annual Charges for 20CCF/Mo – April 2013*





# Wastewater Rates

# Wastewater Rate Drivers



**Operations**—labor & benefits, and non-labor costs

**Capital**—rate-funded capital, and debt service coverage

**Assumptions**—Resource recovery revenues, electricity sales, interest earnings

# FY14-FY15 Prop 218 Wastewater Rate Revisions



- Recommended Wastewater System changes:
  - 8% (FY14) and 8% (FY15) increase
    - Overall treatment charges
    - Wet Weather Facilities Charge

# Wastewater Treatment Charge





UNIT RATES	FY13 Rate	FY14 Proposed	Change %	FY15 Proposed	Change %
<b>Service Charge</b> (acct)	<b>6.19</b>	<b>6.51</b>	<b>5.2%</b>	<b>7.02</b>	<b>7.8%</b>
<b>Volume*</b> (Ccf)	<b>\$0.663</b>	<b>\$0.730</b>	<b>10.1%</b>	<b>\$0.780</b>	<b>6.8%</b>
<b>CODf*</b> (lbs)	<b>0.241</b>	<b>0.265</b>	<b>10.0%</b>	<b>0.289</b>	<b>9.1%</b>
<b>Total Suspended Solids*</b> (lbs)	<b>0.372</b>	<b>0.393</b>	<b>5.6%</b>	<b>0.425</b>	<b>8.1%</b>

\*For SFR and MFR, the CODf and TSS charge is combined into a flat strength charge per dwelling (up to 4). For non residential customers and MFR > 4 units, the Volume, CODF and TSS are combined into a single charge per unit based the discharge characteristic of the business classification.

# Average Customer Monthly Impact



FY13 Current	FY14 Proposed	Change \$ %	FY15 Proposed	Change \$ %
 <b>SFR</b> \$16.48	\$17.63	\$1.15 7.0%	\$18.99	\$1.36 7.7%
 <b>IND</b> 5,461.67	5,941.99	480.32 8.8%	6,452.50	510.51 8.6%

\*includes SF Bay Residential Pollution Prevention Fee

Average Consumption for Single Family Residential (SFR) 6.0 ccf

# Schedule A Rates for Treatment Service – Multi-Use Accounts



- District currently bills 150 customers for multi-use wastewater discharges (food service/domestic) as provided in Wastewater Control Ordinance
- Customers billed at a blended rate of food service and domestic BCC treatment rates
  - Multi-use Rate Codes A-J
- Recommended Action: Expand program for bakeries/domestic
  - Multi-use Rate Codes K-T

# Wet Weather Facilities Charge



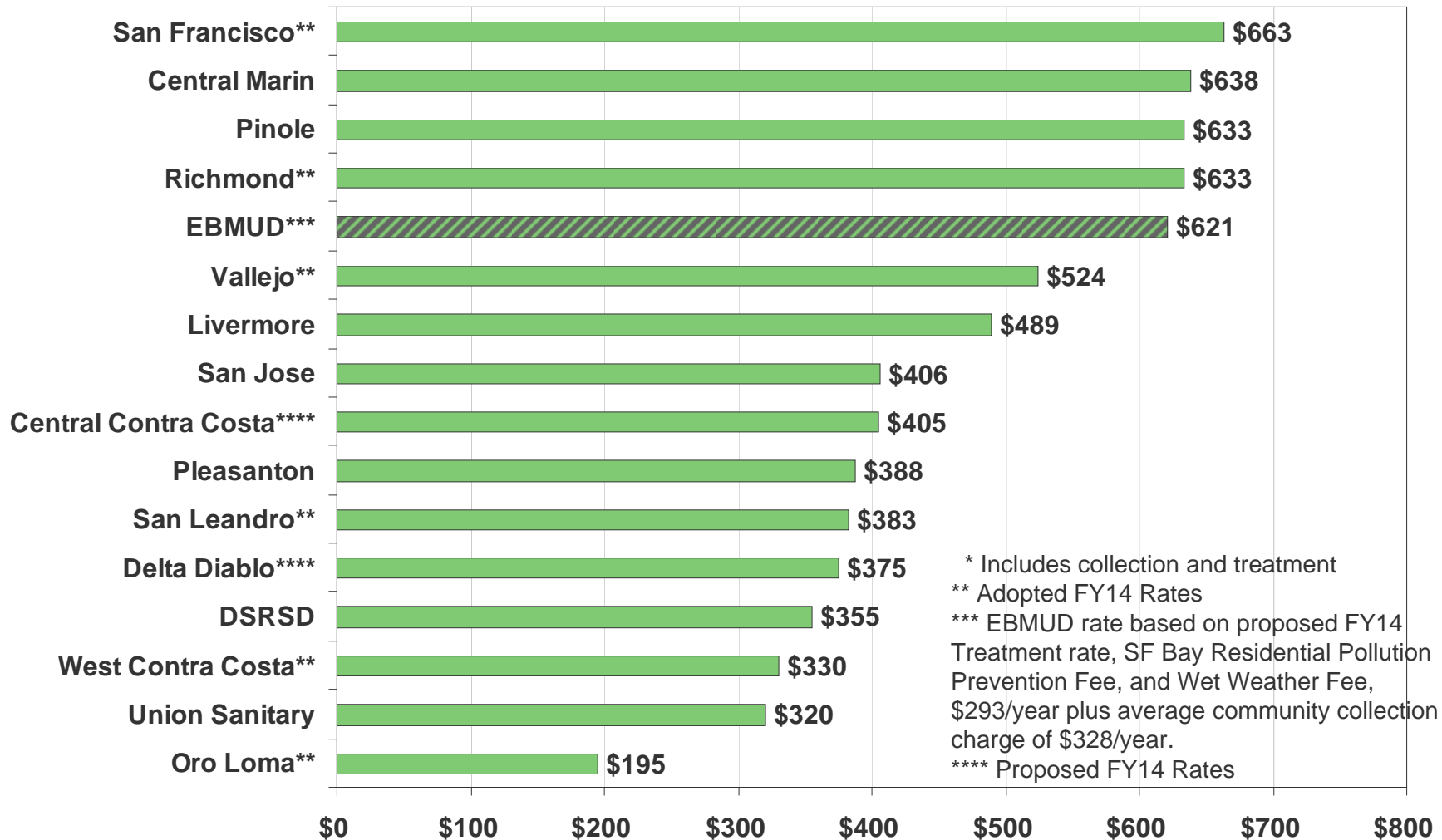
- Collected on property tax bill
- Covers capital and operating expenses for wet weather program
- Proposed increase: 8% FY14, 8% FY15

	FY14 Proposed	FY15 Proposed
SFR and MFR*	\$81.58 per DU	\$88.10 per DU
Non Residential	\$122.36	\$132.14

\*up to a maximum of 5 dwelling units (DU)



# Comparative Residential Wastewater Charges\* *Annual Charges—April 2013*



# Other Rate Items



- Private Fire Service
- Leak Adjustment Process
- Bill Pro-ration

# Private Fire Service Meter Charge



- 6,000 customers have private fire service (PFS) meters
- PFS customers pay a fixed meter charge and a fixed seismic surcharge
- PFS meter charge based on 2009 Cost of Service Study
- 9% (FY14) and 9% (FY15) proposed increase to private fire service meter charges based on rate increase
- Upcoming Cost of Service Study—comprehensive review of cost allocation

# Recommended Water Rates & Charges

## FY14 and FY15—Private Fire Service



		<b>FY13</b>	<b>FY14</b>	<b>%</b>	<b>FY15</b>	<b>%</b>
<b>Rates</b>		<b>Current</b>	<b>Proposed</b>	<b>Change</b>	<b>Proposed</b>	<b>Change</b>
<b>Private Fire Service</b>						
	<b>4"</b>	<b>\$81.43</b>	<b>\$88.76</b>	<b>9.0%</b>	<b>\$96.75</b>	<b>9.0%</b>
	<b>6"</b>	<b>155.47</b>	<b>169.46</b>	<b>9.0%</b>	<b>184.71</b>	<b>9.0%</b>
	<b>8"</b>	<b>244.35</b>	<b>266.34</b>	<b>9.0%</b>	<b>290.31</b>	<b>9.0%</b>
<b>plus</b>						
<b>Seismic Surcharges</b>						
	<b>4"</b>	<b>28.63</b>	<b>31.21</b>	<b>9.0%</b>	<b>34.02</b>	<b>9.0%</b>
	<b>6"</b>	<b>57.27</b>	<b>62.42</b>	<b>9.0%</b>	<b>68.04</b>	<b>9.0%</b>
	<b>8"</b>	<b>91.62</b>	<b>99.87</b>	<b>9.0%</b>	<b>108.86</b>	<b>9.0%</b>

# Leak Adjustment Process



- Identification of atypical water use
  - 2x normal consumption or more
  - Meter “registering”
  - Visible run-off
- Communication with customer
  - Door hanger left by meter reader
  - Current vs. prior year consumption on statement
  - Automated calls as additional courtesy (planned)
- Section 13 of District Regulations allows for adjustments
  - 50% of the excess water lost if reported w/in 3 years
  - Proof of repair required
  - 2 consecutive billing cycles in one 12-month period
- Policy and practices are consistent with other agencies
- In FY 2012, credited 3,733 customers for a total of \$621,000



# Bill Proration



- Recommended rates and charges effective July 1
- Old billing system did not prorate use between fiscal years
- New billing system will prorate use between fiscal years
- Incremental revenue from high-use, summer months

# Financial Forecast

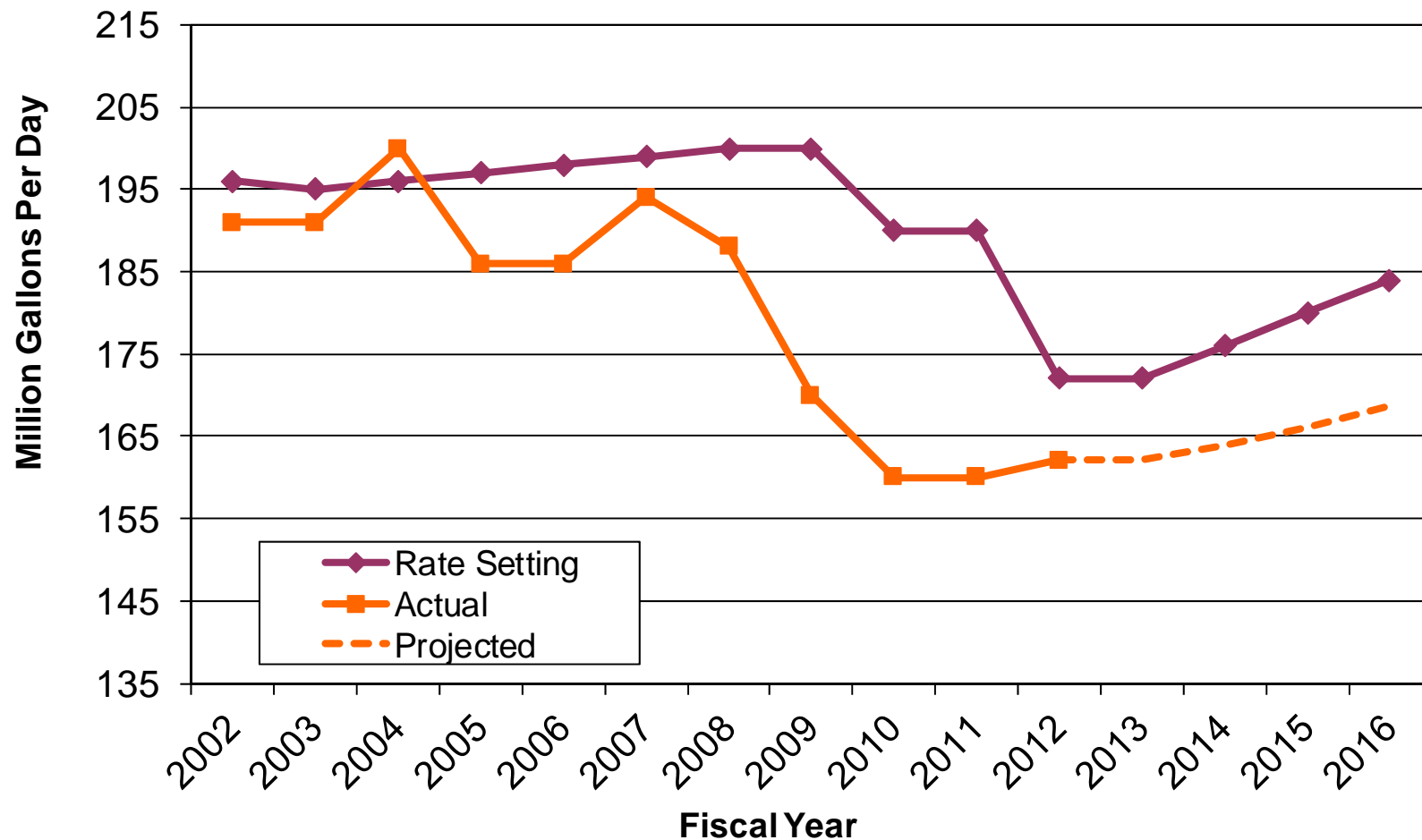
# Water System Proposed Rate Increases



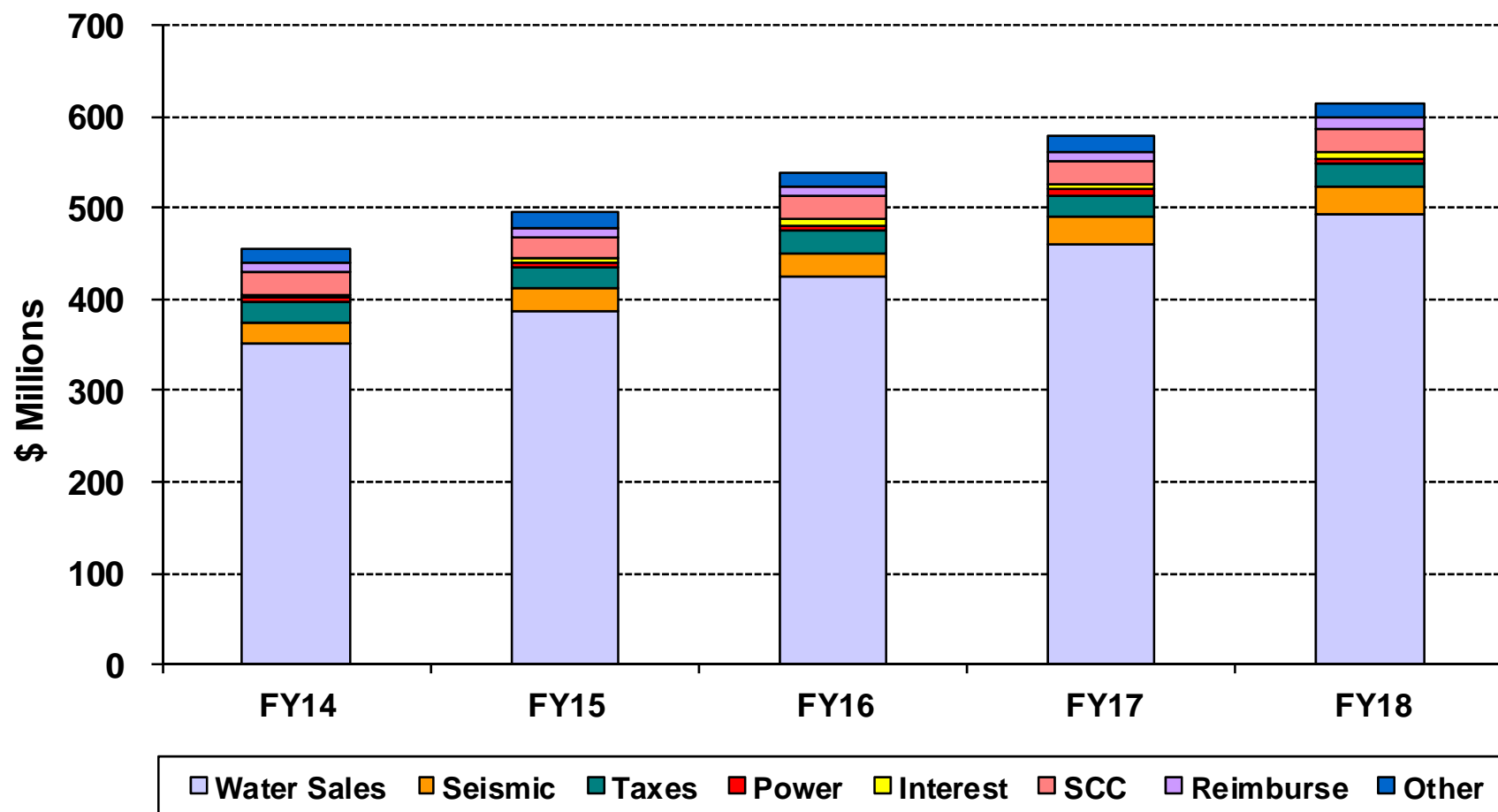
<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
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9.0%	9.0%	8.0%	7.0%	5.0%
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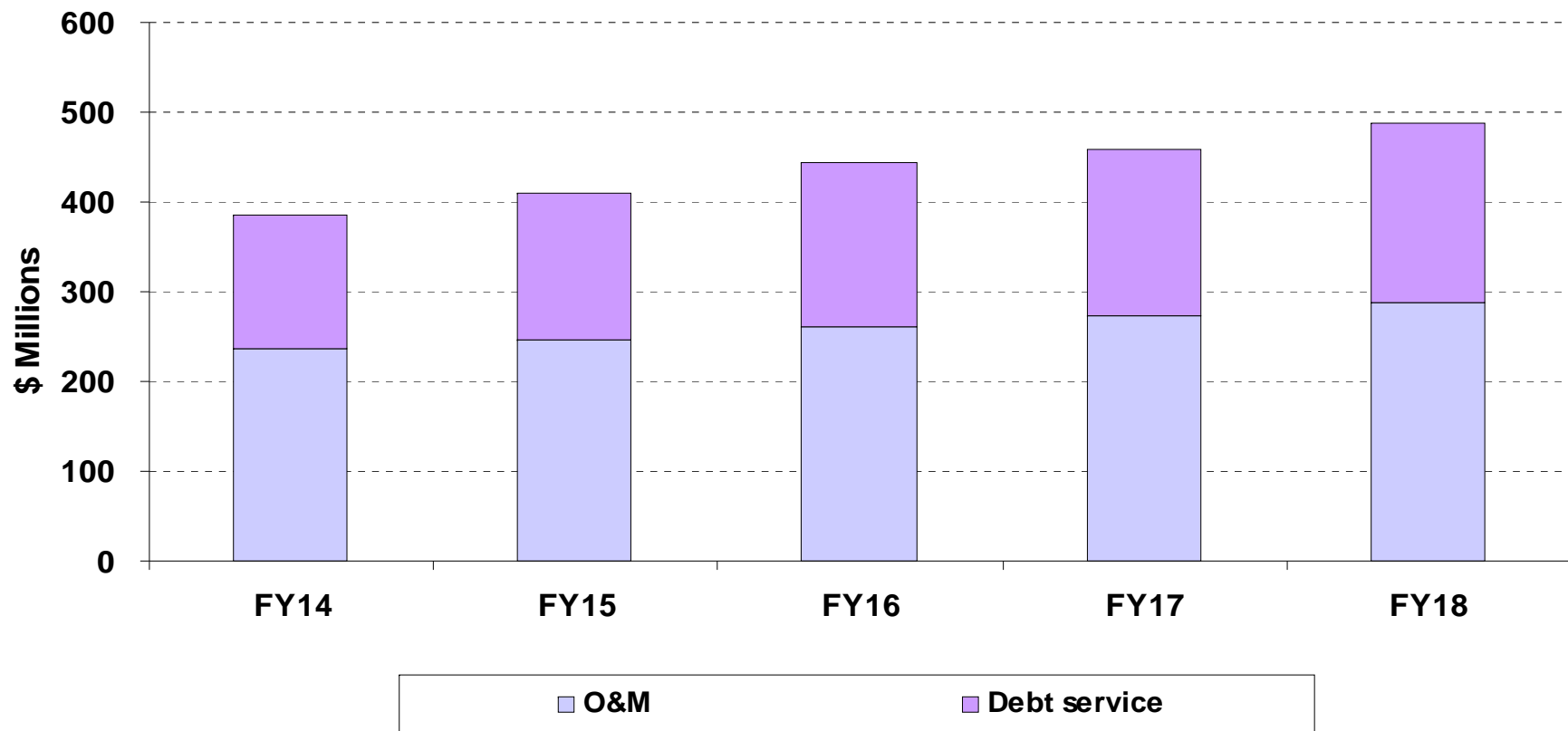
# Reduce Projected Sales Volumes



# Revenue Forecast Water System

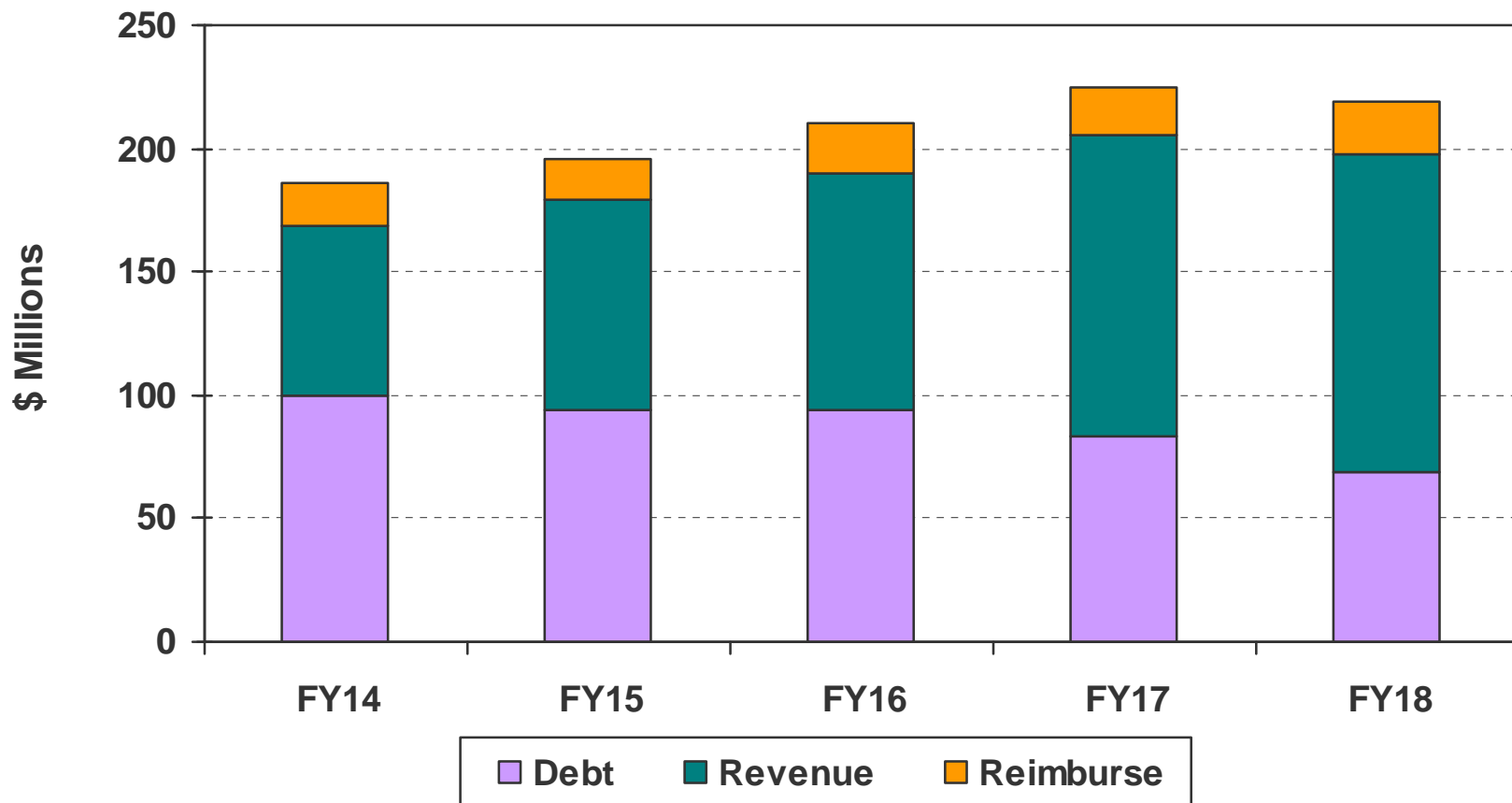


# Operating Expenditure Forecast Water System

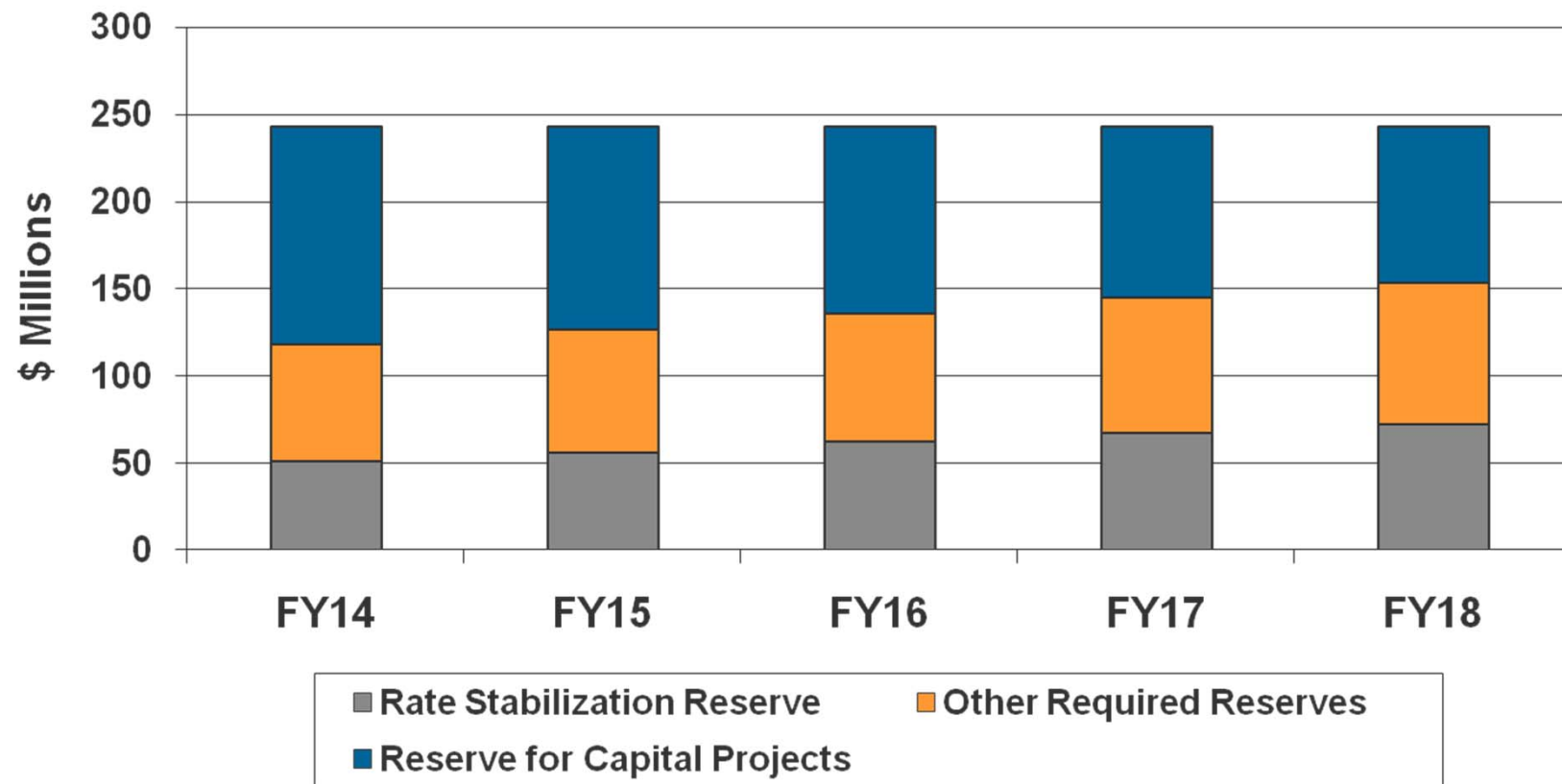




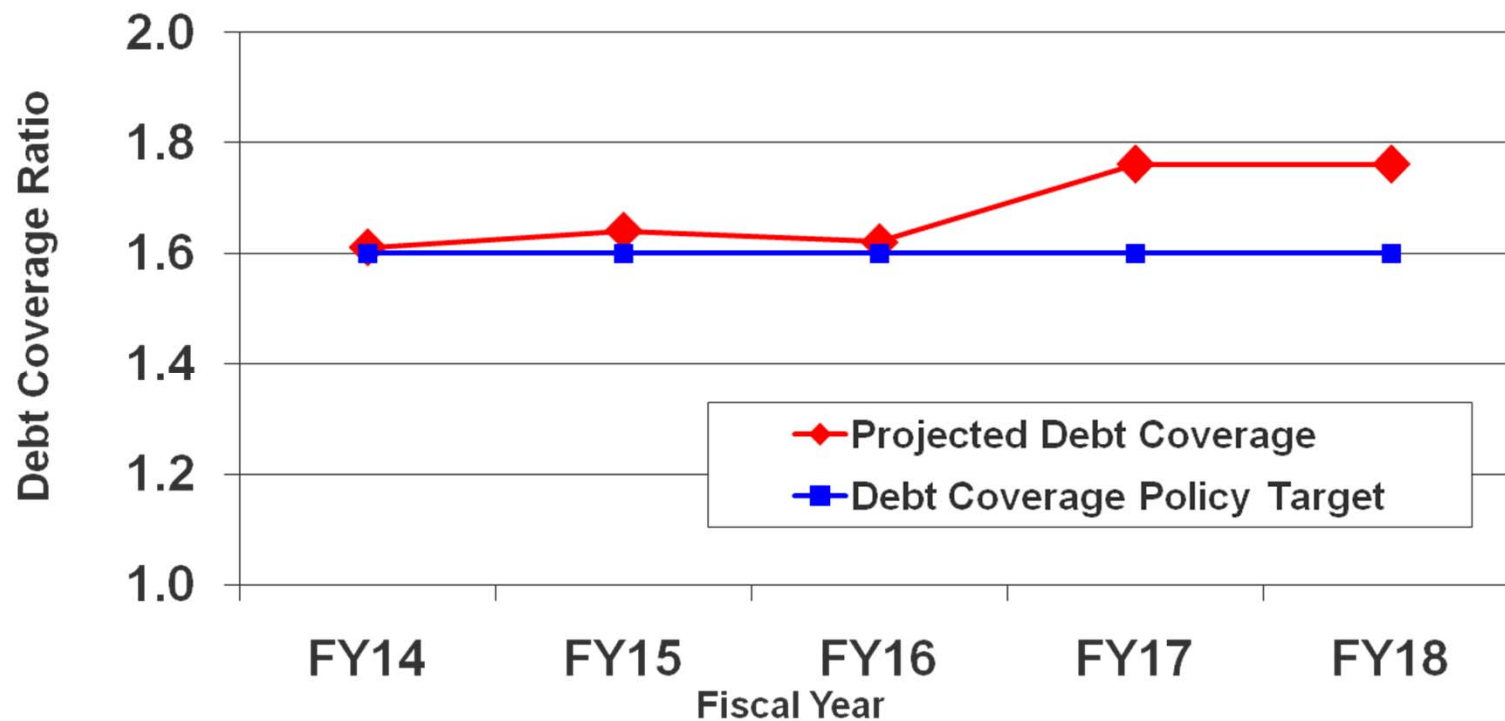
# Capital Expenditure Forecast Water System



# Reserve Forecast Water System



# Water System Revenue Bond Debt Coverage Ratio



# Wastewater System Proposed Rate Increases



**FY14**

**8.0%**

**FY15**

**8.0%**

**FY16**

**5.0%**

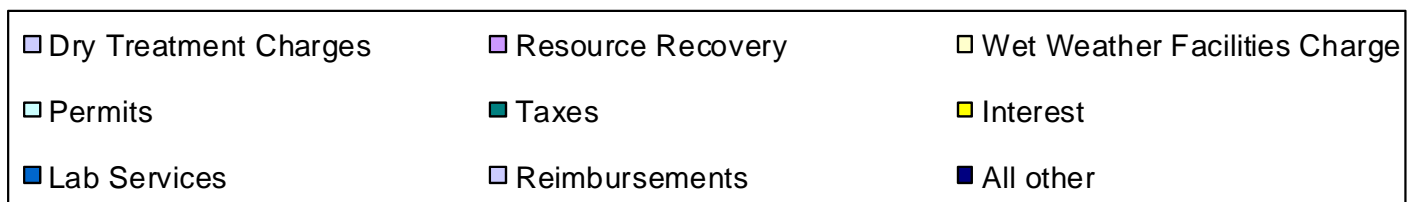
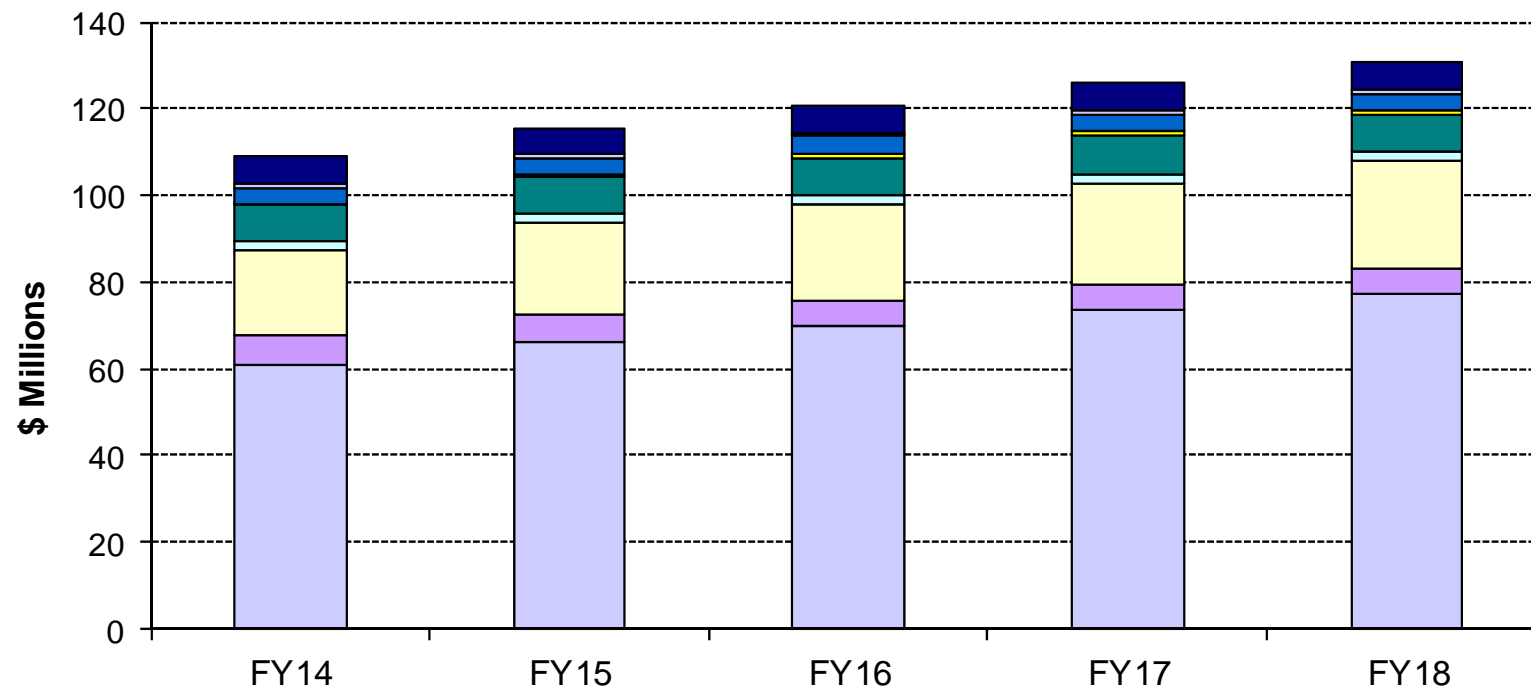
**FY17**

**5.0%**

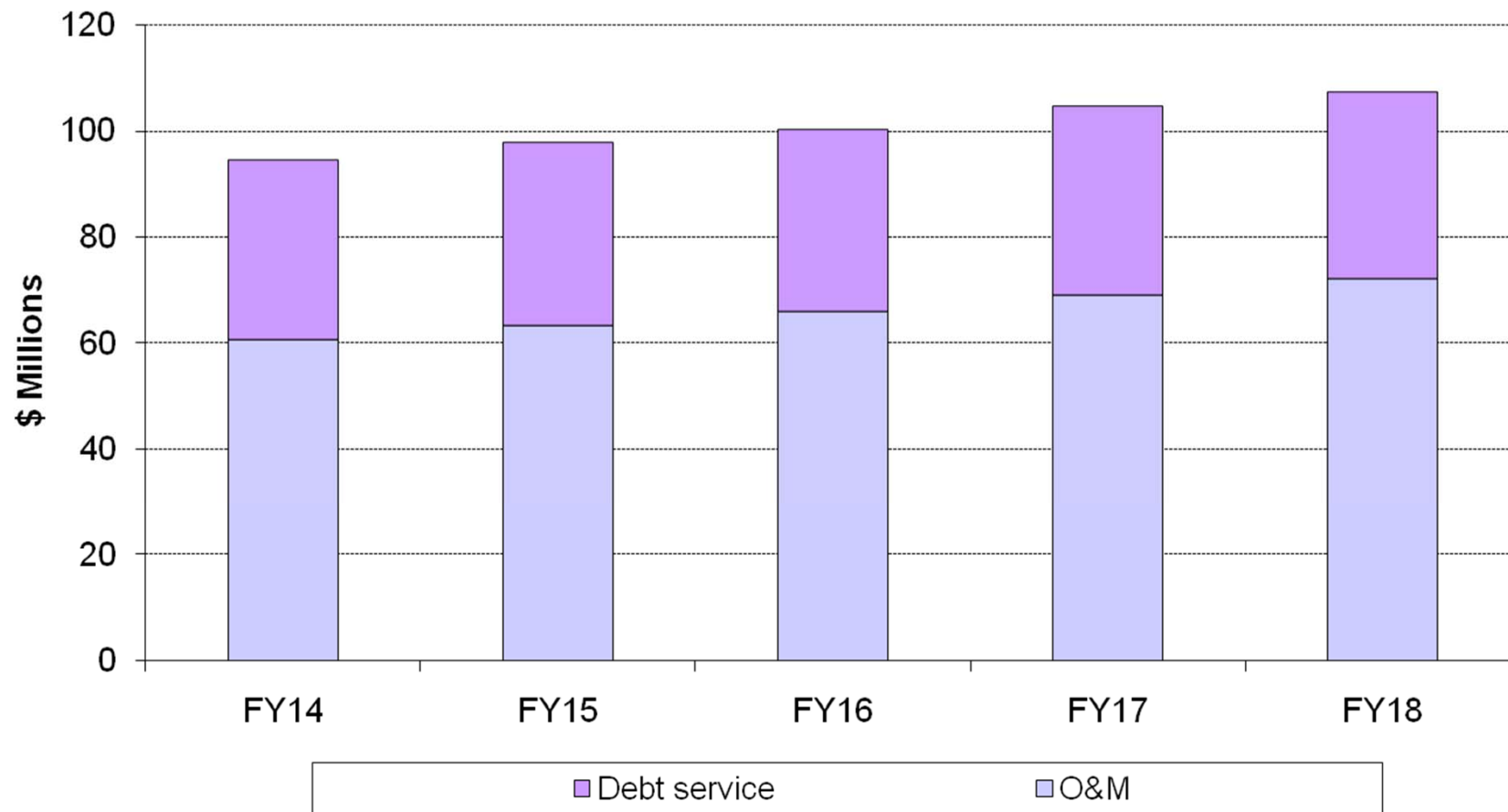
**FY18**

**5.0%**

# Revenue Forecast Wastewater System

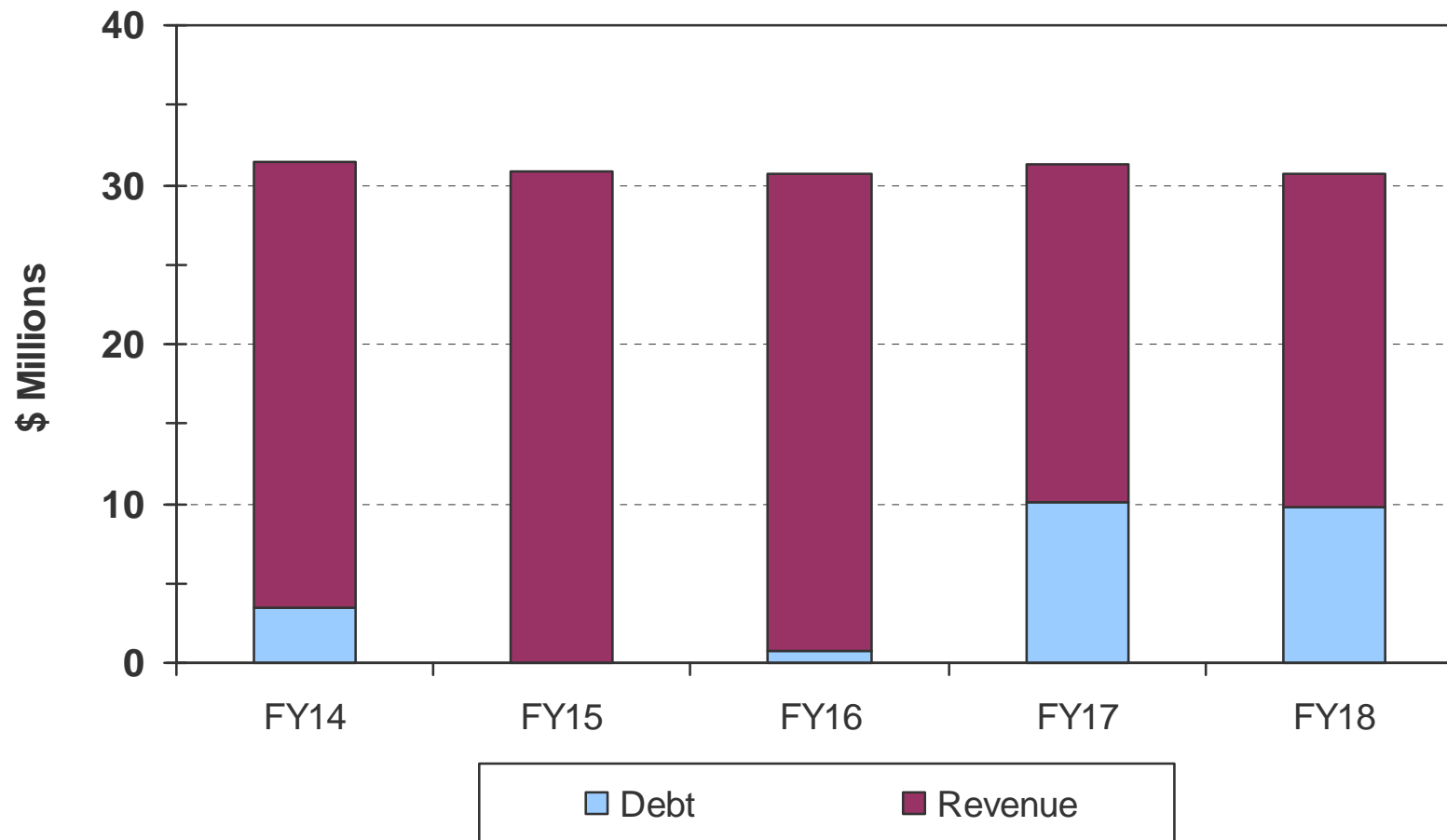


# Operating Expenditure Forecast Wastewater System

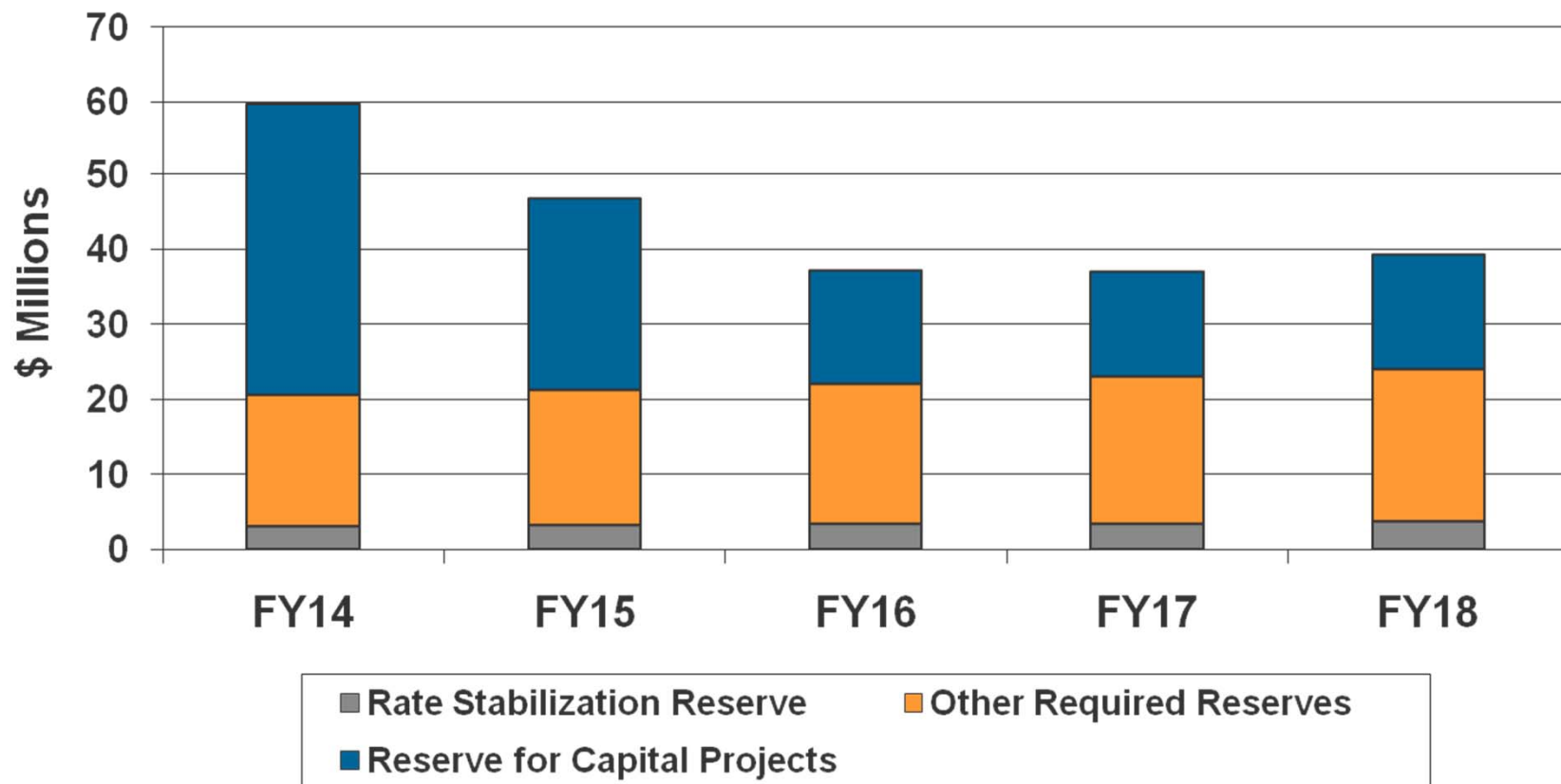




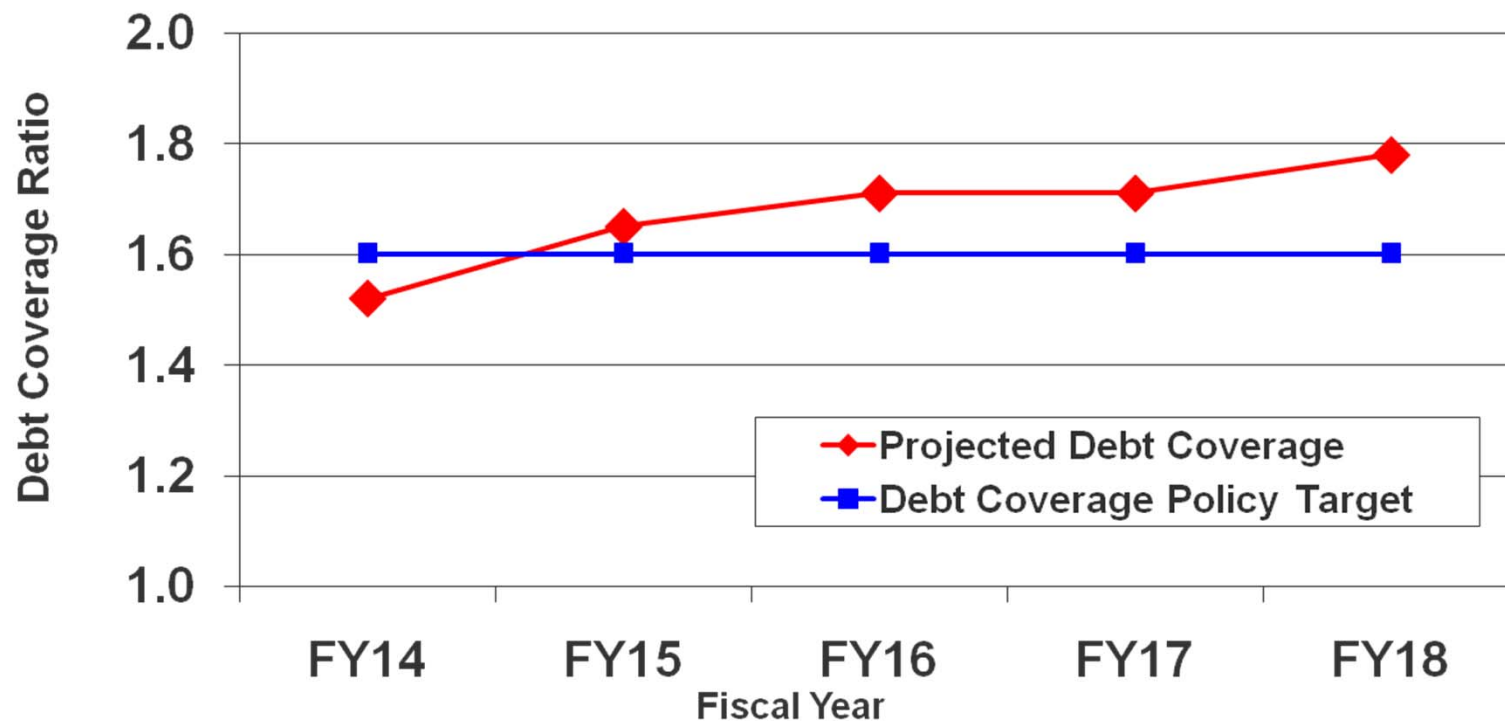
# Capital Expenditure Forecast Wastewater System



# Reserve Forecast Wastewater System



# Wastewater System Revenue Bond Debt Coverage Ratio



Below 1.60 due to restructuring of \$7.5M in state loans into revenue bonds in 2010

# Workshop Recap



- Invest in capital
  - Increase 5-year CIP by 15% or \$157 million
  - Increase cash funding of capital and meet debt service coverage targets
- Invest in operations
  - Fund 47 additional positions to enhance maintenance, renew infrastructure, and improve customer service
- Plan for long-term financial stability
  - Revise assumptions for sales volumes, capacity charges, interest earnings, Resource Recovery, and electricity sales

# Approach to Rates & Charges



- Address immediate challenges with proposed rates and charges
- Recognize future uncertainties in out years
- Undertake key financial planning initiatives in FY14 and FY15
  - Long-range financing plan
  - Cost of service studies
- Utilize findings and recommendations as foundation for FY16-17 budget

# Key Financial Planning Initiatives—FY14 and FY15



- Long-Range Financial Plan
  - Long-term forecast of revenues, expenditures and rates & charges
  - Identify and mitigate key risks—drought, interest rates, derivatives, etc...
  - Review key financial policies
- Cost of Service Studies
  - Regular update is best practice
  - Ensures compliance with Props 218 and 26
  - Private fire service, seismic surcharges



# Advancing Rate Increase



- Use less debt to fund capital program
- Accelerate capital investment
- Fund additional staff for maintenance
- Reduce future increases

# FY14 and FY15 Budget Schedule



## **Budget Workshop #1**

Feb 13

- Strategic Plan update
- FY14-15 budget planning

## **Budget Workshop #2**

April 9

- FY14-15 budget
- FY14-15 Prop 218 rates and charges

## **Budget Workshop #3**

April 16

- If necessary

## **Mail Proposition 218 Notice**

April 17 - April 26

## **Board Meeting**

May 14

- GM's Report on rates & charges

## **Board Meeting**

June 11

- Public hearing on rates and charges
- Board consideration of budget and rates

## **FY14 Rates & Charges Effective**

July 1

# Board Discussion

