

FINANCIAL PLAN AND RATE STUDY

Following direction from the District Board and District Staff, this memo outlines the outcomes of the suggested scenarios discussed at the July 15th Board Meeting. All figures presented in this document are preliminary and subject to change based on further analysis/input.

1.0 SUMMARY OF REQUESTED SCENARIOS

Following direction from the Board Carollo prepared five requested rate and financial scenarios to analyze and address the Board’s interest in (1) Reserve Funding, (2) Capital Funding, and (3) Rate Design. As the revenue increases are held constant (detailed in Section 5), the scenarios were focused on defining the capital funding potential of various reserve levels. Although changes in the reserve policy would not have an immediate impact on rates, it releases existing resources and enables additional funding of identified projects in the District’s Capital Improvement Plan (CIP). In addition, capital funding potential was calculated for either cash only (PAYGO) or financing (debt) conditions.

The following table provides a matrix of the additional scenarios that were analyzed:

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Operating Reserve (Min)	6 Months	3 Months	4.5 Months	6 Months	3 Months
Capital Reserve (Min – per cost center)	\$1M	\$0.25M	\$0.5M	\$1M	\$0.25M
CIP Funding Strategy	Cash Only	Cash Only	Cash Only	Cash/Debt	Cash/Debt

Based on the scenarios analyzed above, Carollo identified the capital funding potential (ability to fund capital project) and the resulting funding excess or shortfall, based on the proposed CIP.

In order to provide a benchmark for reasonableness of the proposed annual CIP, Carollo identified the amount of annual depreciation (loss in system value). This amount is based on the assumed replacement costs of the system depreciated over 70-years. This target reflects the minimal amount of annual capital reinvestment necessary to maintain the existing system.

The table below presents the capital funding potentials for each scenario over the proposed 5-year rate period. Differences in the Capital Funding Potential, between the cash scenarios, reflect the impact of the various reserve levels.

	Scenario 1 Cash	Scenario 2 Cash	Scenario 3 Cash	Scenario 4 Debt	Scenario 5 Debt
Marina Water					
Capital Need	4,976,745	4,976,745	4,976,745	4,976,745	4,976,745
Capital Funding Potential	9,326,050	10,892,587	10,228,815	16,080,513	17,428,799
Excess/(Shortfall)	4,349,305	5,915,842	5,252,070	11,103,768	12,452,054
5-yr System Depreciation	2,001,300	2,001,300	2,001,300	2,001,300	2,001,300

Marina Sewer					
Capital Need	5,069,348	5,069,348	5,069,348	5,069,348	5,069,348
Capital Funding Potential	601,913	1,543,278	1,192,916	2,936,292	3,852,286
Excess/(Shortfall)	(4,467,435)	(3,526,070)	(3,876,432)	(2,133,056)	(1,217,062)
5-yr System Depreciation	1,977,475	1,977,475	1,977,475	1,977,475	1,977,475
Ord Water					
Capital Need	19,522,023	19,522,023	19,522,023	19,522,023	19,522,023
Capital Funding Potential	5,709,879	7,869,050	6,898,918	27,849,381	29,763,379
Excess/(Shortfall)	(13,812,144)	(11,652,972)	(12,623,104)	8,327,359	10,241,357
5-yr System Depreciation	8,567,393	8,567,393	8,567,393	8,567,393	8,567,393
Ord Sewer					
Capital Need	16,661,967	16,661,967	16,661,967	16,661,967	16,661,967
Capital Funding Potential	3,437,800	4,539,437	4,109,392	10,186,808	11,468,498
Excess/(Shortfall)	(13,224,167)	(12,122,530)	(12,552,575)	(6,475,159)	(5,193,469)
5-yr System Depreciation	4,452,579	4,452,579	4,452,579	4,452,579	4,452,579

- As illustrated above, Marina Water is able to fully fund capital projects in all scenarios. These build up in reserves will help mitigate capital projects in the out years, without additional increases.
- Despite the proposed rate increases, Marina Sewer is unable to fully fund the proposed capital improvement plan. Furthermore, the District is not reinvesting sufficient funds to keep up with depreciation, which may impact necessary rates in the future. In addition, without lowering reserves (Scenario 1), Marina Sewer is forecasted to fund \$602,000 (12%) of planned capital improvements. By utilizing reserves (Scenario 2), the Marina Sewer is able to fund \$1.5M (30%) of planned CIP over the next five years.
- Under the Cash Scenarios, Ord water is unable to fund the proposed CIP. Without lowering reserves, Ord Water is projected to fund \$5.7M (29%) of proposed CIP. By utilizing reserves, Ord Water is projected to fund up to \$7.9M (40%) of planned CIP over the next five years. Similar to Marina Sewer, under the Cash Scenarios, Ord Water's capital depreciation is greater than its planned reinvestment. Given the proposed increases of 10%, Ord Water maybe able to fully fund the proposed CIP by issuing new debt. *Please note high-level assumptions were used and Carollo did not analyze the Districts credit worthiness or ability to issue new debt.*
- Ord Sewer is unable to fully fund the proposed five-year capital improvement plan. However, over the longer term (10 years) it is forecasted that revenues will be sufficient to fund the full 10-year CIP. If reserves are maintained, Ord Sewer will be deficient in capital reinvestment; however, if reserves are lowered, as shown under Scenario 3, the capital funding potential is roughly equal to the system's depreciation.

2.0 RATE DESIGN

As requested, an alternative rate design was analyzed to further encourage conservation. This was done by increasing the price differential between tiers 1 and 2. As a result of increasing the proposed tier 2 rate, tiers 1 and 3 were lowered to maintain consistent revenues between rate designs.

The existing, proposed, and requested price differentials, based on Scenario 1, are presented below for both Marina and Ord Water systems.

Marina Water			
	Existing	Proposed	Requested
0 to 8 hcf	\$2.29	\$2.47	\$2.45
9 to 16 hcf	2.79	2.83	3.45
16+ hcf	5.09	4.97	4.79

Ord Water			
	Existing	Proposed	Requested
0 to 8 hcf	\$2.33	\$2.12	\$2.11
9 to 16 hcf	3.27	3.25	3.58
16+ hcf	4.22	4.38	4.31

Please note, based on the capital funding strategy, the rates will shift slightly between cash and debt funded scenarios.

3.0 CUSTOMER IMPACT

Based on the proposed increases and the Scenario 1 detailed above, the table below calculates a sample customer bill. The bill is calculated based on an assumed 3/4" meter consuming 13 units (hundred cubic feet) of water.

Proposed Rates

	Existing	Proposed - 1/1/14	\$ Change	% Change
Marina Water	\$51.12	\$53.05	\$1.93	3.77%
Ord Water	\$50.33	\$60.83	\$10.50	20.87%
Ord Water - Flat	\$84.34	\$93.91	\$9.57	11.34%
Marina Sewer	\$9.15	\$9.64	\$0.49	5.34%
Ord Sewer	\$25.26	\$25.98	\$0.72	2.84%

	Existing	Proposed 1/1/14 Requested Tier 2	\$ Change	% Change
Marina Water	\$51.12	\$56.00	\$4.88	9.55%
Ord Water	\$50.33	\$62.37	\$12.04	23.92%
Ord Water - Flat	\$84.34	\$96.03	\$11.69	13.86%
Marina Sewer	\$9.15	\$9.64	\$0.49	5.34%
Ord Sewer	\$25.26	\$25.98	\$0.72	2.84%

The increases shown reflect the proposed changes to the cost-of-service methodology. In the previous study, the monthly meter service charge was allocated based purely on meter size. While meter size does impact some costs, it does not accurately account for customer/billing type expenditures. Under the existing methodology, the assumed cost to bill a 6" meter is roughly 50 times that of a typical 3/4" meter. Under the proposed methodology, expenditures allocated to customer/billing are allocated based on the number of accounts, rather than meter equivalents (meter size). This increases 5/8" and 3/4" meter sizes, while decreasing the monthly costs for 1" and greater.

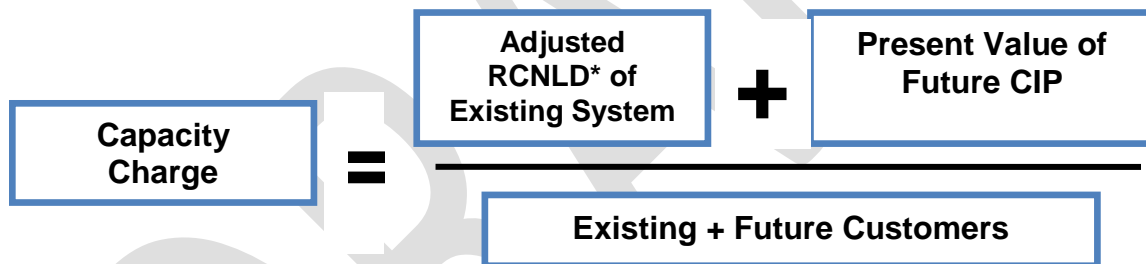
4.0 CAPACITY FEE

There are two basic components to the District's capacity charge – the “buy-in component” (or existing cost basis); and the “future component” (or future cost basis). For the purposes of this analysis, the term “buy-in component” shall refer to the value of existing system assets (i.e. facilities already in service) that may be recovered through the capacity charge. The term “future component” shall refer to future facilities (i.e., facilities in the CIP) that may be recovered through the capacity charge.

The buy-in component of the capacity charge is based on replacement cost new less depreciation. Outstanding debt principal and monetary reserves are also accounted for in this cost basis. The future component incorporates the present value of the District's CIP. Costs are fairly and reasonably spread over both existing and future users by dividing the total system value by the total number of equivalent meters that are projected to receive water service through 2030.

The methodology for calculating each cost centers capacity charges is illustrated below in Figure 1. In addition, the tables detailing the calculation are provided as Appendix A.

Figure 1: Overview of Capacity Charge Calculation



*Replacement Cost New Less Depreciation

5.0 JULY 15TH RECAP

Proposed Water and Sewer Rates

The District engaged Carollo Engineers to perform a comprehensive financial plan and rate study for its water and sewer utilities. The study includes the development of a five-year financial plan and cost-based water user charges through a comprehensive cost of service and rate design analysis. The District serves approximately 30,000 residents through 8,000 connections in its Marina and former Fort Ord (Ord) community service areas. A financial model and rates were designed for each of the District's four primary cost centers, one for each service area and its respective utility system: Marina Water; Marina Sewer; Ord Water; and. Ord Sewer.

After performing a detailed consumption analysis and reviewing the District's existing rate structure, Carollo does not recommend structural changes at this time. Although consumption is significantly different from forecasted in the 2008 study, the existing tier allocations (amount of water in each tier) remain reasonable and are well understood by the community.

Based on cost-of-service practices, one recommendation is to modify the meter Service Charge methodology. Currently the charge does not distinguish between meter related costs and "account" type costs that do not increase based on meter size (e.g., customer billing and meter reading). This change is reflected in the rate structures and its impact is illustrated by the recommended decrease in the meter charges greater than 3/4". This decrease will affect roughly 12% of the District's accounts.

Marina Water

- Based on assumed expenditures and forecasted existing revenues, overall required revenue should be increased by 3.0% per year. Of the cost centers, Marina Water has the best financial position and is able to fully fund proposed capital projects.

Marina Sewer

- Based on assumed expenditures and forecasted existing revenues, overall required revenue should be increased by 10% throughout the study period. These increases are necessary to generate a positive cash flow, meet coverage requirements, and to partially fund capital improvements.

Ord Water

- Based on assumed expenditures and forecasted existing revenues, overall required revenue should be increased by 10% from FY14 through FY17. The increases are cash flow driven, as without the recommended increases, the cost center would be using reserves to offset insufficient revenues.

Ord Sewer

- Based on assumed expenditures and forecasted existing revenues, overall required revenue should be increased by 4% through FY17, increasing to 8% in FY18. Increase will provide the cost center with sufficient cash flow to meet debt coverage obligations, generate positive cash flows, and partially fund capital projects.

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