



**moulton niguel** water district

# Rate Study 2017: Outlook and Refinement Opportunities

Financial Planning Special Board Workshop

December 14, 2016

# Workshop Agenda

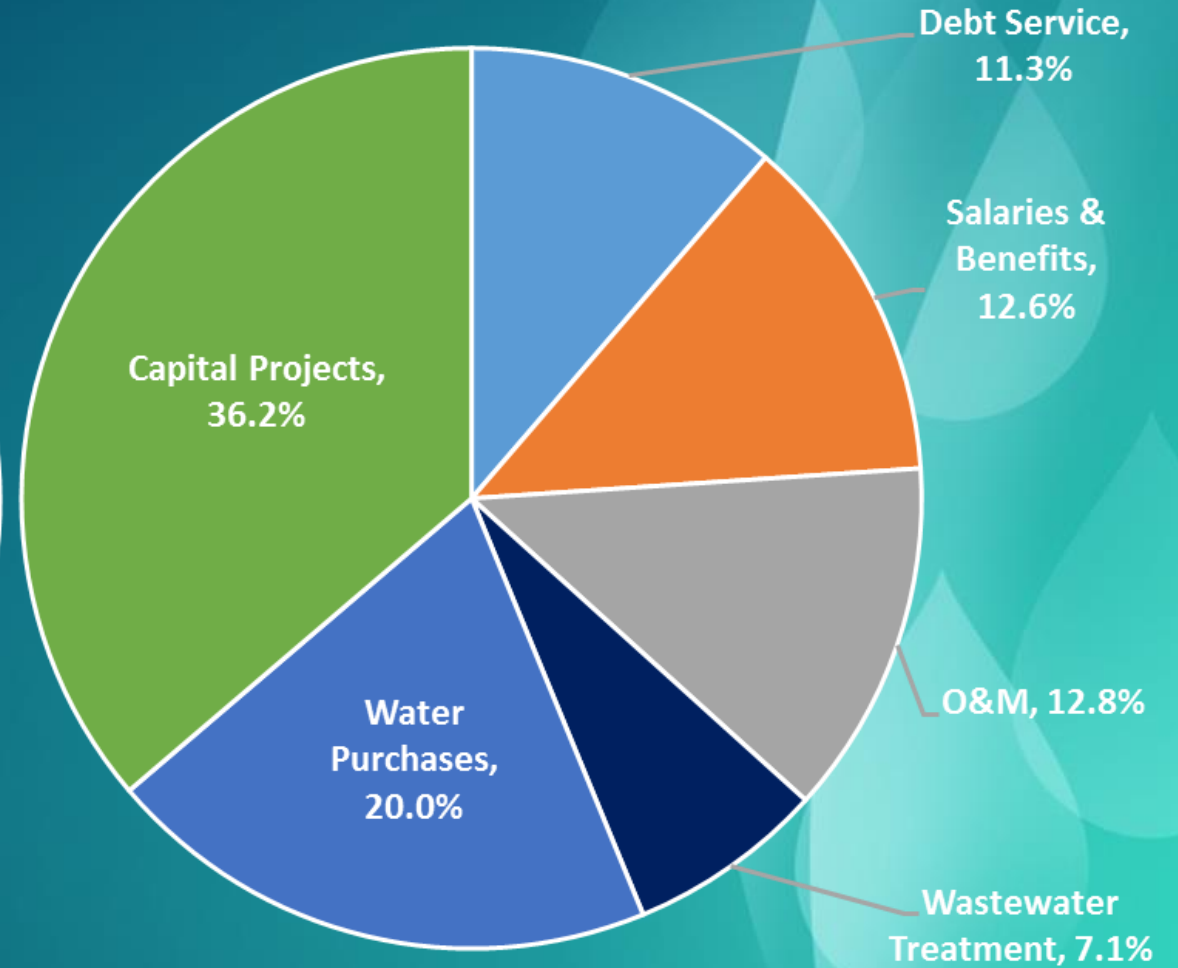
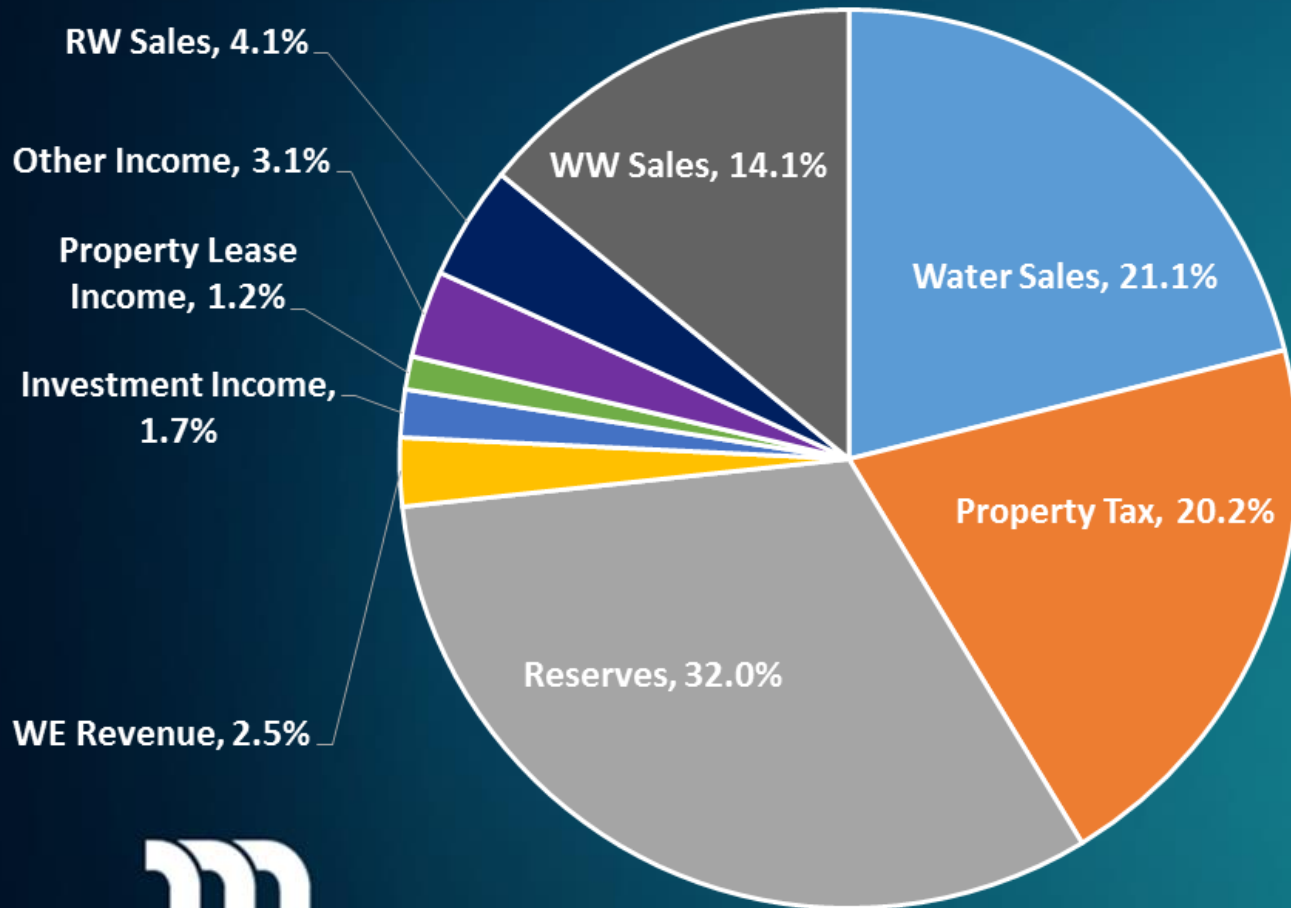
1. Financial Position Overview
2. Long Range Financial Plan Comparison
3. 2015 COS Rate Study Review
4. Policy Driven Rate Setting
5. Bond Financing and Long Term Financial Planning
6. Next Steps

# Financial Position Overview

# FY 2016-17 Budget Summary

Source of Funds = \$134.1M

Use of Funds = \$134.1M



# Success to Date

- Strong Financial Position
  - AAA & AA+ Credit Ratings
- Drought Resiliency
  - Rate structure mitigates financial risk while encouraging conservation
- Maximized Investment Earnings
  - Portfolio structured to meet forecasted cashflow needs
- State Recognition for Best Practices
  - WBBRS considered “superior” to use restrictions



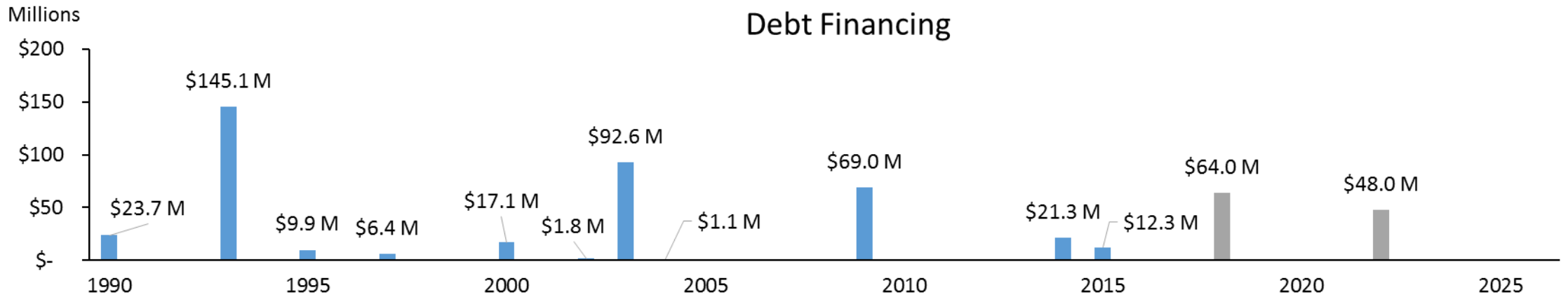
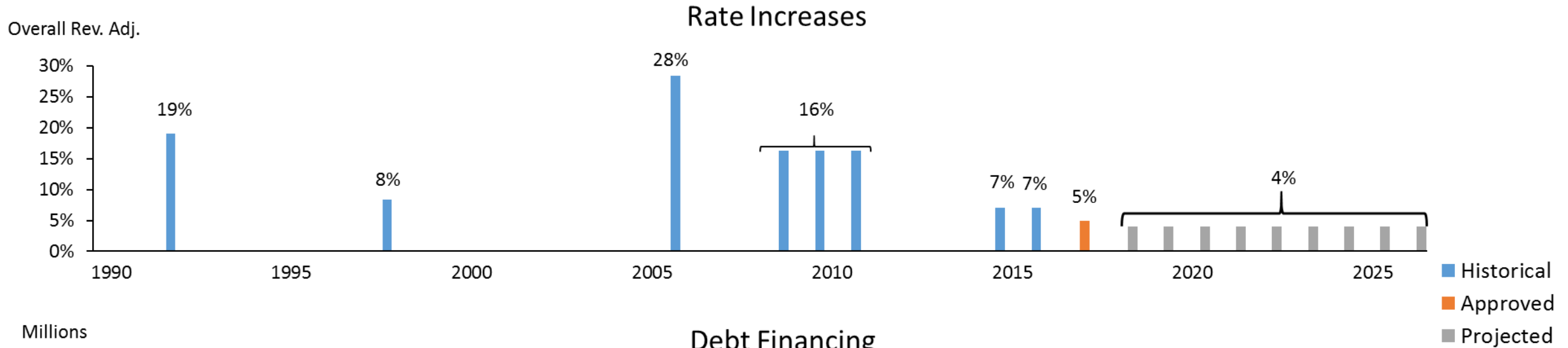
# Financial Reporting and Oversight

- Daily coordination across departments
- Monthly finance and accounting updates
- Monthly cashflow needs analysis
- Quarterly CIP updates
- Quarterly investment reporting
- Bi-annual Long Range Financial Plan updates
- Annual budget and financial policy review
- Annual CAFR and audit

# Long Range Financial Plan Comparison



# Historical and Proposed Actions

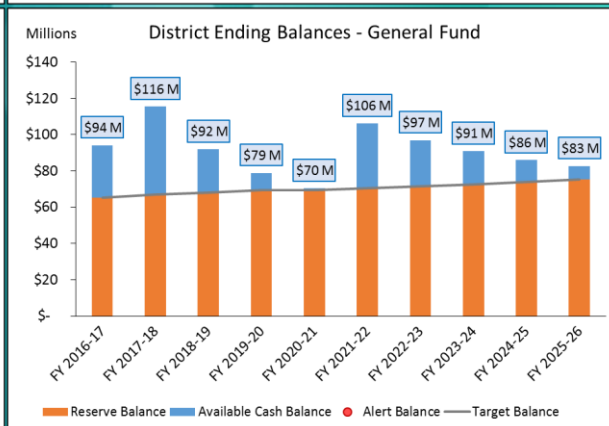
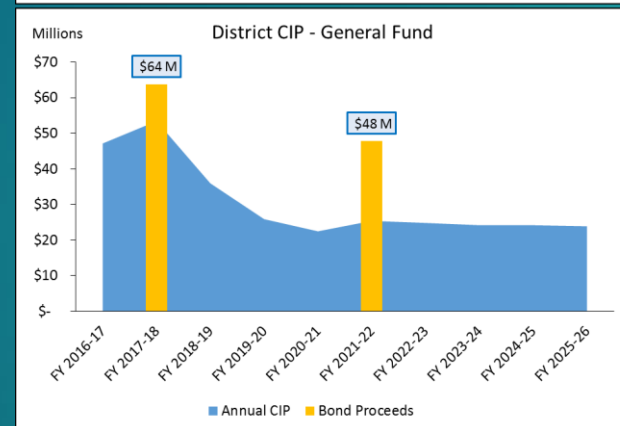
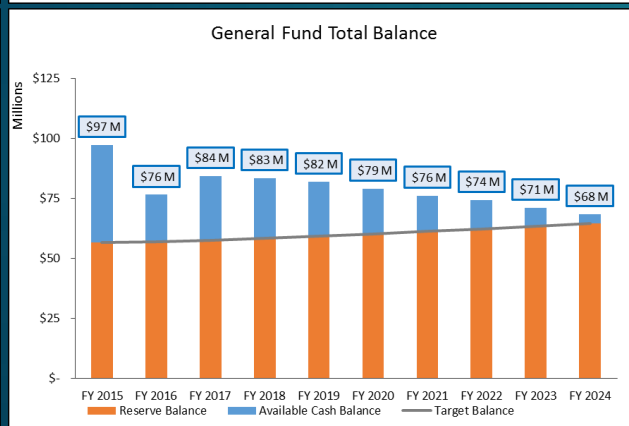
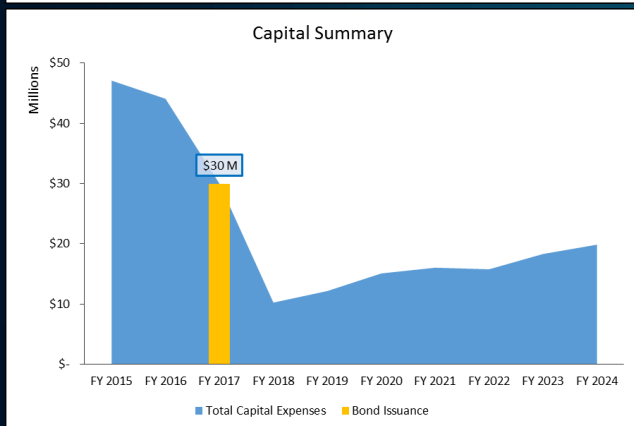
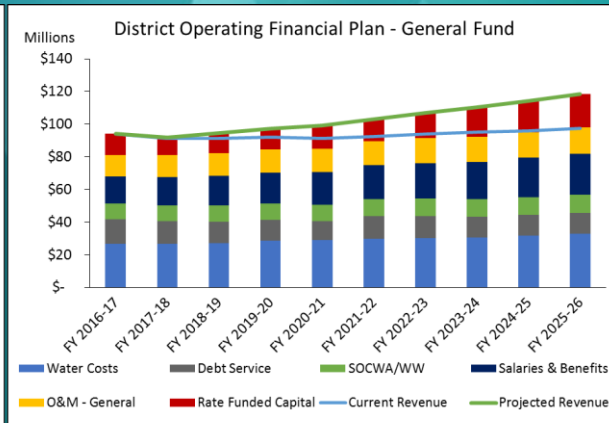
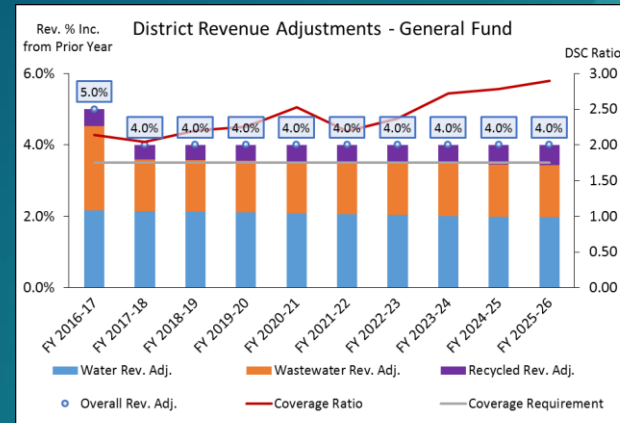
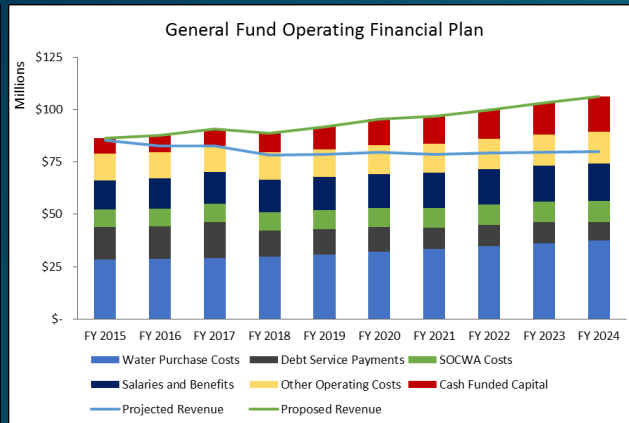
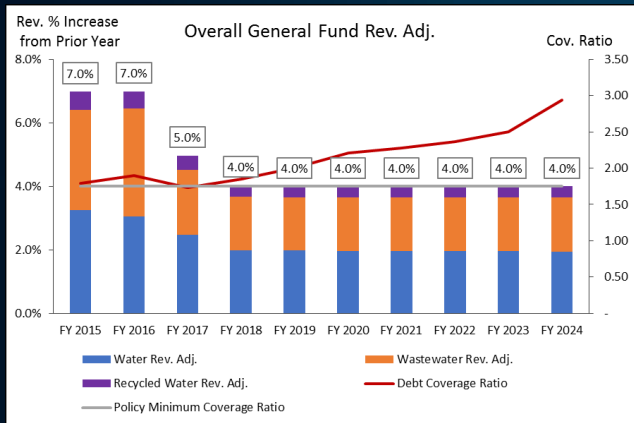




# Long Range Financial Plan Comparison

## 2015 COS Study

## Updated Cashflow Forecast



# 2015 COS Rate Study Review

# Adopted COS Rate Structure –Objectives

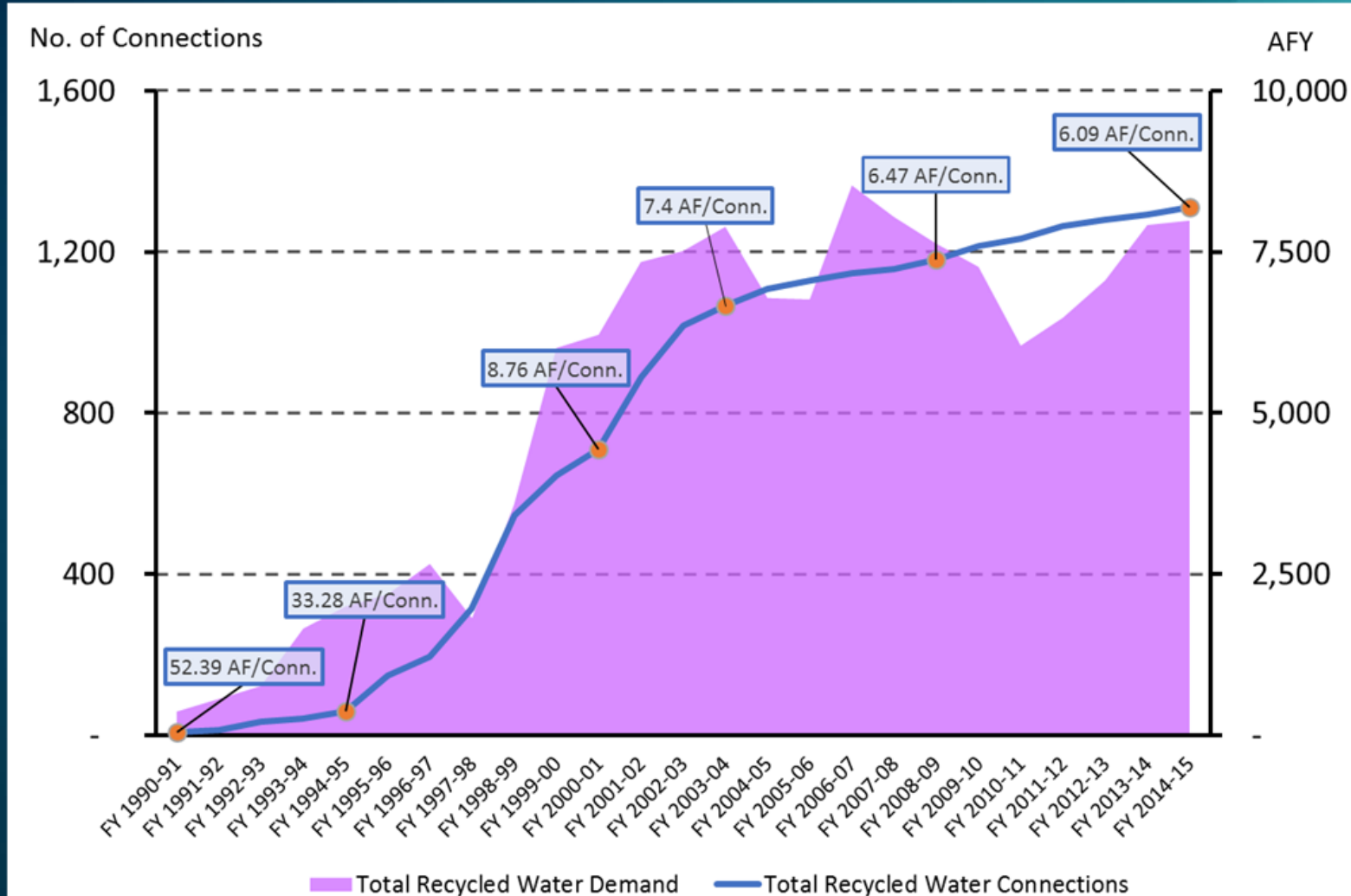
- Transparent and consistent
- Avoid unanticipated rate hikes
- Issue debt only when required
- Minimize impact of water sales revenue reductions
- Ensure cost nexus
- Connect rate structure with Water Shortage Contingency Plan

# Evolution of Fund 6

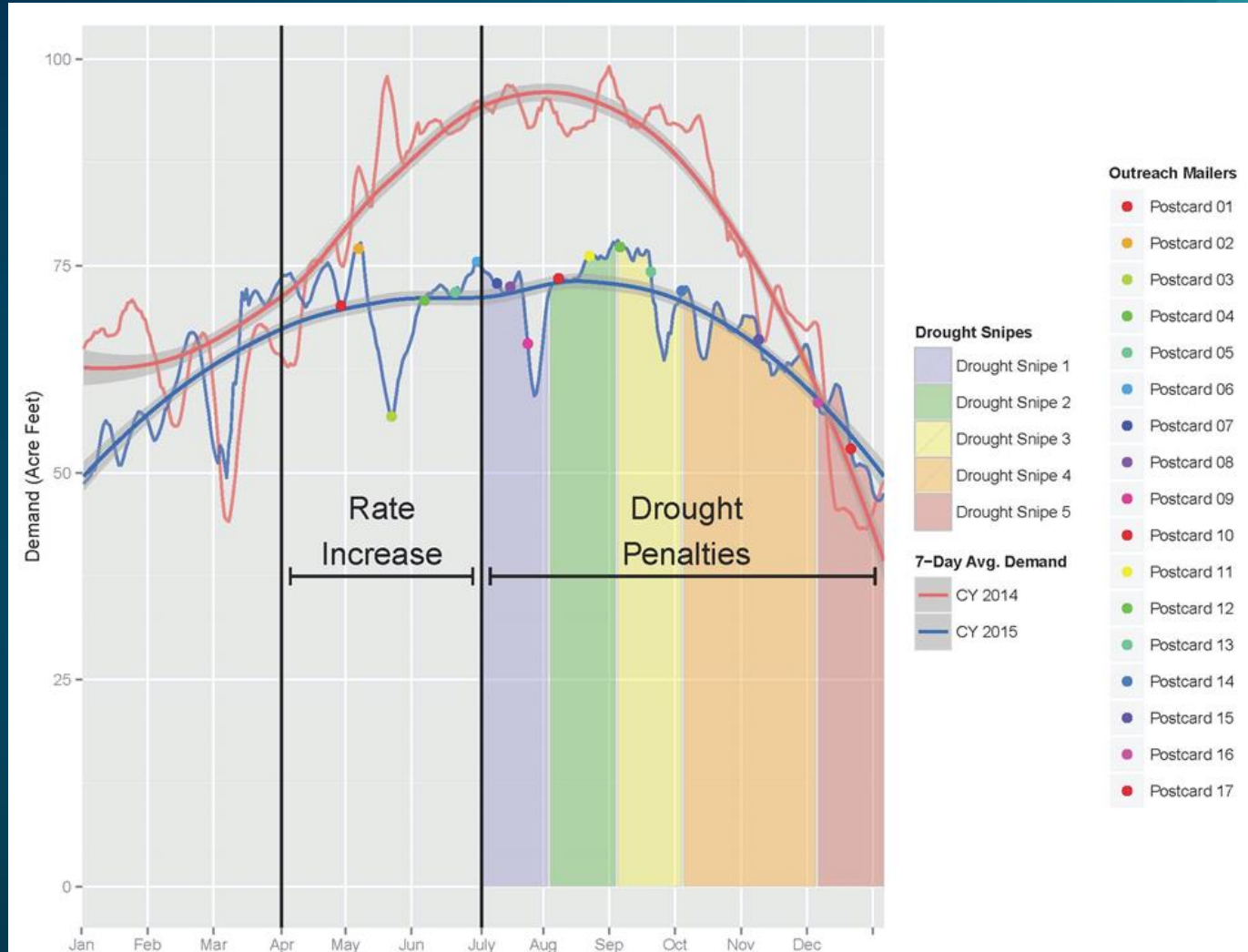
- 2011 Water Budget Based Rates
  - Customers in control of efficient usage decisions
  - Utilize rate structure to encourage efficient usage
  - Developed efficiency programs to help customers get within budget
- 2015 COS Based Rates
  - Rates designed based on costs
  - WSCP Ordinance Penalties

# Success to Date – Going Forward

# Expansion of RW

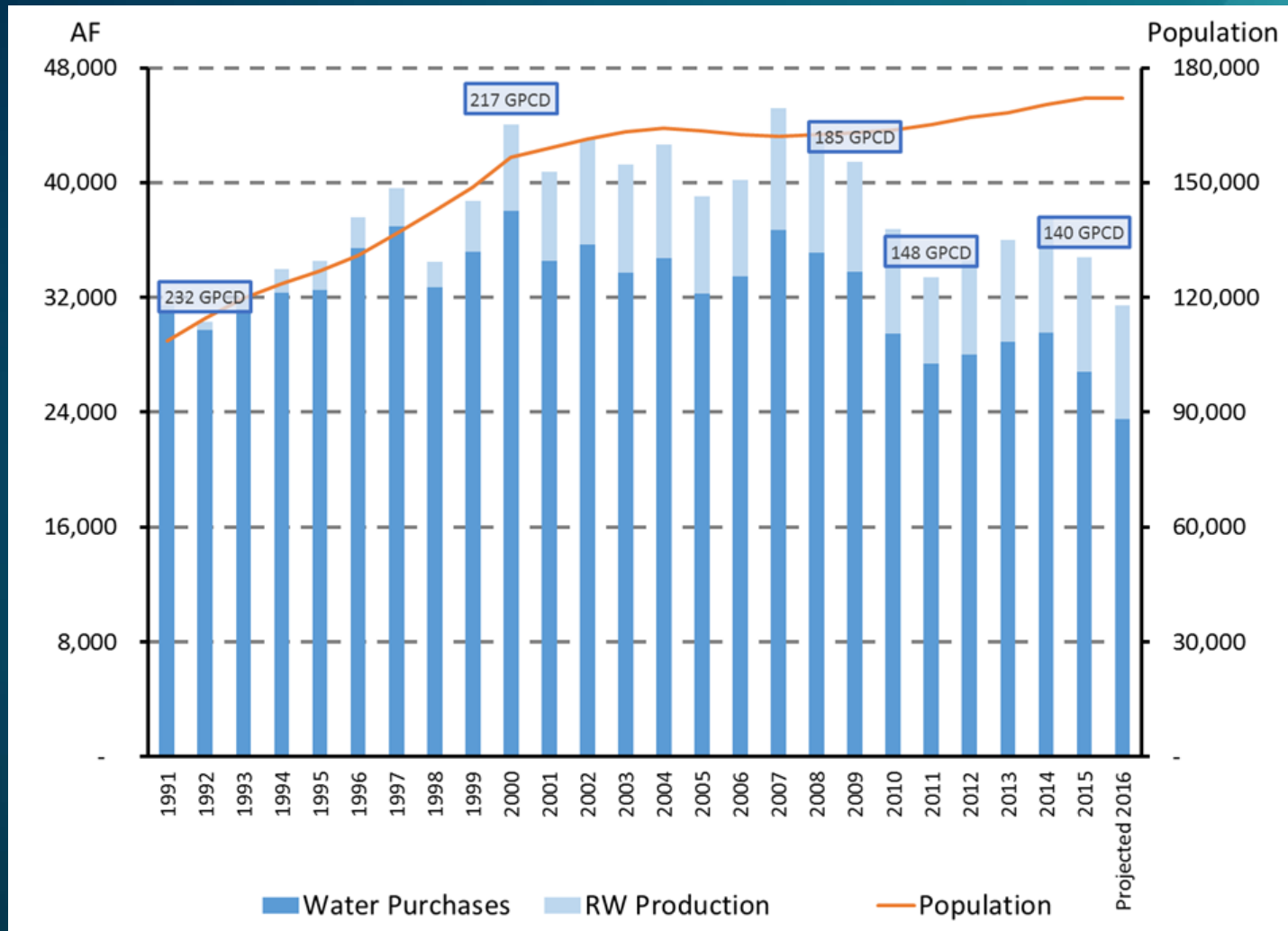


# Integrated and Comprehensive Demand Management





# DMM + RW = In Good Shape



# Going Forward – Continuing Success

- Regular updates of LRFPP
- Maintain cost nexus
- Incorporate customer feedback
- Ensure customers maintain control of water usage decisions
- Utilize rates as a tool to meet short and long range financial objectives and policy goals

# Policy Driven Rate Setting

## Rate Structure Refinements

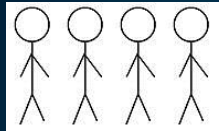
# What We've Learned

- Water budget rates are effective at driving to efficiency
- Wastewater flows reduced 30% in past 6 years
- SJC Appellate decision specifies “one water”

# Key Policy Issues

- Water Budget Factors
- Incentives for reporting accurate household size
- Who pays for recycled water system expansion?

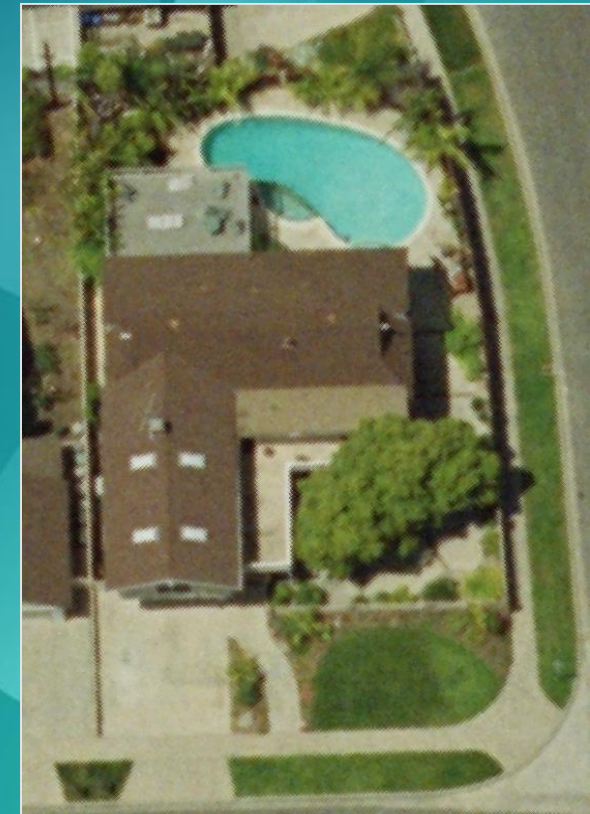
# Example



- 4 People in Household
- Indoor Use = 10 BU
- Outdoor Use = 5 BU
- Budget = 15 BU
- Monthly Water Bill = \$23.40
- Monthly Sewer = \$24.83
- Total Monthly Bill = \$48.23

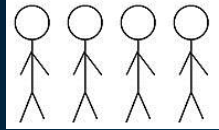


- 1 Person Household
- Indoor Use = 2.5 BU
- Outdoor Use = 12.5 BU
- Budget = 15 BU
- Monthly Water Bill = \$23.40
- Monthly Sewer = \$24.83
- Total Monthly Bill = \$48.23





# Solution: Per Person Sewer Charge



- 4 People in Household
- Indoor Use = 10 BU
- Outdoor Use = 5 BU
- Budget = 15 BU
- Monthly Water Bill = \$23.40
- Monthly Sewer = \$24.83
- Total Monthly Bill = \$48.23



- 1 Person Household
- Indoor Use = 2.5 BU
- Outdoor Use = 12.5 BU
- Budget = 8 BU
- Monthly Water Bill = \$31.31
- Monthly Sewer = \$6.21
- Total Monthly Bill = \$37.52





# 2017 COS - Proposed Approach

“It’s not about using less; it’s about wasting less”

- Key Issue:
  - District Census Population = 172,000
  - Billing System Population = 228,000
- Solution:
  - Refine wastewater rate structure (Ex: per person wastewater charge)
  - Currently used by EMWD, LVMWD

# 2017 COS - Proposed Approach (Cont.)

“It’s not about using less; it’s about wasting less”

- Key Issues:

- Rates are most effective demand management tool
- Need to expand RW system to meet potable reliability objectives

- Solution:

- Inefficient tiers fund RW system expansion
- Fund 6 pays debt service for Phase V RW system expansion

# Bond Financing and Long Term Financial Planning

# Historical and Proposed Bond Issuance

# Historical Bond Issuance

- Since 1990, market bond issuance primarily used for refinancing
  - \$5.7 million in debt service savings past 10 years
- Cash reserves used to fund CIP
  - Lower CIP execution rate
  - Alignment of reserve and financial policies
  - Spenddown plan included in LRFP

# Proposed Bond Issuance

- Bond issuances smooth rate increases
  - Integral to stable rate plan
  - Intergenerational Equity for long lasting assets
- Bond issuance prudent in FY 2018 and FY 2022
  - Identified in FY 2017 budget
  - Needs based on LRFPP projections of increased CIP execution and reserve spenddown

# Timing and Market Environment

- Interest rates at historic lows
  - Aligned with need and plan to issue = opportunity
- Attempt to increase S&P rating to AAA
- Maintain AAA rating from Fitch
- Approximately \$60 M around January 2018
  - Working with PFM on size and date over next 9 months



# 2017 Timeline for Financial Initiatives

Dec 2016

- Adopt Reimbursement Resolution

Feb-Jan 2017

- Final scheduled rate adjustment effective
- Award COS Peer Review and Bond Counsel Contracts

Apr-May 2017

- Budget Discussions
  - Proposed Bond Issuance
  - COS Revenue Requirements

Jun 2017

- Adopt FY 2017-18 Budget

Jul-Aug 2017

- COS Rates Proposal

Sept-Oct 2017

- Bond Issuance Kickoff
- Issue Prop. 218 Notice

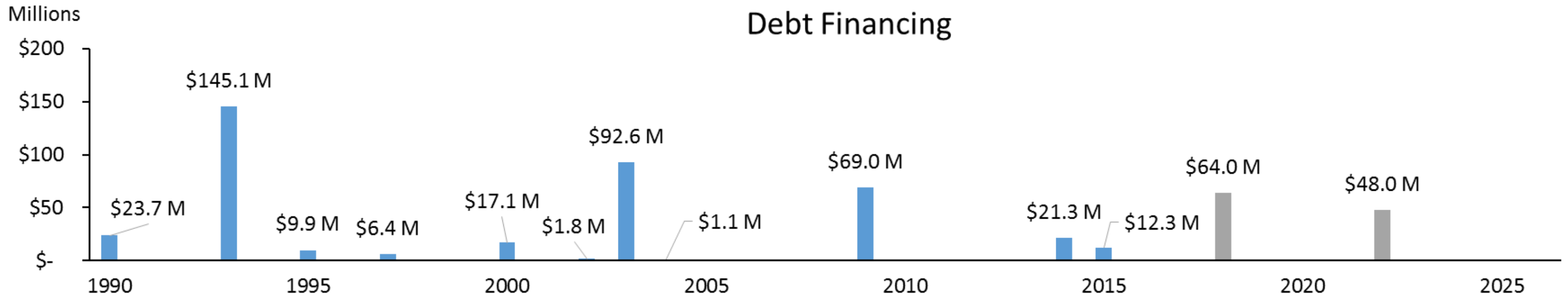
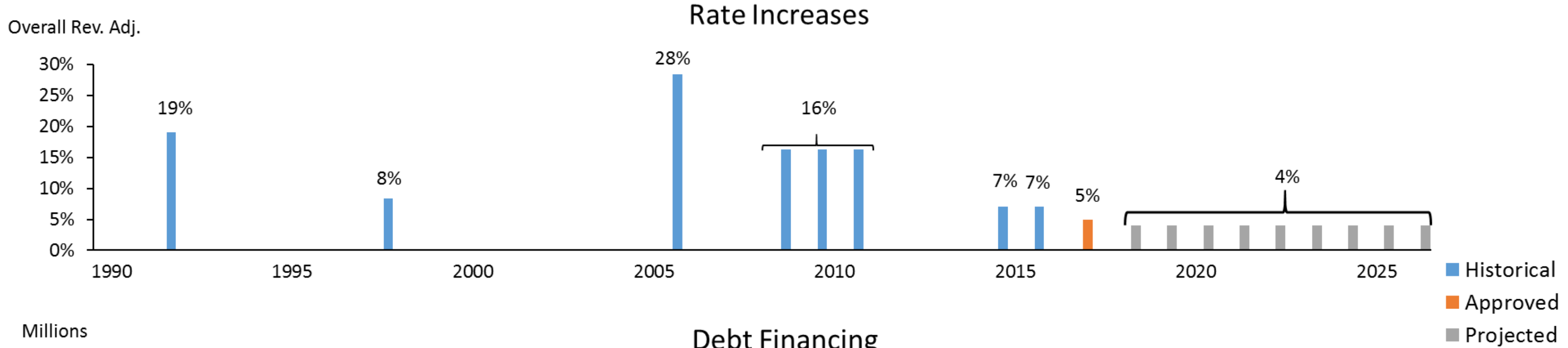
Dec 2017

- Rate Adoption

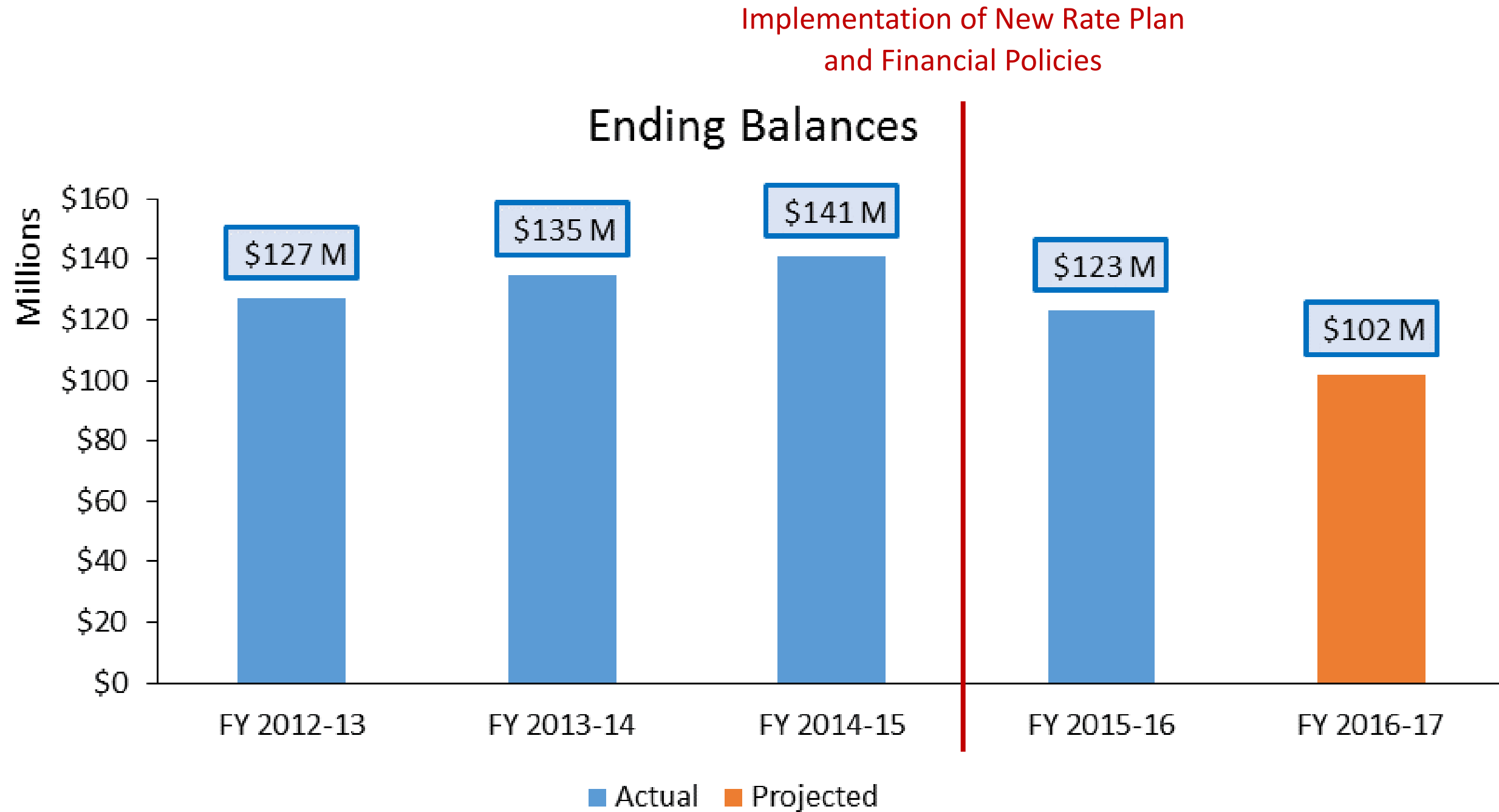
Jan 2018

- Issue Bond
- Rates Effective Jan 1, 2018

# Historical and Proposed Actions



# Planning to Reserve Target



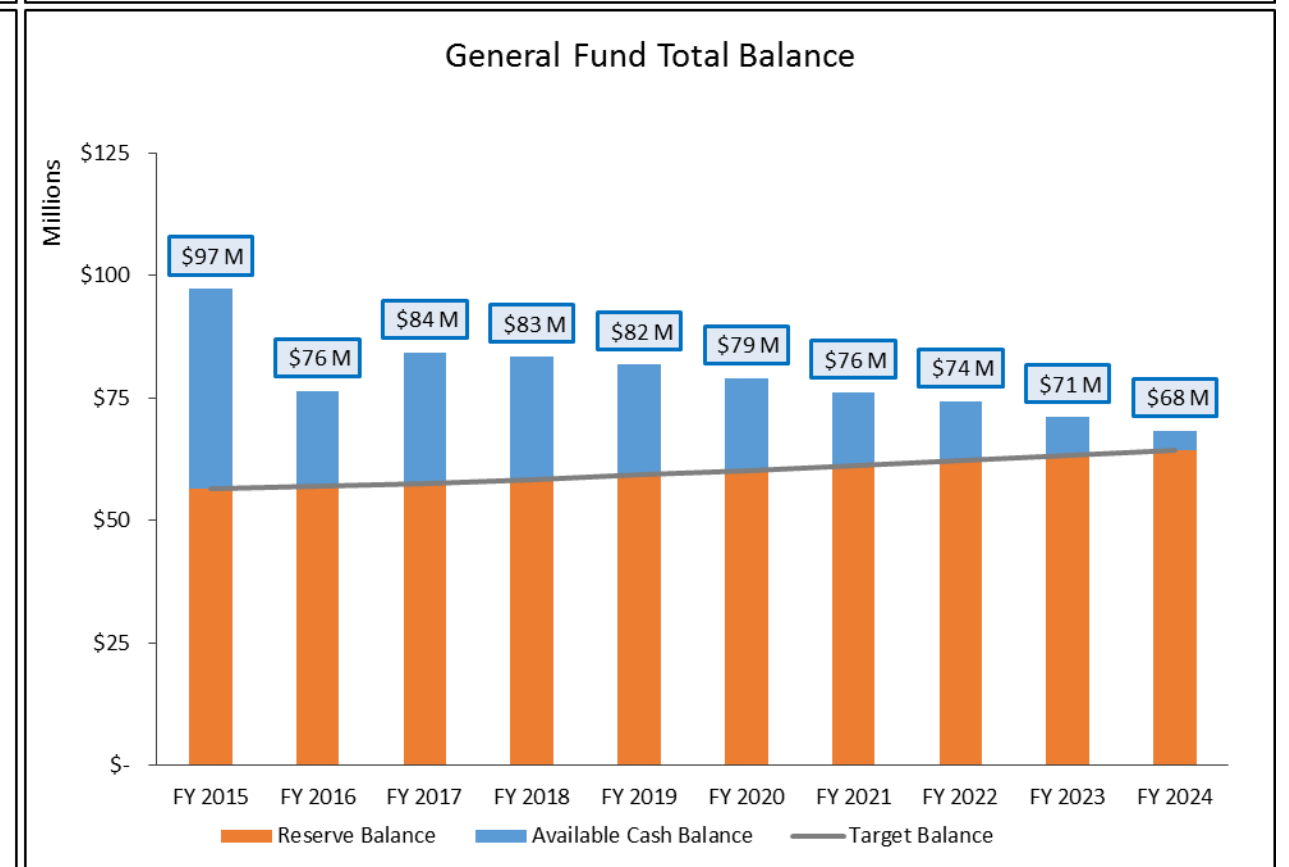
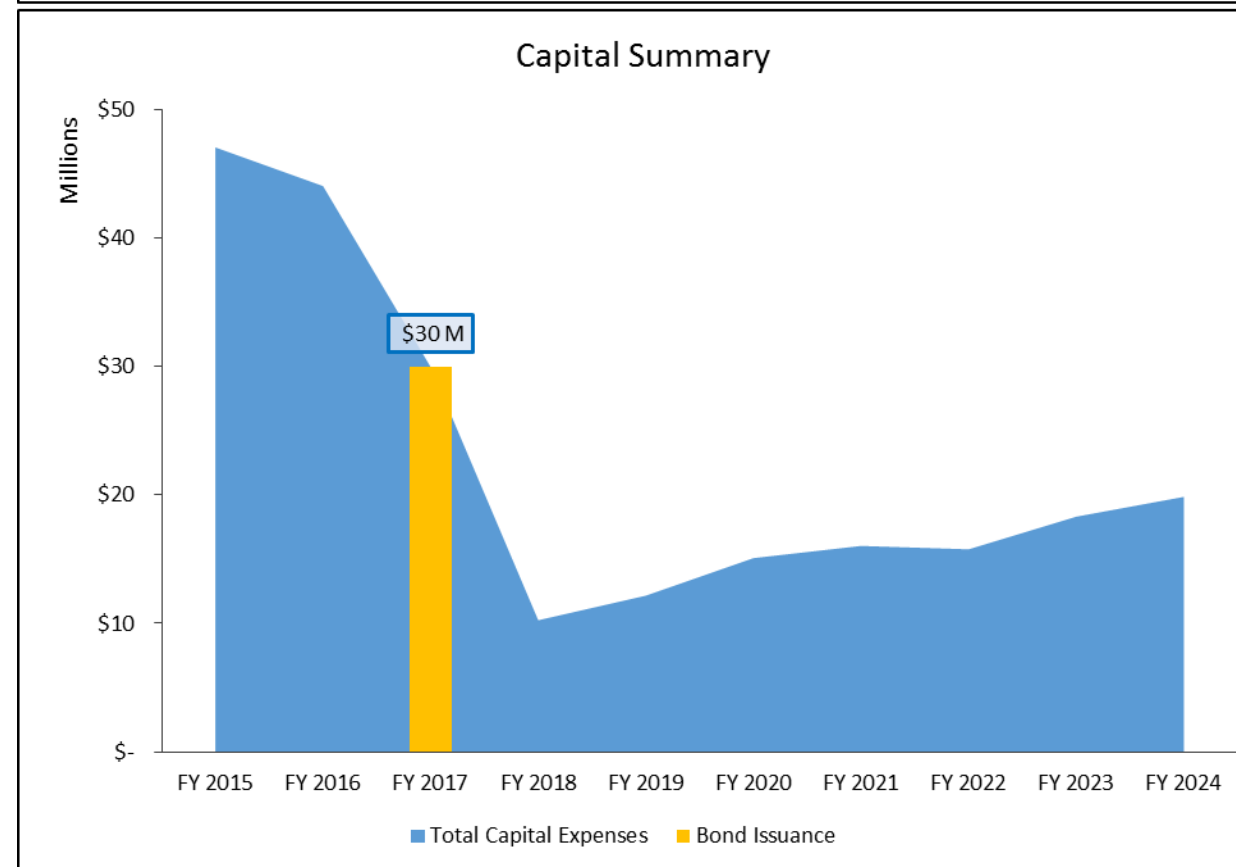
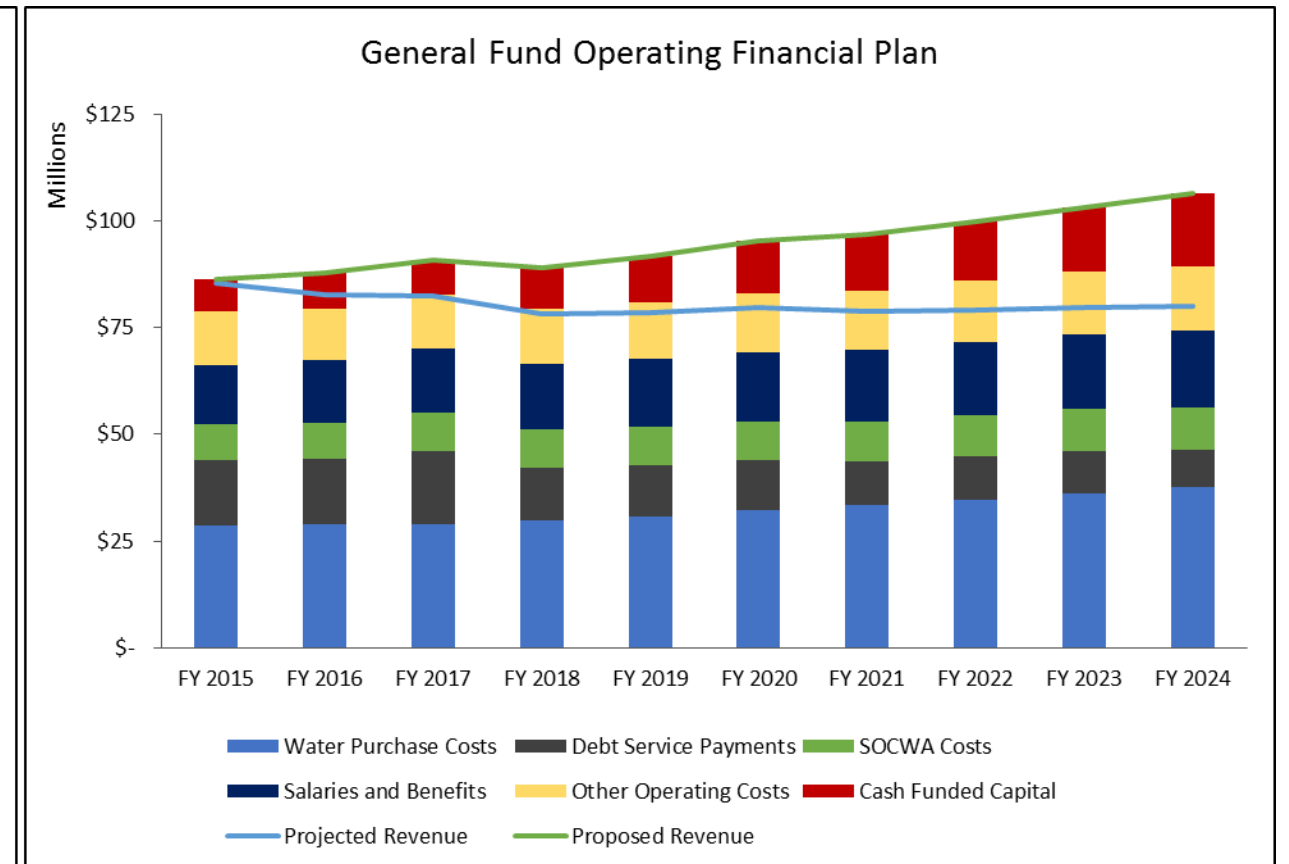
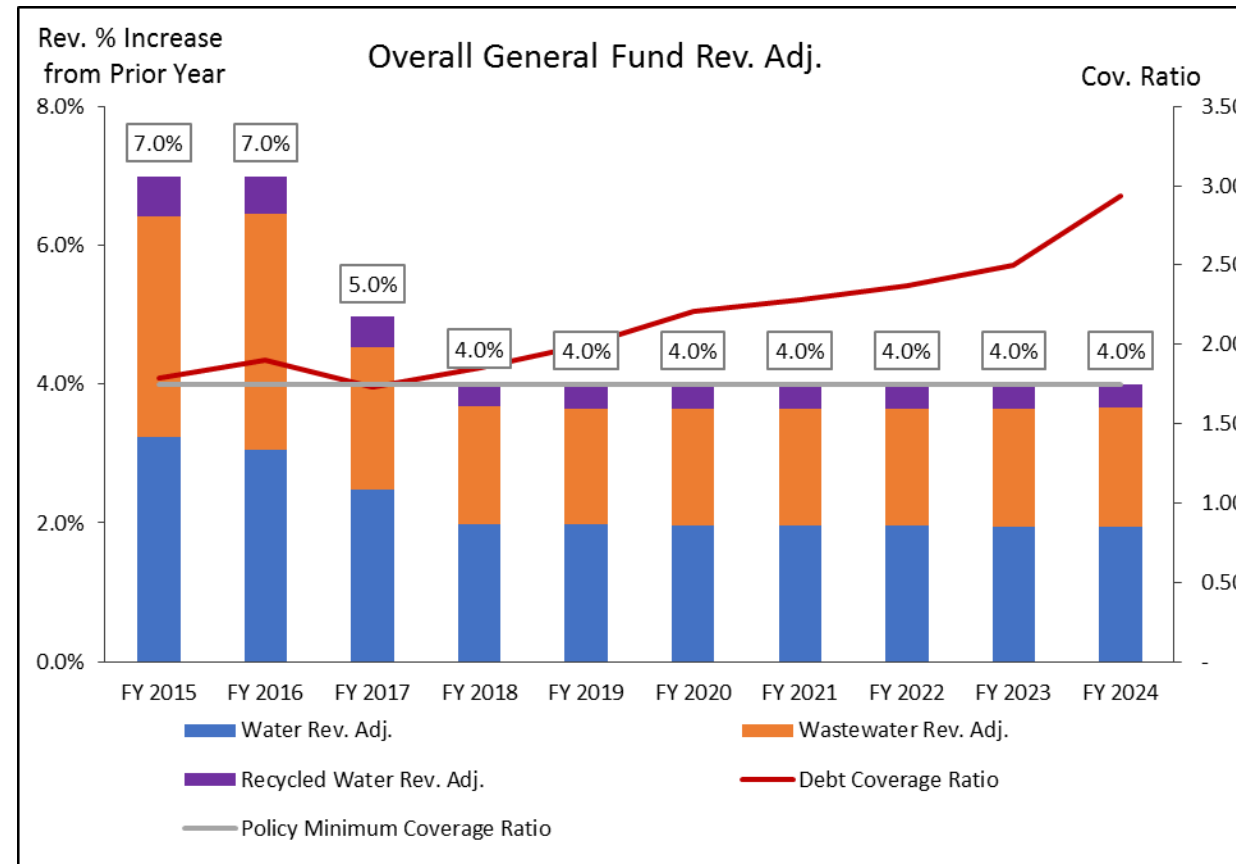
- \$18 M spenddown since implementation through end of FY 2015-16
- \$39 M spenddown (forecasted) since implementation through end of FY 2016-17

# Long Range Financial Plan Comparison

## 2015 COS Study

- Driving Factors

- \$229 M 10 – Year CIP
  - \$23 M Building beginning in FY 2014-15
  - \$17 M Total RW CIP
- \$30 M Issuance in FY 2016-17

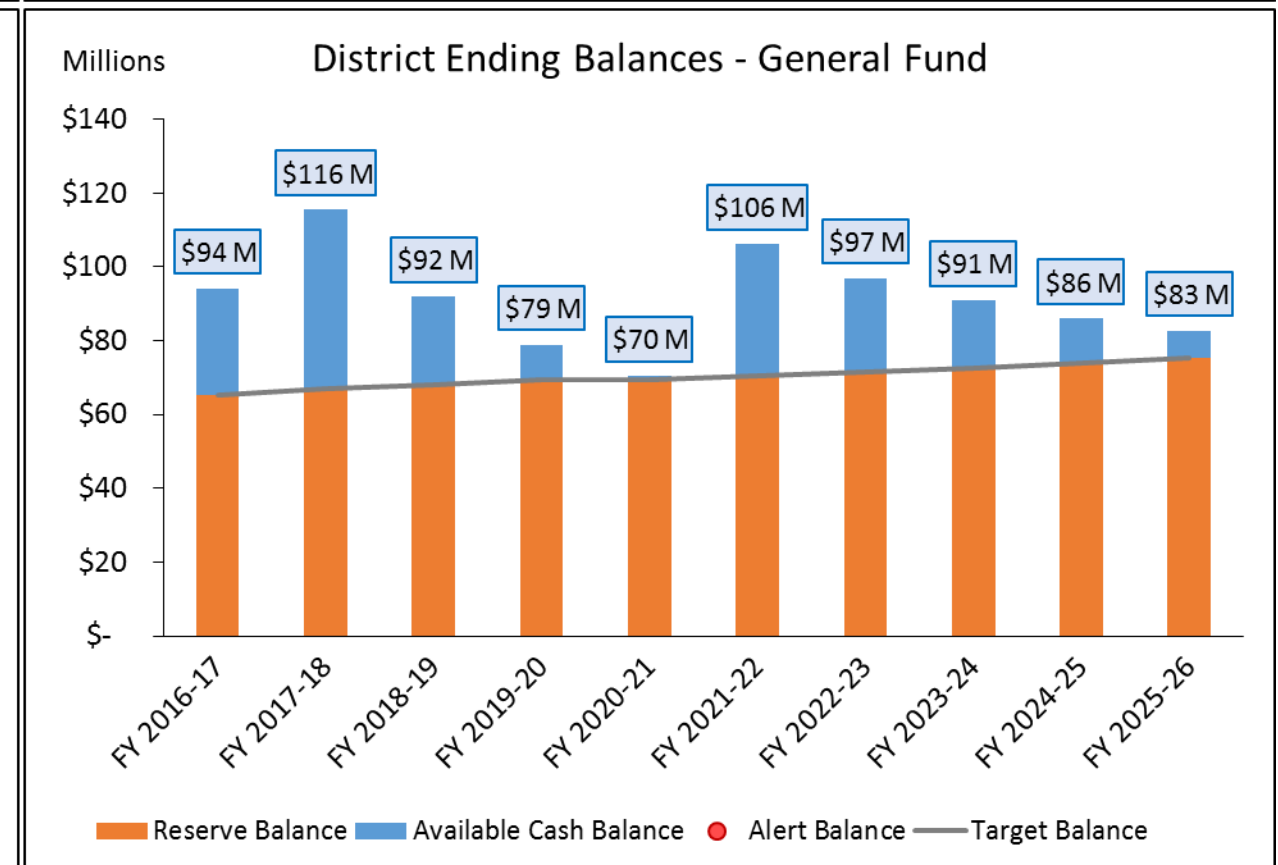
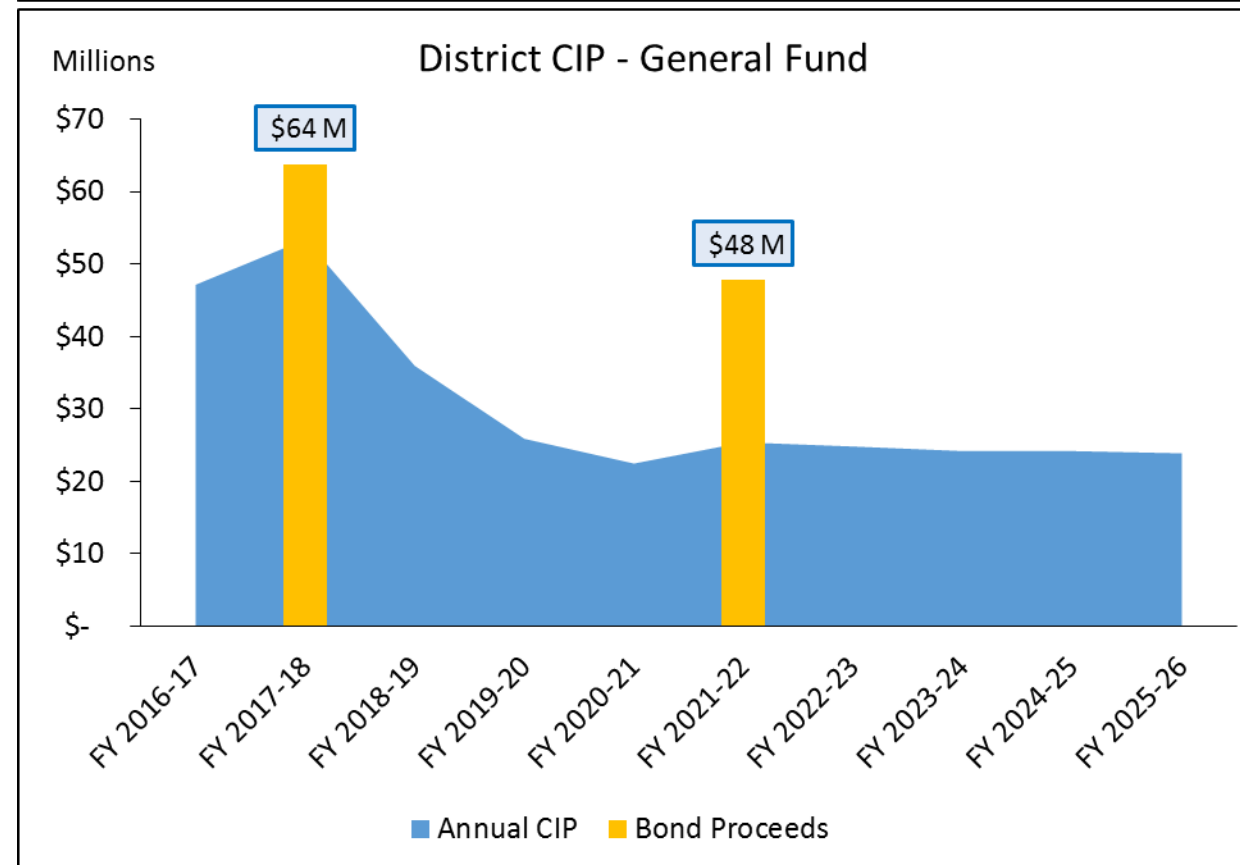
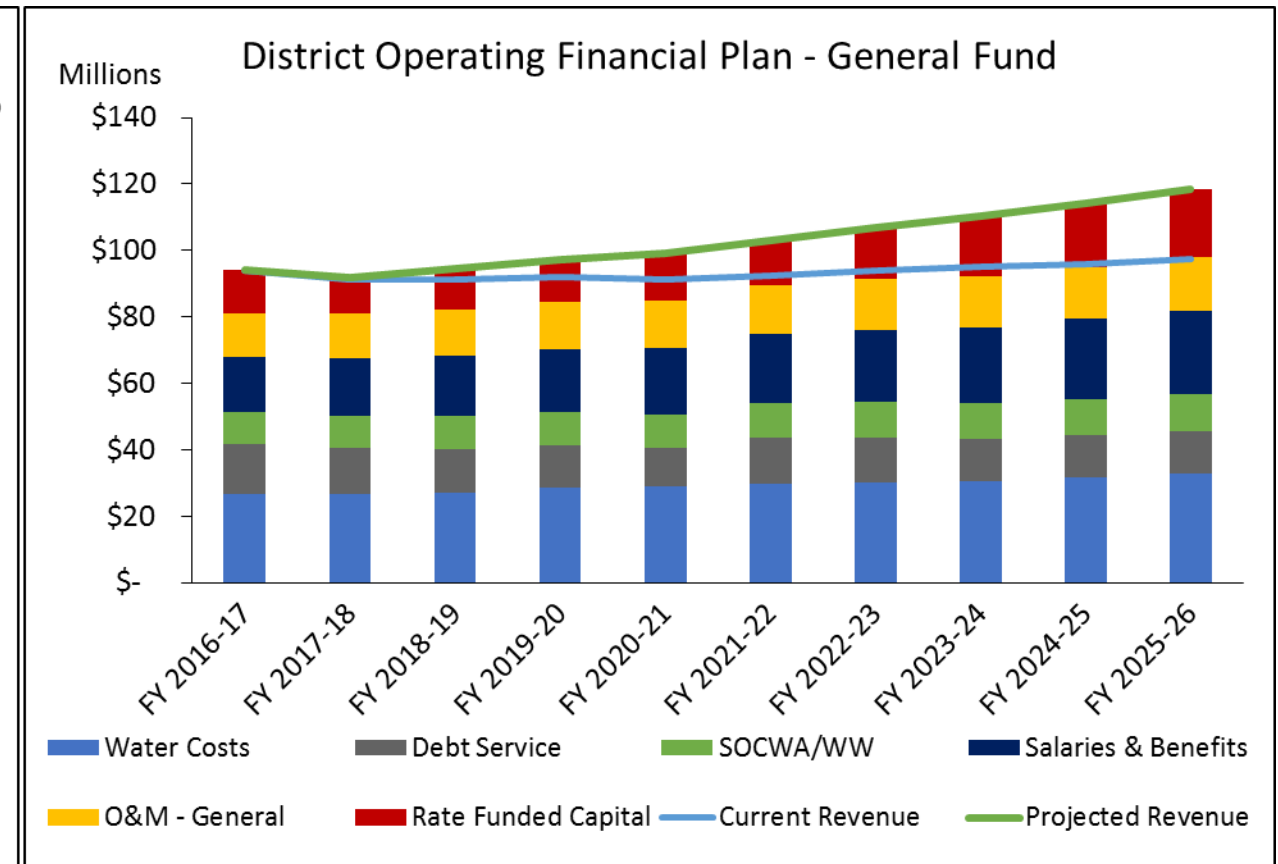
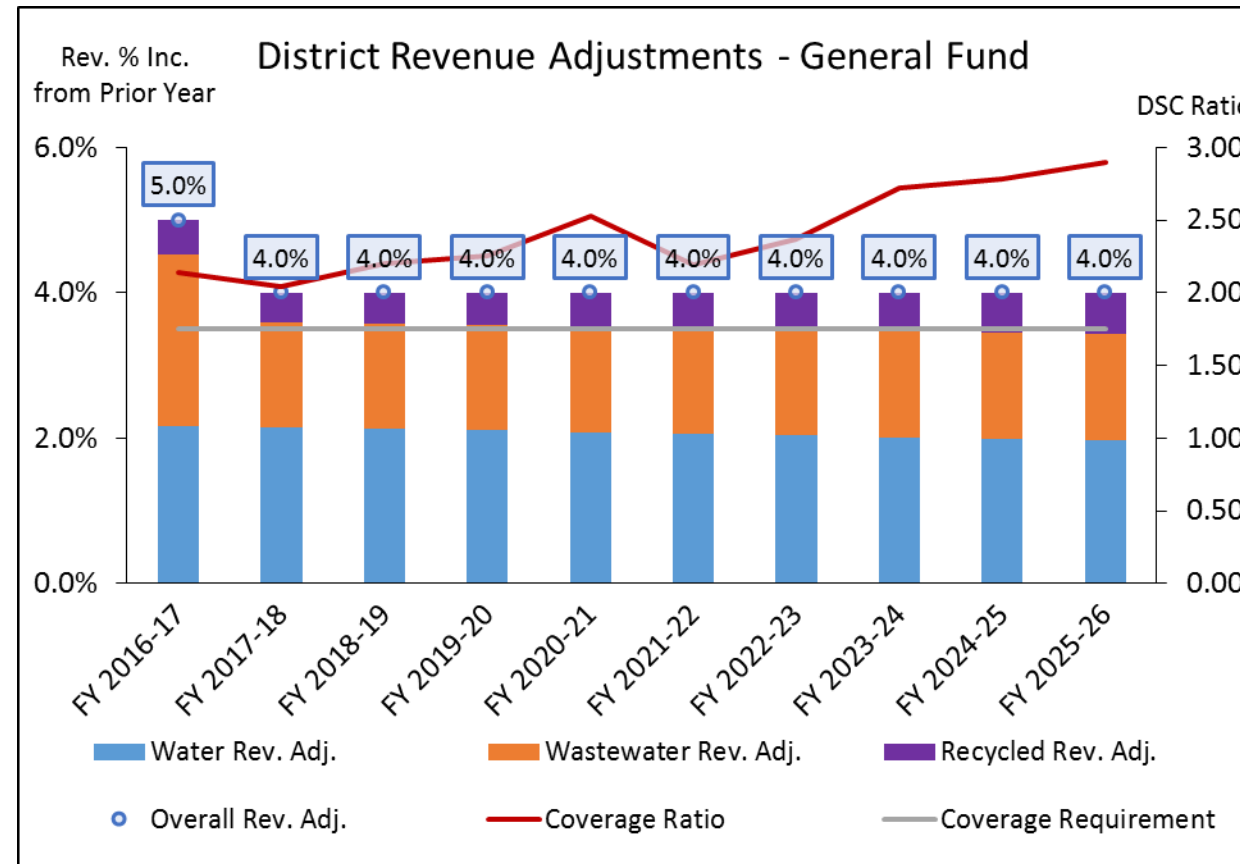


# Long Range Financial Plan Comparison

## Updated Cashflow Forecast

### Driving Factors

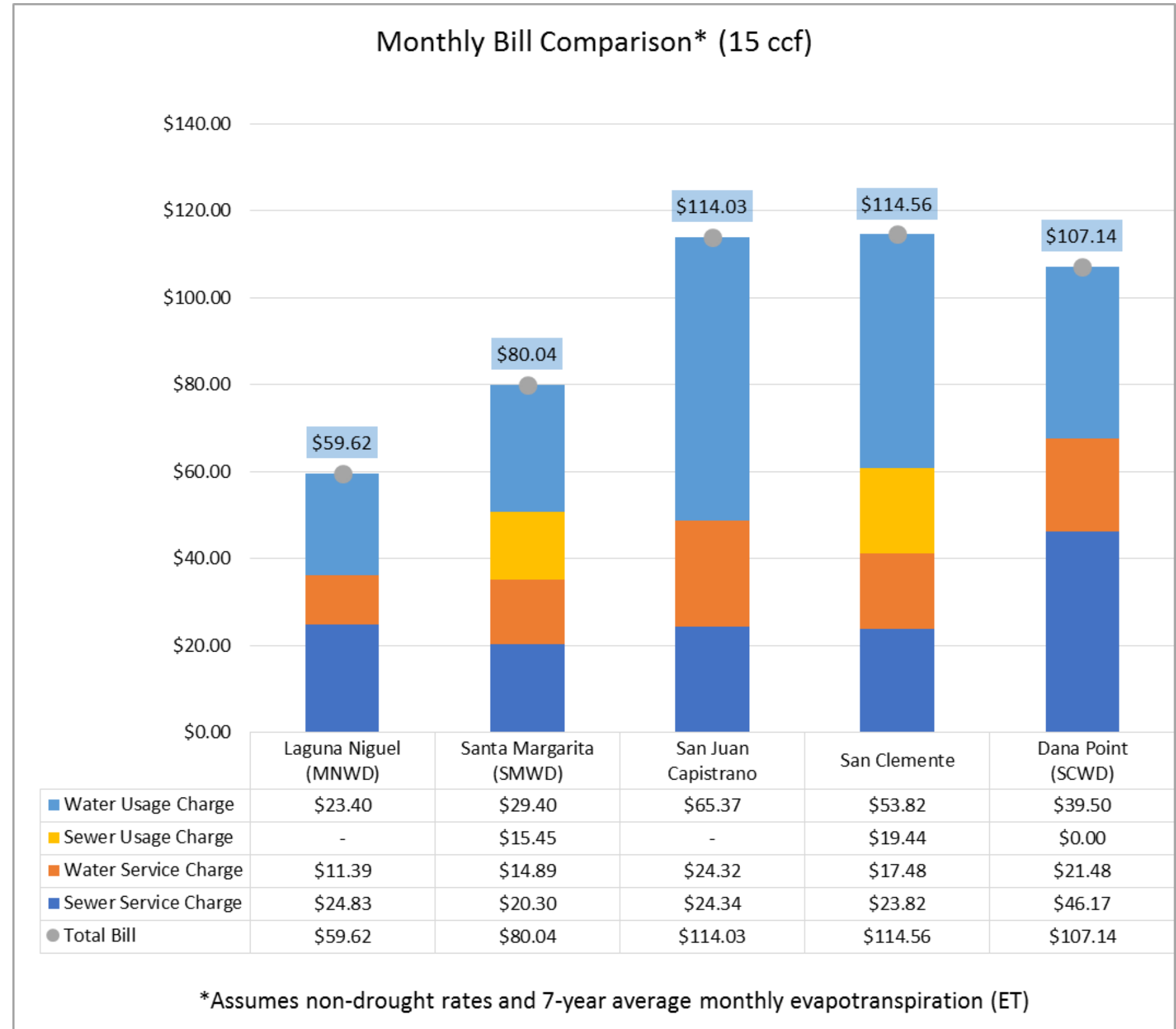
- \$292 M 10 – Year CIP (\$63 M increase)
  - Based on adopted 10 – Year CIP and updated costs for the building
  - \$32 M Building beginning in FY 2016-17
  - \$58 M Total RW CIP
  - \$20 M Valve Replacement Program
- Updated Reserve Policy
- \$64 M Issuance in FY 2017-18
- \$48 M Issuance in FY 2020-21



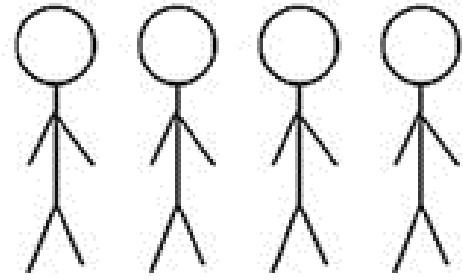
# South Orange County Agencies - Bill Comparison

	Laguna Niguel (MNWD)	Santa Margarita (SMWD)	San Juan Capistrano	San Clemente	Dana Point (SCWD)
<b>Allocation Factors</b>					
R-GPCD	60	55	55	#N/A	#N/A
Plant Factor	0.7	0.8	0.7	#N/A	#N/A
<b>Tier Widths</b>					
Tier 1*	10	9	9	9	5
Tier 2*	16	16	15	19	18
Tier 3	20	20	30	20+	19+
Tier 4	24	24	31+		
Tier 5	25+	25+			
<b>Tier Rates</b>					
Tier 1	\$1.49	\$1.86	\$3.77	\$2.86	\$2.54
Tier 2	\$1.70	\$2.11	\$5.24	\$4.68	\$2.68
Tier 3	\$2.62	\$2.61	\$5.69	\$10.06	\$2.83
Tier 4	\$4.38	\$3.12	\$5.69		
Tier 5	\$9.17	\$4.67			
<b>Service Charges</b>					
Water	\$11.39/mo.	\$14.89/mo.	\$24.32/mo.	\$17.48/mo.	\$21.48/mo.
Sewer (Fixed)	\$24.83/mo.	\$20.30/mo.	\$24.34/mo.	\$23.82/mo.	\$46.17/mo.
Sewer (Vol)	#N/A	\$1.03/BU	#N/A	\$1.44/BU	
<b>Monthly Bill</b>					
Water Usage Charge	\$23.40	\$29.40	\$65.37	\$53.82	\$39.50
Sewer Usage Charge	-	\$15.45	-	\$19.44	\$0.00
Water Service Charge	\$11.39	\$14.89	\$24.32	\$17.48	\$21.48
Sewer Service Charge	\$24.83	\$20.30	\$24.34	\$23.82	\$46.17
<b>Total Bill</b>	<b>\$59.62</b>	<b>\$80.04</b>	<b>\$114.03</b>	<b>\$114.56</b>	<b>\$107.14</b>

\*Tier 1: 4 people per household; Tier 2: 4.11 ET, 2643 sqft.



# Per Person Sewer Charge - Bill Comparison



4 Person Household			
	<i>Current Sewer Charge</i>	<i>Per Person Sewer Charge</i>	<i>Difference</i>
Indoor Use	10 BU	10 BU	0 BU
Outdoor Use	5 BU	5 BU	0 BU
Budget	15 BU	15 BU	0 BU
Monthly Water Bill	\$23.40	\$23.40	\$0.00
Monthly Sewer Bill	\$24.83	\$24.83	\$0.00
<b>Total Monthly Bill</b>	<b>\$48.23</b>	<b>\$48.23</b>	<b>\$0.00</b>

1 Person Household			
	<i>Current Sewer Charge</i>	<i>Per Person Sewer Charge</i>	<i>Difference</i>
Indoor Use	3 BU	3 BU	0 BU
Outdoor Use	12 BU	12 BU	0 BU
Budget	15 BU	8 BU	-7 BU
Monthly Water Bill	\$23.40	\$31.31	\$7.91
Monthly Sewer Bill	\$24.83	\$6.21	-\$18.62
<b>Total Monthly Bill</b>	<b>\$48.23</b>	<b>\$37.52</b>	<b>-\$10.71</b>