

UTILITY FUND FINANCIAL PLAN PRELIMINARY REVIEW

APRIL 2021



AGENDA

- **Financial Plan Objectives & Policies**
- **Review Current Utility Model Methodology**
- **Model Assumptions**
- **Preliminary Scenario Analysis**
- **Discussion of Next Steps**

FINANCIAL PLAN OBJECTIVES

Key Policies

- ▣ **Financial Ratios**
 - ▣ Revenue Sufficiency – Each Utility Pays its Own Way
 - ▣ Cash Reserves – Goal to Maintain a Minimum of 365 Days of Cash on Hand
 - ▣ Debt Service Coverage Ratio – 1.25 Times Minimum
- ▣ **Ensure Ease of Implementation and Equity**
- ▣ **Review Rates for Five-Year Period**

FINANCIAL PLAN OBJECTIVES

Utility CFSPs

- LYRB Reviewed the Following Enterprise Funds:
 - Water
 - Sewer
 - Storm
 - Pressurized Irrigation

FINANCIAL PLAN METHODOLOGY

Key Policies

- **Revenue Growth Analysis:**
 - LYRB studied existing revenue data and growth projections provided by the City. This information was then analyzed to determine the potential allocation of new accounts and the revenue potential within each utility.
- **Cost of Service Analysis:**
 - The cost-of-service analysis is structured to balance revenue sufficiency with future operating and maintenance costs, contracts, repair and replacement, capital expenditures, funding for current system deficiencies and bond service coverage ratios. Expenses were projected out to 2031 and revenues were analyzed under a variety of scenarios to meet the City's needs.
- **Rate Design Analysis:**
 - The final phase focuses on structuring rates that will collect the necessary revenues based on the City's budgetary needs and rate objectives.
 - Rates are also designed to ensure adequate cash on hand for emergencies/unplanned expenses.
 - **Entities should evaluate enterprise funds every 3-5 Years.**

FINANCIAL PLAN ASSUMPTIONS

Key Assumptions

- ▣ Model Based on 2020 Actuals, 2021 Estimated Figures, with Projections through 2031
- ▣ 3%-4% Growth in ERUs (Short Term)
- ▣ 0% Growth in Usage (Short Term) – Assumes Conservation
- ▣ 3% Growth in Misc. Revenues and Other Revenues
- ▣ 7% Growth in Salaries & Benefits Expense
- ▣ 3% Growth in General O&M Expense
- ▣ 4% Construction Inflation
- ▣ Model Includes Outstanding Debt

FINANCIAL PLAN ASSUMPTIONS

Key Assumptions

- ▣ Existing Fund Balance Starting Point:
 - ▣ Water – \$1.7M
 - ▣ Sewer – \$4M
 - ▣ Storm – \$1.4M
 - ▣ Pressurized Irrigation – \$4.6M
- ▣ Existing Fund Balance Needed for Imminent Capital Needs

FINANCIAL PLAN ASSUMPTIONS

Key Assumptions

- **New Water O&M:**

New O&M	Total FTE	% to Utility	Base Cost	S&B	Year	2022	2023	2024	2025	2026
Operator 1	1.00	100%	\$70,000	\$80,143	2022	\$80,143	80,143	-	-	-
FTE Floater	1.00	25%	\$70,000	\$20,036	2022	\$20,036	20,036	-	-	-
FTE Asst. Public Works Director	1.00	17%	\$120,000	\$22,898	2022	\$22,898	22,898	-	-	-
FTE Office Staff	0.50	25%	\$25,000	\$7,156	2022	\$7,156	7,156	-	-	-
Total							\$130,232	-	-	-
Cumulative							\$130,232	\$139,349	\$149,103	\$159,540

- **Water CIP of \$2.8M Over 5 Years**

FINANCIAL PLAN ASSUMPTIONS

Key Assumptions

- **New Sewer O&M:**

New O&M	Total FTE	% to Utility	Base Cost	S&B	Year	2022	2023	2024	2025	2026
Operator 1	1.00	0%	\$70,000	\$0	2022	-	-	-	-	-
FTE Floater	1.00	25%	\$70,000	\$20,036	2022	\$20,036	-	-	-	-
FTE Asst. Public Works Director	1.00	17%	\$120,000	\$22,898	2022	\$22,898	-	-	-	-
FTE Office Staff	0.50	25%	\$25,000	\$7,156	2022	\$7,156	-	-	-	-
Total						\$50,089	-	-	-	-
Cumulative						\$50,089	\$53,596	\$57,347	\$61,362	\$65,657

- **Sewer CIP of \$3.7M Over 5 Years**

FINANCIAL PLAN ASSUMPTIONS

Key Assumptions

- **New Storm O&M:**

New O&M	Total FTE	% to Utility	Base Cost	S&B	Year	2022	2023	2024	2025	2026
Operator 1	1.00	0%	\$70,000	\$0	2022	-	-	-	-	-
FTE Floater	1.00	25%	\$70,000	\$20,036	2022	\$20,036	-	-	-	-
FTE Asst. Public Works Director	1.00	17%	\$120,000	\$22,898	2022	\$22,898	-	-	-	-
FTE Office Staff	0.50	25%	\$25,000	\$7,156	2022	\$7,156	-	-	-	-
Total						\$50,089	-	-	-	-
Cumulative						\$50,089	\$53,596	\$57,347	\$61,362	\$65,657

- **Storm CIP of \$1.3M Over 5 Years**

FINANCIAL PLAN ASSUMPTIONS

Key Assumptions

- **New Pressurized Irrigation O&M:**

New O&M	Total FTE	% to Utility	Base Cost	S&B	Year	2022	2023	2024	2025	2026
Operator 1	1.00	0%	\$70,000	\$0	2022	-	-	-	-	-
FTE Floater	1.00	25%	\$70,000	\$20,036	2022	\$20,036	-	-	-	-
FTE Asst. Public Works Director	1.00	17%	\$120,000	\$22,898	2022	\$22,898	-	-	-	-
FTE Office Staff	0.50	25%	\$25,000	\$7,156	2022	\$7,156	-	-	-	-
Total						\$50,089	-	-	-	-
Cumulative						\$50,089	\$53,596	\$57,347	\$61,362	\$65,657

- **Pressurized Irrigation CIP of \$10.6M Over 5 Years**

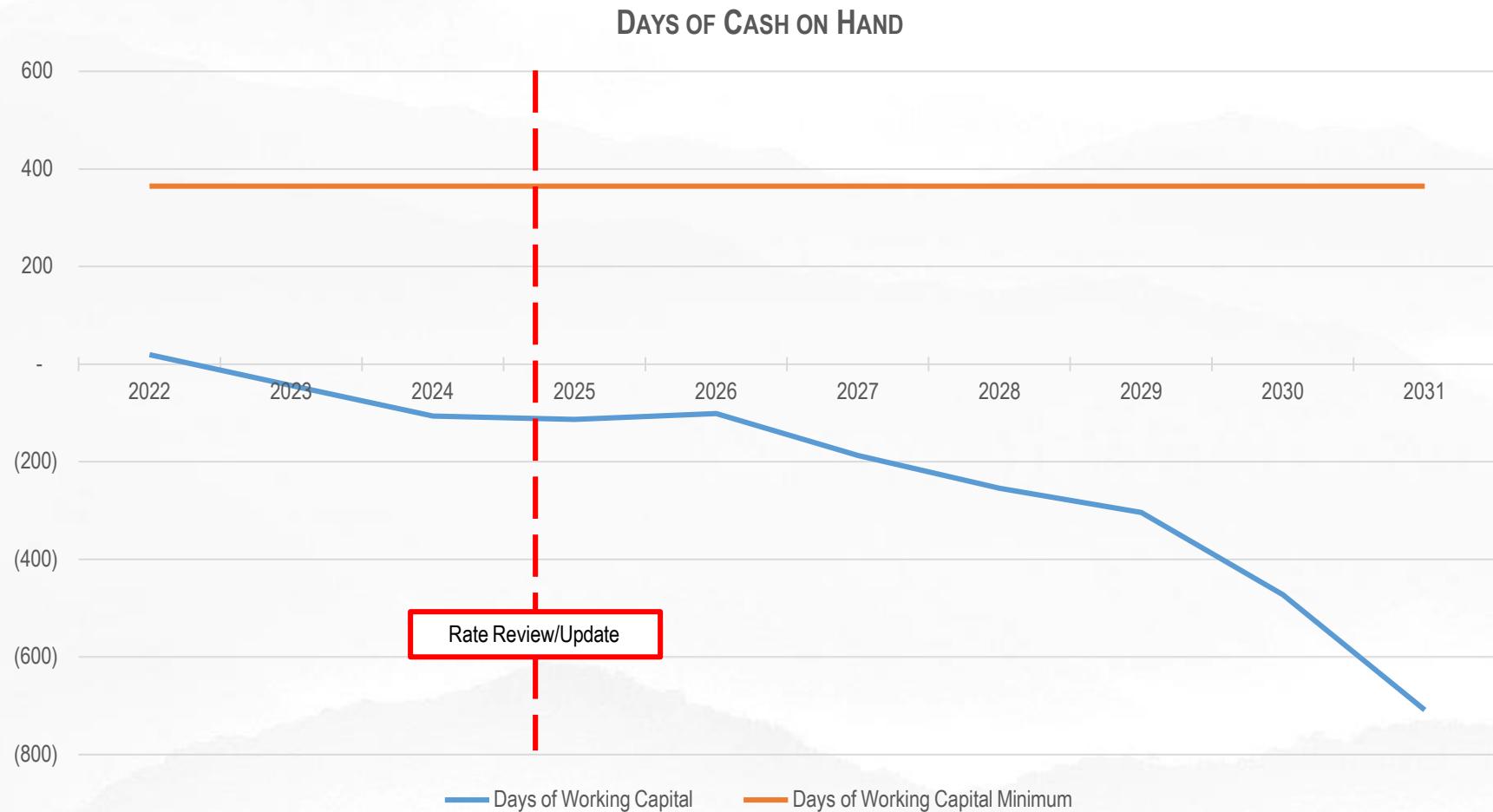
SCENARIO ANALYSIS

Approach

- ▣ **Baseline: No Rate Increase**
- ▣ **Preliminary Scenario: Rate Increase to Meet Targets**
- ▣ **Evaluate Working Capital and Debt Coverage**

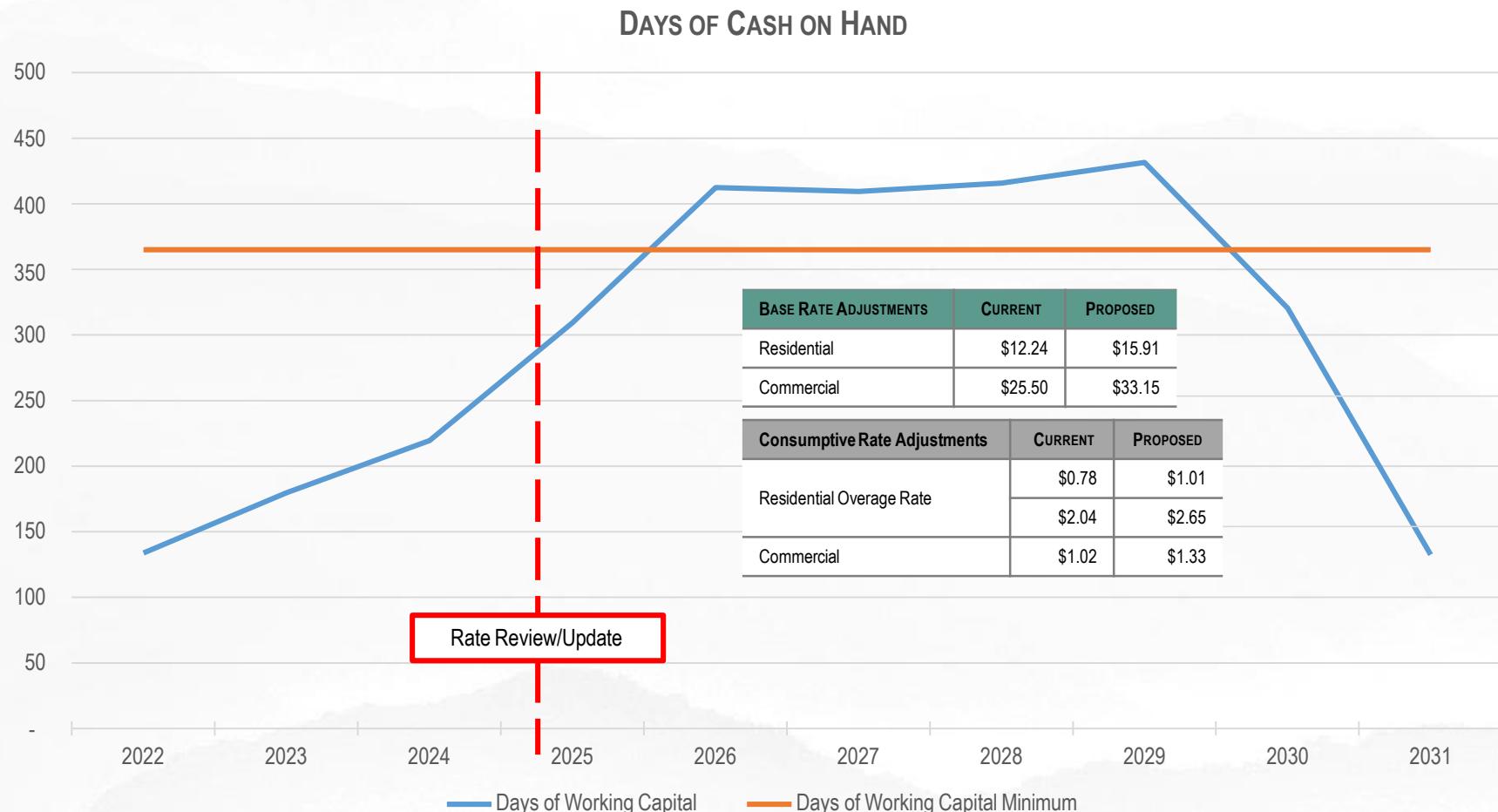
SCENARIO ANALYSIS

Water: Baseline (No Rate Increase)



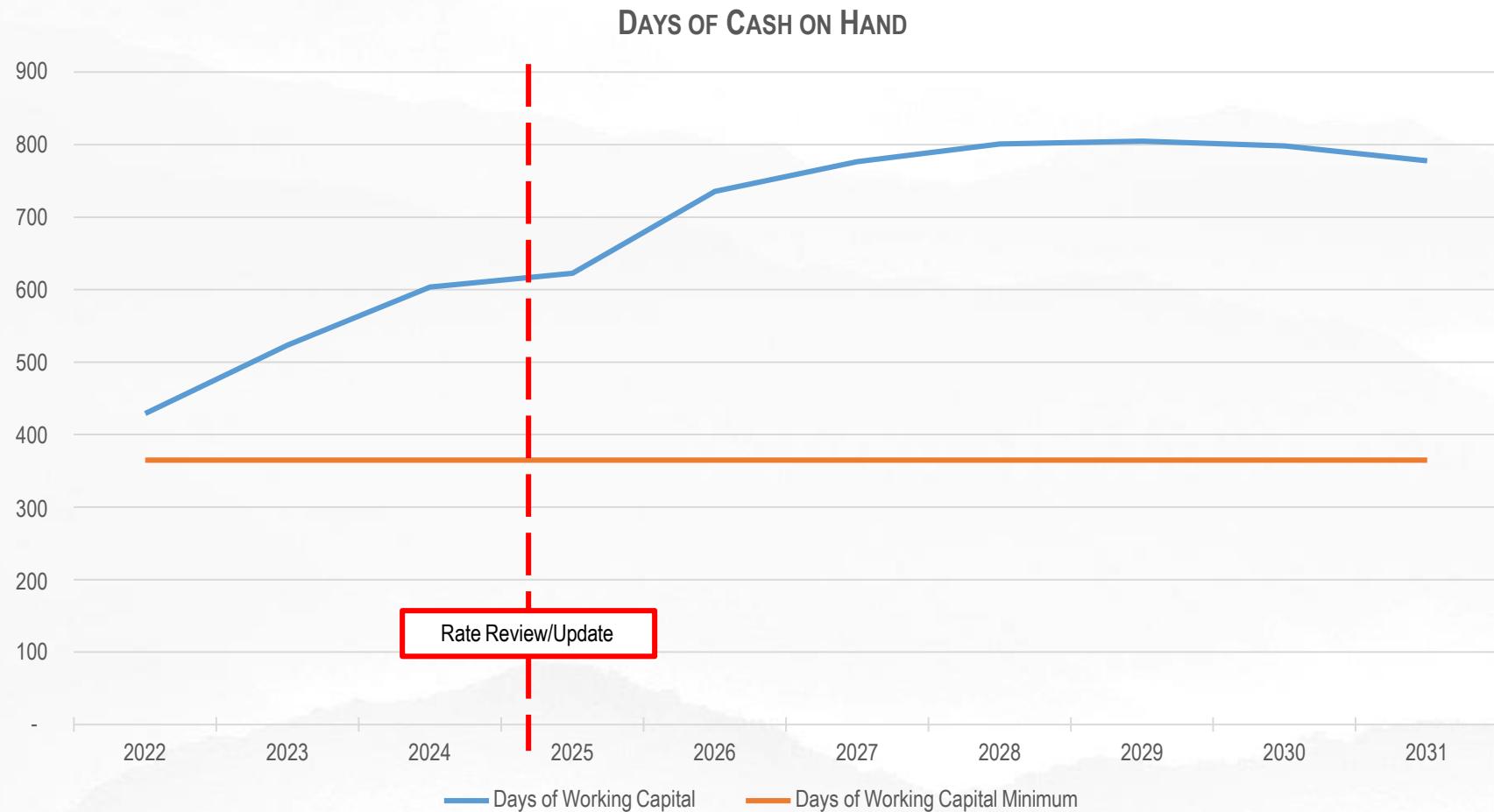
SCENARIO ANALYSIS

Water: 30% Rate Increase in Year 1



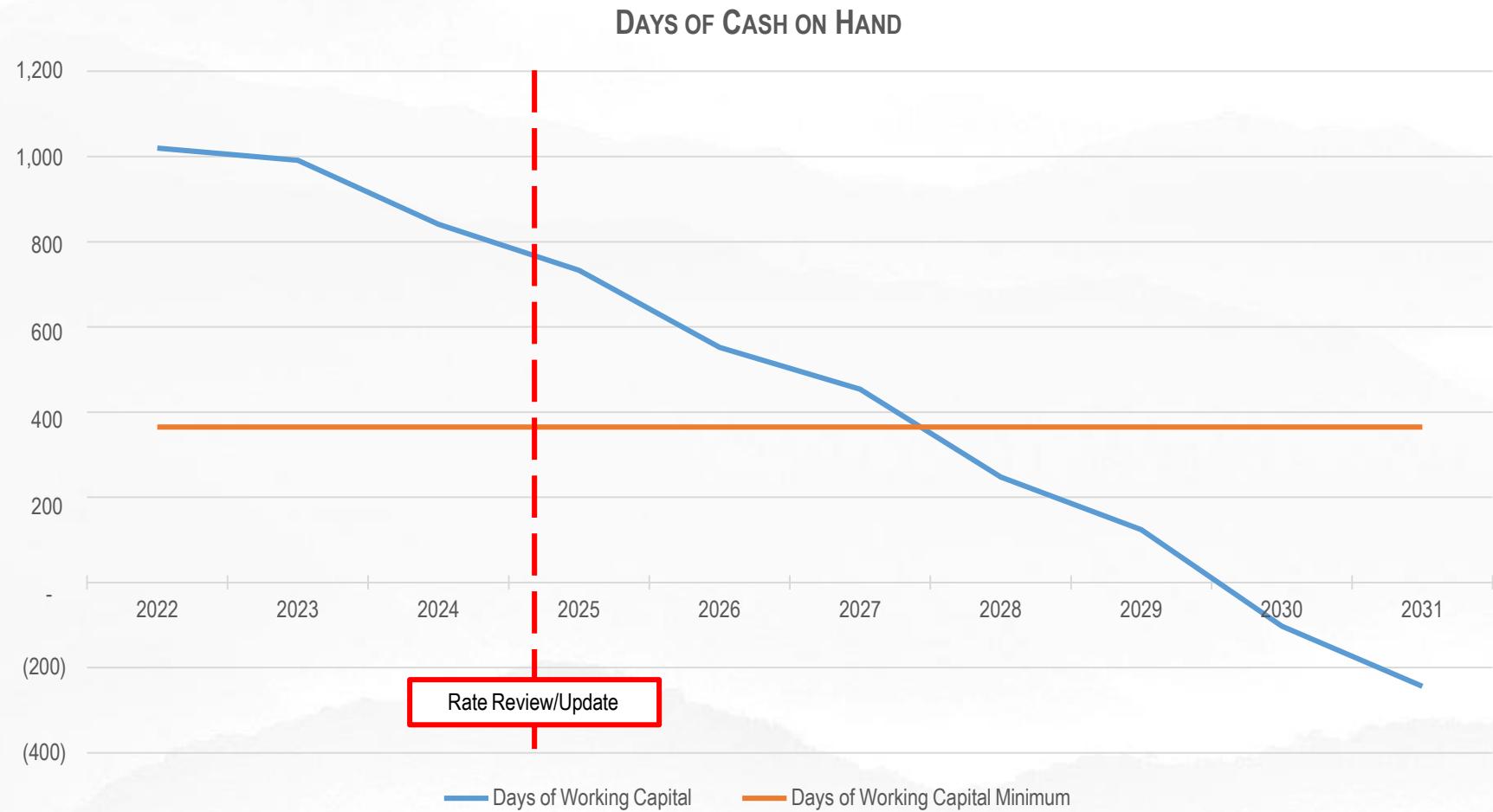
SCENARIO ANALYSIS

Sewer: Baseline (No Rate Increase)



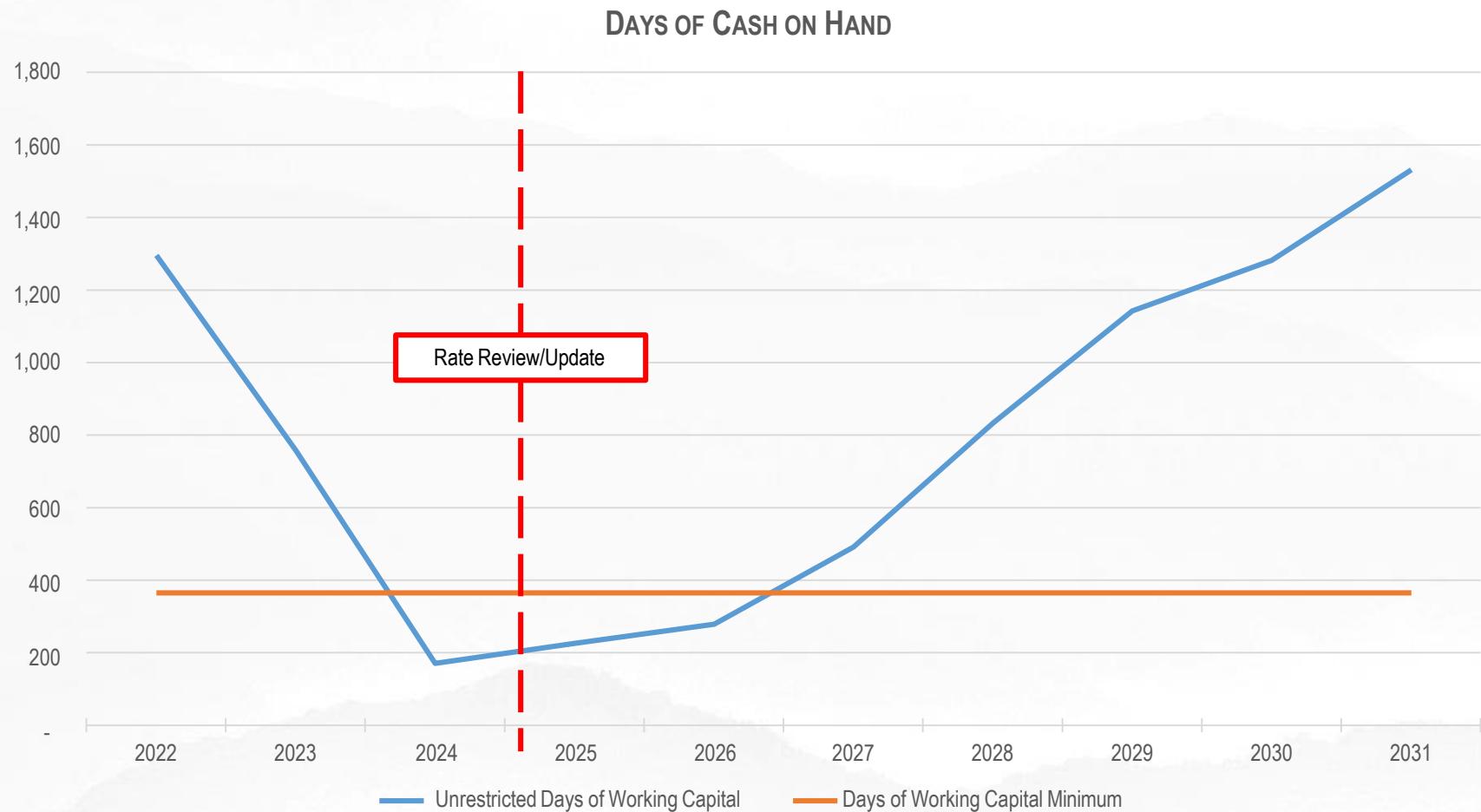
SCENARIO ANALYSIS

Storm: Baseline (No Rate Increase)



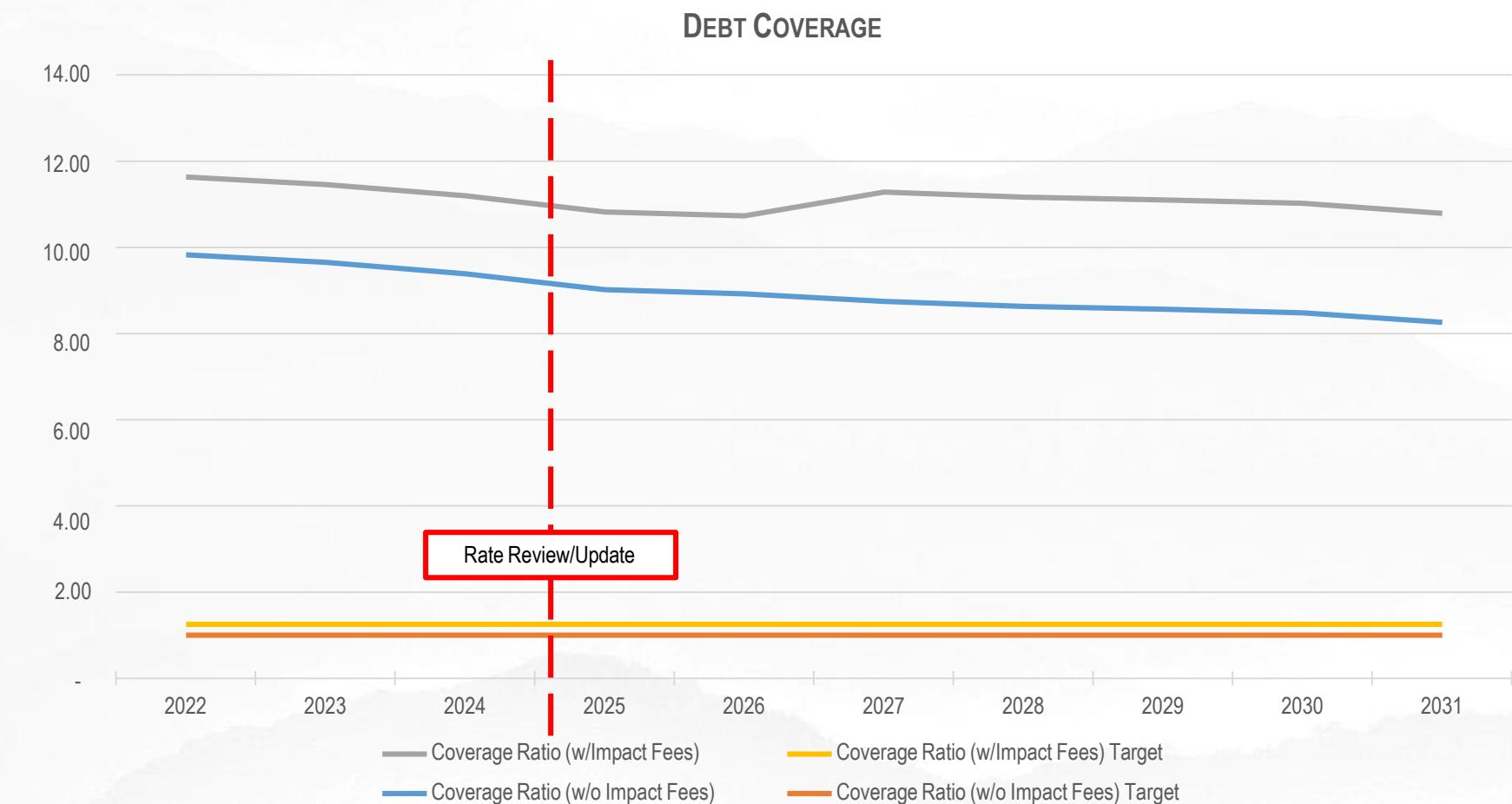
SCENARIO ANALYSIS

Pressurized Irrigation: Baseline (No Rate Increase)



SCENARIO ANALYSIS

PI Debt Coverage Analysis (Baseline):



SCENARIO ANALYSIS

Preliminary Increases (Subject to Change)

- Water Rate Increase to Mitigate Dip in Fund Balance
 - Proposed 30% Increase to Base and Usage Fees
- All Other Models:
 - No Change At This Time
 - Evaluate Working Capital and Debt Coverage Over Time
 - **Entities should evaluate enterprise funds every 3-5 Years.**

NEXT STEPS

- **Review and Revise Assumptions as Needed**
- **Update Scenario Analysis**
- **Prepare Final Rate Study**
- **Adopt Proposed Changes to Rates**