

Amendment to F001662

Update on Financial Plan and Ag User Working Group

Board of Public Utilities
September 6, 2018



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Agenda

- Contract Amendment with the Reed Group
- Long Term Financial Plan Update
 - Data
 - Model
- Agricultural User Group Update
 - Purpose
 - Collaboration
 - Pricing Concerns
 - Key Issues
 - Communication

Contract Amendment

- PSA approved by City Manager's Office
 - February 6, 2018
 - Budget assistance
 - Long Term Financial Plan
 - Agricultural rates
- Expanded agricultural rate process
 - Development of a working group
 - Additional BPU ad hoc meetings

Financial Model

CASH FLOW PROFORMA

| | Budget FY 2019 | Forecast FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | Forecast FY 2025 | Forecast FY 2026 | Forecast FY 2027 |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenue | | | | | | | | | |
| Commodity Revenue | \$31,382,146 | \$32,012,927 | \$32,643,708 | \$33,287,168 | \$33,943,307 | \$34,612,379 | \$35,294,639 | \$35,990,348 | \$36,699,770 |
| Fixed Charge Revenue | \$9,890,613 | \$9,989,519 | \$10,088,425 | \$10,188,320 | \$10,289,205 | \$10,391,088 | \$10,493,980 | \$10,597,891 | \$10,702,831 |
| Miscellaneous Revenues | | | | | | | | | |
| Other Rate Revenue | \$616,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Interest Earnings | \$306,631 | \$611,497 | \$588,967 | \$541,631 | \$429,034 | \$593,153 | \$486,313 | \$366,276 | \$218,688 |
| Other Non-Rate Revenue | \$165,500 | \$167,155 | \$168,827 | \$170,515 | \$172,220 | \$173,942 | \$175,682 | \$177,438 | \$179,213 |
| Fees and Charges | \$1,416,028 | \$1,444,490 | \$1,473,524 | \$1,503,142 | \$1,533,355 | \$1,564,176 | \$1,595,616 | \$1,627,688 | \$1,660,404 |
| Total Revenue | \$46,066,606 | \$46,515,275 | \$47,266,807 | \$48,007,800 | \$48,698,076 | \$49,679,890 | \$50,405,849 | \$51,134,002 | \$51,850,291 |

O&M Costs

| | | | | | | | | | |
|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Total Operating Expenses | (\$31,202,180) | (\$32,294,732) | (\$33,431,556) | (\$34,614,630) | (\$35,846,025) | (\$37,127,911) | (\$38,462,559) | (\$39,852,349) | (\$41,299,775) |
|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|

Capital Costs

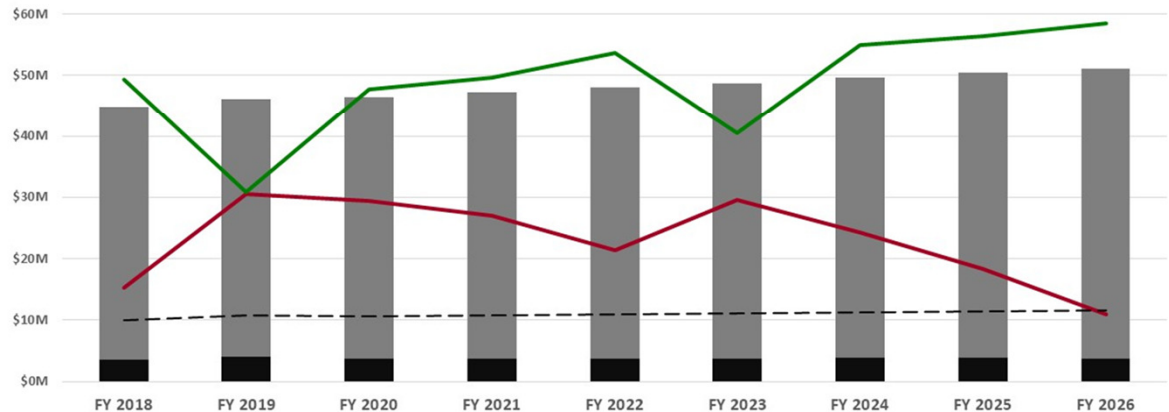
| | | | | | | | | | |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------|---------------------|---------------------|---------------------|---------------------|
| Total Capital Spending | \$14,435,000 | \$12,761,700 | \$13,568,911 | \$14,423,996 | \$0 | \$12,491,035 | \$12,865,766 | \$13,251,739 | \$13,649,292 |
| Existing Debt Service | (\$1,249,615) | (\$1,002,670) | (\$1,000,000) | (\$1,000,000) | (\$1,000,000) | (\$1,000,000) | (\$1,000,000) | (\$1,000,000) | (\$1,000,000) |
| Total Capital Expenses | (\$15,684,615) | (\$13,764,370) | (\$14,568,911) | (\$15,423,996) | \$0 | \$11,491,035 | \$11,865,766 | \$12,251,739 | \$12,649,292 |

Transfers

| | | | |
|-------------------|---------------|---------------|---------------|
| Transfer In | \$11,850,000 | \$0 | \$0 |
| Transfer Out | (\$1,536,548) | (\$1,582,644) | (\$1,600,000) |
| Reserve Drawdown | \$5,750,000 | \$0 | \$0 |
| Reserve Set Aside | \$0 | \$0 | \$0 |

| | | | |
|----------------------------------|-----------------------|-----------------------|-----------------------|
| Total Revenue Requirement | (\$30,823,342) | (\$47,641,747) | (\$49,600,000) |
|----------------------------------|-----------------------|-----------------------|-----------------------|

| | | | |
|------------------------|--------------|---------------|---------------|
| Beginning Year Balance | \$15,331,571 | \$30,574,835 | \$29,400,000 |
| Surplus/(Shortfall) | \$15,243,264 | (\$1,126,471) | (\$2,300,000) |
| End of Year Balance | \$30,574,835 | \$29,448,363 | \$27,100,000 |



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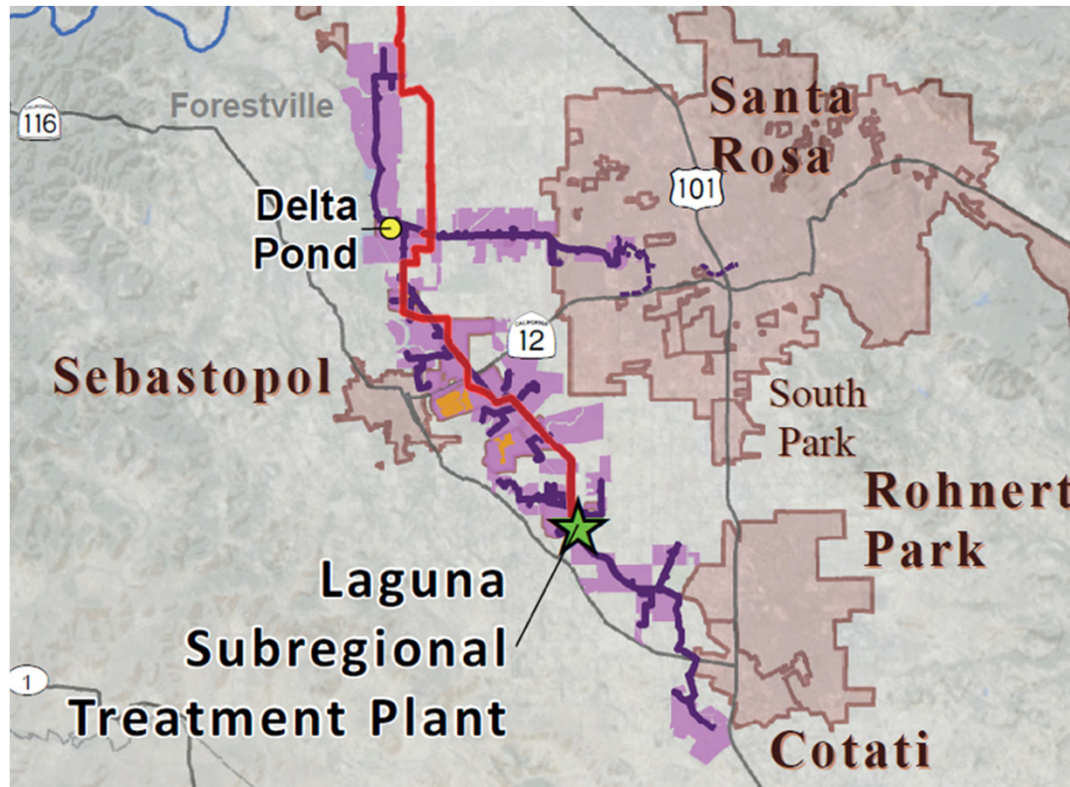
Long Term Financial Plan

- Actuals previous years
- Budgeted
- Annual operations increases
- Infrastructure needs funding
- Reserves
- Debt
- Billing Data for Customers

Financial Model

- Ability to determine
 - Rate needs
 - Expenditure decreases
 - Debt
- Outlook for 10 years
 - Adjustments as necessary

Agricultural Working Group



August 24, 2018

Agricultural User Work Group

Santa Rosa has convened a work group that consists of agricultural users and City staff to gain insight on agricultural user needs, provide information on the City's operational and contractual requirements for recycled water, solicit input on pricing structures, and provide data on current and historical recycled water use by agricultural users and Geysers.

Meeting #1 Summary – August 15, 2018

- **Water Allotments** – Interest was expressed in developing a new allotment methodology to modify current user allotments that are aligned with needs and historical practices and uses. The City will be creating a survey that will be sent to all users requesting information on what their needs are and how pricing might affect their ability to use recycled water.
- **Communication Improvements** – Agricultural user representatives requested communication improvements between the City and the users to make information received from the City more useful. In addition to the percentage of allotment used, which is currently provided twice a month during the irrigation season, suggestions included supplying the reservoir levels and indicating if recycled water may be available above current user allotments.
- **Price Structures** – The City provided the work group with recycled water pricing from neighboring communities to solicit information from the users on variables the City may not have been aware of that neighboring communities used for rate development. The City requested input from the user group on rate structures from other communities not listed. There was also some discussion on ideas such as seasonal rates and disposal requirement tiers. The City's goal is to find representative and comparable pricing system examples.
- **Equipment and Pumping** – City has historically provided irrigation equipment and pumping infrastructure for agricultural users. The City initiated feedback on shifting this responsibility to the user. The users expressed their concern about the cost of replacing and maintaining the technologically advanced pumping equipment that was built by the City to collect data regarding customer use. Users would not have installed that level of equipment nor have the knowledge to maintain such advanced systems. They clearly identified their need for long term planning for any shift in responsibility in either area and urged the City to consider this a factor in future pricing if it was a consideration.

Next Steps and Deliverables

- The City will prepare a survey to be sent to all agricultural users, by mail, in addition to reviewing historical use patterns.
- The City will also be working on providing additional information in the email currently sent to users that identifies the current percentage of allotments used.
- Agricultural Users will provide the City with any additional pricing structures that they are aware of for the City to research
- September 25th – Next Work Group Meeting
- October 10th – Board of Public Utilities Agriculture Ad Hoc Committee Meeting

Purpose of Working Group

- Insights on growers demand, use, reliance
- Solicit input on pricing structures and structures
- Enhance growers' understanding of subregional reuse operations
- Improve mutual understanding of benefits, costs, and operational requirements of agricultural reuse
- Assist in developing an acceptable, fair and reasonable plan and
- Develop strategy for implementing a new pricing policy

Current Pricing Concerns

- Disparate pricing practices across users
 - Dairy loan contractors are paid for water (less loan payments)
 - Leasees of City property pay between \$0 and \$50/AF for water
 - Some growers receive water at no cost
 - Some growers pay between \$0 and \$50/AF
 - About half of growers pay for water at \$50/AF

Communication and Next Steps

- Memo after each meeting
 - Distributed to BPU and all Ag Users
- Agricultural working group invited to Ad Hoc
- Working group meeting #2 September 25th
- Survey for users
- Agricultural Ad Hoc October 25th
- Additional working group meetings

Recommendation

- It is recommended that the Board of Public Utilities, by motion, approve a First Amendment to Professional Services Agreement No. F001662 with The Reed Group, Inc. to provide additional support and expertise for extended agricultural water usage rate setting process increasing the total contract amount from \$99,880 to a not to exceed amount of \$135,280 and authorize the Chair to sign the agreement.

Questions?



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