

# City of Dixon

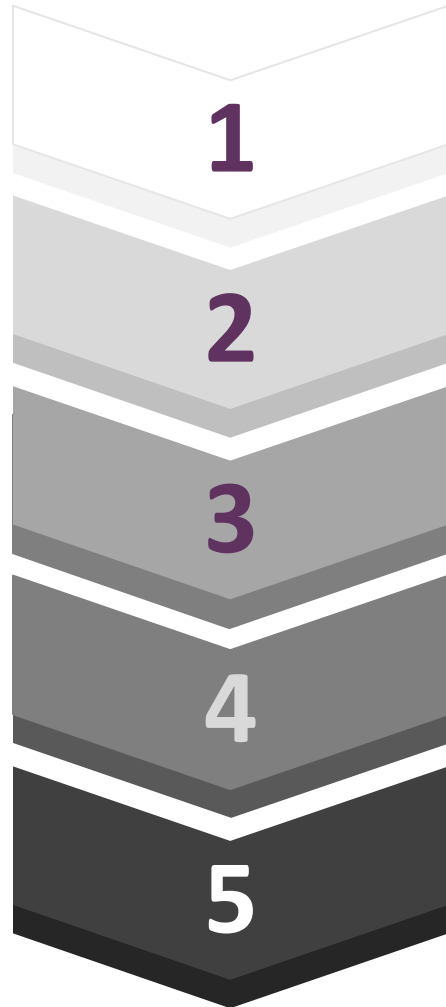
*RAC Water Financial Plan Workshop*

**March 11, 2024**



# Financial Plan Workshop

## Agenda



**Financial Plan Summary**

**Financial Plan Primary Drivers**

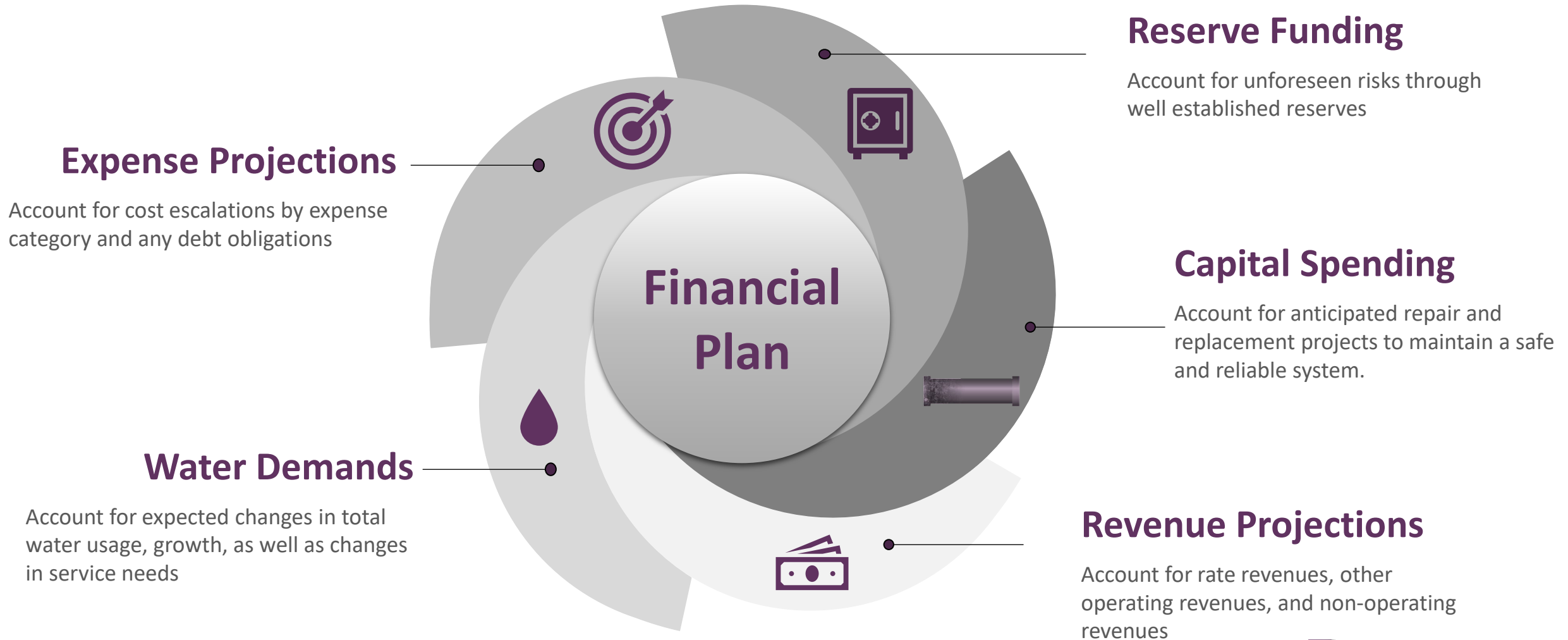
**Current Financial Position**

**Reserve Policies**

**Proposed Financial Plans**

# Financial Plan Summary

## Factors Impacting the Financial Plan



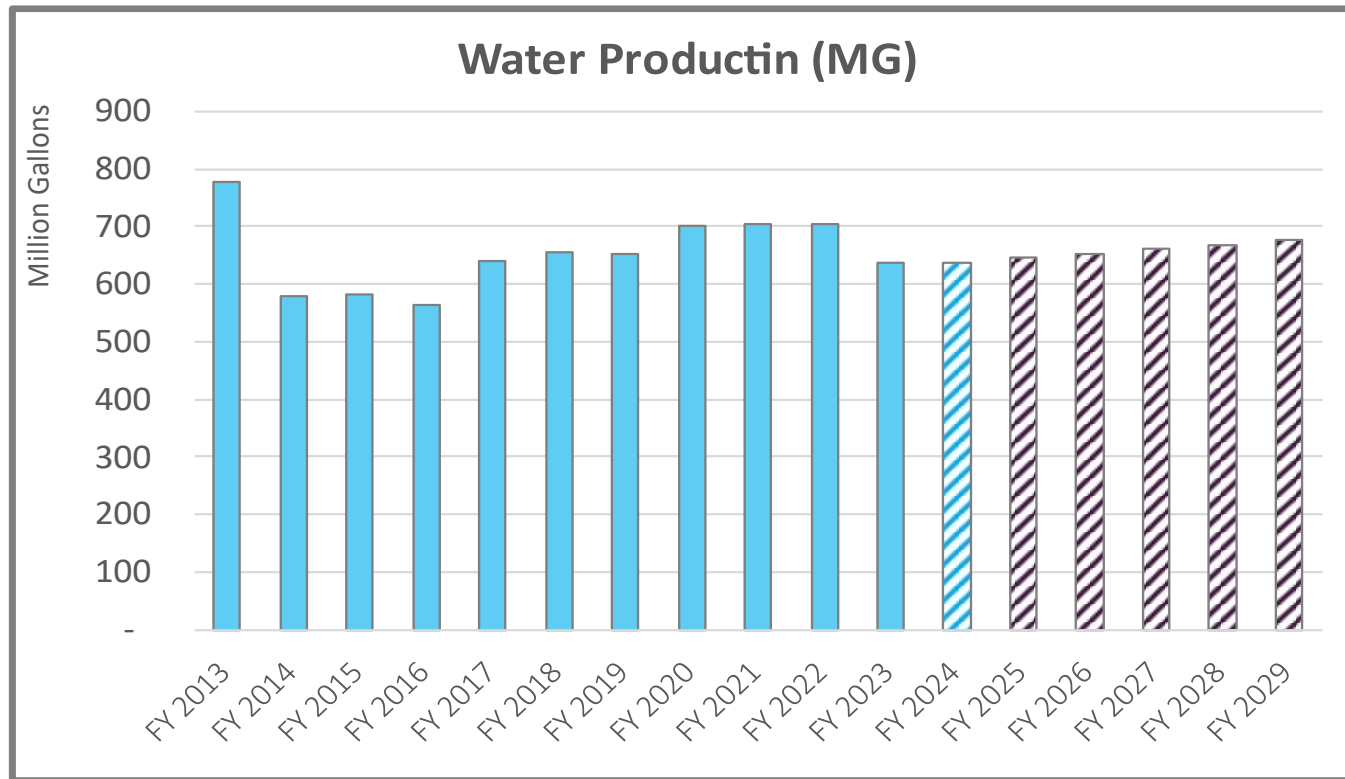
# Financial Plan Primary Drivers

Long-Term Financial Plan



# Water Demand

## Historical and Projected Production



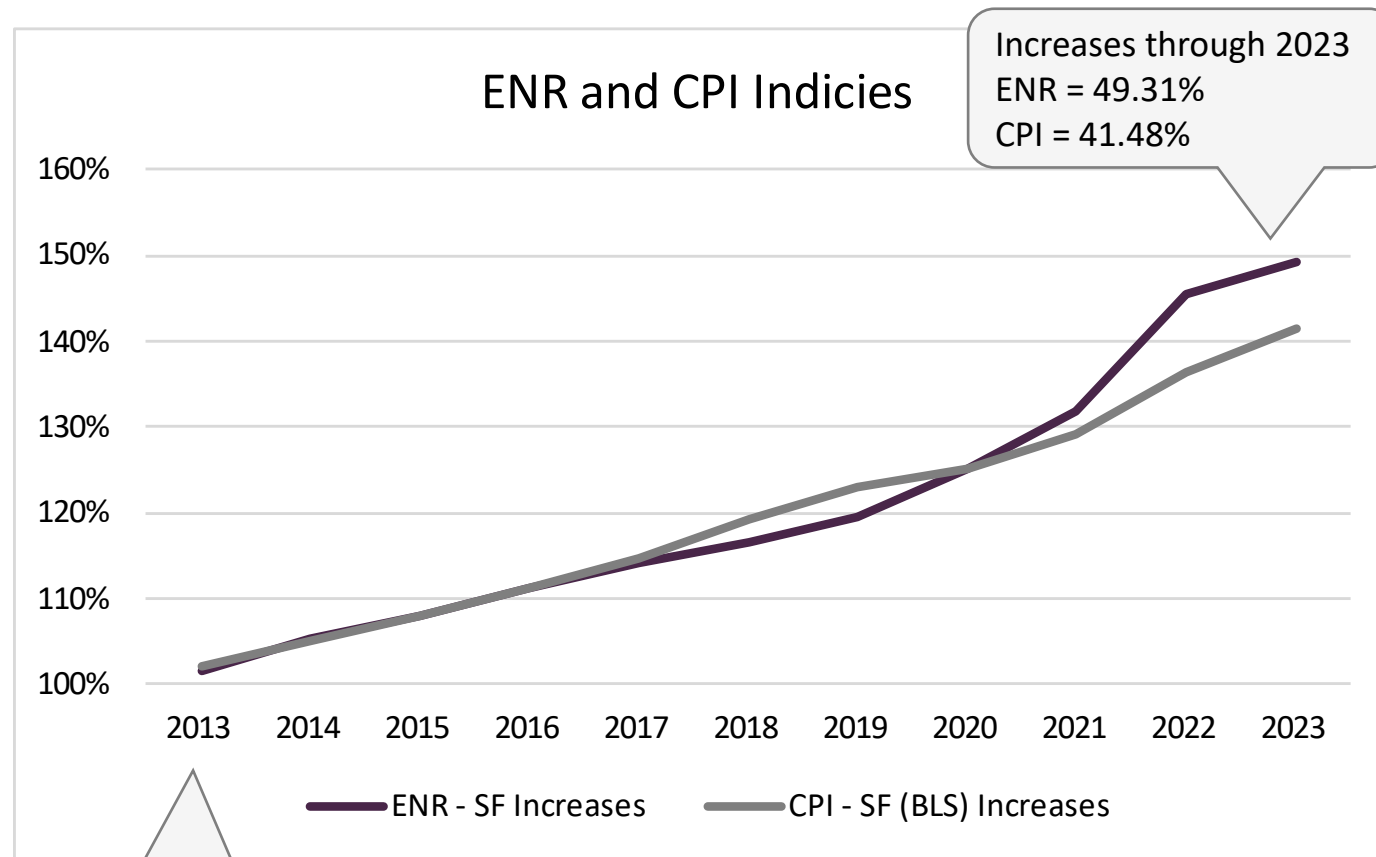
- Demand is unlikely to return to FY 2013, but current rates are from 2013 that reflected increased usage

## Water Production

- Since 2013, water demand has been reducing even as City's customer base has increased
- FY 2015 – FY 2016
  - Mandatory conservation reduced demand to less than 600 MG
- FY 2017 – FY 2019
  - Slight rebound plus growth
- FY 2020 – FY 2022
  - Fluctuations due COVID-19 and remote working
- FY 2023 – Historical wet winter
- FY 2024 – Demand similar to FY 2023
- Future Demand:
  - FY 2023 Demand as baseline
  - Assumes 2% Residential growth rate

# Historical Inflation

## 2013 – Current



- **Engineering News Record (ENR)**  
Construction Cost Index  
(San Francisco)
- **Consumer Price Index (CPI)**  
Average Consumer Price Index  
(San Francisco, Oakland, Hayward)
- In general, costs have increased by approximately 50%
  - Current rates are from 2013

# Financial Assumptions

## Expense Escalations

Key Assumptions	Source:		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Expenditure Escalation							
Personnel Costs			5.0%	5.0%	5.0%	5.0%	5.0%
Capital	ENR - SF	5-Year Average	5.1%	5.1%	5.1%	5.1%	5.1%
Energy Costs			7.0%	7.0%	7.0%	7.0%	7.0%
General Costs	CPI - SF (BLS)	5-Year Average	3.5%	3.5%	3.5%	3.5%	3.5%

- Capital:  
reflects the 5-Year Average – ENR (SF)
- General Costs include office, departmental miscellaneous, small equipment and tools:  
reflect the 5-Year Average – CPI (SF)

# Capital Needs from Previous Rate Study

## 2018 Cost-of-Service Study

- City completed as Strategic Asset Management Plan in 2018 (2018 AMP)
- Previous Cost-of-Service Study incorporated results from 2018 AMP detailed below

2018 Rate Study Capital Improvements	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Repair & Replacement	\$659,000	\$4,450,115	\$5,686,424	\$4,415,710	\$4,400,739
All Other Projects	\$42,518	\$300,779	\$30,785	\$6,915,889	\$512,127
<b>Total</b>	<b>\$701,518</b>	<b>\$4,750,894</b>	<b>\$5,717,209</b>	<b>\$11,331,599</b>	<b>\$4,912,866</b>

- Total cost of 5-year capital needs = **\$27,414,086**
- Cost in today's dollars = **\$29,557,015**



# Current Capital Improvement Plan (CIP)

## Critical, Critical + Near-Term, Full CIP

- Engineering Department developed three different levels of capital spending
  - **Critical:** Bare minimum that **must** be addressed and funded
  - **Critical + Near-Term:** Includes **Critical** plus necessary improvements in the near-term
  - **Near-Term with R&R:** Includes **Critical + Near-Term** plus standard ongoing scheduling of Repair and Replacement

CIPs	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
Critical	\$662,784	\$2,132,710	\$2,613,630	\$1,520,261	\$1,347,800	<b>\$8,277,185</b>
Critical + Near-Term	\$846,745	\$2,906,231	\$6,505,035	\$1,520,261	\$1,732,885	<b>\$13,511,158</b>
Near-Term with R&R	\$899,305	\$4,420,123	\$8,381,041	\$3,034,417	\$3,363,081	<b>\$20,097,967</b>

- Previous Study CIP in today's dollars = **\$29,557,015**

- **Critical:** 28% of previous study CIP
- **Critical + Near-Term:** 46% of previous study CIP
- **Near-Term with R&R:** 68% of previous study CIP

Chromium 6 is not included within any of the 3 CIP Scenario

# Pressure on Rate Increases

## Components Impacting Revenue Needs

- Water demand is reducing and hardening
  - Not the same level of usage as 2013, even with new connections
  - 17% reduction in demand
  - Less revenue from variable rates
- Historical inflation and extraordinarily high inflationary climate in recent years
  - 50% increase in ENR and CPI from 2013 (repealed back to 2013)
  - 28% increase since 2018
- Projected cost increases in future years
  - Averages slightly over 5% per year
- Capital Improvement Plan
  - Utilities are very capital intensive to ensure system is safe and reliable (always a significant driver)
  - As projects are not addressed and deferred, costs do not go away and increase over time
  - Capital spending needs range from \$8.2M up to \$20.1M (depending on scenario)

# Current Financial Position

Long-Term Financial Plan at Existing Rates



# Critical Capital Improvement Plan

**FY 2025 – FY 2029**

Project Description	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>Tier 1 - Critical Projects</b>					
Water Meter Replacement Program	\$0	\$250,000	\$250,000	\$250,000	\$250,000
Watson Ranch Well Improvements	\$205,000	\$0	\$0	\$0	\$0
New Well at Industrial	\$100,000	\$1,000,000	\$2,000,000	\$0	\$0
Arc Flash Study & Labeling	\$25,000	\$0	\$0	\$0	\$0
Parklane Electrical Upgrades	\$0	\$0	\$0	\$150,000	\$200,000
Watson Range Tank Rehab	\$0	\$0	\$0	\$150,000	\$0
School Well Site Upgrades	\$0	\$0	\$0	\$495,000	\$600,000
Urban Water Management Plan	\$50,500	\$0	\$0	\$0	\$0
Storage Tank Management Plan	\$0	\$30,000	\$0	\$0	\$0
Parklane Tank #1 Rehab	\$200,000	\$0	\$0	\$0	\$0
Parklane Tank #2 Rehab	\$0	\$0	\$0	\$200,000	\$0
Water Ops: Cyber Security Implementation	\$50,000	\$150,000	\$0	\$0	\$0
Water Ops: Cyber Security - Telecom Upgrades	\$0	\$500,000	\$0	\$0	\$0
<b>Subtotal Scenario 3 - Critical</b>	<b>\$630,500</b>	<b>\$1,930,000</b>	<b>\$2,250,000</b>	<b>\$1,245,000</b>	<b>\$1,050,000</b>
<b>Scenario 3 - Critical Total Costs</b>	<b>\$662,784</b>	<b>\$2,132,710</b>	<b>\$2,613,630</b>	<b>\$1,520,261</b>	<b>\$1,347,800</b>

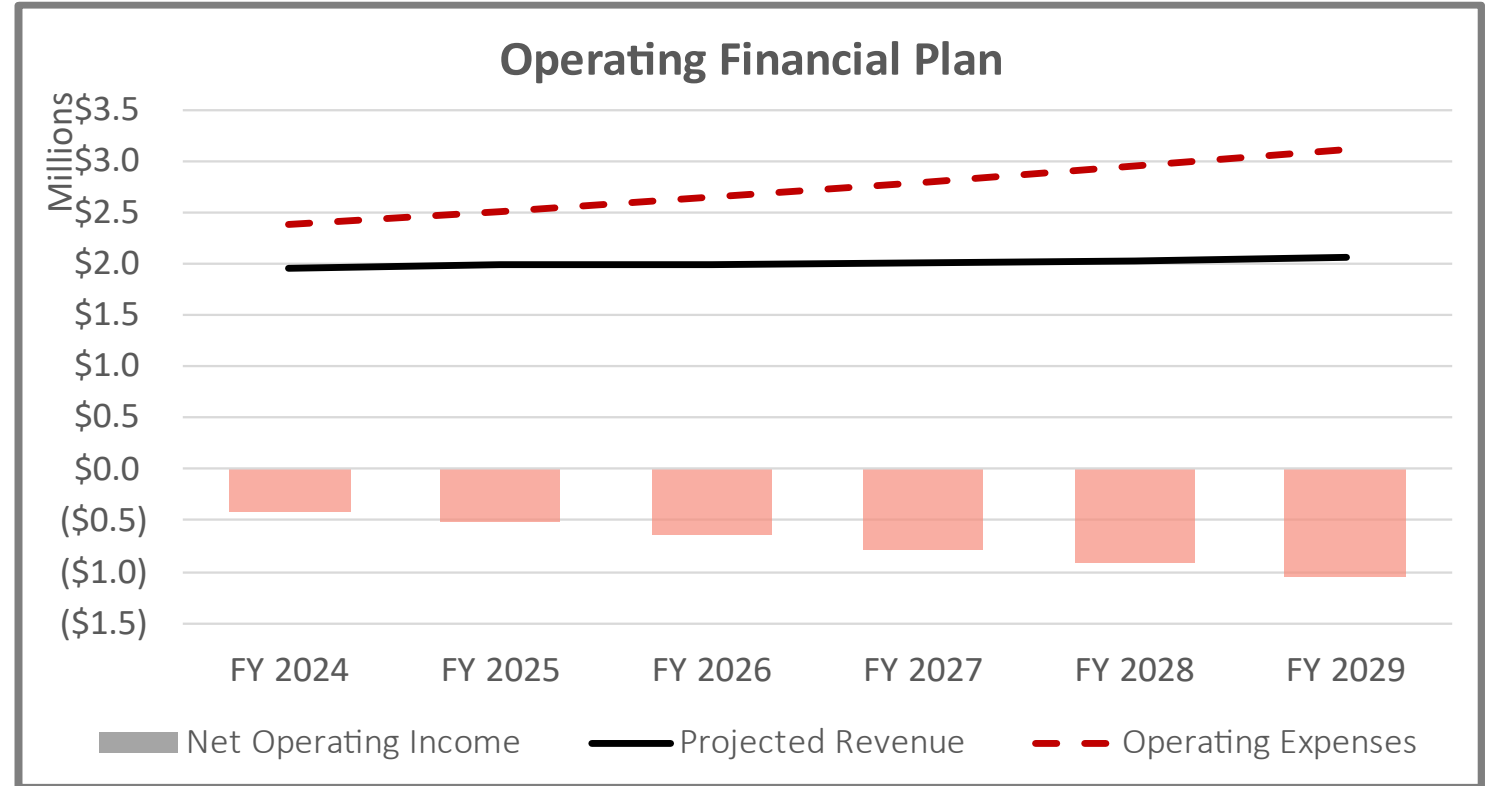
***5-Year Total = \$8.3M***

# Current Financial Position

## At Exiting Rates

### Financial Metrics

- Positive Net Income
- Fully Fund Planned CIP
  - Option 1: Critical
- Meet minimum reserves requirements
  - Includes Operating, Capital, Emergency



# Current Financial Position Results

## Existing Rates

### Results From Review

- Running at an operating deficit
  - FY 2024 is projected to end with **(\$417k)** deficit and grows to **(\$1M)** by FY 2029
- Capital Spending
  - No annual funding from rates (PAYGO)
  - Any capital spending at existing rates would reduce/deplete reserves
  - Debt-funding highly unlikely without rate increases because utility is operating at a deficit
- Working Capital Reserves beginning balance as of July 1, 2023 = \$3.9M
  - As capital is addressed, reserves are the only funding source
  - Reserves depleted by FY 2026

# Reserves



# Purpose of Reserves

## Benefits

- Robust, well-defined reserves generate a strong financial outlook
- Reserves are critical for mitigating inherent risk
  - Known and unknown
- Stabilize rates
- Provides coverage for debt covenants
- Ensures necessary capital repair and replacement projects move forward
- Covers unexpected capital repairs due to system failures



# Standard Utility Reserves

## OPERATING



Provides ongoing cash for daily operations and expenses of utility.

## CAPITAL REPLACEMENT



Provides funding for system R&R. Ensures system reinvestment occurs without delays or deferments.

## RATE STABILIZATION



Funding to offset unforeseen increases in O&M or new regulatory requirements. Also provides funding for rate smoothing over multiple years.

## DEBT



Set aside funds required as part of securing debt. Typically, equal to the annual debt payment.

## EMERGENCY



Mitigates risk due to system failures without impacting funding for the planned system improvements.

# Reserve Targets

## Minimum Requirement and Target



### Operating Reserve

**Purpose:** Provides ongoing cash funding for daily operations and expenses of the utility

**Target:** Based on total operating expenses and billing frequency. If a utility bills customers monthly, a minimum of 90 days of operating (3 months). Bi-monthly billing, a minimum of 120 days of operating (4 months).

**Guidelines:**

- Minimum – 90 days of operating expenses
- Target – 120 days of operating expenses



### Capital Replacement Reserve

**Purpose:** Provides funding for planned capital expenses. Ensures reinvest in the utility systems without delays or deferrals. This reserve also provides assurance when awarding construction contracts and matching funds when applying for grants.

**Target:** Cost of project replacement and forward-looking projections of planned capital

**Guidelines:**

- Minimum – At least one year of planned capital
- Target – Multiple years of planned capital

# Reserve Targets

## Minimum Requirement and Target

### Emergency Reserve

**Purpose:** Mitigates risk due to system failures and new regulations / treatment requirements.

**Target:** Function of System Asset Value (percentage thereof; 2% - 3%). Alternatively, based on the cost to replace critical assets to offset the greatest system risk. Should also consider any deferred capital.

#### **Guidelines:**

- Minimum – % of Asset Value
- Target – Replacement of critical asset of the system

### Debt Reserve

**Purpose:** Provides security for debt by establishing a reserve equal to the annual debt payment of existing debt obligations. It may also be used to satisfy the debt service coverage ratio requirement, which is typically 120% of the annual debt payments.

**Target:** This reserve should equal a year's worth of debt payments.

#### **Guidelines:**

- Minimum – Annual debt payment
- Target – Annual debt payment

# Recommended Reserves

## Minimum Requirement and Target

Reserve	Minimum Requirement	Target
Operating	90 days of annual operating expenses	120 days of annual operating expenses
Capital Replacement	1 year of 5-Year Avg of planned capital	2 years of 5-Year Avg of planned capital
Emergency	5% of system asset value	10% of system asset value
Rate Stabilization	Not recommended at this time	Not recommended at this time
<b>Existing Designated Reserves</b>		
Debt Reserve	Annual debt payment	Annual debt payment

# Proposed Reserves

## Minimum and Targets

Reserve	Minimum	Target
Operating	\$618k	\$824k
Capital Replacement	\$1.6M	\$3.3M
Emergency	\$682k	\$1.3M
<b>Total</b>	<b>\$2.9M</b>	<b>\$5.5M</b>
<b>Designated Reserves</b>		
Debt Reserve (Fiscal Agent)	TBD	TBD

Debt Reserve funded as part of debt issuance;  
Not included as part of Reserve Min/Target

# Water Proposed Financial Plan

## Proposed Long-Term Financial Plan

- Critical Capital Spending



# Water Proposed Financial Plan – No Debt

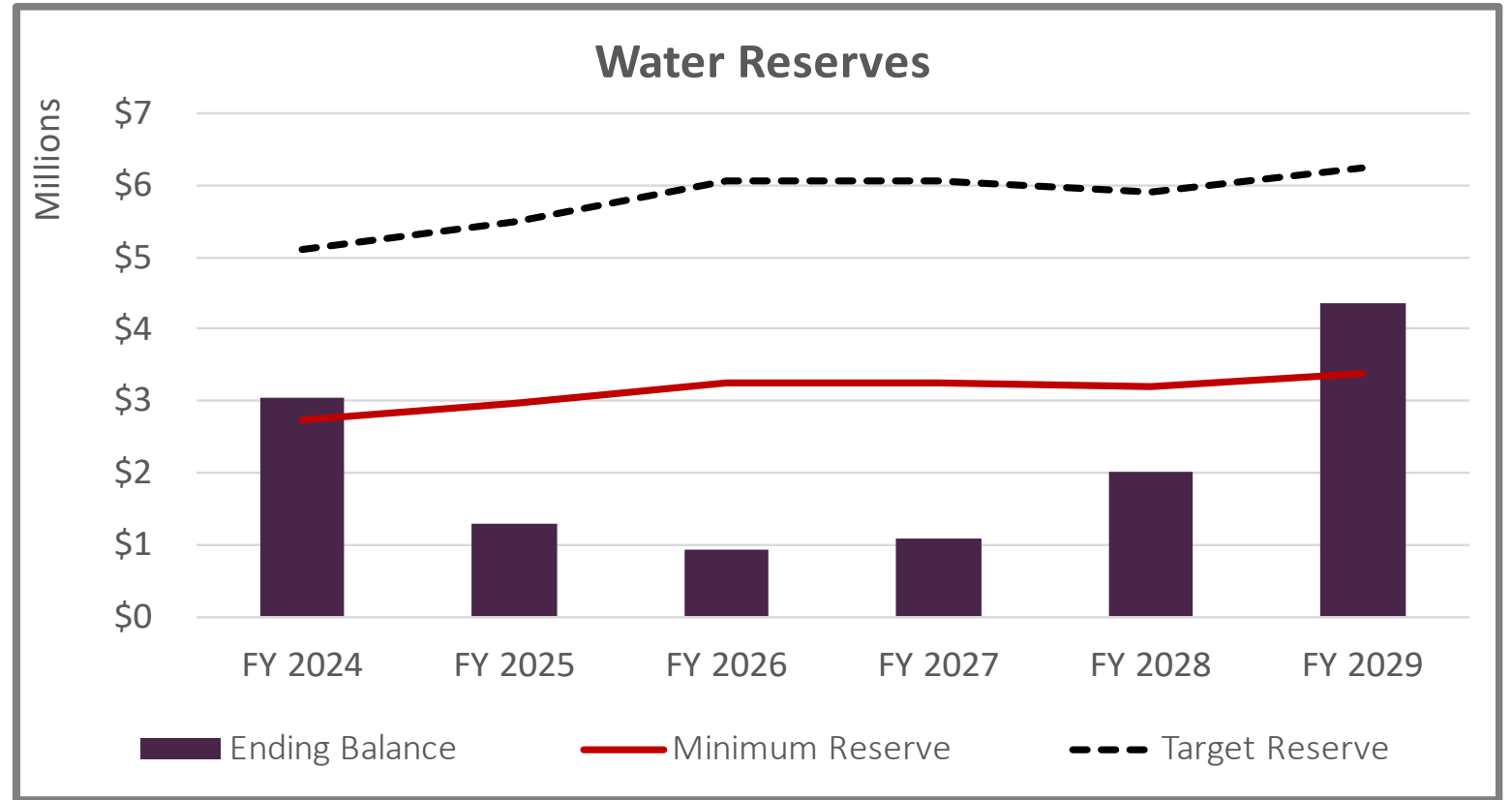
## FY 2024 – FY 2029 Planning Period

Revenue Adjustments:

FY 2025 – FY 2029: 40%, 25%, 25%, 25%, 25%

### Proposed Financial Plan

- Positive Net Income
- Critical Capital Spending
  - Option 1: Rate Funded
  - Use of Capacity Fees = \$2.3M
- Meets minimum reserve in FY 2029
  - FY 2026 / FY 2027: Covers minimum operating reserve ***only***
  - FY 2028 and FY 2029: CIP reduces allowing rebuilding of reserves



# Water Proposed Financial Plan – No Debt

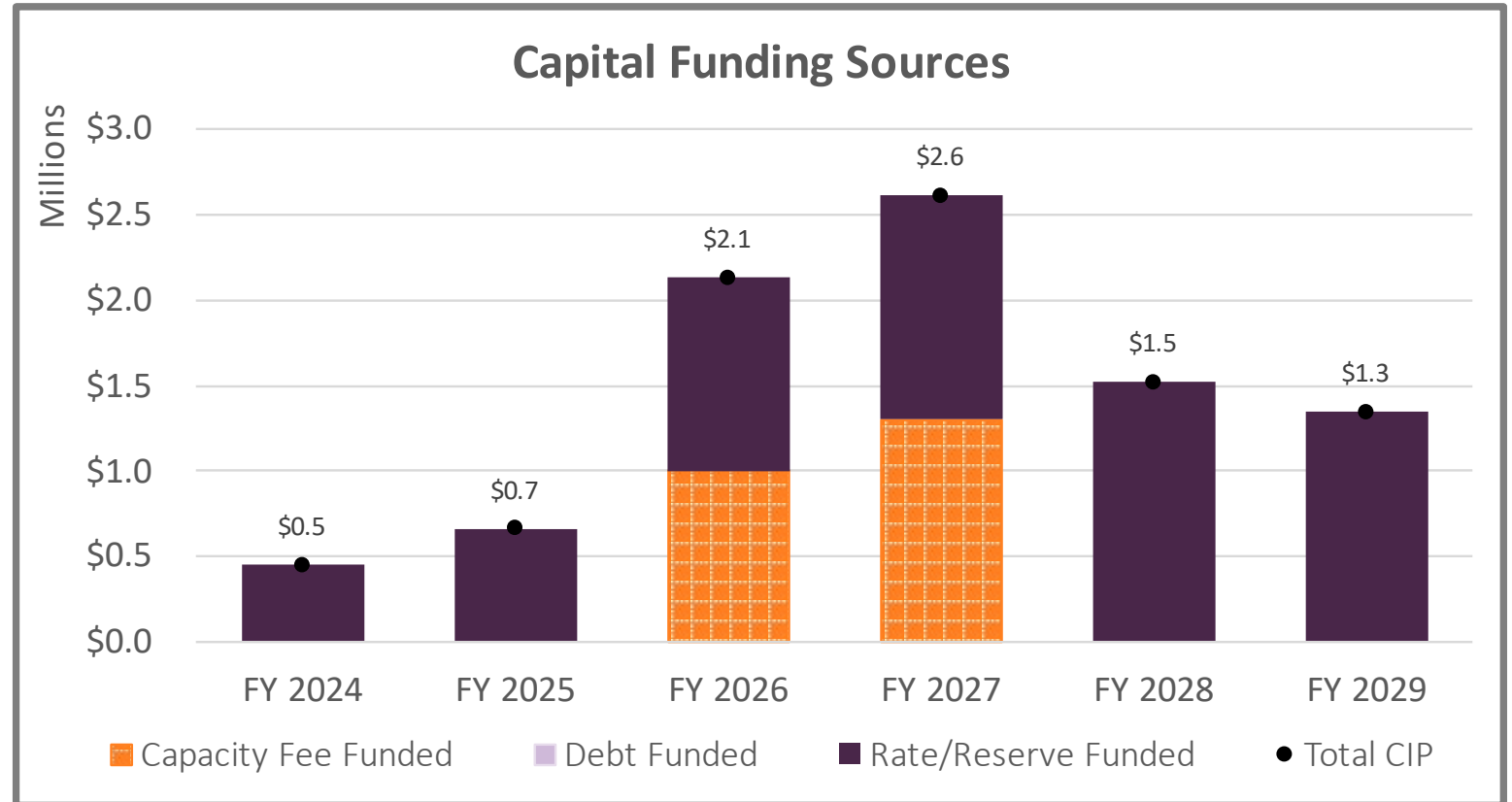
## FY 2024 – FY 2029 Planning Period

Revenue Adjustments:

FY 2025 – FY 2029: 40%, 25%, 25%, 25%, 25%

### Proposed Financial Plan

- Positive Net Income
- Critical Capital Spending
  - Option 1: Rate Funded
  - Use of Capacity Fees = \$2.3M
- Meets minimum reserve in FY 2029
  - FY 2026 / FY 2027: Covers minimum operating reserve ***only***
  - FY 2028 and FY 2029: CIP reduces allowing rebuilding of reserves





# Water Proposed Financial Plan – No Debt

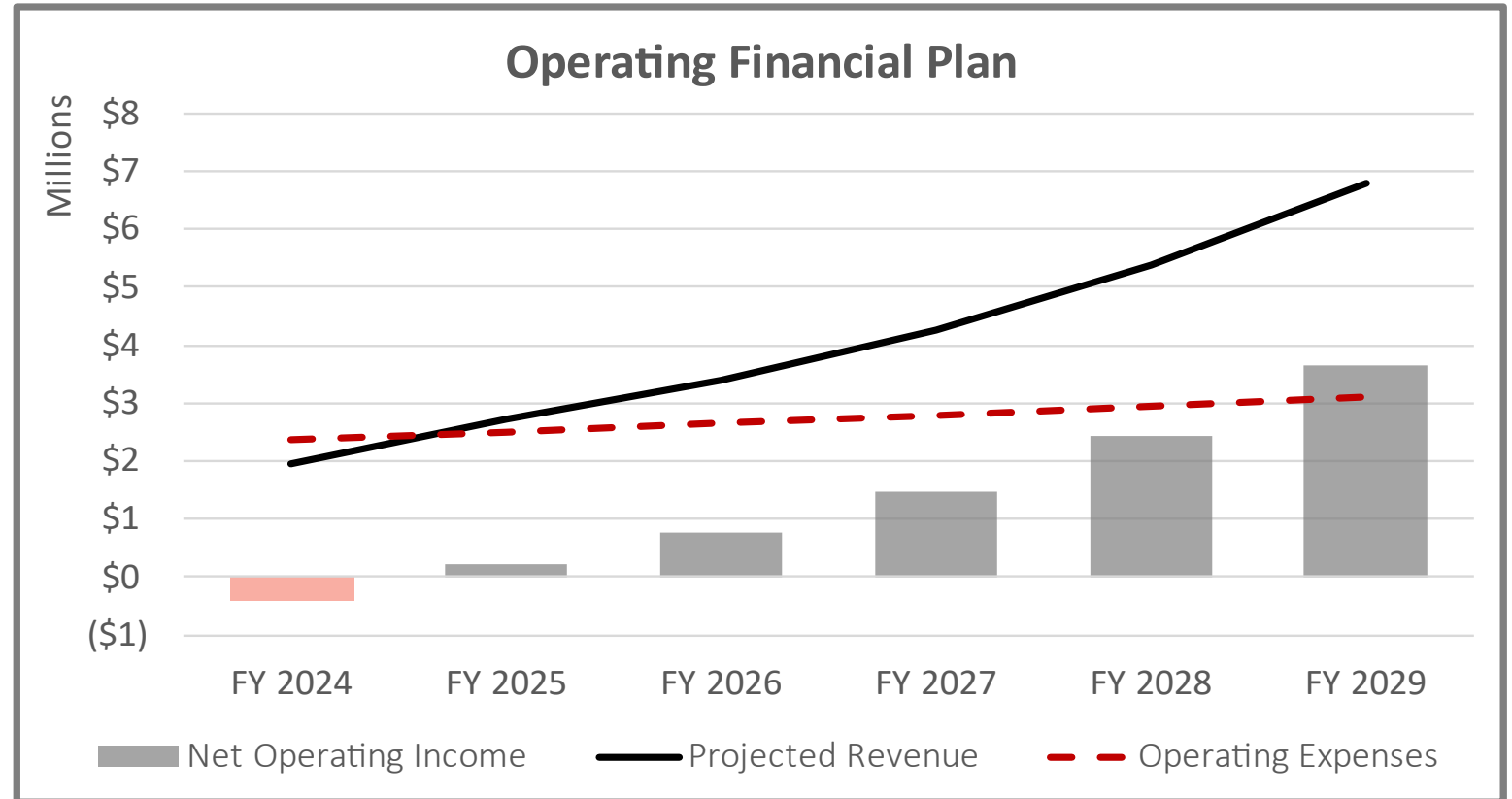
## FY 2024 – FY 2029 Planning Period

Revenue Adjustments:

FY 2025 – FY 2029: 40%, 25%, 25%, 25%, 25%

### Proposed Financial Plan

- Positive Net Income
- Critical Capital Spending
  - Option 1: Rate Funded
  - Use of Capacity Fees = \$2.3M
- Meets minimum reserve in FY 2029
  - FY 2026 / FY 2027: Covers minimum operating reserve ***only***
  - FY 2028 and FY 2029: CIP reduces allowing rebuilding of reserves



# Water Proposed Financial Plan – With Debt

## FY 2024 – FY 2029 Planning Period

Revenue Adjustments:

FY 2025 – FY 2029: 40%, 22%, 14%, 14%, 14%

### Proposed Financial Plan

#### ➤ Positive Net Income

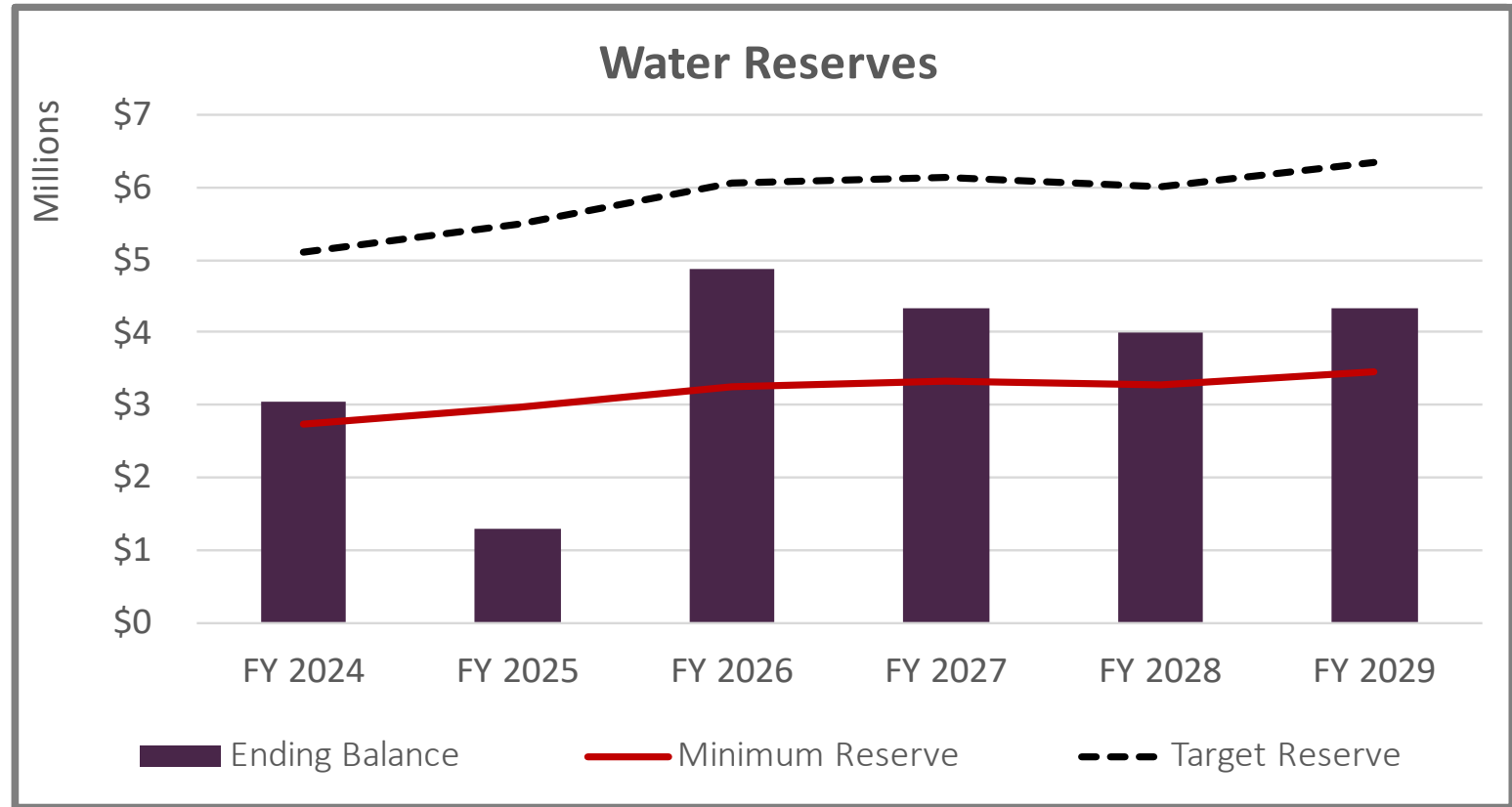
- Need to increase revenue over first 2 years to issue debt in FY 2026

#### ➤ Critical Capital Spending

- Option 2: Rate and Debt Funded
  - ❖ Debt-financing to cover remainder of years 2-4
  - ❖ Use of Capacity Fees = \$2.3M
  - ❖ \$4.0M in debt proceeds; Annual debt payment = \$300k

#### ➤ Meets minimum reserves

- Capital reserve used to cover shortfall in FY 2026 and replenishes with debt issuance



# Water Proposed Financial Plan – With Debt

## FY 2024 – FY 2029 Planning Period

Revenue Adjustments:

FY 2025 – FY 2029: 40%, 22%, 14%, 14%, 14%

### Proposed Financial Plan

#### ➤ Positive Net Income

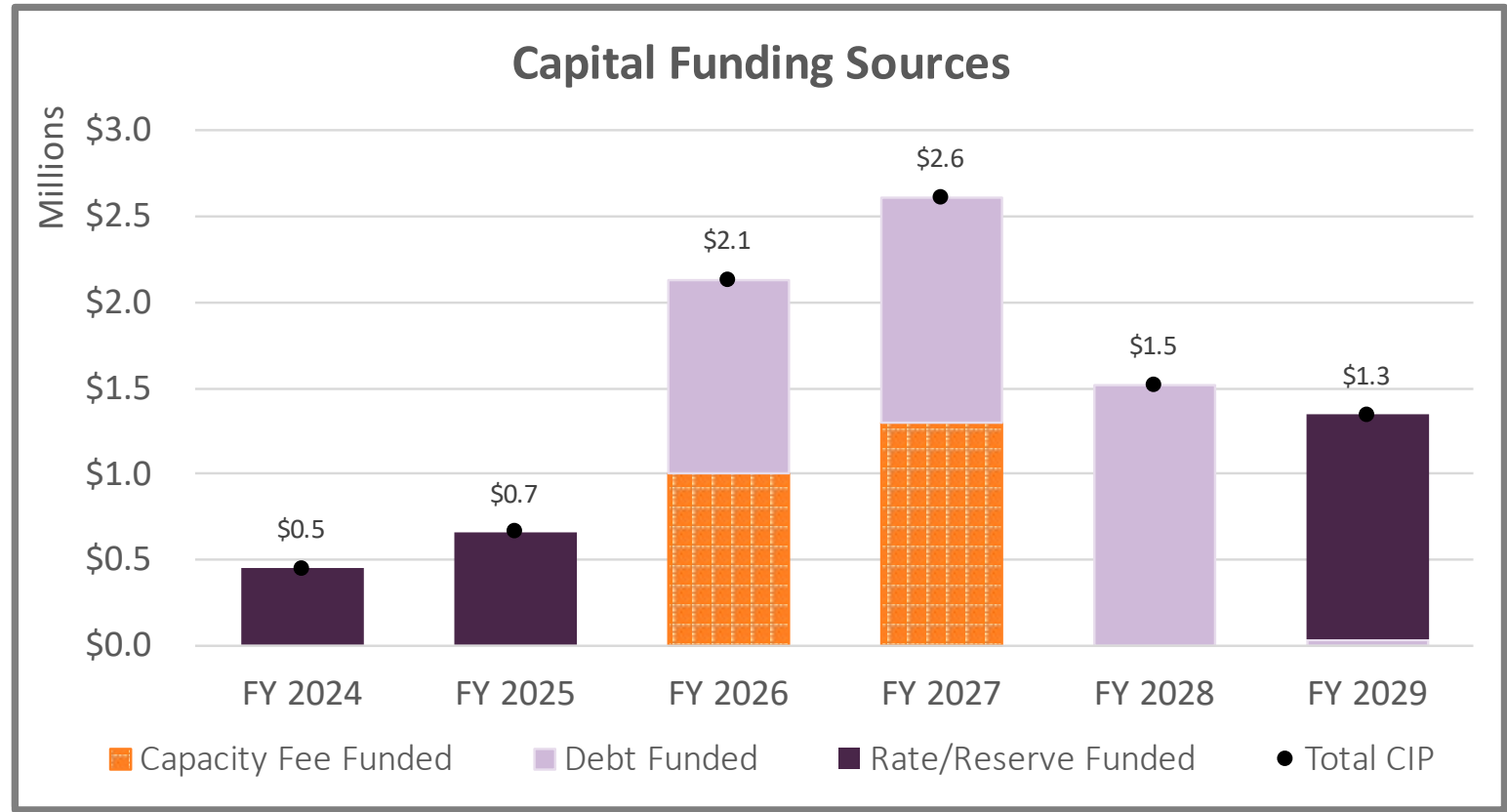
- Need to increase revenue over first 2 years to issue debt in FY 2026

#### ➤ Critical Capital Spending

- Option 2: Rate and Debt Funded
  - ❖ Debt-financing to cover remainder of years 2-4
  - ❖ Use of Capacity Fees = \$2.3M
  - ❖ \$4.0M in debt proceeds; Annual debt payment = \$300k

#### ➤ Meets minimum reserves

- Capital reserve used to cover shortfall in FY 2026 and replenishes with debt issuance



# Water Proposed Financial Plan – With Debt

## FY 2024 – FY 2029 Planning Period

Revenue Adjustments:

FY 2025 – FY 2029: 40%, 22%, 14%, 14%, 14%

### Proposed Financial Plan

#### ➤ Positive Net Income

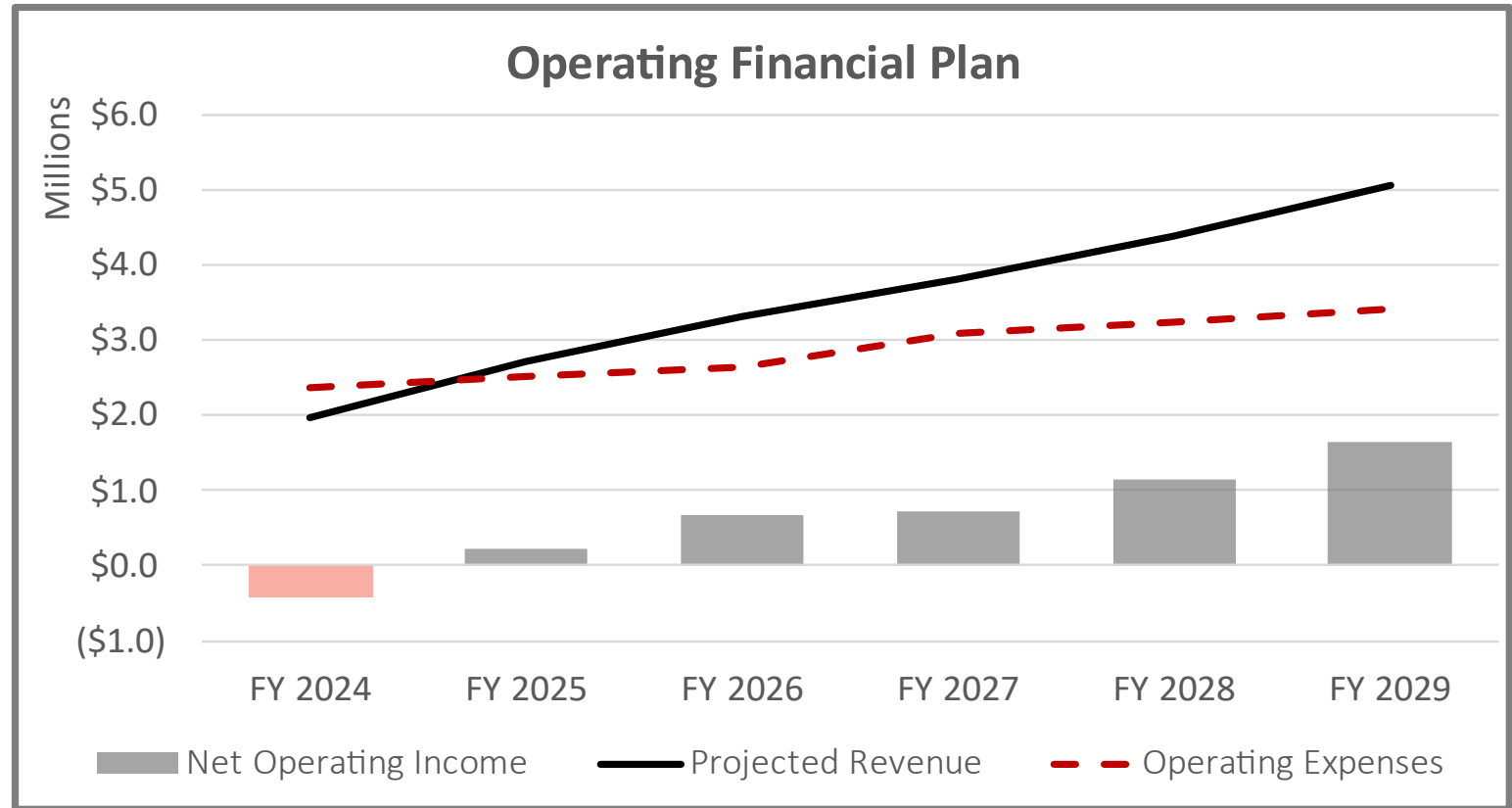
- Need to increase revenue over first 2 years to issue debt in FY 2026

#### ➤ Critical Capital Spending

- Option 2: Rate and Debt Funded
  - ❖ Debt-financing to cover remainder of years 2-4
  - ❖ Use of Capacity Fees = \$2.3M
  - ❖ \$4.0M in debt proceeds; Annual debt payment = \$300k

#### ➤ Meets minimum reserves

- Capital reserve used to cover shortfall in FY 2026 and replenishes with debt issuance



# Water Proposed Financial Plans – Capital Funding

## FY 2024 – FY 2029 Planning Period

CIP Scenarios	Debt Proceeds	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Critical (no Debt)	-	40%	25%	25%	25%	25%
Critical (level adjustments)	-	30%	30%	30%	30%	30%
Critical	\$4.0M	40%	22%	14%	14%	14%
Critical + Near-Term	\$7.0M	40%	25%	25%	25%	25%
Near-Term with R&R	\$10.5M	60%	30%	30%	30%	30%

➤ Which scenario(s) should continue to be evaluated for developing rates?

# Next Steps

## Upcoming Tasks / Meetings

- Community Financial Plan City Workshop
- Financial Plan City Council Workshop
- Cost-of-Service Analysis
- Rate Development
- RAC Rate Workshop
- City Council Rate Workshop