

Cambria Community Services District



Water, WRF & Sewer Finances

December 9, 2021



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

Bartle Wells Associates

- Independent financial consulting firm specializing in utility rates and finance
- Professional services: 1) utility rate & fee studies, 2) financial plans, 3) financial advisor for debt financing
- Charter Member: National Association of Municipal Advisors
- MSRB-Registered Municipal Advisory Firm
- Consulted for over 500 public agencies throughout California, including Cambria CSD and other regional agencies
- Assisted CCSD with prior rate and fee studies



Presentation Overview



- Background
- Rate History & Rate Survey
- Capital Improvement Needs
- Financial Projections
- Financing Options
- Next Steps

Purpose: Discuss preliminary findings and obtain Board input and direction

CCSD Utility Finances

- CCSD's water & sewer utilities are financially self-supporting enterprise funds
- Service charges are the main source of revenues
- Rates need to set at levels adequate to fund operations, maintenance, debt service & capital improvements needs
- CCSD implemented minimal to no water or sewer rate increases from 1993 - 2015, resulting in budget deficits & inadequate capital funding
- Rate increases since 2015 have helped stabilize water & sewer finances
- However, utilities are facing significant capital improvement needs and only have minimal levels of fund reserves



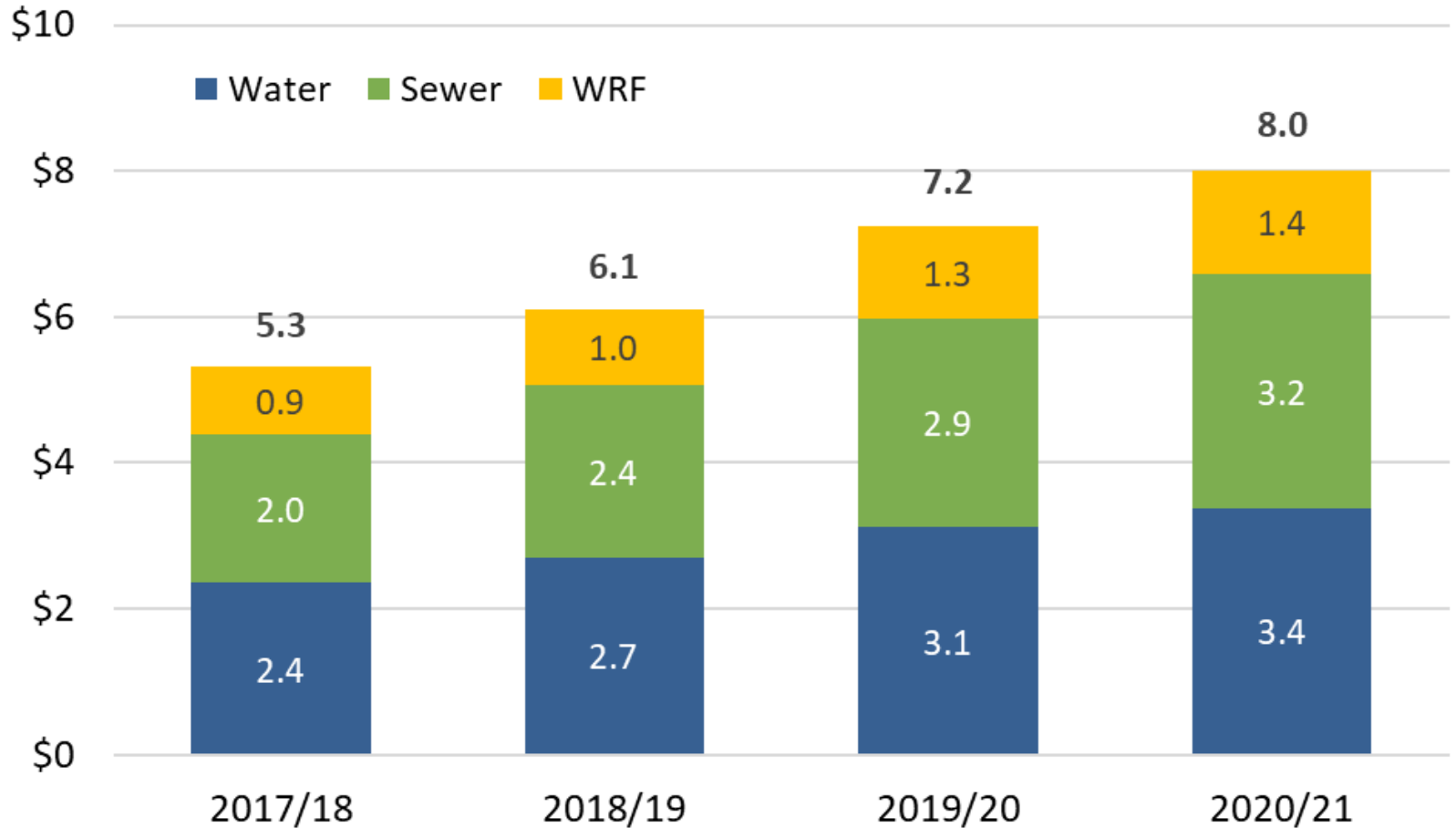
Rate History

- Prior to 2015, CCSD adopted minimal to no water and sewer rate increases for over 20 years
 - Adjusted for inflation, 2015 water & sewer rates were lower than in 1993
 - Gradually starved the water & sewer utilities of adequate funding resulting in budget deficits and minimal to no funding for capital needs
 - Utilities had to borrow money from the General Fund to meet funding needs
- SWF/WRF rates initially adopted in 2014 to help secure funding for an emergency brackish groundwater desalination facility
 - Community's water supply was at risk due to declining groundwater levels & extreme drought
- In 2015, CCSD adopted a series of 4% water & sewer rate increases
 - Designed to help restore basic financial stability...but were not designed to address major capital needs

Rate History (continued)

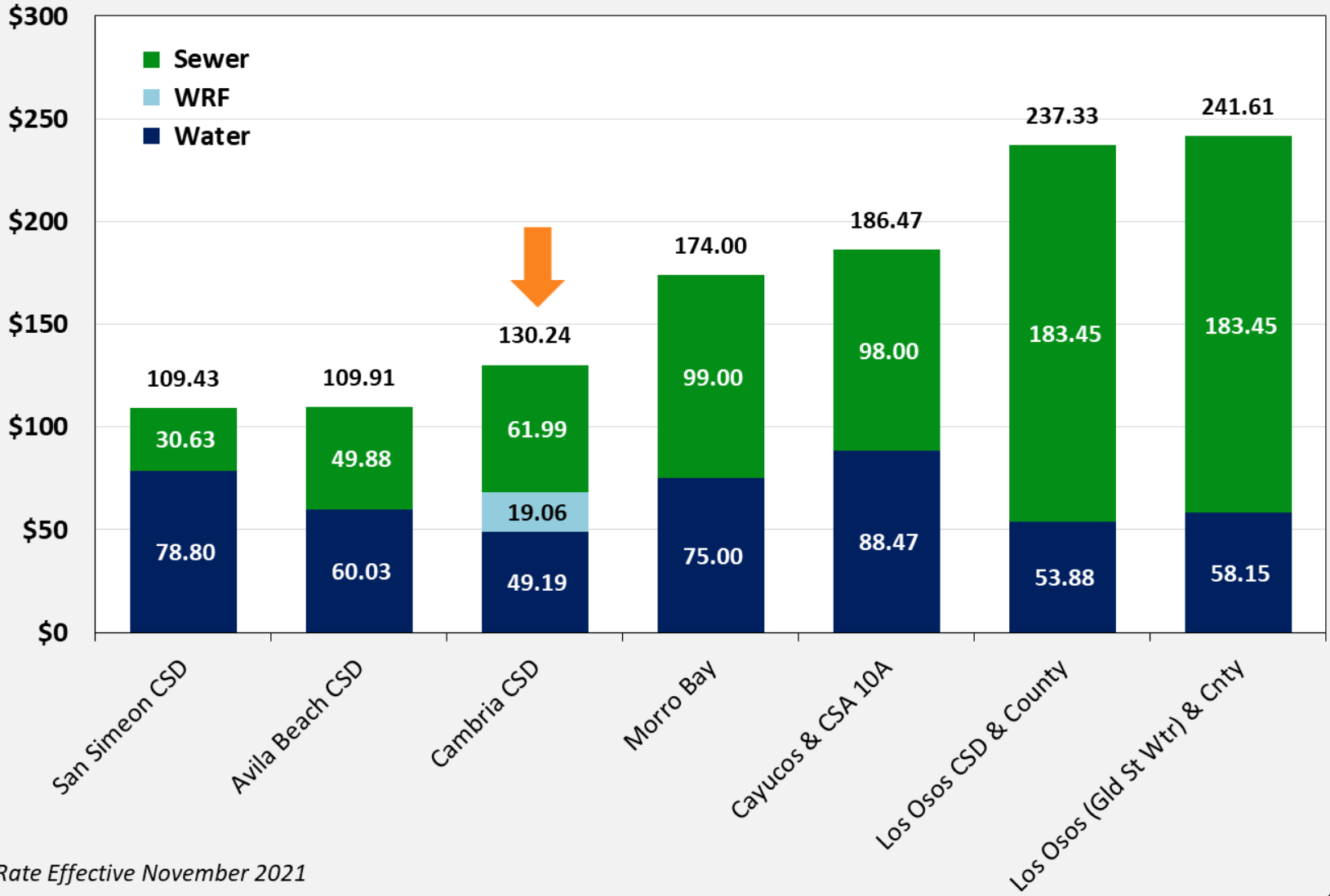
- In 2018, CCSD adopted 3-years of water & sewer rate increases
 - Goal - Shore up funding for operations & maintenance and phase in funding to help address capital improvement needs
 - Phased Approach – rate increases phased in over 3 years to extent possible
 - Also modified SWF/WRF rates
 - Final year of adopted rate increases implemented September 2020
- Rate increases have put the water & sewer utilities on a more stable financial footing, but are not adequate to address future funding needs
- Prior financial projections assumed ongoing annual rate increases would be needed each year starting 2021
- No water or sewer rate increases were implemented this year
- CCSD offers a 40% wastewater rate reduction to customers who participate in PG&E's CARE Program based on income eligibility

Combined Water, Sewer & WRF Service Charges (\$ millions)

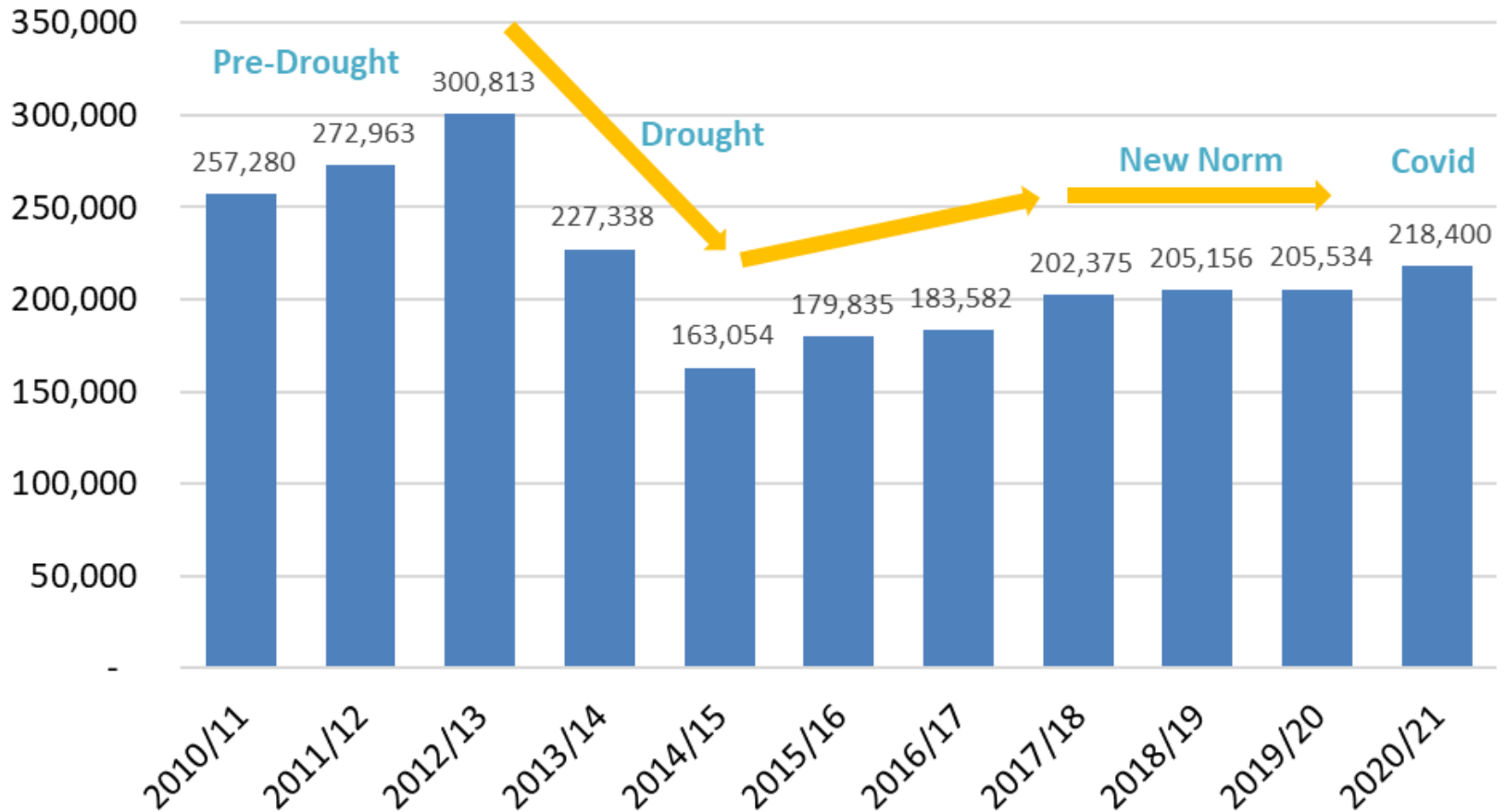


Combined Monthly Water & Sewer Charges

Monthly Residential Charges with 3 ccf Monthly Use



Historical Water Use (ccf)



Note: One hundred cubic feet (ccf) equals approximately 748 gallons

Capital Improvement Needs

- CCSD facing substantial water & sewer capital improvement needs
 - Aging facilities in need of repair, rehabilitation and/or replacement
 - Support operational reliability & meet current & future regulatory requirements

- WATER
 - Need to replace old water meters that are reaching the end of their useful lives; cost estimate \$1.7 million (can potentially be funded via a 15-year loan/lease)
 - PG&E report identifies roughly \$4.9 million of capital needs for wells, booster stations and water storage tanks
 - Other ongoing funding needs of aging water distribution system

- SEWER
 - PG&E report identifies \$7.5 million “Base Project” for highest-priority improvements to CCSD’s wastewater treatment plant (to be debt financed)
 - PG&E report identifies \$4.5 million of additional “necessary” improvements
 - Other ongoing funding needs of aging sewer collection system



Financial Projections

- BWA developed updated financial projections to identify future funding needs and evaluate rate increases
- Capital funding needs can be addressed via a combination of:
 - Debt financing for major near-term capital improvements, plus
 - Annual pay-as-you-go funding to address ongoing future capital needs
- Potential debt financing:
 - Water: \$1.7 million for water meter replacements (15-year loan/lease financing)
 - Sewer: \$7.5 million for highest-priority treatment plant “Base Project”, plus possible add'l \$2.5 million to help address other high-priority needs (bonds/COPs)
- Water & sewer rate increases needed to support repayment of potential debt & fund an adequate level of ongoing annual capital improvements
 - *Rate increases needed to be adopted prior to debt issuance*
 - Rate increases can be phased in over multiple years
 - No WRF rate increases appear to be needed at this time

Financing Options

■ Revenue Bonds / Certificates of Participation (COPs)

- Public sale: multiple investors participate in the pricing to establish interest rates
- Requires an Official Statement & credit rating (potentially bond insurance)
- Repayment Term: Can vary up to 30+ years with structuring flexibility
- Secured by Net Revenues (revenues remaining after paying operating expenses)
- Rate Covenant: Pledge to increase rates as needed to generate Net Revenues $\geq 1.20x$ annual debt service
- Additional Debt Test: Can only issue additional "parity debt" if have financial capacity to repay the add'l debt

■ Direct Placement (e.g. Bank Loan)

- Direct placement with a lender (e.g. bank)
- Legal structure & repayment security similar to Bonds/COPs
- Repayment Term: Typically up to 15-20 years (sometimes more)
- Lender does its own credit analysis; no Official Statement or credit rating
- Typically has lower issuance costs but higher interest rates



■ Equipment Lease (potentially for Water Meters)

- Type of direct placement
- Can be secured either by Net Revenues & rates, or by use of equipment as collateral
- Lender does its own credit analysis; no Official Statement or credit rating

Next Steps

- Obtain input and direction
 - Consider moving forward with a water & sewer rate study
- Potential rate study timeframe
 - Roughly 2 months + 45-day Prop 218 noticing process & public hearing
- CCSD can work on a parallel track to move forward with debt issuance process while rate study is underway
 - Issuance of bonds/COPs typically takes about 3 months
 - Debt can be issued soon after future rates are adopted



Questions & Discussion

