



2020-2024 Strategic Plan

# Long-Term Rate Planning: Water & Wastewater

August 19, 2019



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# Long-Term Rate Planning – W/WW

## Why we are here

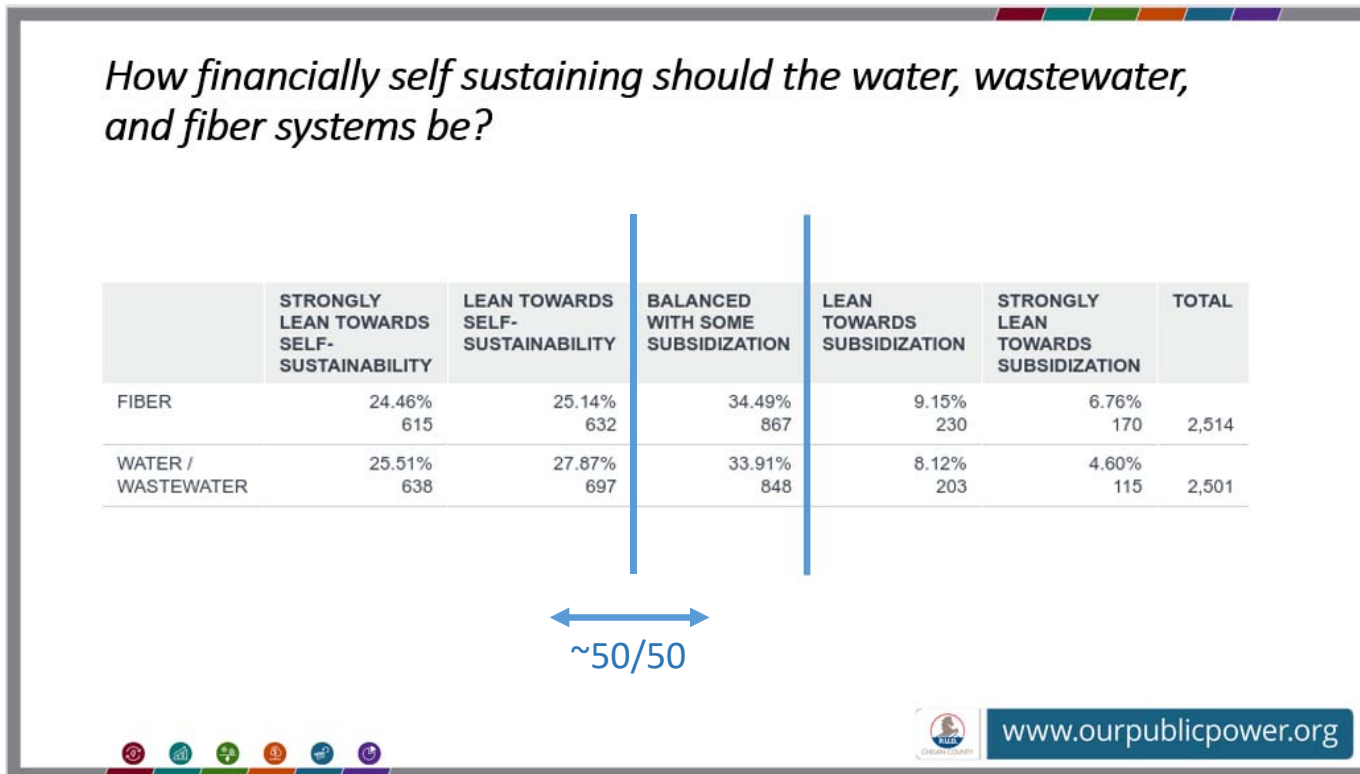
- Strategic planning survey results for W/WW financial sustainability
- Tools to improve sustainability
- Potential rate impact of recommendation



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# Long-Term Rate Planning – W/WW

- From August 5, 2019 strategic planning update:





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# Long-Term Rate Planning – W/WW

- **What does financially self-sustaining mean?**
  - Ability to pay all systems costs with decreased capital funding support from wholesale electric revenues
- **Tools to improve sustainability**
  - Rate adjustments
  - Increased system development charges (one-time fees)
  - External capital funding opportunities (grants and/or loans)
  - Stop-gap, temporary tools
    - Internal loans
    - PPB funding for specific projects
    - Capital funding support from wholesale electric revenues



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# Long-Term Rate Planning – W/WW

- **Tools to measure/monitor sustainability**

- financial policies inform long-term rate guidance and provide the ability to measure financial performance

## 1. Operating Coverage Ratio (new)

- Revenue sufficiency
- Measure of revenues (rates and fees) ability to cover all costs of operating and maintaining the system, including infrastructure costs

## 2. Debt Service % of Revenues (new)

- Debt affordability
- Measure of the level of debt incurred compared to the size of customer base and an indicator of the potential impact of new debt

## 3. Liquidity (continued)

- Resiliency
- Minimum funds set aside to cover costs in the event of an emergency or revenue downturn



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# Long-Term Rate Planning – W/WW

## 1. Operating Coverage Ratio:

$$\frac{\text{Operating Revenues}}{\text{Operating Expense}}$$

Goal is to have sufficient funds to cover daily expenses, debt service, capital replacement costs, emergencies, and unexpected revenue shortfalls

Current forecast (includes annual 2% CPI rate increases)

	Wastewater	Water
2019	62.9%	100.8%
2020	62.0%	91.4%
2021	60.1%	97.9%
2022	57.9%	97.9%
2023	58.4%	97.5%
2024	58.6%	98.1%
2025	59.0%	96.6%
2026	59.2%	96.7%
2027	59.5%	95.8%
2028	59.7%	97.1%



# Long-Term Rate Planning – W/WW

## 2. Debt service % of operating revenues:

$$\frac{\text{Debt service (i.e. principal + interest)}}{\text{Operating Revenues}}$$

- Ratio indicates how much of the operating revenue, from rates and other charges, is allocated to fixed debt payments
- As debt increases, debt service also increases, requiring additional revenue to cover the annual cost

Current forecast (includes annual 2% CPI rate increases)

	Wastewater	Water
2019	2.20%	11.90%
2020	2.10%	11.00%
2021	11.10%	10.30%
2022	10.80%	9.80%
2023	10.50%	9.40%
2024	10.20%	9.00%
2025	9.90%	8.60%
2026	9.60%	6.10%
2027	9.30%	5.30%
2028	9.00%	1.40%



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# Long-Term Rate Planning – W/WW

## Recommended Financial Targets (long-term)

	Water	Wastewater
1. Operating Coverage Ratio (new)	100% + debt service = 110%	75% <sup>1</sup> + debt service = 85%
2. Debt Service % of Revenues (new)	Not to exceed 10%	Not to exceed 10%
3. Liquidity (no change)	>\$1.25M	>\$200k

<sup>1</sup>target based on assumption that wastewater system can obtain grant/loan funding for most future capital





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# Long-Term Rate Planning

## “What-if” Scenarios

### Assumptions:

- Updated targets support financial sustainability
- Change in shared asset funding requirement: system share is 0% of cost of shared assets (facilities, CIS, etc.) 2020-2022 and 50% of cost annually thereafter
- Water system increased system development charge by \$1,000 per ERU
- WW future large capital projects assumed to be funded by at least 60% grants
- WW future loans (other than Dryden) may drive additional rate adjustment

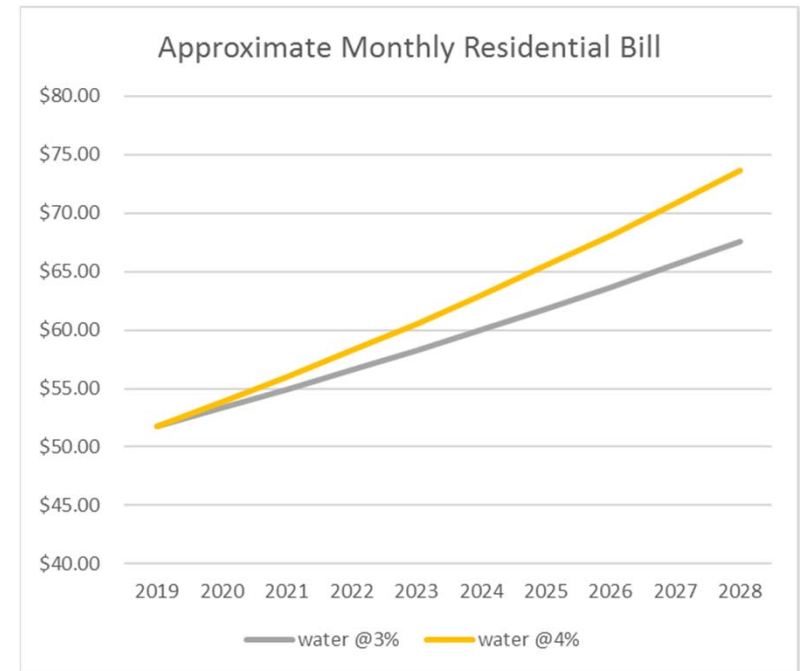


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# Long-Term Rate Planning – Water

## Water progress toward sustainability

	<b>3% rate increase</b>	<b>4% rate increase</b>
<b>Operating Ratio (&gt;110%)</b>	>10 yrs	8 yrs
<b>Debt Service % of Revenue (&lt;10%)</b>	9 yrs	7 yrs
<b>Liquidity (&gt;\$1.25 M)</b>	0 yrs	0 yrs
<b>Rate at end of 5-yr plan</b>	\$60/mo	\$63/mo

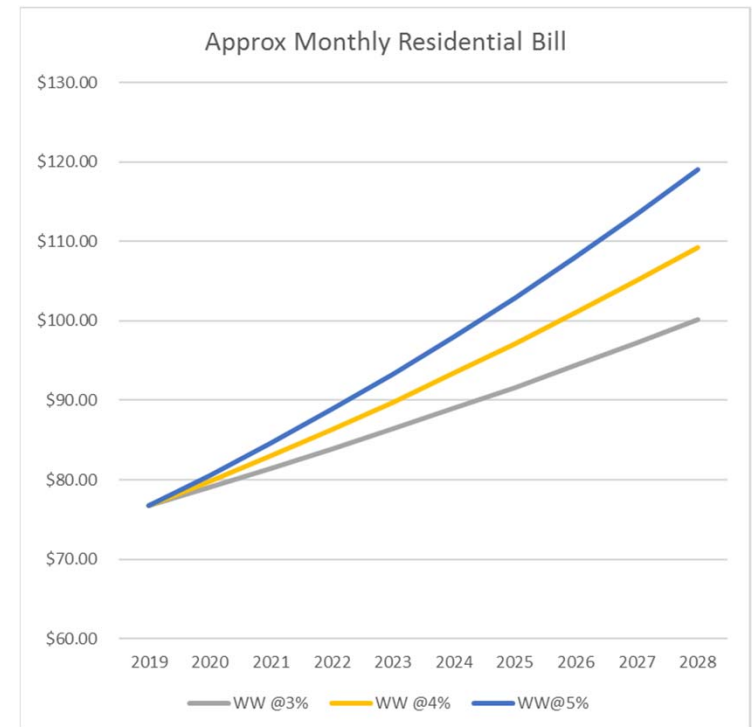




# Long-Term Rate Planning –WW

## Wastewater progress toward sustainability

	<b>3% rate increase</b>	<b>4% rate increase</b>	<b>5% rate increase</b>
<b>Operating Ratio (&gt;85%)</b>	>10 yrs	>10 yrs	>10 yrs
<b>Debt Service % of Revenue (&lt;10%)</b>	>10 yrs	4 yrs	3 yrs
<b>Liquidity (&gt;200K)</b>	0 yrs	0 yrs	0 yrs
<b>Bill at end of 5 yr plan</b>	\$89	\$93.50	\$98





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# Long-Term Rate Planning –WW

- **Option:** Allocation of PPB/wholesale electric revenues to continue 2015-2019 strategic plan support for improved water quality through funding remaining Peshastin & Dryden project costs (i.e. eliminate debt service)
- Approx. \$ 1.5 M based on current project estimates

\* Current project conditions may result in increased cost

Peshastin & Dryden Projects	
Estimate at 12/31/14 (prior strategic plan forecast)	\$ 5.25 M
Assumed grant funding	\$ 3 M
Cost covered by capacity reservation funding	\$ 2 M
Assumed from system cash reserves	\$ 250 K
<b>Current Estimate: <u>Peshastin</u></b>	<b>\$ 4.86 M*</b>
Grant funding	\$ 2,587,474
Loan funding	\$ 2,069,526
Assumed from system cash reserves	\$ 203 K
Less capacity reservation funding	<u>(\$ 2 M)</u>
Remaining loan & cash reserve balance (approx.)	\$ 270k
<b>Current Estimate (planning level): <u>Dryden</u></b>	<b>\$ 3.5 M</b>
Grant funding	\$ 2.3 M
Loan funding	\$ 1.2 M



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## Long-Term Rate Planning –WW

- **Option (cont.)** Allocation of PPB/wholesale electric revenues to support improved water quality

- PPB reduces Debt Service % of Revenues to 0%, allowing reduction in Operating Ratio target to 75%

	<b>3% rate increase</b>	<b>5% rate increase</b>
With PPB funding		
<b>Operating Ratio (&gt;75%)</b>	>10 yrs	7 yrs
<b>Debt Service % of Revenue (0%)</b>	0 yrs	0 yrs
<b>Liquidity (&gt;200K)</b>	0 yrs	0 yrs
<b>Rate at end of 5 yr plan</b>	\$89	\$98

# Overall Conclusions

- Implementing an annual rate plan in the range of 4% in the water systems will achieve financial metrics in 10 years
- Implementing an annual rate plan in the range of 6% in the wastewater systems will achieve financial metrics in 10 years
- Utilization of approximately \$1.5 M PPB funding for wastewater system water quality improvement projects would achieve financial metrics in close to 10 years with an annual rate plan in the range of 4%

# Known Unknowns

- Impact of Regional Water second source project
- System growth
- Changes in project costs and timelines
- System expansion/regionalization
- New regulations
- Unexpected facility degradation/maintenance needs
- Expense forecast changes
- Grant funding availability

# Next Steps

- Board & Staff:
  - Consider interaction of strategic plan and rate expectations
- Staff:
  - Evaluate other rate options as directed by management and the Board
  - Propose rate outreach plan, as applicable (future meetings)



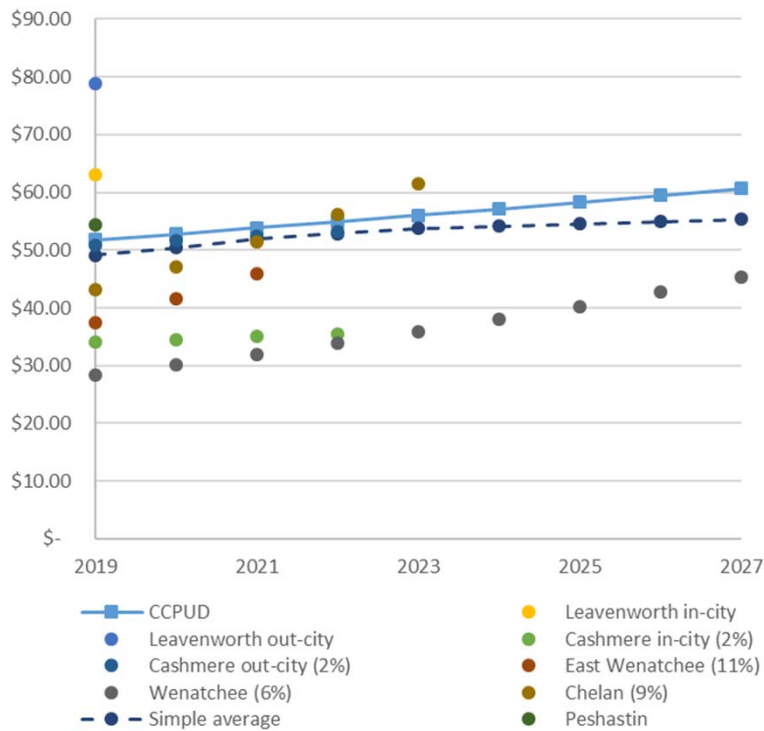
# Background Information



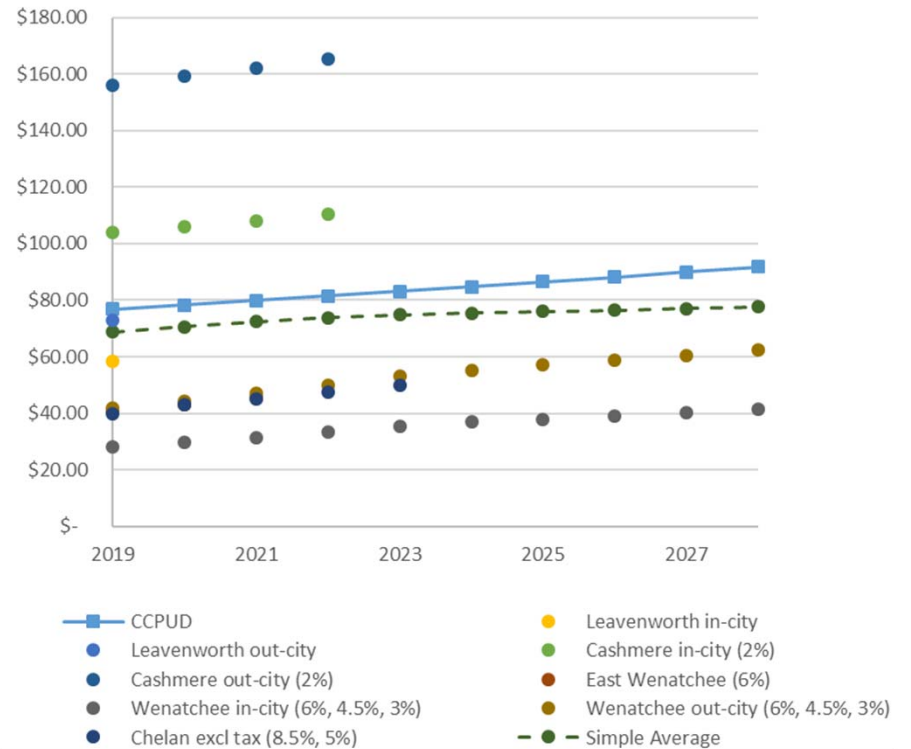
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# Long-Term Rate Planning – W/WW

Local Water Rate Comparison (ave residential/mo)



Local WW Rate Comparison (ave residential/mo)



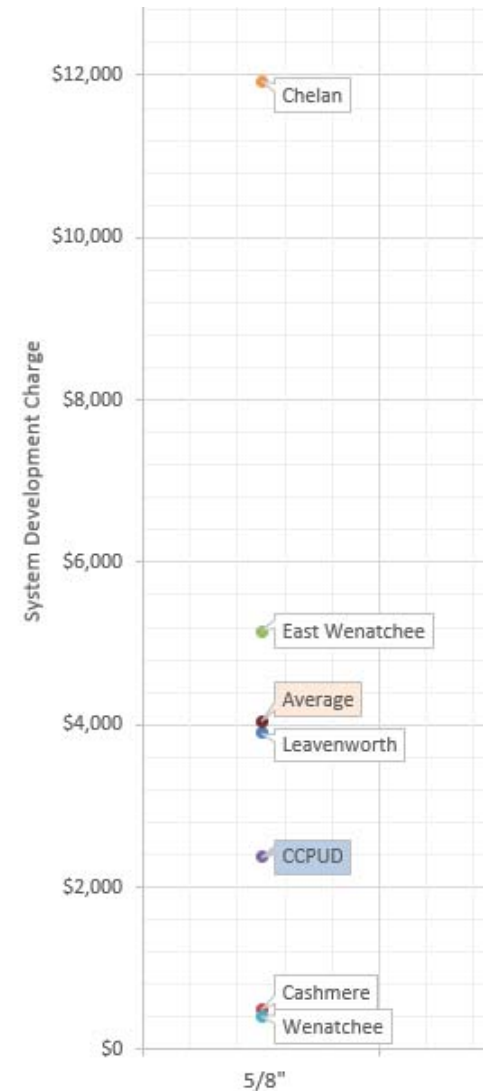


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# Long-Term Rate Planning

## Local Water SDC Comparison

- Approx. 100 new water connections per year
- Current water system SDCs are significantly less than local utilities average (common 5/8" residential connection)
- Water SDCs last updated 2007, current rate is ~\$800 *less* than the District average SDC in place in 2000



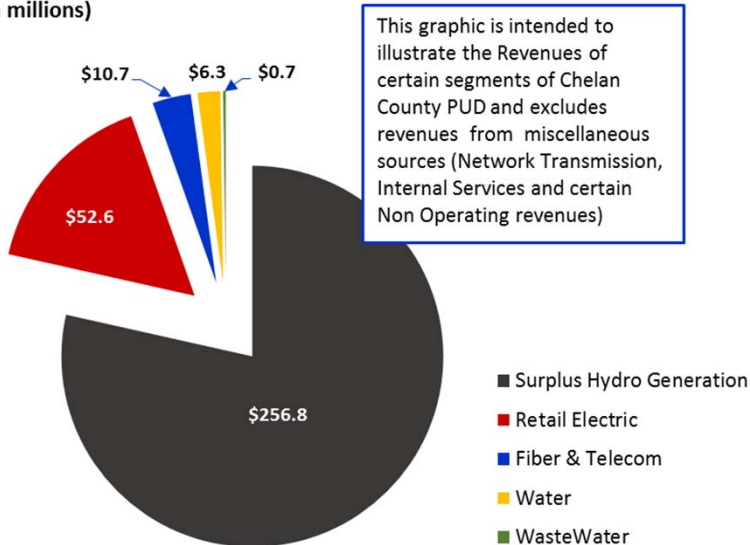


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# Long-Term Rate Planning – W/WW

## Chelan County PUD Revenues

2018 Audited Results  
(in millions)



## Background Information:

- Water system provides approximately 2% of District revenues
- Wastewater system provides approximately 0.2% of District revenues