



Water Supply Financial Planning

Finance and Administration
Committee

April 25, 2024



Overview of Presentation

- Budget and Financial Plan Overview
- District Financial Policies
- Water Supply Financing Scenario

Financial Plan: Water Supply and Capital (FY 2024-2028)

- Rate increase adopted in 2023 supports increased investments in Water Supply Roadmap and district-wide capital improvements
 - Water Supply Roadmap
 - Operational Improvements
 - Conservation Element
 - Capital Investments (Water Supply)
 - Early Action Items
 - Long Term Investments
 - Capital Improvements (District Wide)
 - Baseline projects – cash funded
 - Deferred maintenance – cash funded
 - Large projects – cash or debt funded

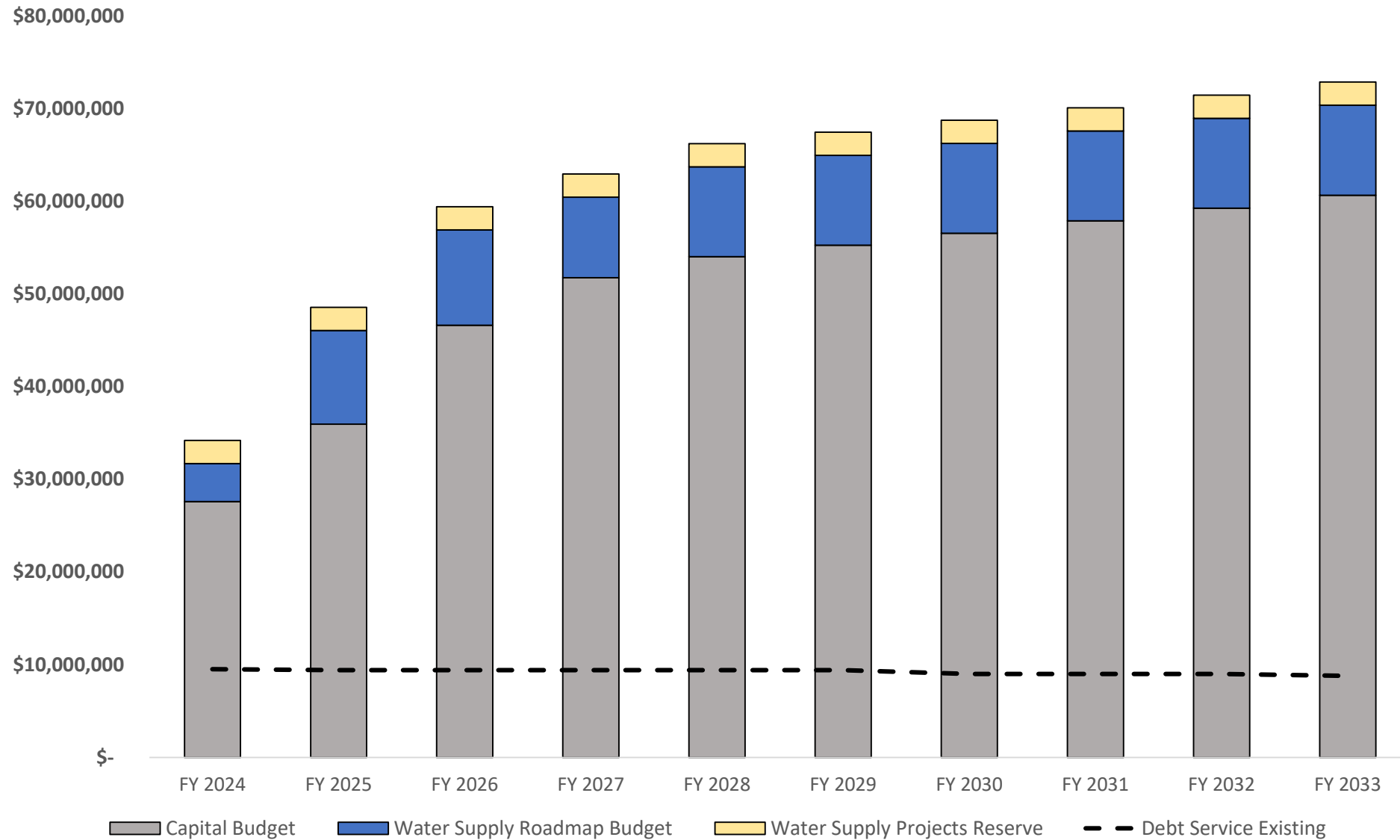
FY 2024-26 Budget: Water Supply Roadmap

- Operational Improvements
 - Stream Release
 - SCWA Optimization
 - Conservation
- Capital Investments
 - Early Action Items
 - Phoenix to Bon Tempe
 - Soulajule Electrification
 - Long Term Investments
 - Conveyance
 - Storage
 - Supply Enhancements

Financial Planning: CIP and Future Water Supply Projects

- Current financial plan utilizes rate revenue and Capital Maintenance Fee to support water supply projects and the annual Capital Improvement Program (CIP)
 - Baseline CIP is approximately \$20M
 - CMF provides \$17M in annual funding
 - Deferred maintenance investments are phased-in over the next 3 years
 - May include additional debt issuance in 2026 for large projects
 - Water Supply Roadmap is funded at approximately \$9.7 million annually
 - Small projects, initial design
 - Water Supply Project Reserve is funded at \$2.5 million annually
 - Existing annual debt service is currently \$9.5 million
 - Within financial plan framework, additional debt proceeds of \$250 - \$300M could be supported

Current Financial Plan - Capital, Water Supply, and Debt Service

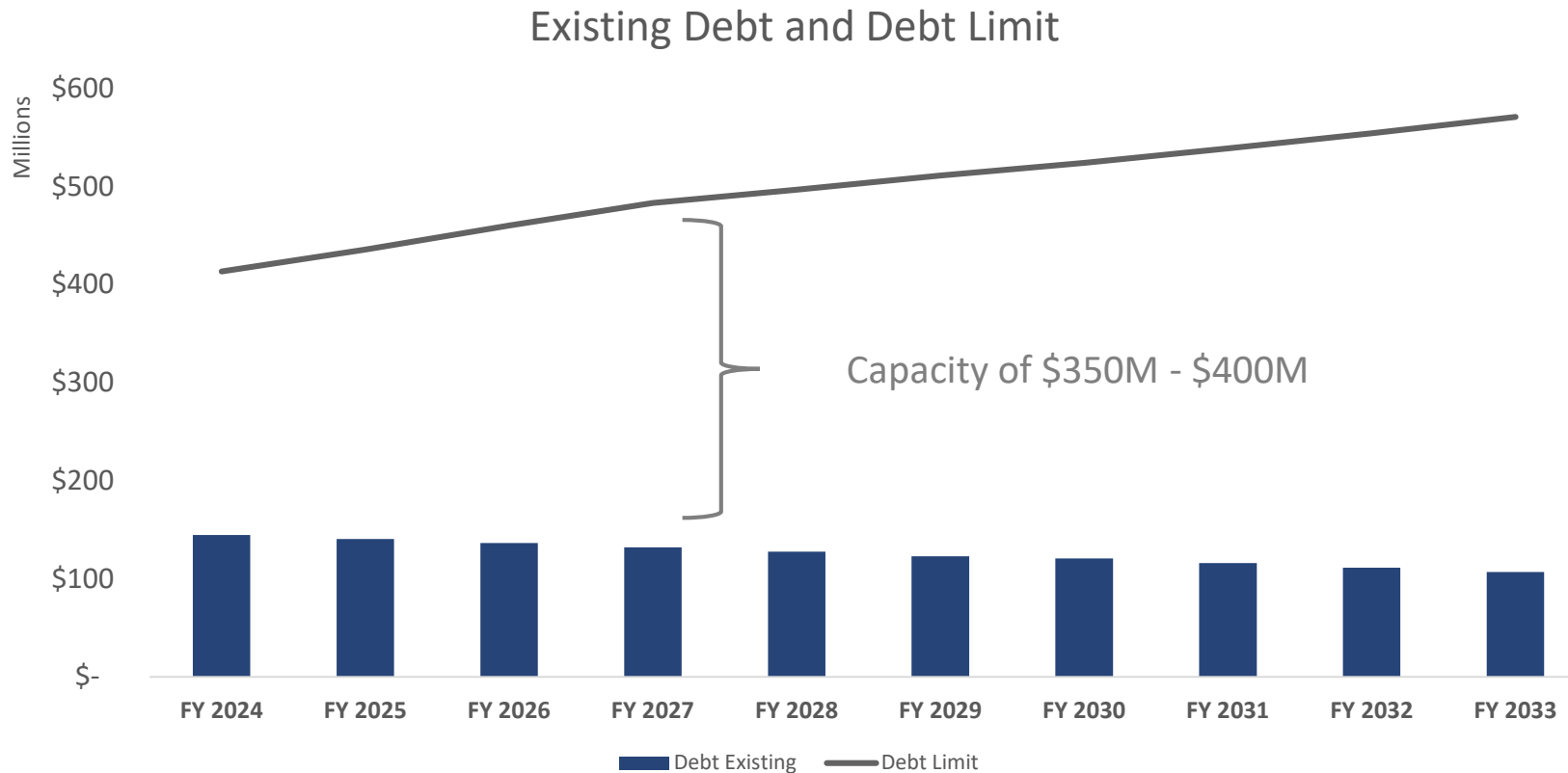


Fiscal Policy – Debt Management

- Provides objectives and parameters to ensure the District maintains a sound debt position and protects its credit quality
 - Debt Capacity: Limit total debt to 4x annual operating budget
 - Debt Service Coverage Ratio: Net Operating Income divided by Debt Service
 - Minimum debt coverage ratio of 150%
 - 125% is required by existing debt covenants
 - Intergenerational Concerns: Evaluate cash funding vs debt issuance relative to intergenerational benefits
 - Credit Quality: District shall take any necessary steps to maintain favorable ratings

Existing Debt Profile

- Existing debt is \$145M
 - Three major issuances: 2016, 2017, 2022
 - Scheduled to decline each year with principal payments



Financial Planning Quick Ratios

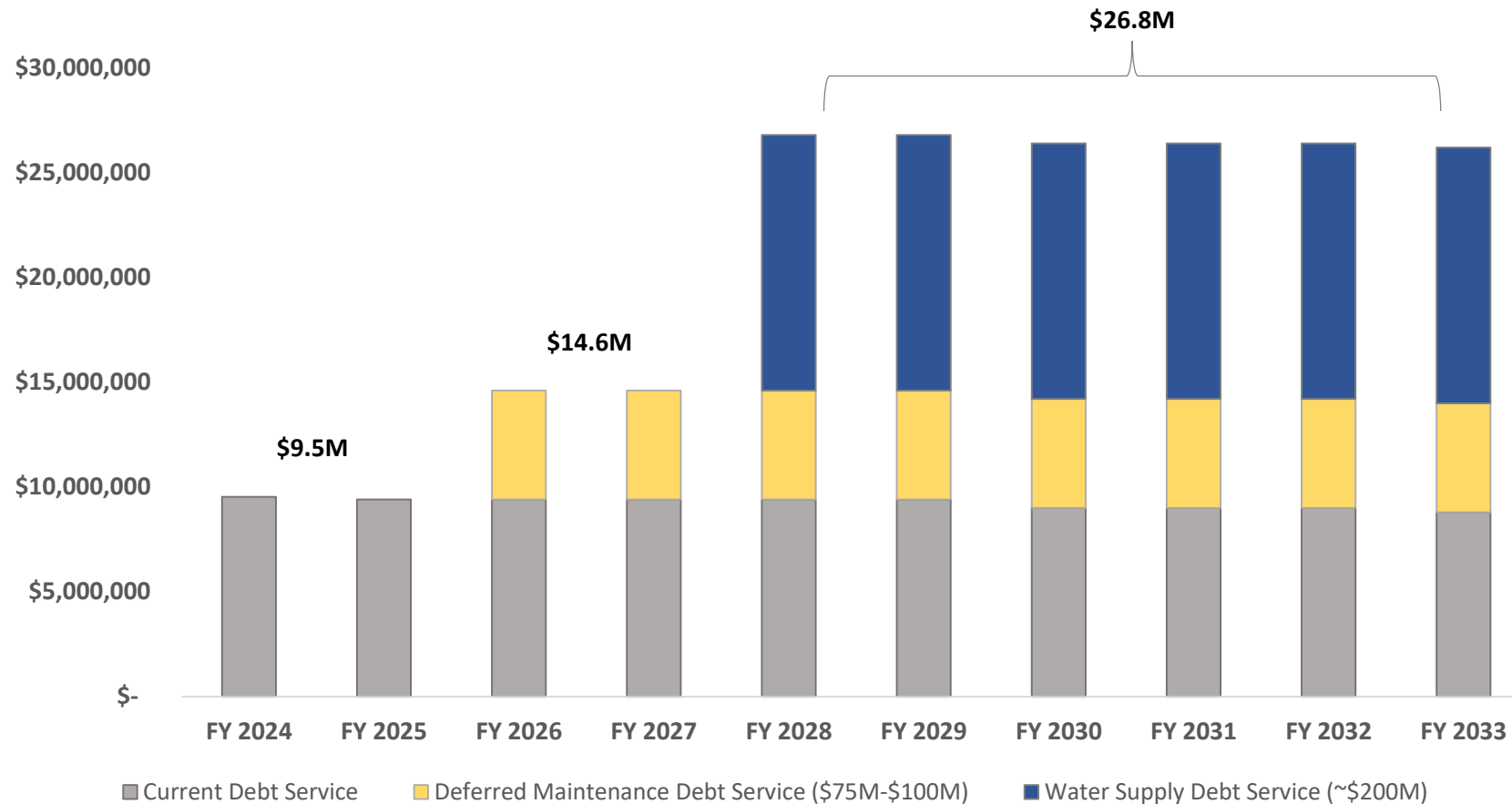
- Current borrowing costs are near 4.5%; longer term trends are around 3.5%
 - Per \$100m in financing:
 - Debt Service of \$5.4M annually at 3.5% interest rate
 - Debt Service of \$6.1M annually at 4.5% interest rate
- Rate Revenue Base will be approximately \$180 million in FY 2027
 - Per \$10 million in new expenses:
 - 5.5% rate revenue increase (approx.)

Debt Service and Water Supply Project Considerations

- Debt Service Coverage Ratio is an indicator of financial health
 - Represents available cash flow to pay fixed cost of debt service
 - Current Debt Service Coverage Ratio is >300%
 - Rate revenue contributions to capital and reserves improved the ratio
- Current rate structure is scheduled to support:
 - Continued \$12.2M annually in cash funding for Roadmap projects and reserve contributions; or,
 - Conversion of cash funding to debt service (~\$200M in proceeds)
 - And, debt service for approximately \$75M in large scale deferred maintenance
- The District continues to pursue state and federal grant funding to help offset the cost of water supply enhancement projects

Debt Service and Water Supply Project Scenario

- If the District issued \$200M in debt for water supply projects and \$75M for large scale deferred maintenance projects, annual debt service would be ~\$26 million
 - Debt Service Coverage would be approximately 200%



Inherent Uncertainties

- Construction Costs
- Interest Rates
- Inflationary Pressures (Operating)
- Sonoma Water Rates
- Climate/Rainfall
- Unforeseen Infrastructure Needs
- Revenues
 - Consumption/Demand
 - Connection Fees

Recap and Next Steps

- Adopted Budget and rate structure support increased investments in capital and water supply
- District is currently cash-funding water supply Roadmap and most capital projects
- District will have the option to continue cash-funding or to use debt issuance for large projects
 - Proceeds of \$250M - \$300M can be supported within current rate structure and debt policies
 - Inclusive of deferred capital and water supply
- FY 2025-2027 budget process begins next spring
 - Will include further refinement of Water Supply Roadmap, Capital Planning, and grant opportunities