



City of Wasco

Water Fund Five-Year Fiscal Forecast: 2022-26

April 2021

124 Cerro Romauldo Avenue
San Luis Obispo, CA 93405
805.544.5838 ■ Cell: 805.459.6326
bstatler@pacbell.net
www.bstatler.com

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

Water Fund Five-Year Fiscal Forecast: 2022-26

TABLE OF CONTENTS

INTRODUCTION

Overview	1
Purpose and Context	
Forecast Framework and Approach	
Summary of Forecast Findings	2
Key Forecast Drivers	3
Conclusion	6

FORECAST RESULTS

Attachment 1: 25% SWRCB Loan/75% Grant

Water Fund Forecast of Revenues, Expenditures and Changes in Working Capital	7
Assumptions Summary	8

Attachment 2: 100% SWRCB Loan

Water Fund Forecast of Revenues, Expenditures and Changes in Working Capital	9
Assumptions Summary	10

INTRODUCTION

OVERVIEW

Purpose

The purpose of this report is to provide a high-level forecast of the Water Fund's financial needs in funding key Capital Improvement Plan (CIP) projects over the next five years in light of City's recent application to the State Water Resources Control Board (SWRCB) for a low-cost loan (and possible partial grant) of \$25.8 million in construction projects, as well as the need to construct other high-priority water projects on a "pay-as-you-go" basis in the near term.

Context. The City needs to prepare a long-term financial plan for the Water Fund that includes a comprehensive CIP master plan, which is likely to be the most significant factor driving future revenue requirements and rates. The City's most recent master plan for water improvements was prepared in 2007. As such, it is highly unlikely that it can be effectively used in guiding needed improvements over the next ten to twenty years; and developing a meaningful master plan CIP is likely to take 6 to 12 months to prepare.

The City is in the process of contracting with a consultant to prepare this type of comprehensive review for both the Water and Wastewater Funds, as well as an assessment of the City's current rate structures (in short, an analysis of how much is needed as well as "who pays"). This selection process is likely to take 3 to 6 months. Accordingly, the results of this comprehensive review are likely 18 to 24 months away.

In addressing immediate concerns about the Water Fund's financial condition due to the SWRCB application before this comprehensive review is completed, the City contracted with me in December 2020 to prepare a high-level assessment of the Water Fund's more immediate needs.

Forecast Framework and Approach

The purpose of the forecast is to identify the Water Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services, achieve major CIP goals and repay the SWRCB.

The forecast does this by projecting ongoing revenues and subtracting from them likely operating, debt service and capital costs. If there is a positive difference, the remaining balance is available to fund other operating program and CIP goals. On the other hand, if negative, it shows the likely "forecast gap" and needed corrective action via rate increases.

It is important to stress that this forecast is not the budget.

Budgets are based on program review, priorities and affordability. Forecasts, on the other hand, are based on assumptions. Accordingly, this forecast doesn't make expenditure decisions; it doesn't make revenue decisions. As noted above, its sole purpose is to provide an "order of magnitude" feel for the Water Fund's ability to meet its financial needs over the next five years.

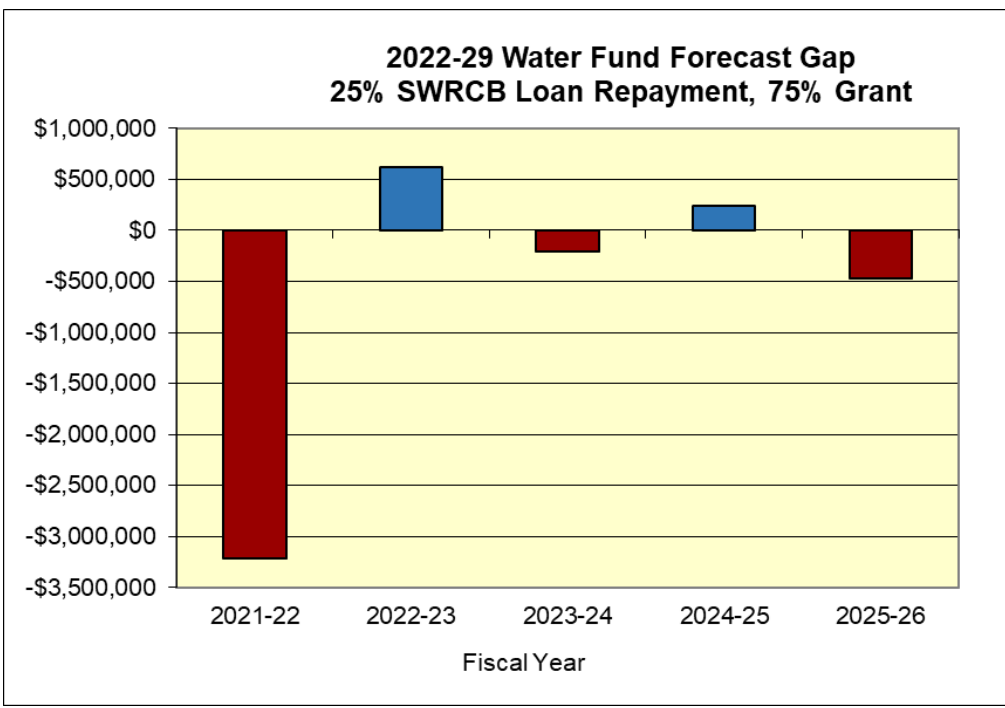
INTRODUCTION

SUMMARY OF FORECAST FINDINGS

The Short Story

2025-26 is the “base-year” for considering rate needs, as debt service costs for loan repayments are fully developed and all costs and revenues are stabilized by then. Two scenarios are developed based on whether all of the SWRCB proceeds must repaid versus 75% to be in the form of a grant.

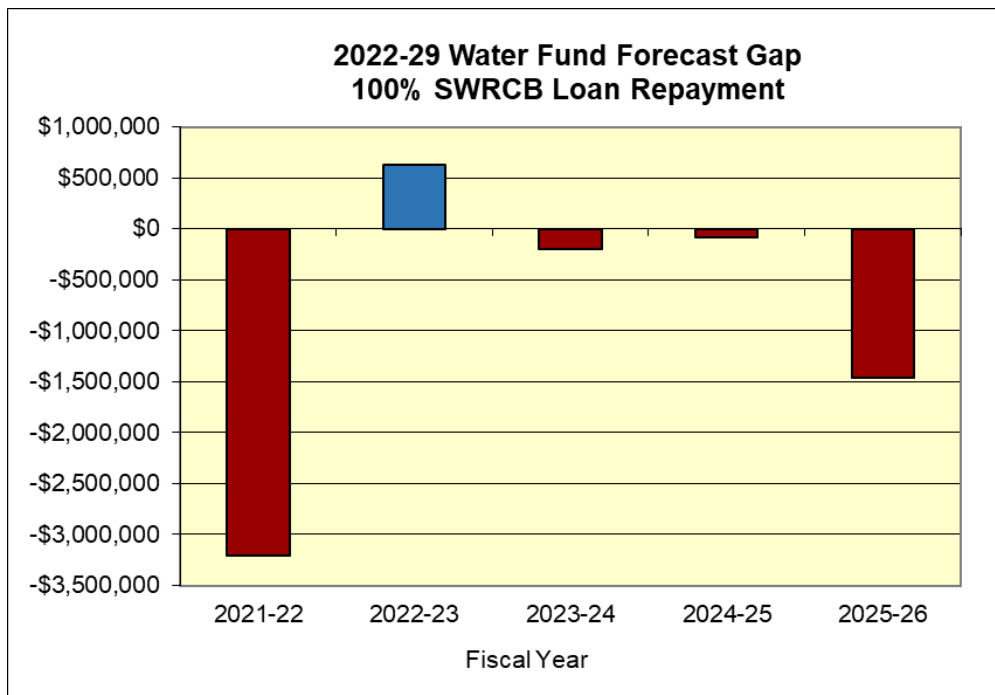
- **SWRCB 25% Loan, 75% Grant.** This is the most favorable outcome, and based on initial discussions with the SWRCB, the most likely one. In this case, if the City is only obligated to repay 25% of the proceeds, the near-term rate impacts are modest. As reflected below, in this scenario costs exceed revenues (assuming no rate increases) by \$466,800 in 2025-26 (as noted above, the “base year”).



Because of the Water Fund’s strong beginning reserves (working capital), the added revenue can be phased-in over four years beginning next year (2022-23), with modest annual increases of 3.25%. (The detail for this scenario is provided in Attachment 1).

- **SWRCB 100% Loan.** However, if the State does not approve 75% of the proceeds as a grant, and the City must repay all of the proceeds, the rate impact is much greater. As reflected below, in this scenario costs exceed revenues (assuming no rate increases) by \$1.46 million in 2025-26, an increase of about \$1.0 million due to much higher loan repayment costs (\$1,319,800 versus \$330,000).

INTRODUCTION



Again, because of the Water Fund’s strong beginning reserves, the added revenue can be phased-in over four years beginning next year (2022-23). However, the annual increases would need to be 9.5%. (The detail for this scenario is provided in Attachment 2).

Recommendation. Given that the 25% loan/75% grant option is likely (while recognizing that this may not be the case), no rate adjustments are recommended at this time. The City will have better information about the status of its funding application in about six months. Fortunately, the City has a strong beginning reserve position that can assist with any needed rate phase-ins under both scenarios, so it can afford to wait until it has better information upon which to make rate decisions.

KEY FORECAST DRIVERS

Assumptions drive the forecast results. Stated simply, if the assumptions change, the results will change. Forecast results and assumptions are presented in Attachments 1 and 2: the only difference between the two scenarios are debt service repayments based on whether the full amount of SWRCB proceeds must be paid or just 25%. Key drivers underlying the forecast results include:

Current Strong Beginning Financial Condition

The Water Fund begins the forecast period with reserves (working capital) of \$9.1 million. As noted above, this allows phased increases under both scenarios and meet minimum reserve policies of 25% of operating and debt service costs.

INTRODUCTION

Revenues

Water Service Charges. The Water Fund’s primary revenue source is customer water service charges, which account for about 90% of total revenues. These are projected to increase based customer growth of 1% annually. (Any other increases would require Council approval.)

Other Revenues. Development impact fees, interest earnings, late fees, construction water sales and other miscellaneous fees account for about 10% of total Water Fund revenues. They are generally projected to be flat during the forecast period with two exceptions, which play a minor role in Water Fund revenues:

- Interest earnings are projected to decrease from prior year actual results based on lower interest yields and declining working capital balances.
- Late fees were waived for a portion of 2019-20 and all of 2020-21. As the pandemic ends, late fees are projected to gradually prior year levels.

Operating Expenditures

These are projected to increase by inflation (2%) from the current year budget (2021-21) as amended at the mid-year budget review.

CIP Projects

CIP project costs – and how they are financed – are the main driver of forecast results. Accordingly, CIP project costs are organized by those that are related to SWRCB funding and other projects.

SWRCB Funding Summary. On October 6, 2020, the Council approved submitting a loan application of \$25.8 million to the SWRCB to construct the following projects:

Construction: SWRCB Loan	
Replacement of four wells (\$4,172,300 per well)	16,689,200
1,2,3 TCP treatment at Well 12	2,229,700
Storage tank and booster pump station	3,750,000
Advanced metering infrastructure (AMI): remote metering	3,200,000
Total	25,868,900
Pay-As-You-Go	
Engineering	1,360,000
Land acquisition	1,500,000
Total	2,860,000
TOTAL	\$28,728,900

As reflected above, \$2.8 million of related costs for engineering and land acquisition for these projects will be funded on a “pay-as-you-go basis.” These amounts are in addition to \$4.0 million in other CIP projects over the next five years.

INTRODUCTION

There are two significant advantages to SWRCB funding compared with conventional financing options:

- **Below market interest rates.** Typically, these are based on 50% of the State’s borrowing interest rate. Based on the SWRCB’s web site “facts,” the current interest rate under the program is 3.0%.

https://www.waterSWRCBs.ca.gov/water_issues/programs/grants_loans/srf/faqs_general.shtml#q2

- **Possible grant/principal forgiveness.** Based on the City’s demographics, it may be eligible for up to 75% of the loan amount to be forgiven. (There is a maximum limit of \$60,000 per service connection; however, with 5,500 connections, the City would be far below this limit.) As noted above, rate impacts if the City qualifies for this option are significantly reduced.

CIP Project Phasing. Before the loan application can be finalized, SWRCB requires further environmental review, which is likely to take about 6 months. After the application is deemed complete and approved, it is likely to take at least another year before the City is actually in the “queue” to receive the proceeds. During this period, the City plans to concurrently prepare construction bid documents, so that work can begin once funds are available. Construction is estimated to take 18 months. Debt repayments typically begin one-year after the first draw-down, based on the total amount drawn-down at that point.

As such, the following shows CIP phasing for SWRCB related projects:

Task	Timeframe	Fiscal Year	Cost
Engineering	Underway	2020-21	1,360,000
Land Acquisition	6 months	2021-22	1,500,000
SWRCB Approval	6 months (concurrent with land acquisition)	2021-22	
Total Pay-As-You-Go			2,860,000
Funding drawdown/ construction begins	12 months	2022-23	8,623,000
Construction ends	18 months	2023-24	17,245,900
Total Construction/SWRCB Funding			25,868,900
Total Project Cost			\$27,728,900

Debt Service

Based on this phasing, the first debt service payment is projected to begin in 2024-25 (one year after the first completed year of construction); and the second (and ongoing payment for the next twenty-nine year) begins in 2025-26.

The amount of the ongoing repayment beginning in 2025-26 depends on which option the SWRCB approves for the City:

25% Loan/75% Grant	\$330,000
100% Loan	\$1,319,800

INTRODUCTION

Debt service payment terms are the same under both scenarios: 3% interest rate for 30 years.

Important Caveat

What's Most Likely to Change

As reflected above, the forecast is based on current circumstances reflected in the 2020-21 Budget and approved CIP, and other assumptions outlined above. It is important to stress that any changes from these assumptions, which are likely, will change the results. These include:

- Adoption of the 2021-22 Budget.
- Final SWRCB application and agreement approval
- Results of upcoming comprehensive CIP master plan, revenue requirements and rate structure review.
- Actual cost and phasing of SWRCB related projects and resulting debt service payment amounts and phasing.

CONCLUSION

The forecast results largely depend on which funding option the SWRCB approves for the City:

- The rate impacts are very modest if the SWRCB only requires 25% repayment of the funding proceeds. Beginning next year (2022-23), annual rate increases of 3.25% could be phased-in to meet funding needs by 2025-26.
- However, the rate impacts will be much more significant if the SWRCB requires full repayment of the proceeds. With phasing beginning next year, annual rate increases of 9.5% would be required .

Given that the 25% loan/75% grant option is likely (while recognizing that this may not be the case), no rate adjustments are recommended at this time. The City will have better information about the status of its funding application in about six months. Fortunately, the City has a strong beginning reserve position that can assist with any needed rate phase-ins under both scenarios, so it can afford to wait until it has better information upon which to make a decision.

State Water Resource Control Board Funding: 25% Loan, 75% Grant

WATER FUND FIVE YEAR FISCAL FORECAST: 2022-26								
	2018-19	2019-20	2020-21	FORECAST				
	Actual	Actual	Estimated	2021-22	2022-23	2023-24	2024-25	2025-26
REVENUES								
Water Service Charges	\$3,041,200	\$3,153,300	\$3,150,000	\$3,181,500	\$3,213,300	\$3,245,400	\$3,277,900	\$3,310,700
Development Impact Fees	287,900	239,600	250,000	250,000	250,000	250,000	250,000	250,000
Interest Earnings	174,300	147,100	75,000	50,300	50,300	50,300	50,300	50,300
Late Fees	163,900	124,500	-	62,500	126,300	127,600	128,900	130,200
Construction Water Sales	42,200	73,900	50,000	50,000	50,000	50,000	50,000	50,000
Other Revenues	131,000	16,700	15,000	15,000	15,000	15,000	15,000	15,000
Total Revenues	3,840,500	3,755,100	3,540,000	3,609,300	3,704,900	3,738,300	3,772,100	3,806,200
EXPENDITURES								
Operating Costs	2,444,200	2,294,400	2,961,800	3,021,000	3,081,400	3,143,000	3,205,900	3,270,000
CIP Projects	1,079,100	741,300	1,410,000	3,800,000	8,623,000	18,045,900	215,000	673,000
Debt Service	-	-	-	-	-	-	110,000	330,000
Total Expenditures	3,523,300	3,035,700	4,371,800	6,821,000	11,704,400	21,188,900	3,530,900	4,273,000
OTHER SOURCES (USES)								
Proceeds from SWRCB Grant/Loan	-	-		-	8,623,000	17,245,900	-	-
Sources Over (Under) Uses	317,200	719,400	(831,800)	(3,211,700)	623,500	(204,700)	241,200	(466,800)
WORKING CAPITAL, START OF YEAR	8,889,400	9,206,600	9,926,000	9,094,200	5,882,500	6,506,000	6,301,300	6,542,500
WORKING CAPITAL, END OF YEAR	9,206,600	9,926,000	9,094,200	5,882,500	6,506,000	6,301,300	6,542,500	6,075,700

ASSUMPTIONS SUMMARY		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Customer Growth			1.0%	1.0%	1.0%	1.0%	1.0%
Inflation			2.0%	2.0%	2.0%	2.0%	2.0%
Revenues							
Water Service Charges: increase by customer growth (1%)							
Any other increase would require Council rate increase approval.							
Development Impact Fees							
Stay flat based on average of prior two year actual.							
Interest Earnings							
2020-21 based on year-to-date that reflect lower interest yields than							
prior two-year actuals; forecast years lower due to smaller							
working capital balances (about 67%).							
Late Fees							
Late fees waived for partial year in 2019-20 and full year I, 2020-21.							
Forecast assumes partial restoration in 2021-22 and "baseline"							
levels in 2022-23.							
Construction Water Sales and Other Revenues							
Remain flat in forecast period.							
Proceeds from SWRCB Loan/Grant			8,623,000	17,245,900			
Debt Service							
25% loan/75% grant: 30 year financing at 3.0 interest rate.						110,000	330,000
100% loan: 30 year financing at 3.0 interest rate.						439,900	1,319,800
CIP Projects	Proj Total						
SWRCB Loan Related Projects							
Well replacements	16,689,200			5,563,100	11,126,100		
1,2,3 TCP treatment at Well 12	2,229,700			743,200	1,486,500		
Storage tank and booster pump station	3,750,000			1,250,000	2,500,000		
Advanced metering infrastructure	3,200,000			1,066,700	2,133,300		
SWRCB Loan Projects	25,868,900	-	-	8,623,000	17,245,900	-	-
Pay-As-You-Go							
Engineering	1,360,000	1,360,000					
Land acquisition	1,500,000		1,500,000				
Total SWRCB Loan Related Projects	28,728,900	1,360,000	1,500,000	8,623,000	17,245,900	-	-
Other CIP Projects							
Well Site 14 development	2,300,000		2,300,000				
Well 7 abandonment	865,000				800,000	65,000	
Well 8 abandonment	50,000					50,000	
Well 10 abandonment	50,000					50,000	
Well 11 abandonment	50,000					50,000	
Well 5 abandonment	50,000	50,000					
Other repair, replacement projects: 5-year CIP average	673,000	-	-	-	-	-	673,000
Total Other Projects	4,038,000	50,000	2,300,000	-	800,000	215,000	673,000
Total CIP Projects	32,766,900	1,410,000	3,800,000	8,623,000	18,045,900	215,000	673,000

State Water Resource Control Board Funding: 100% Loan Repayment

WATER FUND FIVE YEAR FISCAL FORECAST: 2022-26								
	2018-19	2019-20	2020-21	FORECAST				
	Actual	Actual	Estimated	2021-22	2022-23	2023-24	2024-25	2025-26
REVENUES								
Water Service Charges	\$3,041,200	\$3,153,300	\$3,150,000	\$3,181,500	\$3,213,300	\$3,245,400	\$3,277,900	\$3,310,700
Development Impact Fees	287,900	239,600	250,000	250,000	250,000	250,000	250,000	250,000
Interest Earnings	174,300	147,100	75,000	50,300	50,300	50,300	50,300	50,300
Late Fees	163,900	124,500	-	62,500	126,300	127,600	128,900	130,200
Construction Water Sales	42,200	73,900	50,000	50,000	50,000	50,000	50,000	50,000
Other Revenues	131,000	16,700	15,000	15,000	15,000	15,000	15,000	15,000
Total Revenues	3,840,500	3,755,100	3,540,000	3,609,300	3,704,900	3,738,300	3,772,100	3,806,200
EXPENDITURES								
Operating Costs	2,444,200	2,294,400	2,961,800	3,021,000	3,081,400	3,143,000	3,205,900	3,270,000
CIP Projects	1,079,100	741,300	1,410,000	3,800,000	8,623,000	18,045,900	215,000	673,000
Debt Service	-	-	-	-	-	-	439,900	1,319,800
Total Expenditures	3,523,300	3,035,700	4,371,800	6,821,000	11,704,400	21,188,900	3,860,800	5,262,800
OTHER SOURCES (USES)								
Proceeds from SWRCB Grant/Loan	-	-		-	8,623,000	17,245,900	-	-
Sources Over (Under) Uses	317,200	719,400	(831,800)	(3,211,700)	623,500	(204,700)	(88,700)	(1,456,600)
WORKING CAPITAL, START OF YEAR	8,889,400	9,206,600	9,926,000	9,094,200	5,882,500	6,506,000	6,301,300	6,212,600
WORKING CAPITAL, END OF YEAR	9,206,600	9,926,000	9,094,200	5,882,500	6,506,000	6,301,300	6,212,600	4,756,000

ASSUMPTIONS SUMMARY		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Customer Growth			1.0%	1.0%	1.0%	1.0%	1.0%
Inflation			2.0%	2.0%	2.0%	2.0%	2.0%
Revenues							
Water Service Charges: increase by customer growth (1%)							
Any other increase would require Council rate increase approval.							
Development Impact Fees							
Stay flat based on average of prior two year actual							
Interest Earnings							
2020-21 based on year-to-date that reflect lower interest yields than							
prior two-year actuals; forecast years lower due to smaller							
working capital balances (about 67%)							
Late Fees							
Late fees waived for partial year in 2019-20 and full year I, 2020-21.							
Forecast assumes partial restoration in 2021-22 and "baseline"							
levels in 2022-23							
Construction Water Sales and Other Revenues							
Remain flat in forecast period							
Proceeds from SWRCB Loan/Grant				8,623,000	17,245,900		
Debt Service							
25% loan/75% grant: 30 year financing at 3.0 interest rate						110,000	330,000
100% loan: 30 year financing at 3.0 interest rate						439,900	1,319,800
CIP Projects	Proj Total						
SWRCB Loan Related Projects							
Well Replacements	16,689,200			5,563,100	11,126,100		
1,2,3 TCP Treatment at Well 12	2,229,700			743,200	1,486,500		
Storage tank and booster pump station	3,750,000			1,250,000	2,500,000		
Advanced metering infrastructure	3,200,000			1,066,700	2,133,300		
SWRCB Loan Projects	25,868,900	-	-	8,623,000	17,245,900	-	-
Pay-As-You-Go							
Engineering	1,360,000	1,360,000					
Land acquisition	1,500,000		1,500,000				
Total SWRCB Loan Related Projects	28,728,900	1,360,000	1,500,000	8,623,000	17,245,900	-	-
Other CIP Projects							
Well Site 14 Development	2,300,000		2,300,000				
Well 7 Abandonment	865,000				800,000	65,000	
Well 8 Abandonment	50,000					50,000	
Well 10 Abandonment	50,000					50,000	
Well 11 Abandonment	50,000					50,000	
Well 5 Abandonment	50,000	50,000					
Other Repair, Replacement Projects: 5-year average	673,000	-	-	-	-	-	673,000
Total Other Projects	4,038,000	50,000	2,300,000	-	800,000	215,000	673,000
Total CIP Projects	32,766,900	1,410,000	3,800,000	8,623,000	18,045,900	215,000	673,000