

City of Riverside  
Wastewater Master Plan

Technical Memorandum

SUMMARY OF FINANCIAL MODEL  
UPDATE

FINAL | July 2022



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## Technical Memorandum

# SUMMARY OF FINANCIAL MODEL UPDATE

### Purpose

The City of Riverside (City) recently requested an update of the existing Wastewater financial model based on current fund balances, budgeted and projected operating expenses and revenues, and budgeted capital improvement costs. The goal of the analysis was to test the financial and rate impacts of two options for utilizing the Jurupa Settlement Funds initial payment of \$15 million, to determine when the City should increase rates. The tested options were:

1. Utilize the funds to pay for capital projects.
2. Do not use the funds for capital and instead provide a refund to City customers.

This document summarizes the updates that were made to the model as well as the model results and outputs for FY 2022/23 through FY 2026/27.

### Basis of Model Update

Key inputs throughout the model were updated to reflect the most up to date financial information available to Carollo as of June 2022. Note that the fiscal years discussed in this Memorandum all begin on July 1 of the first year mentioned; for example, FY 2022/23 begins on July 1, 2022.

### Revenues

Budgeted operating revenues for FY 2022/23 and FY 2023/24 were input into the financial model based on the adopted budget, provided by City staff. These revenues are used as the basis of the projected revenues for FY 2024/25 through FY 2026/27. Revenues associated with Interfund loan Repayments and Annual Payments from the Jurupa Settlement are based on information provided for previous work. Projected revenues for each option are included in the later sections of this memorandum.

### Operating and Maintenance Expenditures

Budgeted operating and maintenance (O&M) expenses for FY 2022/23 and FY 2023/24 were input into the financial model based on the adopted budget, provided by City staff. Expenses for each operating section were projected using the overall escalation for each section from the previous rate analysis work completed in 2020 as a component of the Wastewater Master Plan Update project. Table 1 shows the projected O&M costs included in the analysis.

Table 1 O&amp;M Cost Projection (\$ Millions)

Operating Section	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
	Budget	Budget	Projection		
Sewer Sys-Admin	\$6.85	\$7.08	\$7.28	\$7.48	\$7.68
Collection Syst. Maint.	\$7.31	\$7.20	\$7.41	\$7.62	\$7.85
Treatment	\$13.85	\$13.78	\$14.23	\$14.70	\$15.18
Environmental Compliance	\$1.76	\$1.67	\$1.72	\$1.77	\$1.83
Plant Maintenance	\$3.97	\$3.83	\$3.94	\$4.05	\$4.17
Electrical And Instrumentation	\$2.28	\$2.30	\$2.37	\$2.44	\$2.51
Sewer SCADA & SPL	\$1.12	\$1.14	\$1.17	\$1.21	\$1.24
Warehouse	\$0.22	\$0.23	\$0.23	\$0.24	\$0.25
Laboratory Services	\$1.13	\$1.18	\$1.22	\$1.25	\$1.29
Existing Debt Service	\$26.72	\$28.03	\$28.15	\$28.15	\$28.16
Sewer Projects	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cogen	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Sewer Capital Engineering Serv.	\$0.54	\$0.90	\$0.93	\$0.95	\$0.98
<u>Plant Const. Support</u>	\$0.25	\$0.20	\$0.20	\$0.21	\$0.22
<b>Total O&amp;M Expenses</b>	<b>\$66.00</b>	<b>\$67.53</b>	<b>\$68.85</b>	<b>\$70.08</b>	<b>\$71.36</b>

### Capital Improvement Plan Costs

The City recently adopted a five year Capital Improvement Plan (CIP) budget for FY 2022/23 through FY 2026/27. The adopted CIP budget was developed by the City based on guidance that all projects would be funded using net revenues, without utilizing reserves, Jurupa settlement revenues, or other sources. Thus, it includes a minimal level of CIP spending.

Table 2 and Table 3 show the budgeted treatment and collection system CIP costs, respectively, in FY 2021/22 dollars. Table 4 shows the combined CIP costs based on the adopted budget.

The FY 2021/22 budget previously appropriated \$22.60 million for CIP expenses including \$8.72 million for treatment projects and \$13.88 for collection projects. Though these projects have not progressed as quickly as initially planned, the City does expect to implement them over the next several years. The cost of these projects has been factored into this analysis by assuming that all the appropriated funds will be used.

Table 2 Adopted Budget Treatment CIP (\$ Millions)

Project	Description	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
9117	Headworks Area Rehabilitation	-	\$0.35	-	-	-
9118	Activated Treatment Train Rehabilitation	-	-	-	\$0.55	-
9119	Plant II Sludge Pumps I & II Rehabilitation	-	-	-	\$0.25	\$1.38
9120	Daft Rehabilitation	-	-	-	-	\$0.55
9221	Security Upgrades Phase III	\$0.51	-	-	-	-
9224	Wi-Fi Phase III	-	\$0.22	-	-	-
9219	Membrane Bioreactor Tank Wall Rehab	\$0.20	-	-	-	-
9223	3D GIS Asset Management	\$0.10	-	-	-	-
<b>Total Treatment Plant CIP (Current Dollars)</b>		<b>\$0.81</b>	<b>\$0.57</b>	<b>\$0.00</b>	<b>\$0.80</b>	<b>\$1.93</b>

Table 3 Budgeted Collections CIP (\$ Millions)

Project	Description	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
9103	Sewer Main Repl. - Palm Avenue	\$0.26	-	-	-	-
9104	Sewer Main Repl. - Palm & Rubidoux	\$0.08	-	-	-	-
9105	Sewer Main Repl. - Rubidoux Avenue	\$0.06	-	-	-	-
9106	Sewer Main Repl. - Rutland Avenue	-	\$0.04	\$0.18	\$0.18	-
9107	Sewer Main Repl. - West Rutland Avenue	-	\$0.06	\$0.27	\$0.27	-
9108	Sewer Main Repl. - Kmart Lot	-	\$0.09	\$0.47	\$0.30	-
9109	Sewer Pipe Repl. - Golden Avenue	-	\$0.06	\$0.27	\$0.27	-
9110	Sewer Main Repl. - Santa Ana River Trail	\$0.08	-	-	-	-
9112	Sewer Pipe Repl. - Arlington Valley Channel	-	-	-	-	\$1.00
9113	Sewer Pipe Repl. - Morris Street	-	\$0.20	-	-	\$1.00
9115	Priority Pipeline Assessment & Repair	\$0.62	\$0.60	\$1.00	\$1.00	\$0.90
9213	Wood Road Sanitary Sewer Pump Station Gravity System Study	\$0.20	-	-	-	-
9212	Pierce Street Sanitary Sewer Pump Station Study	\$0.20	-	-	-	-
<b>Total Collections CIP (Current Dollars)</b>		<b>\$1.49</b>	<b>\$1.05</b>	<b>\$2.19</b>	<b>\$2.02</b>	<b>\$2.90</b>

Table 4 Combined Adopted Budget CIP (\$ Millions)<sup>(1)</sup>

	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
Treatment CIP (Current Dollars) <sup>(1)</sup>	\$0.81	\$0.57	\$0.00	\$0.80	\$1.93
Collections CIP (Current Dollars) <sup>(1)</sup>	\$1.49	\$1.05	\$2.19	\$2.02	\$2.90
<b>Total CIP (Current Dollars)<sup>(1)</sup></b>	<b>\$2.30</b>	<b>\$1.62</b>	<b>\$2.19</b>	<b>\$2.82</b>	<b>\$4.83</b>

Notes:

1. Current Dollars = FY 2021/22

### Modeled CIP With High Priority Projects

While the adopted CIP budget discussed above is the current amount approved by the City Council via the budget process, it does not represent the full investment needed in the collection system and at the treatment plant. Additional projects are needed for the collection system to forestall regulatory exposure resulting from potential system failure and overflows and to serve future growth. Much of the collection system is reaching the end of its useful life and requires rehabilitation or replacement. Further, some areas of the collection system are undersized requiring upgrades to pipelines and lift station facilities. Additional investments are also needed at the treatment plant to replace aging infrastructure, construct resource recovery projects and food waste to energy facilities, utilize renewable natural gas, and to meet regulatory requirements.

Budgeted capital improvement plan (CIP) expenses for FY 2022/23 through FY 2026/27 were input based on information provided by the City. The modeled CIP for FY 2022/23 through FY 2026/27 includes \$63.7 million in projects with \$27.0 million planned for the treatment plant and \$36.7 million planned for the collection system. These amounts are in addition to the \$22.6 million approved in the FY 2021/22 budget. Table 5 and Table 6 show the budgeted treatment and collection system CIP costs, respectively, in FY 2021/22 dollars. Projects were assigned into fiscal years to smooth year-to-year costs to the extent possible with guidance from City staff. As the CIP is implemented, the timing of specific projects may be refined based on the conditions at that time.

Modeled costs for future years include a 3.5-percent per year escalation factor to account for construction cost inflation. Table 7 shows the combined CIP costs in current dollars (FY 2021/22) as well as the escalated costs. With the escalation factor included, the total CIP for FY 2022/23 through FY 2026/27 is \$71.4 million.

Table 5 Modeled Treatment CIP (\$ Millions)

Project	Description	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
9116	Upgrade Flow Meters to Electromagnetic Meters	-	\$6.32	-	-	-
9117 <sup>(1)</sup>	Headworks Area Rehabilitation	-	\$0.35	-	-	-
9118 <sup>(2)</sup>	Activated Treatment Train Rehabilitation	-	-	-	\$0.05	\$0.50
9119 <sup>(3)</sup>	Plant II Sludge Pumps I & II Rehabilitation	-	-	-	\$0.25	\$1.38
9120	Daft Rehabilitation	-	-	\$0.52	\$4.53	\$3.03
9123	Warehouse Building Replacement	-	-	-	\$1.55	-
9126	Switchgear Replacement	-	-	\$0.20	-	-
9127	Scada Infrastructure Replacement	\$0.20	\$0.55	-	-	-
9220	Digester Gas Collection System Rehabilitation	-	-	\$0.30	\$1.70	-
9221	Security Upgrades Phase III	\$0.51	\$1.00	-	-	-
9224	Wi-Fi Phase III	-	\$0.22	-	\$1.40	-
9219	Membrane Bioreactor Tank Wall Rehab	\$0.20	-	\$0.60	-	-
9223	3D GIS Asset Management	\$0.10	-	-	\$0.75	-
9222	Headworks And Primary Odor Control Meters	-	-	-	\$0.75	-
<b>Total Treatment Plant CIP (Current Dollars)</b>		<b>\$1.01</b>	<b>\$8.44</b>	<b>\$1.62</b>	<b>\$10.98</b>	<b>\$4.90</b>

## Notes:

1. Construction planned to begin in FY 2027/28, total cost of \$13.55 million.
2. Project planned to extend through FY 2028/29 with total additional costs of \$6.06 million after FY 2026/27.
3. Project planned to extend through FY 2027/28 with total additional costs of \$1.00 million after FY 2026/27.



Table 6 Modeled Collections CIP (\$ Millions)

Project	Description	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
9103	Sewer Main Repl. - Palm Avenue	\$0.26	\$1.08	-	-	-
9104	Sewer Main Repl. - Palm & Rubidoux	\$0.08	\$0.68	-	-	-
9105	Sewer Main Repl. - Rubidoux Avenue	\$0.06	\$0.54	-	-	-
9106	Sewer Main Repl. - Rutland Avenue	-	\$0.04	\$0.18	\$0.18	-
9107	Sewer Main Repl. - West Rutland Avenue	-	\$0.06	\$0.27	\$0.27	-
9108	Sewer Main Repl. - Kmart Lot	-	\$0.09	\$0.47	\$0.30	-
9109	Sewer Pipe Repl. - Golden Avenue	-	\$0.06	\$0.27	\$0.27	-
9110	Sewer Main Repl. - Santa Ana River Trail	\$0.08	\$0.68	-	-	-
9111	Sewer Pipe Expansion - Greenpoint Avenue	\$0.00	\$0.23	-	-	-
9112 <sup>(1)</sup>	Sewer Pipe Repl. - Arlington Valley Channel	-	-	-	-	\$1.00
9113	Sewer Pipe Repl. - Morris Street	-	\$0.20	-	\$0.94	\$0.86
9114 <sup>(2)</sup>	Sewer Main Repl. - Market Street	-	-	-	-	-
9115	Priority Pipeline Assessment & Repair	\$2.62	\$2.60	\$1.12	\$1.10	\$0.95
8659	Dexter Wastewater	\$1.00	-	-	-	-
8334	Fairgrounds Wastewater	\$1.00	-	-	-	-
9213 <sup>(3)</sup>	Wood Road Sanitary Sewer Pump Station Gravity System Study	\$0.20	-	-	-	\$8.00
9212	Pierce Street Sanitary Sewer Pump Station Study	\$0.20	-	\$8.83	-	-
<b>Total Collections CIP (Current Dollars)</b>		<b>\$5.49</b>	<b>\$6.24</b>	<b>\$11.14</b>	<b>\$3.06</b>	<b>\$10.81</b>

## Notes:

1. Project planned to extend through FY 2029/30 with total additional costs of \$2.00 million after FY 2026/27.
2. Project planned to start in FY 2027/28 with total cost of \$0.25 million after FY 2026/27.
3. Project planned to extend through FY 2027/28 with total additional costs of \$8.56 million after FY 2026/27.

Table 7 Combined Modeled CIP (\$ Millions)

	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
Treatment CIP (Current Dollars) <sup>(1)</sup>	\$1.01	\$8.44	\$1.62	\$10.98	\$4.90
Collections CIP (Current Dollars) <sup>(1)</sup>	\$5.49	\$6.24	\$11.14	\$3.06	\$10.81
<b>Total CIP (Current Dollars)<sup>(1)</sup></b>	<b>\$6.50</b>	<b>\$14.68</b>	<b>\$12.76</b>	<b>\$14.04</b>	<b>\$15.71</b>
Escalation Factor	3.5%	7.1%	10.9%	14.8%	18.8%
<b>Escalated CIP for Model Calculations</b>	<b>\$6.73</b>	<b>\$15.73</b>	<b>\$14.14</b>	<b>\$16.11</b>	<b>\$18.66</b>

Notes:

1. Current Dollars = FY 2021/22

### Starting Reserve Fund Balance

The City provided records of working capital (claim on cash) for the beginning of FY 2021/22 based on the Annual Comprehensive Financial Report (ACFR). The City began FY 2021/22 with \$104.3 million of total claim on cash in the sewer fund. The City indicated that the total claim on cash is inclusive of the \$15.0 million in Jurupa settlement funds that have not yet been made available for capital projects by the City Council. Thus, the available funds within the sewer fund to meet ongoing and capital expenses as well as to fund the City Council approved reserve policy is equal to the total claim on cash minus the Jurupa settlement funds, which is \$89.3 million for the beginning of FY 2021/22. The ending balance for FY 2021/22 was projected based on expected cash flows calculated by subtracting the budgeted O&M and CIP costs for FY 2021/22 from the budgeted revenues. As shown in Table 8, the projected ending fund balance for FY 2021/22 (beginning balance for FY 2022/23) is \$71.7 million.

Table 8 Beginning Fund Balance (\$ Millions)

	Amount
FY 2020/21 Ending Balance (Claim on Cash, ACFR)	\$104.3
Less: Jurupa Settlement Funds	(\$15)
<b>Available Balance (FY 2021/22 Beginning)</b>	<b>\$89.3</b>
<b>FY 2021/22 Cash Flow</b>	<b>2021/22 Budget</b>
Budgeted Revenues	\$71.4
Less: Operating Expenses	(\$66.4)
Less: Budgeted CIP	(\$22.6)
<b>Net Change in Cash</b>	<b>(\$17.6)</b>
<b>Available Balance (FY 2022/23 Beginning)</b>	<b>\$71.7</b>

Since the adoption of the sewer fund's reserve policy, the City Council has given direction to staff to complete financial planning assuming that reserves are held closer to the minimum values, rather than the targets. As such, the projections for this analysis have been completed assuming that reserves are held to approximately 10-percent above the minimum levels, rather than at the target levels. This assumption

allows for a greater share of reserves to be used to fund capital projects, but still maintains a financial buffer in the event that revenues do not materialize as projected or unforeseen costs arise.

For FY 2022/23, the reserve goal of the minimum value plus 10-percent is \$38.5 million. The goal increases each year in sync with increases in O&M costs, projected capital costs, and projected debt service.

### Results

This section presents and discusses the key results of the analysis and presents a financial forecast for each option as well as for a base case projection assuming no future rate increase or new bonds.

#### Option 0 – Base Case Financial Forecast

Table 9, on the next page, presents a summarized financial forecast for the sewer fund assuming that no future rate increases are implemented, no new bonds are issued, and that the Jurupa settlement funds are refunded to customers and not utilized to fund capital projects. As shown, this strategy would not be viable. The reserve fund goes below the minimum value in FY 2024/25 and would require significant cuts to capital improvement projects in order for the fund to retain a positive balance.

#### Reserves

Based on the projections, without changes to the CIP presented in Table 7, working capital reserves would be almost entirely depleted by FY 2026/27.

Figure 1 shows the total cash reserves of the Sewer fund for FY 2020/21 through the end of FY 2026/27 for the base case, assuming no future rate increases or bonds and that the Jurupa settlement funds are not available for capital funding.

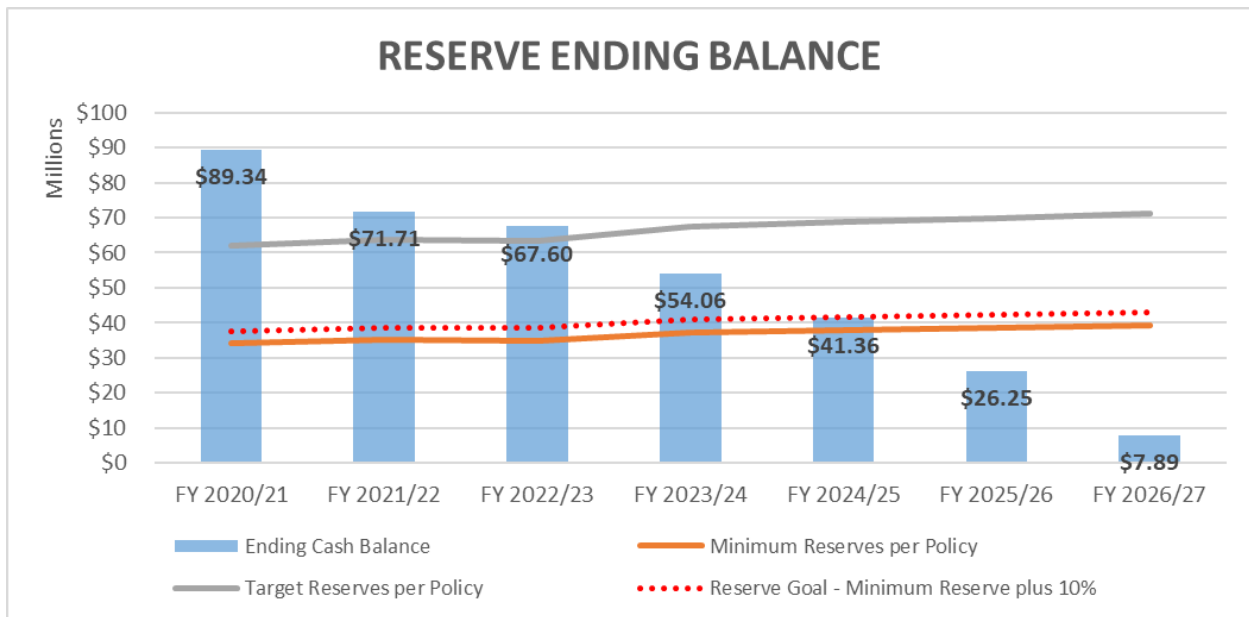


Figure 1 Projected Reserves without Increases or New Debt

#### Debt Coverage

Debt coverage would fall below the 1.10 x requirement set forth in the 2018 Bond agreements starting in FY 2024/25 and continue to drop as increases in costs outpace the modest increases in revenues expected due to customer growth.

Table 9 Option 0 – Base Case Financial Forecast (\$ Millions)

	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
Modeled Rate Revenue Increase	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Revenues</b>					
User Rate Revenues	\$61.91	\$62.76	\$63.33	\$63.90	\$64.47
<u>Other Revenues</u>	<u>\$6.70</u>	<u>\$6.95</u>	<u>\$6.96</u>	<u>\$7.18</u>	<u>\$7.21</u>
<b>Total Revenues</b>	<b>\$68.61</b>	<b>\$69.72</b>	<b>\$70.29</b>	<b>\$71.08</b>	<b>\$71.67</b>
<b>Bond Proceeds for Capital Funding</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Jurupa Settlement Funds Available</b>	<b>\$15.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Expenses</b>					
O&M	\$39.30	\$39.52	\$40.71	\$41.95	\$43.22
Debt Service (Net of BABs Treasury Credit)	\$26.70	\$28.02	\$28.14	\$28.13	\$28.14
Debt Service on New Bonds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Refund of Jurupa Settlement Revenues to Customers <sup>(1)</sup>	\$15.00	\$0.00	\$0.00	\$0.00	\$0.00
Equipment Purchases	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Use of Jurupa Settlement for Capital	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Use of Cash and Reserves for Capital	\$6.73	\$15.73	\$14.14	\$16.11	\$18.66
<u>Use of Bond Proceeds for Capital</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<b>Total Ongoing Expenses</b>	<b>\$87.73</b>	<b>\$83.26</b>	<b>\$82.99</b>	<b>\$86.19</b>	<b>\$90.02</b>
<b>Net Available for Capital/Reserves</b>	<b>(\$4.12)</b>	<b>(\$13.54)</b>	<b>(\$12.70)</b>	<b>(\$15.11)</b>	<b>(\$18.35)</b>
<b>Revenue Only Debt Coverage</b>	<b>1.13 x</b>	<b>1.12 x</b>	<b>1.09 x</b>	<b>1.08 x</b>	<b>1.05 x</b>
<b>Total Cash Balance</b>	<b>\$67.60</b>	<b>\$54.06</b>	<b>\$41.36</b>	<b>\$26.25</b>	<b>\$7.89</b>
<u>Reserve Goal - Minimum Reserve plus 10%</u>	<u>\$38.48</u>	<u>\$40.89</u>	<u>\$41.59</u>	<u>\$42.35</u>	<u>\$43.04</u>
<b>Reserve Surplus (Deficit)</b>	<b>\$29.12</b>	<b>\$13.17</b>	<b>(\$0.23)</b>	<b>(\$16.10)</b>	<b>(\$35.15)</b>
Notes:	1. Shown as an expense because Settlement paid out to customers.				

### Option 1 Financial Forecast

Option 1 would utilize the full \$15 million in Jurupa settlement funds to pay for capital projects, decreasing pressure on sewer rates and reserves.

Table 10, on the next page, presents a summarized financial forecast for Option 1 for FY 2022/23 through FY 2026/27 based on the updated model. The forecast assumes that the City resumes implementing sewer rate increase beginning in FY 2024/25 at a level of 4-percent per year.

#### Reserves

Based on the projections, reserves would be drawn down to fund capital projects over the next several years, before stabilizing near the reserve goal level. The 4.0-percent annual rate increases each result in only about \$2.5M in additional revenues and are just sufficient to maintain the reserve balance around the target level through FY 2026/27.

Figure 2 shows the total cash reserves of the Sewer fund for FY 2020/21 through the end of FY 2026/27 for Option 1. The reserves ending balance is expected to remain above the reserve goal.

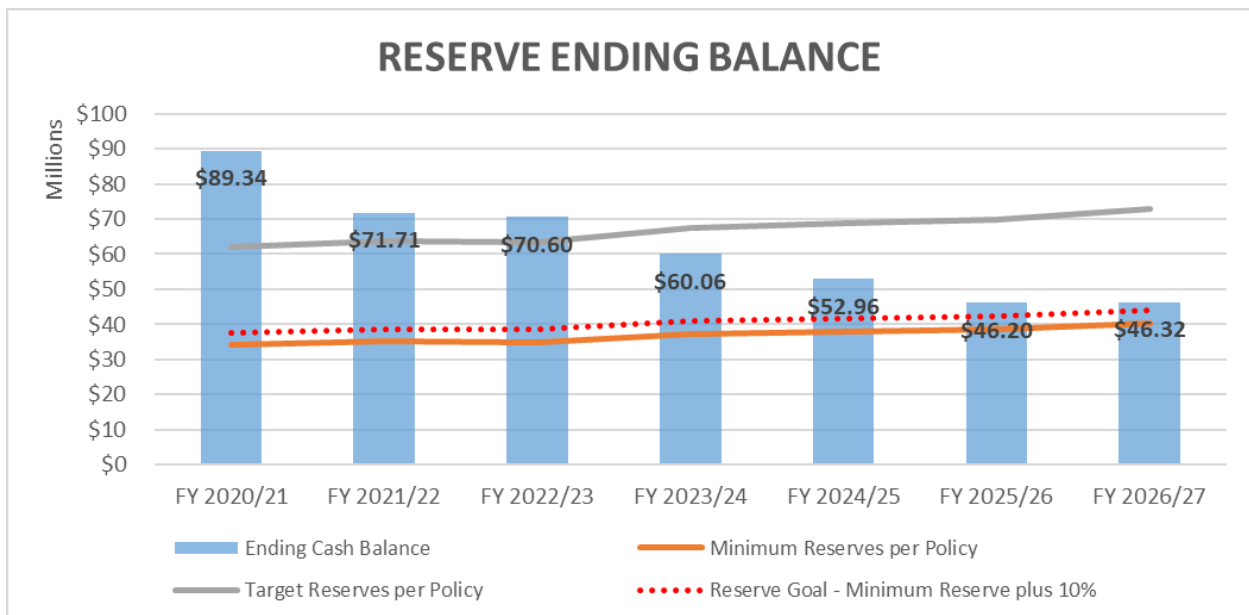


Figure 2 Option 1 Projected Reserves for 4% Rate Increase in FY 2024/25

#### Debt Coverage

Debt coverage would be sufficient in all years with revenue only debt coverage exceeding the 1.10 x requirement set forth in the 2018 Bond agreements. However, due to increasing costs and the delay of rate increases over the past several years, the projected coverage ratio for FY 2022/23 and FY 2023/24 is very close to the coverage requirement at 1.12 x leaving very little buffer for unforeseen increases in operating expenses or decreases in revenue.

#### Capital Funding

Over the course of the projection period (FY 2022/23 through FY 2026/27) the City could fund a total of \$71.4 million in CIP projects (the total amount shown in Table 7), with \$15.0 million in funding from the Jurupa Settlement revenues, \$8.9 million in new bond proceeds (\$33 million in bonds issued in FY 2026/27 to

provide funding for FY 2026/27 and FY 2027/28), and the remaining \$47.5 million from reserves and rate revenues.

Table 10 Option 1 Financial Forecast (\$ Millions)

	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
Modeled Rate Revenue Increase	0.00%	0.00%	4.00%	4.00%	4.00%
<b>Revenues</b>					
User Rate Revenues	\$61.91	\$62.76	\$65.86	\$69.11	\$72.51
<u>Other Revenues</u>	<u>\$6.70</u>	<u>\$6.95</u>	<u>\$7.04</u>	<u>\$7.32</u>	<u>\$7.45</u>
<b>Total Revenues</b>	<b>\$68.61</b>	<b>\$69.72</b>	<b>\$72.90</b>	<b>\$76.44</b>	<b>\$79.96</b>
<b>Bond Proceeds for Capital Funding</b>					
	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$8.87</b>
<b>Jurupa Settlement Funds Available</b>	<b>\$3.00</b>	<b>\$3.00</b>	<b>\$3.00</b>	<b>\$3.00</b>	<b>\$3.00</b>
<b>Expenses</b>					
O&M	\$39.30	\$39.52	\$40.71	\$41.95	\$43.22
Debt Service (Net of BABs Treasury Credit)	\$26.70	\$28.02	\$28.14	\$28.13	\$28.14
Debt Service on New Bonds	\$0.00	\$0.00	\$0.00	\$0.00	\$1.68
Refund of Jurupa Settlement Revenues to Customers	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Equipment Purchases	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Use of Jurupa Settlement for Capital	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
Use of Cash and Reserves for Capital	\$3.73	\$12.73	\$11.14	\$13.11	\$6.79
<u>Use of Bond Proceeds for Capital</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$8.87</u>
<b>Total Ongoing Expenses</b>	<b>\$72.73</b>	<b>\$83.26</b>	<b>\$82.99</b>	<b>\$86.19</b>	<b>\$91.71</b>
<b>Net Available for Capital/Reserves</b>					
	<b>(\$1.12)</b>	<b>(\$10.54)</b>	<b>(\$7.09)</b>	<b>(\$6.76)</b>	<b>\$0.12</b>
<b>Revenue Only Debt Coverage</b>					
	<b>1.13 x</b>	<b>1.12 x</b>	<b>1.18 x</b>	<b>1.27 x</b>	<b>1.27 x</b>
<b>Total Cash Balance</b>					
	<b>\$70.60</b>	<b>\$60.06</b>	<b>\$52.96</b>	<b>\$46.20</b>	<b>\$46.32</b>
<u>Reserve Goal - Minimum Reserve plus 10%</u>	<u>\$38.48</u>	<u>\$40.89</u>	<u>\$41.59</u>	<u>\$42.35</u>	<u>\$44.17</u>
<b>Reserve Surplus (Deficit)</b>	<b>\$32.12</b>	<b>\$19.17</b>	<b>\$11.37</b>	<b>\$3.85</b>	<b>\$2.16</b>

### Option 2 Financial Forecasts

Two projections were developed for Option 2 to test the impact of refunding the \$15 million in Jurupa Settlement revenues to the City’s customers. Option 2A retains the 4.0-percent per year rate increases, starting in FY 2024/25, of Option 1; Option 2B would implement higher rate increases to hold reserves above the minimum policy level by FY 2026/27.

#### Option 2A – 4% Rate Increase Starting FY 2024/25

Table 11, on the next page, presents a summarized financial forecast for Option 2A for FY 2022/23 through FY 2026/27 based on the updated model. The forecast assumes that the City resumes implementing sewer rate increases beginning in FY 2024/25 at a level of 4-percent per year.

#### Reserves

Based on the projections, reserves would be drawn down to fund capital projects over the next several years, reaching a minimum of \$34.0 million in FY 2025/26, approximately \$8.3 million below the reserve goal for that year. The 4-percent rate increase starting in FY 2024/25 would not be sufficient to make up the deficit and reserves would remain below the target level through at least FY 2026/27.

Figure 3 shows the total cash reserves of the Sewer fund for FY 2020/21 through the end of FY 2026/27 for Option 2A. The total fund balance would first fall below the reserve goal in FY 2025/26 and continue below the minimum through at least FY 2026/27.

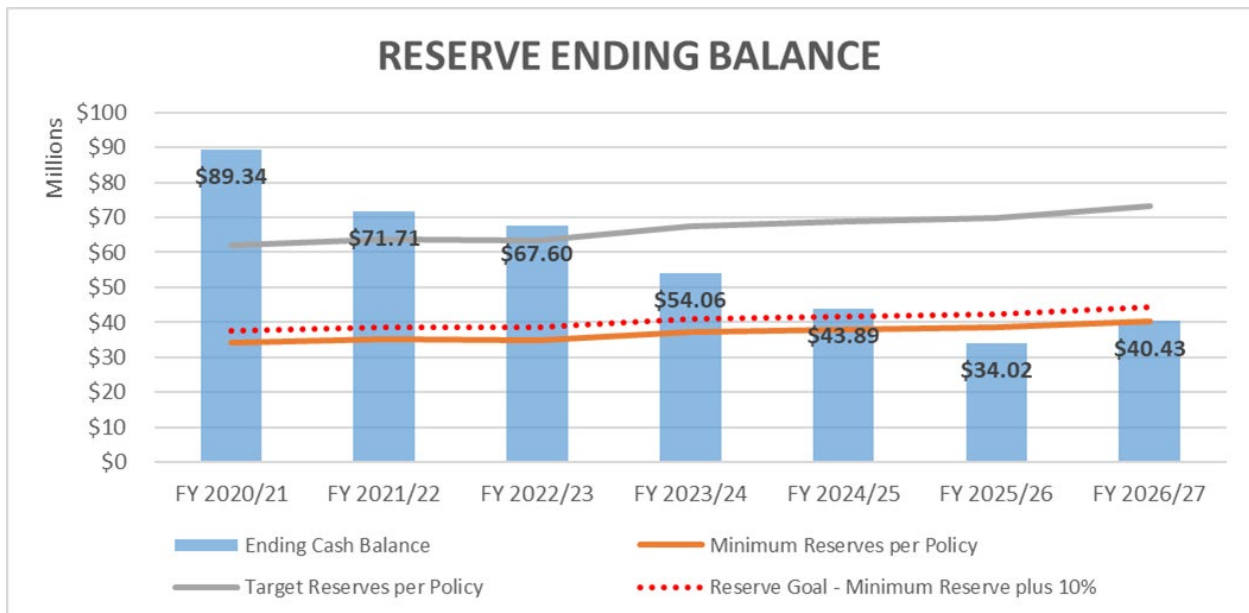


Figure 3 Option 2A Projected Reserves with 4% rate increase in FY 2024/25

#### Debt Coverage

Debt coverage would be sufficient in all years with revenue only debt coverage exceeding the 1.10 x requirement set forth in the 2018 Bond agreements. However, due to increasing costs and the delay of rate increases over the past several years, the projected coverage ratio for FY 2022/23 and FY 2023/24 is very close to the coverage requirement at 1.12 x leaving very little buffer for unforeseen increases in operating expenses or decreases in revenue.

## Capital Funding

Additional use of funds for capital and additional bond funds would be required in this option as compared to Option 1 due to the lack of Jurupa settlement funds for capital projects. Over the course of the projection period (FY 2021/22 through FY 2025/26) the City could fund a total of \$71.4 million in CIP projects, with \$18.7 million in new bond proceeds (\$40.0 million in bonds issued in FY 2026/27 to provide funding for FY 2026/27 and FY 2027/28), and the remaining \$52.7 million from reserves and rate revenues.

Table 11 Option 2A Financial Forecast (\$ Millions)

	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
Modeled Rate Revenue Increase	0.00%	0.00%	4.00%	4.00%	4.00%
<b>Revenues</b>					
User Rate Revenues	\$61.91	\$62.76	\$65.86	\$69.11	\$72.51
Other Revenues	\$6.70	\$6.95	\$6.96	\$7.21	\$7.30
<b>Total Revenues</b>	<b>\$68.61</b>	<b>\$69.72</b>	<b>\$72.83</b>	<b>\$76.33</b>	<b>\$79.81</b>
<b>Bond Proceeds for Capital Funding</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$18.66</b>
<b>Jurupa Settlement Funds Available</b>	<b>\$15.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Expenses</b>					
O&M	\$39.30	\$39.52	\$40.71	\$41.95	\$43.22
Debt Service (Net of BABs Treasury Credit)	\$26.70	\$28.02	\$28.14	\$28.13	\$28.14
Debt Service on New Bonds	\$0.00	\$0.00	\$0.00	\$0.00	\$2.04
Refund of Jurupa Settlement Revenues to Customers <sup>(1)</sup>	\$15.00	\$0.00	\$0.00	\$0.00	\$0.00
Equipment Purchases	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Use of Jurupa Settlement for Capital	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Use of Cash and Reserves for Capital	\$6.73	\$15.73	\$14.14	\$16.11	\$0.00
Use of Bond Proceeds for Capital	\$0.00	\$0.00	\$0.00	\$0.00	\$18.66
<b>Total Ongoing Expenses</b>	<b>\$87.73</b>	<b>\$83.26</b>	<b>\$82.99</b>	<b>\$86.19</b>	<b>\$92.06</b>
<b>Net Available for Capital/Reserves</b>	<b>(\$4.12)</b>	<b>(\$13.54)</b>	<b>(\$10.17)</b>	<b>(\$9.87)</b>	<b>\$6.41</b>
<b>Revenue Only Debt Coverage</b>	<b>1.13 x</b>	<b>1.12 x</b>	<b>1.18 x</b>	<b>1.26 x</b>	<b>1.25 x</b>
<b>Total Cash Balance</b>	<b>\$67.60</b>	<b>\$54.06</b>	<b>\$43.89</b>	<b>\$34.02</b>	<b>\$40.43</b>
<i>Reserve Goal - Minimum Reserve plus 10%</i>	<i>\$38.48</i>	<i>\$40.89</i>	<i>\$41.59</i>	<i>\$42.35</i>	<i>\$44.39</i>
<b>Reserve Surplus (Deficit)</b>	<b>\$29.12</b>	<b>\$13.17</b>	<b>\$2.30</b>	<b>(\$8.33)</b>	<b>(\$3.95)</b>
Notes:					
1. Shown as an expense because Settlement paid out to customers.					



### Option 2B – Higher Rate Increases to Maintain Reserve Fund

Table 12, on the next page, presents a summarized financial forecast for Option 2B for FY 2022/23 through FY 2026/27 based on the updated model. The forecast assumes that the City resumes implementing sewer rate increases beginning in FY 2024/25 at 5.0-percent per year.

#### Reserves

Based on the projections, reserves would be drawn down to fund capital projects over the next several years, reaching a minimum of \$36.0 million in FY 2025/26, approximately \$6.4 million below the minimum policy target of \$42.4 million for that year. As a result of the higher rate increases as compared to Option 2A, reserves would rebound above the policy minimum through FY 2026/27.

Figure 4 shows the total cash reserves of the Sewer fund for FY 2020/21 through the end of FY 2026/27 for Option 2B. The total fund balance would be drawn down below the reserve goal in FY 2025/26 and rebound to just above the target through FY 2026/27.

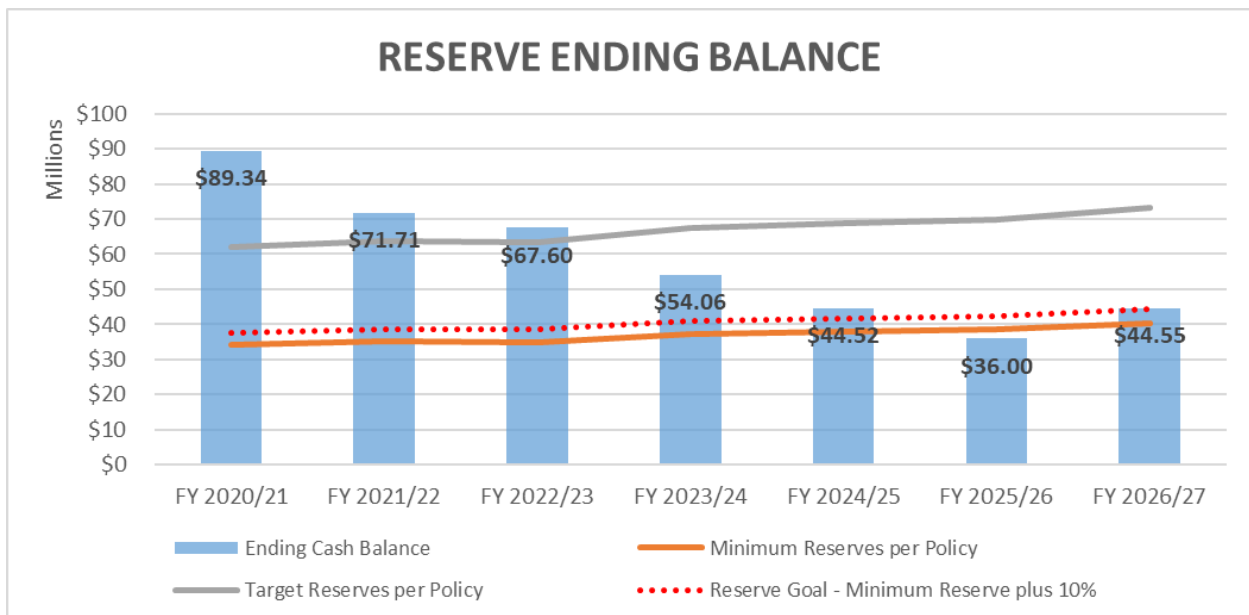


Figure 4 Option 2B Projected Reserves with 5% Rate Increases Starting in FY 2024/25

#### Debt Coverage

Debt coverage would be sufficient in all years with revenue only debt coverage exceeding the 1.10 x requirement set forth in the 2018 Bond agreements. However, due to increasing costs and the delay of rate increases over the past several years, the projected coverage ratio for FY 2022/23 and FY 2023/24 is very close to the coverage requirement at 1.12 x leaving very little buffer for unforeseen increases in operating expenses or decreases in revenue.

#### Capital Funding

Additional use of funds for capital and additional bond funds would be required in this option as compared to Option 1 due to the lack of Jurupa settlement funds for capital projects. Over the course of the projection period (FY 2021/22 through FY 2025/26) the City could fund a total of \$71.4 million in CIP projects, with \$18.7

million in new bond proceeds (\$40.0 million in bonds issued in FY 2026/27 to provide funding for FY 2026/27 and FY 2027/28), and the remaining \$52.7 million from reserves and rate revenues.

Table 12 Option 2B Financial Forecast (\$ Millions)

	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
Modeled Rate Revenue Increase	0.00%	0.00%	5.00%	5.00%	5.00%
<b>Revenues</b>					
User Rate Revenues	\$61.91	\$62.76	\$66.50	\$70.45	\$74.63
Other Revenues	\$6.70	\$6.95	\$6.96	\$7.22	\$7.32
<b>Total Revenues</b>	<b>\$68.61</b>	<b>\$69.72</b>	<b>\$73.46</b>	<b>\$77.67</b>	<b>\$81.95</b>
<b>Bond Proceeds for Capital Funding</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$18.66</b>
<b>Jurupa Settlement Funds Available</b>	<b>\$15.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Expenses</b>					
O&M	\$39.30	\$39.52	\$40.71	\$41.95	\$43.22
Debt Service (Net of BABs Treasury Credit)	\$26.70	\$28.02	\$28.14	\$28.13	\$28.14
Debt Service on New Bonds	\$0.00	\$0.00	\$0.00	\$0.00	\$2.04
Refund of Jurupa Settlement Revenues to Customers <sup>(1)</sup>	\$15.00	\$0.00	\$0.00	\$0.00	\$0.00
Equipment Purchases	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Use of Jurupa Settlement for Capital	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Use of Cash and Reserves for Capital	\$6.73	\$15.73	\$14.14	\$16.11	\$0.00
Use of Bond Proceeds for Capital	\$0.00	\$0.00	\$0.00	\$0.00	\$18.66
<b>Total Ongoing Expenses</b>	<b>\$87.73</b>	<b>\$83.26</b>	<b>\$82.99</b>	<b>\$86.19</b>	<b>\$92.06</b>
<b>Net Available for Capital/Reserves</b>	<b>(\$4.12)</b>	<b>(\$13.54)</b>	<b>(\$9.53)</b>	<b>(\$8.52)</b>	<b>\$8.55</b>
<b>Revenue Only Debt Coverage</b>	<b>1.13 x</b>	<b>1.12 x</b>	<b>1.20 x</b>	<b>1.31 x</b>	<b>1.32 x</b>
<b>Total Cash Balance</b>	<b>\$67.60</b>	<b>\$54.06</b>	<b>\$44.52</b>	<b>\$36.00</b>	<b>\$44.55</b>
<i>Reserve Goal - Minimum Reserve plus 10%</i>	<i>\$38.48</i>	<i>\$40.89</i>	<i>\$41.59</i>	<i>\$42.35</i>	<i>\$44.39</i>
<b>Reserve Surplus (Deficit)</b>	<b>\$29.12</b>	<b>\$13.17</b>	<b>\$2.93</b>	<b>(\$6.35)</b>	<b>\$0.16</b>
Notes:					
1. Shown as an expense because Settlement paid out to customers.					

## Conclusion

Based on the projected CIP for the RWQCP and the Collections System, totaling \$71.4 million over the course of the projection period (FY 2022/23 through FY 2026/27), and the projected expenses for the same period, annual rate increases of at least 4.0-percent per year, starting in FY 2024/25, will be required during the projection period depending on how the Jurupa settlement funds are allocated. Three options were considered in the analysis.

Utilizing the \$15 million Jurupa Settlement revenues to fund capital projects (Option 1) would allow the City to fund the budgeted CIP over the next five years and defer rate increases for two more years, and minimize rate increases to 4.0-percent per year starting in FY 2024/25.

Using the Jurupa Settlement revenues to refund City customers (Options 2A and 2B) would provide a one-time benefit to those customers, but it would lead to the need for higher user rate increases and higher debt issuances in the future to fund capital projects and meet financial policies. Rate increases would need to be 5.0-percent per year starting in FY 2024/25 to meet financial policies.

Based on this analysis the most favorable approach for the City to pursue would be Option 1, which would include:

1. Transferring the \$15 million Jurupa Settlement revenue to the Sewer Fund to fund capital projects,
2. Funding CIP projects up to \$71.4 million over the course of the projection period (FY 2022/23 through FY 2026/27),
3. Maintaining current rates through FY 2023/24,
4. In support of this option, staff requesting direction from City Council to begin the process of increasing rates by 4.0-percent per year starting FY 2024/25 to maintain reserves at the policy minimum plus 10-percent goal, and
5. Issuing \$33.0 million in new bond proceeds (bonds issued in FY 2026/27).