

Buena Sanitation District

Final Report Financial Plan

January 2013





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January 15, 2013

Robin Putnam
Director of Community Projects
200 Civic Center Drive
Vista, California 92084

Dear Ms. Putnam,

Raftelis Financial Consultants (RFC), Inc. is pleased to provide the Wastewater Rate Study Report (Report), which develops a financial plan and the associated rates for the District for fiscal years 2014 to 2018. This Report summarizes key findings and recommendations related to the rates necessary for the District to meet its financial obligations.

It has been a pleasure working with you and we wish to express our thanks to you and District Staff for the support provided throughout the course of this study. If you have any questions regarding the Report, please do not hesitate to contact me at (213) 327-4405.

Sincerely,

Raftelis Financial Consultants, Inc.

A handwritten signature in blue ink, appearing to read 'Sanjay Gaur', is written over a light blue horizontal line.

Sanjay Gaur
Senior Manager

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Section 1

Approach

Approach

Every wastewater utility must receive sufficient total revenue to ensure proper operation and maintenance (O&M), development and perpetuation of the system, and preservation of the utility's financial integrity to provide adequate wastewater service to its customers.

Revenue requirements may be established either by the utility approach or the cash-needs approach. The utility approach to determine revenue requirements is followed by most investor-owned utilities and government utilities that are regulated by a state public utilities commission. The utility approach allows the utility to recover operating requirements, depreciation, and a return on capital as determined by generally accepted accounting principles. For the cash-needs approach, followed by most unregulated governmental utilities, user charges are structured to recover specific operations and capital cash requirements.

For Buena Sanitation District (District), RFC utilized the cash-needs approach for development of revenue requirements and the associated rates. When conducting the cash-needs approach, RFC developed a ten-year financial plan that identifies:

- Beginning fund balance and target reserve levels,
- Operation and Maintenance (O&M) expenses,
- Capital expenses and capital financing;
- Debt coverage requirement;
- Cash flow analysis that compares the revenue under existing rates with the revenue requirements to determine the necessary revenue adjustments; and
- Rate adjustments

To conduct this analysis, RFC developed a financial model in Microsoft Excel that allowed RFC and District Staff to conduct what-if scenarios associated with rate increase, debt issuance and different CIP expenditure.

Based on the District objectives, RFC has developed a financial plan that accomplishes the following goals:

- Ensures revenue sufficiency to meet operating and capital expenses, as well as debt service coverage and reserve target; and
- Determines rate adjustments to meet revenue requirements.

Section 2

Wastewater Financial Plan

A review of the District's revenue requirements involves an analysis of annual operating revenues under the current rates, operation and maintenance (O&M) expenses, capital expenditures, debt service requirements, and reserve requirements. This section of the report provides a discussion of the projected revenues, O&M and capital expenditures, capital improvement financing plan, debt service requirements, and the revenue adjustments required to ensure the fiscal sustainability of the wastewater enterprise.

Data and Assumptions

In order to conduct the rate study, RFC compiled current and historical data from the District. This data included operating budgets, miscellaneous expenses, current and projected revenues and capital improvement projects. RFC used FY 2013 budgeted expenses as a baseline to make projections into the future years.

In order to develop a consistent Financial Plan, the inputs and assumptions for the District were developed in conjunction with District staff and based on historical data as well as future budgeted projections. A detailed listing of key inputs and assumptions can be found in **Appendix A**

Operations and Maintenance Expenses

Using budget data provided by District Staff, RFC projected operations and maintenance (O&M) Expenses for the District from FY 2014 to FY 2023. The assumptions used in projecting these expenses can be found in **Appendix A**. The O&M expenses for the District are budgeted at \$3.13 million in FY 2013. A detailed listing of the District's O&M expenses throughout the planning period can be found in **Appendix B**.

Capital Improvement Plan

The District has adopted a long-term CIP to address future wastewater enterprise needs. The District anticipates significant capital expenses throughout the 10-year planning period, totaling approximately \$58 million over the planning horizon (escalated for construction cost increases). Significant projects that the District plans on undertaking include the CIP related to the Encina wastewater authority; totaling \$14.2 million over FY 2014 to FY 2023 time period, and an outfall Main of \$7.9 million. Rising operating costs described in the previous section coupled with extensive capital costs are the significant drivers of the proposed financial plan to maintain financial stability.

A detailed listing of the District's inflated Capital Improvement plan for the planning period can be found in **Appendix D**.

Debt Service

The District does not have any outstanding debt and does not plan on issuing any debt in the near future.

Reserve Requirements

Currently, the District maintains three reserves for its wastewater enterprise; an operating reserve, a rate stabilization reserve and a capital repairs and replacement fund.

Operating Reserve

The purpose of the Operating Cash Flow Reserve is to maintain and provide liquidity for operations and maintenance of the Sewer System throughout the year. The major portion of revenues for operating and maintaining the Sewer System is received at the end of the first half and midway through the second half of each Fiscal year. For this reason, the Board of Directors intends that the Operating Cash Flow Reserve be maintained at a funding level of approximately 50% of each annual approved budget for maintenance and operation of the Sewer System for each Fiscal Year.

Rate Stabilization Reserve

The purpose of the treatment and discharge Rate Stabilization Reserve is to provide for unexpected treatment and discharge costs imposed upon the sewer system by the Encina Wastewater Authority (EWA). The District is a member of EWA and all of the wastewater entering the Sewer System is treated and discharged through the EWA treatment and discharge facilities under permit. The costs of such treatment and discharge are not known or fixed until the District's budget is approved. Therefore, a rate stabilization reserve is necessary to meet unexpected costs. The District maintains a reserve with funding equivalent to 25 percent of the running average annual cost to the Sewer System for treatment and discharge services by EWA over the preceding five-year period.

Capital Repairs and Replacement Fund

The purpose of the Capital Repairs and Replacement Fund is to provide funding to finance the cost of repairs and replacement of the existing capital facilities, equipment and appurtenances of the Sewer System required in any given year in the event of a shortfall or lag in revenues of the system, or unexpected requirements for repairs or replacements. The District has set the Reserve to be \$0.7 million.

Status Quo Financial Plan

Figure 1 is a graphical representation (Dashboard from the Financial Model) of the District's financial plan under the "status" quo scenario. The status quo scenario includes no revenue adjustments throughout the planning period. Alternatively, **Table 2** provides a numerical representation of the District's financial plan under the status quo scenario, displayed in a pro forma statement format. As shown in Figure 1 and Table 2, the District maintains enough reserves to fund its capital projects and operating expenses.

Proposed Financial Plan

As mentioned earlier, the District is in a strong financial position because of its preexisting reserves. As a result, it is recommended that the District adopt five years of rates with 0% rate adjustments. As currently projected, the District maintains enough reserves to fully fund its capital projects and operating expenses. However, RFC recommends that the District re-evaluate its financial position in FY 2018 in order to determine if any adjustments are needed at that time. There is the potential that a Consumer Price Index (CPI) adjustment, similar to the annual adjustment recommended for the City may be required.

Figure 1: Status Quo Financial Plan Dashboard for Buena Sanitation District

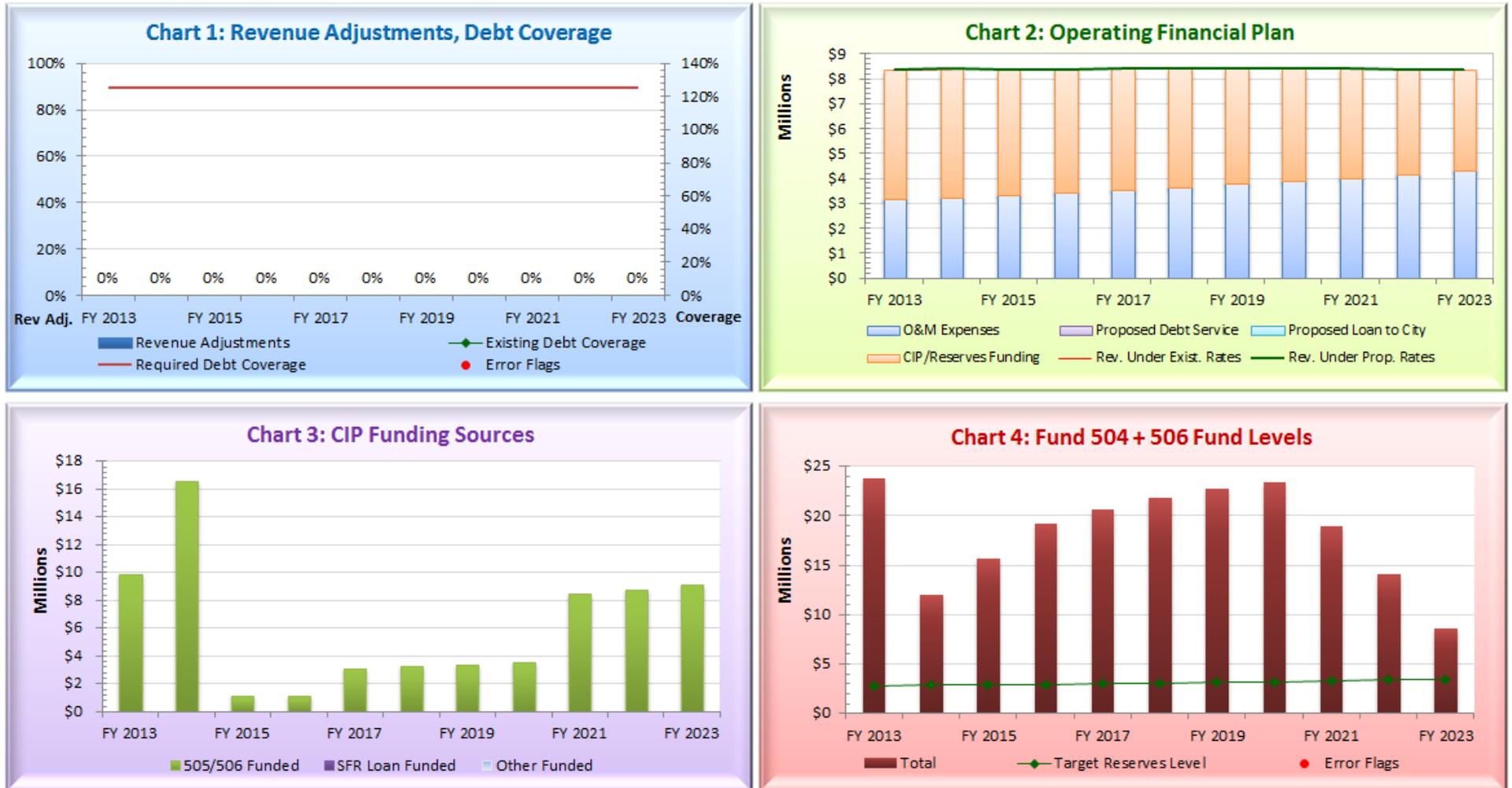


Table 2: Status Quo Financial Plan Pro Forma for Buena Sanitation District

Line #	Descriptions	Budgeted FY 2013	Projected FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023
1	REVENUES											
2	Existing Revenues from Rates	\$8,302,476	\$8,302,476	\$8,302,476	\$8,302,476	\$8,302,476	\$8,302,476	\$8,302,476	\$8,302,476	\$8,302,476	\$8,302,476	\$8,302,476
3	Rev from Rev Adjustments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Tax Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5	Non-Operating Revenues	\$61,870	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Interest (Funds 504+506)		\$88,929	\$68,810	\$86,665	\$98,975	\$105,486	\$110,763	\$114,751	\$105,412	\$82,146	\$56,302
7	Other Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	Total Revenues	\$8,364,346	\$8,391,405	\$8,371,286	\$8,389,141	\$8,401,451	\$8,407,962	\$8,413,239	\$8,417,227	\$8,407,888	\$8,384,622	\$8,358,778
9												
10	REVENUE REQUIREMENTS											
11	O&M Expenses	\$3,139,335	\$3,234,588	\$3,333,448	\$3,436,108	\$3,542,777	\$3,653,680	\$3,769,059	\$3,889,175	\$4,014,308	\$4,144,764	\$4,280,868
12	Other Misc. Expenses	\$295,543	\$302,260	\$314,351	\$326,925	\$340,002	\$353,602	\$367,746	\$382,456	\$397,754	\$413,664	\$430,211
13	Total Revenue Requirements	\$3,434,878	\$3,536,849	\$3,647,799	\$3,763,032	\$3,882,779	\$4,007,282	\$4,136,805	\$4,271,631	\$4,412,063	\$4,558,428	\$4,711,079
14												
15	Net Revenues	\$4,929,468	\$4,854,557	\$4,723,487	\$4,626,109	\$4,518,672	\$4,400,680	\$4,276,434	\$4,145,596	\$3,995,826	\$3,826,195	\$3,647,698
16												
17	Proposed Loan to City	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18												
19	Total CIP - Rates Funded	\$9,848,854	\$16,572,714	\$1,073,315	\$1,116,248	\$3,092,378	\$3,216,073	\$3,344,716	\$3,478,505	\$8,407,637	\$8,743,942	\$9,093,700
20												
21	Total Proposed Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
22												
23	NET ANNUAL CASH BALANCE	(\$4,919,386)	(\$11,718,157)	\$3,650,172	\$3,509,861	\$1,426,294	\$1,184,606	\$931,718	\$667,091	(\$4,411,811)	(\$4,917,748)	(\$5,446,002)
24												
25	Beginning Reserve Balances (504 & 506)	\$42,689,911	\$22,689,435	\$10,971,278	\$14,621,450	\$18,131,311	\$19,557,605	\$20,742,212	\$21,673,930	\$22,341,021	\$17,929,209	\$13,011,462
26	Adjustment for Carry Over CIP	(\$15,081,090)										
27	Adjusted Beginning Reserve Balances (504 & 506)	\$27,608,821	\$22,689,435	\$10,971,278	\$14,621,450	\$18,131,311	\$19,557,605	\$20,742,212	\$21,673,930	\$22,341,021	\$17,929,209	\$13,011,462
28	Ending Reserve Balances (504 & 506)	\$22,689,435	\$10,971,278	\$14,621,450	\$18,131,311	\$19,557,605	\$20,742,212	\$21,673,930	\$22,341,021	\$17,929,209	\$13,011,462	\$7,565,460
29	Target Reserve Balances (504 & 506)	\$2,796,957	\$2,851,052	\$2,904,530	\$2,954,618	\$3,013,992	\$3,078,768	\$3,146,788	\$3,217,487	\$3,291,014	\$3,367,531	\$3,447,211
30												
31	Coverage Ratio	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
32	Required Coverage Ratio	110%	110%	110%	110%	110%	110%	110%	110%	110%	110%	110%

Section 4

Appendix

A. Key Inputs/Assumptions Used in the Study for Buena Sanitation District

Revenue Assumptions

Assumption Type	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Account Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Connection Fee	2.0%	2.0%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

O&M Assumptions

	<i>Budgeted</i> FY 2013	<i>Projected</i> FY 2014	<i>Projected</i> FY 2015	<i>Projected</i> FY 2016	<i>Projected</i> FY 2017	<i>Projected</i> FY 2018	<i>Projected</i> FY 2019	<i>Projected</i> FY 2020	<i>Projected</i> FY 2021	<i>Projected</i> FY 2022	<i>Projected</i> FY 2023
SUMMARY											
SUBTOTAL - BUENA ADMINISTRATION	\$1,594,315	\$1,642,836	\$1,692,923	\$1,744,635	\$1,798,034	\$1,853,186	\$1,910,158	\$1,969,023	\$2,029,857	\$2,092,740	\$2,157,757
SUBTOTAL - BUENA ENGINEERING	\$567,769	\$589,286	\$612,092	\$636,293	\$662,007	\$689,360	\$718,494	\$749,561	\$782,731	\$818,187	\$856,131
SUBTOTAL - BUENA ENGINEERING	\$977,251	\$1,002,466	\$1,028,433	\$1,055,179	\$1,082,736	\$1,111,134	\$1,140,407	\$1,170,591	\$1,201,721	\$1,233,837	\$1,266,981
	\$3,139,335	\$3,234,588	\$3,333,448	\$3,436,108	\$3,542,777	\$3,653,680	\$3,769,059	\$3,889,175	\$4,014,308	\$4,144,764	\$4,280,868
Annual Increase	0.00%	3.03%	3.06%	3.08%	3.10%	3.13%	3.16%	3.19%	3.22%	3.25%	3.28%

(Continued)

A. Key Inputs/Assumptions Used in the Study for Buena Sanitation District

CIP Assumptions

Assumption Type	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Capital	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Accumulated Inflation	104%	108%	112%	117%	122%	127%	132%	137%	142%	148%

Cash flow Assumptions

Assumptions	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Reserve Interest Rates	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

D. Inflated CIP expenditures – Buena Sanitation District

Project No.	Project Name	Budgeted FY 2013	Projected FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023
8070	B5 - Watson Way Upsizing and Realignment											
	Buena Capital Replacement	\$330,815	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8131	Buena Outfall Force Main											
	Buena Capital Replacement	\$0	\$7,882,607	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8157	Encina Wastewater Authority											
	Buena Capital Replacement	\$1,650,000	\$1,032,034	\$1,073,315	\$1,116,248	\$1,390,985	\$1,446,625	\$1,504,490	\$1,564,669	\$1,627,256	\$1,692,346	\$1,760,040
8175	Pipeline Rehabilitation											
	Buena Capital Replacement	\$5,958,039	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8200	B1 - Green Oak Rd. to Buena Creek											
	Buena Capital Replacement	\$0	\$3,423,308	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8202	B2 - Thibodo to Watson Way											
	Buena Capital Replacement	\$0	\$1,395,545	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8207	Age and Condition Related											
	Buena Capital Replacement	\$0	\$863,221	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8227-NEW	Buena Outfall Force Main Air											
	Buena Capital Replacement	\$145,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	S. Santa Fe Phase 2											
	Buena Capital Replacement	\$200,000	\$1,976,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	S. Santa Fe Phase 2B											
	Buena Capital Replacement	\$565,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Repair & Replacement											
	Repair & Replacement	\$0	\$0	\$0	\$0	\$1,701,393	\$1,769,449	\$1,840,227	\$1,913,836	\$1,990,389	\$2,070,005	\$2,152,805
Proj #2	Project Name #2											
	Buena Capital Expansion	\$1,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Proj #3	Pump Station											
	Other Funding Source	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,789,992	\$4,981,591	\$5,180,855
Total Buena CIP (Inflated)		\$9,848,854	\$16,572,714	\$1,073,315	\$1,116,248	\$3,092,378	\$3,216,073	\$3,344,716	\$3,478,505	\$8,407,637	\$8,743,942	\$9,093,700