

City of St. Helena

Water and Wastewater Rate Study Update

Rate Study Advisory Committee – September 13, 2022



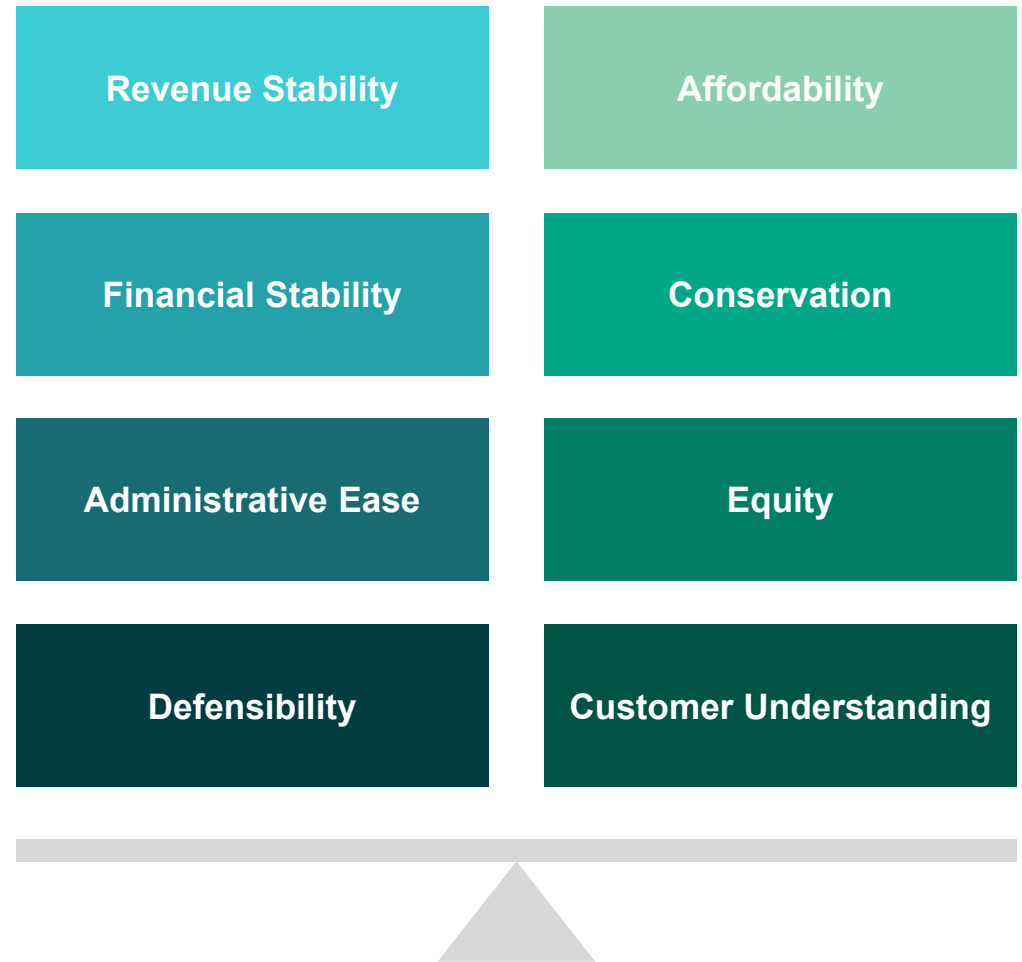
Agenda

1. Pricing Objectives Results
2. Reserves Policies Discussion
3. CIP Evaluation
4. Next

Pricing Objectives Exercise



Pricing Objectives



PRICING OBJECTIVES RESULTS

City Council (CC)

Importance	Objective	CC Ranking
Most Important	Financial Stability	1
Very Important	Conservation	2
More Important	Equity	3
Important	Affordability	4
Important	Rate Stability	5
Somewhat Important	Defensibility	6
Less Important	Customer Understanding	T7
Least Important	Administration	T7

PRICING OBJECTIVES RESULTS

RATE STUDY ADVISORY COMMITTEE (RSAC)

Importance	Objective	RSAC Ranking
Most Important	Equity	1
Very Important	Financial Stability	2
More Important	Conservation	3
Important	Affordability	4
Important	Rate Stability	5
Somewhat Important	Defensibility	6
Less Important	Customer Understanding	7
Least Important	Administration	8

PRICING OBJECTIVES RESULTS COMPARISON

Importance	Objective	CC Ranking	RSAC Ranking
Most Important	Financial Stability	1	2
Very Important	Conservation	2	3
More Important	Equity	3	1
Important	Affordability	4	4
Important	Rate Stability	5	5
Somewhat Important	Defensibility	6	6
Less Important	Customer Understanding	T7	7
Least Important	Administration	T7	8

KEY OBJECTIVES

Objective

Definitions

Financial Stability

Adequate revenues and stable cash flows

Conservation

Reduce overall water demands
(per capita, large volume user, and peak water use)

Equity

Fairness among and between classes;
intergenerationally between current and future ratepayers

KEY OBJECTIVES – FINANCIAL APPROACHES

Financial Stability

- Strong reserves policies
- Utilize debt financing for major capital projects (smooth cash outflows)
- Maintain drought rates during shortage

Conservation

- Robust conservation program funding i.e. rebates, audits, leak detection, messaging

Equity

- Debt financing major capital projects

KEY OBJECTIVES – RATE STRUCTURE APPROACHES

Financial Stability

- Maintain a high level of fixed charges
- Evaluate tiered water rates with few tiers
- Evaluate a fixed wastewater charge for Residential users

Conservation

- Aggressive tier breakpoints (smaller allocation in the lower tier(s))
- Maximize tiered rate differential to the greatest degree possible
- Higher level of variable rate revenues

Equity

- Evaluate several water rate classes (e.g., Residential, MFR, Irrigation, Commercial, etc.)
- Maintain numerous non-residential wastewater strength classes
- Follow through evaluation of Inside/Outside City rates and elevation surcharges

Reserves Policies



Financial Policy Overview

- Goals of Financial/Reserve Policies:
 - › Mitigate risk
 - Revenue instability
 - Emergency asset failure
 - Volatility in working capital
 - › Credit
 - Maintain/achieve a specific credit rating
 - Determine most opportune time to issue debt
- Importance of Financial Policies:
 - › Maintain financial solvency
 - › Provide guidelines for sound financial management
 - › Enhance financial management transparency

Financial Health Indicators

Healthy Reserves

- Operating Reserve – results from positive cash flow
- Capital Reserve – can award contracts quickly and speed up projects if necessary
- Rate Stabilization – funds used during periods of revenue shortages (i.e., drought)
- Emergency – funds available in case of asset failure or natural disaster

Debt Coverage Ratio

- Meet/Exceed minimum requirements
- Achieve/maintain good credit ratings
- If there is no debt, what is the utility's debt capacity?
 - How much are you able to borrow with current rates?

DEVELOPING RESERVE TARGETS – CONSIDERATIONS AND APPROACHES

- **Operating**
 - › Billing frequency
 - › Timing of operating expenses
 - › History of non-payment / uncollectible
- **Capital**
 - › Multiple of annual planned capital
 - › System depreciation
 - › Percent of asset valuation
- **Rate Stabilization**
 - › Probability analysis: likelihood of drought or demand reductions
 - › Sensitivity analysis for revenues and expense
 - › Other management tools, example: drought rates
- **Emergency**
 - › Critical asset replacement analysis
 - › History of failures, example: line breaks
 - › System risk assessment to quantify emergency needs

EXAMPLE RESERVES POLICY - WATER

Agency	O&M	Capital	Emergency	Rate Stabilization
City of Camarillo	90 days O&M	1-Year Depreciation	1% of Total Assets	5% of Commodity Revenue
Placer County Water Agency	Max: 150 days O&M Min: 100 days O&M	Max: Next 5 years of R&R Min: Next 2 years of R&R		
Borrego WD*	90 Days O&M	Minimum or Next Year Paygo CIP	2% of Capital Assets	30% of Commodity Revenue
Montecito WD	~90 days O&M	\$500k	\$500k	
City of Ventura	25% Of Annual O&M	Annual Avg. R&R		
Scotts Valley	90 days O&M	1-Year Depreciation	2.5% of Capital Assets	20% of Commodity Revenue
City of Hayward	25% of Annual Expenses	Annual Avg. 5-year CIP		25% of Commodity Revenue
Marin MWD	Target: 50% O&M Min: 25% O&M	Annual Avg. 5-year CIP		100% of New Debt
City of St. Helena	Target: 14 months of Operating (O&M + Debt Service) Minimum: 10 months of Operating (O&M + Debt Service)			

*Policy also includes a 5% annual O&M Contingency Reserve and \$1.5M water supply reserve

EXAMPLE RESERVES POLICY – WATER (In the Neighborhood)

Agency	O&M	Capital	Emergency	Rate Stabilization
City of Calistoga	90 days of O&M			
Town of Yountville	30% of O&M	5% Asset Value		
City of Napa	Target: 90 days of O&M Minimum: 45 days of O&M	10-20% Annual CIP (CIP Reserve) 10-20% Annual CIP (R&R Reserve)	5-10% Annual O&M excluding debt	5-10% of Water Sales Revenue
City of Santa Rosa	15% of O&M	?	Engineering earthquake assessment (>\$6M)	
City of St. Helena	Target: 14 months of Operating (O&M + Debt Service) Minimum: 10 months of Operating (O&M + Debt Service)			

EXAMPLE RESERVE POLICY – WASTEWATER (In the Neighborhood)

Agency	Operating	Capital	Emergency	Rate Stabilization
City of Calistoga	90 Days of O&M			
Town of Yountville	30% of O&M	5% of Asset Value		
Napa Sanitation	12 Months of O&M (Operating & Cashflow)	Approximately \$500k		
City of Santa Rosa	15% of O&M	?	Engineering earthquake assessment (>\$7M)	\$1M
City of St. Helena	Target: 8 months of O&M Minimum: 6 months of O&M			

WATER ENTERPRISE – POLICY OPTIONS

	Operating	Capital	Emergency	Rate Stabilization
Existing Policy	Target: 14 months of Operating (O&M + Debt Service) Minimum: 10 months of Operating (O&M + Debt Service)	None	None	None
Alternative 1	Four Months O&M + Annual Debt Service	Annual Avg. 5-year CIP (Unfunded)	N/A	None
Alternative 2	Six months Operating (O&M + Debt Service)	Annual Avg. 5-year CIP (Unfunded)	\$2M	None

WATER ENTERPRISE – CORRESPONDING TARGETS

	Operating	Capital	Emergency	Rate Stabilization	Total Reserve (\$)
Existing Policy	Target: \$8.8 M Min: \$6.3 M	None	None	None	Target: \$8.8 M Min: \$6.3 M
Alternative 1	\$3.2 M	\$4.6 M	None	None	\$7.8 M
Alternative 2	\$3.8 M	\$4.6 M	\$2 M	None	\$10.4 M

WASTEWATER ENTERPRISE – POLICY OPTIONS

	Operating	Capital	Emergency	Rate Stabilization
Existing Policy	Target: 8 months O&M Minimum: 6 months O&M	N/A	N/A	N/A
Alternative 1	Four Months O&M + Annual Debt Service	Annual Avg. 5-year CIP (Unfunded)	N/A	N/A
Alternative 2	Six months Operating (O&M + Debt Service)	Annual Avg. 5-year CIP (Unfunded)	\$1M	N/A

WASTEWATER ENTERPRISE – CORRESPONDING TARGETS

	Operating	Capital	Emergency	Rate Stabilization	Total Reserve (\$)
Existing Policy	Target: \$2.4 M Minimum: \$1.8 M	None	None	None	Target: \$2.4 M Minimum: \$1.8 M
Alternative 1	\$1.4 M	\$1.2 M	N/A	None	\$2.6 M
Alternative 2	\$1.8 M	\$1.2 M	\$1 M	None	\$4.0 M

RESERVES POLICIES AND KEY POLICY OBJECTIVES

- Financial Stability & Equity
 - › Enhanced reserve policies mitigate revenue risk
 - › Improves credit worthiness for future borrowings
 - Use of debt financing for major long-term CIP (inter-generational equity)
 - › Rate stabilization reserve mitigates potential rate shocks from water shortage conditions or revenue shortfalls
 - Could help minimize drought rates and impacts to low volume and low income customers

RESERVES POLICIES AND OTHER CONSIDERATIONS

- Existing Financial Health
 - › Raising rates to achieve reserves policies alone is not a popular approach or message to customers
- Access to outside funds
 - › Example: Line of Credit with a bank
- Future borrowing and credit rating
 - › Days cash on hand

CIP



WATER ENTERPRISE – ANNUAL PROGRAM AND PRIMARY PROJECTS

- Napa Intertie
- Water Treatment Plant
- Bell Canyon Intake Tower
- Spring Mountain (Holmes Tank)

Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Water	\$2.8 M	\$3.6 M	\$4.1 M	\$5.4 M	\$6.1 M	\$11.7 M	\$4.5 M	\$4.5 M	\$4.4 M	\$4.4 M
Recycled Water		\$1.6 M	\$1.0 M	\$0.5 M						
Total	\$2.8 M	\$5.2 M	\$5.1 M	\$5.9 M	\$6.1 M	\$11.7 M	\$4.5 M	\$4.5 M	\$4.4 M	\$4.4 M

WASTEWATER ENTERPRISE – PRIMARY PROJECTS

- WWTP Upgrades (Majority-funded with USDA Loan)
- Sewer replacement, Crinella lift station, high priority pipe replacement (Funded with GO Bond proceeds)
- Recycled Water – Distribution to Crane Park’s Irrigation

Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Sewer	\$2.8 M	\$1.0 M	\$0.1 M	\$0.6 M	\$0.5 M	\$1.4 M	\$1.4 M	\$1.0 M	\$1.0 M	\$1.0 M
Recycled Water	\$0.1 M	\$1.6 M	\$1.0 M	\$0.5 M						
Total	\$2.9 M	\$2.6 M	\$1.1 M	\$1.1 M	\$0.5 M	\$1.4 M	\$1.4 M	\$1.0 M	\$1.0 M	\$1.0 M

CIP SUMMARY

- Water CIP
 - › 10-year historical annual spend: \$1.1 M
 - › Forward looking annual spend: \$5.2 M (\$5.5 M average including Recycled Water Costs)
- Sewer CIP
 - › 10-year historical annual spend: \$0.9 M
 - › Forward looking annual spend: \$1.1 M (\$1.5 M average including Recycled Water Costs)
- **Only considers CIP funded through rate revenues (cash or future debt service)**

POSSIBLE CIP SCENARIOS

- Front-loaded with additional internal/external financing, if capacity
- Individual project prioritization
- Assumed capital completion rate (example: 75% of programmed capital)
- Inclusion/exclusion of future recycled water projects

Next

- Next
 - › Preliminary Financial Plans
 - › Rate Structure Modification Options
- Then
 - › Revised Financial Plans
 - › Preliminary Rates



Thank you

Contacts:

Kevin Kostiuk – 213.262.9309 / kkostiuk@raftelis.com

Jim Armstrong – 805.395.1674 / jarmstrong@raftelis.com

Jonathan Jordan – 213.262.9305 / jjordan@raftelis.com