

Financial Workshop

Rate-Setting Financial Workshop

Presenters

Jonathan Wunderlich, Director of Finance & Administration

Rekha Ippagunta, Project Engineering Manager

Kelsi Oshiro, Engineer 2

Sydney Oam, Financial Analysis Supervisor

Martin Koran, Senior Financial Analyst

Ethan Burch, Administrative Analyst

Darren Hodge, Managing Director, PFM Financial Advisors

Rick Simonson, Senior Vice President, HF&H Consultants

Introduction

Agenda

- Introduction
- Overview of scheduled financial workshops
- Review preliminary FY 2023/24 financial results
- Financial planning assumptions, trends, projections, and rates survey
- Financial planning model updates, review, and rate-setting scenarios
 - Capital projects deferral scenario
 - Minimize San Francisco PUC purchases scenario
 - Increase use of debt to fund the capital program scenario
 - Overview and implications of issuing debt
- Review of tiered rate structure
- Conclusion/Next Steps

Acronyms

- AF – Acre Feet
- AMI – Advanced Metering Infrastructure
- CIP – Capital Improvement Program
- FIF – Facilities Improvement Fund
- FY – Fiscal Year
- FYE – Fiscal Year Ending
- GF – General Fund
- HCF – Hundred Cubic Feet (748 gallons)
- MGD – Million Gallons per Day
- NDF – Newark Desalination Facility
- O&M – Operations and Maintenance
- PFAS - Per- and Polyfluorinated Substances
- SFPUC – San Francisco Public Utilities Commission
- TP2 – Treatment Plant #2
- WTP2 – Water Treatment Plant #2

Introduction

Rate-Setting Schedule

- May 23, 2024: Budget workshop
- May 30, 2024: Budget workshop
- June 13, 2024: Budget adoption
- **July 18, 2024: Rate-setting workshop**
 - **Financial planning updates and scenarios, and discussion of tiered rates**
- August 22, 2024: Rate-setting workshop
 - Discussion of customer service/billing, fixed/variable revenues, and options for drought surcharges
- September 26, 2024: Rate-setting workshop
 - Follow-up from July and August workshops, and confirm final proposal to develop
- December 12, 2024: Consider issuing a rate notice
- February 13, 2025: Consider approval of rate proposal

Introduction

Board Guidance

- Financial planning updates and assumptions
- Rate-setting options
 - Capital projects deferral scenario
 - Minimize San Francisco PUC water purchases scenario
 - Increase use of debt to fund the capital program scenario
 - Rate increase amount
- Tiered rate structure

Intent is to seek Board feedback on these key issues and then prepare more specific scenarios for discussion at the September workshop

Financial Planning Model Updates

Fiscal Year 2023/24 Results

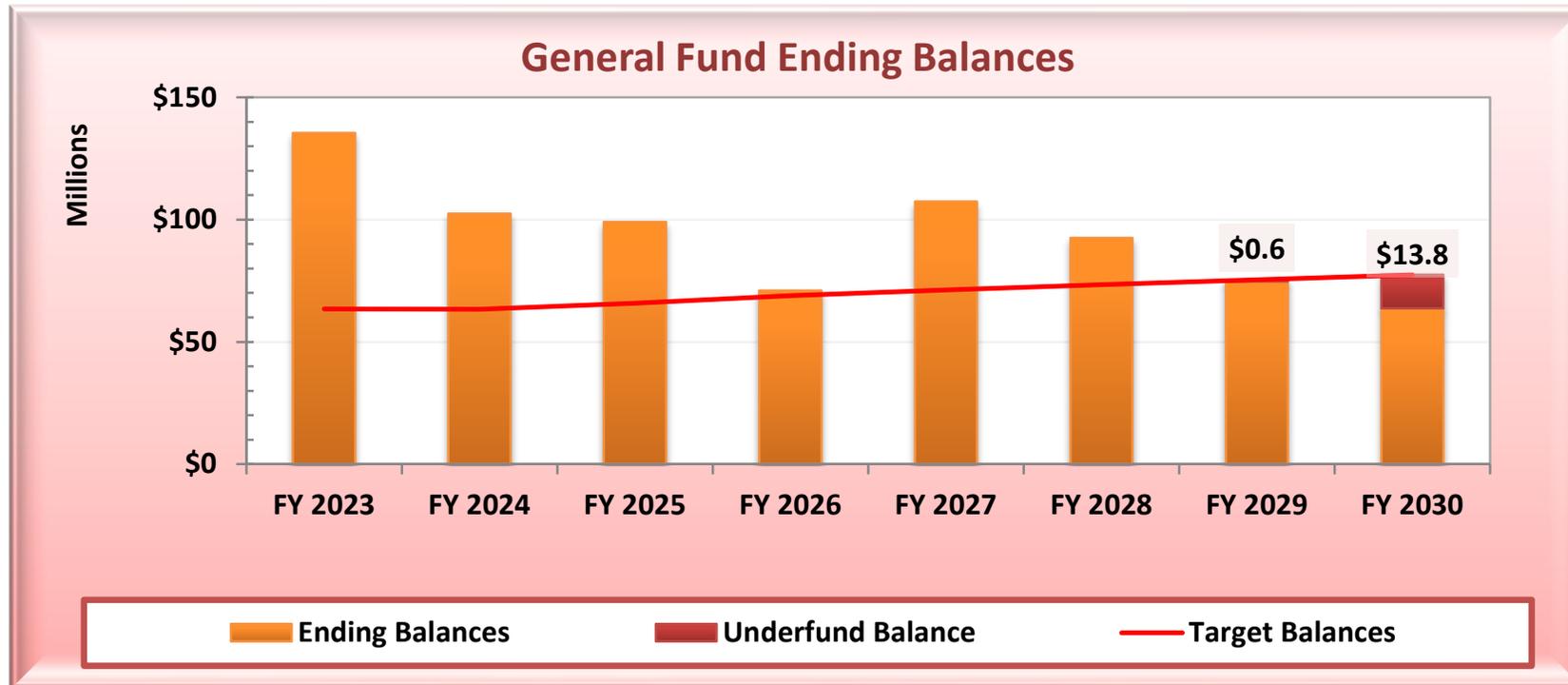
- Revenues, expenses, and cash balances updated to preliminary actual for FY 2023/24
- Received \$1.8M from water sale agreement with Westside Water Authority
- General Fund
 - Ending cash balance for FY 2023/24 is \$1.2M lower than estimate presented at midcycle budget adoption
 - Water revenue is \$1.5M lower than estimate
 - Expenses are \$1.1M higher than estimate

Financial Planning Model Updates

Baseline Assumptions

- Assumptions included in adopted FY 24/25 midcycle budget
 - Forecasted water revenues based on lower demand
 - Labor and benefit costs consistent with current contracts
 - SFPUC wholesale water rate increase of 8.8% effective July 1, 2024
 - Fully funds the capital improvement program budget
 - \$30 million debt issuance in FY 24/25 to fund the capital program. A second debt issuance of \$55 million in FY 26/27
 - Continue evaluation of water supply reliability initiatives
 - Maintain contributions for pension and retiree health benefits at more aggressive levels to be fully funded by June 2032
 - Water rate increase 5.5% in FY 24/25 and again in FY 25/26 (subject to change during these rates workshops). Increase of 5% in FY 26/27 and then 4% annually thereafter

Financial Planning Model Updates Adopted FYE 25 Midcycle Budget



- At midcycle budget adoption: Low balance \$0.6M below target in FYE 2029 (FYE 2030 was outside of planning horizon at budget adoption)

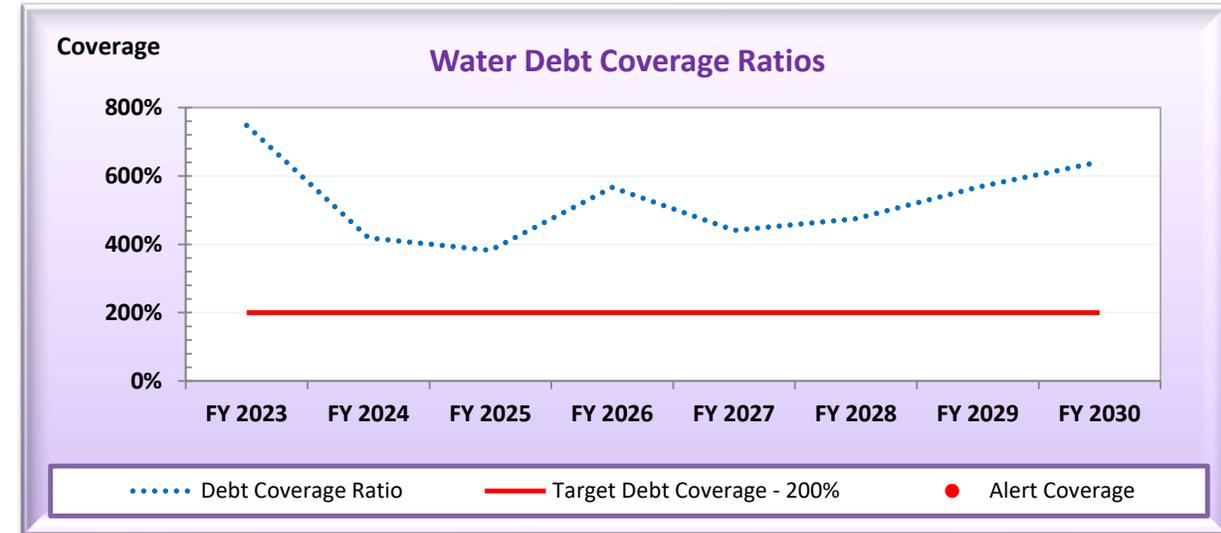
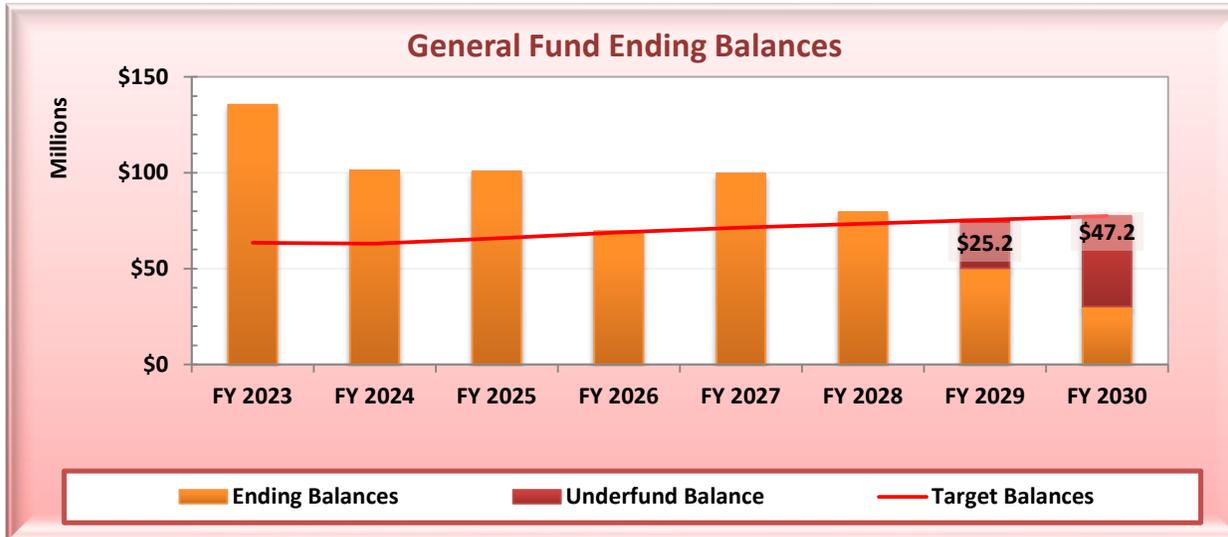
Financial Planning Model Updates

Baseline Assumptions

- Additional assumptions for rate-setting (post budget adoption)
 - FY 2023/24 preliminary actual results
 - Added capital projects from Engineering Report (\$29.1M)
 - Patterson Reservoir: \$3.5M
 - PFAS Treatment System Expansion: \$15M
 - WTP2 Process Improvements: \$3M
 - Whitfield Z2/Z3 Improvements: \$3M
 - Throttling Valve: \$0.3M
 - Firehose Installations: \$0.3M
 - Transmission Mains: \$4M
 - Other baseline adjustments, including removal of a one-time property sale revenue of \$2.5M due to uncertain timing and updated Delta Conveyance Project cost estimate

Financial Planning Model Updates

Baseline Assumptions

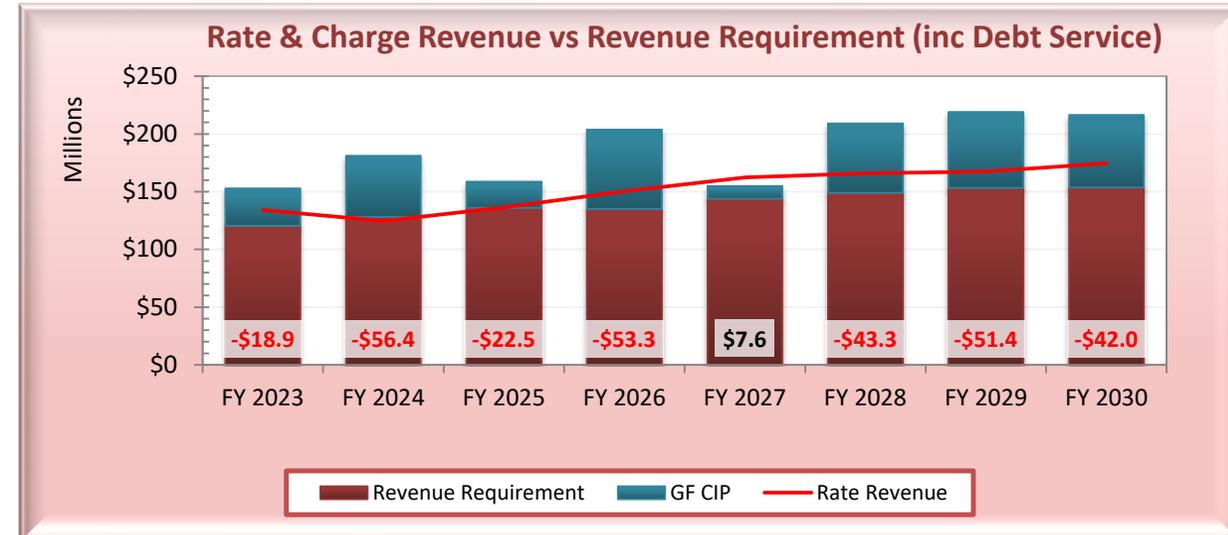
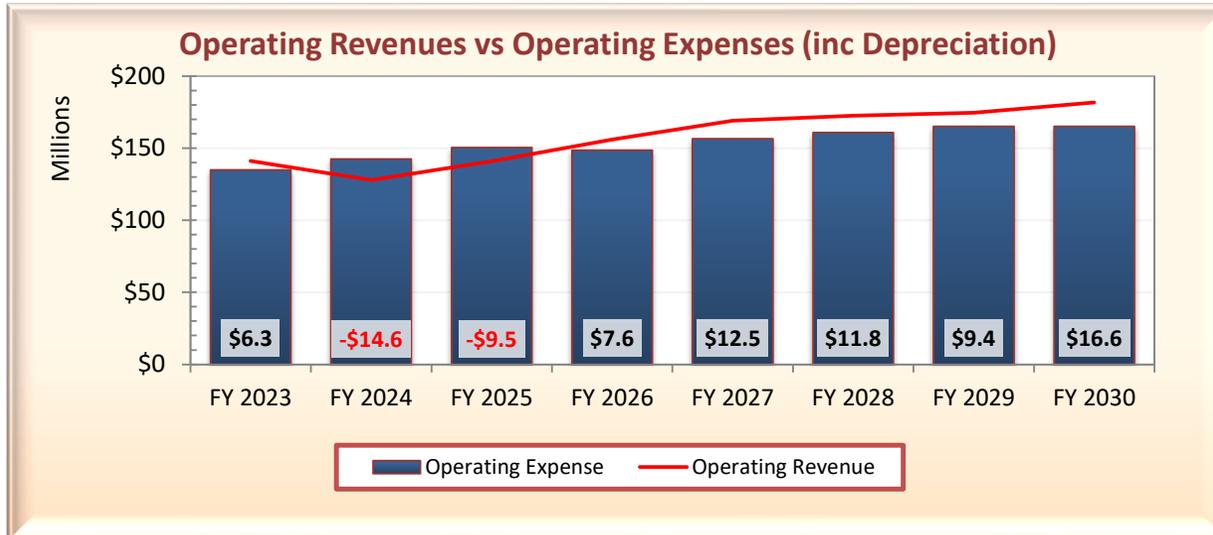


- General Fund balance projected to go further below target level within planning horizon
 - Low balance \$47.2M below target in FYE 2030

- District continues to maintain strong debt coverage ratios (382% in low year)
- Credit Ratings: Standard & Poor's (S&P): AAA; Moody's: Aa1

Financial Planning Model Updates

Baseline Assumptions



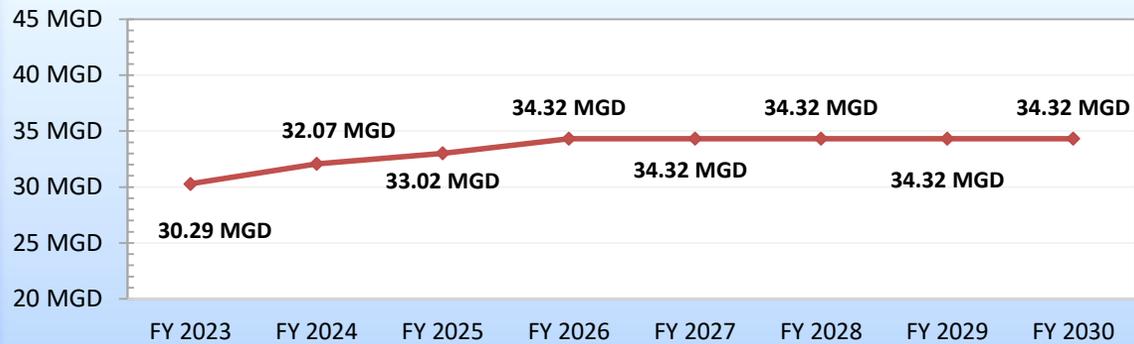
- District relies on non-operating revenues (property taxes, interest income, etc.) in FY 2025
- Operating revenues are sufficient to cover operating expenses starting in FY 2026

- District relies on other sources (accumulated reserves, property taxes, grants, interest income, etc.) in addition to water rate and charge revenue to fully fund its annual operations, debt service payments, and capital program

Financial Planning Model Updates

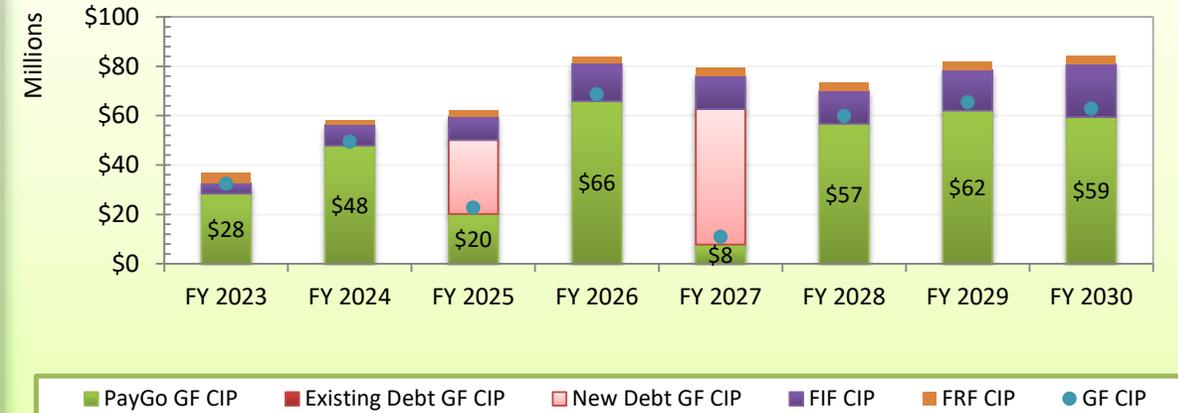
Baseline Assumptions

Projected Billed Demand



- FY 2023/24 actual billed demand at 32.07 MGD
- Projection for future years at budget adoption

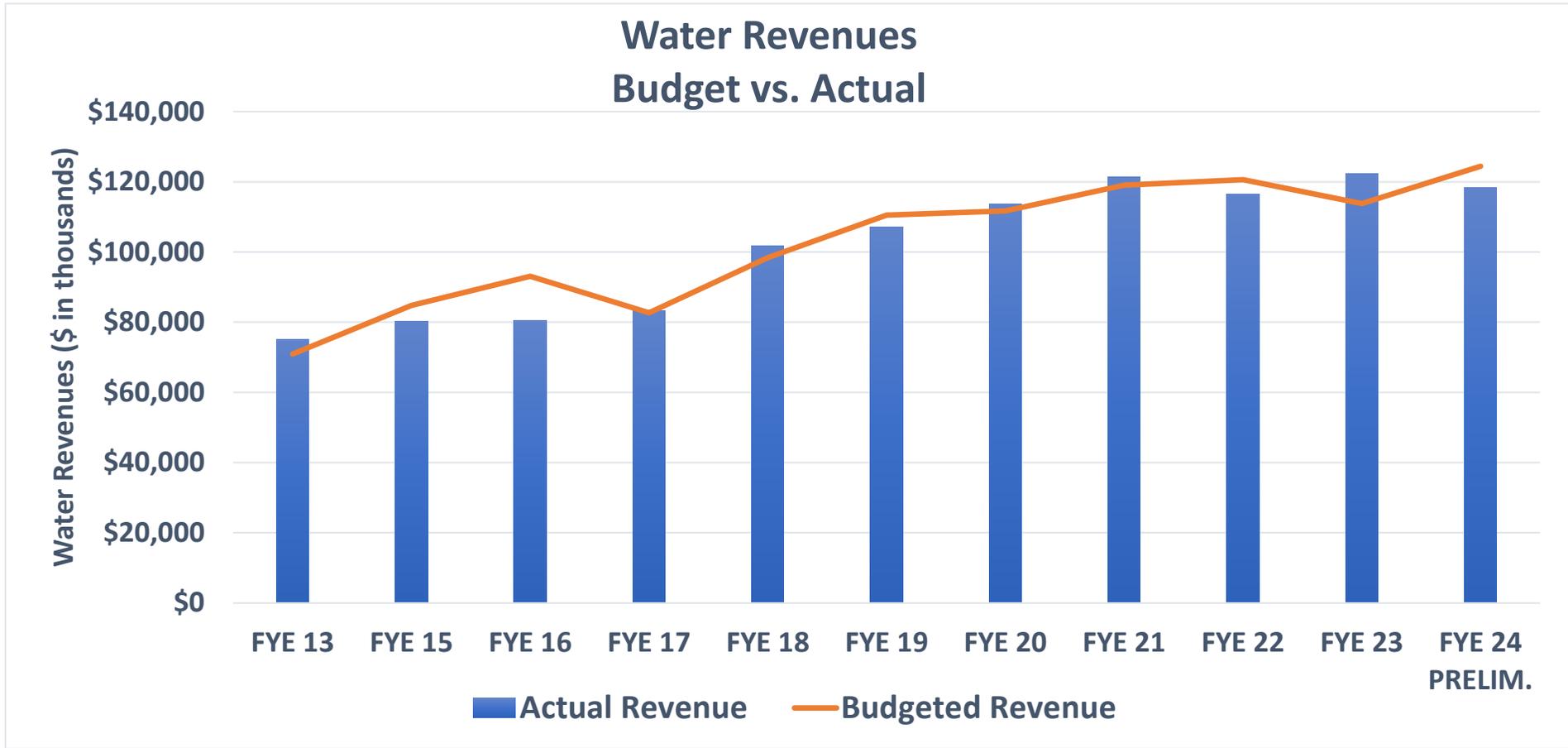
CIP & Funding Sources



- PayGo General Fund capital projects total \$272M for FY 2025-2030
- Debt-financing the capital program – \$30M in FY 2025 and \$55M in FY 2027

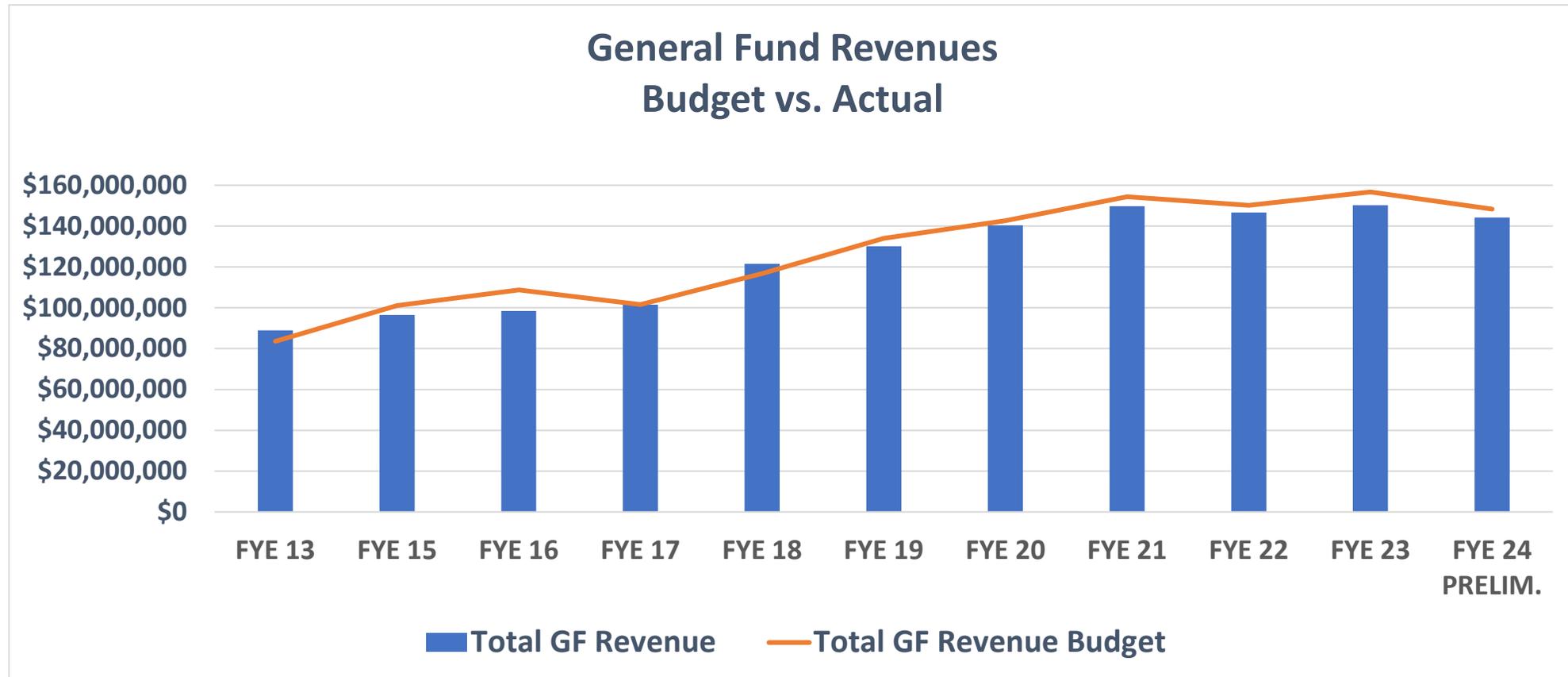
Financial Trends

Water Revenues



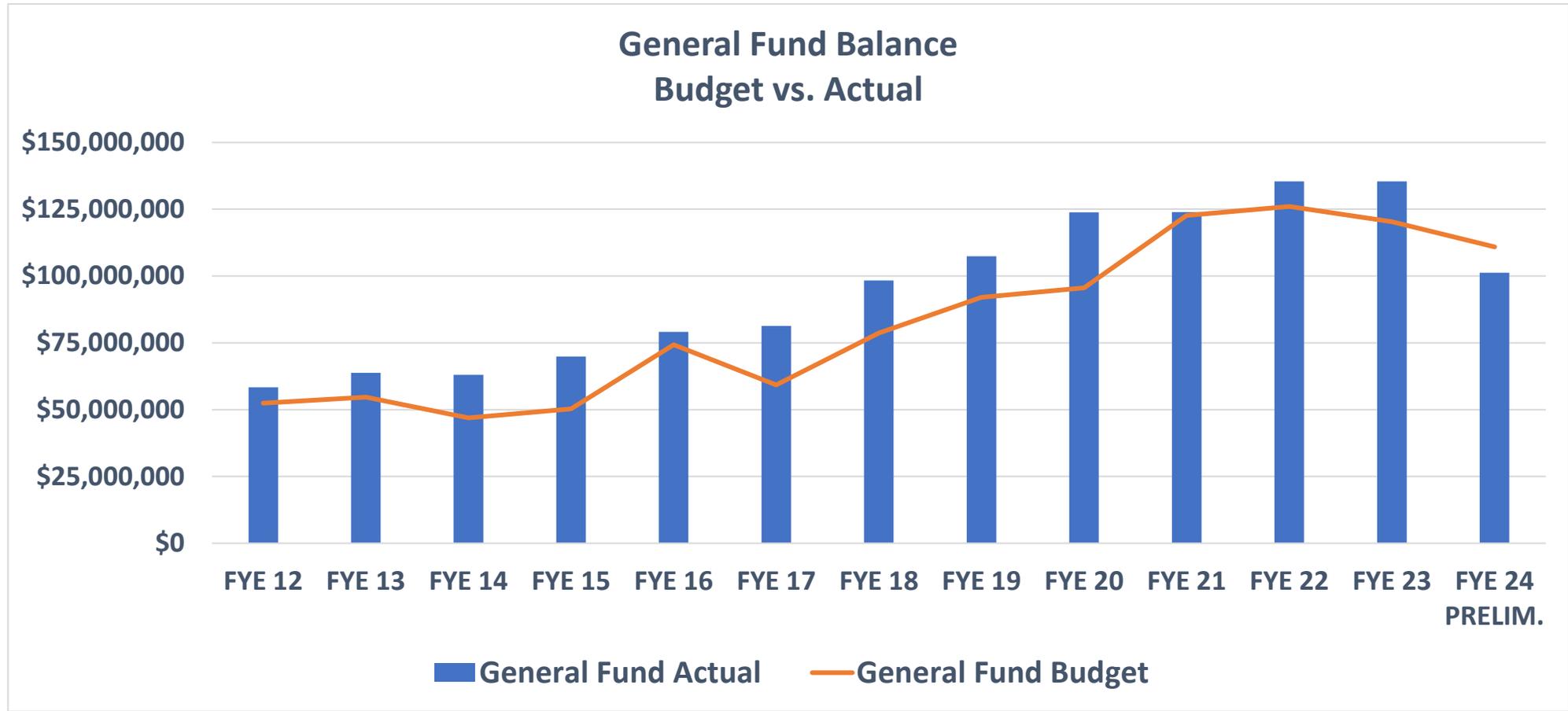
Financial Trends

General Fund Revenues



Financial Trends

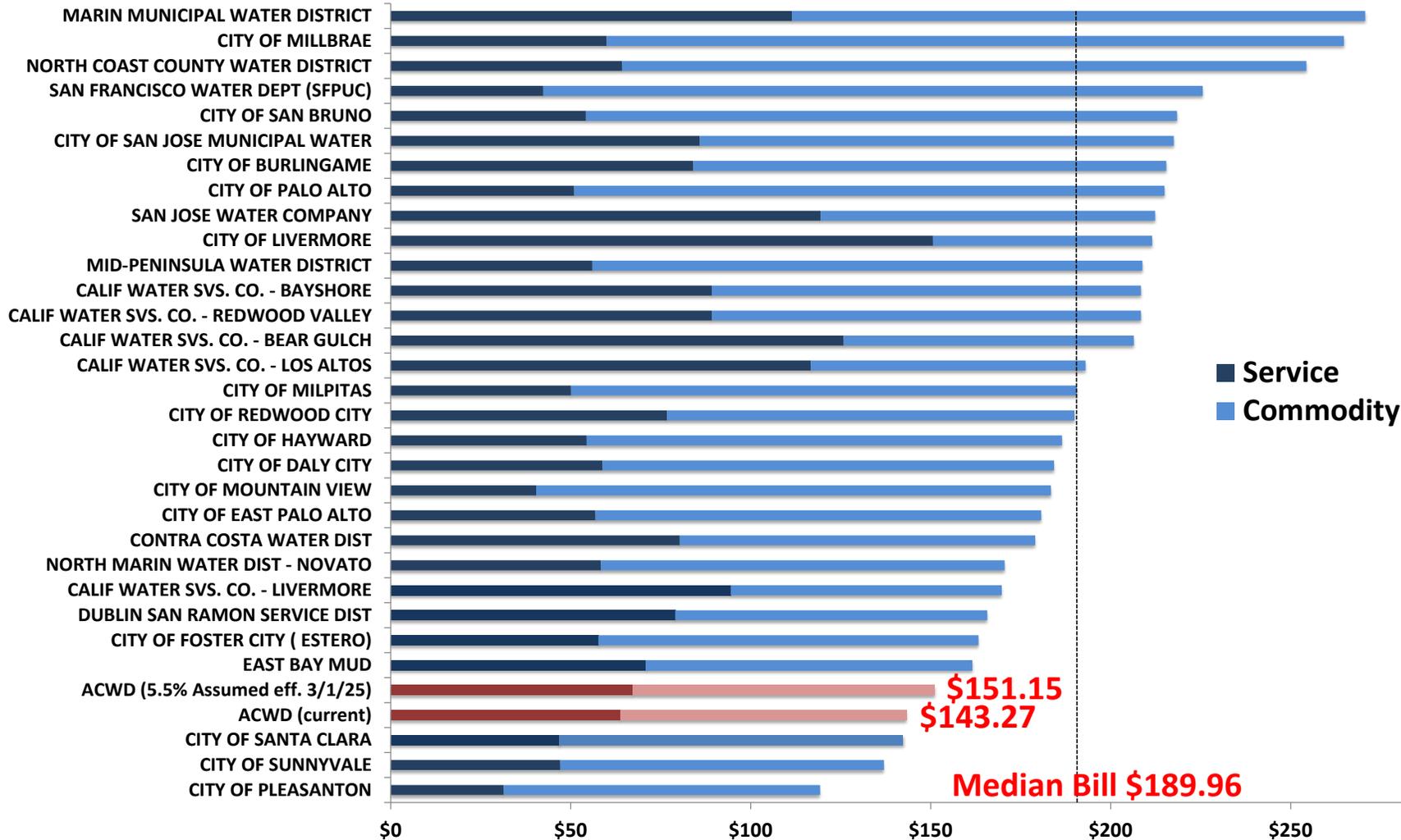
General Fund Balance



Rates Survey

Bill Comparison Chart

2024 Median Water Bill Comparison*



*Based on 16 HCF (200 gallons per day) consumption bimonthly and a 5/8" or 3/4" meter. Comparison based on June 7, 2024 data.

Recent Rate Increase Amounts

Rate increases the past 10 years:

- 2015: 30% increase in service charge (~8% total increase)
- 2016: No increase
- 2017-2020: Uniform increases of 20%, 5%, 4%, and 4%
 - Updated policy for fireline residential service charges in 2019
- 2021: No increase
- 2022: 6% increase in service charge (~2% total increase)
- 2023-2024: Uniform increase of 4% and 4%
- 2014-16 and 2022-23: temporary drought surcharges
 - A customer consistently using 23 units of water saw a 63% increase over 10 years
- Typical customer use decreased from 23 units bimonthly to 16 units bimonthly during this period. Rate increase percentages would have been less if customers still used 23 units, but the typical bill would be higher
- Typical customer bill increased 31% the past 10 years (2.7% per year)

Recent Rate Increase Amounts

How does our 31% increase in typical customer bill compare:

- PG&E rates went up 138.2%
- CPI: 38.6% increase
- Construction Cost Index: 41.0% increase
- ACWD is a member of California Urban Water Agencies (CUWA), a group comprised of about 10 of the largest water providers in the state:
 - Rate increases have ranged from 50% - 200% over the past 10 years for CUWA agencies
 - On average, increases of 6% per year are anticipated over the next 10 years
- How does this compare with other Bay Area water providers:
 - Following the 20% increase in 2017, the District was 15th lowest of 31 surveyed agencies. District was the 5th lowest before the 20% increase
 - The baseline scenario 5.5% increase for 2025 would put the District as the 4th lowest of the same 31 agencies

Financial Plan Review

Rate-Setting Scenarios

Financial Planning Scenario 1

Capital Projects Deferral

- Capital projects deferral totaling \$30.5M (77.4% GF, 22.6% FIF)
 - Mission Phase 1 Main Renewal – \$16.3M (FYE 2028 – 2030)
 - Replacement of existing asbestos cement transmission and distribution main from WTP2 to Hunter Lane
 - Osgood Main Renewal – \$14.2M (FYE 2027 – 2031)
 - Renewal of existing transmission main on Osgood Road between Washington Blvd and S. Grimmer Blvd; project includes pipeline to Middlefield Reservoir

Capital Projects Deferral Scenario

Main Renewal Plan Update

- Comprehensive Main Renewal Plan: A detailed review and update of pipeline infrastructure renewal plan is being developed.
- Risk-Based Prioritization: Project priorities for replacements will be adjusted based on latest risk assessments, ensuring focus on the most critical areas.
- Future Budget Updates: The finalized plan will be reflected in future Capital Improvement Program (CIP) budget updates, ensuring allocated funding for identified replacements and renewals.

Capital Projects Deferral Scenario Potential Implications

- Potential for increased occurrence of leaks due to delayed upgrade or replacement of aged pipes.
- Potential higher costs associated with unplanned, emergency repairs and/or inflationary capital expenses.

Financial Planning Scenario 2

Minimum SFPUC Purchase

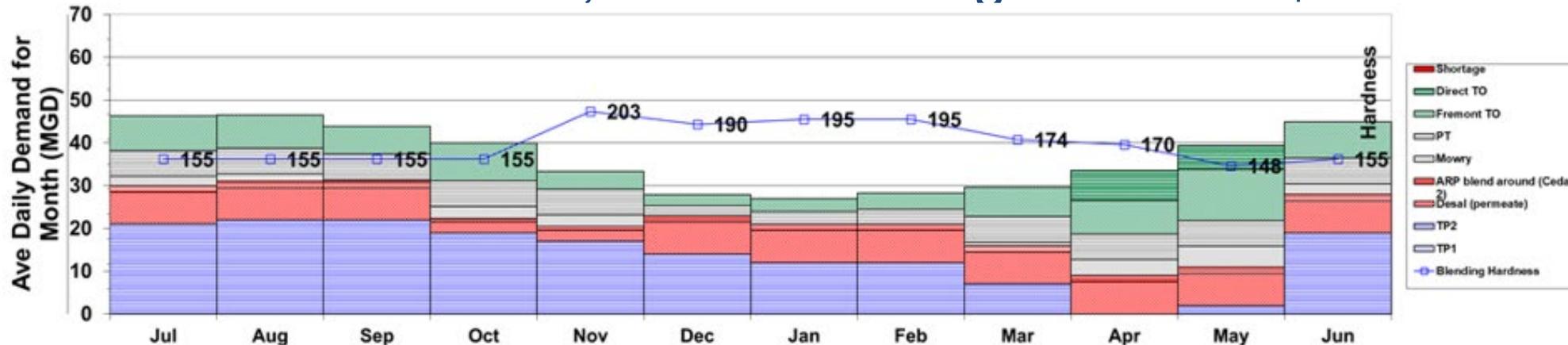
- The District's FY 25/26 water supply projections shows SFPUC use optimized around hardness, planned facility outages, and other factors
 - Estimated purchase of 9,152 AF*
 - Meets existing hardness targets
 - Accounts for extended WTP2 outage due to filter change-outs
 - Approximately \$1.2M over minimum purchase
- SFPUC use could be reduced to a minimum purchase through optimization on cost, but with trade-offs

**Additional costly SFPUC purchases are sometimes required beyond the optimized budget when the District experiences an unplanned plant outage (either at NDF or WTP2). The financial model assumes 1,000 AF above minimum to prudently plan for the cost of an unplanned plant outage.*

Minimum SFPUC Purchase Scenario

SFPUC minimum purchase scenario results in:

- Peak blending hardness target of 205 mg/L*
- Average of 190 mg/L during low demand season (Nov.- Apr.)
- Saves approximately 900 AF of SFPUC purchases**
- At current rates, that is a savings of about \$2M annually



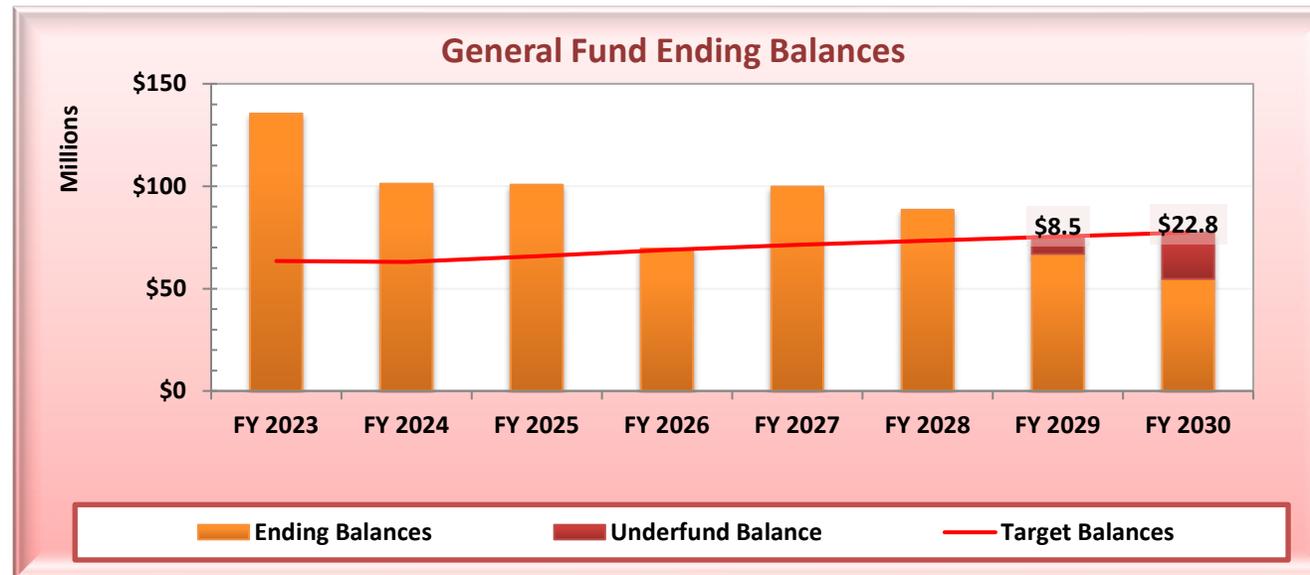
*Historical hardness prior to NDF ranged from about 185-215 ppm.

**This savings could be available to offset any supplemental purchases needed during an unplanned outage.

Financial Planning Scenario 1

Capital Project Deferral

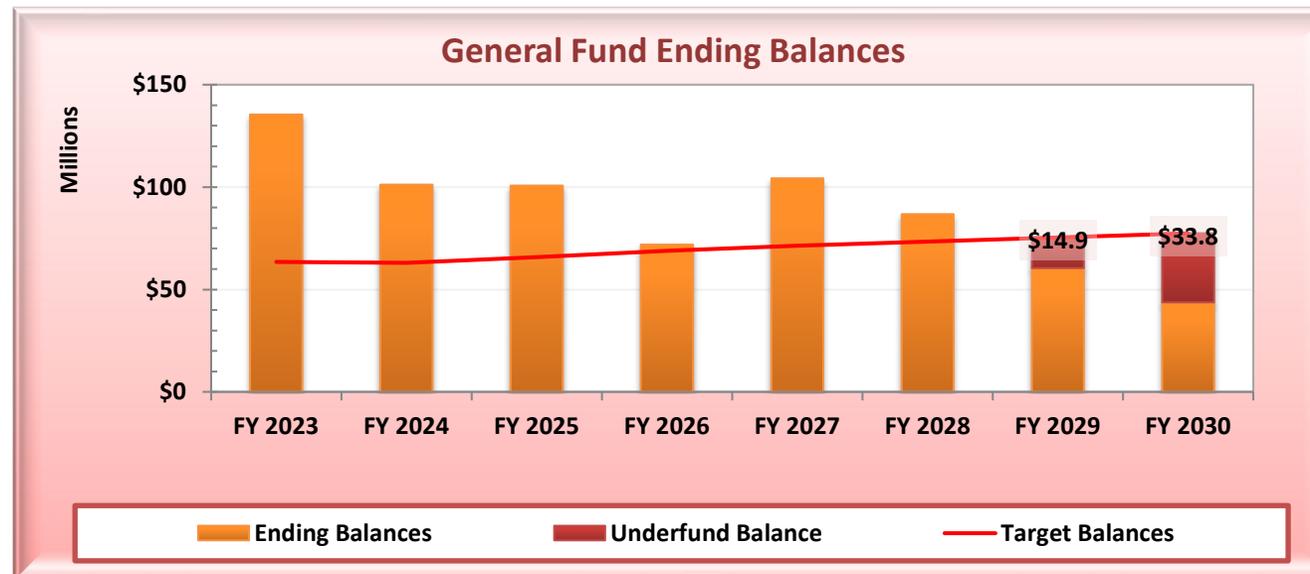
- Maintain baseline assumptions
- Assume rate increases 5.5%, 5.5%, 5%, 4%+
- Assume \$30.5M (\$23.6 GF, \$6.9M FIF) in capital projects deferral
 - Low balance \$22.8M below target in FYE 2030 (vs. \$47.2M baseline)



Financial Planning Scenario 2

Minimum SFPUC Purchase

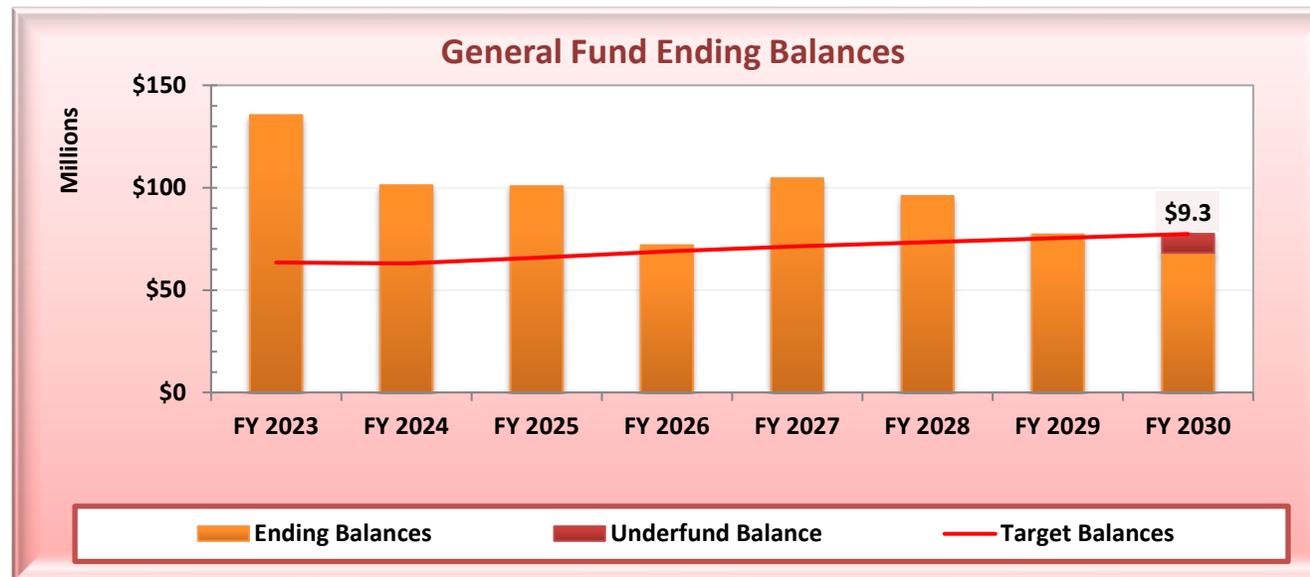
- Maintain baseline assumptions
- Assume rate increases 5.5%, 5.5%, 5%, 4%+
- Assume minimum SFPUC purchase of 8,627 AF starting in FYE 2026
 - Low balance \$33.8M below target in FYE 2030 (vs. \$47.2M baseline)



Financial Planning Scenario 3

Capital Projects Deferral + Minimum SFPUC Purchase

- Maintain baseline assumptions
- Assume rate increases 5.5%, 5.5%, 5%, 4%+
- Assume capital projects deferral and minimum SFPUC purchase
 - Low balance \$9.3M below target in FYE 2030 (vs. \$47.2M baseline)



Financial Workshop

Debt Financing Overview

Presenter: Darren Hodge, Managing Director, PFM Financial Advisors



Alameda County Water District

Board Workshop

July 18, 2024

PFM Financial Advisors LLC

44 Montgomery Street
3rd Floor
San Francisco, CA 94104



Overview and Implications of Issuing Debt



How/When Debt is Used in the Capital Funding Process

- ◆ A utility can issue debt for a number of reasons, but the primary reason is when there are not enough “free” net revenues nor reserves available to fund CIP project needs
- ◆ Debt accelerates future revenues to fund projects to today
- ◆ There are several benefits to accelerating projects with debt
 - Accelerating projects can reduce the inflationary costs related to the project as opposed to if the project was solely pay-go funded
 - Intergenerational equity: debt service is paid over a longer period of time as opposed to pay-go funding, allowing for a more equitable payment of project costs by multiple generations of beneficiaries
 - Debt allows for project costs to be spread out over a longer period of time, allowing for a more gradual rate increase structure while preserving ACWD’s cash position



Implications of Issuing Debt

- ◆ Debt repayment reduces capacity for funding future projects
 - Interest is the cost of borrowing
 - ACWD is restricted in its debt issuance by the additional bonds test
 - Future rates are determined in part by the rate covenant
- ◆ Timing requirements for spending bond proceeds
 - The IRS sets deadlines on the timing of spending bond proceeds
- ◆ Debt issuance reduces future funding flexibility as it replaces a somewhat flexible cost (project costs) with a hard cost (debt service repayment)
- ◆ While there are benefits to debt, its use must be carefully considered and structured



Credit Ratings



What is a credit rating?

- ◆ An alphabetic and/or numeric symbol used to give relative indications of credit quality
- ◆ Measures the risk to the investor that an issuer will default, and both the willingness and ability to pay back all principal and interest to the investor
- ◆ Independent, objective and relative assessments of both qualitative and quantitative factors
 - Utility ratings are generally scored along 4 or 5 categories:
 1. Economic and demographic characteristics of service area
 2. Market position / affordability
 3. Management
 4. Debt service coverage / net leverage position
 5. Liquidity / days' cash on hand
- ◆ While many sophisticated investors do their own credit research, ratings play a critical role in the minds of most market participants and are perceived by the market as a guide of an Issuer's creditworthiness
- ◆ Underwriters (broker-dealers that sell the District's bonds to investors) rely on credit ratings to determine how they will price the bonds
- ◆ Many investors cannot buy unrated or below-investment grade bonds. Higher ratings broaden the pool of potential buyers and hopefully give issuers lower interest rates



Credit Rating Scale and ACWD's Ratings

- The three major rating agencies are Moody's Investors Service, Inc. ("Moody's"), S&P Global Ratings ("S&P"), and Fitch Ratings ("Fitch")

Moody's	S&P	Fitch	Grade
Aaa	AAA	AAA	Investment Grade
Aa1	AA+	AA+	
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Speculative Grade
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC+	
Caa2	CCC	CCC	
Caa3	CCC-	CCC-	
Ca	CC	CC	



S&P's Approach to Utilities

- ◆ Ratings are determined by a number of economic, operational, and financial characteristics
 - Many of these factors are out of ACWD's control such as economic fundamentals and industry risk
- ◆ Each component is analyzed as part of the aggregate credit structure to determine a utility's rating
 - Each component has its own set of guidelines/thresholds to determine creditworthiness – however, on a stand-alone basis, no one component will determine a rating
- ◆ To determine a utility's rating, S&P evaluates both its **Enterprise Profile** and **Financial Profile**
- ◆ S&P's methodology looks at “all-in” debt service coverage, which accounts for a portion of treated water as a fixed cost akin to debt as well as any General Fund transfers

S&P's Water Utility Scorecard

Enterprise Risk Profile (50% of Final Rating)		Financial Risk Profile (50% of Final Rating)	
Factor	Weight	Factor	Weight
Economic Fundamentals	45%	All-in Coverage	40%
Industry Risk	20%	Liquidity & Reserves	40%
Market Position	25%	Debt & Liabilities	10%
Operational Management	10%	Financial Management	10%



Liquidity and Debt Service Coverage

- ◆ Liquidity levels are one component of a utility's ratings
- ◆ Liquidity levels are measured not only based on the agencies' criteria, but against peer utilities

Days' Cash National Median (3yr Avg.)	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB
Water	610	588	584	534	464	409	328	293	187

Source: "U.S. Municipal Water and Sewer Utility Medians Held Strong in 2022 Amid Rising Costs" (September 2023)

- ◆ Debt service coverage is another important credit metric utilized by investors and rating agencies
- ◆ Debt service coverage is measured not only based on the agencies' criteria, but against peer utilities

All-in Debt Service Coverage National Median (3yr Avg.)	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB
Water	2.6	2.4	2.3	2.0	1.8	1.6	1.5	1.3	1.3

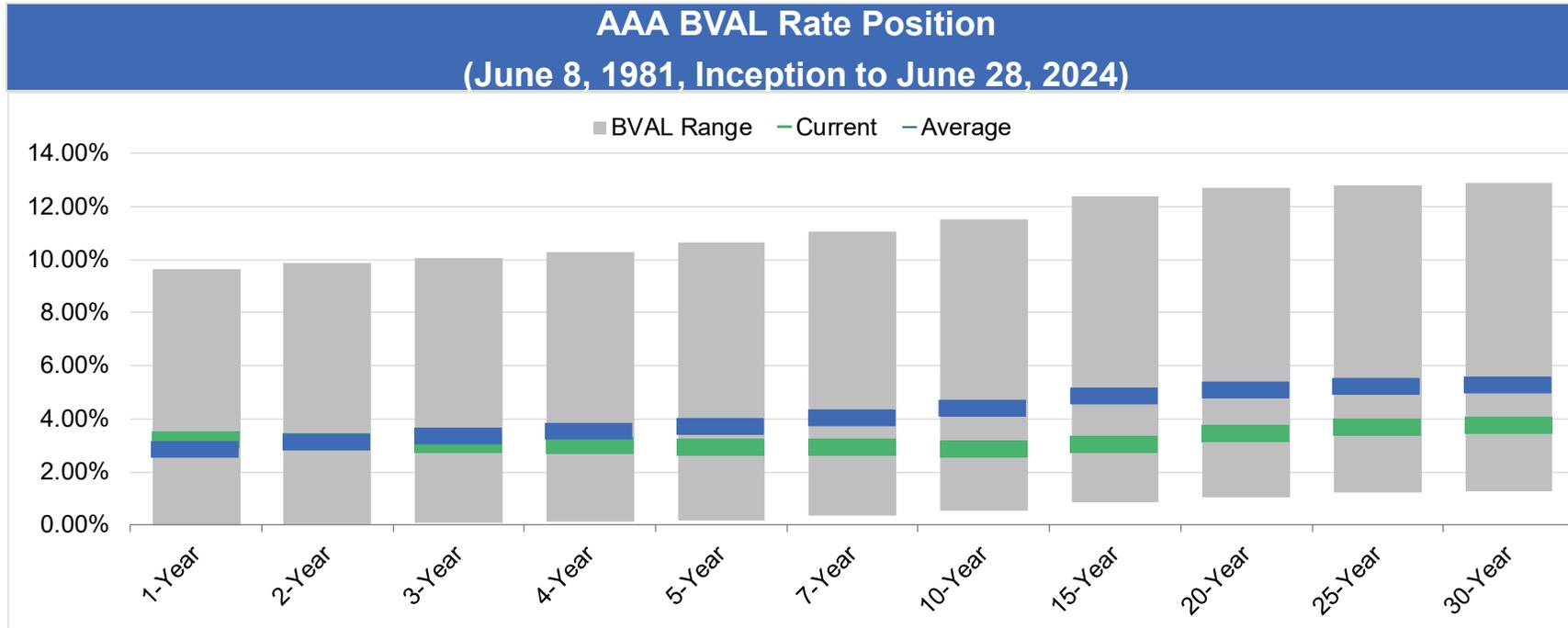
Source: "U.S. Municipal Water and Sewer Utility Medians Held Strong in 2022 Amid Rising Costs" (September 2023)



Debt Issuance Scenarios



AAA BVAL Position Since Inception



Summary of June 28, 2024 vs. Historical (since Inception) BVAL Rates

Statistic	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	15-Year	20-Year	25-Year	30-Year
June 28, 2024	3.17%	3.12%	3.00%	2.95%	2.93%	2.90%	2.84%	3.02%	3.44%	3.65%	3.73%
Historical Average	2.82%	3.10%	3.31%	3.50%	3.66%	3.98%	4.35%	4.82%	5.07%	5.19%	5.24%
% of Time Lower	53.96%	48.07%	46.02%	43.89%	41.50%	36.06%	30.40%	24.75%	26.59%	26.48%	26.26%

Source: Thomson Reuters
BVAL data beginning on a 1/3/2011 with MMD data on dates prior to that



Summary of Debt Outstanding

- ◆ ACWD currently has two series of revenue bonds outstanding
- ◆ Series 2015 Revenue Bonds
 - Original Par: \$27,810,000
 - Par Outstanding: \$22,790,000
 - Optional Redemption: June 1, 2025 at par
- ◆ Series 2022 Revenue Bonds
 - Original Par: \$43,575,000
 - Par Outstanding: \$38,955,000
 - Optional Redemption: June 1, 2032 at par

ACWD Debt Service Coverage (FY 2023) (\$000s)	
Revenues	
Water Sales	119,797
Investment Income	1,148
Property Taxes	8,059
Facilities Connection Charges	11,165
Other Revenue	2,653
Total Revenues	\$142,822
Maintenance and Operation Costs	
Pumping Power Costs	2,160
Other Operating Expenses	25,393
Labor Costs	48,387
Purchased Water	32,192
Total Main. & Op. Costs	\$108,132
Net Revenues	\$34,690
Debt Service	
2015 Revenue Bonds	1,624
2022 Revenue Bonds	4,341
Total Debt Service	\$5,965
Debt Service Coverage	5.82x

Source: ACWD 2023 ACFR



Summary of Existing Legal Terms

- ◆ ACWD is subject to legal terms and covenants under the legal documents for its outstanding revenue bonds
 - These include requirements to ensure that revenues are sufficient to pay existing bonds as well as future debt issuances
- ◆ Rate Covenant:
 - ACWD has covenanted that it will fix, prescribe and collect rates, fees and charges for the services and facilities furnished by the Water System during each fiscal year, which are at least sufficient to yield 1.25x debt service coverage
- ◆ Additional Bonds Test:
 - In order to issue additional bonds, ACWD must ensure that with the addition of new debt, revenues are still sufficient generate 1.25x debt service coverage



Fiscal Year 2025 Capacity Analysis

- ◆ ACWD’s Board has set a minimum debt service coverage ratio target of 2.00x
- ◆ Utilizing the FY 2024/2025 Amended Midcycle Budget, ACWD has approximately \$8.1 million in additional annual debt service capacity
 - This translates to approximately \$138 million in bond proceeds (increase of \$108 million because \$30 million is already planned for this fiscal year)
 - Based on market conditions as of July 1, 2024

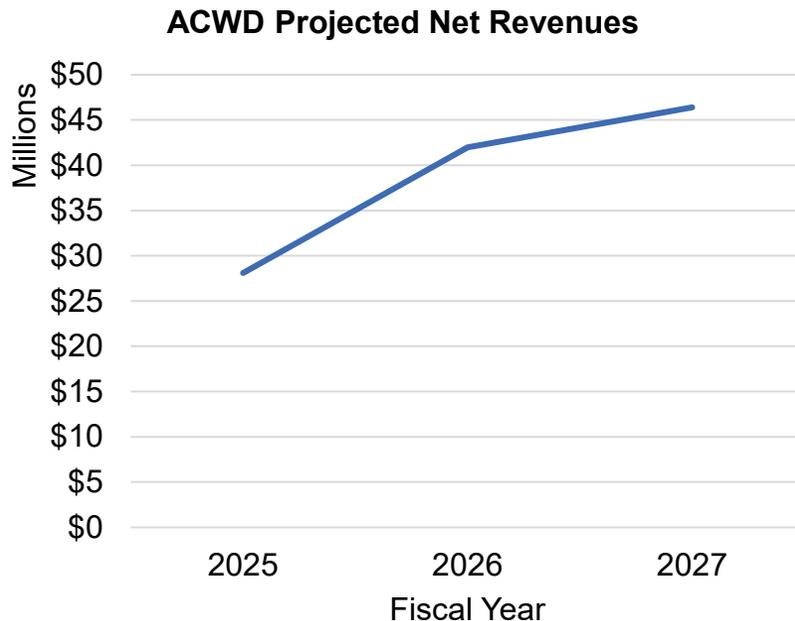
ACWD Debt Service Capacity (FY 2025) (\$000s)	
Amended Revenues	
Total Revenues	\$149,917
Amended Maintenance and Operation Costs	
Total Main. & Op. Costs	\$121,835
Net Revenues	\$28,082
Debt Service	
2015 Revenue Bonds	1,624
2022 Revenue Bonds	4,341
2025 Issuance Capacity	8,076
Total Debt Service	\$14,041
Debt Service Coverage	2.00x

Source: ACWD FY 2024/2025 Amended Budget
Rates as of July 1, 2024



Fiscal Year 2027 Capacity Analysis

- ◆ Based on forecasted net revenue figures provided by the District assuming the ‘baseline’ financial scenario presented by staff, ACWD has approximately \$9.2 million in additional debt service capacity in FY 2027 to meet a 2.0x debt service coverage target.
- This correlates to approximately \$156 million in bonds proceeds in addition to the capacity available this fiscal year (cumulative of \$296 million). Net capacity of \$211 million because the baseline scenario already includes \$85 million in bonds.



Estimated Additional Debt Capacity Growth (FY 25 - 27)

(\$ millions)	FY 2025	FY 2027
Net Revenues	\$28,082	\$46,386
Additional Debt Service Capacity	\$8,076	\$9,150
Additional Bond Proceeds Capacity	\$138,053	\$155,750

Source: ACWD Forecast
Rates as of July 1, 2024

Financial Workshop

Financial Planning Scenarios

Financial Planning Scenarios

Financial Planning Model Update

- Maintain baseline assumptions
- Rate increase amount
- Increase use of debt to fund the capital program scenarios
 - Capital projects deferral + debt
 - Minimum SFPUC purchase + debt
 - Capital projects deferral + minimum SFPUC purchase + debt

Financial Planning Scenarios

Debt Capacity and Financing

Rate Increases (Baseline) 5.5%, 5.5%, 5%, 4%+

(\$ millions)	FY 2025	FY 2027
Net Revenues	\$28,082	\$46,386
Additional Debt Service Capacity	\$8,076	\$16,991
Additional Bond Proceeds Capacity (Cumulative)	\$138,053	\$293,803
Debt Service Coverage	2.0x	2.0x

Rate Increases (Scenario) 4%, 4%, 4%, 4%+

(\$ millions)	FY 2025	FY 2027
Net Revenues	\$27,459	\$41,831
Additional Debt Service Capacity	\$7,518	\$14,747
Additional Bond Proceeds Capacity (Cumulative)	\$130,000	\$255,000
Debt Service Coverage	2.0x	2.0x

*The baseline financial scenario includes \$85 million of bond proceeds. Amounts shown here are not in addition to the \$85 million (so a net increase of \$170M by FY 2027 @ 4% annual rate increases).

Financial Planning Scenario Baseline

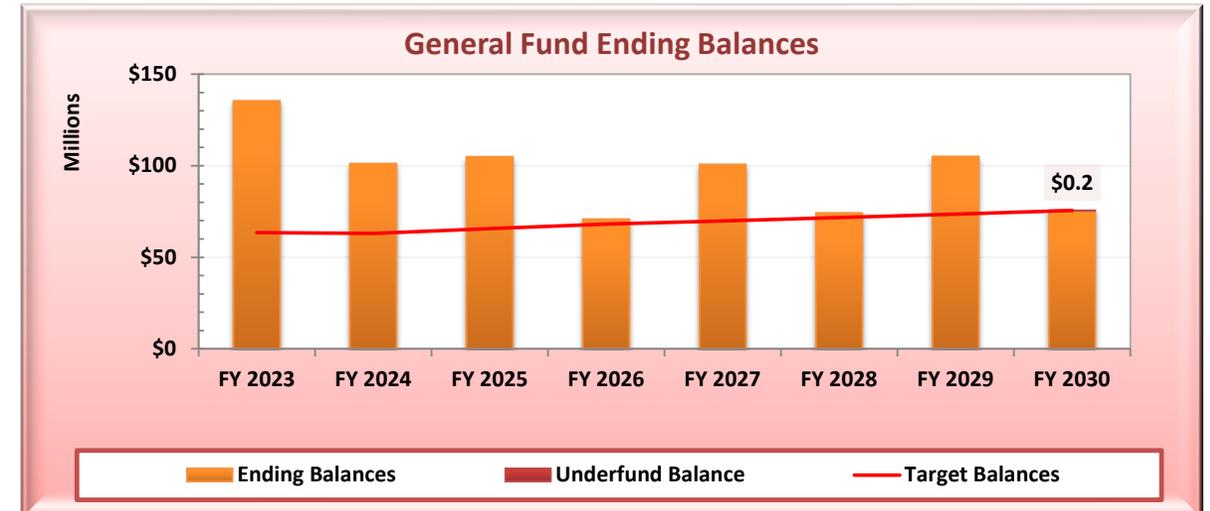
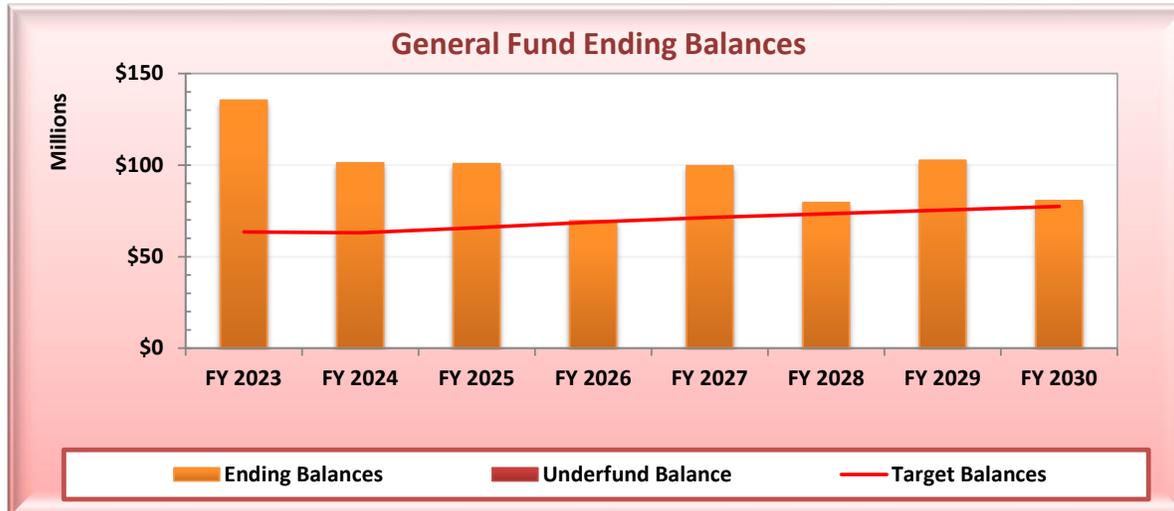
- No capital projects deferral and no minimum SFPUC purchase
- Baseline scenario already includes \$85M of new bond issuances

Rate Increases (Baseline)
5.5%, 5.5%, 5%, 4%+

(\$ millions)	FY 2025	FY 2027	FY 2029	Total
Net Revenues	\$29,210	\$47,602	\$52,129	\$128,940
Debt Service	\$1,735	\$3,181	\$3,181	\$8,096
Bond Proceeds	\$30,000	\$55,000	\$55,000	\$140,000
Debt Coverage	382%	441%	426%	

Rate Increases (Scenario)
4%, 4%, 4%, 4%+

(\$ millions)	FY 2025	FY 2027	FY 2029	Total
Net Revenues	\$28,589	\$43,047	\$46,180	\$117,816
Debt Service	\$2,024	\$3,470	\$4,048	\$9,542
Bond Proceeds	\$35,000	\$60,000	\$70,000	\$165,000
Debt Coverage	361%	379%	338%	



Financial Planning Scenario 1

Capital Project Deferral

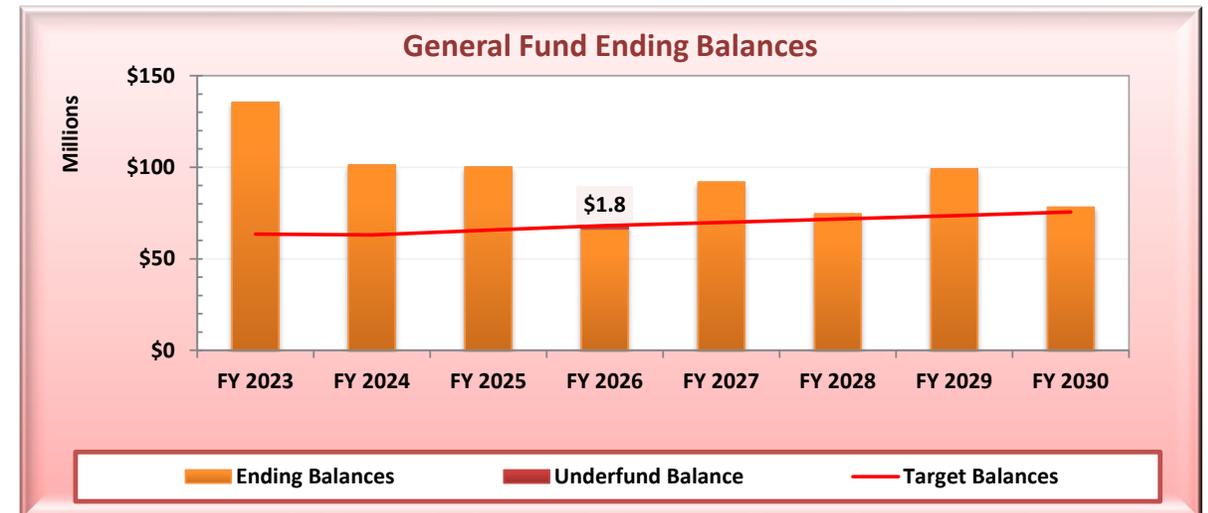
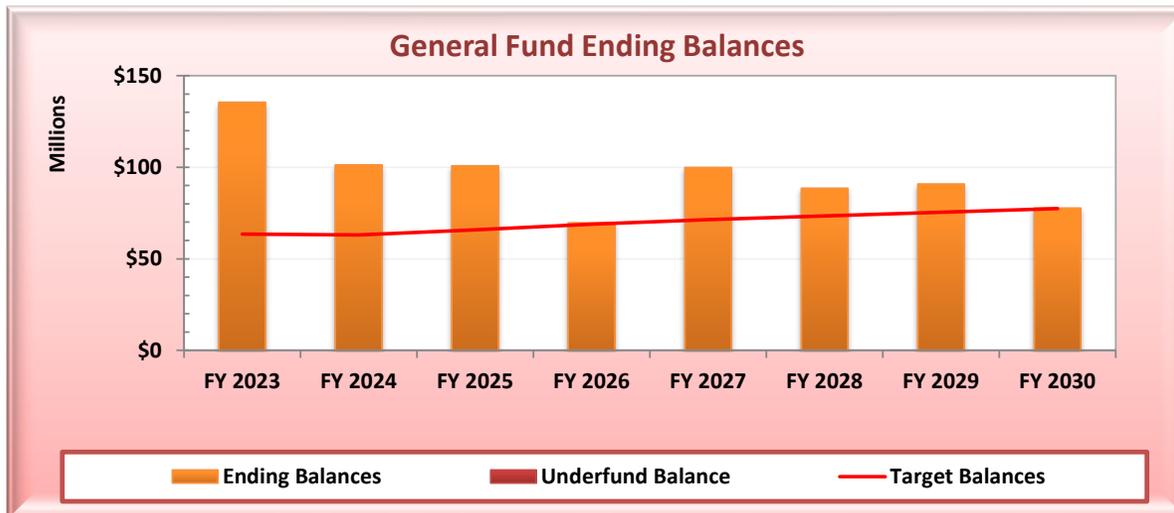
- Capital projects deferral

Rate Increases (Baseline)
5.5%, 5.5%, 5%, 4%+

(\$ millions)	FY 2025	FY 2027	FY 2029	Total
Net Revenues	\$29,210	\$47,602	\$52,129	\$128,940
Debt Service	\$1,735	\$3,181	\$1,446	\$6,361
Bond Proceeds	\$30,000	\$55,000	\$25,000	\$110,000
Debt Coverage	382%	441%	496%	

Rate Increases (Scenario)
4%, 4%, 4%, 4%+

(\$ millions)	FY 2025	FY 2027	FY 2029	Total
Net Revenues	\$28,589	\$43,047	\$46,180	\$117,816
Debt Service	\$1,735	\$3,181	\$3,181	\$8,096
Bond Proceeds	\$30,000	\$55,000	\$55,000	\$140,000
Debt Coverage	374%	397%	378%	



Financial Planning Scenario 2

Minimum SFPUC Purchase

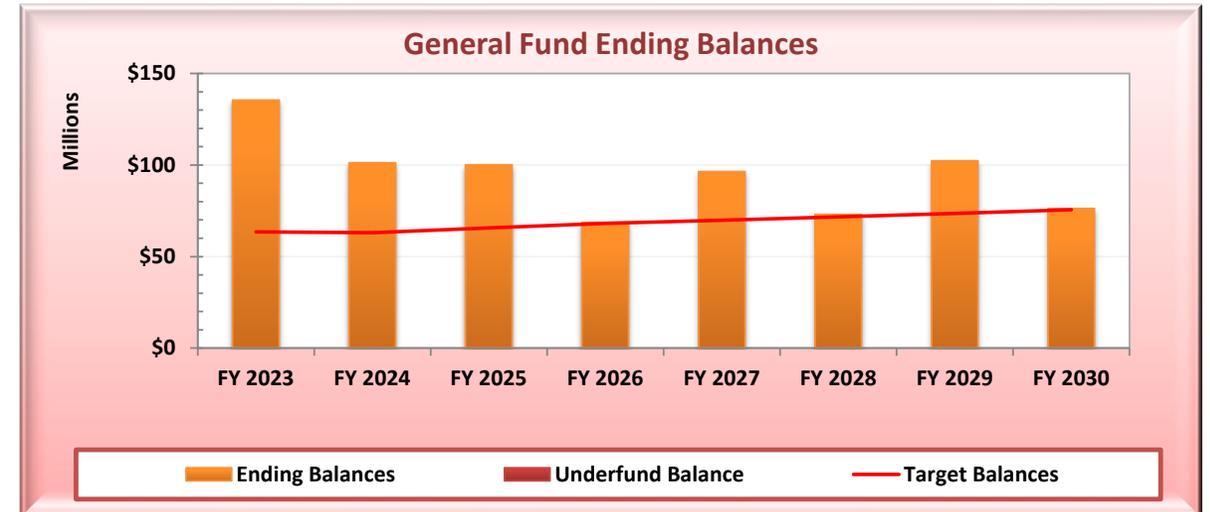
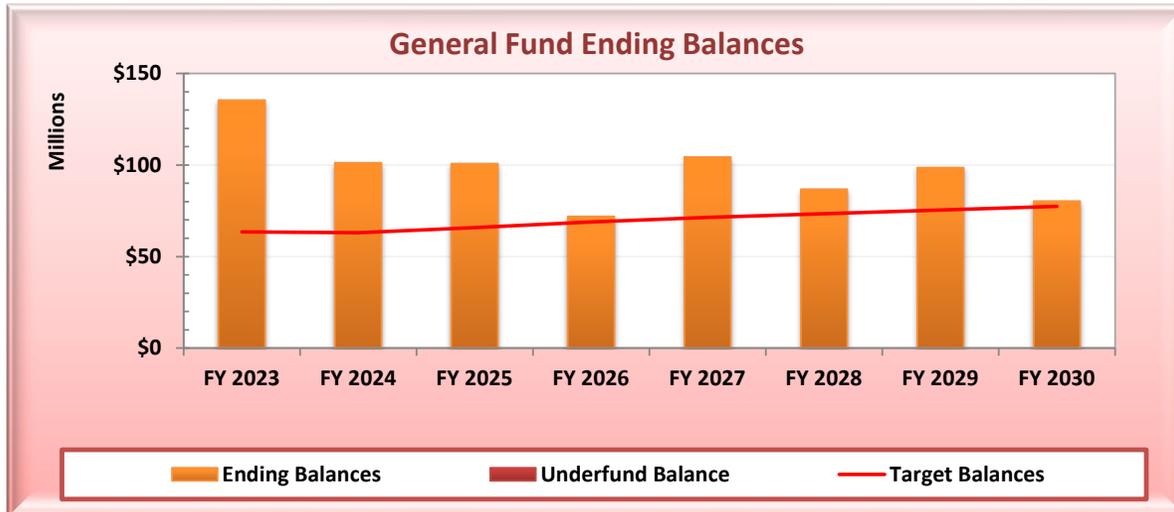
- Minimum SFPUC purchase

Rate Increases (Baseline)
5.5%, 5.5%, 5%, 4%+

(\$ millions)	FY 2025	FY 2027	FY 2029	Total
Net Revenues	\$29,210	\$49,966	\$54,824	\$133,999
Debt Service	\$1,735	\$3,181	\$2,313	\$7,229
Bond Proceeds	\$30,000	\$55,000	\$40,000	\$125,000
Debt Coverage	382%	463%	482%	

Rate Increases (Scenario)
4%, 4%, 4%, 4%+

(\$ millions)	FY 2025	FY 2027	FY 2029	Total
Net Revenues	\$28,589	\$45,411	\$48,875	\$122,875
Debt Service	\$1,735	\$3,181	\$3,759	\$8,675
Bond Proceeds	\$30,000	\$55,000	\$65,000	\$150,000
Debt Coverage	374%	420%	382%	



Financial Planning Scenario 3

Capital Projects Deferral + Minimum SFPUC Purchase

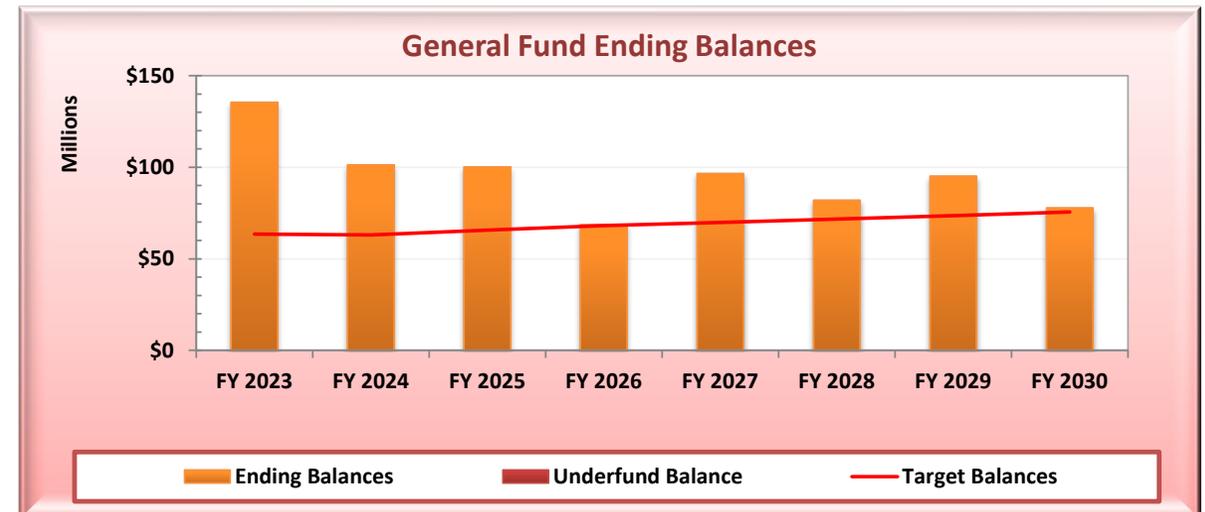
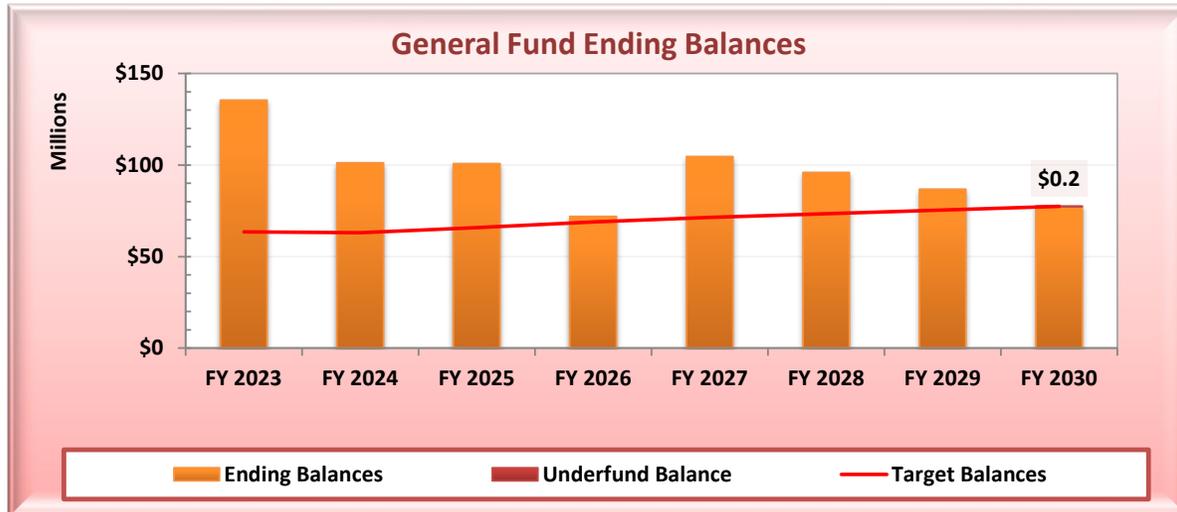
- Capital Projects Deferral + Minimum SFPUC Purchase

Rate Increases (Baseline)
5.5%, 5.5%, 5%, 4%+

(\$ millions)	FY 2025	FY 2027	FY 2029	Total
Net Revenues	\$29,210	\$49,966	\$54,824	\$133,999
Debt Service	\$1,735	\$3,181	\$578	\$5,494
Bond Proceeds	\$30,000	\$55,000	\$10,000	\$95,000
Debt Coverage	382%	463%	568%	

Rate Increases (Scenario)
4%, 4%, 4%, 4%+

(\$ millions)	FY 2025	FY 2027	FY 2029	Total
Net Revenues	\$28,589	\$45,411	\$48,875	\$122,875
Debt Service	\$1,735	\$3,181	\$2,313	\$7,229
Bond Proceeds	\$30,000	\$55,000	\$40,000	\$125,000
Debt Coverage	374%	420%	430%	



Financial Planning Scenarios

Financial Planning Model Update (Live)

Financial Workshop

Tiered Rate Structure Review

Presenter: Jon Wunderlich, Director of Finance & Administration
Presenter: Rick Simonson, Senior Vice President, HF&H Consultants

Rate Structure

- The District currently has a ‘uniform’ rate; meaning all customers pay the same per unit. Some agencies have ‘tiered’ rates, meaning water use above a certain threshold is charged a higher rate. Staff have checked on the structure of our main comparator agencies:
 - Tiered Rates: East Bay Municipal Utility District, Marin Municipal Water District, San Jose Water Company, and San Francisco PUC
 - Uniform Rates: Dublin San Ramon Services District and Contra Costa Water District
- The following slides provide information on tiered rates as a potential alternative. Staff is seeking feedback and not specifically recommending tiered or uniform rates

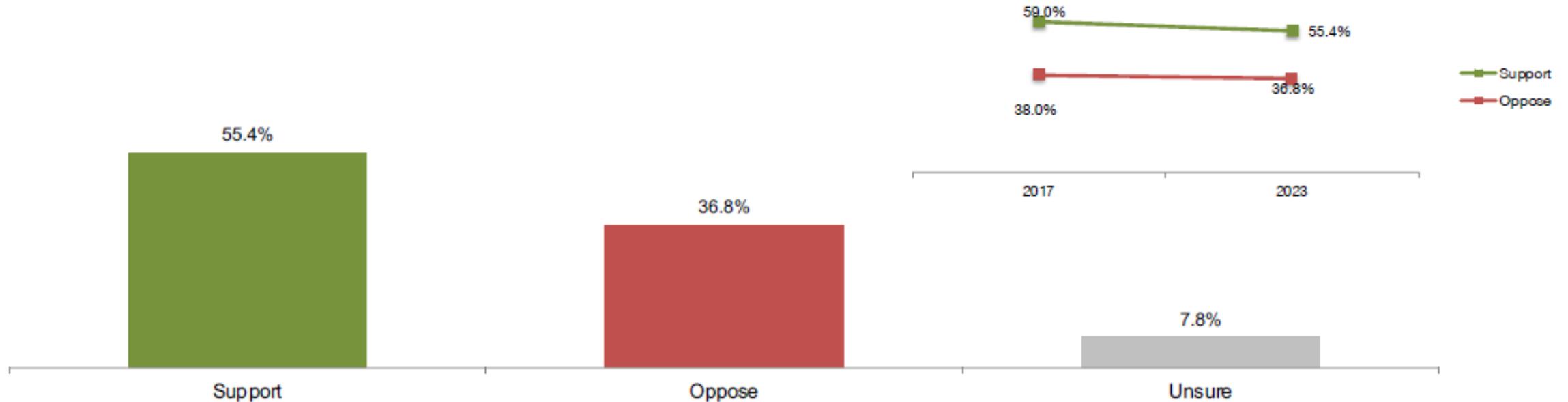
Rate Structure

- The Board last did a detailed review of tiered rates during rate-setting workshops in 2018
 - Feedback was to reevaluate tiered rates once AMI was complete, which provides customers better tools to manage their water use. The AMI project is now complete.
- The most likely scenario for tiered rates, if adopted, is that it would apply to single-family residential customers only
- Customers were asked about tiered rates during a recent survey of 500 customers

Rate Structure – Customer Survey

55% support a tiered rate structure for single-family homes

Question 33: The Alameda County Water District's current rate structure for single-family homes is uniform, meaning that each customer pays the same rate per gallon of water they use. However, the District is considering changing to a different rate structure in which customers who use more water would pay more per gallon and those who use less water would pay less per gallon. Does this type of tiered rate structure for single-family homes sound like something you would support or oppose?



Rate Structure

- In 2018, the Board considered five rate-setting objectives (listed in order of importance based on prior Board feedback):
 - Equity and Allocation Methodologies (appropriate cost allocation and legal compliance)
 - Funding Mechanism (revenue stability and sufficiency)
 - Affordability (keeping rates low especially for essential use)
 - Conservation (reducing inefficient, peak, and total demand)
 - Administration (easy to administer and for customers to understand)
- There was a clear gap in level of importance between the top 3 and bottom 2
- Are priorities the same? Have they changed?
- Consider how your priorities align with the rate structure options



ALAMEDA COUNTY WATER DISTRICT

RATE DESIGN AND FINANCIAL ADVISORY SERVICES

Board Workshop

July 18, 2024



HF&H Consultants

APPROACH TO RATE STRUCTURE

Issue:	Create Multiple Customer Classes?
Current practice	ACWD has one class for consumption charges
Rationale	<ul style="list-style-type: none">• Charge rates with structures tailored to each class, which can encourage conservation, discourage waste
Options	<ul style="list-style-type: none">- Maintain current policy of one customer class- Or, introduce a Single family class separate from all other classes (i.e., Multi family, commercial, industrial)- Or, introduce three classes: Single family, landscape accounts, and all others (i.e., Multi family, commercial, industrial)
Outcomes	<ul style="list-style-type: none">- More exacting rate making- Allocate higher costs to customers who generate the higher costs- Additional rate-making effort

APPROACH TO RATE STRUCTURE

Issue:	Uniform or Tiered Consumption Charges
Current practice	<ul style="list-style-type: none"> - ACWD charges one uniform rate to all customers
Rationale	<ul style="list-style-type: none"> - Easiest to maintain compared to other consumption charge structures (except flat rates) - Easiest for customers to understand
Options	<ul style="list-style-type: none"> - Maintain current policy - Or, introduce additional classes with uniform or tiered rates <ul style="list-style-type: none"> - Single family residential – 2 or 3 tiers <ul style="list-style-type: none"> - Tiered rates are best suited for classes with homogeneous demand patterns (i.e., single family residential) - Should base size of tiers on actual demand, not on water budgets - All Other – remain uniform charge (no tiers)
Outcomes	<ul style="list-style-type: none"> - Tiered rates allocate higher costs to customers who generate higher costs - Uniform rates may be appropriate for certain classes

APPROACH TO RATE STRUCTURE

- Tiered rates are used by many California jurisdictions to recognize the higher costs (e.g., water supply costs, conservation programs) to high water users.
- Tiered rates must be based on a calculation of the actual cost of providing water service at each tier given the usage level.
- Tiered rates presented for discussion are based solely on assignment of more expensive sources of water to the higher tier(s).

APPROACH TO RATE STRUCTURE

■ Current Approach to Rate Structure

- One customer class
- All customers pay the same fixed service charge (by meter size)
- All customers pay the same consumption charge for water use
 - Current = \$4.97 per HCF
 - Projected Rate (eff. 3/1/2025) = \$5.24 per HCF

■ Potential Approach to Rate Structure

- Create two customer classes
 - Single Family - Increasing block (tiered) consumption charges
 - All Others - Uniform consumption charges

SINGLE FAMILY RATE ANALYSIS

- We analyzed the District's Single Family customer demand patterns to determine appropriate number of tiers and breakpoints
 - Scenario #1 – Two Tiers with a breakpoint at winter water demand (proxy for indoor water use)
 - All water use up to 13 HCF would be charged the Tier 1 rate
 - All water use at 14 HCF and above would be charged the Tier 2 rate
 - Scenario #2 – Three Tiers with breakpoints at winter water demand and peak day demand
 - All water use up to 13 HCF would be charged the Tier 1 rate
 - All water use from 14 to 23 HCF would be charged the Tier 2 rate
 - All water use at 24 HCF and above would be charged the Tier 3 rate

SINGLE FAMILY RATE ANALYSIS

- Continue Uniform Charge for all Water Use = \$5.24 per HCF

■ Tiered Consumption Charge Rates

■ Scenario #1 – Two Tiers

Bi-Monthly Water Use	\$/HCF
Tier 1 (0-13 HCF)	\$4.52
Tier 2 (14+ HCF)	\$6.61

■ Tier 2 rate includes:

- Water Conservation Program costs
- Water supply costs from the most-expensive source (i.e., SFPUC / Groundwater blend)

■ Scenario #2 – Three Tiers

Bi-Monthly Water Use	\$/HCF
Tier 1 (0-13 HCF)	\$4.52
Tier 2 (14-23 HCF)	\$5.85
Tier 3 (24+ HCF)	\$7.63

■ Tier 2 rate includes:

- Water supply costs from the most-expensive source (i.e., SFPUC / Groundwater blend)

■ Tier 3 rate includes:

- Water Conservation Program costs
- Water supply costs from the most-expensive source (i.e., SFPUC and Groundwater blend)

SAMPLE BILL IMPACTS – TWO TIERS

Single Family Residential Customers				
	Low	Average	High	Very High
Demand Assumptions				
hcf/bi-monthly period	8	16	32	48
gallons per day	100	199	399	598
% of bills up to flow assumption	27%	65%	93%	98%
Bills at Current Rates				
Service charge (5/8" Meter)	\$63.75	\$63.75	\$63.75	\$63.75
Volume Charges	\$39.76	\$79.52	\$159.04	\$238.56
Total Bill	\$103.51	\$143.27	\$222.79	\$302.31
Bills at Proposed Tiered Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$36.17	\$78.59	\$184.30	\$290.01
Total Bi-Monthly Bill	\$103.43	\$145.85	\$251.56	\$357.27
\$ Difference	(\$0.08)	\$2.58	\$28.77	\$54.96
% Difference	-0.1%	1.8%	12.9%	18.2%

■ Note: Preliminary proposed rates include 5.5% revenue increase

SAMPLE BILL IMPACTS – TWO TIERS

Single Family Residential Customers				
	Low	Average	High	Very High
Demand Assumptions				
hcf/bi-monthly period	8	16	32	48
gallons per day	100	199	399	598
% of bills up to flow assumption	27%	65%	93%	98%
Bills at Proposed Uniform Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$41.92	\$83.84	\$167.68	\$251.52
Total Bill	\$109.18	\$151.10	\$234.94	\$318.78
Bills at Proposed Tiered Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$36.17	\$78.59	\$184.30	\$290.01
Total Bi-Monthly Bill	\$103.43	\$145.85	\$251.56	\$357.27
\$ Difference	(\$5.75)	(\$5.25)	\$16.62	\$38.49
% Difference	-5.3%	-3.5%	7.1%	12.1%

■ Note: Preliminary proposed rates include 5.5% revenue increase

SAMPLE BILL IMPACTS – THREE TIERS

Single Family Residential Customers				
	Low	Average	High	Very High
Demand Assumptions				
hcf/bi-monthly period	8	16	32	48
gallons per day	100	199	399	598
% of bills up to flow assumption	27%	65%	93%	98%
Bills at Current Rates				
Service charge (5/8" Meter)	\$63.75	\$63.75	\$63.75	\$63.75
Volume Charges	\$39.76	\$79.52	\$159.04	\$238.56
Total Bill	\$103.51	\$143.27	\$222.79	\$302.31
Bills at Proposed Tiered Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$36.17	\$76.32	\$185.97	\$308.09
Total Bi-Monthly Bill	\$103.43	\$143.58	\$253.23	\$375.35
\$ Difference	(\$0.08)	\$0.31	\$30.44	\$73.04
% Difference	-0.1%	0.2%	13.7%	24.2%

■ Note: Preliminary proposed rates include 5.5% revenue increase

SAMPLE BILL IMPACTS – THREE TIERS

Single Family Residential Customers				
	Low	Average	High	Very High
Demand Assumptions				
hcf/bi-monthly period	8	16	32	48
gallons per day	100	199	399	598
% of bills up to flow assumption	27%	65%	93%	98%
Bills at Proposed Uniform Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$41.92	\$83.84	\$167.68	\$251.52
Total Bill	\$109.18	\$151.10	\$234.94	\$318.78
Bills at Proposed Tiered Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$36.17	\$76.32	\$185.97	\$308.09
Total Bi-Monthly Bill	\$103.43	\$143.58	\$253.23	\$375.35
\$ Difference	(\$5.75)	(\$7.52)	\$18.29	\$56.57
% Difference	-5.3%	-5.0%	7.8%	17.7%

■ Note: Preliminary proposed rates include 5.5% revenue increase

SAMPLE BILL IMPACTS – UNIFORM

Single Family Residential Customers				
	Low	Average	High	Very High
Demand Assumptions				
hcf/bi-monthly period	8	16	32	48
gallons per day	100	199	399	598
% of bills up to flow assumption	27%	65%	93%	98%
Bills at Current Rates				
Service charge (5/8" Meter)	\$63.75	\$63.75	\$63.75	\$63.75
Volume Charges	\$39.76	\$79.52	\$159.04	\$238.56
Total Bill	\$103.51	\$143.27	\$222.79	\$302.31
Bills at Proposed Uniform Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$41.92	\$83.84	\$167.68	\$251.52
Total Bill	\$109.18	\$151.10	\$234.94	\$318.78
	\$ Difference	\$5.67	\$7.83	\$12.15
	% Difference	5.5%	5.5%	5.4%

■ Note: Preliminary proposed rates include 5.5% revenue increase

Conclusion

Recap Board guidance

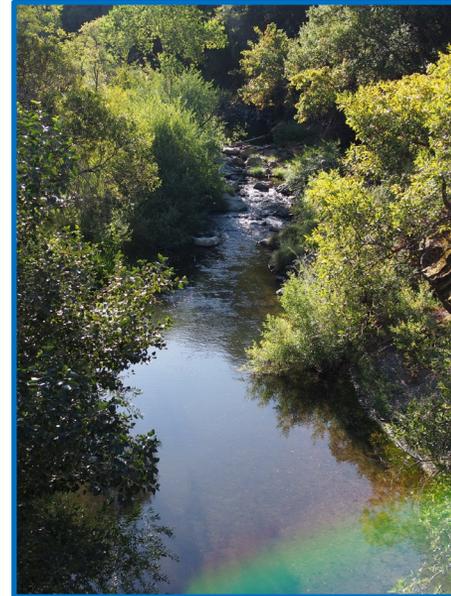
- Financial planning assumptions
- Rate-setting scenarios
- Rate structure

Next Steps

- Discuss customer service/billing, fixed/variable revenues, and options for drought surcharges August 22. Follow up from the first two workshops and refine the proposal September 26

Stay Connected to the District

- www.acwd.org
- ACWD Aqueduct Newsletter
- Facebook  & Twitter 
@AlamedaCountyWD



Alameda County Water District
43885 S. Grimmer Blvd.
Fremont, CA 94538
510.668.4200

Questions?