

Financial Analysis & Revenue Requirements 2021-2025

August 18, 2020



Las Virgenes Municipal Water District
www.LVMWD.com

Elements of Rate study

- Financial Plan
- Cost of Service Analysis
- Develop Rates
- Public Workshops
- Public Hearing
- Annual Confirmation of Rates



Financial Analysis & Revenue Requirements Importance

- Supports key District Business Values:
 - Sound Financial Management
 - Sound Planning and Appropriate Investment
- Supports debt issuance for Las Virgenes – Triunfo Pure Water Project.
- Provides cost certainty for customers.



Financial Analysis & Revenue Requirements Goals

1. Maintain a rate structure that is fair and equitable across customer classes.
 - a) Re-examine commercial water budgets to promote efficient use in a manner that supports business and economic development.
2. Maximize revenue stability to navigate variable economic and hydrologic conditions.
3. Provide a strong price signal to drive an efficiency ethic and minimize rate impacts to efficient customers.
4. Ensure that rates are compliant with California Law.



Financial Analysis & Revenue Requirements Adjustments

- Deferred 20% of CIP projects in years 1 & 2 and 10% in year 3.
- Focus on core services/expenditure reductions.
- Maintaining focus on current revenue and additional potential cost savings strategies.



Financial Analysis & Revenue Requirements Options

- Option 1 – Even revenue adjustments over the five-year period.
- Option 2 – Defer all revenue adjustments in 2021, except for MWD pass through of wholesale water cost.
- Option 3 – A hybrid approach of a lower revenue adjustment in 2021, followed by even revenue adjustments for 2022 through 2025.



Financial Analysis & Revenue Requirements Future Drivers

- Rates approved through this process are maximums.
 - We propose to continue to have the Board confirm the rate adjustments each year.
- Effects of COVID-19 on the District's finances will need to be monitored.
- Non-rate revenue can offset future revenue requirements.
- Effect of cost savings measures on future rates.
- Future low-income programs.



Las Virgenes Municipal Water District

Board Workshop

August 18, 2020



Agenda

Financial Plan 101

Water Financial Plan Discussion

Sanitation Financial Plan Discussion

Recycled Financial Plan Discussion

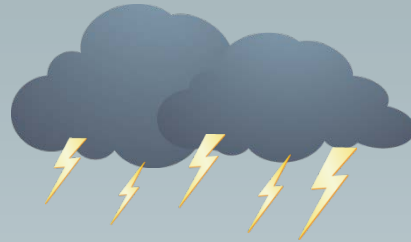
Next Steps

Financial Challenges of Managing a Utility System

A FINANCIAL MODEL CAN BE A TOOL TO NAVIGATE THROUGH THESE CHALLENGES

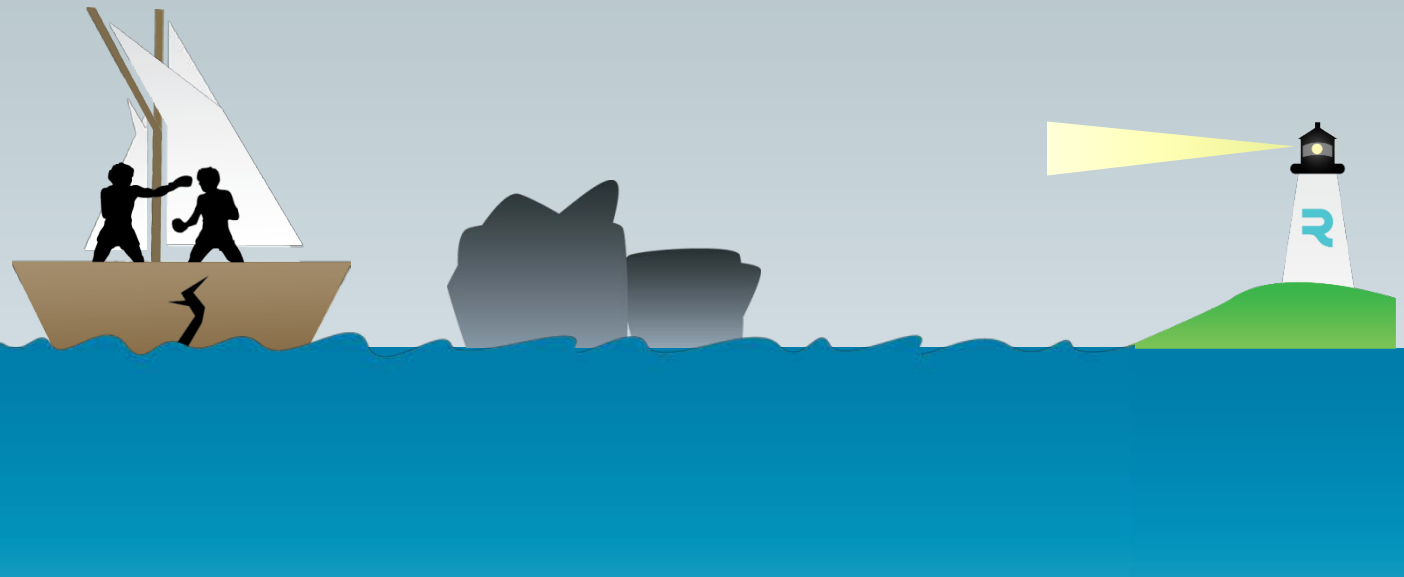
Properties of Utility System

- Capital intensive
- Highly fluctuating capital cost
- Unknown liability
- Increasing regulatory demand



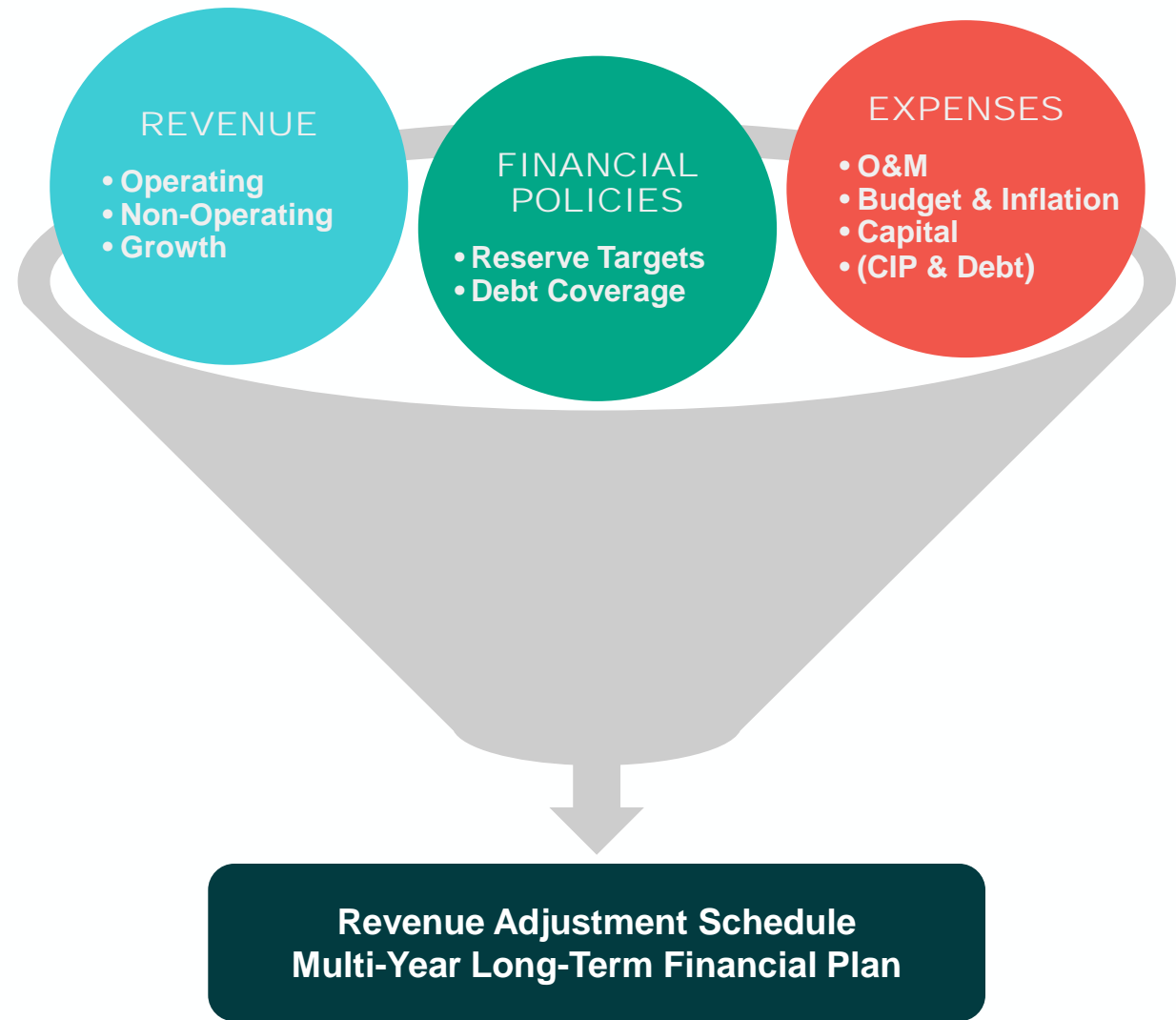
Political Acceptance on Rates

- Rate stability
- Affordability
- Equity
- Environmental stewardship



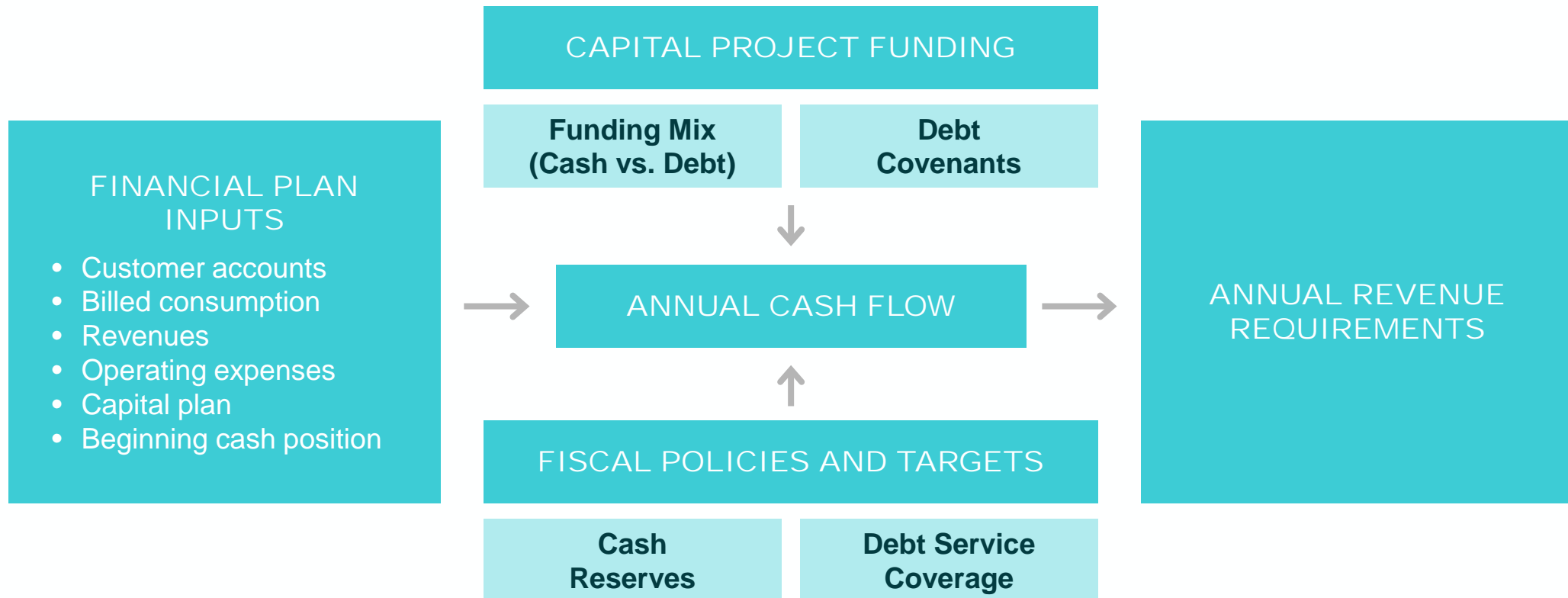
Financial Plan

Financial Plan models yearly cash flow and reserve balances



Revenue Requirements & Financial Planning

FINANCIAL PLAN ELEMENTS



Water Financial Plan



Reserve Policy

- Each Enterprise has the same reserve policy

Target Debt Coverage

110%

Target Reserves

O&M

% of Operating budget

25%

Debt

% of Debt Service

100%

Replacement

% of 3-yr Depreciation Expenses

100%

Emergency / Insurance % of Capital Asset Value

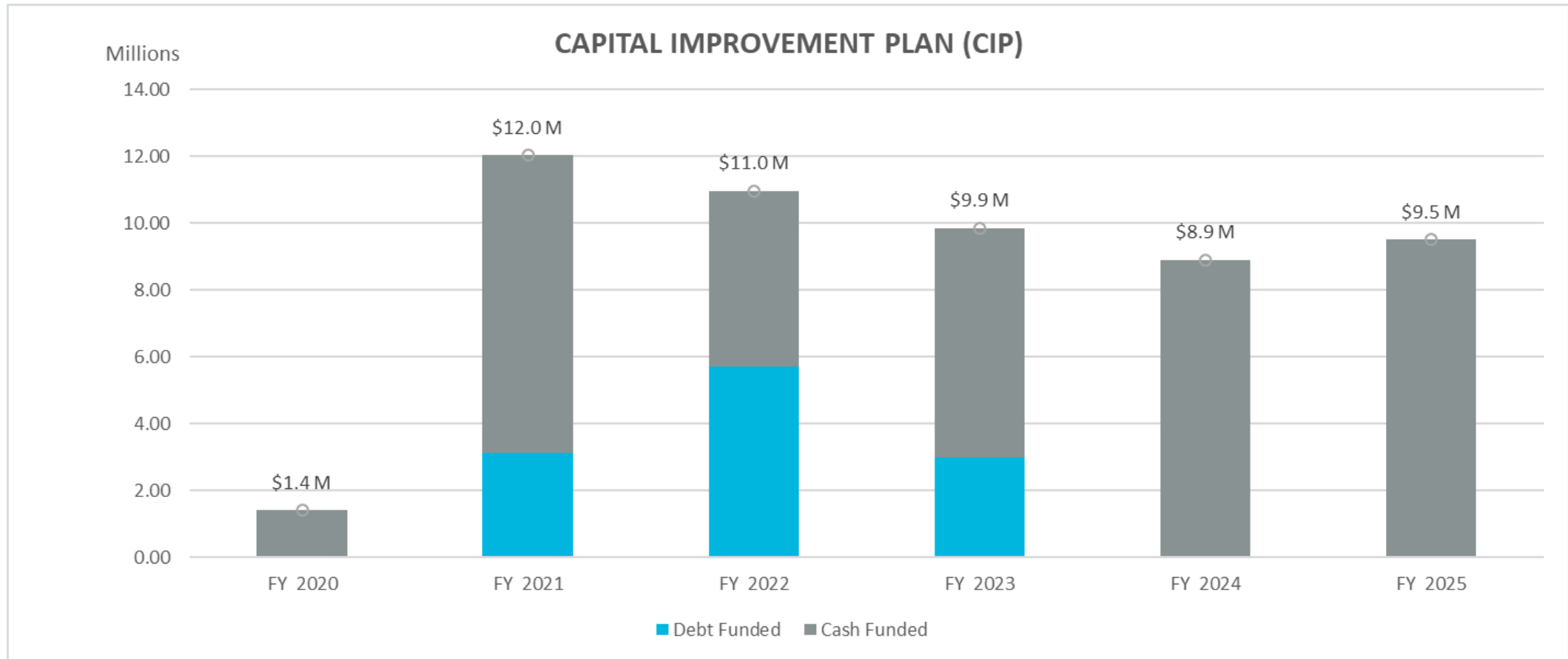
2%

Rate Stabilization

\$8,000,000

CIP Summary

- Debt funded project is for AMR/AMI

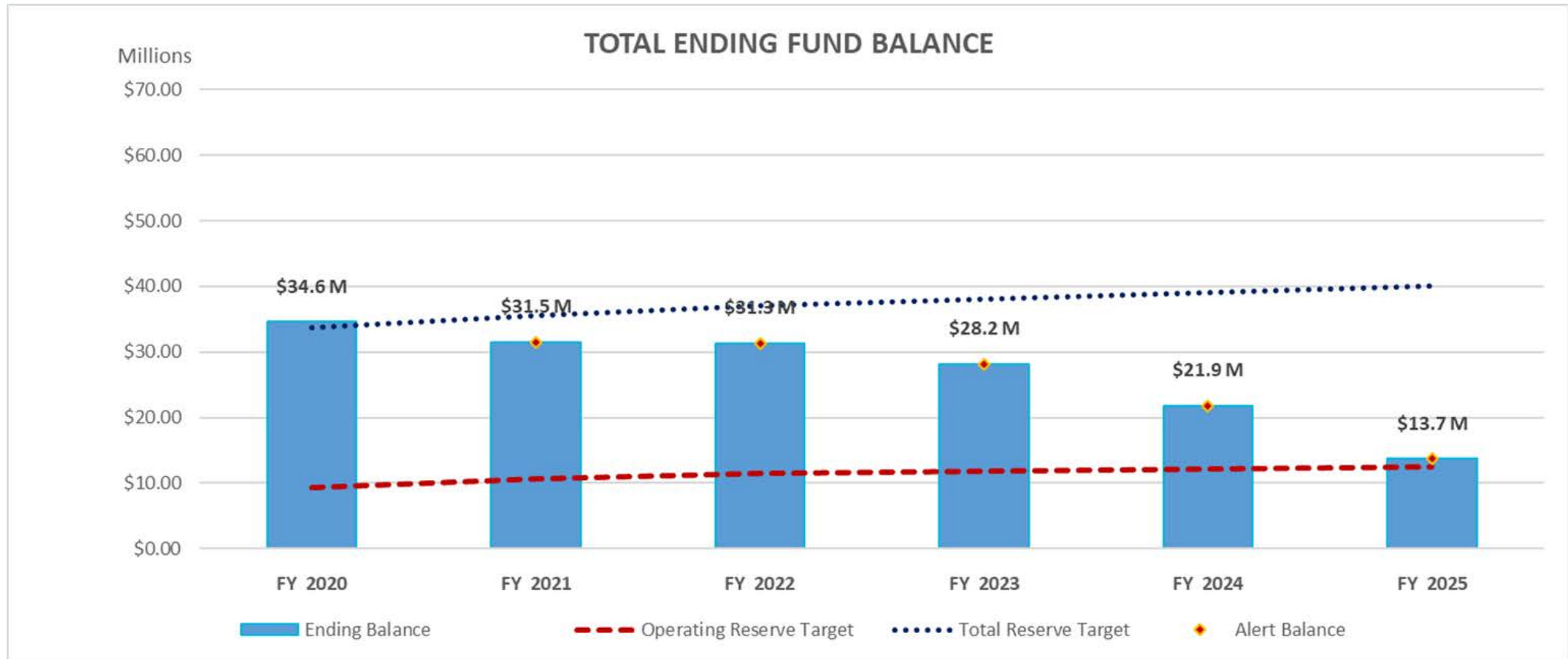


Sales Assumptions

Year	Potable	Recycled
FY 2021	18,280 AF	4,117 AF
FY 2022	18,280 AF	4,117 AF
FY 2023	17,800 AF	4,000 AF
FY 2024	17,400 AF	3,900 AF
FY 2025	17,000 AF	3,815 AF

Status Quo with Updates

- Only MWD Pass thru with no additional rate increase



Rate Increase Scenarios

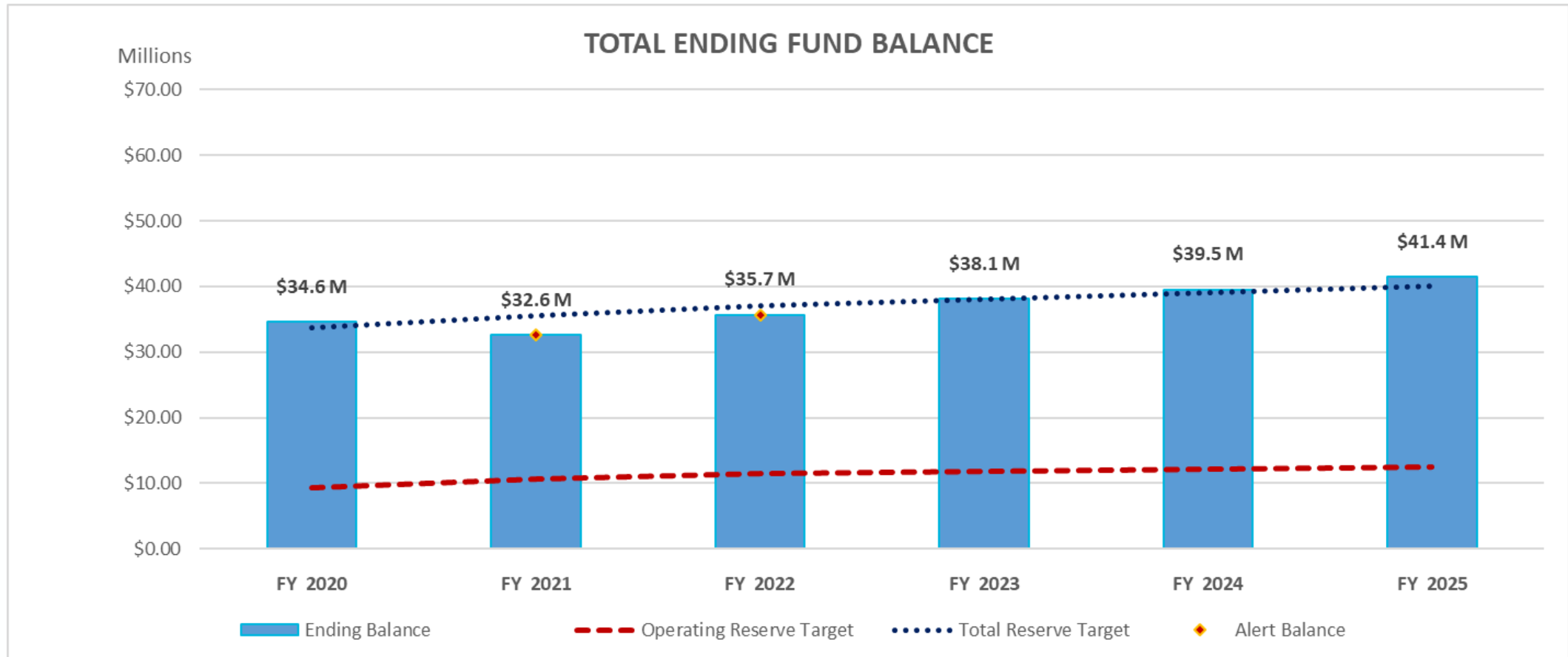
Occur each January

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Scenario 1	5.0%	5.0%	5.0%	5.0%	5.0%
Scenario 2	0.0%	7.5%	7.5%	7.5%	7.5%
Scenario 3	2.5%	6.0%	6.0%	6.0%	6.0%

- In addition to the above increases, there is also MWD pass through cost

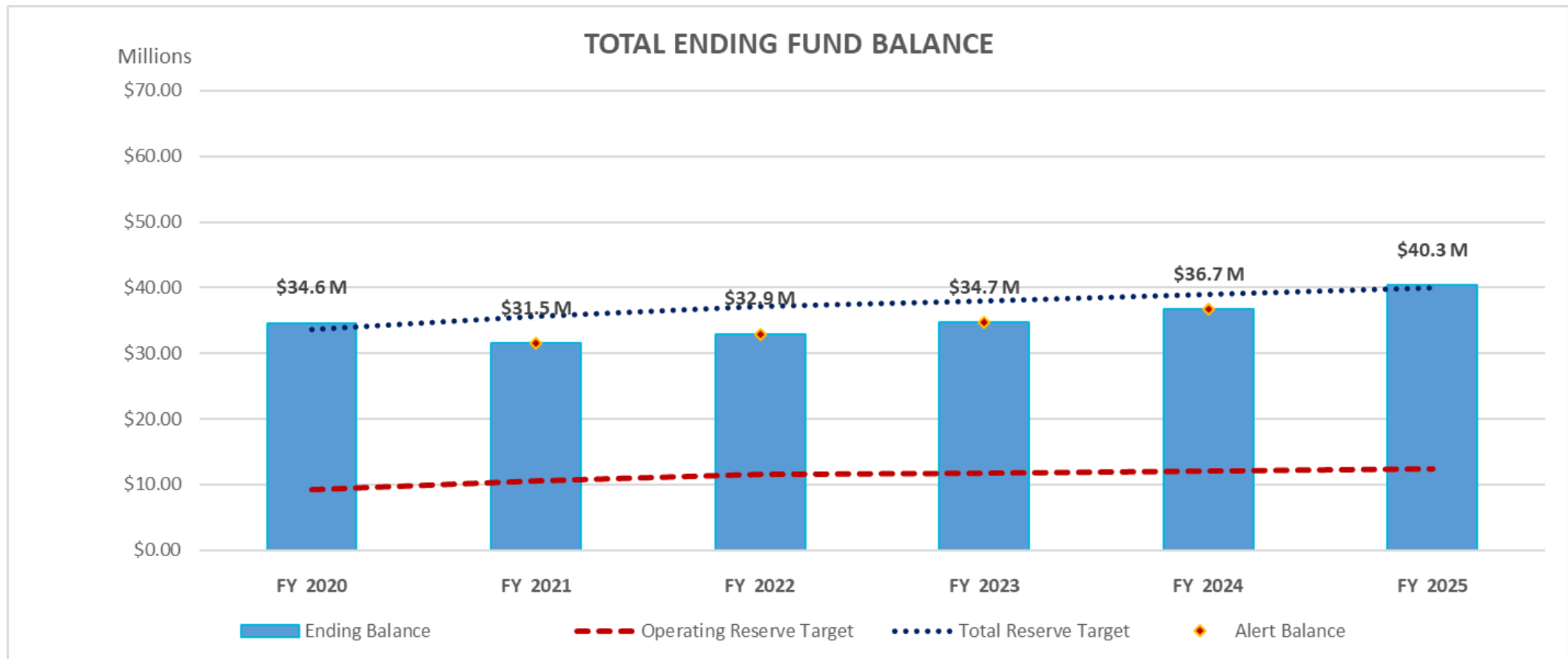
Scenario 1

- 5% annual adjustment starting January 2021 plus MWD pass through for each year



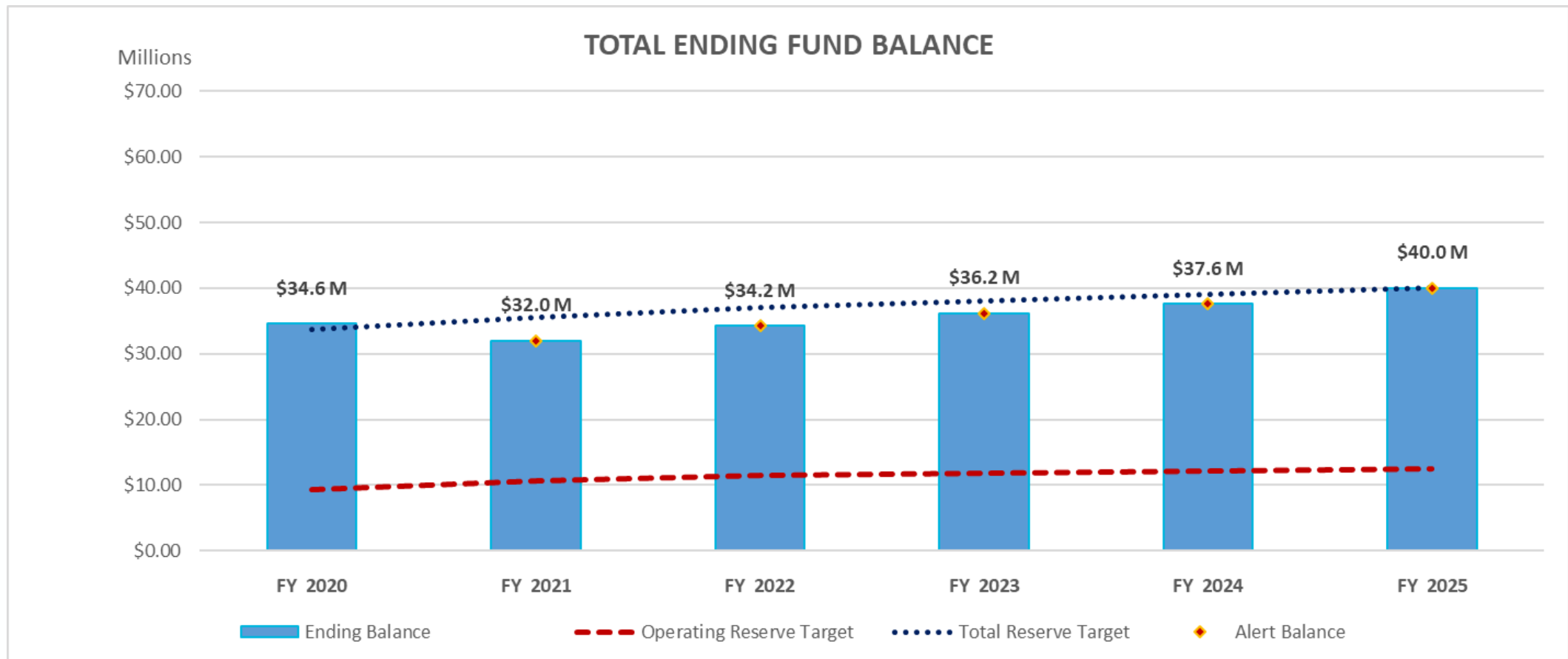
Scenario 2

- 7.5% annual adjustment starting January 2022 plus MWD pass through for each year



Scenario 3

- 2.5% rate increase starting January 2021 and 6% for each year after plus MWD pass through for each year



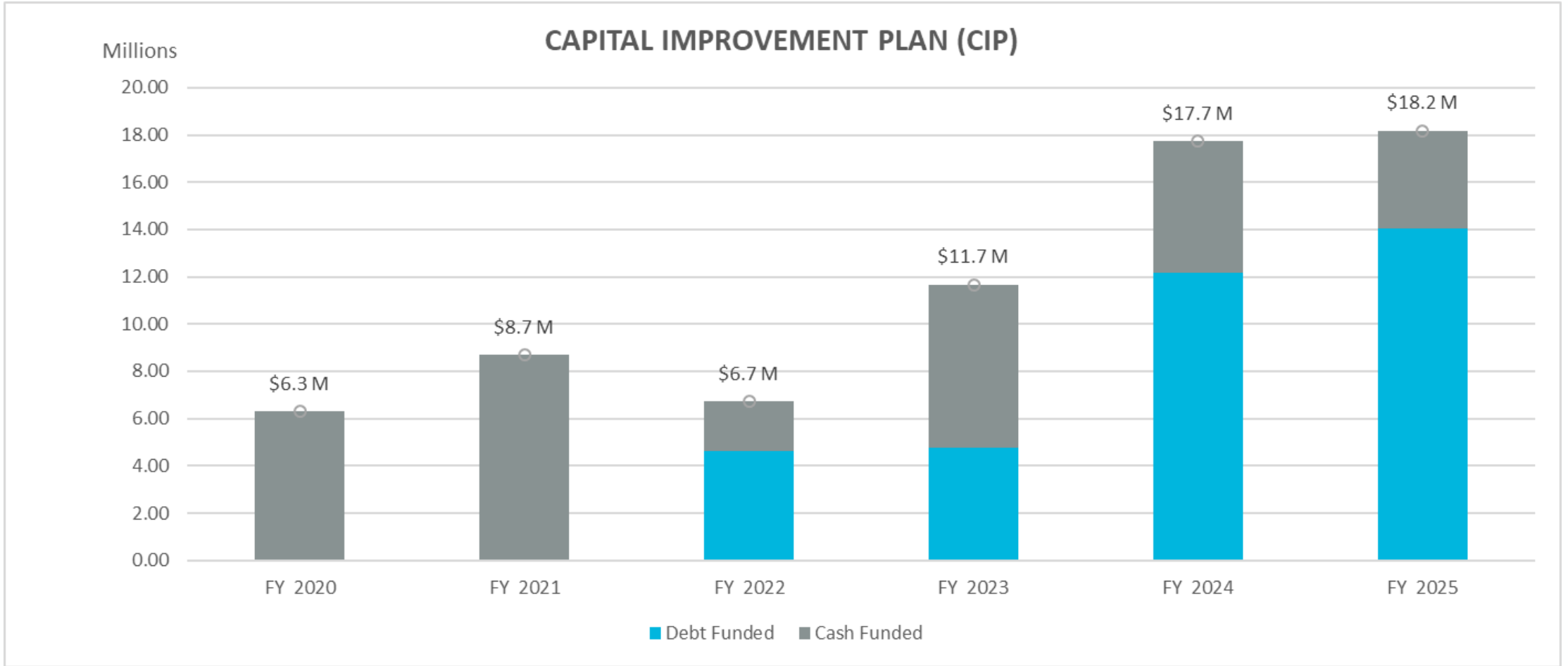
Sanitation Financial Plan



Pure Water Assumptions

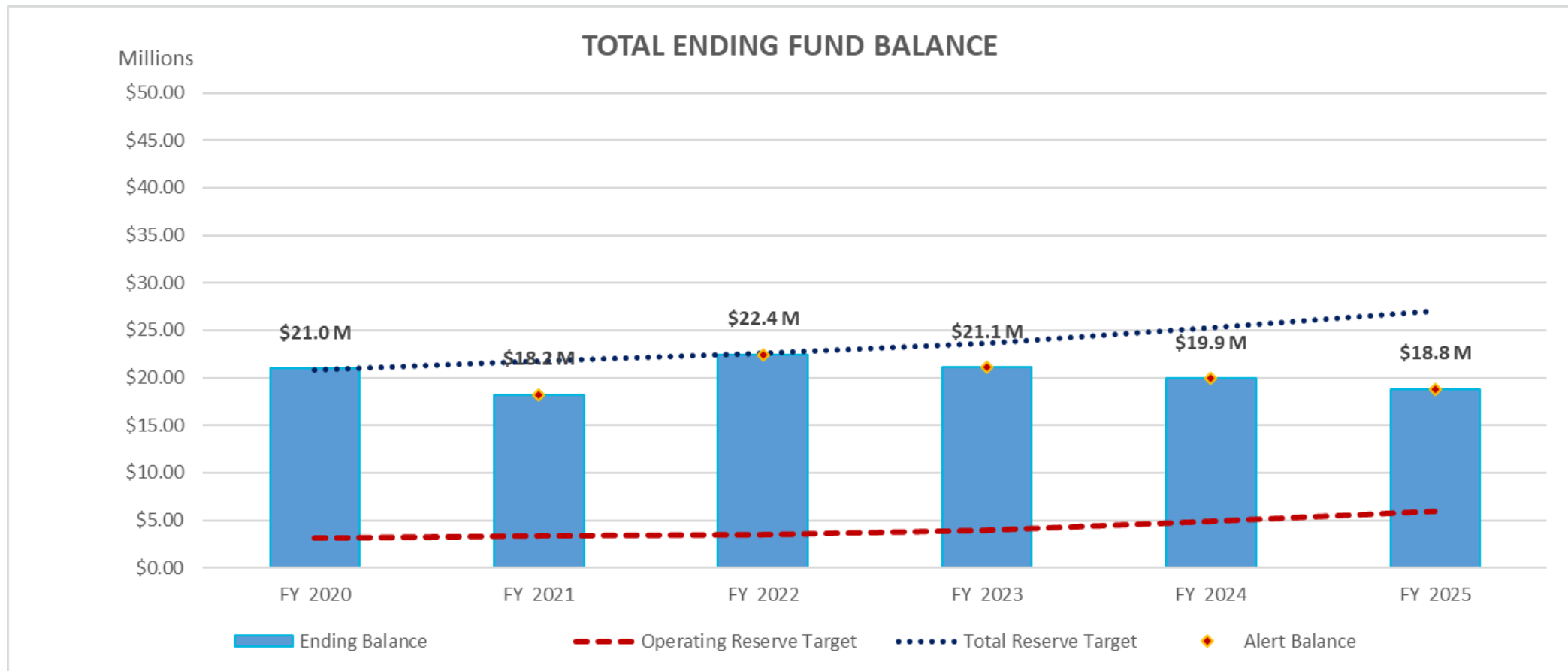
- Pure Water currently split between Sanitation and Recycled Enterprises
 - › Sanitation: 76%
 - › Recycled: 24%
- Proposed Debt Financing:
 - › Sanitation Enterprise Pure Water Project beginning in FY 2022
 - › Other Pure Water Related Projects:
 - Tapia Effluent Pump Station Rehabilitation
 - Tapia Flow Equalization

CIP Summary



	FY 2022	FY 2023	FY 2024	FY 2025
Debt Amounts	\$4.7 Million	\$4.9 Million	\$12.4 Million	\$14.3 Million

Status Quo



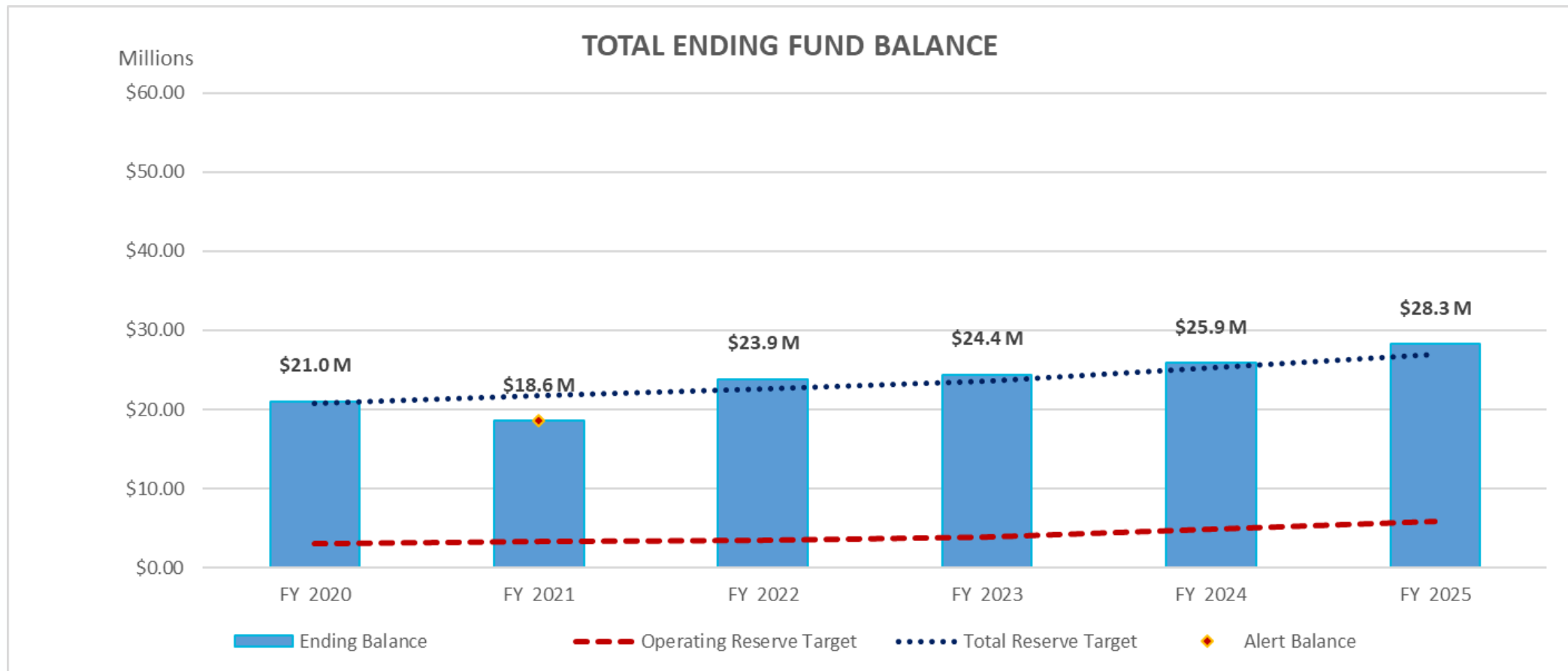
Rate Increase Scenarios

Occur each January

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Scenario 1	3.75%	3.75%	3.75%	3.75%	3.75%
Scenario 2	0.0%	6.0%	6.0%	6.0%	6.0%
Scenario 3	2.5%	4.5%	4.5%	4.5%	4.5%

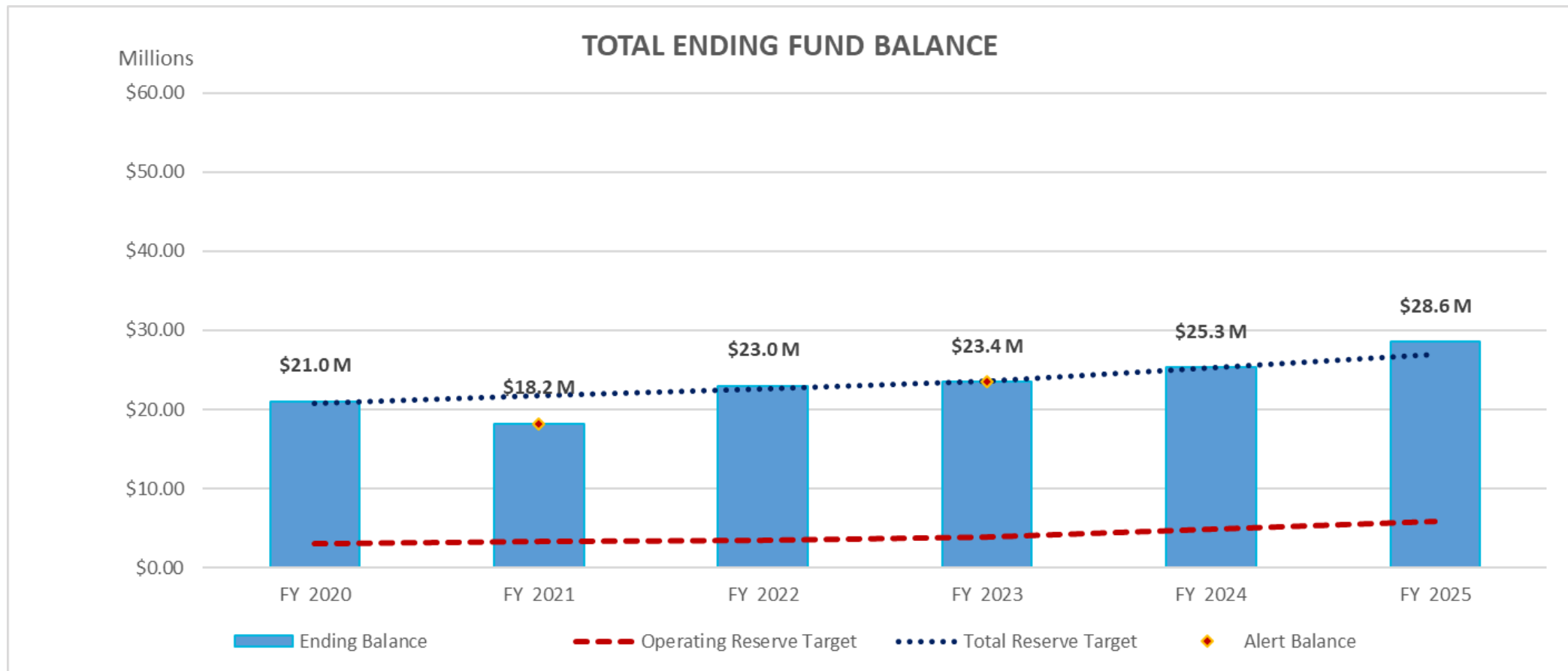
Scenario 1

- 3.75% annual adjustment starting January 2021



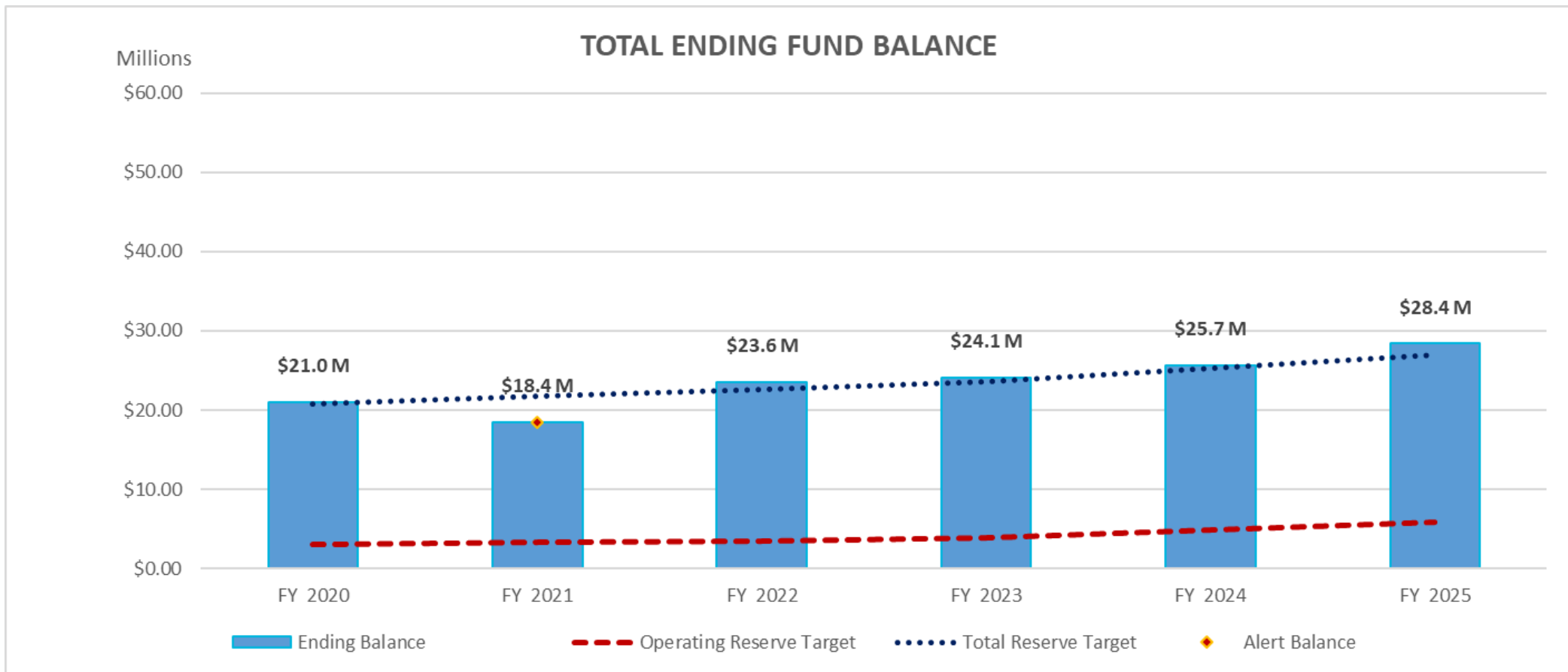
Scenario 2

- 6% annual adjustment starting January 2022



Scenario 3

- 2.5% rate increase starting January 2021 and 4.5% for each year after

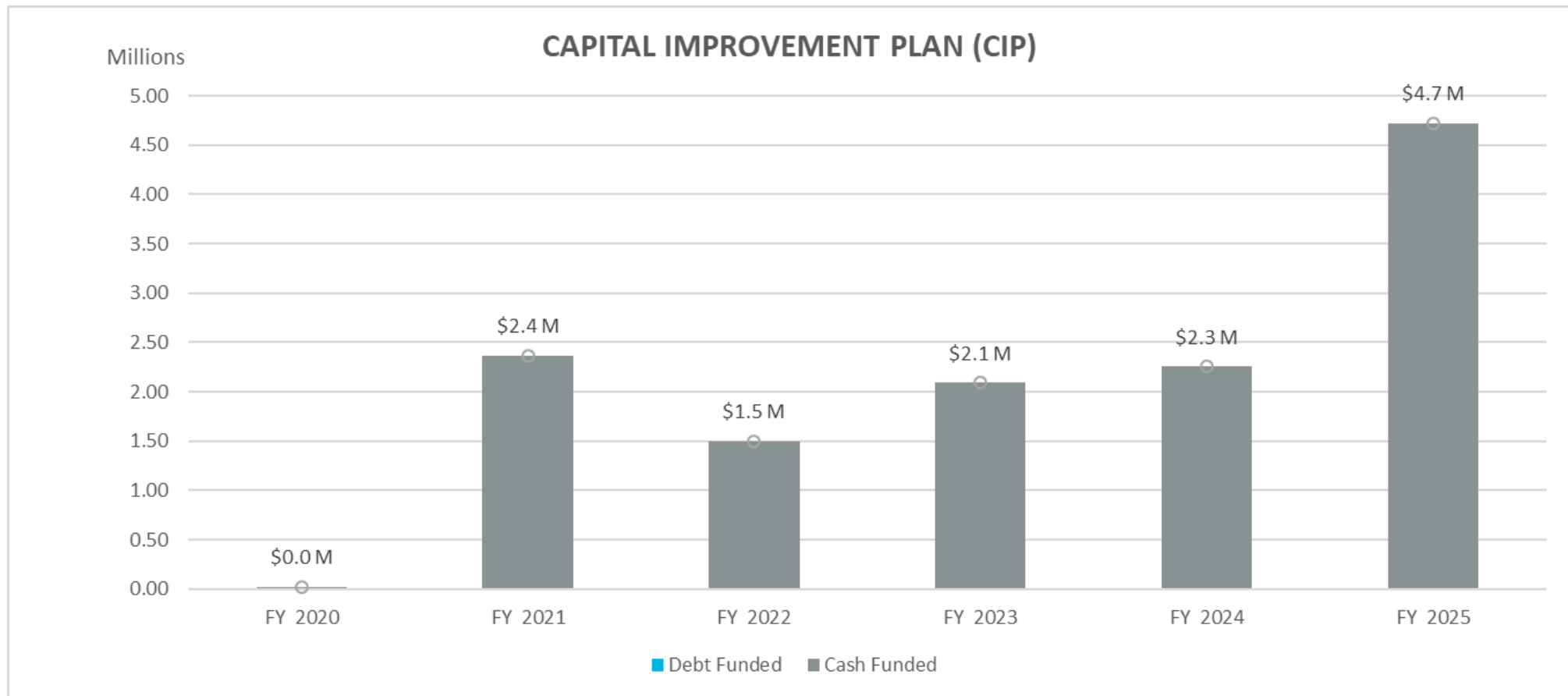


Recycled Financial Plan

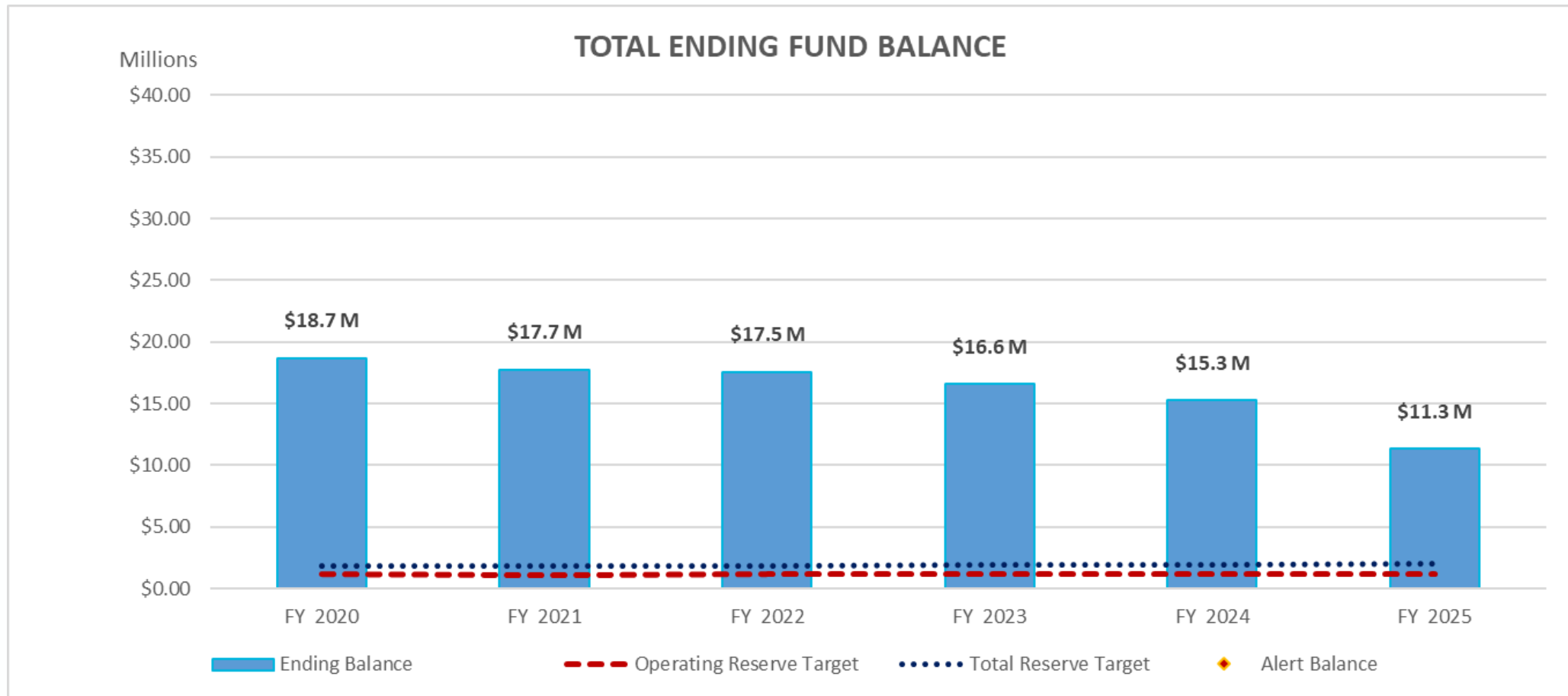


CIP Summary

- 24% of the Pure Water Project is funded through Recycled



Status Quo

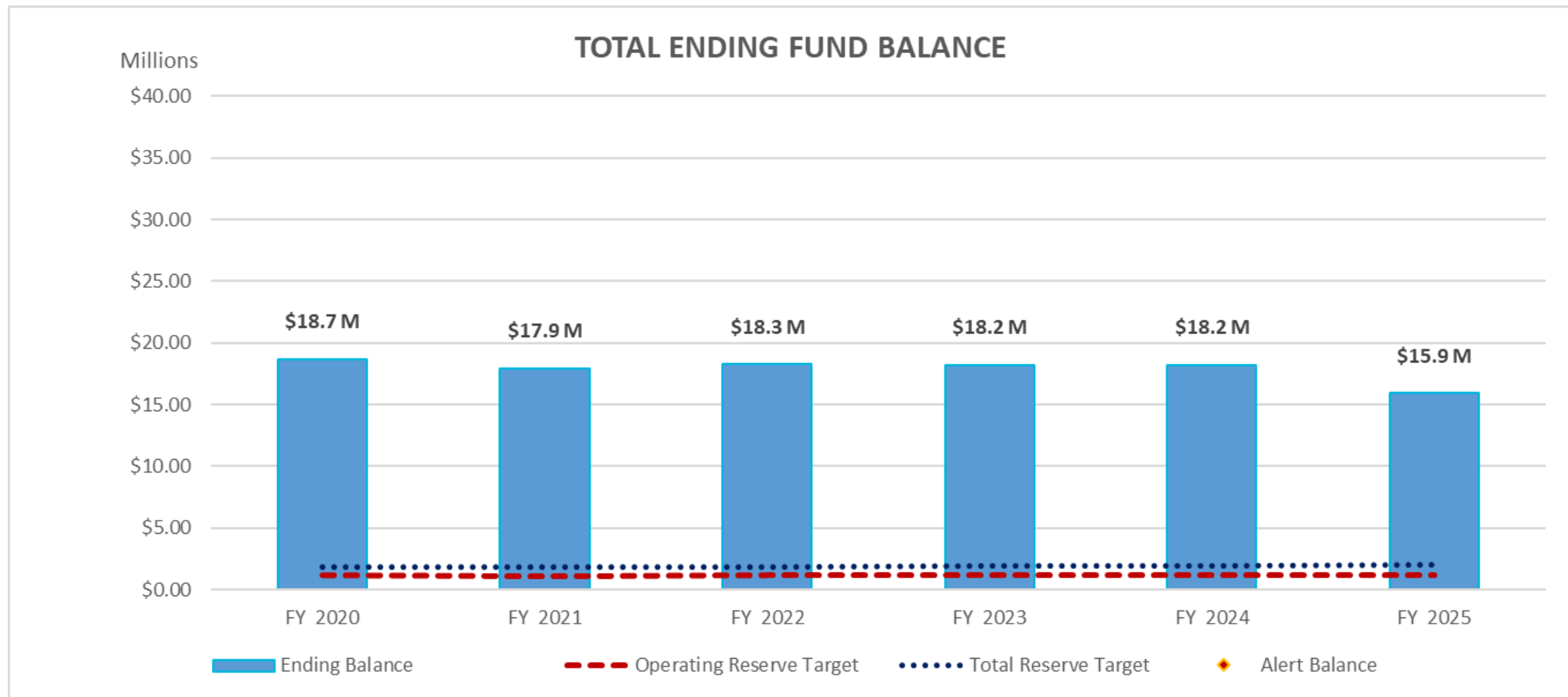


Rate Increase Scenarios

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Scenario 1	7.0%	7.0%	7.0%	7.0%	7.0%
Scenario 2	0.0%	9.0%	9.0%	9.0%	9.0%
Scenario 3	3.0%	8.0%	8.0%	8.0%	8.0%

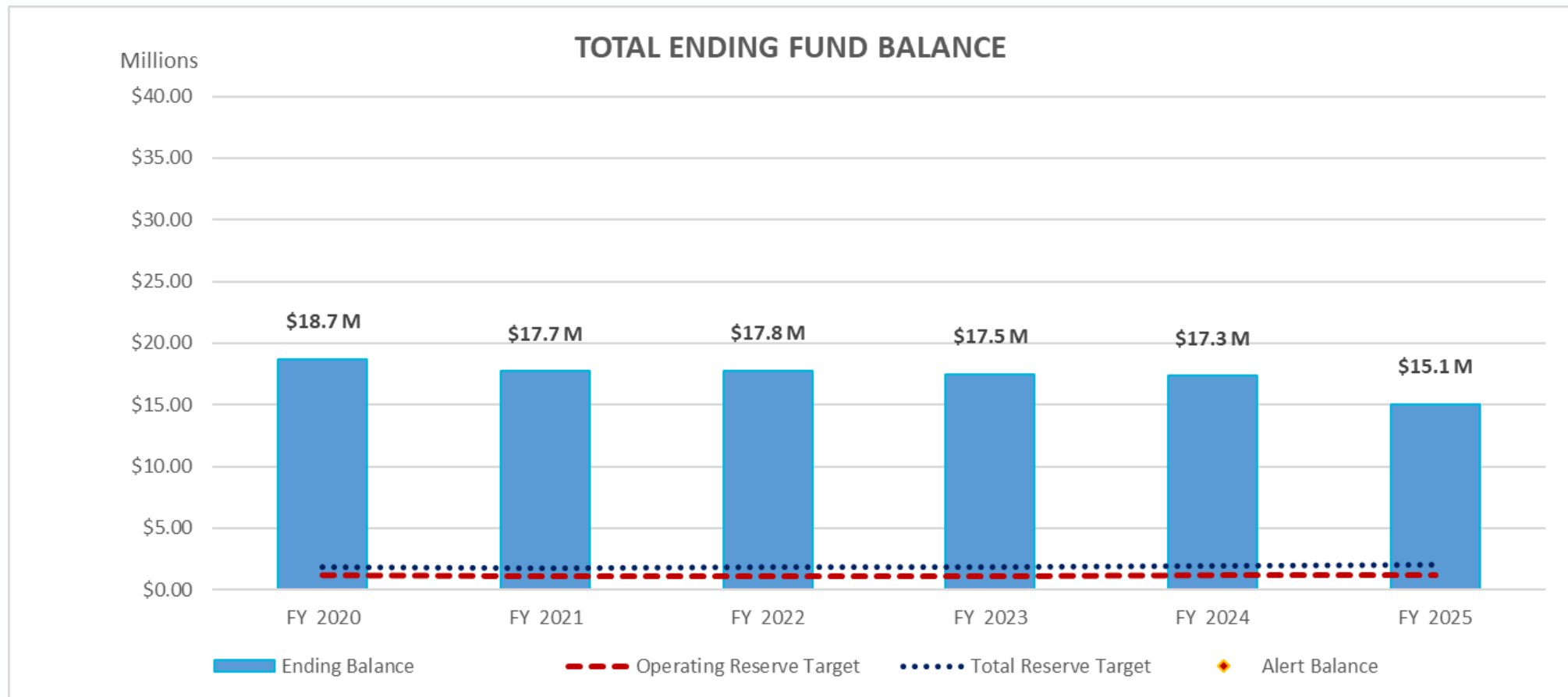
Scenario 1

- 7% annual adjustment starting January 2021



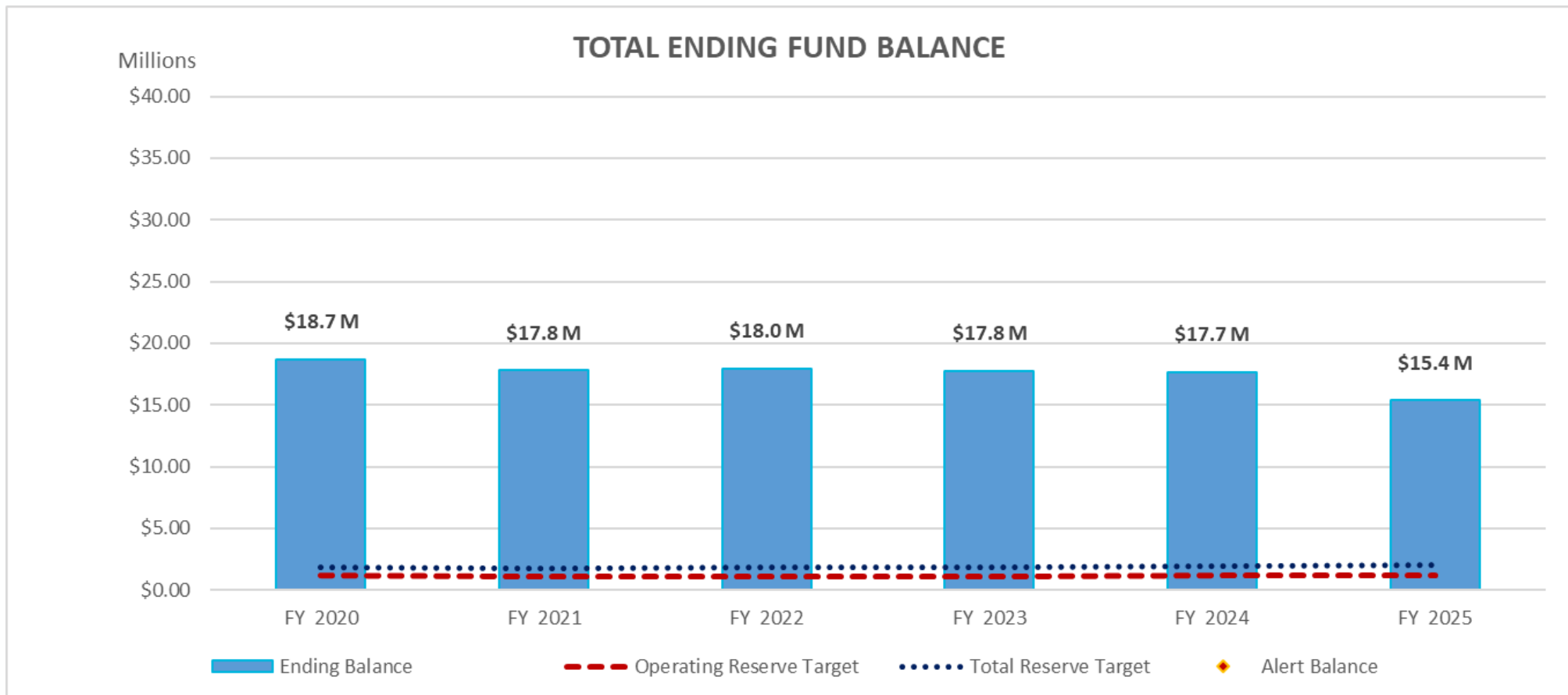
Scenario 2

- 9% annual adjustment starting January 2022



Scenario 3

- 3.0% rate increase starting January 2021 and 8% for each year after



Next Steps

- Conduct Cost of Service analysis on Water Rates
- Update the water and recycled rates and revise commercial tiered rates
- Present 5-year rate schedule to the Board to receive comments
- Develop the Administrative Record that justifies the rate increase and changes
- Conduct Public Hearing

Q&A



Thank you!

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