

Long Range Planning Committee Status

2018 Annual Shareholder's Meeting

Reminder - What is the Long Range Planning Committee?

- Formed at the request of the BOD in July 2013
- Currently consists of 4 members: Sharon Tobias and Andy Rich (Board Members) and Joe Morgan and myself (Non-Board Members)
- Meet separately from BOD Meetings on average monthly; more often as required
- “Charter” is to serve as an advisory committee to the BLSMWC Board of Directors to provide on-going recommendations for long term water supply and demand management strategies that will ensure a dependable and high quality water supply at the most affordable price possible
- In addition to Charter, the committee has documented Rate Structure Goals, Operational Goals, Financial Goals and Communication Goals that provide a basis for our decisions and the recommendations we propose to the BOD
- Our primary Task focus over the past year has been to:
 - Provide technical and budgetary oversight assistance to BLSMWC Mgmt. & Staff and our Engineering Firm on the USDA Water Infrastructure Project
 - Formulate and provide a recommended Multi-Year Cash Flow, Rate Structure and Contingency Reserves Analysis
 - Continue to compile Water Meter Usage data to analyze usage levels and evaluate trends over time for future rate structure recommendations

Summary of Support Over Past 12 Months

- In June 2017 assisted BLSMWC in the selection process for the Engineering Services Contract on the USDA Infrastructure/Meter Installation Project
 - Awarded to MC Engineering
- In Nov 2017 the USDA notified us that we would be required to fund project efforts with “Interim Financing” through the construction period as opposed to the USDA reimbursing our costs during construction directly as they are incurred
 - As a result, in Feb/March 2018 assisted in the Interim Loan application and approval process with CoBank
- On an on-going basis, have been assisting BLSMWC Mgmt and Staff in cost, schedule and technical oversight of Engineering Services Contract and meeting requirements of USDA Letter of Conditions and loan process
 - Required significant coordination as the design evolved to ensure that we were meeting system requirements without over-designing and at a cost that was within our USDA funding
 - As we approached final design much effort was required to ensure drawings, specs and quantities were as accurate as possible for the construction bidding process
- Over the past 3 months, efforts also focused on formulating a recommended Cash Flow and Water Rates Analysis for 2018-2021 for BOD consideration
 - Based on documented assumptions, this analysis provides a forecast of revenues, expenses, and reserves (including all the requirements from the USDA loan & interim financing) along with a suggested rate structure approach

USDA Loan Timeline and Repayment Process

- As mentioned last year, the USDA Loan was approved in Dec 2016 and we locked in a funding cap of \$12.23M at a low interest rate of 1.875% over a 40 year term
- Based on the current schedule, the loan payments are estimated to start approx. Dec 2020 which is 1 year after the est. completion of the USDA construction project
- The annual loan payment amount will be \$437,193 (\$35.76 per \$1,000 borrowed)
 - Based on the breakdown of project estimated costs the meters comprise ~12% of the total and infrastructure is ~88% of the total
 - Therefore, the estimated annual loan payment for the meter portion will be ~\$48,975/year and the infrastructure portion will be ~\$388,218/year
- Starting in 2020 USDA loan surcharges will be included within the rate structure
 - For all 1,711 residences, the meter surcharge estimate is ~\$29/year
 - For all 2,000 lots, the infrastructure surcharge estimate is ~\$193/year
 - For 25 Combined Lots, the infrastructure surcharge estimate is ~\$48 (25% of Lots)

Impacts Due to Interim Financing Requirement

- Initially, the USDA loan process was for all funding and reimbursements to come directly from the USDA beginning at the start of construction (Est. June 2018)
 - USDA loan payments would begin 1 year after start of Construction (Est. June 2019)
- In November 2017, we received confirmation from USDA that they were now requiring us to use “Interim Financing” to fund all USDA Project costs through construction
- Based on our search of lenders we decided to obtain the interim loan through CoBank in 1Qtr 2018
- This change results in all USDA Project funding and reimbursements to come from CoBank from start through the completion of construction (Est June 2018 – Dec 2019)
 - At the end of construction, the USDA will reimburse CoBank for all funded costs
 - USDA loan payments will now start 1 year after construction compl. (Est. Dec 2020)
 - This unexpected/unplanned requirement results in the added cost of 2nd lender financing for the ~18 month construction span
 - The interest estimate for this amounts to ~\$70K (2018) and ~\$382K (2019) = ~\$452K
 - This interest expense is eligible for USDA reimbursement, however, will need to wait until end of construction to see if USDA funding remains

Summary of Cash Flow and Rates Analysis (1 of 2)

- The Cash Flow & Water Rates Analysis has been recommended by the LRPC and will be under consideration by the BOD
- NOTE: The cash flow will be dependent on many factors related to how the USDA Construction Project costs and schedule unfold over the next 18 months
- The analysis is based on budgeted revenues and expenses for 2018, and forecasted revenues and expenses for 2019-2021 (including all impacts from the USDA loan and interim financing)

- The 2018 beginning non-restricted cash reserves are \$729K
- In 2018 based on the budgeted income & expenses, we are estimating a positive cash flow in operating accounts of ~\$225K and positive cash flow in USDA related accounts of ~\$513K primarily due to reimbursement of all engineering costs that we have paid for leading up to start of construction

- The 2019 cash flow is based on a LRPC recommended 3.8% increase in base rates
- Forecasting a positive cash flow in operating accounts of ~\$378K but a negative cash flow in USDA related accounts of ~\$382K (due to interim loan interest), which will result in a forecasted minor decrease in reserves of ~\$3K (Note: at this point the cash flow and reserves have been forecasted with BLSMWC covering the Interim Loan interest payments. This expense is USDA reimbursable but will not be decided until the end of the project based on the total costs and remaining funds)

Summary of Cash Flow and Rates Analysis (2 of 2)

- Beginning in 2020, the USDA loan payments and required debt reserve and short term asset reserve expenses will start
- Therefore, the cash flow for 2020 and 2021 reflect the \$437K USDA loan payment expense which will be covered by income from the previously mentioned shareholder annual surcharges included within the annual base rate structure with no impact to cash or reserves
- The operating account expenses have all been forecasted with conservative escalation factors
- For this analysis, the recommended rate structure for 2020 and 2021 at this point provides for operating income that is basically equal to the forecasted expenses, with a very minimal positive cash flow
- Based on the cash flow analysis, it is possible to have a 2021 reserve in excess of \$1M
- Much will depend on the outcome of the USDA project and other potential reserve liens to be discussed by the LRPC and decided by the BOD
- Based on the recommended cash flow analysis, it is possible for the annual base fees (including the shareholder USDA surcharges) to be comparable to prior years
- The LRPC recommended rate structure will continue to be comprised of the annual base fees mentioned above and water usage (or consumption) fees for usage above a TBD monthly water allotment, each covering a yet to be determined percentage of our required revenues

Water Meter Usage Studies

- In 2016 the total usage was 6,211,764 CF (Ave per residence of ~302 CF/month)
- In 2017 the total usage was 6,272,727 CF (Ave per residence of ~305 CF/month)
- Per our 2017 Meter Study (sample size ~461 meters) the average was 309 CF/month
- Currently conducting our 2018 Meter Study (sample size average 529 meters)
 - Data comparison shows Jan-Apr ave. for 2017 at 207 CF/mo. and 2018 at 199 CF/mo.
 - NOTE: Average usage rates for summer months are 2X the cooler/wetter months
- Our current metered monthly allotment within the base rate is 350 CF/month
- Based on our study data, the 2017 full year usage levels by tier were as follows:

2017 Water Usage Summary (Jan - Dec)					
Usage	# Readings	% Readings	CF	% CF	Ave CF
≤ 350	4225	76%	460481	27%	109
351-700	730	13%	359358	21%	492
701-1400	361	7%	346378	20%	959
> 1400	219	4%	543147	32%	2480
Totals	5535	100%	1709364	100%	309

- Trends show that the usage levels can fluctuate substantially during the various months of the year. Examples:
 - In Feb 2017, total users under 350 CF/mo were 85% and used 48% of the water
 - In Aug 2017, total users under 350 CF/mo were 67% and used only 17% of the water
 - In contrast, in Feb 2017 the heaviest users >1400 CF/mo were only 1% of the total and used 14% of total CF while in Aug users >1400 CF/mo were at 8% of the total and used 44% of the total CF

Water Meter Installations & Usage Rate Structure

Water Meter Implementation Plan

- Currently have 662 (39%) of the new radio read meters installed and connected
- There are 1,049 meters remaining to be installed in 2018, 2019 and 2020
- The plan used in our cash flow analysis is to have 735 (43%) meters installed & connected by end of 2018, 1125 (66%) by end of 2019, & 1711 (100%) by end of 2020
- NOTE: The ultimate meter installation timeline will depend on the selected contractors construction sequencing plan and final schedule
- There are ~976 residences that will require a new service line from the new meter location to the house
- The recommendation is for residences to connect to their new meter within 6 months of the meter installation

Water Meter Usage Rates

- Current usage allotment included in the annual base rate is 350 CF/mo (2,618 gallons)
- Current meter rates are \$1.60/100 CF in excess of the monthly allotment of 350 CF
- The LRPC recommendation is to maintain the current metered usage rates while the remaining meters are installed
- During that period, results from on-going usage studies will continue to be analyzed
- Another factor that can affect water usage is the “Price Elasticity of Water Demand”
 - Based on AWWA studies, the omission of price elasticity from rate analysis creates the potential for revenue shortfalls
 - Per AWWA elasticity studies, using the most likely elasticity range for long term residential demand, as an example, a 10% increase in water rates would be expected to produce a 3% reduction in water use
- Based on analysis of all the usage data and demand factors, it will be determined if recommended changes to the monthly allotment and usage rates are in order
- The goal is to develop and implement a water usage rate structure that continues to encourage strong conservation and adequately charges the heavy users

Reserve Accounts Summary

- Required USDA Restricted Reserve Accounts starting in 2020
 1. USDA Debt Reserve \$44K per year for 10 years
 2. Short Term Asset Reserve Maintain \$40K Balance
- A Reserves Policy to identify all internal reserve needs will be formulated over the next few months for BOD review and approval
 - The policy shall cover, but not be limited to, Overall Reserve Objectives, Definition of each Reserve, Process to determine dollar value of each Reserve, and Timeline for each
 - Based on discussions to date, additional reserves for consideration are:
 - Drought Reserve
 - Emergency Fund Reserve
 - Long Term Capital Assets Reserve
 - Bad Debt Reserve (Delinquent Fees)
- Based on the recommended Cash Flow Analysis for 2018 - 2021, our current and forecasted internal Reserve Funds appear to be very healthy, however, we need to validate this by identifying all potential reserve liens through the Reserve Policy process described above