

## **2019 Annual Shareholder's Meeting - Long Range Planning Committee Notes**

### Topics to Discuss

1. Role of LRPC
2. Financial Planning & Cash Flow Status
  - Interim Loan
  - Retro Meter installs impact on cash flow
  - Additional USDA Project Scope
3. Reserves Fund Policy & Operating Procedure
4. Asset Management Plan
5. Meter Usage Studies
6. Water Rate Design & Structure
7. Bi-Monthly Electronic Billing & Payment Process
8. Shareholder Service Line Replacements

### **Role of LRPC**

- Introduce members: Andy Rich, Joe Morgan, Jeff Jones, and Sharon Tobias
- Reminder the LRPC "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
- Over the past year, the LRPC's primary focus has been:
  - Provide oversight support of the USDA Project
  - On-going analysis of our long term cash flow
  - Implementing a formal process for managing reserves
  - Long term asset mgmt planning; Developing a formal Asset Mgmt. Plan
  - Performing analysis of meter usage studies and our future rate structure

### **Financial Planning & Cash Flow Status**

- At the time of our Annual Meeting last June, the LRPC was in the process of formulating a recommended Cash Flow Analysis for 2018-2021 for BOD consideration
- This analysis provides a multi-year forecast of revenues, expenses, and reserves (factoring in the USDA loan & interim financing) along with a suggested rate structure approach
- Our cash flow analysis last June was based on receiving USDA reimbursements for accumulated 2017-2018 MC Engineering & BLSMWC costs at the start of

construction in Sept 2018, and with all costs going forward to be funded through our interim loan

- Based on the original reimbursement plan the loan interest estimate through the construction span was \$452K
- In November 2018 the BOD made a decision to continue holding off on all USDA reimbursements for MC Engineering & BLSMWC internal costs (meters, transmitters, regulators) until 2020 (assuming our financials could handle it)
- So far our 2019 financials are in good shape and the interim loan interest with this change is estimated to decrease from \$452K to \$336K (**Saving \$116K; 27%**)
- The USDA reimbursements in 2020 as we complete the construction project will put our financials and reserves in a very strong position
- Other areas being analyzed to determine impacts on cash flow:
  - Meter installs (result in non-metered to metered base rate changes)
  - Future rate structure changes under consideration
  - Implementing the Shareholder Service Line Replacement Loan Program
  - Transitioning to new bi-monthly electronic billing and payment process
  - Potentially adding New USDA Project Scope (***within our current total USDA budget***) - Received additional scope request from BLSMWC Staff in December 2018
    - a. The additional scope items address safety (fire flow) and liability tasks not requested in the USDA Preliminary Engineering Report (PER) and therefore not included in our current USDA contract
    - b. The new scope items are under consideration by the BOD. Board has approved proceeding forward with the engineering drawings for the Highest Priority Items
    - c. Besides the new scope cost, we have to take into account the impacts of additional interim loan interest from an extended schedule
    - d. As we proceed forward through the USDA construction contract, we will continue to analyze the cost and schedule performance and decide which of the additional new scope items to approve

### **Reserves Fund Policy & Operating Procedure**

- As mentioned last year, our annual audit from Atherton & Associates noted a Capital Reserve as a “Control Deficiency” and recommended that BLSMWC establish a Capital Reserves Policy

- The LRPC was tasked by BOD in July 2018 to formulate a formal “Reserves Fund Policy”
- The LRPC presented the “draft” Reserves Fund Policy at the October BOD Meeting
- The Reserve Fund Policy is comprised of the following Fund Categories and Target Minimums:
  - a. Restricted Reserve Funds
    - USDA Requirements: Debt Reserve \$44K/yr. and Short Term Asset Reserve – Maintain balance of \$40K
    - Emergency Fund Reserve \$100K
  - b. Non-Restricted Reserve Funds
    - Capital Assets Reserve Funds \$346K
    - Operating Reserve Funds \$272K
- Our initial BOD approved total reserve fund targets amount to approx. \$800K and will be reviewed & approved each year by the BOD during the annual budgeting process
- Each Fund has strict guidelines on the Use and Authority, Monitoring & Reporting
- In addition to the Reserves Fund Policy, a “Reserves Fund Operating Procedure” was requested by the BOD in Oct 2018. A draft of the Procedure was presented at the Nov. 2018 BOD Meeting
- The Reserves Fund Operating Procedure is:
  - a. More concise than the Policy; and
  - b. Provides day-to-day guidance and direction to BLSMWC Mgmt. and Staff
- Presented final Policy and Operating Procedure documents in Dec 2018 BOD Mtg. approved Jan 5<sup>th</sup>

### **Asset Management Plan**

- Received initial proposal from MC Engineering in August 2018
- The Asset Management Plan is intended to provide the basis for developing our Capital Assets Reserve Fund (Requested in Audit), which is a component of the overall BLSMWC Reserves Policy
- As an initial target minimum, the Capital Assets Reserve Fund of \$346K was calculated based on an amount equal to 5% of unrestricted net assets
- As we finalize the Asset Management Plan, this reserve fund amount will be reviewed and adjusted as needed

- To date, the GIS Mapping and Asset Inventory Databases have been completed
- Ultimately, the GIS Database will interface with the Asset Inventory Database. It's impressive on how precisely the database can locate and identify all of our assets, as well as provide a description of each, what connecting assets each is tied to, the age of each asset and the failure and/or repair history
- The Asset Inventory Database was the first critical step in constructing the final Asset Mgmt. Plan. The inventory database will include:
  - a. A listing of all the assets we have (Providing existing lengths, sizes, unit cost, etc.)
  - b. Where each asset is located
  - c. The current value of each asset
  - d. The year of installation (age)
  - e. The typical useful life
  - f. The remaining life (Yrs.)
  - g. The estimated cost to replace each asset
- The next phase of the plan will focus on arriving at the most cost-effective maintenance, repair & replacement strategy possible. It will document our objectives, priorities & affordability plan
- The remaining plan will define and document the following:
  - a. Classification of the Assets
  - b. The approach for Short and Long Term Replacement and Upgrades
  - c. The Operation and Maintenance Program
  - d. The Capital Improvement Program
  - e. The Financial Strategy
- Our on-going Reserves Policy and O&M Operating Budgets will be taken into account and have a direct correlation with the final asset management plan
- Estimate completing the plan and reviewing with BOD for approval in July

### **Meter Usage Studies**

- The LRPC has been performing meter usage studies for 4 years
- The current BLSMWC Base household usage allotment = 350 CF/Mo
- 2016 total usage was 6,211,764 equating to an ave/residence of ~ 302 CF/month
- 2017 total usage was 6,272,727 equating to an ave/residence of ~ 305 CF/month

- Based on our 2017 meter readings (sample size of 461) the average/residence was 309 CF/Mo (as compared to 305 CF total usage)
- 2018 total usage was 5,594,251 equating to an ave/residence of ~ 275 CF/Mo
  - Based on meter readings (sample size of 605) the ave/residence was 288 CF/Mo
- Through March 2019, our total usage ave./residence for the year is 301 CF/Mo
- A few interesting details to point out from 2017 and 2018 study data:
  - Over 75% of the readings for both years were under the 350 CF/Mo allotment
  - Those 75% below 350 CF/Mo are only using 25% of the water
  - For both years, ~10% of the readings are at or above 2X the 350 CF/Mo allotment
  - Those 10% are consuming +50% of the water
  - The 2018 average usage during the warm/dry summer months was 400 CF/Mo; almost double the cooler/wet months at only 222 CF/Mo
  - The higher overall average during the warmer months appears to be driven by the users that are high all year
  - Through Sept 2018, the annual average was the same as 2017 at 309 CF/Mo; but for Oct-Dec 2018 the average was 41 CF/Mo less than 2017, dropping the 2018 annual average down to 288 CF/Mo
- For 2019, we now have 819 meters installed (48%) of 1,708 connections (This will provide us with a much greater sample size as we continue our study)
- We will continue to compile and analyze meter usage levels and trends while the remaining meters are installed

### **Water Rate Structure Design**

- Over the next few months, a major focus of the LRPC will be to arrive at a recommended rate structure design for 2020 and beyond to propose to the BOD
- The on-going LRPC goal is to design and select a rate structure that supports our objectives:
  1. Yields revenue in a stable and predictable manner
  2. Funds all our costs, including adequate reserves
  3. Promotes Conservation; and
  4. Maintains simplicity, while promoting fairness and equity

- The basic components of the rate structure will still include: (1) Base Rate and (2) Consumptive Charges or Usage Rates. At the completion of the USDA Construction Project (estimated to be mid-2020) the USDA loan surcharges will be added as a 3<sup>rd</sup> component to our rates (included in the base rate)
- The LRPC will continue to compile and analyze meter usage levels and trends while the remaining meters are installed and connected (Estimated to be year-end 2020)
  - This data will be reviewed periodically to determine if any adjustments to the rate structure “base monthly CF allotment” and “usage fees” should be considered
- The LRPC will also review the level of “Base Rate” fees charged for each category (i.e., metered residence, non-metered residence, bare lot and combined lot) to ensure that they are as fair and equitable as possible
  - Note that income generated from our base rates must ideally cover our annual operating fixed costs, which includes the maintenance of our entire infrastructure providing water to every lot
  - All lots (including vacant lots) currently have a water service to the lot
  - As part of the USDA Project, we are adding a new service box with a valve on all empty lots
- In our rate structure planning, we must ensure that base rates provide sufficient “stable and predictable” revenue to cover a large percentage (if not 100%) of fixed operating costs
- We are planning a “multi-tier” usage rate structure with more aggressive consumption fees (than the current monthly \$1.60/100 CF rate) in order to provide adequate revenue to meet or exceed our variable operating costs

#### **Info on USDA Loan Repayment Surcharges in our Rate Structure**

- The ultimate loan surcharge amount to shareholders will be dependent on the final USDA project costs
- Our USDA funding cap is \$12.23M
- If our loan is at the cap, the annual loan payment amount will be approx. \$437K (\$35.76/\$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
- We are estimating that our USDA loan payments will start in mid-2021 (which is 1 year after the estimated construction completion date)

- It is estimated that loan surcharges will be added into shareholder bi-monthly billings in mid-2020 in order to accumulate the amount needed for the 1<sup>st</sup> USDA loan payment in mid-2021
- NOTE: As mentioned previously, since 2017 we have delayed reimbursement of USDA expenses for MC Engineering and BLSMWC, and covered them out of our operating budget. The amount of USDA costs we covered are as follows:
  - In 2017 we covered 36% (\$513K) of our annual costs (Total expenses \$1.432M)
  - In 2018 we covered 42% (\$779K) of our annual costs (Total expenses \$1.849M)
  - In 2019 we estimate covering 43% (\$815K) of our annual costs (Total expenses \$1.899M)
  - These costs will be reimbursed in 2020
- Starting in 2020 the plan is to no longer cover USDA costs from operating budgets
- Since we have been covering USDA costs for the past 3 years that exceed the USDA annual loan payment, the rate structure bottom line for base rates (including the loan surcharges) should not be impacted

### **Bi-Monthly Electronic Billing & Payment Process**

- A plan to move forward with a new bi-monthly electronic billing and payment process starting in January 2020 is currently in the works
- Current Billing Process:
  - Home/Lot fees (Base Rate) billed on an annual basis , due by Feb 15<sup>th</sup> each year
  - Consumptive charges (Usage Rate) for metered residences are billed bi-monthly at \$1.60/100 CF for usage >350 CF/month allotment
- Proposed Billing Process:
  - Home/Lot fees (Base Rates) billed Bi-Monthly in 6 equal installments based on annual shareholder fee amount in place and the rate category
  - First payment will be for Jan/Feb and due by March 15<sup>th</sup> , then every two months

- Consumptive charges (Usage Rate) billed bi-monthly at the same time and in same bill as Base Rate, using the usage rate structure in place
- Each bi-monthly bill will segregate charges for the shareholder’s base rate, consumptive charges based on metered usage above the base allotment, and a USDA loan repayment surcharge (***which will start at the end of the USDA construction contract – Estimated ~ Mid-2020***)
- The BLSMWC staff is currently reviewing information from several companies on the billing and payment service options offered, along with the fees charged for each service
- From the information reviewed thus far, it’s become apparent that the cost of 3<sup>rd</sup> Party services for electronic payments (i.e., credit card conveyance fees and bank account ePayments) can vary substantially
- Based on this information, analysis will be performed over the next couple months to determine which services or software products must be purchased and/or performed externally versus which may be more cost effective to perform internally by our staff
- The goal will be to arrive at a solution that our office staff can reasonably maintain and is the most financially affordable for shareholders and BLSMWC

### **Shareholder Service Line Replacements**

- The LRPC was tasked at the January 2019 BOD Meeting to review the shareholder lateral service line replacement costs and provide our findings to the board
- As communicated to the shareholders at prior meetings, the cost of new service lines from the meter box at the street to the house (since this is on the shareholder’s property and not in the public right-of-way) cannot be funded through the USDA loan
- Based on the LRPC analysis, there are currently a total of 1,714 connections that will have meter boxes
  - Of those, 553 (32%) of the residences have previously replaced and personally paid for their new service line

- 976 (57%) of the residences will be required to replace their service line once the new meter is installed as part of the USDA construction project **(559 from back of lot; 417 from front of lot)**
  - Based on the estimated cost to replace the service lines, and the potential USDA project budget risks and cash flow requirements that must be managed over the next year or two, it was concluded by the LRPC that funding this from our operating budget or reserves would not be feasible
  - As a result, a Zero Interest Loan Program (Limited to shareholders with financial hardships) was recommended by the LRPC and adopted by the BOD at the Mar. 2019 Mtg.
- A Shareholder Service Line Replacement Loan Program has been completed with a formal Loan Agreement and Application that must be completed to apply
  - Based on the loan amount, the shareholder will have 2 to 5 years to repay the loan, and payments will be included within their bi-monthly bill