

City of Morro Bay



Financial Plan & Rate Analysis for a New Water Reclamation Facility

June 28, 2018



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

Presentation Overview



- **WRF Project Background**
- **Community Questions**
- **Financial Plan & Rates**
- **WRF Facility Surcharges**
- **Decisions & Next Steps**

Objective: Present findings & receive input & direction

CITY OF MORRO BAY WATER RECLAMATION FACILITY PROJECT



WRF Project Background

■ Existing wastewater treatment plant needs to be rebuilt

- Current plant is at the end of its useful life
- Originally built in 1950s, last upgraded in 1984
- Capacity and regulatory deficiencies
- Not designed to meet new Waste Discharge Permit requirements
- RWQCB requires compliance with new Waste Discharge Permit within a maximum of 5 years

WRF Project Background

■ **Treatment plant cannot be rebuilt at existing site**

- Existing site located in coastal flood plain & tsunami inundation zone
- In 2013, Coastal Commission denied development permit to rebuild at current site
- Current location inconsistent with Coastal Commission policies & other provisions of the Coastal Act and Local Coastal Program

■ **City evaluated wide range of site alternatives**

- Seventeen sites evaluated
- Various recycled water options were evaluated
- Identified best site near intersection of South Bay Boulevard & Highway 1
- Preferred best meets the City's goals for the project

Financial Plan & Rate Analysis



Background

- **In 2015, City adopted 5 years of water & sewer rate increases**
 - Designed to phase in funding to support costs of service & capital needs
 - Before 2015, no water rate increases for 20 years but annual sewer rate adjustments
- **Sewer rates based on City's 75% share of a \$75 million plant = \$56 million**
 - \$75M was a conceptual placeholder with little project definition
 - Assumed 25% participation by Cayucos
 - Assumed full availability of State Revolving Fund (SRF) financing
 - Excluded recycled water facilities (initially planned as a future Phase 2)
- **Strengthened financial condition of water & sewer utilities**
- **Adopted rates not adequate to fund new Water Reclamation Facility (WRF)**
 - WRF Facility Surcharges proposed to supplement previously-adopted rates

Financial Scenarios

- **BWA developed financial projections under 4 scenarios**

A) Base Case Scenario

- **WIFIA & Bond financing for WRF Project, WRF Surcharges effective starting 2019/20**

B) Phase-In Scenario

- **Similar to Base Case but with phase-in of WRF Surcharges over 3 years starting 2019/20**

C) SRF Scenario

- **Assumes low-rate SRF financing, instead of bonds, to supplement WIFIA loan**

D) No Water Recycling Scenario

- **Evaluate impacts of a reduced wastewater-only project (\$20 million cost reduction)**

WRF Facility Surcharges

Maximum Single Family Residential WRF Facility Surcharges

	Base Case	Phase-In	WIFIA & SRF	No Recycling*
	WRF+Recycling WIFIA+Bonds	Base Case with Rate Phase In	WRF+Recycling WIFIA+SRF	No Recycling All Bonds
WRF Facility Surcharges				
Sewer WRF Facility Surcharge	\$25.00	\$27.00	\$20.00	\$44.00
Water WRF Facility Surcharge	16.00	17.00	14.00	-
Total	41.00	44.00	34.00	44.00

* Under the No Recycling Scenario, the fifth and final year of the previously-adopted water rate increases would not need to be implemented, resulting in a \$4.50 reduction in the monthly water bill for a typical single family home using 5 units of water per month compared to other scenarios. This results in a net reduction of \$1.50 per month compared to the Base Case Scenario.

Total Charges with WRF Surcharge

Base Case Scenario

Total charges for a typical single family home with 5 hcf monthly use

	2018/19	2019/20	2020/21	2021/22	2022/23
Monthly Utility Bill					
Sewer Monthly Charge	\$77.00	\$83.00	\$83.00	\$83.00	\$83.00
Water Monthly Charge	<u>62.50</u>	<u>67.00</u>	<u>67.00</u>	<u>67.00</u>	<u>67.00</u>
Subtotal Monthly Bill	139.50	150.00	150.00	150.00	150.00
WRF Facility Surcharges					
Sewer WRF Facility Surcharge	-	25.00	25.00	25.00	25.00
Water WRF Facility Surcharge	-	<u>16.00</u>	<u>16.00</u>	<u>16.00</u>	<u>16.00</u>
Subtotal Monthly Bill		41.00	41.00	41.00	41.00
Total Monthly Charges	139.50	191.00	191.00	191.00	191.00

Total Charges with WRF Surcharge

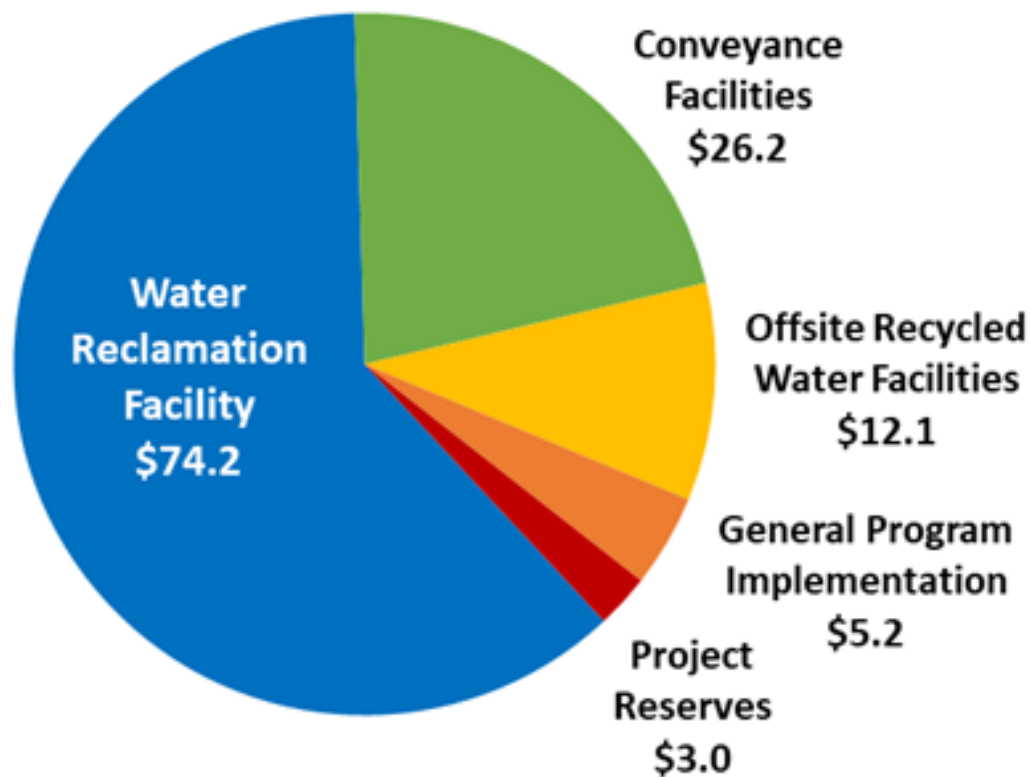
Phase-In Scenario

Total charges for a typical single family home with 5 hcf monthly use

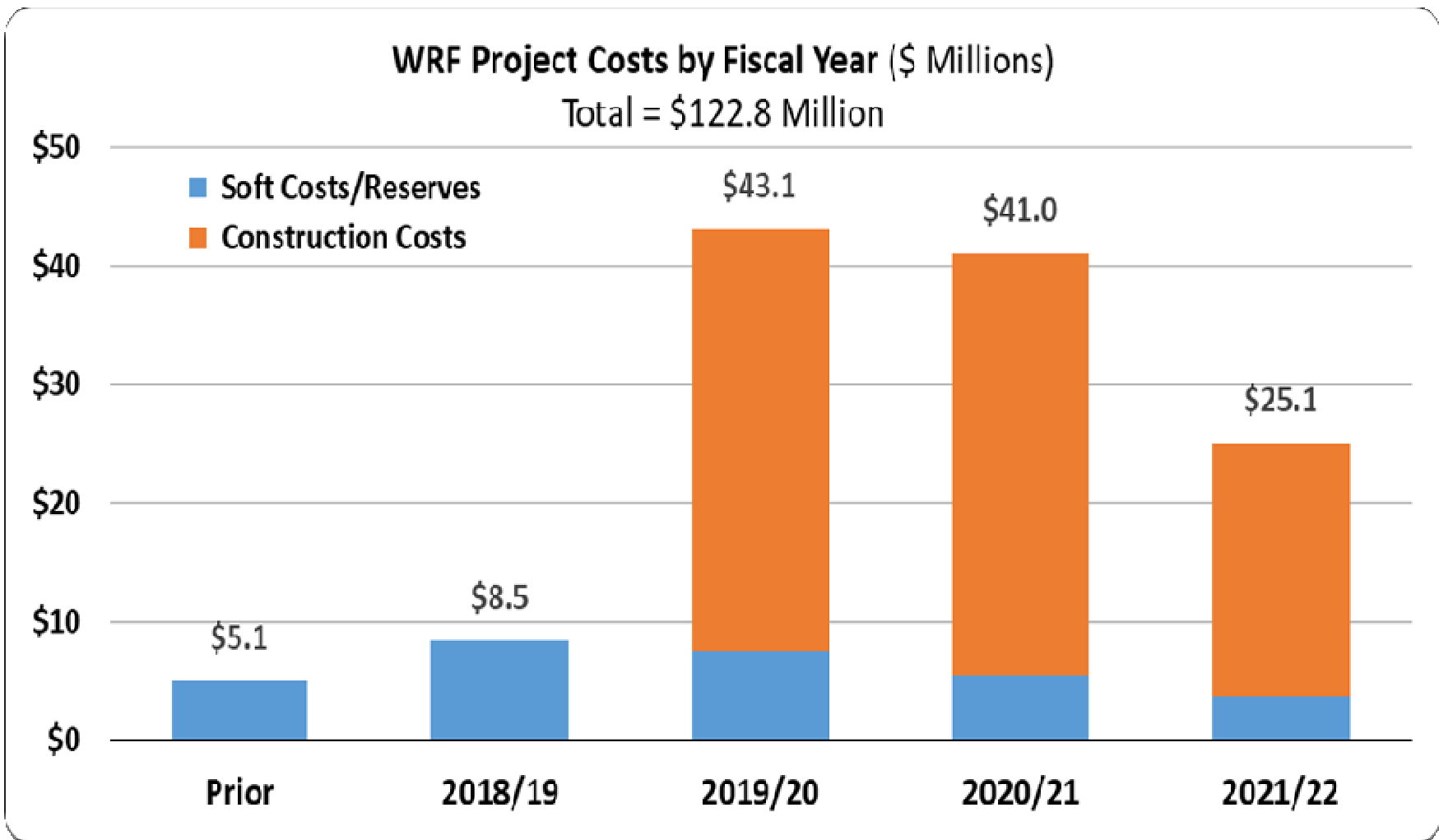
	2018/19	2019/20	2020/21	2021/22	2022/23
Monthly Utility Bill					
Sewer Monthly Charge	\$77.00	\$83.00	\$83.00	\$83.00	\$83.00
Water Monthly Charge	62.50	67.00	67.00	67.00	67.00
Subtotal Monthly Bill	139.50	150.00	150.00	150.00	150.00
WRF Facility Surcharges					
Sewer WRF Facility Surcharge	-	9.00	18.00	27.00	27.00
Water WRF Facility Surcharge	-	8.00	12.00	17.00	17.00
Subtotal Monthly Bill		17.00	30.00	44.00	44.00
Total Monthly Charges	139.50	167.00	180.00	194.00	194.00

WRF Project Costs

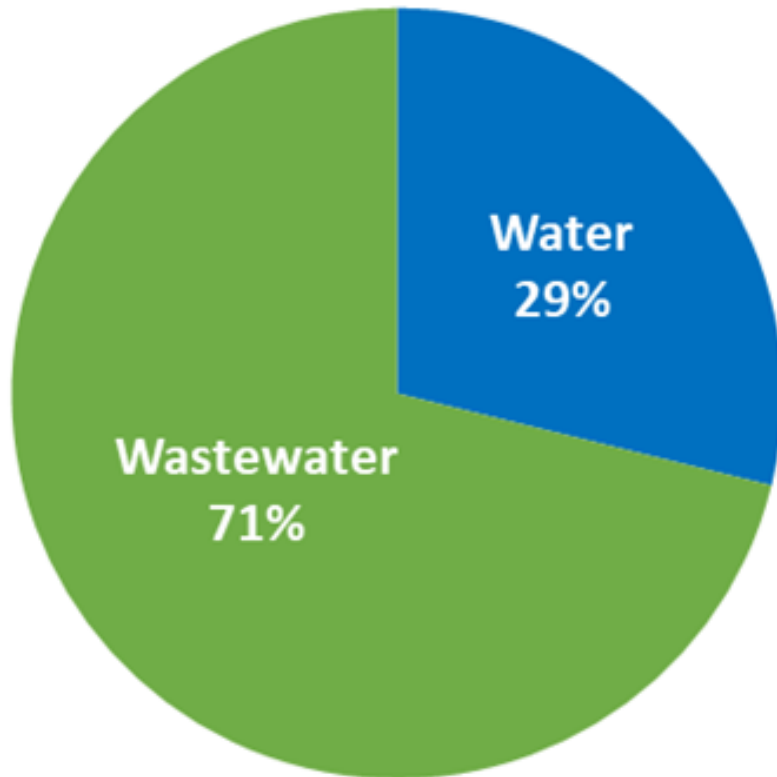
Total Project Cost: \$126 Million
(\$122.8 Million Excluding Cash Reserves)



WRF Project Costs by Year



Project Cost Apportionments



Recycled water costs to be funded by WRF surcharges on water customers

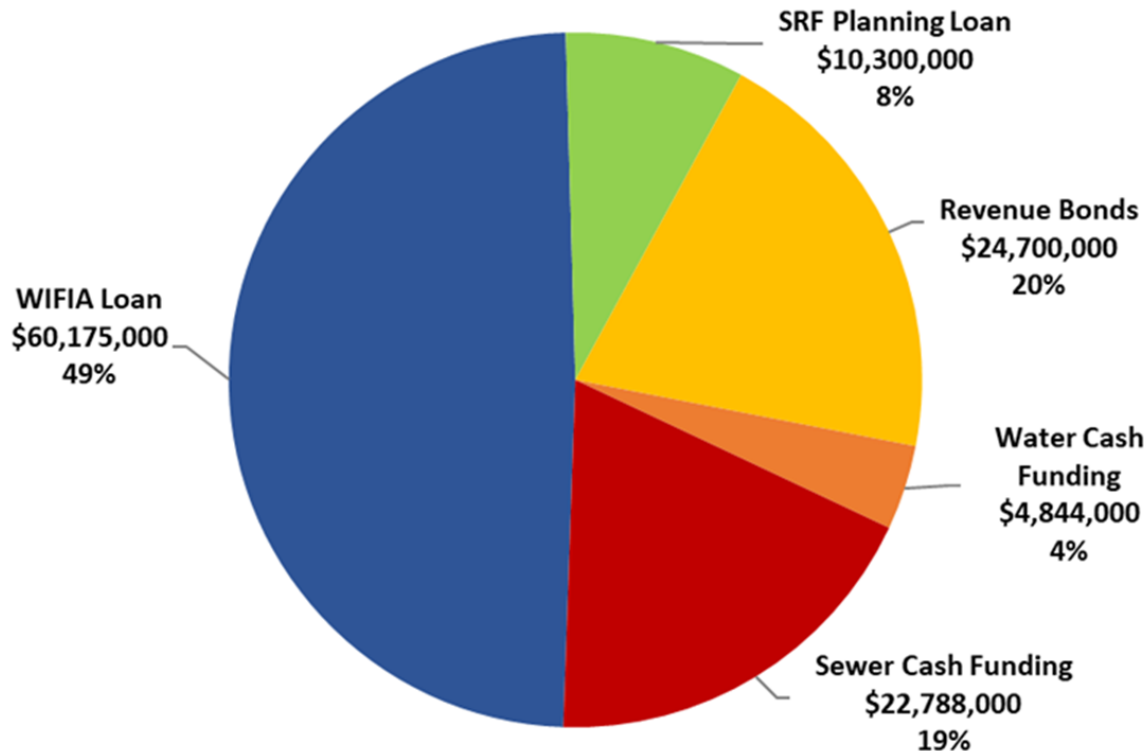
Eliminating recycled water reduces costs by a net total of \$20 million.

Recycled water helps make WRF Project eligible & competitive for subsidized loans & potential grants.

Costs of the recycled water facilities would be largely, if not entirely, offset by the financial benefits of subsidized financing available with recycling.

WRF Project Funding Sources

Total Funding Sources = \$122.8 Million



Note: If City opts for a phase-in of WRF Surcharges, cash funding would be reduced by \$4.3 million and bond financing would increase by \$4.3 million

City previously obtained \$10.3 million SRF Planning Loan

Morro Bay is 1 of 12 communities nationwide invited to submit for low-rate WIFIA financing

City pursuing low-rate SRF loan to supplement WIFIA, project hits many SRF priorities

Financial plan assumes supplemental Revenue Bond financing since no guarantees have yet been made by SRF

City planning to contribute substantial cash funding from rate increases & new surcharges

WRF Debt Estimates

Base Case Scenario

	SRF Planning Loan	WIFIA Loan	Revenue Bonds	Total
Project Funding	\$10,300,000	\$60,175,000	\$24,700,000	\$95,175,000
Term	10 Years	35 Years	30 Years	All-In TIC
Avg Interest Rate	1.70%	3.25%	4.70%	3.48%
<u>Debt Service</u>				
Through 2029/30	\$1,130,000	\$2,973,000	\$1,190,000	\$5,293,000
After 2029/30	-	\$3,422,000	\$1,871,000	\$5,293,000

Phase-In Scenario results in \$4.3 million reduced cash funding and corresponding increase in debt financing & debt service

Capital Improvement Plans

Water

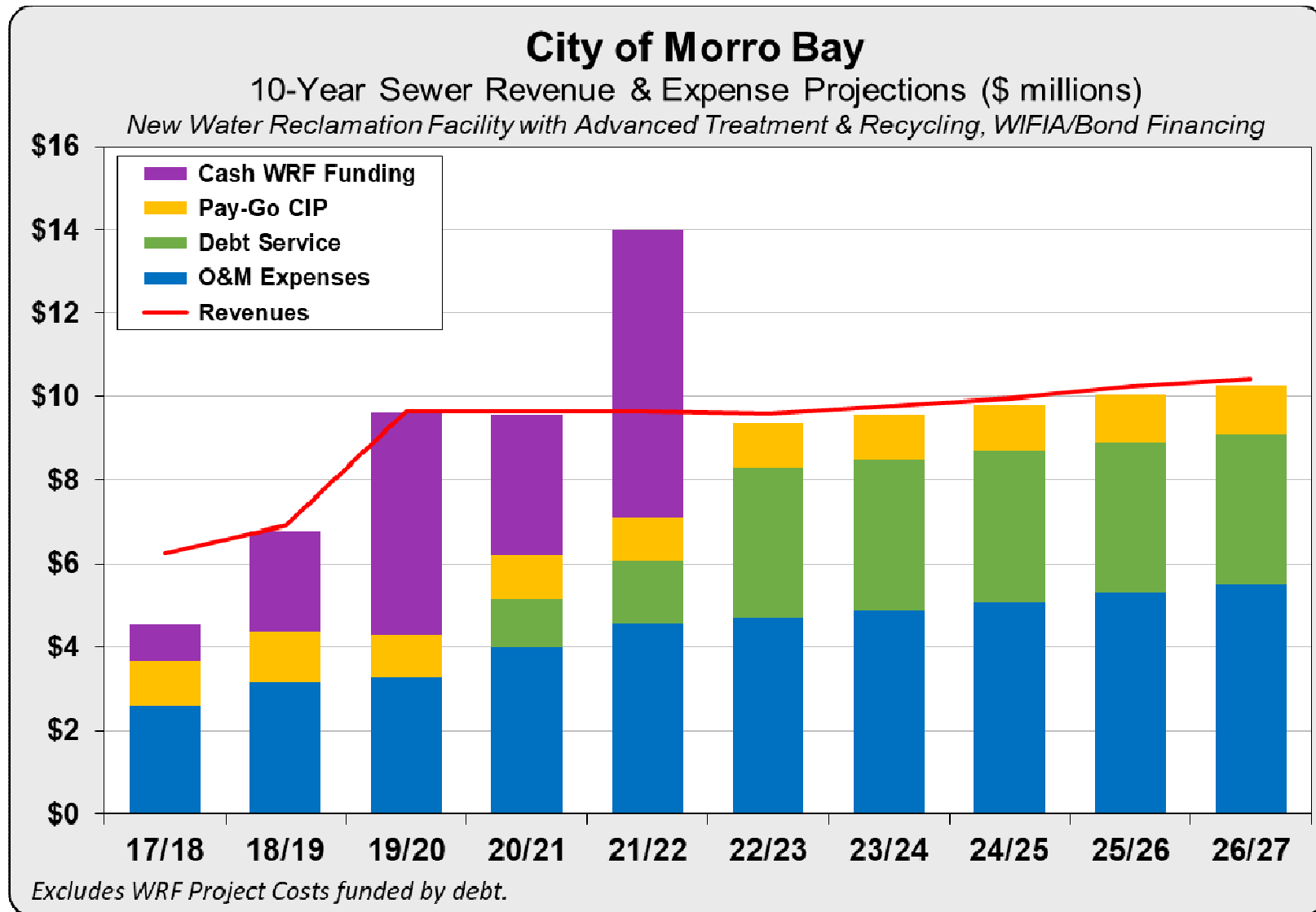
	Near-Term Years 1 - 5	Mid-Term Years 6 - 10	Long-Term Through 2040
CIP Cost Estimates	\$6,788,000	\$4,977,000	\$11,586,000
Average Annual Cost	1,357,600	995,400	965,500

Sewer

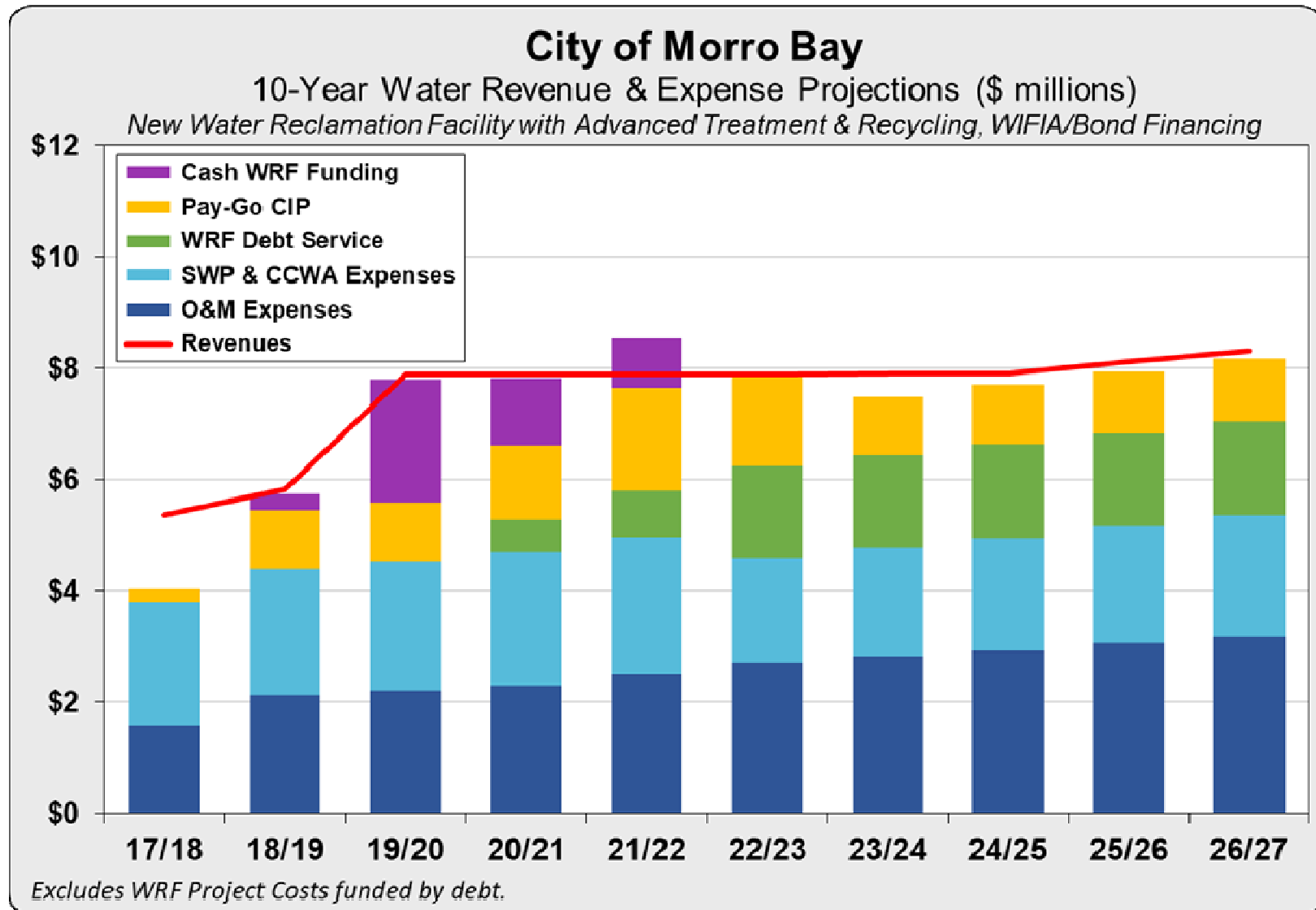
	Near-Term Years 1 - 5	Mid-Term Years 6 - 10	Long-Term Through 2040
CIP Cost Estimates	\$5,096,000	\$5,726,000	\$7,349,000
Average Annual Cost	1,019,200	1,145,200	612,417

- **Address funding needs of aging infrastructure**
- **Improve fireflow & reliability**

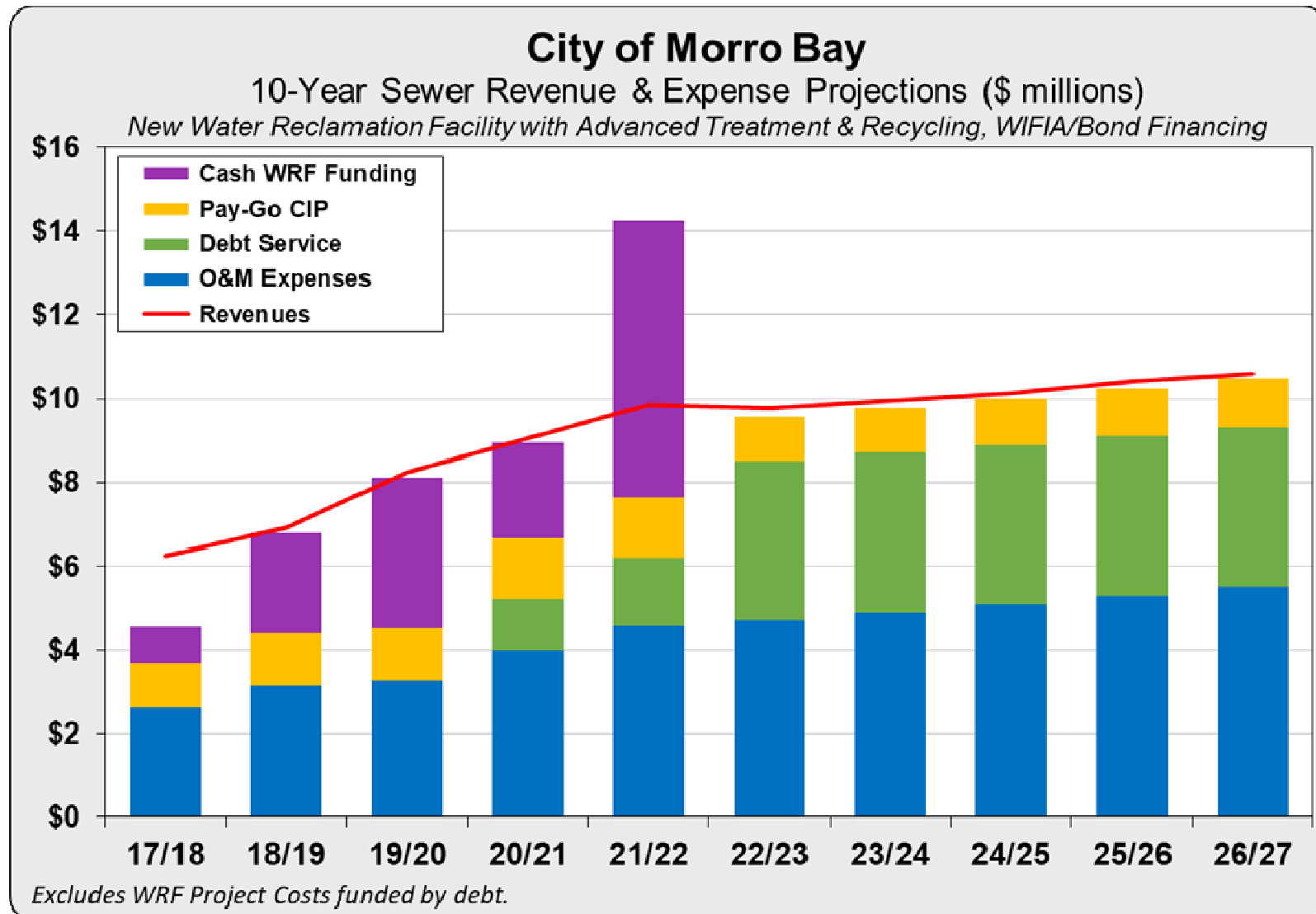
Base Case Scenario: Sewer



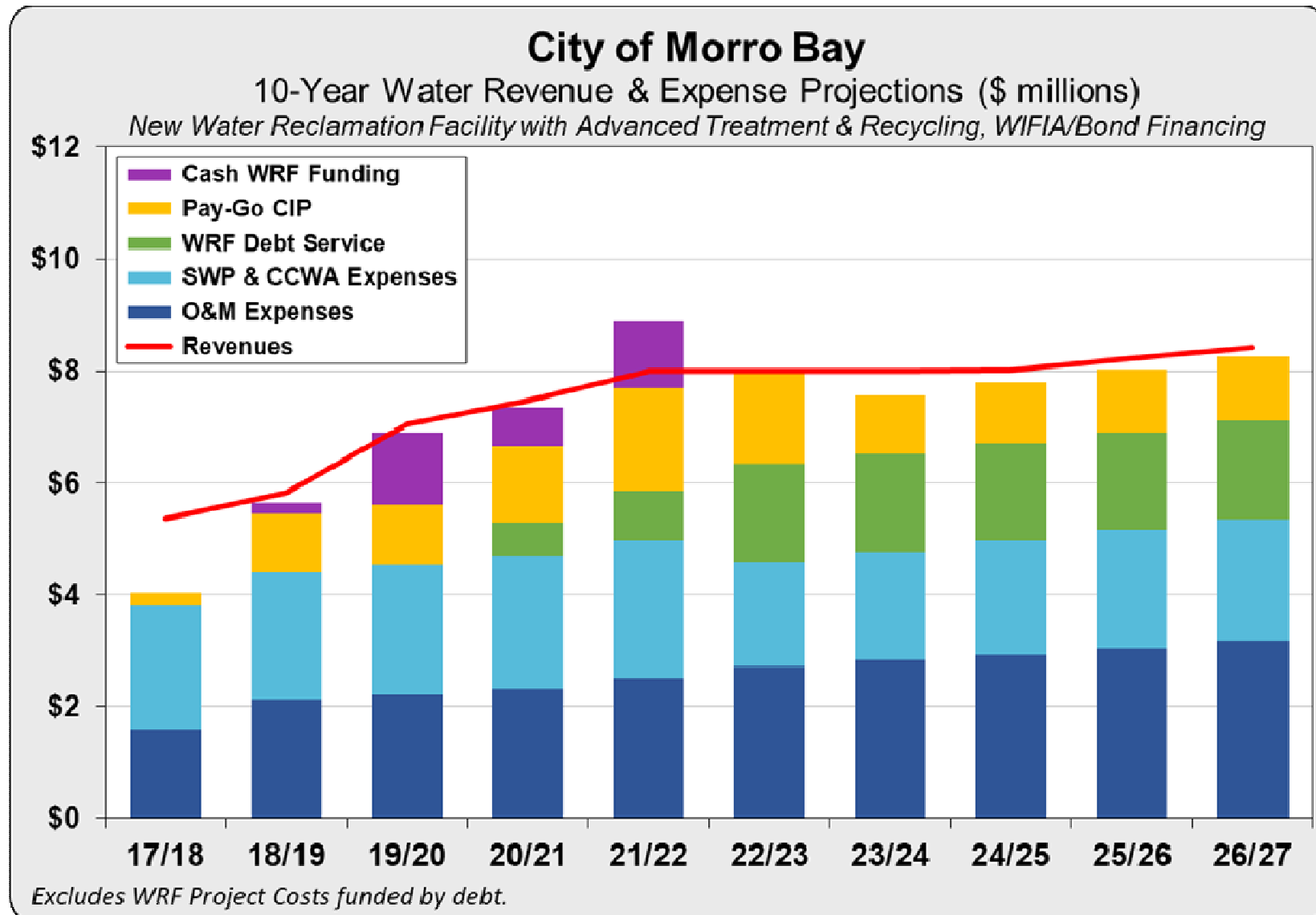
Base Case Scenario: Water



Phase-In Scenario: Sewer



Phase-In Scenario: Water



Sewer WRF Facility Surcharges

Base Case Scenario

	2018/19	2019/20	2020/21	2021/22	2022/23
RESIDENTIAL					
<i>Charge per residential dwelling unit</i>					
Single Family		\$25.00	\$25.00	\$25.00	\$25.00
Multi-Family/Condo		20.00	20.00	20.00	20.00
NON-RESIDENTIAL					
<i>Rate per hcf of metered water use</i>					
Class A - Low Strength		\$3.43	\$3.43	\$3.43	\$3.43
Class B - Domestic Strength		4.10	4.10	4.10	4.10
Class C - Moderate Strength		4.77	4.77	4.77	4.77
Class D - Mod-High Strength		5.43	5.43	5.43	5.43
Class E - High Strength		6.77	6.77	6.77	6.77
<i>Minimum Monthly Charge</i>		20.00	20.00	20.00	20.00

Sewer WRF Facility Surcharges

Phase-In Scenario

	2018/19	2019/20	2020/21	2021/22	2022/23
RESIDENTIAL					
<i>Charge per residential dwelling unit</i>					
Single Family		\$9.00	\$18.00	\$27.00	\$27.00
Multi-Family/Condo		7.20	14.40	21.60	21.60
NON-RESIDENTIAL					
<i>Rate per hcf of metered water use</i>					
Class A - Low Strength		\$1.24	\$2.47	\$3.71	\$3.71
Class B - Domestic Strength		1.48	2.95	4.43	4.43
Class C - Moderate Strength		1.72	3.43	5.15	5.15
Class D - Mod-High Strength		1.96	3.91	5.87	5.87
Class E - High Strength		2.44	4.87	7.31	7.31
<i>Minimum Monthly Charge</i>		7.20	14.40	21.60	21.60

Water WRF Facility Surcharges

Base Case Scenario

	2018/19	2019/20	2020/21	2021/22	2022/23
RESIDENTIAL					
<i>Charge per residential dwelling unit</i>					
Single Family		\$16.00	\$16.00	\$16.00	\$16.00
Multi-Family/Condo		12.80	12.80	12.80	12.80
NON-RESIDENTIAL					
<i>Rate per hcf of metered water use</i>					
Surcharge on all water use		\$3.64	\$3.64	\$3.64	\$3.64

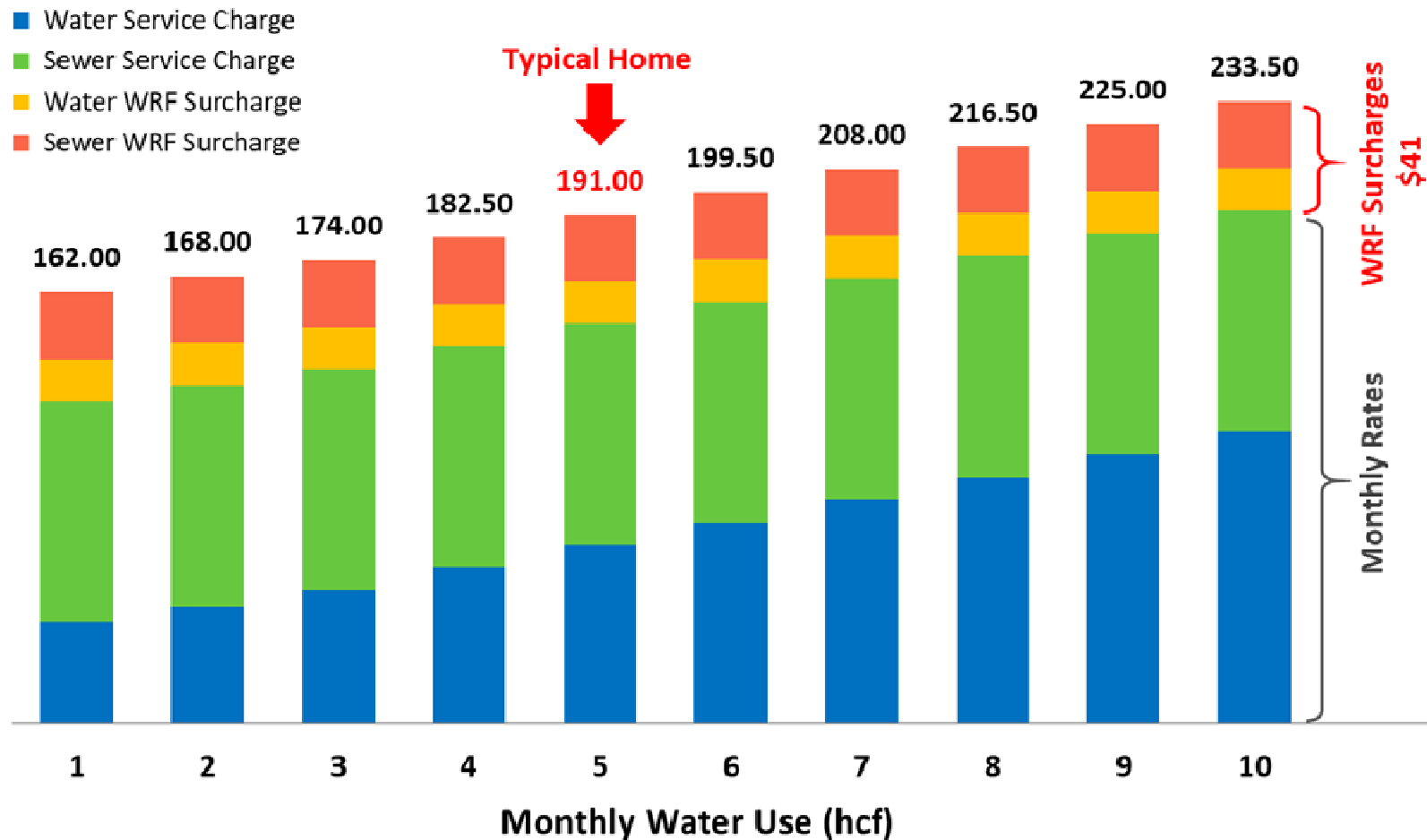
Water WRF Facility Surcharges

Phase-In Scenario

	2018/19	2019/20	2020/21	2021/22	2022/23
RESIDENTIAL					
<i>Charge per residential dwelling unit</i>					
Single Family		\$8.00	\$12.00	\$17.00	\$17.00
Multi-Family/Condo		6.40	9.60	13.60	13.60
NON-RESIDENTIAL					
<i>Rate per hcf of metered water use</i>					
Surcharge on all water use		\$1.82	\$2.73	\$3.87	\$3.87

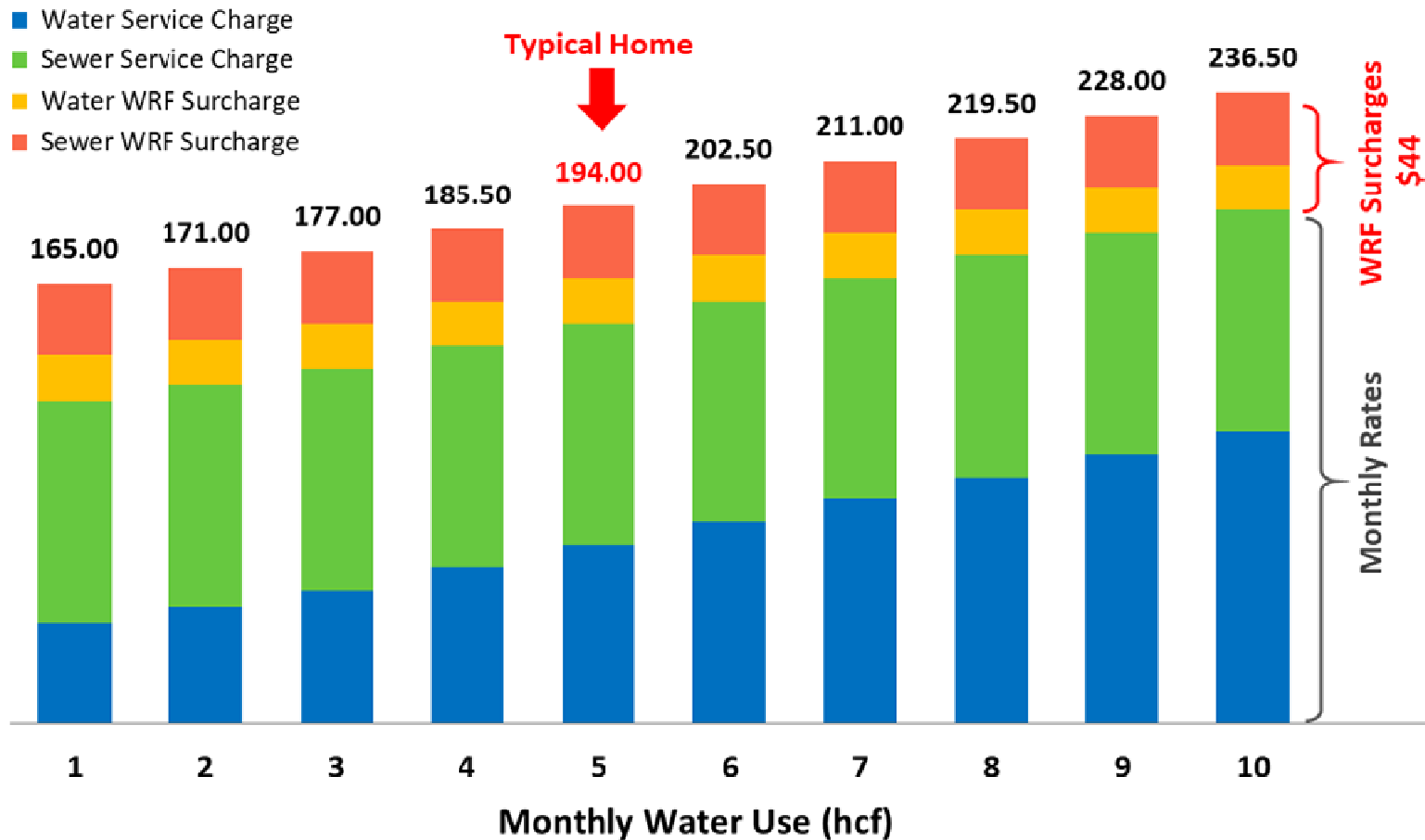
Base Case Scenario

**Total Monthly Single Family Charges
With Adopted Rates + Proposed WRF Facility Surcharges**



Phase-In Scenario

Total Monthly Single Family Charges
With Adopted Rates + Proposed WRF Facility Surcharges



Billing Alternatives

- Separate line-items on monthly bills
- Collect via property tax rolls

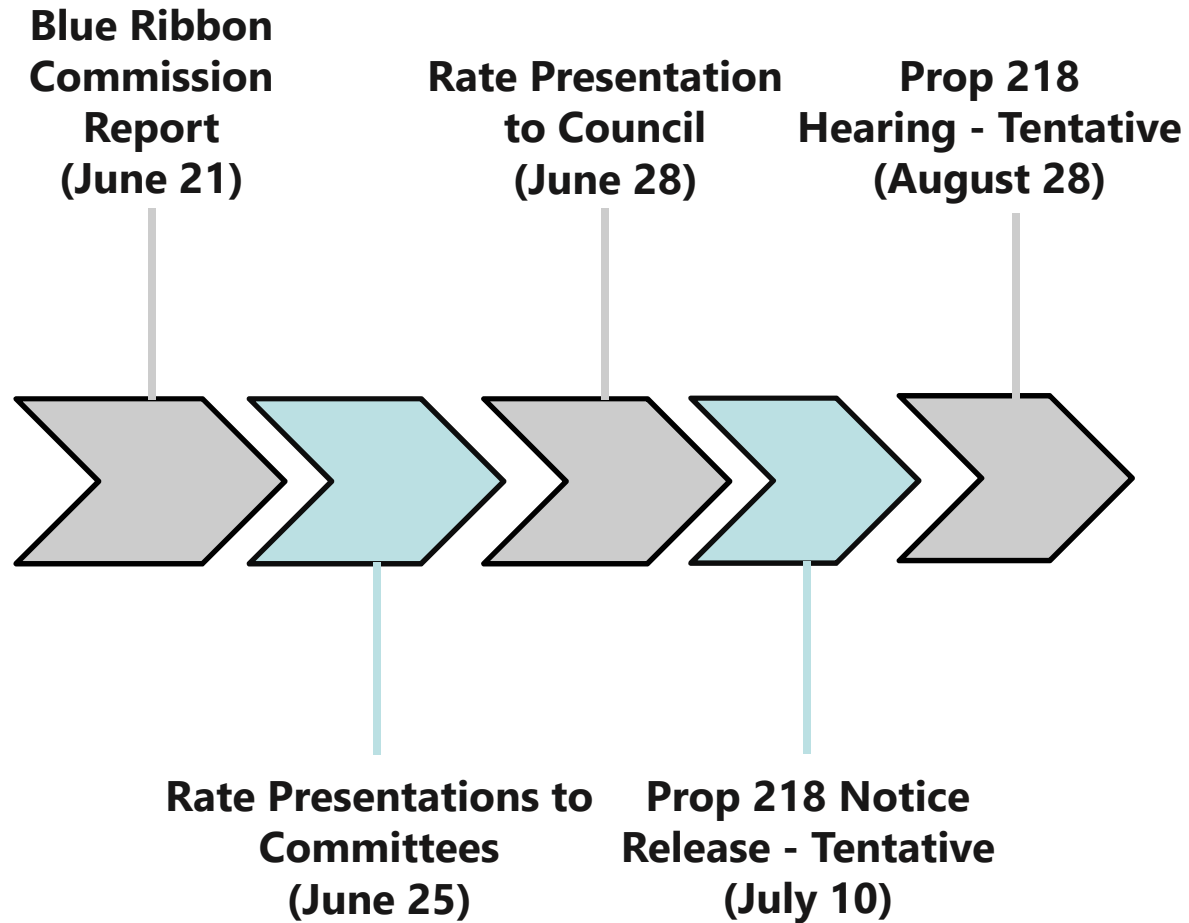
Example

	Annual Total	December Installment 1	April Installment 2
WRF Facility Surcharges			
Base Case Scenario	\$492.00	\$246.00	\$246.00
Phase-In Scenario	528.00	264.00	264.00

Council Direction

- **Front-loaded vs. phase-in**
- **Property tax vs. monthly bill**
- **Authorize City Manager to serve as authorizing and submit the WIFIA loan application accompanied by the application fee of \$25,000**

Next Steps



Questions & Discussion



Community Questions

