



Financial Impact of Secondary Process Improvements Project

Board of Directors Meeting
March 25, 2021



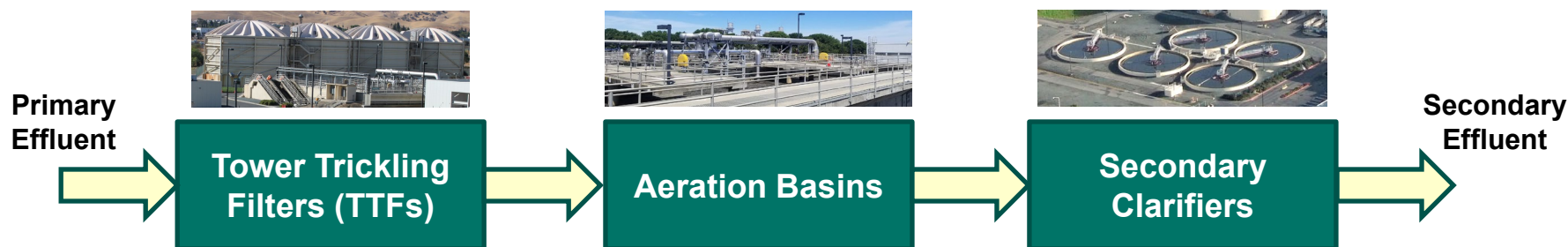
Goals

- Highlight key infrastructure needs associated with Secondary Process Improvements Project
- Review capital cost impacts on 5-year Sewer Service Charge (SSC) increase projection for various financing scenarios



Infrastructure Needs Existing Secondary Process

Two-Stage Biological Secondary Treatment Process



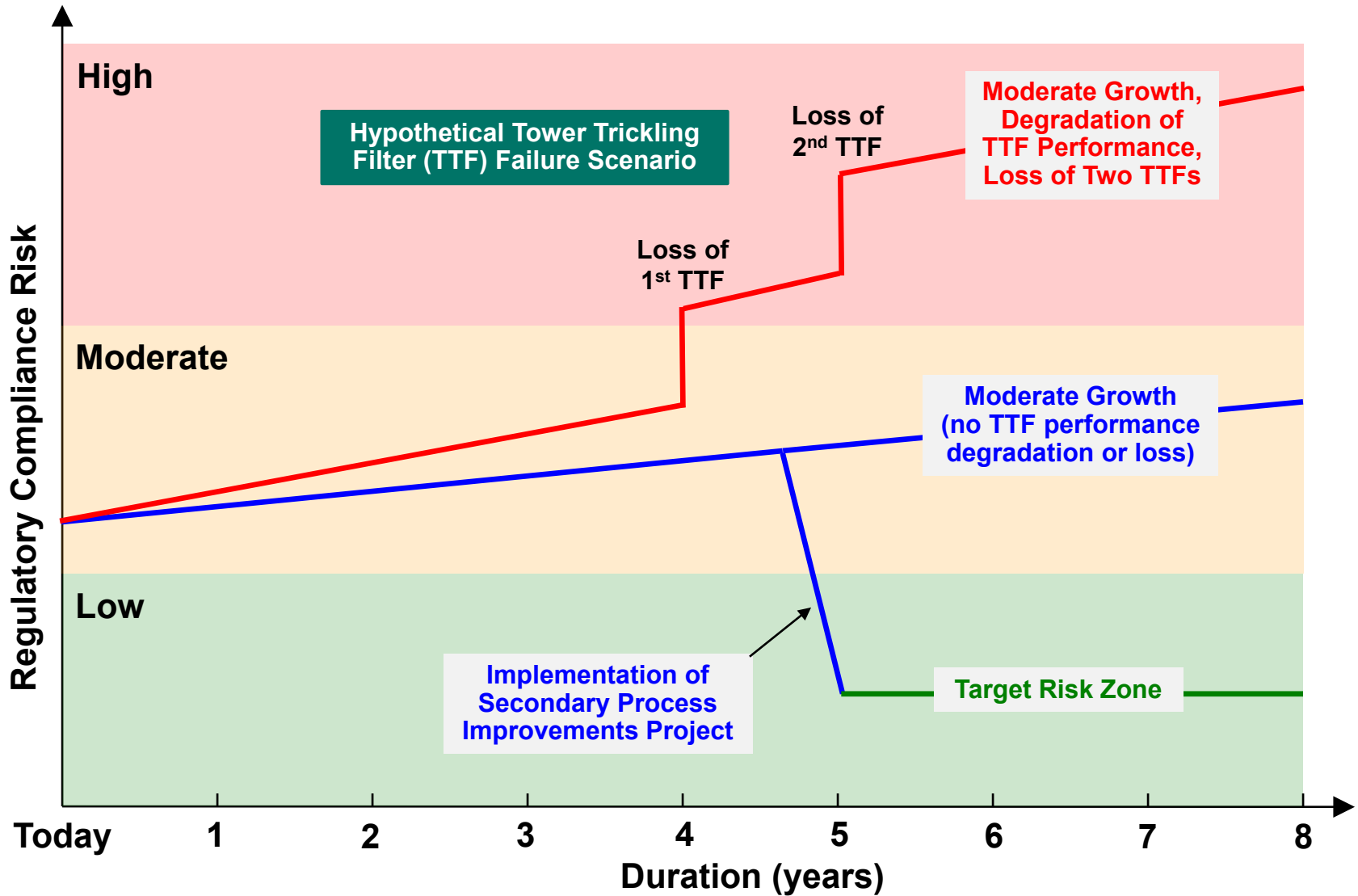
- Historical “workhorse” of treatment process; designed for industrial wastewater strength
- Aging infrastructure, end of useful life
- Significant regulatory compliance risk if failure occurs (violations, fines)
- Expansion of existing aeration basin volume is required to replace loss of TTF treatment capacity and meet service area growth needs
- Addition of a sixth secondary clarifier is required to address loss of TTFs

Infrastructure Investment Secondary Process Improvements



- Continue operating TTFs until performance degrades
- Completely bypass TTFs over time
- Continued investment in TTFs does not support compliance with future nutrient removal requirements
- Expand existing aeration basin volume (1.9 million gallons [MG]):
 - +0.8 MG for TTF replacement
 - +0.4 MG for future growth in service area through 2040
- Rehabilitate secondary influent pumping station
- Build deeper aeration basins for compatibility with future nutrient removal
- Add a sixth secondary clarifier (0.7 MG)

Secondary Process Improvements Project Addressing Regulatory Compliance Risk



Secondary Process Improvements Project Cost Estimate, Cost Allocation



- Estimated capital cost = **\$60.0 million**
 - Aeration basin expansion, pumping station upgrades, new clarifier, power distribution system upgrades
- Because project includes replacement of infrastructure (TTFs), creation of new assets (aeration basins), and additional treatment capacity for growth (2040), **proposed cost allocation** is as follows:
 - WW Capital Asset/WW Capital Asset Replacement = 78%
 - WW Expansion = 16% (funded by CFCCs)
 - Advanced Treatment = 6% (deeper tanks)
- Staff has developed an analysis of financial impacts to support the District's guiding principles for financial sustainability

Financial Sustainability Guiding Principles



Guiding Principles	Key Actions
<p>Ensure effective prioritization of a CIP that addresses critical infrastructure needs</p>	<ul style="list-style-type: none"> ▪ Incorporated critical \$60.0M project, \$11.0M from master plan condition assessment findings ▪ Effectively prioritized and deferred projects <ul style="list-style-type: none"> – Current 5-year CIP = \$81M – Proposed 5-year CIP = \$67M + \$60M = \$127M; deferred \$10.2M out of Years 1, 2, 3 for seven large projects
<p>Utilize a 5-year rate model to identify SSC revenue needed to meet cost projections without sharp rate increases</p>	<ul style="list-style-type: none"> ▪ Incorporated various debt financing approaches to minimize near-term SSC increases, while meeting District financial needs ▪ Effective CIP prioritization, operating cost control
<p>Maximize cash funding of CIP (vs. debt financing) to ensure lowest overall costs for District customers</p>	<ul style="list-style-type: none"> ▪ Significant challenge given magnitude of \$60M need in Year 3 (FY23/24) of proposed CIP ▪ Seek low borrowing costs for debt issuance ▪ Staff has developed SSC increase scenarios for various cash/debt funding assumptions

Secondary Process Improvements Project

Financial Impacts



- Updated 5-year SSC increase projection for various financing assumptions
 - Utilized preliminary FY21/22 Operating Budget, new 5-year CIP

Wastewater SSC Increase 5-year Projection*

	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26
100% Cash	16%	16%	15%	0%	0%
50% Cash/50% Debt	8.0%	8.0%	7.5%	7.5%	7.5%
25% Cash/75% Debt	6.0%	6.0%	6.0%	6.0%	6.0%
100% Debt	5.5%	5.5%	5.0%	3.0%	3.0%

*Preliminary values for financial planning purposes only and subject to change

- 100% cash and 50%/50% funding is likely not feasible
- SSC increase of 6.0-6.5% provides debt-funding flexibility

Recommendations/Next Steps

- Provide any comments on key financing assumptions and preliminary SSC increase forecast
- Upcoming Schedule – April 14, 2021 Board Meeting
 - Review Proposed SSC Increase for FY21/22
 - Approve Prop. 218 Notice for Distribution
 - Set SSC Increase Public Hearing Date for June 9, 2021

