



Budget & Finance Committee Meeting
Tuesday, January 5, 2021 at 1:00 PM
Valley Sanitary District
45-500 Van Buren Street, Indio, CA 92201

*******SPECIAL NOTICE – VIA TELECONFERENCE*******

Pursuant to the Governor's Executive Order N-25-20 issued on March 4, 2020 and N-29-20 issued on March 18, 2020, the Budget & Finance Committee meeting will be conducted remotely through Zoom.

Members of the public wanting to participate in the open session of the meeting may do so via the following Zoom registration link:

<https://zoom.us/j/95379913228?pwd=aEtZVmdEaXR5UGJqdDVUcW5mWnB5dz09> Meeting ID 953 7991 3228 or by telephone 669-900-9128 or 253-215-8782. Members of the public wanting to address the Board, either during public comment or for a specific agenda item, or both, are requested to send an email notification no later than 12:30 p.m. on the day of the meeting to the Valley Sanitary District's Clerk of the Board at hgould@valley-sanitary.org.

Page

1. CALL TO ORDER

- 1.1. Roll Call
- 1.2. Pledge of Allegiance

2. PUBLIC COMMENT

This is the time set aside for public comment on any item not appearing on the agenda. Please notify the Secretary in advance of the meeting if you wish to speak on a non-hearing item.

3. DISCUSSION / ACTION ITEMS

3.1. RFP Audit Services Review 3 - 25

[3.1 RFP Audit Services Results.pdf](#) 

[3.1 Attachment A Proposal for Professional Auditing Services.pdf](#) 

[3.1 Attachment B List of RFP submitted.pdf](#) 

3.2. Sewer Rate Study Review 26 - 58

[3.2 Wastewater Rate Study Update.pdf](#) 

[3.2 Attachment A Technical Memo NBS.pdf](#) 

[3.2 Attachment B Wastewater Rate Study Update Presentation.pdf](#)


4. FUTURE MEETING ITEMS

5. ADJOURNMENT

Pursuant to the Brown Act, items may not be added to this agenda unless the Secretary to the Board has at least 72 hours advance notice prior to the time and date posted on this notice.



**Valley Sanitary District
Budget & Finance Committee
January 5, 2021**

TO: Budget & Finance Committee
FROM: Jeanette Juarez, Business Services Manager
SUBJECT: Request for Proposal (RFP) Auditing Services Results

<input type="checkbox"/> Board Action	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

Executive Summary

The purpose of this report is to bring the results of RFP for Auditing Services for discussion to the Budget & Finance Committee.

Strategic Plan Compliance

This item complies with VSD Strategic Plan Objective 5.1: Align long-term financial planning with strategic priorities.

Fiscal Impact

There is no fiscal impact from this report.

Background

Valley Sanitary District released an RFP for Auditing Services on November 12, 2020 to comply with Government Code section 1240.6(b), which indicates that “a local agency shall not employ a public accounting firm to provide audit serviced to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local Agency for six (6) consecutive fiscal year”.

The RFP invited responses from highly qualified and experienced independent certified public accounting firms with proven records of accomplishments for a one (1) year agreement with two (2) option years to perform the annual audit of the District’s financial statements. The District received eight (8) proposals. All proposals were reviewed and rated based on various factors including staff experience, references, and ability to understand and implement the scope of work. Davis Farr LLP received the highest overall score. Their proposal was clear, concise, and demonstrated a strong understanding of the scope of work.

Recommendation

Staff recommends that the Budget & Finance Committee review the Davis Farr LLP proposal and provide comments and feedback.

Attachments

Attachment A: Proposal for Professional Auditing Services

Attachment B: List of RFP's submitted



Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Prepared By:

Davis Farr LLP
2301 Dupont Drive, Suite 200
Irvine, CA 92612

December 1, 2020

Contact Person:

Jonathan Foster, CPA | Partner
Office: 949.474.2020 | Direct: 949.783.1744
Email: jfoster@davisfarr.com

Table of Contents

Transmittal Letter

Section A – About Davis Farr LLP 1

Section B – Our Prior Experience Auditing Government Agencies..... 3

Section C – Client References 4

Section D – Partner, Supervisory and Staff Qualifications and Experience 4

Section E – Audit Approach 8

Section F – Implementation of New GASB Pronouncements 11

Section G – Scope of Work 12

Section H – Proposed Timing of the Audit..... 13

Section I – Proposed Costs and Audit Segmentation 13

APPENDIX

Peer Review Documentation

December 1, 2020

Valley Sanitary District
Jeanette Juarez, Business Services Manager
45-500 Van Buren St
Indio, CA 92201

Dear Ms. Juarez,

We are pleased to provide our proposal to perform audit services to Valley Sanitary District (the "District") for the fiscal years ending June 30, 2021 through 2023.

Our service philosophy is one of open and constant communication, a proactive approach and responsive, value-added services. We will listen to your ideas and concerns and will bring creative solutions to you in both financial and other operational areas. We are aware that while the District has solicited numerous proposals, Davis Farr LLP would be your best selection for the following reasons which are set forth in greater detail in our proposal:

- We take a proactive leadership role in local government accounting and auditing issues. We serve on the Government Accounting and Audit Committee of the Cal CPA Society, the CSMFO Professional Standards Committee and are frequent speakers on technical topics at conferences and training events throughout California.
- Our Partners have been providing audit services to governmental special districts for over 30 years. Davis Farr currently provides audit services to many special districts and agencies such as Ventura Regional Sanitation District, Leucadia Wastewater District and Cucamonga Valley Water District to name a few.
- We utilize data mining software to evaluate anomalies in your accounting data. This helps focus our auditors' attention on potential errors in the accounting records and transactions that could be more susceptible to fraud.
- We regularly perform additional services for our clients in the form of agreed upon procedures in areas of internal control cycles such as cash receipting, cash disbursement and payroll.

We appreciate the opportunity to share our credentials and look forward to developing our professional relationship. Our proposal remains a firm and irrevocable offer for 90 days from December 1, 2021. I certify that I am authorized to make representations for the firm and enter into contract with the District. I look forward to you contacting me so that I may answer further any questions which you may have. You may contact me at (949) 783-1744.

Very truly yours,



Jonathan Foster, CPA
Partner

Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Section A – About Davis Farr LLP

Background Information – Davis Farr LLP is a full-service regional accounting firm that specializes in providing attest and advisory services to federal, state, and local governments as well as non-profit entities out of our Orange County and San Diego offices. This engagement would be serviced by our Orange County office located in Irvine. Our personnel have served governmental and non-profit entities for over 30 years. A breakdown of our government audit personnel by classification is as follows:

Classification	Employees
Partners	7
Managers	8
Supervisors	4
Seniors	17
Staff	13
Administrative	3
Total Personnel	52

License to Practice in California – Davis Farr LLP and all key personnel are licensed with the California State Board of Accountancy to practice as independent certified public accountants.

Federal Tax Identification Number: 47-3535842

Independence – Davis Farr LLP is independent with respect to Valley Sanitary District as defined by U.S. General Accounting Office’s *Government Auditing Standards* and Generally Accepted Auditing Standards.

Insurance – Davis Farr LLP has sufficient insurance coverage to meet or exceed the Agency’s requirements and will provide insurance certificates to the Agency prior to entering a contract.

Quality Control – Davis Farr LLP and its Partners are members of the American Institute of Certified Public Accountants (AICPA) and is a member of the AICPA’s Government Audit Quality Center. Our firm is a voluntary participant in the AICPA Peer Review Program. Included in the appendix is our most recent Peer Review report where our firm received a *Pass*. A *Pass* demonstrates the highest level of quality control in a Peer Review. The Peer Review included a review of government engagements. Davis Farr LLP has not had any federal or state desk reviews or field reviews during the past three years apart from a review performed by the Department of Transportation (DOT). The report concluded that our audit work complied with the requirements of the single audit act, the uniform guidance, and DOT’s major programs and included a recommendation related to documentation. There has been no disciplinary action taken or pending against the firm during the past three years with state regulatory bodies or professional organizations.

Training – Every professional of the firm must enroll in continuing professional education courses. Each person is required to take at least 80 hours of training over a two-year period including 24 hours a year specific to government accounting and audit topics. Courses cover a wide spectrum of professional and technical subjects, and include Fraud Auditing, Professional Ethics and Governmental Accounting and Auditing topics to help the practitioner maintain his/her professional expertise.

Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Professional Affiliations

Government Audit Quality Center – Davis Farr LLP is a member of the Government Audit Quality Center (GAQC). The GAQC promotes the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services. GAQC is a voluntary membership center for CPA firms and state audit organizations that perform governmental audits.

National Registry of CPE Sponsors – Davis Farr LLP is registered to provide continuing professional education through the National Association of State Board of Accountancy (NASBA). NASBA recognizes CPE program sponsors who provide continuing professional education programs in accordance with nationally recognized standards.

Cal CPA – Many of the CPAs employed by Davis Farr LLP are members of Cal CPA and regularly participate in chapter meetings, education, and events. Cal CPA recognized one of Davis Farr LLP’s Partners with their **Women to Watch** award in the Experienced Leader category. Davis Farr LLP partners are also members of the **Governmental Accounting and Auditing Committee** of the CalCPA.

American Institute of CPAs – Davis Farr LLP and the firm’s Partners are members of the American Institute of CPAs (AICPA). The AICPA develops standards for audits, provides educational guidance materials to its members, and monitors and enforces compliance with the profession’s technical and ethical standards.

CSMFO – The Partners of Davis Farr LLP are members of the California Society of Municipal Finance Officers (CSMFO), the statewide organization serving all California municipal finance professionals. Firm personnel regularly attend CSMFO Chapter Meetings and Conferences. The Partners of Davis Farr LLP are frequent presenters on accounting and auditing technical topics at Chapter Meetings and Conferences.

GFOA – The Government Finance Officers Association (GFOA) enhances and promotes the professional management of governmental financial resources by identifying, developing, and advancing fiscal strategies, policies, and practices for the public benefit. The Partners of Davis Farr LLP are members of the Certificate of Achievement Program’s Special Review Committee. The Committee reviews Comprehensive Annual Financial Reports submitted to GFOA for the CAFR Award Program.

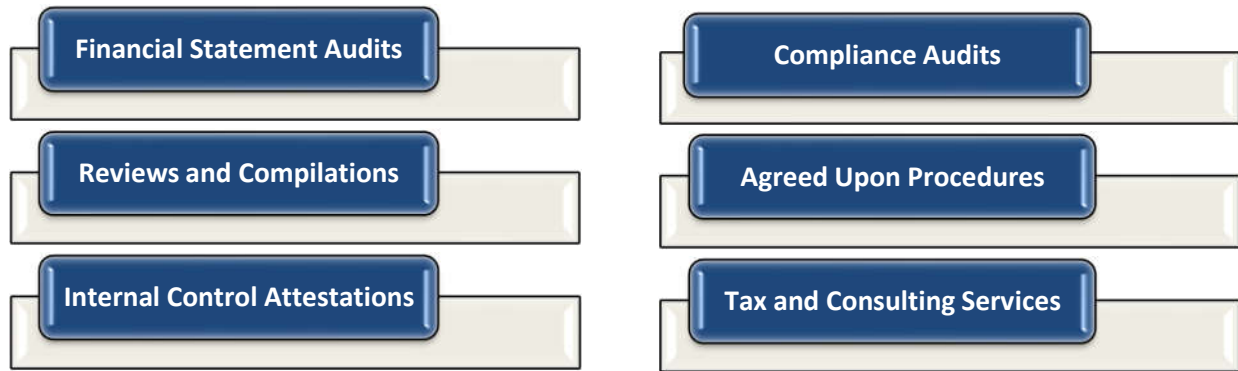


Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Section B – Our Prior Experience Auditing Government Agencies

Davis Farr LLP is a leader in the local government sector throughout the Southern California Area. Currently, we service approximately 60 local, state, and federal government entities. Davis Farr LLP services routinely provided to our clients include, but are not limited to:



Our government expertise includes Cities, Special Districts, and other Governmental entities. Some of the government agencies that the professionals of Davis Farr LLP have served recently are the following:

City of Avalon	Cucamonga Valley Water District
City of Carlsbad	Eastern Municipal Water District
City of Commerce	Hass Avocado Board
City of Coronado	Irvine Ranch Water District
City of Costa Mesa	Leucadia Wastewater District
City of Dana Point	Metropolitan Water District of Southern CA
City of Delano	Municipal Water District of Orange County
City of Encinitas	Orange County LAFCO
City of Fontana	Oxnard Housing Authority
City of Fountain Valley	Placer County Water Agency
City of Garden Grove	Salton Sea Authority
City of Huntington Beach	San Diego County Water Authority
City of Laguna Niguel	San Diego Association of Governments
City of Mission Viejo	San Diego LAFCO
City of Poway	San Dieguito Riverpark Authority
City of Rancho Santa Margarita	Sweetwater Authority
City of Santee	Tahoe Regional Planning Agency
City of Victorville	Tahoe Transportation District
County of Woodland	Vallecitos Water District
County of Fresno Housing Authority	Walnut Valley Water District
County of San Diego	West Basin Municipal Water District

Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Section C – Client References

For your convenience, we have listed below references for audit work currently being performed by Davis Farr LLP personnel for several clients. For each of the references, we currently serve as independent auditors and have served these clients for a number of years.

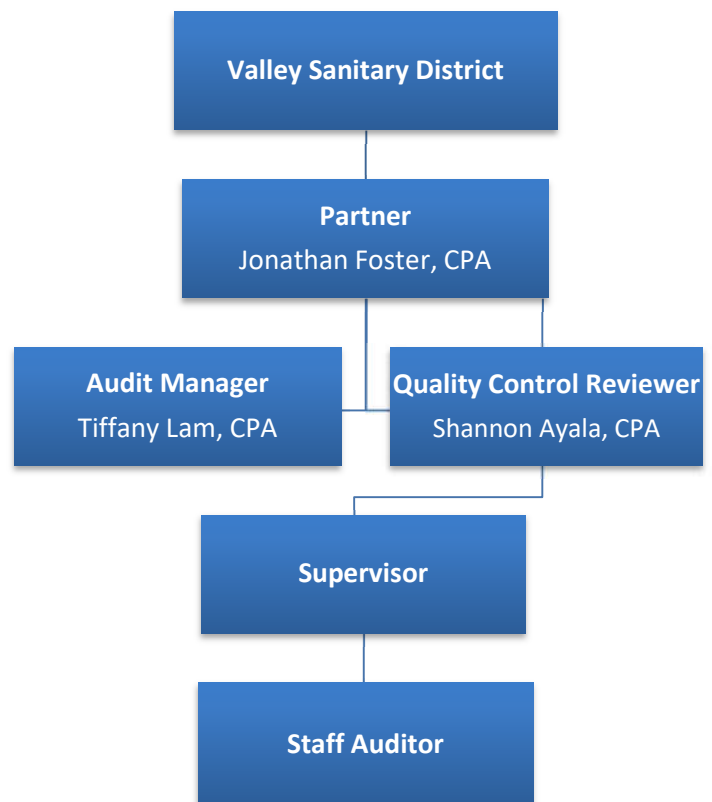
	Client	Client Contact	Telephone/Email
1.	Leucadia Wastewater District 1960 La Costa Avenue Carlsbad, CA 92009	Richard Duffey, CPA <i>Administrative Services Manager</i>	760.753.0155 rduffey@lwwd.org
2.	Placer County Water Agency 144 Ferguson Road Auburn, CA 95604	Carrie Parks <i>Deputy Director of Financial Services</i>	530.823.4840 cparks@pcwa.net
3.	Cucamonga Valley Water District 10440 Ashford Street Rancho Cucamonga, CA 91730	Jennifer Fillinger <i>Accounting Supervisor</i>	909.483.7453 jenniferf@cvwdwater.com

Section D – Partner, Supervisory and Staff Qualifications and Experience

The successful outcome of any audit requires personnel with the managerial and technical skills to perform the work required. The engagement team who will serve Valley Sanitary District have served together as a team of professionals on numerous financial audit examinations of local government entities. While not anticipated, any personnel substitutions will be of equally qualified personnel.

We believe that efficient administrative management and supervision of the audits is an extremely critical factor in achieving the desired results Valley Sanitary District. In that regard, our proposed organizational structure for providing independent auditing services is as illustrated to the right.

In accordance with CA Government Code Section 12410.6 requiring partner rotation, it is the practice of Davis Farr to rotate the Quality Control Reviewer into the role of Partner on the job after six years unless requested otherwise.



JONATHAN FOSTER, CPA

PARTNER

California CPA Certificate No. 117853

Mr. Foster will serve as the Engagement Partner on the engagement. He has 13 years of audit experience with government agencies. The types of audits Mr. Foster is involved in includes financial audits of cities and special districts and Single Audits in accordance with the Uniform Guidance. Mr. Foster is also a CAFR and Budget reviewer for the CSMFO award and is a regular presenter at firm wide training and external training events as requested. He was a featured speaker at the 2019 CSMFO Conference in Palm Springs where he presented on *Capital Assets: Bridging the GAAP between Engineering and Finance* and is presenting at the upcoming 2021 CSMFO Conference.



PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

California Society of Certified Public Accountants

Member of Cal CPA Government Audit & Accounting Committee

California Society of Municipal Finance Officers

CAFR and Budget Award Reviewer

EDUCATION

Bachelor of Accountancy

University of San Diego

AUDITS OF SPECIAL DISTRICTS AND AGENCIES

Big Bear Area Regional Wastewater Authority

Big Bear Community Facilities District

Cucamonga Valley Water District

East Orange County Water Agency

Irvine Ranch Water District

Placer County Water Agency

Trabuco Canyon Water District

Soquel Creek Water District

Ventura Regional Sanitation District

San Bernardino Municipal Water Department

San Diego Association of Governments

Santiago Aqueduct Commission

Saticoy Sanitary District

West Basin Municipal Water District

ADDITIONAL RELEVANT EXPERIENCE

Irvine Ranch Water District – Proposition 218 Agreed Upon Procedures

Irvine Ranch Water District/Orange County Sanitation District – Fund Specific Audit

Metropolitan Water District of Southern California - Local Resource Program Audits

Municipal Water District of Orange County - Consulting

SHANNON AYALA, CPA
QUALITY CONTROL REVIEWER

California CPA Certificate No. 88126

Ms. Ayala is a Partner with Davis Farr and will serve as the Quality Control Reviewer on this audit. She will provide technical assistance to the audit team and review the final reports before they are released. Ms. Ayala is a Certified Public Accountant with seventeen years of audit experience, spending most of that time on audits for local governments. Ms. Ayala has performed financial statement audits of cities and special districts; grant specific audits of funds awarded by Federal, state, and county governments; Single Audits in accordance with Uniform Guidance, and compliance audits. She also oversees the annual GASB update presented in San Diego and offered to our clients on an annual basis.



PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants
California Society of Certified Public Accountants

EDUCATION

Bachelor of Science – Accounting,
San Diego State University

AUDITS OF SPECIAL DISTRICTS AND AGENCIES

LAFCO – Imperial County
LAFCO – San Diego County
Leucadia Wastewater District
Rancho California Water District
Salton Sea Authority

San Diego Association of Governments
San Diego County Water Authority
San Dieguito River Park JPA
Sweetwater Authority
Vallecitos Water District

ADDITIONAL RELEVANT EXPERIENCE

San Diego County Water Authority – Local Water Supply Development Program Audits
Integrated Regional Water Management Program – Local Project Sponsor Agreed Upon Procedures
Metropolitan Water District of Southern California - Local Resource Program Audits
Eastern Municipal Water District – Various Agreed Upon Procedures

INTRODUCTION

Ms. Lam has eight years of audit experience, spending the majority of that time on audits for non-profits, and federal and local government engagements. The types of audits Ms. Lam has been involved in include: financial audits of non-profits, cities and special districts; grant specific audits of funds awarded by Federal, state, and county governments; Single Audits in accordance with Uniform Compliance; and Federal compliance audits.



PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

California Society of Certified Public Accountants

EMPLOYMENT HISTORY

Davis Farr LLP: June 2015 to present

National CPA firm: 2012 to 2015

EDUCATION

Bachelor of Arts in Business Administration/Accounting
California State University, Fullerton

AUDITS OF SPECIAL DISTRICTS

Cucamonga Valley Water District
Eastern Municipal Water District
Irvine Ranch Water District
Los Angeles Homeless Services Authority
Los Angeles Interagency Metropolitan Police
Apprehension Crime Task Force

Rancho California Water District
San Bernardino Municipal Water Department
San Diego Association of Governments
Sweetwater Authority
Tahoe Regional Planning Agency

AUDITS OF CITIES

City of Avalon
City of Carlsbad
City of Commerce
City of Del Mar
City of El Segundo
City of Fountain Valley

City of Huntington Beach
City of Inglewood
City of Mission Viejo
City of Torrance
City of Victorville
City of Woodland

Section E – Audit Approach

Davis Farr plans and conducts our engagements in the most efficient manner possible, and our audit approach is unique with regard to the following:

- Our firm is sensitive to the priorities and work requirements of our clients. We work around the schedules of our clients when scheduling segments of the audit or requesting documentation in order to minimize disruption of District staff and to complete the audit in a timely manner.
- Whenever possible, we use accounting support already prepared by the District staff to avoid duplication or unnecessary requests for audit supporting schedules. Typically, we request support for balance sheet items, the year ending trial balance and cash and long-term debt confirmations.
- Our firm's expertise is in governmental auditing. Our auditors are GASB experts and skilled at addressing audit issues that are specific to local governments. You will not spend time training our personnel.
- When formulating internal control recommendations, we obtain a thorough understanding of the specific circumstances at your District to provide a tailored, practical recommendation.
- Throughout the year we are a resource to our clients in providing accounting advice, researching technical questions, dealing with tax problems, and helping with other problems as they arise.

Audit Software – We utilize CaseWare audit software for the electronic workpapers. We have the ability to accept audit documentation in either hard copy or electronic format. CaseWare allows us the ability to import trial balances that can be provided in either excel or a text document. Some of the benefits of using CaseWare trial balance software are as follows:

- We create our own lead sheets (i.e., analytical review comparison schedules). This limits the amount of time finance staff spends creating audit schedules. Our software automatically generates analytical review reports by account number for ease of analyzing significant fluctuations between fiscal years.
- We can link the financial statement schedules directly to the CaseWare trial balances. As a result, we can provide the District with financial statements almost immediately after receiving the trial balance from the District. Additionally, journal entries are easy to post to the financial statement schedules and the risk of data entry error is minimized.
- We can provide the District with reports showing the coding of the financial statement schedules for ease of review by District staff. These reports show each account coded to a specific financial statement line item as well as journal entries that are posted during the audit.

Data Mining Software

We have a dedicated team of personnel trained to use special data mining software, IDEA. Our software uses source data from your accounting system to search for anomalies, such as duplicate or voided checks, cross-referencing vendor addresses with employee addresses, detecting accounting transactions

Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

recorded on the weekend, reviewing journal entry postings for unauthorized individuals. The IDEA software identifies specific transactions for the auditors to review for potential fraud or error.

Internal Control Evaluation

Our approach to evaluating internal controls involves observation and inquiry. We spend time with the personnel responsible for the accounting cycles to gain an understanding of the processes. We also carefully evaluate your policies and procedures. After our initial evaluation, we identify key controls in your processes and design test to evaluate the effectiveness of those processes. In the initial year of the audit, we will focus on the following accounting cycles:

- Billing and cash receipting
- Capital assets
- Purchase and disbursements
- Payroll
- Investment and cash controls
- Information systems

In future years, we will review the accounting cycles noted above but also look at other processes such as credit card transactions, petty cash, inventory controls, offsite cash receipting, employee reimbursements, contract compliance, and other areas. Our goal is to modify our audit approach every year to further evaluate your internal controls.

Audit Stage	Procedures Performed
<i>Planning and inquiry</i>	<p>During the planning phase of the audit, we plan to perform the following procedures:</p> <ul style="list-style-type: none"> • Meet with finance personnel to obtain an understanding of significant transactions during the year. • Communicate with the Board of Directors regarding fraud, compliance with laws, and any concerns they have regarding the finances of the District. • Perform internal control evaluations as noted on the previous page. • Determine materiality levels that will be used in selecting audit transactions. • Perform a risk assessment to develop the audit plan for the year. • Review minutes of Board of Directors meetings. • Review important new contracts, bond documents, and agreements. • Evaluate compliance with investments. • Test purchase orders and contract management. • Test a sample of cash disbursements to determine adherence to policies and internal controls. • Perform a review of the District’s information systems and controls. • Perform compliance testing of federal grants, as necessary.

Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

	<ul style="list-style-type: none"> • Review the prior audited financial statements and provide feedback to District staff regarding best practices for financial reporting. • Provide a GASB Update and templates for implementing new accounting standards as necessary.
<p>Year-End Testing</p>	<p>After the books are closed and ready for audit, we will perform our year-end procedures which include the following:</p> <ul style="list-style-type: none"> • We will confirm 100% of all cash and investment balances and test market values provided by your investment custodians. • We will test for proper cutoffs of accounts receivable and grants receivable. • We will confirm and test material notes and loans receivable. • We will test additions and deletions to capital assets. We will review depreciation expense for reasonableness. • We will test current liabilities and perform a search for unrecorded liabilities. • We will review unearned revenue balances for proper cutoffs. • We will test the balances of accrued payroll and employee related liabilities. • We will confirm long-term debt with independent parties. • In years of new debt issuances, we will review the journal entry to record the debt to ensure the accuracy of the accounting. • We will test actuarial valuations and calculations related to OPEB obligations and disclosures under GASB 75. • We will test actuarial valuations and calculations related to pension obligations and disclosures under GASB 68. • We will test reasonableness of claims and judgments payable. • We will test restrictions and classifications of net position. • We will analyze grant revenues and expenses to ensure proper matching within the fiscal year. • We will test the reasonableness of interest income, realized, and unrealized gains/losses on investments. • We will analytically and substantively test revenues and expenses reported in the financial statements. • We will incorporate an element of unpredictability every year that will focus on an audit area that is not typically considered a high or significant risk area such as petty cash, credit card purchases, new vendors, travel expenses, etc. <p>The aforementioned tests are only a few of the tests performed during the examination and by no means is it meant to be all inclusive. During the final stage of the audit we will meet with Finance staff to review our audit findings and any adjusting journal entries.</p>

Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Completion of the Audit and Preparation of Financial Statements	<p>The nature and extent of the work required is dependent on our assessment of the likelihood of misstatements in the financial statements together with our conclusions from the planning and testing stages of the audit. All of the audit information is then used to reach a conclusion on whether the financial statements taken as a whole conform with generally accepted accounting principles.</p> <ul style="list-style-type: none"> • We will review significant events after year end • We will review attorney letters for significant legal matters • We will review the Comprehensive Annual Financial Report (CAFR) with the latest GFOA checklist • We will ensure accurate and complete disclosures in the notes to the financial statements. • We will meet with the Finance & Budget Committee and Board of Directors to present the results of the audit.
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Section F – Implementation of New GASB Pronouncements

The District will be required to implement the following accounting standards during the upcoming fiscal years. Part of our service to you includes consulting on these new auditing standards. A sampling of significant new GASB pronouncements planned or proposed for local governments that may impact the Valley Sanitary District are listed below:

GASB	Description
<i>GASB 84: Fiduciary Activities</i>	This statement establishes criteria for identifying fiduciary activities of all state and local governments. The statement describes four fiduciary funds that should be reported, if applicable: (1) pension trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. We will work with the District to identify the activities required to be reported in these four fund types and provide transition guidance for the fiscal year ending June 30, 2021.
<i>GASB 87: Leases</i>	The objective of this statement is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. The standard will be effective for the fiscal year ending June 30, 2022.
<i>GASB 90: Majority Equity Interests</i>	This statement is intended to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
<i>GASB 91: Conduit Debt Obligations</i>	The primary objectives of this Statement are to eliminate diversity in practice associated with conduit debt obligations.

Section G – Scope of Work

Our understanding of the objectives and scope of the work to be performed is as follows:

- We will perform an audit examination of the financial statements of the Valley Sanitary District for the fiscal years ending June 30, 2021 through 2023. Our examination will be conducted in accordance with generally accepted auditing standards, the AICPA Audit and Accounting Guide, Audits of State and Local Government Units, and the Government Auditing Standards issued by the Comptroller General of the United States. We will ensure that the report is prepared in conformity with the most recent edition of the GAAFR, the GAAFR Update, and subsequent GASB pronouncements.
- We will prepare and submit the District's Financial Transaction Report to the State Controller.
- We will prepare a letter to the Board of Directors summarizing the audit results in accordance with the Codification of Auditing Standards Section 260.
- We will prepare a letter to the Board of Directors reporting matters dealing with internal control that meet the threshold of being a significant deficiency or material weakness, as defined by the Codification of Auditing Standards Section 265. We will immediately report any irregularities or illegal acts that come to our attention to management and/or those charged with governance.
- We will attend Budget & Finance and Board of Directors meetings as requested and present the results of the audit to both the Budget and Finance Committee and the Board of Directors.
- We will provide a minimum of four (4) hours of continuing professional education (CPE) annually to the District.
- As requested, we will perform Agreed Upon Procedures over internal control relating to software upgrades. We will issue a report detailing the procedures and results and agreed upon by the District.
- Finally, we perceive the scope of our work as being advisors to the District regarding generally accepted accounting principles. Throughout the year, the management and other finance personnel of the District will have access to us to seek advice in the application of generally accepted accounting principles, advice regarding debt issuance, financial statement preparation and content, tax and any other matters relating to the District. Each year, we will go over upcoming accounting standards in a meeting with District staff.

Identification of Anticipated Potential Audit Problems

We do not believe there will be any anticipated potential audit problems.

Valley Sanitary District

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Section H – Proposed Timing of the Audit

The following proposed timing is subject to the District’s revision and approval:

Task	Fiscal Year Ending June 30, 2021
<i>Interim Request List/Audit Plan</i>	30 days prior to interim
<i>Audit Planning Meeting</i>	Week of interim
<i>Interim Audit Procedures</i>	March as scheduled by the District
<i>Final Audit Request List Provided</i>	Final day of interim
<i>Final Audit Fieldwork</i>	September 2021 as schedule by District
<i>Exit Meeting</i>	Final day of fieldwork
<i>Draft Audit Reports</i>	Within 3 weeks after final fieldwork, no later than October 22, 2021
<i>Finalization of Audit Reports</i>	Within 5 days of receiving District’s approval
<i>Presentation to Committee and Board of Directors</i>	As schedule by the District

Section I – Proposed Costs and Audit Segmentation

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>Total</u>
Financial Statement Audit	\$ 18,060	18,420	18,790	55,270
State Controller's Report	1,750	1,785	1,820	5,355
Total	<u>\$ 19,810</u>	<u>20,205</u>	<u>20,610</u>	<u>60,625</u>
<u>Additional services</u>				
Single Audit *	\$ 3,500	3,500	3,500	
Financial Statement Preparation	\$ 4,500	4,500	4,500	
Agreed Upon Procedures	\$ 3,000	3,000	3,000	

* Covers one major program, additional major programs may be audited for \$1,500 each

Estimated Hour Segmentation for Financial Statement Audit

	Rate	Hours	Cost
Partner	\$ 175	16	\$ 2,800
EQR	175	4	700
Manager	150	20	3,000
Supervisor	115	64	7,360
Staff	105	40	4,200
		<u>144</u>	<u>\$ 18,060</u>

APPENDIX



Report on the Firm's System of Quality Control

Davis Farr LLP

Irvine, California;

and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Davis Farr LLP (the firm) in effect for the year ended May 31, 2019. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act, and examination of a service organization (SOC 1, Type 2 Report).

As part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

CPAs ■ Advisors

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 909.948.9990 / 800.644.0696 / FAX 909.948.9633
 gyl@gylcpa.com
 www.gylcpa.com



Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Davis Farr LLP in effect for the year ended May 31, 2019, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Davis Farr LLP has received a peer review rating of *pass*.

GYL LLP

Ontario, California
September 23, 2019

List of RFP's Submitted

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200 E. Sandpointe Ave, Suite 600

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Phone (949) 777-8801

Ken.pun@pungroup.com



**Valley Sanitary District
Budget & Finance Committee
January 5, 2021**

TO: Budget & Finance Committee

FROM: Jeanette Juarez, Business Services Manager

SUBJECT: Wastewater Rate Study Update

<input type="checkbox"/> Board Action	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

Executive Summary

The purpose of this report is to update the Budget & Finance Committee on the progress of the Sewer Rate Study.

Strategic Plan Compliance

This item complies with VSD Strategic Plan Objective 5.3: Update rate structure to ensure it is up-to-date and fair to all classes of customers.

Fiscal Impact

There is no fiscal impact from this report.

Background

At the August 25, 2020 Board Meeting, the Board authorized the General Manager to execute a contract with NBS to perform a Comprehensive Wastewater Rate Study. As part of the study NBS was tasked to create a financial plan that includes all revenue sources, expenditures, reserves, capital improvement costs, repair and replacement costs, and net revenue requirements.

NBS has prepared a draft technical memo, attached to this board report, that addresses three (3) key issues.

- The development of net revenue requirements from FY2021/22 to FY2040/41
- The establishment and maintenance or reserve funds and targets
- The funding of the Districts’s Capital Improvement Program

To meet all three (3) targets NBS developed three (3) Financial Plan Alternatives for District staff and the Board of Director to consider.

- Alternative 1 Full funding of CIP, no debt
- Alternative 2 Full funding of CIP with \$150 million in debt
- Alternative 3 Full Funding with \$185 million in debt

The draft technical memo examines the Districts targets and establishes a baseline for each of the financial plan alternatives.

Recommendation

Staff recommends that the Budget & Finance Committee receive the Wastewater Rate Study Update.

Attachments

Attachment A Draft Technical Memo NBS

Attachment B Presentation of Technical Memo

VALLEY SANITARY DISTRICT – FINANCIAL PLAN

DRAFT TECHNICAL MEMORANDUM

TO: Beverli Marshall, General Manager

FROM: Kim Boehler, Director
Alice Bou, Consultant

SUBJECT: Comprehensive Wastewater Rate Study – Financial Plan

DATE: December 23, 2020

PURPOSE

As part of the Comprehensive Wastewater Rate Study, Valley Sanitary District (District) retained NBS to prepare a Financial Plan that includes all revenue sources, expenditures, reserves, capital improvement costs, repair and replacement costs, and net revenue requirements. This Memorandum addresses the following issues:

1. The development of net revenue requirements from FY 2021/22 to FY 2040/41.
2. The establishment and maintenance of reserve funds and targets.
3. The funding of the District's Capital Improvement Program (CIP).

This memorandum presents the analysis of several financial plan alternatives that fully fund the District's CIP program with and without the issuance of debt. NBS has proposed the following three funding alternatives: (1) Alternative 1 - Full CIP with no Debt Issue; (2) Alternative 2 – Full CIP with a \$150 million Debt Issue; and (3) Alternative 3 - Full CIP with a \$185 million Debt Issue.

NBS prepared long-term financial plans together with preliminary modeling of the additional revenue requirements under each of the proposed financial plan alternatives.

Funding Shortfall: Based on the data provided by the District, a significant funding shortfall is expected in coming years, if no adjustment to rates is implemented. In other words, the District will not be able to fund both operating and maintenance costs as well as the planned capital improvements if it does not implement rate increases to generate the additional revenue needed to fund these obligations. The financial plans project revenues and expenses through FY 2040/41 and, based on the assumptions used in the analysis, the total shortfall over the next twenty years would be approximately \$155 million if there were no increase to rates over the projection period. However, focusing on the initial five-year rate adoption period, the District will be faced with a total deficit during this period of approximately \$87 million, which is primarily due to the Reclaimed Water Project which is scheduled to begin Fiscal Year

2021/22 and the ongoing Sewer Main Rehabilitation and Replacement Project which will continue through FY 2028/29.

Reserve Funds: Reserve funds provide a basis for a utility to cope with fiscal emergencies, such as revenue shortfalls, asset failure, and natural disasters among other events. Reserve policies provide sound financial management with an overall long-range perspective to maintain financial solvency and mitigate financial risks associated with revenue instability, volatile capital costs, and emergencies. The proposed rate increases will help maintain reserve levels at the minimum target requirements.

According to the District’s Financial Reserve Policy,¹ the District has set the following reserve targets:

- **Operating Reserve Fund (O&M)** equal to or greater than fifty (50) percent, or six months, of the annual Operations and Maintenance budget. An Operating Reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures. Fluctuations might be caused by weather patterns, the natural inflow and outflow of cash during billing cycles, and - particularly in periods of economic distress - changes or trends in the age of receivables.
- **Capital Replacement Reserve Fund² (Fund 12)** equal to forty (40) percent of the annual Operations and Maintenance budget to cover the cost of planned capital improvements including repair and replacement of existing infrastructure. The District’s capital reserve balance will be completely exhausted if it decides to fully fund the CIP without adopting the proposed rate increases. In order to fund the necessary planned capital improvements and the rehabilitation and replacement of capital assets, while minimizing the impact on its customers, the District should also consider other revenue sources, such as grants and outside financing such as loans or revenue bonds in addition to rate increases. The total CIP costs are estimated at \$267.5 million for the next twenty years, or \$13.4 million annually, as shown in Table 1.

Table 1. Total Project Costs

Capital Project Costs 2021-2041 ¹	Total
Fund 12 - Capital Replacement Projects	\$ 165,919,287
Fund 13 - Capital Improvement Projects	\$ 98,211,230
Contingency	\$ 3,322,393
Total Costs	\$ 267,452,910
<i>Average Annual Expenditure</i>	<i>\$ 13,372,645</i>

1. Capital project costs include estimated cost inflation.

- **Capital Improvement Reserve Fund (Fund 13)** is a restricted reserve that is primarily funded by developer impact fees, special developer agreements, and capacity connection charges. There is not a set reserve target for this fund and the balance is determined based on collection of capacity connection charges, which are used to fund capital projects that are needed to serve new development.

¹ Source file: 10. 2013-1040 District Reserve Policy.pdf.

² The District maintains a separate Vehicle & Equipment Replacement Reserve Fund that is funded on an annual basis to cover the replacement of major vehicles and equipment.

- **Debt Service Reserve Fund** equal to the reserve requirement for the outstanding 2015 Wastewater Revenue Refunding Bonds, which is approximately \$317,000.
- **Emergency Reserve Fund** equal to five (5) percent of the annual Operations and Maintenance Budget. It is the intent of the District that this fund provides a basis to cope with fiscal emergencies, such as revenue shortfalls, asset failure, and natural disasters among other events.
- **CSWRCB Reserve Fund** is a reserve that the District maintains for the State Revolving Fund loan issued in 2016. Although there is no reserve or coverage requirement, the District has chosen to maintain the reserve to cover approximately two times the annual payment of \$553,361. The current balance of this reserve is \$1.1 million.³
- **Bond Coverage:** The District is required by the rate covenant of the 2015 Wastewater Revenue Refunding Bonds to maintain a debt service coverage ratio of at least 1.25. The benefit of maintaining a higher coverage ratio is that it strengthens the District's credit rating which can help lower the interest rates for debt-funded capital projects and, in turn, reduce annual debt service payments.

NBS has developed three (3) Financial Plan Alternatives for District staff and the Board of Directors (Board) to consider. The amount of additional revenue required from the annual rate increases has been adjusted based on the whether or not the District decides to finance (e.g., revenue bonds, loans, or grants) a portion of the capital expenditures. Table 2 and Figures 1 through 3 show the various alternatives and the proposed increases in revenue needed to meet all funding requirements, including the CIP program and reserve targets noted previously.

³ The State Water Resources Control Board Revolving Fund Loan for Project No. C-06-8116-110, Agreement No. D1601003-550-03. Source file: *Repayment schedule State Water Resources Control Board.pdf*.

Table 2. Financial Plan Alternatives

Fiscal Year Ending June 30	Percentage Change in Revenue Needed to Meet Funding Requirements		
	Alternative #1	Alternative #2	Alternative #3
2022	35%	10%	5%
2023	35%	10%	5%
2024	35%	10%	5%
2025	30%	10%	5%
2026	10%	10%	5%
2027	0%	0%	5%
2028	0%	0%	5%
2029	-70%	0%	5%
2030	0%	0%	1%
2031	0%	0%	1%
2032	0%	0%	1%
2033	0%	0%	1%
2034	0%	0%	1%
2035	0%	0%	1%
2036	0%	0%	1%
2037	0%	0%	1%
2038	0%	0%	1%
2039	0%	0%	1%
2040	0%	0%	1%
2041	0%	0%	0%

Figure 1. 20-Year Reserve Targets with no Debt Issue

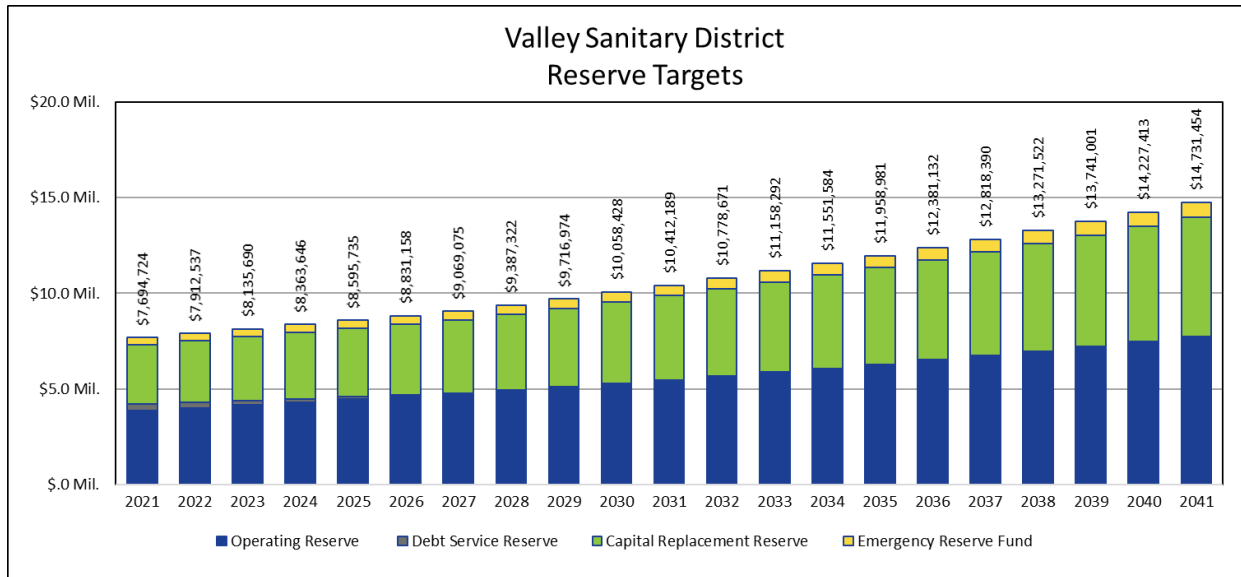


Figure 2. 20-Year Reserve Targets with a \$150 Million Debt Issue

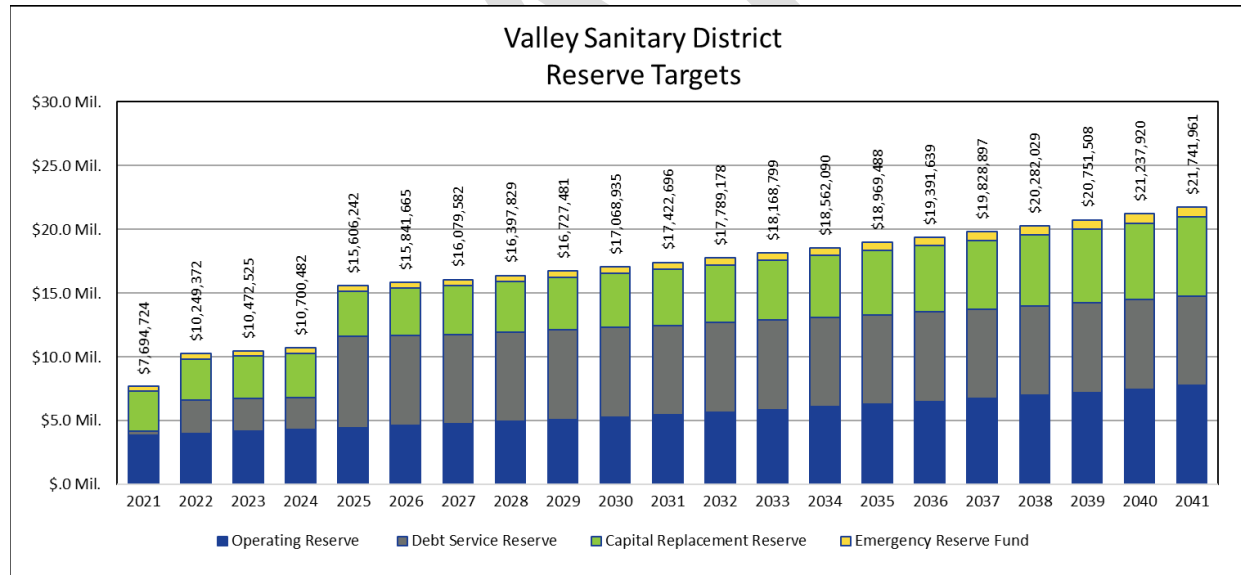
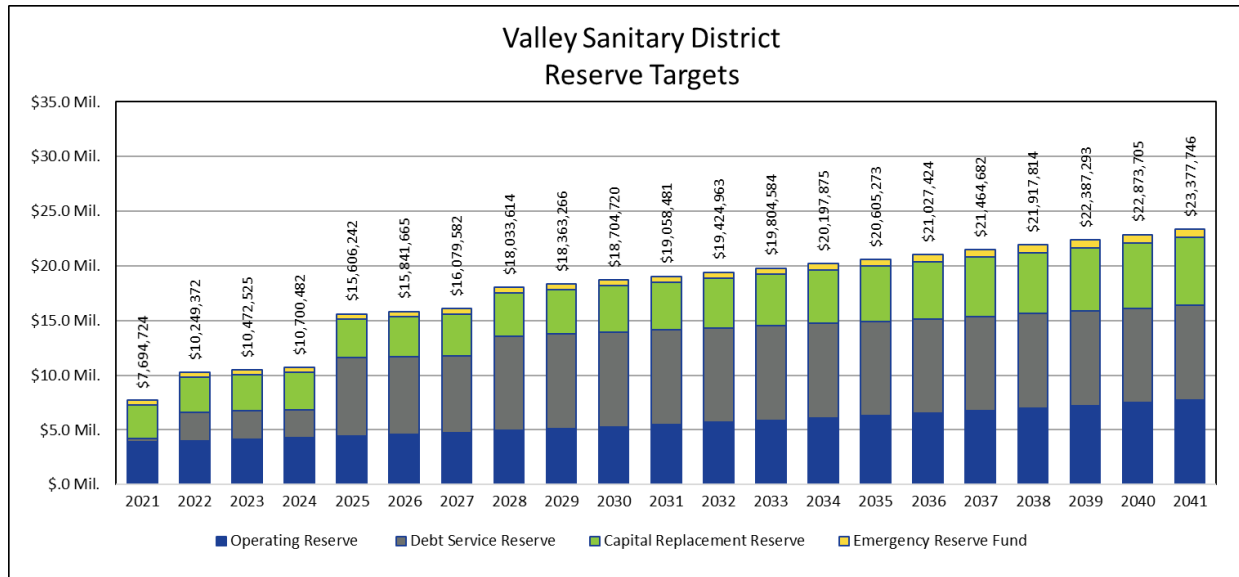


Figure 3. 20-Year Reserve Targets with a \$185 Million Debt Issue



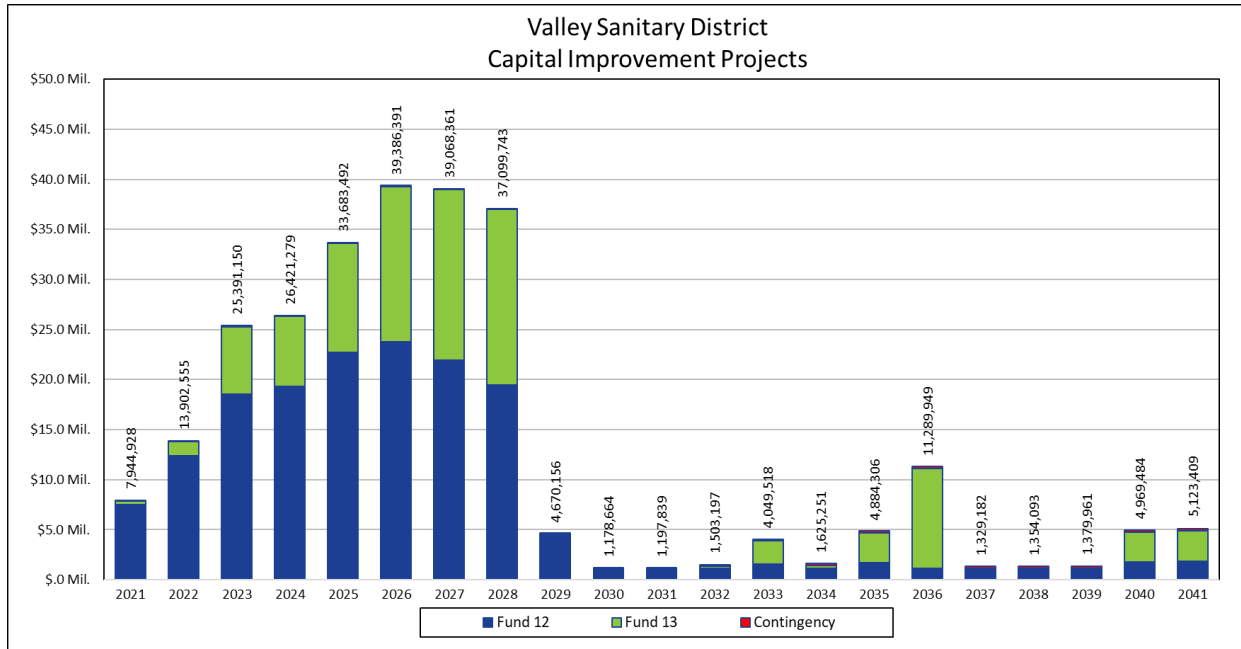
CIP Program: NBS has incorporated the District' 2020 Capital Improvement Plan into the financial plans. Table 3 provides additional detail regarding the District's planned capital projects by Fund and by project type for the 5-year rate adoption period:

Table 3. Five-Year CIP Costs

Project Description	2021	2022	2023	2024	2025	2026
FUND 12						
PLANT						
Reclaimed Water Project Phase 1 Design Build	\$ -	\$ 1,359,600	\$10,142,204	\$10,446,470	\$13,289,800	\$13,811,172
Influent Pump Station Rehabilitation Design Build	1,200,000	1,236,000	-	-	-	-
Vehicle & Major Equipment Replacement Fund	638,000	638,000	638,000	638,000	638,000	638,000
Fence Extension & Fortification (Carry Over) plus	280,000	-	-	-	-	-
Van Buren Slope Protection	250,000	-	-	-	-	-
Switch Board Main Service Replacement	-	257,500	-	-	-	-
COLLECTIONS						
Lateral Grant Program	\$ 54,000	\$ 55,620	\$ 57,289	\$ 59,007	\$ 60,777	\$ 62,601
Sewer Main Rehabilitation or Replacement	2,643,928	5,185,524	7,571,822	8,084,418	8,606,738	9,162,800
Manhole Rehabilitation	-	-	-	-	-	-
Sewer Main Emergency Repairs	112,000	115,360	118,821	122,385	126,057	129,839
Emergency Sewer Siphon Replacement Design	325,000	412,000	-	-	-	-
Emergency Sewer Siphon Replacement Const.	2,000,000	3,090,000	-	-	-	-
TOTAL - FUND 12	\$ 7,502,928	\$12,349,604	\$18,528,135	\$19,350,281	\$22,721,372	\$23,804,411
FUND 13 - Connection Fees						
PLANT						
Reclaimed Water Project Phase 1 Design Build	\$ -	\$ 906,400	\$ 6,761,469	\$ 6,964,313	\$ 8,859,866	\$12,030,646
Training & Office Building - Design (Carry Over)	100,000	549,896	-	-	-	-
Training & Office Building - Construction	-	-	-	-	1,990,171	3,433,579
Additional Parking & Landscaping	250,000	-	-	-	-	-
TOTAL - FUND 13	\$ 350,000	\$ 1,456,296	\$ 6,761,469	\$ 6,964,313	\$10,850,037	\$15,464,225
CONTINGENCY	\$ 92,000	\$ 96,655	\$ 101,546	\$ 106,684	\$ 112,083	\$ 117,754
TOTAL - 5-Year CIP Program Costs	\$ 7,944,928	\$13,902,555	\$25,391,150	\$26,421,279	\$33,683,492	\$39,386,391

Figure 4 shows the total Capital Improvement Plan through Fiscal Year 2040/41 by Fund and implementation date which will remain the same for all three (3) financial plan alternatives.

Figure 4. 20-Year Capital Improvement Plan



In summary, NBS modeled long-term financial plans for the proposed capital improvements that also address the O&M shortfall, funding reserves as stated above, and funding the CIP using a combination of debt financing and annual revenue collection through the proposed rate increases.

LONG-TERM FINANCIAL PLAN

The following 20-year long-term financial plans were built using the following criteria:

1. Additional Revenue Funding was set at an initial amount in the Fiscal Year 2021/22 and then to escalate each year based on the proposed annual rate increases. This allows for a constant, stable escalation that most property owners are familiar with and will track with all potential revenue tools.

2. The additional rate revenue needed to Meet Funding Requirements:

Fiscal Year Ending June 30	Revenue from Current Funding Sources	Total Revenue Needed to Meet Funding Requirements		
		Alternative #1	Alternative #2	Alternative #3
2022	\$ 12,098,790	\$ 16,333,367	\$ 13,308,669	\$ 12,703,730
2023	12,219,778	22,270,545	14,785,931	13,472,305
2024	12,341,976	30,365,888	16,427,170	14,287,380
2025	12,465,395	39,870,411	18,250,585	15,151,766
2026	12,590,049	44,296,027	20,276,400	16,068,448
2027	12,715,950	44,738,987	20,479,164	17,040,589
2028	12,843,109	45,186,377	20,683,956	18,071,545
2029	12,971,540	13,691,472	20,890,796	19,164,873
2030	13,101,256	13,828,387	21,099,704	19,550,087
2031	13,232,268	13,966,671	21,310,701	19,943,044
2032	13,364,591	14,106,338	21,523,808	20,343,899
2033	13,498,237	14,247,401	21,739,046	20,752,811
2034	13,633,219	14,389,875	21,956,436	21,169,943
2035	13,769,552	14,533,774	22,176,001	21,595,459
2036	13,907,247	14,679,112	22,397,761	22,029,527
2037	14,046,320	14,825,903	22,621,738	22,472,321
2038	14,186,783	14,974,162	22,847,956	22,924,015
2039	14,328,651	15,123,903	23,076,435	23,384,787
2040	14,471,937	15,275,142	23,307,199	23,854,821
2041	14,616,656	15,427,894	23,540,271	24,093,370

3. The total Reserve Fund Balances were designed to closely approximate the total Reserve Fund target balances at the conclusion of the study period (FY 2040/41).

4. SRF loan issuance assumptions for Alternatives 2 and 3 are as follows:

- a. 30-Year Term
- b. 0.00% Cost of Issuance
- c. 2.00% Annual Interest Cost

5. Debt was assumed to be issued in 3-year increments for Alternatives 2 and 3 in the following amounts:

Alternative 2 - Estimated Debt Financing	SRF Loan Issue	Annual Debt Service Payment ¹
Issue #1, FY 2021/22	\$ 50,000,000	\$ 2,336,836
Issue #2, FY 2024/25	100,000,000	4,673,671
Total Debt Service in FY 2024/25 and Beyond	--	\$ 7,010,507

1. Assumes 30-year repayment for each issue and 2% interest rate.

Alternative 3 - Estimated Debt Financing	SRF Loan Issue	Annual Debt Service Payment ¹
Issue #1, FY 2021/22	\$ 50,000,000	\$ 2,336,836
Issue #2, FY 2024/25	100,000,000	4,673,671
Issue #3, FY 2027/28	35,000,000	1,635,785
Total Debt Service in FY 2027/28 and Beyond	--	\$ 8,646,292

1. Assumes 30-year repayment for each issue and 2% interest rate.

It is assumed in the analysis that the debt financing will be used to fund a majority of the proposed Reclaimed Water Project and other improvements such as the Sewer Main Rehabilitation project. The alternatives were designed considering all of the Districts' financial obligations in mind, including operating and maintenance costs, capital improvement needs, contributions to reserves and annual debt service obligations (including meeting debt coverage requirements) for current outstanding and proposed debt. The alternatives consider what funds are available in reserves now, what funds can be contributed over the planning period from rates to cash-fund capital improvement program costs and what level of debt financing can be used to keep rate increases as low as possible.

The following pages show the long-term financial plans and projected fund balances together with associated charts for each of the financial plan alternatives.

Alternative 1 - Full CIP with no Bond Issue:

Table 4. Financial Plan & Summary of Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	Projected Rates for Adoption Period				
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Sources of Sewer Funds						
Rate Revenue Under Prevailing Rates	\$ 11,979,000	\$ 12,098,790	\$ 12,219,778	\$ 12,341,976	\$ 12,465,395	\$ 12,590,049
Additional Revenue from Rate Increases ¹	-	4,234,577	10,050,767	18,023,913	27,405,016	31,705,978
Non-Rate Revenues	1,072,300	1,231,108	1,173,820	1,028,343	980,755	961,303
Total Sources of Funds	\$ 13,051,300	\$ 17,564,474	\$ 23,444,365	\$ 31,394,231	\$ 40,851,167	\$ 45,257,330
Uses of Sewer Funds						
Operating Expenses	\$ 7,765,960	\$ 8,037,272	\$ 8,318,271	\$ 8,609,309	\$ 8,910,753	\$ 9,222,981
Debt Service	1,445,048	1,440,798	1,440,048	1,439,111	1,440,861	1,440,611
Rate-Funded Capital Expenses	350,000	1,456,296	6,761,469	13,270,219	24,286,101	31,852,245
Total Use of Funds	\$ 9,561,008	\$ 10,934,367	\$ 16,519,789	\$ 23,318,639	\$ 34,637,715	\$ 42,515,837
Surplus (Deficiency) before Rate Increase	\$ 3,490,292	\$ 6,630,107	\$ 6,924,576	\$ 8,075,593	\$ 6,213,452	\$ 2,741,493
Surplus (Deficiency) after Rate Increase	\$ 3,490,292	\$ 10,864,684	\$ 16,975,343	\$ 26,099,505	\$ 33,618,468	\$ 34,447,471
Projected Annual Rate Increase	0.00%	35.00%	35.00%	35.00%	30.00%	10.00%
Cumulative Rate Increases	0.00%	35.00%	82.25%	146.04%	219.85%	251.83%
Net Revenue Requirement ²	\$ 8,488,708	\$ 9,703,259	\$ 15,345,969	\$ 22,290,296	\$ 33,656,959	\$ 41,554,534
Debt Coverage After Rate Increase	3.66	6.61	10.50	15.83	22.17	25.01

1. Assumes new rates are implemented July 1, 2021 and on July 1st each year thereafter.

2. Total Use of Funds less Non-Rate Revenues. This is the annual amount needed from wastewater rates.

Table 5. Reserve Fund Summary

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected Rates for Adoption Period				
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Un-Restricted Reserves						
Operating Reserve						
Ending Balance	\$ 3,883,000	\$ 4,018,600	\$ 4,159,100	\$ 4,304,700	\$ 4,455,400	\$ 4,611,500
Recommended Minimum Target	\$ 3,883,000	\$ 4,018,600	\$ 4,159,100	\$ 4,304,700	\$ 4,455,400	\$ 4,611,500
Capital Rehabilitation & Replacement Reserve						
Ending Balance	\$ 22,916,668	\$ 18,796,031	\$ 14,027,740	\$ 11,621,692	\$ 9,843,338	\$ 6,469,762
Recommended Minimum Target	\$ 3,106,384	\$ 3,214,909	\$ 3,327,308	\$ 3,443,724	\$ 3,564,301	\$ 3,689,192
Emergency Fund Balance						
Ending Balance	\$ 388,298	\$ 401,864	\$ 415,914	\$ 430,465	\$ 445,538	\$ 461,149
Recommended Minimum Target	\$ 388,298	\$ 401,864	\$ 415,914	\$ 430,465	\$ 445,538	\$ 461,149
Total Ending Balance	\$ 27,187,966	\$ 23,216,495	\$ 18,602,754	\$ 16,356,857	\$ 14,744,276	\$ 11,542,411
Recommended Minimum Target	\$ 7,377,682	\$ 7,635,373	\$ 7,902,322	\$ 8,178,889	\$ 8,465,239	\$ 8,761,842
Restricted Reserves						
Connection Fee Reserve						
Ending Balance	\$ 6,838,607	\$ 388,298	\$ 401,864	\$ 415,914	\$ 430,465	\$ 445,538
Recommended Minimum Target	\$ -	\$ 13,566	\$ 14,050	\$ 14,552	\$ 15,072	\$ 15,611
NEW Bond Project Funds						
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recommended Minimum Target	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Reserve Fund						
Ending Balance	\$ 317,042	\$ 277,164	\$ 233,368	\$ 184,757	\$ 130,496	\$ 69,316
Recommended Minimum Target	\$ 317,042	\$ 277,164	\$ 233,368	\$ 184,757	\$ 130,496	\$ 69,316
CSWRCB Reserve Fund						
Ending Balance	\$ 1,123,323	\$ 1,140,173	\$ 1,157,275	\$ 1,174,634	\$ 1,192,254	\$ 1,210,138
Recommended Minimum Target	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Ending Balance	\$ 8,278,972	\$ 1,805,635	\$ 1,792,506	\$ 1,775,305	\$ 1,753,216	\$ 1,724,992
Recommended Minimum Target	\$ 317,042	\$ 290,730	\$ 247,418	\$ 199,309	\$ 145,568	\$ 84,928

Alternative 1 - Full CIP with no Bond Financing, cont.:

Figure 5. Revenue Requirements Under Existing & Increased Rates

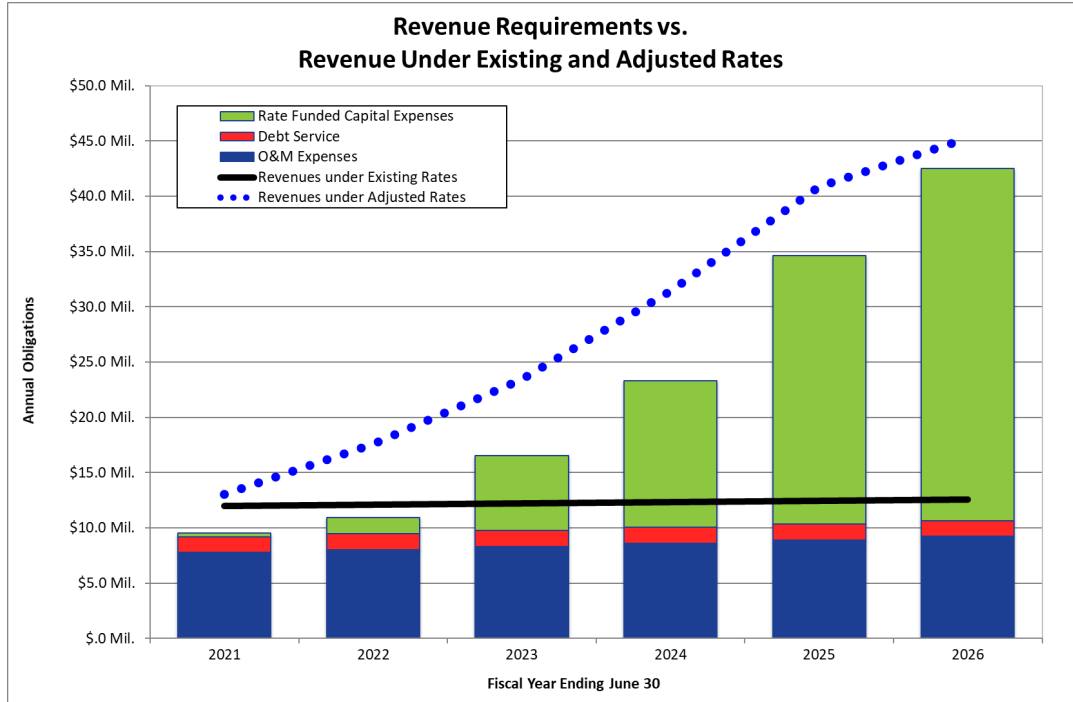
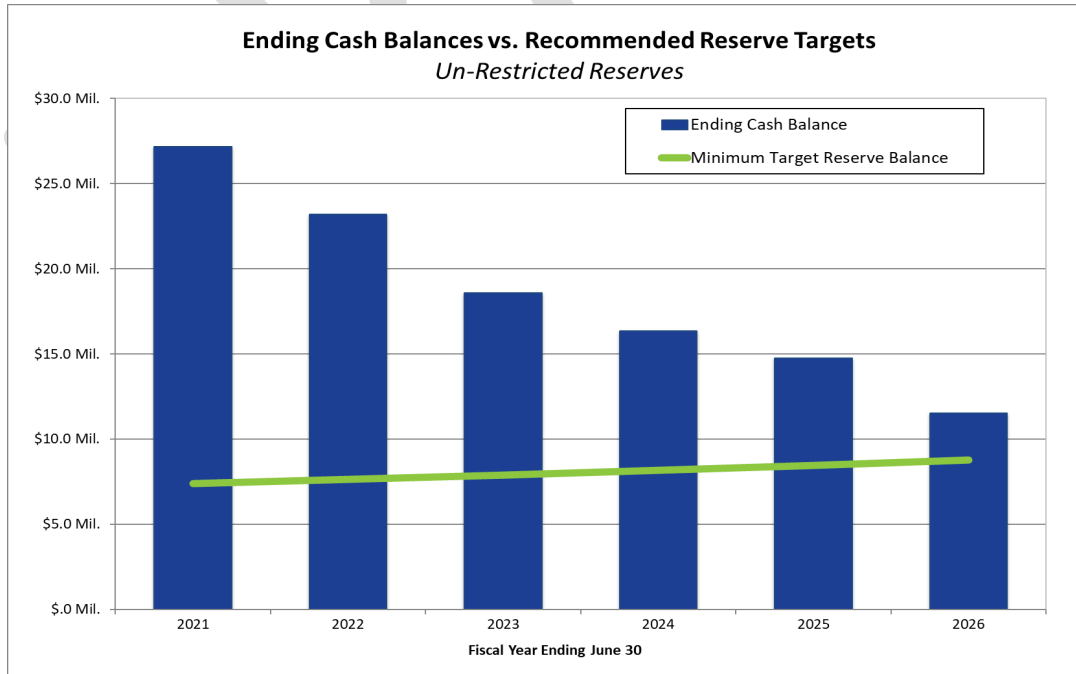


Figure 6. Ending Cash Balance vs. Recommended Reserve Targets



Alternative 2 – Full CIP with \$150 Million Debt Issue:

Table 6. Financial Plan & Summary of Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	Projected Rates for Adoption Period				
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Sources of Sewer Funds						
Rate Revenue Under Prevailing Rates	\$ 11,979,000	\$ 12,098,790	\$ 12,219,778	\$ 12,341,976	\$ 12,465,395	\$ 12,590,049
Additional Revenue from Rate Increases ¹	-	1,209,879	2,566,153	4,085,194	5,785,190	7,686,351
Non-Rate Revenues	1,072,300	1,231,108	1,278,449	1,259,000	1,304,417	1,415,551
Total Sources of Funds	\$ 13,051,300	\$ 14,539,777	\$ 16,064,380	\$ 17,686,170	\$ 19,555,003	\$ 21,691,951
Uses of Sewer Funds						
Operating Expenses	\$ 7,765,960	\$ 8,037,272	\$ 8,318,271	\$ 8,609,309	\$ 8,910,753	\$ 9,222,981
Debt Service	1,445,048	3,777,634	3,776,884	3,775,946	8,451,368	8,451,118
Rate-Funded Capital Expenses	350,000	1,456,296	629,681	1,854,235	343,492	1,006,391
Total Use of Funds	\$ 9,561,008	\$ 13,271,203	\$ 12,724,836	\$ 14,239,491	\$ 17,705,612	\$ 18,680,490
Surplus (Deficiency) before Rate Increase	\$ 3,490,292	\$ 1,268,574	\$ 3,339,544	\$ 3,446,679	\$ 1,849,391	\$ 3,011,462
Surplus (Deficiency) after Rate Increase	\$ 3,490,292	\$ 2,478,453	\$ 5,905,698	\$ 7,531,873	\$ 7,634,581	\$ 10,697,813
Projected Annual Rate Increase	0.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Cumulative Rate Increases	0.00%	10.00%	21.00%	33.10%	46.41%	61.05%
Net Revenue Requirement ²	\$ 8,488,708	\$ 12,040,095	\$ 11,446,387	\$ 12,980,490	\$ 16,401,195	\$ 17,264,939
Debt Coverage After Rate Increase	3.66	1.72	2.05	2.40	1.26	1.48

1. Assumes new rates are implemented July 1, 2021 and on July 1st each year thereafter.

2. Total Use of Funds less Non-Rate Revenues. This is the annual amount needed from wastewater rates.

Table 7. Reserve Fund Summary

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected Rates for Adoption Period				
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Un-Restricted Reserves						
Operating Reserve						
Ending Balance	\$ 3,883,000	\$ 4,018,600	\$ 4,159,100	\$ 4,304,700	\$ 4,455,400	\$ 4,611,500
Recommended Minimum Target	\$ 3,883,000	\$ 4,018,600	\$ 4,159,100	\$ 4,304,700	\$ 4,455,400	\$ 4,611,500
Capital Rehabilitation & Replacement Reserve						
Ending Balance	\$ 22,916,668	\$ 23,434,498	\$ 27,068,066	\$ 30,862,330	\$ 33,116,040	\$ 36,636,438
Recommended Minimum Target	\$ 3,106,384	\$ 3,214,909	\$ 3,327,308	\$ 3,443,724	\$ 3,564,301	\$ 3,689,192
Emergency Fund Balance						
Ending Balance	\$ 388,298	\$ 401,864	\$ 401,864	\$ 401,864	\$ 401,864	\$ 401,864
Recommended Minimum Target	\$ 388,298	\$ 401,864	\$ 415,914	\$ 430,465	\$ 445,538	\$ 461,149
Total Ending Balance	\$ 27,187,966	\$ 27,854,962	\$ 31,629,030	\$ 35,568,894	\$ 37,973,304	\$ 41,649,801
Recommended Minimum Target	\$ 7,377,682	\$ 7,635,373	\$ 7,902,322	\$ 8,178,889	\$ 8,465,239	\$ 8,761,842
Restricted Reserves						
Connection Fee Reserve						
Ending Balance	\$ 6,838,607	\$ 388,298	\$ 401,864	\$ 401,864	\$ 401,864	\$ 401,864
Recommended Minimum Target	\$ -	\$ 13,566	\$ -	\$ -	\$ -	\$ -
NEW Bond Project Funds						
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recommended Minimum Target	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Reserve Fund						
Ending Balance	\$ 317,042	\$ 2,614,000	\$ 2,570,203	\$ 2,521,593	\$ 7,141,003	\$ 7,079,823
Recommended Minimum Target	\$ 317,042	\$ 2,614,000	\$ 2,570,203	\$ 2,521,593	\$ 7,141,003	\$ 7,079,823
CSWRCB Reserve Fund						
Ending Balance	\$ 1,123,323	\$ 1,140,173	\$ 1,157,275	\$ 1,174,634	\$ 1,192,254	\$ 1,210,138
Recommended Minimum Target	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Ending Balance	\$ 8,278,972	\$ 4,142,470	\$ 4,129,342	\$ 4,098,091	\$ 8,735,121	\$ 8,691,825
Recommended Minimum Target	\$ 317,042	\$ 2,627,565	\$ 2,570,203	\$ 2,521,593	\$ 7,141,003	\$ 7,079,823

Alternative 2 – Full CIP with \$150 Million Debt Issue, cont.:

Figure 7. Revenue Requirements Under Existing & Increased Rates

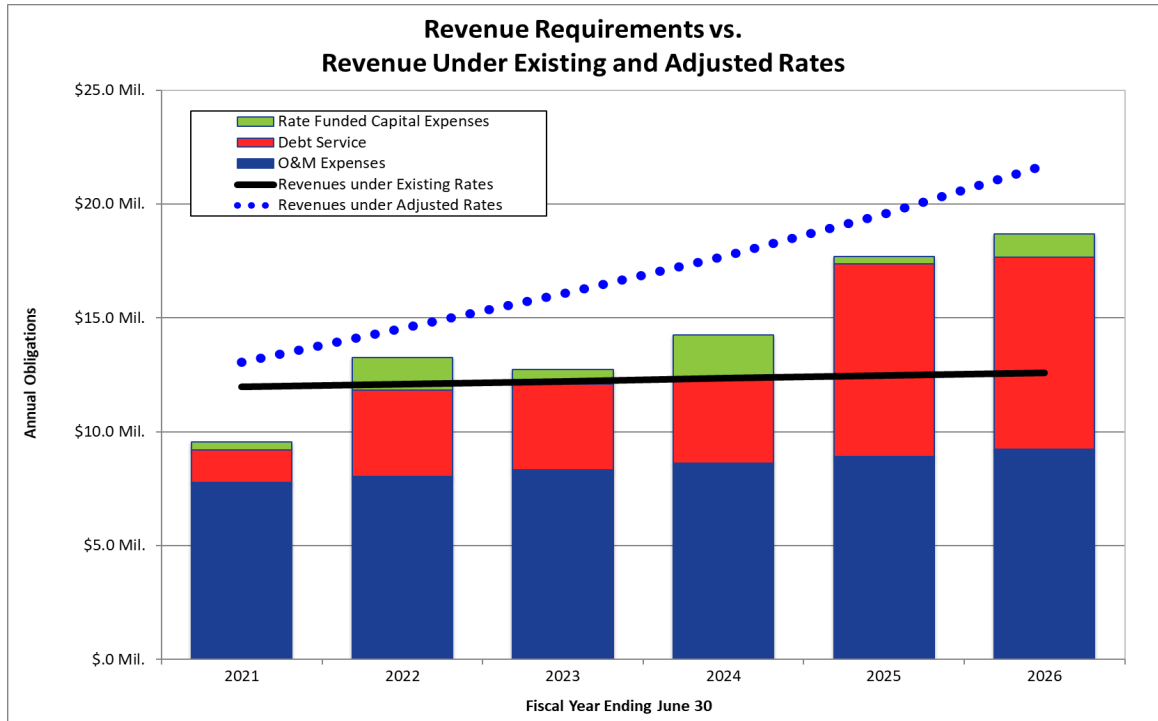
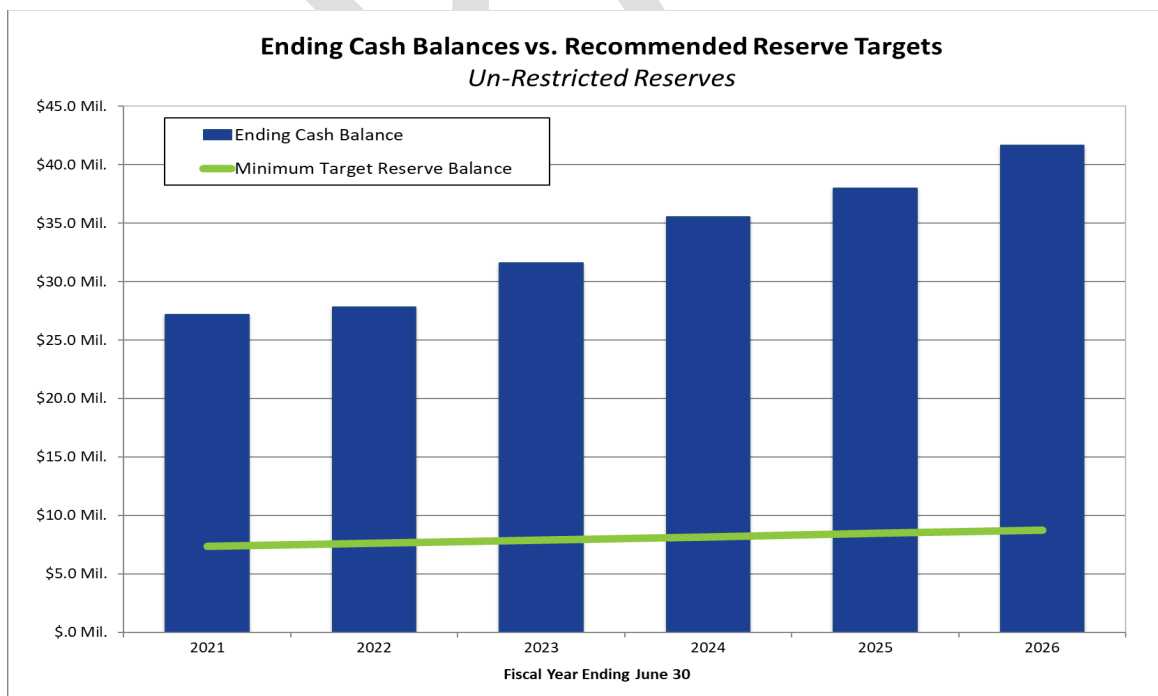


Figure 8. Ending Cash Balance vs. Recommended Reserve Targets



Alternative 3 – Full CIP with \$185 Million Debt Issue:

Table 8. Financial Plan & Summary of Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	Projected Rates for Adoption Period				
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Sources of Sewer Funds						
Rate Revenue Under Prevailing Rates	\$ 11,979,000	\$ 12,098,790	\$ 12,219,778	\$ 12,341,976	\$ 12,465,395	\$ 12,590,049
Additional Revenue from Rate Increases ¹	-	604,940	1,252,527	1,945,404	2,686,371	3,478,399
Non-Rate Revenues	1,072,300	1,231,108	1,269,375	1,229,950	1,242,398	1,325,740
Total Sources of Funds	\$ 13,051,300	\$ 13,934,837	\$ 14,741,680	\$ 15,517,329	\$ 16,394,164	\$ 17,394,188
Uses of Sewer Funds						
Operating Expenses	\$ 7,765,960	\$ 8,037,272	\$ 8,318,271	\$ 8,609,309	\$ 8,910,753	\$ 9,222,981
Debt Service	1,445,048	3,777,634	3,776,884	3,775,946	8,451,368	8,451,118
Rate-Funded Capital Expenses	350,000	1,456,296	629,681	1,854,235	343,492	1,006,391
Total Use of Funds	\$ 9,561,008	\$ 13,271,203	\$ 12,724,836	\$ 14,239,491	\$ 17,705,612	\$ 18,680,490
Surplus (Deficiency) before Rate Increase	\$ 3,490,292	\$ 663,635	\$ 2,016,844	\$ 1,277,838	\$ (1,311,448)	\$ (1,286,302)
Surplus (Deficiency) after Rate Increase	\$ 3,490,292	\$ 1,268,574	\$ 3,269,371	\$ 3,223,242	\$ 1,374,923	\$ 2,192,097
Projected Annual Rate Increase	0.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Cumulative Rate Increases	0.00%	5.00%	10.25%	15.76%	21.55%	27.63%
Net Revenue Requirement ²	\$ 8,488,708	\$ 12,040,095	\$ 11,455,461	\$ 13,009,541	\$ 16,463,214	\$ 17,354,750
Debt Coverage After Rate Increase	3.66	1.56	1.70	1.83	0.89	0.97

1. Assumes new rates are implemented July 1, 2021 and on July 1st each year thereafter.

2. Total Use of Funds less Non-Rate Revenues. This is the annual amount needed from wastewater rates.

Table 9. Reserve Fund Summary

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected Rates for Adoption Period				
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Un-Restricted Reserves						
Operating Reserve						
Ending Balance	\$ 3,883,000	\$ 4,018,600	\$ 4,159,100	\$ 4,304,700	\$ 3,085,337	\$ 1,967,330
Recommended Minimum Target	\$ 3,883,000	\$ 4,018,600	\$ 4,159,100	\$ 4,304,700	\$ 4,455,400	\$ 4,611,500
Capital Rehabilitation & Replacement Reserve						
Ending Balance	\$ 22,916,668	\$ 22,829,559	\$ 25,131,353	\$ 26,727,725	\$ 27,128,641	\$ 27,535,571
Recommended Minimum Target	\$ 3,106,384	\$ 3,214,909	\$ 3,327,308	\$ 3,443,724	\$ 3,564,301	\$ 3,689,192
Emergency Fund Balance						
Ending Balance	\$ 388,298	\$ 401,864	\$ 401,864	\$ 401,864	\$ 401,864	\$ 401,864
Recommended Minimum Target	\$ 388,298	\$ 401,864	\$ 415,914	\$ 430,465	\$ 445,538	\$ 461,149
Total Ending Balance	\$ 27,187,966	\$ 27,250,022	\$ 29,692,316	\$ 31,434,289	\$ 30,615,841	\$ 29,904,764
Recommended Minimum Target	\$ 7,377,682	\$ 7,635,373	\$ 7,902,322	\$ 8,178,889	\$ 8,465,239	\$ 8,761,842
Restricted Reserves						
Connection Fee Reserve						
Ending Balance	\$ 6,838,607	\$ 388,298	\$ 401,864	\$ 401,864	\$ 401,864	\$ 401,864
Recommended Minimum Target	\$ -	\$ 13,566	\$ -	\$ -	\$ -	\$ -
NEW Bond Project Funds						
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recommended Minimum Target	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Reserve Fund						
Ending Balance	\$ 317,042	\$ 2,614,000	\$ 2,570,203	\$ 2,521,593	\$ 7,141,003	\$ 7,079,823
Recommended Minimum Target	\$ 317,042	\$ 2,614,000	\$ 2,570,203	\$ 2,521,593	\$ 7,141,003	\$ 7,079,823
CSWRCB Reserve Fund						
Ending Balance	\$ 1,123,323	\$ 1,140,173	\$ 1,157,275	\$ 1,174,634	\$ 1,192,254	\$ 1,210,138
Recommended Minimum Target	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Ending Balance	\$ 8,278,972	\$ 4,142,470	\$ 4,129,342	\$ 4,098,091	\$ 8,735,121	\$ 8,691,825
Recommended Minimum Target	\$ 317,042	\$ 2,627,565	\$ 2,570,203	\$ 2,521,593	\$ 7,141,003	\$ 7,079,823

Alternative 3 – Full CIP with \$185 Million Debt Issue, cont.:

Figure 9. Revenue Requirements Under Existing & Increased Rates

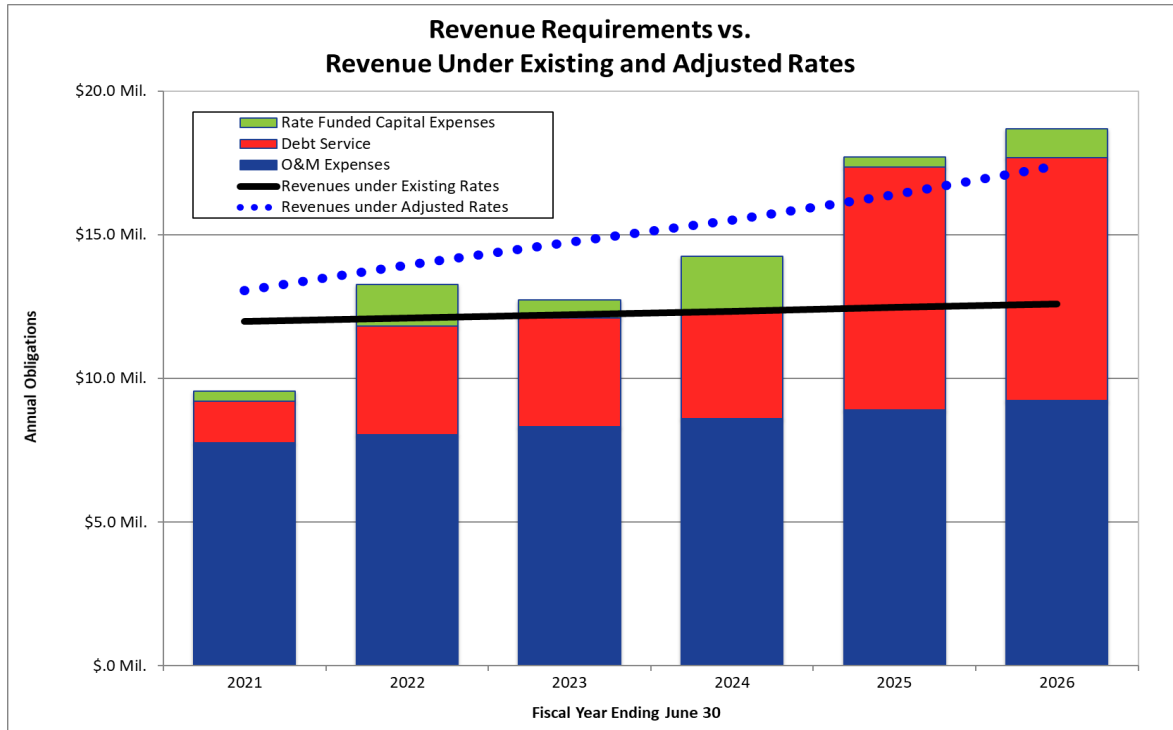
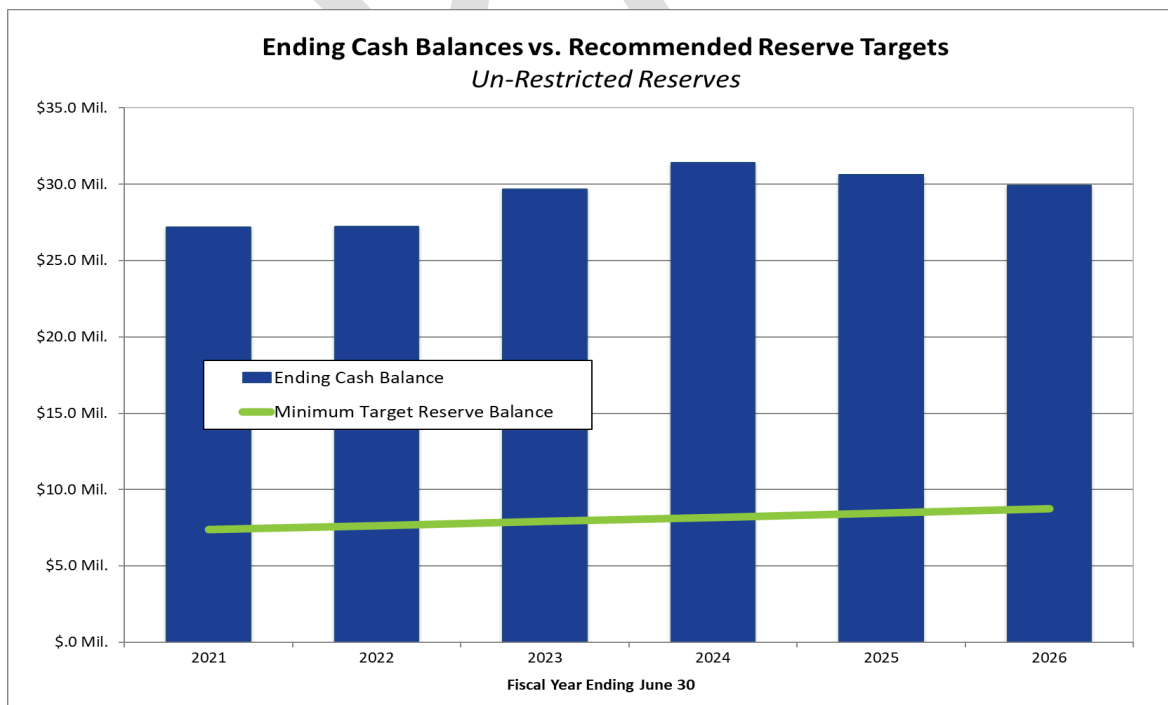


Figure 10. Ending Cash Balance vs. Recommended Reserve Targets



RECOMMENDATION

NBS recommends that the Board of Directors provide District staff and consultants with direction on the financial plan alternatives presented in this memo, which include various assumptions for increase to rate revenue and potential debt financing. The Board should provide input on what alternatives may be acceptable and what further refinements to the financial plan analysis the Board would like to evaluate in future meetings or workshops.

NEXT STEPS

1. NBS will make modifications to the financial plan alternatives based on input provided by the Board of Directors.
2. NBS will continue working on the rate study tasks and complete the cost of service and rate design analyses and provide to District staff for review and input.
3. The results of the Draft Rate Study will be presented to the Board of Directors for input and consideration.
4. NBS will finalize the Rate Study based on input provided by the Board of Directors and will present the results of the final study to the Board.
5. If the Board approves a rate plan, the District will proceed with Proposition 218 notification process to adopt new wastewater rates and hold a public hearing to receive comments and written protests from the public. NBS will prepare the Proposition 218 Notice that will be mailed to property owners/ratepayers.
6. Assuming no majority protest (50% +1 of ratepayers), the District can implement updated wastewater rates for Fiscal Years 2021/22 through 2025/26.

NBS' ASSUMPTIONS AND CONSIDERATIONS

In preparing this memorandum and the opinions and recommendations included herein, NBS has relied on a number of principal assumptions and considerations with regard to financial matters that may occur in the future. This information and assumptions, including the District's budgets, capital improvement costs, and information from District staff were provided by sources NBS believes to be reliable, although NBS has not independently verified this data.

NBS' use of such information and assumptions is reasonable for the purpose of this report and its recommendations, but some assumptions will invariably not materialize as stated herein and may vary significantly due to unanticipated events and circumstances. Therefore, the actual results are expected to vary from those projected to the extent that actual future conditions differ from those assumed by NBS or provided to NBS by others.

Wastewater Rate Study Update

Overview of NBS Draft Technical Memorandum

Agenda

- ▶ Finding a Solution
- ▶ Reserve Funds
- ▶ Capital Improvement Program Requirements
- ▶ Five-Year CIP Costs
- ▶ Rate Revenue Requirements
- ▶ Potential Changes to Sewer Rates
- ▶ Pros and Cons
- ▶ Next Steps
- ▶ Questions

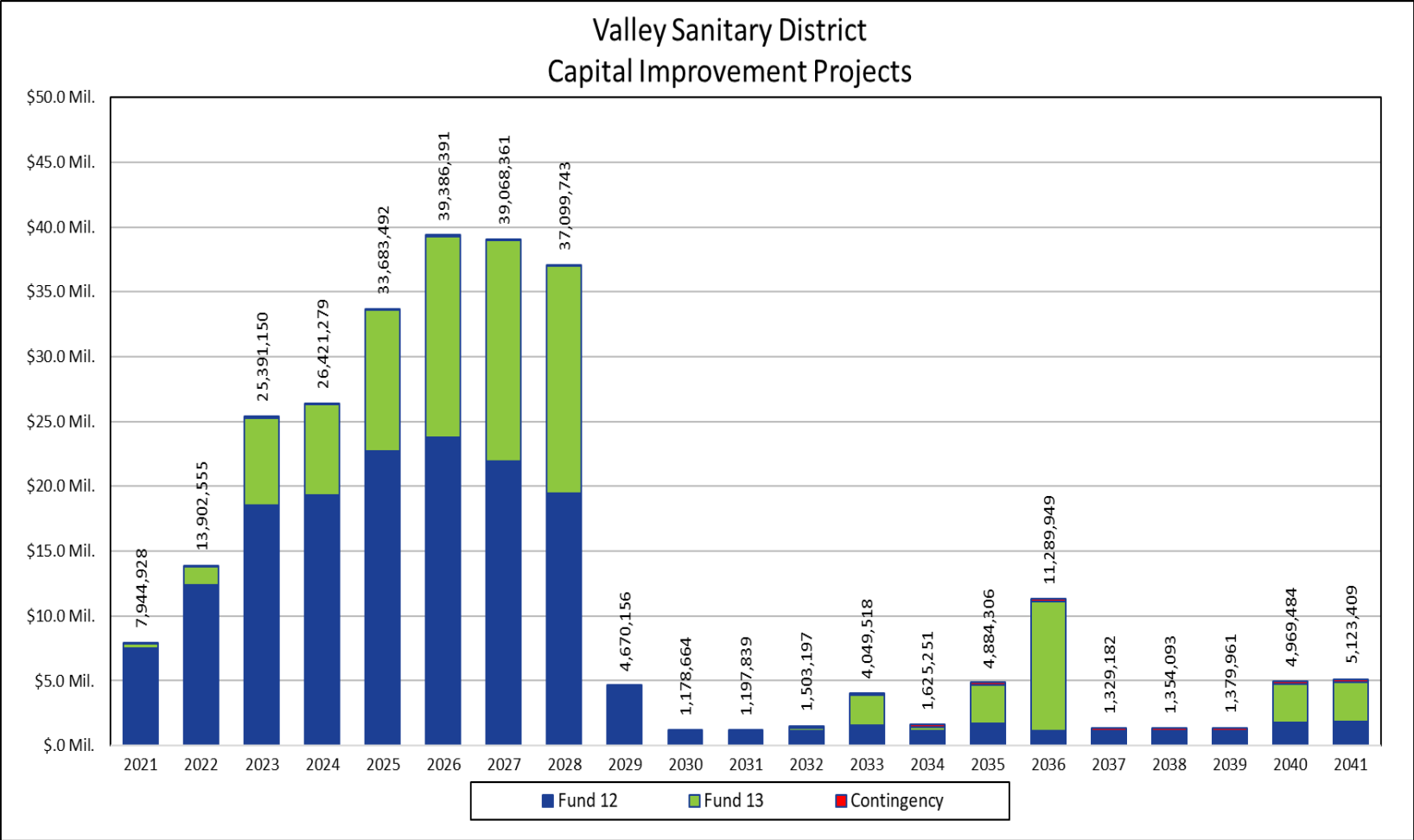
Finding a Solution

- ▶ Issue: The District will not be able to fund both operating and maintenance cost as well as planned capital improvements if it does not implement rate increases.
- ▶ Why: The District's mission is clear, to serve the City of Indio and the surrounding communities by collecting, treating, and recycling wastewater to ensure a healthy environment and sustainable water supply.
- ▶ Solution: Select a financial plan alternative to meet funding requirements.
 - ▶ Alternative 1 Full funding of CIP, no debt
 - ▶ Alternative 2 Full funding of CIP with \$150 million in debt
 - ▶ Alternative 3 Full Funding with \$185 million in debt

Reserve Funds



Capital Improvement Program Requirements



Five-Year CIP Costs

Project Description	2021	2022	2023	2024	2025	2026
FUND 12						
PLANT						
Reclaimed Water Project Phase 1 Design Build	\$ -	\$ 1,359,600	\$10,142,204	\$10,446,470	\$13,289,800	\$13,811,172
Influent Pump Station Rehabilitation Design Build	1,200,000	1,236,000	-	-	-	-
Vehicle & Major Equipment Replacement Fund	638,000	638,000	638,000	638,000	638,000	638,000
Fence Extension & Fortification (Carry Over) plus Van Buren Slope Protection	280,000	-	-	-	-	-
Switch Board Main Service Replacement	-	257,500	-	-	-	-
COLLECTIONS						
Lateral Grant Program	\$ 54,000	\$ 55,620	\$ 57,289	\$ 59,007	\$ 60,777	\$ 62,601
Sewer Main Rehabilitation or Replacement	2,643,928	5,185,524	7,571,822	8,084,418	8,606,738	9,162,800
Manhole Rehabilitation	-	-	-	-	-	-
Sewer Main Emergency Repairs	112,000	115,360	118,821	122,385	126,057	129,839
Emergency Sewer Siphon Replacement Design	325,000	412,000	-	-	-	-
Emergency Sewer Siphon Replacement Const.	2,000,000	3,090,000	-	-	-	-
TOTAL - FUND 12	\$ 7,502,928	\$12,349,604	\$18,528,135	\$19,350,281	\$22,721,372	\$23,804,411
FUND 13 - Connection Fees						
PLANT						
Reclaimed Water Project Phase 1 Design Build	\$ -	\$ 906,400	\$ 6,761,469	\$ 6,964,313	\$ 8,859,866	\$12,030,646
Training & Office Building - Design (Carry Over)	100,000	549,896	-	-	-	-
Training & Office Building - Construction	-	-	-	-	1,990,171	3,433,579
Additional Parking & Landscaping	250,000	-	-	-	-	-
TOTAL - FUND 13	\$ 350,000	\$ 1,456,296	\$ 6,761,469	\$ 6,964,313	\$10,850,037	\$15,464,225
CONTINGENCY	\$ 92,000	\$ 96,655	\$ 101,546	\$ 106,684	\$ 112,083	\$ 117,754
TOTAL - 5-Year CIP Program Costs	\$ 7,944,928	\$13,902,555	\$25,391,150	\$26,421,279	\$33,683,492	\$39,386,391

Rate Revenue Requirements

Fiscal Year Ending June 30	Revenue from Current Funding Sources	Total Revenue Needed to Meet Funding Requirements		
		Alternative #1	Alternative #2	Alternative #3
2022	\$ 12,098,790	\$ 16,333,367	\$ 13,308,669	\$ 12,703,730
2023	12,219,778	22,270,545	14,785,931	13,472,305
2024	12,341,976	30,365,888	16,427,170	14,287,380
2025	12,465,395	39,870,411	18,250,585	15,151,766
2026	12,590,049	44,296,027	20,276,400	16,068,448
2027	12,715,950	44,738,987	20,479,164	17,040,589
2028	12,843,109	45,186,377	20,683,956	18,071,545
2029	12,971,540	13,691,472	20,890,796	19,164,873
2030	13,101,256	13,828,387	21,099,704	19,550,087
2031	13,232,268	13,966,671	21,310,701	19,943,044
2032	13,364,591	14,106,338	21,523,808	20,343,899
2033	13,498,237	14,247,401	21,739,046	20,752,811
2034	13,633,219	14,389,875	21,956,436	21,169,943
2035	13,769,552	14,533,774	22,176,001	21,595,459
2036	13,907,247	14,679,112	22,397,761	22,029,527
2037	14,046,320	14,825,903	22,621,738	22,472,321
2038	14,186,783	14,974,162	22,847,956	22,924,015
2039	14,328,651	15,123,903	23,076,435	23,384,787
2040	14,471,937	15,275,142	23,307,199	23,854,821
2041	14,616,656	15,427,894	23,540,271	24,093,370

Percentage Change in Revenue Needed

Fiscal Year Ending June 30	Percentage Change in Revenue Needed to Meet Funding Requirements		
	Alternative #1	Alternative #2	Alternative #3
2022	35%	10%	5%
2023	35%	10%	5%
2024	35%	10%	5%
2025	30%	10%	5%
2026	10%	10%	5%
2027	0%	0%	5%
2028	0%	0%	5%
2029	-70%	0%	5%
2030	0%	0%	1%
2031	0%	0%	1%
2032	0%	0%	1%
2033	0%	0%	1%
2034	0%	0%	1%
2035	0%	0%	1%
2036	0%	0%	1%
2037	0%	0%	1%
2038	0%	0%	1%
2039	0%	0%	1%
2040	0%	0%	1%
2041	0%	0%	0%

Potential Service Sewer Charge

Fiscal Year Ending June 30	Potential Service Sewer Charge to Meet Funding Requirements		
	Alternative #1	Alternative #2	Alternative #3
2022	\$ 446	\$ 363	\$ 347
2023	601	399	364
2024	812	439	382
2025	1,055	483	401
2026	1,161	531	421
2027	1,161	531	442
2028	1,161	531	464
2029	348	531	488
2030	348	531	492
2031	348	531	497
2032	348	531	502
2033	348	531	507
2034	348	531	512
2035	348	531	518
2036	348	531	523
2037	348	531	528
2038	348	531	533
2039	348	531	539
2040	348	531	544
2041	348	531	544

Alternative 1

Pros

- ▶ No additional Debt
- ▶ Would be able to reduce rates near FY2021 amounts in FY2029
- ▶ No need to wait for loan processing and approvals
- ▶ Projects can commence as scheduled

Cons

- ▶ Rapid increase in first five (5) years
- ▶ High rates for five years while projects are completed

Alternative 2

Pros

- ▶ Moderate rate increases
- ▶ Rate increases are only in the first five (5) years then remain constant

Cons

- ▶ \$150M in debt
- ▶ Assumes 30-year term loans, 0% cost of issuance, and 2.0% annual interest
- ▶ Loans are timely to acquire might delay projects and increase costs
- ▶ Taking on debt lowers debt coverage ratio

Alternative 3

Pros

- ▶ Lower rate of increases
- ▶ Moderate increases

Cons

- ▶ \$185M in debt
- ▶ Assumes 30-year term loans, 0% cost of issuance, and 2.0% annual interest
- ▶ Loans are timely to acquire might delay projects and increase costs
- ▶ Taking on debt lowers debt coverage ratio
- ▶ Increases continue through FY40

Next Steps

- ▶ Relay questions and comments to NBS for further clarification
- ▶ Make modifications to financial plan based on feedback from the Budget and Finance Committee
- ▶ Prepare final Wastewater Rate Study Proposal for full Board Review



Questions?