

## Agenda Item: 4

**Date:** September 20, 2022

**Subject:** Financial Analysis

**Staff Contact:** Jeff Ott, Director of Finance and Administration

**Recommended Committee Action:**

No action. Information only.

**Discussion:**

Staff have prepared a draft analysis of the potential financial impacts of a potential reorganization involving Del Paso Manor Water District (DPMWD) and Sacramento Suburban Water District (SSWD). The main thrust of this analysis is to review the potential revenue impacts of billing the 1,796 DPMWD accounts utilizing SSWD rates. The analysis also looks at various financial metric comparisons between the two districts utilizing number of accounts. The following table summarizes some of the key metric comparisons.

Metric	DPMWD	DPMWD per Account	SSWD	SSWD per Account
Investments	\$ 2,246,659	\$ 1,251	\$ 41,582,507	\$ 920
Net Fixed Assets	4,812,584	2,680	309,062,185	6,835
Debt (par)	4,347,000	2,420	53,345,000	1,180
Net Pension Liability	832,768	464	5,806,835	128
Net OPEB Liability	156,492	87	3,590,451	79
Water Revenue	2,025,800	1,128	48,973,275	1,083
Operating Expenses*	1,150,607	641	21,839,148	483
Annual Debt Service	324,000	180	7,000,000	155
Capital Asset Acquisition	21,483	12	15,443,339	342

\* Less depreciation expense

Billing DPMWD accounts with SSWD rates utilizing the assumptions outlined in the analysis details below results in water revenues of \$2,096,026 compared to 2,014,464, an increase of approximately \$82,000 or 4.0%. DPMWD residential accounts billed with SSWD flat rates resulted in approximately \$1,434,000 in revenues compared to \$1,329,000, a \$105,000 (7.9%) increase. Non-residential revenues were approximately \$662,000 compared to \$685,000, a \$23,000 (3.4%) decrease. The following table shows the effect of various rate assumptions on the average monthly residential and non-residential bill amount for DPMWD accounts.

Rate Assumption	Residential Avg Monthly Bill \$	Non-Residential Avg Monthly Bill \$
DPMWD Current Rates	66.00	534.00
SSWD Flat Rates	71.00	N/A
SSWD Metered Rates	64.00	515.00

Staff have prepared an analysis of the financial condition of DPMWD as of June 30, 2021, with certain metrics (debt) current as of June 30, 2022, compared to SSWD. Metric comparisons will be based on each district's number of accounts and not connections. Staff utilized audited financial statements for DPMWD as of June 30, 2021, and as of December 31, 2021, for SSWD. Staff obtained an account listing from DPMWD as of August 30, 2022, outlining accounts and the rates each account is charged on a recurring basis. DPMWD bills flat rate residential accounts bimonthly and non-residential accounts monthly. Staff halved the residential rate revenues for DPMWD to allow for consistent monthly comparisons. In addition to several metrics and performance indicators, staff have analyzed the financial impact of billing DPMWD customers with SSWD rates both flat and metered. Flat rates would be billed until such time that connections are transitioned to meters. Then accounts will be billed metered rates. As the two District's rates are dissimilar, several assumptions had to be made for application of SSWD rates against DPMWD accounts. Connection sizes are not available for most DPMWD accounts and assumptions will have to be made based on rate descriptions used and other related data. The facts and assumptions are as follows:

Facts:

- DPMWD has 1,796 accounts comprised of 1,689 residential and 107 non-residential accounts. Residential accounts are non-metered, flat-rate accounts. Non-residential accounts are primarily metered with approximately three flat-rate accounts. Average monthly bill equals approximately \$94.00.
- SSWD has 45,219 accounts comprised of 39,067 single family residential, 2,306 small multi-family (3 units or less), 1,017 multi-family (4 or more units) and 2,929 non-residential units (commercial, industrial, public agency). By the end of 2022 99.9% of SSWD connections will be metered. Average monthly bill equals approximately \$89.00.
- As of June 30, 2022, DPMWD has outstanding debt of \$4,347,000 or \$2,420 per account. Annual debt service of approximately \$324,000 or \$180 per account, fully amortized in 2040. SSWD has outstanding debt of \$53,345,000 or \$1,180 per account. Annual debt service of approximately \$7,000,000 or \$155 per account, fully amortized in 2031.
- DPMWD's 2021 O&M costs were \$1,150,607, excluding depreciation, or \$641 per account. SSWD 2021 O&M costs, excluding depreciation, were \$21,839,148 or \$483 per account.
- DPMWD investments as of June 30, 2021, were \$2,246,659 or \$1,251 per account. Days cash on hand of approximately \$713. SSWD investments as of December 31, 2021, were \$41,582,507 or \$920 per account. Days cash on hand of approximately \$695.
- DPMWD fixed assets, net, as of June 30, 2015 were \$5,745,450 and \$4,812,584 as of June 30, 2021, which is a 19% decrease. SSWD fixed assets, net, as of December 31, 2015 were \$279,821,450 and were \$309,062,185 as of December 31, 2021, which is a 9% increase. DPMWD's net capital assets per account is \$2,680 vs \$6,835 for SSWD.
- DPMWD has 4 FTE staff or 0.00223 per account and SSWD has 76.5 FTE staff or 0.00169 per account.
- DPMWD's OPEB funding percentage is 80.4% compared to 72.0% for SSWD.
- Both DPMWD and SSWD are CalPERS members for pension. Both agencies have the CalPERS Classic 2.0% @ 55 and PEPRA 2.0% @ 62 Miscellaneous Plans.

Assumptions:

1. DPMWD's primary CIP rate code is "MA". This rate code is for all connections up to 1" and is the primary rate charged against residential accounts. This analysis assumes that these flat rate accounts (1,602) will be charged at a ¾" SSWD connection rate.
2. DPMWD's duplex CIP rate code is "ME". This rate code is for all duplex accounts (78) and assumes a 1" service size and will be charged at a 1" SSWD connection rate. There is no parcel size description for duplex rates (codes FG, FH, FI and FW) as there is for single family residential. As indicated below, 9,000 square feet will be used for duplex lot size for usage calculations.
3. There are a few 1-1/4" connections at DPMWD and will be charged at a 1" SSWD connection rate as SSWD does not have a 1-1/4" rate.
4. DPMWD has 19 special residential rates that affect 20 accounts. Service line size will be inferred from the related CIP Rate assigned to the account. There is no flat rate "usage" charge for these accounts based on parcel size as there is for other single family residential accounts.
5. Flat rate residential rates utilize lot size ranges (0 – 5,000; 5,001 – 8,000; 8,001 – 11,000, etc). SSWDS bills flat rate usage based on actual lot size. For the analysis, the midpoint of the range will be used for the calculation except for the 0 – 5,000 range which will utilize 4,500. Utilizing SSWD's GIS, the average duplex parcel size in DPMWD is approximately 9,000 square feet. The duplex usage charge will assume a 9,000 square foot parcel.
6. Ratios and comparisons will be based on respective district total active accounts.

DPMWD has higher per account investments (reserves) than SSWD (\$1,251 vs 920). Bringing DPMWD's investments in line with SSWD's could free up approximately \$594,000 for capital spending on DPMWD infrastructure.

DPMWD's net assets are \$4,812,584 (\$2,680 per account) as of June 30, 2021, and have decreased 19% since June 30, 2015. SSWD's net capital assets are \$309,062,185 (\$6,835 per account) as of December 31, 2021, and have increased by 9% since December 31, 2015. This shows that DPMWD is not replacing assets as fast as they are consuming them (through depreciation) and appear to be approximately \$7.5 million underfunded in net capital assets compared to SSWD. This indicates comparatively insufficient capital spending.

DPMWD's debt is higher per account than SSWD's (\$2,420 vs \$1,180) but it is also amortized over a longer period (2040 vs 2031). The annual debt service per account is also higher (\$180 vs \$155). This is factored into the analysis of available rate revenue to satisfy annual debt service and to provide available capital funds.

Both DPMWD and SSWD have similar OPEB funding percentages (80.4% vs 72.0%) and both participate in the same CalPERS pension plans. Net pension liability per account is \$464 (DPMWD) and \$128 (SSWD). Net OPEB liability per account is \$87 (DPMWD) and \$79 (SSWD).

SSWD and DPMWD rates yield similar financial results based on the analysis. DPMWD's water revenue from the analysis is \$2,014,464 compared to \$2,025,009 per the June 30, 2021, audited

financial statements, a 0.5% variance. This confirms that the analysis data can be relied upon. Utilizing the facts and assumptions above, DPMWD revenue recalculated with SSWD rates would be approximately \$2,096,026 compared to \$2,014,464, an increase of approximately \$82,000 or 4.0%. This would result in an average monthly bill of approximately \$97.00 compared to \$94.00 on current rates.

Utilizing the SSWD calculated revenue number of \$2,096,026; the following results should be realized:

1. DPMWD residential revenues are approximately \$1,329,000 annually compared to SSWD based revenues calculated at approximately \$1,434,000, a \$105,000 (7.9%) increase. As discussed below, residential revenues based on SSWD usage trends and rates will decrease as accounts transition to meters. This results in an average residential monthly bill of approximately \$66.00 with DPMWD rates compared to approximately \$71.00 with SSWD flat rates.
2. DPMWD non-residential revenues are approximately \$685,000 annually compared to SSWD based revenues calculated at approximately \$662,000, a \$23,000 (3.4%) decrease. This results in an average non-residential monthly bill of approximately \$534.00 with DPMWD rates compared to approximately \$515.00 with SSWD rates.
3. Approximately \$1,003,000 of DPMWD total water revenues will be available to cover CIP, meter capital and debt service costs. Debt service costs are scheduled to be approximately \$324,000 per year through 2040. This leaves approximately \$679,000 available for CIP and meter capital spending annually.
4. SSWD's O&M expense ratio per account is lower than DPMWD's (\$483 vs \$641) due to the larger account base in which to spread out O&M costs. Utilizing SSWD's O&M expense ratio of \$483 per account, DPMWD's annual O&M contribution would be approximately \$867,000 leaving approximately \$226,000 of surplus available for additional maintenance or CIP spending. Utilizing DPMWD's O&M expense ratio, the annual O&M contribution would be approximately \$1,151,000, leaving an approximate \$58,000 deficit.

In addition, SSWD recalculated DPMWD's residential flat rate revenues (1,689 accounts) assuming 3/4" meters and meter rates and using SSWD's 2021 average monthly usage for residential 3/4" meters. This is to model what DPMWD residential revenue could look like when fully metered and on SSWD rates with SSWD's average consumption. The calculated metered residential revenue using SSWD rates and average usage is approximately \$1,299,000 vs \$1,329,000 using DPMWD's flat rates, a decrease of \$30,000. This results in an average residential monthly bill of approximately \$66.00 with DPMWD rates compared to approximately \$64.00 with SSWD metered rates.

There are many assumptions used in this analysis and the numbers are approximate. SSWD billing uses specific parcel sizes for flat rate billing and specific connection and meter sizes. Rates charged are determined based on county land use codes unless modified based on observation. In staff's opinion, the analysis above represents the comparative financial condition and approximate economic outcome of placing DPMWD customers on SSWD rates.