



# STAFF REPORT

---

**Meeting Type:** Finance & Administration Committee/Board of Directors  
**Title:** Water Supply Financial Planning Review  
**From:** Bret Uppendahl, Finance Director  
**Through:** Ben Horenstein, General Manager  
**Meeting Date:** April 25, 2024

*BU*  
*BH*

---

**TYPE OF ACTION:**                      Action                      X                      Information                      Review and Refer

**RECOMMENDATION:** Receive an update on financial planning related to water supply roadmap projects

**SUMMARY:** In February 2023, the Board selected the Integrated Roadmap for improved water supply resiliency (Roadmap). In May 2023, the Board adopted a 4-Year rate structure which included funding to support the Roadmap; including operational improvements, conservation efforts and capital investments. Since that time, staff has been implementing early action projects while working in parallel to advance longer term capital projects and to pursue grant opportunities. In addition to providing funding for Roadmap initiatives, the District’s rate structure also supports increased investments in deferred capital maintenance, including funds that can be used for debt service associated with large-scale replacement and improvement projects.

While the current rate structure and financial plan provide sufficient funding for early stages of the Roadmap, the District will refine selection criteria and project alternatives over the coming months and an associated longer-term financial plan will be developed. Staff will provide an overview of the District’s current financial plan and will review existing financial policies related to debt issuance.

**DISCUSSION:** The District approved a two year budget in June 2023 that outlines specific operating and capital expenditures for Fiscal Years 2023-24 and 2024-25. In the two year budget, the Board approved capital expenditures for “Early Action” projects such as the connection from Phoenix Lake to Bon Tempe Reservoir and the electrification of the Soulajule pump station. Beginning FY 2024-25, the capital budget for Roadmap projects is \$9.2 million and the longer term financial plan assumes the District will spend approximately \$9.7 million annually on water supply (Roadmap) projects in future years. In addition to water supply projects, the District’s long term financial plan assumes that debt service will increase by approximately \$5.3 million in FY 2025-26 to provide funding to address large scale deferred maintenance projects. The specific projects are currently being evaluated and staff recently provided an update to the Board on March 5, 2024 that highlighted four of the District’s

highest priority projects. These four projects include replacements or improvements to the North Marin Line, the San Geronimo Treatment Plant Clarifiers, Ross Reservoir, and Smith Saddle Tanks. In the current interest rate environment, debt service of \$5.3 million would provide approximately \$85 million in proceeds for capital improvements. Staff currently estimates that two or three of the aforementioned high priority projects could be funded with the debt proceeds.

The District maintains a set of fiscal policies that collectively provide guidance for the prudent financial management and long term financial strategy for the organization. Today's discussion will focus primarily on debt management (Board Policy 51), which sets forth objectives and parameters to help ensure that the District maintains a sound debt position and protects its credit quality. There are four key provisions of the current Debt Management Policy:

- Debt Capacity (III.A.3)
  - The District's policy is to limit total debt outstanding to four times total annual operating expenses
- Debt Service Coverage (III.A.4)
  - The District intends to maintain an average debt service coverage ratio of 150%
- Intergenerational Concerns (III.A.5)
  - The District will review debt issuance in light of the balance between funding capital improvements from current revenue and from long-term debt and the impact of each has relative to intergenerational benefits
- Credit Quality (III.A.6)
  - The District seeks to obtain and maintain the highest possible credit ratings for all categories of short and long-term debt...and shall take any necessary steps to maintain favorable ratings, which a goal of at least AA+.

Debt Capacity and Debt Service Coverage are both formula-based ratios that reflect best financial practices and both are considered in credit ratings metrics. The District currently has operating expenses of \$104.1 million, outstanding debt of \$145.2 million, and annual debt service payments totaling \$9.5 million. Consistent with the adopted rate structure, the District's operating budget is expected to increase over the next three years to keep pace with inflation and to support increased contributions to the capital program. The District's existing debt service payments are scheduled to remain relatively flat until 2042 and existing debt levels are scheduled to decline each year as principal payments are made. Staff will provide an overview of the existing financial plan and will demonstrate how future debt issuances may impact the budget and/or future water rates.

**ENVIRONMENTAL REVIEW:** Not applicable.

**FISCAL IMPACT:** Not applicable.

**ATTACHMENT(S):**

1. Board Policy No. 51 Debt Management Policy