

Financial Strategy and Sustainability Study

Workshop 1:
Long Term Financial Plan

April 23, 2019

Southeastern Colorado Water Conservancy District

Agenda

- **Background**
- **Structure of Funds**
- **Financial Plan Base-Case Forecast**
- **Financial Plan Alternate Scenario**
- **Cash Reserves Discussion**
- **Closing Comments/Questions**

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Background

- Introductions / Team
- Project Scope and Schedule
- Study Objectives
- Purpose of Workshop 1

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Introduction and Team

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Project Manager]
    DJ --> AH[Allan Highstreet  
QA/QC Advisor]
    DJ --> KB[Keith Bishton  
Darren Betts  
Rates Analysis]
    DJ --> FY[Fatuma Yusuf, PhD  
Kevin Kasberg  
Agriculture/Irrigation  
Payment Capacity]
    DJ --> SH[Stephanie Harrison, PE, PMP  
Brendan Hedel, PE  
Jamie Behrens  
CIP Development]
    
```

Southeastern Staff

- Jim Broderick
- Leann Noga
- Chris Woodka
- Garrett Markus

Advisors

- Seth Clayton, Pueblo Water
- Curtis Mitchell, City of Fountain
- Terry Scanga, Upper Arkansas Water Conservancy District
- Kent Ricken, Colorado Water Protective and Development Association (CWPDA)

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A Comprehensive Rate Study Includes Three Basic Building Blocks

✓ Rate Design

- Develop understanding of community needs
- Evaluate different rate structures against predefined criteria
- Identify implementation constraints
- Adopt new rate structures that meet community needs

✓ Cost-of-Service

- Allocate revenue requirements to customers
- Calculate cost-of-service specific to customer class
- Determine revenue requirements for extraterritorial customers
- Allocate costs to utility functions
- Determine used and useful rate base

✓ Financial Plan

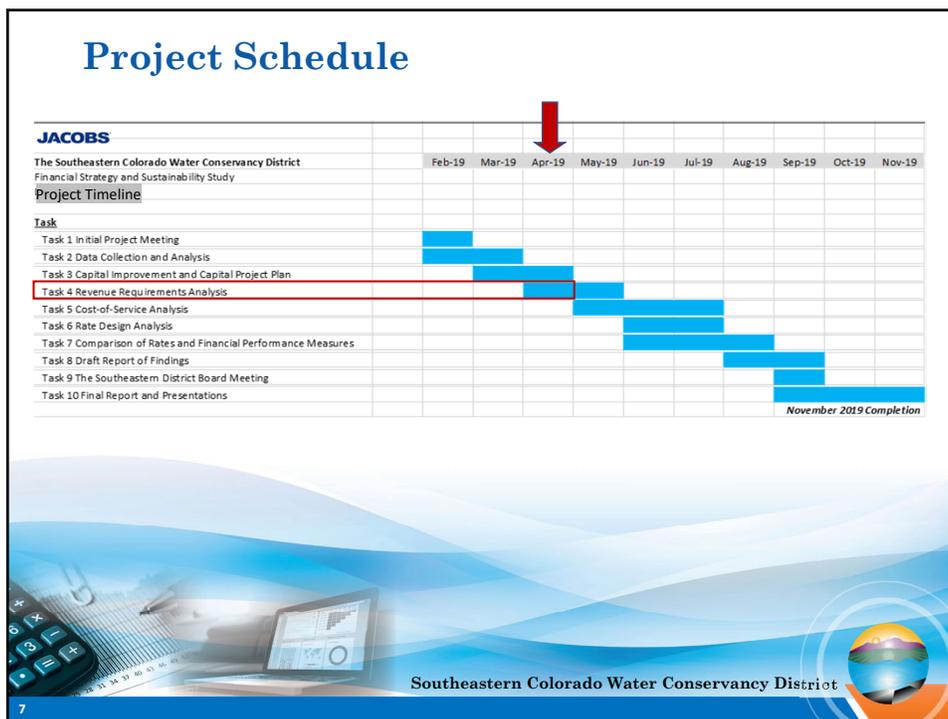
- Refine/Define financial policies
- Identify capital and operating costs
- Identify funding sources and uses
- Project cash balances
- Identify Revenue Requirements
- Refine assumptions on system growth
- Run scenarios
- Conduct sensitivity analysis

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Scope of Services

- **Task 1 Initial Project Meeting**
- **Task 2 Data Collection and Analysis**
- **Task 3 Capital Improvement and Capital Project Plan**
- **Task 4 Revenue Requirements Analysis**
 - Workshop 1: Preparing the Long Term Financial Plan
 - Workshop 2: Establishing Appropriate Reserves
- **Task 5 Cost-of-Service Analysis**
 - Workshop 3: Allocating Costs of Service
- **Task 6 Rate Design Analysis**
 - Workshop 4: Water Rates and Surcharges
- **Task 7 Comparison of Rates & Financial Performance Measures**
- **Task 8 Draft Report of Findings**
- **Task 9 The Southeastern District Board Meeting**
 - Board Meeting: Rates, Surcharges, and Fees Hearing
- **Task 10 Final Report and Presentations**
 - District Board Meeting: Assessment Rates, Surcharges, and Fees Adoption

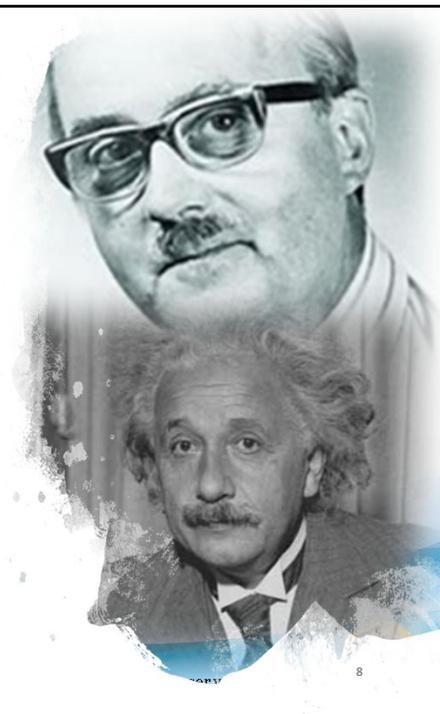
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Overarching Goals of the Study

- **Look into the future**
 - All models are wrong, but some are useful.
 - George E.P. Box, Statistician

- **Simplify**
 - Everything should be made as simple as it can be, but not simpler
 - Albert Einstein, Physicist

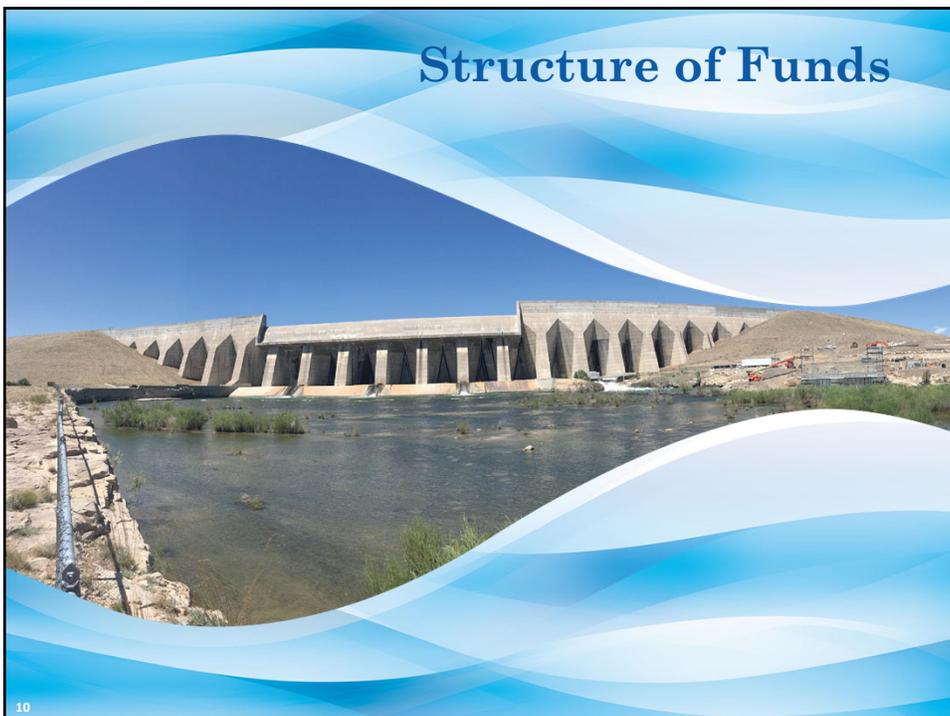


Purpose of this Workshop (versus Goals of the Study)

- **Understand the basis of the 10-year financial plan**
- **Communicate preliminary financial plan results**
- **Receive comments from the Committee**
 - Base and alternate financial plan
 - Reasonableness of assumptions
 - Other Topics
- **Not our Purpose Today**
 - Propose reserve targets (next workshop)
 - Discuss efficiency
 - Discuss cost drivers, or cost-of-service
 - Discuss individual rates and charges
 - Discuss how the District compares to others
 - All of these will be topics at subsequent workshops

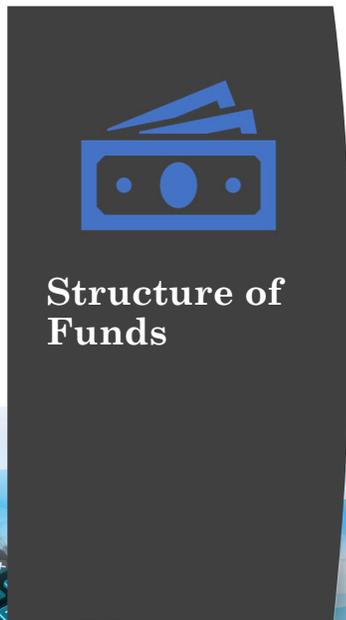


Structure of Funds



Common Vocabulary

- **District General Fund**
- **Fry-Ark Project Fund**
- **District Operations Fund**
- **Water Fund (Water Activity Enterprise Fund)**
- **Hydro Project Fund (Water Activity Enterprise Fund)**
- **Proprietary Fund**

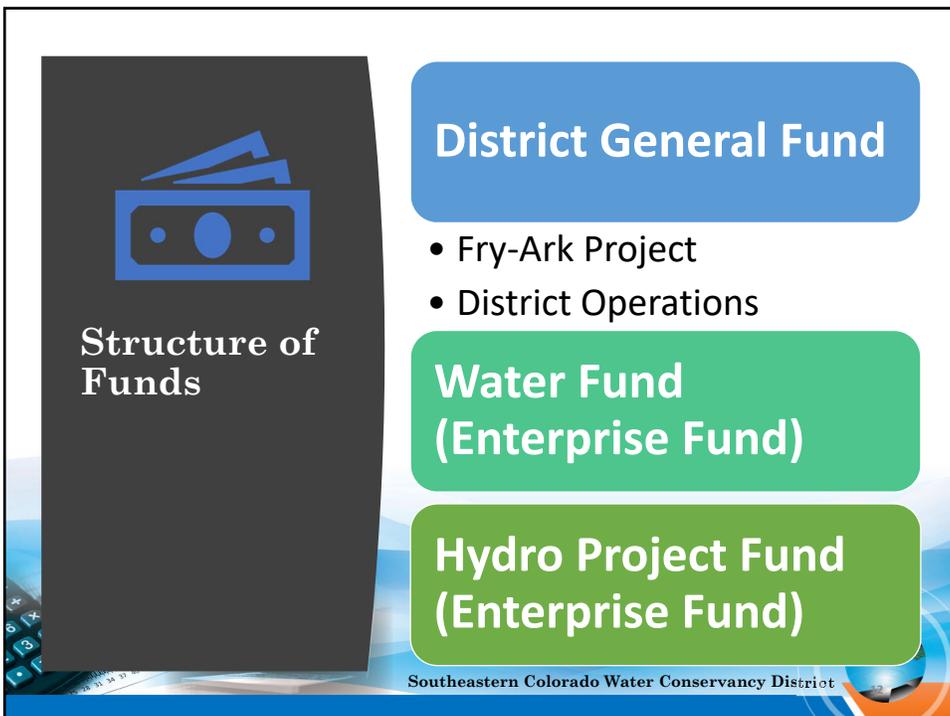


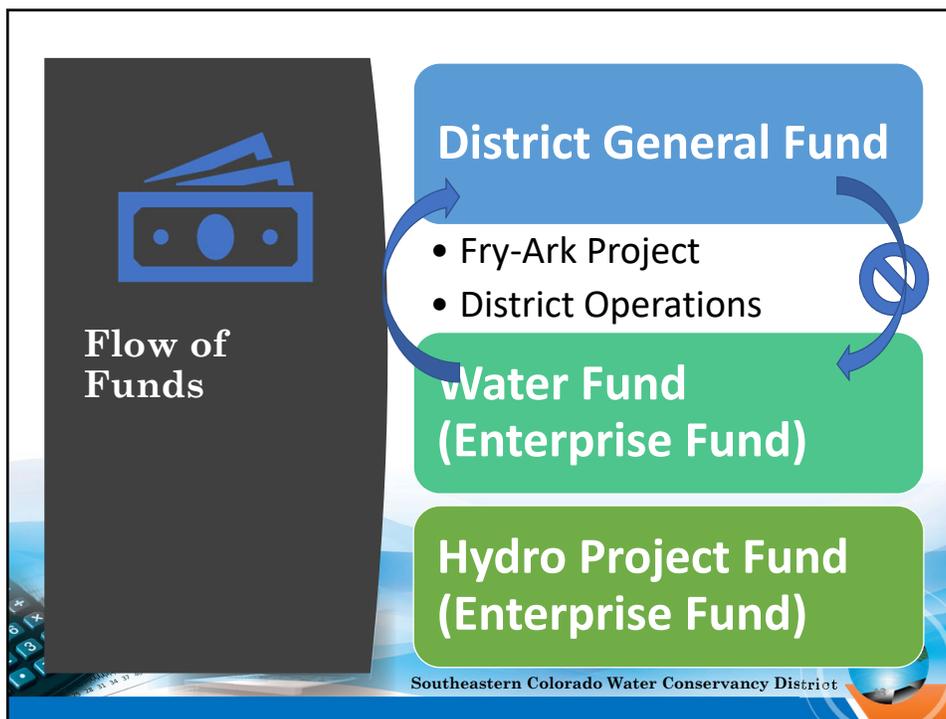
District General Fund

- Fry-Ark Project
- District Operations

Water Fund (Enterprise Fund)

Hydro Project Fund (Enterprise Fund)





Water Activity Fund Supports All Other Funds

- **Fry-Ark Repayment Contract with USBR specifies the use of Ad Valorem revenue for payment toward:**
 - 1: The annual OM&R obligation of the District (incl. RAX)
 - 2: Repayment of construction costs
 - 3: A Reserve Fund
- **“If there is a shortfall, the District will be billed the balance on the next billing cycle and shall pay the shortfall from the District’s other sources of revenue.”¹**
- **The only source currently available to generate additional revenue for both Project and non-Project uses is in the Water Activity Fund – from water rates.**
- **The Water Activity Fund supports all other Funds.**

¹ Amendment No. 11 To Contract No. 5-07-70-W0086, Between the United States of America and the Southeastern Colorado Water Conservancy District, Fryingpan-Arkansas Project, Colorado

The Financial Forecast and Model Includes Four Funds

Presented in the following order:

1. Fry-Ark Project Fund
2. District Operations Fund
3. Water Fund
4. Hydro Project Fund



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Financial Plan Base-Case Forecast



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**What are We Solving For?
The Revenue Requirement is Defined as ...**

Financial Plan Components

- Revenue
 - O&M Expenses
 - Debt/Financing
 - Capital Investments
 - Cash Reserves
 - **Net Revenue Requirement**
- } Revenue Requirements



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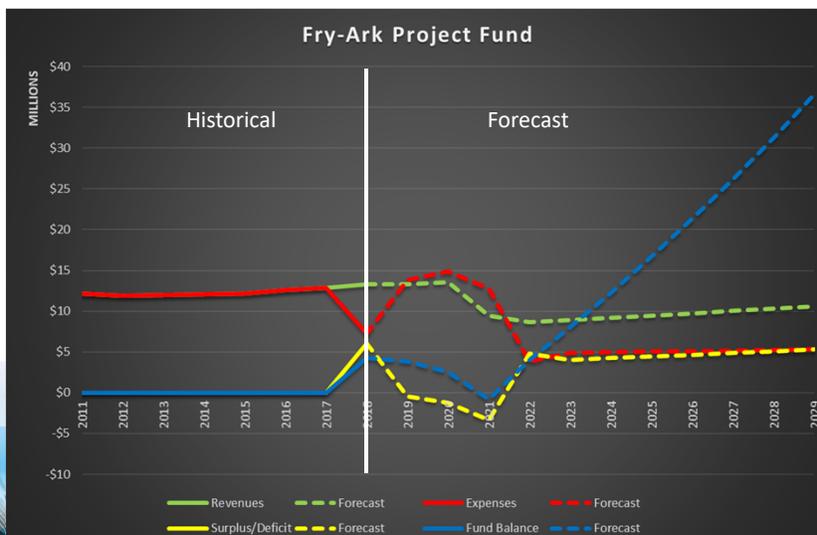
Fry-Ark Project Fund

- **REVENUE: \$13.5 million (\$8.5 million)**
- **O&M EXPENSE: \$7.5 million (\$2.5 million)**
- **DEBT SERVICE: \$1.5 million**
- **CAPITAL: \$2.2 million**
- **FORECAST: Near term deficits due to RAX, are reversed beginning in 2022**
- **WHAT'S CHANGED?**
 - Amendment 11
 - RAX
- **BEGINNING BALANCE (JAN 2019): \$4.3 million**
- **10-Year Surplus/ (Deficit): \$27 million**
- **ENDING BALANCE (DEC 2028): \$31.3 million**



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Fry-Ark Project Fund Historical and Forecasted Cash Flows



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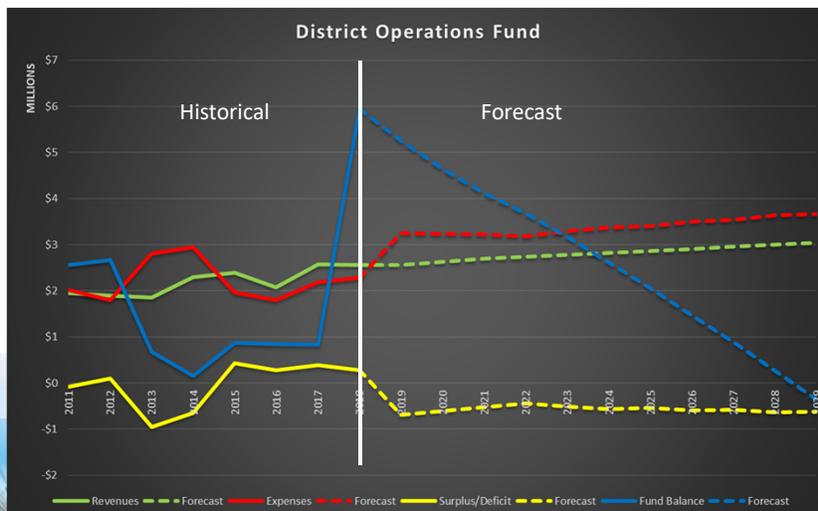
District Operations Fund

- **REVENUES: \$2.5 million**
- **O&M EXPENSE: \$3.2 million**
 - Includes Recurring Capital: \$500K
- **CAPITAL: None**
- **DEBT SERVICE: None**
- **FORECAST: Deficit of \$600K per year.**
- **What's changed?**
 - Technology Improvements, Building Improvements (as Recurring Capital Investment).
 - Water Rights Protection
 - Water Rate Study and Long Term Financial Planning Support
 - Asset Evaluation
 - Condition Assessment
 - SnoTel Site
 - Original Agreement Didn't Allow for Operations and Overhead to be paid via Ad Valorem
 - Debt Service Reserve
- **BEGINNING BALANCE (JAN 2019): \$5.9 million**
- **10-Year Surplus/ (Deficit): (\$5.7 million)**
- **ENDING BALANCE (DEC 2028): \$200K**

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District Operations Fund Historical and Forecasted Cash Flows



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Water Fund

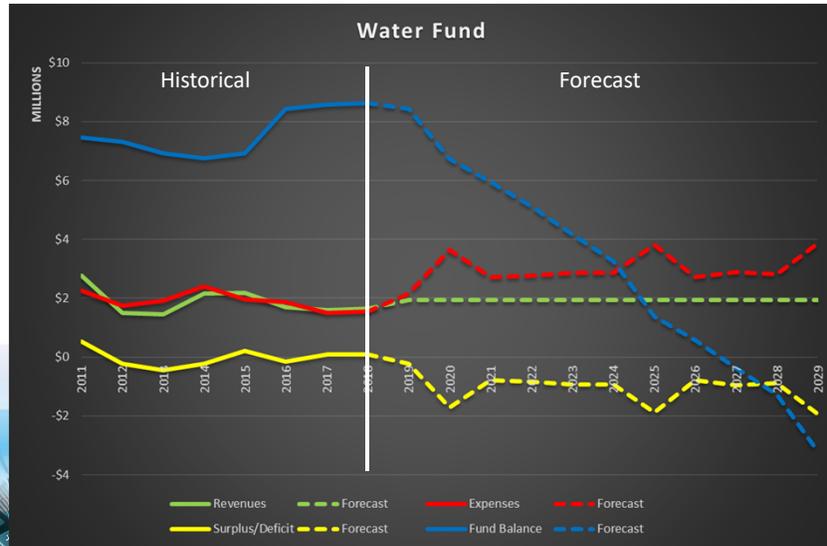
- **REVENUES: \$1.9 million**
- **O&M EXPENSE: \$2.5 million**
- **DEBT SERVICE: None**
- **CAPITAL: \$500K**
- **FORECAST: Deficit of \$1+ million per year.**
- **WHAT'S CHANGED?**
 - Capital investments for Restoration of Yield (ROY) average \$500K annually.
 - Reimbursement on District upfront capital expense, including projects and programs.
 - Increased O&M, wages, benefits.

- **BEGINNING BALANCE (JAN 2019): \$8.6 million**
- **10-Year Surplus/ (Deficit): (\$9.9 million)**
- **ENDING BALANCE (DEC 2028): (\$1.3 million)**

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Water Fund Historical and Forecasted Cash Flows



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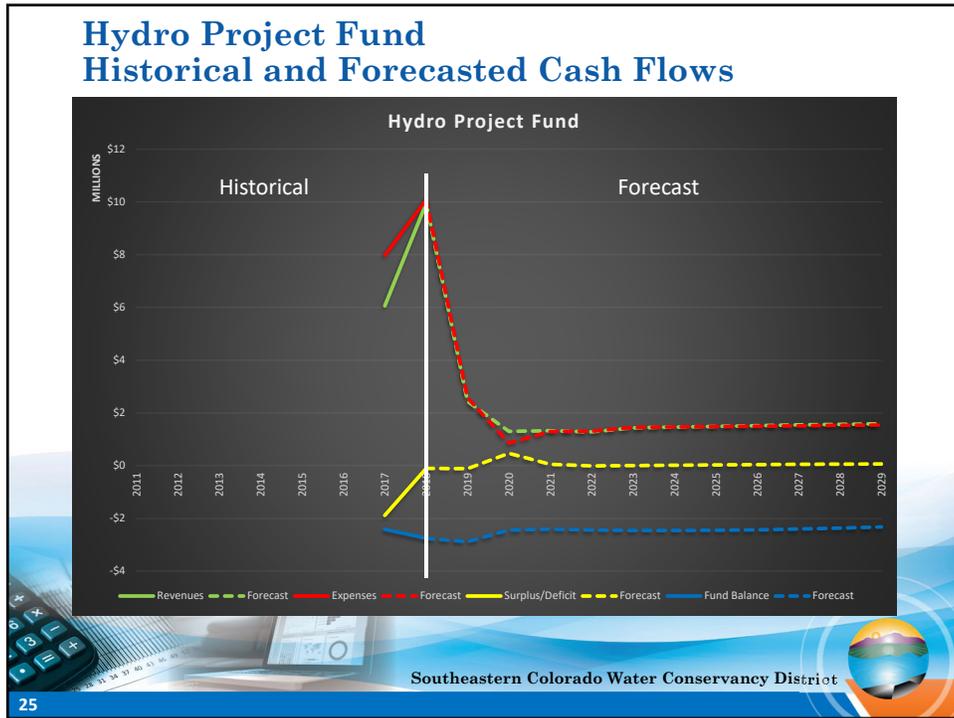
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Hydro Project Fund Historical and Forecasted Cash Flows

- **REVENUES: \$1.3 million**
 - **O&M EXPENSE: \$500K**
 - **DEBT SERVICE: \$900K**
 - **FORECAST: Roughly breakeven**
 - **WHAT'S CHANGED?**
 - Just getting started
- **BEGINNING BALANCE (JAN 2019): (\$2.8 million)**
 - **10-Year Surplus/ (Deficit): \$400K**
 - **ENDING BALANCE (DEC 2028): (\$2.4 million)**

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10-Year Revenue Requirement (Net)

- Fry-Ark Project: +27 million
- District Operations: -\$5.7 million
- Water Fund: -\$9.9 million
- Hydro Project Fund: +\$400K
- Combined 10-year total of All 3 Funds: \$15.3 million
- Annual Average: \$1.53 million

- The \$1.53 million annual deficit is approximately a doubling of rate revenue (to be phased in) and is the Base Case Net Revenue Requirement

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Financing Capacity Limitations

- Why not issue debt?
- SECWCD is unique in that a majority of its revenue is derived from ad-valorem property tax assessments (property and SO taxes) rather than water sales.
- Property and Specific Ownership (SO) tax revenue is currently the maximum allowed under current law and cannot be increased.
- Water rates and other user charges are therefore the primary funding source available to generate additional revenue
- Water rate revenue is highly volatile and dependent on annual yield.
- Water rate revenue is insufficient and unreliable – inadequate to pledge toward debt financing.



Financial Plan Alternate Scenario



Financial Plan Alternate Scenario

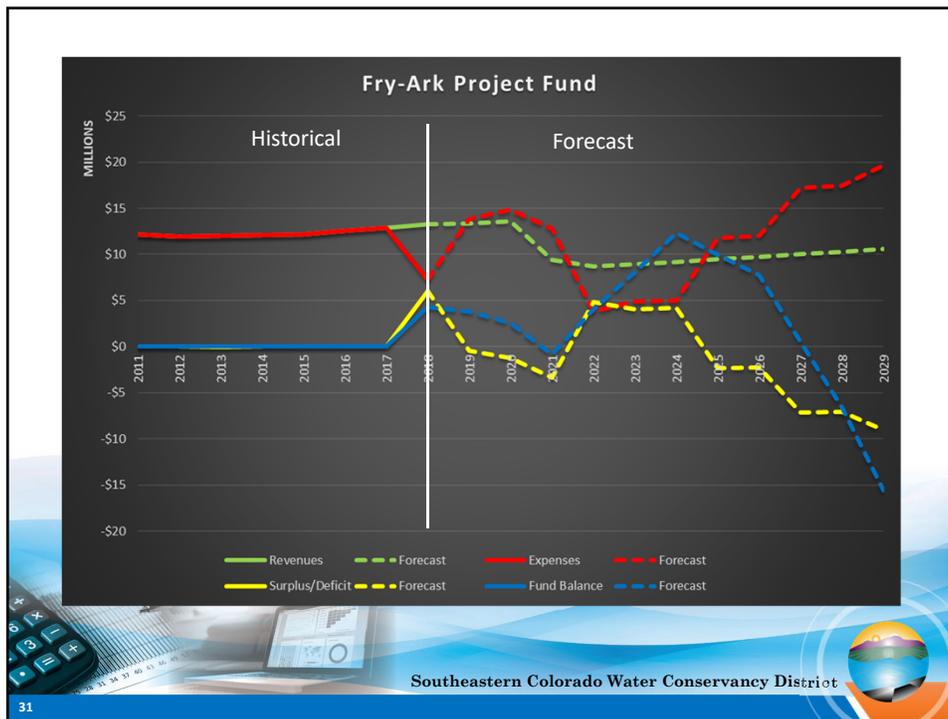
- **Essentially a sensitivity analysis**
 - What will be the most likely and impactful changes in the forecast?
- **What is not included in the Base Case?**
 - Unknown RAX items (above \$1.0 million/year)
 - District-Initiated Capital Investment (Betterments)
 - Clarity will follow asset valuation and condition assessment work
 - District-Initiated Capital Investments (Development & Improvement)
 - Unanticipated Hydro Fund performance
- **Reserve Funds**
 - Additional reserves / reserves policy (Workshop 2)
 - Emergencies and unforeseen events



Hypothetical Alternate Scenario

- **\$30 million Capital Investment – 2025**
 - Pueblo Dam Interconnect, for example
- **\$20 million RAX item – 2027-2029**
- **What is the impact on the Fry-Ark Project Fund?**
- **What is the impact on the Water Activity Fund?**





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Key Considerations Moving Forward

- **To maintain the base case, status quo, a doubling of rate revenue is needed over the 10-year forecast period.**
- **What phase-in curve of new rates is appropriate?**
- **Is the District prepared to support more aggressive rate increases over the 10-year forecast period?**
- **What level of reserves should be deemed adequate?**
 - This will be the subject of Workshop 2



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