



Wastewater Management Division

Utility Advisory Committee

March 5, 2008

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Bartle Wells Associates





BARTLE WELLS ASSOCIATES

- Founded in 1964, independent public finance advisors
- Focus in water and sewer finance
- Completed over 1,000 water and sewer rate studies
- Tom Gaffney
 - 35 years with firm
 - Expert in sewer utility finance, financing programs
 - Assisted UAC in 2006



BACKGROUND

- Bartle Wells Associates assisted UAC and Wastewater Management Division in updating rates in 2006
- 5-year rate plan adopted Feb 2007

Approved Rate Program

Excerpt from 2007 Proposition 218 notice

	Current Rate	1-Apr-07	1-Sep-07	1-Sep-08	1-Sep-09	1-Sep-10	Total
Wastewater/ \$ Rate	\$14.86	17.67	17.67	21.01	24.98	25.75	
Sewer ² \$ Incr.		2.81	0.00	3.34	3.97	0.77	\$10.89
% Incr.		18.9%	0.0%	18.9%	18.9%	3.1%	73.3%



BACKGROUND

- 2006 rate increases were driven by capital program
- Current capital improvement program (CIP) FY08-11
 - \$350M in wastewater improvements
 - \$104M in sewer improvements
- Funding CIP will require two bond issues
 - First bond sale: late FY08 ~\$56M
 - Second bond sale: FY10 ~\$400M
- Rate increases also address staffing needs
 - New regulations (WDRs)
 - Staffing studies



2008 MODEL UPDATE

- BWA has updated rate model and projections
- City implemented first rate increase April 2007
- Operating revenues have increased in line with projections
- New user growth has been reduced in model
 - 1% in 08 and 09; 1.5% thereafter
 - Weak housing offset by strong growth in commercial/industrial sectors
- Staffing recommendations are being implemented
- Wastewater development fee (\$2,119) is also being updated
 - Change to be effective January 2009



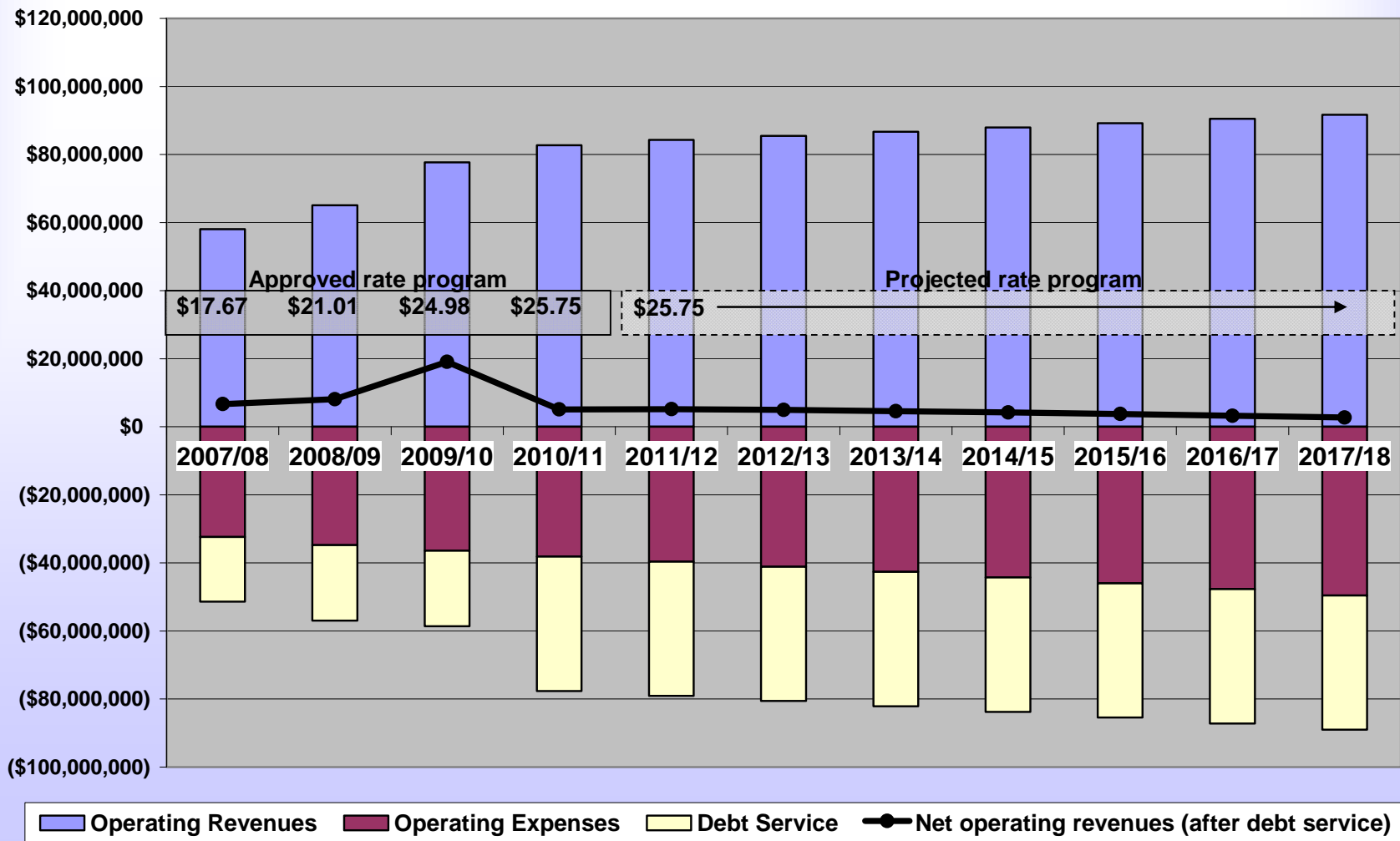
2008 MODEL UPDATE

- Capital project assumptions are largely unchanged
- Total capital requirement (FY08 – FY18): \$612M
- City has retained financing team
- 1st bond sale in late FY08 (~\$56M)
- Model update assumes “base scenario” of 30-year, fixed rate debt, as presented Jan. 2008 to City
- Average annual debt service slightly lower than in 2006 study
- Final plan of finance for Phase II will not be known until 2010



NET OPERATING REVENUE

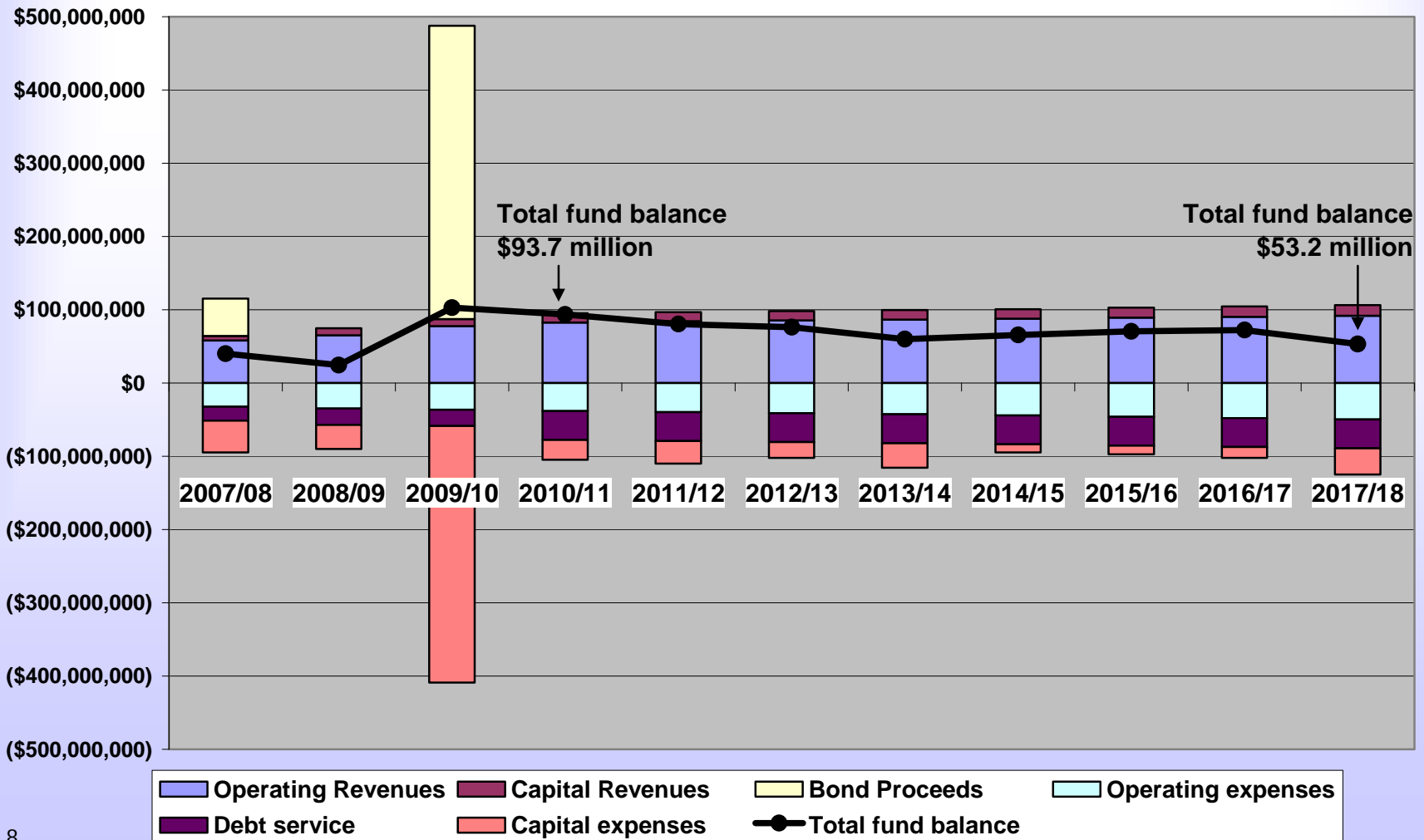
City of Fresno Wastewater and Sewer Enterprise
Operating Revenues and Expenses With Debt Service





NET TOTAL REVENUE

**City of Fresno Wastewater and Sewer Enterprise
Total Revenues and Expenses with Ending Fund Balance**





KEY CONSIDERATIONS

- Enterprise should maintain minimum operating reserve
 - 45 days O&M expenses (\$4M to \$6M)
- Enterprise should establish capital reserve policy
 1. “Emergency” capital reserve (\$3M to \$6M)
 2. Replacement reserve (~\$10M per year)
 3. Major capital projects reserve (up to \$100M)
- Unknown future regulatory requirements



RECOMMENDATIONS

- City must implement next rate increase Sept 2008
 - Single family home from \$17.67 to \$21.01 per month
 - Required to meet coverage on 2010 bond
- City and UAC should revisit Sept. 2009 increase with updated project costs and financing plan
- City should continue to maintain 45-day operating reserve
- City and UAC should implement capital reserve policy
- Complete wastewater development fee update



QUESTIONS