



## TAHOE CITY PUBLIC UTILITY DISTRICT

### MEMORANDUM

<b>TO:</b>	Board of Directors	<b>DATE:</b>	May 14, 2021
<b>FROM:</b>	Sean Barclay General Manager	<b>SUBJ:</b>	Long-Term Financial Planning – Tahoe Cedars & Madden Creek Water Infrastructure Funding Discussion – Part 2

#### RECOMMENDATION:

No recommendation – for information and discussion. Staff will provide a presentation to the Board of Directors with a high-level overview of the 30 year financial planning horizon associated with a potential borrowing for the infrastructure replacement called for in the Tahoe Cedars and Madden Creek Water System Master Plans; and discuss important related policy considerations. The attached presentation has been updated to incorporate feedback from the May meetings of the Sewer & Water Committee and Finance Committee.

#### BACKGROUND:

At the February 19, 2021 Board of Directors meeting, the District adopted the Tahoe Cedars Water System (TCWS) and Madden Creek Water System (MCWS) Master Plans (Plans). In summary, the Plans call for a complete replacement of both the MCWS and TCWS distribution systems.

At the April 16, 2021 Board of Directors meeting, staff provided a presentation to the Board which reviewed common infrastructure funding options and examined the assumptions used by staff to develop a preliminary financial model which estimates debt service payments associated with a Clean Water State Revolving Fund (CWSRF) 30-year borrowing for a complete system replacement based on a 9-year rate of replacement contemplated in the Master Plans. The presentation also covered future items for Board consideration and discussion, including staff's development of background financial information related to the assumed 30 year borrowing period, important District policy considerations and the role of public engagement during the planning process.


At the May meetings of the Sewer & Water Committee, the Finance Committee and the Board of Directors, staff will provide further information to assist the Board in developing a funding strategy for the complete replacement of the MCWS and TCWS distribution systems. The presentation will provide high-level financial forecast information for the assumed 30 year borrowing period, including potential water system infrastructure costs, water system revenues and property tax revenues. The presentation will also cover important District policy considerations.

Following the May meetings, Staff will incorporate Board feedback and direction and prepare for the next steps in development of the strategy for funding of the MCWS and TCWS water infrastructure replacement.

#### STRATEGIC FOCUS AREA:

- Safe and Sustainable Water and Sewer Services
- Infrastructure and Property – Protection & Improvement
- Long-Term Financial Sustainability

#### REVIEW TRACKING:

Submitted By:   
Sean Barclay, General Manager

**FINANCIAL IMPACTS:**

No financial impacts.

**ATTACHMENTS:**

- Presentation – Tahoe Cedars & Madden Creek Water Infrastructure Funding Discussion – Part 2

# Long-Term Financial Planning

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## Tahoe Cedars & Madden Creek Water Infrastructure Funding Discussion Part 2



Tahoe City Public Utility District

# Goal for Today's Discussion

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- **Continue Board discussion on funding strategy**
- **Present 30 year planning horizon information**
- **Discuss key policy implications**
- **Receive feedback**



# TC/MC Water Infrastructure Funding

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## April 16, 2021 - Board Meeting

Discussed:

- Master Plan Summary
- Infrastructure funding options (cash/debt)
- Potential debt service payment (full project cost scenario)
- Future policy considerations
- Public outreach considerations

Board Feedback:

- Public engagement is important – must define goals
- Interest in pursuing some level of financing to take advantage of historically low cost of borrowing\*



# Future Board Considerations/Discussions

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- 30 year planning horizon – changes discussion/planning process
  - Review high-level estimates of future water system acquisitions and their required infrastructure investments over the 30 year borrowing period
  - Review summary of forecasted existing District water system infrastructure liabilities over the 30 year borrowing period
  - Review property tax projections and use of property tax for debt service
- TC/MC property owners level of financial responsibility for infrastructure replacements
  - Mechanisms for property owner financial responsibility (Assessment District, Special Rates)
- TC/MC property owner responsibility for private infrastructure relocations
  - Mechanisms for property owner (no/low interest loan program)
- *Rate of infrastructure replacement*
- *Total District indebtedness (inability to respond in future)*



# 30 Year Planning Horizon

## Existing Water System Infrastructure Liabilities

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- West Lake Tahoe Regional Water Treatment Plant (to be included in Financial Model)
- Tahoe Cedars and Madden Creek Systems Reconstruction (to be included in FM)
- West Shore Storage Augmentation
- Smart Meters / Battery Replacements
- Tahoe City Main Source Augmentation Projects
- Rubicon Water System Transmission Improvements
- Regular/Ongoing Water Line Replacements (undersized, underserved, material, configuration, conflict, etc.)
- Polybutylene and Galvanized Water Service Replacements

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# 30 Year Planning Horizon

## Existing Water System Infrastructure Liabilities

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*Continued from previous slide*

- Remaining Steel Water Line Replacements
- Long-Term Performance of Asbestos-Cement Pipe
- System Extremity Improvements
- System Interconnectivity Improvements
- System Upgrades and End-of-Life Replacements
- Regulatory Changes





# 30 Year Planning Horizon

## Existing Water System Revenue Projection

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- Over 30 years, we will collect **\$137.7M** net from water rates for capital and debt service payments from today's existing customer base (includes Tahoe Cedars/Madden Creek/Timberland).
  - Assumes inflationary rate adjustment annually (4-5%)
  - Assumes operating expense increase annually (3.0-6.7%)
  - Accounts for 50% of the debt service for WLTRWTP (@ \$20M)



# 30 Year Planning Horizon

## Other Water Systems in TCPUD Service Area

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### Potential Acquisitions:

- Tahoe Pines/Tahoe Swiss Village
- Glenridge
- Skyland-Nielsen
- Tahoe Park (plus Washoe Heights)
- Ward Well
- Lakeview (Real Estate Row)

### Other Remaining Systems within TCPUD Service Area:

- McKinney Estates Water District
- Talmont Resort Improvement District



# 30 Year Planning Horizon

## Potential Water System Acquisition Costs

System Name	Number of Connections	Approx. Total System Pipe Length (feet)*
Tahoe Pines/Tahoe Swiss Village	440	45,000
Glenridge	47	6,303
Skyland-Nielsen	93	8,500
Tahoe Park (plus Washoe Heights)	445	31,000
Ward Well	210	15,000
Lakeview (real estate row)	13	1,100
<b>Total</b>	<b>1248</b>	<b>106,903</b>

Total Estimated Acquisition & Infrastructure Improvement Costs - \$45 million

\*For Reference – Pipe Length: Tahoe Cedars – 79,000’/Madden Creek – 23,400’/Timberland – 9,100’ – Total 111,500’  
Connections: Tahoe Cedars – 1,180 / Madden Creek – 175 / Timberland – 136 – Total 1,491



# 30 Year Planning Horizon

## Potential Acquired Water System Revenue Projection

- Over 30 years, we could collect **\$25.0M** net from water rates for capital and debt service payments from future acquired water system customer base.
- Assumes all customers (1,248) acquired beginning in 2025
- Assumed all to be "average" customer
- Net Revenue/Year = **\$1.0M** (calculated from existing customer net rate revenue assumption above)



# 30 Year Planning Horizon

## Property Tax Revenue Projection

	<u>Total 2021 - 2050</u>
<b>Property Tax Revenue Projections</b>	<b>\$ 410,518,462</b>
<b>Property Tax Revenue Allocation / Uses</b>	
Property Tax for Parks/Rec/Golf/WSP Operations	254,673,412
Water Operations / Rate Transition	1,117,323
Sewer Operations – Rate Relief	94,230
Fund 50 - Debt Service	1,117,626
Current Debt Service - water	18,249
Debt Service - WLTRWTP (50%) (\$20M)	11,442,345
Total uses before capital and new debt service	<u>268,463,185</u>
<b>Net Available for Capital/Debt Service</b>	<b>\$ 142,055,277</b>

### Assumptions:

- Annual revenue escalator of 3.0%
  - Every 0.5% change nets a change of \$34.9M of net
- Annual operations escalator variable by year (3.0-6.7%)



# 30 Year Planning Horizon

## Future Large General Fund Projects

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- 401 West Lake Blvd Property Improvements
- Tahoe City Golf Course Clubhouse Improvements
- Administrative Facility Improvements (General Fund and Utility)
- Trail System Rehabilitation
- Future Rec Center/Swimming Pool
- Existing District-Owned Facilities Upgrades and End-of-Life
- Future Water Rate Transitions for Acquisitions



# Cash in Bank (Starting Balance)

	Fund 23	Fund 25	Fund 10	4/30/2021
	<u>Water</u>	<u>Sewer</u>	<u>General Fund</u>	<u>Total</u>
<u>Target Reserves - 1/1/2021</u>				
Operating Reserves	\$ 1,282,665	\$ 925,942	\$ 1,266,200	\$ 3,474,807
Fleet & Equipment Replacement Reserve	232,182	427,849	229,541	889,572
Infrastructure Capital Replacement Reserve	1,500,000	2,000,000	1,500,000	5,000,000
Water System Acquisition & Infrastructure Improvement Property Tax Reserve	2,133,867	-	-	2,133,867
Priority Project Capital Reserves	-	-	1,000,000	1,000,000
Subtotal target reserves	5,148,714	3,353,791	3,995,741	12,498,246
<b>Undesignated cash</b>	<b>1,217,758</b>	<b>5,839,197</b>	<b>9,366,739</b>	<b>16,423,694</b>
Total Cash in Bank 4/30/2021	\$ 6,366,472	\$ 9,192,988	\$ 13,362,480	\$ 28,921,940

# 30 Year Planning Horizon Financial Summary Review

## Projected District Revenues:

Net from existing water customers - \$137.7M  
Net from potential acquired water customers - \$25M  
Net from Property Tax revenues – \$142.1M  
Cash - existing un-designated water - \$1.2M  
Cash – existing un-designated general fund - \$9.4M

## Projected District Infrastructure “Liabilities”

TC System Reconstruction\* – \$40M  
MC System Reconstruction – \$8M  
Existing water system infrastructure - ?  
Potential acquired water systems - \$45M  
General Fund Projects - ?

\*includes \$5,178,000 in customer owned service lateral relocation





# 30 Year Planning Horizon

## % of available funds to debt service

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Net projected revenue from existing water customers	\$	137.7
Net projected revenue from Property Tax		<u>142.1</u>
Total available revenue for capital and debt service	\$	<u>279.8</u>
TC/MC "Full Project" total cost of debt service *	\$	64.3
% of potential TC/MC debt service to available revenue		<u>23.0%</u>

\*"Full Project" as shown in April 16, 2021 Board Presentation –  
 Estimated \$48M SRF borrowing @ 2% for 30 years – Total cost of borrowing \$64.3M



# Water System Policy Considerations

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- Property owner level of financial responsibility for system infrastructure replacements
  - Mechanisms for property owner financial responsibility
    - Assessment District
    - “Postage Stamp” Rate
    - Others?
  - Consistent with TCPUD Water System Acquisition Policy



# Tahoe Cedars and Madden Creek Water System Policy Considerations

Total Cost per connection of debt service for "Full Project"\*

	TC	MC	Total
Annual maximum debt service payment	\$ 1,785,283	\$ 358,360	\$ 2,143,643
Divide by connections	1,180	175	1,355
Annual amount per connection	<b>\$ 1,513</b>	<b>\$ 2,048</b>	<b>\$ 1,582</b>

\*"Full Project" as shown in April 16, 2021 Board Presentation –  
Estimated \$48M SRF borrowing @ 2% for 30 years – Total cost of borrowing \$64.3M



# Water System Policy Considerations

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- Property owner responsibility for private infrastructure relocations (Due to back of lot water main relocations)
  - Property owner construction
  - Property owner financial responsibility
  - Lump sum payment up front
  - Private infrastructure financing (no/low interest loan program)
  - Existing precedent
  - Future implications - system infrastructure acquisition/project implications

