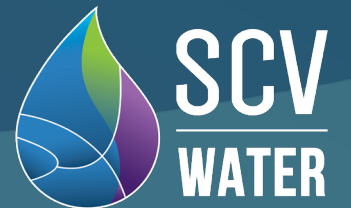


FINANCIAL PLANNING FOR FUTURE CHALLENGES

Strategic Plan Workshop
September 7-8, 2023



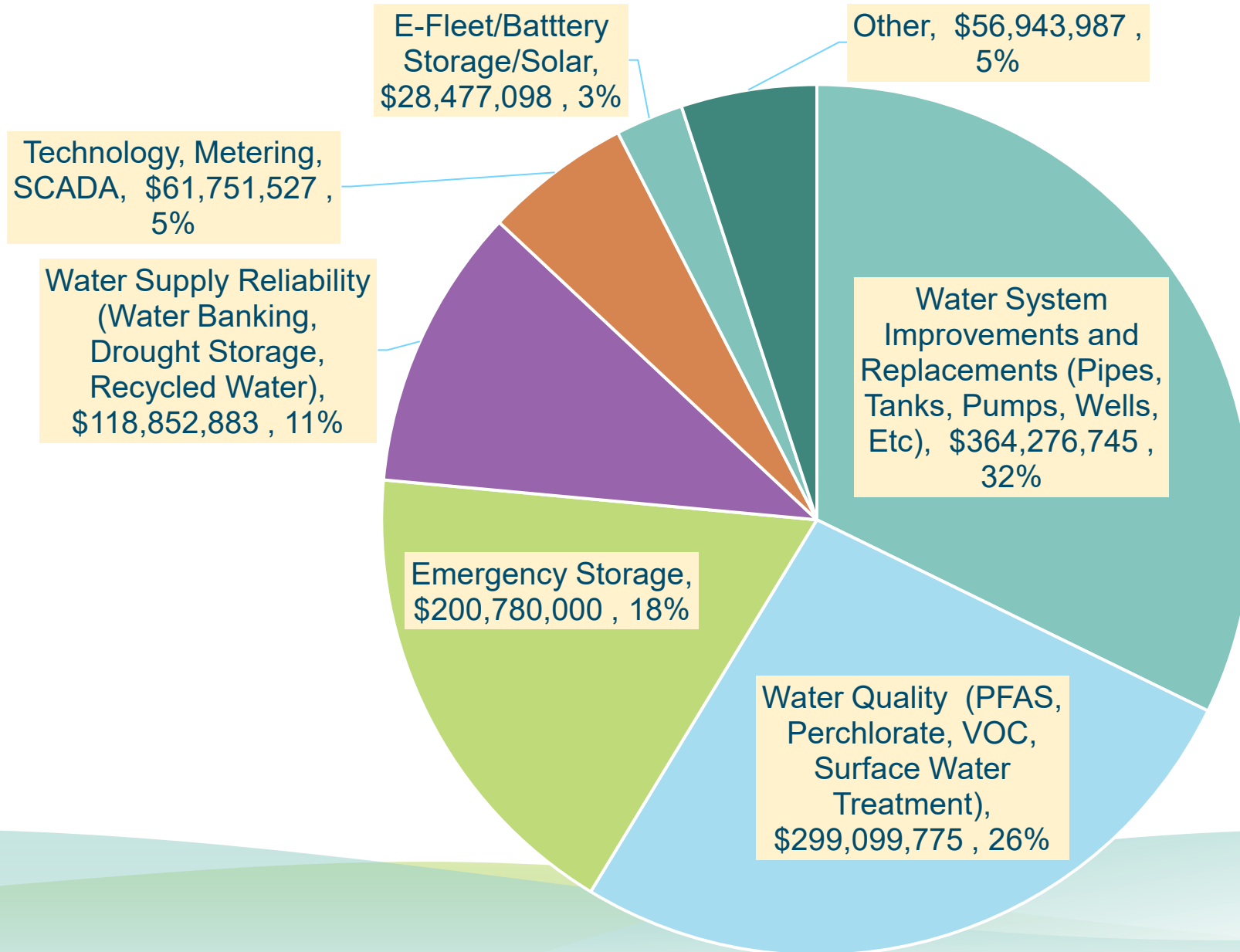
FRAMING THE ISSUES: THE 10-YEAR CIP

- Recent updates to the 10-Year CIP reflect additional costs and additional projects
- \$1,132 million total, which a \$382 million increase (with some additions and some removals)

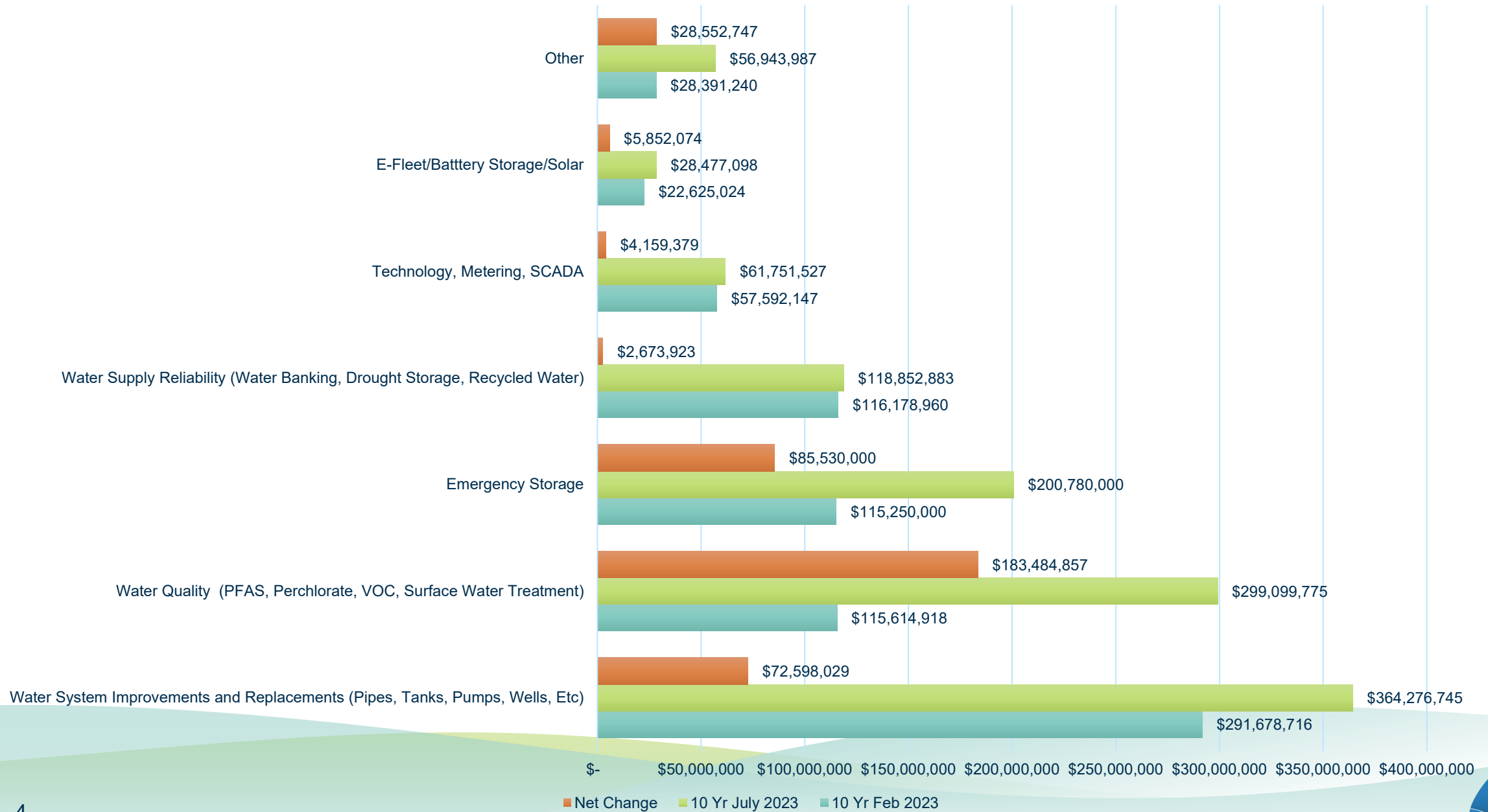
Top 3 Cost Categories	Top 3 Categories that <u>Increased</u>
<ul style="list-style-type: none"> • \$364 million - System Improvements – Pipelines, Pumps, Wells, Tanks, etc. 	<ul style="list-style-type: none"> • \$183 million – Water Quality – PFAS (\$144 M), Perchlorate, VOC, Surface Water Treatment
<ul style="list-style-type: none"> • \$299 million – Water Quality – PFAS, Perchlorate, VOC, Surface Treatment Improvements 	<ul style="list-style-type: none"> • \$85 million – Emergency Storage Projects
<ul style="list-style-type: none"> • \$200 million – Emergency Storage Projects 	<ul style="list-style-type: none"> • \$79 million – System Improvements

- Two slides with breakdown by major categories follow

10-YEAR CAPITAL PROGRAM BY MAJOR GROUPING



10-YEAR CIP WITH RECENT REVISION AND CHANGES BY MAJOR GROUPING



FRAMING THE ISSUES: FINANCIAL FORECAST AND RATE SCENARIOS

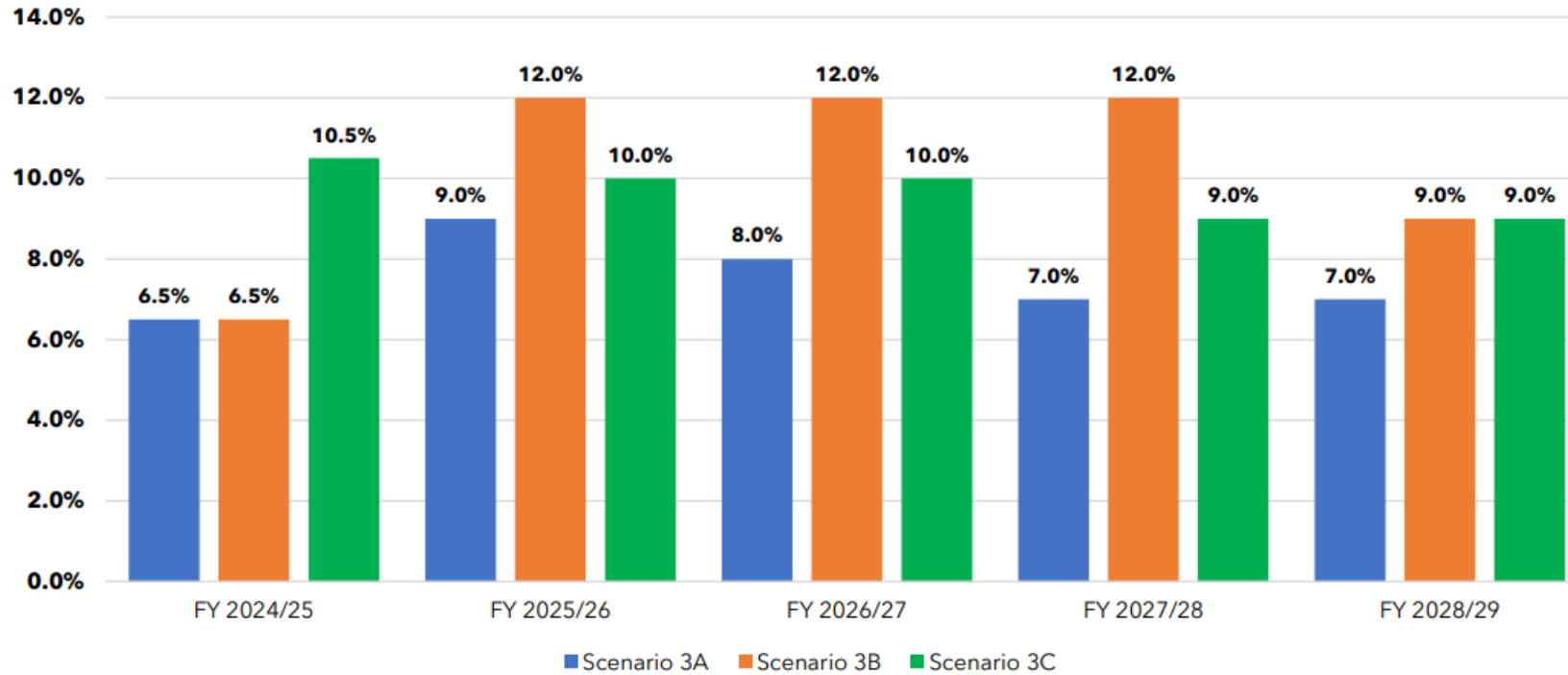
- Retail rates adopted June 2021 covering 2021/22 through 2025/26. Planned rate increases of 6.5% annually. Next rate case expected in 2026/27.
- Since then - growing impact of PFAS, higher inflation, updated system renewal, supply firming, and new mandates has been absorbed without changes in those rates, it has become clear that rates must be revisited before 2026/27.
- The Board endorsed what was called “Scenario 3A” in February 2023 which called for holding with the 6.5% rate increase in 2024/25 and revisiting the rates in 2025/26 and beyond with a series of increases in the 7-9% range.

FRAMING THE ISSUES: FINANCIAL FORECAST AND RATE SCENARIOS

- Further increased capital cost projections led staff to present options to either:
 - Keep planned increase in 2024 with higher increases in 2025/26 in the 12% range (Scenario 3B) OR
 - Revisit rates in 2024/25 with increases at 9-10% by starting sooner (Scenario 3C)
- The Finance and Administration unanimously expressed support for keeping to Scenario 3A, which will not fund the full CIP without deletion or deferral of projects.

Financial Scenario Update

Estimated Rate Increase Comparison



Scenario 3A - Original scenario with one-year early rate increase
Scenario 3B - New forecast with one-year early rate increase
Scenario 3C - New forecast with two-year early rate increase

POTENTIAL STRATEGIES TO MANAGE CIP AND RATES

- Prioritize CIP and make explicit decisions to defer or cut some projects to reduce near term rate impacts
 - Staff are reviewing projects and relative risk of deferral
 - Also need analysis whether it creates a bigger rate spike in years 10-15
- Aggressively pursue additional outside funding to reduce rate impacts
 - Some projects might be made contingent on some amount of grant funds
- Consider whether to factor in potential legal recoveries and grants in future financial model (we currently assume zero).

POTENTIAL STRATEGIES TO MANAGE CIP AND RATES (CONT.)

- Sell assets such as Devil's Den (possible cash, but loss of future value)
- Assess customers willingness to pay for different benefits – improved water quality, improved emergency storage, repair and replacements to maintain system in good order, etc.
- Assess where our rates are compared to other water providers facing similar challenges
- Develop communications strategy around necessary rate increases – what it pays for and the value that provides

POTENTIAL STRATEGIES TO MANAGE CIP AND RATES (CONT.)

- Develop additional rate alternatives incorporating some or all of these, while continuing to meet water supply reliability and quality commitments.
- Assure developer impact fees include appropriate share of water quality, emergency storage, fleet mandates, technology – all of which require capital.
- Require developer up front participation in some projects traditionally financed by the agency and reimbursed over time with connection or capacity fees

DISCUSSION