



Yorba Linda Water District

AGENDA
YORBA LINDA WATER DISTRICT
BOARD OF DIRECTORS WORKSHOP MEETING
Thursday, August 24, 2017, 4:30 PM
1717 E Miraloma Ave, Placentia CA 92870

1. CALL TO ORDER

2. PLEDGE OF ALLEGIANCE

3. ROLL CALL

J. Wayne Miller, President
Al Nederhood, Vice President
Andrew J. Hall, Director
Phil Hawkins, Director
Brooke Jones, Director

4. PUBLIC COMMENTS

Any individual wishing to address the Board is requested to identify themselves and state the matter on which they wish to comment. If the matter is on the agenda, the Board will recognize the individual for their comment when the item is considered. No action will be taken on matters not listed on the agenda. Comments are limited to matters of public interest and matters within the jurisdiction of the Water District. Comments are limited to three minutes.

5. DISCUSSION ITEMS

This portion of the agenda is for matters that cannot reasonably be expected to be concluded by action of the Board of Directors at the meeting, such as technical presentations, drafts of proposed policies, or similar items for which staff is seeking the advice and counsel of the Board of Directors. Time permitting, it is generally in the District's interest to discuss these more complex matters at one meeting and consider formal action at another meeting. This portion of the agenda may also include items for information only.

5.1. Long Range Financial Plan

5.2. July 2017 Budget to Actual Statements (To be provided at the meeting.)

6. ADJOURNMENT

6.1. The next Regular Board of Directors Meeting will be held Tuesday, September 12, 2017. Closed Session (if necessary) will begin at 5:30 p.m. and regular business at 6:30 p.m.

Items Distributed to the Board Less Than 72 Hours Prior to the Meeting

Pursuant to Government Code section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than seventy-two (72) hours prior to the meeting will be available for public inspection in the lobby of the District's business office located at 1717 E. Miraloma Avenue, Placentia, CA 92870, during regular business hours. When practical, these public records will also be made available on the District's internet website accessible at <http://www.ylwd.com/>.

Accommodations for the Disabled

Any person may make a request for a disability-related modification or accommodation needed for that person to be able to participate in the public meeting by telephoning the Executive Secretary at 714-701-3020, or writing to Yorba Linda Water District, P.O. Box 309, Yorba Linda, CA 92885-0309. Requests must specify the nature of the disability and the type of accommodation requested. A telephone number or other contact information should be included so the District staff may discuss appropriate arrangements. Persons requesting a disability-related accommodation should make the request with adequate time before the meeting for the District to provide the requested accommodation.

AGENDA REPORT

ITEM NO. 5.1

Meeting Date: August 24, 2017

Subject: Long Range Financial Plan

ATTACHMENTS:

Name:	Description:	Type:
Presentation - Long Range Financial Plan.pdf	Backup Material	Backup Material



LONG RANGE FINANCIAL PLAN

Board of Directors Workshop



August 24, 2017

EXISTING FOUNDATION

- Strong financial position as demonstrated by several matters:
 - Forecast
 - History of financial performance
 - Reserve balances
 - Policies
 - Legal Structure
 - Demographics of rate base

- Investors purchased bonds based upon disclosure in official statement including forecast and credit ratings of AA/AA+

- Bond holders are stakeholders in the District's success

DISCLOSURE IN THE OFFICIAL STATEMENT

Fiscal Year Ending June 30*	2017	2018	2019	2020	2021
Revenues					
Water Sales	\$28,556,064	\$29,446,683	\$30,745,185	\$32,208,709	\$33,858,419
Ad Valorem Tax Revenues	1,660,025	1,629,000	1,653,435	1,686,504	1,703,369
Interest Income	278,887	175,000	145,000	120,000	123,600
Other	965,768	867,936	916,187	941,192	902,609
Total Revenues	\$31,460,744	\$32,118,619	\$33,459,807	\$34,956,404	\$36,587,996
Operating and Maintenance Costs					
Variable Water Costs	\$12,539,476	\$13,968,855	\$14,248,233	\$14,533,197	\$14,823,861
Personnel Services	7,940,446	8,692,988	9,127,637	9,584,019	10,063,220
Supplies & Services	3,520,580	3,564,578	3,609,744	3,631,605	3,737,479
Total Operating and Maintenance Costs	\$24,000,502	\$26,226,421	\$26,985,614	\$27,748,821	\$28,624,560
Net Operating Revenues	\$7,460,242	\$5,892,198	\$6,474,194	\$7,207,583	\$7,963,436
Non-Operating and Maintenance Costs	\$23,285	\$23,000	\$23,000	\$23,000	\$23,000
Net Revenues	\$7,436,957	\$5,869,198	\$6,451,194	\$7,184,583	\$7,940,436
Debt Service					
Series 2008 Installment Payments	\$2,128,396	\$0	\$0	\$0	\$0
2012A Bonds	588,488	588,313	591,213	583,713	590,713
2017 Bonds	-	2,141,486	2,147,044	2,143,244	2,138,669
Total Debt Service	\$2,716,884	\$2,729,799	\$2,738,256	\$2,726,956	\$2,729,381
Remaining Revenues	\$4,720,074	\$3,139,399	\$3,712,937	\$4,457,627	\$5,211,055
Debt Service Coverage	2.74	2.15	2.36	2.63	2.91

CREDIT RATING CONSIDERATIONS

Goal: Maintain and/or improve current credit ratings.

Credit Rating



Customers: Classification & Wealth

Governance: Establishing Policy and Rate Setting

Management: Abilities to Plan and Execute

Financial Ratios: Coverage, Days' Cash, Free Cash/Depreciation

Capital Needs: Funding Sources, Amounts and Timing

Legal Structure: Additional Bonds Test & Rate Covenant

Policies: Debt, Reserve & Investment

S&P GLOBAL RESERVE METHODOLOGY

Description of Financial Risk Profile

Factors	
Description	% of Financial Risk Profile assessment
All-In Coverage	40%
Liquidity and Reserve	40%
Debt and Liabilities	10%
Financial Management Assessment	10%
Total	100%

Liquidity And Reserves Preliminary Evaluation

Preliminary Assessment	Days' Cash	Actual Cash
1	Greater than 150	More than \$75 million
2	90 to 150	\$20 million to \$75 million
3	60 to 90	\$5 million to \$20 million
4	30 to 60	\$1 million to \$5 million
5	15 to 30	\$500,000 to \$1 million
6	Less than 15	Less than \$500,000

Descriptions for Financial Risk Profile Factors

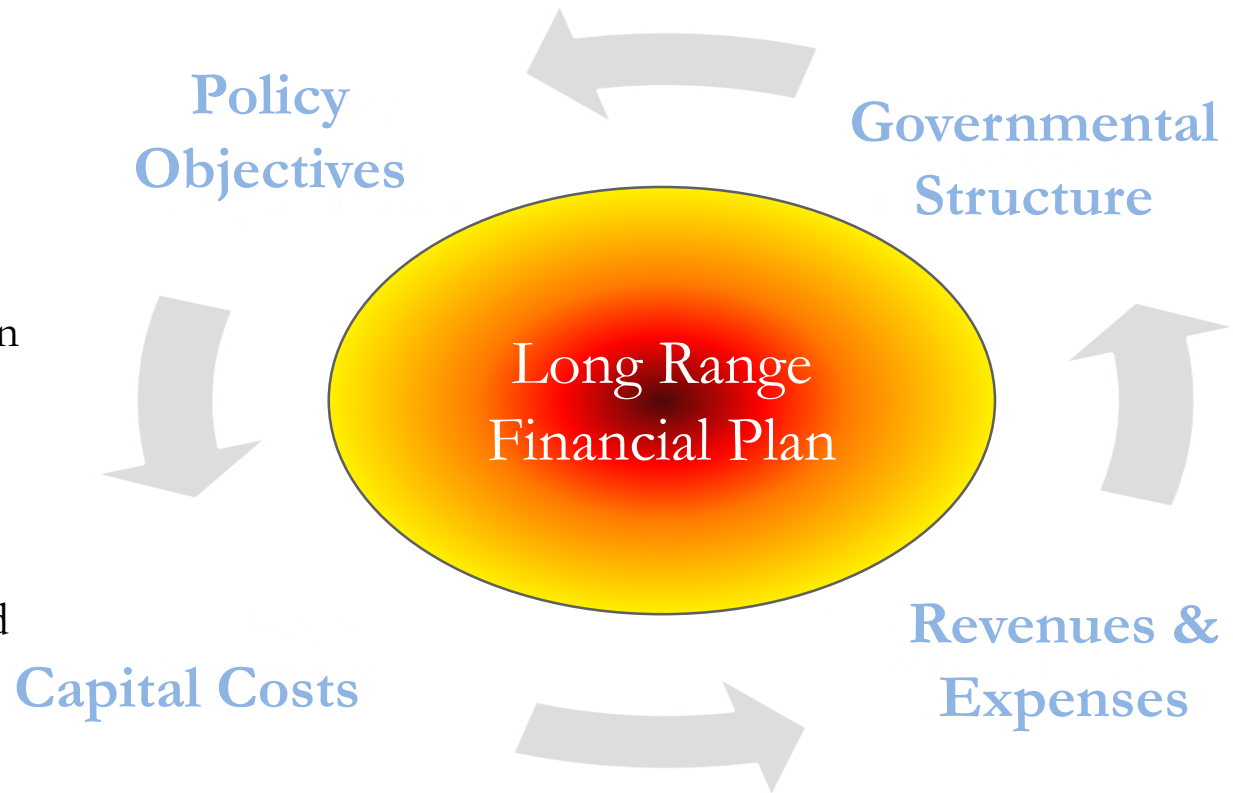
Description	Corresponding Assessment
Extremely Strong	1
Very Strong	2
Strong	3
Adequate	4
Vulnerable	5
Highly Vulnerable	6

Liquidity And Reserves Assessment

Days' Cash Ratio, Preliminary Evaluation	Actual Cash on Hand, Preliminary Evaluation					
	1	2	3	4	5	6
1	1	1	2	2	3	4
2	1	2	2	3	3	4
3	2	2	3	4	4	5
4	2	3	4	4	5	5
5	3	3	4	5	5	6
6	4	4	5	5	6	6

ESTABLISHING A FOUNDATION

- Who are we and what is important to us?
- What are the long term objectives and goals?
- Who do we want to be in ten years? Why?
- Will that change what is important to us?
- How do we get there?
- What are the costs, risks and the benefits?

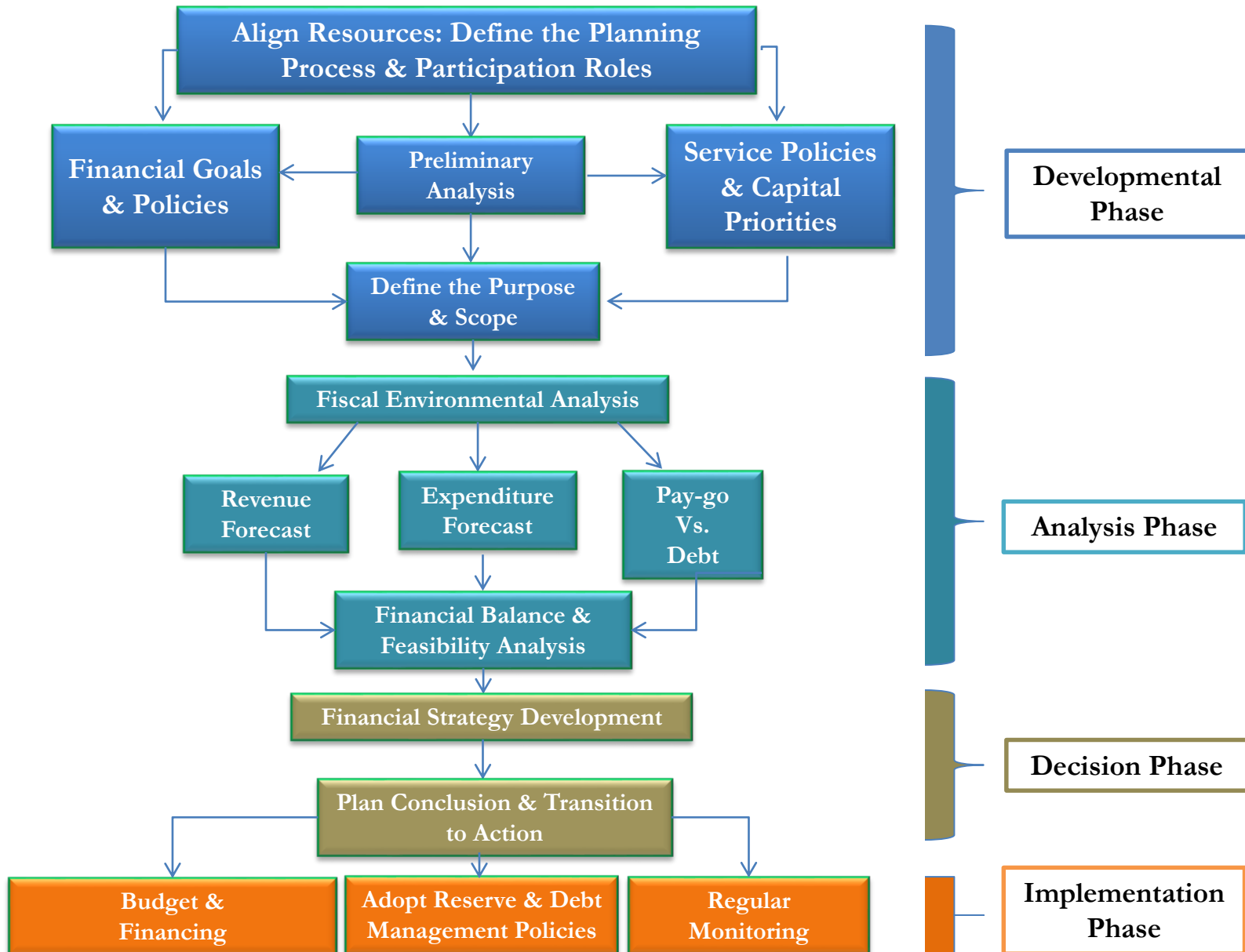


Long Range Financial Plan (“LRFP”) is a financial roadmap that achieves financial goals while maintaining responsible financial practices. LRFP should be understandable to internal and external stakeholders.

LONG RANGE FINANCIAL PLAN BACKGROUND

- Combines financial forecasting, strategic thinking and a long term vision for the future
- Aligns financial capacity, public policy and service objectives
- Provides a flexible financial framework allowing for adjustments due to:
 - Changing water supply costs
 - Capital needs
 - Customer demand
- Becomes a tool to prevent financial challenges
- Requires annual review/maintenance and periodic consideration

PROCESS OF THE LRFPP



LONG RANGE FINANCIAL PLAN - ELEMENTS

- **Time Horizon:** Upcoming budget year plus 10 years into the future
- **Scope:** All Funds – water, wastewater, restricted and unrestricted reserves and unfunded liabilities of pension and OPEB
- **Monitoring:** Annual review of financial results and update of model; thorough review every 5 years, e.g. revise assumptions and objectives
- **Content:** Analysis of financial environment, revenues, expenses, capital expenditures, rate impacts, strategies to achieve financial health and scorecard of key indicators to measure financial health
- **Visibility:** Easily communicated and understandable by elected officials, staff, investors, rating agencies and the public

INITIATING THE LRFP

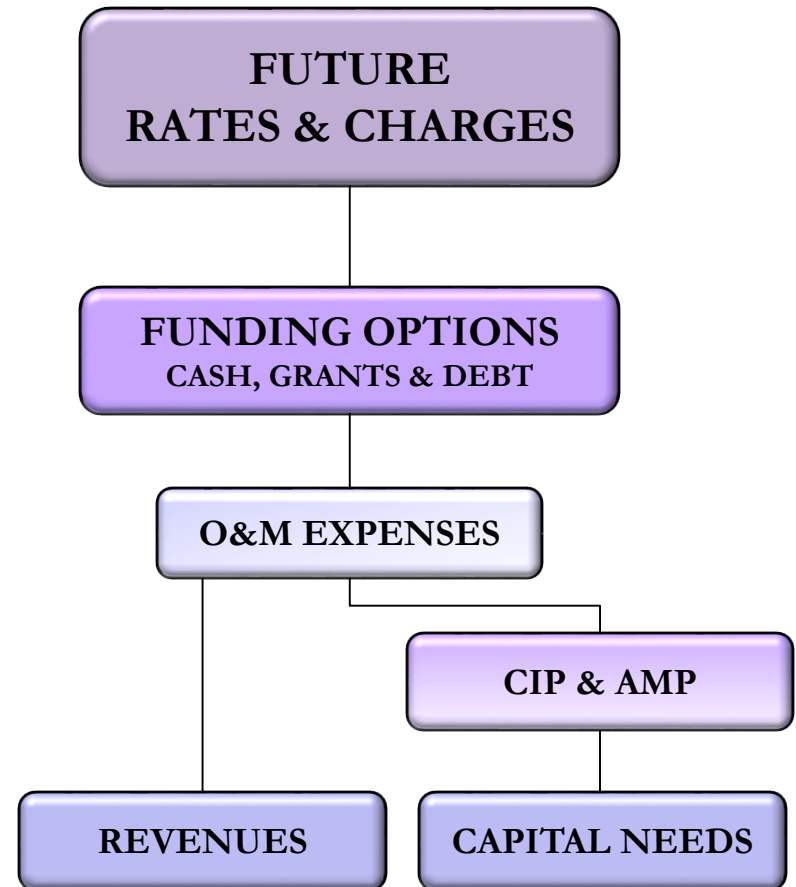
- Comprehensive review of YLWD's finances
 - Review and update financial projections
 - Start with data from recent OS
- Review Capital Improvement Plan and Asset Management Plan
 - Work with staff to develop timeline of needs and costs
 - Identify potential funding options, including debt issuances
- Review pension and OPEB liabilities
 - Work with Staff and CalPERS to assess options to reduce liabilities

FINANCIAL MODEL

- Projections of revenues, expenses, debt service, capital expenditures and reserve balances
 - Model projects funding of CIP and AMP from appropriate sources and demonstrates credit financial metrics as outputs
- Designed to take future escalation of O&M expenses and capital expenditures into account
- Calculate and assess important credit rating metrics

ANALYSIS PHASE

- Determine capital needs
 - Costs broken down annually by projects
 - CEQA timeline
 - Construction period timeline: start, completion and in-service dates
 - Useful Life
- Demonstrate project feasibility
 - Estimates of operating expense per project, staffing (salaries and benefits), power, chemicals, energy, etc.
- Estimate additional expenses
- Project revenues needs
- Analyze funding options
- Estimate rates accordingly



RELEVANT CONSIDERATIONS

- **Philosophical Change: Greater use of debt?**
 - Balance spreading out of capital costs with need to meet strong credit ratings to control cost of debt
 - Balance reserves necessary for capital, liquidity and emergencies with credit rating agencies ratios and metrics
 - Evaluate credit rating criteria from all agencies (Moody's, S&P, Fitch and Kroll)
- **Strategic Objective: Control Pension and OPEB Unfunded Liabilities**
- **Opportunities**
 - Expand Services (water delivery, sewer cleaning, etc.) to other jurisdictions

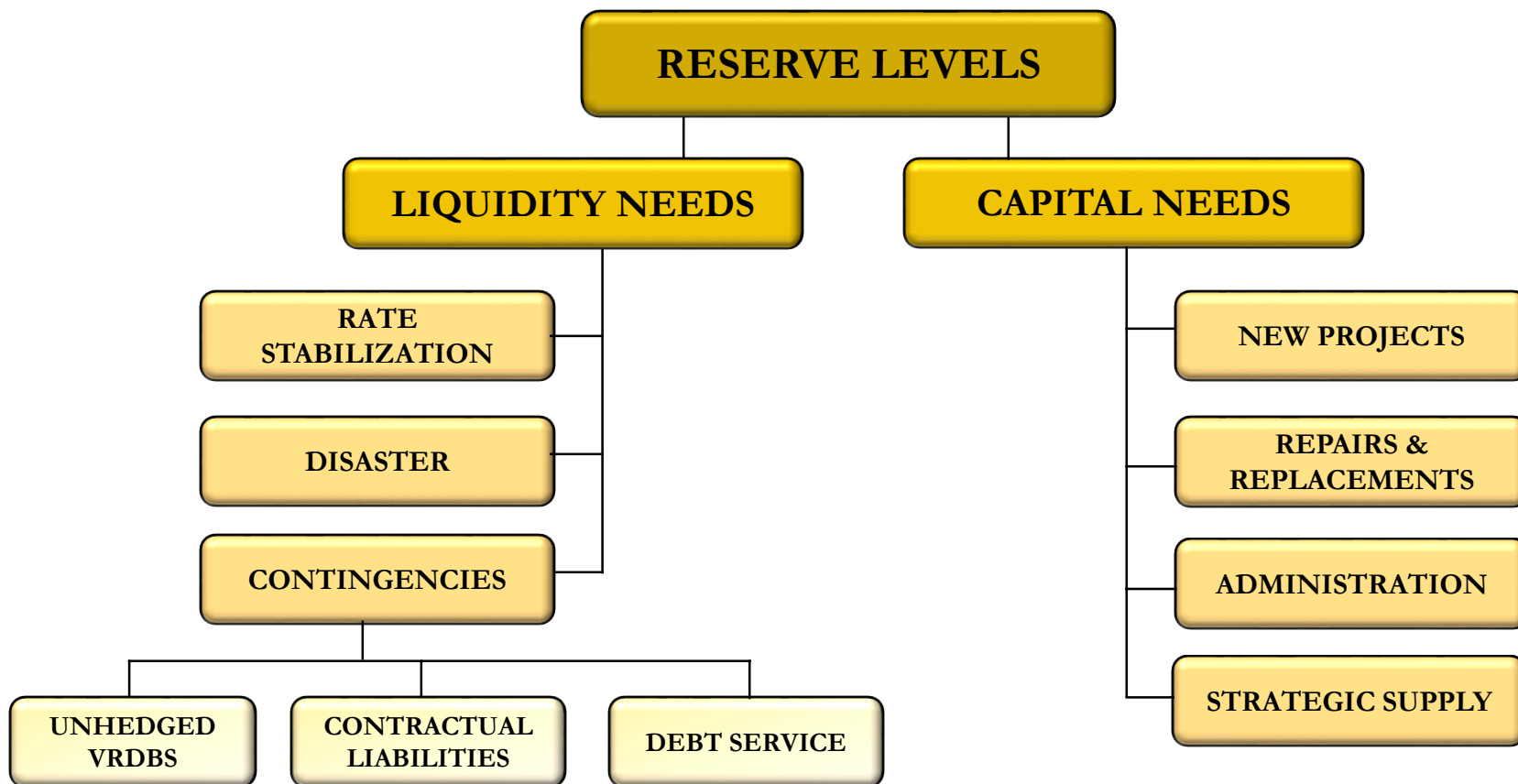
PENSION AND OPEB FUNDING OPTIONS

- Analyze options to accelerate payment of District's unfunded pension liabilities with CalPERS, and potentially increase the District's funding of OPEB
- District's current unfunded liabilities status results in effectively a 25 year debt owed to CalPERS at 7.0%
- Objectives / Benefits
 - Reduce unfunded pension liabilities
 - Achieve higher return on cash reserves
 - Achieve medium-term pension operating cost savings
 - Maximize long-term total pension cost savings
- Review costs associated with a hypothetical termination of the contract with CalPERS
 - Approximately \$52 million as of September 2016 CalPERS Valuation Report

DECISION PHASE

- Understanding customer demands and needs
 - Public outreach program
- Interpreting the data
 - Refining costs of CIP and AMP
 - Review of financial projections
- Evaluating priorities of customers vis-à-vis costs and funding options

RESERVE ANALYSIS



Target and/or minimum funding levels allows flexibility in meeting the Reserve Policy requirements and maintaining sufficient reserve levels.

DEBT MANAGEMENT POLICY

- Framework for evaluating issuance of new debt vs. pay-as-you-go funding
- Affordability
 - Source of payments for operating expenses
 - What impact does project have on O&M. For example staffing (salaries and benefits), power, chemicals, land purchase etc.
- Document commitment to administrative procedures and demonstrate excellent management
- Demonstrate sound financial management to rating agencies

IMPLEMENTATION PHASE

- Adopt long-range financial plan
- Adopt debt management and reserve policy
- Integrate LRFP into budget adoption next FY
- Commit to annual monitoring of results
 - Annually measure financial results and projections
 - Assess results vs. objectives
 - Achievements and shortcomings
 - Identify new challenges
 - Implement appropriate steps when necessary

RECOMMENDATION

- Undergo the appropriate steps to formalize, analyze and implement the Long Range Financial Plan prior to making or developing significant financial decisions or policies