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APPENDIX 2

CITY OF SAN JUAN CAPISTRANO FOCUSED MUNICIPAL SERVICE REVIEW FISCAL ASSESSMENT

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ABBREVIATIONS

AF	Acre Feet
CIP	Capital Improvement Program
CSJC	City of San Juan Capistrano
CVWD	Capistrano Valley Water District
CAFR	Comprehensive Annual Financial Report
DHTC	Dana Hills Tennis Center
FTE	Full Time Equivalent
FY	Fiscal Year (July 1 through June 30)
GRF	Groundwater Recovery Facility (SCWD)
GWRP	Groundwater Recovery Plant (CSJC)
IRWD	Irvine Ranch Water District
JRWSS	Joint Regional Water Supply System
MGD	Million Gallons per Day
MNWD	Moulton Niguel Water District
MSR	Municipal Services Review
MWDSC	Metropolitan Water District of Southern California
OCERS	Orange County Employees Retirement System
OC LAFCO	Orange County Local Agency Formation Commission
OPEB	Other Post-Employment Benefits
RMV	Rancho Mission Viejo
SCWD	South Coast Water District
SJBA	San Juan Basin Authority
SMWD	Santa Margarita Water District
SOI	Sphere of Influence
UWMP	Urban Water Management Plan



EXECUTIVE SUMMARY FOR FISCAL ASSESSMENT

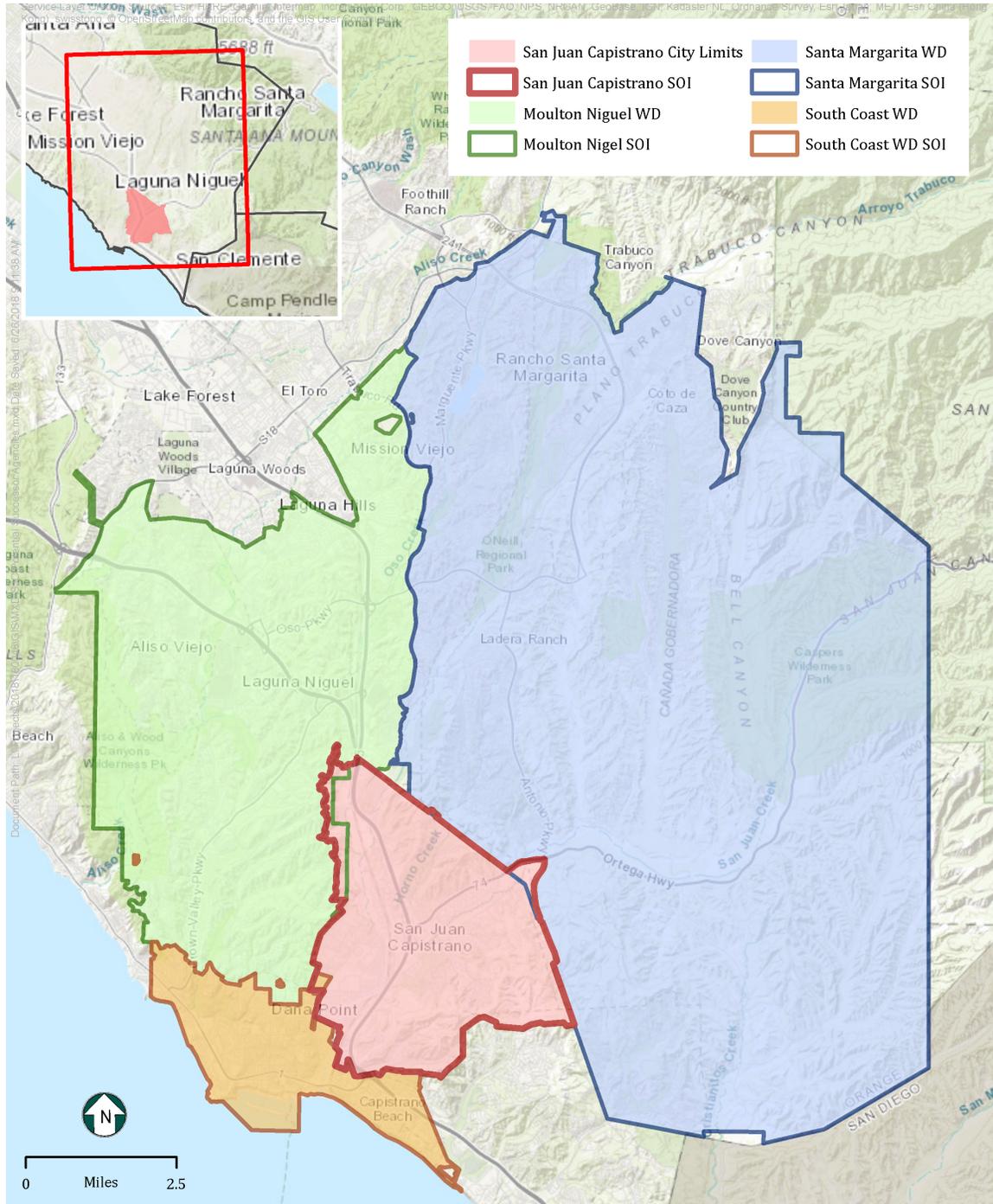
PURPOSE

This Municipal Service Review (MSR) provides Orange County Local Agency Formation Commission (OC LAFCO) information to review the potential transfer of the City of San Juan Capistrano's (CSJC) water and wastewater operations and facilities to a successor public agency. If an agency chooses to submit an application to OC LAFCO to annex the CSJC system, OC LAFCO will review a detailed annexation Plan for Service; additional detailed analysis and discussions between the City and the annexing agency (or agencies) will shape the Plan for Service submitted with an annexation application.

The MSR provides a foundation for LAFCO to identify issues of concern, and to request information and analyses that should be a part of a Plan for Service for a district annexation of CSJC to provide water and wastewater services. The MSR focuses on the current request by CSJC to prepare an MSR in anticipation of subsequent district annexation applications. However, LAFCO may also use the MSR to better understand potential paths to a longer-term vision of future governance.

The MSR consists of two separate but related documents: 1) a physical assessment of CSJC's systems; and 2) a fiscal assessment of the CSJC's systems and potential alternative service providers described in this report. The fiscal assessment evaluates the potential to improve the financial condition of the CSJC's water and wastewater systems, and to improve services provided to CSJC residents and residents of the annexing district. **Figure 1** shows potential alternative service providers.

Figure 1 CSJC Potential Successor Agencies





WATER AND WASTEWATER SERVICE TRENDS

The CSJC's water and wastewater utilities continue to recover from past financial difficulties and generate positive cash flows, however several factors contribute to future uncertainties that, in some cases, annexation by an alternative service provider can help address:

- **Drought and Water Supply** -- Droughts can reduce water supplies, which in turn can increase the costs of water. Depleted groundwater capacity can reduce the benefits to the CSJC from supplying its own GWRP-treated groundwater.
- **Conservation Efforts** -- While conservation efforts reduce water demands, reduced water sales could adversely affect net revenues of the CSJC and the alternative service providers. A strong financial base, including adequate reserves and financial capacity, can help utility providers to deal with reduced demand and drought conditions.
- **Governmental Regulation** -- All service providers are subject to government regulation and oversight. Conservation regulations during a drought, and recent legislation requiring water conservation, could impose a financial burden for compliance (in addition to the revenue impacts of conservation efforts). Staff capacity to address governance issues, and financial reserves to buffer regulatory impacts, help to minimize impacts of future regulatory changes.

If efforts to reduce property tax revenues to special districts succeeds, funding of operations and capital improvements by districts would be adversely affected.

- **Retirement Liabilities** -- Reduced pension plan investment returns and growing obligations contribute to future costs and pressure to increase water/wastewater rates. Agencies can mitigate pension cost impacts, for example, by creating pensions reserves and trusts, and paying down unfunded pension liabilities. Additionally, with the adoption of Governmental Accounting Standards Board Rule #75, agencies will need to report other post-employment benefits on their annual financial reports.
- **Catastrophic Events** -- While adverse events cannot be predicted, service providers can plan for such events and assure adequate contingency plans and facilities are in place, infrastructure is in good condition, and future improvements are funded.

This report and the companion infrastructure assessment report describe conditions and resources of the CSJC and alternative service providers that relate to the issues listed above. MSR determinations and financial review indicate that annexation of CSJC to one of the two larger alternative service providers, MNWD and SMWD, offers the greatest potential to stabilize CSJC utility rates and address the issues noted above.



DETERMINATIONS

The following determinations address the financial ability and effective governance of CSJC and alternative service providers. The subsequent section "Summary Financial Review of CSJC & Alternative Service Providers" further details the financial review that supports the determinations. Comparison tables can be found in **Chapter 2**.

Financial Ability of Agencies to Provide Services

- CSJC continues to recover from costly litigation and customer refunds that reduced reserves to less than optimal levels and contributed to reduced bond ratings.
- CSJC financial conditions are improving, however any number of adverse conditions could reduce CSJC's ability to fund needed improvements unless utility rates are increased, or debt burdens grow.
- Options for achieving CSJC financial stability are limited, i.e., dedicated water/wastewater property taxes are minimal,¹ and current ratepayers already bear a high utility rate burden compared to other service providers.
- Annexation of CSJC to any of the three alternative service provider is likely to improve the overall financial condition of utility services within CSJC. These issues are further described in the next determination.

Accountability for Community Service Needs, Including Governmental Structure and Operational Efficiencies

- All of the service providers follow best practices of providing information on their websites including financial documents, rate information, planning documents and studies, and contact information. CSJC produces budgets and financial audits for its utilities as part of annual City audits, although the level of detail provided is generally

¹ As described in Chapter 2, "Other Revenues and Funding Sources", CSJC inherited the share of the 1% General Tax levy previously allocated by the County to the former Capistrano Valley Water District, whose services were taken over by the City. As shown in Table 2, that revenue is approximately \$1.1 million and represents about 4.4% of total utility revenues as shown in Table 4.



less than found in the financial documents and supporting analyses of the alternative service providers.

- CSJC's city council transitioned to district elections, which could provide a high level of representation relative to population, although council members are responsible for a broad range of public services in addition to water and wastewater utilities. The alternative service providers' boards are elected at-large but focus exclusively on water and wastewater management.
- If CSJC is annexed to one of the two larger alternative service providers, MNWD and SMWD, CSJC residents would represent a minority of the expanded district population. If the districts switch to a system of division elections, CSJC representation could be affected; potential changes are unknown at this time.
- During transition, an advisory committee comprised of CSJC representatives could provide input into decisions influencing the annexation and integration process. The format for CSJC participation may be delineated in a Plan for Service submitted with an annexation application to LAFCO.
- Annexation to an alternative service provider offers the potential for cost savings due to economies of scale. These savings could help to stabilize utility rates and support the funding of capital improvements. Savings and economies are most likely to be achieved by annexation to the larger alternative service providers, MNWD and SMWD, due to their size. The magnitude of potential savings has not been estimated as a part of this work product and will depend on future decisions about integration of CSJC staff, use of a "zone" to isolate CSJC from existing district ratepayers, and other factors to be determined in subsequent analysis and discussions. As of the date of this report, plans for service developed by alternative service providers have not been filed with LAFCO, although the potential providers described in this report have met with the CSJC to discuss the districts' interest in assuming the CSJC's systems.
- Existing district ratepayers could benefit from savings and economies attributable to annexation, depending on the magnitude of potential savings and how those savings are utilized (e.g., whether the savings help to fund CSJC improvements, reduce and equalize rates, or reduce rates for all ratepayers). During a transition period, there may be the need for the successor agency to spend funds to address annexation issues (e.g., absorbing staff, integration of billing and other systems, staff training, etc.). These transition expenditures, and potential expenditures for CSJC capital improvements,



could draw on existing district reserves, depending on a funding plan to be prepared and included in a Plan for Service submitted as part of an annexation application.

- A larger service provider, particularly a district whose sole function is providing water and wastewater services, can provide an expanded range of staff expertise and positions dedicated to various activities including a greater level of financial and infrastructure planning and forecasting, water efficiency, and resources dedicated to intergovernmental relations.
- Of the two larger alternative service providers, MNWD is largely built-out whereas SMWD continues to address funding and construction of new facilities needed by growth and development of a projected 12,000 new residential units, in addition to the ongoing maintenance and replacement of existing facilities.
- MNWD is a strong candidate to annex CSJC. MNWD is one of the two largest alternative service providers, nearly five times the population and more than double the service area of CSJC, offering significant economies of scale in terms of potential cost efficiencies and a breadth of staff expertise. Its utility charges are the lowest of the service providers, largely due to significant property tax revenues. Reserves compared to operating expenditures are high and debt coverage ratios exceed minimum standards. Capital expenditure relative to net system value is the highest of the providers due in part to a more depreciated system.
- SMWD is also a strong candidate to annex CSJC. SMWD is one of the two largest alternative service providers with population slightly less than MNWD but a significantly larger service area. SMWD also offers significant economies of scale in terms of potential cost efficiencies and a breadth of staff expertise. Utility charges per average household are less than the other service providers, with the exception of MNWD. Reserves compared to operating expenditures are high. Debt coverage ratios are high.
- SMWD's capital expenditure are low relative to system value. SMWD's system is generally newer which supports lower capital expenditures relative to net system value. SMWD continues to experience significant growth and new infrastructure is largely financed by assessments on developing property.
- SCWD is similar in population but smaller in size compared to CSJC; it is significantly smaller than MNWD and SMWD, and annexation of CSJC by SCWD does not provide the potential economies of scale of the same magnitude as the larger districts. SCWD's organizational chart shows no staff dedicated to the range of services provided by



departments and staff of larger agencies (e.g., inter-governmental/regional and legal affairs, financial forecasting, long-term water reliability/efficiency planning and outreach, etc.); however, staff allocations indicate that similar functions are spread over a number of staff providing other services.

SUMMARY FINANCIAL REVIEW OF CSJC & ALTERNATIVE SERVICE PROVIDERS

Alternative service providers generally are in a better position than CSJC to address water/wastewater financing needs, if the CSJC system is annexed. Expansion of services by the alternative service provider can contribute to economies of scale by spreading certain fixed overhead and administrative costs over a larger rate base. Resulting efficiencies and marginal cost savings could help to improve funding of reserves and capital needed by the CSJC system without adversely affecting existing district ratepayers. The annexing district could also realize scale efficiencies that allow it to reduce burdens on its current ratepayers.

This MSR assumes that the City, alternative service provider, and OC LAFCO will consider options, e.g., a zone covering the annexed CSJC territory, or other mechanisms to limit any operating cost or debt obligations transferring to the annexing district's ratepayers. The City and alternative service provider will discuss and resolve the funding of short-term impacts resulting from a transition of staff, services, facilities, assets and liabilities. Ultimately, OC LAFCO would include those terms in OC LAFCO "Terms and Conditions" required of and prerequisite to an annexation.

The two larger alternative service providers, MNWD and SMWD, are likely to realize economies and service improvement to CSJC without significantly expanding existing planning and administrative staff.

Following is an overview of the financial review of CSJC and the alternative service providers. **Chapter 2** provides comparison tables, and the subsequent chapters describe the alternative providers and their financial review in greater detail.

Average Household Bills

Lower rates and utility bills benefit residents and provide capacity to finance improvements. Potential cost savings that could result from annexation economies of scale would improve the ability to finance capital improvements prior to increasing rates for this purpose. As noted previously, it is assumed that financial burdens from improvements to the CSJC system would be confined to CSJC ratepayers. Each agency's rates are highly dependent on a number of local



conditions such as topography, age of the system, and offsetting property tax revenues, as well as levels of use and conservation.

- CSJC average household charges are estimated at \$146 monthly per household, partly influenced by the lack of significant property tax available to cover fixed costs, unlike the alternative service providers. CSJC must recover a larger portion of its costs through customer billing. The CSJC budget notes that the water and sewer capital replacement programs will require additional funding from water and sewer ratepayers to meet the capital needs of the City's water and sewer system.²
- MNWD's average household bills are estimated to be \$79, partly the result of its property tax revenues reducing the need for rate revenue. SMWD's average bills are estimated at \$99 and SCWD's average monthly bills are estimated at \$134 (\$168 after penalties).

Property Tax Revenues

A strong property tax revenue base (each agency's share of the 1% general levy) reduces utility rates and improves a district's ability to address financial needs without significant ratepayer burdens. Property taxes reduce the need to generate revenue from rates and charges. Property tax can be used for any district purpose unless allocated to specific purposes by each district. Some degree of risk exists from repeated legislative efforts to reduce property tax sharing to enterprise districts, but to-date those efforts have not succeeded.

- CSJC receives the least amount of utility-related property tax relative to its expenditures (approximately \$1.06 million, or 4.2 percent of total water enterprise revenues), which contributes to a need to recover operating costs through its rate structure, as noted previously. The property tax was allocated to the City when it took over services of the Capistrano Valley Water District, and the revenue is used exclusively for Water Fund purposes. It is assumed that this revenue would be transferred to a successor agency, however further legal review is necessary to verify constraints, if any, on the allocation and use of this property tax.
- MNWD benefits from the largest property tax revenue, which is also the largest share of its total revenues. This property tax base, assuming continued real estate growth, provides a solid financial base for addressing future service and infrastructure needs of an expanded

² City of San Juan Capistrano (CSJC) Fiscal Year 2017-2018 (FY18) Budget Update, pg. 88 and pg. 94.



district without significantly affecting existing MNWD ratepayers assuming costs specific to the CSJC system are limited to CSJC ratepayers through the creation of a "CSJC zone", for example.

- The other alternative service providers also receive property tax revenues, but to a lesser degree.

Capital Planning and Expenditures

Capital expenditures should keep pace with system depreciation. Low expenditures may reflect either a relatively new system, or inadequate system replacement. A high ratio may indicate "catch-up" to remedy deferred maintenance. A Plan for Service submitted with an annexation application will describe the source and use of funds for transition and longer-term operations and capital.

- CSJC has appropriately identified needed improvements, including replacement of aging system components, in its current CIP;³ however, improvements are funded annually on a "pay as you go" basis with minimal reserves available for future needs. The CSJC budget notes that the water and sewer capital replacement programs will require additional funding from water and sewer ratepayers to meet the capital needs of the City's water and sewer system.⁴ The City could require at least eight years of positive and growing cash flows in order to build its reserves to recommended levels while also funding capital improvements.
- All of the alternative service providers have Capital Improvement Programs extending four years to ten years into the future. MNWD's average expenditures represent about ten percent of MNWD's net asset value of their assets; the other alternative providers budget about 2 percent to 7 percent of net asset value for SMWD and SCWD, respectively.
- All districts undertake long-term financial planning and forecasting which can be found in agenda reports and budget documents posted on district websites. MNWD prepares a separate financial forecast document that is easily accessible on their website.

³ City of San Juan Capistrano (CSJC) MSR Infrastructure Assessment.

⁴ City of San Juan Capistrano (CSJC) Fiscal Year 2017-2018 (FY18) Budget Update, pg. 88 and pg. 94.



Outstanding Debt, Coverage, and Financial Capacity

Debt capacity provides the ability to fund capital improvements and amortize costs over time, minimizing impacts on rates.

- CSJC's debt coverage ratio currently exceeds the minimum 1.00 required for its debt. In Fiscal Year 2015-16, the City failed to meet its debt coverage requirement as the result of unusually high legal expenses that year and the reduced local production of water supply that was associated with diminished groundwater availability that year. As a result, S&P downgraded the City's credit rating from an "A" to an "A-", potentially increasing the interest cost of future debt issuances. It should be noted that in 2017, Fitch affirmed its "A" rating that was assigned to the City's water bonds in view of the unusual circumstances associated with Fiscal Year 2015-16 and the significantly improved financial results demonstrated by then-projected data for Fiscal Year 2016-17.⁵
- All of the alternative service providers' debt coverage ratios exceed minimum standards: MNWD (2.4), SCWD (3.3) and SMWD (13.5). Each one should be able to provide adequate coverage for existing CSJC utility debt that may be assumed by an alternative service provider, assuming CSJC property tax and other revenues required for debt payment are transferred to the new provider along with the debt, and depending on future City and agency negotiations, and OC LAFCO Terms and Conditions.
- All of the alternative service providers have a strong financial rating (e.g., S&P 'AA+'). The amount and type of outstanding debt varies by alternative service provider, and includes debt repaid by rate revenues, property assessments and special taxes, and general revenues (e.g., property taxes).

Specific methods of financing improvements to the CSJC system should be described in a Plan for Service submitted as part of an annexation application by alternative service providers.

Pension and OPEB Obligations

Pension and Other Post-Employment Benefit (OPEB) obligations are likely to increase in future years, reducing revenues available for services and/or requiring rate increases. Unfunded liabilities increase the potential for future cost increases.

⁵ Correspondence with CSJC, 5/18/18.



- CSJC's funded percent of pension liability is less than that of the alternative service providers and is funded at 69 percent. The Citywide average is 69 percent; the individual liabilities attributable to any employees transferred as a result of annexation will need to be determined.
- The average employer contribution rates for utility employees range from 30 percent to 36 percent of compensation. It should be noted that CSJC is in a separate pension plan (OCERS) than the alternative service providers (CALPERS); OCERS plan is projected to be fully funded within 15 years.⁶ Options can be evaluated during City and agency discussions to assure continuation of comparable benefits to the extent the agency retains City employees.
- Pension liabilities vary among the alternative providers, including: MNWD (\$17.6 million liability, 74.6% funded), SCWD (\$7.8 million liability, 84.3% funded), and SMWD (\$27.2 million liability, 68.2% funded).
- CSJC's unfunded OPEB liability attributable to Water and Sewer enterprise fund employees is approximately \$785,000. SMWD has no OPEB liability, as it chose to increase its pension benefits rather than provide OPEB benefits, e.g., health insurance post-retirement. SCWD's unfunded OPEB liability was \$3.1 million at the end of FY15. MNWD reports that it had a surplus of \$48,168 at the end of FY17 in its OPEB fund for future obligations.
- A Plan for Service submitted as part of an annexation application should document the disposition of pension liabilities for any current CSJC employees employed by a successor agency.

Reserves

Adequate reserves are essential to rate stability, and to meeting debt obligations while minimizing interest rates. Reserves also are necessary to assure funding of needed major repairs and infrastructure replacement, and for dealing with contingencies. A Plan for Service submitted with an annexation application will describe the source and use of funds for transition and longer-term operations and capital, and use of district reserves for these purposes.

⁶ *ibid*, correspondence with CSJC, 5/18/18.



- CSJC reserves currently are inadequate, do not meet CSJC targets, and are the lowest (compared to operating expenditures) of the service providers. The disposition of existing City utility reserves would be negotiated during the annexation process.
- All three alternative providers currently maintain reserves adequate to absorb the CSJC system and maintain reserves for the new, larger system. All three agencies' unrestricted reserves exceed 100 percent of one year of operating expenditures: MNWD (111%), SMWD (107%), SCWD (177%).

Employees, Salaries and Benefits

CSJC employs 26 staff; currently another five positions are either vacant or are filled by limited term personnel.⁷ The City's portion of the cost for certain positions is shared with non-utility departments. This is the fewest employees compared to all of the alternative service providers.

The feasibility of retaining current CSJC utility staff following an annexation depends on the alternative service providers' willingness, as well as collective bargaining agreements and other agency rules and policies.

An alternative service provider will also consider several additional service and financial factors:

1. The existing capacity of current alternative service provider employees and increased service responsibilities will affect the need for and value of (or cost of) retaining current CSJC utility employees.
2. Job titles and responsibilities, training and experience, salaries and benefits will need to be reconciled between current CSJC utility employees and the alternative service provider or phased-in over time.
3. CSJC provides pension benefits to its utility employees through OCERS, while the alternative service providers utilize CALPERS. Options can be evaluated during City and agency discussions to assure continuation of comparable benefits to the extent the agency retains City employees.
4. A Plan for Service submitted as part of an annexation application should document the disposition of pension liabilities for any current CSJC employees employed by a successor agency.

⁷ *ibid*, correspondence with CSJC, 5/18/18.



It is anticipated that these and other employee-related issues would be addressed by a Plan for Service submitted by an alternative service provider, and by discussions between CSJC and the potential alternative service provider.

Governance

Currently, CSJC is transitioning to district elections whereby each of five districts will elect a council member; those five council members oversee CSJC water and wastewater utilities. All of the alternative service providers hold elections "at large" for five directors (SMWD and SCWD) to seven directors (MNWD). CSJC residents would represent a minority following integration with two of the alternative service providers, or about 17-19 percent of total residents of a combined MNWD/CSJC or SMWD/ CSJC. In the case of integration with SCWD, CSJC residents would comprise about 50 percent of the population of the combined areas.

If the districts switch to a system of division elections, CSJC representation could be affected; potential changes are unknown at this time.



1. CSJC WATER & WASTEWATER SYSTEMS

In 2004, Orange County LAFCO recorded the merger of the Capistrano Valley Water District (CVWD) with the City of San Juan Capistrano and the City took over full operation of the district's services.⁸ The City historically has provided wastewater services to the community.

OVERVIEW OF CSJC WATER AND WASTEWATER

Table 1 summarizes general characteristics of the City of San Juan Capistrano and its water and wastewater services.

Population and Service Area

The CSJC population of 36,262⁹ is the smallest compared to the alternative service providers and is not anticipated to grow more than about 10 percent from 2018 to 2025.¹⁰ The City's 14.4 square mile service area includes extension of water service to 0.40 square miles in the northeastern area of the City of Dana Point. The City's total assessed value of approximately \$7.2 billion¹¹ is the lowest compared to the alternative service providers.

The City shares borders with the three alternative service providers. Its southern border is contiguous with the City of San Clemente and a small portion of the City of Dana Point.

Table 1 CSJC Water/Wastewater Services

Item	City of San Juan Capistrano (CSJC)
Services and Service Area	
Population	36,262
Voters	18,402
Service Area	14.4 sq. mi.
Assessed Value	\$7.2 bill.
Utility Employees	19.8
Total Employees	26.0
Governance	
Governing Body	5 City Council members by district
Domestic+Recycled Water (mgd)	
Acre Feet per Year	6,396 AF
% Imported	64%
Wastewater	
Collection System	125 miles
Treatment	SOCWA/Latham

8/28/2018

⁸ Correspondence with OC LAFCO 5/29/18.

⁹ Cal. Dept. of Finance, Demographic Research Unit, Rpt E-1, Population Estimates for Cities, Jan. 1, 2017.

¹⁰ Center for Demographic Research, 2016 Orange County Progress Report, CSJC, pg. 129-130.

¹¹ City of San Juan Capistrano, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, pg. 196.



Services

CSJC water and wastewater fund employs 26 staff; currently 5 positions are either vacant or are filled by limited term personnel.¹² Utilities pay for about 85 percent of staff costs; the balance is funded by the General Fund and other funds for services provided by staff shared between functions. Domestic system flows and recycled flows in 2017 total 5.7 MGD,¹³ or 6,396 AF/yr.

Potable Water -- CSJC purchases nearly over half¹⁴ of its domestic water supply from the Municipal Water District of Orange County (MWDOC) obtained from the Metropolitan Water District of Southern California (MWDSC) which sources the water via the Colorado Aqueduct and the State Water Project. The water is treated at the Diemer Filtration Plant owned by MWDSC. The amount purchased annually depends on water demand and groundwater pumped.

Recycled Water -- Recycled water comprises less than 5 percent¹⁵ of total domestic and recycled flows, obtained from the City's non-domestic well blended with imported recycled water.¹⁶

Wastewater -- CSJC owns and maintains 125 miles of collection pipelines.¹⁷ The SOCWA-owned Latham Plant in Dana Point treats the collected wastewater.

Groundwater -- CSJC pumps about 2,570 AF/yr¹⁸ of its San Juan Basin groundwater allotment. This amount equals about 40 percent of its 6,396 AF/yr total domestic and recycled flows. The City's Groundwater Recovery Plant (GWRP) treats the groundwater to drinking standards.

Governance, Management and Planning

CSJC voters began electing councilmembers by district in 2016, replacing the prior "at large" system.¹⁹ The Council oversees all City services that include administration, police, fire (in

¹² *ibid*, correspondence with CSJC, 5/18/18.

¹³ *ibid*, MSR Infrastructure Assessment, Table 3-1.

¹⁴ *ibid*, MSR Infrastructure Assessment, CSJC "Water Sources and Agreements".

¹⁵ *ibid*, MSR Infrastructure Assessment, Table 3-1.

¹⁶ *ibid*, 2015 UWMP, CSJC, note to Tb. 3-4, and Sec. 3.5, pg. 3-12.

¹⁷ *ibid*, MSR Infrastructure Assessment, Table 3-1.

¹⁸ *ibid*, 2015 UWMP, CSJC, Tb. 3-2.

¹⁹ CSJC website, retrieved 3/22/18; <http://sanjuancapistrano.org/Departments/City-Clerk/Districting-Information>



partnership with the Orange County Fire Authority), planning, public works and utilities. Water and wastewater services are in the Utilities Department.

CSJC maintains a website that provides comprehensive information about utility rates and online bill payment. The website links to its 2014 rate study but does not reference or link to other utility planning documents including the City's 2015 Urban Water Management Plan.²⁰

The City's budgets and Comprehensive Annual Financial Reports (CAFRs) are available on the City's website,²¹ and those documents includes detailed utility budgets²² and prior financials.

Currently the City has no long-range financial plans for its utilities, other than the forecasts included in its 2014 Utility Rate Study²³ and the projections reflected in the City's seven-year capital improvement program that address the systems' capital replacement needs.

Staff

The Utility Enterprises fund approximately \$3.7 million, or 85 percent, of its staff costs; the balance is paid by the General Fund for non-utility functions of certain staff. The total cost includes salaries, taxes and benefits.²⁴ The table in **Appendix C** shows City staff positions, total costs, and the share of cost allocated to utility enterprise funds.

INFRASTRUCTURE ASSESSMENT

The infrastructure assessment prepared for the CSJC Utility MSR found that the City of San Juan Capistrano's water and wastewater systems both have sufficient infrastructure capacity to adequately serve existing demand. The City's Groundwater Recovery Plant has helped to reduce the City's reliance on imported water. Generally, the City's water systems meet standards for

²⁰ 2014 CSJC Rate Study linked to: <http://sanjuancapistrano.org/Departments/Utilities/Utility-Billing-Payment>

²¹ Financial documents including CAFRs listed at:
<http://sanjuancapistrano.org/Departments/Finance/Financial-Reporting>

²² Budgets can be found at: <http://sanjuancapistrano.org/Departments/Finance/Budget/City-Budgets>

²³ Raftelis Financial Consultants, Inc. (2014), Comprehensive Water, Non-Potable Water and Sewer Rate Study Report (Rate Study). Final Report, City of San Juan Capistrano.

²⁴ Correspondence from CSJC Finance Department, 1/22/18, revised 3/17/18. Total cost includes auto and cell allowances; bilingual pay; certificate pay; salaries; auto and cell allowances; bilingual pay; certificate pay; group term life; workers comp; and Medicare tax.



distribution system integrity, drinking water quality, degree of water reserves for emergency purposes, and preventative maintenance practices. However approximately 14.5 percent of the existing system of water mains for the City have exceeded the recommended assigned useful life defined within the Water Master Plan, approximately 88 percent of the pump stations' mechanical and electrical equipment have exceeded their useful age, and nearly all of their reservoirs exceed useful life ranges.²⁵

Wastewater services are adequate, but improvements are necessary to mitigate the City's high rate of infiltration and inflow.²⁶ The assessment also found other areas of water and wastewater system improvement:

- Insufficient fire flow exists at several locations;
- Imported recycled water does not meet demand and must be blended with potable water in order to serve all customers;
- Expansion of the recycled water system and acquirement of a reliable recycled water supply will be necessary to meet future demands for recycled water;
- The City should implement a tracking system of response times to customer issues and the number and type of complaints related to water and wastewater services.

According to the Infrastructure Assessment, the City has appropriately identified and planned for its water and wastewater related capital improvement needs, including replacement of aging system components, in the Recycled Water Master Plan, the HDR report, and the citywide Capital Improvement Plan. However, improvements are funded annually on a "pay as you go" basis with minimal reserves available for future needs. The CSJC budget notes that the water and sewer capital replacement programs will require additional funding from water and sewer ratepayers to meet the capital needs of the City's water and sewer system.²⁷

²⁵ *ibid*, MSR Infrastructure Assessment, Infrastructure Needs and Deficiencies,

²⁶ *ibid*, MSR Infrastructure Assessment, Executive Summary.

²⁷ City of San Juan Capistrano (CSJC) Fiscal Year 2017-2018 (FY18) Budget Update, pg. 88 and pg. 94.



FINANCIAL REVIEW OF CSJC SYSTEMS

Table 2 provides a financial overview of the CSJC water and wastewater systems.

REVENUES

Operating Revenues

Water revenues (including groundwater sales) represent approximately eighty percent of total operating revenues.

Water rates include a fixed and a variable component. Customer service charges are the fixed component and pay for overhead and administrative costs that do not vary with water demand. Water commodity charge revenues, which account for 50 percent to 60 percent of water rate revenues, are variable year-to-year depending on water consumption.

CSJC's water and wastewater bills, averaging approximately \$146 per month for a household of four, are highest compared to the alternative service providers. Since 2014, average household water charges increased 24 percent, moderated by wastewater rate declines of about 12 percent, for a combined water and wastewater bill increase of 16 percent²⁸ or about 4-5 percent annual average.

The 2014 Rate Study recommended a 5 percent annual rate increase for each year over a five-year period.²⁹ All of the recommended rate increases for the four prior fiscal years have been

Table 2 CSJC Financial Overview

Item	City of San Juan Capistrano
Operating Revenues	
Water	\$12.3 mill.
Groundwater	\$7.5 mill.
Wastewater	\$3.5 mill.
Recycled Water	\$1.0 mill.
Other	<u>\$0 mill.</u>
Total	\$24.3 mill.
Non-Operating Revenues	
Property Tax	\$1.1 mill.
Other	<u>\$0 mill.</u>
Total	\$1.1 mill.
Total Revenues	\$25.4 mill.
Operating Expenditures	
Total	\$16.0 mill.
Capital Expenditures	
CIP Annual Average	\$5.0 mill.
Reserves (GF unrestricted)	\$3.3 mill.
Capital Assets, Debt & Other Long-Term Obligations	
Net Capital Assets	\$76.2 mill.
Total Outstanding Debt	\$27.1 mill.
Total Annual Debt and Leases	\$4.4 mill.
Outstanding Revenue Bond Debt	\$27.1 mill.
Pension Funded Ratio	68.7%
Unfunded Pension Liability	\$6.9 mill.
Pension Contribution Rate	30.00% to 35.64%

8/08/2018

²⁸ Raftelis Financial Consultants, Inc. (2014). Comprehensive Water, Non-Potable Water and Sewer Rate Study Report. Final Report, City of San Juan Capistrano, Fig. 1-6, pg. 26. See Appendix B for estimates of current average household charges using the same assumptions and current rates.

²⁹ *ibid*, Raftelis 2014, Table 5-7 and Table 6-10.



implemented. The final 5% annual rate increase will be implemented on July 1, 2018 as provided by the study.³⁰

Table 3 depicts the City's utility operations and debt. **Table 4** presents financial indicators.

Table 3 Summary of FY17-18 CSJC Utility Budget

Item	Amended FY17-18
Operating Revenues	
Water	12,290,900
Groundwater	7,499,000
Wastewater	3,474,110
Recycled Water	<u>1,031,250</u>
Total Operating Revenues	24,295,260
Operating Expenses	
Source of Supply (Import Water Supply)	4,018,440
Administration & Engineering	2,005,505
City Attorney and Other Legal Costs (Water)	500,000
Water Operations	4,116,430
GWRP Operations	1,968,810
Wastewater Operations	3,157,536
Non-Potable Water Operations	157,044
Expenses funded by Drought Penalties	<u>74,000</u>
Total Operating Expenses	15,997,765
NET OPERATING INCOME	8,297,495
Payments for Loans and Debt Service	
To Water Debt Service Fund (from Water & GWRP)	3,323,360
NET INCOME AFTER DEBT SERVICE	4,974,135
WATER ENTERPRISE DEBT SERVICE FUND	
Transfers In (from Water & GWRP)	3,323,360
Property Tax & Interest Earnings (\$10,000)	<u>1,072,560</u>
Total Revenue	4,395,920
Lease Payments, Bond Costs and Payments	4,395,920
	<i>6/22/18</i>

³⁰ *ibid*, correspondence with CSJC, 5/18/18.



Other Revenues and Funding Sources

Similar to the alternative service providers, CSJC does receive property taxes dedicated to water and wastewater funding although the amount is minimal by comparison. The FY18 budget allocates the entire amount of dedicated property tax, approximately \$1.06 million, to the CSJC Water Enterprise Debt Service Fund; this represents about 4.2 percent of total revenues.

Before the City began providing water services, they were provided by the Capistrano Valley Water District. This property tax revenue is the separate property tax general levy that is allocated by the County to the Capistrano Valley Water District (separate from the City’s property tax general levy). The County separately allocates to the City a portion of general levy property taxes previously distributed to the CVWD. This portion of the general levy is designated by the City for the City’s Water Fund and is used exclusively for Water Fund purposes.³¹

The City's General Fund budget does include its own share of property tax collected from within City boundaries which pays for other non-enterprise activities such as City administration, police, fire, planning and public works functions. The General Fund does not provide funding to the City's water and wastewater utilities, which are funded entirely through "enterprise" generated fees and other revenues.

Table 4 CSJC Financial Indicators

Item	City of San Juan Capistrano
Average Monthly Rates/Household	
Water	\$121.79
Wastewater	<u>\$24.34</u>
Total	\$146.13
Change from 2014	16.2%
Property Tax Revenue	
% of Total Operating Revenues	4.2%
Capital Expenditures	
as % of System Net Asset Value	6.5%
Reserves as % of Op'ing Expend.	21%
Pledged Revenue Debt Coverage	2.5
Financial Ratings	Fitch 'A' (stable), S&P 'A-' (negative)

8/11/2018

³¹ ibid, correspondence with CSJC, rec'd 3/17/18 (response to 3/5/18).



EXPENDITURES

CSJC operating expenditures total approximately \$16 million, before debt service and capital improvements.³² Operating revenues exceed operating expenditures, generating funds for debt repayment, capital improvements, and reserves.

Administration and Engineering

Overhead costs including administration, insurance, finance, engineering and legal services averaged about 20 percent to 30 percent of total operating expenditures over the past four years. The administrative cost percentages include "General Services" listed in the water operations budget. The administrative costs fluctuated partly due to legal costs related to litigation.

Water and Wastewater Operations

Water and wastewater operations costs include maintenance, distribution and pumping, emergency response, water quality, and customer service.

As noted above, "general services" ranging from about \$1.2 million to \$1.7 million annually account for administrative services not otherwise included in overhead categories noted above.

Imported Water Supply

The cost of imported water accounts for about 40 percent of total expenditures. The cost is higher in years when GWRP pumping is reduced and the City relies more on imported water. The amount of imported water, and its total cost, increased significantly in FY15-16 and FY16-17 due to the temporary closure of the GWRP.

The FY17-18 budget indicates lower total costs largely due to an anticipated full year of GWRP operations and a corresponding reduction of \$2.5 million for imported water costs. The imported water cost savings of \$2.5 million does not fully offset GWRP operating costs (\$2 million in FY17-18) and construction debt service (\$1.9 million annual lease payment); together, the GWRP operating costs and debt service total \$4.4 million. However, the GWRP does help protect against future import water cost increases and/or imported water shortages and supply disruptions.

³² City of San Juan Capistrano (CSJC) Fiscal Year 2017-2018 (FY18) Budget Update, pg. 34 (water), pg. 36 (groundwater), pg. 37 (recycled water), pg. 39 (wastewater).



CAPITAL IMPROVEMENT PROGRAM (CIP)

CSJC annually updates and adopts its CIP, which is included in the City's budget document. The FY17-18 CIP proposes about \$34.8 million of capital improvements over the next seven years,³³ or an average of about \$5 million per year, which equals about 6.5 percent of net utility capital asset value. In FY17-18, the CSJC CIP includes \$2.7 million of water and wastewater capital improvements³⁴ The CSJC budget notes that the water and sewer capital replacement programs will require additional funding from water and sewer ratepayers to meet the capital needs of the City's water and sewer system.³⁵

RESERVES AND RESERVE POLICIES

CSJC has no adopted reserve guidelines applicable to its utility operations.³⁶The CSJC 2014 Rate Study recommended that the City maintain four types of reserves for each of its water, sewer, and non-potable utility funds.³⁷

CSJC currently is not achieving the utility reserve levels recommended by the 2014 Rate Study due to prior years rate refunds, litigation, and lack of significant groundwater.

1. Operations and Maintenance (O&M) Reserve -- Intended to provide working capital for operations, the 2014 Rate Study recommended O&M reserves equal to 25 percent of annual operations costs. Currently, no "Unrestricted Net Assets-Available" exist in the water enterprise funds.³⁸

2. Rate Stabilization Reserve -- These funds are intended to mitigate the impacts of rate increases on ratepayers. The FY17-18 budget shows \$1.3 million of restricted funds for "rate stabilization" in the Water Debt Service Fund, which is below the \$3.1 million recommended in the 2014 Rate Study.

³³ *ibid*, CSJC FY18 Budget Update, pg. 88-95.

³⁴ *ibid*, CSJC FY18 Budget Update, pg. 46-48.

³⁵ City of San Juan Capistrano (CSJC) Fiscal Year 2017-2018 (FY18) Budget Update, pg. 88 and pg. 94.

³⁶ CSJC correspondence with R.Berkson, 1/31/18 and 5/17/18.

³⁷ *ibid*, Raftelis 2014 Rate Study, Sec. 1.2, pg. 11-12.

³⁸ *ibid*, CSJC FY18 Budget Update, pg. 15.



3. Repair and Replacement (R&R) Capital Reserve -- These funds are intended to maintain sufficient reserves for R&R for a reliable system. The 2014 Rate Study proposed \$3.2 million for the water system, or approximately equal to one year of system depreciation cost. CSJC's FY17-18 budget indicated an ending balance of \$122,000 in its Water Capital Replacement Fund after expenditures of \$295,000.

4. Emergency Reserve -- The purpose of these reserves is to continue service in the event of a physical emergency. The 2014 Rate Study proposed a \$3.4 million utility emergency fund including \$1.9 million for the water enterprise (water, wastewater, non-potable operations).

The City's General Fund has established reserves for cash flow, economic uncertainty, and contingencies; the updated FY18 budget projected the 6/30/2018 ending balance of about \$16 million for these reserves. These reserves potentially could be available for utilities, contingent on the availability of other sources of funds and City Council decisions.

As described in the following section, the Water Enterprise Fund has borrowed from the Sewer Enterprise Fund to help cover past shortfalls caused by litigation and ratepayer refunds. CSJC anticipates improvements in fund balances over time "as a result of favorable operating results projected for Fiscal Year 2017-18."³⁹ Improvements in fund balances would help to achieve the reserves recommended by the 2014 rate study.

CSJC has not predicted when recommended reserves could be achieved; the 10-year forecast estimated by this MSR in **Table 6** shows cumulative balances (after operations and capital improvements) potentially requiring at least eight years to grow to over \$15 million, the combined level of utility reserves recommended by the 2014 Rate Study. This conclusion assumes continued favorable operating and economic conditions during this period.

DEBT AND OTHER LONG-TERM OBLIGATIONS

Table 5 summarizes current debt, annual payment obligations, remaining principal balance, and term. Annual debt service totals approximately \$4.4 million including inter-fund loans as described below. Outstanding principal amounts for debt issuances total \$30 million as of June 30, 2017 including the water enterprise inter-fund obligation.

³⁹ Comprehensive Annual Financial Report (CAFR) Fiscal Year Ended June 30, 2016, City of San Juan Capistrano (CSJC), pg. iv.



S&P Global Ratings (S&P) recently downgraded the City's water bond. S&P downgraded its rating from "A" (stable) to "A-" (negative outlook) after considering depletion of cash reserves of the Water Fund due to a combination of financial challenges in Fiscal Years 2014-15 and 2015-16. These financial challenges included "unusually high litigation expenses, constrained water sales under the State's drought-induced conservation requirements, higher imported water costs due to reduced pumping of water from the depleted groundwater basin, and the City Council's approval of \$3.6 million in customer refunds associated with tiered water rates that were in effect prior to July 1, 2014."⁴⁰ The downgrade may adversely affect interest rates of any future water fund debt issuances.

Conversely, in 2017 Fitch Ratings reaffirmed its "A" rating assigned to the City's water bonds in view of the highly unusual circumstances associated with Fiscal Years 2014-15 and 2015-16 and the significantly improved financial results demonstrated by projected data for FY 2016-17.⁴¹

In FY15-16, the water fund's debt coverage ratio (i.e., net revenues compared to debt service) was a suboptimal 76%,⁴² reflecting the adverse financial conditions described above. In FY16-17 the fund had a significant recovery resulting in a current debt coverage ratio of 250%⁴³ as litigation costs decreased and rate revenues improved.

⁴⁰ CSJC City Manager Weekly Update, Ben Siegel, City Manager, Sept. 21, 2017, "Rating Agencies Assess City's Water Fund Bonds".

⁴¹ *ibid*, correspondence with CSJC, 5/18/18.

⁴² City of San Juan Capistrano, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, pg. 201 (excludes lease SJBA lease payments).

⁴³ Correspondence with CSJC, 6/12/18.



Table 5 Summary of Water Enterprise Debt Service, Lease Payments and Inter-Fund Notes

Item	Term	Principal		Payment
		Initial	Balance (2)	FY18 (1)
Series 2009 Certificates of Participation	2035	\$11,140,000	\$9,160,700	\$795,000
Series 2014A Water Refunding Bonds	2034	<u>\$19,922,771</u>	<u>\$17,975,900</u>	<u>\$1,700,000</u>
Subtotal		\$31,062,771	\$27,136,600	\$2,495,000
Lease Payment-SJBA Series 2014	2035	na	na	\$1,904,000
Promissory Note - Sewer Enterprise Fund Loan to the Water Enterprise Fund	2020	\$3,600,000	\$3,600,000	\$1,430,000

(1) Approximate payments; amounts vary annually.

(2) Amount outstanding as of June 30, 2017 (amounts rounded to nearest \$100). 6/22/18

Debt obligations and lease payments include:

Series 2009 Certificates of Participation

On April 14, 2009, the City issued \$11,140,000 Series 2009 Certificates of Participation to fund water system improvements.⁴⁴ Annual payments vary slightly; principal and interest payments total approximately \$795,000 per year and continue through 2035. The outstanding principal balance as of June 30, 2017 was \$9,158,887.⁴⁵

Series 2014A Water Refunding Bonds

In 2014, the City issued \$19,922,771 of bonds to refund 2002 and 2004 Certificates of Participation which funded water system improvements.⁴⁶ Annual principal and interest

⁴⁴ Comprehensive Annual Financial Report (CAFR) Fiscal Year Ended June 30, 2016, City of San Juan Capistrano (CSJC), pg. 78.

⁴⁵ Comprehensive Annual Financial Report (CAFR) Fiscal Year Ended June 30, 2017, City of San Juan Capistrano (CSJC), pg. 79; includes deferred bond charges.

⁴⁶ Comprehensive Annual Financial Report (CAFR) Fiscal Year Ended June 30, 2013, City of San Juan Capistrano (CSJC), pg. 59.



payments total about \$1.7 million and continue through 2034. The outstanding principal balance as of June 30, 2017 was \$17,975,910.⁴⁷

Lease Payment-SJBA Series 2014

The City leases the GWRP from the San Juan Basin Authority (SJBA) for an amount equal to the debt service on 2014 bonds. The 2014 bonds refunded debt issued in 2002 to construct the GWRP. The lease payments to SJBA are pledged solely from revenues from the Water Enterprise Fund and are fully accounted for in the budget of the Water Fund.⁴⁸ The City owns the land under the GWRP.

Inter-Fund Transfers

Debt covenants require that the City collect annual water service rates and charges at least equal to annual debt service. The City did not achieve this threshold in FY16 due to high water enterprise legal costs and Council-authorized water rate refunds related to litigation ("CTA Lawsuit")⁴⁹ that was settled in 2015.⁵⁰ These extraordinary costs contributed to Water Enterprise Fund shortfalls and the need to borrow from the Sewer Fund.

A 2015 promissory note⁵¹ for an initial principal amount of \$4.2 million payable by the Water Operations Funds to the City's Sewer Fund helped to cover shortfalls.

The Sewer Fund loan came from two funds: #70, Sewer Operations Fund and #72 Sewer Capital Improvement Fund. The first payment on the Sewer Loan was made in December 2017. The outstanding balance of the loan is \$2,210,026 (which includes accrued interest through December 31, 2017).⁵² The maturity date is June 30, 2020; payments due in FY19 and FY20 will be about \$1.5 million in FY18-19 and \$750,000 in FY19-20.⁵³

⁴⁷ *ibid*, CSJC CAFR FY16, pg. 80; balance remaining after FY17 payments.

⁴⁸ Comprehensive Annual Financial Report (CAFR) Fiscal Year Ended June 30, 2016, City of San Juan Capistrano (SJC), pg. 73.

⁴⁹ Capistrano Taxpayers Association v. City of San Juan Capistrano, Case No. 30-2012-00594579.

⁵⁰ FY17 Q3 Financial Report, June 20, 2017, pg. 6

⁵¹ Promissory Note authorized August 4, 2015, amended to delay initial payment and due date by one year by Resolution 16-06-21-09, CSJC City Council, June 21, 2016.

⁵² *ibid*, correspondence with CSJC, 5/18/18.

⁵³ *ibid*, correspondence with CSJC, 5/18/18.



Retirement Plan

The City participates in the Orange County Employees Retirement System (OCERS). OCERS provides for service retirement, death, disability, survivor benefits and annual cost-of-living benefits to plan members. Utilities Department employees fall within one of the following three annual equity benefit categories:⁵⁴

- Plan J - Annuity equal to 2.7% of the employee's three-year final average salary for each year of service rendered at age 55;
- Plan S - 2.0% of the employee's three-year final average salary for each year of service rendered at age 57;
- Plan U - 2.5% of the employee's three-year final average salary for each year of service rendered at age 67. This is the City's PEPRA plan.

Employer contribution rates vary from approximately 30% to 36% of salary; employee contribution rates depend on the employees' ages and plan. The Water and Sewer enterprise funds' share of OCERS contributions totaled approximately \$700,000 in FY18.⁵⁵

The contribution rates include payment towards unfunded pension liabilities; of the City's total pension liability, 68.7 percent is funded.⁵⁶ The City's pension program is held in a pension trust administered by OCERS which is expected to be fully funded in 15 years. The water and Sewer enterprise funds' share of unfunded pension liability totals \$6.5 million in FY16-17.⁵⁷

Other Post-Employment Benefits (OPEB)

The City provides post-retirement medical benefits to retirees who have reached age 50 and completed at least ten years of City service (5 years for management); the coverage continues up to fifteen years of retirement depending on years of service (or age 65, whichever occurs first). The City contributes \$109 monthly per employee towards OPEB for active employees, increasing three more years to \$128/month.⁵⁸ The Water and Sewer enterprise funds' OPEB

⁵⁴ *ibid*, CSJC CAFR FY16, pg. 87.

⁵⁵ Correspondence from CSJC, 3/17/18, assuming utility-funded share averages approximately 85% overall, although the share varies by personnel.

⁵⁶ *ibid*, CSJC FY17 CAFR, pg. 119.

⁵⁷ *ibid*, CSJC CAFR FY17, pg. 32.

⁵⁸ *ibid*, CSJC CAFR FY16, pg. 96.



contributions for Utilities Department employees totaled approximately \$39,000 in 2017.⁵⁹ OPEB costs are paid annually on a "pay as you go" basis as benefit costs come due.

The Water and Sewer enterprise funds' share of unfunded OPEB liabilities for Utilities Department employees total about \$785,000.⁶⁰

Existing Agreements

SJBA Lease -- The Water Enterprise Fund makes lease payments to the SJBA; in FY18 the payment equaled \$1.9 million.⁶¹ On November 1, 2014, the City and SJBA entered into an Amended and Restated Lease Agreement (Amended Lease Agreement). This agreement revised a property lease agreement between the City and the San Juan Basin Authority (SJBA) from 2002. The City leased land to the SJBA for construction of the GWRP. The City, in turn, leased the GWRP from the SJBA for an amount equal to the debt service on bonds which funded the GWRP. In 2014 the SJBA refinanced the bonds, resulting in an interest rate reduction and cost savings.⁶²

At the end of the lease term in 2035 (when the bonds have been repaid), the City has an option to extend the City's right to operate the GWRP through 2057 for \$1 per year.

Litigation

A class action lawsuit by ratepayers that could impact the recovery of the Water Fund is still outstanding.⁶³ No estimates are available about potential costs, if any, from the outcome of the litigation.

FINANCIAL PLANNING AND FORECASTS

An illustrative forecast shown in **Table 6** has been prepared for this MSR. The forecast provides a general indication of the utility's future financial condition under a certain set of assumptions.

⁵⁹ OPEB cost estimate assumes 26 employees at \$109/employee per month shown in CSJC CAFR FY17, pg. 96.

⁶⁰ *ibid*, CSJC CAFR FY17, pg. 32.

⁶¹ *ibid*, CSJC CAFR FY17, pg. 34. See also CSJC "Debt and Other Long-Term Obligations" section of this report for more information.

⁶² *ibid*, CSJC CAFR FY17, pg. 73.

⁶³ *ibid*, CSJC City Manager Weekly Update, Sept. 21, 2017.



The forecast suggests that continued revenue growth could support recovery from "the stressed financial condition of the Water Fund" as noted by the City Manager in 2017.⁶⁴ If this improvement occurs, in about eight years the City could fund its reserves at levels recommended in its 2014 Rate Study and expand investment in its capital improvement program to assure future replacement of aging infrastructure.

However, a number of factors will influence the forecast, including:

Inflation -- The forecast assumes 3 percent annual inflation, which is slightly greater than current 2 percent to 2.5 percent rates. This factor establishes a baseline for most cost and revenue increases, and discounts future fund balances to 2018 purchasing power.

Rate Revenues -- 2014 Rate Study recommended 5 percent annual rate increases; to the extent that rate increases are lower, total revenues will be less than shown. Similarly, reduced consumption will reduce revenues. The forecast assumes that rate increases generally track cost increases assumed at 4 percent annually. The revenue growth does not assume a significant drought; as discussed in the Executive Summary, a drought can create several adverse financial conditions, e.g., increased voluntary and mandatory conservation reducing total revenues; reduced groundwater available for pumping.

Property Tax -- Property taxes, although not a significant revenue source, are conservatively assumed to grow an average 4 percent annually, or slightly above inflation. Slowing economic growth or a downturn would reduce those revenues.

Cost of Purchased Water -- The cost of purchased water is assumed to increase at an annual average 3 percent, which is slightly greater compared to MWDSC's projected wholesale cost increase that will be paid by the City through MWDOC.⁶⁵ The average cost of water will also depend on the City's ability to pump groundwater, which will be reduced in drought years.

Payroll Expense and Operating Costs -- Payroll costs included in operations and management expenditures are likely to exceed inflation as health care costs grow. Future increases in retirement costs paid to OCERS are not expected to exceed 3-5% per year due to the fact that the OCERS plan (unlike CalPERS) is cash flow positive and has a higher ratio of active members to

⁶⁴ *ibid*, CSJC City Manager Weekly Update, Sept. 21, 2017.

⁶⁵ Correspondence from Harvey De La Torre, Associate General Manager, Municipal Water District of Orange County (MWDOC), March 29, 2018, with attached MWDOC 10-year Projection of Tier 1 volumetric water rates (pg. 5).



retirees. The OCERS plan is scheduled to be fully funded within 15 years.⁶⁶ These expectations may need to be modified if future stock market returns are significantly lower than predicted by OCERS. The forecast assumes that these costs grow at a rate approximately 1 percent above 3 percent annual inflation.

Transfers out to CIP -- The forecast assumes CIP expenditures comparable to the City's current CIP (see "CAPITAL IMPROVEMENT PROGRAM" section above); years beyond FY23-24 utilize an average for the period. Inflation is applied to the CIP estimates.

As noted above, the forecasted outcomes depend on numerous factors including the state of the local and national economy, drought and weather patterns, groundwater supplies, as well as regulatory costs, unanticipated costs and infrastructure investments, and policy and management decisions by the City Council.

⁶⁶ *ibid*, correspondence with CSJC, 5/18/18.



Table 6 CSJC Water System Projected Revenues and Expenditures FY18-19 to FY27-28

Item	Growth	Projected (Fiscal Year Ending)									
		FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28
Operating Revenues											
Water	4.0%	12,783,000	13,294,320	13,826,093	14,379,137	14,954,302	15,552,474	16,174,573	16,821,556	17,494,418	18,194,195
Groundwater	4.0%	7,799,000	8,110,960	8,435,398	8,772,814	9,123,727	9,488,676	9,868,223	10,262,952	10,673,470	11,100,409
Wastewater	4.0%	3,613,000	3,757,520	3,907,821	4,064,134	4,226,699	4,395,767	4,571,598	4,754,462	4,944,640	5,142,426
Recycled Water	4.0%	<u>1,073,000</u>	<u>1,115,920</u>	<u>1,160,557</u>	<u>1,206,979</u>	<u>1,255,258</u>	<u>1,305,469</u>	<u>1,357,687</u>	<u>1,411,995</u>	<u>1,468,475</u>	<u>1,527,214</u>
Total Operating Revenues		25,268,000	26,278,720	27,329,869	28,423,064	29,559,986	30,742,386	31,972,081	33,250,964	34,581,003	35,964,243
Operating Expenses											
Source of Supply (Import Water Supply)	3.0%	4,139,000	4,263,170	4,391,065	4,522,797	4,658,481	4,798,235	4,942,182	5,090,448	5,243,161	5,400,456
Administration & Engineering	4.0%	2,086,000	2,169,440	2,256,218	2,346,466	2,440,325	2,537,938	2,639,455	2,745,034	2,854,835	2,969,028
City Attorney and Other Legal Costs (Water)	4.0%	520,000	540,800	562,432	584,929	608,326	632,660	657,966	684,285	711,656	740,122
Water Operations	4.0%	4,281,000	4,452,240	4,630,330	4,815,543	5,008,164	5,208,491	5,416,831	5,633,504	5,858,844	6,093,198
GWRP Operations	4.0%	2,048,000	2,129,920	2,215,117	2,303,721	2,395,870	2,491,705	2,591,373	2,695,028	2,802,829	2,914,943
Wastewater Operations	4.0%	3,284,000	3,415,360	3,551,974	3,694,053	3,841,816	3,995,488	4,155,308	4,321,520	4,494,381	4,674,156
Non-Potable Water Operations	4.0%	163,000	169,520	176,301	183,353	190,687	198,314	206,247	214,497	223,077	232,000
Expenses funded by Drought Penalties	4.0%	<u>77,000</u>	<u>80,080</u>	<u>83,283</u>	<u>86,615</u>	<u>90,079</u>	<u>93,682</u>	<u>97,430</u>	<u>101,327</u>	<u>105,380</u>	<u>109,595</u>
Total Operating Expenses		16,598,000	17,220,530	17,866,720	18,537,478	19,233,749	19,956,514	20,706,792	21,485,642	22,294,163	23,133,498
NET OPERATING INCOME		8,670,000	9,058,190	9,463,149	9,885,586	10,326,237	10,785,872	11,265,289	11,765,322	12,286,840	12,830,745
Property Tax, Loans and (Debt Service)											
To Water Debt Service Fund from Water & GWRP		(3,294,861)	(3,250,413)	(3,217,657)	(3,179,554)	(2,205,637)	(2,168,683)	(2,130,621)	(2,091,416)	(2,051,036)	(1,365,815)
Other Water Debt Service Fund (lease payments)	0.2%	(797,036)	(798,630)	(800,227)	(801,828)	(803,431)	(805,038)	(806,648)	(808,262)	(809,878)	(811,498)
Property Tax (to Water Debt Service Fund)	4.0%	1,138,214	1,172,361	1,207,532	1,243,757	1,281,070	1,319,502	1,359,087	1,399,860	1,441,856	1,485,111
NET INCOME AFTER PROPERTY TAX AND DEBT SERVICE		5,716,317	6,181,508	6,652,797	7,147,961	8,598,239	9,131,652	9,687,107	10,265,504	10,867,781	12,138,543
(Transfers out) to CIP	3.0%	(7,011,107)	(5,067,760)	(6,326,288)	(6,168,914)	(4,801,713)	(6,050,000)	(6,117,252)	(6,300,770)	(6,489,793)	(6,684,486)
NET AFTER CIP		(1,294,790)	1,113,747	326,508	979,048	3,796,526	3,081,652	3,569,855	3,964,735	4,377,989	5,454,057
CUMULATIVE FORECAST		(1,294,790)	(181,042)	145,466	1,124,514	4,921,039	8,002,692	11,572,547	15,537,281	19,915,270	25,369,327
CUMULATIVE (Constant 2018\$)	3.0%	(1,257,077)	(170,650)	133,122	999,116	4,244,932	6,702,128	9,409,539	12,265,273	15,263,396	18,877,162

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2. ALTERNATIVE SERVICE PROVIDERS

This chapter summarizes characteristics of service providers. Subsequent chapters provide additional information for each alternative service provider.

SUMMARY COMPARISONS OF SERVICE PROVIDERS

Table 7 compares general characteristics of alternative service providers to the current water and wastewater service provider, the City of San Juan Capistrano.

A summary of financial characteristics of CSJC and alternative service providers is shown in **Table 8**.

Table 9 lists financial measures and indicators calculated from the prior two tables.

The information derives from a number of sources which are documented in each service provider chapter. Sources include budget documents, financial audits, and Urban Water Management Plans. A separate MSR document provides a physical assessment of CSJC and the systems of the other service providers.



Table 7 Overview of Current and Alternative Water and Wastewater Service Providers

Item	Current Provider	Alternative Service Providers		
	City of San Juan Capistrano (CSJC)	Santa Margarita Water District (SMWD)	Moulton Niguel Water District (MNWD)	South Coast Water District (SCWD)
Services and Service Area				
Population	36,262	165,000	173,280	35,000
Voters	18,402	88,331	93,641	23,857
Service Area	14.4 sq.mi.	97.9 sq.mi.	37.0 sq.mi.	8.3 sq.mi.
Assessed Value	\$7.2 bill.	\$18.1 bill.	\$34.2 bill.	\$10.6 bill.
Utility Employees	19.8	88.0	58.0	33.0
Total Employees	26.0	144.0	139.0	85.0
Governance				
Governing Body	5 City Council members by district	5 Board Members at large	7 Board Members at large	5 Board Members at large
Domestic+Recycled Water (mgd)				
Acre Feet per Year	5.7 mgd	26.4 mgd	27.1 mgd	5.3 mgd
% Imported	6,396 AF	29,617 AF	30,368 AF	5,926 AF
	64%	78%	75%	74%
Wastewater				
Collection System	125 miles	630 miles	540 miles	140 miles
Treatment	SOCWA/Latham	SMWD (Chiquita, Oso,	MNWD (Plant 3A)	SOCWA

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Table 8 Financial Summary of Alternative Service Providers

Item	Current Provider	Alternative Service Providers		
	City of San Juan Capistrano	Santa Margarita Water District	Moulton Niguel Water District	South Coast Water District
Operating Revenues				
Water	\$12.3 mill.	\$39.2 mill.	\$29.9 mill.	\$15.4 mill.
Groundwater	\$7.5 mill.			
Wastewater	\$3.5 mill.	\$20.9 mill.	\$21.4 mill.	\$13.8 mill.
Recycled Water	\$1.0 mill.	\$9.0 mill.	\$5.5 mill.	\$2.1 mill.
Other	<u>\$.0 mill.</u>	<u>\$1.9 mill.</u>	<u>\$.5 mill.</u>	<u>\$.3 mill.</u>
Total	\$24.3 mill.	\$71.1 mill.	\$57.3 mill.	\$31.5 mill.
Non-Operating Revenues				
Property Tax	\$1.1 mill.	\$7.5 mill.	\$27.6 mill.	\$4.4 mill.
Other	<u>\$.0 mill.</u>	<u>\$1.8 mill.</u>	<u>\$7.3 mill.</u>	<u>\$.4 mill.</u>
Total	\$1.1 mill.	\$9.3 mill.	\$34.9 mill.	\$4.8 mill.
Total Revenues	\$25.4 mill.	\$80.4 mill.	\$92.2 mill.	\$36.3 mill.
Operating Expenditures				
Total	\$16.0 mill.	\$69.6 mill.	\$67.5 mill.	\$26.4 mill.
Capital Expenditures				
CIP Annual Average	\$5.0 mill.	\$15.0 mill.	\$28.2 mill.	\$11.4 mill.
Reserves (GF unrestricted)	\$3.3 mill.	\$74.3 mill.	\$75.0 mill.	\$46.8 mill.
Capital Assets, Debt & Other Long-Term Obligations				
Net Capital Assets	\$76.2 mill.	\$636.0 mill.	\$268.0 mill.	\$155.8 mill.
Total Outstanding Debt	\$27.1 mill.	\$110.0 mill.	\$83.7 mill.	\$34.8 mill.
Total Annual Debt and Leases	\$4.4 mill.	\$18.7 mill.	\$8.9 mill.	\$3.5 mill.
Outstanding Revenue Bond Debt	\$27.1 mill.	\$9.4 mill.	\$83.7 mill.	\$34.8 mill.
Pension Funded Ratio	68.7%	68.2%	74.6%	84.3%
Unfunded Pension Liability	\$6.9 mill.	\$27.2 mill.	\$17.6 mill.	\$7.8 mill.
Pension Contribution Rate	30.00% to 35.64%	23.90%	16.54%	19.15%

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Table 9 Summary of Financial Indicators

Item	Current Provider	Alternative Service Providers		
	City of San Juan Capistrano	Santa Margarita Water District	Moulton Niguel Water District	South Coast Water District*
Average Monthly Rates/Household				
Water	\$121.79	\$63.22	\$47.77	\$113.54
Wastewater	<u>\$24.34</u>	<u>\$35.81</u>	<u>\$31.60</u>	<u>\$54.17</u>
Total	\$146.13	\$99.03	\$79.37	\$167.71
Change from 2014	16.2%	30.7%	16.5%	10% (est.)
Property Tax Revenue				
% of Total Operating Revenues	4.2%	9.3%	29.9%	12.0%
Capital Expenditures				
as % of System Net Asset Value	6.5%	2.4%	10.5%	7.3%
Reserves as % of Op'ing Expend.				
	21%	107%	111%	177%
Pledged Revenue Debt Coverage				
	2.5	13.5	2.4	3.3
Financial Ratings				
	Fitch 'A' (stable), S&P 'A-' (negative outlook)	S&P 'AA+' (G.O. assessment- backed bonds)	Fitch 'AAA', S&P 'AA+'	S&P 'AA+'

* SCWD estimate includes peak charge.

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3. MOULTON NIGUEL WATER DISTRICT (MNWD)

The Moulton Niguel Water District (MNWD) was formed in 1960 pursuant to the California Water Code.⁶⁷ Originally created to provide water for livestock and agriculture,⁶⁸ the District currently provides water, recycled water, and wastewater service to over 170,000 residents in Orange County.

OVERVIEW OF MNWD

Table 7 summarizes general characteristics of the MNWD and its water and wastewater services.

Population and Service Area

MNWD's service area population of 173,280 residents is the largest compared to CSJC and the other districts.⁶⁹ The 37 square mile service area, shown in **Figure 1**, includes the cities of Laguna Niguel, Aliso Viejo, and portions of the cities of Laguna Hills, Mission Viejo, San Juan Capistrano, and Dana Point, and is among the more densely populated districts. The MNWD is "largely built out and does not experience much growth year to year."⁷⁰ MNWD's total assessed value of \$34.2 billion⁷¹ represents the greatest value relative to CSJC and the other districts.

MNWD's service area borders about one-third of CSJC's city limits on the City's west side.

Table 10 MNWD Water/Wastewater Services

Item	Moulton Niguel Water District (MNWD)
Services and Service Area	
Population	173,280
Voters	93,641
Service Area	37.0 sq. mi.
Assessed Value	\$34.2 bill.
Utility Employees	58.0
Total Employees	139.0
Governance	
Governing Body	7 Board Members at large
Domestic+Recycled Water (mgd)	
Acre Feet per Year	30,368 AF
% Imported	75%
Wastewater	
Collection System	540 miles
Treatment	MNWD (Plant 3A) & SOCWA

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⁶⁷ Division 13, Sec. 34000 et seq, of the Water Code of the State of California.

⁶⁸ MNWD Long Range Financial Plan Report 2017, pg. 4.

⁶⁹ ibid, MSR Infrastructure Assessment, Table 3-1. The MNWD FY17 CAFR estimated 172,324 as an interpolation of current and projected estimates prepared for the 2015 UWMP.

⁷⁰ MNWD correspondence with R.Berkson, 3/6/18.

⁷¹ MNWD FY17 CAFR, pg. 81.



Services

MNWD employs a total of 139 staff,⁷² including 58 operations FTE. The District utilizes consultants as needed to minimize short-term staffing increases, but continually evaluates the cost-effectiveness of consultants vs. permanent in-house staff.⁷³ System flows (including domestic and recycled) in 2017 total 29.2 MGD,⁷⁴ or 32,690 AF/yr.

Potable Water -- MNWD imports all of its potable water (about 75 percent⁷⁵ of total water supply) from water purchased from MWDOC obtained from Metropolitan Water District of Southern California (MWDSC) which sources the water via the Colorado Aqueduct and the State Water Project. The imported water is treated at one of two facilities: the Diemer Filtration Plant, and the recently constructed Baker Water Treatment Plant. MNWD operates and maintains approximately 700 miles of potable water distribution mains.⁷⁶

Recycled Water -- Recycled water from local sources accounts for about 25 percent of MNWD's total water supply.⁷⁷

Wastewater -- The District owns and maintains about 540 miles of wastewater collection lines. MNWD is a member of SOCWA, which owns and operates three treatment facilities on behalf of its members. MNWD sends wastewater flows to two of SOCWA's facilities – Regional and JB Latham. Wastewater from MNWD collections also are treated by a third facility owned by MNWD and operated by SMWD under a contract with MNWD.

Groundwater -- MNWD obtains none of its water supply from local groundwater or surface water supplies and has no groundwater treatment facilities.

⁷² *ibid*, MSR Infrastructure Assessment, Table 3-7.

⁷³ *ibid*, MNWD FY18 Proposed Budget, pg. 24.

⁷⁴ Correspondence from MNWD, 5/2/18.

⁷⁵ MNWD Long Range Financial Plan Report 2017, pg. 4 (recycled accounts for 25%).

⁷⁶ *ibid*, MSR Infrastructure Assessment, Table 3-1.

⁷⁷ *ibid*, MNWD Long Range Financial Plan Report 2017, pg. 4.



Governance, Management and Planning

A board of seven directors governs MNWD. As of August 2017, directors are elected "at large" by all voters (93,641)⁷⁸ in the District.⁷⁹ Prior to 2017, directors were elected by voters of each of seven divisions as allowed by State law.⁸⁰

MNWD maintains a website that provides comprehensive information about District rates and online bill payment, programs, financial documents, meeting agenda and minutes, and contact information for directors and staff.⁸¹

MNWD staff prepared its 2015 Urban Water Management Plan and modeled water demand forecasts. The District reports that MNWD staff maintain and update semi-annually its internally-developed 10-year Long Range Financial Planning Model⁸² and track performance against audited financials released by December for the prior fiscal year ending June 30.

⁷⁸ Orange County Registrar of Voters, as of January 2018, www.ocvote.com/datacentral/

⁷⁹ MNWD FY17 CAFR, pg. ii.

⁸⁰ Division 13, Sec. 34000 et seq, of the Water Code of the State of California, Part 4, Chapter 5.

⁸¹ <https://www.mnwd.com/>

⁸² *ibid*, MNWD Long Range Financial Plan Report 2017.



FINANCIAL REVIEW OF MNWD

Table 11 provides a financial overview of the MNWD water and wastewater systems. **Table 12** presents financial indicators.

Revenues

Water revenues generate approximately 50 percent of MNWD operating revenues as shown in its General Fund.⁸³ Since 2014, average household water bills increased 21 percent, moderated by wastewater increases of 10 percent, for a combined water and wastewater bill increase of 16.5 percent.⁸⁴

MNWD's water and wastewater bills average approximately \$79 per month for a household of four. The average bill is about 54 percent of the average CSJC bill.

Other Revenues and Funding Sources

Non-operating revenues include property taxes derived from MNWD's share of the 1% ad valorem property tax; these property taxes represent about 30 percent of total operating and non-operating revenues. These property taxes reduce the need for rate revenue and result in the lowest water and wastewater rates among the service providers reviewed. Property taxes also

Table 11 MNWD Financial Overview

Item	Moulton Niguel Water District
Operating Revenues	
Water	\$29.9 mill.
Groundwater	
Wastewater	\$21.4 mill.
Recycled Water	\$5.5 mill.
Other	<u>\$5 mill.</u>
Total	\$57.3 mill.
Non-Operating Revenues	
Property Tax	\$27.6 mill.
Other	<u>\$7.3 mill.</u>
Total	\$34.9 mill.
Total Revenues	\$92.2 mill.
Operating Expenditures	
Total	\$67.5 mill.
Capital Expenditures	
CIP Annual Average	\$28.2 mill.
Reserves (GF unrestricted)	\$75.0 mill.
Capital Assets, Debt & Other Long-Term Obligations	
Net Capital Assets	\$268.0 mill.
Total Outstanding Debt	\$83.7 mill.
Total Annual Debt and Leases	\$8.9 mill.
Outstanding Revenue Bond Debt	\$83.7 mill.
Pension Funded Ratio	74.6%
Unfunded Pension Liability	\$17.6 mill.
Pension Contribution Rate	16.54%

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⁸³ Moulton Niguel Water District (MNWD), Fiscal Year 2017-2018 (FY18) Proposed Budget, General Fund, pg. 19.

⁸⁴ Raftelis Financial Consultants, Inc. (2014). Comprehensive Water, Non-Potable Water and Sewer Rate Study Report. Final Report, City of San Juan Capistrano, Fig. 1-6, pg. 26. See Appendix B for estimates of current average household charges using the same assumptions and current rates.



contribute to MNWD's reserves and capital improvements. The District also receives about \$1.8 million annually in lease revenue from cellular towers on its property.⁸⁵

Expenditures

MNWD expenditures total approximately \$67.5 million.⁸⁶ While operating revenues do not fully cover operating costs, property taxes fund the difference while also contributing to reserves and capital expenditures. The FY18 budget projects a \$24.7 million positive change in operating position.⁸⁷

A separate "Water Efficiency Fund" budgets about \$3.3 million towards "alternative water supply programs, rebates, and water conservation and/or demand management measures to increase efficient uses of water and offset their demand."⁸⁸ MNWD's rate structure provides additional funding from rates from inefficient water use; these charges are not shown in the average rates per household in **Table 12** or in the total operating revenues shown in **Table 11**.

Capital Improvement Program

MNWD maintains and annually updates its 10-year capital program. Over the projected 10-year period, capital expenditures average \$28 million annually,⁸⁹ or about 10.5 percent of its system's net asset value of \$268 million.⁹⁰

Table 12 MNWD Financial Indicators

Item	Moulton Niguel Water District
Average Monthly Rates/Household	
Water	\$47.77
Wastewater	<u>\$31.60</u>
Total	\$79.37
Change from 2014	16.5%
Property Tax Revenue	
% of Total Operating Revenues	29.9%
Capital Expenditures	
as % of System Net Asset Value	10.5%
Reserves as % of Op'ing Expend.	111%
Pledged Revenue Debt Coverage	2.4
Financial Ratings	Fitch 'AAA', S&P 'AA+'

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⁸⁵ *ibid*, Correspondence from MNWD, 5/2/18.

⁸⁶ *ibid*, MNWD FY18 Proposed Budget, General Fund, pg. 19.

⁸⁷ *ibid*, MNWD FY18 Proposed Budget, General Fund, pg. 19.

⁸⁸ *ibid*, MNWD FY18 Proposed Budget, Water Efficiency Fund, pg. 43.

⁸⁹ *ibid*, MNWD FY18 Proposed Budget, pg. 59.

⁹⁰ Moulton Niguel Water District (MNWD), Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2017 (FY17), Note 15, pg. 89 (water systems only).



Reserves and Reserve Policies

MNWD's operating reserves total approximately \$75 million (including emergency reserves and "undesigned").⁹¹ MNWD's reserve policies establish operating reserves for several purposes:⁹²

- General Operating Reserve
- Self-Insurance Reserve
- Rate Stabilization Reserve

These operating reserves total approximately 111 percent of annual operating expenditures. In addition to operating reserves, MNWD's capital improvement reserves total \$32.5 million in the following funds:⁹³

- Replacement and Refurbishment (R&R) Reserve
- Water Supply Reliability Reserve
- Planning and Construction Reserve
- Capital Facilities Restricted Reserve

The District also retains reserves required for debt issuances.

Debt and Other Long-Term Obligations

As of the end of FY16-17, MNWD's outstanding principal balance for General Fund debt totals \$83.7 million.⁹⁴ Outstanding debt of \$4.1 million for Improvement District #7 improvements "is anticipated to be fully paid off in September of 2019."⁹⁵ The District has the financial capacity to issue up to \$280 million over the next ten years in addition to its existing debt service based on planned and forecasted four percent annual rate increases.⁹⁶ MNWD's net pension liability totals approximately \$17.6 million;⁹⁷ its total liability is about 75 percent funded.⁹⁸ MNWD's

⁹¹ *ibid*, MNWD CAFR FY17, Note 15, pg. 53.

⁹² *ibid*, MNWD FY18 Proposed Budget, pg. 244.

⁹³ *ibid*, MNWD FY18 Proposed Budget, pg. 244.

⁹⁴ *ibid*, MNWD FY17 CAFR, pg. 13.

⁹⁵ *ibid*, MNWD correspondence, 3/6/18.

⁹⁶ *ibid*, Correspondence from MNWD, 5/2/18.

⁹⁷ *ibid*, MNWD FY17 CAFR, pg. 57.

⁹⁸ Correspondence with Jake Vollebregt, MNWD Director of Regional & Legal Affairs, March 6, 2018.



employer contribution rate averages about 16.5 percent of payroll including payments towards unfunded liabilities.⁹⁹

MNWD reports that it had a surplus of \$48,168 at the end of FY17 in its OPEB fund for future obligations. MNWD participates in the CalPERS California Employers' Retiree Benefit Trust ("CERBT") fund. The CERBT is a Section 115 Trust – set up as a single employer defined benefit OPEB plan for the purpose of receiving employer contributions that will prefund health and OPEB costs for retirees and their beneficiaries.¹⁰⁰

Litigation

MNWD is currently in litigation with SOCWA, City of Laguna Beach, South Coast Water District, and Emerald Bay Service District (collectively "Plaintiffs"), who filed a lawsuit against MNWD on May 30, 2017.¹⁰¹ Plaintiffs' lawsuit alleges that MNWD breached several contracts due to non-payment of certain invoices prepared by SOCWA for capital improvement projects at the Coastal Treatment Plant. MNWD denies any breach of contract and has filed a cross-complaint related to the Coastal Treatment Plant. MNWD's cross-complaint alleges, among other things, that Plaintiffs breached the agreements by unlawfully invoicing MNWD for capital costs it did not approve, and that requiring MNWD to pay for capital improvements at a facility it does not use is against public policy. The case is currently pending before the Superior Court of California, County of Riverside, Case No. RIC1721240, and is set for trial on October 12, 2018.¹⁰²

According to the District, the potential costs of the litigation are included in the District's 10-year financial plan.¹⁰³

⁹⁹ *ibid*, MNWD FY18 Proposed Budget, pg. 23, inc. side fund.

¹⁰⁰ *ibid*, MNWD FY17 CAFR, Note 9, pg. 45.

¹⁰¹ *ibid*, MSR Infrastructure Assessment, Potential Successor Agencies, MNWD.

¹⁰² *ibid*, correspondence from MNWD, 5/2/18.

¹⁰³ Correspondence from MNWD, 5/25/18.



4. SANTA MARGARITA WATER DISTRICT (SMWD)

The SMWD was formed in 1964 as a California Water District¹⁰⁴ and began providing residential service in 1974 to areas that subsequently would become the City of Mission Viejo¹⁰⁵ and the City of Rancho Santa Margarita that was incorporated in 2000. The District's original 41,400 acres expanded to the present 62,674 acres through a series of annexations.¹⁰⁶

OVERVIEW OF SMWD

Table 13 summarizes general characteristics of the SMWD and its water and wastewater services.

Population and Service Area

SMWD's population is about 165,000 residents.¹⁰⁷

The 98 square mile service area,¹⁰⁸ shown in

Figure 1, includes portions of the cities of Mission Viejo, San Clemente and Rancho Santa Margarita, and the unincorporated communities of Coto de Caza, Las Flores, Ladera Ranch, Stonecliffe and Wagon Wheel and Villages of Sendero and Esencia. The District anticipates growth of over 12,000 new residential units¹⁰⁹ by 2035 resulting in a total population of approximately 200,000.¹¹⁰

SMWD's boundary borders about one-third of CSJC's city limits on the City's northeast side.

Table 13 SMWD Water/Wastewater Services

Item	Santa Margarita Water District (SMWD)
Services and Service Area	
Population	165,000
Voters	88,331
Service Area	97.9 sq.mi.
Assessed Value	\$18.1 bill.
Utility Employees	88.0
Total Employees	144.0
Governance	
Governing Body	5 Board Members at large
Domestic+Recycled Water (mgd)	
Acre Feet per Year	29,617 AF
% Imported	78%
Wastewater	
Collection System	630 miles
Treatment	SMWD (Chiquita, Oso, LMVAWTF); SOCWA

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¹⁰⁴ Division 13, Sec. 34000 et seq, of the Water Code of the State of California.

¹⁰⁵ Santa Margarita Water District (SMWD), Comprehensive Annual Financial Report (CAFR) For the Fiscal Year Ended June 30, 2017 (FY17), pg. ii.

¹⁰⁶ Correspondence from SMWD 5/24/18. SMWD has undergone one de-annexation.

¹⁰⁷ *ibid*, SMWD FY17 CAFR, pg. ii.

¹⁰⁸ *ibid*, SMWD FY17 CAFR, pg. iii. Note: 83.5 percent of the District's boundary area, or 52,424 acres, is within the District's various improvement districts (SMWD 5/24/18).

¹⁰⁹ SMWD correspondence 6/8/18.

¹¹⁰ 2015 Urban Water Management Plan (UWMP), Santa Margarita Water District (SMWD), July 2016, Prepared by Arcadis U.S., Inc., Tb. 2-2.



Services

SMWD employs 88 FTE operations staff and 144 total.¹¹¹ System flows (including domestic and recycled) in 2017 total 26.4 MGD,¹¹² or 29,617 AF/yr, according to the MSR infrastructure assessment.

Potable Water -- SMWD imports nearly all of its potable water (75 percent of total water including domestic and recycled),¹¹³ purchased from the Municipal Water District of Orange County (MWDOC). MWDOC is a member of the Metropolitan Water District of Southern California (MWD), which purchases water from the State Water Project and from the Colorado River. The water is treated by MWD at the Diemer Filtration Plant.¹¹⁴

Recycled Water -- Recycled water accounts for at least 25 percent of SMWD's total water supply including domestic and recycled.¹¹⁵ Sources include non-domestic urban return flows and treated wastewater, and non-domestic water from Irvine Ranch Water District (IRWD), Rancho Mission Viejo (RMV), and MNWD.¹¹⁶ SMWD indicates that by 2020 it expects to recycle all wastewater, subject to Board approval of the final phase of its recycled water program.¹¹⁷

Wastewater -- The District owns and maintains about 630 miles of wastewater collection lines.¹¹⁸ SMWD operates four wastewater treatment plants and is a member of SOCWA. In addition to its four plants, SMWD owns capacity in six other treatment plants.¹¹⁹

***Groundwater* -- Currently SMWD obtains 811 AF/yr of its irrigation water supply from local groundwater wells through its agreement with the Rancho Mission Viejo. By contract, RMV will be required to supply 2,500 AF/yr of groundwater at buildout. The District anticipates**

¹¹¹ *ibid*, MSR Infrastructure Assessment, Table 3-7. "Operations" FTE exclude 10 FTE in "Operations/Administration".

¹¹² *ibid*, MSR Infrastructure Assessment, Table 3-1.

¹¹³ *ibid*, MSR Infrastructure Assessment, Table 3-1.

¹¹⁴ *ibid*, SMWD FY17 CAFR, pg. iii.

¹¹⁵ *ibid*, MSR Infrastructure Assessment, Table 3-1.

¹¹⁶ "Return Flows" are "water that returns to surface or ground water after human use".

¹¹⁷ SMWD correspondence, 3/6/18.

¹¹⁸ *ibid*, SMWD FY17 CAFR, pg. 75.

¹¹⁹ *ibid*, SMWD FY17 CAFR, pg. iv.



constructing a local groundwater treatment facility to add to domestic supplies.¹²⁰

Governance, Management and Planning

Voters within the SMWD elect five directors at large. SMWD maintains a website that provides comprehensive information about District rates and online bill payment, programs, financial documents, meeting agenda and minutes, and contact information for directors and staff.¹²¹ The District approves its annual CAFR in a timely manner. SMWD's CAFR reports that the District annually adopts a strategic plan,¹²² however, the plan currently is not on its website.¹²³

SMWD consultants prepared its 2015 Urban Water Management Plan. SMWD reported that it was "developing a long-range financial plan that accounts for upcoming operating and capital needs, as well as available funding strategies"¹²⁴ for its FY18-19 budget¹²⁵ found in SMWD workshop and budget materials, and agenda documents, on its website.

¹²⁰ SMWD correspondence, 5/24/18.

¹²¹ <https://www.smwd.com/>

¹²² *ibid*, SMWD FY17 CAFR, pg. ii.

¹²³ The SMWD Integrated Resources Plan is being adopted June 21 (correspondence 5/24/18).

¹²⁴ Santa Margarita Water District, Annual Budget for Fiscal Year 2017/2018, Adopted May 19, 2017, pg. 5

¹²⁵ SMWD correspondence with R.Berkson, 3/6/18.



FINANCIAL REVIEW OF SMWD

Table 14 provides a financial overview of the SMWD water and wastewater systems. **Table 15** presents financial indicators.

Revenues

Water revenues generate approximately 55 percent of SMWD operating revenues.¹²⁶ Since 2014, average household water bills increased about 15 percent, however, average wastewater charges increased 71 percent, for a combined average water and wastewater bill increase of 31 percent.¹²⁷ SMWD's water and wastewater bills average approximately \$99 per month for a household of four. The average bill is about 65 percent of the average CSJC bill.

The reductions in water demands due to the statewide water use restrictions occurred as the District began transitioning its water rates to a water budget structure similar to CSJC. Now fully implemented, the new structure recovers fixed costs through fixed monthly charges and variable costs through the commodity charges.¹²⁸

Other Revenues and Funding Sources

Non-operating revenues include property taxes derived from SMWD's share of the 1% ad valorem property tax; these property taxes represent about 9 percent of total operating and non-operating revenues.

Table 14 SMWD Financial Overview

Item	Santa Margarita Water District
Operating Revenues	
Water	\$39.2 mill.
Groundwater	
Wastewater	\$20.9 mill.
Recycled Water	\$9.0 mill.
Other	<u>\$1.9 mill.</u>
Total	\$71.1 mill.
Non-Operating Revenues	
Property Tax	\$7.5 mill.
Other	<u>\$1.8 mill.</u>
Total	\$9.3 mill.
Total Revenues	\$80.4 mill.
Operating Expenditures	
Total	\$69.6 mill.
Capital Expenditures	
CIP Annual Average	\$15.0 mill.
Reserves (GF unrestricted)	\$74.3 mill.
Capital Assets, Debt & Other Long-Term Obligations	
Net Capital Assets	\$636.0 mill.
Total Outstanding Debt	\$110.0 mill.
Total Annual Debt and Leases	\$18.7 mill.
Outstanding Revenue Bond Debt	\$9.4 mill.
Pension Funded Ratio	68.2%
Unfunded Pension Liability	\$27.2 mill.
Pension Contribution Rate	23.90%

8/08/2018

¹²⁶ *ibid*, SMWD FY18 Budget, Appx. A-C, pg. 28-30.

¹²⁷ Raftelis Financial Consultants, Inc. (2014). Comprehensive Water, Non-Potable Water and Sewer Rate Study Report. Final Report, City of San Juan Capistrano, Fig. 1-6, pg. 26. See Appendix B for estimates of current average household charges using the same assumptions and current rates.

¹²⁸ *ibid*, SMWD FY18 Budget, pg. 4; SMWD correspondence 5/24/18.



Expenditures

SMWD expenditures total approximately \$69.6 million.¹²⁹ The SMWD budget reports a slightly positive net operating margin of operating revenues exceeding costs by \$1.5 million.¹³⁰

Capital Improvement Program

SMWD maintains and annually updates its capital improvement plan. SMWD's current CIP includes "Capital Repair and Replacement" projects of \$12.6 million,¹³¹ which is expected to average \$15 million per year over the long-term,¹³² or about 2.4 percent of net asset value of \$636 million.¹³³ The District is updating and adjusting the timing of its CIP as a part of its current FY18-19 budgeting process. SMWD projects net positive income in excess of \$8.2 million in FY 2018/19, which they intend to apply to capital projects.¹³⁴

Table 15 SMWD Financial Indicators

Item	Santa Margarita Water District
Average Monthly Rates/Household	
Water	\$63.22
Wastewater	<u>\$35.81</u>
Total	\$99.03
Change from 2014	30.7%
Property Tax Revenue	
% of Total Operating Revenues	9.3%
Capital Expenditures	
as % of System Net Asset Value	2.4%
Reserves as % of Op'ing Expend.	107%
Pledged Revenue Debt Coverage	13.5
Financial Ratings	S&P 'AA+' (G.O. assessment-backed bonds)

8/11/2018

The FY16-17 CIP allocated \$6.7 million for "Water Reliability" projects¹³⁵ and an additional \$25.8 million in the subsequent two years. SMWD indicates that its Strategic Plan calls for pursuing "additional sources of water to diversify its water supply portfolio and increase water supply reliability for its customers"¹³⁶ for example, the District is evaluating the feasibility of obtaining water from the Cadiz Groundwater Basin project.

¹²⁹ *ibid*, SMWD FY18 Budget, Appx. A, pg. 28.

¹³⁰ *ibid*, SMWD FY18 Budget, pg. 4.

¹³¹ *ibid*, SMWD FY18 Budget, pg. 22; includes shared facility ownership, e.g., SOCWA facilities.

¹³² *ibid*, SMWD correspondence 3/6/18.

¹³³ *ibid*, SMWD FY17 CAFR, pg. 8, excluding Capacity Rights and Misc/Master Plan.

¹³⁴ SMWD correspondence 5/8/18 and 5/24/18.

¹³⁵ *ibid*, SMWD FY18 Budget, Appendix "H".

¹³⁶ *ibid*, SMWD FY18 Budget, pg. 17.



Reserves and Reserve Policies

The District projected an Unrestricted Cash Balance of approximately \$74.3 million at the end of FY17-18,¹³⁷ this balance is approximately 107 percent of one year's total operating expenditures of \$69.6 million. The District reports that total operating reserves currently are in excess of \$80 million.¹³⁸

SMWD reserves had been drawn down to lessen the effects on its customers from scheduled rate increases over the past three years. The District is in the process of rewriting its reserve policies to target a long-term average reserve level of one year of operations and maintenance costs.¹³⁹

Debt and Other Long-Term Obligations

Much of SMWD's original facilities were financed using General Obligation bonds and Community Facility District bonds, which are repaid through annual assessments on individual customer's annual property tax bill. The District has a total General Obligation Bond authorization of \$1.6 billion.¹⁴⁰ This approach of financing new system assets places the burden of paying the debt service on the benefitting property owners rather than the District through its rate revenues.

The District has four, low-interest State Revolving Fund (SRF) Loans, which is the SMWD's only senior bond obligations backed and paid for through annual rate revenues. SMWD's total outstanding senior debt is \$9.4 million as of FY 16-17, with an annual debt service payment of \$1.04 million.¹⁴¹ The District is constructing the Trampas Reservoir, which is funded by a new SRF loan with an interest rate of 1 percent. Debt service on this new loan is projected to begin in FY 20-21. SMWD's senior debt ratio on its revenue bonds is 13.5.¹⁴²

¹³⁷ *ibid*, SMWD FY18 Budget, pg. 11 Cash and Investments.

¹³⁸ *ibid*, SMWD correspondence 5/8/18.

¹³⁹ *ibid*, SMWD correspondence 3/6/18.

¹⁴⁰ *ibid*, SMWD correspondence 6/8/18.

¹⁴¹ *ibid*, SMWD correspondence 6/8/18.

¹⁴² *ibid*, SMWD correspondence 6/8/18.



Annual debt service obligations on General Obligation bonds is \$18.7 million in FY 17-18,¹⁴³ with a coverage ratio of approximately 1.9.¹⁴⁴ Inclusive of the General Obligation bonds, total outstanding debt and notes payable on SMWD assets is approximately \$110 million at the start of FY16-17,¹⁴⁵ not including CFD debt of \$138.1 million¹⁴⁶ for which SMWD is the fiduciary agent.

SMWD's net pension liability at the end of FY15-16 totals approximately \$27.2 million.¹⁴⁷ SMWD's employer contribution rate averages about 24 percent of payroll, including payments towards unfunded liabilities (about 14 percent in addition to the normal contribution rate of nearly 10 percent).¹⁴⁸

SMWD funds its PERS retirement program for its "classic" employees at 2.7% at 55, a rate generally higher than other districts, in lieu of offering retirement health benefits. The District's assumption was that the enhanced PERS benefit would provide funding for the retiree to obtain their own health insurance, and the District would not incur OPEB liabilities for health insurance.¹⁴⁹

¹⁴³ *ibid*, SMWD correspondence 6/8/18.

¹⁴⁴ *ibid*, SMWD correspondence 6/8/18.

¹⁴⁵ *ibid*, SMWD FY17 CAFR, pg. 9, pg. 71, pg. 72.

¹⁴⁶ *ibid*, SMWD FY17 CAFR, pg. 9, pg. 71.

¹⁴⁷ *ibid*, SMWD FY17 CAFR, pg. 51.

¹⁴⁸ *ibid*, SMWD FY17 CAFR, pg. 39.

¹⁴⁹ SMWD correspondence 6/14/18.



5. SOUTH COAST WATER DISTRICT (SCWD)

The SCWD was formed in 1932 to provide water services and operates under the authority of the California Water Code. Over time, the District grew through a series of consolidations and boundary expansions and now provides potable water, wastewater and recycled water to its service area. SCWD continues to provide contract services to a portion of the City of Laguna Beach that was detached from the District in 1999.¹⁵⁰

OVERVIEW OF SCWD

Table 16 summarizes general characteristics of the SCWD and its water and wastewater services.

Population and Service Area

SCWD's population served was estimated at 35,000 in 2015.¹⁵¹ SCWD reports that, in addition to District residents, it serves 1,000 business and approximately 2 million visitors to area recreation attractions and resorts annually.¹⁵² Approximately 37 percent of SCWD operations are attributable to non-District residents and businesses.¹⁵³

The 8.3 square mile service area¹⁵⁴ shown in **Figure 1** includes the City of Dana Point and portions of the cities of Laguna Beach, San Clemente, and San Juan Capistrano. The area is close to buildout; by 2035, population projections

Table 16 SCWD Water/Wastewater Services

Item	South Coast Water District (SCWD)
Services and Service Area	
Population	35,000
Voters	23,857
Service Area	8.3 sq.mi.
Assessed Value	\$10.6 bill.
Utility Employees	33.0
Total Employees	85.0
Governance	
Governing Body	5 Board Members at large
Domestic+Recycled Water (mgd)	
Acre Feet per Year	5,926 AF
% Imported	74%
Wastewater	
Collection System	140 miles
Treatment	SOCWA

8/22/2018

¹⁵⁰ 2015 Urban Water Management Plan (UWMP), South Coast Water District (SCWD), June 2016, Prepared by Arcadis U.S., Inc., pg. 1-4.

¹⁵¹ *ibid*, MSR Infrastructure Assessment, Table 3-1.

¹⁵² Correspondence from SCWD, 3/21/18.

¹⁵³ *ibid*, correspondence from SCWD, 3/21/18.

¹⁵⁴ *ibid*, 2015 UWMP, SCWD, pg. 1-6.



indicate growth of less than 10 percent.¹⁵⁵ SCWD serves South Laguna Beach, outside its boundary, under contract to the City of Laguna Beach. Approximately 37 percent of its residential and business customers are outside district boundaries.¹⁵⁶

SCWD's boundary borders about 10 percent of CSJC's city limits on the City's southwest side.

Services

SCWD employs 85 total staff,¹⁵⁷ including 33 utility operations and engineering staff.¹⁵⁸ Staff allocations indicate that planning functions (e.g., inter-governmental relations, financial forecasting, and long-term water reliability planning) are spread over a number of staff providing other services.¹⁵⁹

The SCWD's Dana Hills Tennis Center (DHTC) utilizes additional part-time staff. Domestic system flows (including domestic and recycled) in 2017 totaled 5.3 MGD,¹⁶⁰ or 5,926 AF/yr.

Potable Water -- 88 percent of SCWD's potable water (about 74% of total supply) is imported and purchased from MWDOC, which obtains its supplies from MWD. The District pumps the rest of its supply of potable water from the San Juan Groundwater basin, then treats the water at the District's Groundwater Recovery Facility (GRF) with a desalter.¹⁶¹ The District's full permitted allotment will be 1300 AFY once the Creekside Well is equipped.¹⁶²

SCWD operates and maintains 38 miles of Joint Regional Water Supply System (JRWSS) water transmission lines. Three agencies, including SCWD, own the JRWSS and share operating and capital costs; SCWD's share is 37.6 percent.¹⁶³

¹⁵⁵ *ibid*, 2015 UWMP, SCWD, Tb. 2-1.

¹⁵⁶ Correspondence from SCWD, 3/21/18.

¹⁵⁷ Meeting with SCWD, 6/4/18.

¹⁵⁸ *ibid*, MSR Infrastructure Assessment, Table 3-7.

¹⁵⁹ Correspondence from SCWD, 6/14/18.

¹⁶⁰ *ibid*, MSR Infrastructure Assessment, Table 3-1.

¹⁶¹ South Coast Water District (SCWD) Annual Budget Fiscal 2017-2018 (FY18), pg. 6.

¹⁶² Correspondence from SCWD 5/14/18.

¹⁶³ *ibid*, SCWD, Basic Financial Statements FY17, pg. 52.



Recycled Water -- Recycled water from local sources accounts for about 950 AF per year,¹⁶⁴ or 16 percent of SCWD's total water supply.

Wastewater -- The District owns and maintains about 140 miles of wastewater collection lines.¹⁶⁵ SCWD is a member of SOCWA, which owns and operates three treatment facilities on behalf of its members (the facilities are operated by SMWD for SOCWA).

Groundwater -- The SCWD currently extracts 1,040 AF per year of groundwater that it treats at its Groundwater Recovery Facility (GRF). The District has drilled but not yet equipped a second well that will enable it to extract its full permitted allotment of 1,300 AF per year from the San Juan Basin.¹⁶⁶

Other Services -- SCWD owns and operates the Dana Hills Tennis Center, a multi-purpose facility where 6 of the 8 tennis courts sit on top of a 7.8 million-gallon water reservoir owned and maintained by the District. The facility includes a two-story club house with locker rooms, a pro shop, lounge area and a conference room available for rent to non-profit organizations.¹⁶⁷ SCWD ratepayers pay discounted fees and charges for use of the facility. SCWD allocates about \$330,000 annually towards operating costs offset by \$268,000 of annual revenue.¹⁶⁸

Governance, Management and Planning

A board of five directors elected at-large governs SCWD. SCWD maintains a website that provides comprehensive information about District rates and online bill payment, programs, financial documents, meeting agenda and minutes, and contact information for directors and staff.¹⁶⁹ The District prepares and posts audited financial statements by November for the prior fiscal year ending June 30. SCWD live streams and video records its meetings.

¹⁶⁴ *ibid*, SCWD FY18 Budget, pg. 6.

¹⁶⁵ 2015 Urban Water Management Plan, South Coast Water District, June 2016, Prepared by Arcadis U.S., Inc., pg. 6-3.

¹⁶⁶ *ibid*, 2015 UWMP, SCWD, pg. 7-5, and correspondence from SCWD 5/24/18.

¹⁶⁷ SCWD website, retrieved 4/02/18, <http://www.scwd.org/community/tennis.htm>

¹⁶⁸ *ibid*, SCWD FY18 Budget, pg. 13 and 17.

¹⁶⁹ <https://www.scwd.org/>



A long-range financial plan was recently completed.¹⁷⁰ SCWD also annually updates its Strategic Plan and monitors progress on specific actions monthly using key metrics. The actions help achieve strategies consistent with SCWD's core values, mission and vision.¹⁷¹

FINANCIAL REVIEW OF SCWD

Table 17 provides a financial overview of the SCWD water and wastewater systems. **Table 18** presents financial indicators.

Revenues

Water revenues generate approximately 50 percent of SCWD operating revenues.¹⁷² Since 2014, average household water and wastewater bills combined increased 10-20 percent.¹⁷³ SCWD's water and wastewater bills average approximately \$134 per month for a household of four, approximately 8 percent below the estimated CSJC household bill. This SCWD bill increases to \$168 or more after including additional peak demand charges.

Other Revenues and Funding Sources

Non-operating revenues include property taxes derived from SCWD's share of the 1% ad valorem

Table 17 SCWD Financial Overview

Item	South Coast Water District
Operating Revenues	
Water	\$15.4 mill.
Groundwater	
Wastewater	\$13.8 mill.
Recycled Water	\$2.1 mill.
Other	<u>\$.3 mill.</u>
Total	\$31.5 mill.
Non-Operating Revenues	
Property Tax	\$4.4 mill.
Other	<u>\$.4 mill.</u>
Total	\$4.8 mill.
Total Revenues	\$36.3 mill.
Operating Expenditures	
Total	\$26.4 mill.
Capital Expenditures	
CIP Annual Average	\$11.4 mill.
Reserves (GF unrestricted)	\$46.8 mill.
Capital Assets, Debt & Other Long-Term Obligations	
Net Capital Assets	\$155.8 mill.
Total Outstanding Debt	\$34.8 mill.
Total Annual Debt and Lease	\$3.5 mill.
Outstanding Revenue Bond I	\$34.8 mill.
Pension Funded Ratio	84.3%
Unfunded Pension Liability	\$7.8 mill.
Pension Contribution Rate	19.15%

8/08/2018

¹⁷⁰ ibid, correspondence from SCWD 5/14/18 and 6/5/18. Prepared for the Board workshops in May 2018.

¹⁷¹ SCWD Strategic Plan Fiscal Year 2018-2022.

¹⁷² South Coast Water District (SCWD) Annual Budget Fiscal 2017-2018 (FY18), Approved, pg.12.

¹⁷³ Current rates from correspondence from SCWD 5/14/18 and 5/23/18. 2014 rates from Raftelis Financial Consultants, Inc. (2014). Comprehensive Water, Non-Potable Water and Sewer Rate Study Report. Final Report, City of San Juan Capistrano, Fig. 1-6, pg. 26. See **Appendix B** for estimates of current average household charges using comparable assumptions and current rate structure.



property tax; these taxes are about 3 percent of total revenues. SCWD repaid its G.O. bond debt so none of the "1% is collected for debt."¹⁷⁴

Expenditures

SCWD expenditures total approximately \$26.4 million.¹⁷⁵ The SCWD budget reports a slightly positive net operating margin of operating revenues exceeding operating costs by about \$5.1 million.¹⁷⁶

Capital Improvement Program

SCWD's Infrastructure Master Plan describes a total of \$150 million of improvements prioritized over a 10+ year period.¹⁷⁷

SCWD's website lists planned capital improvements. From FY18 through FY21, the District projects spending an average of approximately \$11.4 million annually,¹⁷⁸ or about 7 percent of net asset value of \$155.8 million.¹⁷⁹ SCWD's CIP includes \$16.6 million allocated over a five-year period to the Doheny desalination project to help increase the availability of future supplies.

Table 18 SCWD Financial Indicators

Item	South Coast Water District*
Average Monthly Rates/Household	
Water	\$113.54
Wastewater	<u>\$54.17</u>
Total	\$167.71
Change from 2014	10% (est.)
Property Tax Revenue	
% of Total Operating Revenues	12.0%
Capital Expenditures	
as % of System Net Asset Value	7.3%
Reserves as % of Op'ing Expend.	
	177%
Pledged Revenue Debt Coverage	
	3.3
Financial Ratings	
	S&P 'AA+'

* SCWD estimate includes peak charge.

8/13/2018

¹⁷⁴ ibid, correspondence from SCWD, 3/21/18.

¹⁷⁵ ibid, SCWD FY18 Budget, pg. 12

¹⁷⁶ ibid, SCWD FY18 Budget, pg. 12.

¹⁷⁷ SCWD Infrastructure Master Plan Update, AECOM, Oct. 2017, Tables 7-2, 7-3, 7-4.

¹⁷⁸ SCWD website, retrieved 3/20/18, <https://www.scwd.org/depts/engineering/cip.htm>

¹⁷⁹ ibid, SCWD, Basic Financial Statements FY17, pg. 7.



Reserves and Reserve Policies

SCWD's unrestricted net position at the end of FY17 totaled \$46.7 million.¹⁸⁰ Reserves declined about \$13.8 million compared to the prior year due to an \$8 million expenditure of reserves towards capital projects and \$5 million to reduce unfunded pension liabilities.¹⁸¹ SCWD's unrestricted net position is approximately 177 percent of one year's total operating expenditures of \$26.4 million.

The SCWD website describes its reserve policies,¹⁸² which are established as a percentage of budgeted expenses, budgeted costs and percentage of capital assets.¹⁸³ SCWD currently meets its reserve targets.¹⁸⁴

Debt and Other Long-Term Obligations

SCWD outstanding debt and loans payable totaled approximately \$36.2 million at the end of FY16-17, primarily attributable to revenue bonds.¹⁸⁵ Annual debt service with a coverage covenant totals \$2.6 million, and pledged revenues exceed debt service by 330 percent; total debt service is approximately \$3.5 million annually.¹⁸⁶

SCWD's net pension liability at the end of FY15-16 totaled approximately \$11.1 million.¹⁸⁷ During the following fiscal year SCWD made a payment of \$5 million to reduce this amount to \$6.1 million. As of the last actuarial analysis the net pension liability was approximately \$7.75 million.¹⁸⁸ SCWD's employer contribution rate averages about 19 percent of payroll.¹⁸⁹

¹⁸⁰ South Coast Water District (SCWD), Basic Financial Statements for the Year Ended June 30, 2017 (FY17), pg.7.

¹⁸¹ *ibid*, SCWD, Basic Financial Statements FY17, pg. 8.

¹⁸² SCWD website, retrieved 3/20/18, https://www.scwd.org/depts/finance/district_policies.htm

¹⁸³ *ibid*, correspondence from SCWD 5/14/18; see "South Coast Water District Reserve Policy" from: https://www.scwd.org/depts/finance/district_policies.htm

¹⁸⁴ Correspondence from SCWD 5/23/18.

¹⁸⁵ *ibid*, SCWD, Basic Financial Statements FY17, pg. 37.

¹⁸⁶ *ibid*, SCWD, Basic Financial Statements FY17, pg. 41. Total debt service totals approximately \$3.5 million (pg. 37-41), which will decline about \$1 million as debt is repaid over the next 2-3 years.

¹⁸⁷ *ibid*, SCWD, Basic Financial Statements FY17, pg. 46.

¹⁸⁸ Correspondence from SCWD, 3/21/18.

¹⁸⁹ *ibid*, SCWD FY18 Budget, pg. 17 (\$953,479 PERS/\$4,978,430 wages).



SCWD's unfunded OPEB liability was \$3.1 million at the end of FY15; the District pays about \$555,000 annually (FY17) towards OPEB costs including amortized unfunded liabilities.¹⁹⁰

Litigation

As was previously mentioned in the *Moulton Niguel Water District* section, South Coast Water District along with SOCWA, City of Laguna Beach and Emerald Bay Service District filed a lawsuit against MNWD in 2017 for failure to pay its contractual obligations for the Coastal Wastewater Treatment Plant. MNWD countersued. The case is currently pending before the Superior Court of California, County of Riverside, Case No. RIC1721240, and is set for trial on October 12, 2018.¹⁹¹

¹⁹⁰ *ibid*, SCWD, Basic Financial Statements FY17, pg. 49-50.

¹⁹¹ *ibid*, correspondence from MNWD, 5/2/18.



APPENDIX A: BIBLIOGRAPHY



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APPENDIX B: ESTIMATED HOUSEHOLD WATER & WASTEWATER BILLS



Table B-1 Estimated Monthly Household Water/Wastewater Bill

Item	CSJC	SMWD	MNWD	SCWD
Water Usage				
CCF per month 31 days	20 CCF (or "units")			
Household Size	na	na	4	na
WATER				
Water Service Charge	\$25.54 5/8" or 3/4"	\$23.05 5/8" or 3/4"	\$11.22 5/8" or 3/4"	\$23.17 3/4"
Wholesale Water Pass-thru Charge		\$0.19 per CCF		
Water Use Charge				
Tier 1				
CCF/month (Tier 1 max)	9 Max CCF	9 Max CCF	9 Max CCF	5 Max CCF
CCF subject to Tier 1 Charge	9 CCF	9 CCF	9 CCF	5 CCF
Charge/CCF	\$3.96 per CCF	\$1.67 per CCF	\$1.69 per CCF	\$2.74 per CCF
Total Tier 1 Charges	\$35.64	\$15.03	\$15.21	\$13.70
Remaining CCF	11.00 CCF	11.00 CCF	11.00 CCF	15.00 CCF
Tier 2				
CCF/month (Tier 2 add'l max)	10 Max Add'l CCF	11 Max Add'l CCF	11 Max Add'l CCF	13 Max Add'l CCF
CCF subject to Tier 2 Charge	10 CCF	11 CCF	11 CCF	13 CCF
Charge/CCF	\$5.51 per CCF	\$1.94 per CCF	\$1.94 per CCF	\$2.89 per CCF
Total Tier 2 Charges	\$55.10	\$21.34	\$21.34	\$37.57
Remaining CCF	1	0	0	2
Tier 3				
CCF/month (Tier 3 add'l max)	19	0	0	10 and up
CCF subject to Tier 3 Charge	1	0	0	2
Charge/CCF	\$5.51 per CCF	\$2.45 per CCF	\$3.32 per CCF	\$3.05 per CCF
Total Tier 3 Charges	\$5.51	\$0.00	\$0.00	\$6.10
Peak Demand Charge (SCWD)				
Charge (based on 20 CCF; actual peak could be higher)				\$33.00 \$33 if 20CCF peak
Total Water Use Charge	\$96.25	\$36.37	\$36.55	\$90.37
TOTAL WATER CHARGES	\$121.79	\$63.22	\$47.77	\$113.54
2014 WATER CHARGES	\$98.10	\$54.83	\$39.40	\$61.21
Change: 2014-Current	24.1%	15.3%	21.2%	
SEWER				
Sewer Fixed Charge	\$24.34	\$25.51	\$14.36	\$54.17 650.04
Sewer Variable Charge				
Max HH CCF		10		
Charge per CCF		\$1.03		
Charge per person		na	\$4.31	
Total Variable Charge	na	\$10.30	\$17.24	na
TOTAL SEWER CHARGES	\$24.34	\$35.81	\$31.60	\$54.17
2014 SEWER CHARGES	\$27.64	\$20.92	\$28.74	\$61.21
Change: 2014-Current	-11.9%	71.2%	10.0%	-11.5%
TOTAL WATER AND SEWER	\$146.13	\$99.03	\$79.37	\$167.71
2014 CHARGES	\$125.74	\$75.75	\$68.14	\$122.42 inc. peak demand
Change: 2014-Current	16.2%	30.7%	16.5%	10% (est.)

Rates effective July 2018. 8/08/2018
2014 estimate from Raftelis Financial Consultants, Inc. (2014). Comprehensive Water, Non-Potable Water and Sewer Rate Study Report. Final Report, City of San Juan Capistrano, Fig. 1-6, pg. 26.

Note: SCWD rate structure changed since 2014, now includes peak charge.



APPENDIX C: CSJC UTILITY STAFF



Table C-1 Summary of Sewer and Water Utility Enterprise Staff

Category/Position Title	City Positions ¹	FY17-18 Total Compensation ²	% Water/Sewer Funds ¹	Total Water/Sewer Funds
Management				
Public Works Director/Assistant Director	2	\$511,000	68%	\$350,000
Senior Management Analyst	1	\$148,000	83%	\$123,000
Admin. Coordinator	<u>1</u>	<u>\$125,000</u>	78%	<u>\$97,000</u>
Subtotal, Management	4	\$784,000	73%	\$570,000
Engineering and Inspection				
Associate/Civil Engineer ³	3	\$530,000	82%	\$436,000
Water & Sewer Construction Inspector	<u>1</u>	<u>\$146,000</u>	95%	<u>\$138,000</u>
Subtotal, Engineering & Inspection	4	\$676,000	85%	\$574,000
Utility Operations				
Chief Plant Operator	1	\$197,000	100%	\$197,000
Utility Superintendent	1	\$166,000	92%	\$153,000
Utility Operator I-III ⁴	13	\$1,645,000	96%	\$1,581,000
Maintenance Mechanic	1	\$139,000	100%	\$139,000
GIS Specialist ⁶	1	\$112,000		\$0
Water Conservation Coordinator ⁵		<u>\$148,000</u>	100%	<u>\$148,000</u>
Subtotal, Utility Operations	18	\$2,407,000	92%	\$2,218,000
Finance and Customer Service				
Customer Service Supervisor	1	\$138,000	80%	\$110,000
Customer Service Representative	3	\$294,000	67%	\$198,000
Part-time Cashier	<u>1</u>	<u>\$27,000</u>	55%	<u>\$15,000</u>
Subtotal, Finance and Customer Service	5	\$459,000	70%	\$323,000
TOTAL	31	\$4,326,000	85%	\$3,685,000
Excluding vacant/limited-term positions	26			

Note: numbers have been rounded to the nearest thousand.

(1) Table shows total positions and the portion funded by Water/Sewer Funds. Funded portion may represent an average if multiple positions.

(2) Total compensation includes: salaries; auto and cell allowances; bilingual pay; certificate pay; uniform allowance; retirement; medical; dental; vision; long term disability; short term disability; group term life; workers comp; and Medicare tax.

(3) Includes one vacant unfunded Associate Engineer position.

(4) 'Utility operator' includes three positions for Groundwater Recovery Plant (1 vacant) and 2 other vacant.

(5) Water Conservation Coordinator position is vacant; budget is being used to fund a vendor contract for valve and hydrant maintenance services.

(6) GIS Specialist is supervised & funded by the Utilities Department through internal service fund allocations.

5/24/18