



# Long Range Financial Plan

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### **Commissioner**

Alicia Aguirre  
George Otte  
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### **Title**

Chair  
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Member  
Secretary

### **Member Agency**

City of Redwood City  
West Bay Sanitary District  
City of Belmont  
City of San Carlos

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## SECTION 1 – EXECUTIVE SUMMARY AND INTRODUCTION

This Long-Range Financial Plan (LRFP; or the Plan) describes the anticipated cash flows required by Silicon Valley Clean Water (SVCW; or the Authority) over the next decade to provide wastewater services and fund critical construction for the communities it serves. This includes funding for operations and maintenance of wastewater facilities, revenue-funded capital projects, as well as Capital Improvement Program (CIP) program expenditures and associated debt service payments. It also describes contributions to cash reserves to fund future capital improvements. This Plan is meant to encourage discussion and support decision-making. It provides up-to-date financial information to Member Agencies (“Member Agencies”, as herein defined) as they measure the financial implications of decisions and communicate with internal and external stakeholders.

SVCW’s Wastewater Treatment Plant (WWTP) was placed in operation November 1981 and connected to an influent conveyance system and effluent disposal system built in 1969. In 2006, engineering studies determined the majority of SVCW fixed assets were beyond their useful lives and needed replacement. SVCW therefore initiated a CIP that identifies equipment and facilities that need replacement or rehabilitation; and describes the schedule of construction and expenditures (Capital expenditures or costs) in a structured and prioritized manner. It has also anticipated that more stringent treatment requirements will be necessary. The CIP is the Authority’s guiding document and concurrently estimates that, inclusive of spending to date, the largest construction program in the Authority’s history will be complete by the end of 2024.

This Plan incorporates the guidelines from the SVCW Joint Powers Agreement, the adopted Operating and Capital Budget from 2023-24, and relevant fiscal policies that influence cash flow requirements. It also recognizes the importance of growing the Authority’s cash reserves dedicated to future projects.

The LRFP is updated each year to measure SVCW’s financial position relative to anticipated cash flows needed from SVCW’s Member Agencies. After incorporating CIP construction and expenditure schedules, the LRFP-recommended strategy ensures SVCW obligations can be met while Members strengthen their credit ratings.

Compared to the January 2023 LRFP, this Plan considers three significant factors:

- **CIP Update:** SVCW regularly updates the cost estimates of remaining CIP projects by adjusting for project additions and deletions, changes in project scopes, and new construction cost information. The 2024 CIP Update, as presented to the Commission in February 2024 as Agenda Item 8A, identifies an additional \$221 million in projects over the next decade. Updated information has been incorporated into this LRFP.
- **Construction Timing:** To ensure projects can both be constructed and managed in a reasonable timeframe, the Engineering Division collaborates with other operating divisions

on project timing. Together they develop construction schedules that provide treatment reliability, at a pace manageable by the operating divisions.

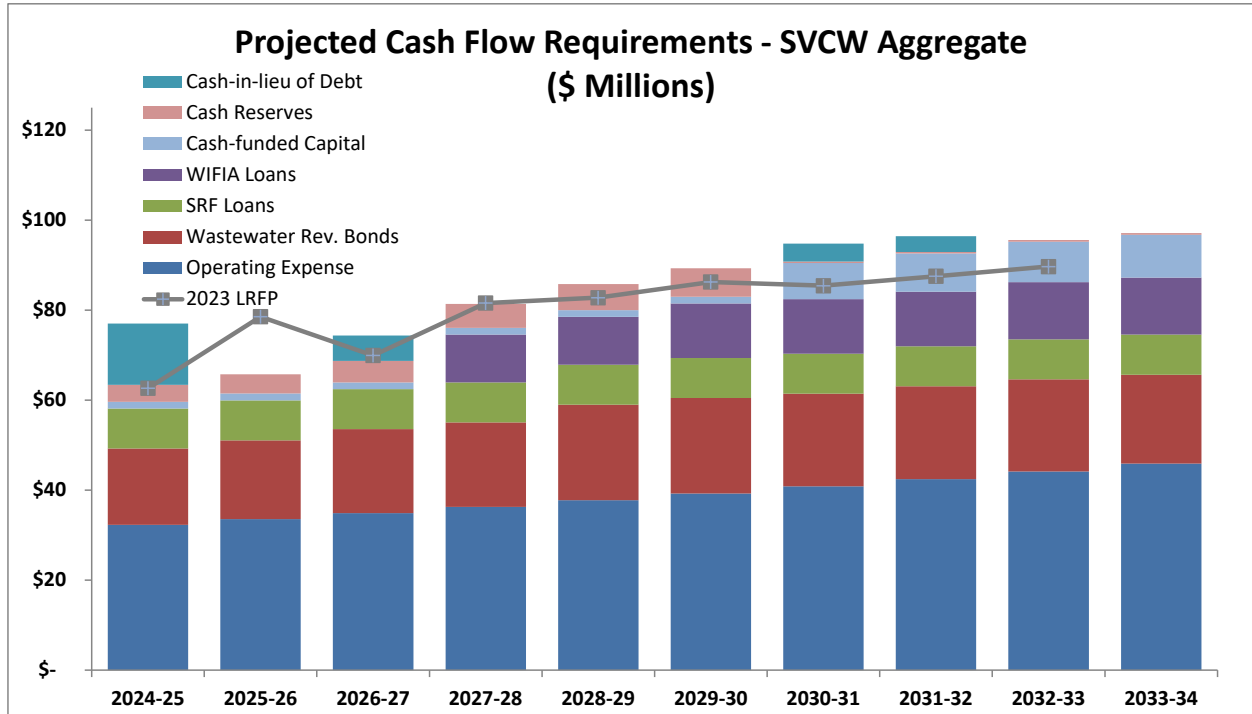
- **Financing Sources and Rates:** The LRFPP seeks to pursue low-cost sources of project funding, including governmental loans from the U.S. Environmental Protection Agency (“U.S. EPA”) and the California State Water Resource Control Board (“SWRCB”). When necessary, the Authority will issue revenue bonds to ensure project construction is not constrained for funding reasons. Approximately \$221 million of new funding sources would be needed to fund the proposed CIP, as follows:
  - One SWRCB State Revolving Fund (“SRF”) Loan valued at \$73 million, assumed to be drawn upon in FY 2030-31 at an interest rate of 3.25%. Debt service payments will commence one year after project completion.
  - Three U.S. EPA Water Infrastructure Finance Innovation Act (“WIFIA”) Loans, together valued at \$49 million, would fund up to 49% of dedicated projects. These loans are assumed to be secured in 2025, 2029, and 2031, respectively. The assumed interest rate of each loan is estimated at 4.50%. WIFIA amortization schedules can be wrapped around existing debt service payments to avoid significant demands on cash flow.
  - Two Bond Issuances are assumed, for a combined \$99 million of project funding. In fiscal year 2025-26, a variable-rate bond issuance for \$50 million is assumed at an average interest rate of 3.40%. Additionally, \$49 million in fixed-rate bonds would be issued in fiscal year 2027-28 at an estimated interest rate of 5.0%.

Like many other wastewater treatment and conveyance facilities, SVCW infrastructure was originally funded by the 1972 Clean Water Act. As assets aged, the absence of a capital replacement fund at SVCW created a reliance on debt to fund the current CIP. The Authority now strives to obtain the lowest-cost financing available through a combination of Wastewater Revenue Bonds, low-cost Governmental Loans at federal and state levels, and cash reserves when available. Additionally, SVCW has taken steps to increase capital reserves to reduce its reliance on debt issuances for future capital projects.

In 2008, when SVCW initiated its infrastructure improvement program, Member Agencies enacted necessary sewer rates increases. Remaining rate adjustments are anticipated to be modest, as regular updates to the SVCW CIP and this LRFPP keep Member Agencies informed of the next decade’s cash flow requirements.

This LRFPP projects total cash flows required of SVCW Member Agencies over the next decade. Annual cash flow requirements in FY 2024-25 are estimated at \$76.99 million and are thereafter projected to reach \$97.1 million in ten years. The largest increase in expenditure over the next decade is for debt service payments, estimated to peak at \$42 million annually once fully in place. Other non-debt related expenditures are less impactful; the average annual increase in Operating Expense is approximately 4.0%, Cash Reserve contributions follow adopted policies, and a certain

amount of capital projects are recommended to be funded by cash contributions rather than issuance of new debt.



Projected SVCW Cash Flow Requirements - Aggregate (\$ Millions)										
Description	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Operating Expense	\$ 32.25	\$ 33.54	\$ 34.88	\$ 36.28	\$ 37.73	\$ 39.24	\$ 40.81	\$ 42.44	\$ 44.14	\$ 45.91
Wastewater Rev. Bonds	16.97	17.52	18.66	18.77	21.24	21.22	20.61	20.60	20.48	19.74
SRF Loans	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89
WIFIA Loans	-	-	-	10.62	10.62	12.13	12.13	12.13	12.70	12.70
Cash-funded Capital	1.50	1.50	1.50	1.50	1.50	1.50	8.00	8.50	9.00	9.50
Cash-in-lieu of Debt	13.62	-	5.63	-	-	-	4.00	3.50	-	-
Cash Reserves	3.76	4.27	4.78	5.29	5.80	6.31	0.32	0.34	0.35	0.36
<b>TOTAL</b>	<b>\$ 76.99</b>	<b>\$ 65.72</b>	<b>\$ 74.34</b>	<b>\$ 81.35</b>	<b>\$ 85.78</b>	<b>\$ 89.29</b>	<b>\$ 94.76</b>	<b>\$ 96.40</b>	<b>\$ 95.56</b>	<b>\$ 97.10</b>

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## INTRODUCTION

### **Purpose of Long-Term Financial Planning**

Member Agencies' sewer rates provide the underlying repayment security for all SVCW financing. As such, in 2008, SVCW developed a Five-Year Financial Plan (the "Financial Plan") to provide a financial roadmap for funding the CIP and ongoing operating costs. The Financial Plan was frequently updated and presented to the SVCW Commission (as hereinafter defined) to incorporate CIP budget figures. It provides a roadmap that Member Agencies follow when considering sewer rates.

A long-term financial plan combines financial projections with strategy. The Government Finance Officers Association (GFOA) recommends that all governments regularly engage in long-term financial planning as a collaborative process to consider future scenarios and help navigate challenges. By aligning financial capacity with long-term service objectives, SVCW and its Member Agencies gain insight as to financial resources needed to support strategies. With this information, Member Agencies can balance objectives and financial challenges.

SVCW will manage its finances and meet critical funding needs while recognizing Member Agencies' need to maintain reasonable wastewater rates. This LRFP will be enacted as SVCW and its Members adopt annual budgets, monitor financial performance, and incorporate Commission-directed actions. The LRFP is based upon financial planning models that include long-term forecasts of operating and capital expenditures. It includes reasonably conservative assumptions and attempts to account for uncertainties. It aims to generate adequate cash reserves for capital projects while maintaining good standing in the credit markets to provide ready access to cost-effective capital financing when needed. It evaluates the capital financing and debt service coverage policies to optimize cash funding of capital investments. Finally, it continues to evaluate cash reserve policies that must consider intergenerational equity with regards to funding capital projects and raising rates.

The LRFP includes a debt structure model to document recommended debt strategy, identify risks to that strategy, and offer mitigation steps available or alternative funding solutions. As part of the Plan a financial model (the Model) was created to assess financing alternatives for the CIP.

This LRFPP is meant to stimulate discussions for decision making by providing up-to-date financial information. Member Agencies can incorporate this material to understand the financial impact of decisions, and to communicate those impacts to internal and external stakeholders. This long-term financial plan includes the following elements:

- **Time Horizon:** The plan looks ten years into the future.
- **Scope:** The plan considers all expenditures associated with the conveyance and treatment of wastewater received from Member Agencies. Expenditures include all SVCW operating costs, capital improvements, debt service, and cash reserve requirements.
- **Frequency:** This long-term plan is updated annually to aid Member Agencies with their own budgets and rate-setting processes.
- **Content:** The plan includes an analysis of the economic and financial environments, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and monitoring mechanisms such as a scorecard of key financial health indicators. Adherence with the financial plan and the ability to comply with the financial requirements of this Plan can be measured primarily through debt service coverage and the number of days cash on hand. SVCW can readily monitor these financial metrics through an annual review of the Member Agencies' respective audited financial statements.
- **Visibility:** The plan will inform Member Agencies about the long-term financial prospects of SVCW. Each year going forward, actual results will be compared to the LRFPP by integrating it into future LRFPPs.

SVCW Member Agency staff was involved in advance of Plan preparation to identify necessary tables, discuss assumptions, and review results. Member Agencies, via the Silicon Valley Clean Water Commission can now integrate the information provided into their own respective financial plans.

## **Organizational and Business Structure**

SVCW was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan. SVCW took title to all property, capital and equipment of the Strategic Consolidation Sewerage Plan. SVCW maintains and operates sanitary sewerage pumping, transmission and outfall facilities that were originally constructed or otherwise owned by the Strategic Consolidation Sewerage Plan. SVCW provides wastewater transmission, treatment, and effluent disposal services for the surrounding communities including the Cities of Belmont, Redwood City, and San Carlos and for the West Bay Sanitary District (collectively, the Members Agencies). SVCW provides recycled water to the City of Redwood City.

SVCW is a Joint Exercise of Powers Authority (JPA) that provides wastewater transmission, treatment, recycled water, and effluent disposal services to its Member Agencies, all facilities of which (hereinafter referred to as Joint Facilities) are in the northern part of Silicon Valley between the cities of San Francisco and San Jose. SVCW's wastewater treatment plant is in the City of Redwood City. SVCW serves more than 225,000 people and businesses located predominantly in San Mateo County, California. SVCW operates in a strong Bay Area economy, with a customer base that includes large business customers such as Oracle Corporation, EA Sports, and Meta.

SVCW owns and operates a regional wastewater treatment plant with an average dry weather flow permitted capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Member Agencies to SVCW's treatment plant, four wastewater pump stations, and a 1.25-mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. SVCW also provides recycled water to the City of Redwood City.

## **Governance and Management**

The JPA is governed by a four-Member Commission consisting of one appointed person from each of the Member Agencies' governing bodies. There is a total of 100 votes, allocated as follows:

- City of Redwood City                      42 votes
- West Bay Sanitary District                28 votes
- City of San Carlos                            19 votes
- City of Belmont                                11 votes

A vote of at least 75% is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, contracts, appropriations, or transfers of more than \$75,000; to employ the manager and certain consultants; to sell or dispose of property; and to approve other designated items. Other actions of the Commission must be approved by a simple majority of the votes. In addition, any amendment to the Joint Powers Agreement must be approved by a four-fifths vote by each of the Member Agencies' governing bodies.

## Financial Oversight and Control

SVCW sets an annual budget according to goals established by the Commission that support operational priorities, the CIP and the LRFP. The Budget reflects a progressive approach to fund wastewater operations while controlling costs, minimizing unplanned expenditures, limiting risks, and investing in projects and programs that provide the long-term resources needed for the community.

SVCW has no taxing power. SVCW receives nearly all funding, other than interest earnings and other miscellaneous revenues, from payments made by the Member Agencies for operations, capital improvements, debt service, and cash reserves.

## Comparative Residential Sewer Charges

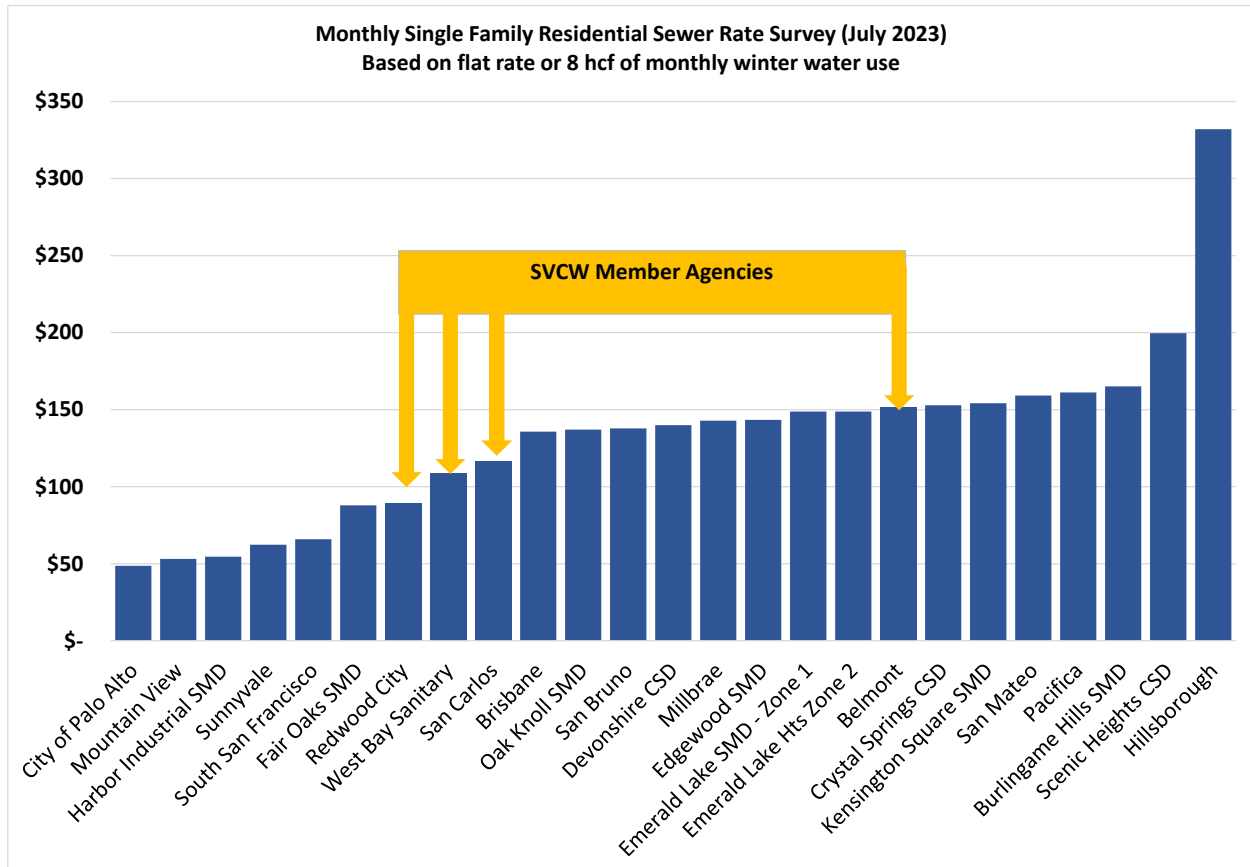
Member Agencies have adopted necessary rate increases to provide revenues necessary to fund their share of the Authority's operating and capital program expenditures. The below tables show Members' increases in single family residential monthly sewer rates over the past decade.

Residential Sewer Rates by Member Agency Based on 8 HCF of flow										
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Belmont	\$88.13	\$ 88.13	\$ 99.47	\$ 105.35	\$ 116.14	\$ 121.28	\$ 128.37	\$ 135.83	\$ 143.91	\$ 151.31
Redwood City	\$68.77	\$74.95	\$75.11	\$76.68	\$78.24	\$81.76	\$ 81.76	\$ 89.28	\$ 89.28	\$ 89.28
San Carlos	\$80.75	\$88.82	\$88.82	\$93.26	\$97.93	\$102.32	\$ 102.33	\$ 111.74	\$ 116.77	\$ 135.73
West Bay SD	\$74.42	\$81.08	\$85.92	\$89.33	\$93.83	\$98.08	\$ 102.00	\$ 104.58	\$ 106.67	\$ 108.83

Residential Sewer Rate Year-over-Year % Increase, by Member Agency										
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Belmont	6.5%	0.0%	12.9%	5.9%	10.2%	4.4%	5.8%	5.8%	6.0%	5.1%
Redwood City	9.0%	9.0%	0.2%	2.1%	2.0%	4.5%	0.0%	9.2%	0.0%	0.0%
San Carlos	20.0%	10.0%	0.0%	5.0%	5.0%	4.5%	0.0%	9.2%	4.5%	16.2%
West Bay SD	8.9%	8.9%	6.0%	4.0%	5.0%	4.5%	4.0%	2.5%	2.0%	2.0%



Despite these increases, Member Agencies' rates remain in the low to middle range of sewer rates found throughout San Mateo County:



## Regulations and Permits

The federal Clean Water Act requires that all municipal, industrial, and commercial facilities that discharge wastewater or stormwater directly from a point source into a water of the United States (such as a lake, river, bay, or ocean) must obtain a National Pollutant Discharge Elimination System (“NPDES”) permit. All permits are written to ensure the receiving waters will achieve certain water quality standards.

The federal government delegates the NPDES Program to the State of California for implementation through the State Water Resources Control Board and its nine Regional Water Quality Control Boards, collectively Water Boards. It is the responsibility of the Water Boards to preserve and enhance the quality of the state's waters through the development of water quality control plans and the issuance of NPDES Permits.

SVCW currently operates under a five-year NPDES permit that is valid through 2028. As an active Member in the Bay Area Clean Water Agencies (“BACWA”), a consortium of publicly-owned

treatment works Agencies that operate within the nine-county San Francisco Bay Area, SVCW prepares for future NPDES permit requirements. BACWA is central since some requirements imposed may be efficiently fulfilled as a group. Through BACWA, SVCW meets provisions related to overall receiving water quality monitoring, Total Maximum Daily Load and Site Specific-Objective Support, Mercury Special Studies, Copper Action Plans, and Cyanide Action Plans.

Regulatory requirements of the NPDES program may increase in the future. Many California Agencies have already been required to significantly increase treatment to remove nutrients (ammonia, nitrates, and phosphates) and further reduce pathogenic organisms. Studies are also underway regarding Active Pharmaceutical Ingredients to monitor the cumulative effects of pharmaceuticals and personal products, including anti-psychotic and antihypertensive drugs.

Additionally, nutrients like nitrogen and phosphorus are found in municipal waste. When excessive, these nutrients are considered harmful water pollutants leading to such problems as algae blooms. Nutrient management is an important planning consideration for California wastewater treatment operators – both to remove and to recover these resources. This LRFPP funds certain research to assess future nutrient mitigation in wastewater. It should be noted, however, that SVCW also participates in a cooperative to explore joint response strategies to future Nutrient Removal requirements.

### **Financial Modeling**

The CIP estimates approximately \$438 million of capital expenditures remains to be funded over the next ten fiscal years. This Financial Plan documents the funding strategy, risks to this strategy, and anticipated mitigation and/or alternative funding solutions available. Prior to issuing debt SVCW updates a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service to its, and the Member Agencies', financial condition. To that end, SVCW maintains a quantitative model that includes, but is not limited to, the following:

- Historic and projected cash flows, including capital expenditures and operating costs;
- Historic and projected cash reserve contributions, including the Operating Fund, the CIP Fund, Revenue-funded Capital Fund, and Debt Service Reserve Fund, if any;
- Historic and projected debt service coverage;
- The most efficient mix of funding sources (debt and cash);
- The most efficient form of debt (government-subsidized loans, capital market offerings, or private loans) and structures;
- Projected revenue requirements; and
- Revenue sources, including miscellaneous revenues and grants.

The Plan incorporates these factors to develop an all-inclusive projection of future cash flow requirements. As part of the Plan, the Financial Model was created to generate and assess

multiple debt-based financing alternatives for the CIP. Several scenarios were analyzed to reach the recommended plan, including the extent to which funds would be sourced from Wastewater Revenue Bonds versus Governmental Loans. Further analysis and results are described in Sections 2 and 3 of this Plan.

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## SECTION 2 – GUIDING DOCUMENTS AND PRINCIPLES

### Audited Financial Reports

SVCW financial statements are maintained in accordance with all state and federal laws, Generally Accepted Accounting Principles, and standards of the Government Accounting Standards Board. This means revenues and expenses are recognized on a full accrual basis, where revenues are recognized in the period earned and expenses are recognized in the period incurred.

An annual audit is performed by an independent public accounting firm, with an unqualified opinion that SVCW financial statements are presented fairly in all material respects.

### Operating Budgets

Each year, the adopted Budget establishes the funding requirements for Member Agencies. It includes all operating costs, revenue-funded capital needs, debt service payments, and cash reserves requirements. A full overview of all expenditures facilitates discussion of anticipated changes. After the fiscal year-end closes, annual payments made by each SVCW Member Agency are reconciled against the actual expenditures allocated to each SVCW Member Agency and any differences are applied toward funding reserves held by SVCW.

The Budget is constructed consistent with goals established by the Commission to support operational priorities and the CIP. The Budget reflects a progressive approach to controlling costs, minimizing unplanned expenditures, limiting risk, and investing in activities that provide the long-term resources needed for the community.

Used as a baseline for this study, the 2023-24 Budget was \$53.8 million. This includes \$31.0 million in operating expenditures, \$0.48 million for revenue-funded capital projects, additional cash reserve contributions of \$3.2 million, and debt service payments estimated at \$19.0 million.

2023-24 Budget - Total Contributions by Member Agency					
Description	City of Belmont	Redwood City	City of San Carlos	West Bay San District	TOTAL
Net Operating Expenditures	\$ 3,270,530	\$ 17,987,813	\$ 3,636,433	\$ 6,117,645	\$ 31,012,421
Revenue-Funded Capital Expenditures	45,360	233,136	72,672	128,832	480,000
Reserve Contributions	309,468	1,599,922	483,073	853,774	3,246,236
Projected Debt Service	196,711	10,420,502	3,302,648	5,127,970	19,047,831
<b>Total Contributions to SVCW</b>	<b>\$ 3,822,069</b>	<b>\$ 30,241,373</b>	<b>\$ 7,494,827</b>	<b>\$ 12,228,220</b>	<b>\$ 53,786,489</b>

## Expenditure Allocation

SVCW annual operating and maintenance costs are allocated according to the Joint Powers Agreement. Specifically, administrative, safety, and conveyance operating costs are allocated based on each Member Agency's proportionate share of total flow contributed to the Joint Facilities. Treatment plant operation and maintenance costs are allocated according to each Member Agency's proportionate contribution of hydraulic flow ("Flow"), Biochemical Oxygen Demand ("BOD") and Suspended Solids ("SS") to the Joint Facilities. The total annual treatment plant maintenance and operation costs are allocated as 26.5% to Flow, 33.5% to Biochemical Oxygen Demand and 40.0% to Suspended Solids. Specific Pump Station maintenance and operation costs are tracked as actual costs by coding to each pump station and borne by the Member Agency served by that particular pump station. However, maintenance and operation costs of the booster station are split on a percentage basis between West Bay Sanitary District and Redwood City at 92% and 8%, respectively.

Accordingly, the 2023-24 Operating Budget allocated costs as follows:

2023-24 Budget Member Contributions Allocation Model									
Description				Belmont	Redwood City	San Carlos	West Bay San District	TOTAL	
<b>Allocation Factors</b>									
Flow				11.24%	55.50%	13.06%	20.20%	100%	
Biochemical Oxygen Demand (BOD)				10.87%	58.29%	11.41%	19.43%	100%	
Suspended Solids (SS)				9.52%	60.48%	10.54%	19.46%	100%	
<b>Weightings</b>									
<b>Operating Expenditures</b>	<b>Flow</b>	<b>BOD</b>	<b>SS</b>						
Operations	26.5%	33.5%	40.0%	\$ 1,386,286	\$ 7,767,133	\$ 1,528,689	\$ 2,611,710	\$ 13,293,819	
Maintenance	26.5%	33.5%	40.0%	704,461	3,946,980	776,826	1,327,178	6,755,445	
Laboratory	26.5%	33.5%	40.0%	222,900	1,248,870	245,796	419,934	2,137,500	
Environmental Services	26.5%	33.5%	40.0%	113,045	633,371	124,657	212,972	1,084,045	
Engineering	26.5%	33.5%	40.0%	209,283	1,172,576	230,781	394,281	2,006,920	
Safety	100.0%	0.0%	0.0%	59,224	292,433	68,814	106,435	526,906	
Information Services	26.5%	33.5%	40.0%	217,244	1,217,182	239,560	409,279	2,083,265	
Administrative Services	100.0%	0.0%	0.0%	446,601	2,205,193	518,916	802,611	3,973,320	
Total Operating Expend.				\$ 3,359,044	\$ 18,483,738	\$ 3,734,039	\$ 6,284,400	\$ 31,861,220	
Subtract Miscellaneous Income	26.5%	33.5%	40.0%	\$ 88,513	\$ 495,925	\$ 97,606	\$ 166,755	\$ 848,799	
<b>2023-24 Net Operating Revenue Required</b>				<b>\$ 3,270,530</b>	<b>\$ 17,987,813</b>	<b>\$ 3,636,433</b>	<b>\$ 6,117,645</b>	<b>\$ 31,012,421</b>	
2022-23 Net Operating Revenue Required				\$ 3,258,192	\$ 16,312,500	\$ 3,660,515	\$ 6,027,944	\$ 29,259,151	
\$ Increase / (Decrease)				\$ 12,338	\$ 1,675,313	\$ (24,082)	\$ 89,701	\$ 1,753,270	
% Increase / (Decrease)				0.38%	10.27%	(0.66%)	1.49%	5.99%	

Capital costs are distributed based on each Member Agency’s percentage of its capacity rights as defined in the Joint Powers Agreement:

<u><b>Belmont</b></u>	<u><b>San Carlos</b></u>	<u><b>Redwood City</b></u>	<u><b>West Bay SD</b></u>
9.45%	15.14%	48.57%	26.84%

Unrelated to the number of votes originally ascribed to Member Agencies in the Joint Powers Agreement, the above capital cost distributions are derived from each Member Agency’s share of maximum capacity rights of the originally built facilities (“Stage 1” capacity) plus its share of capacity-related projects (“Stage 2”), based on average dry weather flows.

Capital costs associated with the Joint Facilities include improvements resulting from reconstruction, replacement, rehabilitation, remodeling, or relocation. This includes all costs meeting the definition of a capital expense as defined in SVCW’s Capital Expense Policy.

2023-24 Capital and Reserve Allocation Calculations					
Description	City of Belmont	Redwood City	City of San Carlos	West Bay San District	TOTAL
Capital and Reserve Allocation Factors	9.45%	48.57%	15.14%	26.84%	100.00%
<b>CAPITAL IMPROVEMENT</b>					
Treatment Plant	\$ -	\$ -	\$ -	\$ -	\$ -
Pump Stations	-	-	-	-	-
Force Main	-	-	-	-	-
Equipment	45,360	233,136	72,672	128,832	480,000
Subtotal	\$ 45,360	\$ 233,136	\$ 72,672	\$ 128,832	\$ 480,000
<b>RESERVE CONTRIBUTIONS</b>					
Operating Reserve	\$ 25,968	\$ 142,822	\$ 28,873	\$ 48,574	\$ 246,236
CIP Reserve	283,500	1,457,100	454,200	805,200	3,000,000
Subtotal	\$ 309,468	\$ 1,599,922	\$ 483,073	\$ 853,774	\$ 3,246,236
<b>Contributions for Capital &amp; Reserves</b>	<b>\$ 354,828</b>	<b>\$ 1,833,058</b>	<b>\$ 555,745</b>	<b>\$ 982,606</b>	<b>\$ 3,726,236</b>

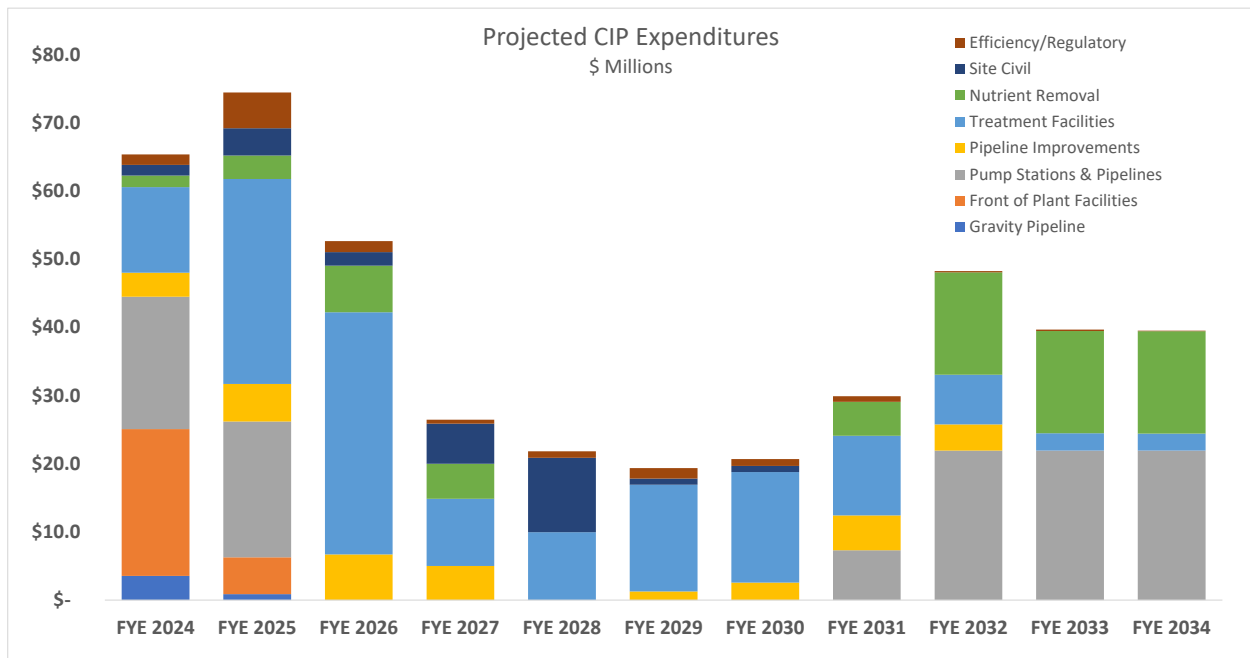
### Capital Improvement Program (“CIP”)

Over the past 15 years, SVCW has rebuilt, rehabilitated, and updated much of its wastewater conveyance and treatment facilities. The CIP was originally implemented in 2008 to address near-term and long-term capital replacement needs and, going forward, the Engineering Division periodically updates the CIP to ensure SVCW can address known Joint Facility deficiencies. This includes rehabilitation and replacement of existing infrastructure and equipment; improvements to treatment processes and conveyance systems to enhance reliability; process upgrades to meet regulatory changes; automation designed to improve operational efficiency and reliability (thereby reducing future operating and maintenance expenses); and additional energy management solutions.

Charges made to the CIP include all capitalized components of projects and include planning, design, engineering, construction, and construction management. Project costs also include certain administrative expenditures like insurance, legal, and engineering labor directly associated with projects.

### Forecasted CIP Expenditures

Concurrent with this LRF update, the CIP continues to be updated. It currently identifies remaining expenditures of approximately \$438 million to be funded over ten years. Much of this spending occurs over the next four years, a combination of anticipated RESCU completion as well as a few large treatment projects including Fixed Film Reactor and Pipe Rehabilitation efforts.



Capital Expenditures Projections through Fiscal Year 2034												
(\$ Millions)												
CIP Program	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	Grand Total
Gravity Pipeline	\$ 3.6	\$ 0.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4.4
Front of Plant Facilities	21.5	5.4	-	-	-	-	-	-	-	-	-	26.9
Pump Stations & Pipeline	19.4	19.9	-	-	-	-	-	7.3	21.9	21.9	21.9	112.4
Pipeline Improvements	3.5	5.5	6.7	5.0	-	1.3	2.6	5.1	3.8	-	-	33.5
Treatment Facilities	12.5	30.1	35.5	9.8	10.0	15.6	16.2	11.7	7.3	2.5	2.5	153.8
Nutrient Removal	1.7	3.4	6.8	5.1	-	-	-	5.0	15.0	15.0	15.0	67.1
Site Civil	1.6	4.0	2.0	5.9	10.9	0.9	0.9	-	-	-	-	26.2
Efficiency/Regulatory	1.5	5.3	1.6	0.6	1.0	1.6	1.0	0.8	0.2	0.2	0.1	13.8
<b>TOTAL</b>	<b>\$65.3</b>	<b>\$74.4</b>	<b>\$52.6</b>	<b>\$26.5</b>	<b>\$21.8</b>	<b>\$19.4</b>	<b>\$20.7</b>	<b>\$29.9</b>	<b>\$48.2</b>	<b>\$39.7</b>	<b>\$39.5</b>	<b>\$ 438.0</b>

Capital expenditures are allocated to Members per the Joint Powers Authority Agreement, as displayed in the following projection:



**Capital Expenditures Projections through Fiscal Year 2034 - BY MEMBER**  
(\$ Millions)

Member	JPA %	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	Grand Total
Redwood City	48.57%	\$31.7	\$36.2	\$25.6	\$12.9	\$10.6	\$ 9.4	\$10.0	\$14.5	\$23.4	\$19.3	\$19.2	<b>\$ 212.8</b>
West Bay San.	26.84%	17.5	20.0	14.1	7.1	5.9	5.2	5.6	8.0	13.0	10.6	10.6	117.6
San Carlos	15.14%	9.9	11.3	8.0	4.0	3.3	2.9	3.1	4.5	7.3	6.0	6.0	66.3
Belmont	9.45%	6.2	7.0	5.0	2.5	2.1	1.8	2.0	2.8	4.6	3.7	3.7	41.4
<b>TOTAL</b>	<b>100.00%</b>	<b>\$65.3</b>	<b>\$74.4</b>	<b>\$52.6</b>	<b>\$26.5</b>	<b>\$21.8</b>	<b>\$19.4</b>	<b>\$20.7</b>	<b>\$29.9</b>	<b>\$48.2</b>	<b>\$39.7</b>	<b>\$39.5</b>	<b>\$ 438.0</b>

## **Cash Reserves Policy**

Since 2013 the SVCW Commission has maintained a cash reserves policy to protect the Authority's fiscal solvency and prepare for future long-term capital needs. The policy describes the goals and amounts intended to be held in reserves. Each year during the budget process, SVCW reviews reserve balances and adjusts as needed. SVCW cash reserves are also meant to mitigate the negative impact of revenue shortfalls, fund unforeseen expense requirements, and help stabilize rates for Member Agencies.

- The Operating Reserve must be maintained at a minimum balance of 10% of approved Operating Budget expenses, plus \$1 million. This fund allows for continued operation in times of local, regional state, or national crisis or for unbudgeted, unexpected operational, maintenance or capital expenses approved by the SVCW Commission. As of December 31, 2023, the market value of securities held in this reserve was \$4.13 million.
- The objective of the CIP Reserve Fund is to accrue funds towards replacement of capital assets when their useful life is reached, and other funding sources may not be immediately available. This fund will provide for unanticipated capital expenditures and, when its target value is reached, steer funding to pay-as-you go projects. Per policy, a minimum of \$2.5 million was added to the CIP Reserve Fund in fiscal year 2022-23. This amount increases by \$500 thousand annually each year, until the reserve balance reaches an inflation-adjusted \$50 million in 2019 dollars. As of December 31, 2023, the CIP Reserve was valued at \$23.94 million.
- The Stage 2 Capacity Reserve is utilized to pay for capital projects that either increase or maintain SVCW's treatment capacity. Funding is received after Members collect fees associated with new sewer connections. SVCW may use this reserve on construction as approved by the SVCW Commission. As of December 31, 2023, the market value of securities in this reserve was \$15.62 million.

## **Debt Policy**

SVCW adopted a debt management policy in 2017, which was most recently amended in October 2022. The policy considers intergenerational equity between residents, strives to achieve the lowest possible cost of capital, and mitigates market and credit risk. Appropriately structured, the debt policy attempts to assign capital costs between current ratepayers and future generations.

Significant capital acquisitions can be funded through traditional bonds or alternative financing mechanisms such as government loans (e.g. SRF and WIFIA) and/or public/private partnerships.

Long term financings are structured to minimize transaction-specific risk and total debt portfolio risk to SVCW and its Member Agencies.

SVCW debt must comply with all laws, legal agreements, contracts, best practices, and adopted policies related to debt issuance and management, including disseminating, in a timely manner, disclosure information concerning SVCW's and SVCW's Member Agencies' financial condition. It must also follow sound procurement practices to avoid conflicts of interest.

SVCW debt requires cooperation and coordination with all stakeholders in the financing and delivery of services by maintaining cost-effective access to capital markets through prudent debt management. This includes integrating debt policies with the operating and capital budgets, the multi-year CIP, the Long-Range Financial Plan, and other financial goals. SVCW also maintains good investor relationships through the timely dissemination of material financial information to maintain the highest practical credit rating and ensure efficient access to capital markets.

Long-term debt financing is not used to fund operating costs or operating deficits of SVCW. The principal types of municipal debt instruments employed by SVCW to finance long-term capital projects are government subsidized loans, WIFIA and SRF Loans, and Wastewater Revenue Bonds. Such instruments may be refunded by the issuance of refunding obligations for economic savings and/or restructuring considerations.

Short-term debt has terms to maturity of less than five years and may be issued to provide financing for the acquisition and/or construction of long-lived capital projects that could otherwise be funded by long-term debt financing described above. This includes commercial paper notes that are issued to provide interim project financing, Bond Anticipation Notes which may have a final maturity of not more than five years and are issued in anticipation of the issuance of wastewater revenue bonds, and a short-term line of credit not to exceed five years.

### **Investment Policy**

SVCW has an adopted policy to invest monies not required for immediate expenditure. The policy is reviewed annually and establishes a standard of care to ensure investments are made with the appropriate considerations of capital safety, liquidity, and yield. The investment portfolio is diversified such that losses, if any, on specific securities are offset by the revenue generated from other investments. The portfolio is also kept sufficiently liquid to meet the operating and capital needs of SVCW. Within these two constraints, as well as in accordance with California Government Code Section 53601 through 53686, the investment portfolio is designed to attain the market rate of return after consideration is given to safety and liquidity.

## **SECTION 3 – MODELING ASSUMPTIONS**

SVCW has developed a Debt Model (the Model) to project debt service costs associated with the Capital Improvement Plan. As approximately \$438 million of capital projects is to be funded over the next decade, the Model measured alternative funding scenarios that compared debt service costs at aggregate and across Member Agency levels. The Model also optimized variables by considering the impact of using cash, longer repayment terms, caps on debt service levels, deferred repayment, and changes in interest rate assumptions.

The Model displays total aggregate debt service, maximum aggregate annual cost, average annual debt service cost, weighted average cost of capital and weighted average CIP repayment year, among a few other debt summary outputs. Additionally, the Model illustrates the height and length of the debt service “plateau”, a critical consideration for Members’ sewer rates. Finally, the Model also compares efficiency versus affordability of financing the debt by determining the length of each repayment period and financing rates.

### **Debt Structure**

Using the Model, SVCW staff generated and compared multiple funding scenarios that pay for remaining CIP expenditures and weigh interest rates and average annual cash flows. The Model’s flexibility allows for multiple assumptions including interest rates, the timing and structure of government loan or bond repayments, and the mix of financing methods such as government loans, wastewater revenue bonds, or cash contributions.

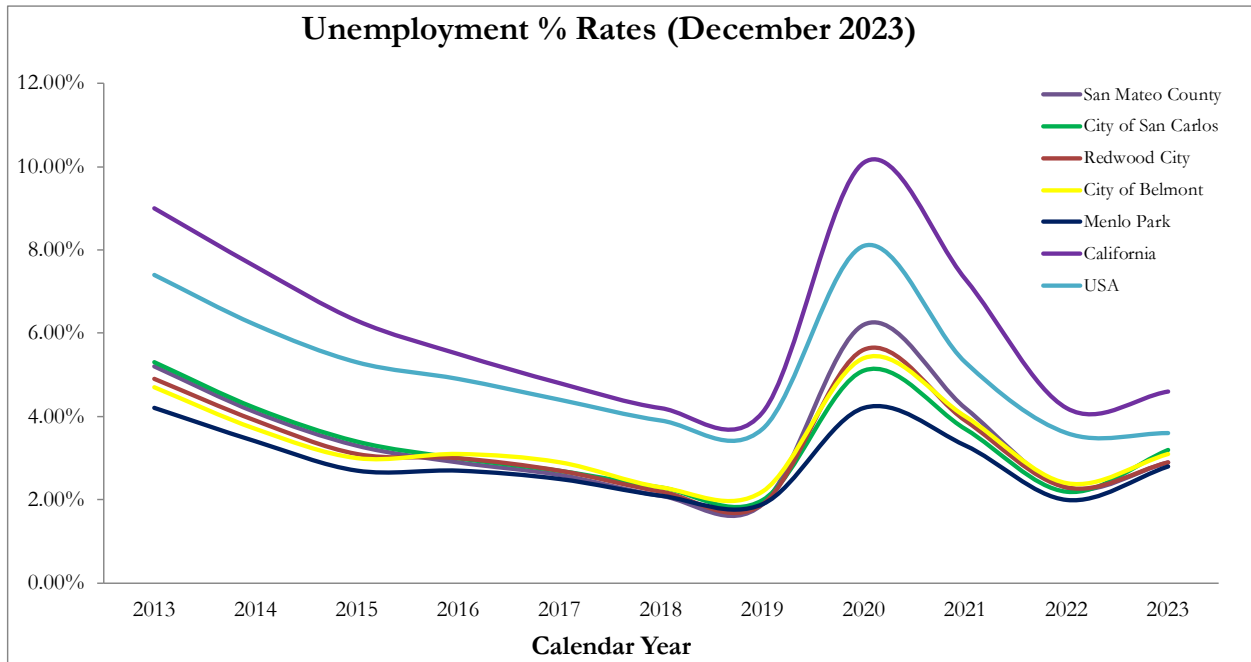
SRF and WIFIA were pursued for their attractive low interest rates and flexible repayment structures. Structurally similar to revenue bonds, the Authority’s SRF loans are amortized over 30 years at interest rates equal to half the California General Obligation Bonds rate. WIFIA loans amortize over 35 years at a rate equal to Treasury rates plus one basis point, and repayment may be further deferred beyond completion of construction; SVCW chose to begin repayment four years after construction is complete.

### **Economic Factors**

Sewer revenues are somewhat influenced by the strength of the economy and other financial indicators. SVCW-estimated operating costs and the timing of CIP expenditures assume neither a significant downturn nor expansion in the San Francisco Bay Area economy. General economic conditions are comprised of many different factors; but sewer revenues are likely influenced by only a few factors. This report therefore focuses on six different broad factors that are good indicators of a strong economic environment: unemployment, assessed property valuation, taxable sales, income (measured by effective buying income and median household income), and interest rates.

## Unemployment

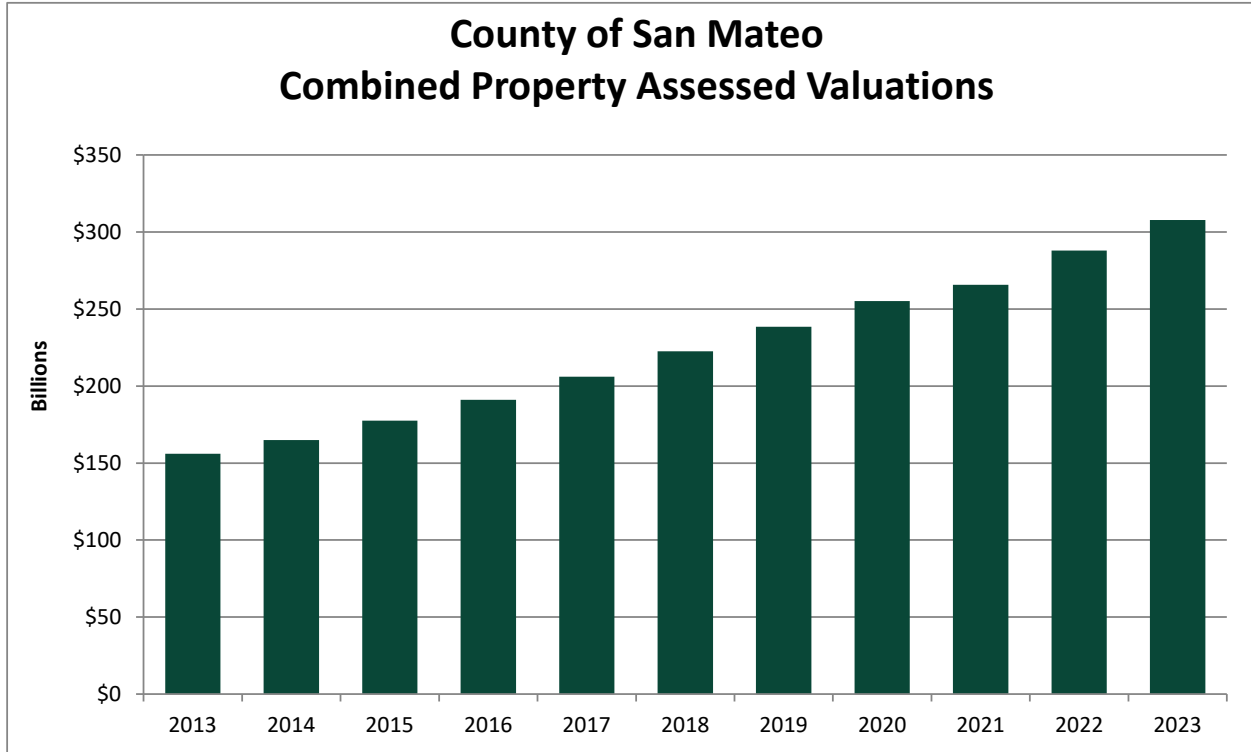
The Bay Area economy was not immune to the negative impacts of the COVID-19 pandemic. Recent data from the United States Bureau of Labor Statistics shows how unemployment rates for San Mateo County and SVCW Member Agencies remain low, though have risen to a combined average of 3.0% over the past year. Local unemployment remains well below statewide California and nationwide U.S. rates.



Source: United States Bureau of Labor Statistics

*County Assessed Valuations*

San Mateo County had approximately \$307.8 billion in total assessed 2022 real property valuation, an increase of \$19.8 billion (or 6.9%) from the previous year.

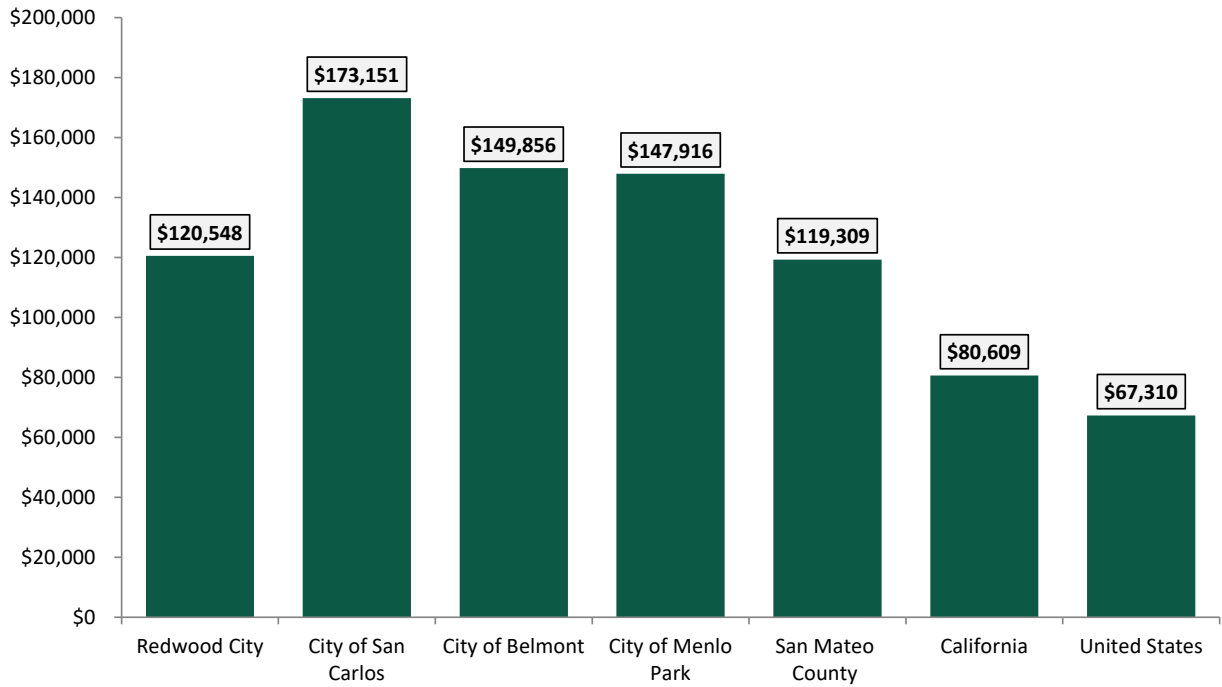


*Source: San Mateo County Assessor's Office*

### Median Effective Buying Income

The Communities served by SVCW show high effective buying income levels in comparison to National and State medians. The Effective Buying Income is the amount of a consumer's disposable income; it reflects the money consumers retain after taxes. The following chart shows that SVCW communities have Effective Buying Incomes of \$120 thousand to \$173 thousand, which is 179% to 257% of the National levels, and 150% to 215% of California levels.

### 2024 Median Effective Buying Income



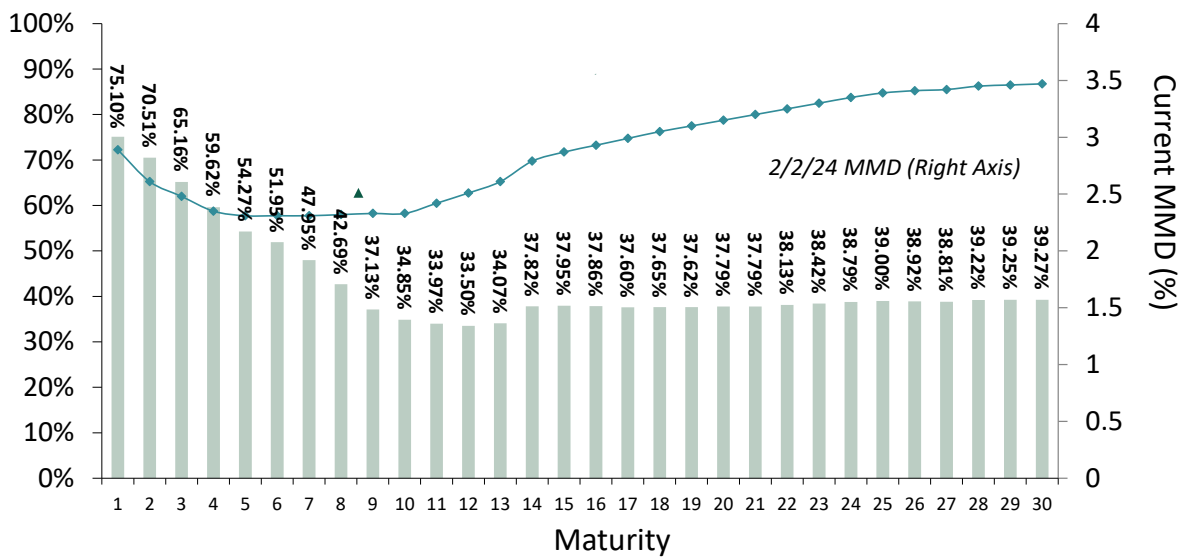
Source: Claritas Spotlight

### Interest Rates

Based upon market conditions, the financing options use projected interest rates that will vary depending on the type of debt or whether it is fixed or variable.

The table below provides context for tax-exempt interest rates in the Municipal Market Index as of February 02, 2024, and compares current rates to historical rates by term. The data demonstrates that while interest rates have increased, on a long-term basis these rates remain historically low across maturities when compared to the past 25 years.

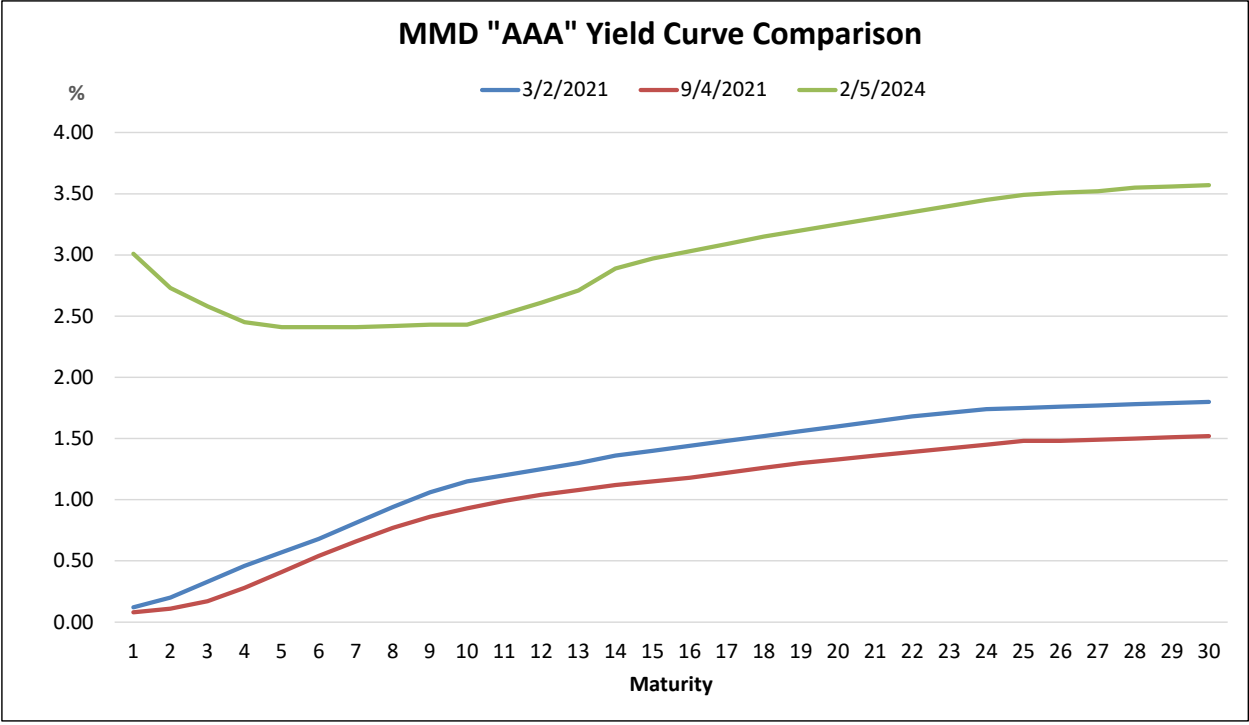
**Current "AAA" MMD and Percentage of Time Historical**  
*"AAA" MMD has been Lower than Current "AAA" MMD  
 from January 2, 1998 through February 2, 2024*



Source: Thomson Municipal Market Monitor

The indexed interest rates for AAA municipal borrowers, however, have risen over the past year. The following chart compares the current yield curve as of February 05, 2024, to rates in place when SVCW previously issued Revenue Bonds. It is noteworthy that currently, short-term maturities are significantly higher, as mid-term maturities decline through ten years. SVCW is fortunate to have refinanced in 2021 when rates were advantageous.





Source: Thomson Municipal Market Monitor

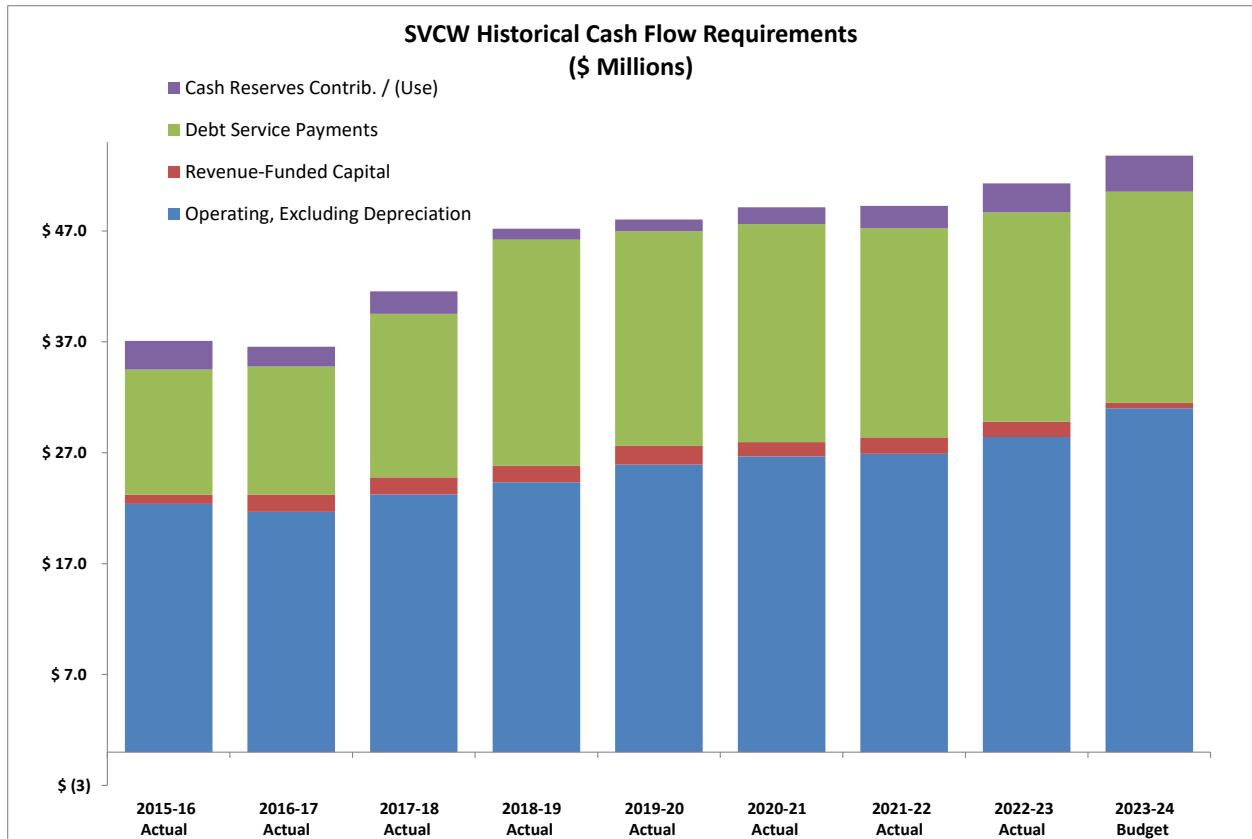
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## SECTION 4 – HISTORICAL FINANCIALS

### Historical Cash Flow Requirements

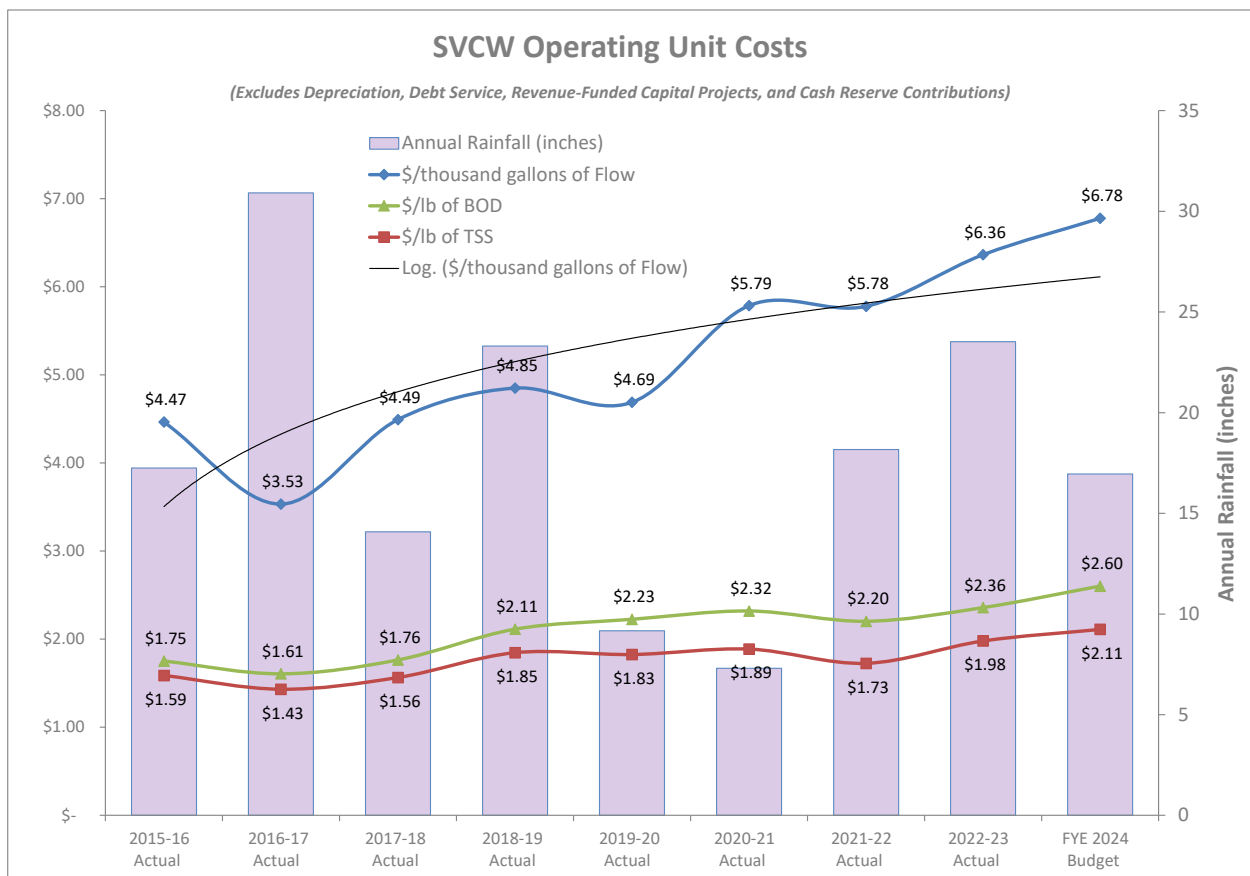
#### *Total Cash Flow Requirements*

SVCW annual cash flow requirements from Members have risen over the past decade, mostly driven mostly by increased debt service payments needed to finance the CIP.

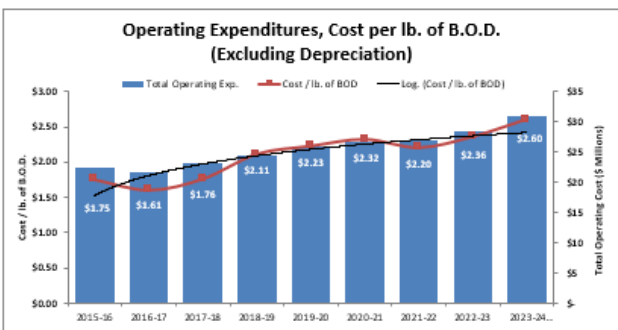
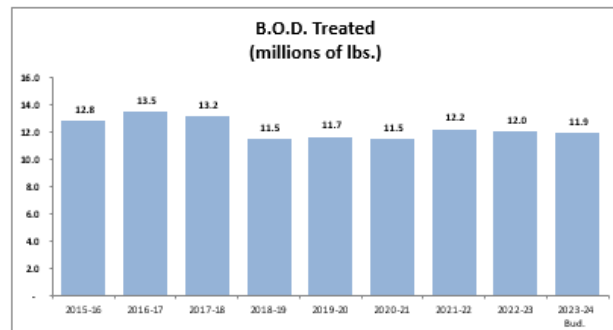
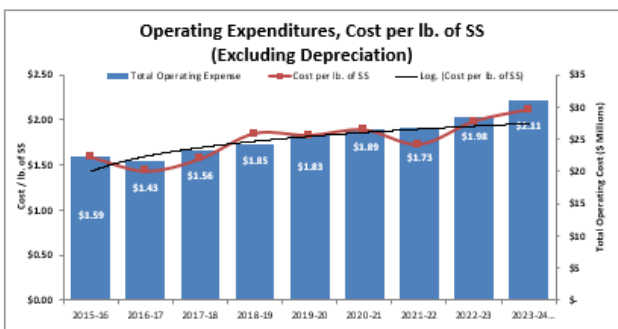
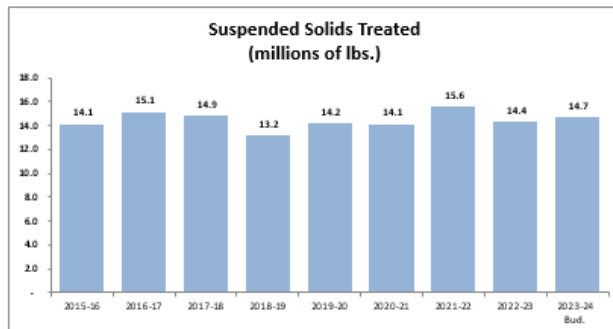
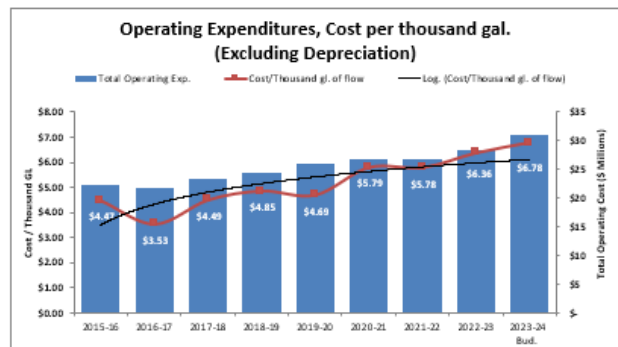
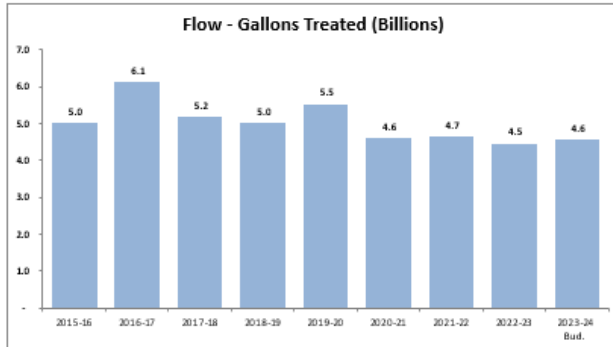


## Historical Unit Costs

When isolated to only Operating Expenditures (excluding Depreciation), SVCW historical operating unit costs reflect both inflationary pressure and fluctuating operational volumes. For example, the cost per thousand gallons of flow is particularly volatile in relation to drought conditions. The below chart demonstrates the inverse relationship between the unit cost per thousand gallons of flow and the amount of rainfall received. When rainfall increases, stormwater intrusion leads to much higher flows of wastewater being treated. A more representative measure of SVCW's cost performance is the cost per pound of BOD and TSS. Looking at the more recent two years, water usage behavior during the COVID-19 pandemic have negatively exacerbated these unit costs.



A significant influencing factor on unit costs is volatility of operating volumes including Flow, Biological Oxygen Demand (BOD), and Total Suspended Solids (TSS). Rainfall has an inverse relationship with unit costs, as reduced flows contribute to higher Unit Costs. Operating Unit Costs are measured per thousands of gallons treated, per pound of TSS, and per pound of BOD.



### *Revenue-Funded Capital Expenditures*

Revenue-Funded Capital Expenditures are for capital projects that are generally each less than \$1 million and can be completed within one year. These projects typically include purchase of vehicles or heavy equipment, repairs that improve an asset's useful life, and small construction efforts. Due to their relatively low cost, it is appropriate these items are funded from cash rather than debt. Since 2008 SVCW has averaged \$1.5 million annually in Revenue-Funded capital expenditures.

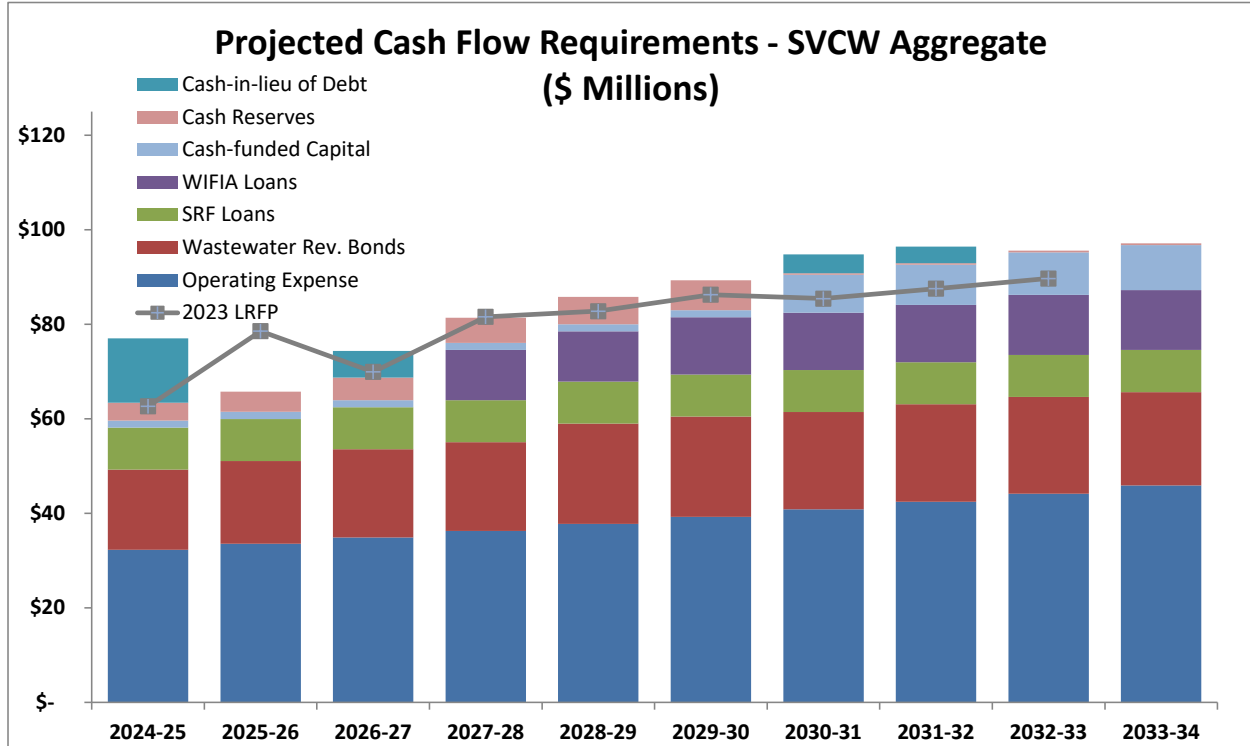
### *Cash Reserves*

The SVCW established a cash reserve policy intended accumulate and manage appropriate reserve balances. Each year, through the budget process, SVCW reviews all reserve balances and adjusts as needed to adhere to the policy. In 2023-24, \$3.0 million is being contributed to the CIP Reserve and another \$3.5 million will be added in 2024-25.

## SECTION 5 – TEN-YEAR FINANCIAL PROJECTIONS

In fiscal year 2024-25 SVCW anticipates total expenditures will be \$77 million for all costs of operations, debt service, revenue-funded capital, and reserve contributions. This figure is anticipated to grow to \$97 million over the next ten years.

Projected SVCW Cash Flow Requirements - Aggregate (\$ Millions)										
Description	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Operating Expense	\$ 32.25	\$ 33.54	\$ 34.88	\$ 36.28	\$ 37.73	\$ 39.24	\$ 40.81	\$ 42.44	\$ 44.14	\$ 45.91
Wastewater Rev. Bonds	16.97	17.52	18.66	18.77	21.24	21.22	20.61	20.60	20.48	19.74
SRF Loans	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89
WIFIA Loans	-	-	-	10.62	10.62	12.13	12.13	12.13	12.70	12.70
Cash-funded Capital	1.50	1.50	1.50	1.50	1.50	1.50	8.00	8.50	9.00	9.50
Cash-in-lieu of Debt	13.62	-	5.63	-	-	-	4.00	3.50	-	-
Cash Reserves	3.76	4.27	4.78	5.29	5.80	6.31	0.32	0.34	0.35	0.36
<b>TOTAL</b>	<b>\$ 76.99</b>	<b>\$ 65.72</b>	<b>\$ 74.34</b>	<b>\$ 81.35</b>	<b>\$ 85.78</b>	<b>\$ 89.29</b>	<b>\$ 94.76</b>	<b>\$ 96.40</b>	<b>\$ 95.56</b>	<b>\$ 97.10</b>



## Projected SVCW Operating Expenditures

Overall SVCW operating expenses are expected to increase by approximately 4.0% annually over the next decade.

SVCW Operating Expenditures (\$ Millions)												
Description	2023-24 Budget	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	2030-31 Forecast	2031-32 Forecast	2032-33 Forecast	2033-34 Forecast	
Personnel	\$ 19.7	\$ 20.6	\$ 21.4	\$ 22.2	\$ 23.0	\$ 23.6	\$ 24.3	\$ 25.1	\$ 25.8	\$ 26.6	\$ 27.4	
Utilities	2.7	2.8	2.9	3.0	3.2	3.2	3.3	3.4	3.6	3.7	3.8	
Administrative Costs	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0	
Equipment & Supplies	2.7	2.8	2.9	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.6	
Chemicals	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.0	
Professional Services	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	
Contractual Services	1.6	1.6	1.7	1.7	1.8	1.8	1.9	2.0	2.0	2.1	2.1	
Regulatory and Training	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	
<b>Total Expenditures</b>	<b>\$ 31.9</b>	<b>\$ 33.1</b>	<b>\$ 34.4</b>	<b>\$ 35.5</b>	<b>\$ 36.7</b>	<b>\$ 37.8</b>	<b>\$ 39.0</b>	<b>\$ 40.1</b>	<b>\$ 41.4</b>	<b>\$ 42.6</b>	<b>\$ 43.9</b>	
Less Misc. Revenue	(0.8)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	
<b>Net Operating Expend.</b>	<b>\$ 31.0</b>	<b>\$ 32.3</b>	<b>\$ 33.5</b>	<b>\$ 34.6</b>	<b>\$ 35.8</b>	<b>\$ 36.9</b>	<b>\$ 38.0</b>	<b>\$ 39.1</b>	<b>\$ 40.3</b>	<b>\$ 41.5</b>	<b>\$ 42.7</b>	



## Current Debt Service Structure / Annual Debt Service Payments

SVCW and its Members historically leveraged the debt markets to fund the CIP. Approximately \$959 million of funding has been obtained to fund projects approved since 2008. Sources of funds have included Wastewater Revenue Bonds, Member Agency cash contributions, SRF Loans, WIFIA Loans / Notes, and Grants.

Source of CIP Funds to date (\$ millions)			
Description	All-in TIC / Interest Rate	Max Proceeds	Available Proceeds at 7/1/2023
<b>Bonds</b>			
2008 Wastewater Revenue Bonds*	5.03%	\$ 10.01	\$ -
2009 Wastewater Revenue Bonds*	5.12%	55.86	-
2014 Wastewater Revenue Bonds*	4.18%	65.54	-
2015 Wastewater Revenue Bonds*	3.75%	30.00	-
2018 Wastewater Revenue Bonds / Refunding	3.43%	148.98	-
2021 Refunding Bonds	2.30%	-	-
Subtotal - Bonds		310.38	-
<b>Cash Contributions in lieu of Debt</b>			
Belmont		46.84	-
Redwood City		10.00	-
West Bay Sanitary District		13.02	-
Subtotal - Cash		69.85	-
<b>Government Loans</b>			
SRF - Control Building	2.60%	11.36	-
SRF - WWTP Improvements	1.80%	31.55	-
SRF - Conveyance Planning	1.60%	14.00	-
SRF - RESCU Construction Loans	0.90%	169.00	27.86
WIFIA / Notes - RESCU Program	1.40%	207.33	9.24
WIFIA / Notes - RESCU II	1.93%	68.90	10.95
WIFIA / Notes - WWTP	1.94%	73.80	60.85
Subtotal - Government Loans		575.94	108.90
<b>Grant Funding</b>			
PG&E Cogeneration Grant		2.40	-
California Energy Commission		0.50	-
Subtotal - Grant Funding		2.90	-
<b>TOTAL</b>		<b>\$ 959.08</b>	<b>\$ 108.90</b>

\* Bond series refunded

### *Outstanding SVCW Wastewater Revenue Bonds*

Financing Agreements adopted between SVCW and its Member Agencies obligate each of Member for their respective allocable share of debt service. Through its own financing mechanisms, the City of Belmont has to date limited its participation in SVCW Wastewater Revenue Bonds financing.

Bond debt service payments are \$16.97 million in fiscal year 2023-24 including three outstanding series from 2018 and 2021 which, combined, refunded all earlier bond series and one SRF Loan.

### *Outstanding State Revolving Fund Loans*

SVCW has financed certain projects by entering into six separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). This program is funded from the California State Revolving Fund (SRF) program. The project funds, including any accrued interest, are repaid in annual installments commencing one year after construction.

Current SRF loan payments equal \$1.89 million in fiscal year 2023-24 to repay a project completed in 2012. Repayment for more recently-secured SRF Loans commences in fiscal year 2024-25, after which total SRF debt service will be \$8.9 million. These recent SRF loans secured \$169 million for the RESCU program at an interest rate of 0.90%.

### *Outstanding WIFIA Loans*

The Authority financed \$287 million of RESCU expenditures through two WIFIA loan agreements with the U.S. Environmental Protection Agency. The loans were executed in 2019 and 2021, respectively, in conjunction with interim construction Notes. The Notes funded construction and have been /will be repaid with proceeds from the WIFIA loans. Repayment of these two WIFIA loans commences in 2027-28, when annual debt service payments will be \$10.57 million.

Another \$73.8 million WIFIA loan was executed in 2021 to help fund rehabilitation of certain wastewater treatment plant processes. With interim Notes similarly to the RESCU WIFIA Loans, this WIFIA Loan will begin repayment in fiscal year 2029-30, with annual debt service payments of \$1.51 million.

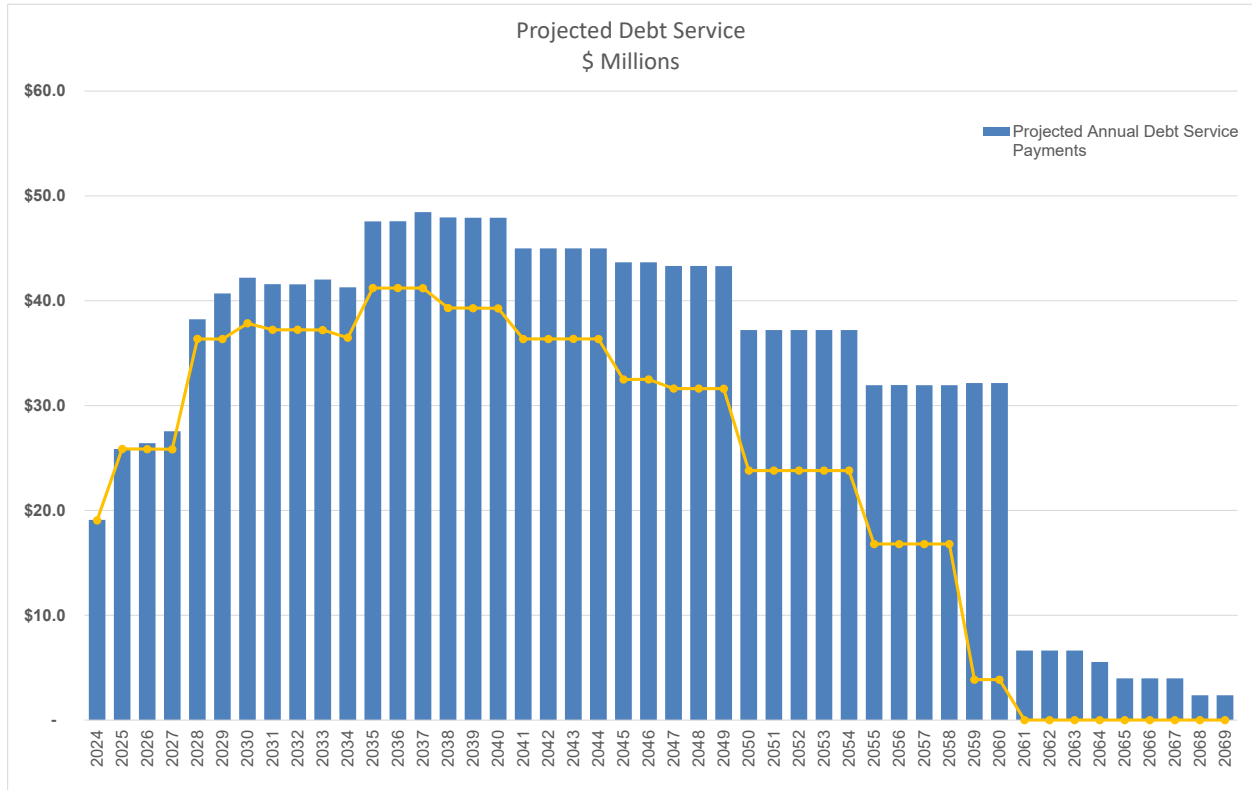
### *Line of Credit*

SVCW holds a \$30 million Line of Credit (LOC), with an accordion feature for up to \$115 million, providing bridge financing for CIP projects. The LOC remains a valuable tool to manage cash flow and reduce borrowing costs. Specifically, the LOC furnishes interim cash flows between bond issuances or when SVCW awaits reimbursement of construction costs funded by the SRF program. When borrowing through SRF, SVCW pays for services and afterwards submits paid

invoices to the state for reimbursement. Reimbursement generally takes 30 to 90 days and the LOC acts as a bridge loan during this period. Currently no funds are drawn from the Line of Credit.

*Remaining Funding to be Secured:*

Over the next four decades displayed below, total aggregate debt service will increase to meet the required cash flows of proposed CIP projects.



This update recommends projects be funded through a combination of SVCW cash reserves, Member contributions in lieu of immediate debt issuance and, in approximately two years, issuance of new debt at appropriate intervals. Approximately \$123 million is already available from outstanding debt proceeds and SVCW cash reserves to provide for 28.8% of projected CIP expenditures. Cash contributions from Members over the next ten years would be \$81.5 million, providing 19.1% of project funds. New Debt proceeds would be necessary to fund the balance of project expenditures, or \$221 million.

**Uses and Sources of CIP Funds (as of July 01, 2023)**  
**\$ Millions**

<b>Description</b>	<b>\$ Millions</b>	<b>% Remaining CIP</b>
<b>Uses:</b>		
Gravity Pipeline	\$ 4.4	1.0%
Front of Plant Facilities	26.9	6.3%
Pump Stations / Conveyance	112.4	26.4%
Treatment Facilities	153.8	36.1%
Pipeline Improvements	33.5	7.9%
Site Civil	23.7	5.6%
Efficiency / Regulatory	3.9	0.9%
Nutrient Removal	67.1	15.8%
<b>Total Remaining CIP Expenditures</b>	<b>\$ 425.7</b>	<b>100.0%</b>
<b>Source of Funds</b>		
Available WIFIA Proceeds	\$ 81.0	19.0%
Available SRF Proceeds	27.9	6.5%
Stage 2 Capacity Reserve Funds	14.2	3.3%
Cash-in-lieu of Debt Contributions	26.8	6.3%
Use of pay-go capital contributions	54.7	12.8%
New SRF Loans	73.0	17.2%
New WIFIA Loans	49.0	11.5%
New RevenueBonds	99.0	23.3%
<b>Total Sources of Funds</b>	<b>\$ 425.7</b>	<b>100.0%</b>

**Future Cash Proceeds:**

Prior to issuance of new debt, three sources are proposed to be used as follows:

<b>Proposed Capital Expenditure Funding Sources - Non Debt</b>											
<b>Program</b>	<b>FYE 2025</b>	<b>FYE 2026</b>	<b>FYE 2027</b>	<b>FYE 2028</b>	<b>FYE 2029</b>	<b>FYE 2030</b>	<b>FYE 2031</b>	<b>FYE 2032</b>	<b>FYE 2033</b>	<b>FYE 2034</b>	<b>TOTAL</b>
Stage 2 Reserves	\$ 14.23	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14.23
Cash in lieu of debt	13.62	-	5.63	-	-	-	4.00	3.50	-	-	26.76
SVCW Liquidity / Reserves	4.20	-	-	-	-	-	11.52	12.35	10.20	10.15	48.42
<b>TOTAL</b>	<b>\$ 32.05</b>	<b>\$ -</b>	<b>\$ 5.63</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15.52</b>	<b>\$ 15.85</b>	<b>\$ 10.20</b>	<b>\$ 10.15</b>	<b>\$ 89.40</b>

### *Stage 2 Capacity Reserve Funds*

From receiving a portion of the sewer connection fees collected by Members, the Authority has accumulated \$14.2 million in its Stage 2 Capacity Reserve. Over the next year, these funds are proposed to be used for ongoing capital improvement projects.

### *Cash-in-lieu of Debt*

To lessen the amount of debt issued, several Members have at times opted to instead contribute cash to the CIP program. The relatively higher interest rates in today's capital market presents an opportunity to use Members' liquidity levels rather than issuing new debt to fund \$26.8 million in projects over the next 1-2 years.

### *Pay-go Capital Contributions*

SVCW typically invests \$1.5 million annually in revenue-funded capital projects. These projects are typically installed and managed by staff and include such things as fleet, valve replacements, new pumps and motors, gear assemblies, technology upgrades, or maintenance equipment.

Concurrently, the Authority has a CIP Reserve Policy that, through ongoing Member contributions, is scheduled to reach its target balance by fiscal year 2029-30. Subsequently, the policy calls for these Member contributions to be redirected to revenue-funded capital projects. This would provide over \$44 million for capital projects in years 7-10 of the next decade.

## **Future Debt Proceeds:**

### *New SRF Loans*

One SWRCB State Revolving Fund (“SRF”) Loan valued at \$73 million, assumed to be drawn upon in FY 2030-31 at an interest rate of 3.25%. Debt service payments would commence one year after project completion.

### *New WIFIA Loans*

Three U.S. EPA Water Infrastructure Finance Innovation Act (“WIFIA”) Loans, together valued at \$49 million, can fund up to 49% of dedicated projects. These loans are assumed to be secured in 2025, 2029, and 2031, respectively. The assumed interest rate of each loan is estimated at 4.50%. WIFIA amortization schedules can be wrapped around existing debt service payments to avoid significant demands on cash flow.

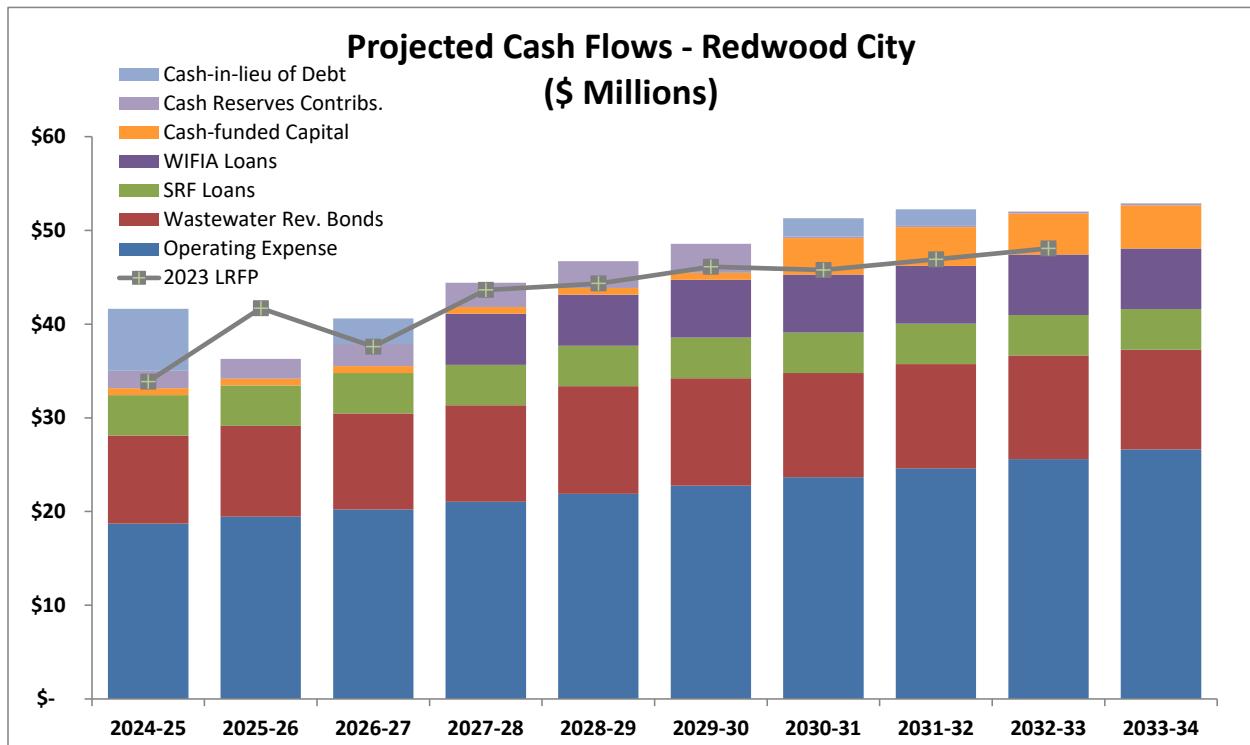
### *New Revenue Bonds*

Two Bond Issuances are assumed, for a combined \$99 million of project funding. In fiscal year 2025-26, a variable-rate bond issuance for \$50 million is assumed at an average interest rate of 3.40%. Additionally, \$49 million in fixed-rate bonds would be issued in fiscal year 2027-28 at an estimated interest rate of 5.0%.

## Total Cash Flow Projections by Member Agency

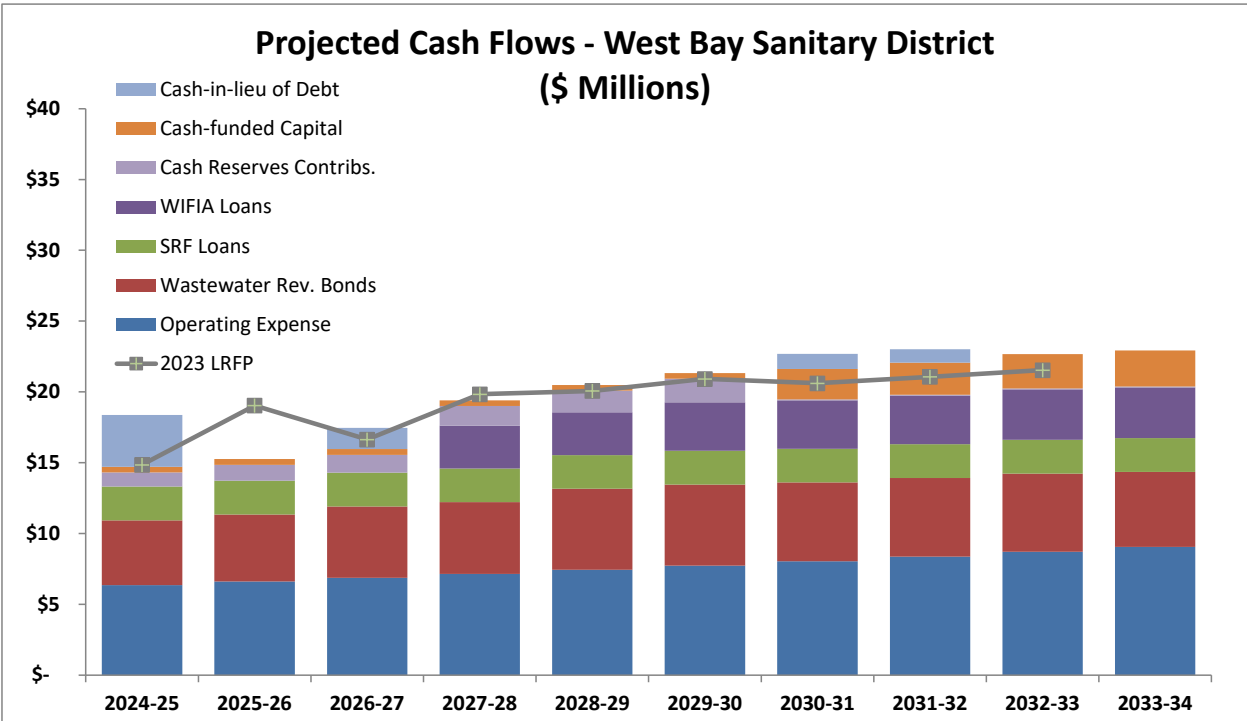
The following charts and tables describe the cash flow projections required for all SVCW expenditures. Each Member Agency is also provided with a detailed description for their own planning purposes.

### Redwood City



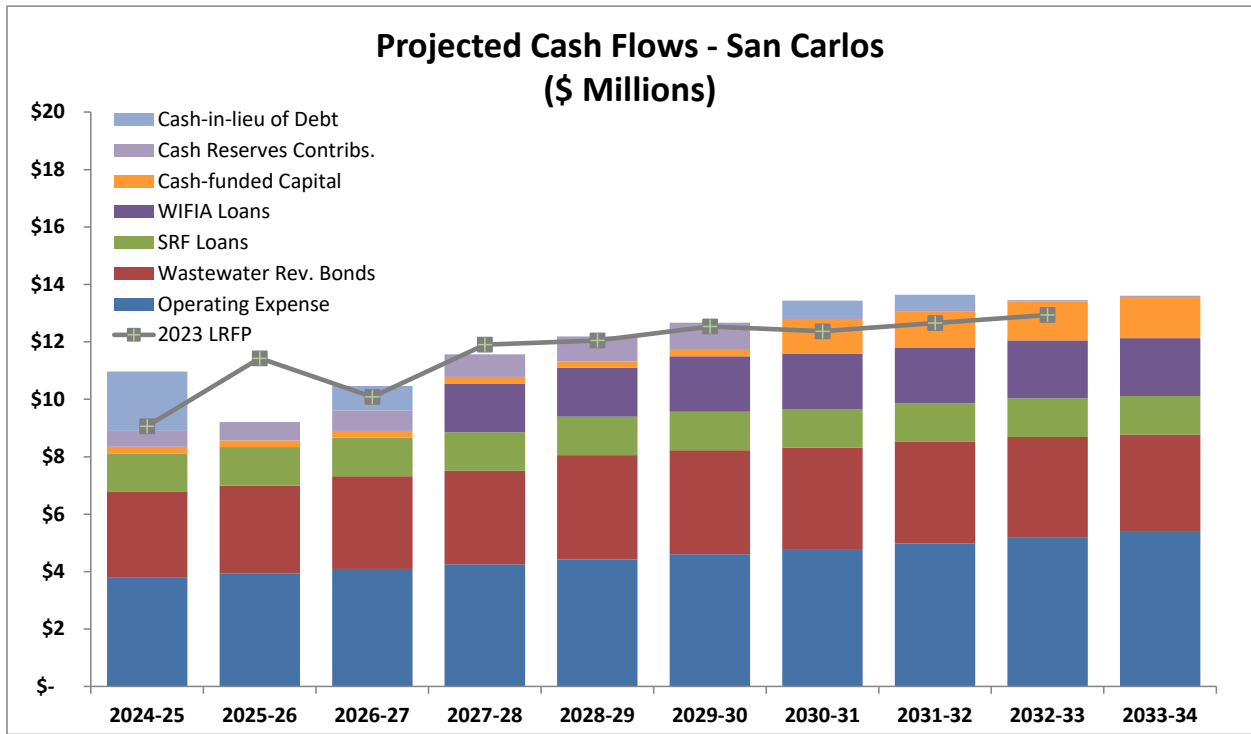
Projected SVCW Cash Flow Requirements - Redwood City (\$ Millions)										
Description	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Operating Expense	\$ 18.71	\$ 19.45	\$ 20.23	\$ 21.04	\$ 21.88	\$ 22.76	\$ 23.67	\$ 24.62	\$ 25.60	\$ 26.63
Wastewater Rev. Bonds	9.41	9.68	10.24	10.29	11.49	11.48	11.12	11.11	11.05	10.65
SRF Loans	4.32	4.32	4.32	4.32	4.32	4.32	4.32	4.32	4.32	4.32
WIFIA Loans	-	-	-	5.44	5.44	6.18	6.18	6.18	6.46	6.46
Cash-funded Capital	0.73	0.73	0.73	0.73	0.73	0.73	3.89	4.13	4.37	4.61
Cash-in-lieu of Debt	6.62	-	2.74	-	-	-	1.94	1.70	-	-
Cash Reserves Contribs.	1.85	2.10	2.35	2.60	2.85	3.09	0.19	0.20	0.20	0.21
<b>TOTAL</b>	<b>\$ 41.63</b>	<b>\$ 36.28</b>	<b>\$ 40.60</b>	<b>\$ 44.42</b>	<b>\$ 46.71</b>	<b>\$ 48.55</b>	<b>\$ 51.30</b>	<b>\$ 52.25</b>	<b>\$ 52.00</b>	<b>\$ 52.88</b>

West Bay Sanitary District



Projected SVCW Cash Flow Requirements - West Bay Sanitary District (\$ Millions)											
Description	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	
Operating Expense	\$ 6.36	\$ 6.61	\$ 6.88	\$ 7.15	\$ 7.44	\$ 7.74	\$ 8.05	\$ 8.37	\$ 8.70	\$ 9.05	
Wastewater Rev. Bonds	4.58	4.72	5.03	5.06	5.72	5.72	5.56	5.55	5.52	5.30	
SRF Loans	2.39	2.39	2.39	2.39	2.39	2.39	2.39	2.39	2.39	2.39	
WIFIA Loans	-	-	-	3.01	3.01	3.42	3.42	3.42	3.57	3.57	
Cash-funded Capital	0.40	0.40	0.40	0.40	0.40	0.40	2.15	2.28	2.42	2.55	
Cash-in-lieu of Debt	3.66	-	1.51	-	-	-	1.07	0.94	-	-	
Cash Reserves Contribs.	0.99	1.13	1.26	1.40	1.54	1.67	0.06	0.07	0.07	0.07	
<b>TOTAL</b>	<b>\$ 18.37</b>	<b>\$ 15.25</b>	<b>\$ 17.47</b>	<b>\$ 19.41</b>	<b>\$ 20.49</b>	<b>\$ 21.33</b>	<b>\$ 22.69</b>	<b>\$ 23.01</b>	<b>\$ 22.67</b>	<b>\$ 22.93</b>	

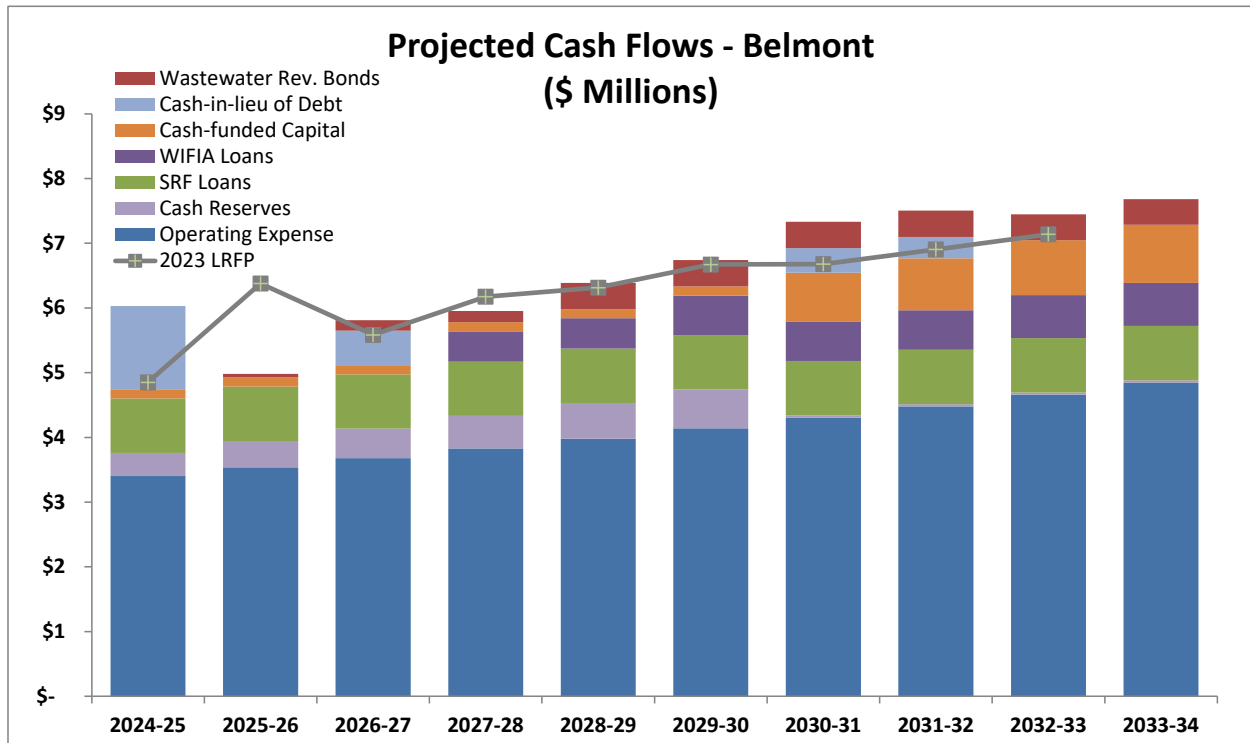




Projected SVCW Cash Flow Requirements - San Carlos (\$ Millions)											
Description	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	
Operating Expense	\$ 3.78	\$ 3.93	\$ 4.09	\$ 4.26	\$ 4.43	\$ 4.60	\$ 4.79	\$ 4.98	\$ 5.18	\$ 5.38	
Wastewater Rev. Bonds	2.99	3.06	3.23	3.25	3.63	3.62	3.53	3.54	3.51	3.39	
SRF Loans	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	
WIFIA Loans	-	-	-	1.70	1.70	1.92	1.92	1.92	2.01	2.01	
Cash-funded Capital	0.23	0.23	0.23	0.23	0.23	0.23	1.21	1.29	1.36	1.44	
Cash-in-lieu of Debt	2.06	-	0.85	-	-	-	0.61	0.53	-	-	
Cash Reserves Contribs.	0.56	0.64	0.71	0.79	0.87	0.94	0.04	0.04	0.04	0.04	
<b>TOTAL</b>	<b>\$ 10.97</b>	<b>\$ 9.21</b>	<b>\$ 10.46</b>	<b>\$ 11.57</b>	<b>\$ 12.19</b>	<b>\$ 12.67</b>	<b>\$ 13.44</b>	<b>\$ 13.64</b>	<b>\$ 13.45</b>	<b>\$ 13.61</b>	

*Belmont*

While Belmont has not historically participated in SVCW Bond issuances, instead contributing cash in lieu of debt participation. It has chosen to fully participated in SRF loans and the majority of WIFIA government loans.



Projected SVCW Cash Flow Requirements - Belmont (\$ Millions)											
Description	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	
Operating Expense	\$ 3.40	\$ 3.54	\$ 3.68	\$ 3.83	\$ 3.98	\$ 4.14	\$ 4.31	\$ 4.48	\$ 4.66	\$ 4.84	
Wastewater Rev. Bonds	-	0.05	0.16	0.17	0.41	0.41	0.41	0.41	0.40	0.40	
SRF Loans	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	
WIFIA Loans	-	-	-	0.47	0.47	0.61	0.61	0.61	0.66	0.66	
Cash-funded Capital	0.14	0.14	0.14	0.14	0.14	0.14	0.76	0.80	0.85	0.90	
Cash-in-lieu of Debt	1.29	-	0.53	-	-	-	0.38	0.33	-	-	
Cash Reserves	0.36	0.41	0.45	0.50	0.55	0.60	0.03	0.04	0.04	0.04	
<b>TOTAL</b>	<b>\$ 6.03</b>	<b>\$ 4.98</b>	<b>\$ 5.81</b>	<b>\$ 5.95</b>	<b>\$ 6.39</b>	<b>\$ 6.74</b>	<b>\$ 7.33</b>	<b>\$ 7.50</b>	<b>\$ 7.45</b>	<b>\$ 7.68</b>	

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## SECTION 6 – SUMMARY

SVCW provides this LRF as a recommendation and implementation strategy to fund the next decade of capital improvements. The Plan documents possible alternatives. With \$108.9 million of CIP funding already secured through previous debt issuances, this Plan recommends a combination of utilizing cash reserves and additional new debt. A total of \$95.7 million of cash would fund CIP projects, including \$32 million next fiscal year and an additional \$63.7 million over the following nine years.

The Authority's debt strategy is to pursue the lowest-cost sources of project funds from the U.S. EPA and the State Water Board. When needed, the Authority would also issue revenue bonds to ensure project construction is not constrained for funding reasons. Approximately \$221 million of new debt would be needed for anticipated CIP expenditures:

- One SWRCB State Revolving Fund ("SRF") Loan valued at \$73 million, assumed to be drawn upon in FY 2030-31 at an interest rate of 3.25%. Debt service payments will commence one year after project completion.
- Three U.S. EPA Water Infrastructure Finance Innovation Act ("WIFIA") Loans, together valued at \$49 million, would fund up to 49% of dedicated projects. These loans are assumed to be secured in 2025, 2029, and 2031, respectively. The assumed interest rate of each loan is estimated at 4.50%. WIFIA amortization schedules can be wrapped around existing debt service payments to avoid significant demands on cash flow.
- Two Bond Issuances, for a combined \$99 million of project funding. In fiscal year 2025-26, a variable-rate bond issuance for \$50 million is assumed at an average interest rate of 3.40%. Additionally, \$49 million in fixed-rate bonds would be issued in fiscal year 2027-28 at an estimated interest rate of 5.0%.

This LRF's recommendations and its outcomes are for planning purposes. SVCW believes it is a reasonable forecast of expenditures over the next year, including an informed position that SVCW and its Members will have the resources to meet this recommendation. This LRF may be used by each Member Agency as it considers budgets and analyzes sewer rates.

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