



# Long Range Financial Plan

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## January 2022

Silicon Valley Clean Water



**Presented January 2022 by:**

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George Otte	Vice Chair	West Bay Sanitary District
Warren Lieberman	Secretary	City of Belmont
Ron Collins	Member	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 a concurrent update estimates that, inclusive of spending to date, the majority of the program will have been constructed by Fiscal Year Ended 2024.

This Plan incorporates the guidelines from the SVCW Joint Powers Agreement, the adopted Operating and Capital Budget from 2021-22, 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 February 2021 LRFP, this Plan considers three significant factors:

- **CIP Update:** SVCW continuously updates its cost estimates for remaining CIP projects by adjusting for project additions and deletions, changes in project scope, and new pricing information. These factors, as presented separately in Agenda Item 8B, have been incorporated into the LRFP.
- **Construction Timing:** The RESCU program has remained on schedule due to successful implementation of a Progressive Design-Build project delivery method.

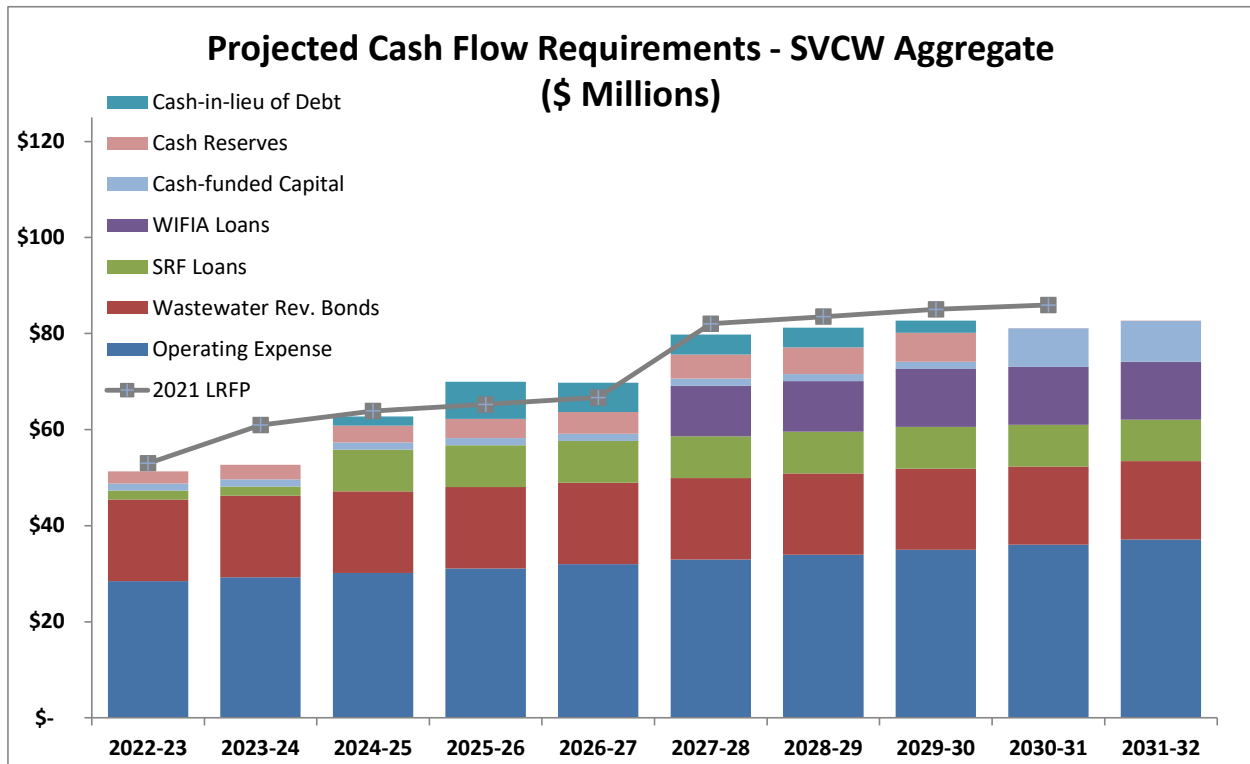
- **Financing Sources and Rates:** The LRFPP reflects the low interest rates and favorable loan terms secured over the past year. With help of Governmental loans from the California State Water Resource Control Board (“SWRCB”) and the U.S. Environmental Protection Agency (“U.S. EPA”), the Authority has now funded the entirety of the RESCU program. Concurrently, other outstanding debt was refinanced to reduce borrowing costs. Details include:
  - Three SWRCB State Revolving Fund Loans, valued at \$169 million, were executed at 0.90% to help fund RESCU. Debt service payments will commence in fiscal year 2024-25, one year after project completion.
  - Two U.S. EPA Water Infrastructure Finance Innovation Act (“WIFIA”) Loans were executed with principal of \$68.9 million (RESCU program) and \$73.8 million (Treatment Plant projects), respectively. The EPA allowed SVCW to adjust both loans’ debt service into a wrapped structure to blunt an otherwise sharp rise in SVCW’s total debt service. The benefit of this approach outweighed slightly-higher interest rates of the new WIFIA loans which, at 1.93% and 1.94% were slightly higher than the 1.75% assumed in the prior year.
  - A 2021 Bond issuance to advance refund two bond series from 2014 and 2015 as well as one State Revolving Fund Loan from 2011. The combined \$125 million in refunding closed at a True Interest Cost of 2.30%; a better rate than the 2.67% assumed in the 2021 LRFPP.

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.

When made aware in 2008 of the need to invest a significant amount into SVCW infrastructure, Member Agencies enacted strategies to increase sewer rates. In anticipation of the need to fund SVCW’s CIP, the majority of necessary rate increases were already enacted by Members and remaining adjustments are anticipated to be modest. Regular updates to the SVCW CIP and this LRFPP keep Member Agencies informed of the next decade’s cash flow requirements so each can incorporate needed adjustments into future revenue requirements.

This LRFPP projects total nominal cash flows required of SVCW Member Agencies over the next decade. Annual cash flow requirements in FY 2022-23 are estimated at \$51.3 million and are thereafter projected to reach \$82.7 million in ten years. The largest increase in expenditures over the next decade is for debt service payments, estimated to peak at \$41.0 million annually once fully in place. Other non-debt related expenditures are less impactful; the average annual increase in Operating Expense is approximately 3%, ongoing 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	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Operating Expense	\$ 28.44	\$ 29.29	\$ 30.17	\$ 31.08	\$ 32.01	\$ 32.97	\$ 33.96	\$ 34.98	\$ 36.03	\$ 37.11
Wastewater Rev. Bonds	16.97	16.97	16.97	16.95	16.95	16.95	16.94	16.92	16.31	16.31
SRF Loans	1.89	1.89	8.69	8.69	8.69	8.69	8.69	8.69	8.69	8.69
WIFIA Loans	-	-	-	-	-	10.52	10.52	12.03	12.03	12.03
Cash-funded Capital	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	8.00	8.50
Cash-in-lieu of Debt	-	-	1.84	7.73	6.10	4.11	4.11	2.55	-	-
Cash Reserves	2.53	3.03	3.53	4.03	4.53	5.03	5.53	6.03	0.03	0.03
<b>TOTAL</b>	<b>\$ 51.33</b>	<b>\$ 52.67</b>	<b>\$ 62.70</b>	<b>\$ 69.98</b>	<b>\$ 69.77</b>	<b>\$ 79.78</b>	<b>\$ 81.25</b>	<b>\$ 82.71</b>	<b>\$ 81.09</b>	<b>\$ 82.67</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 located in the northern part of Silicon Valley between the cities of San Francisco and San Jose. SVCW's wastewater treatment plant is located in the City of Redwood City. SVCW serves more than 200,000 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 Facebook.

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 & 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

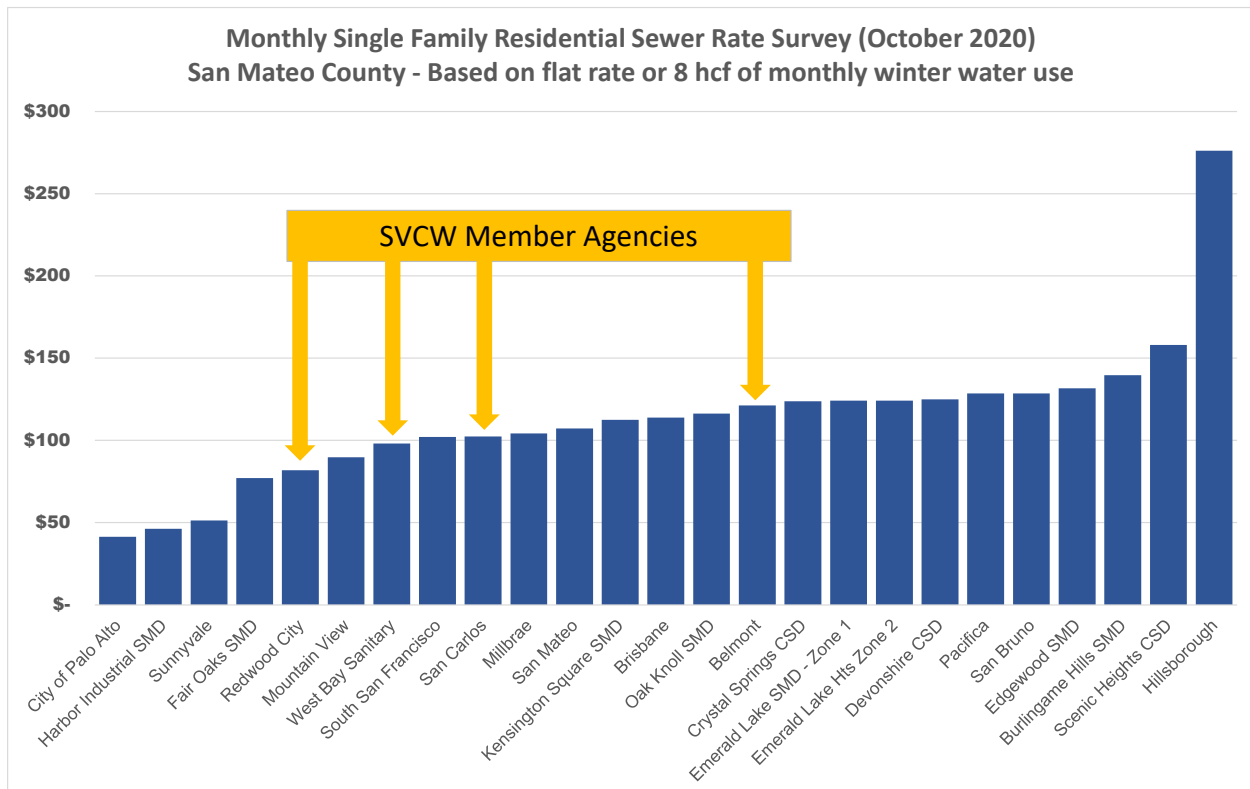
Member Agencies have adopted significant rate increases and currently generate adequate revenues to fund their share of the CIP and capital program costs. The below tables show Members' increases in single family residential monthly sewer rates over the past decade.

Residential Sewer Rates by Member Agency Based on 8 HCF of flow										
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Belmont	\$51.34	\$72.13	\$77.33	\$82.77	\$88.13	\$ 88.13	\$ 99.47	\$ 105.35	\$ 116.14	\$ 121.28
Redwood City	\$48.72	\$53.10	\$57.88	\$63.09	\$68.77	\$74.95	\$75.11	\$76.68	\$78.24	\$81.76
San Carlos	\$46.82	\$50.10	\$53.10	\$67.29	\$80.75	\$88.82	\$88.82	\$93.26	\$97.93	\$102.32
West Bay SD	\$54.17	\$57.50	\$62.67	\$68.33	\$74.42	\$81.08	\$85.92	\$89.33	\$93.83	\$98.08

Residential Sewer Rate Year-over-Year % Increase, by Member Agency										
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Belmont	6.8%	40.5%	7.2%	7.0%	6.5%	0.0%	12.9%	5.9%	10.2%	4.4%
Redwood City	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	0.2%	2.1%	2.0%	4.5%
San Carlos	7.0%	7.0%	6.0%	26.7%	20.0%	10.0%	0.0%	5.0%	5.0%	4.5%
West Bay SD	16.1%	6.1%	9.0%	9.0%	8.9%	8.9%	6.0%	4.0%	5.0%	4.5%



Despite these increases, Member Agencies' rates remain among the middle tier of San Mateo County sewer rates:



### 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 September 2022. 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 LRFP 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 \$330 million remains to be spent on capital expenditures 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;
- Historic and projected capital expenditures;
- Historic and projected operating costs;
- Historic and projected cash reserve balances, 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 most efficient 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 Policy, 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. Subsequent to the fiscal year-end closing, 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 2021-22 Budget was \$50.5 million. This includes \$27.6 million in operating expenditures, \$1.5 million for revenue-funded capital projects, additional cash reserve contributions of \$2.0 million, and debt service payments estimated at \$19.4 million.

2021-22 Budget - Total Contributions by Member Agency					
Description	City of Belmont	Redwood City	City of San Carlos	West Bay San District	TOTAL
Net Operating Expenditures	\$ 3,056,516	\$ 14,859,965	\$ 3,471,004	\$ 6,225,028	\$ 27,612,513
Revenue-Funded Capital Expendit	141,514	727,336	226,722	401,929	1,497,500
Reserve Contributions	189,000	971,400	302,800	536,800	2,000,000
Projected Debt Service	228,943	10,591,588	3,341,522	5,232,733	19,394,786
<b>Total Contributions to SVCW</b>	<b>\$ 3,615,973</b>	<b>\$ 27,150,288</b>	<b>\$ 7,342,048</b>	<b>\$ 12,396,489</b>	<b>\$ 50,504,799</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 2021-22 Operating Budget allocates costs as follows:

2021-22 Budget Revenue Allocation to Member Agencies - Adopted									
Description	Belmont	Redwood City	San Carlos	West Bay San District	TOTAL				
<b>Allocation Factors</b>									
Flow	11.30%	53.24%	13.65%	21.81%	100%				
Biochemical Oxygen Demand (BOD)	11.31%	52.55%	12.05%	24.09%	100%				
Suspended Solids (SS)	10.61%	55.52%	11.80%	22.07%	100%				
	<b>Weightings</b>								
	<b>Flow</b>	<b>BOD</b>	<b>SS</b>						
<b>Operating Expenditures</b>									
Operations	26.5%	33.5%	40.0%	\$ 1,192,045	\$ 5,828,788	\$ 1,337,617	\$ 2,451,447	\$ 10,809,897	
Maintenance	26.5%	33.5%	40.0%	799,107	3,907,422	896,693	1,643,367	7,246,589	
Laboratory	26.5%	33.5%	40.0%	198,295	969,610	222,510	407,794	1,798,210	
Environmental Services	26.5%	33.5%	40.0%	109,581	535,822	122,963	225,354	993,719	
Engineering	26.5%	33.5%	40.0%	153,568	750,910	172,322	315,814	1,392,615	
Safety	100.0%	0.0%	0.0%	55,608	261,997	67,173	107,328	492,106	
Information Services	26.5%	33.5%	40.0%	217,939	1,065,665	244,554	448,193	1,976,351	
Administrative Services	100.0%	0.0%	0.0%	424,657	2,000,774	512,971	819,626	3,758,027	
Total Operating Expend.				\$ 3,150,800	\$ 15,320,988	\$ 3,576,802	\$ 6,418,923	\$ 28,467,513	
Subtract Miscellaneous Income	26.5%	33.5%	40.0%	\$ 94,284	\$ 461,023	\$ 105,798	\$ 193,895	\$ 855,000	
<b>2021-22 Net Operating Revenue Required</b>				<b>\$ 3,056,516</b>	<b>\$ 14,859,965</b>	<b>\$ 3,471,004</b>	<b>\$ 6,225,028</b>	<b>\$ 27,612,513</b>	
2020-21 Net Operating Revenue Required				3,119,636	13,023,505	3,602,305	6,883,538	26,628,984	
\$ Increase / (Decrease)				(63,120)	1,836,460	(131,301)	(658,510)	983,529	
% Increase / (Decrease)				(2.02%)	14.10%	(3.64%)	(9.57%)	3.69%	

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

<u>Belmont</u>	<u>San Carlos</u>	<u>Redwood City</u>	<u>West Bay SD</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.

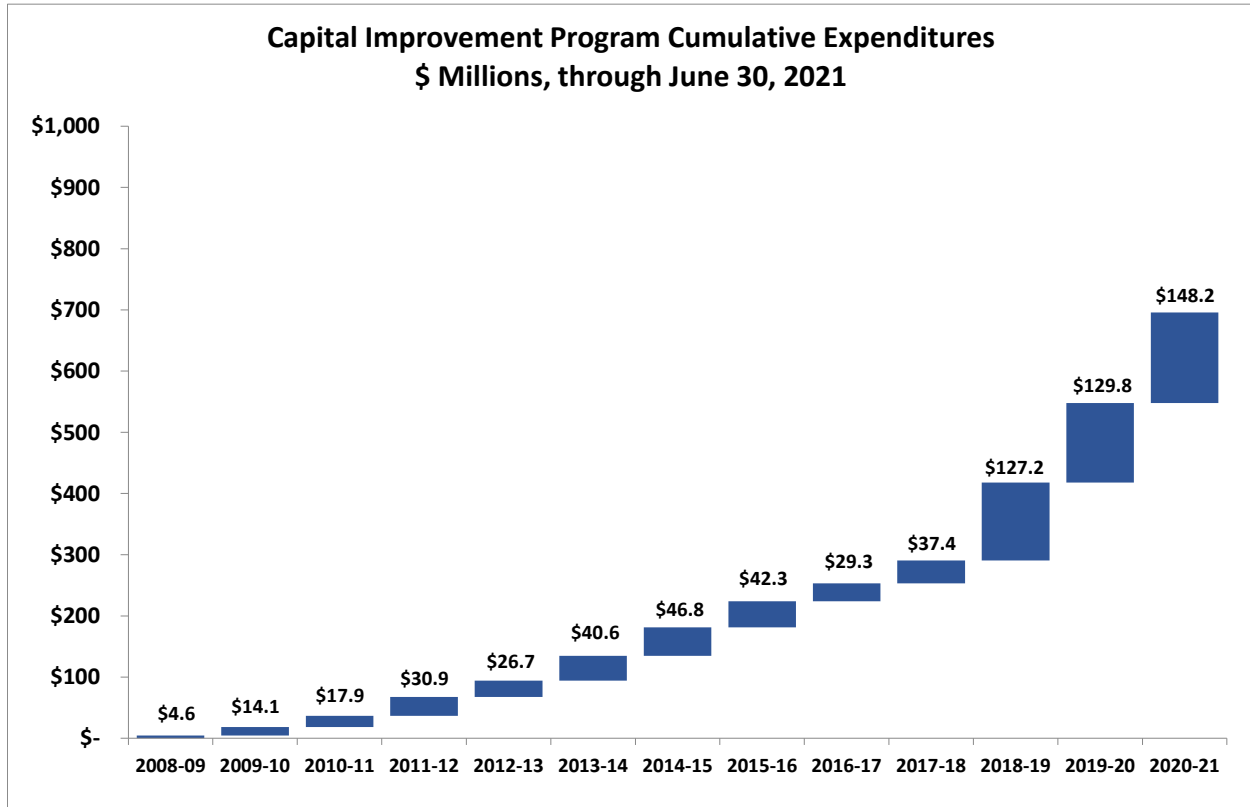
Capital costs associated with the Joint Facilities include improvements resulting from reconstruction, replacement, rehabilitation, remodeling, or relocation. This includes all costs meeting the definition of a capital expense as defined in SVCW’s Capital Expense Policy.

2021-22 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>					
Plant (cash-funded capital)	\$ 131,119	\$ 673,909	\$ 210,068	\$ 372,405	\$ 1,387,500
Pump Stations	-	-	-	-	-
Force Main	-	-	-	-	-
Equipment	10,395	53,427	16,654	29,524	110,000
Subtotal	\$ 141,514	\$ 727,336	\$ 226,722	\$ 401,929	\$ 1,497,500
<b>RESERVE CONTRIBUTIONS</b>					
Operating Reserve	\$ -	\$ -	\$ -	\$ -	\$ -
CIP Reserve	189,000	971,400	302,800	536,800	2,000,000
Subtotal	\$ 189,000	\$ 971,400	\$ 302,800	\$ 536,800	\$ 2,000,000
<b>Contributions for Capital &amp; Reserves</b>	<b>\$ 330,514</b>	<b>\$ 1,698,736</b>	<b>\$ 529,522</b>	<b>\$ 938,729</b>	<b>\$ 3,497,500</b>

**Capital Improvement Program (CIP)**

SVCW has made substantial progress to rebuild, rehabilitate, and update its wastewater conveyance and treatment facilities that have approached the end of their useful operating lives. The CIP was originally implemented in 2008 to address near-term and long-term capital replacement needs. Engineering staff periodically updates the CIP to include projects that will address known Joint Facility deficiencies. This includes rehabilitation and replacement of aging infrastructure and equipment; improvements and additions to the treatment plant and conveyance system that substantially enhance reliability; technological upgrades, required regulatory treatment improvements and system-wide automation projects designed to improve operational efficiency and reliability (thereby reducing future operating and maintenance expenses); and additional energy management solutions.

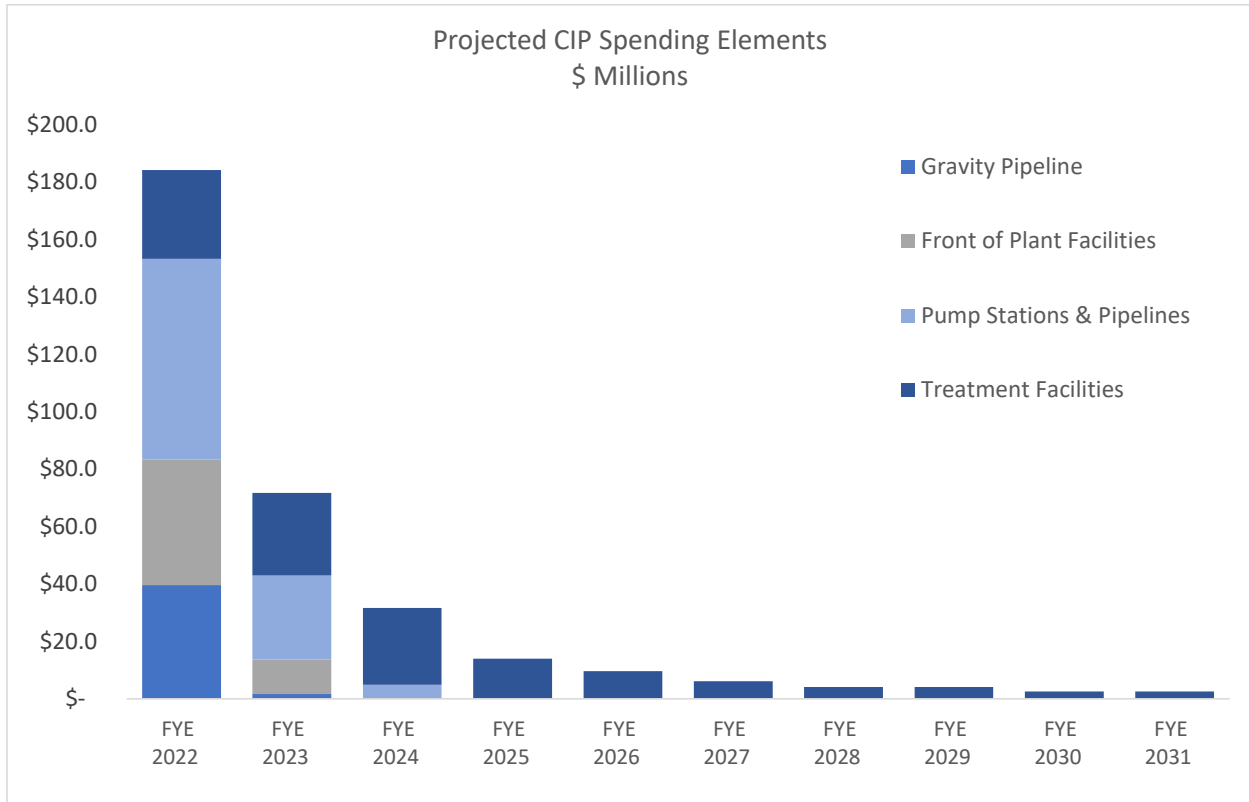
Charges to the CIP include all capitalized components of projects such as planning, design, engineering, construction, and construction management. The costs also include certain administrative costs like insurance and the engineering labor time directly charged to projects. Construction expenditures have risen since 2018 once RESCU projects commenced.





*Forecasted CIP Expenditures*

Concurrent with this LRF update, the CIP continues to be updated. It currently identifies remaining expenditures of approximately \$330.5 million over the next ten years.



Identified Capital Expenditures through Fiscal Year 2031; by CIP Program (\$ Millions)												
CIP Program	FYE 2022	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	Total	
Gravity Pipeline	\$ 39.6	\$ 1.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41.3	
Front of Plant Facilities	43.7	12.1	-	-	-	-	-	-	-	-	55.8	
Pump Stations & Pipelines	70.0	29.3	4.9	-	-	-	-	-	-	-	104.1	
Treatment Facilities	30.9	28.7	26.7	13.9	9.6	6.1	4.1	4.1	2.6	2.6	129.4	
<b>Total</b>	<b>\$ 184.2</b>	<b>\$ 71.7</b>	<b>\$ 31.6</b>	<b>\$ 13.9</b>	<b>\$ 9.6</b>	<b>\$ 6.1</b>	<b>\$ 4.1</b>	<b>\$ 4.1</b>	<b>\$ 2.6</b>	<b>\$ 2.6</b>	<b>\$ 330.5</b>	

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

Identified Capital Expenditures through Fiscal Year 2031; by Member Allocation (\$ Millions)												
CIP Program	JPA %	FYE 2022	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	Total
Redwood City	48.57%	\$ 89.5	\$ 34.8	\$ 15.3	\$ 6.8	\$ 4.7	\$ 3.0	\$ 2.0	\$ 2.0	\$ 1.2	\$ 1.2	\$ 160.5
WBSD	26.84%	49.4	19.2	8.5	3.7	2.6	1.6	1.1	1.1	0.7	0.7	88.7
San Carlos	15.14%	27.9	10.9	4.8	2.1	1.5	0.9	0.6	0.6	0.4	0.4	50.0
Belmont	9.45%	17.4	6.8	3.0	1.3	0.9	0.6	0.4	0.4	0.2	0.2	31.2
<b>Total</b>	<b>100.00%</b>	<b>\$184.2</b>	<b>\$ 71.7</b>	<b>\$ 31.6</b>	<b>\$ 13.9</b>	<b>\$ 9.6</b>	<b>\$ 6.1</b>	<b>\$ 4.1</b>	<b>\$ 4.1</b>	<b>\$ 2.6</b>	<b>\$ 2.6</b>	<b>\$ 330.5</b>

The majority of upcoming CIP expenditures is attributed to projects within the RESCU program. RESCU is comprised of three significant elements with combined remaining expenditures of approximately \$201 million. These projects include:

1. Gravity Pipeline: Replaces the influent force main with a gravity pipeline;
2. Front of Plant: Constructs a headworks facility comprised of a receiving lift station, screening and grit removal, peak flow and storm water handling facilities, and an influent connector pipeline; and
3. Pump Station Improvements: Replaces, rehabilitates, decommissions SVCW pump stations.

## Cash Reserves Policy

In 2013, the SVCW Commission adopted a cash reserves policy that protects its fiscal solvency and funds 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 debt reserves mitigate the negative impact of revenue shortfalls from economic fluctuations, to fund unforeseen expense requirements, to provide stable rates for Member Agencies, and to help fund future long-term capital needs.

- 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 November 30, 2021 the amount held in this reserve was \$3.84 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 \$2.0 million was added to the CIP Reserve Fund in fiscal year 2021-22. This amount will increase by \$500 thousand annually until the reserve balance reaches an inflation-adjusted \$50 million in 2019 dollars. As of November 30, 2021 the CIP Reserve was \$19.1 million.
- The Stage 2 Capacity Reserve is utilized to pay for capital projects that will 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 November 30, 2021 the amount in this reserve was \$14.9 million.

## Debt Policy

SVCW adopted a debt management policy in 2017, which was most recently amended in September 2020. 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 promotes 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 must also maintain 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. Currently approximately \$330 million of capital projects requires funding over the next decade. The Model produces multiple funding scenarios that compare debt service costs at aggregate and Member Agency levels. The Model also optimizes 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 debt financing scenarios that could fund the remaining CIP by comparing interest rates and average costs per year. The flexibility of the Model allows for changing 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 or wastewater revenue bonds.

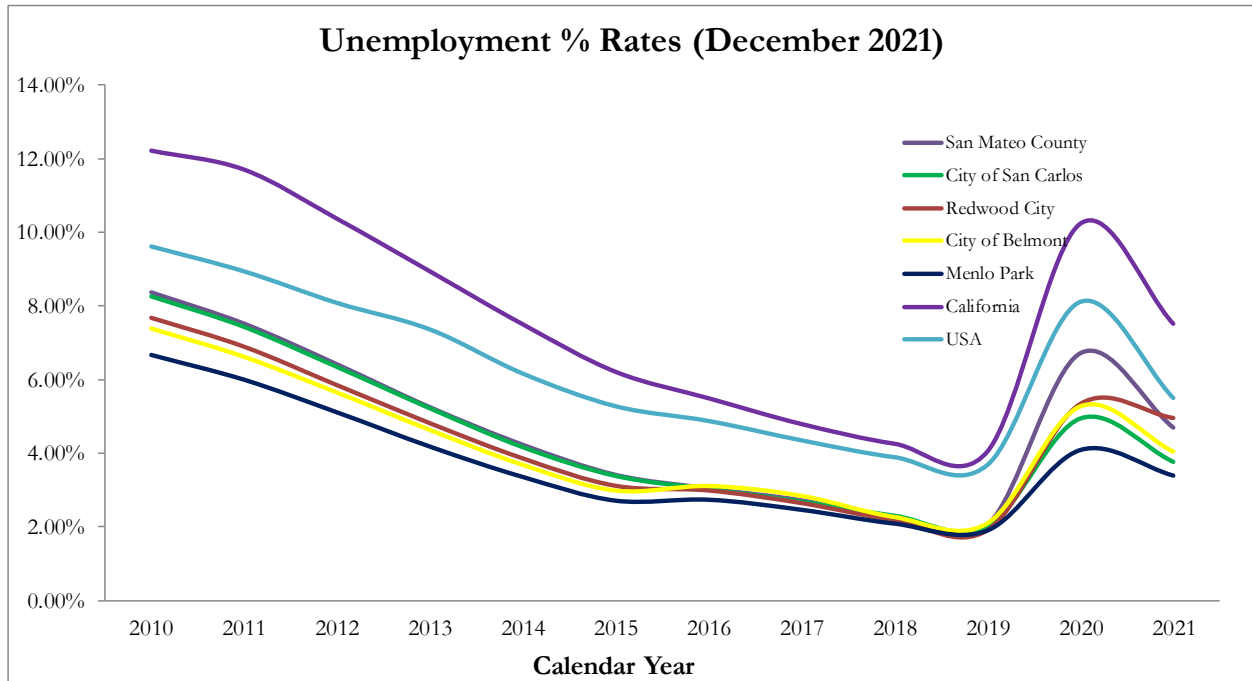
When government loan programs like SRF and WIFIA previously present timing challenges, both were pursued for their attractive low interest rates and flexible repayment structures. While structurally similar to revenue bonds, the SRF loan amortizes over 30 years at an interest rate equal to half the California General Obligation Bonds rate. WIFIA loans amortize over 35 years at a rate equal to Treasury rates plus one basis point, and repayment begins 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.

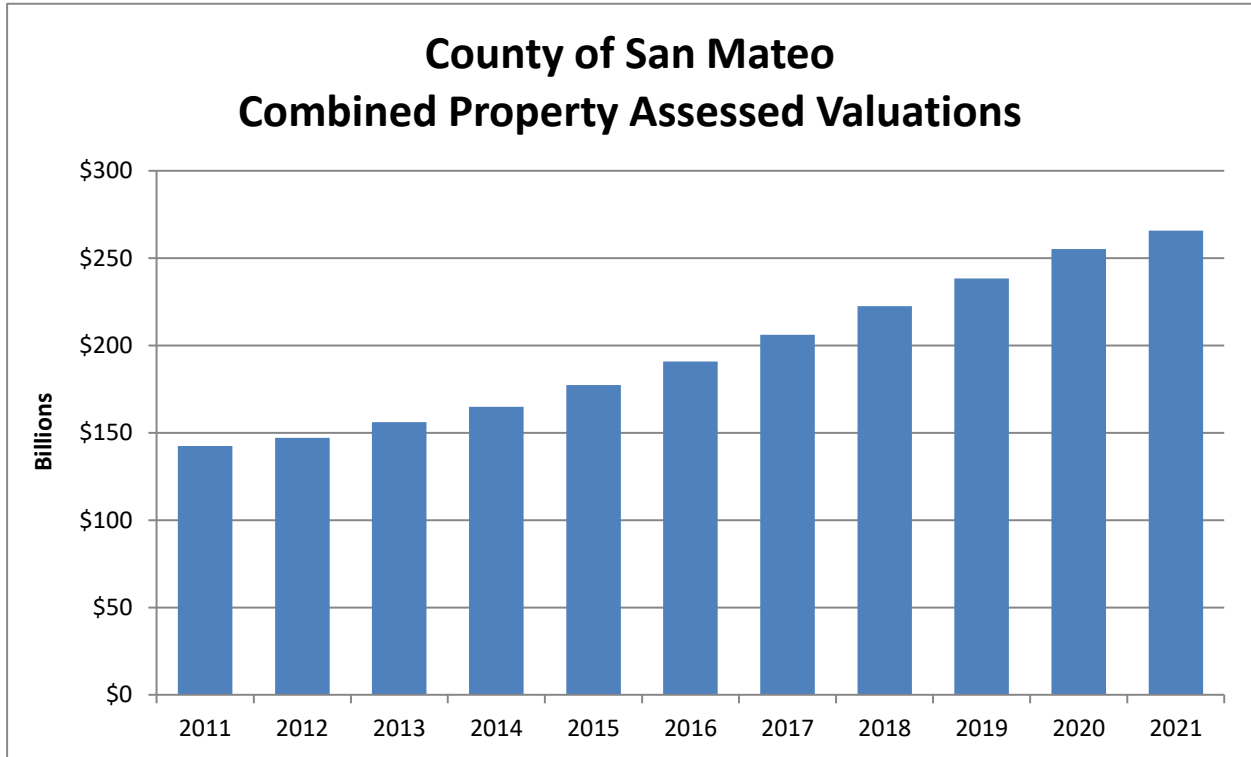
## Unemployment

The Bay Area economy, like others, experienced significant negative impacts from 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 rose to 4% to 6% last year, faring considerably better than statewide California and nationwide U.S. rates. Unemployment has improved since its peak, now at 3.5% to 5.0% amongst Members.



*County Assessed Valuations*

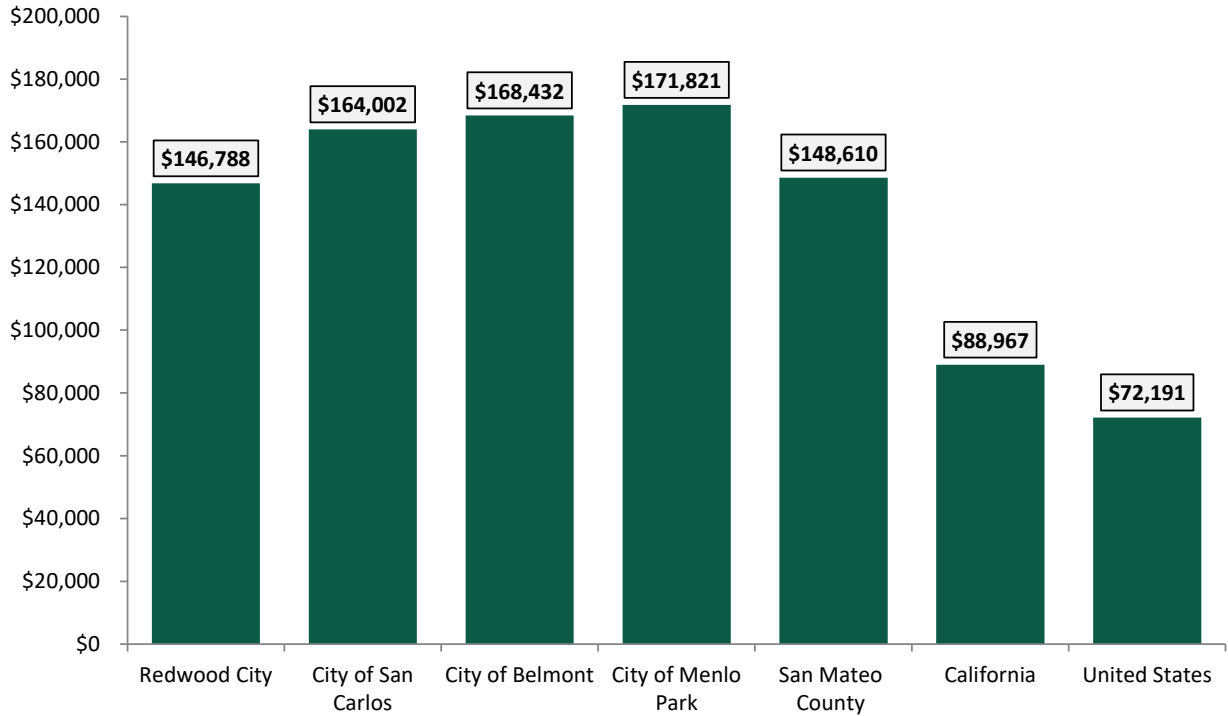
San Mateo County had approximately \$266 billion in total assessed 2021 real property valuation, an increase of \$10.6 billion (or 4.2%) from the previous year. Recent trends indicate that, during the COVID pandemic, assessed property values have continued to further increase.



### Median Household Income

The median household incomes and effective buying incomes of Member Agencies are consistently above the State and National levels. Public 2021 economic data shows that the median household income of San Mateo County, at \$148 thousand, is 206% and 167% of the Nation's and State's median household income, respectively.

### 2021 Median Household Income

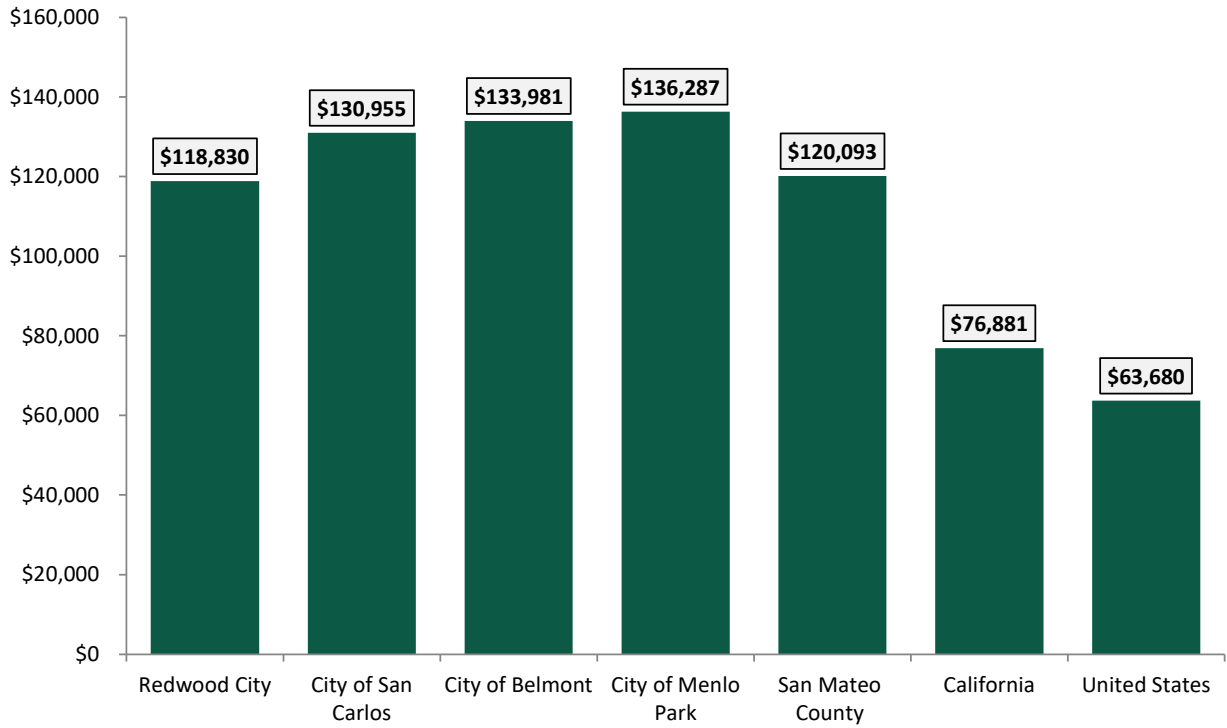




### Effective Buying Income

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 \$119 thousand to \$136 thousand, which is 187% to 214% of the National levels, and 155% to 177% of California levels.

### 2021 Median Effective Buying Income

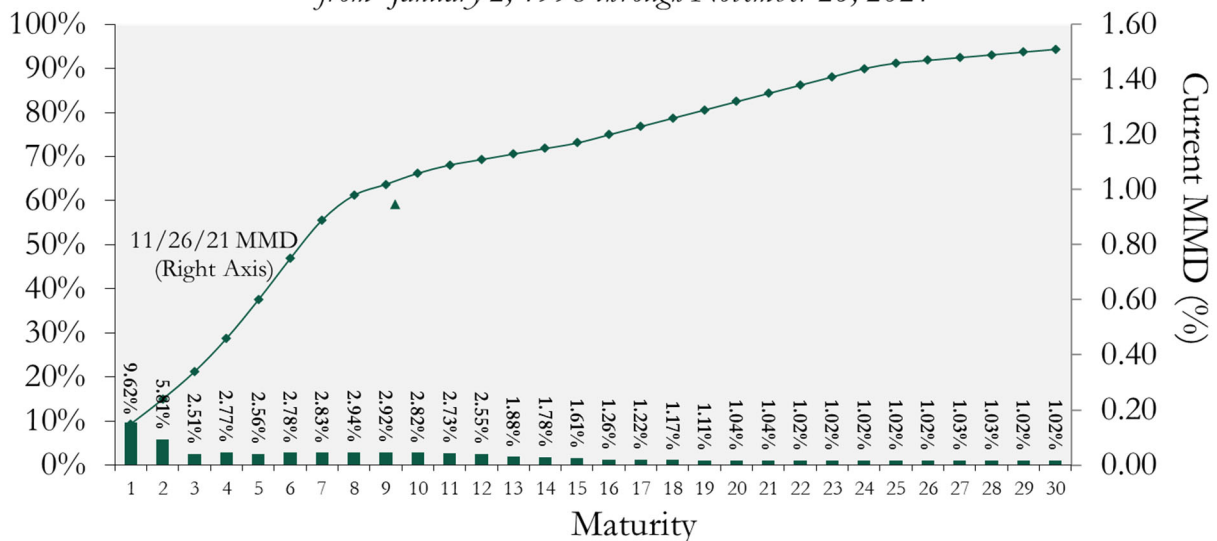


*Interest Rates*

Based upon market conditions, every financing tool has projected interest rates depending on the type of the debt whether it is fixed or variable. For example, recently-closed SRF loans for the RESCU program were executed in mid-2021 at 0.90%. Two more WIFIA Loans were executed in September 2021 at approximately 1.9%, and the Authority’s Line of Credit reflects the agreement’s LIBOR-indexed rate.

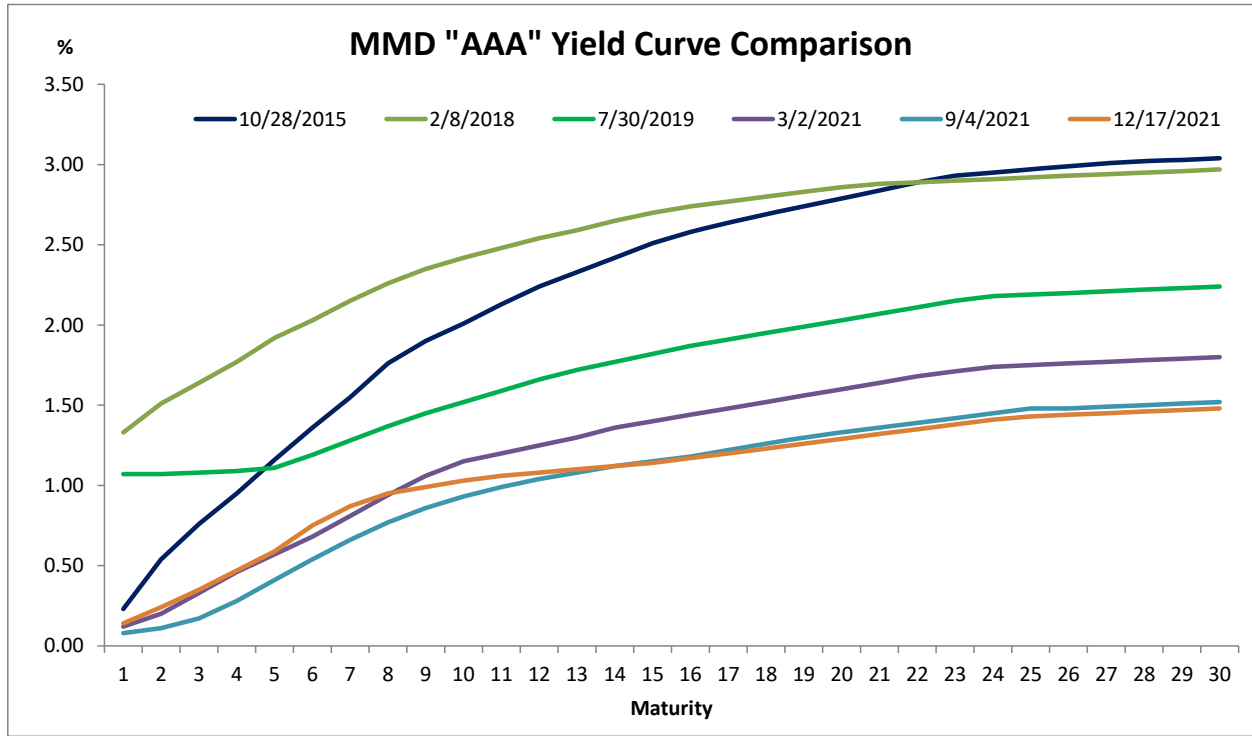
The table below provides context for tax-exempt interest rates in the Municipal Market Index as of November 26, 2021 and compares current rates to historical rates by term. The data demonstrates that interest rates are lower historically across maturities, indicating advantageous market conditions for issuing long-term debt.

**Current "AAA" MMD and Percentage of Time Historical "AAA" MMD has been Lower than Current "AAA" MMD**  
*from January 2, 1998 through November 26, 2021*



Source: Thomson Municipal Market Monitor

The six yield curves shown below are a snapshot of interest rates when SVCW issued prior series of Bonds or Notes, with a comparison to December 17, 2021. Notably, current rates remain the lowest throughout the 30-year maturities. With such low interest rates, it was advantageous to finance projects and refinance outstanding debt.



Source: Thomson Municipal Market Monitor

*Interest earnings on Project Funds and Reserves:*

It is estimated that funds held by SVCW related to the CIP, including reserve funds required by the SRF Loan program, will achieve investment earnings of 1.75% annually over the long term.

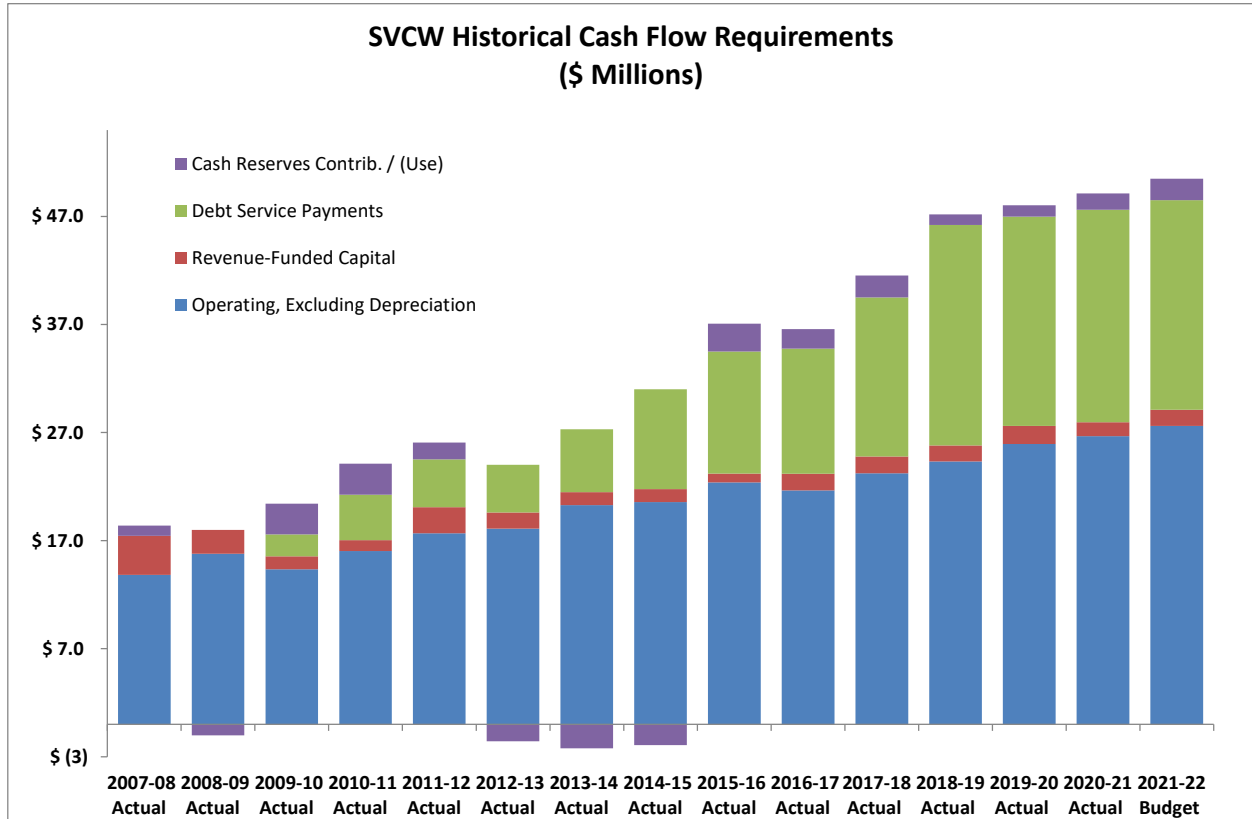
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## SECTION 4 – HISTORICAL FINANCIALS

### Historical Cash Flow Requirements

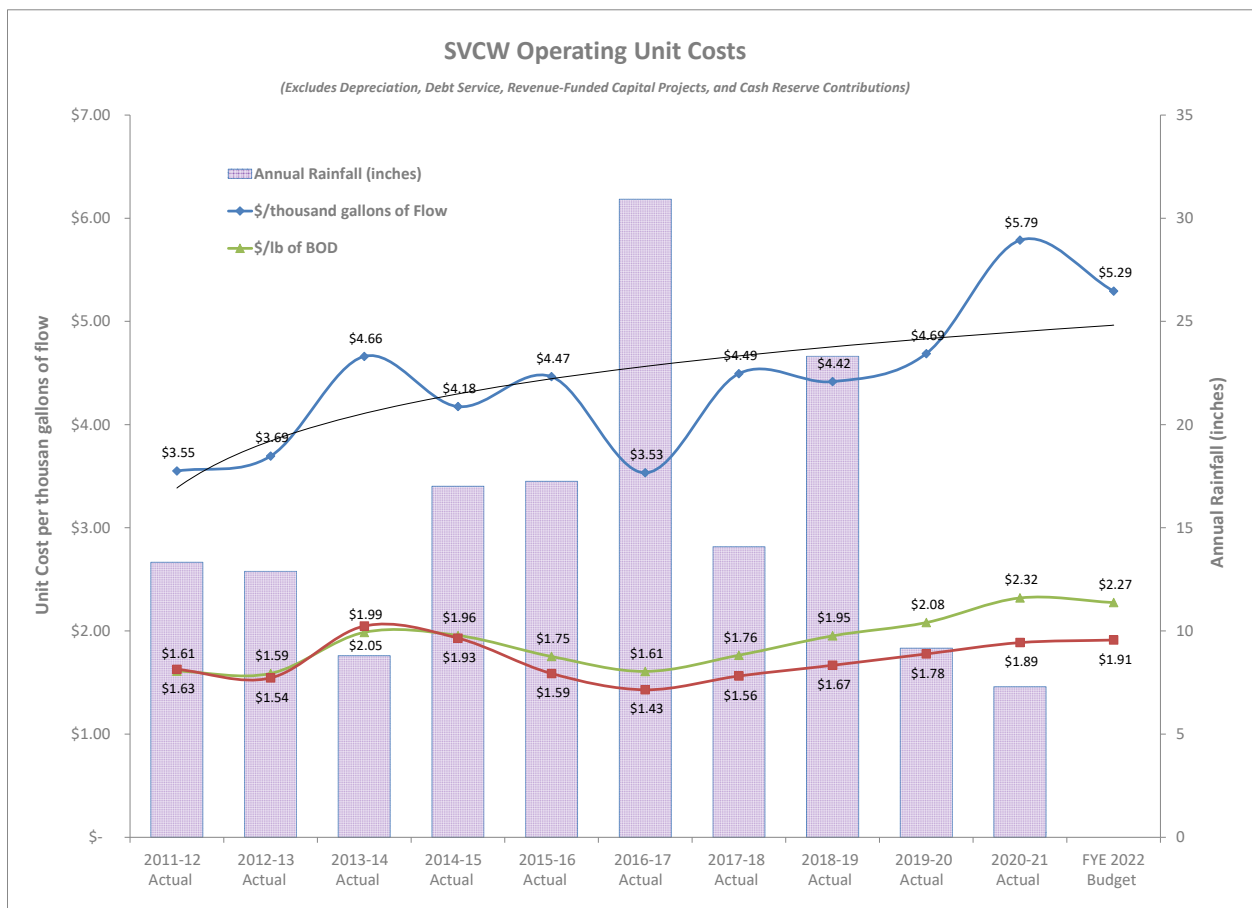
#### *Total Cash Flow Requirements*

SVCW annual cash flow requirements from Members have more than doubled over the past decade, mostly due to higher debt service payments needed to finance its CIP.

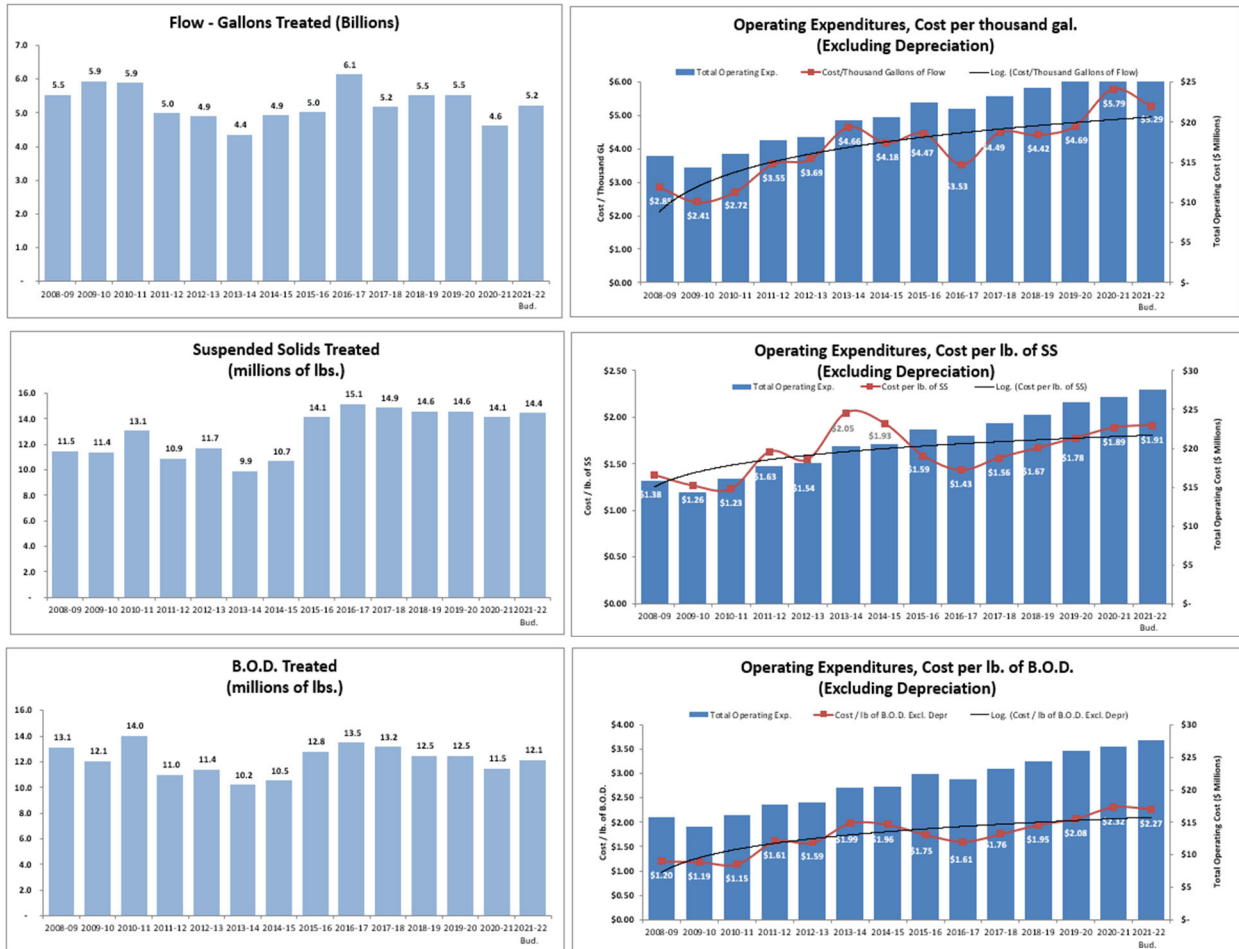


### Historical Unit Costs

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). Drought conditions have particularly influenced flow unit costs at times, when declining flow numbers caused Unit Costs to rise between 2011 to 2016 and again 2021. Operating Unit Costs are measured per thousands of gallons treated, per pound of TSS, and per pound of BOD.

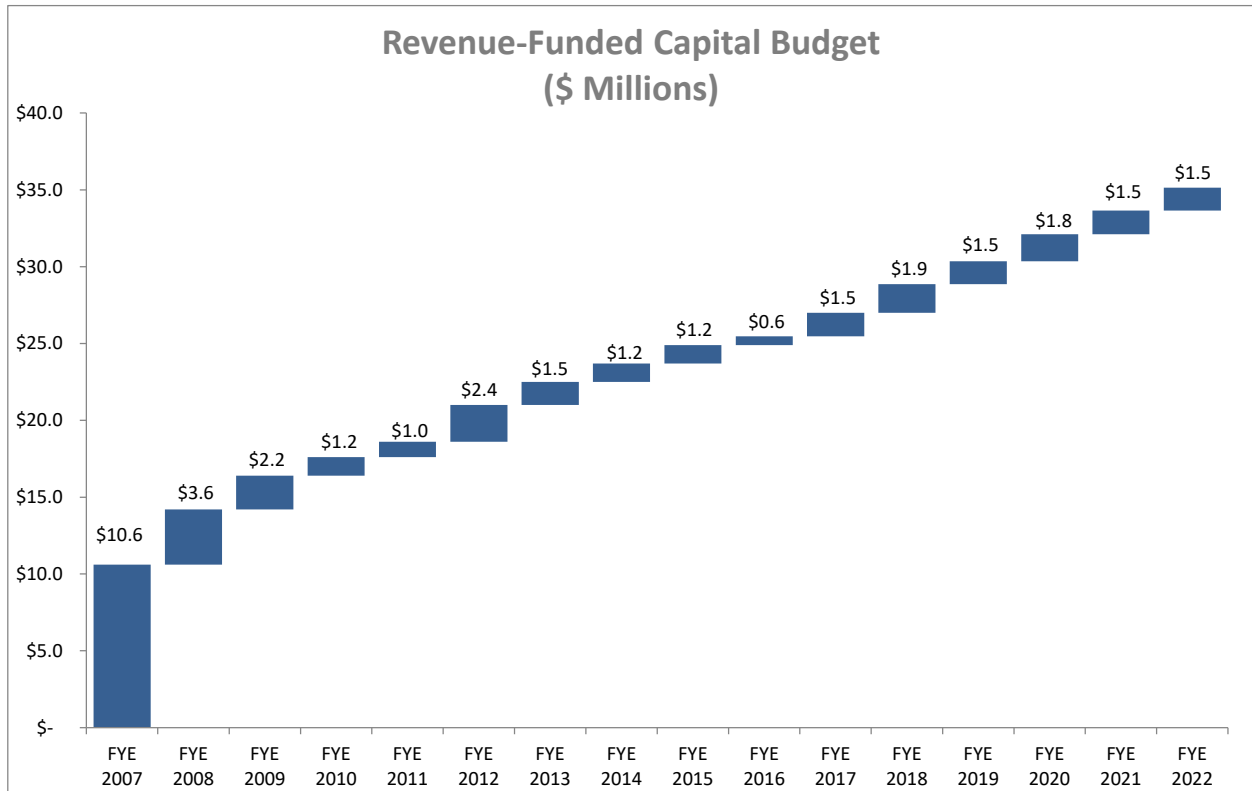


### Revenue-Funded Capital Expenditures

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, maintenance repairs that improve an asset’s useful life, as well as planning studies or preliminary engineering analysis for major capital improvements. Due to their relatively minor cost, it is appropriate to fund these items using cash rather than long-term debt.

Since 2006-07, SVCW has spent approximately \$35.2 million on Revenue-Funded Capital. Prior to formally adopting the CIP in fiscal year 2007-08, Member Agencies would make relatively large cash

contributions to address SVCW’s immediate capital project needs. Since 2008-09, however, SVCW has averaged \$1.5 million annually in Revenue-Funded capital expenditures.



### Cash Reserves

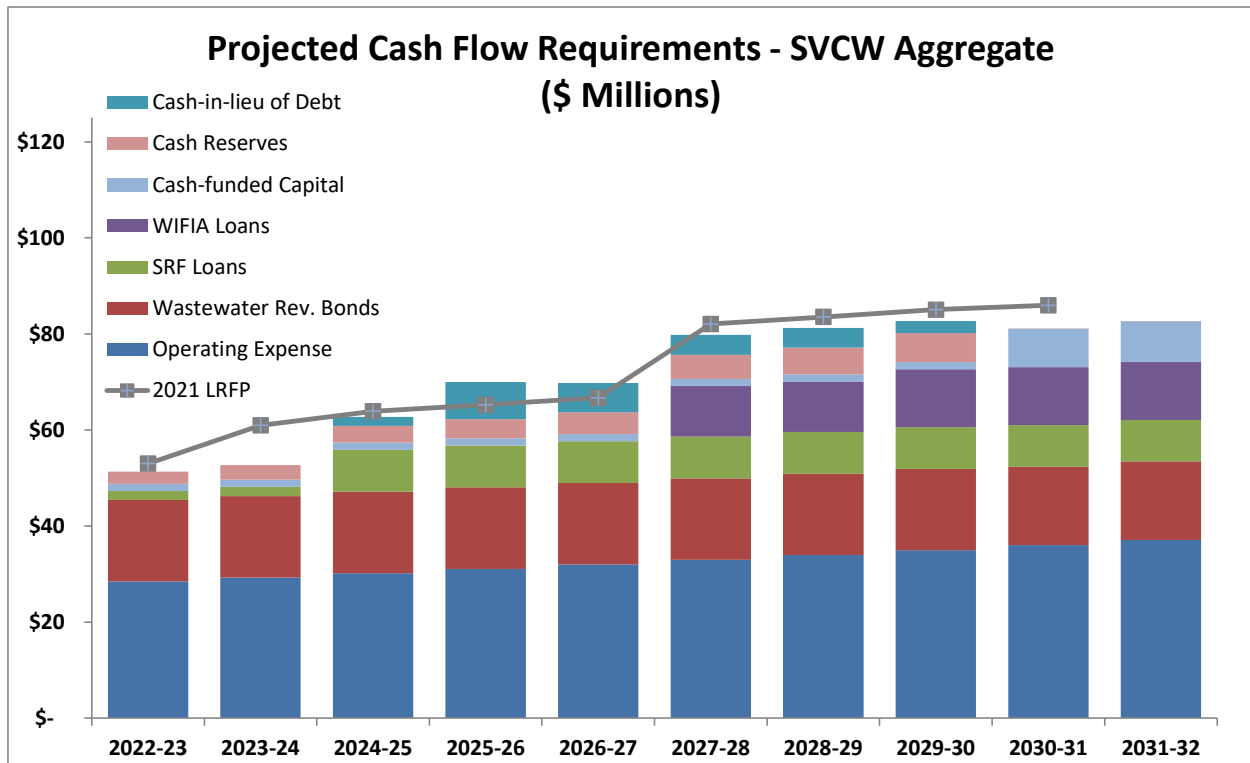
The SVCW Commission has adopted cash reserve policies to document the goals and describe amounts intended to be held in reserves. Each year, the SVCW budget process reviews all reserve balances and adjusts as needed to comply with policy. In 2020-21, \$1.5 million was contributed to the CIP Reserve and another \$2.0 million is being contributed in 2021-22.



## SECTION 5 – TEN-YEAR FINANCIAL PROJECTIONS

In fiscal year 2022-23 SVCW anticipates total expenditures will be \$51.33 million for all costs of operations, debt service, revenue-funded capital, and reserve contributions. This figure is anticipated to grow to \$82.67 million over the next ten years. SVCW has now secured savings provided by its low borrowing costs. This is evident in the chart below, showing how anticipated cash flows will be less than the amounts estimated in the prior year LRFPP.

Projected SVCW Cash Flow Requirements - Aggregate (\$ Millions)										
Description	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Operating Expense	\$ 28.44	\$ 29.29	\$ 30.17	\$ 31.08	\$ 32.01	\$ 32.97	\$ 33.96	\$ 34.98	\$ 36.03	\$ 37.11
Wastewater Rev. Bonds	16.97	16.97	16.97	16.95	16.95	16.95	16.94	16.92	16.31	16.31
SRF Loans	1.89	1.89	8.69	8.69	8.69	8.69	8.69	8.69	8.69	8.69
WIFIA Loans	-	-	-	-	-	10.52	10.52	12.03	12.03	12.03
Cash-funded Capital	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	8.00	8.50
Cash-in-lieu of Debt	-	-	1.84	7.73	6.10	4.11	4.11	2.55	-	-
Cash Reserves	2.53	3.03	3.53	4.03	4.53	5.03	5.53	6.03	0.03	0.03
<b>TOTAL</b>	<b>\$ 51.33</b>	<b>\$ 52.67</b>	<b>\$ 62.70</b>	<b>\$ 69.98</b>	<b>\$ 69.77</b>	<b>\$ 79.78</b>	<b>\$ 81.25</b>	<b>\$ 82.71</b>	<b>\$ 81.09</b>	<b>\$ 82.67</b>



## Projected SVCW Operating Expenditures

Overall operating expenses are expected to increase by approximately 3.0% annually over the next decade. This includes benefits derived from efficient operations and power generation.

SVCW Operating Expenditures (\$ Millions)												
Description	2021-22 Budget	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	2030-31 Forecast	2031-32 Forecast	
Personnel	\$ 18.3	\$ 18.8	\$ 19.4	\$ 20.0	\$ 20.6	\$ 21.2	\$ 21.8	\$ 22.5	\$ 23.2	\$ 23.9	\$ 24.6	
Utilities	1.6	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.1	2.1	
Administrative Costs	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	
Equipment & Supplies	2.7	2.8	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.7	
Chemicals	1.9	2.0	2.0	2.1	2.2	2.2	2.3	2.4	2.4	2.5	2.6	
Professional Services	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	
Contractual Services	2.0	2.0	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.6	2.6	
Regulatory and Training	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	
<b>Total Expenditures</b>	<b>\$ 28.5</b>	<b>\$ 29.3</b>	<b>\$ 30.2</b>	<b>\$ 31.1</b>	<b>\$ 32.0</b>	<b>\$ 33.0</b>	<b>\$ 34.0</b>	<b>\$ 35.0</b>	<b>\$ 36.1</b>	<b>\$ 37.1</b>	<b>\$ 38.3</b>	
Less Misc. Revenue	(0.9)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)	
<b>Net Operating Expend.</b>	<b>\$ 27.6</b>	<b>\$ 28.4</b>	<b>\$ 29.3</b>	<b>\$ 30.2</b>	<b>\$ 31.1</b>	<b>\$ 32.0</b>	<b>\$ 33.0</b>	<b>\$ 34.0</b>	<b>\$ 35.0</b>	<b>\$ 36.0</b>	<b>\$ 37.1</b>	

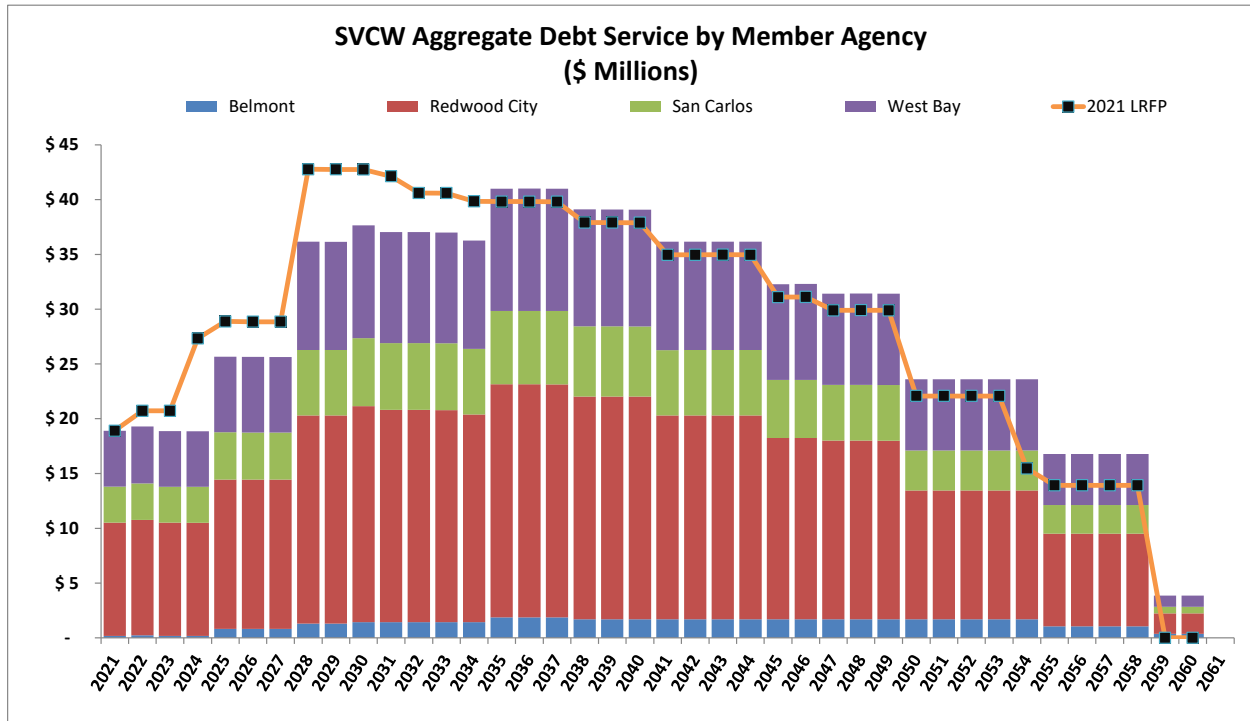
## Debt Service Structure / Annual Debt Service Payments

SVCW and its Members historically leveraged the debt markets to fund the CIP. Approximately \$959 million of funding has been raised to date. Sources of funds include 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 Nov. 30 2021
<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	8.50
2021 Refunding Bonds	2.30%	-	-
Subtotal - Bonds		310.38	8.50
<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	157.62
WIFIA / Notes - RESCU Program	1.40%	207.33	-
WIFIA / Notes - RESCU II	1.93%	68.90	68.22
WIFIA / Notes - WWTP	1.94%	73.80	71.79
Subtotal - Government Loans		575.94	297.63
<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>\$ 306.14</b>

\* Bond series advance refunded

Over the next four decades displayed below, total remaining aggregate debt service is \$1.10 billion. A noteworthy improvement is the amount of Maximum Annual Debt Service payments (the peak amount of annual debt payments made over the next 40 years), will be \$1.7 million less than anticipated in the prior year’s plan. Furthermore, the aggregate payments over these 40 years is equal to the prior year’s Plan in nominal dollars but because of the delay in when certain loan repayments begin, \$13 million less in Net Present Value terms.



### 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. The City of Belmont has, to date, not participated in SVCW Wastewater Revenue Bonds financing and is therefore not obligated to make debt service payments on the bonds currently outstanding.

Bond debt service payments are \$16.97 million in fiscal year 2021-22 including two outstanding series from 2018 and 2021 which, combined, refunded all earlier bond series.

### 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 will peak at \$8.7 million in fiscal year 2024-25, when recently-executed 2021 RESCU Loans repayments commence atop earlier SRF loans for the Control Building, Wastewater Treatment Improvements, and conveyance system planning. These new series of SRF loans secured \$169 million for the RESCU program at an interest rate of 0.90%.

*Line of Credit*

SVCW holds a \$45 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.

*Remaining Funding to be Secured*

This LRF recognizes most of these projects are now funded, with approximately \$44 million not yet secured. The Authority recommends the following approach to finance this balance:

Proposed Sources to fund CIP Expenditures not yet secured by existing debt (\$ Millions)											
Description	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	TOTAL
Stage 2 Capacity Funds	\$ -	\$ 2.2	\$ 12.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$14.3
Cash in lieu of Debt	-	-	1.8	7.7	6.1	4.1	4.1	2.6	-	-	26.4
CIP Reserve, Redirected	-	-	-	-	-	-	-	-	2.6	1.0	3.5
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ 2.2</b>	<b>\$ 13.9</b>	<b>\$ 7.7</b>	<b>\$ 6.1</b>	<b>\$ 4.1</b>	<b>\$ 4.1</b>	<b>\$ 2.6</b>	<b>\$ 2.6</b>	<b>\$ 1.0</b>	<b>\$44.3</b>

- **Stage 2 Reserves:** As of November 30, 2021, approximately \$14.3 million is held in this reserve to be spent towards construction projects that maintain and/or expand SVCW’s treatment capacity.
- **Cash in lieu of Debt:** As surplus cash was available Members have at times opted to fund CIP construction with cash rather than issuing additional debt. A similar approach is proposed for a six-year period beginning Fiscal Year 2024-25, when approximately \$26.4 million in project expenditures need finding. Alternatively, Members may choose to utilize SVCW’s line of credit or issue fixed-rate wastewater revenue bonds.
- **Redirected CIP Reserve Contributions:** Beginning Fiscal Year 2030-31, the CIP Reserve Fund is predicted to reach its target balance. The Commission, in November 2019, adopted amendments to the CIP Reserve Policy (Policy #2013-03) that recognized the importance of setting this target balance, and thereafter redirecting contributions to CIP projects. By applying this policy, Members’ contributions would pay for projects in Fiscal Year 2030-31 and thereafter to mitigate future borrowing.

## Revenue-Funded Capital Expenditures

Over the next decade, until the CIP Cash Reserve balance reaches its target, SVCW anticipates investing approximately \$1.5 million annually to 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.

## Cash Reserves Contributions

The table below shows the projected annual cash reserve contributions to the Capital Improvement Program Fund, its earnings, and the balances. Cash Reserve contributions follow SVCW policy at \$2.0 million contributed in fiscal year 2020-21, after which contributions increase annually by \$500 thousand. Such contributions continue until the CIP Reserve balance reaches an inflation-adjusted target of \$50 million in 2019 dollars, after which the contributions will be redirected to Revenue-Funded Capital projects.

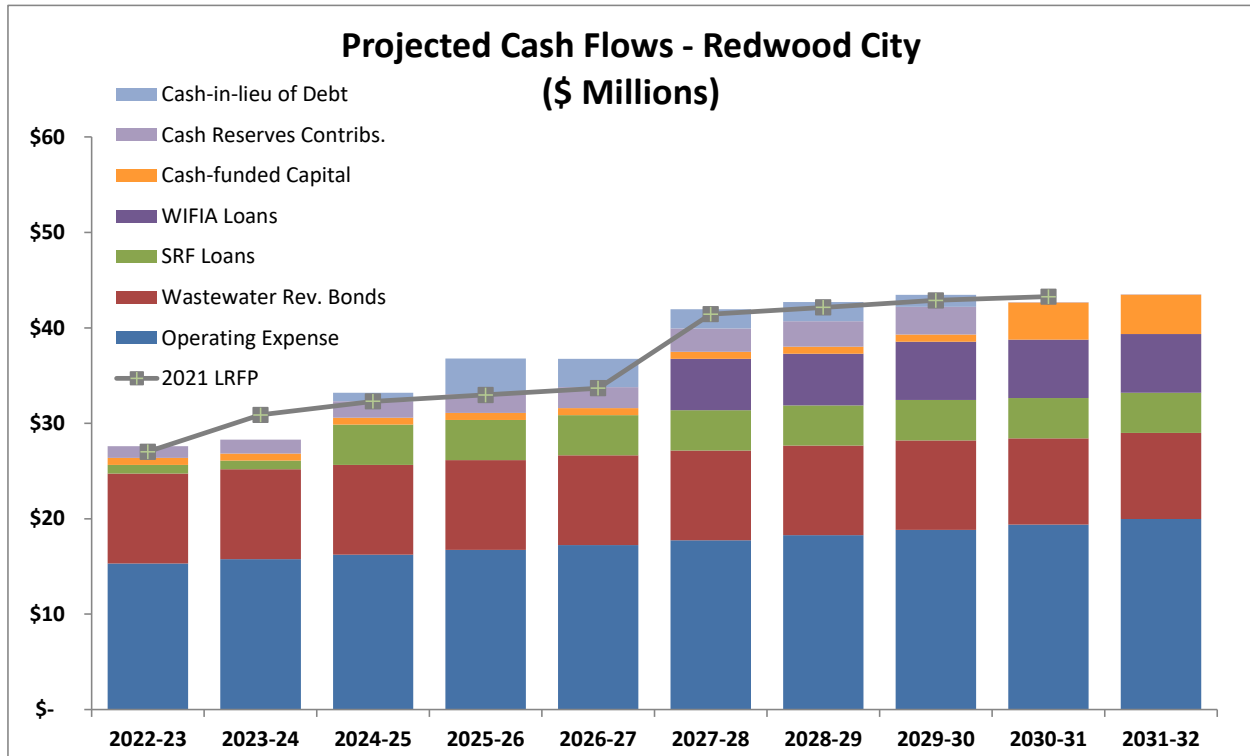
After ten years SVCW is projected to have approximately \$60 million in cash reserves available to fund unanticipated project expenditures or for selected capital improvements.

CIP Cash Reserves Forecast (\$ Millions)								
Description	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030
Beginning Balance	\$ 20.5	\$ 23.4	\$ 26.9	\$ 30.9	\$ 35.6	\$ 40.8	\$ 46.6	\$ 53.0
Contributions	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0
Earnings (at 1.75%)	0.4	0.5	0.5	0.6	0.7	0.8	0.9	1.0
<b>Ending Balance</b>	<b>\$ 23.4</b>	<b>\$ 26.9</b>	<b>\$ 30.9</b>	<b>\$ 35.6</b>	<b>\$ 40.8</b>	<b>\$ 46.6</b>	<b>\$ 53.0</b>	<b>\$ 60.0</b>

## Total Cash Flow Projections by Member Agency

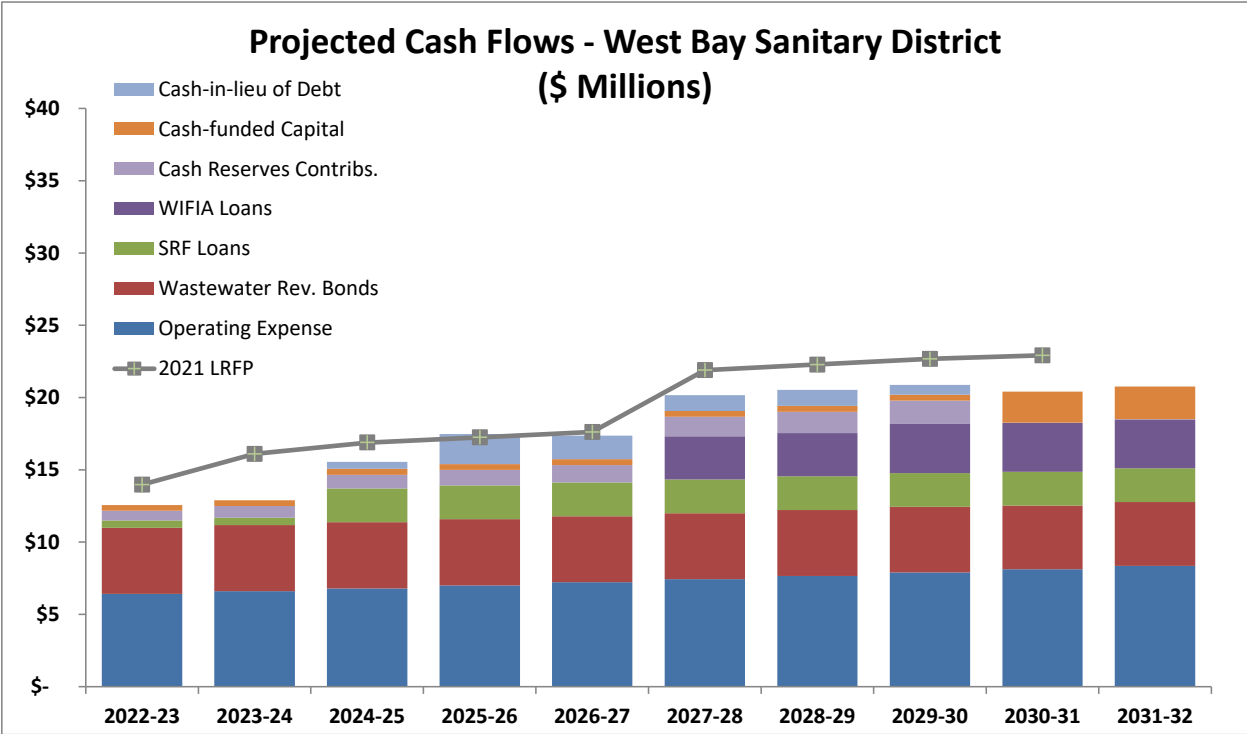
The following charts and tables describe the cash flow projections required for all SVCW expenditures. Each Member Agency is also provided with a detailed description for their own planning purposes.

### Redwood City



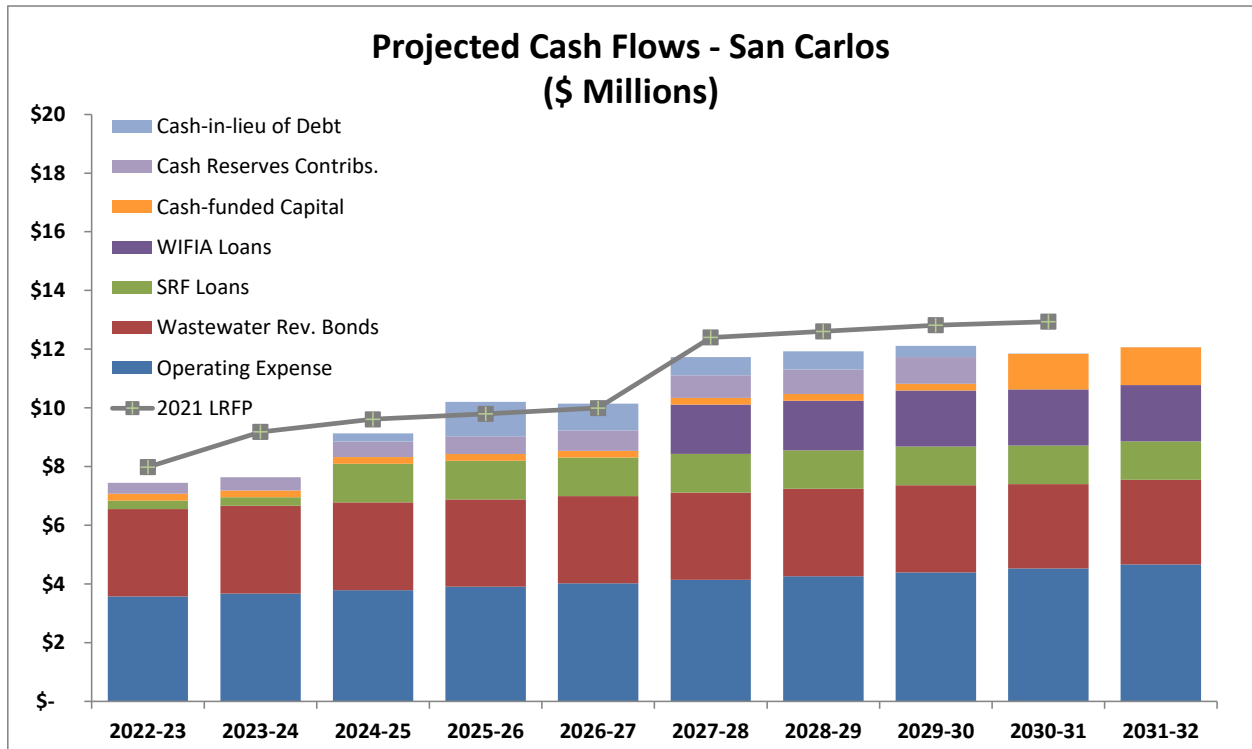
Projected SVCW Cash Flow Requirements - Redwood City (\$ Millions)										
Description	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Operating Expense	\$ 15.31	\$ 15.77	\$ 16.24	\$ 16.73	\$ 17.23	\$ 17.74	\$ 18.28	\$ 18.83	\$ 19.39	\$ 19.97
Wastewater Rev. Bonds	9.42	9.41	9.41	9.41	9.41	9.41	9.40	9.39	9.03	9.02
SRF Loans	0.92	0.92	4.22	4.22	4.22	4.22	4.22	4.22	4.22	4.22
WIFIA Loans	-	-	-	-	-	5.40	5.40	6.13	6.13	6.13
Cash-funded Capital	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	3.89	4.13
Cash-in-lieu of Debt	-	-	0.89	3.76	2.96	2.00	2.00	1.24	-	-
Cash Reserves Contribs.	1.23	1.47	1.71	1.96	2.20	2.44	2.69	2.93	0.02	0.02
<b>TOTAL</b>	<b>\$ 27.60</b>	<b>\$ 28.29</b>	<b>\$ 33.20</b>	<b>\$ 36.80</b>	<b>\$ 36.75</b>	<b>\$ 41.94</b>	<b>\$ 42.70</b>	<b>\$ 43.46</b>	<b>\$ 42.67</b>	<b>\$ 43.49</b>

West Bay Sanitary District



Projected SVCW Cash Flow Requirements - West Bay Sanitary District (\$ Millions)										
Description	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Operating Expense	\$ 6.41	\$ 6.60	\$ 6.80	\$ 7.01	\$ 7.22	\$ 7.43	\$ 7.65	\$ 7.88	\$ 8.12	\$ 8.36
Wastewater Rev. Bonds	4.57	4.57	4.58	4.57	4.57	4.57	4.56	4.57	4.40	4.40
SRF Loans	0.51	0.51	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33
WIFIA Loans	-	-	-	-	-	2.98	2.98	3.39	3.39	3.39
Cash-funded Capital	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	2.15	2.28
Cash-in-lieu of Debt	-	-	0.49	2.08	1.64	1.10	1.10	0.69	-	-
Cash Reserves Contribs.	0.68	0.81	0.95	1.08	1.21	1.35	1.48	1.62	0.01	0.01
<b>TOTAL</b>	<b>\$ 12.57</b>	<b>\$ 12.89</b>	<b>\$ 15.55</b>	<b>\$ 17.47</b>	<b>\$ 17.37</b>	<b>\$ 20.17</b>	<b>\$ 20.52</b>	<b>\$ 20.88</b>	<b>\$ 20.40</b>	<b>\$ 20.77</b>

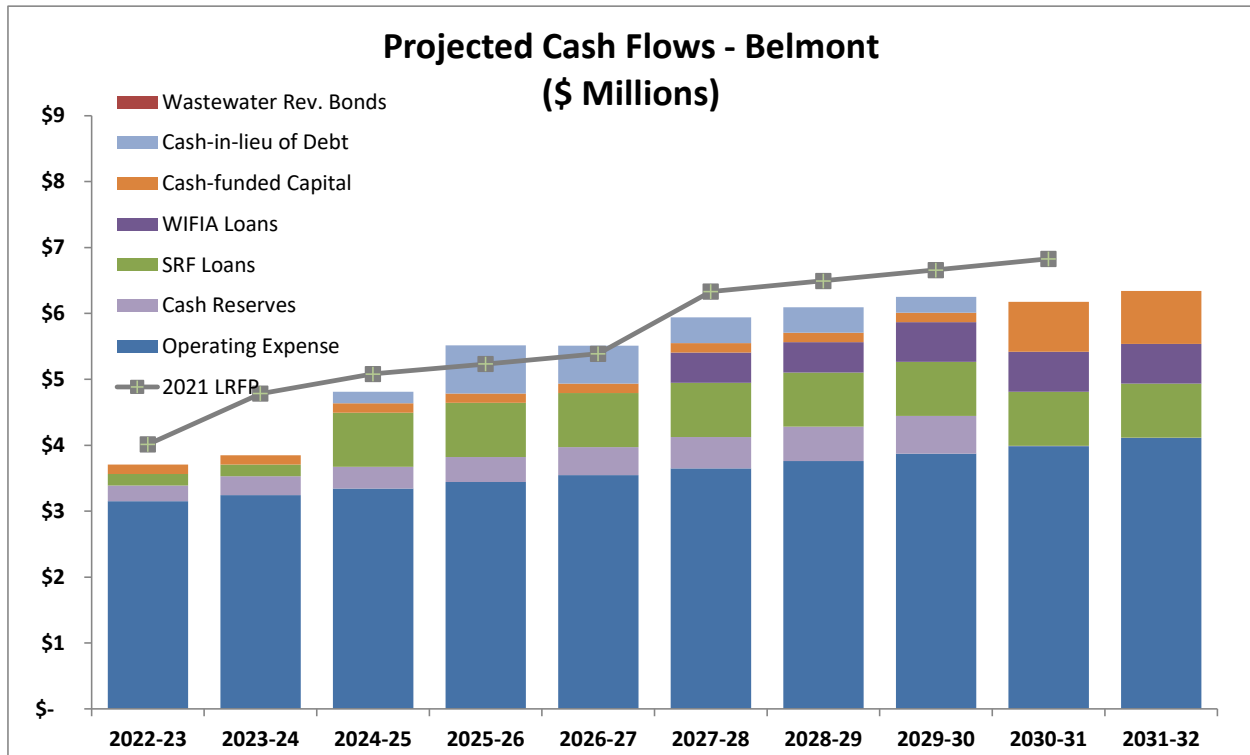




Projected SVCW Cash Flow Requirements - San Carlos (\$ Millions)											
Description	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	
Operating Expense	\$ 3.58	\$ 3.68	\$ 3.79	\$ 3.91	\$ 4.02	\$ 4.14	\$ 4.27	\$ 4.40	\$ 4.53	\$ 4.66	
Wastewater Rev. Bonds	2.98	2.99	2.99	2.98	2.97	2.98	2.98	2.97	2.88	2.89	
SRF Loans	0.29	0.29	1.32	1.32	1.32	1.32	1.32	1.32	1.32	1.32	
WIFIA Loans	-	-	-	-	-	1.68	1.68	1.91	1.91	1.91	
Cash-funded Capital	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	1.21	1.29	
Cash-in-lieu of Debt	-	-	0.28	1.17	0.92	0.62	0.62	0.39	-	-	
Cash Reserves Contribs.	0.38	0.46	0.53	0.61	0.68	0.76	0.84	0.91	0.00	0.00	
<b>TOTAL</b>	<b>\$ 7.45</b>	<b>\$ 7.64</b>	<b>\$ 9.14</b>	<b>\$ 10.21</b>	<b>\$ 10.15</b>	<b>\$ 11.73</b>	<b>\$ 11.93</b>	<b>\$ 12.12</b>	<b>\$ 11.84</b>	<b>\$ 12.07</b>	

*Belmont*

Belmont has not joined SVCW Bond issuances, instead contributing cash in lieu of debt participation. It has, however, fully participated in certain SRF loans and the majority of WIFIA government loans.



Projected SVCW Cash Flow Requirements - Belmont (\$ Millions)											
Description	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	
Operating Expense	\$ 3.15	\$ 3.24	\$ 3.34	\$ 3.44	\$ 3.54	\$ 3.65	\$ 3.76	\$ 3.87	\$ 3.99	\$ 4.11	
Wastewater Rev. Bonds	-	-	-	-	-	-	-	-	-	-	
SRF Loans	0.18	0.18	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82	
WIFIA Loans	-	-	-	-	-	0.46	0.46	0.60	0.60	0.60	
Cash-funded Capital	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.76	0.80	
Cash-in-lieu of Debt	-	-	0.17	0.73	0.58	0.39	0.39	0.24	-	-	
Cash Reserves	0.24	0.29	0.33	0.38	0.43	0.48	0.52	0.57	0.00	0.00	
<b>TOTAL</b>	<b>\$ 3.71</b>	<b>\$ 3.85</b>	<b>\$ 4.81</b>	<b>\$ 5.52</b>	<b>\$ 5.51</b>	<b>\$ 5.94</b>	<b>\$ 6.10</b>	<b>\$ 6.25</b>	<b>\$ 6.17</b>	<b>\$ 6.34</b>	

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## **SECTION 6 – SENSITIVITIES**

Traditional risks to the efficient completion of large capital plans include unanticipated increases such as inflation and interest rate volatility. The risks of inflation and rising interest rates are outside the control of SVCW; however, strategies can mitigate these risks. The Plan, for instance, assumes an across-the-board 3.0% inflation factor in operating costs. Further, interest rates utilized by the Model are conservative and generally based on best available information and, as a result, are presumed to be higher than market rates. As another example of cost preparedness, CIP estimates include 4.0% cost inflators through the midpoint of construction.

### **Capital Improvement Program Adherence**

The timing of CIP projects is considered achievable under present economic and operational assessments. Adhering to the budget and timing of the CIP is singularly the most cost-effective strategy to manage costs. As the regional economy continues to expand, inflationary pressures rise. It is estimated that a one-year delay to remaining RESCU expenditures, for example, would increase costs by approximately \$5.0 million based upon a construction cost inflation factor of 4%. SVCW has shown the Progressive Design-Build project delivery method has avoided such schedule risks.

### **Inflation**

Operating Expenditures - The LRFPP includes inflationary assumptions of approximately 3% on operating costs. The Consumer Price Index (CPI) is a measure of the “average change in prices over time in a fixed market basket of goods and services” which translates to a guide for determining the prices on food, energy, fuel and other goods and services. CPI is a good indicator of how the economy holds up against inflation and surrounding economic changes.

Capital Expenditures – Construction costs of labor and materials continue to increase. While SVCW negotiates for best pricing on projects, the rise in material and labor costs places upward pressure on the CIP. Such inflationary estimates are based on Engineering News Record’s construction cost index. Additionally, the list of capital projects will evolve as SVCW’s wastewater infrastructure continues to age, new regulations are introduced, or project scopes change.

### **Interest Rates**

It is impossible to predict interest rate levels or the timing of changes. What is known, however, is current interest rates are attractive. With tax-exempt interest rates at historical low levels, a decrease in rates is unlikely. A more plausible outcome would be for the market to experience higher interest rates in the future. The impact of such interest rates changes, however, is mitigated by the lack of need for further borrowing.

## SECTION 7 – SUMMARY

SVCW provides this LRFPP as a recommendation and implementation strategy to fund the next decade of capital improvements. The Plan documents possible alternatives. After recently securing the majority of funding needed for the remainder of the CIP, this Plan recommends a cash-based approach to fund approximately \$44 million. Individual Members may of course determine that, for their own specific purposes, the debt market is appropriate for their needs.

Proposed Sources to fund CIP Expenditures not yet secured by existing debt (\$ Millions)											
Description	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	TOTAL
Stage 2 Capacity Funds	\$ -	\$ 2.2	\$ 12.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$14.3
Cash in lieu of Debt	-	-	1.8	7.7	6.1	4.1	4.1	2.6	-	-	26.4
CIP Reserve, Redirected	-	-	-	-	-	-	-	-	2.6	1.0	3.5
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ 2.2</b>	<b>\$ 13.9</b>	<b>\$ 7.7</b>	<b>\$ 6.1</b>	<b>\$ 4.1</b>	<b>\$ 4.1</b>	<b>\$ 2.6</b>	<b>\$ 2.6</b>	<b>\$ 1.0</b>	<b>\$44.3</b>

- **Stage 2 Reserves:** As of November 30, 2021, approximately \$14.3 million is held in this reserve to be spent towards construction projects that maintain and/or expand SVCW’s treatment capacity.
- **Cash in lieu of Debt:** As surplus cash was available Members have at times opted to fund CIP construction with cash rather than issuing additional debt. A similar approach is proposed for a six-year period beginning Fiscal Year 2024-25, when approximately \$26.4 million in project expenditures need finding. Alternatively, Members may choose to utilize SVCW’s line of credit or issue fixed-rate wastewater revenue bonds.
- **Redirected CIP Reserve Contributions:** Beginning Fiscal Year 2030-31, the CIP Reserve Fund is predicted to reach its target balance. The Commission, in November 2019, adopted amendments to the CIP Reserve Policy (Policy #2013-03) that recognized the importance of setting this target balance, and thereafter redirecting contributions to CIP projects. By applying this policy, Members’ contributions would pay for projects in Fiscal Year 2030-31 and thereafter to mitigate future borrowing.

This LRFPP’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 cash resources to meet this recommendation. This LRFPP may be used by each Member Agency as it considers budgets and analyzes sewer rates.

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