

SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT



Long-Term Financial Plan 2023 Update



Presented to the Board of Directors on June 14, 2023, by:

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Introduction

The Sacramento Regional County Sanitation District (Regional San) is proud to present the 2023 Long-Term Financial Plan (LTFP) Update. This report provides a 10-year financial forecast and identifies potential issues and opportunities that may affect the District's finances during this time. The District has not had a rate increase since 2018 and plans to maintain the current rate through the upcoming fiscal year (FY) 2023-24. However, to offset the effects of the current inflationary pressures on District costs, some rate increases are anticipated in the LTFP planning period. The projected rate increases are only for planning purposes; if inflation is higher than forecasted or capital costs increase more than is currently anticipated, the monthly service charge may need to increase even more during the ten-year LTFP planning period.

The District's financial position was not adversely affected from COVID-19 due to the financing structure of the District's operations. Impacts on revenue and expenses were minimal. Although there was a slight decline in year-over-year revenue during the first year of the pandemic, revenue has recovered and is increasing at a rate similar to what is expected with the population growth of the Sacramento Area.

Regional San's debt portfolio has not changed significantly since the last Long-Term Financial Plan was presented in December 2021. During this time, the District has taken out an additional \$12.8 million in State Revolving Fund Loans. In addition, with the upcoming discontinuation of the London Inter Bank Offered Rate (LIBOR) index publication, the District replaced LIBOR with the Secured Overnight Financing Rate (SOFR) as the reference rate in its two remaining interest rate swaps. The District will be making additional draws from the State Revolving Fund for the remaining costs of the EchoWater Project.

For the past several years, a significant portion of the District's capital expenses was related to the EchoWater Project. The various components of the project are completed or nearing completion. To date, approximately \$1.54 billion has been spent on the project, and approximately \$35 million in additional spending is projected over the next two fiscal years to complete all components of the project. The EchoWater Project is mostly funded with loans from the Clean Water State Revolving Fund (CWSRF) with additional funding from revenue bonds.

There are other major capital projects that are in the planning phase or near the beginning of construction. This includes the Harvest Water Project, which will provide a safe and reliable supply of recycled water for agricultural uses, and the BioGeneration Facility, which will burn digester gas produced at the EchoWater Resource Recovery Facility (EchoWater Facility) to produce electricity for facility operations. New bond funding is included in this projection to provide supplemental funds in addition to secured grants to fund the Harvest Water project and the BioGeneration Facility.

The last monthly rate increase was effective July 1, 2018. This brought the rate to the current level of \$37 per equivalent single-family dwelling (ESD). Despite Regional San's continued focus on keeping operating and construction costs contained, the inflationary environment facing the District will require the District to increase the monthly service rate. This LTFP update assumes gradual rate increases over a three-year period, reaching \$45 in FY 2026-27. Actual rate increases to be implemented will be determined by the Board of Directors in compliance with Proposition 218. The District will continue to seek costs savings and additional grant funding for capital projects to keep the monthly rates as low as possible.

Highlights

- Regional San is in excellent financial condition and is expected to remain so throughout the 10-year forecast period.
- Monthly service rates are projected to gradually increase from \$37 to \$45 per ESD during the next three years.
- The EchoWater Project is operational, with a few remaining components nearing completion. Major components of the project have begun operations, including the Biological Nutrient Removal Facility. The EchoWater project is mainly funded by low-interest rate loans from the CWSRF program.
- Reserves have increased for asset replacements, emergencies, and general operating cost fluctuations. The District currently has approximately \$226 million in designated reserves, and additional unreserved cash is available to build these reserves to higher levels without putting pressure on rates or fees.
- Debt restructuring and replacements have generated significant savings for the District. These restructurings reduced costs, risk, and complexity of the District's existing debt portfolio. In July 2020, Regional San refunded the 2000C Bonds and terminated the associated swap along with refunding the 2011A Bonds, achieving \$11.4 million in total net present value savings. In March 2021, Regional San refunded the 2007B Bonds and terminated the associated swap, achieving \$698,125 in net present value savings.
- Regional San will look for opportunities to restructure additional debt, allowing for lower debt service costs, and will continue reducing risk and complexity of the District's debt portfolio.
- Regional San, in collaboration with regional stakeholders, is developing the Harvest Water Program. Harvest Water will offer multiple benefits, including providing a safe and reliable supply of tertiary-treated water for agricultural uses, reducing groundwater pumping, supporting habitat protection efforts, and providing near-term benefits to the Sacramento-San Joaquin Delta. To date, Regional San has secured \$322 million in state and federal grants towards the project's \$597 million estimated total cost.
- In July 2021, Regional San established an Investment Policy for the District's cash reserves. The investment program became operational in September 2022 and has enabled the District to invest the reserves outside of the Sacramento County Pooled Investment Fund to better align with the investment objectives and liquidity needs of the District.

Purpose of the Long-Term Financial Plan

The Long-Term Financial Plan (LTFP) is designed to help focus resources on the issues influencing the District's financial position over the next 10 years. In addition, the LTFP aligns the financial capacity with the mission of Regional San and identifies financial risks and opportunities facing the District over the next 10 years. Also, strategies are outlined for meeting those challenges while maximizing opportunities for providing the most value for the District's ratepayers at the lowest possible cost.

The LTFP is a tool to assist policymakers in identifying the financial challenges and opportunities facing the District and determining the impact of various policies and decisions that might be implemented to meet them. Included are a set of assumptions providing a foundation upon which a variety of policies and decisions can be formulated for the annual operating and capital budgets, debt-management program, reserves-management, and other ongoing financial processes.

The Planning Process – The LTFP process involves gathering information from District staff related to the long-term operating and capital needs of the District. The planning process includes reviews of various planning documents produced by Regional San, the Sacramento Area Sewer District, and other agencies. The LTFP does not repeat or replace other planning processes or documents but works in conjunction with them. The planning documents reviewed include the Regional San Business Plan, the Strategic Action Plan, the Capital Funding Projection, the Condition Assessment Report, EchoWater Project plans, the annual budget, and other planning documents. Research and analysis of economic data and trends affecting the District are also included. The process involves discussions and collaborations with management, staff, legal counsel, and outside financial advisors to determine critical issues and



opportunities that the District may face over the next 10 years. Finally, the process culminates in a presentation to the Board of Directors to receive public and board member input and guidance on what additional issues should be considered in the future.

The LTFP will be updated and brought back to the Board of Directors at least once each year. Any action items outlined in the plan will be brought back to the Board of Directors individually for approval at appropriate times in the future, as conditions and opportunities warrant.

Mission, Vision, and Other Guiding Principles

The mission of Regional San is ***“To protect public health and the environment by conveying, treating, and recovering resources from sewage responsibly and cost-effectively.”*** The vision of Regional San is ***“Being a leader in environmental stewardship and a trusted partner in regional sustainability.”***

The goal of the LTFP is to support the District’s mission and provide a long-term sustainable financial foundation for achieving and sustaining the vision into the future. More specific financial principles, policies, and goals guiding this plan include:

1. Growth pays for growth over the long-term. Sewer impact fees will be set at a level necessary to assure that new connections finance capital costs associated with the additional burden of new customers on the sanitation system.
2. Monthly service rates should be smoothed to avoid spikes and minimize the total burden on ratepayers. Reserves may be used to smooth rates when prudent.
3. Prudent reserves are to be maintained to mitigate the negative effects of emergencies and fluctuations in revenues and expenditure levels. Additional prudent reserve levels will be maintained to fund asset replacements, meet debt management needs, and meet regulatory requirements.
4. Required annual maintenance and scheduled asset replacement should not be deferred to minimize current rates and fees at the expense of higher future rates and fees.
5. The District should maintain strong bond ratings to instill confidence in investors and ratepayers and to facilitate access to the municipal bond market at lower cost.
6. Use and cost of debt should be minimized to the extent possible. Debt service should be strategically planned to be as level as possible to minimize the burden on ratepayers and produce predictable rates that avoid significant spikes.
7. Capital projects should be financed on a pay-go (cash) basis to the extent possible, targeting at least 25 percent cash financing on projects for new facilities, and 100 percent cash financing on rehabilitation and replacement projects.
8. Excess funds due to higher than expected growth, unexpected one-time revenues, and operating surpluses should be used to pay off debt early.

Core Values

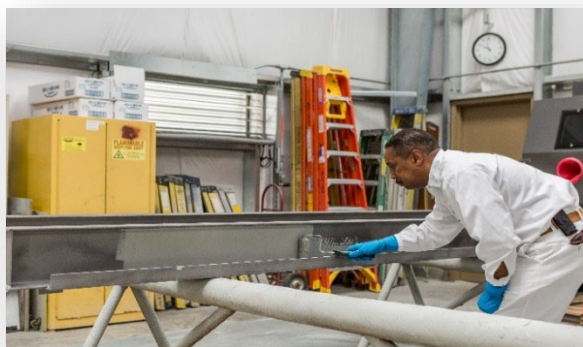


Recommended Action Items for 2023-24

Regional San regularly monitors and analyzes its outstanding debt to take advantage of opportunities to reduce costs and risks associated with the debt portfolio. Actions designed to reduce costs and risks in the debt portfolio should help maintain or improve bond ratings and provide added confidence to investors to ensure successful transactions in the coming years. In addition, any actions that will reduce the cost of the existing debt will provide capacity for new debt or additional expenses without a corresponding increase in rates.

Debt management transactions are planned for the next 12 months and are listed below based on current information. As conditions change, these transactions may be changed and other transactions may be added. However, each transaction will be brought to the Board of Directors for approval prior to execution. These action items are covered in more detail in the Ten-Year Financial Forecast and Debt Management sections of this document.

- 1. Renew or replace the Direct Purchase Agreements for the Series 2012A and 2013B Bonds.** The direct purchase agreements with Wells Fargo for the Series 2012A expires in July 2024, and the 2013B debt issue expires in July 2025. Regional San may renew the existing agreement if reasonable terms can be negotiated at that time. This is usually the lowest-cost alternative because it avoids reissuance costs. The District can explore alternatives such as a direct purchase with another bank, a letter of credit agreement, fixed-rate financing, or other restructuring that would provide the greatest long-term benefit to Regional San.
- 2. Explore options to pay-off (terminate) the Series 2012A and 2013B swaps.** On March 5, 2021, the Financial Conduct Authority (FCA) announced that all non-USD LIBOR tenors will cease publication after June 30, 2023, and detailed procedures for converting LIBOR-based indices to SOFR were established by U.S. authorities. In February 2023, the District amended its swap agreements to incorporate certain fallback provisions recommended by U.S. authorities to address the discontinuation of LIBOR and to use SOFR-based fallback rates. Regional San is monitoring developments and evaluating the best options for managing the 2012A and 2013B swaps over the coming year to determine if terminating the District's remaining swaps makes financial sense.



Status of Action Items from 2021

The LTFP update from 2021 included two recommended action items. The table below summarizes the status of those items:

Table 1

| | Action Item | Status | Comments |
|----|---|-----------|---|
| 1. | Renew or replace the Direct Purchase Agreements for the Series 2012C and 2013D Bonds. | Completed | Direct Purchase Agreements were renewed in March 2022, and the LIBOR index was replaced with the Securities Industry and Financial Markets (SIFMA) index. |
| 2. | Explore options to pay off (terminate) or convert to a more attractive floating rate index for the Series 2012A and 2013B swaps | Completed | Amended SWAP agreement to incorporate fallback provisions to address the discontinuation of LIBOR publication. |



Financial Environment

The Economy – Financial Markets and Trends

Regional, state, national, and global economies and financial markets have a significant impact on Regional San's operations and, therefore, have a significant effect on financial strategies and decisions. Because Regional San is an integral part of the Sacramento regional economy, conditions and trends here have a significant influence over the District's financial outlook, particularly in the area of revenue projections.

The table below shows the growth that the District has experienced over the past seven years as measured by average billed and collected ESD equivalents:

Table 2
Regional San
Growth in Connected Equivalent Single-Family Dwellings (ESDs)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 Estimated |
|--------------|---------|---------|---------|---------|---------|---------|----------------------|
| Average ESDs | 600,721 | 604,587 | 611,070 | 608,254 | 591,068 | 616,187 | 628,512 |
| New ESDs | 2,389 | 3,866 | 6,483 | -2,114 | -7,339 | 25,119 | 5,940 |
| % Change | 0.40% | 0.64% | 1.07% | -0.35% | -1.21% | 4.25% | 0.96% |

The real estate market and construction activities in the Sacramento region remain strong, helping to drive growth in ESDs. Although there was a slight drop in ESDs in FY 2019-20 and FY 2020-21 due to COVID-19, the growth in ESDs has quickly recovered back to pre-pandemic levels and is expected to continue at a moderate rate.

Regional San takes a more conservative approach to forecasting growth in the regional construction market, as uncertainty driven by uncertain wage growth and continuing challenges in the local economy do not appear to support growth assumptions above 1% per year. Regional San assumes lack of robust employment growth, moderate wage growth, and tight lending will prevent a return to high growth rates for new construction in the service area over the next few years.

Interest Rates – Interest rates, which were hovering around all-time lows, have recently trended higher. Due to recent inflation trends and government monetary policy, rates have quickly risen and may continue to rise throughout the ten-year forecast period.

Current high interest rates have both good and bad effects on Regional San's financial outlook. On the negative side, higher interest rates reflect higher inflation rates in the economy. In turn,

Regional San is facing rising operating costs at a rate that the District did not have to contend with in the past. Higher interest rates also mean Regional San cannot refund (refinance) debt at a lower cost. This in turn increases the cost of capital projects and increases the impact of the capital program on Regional San rates and fees.

On the positive side, Regional San is able to receive higher returns on invested cash balances. Regional San is limited by State law and local policy to investing in securities with maturities of five years or less. Since the last Long-Term Financial Projection, Regional San has begun implementing its own investment program, investing designated cash reserves outside of the County Pooled Investment Fund. This has enabled Regional San to invest cash reserves in a manner that is more in line with long-term investment goals and will earn a higher rate of return in the long-run.



Critical Issues – Risks and Opportunities

Regional San has developed and implemented a rate and fee structure that provides long-term financial stability. In the early 2000s, Regional San invested in the expansion of the interceptor system to accommodate expected growth and relieve capacity deficiencies in interceptors built in the 1970s and 1980s. The expanded interceptor system was financed with bond debt, which resulted in higher annual debt service costs. Rates and fees were adjusted to recover these costs from new customers. The District maintains cash reserves to mitigate the potential negative impacts of the risks listed below. Issues and risks that could have a significant impact on the financial position of Regional San and have the potential to occur in the next 10 years are as follows:

1. **EchoWater Project** – With the EchoWater Project substantially complete, the risk associated with potential cost overruns is minimal. The current estimate of final EchoWater Project capital costs is \$1.75 billion.
2. **Other regulatory requirement changes** – Regional San’s discharge is regulated by a National Pollutant Discharge Elimination System (NPDES) permit issued by the Central Valley Regional Water Quality Control Board. As the permit is required to be renewed periodically, there is the possibility that additional changes in the discharge requirements could increase the costs of treating the sewage.
3. **Legal challenges** – Due to the large number of capital projects that are undertaken by Regional San, bid protests and legal challenges related to the projects may occur. These challenges could potentially cause project delays and could result in additional regulatory, construction, and legal costs.
4. **Investment markets** – Rising interest rates can benefit the District by providing additional non-operating income from higher returns on invested cash balances. In addition to partially offsetting rising operational and capital costs for the benefit of all ratepayers, this type of income can provide resources for maintaining or expanding programs, such as the Sewer Lifeline Rate Assistance Program for low-income ratepayers, that rely on non-rate/non-fee income for support. On the other hand, rising interest rates have a negative impact on the District by increasing the cost of financing for capital projects or debt restructuring. Regional San would benefit from declining interest rates in the future by allowing restructuring of some existing debt to a lower interest cost. On the other hand, declining interest rates cause swap termination costs to rise, making it more difficult to restructure variable rate debt to a lower cost.
5. **Water Recycling** – Water resource protection and sustainability in the Sacramento region and the Sacramento-San Joaquin Delta continue to be critical economic and environmental concerns. Regional San continues to promote environmental stewardship values through better use of regional water resources by committing to the expansion

of water recycling programs. When the EchoWater Project is complete, Regional San will be able to produce more high-quality tertiary treated recycled water that can be used for regional benefits such as agriculture and landscape irrigation, industrial uses, and in-lieu groundwater recharge.

One of the projects currently planned to take advantage of the tertiary treated sewage is the Harvest Water Project (see below). In addition, Regional San recently completed construction of a \$16.2 million capital project with the Sacramento Power Authority (SPA) and the City of Sacramento to provide recycled water for cooling of the SPA cogeneration plant in South Sacramento. The SPA project is sized to provide for future recycled water opportunities in the City of Sacramento when the EchoWater Project makes substantially more recycled water available. Future costs to expand the SPA project, as well as future revenues from the sale of recycled water, are unknown at this time.

6. **Harvest Water** - Regional San is in the early construction phase of the Harvest Water Project to provide recycled water on a large scale to agricultural water users and conservation lands in southern Sacramento County. In 2013, using grant funds, Regional San completed a feasibility study that showed water recycling projects can improve regional groundwater resource sustainability and provide environmental benefits to the Sacramento region. In July 2018, Regional San was awarded \$287.5 million in grant funding through the Water Storage Investment Program administered by the California Water Commission. The funding is based on the value of public benefits, such as the various ecosystem and water quality improvements that the project will provide. This project is estimated to cost \$597 million. Grant awards totaling \$322 million have been secured. The District is continuing to seek additional funding for the project. As the project is still in the early phase of construction, there is the risk that escalating costs and higher than anticipated operating costs may increase the cost of the project.
7. **BioGeneration Facility** - Regional San is in the design planning phase for a biogas cogeneration engine system to utilize digester gas onsite at the EchoWater Facility to provide renewable and reliable utility and backup power, steam for digester heating, and revenue per a commodity agreement. There is the risk of escalating construction costs and unknown additional costs for startup. However, once the BioGeneration Facility is in full operation, the District expects to save approximately \$5.7 million a year on electricity costs.
8. **Natural Disaster, Climate Change, Pandemics, or Other Emergencies** – The potential for natural disasters such as earthquakes or floods are issues the District considers in its emergency planning. The risk for earthquakes in the Sacramento Region is relatively small. However, the risk for floods in the region is significant. The District has taken, and will continue to take, measures to protect its critical infrastructure from flood damage. For example, the EchoWater Facility in Elk Grove is surrounded by levees designed to protect infrastructure from major flood events. Regional San staff inspects these levees periodically and a report is submitted to the Army Corps of Engineers confirming their

integrity. These levees protect the entire process area and other critical infrastructure at the EchoWater Facility. To mitigate impacts from natural disasters and other emergencies, the District maintains insurance coverage and cash reserves to cover additional costs that could be incurred to preserve or repair essential infrastructure in an emergency. Additionally, the Continuity of Operation Plan and Flood Response Manual, as last updated in 2023 and 2019, respectively, provide response plans for natural disasters and other emergencies. An increase in extreme weather events may result in the need for additional capital spending to enhance system capacity or resiliency. The potential for future pandemics to disrupt the District will also be considered. COVID-19's impact on the District's finances was minimal, but there is the possibility that future pandemics could have a greater affect.

- 9. Aging Infrastructure** – Regional San is implementing programs to address the condition of the EchoWater Facility and conveyance system assets through condition assessment inspections, repairs, rehabilitations, and replacements to ensure reliable and sustainable sewage treatment systems are maintained. These programs identify and prioritize projects and assign resources to cost effectively address aging facilities and improve the reliability, efficiency, and effectiveness of operations. There is also a need to improve existing EchoWater Facility assets and systems to support the EchoWater Project. The current plan includes over \$300 million of capital expenditures over the next ten years to repair and rehabilitate existing assets. Ongoing condition assessments may require additional expenditures.
- 10. County Support Services** - The County of Sacramento (County) provides staffing and support services for Regional San. After a study was conducted to assess the advantages and disadvantages of the District bringing in-house most of the services provided by the County, the decision was made to have Regional San perform those services. The District is currently in the process of assessing the transition of services and the level of effort needed. As Regional San takes over the services, there would be a minimal impact on the District's finances based on the current costs that are currently paid to the County. However, there may be transitional and unforeseen costs for which the District may need to allocate more financial resources than anticipated.

Ten-Year Financial Forecasts

Financial Performance Targets

One of the primary objectives of the Regional San Board and management is to maintain a financially sound and sustainable sewage utility capable of delivering the highest quality service at the lowest long-term cost. Some financial benchmarks and performance targets are used to determine and maintain financial health. Those targets include cash balances, annual cash flow needs, and debt coverage ratios. The forecast model is designed to maintain total cash on hand of at least \$300 million. Regional San had approximately 1,071 days of operating cash on hand as of March 31, 2023, which is significantly above the industry median of 408 days¹. Regional San maintains higher cash balances than the industry median because the District maintains higher debt loads than most of the industry. In addition, the forecast model assumes designated reserve levels for specific types of reserves and that Regional San will maintain a positive unreserved cash balance. Another target of the forecast model is a senior debt coverage ratio of at least 1.24x and total debt coverage of at least 1.2x. This is above the bond covenant requirements of 1.2x for senior coverage and 1.1x for total debt coverage. Projected coverage is higher than the covenant requirements.

Under the baseline forecast, the annual growth assumption used does not exceed 0.5% per year. Regional San's monthly current service rates of \$37 per ESD would rise to \$45 during the forecast period. Such a modest increase is necessary as the District is facing rising operating and capital costs. This forecast is dependent on capital costs adhering to the 10-year capital funding projection and inflation leveling out to near or at historical levels.



¹ Fitch Ratings 2022 Water and Sewer Medians, for large size districts with over 500,000 customers.

Forecast Tables

The following two pages contain the ten-year financial forecast tables for Regional San as of June 2023. The forecast includes two tables showing actuals for the last fiscal year, year-end estimates for the current fiscal year, and ten years of projections to fiscal year 2032-33. Table 3 is a pro-forma statement of operations showing projected total revenues, operating expenditures, and debt coverage ratios. Table 4 shows all projected cash flows, including capital expenditures not included in the pro-forma statement. Table 4 also shows reserve fund projections.

These tables represent the District's financial forecast assuming that proposed projects will be constructed and operational on schedule. The forecast includes additional bond funding of \$250 million for the Harvest Water Project and \$50 million for the BioGeneration Facility. Also included are the operational costs of the Harvest Water and BioGeneration Projects once construction is complete and the delivery of recycled water and electricity generation begins.



Table 3: Regional San Pro Forma - as of June 30, 2023

| (\$000's unless noted otherwise) | Actual | Year End Estimate | Proposed Budget | Forecast | | | | | | | | |
|--|------------|-------------------|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | FY 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 |
| ESD Growth Rate | 4.25% | 2.00% | 0.98% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% |
| Average ESDs (estimated) | 616,186 | 628,510 | 634,685 | 637,858 | 641,047 | 644,253 | 647,474 | 650,711 | 653,965 | 657,235 | 660,521 | 663,823 |
| Operating Revenues | | | | | | | | | | | | |
| Monthly rate per ESD (\$) | \$ 37.00 | \$ 37.00 | \$ 37.00 | \$ 40.00* | \$ 43.00* | \$ 45.00* | \$ 45.00 | \$ 45.00 | \$ 45.00 | \$ 45.00 | \$ 45.00 | \$ 45.00 |
| Residential/Commercial Revenue | \$ 273,587 | \$ 279,059 | \$ 281,800 | \$ 306,172 | \$ 330,780 | \$ 347,896 | \$ 349,636 | \$ 351,384 | \$ 353,141 | \$ 354,907 | \$ 356,681 | \$ 358,465 |
| Industrial Revenue | 13,518 | 12,515 | 13,000 | 14,054 | 15,108 | 15,811 | 15,811 | 15,811 | 15,811 | 15,811 | 15,811 | 15,811 |
| Total Revenue from Service Charges | 287,105 | 291,573 | 294,800 | 320,226 | 345,889 | 363,707 | 365,447 | 367,195 | 368,952 | 370,718 | 372,492 | 374,275 |
| Total Impact Fee Revenue | 22,016 | 19,000 | 20,000 | 20,400 | 20,808 | 21,224 | 21,649 | 22,082 | 22,523 | 22,974 | 23,433 | 23,902 |
| Subtotal Operating Revenue | 309,120 | 310,573 | 314,800 | 340,626 | 366,697 | 384,931 | 387,095 | 389,277 | 391,475 | 393,691 | 395,925 | 398,177 |
| Non-Operating Revenue | | | | | | | | | | | | |
| Interest revenue | 2,885 | 6,100 | 9,300 | 10,447 | 10,315 | 7,314 | 7,520 | 7,800 | 8,397 | 8,849 | 9,375 | 9,288 |
| Other revenue | 14,739 | 10,151 | 10,878 | 11,095 | 11,317 | 11,544 | 11,775 | 12,010 | 12,250 | 12,495 | 12,745 | 13,000 |
| Total Revenue | 326,744 | 326,824 | 334,978 | 362,168 | 388,329 | 403,789 | 406,390 | 409,086 | 412,122 | 415,036 | 418,045 | 420,465 |
| Operating Expenses | | | | | | | | | | | | |
| Salaries & Benefits | 65,509 | 66,727 | 78,094 | 81,218 | 84,467 | 87,846 | 91,359 | 95,014 | 98,814 | 102,767 | 106,878 | 111,153 |
| Services & Supplies | 68,194 | 81,614 | 93,951 | 95,866 | 98,737 | 101,693 | 104,738 | 107,874 | 111,105 | 114,432 | 117,858 | 121,388 |
| Harvest Water Operating Costs | 0 | 0 | 0 | 3,886 | 4,003 | 6,086 | 6,268 | 6,456 | 6,650 | 6,849 | 7,055 | 7,266 |
| Less BioSolids Recycling Cost Savings | 0 | 0 | 0 | 0 | (1,508) | (1,508) | (1,508) | (1,508) | (1,508) | (1,508) | (1,508) | (1,508) |
| Less Biogen Electricity Cost Savings | 0 | 0 | 0 | 0 | 0 | (5,712) | (5,712) | (5,712) | (5,712) | (5,712) | (5,712) | (5,712) |
| Total Operating Exp., net of depr. & amort. | 133,703 | 148,341 | 172,046 | 180,971 | 185,699 | 188,404 | 195,146 | 202,124 | 209,349 | 216,828 | 224,571 | 232,587 |
| Non-Operating Expense | 3,280 | 3,380 | 4,458 | 4,548 | 4,639 | 4,731 | 4,826 | 4,923 | 5,021 | 5,121 | 5,224 | 5,328 |
| Total Expense | 136,982 | 151,721 | 176,504 | 185,518 | 190,337 | 193,136 | 199,972 | 207,047 | 214,370 | 221,949 | 229,795 | 237,915 |
| Net Revenue | 189,762 | 175,103 | 158,474 | 176,650 | 197,992 | 210,654 | 206,418 | 202,039 | 197,752 | 193,086 | 188,250 | 182,550 |
| Net revenue for debt coverage test | 193,042 | 178,483 | 162,932 | 181,198 | 202,631 | 215,385 | 211,244 | 206,962 | 202,773 | 198,208 | 193,474 | 187,878 |
| Debt Coverage | | | | | | | | | | | | |
| Senior debt service | 120,159 | 120,856 | 121,405 | 128,200 | 149,778 | 149,777 | 154,010 | 154,010 | 154,012 | 149,779 | 149,749 | 149,750 |
| Total debt service | 124,303 | 125,561 | 126,110 | 132,905 | 154,483 | 154,482 | 154,480 | 154,481 | 154,483 | 154,484 | 154,479 | 154,480 |
| Senior revenue coverage (must be at least 1.20x) | 1.61 x | 1.48 x | 1.34 x | 1.41 x | 1.35 x | 1.44 x | 1.37 x | 1.34 x | 1.32 x | 1.32 x | 1.29 x | 1.25 x |
| Total revenue coverage (must be at least 1.10x) | 1.55 x | 1.42 x | 1.29 x | 1.36 x | 1.31 x | 1.39 x | 1.37 x | 1.34 x | 1.31 x | 1.28 x | 1.25 x | 1.22 x |

* Assumed rate increases for planning purposes only. Actual future rate increases will be set by the Board and may differ significantly from planning assumption shown above.

Table 4: Regional San Cash Flow Projection as of June 30, 2023

| (\$000's unless noted otherwise) | Actuals | Year-End Estimate | Proposed Budget | Forecast | | | | | | | | |
|---|------------|-------------------|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | FY 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 |
| Beginning Unrestricted Cash | \$ 469,443 | \$ 435,099 | \$ 456,689 | \$ 454,217 | \$ 515,773 | \$ 365,717 | \$ 375,987 | \$ 389,985 | \$ 419,838 | \$ 442,450 | \$ 468,729 | \$ 464,390 |
| Cash Inflow | | | | | | | | | | | | |
| Impact Fees | 22,016 | 19,000 | 20,000 | 20,400 | 20,808 | 21,224 | 21,649 | 22,082 | 22,523 | 22,974 | 23,433 | 23,902 |
| Monthly Service Charges | 287,105 | 291,573 | 294,800 | 320,226 | 345,889 | 363,707 | 365,447 | 367,195 | 368,952 | 370,718 | 372,492 | 374,275 |
| Interest & Other Revenue | 17,624 | 16,251 | 20,178 | 21,542 | 21,633 | 18,858 | 19,294 | 19,810 | 20,647 | 21,344 | 22,120 | 22,288 |
| Water Recycling Grant Proceeds | 3,556 | 10,980 | 98,411 | 151,317 | 30,000 | 27,747 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bond Proceeds* | 0 | 0 | 0 | 300,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CWSRF Loan Proceeds | 0 | 62,000 | 100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal Cash In | 330,300 | 399,804 | 533,389 | 813,485 | 418,329 | 431,536 | 406,390 | 409,086 | 412,122 | 415,036 | 418,045 | 420,465 |
| Cash Outflow | | | | | | | | | | | | |
| Operating & Non-Operating Expenses | 136,982 | 151,721 | 176,504 | 185,518 | 190,337 | 193,136 | 199,972 | 207,047 | 214,370 | 221,949 | 229,795 | 237,915 |
| Capital, EchoWater Project | 96,921 | 65,000 | 17,590 | 15,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital, BioGeneration Project | 816 | 1,000 | 5,000 | 60,000 | 55,000 | 4,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital, Harvest Water Recyling Project | 7,200 | 12,432 | 173,731 | 263,506 | 102,491 | 11,157 | 4,636 | 3,685 | 2,717 | 2,768 | 2,235 | 0 |
| Capital, Interceptor Rehab | 0 | 6,840 | 12,870 | 48,205 | 39,538 | 42,922 | 15,750 | 450 | 2,850 | 2,950 | 26,250 | 28,350 |
| Other Capital Costs | 7,828 | 15,660 | 24,057 | 46,795 | 26,535 | 15,569 | 17,554 | 13,571 | 15,090 | 6,607 | 9,624 | 6,542 |
| Debt Service Costs, EchoWater Bonds | 14,493 | 14,493 | 14,493 | 14,493 | 14,493 | 14,493 | 14,493 | 14,493 | 14,493 | 14,493 | 14,493 | 14,493 |
| Debt Service Costs, Harvest Water/BioGen* | 0 | 0 | 0 | 0 | 17,500 | 17,500 | 17,500 | 17,500 | 17,500 | 17,500 | 17,500 | 17,500 |
| Debt Service Costs, EchoWater SRF Loans | 39,644 | 31,796 | 44,847 | 44,847 | 44,847 | 44,847 | 44,847 | 44,847 | 44,847 | 44,847 | 44,847 | 44,847 |
| Debt Service Costs, SPA\Recycle Loan | 403 | 403 | 403 | 403 | 403 | 403 | 403 | 403 | 403 | 403 | 403 | 403 |
| Debt Service Costs, Existing Bond Debt | 60,356 | 78,868 | 66,366 | 73,162 | 77,239 | 77,239 | 77,237 | 77,237 | 77,239 | 77,240 | 77,236 | 77,237 |
| Subtotal Cash Out | 364,643 | 378,214 | 535,861 | 751,929 | 568,384 | 421,267 | 392,392 | 379,233 | 389,509 | 388,757 | 422,383 | 427,287 |
| Ending Unrestricted Cash | \$ 435,099 | \$ 456,689 | \$ 454,217 | \$ 515,773 | \$ 365,717 | \$ 375,987 | \$ 389,985 | \$ 419,838 | \$ 442,450 | \$ 468,729 | \$ 464,390 | \$ 457,568 |
| Unreserved Cash | \$ 209,538 | \$ 221,925 | \$ 196,959 | \$ 253,890 | \$ 100,199 | \$ 107,278 | \$ 117,012 | \$ 142,478 | \$ 160,577 | \$ 182,210 | \$ 173,091 | \$ 161,349 |
| Designated Reserves | | | | | | | | | | | | |
| General | 36,352 | 36,421 | 44,126 | 46,380 | 47,584 | 48,284 | 49,993 | 51,762 | 53,592 | 55,487 | 57,449 | 59,479 |
| Rate Stabilization | 23,200 | 23,200 | 23,200 | 23,200 | 23,200 | 23,200 | 23,200 | 23,200 | 23,200 | 23,200 | 23,200 | 23,200 |
| CWSRF & SPA Loan Reserve | 31,649 | 32,776 | 45,251 | 45,251 | 45,251 | 45,251 | 45,251 | 45,251 | 45,251 | 45,251 | 45,251 | 45,251 |
| Facilities Closure | 13,154 | 13,903 | 13,903 | 13,903 | 13,903 | 13,903 | 13,903 | 13,903 | 13,903 | 13,903 | 13,903 | 13,903 |
| Equipment Replacement | 1,189 | 1,218 | 1,249 | 1,280 | 1,312 | 1,345 | 1,379 | 1,413 | 1,448 | 1,485 | 1,522 | 1,560 |
| Confluence Program | 10,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Expansion | 20,908 | 20,908 | 20,908 | 20,908 | 20,908 | 20,908 | 20,908 | 20,908 | 20,908 | 20,908 | 20,908 | 20,908 |
| Replacement & Rehabilitation | 89,110 | 91,338 | 93,621 | 95,961 | 98,361 | 100,820 | 103,340 | 105,924 | 108,572 | 111,286 | 114,068 | 116,920 |
| Total Designated Reserves | \$ 225,561 | \$ 234,764 | \$ 257,257 | \$ 261,882 | \$ 265,518 | \$ 268,710 | \$ 272,973 | \$ 277,360 | \$ 281,874 | \$ 286,519 | \$ 291,300 | \$ 296,220 |

* Assumed bond proceeds and debt service for projected future issuance.

Forecast Assumptions

The financial forecasts are designed to meet performance targets for debt coverage and total cash balances necessary to remain financially sound and maintain strong credit ratings. The target minimum levels for the debt coverage ratios are 1.25x for senior debt and 1.20x for subordinate debt. The target minimum level for total cash balances, excluding restricted bond proceeds, is \$300 million. The \$300 million cash level will include both reserved and unreserved cash, and the unreserved cash balance must remain positive. In addition, the forecasts include the following assumptions for each line item:

- 1. Rate Revenue** – The monthly rates per ESD are projected to increase from \$37 to \$45 per ESD during the first three years of the forecast period and remain at that rate for the remainder of the forecast. Rate revenues are based on ESD growth estimated to remain at historical levels throughout the 10-year forecast period. New connection growth for FY 2023-24 is estimated at 6,175 ESDs, or about 0.98%, and is projected to continue at 0.5% annually throughout the remaining forecast period.
- 2. Impact-Fee Revenue** – The current impact fee in effect is \$3,602 per ESD for infill areas and \$6,479 per ESD for new communities, which have been in effect since July 1, 2019. Lower sewer impact fees for infill areas were adopted effective July 9, 2023 (\$3,283 per ESD) and will remain at that level through July 1, 2027; while fees for new communities will remain the same at \$6,479 per ESD through June 30, 2026. On July 1, 2026, fees will increase to \$6,718 per ESD and to \$6,955 per ESD on July 1, 2027. We do not expect the new fees to negatively impact construction activity and new service connections. The fee revenue forecast reflects the same ESD growth assumptions used for rate revenues. The level of impact fee revenue is difficult to predict due to the number of factors the fees are affected by. Factors that can affect impact fee revenues include fee increases, proportion of growth in infill versus new communities, new construction activity, level of impact fee credits used, proportion of commercial development versus residential development, and levels of redevelopment.
- 3. Non-operating Revenue** – The main variable in this revenue category is interest income on invested cash balances. Interest revenue decreased significantly following the Fed's decision to lower the fed funds rate at the outset of the COVID-19 pandemic in 2020. With the aggressive rate hikes implemented in 2022 and continuing in 2023, coupled with the District's new investment program in longer maturity securities, interest revenue is projected to increase significantly in the near term. A projected increase of 111% in FY 2022-23 and 52% in FY 2023-24. For the remainder of the forecast period, interest income will be largely driven by the amount of invested cash balances, as we expect interest rates to fall and stabilize near long-term historical averages.
- 4. Salaries & Benefits** – This cost category is projected to increase by 4% annually throughout the forecast period. These increases reflect expected cost-of-living adjustments negotiated in labor agreements, as well as rising retirement and health benefit costs.

5. **Services and Supplies** – This expenditure category experienced an increase of about 20% in FY 2022-23. These costs include the additional operating costs for EchoWater facilities. Each subsequent year’s services and supplies cost line includes the previous year’s incremental increase from the EchoWater cost line. Harvest Water operating costs are expected to begin in FY 2024-25, and a separate line item has been added to the projection. These costs include estimated salary and electricity costs associated with the operations of the program.
6. **Capital Costs** – The cost estimates for capital project expenditures are from the District’s Capital Funding Projection detailed in Table 5. In the Cash Flow Forecast (Table 4), capital costs are shown on five separate lines. These include costs for rehabilitating existing infrastructure, the EchoWater Project, the BioGeneration Facility, Harvest Water, and the Interceptor Rehabilitation projects.
7. **Debt Service** – The current debt service is based on the total outstanding bonded debt of \$1.07 billion and CWSRF loan debt of \$849 million as of March 31, 2023. With the current debt outstanding as of March 31, 2023, additional CWSRF funding, and new bond issuance, the average annual level debt service is projected to be \$154 million through FY 2032-33.

The future projection includes approximately \$150 million in additional CWSRF loans and \$300 million in bond debt to finance the Harvest Water Project and the BioGeneration Facility. The additional CWSRF draws and the Harvest Water/BioGeneration Facility debt financing would add approximately \$17 million in additional debt service costs.

8. **Designated Reserves** – In 2005, the Board of Directors approved a reserve policy that established the current reserves and the basis for their levels. New reserves have subsequently been added, including the Confluence Program Reserve and the CWSRF Loan Reserves. For FY 2022-23 these reserves were designated at a total of \$234.8 million and are projected into the future based on the following needs and assumptions:
 - **General Reserve (\$36,421,000)** – This reserve covers emergency costs and other unexpected expenditures or to offset temporary fluctuations in revenues. This reserve is currently at its designated target level of 25% of operating expenses net of depreciation. Prior to FY 2013-14, this reserve was targeted at 10% of operating expenses. The current higher level provides more capacity to absorb short-term cost spikes from emergencies, regulatory changes, or legal settlements before rate increases become necessary.
 - **Facilities Closure Reserve (\$13,902,751)** – This Reserve is mandated by the State of California to finance closure and post-closure costs of the solids storage basins and the dedicated lined disposal sites at the EchoWater Resource Recovery Facility. This reserve is increased as needed to ensure sufficient funding will be available at the time of closure of the facilities as mandated by State law.

- **Equipment Replacement (\$1,218,402)** – This reserve was created to replace existing heavy equipment (e.g., tractors, cranes), thereby eliminating the need for debt financing in years when heavy equipment is replaced. This reserve is increased by 2.5% each year to reflect inflation.
- **Confluence Program Reserve (\$15,000,000)** – The Board of Directors established this reserve in FY 2017-18 by combining the Economic Incentive Reserve and the Rate Assistance Program Reserve. This reserve supports programs for economic incentives, educational programs, the Sewer Lifeline Rate Assistance Program, and other community partnership programs. These programs are supported by non-rate/non-fee revenues and are now combined under one umbrella known as the Confluence Program.
- **Expansion Reserve (\$20,908,124)** – This reserve was created to fund facility expansions required by customer growth. It is designed to be used when expansion projects are under construction but impact fees decline due to a sudden slowdown in growth. No changes to this reserve are envisioned for the forecast period.
- **Replacement Reserve (\$91,337,512)** – This reserve funds future rehabilitation and replacement of existing facilities and major components when they reach the end of their useful lives. This reserve will be increased by 2.5% each year during the forecast period to offset the impacts of inflation.
- **Rate Stabilization Reserve (\$23,200,000)** – This reserve is available to ensure minimum debt coverage ratios, as required by bond agreements, are met when revenues decline or operating expenses increase unexpectedly, without requiring an immediate increase in rates. There is no projected need to change the level of this reserve throughout the forecast period.
- **CWSRF and SPA Loan Reserve (\$32,775,937)** – This reserve began in FY 2017-18 as required by the terms of the CWSRF loan that will finance the EchoWater Project and the Prop. 1 loan that financed a portion of the SPA water-recycling project. The reserve will be equal to the annual debt service required under the loan agreements beginning at \$2,011,632 in 2017-18 and reaching an estimated maximum of approximately \$50 million in FY 2024-25.
- **Unreserved Cash** – This is defined as all of the cash balances not specifically designated for a specific purpose by the Board of Directors, loan agreements, or laws and regulations. Unreserved cash provides a flexible source of funding to take advantage of opportunities to maximize long-term economic benefits for ratepayers, provide an additional cushion for unexpected expenses or revenue loss, and mitigate any negatives that might be noted by rating agencies. Unreserved cash also provides the Board with the opportunity to consider the early repayment or restructuring of debt for savings, or financing of future capital project expenditures without the need

for additional debt. In this long-term plan, a significant amount of unreserved cash is used to fund a portion of the capital costs of projects.

Capital Funding Projection

Table 5, on the next page, lists Regional San’s capital projects already in progress or projects that are expected to begin within the ten-year timeframe. The projects are shown in a summary format and have been updated to reflect the most current cost and timing information available. Approximately \$1.12 billion in capital project costs are anticipated between FY 2023-24 and FY 2032-33. At approximately \$567 million (excluding expenditures to date), Harvest Water represents about 51% of all capital costs projected over this ten-year period. The BioGeneration Facility and the Central Interceptor Rehab Project represents 11% and 10%, respectively, of the projected capital costs. The EchoWater Project portion of the capital funding projection is now down to 3% as the major components are complete.

Harvest Water is projected to cost \$597 million in total. Currently, the District has secured grant funding of \$322 million—through the California Water Commission’s Water Storage Investment Program and the U.S. Bureau of Reclamation—and is currently seeking additional funding. The projection includes an additional \$250 million in bond funding to cover the costs not covered by the current grant funding. However, if the District receives additional grants, the bond funding projection would be adjusted down accordingly. In the future, Harvest Water and other water-recycling projects have the potential to generate revenue from water sales to recover some of the operating costs, but the current projections do not include any estimates for these revenue sources.

The BioGeneration Facility is expected to cost \$125 million, and the forecast includes \$50 million in bond financing. Additional funding is being pursued from the new federal tax credits program authorized in the Inflation Reduction Act. The forecast does not include potential proceeds from this effort.

All other projects will be funded with ongoing rate and impact fee revenues and unreserved cash balances.

Ten-Year Capital Funding Projection

Table 5: Regional San Ten-Year Capital Funding Projection 2023-24 to 2032-33

| Project # / Project Name | 10-Year Totals | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 32-33 |
|--|----------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1-Harvest Water | 566,926,030 | 173,731,100 | 263,505,776 | 102,491,429 | 11,157,281 | 4,636,324 | 3,684,504 | 2,716,836 | 2,767,871 | 2,234,909 | - |
| 2-BioGeneration Project | 124,000,000 | 5,000,000 | 60,000,000 | 55,000,000 | 4,000,000 | - | - | - | - | - | - |
| 3-EchoWater | 32,590,000 | 17,590,000 | 15,000,000 | - | - | - | - | - | - | - | - |
| 4-N21 Central Interceptor Rehab | 108,600,000 | 2,300,000 | 17,300,000 | 36,800,000 | 36,800,000 | 15,400,000 | - | - | - | - | - |
| 5-South Interceptor | 59,100,000 | - | - | - | - | - | 100,000 | 2,500,000 | 2,600,000 | 25,900,000 | 28,000,000 |
| 6-Secondary Sedimentation Tanks Rehabilitation | 32,500,000 | 3,250,000 | 3,250,000 | 3,250,000 | 3,250,000 | 3,250,000 | 3,250,000 | 3,250,000 | 3,250,000 | 3,250,000 | 3,250,000 |
| 7-Digester Rehabilitation | 27,200,000 | 3,700,000 | 1,500,000 | 4,000,000 | 1,500,000 | 4,000,000 | 1,500,000 | 4,000,000 | 1,500,000 | 4,000,000 | 1,500,000 |
| 8-City of Sacramento-Force Main Rehab & Repair | 22,370,160 | 3,100,000 | 12,210,050 | 2,088,000 | 4,972,110 | - | - | - | - | - | - |
| 9-RPT I/O Replacement | 24,400,000 | 250,000 | 2,250,000 | 4,000,000 | 4,400,000 | 6,000,000 | 4,000,000 | 3,500,000 | - | - | - |
| 10-Upper Dry Creek Interceptor Relief | 21,900,000 | 4,600,000 | 17,300,000 | - | - | - | - | - | - | - | - |
| 11-Chiller Replacement Project | 18,300,000 | 1,500,000 | 7,300,000 | 8,000,000 | 1,500,000 | - | - | - | - | - | - |
| 12-Influent Pump Installation | 11,500,000 | 2,190,000 | 7,310,000 | 2,000,000 | - | - | - | - | - | - | - |
| 13-DAFT Rehabilitation (1 thru 4) - long term | 10,000,000 | - | - | - | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 | - | - | - |
| 14-Emerson Ovation Upgrade 2023 | 9,000,000 | 1,600,000 | 6,500,000 | 900,000 | - | - | - | - | - | - | - |
| 15-Primary ORT Repair/Replacement | 7,500,000 | 1,350,000 | 6,150,000 | - | - | - | - | - | - | - | - |
| 16-Annual SRWTP Small Capital Project | 6,500,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 |
| 17-Ferric Chloride System Rehab | 4,782,000 | 1,000,000 | 3,782,000 | - | - | - | - | - | - | - | - |
| 18-Annual Interceptor Small Cap Project | 3,560,000 | 410,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| 19-SSB Mixers Replacement | 2,415,200 | 576,500 | 594,900 | 612,700 | 631,100 | - | - | - | - | - | - |
| 20-Partial Grit Landfill Removal | 400,000 | 400,000 | - | - | - | - | - | - | - | - | - |
| 21-SRWTP Facilities Roof Rehab | 2,539,777 | - | 250,000 | 257,500 | 265,225 | 273,182 | 281,377 | 289,819 | 298,513 | 307,468 | 316,693 |
| 22-Influent Junction Structure Rehabilitation | 2,300,000 | 700,000 | 1,600,000 | - | - | - | - | - | - | - | - |
| 23-BarScreen Room Channel CA & Rehab | 2,200,000 | - | 1,200,000 | 1,000,000 | - | - | - | - | - | - | - |
| 24-Primary Deck Structural Assessment/Rehab | 600,000 | 600,000 | - | - | - | - | - | - | - | - | - |
| 25-Effluent Manifold Rehab | 1,800,000 | 800,000 | 500,000 | 500,000 | - | - | - | - | - | - | - |
| 26-Barscreen 2 Replacement | 2,000,000 | 200,000 | 1,800,000 | - | - | - | - | - | - | - | - |
| 27-ESB Concrete Joint Sealant Replacement | 2,000,000 | 500,000 | - | 500,000 | - | - | 500,000 | - | - | 500,000 | - |
| 28-X09 Low Voltage Switchgear Replacement | 1,775,000 | 875,000 | 900,000 | - | - | - | - | - | - | - | - |
| 29-City of Sacramento-Sump Replace/Repair | 1,150,000 | 1,005,000 | 145,000 | - | - | - | - | - | - | - | - |
| 30-Interceptor PLC Replacement Project | 1,350,000 | 450,000 | 300,000 | 300,000 | 300,000 | - | - | - | - | - | - |
| 31-SRWTP Pavement Restoration | 800,000 | - | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | - |
| 32-Sims Ranch/Nicolaus Dairy Improvements | 750,000 | 750,000 | - | - | - | - | - | - | - | - | - |
| 33-Gas Management System Modifications | - | - | - | - | - | - | - | - | - | - | - |
| 34-I/E Building Fire Alarm System Upgrade | 680,000 | 480,000 | 200,000 | - | - | - | - | - | - | - | - |
| 35-Mixed Sludge Feed Loop Rehab | 600,000 | 600,000 | - | - | - | - | - | - | - | - | - |
| 36-N18 Water Supply Improvements | 595,000 | 595,000 | - | - | - | - | - | - | - | - | - |
| 37-Interceptor VFD Replacement Project | 510,000 | 410,000 | 100,000 | - | - | - | - | - | - | - | - |
| 38-I/E Locker Room & Fitness Center | 400,000 | 400,000 | - | - | - | - | - | - | - | - | - |
| 39-ARV Replacement Project - N50 & N51 | 500,000 | - | 500,000 | - | - | - | - | - | - | - | - |
| 40-S030 Abandonment Project | 500,000 | - | - | - | 500,000 | - | - | - | - | - | - |
| 41-LSG Header Valve Replacement | 300,000 | 300,000 | - | - | - | - | - | - | - | - | - |
| 42-Barscreen Overhauls 5,6;1,3, | 400,000 | 200,000 | 200,000 | - | - | - | - | - | - | - | - |
| 43-Mixed Sludge Tank #2 Rehab | 260,000 | 260,000 | - | - | - | - | - | - | - | - | - |
| 44-Radio System Upgrades | - | - | - | - | - | - | - | - | - | - | - |
| 45-L-DLD 2, 3, 4 Hydrants Replacement | - | - | - | - | - | - | - | - | - | - | - |
| 46-IT Projects | - | - | - | - | - | - | - | - | - | - | - |
| 47-ESB-D Liner Replacement | 100,000 | 100,000 | - | - | - | - | - | - | - | - | - |
| 48-FOG Facility Rehab & Modifications | 75,000 | 75,000 | - | - | - | - | - | - | - | - | - |
| 49-N19 Arden Pump Station Wet Well Rehab | - | - | - | - | - | - | - | - | - | - | - |
| Totals | 1,117,728,167 | 232,497,600 | 432,747,726 | 222,799,629 | 72,875,716 | 37,159,506 | 16,915,881 | 19,856,655 | 11,516,384 | 37,292,377 | 34,066,693 |

Debt Management Plan

Debt Policies and Goals

The primary objectives of the debt management plan are to minimize financial risk, minimize debt service costs, maintain or improve credit ratings, and reduce the complexity and administrative costs associated with maintaining the portfolio. These policies and goals are designed to help the District maintain a sound and sustainable financial position.

Regional San has two main policy documents covering debt issuance, management, and administration. They are the debt policy and the master derivative policy. Key provisions of the debt management plan include:

- Debt will only be issued for projects included in the Board-approved Capital Funding Projection. No activities that are operational in nature will be funded with debt.
- For major new capital projects, the District will target financing 75% or less of the total costs with debt proceeds. The remaining 25%, or more, will be financed with cash from reserves and/or ongoing revenues. For capital projects that replace existing assets, the District will aim to finance 100% with cash in the ten-year planning horizon.
- Assets financed by a debt issue will have an average useful life at least equal to the last maturity of a proposed debt issue.
- Outstanding debt issues should be fully amortized in 40 years or less.
- No more than 20% of outstanding debt, or \$200,000,000, whichever is less, can be in a variable rate mode without a hedge or cap to mitigate interest-rate risk. Any variable rate debt above this limit must be hedged with derivatives (swaps) to synthetic fixed rates or capped with interest rate caps.
- The total notional amount per swap counterparty is limited to \$350 million or 25% of Regional San total outstanding bonds, whichever is greater.
- Excess revenues from higher than projected growth and operating surpluses will be dedicated to the early retirement of debt.

Existing Debt

Regional San has approximately \$1.23 billion of bond debt outstanding as of March 2023. Approximately 84% of this debt is fixed rate, and 16% is in a variable rate mode or having a rate that will reset within three to four years. The variable rate debt is indirectly hedged by derivatives (interest rate swaps) to create synthetic fixed rate debt. Senior lien debt totals \$1.03 billion, or 84%, while the remaining subordinate debt totals \$200 million, or 16%. All of the District's fixed rate debt is senior lien. The following two tables show the District's current outstanding bond debt distinguished as either fixed or variable:

| TABLE 6 - Fixed Rate Debt | | (22-23 Estimate) | | Average | |
|----------------------------------|---|------------------------------------|--------------------------------------|-------------------------|------------------------|
| Series | Updated Termination /Call Feature* | 3-31-23 Balance Outstanding | Current Annual Interest Costs | Interest Rate ** | Final Maturity* |
| 2007A | None | 13,160,000 | 1,018,631 | 5.25% | 12-1-2023 |
| 2014A | 12-1-24 at par | 318,765,000 | 16,103,650 | 5.05% | 12-1-2044 |
| 2014B | None | 7,045,000 | 388,264 | 5.51% | 12-1-2023 |
| 2020A | 12-1-30 at par | 209,750,000 | 10,487,500 | 5.00% | 12-1-2050 |
| 2020B | None | 67,560,000 | 705,290 | 1.04% | 12-1-2026 |
| 2021 | 12-1-31 make whole | 253,145,000 | 12,112,900 | 4.78% | 12-1-2034 |
| Total Fixed Rate Debt | | 869,425,000 | 40,816,235 | 4.69% | |

* Call feature and final maturity relate to remaining outstanding bonds, which may differ from original issue.

** Average interest rates represent average coupon rates on outstanding bonds. Total average rate of 4.69% is calculated based on the 2022-23 interest as it relates to the bonds outstanding on 6-30-22.

| TABLE 7 - Variable Rate Debt | | 3-31-23 | (22-23 Estimate) | Average | | Related | Swap |
|-------------------------------------|---|----------------------------|--------------------------------------|----------------------|-----------------------|------------------|------------------------------|
| Series | Updated Termination/Call Feature | Balance Outstanding | Current Annual Interest Costs | Interest Rate | Final Maturity | Swap Rate | Swap Termination Date |
| 2013B(2008A) | Bank owned to 5-22-25 | 50,000,000 | 395,000 | 0.79% | 12-1-2036 | 3.750% | 12-1-2036 |
| 2013C(2008B) | Bank owned to 3-22-25 | 50,000,000 | 280,000 | 0.56% | 12-1-2037 | | N/A |
| 2012A(2008C) | Bank owned to 7-2-24 | 50,000,000 | 310,000 | 0.62% | 12-1-2038 | 3.750% | 12-1-2036 |
| 2013D(2008D) | Bank owned to 3-22-25 | 50,000,000 | 280,000 | 0.56% | 12-1-2039 | | N/A |
| Total Variable Rate Debt | | 200,000,000 | 1,265,000 | 0.63% | | | |

In addition to the bond debt, the District has long-term capital leases of \$3.5 million as of March 31, 2023. Regional San also has Clean Water State Revolving Fund Loans outstanding of approximately \$869 million and total loan commitments of \$1.392 billion as of March 31, 2023, which are detailed on pages 30-31.

Swaps

The District uses derivatives (swaps) to mitigate the interest rate risk associated with the variable-rate portion of the debt portfolio. Swaps effectively convert most of the variable-rate debt into synthetic fixed rates designed to provide an overall lower cost of financing than fixed-rate debt at original issuance. As of March 31, 2023, the District has two swaps that are listed below:

Table 8

| Related Bonds | Amount (\$) | Type | Final Maturity | Counterparty |
|--|--------------------|--|----------------|--------------|
| Series 2013B (formerly 2008A) | 50,000,000 | 63.61% 5 year CMS /3.75% fixed (variable to fixed) | 12-1-2036 | BNP Paribas |
| Series 2012A (formerly 2008C) | 50,000,000 | 63.61% 5 year CMS /3.75% fixed (variable to fixed) | 12-1-2036 | BNP Paribas |
| Total | 100,000,000 | | | |

The Series 2013B and 2012A bonds that were tied to the swaps were directly purchased by Wells Fargo Bank with current agreements to May 22, 2025, and July 2, 2024, respectively. The current agreement changes the variable rate to a fixed rate of 0.79% and 0.62%, respectively. By fixing the rate on the bond, the synthetic fixed rate made with the associated swap is no longer there. However, the swap can be indirectly matched to the 2013C and 2013D bonds, which have a variable rate and no swap attached.

The swaps, with BNP Paribas as the counterparty, costs the District a fixed rate of 3.75%. As of March 31, 2023, the termination cost of each swap was \$8.4 million. The reference rates of the swaps were originally based on LIBOR. In February 2023, the District amended the swap agreement to address the discontinuation of LIBOR and replaced it with the Secured Overnight Financing Rate (SOFR). This was done prior to June 30, 2023, when LIBOR stopped publishing rates.



Strategies for Existing Bond Issues and Swaps

Series 2007A – These fixed rate senior lien revenue bonds have an outstanding par of \$59,390,000 and an effective interest cost of 4.9%. The Series 2007A&B bonds were issued in 2007 to advance refund and lower the cost of the Series 2004A bonds. The proceeds of the Series 2004A bonds were used to build various sanitation system infrastructure, including the District's interceptor system. The 2007A bonds have a final maturity of December 1, 2023, and are not callable; therefore, no change is contemplated for this issue prior to its maturity.

Series 2008 (now 2012A and 2013A - D) – These bonds were variable rate subordinate lien bonds issued in five tranches, one for \$51.3 million and four others for \$50 million each, for a total par of \$251,305,000. The Series 2008 bonds were issued in 2008 to refund all of the \$250 million Series 2004B auction rate bonds that had to be replaced due to the collapse of that segment of the market in 2008. The Series 2004B bonds were issued to finance a portion of the District's interceptor system. The Series 2008 bonds were all refunded in 2012 and 2013 by variable rate bonds placed directly with three commercial banks.

Series 2013B (formerly 2008A) – The Series 2008A bonds were refunded by the Series 2013B bonds that were directly purchased by Wells Fargo Bank (Wells Fargo) for three years to June 1, 2016, and are currently on the third extension, extending the agreement until May 22, 2025. The current agreement changes the variable rate to a fixed rate of 0.79%. By fixing the rate on the bond, the synthetic fixed rate made with the associated swap is no longer there. However, the swap can be indirectly matched to the 2013C and 2013D bonds, which have a variable rate and no swap attached. No changes are planned for this issue since the amended direct purchase agreement with Wells Fargo has been recently updated.

Series 2013C (formerly 2008B) – The Series 2008B bonds were refunded by the 2013C bonds that were directly purchased by Bank of America for three years to November 14, 2016, and are now extended to March 22, 2025. The final maturity on this \$50 million subordinate lien debt is December 1, 2037. Regional San pays Bank of America a 0.38% spread over the index rate (variable rate) on the bonds. As of March 31, 2023, the interest cost for this debt is currently about 3.51%, with an assumed long-term cost of 4.0%. The swap that hedged this variable rate debt expired on December 1, 2017. Regional San plans to leave this variable rate debt in place without a hedging swap as the District can indirectly use the 2012A and 2012B swaps as hedge since the 2012A and 2012B bonds currently have a fixed rate. At this time, no changes are contemplated for this issue in the near future.

Series 2012A (formerly 2008C) – The Series 2008C bonds were refunded by the Series 2012A bonds that were directly purchased by Wells Fargo for three years to August 1, 2015, and are currently on the third extension, extending the agreement until July 2, 2024. The current agreement changes the variable rate to a fixed rate of 0.62%. By fixing the rate on the bond, the synthetic fixed rate made with the associated Swap is no longer there. However, the swap can be indirectly matched to the 2013C and 2013D bonds, which have a variable rate and no swap attached. As of March 31, 2023, the termination cost of the swap was about \$8.4 million. No

changes are planned for this issue since the amended direct purchase agreement with Wells Fargo has been recently updated.

Series 2013D (formerly Series 2008D) – The Series 2008D bonds were refunded by the 2013D bonds that were directly purchased by Bank of America for three years to November 14, 2016. The agreement has been extended until March 22, 2025. The final maturity on this \$50 million subordinate lien debt is December 1, 2039. Regional San pays Bank of America a 0.38% spread over the index rate (variable rate) on the bonds. As of March 31, 2023, the interest cost for this debt is currently about 3.51%, with an assumed long-term cost of 4.0%. The swap that hedged this variable rate expired on December 1, 2017. Regional San plans to leave this variable rate debt in place without a hedging swap as the District can indirectly use the 2012A and 2012B swaps as hedge since the 2012A and 2012B bonds currently have a fixed rate. At this time, no changes are contemplated for this issue in the near future.

Series 2014A – This debt series was issued in July 2014 to finance \$150 million of the EchoWater Project costs and refund most of the Series 2006 Bonds for savings. The refunding produced about \$21 million in net present value savings and average annual cost savings of approximately \$1.5 million for 20 years. These fixed rate senior-lien bonds have an outstanding par of \$355,350,000, an average fixed rate of 4.9%, a final maturity of December 1, 2044, and a par call date of December 1, 2024. If interest rates are lower at the call date, the District will determine if refunding the bonds will yield savings.

Series 2014B – In November 2014, Regional San issued this debt to refund all of the Series 2005 outstanding bonds with the taxable Series 2014B Bonds for cash flow savings of \$4.33 million and to allow for the liquidation of a portion of the Series 1993 Escrow to generate additional savings of \$3.9 million. These fixed rate senior-lien bonds have an outstanding par of \$48,635,000, an average fixed rate of 2.43%, and a final maturity of December 1, 2023. Since these bonds are not callable, no change is planned for this issue in the near future.

Series 2020A – In July 2020, Regional San issued this debt to pay for a portion of the EchoWater Project costs, current refund all of the Series 2000C outstanding bonds, pay a portion of the Series 2000C Swap termination costs, and pay the costs of issuance with the Revenue Bonds Series 2020A Bonds for cash flow savings of \$6.8 million. These fixed rate senior-lien bonds have an outstanding par of \$209,750,000, an average fixed rate of 2.63%, and a final maturity of December 1, 2050. These bonds are callable in December 2030. Due to the length of time before the bonds become callable, no change is planned for this issue in the near future.

Series 2020B – In July 2020, Regional San issued the taxable Series 2020B Bonds to advance refund the outstanding Series 2011A bonds and pay a portion of the Series 2000C Swap termination costs for cash flow savings of \$17.1 million. These fixed-rate senior-lien bonds have an outstanding par of \$75,710,000, an average fixed rate of 1.06%, and a final maturity of December 1, 2027. Since these bonds are not callable, no change is planned for this issue in the near future.

Series 2021 – In March 2021, Regional San issued the Refunding Revenue Bonds, Series 2021. The proceeds from the issuance along with other available monies refunded the Series 2007B outstanding bonds, terminated the associated interest rate swap, and paid for the costs of issuance. The refunding reduced Regional San’s future total debt service payments by approximately \$19.6 million and yields an economic gain of \$698,000. These fixed rate senior-lien bonds have an outstanding par of \$269,810,000, an average fixed rate of 1.46%, and a final maturity of December 1, 2034. Since these bonds feature a make whole call in December 31, 2033, no change is planned for this issue in the near future.

Capital Lease – The District has a long-term capital lease with Synagro Inc. that finances the biosolids recycling facility at the EchoWater Facility in Elk Grove. The original agreement required Regional San to make an annual capital payment of \$1.7 million through the year 2024. This payment represented debt service on long-term debt with a beginning principal amount of \$20 million and an interest rate of 5.71%. In 2014, at the District’s request, Synagro refinanced their bonds associated with this lease and lowered the District’s capital payment to approximately \$1.5 million per year. This lowered the interest rate to 4% and was projected to save the District about \$2 million over the remaining 10-year life of the lease. The principal balance of this lease was \$3,466,654 as of March 31, 2023.

Recommended Debt Portfolio Action Items

- 1. Determine the amount of bond funding to finance Harvest Water and the BioGeneration Project.** The District continues to seek additional grant funding and low-interest loans for Harvest Water. Without any additional funding, the Long-Term Financial Plan projects that the District will need approximately \$250 million in bond funding. The BioGeneration project, which in the long-term will create savings and pay for itself, has a projected need of \$50 million in bond funding. Based on the current projects, the District will need to issue bonds in FY2024-25.
- 2. Explore options to pay off (terminate) the Series 2012A and 2013D swaps.** The 2012A and 2013D swaps are currently not a direct hedge to the Series 2012A and 2013D swaps. Based on the rising interest rates, the District will continue to monitor the swap mark-to-market valuation and determine if there is a financial advantage to early termination of the swaps.

EchoWater Project Financing Plan

In 2015, the State Water Resources Control Board approved the District’s EchoWater Project for up to \$1.576 billion of CWSRF financing. The CWSRF financing consists of eight separate loan agreements based on EchoWater Project construction components. As of February 2017, the District has entered into all eight loan agreements totaling about \$1.394 billion. Subsequent amendments to these agreements has reduced the total loans to an estimated \$1.392 billion as

of March 31, 2023. The first five agreements totaling \$259 million are at a fixed rate of 1.6% for 30 years. The last three agreements totaling \$1.133 billion are at 1.7% for 30 years.

Each of the loan agreements will provide for level annual payments. The loan agreements will be fully amortized in 30 years beginning one year after completion of construction. Because the District is not required to begin amortization of the CWSRF loans until construction is complete, and capital costs are reimbursed from loan proceeds on a monthly basis, there is no need for short-term financing during construction as would be typical in a bond-financed project of this size and duration.

In addition to the CWSRF loan to fund the EchoWater project, the District issued two separate bonds. New revenue bond debt totaling \$150 million was issued in July 2014 to finance a portion of the EchoWater Project planning and design costs to be incurred through 2018. An additional \$150 million of new revenue bond debt was issued in July 2020 to finance a portion of the EchoWater construction costs.



Table 9 on this page details the estimated debt issuance and status of EchoWater financing as of March 31, 2023.

Table 9
EchoWater Project Financing Plan

| | Loan Start Fiscal Year | Loan / Bond Amount | Proceeds used as of 3/31/22 | Annual Debt Service | Impact on Monthly Rate/ESD |
|---|---------------------------|------------------------|--------------------------------|------------------------|----------------------------------|
| Series 2014A Bonds Planning, Design, and Administration | 14-15 | \$150,000,000 | \$150,000,000 | \$6,729,600 | \$0.90 |
| Series 2020A Bonds Construction | 20-21 | \$150,000,000 | \$150,000,000 | \$5,758,250 | \$0.77 |
| CWSRF Loan 1 – Site Preparation (Final) | 17-18 | \$43,949,856 | \$42,106,057 | \$1,773,695 | \$0.24 |
| CWSRF Loan 2 – Flow Equalization (Final) | 19-20 | \$138,672,372 | \$127,391,104 | \$5,577,103 | \$0.74 |
| CWSRF Loan 3 – Main Electric Substation Expansion (Final) | 17-18 | \$3,439,831 | \$2,861,737 | \$121,051 | \$0.02 |
| CWSRF Loan 4 – Disinfection Chemical Storage (Final) | 18-19 | \$21,468,655 | \$21,465,759 | \$919,145 | \$0.12 |
| CWSRF Loan 5 – Nitrifying Side Stream Treatment (Final) | 19-20 | \$53,490,845 | \$51,815,353 | \$2,246,831 | \$0.30 |
| CWSRF Loan 6 – Biological Nutrient Removal Facility (Final) | 21-22 | \$533,142,603 | \$454,257,274 | \$20,326,250 | \$2.71 |
| CWSRF Loan 7 – Return Activated Sludge Pumping Station (Final) | 19-20 | \$35,696,952 | \$31,580,355 | \$1,388,318 | \$0.19 |
| CWSRF Loan 8 – Tertiary Treatment Facility | 23-24 | \$564,657,506 | \$136,020,884 | \$24,183,799 | \$3.22 |
| Totals | | \$1,694,518,620 | \$1,167,498,523 | \$69,024,042 | \$9.20 |

Early Debt Retirement Plan

The District in FY 2020-21 took advantage of the low interest rates to advance and current refund existing bonds while issuing \$150 million in new bonds. Interest rates since then have risen to a rate where there is less opportunity to refund or restructure the remaining debt. Regional San will continue to look for opportunities to reduce the cost of debt.

Currently, there is one debt issue left that is being considered for restructuring in the near future as follows:

Series 2014A – These fixed rate bonds are callable in 2024. A refunding transaction can be done at that time to refinance the debt at a lower rate.

The refunding plan may only become viable with the passage of time and favorable market conditions.

In addition, the District will continue to monitor termination costs for the existing swaps, which, if interest rates stay at this current level or increase, may take advantage of the lower cost to exit the current swap agreements.

Investment Management

Regional San currently has \$435 million in cash and invested reserve balances as of March 31, 2023. Interest income earned on these balances is non-rate/non-fee income that can be used to support incentive and assistance programs. Interest income can also supplement rate and fee income to cover operating and capital costs and offset debt service costs. The District's cash for operations and capital spending is deposited in the County treasury and invested in the Sacramento County Pooled Investment Fund (Pool). State law and the County Investment Policy limit the Pool to investments in securities with maturities of five years or less. Due to its need to preserve invested principal and provide liquidity for all participants in the Pool, it has a weighted average maturity of less than one year. As of March 31, 2023, the weighted average maturity of the Pool was 289 days, which reflects the Pool's need for liquidity. Because the District's cash flow is relatively constant throughout the year, the need for liquidity is less important for the District than for the Pool as a whole.

In July 2021, Regional San established an Investment Policy for cash reserves. This policy delegates the responsibility for the cash management of cash reserves to Regional San's Chief Financial Officer and allows the District to invest its reserves outside of the Pool to better align the investment objectives and liquidity needs of Regional San. The goal of Regional San is to invest in securities with an average maturity longer than the Pool. In turn, this could potentially earn higher interest income to help achieve its strategic objectives. In 2022, the District set up

its own investment accounts for the reserves and retained an investment advisor to assist in managing the portfolio. Between September and December 2022, the District transferred \$198 million from the Pool to its separately owned investment accounts. For the quarter ending March 31, 2023, the District's investment revenue on the funds outside of the Pool was 4.37%. In comparison, Regional San earned 3.97% on the balance of funds still invested in the Pool for the quarter ended March 31, 2023.

