



## ***SOUTH FEATHER WATER & POWER AGENCY***

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**TO:** Board of Directors

**FROM:** Michael Glaze, General Manager  
Steve Wong, Finance Division Manager

**DATE:** April 16, 2010

**RE:** Strategic Ten-Year Financial Plan for 2011-2020  
4/27/10 Board of Directors Meeting

A Ten-Year Strategic Financial Plan was reviewed at the board's last meeting. Direction from the board was to bring the item back on the agenda this month to give directors time to review and absorb the information. Most of the information provided last month is again provided below, with the addition of information about how the proposed rate reductions will affect customers.

### **Proposed Action**

Adopt the Strategic Ten-Year Financial Plan for 2011-2020, including the proposed modifications to potable water rates in 2012, 2014 and 2017, annual contributions of \$1,000,000 per year towards the Other Post Employment Benefits (OPEB) liabilities beginning in 2015, and authorization to proceed with discussions to issue bonds to assist with financing the expansion of the Miners Ranch Treatment Plant.

### **Background**

The 2010 Budget set forth the following four funds:

- Fund 1 – General Fund;
- Fund 7 – SFPP Joint Facilities Fund;
- Fund 12 – MRTP System Capacity Fund; and,
- Fund 51 – SFWPA Retiree Benefits Fund (OPEB).

One of the major questions at the commencement of these discussions is the ability and timing of the distribution of funds from Fund 7, the SFPP Joint Facilities Fund. Generation and power prices for the South Feather Power Project (SFPP) have been tracked since this past summer of 2009, and with these calculations, revenue to the Fund is projected to be about \$1,800,000 per month. The 2005 Agreement (Agreement) with the North Yuba Water District (NYWD) provides first for the payment of normal operating and maintenance expenses for the project, repayment of re-licensing expenses incurred by SFWPA, payment of a minimal annual amount to SFWPA and NYWD, the creation of a 15% working capital reserve, and the creation of a \$15,000,000 contingency reserve. Once these obligations are taken care of, then the remaining funds, or net power revenues, are distributed equally between the Agency and NYWD.

With that as a starting point, Financial Projections for the SFPP Joint Facilities Fund and the General Fund through the year 2020 were created. The Projections indicate a healthy financial picture for the Agency through 2015. Highlights incorporated into these projections for the next five years include the following:

- 1.) With the PG&E agreement approved last month to assist with paying for the dam-crest-modification projects, it appears that net power revenues will be available as soon as the 2012 year. The Agreement provides for the analysis and distribution of funds to occur on or before March 31 of each year for the prior calendar year. Therefore the 2012 distribution will be the result of 2011 activity.
- 2.) **No funds from water transfers are included in these estimates.**
- 3.) Current Consumption rates for potable water are \$0.64 per unit for the first 100 units (10,000 cubic feet) and \$0.25 per unit after the first 100 units (over 10,000 cubic feet). The following rate adjustments are proposed and have been incorporated into the attached Projections. Each adjustment reduces General Fund revenues by approximately \$110,000 to \$180,000 per year, or an estimated \$465,000 per year after the three adjustments are in effect. The recommended action, below, does not affect these rate changes, only direction to staff to consider the proposal at the appropriate time. Jeff Meith will also need to provide direction regarding the impact of Proposition 218 on this proposal.

	First	After First
Per Unit Chg	100 Units	100 Units
Current	\$0.64	\$0.25
2012	\$0.53	\$0.28
2014	\$0.42	\$0.31
2017	\$0.35	\$0.35

The foregoing proposed rate changes will result in lower water bills for the vast majority of SFWPA domestic-water customers. Only those customers who use large volumes of water for irrigation or other similar uses will have to pay more money than they presently do. In most cases, however, even the large-volume customers will see savings in the winter time that will offset their increases in the summer time (assuming that their water demand is seasonal).

For the rate changes in 2012 and 2014, a customer would have to use in excess of 367 units (274,516 gallons) of water in a month before their bill would exceed what it is under the present rate structure. And the rate change in 2017 would lower than break-event point to 290 units (216,920 gallons) of monthly usage.

- 4.) Financing for the MRTP expansion is included at a total amount of \$18,000,000 with an interest rate of 4.75% over a twenty-year maturity schedule and repayment beginning in 2014.
- 5.) Annual \$1,000,000 contributions for Other Post-Employment Benefits (OPEB) are scheduled to begin in the 2015 year. Repayment to PG&E for 60% of the costs associated with the dam-crest-modification projects, an estimated \$12,000,000, will also occur in 2015.

The combination of repayment to PG&E for the dam-crest-modification projects costs, the debt service

for the MRTP expansion, and the annual contributions for OPEB taking place in the 2014-2015 period cause the 2016-2020 period to be more fragile financially although the projections continue to be positive.

Recommended action:

**"I move approval of the Strategic Ten-Year Financial Plan for 2011-2020, including, conceptually, modifications to potable water rates in 2012, 2014 and 2017, annual contributions of \$1,000,000 to Fund 51 for Other Post-Employment Benefits beginning in 2015, and the commencement of formal discussions to pursue financing for the expansion of the Miners Ranch Treatment Plant."**