



MINUTES OF BUDGET & FINANCE COMMITTEE MEETING September 12, 2023

Responsible for the review of District finances including: rates, fees, charges and other sources of revenue; budget and reserves; audit; investments; insurance; and other financial matters.

Tuesday, September 12, 2023, at 4:00 p.m., at the SLVWD Conference Room, 12788 Highway 9, Boulder Creek, CA, 11 Biltmore Lane, Menlo Park, and via videoconference and teleconference.

1. **Convene Meeting:** 4:05 p.m.
Roll Call

Committee Members - Present

Gail Mahood, chair
Jeff Hill
Jim Bahn
Monica Martinez
Jim Mosher

Staff - Present

Rick Rogers, District Manager
Kendra Reed, Director of Finance and Business Services
Garrett Roffe, District Engineer
Scott Mattoch, Network Specialist
Holly Hossack, District Secretary
James Furtado, Director of Operations

2. **Oral Communications:** None
3. **Unfinished Business:**

- a. RATE STUDY UPDATE
K. Reed introduced this item.

G. Mahood explained the need for questions to streamline the Board discussion at the 9.14.23 BoD meeting. (see attached)

Discussion by the Committee regarding:

- Do we agree with the assumptions in the model?
- What direction do we want to go with the Cross Country Pipeline?

- Impacts on the budget for the next 5 years
- Target reserve levels - updated
- Debt issued in advance of when it is needed
- Buried option will require larger increase, more debt, and target reserve levels will take longer
- Complete the raw water supply projects and wait on the CIP
- FEMA will pay 90% if we put the pipe back the way it was (not buried)
- Appeals will be required for burying the pipe and 90% not likely
- Geotechnical engineers question if it is possible to bury the pipe
- Debt service going below required level in 2025
- Environmental impact with burying the pipe
- FEMA the only insurance plan for another fire
- Reserves back up to working levels is important
- The distribution system is not insured
- Reserves need to be built up to target levels

B. Holloway addressed the Committee to say that we have missed we have skipped a year of increase of rates already. He would like the community to weigh in on above or below pipeline. He said a bond should be looked at to cover the costs.

Discussion by the Committee regarding:

- Market debt or other form of loan or bond. Staff will research options.
- Fire surcharge
- Under estimation of inflation
- Scenarios with different options for increases and deferring debt proceeds
- Realistic about what can be done in the timeframe
- Assumptions - what if inflation is not correct?
- Unfunded mandates accounted for in the model
- Why do FEMA reimbursements take so long?
- Staff to prepare a realistic estimate for the above ground scenario for the cross country pipeline

B. Holloway addressed the Committee again regarding the possibility of a bond.

- Explore a bond; March 2024 election (Dec. 2023 filing deadline)
- This discussion should have happened a month ago

The Committee arrived at a consensus that above ground pipe was the most feasible scenario. Thanks to Sudir Pardiwala with Raftelis for presentation.

4. **New Business:** The meeting ran late so this item was not discussed.

a. CAPITAL RESERVE POLICY

5. **Adjournment:** 5:23 p.m.

Goals for tonight's meeting:

- Receive input from the public
- Discuss revenue model in order to move the Board toward a consensus view, so Raftelis can proceed to the next step--developing alternative rate structures

Scenarios of the revenue models presented tonight are slightly revised from those presented on Sept. 7, and reflect the consensus view of the B&F Committee and staff considering two big questions:

- 1. How do we rebuild the cross-country raw water pipelines: above-ground or buried?***
- 2. Do we concur with the assumptions Raftelis used in the revenue model?***

1. How do we rebuild the cross-country raw water pipelines: above-ground or buried?

Scenarios of financial model will be shown for both:

- above-ground at an estimated cost of \$25M
- buried at an estimated cost of \$52M

Consensus view of B&F Committee is to go with the above-ground option.

2. Do we concur with the assumptions Raftelis used in the revenue model?

A) Are the rates of inflation adopted for various categories of expenses appropriate?

Years 1 and 2: use averages for the last 3 years

Years 3-5: use 10-yr long-term averages

B) The revenue model assumes that expenses will grow at the rate of inflation.

Should the model account for new incremental one-time and ongoing expenses?

No modification to model

C) Is it realistic to assume the District will complete \$27M in capital projects in FY2024 and more than \$50M in FY2024-2026?

No. Capital expenditures have been spread out over a longer period of time.

D) Are the reserve target levels set appropriately?

Yes. They are based on the District's reserve policy adopted in 2020-21, assuming an estimate of \$375M for the value of total capital assets.

E) How fast do we want to reach target reserve levels?

Increase reserve levels every year, reaching reserve target levels in Year 4.

F) Do we want constant annual increases in revenues or should we "front-load" increases?

Front load revenues to be higher in Years 1 and 2 than in Years 3-5.

G) Do we want to take out debt? If so, in what form(s) (e.g., loan, bond issue)?

Revenue model shows debt in form of market loan (20 years @ 4.3% interest). Bond possibility needs further discussion.