

Rialto Utility Authority Financial Analysis

ADDRESSING RUA REVENUE SHORTFALL IN WATER



Presentation Outline

1. Overview
2. Wastewater Utility Performance 2012-2022
3. Water Utility Performance 2012-2022
4. Use of Reserves
5. Need for \$4.8 M in ARPA reserves Water Rate Stabilization Account
6. Longer term 10-Year outlook

Water Utility is not generating adequate cash flow to meet expenses

Reserves used 2018-2022 to meet coverage & opex in the water utility

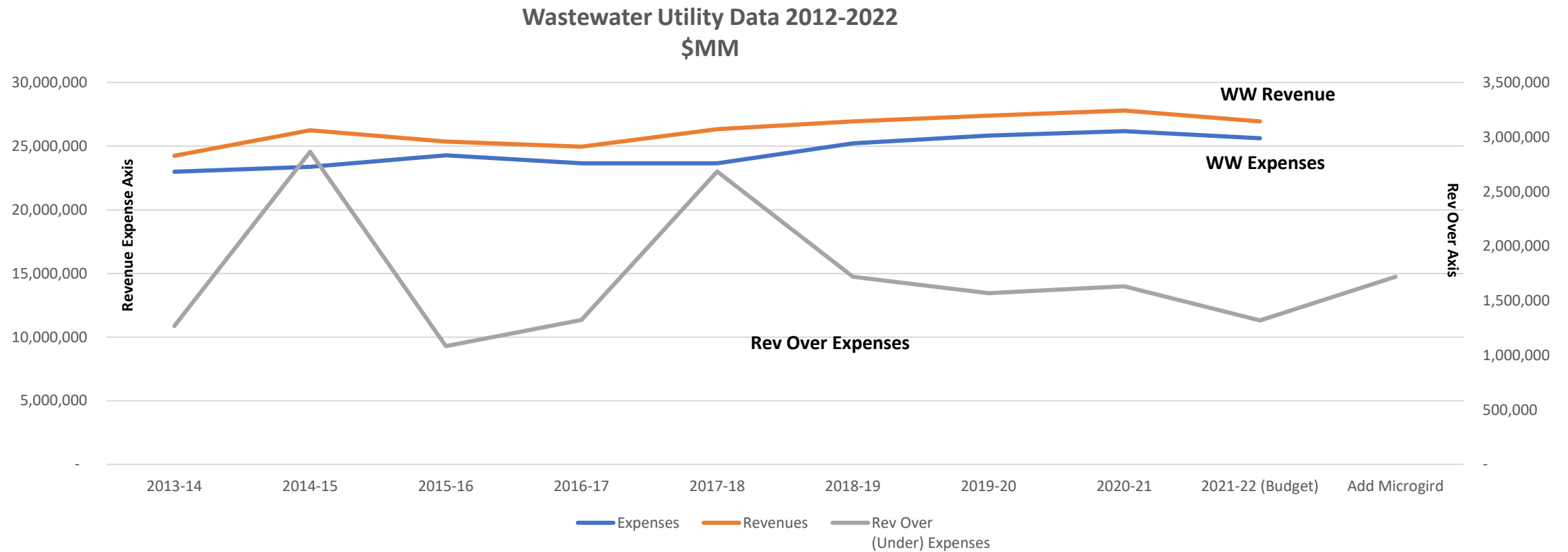
5-year outlook indicates same need

In fiscal 2018-19, 2019-20, 2020-21, and 2021-22, reserves were needed to meet operating expenditures and coverage requirements in the water utility only.

Looking forward over the next five years FY 2022-2026 the need intensifies in the water utility.

The water utility requires additional cash flow to meet its financial obligations.

Wastewater utility is stable and has not used reserves in the past. Current projections do not indicate a need for reserves or a rate increase at this time.



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We've seen modest growth in revenue due to the economic success of the Renaissance project. There are no examples during the life of the Concession where revenue has been under expenses. And wastewater revenue is fixed with delinquencies collected via a tax roll process. The financial outlook in wastewater is stable from an operating and capital investment perspective at this time.

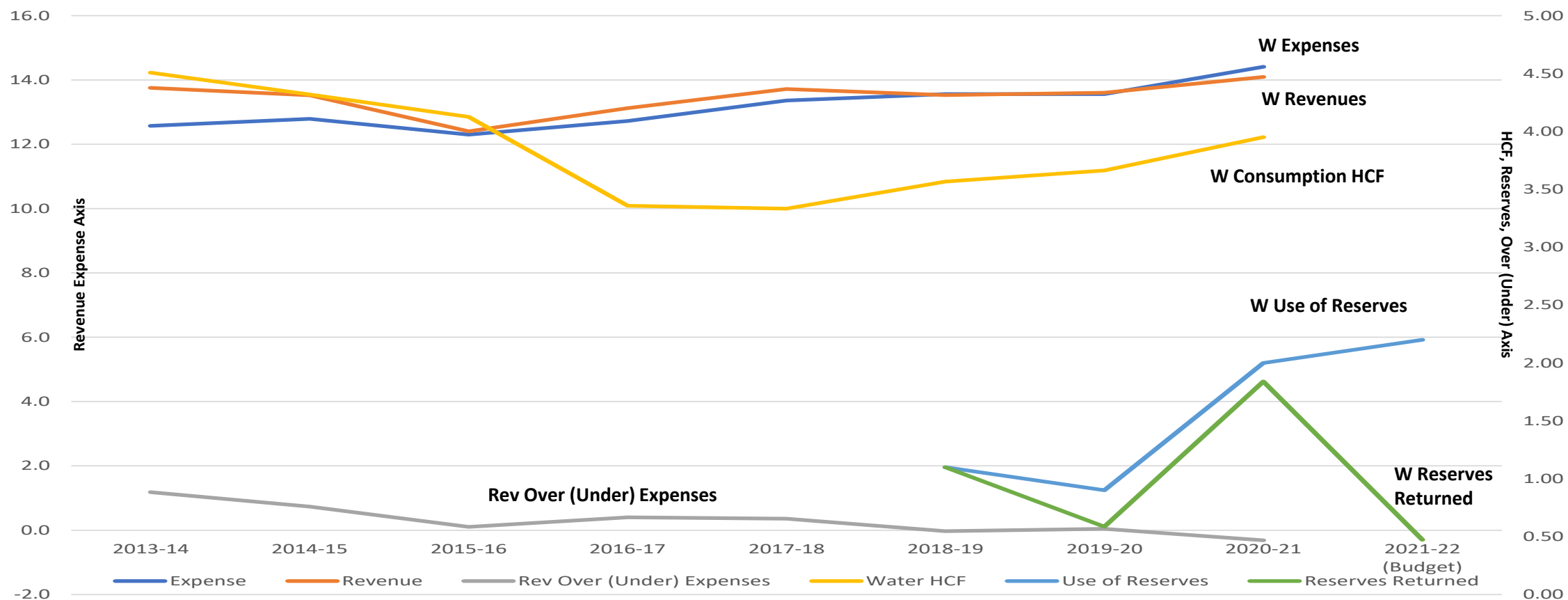
Wastewater Utility Outlook FY 2022-2026

	FY22	FY23	FY24	FY25	FY26	Total
Waste Rate Revenue	26.9	27.0	27.0	27.0	27.0	134.8
Waste Expenses including Lease	25.6	26.0	26.2	26.5	26.8	131.1
Net Cash Flow	1.3	1.0	0.8	0.5	0.2	3.7
add back Lease Payment	1.3	1.3	1.3	1.3	1.3	
Coverage	2.6	2.3	2.1	1.8	1.5	
Coverage Requirement	1.9	1.9	1.9	1.9	1.9	
Excess Coverage	0.7	0.4	0.2	-0.1	-0.4	
Reserve Returned to RUA	2.6	2.3	2.1	1.8	1.5	
Net Capital Required						0

*Current year excess above coverage + last year coverage req

Wastewater has a stable outlook: Fiscal 2022-2026

Water Utility Data 2012-2022 \$MM, HCF MM



Declining water rate revenue -14.5%, COVID loss \$990 K
2020, purchased water cost \$400K, negative OPEX

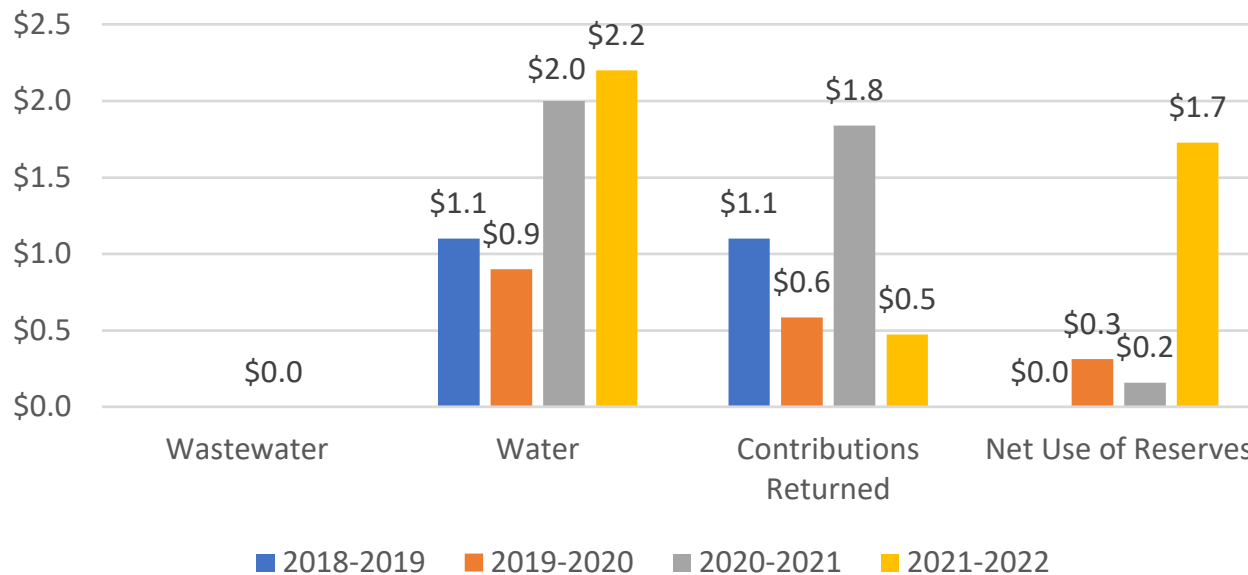
Reserves are being used to meet financial requirements. Reserve draw down is not sustainable. Additional resources are needed to support operations 2022-2026.

Water Utility Outlook FY 2022-2026

	FY22	FY23	FY24	FY25	FY26	Total
Water Rate Revenue	13.5	13.5	13.5	13.5	13.5	67.5
Water Expenses	14.5	14.8	15.1	15.1	15.8	75.3
Net Cash Flow	-1	-1.3	-1.6	-1.6	-2.3	-7.8
Add back lease payment	0.7	0.7	0.7	0.7	0.7	
Coverage	0.5	0.5	0.5	0.5	0.5	
Excess Coverage	-1.5	-1.8	-2.1	-2.1	-2.8	
Net Captial Required	-2.5	-3.1	-3.7	-3.7	-5.1	11.08

Water Requires Immediate Reserves: Fiscal 2022-2026

Use of Reserves to Support Water Utility Finances



Revenue-Expense Detail:

- \$1 to \$2.2 MM in reserves provided annually
- \$2.2 MM used to fund operating expense over 3 years
- 2021 COVID delinquencies have had an adverse impact on water finances
- Excess reserves returned to the RUA after meeting coverage
- 2021-22 is of particular concern with an estimated \$1.7 MM in reserves used to meet coverage opex
- Negligible RUA reserves remaining

Immediate
allocation \$4.8
MM ARAPA
reserve to water
rate stabilization
account

- **Proposed Council action to allocate \$4.8 MM of remaining ARAPA reserves to the water rate stabilization account.**
- Looking out 5- years (2022-2026) the water utility is short ~\$11.08 in cash flow to meet opex and coverage.
- Need for immediate funding of water utility deficit.
- \$4.8 MM carries water utility to early 2023 when further action is necessary.
- -14.8% average annual decline in water consumption defines ~80% of the deficit.
- COVID delinquencies (\$990,000) and increased purchased water costs (\$400,000) add to the deficit.

The challenges in water are driven by climate change

- The vast majority of water systems in California and the western United States are experiencing similar declines in water use attributed to climate change, drought and the need for water conservation.
- A majority of water utility expenses are fixed and the decline in water use results in the need to look at long term water utility expenses, revenue requirements, rate structure, and overall water affordability.
- This challenge is expected to intensify and will be a persistent issue for Rialto and many other communities in the next decade.