

Rainbow Municipal Water District

Board

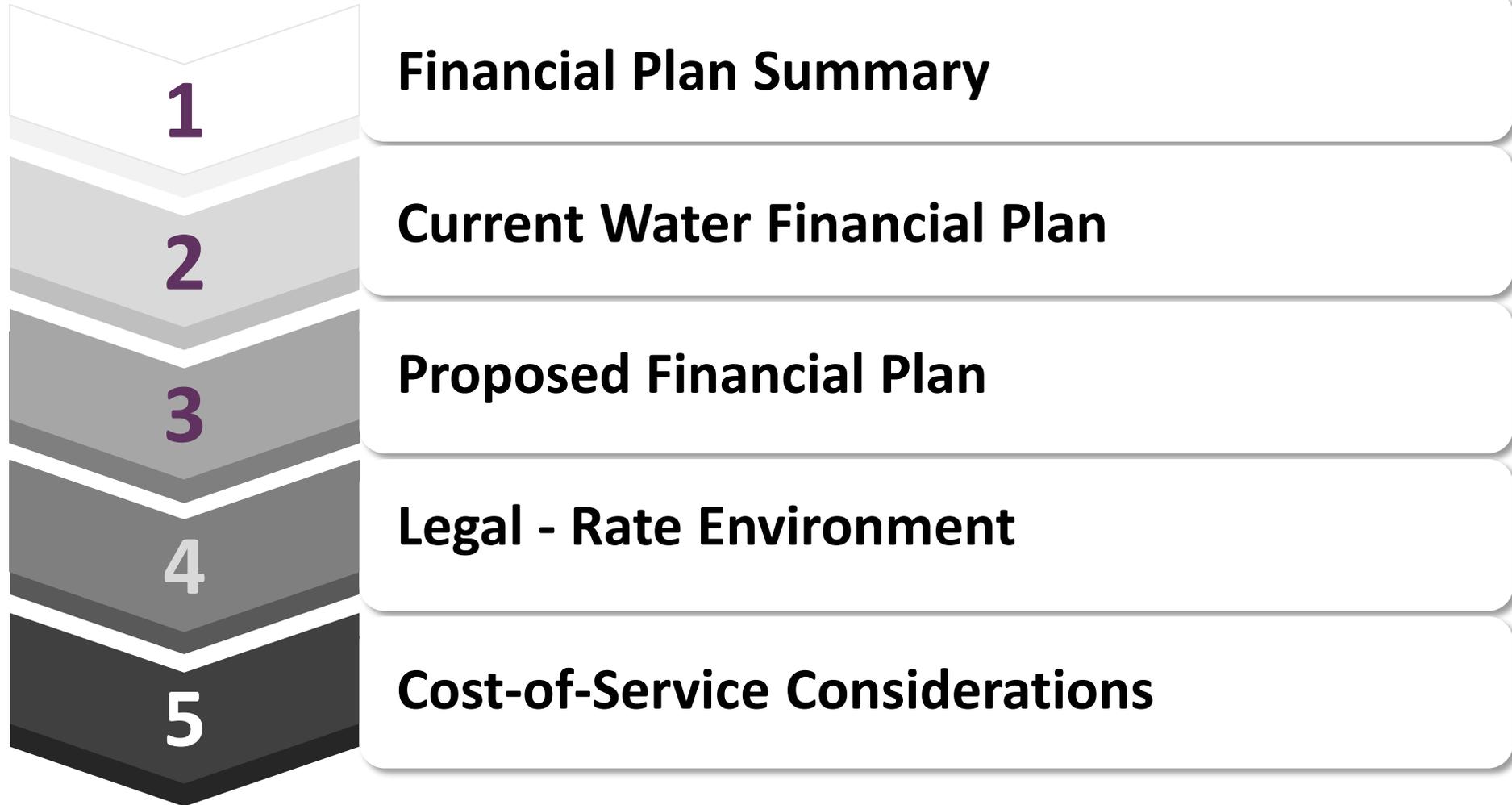
Financial Plan Workshop

August 19, 2025



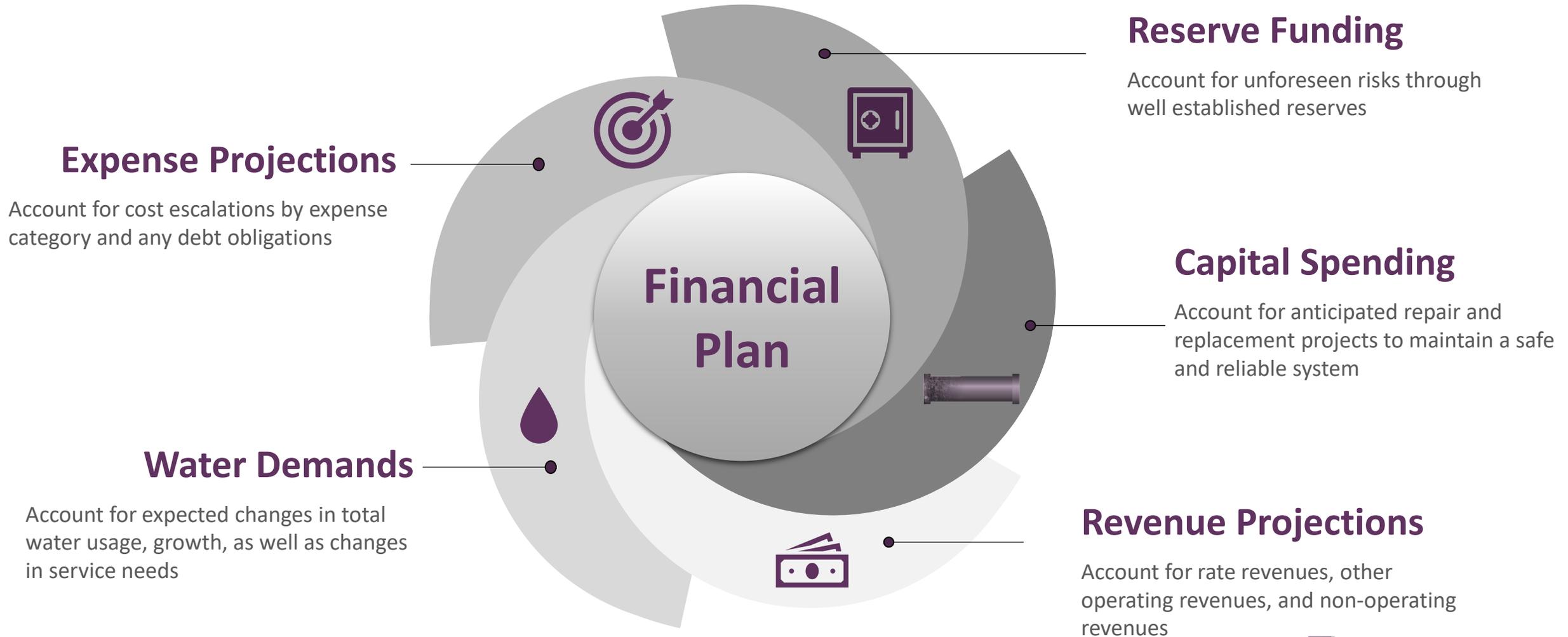
Budget and Finance Committee Workshop

Agenda



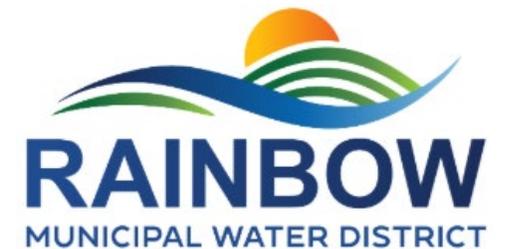
Financial Plan Summary

Factors Impacting the Financial Plan



Current Water Financial Plan

Long-Term Financial Plan



Water Financial Plan

Key Assumptions

- Account Growth – 0%
 - Recommend 0% growth, *not relying on growth to meet needs*
- Reserve Interest Rate – 1.5%
- Cost Escalations
 - Salaries – 6%
 - Benefits – 6%
 - Capital Construction
 - 5-Year Average ENR Construction Cost Index – 3.78%
 - General
 - 5-Year Average CPI – SD – 4.77%
 - Energy – 9%, *FY 2026 budget already assumes a 15% increase in costs*
 - *EV Mandates – New purchases, Charging stations, anticipate higher energy costs and lower diesel and fuel costs*
 - Purchased Water – Continue utilizing the pass-through provision
 - EMWD Purchased Water

Water Financial Plan

Water Demand

- Water demand impacts revenues, expenditures, and the cost-of-service analysis
 - Water demand can be impacted by:
 - Weather
 - Regulations and mandates (“Conservation is a way of life”)
 - Messaging
 - Growth
 - Shifts in customer mix/land use
 - Natural disasters, such as fires
 - Service interruptions
 - ~60-67% of water usage is generated by about 21% of your customers (Agriculture)



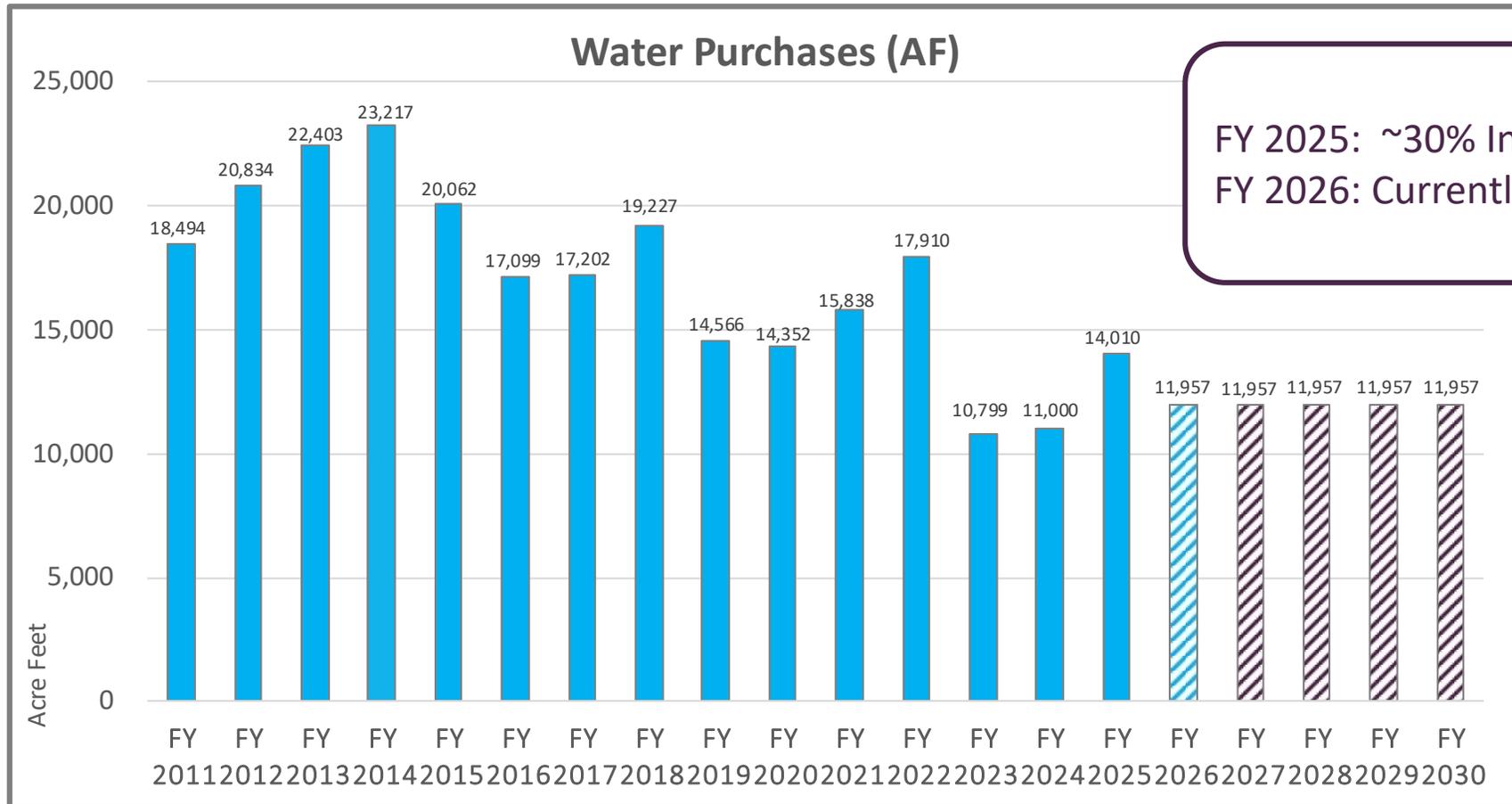
Historical Water Sales

Water Sales (AF)

Usage by Class (AF)					
Customer Class	FY 2022	FY 2023	FY 2024	FY 2025	4-Year Average
Single-Family	3,769	3,152	2,971	3,646	3,385
Multi-Family	322	344	338	379	346
Commercial	889	739	606	804	760
Institutional	66	59	49	58	58
Agriculture w/ Res.	4,508	3,434	2,905	3,779	3,657
Agriculture	5,105	3,962	3,054	4,165	4,072
Total Usage	14,659	11,690	9,923	12,831	12,276

Demand Assumptions

Purchased Water (AF) – *Accounts for Water Loss*



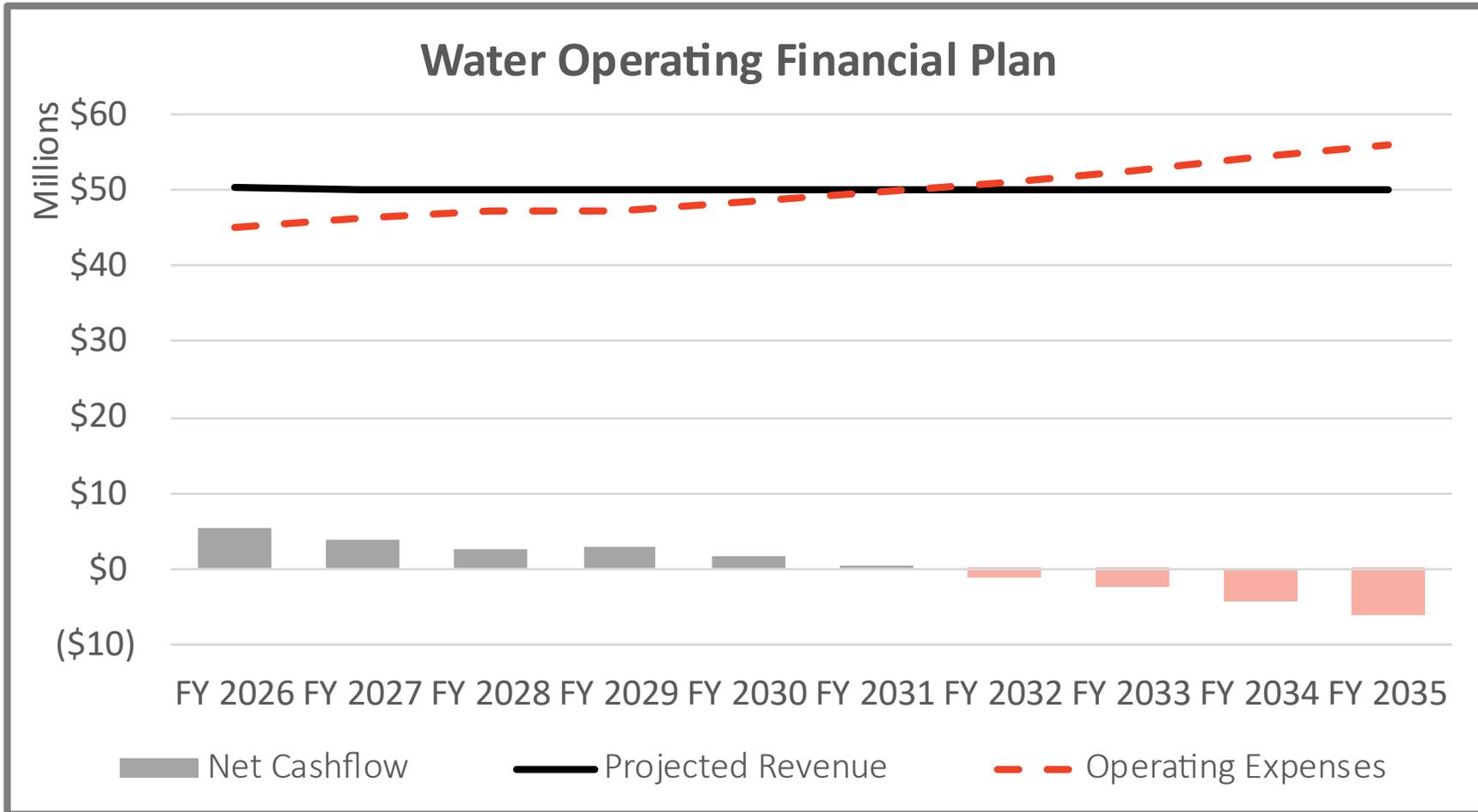
Water Financial Plan

Capital Projects & Asset Management

- District Dynamics
 - Standard pipeline has a useful life of 50 years
 - At least ½ the system > 50 years
 - System reinvestment critical component moving forward
- Best Management Practice
 - Financial plan should extend through the capital improvement plan
 - Proactive management is less costly than emergency repairs
 - Sound repair and replacement program stabilizes rates
- Action Plan
 - System needs are periodically reviewed to establish 5-year capital plan
 - Rates need to connect to long-term planning

Current Financial Position

Water Operating Position

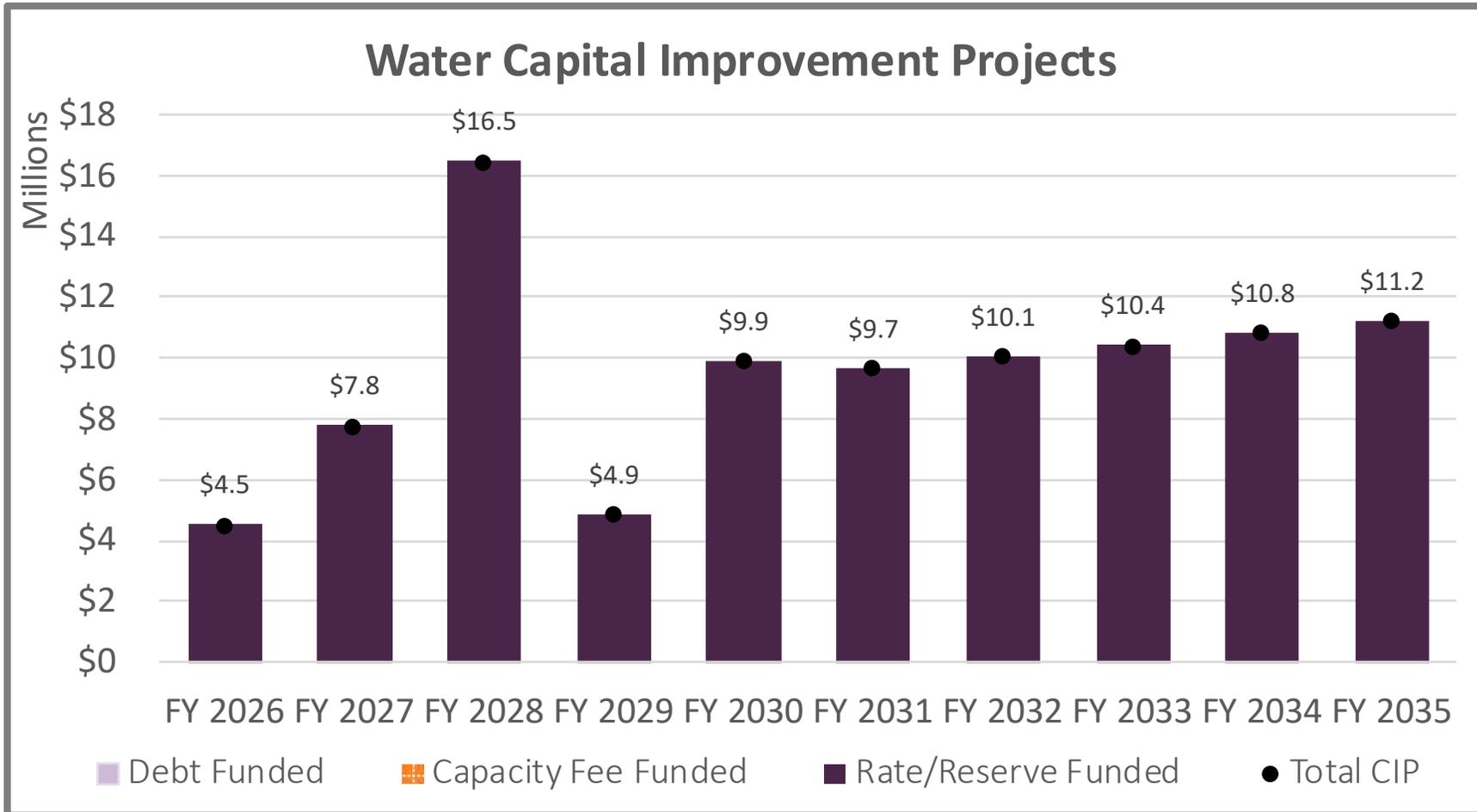


Positive Net
Cashflow through
FY 2031

***Does not include
funding for capital
projects***

Current Financial Position

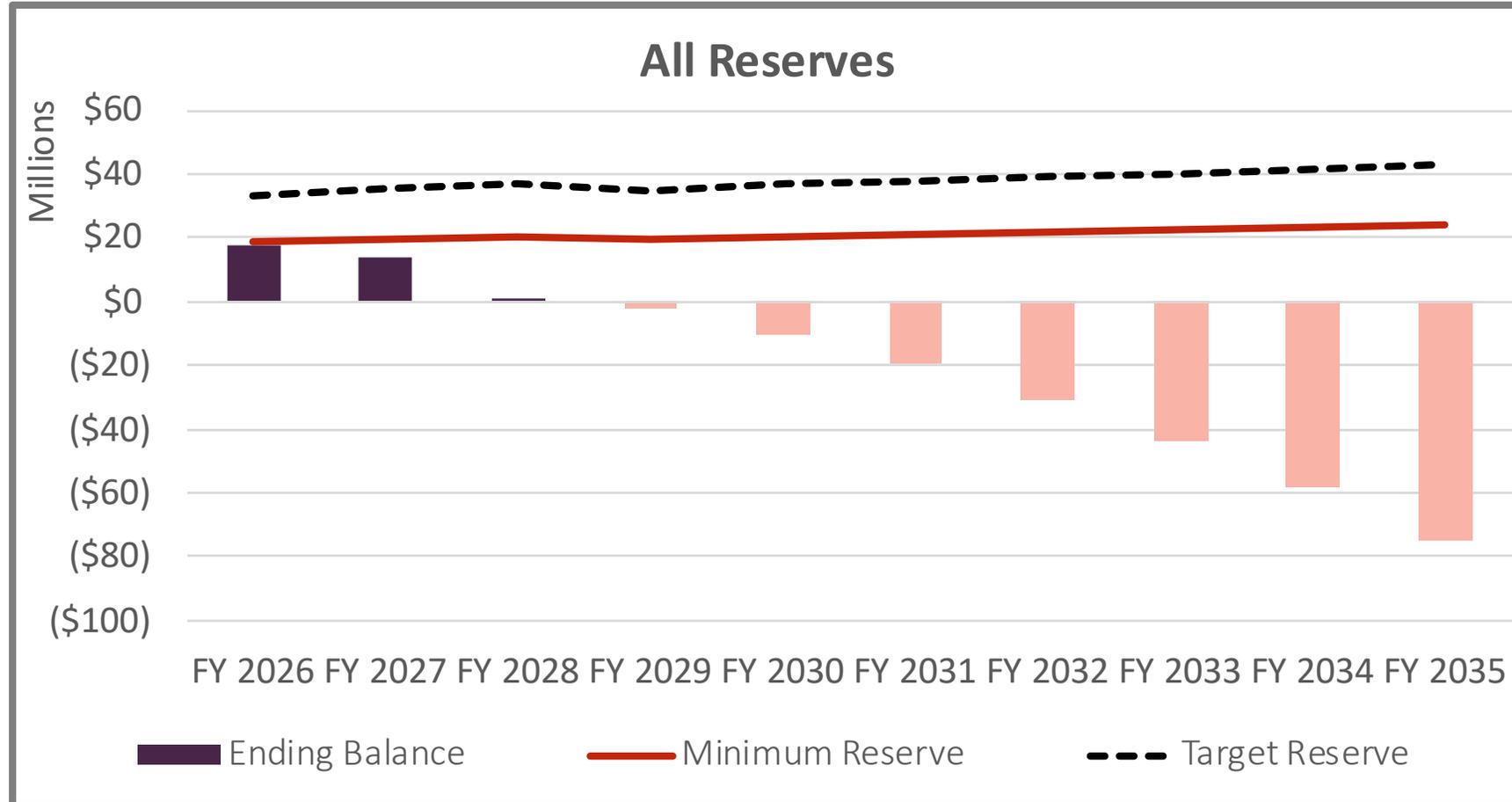
Water Capital Proposed Plan



FY 2028 Projects:
Gopher Canyon Pipeline Impr.
Gomez PS Electrical Upgrades
Lookout Mountain PS & New
Emergency Generator
Rice Canyon Road Main Repl.
District HQ Rehabilitation

Current Financial Position

Ending Reserves



Reserves are currently below the minimum levels, without adjustments capital projects will need to be deferred and operations may start to be impacted

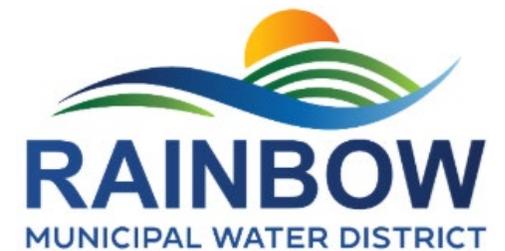
Current Financial Position

Summary/Results from Review

- The District realized cost-savings from the disconnect
 - However, will be paying \$2M each year until FY 2035
- ~30% demand increase in FY 2025 generated revenue to help fund reserves
- The District implemented less than the full noticed rates and is currently running close to the minimum target
- Significant capital spending in the next 5 years

Proposed Financial Plan

Scenarios



Financial Plan Options

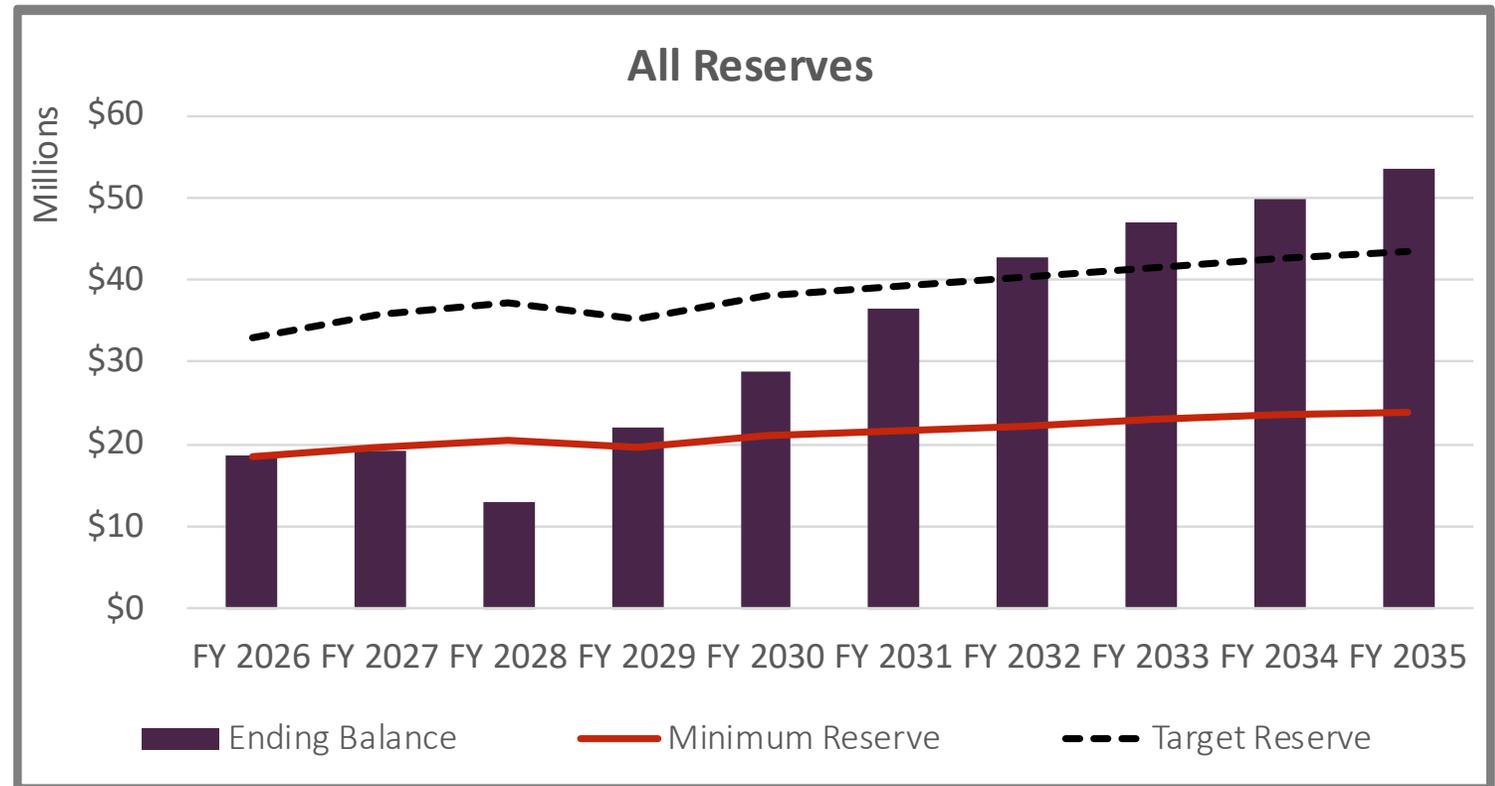
High-level Impacts

Financial Plan Scenarios				
Options:	Financing	Projected Sales (AF)	Additional Revenues each year	FY 2030 Ending Reserve Balance
Scenario 1	PAYGO	10,000 AF	\$3,044,000	\$28,745,680
Scenario 2	PAYGO	11,000 AF	\$2,865,000	\$28,786,121
Scenario 3	\$22M Debt Issue	11,000 AF	\$2,149,000	\$38,710,372
Full Noticed Rates	PAYGO	11,000 AF	\$4,298,000	\$39,186,765

Proposed Financial Plan

Scenario 1 – PAYGO, 10,000 AF of Sales

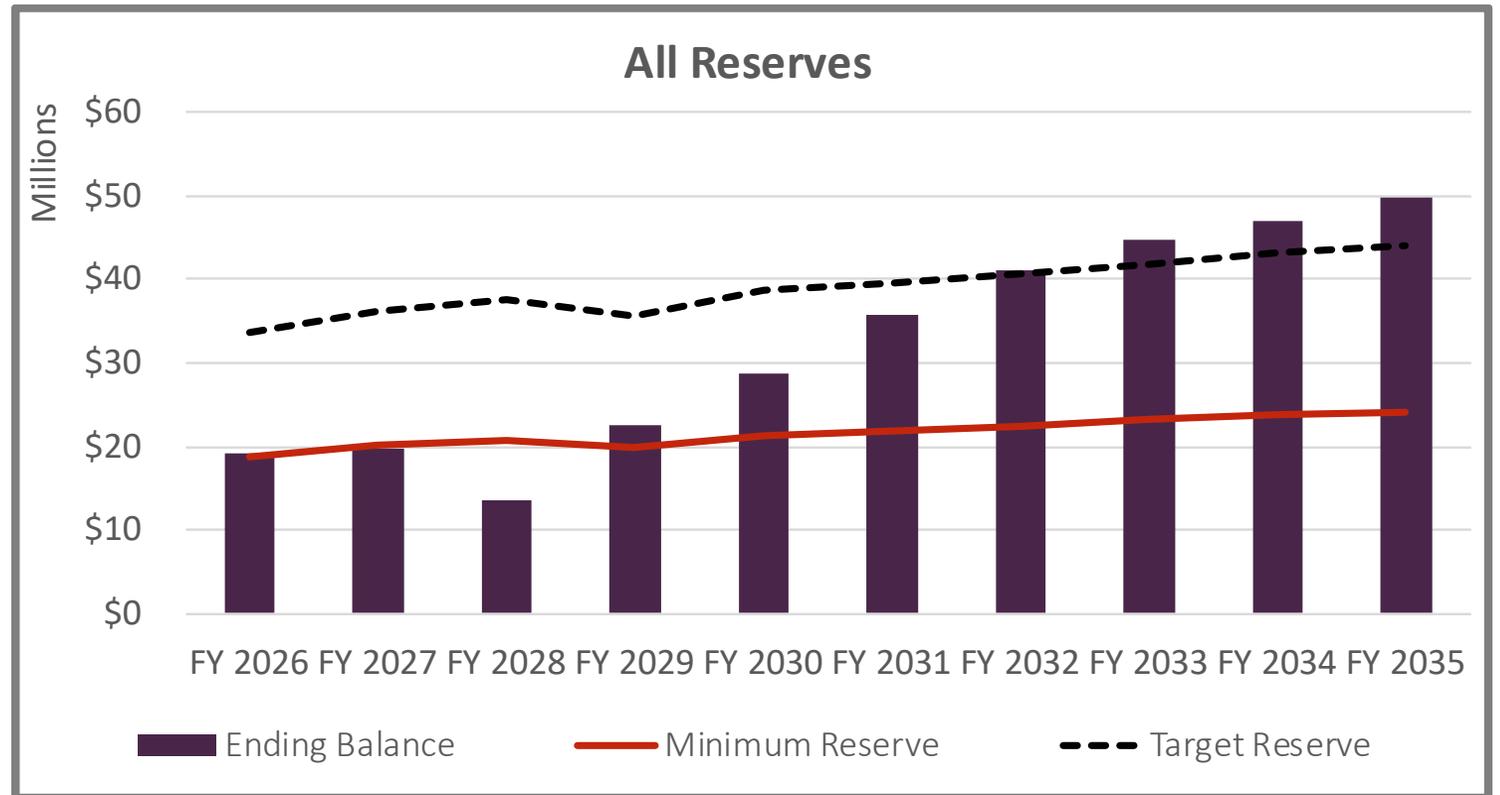
- PAYGO Basis
 - Generates ~\$3M in additional rate revenues each year
- Net positive cashflow each year
- Sufficiently fund capital needs
- Re-establishes healthy reserves



Proposed Financial Plan

Scenario 2 – PAYGO, 11,000 AF of Sales

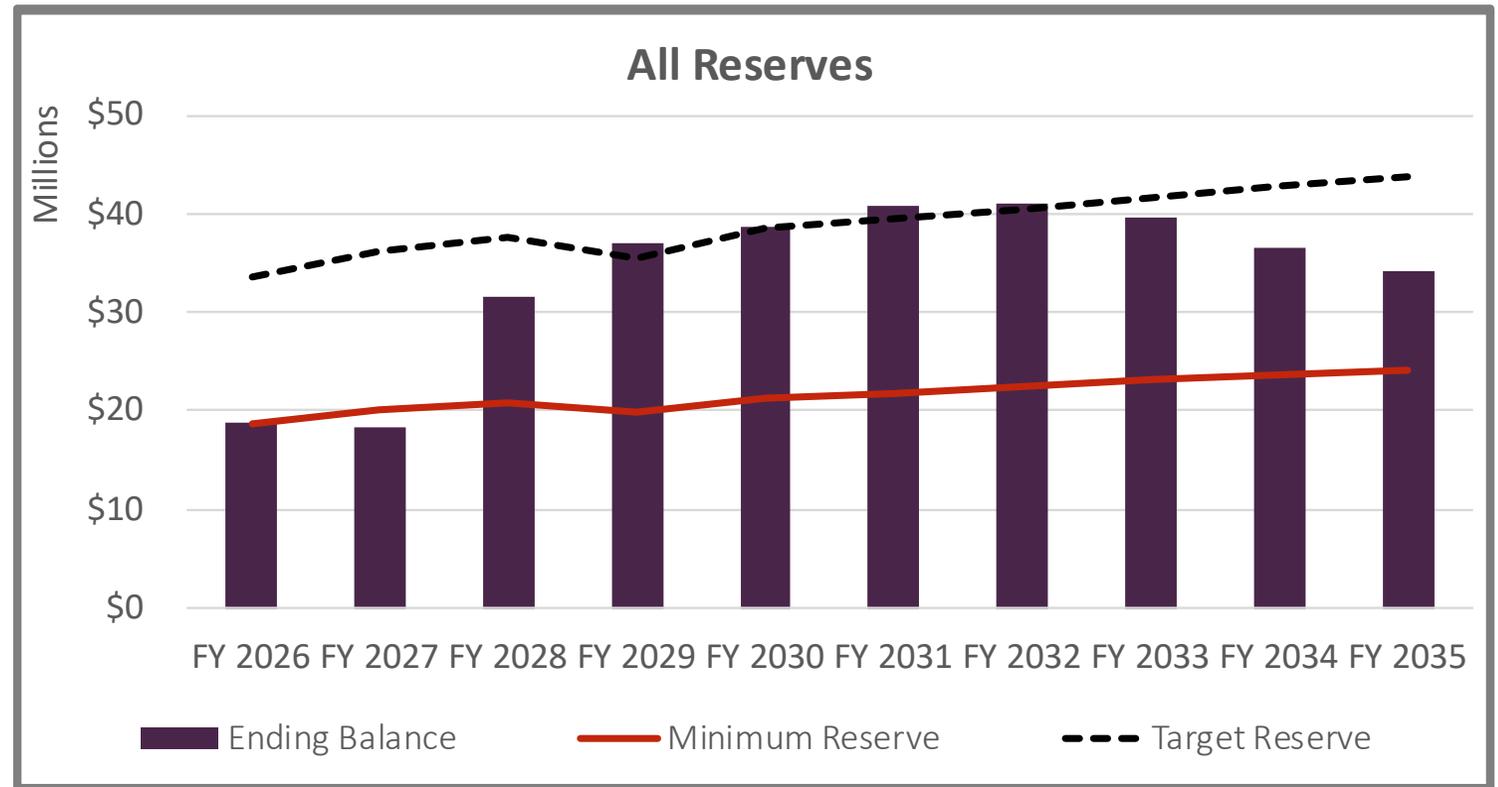
- PAYGO Basis
 - Generates ~\$2.8M in additional rate revenues each year
- Net positive cashflow each year
- Sufficiently fund capital needs
- Re-establishes healthy reserves



Proposed Financial Plan

Scenario 3 – \$22M New Debt, 11,000 AF of Sales

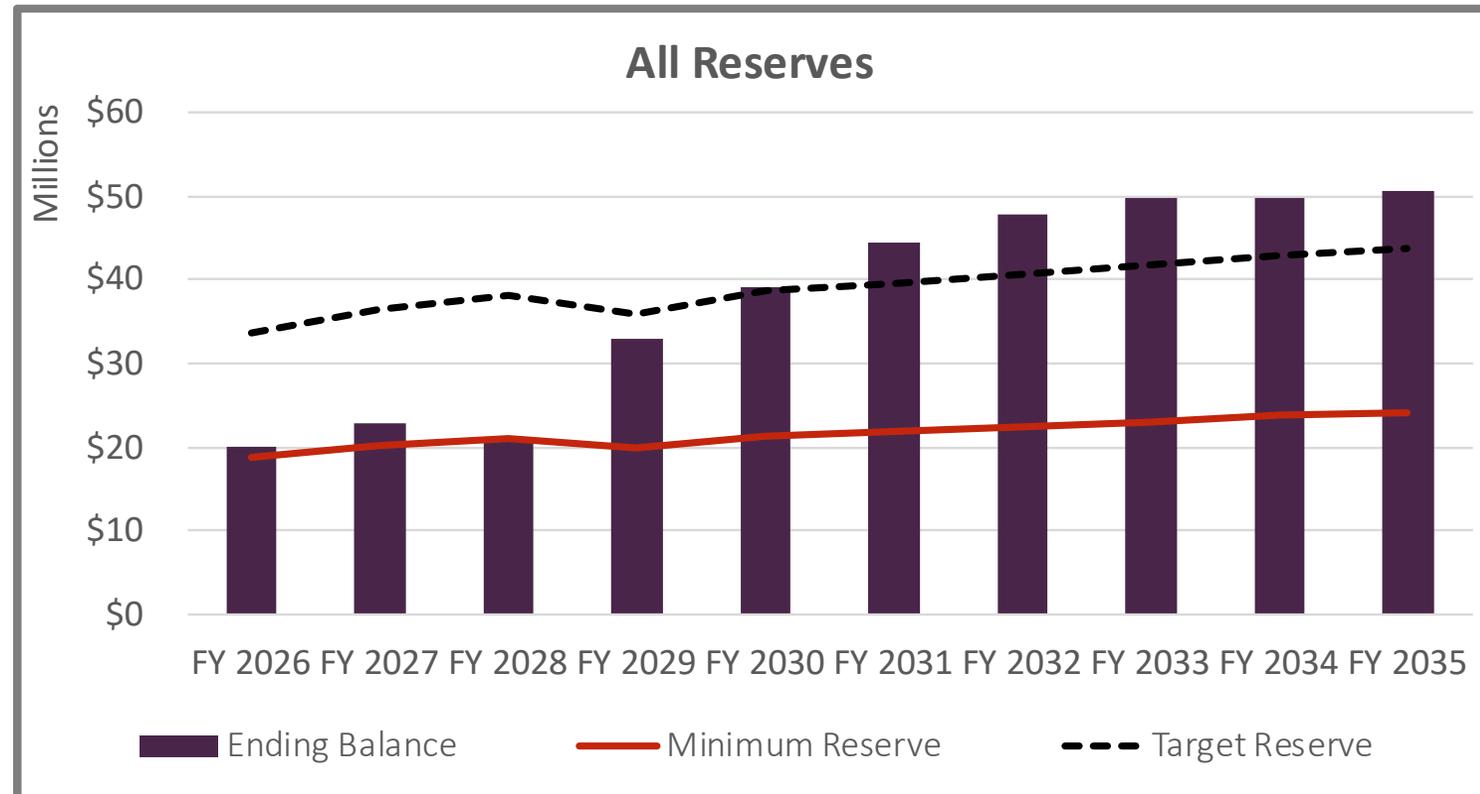
- New Debt Issue
 - \$22M Debt in FY 2028
- Generates ~\$2.1M in additional rate revenues each year
- Net positive cashflow each year
- Sufficiently fund capital needs
- Re-establishes healthy reserves



Proposed Financial Plan

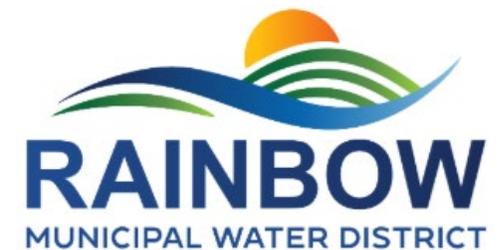
Scenario 4 – Full Noticed Rates

- District has noticed rates through FY 2028
 - Full noticed rates would generate ~\$4.3M in additional revenues each year
- Net positive cashflow each year
- Sufficiently fund capital needs
- Re-establishes healthy reserves



Legal - Rate Setting Environment

Recent Rulings



Legal Requirements



Proposition 218 (Arts. XIII C and D of State Constitution)

- An agency cannot collect revenue beyond what is necessary to provide service
- Revenues derived by the charge shall not be used for any other purpose other than that for which the charge was imposed
- The amount of the fee may not exceed the proportional cost of service for the parcel
- No charge may be imposed for a service unless that service is actually used or immediately available to the owner of property
- A written notice of the proposed charge shall be mailed to the record owner of each parcel at least 45 days prior to the public hearing

Legal – Rate Setting Environment

Coziahr v. Otay Water District

- *Coziahr* involved a class-action challenge to Otay’s tiered water rates
 - Tiers were established to promote conservation and affordability
 - District’s evidence supported conclusion that tiers were based on the concept that higher water users place greater demand on the system, and residential customer use water similarly
 - Relied on industry standards and assumptions
- Court of appeal upheld trial court’s invalidation of rates
 - Insufficient evidence to show that tiers were based on actual costs
 - No connection between higher water use and peak demands
 - No “cogent reason” to differentiate between customer classes
 - Court indicated that more evidence was needed to rely on peaking factors, differentiate between customer classes, and support rates, but did not say what evidence would be sufficient

Legal – Rate Setting Environment

Patz v. City of San Diego

- *Patz* involved a class-action challenge to City of San Diego's tiered water rates
 - City argued that higher-volume users should pay more due to the increased infrastructure costs required to support peak demands, which is unnecessary for lower-use customers
 - Court found the City's rates were designed primarily to encourage conservation and this is not a cost-based justification
 - The City's peaking factors were based on historical consumption data, without employing time-of-use metering or specific customer data
 - Applying a tiered rate structure solely to residential customers may result in discriminatory treatment
 - The court also took issue with the lack of data regarding source of water supply. Blended water supplies, therefore, could not prove that the low users received the cheapest source

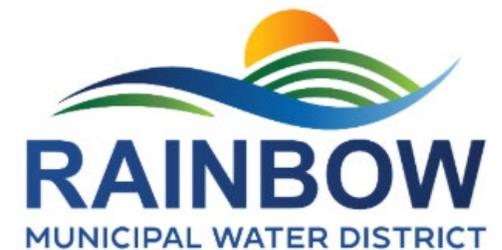
Legal – Rate Setting Environment

Changing Landscape

- Key lessons:
 - Conclusory statements without evidence are insufficient
 - Reliance on industry standards (including M1 Manual) is insufficient
 - Make sure to bullet-proof your rates through your rate study, procedural defenses, and identifying risk factors
 - Be creative, look to new ways to support your rates

Cost-of-Service Considerations

Feedback



Approach to Evaluating Rate Options



Existing Rates

What's working and what's not working?



Rate Objectives

What should be achieved with new rates?



Rate Alternatives

Uniform Rates, Tiered Rates, Budget-Based Rates



Strategic

Fixed vs. variable revenue recovery, special considerations, any other concerns or objectives

Cost-of-Service Considerations

My thoughts...

- Legal environment is less than ideal for setting rates
 - You do have noticed rates through FY 2028
- District desires lower rates for Agricultural customers
 - One customer class must not subsidize another
 - Must identify costs they do not incur
 - Alternatively, they would need to be offset by non-rate revenues
 - Rents and Leases, Property Taxes, etc.
- Purchased water costs projections are still uncertain
 - MWD is working on rate structure adjustments for CY 2027
 - They would like to move ~30% of the treatment costs from variable to fixed
 - They are also looking at significantly increasing the minimum reserve funding

Andrea Boehling

IB Consulting

Principal | Managing Partner

Phone: 615-870-9371 | Email: aboehling@IBConsultingInc.com

Habib Isaac

IB Consulting

Principal | Managing Partner

Phone: 951-595-9354 | Email: hisaac@IBConsultingInc.com

Thank You



C O N S U L T I N G

Water CIP Detail

Project Description		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Development/Growth							
Camino Del Rey Waterline Relocation		\$100,000	\$25,000	\$0	\$0	\$0	\$0
Facility Planning							
Master Plans	Water's Share - 86.7%	\$86,700	\$650,250	\$0	\$0	\$0	\$0
Operational/Efficiency Improvement (OEI)							
Pressure Reducing Stations		\$150,000	\$0	\$150,000	\$0	\$0	\$0
Gopher Skid Pump Station		\$710,000	\$0	\$1,023,520	\$0	\$0	\$0
Vehicle / Equipment Aquisition	Water's Share - 86.7%	\$130,050	\$390,150	\$433,500	\$433,500	\$433,500	\$433,500
Source of Supply							
SDCWA Connections 3, 6, 7, 11, & 12 Permanent Decommissioning		\$0	\$0	\$750,000	\$0	\$0	\$0
Regulatory							
EV Charging Stations at HQ (QTY TBD)	Water's Share - 86.7%	\$0	\$86,700	\$433,500	\$0	\$0	\$0
Replacement/Rehabilitation							
Isolation Valve Installation Program		\$150,000	\$250,000	\$263,000	\$276,000	\$290,000	\$305,000
Vallecitos Pump Station Replacement		\$0	\$0	\$0	\$0	\$0	\$500,000
Eagles Perch Water Pipeline Improvements		\$0	\$150,000	\$1,920,000	\$0	\$0	\$0
Gopher Canyon Water Pipeline Improvements		\$0	\$0	\$150,000	\$2,760,000	\$0	\$0
Gomez PS Electrical Upgrades		\$0	\$0	\$250,000	\$2,500,000	\$0	\$0
Lookout Mountain PS w/ Enclosure & New Emergency Generator		\$0	\$0	\$500,000	\$3,000,000	\$0	\$0
Manual Transfer Switches Rainbow Hills, Morro Hills & Vallecitos		\$200,000	\$400,000	\$0	\$0	\$0	\$0
Rice Canyon Road Water Main Replacement		\$0	\$0	\$150,000	\$1,500,000	\$0	\$0
Thibido Water Main Repacement/Rehabilitation		\$0	\$0	\$0	\$0	\$150,000	\$700,000
Pala Mesa Fairways 383 A and C Pipeline Replacement		\$0	\$0	\$0	\$250,000	\$3,000,000	\$0
Sarah Ann Community Pipeline Replacement (Concurrent with WW PN: 530018)		\$0	\$0	\$0	\$0	\$200,000	\$4,000,000
Emerald Hill Pipeline Replacement (Roy Line Ext)		\$0	\$0	\$0	\$0	\$150,000	\$2,000,000
District Headquarters Rehabilitation	Water's Share - 86.7%	\$433,500	\$433,500	\$433,500	\$3,468,000	\$0	\$0
Morro Pump Station Rehabilitation		\$0	\$0	\$0	\$0	\$0	\$300,000
Vallecitos Tank Interior/Exterior Coating (400K Gallons)		\$0	\$0	\$0	\$200,000	\$0	\$0
Canonita Tank Interior/Exterior Coating (6M Gallons)		\$0	\$0	\$400,000	\$0	\$0	\$0
Turner Tank Interior/Exterior Coating (4M Gallons)		\$0	\$375,000	\$0	\$0	\$0	\$0
Gopher Canyon Tank Interior/Exterior Coating (4M Gallons)		\$0	\$375,000	\$0	\$0	\$0	\$0
Gomez Tank Interior/Exterior Coating (3M Gallons)		\$0	\$0	\$0	\$350,000	\$0	\$0
Rice Canyon Tank Interior/Exterior Coating (4M Gallons)		\$0	\$0	\$375,000	\$0	\$0	\$0
Fall Protection Replacement at Morro Tank and Out-of-Service Concrete Tank		\$0	\$75,000	\$0	\$0	\$0	\$0
La Canada Pipeline Replacement & Pressure Reduction (4,000 LF, in-house)		\$100,000	\$1,150,000	\$0	\$0	\$0	\$0
Subtotal Water CIP		\$2,060,250	\$4,360,600	\$7,232,020	\$14,737,500	\$4,223,500	\$8,238,500
Prior & Out Years	\$7,758,424	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Scenario 1 - 5-Yr CIP		\$2,060,250	\$4,360,600	\$7,232,020	\$14,737,500	\$4,223,500	\$8,238,500
Scenario 1 - 5-Yr CIP Total Costs	<i>(inflated)</i>	\$2,060,250	\$4,525,250	\$7,788,473	\$16,470,729	\$4,898,441	\$9,915,847

Noticed Rates

Fixed Charges

Fixed Charges	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Non-Ag						
Meter Size						
5/8"	\$69.20	\$89.59	\$97.66	\$106.45	\$116.04	\$126.49
3/4"	\$69.20	\$89.59	\$97.66	\$106.45	\$116.04	\$126.49
1"	\$115.32	\$145.42	\$158.52	\$172.79	\$188.35	\$205.31
1 1/2"	\$230.66	\$285.01	\$310.66	\$338.62	\$369.10	\$402.32
2"	\$369.05	\$452.51	\$493.24	\$537.64	\$586.03	\$638.78
3"	\$807.27	\$982.92	\$1,071.39	\$1,167.82	\$1,272.93	\$1,387.50
4"	\$1,453.09	\$1,764.59	\$1,923.41	\$2,096.52	\$2,285.21	\$2,490.88
6"	\$2,998.43	\$3,635.01	\$3,962.16	\$4,318.76	\$4,707.45	\$5,131.13
Ag						
Meter Size						
5/8"	\$118.92	\$142.17	\$154.97	\$168.92	\$184.13	\$200.71
3/4"	\$118.92	\$142.17	\$154.97	\$168.92	\$184.13	\$200.71
1"	\$198.18	\$233.06	\$254.04	\$276.91	\$301.84	\$329.01
1 1/2"	\$396.38	\$460.27	\$501.70	\$546.86	\$596.08	\$649.73
2"	\$634.21	\$732.93	\$798.90	\$870.81	\$949.19	\$1,034.62
3"	\$1,387.30	\$1,596.36	\$1,740.03	\$1,896.64	\$2,067.34	\$2,253.41
4"	\$2,497.16	\$2,868.77	\$3,126.96	\$3,408.39	\$3,715.15	\$4,049.52
6"	\$5,152.85	\$5,913.47	\$6,445.69	\$7,025.81	\$7,658.14	\$8,347.38

Noticed Rates

Variable Rates

Variable Rates	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Single-Family	\$5.47	\$5.53	\$6.03	\$6.58	\$7.18	\$7.83
Multi-Family	\$5.47	\$5.53	\$6.03	\$6.58	\$7.18	\$7.83
Commercial	\$5.47	\$5.53	\$6.03	\$6.58	\$7.18	\$7.83
Institutional	\$5.47	\$5.53	\$6.03	\$6.58	\$7.18	\$7.83
Agriculture w/ Res	\$4.56	\$4.53	\$4.94	\$5.39	\$5.88	\$6.41
Agriculture	\$4.56	\$4.53	\$4.94	\$5.39	\$5.88	\$6.41

Pumping Variable	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Pumping Zone						
Pump Zone 1	\$1.02	\$2.60	\$2.84	\$3.10	\$3.38	\$3.69
Pump Zone 2	\$0.63	\$1.39	\$1.52	\$1.66	\$1.81	\$1.98
Pump Zone 3	\$0.36	\$0.26	\$0.29	\$0.32	\$0.35	\$0.39
Pump Zone 4	\$0.14	\$0.13	\$0.15	\$0.17	\$0.19	\$0.21
Pump Zone 5	\$0.19	\$0.35	\$0.39	\$0.43	\$0.47	\$0.52
Pump Zone 6	\$0.75	\$1.40	\$1.53	\$1.67	\$1.83	\$2.00
Pump Zone 7	\$3.31	\$0.71	\$0.78	\$0.86	\$0.94	\$1.03

Current Rates

Fixed Charges

Fixed Charge	FY 2023	FY 2024	FY 2025
Non-Res			
Meter Size			
5/8"	\$69.20	\$89.59	\$96.76
3/4"	\$69.20	\$89.59	\$96.76
1"	\$115.32	\$145.42	\$157.20
1 1/2"	\$230.66	\$285.01	\$308.26
2"	\$369.05	\$452.51	\$489.56
3"	\$807.27	\$982.92	\$1,063.64
4"	\$1,453.09	\$1,764.59	\$1,909.66
6"	\$2,998.43	\$3,635.01	\$3,934.07

AG

Meter Size			
5/8"	\$118.92	\$142.17	\$151.70
3/4"	\$118.92	\$142.17	\$151.70
1"	\$198.18	\$233.06	\$248.77
1 1/2"	\$396.38	\$460.27	\$491.42
2"	\$634.21	\$732.93	\$782.61
3"	\$1,387.30	\$1,596.36	\$1,704.68
4"	\$2,497.16	\$2,868.77	\$3,063.53
6"	\$5,152.85	\$5,913.47	\$6,315.07

Fixed Pumping Charge		FY 2023	FY 2024	FY 2025
Pumping Zone				
Pump Zone 1	Rainbow Heights	\$7.14	\$8.39	\$8.77
Pump Zone 2	Improvement District U-1	\$7.14	\$8.39	\$8.77
Pump Zone 3	Vallecitos	\$7.14	\$8.39	\$8.77
Pump Zone 4	Northside	\$7.14	\$8.39	\$8.77
Pump Zone 5	Morro Tank	\$7.14	\$8.39	\$8.77
Pump Zone 6	Huntley	\$7.14	\$8.39	\$8.77
Pump Zone 7	Magee Tank	\$7.14	\$8.39	\$8.77

Current Rates

Variable Rates

Variable Rate	FY 2023	FY 2024	FY 2025
Single-Family	\$5.47	\$5.53	\$6.23
Multi-Family	\$5.47	\$5.53	\$6.23
Commercial	\$5.47	\$5.53	\$6.23
Institutional	\$5.47	\$5.53	\$6.23
Agriculture w/ Res	\$4.56	\$4.53	\$5.18
Agriculture	\$4.56	\$4.53	\$5.18

Pumping Variable	FY 2023	FY 2024	FY 2025
Pumping Zone			
Pump Zone 1	\$1.02	\$2.60	\$2.72
Pump Zone 2	\$0.63	\$1.39	\$1.45
Pump Zone 3	\$0.36	\$0.26	\$0.27
Pump Zone 4	\$0.14	\$0.13	\$0.14
Pump Zone 5	\$0.19	\$0.35	\$0.37
Pump Zone 6	\$0.75	\$1.40	\$1.46
Pump Zone 7	\$3.31	\$0.71	\$0.74