

SAN JUAN WATER DISTRICT

Retail Financial Plan

Summary Report

July 22, 2011



THE REED GROUP, INC.

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SECTION I. SUMMARY

INTRODUCTION AND BACKGROUND

In 2010, the San Juan Water District retained The Reed Group, Inc. to update the District's retail financial plan and water rates. This work was commenced following the completion of the wholesale financial plan and water rate update, completed in December 2010. The purpose of the retail financial plan study was to ensure that the retail water system is meeting financial obligations for ongoing operation and maintenance, debt service, and capital improvements while maintaining prudent reserves. The study also includes developing revisions to the District's retail water rate structure. However that work will be included in a separate report, to be prepared in upcoming months.

The retail financial plan was last formally updated in 2006. The last adjustment to the retail water rates occurred in January 2011, when a two percent adjustment to the rates were implemented. Current retail water rates are lower than the rates recommended in 2006 as a result of the District's cost-cutting efforts, and changes to the District's capital improvement plans and related debt financing.

The focus of the 2011 retail financial plan and water rate study is primarily on the District's retail capital improvement needs. The retail capital improvement plan includes about \$28.4 million in capital improvements over the ten-year planning period extending through FY 19-20. The financial plan presented herein shows that it may be possible to undertake this capital program on a pay-as-you-go basis, thereby avoiding the need for future long-term debt.

During the course of this study, preliminary results and recommendations were presented to the Finance Committee and the Board of Directors. The District's Board of Directors approved a financial strategy, which includes no increase in water rates for FY 11-12. This information was then used to help complete the District's FY 11-12 budget.

This report summarizes the analyses and recommendations of the retail financial plan. It includes a financial strategy that relies upon ongoing revenues as well as available reserves to meet all financial obligations, including the planned capital improvement program.

FINANCIAL PLAN AND REVENUE NEEDS

The financial plan model covers the ten-year planning period from FY 10-11 through FY 19-20. The plan reflects estimated operation and maintenance costs, debt service obligations, and capital improvement needs of the retail water system. The financial plan is a cash-flow model, and differs from standard accounting income statements and balance sheets. The financial plan also separately reflects ongoing operation and maintenance, debt service payment obligations, and the capital improvement program, with separate revenue sources reflected for each. Financial reserves are also reflected in the financial planning model.

In 2009, the District issued \$30.51 million in revenue certificates of participation (COPs) providing net proceeds of \$17.6 million for the wholesale water system and \$9.9 million for the retail water system. Debt proceeds are being expended on current capital improvement projects. One of the obligations related to the District's outstanding debt is to maintain adequate ongoing revenues to cover all ongoing operating and maintenance costs, as well as at least 115 percent of annual debt service. The retail financial plan reflects the retail water system's obligations for retail debt service, as well as the portion of wholesale debt service related to the retail water system.

Details of the financial plan assumptions, findings, and recommendations are presented in Section II of this report. The analysis suggests that the District will need to increase water rates by modest amounts each year during the planning period, beginning in FY 12-13. Specific findings and recommendations of the financial plan analysis include:

- Annual water sales have declined in recent years likely due to the slowdown in the economy, increased awareness of water supply issues, and water conservation efforts by the District. A partial rebound in demand is anticipated over several years.
- The margin for meeting the annual debt service coverage requirement will be relatively thin through FY 12-13, due in part to reduced water sales. This margin will improve with the anticipated gradual rebound in sales, as well as recommended rate increases.
- The portion of the debt service payments on the 2003 COPs related to the refunding of the 1993 COPs will end in FY 12-13, after which annual debt service payments will decline slightly.
- The District's financial reserve policies are generally maintained throughout the planning period including the 20 percent operating reserve, the employee vacation/sick leave reserve, the PERS reserve, the OPEB liability reserve, the general CIP reserve, the connection fee reserve, the Kokila Reservoir reserve, the vehicle/equipment replacement reserve, and the emergency CIP reserve.
- As a result of the slowdown in the economy and reduced development activity, connection fee revenues have declined. While these revenue will increase as development activity returns, the available connection fee reserves may be fully depleted in upcoming years based on the planned timing of certain capital improvement projects. It is anticipated, however, that future connection fee revenues will more than offset the temporary shortfalls in the connection fee reserve. When connection fee reserves are depleted, available funds in the general CIP reserve can make up the shortfall.
- Except for the fact that cash reserves may be drawn down to historic low levels, the financial plan indicates that the District should be able to fund the planned capital improvement program, as currently scheduled, over the next ten years without the need for additional long-term debt.
- In a change from past practices, at the beginning of 2011 the District began accounting for distribution pumping costs in the retail water system, rather than as part of wholesale water system costs. Because a portion of these costs are

associated with delivering water to the City of Folsom a pumping surcharge should be established to reimburse the retail water system for costs associated with delivering water to the City. It is recommended that this pumping surcharge be established at \$59.30 per acre-foot (AF). This surcharge should be adjusted annually based on inflation, and periodically reviewed and/or updated to ensure that the surcharge continues to reasonably reflect costs associated with this service to the City.

- Based on the information and assumptions reflected in the retail financial plan, it is recommended that the District increase the overall level of water rates each fiscal year beginning in FY 12-13 by 3.5 percent. These rate adjustments are necessary to ensure the retail water system will continue to meet all financial obligations, as well as maintain prudent and reasonable reserves. The potential consequences of not implementing modest annual rate adjustments could include delays in constructing necessary capital improvement projects, increased financial risk associated with depleted reserves, and larger rate adjustments being required in future years.

As with past practice, the District should monitor financial conditions and needs on an ongoing (annual) basis and update the financial plan model and future estimates at least every three to five years, or when conditions or plans changes sufficient to warrant an update. Actual future conditions, such as water deliveries, customer demands, water sales revenue, operating and maintenance expenses, CIP project costs/timing, project financing, etc., may differ from the financial plan assumptions reflected herein. Material differences affecting the overall financial condition of the retail water system may warrant closer review and/or an earlier update. The need and magnitude of annual retail water rate increases may also be affected by differences between assumed and actual conditions.

SECTION II. RETAIL FINANCIAL PLAN

This section of the report describes the 2011 financial plan for the District's retail water system. The ten-year financial plan is used to determine annual retail water rate revenue requirements. The annual rate revenue requirement is the amount of revenue needed from water rates to cover planned operating, maintenance, debt service, and capital program costs with consideration of other revenues and financial reserves.

FUND STRUCTURE AND CASH FLOWS

The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements, and balance sheets. The financial plan models sources and uses of funds into, out of, and between the various funds and reserves of the water utility.

The financial plan model is based on a fund, reserve, and account structure that separately addresses operating, debt service, and capital program needs, with two funds for these purposes. This presentation helps provide transparency as to the sources and uses of funds for each type of obligation.

An understanding of the fund/reserve structure is helpful in understanding the financial plan worksheets that model annual cash flows through the retail water utility from one year to the next. The fund/reserve structure is comprised of:

- ***Retail Operating Fund*** – The retail operating fund is the primary fund within the retail water system. Most retail revenues, including water rate revenues, flow into the operating fund and all operating and maintenance costs, including debt service payments, are paid out of this fund. Funds are also transferred from the operating fund to the retail capital fund to help pay for capital projects intended to rehabilitate and upgrade facilities. Three separate reserves are reflected in the operating fund.
 - *Operating Reserve* – The District maintains an operating reserve within the operating fund equal to 20 percent of annual retail operating and maintenance costs. The purpose of the operating reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. At the end of FY 10-11, the retail operating reserve is estimated to be about \$1,243,000.
 - *Employee Vacation/Sick Leave Reserve* – The employee vacation/sick leave reserve is a cash reserve intended to help offset the accrued liability associated with employee leave time, and assist the District in paying for leave time without disruption within the general operating budget. At the end of FY 10-11 the employee vacation/sick leave reserve has an estimated balance of about \$427,000 and is assumed to grow at about 1 percent per year.
 - *PERS Reserve* – A separate PERS reserve is shown as a part of the operating fund, and reflects the balance of funds set aside to meet future

retirement obligations. At the end of FY 10-11, the PERS reserve has an estimated balance of about \$202,000. This reserve is assumed to grow at about \$100,000 per year, plus accumulated interest.

- *Uncommitted Fund Balance* - The balance in the operating fund in excess of the target amount for the operating reserves, as well as the other two reserves, is shown in the financial plan as uncommitted fund balance. After all other obligations are met the uncommitted fund balance is available to offset rate increases, and the financial plan model generally seeks to reduce any uncommitted fund balance over time. Negative amounts for the uncommitted fund balance indicates the degree to which the minimum operating reserve is not met. At the end of FY 10-11, the uncommitted fund balance to have a negative balance of about \$162,000.
- *OPEB Liability Reserve* - Separate from the operating fund, the District maintains an OPEB liability reserve to reflect the accumulated liability for post-employment benefits. At the end of FY 10-11 this liability reserve is estimated to have a balance of \$507,000. The operating fund includes a line-item for OPEB liability expense to reflect an annual transfer from the operating fund to the OPEB liability reserve. The transfer is assumed to be about \$200,000 per year, and growing at about 4 percent per year.
- ***Retail Capital Fund*** - The retail capital fund is used to account for capital project expenditures and related funding sources. The District applies a portion of property tax revenues (the 1 percent increment taxes) to the capital program. In addition, it is recommended that a portion of revenues from the retail water rates be transferred annually to the capital fund, in support of the long-term capital program. While current revenues are insufficient for this transfer, this should be an objective to help minimize or reduce the amount of debt that may be required in the future. Capital projects funded from the retail capital fund are intended to rehabilitate, upgrade, and expand the retail water system to meet current and future needs of the utility. The financial plan model generally seeks to maintain a positive balance in the capital fund while also covering the costs of planned capital improvement projects. The capital fund is comprised of five separate reserves.
 - *General CIP Reserve* - This reserve reflects the capital fund balance that is generally available for retail capital improvement purposes. At the end of FY 10-11, this reserve has an estimated balance of about \$11.5 million
 - *Connection Fee Reserves* - This reserve is used by the District to account for retail connection fee revenue. For purposes of financial plan analyses, it is assumed that 19.5 percent of connection fee revenue is available for general CIP purposes, and accrues to the general CIP reserve. This portion of the connection fee revenue represents the buy-in portion of the fee. The remaining 80.5 percent of connection fee revenue accrues to the connection fee reserve, and is then used for the expansion portion of capital improvement projects. At the end of FY 10-11 the connection fee reserve has an estimated balance of \$2,164,000.

- *Kokila Reservoir Reserve* - The District maintains a sinking fund for the eventual replacement and upgrade of Kokila Reservoir. The sinking fund has a FY 10-11 year-end balance of about \$338,000. The District adds \$10,000 annually to this reserve, plus accrued interest.
- *Vehicle/Equipment Reserve* - The vehicle/equipment replacement reserve has an estimated FY 10-11 year-end balance of \$50,000, and is assumed to remain static during the planning period. The reserve is available to help pay for unanticipated vehicle/equipment replacements.
- *Emergency CIP Reserve* - The emergency CIP reserve has an estimated FY 10-11 year-end balance of about \$588,000. The reserve is available for emergency capital improvement projects at the Board's discretion. This reserve is assumed to remain static during the planning period.

FINANCIAL PLAN ASSUMPTIONS

The financial plan was created to reflect the FY 10-11 budget and financial conditions as of the beginning of the fiscal year. The financial plan also reflects the District's debt service obligations and capital improvement program, as identified by staff, during the ten-year planning period.

The process used to develop the financial plan involved estimating future revenues and expenditures based on inflation and interest rates, wholesale water supply costs and demand projections, anticipated capital improvement needs, and other information. The District does not have formal estimates of future operating and maintenance costs, and capital improvement needs are defined at a planning level. The financial plan is based on the best available information and assumptions are believed to be reasonable; however, no assurance can be provided as to the accuracy and completeness of the estimates.

Primary assumptions reflected in financial plan analyses are summarized below. Many of the assumptions are also summarized in **Exhibit II-1**.

- *Interest Rates* - Interest earned on fund/reserve balances is estimated to be 0.5 percent per year in FY 10-11 and then increasing by 0.5 percent per year each year until reaching 3.0 percent. Interest calculations are based on beginning of year balances. Interest accrues to each of the funds. The District also pays interest on outstanding long-term debt obligations. The interest payments on outstanding debt are those contained in existing contracts and repayment schedules.
- *Inflation Rates* - Annual inflation rates for general operating and maintenance costs is 3.0 percent per year throughout the planning period. Inflation for chemical and energy costs is assumed 3.0 percent per year for five years, then 5.0 per year thereafter. Inflation on OPEB costs and construction costs is assumed to be 4.0 percent annually.

Exhibit II-1 San Juan Water District Retail Financial Plan Assumptions											
	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Financial Assumptions											
Interest Earnings		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%
General Inflation		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Energy/Chemical Inflation		3.0%	3.0%	3.0%	3.0%	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%
OPEB Inflation		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Construction Inflation		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Operating Reserve		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
		of annual O&M expense									
Customer Accounts and Water Usage											
No. of Customer Accounts	9,717	9,717	9,717	9,766	9,864	9,963	10,063	10,164	10,266	10,369	10,473
Residential	496	496	496	498	503	508	513	518	523	528	533
Non-Residential											
Total Accounts	10,213	10,213	10,213	10,264	10,367	10,471	10,576	10,682	10,789	10,897	11,006
No. of Equip. Meters	8,054	8,054	8,054	8,094	8,175	8,257	8,340	8,424	8,508	8,593	8,679
Water Sales (CCF)	4,998,000	5,175,000	5,489,000	5,881,000	5,939,000	5,999,000	6,059,000	6,120,000	6,181,000	6,243,000	6,305,000
Water Sales (AF)	11,474	11,880	12,600	13,500	13,635	13,772	13,910	14,049	14,189	14,332	14,475
Growth Rate		0.0%	0.0%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Demand Factor		3.5%	6.1%	6.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Unaccounted For Losses	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%
Wholesale Water Costs & Debt Service											
San Juan RSA Water Purch. Cost (FY)	\$ 1,758,000	\$ 1,560,000	\$ 1,722,000	\$ 1,722,000	\$ 1,880,000	\$ 1,990,000	\$ 2,106,000	\$ 2,230,000	\$ 2,360,000	\$ 2,499,000	\$ 2,645,000
San Juan RSA Debt Service											
2003 COPs											
1993 Refunding											
San Juan Project	\$ 291,959	\$ 291,196	\$ 478,492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2009 COPs	\$ 536,135	\$ 537,144	\$ 536,868	\$ 535,235	\$ 535,715	\$ 537,000	\$ 537,000	\$ 536,712	\$ 536,039	\$ 534,982	\$ 535,943
Total Annual RSA Debt Service	\$ 1,815,131	\$ 1,815,147	\$ 2,001,937	\$ 1,748,457	\$ 1,745,376	\$ 1,744,551	\$ 1,744,551	\$ 1,744,636	\$ 1,745,399	\$ 1,745,060	\$ 1,745,303
Other Revenues											
Retail Connection Fee	\$ 13,114	\$ 13,639	\$ 14,185	\$ 14,185	\$ 14,752	\$ 15,342	\$ 15,956	\$ 16,594	\$ 17,258	\$ 17,948	\$ 18,666
Connection Fee Revenue	\$ -	\$ -	\$ 567,000	\$ 567,000	\$ 1,195,000	\$ 1,258,000	\$ 1,324,000	\$ 1,394,000	\$ 1,450,000	\$ 1,526,000	\$ 1,605,000
Folsom Pumping Surch. (\$/AF)	\$ 59.30	\$ 61.10	\$ 62.90	\$ 64.80	\$ 66.70	\$ 70.00	\$ 73.50	\$ 77.20	\$ 81.10	\$ 85.20	\$ 85.20
Folsom Surch. Revenue	\$ 27,000	\$ 87,700	\$ 95,900	\$ 102,900	\$ 106,900	\$ 113,300	\$ 120,200	\$ 127,500	\$ 135,200	\$ 143,500	\$ 143,500
San Juan RSA Water Supply Costs (from Wholesale Financial Plan)											
% Rate Increase		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Water Usage Rate (\$/AF)	\$ 127.86	\$ 90.60	\$ 95.13	\$ 99.89	\$ 104.88	\$ 110.12	\$ 115.63	\$ 121.41	\$ 127.48	\$ 133.86	\$ 140.55
Water Deliveries (AF)	8,290	13,200	14,000	15,000	15,150	15,302	15,455	15,610	15,766	15,924	16,083
Water Usage Charge	\$ 1,059,959	\$ 1,195,920	\$ 1,331,820	\$ 1,498,298	\$ 1,588,944	\$ 1,685,131	\$ 1,787,079	\$ 1,895,252	\$ 2,009,902	\$ 2,131,546	\$ 2,260,471
Fixed Service Charge	\$ 147,781	\$ 311,080	\$ 326,634	\$ 342,966	\$ 360,114	\$ 378,120	\$ 397,026	\$ 416,877	\$ 437,721	\$ 459,607	\$ 482,587
Total Wtr. Purch. Cost (CY)	\$ 1,207,740	\$ 1,507,000	\$ 1,658,454	\$ 1,841,263	\$ 1,949,058	\$ 2,063,250	\$ 2,184,104	\$ 2,312,129	\$ 2,447,622	\$ 2,591,153	\$ 2,743,058

- *Retail Customer Base and Water Deliveries* – Negligible growth in the customer base is assumed in FY 10-11 and FY 11-12 for financial planning purposes. The customer base is assumed to grow by 0.5 percent in FY 12-13, and then to 1.0 percent per year thereafter. Water demand is estimated to rebound toward historic levels over the next several years. Historic and estimated future retail water demands (purchases from the wholesale water system) are as follows:

2001	16,192 AF	2011	13,200 AF
2002	17,361 AF	2012	14,000 AF
2003	17,102 AF	2013	15,000 AF
2004	17,941 AF	2014	15,150 AF
2005	16,125 AF	2015	15,302 AF
2006	15,193 AF	2016	15,455 AF
2007	16,559 AF	2017	15,610 AF
2008	17,064 AF	2018	15,766 AF
2009	13,569 AF	2019	15,924 AF
2010	12,687 AF	2020	16,083 AF

- *Cost of Water Supplies* – The cost of water supplies is reflected as the amount the retail water system pays the wholesale water system for water deliveries. This is comprised of a quarterly fixed service charge and a water usage charge for each acre-foot of delivered water. The retail financial plan uses information from the *Wholesale Financial Plan and Water Rate Study* completed in December 2010 as the basis for water supply costs to the retail water system. This includes wholesale water rate increases of 5 percent per year, affecting the operation and maintenance components of the water rates (excludes the debt service components). The cost of water purchases is the single largest cost of the retail water system.
- *Other Operation and Maintenance Costs* – Beyond water purchases costs, the financial plan model is based on current operating and maintenance costs as reflected in the FY 10-11 operating budget. Future operating and maintenance costs are estimated based on assumed inflation rates, as previously described. Energy costs for pumping are also adjusted based on changes in water demands.
- *Pumping to City of Folsom* – Historically, distribution pumping costs had been included in the District’s wholesale budget as pumping is required to deliver water to the City of Folsom, as well as to distribute water within the retail service area. Because this pumping, and related costs, does not affect other member agencies, beginning in 2011 the District began accounting for pumping costs in the retail water system. A majority of this pumping is associated with delivering water to the City of Folsom. Based on historical usage data and current pumping costs, a pumping surcharge of \$59.30 per AF has been calculated as the appropriate amount to charge the City for pumping costs. This surcharge revenue should be revenue to the retail water system, and is reflected in the retail financial plan.
- *Debt Obligations* – Retail debt service costs are comprised of a proportionate share of wholesale debt service costs, as well as direct retail debt service obligations. Debt service costs are shown as expenses within the operating

fund. Details of debt service obligations were included in the *Wholesale Financial Plan and Water Rate Study*. They are related to the 2003 and 2009 COP issues. A portion of the 2003 COPs (related to the 1993 refunding) will be paid off in FY 11-12. Remaining COP debt service will continue through the planning period at about \$1.75 million per year. In addition, the retail water system has two relatively small loans outstanding. One of these loans will be paid off in FY 11-12, and the other in FY 16-17.

- *Capital Improvement Program* – The District’s retail capital improvement program includes about 60 projects totaling about \$28.4 million in current dollars. **Exhibit II-2** lists all planned projects, as well as estimated cost and schedule for construction. Costs in Exhibit II-2 are expressed in current dollars. When these costs are carried forward into the capital fund exhibit of the financial plan model they are escalated to the year of construction. In future dollars, planned project total about \$34.1 million.

The capital improvement program is concentrated with about one-half of planned costs scheduled in the next three years. This concentration of projects will be funded with general CIP reserves, connection fee reserves, and current revenues available for the capital program. No new long-term debt is anticipated. Property taxes continue to be an important source of revenue for capital projects. Consistent with prior financial plan analyses, 50 percent of property tax revenue received by the District is allocated to the retail water system, and directed towards capital projects. However, as described below, in the near-term property tax revenue may also be used to help pay annual retail debt service.

It is recommended that the District begin making annual transfers from the operating fund to the capital fund to provide additional support for financing the capital program. By establishing rates sufficient to support a portion of the capital program the District may be able to avoid the need for additional long-term debt during the planning period. This has been an objective of the financial planning process, and the proposed rates help to begin to achieve this objective with transfers beginning at \$100,000 in FY 15-16 and growing to \$500,000 by the end of the planning period in FY 19-20.

EXHIBIT II-2
SAN JUAN WATER DISTRICT
TEN-YEAR RETAIL CAPITAL IMPROVEMENT PROGRAM - SUMMARY TABLE

Line	Project Name	Total Cost ¹	FY10-11	FY11-12	FY12-13
1	RSA-Wide Capital Improvement Program				
2	Information Signboard w/Changeable Display (PI)	\$ 10,000	\$ 5,000		
3	District Fiber Optic Upgrade (RSA Share)	\$ 8,100	\$ 8,100		
4	GIS Update	\$ 30,000	\$ 30,000		
5	Administration Office Rewire (RSA Share)	\$ 3,275	\$ 3,275		
6	Administration Building Roof Replacement (RSA Share)	\$ 21,120	\$ 21,120		
7	Office Equipment & Furniture Replacements	\$ 27,000		\$ 16,000	\$ -
8	Vehicle Replacements and Reserve	\$ 943,300	\$ 162,300	\$ 91,000	\$ 50,000
9	Safety trailer (Night Work; SWPPP Response)	\$ 30,000	\$ 15,000		
10	Touch Read Wands (2 @ \$7K/EA; for Meter Reader)	\$ 14,000		\$ 14,000	
11	Commercial Meter Improvements	\$ 400,000	\$ 40,000	\$ 40,000	\$ 40,000
12	Residential Meter Replacements	\$ 750,000	\$ 75,000	\$ 75,000	\$ 75,000
13	Miscellaneous Equipment (Small Tools & Equip. > \$1K)	\$ -			
14	SCADA System Improvements (RSA Share)	\$ 300,000	\$ 150,000	\$ 150,000	
15	Annual Small Distribution System Improvement Projects	\$ 1,100,000	\$ 110,000	\$ 110,000	\$ 110,000
16	Storage Building (RSA share of replacement)	\$ 200,000		\$ 200,000	
17	Distribution Mainline Replacements				
18	Bacon Hydrant Installation	\$ 20,000	\$ 20,000		
19	Vane Court Main Replacement	\$ 120,000	\$ 120,000		
20	Cherry Avenue Services Replm'ts (9202-9262)	\$ 55,000	\$ 55,000		
21	Keats Circle Services Replacements	\$ 95,000	\$ 95,000		
22	Golden Gate Services Replacements (Steel)	\$ 180,000	\$ 180,000		
23	Kezar Street Services Replacements	\$ 45,000	\$ 45,000		
24	Stevens Ave. (All; Main & Services Replacements; Steel)	\$ 400,000	\$ 400,000		
25	Auburn Folsom Road 8" (Country Ct to Eureka; w/ AFR-N)	\$ 253,000		\$ 253,000	
26	Erwin Avenue (Entire Alignment; Steel)	\$ 160,000		\$ 160,000	
27	Lou Place 8" AFR to Troy Way	\$ 95,000		\$ 95,000	
28	Peerless Ave 12" - North Main Replacement	\$ 230,000		\$ 230,000	
29	Sierra College & Douglas 12" (Intersection Xing; Steel)	\$ 150,000		\$ 150,000	
30	Telegraph Ave Re-connect (7616-7626, Creek Xing)	\$ 65,000			\$ 65,000
31	Oak Ave & Cardwell 12" Main (Santa Juanita to Cardwell)	\$ 300,000			\$ 300,000
32	Oak Avenue 12" Main (9151-9219, Casa Robles H.S.)	\$ 270,000			\$ 270,000
33	Douglas Blvd. (Joe Rodgers to Luth. Church; Steel)	\$ 120,000			\$ 120,000
34	Dambacher Dr (7225-7355)	\$ 150,000			
35	Douglas Blvd. (6990 to 7767; Steel) and assoc. small mains	\$ 1,150,000			
36	Main Avenue (5700-5708 & 5640-5682)	\$ 300,000			
37	Lou Place 8" Troy Way to Crown Point Vista	\$ 100,000			
38	Telegraph Ave. (7406 to 7453; Steel)	\$ 135,000			
39	Cavitt Stallman 12" (Oak Pines to Sierra Ponds)	\$ 465,000			
40	Cavitt Stallman 12" (Mystery Creek to Oak Pines, w/ PRS)	\$ 290,000			
41	Edward Court 8" (South of Lou Place)	\$ 80,000			
42	Peerless Ave 8" - South Main Replacmt	\$ 225,000			
43	Excelsior 12" Main Extension	\$ 250,000			
44	Skyway Ln to Mooney Ridge 8"	\$ 95,000			
45	Oak Hill to Barton 8" (CP/Bacon Zone Intertie w/ CV)	\$ 60,000			
46	Transmission Pipelines				
47	AFR - North Phase 24" T-main	\$ 800,000		\$ 800,000	
48	AFR - Middle Phase 24" T-main	\$ 400,000	\$ 400,000		
49	AFR - GB BPS Onsite 24" T-main (Reimburse SJWD Whsl)	\$ 331,000	\$ 331,000		
50	Sierra College Blvd. to Stoneridge 24" T-main	\$ -			
51	Gravity Zone CTP to Sierra Zone 30" Intertie	\$ 500,000			\$ 500,000
52	Twin Rocks Road 18" (Vogal Valley to Sierra Ponds)	\$ 1,970,000			
53	Barton Rd 18" T-main (2710-LF; Eureka to Douglas)	\$ 750,000			
54	Eureka Rd. 18" T-main (3925-LF, Barton to Aub-Fols; Steel)	\$ 1,336,000			\$ 134,000
55	FO40 - 40" T-main rehab (10% of project cost)	\$ 422,500	\$ 77,500	\$ 294,000	\$ 51,000
56	Wholesale meters - RSA cost share	\$ 2,700,000	\$ 350,000	\$ 350,000	\$ 350,000
57	Storage Tanks				
58	2.6 MG Stoneridge (Joint Storage Facility) Needs Analysis	\$ 50,000			
59	2.6 MG Stoneridge (Joint Water Storage Facility)	\$ -			
60	3.0 MG Kokila Reservoir Condition Assessment/Evaluation	\$ 150,000			
61	3.0 MG Kokila Reservoir (Replace Hypalon w/ Steel)	\$ 4,051,000			
61	Los Lagos Tank Recoating (Interior & Exterior)	\$ 300,000			
62	Mooney Ridge Hydro-Tank Recoating (Inside & Outside)	\$ 60,000			
63	Pressure Reducing Stations				
64	Oak Ave ARC North/South PRS	\$ 180,000		\$ 180,000	
65	Eureka & AFR - LGB BPS PRS (w/ AFR-North Ph)	\$ 225,000		\$ 225,000	
66	Bacon/Sierra PRS Improvements	\$ 300,000			\$ 300,000
67	Pump Stations				
64	4.96 MGD Upper Granite Bay Pump Station (rehab)	\$ 1,328,000		\$ 150,000	\$ 1,178,000
65	10.1 MGD Lower Granite Bay Pump Station (at Hinkle)	\$ 2,872,000		\$ 250,000	\$ 2,622,000
	Capital Improvement Program Totals ¹	\$ 28,420,295	\$ 2,693,295	\$ 3,833,000	\$ 6,165,000

Notes:

1. Estimated costs are shown in 2011 dollars based on the March 2011 ENR 20-Cities Construction Cost Index of 9010.80
2. Percent of project benefiting existing customers
3. Percent of project benefiting future customers

FINANCIAL PLAN RESULTS

Details of the financial plan analyses are presented in **Exhibits II-2 and II-3** reflecting the retail operating and capital funds, respectively. The financial plan is also presented graphically in **Exhibit II-4**. Results of the financial plan analyses are summarized below.

- Due in part to reduced water demands current rate revenues are less than ongoing operating and maintenance costs and debt service payment obligations. In addition, total revenues are less than total annual costs. As a result of these current conditions, the District is relying on existing available reserves to cover annual costs.
- Despite reduced water rate revenues, the retail water system continues to meet debt service coverage obligations because of the availability of non-rate revenues, such as property tax, interest income, and connection fee revenue.
- Owing to concern about the current economic climate, the District's Board of Directors has adopted a FY 11-12 budget that excludes a water rate increase for the FY 11-12, even though financial conditions suggest a modest increase in water rates may be prudent.
- Under current financial conditions, with reduced water demands, the District may need to utilize some or all property tax revenue in making debt service payments, rather than reserving the tax revenue for capital improvement purposes. This may be necessary for the next two years, and depends on water demands and other factors influencing the financial condition of the retail water system.
- Modest annual water rate increases of 3.5 percent per year are recommended beginning in FY 12-13 to help stabilize the financial situation and ensure the District's ability to meet financial obligations without excessive depletion of financial reserves.
- While the current financial condition is less than optimal, there are several variables that could improve conditions. Events that could improve the financial outlook over the next few years include:
 - A faster- or higher-than-expected rebound in water demands
 - Deferral of or lower costs for any of the planned capital improvement projects
 - Reductions in anticipated future costs, including pension and/or post-retirement benefit liabilities
 - Any growth in property tax or connection fee revenue, or improvement in interest earnings

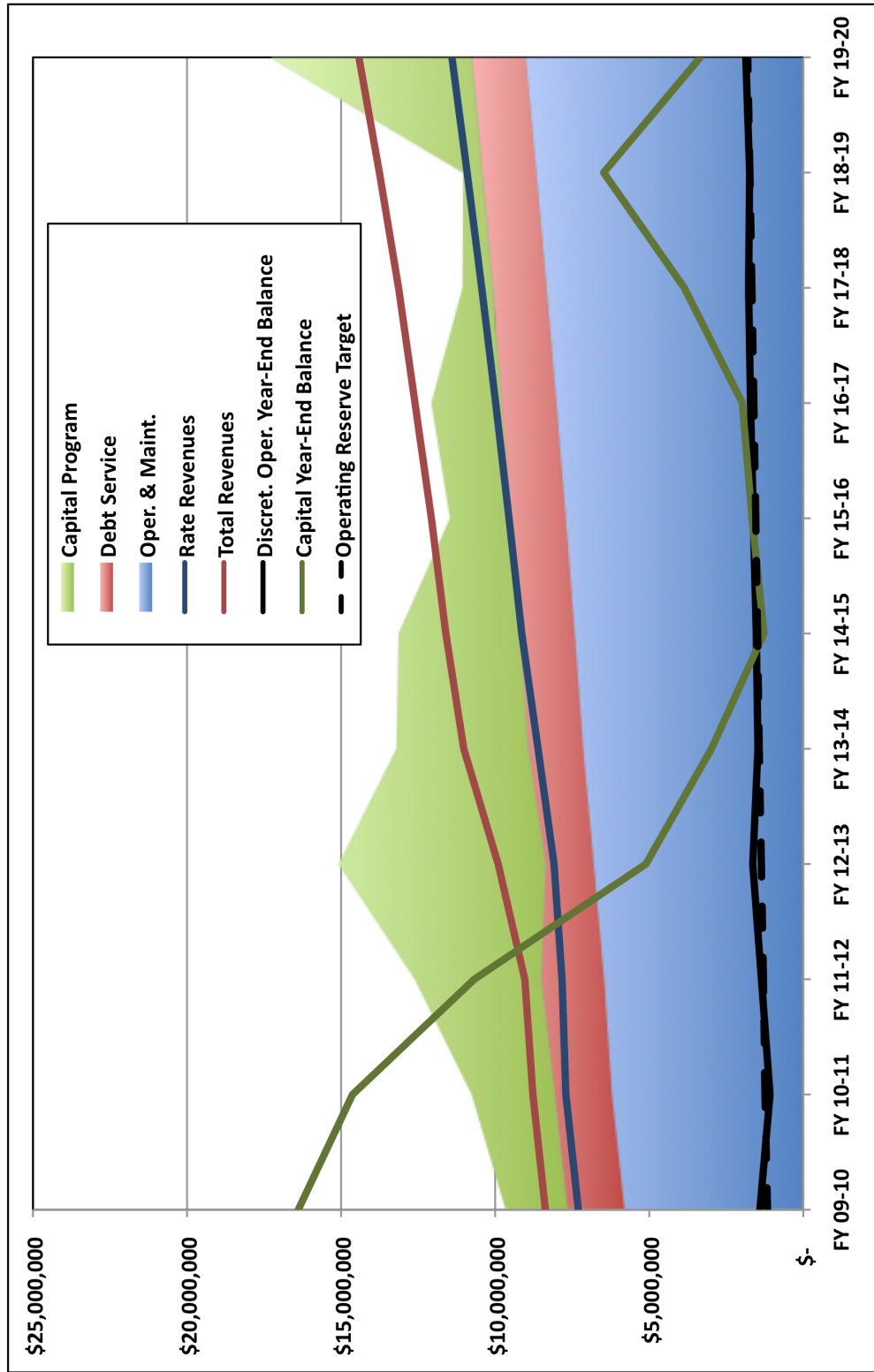
At this point in time, it is recommended that the District increase retail water rates an overall 3.5 percent per year beginning in FY 12-13. While additional increases may be necessary to meet financial needs in future years, there are too many variables that could change this need to suggest it now.

Exhibit II-3 San Juan Water District Retail Financial Plan Summary -- Operating Fund											
	FY 09-10 Estimate	FY 10-11 Projected	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
	CY Rate Increase -->		0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
RETAIL OPERATIONS											
Beginning Balance	305,661	1,932,828	1,710,000	2,093,681	2,484,748	2,427,903	2,599,339	2,819,300	3,034,376	3,228,477	3,330,017
Sources of Funds											
Retail Rate Revenue	7,300,000	7,706,000	7,830,000	8,090,000	8,608,000	9,137,000	9,551,000	9,984,000	10,437,000	10,910,000	11,404,000
Folsom Pump. Surcharge Rev.		27,000	87,700	95,900	102,900	106,900	113,300	120,200	127,500	135,200	143,500
Meter Rentals/Constr. Wtr.	13,000	10,726	11,000	11,300	11,600	11,900	12,300	12,700	13,100	13,500	13,900
Fire Service Fees	20,000	20,000	20,600	21,200	21,800	22,500	23,200	23,900	24,600	25,300	26,100
Reconnects & Penalties	7,500	5,000	5,200	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800
Late Fees	38,000	30,000	30,900	31,800	32,800	33,800	34,800	35,800	36,900	38,000	39,100
Interest Earnings	3,000	2,000	17,000	31,000	31,800	33,800	34,800	35,800	36,900	38,000	39,100
Grants	75,000	30,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Rebate Revenue	14,000	13,000	-	-	-	-	-	-	-	-	-
Total Sources of Funds	7,470,500	7,843,726	8,042,400	8,326,600	8,872,700	9,418,900	9,858,600	10,307,800	10,776,500	11,265,600	11,773,400
Uses of Funds											
Water Supply Purchases	1,665,207	1,758,000	1,560,000	1,722,000	1,880,000	1,990,000	2,106,000	2,230,000	2,360,000	2,499,000	2,645,000
Pumping & Telemetry	62,948	232,451	309,000	318,000	328,000	338,000	348,000	358,000	369,000	380,000	391,000
Pumping Energy	41,865	155,067	406,000	444,000	488,000	503,000	528,000	554,000	582,000	611,000	642,000
Transmission & Distribution	1,497,329	1,502,906	1,548,000	1,594,000	1,642,000	1,691,000	1,742,000	1,794,000	1,848,000	1,903,000	1,960,000
Customer Service	588,466	637,393	657,000	677,000	697,000	718,000	740,000	762,000	785,000	809,000	833,000
Conservation	436,911	405,160	417,000	430,000	443,000	456,000	470,000	484,000	499,000	514,000	529,000
Engineering	362,169	333,958	344,000	354,000	365,000	376,000	387,000	399,000	411,000	423,000	436,000
Administrative & General	989,182	997,725	1,028,000	1,059,000	1,091,000	1,124,000	1,158,000	1,193,000	1,229,000	1,266,000	1,304,000
OPEB Liab. Expense (to Reserve)	162,980	193,377	201,000	209,000	217,000	226,000	235,000	244,000	254,000	264,000	275,000
Debt Service (S+RSA portion)											
2003 COPs (1993 Refunding)		291,196	478,492	-	-	-	-	-	-	-	-
2003 COPs (San Juan Project)		536,135	537,144	536,868	535,715	535,712	537,000	536,039	536,039	534,982	535,943
2009 COPs		987,036	986,807	986,577	1,213,222	1,209,661	1,207,551	1,207,924	1,209,360	1,210,078	1,209,360
EDA Loan	30,088	30,088	30,088	30,088	30,088	30,088	30,088	30,088	-	-	-
CEC Loan	6,188	6,188	6,188	6,188	6,188	6,188	6,188	6,188	-	-	-
Transfer to Capital Fund			(850,000)	(425,000)	-	50,000	150,000	300,000	500,000	750,000	750,000
Total Uses of Funds	5,843,333	8,066,681	7,658,719	7,935,533	8,929,545	9,247,464	9,638,639	10,092,724	10,582,399	11,164,060	11,510,303
Ending Balance	1,932,828	1,710,000	2,093,681	2,484,748	2,427,903	2,599,339	2,819,300	3,034,376	3,228,477	3,330,017	3,593,114
Operating Reserve (20%)	1,161,000	1,243,000	1,294,000	1,361,000	1,430,000	1,484,000	1,543,000	1,604,000	1,667,000	1,734,000	1,803,000
Employee Vac./Sick Leave Rsrv.	422,469	427,000	431,000	435,000	439,000	443,000	447,000	451,000	456,000	461,000	466,000
PERS Reserve	101,570	202,000	304,000	409,000	517,000	630,000	749,000	871,000	997,000	1,127,000	1,261,000
Uncommitted Fund Balance	247,789	(162,000)	64,681	279,748	41,903	42,339	80,300	108,376	108,477	8,017	63,114
OPEB Liability Reserve	313,956	507,000	708,000	917,000	1,134,000	1,360,000	1,595,000	1,839,000	2,093,000	2,357,000	2,632,000
Debt Service Coverage (1.15 min.)			1.26	1.99	2.18	2.35	2.45	2.58	2.75	2.92	3.10

Exhibit II-4
San Juan Water District
Retail Financial Plan Summary -- Capital Fund

	FY 09-10 Estimate	FY 10-11 Budget	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
RETAIL CAPITAL FUND											
<i>Beginning Balance</i>		16,390,866	14,628,866	10,676,866	5,106,866	2,980,866	1,276,866	1,662,866	1,978,866	3,861,866	6,478,866
<i>Sources of Funds</i>											
Property Taxes (50% of 1% Incr.)		850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000
Retail Connection Fees		-	-	567,000	1,195,000	1,258,000	1,324,000	1,394,000	1,450,000	1,526,000	1,605,000
Interest Earnings		82,000	146,000	160,000	102,000	75,000	38,000	50,000	59,000	116,000	194,000
Transfer from Operations		-	(850,000)	(425,000)	-	50,000	150,000	300,000	500,000	750,000	750,000
Total Sources of Funds		932,000	146,000	1,152,000	2,147,000	2,233,000	2,362,000	2,594,000	2,859,000	3,242,000	3,399,000
<i>Uses of Funds</i>											
RSA-Wide Cap. Improv. Projects		620,000	835,000	352,000	390,000	404,000	784,000	285,000	443,000	625,000	771,000
Distrib. Mainline Replacements		915,000	924,000	817,000	1,800,000	819,000	450,000	601,000	204,000	-	-
Transmission Pipelines		1,159,000	1,502,000	1,119,000	1,746,000	2,714,000	426,000	1,392,000	329,000	-	-
Storage Tanks		-	-	-	337,000	-	316,000	-	-	-	5,766,000
Pressure Reducing Stations		-	421,000	324,000	-	-	-	-	-	-	-
Pump Stations		-	416,000	4,110,000	-	-	-	-	-	-	-
Total Uses of Funds		2,694,000	4,098,000	6,722,000	4,273,000	3,937,000	1,976,000	2,278,000	976,000	625,000	6,537,000
Ending Balance		16,390,866	14,628,866	10,676,866	5,106,866	2,980,866	1,662,866	1,978,866	3,861,866	6,478,866	3,340,866
General CIP Reserve	13,025,498	11,489,161	8,303,161	4,418,161	1,635,161	1,168,161	804,161	443,161	1,180,161	2,534,161	(786,839)
Connection Fee Reserve	2,400,925	2,164,000	1,385,000	(315,000)	325,000	(932,000)	(204,000)	450,000	1,573,000	2,812,000	3,490,000
Kokila Reservoir Reserve	326,738	338,000	351,000	366,000	383,000	403,000	425,000	448,000	471,000	495,000	-
Vehicle/Equipment Reserve	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Emergency CIP Reserve	587,705	587,705	587,705	587,705	587,705	587,705	587,705	587,705	587,705	587,705	587,705

Exhibit II-5
San Juan Water District
Summary of Retail Revenues, Expenses, and Fund/Reserve Balances



The graphical summary of the retail financial plan shown in Exhibit II-5 indicates the following:

- Discretionary reserves (operating reserve and uncommitted balance) in the operating fund are generally close to or exceed the minimum operating reserve policy target of 20 percent of operating and maintenance costs.
- Water rate revenues alone are currently insufficient to cover operating, maintenance, and debt service costs. However, additional revenues from interest earnings, property taxes, and other sources are sufficient for these purposes.
- Near-term capital improvement costs will be covered largely through use of capital fund reserves. These reserves, as well as expected future capital fund revenues are expected to be sufficient to fund the entire capital program during the planning period, without the need for additional long-term debt.
- The retail water system's financial reserves will be at their lowest levels from FY 14-15 through FY 16-17, and changing conditions may warrant additional water rate adjustments in this time period.

As with past practice, the District should monitor financial conditions and needs on an ongoing (annual) basis and update the financial plan model and future estimates at least every three to five years, or when conditions or plans changes sufficient to warrant an update. Actual future conditions, such as water demands, water sales revenue, operating and maintenance expenses, CIP project costs/timing, project financing, etc., may differ from the financial plan assumptions reflected herein. Material differences affecting the overall financial condition of the retail water system may warrant closer review and/or an earlier update. The need and magnitude of annual retail water rate increases may also be affected by differences between assumed and actual conditions.