

Long-Term Forecast and Cr-6 Funding Board Workshop



March 19, 2026



Municipal Advisory | Financial Planning | Pension Optimization

**Joshua Basin
Water District**



Ridgeline Overview



- **Municipal Advisory and Financial Consulting Firm**
 - 150+ financings with **≈\$1 billion** in proceeds
 - 80+ financing studies
 - Fiduciary to public agencies

- **Special Focus on Finance for Water**
 - Infrastructure and equipment financing
 - Long-term financial projections
 - Fiscal analysis and district consolidation

Our Water and Wastewater Experience



Context



- Chromium-6 Project: \$20-60 million
- Total 2026-2035 CIP: \$63-103 million
- **Need Financial Roadmap:**
 - Net Revenues and Debt Service Coverage
 - Reserves
 - Capital Projects
 - Financing Strategy
 - Rate Strategy



Key Assumptions & Process



- **Revenues:**

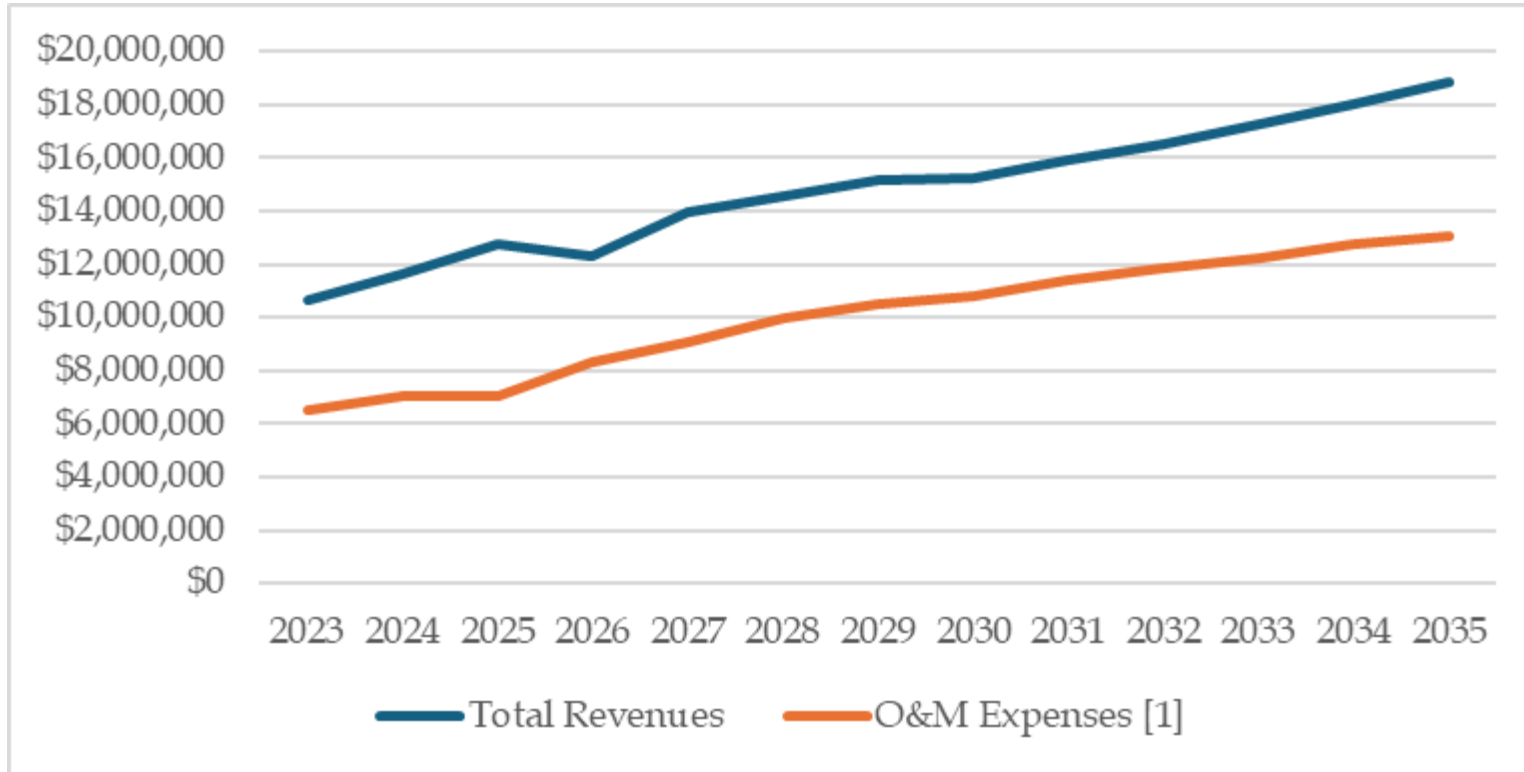
- 9.3% rate increase for 2027 (approved rate study), 5% thereafter
- 3.5% property tax revenue growth
- 3% investment returns on reserves

- **Expenses:**

- Detailed staffing model / full staffing at all times
- 3% inflation rate
- Line-specific projections



Baseline Revenues & O&M = Net Revenue



- KEY ASSUMPTIONS:
- Inflation: 3%
- Rate Increases: 5%
- Includes existing debt, but no new debt
- Includes investment income
- No WW Fees & CMM
- Projected Net Revenue
 - **\$4.4-\$5.0M per year**
 - **Available for new debt service and capital projects**

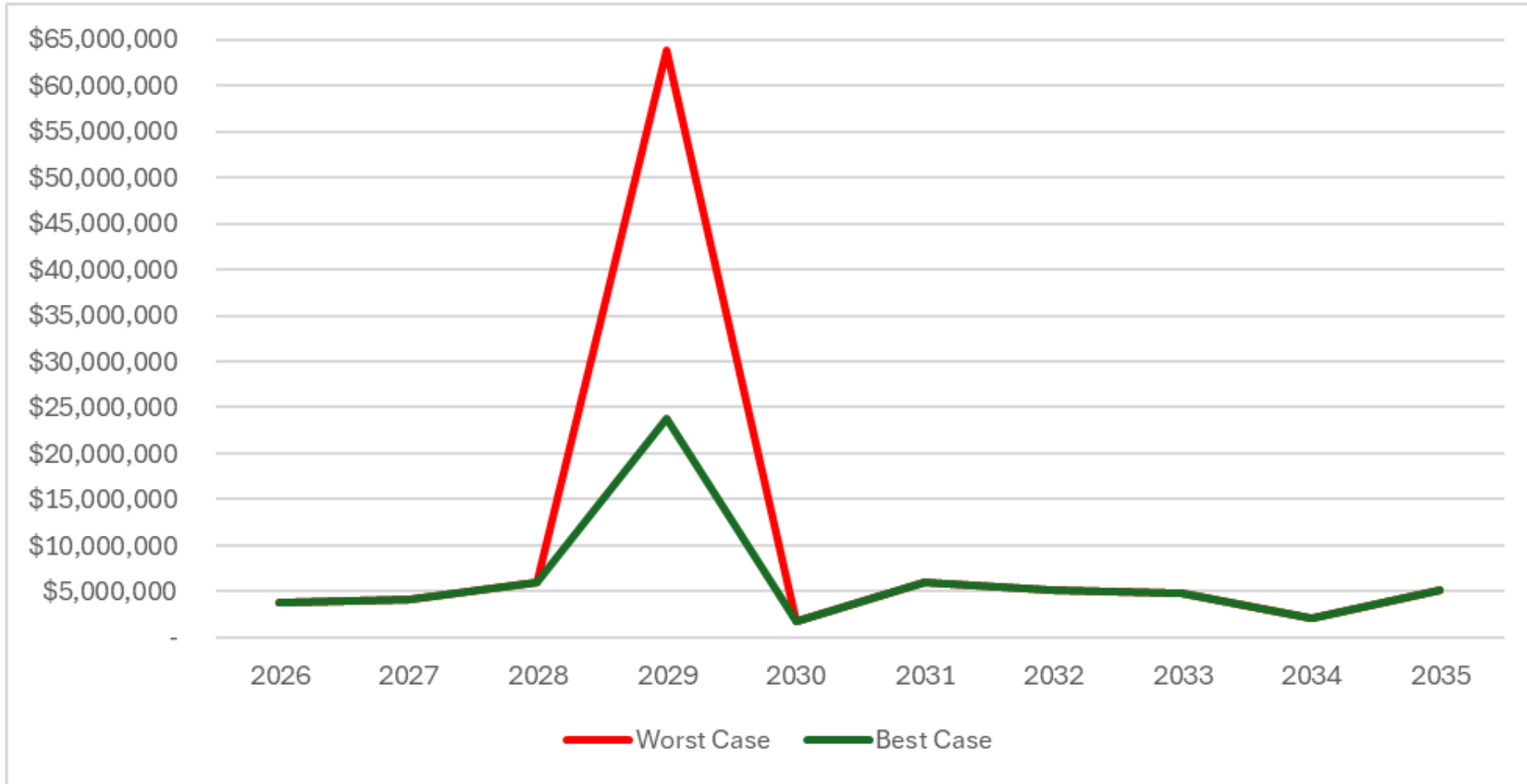
Capital Projects – 2026-2035



Description	Worst Case	Best Case
Reservoirs	\$8,849,000	\$8,849,000
Wells	\$5,106,000	\$5,106,000
Mainline	\$16,993,000	\$16,993,000
Fleet	\$1,077,000	\$1,077,000
Other	\$6,554,000	\$6,554,000
Chromium 6	\$60,900,000	\$20,900,000
Admin Building	\$3,478,000	\$3,478,000
Total	\$102,957,000	\$62,957,000

- KEY ASSUMPTIONS:
- Inflation: 3%
- 2026 Projects: \$3.8M
- Cr-6 cost is the difference between best and worst case scenarios:
 - \$20M vs \$60M (plus \$900k planning costs)

Capital Projects - 2026-2035



Available Cash



- Category allocations may vary
- Water capacity fees available for Cr-6 – amount subject to development activity
- What reserve level is required for normal operations?

Description	Reserve Balances	
	FYE 2026	FYE 2028
Unrestricted		
Operating Reserve	\$2,398,000	\$2,495,000
Cash Flow Reserve	\$2,815,000	\$2,495,000
Emergency Capital Replacement	\$3,000,000	\$3,000,000
Capital Reserve	\$5,357,000	\$3,750,000
Chromium 6 / Regulatory Compliance	\$3,500,000	\$4,000,000
Bldg & Land Reserve	\$96,000	\$96,000
Equipment, Technology & Fleet Reserve	\$670,000	\$350,000
Meter Replacement & AMI	\$672,000	\$502,000
Studies & Reports Replacement	\$632,000	\$150,000
Other	\$251,000	\$274,000
<i>Subtotal: Unrestricted</i>	<i>\$19,391,000</i>	<i>\$17,112,000</i>
Restricted for Water		
<i>Water Capacity Account</i>	<i>\$1,755,000</i>	<i>\$3,385,000</i>
Total Water Reserves	\$21,146,000	\$20,497,000

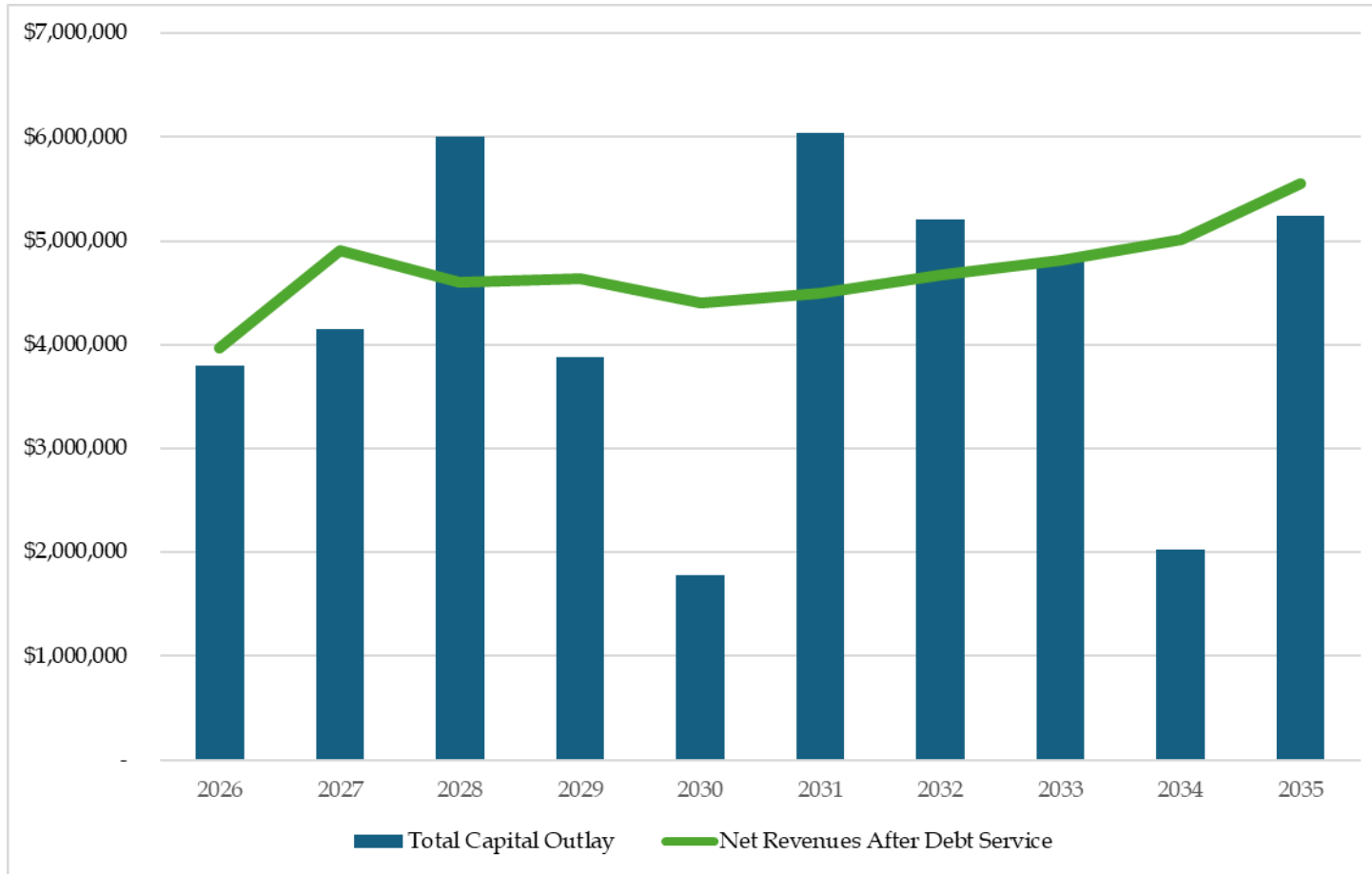
Reserve Targets



Description	Reserve Targets	
	Minimum	Optimal
Operating Reserve	\$2,495,000	\$2,495,000
Cash Flow Reserve	\$1,663,333	\$2,495,000
Emergency Capital Replacement	\$2,000,000	\$3,000,000
Capital Reserve	\$2,750,000	\$3,750,000
Bldg & Land Reserve	-	\$600,000
Equipment, Technology & Fleet Reserve	-	\$350,000
Meter Replacement & AMI	\$250,000	\$250,000
Studies & Reports Replacement	-	\$150,000
Total Reserves	\$9,158,333	\$13,090,000

- Need at least **\$9.2m** for basic operations & emergencies
- **\$13.1m** – optimal reserve balance for healthy operations and emergencies
- **These reserves are NOT available for Cr-6 funding**

Cash Flow w/o Cr-6 Project - Baseline



- Entire CIP less Cr-6:
- Cumulative Cash Flow Surplus – **\$4.0M** over 10 yrs
- Projected cash @ FYE2026: **\$21M**
- Projected cash @ FYE2035: **\$25M**
- **Doing well w/o Cr-6**
- **Cannot cash fund Cr-6 even in Best Case**

Water Revenue Financing Basics



- Water districts can finance capital projects with tax-exempt debt
 - **Tax-Exempt:** Investors and banks don't pay income taxes on earned interest and offer lower rates
- Financial markets consider pledge of water revenues to be stable and predictable
- **Net revenue pledge** is the most common financing structure for water projects
 - Gross Revenues – O&M Expenses = Net Revenues
 - Net revenues are pledged for the repayment of the debt
- Financial covenants:
 - Rate Covenant: Set rates to ensure debt service coverage ratio of no less than 1.25x
 - Additional Debt Test: Additional debt is allowed, as long as Rate Covenant is maintained

Cr-6 Financing Scenarios



Description	Worst Case		Best Case	
	Full Cost	Net Cost	Full Cost	Net Cost
Project Costs	\$60,000,000	\$60,000,000	\$20,000,000	\$20,000,000
Less: Reserves	-	(\$7,385,000)	-	(\$7,385,000)
Costs of Issuance	\$300,000	\$300,000	\$200,000	\$200,000
Par Amount	\$60,300,000	\$52,915,000	\$20,200,000	\$12,815,000
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Financing Term	30	30	30	30
Interest Rate	5.00%	5.00%	5.00%	5.00%
Annual Pmt	\$3,923,000	\$3,442,000	\$1,314,000	\$834,000

- **4 Scenarios:**
 - Worst and Best Cases – Full Cost
 - Worst and Best Cases – Net Cost (after \$4M Cr-6 reserves + \$3.4M Water Capacity Fees)
- **Assumes no grants: grants and earmarks will reduce financing amount**
- **Market-rate financing**

Scenario 1: Worst Case – Full Cost



- Borrow entire Cr-6 Project cost (**\$60,000,000**)
- Analysis with **5%** annual rate increases:
 - Annual payment of \$3,920,000
 - Net revenue drops from \$4.5-5M / year to **\$450-500k / year**
 - DSCR – 1.1x (**too low**)
 - **Cannot** pay for other capital projects
 - Cumulative cash flow **deficit - \$18.4M** (after capital projects)
 - FYE 2035 cash balance - \$2.6M
- **7%** annual rate increases:
 - 1.25x+ DSCR, CF **deficit - \$8.9M**, FYE 2035 cash balance - \$12.1M
- **8.75%** annual rate increases:
 - 1.4x+ DSCR, **CF break-even**, FYE 2035 cash balance - \$21.2M

Scenario 2: Worst Case – Net Cost



- Borrow net Cr-6 Project cost (**\$52,600,000 – reduced by \$7.4M of reserves**)
- Analysis with **5%** annual rate increases:
 - Annual payment of \$3,440,000
 - Net revenue drops from \$4.5-5M / year to **\$950K-1M / year**
 - DSCR – 1.26x (**just enough**)
 - **Cannot** pay for most other capital projects
 - Cumulative cash flow **deficit - \$15.3M** (after capital projects)
 - FYE 2035 cash balance - \$5.7M
- **7%** annual rate increases:
 - 1.45x+ DSCR, CF **deficit - \$5.7M**, FYE 2035 cash balance - \$15.3M
- **8.15%** annual rate increases:
 - 1.5x+ DSCR, **CF break-even**, FYE 2035 cash balance - \$21.2M

Scenario 3: Best Case – Full Cost



- Borrow entire Cr-6 Project cost (**\$20,000,000**)
- Analysis with **5%** annual rate increases:
 - Annual payment of \$1,310,000
 - Net revenue drops from \$4.5-5M / year to **\$3.1-3.5M / year**
 - DSCR – 2.95x (**very healthy**)
 - **Comfortably** pay for other capital projects
 - Cumulative cash flow **deficit - \$1.5M** (after capital projects)
 - FYE 2035 cash balance - \$19.5M

Scenario 4: Best Case – Net Cost



- Borrow net Cr-6 Project cost (**\$12,600,000 – reduced by \$7.4M of reserves**)
- Analysis with **5%** annual rate increases:
 - Annual payment of \$835,000
 - Net revenue drops from \$4.5-5M / year to **\$3.6-4M / year**
 - DSCR – 4.25x (**very healthy**)
 - **Comfortably** pay for other capital projects
 - Cumulative cash flow **surplus - \$1.6M** (after capital projects)
 - FYE 2035 cash balance - \$22.6M

Conclusions – Part 1



- **Without Cr-6**, District is very healthy and can comfortably maintain operations, keep strong reserves, and fund capital outlay with 5% annual rate increases.
- Cr-6 Project cost estimates range from **\$60 million (worst case)** to **\$20 million (best case)**
- **Cr-6 is a once-in-a-generation project – must remain laser-focused to succeed – no distractions allowed**
- **Financing for Cr-6 Project is required under all scenarios**

Conclusions – Part 2



- **Worst Case:**

- Cannot fund both capital outlay and Cr-6 with 5% rate increases
- Break-even requires 8.15 – 8.75% annual rate increases
- Grants and earmarks are essential

- **Best Case:**

- Can comfortably fund both capital outlay and Cr-6 with 5% rate increases
- Able to maintain healthy DSCR and reserves
- Grants and earmarks will improve situation

Considerations When Taking on Debt



- Borrowing money introduces **pressure** and requires strong financial management
- **Rate structure** becomes very important
 - Relying on variable water rates introduces revenue variability risk
 - Fixed rate component provides stability
- District covenants to **set rates** to maintain debt service coverage ratio (**1.25x**)
 - Annual rate increases become essential
- **Reserves** provide cushion and flexibility

Questions to Ask



- **What is the appropriate level of reserves?**
 - Lower reserves may be ok after Cr-6 Project is done
- **Do all capital projects need to be completed in the next 10 years?**
- **What future rate increases are appropriate?**
 - New rate study needs to go into effect January 1, 2028

Questions?



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