BIG BEAR AREA REGIONAL WASTEWATER AGENCY

2022 BUDGET

Effectively collecting, treating and beneficially reusing wastewater and bio-solids in an environmentally and fiscally responsible manner.

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Budget Framework

Important Assumptions

The budget and the forecast period were prepared using the following assumptions:

Rate Increases: The budget and forecast period were prepared assuming adjustments in the Agency's sewer user fee each year during the 5-year period, from FY 2022 - 2026. The rates through FY 2026 have been structured to meet the Agency’s current operating and capital needs during the next five years and assumes no new debt financing during the period. It should be noted that the Agency’s rates have been structured to cover 85% of its annual debt service. The remaining 15% (approximately $75,000) is projected to be funded through connection fee revenue.[1] It is the Agency’s intent to manage rate adjustments to a level that is near inflation. Over the long-term, the Agency is expected to do so.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Rate per EDU	$180.71	$187.94	$193.58	$201.32	$201.32	$201.32	$204.34	$210.06	$216.78	$223.07	$231.77	$240.35	$249.00	$257.96	$266.22
% Change	4.0%	4.0%	3.0%	4.0%	0.0%	0.0%	1.5%	2.8%	3.2%	2.9%	3.9%	3.7%	3.6%	3.6%	3.2%
Prior Projected Rate Adjustment											3.7%	3.6%	3.6%	3.6%	

The Agency has incurred a substantial amount of unplanned expenditures which has resulted in lower capital and replacement fund reserves and has warranted a higher rate increase than in the recent past. Unplanned expenditures are related to higher repairs and replacements expense and Replenish Big Bear expenses. In FY 2021, due to the economic uncertainty associated with COVID 19, the Governing Board directed a lower rate adjustment of 2.9% compared to the 3.9% originally planned. The lower rate adjustment in FY 2021, combined with continuing unplanned repairs expense, is driving the 3.9% recommended adjustment in FY 2022.

Unplanned repairs have continued in FY 2021, and beginning with the FY 2022 budget the Agency will include undesignated repair expense. Currently, $50,000 has been included to cover ongoing, unplanned repairs with the possibility of increasing this amount if unplanned repairs continue at current levels (annual average since 2018 of approximately $200,000). The Agency’s facility is nearing 50 years old, and while the Agency carefully plans for asset repair and replacement, unexpected repairs are occurring. It is prudent to begin to plan for these unexpected expenses and include these costs in the Agency’s revenue requirements.

The Agency’s flexibility to absorb cost overruns or unexpected repairs has been greatly reduced. If the Agency continues to incur unplanned costs, it is likely that planned capital expenditures will need to be deferred or future rate adjustments will need to be higher than currently projected. Under the current proposed rate structure, there are little excess rate revenues ($22,557 by the end of FY 2026). The Agency may delay or reduce the FY 2021 and FY 2022 OPEB Unfunded Liability reduction payments in addition to deferring planned capital expenditures, as noted above, to provide flexibility if needed. Further, the Agency has contingency funds available for variances from the budget. If these funds are drawn upon to provide needed flexibility, subsequent rate adjustments may need to be higher than the current proposed rates.

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[1] The amount of debt service collected through connection fee revenue has been estimated based on the level of connection fee revenue that can be expected during an economic recession. During the last recession, the Agency’s lowest number of annual connections to the system was 18, or $75,240 in connection fee revenue.

Average Dry Weather Flow: The Agency budgets for dry weather. Based on historical experience, this is approximately 788 million gallons of influent flow on an annual basis. If, during the budget period, the Agency incurs wet weather flows or other operational variances from the budget, and the operating budget is unable to absorb the increased costs, the Agency has established a Contingency Fund from which the Board may appropriate funds. The Contingency Fund is recommended to be two months of operating and maintenance expense by the Government Finance Officers Association. Based on staff's review, we believe the amount to be adequate.

Inflation: Annual price change assumptions are used in the multi-year forecast to project year-over-year changes in certain revenues and costs. The Agency considers the Riverside, San Bernardino, Ontario, CA CPI-U[2] (Consumer Price Index for all Urban Consumers, All Items; published by the Bureau of Labor Statistics), the 20-City Construction Cost Index (published by Engineering News Record), and the Congressional Budget Office forecast CPI as indicators in determining future price changes. The overall inflationary outlook is for low inflation driven by the slack in factory capacity and employment associated with the negative economic impacts of COVID 19.

Inflation

Month	Riverside, SB, Ontario CPI U	West Region CPI U	National CPI U	CCI
November 2020	1.9%	1.4%	1.2%	1.7%

Congressional Budget Office Forecast

Index	Period	Rate
CPI, All Urban Consumers	Calendar Years 2022- 2026, Annual Average	2.2%

The Agency has assumed inflation of 2.0 – 2.2% each year during the forecast period, down from 2.7 - 2.8% in the prior forecast. This inflation assumption reflects the 2.2% national inflation expected by the Congressional Budget Office combined with lower regional inflation currently.

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year Average
Inflation Rate	1.8%	0.8%	1.8%	2.2%	4.0%	2.9%	1.3%	1.5%	2.0%	2.2%	2.2%	2.2%	2.2%	2.2%

Actual inflation represents the CPI, Los Angeles-Riverside-Orange County, All Urban Consumers for FY 2013 - 2018, and the CPI for Riverside, San Bernardino, Ontario CA, beginning in FY 2019.

Comparisons

Financial performance comparisons throughout this document include historical, current and future periods. The periods prior to and including FY 2020 are periods of actual financial performance, FY 2021 is the projected

[2] It should be noted that the regional CPI index previously used by the Agency in prior years is no longer available. The sample area was modified to split Los Angeles and Riverside. The new indices are 1) Los Angeles, Long Beach, Anaheim and 2) Riverside, San Bernardino, Ontario. The Agency's proximity is closer to Riverside and therefore the Agency is using the Riverside, San Bernardino, Ontario index. The index began in December 2017.

performance, FY 2022 is the budget period, and FY 2022 – FY 2026 is the forecast period:

FY 2020	FY 2021	FY 2022	FY 2022 - FY 2026
Actual	Projected	Budget	Forecast Period

Items Impacting Financial Performance

Rising Salaries and Wages Expense – New hires combined with a change in pay schedules resulting from the Compensation and Classification Study have resulted in the majority of the Agency's employees being within their respective pay scales (12 out of 15, currently) and thus eligible for annual merit adjustments in addition to annual cost-of-living adjustments. This results in potentially higher annual percentage changes in salaries and wages than if all employees were at the top of their respective pay ranges and only eligible for a cost-of-living adjustment. The growth in the Agency's salaries and wages will slow to 1% in FY 2021, driven by a 5% cap in wage increases and staffing changes during FY 2020 and FY 2021, and is expected to slow compared to historical growth through FY 2026 (having peaked in FY 2019 and FY 2020) as more employees reach the top of their respective pay scales.[3] The average annual increase in salaries and wages over the forecast period is projected to be 6%.

Higher Pension Costs – Increases in pension costs have been driven by changes in the assumed rate of return (lowered from 7.5% to 7%) and recent investment losses.[4] The normal cost[5] is expected to increase one percentage point to approximately 15% and 8% of payroll in FY 2022 – FY 2026 for Classic and PEPRA members, respectively, and the payment of the unfunded accrued liability[6] is expected to increase, from $119,312 in FY 2020 to an estimated $260,545 in FY 2026. These increases combined, will contribute to an average annual growth in pension costs of 9% over the forecast period, increasing from $342,109 in FY 2021 to $521,531 in FY 2026.

Higher Sludge Removal Expense – The Agency has revised its expectations of normal sludge removal rates. The Agency had been expecting lower sludge removal associated with the new belt press, with tons lowering by 700, from 4,038 to 3,338. It is now expected, that under normal conditions and including the impact of the new belt press, the Agency can expect to remove approximately 5,000 tons annually, resulting in an annual increase in sludge removal expense of approximately $100,000 per year. Further, if the impacts from COVID 19 continue (higher flows and higher BOD -biochemical oxygen demand), the increase in sludge removal could be higher. The change in the sludge tons removed from the plant is driven by higher sludge production resulting from higher baseline BOD (prior to any impact from COVID-19) and higher sludge removal rates.

Historically sludge removal expense has been variable resulting from 1) changes in processes related to sludge drying and the introduction and elimination of the cannibal system, 2) changes in plant operating parameters (optimal ranges of operation achieved during aeration and clarification that improve treatment efficiency and impact solids retention/disposal) associated with changing plant management, and 3) changes in transportation costs. The most recent five-year period has been impacted by drier conditions and higher BOD which also impact sludge production. While the Agency lacks normalized historical data from which to budget sludge removal expense due

[3] Using the Plant Operator position as an example, it would take six years to cycle through the pay scale assuming annual merit adjustments of 5%.
[4] The FY 2020 (at June 30, 2020) investment loss was 2.3% or approximately $200,000 for BBARWA.
[5] The normal cost is the amount of pension benefit earned by active employees as they work and is calculated and contributed on an annual basis as a percentage of pay.
[6] The unfunded accrued liability (UAL) is the amount of pension benefit that has been earned and accrued by active and retired employees but that does not have an equal amount of assets set aside to fund the benefit.

to the factors previously mentioned, over the last two years, staff has begun to develop a more solid baseline of expected sludge removal which we believe will provide a better estimate of future sludge removal expense.

Lower Generator Costs– The Agency is expected to begin purchasing solar power as its primary source of power in the spring of 2021 and will move its generators to standby operation. This is expected to result in lower generator maintenance, repairs, and testing expense. The expected annual savings over the next five-year period is approximately $131,000 per year based on initial estimates.

Lower Interest Income – Interest rates have lowered substantially, with LAIF (Local Agency Investment Fund) rates lowering from approximately 2% in January 2020 to 0.50% in January 2021. The expectation is for rates to remain low due to the economic impacts of COVID 19. Interest income is expected to lower to approximately $40,000 per year on average through FY 2026, down approximately $60,000 per year from previous projections.

Reduction of OPEB Unfunded Accrued Liability (OPEB UAL) - The Agency has budgeted to reduce its OPEB UAL by $200,000 during the five-year forecast, with a $200,000 payment scheduled in FY 2022. **If the Agency continues to have unplanned expenditures as previously noted, this payment may be eliminated or reduced in FY 2022.** The reduction in the OPEB UAL is the last payment, in a multi-year plan to reduce the liability annually by $200,000 for a total of $1 million. The Agency made annual reductions in fiscal years 2017, 2018, and 2020 and plans to make an additional payment in FY 2021, leaving $200,000 remaining in the next five-year period. If the Agency were to reduce its OPEB UAL by the remaining two payments (FY 2021 and FY 2022), the estimated funded ratio would be approximately 78%.

A goal of the Agency has been to reduce its unfunded pension/OPEB liabilities so that the Agency's pension/OPEB assets are nearly equal to its pension/OPEB liabilities, resulting in annual pension/OPEB expense near the normal cost. Maintaining a higher funded ratio better ensures that the Agency's obligations will be met and that intergenerational equity will be maintained among ratepayers.

Terminology

CAGR	the Compound Average Growth Rate which is the average annual growth rate over the period referenced
CAPEX	capital expenditures
CalPERS	California Public Employees Retirement System
FY	means the fiscal year ending June 30th of the year referenced, i.e. FY 2022 is the fiscal year ending June 30, 2022
nm	means “not meaningful”. It is input as the outcome when dividing by “0” or when the percent change calculation includes a loss or negative number
Projected performance	based on six months of actual performance through November 2020 and represents the Agency’s best estimate of full-year, FY 2021 performance
UAL	unfunded accrued liability (used in reference to pension and OPEB unfunded liabilities)

Financial Performance: Income Statement and Cash Flow Comparisons

Income statement and cash flow comparisons have been provided on the following pages. The following should be noted as it relates to the financial comparisons: 1) all references to the FY 2021 Budget are the revised budget (revised during the year through amendments and new appropriations) unless noted otherwise, 2) actual results may not match audited financial statements due to the exclusion of GASB adjustments related to pension and OPEB expenses, and 3) an "nm" is notated when dividing by "0" or when the percent change calculation includes a loss or negative number. A written financial summary is provided for each comparison. A discussion and analysis of the NEW FY 2022 Budget follows.

Statement Comparison: Projected FY 2021 to Actual FY 2020 and Budget FY 2021

INCOME STATEMENT
Comparison Projected FY 2021 to Actual FY 2020 and Budget FY 2021

	Actual FY 2020	Budget FY 2021	Projected FY 2021	Projected FY 2021 vs. Actual FY 2020 $	Projected FY 2021 vs. Actual FY 2020 %	Projected FY 2021 vs. Budget FY 2021 $	Projected FY 2021 vs. Budget FY 2021 %
Operating Revenues:							
Annual Charges	5,437,076	5,602,113	5,602,113	165,037	3%	0	0%
Standby Charges	81,660	80,300	80,300	-1,360	-2%	0	0%
Rental Income	51,855	52,592	52,592	737	1%	0	0%
Waste Disposal	18,755	21,690	21,690	2,935	16%	0	0%
Other Revenue	0	0	0	0	nm	0	nm
Total Operating Revenue	5,589,346	5,756,695	5,756,695	167,349	3%	0	0%
Operating Expenses:							
Salaries and Benefits	2,353,414	2,564,019	2,463,810	110,395	5%	-100,209	-4%
Power	453,306	487,021	519,467	66,161	15%	32,447	7%
Sludge Removal	276,292	314,028	314,028	37,736	14%	0	0%
Chemicals	47,596	111,112	107,264	59,668	125%	-3,848	-3%
Materials and Supplies	159,052	141,083	149,807	-9,245	-6%	8,724	6%
Repairs and Replacements	253,789	345,680	371,981	118,192	47%	26,301	8%
Equipment Rental	351	837	837	486	139%	0	0%
Utilities Expense	14,180	42,511	63,077	48,897	345%	20,566	48%
Communications Expense	39,043	52,776	40,728	1,685	4%	-12,048	-23%
Contractual Services - Other	78,879	113,434	101,901	23,021	29%	-11,533	-10%
Contractual Services - Professional	153,470	219,773	224,121	70,651	46%	4,348	2%
Permits and fees	185,051	190,071	195,772	10,721	6%	5,701	3%
Property Tax Expense	3,917	4,147	3,963	46	1%	-184	-4%
Insurance	112,262	171,498	171,497	59,235	53%	-1	0%
Other Operating Expense	45,018	59,853	48,002	2,984	7%	-11,851	-20%
Depreciation Expense	863,233	939,015	939,015	75,782	9%	0	0%
Total Operating Expense	5,038,855	5,756,857	5,715,269	676,414	13%	-41,588	-1%
Operating Expenses b/f Depreciation	*4,175,622*	*4,817,843*	*4,776,255*	*600,632*	*14%*	*-41,588*	*-1%*
Operating Income	550,491	-162	41,426	-509,065	-92%	41,588	nm
Nonoperating Income							
Gain (loss) on Asset Disposition	-9,178	0	0	9,178	nm	0	nm
Interest Income	131,406	96,004	26,238	-105,168	-80%	-69,766	-73%
Other Nonoperating Income	0	0	24,088	24,088	nm	24,088	nm
Nonoperating Income	122,228	96,004	50,326	-71,902	-59%	-45,678	-48%
Nonoperating Expense							
Other Expense	174,573	446,075	149,717	-24,856	-14%	-296,358	-66%
Interest Expense	136,848	124,101	124,101	-12,747	-9%	0	0%
Nonoperating expense	311,421	570,176	273,818	-37,603	-12%	-296,358	-52%
Income before Contributions	361,298	-474,334	-182,066	-543,364	nm	292,268	nm
Connection Fees	188,100	188,100	188,100	0	0%	0	0%
Change in Net Position	549,398	-286,234	6,034	-543,364	-99%	292,268	nm

Notes

"nm" means not meaningful and is used when dividing by 0

CASH FLOW STATEMENT
Comparison Projected FY 2021 to Actual FY 2020 and Budget FY 2021

	Actual FY 2020	Budget FY 2021	Projected FY 2021	Projected FY 2021 vs. Actual FY 2020	Projected FY 2021 vs. Budget FY 2021
Cash from Operating Activities:					
Operating Income (Loss)	550,491	-162	41,426	-509,065	41,588
Depreciation Expense	863,233	939,015	939,015	75,782	-1
Other Miscellaneous Income (Exp)	0	0	0	0	0
Change in Working Capital, Other Adj.	52,152	44,112	37,030	-15,122	-7,082
Net Cash Provided by Op Activities	1,465,876	982,965	1,017,471	-448,406	34,505
Cash from Noncapital Financing:					
Payment of Pension Related Debt/Liabi	-200,000	-200,000	-148,806	51,194	51,194
Cash from Capital and Related Financing:					
Other Nonoperating Expense	-172,596	-434,375	-144,689	27,907	289,686
Capital Expenditures	-2,098,706	-2,097,772	-1,332,042	766,664	765,730
Proceeds from Asset Disposition	0	10,000	17,700	17,700	7,700
Connection Fee (Capital Contrib)	188,100	188,100	188,100	0	0
Proceeds from Debt Issuance, Grants	100,842	70,000	24,088	-76,754	-45,912
Debt Service:					
Interest Expense	-136,888	-124,101	-124,101	12,787	0
Principal Debt Amortization	-372,229	-384,976	-384,976	-12,747	0
Total Debt Service	-509,117	-509,077	-509,077	40	0
Net Cash Used for Cap and Financing	-2,491,477	-2,773,124	-1,755,920	735,557	1,017,204
Cash from Investing:					
(Increase) Decrease in Other Assets	0	0	0	0	0
Other Proceeds	0	0	0	0	0
Interest Income	154,299	96,004	26,238	-128,061	-69,766
Proceeds from the Sale of Investment	0	0	0	0	0
Net Cash from Investing	154,299	96,004	26,238	-128,061	-69,766
Net Change in Cash	-1,071,301	-1,894,155	-861,017	210,284	1,033,138
Beginning Cash Balance	7,840,505	6,769,204	6,769,204	-1,071,301	0
Ending Cash Balance	6,769,204	4,875,049	5,908,187	-861,017	1,033,138
Change in Cash Balance	-1,071,301	-1,894,155	-861,017	210,284	1,033,138

Discussion: Projected FY 2021 Compared to Actual FY 2020

Operating Revenues are projected to be $5.8 million, up $167,349 or 3% in FY 2021. The increase is driven by higher annual charges driven by a 2.9% rate increase and new connections during the period.

Operating Expenses (before depreciation) are projected to be $4.8 million, up $600,632 or 14% in FY 2021. The Agency experienced higher operating expenses across multiple line items:

- **Repairs and Replacements** expense is projected to be $371,981, up $118,192 or 47% in FY 2021. The increase is due to video inspection and hydro cleaning of the main line ($82,485), higher pumps, motors and bearings expense driven by higher gate valve replacement ($40,754), and higher other repairs associated with emergency, in-plant piping repairs ($71,959).
- **Salaries and Benefits** expense is projected to be $2,463,810, up $110,395 or 5% in FY 2021. The increase is driven by a 1% increase in salaries and wages and a 12% increase in benefits expense. The growth in salaries and wages was tempered by a 5% growth cap in wages combined with staffing changes during the period. The increase in benefits expense is driven largely by an increase in pension contribution expense and to a lesser extent an increase in medical premium expense.
- **Contractual Services – Professional** expense is projected to be $224,121, up $70,651 or 46% in FY 2021. The increase is due to 1) lower legal expense in the prior period due to lower general counsel use than usual and 2) an Arc Flash Study in the current period ($45,000).
- **Power** expense is projected to be $519,467, up $66,161 or 15% in FY 2021 due to the temporary use of utility power resulting from generator shutdowns in FY 2021 and to a lesser extent, the buyout of the Agency's natural gas contract (early termination associated with the conversion to solar power from generator power).
- **Chemicals** expense is projected to be $107,264, up $59,668 or 125% in FY 2021. The increase is due to a carbon tower replacement in FY 2021 (approximately $30,0000) and higher polymer use associated with the new belt press.
- **Insurance** expense is projected to be $171,497, up $59,235 or 53%. The increase is driven by increases in both the Agency's workers' compensation rates and property/liability rates. Workers' compensation rates are higher due in part to a higher experience modification factor associated with recent claims and higher property/liability rates due to premium increases driven by the California wildfires.
- **Utilities** expense is projected to be $63,077, up $48,897 or 345%. The increase is largely due to higher solid waste disposal from the Pond 5 clean up (prior to the Pond 5 grading project associated with the Solar project) of $45,570.
- **Sludge Removal** expense is projected to be $314,028, up $37,736 or 14% in FY 2021 due to higher BOD and higher sludge removal.

Operating Income is projected to be $41,426, down $509,065 or 92% in FY 2021. The decrease in operating income is driven by the growth in operating expenses outpacing the growth in operating revenues, with operating expenses increasing $676,414 or 13% and operating revenues increasing $167,349 or 3%.

Change in Net Position is projected to be $6,034, a decrease of $543,364 in FY 2021. The decrease over the prior year is largely due to lower operating income noted above (lower by $509,065) and a negative variance of $34,299 in net, non-operating income (expense) driven by lower interest income.

Change in Cash for the Period is projected to be ($861,017) in FY 2021 compared to ($1,894,155) in the prior period. Higher cash flow in FY 2021 of $210,284 is due largely to lower capital expenditures (lower by $766,664) offset by lower operating income (lower by $509,065).

Discussion: Projected FY 2021 Compared to Budget FY 2021

The comparison below is made to the Agency's budget, as amended during the year to include approximately $1.4 million in carry over and new appropriations during the period: 1) $198,173 operating expenses, 2) $184,375 non-operating expenses and 3) $977,578 in capital expenditures.

Operating Revenues are projected to be $5.6 million, on plan with the budget.

Operating Expenses (before depreciation) are projected to be $4.8 million, down 1% or $41,588 compared to the Agency's budget. The Agency is projected to have lower Salaries and Benefits, Communications, Other Expense and Contractual Services – Other expenses, offset by higher Power, Repairs and Replacements and Utilities expenses.

- **Salaries and Benefits** expense is projected to be $2,463,810, down $100,209 or 4% from the budget. The decrease is driven by lower salaries and wages (down $84,672 or 5%) and lower benefits expense (down $14,340 or 2%). The Agency has had staffing changes during the period which has resulted in a lower level of base pay and benefits expense compared to the budget.
- **Communications** expense is projected to be $40,728, down $12,048 or 23% from the budget. The decrease is due largely to a SCADA support contract which has been mostly unused during the period.
- **Other Operating** expense is projected to be $48,002, down $11,851 or 20% from the budget. The decrease is due to lower education and training expense due to COVID 19.
- **Contractual Services – Other** expense is projected to $101,901, down $11,533 or 10% from the budget. The decrease is due to lower services related to landscaping, labor, HVAC and janitorial, due in part to COVID 19.
- **Power** expense is projected to be $519,467, up $32,447 or 7% from the budget. The increase is due to the temporary use of utility power resulting from generator shutdowns and to a lesser extent, the buyout of the Agency's natural gas contract (early termination associated with the conversion to solar power from generator power).
- **Repairs and Replacements** expense is projected to be $371,981, up $26,301 or 8% from the budget. The increase is due to emergency, in-plant piping repairs ($71,959) offset by lower repair costs associated with check valve and gate valve replacements, vehicles, and equipment and machinery.
- **Utilities** expense is projected to be $63,077, up $20,566 or 48% from the budget. The increase is directly related to higher solids waste disposal associated with the Pond 5 clean up (prior to the Pond 5 grading project associated with the Solar project).

Operating Income is projected to be $41,426, up $41,588 driven by lower operating expenses compared to the budget.

Change in Net Position is projected to be $6,034, up $292,268 from the budget. The increase is driven by higher operating income of $41,588 and a positive variance of $250,680 in net non-operating income (expense) due to lower Replenish Big Bear expenses.

Change in Cash for the Period is projected to be ($861,017) in FY 2021, up $1,033,138 compared to the budget. Higher cash flow compared to the budget is due mostly to lower capital expenditures (lower by $765,730), lower Replenish Big Bear and GSA expenses (lower by $289,686), and higher operating income (higher by $41,588).

Statement Comparison: NEW Budget FY 2022 to Projected FY 2021

INCOME STATEMENT
Comparison NEW Budget FY 2022 to Projected FY 2021

	Projected FY 2021	NEW Budget FY 2022	NEW Budget FY 2022 vs. Projected FY 2021 $	%
Operating Revenues:				
Annual Charges	5,602,113	5,845,163	243,050	4%
Standby Charges	80,300	79,220	-1,080	-1%
Rental Income	52,592	53,386	795	2%
Waste Disposal	21,690	21,690	0	0%
Other Revenue	0	0	0	nm
Total Operating Revenue	5,756,695	5,999,460	242,765	4%
Operating Expenses:				
Salaries and Benefits	2,463,810	2,664,027	200,217	8%
Power	519,467	463,514	-55,953	-11%
Sludge Removal	314,028	319,488	5,460	2%
Chemicals	107,264	83,557	-23,707	-22%
Materials and Supplies	149,807	133,744	-16,063	-11%
Repairs and Replacements	371,981	238,275	-133,706	-36%
Equipment Rental	837	854	17	2%
Utilities Expense	63,077	30,388	-32,689	-52%
Communications Expense	40,728	55,592	14,865	36%
Contractual Services - Other	101,901	94,563	-7,338	-7%
Contractual Services - Prof	224,121	176,716	-47,405	-21%
Permits and fees	195,772	208,484	12,712	6%
Property Tax Expense	3,963	4,016	53	1%
Insurance	171,497	229,214	57,717	34%
Other Operating Expense	48,002	60,613	12,611	26%
Depreciation Expense	939,015	905,147	-33,868	-4%
Total Operating Expenses	5,715,269	5,668,192	-47,077	-1%
Operating Expenses b/f Depreciaiton	*4,776,255*	*4,763,045*	-13,210	*0%*
Operating Income	41,426	331,268	289,842	*700%*
Nonoperating Income				
Gain (loss) on Asset Disposition	0	0	0	nm
Interest Income	26,238	10,171	-16,068	*-61%*
Other Nonoperating Income	24,088	513,874	489,786	2033%
Nonoperating Income	50,326	524,045	473,718	941%
Nonoperating Expense				
Other Expense	149,717	435,605	285,888	191%
Interest Expense	124,101	110,916	-13,185	-11%
Nonoperating Expense	273,818	546,521	272,703	100%
Income before Contributions	-182,066	308,791	490,857	nm
Connection Fees	188,100	188,100	0	0%
Change in Net Position	6,034	496,891	490,857	8135%

"nm" means not meaningful

CASH FLOW STATEMENT
Comparison NEW Budget FY 2022 to Projected FY 2021

	Projected FY 2020	NEW Budget FY 2021	Budget FY 2021 vs. Projected FY 2020
Cash from Operating Activities:			
Operating Income (Loss)	41,426	331,268	289,842
Depreciation Expense	939,015	905,147	-33,868
Other Miscellaneous Income (Exp)	0	0	0
Change in Working Capital, Other Adjustments	37,030	-2,988	-40,019
Net Cash Provided by Op Activities	1,017,471	1,233,426	215,956
Cash from Noncapital Financing:			
Payment of Pension Related Debt/Liability	-148,806	-149,892	-1,086
Cash from Capital and Related Financing:			
Other Nonoperating Expense (Interagency)	-144,689	-430,577	-285,888
Capital Expenditures	-1,332,042	-1,245,988	86,055
Proceeds from Asset Disposition	17,700	0	-17,700
Connection Fee (Capital Contrib)	188,100	188,100	0
Proceeds from Debt Issuance, Grants	24,088	513,874	489,786
Debt Service:			
Interest Expense	-124,101	-110,916	13,185
Principal Debt Amortization	-384,976	-398,160	-13,185
Total Debt Service	-509,077	-509,077	0
Net Cash Used for Cap and Related Financing	-1,755,920	-1,483,667	272,253
Cash from Investing:			
(Increase) Decrease in Other Assets	0	0	0
Other Proceeds	0	0	0
Interest Income	26,238	10,171	-16,068
Proceeds from the Sale of Investment	0	0	0
Net Cash from Investing	26,238	10,171	-16,068
			0
Net Change in Cash	-861,017	-389,962	471,055
Beginning Cash Balance	6,769,204	5,908,187	-861,017
Ending Cash Balance	5,908,187	5,518,225	-389,962
Change in Cash Balance	-861,017	-389,962	471,055

Discussion: NEW Budget FY 2022 Compared to Projected FY 2021

Operating Revenues are budgeted to be approximately $6 million, up $242,765 or 4% from FY 2021. The increase reflects a 4% increase in Annual Charges driven by a 3.9% increase in the sewer user fee and new connections to the system.

Operating Expenses (before depreciation) are budgeted to be approximately $4.8 million, down $13,210 or 0% from FY 2021. The 0% change in operating expenses is the net result of increases and decreases across multiple line items:

- **Salaries and Benefits** expense is budgeted to be $2.6 million, up $200,217 or 8% from FY 2021. The increase is driven by 1) a 7% increase in salaries and wages (higher by $113,101) due to annual merit and COLA adjustments (merit adjustments of 5% and COLA adjustments of 1.9%) combined with longevity adjustments[7] and 2) a 9% increase in benefits expense (higher by $85,645) driven by higher pension expense (higher by $51,208) and medical premium expense (higher by $28,977).
- **Insurance** expense is budgeted to be $229,214, up $57,717 or 34% from FY 2021. The majority of the increase is driven by expected increases in property/liability insurance rates driven by the FY 2020 California wildfires.
- **Communications** expense is budgeted to be $55,592, up $14,865 or 36% from FY 2021. The increase is due to a SCADA support contract being in place for a full year in FY 2022 compared to a partial year in FY2021.
- **Permits and Fees** expense is budgeted to be $208,484, up $12,712, or 6% from FY 2021. The increase is estimated based on the historical growth of the Agency's discharge permits.
- **Materials and Supplies** expense is budgeted to be $133,744, down $16,063 or 11% from FY 2021. The decrease is mostly related to lower oil and filters for the Agency's generators resulting from the generators being placed on standby operation.
- **Chemicals** expense is budgeted to be $83,557, down $23,707 or 22% from FY 2021 and primarily reflects a carbon tower replacement in the prior period.
- **Utilities** expense is budgeted to be $30,388, down $32,689 or 52% from FY 2021 and is due to higher solid waste disposal in the prior period resulting from the Pond 5 clean up.
- **Contractual Services - Professional** expense is budgeted to be $176,716, down $47,405 or 21% from FY 2021. The decrease is driven by an Arc Flash Study ($45,000) in the prior period.
- **Power** expense is budgeted to be $463,514, down $55,953 or 11%. The decrease is due to higher powers costs in the prior period from 1) the temporary shutdown of the Agency's generators and the use of utility power, and 2) the buyout of the Agency's natural gas contract.
- **Repairs and Replacements** expense is budgeted to be $238,275, down $133,706 or 36% FY 2021. The decrease is driven by higher prior-period expense associated with main-line hydro cleaning and video inspection ($82,485) and multiple valve replacements ($40,754).

[7] The Agency budgets salary adjustments as follows: employees that are below the top of scale and are eligible to receive a merit adjustment are budgeted to receive a 5% salary adjustment; employees that have 7 years or more of service are budgeted to receive a 1% longevity adjustment; all employees are budgeted to receive a COLA adjustment based on the November CPI. Estimates based on these assumptions are for budgeting purposes only.

Operating Income is budgeted to be $331,268, an increase of $289,842 or 700% from FY 2021. The increase in operating income is due to the growth in operating revenues outpacing the growth in operating expenses, with operating revenues increasing $242,765 or 4% and operating expenses decreasing $47,077 or 1%.

Change in Net Position is budgeted to be $496,891 up $490,857, or 8135% from FY 2021. The increase is driven by higher Operating Income of $289,842 and a positive variance in non-operating income (expense) of $201,015 driven by higher Replenish Big Bear grant proceeds and lower Replenish Big Bear expenses.

Change in Cash for the Period is budgeted to be ($389,962) in FY 2022, higher by $471,055 when compared to FY 2021. Higher cash flow is due mostly to higher operating income (higher by $289,842) and higher grant proceeds (higher by $489,786) offset by higher Replenish Big Bear and GSA expense (higher by $285,888) when compared to FY 2021.

Financial Summary

Based on the current forecast, the Agency will need annual rate adjustments through FY 2026. While the average rate adjustments over the next five-year period are higher than previously forecast, they are mostly consistent with the Agency's prior plan and the 2018 Rate Study. The uncertainty surrounding the necessary level of ongoing repairs and replacements expense combined with lower reserves resulting from unplanned expenses (Replenish Big Bear and repairs and replacements) justify higher rate adjustments at this time.

During the next five-year period, growth in operating expenses will almost equal that of revenues —revenues are expected to grow at an average annual rate of 4%, reflecting the proposed rate adjustments, and expenses are expected to grow at an average annual rate of 3%. Growth in operating expenses is near inflation and is being driven by higher salaries and benefits expense, which are expected to grow at an average annual rate of 6% over the period. All other operating expenses combined grow at an average annual rate of 0% over the period. Operating income over the forecast period improves, and when combined with connection fee revenue and interest income, provides good cash flow with sufficient funds to meet operating and capital requirements.

Debt service coverage at the end of FY 2022 is expected to be 2.8 x and is expected to increase to 3.0 x at the end of the forecast period. Minimum debt service coverage pursuant to the Agency's borrowing agreements is 1.2 x. The Agency's debt capacity is estimated[8] at $2.8 million at the end of FY 2022 and is expected to increase to approximately $3.5 million beginning at the end of FY 2026.

At the end of FY 2026, the Agency is projected to have $1.3 million in the capital and replacement fund. This amount reflects the cash that is available for future capital projects beginning in FY 2027. Based on the current capital improvement plan and the projected rate collection, the Agency is expected to have adequate funds to cover capital expenditures in the next five-year period from FY 2027 through FY 2031.

The Agency is expected to generate net positive cash flow over the five-year period of $291,408.

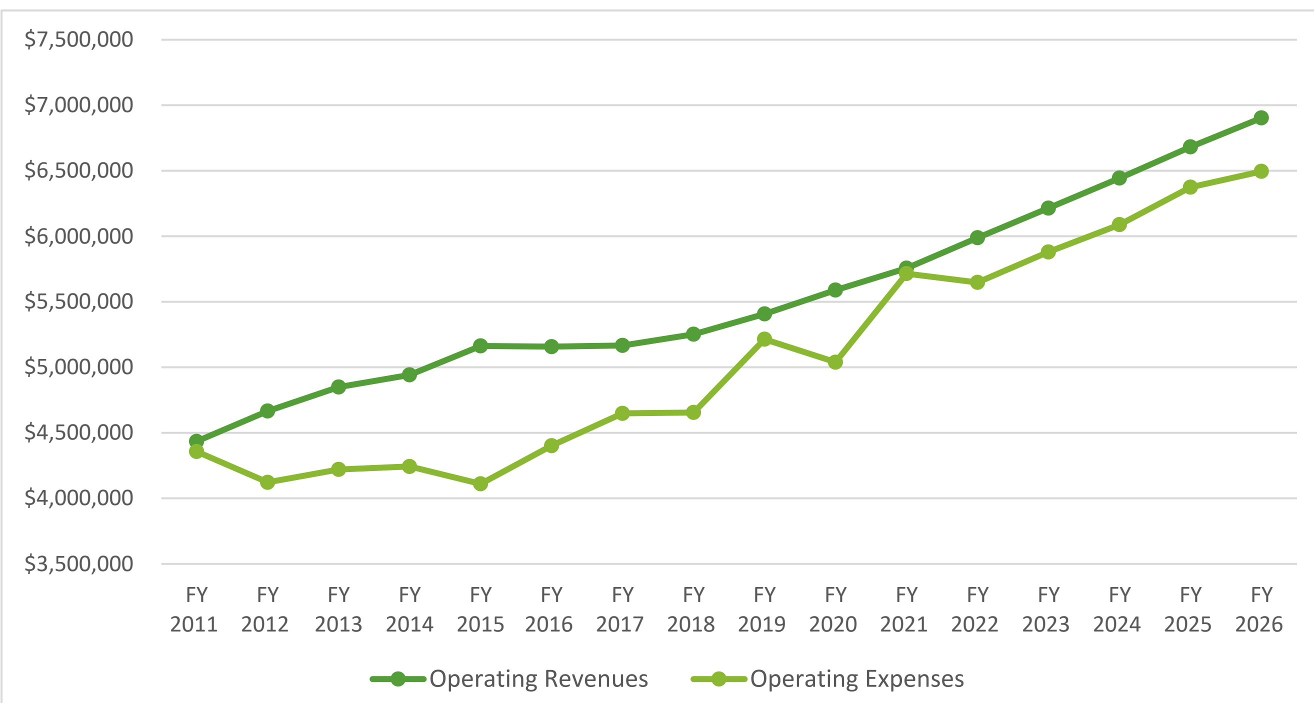
Operating Trends and Outlook

Operating Income[9] Improves

The Agency's Operating Expenses (before depreciation) are expected to grow at an average annual rate of 3%

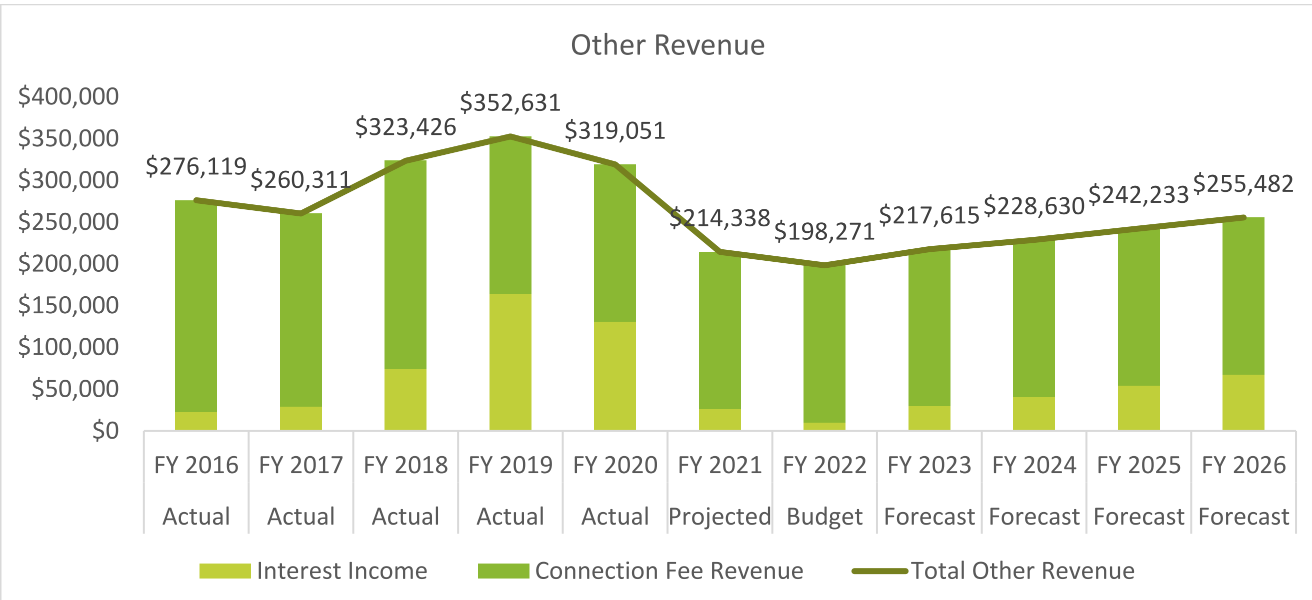
[8] The calculation utilizes a 2.0 x debt service coverage and assumes borrowing terms of 20 years at 4%.
[9] Operating Income is Operating Revenues less Operating Expenses.

over the next five years, slightly outpacing expected inflation of approximately 2.2% for the same period. The growth in operating expenses over the period is being driven by salaries and benefits expense which peaked in FY 2019 and 2020 at 9% growth and is budgeted to grow at 8% in FY 2022, slowing to 5% growth in FY 2026. This slowdown in salaries and benefits expense growth combined with flat growth in other operating expenses will help manage the Agency's overall growth in operating expenses to around 3% on average over the period. This combined with the planned rate adjustments will contribute to stable and improving operating income over the period.



Other Revenue Decreases

Other revenue sources, Interest Income and Connection Fee Revenue, average approximately $228,000 annually, with Interest Income decreasing substantially from FY 2020 levels due to lower interest rates beginning in FY 2021. Interest rates are projected at .25% in FY 2022, rebounding to 1.5% by FY 2026. The decrease in interest rates is expected to lower average annual interest income from previous levels of approximately $100,000 per year to $40,000 per year, a reduction of $60,000 annually or $300,000 over the five-year projection.



Capital

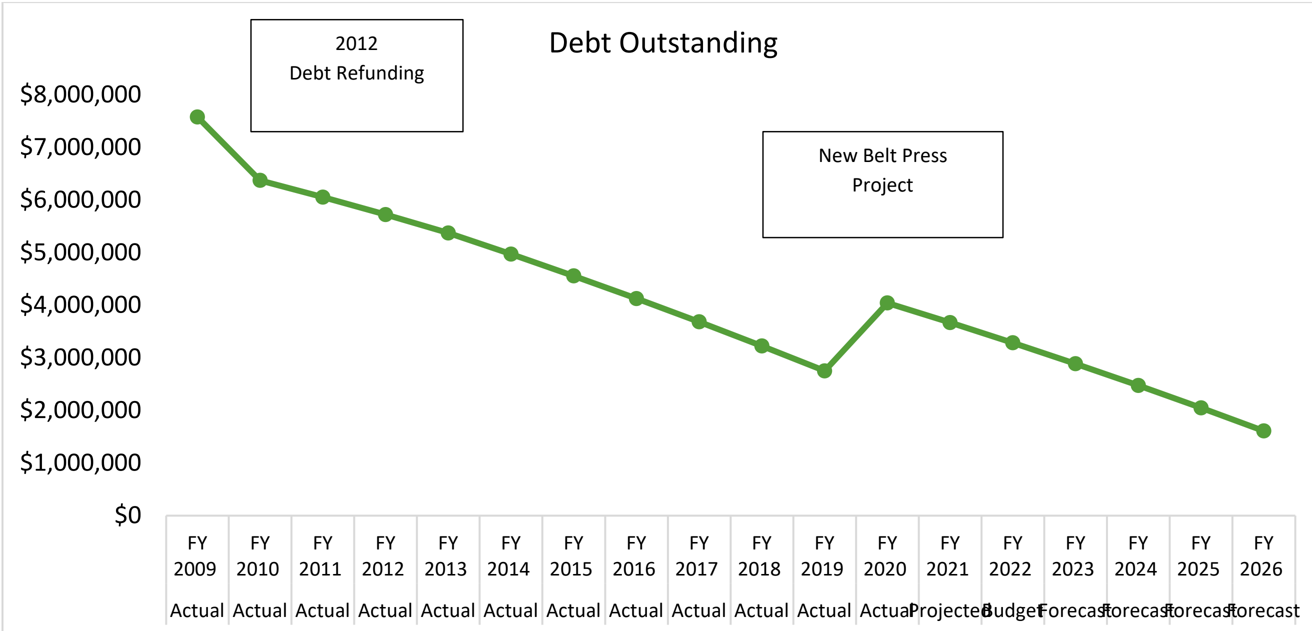
Average Maintenance Capital Expenditures

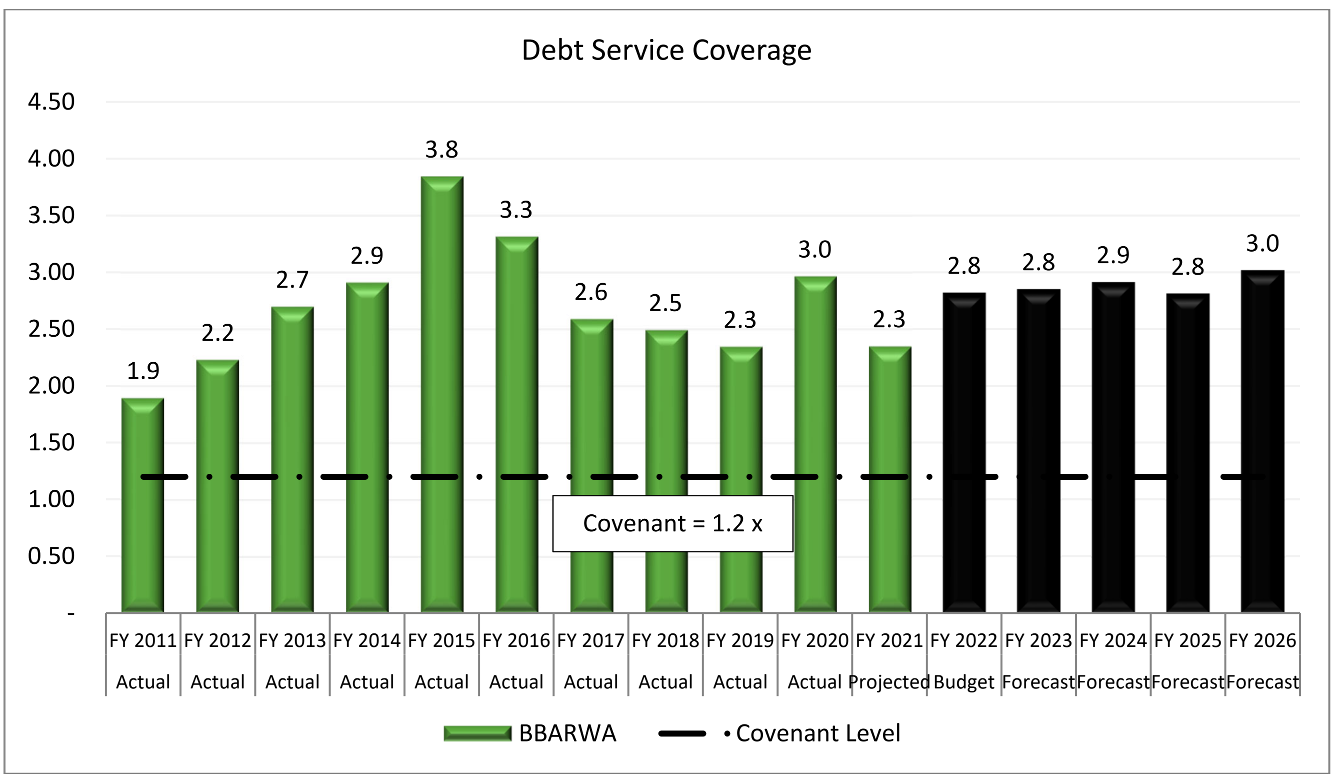
The next five-year period is a slightly higher-than-normal maintenance period for the Agency. Capital expenditures total $4.4 million and average $893,622 per year. This amount is above the long-term, historical depreciation of approximately $850,000 and the annual maintenance requirement of $830,000 indicated in the Agency's current 20-year CIP.

No New Debt, Debt Service Coverage Improves

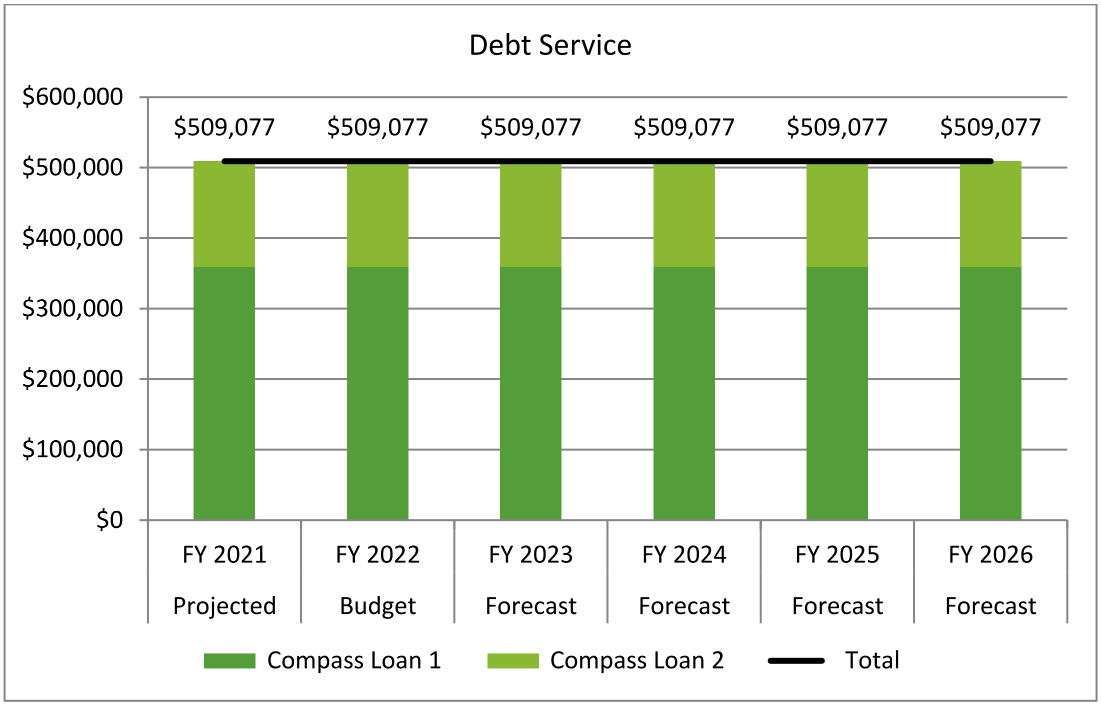
Leverage and Debt Service

The Agency's debt outstanding will be approximately $3.3 million at the beginning of FY 2022. Since 2009, the Agency's highest debt outstanding has been $7.6 million in FY 2009. The Agency's leverage is restricted through its debt service coverage covenant contained in its borrowing agreements. Essentially, the covenant requires that the Agency maintain the ability to cover its debt service (principal and interest expense) with operating income (before depreciation) plus other income (connection fees and interest income) 1.2 x. The Agency's debt service coverage is expected to increase from 2.3 x to 3.0 x by the end of FY 2026.


Debt Outstanding
2012 Debt Refunding
New Belt Press Project
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
FY 2009 Actual
FY 2010 Actual
FY 2011 Actual
FY 2012 Actual
FY 2013 Actual
FY 2014 Actual
FY 2015 Actual
FY 2016 Actual
FY 2017 Actual
FY 2018 Actual
FY 2019 Actual
FY 2020 Actual
FY 2021 Projected
FY 2022 Budget
FY 2023 Forecast
FY 2024 Forecast
FY 2025 Forecast
FY 2026 Forecast


Debt Service Coverage
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
-
1.9
2.2
2.7
2.9
3.8
3.3
2.6
2.5
2.3
3.0
2.3
2.8
2.8
2.9
2.8
3.0
Covenant = 1.2 x
FY 2011 Actual
FY 2012 Actual
FY 2013 Actual
FY 2014 Actual
FY 2015 Actual
FY 2016 Actual
FY 2017 Actual
FY 2018 Actual
FY 2019 Actual
FY 2020 Actual
FY 2021 Projected
FY 2022 Budget
FY 2023 Forecast
FY 2024 Forecast
FY 2025 Forecast
FY 2026 Forecast
BBARWA
Covenant Level

The Agency's debt service (annual principal and interest payment) will remain flat at $509,077 over the forecast period.



Discussion and Analysis

Operations

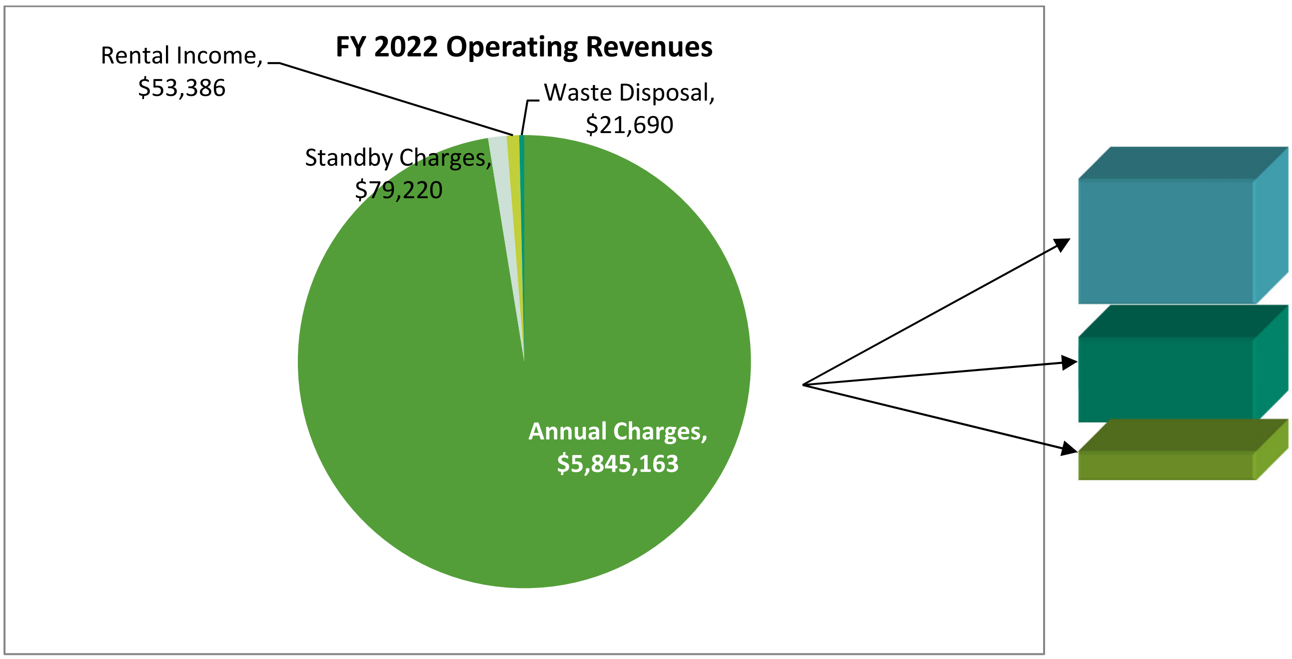
Operating Revenues

Operating Revenues are budgeted to increase approximately 4% in FY 2022 and approximately 4% each year through FY 2025 before dropping to 3% in FY 2026. This growth reflects average annual rate adjustments during the period and new connections to the system.

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year CAGR
Operating Revenues:												
Annual Charges	4,991,166	5,007,070	5,091,576	5,251,542	5,437,076	5,602,113	5,845,163	6,072,249	6,302,055	6,540,538	6,761,814	4%
Standby Charges	89,250	86,930	85,180	83,200	81,660	80,300	79,220	78,306	77,392	76,478	75,564	-1%
Rental Income	49,232	49,918	50,449	51,071	51,855	52,592	53,386	54,205	55,049	55,918	56,812	2%
Waste Disposal	22,869	22,033	23,113	20,608	18,755	21,690	21,690	21,690	21,690	21,690	21,690	0%
Other Revenue	5,104	488	1,916	765	0	0	0	0	0	0	0	nm
Total Op Revenues	5,157,621	5,166,439	5,252,233	5,407,186	5,589,346	5,756,695	5,999,460	6,226,451	6,456,187	6,694,624	6,915,881	4%
Annual Change	0%	0%	2%	3%	3%	3%	4%	4%	4%	4%	3%	

Annual Charges

Operating Revenues are largely driven by Annual Charges which account for approximately 97% of the Agency's Operating Revenues. Annual Charges, pursuant to the Agency's Operating Agreement No. 1, are collected annually from the three member agencies based on EDUs and flow per Agency.



Member Agency Billing

	3-Year Average Flows	Reported EDUs	Implicit Charge per EDU	Rate Increase	Fixed Charge	Variable Charge	Annual Charge Adjustment	Total
Annual Charges:								
City of Big Bear Lake	378,351	11,665.7	$240.24	3.7%	$2,039,236	$ 689,404	$73,893	$2,802,534
Big Bear City CSD	305,045	12,290.0	$224.88	4.1%	2,148,368	555,832	59,576	2,763,777
CSA 53 B	28,699	1,264.0	$220.61	3.8%	220,955	52,293	5,605	278,853
Total	712,095	25,219.7			$4,408,559	$ 1,297,529	$139,075	$5,845,163
Standby Charges:								
City of Big Bear Lake								$28,750
Big Bear City CSD								44,810
CSA 53 B								5,660
Total Annual Charges								$79,220
Connection Fee:								
Connection Fee per EDU								$4,180

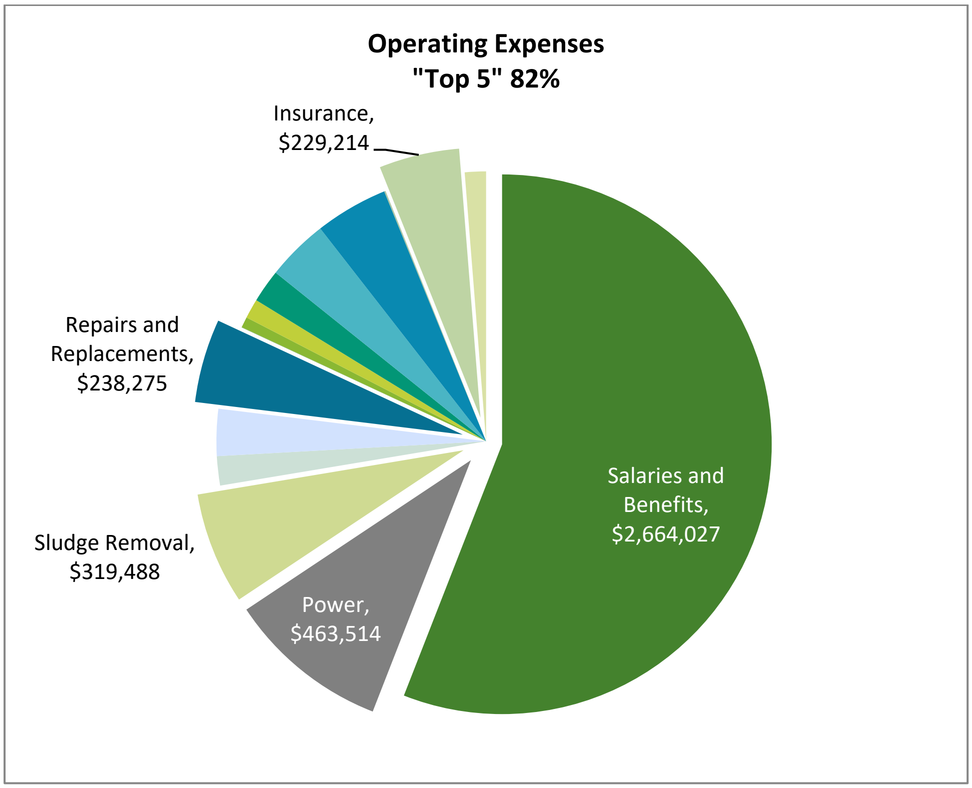
(a) The annual charge adjustment reflects charges in excess or below the total of 1) the required rate revenues and 2) estimated costs associated with flow during the prior 3-year period and is prorated among the member agencies based on 3-year average flow.

Standby Charges, Rental Income and Waste Disposal Fees

Both Standby Charges and Rental Income are stable and predictable. Standby Charges are the fees paid by the owners of vacant parcels and are collected from the member agencies at the same time as the Annual Charges. These charges decline annually as parcels are developed and connect to the system or are combined. Rental Income is related to leased property and is contractual in nature. Waste disposal fees are charged for disposal of sewage at the treatment plant by pumping companies. On a combined basis these revenues average approximately $154,000 annually and are expected to remain flat over the forecast period.

Operating Expenses

The Agency's top five operating expenses account for 82% of the Agency's total operating expenses (before depreciation), with salaries and benefits expense being the largest line item at 56%.



Discussion and Analysis of Top Five Operating Expense Categories

Salaries and Benefits Expense

The growth in salaries and benefits expense is expected to slow compared to the growth rates experienced in FY 2019 and 2020. Based on the current projections and the proposed rate structure, the Agency is expected to be able to continue to afford the projected increases over the forecast period (6% average growth), due to the relatively flat growth in other operating expense (0% average growth).

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year CAGR
SALARIES AND BENEFITS:												
Salaries and Wages	1,232,287	1,271,829	1,253,739	1,389,029	1,517,147	1,526,606	1,639,708	1,748,079	1,853,509	1,952,450	2,039,980	6%
Employee Benefits	605,984	671,354	686,944	747,486	813,241	908,536	994,180	1,078,224	1,152,122	1,225,385	1,284,346	7%
Unemployment Expense	742	8,661	28,631	6,309	245	6,944	6,944	6,944	6,944	6,944	6,944	0%
Payroll Taxes	19,322	19,673	18,964	20,033	22,782	21,724	23,195	24,668	26,105	27,402	28,587	6%
Total Salaries and Benefits	1,858,335	1,971,517	1,988,278	2,162,857	2,353,415	2,463,810	2,664,027	2,857,915	3,038,680	3,212,181	3,359,856	6%
% Change	6%	6%	1%	9%	9%	5%	8%	7%	6%	6%	5%	
Average Annual Change (a)	1%	1%	1%	2%	3%	3%	3%	3%	4%	4%	4%	

(a) Base Year FY 2009

Salaries and Benefits expense is budgeted to increase by 8% in FY 2022, driven by a 7% increase in salaries and wages and a 9% increase in benefits expense.

Salaries and Wages – Salaries and wages expense is budgeted to increase 8% in FY 2022 driven by standard merit and COLA adjustments. The 6% average annual increase in salaries and wages over the projected period is driven by the composition of the employees. New hires combined with a change in pay scales resulting from the Compensation and Classification Study have resulted in the majority of the Agency's employees (currently, 12 of 15 employees) being within their respective pay scales and thus eligible for annual merit adjustments in addition to annual cost of living adjustments during the projected period. This results in potentially higher annual changes in salaries and wages than if all employees were at the top of the pay scale and only eligible for a cost-of-living adjustment. The growth in the Agency's salaries and wages is expected to have peaked in FY 2019 and 2020 and slow through 2026 as more employees reach the top of their respective pay scales. The November 2020 CPI[10] (for Riverside, San Bernardino, Ontario) was 1.9% and has been incorporated into the FY 2021 budget.

Employee Benefits - The FY 2022 9% increase in benefits expense is driven by higher pension contribution expense and to a lesser extent, medical premium expense. Increases in pension costs have been driven by CalPERS lowering the discount rate and to a lesser extent the FY 2020 investment loss of 2.3%. The normal cost[11] is expected to increase one percentage point to approximately 15% and 8% of payroll in FY 2022 – FY 2026 for Classic and PEPRA members, respectively, and the payment of the unfunded accrued liability[12] is expected to increase, from $119,312 in FY 2020 to an estimated $260,545 in FY 2026. These increases combined will contribute to an average annual growth in pension costs of 9% over the forecast period, increasing from $342,109 in FY 2021 to $521,531 in FY 2026. The increase in medical premiums is driven in part by lower medical premiums in the prior period associated with lower staffing (operator position unfilled during six months of FY 2021) and a 6% expected increase in medical premiums in FY 2022.

Power Expense

The Agency expects 0% average annual growth in power expense over the forecast period. The Agency's primary source of power for the treatment plant has been power generation using natural gas generators. Beginning in the

[10] The Agency began utilizing the November CPI in 2016 as the budget assumption for employee COLA adjustments.
[11] The normal cost is the amount of pension benefit earned by active employees as they work and is calculated and contributed on an annual basis as a percentage of pay.
[12] The unfunded accrued liability (UAL) is the amount of pension benefit that has been earned and accrued by active and retired employees but that does not have an equal amount of assets set aside to fund the benefit.

spring of 2021, the Agency is expected to begin to purchase solar power under a power purchase agreement and has entered into a net metering agreement with Bear Valley Electric (BVE). The Agency will purchase electricity during periods of net usage and receive compensation credits during periods of excess solar production from BVE. The Agency's generators will go on standby operation, requiring natural gas for testing purpose only unless they are called in to use when other sources of power are not available.

The Agency utilizes utility power from Bear Valley Electric for its pump stations and administration building.

Higher power costs in FY 2019 and FY 2021 reflect the use of utility power for treatment plant operations during generator shutdowns associated with repairs (see Electricity Treatment Plant below).

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year CAGR
POWER:												
Solar Purchases	0	0	0	0	0	0	244,046	248,897	253,843	258,889	264,034	nm
Fuel for Power Production	400,699	365,628	271,509	345,792	364,152	337,922	5,353	5,471	5,591	5,714	5,840	-56%
Gas Admin Building	3,692	4,060	3,627	3,982	3,725	4,058	4,188	4,280	4,374	4,471	4,569	2%
Gas Treatment Plant	5,497	4,887	3,886	6,172	5,872	7,784	8,033	8,210	8,390	8,575	8,764	2%
Electricity Treatment Plant	61,931	61,865	61,865	107,175	36,411	109,574	136,342	142,241	148,324	154,597	161,067	8%
Electricity Stations	39,537	78,065	35,015	47,889	39,667	53,082	55,000	56,650	58,350	60,100	61,903	3%
Electricity Admin Building	8,284	6,925	9,703	8,572	3,068	5,973	9,844	10,139	10,443	10,757	11,079	13%
Electricity Lucerne	791	751	762	652	410	1,074	708	724	739	756	772	-6%
Total	520,431	522,181	386,367	520,234	453,306	519,467	463,514	476,611	490,055	503,858	518,028	0%
% Change	7%	0%	-26%	35%	-13%	15%	-11%	3%	3%	3%	3%	

Sludge Removal Expense

Sludge removal expense has historically been very volatile resulting from 1) changes in processes related to sludge drying and the introduction and elimination of the cannibal system, 2) changes in plant operating parameters (optimal ranges of operation achieved during aeration and clarification that improve treatment efficiency and impact solids retention/disposal) associated with changing plant management and 3) changes in transportation costs. The most recent five-year period has been impacted by drier conditions and higher BOD which also impacts sludge production.

	Actual FY 2015	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year CAGR
SLUDGE REMOVAL	162,627	225,990	281,096	397,813	298,241	276,292	314,028	319,488	326,407	333,478	340,573	347,518	2%
% Change	-27%	39%	24%	42%	-25%	-7%	14%	2%	2%	2%	2%	2%	

The Agency began removing more solids from the plant beginning in FY 2016 and was able to manage the higher costs of increased sludge removal with self-hauling (the Agency began self-hauling in FY 2013). The Agency hauled approximately 11% of its own sludge in 2013 and increased this to approximately 58% in FY 2016. With frequent breakdowns and costly maintenance of the Agency's hauling truck, the Agency terminated self-hauling operations in FY 2018. At the end of FY 2018, the Agency entered into a contract with a new hauler which provided a $27 per ton reduction in hauling costs for an annual reduction of approximately $109,000. The new contract was the primary reason for the decrease in sludge removal costs in FY 2019. The Agency installed a new belt press in the second half of FY 2020, which was expected to reduce the Agency's annual sludge removal by 700 tons. Although the new belt press is performing in the range of expectation, total sludge tons for the Agency are now budgeted to be higher. It is now expected, under normal conditions and including the impact of the new belt press, the Agency will likely remove approximately 5,000 tons annually, resulting in an annual increase of $100,000 per year in sludge removal expense. Further, if the impacts from COVID-19 continue (higher flows and higher BOD -biochemical oxygen demand), the increase in sludge removal could be higher. The change in the sludge tons removed from the plant is driven by higher sludge production resulting from higher baseline BOD (prior to any impact from COVID-19) and higher sludge removal rates.

Repairs and Replacements Expense

Overall, the Agency is budgeting for lower repairs and replacements expense due to the generators moving to standby operation. Average annual repairs and replacements expense is forecast to be $221,337 per year compared to the previous five-year period of $270,981 per year, but higher than the long-term historical average (2003 - 2018) of approximately $180,000.

Repairs and replacements expense is projected to be $371,981 in FY 2021, up $118,192 or 47% over FY 2020. The increase is due to video inspection and hydro cleaning of the main line ($82,485), higher pumps, motors and bearings expense driven by higher gate valve replacement ($40,754), and higher other repairs associated with in-plant piping emergency repairs ($71,959). FY 2022 is primarily down due to the exclusion of the above offset in part by the inclusion of $50,000 in undesignated “other” repairs.

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year CAGR
REPAIRS AND REPLACEMENTS:												
Mainline	61,540	3,855	16,017	12,209	2,319	99,628	44,180	28,060	37,236	119,293	29,903	-21%
Pumps, Motors, Bearings	20,727	14,126	6,469	35,814	34,964	76,432	36,214	31,345	32,034	32,726	33,403	-15%
Equipment and Machinery	22,511	17,987	13,785	156,712	62,791	23,960	25,622	26,186	26,762	27,340	27,906	3%
Vehicles	19,129	27,193	11,956	11,113	10,356	9,134	9,900	10,118	10,340	10,564	10,782	3%
Generators	20,030	56,331	86,872	68,011	70,988	49,107	12,545	12,821	13,103	13,386	13,663	-23%
Irrigation System - Lucerne	4,997	5,227	2,321	1,342	0	5,581	5,748	5,874	6,004	6,133	6,260	2%
Other	1,830	3,926	18,027	159,839	72,371	108,139	104,066	86,623	68,089	70,160	72,294	-8%
Total	150,764	128,645	155,447	445,040	253,789	371,981	238,275	201,027	193,568	279,602	194,211	-12%
% Change	-7%	-15%	21%	186%	-43%	47%	-36%	-16%	-4%	44%	-31%	

Insurance Expense

Recent increases in insurance expense have moved this line item into the top five largest operating expenses. This line item includes 1) workers’ compensation insurance and 2) property/liability insurance. The Agency has experienced premium increases in both of its coverages due to an increase in its experience modification factor (EMOD Factor) and the California wildfires. The Agency incurred workers’ compensation claims in FY 2019 which continued through FY 2021 resulting in an increase in the Agency’s EMOD Factor (a rating number that is calculated based upon the Agency’s workers compensation premiums and workers compensation claims payments and is designed to show the risk level of the Agency based on similar agencies in the industry). The current claim activity is expected to fall off the EMOD Factor calculation in FY 2024. Increases in property/liability insurance stem from higher reinsurance rates (insurance obtained by insurance companies to reduce their risks and mostly obtained from global companies). Billions in wildfire claims from the 2017 and 2018 wildfires resulted in scaling back of coverage by reinsurance companies. Wildfires in California are considered a sharply rising long-term trend resulting in harder to find and pricier reinsurance rates. Based on recent conversations with the Agency’s insurance provider, SDRMA, the market is not getting better and next year's rates are uncertain especially considering the 2020 California wildfires.

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year CAGR
INSURANCE												
Workman's Comp	42,138	42,039	46,560	42,024	39,953	70,959	78,407	85,144	83,715	89,787	95,618	6%
GL and Property	45,268	43,347	52,868	58,928	72,309	100,538	150,807	154,125	157,515	160,918	162,248	10%
Total insurance expense	87,406	85,386	99,428	100,952	112,262	171,497	229,214	239,268	241,230	250,704	257,866	8%
% Change		-2%	16%	2%	11%	53%	34%	4%	1%	4%	3%	

Capital Contributions - Connection Fees

Connection Fees are projected at 45 annually over the forecast period. New connections to the wastewater system have remained low during the current economic cycle. Excluding multi-unit developments, connections have averaged 53 per year for the last 3 years with only 45 during FY 2019 and FY 2020. There are currently 54 connections for the trailing twelve months ending December 31, 2020. We believe connections may be trending somewhat higher in the current period due to COVID 19 housing demand.

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year CAGR
Connections	69	63	68	45	45	45	45	45	45	45	45	
Connection Fee	$3,670	$3,670	$3,670	$4,180	$4,180	$4,180	$4,180	$4,180	$4,180	$4,180	$4,180	
Connection Fees	253,230	231,210	249,560	188,100	188,100	188,100	188,100	188,100	188,100	188,100	188,100	0%
% Change	-17.9%	-8.7%	7.9%	-24.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

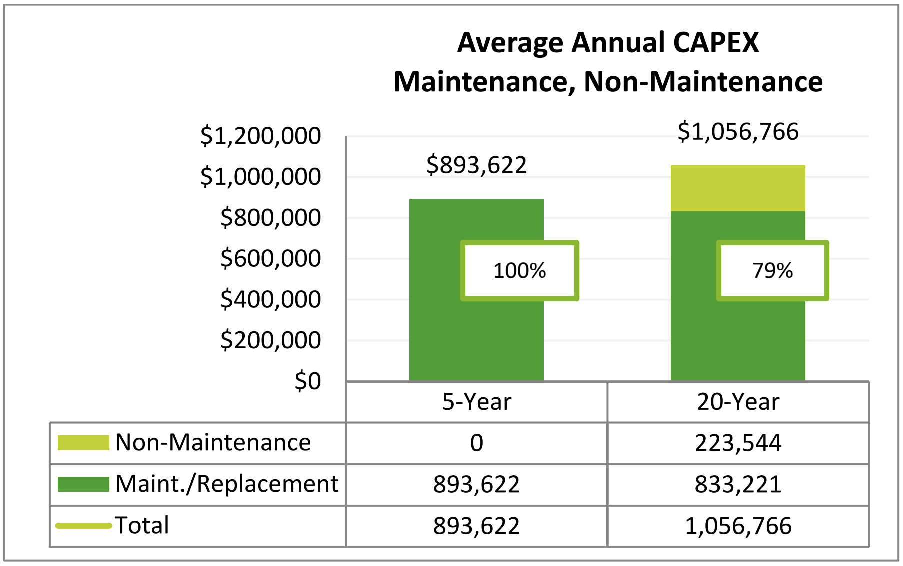
Debt Service and Bond Covenant Calculations

The Agency borrowed $1.8 million of new debt in FY 2019 to fund the New Belt Press Project (new belt press, conveyor and hopper). Although the Agency incurred new debt in FY 2019, the Agency's total debt service was lower beginning in FY 2020 due to reduced amortization requirements under its existing debt. Debt service will remain flat at $509,077 over the forecast period with no new debt planned. Debt service coverage is expected to improve over the period from 2.3 x to 3.0 x at the end of FY 2026.

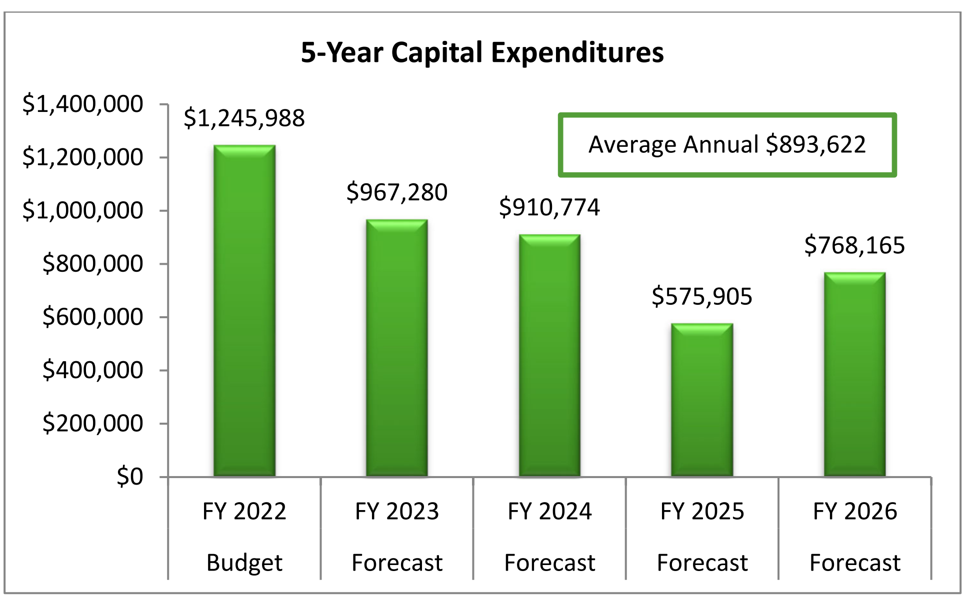
	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026
Debt Service	$576,084	$576,083	$576,084	$598,433	$509,077	$509,077	$509,077	$509,077	$509,077	$509,077	$509,077
Net Rev / Debt Srv	3.3	2.6	2.5	2.3	3.0	2.3	2.8	2.9	2.9	2.8	3.0
Covenant Test	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
PASS / FAIL	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS

Capital Expenditures (CAPEX)

Over the long-term, the Agency expects maintenance CAPEX to be approximately 75% of total capital expenditures and non-maintenance CAPEX to be 25%. We can see from the chart below that the long-term capital plan is close to this expectation with 79% of capital expenditures being maintenance.



During the five-year forecast, capital expenditures total $4.4 million and average $893,622 per year. This amount is a little above the long-term, historical depreciation of approximately $850,000 and the annual maintenance requirement of $830,000 indicated in the Agency's current 20-year plan. The largest investment over the period is for treatment plant maintenance and replacement and asphalt replacement. All capital expenditures in the 5-year plan will be cash funded.



5-YEAR CAPITAL IMPROVEMENT PLAN FY 2022 – 2026

	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5-Year FY 2022-2026
ADMINISTRATION BUILDING						
Admin Building - HVAC Boiler and Controls	0	0	309,068	0	0	309,068
Total	**0**	**0**	**309,068**	**0**	**0**	309,068
EFFLUENT DISPOSAL ASSETS						
Irrigation						
Well Drag Sprinkler						
Irrigation Wheel Line	0	0	0	52,715	0	52,715
Outfall Lines						
Cactus Flats Repair	85,000	0	0	0	0	85,000
Storage						
Monitoring Wells Rehabilitation	0	36,114	0	0	0	36,114
Total	**85,000**	**36,114**	**0**	**52,715**	**0**	173,829
FLOW MEASURING DEVICES						
RAS Flow Meter (10 year replacement)	15,289	0	0	0	0	15,289
CSA Flow Meter (10 year replacement)	0	15,819	0	0	0	15,819
Total flow measuring devices	**15,289**	**15,819**	**0**	**0**	**0**	31,109
INTERCEPTOR SYSTEM						
Pumping Equipment						
Pump 3, Flygt 150 HP Rebuild	52,839	0	0	0	0	52,839
Structures						
NSPS 1 Well Rehab	0	0	0	39,559	0	39,559
NSPS 2 Well Rehab	0	0	0	0	40,548	40,548
Total interceptor system	**52,839**	**0**	**0**	**39,559**	**40,548**	**132,946**
OTHER EQUIPMENT						
Communications						
IT System - Production Host	0	0	0	0	26,406	26,406
IT System - Backup Appliance w/Firewal	0	0	0	0	24,186	24,186
Electrical						
VFD Interceptor - Station 3 (7 yr)	0	18,042	0	0	0	18,042
VFD Interceptor - LPS (7 yr)	0	0	28,242	0	0	28,242
Laboratory						
SS Oven	0	0	6,071	0	0	6,071
Ultra Pure Water Dispenser	5,568	0	0	0	0	5,568
BOD Incubator	0	7,754	0	0	0	7,754
Mobile Pumping Equipment						
Emergency By-Pass Pump 4"	0	0	0	0	64,770	64,770
Emergency By-Pass Pump 4"	0	0	0	0	64,770	64,770
Office Equipment						
Copier	15,654	0	0	0	0	15,654
Total	**21,222**	**25,796**	**34,313**	**0**	**180,132**	**261,463**

5-YEAR CAPITAL IMPROVEMENT PLAN FY 2022 – 2026, Cont.

	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5 Year FY 2022-2026
OTHER TANGIBLE PLANT						
Admin Parking Lot Grind and Overlay	0	0	132,375	0	0	132,375
Palomino Drive Repave	0	0	294,166	0	0	294,166
Asphalt and Paving	0	0	0	325,000	325,000	650,000
Total	**0**	**0**	**426,541**	**325,000**	**325,000**	**1,076,541**
POWER GENERATING EQUIPMENT						
LPS Generator + Fuel System	152,213	0	0	0	0	152,213
Total	**152,213**	**0**	**0**	**0**	**0**	**152,213**
TRANSPORTATION EQUIPMENT						
Vehicles						
1989 Dump Truck Replacement	94,493	0	0	0	0	94,493
2002 Vehicle - Utility Cart Electric	25,000	0	0	0	0	25,000
2010 GMC 1/2 Ton	0	0	50,678	0	0	50,678
Utility Cart Gas	0	27,519	0	0	0	27,519
Heavy Equipment and Accessories						
Volvo Compact Wheel Loader (upsize)	0	0	0	147,083	0	147,083
Bobcat Backhoe	0	89,369	0	0	0	89,369
Bobcat Hammer Attachment	0	0	0	0	14,732	14,732
Total transportation equipment	**119,493**	**116,888**	**50,678**	**147,083**	**14,732**	448,874
TREATMENT PLANT						
Processing Equipment:						
Oxidation Ditch Wall Rehabilitation	0	358,750	0	0	0	358,750
Shaft Mount Reducers 1 - 6 TXT 9	0	0	0	0	132,205	132,205
Shaft Mount Reducers 7, 10 TXT 915	0	0	0	0	44,068	44,068
Shaft Mount Reducers 8-9, TXT 615	0	0	0	0	16,236	16,236
Pumping Equipment:						
Clarifier 3:						
Scum and Tank Drain Pump - 10 HP	18,318	0	0	0	0	18,318
Solids Separation Building						
Submersible Pump - 15 HP (2)	0	8,559	0	0	0	8,559
Auxiliary Pump Building:						
Auxiliary Pump 1	0	0	0	0	15,244	15,244
Auxiliary Pump 2	0	0	21,136	0	0	21,136
Auxiliary Pump 3	38,003	0	0	0	0	38,003
Main Pump Building:						
RAS Pump Rebuild 1	0	0	5,633	0	0	5,633
RAS Pump 2 Rebuild	0	0	0	5,774	0	5,774
RAS Pump 3 Rebuild	0	0	0	5,774	0	5,774
RAS Pump 4 7.5 HP Rebuild	0	0	5,633	0	0	5,633
Effluent Pump 1 40 HP	0	12,681	0	0	0	12,681
Effluent Pump 2 40 HP	0	12,681	0	0	0	12,681

5-YEAR CAPITAL IMPROVEMENT PLAN FY 2022 – 2026, Cont.

	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5 Year FY 2022 2026
TREATMENT PLANT, Cont.						
Main Pump Building:						
Effluent Pump 5 100 HP	0	0	28,886	0	0	28,886
Effluent Pump 6 100 HP	0	0	28,886	0	0	28,886
Headers and check valves	0	279,992	0	0	0	279,992
Treatment Equipment						
Grit System Rehab Project Mgt	43,611	0	0	0	0	43,611
Grit System Rehab	700,000	0	0	0	0	700,000
Total treatment plant equipment	**799,932**	**672,663**	**90,174**	**11,548**	**207,753**	1,782,070
STUDIES AND MAPS						
New Pipeline Maps	0	100,000	0	0	0	100,000
Total Studies and Maps	**0**	**100,000**	**0**	**0**	**0**	100,000
TOTAL	**1,245,988**	**967,280**	**910,774**	**575,905**	**768,165**	**4,468,112**

Capital Expenditures – FY 2022

Effluent Disposal Assets

Cactus Flats Repair ($85,000):

A section of Outfall pipeline was exposed due to storm water runoff from the County dump site. Approximately 75 feet of BBARWA pipeline has been exposed along with a Southwest Gas line. The repair is needed to ensure that our pipeline is covered with a material that can withstand the runoff and to ensure the safety of our line. The repair will be a joint effort with Southwest Gas and BBARWA and will consist of a concrete cover of the pipeline.

Start Date: September 1, 2021
Target Completion Date: September 30, 2021

Flow Measuring Devices

RAS Flow Meter ($15,289): The RAS flow meter is used for the return flow from the secondary clarifiers to the oxidation ditches and to the belt press. This meter is no longer able to be calibrated and is not supported by the manufacturer. We will be replacing this meter and software with new equipment that can be calibrated on an annual basis.

Start Date: September 1, 2021
Target Completion Date: October 31, 2021

Interceptor System

LPS Pump 3 Flygt 150 HP Rebuild ($52,839): LPS Pump 3 is the large pump that pumps sewage from the City of Big Bear Lake and is primarily used during high flows, during weekends and heavy rainfall. LPS Pump 3 is in need of a rebuild due to the accumulation of grit from the City of Big Bear Lake's collection system.

Start Date: August 1, 2021

Target Completion Date: October 31, 2020

Other Equipment, Laboratory

Ultra Pure Water Dispenser ($5,568): The Ultra Pure Water Dispenser is at the end of its useful life and needs to be replaced. The dispenser is used in the Laboratory to provide purified water required for testing.

Start Date: July 1, 2021
Target Completion Date: July 31, 2021

Other Equipment, Office Equipment

Copier ($15,654): The existing multi-functional copier/scanner/printer/fax machine is in need of replacement. The new multi-functional copier will improve print quality, processing times, functionality, and communication to workstations. The Agency will purchase the copier and work with our IT provider, Accent Computer Solutions, Inc., for configuration.

Start Date: August 1, 2021
Target Completion Date: October 31, 2021

Power Generating Equipment

LPS Generator and Fuel System ($152,213): The standby generator at LPS is old and in need of replacement. The parts for the existing unit are getting difficult to find and are very costly to replace. The scope of work will include the purchase of an approved generator and fuel system to be installed by an approved factory representative with the help of BBARWA staff.

Start date: October 1, 2021
Target completion date: December 15, 2021

Transportation – Vehicles

1989 Dump Truck ($94,493): The Agency needs to replace the dump truck based on mileage and years of service. The dump truck is currently used to haul sludge from the Sludge Hopper to the Covered Drying Bed. The dump truck currently can only be used in the treatment plant due to driver licensing requirements. The replacement truck will be utilized outside the plant to facilitate disposals at the local landfill.

Start Date: July 1, 2021
Target completion date: August 31, 2021

Electric Utility Cart ($25,000): The Agency's electric cart is used in the plant for maintenance duties. The current electric cart is outdated, and replacement parts are difficult to obtain.

Start Date: July 1, 2021
Target completion date: July 31, 2021

Treatment Plant

Scum and Tank Drain Pump ($18,318): The drain pump and control panel have reached the end of the useful life and need to be replaced. The pump is used for pumping scum from the secondary clarifier 3 to the scum drying beds.

Start Date August 1, 2021
Target completion date: October 31, 2021

Auxiliary Pump 3 ($38,003): Auxiliary Pump 3 has exceeded its service life and is in need of a rebuild.

Start date: August 1, 2021
Target completion date: September 30, 2021

Grit System Rehabilitation ($743,611): The existing headworks are becoming obsolete, are undersized, provide poor operating conditions, and offer no redundancy. The project consists of engineering, project management, geotechnical, AQMD permitting, drawings, electrical, construction, demolition and installation, SCADA programming, control panels and equipment (to include grit pumps and automated grit control system, grit classifier and cyclone separator and aerated grit system equipment).

Start date: July 1, 2021
Target completion date: November 15, 2021

Capital Expenditures – FY 2023 – FY 2026

Projects discussed below are in the 5-year capital plan, beyond the budget year, and exceed $100,000.

Admin Building HVAC Boiler ($309,068): The Administration Building HVAC system has experienced multiple breakdowns and an upgrade to a newer more efficient system is recommended. The current system is undersized which puts too much strain on the current boiler, creating frequent breakdowns.

Asphalt and Paving ($1,076,541): The asphalt needs replacement due to age and climate. The asphalt work includes the grading and paving of areas within the treatment plant and repaving of Palomino Drive.

Loader ($147,083): The current loader is used for loading of the sludge trailers and snow removal at the facility and lift stations. The current Loader is too small, and a larger loader is needed for the purpose of loading trailers and snow removal. The current, smaller loader will be used as a forklift for the plant.

Oxidation Ditch Wall Rehabilitation ($358,750): The wall on the north side of the ditch (tank) is bulging from groundwater. A portion of the wall will be cut out and repoured using concrete. Concrete slurry will be used on the dry, backside of the wall. Asphalt between Oxidation Ditches 1 and 2 will be removed and replaced during the project.

New Pipeline Maps ($100,000): The Agency has pipeline maps that depict the original locations of Agency facilities with varying degrees of accuracy. The Agency will begin to update its maps which will help BBARWA staff with line location for dig alerts.

Headers and Check Valves ($279,992): The piping from the RAS pumps and the Effluent pumps in the Main Pump Building are getting older and need replacement. Over time these pipes start to deteriorate due to the inherent effects of flowing water. This replacement will include check valves, gate valves and all piping in the Main Pump Building.

Cash and Designated Fund Balances

All references to Agency funds and designated fund balances are related to internal reserve funds maintained by the Agency for various operating and capital related purposes. The following is a summary of the Agency's internally designated funds:

Fund	Description
Capital and Replacement	Fund balance is maintained for capital expenditure requirements. The current year portion reflects capital expenditures appropriated for the budget and goes up and down as funds are appropriated or expensed during the budget year. The current year portion of the fund balance is reestablished annually prior to July 1 for the ensuing budget year. The future year portion reflects cash available for future capital requirements identified in the Agency's 20-Year CIP.
Debt Service	Fund balance is maintained for debt service requirements appropriated for the budget and goes down as funds are expensed during the budget year. The fund balance is re-established annually prior to July 1 for the ensuing budget year.
Liquidity	Fund balance is maintained to meet the Agency's operating requirements due to the timing and infrequent nature of the Agency's revenues. The Agency, in general, needs approximately $2.4 million as of July 1 of each fiscal year. This amount will go up and down with changes in operating expense. The fund balance is re-established annually prior to July 1 for the ensuing budget year.
Contingency	The Agency has established 1) an emergency fund of $500,000 and 2) an operating fund in the amount of two months operating expense. The operating portion of the contingency fund required balance will go up and down with changes in operating expense. The fund balance is re-established annually prior to July 1 for the ensuing budget year.
Connection Fees	The use of connection fee revenue is restricted by law. The Agency accounts for accrued and unspent connection fee revenue through this internal fund.

CASH AND DESIGNATED FUND BALANCES

	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Total Change
ENDING BALANCE:							
Cash Balance	5,908,187	5,518,225	5,498,859	5,575,617	5,932,605	6,199,595	291,408
Designated Fund Balances:							
Capital and Replacement Fund							
Current Year	1,245,988	967,280	860,096	575,905	768,165	1,169,637	-76,351
Future Years	458,777	192,902	140,443	297,653	375,755	175,678	-283,100
Total C & R	1,704,765	1,160,182	1,000,539	873,558	1,143,920	1,345,315	-359,450
Debt Service Fund	509,077	509,077	509,077	509,077	509,077	461,283	-47,794
Liquidity Fund	2,400,505	2,516,700	2,622,116	2,775,223	2,840,322	2,925,531	525,027
Contingency Fund:							
Emergency	500,000	500,000	500,000	500,000	500,000	500,000	0
Operating	793,841	832,266	867,127	917,759	939,287	967,466	173,625
Total Contingency	1,293,841	1,332,266	1,367,127	1,417,759	1,439,287	1,467,466	173,625
Designated Funds	5,908,187	5,518,225	5,498,859	5,575,617	5,932,605	6,199,595	291,408

At the end of FY 2026, the Agency is projected to have $1,345,315 in the Capital and Replacement Fund. This amount reflects the cash that is available for future capital projects beginning in FY 2027. Based on the current capital improvement plan, the Agency is expected to have sufficient funds to cover the next five-year period beginning in FY 2027.

Rate Review

Adequacy of Rates

The budget and forecast period were prepared assuming adjustments in the Agency's sewer user fee of 3.9% in FY 2022, and 3.2 – 3.7% in FY 2023 - 2026. The rate adjustments should be adequate to cover future operating and capital requirements for the budget and forecast period. The forecast period is a "best estimate" of the Agency's future revenue requirements and may change as we move into the future, which could impact the timing and size of potential rate adjustments.

Rate Requirements

	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5 Year Total
Revenue Requirements:							
Op Expenses before Depreciation	$4,776,255	$4,763,045	$4,993,597	$5,202,762	$5,506,555	$5,635,723	$26,101,683
Rate Funded Capital:							
Debt Service	433,672	433,672	433,672	433,672	433,672	433,672	2,168,362
Capital Expenditures (cash funded)	800,000	800,000	800,000	800,000	800,000	800,000	4,000,000
Total Rate Funded Capital	1,233,672	1,233,672	1,233,672	1,233,672	1,233,672	1,233,672	6,168,362
Subtotal	6,009,927	5,996,717	6,227,270	6,436,435	6,740,228	6,869,396	32,270,045
LESS Other Revenues:							
Other Revenue:							
Standby Charges	80,300	79,220	78,306	77,392	76,478	75,564	386,960
Rental Income	52,592	53,386	54,205	55,049	55,918	56,812	275,370
Waste Disposal	21,690	21,690	21,690	21,690	21,690	21,690	108,452
	154,582	154,297	154,201	154,132	154,086	154,067	770,783
Revenue Requirements	$5,855,345	$5,842,420	$6,073,068	$6,282,303	$6,586,141	$6,715,329	$31,499,262
Proposed Rate	**$223.07**	**$231.77**	**$240.35**	**$249.00**	**$257.96**	**$266.22**	
Annual Change	**2.9%**	**3.9%**	**3.7%**	**3.6%**	**3.6%**	**3.2%**	
Rate Revenue per Proposed Rate							
EDUs	25,114	25,220	25,265	25,310	25,355	25,400	
Rate Revenues - Proposed Billing	$5,602,113	$5,845,163	$6,072,249	$6,302,055	$6,540,538	$6,761,814	$31,521,819
Rate Revenue Excess (Shortfall)	-$253,232	$2,742	-$819	$19,752	-$45,604	$46,485	$22,557
Bond Covenant with Proposed Rate							
Net Revenue / Debt Service Ratio	2.3	2.8	2.8	2.9	2.8	3.0	
Covenant Test Ratio	1.2	1.2	1.2	1.2	1.2	1.2	
PASS / FAIL	PASS	PASS	PASS	PASS	PASS	PASS	

FY 2022 Rate per EDU - $231.77 / EDU

Based on the Agency's current budget and five-year forecast, a rate of $231.77 per EDU is recommended in FY 2022, a 3.9% increase over the FY 2021 rate of $223.07.

Ratepayer Impact

The financial impact to the ratepayer in FY 2022, based on a 3.9% increase to the established rate is as follows:

Rate	FY 2021 Actual	FY 2022 Proposed	Change $	Change %
Established	$223.07	$231.77	$8.70	3.9%
CBBL	$231.70	$240.24	$8.54	3.7%
CSD	$216.02	$224.88	$8.86	4.1%
CSA 53 B	$212.56	$220.61	$8.05	3.8%

Appendix
Five-Year Forecast

Income Statement

	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	5 Yr CAGR (a)	
Operating Revenue:								
Annual Charges	5,602,113	5,845,163	6,072,249	6,302,055	6,540,538	6,761,814	4%	
Standby Charges	80,300	79,220	78,306	77,392	76,478	75,564	-1%	
Rental Income	52,592	53,386	54,205	55,049	55,918	56,812	2%	
Waste Disposal	21,690	21,690	21,690	21,690	21,690	21,690	0%	
Other Revenue	0	0	0	0	0	0	nm	(b)
Total Operating Revenue	5,756,695	5,999,460	6,226,451	6,456,187	6,694,624	6,915,881	4%	
Operating Expenses:								
Salaries and Benefits	2,463,810	2,664,027	2,857,915	3,038,680	3,212,181	3,359,856	6%	
Power	519,467	463,514	476,611	490,055	503,858	518,028	0%	
Sludge Removal	314,028	319,488	326,407	333,478	340,573	347,518	2%	
Chemicals	107,264	83,557	113,015	87,464	89,456	91,425	-3%	
Materials and Supplies	149,807	133,744	135,149	140,224	142,866	142,405	-1%	
Repairs and Replacements	371,981	238,275	201,026	193,568	279,603	194,212	-12%	
Equipment Rental	837	854	873	892	911	930	2%	
Utilities Expense (other than power)	63,077	30,388	31,057	31,740	32,425	33,096	-12%	
Communications Expense	40,728	55,592	56,123	57,278	58,438	59,573	8%	
Contractual Services - Other	101,901	94,563	97,002	101,756	102,137	104,748	1%	
Contractual Services - Prof	224,121	176,716	171,099	182,430	176,519	189,232	-3%	
Permits and fees	195,772	208,484	222,125	236,710	252,295	268,939	7%	
Property Tax Expense	3,963	4,016	4,069	4,124	4,179	4,234	1%	
Insurance	171,497	229,214	239,268	241,230	250,704	259,866	9%	
Other Operating Expense	48,002	60,613	61,859	63,132	60,409	61,659	5%	
Depreciation Expense	939,015	905,147	908,293	908,418	891,583	885,334	-1%	
Total Operating Expense	5,715,269	5,668,192	5,901,890	6,111,181	6,398,138	6,521,057	3%	
Operating Income	41,426	331,268	324,561	345,006	296,486	394,824	57%	
Nonoperating Income								
Gain (loss) on Asset Disposition	0	0	0	0	0	0	nm	(b)
Finance Charge Income	0	0	0	0	0	0	nm	(b)
Interest Income	26,238	10,171	29,515	40,530	54,133	67,382	21%	
Other Nonoperating Income	24,088	513,874	0	0	0	0	nm	(b)
Nonoperating Income	50,326	524,045	29,515	40,530	54,133	67,382	6%	
Nonoperating Expense								
Other Expense	149,717	435,605	5,028	5,028	5,028	5,028	-49%	
Interest Expense	124,101	110,916	97,279	83,173	68,583	53,492	-15%	
Nonoperating Expense	273,818	546,521	102,307	88,201	73,611	58,520	-27%	
Income before Contributions	-182,066	308,791	251,769	297,335	277,008	403,685	nm	(b)
Connection Fees	188,100	188,100	188,100	188,100	188,100	188,100	0%	
Net Income, Change in Net Position	6,034	496,891	439,869	485,435	465,108	591,785	150%	

(a) Compound Annual Growth Rate (average annual change)
(b) "nm" means not meaningful

Cash Flow Statement and Designated Fund Balances

	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Total
Cash from Operating Activities:							
Operating Income (Loss)	41,426	331,268	324,561	345,006	296,486	394,824	1,692,145
Depreciation Expense	939,015	905,147	908,293	908,418	891,583	885,334	4,498,774
Change in Working Capital, Other Adjustments	37,030	-2,988	6,523	14,554	11,668	8,592	38,349
Net Cash Provided by Op Activities	1,017,471	1,233,426	1,239,376	1,267,979	1,199,736	1,288,750	6,229,268
Cash from Noncapital Financing:							
Payment of Pension Related Debt/Liability	-148,806	-149,892	0	0	0	0	-149,892
Cash from Capital and Related Financing:							
Other Nonop Expense (Interagency)	-144,689	-430,577	0	0	0	0	-430,577
Capital Expenditures	-1,332,042	-1,245,988	-967,280	-910,774	-575,905	-768,165	-4,468,112
Proceeds from Asset Disposition	17,700	0	0	0	0	0	0
Connection Fee (Capital Contrib)	188,100	188,100	188,100	188,100	188,100	188,100	940,500
Proceeds from Debt Issuance, Grants	24,088	513,874	0	0	0	0	513,874
Debt Service:							
Interest Expense	-124,101	-110,916	-97,279	-83,173	-68,583	-53,492	-413,444
Principal Debt Amortization	-384,976	-398,160	-411,798	-425,903	-440,493	-455,584	-2,131,939
Total Debt Service	-509,077	-509,077	-509,077	-509,077	-509,077	-509,077	-2,545,383
Net Cash Used for Cap and Related Financing	-1,755,920	-1,483,667	-1,288,257	-1,231,751	-896,882	-1,089,142	-5,989,698
Cash from Investing:							
Interest Income	26,238	10,171	29,515	40,530	54,133	67,382	201,730
Net Cash from Investing	26,238	10,171	29,515	40,530	54,133	67,382	201,730
Net Change in Cash	-861,017	-389,962	-19,366	76,758	356,988	266,990	291,408
Beginning Cash Balance	6,769,204	5,908,187	5,518,225	5,498,859	5,575,617	5,932,605	5,908,187
Ending Cash Balance	5,908,187	5,518,225	5,498,859	5,575,617	5,932,605	6,199,595	6,199,595
Change in Cash Balance	-861,017	-389,962	-19,366	76,758	356,988	266,990	291,408

	Projected FY 2021	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Change
DESIGNATED FUND BALANCES (Ending)							
Cash Balance	5,908,187	5,518,225	5,498,859	5,575,617	5,932,605	6,199,595	291,408
Capital and Replacement Fund							
Current Year	1,245,988	967,280	860,096	575,905	768,165	1,169,637	-76,351
Future Years	458,777	192,902	140,443	297,653	375,755	175,678	-283,100
Total C & R	1,704,765	1,160,182	1,000,539	873,558	1,143,920	1,345,315	-359,450
Debt Service Fund	509,077	509,077	509,077	509,077	509,077	461,283	-47,794
Liquidity Fund	2,400,505	2,516,700	2,622,116	2,775,223	2,840,322	2,925,531	525,027
Contingency Fund:							
Emergency	500,000	500,000	500,000	500,000	500,000	500,000	0
Operating	793,841	832,266	867,127	917,759	939,287	967,466	173,625
Total Contingency	1,293,841	1,332,266	1,367,127	1,417,759	1,439,287	1,467,466	173,625
Designated Funds	5,908,187	5,518,225	5,498,859	5,575,617	5,932,605	6,199,595	291,408

Historical Income Statement

The historical information presented below does not match the audited financial statements and excludes GASB adjustments for pension and OPEB expense.

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Projected FY 2021	NEW Budget FY 2022
Operating Revenues:							
Annual Charges	4,991,166	5,007,070	5,091,576	5,251,542	5,437,076	5,602,113	5,845,163
Standby Charges	89,250	86,930	85,180	83,200	81,660	80,300	79,220
Rental Income	49,232	49,918	50,449	51,071	51,855	52,592	53,386
Waste Disposal	22,869	22,033	23,113	20,608	18,755	21,690	21,690
Other Revenue	5,104	488	1,916	765	0	0	0
Total Operating Revenue	5,157,621	5,166,439	5,252,233	5,407,186	5,589,346	5,756,695	5,999,460
Operating Expenses:							
Salaries and Benefits	1,843,684	1,971,517	1,988,278	2,162,857	2,353,414	2,463,810	2,664,027
Power	520,431	522,181	386,367	520,234	453,306	519,467	463,514
Sludge Removal	225,990	281,096	397,813	298,241	276,292	314,028	319,488
Chemicals	48,561	71,097	49,408	53,088	47,596	107,264	83,557
Materials and Supplies	136,371	138,226	127,277	162,695	159,052	149,807	133,744
Repairs and Replacements	150,764	128,645	155,447	445,040	253,789	371,981	238,275
Equipment Rental	165	2,242	37,215	1,363	351	837	854
Utilities Expense (other than power	11,773	13,023	26,737	22,207	14,180	63,077	30,388
Communications Expense	38,610	44,062	37,064	32,160	39,043	40,728	55,592
Contractual Services - Other	102,120	94,182	74,947	97,296	78,879	101,901	94,563
Contractual Services - Professional	151,407	191,457	233,349	214,412	153,470	224,121	176,716
Permits and fees	145,866	148,687	145,515	158,528	185,051	195,772	208,484
Property Tax Expense	3,476	3,524	3,599	3,665	3,917	3,963	4,016
Insurance	87,406	85,386	99,428	100,952	112,262	171,497	229,214
Other Operating Expense	59,474	56,329	50,470	48,140	45,018	48,002	60,613
Depreciation Expense	875,328	896,429	842,155	893,196	863,233	939,015	905,147
Total Operating Expense	4,401,426	4,648,083	4,655,070	5,214,075	5,038,855	5,715,269	5,668,192
Total Op Expense b/f Depreciation	*3,526,098*	*3,751,654*	*3,812,915*	*4,320,879*	*4,175,622*	*4,776,255*	*4,763,045*
Operating Income	756,194	518,356	597,164	193,111	550,491	41,426	331,268
Nonoperating Income							
Gain (loss) on asset disposition	-2,678	-91,973	-1,709,527	0	-9,178	0	0
Interest Income	22,889	29,101	73,866	164,531	130,951	26,238	10,171
Other Nonoperating Income	0	0	0	180	455	24,088	513,874
Nonoperating income	20,211	-62,872	-1,635,661	164,711	122,228	50,326	524,045
Nonoperating Expense							
Other Expense	11,700	11,700	31,477	181,528	174,573	149,717	435,605
Interest Expense	130,669	117,739	100,536	134,569	136,848	124,101	110,916
Nonoperating expense	142,369	129,439	132,013	316,097	311,421	273,818	546,521
Income before Contributions	634,036	326,045	-1,170,510	41,725	361,298	-182,066	308,791
Connection Fees	253,230	231,210	249,560	188,100	188,100	188,100	188,100
Change in Net Position	887,266	557,255	-920,950	229,825	549,398	6,034	496,891