STATE OF THE DISTRICT

JANUARY 2020

Fulfilling Our Mission and Vision For The Future:

Crescenta Valley Water District (**CVWD**) takes great pride in delivering high quality, reliable and cost-efficient water and wastewater service to our 33,000 ratepayers. As we uphold our mission statement “To provide quality water and wastewater services to the Crescenta Valley community in a dependable and economically responsible manner”, it is important that we recognize our key challenges and develop solutions now to secure our mission and reach our vision for the future of our District.

CVWD, as well as many other water providers throughout California, continue to face increasing operational and financial challenges to maintain and update infrastructure. Contributing to these challenges are escalating energy costs, expanding regulatory costs, rising imported water costs, the increasing costs of construction and the growing costs of deferred facility maintenance. Additionally, CVWD has declining revenues due to the community's awareness of conservation measures and increased water use efficiency. As part of our strategic plan, it's imperative that we recognize the district’s key challenges and develop and implement a proactive and aggressive action plan to immediately address these challenges.

Key District Challenges:

Through our strategic planning process, three areas emerged as top priorities: Infrastructure Strategy & Performance, Financial Viability and Stakeholder Understanding & Support. Specifically, the following three key challenges have been identified:

Aging Infrastructure

$ Rising Operational Costs

Customer Engagement/Trust

Failure to address these three issues will ultimately result in CVWD’s inability to accomplish its mission for the community.

CVWD At A Glance

Our Service Area:

- La Crescenta
- Montrose
- Portions of Glendale & La Cañada Flintridge

Our System:

- 95 miles of pipelines
- 12 wells
- 17 reservoirs
- 34 booster pumps
- 651 fire hydrants
- Stationary and mobile generators
- Emergency water connections to neighboring water agencies

Key Statistics:

- 33,000 water customers
- 1.2 billion gallons of water supplied to customers
- 11 separate water pressure zones
- 14 pumping stations
- 17.5 million gallons of water stored

Key Area One: Aging Infrastructure

Challenges:

- Pipeline lifespan is typically 75 years for steel pipe.
- The majority of our pipes are beyond the mid-way point of their lifespan.
- As pipes age, ruptures and leaks will increase, causing costs to soar for unanticipated repairs, higher labor costs and overtime, unforeseen repairs for streets and right of way, possible damage to private property, insurance premium increases, etc.
- Aging pipelines are particularly vulnerable during high demand in the summer season or emergency events (e.g. suppressing wildfires).
- Planned pipeline replacement programs can create significant savings vs. emergency repairs.
- The current pace of pipeline replacements will result in repair costs that will rise exponentially within the next 25 years and will impact or restrict our ability to provide reliable service.
- If the District keeps pipeline replacement at the current rate, there would be 200 years or older pipes in the ground which creates a greater risk of failure.

Benefits of Immediate Action:

- A more proactive pipeline replacement program will reduce costs in the long run and improve planning, budgeting, and maintaining the District's assets.
- Better coordination with right-of-way agencies (LA County, City of Glendale) will improve regional cost-efficiency and reduce construction impact on the community.
- Significant savings can be realized through economies of scale with more competitive bidding that larger pipeline projects can attract.
- Interest rates on bond financing to fund improvements are still at historic lows and lower than the rate of escalating construction costs.
- Customers can continue to expect a high level of service reliability, particularly during high demand periods and emergency events.

Key Area Two: Rising Operational Costs

Challenges:

- **Areas Impacting Cost of Service:**
  - CVWD has and will continue to implement cost-saving measures to mitigate rising costs.
  - If CVWD's cost of service increases in a given year, a corresponding increase in revenue needs to occur in that given year.
  - At a minimum, CVWD needs to pass rate increases annually that keep up with inflation and its impact on our cost of service to the community.

MAJOR COST DRIVERS:	ACTUALS				PROJECTED
	2017	2018	2019	3-YEAR AVERAGE	2020
Imported Water (MWD/FMWD)	4.00%	5.70%	3.80%	4.50%	5.30%
Labor (COLA, Health Ins)	6.90%	3.70%	4.40%	5.00%	4.30%
Construction (Infrastructure)	3.90%	3.00%	2.90%	3.30%	3.20%
POWER (Combined SCE & GWP)	4.00%	4.00%	4.50%	4.20%	5.00%

Key Area Two: Rising Operational Costs (Continued)

- **Reserve Funds:**
  - CVWD's annual budget objective is for the total amount of expenditures in a given year to match the total amount of revenue generated for that year without utilizing reserve funds.
  - If CVWD is unable to increase rates to keep up with inflation, it is forced to utilize reserves, reduce operating costs or cut its capital improvement budget.
  - CVWD has drawn down its water reserve fund $7.5 million in the last five years to maintain its current level of service and offset higher rate increases.

- **Rate Increases:**
  - CVWD's past rate increases incorporated a marginal budget for capital improvements; namely a "200-yr pipeline replacement program" at just under $1M per year.
  - At a minimum, CVWD needs to pass annual rate increases that will keep up with inflation and its impact on cost of service. Without rate increases, CVWD reserves would be depleted in three-four years.

Benefits of Immediate Action:

- Implementing a rate that keeps up with inflation + builds reserves will sustain current level of service (outside of costs required for infrastructure reliability).
- Implementing a rate that keeps up with inflation + builds reserves + pays for infrastructure reliability will avoid insolvency.
- Continuing to implement cost-saving measures will help marginalize the impact of inflation.
- Interest rates on bond financing are still at historic lows.· Interest rates on bond financing are comparable if not lower than the average rate of escalating construction costs.

Bond Benefits:

Issuing bonds are especially suitable for capital improvement projects. Such investments typically last for many years, and bonds can be repaid over a comparatively long period. Stretching these payments out makes sense from the perspective of equity across generations, also known as intergenerational equity. In other words, each generation pays its fair share of the infrastructure benefits.

On face value, bonds appear more expensive than pay-as-you-go financing. There are times, however, when borrowing today makes a dollar go further than paying as you go. This can happen when interest rates are about equal to or lower than the cost of inflation. Another benefit is that infrastructure can be made significantly more reliable today as opposed to making incrementally reliable over many years.

Through the timely replacement of infrastructure at or near its useful life, customers will benefit from a more reliable water and wastewater system under both normal operating conditions and during emergency events.

Key Area Three: Customer Engagement/Trust

Challenges:

- With the increasing presence of social media, the District is more susceptible to dissemination of inaccurate information, undermining our community outreach and trust-building efforts.
- CVWD needs customers who are engaged and informed to garner support for critical initiatives (e.g. rate increases, mandated conservation).

Benefits of Immediate Action:

- Building of trust between the District and our customers will establish a platform for more synergy, innovation, and efficiency.
- The public's full understanding of the current and future issues facing the District is critical to the success implementing this Roadmap.

The Bottom Line

- The District will need to make a substantial investment within the next 10 years to appropriately address its aging infrastructure.
- The cost for repairs (pipe and street right-of-way) are expected to increase exponentially within the next 15 years.
- The District will need to raise rates on a consistent basis to keep up with inflation.
- The District will need to review and abide by its reserves policy to ensure financial stability.
- A robust and strategic public outreach and engagement plan is critical to the District's mission and long-term vision.

Roadmap: A Plan of Action to Execute our Mission and Reach our Vision.

- Establish **CIP** to ensure Infrastructure Reliability
- Establish **Operating Budget** to execute mission and reach vision

- Adopt **reserve policy**
- Determine **funding requirements**
- Establish **financing plan**
- Prepare **cost of service** study
- Establish **rate impact**

- Engage **community**
- Launch **outreach campaign**
- Comply with **Prop 218**

- Procure **funding**
- Procure **resources**
- Implement **CIP**
- Execute **mission**
- Reach **vision**

Our Mission

To provide quality water and wastewater services to the Crescenta Valley community in a dependable and economically responsible manner.

Our Vision

Secure sustainable water supplies and ensure infrastructure reliability, while furthering our commitment to accountability, transparency and cost – effectiveness.