CRESCENTA VALLEY WATER DISTRICT

BOARD OF DIRECTORS - STAFF REPORT

Action Item No. 8
December 10, 2024

To: Honorable President and Members of the Board of Directors

From: James Lee – General Manager

Subject: **Reverse Cyclic Program with Metropolitan Water District of Southern California by Way of Foothill Municipal Water District**

ACTION ITEM:

Consideration and motion to authorize the General Manager to enter into an agreement with Foothill Municipal Water District and allocate funds to participate in Metropolitan Water District's reverse cyclic program.

BACKGROUND/DISCUSSION:

Metropolitan Water District of Southern California (MWD) maintains a Reverse Cyclic Program, which allows its member agencies to purchase water at the current rate for water that MWD will deliver in the future – in essence, a prepurchase program that provides cashflow to MWD today and cost savings for water purchases to member agencies in the future. Foothill Municipal Water District (FMWD) is an MWD member agency, and CVWD is its sub-agency, meaning that if the District elects to participate, it will do so through FMWD.

There have been various proposed modifications to the reverse cycle program in recent months to expand the program and make it available under additional conditions, and the District has been awaiting confirmation on water supply availability for purchase to determine whether it is economically viable and advantageous to participate. On December 10, 2024, FMWD received confirmation that FMWD can be allotted up to 1,328 acre-feet (AF) at a prepurchase cost of $1,256/AF.

There are two primary variables that impact future cost savings: 1) when MWD delivers the water to FMWD – water can be delivered in Year 3, 4, or 5; 2) the trajectory of MWD's water rate increases, where 11% is anticipated for next year, and preliminary estimates suggest a 20%+ rate increase for one or more subsequent years; and 3) the opportunity cost of the prepurchase cost not invested in investments.

The tables below summarize a range of savings.

"Lower Savings" Scenario -->>	Higher Investment Return Rate / Lower Rate Increase					
Year	**0 - 2024**	**1 - 2025**	**2 - 2026**	**3 - 2027**	**4 - 2028**	**5- 2029**
Anticipated MWD rate increase		**11.0%**	**9.6%**	**11.8%**	**8.1%**	**3.3%**
Prepurchased AF	**1,328**					
$/AF	**$ 1,256**					
Cost	$ 1,667,968	$ 1,851,444	$ 2,029,183	$ 2,268,627	$ 2,452,386	$ 2,533,314
Potential gross savings				**$ 600,659**	**$ 784,418**	**$ 865,346**
Return on investments		**5%**	**5%**	**5%**	**5%**	**5%**
Opportunity cost of not investing		$ 83,398	$ 170,967	$ 272,087	$ 387,151	$ 519,940
Net savings				**$ 328,571**	**$ 397,267**	**$ 345,407**

"Higher Savings" Scenario -->>	Lower Investment Return Rate / Higher Rate Increase					
Year	**0 - 2024**	**1 - 2025**	**2 - 2026**	**3 - 2027**	**4 - 2028**	**5- 2029**
Anticipated MWD rate increase		**11%**	**25%**	**10%**	**10%**	**10%**
Prepurchased AF	**1,328**					
$/AF	**$ 1,256**					
Cost	$ 1,667,968	$ 1,851,444	$ 2,314,306	$ 2,545,736	$ 2,800,310	$ 3,080,341
Potential gross savings				**$ 877,768**	**$1,132,342**	**$1,412,373**
Return on investments		**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Opportunity cost of not investing		$ 41,699	$ 84,441	$ 132,838	$ 194,017	$ 262,510
Net savings				**$ 744,930**	**$ 938,325**	**$1,149,862**

Based on the analysis, participation in the reverse cyclic program is likely to lead to cost savings or provide a hedge against unknown MWD rate increases or both. Based on this and the anticipation of sufficient reserve fund balances over the next five years, staff recommends that the District participate in the program.

RECOMMENDATION:

Staff recommends that the Board direct the General Manager to enter into an agreement with Foothill Municipal Water District and allocate funds to participate in Metropolitan Water District's reverse cyclic program.

Prepared and submitted by:

James Lee
General Manager