CRESCENTA VALLEY WATER DISTRICT

2700 FOOTHILL BOULEVARD
LA CRESCENTA, CALIFORNIA

To be held on
January 5, 2023 at 3:00 PM

Agenda for the Meeting of the Finance Committee
of the Crescenta Valley Water District

Posted January 4, 2023 at 3:00 PM

TELECONFERENCING NOTICE

This meeting will be conducted in person at the address listed above. Members of the public may also participate virtually by using a touchtone phone. You may select any of the following phone numbers (there are mor than one for increased reliability during this time of increase phone traffic).

(669) 900-6833	**(346) 248-7799**	**(929) 205-6099**
(253) 215-8782	**(301) 715-8592**	**(312) 626-6799**

Then, enter Access Code: 880 5597 7328

[Pursuant to the above Executive Order, the public may not attend the meeting in person]

Those members of the public who are able to and would like to additionally participate with a computer through videoconference may access the Zoom videoconferencing tool available at the following link:

https://us02web.zoom.us/j/88055977328

If there is a disruption of service, this meeting will continue without remote participation. The remote participation option is provided a convenience to the public and is not required.

Any person may make a request for a disability-related modification or accommodation needed for that person to be able to participate in the public meeting by contacting the District by phone or in writing at customerservice@cvwd.com. Requests must specify the nature of the disability and the type of accommodation requested. A telephone number or other contact information should be included so that District staff may discuss appropriate arrangements. Persons requesting a disability-related accommodation should make the request with adequate time before the meeting for the District to provide the requested accommodation.

Call to Order

Adoption of Agenda

Public Comment:

At this time, members of the public shall have an opportunity to address the Committee on items of interest that are within the subject matter jurisdiction of this Committee. This opportunity is non-transferable, and speakers are limited to three (3) minutes each. Under the provisions of the Brown Act, the Board is prohibited from taking action on items not listed on the agenda, except under certain circumstances.

Action Item(s)

The public shall have an opportunity to comment on any action item as each item is considered by the Committee. This opportunity is non-transferrable and speakers are limited to one two-minute (2) comment each.

1. Provide and update on measures to provide short and long-term financial resiliency

Committee Members' Request for Future Agenda Items

Adjournment

G:\Management\AGENDA\Finance Committee\2023\01052023 Fin Com.doc

CRESCENTA VALLEY WATER DISTRICT
BOARD OF DIRECTORS - STAFF REPORT

Action Item No. 1
January 5, 2023

To: Honorable President and Members of the Board of Directors

From: James Lee – Director of Finance & Administration

Subject: **Financial Resiliency Measures**

ACTION ITEM:

Provide an update on measures to provide short and long-term financial resiliency.

BACKGROUND:

On May 24, 2022, the FY 2022-23 budget was approved with the recognition that droughts and their lasting impacts on revenue are expected to recur, and that there is value in either considering drought rates today or implementing a policy that prompts drought rates for future drought cycles. This was a component within a broader discussion regarding continued commitment to long-term infrastructure reliability and financial viability.

During the June 14, 2022 Board meeting, Mr. Sanjay Gaur of Water Resources Economics (WRE) led a discussion regarding drought rates and the various mechanisms and policy considerations associated with drought stage rates and the merits of each alternative. Based on this, the Board provided general policy parameters and directed staff to develop a preliminary analysis of drought rates, their impacts, and the timing and other considerations for potential implementation of drought rates.

Mr. Gaur provided a preliminary analysis of drought rates, including the rationale, methodology, and results of the preliminary study, during the September 27, 2022 Board meeting. During that meeting, it was recognized that it is becoming increasingly apparent that there are longer-term and sustained threats to decreased water demand or ability to produce water, and that circumstances such as the persisting drought, the expectation for future drought cycles, and the likelihood of future water supply allocations have continued to evolve into uncharted territory. Based on this, the Board directed staff to report on various other viable measures and their associated considerations.

DISCUSSION:

This discussion include the following additional measures for short and long-term financial resiliency: 1) higher rates (than currently planned); 2) drought rates; 3) a portion of CIP cost transferred to the property roll (property tax); 4) bond issuance(s). Their basic considerations are summarized in the attached table.

In general, the primary considerations to balance between include the following questions:

- How much will it cost monetarily (one-time and ongoing)?
- How easy or difficult is it to implement?
- What is the timing? Specifically –
    - What can be implemented by the next budget cycle (July 1, 2023)?
    - What can be implemented by the end of the 3-year rate schedule (July 1, 2024)?

Mr. Gaur will be available as a resource to help facilitate the discussion.

RECOMMENDATION

Review and discuss developed rates and provide direction on next steps.

Prepared by:

Arturo Montes
Finance & Administration Manager

Submitted by:

James Lee
Director of Finance & Administration

g:\management\board meeting staff reports\2023\01-10-23 Board Memo - Financial Resiliency Measures.docx

Mechanism	What/How	Pros	Cons	Timing
Rates	Thje District adopted an 8%/8%/8% plan, with plans to follow with 7%/7%/7% and 6%/6%/6%. This was in accordance with the "Roadmap" plan. This was also before unprecedented inflation and persisting conservation. One option is to revise expectations for future rate increases	- Each additional increment of rates provides an additional layer of revenue for perpetuity	- "Rate fatigue"	'- Can be implemented now (July 1, 2023) or later
Drought Surcharge	A drought surcharge is a mechanism that recovers revenue by charging more for the same or less usage. It would most likely be tied to "external" influences/triggers such as MWD's various tranches of expected allocations	- Can be added to current rates and adopted within the current system - Preliminary analysis is complete - Relatively low cost (< $50K)	- Difficult message because customers can feel they are penalized for saving water - Significant outreach is needed, and may still be a difficult message - Need a Prop 218	- Likely able to implement drought rates through a Prop 218 by July 2023. These rates would likely need to be updated the following year once the 3-year rate schedule is complete
Property Roll - Partial Funding of CIP ($1.5M - $2.5M)	A portion of expected CIP cost can be included on the property tax bill - e.g. pipeline replacement specifically	- Increases "fixed" funding from ~26% to ~34% - Immediate funding gap is solved - Maintain the current rate structure	- Represents a new charge on the property roll. At 8,300 accounts, ~$150-$250/year/account, which is comparable with other common line items (libraries, schools, mosquito abatement etc)	- Will be difficult to establish by July 2023
Property Roll - Full Funding of CIP ($5.0M - $7.0M)	Most of expected CIP cost can be included on the property tax bill	- Increases "fixed" funding from ~26% to ~61% - "*Financial Utopia*" - Big change in rate structure (to "budget-based" structure) - New rate structure makes it easier to allocate water during future droughts - Drought rates may become moot (not needed)	- Represents a new charge on the property roll. At 8,300 accounts, assuming $5M, ~$600/year/account, significantly higher than other typical line items - New rate study is required - A "budget-based" rate structure would work best with AMI, and it may make sense to reprioritize AMI to fully implement the program earlier - Intensive work effort - Extensive public outreach needed	- Will be difficult to establish by July 2023 - Is likely a multi-year plan
Bonds	Bonds can be issued either to catch up on CIP that continues to be deferred or to invest in local water supply or wastewater treatment projects that yield savings and/or water supply resiliency	- Rapid implementation (~3 months) - Immediate funding gap is solved - Maintain the current rate structure - Intergenerational equity	- Interest expense - Higher cost of borrowing than before (which may subsequently be refinanced, particularly with structuring attractive call options)	- Approximately 3 months upon notice to proceed and assembly of financing team