CRESCENTA VALLEY WATER DISTRICT

2700 FOOTHILL BOULEVARD
LA CRESCENTA, CALIFORNIA

To be held on
June 1, 2023 at 4:30 PM

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

Posted May 31, 2023 at 4:30 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 more 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: 864 3239 7695

[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/86432397695

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. Discussion on Bond Issuances as a Complement to the Proposed Capital Charge on the Property Tax Roll

2. Discussion on Level Pay Program

Committee Members' Request for Future Agenda Items

Adjournment

CRESCENTA VALLEY WATER DISTRICT
BOARD OF DIRECTORS - STAFF REPORT

Information Item No. 1
June 1, 2023

To: Finance Committee

From: James Lee – Interim General Manager

Subject: **Discussion on Bond Issuances as a Complement to the Proposed Capital Charge on the Property Tax Roll**

ACTION ITEM:

Discussion on bond issuances as a complement to the proposed capital charge on the property tax roll.

BACKGROUND:

The District is considering a capital charge on the property tax roll to fund pipeline replacement. The maximum annual authorization for this charge as recently noticed to the community is $404 per residence.[1] At this level, approximately $4 million would be raised for "pipelines and associated costs" as specified in Resolution No. 785 which was recently approved and filed with Los Angeles County.

This $4 million was included in one of the FY 2023-24 Water Fund budgets presented to the Board on May 23, 2023. During that meeting, the Board directed staff to prepare an analysis that shows the relationship between the amount collected through the property roll and the use of bond funds should the District move forward with one or more bond issuances. More specifically, the Board would like to see the balance between the portion of the capital charge used for "PayGo" pipeline projects and the portion used for debt service.

Utilizing bonds as a complement to the proposed capital charge can be beneficial in a number of ways –

1. *Higher Credit Rating (lower interest cost)* – During the District's last bond issuance of $5 million in 2020, the credit rating agency Standard & Poor's increased the District's credit rating two notches from "A" to "AA-", which significantly lowered the interest rate. Adoption of a capital charge to be collected through a secure means such as the property tax roll would present an exceptionally strong credit factor for rating agencies. This would provide an argument for an additional bump in rating, further decreasing the cost of borrowing.

2. *Keep Rate Increases Lower Than Planned* – Based on the District's "Roadmap" plan, the District developed a long-term infrastructure funding plan, and the rates to support the plan were three-year tranches of 8%, 7%, and 6%, respectively. The District will revisit rates in the coming year, and adopting a capital charge and complementing it with bonds may present an opportunity to lessen rate increases, particularly in the latter years.

3. *Lower the Capital Charge Assessed by the County* – The introduction of bonds means that only a nominal amount of pipeline needs to be paid in cash. Meanwhile, annual debt service costs are a small fraction of the cash needed for a PayGo-only approach.[2] This means that while the District

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[1] This amount is for customers with ¾" meters, which comprise approximately 86% of the District's water customers.
[2] This is not to be confused with the fact that the overall cost of financing using debt is typically significantly higher than PayGo. From a cash flow perspective, however, debt service is a small fraction of current-day costs. For example, debt service for a potential 3-year pipeline CIP plan of $9M based on current interest rates and the District's credit rating would be approximately $525K/year.

may approve the full proposed amount of $4 million, the Board could elect to assess a lower amount each year to match a combination of PayGo and debt service.

4. *Intergenerational Equity* – Bonds are generally accepted as increasing equity across generations because ratepayers are not asked to catch up on behalf of previous generations that didn't sufficiently develop infrastructure, and they are not asked to prepay on behalf of future generations. The equity component is particularly pronounced with bonds that are paying for an asset like a pipeline, as debt service payments are typically spread over 30 years, and the useful lives of the pipelines being financed are even longer at approximately 75 years.

There are two primary drawbacks to bonds -

1. *Overall Cost* - The overall cost of financing is typically significantly higher. For example, the approximate total payments for a $10 million bond over 30 years is $17.8 million. This is arguably offset by inflation; it is further offset by the investment of bond proceeds.[3]

2. *Increase in Interest Rates* - Although interest rates are still low relative to rates over the last 75 years, they are high compared to rates over the last 10 years. This exposure to higher interest rates can be mitigated by structuring a favorable "call option" when issuing bonds.[4] This means that bonds can be refinanced earlier at lower rates.

Staff has prepared a simple financial model-based analysis. The analysis shows that the balance between using the proposed capital charge for PayGo and debt service depends primarily on two variables: 1) the amount of PayGo used each year; and 2) the amount needed to maintain a stable reserve fund. The model also provides an indication for how low the capital charge can be assessed to support the above-discussed approach. Staff will utilize the model to show these relationships.

RECOMMENDATION

Discuss bond issuances as a complement to the proposed capital charge on the property tax roll.

Prepared by:	Submitted by:
Arturo Montes	James Lee
Finance & Administration Manager	Interim General Manager

Attachment(s): none

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[3] If the District were to issue bonds at a 4.25% interest rate, bond proceeds could be invested during the 3-year window to spend the proceeds. LAIF, considered the District's most secure and liquid investment source, is currently yielding 2.87%, which would partially offset the interest expense. The yield for LAIF and other investment vehicles typically move up and down with interest rates. The District is limited to the "arbitrage yield", which means that the yields earned by the District must be limited to the interest rate on the bonds.

[4] The District has had success with structuring aggressive call options. For example, the 2017 refinancing of the 2007 bonds featured a 3-year call option as compared to the 10-year industry standard. The District was able to use this call option to its advantage during the 2020 financing.

CRESCENTA VALLEY WATER DISTRICT
BOARD OF DIRECTORS - STAFF REPORT

Information Item No. 2
June 1, 2023

To: Finance Committee

From: James Lee – Interim General Manager

Subject: **Discussion on Level Pay Program**

ACTION ITEM:

Discussion on making a level pay program available to customers.

BACKGROUND:

The Finance Committee had previously directed staff to investigate the possibility of implementing a level pay program. A level pay plan smooths out a customer's water bill avoiding summer spikes and winter lows. With a level pay plan customers pay the same amount each billing period. The amount due is calculated using the customer's average consumption from the previous year and the projected future rates. In the summer, customers may pay less than they consume but during the winter they would pay more than they consume. This program is not a discount program, customers would be responsible for all water consumption at the District's posted rates.

PROGRAM DETAILS:

A customer would first notify staff of their interest in participating in the level pay program. Staff would then calculate the average consumption for the previous 12 months. Using the average consumption, staff would then calculate the bill amount for the following 12-month period. Staff will continue to record actual meter readings, which will be printed on the customer's bills. After 12 months, staff will calculate a reconciliation bill. If customers used more water than their average over the previous billing periods, they would receive a bill. If they used less water, they would receive a credit. At this point a new level bill amount will be calculated based on the previous 12-month period.

The benefits of a level pay plan include:

1. *Budgeting* – Having a fixed bill amount simplifies monthly expense budgeting for customers
2. *Avoids Spikes* – A level plan can avoid the frustration and stress of large summer bills
3. *Revenue Smoothing* – The District will also experience revenue smoothing with customers paying a set amount throughout the year

The disadvantages of a level pay plan include:

1. *Disconnect with Usage* – Having a fixed bill amount can cause customers to not realize if they are overusing water if they don't track their actual usage
2. *High Reconciliation* – If a customer has above average consumption, they may end up with an unexpectedly high reconciliation bill
3. *Program Costs* – Enacting a level plan would incur some additional costs to the District including, billing system set up fees, marketing costs, and additional staff time to administer program

RECOMMENDATION

Discuss level pay program and direct staff to any next steps.

Prepared by:

Arturo Montes
Finance & Administration Manager

Submitted by:

James Lee
Interim General Manager

Attachment(s): none

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