CRESCENTA VALLEY WATER DISTRICT

2700 FOOTHILL BOULEVARD
LA CRESCENTA, CALIFORNIA

To be held on
August 18, 2023 at 1:30 PM

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

Posted August 17, 2023 at 1:30 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: 870 1146 6524

[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/87011466524

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 funding
2. Discussion on Bill Assistance Program
3. Discussion on Reserve Policy
4. Discussion on rate study and associated workshops

Committee Members' Request for Future Agenda Items

Adjournment

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CRESCENTA VALLEY WATER DISTRICT
FINANCE COMMITTEE - STAFF REPORT

Information Item No. 1
August 18, 2023

To: Finance Committee

From: Arturo Montes – Finance and Administration Manager

Subject: **Planning Discussion for Bond Issuance**

INFORMATION ITEM:

Discussion on bond issuance(s), including direction on securing financial advisor, timeline, and amount of issuance.

BACKGROUND:

At the June 27, Board Meeting, the Board of Directors approved implementing a capital charge on the property tax roll less than the authorized amount based on a commitment to consistent bond issuances to supplement pipeline replacement funding needs. The capital charge is estimated to produce $1.9M in revenue. At the same meeting, a total CIP Budget of $7.1M was approved, with $3.9M in pipeline replacement.

The approved CIP projects are currently undergoing the planning phase and will be in progress by the end of the calendar year. As a result, the majority of the cashflow requirements for these projects will come due beginning about Spring of next year. The District will need to have funding by that time.

DISCUSSION:

1. *Timeline* – In order to balance the timing for bond proceeds and a more favorable issuance "season", it is advisable that the District prepare to be able to close a financing by December. This will require the bond issuance process to begin by the end of September. The initial step will be to retain a Financial Advisor, who will then be responsible for assembling a financing team. The financing team will then pursue a credit rating, after which the financing can close. There are two benefits to being ready in December. If the bond market is favorable to the District in December, the District can issue bonds immediately, take advantage of rates, and improve cashflow before the District begins receiving the larger CIP invoices. If rates are not favorable to the District in December, the District can wait until after the beginning of the year, when rates are historically more advantageous.

2. *Financial Advisor* – The first step in issuing bonds is securing a Financial Advisor. The Financial Advisor is a state-registered fiduciary whose job is to represent the District's best interests. The District can issue an RFP for a Financial Advisor or retain the District's existing Financial Advisor, Campanile Group. John Phan with Campanile Group was the District's advisor for the 2020 bond issuance and continues to work for the District with post-financing compliance. Benefits of continuing the relationship with Campanile Group include:
    a. Expediting the bond issuance process;
    b. Institutional knowledge;
    c. Trust based on relationship;
    d. Proven track record.

3. *Issuance Amount* – The scenario from the June 27, 2023 Board meeting that included the $194 capital charge for the average customer ("green" scenario) was based on an approximately $9M

bond issuance, with bond proceeds spent over the subsequent three years. The revenue from the capital charge can only support debt service for pipeline replacement and associated costs. The District may also elect to issue a second series of bonds for non-pipeline projects. While the revenue from the capital charge on the property tax roll will enhance the District's credit profile and resultant interest rate, a larger issuance (between two series of bonds) may produce an additionally favorable rate, as a larger issuance is more attractive to investors. This factor is less significant than the capital charge itself. Staff time invested in the bond issuance would be the same whether one or more series are issued. Finally, CIP projects could be marketed as bundles attracting more bids and lower costs. Such savings are already expected as the 2400-2700 Blocks of Montrose pipeline replacement project design bids are being prepared for RFP.

RECOMMENDATION

Discuss bond issuances and Direct staff on next steps for bond issuance.

Prepared and Submitted by:

Arturo Montes
Finance & Administration Manager

Attachment(s): none

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CRESCENTA VALLEY WATER DISTRICT
FINANCE COMMITTEE - STAFF REPORT

Information Item No. 2
August 18, 2023

To: Finance Committee

From: Arturo Montes – Finance and Administration Manager

Subject: **Bill Assistance Program**

INFORMATION ITEM:

Discuss expansion of Bill Assistance Program

BACKGROUND:

The District provides a bill assistance program that offers a 20% discount on water and wastewater bills for qualifying customers. The current program is budgeted for $150,000 and has 227 enrolled users receiving a total of $47K in discounts based on an average $34 per bill. This and similar programs must be funded from non-rate revenues such as rental income, investment income, account fees, etc. Based on the recent implementation of the capital charge on the property roll, the District committed to updating its bill assistance program to also assist those who may be significantly impacted by the additional charge. Initial ideas included increasing the program budget, increasing income limits to qualify, and increasing the assistance amount for some enrollees.

DISCUSSION:

The expanded Bill Assistance Program would offer a credit to any customer who meets the minimum qualifications. Average Capital Charge $196.[1] The expansion of this program would require updated qualifiers and a determination of the credit to be offered.

Staff has analyzed current data available and summarized several potential assistance thresholds to facilitate the discussion:

1. Scenario A: Based on the current enrollees of the low-income program. If all current users, who by definition are low-income, are provide a 50% discount ($196 / 2 = $88), then an estimated $23K of credits would be applied to their bills.[2]
2. Scenario B: Staff has analyzed County data for all properties and determined how many customer's property tax bills would increase by more than 10% as a result of the capital charge. There are approximately 900 such customers. If the policy were set such that the capital charge were not to exceed 10% of their property tax bill, the estimated credits applied to their bills would total $77K.
3. Scenario C: Staff has analyzed how many customer's property tax bills would increase by more than 5% as a result of the capital charge. There are approximately 2,150 such customers. If the policy were set such that the capital charge were not to exceed 5% of their property tax bill, the estimated credits applied to their bills would total $207K.

An interactive financial model will be available to consider a range of scenarios through discussion.

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[1] The capital charge for the average customer (¾" meter) is $194. The average across all customers – the pro rata share of a customer who is part of an HOA, those with the standard ¾" meter, those with a larger 1" meter for fire suppression etc. – is $196.

[2] "Low-income" eligibility is based on Southern California Edison's "CARE" program, which in turn is based on Federal low-income limits. For example, as of June 1, 2023, the income eligibility upper limit for a three-person household is $49,720.

Below, is a list of topics to help facilitate the discussion –

1. What should the credit be based on?
   a. Fixed amount (whether a percentage or dollar amount)
   b. Maximum cap (e.g., the 10% and 5% in Scenarios B & C, respectively)
2. Application Process
   a. Cool-off period – The current bill assistance program requires that the accountholder be a customer for 6 months before receiving bill credits. Keep this requirement, or no?
   b. Certification – The District currently relies on certification by other agencies (SCE, SoCal Gas, City of Glendale, etc) to certify income requirements. Continue to rely on other agencies or have the District certify? If the District increases its income limits, it will have to certify. This will result in a low-to-moderate increase in administrative burden.
3. Property owners who maintain tenants – Owners who rent their properties out will not receive bills. This means that another mode such as issuing a check to them may be needed to apply their credit.

RECOMMENDATION

Direct staff on next steps for expansion of bill assistance program

Prepared and Submitted by:

Arturo Montes
Finance & Administration Manager

Attachment(s): none
g:\management\finance committee\20230818 FC packet\ 08-18-23 - FC Memo - Bill Assistance Program

CRESCENTA VALLEY WATER DISTRICT
FINANCE COMMITTEE - STAFF REPORT

Information Item No. 3
August 18, 2023

To: Finance Committee

From: Arturo Montes – Finance and Administration Manager

Subject: **Reserve Policy**

INFORMATION ITEM:

Review reserve policy

BACKGROUND:

In July 2020, the District formalized its Water Fund and Wastewater Fund Reserve Policies. The policies allow for an annual review of reserve targets to ensure that the reserve targets continue to meet reserve objectives. The current policy calls for $1M in the Emergency Fund, a Rate Stabilization Fund of 25% of projected annual rate revenue, and a Working Cash Fund of 3 months of the District's operating costs.

DISCUSSION:

Discuss reserve policy targets and possible updates.

RECOMMENDATION

Direct staff on any updates to the reserve policy targets.

Prepared and Submitted by:

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Arturo Montes
Finance & Administration Manager

Attachment(s):

Resolution No. 757

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Attachment

RESOLUTION NO. 757

A RESOLUTION OF THE BOARD OF DIRECTORS OF

THE CRESCENTA VALLEY WATER DISTRICT TO

AMEND ARTICLE 21 OF THE RULES AND REGULATIONS –RESERVE FUND POLICIES

WHEREAS; the adoption of a Reserve Policy represents an industry best practice in terms of prudent financial management;

WHEREAS; the Board hereby recognizes the financial prudence of developing and sustaining a Reserve Policy with an Operating Reserve Fund for the Water Fund and the Wastewater Fund, respectively.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Crescenta Valley Water District authorize the revision of Article 21 of the District Rules and Regulations to establish the Reserve Fund Policy and read as follows:

ARTICLE 21: RESERVE FUND POLICIES

21.01 POLICY AND PURPOSE

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Crescenta Valley Water District will at all times strive to have sufficient funding available to meet its operating, capital and debt service obligations while avoiding significant customer rate fluctuations due to changes in cash flow requirements.

Through a variety of policy documents and plans, including the District's Strategic Plan and other financial policies, the Board has set forth a number of long-term goals for the District. A fundamental purpose of the District's policy documents and plans are to link what must be accomplished with the necessary resources to successfully do so. The Board of Directors may designate specific funds and maintain minimum fund balances consistent with what is determined to be in the best interest of the District. The Policy directives outlined in this document are intended to ensure that the District has sufficient funds to meet current and future needs.

The Board will review the level of funds in accordance with the review and approval of each budget cycle. The Board will also review the target levels each budget cycle.

21.02 WATER OPERATING FUND

The Water Operating Fund will be comprised of the following sub-accounts: the Emergency Fund, the Rate Stabilization Fund, and the Working Cash Fund.

A. Emergency Fund – This fund is established in order to address repairs or other operational needs in the event of an emergency where immediate needs exceed what has been budgeted for infrastructure and operations. This fund should be sufficient to cover the immediate average cost of an emergency such as a main break and also ensure the fund level keeps pace with inflation.

i. Target Level – This fund shall be maintained at a minimum level equal to $1.0 million as of the adoption of this policy. On July 1 of each year, the emergency fund target will be adjusted by the Consumer Price All Items Index for all Urban Consumers (CPI-U) for Los Angeles- Long Beach-Anaheim for February of that year (published about March 15th). The balance of the Emergency Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

ii. Events or Conditions Prompting the Use of the Fund – The District may deposit or withdraw available monies upon the authorization of the General Manager in the event of an emergency.

iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District's evolving needs.

B. Rate Stabilization Fund – This fund is established in order to mitigate the impacts of fluctuating water usage by customers and to augment the District's credit profile with respect to debt financing.

i. Target Level – This fund shall be maintained at a minimum level equal to 25% of the projected annual water rate revenue for each budget cycle. This is in line with industry standards and credit rating agency expectations for a healthy level. The balance of the Rate Stabilization Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

ii. Events or Conditions Prompting the Use of the Fund – This fund will be used to mitigate or spread out rate increases made necessary by unusual circumstances such as drought or mandatory water conservation. The Board will determine the amount and timing for any use of the fund.

iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District's evolving needs.

C. Working Cash Fund – This fund is established in order to maintain a reserve for current operations and to meet routine cash flow needs.

i. Target Level – This fund shall be maintained at a minimum level equal to three months of the District's water operating costs less the cost of purchased water as projected for each budget cycle. This is in line with industry standards and credit rating agency expectations for a healthy level. The balance of the Working Cash Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

ii. Events or Conditions Prompting the Use of the Fund – The Board, on a case-by-case basis, will determine the amount and timing for any use of the fund.

iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District's evolving needs.

21.03 WASTEWATER OPERATING FUND

The Wastewater Operating Fund will be comprised of the following sub-accounts: the Emergency Fund, the Rate Stabilization Fund, and the Working Cash Fund.

A. Emergency Fund – This fund is established in order to address repairs or other operational needs in the event of an emergency where immediate needs exceed what has been budgeted for infrastructure and operations. This fund should be sufficient to cover the immediate average cost of an emergency such as a main break and also ensure the fund level keeps pace with inflation.

   i. Target Level – This fund shall be maintained at a minimum level equal to $1.0 million as of the adoption of this policy. On July 1 of each year, the emergency fund target shall be adjusted by the Consumer Price All Items Index for all Urban Consumers (CPI-U) for Los Angeles- Long Beach-Anaheim for February of that year (published about March 15th). The balance of the Emergency Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

   ii. Events or Conditions Prompting the Use of the Fund – The District may deposit or withdraw available monies upon the authorization of the General Manager in the event of an emergency.

   iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District's evolving needs.

B. Rate Stabilization Fund – This fund is established in order to mitigate the impacts of fluctuating water usage by customers and to augment the District's credit profile with respect to debt financing.

   i. Target Level – This fund shall be maintained at a minimum level equal to 25% of projected wastewater rate revenues for each budget cycle. This is in line with industry standards and credit rating agency expectations for a healthy level. The balance of the Rate Stabilization Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

   ii. Events or Conditions Prompting the Use of the Fund – This fund will be used to mitigate or spread out rate increases made necessary by unusual circumstances such as drought or mandatory water conservation. The Board will determine the amount and timing for any use of the fund.

   iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District's evolving needs.

C. Working Cash Fund – This fund is established in order to maintain a reserve for current operations and to meet routine cash flow needs.

   i. Target Level – This fund shall be maintained at a minimum level equal to three months of the District's wastewater operating costs as projected for each budget cycle. This is in line with industry standards and credit rating agency expectations for a healthy level. The balance of the Working Cash Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

   ii. Events or Conditions Prompting the Use of the Fund – The Board, on a case-by-case basis, will determine the amount and timing for any use of the fund.

iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District's evolving needs.

21.04 EXCESS OF RESERVE REQUIREMENTS

In the event that reserve accounts exceed minimum target levels, the Board may instruct staff to perform either of the following. The Board may authorize additional funding of any reserve fund as appropriate given the current operational and infrastructure needs and economic factors.

The Board may also instruct staff to prepare an analysis to determine the liabilities for which prefunding will yield the most savings for the District.

Staff will present this analysis to the Finance Committee and the Board for review and approval of the recommended options.

21.05 FINANCIAL BENCHMARKS

The District strives to maintain a strong credit profile in order to provide assurance to customers, bond holders, rating agencies and other stakeholders that the District proactively manages its financial resource and is financially sustainable. These benchmarks will be evaluated and communicated to the Board during each budget cycle. The District has set forth the following financial benchmark goals:

A. Credit Rating: The District's credit rating is an easily accessible measure for the District's financial health. The credit rating also has a direct impact on the access to financial markets and the cost of incurring debt. It is the District's goal to achieve and maintain an AA (Standard & Poor's) rating.

B. Debt Service Coverage: The District's requirement to maintain a minimum debt service coverage ratio will range from 1.00 times to 1.25 times the annual debt service payment. It is the District's goal to exceed the minimum coverage ratio with a target of 2.00 times the annual debt service payment.

21.06 RULES AND REGULATIONS

The District shall have the authority to create rules, regulations, and procedures to implement and carry out the intent and purpose of this section provided such rules, regulations, and procedures are consistent with this section

21.07 AMENDMENT/MODIFICATION/TERMINATION

This Article 21 may be amended, modified, or terminated by the District at any time after its adoption. Amendments, modifications, or termination shall be considered and approved, or disapproved, only at a noticed regular public meeting by the District's Board of Directors.

PASSED, APPROVED AND ADOPTED at a Regular Meeting of the Board of Directors of Crescenta Valley Water District held on July 28, 2020. Resolution No. 757 was adopted by the following vote:

AYES:	**Director Erickson** **Director Bodnar** **Director Tejeda** **Director Raghavachary**
NOES:	**None**
ABSENT:	**Director Putnam**

ATTEST:

President, Board of Directors
Crescenta Valley Water District

Secretary of the Board of Directors

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

I, James K. Lee, Secretary to the Board of the Crescenta Valley Water District, DO HEREBY CERTIFY that the foregoing is a full, true and correct copy of Resolution No. 757 of the Board of Directors of Crescenta Valley Water District adopted at a Regular Meeting held on July 28, 2020 and that the same has not been amended or repealed.

Secretary of the Board of Directors

Crescenta Valley Water District

DATED: July 28, 2020 **(S E A L)**