



AGENDA STAFF REPORT

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Agenda Number: B
File ID: 1012

Section Name: Finance
Project ID: N/A

MEETING DATE: July 9, 2024

SUBJECT: Receive and file the Cost of Service and Rate Study Reports for Canal Water, East Whitewater Replenishment, and West Whitewater and Mission Creek Replenishment Funds

TO: BOARD OF DIRECTORS

FROM: FINANCE, KARLA ROMERO

GENERAL MANAGER RECOMMENDATION:

RECOMMENDATION:

It is recommended that the Board of Directors receive and file the Cost of Service and Rate Study Reports for Canal Water, East Whitewater Replenishment, and West Whitewater and Mission Creek Replenishment Funds without preparing or mailing new Proposition 218 notices.

BUDGET IMPACT:

The Cost of Service and Rate Study Reports include proposed rate increases which shall be considered each fiscal year during budget adoption. Rates summarized in these reports shall not be implemented unless a Proposition 218 notice is used.

PROCUREMENT METHOD:

☒ N/A

If other, please explain: .

BACKGROUND

In 2023, the District engaged with NewGen Strategies and Solutions, LLC to prepare Cost of Service and Rate Study Reports (COSS) for Canal Water, East Whitewater Replenishment, and West Whitewater and Mission Creek Replenishment Funds

The COSS Reports for each Fund:

- Validate the FY 2023/24 adopted rates based on the FY 2023/24 adopted budget. For each fund the rates are below the justified cost of service.
- Evaluated adequacy of the projected revenues under existing rates with anticipated revenue requirements to comply with law, District policy, and to fund the District's services.
- Developed a four-year financial plan incorporating both operation and maintenance and planned capital improvement plan costs.
- Include proposed rates and surcharges for four years in accordance with American Water Works Association guidelines; California Constitution, Articles XIII C and D (Propositions 218 and 26; and all applicable laws.)
- Include projected rates and fees set to cover the operating, debt service, and pay-as-you-go (PAYGO) capital needs of the systems, as well as to maintain reserves at least at the level of the fund balance policies.

Below is a summary of the study findings and recommendations for each Fund:

Canal Fund

- No revenue increases are necessary to maintain the Canal fund balance (i.e., reserves) above the Board's policy minimum.
 - The COSS report recommends the incremental use of one-time curtailment revenues paid to the District by the federal government to curtail the use of scarce Colorado River water supply.
 - The Board shall determine if the use of curtailment revenue is necessary during the budget process each fiscal year, effectively using those one-time funds as a rate stabilization reserve.
 - Future year rates are kept constant because of applied discretionary property tax revenues.
- Surcharge increases maintain full costs recovery for providing the service for which each surcharge is imposed.
- The two volumetric rates are the Irrigation Water Commodity Charge (IWCC) and the Water Supply Surcharge (WSSC).
 - Agricultural customers (IWCC) whose demand is flat or slightly declining as land is converted to urban uses and urban customers (WSSC) whose demand is growing significantly.
- FY 2023/24 adopted operating budget served as the basis for forecasting future operating expenses using escalation factors that the District typically includes in its internal budget modelling as follows:
 - Water purchases 3% annual increase
 - Labor (salaries and benefits) 4.5% annual increase
 - Supplies and services 4.5% annual increase
 - Utilities 8% annual increase
- Capital costs include debt service and PAYGO funded capital improvements.
 - Two 30-year USBR loans totaling \$57.6 million shall fund irrigation laterals and the mid-canal reservoir project.

East Whitewater Replenishment Fund

- 3% rate increases are anticipated for each fiscal year addressed by the COSS Report.
- East Whitewater Replenishment Fund must meet the contractual requirement of maintaining a minimum debt service coverage ratio (DSCR) of 1.25, meaning that net operating revenues (i.e., total operating revenues less operating expenses) must be at least 1.25 times annual debt service in any forecast year.
- Annual pumping by the District's Domestic Water system and pumping by other entities is expected to decrease over the study period as irrigation users in the Oasis service area transition from groundwater pumping to Canal water usage.
 - As projected, pumping is expected to decrease from approximately 108,000 AF in FY 2023 to approximately 94,500 in FY 2028.
- To develop an appropriate Test Year for FY 2023/24, NewGen relied upon actual FY 2021/22 East Whitewater Fund operating expenses in utilities, supplies and services, and water purchases categories as benchmarks for typical system financial performance.
 - The adopted FY 2023/24 budget included unusually lower pumping expenses, operating costs, and water purchase expense as a direct result of Colorado River curtailment efforts. Basing rate calculations on these unusual amounts would be contrary to fundamental rate making principles. Long-term rates cannot be set on short-term anomalies.

- Escalation factors include the following assumptions:
 - Labor (salaries and benefits) 4.5% annual increase
 - Supplies and services 4% annual increase
 - Utilities 8% annual increase
- Capital costs include debt service and PAYGO funded capital improvements.
 - Certificate of Participation (COP) 2021A and 2021B bonds used to fund the Oasis In-Lieu Recharge Project Phase II are paid from allocated discretionary property tax revenues.

West Whitewater Replenishment Fund

- 3% rate increases are anticipated for each fiscal year addressed by the COSS Report.
- West Whitewater Replenishment Fund does not currently have any external debt service, and therefore does not have to meet a debt service reserve or coverage requirement throughout the study period.
- The West Whitewater Replenishment Fund owes one outstanding interfund debt obligation to repay a loan from CVWD's Domestic Fund that was used to pay for the Mid-Valley Pipeline (MVP).
 - Assumptions include a projected repayment of \$3.9 million annually through the end of the study period.
- Annual pumping by the District's Domestic Water and irrigation pumping is expected to decrease over the study period as users transition from groundwater pumping to non-potable usage.
 - As projected, pumping is expected to decrease from approximately 115,800 AF in FY 2024 to approximately 113,388 AF in FY 2028 even though growth in the Domestic Water utility's service area continues.
- FY 2023/24 adopted operating budget served as the basis for forecasting future operating expenses using escalation factors that the District typically includes in its internal budget modelling as follows:
 - Water purchases from Rosedale-Rio Bravo Water Service District are not included beyond FY 2023/24 due to hydrological limitations.
 - Labor (salaries and benefits) 4.5% annual increase
 - Supplies and services 4% annual increase
 - Utilities 8% annual increase
- Capital costs include the use of restrict Supplemental Water Supply Charge reserve funds and PAYGO funded capital improvements.

Mission Creek Replenishment Fund

- No rate increases are necessary to maintain the Mission Creek fund balance above the Board's policy minimum.
- The Mission Creek Replenishment Fund does not currently have any external debt service, and therefore does not have to meet a debt service reserve or coverage requirement throughout the study period.
- FY 2023/24 adopted operating budget served as the basis for forecasting future operating expenses using escalation factors that the District typically includes in its internal budget modelling as follows:
 - Labor (salaries and benefits) 4.5% annual increase
 - Supplies and services 4% annual increase
 - Utilities 8% annual increase
- No capital expenses are included during the study period.

PRIOR BOARD ACTION:

4/27/2021 – Board adopted Canal Water Cost of Service and Rate Study

4/13/2021 – Board adopted East Whitewater Replenishment, and West Whitewater and Mission Creek Replenishment Funds Cost of Service and Rate Studies

DISTRICT STRATEGIC PLAN GOAL(S)/OBJECTIVES(S):

Updated Cost of Service and Rate Studies support the District's strategic goals of financial viability, infrastructure investment and management, and operational optimization.

ENVIRONMENTAL IMPACT:

This is not a project as defined by CEQA; therefore, approval does not require any CEQA action.

PUBLIC NOTICE REQUIRED

N/A

LEGAL REVIEW

Legal review of the COSS Report was provided by Colantuono, Highsmith & Whatley, PC.

ATTACHMENTS

Attachment 1 – Canal Water Fund COSS Report

Attachment 2 – East Whitewater Replenishment Fund COSS Report

Attachment 3 - West Whitewater and Mission Creek Replenishment Fund COSS Report

Attachment 4 – Presentation for Cost of Service Rate Studies