



Calleguas Municipal Water District

Standby Charge

ENGINEER'S REPORT

May 2017

27368 Via Industria
Suite 200
Temecula, CA 92590
T 951.587.3500 | 800.755.6864
F 951.587.3510



www.willdan.com/financial

ENGINEER'S REPORT
CALLEGUAS MUNICIPAL WATER DISTRICT
STANDBY CHARGE ASSESSMENT

INTRODUCTION

Pursuant to the provisions of Section 54984 et seq. of the Government Code of the State of California, being Chapter 12.4, "Uniform Standby Charge Procedures Act" (the "Act"), and in accordance with Resolution No. 881 of the Board of Directors (the "Board") of the Calleguas Municipal Water District (the "District"), adopted on April 14, 1993 establishing a Water Standby Charge Assessment, I, Richard Kopecky, P.E., duly authorized representative of Willdan Financial Services, consultant to the District, submit this Engineer's Report for FY 2017/2018 consisting of the following parts and exhibits:

SECTION I

The purpose and background of the Standby Charge.

SECTION II through Section VII

The purpose of the Engineer's Report is twofold: (1) to evaluate the impact of Calleguas' water management plan and capital improvement program (CIP) on its financial future, and (2) to develop the calculations, formulas, and benefits to be assessed. This report will cover the following topics:

1. Water Supply Availability
2. Capital Improvements
3. Analysis of Costs
4. Analysis of Revenue
5. Proposed **Renewal** of Standby Charges for FY 17/18
6. Exemptions

Dated: _____

Willdan Financial Services

BY: _____
Beatrice Medina, Project Manager

BY: _____
Richard Kopecky, P.E.
Registration No. CE 16742

**CALLEGUAS MUNICIPAL WATER DISTRICT
ENGINEER'S REPORT
PROPOSED STANDBY CHARGE
FISCAL YEAR 17/18**

I. PURPOSE AND BACKGROUND

Pursuant to action of the Board of Directors of the Calleguas Municipal Water District (Calleguas), Willdan Financial Services has been retained to prepare a detailed report outlining the renewal of standby charges for Fiscal Years 17/18 (FY 17/18) through 21/22 (FY 21/22). Calleguas proposes to continue its comprehensive water management program of planning and construction of new local projects. The primary objective of this program is to maximize the use of local resources. This strategy will reduce the region's dependence on interruptible imported supplies, thereby enhancing water supply reliability. Based on this objective, Calleguas is committed to constructing facilities to expand water recycling, groundwater recovery, and conjunctive use and is assessing the feasibility of seawater desalination.

Calleguas is faced with many complex challenges to meet the water needs of the community. One such challenge is the need to secure adequate funds for the construction of essential capital improvement projects while also funding the cost of operating and maintaining an aging water system.

II. ENGINEER'S REPORT PURPOSE

The purpose of this report is twofold: (1) to evaluate the impact of Calleguas' water management plan and capital improvement program (CIP) on its financial future, and (2) to develop the calculations, formulas, and benefits to be assessed using the "Uniform Standby Charge Procedures Act" (Act) as described in Government Code Section 54984 et seq. This Act is available to Calleguas because, as a water agency, it is authorized to collect standby/availability charges in connection with the provision of water service. This report will cover the following topics:

1. Water Supply Availability
2. Capital Improvements
3. Analysis of Costs
4. Analysis of Revenue
5. Proposed **Renewal** of Standby Charges for FY 17/18
6. Exemptions
7. Recommendations

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Dated: May 2, 2017

Willdan Financial Services



BY: Beatrice Medina
Beatrice Medina, Project Manager

BY: Richard Kopecky
Richard Kopecky, P.E.
Registration No. CE 16742

CALLEGUAS MUNICIPAL WATER DISTRICT

ENGINEER'S REPORT - PROPOSED STANDBY CHARGE RENEWAL

April 2017

I. PURPOSE AND BACKGROUND

Pursuant to action of the Board of Directors of the Calleguas Municipal Water District (Calleguas), Willdan Financial Services has been retained to prepare a detailed report outlining the proposed renewal of standby charges. Calleguas proposes to continue its comprehensive water management program of planning and construction of water infrastructure. The primary objective of this program is to diversify the service area's supply portfolio and develop sources of water that can be used during an outage of imported water, thereby enhancing water supply reliability. Based on this objective, Calleguas is committed to constructing a salinity management pipeline to facilitate construction and operation of brackish groundwater desalination plants and potable reuse projects, installing standby generators at emergency supply facilities, and building interconnections with other water utilities.

Calleguas is faced with many complex challenges to meet the water needs of the community. One such challenge is the need to secure adequate funds for the construction of essential capital improvement projects while also funding the cost of operating and maintaining an aging water system.

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III. WATER SUPPLY AVAILABILITY

Calleguas is a member of Metropolitan Water District of Southern California (Metropolitan), a 27-member agency serving the counties of San Diego, Los Angeles, Orange, Ventura, Riverside, and San Bernardino. Metropolitan imports water from Northern California via the State Water Project (SWP) and from the Colorado River via the Colorado Aqueduct. Located at the northwestern extreme of Metropolitan's service area, Calleguas is particularly dependent on deliveries from the SWP and vulnerable to interruptions of SWP operations. 75% of the water supply in Calleguas' service area originates from the SWP, and in Simi Valley and Conejo Valley it is virtually 100%.

The SWP supply is vulnerable to outages due to seismic risk and failure of aging infrastructure.

SWP water must flow through the Sacramento/San Joaquin Delta (Delta) to reach Southern California. The Delta has been farmed for over 150 years and as a result the land has subsided as much as 30 feet. Over that time, levees have been built to protect the farming, but the levees have not been built to withstand seismic events. An earthquake in the vicinity of the Delta could cause failure of multiple levees and cause seawater to flow in from the San Francisco Bay, cutting off the SWP supply for months or even years. The proposed California WaterFix, or Delta tunnels, would resolve this problem because its intakes would be from the Sacramento River and the SWP supply would no longer have to flow through the Delta. However, the fate of WaterFix is uncertain, and if implemented, it would not be operational for over a decade.

The California Aqueduct was taken out of service in 2016 to repair damage to the concrete walls of the facility. Subsidence in the San Joaquin Valley, continued aging of the aqueduct, and proximity to active earthquake faults create risk that there will be more such outages.

Recent damage to the spillway at Lake Oroville highlights the risk of unplanned outages at SWP reservoirs through which water flows to Calleguas. The dams at these reservoirs were built over 50 years ago according to design standards that were less stringent than those in place today.

Water flows from the terminus of the SWP West Branch into facilities owned and operated by Metropolitan Water District of Southern California: the Foothill Feeder, Jensen Water Filtration Plant, and West Valley Feeder No. 2. There is no redundancy to these facilities and they are located in a highly active seismic area. Calleguas has been subjected to outages of these facilities during past earthquakes and future outages can be expected.

Calleguas takes ownership of the water in Chatsworth, where it enters a tunnel to Simi Valley. Both this tunnel and pipelines in Simi Valley are vulnerable to seismic outages as well.

Calleguas' capital improvement program is focused strengthening its own aging infrastructure, diversifying the supply portfolio in its service area, and developing sources that can be used when the SWP supply is not available.

IV. CAPITAL IMPROVEMENT PROGRAM

The District’s Capital Improvement Program (“CIP”) is continually being reviewed and updated by staff. Implementation and construction of specific elements of the CIP are subject to Board approval, and the amount and timing of borrowing will depend upon, among other factors, status of construction activity and the cost of capital projects. In addition to revenue bonds, funding sources are anticipated to include water rates, discharge rates for use of the Salinity Management Pipeline, federal and state resources, and power sales.

The current CIP reflects the District’s focus on ensuring a reliable water supply to its purveyors. Major components of the CIP through 2021 include: continued construction of a regional Salinity Management Pipeline; rehabilitation, replacement, and relocation projects; and projects that enhance emergency water supply reliability, such as interconnections with other water systems.

While the District is planning to fund future capital projects with significant pay-as-you-go contributions, it anticipates a potential borrowing of approximately \$100 million in 2021 will be necessary to fund the current list of Capital Improvement Projects. The following are current components of the CIP:

**CALLEGUAS MUNICIPAL WATER DISTRICT
CAPITAL IMPROVEMENT PROGRAM**

<i>Rehabilitation, Replacement, and Relocation</i>
Anode Well Replacement
CCNB Broken Back Rehabilitation, Phase 3
OSR, LPF, SRH, and Valve Improvements
Moorpark Feeder Unit 2 Strengthening
Programmable Logic Controller (PLC) Replacement
Networking Center Improvements
Turnout PC Upgrades
Emergency Repairs
<i>Emergency Water Supply Reliability</i>
Wellfield Standby Generators
Monitoring Wells
Wellfield Water Treatment Plant
Grandsen Pump Station, Phase 2
Conejo Pump Station Rehabilitation
LVMWD Interconnection
Crestview Interconnection
Simi Reservoir
<i>Salinity Management Pipeline</i>
Phase 2E
Phase 3
Phase 4
Plastic Pipe Storage Project

V. ANALYSIS OF COSTS

The draft CIP budget provided in the Appendix for Fiscal Year (FY) 18 through FY 22 shows that the District's projected Construction Fund's annual expenses are approximately \$38 million to \$61 million.

VI. ANALYSIS OF REVENUES

Ten Year Financial Plan

The goal of Calleguas' Ten Year Financial Plan is to provide an adequate and stable cash flow to fund the current and future planned programs while equitably allocating the costs of the facilities among existing and future users. Calleguas' revenue mix includes ad valorem property tax revenues, water sales, interest on investments, and hydroelectric power sales. Beginning in FY 93, the State began diverting a portion of the District's ad valorem property tax distribution to augment State revenues. In FYs 94 through 17, water standby charges were adopted by the Calleguas Board of Directors to help offset the loss of tax revenues.

Augmentation of Revenue Sources

The District continues to operate in a fiscally sound manner. In order to carry out its strategic plan of improving the reliability of the area's water supplies, alternate revenue sources must be employed to fund increasingly sophisticated and expensive water projects. As an alternate revenue source, the standby charge, also known and referred to as an assessment, is a viable means of recognizing the benefit of imported water availability to all current and future users and spreading costs over all users. Use of the County's annual property tax bill as a means of levying and collecting the standby charge is a cost-effective method of billing. Since the standby charge is independent of 1) drought, 2) the water supply, and 3) the economy, it is a more stable form of revenue than water sales. Revenue from standby charges reinforces the District's ability to meet its financial obligations under varying conditions and, in turn, should result in increased borrowing efficiencies, lower interest rates, and other indirect cost savings.

Equity and Fairness

The goals of equity and fairness dictate that whoever receives benefits should pay their proportionate share of the costs of those benefits. Future and existing users receive benefits from Calleguas' water management from the current Capital Improvement Plan. The CIP consists of projects necessary to improve reliability of water supplies of both existing and future users. New facilities are also financed in part by the District's share of the *1% property tax revenues*, and the capital construction component of the District's water rate. Standby Charges are assessed on all land in Calleguas' service area; both present users and parcels potentially benefiting from the availability of imported water.

VII. RENEWAL OF PROPOSED STANDBY CHARGES

Section 54984.1 of the Act states ". . . **Any charges imposed under this chapter are deemed to be assessments . . .**" Section 54984.2 further states ". . . **The governing body of the agency which fixes the charge may establish schedules varying the charge according to land uses, benefit derived or to be derived from the use or availability of facilities to provide water . . . or the degree of availability or quantity of the use of the water . . . The charge may be imposed on an area, frontage or parcel basis or a combination thereof.**" Section 54984.3 further requires "**...that the report of a qualified engineer is on file...**" which states the report must include:

- 1) A description of the charge and the method by which it will be imposed.
- 2) A compilation of the amount of the charge proposed for each parcel subject to the charge.
- 3) A statement of the methodology and rationale followed in determining the degree of benefit conferred by the service for which the charge is made.
- 4) Schedules of charges (delineated in Government Code 54984.2).

Determination of Degree of Benefit

The Act provides Calleguas with a considerable amount of flexibility in selecting which costs of its proposed program should be allocated for recovery by means of the standby charge.

For purposes of this report, the County of Ventura's assessor use code has been used to establish the level of benefit received from Calleguas' Water Management Program. Two levels are proposed for the Standby Charge analysis: base level and variable level.

In general terms, base level of benefit is defined as the benefit that the property receives from inclusion within the service area of an imported water purveyor (e.g., Calleguas). Variable level is defined as the benefit received from both availability of a meter connection and water usage. The following matrix portrays the concept:

LEVEL OF BENEFIT ALLOCATION MATRIX

✓ = Property Benefits From Programs

LAND USE	UNDEVELOPED ⁽¹⁾		IMPROVED ⁽²⁾	
	BASE	VARIABLE	BASE	VARIABLE
Residential	✓		✓	✓
Industrial	✓		✓	✓
Utility	✓		✓	✓
Commercial	✓		✓	✓
Recreational	✓		✓	✓
Pasture Or Range	✓		✓	✓
Undeveloped Unused	✓		✓	✓

⁽¹⁾ Undeveloped defined as property which lies fallow and is generally left in its natural state.

⁽²⁾ Improved defined as developed use of land with or without use of imported water.

Calleguas has determined that all properties within the service area derive a base level of benefit from its water management and capital improvement programs.

Method of Imposition

The proposed method and formula are the same as for FY 16/17. In order to recover the \$1.35M allocated to standby charges in the proposed budget, standby charges are proposed to be levied on an area basis with one acre being the minimum area size (*at the same rates and in the same manner as in previous fiscal years*). A model was developed using a \$5.00 per acre and \$5.00 per parcel for parcels less than an acre other than high-density parcels (based on the County of Ventura Land Use Code). For high-density parcels, a variable charge based on land use code is proposed which ranges from \$5.00 to \$50.00 per acre (*at the same rates and in the same manner as in previous fiscal years*). The Appendix includes a list of high-density use codes and proposed charges per parcel or acre (for parcels that are more than 1 acre in area). The following table portrays the allocation of the revenue requirement:

TABLE - ALLOCATION OF BENEFIT / COST

<u>Standby Category</u>	<u>Benefiting Units</u>
A - Acres in parcels greater than 1 acre other than high density (Rounded)	95,984
B - Parcels less than 1 acre other than high density (Rounded)	164,588
C - High Density parcels (Rounded) (Units based on Land Use Code)	<u>23,927</u>
Total Benefiting Units (Rounded)	284,499
Revenue Required (Approximate*)	\$1,335,000
Standby Charge/Unit (Rounded)	\$5.00

Proposed Standby Charge \$5.00 per parcel or acre in Categories A & B.
 Proposed Standby Charge \$5.00 - \$50.00 per parcel or acre in Category C.
 * Based on average net collections.

Compilation of Charges

Incorporated herein by reference is the most current report entitled "Calleguas Municipal Water District – Proposed Assessments Report," which includes a listing of all parcels in the service area including assessor parcel number, owner name, acreage, and proposed charges.

VIII. EXEMPTIONS

Since extenuating conditions may exist such that a property cannot or will not benefit, the **continuation** of Calleguas Board of Directors' current policy to grant an exemption from standby charges is recommended. Exemptions would apply to the following categories of land:

Category 1 Lands owned by the government of the United States, the State of California, or by a political subdivision thereof, or any unit of local government;

Category 2 Lands permanently committed to open space and maintained in their natural state that are not now and will not in the future be supplied with water; or

Category 3 Lands not included in either of the categories above which the Board of Directors, in its discretion, finds do not now, and cannot reasonably be expected to, derive

a benefit from the projects to which the proceeds of the water standby charge will be applied.

If the property falls under Categories 1 - 3 and was previously granted an exemption, continuation of the exemption is recommended. If a property owner desires to seek a full or partial exemption under Category 2 or 3, then it is recommended that the owner be required to submit an application for exemption including full particulars to Calleguas. A sample application is included in the Appendix. If a property owner is undecided as to the eligibility for exemption, it is recommended that the owner provide property information to Calleguas and discuss it with a staff member. In order that the agreements between property owners and Calleguas are properly recognized, recordation with the County of Ventura is required.

In accordance with previous policy, the property owner has up to two years from the date of adoption of standby charges to apply for exemption from the charges for a given year.

APPENDIX

**Calleguas MWD
Engineer’s Report – Proposed Standby Charge Renewal**

Multi-Unit Charges

Use Code	Description	Per Acre or Parcel
1120	Factory Built Housing	\$5.00
1128	Attached SFR - not condominium	\$5.00
1129	Condominium	\$5.00
1150	5-9 Living Units-Apartments	\$25.00
1160	10 or more Living Units-Apartments	\$50.00
1200	Group Quarters	\$5.00
1210	2 Family Dwelling - duplex	\$10.00
1222	2 SFRs on 1 parcel	\$10.00
1300	Residential & Apartment Hotels	\$5.00
1310	Triplex	\$15.00
1321	3 Family Dwellings, 1 SFR + Duplex	\$15.00
1333	3 SFRs on 1 parcel	\$15.00
1400	Mobile Home Park	\$20.00
1410	Quadplex	\$20.00
1420	4 Family Dwellings, 2 Duplex	\$20.00
1421	4 Family Dwellings, 1 Triplex & 1 SFR	\$20.00
1432	4 Family Dwellings, 1 Duplex & 2 SFR	\$20.00
1444	4 Family Dwellings	\$20.00
1511	Hotel	\$50.00
1512	Motel	\$50.00
1513	B&B/Transient Lodging	\$50.00

Calleguas MWD Cash Flow Pro Forma Engineer's Report – Proposed Standby Charge Renewal

		Projected FY 2017-18	Projected FY 2018-19	Projected FY 2019-20	Projected FY 2020-21	Projected FY 2021-22
GENERAL FUND OPERATING BUDGET						
SOURCE OF FUNDS	BEGINNING BALANCE (Projected)	18,579,849	19,260,259	19,538,994	20,167,669	20,770,279
	Water Sales - Potable	93,946,200	100,992,580	109,606,850	117,268,520	125,488,140
	Water Sales - Reclaimed	1,974,850	2,090,360	2,212,820	2,267,300	2,366,300
	Water Revenues - Other	533,250	542,430	551,790	561,340	571,080
	Pumping Charges	751,900	774,460	797,690	821,620	846,270
	RTS from Purveyors	6,358,000	6,788,810	7,345,130	7,934,830	8,559,920
	Tax Revenues	7,211,400	7,355,630	7,502,740	7,652,790	7,805,850
	Interest & Other Income	510,260	520,680	536,640	675,120	698,360
	Revenue from Imposition of Standby Charges	1,355,000	1,355,000	1,355,000	1,355,000	1,355,000
Total General Fund Revenues	112,640,860	120,419,950	129,908,660	138,536,520	147,690,920	
USE OF FUNDS	Water Purchase - Potable	87,126,250	93,773,810	101,906,600	109,128,140	116,892,870
	Water Purchase - Reclaimed	909,920	936,410	964,730	946,800	975,600
	MWD RTS (less MWD Stby)	6,358,000	6,788,810	7,345,130	7,934,830	8,559,920
	Pumping Power	1,390,500	1,432,220	1,475,190	1,519,450	1,565,030
	O&M, Administration	15,359,850	16,007,190	16,439,640	17,102,150	17,427,040
	Transfer to (from) Construction Fund	815,930	1,202,775	1,148,695	1,302,540	1,172,545
	Total Operating Expenses	111,960,450	120,141,215	129,279,985	137,933,910	146,593,005
NET GENERAL	680,410	278,735	628,675	602,610	1,097,915	
ENDING BALANCE	19,260,259	19,538,994	20,167,669	20,770,279	21,868,194	
CONSTRUCTION FUND BUDGET						
SOURCE OF FUNDS	BEGINNING BALANCE (Projected)	90,917,282	63,026,712	38,260,502	16,329,342	332,782
	Surcharge on Water- AG & M&I	22,934,200	26,795,080	30,476,500	33,143,540	34,649,130
	Capacity Charge	6,529,440	6,611,240	6,696,760	6,883,760	7,092,760
	Capital Construction Charge	-	-	-	-	-
	Interest	1,242,100	1,079,460	805,670	704,080	436,720
	Grants/BABS Subsidy	1,447,620	1,447,620	1,447,620	1,447,620	1,401,470
	Total Source	32,153,360	35,933,400	39,426,550	42,179,000	43,580,080
USE OF FUNDS	Debt Service on Revenue Bonds	16,996,500	17,013,900	16,999,270	17,652,150	13,948,100
	Bond Fees	445,880	457,030	468,460	480,170	492,170
	MWD Capacity Reservation Charge	2,010,680	2,092,480	2,178,000	2,365,000	2,574,000
	Capital Improvement & Equipment	40,080,000	40,610,000	41,170,000	37,120,000	20,090,000
	Transfer to Emergency Reserve	510,870	526,200	541,980	558,240	574,990
	Total Use	60,043,930	60,699,610	61,357,710	58,175,560	37,679,260
NET CASHFLOW CONSTRUCTION FUND	(27,890,570)	(24,766,210)	(21,931,160)	(15,996,560)	5,900,820	
ENDING BALANCE CONSTRUCTION FUND	63,026,712	38,260,502	16,329,342	332,782	6,233,602	