

CALLEGUAS MUNICIPAL WATER DISTRICT

REPORT FOR PROPOSED STANDBY CHARGE RENEWAL

June 2022

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 pursuing its comprehensive water management program of planning and construction of water infrastructure that was outlined in previous Engineers Reports dating to FY 1996. As such the charge is granted legacy status by Proposition 218 (California Constitution, article XIII D, section 5, subdivision (a).) The primary objective of this program is to continue improving reliability, diversifying the service area's supply portfolio and developing sources of water that can be used during an outage of imported water and during periods of drought.. Based on this objective, Calleguas is committed to continuing construction of 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.

II. 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
6. Exemptions
7. Recommendations

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, failure of aging infrastructure and continued drought conditions in the northern Sierra mountains. Over the last three years, California has experienced the driest years on record. This has resulted in very limited supplies flowing through the SWP and to Calleguas.

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.

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.

Calleguas' capital improvement program is focused on 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 or during times of drought.

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 2027 include: continued construction of a regional Salinity Management Pipeline; improvements, rehabilitation, replacement, and relocation projects; and projects that enhance outage 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 \$50 million by 2026 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 4 & 5
OSR, LPF, SRH, and Valve Improvements
Turnout PC Upgrades
Emergency Repairs
TOD Pump Station Rehabilitation
Lindero Pump Station Rehabilitation
Lake Sherwood Pump Station Rehabilitation
Crew Building Improvements
Conejo Pump Station Rehabilitation
<i>Outage Water Supply Reliability</i>
ASR Monitoring Wells
Conejo Pump Station Rehabilitation
LVMWD-Calleguas Interconnection
Simi Reservoir
Ventura-Calleguas Interconnection
Fairview Well Rehabilitation
Lake Bard Pump Station
<i>Salinity Management Pipeline</i>
Phase 2E
Phase 3
Phase 4
Various Desalter Discharge Stations

V. ANALYSIS OF COSTS

The draft CIP budget provided in the Appendix for Fiscal Year (“FY”) 2022-2023 through FY 2026-2027 shows that the District's projected Construction Fund's annual expenses are approximately \$53.8 million to \$62.5 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, water standby charges were adopted by the Calleguas Board of Directors to help offset the loss of tax revenues and they have been maintained as adopted since.

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. Undeveloped properties benefit from the availability of water supplies which allow future development of that land, enhancing its utility and therefore value.

Method of Imposition

The proposed method and formula for FY 22/23 are the same as for FY 21/22 and every previous year since FY 96/97. In order to recover the \$1.4M 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)	94,042
B - Parcels less than 1 acre other than high density (Rounded)	131,589
C - High Density parcels (Rounded) (Units based on Land Use Code)	<u>58,652</u>
Total Benefiting Units (Rounded)	284,283
Revenue Required*	\$1,400,000
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.

* Required revenue is based on the number of units * \$5 per parcel rounded to the nearest 100,000.

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 2022-23	Projected FY 2023-24	Projected FY 2024-25	Projected FY 2025-26	Projected FY 2026-27
GENERAL FUND OPERATING BUDGET						
BEGINNING BALANCE (Projected)		38,604,680	43,623,680	37,309,527	37,307,939	37,593,496
SOURCE OF FUNDS	Water Sales-Potable	85,811,400	102,874,560	109,756,920	117,639,120	125,725,540
	Water Sales-Recycled	75,560	78,650	80,990	83,410	85,900
	RTS Revenue	7,582,690	8,540,220	9,527,100	10,071,580	10,241,730
	Other Water Revenues	60,000	61,875	61,875	61,875	61,875
	Power Revenues	1,400,000	1,430,000	1,460,900	1,492,730	1,525,510
	Property Tax Revenue	10,100,000	10,504,000	10,714,080	10,928,360	11,146,930
	Interest & Other Income	680,500	944,130	819,030	820,210	827,150
Total Operating Revenues		105,710,150	124,433,435	132,420,895	141,097,285	149,614,635
USE OF FUNDS	Cost of Water-Potable	77,266,120	92,997,930	98,929,200	105,933,060	112,877,620
	Cost of Water-Recycled	61,630	64,600	66,510	68,520	70,570
	RTS Expense	7,582,690	8,540,220	9,527,100	10,071,580	10,241,730
	Pumping Costs	1,800,000	1,827,000	1,854,410	1,882,230	1,910,460
	Administrative Operating Costs	21,743,610	20,916,696	21,580,193	22,390,218	23,577,813
	Other Expenses	700,100	464,030	465,070	466,120	467,180
	Total Operating Expenses		109,154,150	124,810,476	132,422,483	140,811,728
Cash Flow from Operations		(3,444,000)	(377,041)	(1,588)	285,557	469,262
Reserve Adjustments for Use/(Purchase) of Water Inventory		8,463,000	(5,937,112)	-	-	-
NET CASHFLOW OPERATING FUND		5,019,000	(6,314,153)	(1,588)	285,557	469,262
ENDING OPERATING FUNDBALANCE		43,623,680	37,309,527	37,307,939	37,593,496	38,062,758
CONSTRUCTION FUND BUDGET						
BEGINNING BALANCE (Projected)		128,584,781	108,227,971	85,517,231	112,753,821	85,120,821
SOURCE OF FUNDS	Water Sales - Construction Charge	21,232,710	23,291,820	24,282,480	24,679,320	25,487,820
	Capacity Charge	7,382,430	7,465,390	8,179,760	8,725,060	8,952,580
	Revenue from Imposition of Standby Charges	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
	Interest & Other Income	2,000,000	2,274,480	1,820,270	2,365,000	1,812,340
	Grants/BABS Subsidy	1,444,190	1,391,340	1,336,630	1,279,880	1,215,640
	Projected Funds from issuing Bonds (net of issue costs)	-	-	48,500,000	-	-
	Total Source		33,459,330	35,823,030	85,519,140	38,449,260
USE OF FUNDS	Debt Service on Revenue Bonds	14,369,590	14,618,280	14,768,770	17,542,750	18,193,930
	MWD Capacity Reservation Charge	2,131,550	2,066,640	2,351,040	2,682,840	2,910,360
	Capital Improvement & Equipment	36,930,000	41,460,000	40,770,000	45,460,000	40,960,000
	Other Expenses	385,000	388,850	392,740	396,670	400,640
Total Use		53,816,140	58,533,770	58,282,550	66,082,260	62,464,930
NET CASHFLOW CONSTRUCTION FUND		(20,356,810)	(22,710,740)	27,236,590	(27,633,000)	(23,596,550)
ENDING CONSTRUCTION FUND BALANCE		108,227,971	85,517,231	112,753,821	85,120,821	61,524,271