Replenishment Assessment Charge “RAC” Recommended Rate Increases

Board of Directors Study Session March 17, 2015
RAC Cost of Service Study (COSS)

- COSS is a Finance Strategic Initiative
- Rate study presented at Feb. 13 study session
- The study:
  1. Establishes rate revenue requirements
  2. The cost of providing service to customers
  3. Recommendations for equitably collecting revenue from customer class based on the cost of providing them service.
  4. Subject to Proposition 218
East Whitewater
Replenishment Fund ("East")
Water Supply

- The District successfully negotiated Colorado River water transfers as part of the Quantification Settlement Agreement (QSA)

- Over the next decade, the water transfers will ramp up from 71,000 AF to 138,000 AF in addition to the CO River base allotment
Water Costs

QSA water costs are projected to increase by over $10 million in the next decade*

Who pays for QSA water?

- Replenishing groundwater overdraft was the primary reason for securing more water

- Since fiscal 2010, non-agricultural customers in the East basin have been paying for the IID water transfer

- The COSS recommends allocating the IID water transfer to the East Whitewater Replenishment Fund

*Does not include MWD water; this is an expense of the West Replenishment Fund
Mitigation Costs

QSA mitigation costs are projected to exceed $30M through 2026

Over the past decade, the Domestic Water Fund paid for 90% of the mitigation costs

- Since 2004, the District paid $39.6 M in mitigation payments; 90% or $35.7 M was paid by the Domestic Water Fund; 10% by the Canal Fund via Class 2 & 3 rates

($5.0M prepayment not calculated)
Costs Should be Allocated Equitably

CVWD accounts for only 24% of the total production in the East Replenishment Area of Benefit

Who should pay for QSA Mitigation Costs?

- The past practice of allocating 90% of the mitigation cost to Domestic is inequitable
- The COSS recommends that the QSA Mitigation follow the QSA water
- The COSS recommends allocating the QSA mitigation costs to all customers in the East Replenishment Fund
State Water Project (SWP) Tax

- As a State Water Project contractor, the District is entitled to certain amount of water from the Dept. of Water Resources.

- The water and its delivery system is paid by a District-wide special tax levy, the SWP tax.

- In 2013, the District increased the State Water Project (SWP) tax rate from $0.08 to $0.10.

- One cent of the tax, plus AV growth, was used for replenishment of the east basin, based on legal counsel’s opinion.

- The tax enabled East to pay back the Domestic Water Fund for the construction of the replenishment facility.

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![East Replenishment Fund Revenues and Expenses Fiscal Years 2012 to 2015](image)
New Attorneys, New Opinion

- The SWP tax can only be used to pay SWP invoices based on a new opinion from the District’s legal counsel, BBK.

- This adversely impacts East by over $8.0 million a year.

- This revenue loss alone amounts to $66/AF based on 2014 production.
Negative Cash

- Complicating matters further, East has never fully recovered its costs due to its rate structure.

- The graph depicts negative cash balances in the East Fund over the past five years.
Recap – Issues Impacting the East Replenishment Fund

- Negative cash balance – approx. -$4.5 M in fiscal 2015
- $8.0 M Revenue loss based on current assessed value
- IID water transfer cost increasing annually (by $10.0M over next decade)
- QSA mitigation cost averages $3.0M/year
- New debt for East’s share of Oasis = $21.5 million amortized over 30 years
Solution – Consolidate the Replenishment Funds

• The COSS recommends consolidating the replenishment funds rather than allocating water supply and costs by geographical area.

• Costs are spread over a larger customer base.

• One basin, with a diversified water portfolio, benefits the entire aquifer (Legal precedent – Pajaro Valley Replenishment District).

• Rates must all be the same.

• Costs can still be tracked by replenishment area if necessary.
Recommended Rate Increases

**Fiscal Year 2015-16**
- Current rate is $52/AF
- Recommend increasing rate to $59/AF in fiscal 2016; this allows East customers one year to plan for rate increase

**Fiscal Years 2017-2020**
- $101/AF in fiscal 2017
- $116/AF in fiscal 2018 (assumes consolidated approach in this year)
- $133/AF in fiscal 2019
- $153/AF in fiscal 2020
Even with substantial rate increases, by 2020, as a stand-alone entity, the East Replenishment Fund cannot break even due to the significant costs incurred from QSA costs, the lack of SWP tax revenue and the Oasis project.
West Whitewater Replenishment Fund ("West")
Water Costs

- The West Replenishment Fund accounts for three sources of water, budgeted at $60.6 M in fiscal 2015:
  1. State Water Project
  2. Glorious Lands Co. water purchase (GLC)
  3. Metropolitan Water District (MWD)

- Historically, the SWP tax funded SWP costs and RAC funded water purchases and other costs

- A portion of the MWD water can be paid from the SWP tax based on a recent legal opinion from BBK

- This has a significant positive impact on West’s unrestricted reserves
Recommended Rate Increases

**Fiscal Year 2015-16**
- The last rate increase was in fiscal 2013
- Current rate is $110.26/AF
- Recommend increasing rate to $112/AF in fiscal 2016

**Fiscal Years 2017-2020**
- $116/AF in fiscal 2018 (assumes consolidated approach in this year)
- $133/AF in fiscal 2019
- $153/AF in fiscal 2020
West Reserve Comparison
Individual vs. Consolidated Funds

West Replenishment Fund

Consolidated Funds

West Replenishment Fund Reserves
Projected Fiscal 2016 to 2020

Consolidated Replenishment Reserves
Projected Fiscal 2016 to 2020
Mission Creek
Replenishment Fund ("Mission")
Water Costs

- The Mission Creek Replenishment Fund accounts for 5% of the SWP, GLC and MWD water supply.
- Mission was not allocated water costs until fiscal 2014.
- The fund has been operating at a loss for several years.
Recommended Rate Increases

**Fiscal Year 2015-16**
- The last rate increase was in fiscal 2012
- Current rate is $98.73/AF
- Recommend increasing rate to $112/AF in fiscal 2016

**Fiscal Years 2017-2020**
- $116/AF in fiscal 2018 (assumes consolidated approach in this year)
- $133/AF in fiscal 2019
- $153/AF in fiscal 2020
### Mission Reserve Comparison

#### Individual vs. Consolidated Funds

#### Mission Replenishment Fund

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#### Consolidated Funds

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<td>25,000</td>
<td>15,000</td>
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Summary -Recommended Rate Increases Fiscal 2015-16

- East: From $52 to $59/AF ($7.00 or 13.5% increase)
- West: From $110.26 to $112/AF ($1.74 or 1.6% increase)
- Mission: From $98.73 to $112/AF ($13.27 or 13.4% increase)
Summary -Projected Rate Increases Fiscal 2016-2020

Fiscal Year 2016-17
- East: From $59 to $101/AF ($42 or 71.2% increase)

Fiscal Year 2017-18
- East: From $101 to $116/AF ($15 or 15% increase)
- West: From $112 to $116/AF ($4 or 3.6% increase)
- Mission: From $112 to $116/AF ($4 or 3.6% increase)

Fiscal Year 2018-19
- All: From $116 to $133/AF ($17 or 15%)

Fiscal Year 2019-20
- All: From $133 to $153/AF ($20 or 15%)
Questions