Joint Water Policy Advisory Committee Meeting

East Whitewater River Subbasin Area of Benefit

Replenishment Assessment Charge (RAC) Recommended Rate Increases

March 19, 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.
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
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.
Questions?
Other Business
Next Meeting
Change in Groundwater Storage in the East AOB

Total Outflow = Groundwater Production + Total Subsurface Outflow + Evapotranspiration.
Total Inflow = Artificial and Natural Replenishment + Non-Consumptive Return + Canal Water Irrigation Return

Annual Change in Storage = Total Inflow - Total Outflow

Annual Change in Groundwater from 2003 to 2028

Total Outflow = Groundwater Production + Total Subsurface Outflow + Evapotranspiration.
Total Inflow = Artificial and Natural Replenishment + Non-Consumptive Return + Canal Water Irrigation Return

Annual Change in Storage = Total Inflow - Total Outflow

Annual Change in Groundwater Storage from 2003 to 2028

The graph shows the annual change in groundwater storage in the East AOB from 2003 to 2028. The total outflow includes groundwater production, total subsurface outflow, and evapotranspiration. The total inflow comprises artificial and natural replenishment, non-consumptive return, and canal water irrigation return. The annual change in storage is calculated as the difference between total inflow and total outflow.