

San Gorgonio Pass Water Agency

DATE: November 22, 2021

TO: Board of Directors

FROM: Lance Eckhart, General Manager

BY: Tom Todd, Jr., Chief Financial Officer

SUBJECT: PROPOSAL – STRATEGIC FINANCIAL PLAN STUDY

RECOMMENDATION

The Board authorizes the General Manager to enter into an agreement with Raftelis to develop a Strategic Financial Plan and Finalize Water Rates for the San Gorgonio Pass Water Agency.

PREVIOUS CONSIDERATION:

- Financial Feasibility Committee – November 2, 2021: The Committee reviewed and discussed the proposed study.
- Finance and Engineering Workshop – November 15, 2021: Rafetelis presented their proposed study to the Board.

BACKGROUND

The Agency is poised to undertake a variety of projects, including proposed local capital improvement, securing additional supplies of water, and participation in Sites Reservoir. Funding these activities is critical to the success of the Agency in supplying and distributing water for future generations. This proposed Strategic Financial Plan (Plan) will examine the various funding sources available to the Agency and provide information to the Board to make informed decisions to enact measures to provide the necessary resources to make the proposed projects a reality.

ANALYSIS

The proposed Plan will be performed by Raftelis, and a sub-contractor to Raftelis, Sanjay Gaur. Both of these names are familiar to the Agency, as Mr. Gaur supervised and directed the recent work done by Raftelis to build a customized financial model for the Agency to help project future expenses and cash flow. The proposed Plan will build upon the existing financial model to help chart a successful financial path forward for the Agency. This will be a sole-source contract as Raftelis and its sub-contractor are uniquely qualified to leverage and expand the existing Agency financial model to complete the proposed Plan scope.

Vital to the success of this study will be stakeholder engagement. A number of workshops have been included to seek stakeholder input and provide transparency during Plan development. Additionally, several Board meetings are included to seek Board input and keep the Board up to date on the status of the study.

FISCAL IMPACT

The proposed not-to-exceed fee is \$85,050. While this is more than the amount in the FY 2021-22 General Fund Budget of \$60,000, Staff believes this amount is justified in light of the comprehensive nature of the Plan and the number of stakeholder meetings proposed.

ACTION

The Board authorizes the General Manager to enter into an agreement with Raftelis to develop a Strategic Financial Plan and Finalize Water Rates for the San Gorgonio Pass Water Agency.

ATTACHMENTS

- Proposal to Develop a Strategic Financial Plan and Finalize Water Rates for the San Gorgonio Pass Water Agency

October 28, 2021

Mr. Lance Eckhart, PG, CHG
General Manager/Chief Hydrogeologist
San Geronio Pass Water Agency
1210 Beaumont Ave.
Beaumont CA 92223

Subject: Proposal to Develop a Strategic Financial Plan and Finalize Water Rates for the San Geronio Pass Water Agency

Mr. Eckhart,

Thank you for the opportunity to present this proposal to provide the services listed above for the San Geronio Pass Water Agency (SGPWA). In addition to having extensive experience providing consulting services to State Water Contractors, Raftelis is uniquely qualified to assist SGPWA for the two key reasons.

Under the leadership of Sanjay Gaur, our firm recently completed your new financial planning model. Thus, we have a deep understanding of SGPWA. Mr. Gaur (Water Resource Economics) will serve as a subconsultant to Raftelis in the role of Strategic Advisor and facilitator of workshops.

Raftelis recently completed a Water Financial Plan and Utility Rate Study for the Beaumont-Cherry Valley Water District (BCVWD), the largest retail water agency user of ground water replenished by SGPWA from State Water Project supplies. As part of this study, I made presentations to the BCVWD's Board at its Proposition 218 and rate adoption hearings.

PROPOSED PROJECT TEAM

Our proposed project team consists of Sanjay Gaur who will serve as your Strategic Advisor, and I will serve as the Project Manager. I will be supported by Jonathon Jordan who assisted in the development of the financial planning model that Raftelis recently completed for SGPWA.

PROPOSED SCOPE OF SERVICES

Task 1: Stakeholder Workshops (Virtual)

As SGPWA embarks on the development of its strategic financial plan, Raftelis recognizes the critical importance of obtaining advice from all interested stakeholders, most notably from the retail water agencies that provide service to their customers primarily from groundwater replenished by SGPWA from State Water Project supplies.

A key project task will be for of the project team, specifically Mr. Gaur, to facilitate and lead up to three virtual stakeholder workshops with SGPWA stakeholder groups. The information gained in these workshops will inform the work completed by Raftelis in subsequent project tasks.

The exact timing of the stakeholder workshops must be determined in consultation with SGPWA staff. Raftelis currently anticipates that two of the workshops will be held in the early stages of the

project in order to obtain stakeholder input on key issues as quickly as possible. Our services related to the stakeholder workshops will include:

- Development of workshop agendas and presentation materials in consultation with SGPWA staff (one webinar)
- Facilitation and presentations at the workshops (three webinars)
- Preparation of meeting minutes

Task 2: Long-Term Risk and Opportunity Analysis

In consultation with SGPWA staff and stakeholders, Raftelis will identify SGPWA's long-term operational risks and associated opportunities for potential risk mitigation. Examples of long-term operational risks with significant financial ramifications may include, but not necessarily be limited to:

- Increases in SGPWA's ultimate share of the cost of the State Water Project (Bay Delta Conservation Plan/California Water Fix)
- Decreases in the annual water allotment provided to State Water Contractors that reduce the post-replenishment yield of the Beaumont and Cabazon groundwater basins
- Prolonged/worsening drought conditions.
- Changes in property values that reduce SGWPA's long-term assessment revenues

Examples of long-term opportunities for financial risk mitigation may include the development of alternative revenue sources that, by definition, must be in full compliance with the San Gorgonio Pass Water Agency Act and other controlling State of California legislation. The project team will work with SGPWA staff and stakeholders to identify and evaluate alternative revenue sources. They may include, but not necessarily be limited to:

- Pumping charges
- Capacity fees
- Modifications to the SGPWA's wholesale water rate structure
- Alternative capital infrastructure funding strategies such as the creation of public improvement districts.

Task 3: Financial Planning Model Modifications and the Wholesale Rate Updates

As an outcome of Tasks 1 and 2 described above, it may be necessary for the project team to make modifications to SGPWA's recently completed financial plan. As part of this process, Raftelis will update SGPWA's existing wholesale water rates, and in consultation with SGPWA's legal counsel, ensure they are compliance with State of California Proposition 26.

Subtask 3A: Financial Modeling

In addition to the calculation of wholesale water rates, Raftelis will analyze the following items:

- Participation in Sites Reservoir

- Increasing cost of DWR Statement of Charges and Variable costs
- Potential acquisition of additional Table A
- Changes in funds (new Consigned SWP Support Fund)
- Potential water banking opportunities or banking necessary in wet years
- Potential borrowing between funds

The Raftelis Team has allocated 44 hours to this sub task.

Task 4: Presentations at SGPWA Board of Directors Meetings (Virtual)

Sanjay Gaur will make presentations at up to four virtual SGPWA Board meetings. Our current assumption is that one of these presentations will be associated with the adoption of updated wholesale water rates. Prior to consultations with SGPWA staff, we anticipate the other Board presentations will be for the following purposes:

- Obtain Board input and guidance regarding SGPWA's long-term risks and opportunities.
- Provide the Board with feedback from the stakeholder workshops described in Task 1.
- Presentation of the Raftelis draft report developed in Task 5

Task 5: Draft and Final Reports

Raftelis will develop a draft report describing our project findings and recommendations. After the receipt of comments from SGPWA's staff and Board, Raftelis will complete a final report.

PROPOSED CONSULTING FEE

Our proposed not-to-exceed consulting fee is \$85,050 as detailed in the table below. In addition to three virtual stakeholder workshops and four virtual Board presentations discussed above, our proposed consulting fee assumes up to eight virtual meetings with SGPWA staff throughout the duration of the project.

Tasks	Virtual Meetings	Consulting Hours					Total Hourly Consulting Fee
		John Wright	Sanjay Gaur - Water Resource Economics	Johnathon Jordan	Admin	Total	
Task 1: Stakeholder Workshops (Virtual)	3	16	20	28	2	66	\$15,940
Task 2: Long-Term Risk and Opportunity Analysis	4	12	18	24		54	\$13,320
Task 3: Financial Planning Model Modifications and the Wholesale Rate Updates	4	14	6	32		52	\$11,630
SubTask 3A: Financial Modeling	4	10	10	24		44	\$10,290
Task 4: Presentations at SGPWA Board of Directors Meetings (Virtual)	4	16	28	12		56	\$15,300
Task 5: Draft and Final Reports		20	8	38	2	68	\$15,170
Total	19	88	90	158	4	340	
Hourly Rate		\$275	\$310	\$185	\$80		
Total Hourly Consulting Fee		\$24,200	\$27,900	\$29,230	\$320	\$81,650	\$81,650
Percentage of Consulting Hours		26.1%	60.9%	5.4%	2.2%	100.0%	
Percentage of Consulting Fee		24.7%	64.9%	3.5%	0.6%	100.0%	

Total Fees	\$81,650
Technology and Communications Charge (\$10/Hour)	\$3,400
Expenses	\$0
Total Fees & Expenses	\$85,050

PROPOSED PROJECT SCHEDULE

The proposed project schedule is to be determined based on discussions with SGPWA staff. Thank you for the opportunity to present this proposal. If you have any questions, please contact me at 951-395-1674 or jwright@raftelis.com.

Sincerely,



John Wright
Senior Manager
Raftelis