

San Geronio Pass Water Agency

DATE: July 25, 2022

TO: Board of Directors

FROM: Lance Eckhart, General Manager

BY: Tom Todd, Jr., Chief Financial Officer

SUBJECT: ADOPTION OF DEBT SERVICE BUDGET FOR FY 2022-23

RECOMMENDATION

The Board approve the proposed Debt Service Budget for FY 2022-23.

BACKGROUND

The Board considers and adopts a Debt Service Budget every year. About 85% to 90% of this budget is dictated by the Statement of Charges (SOC), issued by the Department of Water Resources (DWR), which the Agency is obligated to pay for its participation in the State Water Project (SWP). The SOC can vary significantly from year to year, so the Board has chosen to wait to consider the Debt Service Budget until the appropriate information becomes available on July 1.

Because the Agency operates on a fiscal year, and DWR operates on a calendar year, the budget contains parts of the SOC from two calendar years. The Agency budget consists of charges from DWR for the final six months of the current calendar year added to charges from DWR for the first six months of the next calendar year, plus estimated expenses for Agency operations over the same time period.

Although the budget is prepared for a twelve-month period, the Board has chosen to consider the effect of DWR and Agency operations on a multi-year basis. In 2011, the Board considered the implications of East Branch Extension (EBX) payments that would increase significantly 15 years in the future and made budget decisions to increase reserves to meet the need.

Budgetary decisions have implications for tax-rate decisions as well. At the same time, the Board considers the budget and the tax rate for the coming fiscal year. The Board takes separate actions concurrently because the Debt Service budget is so closely interrelated to the tax rate. Consideration of the tax rate is the subject of a separate Staff Report.

ANALYSIS

The Board reviewed the unaudited Cash Reconciliation Report for June 2022 at the Finance and Engineering Workshop on July 18, 2022. The final balance for the Debt Service Fund (the “Red Bucket”) is likely to be reduced upon completion of the audit, but the change will be minor. The current balance of the Debt Service Fund is a little over \$61 million. There was almost no change compared to FY 2020-21, so it would be possible to sum up Debt Service activity for FY 2021-22 by saying “*We broke even.*”

FY 2022-23

The major categories of expenses are as follows:

- Statement of Charges
 - \$10M for DWR operations and maintenance
 - Includes a one-time credit of \$600,000 for debt service reserve release
 - \$11.6M for EBX
 - Includes a one-time credit of \$2.4M for EBX debt service reserve release
 - \$2.1M for Delta Conveyance Project (DCP)
 - \$163,000 Devil Canyon bond payment
 - *(\$154,000 less than last year and no further charges)*
- SGPWA Operations
 - \$1.1M
- Water Transfers
 - \$1.2M

Total proposed expense: \$24.3M

The major categories of income are as follows:

- Tax revenue
 - Assumes 8% increase in assessed value, which is slightly less than HdL’s report
 - Assumes 2% decrease in receipts because of delinquencies, Riverside County’s report
 - \$23.4M
- SWP bond cover refunds and interest
 - \$3.1M
- SGPWA allocated interest
 - \$200,000

Total projected income: \$26.7M

The amount added to reserves this fiscal year would be \$2.4 million. Note, this amount is identical to the one-time EBX credit received in the 2023 SOC, so it cannot be considered a recurring event.

FY 2023-24

The SWP will continue to face financial challenges in the coming years. The major items include:

- Increase in maintenance and repairs on aging infrastructure
- Subsidence mitigation and repair
- Inflation

Other projects the Agency considers vital to maintaining its investment in the SWP include DCP and Sites Reservoir. As work progresses on DCP, and design and permitting are completed, construction will start, and expenses will increase. The Agency is hopeful that charges for Sites will be included in future SOC, which will result in additional expenses to the Debt Service Fund.

Projected expenses for the Agency will include:

- Projected increase in DWR operations, historical average of 5%
- \$13.4M for EBX
- \$2.1M for DCP
- Expected total for DWR to be around \$25M
- \$2.5M for water transfers
- \$1.2M for Agency operations

Projected income for the Agency will include:

- The assessed value is likely to increase but at a slower rate
- A potential recession could reduce increases
- SWP bond cover refunds and interest are likely to be similar
- SGPWA allocated interest likely to be similar

FY 2024-25 and Beyond

Long-range planning of the Board begins to pay off as reserves come into play. The increases in EBX bond payments start in 2026 and taper off in 2029. The extra payments (balloon payments) amount to approximately \$20 million. In 2030, EBX annual payments level out at about \$12.1M, with two final payments of \$12.8M in 2034 and 2035. The Debt Service Fund balance will decline, as intended. Between now and then, staff will refine the Agency's Raftelis financial model, so we can more closely predict when the reserves will moderate to the desired level and then be maintained.

Income is likely to continue on an upward trend, primarily because of continued development, but could be affected by the potential recession. Investment income, which is a minor contributor to overall income, may see rate increases but will most likely decline as the Debt Service Fund balance is reduced by additional SWP payments.

If Sites Reservoir proceeds as planned, construction may begin around 2030. The maximum level of Sites bond payments may be reached by 2030, just as EBX payments drop to their reduced level.

FISCAL IMPACT

In summary, an addition to reserves is expected for FY 2022-23. This addition will likely be needed in the following fiscal year due to anticipated increase in SOC. The next two years are likely to see little or no increases in reserves and then a reduction in reserves from 2026 through 2029. From 2030 on, careful management will allow the Agency to maintain the reserves and meet its obligations to the SWP and to the region.

ACTION

The Board approve the proposed Debt Service Budget for FY 2022-23.

ATTACHMENTS

Draft Debt Service Budget for FY 2022-23

DRAFT

**SAN GORGONIO PASS WATER AGENCY
DEBT SERVICE EXPENSE REQUIREMENTS
FOR THE FISCAL YEAR 2022-23**

DEBT SERVICE EXPENDITURES			
DEPARTMENT OF WATER RESOURCES - STATEMENT OF CHARGES			
INVOICE NUMBER	FOR THE PERIOD JUL - DEC 2022	FOR THE PERIOD JAN - JUN 2023	
xx-022-T - ATTACHMENT 1 (Water Supply)	4,532,047	4,969,938	
xx-005-DCC - ATTACHMENT 1A (Devil Canyon)	163,309	0	
xx-020-O - ATTACHMENT 1-1 (OAP)	3,253	5,813	
xx-087-U - ATTACHMENT 1-2 (RAS)	0	0	
xx-002-X - ATTACHMENT 1-5 (EBX)	10,337,344	1,345,089	
xx-012-TAB - ATTACHMENT 1-6 (TEHACHAPI)	22,072	22,015	
DWR FIXED CHARGES	15,058,025	6,342,855	
TOTAL DWR STATEMENT OF CHARGES		21,400,880	
OTHER DWR CHARGES			
Delta Conveyance Project - (Included above)		2,109,545	
Other items			
TOTAL OTHER CHARGES		0	
TOTAL PROJECTED DWR EXPENDITURES		22,000,000	
ADDITIONAL DEBT SERVICE EXPENSES			
Debt Service Salaries		400,000	
Debt Service Payroll Taxes		25,000	
Debt Service Benefits		150,000	
Debt Service Utilities		10,000	
State Water Contractor Dues		46,000	
SWP Legal Services		0	
EBX Contract Operations		125,000	
SWP Engineering and Maintenance		200,000	
Delta Conveyance Financing Authority		29,000	
Tax Collection Charges		115,000	
TOTAL ADDITIONAL EXPENSES		1,100,000	
WATER TRANSFERS			
Ventura Water Transfer		1,200,000	
TOTAL WATER TRANSFERS		1,200,000	
GRAND TOTAL DEBT SERVICE EXPENDITURES		24,300,000	

DRAFT

**SAN GORGONIO PASS WATER AGENCY
DEBT SERVICE EXPENSE REQUIREMENTS
FOR THE FISCAL YEAR 2022-23**

DEBT SERVICE REVENUE			
ESTIMATED DWR REFUNDS + INTEREST			
Esitante of Bond Cover Refunds			3,100,000
DWR - Allocation of Interest on Reserved Runds			
TOTAL ESTIMATE OF DWR REFUNDS + INTEREST			3,100,000
SGPWA Estimate of Allocated Interest			200,000
TOTAL REFUNDS + INTEREST			3,300,000
OTHER REVENUE			
Other items			0
TOTAL Other Revenue			0
DEBT SERVICE TAX REVENUE			
DEBT SERVICE INCOME FY 2021-22		22,094,267	
Adjustments to income received		0	
		22,094,267	
TAX REVENUE PER CENT OF TAX LEVY			
(Current Tax Rate: 17.50 Cents)	17.50	1,262,530	
Projection for FY 2022-23:			
8% increase		101,002	
2% decrease - Delinquency FY21-22		-25,251	
ESTIMATED TAX REVENUE PER CENT OF TAX LEVY, FY 2022-23		1,338,281	
ESTIMATED TAX REVENUE		(rounded)	23,400,000
TOTAL ESTIMATED REVENUE			26,700,000
DEBT SERVICE EXPENDITURES COMBINED			
WITH REVENUE AT TAX RATE OF 17.50			2,400,000