

San Gorgonio Pass Water Agency

DATE: July 17, 2023
TO: Board of Directors
FROM: Lance Eckhart, General Manager
BY: Tom Todd, Jr., Chief Financial Officer
SUBJECT: ADOPTION OF DEBT SERVICE BUDGET FOR FY 2023-24

RECOMMENDATION

The Board approve the proposed Debt Service Budget for FY 2023-24.

BACKGROUND

The Board considers and adopts a Debt Service Budget every year. Over 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 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 to tax-rate decisions as well. At the same time the Board considers the budget, it also considers 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 just reviewed the unaudited Cash Reconciliation Report for June 2023 at this meeting. 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 reserve starting balance was about \$62.5 million, and the budget projected a \$2.4 million increase, due to the one-time credit from DWR for EBX payments.

The revised projected addition to the Debt Service reserve after the audit is complete is expected to be about \$4.5 million. The additions came from an increase in tax revenue (\$1.1 million), an increase in interest income (\$200,000), an increase in DWR credits (\$300,000), and a slight reduction in overall expenses (\$600,000).

FY 2023-24

The major categories of expenses are as follows:

- Statement of Charges
 - \$12m for DWR operations and maintenance
 - \$14.6m for EBX
 - \$2.1m for Delta Conveyance Project (DCP)
- SGPWA Operations
 - \$1.3m
- Water Transfers
 - \$2.4m

Total proposed expense: \$31.5 million.

The major categories of income are as follows:

- Tax revenue
 - Assumes 9% increase in assessed value, which is slightly less than HdL's report
 - Assumes 2% decrease because of delinquencies, Riverside County's report
 - \$26.4m
- SWP bond cover refunds and interest
 - \$3.3m
- SGPWA allocated interest
 - \$500,000

Total projected income: \$26.4 million.

Balance deducted from reserves: \$5 million. Note, this amount is almost identical to the credits received in the 2023 SOC. The reserve fund should end the year at about same level as the start of FY 22-23.

FY 2024-25

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 Sites Reservoir and the Delta Conveyance Project. The Agency is hopeful that charges for Sites will be included in future SOC, which will also add additional expenses. As work progresses on DCP, and design and permitting are completed, construction will start, and expenses will increase.

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.

- \$2.7m for water transfers

- \$1.4m for Agency operations

Projected income for the Agency will include:

- Assessed value is likely to increase, but at a slower rate

- SWP bond cover refunds and interest likely to be similar

- SGPWA allocated interest likely to be similar, could be a bit higher

- A potential recession seems like a 50-50 possibility

FY 2025-26 and Beyond

Long-range planning of the Board begins to pay off, as reserves come into play. The planned for increases in EBX bond payments start in 2026, and subside in 2029. The extra payments amount to approximately \$20 million. In 2030, EBX 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, we 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, mostly because of continued development. 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 this time. However, no new information has been released about potential payments for Sites, but experience would suggest that predictions will only increase. The maximum level of bond payments may be reached by 2030, just as EBX is dropping down to its reduced level. The difference between the 2029 EBX payment and the 2030 payment is \$8m, which is the majority of the expected maximum level for Sites.

EBX payments will be done in 2035, and by this time DCP may have increased to take its place. If it hasn't, it will also be increasing and the maximum will be reached in the next few years.

FISCAL IMPACT

In summary, for FY 2023-24, a withdrawal from reserves is projected. The next two years are likely to see continued increases in revenues, but probably no additions to 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 2023-24.

ATTACHMENTS

Draft Debt Service Budget for FY 2023-24

**SAN GORGONIO PASS WATER AGENCY
DEBT SERVICE FUND BUDGET FOR FY 2023-24**

Based on May 2023 Budget Report

DRAFT

		FISCAL YEAR JULY 1, 2022 - JUNE 30, 2023				FY JULY 1, 2023 - JUNE 30, 2024	
		1	2	3	4	5	6
		TOTAL REVISED BUDGET		ACTUAL JUNE, 2023	Over/Under Budget	PROPOSED FY 2023-24	FY22-23 to FY23-24
150							
151	DEBT SERVICE FUND - INCOME						
152	INCOME						
153	TAX REVENUE	23,400,000		24,556,980.15	4.9%	26,100,000	increase
154	INTEREST	200,000		462,356.99	131.2%	460,000	increase
155	CONTRIBUTIONS - GOVERNMENT	0		0.00	0.0%	0	
156	DWR CREDITS - BOND COVER, OTHER	3,100,000		3,432,274.00	10.7%	3,100,000	no change
157	TOTAL DEBT SERVICE FUND INCOME	26,700,000	0.00	28,451,611.14	6.6%	29,660,000	11.1%
158							
159	DEBT SERVICE FUND - EXPENSES						
160	EXPENSES						
161	SALARIES	400,000		419,873.77	-5.0%	425,000	increase
162	PAYROLL TAXES	25,000		27,761.83	-11.0%	30,000	increase
163	BENEFITS	150,000		128,277.71	14.5%	220,000	increase
164	STATE WATER CONTRACT PAYMENTS	22,000,000		21,415,221.00	2.7%	26,000,000	increase
165	WATER TRANSFERS	1,200,000		1,148,927.62	4.3%	2,500,000	increase
166	SWC CONTRACTOR DUES	46,000		46,520.00	-1.1%	51,000	increase
167	STATE WATER CONTRACT AUDIT	6,000		5,889.00	1.9%	7,000	increase
168	DELTA CONVEYANCE FACILITY AUTHORITY	29,000		0.00	100.0%	30,000	increase
169	EBX CONTRACT OPERATIONS	125,000		73,650.80	41.1%	200,000	increase
170	SWP ENGINEERING AND MAINTENANCE	200,000		86,619.51	56.7%	200,000	no change
171	DEBT SERVICE UTILITIES	10,000		9,293.18	7.1%	11,000	increase
172	STATE WATER PROJECT LEGAL SERVICES	0		0.00	0.0%	0	
173	TAX COLLECTION CHARGES	109,000		119,009.05	-9.2%	130,000	increase
174	TOTAL DEBT SERVICE FUND EXPENSES	24,300,000	0.00	23,481,043.47	3.4%	29,804,000	22.7%
175							
176	TRANSFERS FROM RESERVES	0	0.00	0.00	0.00	0	
177							
178	DEBT SERVICE NET INCOME YEAR-END	2,400,000	0.00	4,970,567.67	107.1%	-144,000	
179							

DRAFT

**SAN GORGONIO PASS WATER AGENCY
DEBT SERVICE EXPENSE REQUIREMENTS
FOR THE FISCAL YEAR 2023-24**

DEBT SERVICE EXPENDITURES**DEPARTMENT OF WATER RESOURCES - STATEMENT OF CHARGES**

INVOICE NUMBER	FOR THE PERIOD	FOR THE PERIOD
	JUL - DEC 2023	JAN - JUN 2024
Water Supply - T Invoice - ATTACHMENT 1	3,915,156	7,169,704
Delta Conveyance Project	1,054,772	1,054,773
Sites Reservoir	0	1,725,000
Other		
Sub-Total Water Supply	4,969,928	8,224,477
OAP - O Invoice- ATTACHMENT 1-1	3,384	6,696
RAS - U Invoice - ATTACHMENT 1-2	0	0
EBX - X Invoice - ATTACHMENT 1-5	9,636,956	3,026,526
Tehachapi - TAB Invoice - ATTACHMENT 1-6	22,014	22,136
DWR FIXED CHARGES	14,632,282	11,279,835
TOTAL DWR STATEMENT OF CHARGES		25,912,117
OTHER DWR CHARGES		
No additions		0
TOTAL OTHER CHARGES		0
TOTAL PROJECTED DWR EXPENDITURES		26,000,000
ADDITIONAL DEBT SERVICE EXPENSES		
Debt Service Salaries		425,000
Debt Servie Payroll Taxes		30,000
Debt Service Benefits		220,000
State Water Contractor Dues		51,000
State Water Contract Audit		7,000
Delta Conveyance Financing Authority		30,000
EBX Contract Operations		200,000
SWP Engineering and Maintenance		200,000
Debt Service Utilities		11,000
SWP Legal Services		0
Tax Collection Charges		130,000
TOTAL ADDITIONAL EXPENSES		1,304,000
WATER TRANSFERS		
Ventura Water Transfer		2,500,000
TOTAL WATER TRANSFERS		2,500,000
GRAND TOTAL DEBT SERVICE EXPENDITURES		29,804,000

DRAFT

**SAN GORGONIO PASS WATER AGENCY
DEBT SERVICE EXPENSE REQUIREMENTS
FOR THE FISCAL YEAR 2023-24**

DEBT SERVICE REVENUE			
ESTIMATED DWR REFUNDS + INTEREST			
Esitamate 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			460,000
TOTAL REFUNDS + INTEREST			3,560,000
OTHER REVENUE			
Other items			0
TOTAL Other Revenue			0
DEBT SERVICE TAX REVENUE			
DEBT SERVICE INCOME FY 2022-23		24,528,687	
Adjustments to income received		0	
		24,528,687	
TAX REVENUE PER CENT OF TAX LEVY			
(Current Tax Rate: 17.50 Cents)	17.50	1,401,639	
Projection for FY 2023-24:			
9% increase		126,148	
2.6% decrease - Delinquency FY23-24		-36,443	
ESTIMATED TAX REVENUE PER CENT OF TAX LEVY, FY 2023-24		1,491,344	
ESTIMATED TAX REVENUE		(rounded)	26,100,000
TOTAL ESTIMATED REVENUE			29,660,000
DEBT SERVICE EXPENDITURES COMBINED			
WITH REVENUE AT TAX RATE OF 17.50			-144,000