

San Gorgonio Pass Water Agency

DATE: July 15, 2024

TO: Board of Directors

FROM: Lance Eckhart, General Manager

BY: Tom Todd, Jr., Chief Financial Officer

SUBJECT: TAX RATE FOR FY 2024-25

RECOMMENDATION

The Board set the tax rate by approving Resolution 2024-06.

PREVIOUS CONSIDERATION

- Finance and Budget Committee – June 27, 2024: The Committee reviewed and discussed the proposed Debt Service Budget for FY 2024-25. After Committee input, some changes were made, reflected in the latest version of the proposed budget.

BACKGROUND

The Board sets the tax rate for the Debt Service Fund every year. The Riverside County Board of Supervisors has set the deadline for submission of tax rate resolutions as Thursday, August 1, 2024.

ANALYSIS

The current tax rate is 17.5 cents per \$100 of assessed valuation, which has been in effect since 2020. From 2017 to 2020, the Board has gradually reduced the rate from 18.5 cents to its current rate.

The current Debt Service Fund balance is projected to be about \$75 million at year-end. This is projected to enable the Agency to meet its obligations to the State Water Project (SWP) through 2030 using the built-up reserves. However, increasing financial pressures on the SWP, generational opportunities, and aging SWP infrastructure suggest that the current tax rate may not be sufficient to continue to meet our participation obligations and maintain a prudent level of reserves past 2030.

FISCAL IMPACT

As shown in the proposed Debt Service Budget for FY24-25, reductions in SWP expenses are offset by increases in local expenditures, resulting in an overall increase from the previous fiscal year. However, comparing expenditure increases with potential tax revenue at the current rate would also suggest that the current tax rate is sufficient to meet the expenditure needs of the coming fiscal year.

Additional revenue could be derived by increasing water rates, but the Board has determined that previously adopted customer rates based on rate studies and a formal public review process are currently appropriate. The Board has determined that it would be infeasible to expend revenues derived from such customer rates, or an increase in such rates, on estimated SWP expenditures.

ACTION

The Board set the tax rate by approving Resolution 2024-06.

ATTACHMENTS

Resolution 2024-06

Setting Tax Rate for FY 2024-25 – Resolution 2024-06



Board of Directors – July 15, 2024

Review of Funds

“The Bucket List”

Other Funds

Unrestricted
Unitary Tax

Unrestricted
General
Fund

County Taxes to Pass Agency

~13M

Consigned
SWP Support
Fund

County Debt Service Unitary

~17M

Debt Service

SGPWA Special Tax

We Control Income
We DON'T Control Income
We DON'T Control Income



Restricted
Debt Service
Fund

SGPWA Special Tax

~75M

Restricted
Debt Service
Fund

SGPWA Special Tax



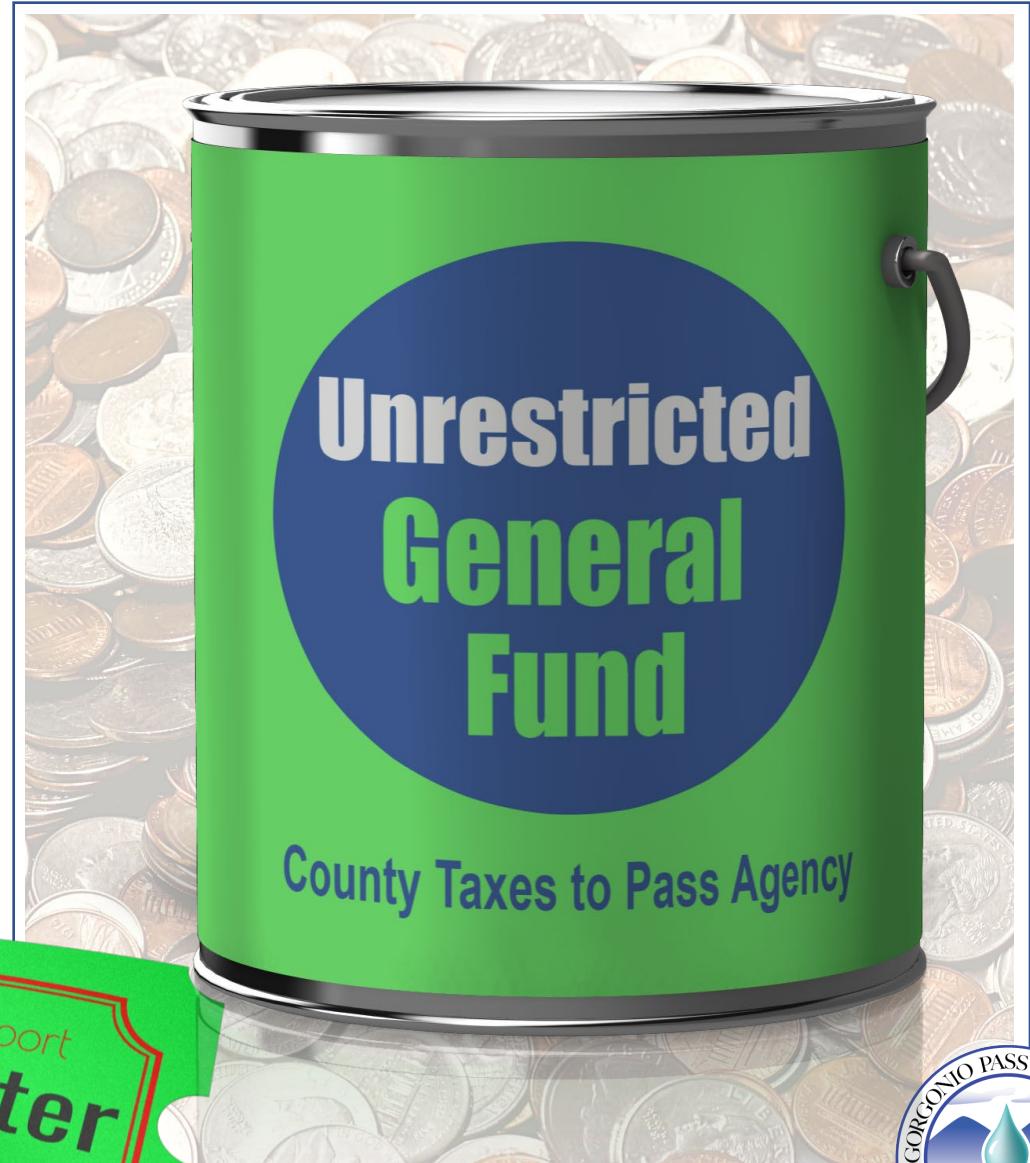
General Fund

Adopted June 6, 2024

Administrative Overhead
Engineering/Science
Local Projects (e.g. Backbone Pipeline)
External Projects (e.g. Water Bank)
Nickel Water

Water Purchases

*Transport Cost
Non-Project Water
Power/Wheeling*

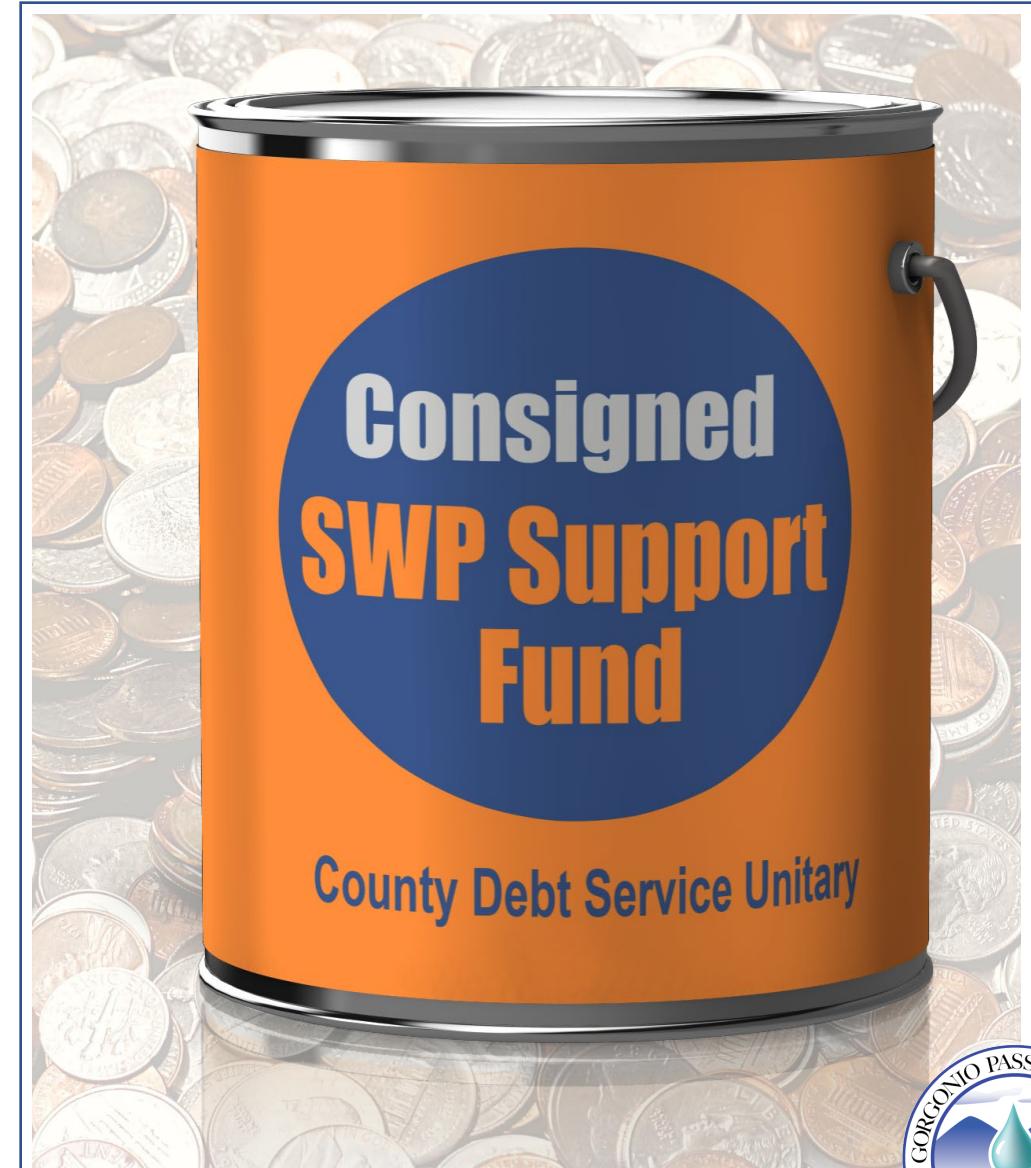


Consigned Fund

Adopted June 6, 2026

Same as the General Fund with some potential restrictions.

At the discretion of the Board





Debt Service

Bond Payments

EBX 1 & 2

SWP Administrative Overhead

Project Water & Exchange Fixed Costs

SWP Projects & Repairs

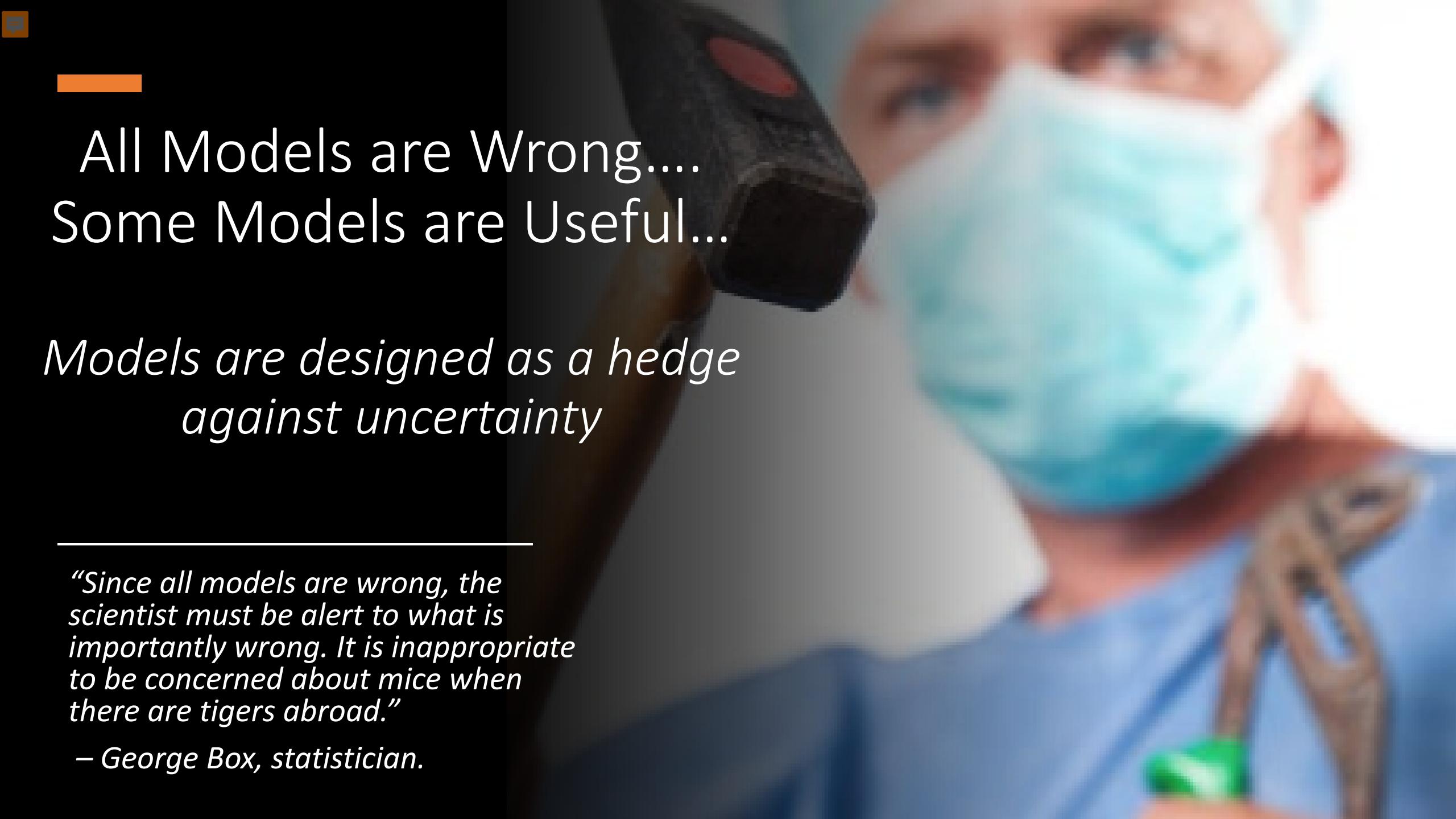
Delta Tunnel

Ventura Water

EBX Balloon Payments

"Any SWP-Related Costs"





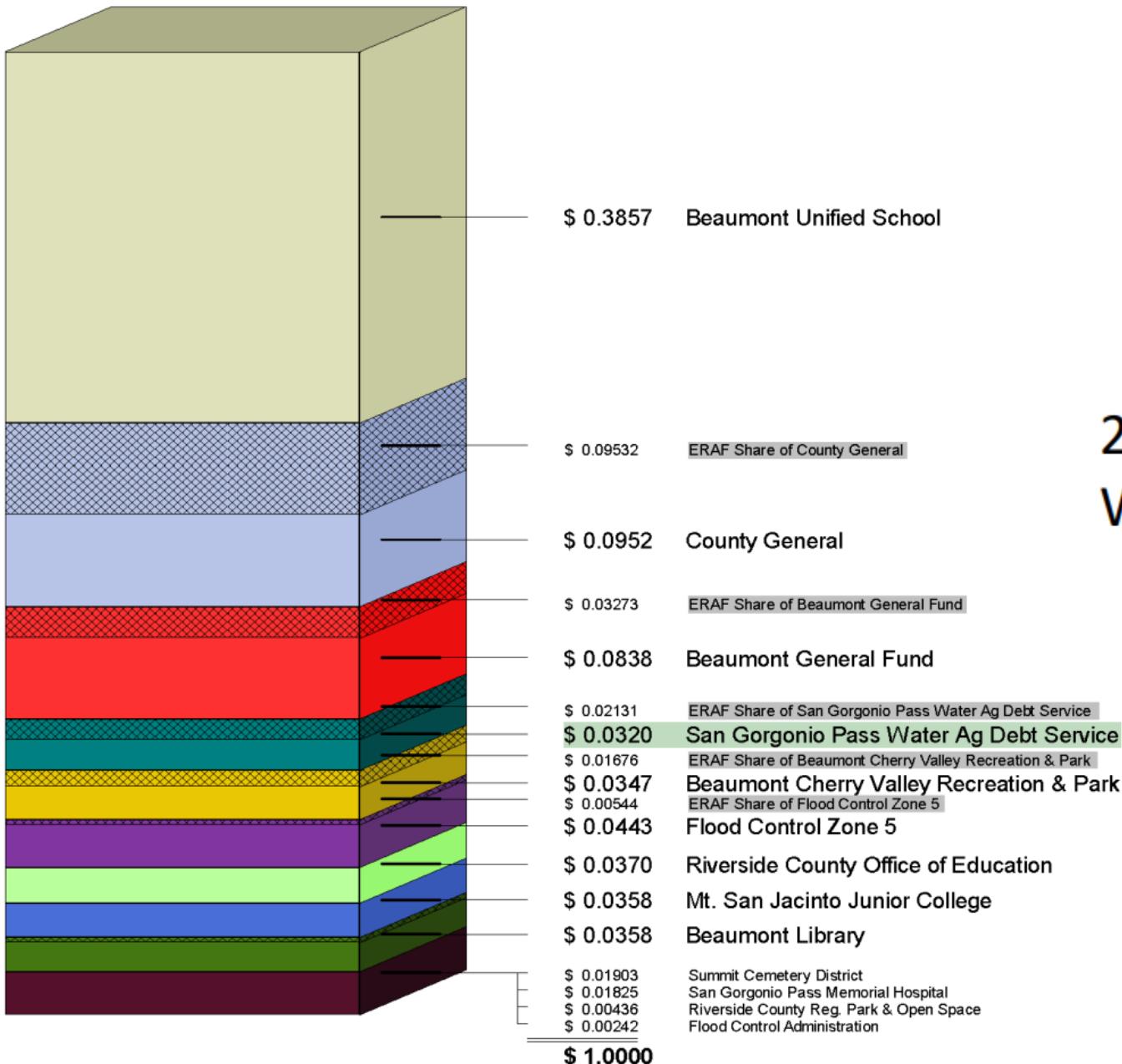
All Models are Wrong....
Some Models are Useful...

*Models are designed as a hedge
against uncertainty*

“Since all models are wrong, the scientist must be alert to what is importantly wrong. It is inappropriate to be concerned about mice when there are tigers abroad.”

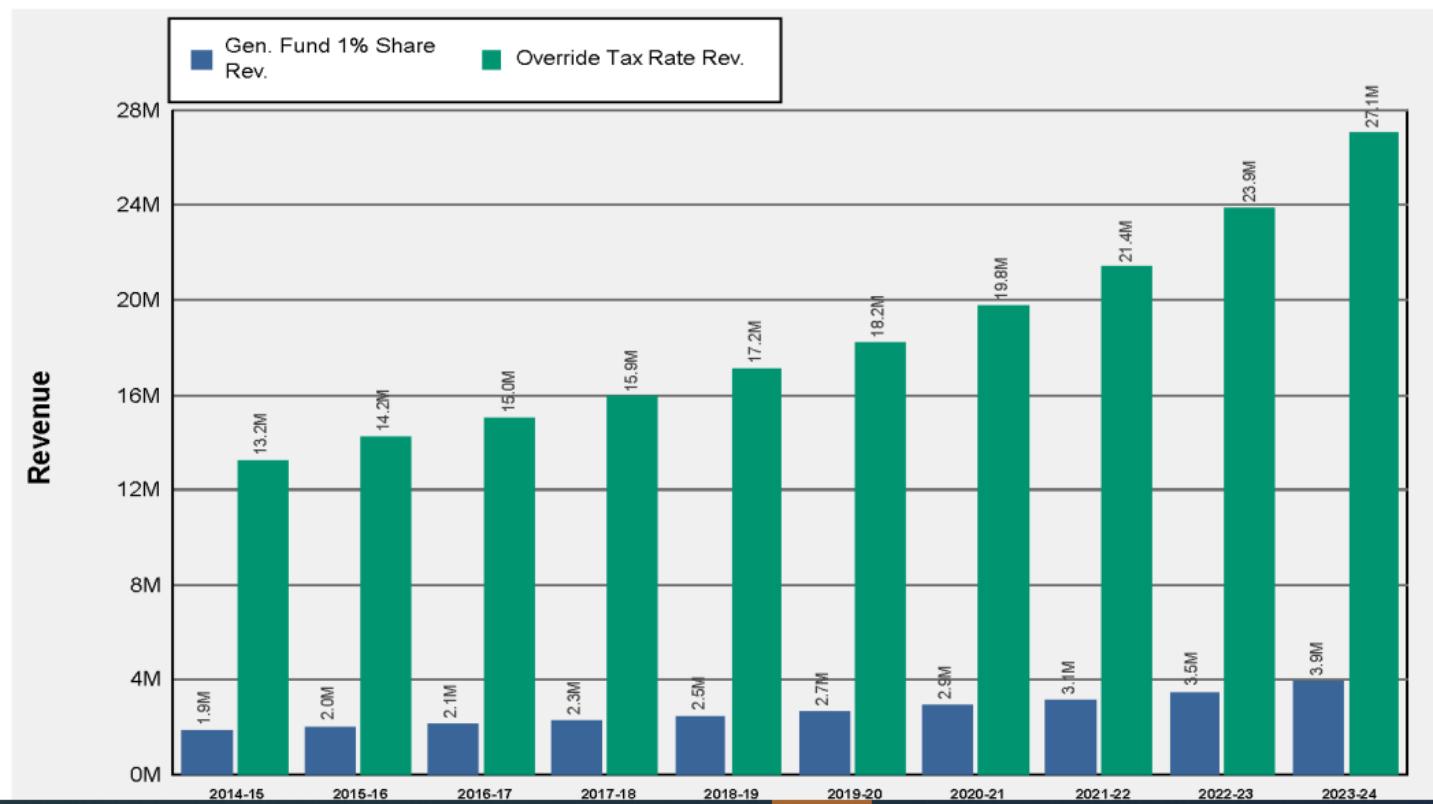
– George Box, statistician.

SAN GORGONIO PASS WATER PROPERTY TAX DOLLAR BREAKDOWN



**2023-24 RATE FOR STATE
WATER PROJECT 0.175000**

Roll Year	Gen. Fund 1% Share Rev.	% Chg	Override Tax Rate Rev.	% Chg
2014-15	\$1,881,521		\$13,227,420	
2015-16	\$2,026,300	7.6%	\$14,223,718	7.5%
2016-17	\$2,141,989	5.7%	\$15,040,530	5.7%
2017-18	\$2,292,484	7.0%	\$15,939,848	5.9%
2018-19	\$2,480,408	8.2%	\$17,150,833	7.6%
2019-20	\$2,667,891	7.5%	\$18,195,740	6.0%
2020-21	\$2,939,769	10.1%	\$19,779,724	8.7%
2021-22	\$3,146,604	7.0%	\$21,408,739	8.2%
2022-23	\$3,491,780	10.9%	\$23,918,845	11.7%
2023-24	\$3,934,896	12.6%	\$27,068,474	13.1%



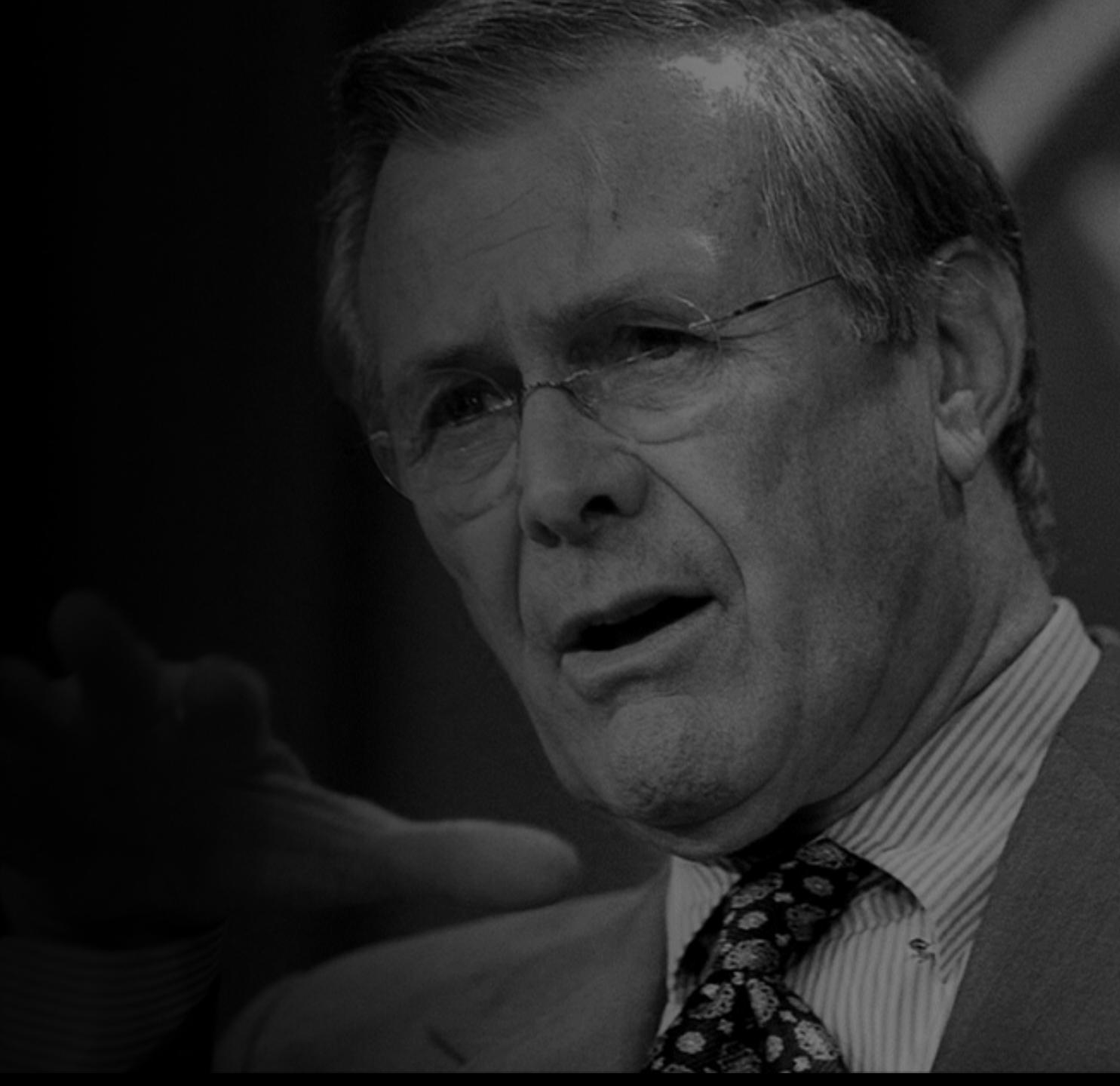
Known Knowns

vs.

Unknown Unknowns

“... as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones, we don’t know we don’t know.”

Donald Rumsfeld – U.S. Defense Secretary to DoD; February 12, 2002





Rumsfeld Matrix

(unfortunate homeowner example)

Known knowns (aware & understand)

- *The water heater will eventually fail, but the life expectancy is generally understood.*

Known Unknowns (aware & don't fully understand)

- *As the house ages, it needs to be maintained, and updated and parts will fail. It is expected but not known when or how bad.*

Unknown knowns (aren't aware & understand)

- *Do we have TERMITES!?*

Unknown Unknowns (aren't aware & don't understand)

- *The house got hit by a meteor.*

Known



Unknown



Knowns

Unknowns



Rumsfeld Matrix

Known knowns (aware & understand)

- This year's taxes
- 2023-24 Budget
- Reserve Minimums
- Balloon Payments
- Rough DCP/Sites Costs
- HDL Tax Estimates 5 Years Maximum
- Ventura Water

Known Unknowns (aware & don't fully understand)

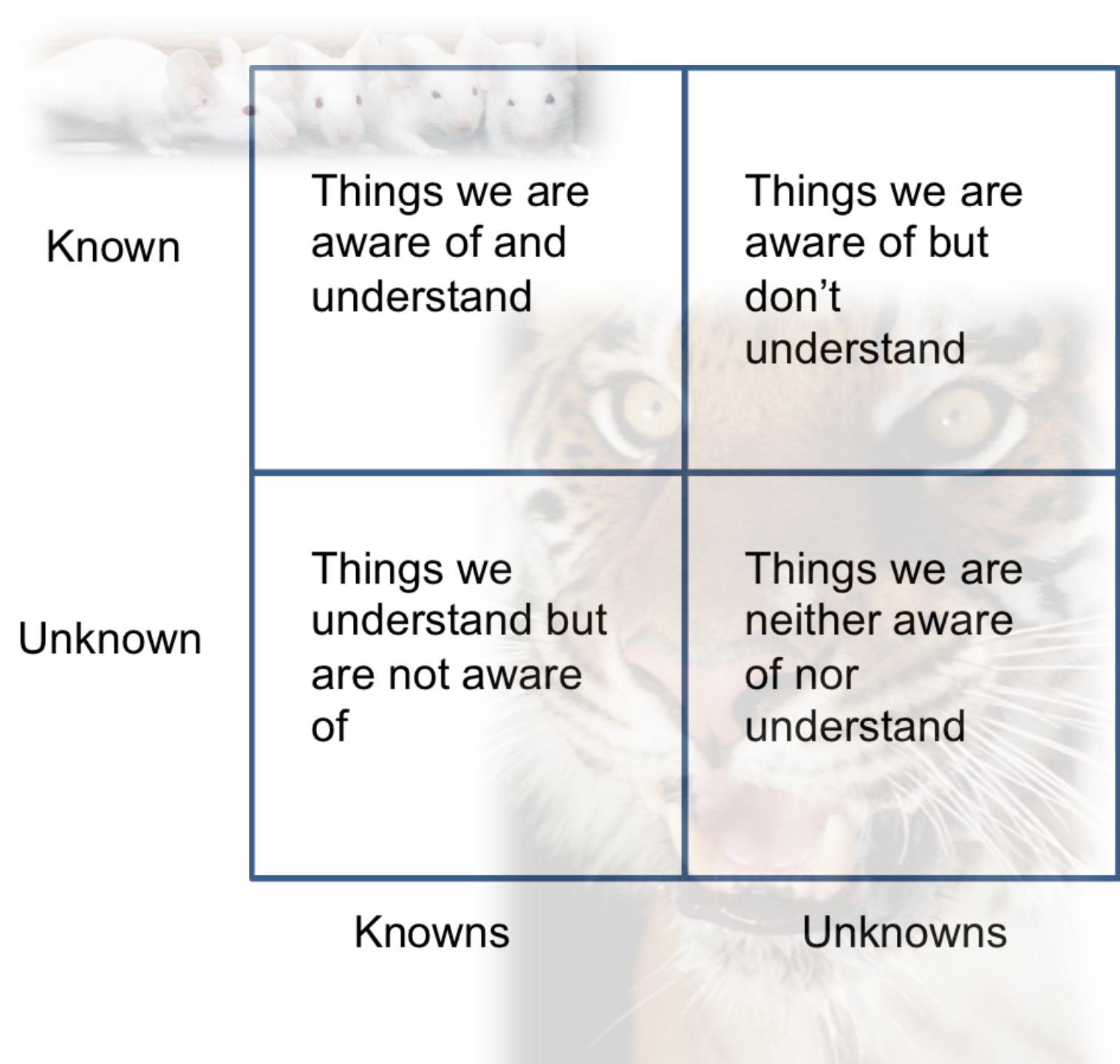
- Aging Infrastructure
- Increasing SWP costs
- Precise DCP/Sites Costs
- Long Term Transfer Costs (other people's Table A)

Unknown knowns (aren't aware & understand)

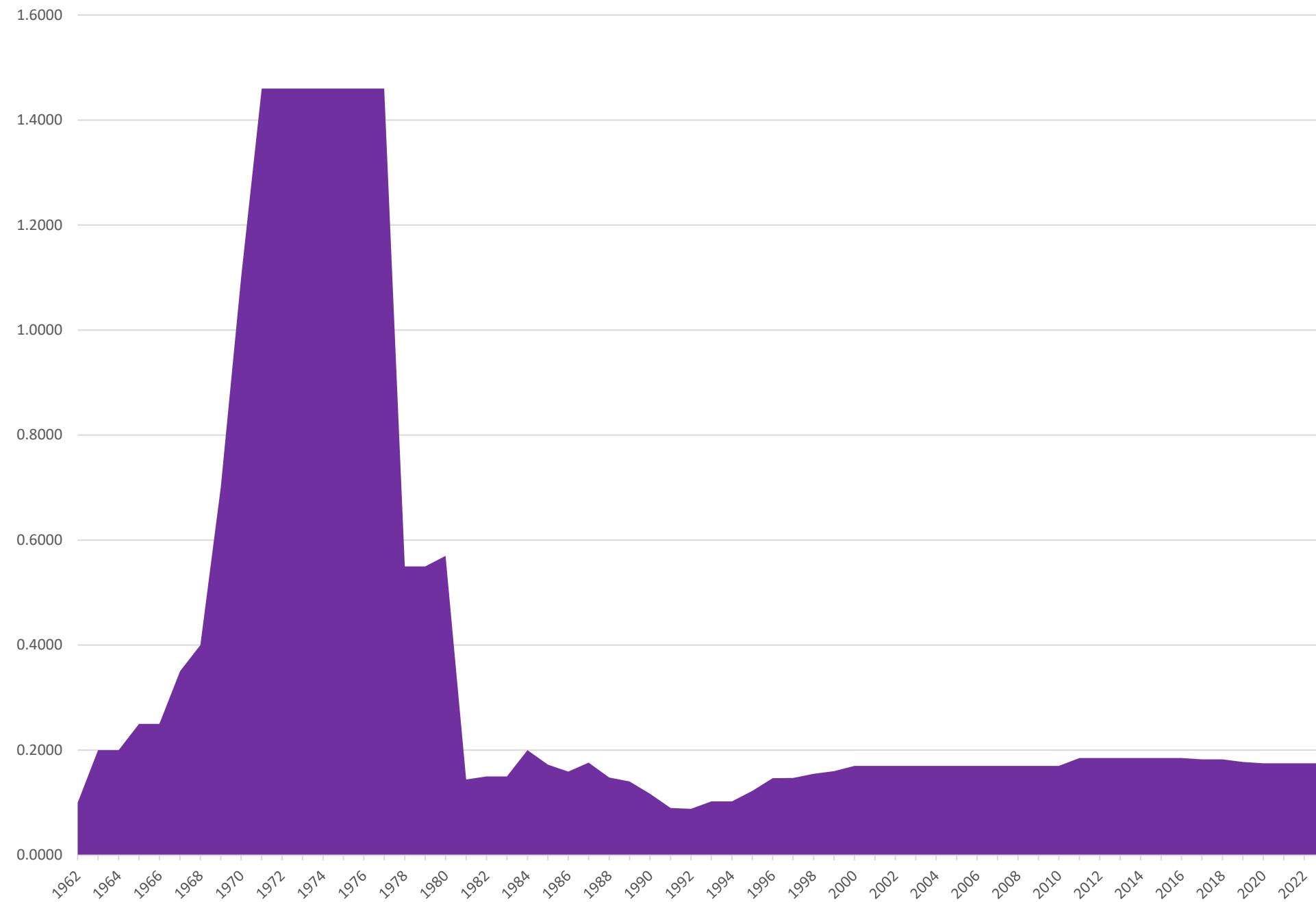
- Subsidence
- Delta Outage (e.g., earthquake in Delta)
- Climate Change and Effects on Supply
- Effect of Contract Extension on Statement of Charges
- Inflation Pressures

Unknown Unknowns (aren't aware & don't understand)

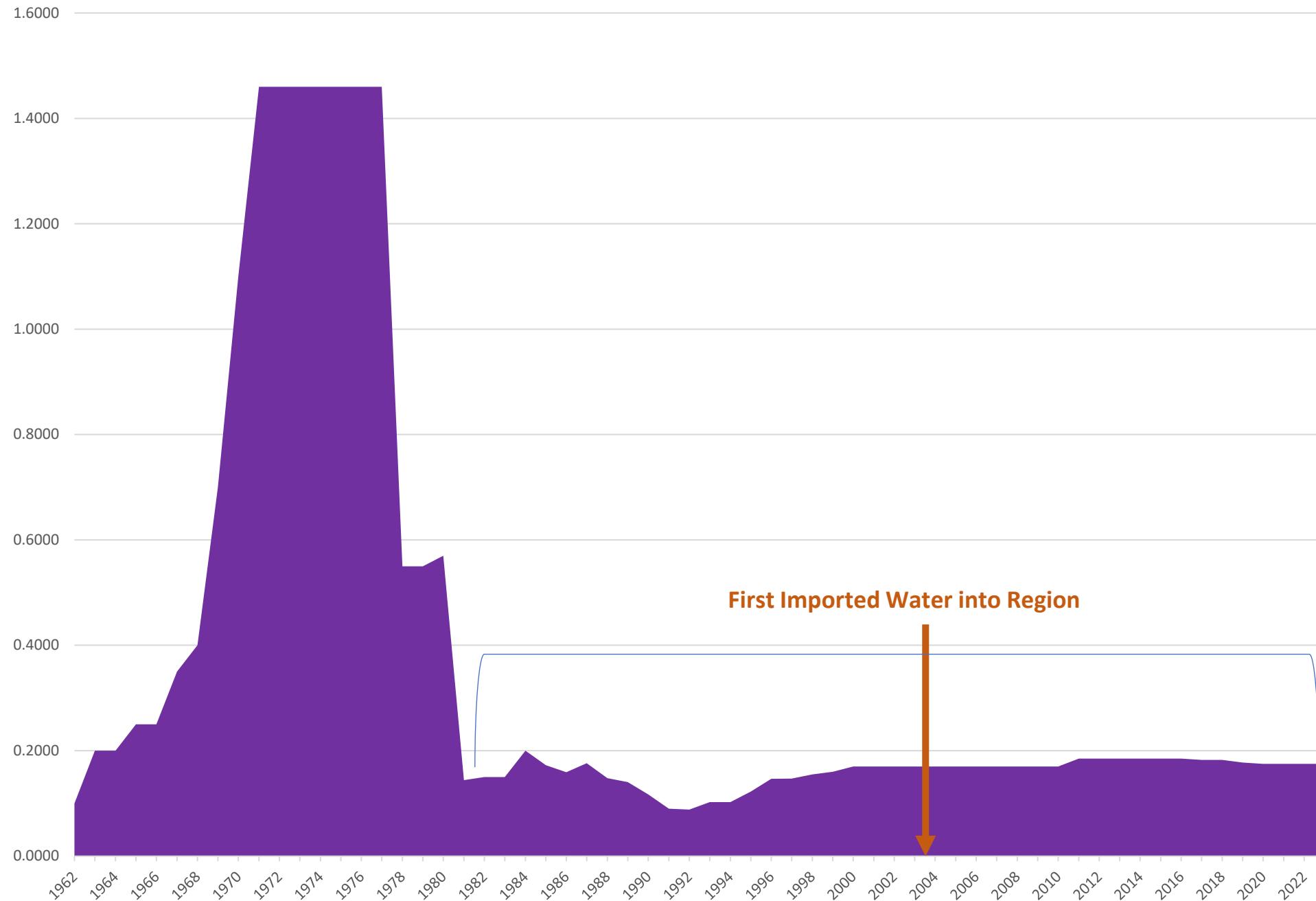
- Recessions
- Force Majeure
- Major Disaster
 - Earthquake
 - Delta Levee Failure
 - Other?



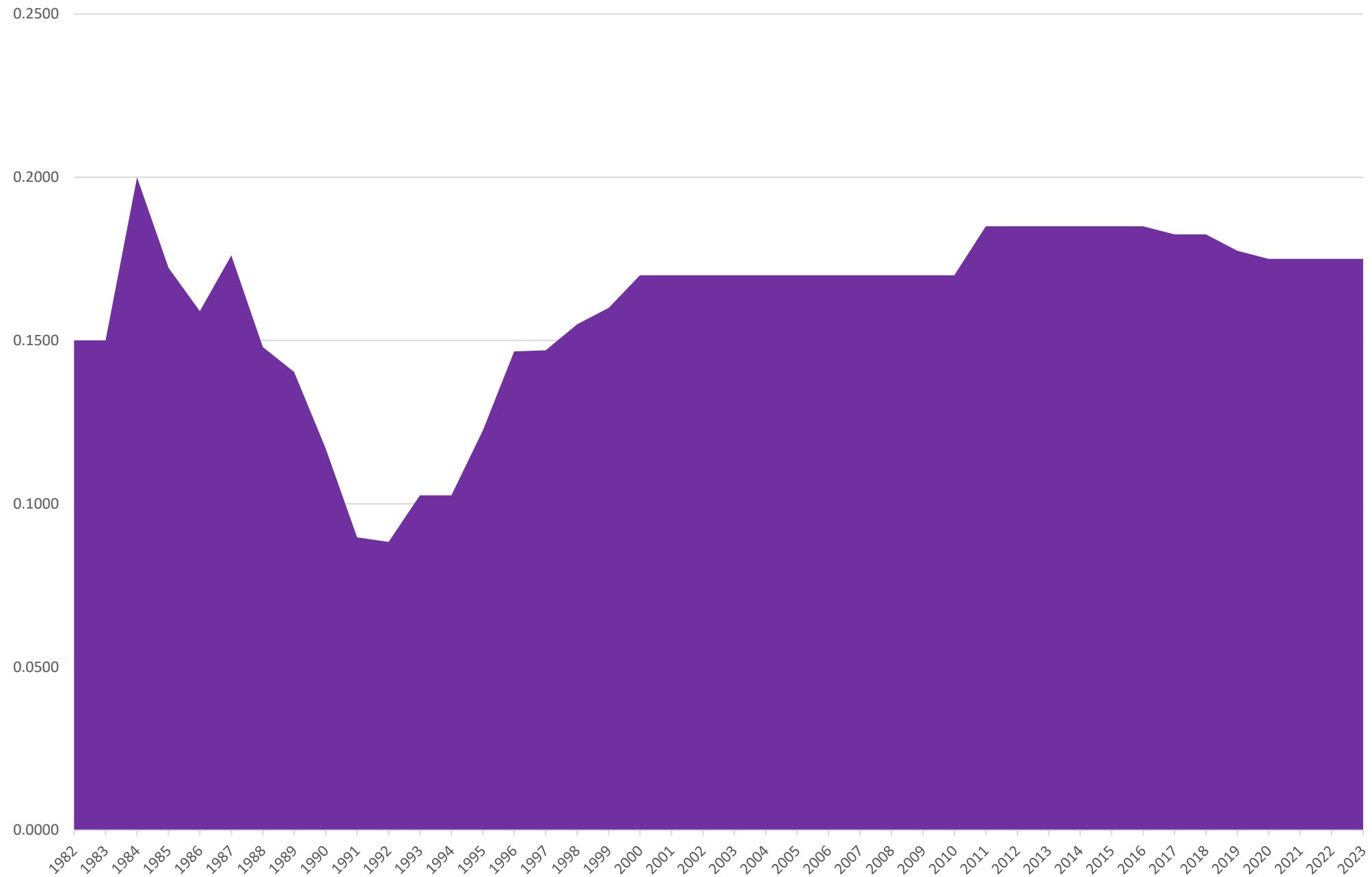
Tax Rate (per \$100 Assessed Value)



Tax Rate (per \$100 Assessed Value)



Tax Rate (per \$100 Assessed Value)



Summary

- Tax rate roughly maintained for the last 40 years
- High growth area of the Riverside County
 - Higher revenues & greater need for committed investments (Sites, DCP, etc.)
- **Budget: This year, revenue will be slightly greater than expenditures at the current tax rate**

The Agency is presently well fiscally positioned, noting that there are future uncertainties.

Staff Recommendation
Board set tax rate
and
approve Resolution 2024-06

RESOLUTION NO. 2024-06

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN GORGONIO PASS WATER AGENCY DETERMINING THE AMOUNT OF MONEY NEEDED TO MAKE ANNUAL PAYMENTS FOR THE INTEREST AND PRINCIPAL ON GENERAL OBLIGATION BONDS AND FOR OTHER INDEBTEDNESS APPROVED BY THE VOTERS PRIOR TO JULY 1, 1978, AND/OR FOR WHICH A TAX LEVY IS REQUIRED UNDER ARTICLE 1, SECTION 10 OF THE UNITED STATES CONSTITUTION AND MAKING A TAX LEVY THEREOF

WHEREAS, pursuant to California Revenue and Taxation Code Section 96.31(a)(2), a local water district may levy property taxes to provide for payments to the state under a state water supply contract entered into pursuant to the California Water Resources Development Bond Act; now therefore,

BE IT RESOLVED by the Board of Directors of the San Gorgonio Pass Water Agency, as follows:

1. That said Board of Directors has determined that the amount of money needed to make annual payments during the fiscal year, beginning July 1, 2024, and ending June 30, 2025, for the interest and principal on general obligation bonds and other indebtedness and outlays as approved by the voters prior to July 1, 1978, and/or required by Article 1, Section 10 of the United States Constitution is \$33,107,000 for payments on the Contract between the State of California Department of Water Resources and the San Gorgonio Pass Water Agency for a water supply, dated November 16, 1962.

2. That the Board of Directors has determined, after a public process over a number years, that as of the date of this Resolution, it is not currently practicable or feasible to raise water rates to generate revenues sufficient to pay the above-mentioned expense for the upcoming fiscal year.

3. That the Board of Directors has determined that it is therefore necessary to levy and collect a tax sufficient to raise the amount of money required to pay the above-mentioned expense, and hereby fixes the rate of tax which will raise the amount of money required by said Agency at the following amount per hundred dollars of assessed valuation of taxable property within said Agency:

\$ _____ State Water Contract

4. That the Board of Directors does hereby certify the rates so fixed, and as herein before set forth, to the Board of Supervisors of the County of Riverside, State of California, and to the County Auditor of said County.

5. That pursuant to California Water Code – Appendix Section 101-27, the determination of the amount necessary to be raised by taxation for such purpose during the fiscal year and the order fixing the rate of tax made herein shall constitute a valid assessment of the property within the Agency and a valid levy of taxes so fixed. Said levy is permitted by California Revenue and Taxation Code Section 93 and/or required by Article 1, Section 10 of the United States Constitution.

6. That a certified copy of this Resolution be transmitted to the County Auditor of said County, and that when so transmitted, said certified copy shall constitute the certification required in Section 101-27 of the California Water Code – Appendix.

7. That funds received by the San Gorgonio Pass Water Agency pursuant to the aforesaid tax levy shall be placed in a separate fund identified for such purposes as set forth above and shall be disbursed only for lawful payments for aforesaid purposes.

8. The Recital set forth above is incorporated herein and made an operative part of this Resolution.

9. The President of the Board shall sign this Resolution and the Secretary of the Board shall attest thereto, and this Resolution shall be in full force and effect immediately upon adoption.

10. If any section, subsection, clause or phrase in this Resolution is for any reason held invalid, the validity of the remainder of this Resolution shall not be affected thereby. The Board hereby declares that it would have passed this Resolution and each section, subsection, sentence, clause, or phrase thereof, irrespective of the fact that one or more sections, subsections, sentences, clauses or phrases or the application thereof be held invalid.

ADOPTED AND APPROVED this 15th day of July, 2024.

ATTEST:

Mickey Valdivia
President, Board of Directors
San Gorgonio Pass Water Agency

Kevin Walton
Secretary, Board of Directors
San Gorgonio Pass Water Agency