

LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

MEMORANDUM


DATE: MAY 23, 2017

TO: BOARD OF DIRECTORS
Lake Arrowhead Community Services District

FROM:



JESSICA BROWN, Finance Manager



CATHERINE CERRI, General Manager

SUBJECT: 2017-18 SUPPLEMENTAL WATER FEE

A. RECOMMENDATION

This is an information item only.

B. REASON FOR RECOMMENDATION

This is an information item only

C. BACKGROUND INFORMATION

The purpose of this item is to provide the Board an overview and update of the Supplemental Water Fee program and receive direction on the 2017-18 levy amount. In 2004, Lake Arrowhead Community Services District (“LACSD” or “District”) implemented the Supplemental Water Fee for the purpose of purchasing imported water and funding projects to develop alternate sources of water other than Lake Arrowhead. The fee was initially approved for 15 years with an annual two percent (2%) increase and will sunset in fiscal year 2018-19.

The Supplemental Water Fee has both a fixed and variable component. The fixed component is a per parcel charge based upon the number meters on the parcel and the funds are used for capital improvement projects and programs that support the objective of developing alternate sources of water other than Lake Arrowhead.

The variable component is a commodity fee which is based upon water consumption and funds the costs of imported water. When the fee was implemented, projections suggested that the District would need to purchase 7,600 acre feet (“AF”) of water over a 10 to 15-year period. As a result, the District entered into a purchase agreement with San Bernardino Municipal Water District

and Crestline-Lake Arrowhead Water Agency (CLAWA) for the purchase of 7,600 AF of imported water, referred to as CLAWA2.

Due to water conservation and the development of alternative sources of water, the District has only purchased 1,528 AF of CLAWA2 water through 2015-16. Subsequently, the Board has reduced the variable portion of the fee over the past six years. The District is anticipating an extension on the CLAWA2 agreement and on the use of the funds past the end of the fee. Additionally, in 2013-14, the Board amended the fee calculation methodology and eliminated the annual 2% increase, thus capping the fixed component charged to property owners at \$251.91. For 2016-17, property owners were charged the fixed component only and the variable component was not assessed.

As of April 2017, the District has collected approximately \$38.2 million in Supplemental Water Fee revenue since its initial implementation. This revenue has funded multiple projects and programs as well as water purchases as summarized below:

| <i>Supplemental Water Fee (in millions)</i> | |
|---|--------------|
| Revenue | 38.2 |
| Projects & Programs | (15.5) |
| Water Purchase | <u>(9.2)</u> |
| Available Net Revenue | 13.5 |

The projects and programs funded through the Supplemental Water Fee include a water storage tank for purchased water, pipeline, recycled water program, pump stations, groundwater wells, water treatment plant upgrades, and associated operations. Additionally, the fee revenue funded the District's water conservation program. Funds from the Supplemental Water Fee also finance a portion of the District's 2016 Refunding Revenue Bonds associated with the debt for the construction of the Recycled Water Program.

The fixed component of the Supplemental Water Fee had a cash balance of \$5.2 million as of June 30, 2016. There is approximately \$3.8 million remaining to collect if the Board decides to authorize the full fixed component of the fee through 2018-19. After funding the recycled water debt service and current obligations, this would leave approximately \$6.1 million through 2018-19 to pay for approved projects and programs, including repair and maintenance of existing recycled and ground water facilities, water conservation and the development of other sources.

Currently the District has \$2.3 million in prepaid water at CLAWA and is obligated to deposit another \$1 million to fulfill the minimum requirements of the CLAWA2 agreement. This would increase the total deposit to \$3.3 million which will be enough to purchase approximately 1,245 AF at \$2,650/AF. If the board decides not to collect any more on the variable portion of the SWF, the cash

balance restricted for imported water purchases will be \$7.5 million in cash. This is enough to purchase another 2,830 AF from CLAWA if desired. To accept delivery of the entire 7,600 AF at \$2,650/AF, the District will need additional funding of \$6.3 million.

The proposed Supplemental Water Fee for 2017-18 will be presented to the Board for consideration at the District's June 2017 Board meeting.

D. FISCAL IMPACT

This is an information item only.

E. ATTACHMENTS

2015-16 Supplemental Water Fee Uses and Balance
Historic Supplemental Water Fee Projection
2017-18 Communication to Rate Payers – Supplemental Water Fee Annual Notice

**Lake Arrowhead Community Services District
Supplemental Water Fee Uses and Balance**

| | As of <u>June 30, 2016</u> |
|---|-------------------------------|
| <u>Supplemental Water Fee Revenue</u> | |
| Fixed component | 21,518,414 |
| Variable component | 22,069,974 |
| Reductions to the Fee | <u>(7,273,695)</u> |
| Total Revenue | 36,314,693 |
| <u>Projects & Programs</u> | |
| Storage tank for purchased water | (1,489,844) |
| Pipeline | (1,196,978) |
| Pump Station | (298,848) |
| Recycled Water Project | (7,227,717) |
| Groundwater Wells | (4,483,881) |
| Water Treatment Plant upgrade | (46,520) |
| Indirect Potable Reuse | (19,500) |
| Water Monitoring USGS | (375,515) |
| Long Term Water Supply Plans | (520,107) |
| Water Conservation | (2,700,110) |
| Recycled Water Op Expense & Groundwater Treatment | (1,549,706) |
| Noticing & Legal Expense | (172,656) |
| Other Income (Grant, Buy-In, Interest) | <u>5,027,312</u> |
| Net Expenditures for Projects & Programs | (15,054,071) |
| <u>Water Purchase</u> | |
| Imported Water Purchases | (5,062,527) |
| Prepaid Water Payments | (3,286,022) |
| Interest Payments to CLAWA | <u>(236,938)</u> |
| Total Water Purchase | (8,585,487) |
| Side Fund Financing | (3,566,857) |
| Side Fund Interest Income | 47,884 |
| Change in Collections & Payables | <u>(128,052)</u> |
| Supplemental Water Fee Cash Balance | 9,028,110 |
| Supplemental Water Fee Available Net Revenue | <u>12,675,135</u> |

Historic Supplemental Water Supply Fee

| Fiscal Year | SWF Calculation As per Original Ordinance | | | | | | | Revised SWF Levy | | | | | Fee Reduction |
|-------------|---|-------------|-------------------|-------------|---------------------|------------------------|----------------------|------------------|-------------------|---------------------|------------------------|------------------|---------------|
| | Fixed Fee/Meter | Meter Count | Variable Fee/Unit | Total Units | Total Fixed Revenue | Total Variable Revenue | Total Fee Calculated | Fixed Fee/Meter | Variable Fee/Unit | Total Fixed Revenue | Total Variable Revenue | Total Fee Levied | |
| 2004-05 | 215.00 | 7,256 | 1.74 | 971,264 | 1,560,000 | 1,690,000 | 3,250,000 | 215.00 | 1.74 | 1,560,000 | 1,690,000 | 3,250,000 | - |
| 2005-06 | 219.30 | 7,357 | 1.96 | 866,412 | 1,613,391 | 1,701,609 | 3,315,000 | 219.30 | 1.96 | 1,613,391 | 1,701,609 | 3,315,000 | - |
| 2006-07 | 223.69 | 7,544 | 2.24 | 754,440 | 1,687,442 | 1,692,963 | 3,380,405 | 223.69 | 2.24 | 1,687,442 | 1,692,963 | 3,380,405 | - |
| 2007-08 | 228.16 | 7,516 | 2.18 | 797,263 | 1,714,879 | 1,734,047 | 3,448,926 | 228.16 | 2.18 | 1,714,879 | 1,734,047 | 3,448,926 | - |
| 2008-09 | 232.72 | 7,432 | 2.29 | 781,955 | 1,729,575 | 1,788,330 | 3,517,905 | 232.72 | 2.29 | 1,729,575 | 1,788,330 | 3,517,905 | - |
| 2009-10 | 237.38 | 7,477 | 2.72 | 666,682 | 1,774,890 | 1,813,376 | 3,588,266 | 237.38 | 2.72 | 1,774,890 | 1,813,376 | 3,588,266 | - |
| 2010-11 | 242.12 | 7,475 | 3.34 | 553,919 | 1,809,922 | 1,850,091 | 3,660,013 | 242.12 | 3.34 | 1,809,922 | 1,850,091 | 3,660,013 | - |
| 2011-12 | 246.97 | 7,477 | 3.57 | 527,911 | 1,846,578 | 1,886,651 | 3,733,228 | 145.30 | 3.50 | 1,085,953 | 1,850,106 | 2,936,059 | (797,169) |
| 2012-13 | 251.91 | 7,481 | 3.80 | 506,245 | 1,884,517 | 1,923,376 | 3,807,893 | 214.12 | 1.90 | 1,601,839 | 961,688 | 2,563,527 | (1,244,365) |
| 2013-14 | 256.94 | 7,541 | 3.62 | 537,790 | 1,937,622 | 1,946,429 | 3,884,050 | 251.91 | - | 1,899,905 | - | 1,899,905 | (1,984,145) |
| 2014-15 | 262.08 | 7,545 | 3.39 | 586,207 | 1,977,422 | 1,984,309 | 3,961,731 | 251.91 | - | 1,900,661 | - | 1,900,661 | (2,061,070) |
| 2015-16 | 267.33 | 7,543 | 3.92 | 516,150 | 2,016,436 | 2,024,530 | 4,040,966 | 251.91 | 1.85 | 1,900,157 | 953,868 | 2,854,025 | (1,186,941) |
| 2016-17 | 272.67 | 7,569 | 4.80 | 428,603 | 2,063,854 | 2,057,931 | 4,121,785 | 251.91 | - | 1,906,707 | - | 1,906,707 | (2,215,079) |
| 2017-18 | 278.13 | | | | | | 4,204,221 | | | | | | |
| 2018-19 | 283.69 | | | | | | 4,288,305 | | | | | | |

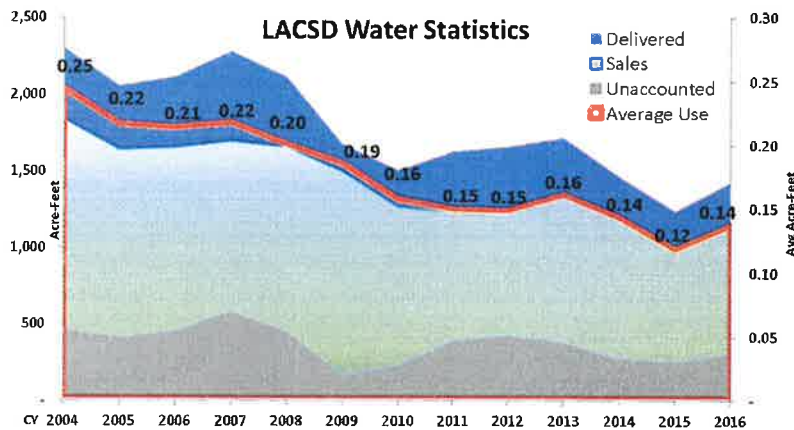


May 2017

Subject: Supplemental Water Fee Annual Notice

Dear Arrowhead Woods Water Customer,

Water efficiency is a way of life for our drought-sensitive mountain community. While Governor Brown has declared an end to the state-wide drought, we are reminded that Lake Arrowhead is completely reliant on precipitation. The Lake Arrowhead Community Services District (“LACSD”) will continue to protect our local water resources by encouraging sustained conservation. There was an increase in water usage in 2016 after historically low consumption in the prior year. We need to continue our vigilance to maintain usage at these levels. Please see our website for conservation policies and water saving tips.



The Supplemental Water Supply Fee that will appear on your fiscal year 2017/2018 property tax bill was initiated in 2004 for the purpose of purchasing imported water and for projects and programs that reduce the reliance on Lake Arrowhead as our only source of potable water. This is the fourteenth year of the fifteen-year fee which will end next year in fiscal year 2018/2019.

The Supplemental Water Supply Fee is a critical component of the District’s efforts to establish permanent supplemental water supply alternatives. The fee has assisted in the development of local groundwater resources and has funded the construction of a water-recycling project used for golf course irrigation that is not drawn from Lake Arrowhead. These projects represent a 20% increase in reliable water supplies. The District continues to search for additional sources of water including water reuse and expanded groundwater development.

Enclosed for your information is a notice of Public Hearing for the 2017 assessment of the District’s Supplemental Water Supply Fee to the property tax roll. Also included is a brief “Annual Report” that shows the history of the fund and the projects it has funded.

We are a water wise community and we thank you for your mindfulness by using your water resources as efficiently as possible.

Lake Arrowhead Community Services District

Water Supplies

