

Budget, Water Charge, & CIP Alternatives to Consider In Response to COVID-19 Pandemic

April 28, 2020

Recap Board Member Comments from April 6 Meeting

- 1. Examine no increase in water rates for FY 21 for:**
 - a) One quarter**
 - b) Half year**
 - c) Full year**
- 2. Targeted assistance to end customers**
 - a) Consider partnering with non-profit organizations within county that provide direct assistance to families**
- 3. Targeted loans to end customers or retailers**
- 4. Freeze hiring**

Financial Status Update

Cash is king during a financial crisis

- **Cash and Investments total over \$600M (\$120M in cash equivalent deposits)**
- **Outstanding short term (Commercial Paper) debt is \$50M, next reissuance on 5/7/2020**
 - Short term debt market has calmed since March panic
 - Federal Reserve program to purchase \$500 Billion short term debt from States/Counties/Cities has stabilized market
 - Sources indicate Valley Water commercial paper could currently be issued at <1.5% for up to 3-4 months
 - Anticipate continued access to full \$150M Commercial Paper program
- **All major retailers current on payments to Valley Water as of 4/2/2020 (no indications otherwise)**
 - All retailers have suspended water shutoffs as per Governor's executive order
 - Cities experiencing drastic reductions in sales tax revenue
 - Valley Water Receives \$15M to \$30M per month depending on seasonality
 - 33% of water charge revenue from Cities/Other, 67% from Investor Owned Utilities
- **Property tax collections on track, but delinquencies may cause Teeter Plan suspension**
 - Valley Water could receive less than 100% of \$179M budget by June 2020, and would receive remainder later

- Pandemic likely to cause downward pressure on water usage, but weather will be major factor
 - \$20M revenue shortfall for FY 20 baked into rate projection
 - If spring is wet, potential incremental \$20M revenue shortfall for FY 20 (worst case)
 - If same pattern continues in FY 21, would result in \$22M revenue shortfall versus proposed FY 21 budget
- CalPERS Employer Contributions will increase beginning in FY 22 unless stock market rebounds
 - Current estimate is incremental \$2.5M in FY 22, ramping up to incremental \$13M in FY 26

Summary Range of Potential Revenue loss or increased costs

- FY 20 estimated at \$0M to \$20M (\$20M reduced water usage)
- FY 21 estimated at \$0M to \$35M (\$22M reduced water usage, \$13M increased cost)
- FY 22 estimated at \$2.5M to \$40M (\$24M reduced water usage, \$2.5M CalPERS Employer Contribution, \$13.5M increased cost)
 - A real estate downturn could cause slowed 1% ad valorem property tax growth

Cash Flow What Ifs: \$255M estimated cash at 12/31/20 under Worst Case

(No water charge payments for 9 months, no access to capital markets, no actions to reduce costs)

Cash flow or timing impacts range from \$0 to \$230M over next 9 months

- If 33% of water charge revenue delayed for 3 months (\$20M impact)
- If 100% of water charge revenue delayed for 3 months (\$65M impact)
- If 100% of water charge revenue delayed for 9 months (\$210M impact)
- If 10% of total FY 20 property tax payments delayed (\$18M impact)

Cash Flow Analysis Next 9 Months (\$M)

Best Case	Worst Case
607	607 Beginning Cash Balance (4/1/2020)
210	0 Water Revenue
156	138 Property Taxes (1%, Special Tax, Ben. Assessments)
25	20 Other (Capital Reimb., Int. Earnings, Other)
391	158 Total Revenue
-510	-510 Operations, Debt Service & Capital Costs
135	0 Debt Proceeds
16	-352 Net Increase/(Decrease) to Cash & Investments
\$623	\$255 Ending Cash 12/31/2020

Note: Worst Case scenario would primarily impact the Water Utility Fund and would require management decisions regarding service cuts, shut offs, etc... Interfund loans would likely be required.

- **Sunnyvale likely to adopt 0% rate increase for water versus 3% initial estimate**
- **Milpitas seeing increase in residents asking for water bill assistance, reconsidering 6% rate increase**
- **Great Oaks has not seen customer payment problems yet, but expects some issues going forward**
- **City of San Jose has implemented a hiring freeze except for PD and FD & delayed General Fund Capital projects not yet started**

- All agencies are monitoring cash flows, haven't seen bill payment issues yet
- Some agencies considering lower rate increase or postponing increase for upcoming cycle
- All agencies are watching water usage closely, March water usage not unusual, April will be telling

Planned Actions to Date

- **Closely monitor retailer payments (next set of payments due at end of April)**
- **Staff to pursue one or more bank lines of credit up to \$200M with Board approval to further add to liquidity position**
- **Conserve cash generated from existing investment pool**
 - \$122M investments will mature from April to December and will convert to cash
- **Reissue \$50M Commercial Paper in May and potentially additional \$70M**
- **Plan for long term bond issuance in Q1 FY 21 to free up Commercial Paper and maybe issue new debt to fund CIP for up to 3 years, depending on market conditions**
- **Pursue federal stimulus funding for eligible projects**

Potential Goals and Actions to Respond to Pandemic

Goal	#1 Reduce FY 21 Rate	#2 Targeted Assistance to End Customers	#3 Targeted loans to Retailers or End Customers	#4 Freeze Hiring
Actions	<p>A. Push construction of Purified Water Prgm beyond FY 24 (push cost beyond FY 30, which would reduce 10-year rate projection)</p> <p>B. Delay or Forego CVP Delta Conveyance</p> <p>C. Pursue Federal Stimulus \$ for Projects</p> <p>D. Higher rates in FY 22 thru FY 30</p>	<p>A. Pursue partnerships with water purveyors to assist with water related programs (Purveyors in turn help targeted customers)</p> <p>B. Contribute funding to non-profit organization that in turn assists targeted customers</p> <p>C. Partner with Silicon Valley Strong Fund to solicit donations from community to assist targeted end customers</p>	<p>A. Past due groundwater payments incur interest charge of 1% per month per District Act</p> <p>B. Past due treated water payments incur interest charge of .5% per month per TW contract</p> <p>C. Develop loan program for retailers to provide upfront funding for water supply related projects</p>	<p>A. Freeze all recruiting activities as of certain date, or prior to a certain point in recruiting process (would put Valley Water into “attrition” mode)</p> <p>B. Delay FY 21 position requests & manage current vacancies to advance essential work</p>

Goal #1: Alternative Rate Scenarios in Response to COVID-19 Pandemic

North County Zone W-2 M&I Groundwater Charge

	Potential Solutions				
	FY 21 Impact	10 Yr Impact	Adjust FY 22-30 % Increases	Or...	Reduce Costs/ Delay Projects
0% Increase	-\$20.3M	-\$312.5M	From 8.6% to 10%		Start construction of Purified Water Prgm in <u>FY 30</u> versus FY 24 (pushes \$455M cost beyond FY 30)
0% now, 8.6% Increase at Mid-Year or Quarter-Year	-\$10.2M or -\$5.1M	-\$10.2M or -\$5.1M	No change to 8.6%		Absorb
3.0% Increase	-\$13.2M	-\$203.4M	From 8.6% to 9.5%		Start construction of Purified Water Prgm in <u>FY 27</u> versus FY 24 (pushes \$170M cost beyond FY 30)
0% now, 8.0% Mid-Year & delay Purified Wtr Prgm	-\$9.5M	-\$9.5M	From 8.6% to 8.0% And...		Start construction of Purified Water Prgm in <u>FY 27</u> versus FY 24 (pushes \$170M cost beyond FY 30)

Goal #1: Alternative Rate Scenarios in Response to COVID-19 Pandemic Continued...

South County Zone W-7 M&I Groundwater Charge

	Potential Solutions				
	FY 21 Impact	10 Yr Impact	Adjust FY 22-30 % Increases	Or...	Reduce Costs/ Delay Projects
0% Increase	-\$0.4M	-\$6.7M	From 9.4% to 10.8%		Delay or Forego CVP Delta Conveyance (would reduce Adjusted FY 22-30 increases to 10.3%)
0% now, 9.4% Mid-Year or Quarter-Year Increase	-\$0.2M or -\$0.1M	-\$0.2M or -\$0.1M	No change to 9.4%		Absorb
3.0% Increase	-\$0.3M	-\$4.6M	From 9.4% to 10.3%		Delay or Forego CVP Delta Conveyance (would reduce Adjusted FY 22-30 increases to 9.8%)

Staff recommends proceeding with proposed groundwater charge decreases for Zones W-5 and W-8

Goal #2: Targeted Assistance to End Customers

A. Pursue partnerships with water purveyors to assist with water related programs

Pros

- Could provide financial or in-lieu assistance to water purveyors (several retailers have requested assistance)

Cons

- Would put upward pressure on water rates, or reduce funding for flood protection depending on revenue source
- May take some time to negotiate agreements or logistics to provide in-lieu services
- Assurance that partnership would translate to assistance for targeted end customers?

B. Contribute Funding to non-profit organization

Pros

- Could provide financial assistance to targeted end customers

Cons

- Legal constraint – prohibition of gift of public funds
- Would put upward pressure on water rates, or reduce funding for flood protection depending on revenue source

C. Partner with Silicon Valley Strong Fund to solicit donations from community

Pros

- Could provide financial assistance or service to targeted end customers
- Would not impact Valley Water finances as revenue source would come from the community

Cons

- Degree of success is an unknown

Goal #3: Targeted Loans to Retailers or End Customers

A. Past due GW payments incur interest charge of 1% per month per District Act

Already in Place

B. Past due TW payments incur interest charge of .5% per month per contract

Already in Place

C. Develop loan program for retailers to provide upfront funding for water supply related projects

Pros

- Provide cashflow assistance to retailers
- Earn interest income

Cons

- Risks of non-repayment
- Resources required to manage loan program

Potential Program Structure

- \$20M maximum, up to \$1M per borrower
- Investor owned utilities excluded
- 5 year maximum term
- Interest rate at Valley Water cost
- Collateral pledge of 80% loan to value

Goal #4: Hiring Freeze

A. Freeze all recruiting activities as of certain date, or prior to certain point in recruiting process (would put Valley Water into “attrition” mode)

Pros

- Would save \$11M to \$15M in FY 21 (salaries + benefits)

Cons

- Some essential capital and O&M work would not move forward in FY 21
- Attrition of critical positions could put delivery of essential services at risk
- Need for more consultant and temporary worker help would not be satisfied in timely manner, resulting in delays of critical work
- Key positions would not be available up front to ensure timely delivery of critical “mega” projects
- Staffing would not be available to take advantage of Federal stimulus funds

B. Delay FY 21 position requests & manage current vacancies to advance essential work

Pros

- Would save up to \$4M in FY 21 (salaries + benefits)
- Would allow for replacing critical positions
- Would allow for continuation of current essential capital work

Cons

- Will delay some essential O&M work (creating larger O&M backlog)
- Will delay long term feasibility studies and planning efforts
- Will result in need for more consultant and temporary worker help
- Staffing would not be available to take advantage of Federal stimulus funds without delaying other essential work

Management Tactics: Reduce FY 21 Budget and Improve Cash Flow

15

A. Staffing/Contract Adjustments

- I. Reduce temporary and intern staffing level
- II. Adjustments to facility service contracts

B. CIP Project Adjustments: Project Plan Refinements

Watersheds	Water Utility
<ul style="list-style-type: none">I. San Francisquito Creek Upstream schedule adjustment moving construction from FY 21 to FY 22 (to align with Newell Road Bridge Replacement)<ul style="list-style-type: none">• Reduces FY 21 budget by \$4MII. Guadalupe River, Tasman Dr. to I-880 schedule change for FY 21 (shift from design to planning phase)<ul style="list-style-type: none">• Reduces FY 21 budget by \$1.55M	<ul style="list-style-type: none">III. Residuals Remediation Project (Refined FY 21 budget needs)<ul style="list-style-type: none">• Reduces FY 21 budget by \$3MIV. 10-Year Pipeline Project (Refined work plan based on regional partnerships)<ul style="list-style-type: none">• Reduces FY 21 budget by \$3M

Note: CIP project updates will defer costs but will not reduce total project costs.

C. CIP Project Adjustments: Can be Deferred During Pandemic

Watersheds

- I. Defer Bolsa Road Fish Passage Improvement construction from FY 21 to FY 22
 - Reduces FY 21 budget by \$3M
- II. Defer Upper Guadalupe Gravel Augmentation construction from FY 21 to FY 22
 - Reduces FY 21 budget by \$700K

D. CIP Project Adjustments: Pending Board Approval

Water Utility

- I. Defer Purified Water Program work
 - Delay construction from FY 24 to FY 27 or later
 - Reduces FY 21 budget by \$5.5M
 - Would help reduce 10-year water rate projection
- II. Slow construction of South County Recycled Water Pipeline
 - Reduces FY 21 budget by \$9.3M
- III. Defer largest portions of RWTP Reliability phases 3-6 by 2 to 4 years
 - Reduces FY 21 budget by \$10M

Summary: Decision Matrix

Goal	#1 Reduce FY 21 Rate	#2 Targeted Assistance to End Customers	#3 Targeted loans to Retailers or End Customers	#4 Freeze Hiring	Management Tactics
Actions	<ul style="list-style-type: none"> A. Push construction of Purified Water Prgm beyond FY 24 (push cost beyond FY 30, which would reduce 10-year rate projection) B. Delay or Forego CVP Delta Conveyance C. Pursue Federal Stimulus \$ for Projects D. Higher rates in FY 22 thru FY 30 	<ul style="list-style-type: none"> A. Pursue partnerships with water purveyors for water related programs B. Contribute funding to non-profit organization that in turn assists targeted end customers C. Partner with Silicon Valley Strong Fund to solicit donations from community to assist targeted end customers 	<ul style="list-style-type: none"> A. Past due groundwater payments incur interest charge of 1% per month per District Act B. Past due treated water payments incur interest charge of .5% per month per TW contract C. Develop loan program for retailers to provide upfront funding for water supply related projects 	<ul style="list-style-type: none"> A. Freeze all recruiting activities (would put Valley Water into “attrition” mode) B. Delay FY 21 position requests & manage current vacancies to advance essential work C. Approve only “critical” new positions for FY 21 	<ul style="list-style-type: none"> A. Staffing/Contract Adjustments B. CIP Adjustments: Project Plan Refinements C. CIP Adjustments: Can be Deferred During Pandemic D. CIP Adjustments: Pending Board Approval

Staff
Recommendations

THIS PAGE INTENTIONALLY LEFT BLANK