

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

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

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Goal

Actions

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

Goals 2 & 3 could put pressure on water rates and/or cash flow

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

North County Zone W-2 M&I Groundwater Charge

	FY 21 Impact	10 Yr Impact	Potential Solutions	
			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

	FY 21 Impact	10 Yr Impact	Potential Solutions	
			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)**
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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**
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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

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
<ol 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	<ol 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

Management Tactics: Reduce FY 21 Budget and Improve Cash Flow cont...

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	A. Push construction of Purified Water Prgm beyond FY 24 (push cost beyond FY 30, which would reduce 10-year rate projection)	A. Pursue partnerships with water purveyors for water related programs	A. Past due groundwater payments incur interest charge of 1% per month per District Act <i>Already in place</i>	A. Freeze all recruiting activities (would put Valley Water into "attrition" mode)	A. Staffing/Contract Adjustments
	B. Delay or Forego CVP Delta Conveyance	B. Contribute funding to non-profit organization that in turn assists targeted end customers	B. Past due treated water payments incur interest charge of .5% per month per TW contract <i>Already in place</i>	B. Delay FY 21 position requests & manage current vacancies to advance essential work	B. CIP Adjustments: Project Plan Refinements
	C. Pursue Federal Stimulus \$ for Projects	C. Partner with Silicon Valley Strong Fund to solicit donations from community to assist targeted end customers	C. Develop loan program for retailers to provide upfront funding for water supply related projects	C. Approve only "critical" new positions for FY 21	C. CIP Adjustments: Can be Deferred During Pandemic
	D. Higher rates in FY 22 thru FY 30				D. CIP Adjustments: Pending Board Approval

**Staff
Recommendations**

Goals 2 & 3 could put pressure on water rates and/or cash flow

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