



CMWD Board Memorandum

June 25, 2024

To: Carlsbad Municipal Water District Board of Directors
From: Paz Gomez, Deputy City Manager, Public Works
Via: Scott Chadwick, Executive Manager 
Re: **Additional Materials Related to Staff Report Item No. 15: Proposal from the San Diego County Water Authority for Prepayment of Fixed Charges (Districts – All)**

This memorandum provides additional information related to Staff Report Item No. 15 (staff report) on tonight's City Council meeting agenda.

The CMWD Board will be asked to provide direction on one of two options:

1. Direct the Executive Manager to sign an agreement with the San Diego County Water Authority (Water Authority), when approved as to form by the General Counsel or designee, for prepayment of fixed charges for a 12-month period.
2. Take no action to authorize an agreement for prepayment of fixed charges.

The Water Authority provided initial prepayment options to all its member agencies on May 30, 2024 (Attachment A) and provided an additional option on May 31, 2024 (Attachment B), which is subject to a June adoption of Calendar Year 2025 Rates and Charges by the Water Authority Board.

The staff report summarized the three options that have been offered by the Water Authority, which were described in the staff report as sub-options A, B, and C to Option 1. The upfront payment options are dependent on action of the Water Authority Board, which will meet on June 27, 2024. The fiscal impact of each option to each member agency is dependent on Calendar Year 2025 Water Authority rates, specifically fixed charges, which the Water Authority Board will also consider on June 27, 2024. For these reasons, the CMWD Board is being asked to provide direction on whether to participate in the prepayment program (Option 1) or whether to take no action (Option 2).

Attachments: A. May 30, 2024, proposal from the Water Authority
B. May 31, 2024, proposal from the Water Authority

cc: Geoff Patnoe, Assistant Executive Manager
Cindie McMahan, General Counsel
Dave Padilla, Interim General Manager
Zach Korach, Finance Director

May 30, 2024

Subject: Upfront Payment Discount Pilot Program

Dear Member Agency Rate Workgroup,

In keeping with the Water Authority's commitment to seek innovative solutions during this challenging rate cycle, we are preparing to offer all member agencies a 4% discount for upfront payments of fixed charges for CY 2025. This pilot program would allow member agencies to make a single payment by January 3, 2025, to cover their fixed costs for the year rather than paying in 12 equal installments.

If every member agency participated, the Upfront Payment Discount would reduce the projected regional effective rate increase for CY 2025 by nearly 1.5 percentage points. For example, if the Board selects rate increase Alternative 9 (moderate -risk CIP) and the payment discount is fully adopted by member agencies, the average effective rate would decrease from 18.15% to 16.7%. If only some agencies participate, those agencies would accrue the savings while other agencies remain at the average effective rate increase.

The actual figures are subject to change pending Board action, and the logistical details remain under development. However, we anticipate that an Upfront Payment Discount of 4% would be applied to participating agencies' annual fixed charge allocations that are set when the Water Authority Board adopts rates. In addition, a discount of 6% is available for prepayment funds received in July 2024. Fixed charges include Customer Service, Storage, Transportation (fixed portion only), Supply Reliability, Infrastructure Access Charge, MWD RTS and MWD Capacity Charge. No discount will be offered for any variable or volumetric-based rate.

The tentative roll-out schedule is as follows:

1. Meetings with member agency finance staff in June 2024
2. Opt-in deadline of October 31, 2024
3. Upfront payment invoices issued in November 2024
4. Payments due by COB January 3, 2025
5. Fixed charge allocation credits will be provided in each monthly bill during 2025
6. The program will be evaluated in late 2025 for potential future applicability

The Water Authority can offer this incentive because upfront payments will be invested at approximately the same rate as the discount. This approach is assumed to be revenue neutral over the course of the year and would continue to meet cost-of-service requirements. Upfront payments benefit the Water Authority – and therefore the entire region – by enhancing our ability to float debt related to future water exchanges and by providing flexibility for funding CIP projects that enhance regional supply reliability.

Member Agency Rate Workgroup

May 30, 2024

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We hope that you will consider this opportunity to make a small but meaningful reduction in the cost of water for your ratepayers, and we look forward to partnering with you on this approach. Please email Pierce Rossum at prossum@sdewa.org to schedule an appointment to discuss details of this pilot program for your agency.

Sincerely,

Lisa Marie Harris

CFO/Finance Director

San Diego County Water Authority

Upfront Payment Discount Pilot Program Frequently Asked Questions

- **Can agencies select certain fixed charges to prepay or select different pay periods?**
 - At this time, we don't have the capacity to customize plans, however, we welcome suggestions for improving the overall program and may be able to offer variations in future years. The exception is that we will accept prepayment in July for a 6% discount on fixed charges.

- **Why is the discount 4%?**
 - The discount is based on reasonably anticipated investment earnings.

- **Does the influx of cash allow the Water Authority to reduce rates more than previously anticipated?**
 - No. The projected rate increases are necessary to cover higher costs for CY 2025. The discount program does not change total anticipated revenue needed to cover costs.

- **Will the discount program reduce future rate increases?**
 - No. At the end of the 12-month period, anticipated ending fund balances are expected to be neutral.

- **Will you offer this program every year?**
 - It's too early to say. We will evaluate it in partnership with member agencies in 2025 and make a determination about the following year.

- **Why don't you charge full cost and then provide interest credits through the year?**
 - The prepayment discount approach is easier to track and implement than having agencies pay the full cost and "crediting" interest. The discount also allows the Water Authority to forecast additional investment income without a higher interest expense that would require 1.5x coverage.

May 31, 2024

Subject: Upfront Payment Discount Pilot Program Follow-up

Dear Member Agency Rate Workgroup,

In response to this feedback, the Water Authority is offering the following FY 2025 Alternative to encourage maximum participation in this program to reduce the cost of water for ratepayers.

Alternative Upfront Payment of FY 2025 Fixed Charges

- 1) Payment in July 2024 for the remaining CY 2024 Fixed Charge allocation (July – December) and CY 2025 Fixed Charge allocations (January – June).
- 2) The 4% discount would be applied to CY 2025 Fixed Charges (to provide a reduction to CY 2025 Effective Rate impact).
- 3) The discount would be defined based on the specific 12-month period (FY 2025) total, rather than the CY 2025 total.

Note: This option is only viable with a June adoption of CY 2025 Rates and Charges by the Water Authority Board.

Accordingly, there are now three options available – the two outlined on May 30 and the alternative described above:

- 1) July payment for CY 2025 Fixed Charges (maximum effective rate savings of 6%)
- 2) January payment for CY 2025 Fixed Charges
- 3) July payment for FY 2025 Fixed Charges

Please continue to provide your comments and feedback. We appreciate the opportunity to partner with you on this approach and will continue to tailor this program as we are able to meet the needs of our member agencies.

Sincerely,

Lisa Marie Harris
CFO/Finance Director
San Diego County Water Authority