

Murrieta Focused Municipal Services Review

Presentation of Report



August 26, 2021



Meeting Agenda

- 1. Welcome, Introductions & Meeting Format (LAFCO Executive Officer)
- 2. Purpose of the Project (LAFCO Executive Officer)
- 3. Role of LAFCO (LAFCO Executive Officer)
- 4. Role of Consultants Dopudja & Wells and FG Solutions (LAFCO Executive Officer)
- 5. Presentation of Report and Key Elements (Consultants)
- Receive Comments from Agency Funding Partners- 5 Minutes each [Western Municipal Water District (WMWD), Eastern Municipal Water District (EMWD), Rancho California Water District (RCWD, City of Murrieta]
- 7. Receive Public Comments (Speaker Forms LAFCO Staff to Provide and Collect. Call-in- will take in order received. All speakers are limited to <u>2</u> minutes)
- 8. Next Steps/Tentative Schedule (LAFCO Executive Officer)
- 9. Adjourn

Presentation of Report and Key Elements (Consultants)





Review of Existing Operations in Murrieta Service Area

1. Majority of the Study Area currently served by WMWD

2. Summary of Operations and Infrastructure

- a. Portion of water supply purchased from EMWD and delivered through Los Alamos Connection
- b. Portion of water supply produced from North Well and New Clay Well
- c. Olga Gordon Reservoir provides storage in Lower Pressure Zone
- d. Grizzly Ridge Reservoir provides storage in Upper Pressure Zone
- e. Alson Booster Pump moves water from Lower Pressure Zone (where all water is supplied) to Upper Pressure Zone
- f. Pressure Reducing Valve moves a small amount of water from Upper Pressure Zone to Lower Pressure Zone to support pressures in small area

3. Major Operational Challenge

a. Olga Gordon Reservoir is undersized for current and future operations – expanding reservoir capacity is very challenging given topographical constraints





Critical Infrastructure Assumptions

1. Peak Flow Assumptions

- a. Water supply capacity and infrastructure capacity are sized by Average Day Demand, Maximum Day Demand, Peak Hour Demand, and Fire Flow
- b. Common peaking factors and flow amounts used for all agencies to facilitate comparisons

2. Infrastructure Cost Assumptions

a. Probable cost estimates for required infrastructure were based upon the same unit costs for all agencies

3. Future Development Assumptions

- a. Numerous parcels within the study area are currently served by private wells, and it is understood that many private well users are happy with that service and have no intent of converting to agency service
- b. It was assumed that some existing private well users would convert to agency service in order to conservatively calculate future water demand
- c. This assumption is statistical, and makes no presumptions about the intent of any individual private well user

4. Future Use of Local Groundwater vs. Imported Water Supply Assumptions

- a. All agencies expressed intent to use local groundwater for future water supplies to full extent possible
- b. Amount of future local groundwater available is in dispute
- c. Assumption was made that current amount of local groundwater used would be maintained, and further water supplies would be brought in from outside the Study Area



Infrastructure Required for WMWD Service Through Future

1. Expansion Pipelines South of Murrieta Creek

- a. Serve currently vacant parcels and private well user to agency conversions
- b. Common to all agencies

2. Expansion Pipelines North of Murrieta Creek

- a. Serve currently vacant parcels and private well user to agency conversions
- b. Common to all agencies

3. Pipeline Improvements in Study Area

a. Handle increased demands in future

4. Legacy Small Diameter Improvements

- a. Necessary to meet current Fire Flow standards
- b. Common to all agencies

5. New Study Area Connection to EMWD

- a. Handle increased demands in future
- b. Current Los Alamos Connection is near capacity

6. EMWD Pipeline Improvements

a. Necessary for EMWD to supply necessary water to new connection

7. New Reservoir

- a. Correct Lower Pressure Zone storage deficit
- b. Significant pipeline improvements required to connect new reservoir
- c. Challenging and costly project location, but options are limited





Infrastructure Required for EMWD Service Through Future

1. Expansion Pipelines South of Murrieta Creek

- a. Serve currently vacant parcels and private well user to agency conversions
- b. Common to all agencies

2. Expansion Pipelines North of Murrieta Creek

- a. Serve currently vacant parcels and private well user to agency conversions
- b. Common to all agencies

3. Pipeline Improvements in Study Area

a. Handle increased demands in future

4. Legacy Small Diameter Improvements

- a. Necessary to meet current Fire Flow standards
- b. Common to all agencies

5. New Study Area Connection to EMWD

- a. Handle increased demands in future
- b. Current connection is near capacity

6. EMWD Pipeline Improvements

a. Necessary for EMWD to supply necessary water to new connection

7. EMWD Storage Improvements

- a. Correct Lower Pressure Zone storage deficit
- b. Eliminates need for challenging new reservoir project
- c. Currently planned EMWD storage expansion can be increased for Study Area





Infrastructure Required for RCWD Service Through Future

1. Expansion Pipelines South of Murrieta Creek

- a. Serve currently vacant parcels and private well user to agency conversions
- b. Common to all agencies

2. Expansion Pipelines North of Murrieta Creek

- a. Serve currently vacant parcels and private well user to agency conversions
- b. Common to all agencies

3. Pipeline Improvements in Study Area

- a. Handle increased demands in future
- b. RCWD minor pipeline improvements are slightly greater than other agencies because of new connection point to RCWD system

4. Legacy Small Diameter Improvements

- a. Necessary to meet current Fire Flow standards
- b. Common to all agencies

5. New Study Area Connection to RCWD

- a. Existing and future demand will be served through new connection
- b. Los Alamos Connection will be abandoned

6. RCWD Storage Buy-In

- a. RCWD system has enough storage to incorporate Study Area under existing demand conditions without improvements
- b. Future storage will be expanded as necessary with RCWD and Study Area growth
- c. Eliminates need for challenging new reservoir project because future storage can be in RCWD system





Infrastructure Probable Cost Estimates

Infrastructure Improvement Probable Costs by Agency					
Project	Probable Cost Estimate				
WMWD					
1. Expansion Pipelines South of Murrieta Creek	\$ 20,400,000				
2. Expansion Pipelines North of Murrieta Creek	\$ 17,100,000				
3. Pipeline Improvements in Study Area	\$ 870,000				
4. Legacy Small Diameter Improvements	\$ 4,900,000				
5. New Study Area Connection to EMWD	\$ 590,000				
6. EMWD Pipeline Improvements	\$ 5,400,000				
7. New Reservoir	\$ 12,500,000				
Total	\$ 61,760,000				
EMWD					
1. Expansion Pipelines South of Murrieta Creek	\$ 20,400,000				
2. Expansion Pipelines North of Murrieta Creek	\$ 17,100,000				
3. Pipeline Improvements in Study Area	\$ 870,000				
4. Legacy Small Diameter Improvements	\$ 4,900,000				
5. New Study Area Connection to EMWD	\$ 590,000				
6. EMWD Pipeline Improvements	\$ 5,400,000				
7. EMWD Storage Improvements (Accounts for capacity needed					
by Study Area and EMWD)	\$ 8,100,000				
Total	\$ 57,360,000				
RCWD					
1. Expansion Pipelines South of Murrieta Creek	\$ 20,400,000				
2. Expansion Pipelines North of Murrieta Creek	\$ 17,100,000				
3. Pipeline Improvements in Study Area	\$ 1,800,000				
4. Legacy Small Diameter Improvements	\$ 4,900,000				
5. New Study Area Connection to RCWD	\$ 500,000				
Total	\$ 44,700,000				



Financial Analysis Presentation

- Financial Analysis Methodology
- Addressing Public Comments
- Key Assumptions
- Draft Results: Side by Side Comparison
- Identify Next Steps and Path Forward



Financial Analysis Methodology

- Obtain policy direction from each agency
 - How would each agency approach operating the water system from a financial perspective?
 - Policy direction vs. policy decision
 - Policy direction means: assumption to be used in this analysis
 - Policy decision means: action taken by agency Board of Directors
 - Many policy decisions have not been made
- Prepared analysis from the utility's perspective
 - 10-year financial projection
 - Projected operating and capital expenses
 - Projected revenues using WMWD's customer/water use data and each agency's retail rate structure
 - Projected Standby Charge, Connection Fee, and ad valorem tax revenue projections
 - Outputs: projected utility revenue increases and reserve balances



Financial Analysis Methodology (continued)

- Customer Perspective: Total Cost of Water
- Developer Perspective:
 - Identified Funding for Growth Related Capital
 - Compared Connection Fees
- Completed final report
- Received public comments
- Prepared responses to public comments
- Prepared report errata sheets



Addressing Public Comments

• Cost of Water comparisons

- The Cost of Water comparisons are examples:
 - Cost of water depends on water meter size, water consumption, water budget, and land value
 - Each customer's meter size, consumption, water budget, and land value may vary from the examples chosen
 - Each customer's Cost of Water may vary from the examples
- "Growth Pays for Growth"
 - This policy direction was provided by all three agencies
 - Agencies were invited to demonstrate tonight how their proposal requires Growth to Pay for Growth



Addressing Public Comments (continued)

- RCWD and EMWD revisions to analysis
 - After the financial analysis was completed, RCWD and EMWD revised their assumptions and analysis
 - Revision submitted as public comment
 - RCWD and EMWD were invited tonight to respond
- Ad valorem tax
 - RCWD's policy direction: future decision on ad valorem tax would be made by RCWD Board
 - Two scenarios evaluated per RCWD request:
 - With ad valorem tax
 - Without ad valorem tax and with a revenue-neutral rate surcharge



Key Assumptions

- Policy Direction
 - Financially distinct system (WMWD and RCWD scenarios)
 - Financially integrated system (EMWD scenario)
- Local Groundwater Production
 - Capped at current levels (1,452 acre-feet per year)
 - All additional supply for development would come from imported water
- Expansion CIP (North and South of Murrieta Creek) not funded by utilities
 - Funded by Developers, or
 - Funded by Assessment/Community Facilities Districts



Key Assumptions (Continued)

- Number of Customers: Per WMWD Customer Data
- Water Sales in Each WMWD Rate Tier: Per WMWD
- System Growth: Consistent with Infrastructure Review
 - Through 2030: 1.62%/Year Customer Growth
- 2.5% Annual Inflation



Projected Water Demands by Source



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Projected Capital Expenses, \$M

	Estimated Cost, \$M (2020 Dollars)		
Expenditure	WMWD	RCWD	EMWD
FMSR Infrastructure Review			
Storage and Associated Pipelines	\$12.5		\$4.1
Expansion CIP North of Murrieta Creek	\$17.1	\$17.1	\$17.1
Expansion CIP South of Murrieta Creek	\$20.4	\$20.4	\$20.4
Hydraulic Improvements	\$1.5	\$2.3	\$1.5
Supply Improvements	\$5.4		\$5.4
Legacy (Small Diameter) Improvements	\$4.9	\$4.9	\$4.9
Subtotal, FMSR Infrastructure Review	\$61.8	\$44.7	\$53.4
RCWD Connection Fees for System Buy-In (1) (2)		\$9.7	
Total Expenditures	\$61.8	\$54.4	\$53.4

Note:

(1) RCWD indicated that existing Study Area customers would pay RCWD's existing Santa Rosa Division Connection Fees.

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(2) Under the RCWD Ownership Scenario, storage for the Study Area would be provided by existing RCWD facilities.

Operating Expenses

- Financially distinct scenarios (WMWD and RCWD):
 - Use WMWD's current expenses as a baseline
 - Modifications for RCWD per discussion with RCWD
 - Additional modifications proposed by RCWD after analysis was complete.
- Financially integrated scenario (EMWD)
 - Use EMWD's average cost to operate EMWD's entire retail water system.
 - Murrieta system would be < 3% of EMWD's entire retail water system
 - Additional modifications proposed by EMWD after analysis was complete.



Financially Distinct Scenarios (WMWD and RCWD)

- Revenues must be sufficient to cover expenses
- Revenues do not pay for developer funded capital
- Revenues include rates, standby charges, Connection Fees, ad valorem taxes (if applicable), and smaller amounts of miscellaneous revenues
- Accumulate reserves to meet utility's reserve criteria at the end of 10 years
- Rate increases as needed to meet cash flow and reserve criteria
 - If in any year, a rate increase isn't needed to meet cash flow and reserve criteria, a rate increase is not projected



Financially Integrated Scenario (EMWD)

- Revenues from the Study Area would be part of the EMWD's retail utility revenues
- Most expenses to serve the Study Area would be part of the EMWD's retail utility expenses
- "Acquisition Balance": the cost to bring the Murrieta system into operational and financial parity with the rest of EMWD's retail utility



Financially Integrated Scenario (EMWD, continued)

• Initially, EMWD would:

- Apply WMWD's current rates
- Reduce Fixed System Charge by 20%
- Revenues pay for Study Area's share of EMWD's retail operating and capital expenses
 - After paying the Study Area's share of EMWD's retail operating and capital, remaining revenues pay down the Acquisition Balance
- After Acquisition Balance is paid off:
 - Rates would revert to EMWD's rates for the rest of its retail system.
 - Projected to happen after 10 years.



Results, Side-by-Side Comparison Example Single-Family Residential Total Cost



Takeaways:

- Total cost under all scenarios will increase over time.
 - Inflation
 - Increased capital spending that benefits existing customers.
- The total cost for each individual customer may vary from this example
- EMWD scenario: after Acquisition Balance is paid off, total cost for most residential customers will decrease

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Results, Side-by-Side Comparison Example Commercial Total Cost



Takeaways:

- Total cost under all scenarios will increase over time.
 - Inflation
 - Increased capital spending that benefits existing customers.
- The total cost for each individual customer may vary from this example
- EMWD scenario: after Acquisition Balance is paid off, total cost for many commercial customers will increase.

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Additional Results, Side-by-Side Comparison

Parameter	WMWD	RCWD	EMWD
Key Policies		15 C C	
Financially Distinct or Financially Integrated?	Distinct	Distinct	Integrated
Ad Valorem Tax?	No	Possibly	No
Possible Funding Sources for \$37M of Pipe Extensions			
Developers	Yes	Yes	Yes
Assessment Districts	Yes	Yes	Yes
Community Facility Districts	Yes, but can't	Yes	Yes
	be financed		
	through		
	WMWD		
Low Income Discount?	Yes	No	No



Additional Results, Side-by-Side Comparison

Parameter	WMWD	RCWD	EMWD
Residents with Private Wells			
Mandatory Connection of Private Wells?	No	No	No
Standby Charge, \$/Acre	\$21	\$69.92	\$14
Voluntary Connection to Public Water System for Customers Currently Using Private Wells	Must Convert Indoor and Irrigation Use	Must Convert Indoor and Irrigation Use	Option to Convert Indoor Use Only
Connection Fee Comparison (2020)			
Single Family Residential (3/4" Meter)	\$7,050	\$2,537	\$5,501
2" Meter	\$37,599	\$13,445	\$44,008



Next Steps and Path Forward

- No decision on future service provider made tonight
- LAFCO to publish responses to public comments received tonight
- Presentation to LAFCO Commissioners: 9/23/21 in Riverside
 - LAFCO Commissioners also will not make decision on 9/23/21
- If a utility wants to propose acquiring the service area, they may do so
 - Proposal would be submitted to LAFCO at a future date

Receive Comments from Agency Funding Partners (5 Minutes each)

Western Municipal Water District Eastern Municipal Water District Rancho California Water District City of Murrieta

Receive Public Comments (All speakers are limited to <u>2</u> minutes)

Please use Speaker Forms - LAFCO Staff will Provide and Collect.

Call-in comments will be taken in order received.

Next Steps/Tentative Schedule