

IWVWD General Manager's Column
December 11, 2018

“The Shape of (the) Water (District)”

By Don Zdeba

Playing off the title of the Academy Award winning film, “The Shape of Water,” I would like to take this opportunity to share with you the shape of the Water District. The Board of Directors of Indian Wells Valley Water District, at the December 10th meeting, approved a new rate structure resulting from a Cost of Service Study conducted by Stantec in conjunction with Hildebrand Consulting in 2018. The Study recommended five 3% overall increases beginning January 2019 with annual increases in the month of July through 2022. It should be noted the increases are recommended. This means the Board of Directors has the opportunity to reassess the District's finances at each interval and determine if implementing a lower percentage or postponing an increase altogether is appropriate.

We all at one time or another have expressed frustration with escalating costs affecting our pocketbooks so it is necessary that we understand what factors drive those costs. In undertaking the Cost of Service Study, there were four principal objectives: 1) Develop a multi-year financial management plan that integrates the District's capital funding needs, 2) identify future rate adjustments to water rates that will ensure adequate revenues to meet the District's ongoing financial requirements, 3) determine the cost of providing water service using industry accepted methodologies, and 4) recommend specific rate structures that equitably recover the cost of service while comporting with industry practices and legal requirements.

Clearly the District must be able to cover its direct costs comprised of capital costs and operational and maintenance expenditures associated with the water system and infrastructure. There are also indirect costs that must be covered that one may not think to associate with the cost of water. For example, legal and consultant costs. For our District, these costs have escalated substantially as a result of Governor Brown signing the Sustainable Groundwater Management Act, or SGMA, in September 2014. With the formation of the local Indian Wells Valley Groundwater Authority (IWVGA) and the requirement to develop a Groundwater Sustainability Plan (GSP) by January 31, 2020, additional costs are being incurred by the District that must be passed on to our customers. In addition to legal counsel attendance at meetings and our consulting hydrogeologist serving as our representative on the Technical Advisory Committee, there is the \$30 per acre-foot pumping assessment that has been adopted to help fund drafting of the GSP. This is only one example of the increasing regulatory burden placed on water agencies throughout the state by the legislature, the Department of Water Resources and State Water Resources Control Board. There has been additional sampling and reporting required as a result of new water quality regulations. In addition to the aforementioned costs, the reality is the cost of doing business is increasing. From such things as the materials and services we purchase and use to utility costs, labor costs, and acquiring and maintaining required certifications; these all must be factored into our

financial projections. It must also be noted the District has a Reserve Policy requiring sufficient funds be put aside for a 6-month Operating Reserve (180 days of operating costs in cash reserves) in addition to Capital Improvement/Replacement (\$2.0M), Vehicle Replacement (\$350K), Computer Replacement (\$100K), and Debt Service (currently \$3.4M) reserves. Sound fiscal policies and decisions have resulted in the District recently being upgraded from A+ to a AA- rating from Standard & Poor's. This rating allows the District to borrow money at favorable interest rates. The Board of Directors and staff are committed to providing a safe and sustainable supply of water for our customers while maintaining fiscal responsibility.

There is a website that may be of interest containing information on the cost of water in 30 major U.S. cities. There are three customer scenarios for each city. Each district has unique needs and financial structures and these cities are obviously much larger than Ridgecrest, nonetheless you may be interested to see how IWVWD compares. The information is available at <https://www.circleofblue.org/waterpricing/>

The District has information on local, regional and statewide issues on its Facebook page (IWV Water District). Our website, www.iwvwd.com, has a wealth of information about the District. Information about the IWVGA is available on the group's website, www.iwvga.org.

The Board of Directors and staff of IWVWD would like to extend our best wishes to all residents of the Indian Wells Valley for a peaceful and joyous holiday season.