UPPER WATER

UPPER SAN GABRIEL VALLEY MUNICIPAL WATER DISTRICT

Upper San Gabriel Valley Municipal Water District

2025/2026
Engineer's Annual Levy Report
For The Renewal of Standby Charge

Intent Meeting: April 9, 2025
Public Hearing: May 28, 2025

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I. REPORT PURPOSE

This report describes the expected benefits and related costs from the Upper San Gabriel Valley Municipal Water District's ("Upper District") comprehensive water recycling program and water conservation program as well as the proposed method and basis for the continuation of the previously adopted (prior to the passage of Proposition 218) standby charge program.

II. WATER SUPPLY

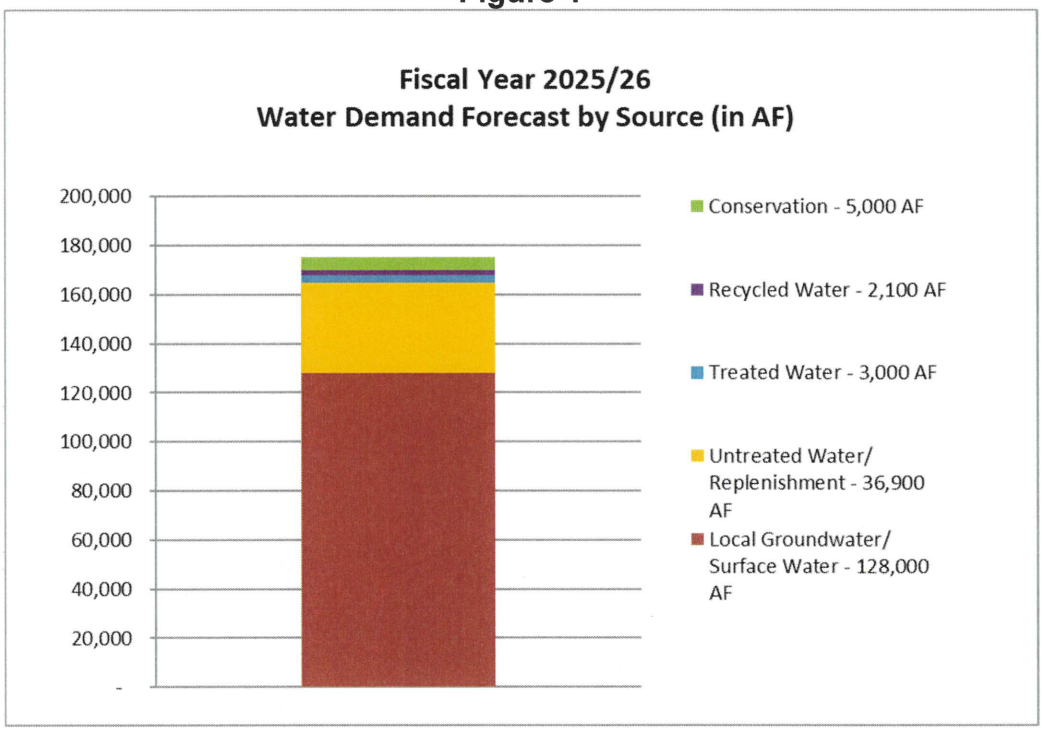
While 2023 brought record amount of rainfall in California and 2024 was considered average in terms of precipitation, consecutive dry years are still quite common, and drought is an ever-present challenge. Southern California is subject to an increasing shortage of dependable water supplies for its growing population. On average, approximately fifty percent of the region's water supplies are imported from Northern California and the Colorado River. Both of these sources have become less dependable. In recent years, Metropolitan's imported supply from the Colorado River and Northern California has also been facing increasing demands and restrictions. Endangered species issues have prompted a reduction in imported water supplies. The threat of invasive mussels in the State Water Project and Colorado River water can lead to significant mitigation costs and water delivery shutdowns. These place even greater importance on the development of new local water supplies in Southern California. The State Water Project is the primary source of imported water supplies for Southern California and Upper Water.

There is little dispute that seasonal and cyclic droughts will reoccur in Southern California, highlighting the importance of having an effective drought management program. The key to drought management is planning and preparation prior to those years when Southern California experiences drought and/or reduced regional water supplies. Advanced planning and preparation is especially important since California's population continues to grow (from 2020's 39.52 million to 40.05 million in 2050 [1]) placing increased demand on the limited available potable water resources of the State.

For FY 2025/2026, Upper Water expects to deliver 3,000 acre feet (AF) of treated water. Upper Water also expects to supply approximately 2,100 AF of recycled water for large area landscape and turf irrigation. A moderate level in Upper Water's conservation efforts could supply an additional 5,000 AF. To meet forecasted demand for FY 2025/2026, Upper Water will have to supply approximately 36,900 AF, either from existing or alternative sources, for groundwater replenishment operations.

[1] *California Department of Finance – July 2023*

Figure 1



III. RECYCLED WATER PROGRAM

Water reclamation and recycling is one alternative source of water that offers the San Gabriel Valley a very cost effective solution for improving water supply reliability and addressing cyclical drought conditions. Water recycling uses existing, proven technologies to treat wastewater to local, state and federal quality levels and is safe for many non-potable applications. Water recycling provides an alternative to disposal and an excellent opportunity to conserve and reuse this scarce natural resource in Southern California. By shifting non-potable demands to recycled water, more drinking water is made available to meet the potable demands of our communities. Water recycling has proven to be not only acceptable to the general public, but is also mandated by the State of California and most municipalities in Southern California.

IV. PROJECT DESCRIPTION

Since 2006, the Upper Water has pursued water recycling not only to reduce the San Gabriel Valley's dependence on expensive and increasingly scarce imported water supplies but also lessen the overproduction of the groundwater basin. From the very beginning, Upper Water recognized the value of "a partnership approach" to its water recycling program. Upper Water's partners include many of its customer agencies, cities and private water purveyors. Other partners include the Los Angeles County Sanitation Districts (LACSD), the Metropolitan Water District of Southern California, the U.S. Bureau of Reclamation, State Water Resources Control Board and the California Department of Natural Resources.

The first projects to begin delivering recycled water for irrigation purposes were the Rose Hills Memorial Park Water Recycling Project and the Whittier Narrows Water Recycling Project. Prior to using recycled water, Rose Hills used approximately 293 million gallons per year or 803,000 gallons per day of drinking water for irrigation purposes. In the fall of 2006, the Whittier Narrows Water Recycling Project began supplying the 2,500 acre Whittier Narrows Recreation Area with recycled water.

Additional projects completed include the South El Monte High School (2007) and Rosemead Extension (2010) Water Recycling Projects. Together these two projects save 250 million gallons of drinking water per year. The South El Monte project provides recycled water to the school's athletic fields and green areas while the Rosemead Extension serves commercial and public sector customers including the Whittier Narrows Golf Course, Edison headquarters campus, Walmart, University of the West, and various schools, parks, and nurseries.

In 2015, the Upper Water finalized recycled water expansion into the City of West Covina, with the conversion of irrigation customers from potable to recycled water as part of the Phase IIB Recycled Water Project. The Phase IIB System added about 14 miles of "purple pipe" and a 2 million gallon reservoir to deliver an additional 290 million gallons per year to 25 more customers including the BKK Landfill, South Hills Country Club, Big League Dreams Sports Complex (2012), Shadow Oak Park, West Covina High School, 5 additional West Covina Schools, Rimgrove Park, Woodgrove Park, Cortez Park, and several City of West Covina street medians and landscaped walking paths.

Upper Water continues to work with local water purveyors and property owners to increase the use of recycled water in the region. Recognizing the need to continue developing all feasible potential direct reuse recycled water projects, Upper Water's Board of Directors approved a new project delivery model in 2015. Under this new approach, Upper Water will act as the lead agency for CEQA, provide technical support services, and help finance the project by securing grant funds. The partner producer will finance the remaining balance of the project costs, construct, own and operate the project.

The first three projects delivered under this model are the South El Monte Recycled Water Expansion Project with a projected yield of 72 AFY, the Rose Hills Recycled Water Project with a projected yield of 600 AFY, and the La Puente Valley County Water District Recycled Water Project with a projected yield of 60 AFY. These projects are now complete and are delivering recycled water.

V. PROJECT BENEFITS

The purpose of the recycled water project is to augment local water supply and reduce the need for less reliable and costlier imported water. Thus, all retail water purveyors and the public they serve in the Upper Water's service area that utilize groundwater and/or utilize treated imported supplies receive benefits from the project's supplemental capacity. All water supplied from the LACSD plants will comply with the strictest requirements of Title 22 of the California Code of Regulations. The quality of the water will be suitable for all categories of recycled water use that are planned in the current and future programs. Over the long-term, the project will improve the water supply reliability of the San Gabriel Valley by increasing the quantity of local supplies, reduce the area's dependence on imported water, and help protect the region from future drought impacts. Recycled water produced by this program will be distributed locally for a wide range of beneficial uses. As the Upper Water continues to expand its distribution system and pipeline infrastructure, recycled water will benefit many throughout the San Gabriel Valley.

As Upper Water continue its water recycling program, the reliability of the San Gabriel Valley's water supply is dramatically improved. Improving the reliability of local water resources helps mitigate water shortages even during extended periods of drought and allows Upper Water to keep future water rate increases to a minimum.

VI. CAPITAL PROGRAM FINANCE

Upper Water serves as the lead agency in the water recycling program and is responsible for obtaining funds, construction of facilities, and providing for the operation and maintenance of the system (except for the Rose Hills, South El Monte, and La Puente Recycled Water Projects, which are owned and maintained by Rose Hills and the local water purveyors). Upper Water continues to pursue sources of project funding to expand and maintain its recycled water program.

Upper Water received project funding from the Bureau of Reclamation, the State of California State Revolving Fund (SRF) and the Metropolitan Water District. The standby charge revenues pay the interest and principal payments on the loans from the SRF and provide a limited source of cash financing for the program, including future project phases.

VII. WATER USE EFFICIENCY PROGRAM

Considered an unusually average water year, California ended the 2024 water year on a blissful high note. Not too wet, no droughts and no major floods. The year was unusually normal for the last decade. By April of 2024, the Department of Water Resources had reached a 40 percent State Water Project allocation. The allocation was due to improved hydrological conditions, including increased storage across the state and a positive snow survey data. However, the statewide National Centers for Environmental Information (NCEI) averages put WY24 as the 4th warmest mean temperature across both California and Nevada. The yearly average maximum temperature stands as California's 8th warmest and Nevada's 9th. The region continues to experience the extreme effects of climate change yet surprisingly had little effect on drought in the region.

Upper Water maintained its Water Shortage Contingency Plan – Level 1 status, which encourages water efficiency best practices for the region. This level calls for water use efficiency best practices and a summer watering schedule of two days irrigation schedule and a three-day irrigation schedule for the fall/winter months in Upper Water's service area.

Upper Water continues its public outreach and education activities in the region. The outreach campaign focuses on educating the public on the region's local water resources and preserving the water storage levels of the Main San Gabriel Groundwater Basin.

Recognizing that hydrologic conditions are subject to change, Upper Water remains a leader in its conservation efforts by implementing innovative programs and outreach that emphasize best water efficient practices as a continued way of life.

Upper Water's recycled water and conservation programs are fundamental to achieving long-term regional sustainability and meeting the water use efficiency goals set forth under the 2018 Water Conservation and Drought Planning Legislation aimed at *"Making Water Conservation a California Way of Life*." In August 2023, the State Water Resources Control Board (SWRCB) issued the proposed draft regulation for *"Making Water Conservation a California Way of Life"* as part of the legislation. While Upper Water is not directly required to report water usage data, it strives to assist its water purveyors that are urban water suppliers in achieving and maintaining compliance with their conservation efforts and water supply goals. Upper Water offers various water use efficiency programs and rebates offered through Metropolitan, that are targeted for residential, commercial/institutional, and outdoor water savings. Any standby charge revenues not fully utilized to fund the Water Recycling Program are used to pay for a portion of the Water Use Efficiency Program.

While water conservation does not produce new water, it effectively increases the amount of available water by improving water use efficiency and reducing per capita water usage. As a result, the agency's Water Conservation Program helps manage available water

supplies in the most efficient manner possible. In this way, regional water conservation programs effectively supplement new local water supply to meet the immediate needs of a growing population. For the long-term, water use efficiency allows Upper Water to defer some capital expenses for the development of new supplies and helps in reducing the quantity of new water supplies necessary to meet anticipated water demands.

Over the years, Upper Water's water conservation efforts have been effective at saving substantial quantities of water. Since 1992, Upper Water's water use efficiency programs have yielded over 29.21 billion gallons of water savings.

VIII. WATER SUPPLY ISSUES

Throughout California's history, the development of reliable water supplies has lagged behind the growth in population and the corresponding demands on available resources. Today, achieving a water supply that is less dependent on imported water is the greatest challenge and most critical goal of all water agencies in Southern California. Upper Water's water supply and financial management plans offer a prudent and efficient strategy for meeting the water resource needs of the region in a cost-effective and environmentally responsible manner.

IX. LONG-RANGE FINANCIAL PLANNING

One of Upper Water's goals is to continue focusing on selected revenue sources that will further strengthen its financial position. Pursuit of this goal will help ensure that Upper Water has the option of choosing a financing alternative that is most advantageous to water ratepayers and property owners. A strong financial position will provide Upper Water with the opportunity to minimize its cost of capital, stabilize cash flow and improve the economics of beneficial projects without sacrificing future financial or operating flexibility.

Two additional goals of the financial plan are: 1) to ensure that there is an adequate revenue stream to fund the capital improvement program, and 2) to assure that the blend of revenues will distribute the costs of the facilities and water service appropriately and equitably to the program's beneficiaries.

X. COST RECOVERY

Upper Water territory includes a wide variety of land uses. Generally speaking, all land uses benefit from a reliable water supply. Therefore, the cost to produce new water resources cannot be recovered solely through the sale of recycled water to just a few users or through avoided costs generated by conservation. Recycled water and effective

water conservation programs allow greater flexibility by extending the potable water supply. The availability of recycled water as an additional source becomes a benefit to all parcels and users within Upper Water's service area. Therefore, a portion of the cost of these program benefits should be recovered through a mechanism that apportions the cost in relationship to potential benefit. Depending on the extent of the development, Upper Water's cost of water production could be significantly reduced over the long-term compared to continued reliance on imported water supplies.

Upper Water's current operating revenue sources mainly include a surcharge on imported water purchases and the standby charge on parcels. In prior years, the use of standby charge revenue has been a key element in the funding of Upper Water's recycling and conservation programs.

XI. EQUITY OF STANDBY CHARGE

One of the many major benefits that accrue from the use of the standby charge is the independence of the revenue from actual water demand. Traditionally, rate and revenue studies have shown that a single revenue source does not adequately address the distribution of costs and benefits. In some instances, rather large benefits accrue to properties that use little or no water and would otherwise contribute very little financially for the value received.

The direct benefits derived from Upper Water's comprehensive program include: 1) highly reliable alternate water supply for non-potable uses, 2) replenishment of groundwater in lieu of more expensive new water supplies, and 3) increased water use efficiency by reducing per capita consumption. Since supplying non-potable water to non-potable users reduces the demand on the potable water supply, both potable and non-potable water users benefit from Upper Water's program. A blend of water sales (including recycled) and standby charge revenue sources recover both the direct cost of water use as well as the cost associated with improved water supply reliability.

XII. REVENUE STABILITY

In addition to providing a means of equitable cost sharing, the standby charge generates a stable source of revenue. In other words, standby charge revenue is not dependent upon weather cycles and/or water sales fluctuations. Stable (fixed) revenue sources assist Upper Water in meeting its financial and capital obligations under all cyclical demand conditions that, in turn, are reflected in increased borrowing efficiencies, lower interest rates, and other cost savings.

XIII. PROPOSED RATE AND METHODOLOGY – FISCAL YEAR 2025/2026

The Upper Water standby charge rate was $10 per acre per year or $10 per parcel less than one acre per year in FY 2024/2025. This report recommends that Upper Water continue the previously adopted formula and methodology for assessing the standby charge at a rate of $10 per acre per year or $10 per year for parcel less than one acre for fiscal year 2025/2026. The proposed rate is for fiscal year 2025/2026 only and may or may not be maintained in subsequent years. At the rate of $10 per acre, the standby charge will provide approximately $2.05 million in revenue for fiscal year 2025/2026.

XIV. PROPOSED USE OF STANDBY CHARGE REVENUE

Appendix I demonstrates that the standby charge revenue is needed to fund the District's water recycling and conservation programs. The continued use of standby charge revenue to fund the recycled water capital program is also recommended.

APPENDIX I

Fiscal Year 25/26 Preliminary Budget

Beginning Balance All Funds (Projected Balance)	**$**	**21,625,000**
Revenues		
Imported Water Sales	$	57,852,000
MWD Gross Standby Charge		1,950,000
Recycled Water Sales		1,849,000
Upper District Standby Charge		2,050,000
Water Conservation Program Revenue		323,000
Recycled Water Program Revenues		120,000
Taxes		822,000
Interest and Other		433,000
Total Revenues	**$**	**65,399,000**
Expenses		
Water Purchases	$	52,294,000
MWD Ready-to-Serve Charge		5,218,000
Recycled Water Purchases		573,000
Administrative Expenses		2,892,000
Water Conservation Program		1,902,000
Water Qualtiy and Supply Program		623,000
Recycled Water Program		1,654,000
Stormwater Program		41,000
Capital Program		197,000
Total Expenses	**$**	**65,394,000**
Ending Balance All Funds	**$**	**21,630,000**