




MEMORANDUM

TO: Board of Directors

FROM: Gerald Grijalva, General Manager

SUBJECT: Discussion and possible action to approve a Rate Stabilization Fund for Fiscal Year 2021-2022

PRESENTER: Jose F. Hernandez, Chief Financial Officer 

DATE: September 23, 2021

The Lower Valley Water District will be adopting on September 23, 2021 the FY 2021-2022 Operating and Capital Budget. During FY 2020-2021 the District experienced a 46% increase in purchased water rates and 44% in purchased wastewater treatment rates. The District kept the same rate structure during FY 2020-2021, although it represented approximately \$1M more than the budget for cost of water and sewer. In the September 23rd meeting, the Administration will be presenting a motion to increase rates during FY 2021-2022 to continue providing the water and wastewater services that our community deserves.

If the Board approves the proposed rate increase, metered water sales revenues are projected to be **\$9,670,314**. To mitigate the impact of rate adjustments in the future, the District recommends implementing a Rate Stabilization Fund (RSF) that will be funded initially from 1.6% of the metered water sales revenues. Based on projected metered water sales revenues of \$9,670,314, the RSF is projected to be at \$154,725 for next fiscal year.

The Administration recommends approving a Rate Stabilization Fund that will be funded from 1.6% of the metered water sales revenues.

Future deposits to the rate stabilization fund will be determined semiannually based on financial performance. The goal is to accrue a reserve balance of \$1,000,000. When the RSF balance equals \$1 million, the District may suspend funding until such time as the RSF is drawn down below \$1 million. The District will deposit the funds from the RSF in a rate stabilization bank account. Any amounts used to offset unanticipated changes in the budgeted amounts, or any withdrawals related with the RSF will require Board of Directors approval.

The Administration recommends approving a Rate Stabilization Fund that will be funded from 1.6% of the metered water sales revenues.



RATE STABILIZATION FUND

PURPOSE

To absorb fluctuations in revenues and stabilize rates by providing a reserve that can be utilized to pay for unanticipated changes in budgeted costs, which may otherwise require a rate increase.

BACKGROUND

The Lower Valley Water District (the District) formally adopts an annual budget in September of each year. The budget and the budget amendments must be approved by the District's Board of Directors. The District purchases water from El Paso Water (EPW) at wholesale rates established by the Public Service Board (PSB), which governs the EPW. In addition, EPW provides wastewater treatment services to the District. EPW revises the water and wastewater rates every year when they adopt their budget in April of each year. These increases are outside the control of the District and occur six months after the adoption of the District's annual budget. The Rate Stabilization Fund allows the District to accrue a contingency fund to mitigate the impact of similar cost and possible revenue variances that may occur.

RATE STABILIZATION FUND

The Rate Stabilization Fund (RSF) will become effective October 1, 2021. Initially it will be funded from 1.6% of the metered water sales revenues. Future deposits to the rate stabilization fund will be determined semiannually based on financial performance. The goal is to accrue a reserve balance of \$1,000,000. When the RSF balance equals \$1 million, the District may suspend funding until such time as the RSF is drawn down below the \$1 million balance. The District will deposit the funds from the RSF into a rate stabilization bank account. Any amounts used to offset unanticipated changes in the budgeted amounts, or any withdrawals related with the RSF will require Board approval. The District retains the right to utilize the RSF to meet other unanticipated changes in costs or revenues as approved by the LVWD Board of Directors.

ACCOUNTING

All accounting procedures will adhere to Governmental Accounting Standards Board (GASB) Statement No. 62 accounting standards.