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March 1, 2019

Governor Gavin Newsom
State Capitol, Governor's Office
Sacramento, CA 95814

Re: Backfill Funding for Paradise Irrigation District

Dear Governor Newsom:

We respectfully request your support for a one-time appropriation of \$21,693,203 from the General Fund to the Paradise Irrigation District (PID) to allocate toward the District's operations and maintenance costs over the next three fiscal years. PID is a special district providing water service to the town of Paradise. PID was hit hard by the Camp Fire in 2018 and faces a significant reduction in operating capital for the next few years (see attachments). Although PID currently has approximately \$3 million held in reserves, it anticipates facing insolvency in less than 6 months without State action.

The district has explored funding opportunities to address damaged infrastructure and water quality issues, however, no funding avenues are currently available for maintenance and operations costs. Even though the district currently serves a smaller population, PID's cost of service is mostly (over 95%) fixed.

Providing a short-term funding solution to allow the district to develop long-term funding models will ensure that the residents returning to Paradise will not have to worry about access to clean, safe drinking water. Backfilled revenues by the State ensure that the men and women who work for and service the District – the majority of whom were also affected by the fire – will be able to maintain their employment and provide a measure of economic stability to the region.

Respectfully,

A handwritten signature in blue ink, appearing to read "James Gallagher".

James Gallagher
Assemblyman, 3rd District

A handwritten signature in blue ink, appearing to read "Jim Nielsen".

Jim Nielsen
Senator, 4th District

Encl. 1- PID Background
Encl. 2- PID Revenue Needs
Encl. 3- PID Operating Expenses

Cc:

Keely Bosler, Director, Department of Finance
Members, Senate Committee on Budget and Fiscal Review
Members, Assembly Committee on Budget



PARADISE IRRIGATION DISTRICT

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Revenue Backfill Request

Background

Paradise Irrigation District (PID) is a local public agency formed in 1916 and operating under Division 11 of the California Water Code. It is governed by a five-member elected Board of Directors and has powers and purposes attendant to a government agency. PID serves only drinking water to the homes and businesses within the Town of Paradise, despite its “irrigation” name.

Before the November 8, 2018 Camp Fire, PID provided drinking water to approximately 10,500 customer connections. Today, approximately 1,500 connections remain; however, only about 700 of those connections are active given various reasons, including damage to PID’s infrastructure and use limitations given water quality concerns.

Revenue Backfill Request – \$21,693,203.00

The unprecedented Camp Fire has left PID in financial crisis without enough revenue to meet ongoing operational expenses. The cost to replace and repair PID’s infrastructure will be addressed through FEMA/CalOES and PID’s insurance provider. The State’s recent approval of a three-year property tax backfill for Butte County (AB 72, February 13, 2019) does not address PID’s financial crisis because its revenue is predominantly (+90%) derived from customer fees, not property taxes. The attached revenue worksheet shows PID’s budgeted revenue for operations and resulting shortfall totaling \$21,693,203.00. Like AB 72, PID’s backfill request would be appropriated this fiscal year and then prorated out over a total of three fiscal years.

PID’s Operational Costs Are Mostly Fixed

PID’s cost of service is mostly (over 95%) fixed, meaning its cost to store, treat and deliver water to 1 customer connection is roughly the same as it is for 10,500 connections. PID’s operational expenses do not decrease because it is serving water to fewer connections. The attached cost worksheet shows PID’s budgeted costs pre-Fire and post-Fire in greater detail.

Parallel Processes – PID in the Future

PID recognizes that its financial challenges will likely extend beyond the requested three-year backfill. For that reason, it is actively analyzing ways to address its financial situation so that it can be positioned to reliably serve drinking water to the residents and businesses of Paradise in the future. Current concepts being discussed include PID wholesaling treated water through more expansive regional intertie projects or deliveries to water users to help achieve groundwater sustainability under the Sustainable Groundwater Management Act. PID will also be at the forefront of efforts to harden its water system to make it more resilient to the threat of climate change and the reality of larger and more dangerous wildfires.

The requested three year backfill is essential to keep PID solvent and to afford it time and resources to address this unprecedented catastrophe.

**Paradise Irrigation District CAMP Fire Revenue Needs
February 2019**

The information below shows PID's 2018/19 budgeted water rate revenue, 2019/20 budgeted water rate revenue, which included an approved (Proposition 218) rate increase and 2020/21 budgeted water rate revenue.

Pre-Fire					
Description	Customers	2018/19 Budget	2019/20 Budget	2020/21 Budget	Total Revenue
Service Charge	10,500	5,148,252	5,646,258	5,646,258	16,440,768
Quantity Charge	10,500	2,833,600	2,833,600	2,833,600	8,500,800
Penalty Charges	10,500	65,000	65,000	65,000	195,000
Total Annual Water Rate Revenue		8,046,852	8,544,858	8,544,858	25,136,568

Below is the post-CAMP fire revenue projections based on 1,500 customers.

Post-Fire					
Description	Customers	2018/19 Budget	2019/20 Budget	2020/21 Budget	Total Revenue
Service Charge	1,500	705,240	773,460	773,460	2,252,160
Quantity Charge	1,500	388,164	388,164	388,164	1,164,493
Penalty Charges	1,500	8,904	8,904	8,904	26,712
Total Annual Water Rate Revenue		1,102,308	1,170,528	1,170,528	3,443,365

Below is the annual loss of revenue due to the Camp Fire

Annual Loss due to CAMP fire					
Description	Customers	2018/19 Budget	2019/20 Budget	2020/21 Budget	Total Revenue
Service Charge	1,500	4,443,012	4,872,798	4,872,798	14,188,608
Quantity Charge	1,500	2,445,436	2,445,436	2,445,436	7,336,307
Penalty Charges	1,500	56,096	56,096	56,096	168,288
Total Annual Water Rate Revenue Loss		6,944,544	7,374,330	7,374,330	21,693,203

**Paradise Irrigation District Post-CAMP Fire Operating Expenses
February 2019**

PID's annual operating expenses are over 95% fixed. PID has two surface water reservoirs and a treatment plant that requires 24-hour staffing. PID also has 171 miles of distribution pipes that are 90% feed by gravity.

Below is an expense comparison from pre-fire to post fire.

Pre-Fire Budgeted Expense			Post Fire Estimate
	FY 2018/19 Budget	FY 2019/20 Budget	
Salary and Benefits	4,462,340	4,631,009	3,730,870
Materials and Supplies	852,500	916,450	500,000
Outside Services	521,520	443,420	1,750,000
Utilities	286,285	284,385	284,385
Insurance	105,339	105,339	105,339
Board	61,049	40,375	40,375
Total Operating Expense	6,289,032	6,420,977	6,410,969
Debt Service	963,307	963,677	963,667
	<u>7,252,339</u>	<u>7,384,654</u>	<u>7,374,636</u>

Pre-Fire and Post Fire expense differences:

1. Salaries and Benefits have decreased due to the post-fire reduction in personnel from early retirement of long-term employees and other employees leaving the area for personal reasons. Despite the need, PID has not backfilled these positions because it is actively trying to keep its long-term expenses to a minimum.
2. Materials and Supplies expenses will decrease due to operational maintenance costs shifting to disaster recovery expenses that will be reimbursed through FEMA/OES.
3. Outside Services will increase due to the lack of regular full-time employees. For example, PID must hire outside consultants to assist it with engineering, GIS, project management, contract management and many other services that it cannot currently perform in-house with limited staffing.

PID currently has approximately \$3,000,000 in reserves that it is using to maintain operations. Based on these estimates, and unless the requested backfill is approved, PID will be insolvent in less than 6 months.