Connection Fee and Rate Study Workshop #1

March 7, 2019

carollo

Engineers...Working Wonders With Water®

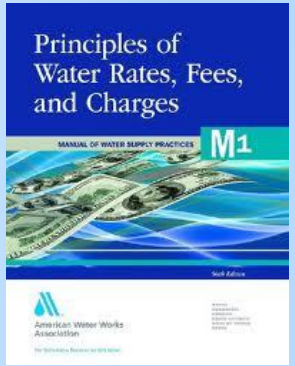
Meeting Objectives:

- Introduce the study and project team
- Provide overview of study purpose and objective
- Describe project scope
- Discuss member agency questions

Who we are…

Industry leader in water and wastewater with over 20,000 successful projects

Carollo's Financial Management Group (FMG) specifically focuses on financial, management, and economic consulting



Recognized industry experts on rate setting and design

This team has provided financial and rate consulting for 300+ clients

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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PRINCIPAL-IN-CHARGE

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Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

REGIONALSAN
TAKING THE WASTE OUT OF WATER
Sacramento Regional County Sanitation District

San Diego County Water Authority

environment LA SANITATION
CITY OF LOS ANGELES

IRVINE RANCH WATER DISTRICT

EBMUD

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

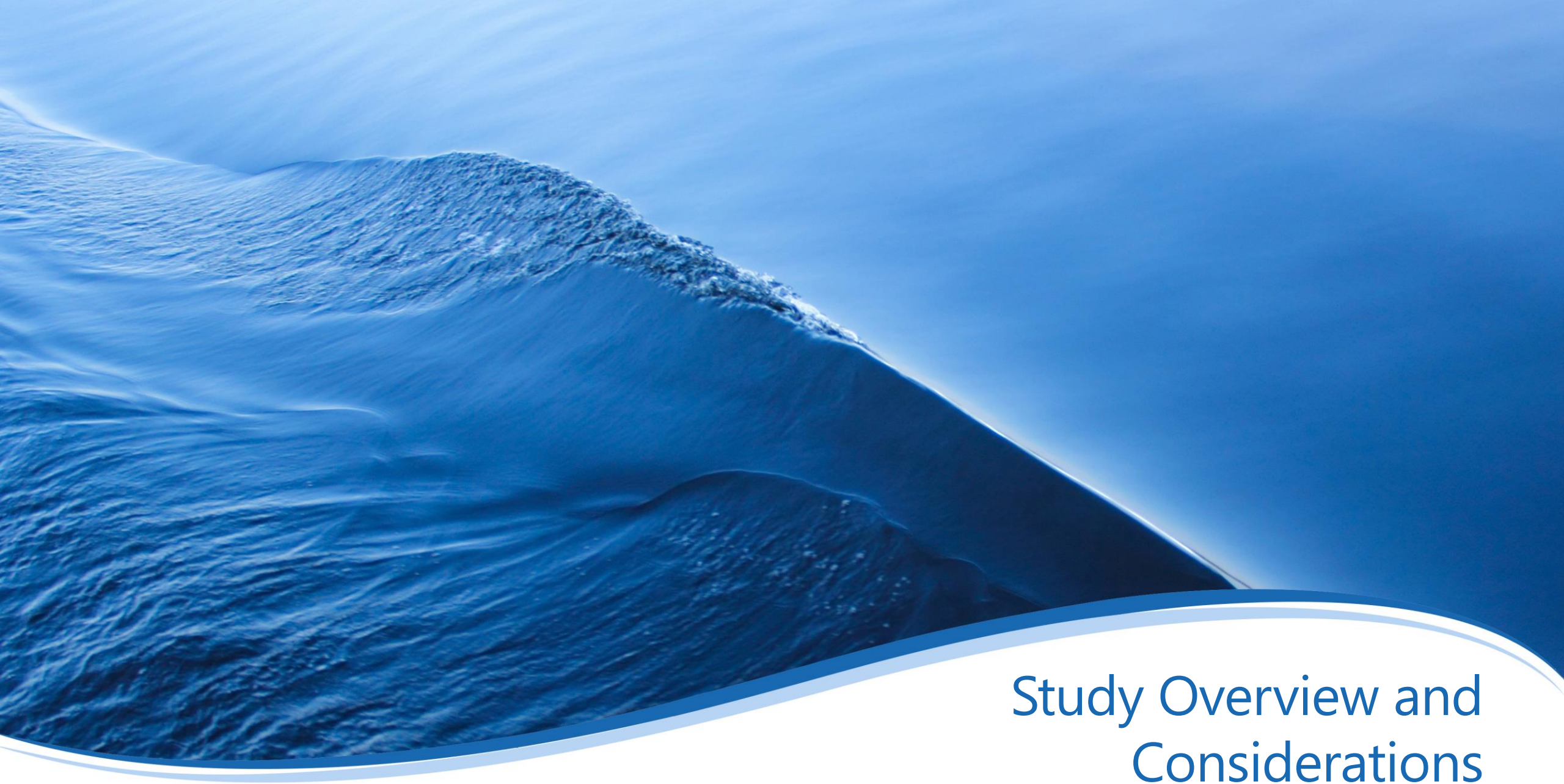
ORANGE COUNTY SANITATION DISTRICT
PROTECTING THE ENVIRONMENT

San Francisco Water Power Sewer
Services of the San Francisco Public Utilities Commission

SOUTH COAST WATER DISTRICT
Partnering With The Community

EASTERN MUNICIPAL WATER DISTRICT

San Antonio Water System



Study Overview and Considerations

Study Components: Comprehensive update of fees and rates.

- Wastewater Connection Fees
- One Water Connection Fees
- Recycled Water Rates
- Assess Potential Impact of CBP
- Wastewater EDU Rates
- Water MEU Rates
- Recharge Water Rates
- Assess Alternative Rate Collection Methods

Agencies within IEUA Service Area

Water Agencies

City of Chino

City of Chino Hills

Cucamonga Valley Water District

Fontana Water Company

Golden State Water Company

Monte Vista Water District

City of Ontario

San Antonio Water Company

City of Upland

Water Facilities Authority

Wastewater Agencies

City of Chino

City of Chino Hills

Cucamonga Valley Water District

City of Fontana

City of Montclair

City of Ontario

City of Upland

Guiding Principles: Will be considered for each of the study elements.

Project Elements

Wastewater Connection Fees	One Water Connection Fees	Recycled Water Rates	Assess Impacts of CBP
Wastewater EDU Rates	Water MEU Rates	Recharge Water Rates	Assess Alternative Rate Collection Methods

Guiding Principles

- Financial Resilience
- Water Resources Stewardship
- Open & Transparent Public Process
- Publically and Member Agency Accepted Rates and Fees
- Compliance with California Law

Updating of rates and connection fees must account for four disciplines

Prop 26 & CGC §66013 requires that IEUA defines a nexus between the charges and system costs

Rate and fee updates must account for the current value of system assets and proposed capital improvements

The connection fee analysis must equitably allocate system costs to users based on usage/capacity requirements and benefits

Implementation of updated rates and fees requires clear communication and transparency

Study Approach: Rate and fee analyses will be completed in parallel.

Policy & Rate and Fee Structure Review

Revenue Requirement and Funding Needs Analysis

Demand Analysis and Discharge Analysis

Cost Allocation Analyses

-growth/existing

-functional group

Rate and Fee Design Analysis

Outreach, Engagement, & Messaging

Outreach will be completed throughout the process to provide transparency and collaboration.

Connection Fees

What is a connection fee? One-time charge imposed on new or upsized meters or connections to compensate for the cost of providing system capacity

- Assessed per unit of capacity required:
  - Wastewater per Equivalent Dwelling Unit (EDU)
  - Water per Meter Equivalent Unit (MEU)

Wastewater Connection Fees	FY 2018/19: $6,624 per EDU FY 2019/20: $6,955 per EDU
One Water Connection Fees	FY 2018/19: $1,604 per MEU FY 2019/20: $1,684 per MEU

Regulatory Requirements: Connection fees are subject to California Government Code §66013

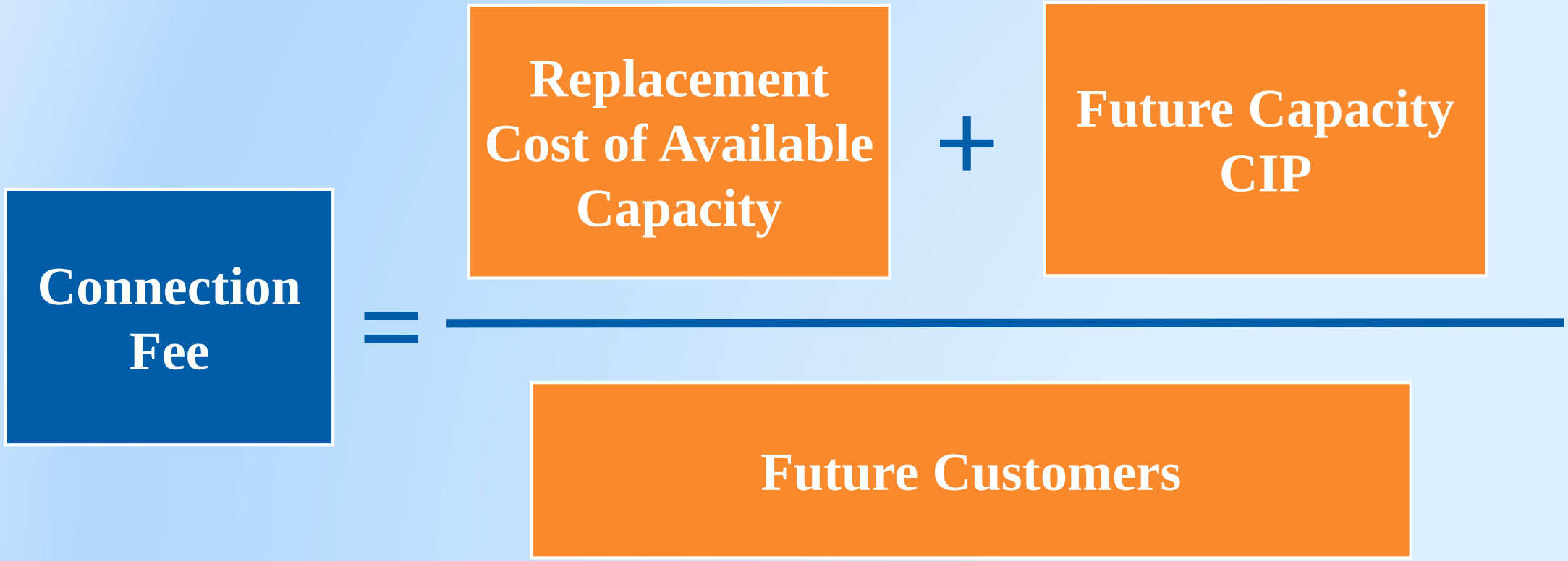
- Requires a reasonable nexus between the amount of the charge and the cost of capacity to serve the new development
- Defines maximum fee that may be imposed
- Legally permissible to include components for water resources, production, storage, distribution, and financial reserves
- Expansion fee revenues may only fund expansion related projects
- Not subject to Proposition 218

Connection Fee Methodologies: There are three basic types of connection fees.

- System Buy-In Approach
  - Recovers equitable share of available capacity within the existing system
- Incremental Cost Approach
  - Recovers equitable share of future capacity related capital projects
- Hybrid/Combined Approach
  - Recovers equitable share of capacity within the existing system and planned capital system

Hybrid Connection Fee Methodology:

Recovers proportionate share of capacity for existing system and planned future improvements



Comparable Agency Capacity Fee Methodology Examples

- City of Las Vegas – Hybrid (“Combined”) Approach
- Orange County Sanitation District – Incremental Cost Approach
- Portland Water Bureau – Buy-In Approach
- Sacramento Regional County Sanitation District– Hybrid (“Combined”) Approach
- San Francisco Public Utilities Commission – Buy-In Approach
- Seattle Public Utilities – Hybrid (“Combined”) Approach

Service Rates

Key Rate Setting Issues:

Legal Basis: All rates must comply with legal requirements and illustrate proportionality

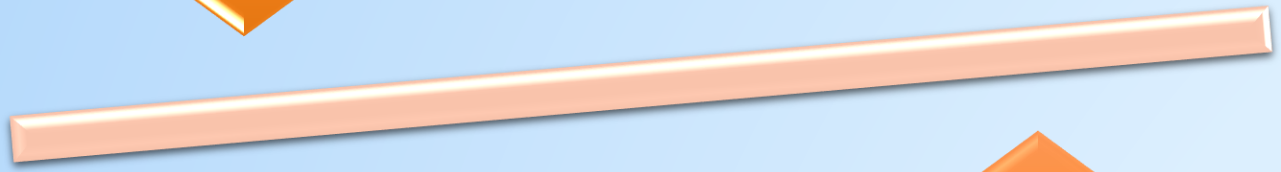
Engineering Basis: Rates and cost of service parameters must be tied to IEUA's unique system

Financial Analysis: The rate plan must be financially achievable and account for future infrastructure needs and water demand changes

Rate Structure Considerations: Must balance competing objectives

Rate Design

- Legal Compliance
- Encourage Conservation
- Equity Amongst Agencies



Financial Stability

- Economic Uncertainty
- Reliable Revenues
- Sufficient Revenue

Key Study Components:

Step 1

Revenue Requirement Forecast

Compares existing revenues of the utility to its operating, capital, and policy driven costs to establish the adequacy of the existing cost recovery levels.

Step 2

Rate Structure Review

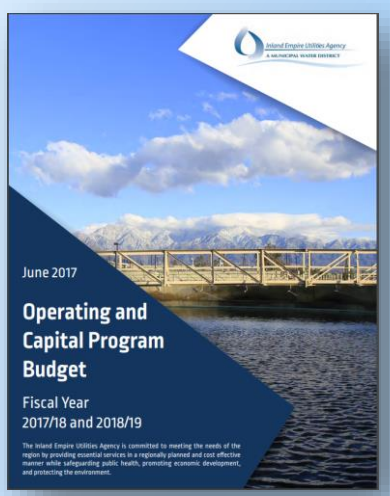
Reviews existing rates and determines their alignment with IEUA's needs and policy objectives.

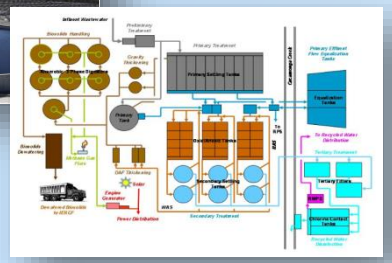
Step 3

Rate Structure Development

Allocates revenue requirements by function and considers structure of the rate design to collect the revenue requirements from each class of service.

Step 1 Revenue Requirements Forecast: Provides a road map for funding operational and water supply needs





1. System infrastructure and operational needs
2. Capital funding strategy
3. Rate strategy
4. Water Supply Needs

Financial Planning and Budgeting

Capital and Water Supply Needs

Step 1: Revenue Requirements Forecast

- Projections developed for each service fund
  - Potable Water, Recycled Water, Recharge Water, Wastewater Operations and Capital
- Review operating and capital cost drivers
- Evaluate a capital funding strategy that balances near and long-term rate impacts
- Develop a financial forecast that achieves immediate and long-term needs

Step 2: Rate Structure Review

- Evaluate the existing rate structures based on the following considerations:
  - Do they meet regional policy objectives?
  - Do they achieve desired equity and perceived fairness?
  - Do they reflect changes in water demand patterns?
  - Is the rate structure adaptable to drought conditions?
  - Do they fully fund regional operations and capital needs?

Potable Water Rates: Cover MWD Pass-through and IEUA Costs

- **Pass-throughs** to cover MWD costs

MWD Volumetric Rate

Untreated Tier 1 (1/1/2019): $731 per AF

Untreated Tier 2 (1/1/2019): $813 per AF

MWD Capacity Charge

(1/1/2019): $8,600 per cfs capacity

MWD Readiness-to-Serve Charge

(7/1/2019): 60% of MWD RTS Charge, phasing to 100% by 7/1/2022

- **IEUA Rate** to cover program costs

IEUA Monthly Retail Water MEU Charge

(7/1/2019): $1.04 per MEU per month

Recycled Water and Recharge: Volumetric rates per AF used or delivered

- Direct Sales Rate
  - Covers O&M, capital, and debt service costs of the recycled water system

(7/1/2019): $490 per AF

- Recharge Rates
  - Covers recycled water costs as well as recharge basin maintenance costs not covered by the Chino Basin Watermaster

(7/1/2019): $550 per AF

Wastewater Service Rate: Fixed monthly rate per EDU

- Monthly EDU Rate
  - Covers O&M, R&R capital, and debt service costs of the regional wastewater system
  - Costs tracked primarily Regional Operations Fund
- Contracting Agency EDU's
  - Calculated based factors in Regional Contract
  - Account for Flow, BOD, and SS

(7/1/2019): $20.00 per EDU per month

Step 3: Rate Structure Development

- Develop a cost allocation assigning system expenditures to functional categories
- Allocate costs based on system demands and capacity requirements

Wastewater Example

Wastewater System

System Functions

- Collection
- Treatment Flow
- BOD
- SS
- Billing & Admin

Revenue Categories

- Capacity
- Strength
- Discharge

EDU

Step 3: Rate Structure Development

- The structure of the existing rates is fundamentally sound
  - Substantial changes to the rate structures are not expected
- The study may evaluate potential future changes
  - Additional loadings constituents for wastewater as driven by treatment needs and constraints
    - nitrogen, TDS, phosphorous
  - Other considerations

Alternative Rate Collection Methods

Alternative Collection of Rates:

- Evaluate alternative methods of collecting wastewater and water monthly rates
  - Property Tax Roll, Direct Billing
- Identify the steps needed to transition to alternative billing methods

Impact of Chino Basin Program

Chino Basin Program Impacts: Assess the potential long-term impact of the CBP on financial projections and rates.

- CIP Projects
- New O&M Needs
- Supply Enhancements
- Cost Savings
- Ownership Shares

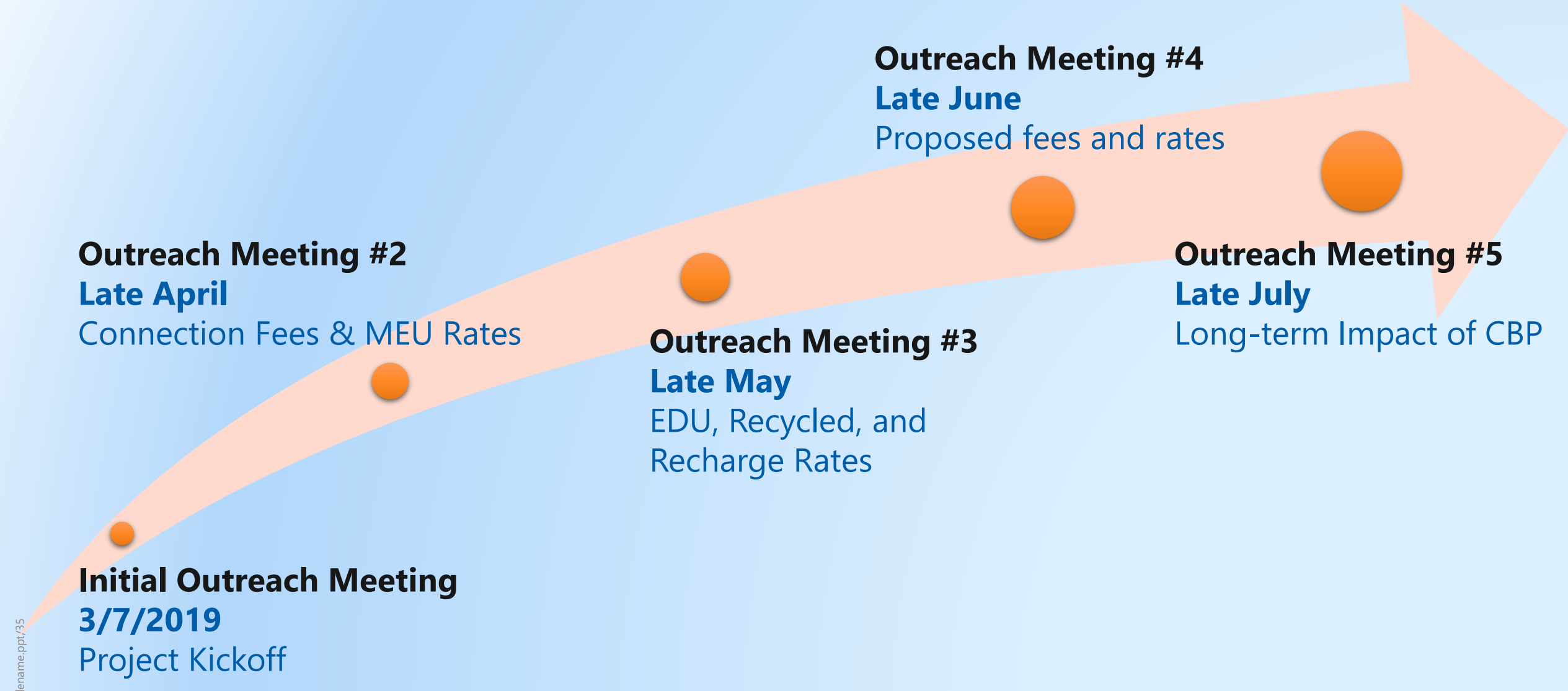
- Key analysis elements:
  - Defining costs and benefits
  - Determining how costs are allocated
    - By Fund and By Agency
  - Determining impact on rates and fees (water, wastewater, recycled and recharge, other?)

Public Outreach

Guiding principles for effective outreach

- Align process, policies, and recommendations with communities values
- Engage stakeholders and community advocates
- Translate complex technical and financial concepts into simple language and clear illustrations
- Pay close attention to perceived equity and affordability

Public Outreach: Five meetings are anticipated



Questions