

# NRWS Rate Workshop 1

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**October 22, 2025**

# Agenda

- Introduction
  - » Study Goals and Drivers
- NRWS Finances
- System Cost Allocations
- Proposed Rate Structure Modifications

# | Introduction

# Carollo Background



- Financial Management Group provides water and wastewater cost-of-service and rate and fee setting services nationwide
- PM and other team members have been working with IEUA for over 10-years
  - » 2015, 2018, and 2020 Rate and Fee Studies

Alex Bugbee



**PM and Principal Analyst**

## Study Drivers and Goals

Develop a rate structure for the long-term sustainability of the NRWS.

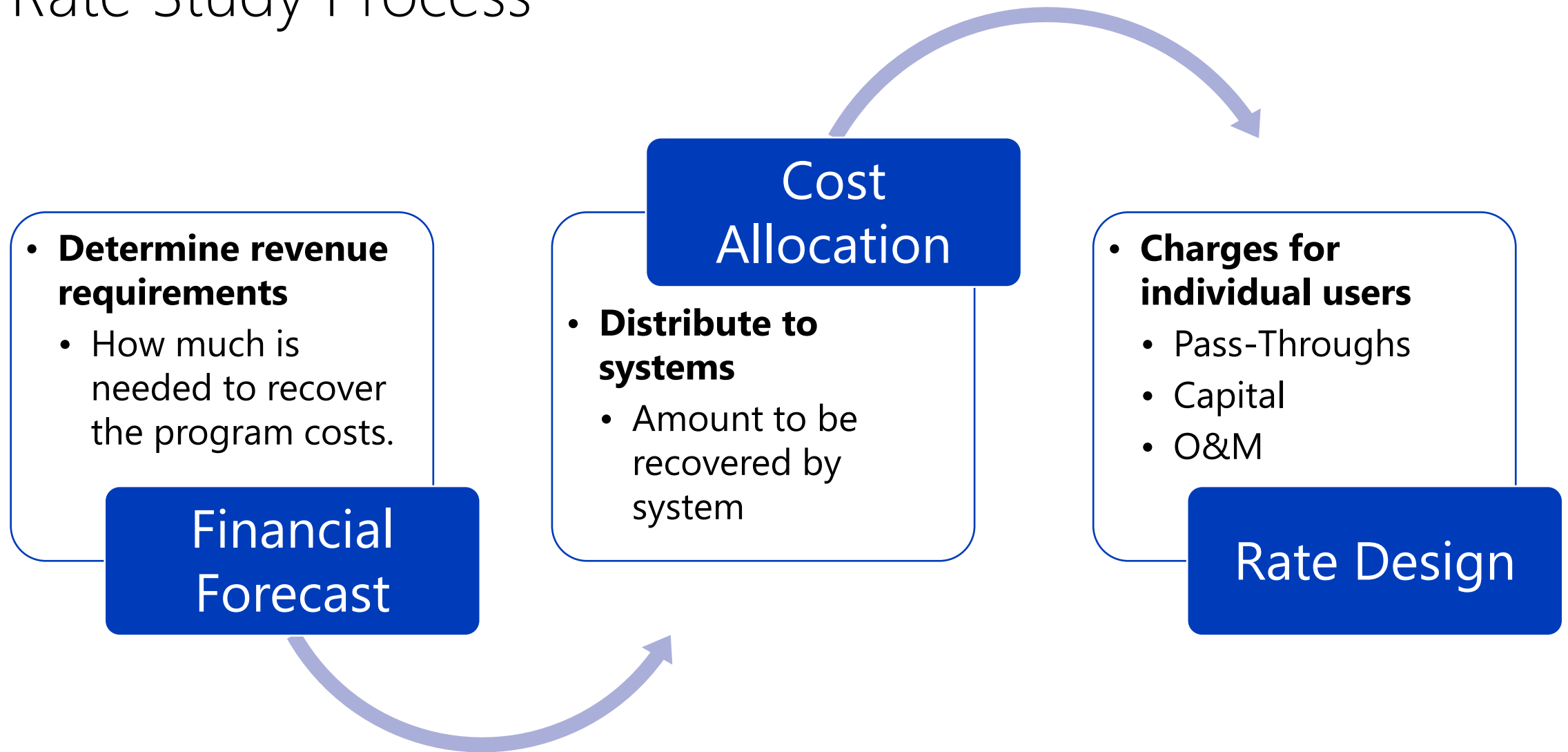
### Study Drivers

- Cost allocation between systems needs to be updated
- Revenues are volatile due to rate structure
  - » Disconnect between fixed costs and rate structure
- Costs continue to increase

### Study Goals

- Comprehensive review of the rate structure and cost allocations
- Stabilize revenues and reduce volatility
- Long term look at revenue requirements and rates

# Rate Study Process



# | NRWS Finances

# NRWS Finances

## Single fund supporting services to all service areas.

- Tracks IEUA internal costs and external treatment costs

### Internal Costs

- IEUA costs incurred to:
  - » Construct operate and maintain collection system
  - » Manage source control program
  - » Administer the program
- Charged through IEUA portion of rates

### External Costs

- North System and Etiwanda Line
  - » Costs from LACSD
- South System
  - » Costs from SAWPA
- Passed-through to individual dischargers



# Current Rate Structure

## Etiwanda Line

- LACSD Pass-Through
  - » Flow, COD, TSS
- IEUA O&M
  - » 50% of pass-through charges
- Capital
  - » \$90/month per EWLCU

## North System

- LACSD Pass-Through
  - » Flow, COD, TSS
- IEUA O&M
  - » \$29.79/month per NRWSCU
- Capital
  - » \$9.27/month per NRWSCU

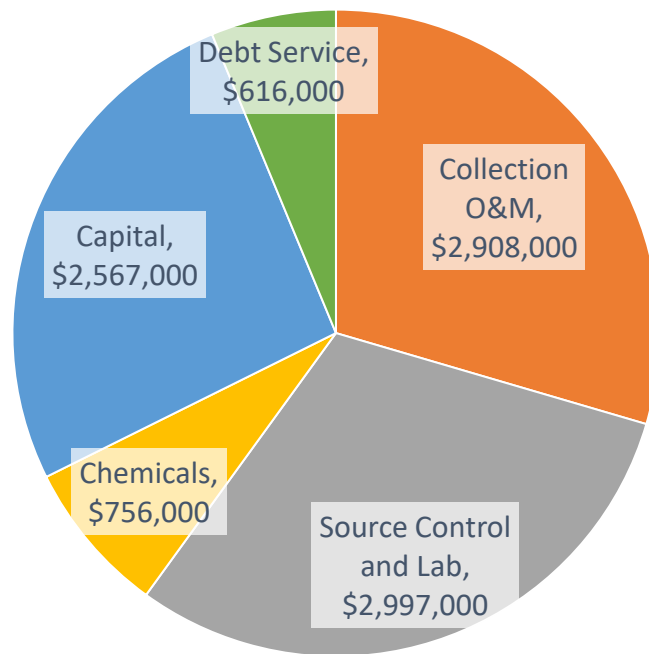
## South System

- SAWPA Pass-Through
  - » Flow, BOD, TSS
- IEUA O&M
  - » 50% of pass-through charges
- Capital
  - » \$90/month per IEBLCU

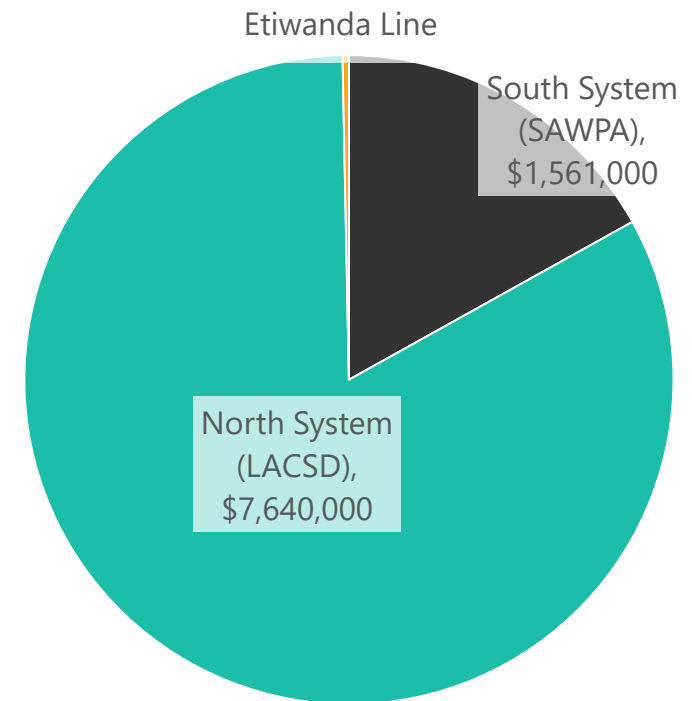
# Current Annual Costs

## Total \$19.1M (FY 2025/26)

Internal Costs: \$9.84M



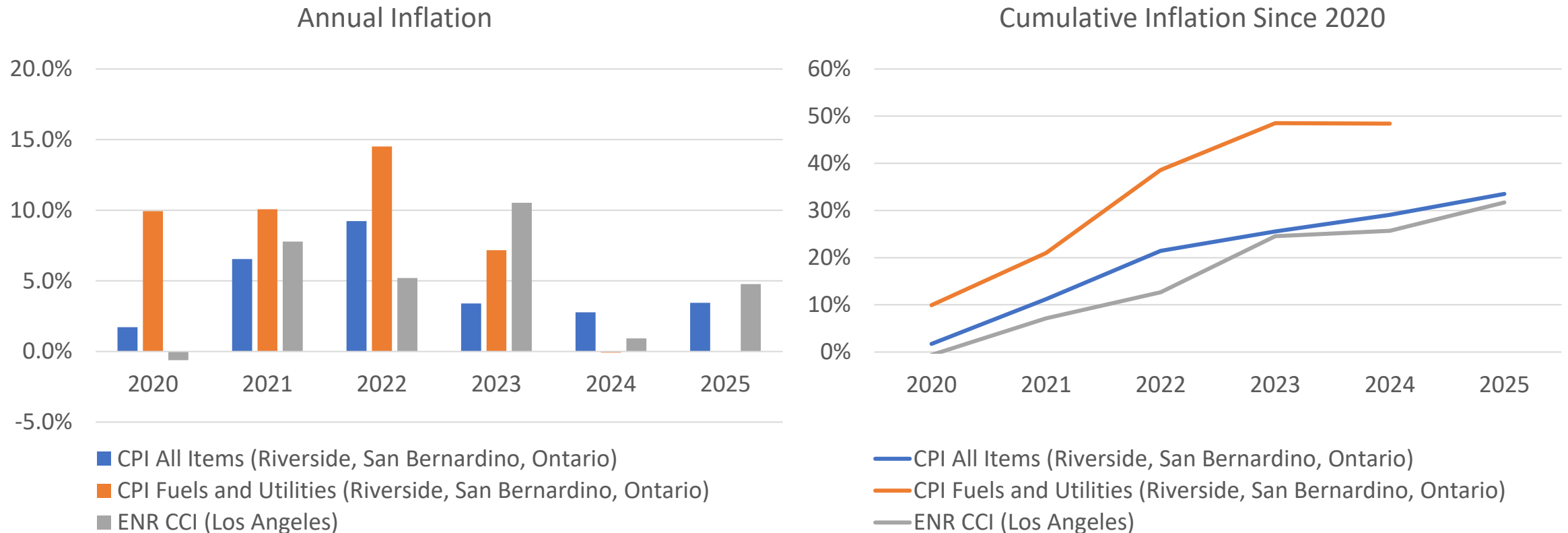
External Costs: \$9.23M



Note: Collection O&M and Source Control categories include proportional share of overhead and administrative costs.

# Financial Forecast Drivers

## Cost inflation continues to impact costs.



- Certain costs have even larger increase, i.e. chemicals costs are expected to almost double for FY 2025/26

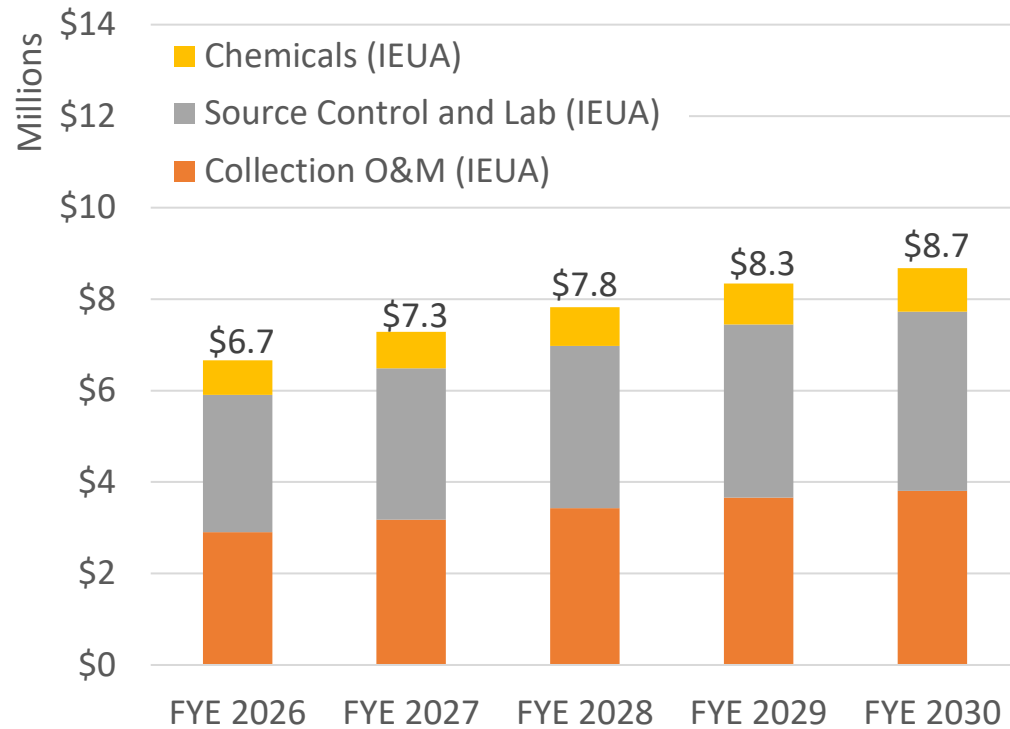
# Assumed Escalation Factors

Internal costs escalated from 2025/26 budget with specific adjustments where needed.

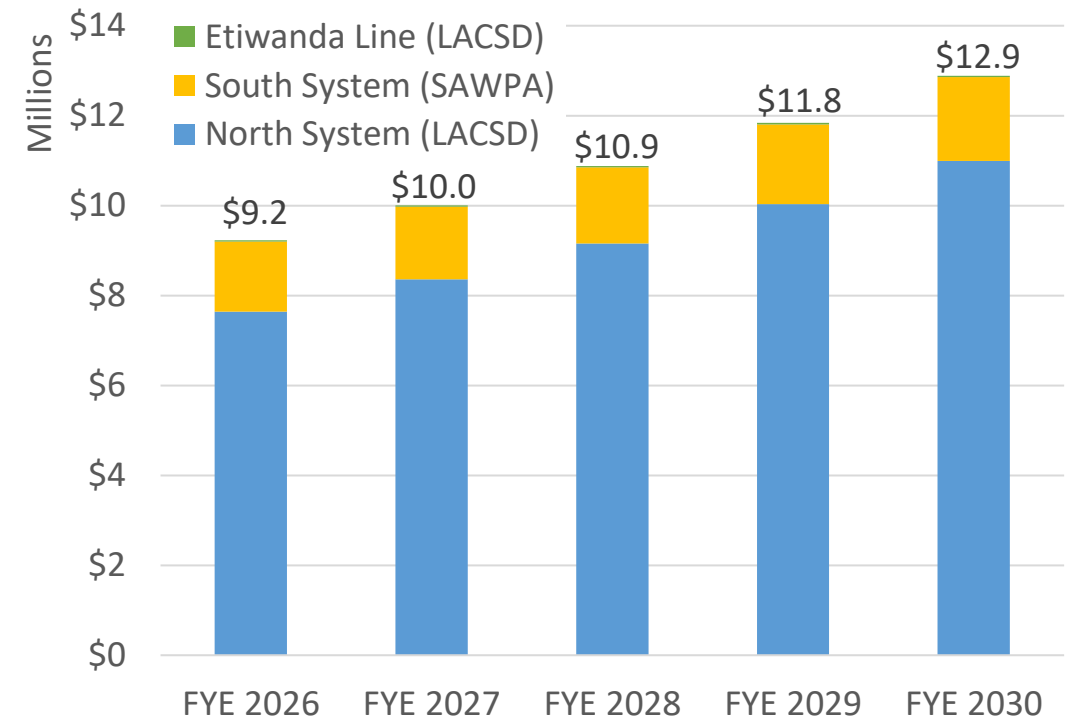
Internal O&M Cost Escalation	2027	2028	2029	2030	Applies To:
Operations	5.0%	5.0%	5.0%	5.0%	General administration and operating costs, less than 1% of internal O&M costs
Prof Fees and Services	6.5%	23.0%	6.0%	5.0%	Outside services provided to IEUA, 4.3% of internal O&M costs
Refuse Disposal	8.0%	8.0%	8.0%	8.0%	Disposal of solids from collection system cleaning, less than 1% of internal O&M costs
Labor	11.0%	6.6%	6.9%	3.0%	Set based on entered and anticipated labor contracts, 79.9% of internal O&M costs (Collections, Lab, Source Control, etc.)
Energy	5.0%	5.0%	5.0%	5.0%	Utilities, 2.1% of internal O&M costs
Chemicals	6.0%	6.0%	6.0%	6.0%	Chemicals for cleaning, odor control, etc., 11.5% of internal O&M costs
Materials and Supplies	6.0%	6.0%	3.0%	3.0%	Small purchases of operating supplies, less than 1% of internal O&M costs

# Projected O&M Costs

## Internal O&M Costs



## External O&M Costs



*Note: For projection purposes, assumed increases at 10% annually for LACSD and 5% annually for SAWPA.*

# Infrastructure Needs

Projects are needed to keep the systems functional and in good condition

## Etiwanda Line

4.4 miles of gravity and force mains

- Completing condition assessment to identify projects
  - FY 2026/27
- Anticipate additional project needs for R&R

## North System

47.3 miles of gravity mains  
6.3 miles of force mains  
PHL Lift Station

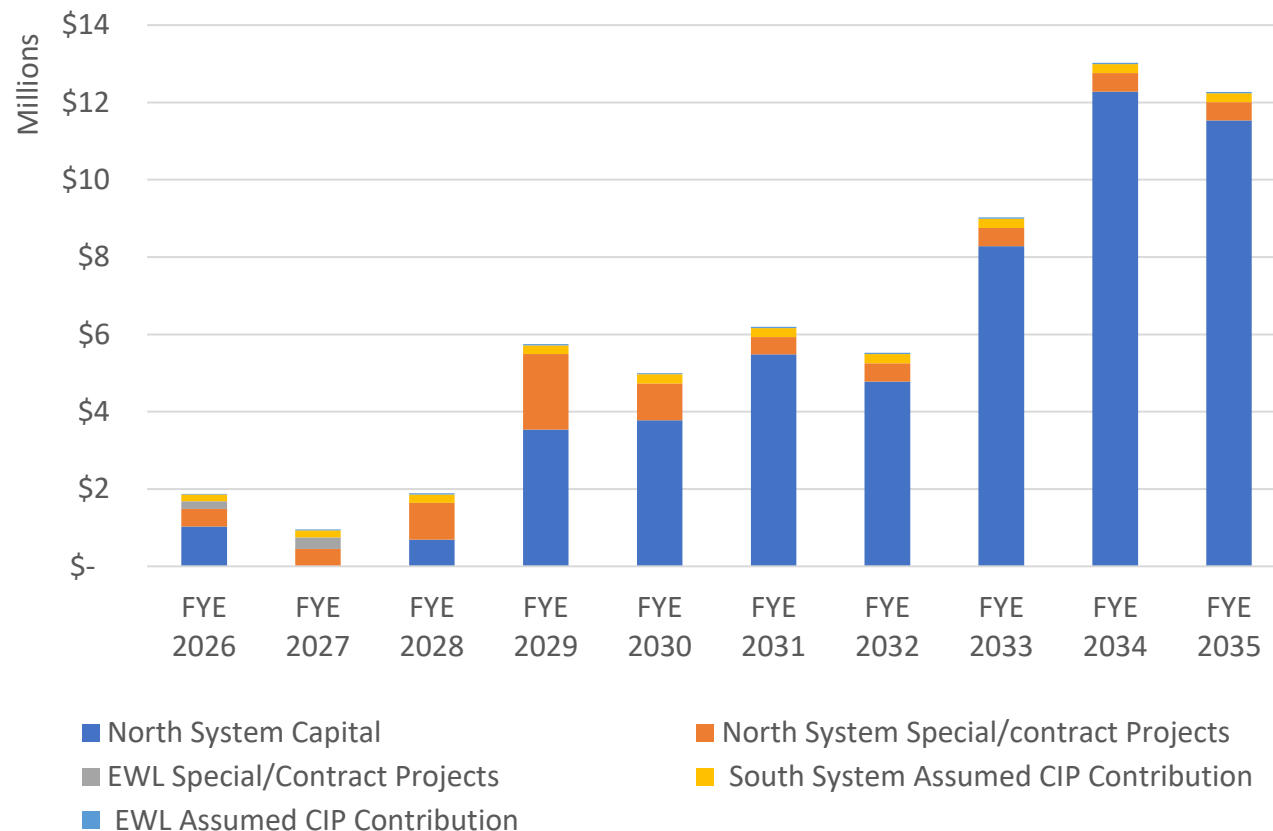
- Projects identified in TYCIP
- Major projects
  - PHL lift station and force main upgrades and improvements
  - R&R of manholes, pipelines, etc.

## South System

4.0 miles of gravity mains  
Truck receiving station

- Projects to be identified in Brine Line Master Plan
  - FY 2026/27

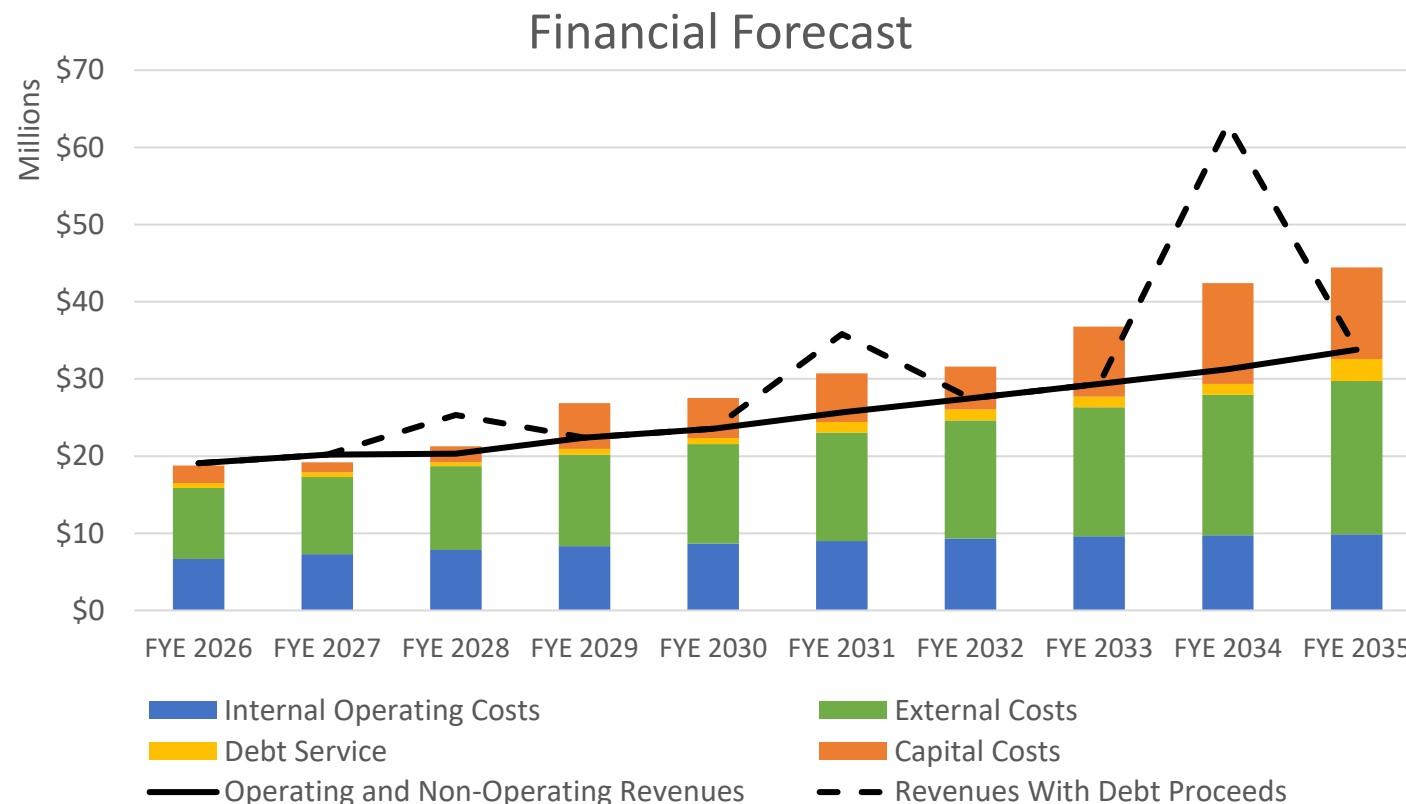
# Capital Improvement Plan Identified for the North system (TYCIP) and are anticipated for South and EWL



- All projects except for the EWL condition assessment are for the North system
- Annual contributions are included for the South system and EWL – Pay amortized costs or retain in fund balance for future projects
  - » EWL – reflects amortized cost for condition assessment and adjusted to smooth rates
  - » South system based on smoothed rates

# Financial Forecast

Rates for IEUA Internal O&M and Capital need to increase to sustainably recover costs.

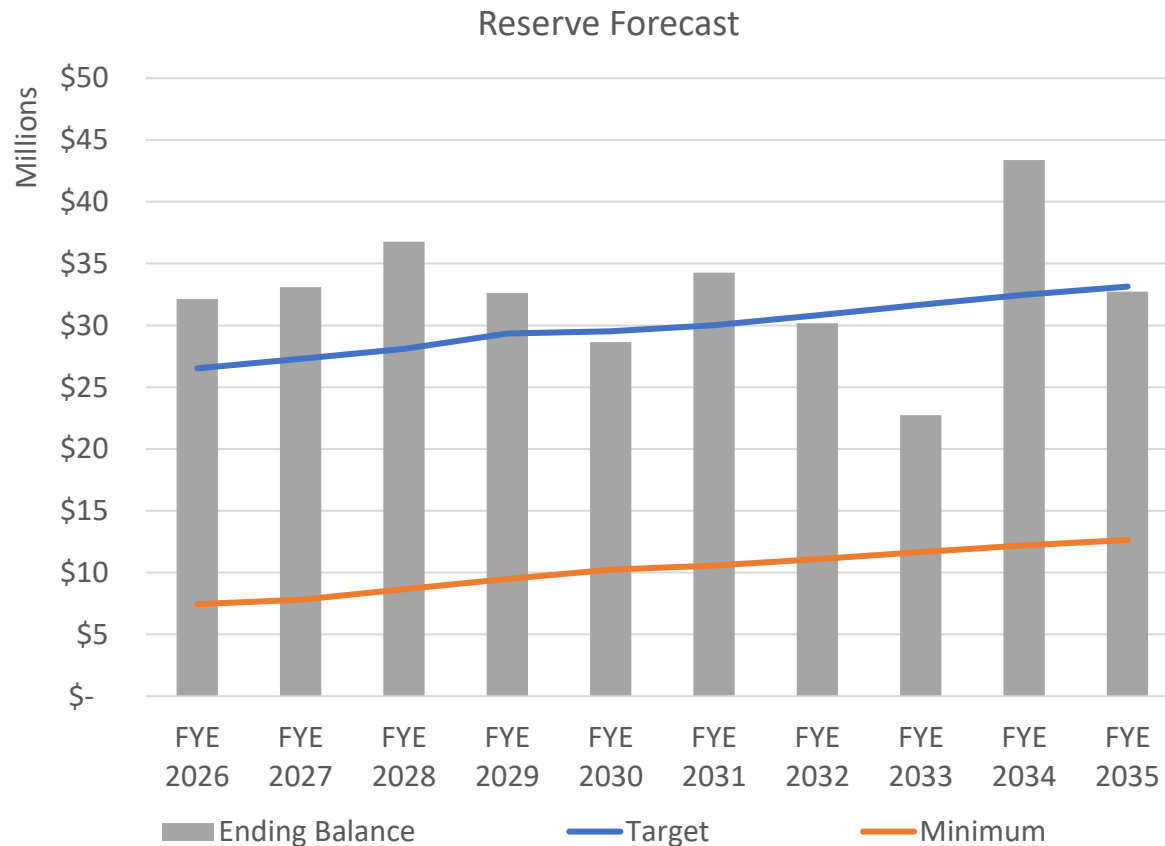


- Increases in external costs will be passed through directly to dischargers
- Anticipate using debt to smooth out the impact of CIP funding



# Financial Forecast

## Aim to maintain reserves within the policy targets.



- Current reserve policy adopted in April 2022
  - » *Policy Goal: “preserve fund reserves that sustain the Agency’s long term fiscal health, high quality credit rating and ensure its ability to effectively address economic variability”*
- Spend down to within range over initial 4 years
- Fluctuations after that time due to timing of capital projects and receipt of debt proceeds

# | System Cost Allocations

# O&M Cost Allocation

## Addresses Internal and External O&M costs.

### Internal Costs

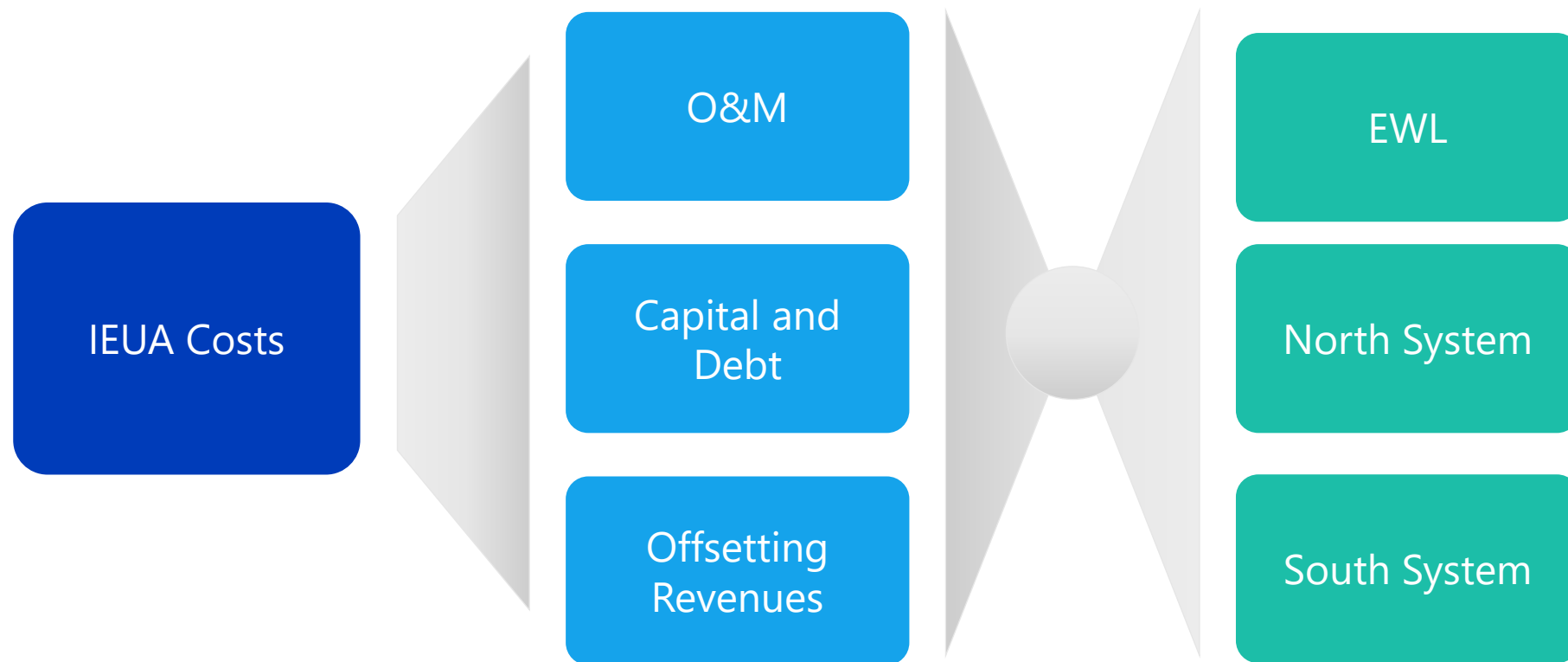
- Recovered through IEUA charges
  - » O&M & Admin
  - » Capital
- Largely fixed → Not related to discharge
- Need to be allocated to each system

### External Costs

- Recovered through direct Pass-through charges
- Mostly variable based on flow and loads
- **Proposed rates will maintain the pass-through methodology**

## Cost Allocation Update

IEUA internal costs and offsetting revenues are allocated to each system based on why and how they are incurred.



# Internal O&M Cost Allocation to Systems

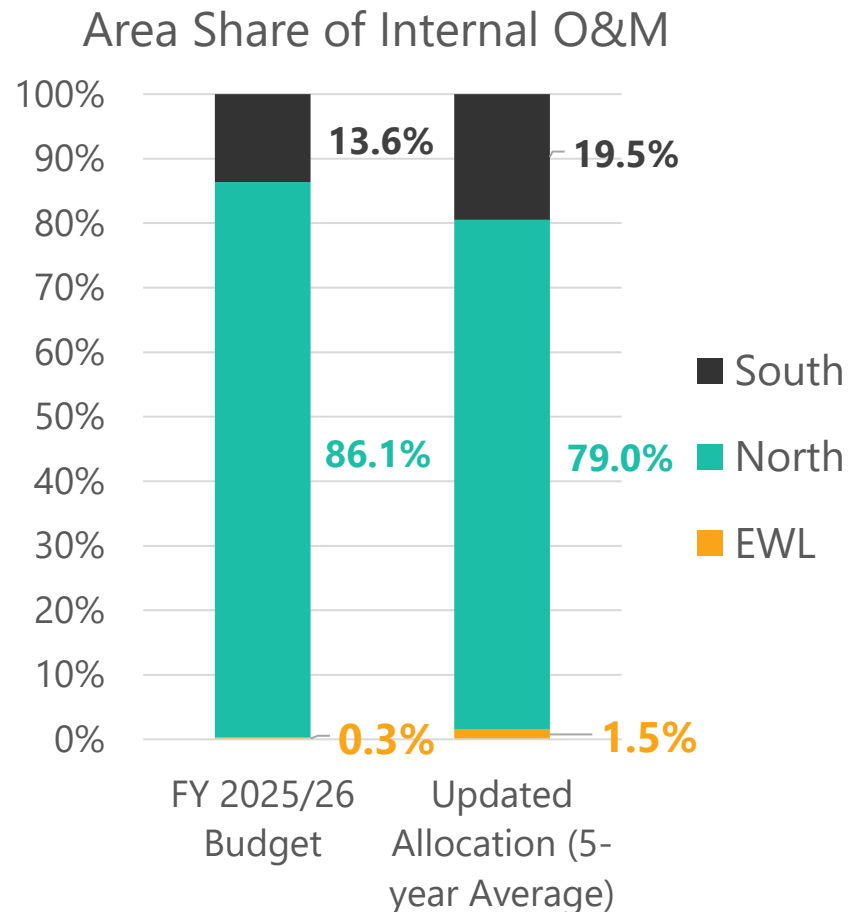
## Proposed updates are based on a five-year cost allocation.

Allocation Factor	Applied To:	EWL	North	South
Direct Allocations	Costs specific to one of the systems: System Source Control, Utilities, Chemicals, Laboratory...	100%	100%	100%
<u>Indirect Allocations</u>				
Flow (North and EWL)	Used for minor O&M costs that are split between the North System and EWL	0.17%	99.83%	
Flow (All Areas)	Used for contributions to Agency Wide Capital and O&M	0.15%	85.72%	14.13%
Pipe Length and Flow	Used for Collection System O&M costs	5.35%	86.25%	8.40%
As All Other Source Control Weighted Average*	Used for Management/Admin/Overhead costs that provide a general benefit to all systems	0.74%	84.09%	15.17%

\* Calculation of As all Other allocation includes external O&M, capital, and debt service since general benefit expenses also support those activities.

# Internal O&M Cost Allocation Results

The updated allocation will result in cost shifting between the service areas.



- Compared to Budget
  - » EWL and South shares increase
  - » North share decreases
- Drivers
  - » Fixed costs allocated
    - Current EWL and South O&M/Admin Costs are Variable
    - Costs tied to IEUA activities rather than a 50% of pass-throughs
  - » Updated allocation reflects IEUA's physical system and actual O&M costs

# Internal O&M Cost Allocation Results

Proposed updates are based on a five-year cost allocation.

FY Ending	EWL	North	South	Total
Number of Users	4	33	9 Connected 2 Trucked	
Current Rates*	\$16,000	\$5,200,000	\$823,000	<b>\$6,039,000</b>
<b>Cost-of-Service Allocation Results</b>				
2026	\$100,000	\$5,268,000	\$1,292,000	\$6,660,000
2027	\$110,000	\$5,753,000	\$1,423,000	\$7,286,000
2028	\$118,000	\$6,179,000	\$1,526,000	\$7,823,000
2029	\$126,000	\$6,588,000	\$1,629,000	\$8,343,000
2030	\$131,000	\$6,863,000	\$1,686,000	\$8,680,000

- Major Cost Categories
  - » Collection system O&M
    - Allocated to reflect cost drivers
  - » Source Control and Lab (internal costs)
    - Tracked specifically by area
  - » Chemicals
    - All used in North system

*\*Based on 2026 adopted rates and expected flow, loads, and capacity units for dischargers and expected number of truck loads delivered.*

# Capital Cost Allocation

Based on specific costs and projects identified for each service area plus share of Agencywide CIP.

Annual CIP Cost Recovery	2026	2027	2028	2029	2030
North	\$1,554,000	\$1,556,000	\$1,586,000	\$1,634,000	\$1,683,000
South	\$211,000	\$218,000	\$224,000	\$231,000	\$237,000
EWL	\$19,000	\$19,000	\$21,000	\$24,000	\$27,000

- Annual cost recovery is smoothed to avoid rate volatility
  - » North System – Smoothed based on 10-year needs with 3% annual increase in revenue recovered starting in 2028
  - » South System – Set based on annual increases at 3%
  - » EWL – Project cost for condition assessment minus capital revenues recovered since 2010 amortized over 15 years



# Pass-Through Rates

## Pass-Through Rates

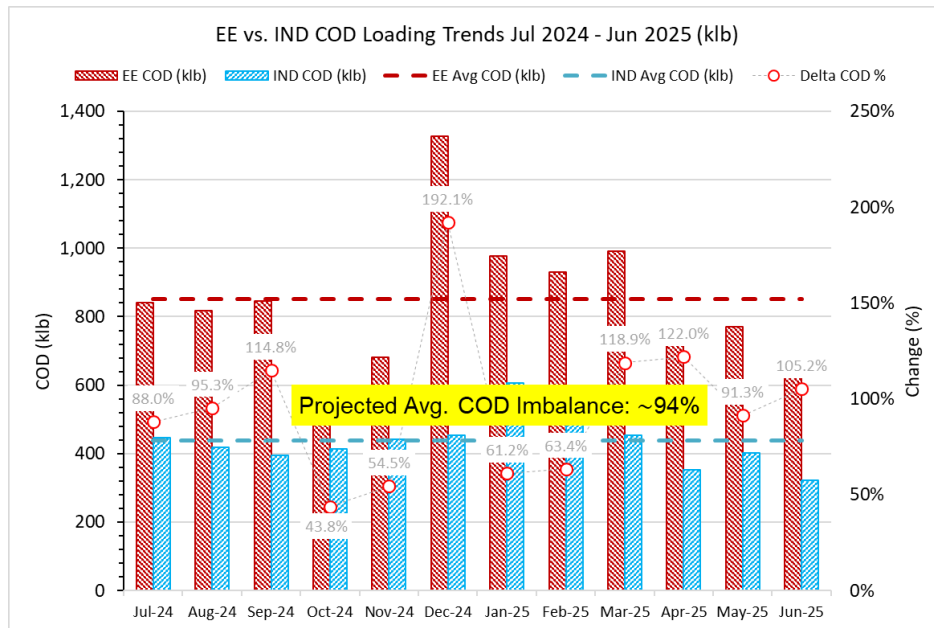
Pass-through rates from LACSD (North and EWL) and SAWPA (South) will retain the current methodology.

- Explored alternatives to combine service areas, adopt rates for flow and loading without pass-throughs, and adding constituents for imbalance
- However: the current methodology remains the most appropriate
  - » Provides direct tie to cost of service within each area
  - » Can more easily adapt to changes from LACSD and SAWPA
- LACSD is in the process of updating rates and expects significant increases
  - » Note: LACSD's rates for IEUA are higher than those for customers within LA County due to the ad valorem adjustment

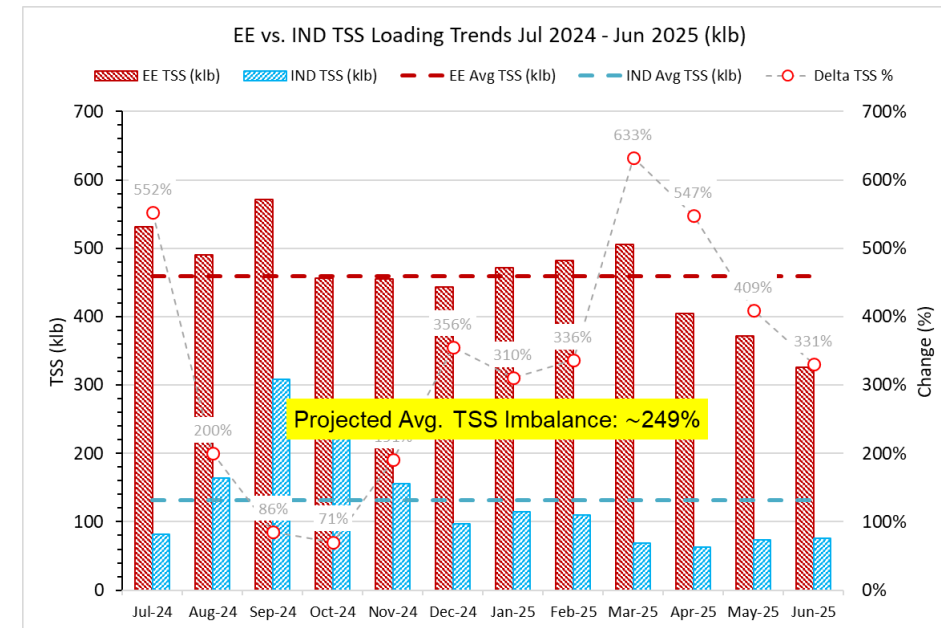
# Imbalance calculations for FY 2024/25

North system data shows small imbalance for flow and significant imbalance for COD and TSS.

COD: +94%



TSS: +249%



# IEUA Internal Rate Design

## Internal O&M and Capital Rates

Rate will remain specific to each service area.

### **Proposing steps to smooth/mitigate impacts to customers**

- Smoothing overall capital and O&M increases over 5 years
  - » Also projecting for ten-years to avoid later spiking
- Phasing-in rates to smooth changes due to the updated cost allocation
  - » Supported by use of reserves to cover under collection
- Three-year rate adoption to provide predictability for IEUA's internal rates

# North System Rates

## Updating internal charge structure to reduce volatility.

- Standby Charges based on 3-year rolling average of actual CU usage
  - » Standby O&M Charges ← **Phased In**
    - The portion of O&M costs related to collection system maintenance and operation will be migrated to a standby charge over three years
  - » Standby Capital Charges ← **Phased In**
    - The capital charge will be assessed as a standby charge to stabilize revenues
- Updated O&M Rates per CU to reflect updated cost projections and allocations

## South System Rates

### Updating internal charge structure to reduce volatility.

- Updating O&M charges to be standby charges based on capacity units rather than the 50% admin/O&M charge ← **Phased In**
  - » More appropriately matches fixed nature of internal O&M costs and reduces volatility
  - » Otherwise % admin/O&M would need to increase due to updated cost allocation
- Capital Charges smoothed to 3% per year escalation
- Trucked waste charges retain the current rate structure

## EWL Rates

### Updating internal charge structure to reduce volatility.

- Updating O&M charges to be standby charges based on capacity units rather than the 50% admin/O&M charge ← **Phased In**
  - » More appropriately matches fixed nature of internal O&M costs and reduces volatility
  - » Otherwise % admin/O&M would need to increase due to updated cost allocation
- Capital Charges smoothed by amortizing project costs



# Preview for Next Workshop

## Next Steps

### Workshop 2 will review proposed rates and bill impacts.

- Proposed rates based on the projections and allocations discussed today
  - » Will provide illustrative bill impacts based on budgeted flow and loads prior to the workshop
- If available, discuss proposed rates from LACSD
  - » LACSD rate study currently in progress
- Discussion and feedback

# Discussion and Q&A