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.
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

<table>
<thead>
<tr>
<th>Agency Name</th>
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<tbody>
<tr>
<td>City of Chino</td>
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<tr>
<td>Cucamonga Valley Water District</td>
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<tr>
<td>Fontana Water Company</td>
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<tr>
<td>Golden State Water Company</td>
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<tr>
<td>Monte Vista Water District</td>
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<tr>
<td>City of Ontario</td>
</tr>
<tr>
<td>San Antonio Water Company</td>
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<tr>
<td>City of Upland</td>
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<td>Water Facilities Authority</td>
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#### Wastewater Agencies

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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
- 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.
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)

<table>
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<tr>
<th>Wastewater Connection Fees</th>
<th>FY 2018/19: $6,624 per EDU</th>
<th>FY 2019/20: $6,955 per EDU</th>
</tr>
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<tr>
<td>One Water Connection Fees</td>
<td>FY 2018/19: $1,604 per MEU</td>
<td>FY 2019/20: $1,684 per MEU</td>
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</table>
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

Connection Fee = Replacement Cost of Available Capacity + Future Capacity CIP = Future Customers
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
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

- **IEUA Rate** to cover program costs

  - **IEUA Monthly Retail Water MEU Charge**
    - (7/1/2019): $1.04 per MEU per month

- **MWD Readiness-to-Serve Charge**
  - (7/1/2019): 60% of MWD RTS Charge, phasing to 100% by 7/1/2022
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.

• 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?)
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

Initial Outreach Meeting
3/7/2019
Project Kickoff

Outreach Meeting #2
Late April
Connection Fees & MEU Rates

Outreach Meeting #3
Late May
EDU, Recycled, and Recharge Rates

Outreach Meeting #4
Late June
Proposed fees and rates

Outreach Meeting #5
Late July
Long-term Impact of CBP