Monthly MEU Rates & MWD RTS Pass-Through
Workshop Agenda

1. Monthly MEU Rate Update
2. RTS Pass-Though Outlook
IEUA Funding Strategy: Based upon a comprehensive and integrated approach
General Study Approach: Each fee or rate analysis follows a similar approach.
**Current Rate Structure:** Implemented on October 1, 2016 following a 2015 Study and extensive work with member agencies.

- This update will maintain the current rate structure.
- MEU Rate
  - Reflects the capacity needed to serve each customer
- MWD Readiness-to-Serve Charge Pass-through
  - Based on ten-year rolling average consumption (TYRA) to match MWD charge structure
Water Resources Fund: Records activities associated with water deliveries and water resources planning

- Manages delivery of imported water from MWD
- Implements water use efficiency programs throughout the service area
- Provides water resources planning and stewardship in the region
- Supports regional water supply programs
  - Recycled Water
  - Groundwater Recharge
  - Storm Water Management
MWD Readiness-to-Serve (RTS) Charge Pass-through: Recovers costs from member agencies as they are imposed by MWD.

- Phasing in direct pass-through of RTS charges based on TYRA*
- Amount passed through to member agencies is net of standby charge collected directly by MWD
- Under collections during phasing are supported with Agency property taxes

<table>
<thead>
<tr>
<th>Example RTS Pass-Through</th>
<th>FY 2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEUA MWD RTS Charge Obligation</td>
<td>$4.95M</td>
</tr>
<tr>
<td>Less: Standby Charge Collected by MWD</td>
<td>($1.90M)</td>
</tr>
<tr>
<td><strong>Net RTS Obligation to IEUA</strong></td>
<td><strong>$3.05M</strong></td>
</tr>
<tr>
<td><strong>Pass-Through (FY 2019/20)</strong></td>
<td><strong>60%</strong></td>
</tr>
<tr>
<td><strong>Amount Collected in Pass-Through</strong></td>
<td><strong>$1.85M</strong></td>
</tr>
<tr>
<td><strong>Amount Supported with Property Tax</strong></td>
<td><strong>$1.20M</strong></td>
</tr>
</tbody>
</table>

*Ten-Year-Rolling Average MWD structure
### Adopted Rates:

<table>
<thead>
<tr>
<th>Adopted MEU Rates</th>
<th>Adopted RTS Pass-Through</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2018/19: $0.99 per MEU/Month</td>
<td>FY 2018/19: 45% of MWD RTS</td>
</tr>
<tr>
<td>FY 2019/20: $1.04 per MEU/Month</td>
<td>FY 2019/20: 60% of MWD RTS</td>
</tr>
<tr>
<td></td>
<td>FY 2020/21: 75% of MWD RTS</td>
</tr>
<tr>
<td></td>
<td>FY 2021/22: 90% of MWD RTS</td>
</tr>
<tr>
<td></td>
<td>FY 2022/23: 100% of MWD RTS</td>
</tr>
</tbody>
</table>
MEU Rate and RTS Pass-through Update:

- **MEU Rates**
  - Developing updated rates for FY 2020/21 through FY 2024/25
  - No change in the existing rate structure

- **RTS Pass-Through**
  - Continue phase in until full pass-through in FY 2022/23
**RTS Outlook:** MWD expects the RTS to increase by up to 30% over the next five years

- Average annual increase of approximately 5.4%

![MWD RTS Outlook Chart]

**MWD RTS OUTLOOK**

<table>
<thead>
<tr>
<th>FYE 2020</th>
<th>FYE 2021</th>
<th>FYE 2022</th>
<th>FYE 2023</th>
<th>FYE 2024</th>
<th>FYE 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>$4.94</td>
<td>$5.25</td>
<td>$5.55</td>
<td>$5.76</td>
<td>$6.06</td>
<td>$6.47</td>
</tr>
</tbody>
</table>

- Less: Standby Charge Collection (M)
- Amount to Be Passed Through (M)
- Amount Supported With Property Tax (M)
MEU Rate Calculation
Customer Growth
- Customer growth of 0.9% per year

Water Use Efficiency
- $1.6 million per year regional conservation program budget
- ~$900,000 supported by MEU net of grants/reimbursements

O&M Cost Projections
- Projected based on current costs and typical escalation factors

Financial Policies
- Operating contingency reserve
- Minimum Level of 4 Months of O&M, Target of 6 Months of O&M
User Rates: Need to collect all annual revenue requirements less offsetting revenues

- O&M Expenses
- Water Use Efficiency
- Rate Funded Capital
- Reserve Requirements
- Offsetting Revenues

User Rate Revenues

The monthly MEU rate does not currently support capital projects.
**Total Projected Program Costs:** O&M projected from current level using escalation factors

<table>
<thead>
<tr>
<th></th>
<th>FYE 2021</th>
<th>FYE 2022</th>
<th>FYE 2023</th>
<th>FYE 2024</th>
<th>FYE 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program Support Costs</strong></td>
<td>$3.70</td>
<td>$3.90</td>
<td>$4.04</td>
<td>$4.18</td>
<td>$4.45</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td><strong>Water resource planning</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Project Costs</strong></td>
<td>$2.75</td>
<td>$2.11</td>
<td>$1.81</td>
<td>$1.81</td>
<td>$2.06</td>
</tr>
<tr>
<td><strong>Water Use Efficiency Projects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Non-capital Project Costs</strong></td>
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<td></td>
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</tbody>
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Offsetting Revenues: Offset the amount to be collected through monthly MEU rates.

OFFSETTING REVENUES

- Contract Cost Reimbursement
- Connection Fees for Projects
- Grants
- Other Revenues
- Property Taxes for Projects
Costs Supported By MEU Rate: Total Costs Net of Offsetting Revenues

- Program Support Costs
  - Employment
  - Water resource planning

- Water Use Efficiency Projects, net of offsetting revenues
  - Align with 2015 Integrated Water Resources Plan (IRP) and 2016 Water Use Efficiency Business Plan
  - Fully vetted through the Water Use Efficiency Workgroup
Reserve Requirements: IEUA’s Reserve Policy sets reserve targets and minimums for the Water Resources Fund

• Funded primarily with property taxes;
  – Capital Reserve – Support water resources capital projects
  – Supplemental Water Resource Reserve – Support purchases of supplemental water as needed

• Funded with MEU Rate Revenues
  – Operating Contingency Reserve – legally mandated
    ▪ Minimum Level of: 4-months of program costs
    ▪ Target Level: 6-months of program costs

• Reserve balances and target levels reviewed annually
Fund Reserves

<table>
<thead>
<tr>
<th></th>
<th>FY 16/17</th>
<th>FY 17/18</th>
<th>FY 18/19</th>
<th>FY 19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopted MEU Rates</td>
<td>$0.90</td>
<td>$0.95</td>
<td>$0.99</td>
<td>$1.04</td>
</tr>
</tbody>
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**Proposed MEU Rates**
FY 20/21 - FY 24/25 TBD
*based on FY 19/20 Rate Study*

- MEU Working Capital Reserves
- Operating Contingency & Water Resource Reserves
- MEU ~ Minimum 4 Mo. Operating Expenses
- MEU~ Target 6 Mo. Operating Expenses
Financial Forecast: Based on the analysis, 2% rate revenue increases are needed in each year

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<tr>
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<th>FYE 2021</th>
<th>FYE 2025</th>
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<tbody>
<tr>
<td>Program Support Costs</td>
<td>$4.85</td>
<td>$4.95</td>
</tr>
<tr>
<td>Water Use Efficiency Projects</td>
<td>$1.60</td>
<td>$1.56</td>
</tr>
<tr>
<td>Reserve Contribution</td>
<td>$0.49</td>
<td>$0.37</td>
</tr>
<tr>
<td><strong>Total Requirements</strong></td>
<td>$6.95</td>
<td>$6.88</td>
</tr>
<tr>
<td>Less: Offsetting Revenues</td>
<td>($1.90)</td>
<td>($1.24)</td>
</tr>
<tr>
<td><strong>MEU Rate Revenues to be Collected</strong></td>
<td>$5.05</td>
<td>$5.64</td>
</tr>
</tbody>
</table>
MEU Projection: Future MEUs are projected based on current MEUs and a 0.9% growth factor.

- MEU counts for monthly billing have fluctuated since the rate structure was established.
- Future MEUs are projected based on the most recent survey completed for FY 2019/20 monthly billing.
- Estimated drop of ~3% in 2020.
Preliminary Calculated Rates: Rates are calculated by dividing the required rate revenue for each year by the corresponding number of MEUs.
Next Steps
Next Steps:

• Continue to refine connection fee analyses and MEU Rate Analysis
• Develop analyses for other service rates
  – Wastewater Monthly EDU Rate
  – Recycled Water Volumetric Rates
  – Recharge Water Volumetric Rate
• Incorporate scenarios to assess the impact of the Chino Basin Program