

# Recycled Water and Recharge Rates

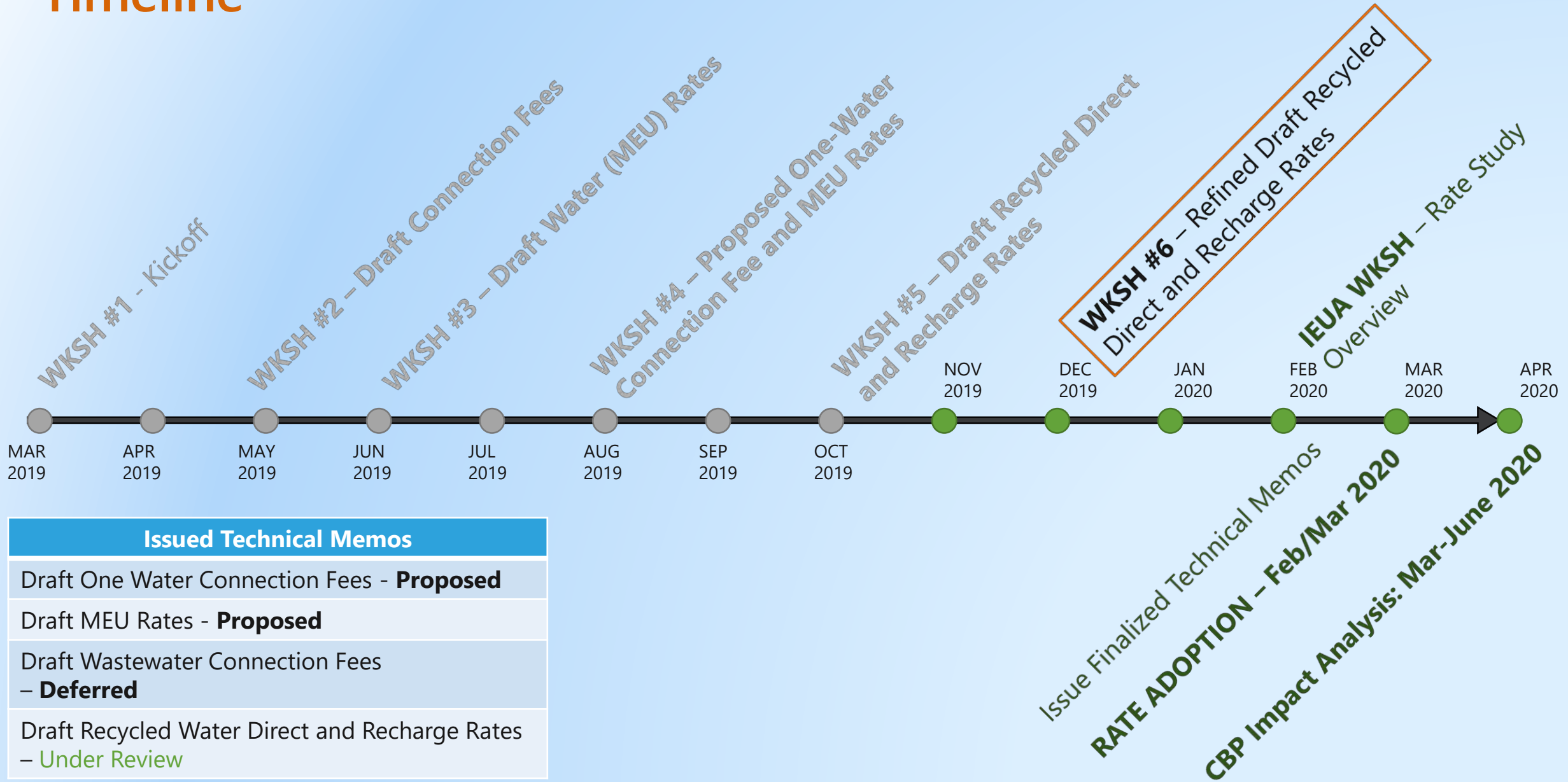
Workshop 6 – December 16, 2019



*Inland Empire Utilities Agency*

A MUNICIPAL WATER DISTRICT

# Timeline



# Rate Study Objectives

Establish rates that

- Meet cost/benefit nexus regulatory requirements, Prop 26
- Fully recover the cost of providing the service
- Continue to provide member agencies with a reliable, sustainable, cost effective local resource



# IEUA Funding Strategy: Based upon a comprehensive and integrated approach

- ✓ Draft Analysis Complete
- ✓ Tech Memo Distributed
- ✓ Draft Recycled and Recharge Analysis Underway



- ✓ Approved rates for Fiscal Years 2020/21 and 2021/22

- ✓ Draft Analysis Complete
- ✓ Tech Memo Distributed



- ✓ Draft Analysis Complete
- ☐ On hold pending sampling study

# 2020 Rate Study

## FY 2020/21 IEUA Proposed Rates/Fees

As July 1	Wastewater Connection Fee (EDU)	Monthly Sewer (EDU)	One Water Connection Fee (MEU)	Monthly Water (MEU)	Recycled Water Direct Use (AF)	Recycled Water Recharge (AF)
FY 2019/20 Adopted	\$6,955	\$20.00	\$1,684	\$1.04	\$490	\$550
FY 2020/21	\$7,164	\$20.60	\$1,735	\$1.06	TBD 2020 Rate Study	TBD 2020 Rate Study
FY 2021/22	\$7,379	\$21.22	\$1,787	\$1.08		
FY 2022/23	To be reviewed based on the sewer use evaluation results		\$1,841	\$1.10		
FY 2023/24			\$1,896	\$1.12		
FY 2024/25			\$1,953	\$1.14		

**Monthly Sewer (EDU) Rates adopted November 20, 2019, effective July 1, 2020**



# Recycled Water Rate Structure Alternatives



# Current Rate Structure: Rates per AF are calculated by dividing revenue requirements by projected usage

## Calculated Direct Use Rates

TM Table 11: Recycled Water Direct Use Rate

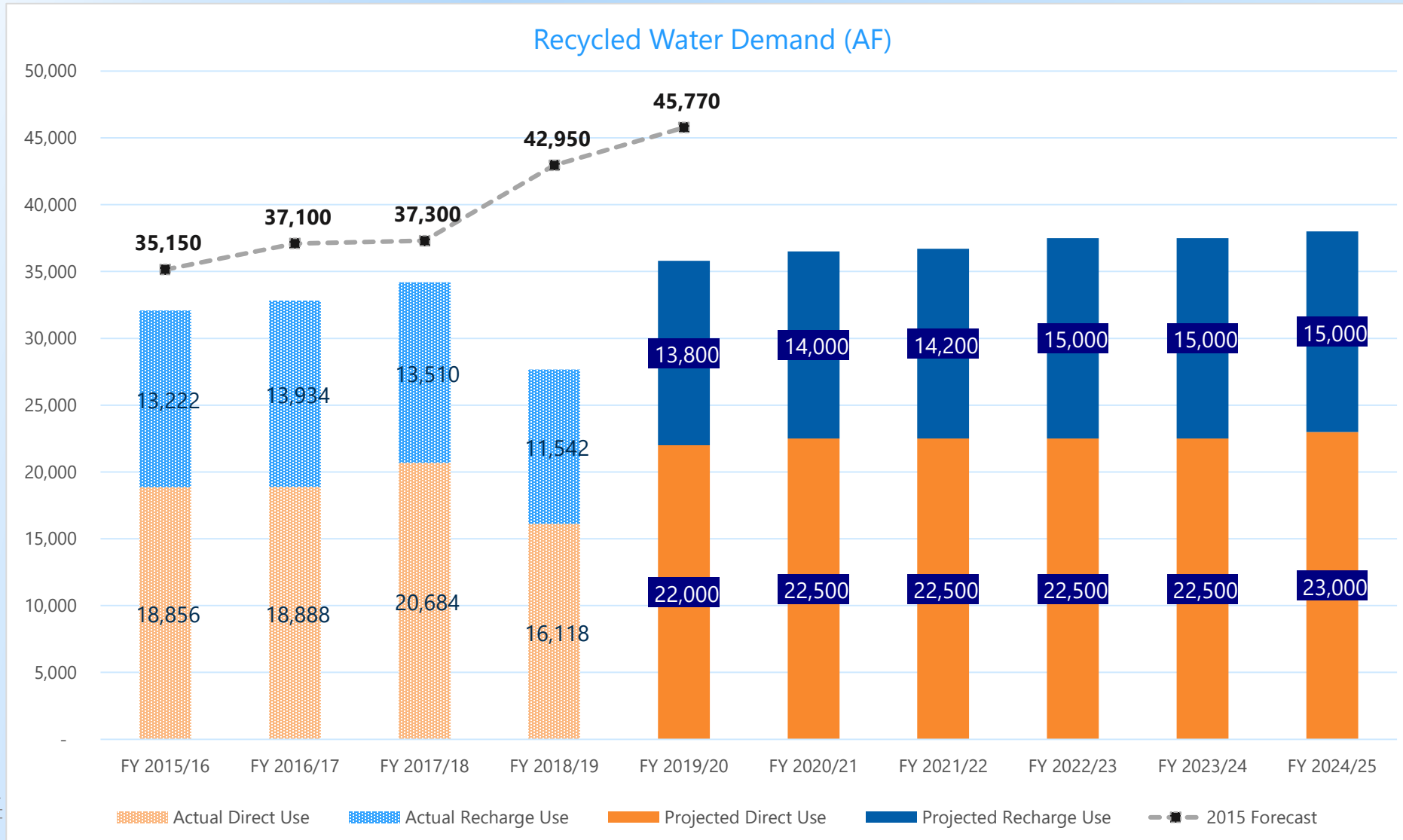
WC Rate Calculation	Current Rates	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Required Revenues from Rates (\$Millions)		\$18.42	\$19.09	\$20.09	\$20.70	\$21.61
Projected Demands (AF)		36,500	36,700	37,500	37,500	38,000
<b>Recycled Water Rate per AF</b>	<b>\$490</b>	<b>\$505</b>	<b>\$520</b>	<b>\$536</b>	<b>\$552</b>	<b>\$569</b>

## Calculated Recharge Rates

TM Table 12: Recharge Water Surcharge Rate

RW Rate Calculation	Current Rates	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Required Revenues from Rates (\$Millions)		\$1.01	\$1.23	\$1.57	\$1.88	\$2.24
Projected Demands (AF)		14,000	14,200	15,000	15,000	15,000
<b>Recharge Surcharge Rate per AF</b>	<b>\$60</b>	<b>\$72</b>	<b>\$87</b>	<b>\$105</b>	<b>\$125</b>	<b>\$149</b>
Direct Usage Rate per AF	\$490	\$505	\$520	\$536	\$552	\$569
<b>Total Recharge Rate per AF</b>	<b>\$550</b>	<b>\$577</b>	<b>\$607</b>	<b>\$641</b>	<b>\$677</b>	<b>\$718</b>

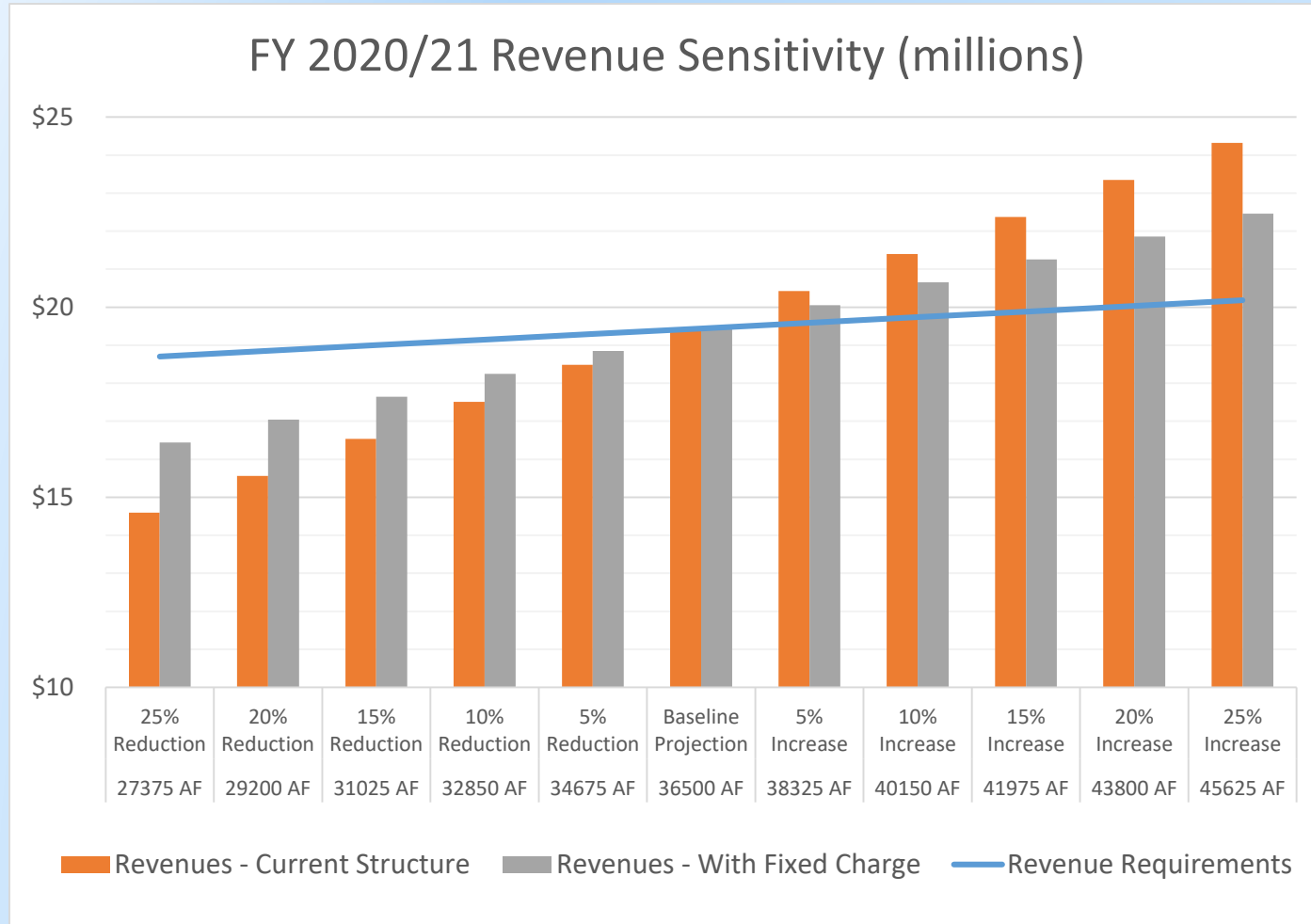
# Recycled and Recharge Usage:



- ~\$11 million in revenue shortfalls due to lower than projected deliveries between FYs 2015/16 – 2018/19



# Fixed Rate Component: Will help to stabilize revenues for IEUA and costs for member agencies



- During times of **low usage**, the fixed charges will hold revenues higher to cover a greater share of fixed costs
- During times of **high usage**, the fixed charges will mitigate a portion of cost increases for member agencies

# Fixed Rate Component: Annual debt service less offsetting revenues and transfers

- Recycled Water fund receives offsetting revenues for debt service from:
  - Property Taxes
  - Transfers from Regional Wastewater Capital Improvement (RC) fund
- Connection Fees for eligible debt service help smooth year-to-year changes in fixed revenue collection

TM Table 13: Direct Use Fixed Charge Revenue Requirement

RW Fixed Charge Revenues, (\$ Millions)	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Debt Service	\$9.12	\$9.47	\$9.42	\$9.41	\$9.18
Short Term Inter-Fund Loan	3.00	3.00	5.00	6.00	5.50
<b>Fixed Offsetting Revenues and Transfers</b>					
Property Tax - Debt and Capital	\$(2.17)	\$(2.17)	\$(2.17)	\$(2.17)	\$(2.17)
Transfer from RC Debt Service	(2.54)	(2.54)	(2.54)	(2.67)	(2.67)
Connection Fees for Debt Service	-	(0.10)	(1.63)	(2.25)	(1.15)
<b>Fixed Rate Revenue Requirement</b>	<b>\$7.41</b>	<b>\$7.66</b>	<b>\$8.08</b>	<b>\$8.32</b>	<b>\$8.69</b>

# Alternative Rate Structure: Will set a specific amount of fixed costs to recover each year

- Volumetric rates would be calculated based on the total revenue requirements **less** fixed revenue requirements

TM Table 18: Direct Use Variable Revenue Requirement

Budget Item	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Total Revenue Requirement	\$18.42	\$19.09	\$20.09	\$20.70	\$21.61
Less: Fixed Rate Revenue Requirement	\$(7.41)	\$(7.66)	\$(8.08)	\$(8.32)	\$(8.69)
<b>Variable Rate Revenue Requirement</b>	<b>\$11.01</b>	<b>\$11.43</b>	<b>\$12.01</b>	<b>\$12.38</b>	<b>\$12.92</b>
Recycled & Recharge Water Demands (AF)	36,500	36,700	37,500	37,500	38,000
<b>Direct Recycled Variable Water Rate (\$/AF)</b>	<b>\$302</b>	<b>\$311</b>	<b>\$320</b>	<b>\$330</b>	<b>\$340</b>
Recharge Surcharge (\$/AF)	\$72	\$87	\$105	\$125	\$149
<b>Total Recharge Variable Rate (\$/AF)</b>	<b>\$374</b>	<b>\$398</b>	<b>\$425</b>	<b>\$455</b>	<b>\$489</b>



# Rate Structure Alternatives

- **Presented 10/16/2019**

1. Retain current volumetric rate structure with per AF charges for direct and recharge use
2. Add a fixed component based on 3-year rolling average total use
3. Add a fixed component based on EDUs

- **Additional alternatives developed based on feedback from Workshop #5**

## **New Alternatives**

4. Add a fixed component based on EDUs and 3-year rolling average
5. Add a fixed component based on EDUs and MEUs

## Other Fixed Rate Structures: Fixed revenue split based on use of debt proceeds

- Recycled Water fund debt service cost was analyzed to determine the amounts attributable to use
  - 28.75% Recharge use
    - Infrastructure and investment specific to recharge use
  - 71.25% All recycled water use
    - Infrastructure and investments that serve both direct and recharge users

RW Fixed Charge Revenues, (\$ Millions)	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
<b>Fixed Rate Revenue Requirement</b>	<b>\$7.41</b>	<b>\$7.66</b>	<b>\$8.08</b>	<b>\$8.32</b>	<b>\$8.69</b>
Related to Recharge Use	\$2.13	\$2.20	\$2.32	\$2.39	\$2.50
Related to All Recycled Water Use	\$5.28	\$5.46	\$5.75	\$5.93	\$6.19

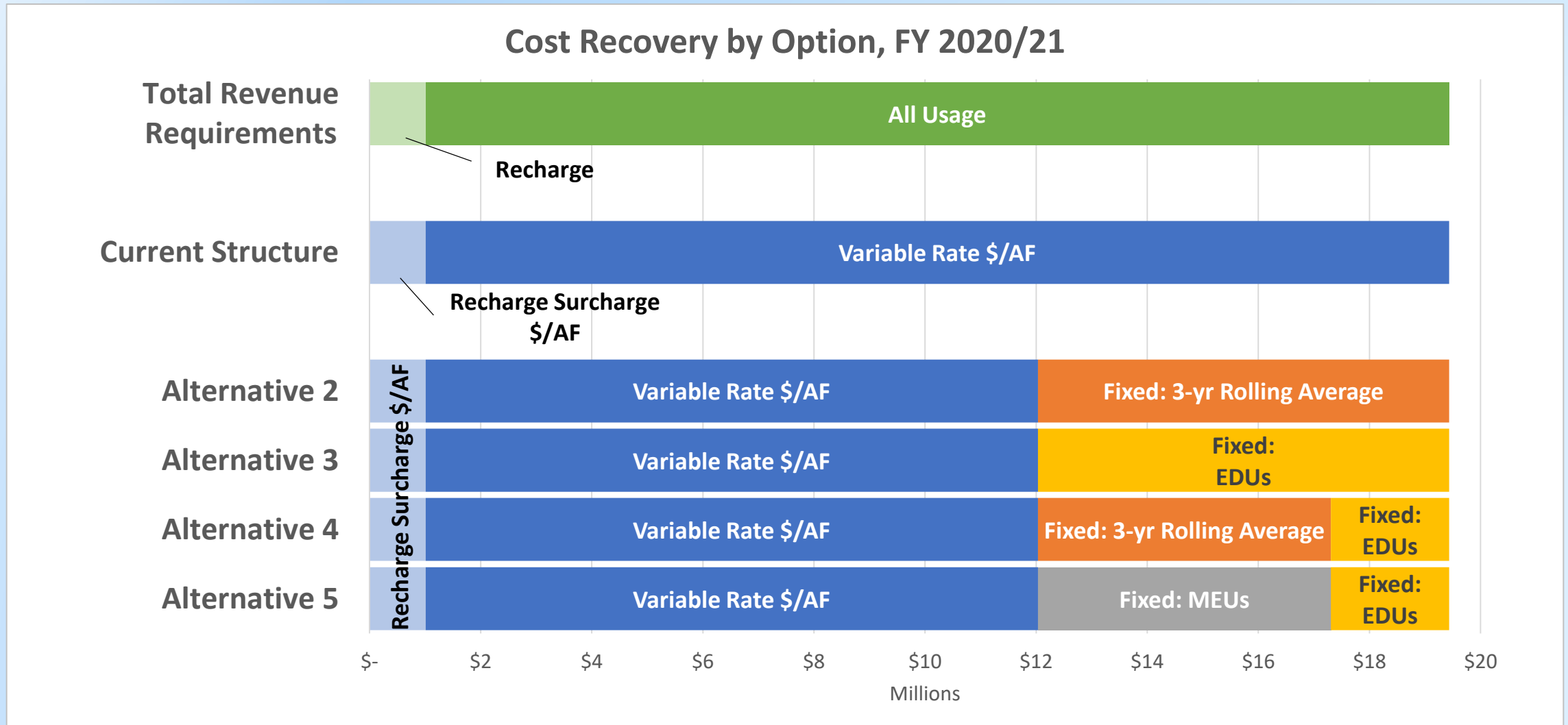
*Note: Column totals may not tie due to rounding.*

## Fixed Revenue Collection: Set to reflect recharge water entitlements and recycled water capacity requirements

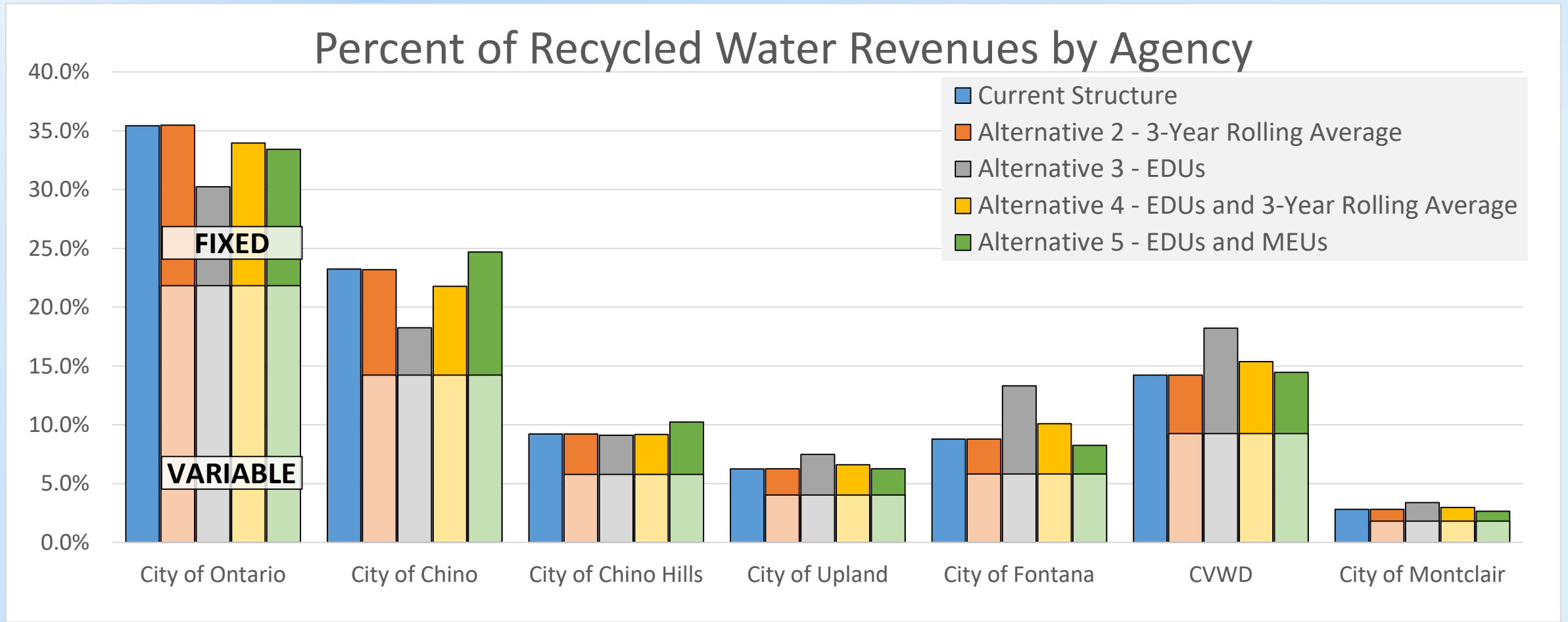
- For Rate Alternatives 4 and 5 the portion of fixed costs (debt service) related to recharge facilities allocated based on:
  - Contracting agency recharge EDU entitlements
- Portion of fixed costs (debt service) related to all recycled water use allocated based on:
  - **Alternative 4:** 3-year Rolling Average Direct Use
  - **Alternative 5:** Recycled Water MEUs



# Rate Structure Alternatives: Comparison of cost recovery under each rate alternative



# Member Agency Impacts: Revenues under each fixed charge option assessed by member agency



Note: Actual revenues by agency would vary as they would reflect actual rather than projected consumption

# Recommended Rate Structure Alternative

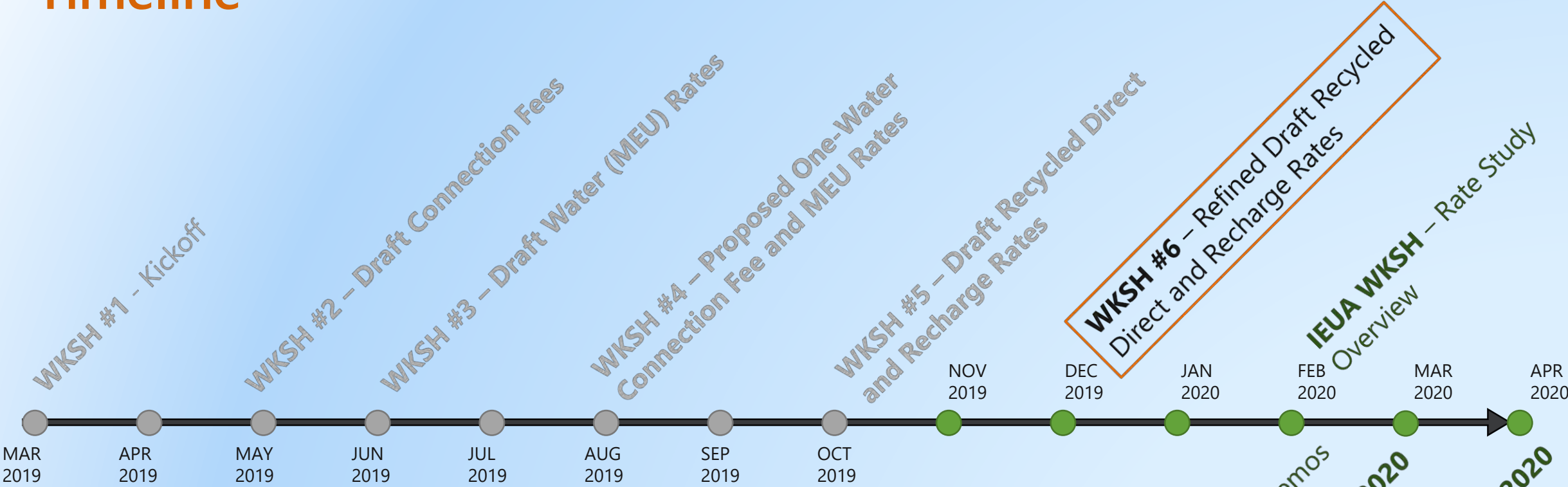
- **Alternative 2:** Add a fixed component based on 3-year rolling average total use
  - Current variable rate structure is not sustainable
  - Most program costs are fixed in nature
  - Wet weather patterns = decreased demand = revenue shortfall
  - Adding a fixed component will
    - Mitigate a portion of cost increases during times of high demand
    - Provide revenue stability during times of low demand
    - More equitably recover capital investment



## Next Steps:

1. Finalize and distribute Technical Memorandums:
  - One Water Connection Fees
  - Water Resources MEU Rates
  - Direct Use Recycled and Recharge Water Rates
2. Final rate workshop on proposed rates Feb 2020
3. Adopt proposed rate adjustments Mar 2020 to allow for Prop 218
4. Develop long-term projections to assess the impact of the CBP on all rates

# Timeline



Issued Technical Memos
Draft One Water Connection Fees - <b>Proposed</b>
Draft MEU Rates - <b>Proposed</b>
Draft Wastewater Connection Fees - <b>Deferred</b>
Draft Recycled Water Direct and Recharge Rates - <b>Under Review</b>