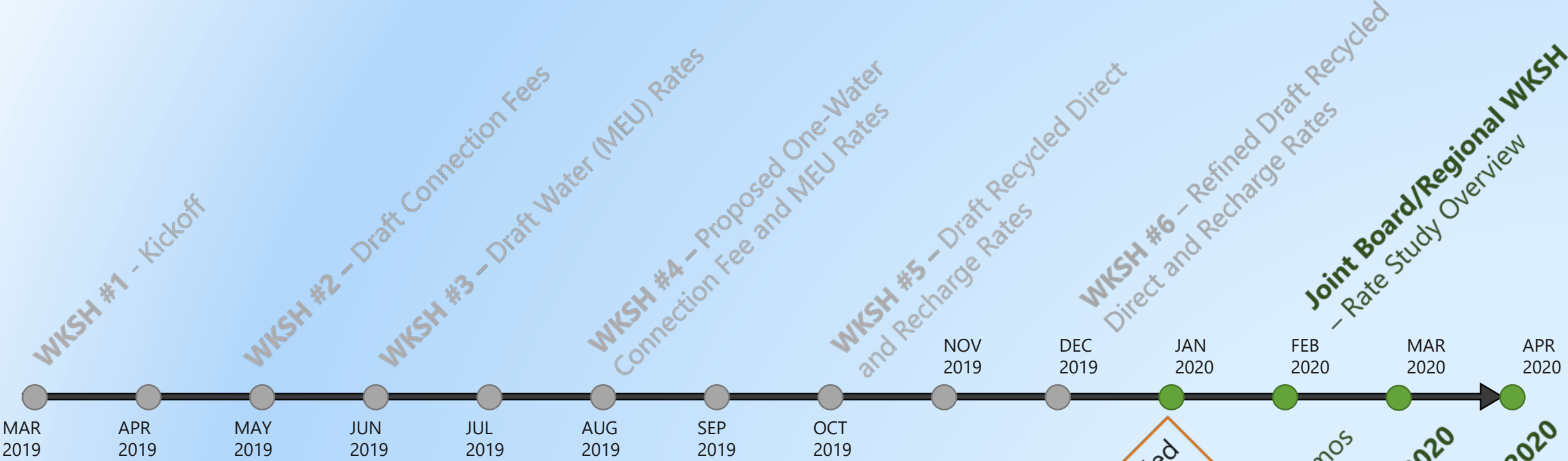


Recycled Water and Recharge Rates

Workshop 7 – January 2020



Timeline



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

WKSH #7 – Refined Draft Recycled Direct and Recharge Rates

Issue Finalized Technical Memos

RATE ADOPTION – Mar/Apr 2020

CBP Impact Analysis: Mar-June 2020

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

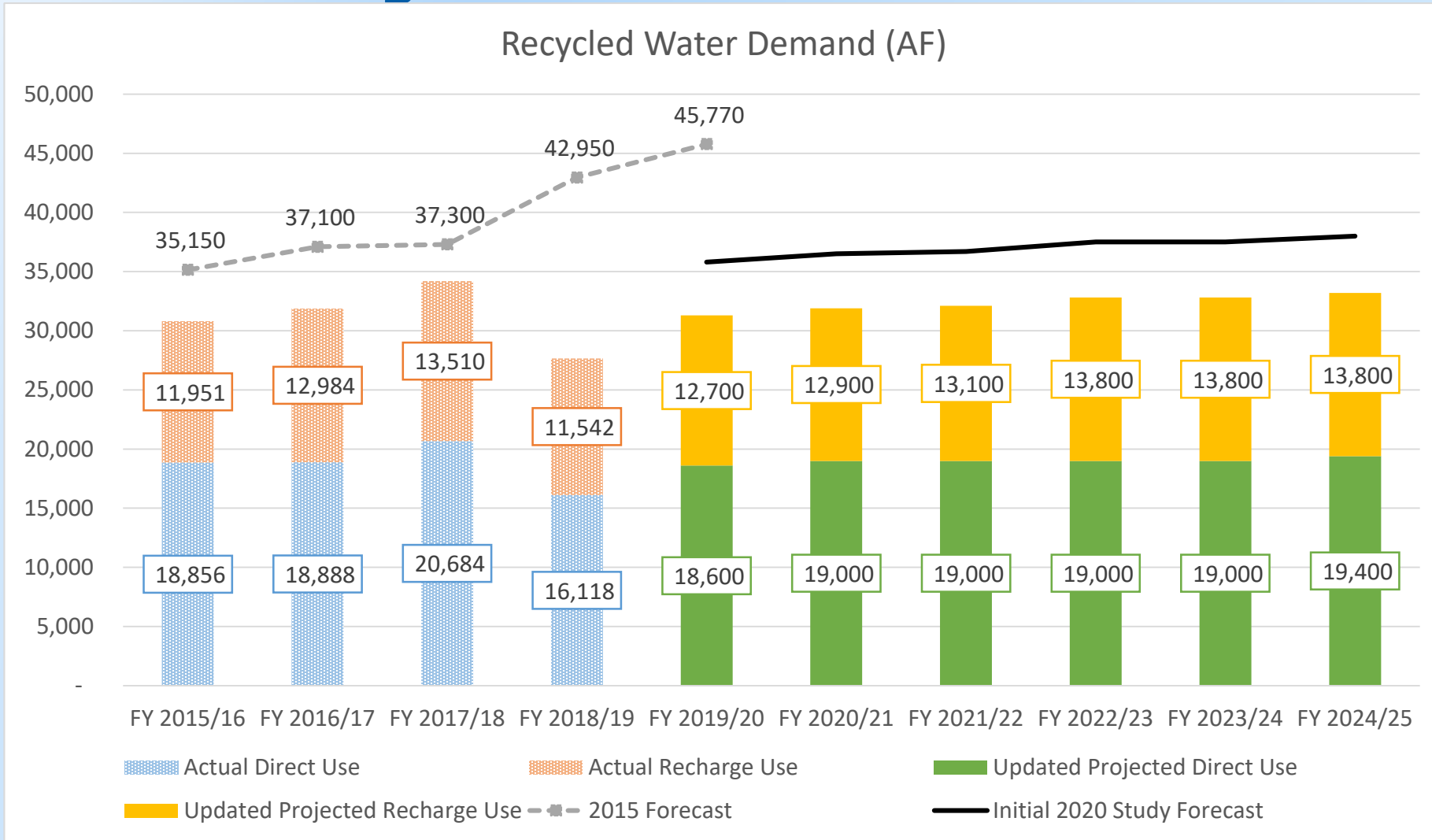
Baseline Assumptions: Certain assumptions remain unchanged

- Capital projects based on adopted TYCIP FY 2019/20-2028/29
- Excludes recycled water intertie projects (Jurupa and Pomona)
- Excludes Chino Basin Program (CBP)

Updated Assumptions: Several assumptions have been updated based on feedback from previous workshops

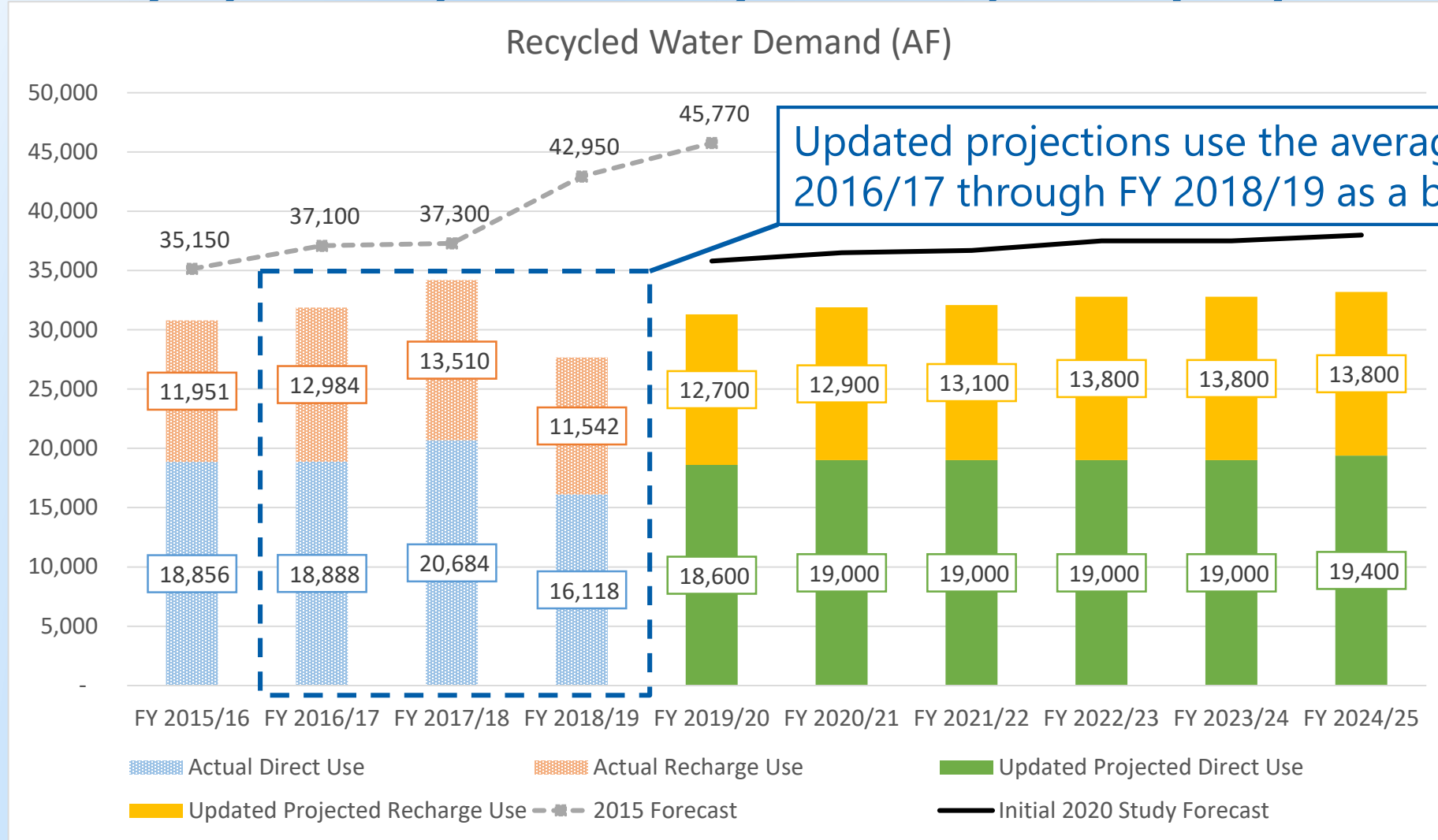
- Demand projections updated to reflect the past three years of actual demands as a starting point
- Applied additional connection fees, from ~\$5M to ~\$15M, over the five-year rate period to support debt service
- Implementation of fixed charges phased-in over a four-year period starting FY 2023/24

Recycled and Recharge Usage: Projections have been refined based on Regional feedback



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

Recycled and Recharge Usage: Accounts for potential low usage years by including FY 2018/19 in projection basis



Current Rate Structure: Rates per acre-foot (AF) are calculated by dividing revenue requirements by projected usage

Initial 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
Recycled Water Rate per AF	\$490	\$505	\$520	\$536	\$552	\$569

Calculated Direct Use Rates with Updated Demand Projection

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)		31,900	32,100	32,800	32,800	33,200
Recycled Water Rate per AF	\$490	\$577	\$595	\$612	\$631	\$651

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

Initial 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
Recharge Surcharge Rate per AF	\$60	\$72	\$87	\$105	\$125	\$149
Direct Usage Rate per AF	\$490	\$505	\$520	\$536	\$552	\$569
Total Recharge Rate per AF	\$550	\$577	\$607	\$641	\$677	\$718

Calculated Recharge Rates with Updated Demand Projection

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)		12,900	13,100	13,800	13,800	13,800
Recharge Surcharge Rate per AF	\$60	\$78	\$94	\$114	\$136	\$162
Direct Usage Rate per AF	\$490	\$577	\$595	\$612	\$631	\$651
Total Recharge Rate per AF	\$550	\$655	\$689	\$726	\$767	\$813

Current Rate Structure:

- 100% volumetric based
- Most program costs are fixed in nature
- Unpredictable weather patterns = demand fluctuations = uncertain revenue
- Creates financial risk that could negatively impact the program's sustainability

Recommended Rate Structure:

- Combines a fixed and a variable component
- The fixed component recovers debt service costs
- The fixed component is allocated based on three-year rolling average total use
- Benefits of the proposed rate structure:
 - Mitigate a portion of cost increases during times of high demand
 - Provide revenue stability during times of low demand
 - More equitably recover capital investment

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

- Debt service costs partly supported by offsetting revenues from:
 - Property Taxes
 - Transfers from Regional Wastewater Capital Improvement (RC) fund
 - Connection Fees
- Allocation of connection fees for eligible debt service will help smooth year-to-year changes in fixed revenue collection

RW Fixed Charge (\$ 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
Fixed Offsetting Revenues and Transfers					
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	(1.43)	(1.79)	(3.73)	(4.60)	(3.87)
Fixed Rate Revenue Requirement	\$5.98	\$5.97	\$5.98	\$5.97	\$5.97

Note: Presented totals may vary from values above due to rounding for presentation purposes.

Fixed 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

Calculated Rates with Fixed Component Beginning Year 1

Budget Item	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Recycled Water Revenue Requirement (\$M) ⁽¹⁾	\$18.42	\$19.09	\$20.09	\$20.70	\$21.61
Less: Fixed Rate Revenue Requirement (\$M)	(\$5.98)	(\$5.97)	(\$5.98)	(\$5.97)	(\$5.97)
Variable Rate Revenue Requirement (\$M)	\$12.44	\$13.12	\$14.11	\$14.73	\$15.64
Recycled & Recharge Water Demands (AF)	31,900	32,100	32,800	32,800	33,200
Direct Recycled Variable Water Rate (\$/AF)	\$390	\$409	\$430	\$449	\$471
Recharge Surcharge (\$/AF)	\$78	\$94	\$114	\$136	\$162
Total Recharge Variable Rate (\$/AF)	\$468	\$503	\$544	\$585	\$633

Note: (1) Recycled water revenue requirement not including recharge surcharge revenue requirements.

Note: Presented totals may vary from values above due to rounding for presentation purposes.

Phase-in of Fixed Rate Component: Fixed charges will be phased in to allow time for regional agencies to plan for the rate structure change

Budget Item	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Full Fixed Revenue Requirement (\$M)	\$5.98	\$5.97	\$5.98	\$5.97	\$5.97
Phase-In	0%	0%	0%	25%	50%
Phased Fixed Revenue Requirement (\$M)	\$0.00	\$0.00	\$0.00	\$1.49	\$2.99
Recycled Water Revenue Requirement (\$M)	\$18.42	\$19.09	\$20.09	\$20.70	\$21.61
Less: Phased Fixed Rate Revenue Requirement (\$M)	\$0.00	\$0.00	\$0.00	(\$1.49)	(\$2.99)
Variable Rate Revenue Requirement (\$M)	\$18.42	\$19.09	\$20.09	\$19.21	\$18.62
Recycled & Recharge Water Demands (AF)	31,900	32,100	32,800	32,800	33,200
Direct Recycled Variable Water Rate (\$/AF)	\$577	\$595	\$612	\$586	\$561
Recharge Surcharge (\$/AF)	\$78	\$94	\$114	\$136	\$162
Total Recharge Variable Rate (\$/AF)	\$655	\$689	\$726	\$722	\$723

Note: Presented totals may vary from values above due to rounding for presentation purposes.

Smoothing Revenue Requirements: IEUA would take on more risk in the early years to avoid sudden rate changes in FY 2020/21

- Higher revenue requirements in later years would be needed to cover shortfalls due to smoothing in FY 2020/21 and FY 2021/22

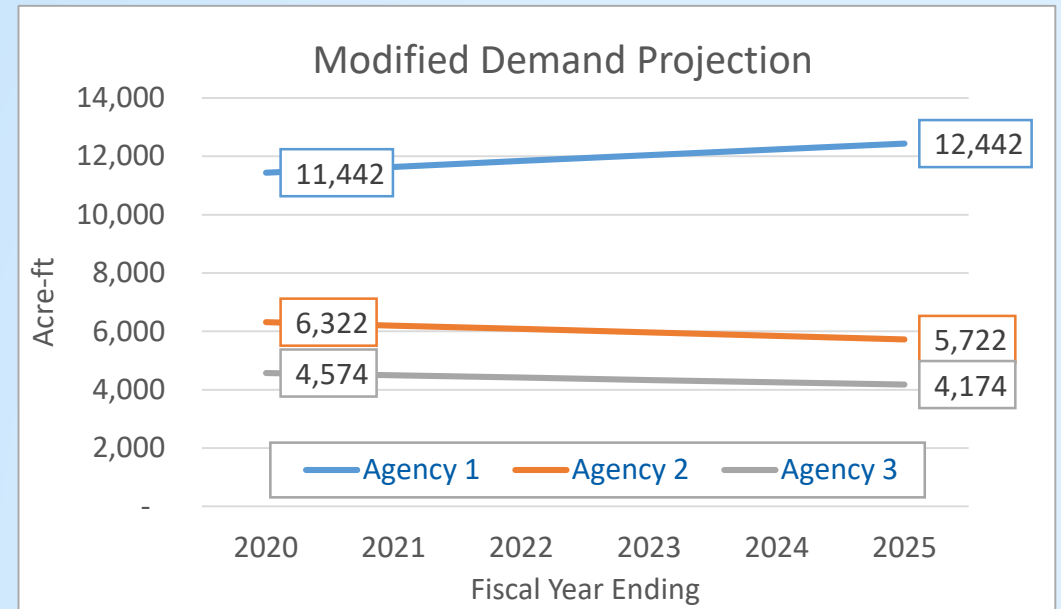
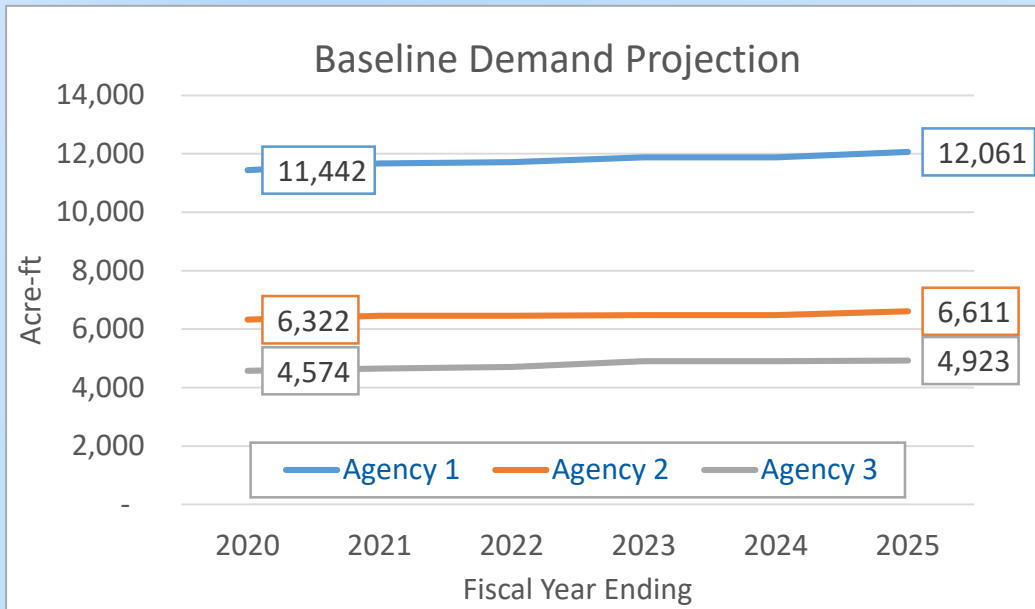
Budget Item	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Full Fixed Revenue Requirement (\$M)	\$5.98	\$5.97	\$5.98	\$5.97	\$5.97
Phase-In	0%	0%	0%	25%	50%
Phased Fixed Revenue Requirement (\$M)	\$0.00	\$0.00	\$0.00	\$1.49	\$2.99
Recycled Water Revenue Requirement	\$16.88	\$18.34	\$20.23	\$21.49	\$23.09
Less: Phased Fixed Rate Revenue Requirement (\$M)	\$0.00	\$0.00	\$0.00	(\$1.49)	(\$2.99)
Variable Rate Revenue Requirement	\$16.88	\$18.34	\$20.23	\$20.00	\$20.10
Recycled & Recharge Water Demands (AF)	31,900	32,100	32,800	32,800	33,200
Direct Recycled Variable Water Rate (\$/AF)	\$529	\$571	\$617	\$610	\$606
Recharge Surcharge (\$/AF)	\$74	\$92	\$114	\$138	\$167
Total Recharge Variable Rate (\$/AF)	\$603	\$663	\$731	\$748	\$773

Note: Presented totals may vary from values above due to rounding for presentation purposes.

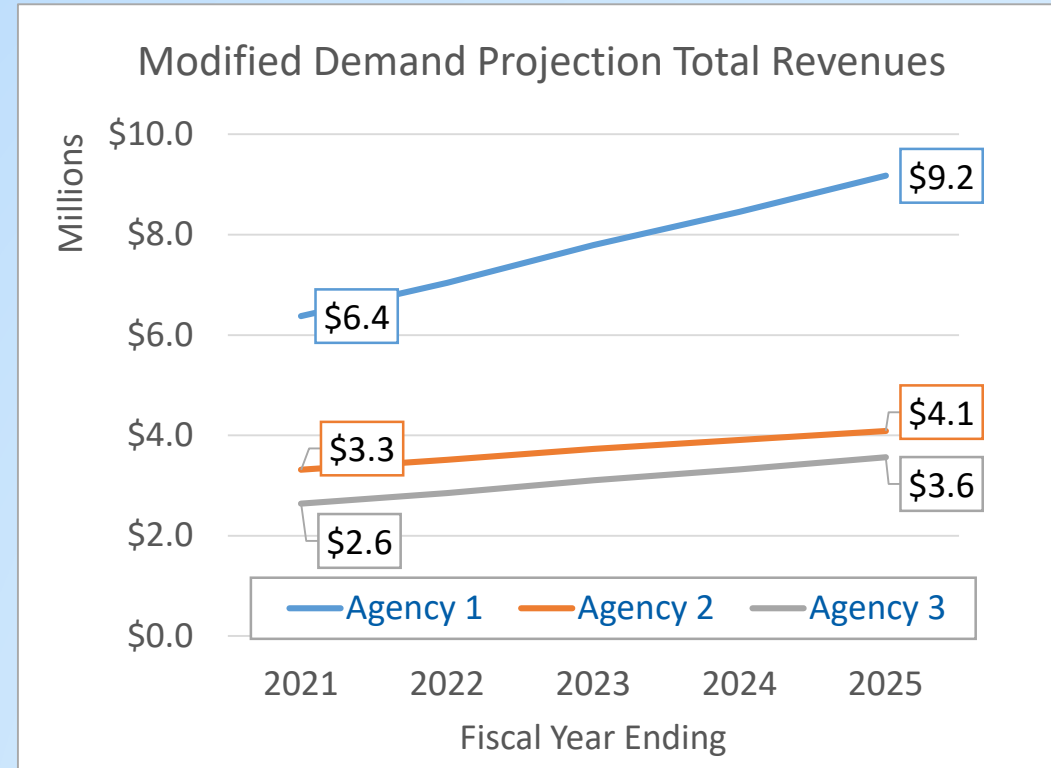
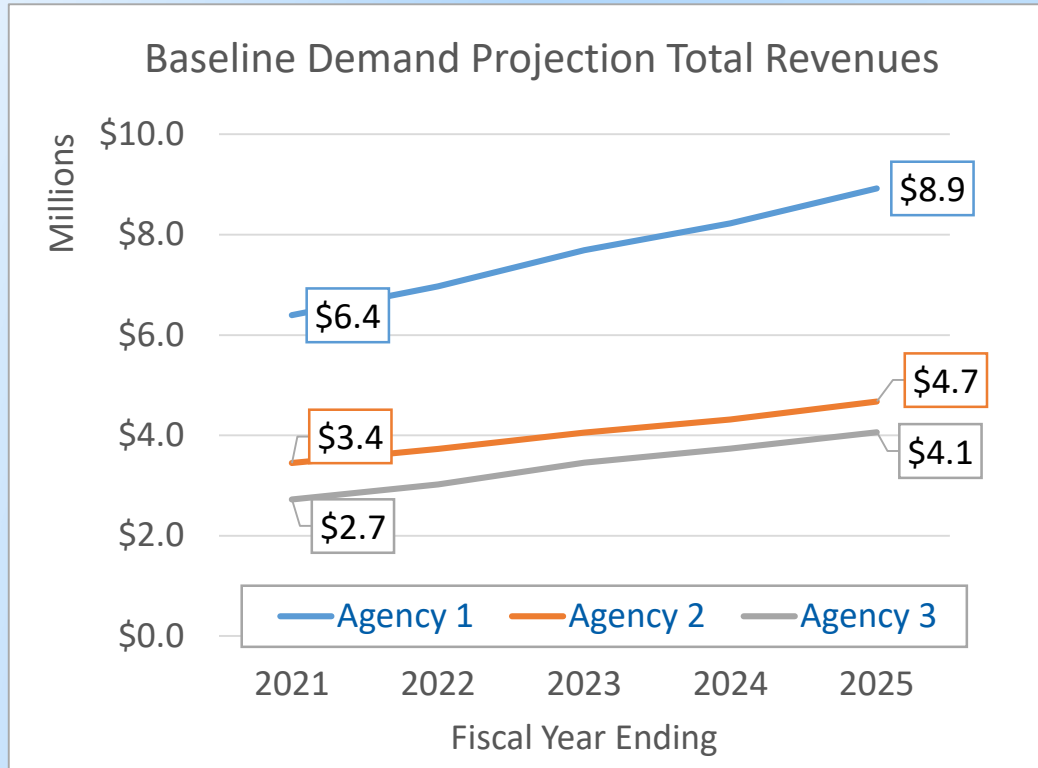
Sensitivity Analysis: Impact of changing agency demands on revenue collection

- Tested hypothetical scenario over five years:
 - Agency 1 increases direct use demands by 1,000 AFY
 - Agency 2 decreases direct use demands by 600 AFY
 - Agency 3 decreases direct use demands by 400 AFY
- Recharge allocations held constant for illustrative purposes

Other agencies' growth set to hold overall projections constant with Baseline



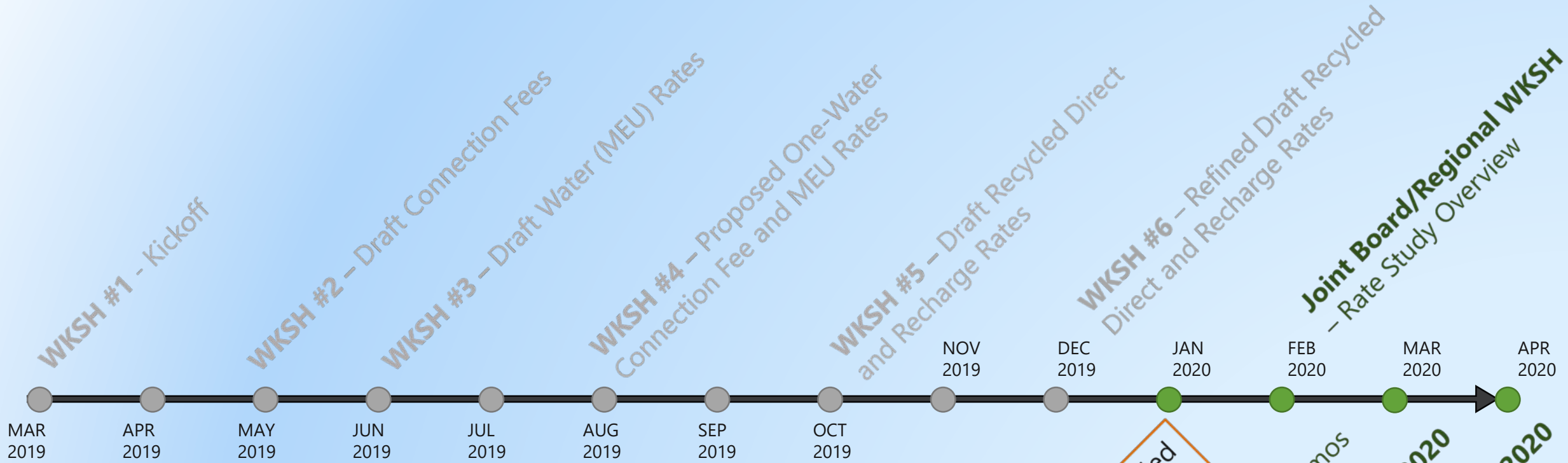
Sensitivity Analysis: Hypothetical Revenue Impacts



Recommended Rate Structure:

- Combines a fixed and a variable component
- The fixed component recovers debt service costs
- The fixed component is allocated based on three-year rolling average total use
- Implementation of fixed charges phased-in over a four-year period starting FY 2023/24
- Smooth revenue requirements in FY 2020/21 and 2021/22 to lessen impact of rate increase

Timeline



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Draft One Water Connection Fees - Proposed
Draft MEU Rates - Proposed
Draft Wastewater Connection Fees - Deferred
Draft Recycled Water Direct and Recharge Rates - Under Review

WKSH #7 – Refined Draft Recycled Direct and Recharge Rates

Issue Finalized Technical Memos

RATE ADOPTION – Mar/Apr 2020

CBP Impact Analysis: Mar-June 2020

Next Steps:

	Description	Date
1	Final Joint Rate Workshop with IEUA Board, Regional Policy Committee, and Water Member Agencies	Feb 5, 2020
2	Finalize and distribute Technical Memorandums for proposed rates: <ul style="list-style-type: none">• One Water Connection Fees• Water Resources MEU Rates• Direct Use Recycled Recharge Water Rates	Feb 14, 2020
3	Regional Committee recommend approval of proposed rates to IEUA Board	Feb 27, 2020 & Mar 5, 2020
4	IEUA Board Approval of proposed rates	Mar 25, 2020
5	Adopt proposed rate adjustments with time to allow for Prop 218	Mar/Apr 2020
6	Develop long-term projections to assess the impact of the CBP on all rates	Mar to Jun 2020