

Wastewater Rate and Connection Fee Update Draft Results

January 26, 2022



Overview of the Presentation

Goals of the Study

Establishing Cost-Based Rates

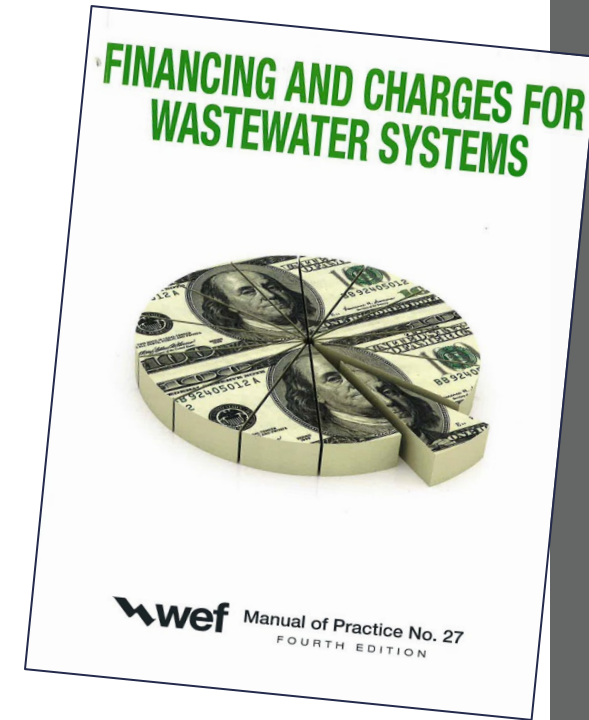
Draft Rate Study Results

Draft Connection Fee Update

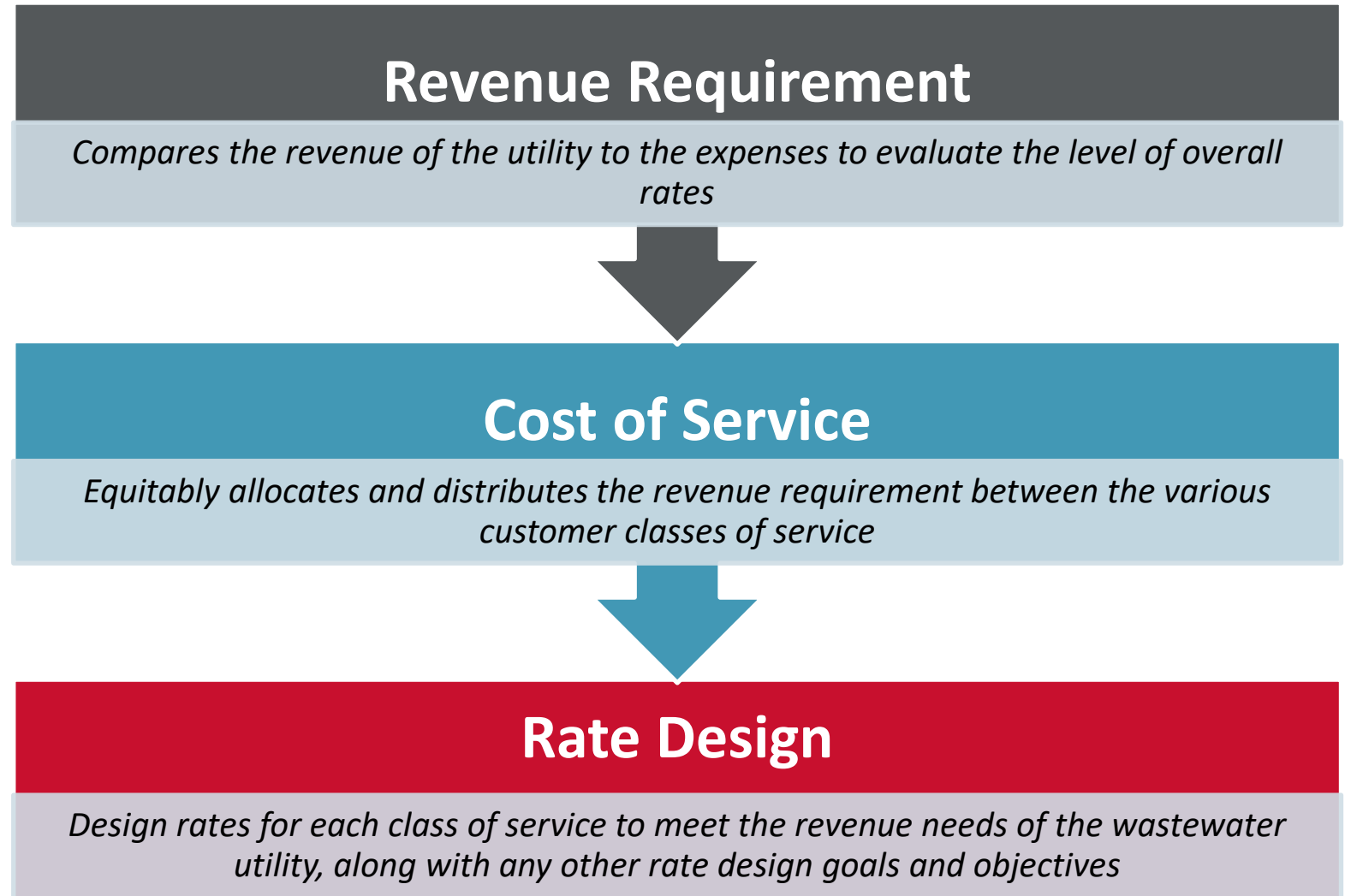
Next Steps...

Goals of the Wastewater Rate Study

- Provide sufficient revenue to operate and maintain the Agency's infrastructure
- Reflect prudent financial planning criteria
 - Maintain target debt service coverage (DSC) ratio
 - Prudent level of rate funding for capital projects
 - Meet target reserve balances
- Develop the study using generally accepted methodologies tailored to the Agency's system and customer characteristics
- Develop equitable, cost-based, and legally defensible rates



Establishing Cost-Based Wastewater Rates



Revenue Requirement



Overview of the Revenue Requirement Analysis

Compares utility revenues to expenses

- Determines the level of rate revenue adjustments necessary

Uses prudent financial planning criteria

- Maintaining sufficient ending reserve balances
- Attaining target debt service coverage (DSC) ratio

Reviews a specific time period

- Generally, a multi-year period (e.g., 5-10 years)

Utility is analyzed on a “stand-alone basis”

- Rates need to support operations and capital

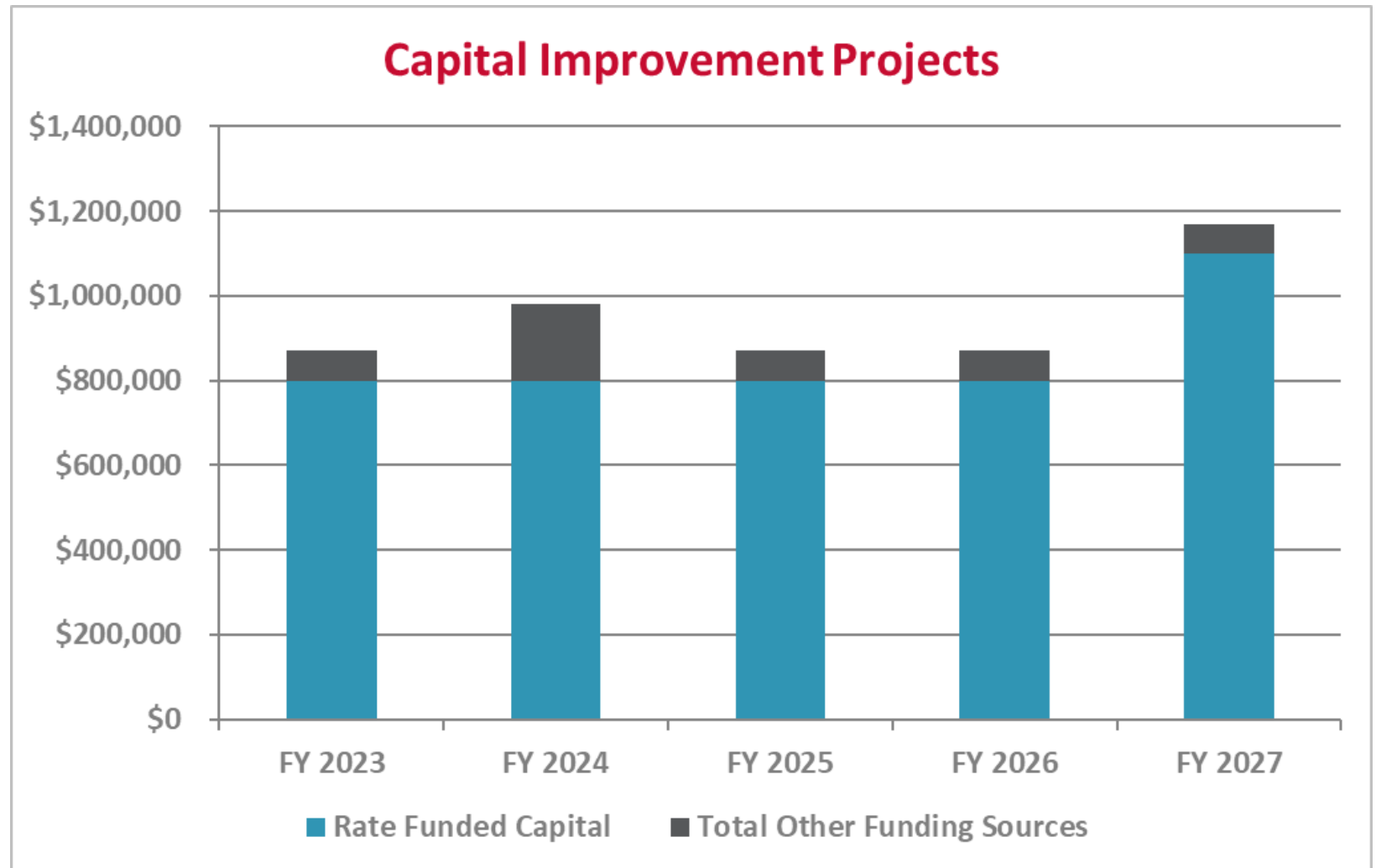
Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities

Revenue Requirement - Key Assumptions

- Revenues based on recent customer characteristics and current rates
- Assumed minimal customer growth
 - 45 EDUs per year
- O&M based on the FY 2022 budget
- Annual O&M increase based on assumed escalation factors
 - Averages approximately 4.0%, annually
- Base Case Capital improvements based on current capital plan
 - Rate funding and available reserves fund capital needs
 - No assumed long-term debt issuances during 5-year period for BBARWA
- Developed two alternatives
 - Base Case: 5-year plan
 - Base Case plus Replenish Big Bear (RBB): 3-year plan

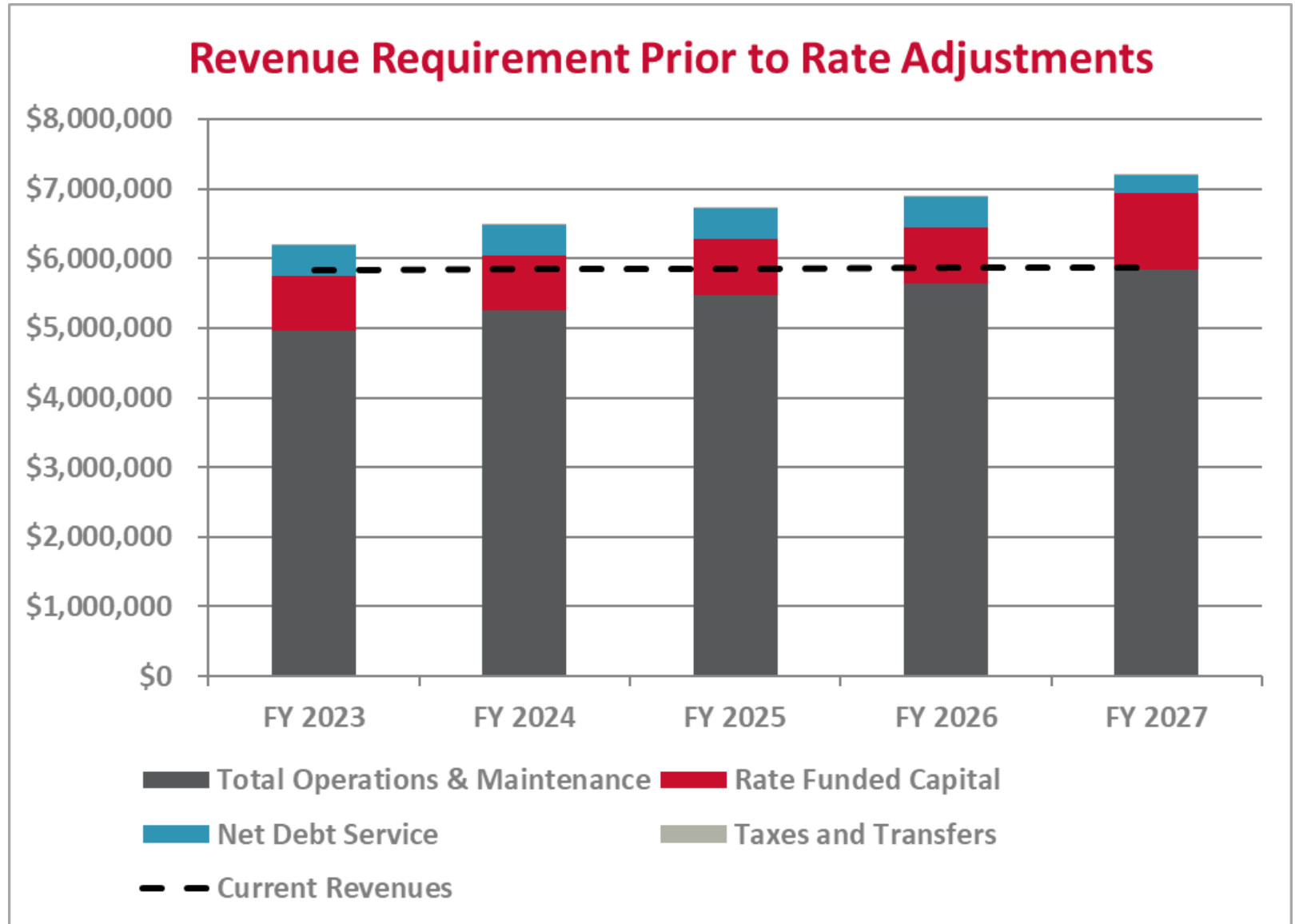
Summary of the Capital Funding Analysis



Other funding sources include connection fees and capital reserves

Capital excludes RBB capital

Summary of the Revenue Requirement Analysis



Revenue Requirement Summary – Base Case

- Annual rate adjustments are necessary to fund the wastewater utility
 - **O&M** – annual inflationary impacts
 - **Capital** – funding for annual renewal, replacement, and necessary improvements
 - **Reserves** – maintain reserves at policy levels
 - **Maintain** – adequate financial metrics

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
1 EDU	\$231.77	\$241.04	\$250.68	\$260.71	\$268.53	\$276.59
Annual \$ Change		\$9.27	\$9.64	\$10.03	\$7.82	\$8.06
Annual % Change		4.0%	4.0%	4.0%	3.0%	3.0%

Key Financial Metrics – Base Case

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Debt Service Coverage (DSC) Ratio <i>[all debt – w / connection fees]</i>						
Before Rate Adjustment	2.79	2.31	1.76	1.32	1.02	0.99
After Proposed Rate Adj.	2.79	2.77	2.69	2.76	2.84	4.44
Target Reserve Levels (\$000s)						
Operations Fund – Liquidity	\$2,430	\$2,508	\$2,655	\$2,772	\$2,856	\$2,957
Operations Fund - Contingency	801	826	874	913	941	974
Capital and Replacement Fund	1,285	1,119	992	1,264	1,466	1,506
Emergency Reserves	500	500	500	500	500	500
Debt Service Fund	<u>509</u>	<u>509</u>	<u>509</u>	<u>509</u>	<u>509</u>	<u>330</u>
Total Target Minimum	\$5,525	\$5,462	\$5,531	\$5,957	\$6,272	\$6,267
Total Ending Reserve Funds	\$5,469	\$5,593	\$5,468	\$5,897	\$6,352	\$6,344

Replenish Big Bear - Key Assumptions

- Focus of next 3 years (through FY 2025)
 - Preliminary planning and design
 - Includes borrowing for pre-construction and construction activities
- Construction timeline starts in FY 2024 and completed in FY 2027 (August 2026)
- RBB funded through long-term debt, grants, and rate funded capital
 - Annual debt service assumes interest only through construction
 - Principal and interest at completion of construction (FY 2027)
 - Grants assume current awarded, no additional

Replenish Big Bear - Rate Impacts

- RBB Rate
 - Includes interest on long-term borrowing
 - Does not include:
 - Additional O&M Expenses (beginning FY 2027)
 - Principal on long-term debt (beginning FY 2027)
 - Funding for reserves

	FY 2022	FY 2023	FY 2024	FY 2025
Base Rate	\$231.77	\$241.04	\$250.68	\$260.71
Annual \$ Change		\$9.27	\$9.64	\$10.03
<i>Annual % Change</i>		4.0%	4.0%	4.0%
RBB Rate		\$5.79	\$12.20	\$19.26
Annual \$ Change		\$5.79	\$6.41	\$7.06
<i>Incremental % Change</i>		2.5%	2.5%	2.5%
Base Rate plus RBB		\$246.84	\$262.88	\$279.97
Total Annual \$ Change		\$15.07	\$16.04	\$17.09
<i>Total Annual Change</i>		6.5%	6.5%	6.5%

Cost of Service & Rate Design



Overview of the Cost of Service Analysis

What is cost of service?

- Analysis to proportionally distribute the revenue requirement to the customer classes of service

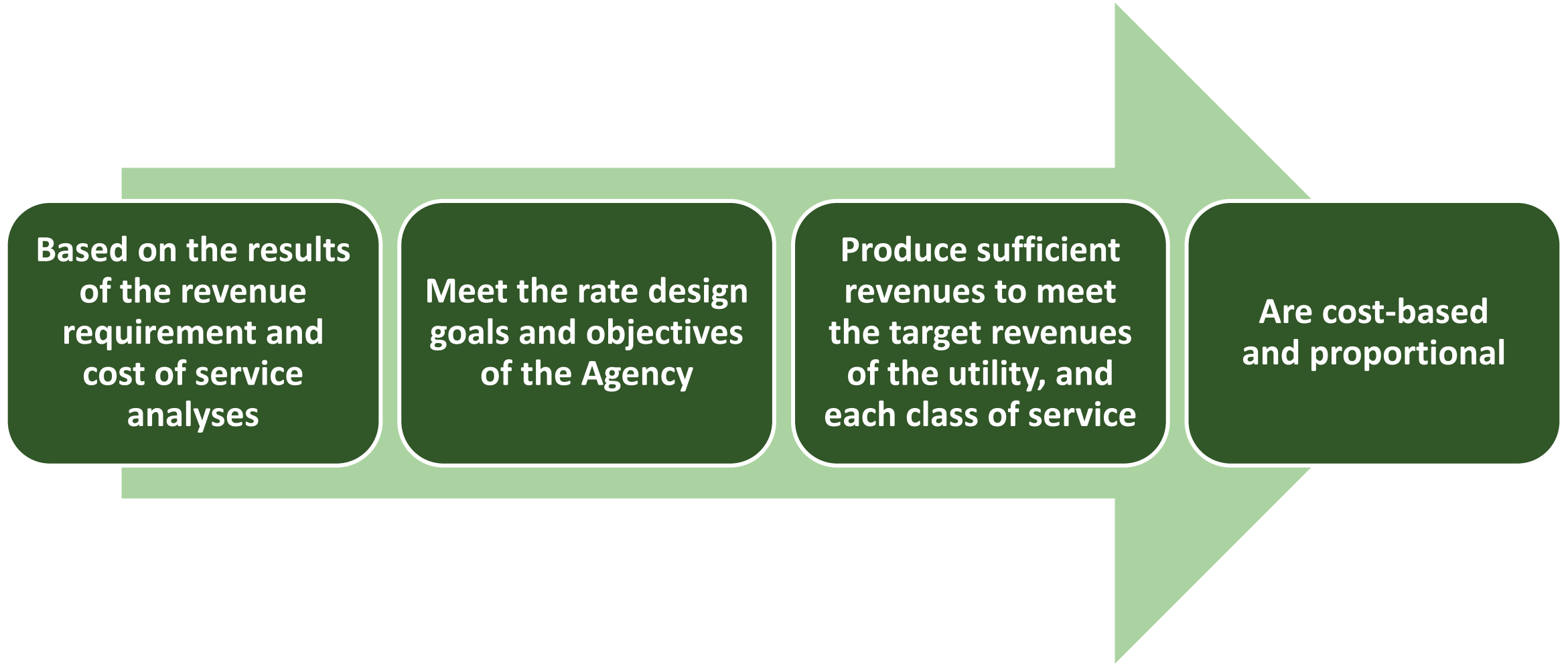
Why cost of service?

- Generally accepted as “fair and equitable”
- Avoids subsidies
- Revenues reflect costs
- Meets the proportionality requirements of Proposition 218

Objectives of Cost of Service?

- Determine if subsidies exist
- Develop average unit costs

Rate Design – Overview



Cost of Service and Rate Design Summary

- Allocate costs based on why costs are incurred
 - Volume and strength (BOD and TSS)
- Proportionally distribute the allocated costs
 - Distribution factors are based on annual volumes and strength of wastewater
- Maintaining current rate structure
 - Level of the rates will adjust based on overall revenue requirement

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
1 EDU	\$231.77					
Base Case		\$241.04	\$250.68	\$260.71	\$268.53	\$276.59
Base Case + RBB		\$246.84	\$262.88	\$279.97	--	--

Connection Fee Update



Overview of the Agency's Connection Fee

- Purpose: To bring equity to existing and new connections, or expanded capacity, to the system. To fund infrastructure necessary to serve growth
 - New connections pay a “buy-in” for existing assets and an “incremental” fee for future or new expansion related facilities
 - These are a one-time fee to pay into the system, a share equal to the value to the funds paid by others
 - New connections to pay an equitable share of expansion-related facilities needed to serve them
 - Maintain equity between existing and future customers
- Based on Agency planning documents and capital improvement plan

Connection Fee Methodology – Key Assumptions

1. Determination of equivalent dwelling units (EDUs)
 - Provides number of EDUs and linkage to infrastructure required to serve a specific number of customers (e.g., build out)
2. Calculation of system valuation for connection fee purposes
 - Includes both existing assets/infrastructure and planned future improvements (e.g., capital)
3. Determination of any credits
 - Avoid double-charging – once through connection fees and again within rates

Connection Fee Calculation

Current Connection Fee	\$4,180
Calculated Connection Fee	4,255
<i>Difference</i>	<i>\$75</i>
<i>Percent</i>	<i>1.8%</i>
CF Calculation	
Treatment	\$3,516
Collection	611
General Plant	<u>129</u>
Total	\$4,257
Rounding for Implementation	\$4,255

- Recommend maintaining current fee level (no change)
- Re-evaluate fee when RBB capital structure is more certain



Next Steps

- ❖ Gain feedback and input from the Board
- ❖ Finalize budget and rate study
- ❖ Present findings and recommendations

**Thank You
and Discussion**

