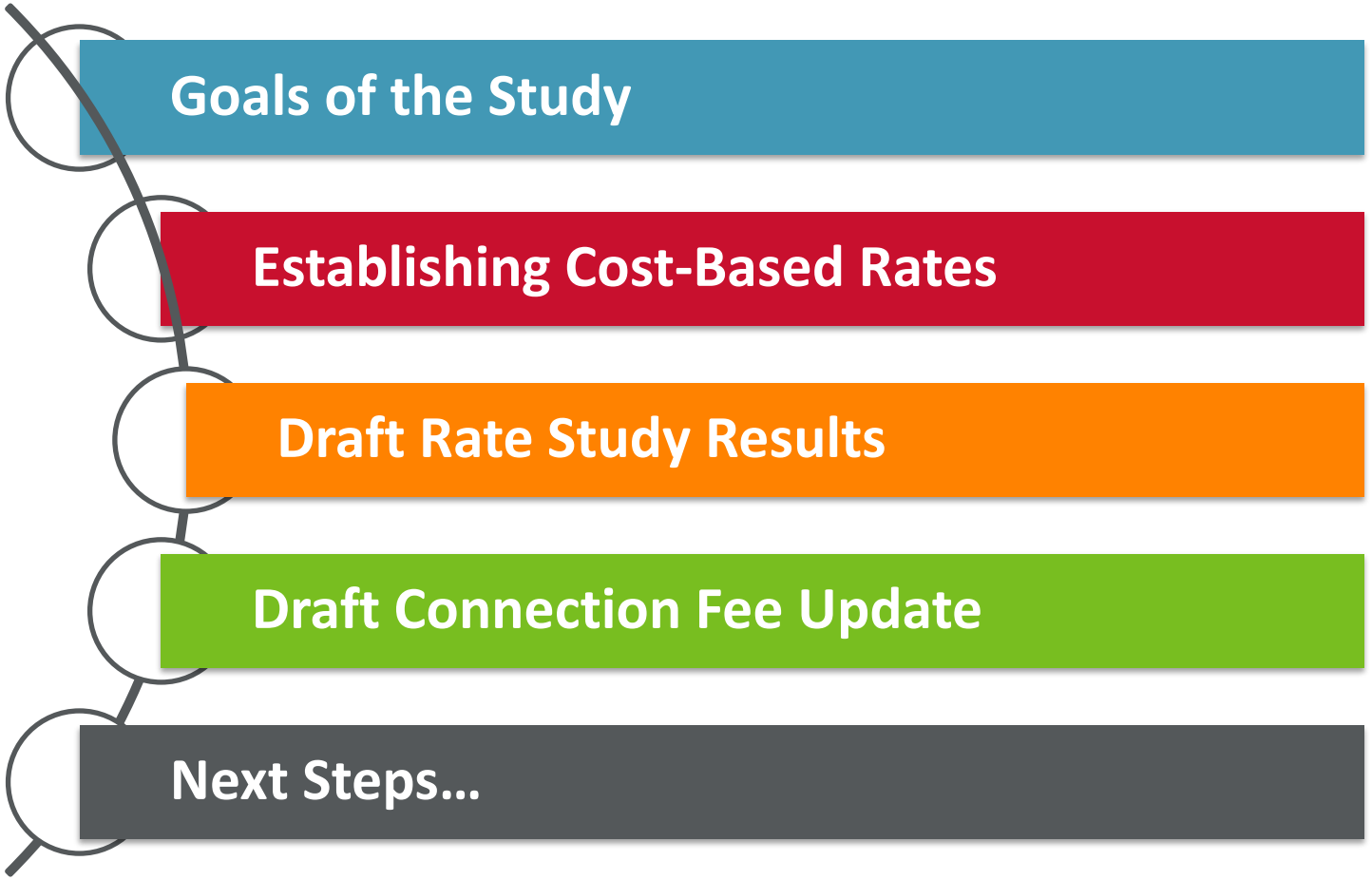
Wastewater Rate and Connection Fee Update

Draft Results

January 26, 2022

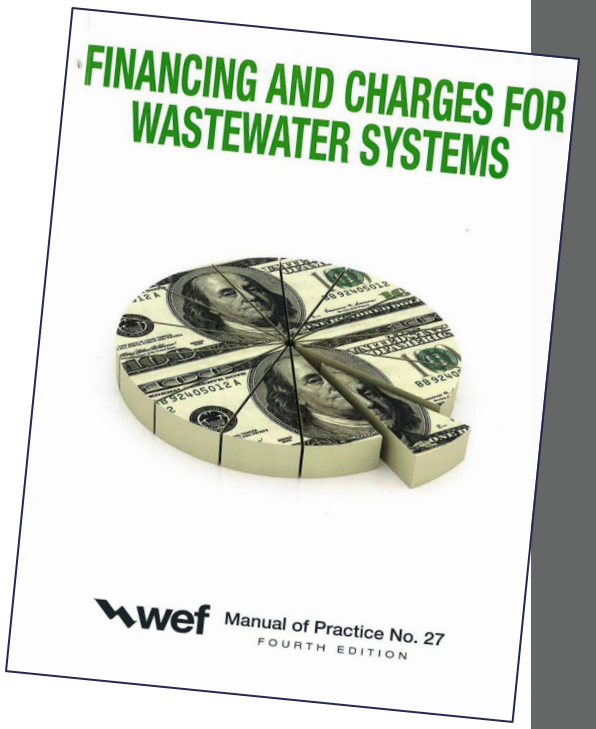
BIG BEAR AREA REGIONAL WASTEWATER AGENCY
BBARWA
SINCE 1974

Overview of the Presentation

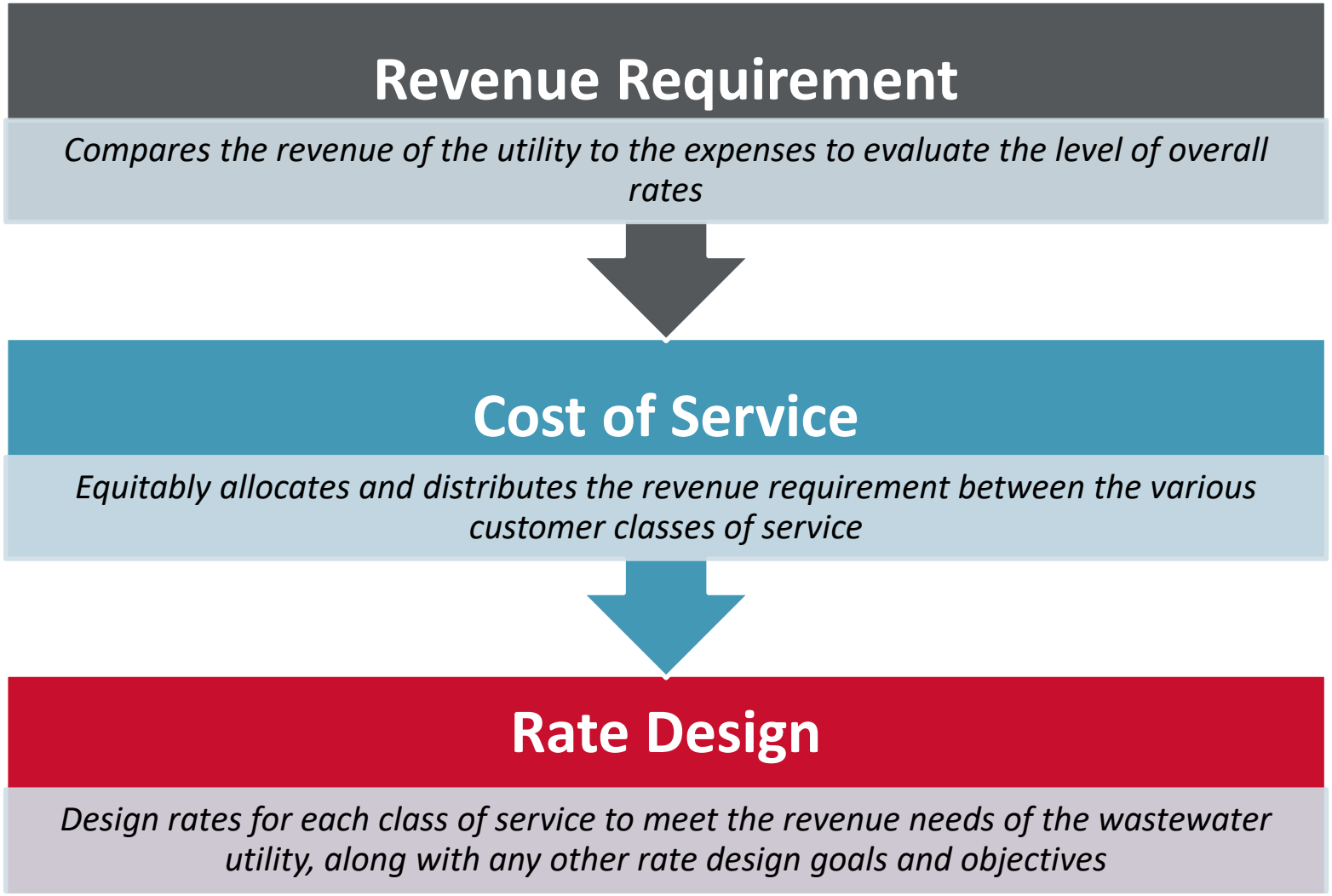


Goals of the Wastewater Rate Study

- 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 defendable rates



Establishing Cost-Based Wastewater Rates



Revenue Requirement

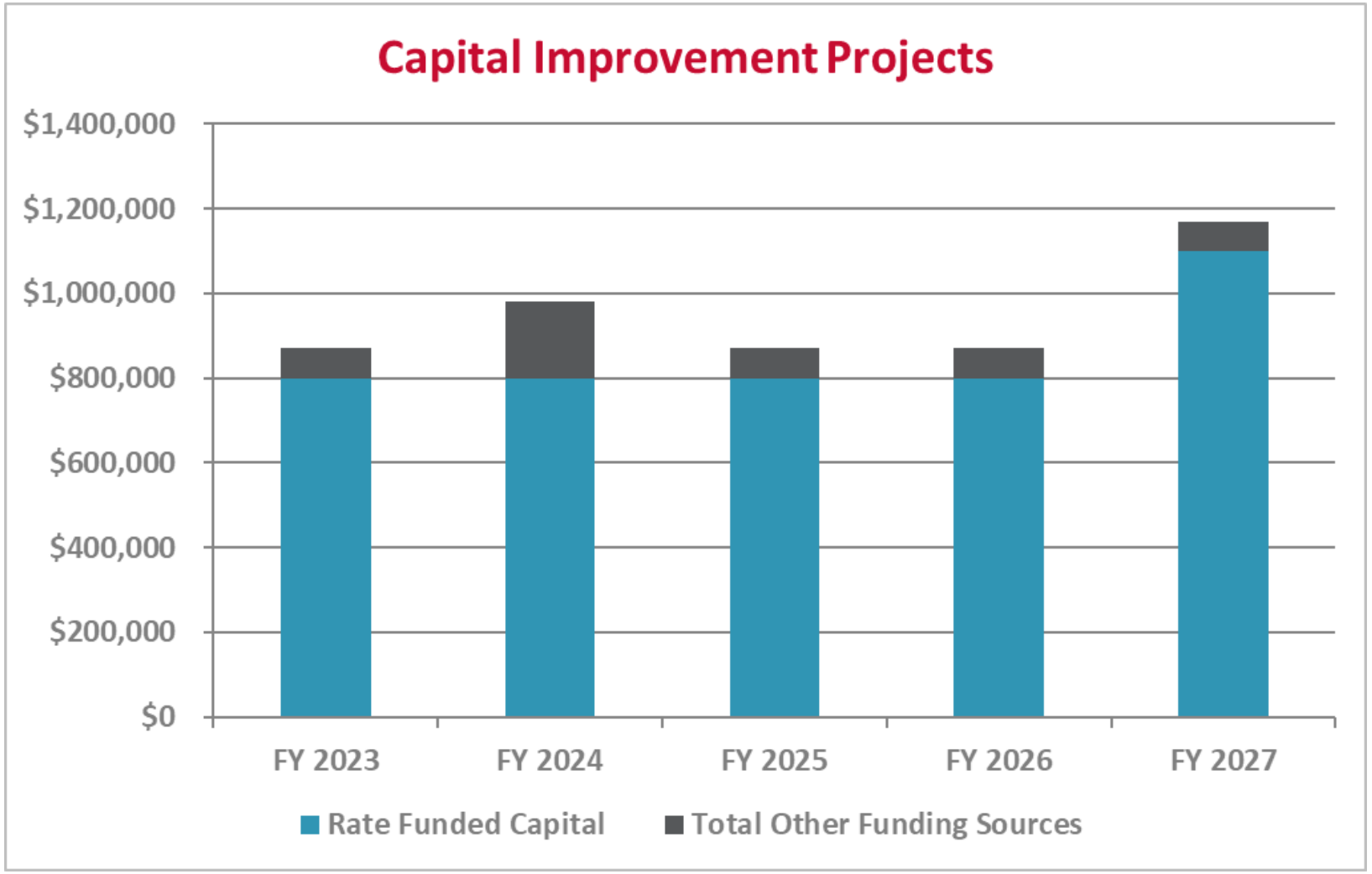
Overview of the Revenue Requirement Analysis

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

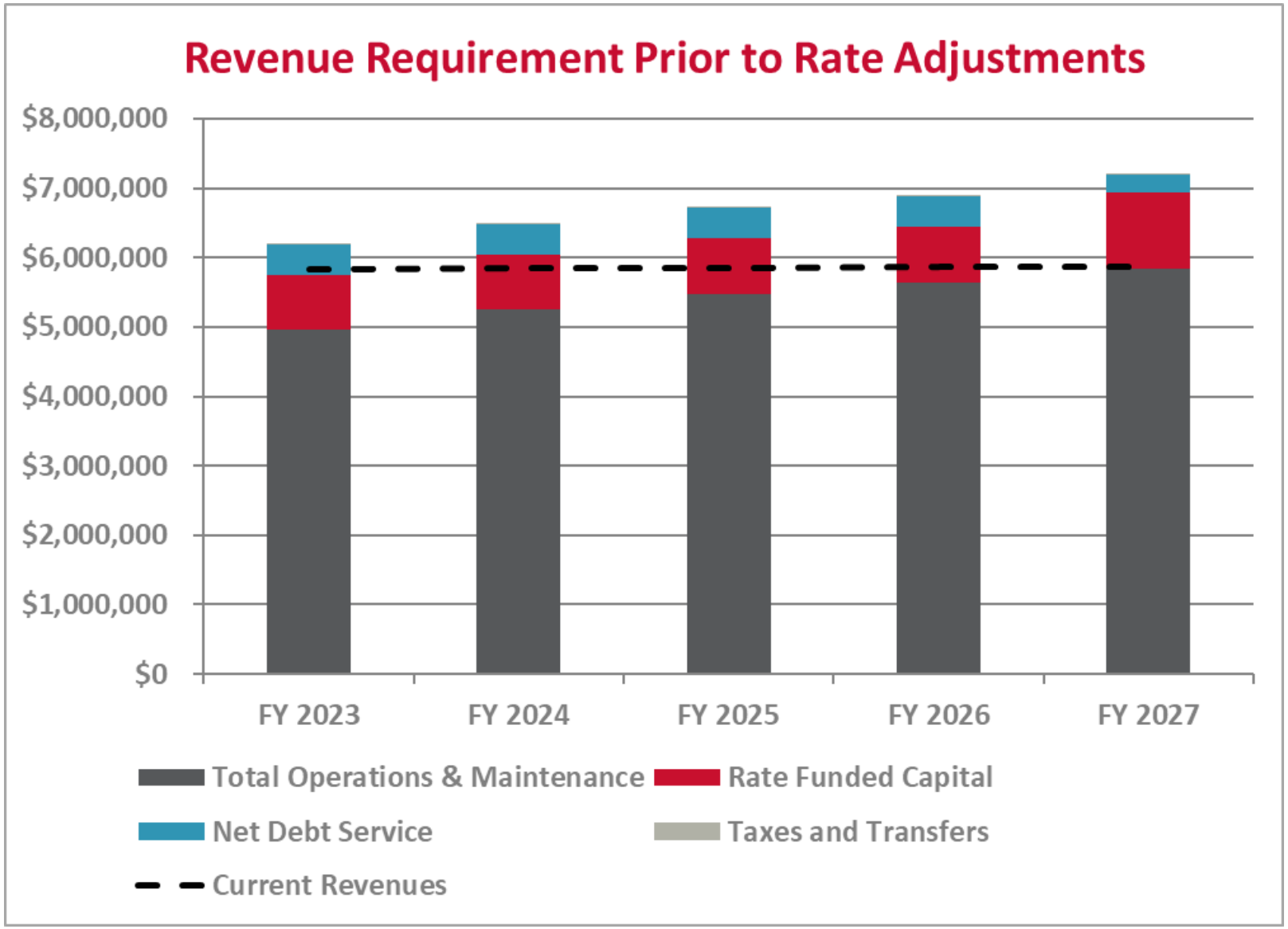
- Revenues based on recent customer characteristics and current rates
- Assumed minimal customer growth
  - 45 EDUs per year
- O&M based on the FY 2022 budget
- Annual O&M increase based on assumed escalation factors
  - Averages approximately 4.0%, annually
- Base Case Capital improvements based on 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 *[all debt – w / connection fees]*						
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	509	509	509	509	509	330
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
Annual % Change		*4.0%*	*4.0%*	*4.0%*
RBB Rate		**$5.79**	**$12.20**	**$19.26**
Annual $ Change		$5.79	$6.41	$7.06
Incremental % Change		*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
Total Annual Change		*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

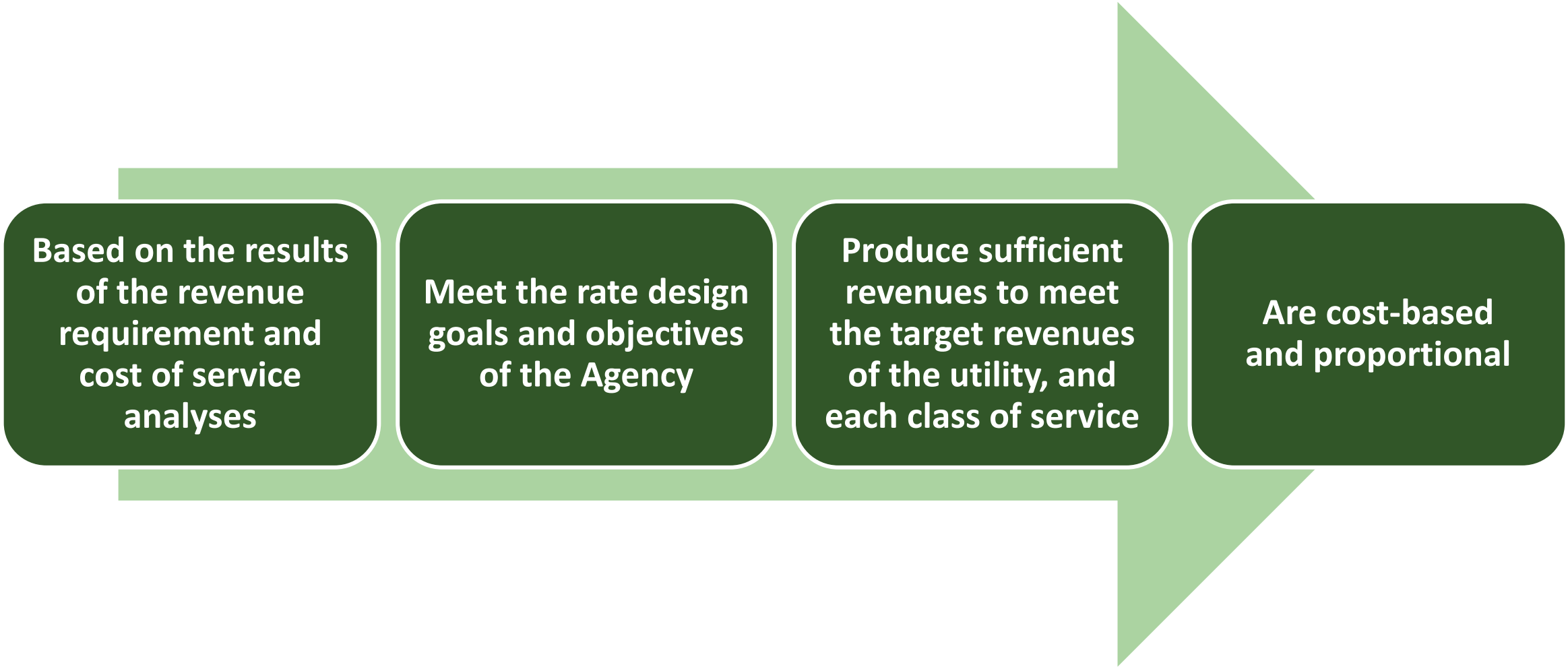
Why cost of service?

- 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
Difference	*$75*
Percent	*1.8%*
CF Calculation	
Treatment	$3,516
Collection	611
General Plant	129
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