



# Public Hearing to Approve Biennial Budget for Fiscal Years 2021-22 and 2022-23 and Adopt Proposed Water, Sewer and Recycled Water Rates for 2022 and 2023

John Adams

June 16, 2021

# Agenda

- Budget Schedule
- Summary of Prior Budget Workshops
- Proposed Budget Summary
- Proposed 2022 & 2023 Water & Sewer Rates
- Proposed Recycled Water Rates & Rate Study
- Pension Liability Funding Strategy
- Prop 218 Notice/Customer Outreach
- Recommendations

## **Budget and Rate Setting is Centered Around the District's Strategic Plan:**

*With a clearly defined mission and vision, as well as guiding principles that define our conduct as an organization, EMWD is driven by standards to provide safe, reliable, economical and environmentally sustainable services. These standards of excellence are defined in the following strategic priorities:*

- *Highly reliable water, recycled water and wastewater service*
- *Protection of public and environmental health*
- *Superior customer service*
- *Sound planning and operational efficiency*
- *Fiscal responsibility and appropriate investment*
- *Exemplary employer*
- *Effective communication, advocacy and community partnerships*

# Budget Schedule for FY 2021-22 and FY 2022-23

	<b>Proposed Actions</b>
February 17, 2021	Workshop: Review Key Budget Assumptions
March 17, 2021	Workshop: Review Operating Revenue / Expense, Capital Biennial Budget, and Preliminary Rate Adjustments
April 21, 2021	Workshop: Summary Budget Book, Rate Summary, and Prop 218 Notices
May 1, 2021	Mail Proposition 218 Notices ( <i>46 days prior to budget adoption</i> )
<b>June 16, 2021</b>	<b>Board Meeting: Public Hearing to Approve Biennial Budget and Adopt Proposed Rates</b>
January 1, 2022	Rates Become Effective

# Summary of Prior Workshops

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## Workshop #1 – Assumptions

- Operating expenditures represent ~50% of budget (80% in Labor & Water)
- MWD rate increases of 4.0% and 5.0% for next two fiscal years
- OPEB funded at 84% as of June 30, 2020 (Projected 100% in 2021)
- Pension liability (CalPERS) funded at 68%
- COVID-19 budget uncertainty

## Workshop #2 – Preliminary Budget and Rate Scenarios

- Budget \$19 million towards pension liability
- CIP annual funding needs for next two fiscal years = \$90 – \$95 million
- Rehabilitation and Replacement (R&R) Planning Model
- Two Rate Scenarios for Water and Sewer
  - Base Scenarios – 2.5% in 2022 and 3.0% in 2023
  - Alternative w/R&R Funding – 3.5% in 2022 and 4.0% in 2023

# Summary of Prior Workshops (cont.)

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## **Workshop #3 – Draft Budget, Proposed Rates, and Prop 218 Notices**

- Highlighted Major Expenditure Reductions and Staff Proposed Reduced Rate Increases
- Revised Proposed Water & Sewer Rate Increases of 1.8% in 2022 & 3.8% in 2023 (including start of funding R&R)
- Overview of Strategic Plan Alignment & the Importance of Long-Term Planning
- Discussed Recycled Water Rate Proposal
- Requested Approval to Mail Proposition 218 Notices & Set Public Hearing

## **Follow-up since Workshop #3 – Pension & Recycled Water**

- Pension Liability Ad-hoc Meeting & Liability Strategy Development
- Recycled Water Rates Meeting & Rate Refinement Strategy Development



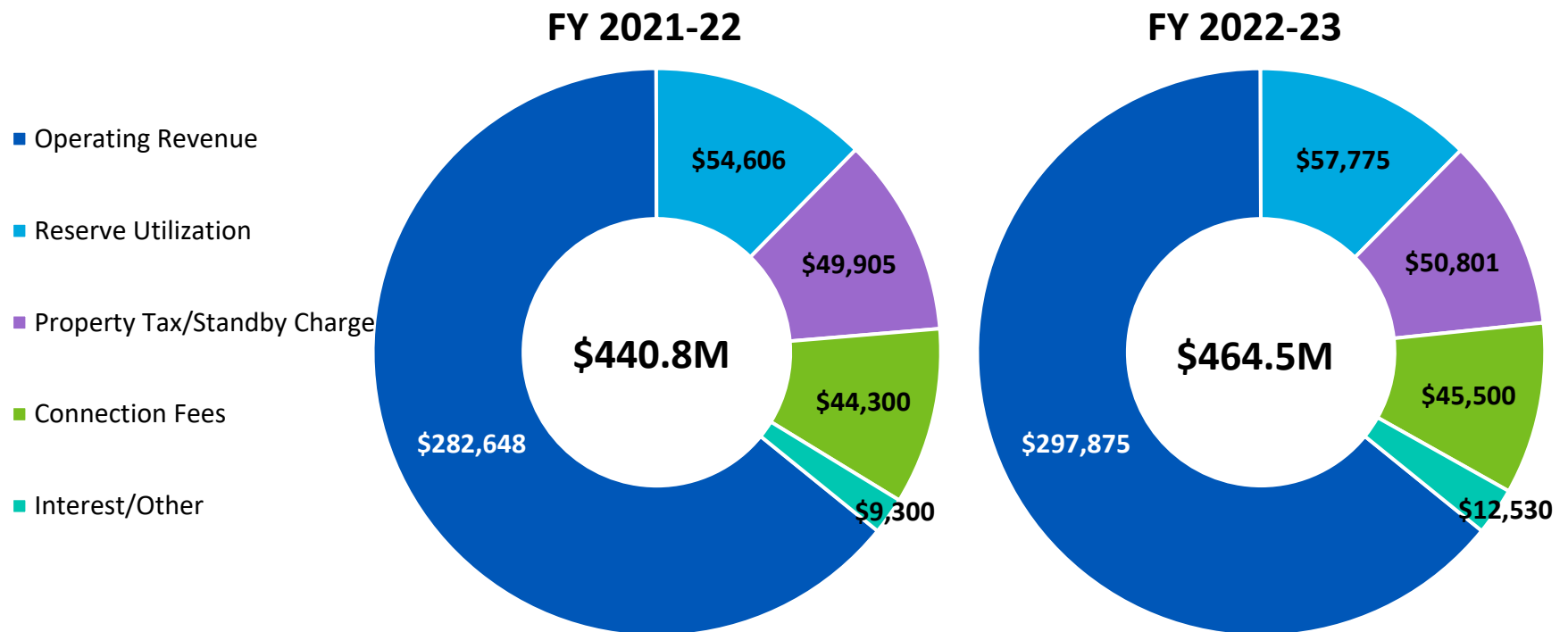
# Proposed Biennial Budget Summary



# Proposed Biennial Budget Funding Sources

- Revenue drivers include higher water demands from new connections, proposed rate adjustments, and an increase in property taxes
- Operating Revenues to increase by 5.3% in FY 2021-22 and 5.4% in FY 2022-23

## Budgeted Funding Sources (\$000)



# Proposed Biennial Budget Expenditures

## Key Expenditure Highlights:

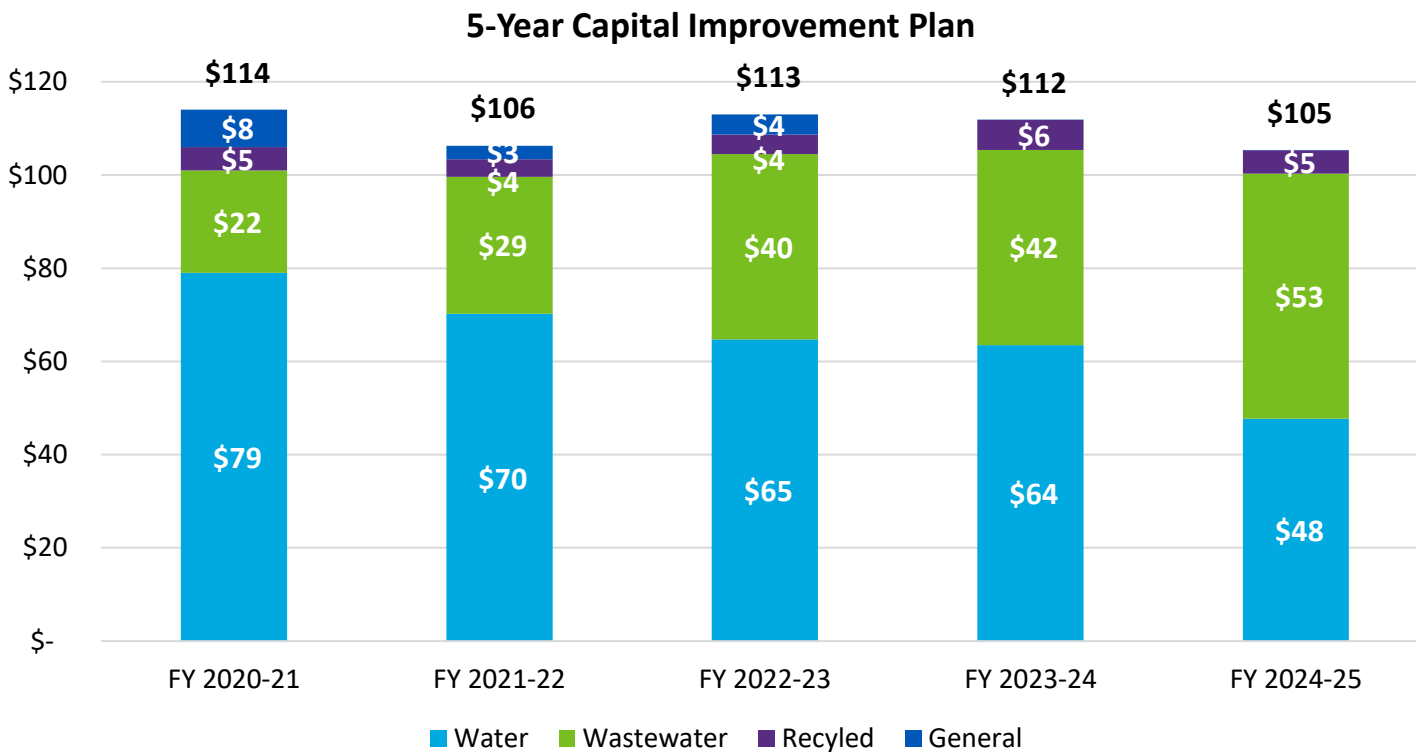
- Operations Overall Increase = 4.6% per year
- Two-Year CIP = \$182M (net of grants)
- Debt Service = Increase of \$3.1M in Year 1, Flat in Year 2
- Average G&A Increase = 5.2% per year
- Operating Fixed Assets Investments = Total 2 Year Investment of \$54.1M
- Pension Liability Funding = Continue Funding of \$19M per year

Expenditures (\$000)	FY 2020-21 Budget	FY 2021-22 Budget	FY 2022-23 Budget	2 Year Avg. Increase
Operating Expenses	\$206,047	\$213,311	\$225,196	4.6%
Capital Improvements (CIP)	\$92,966	\$86,979	\$95,368	1.3%
Debt Service	\$55,851	\$59,000	\$59,000	2.8%
General & Administrative	\$28,087	\$30,144	\$30,999	5.2%
Operating Fixed Assets	\$25,936	\$26,324	\$27,807	3.6%
Pension/OPEB Funding	\$19,000	\$19,000	\$19,000	0.0%
Misc/Other	\$6,425	\$6,000	\$7,110	5.3%
<b>Total</b>	<b>\$434,312</b>	<b>\$440,758</b>	<b>\$464,480</b>	<b>3.5%</b>



# Capital Improvement Plan

- 5-Year Capital Improvement Plan (CIP) = \$550 million total investment
  - Total CIP planned for FY 2022 and FY 2023 = **\$217 million**
  - External funding (grants) for FY 2022 and FY 2023 = **\$35 million**
  - Net CIP impact to Biennial Budget for FY 2022 and FY 2023 = **\$182 million**



# Proposed Consolidated Budget

Category	FY 2020-21 Budget	FY 2021-22 Budget	% Change	FY 2022-23 Budget	% Change
<b>Revenues</b>					
Operating Revenues*	\$ 268,408,245	\$ 282,647,655	5.3%	\$ 297,874,824	5.4%
Property Tax & Standby	39,936,000	49,904,552	25.0%	50,800,643	1.8%
Connection & Development Fees	43,523,490	44,300,000	1.8%	45,500,000	2.7%
Interest Income	12,500,000	3,750,000	-70.0%	5,000,000	33.3%
Other Income	7,000,000	5,550,000	-20.7%	7,530,000	35.7%
<b>Total Revenues</b>	<b>\$ 371,367,735</b>	<b>\$ 386,152,207</b>	<b>4.0%</b>	<b>\$ 406,705,467</b>	<b>5.3%</b>
<b>Expenses</b>					
Operating Services Expense	\$ 206,047,138	\$ 213,311,308	3.5%	\$ 225,195,886	5.6%
General & Administrative	28,087,320	30,143,651	7.3%	30,999,353	2.8%
Misc/Special Projects & Studies	6,425,000	6,000,000	-6.6%	7,110,000	18.5%
Bond Debt Service	55,851,000	59,000,000	5.6%	59,000,000	0.0%
Pensions/OPEB	19,000,000	19,000,000	0.0%	19,000,000	0.0%
<b>Total Expenses</b>	<b>\$ 315,410,458</b>	<b>\$ 327,454,959</b>	<b>3.8%</b>	<b>\$ 341,305,239</b>	<b>4.2%</b>
<b>Amount Available</b>	<b>\$ 55,957,277</b>	<b>\$ 58,697,248</b>	<b>4.9%</b>	<b>\$ 65,400,228</b>	<b>11.4%</b>
<b>Capital Commitments</b>					
Operating Fixed Assets	\$ 37,909,250	\$ 26,324,058	-30.6%	\$ 27,807,067	5.6%
Capital Improvement Plan (CIP)	92,965,805	86,979,035	-6.4%	95,367,762	9.6%
<b>Total Capital Commitments</b>	<b>\$ 130,875,055</b>	<b>\$ 113,303,093</b>	<b>-13.4%</b>	<b>\$ 123,174,829</b>	<b>8.7%</b>
Less: Net Operating Margin	\$ (55,957,277)	\$ (58,697,248)	4.9%	\$ (65,400,228)	11.4%
Less: Debt/Reserve Utilization	(74,917,778)	(54,605,845)	-27.1%	(57,774,601)	5.8%
<b>Net</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	
<b>TOTAL EXPENDITURES</b>	<b>\$ 446,285,513</b>	<b>\$ 440,758,052</b>	<b>-1.2%</b>	<b>\$ 464,480,068</b>	<b>5.4%</b>

- Operating Revenue includes Proposed Rate Adjustments subject to Board approval
- Overall Net Operating Margin of \$59M in FY22 and \$65M in FY23 to fund Capital Commitments (PayGo)
- \$55M and \$58M balance of Capital Commitments funded through bond proceeds and reserves in FY22 and FY23

\*Operating Revenue includes R&R Reserve Contribution of \$1,047,097 in FY22 and \$3,050,488 in FY23



# Proposed Water and Sewer Rates



# Proposed Water and Sewer Rates for 2022 and 2023

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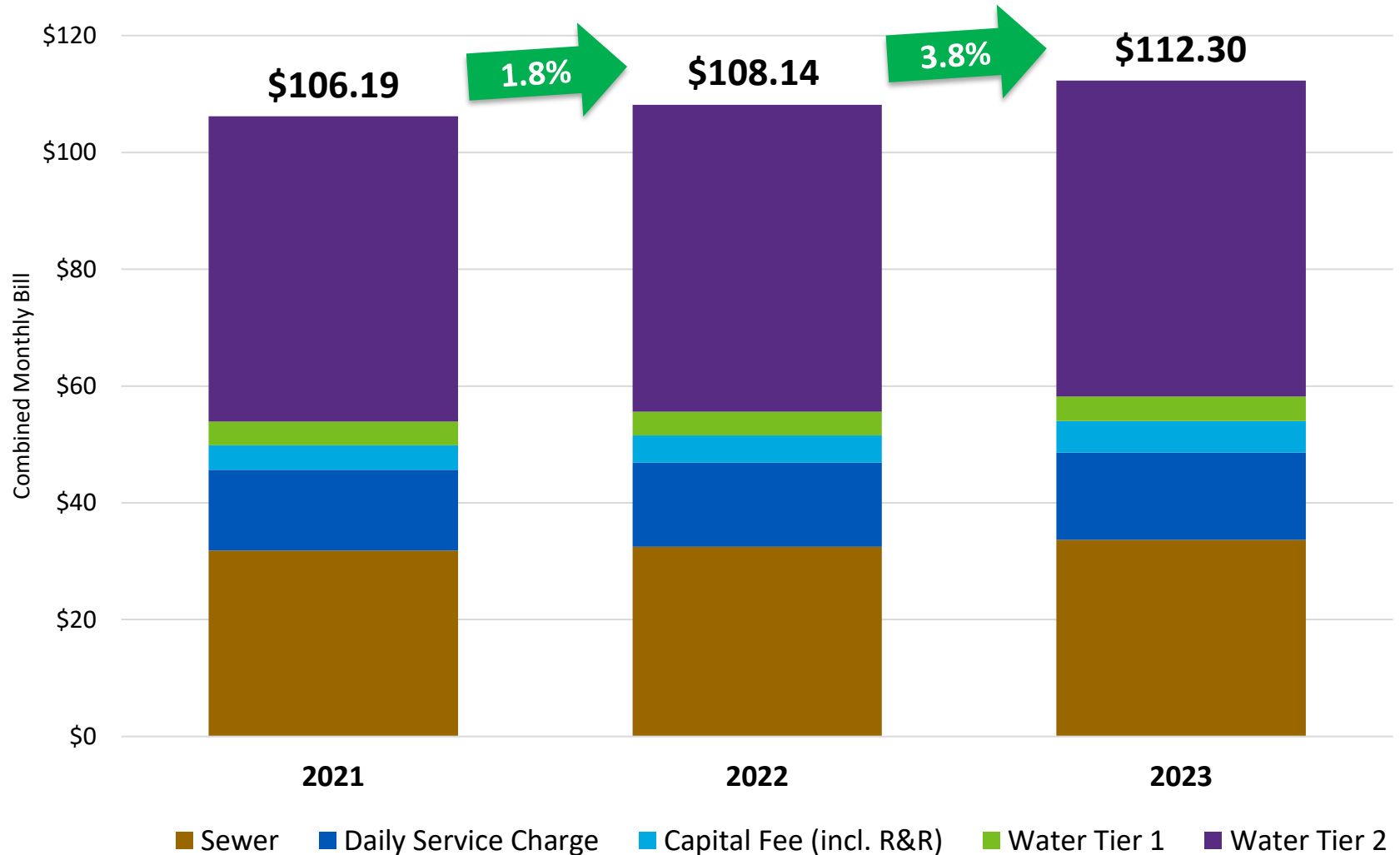
## Water:

- 0.5% Commodity rate increase in 2022, 3.0% increase in 2023
- Daily Service Charge (DSC) rate increase \$0.60/month or 4.2% increase each year
- Capital Fixed Charge monthly rate increase of \$0.45 per EMS for 2022 and \$.70 for 2023
  - **Includes additional Capital Charge to fund R&R reserve of \$0.25 in 2022 and \$0.50 in 2023**
- Ag Water (*Fruitvale ID24*): Continue implementation of multi-year phase-in
- Wholesale: Adjust rates for full pass-through

## Sewer:

- Daily Service Charge rate increase effective 2022 of 1.0% and 2.0% in 2023
- Capital Fixed Charge monthly rate increase of \$0.32 per EDU for 2022 and \$.57 for 2023
  - **Includes additional Capital Charge to fund R&R reserve of \$0.25 in 2022 and \$0.50 in 2023**

# Typical Residential Water and Sewer Bill



\*18 CCF per month and 5/8" meter and sewer block 2 (100%)

# CPI & Comparable Rate Increases

- Consumer Price Index (CPI)
  - Original CPI Forecast from CA State Department of Finance is 3.1% for CY 2021
  - Most Recent CPI-U for LA-Riverside-Orange County is 3.6%
- Comparable Increases
  - Neighboring Agencies are proposing rate increases

Service Area*	2021	2022	2023
	Percent Bill Impact		
Rancho CWD - Santa Rosa	5.6%	5.6%	5.6%
Elsinore Valley MWD	2.4%	5.2%	5.2%
Western MWD - Murrieta	2.2%	4.4%	4.2%
Rancho CWD - Rancho Division	3.9%	3.9%	3.9%
Western MWD - Rainbow	3.5%	3.5%	4.5%
Western MWD - Riverside	2.1%	3.5%	4.1%
<b>Eastern MWD</b>	3.9%	1.8%	3.8%
<b>Average</b>	3.4%	4.0%	4.5%

\*Each agencies reported increase is based on average customer usage.

\*\*Rates displayed in purple font have been adopted, others are proposed rates.



# Recycled Water: Proposed Rates and Study



# Proposed Recycled Water Rates & Rate Study

- Recycled water rates would require an additional ~20.0% (\$1.6M) increase to recover all service and allocated costs
- Past increases have been **as high as 10% per year** (2015, 2016, 2017)
- The **past biennial budget rate increase of 7% per year** was based on average operating expense increase of 5% and an additional 2% to reduce the deficit
- Staff recommends a **3.8% rate increase for 2022** to cover cost increase
- Pending completion of a Recycled Water Rate Study, staff currently recommends a **5.8% increase for 2023** based on an average cost increase of 3.8% plus an additional 2% to continue to reduce the deficit

Rate	Proposed Rate Increase	Current Jan. 1, 2021	Proposed Rates	
			Effective Jan. 1, 2022	Effective Jan. 1, 2023
Ag Summer	3.8% - 5.8%	\$162.34	\$168.51	\$178.28
Ag Winter	3.8% - 5.8%	\$94.90	\$98.51	\$104.22
Demand Ag	3.8% - 5.8%	\$476.42	\$494.52	\$523.20
Non-Ag	3.8% - 5.8%	\$595.52	\$618.15	\$654.00
Other	Up to 9.9%	\$350 to \$1,185	\$375 to \$1,192	\$401 to \$1,225

\* All figures shown in \$ per AF



# Key Issues to Be Evaluated in Recycled Water Rate Study

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Recycled water pricing reflects general benefit to the region by reducing reliance on imported and groundwater supplies

Recycled Water Rates are a function of multiple considerations, including market conditions.

Wastewater discharge avoidance credit to Recycled Water

Allocation of General, Administrative and Overhead Costs

Monthly Capital Charge to benefit recycled water

Benefits received by Water System from Recycled Water Program

# Proposed Path Forward for Recycled Water

Dates	Actions
June 3, 2021	Recycled Water Rate Meeting: Reviewed Proposed Rates & Discussion on Strategy
<b>June 16, 2021</b>	<b>Board Meeting: Public Hearing to Approve Biennial Budget and Adopt Proposed Rates</b>
September 2021	Begin Rate Study Specific to Recycled Water (inc. participation with Planning Committee members)
December 2021	Preliminary Results of Study to Planning Committee
February 2022	Stakeholder Workshop on Recycled Water Rate Study
March 2022	Report to Board on Results of Recycled Water Study
June 2022	Adopt Revised Recycled Water Rates effective January 1, 2023 and adjust FY 2022-23 Budget



# Pension Liability Funding Strategy



# Strategically Address Unfunded Pension Liability

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## 2021-23 Budget Recommendation of \$19M/yr Towards Liability

### Payment Options Available for District:

- Annual Additional Discretionary Contribution (ADP)
- “Fresh Start” of Amortization to 15 Years
- Separate Section 115 Pension Trust



### Ad-Hoc Committee & Staff to Review and Recommend:

- Evaluate Funding Options and Future Impact
- Revise Policy Principles
- Development of a Funding Policy (Target & Goals)
- Evaluate a Separate EMWD Section 115 Pension Trust

# Proposed Next Steps for Pension Liability

Dates	Actions
May 25, 2021	Ad-Hoc Committee Meeting: Review & Discussion
<b>June 16, 2021</b>	<b>Board Meeting: Public Hearing to Approve Biennial Budget and \$19M UAL Annual Funding</b>
July 19, 2021	Ad-Hoc Committee Meeting: Follow Up Meeting with Proposed Actions
September 2021	Report to Administrative Committee
October 2021	Report to Board of Directors



# Proposition 218 Notices – May 2021



# Board Approved Proposition 218 Notices

- Staff prepared six separate Proposition 218 Notices:
  - Residential Water and Sewer
  - Non-residential Water and Sewer
  - Agricultural Water
  - Recycled Water
  - Fruitvale (ID 24) Water and Sewer
  - Sewer only
- Notice includes:
  - Public Hearing Date: June 16, 2021
  - History of Sound Financial Planning Helps Minimize Rate Increases
  - Water Budget Background
  - Sewer Block Background
  - EMWD Water Shortage Contingency Plan



SPECIAL NOTICE • MAY 2021

## History of Sound Financial Planning Helps Minimize Rate Increases

EMWD has been committed to ensuring the financial stability and responsible stewardship of public funds for the past 75 years as we deliver high-quality, safe and reliable water, wastewater and recycled water services throughout our 555 square mile service area.



Behind every drop of water that enters or leaves your home or business is a network of pipelines, booster stations, lift stations, filtration plants, treatment facilities, and storage tanks. There is also a highly trained team that not only designs, builds and maintains that infrastructure, but also monitors and tests your water and wastewater 24/7/365 to ensure the public health and safety of more than 850,000 people served.

Every drop is part of a continuous cycle which EMWD considers with every decision or investment made.

That includes planning for new infrastructure and maintenance of existing facilities over an appropriate period of time using reserves, financing, and rate revenue in a balanced manner that avoid future rate spikes.

EMWD invests in a comprehensive Capital Improvement Program (CIP) to keep your water, wastewater and recycled water systems operating efficiently, with minimal emergencies such as water pipeline breaks or sewer spills.

EMWD also aggressively pursues outside funding such as grants and low-interest loans and refinances outstanding bonds when appropriate to reduce the financial burden for customers. *(continued on page 2)*

### YOU'RE INVITED TO ATTEND OUR PUBLIC HEARING FOR RESIDENTIAL RATES

Date: June 16, 2021

Time: 9 a.m.

Location: Eastern Municipal Water District Board Room, 2270 Trumble Road, Perris, CA 92570

The Board of Directors of Eastern Municipal Water District (EMWD) will conduct a public hearing to consider changes to the water and sewer rate structures and rates set forth herein. Any customers or property owners may appear at the hearing to make comments regarding the proposed change.

To file an opposition, property owners and tenants of real property who are directly liable to pay water bills may submit a written protest. Written protests may be mailed or delivered in-person to Eastern Municipal Water District, Attention: 2022-2023 Proposed Rates, PO Box 8300, Perris, CA 92572-8300. Protests must include: your name, parcel number and/or service address, and your signature. All written protests must be received prior to the conclusion of the public hearing.

More information about the proposed changes is available in this document and online at [www.emwd.org/ProposedRates](http://www.emwd.org/ProposedRates).

*Aviso de audiencia pública para considerar las tarifas de agua y alcantarilla basado en el costo de servicio.*

## Newer Landscapes Require Higher Water Efficiency

Water usage for landscapes are calculated based on the area which needs to be irrigated and the evapotranspiration rate for turf grass, which is the amount of water it needs to survive.

A conservation factor is applied to the calculation based on the date a home was built and the State mandated conservation guidelines that were in place before and after that home's construction. Newer homes have more efficient irrigation systems and are subject to stricter State-mandated conservation guidelines.

Newer homes feature more water-efficient irrigation systems and landscaping and are assigned a conservation factor (CF) as follows:

➡ Allotments for homes connected before December 31, 2010, are at 80 percent

➡ Homes connected between Jan. 1, 2011, to May 31, 2015, are at 70 percent

➡ Homes connected on or after June 1, 2015, are at 50 percent

The Conservation Factor (CF) is based on a landscape's water use efficiency. A yard with less grass and more low-water landscaping along with more efficient irrigation systems would have a lower CF. When the CF decreases, so does the percentage of the evapotranspiration rate – the varying amount of irrigation needed to keep plants alive, based on climate.



# Outreach and Results of Proposition 218 Notices

## Outreach (As of 6/9/21)

- Printed Notices – 268,190 Prop. 218 notices to all EMWD customers and property owners.
- Kubra E-Blasts – 76,000 with 1,814 click-throughs
- CC E-Blast – 150,326
- Customer E-mail Responses – 13
- Webpage Hits – 2,203
- Bill Estimator – 91 Accounts
- Customer Service Calls – 0
- Social Media – 1,143 impressions

**Results: As of June 15, 2021, the District has received 25 written protests.**



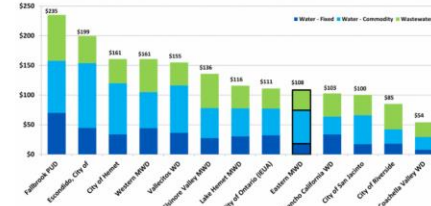
## WEBPAGE

Customers ▾ Stay WaterWise ▾ Education ▾ GWR Plus Doing Business ▾ Our Services ▾ Who We Are ▾

Language Contact Us Pay My Bill

### Proposed Rates and Fees for 2022 and 2023

EMWD is a government agency that provides services based on the actual cost of operation and maintenance. The EMWD Board of Directors adopts a biennial operating budget that goes into effect on July 1, each year. Part of that process is setting rates. One of EMWD's critical business objectives is to keep costs, and therefore rates, as low as possible for all customers. When compared with other agencies providing similar services in the surrounding area, EMWD's rates are consistently among the lowest.



During a public hearing on Wednesday, June 16, 2021, the EMWD Board of Directors will consider nominal water and sewer rate increases that reflect the increased costs of imported water, rising maintenance and environmental regulatory compliance costs, along with investments in technology and infrastructure.

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 Recycled Water Rates  
 Rates and Fees  
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 About Your Bill

## BILL ESTIMATOR

EMWD Water & Sewer Bill Estimator

Account #   Estimated water use:  billing units  
 Your household size is:  people  
 Your irrigation area is:  square feet

MONTH: June

CURRENT ESTIMATED CHARGES			Proposed Effective January 2022		
WATER BUDGET			WATER BUDGET		
	Billing Units	CHARGE(S)		Billing Units	CHARGE(S)
<b>WATER SERVICE</b>					
WATER	USE	CHARGE(S)	WATER	USE	CHARGE(S)
Water Service			Water Service		
Supply and Reliability Capital Projects			Supply and Reliability Capital Projects		
Low Volume			Low Volume		
Budgeted			Budgeted		
Excessive			Excessive		
Wasteful			Wasteful		
Total Water Charges			Total Water Charges		
Billing Units: BU 1 BU 748 gallons			Billing Units: BU 1 BU 748 gallons		
<b>SEWER SERVICE</b>					
Sewer Service			Sewer Service		
Sewer System Capital Projects			Sewer System Capital Projects		
Total Sewer Charges			Total Sewer Charges		
<b>TOTAL ESTIMATED EMWD CHARGES</b>			<b>TOTAL ESTIMATED EMWD CHARGES</b>		

Estimates are based on calendar months and historical weather information. Actual amounts will vary based on the specific number of days in a billing period, daily weather conditions, and your actual water usage. If you do not have your account number and test bill information, please contact EMWD's Customer Service Department at (951) 328-3777.







# Staff Recommendations



# Recommendation

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- Approve the Biennial Operating and Capital Budget for Fiscal Years 2021-22 and 2022-23;
- Adopt the Proposed Resolution approving the calendar year 2022 and 2023 water and sewer rates and service charges, amending the EMWD Administrative Code for Incorporating Certain Rates, Fees, and Charges;
- Adopt the Proposed Resolution approving the calendar year 2022 and 2023 recycled water rates, amending the EMWD Administrative Code for Incorporating Certain Rates, Fees, and Charges;
- Direct staff to initiate a comprehensive recycled water rate study; and
- Direct staff to develop a pension funding strategy working with the Ad-hoc Committee.





# Contact Information

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