

STAFF REPORT

Date: September 26, 2023

To: Board of Directors
From: John Bosler, General Manager/CEO
Agenda Title: **Public Hearing - Proposed Adjustments to CVWD Local Recycled Water Rate and IEUA Pass-Through Rates, FY 2024 - 2029**

Purpose

The Board of Directors is asked to adopt changes to the CVWD Local Recycled Water rates and implement two proposed Inland Empire Utilities Agency (IEUA) Pass-Through Rates effective for October 1, 2023, through June 30, 2029. Staff has conducted a cost of service study for Recycled Water services covering a time frame from October 1, 2023 through June 30, 2029. The study reveals that Recycled Water rates need to be adjusted on an annual basis in order to generate additional revenue to provide for increases in the cost of operational expenses, capital improvements, and maintaining minimum reserve levels.

A Public Hearing must be held for the consideration of the proposed Recycled Water rate adjustments. A Proposition 218 Notice was mailed to the subject property owners and customers of record to explain the Public Hearing process.

Background/Analysis

In 2019, the District set recycled water rates for the five fiscal years 2020 through 2024. These rates apply only to customers who receive non-potable recycled water for irrigation or industrial purposes. The District purchases recycled water directly from the IEUA. These operations are accounted for in a separate Recycled Water Fund. For FY2023, IEUA changed their fee structure for Recycled Water. In addition to a volumetric Recycled Water Direct Use Rate, IEUA introduced a Fixed Cost Recovery charge. This annual Fixed Cost Recovery amount is allocated among IEUA member agencies based on their three prior year's regional share of Recycled Water for Direct Use and Groundwater Recharge purposes. CVWD's share of the total is currently approximately 22%. The total amount of the IEUA Fixed Cost Recovery was \$1.1M in FY2023 and will be \$2.4M in FY2024. CVWD's share of this fixed charge associated with the direct sale of recycled water was \$45,289 in FY2023 and is estimated at \$108,849 for FY2024, and it is expected to double for FY2025. CVWD's relatively low volume of recycled water sales means that the fund will be adversely impacted by these fixed costs. This situation necessitates a new rate study, to re-design the rate structure starting October 1, 2023.

The new proposed rate structure for Recycled Water Service is comprised of two types of charges: (1) fixed meter charges that are determined on the basis of the size of the meter at the property and (2) commodity charges that are determined on the basis of the amount of recycled water delivered. The CVWD meter charge is designed to recover the District's fixed costs of providing Recycled Water service (e.g. customer service and debt service), and the newly proposed IEUA Pass-Through Fixed Meter Charge will offset the IEUA's new Fixed Cost Recovery charge. Commodity charges are designed to recover the District's cost of purchasing wholesale recycled water from IEUA and other operating costs (e.g. capital replacement, operations and maintenance, inspection and other related charges). The District's rates are calculated based on the cost of providing recycled water only to those customers receiving that

service. Within the proposed new rate structure, staff recommends separating out the IEUA commodity charge and designating it as a pass-through rate. The IEUA has only adopted commodity rates for FY2024 and FY2025. The recommended structure will allow the District to pass through any future rate changes from IEUA as opposed to estimating any changes at the time of the current Rate Study. Both the proposed new volumetric and fixed charge rates as of October 1, 2023, will match the current rates in total that went into effect on July 1, 2023.

As a result of the District’s increasing cost of providing Recycled Water service, it has been determined that a modest rate adjustment is required. Both the proposed CVWD Meter Charge and proposed CVWD Commodity Rate will increase by 3% annually, starting on July 1, 2024 through July 1, 2028. Both commodity and fixed cost recovery charges imposed on CVWD by IEUA will be passed through directly to the District’s recycled water customers. The proposed rates and charges are shown in the following table:

| e Components | Current Rates | Proposed Rates and Charges (3% Annual Increase from 7/1/2024) | | | | | |
|--|----------------|--|---------------|--------------|--------------|--------------|--------------|
| | | 7/1/2023 | 10/1/2023 | 7/1/2024 | 7/1/2025 | 7/1/2026 | 7/1/2027 |
| Commodity Rates: | | | | | | | |
| CVWD Local RW Rate (per HCF) | \$2.00 | \$0.83 | \$0.85 | \$0.88 | \$0.91 | \$0.94 | \$0.97 |
| IEUA Pass-Through RW Rate (per HCF) | \$0.00 | \$1.17 | \$1.07 | Pass-Through | Pass-Through | Pass-Through | Pass-Through |
| Total Commodity Rate (per HCF) | \$2.00 | \$2.00 | \$1.92 | TBD | TBD | TBD | TBD |
| Fixed Charges (1" Meter per Month): | | | | | | | |
| CVWD Meter Charge | \$33.38 | \$13.66 | \$14.07 | \$14.50 | \$14.93 | \$15.38 | \$15.84 |
| IEUA Pass-Through Fixed Charge | \$0.00 | \$19.72 | Pass-Through | Pass-Through | Pass-Through | Pass-Through | Pass-Through |
| Total Monthly Fixed Charge | \$33.38 | \$33.38 | TBD | TBD | TBD | TBD | TBD |

Future Pass-Through Rate Adjustments

Effective January 1, 2009, AB 3030 provides the District with the authority to adopt a rate structure with automatic adjustments that pass-through to customers their proportionate share of rate increases which are imposed on the District. Such a rate structure can be used to pass through future increases in the IEUA’s Commodity and Fixed Charges. AB 3030 limits automatic adjustments to a time period that cannot exceed five years. The District proposes the adoption of the IEUA Pass-Through Rates and Charges for a five-year period effective from October 1, 2023 through June 30, 2029, pursuant to the requirements of Proposition 218 (Prop 218).

For FY2024 both the IEUA Commodity and Fixed Charge rates are available, but for FY2025 only the Commodity Rate has been adopted by the IEUA Board of Directors. In each subsequent year, for the remaining five years, the Pass-Through Rates and Charges will be automatically adjusted based on the increase in the IEUA Recycled Water Commodity and Fixed Charges. The automatic adjustments would only be implemented in those fiscal years that IEUA adopts an adjustment in said Rates and Charges.

In the remaining four years, the notice of the automatic adjustment must be given not less than 30 days before the effective date and may be given by including the notice in the District’s regular billing statement or by any other mailing by the District to the address to which the District mails the billing statement.

Public Hearing Process

Pursuant to the requirements of Prop 218 the District provided property owners and customers-of-record a written notice at least 45 days in advance of the public hearing. The analysis, justification and proposed ordinance were made available in the District’s web site and were available at the Customer Service counter. In addition, a Notice of Public Hearing and Ordinance Summary were published in the Inland Valley Daily Bulletin in accordance with the Water Code. Staff has implemented the following timeline that meets Prop 218 requirements:

| <u>Date</u> | <u>Action</u> |
|-------------|--|
| 08/08/2023 | Staff presentation to the full Board of Directors for consideration and setting of Public Hearing. |
| 08/09/2023 | Protest notice mailed to property owners and customers-of-record |
| 09/26/2023 | Public Hearing and consideration of any protests |
| 10/01/2023 | Effective date for CVWD Recycled Water Rates and IEUA Recycled Water Pass-Through Rates |

Alignment with Strategic Goals

Key elements of the District’s vision are to maintain high quality recycled water, provide excellent customer service, and maintain accountability and financial transparency while practicing good stewardship of financial resources.

Fiscal Impact

The total of recycled water sales and meter charges for the five fiscal years covered by this study is \$9,122,164 while the total of related operating expenses is \$7,671,382. The debt service during the same period is \$703,711, of which \$208,759 is for repayment of third-party loan and any remaining funds will be used for replenishment of the Operating Reserve.

Recommendation

Staff recommends that the Board of Directors adopt Ordinance No. 2023-9-1 to implement adjustments to CVWD Recycled Water Rates and IEUA Recycled Water Pass-Through Rates and charges as documented in the 2023 Recycled Water Cost of Service Rate Study for the period starting October 1, 2023 and ending on June 30, 2029.

September 26, 2023

Public Hearing - Proposed CVWD Local Recycled Water Rates, IEUA Pass-Through Rates FY 2024 – 2029

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Attachments: Ordinance No. 2023-9-1
Recycled Water Cost of Service Rate Study Fiscal Years 2024-2029
PowerPoint Presentation

Submitted by: Chad Brantley, Director of Finance and Technology Services

Prepared by: Agnes Boros, Finance Manager

ORDINANCE NO. 2023-9-1

**AN ORDINANCE OF THE CUCAMONGA VALLEY
WATER DISTRICT OF SAN BERNARDINO COUNTY,
CALIFORNIA, ESTABLISHING RATES AND CHARGES
FOR SERVICE OF RECYCLED WATER WITHIN THE
DISTRICT**

WHEREAS, the Cucamonga Valley Water District (the “District”) is organized and operates pursuant to the County Water District Law, Division 12 commencing with Section 30000 of the California Water Code; and

WHEREAS, the District is authorized to fix and collect charges for the provision of recycled water service pursuant to Water Code Section 31007; and

WHEREAS, the rate structure for District’s Recycled Water Charges is comprised of two components: (1) a fixed monthly service charge (the “Meter Service Charge”) that is determined on the basis of the size of the meter serving the property; and (2) a commodity charge (the “Recycled Water Commodity Charge”) that is determined on the basis of the amount of recycled water delivered to a property; and

WHEREAS, revenues from the collection of the District’s Recycled Water Commodity Charge and Monthly Service Charge are used to recover the District’s costs of providing recycled water service; and

WHEREAS, the District purchases wholesale recycled water from the Inland Empire Utilities Agency (“IEUA”); and

WHEREAS, in developing its rates, the District included projected increases in these costs as part of its long-range financial plan; and

WHEREAS, to ensure that there are sufficient revenues to provide recycled water services to our customers, the District desires to authorize for a five-year period to annually pass through to customers: (1) any increases in the rates for wholesale recycled water and any other charges that IEUA imposes on the District that are greater than those projected in the District’s long-range financial plan (a “Pass-Through Adjustment”). Any Pass-Through Adjustment will only impact the rates of the Commodity Charge set forth in this Ordinance; and

WHEREAS, the annual Pass-Through Adjustments are proposed to be implemented each fiscal year beginning October 1, 2023, and adjusted each fiscal year thereafter, through and including fiscal year commencing July 1, 2028; and

WHEREAS, the District has determined that, due to the fiscal impacts of increasing costs for wholesale recycled water purchases, administration, operation, maintenance and improvements of the District’s recycled water system, increases to the rates of the Meter Service Charge and Recycled Commodity Charge are necessary to recover its costs of providing recycled water service; and

WHEREAS, there has been presented to the District Board of Director's proposed rate increases to the recycled water service charges that are designed to proportionately allocate the cost of providing recycled water service to the District's customers, all of which are more fully set forth herein; and

WHEREAS, during the week of August 9, 2023, in accordance with the provisions of Article XIII D, Section 6 of the California Constitution, District staff mailed notices of a public hearing and the proposed increases in the Monthly Recycled Water Meter Service Charge and the Recycled Water Commodity Rate. Such notices were provided to the affected property owners not less than 45 days prior to the public hearing on the proposed establishment of the rates and charges as set forth herein; and

WHEREAS, in accordance with Water Code Section 31027(b)(1), at least 5 days before the public hearing, a summary of this Ordinance was published in the Inland Valley Daily Bulletin, a newspaper of general circulation, and a certified copy of the full text of this Ordinance was posted in the District's offices; and

WHEREAS, the Board conducted a public hearing on September 26, 2023 at 5:00 p.m. at 10440 Ashford Street, Rancho Cucamonga, CA 91730-2799 in order to receive oral and written testimony regarding this Ordinance. Said date and time were not less than forty five (45) days after the mailing of the notice as set forth above; and

WHEREAS, at the conclusion of the public hearing, written protests against the proposed rate increases were not presented by a majority of record owners of parcels upon which the proposed Recycled Water Charges are proposed to be imposed and tenants directly responsible for the payment of Recycled Water Charges (i.e., a customer of record); and

WHEREAS, it is deemed to be in the best interests of the District to adopt the rate increases due to the fiscal impacts referenced above.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE CUCAMONGA VALLEY WATER DISTRICT DOES HEREBY ORDAIN AS FOLLOWS:

INCORPORATION OF RECITALS

Section 1 All of the foregoing Recitals are true and correct and the Board so finds and determines. The Recitals set forth above are incorporated herein, are made findings and determinations of the Board, and are made an operative part of this Ordinance.

Section 2 The Board finds that the administration, operation, maintenance and improvements of the District recycled water system, which are to be funded by the increased recycled water service rates and charges set forth herein, are necessary to maintain service within the District's existing service area. The Board further finds that the administration, operation, maintenance and improvements of the District's recycled water system, to be funded by the increased recycled water service rates and charges, will not expand the District's system. The District further finds that the adoption of the rates and charges is necessary and reasonable to fund the administration, operation, maintenance and

improvements of the District recycled water system. Based on these findings, the Board determines that the adoption of the rates and charges established by this Ordinance are exempt from the requirements of the California Environmental Quality Act pursuant to section 21080(b)(8) of the Public Resources Code and section 15273(a) of the State CEQA Guidelines.

Section 3 The Board conducted a public hearing on September 26, 2023 at 5:00 pm at 10440 Ashford Street, Rancho Cucamonga, CA 91730 in order to receive oral and written testimony regarding this Ordinance. Said date and time were not less than forty five (45) days after the mailing of the notice as set forth above.

Section 4 The Board hereby finds that written protests against the recycled water service rates and charges set forth herein were not presented by a majority of owners of the identified parcels upon which the rates and charges are to be imposed and therefore, the Board is authorized to impose the increased recycled water service rates and charges as set forth herein.

Section 5 The District hereby adopts the following increased recycled water service rates and charges. Said rates and charges shall be increased incrementally over the next 5 years through rate increases which shall go into effect automatically and which shall not include any requirement for any further action or approval by the Board of Directors or District staff. Except as specifically set forth herein, no other rates or charges set forth shall be impacted by this Ordinance.

(a) Monthly Meter Service Charge. The Monthly Service Charge will be increased as provided in the amended Part 2(a) of Chapter 4.16.110 of Title 4 of the District code attached hereto. Said rate increases and their respective effective dates are further described as follows:

| Meter Size | Effective 10/01/2023 | Effective 07/01/2024 | Effective 07/01/2025 | Effective 07/01/2026 | Effective 07/01/2027 | Effective 07/01/2028 |
|------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 1-inch | \$ 13.66 | \$ 14.07 | \$ 14.50 | \$ 14.93 | \$ 15.38 | \$ 15.84 |
| 1.5-inch | 27.13 | 27.94 | 28.78 | 29.65 | 30.54 | 31.45 |
| 2-inch | 43.44 | 44.75 | 46.09 | 47.47 | 48.89 | 50.36 |
| 3-inch | 61.86 | 63.71 | 65.63 | 67.59 | 69.62 | 71.71 |
| 4-inch | 84.78 | 87.32 | 89.94 | 92.64 | 95.42 | 98.28 |
| 6-inch | 114.12 | 117.55 | 121.07 | 124.70 | 128.45 | 132.30 |
| 8-inch | 119.55 | 123.13 | 126.83 | 130.63 | 134.55 | 138.59 |
| 10-inch | 416.05 | 428.53 | 441.38 | 454.62 | 468.26 | 482.31 |

(b) Commodity Rate. The Recycled Water Commodity Rate shall be adjusted incrementally over the next 5 years through automatic annual rate increases as indicated in the amended Part 2(b) of Chapter 4.16.110 of Title 4 of the District code. Said rate increases and their respective effective dates are further described as follows:

| | Effective 10/01/2023 | Effective 07/01/2024 | Effective 07/01/2025 | Effective 07/01/2026 | Effective 07/01/2027 | Effective 07/01/2028 |
|--------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Rate per hcf | \$ 0.83 | \$.85 | \$.88 | \$.91 | \$.94 | \$.97 |

(c) Temporary Water Service Rate. The Temporary Recycled Water Service Rate (“Construction Water”) shall be adjusted as indicated in the amended Part 2(c) of Chapter 4.16.110 of Title 4 of the District code attached hereto. Said rate increases and their respective effective dates are further described as follows:

| | Effective 10/01/2023 | Effective 07/01/2024 | Effective 07/01/2025 | Effective 07/01/2026 | Effective 07/01/2027 | Effective 07/01/2028 |
|--------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Rate per hcf | \$ 0.83 | \$.85 | \$.88 | \$.91 | \$.94 | \$.97 |

(d) Pass-Through Adjustments. The Board hereby authorizes, for a five-year period, the imposition of Monthly Meter Service Charge Pass-Through Rates. Said Pass-Through rate adjustments and their respective effective dates are further described as follows:

| Meter Size | Effective 10/01/2023 | Effective 07/01/2024 | Effective 07/01/2025 | Effective 07/01/2026 | Effective 07/01/2027 | Effective 07/01/2028 |
|-----------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| 1-inch | \$ 19.72 | TBD | TBD | TBD | TBD | TBD |
| 1.5-inch | 39.44 | TBD | TBD | TBD | TBD | TBD |
| 2-inch | 63.10 | TBD | TBD | TBD | TBD | TBD |
| 3-inch | 138.03 | TBD | TBD | TBD | TBD | TBD |
| 4-inch | 248.46 | TBD | TBD | TBD | TBD | TBD |
| 6-inch | 552.13 | TBD | TBD | TBD | TBD | TBD |
| 8-inch | 946.51 | TBD | TBD | TBD | TBD | TBD |
| 10-inch | 1,183.14 | TBD | TBD | TBD | TBD | TBD |

Pass-Through Commodity rate adjustments and their respective effective dates are further described as follows:

| | Effective 10/01/2023 | Effective 07/01/2024 | Effective 07/01/2025 | Effective 07/01/2026 | Effective 07/01/2027 | Effective 07/01/2028 |
|--------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Rate per hcf | \$ 1.17 | \$ 1.07 | TBD | TBD | TBD | TBD |

Pass-Through Adjustments will be imposed commencing October 1, 2023, and July 1 of each fiscal year thereafter, through and including the fiscal year commencing July 1, 2028. A Pass-Through Adjustment will impact both the rates of the commodity charge and the monthly service charge as set forth in this Ordinance. Provided, however, that any increase in the rates for wholesale recycled water and any other charges IEUA imposes on the District that are greater than those projected in the Recycled Water Rate Study (“each a Pass-Through Adjustment”); any increase in the rates of the commodity charge as a result of any Pass-Through Adjustment shall not exceed 40% per year; and in no event shall such rates be increased as a result of a Pass-Through Adjustment by more than the cost of providing recycled water service.

Prior to implementing any such future rate increase resulting from a Pass-Through Adjustment, the District General Manager is hereby directed and shall provide written notice of any such rate increase to District customers not less than 30 days prior to the effective date of the rate

increase. Any such notice may be provided in the regular billing statements of the District recycled water customers. In the event that an increase from a Pass-Through Adjustment is implemented in accordance with this Ordinance, the District General Manager, or his authorized designee, is hereby directed and shall revise the schedule of rates and charges set forth in Part D of Chapter 4.16.110 of Title 4 of the District Code to reflect the rate then in effect as a result of any increase resulting from a Pass-Through Adjustment.

Section 6 All ordinances, resolutions, or administrative actions by the Board of Directors, or parts thereof that are inconsistent with any provision of this Ordinance are hereby superseded only to the extent of such inconsistency. Except as otherwise specifically set forth herein, all provisions of Title 4 of the District Code, including but not limited to Chapter 4.16.110, shall remain in full force and effect.

Section 7 The President of the Board of Directors shall sign this Ordinance and the Secretary of the Board of Directors shall attest thereto, and this Ordinance shall be in full force and effect immediately upon adoption. Within 15 days after adoption of this Ordinance, a summary of the Ordinance shall be published with the names of those directors voting for and against this Ordinance and a certified copy of the full text of this Ordinance, along with the names of those Directors voting for and against this Ordinance, shall be posted in the District offices.

Section 8 This Ordinance shall take effect immediately upon its adoption.

Section 9 If any section, subsection, clause or phrase in this Ordinance is for any reason held invalid, the validity of the remainder of this Ordinance shall not be affected thereby. The Board hereby declares that it would have passed this Ordinance and each section, subsection, sentence, clause, or phrase thereof, irrespective of the fact that one or more sections, subsections, sentences, clauses or phrases or the application thereof be held invalid.

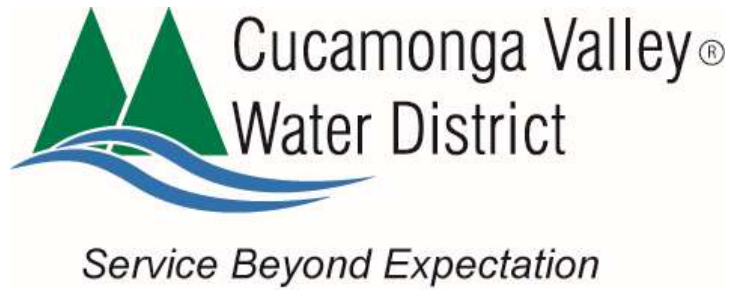
ADOPTED this 26th day of September 2023, by the Board of Directors of the Cucamonga Valley Water District.

CUCAMONGA VALLEY WATER DISTRICT

Randall Reed, President
Board of Directors

ATTEST:

John Bosler
Secretary of the Board of Directors



Recycled Water Cost of Service Rate Study

For Fiscal Years

2024-2029

Prepared by:
Finance Division

Chad Brantley, CPA
Director of Finance and Technology Services

Agnes Boros, CPA
Finance Manager

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BACKGROUND

The Cucamonga Valley Water District (the “District” or “CVWD”) is an independent special district that operates under the authority of Division 12 of the California Water Code. The District was incorporated on March 25, 1955, and is governed by a five-member, elected Board of Directors. The District provides water, wastewater, and recycled water services to a population of approximately 190,000 within its 46 square mile service area, which is located in the western area of San Bernardino County, California. The District encompasses the majority of the community of Rancho Cucamonga and portions of the cities of Fontana, Ontario, Upland, and some of the unincorporated areas of San Bernardino County.

The District’s recycled water system consists of 7.2 miles of distribution lines, 134 meters of various sizes, and the service lines associated with the meters. The District operates on a fiscal year basis, which starts July 1 continuing through June 30 of the following year.

PURPOSE

The purpose of this report is to summarize findings resulting from the Recycled Water Cost of Service Rate Study performed by the Finance Division of CVWD. As part of this rate study, CVWD first projected revenues and expenses, then developed rates that meet the net revenue requirements. This report summarizes the results of this cost of service and rate study and recommends new recycled water rates.

OVERVIEW

CVWD purchases recycled water from the Inland Empire Utilities Agency (IEUA). Recycled water is treated wastewater that is used for non-drinking purposes such as landscape irrigation and industrial processes. Using recycled water allows CVWD to reduce reliance on imported water. Recycled water costs less for its customers and helps to save potable (drinking) water for home and business uses. Combined with water conservation, recycled water provides a reliable water source to customers during times of drought. Recycled water is reliable, sustainable, and is a renewable resource.

To protect the public's health and safety, the Regional Water Quality Control Board and state and local health departments strictly monitor recycled water. These agencies set precautionary requirements to protect workers and the public. Pipeline systems and valves are color coded purple and cross connections with domestic water supply systems are prevented through strict State specifications.

COST OF SERVICE AND RATE STUDY RESULTS

Recycled Water System Usage and Customer Base

In Fiscal Year (FY) 2022, the District delivered approximately 1,154 acre feet (AF) to approximately 142 customers. The District charged a rate of \$1.94 per hundred cubic feet (HCF) during Fiscal Year 2023.

The following table shows historical and projected recycled water usage and customer base from FY2020 through FY2029:

Table 1
Recycled Water Consumption & Customer Count
Fiscal Years

| | Historical | | | Projected | | | | | | |
|------------------|------------|-------|-------|-----------|-------|-------|-------|-------|-------|-------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Water Sales (AF) | 1,038 | 1,222 | 1,154 | 1,070 | 1,100 | 1,120 | 1,140 | 1,160 | 1,180 | 1,200 |
| Customers | 135 | 139 | 142 | 143 | 144 | 145 | 146 | 147 | 148 | 149 |

The projections shown above in Table 1 are based on conservative estimates that consider the state-wide directive to eliminate the use of ornamental turf for street medians and commercial frontage areas. Many of the utility customers for recycled water currently irrigate at least some ornamental turf which may be converted to drought tolerant plants and trees.

Recycled Water System Expenses

In order to provide recycled water, the District incurs costs to purchase the recycled water as well as pay for Operating and Maintenance (O&M) costs. O&M costs are related to customer service, meter reading, billing, inspection, distribution, and maintenance.

IEUA implemented a change to the fee structure in FY2023 with the introduction of the Fixed Cost Recovery charge that is separated out from the volumetric charge. IEUA will continue to impose a volumetric charge for purchasing recycled water for direct use by irrigation and industrial customers.

The District has annual debt service payments related to the recycled water utility fund. A low interest rate loan was received through IEUA from the State of California Revolving Fund for the purpose of constructing recycled water infrastructure. The District's potable water utility fund provided initial funding and start-up costs to pay for capital assets of the recycled water fund through an inter-fund loan. The recycled water utility fund has reimbursed the potable water utility fund in full. In recent years the decline in sales resulted in a deficit for the recycled water

Cucamonga Valley Water District

Recycled Water Cost of Service and Rate Study FY2024-2029

fund. Prudent financial planning requires that the recycled water fund build and maintain various minimum financial reserves to ensure ongoing operations. Since the potable water fund has been repaid for the initial startup costs, the recycled water fund will begin to set aside financial reserves with the goal of meeting minimum financial reserve levels (see CVWD Administrative Policy No. 1.3 – Reserve and Financial Benchmark).

The following table shows recycled water expenses budgeted for 2023, estimated actual for 2023, and projected amounts for FY2024 through FY2029:

Table 2
Recycled Water Expenses
Fiscal Years

| | Budgeted | Est. Actual | Projected | | | | | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2023 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Operating Expenses | | | | | | | | |
| Source of Supply-IEUA | | | | | | | | |
| Volumetric Pass-Through | \$ 595,093 | \$ 567,094 | \$ 576,300 | \$ 534,750 | \$ 570,960 | \$ 609,280 | \$ 650,980 | \$ 694,950 |
| IEUA Fixed Cost Recovery | | | | | | | | |
| Charge Pass-Through | - | 45,289 | 108,849 | 228,396 | 239,816 | 251,807 | 264,397 | 277,617 |
| Transmission/Distribution | 132,388 | 128,270 | 139,742 | 148,125 | 155,531 | 163,307 | 171,471 | 180,045 |
| Customer Accounts | 117,220 | 85,265 | 93,036 | 98,618 | 103,548 | 108,727 | 114,163 | 119,870 |
| General and Administration | 155,950 | 156,398 | 157,751 | 167,818 | 172,891 | 183,288 | 188,624 | 196,725 |
| Total Operating Expenses | 1,000,651 | 982,316 | 1,075,678 | 1,177,707 | 1,242,746 | 1,316,409 | 1,389,635 | 1,469,207 |
| Non-Operating Expenses | | | | | | | | |
| Debt Principal and Interest | 34,793 | 34,793 | 129,745 | 134,793 | 134,794 | 134,793 | 134,793 | 34,793 |
| Capital and Liquidity Reserves | - | - | 55,300 | 46,300 | 54,300 | 56,300 | 64,300 | 169,000 |
| Capital Investment/Reserve | 125,000 | - | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Total Non-Operating Expenses | 159,793 | 34,793 | 235,045 | 231,093 | 239,094 | 241,093 | 249,093 | 253,793 |
| Total Expenses | \$ 1,160,444 | \$ 1,017,109 | \$ 1,310,723 | \$ 1,408,800 | \$ 1,481,840 | \$ 1,557,502 | \$ 1,638,728 | \$ 1,723,000 |

The projections shown above in Table 2 are based on the inflation factors listed in Table 5 of this report. These factors are applied at the detail account level, not directly to the total amounts shown in this table.

IEUA Volumetric Costs

The Source of Supply-IEUA Volumetric Pass-Through line item in Table 2 represents the cost of the recycled water that is purchased from IEUA fiscal year. IEUA sets their recycled water rates on a fiscal year basis and charges the District by the acre foot. The cost per acre foot used in the calculation for fiscal years 2024 and 2025 have been adopted by IEUA and will be effective July 1, 2023 and July 1, 2024 respectively. Due to this cost being determined by IEUA, CVWD will treat this cost as a pass-through rate. For the years 2026 through 2029 no estimates of the cost have been provided by the IEUA. As such, this study recommends that CVWD adopt pass-through authorization under Government Code section 53756, in order to pass through the actual rate upon adoption by IEUA. CVWD will notify customers of the rate increase at least 30 in advance of its implementation.

This cost of purchasing recycled water is one of the most significant operating expenses of the recycled water utility. The following table shows the historical, adopted and cost per acre foot of recycled water, showing future years as TBD (to-be-determined). Note that rates will decrease commencing fiscal year 2023 as a result of IEUA’s new Fixed Cost Recovery Charge:

Cucamonga Valley Water District

Recycled Water Cost of Service and Rate Study FY2024-2029

Table 3
Cost to Purchase Recycled Water from IEUA - Volumetric Rates
Fiscal Years

| | Historical | | | Adopted | | | Future | | | |
|---------------------------|------------|--------|--------|---------|--------|--------|--------|------|------|------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Cost per AF | \$ 490 | \$ 505 | \$ 520 | \$ 516 | \$ 510 | \$ 465 | TBD | TBD | TBD | TBD |
| Year over year % increase | 2% | 3% | 3% | -1% | -1% | -9% | | | | |

IEUA Fixed Charges

In FY2023 IEUA created a Fixed Cost Recovery charge that converted revenues away from the volumetric recycled water charge. The IEUA Fixed Cost Recovery charge is determined annually by IEUA and it is divided among the member agencies based on their recycled water allocation ratio. The recycled water allocation includes direct use of recycled water and groundwater recharge. The portion of the Fixed Cost Recovery charge that is attributable to recycled water direct use allocated to CVWD, is listed as a new Source of Supply expense line item. This cost will be established as a new pass-through charge to CVWD customers, based on proportional meter size. Due to the complexity of the calculation, this amount will be recalculated each year based on prior year’s direct use and groundwater recharge allocated to CVWD and the current number and types of recycled water meters in service at the time. The portion of the Fixed Cost Recovery charge that is attributable to groundwater recharge will not be included in the calculation of the recycled water meter pass-through rate. The Recycled Water direct use share percentage is included in the calculation in Table 4. Table 4 below shows the current approved IEUA Fixed Cost Recovery charges and its allocation to the CVWD recycled water customers.

Table 4
Cost to Purchase Recycled Water from IEUA - Fixed Cost Recovery Charge
Fiscal Years

| | Adopted | | | Future | | | |
|--------------------------------------|-----------------------|------------------------|------------------|--------|------|------|------|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| IEUA-Fixed Cost Recovery | \$1,106,000 | \$2,362,600 | \$4,957,400 | TBD | TBD | TBD | TBD |
| Year over year % increase | | 114% | 110% | | | | |
| CVWD's Regional Share | \$245,049 | \$523,465 | \$1,098,378 | | | | |
| Prior Year Direct Use (AF) | 1,154 | 1,100 | | | | | |
| Prior Year Groundwater Recharge (AF) | 5,090 | 4,190 | | | | | |
| Direct Use Share % | 18% | 21% | | | | | |
| IEUA-Fixed Cost - Direct Use Share | | | | | | | |
| Pass-Through ¹ | \$45,289 ² | \$108,849 ³ | TBD ⁴ | TBD | TBD | TBD | TBD |

¹ CVWD Pass-Through will start in FY2024

² FY2023 Fixed Cost was imposed by IEUA but was not recovered with a CVWD pass-through rate

³ FY2024 will be the first year that CVWD will recover the direct use portion of the Fixed Cost rate imposed by IEUA

⁴ FY2025 Direct Use Share cannot be calculated because IEUA allocates the share of Fixed Costs based on prior year usage.

CVWD Operation & Maintenance Costs

The Operating Expenses other than Source of Supply in Table 2 consist of various costs associated with the maintenance and administration of the system as well as its operations. The

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Recycled Water Cost of Service and Rate Study FY2024-2029

transmission and distribution line item represents expenses that relate to maintenance of the recycled water pipelines. These transmission and distribution expense projections are based on historical cost data associated with maintaining pipelines. The customer accounts line item represents expenses related to billing, payment processing and customer service functions. These customer account expense projections are based on a prorated share of District costs associated with billing and customer service. The general and administrative line item is for salaries and benefits of District staff who monitor, inspect, and maintain the operation of the recycled water system. These general and administrative account expense projections are based on historical data. Table 5 lists the various inflationary assumptions for the major cost drivers based on analysis of historic cost increases.

Table 5
Recycled Water Inflationary Assumptions
Fiscal Years

| Escalation factors | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|-------------------------------|-------|------|------|------|------|------|
| General Inflation | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Wages | 6.0% | 6.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Benefits | 6.0% | 6.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Utilities (excl. Electricity) | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Electricity | 10.0% | 8.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| Capital | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% | 3.0% |

Recycled Water System Rates Calculation

The District utilizes the cost of service approach to setting rates. This cost of service approach includes the cost of providing recycled water only to those customers receiving that service. Conservative and prudent management practices require that the recycled water system generate revenues that will cover the cost of service. There are two primary components to the cost of service: fixed costs and variable costs. District management believes that fixed costs should be covered by fixed rates and variable costs should be covered by variable rates.

Management also believes that rate changes to either fixed or variable charges should be smoothed over several years to avoid large fluctuations in the rates for any given year. This smoothing of rates benefits recycled water rate payers by making bills more predictable. The District uses Operating Reserve revenues to smooth rates.

Fixed Costs

The fixed costs of the recycled water system include the debt service payments and contributions to the fund reserves. The fixed rates that should cover these costs are the flat meter charges. Flat meter charges are calculated based on a ratio that is determined by the meters hydraulic capacity. Larger meters have higher flow capacity ratio and the monthly charge for the meter is increased by the same ratio. The American Water Works Association (AWWA) developed the standard meter ratios. See the table in appendix A for the meter sizes and flow capacity ratios.

The following table shows the projected fixed customer service costs, debt service costs, reserve funding, and the projected fixed meter charges.

Table 6
Recycled Water - Projected Fixed Costs
Fiscal Years

| | Budgeted | Est. Actual | Projected | | | | | |
|-----------------------------------|-------------|-------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2023 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Customer accounts | \$ 117,220 | \$ 85,265 | \$ 93,036 | \$ 98,618 | \$ 103,548 | \$ 108,727 | \$ 114,163 | \$ 119,870 |
| Debt Service (Principal+Interest) | 34,793 | 34,793 | 129,745 | 134,793 | 134,794 | 134,793 | 134,793 | 34,793 |
| Operating and Capital Reserves | 10,788 | 51,576 | 55,300 | 46,300 | 54,300 | 56,300 | 64,300 | 169,000 |
| Less: | | | | | | | | |
| CVWD Meter Charges Revenue | 162,801 | 171,634 | 63,471 | 65,912 | 68,442 | 71,065 | 73,784 | 76,602 |
| Net Cost (Surplus) | \$ - | \$ - | \$ 214,610 | \$ 213,799 | \$ 224,200 | \$ 228,755 | \$ 239,472 | \$ 247,061 |

As shown in Table 6, there is a drop in Meter Charge revenues in FY2024. This change is due to the introduction of the new IEUA Fixed Cost Recovery charge. In the first year of this rate series, starting October 1, 2023, CVWD’s Meter Charge is reduced by this new pass-through charge. In future years, starting July 1st of each fiscal year from FY2025 through FY2029, CVWD’s Meter Charge will be adjusted 3% annually, while the IEUA Fixed Cost Recovery will be determined by IEUA and will be passed through to CVWD customers (see table 4). Annual adjustments of 3% were determined to be necessary in order to cover operating expenses and provide minimal funding to the Capital Reserve and Operating Reserve of the recycled water fund. Funding these reserves in small increments spread out over the 5-year timeframe of this study will smooth out

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the year-to-year impact of rate adjustments to the rate payers. The difference between the total meter charges and the fixed costs must be provided by the commodity charges (see Tables 7A & 7B). The proposed combined CVWD Meter Charge and IEUA Fixed Cost Recovery charge as of October 1, 2023, will be equal to the current CVWD Meter Charge effective July 1, 2023. For more detail on the meter rates for each meter size, see Appendix B.

Variable Costs

The variable costs of the recycled water system include the cost of purchasing wholesale recycled water from IEUA, other operating costs (e.g. inspection, operations and maintenance, and other related costs), and capital replacement costs. The recycled water commodity charge is designed to recover these variable costs of providing service only to those customers receiving that service.

The following table shows the projected net revenue requirement consisting of variable costs and the remaining fixed costs of the recycled water system and the related consumption. This is then used to calculate the necessary commodity charges in each fiscal year.

Table 7A
Commodity Charge Revenue Requirement Calculation
Fiscal Years

| | Budgeted | Est. Actual | Projected | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2023 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| IEUA Volumetric Charge ¹ | \$ 595,093 | \$ 612,383 | N/A | N/A | N/A | N/A | N/A | N/A |
| Transmission/Distribution | 132,388 | 128,270 | \$ 139,742 | \$ 148,125 | \$ 155,531 | \$ 163,307 | \$ 171,471 | \$ 180,045 |
| General and Administration | 155,950 | 156,398 | 157,751 | 167,818 | 172,891 | 183,288 | 188,624 | 196,725 |
| Fixed Cost Difference (Table 6) | - | - | 214,610 | 213,799 | 224,200 | 228,755 | 239,472 | 247,061 |
| Capital Project Funding | 125,000 | - | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Less: | | | | | | | | |
| Developer Fees | 95,000 | 27,233 | 153,878 | 153,878 | 153,878 | 153,878 | 153,878 | 153,878 |
| Construction Water Charges | 4,128 | 24,523 | 10,846 | 11,108 | 11,500 | 11,892 | 12,284 | 12,676 |
| Recycled Water Services | 500 | 218 | 300 | 300 | 300 | 300 | 300 | 300 |
| Net Allocation to Operating Reserve | (\$20,767) | (83,664) | (11,471) | (11,344) | (11,552) | (12,434) | (12,350) | (12,350) |
| Revenue Requirement | 929,570 | 928,742 | 408,550 | 425,800 | 448,496 | 471,714 | 495,455 | 519,327 |
| Units of Water Consumption (HCF) | 479,160 | 478,733 | 492,228 | 500,940 | 509,652 | 518,364 | 527,076 | 535,788 |
| Recycled Water Commodity Charge (per HCF) | \$1.94 | \$1.94 | \$0.83 | \$0.85 | \$0.88 | \$0.91 | \$0.94 | \$0.97 |

¹ Pass-Through from FY2024 to FY2029 is not applicable to the CVWD Recycled Water Commodity Charge because the IEUA volumetric cost is recovered through the IEUA Commodity Charge as shown in Table 7B below.

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Recycled Water Cost of Service and Rate Study FY2024-2029

Table 7B
IEUA Commodity Charge Calculation
Fiscal Years

| | Budgeted | Est. Actual | Projected | | | | | |
|--|------------|-------------|---------------|---------------|------------|------------|------------|------------|
| | 2023 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Units of Water Consumption (HCF) | 479,160 | 478,733 | 492,228 | 500,940 | 509,652 | 518,364 | 527,076 | 535,788 |
| Units of Water Consumption (AF) ¹ | 1,100 | 1,099 | 1,130 | 1,150 | 1,170 | 1,190 | 1,210 | 1,230 |
| IEUA Volumetric Pass-Through Unit Cost (per AF) | \$ 516 | \$ 516 | \$ 510 | \$ 465 | TBD | TBD | TBD | TBD |
| IEUA Volumetric Pass-Through Total Cost | N/A | N/A | \$ 576,300 | \$ 534,750 | TBD | TBD | TBD | TBD |
| Recycled Water Commodity Charge per HCF (Unit Cost per HCF) | N/A | N/A | \$1.17 | \$1.07 | TBD | TBD | TBD | TBD |

¹ 1 AF = 435.6 HCF

As shown in Table 7A and 7B, the direct cost of purchasing recycled water from IEUA will be separated out from CVWD’s commodity charge starting October 1, 2023. At the time of the rate study, IEUA had only adopted rates for FY2024 and FY2025. To eliminate the uncertainty of estimating future rates, this portion of the commodity charge will be a Pass-Through Rate. This IEUA pass-through rate will be effective July 1st of each fiscal year from FY2025 through FY2029. The combined CVWD & IEUA pass-through Commodity Rate proposed for October 1, 2023, will be equal to the current CVWD Commodity Rate effective July 1, 2023. Recycled water customers will be notified of future rate changes no later than 30 days before those rates become effective. For the proposed annual Commodity Rate charges, see Appendix B.

The introduction of the IEUA Pass-Through Commodity rate will reduce the commodity charges recovered by the District. These charges must meet the annual projected revenue requirements. Despite the historically high inflation estimates (see Table 5) the District is only increasing this rate by 3% per year during the 5-year period from FY2025 – FY2029. The allocation of Operating Reserves will be utilized to stabilize rates over the 5-year period. The remaining fixed costs that are not covered by fixed monthly meter charges are included (see Table 6). The capital investment will be used to fund major repairs or replacements of the recycled water system without the need to drastically raise rates in future years. If the excess operating income is generated or if capital improvement funds are not needed, they will be allocated to reserves.

Recycled Water System Revenues

The District charges recycled water customer’s two types of fees for service. The meter service charge is a flat fee on each monthly bill and is based upon the size of the meter. The volumetric charge is based upon the water consumption and measured in hundreds of cubic feet (HCF).

Based on the number of customers and their water usage in Table 1 and charges in Tables 6 and 7, the District is able to calculate projected total revenues for the Water Sales and the Meter Charges during each fiscal year. The Developer Fees are based on the assumption that the District will add one new 2” meter to the recycled water system each year.

IEUA Volumetric and Fixed Cost recovery charges are pass-through charges, meaning that only the cost billed by IEUA to the District will be charged to CVWD customers.

The following table shows recycled water revenues budgeted for FY2023, estimated actual for FY2023, and projected from FY2024 through FY2029:

Table 8
Recycled Water Revenues
Fiscal Years

| Revenue | Budgeted | Est. Actual | Projected | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| | 2023 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| CVWD Recycled Water Sales | \$ 929,570 | \$ 904,218 | \$ 397,703 | \$ 414,691 | \$ 436,994 | \$ 459,819 | \$ 483,168 | \$ 507,038 |
| IEUA Pass-through Volumetric Charge Revenue* | - | - | 576,300 | 534,750 | TBD | TBD | TBD | TBD |
| CVWD Meter Charges | 162,801 | 171,634 | 63,471 | 65,912 | 68,442 | 71,065 | 73,784 | 76,602 |
| IEUA Pass-Through Fixed Cost Charge Revenue* | - | - | 108,849 | TBD | TBD | TBD | TBD | TBD |
| Construction Water Charges | 4,128 | 24,523 | 10,846 | 11,108 | 11,500 | 11,892 | 12,284 | 12,676 |
| Developer Fees | 95,000 | 27,233 | 153,878 | 153,878 | 153,878 | 153,878 | 153,878 | 153,878 |
| Recycled Water Services | 500 | 218 | 300 | 300 | 300 | 300 | 300 | 300 |
| Total Revenues | \$1,191,999 | \$1,127,826 | \$1,311,347 | \$1,180,639 | \$ 671,114 | \$ 696,954 | \$ 723,413 | \$ 750,494 |

*IEUA Pass-Through: Revenues = Expenses

APPENDIX A – METER SIZES AND CAPACITIES

The following table shows the American Water Works Association standard meter ratios that are derived from the safe maximum flow for each meter size:

Table A
American Water Works Association Standard Meter Ratios

| Meter Size | Safe Maximum Operating Capacity (gpm) | AWWA Meter Ratio |
|------------|---------------------------------------|------------------|
| 3/4 inch | 30 | 1.00 |
| 1 inch | 50 | 1.67 |
| 1 1/2 inch | 100 | 3.33 |
| 2 inch | 160 | 5.33 |
| 3 inch | 300 | 10.00 |
| 4 inch | 500 | 16.67 |
| 6 inch | 1,000 | 33.33 |
| 8 inch | 1,600 | 53.33 |
| 10 inch | 2,400 | 80.00 |

Note: According to American Water Works Association Manual of Water Supply Practices M1, customer-related costs for meters and services may be properly distributed among customer classes by recognizing factors that are generally responsible for those costs being incurred. One method for distributing meter service costs to customer classes is in proportion to the investment in meters and services installed, based on the number of equivalent meters. Distribution of customer costs by equivalent meter and service ratios recognizes that meter and service costs vary, depending on considerations such as size and capacity of the meter.

APPENDIX B – RATE DETAIL

The following table shows historical, current and proposed recycled water meter rates and commodity charges from FY2021 through FY2029:

Table B
Recycled Water Meter Charges and Commodity Rates
Rate Effective Date

| Meter Size | Historical | | | Current | Proposed | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|------------|------------|------------|------------|
| | 7/1/2020 | 7/1/2021 | 7/1/2022 | 7/1/2023 | 10/1/2023 | 7/1/2024 | 7/1/2025 | 7/1/2026 | 7/1/2027 | 7/1/2028 |
| Monthly CVWD Meter Rates: | | | | | | | | | | |
| 1" Meter | \$ 30.55 | \$ 31.47 | \$ 32.41 | \$ 33.38 | \$ 13.66 | \$ 14.07 | \$ 14.50 | \$ 14.93 | \$ 15.38 | \$ 15.84 |
| 1.5" Meter | 60.92 | 62.74 | 64.63 | 66.57 | 27.13 | 27.94 | 28.78 | 29.65 | 30.54 | 31.45 |
| 2" Meter | 97.50 | 100.43 | 103.44 | 106.54 | 43.44 | 44.75 | 46.09 | 47.47 | 48.89 | 50.36 |
| 3" Meter | 182.93 | 188.42 | 194.07 | 199.90 | 61.86 | 63.71 | 65.63 | 67.59 | 69.62 | 71.71 |
| 4" Meter | 304.95 | 314.10 | 323.53 | 333.23 | 84.78 | 87.32 | 89.94 | 92.64 | 95.42 | 98.28 |
| 6" Meter | 609.72 | 628.01 | 646.85 | 666.26 | 114.12 | 117.55 | 121.07 | 124.70 | 128.45 | 132.30 |
| 8" Meter | 975.59 | 1,004.86 | 1,035.01 | 1,066.06 | 119.55 | 123.13 | 126.83 | 130.63 | 134.55 | 138.59 |
| 10" Meter | 1,463.48 | 1,507.39 | 1,552.61 | 1,599.19 | 416.05 | 428.53 | 441.38 | 454.62 | 468.26 | 482.31 |
| Monthly IEUA Fixed Charge Pass-Through Rates: | | | | | | | | | | |
| 1" Meter | \$ - | \$ - | \$ - | \$ - | \$ 19.72 | TBD | TBD | TBD | TBD | TBD |
| 1.5" Meter | - | - | - | - | 39.44 | TBD | TBD | TBD | TBD | TBD |
| 2" Meter | - | - | - | - | 63.10 | TBD | TBD | TBD | TBD | TBD |
| 3" Meter | - | - | - | - | 138.03 | TBD | TBD | TBD | TBD | TBD |
| 4" Meter | - | - | - | - | 248.46 | TBD | TBD | TBD | TBD | TBD |
| 6" Meter | - | - | - | - | 552.13 | TBD | TBD | TBD | TBD | TBD |
| 8" Meter | - | - | - | - | 946.51 | TBD | TBD | TBD | TBD | TBD |
| 10" Meter | - | - | - | - | 1,183.14 | TBD | TBD | TBD | TBD | TBD |
| Commodity Rate per HCF | | | | | | | | | | |
| CVWD Rate per HCF | \$ 1.83 | \$ 1.88 | \$ 1.94 | \$ 2.00 | \$ 0.83 | \$ 0.85 | \$ 0.88 | \$ 0.91 | \$ 0.94 | \$ 0.97 |
| IEUA Pass-Through Rate | - | - | - | - | 1.17 | 1.07 | TBD | TBD | TBD | TBD |
| Combined Volumetric Rate per HCF | \$ 1.83 | \$ 1.88 | \$ 1.94 | \$ 2.00 | \$ 2.00 | \$ 1.92 | TBD | TBD | TBD | TBD |

APPENDIX C – PROJECTED CASH RESERVE BALANCES

The following table shows projected recycled water utility fund cash reserve balances from FY2023 through FY2029:

Table C
Projected Cash Reserve Balances
Fiscal Years

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|----------------------------------|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Beginning Cash Reserves | | | | | | | |
| Development Fees* | \$ 582,994 | \$ 610,227 | \$ 764,105 | \$ 917,983 | \$ 1,071,861 | \$ 1,225,739 | \$ 1,379,617 |
| Capital Project Reserve | - | - | - | - | 30,000 | 60,000 | 80,000 |
| Operating Reserve | - | - | - | 1,358 | 3,746 | 8,624 | 31,025 |
| Unreserved Fund Balance | (217,531) | (52,131) | (23,216) | - | - | - | - |
| Total Beginning Balance | 365,463 | 558,096 | 740,889 | 919,341 | 1,105,607 | 1,294,363 | 1,490,642 |
| Cash Sources (Uses) | | | | | | | |
| Operating Revenues | 1,100,592 | 1,157,469 | 1,255,157 | 1,328,012 | 1,404,163 | 1,484,912 | 1,569,183 |
| Operating Expenses | (982,316) | (1,075,678) | (1,177,707) | (1,242,746) | (1,316,409) | (1,389,635) | (1,469,207) |
| Debt Principal+Interest | (34,793) | (34,793) | (34,793) | (34,794) | (34,793) | (34,793) | (34,793) |
| Development Fees | 27,233 | 153,878 | 153,878 | 153,878 | 153,878 | 153,878 | 153,878 |
| Capital Improvements | - | (50,000) | (50,000) | (50,000) | (50,000) | (50,000) | (50,000) |
| Net Investment in Capital Assets | 81,917 | 31,917 | 31,917 | 31,916 | 31,917 | 31,917 | 31,917 |
| Net Sources (Uses) | 192,633 | 182,793 | 178,452 | 186,266 | 188,756 | 196,279 | 200,978 |
| Ending Cash Reserves | | | | | | | |
| Development Fees* | 610,227 | 764,105 | 917,983 | 1,071,861 | 1,225,739 | 1,379,617 | 1,533,495 |
| Capital Project Reserve | - | - | - | 30,000 | 60,000 | 80,000 | 80,000 |
| Operating Reserve | - | - | 1,358 | 3,746 | 8,624 | 31,025 | 78,125 |
| Unreserved Fund Balance | (52,131) | (23,216) | - | - | - | - | - |
| Total Ending Cash Balance | \$ 558,096 | \$ 740,889 | \$ 919,341 | \$ 1,105,607 | \$ 1,294,363 | \$ 1,490,642 | \$ 1,691,620 |

*Development Fee Reserves are restricted in accordance with law.

Public Hearing – Proposed Recycled Water Rate Changes Fiscal Years 2024 through 2029

Presented to: Board of Directors
September 26, 2023

Background

- Current rates effective through June 30, 2024
- Cost of Service Study and Analysis performed by internal staff
- IEUA Fixed Cost Recovery charge starting in FY2023
 - Requires the use of Pass-Through rates
- New Rate Structure proposed starting October 1, 2023
 - NO RATE INCREASE compared to July 1, 2023 rates
 - Modest annual 3% CVWD rate increase for 5-year cycle starting July 1, 2024
- IEUA rates unknown for future years – Pass-Through Rates have been designed
 - Meter charge / fixed costs – CVWD and IEUA components
 - Commodity charge / variable operating and capital costs – CVWD and IEUA portions
- Reserve funding planned to achieve minimum levels



Customer Base and Usage

- Cost study considers system size and consumption
- Projected growth anticipated to slow
 - One new account per year
 - Account conversion options slow down
 - No new development is expected



| Fiscal Year | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Water Sales (AF) | 1,038 | 1,222 | 1,154 | 1,070 | 1,100 | 1,120 | 1,140 | 1,160 | 1,180 | 1,200 |
| Accounts | 135 | 139 | 142 | 143 | 144 | 145 | 146 | 147 | 148 | 149 |

CVWD Meter Charges

- Monthly flat charge based on meter size
- CVWD Fixed costs exceed the meter charges
 - Customer service
 - Debt payments
 - Reserve funding
- 3% annual increase in rates starting July 1, 2024



| Fiscal Year | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total Fixed Costs | \$222,781 | \$233,411 | \$238,342 | \$243,520 | \$248,956 | \$154,663 |
| CVWD Meter Charges | \$63,471 | \$65,912 | \$68,442 | \$71,065 | \$73,784 | \$76,602 |

CVWD Commodity Rate

- Volumetric charge determined by usage
- Variable costs driven by consumption
 - Infrastructure maintenance
 - Capital improvements
- 3% annual increase in rates starting July 1, 2024; moderate increase in usage



| Fiscal Year | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total Variable Costs | \$402,793 | \$412,243 | \$432,722 | \$452,895 | \$474,395 | \$595,770 |
| Consumption (HCF) | 492,228 | 500,940 | 509,652 | 518,364 | 527,076 | 535,788 |
| Proposed CVWD Rate per HCF | \$0.83 | \$0.85 | \$0.88 | \$0.91 | \$0.94 | \$0.97 |

IEUA Meter Charges

- New Fixed Cost recovery charge set by IEUA
- Transition to a Pass-Through rate is recommended
 - Amount IEUA collects is projected to double three years in a row
 - Actual amount allocated to CVWD is unknown until close to effective date each year

Adopted and Proposed Fees and Rates



| Fund | Proposed | | | | | Adopted* | |
|---------------|--|---------------------------------|-------------------------|--------------------------------|------------------------------|--------------------------------|-----------------------------|
| | Wastewater Operations | Wastewater Capital | Fixed Cost Recovery *** | Recycled Water | | One Water Connection Fee (MEU) | Water Resources |
| As of July, 1 | Monthly Sewer (EDU) | Wastewater Connection Fee (EDU) | | Recycled Water Direct Use (AF) | Recycled Water Recharge (AF) | | Meter Equivalent Unit (MEU) |
| FY 2019/20 | \$20.00 | \$6,955 | - | \$490 | \$550 | \$1,684 | \$1.04 |
| FY 2020/21** | \$20.00 | \$6,955 | - | \$490 | \$550 | \$1,684 | \$1.04 |
| FY 2021/22 | \$21.22 | \$7,379 | - | \$520 | \$580 | \$1,787 | \$1.08 |
| FY 2022/23 | \$21.86 | \$7,600 | \$1.11M | \$516 | \$616 | \$1,841 | \$1.10 |
| FY 2023/24 | To be reviewed based on the sewer use evaluation results | | \$2.36M | \$510 | \$660 | \$1,896 | \$1.12 |
| FY 2024/25 | To be reviewed based on the sewer use evaluation results | | \$4.96M | \$465 | \$665 | \$1,953 | \$1.14 |

*One Water Connection Fee and MEU rates for FYs 2020/21 through 2024/25 adopted in July 2020.
 **On May 6, 2020, the Board approved to defer rate increases and maintain the rates unchanged for FY 2020/21.
 *** Fixed cost recovery phased in over 3 years



IEUA Pass – Through Rates

- Recycled Water purchased from IEUA is the most significant cost
 - IEUA sets the price of recycled water
 - IEUA Board recently adopted these rates for FY2024 & FY2025 only
- Not estimating for future years – avoids the need for accumulating large reserves
- New Pass-Through rate components – matches full IEUA cost

| Fiscal Year | 2020 | 2021 | 2022 | 2023* | 2024* | 2025* | 2026 | 2027 | 2028 | 2029 |
|------------------|------|------|------|-------|-------|-------|------|------|------|------|
| IEUA Cost per AF | 490 | 505 | 520 | 516 | 510 | 465 | TBD | TBD | TBD | TBD |
| % Increase | 2% | 3% | 3% | -1% | -1% | -9% | - | - | - | - |

*IEUA introduced Fixed Cost Recovery charge

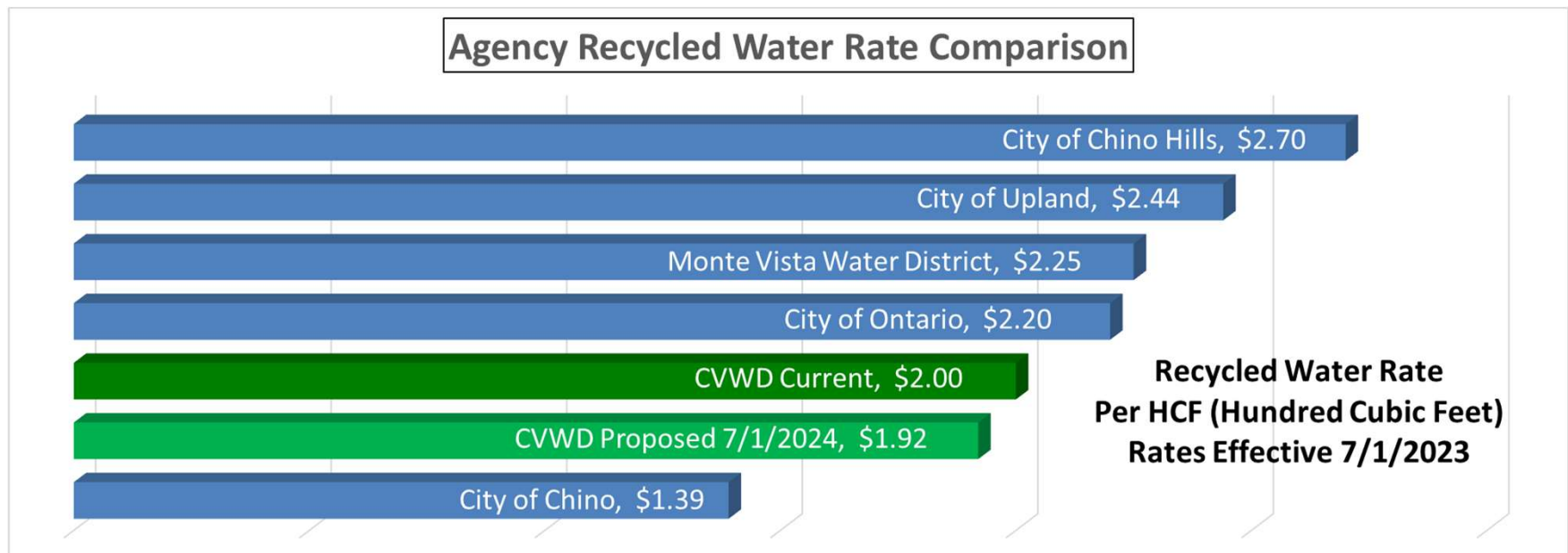
| Fiscal Year | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|--------|--------|------|------|------|------|
| Proposed IEUA Pass-Through Volumetric Charge (HCF) | \$1.17 | \$1.07 | TBD | TBD | TBD | TBD |

Customer Impact

- Proposed rate structure
 - CVWD rates – 3% annual increase from 7/1/2024
 - IEUA Pass-Through rates – Calculated annually
- 10/1/2023 Commodity and Fixed rates in total = 7/1/2023 Rates

| | Current Rates | | Proposed Rates and Charges (3% Annual Increase from 7/1/2024) | | | | |
|---------------------------------------|----------------|----------------|--|--------------|--------------|--------------|--------------|
| | 7/1/2023 | 10/1/2023 | 7/1/2024 | 7/1/2025 | 7/1/2026 | 7/1/2027 | 7/1/2028 |
| Commodity Rates: | | | | | | | |
| CVWD Local RW Rate (per HCF) | \$2.00 | \$0.83 | \$0.85 | \$0.88 | \$0.91 | \$0.94 | \$0.97 |
| IEUA Pass-Through RW Rate (per HCF) | \$0.00 | \$1.17 | \$1.07 | Pass-Through | Pass-Through | Pass-Through | Pass-Through |
| Total Commodity Rate (per HCF) | \$2.00 | \$2.00 | \$1.92 | TBD | TBD | TBD | TBD |
| Fixed Charges (1" Meter): | | | | | | | |
| CVWD Meter Charge | \$33.38 | \$13.66 | \$14.07 | \$14.50 | \$14.93 | \$15.38 | \$15.84 |
| IEUA Pass-Through Fixed Charge | \$0.00 | \$19.72 | Pass-Through | Pass-Through | Pass-Through | Pass-Through | Pass-Through |
| Total Monthly Fixed Charge | \$33.38 | \$33.38 | TBD | TBD | TBD | TBD | TBD |

Other Agency Comparison



Timeline & Process

| Date | | Action Item |
|--------------|------|---|
| July 20 | Done | Finance Committee Reviewed Proposition 218 Notice Draft |
| August 8 | Done | Board Review, Proposition 218 Notice Approval and Set Public Hearing |
| August 9 | Done | Mail Proposition 218 Notice |
| September 14 | Done | Publish 1 st Newspaper Notice |
| September 21 | Done | Publish 2 nd Newspaper Notice |
| September 26 | | Board of Directors Conduct Public Hearing and Consider Proposed Rates |
| October 1 | | New Rates Go Into Effect |

For More Information Contact

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Thank You!

