



## Summary – Budget and Rate Setting Process

The process for establishing the proposed adjustments to rates and charges includes a systematic and strategic examination of various factors such as the increased costs of imported water, increased operating, maintenance, and environmental regulatory compliance costs, and the investments EMWD makes in capital infrastructure and technology to reliably serve its customers and community. EMWD is committed to maintaining its aggressive pursuit of external funding support—such as grants and state loans—as well as identifying opportunities to further reduce costs for the customers EMWD serves, which in turn will keep rates and charges low requiring only nominal annual adjustments. As such, staff proposes adjustments to water, sewer, and recycled water rates and service charges and will incorporate the proposed adjustments in the Biennial Budget assumptions for Fiscal Years 2025-26 and 2026-27.

This item, its attachments, and the related presentation have been prepared to present Proposition 218 Notices (Exhibits A-G) for Board approval and set a Public Hearing date for June 4, 2025, on Rates and Objections to proposed water, sewer, and recycled water rates for calendar years 2026 and 2027. The item to approve rates for calendar years 2026 and 2027, and to adopt the Biennial Operating and Capital Budget for Fiscal Years 2025-26 and 2026-27 is scheduled to be presented to the Board on June 18, 2025.

### Recycled Water

On April 20, 2022, the Board of Directors (Board) was presented the 2021 Recycled Water Rate Study (2021 Study) and approved the study's recommended allocations and rate design methodology for recycled water rates. The overall goal of the 2021 Study was to develop a recycled water funding strategy and rate plan that reflects the most appropriate way to balance funding of the disposal of treated wastewater and EMWD's recycled water program.

Key drivers and considerations influencing the 2021 Study included:

- Recognition that recycled water is a general benefit to EMWD as a byproduct of wastewater treatment. Pricing should consider the general benefit to the region by reducing reliance on imported and groundwater supplies by keeping rates affordable to promote usage.
- Wastewater customers benefit from the recycled water system as it serves a disposal system for treated wastewater resulting in significant cost avoidance.
- By reducing demands for potable water, the use of recycled water results in lower capital infrastructure costs for the potable water system.

The overarching goals of EMWD's recycled water rate setting are to:

- 1) Maximize beneficial use of recycled water,
- 2) Avoid or minimize discharges to Temescal Creek and,
- 3) Maximize the amount of recycled water revenue

With these three goals in mind, the 2021 Study rate design analysis was structured to ensure cost recovery and substantiate that each customer class is paying their fair and proportionate share of system costs. Recycled water rates were calculated by applying the wastewater transfer revenues to each customer class to determine the adjusted rate revenue requirements. The adjusted revenue requirements were then divided by each class's usage to determine appropriate rates. Further, the goal of EMWD's recycled water rate setting strategy was to maximize recycled water use to minimize discharge.

Several rate and pricing policies are in place to promote usage by agricultural users as they provide outsized benefits in the form of wastewater disposal due to the large consumption volumes and because some users can take water during times of otherwise low demands. The rates are also designed to provide incentives for certain potable users to switch to recycled water, and to provide consistency with EMWD's other rates. The 2021 Study and its findings played an integral role providing for the basis for recycled water rate adjustments from 2023 through 2025.

As part of the Fiscal Years 2025-26 and 2026-27 Biennial Budget preparation, staff has updated the evaluation of costs and benefits of EMWD's recycled water program and is proposing recycled water rates for 2026 and 2027 which reflect those costs and benefits, while still following the approved 2021 Study rate setting methodology.

#### Summary – Proposed Recycled Water Rates Adjustments

Staff recommends a 1.0 percent increase to recycled water rates for agriculture customers effective January 1, 2026, and a 1.0 percent increase effective January 1, 2027. For other users, staff recommends a 4.0 percent increase effective January 1, 2026, and a 4.0 percent increase effective January 1, 2027. Special rates and agreements will continue to follow the rate increases as previously contracted. By policy, recycled water users pay the same Daily Service Charges (DSCs) as potable users with the exceptions of 3-inch meters which follow a phase-in DSC rate of 75 percent of potable 3-inch rate, and 4-inch and above meters which align to the potable 3-inch DSC.

#### Potable Water and Sewer

On April 19, 2023, the Board was presented the 2023 Water and Wastewater Cost of Service Rates Study Report (2023 Study) and approved the study's recommended allocations and rate design methodology for water, and sewer rates. The goals of the 2023 Study were to develop rates based on a detailed cost of service analysis of each system, maintain or achieve equity across customer classes and users, and be financially resilient to withstand current or near-term uncertainties. The 2023 Study and its findings played an integral role providing for the basis for water and sewer rate adjustments for 2024 and 2025.

Several key considerations or impacts for EMWD were considered within the study, including:

- 1) Maintaining EMWD's strong financial position and operational efficiency;
- 2) Continued investment in water and sewer Infrastructure;
- 3) Development of local resources for water supply diversity, long-term reliability, and resiliency; and
- 4) Use of both capital and rate stabilization reserves to mitigate cost impacts and smooth rate increases.

To smooth out rate increases, the 2023 Study used certain assumptions to project costs over a five-year forecast for years 2024 through 2028. These assumptions assumed costs to be less than the projected budget, as actual expenses are usually slightly lower than budget at year end. The three major assumptions were: 1) a 95 percent execution rate on the Capital Improvement Plan, 2) a 65 percent spending rate on Operating Fixed Assets (OFA), and 3) a 2.5 percent position vacancy.

As part of the Fiscal Years 2025-26 and 2026-27 Biennial Budget preparation, staff has updated the evaluation of costs and benefits of EMWD's potable water and sewer systems and is proposing water and sewer rate adjustments for 2026 and 2027 which reflect those costs and benefits, while still following the approved 2023 Study rate allocations and design methodology.

### Water Rates

Staff recommends an 8.2 percent average annual commodity rate increase for years beginning January 1, 2026 and 2027. Additionally, staff recommends an overall increase in fixed charges of \$1.96 and \$2.12 per equivalent meter size for years beginning January 1, 2026 and 2027, respectively. Separately, certain Fruitvale area water consumption rates are increasing according to the phase-in plan approved by the Board in 2018.

### Sewer Rates

Staff recommends a 5.0 percent postage stamp increase for sewer daily service charges for years beginning January 1, 2026, and January 1, 2027. Service area rate increases for the 2026 and 2027 range from 2-7 percent and represent years 3 and 4 of the 7-year Board adopted Postage Stamp Phase-in. Additionally, staff recommends a \$0.23 per EDU increase in the monthly Capital Fixed Charge beginning January 1, 2026 and a \$0.24 per EDU increase beginning January 1, 2027.

### Overall Impact

With the proposed water and sewer rates, the typical single-family residential monthly water/sewer bill for a customer using 15 hundred cubic feet with a household size of 3 would increase \$8.56 or 7.1 percent in 2026 and \$9.21 or 7.1 percent in 2027.

## Schedule

The schedule below outlines the dates and actions of the next steps.

<b>Date</b>	<b>Action</b>
April 2, 2025	Proposed Rates and Proposition 218 Notices for Board Approval
April 19, 2025	Mail Proposition 218 Notices (46 days prior to Public Hearing)
May 7, 2025	Budget Study Session #3
June 4, 2025	Public Hearing on Rates and Objections for Calendar Years 2026 and 2027
June 18, 2025	Approve Rates for calendar years 2026 and 2027 and Adopt Biennial Operating and Capital Budget FYs 2025-26 and 2026-27
July 1, 2025	Beginning of Fiscal Year and New Budget
January 1, 2026	New Rates Effective