



Eastern Municipal Water District  
California

Action/Info Item  
5012

Approve the Proposed Biennial Operating and Capital Budget for Fiscal Years 2021-22 and 2022-23; Adopt Two Proposed Resolutions Amending the Administrative Code as it Relates to the Consolidated Schedule of Rates, Fees, and Charges for Water, Sewer, and Recycled Water Rate Adjustments

Information

Department: Finance Sponsors:  
Category: Action/Info Item Meeting Workflows: Board Meeting Workflow

Attachments

- Printout
- Exhibit A - Proposed Biennial Budget for FY 2021-22 and FY 2022-23
- Exhibit B - Proposition 218 Notice of Public Hearing
- Exhibit C - Copies of Protest Letters Received
- Exhibit D - Resolution (Water and Sewer Rates)
- Exhibit E - Resolution (Recycled Water Rates)
- Exhibit F - Consolidated Schedule of Rates, Fees, and Charges Presentation

Background

As part of the biennial budget process, EMWD staff held three workshops with the Board of Directors (Board). The first Board workshop was held on February 17, 2021, to review the major assumptions, consolidated sources and uses of funds, and projected capital improvements. A second Board workshop was held on March 17, 2021 to review a Preliminary Budget for Fiscal Years 2021-22 and 2022-23 which included consolidated summaries of the budget expenditures and receipts, operating fixed assets, and preliminary rate adjustments. On April 21, 2021, a third and final Board workshop was held to review a preliminary Budget Summary for Fiscal Years 2021-22 and 2022-23, capital improvements, rate recommendations, and Proposition 218 Notices.

The proposed Biennial Budget for Fiscal Years 2021-22 and 2022-23 (Biennial Budget) is attached as Exhibit A and is summarized below (rounded to the nearest \$100):

	FY 2021-22	FY 2022-23
Operating Revenue		
Water Service	\$ 156,961,300	\$ 168,339,500
Wastewater Service	113,892,500	117,271,900
Recycled Water Service	11,793,800	12,263,500
Non-Operating Revenue		
Property Tax/Standby	\$ 49,904,600	\$ 50,800,600
Connection & Dev't Fees	44,300,000	45,500,000
Interest Income	3,750,000	5,000,000
Other Income/Grants	5,550,000	7,530,000
<b>Total Revenue</b>	<b>\$ 386,152,200</b>	<b>\$ 406,705,500</b>

	FY 2021-22	FY 2022-23
Operating Expenses		
Water Purchases	\$ 72,472,000	\$ 79,268,000
Water Operations	64,428,400	66,759,700
Wastewater Operations	68,350,500	70,866,800
Recycled Water Operations	8,060,400	8,301,500
Non-Operating Expenses		
General & Administrative	\$ 30,143,700	\$ 30,999,300
Miscellaneous	1,000,000	1,000,000
Special Projects & Studies	5,000,000	6,110,000
COP/Bonds Debt Service	59,000,000	59,000,000
OPEB Trust Contribution	19,000,000	19,000,000
<b>Total Expenses</b>	<b>\$ 327,455,000</b>	<b>\$ 341,305,300</b>
<b>Net Operating Margin</b>	<b>\$ 58,697,200</b>	<b>\$ 65,400,200</b>
Capital Commitments		
Operating Fixed Assets	\$ 26,324,100	\$ 27,807,100
Capital Improvement Plan	86,979,000	95,367,800
Contribution from Debt/ Reserves Utilization	(\$ 54,605,900)	(\$ 57,774,600)
<b>Total Expenditures</b>	<b>\$ 440,758,100</b>	<b>\$ 464,480,100</b>

#### SUMMARY – BUDGET AND RATE SETTING PROCESS

On a biennial basis, EMWD proposes adjustments to water, sewer, and recycled water rates and charges and incorporates the proposed adjustments in the budget assumptions for all enterprise functions. The process for establishing the proposed adjustments include a systematic and strategic examination of various factors such as the increased costs of imported water, rising 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 for refunding outstanding debt to further reduce costs to our customers and to keep rates and charges low requiring only nominal annual adjustments.

EMWD's strong financial planning provided the ability for the district to withstand challenging economic times over the past year due to COVID-19 pandemic and significant drought periods experienced in years past. The financial planning priorities for this biennial budget include:

- Analyzing capital repair and rehabilitation (R&R) costs and incorporating an affordable solution to fund these costs to mitigate future rate spikes;
- Comprehensive evaluation of recycled water rates; and
- Developing a strategy to manage EMWD's unfunded pension liability.

#### Rehabilitation and Replacement (R&R) Funding

With over 70,000 assets installed before 1985 with an estimated replacement cost of \$2.4 billion, staff recommends an additional increase to both the Water and Wastewater Capital Charge to fund a R&R Reserve. The increase is estimated to provide reserve funding of \$1 million in year one and \$3 million in year two. This is the start of providing funding for the long-term replacement of critical water and wastewater infrastructure.

#### Evaluation of Recycled Water Rates

The last recycled rate study was a subset of an overall rate study for EMWD's water and sewer rates performed in 2017. The 2017 study focused mostly on cost factors per Proposition 218 requirements for water and sewer rates. However, for recycled water rates, the study did not fully take into consideration various factors associated with the recycled water enterprise, including market conditions for our region. Staff is recommending that a comprehensive recycled water rate study be performed this year and presented to the Board by June 2022. The study findings may be utilized to calibrate recycled water rates for FY 2022-23.

#### Pension Liability Strategy

In 2013, the Board adopted the Other Post-Employment Benefits (OPEB) Policy Principles which provided a framework for future decisions regarding funding OPEB obligations. Based on those policy principles and the \$19 million funding of the OPEB Trust in July 2020, the liability is projected to be at or above 100 percent funded by June 30, 2021. With funding complete for the OPEB Liability, the budget includes the continued funding of the additional \$19 million for Fiscal Years 2021-22 and 2022-23 to address the current \$154 million in the unfunded liability for pensions. With the recent formation of the Pension Liability Ad Hoc Committee, staff will work with the Ad-Hoc Committee to update the policy principles and develop a Pension Funding Strategy for Board consideration.

#### SUMMARY – RATE ADJUSTMENTS AND PROP 218/CUSTOMER OUTREACH

Utilizing the proposed Biennial Budget for Fiscal Years 2021-22 and 2022-23 and financial planning priorities discussed above, staff computed the proposed rates in accordance with the adopted Cost of Service Rate Methodology and the proposed changes are summarized below:

#### Water Rates

Staff recommends a 0.5 percent commodity rate increase beginning January 1, 2022, and a 3.0 percent increase beginning January 1, 2023. Additionally, staff recommends an overall increase in fixed charges of \$1.05 and \$1.30 per month for 2022 and 2023, respectively. The increase in fixed charges includes the additional R&R Capital Charge of \$0.25 in 2022 and \$0.50 in 2023. Separately, certain Fruitvale area water consumption rates are increasing according to the seven-year phase-in plan approved by the Board in 2018.

#### Sewer Rates

Staff recommends a 1.0 percent increase for sewer daily service charge beginning January 1, 2022, and a 2.0 percent increase beginning January 1, 2023. Additionally, staff recommends a \$0.07 per EDU increase in the monthly Capital Fixed Charge each year and an additional R&R Capital Charge of \$0.25 in 2022 and \$0.50 in 2023.

#### Overall Impact

The typical single-family residential monthly water/sewer bill for a customer using 18 hundred cubic feet (cu ft) would increase \$1.95 or 1.8 percent in 2022 and \$4.16 or 3.8 percent in 2023. Recognizing the financial challenges many customers have faced during the COVID-19 pandemic, expenditure reductions were made as part of the budget that resulted in only a 1.8 percent increase in 2022, which is projected to be well under the Consumer Price Index (CPI).

#### Municipal and Agricultural Recycled Water Rates

Staff recommends a 3.8 percent recycled water commodity increase beginning January 1, 2022, and a 5.8 percent increase beginning January 1, 2023. The January 1, 2022, increase is based only on the average increase of 3.8 percent in operating expenses over the two years. EMWD staff is recommending deferring the

additional 2.0 percent for the non-operating deficit until the January 1, 2023, increase. As mentioned above, staff recommends performing a recycled water rates study and shall provide recommendations to the Board by June 2022. The study findings may be utilized to calibrate recycled water rates proposed for January 1, 2023.

#### Public Noticing and Customer Outreach

On April 21, 2021, the Board approved the notice of a public hearing for consideration of rate increases to rates, fees, and charges (Exhibit B). On April 30, 2021, staff mailed 268,190 notices of the public hearing to property owners within the service area as required under Proposition 218 and protests to the implementation of those rates and charges have been tallied by staff. In addition to the public noticing, EMWD did significant customer outreach to communicate the upcoming public hearing which included notification on our website, E-blasts to customers, and posts on EMWD social media.

As of June 15, 2021, 25 protest letters were received by EMWD, which represents 0.009 percent of notices sent, substantially less than the 50 percent necessary to prevent the Board from adopting the proposed rates, fees, and charges. Copies of the protest letters received to date are attached as Exhibit C.

Staff recommends the Board adopt two proposed Resolutions (Exhibits D and E) to amend Resolution No. 5111, Administrative Code, Schedule of Rates, Fees, and Charges (Exhibit F) as it relates to Water and Sewer Rates and Charges and Recycled Water Rates.

## Financial/Strat Plan/Enviro

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### **FINANCIAL IMPACT:**

As noted herein.

### **STRATEGIC PLANNING GOAL/OBJECTIVE:**

**Financial Stability:** Enhance and maintain EMWD's strong financial position and credit quality by identifying and implementing specific opportunities to improve underlying financial metrics.

### **ENVIRONMENTAL IMPACT:**

None

## Recommendation

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Approve and adopt the following:

1. Approve the Biennial Operating and Capital Budget for Fiscal Years 2021-22 and 2022-23;
2. 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;
3. 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;
4. Direct staff to complete a comprehensive recycled water rate study; and
5. Direct staff to develop a pension funding strategy with the Ad-hoc Committee.

## Meeting History

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**Jun 16, 2021 9:00 AM**   **Board of Directors**   **Regular Meeting**

 **Draft**

Mr. Adams provided a presentation on this item

To access audio recordings of Board meetings from April 27, 2016 to present, please [click here](#).