



Proposed Biennial Budget for Fiscal Years 2019-20 and 2020-21; Recommended Rates; and OPEB Supplemental Contribution

Charles Turner
June 19, 2019

Agenda

- Schedule
- Budget Summary
 - Sources and Uses of Funds
- Proposed Rates for 2020 and 2021
 - Prop 218 Notice Results
- OPEB
- Next Steps

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 2019-20 and FY 2020-21

Dates	Proposed Actions
February 20, 2019	Workshop #1: Review Key Budget Assumptions
March 20, 2019	Workshop #2: Review Operating Revenue / Expense, OFA Biennial Budget, and Preliminary Rate Adjustments
April 17, 2019	Workshop #3: Summary Budget Book, Rate Summary, and Prop 218 Notices Approved
May 2, 2019	Mail Proposition 218 Notices (<i>48 days prior to budget adoption</i>)
June 19, 2019	Public Hearing; Board Considers Adoption of Budget and Approval of Rates
January 1, 2020	Rates Become Effective

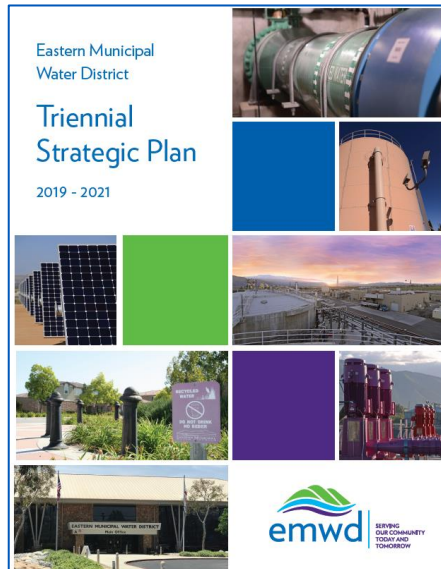


Proposed Biennial Budget Summary



Budget Aligned to Triennial Strategic Plan (2019-2021)

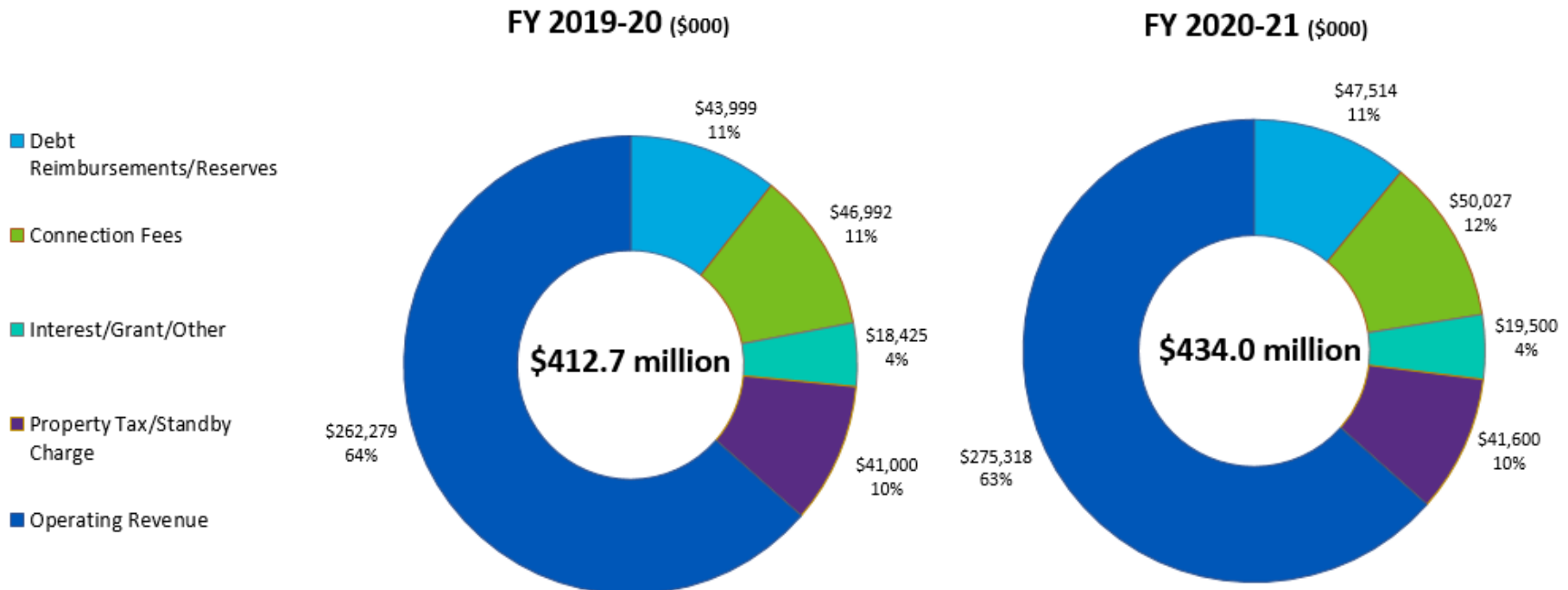
- Triennial Strategic Plan was adopted by the Board on June 5, 2019
- District will make the appropriate investment to deliver on strategic priorities and initiatives
- Department goals are aligned to Strategic Plan objectives.



Standards of Excellence	Proposed FY 2020 & FY 2021 Budget Investment Highlights
Highly reliable water, recycled water and wastewater service	<ul style="list-style-type: none"> ◆ Investments to improve water, wastewater and recycled water supply reliability: <ul style="list-style-type: none"> ➢ Mountain Ave West Replenishment Basin (\$15M) CIP ➢ Wastewater plant improvements (\$10.4M) OFA ➢ Perris II desalter construction (\$40M) CIP ➢ Temecula Valley Recycled Water Pipeline Phase I (\$9M) CIP ➢ Engine/pumps lift stations maintenance (\$1M) OFA ➢ Well maintenance/storage tank coatings (\$3M) OFA
Protection of public and environmental health	<ul style="list-style-type: none"> ◆ Cyber security upgrades (\$4M) OFA ◆ SCADA PLC upgrades (\$2M) OFA ◆ Enterprise Microwave Data upgrade (\$2M) OFA ◆ Investments in lab equipment (\$1M) OFA
Superior customer service	<ul style="list-style-type: none"> ◆ Investments in customer service technology <ul style="list-style-type: none"> ➢ Customer Information System (CIS) and billing system replacement (\$18M) OFA ➢ Recycled Water Customer Portal
Sound planning and operational efficiency	<ul style="list-style-type: none"> ◆ Investments in energy independence <ul style="list-style-type: none"> ➢ Solar Renewable Energy Initiative Phase III (\$7M) CIP ◆ Investments in business process improvements <ul style="list-style-type: none"> ➢ Fleet vehicles (\$6M) OFA ➢ Information Technology upgrades (\$2M) OFA
Fiscal responsibility and appropriate investment	<ul style="list-style-type: none"> ◆ Pursue grants and external funding for CIP ◆ Information Technology enhancements (\$3M) OFA ◆ Invest in OPEB Trust to reduce liability
Exemplary employer	<ul style="list-style-type: none"> ◆ Succession Planning Initiative ◆ Work Environment Modernization ◆ HCM Benefits Module Update
Effective communication, advocacy and community partnerships	<ul style="list-style-type: none"> ◆ Partnering with Youth Ecology Corp and others ◆ Value of Tap Water Program

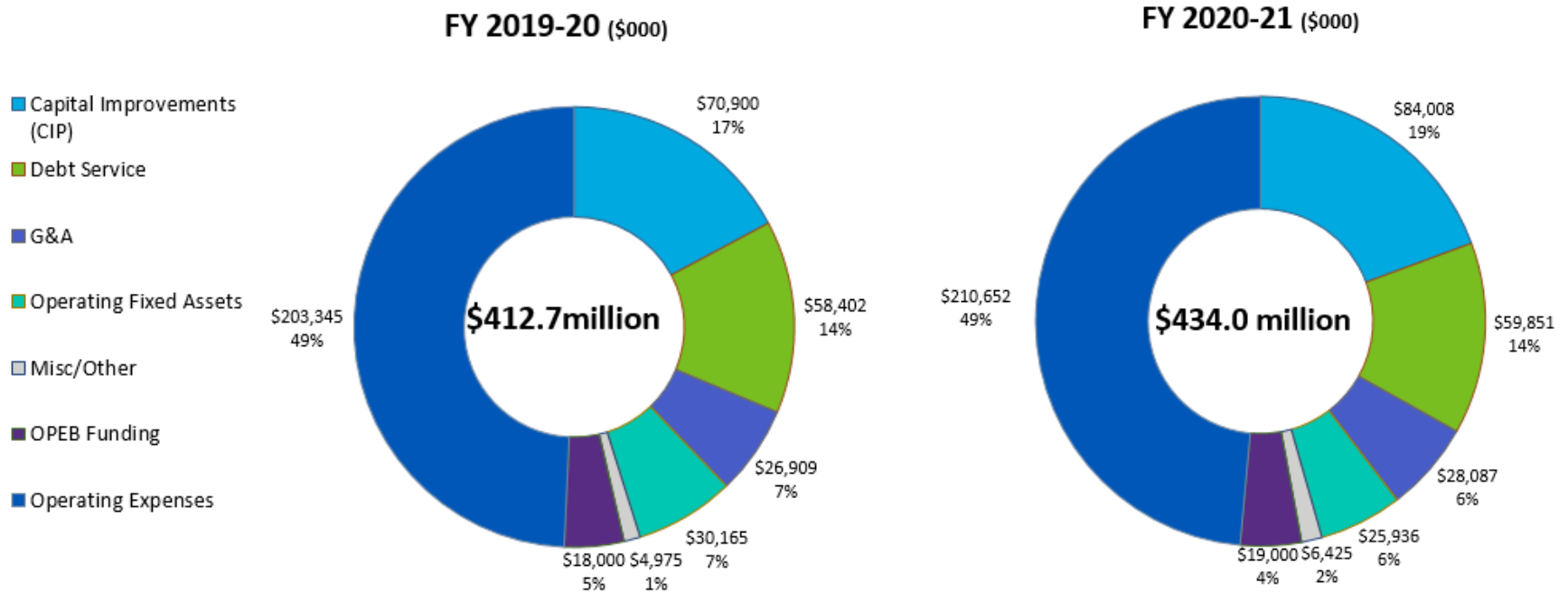
Proposed Biennial Budget Funding Sources

- Revenues to increase on average by 7% in FY 2019-20 and FY 2020-21.
- Revenue drivers include higher water demands, new connections, additional interest income, and rate adjustments.



Proposed Biennial Budget Expenditures

- Operating expenses to increase by 3.5% and 3.6% in FY 2019-20 and FY 2020-21, respectively.
- Most significant increases are in Purchased Water, CIP, Debt Service, and OPEB.



Biennial Budget Operation Summary

- Operating expenses to increase by 3.5% in FY 2019-20 and 3.6% in FY 2020-21.
 - Operations also contributes funds for:
 - Operating Fixed Asset (OFA) investments,
 - Other Post-Employment Benefit (OPEB) obligation,
 - Replacement and reliability capital projects in CIP, and
 - District’s debt service.
-
- Recommended Rate Adjustments for FY 2020 and FY 2021 are:
 - Water:
 - 3% annual commodity rate increase
 - \$0.90/month successive increases in fixed charges for FY 2020 and FY 2021
 - Ag and ID 24 rates continue to escalate based on multi-year transition plans
 - Sewer:
 - 3.8% annual increase in rates for FY 2020 and FY 2021
 - Recycled Water:
 - 7% annual increase in rates



Proposed Water and Sewer Rates



Residential Potable Water Commodity Rate Summary

- Recommend a 3.0% commodity rate increase per year.
- No changes to the Tier Structure or Budget Formulas.

Rate	<i>Current Effective Jan. 1, 2019</i>	Proposed	
		Effective Jan. 1, 2020	Effective Jan. 1, 2021
Residential Tier 1	\$1.07	\$1.10	\$1.13
Residential Tier 2	\$3.43	\$3.53	\$3.63
Residential Tier 3	\$5.67	\$5.84	\$6.01
Residential Tier 4	\$11.59	\$11.94	\$12.30

All figures shown in \$ per CCF

Sewer Daily Service Charge Summary

- Propose a 3.8% annual increase for sewer daily service charge in 2020 and 2021

Daily Service Charge Blocks	Current Effective Jan. 1, 2019	Proposed	
		Effective Jan. 1, 2020	Effective Jan. 1, 2021
1	\$0.54	\$0.56	\$0.58
2	\$0.90	\$0.93	\$0.97
3	\$1.13	\$1.16	\$1.21
4	\$1.53	\$1.58	\$1.65

All figures shown in \$ per EDU per day in the Hemet/San Jacinto area (S101 rate).

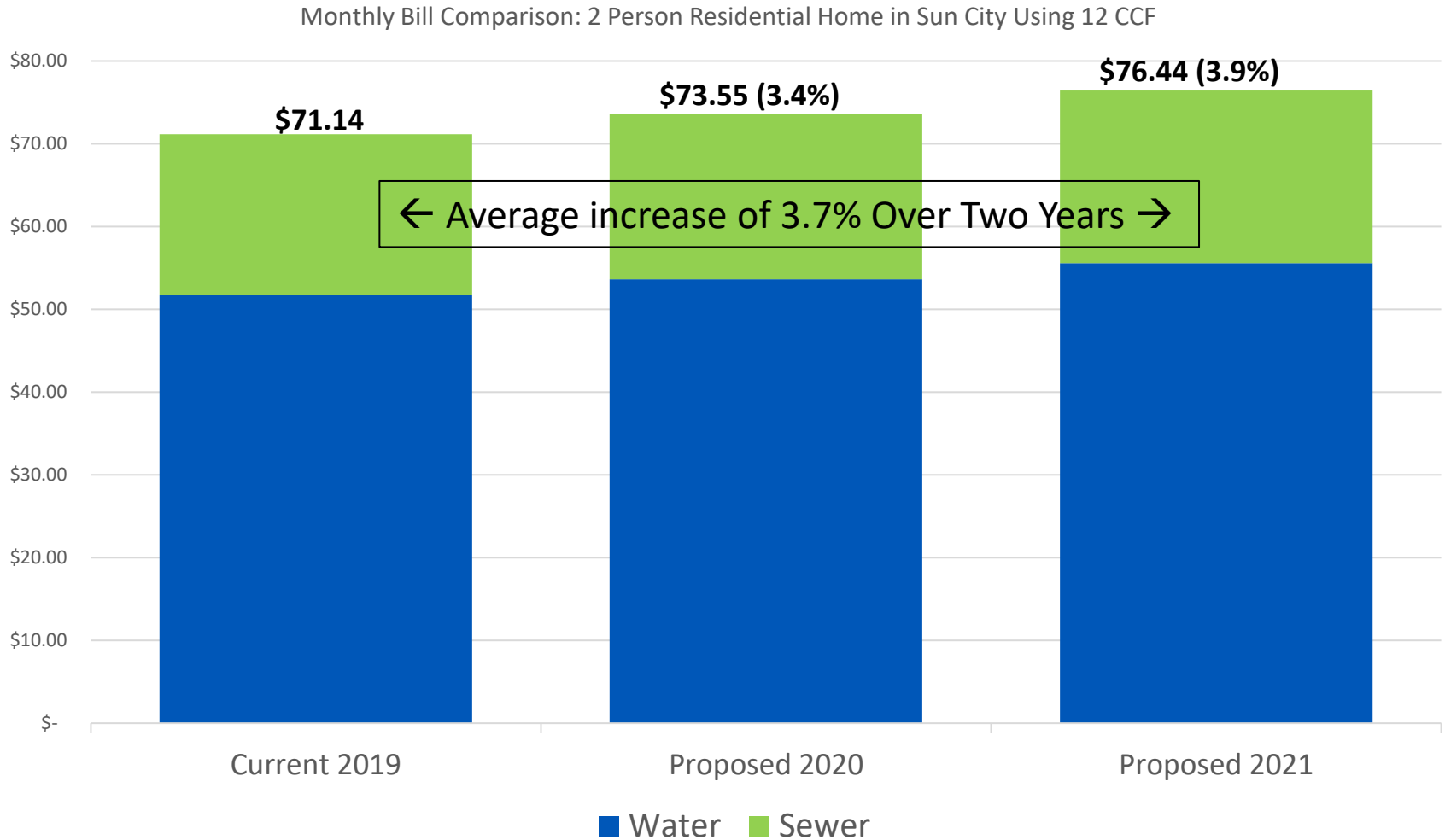
- Excludes Fixed Charge for Sewer System Capital Projects which remains the same rate of \$0.09041 per day in 2020 and 2021*



Representative Combined Water and Sewer Bills



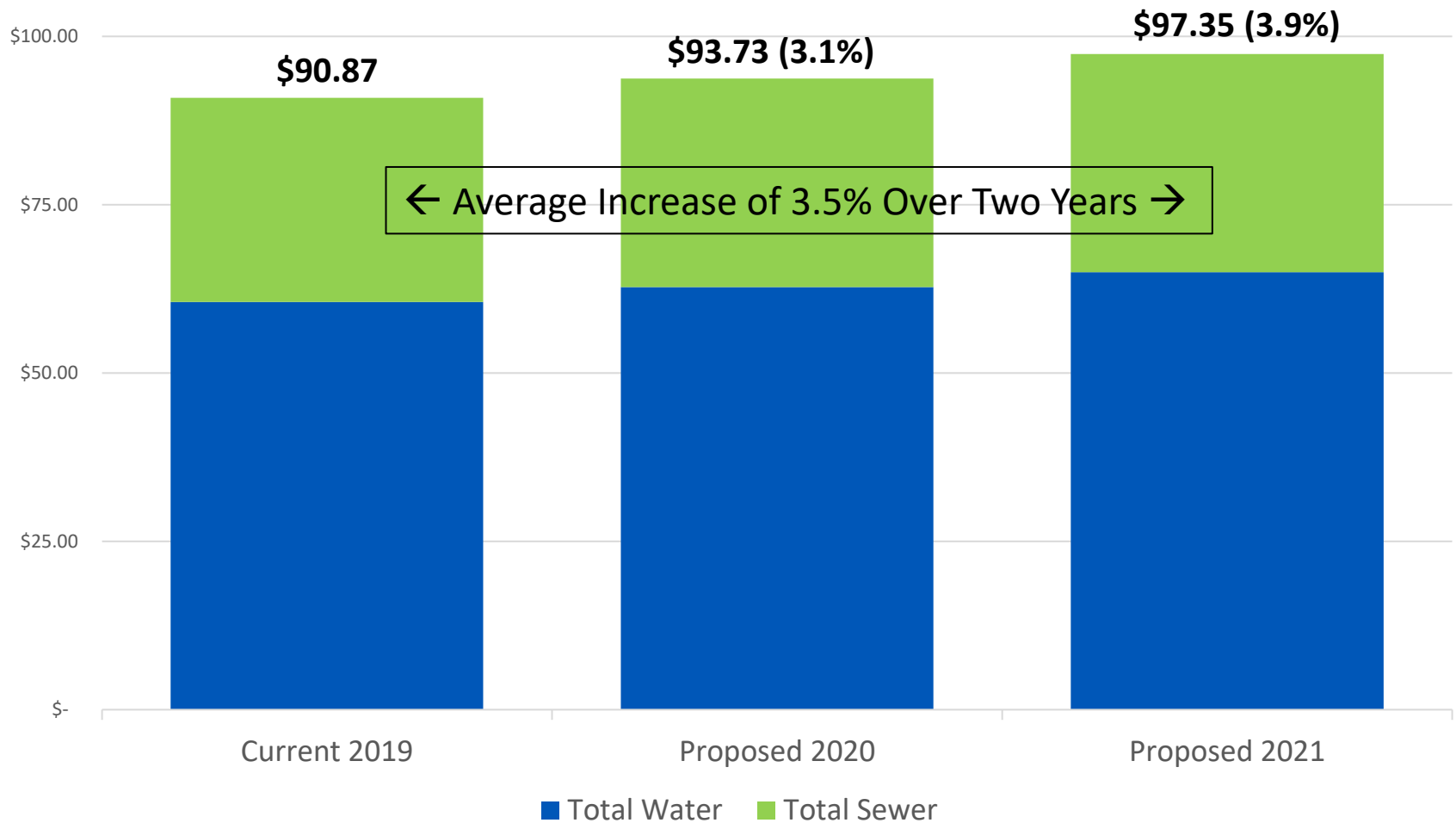
Representative Sun City Block 1 Customer



**12 CCF per month, 5/8" meter, and sewer block 1*

Representative Moreno Valley Block 2 Customer

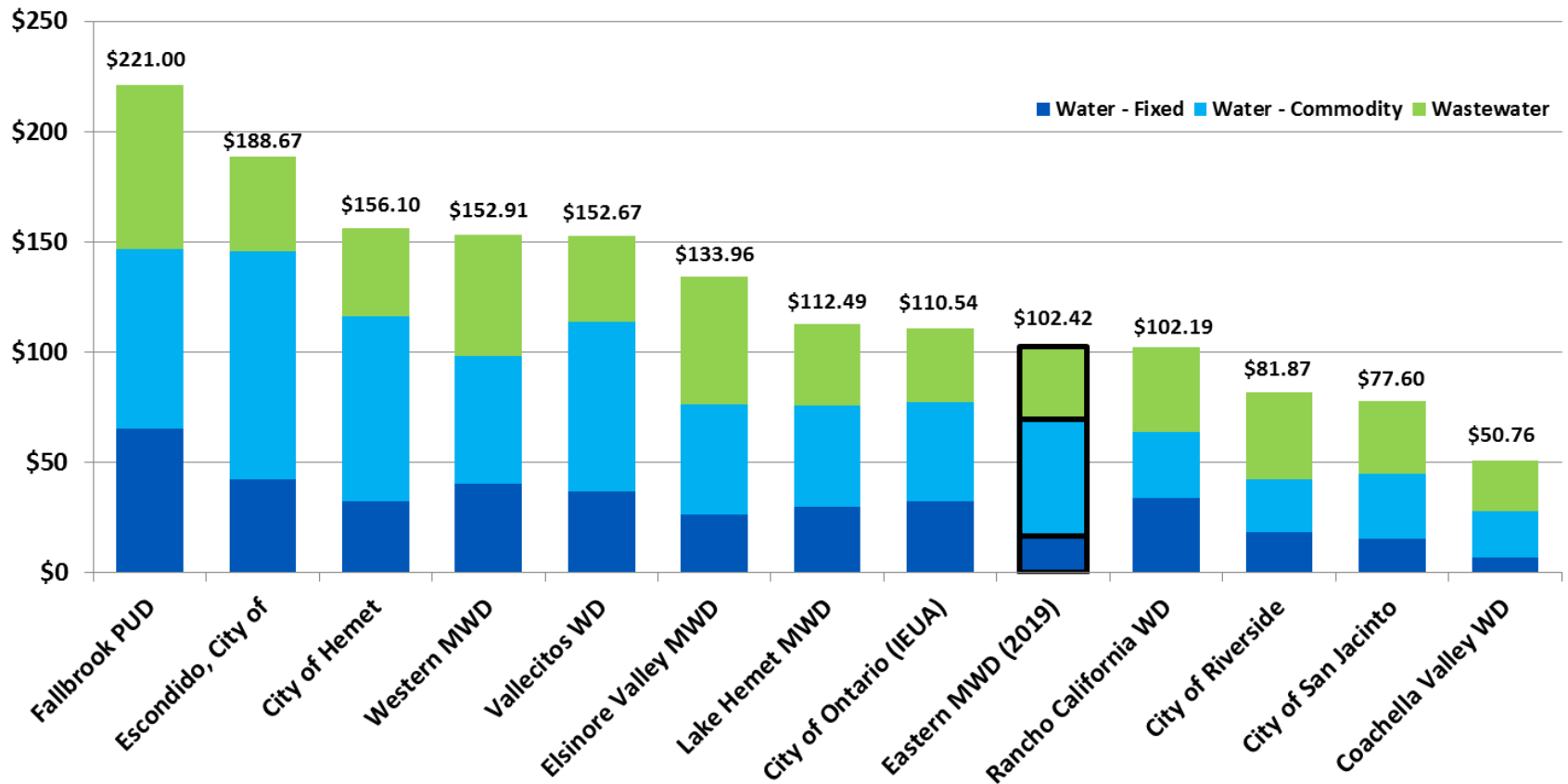
Monthly Bill Comparison: 3 Person Residential Home in Moreno Valley Using 15 CCF



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

District Rates are Reasonable

Typical Customer's Monthly Bill
Water & Wastewater Services - Inland Districts
18 ccf (as of January, 2019)





Proposed Rates: Recycled Water



Recycled Water Commodity Rate Summary

- Recommend a 7% increase each year for recycled water commodity rates

Rate	Current Effective Jan. 1, 2019	Proposed	
		Effective Jan. 1, 2020	Effective Jan. 1, 2021
Ag Summer	\$141.79	\$151.72	\$162.34
Ag Winter	\$82.89	\$88.69	\$94.90
Demand Ag	\$416.12	\$445.25	\$476.42
Non-Ag	\$520.15	\$556.56	\$595.52

** All figures shown in \$ per AF*



Proposition 218 Notices – May 2019



On April 17, 2019, the Board Authorized the Delivery of Proposition 218 Notices

- On May 2, 2019, staff mailed 222,745 Proposition 218 notices to all property owners in the District.
- As of June 11, 2019, the District received 18 written protests, or 0.008% of property owners.



EMWD SPECIAL REPORT • MAY 2019

EMWD Rates: Investing Now to Protect the Future

EMWD continues to invest in water, wastewater and recycled water infrastructure projects to continue providing customers with safe and reliable services. We are also investing in data technologies that will enhance our customers' abilities to manage their account information while also improving efficiencies.

EMWD's Groundwater Reliability Plus (GWR Plus) initiative is one example of this. GWR Plus is a comprehensive approach to groundwater management, with the goal of continually improving the quality and quantity of water in our local groundwater basins.



Our GWR Plus initiative has introduced and will further expand on programs including recycled water, healthy sewers, desalination and water banking.

EMWD is also exploring the implementation of an advanced water purification facility where recycled water is further purified using a multi-stage process of microfiltration and reverse osmosis, which could be blended with recycled water before being pumped into groundwater replenishment basins.

A large portion of the funding for the GWR Plus initiative programs is secured through our aggressive pursuit of grants and low-interest loans. We also charge nominal Capital Improvement Projects fees to assist in funding large infrastructure costs, without significant rate increases. *(continued on page 2)*

YOU'RE INVITED TO ATTEND OUR RESIDENTIAL RATES PUBLIC HEARING

Date: June 19, 2019

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: 2020-2021 Proposed Rates, PO Box 8300, Perris, CA 92572-8300. Protests must include: your name, parcel number and/or service address, and your signature. Protests submitted by email or other electronic means do not count as formal written protests. 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.

Proposed Water Service Rates



EMWD is committed to providing customers throughout our 555-square mile service area with safe, clean and reliable water service. This service includes not only the water that comes out of the tap but also the operation, maintenance, and water quality testing for our entire water delivery system which is comprised of pipelines, storage tanks, booster stations, and other necessary infrastructure to move water up and down the varying elevations of our district service area.

Due to increases in the cost of imported water, along with rising maintenance and environmental regulatory costs, EMWD must increase water consumption rates by approximately 3 percent effective January 1, 2020.

Water Consumption Rates per billing unit (BU)*	Proposed			Daily Service Charge based on Meter Size	Proposed		
	Current	Effective 1/1/2020	Effective 1/1/2021		Current	Effective 1/1/2020	Effective 1/1/2021
Areas served: Perris Valley, Moreno Valley, Good Hope, Mead Valley, Juniper Flats, Lakeview, Nuevo, Romoland, Menfee (Sun City), Hemet, Valle Vista, Diamond Valley, Winchester, Canyon Lake, and Murrieta (Murrieta Hot Springs and French Valley)							
Tier 1: Low Volume	\$1.07	\$1.10	\$1.13	5/8 inch	\$0.42	\$0.44	\$0.46
Tier 2: Budgeted	\$3.43	\$3.53	\$3.63	3/4 inch	\$0.42	\$0.44	\$0.46
Tier 3: Excessive	\$5.67	\$5.84	\$6.01	1 inch	\$0.57	\$0.60	\$0.63
Tier 4: Wasteful	\$11.59	\$11.94	\$12.30	Water Supply Reliability Capital Projects Charge per Equivalent Meter Size			
				Current Monthly	Charge Effective 1/1/2020	Charge Effective 1/1/2021	Proposed Monthly**
				\$3.65	\$3.95	\$4.26	

*1 BU = 748 gallons **Amount will be prorated based on billing cycle.

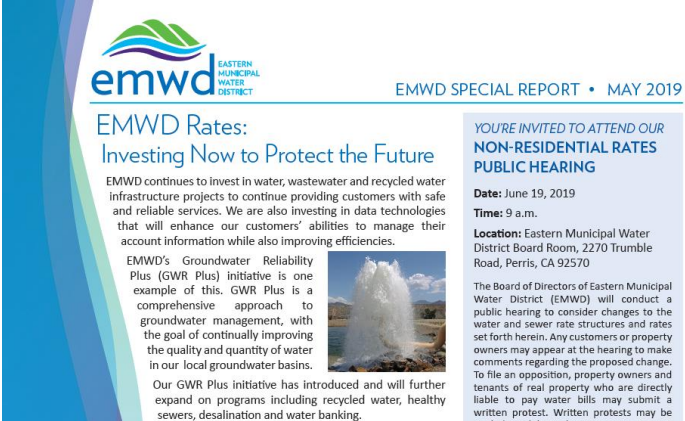


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Proposition 218 Notices

- Staff prepared five separate Proposition 218 Notices:
 - Residential Water and Sewer
 - Non-residential Water and Sewer
 - Agricultural Water
 - Recycled Water
 - Fruitvale (ID 24) Water and Sewer
- Notice includes:
 - Public Hearing Date: June 19, 2019
 - EMWD Rates: Investing Now to Protect the Future
 - Water Budget Background
 - Sewer Block Background
 - EMWD Drought Stages
- 222,745 notices were mailed to all property owners in the District.



emwd EASTERN MUNICIPAL DISTRICT

EMWD SPECIAL REPORT • MAY 2019

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EMWD's Groundwater Reliability Plus (GWR Plus) initiative is one example of this. GWR Plus is a comprehensive approach to groundwater management, with the goal of continually improving the quality and quantity of water in our local groundwater basins.

Our GWR Plus initiative has introduced and will further expand on programs including recycled water, healthy sewers, desalination and water banking.

YOU'RE INVITED TO ATTEND OUR NON-RESIDENTIAL RATES PUBLIC HEARING

Date: June 19, 2019
Time: 9 a.m.
Location: Eastern Municipal Water District Board Room, 2270 Trumble Road, Perris, CA 92570

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EMWD's investment in data technologies is best demonstrated by the accelerated installation of smart meters throughout our 555-square mile service area. By June 2019, every customer will have a smart meter, making them eligible to subscribe to receive leak notifications via text message. Customer will also have the capability to subscribe to receive weekly usage information via email.

By advancing technologies across the district service area, EMWD is providing customers with an increased level of engagement with their usage data in an effort to promote wise water use.

EMWD is committed to ensuring that rates and fees work to provide customers with safe and reliable water, wastewater and recycled water services, today and tomorrow.

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What is a Water Budget


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 continue to be among the lowest.

Water budgets for commercial, industrial and irrigation customers are personalized to the type of customer, historic water use and the number of people served.

For churches, libraries, mortuaries, cemeteries and office buildings, Tier 1 budgets are based on average indoor use, or 80 percent of average use if outdoor irrigation is also considered. Schools are budgeted 5 gallons per student, per day, and ag-horse farms are allocated 55 gallons per person, per day.

Outdoor budgets are based on a formula that multiplies the amount of irrigated property by the evapotranspiration rate and a conservation factor that takes climate and plant types into consideration.

Water budgets can vary month-to-month depending on the length of the billing period and the weather.



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Other Post Employment Benefits (OPEB)



Other Post-Employment Benefit (OPEB)

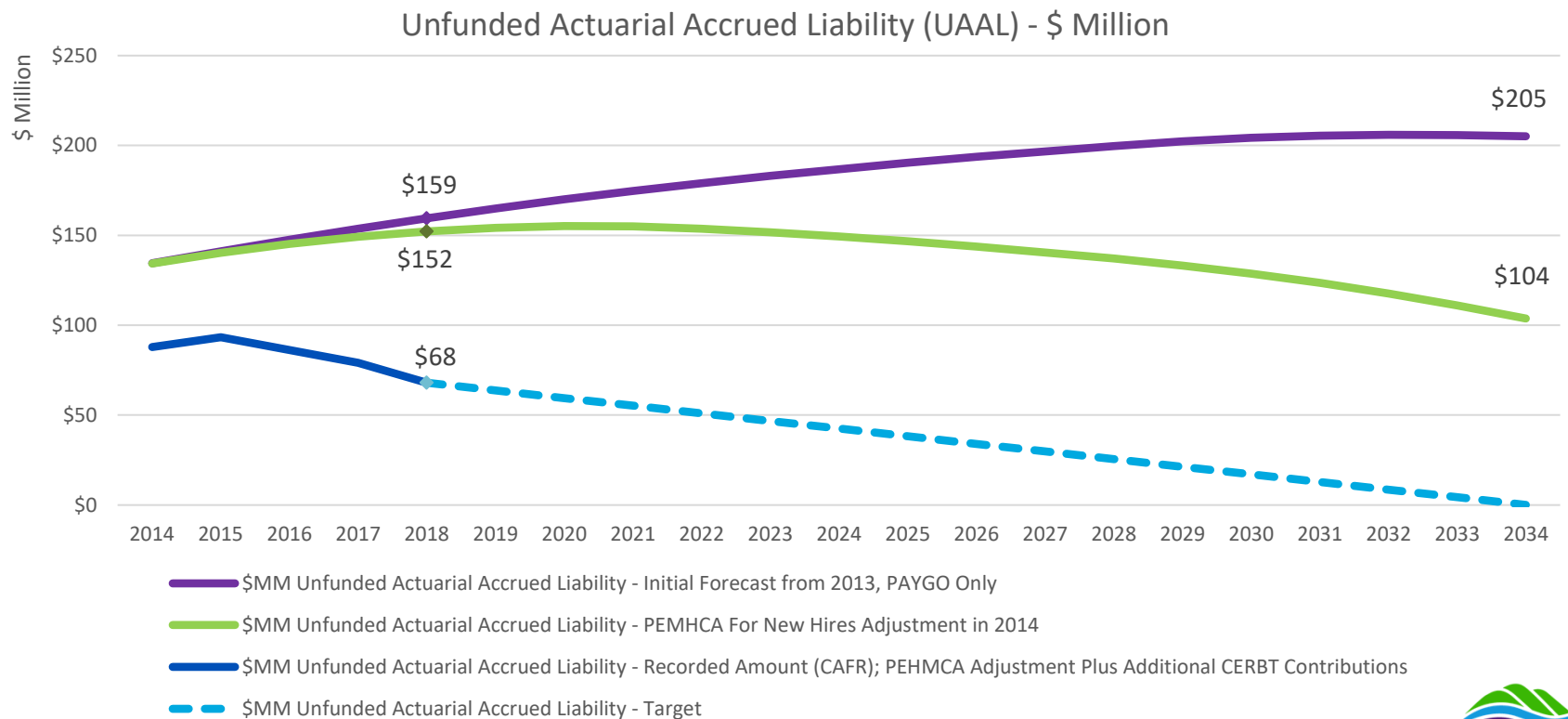
Policy Principles - Overview

2013 Strategic Plan: *“Continue to execute financial planning and funding policies to fully fund the Other Post-Employment Benefit and pension obligations over an appropriate period of time.”*

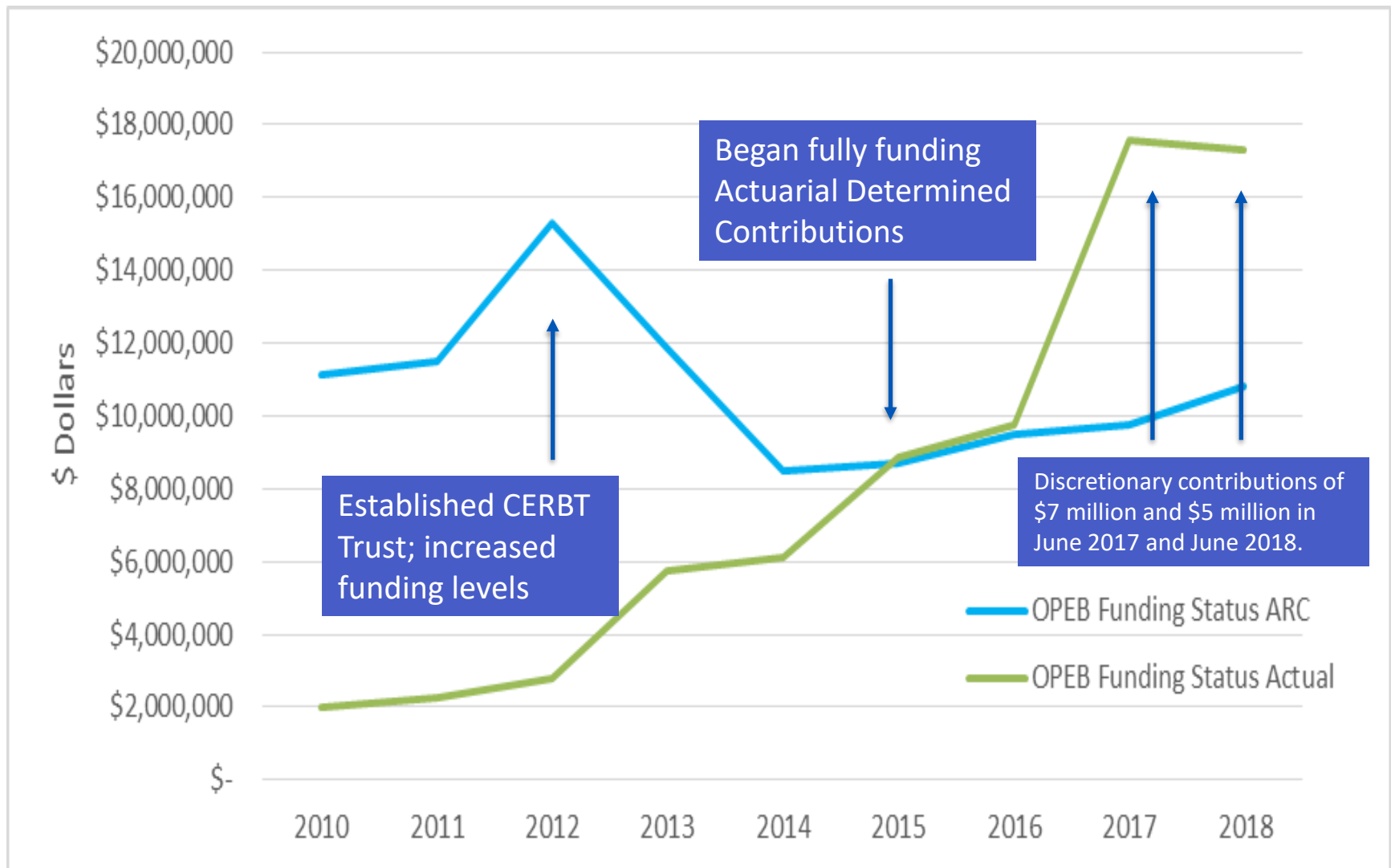
Policy Principles Adopted in 2013	Status
Fund Pay-as-You Go Premiums + 10% Property Tax	
Fully fund actuarial liability by FY 2034	
Fund full Annual Required Contribution (ARC) by FY 2024	
Adopt a 2 nd tier of benefits for future hires	
Use appropriate assumptions in actuarial models	
Use gains in net operating margin to reduce liability	
Consider other funding sources, including cost sharing	
Re-evaluate funding biennially with valuation	

OPEB Unfunded Liability Continues to Decline

- District significantly reduced Unfunded Liability through key measures, including:
 - Adjusted new hire benefit to PEHMCA Only,
 - Budgeted and funded CERBT Trust at the annual required contribution (ARC), and
 - Made Discretionary Contribution to CERBT Trust in 2017 and 2018.
- Unfunded Liability was \$68 million as of June 30, 2018

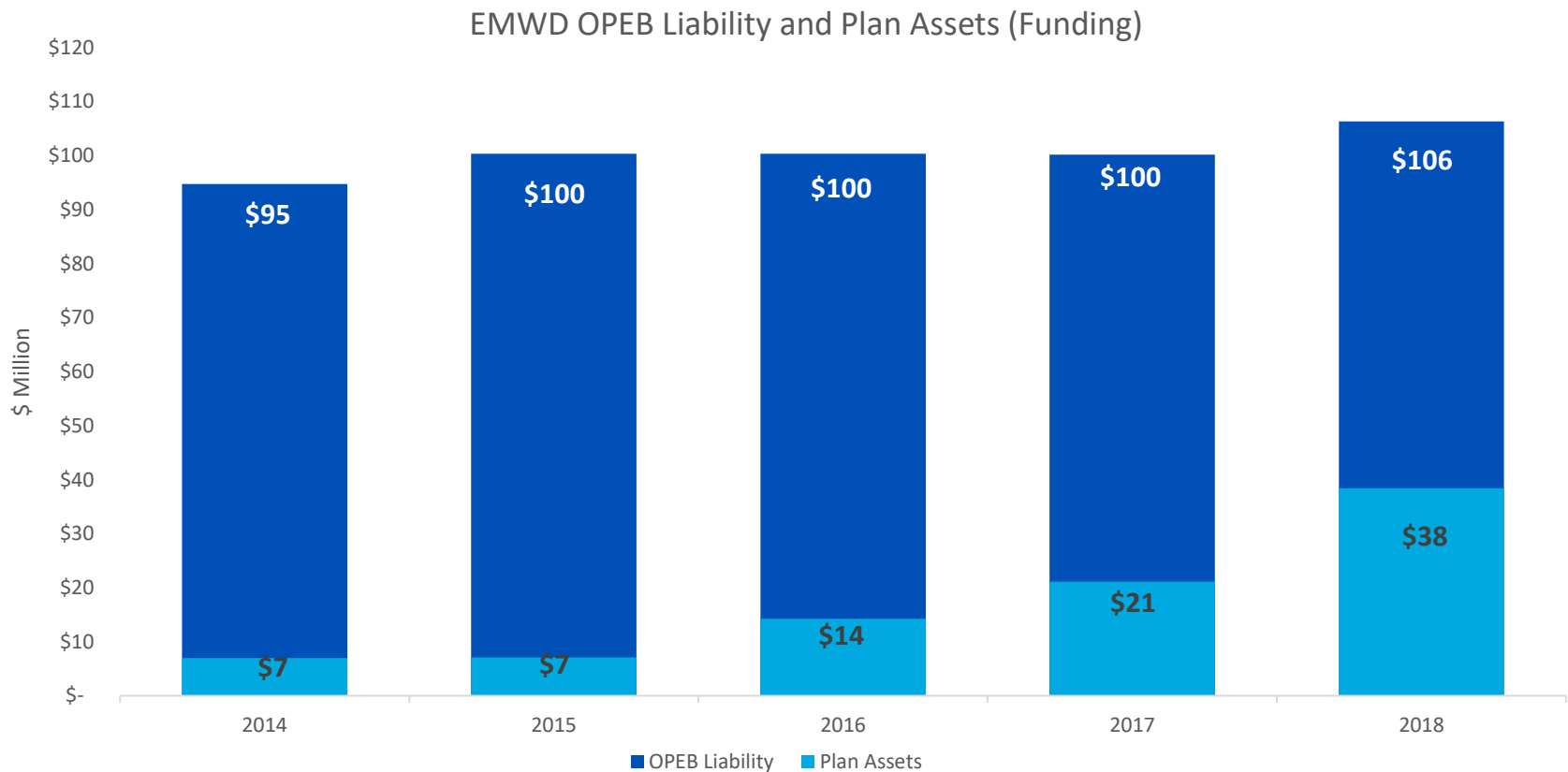


OPEB Trust Contributions vs ARC



District's OPEB Liability 2014 to 2018

- EMWD OPEB funding increased from \$7 million to \$38 million between 2014 and 2018
- OPEB Liability was 36% funded as of June 30, 2018



Projected Gains in Net Margin for FY 2018-19

- Staff projects \$18 million in gains to Net Margin for FY 2018-19 relative to the Budget Update.
- Projected higher margin based upon the following:
 - Higher operating revenue and lower operating costs,
 - Lower debt service interest expense due to better-than-forecasted rates, and
 - Higher non-operating revenues including property taxes.

Category	FY 2017-18 Actual	FY 2018-19 Budget Update	FY 2018-19 Projection	FY 19 Projection vs Budget \$ Change
Total Operating Revenue	\$ 243,209,323	\$ 240,201,800	\$ 245,253,086	\$ 5,051,286
Total Non-Operating Revenue (Excluding Connection Fee)	63,733,465	55,057,400	61,232,257	6,174,857
Total Revenue	306,942,788	295,259,200	306,485,342	11,226,142
Total Operating Expense	\$ 178,393,617	\$ 191,535,284	\$ 184,694,056	\$ (6,841,228)
Total Non-Operating Expense	80,903,371	80,807,594	80,568,541	(239,053)
OPEB	18,524,700	13,524,700	13,524,700	-
Total Expense	277,821,688	285,867,578	278,787,296	(7,080,282)
Net Margin	\$ 29,121,101	\$ 9,391,622	\$ 27,698,046	\$ 18,306,424

Proposed OPEB Funding for FY 2020 and FY 2021

Staff recommends the following OPEB Funding Targets:

- 60% funded by FY 2022
- 70% funded by FY 2026
- 90% funded by FY 2030
- 100% funded by FY 2034 (Policy Principles)

Staff recommends:

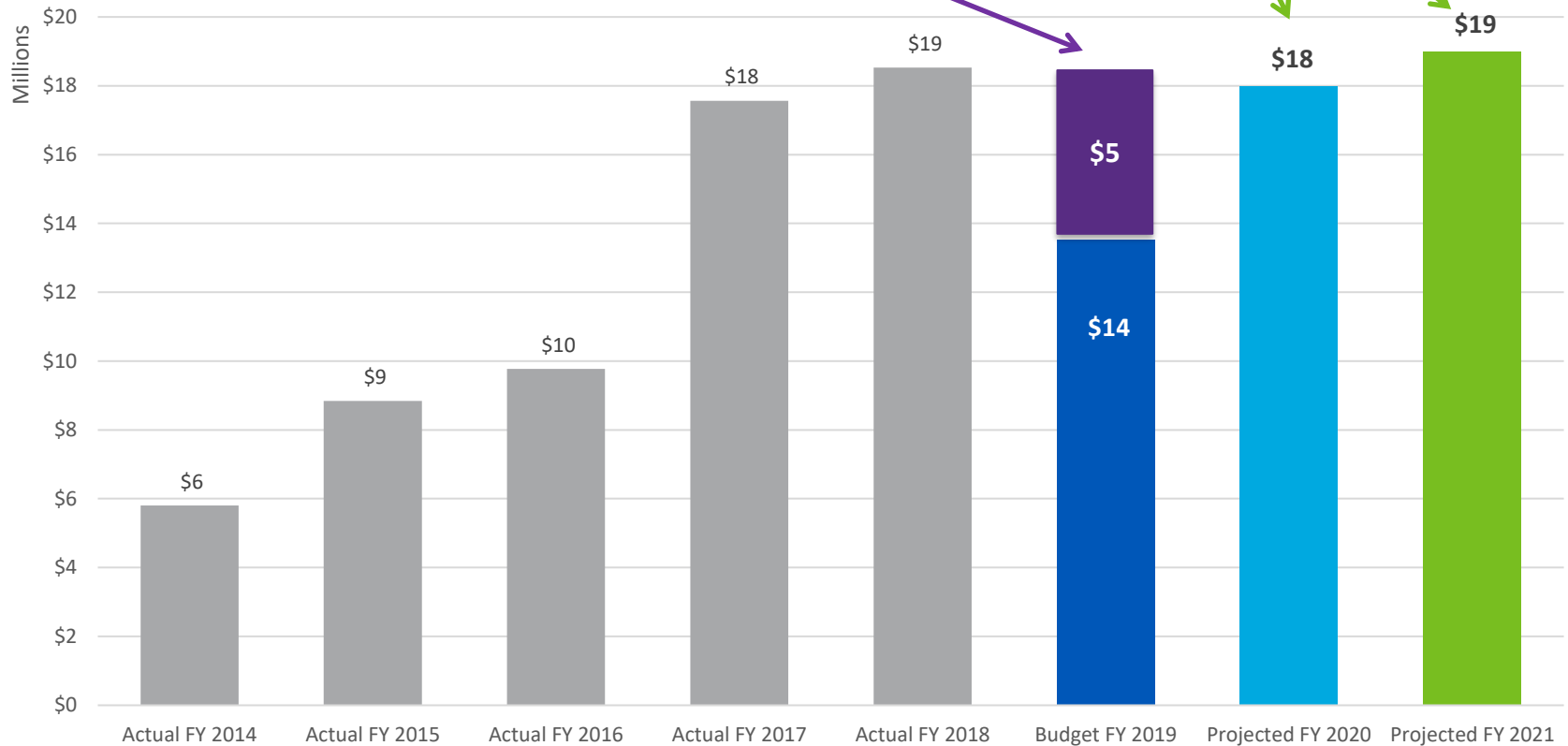
**OPEB contribution of \$18 million in FY 2020 and \$19 million
in FY 2021**

**Discretionary Contribution of \$5 million to CERBT Trust in
FY 2018-19, to be paid in June 2019**

Other Post-Employment Benefits (OPEB) Proposed Contributions

Proposed OPEB contribution of \$18 million in FY 2020 and \$19 million in FY 2021

Proposed \$5 million Discretionary Contribution to CERBT Trust in FY 2018-19, to be deposited in June 2019



Requested Actions

Staff Recommendation:

- Approve the Biennial Operating and Capital Budget for Fiscal Years 2019-20 and 2020-21;
- Adopt the Proposed Resolution Amending the EMWD Administrative Code for Incorporating Certain Rates, Fees and Charges for 2020 and 2021; and
- Authorize a one-time additional OPEB Trust (CERBT) contribution of \$5.0 million in Fiscal Year 2018-19.





Contact Information

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