

STAFF REPORT

Date: June 11, 2019

To: Board of Directors
From: John Bosler, General Manager/CEO
Agenda Title: **Public Hearing - Proposed Adjustment to IEUA Sewer Treatment Pass-Through Charge**

Purpose

The Board of Directors is asked to adopt an increase to the Inland Empire Utilities Agency (IEUA) Sewer Treatment Pass-Through Charge from \$19.59 to \$20.00 effective for July 1, 2019, and to continue the automatic adjustment of the rate in proportion to any rate increases by the IEUA from July 1, 2020 through June 30, 2024. Any rate change in the Sewer Treatment – IEUA charge is directly proportionate with any IEUA rate increase.

Background/Analysis

The Cucamonga Valley Water District (District) charges most customers within its service area a Sewer Service Charge. This charge is not imposed on customers who have septic systems or who receive sewer service from our neighboring cities of Fontana, Ontario or Upland. The District bills customers on a monthly basis and the rates consist of two components: (1) a charge for capital replacement, operations, maintenance, billing, customers service and other related costs (Local Service Charge-CVWD); and (2) a treatment charge (Treatment Charge-IEUA) to recover the wholesale charge imposed on CVWD by the IEUA, the agency that treats and disposes of sewage collected by CVWD.

District staff conducted a financial analysis of the Local Service Charge-CVWD and determined that it is not necessary to increase this charge at this time. However, the IEUA Board of Directors adopted Resolution 2015-3-1 increasing the wholesale charge it imposes on CVWD for the treatment and disposal of the sewage CVWD collects. The current monthly IEUA sewer treatment rate of \$19.59 will increase to \$20.00, an increase of 2.1%. The increase is effective for the fiscal year beginning July 1, 2019. IEUA has indicated that the increase is necessary to recover increased costs for chemicals, electricity and planned improvements to its aged sewer treatment system. The proposed rates and charges are shown in the following table:

Rate Component	Current Rate Effective 7/1/2018 Monthly Equivalent	Proposed Rate Effective 7/1/2019 Monthly Basis	% Incr.
Local Service Charge – CVWD	\$ 5.73	\$ 5.73	-0-
Treatment Charge-IEUA	19.59	20.00	2.1%
Total Rate per unit	\$ 25.32	\$ 25.73	1.6%

In addition, IEUA has recently commenced a new multi-year rate study review and future rate increases may be required. The District's Local Service Charge will remain unchanged; however, staff is recommending a pass-through of IEUA's portion of the Sewer Service Charge Rate to our customers if IEUA's Board adopts future rate increases.

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 IEUA's Treatment Charge. AB 3030 limits automatic adjustments to a time period that cannot exceed five years. The District adopted the pass-through rate in 2014 and the five-year pass-through provision expires June 30, 2019. Therefore, the continuation of the pass-through rate structure must be adopted pursuant to the requirements of Proposition 218.

In each subsequent year for the remaining four years of the five-year period, the Sewer Service Charge Rate would be automatically adjusted based on the increase in the Treatment Charge-IEUA. The automatic adjustment would only be implemented in those fiscal years that IEUA adopts an increase in the Treatment Charge-IEUA.

In those remaining four years, the notice of the automatic adjustment must be given not less than 30 days before the effective date of the adjustment 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

Requirements under Proposition 218 (Prop 218) compel public agencies to follow notice and majority protest provisions. In order to comply, CVWD mailed written notices to 42,544 property owners and/or customers-of-record at least 45 days in advance of the public hearing. In addition, the analysis, justification and proposed Ordinance were made available on the District's web site and at the Customer Service and Engineering Counters. In addition, a Notice of Public Hearing and Ordinance Summary was published in the *Inland Valley Daily Bulletin* on May 30, 2019 in accordance with the Water Code. Staff worked with legal counsel to assist with the Prop 218 requirements, the content of the notice to property owners and customers-of-record and the public hearing process.

Alignment with Strategic Goals

A key element to the District's vision is accountability in order to maintain financial transparency while practicing good stewardship of financial resources.

Fiscal Impact

The rate increase set by IEUA on July 1, 2019 will result in an estimated additional total annual pass-through charges of \$337,574 to CVWD sewer customers. All pass-through charges are remitted to the IEUA and therefore do not have an effect on the operating budget of CVWD. The impact to sewer customers of any subsequent rate increases cannot be determined.

Recommendation

Staff presented this recommendation to the Finance Committee on February 21, 2019. In addition, staff presented the draft Prop 218 Notice to the Legislative / Outreach Committee on March 21, 2019 and to the Finance Committee on April 4, 2019. On April 9, 2019, the Board of Directors set the date of this Public Hearing.

The Prop 218 Notice was mailed to the District's customers who receive sewer service. As of the date of this report, CVWD has received thirteen (13) protests which have been determined to be valid. Staff recommends that the Board of Directors adopt Ordinance 2019-6-1.

Attachments: Ordinance 2019-6-1
IEUA Resolution 2015-3-1
PowerPoint Presentation

Submitted by: Carrie Corder, Assistant General Manager
Prepared by: Chad Brantley, Director of Finance and Technology Services

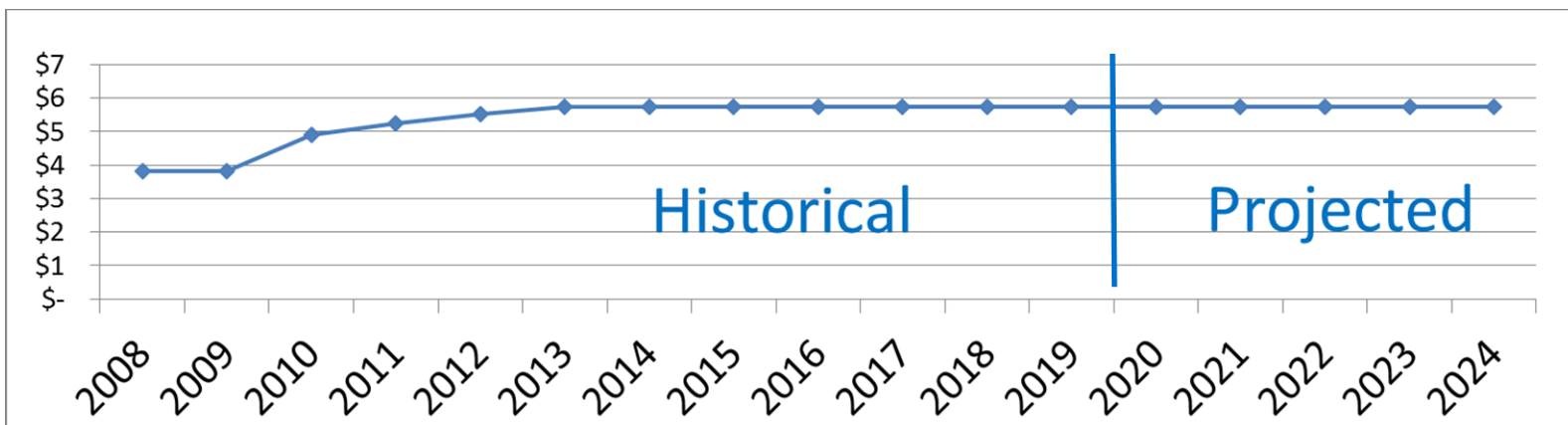
Background of Sewer Fund

- Sewer Department operation and function
- Rates and charges
 - CVWD Local Service Charge
 - IEUA Treatment Charge
- Inland Empire Utilities Agency
 - Separate District Board
 - Sets their own rates
 - Regional operating scope
- CVWD Board direction and support – control costs
- Maintenance personnel accomplishments and efficiency

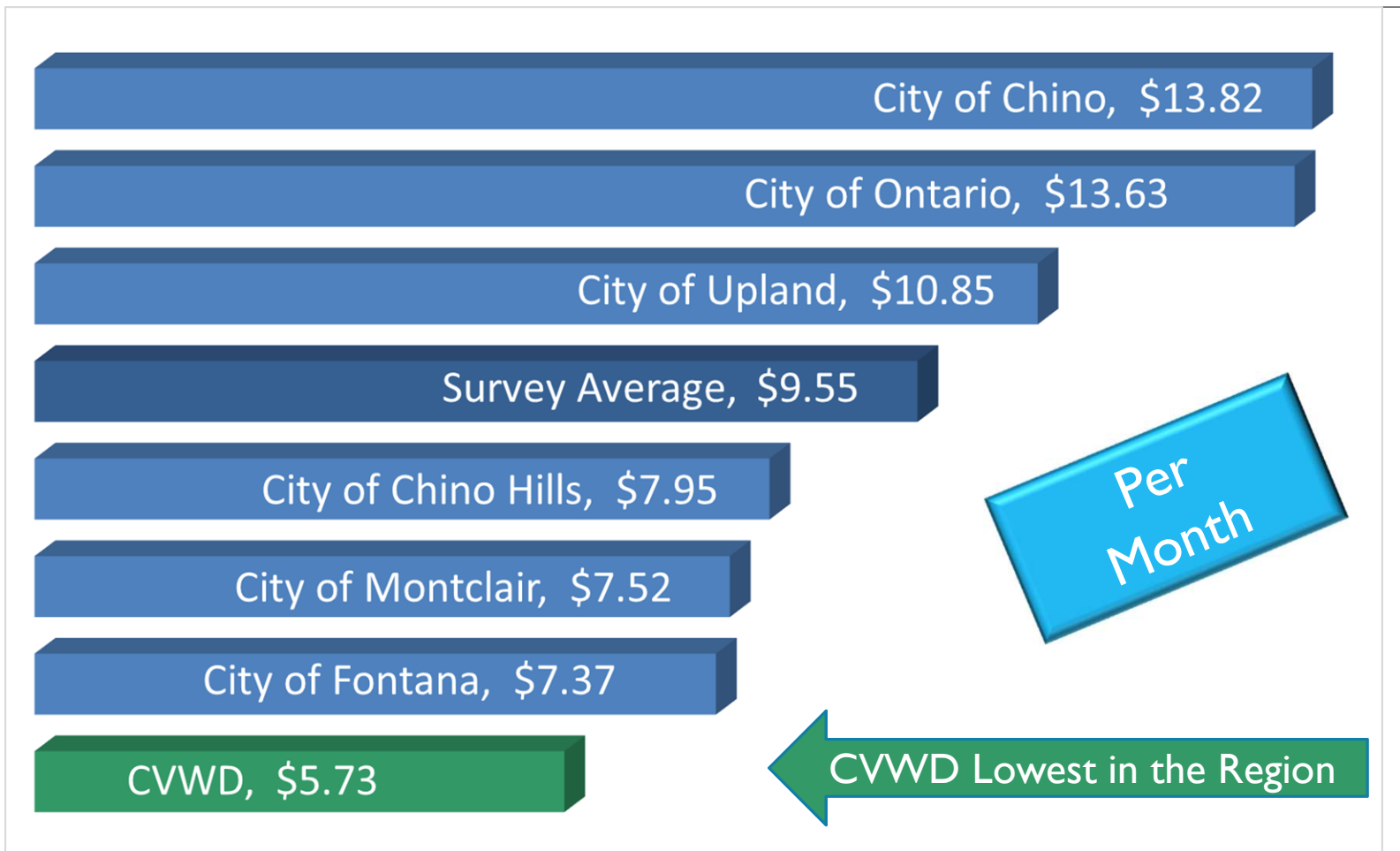
No Increase of Sewer Rate-CVWD

- CVWD rate - \$5.73 monthly - commitment for years 2020 to 2024
- CVWD rates pay for
 - Maintenance and repairs
 - Yearly cleaning and inspection
 - Customer service and billing
 - Sewer line replacements
 - Engineering and management

0% for
5 years



Sewer Rate Comparison



Based on monthly charge for residential service

Sewer Rate Increase - IEUA

- IEUA Treatment Charge - \$20.00 per month
 - Rate set by IEUA in 2015 study
- California Law AB3030
 - Protects public agencies like CVWD
 - 5 year limit
 - Majority protest rules apply to CVWD
 - Protest against CVWD does not apply to IEUA

Increase of 41¢ Per
Month

Summary of CVWD Sewer Service

- Protects public health and the environment
- Serves 34,454 residential customers
 - 2,921 business or industrial customers
- Maintains about 420 miles of sewer line and 7,700 manholes
- Flows about 6.8 Billion gallons per year.
- No increase in CVWD rate
- IEUA pass-through rate match only 41¢ per month

Proposed Recycled Water Increase



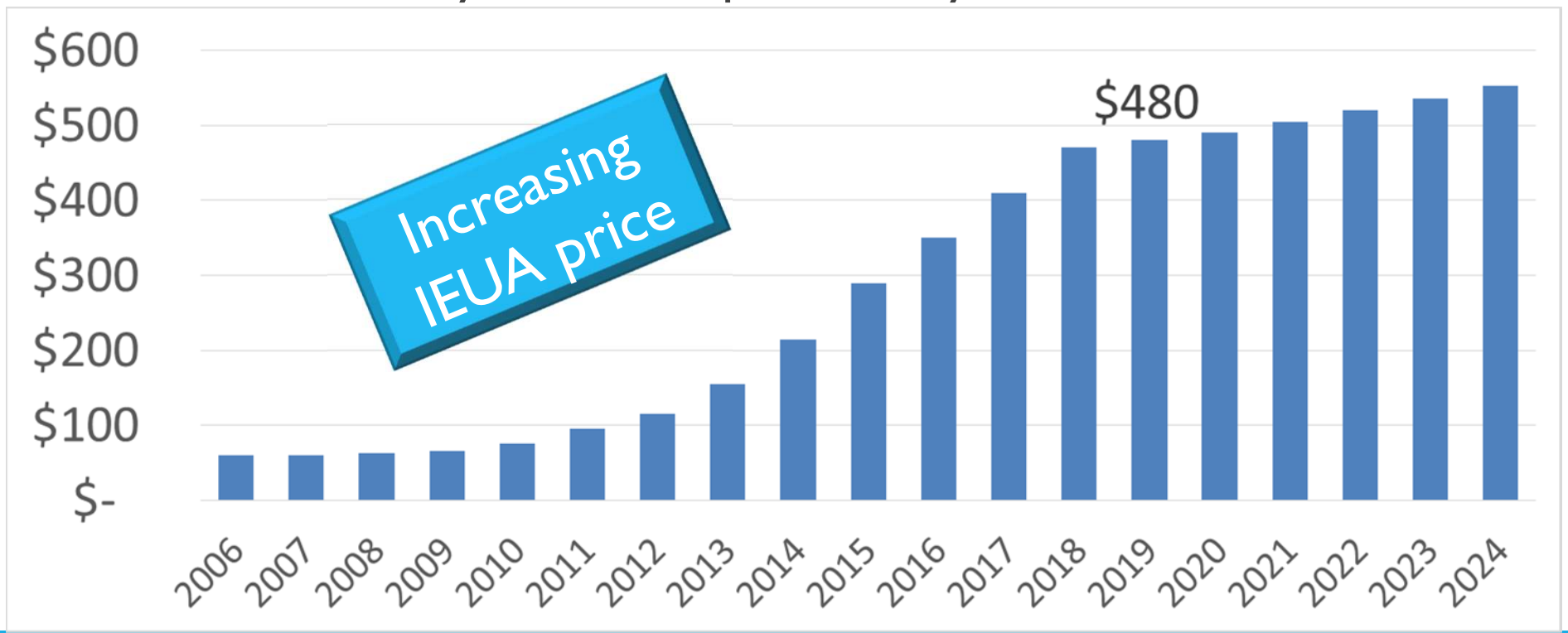
Currently not available for residential customers

Background Recycled Water

- Serves about 135 irrigation and industrial accounts
- Current rates effective through 6/30/2019
- Internal rate study by District staff
- IEUA wholesale recycled water cost is increasing
- Meter charge to cover fixed costs
- Commodity rate to cover variable operating costs
- Cost of Service Report for FY 2020 thru FY 2024

Customer Usage and Cost

- Number of Customers and Usage
- Wholesale recycled water price set by IEUA



Meter and Water Charges

- Monthly flat charge based on meter size
 - Should cover fixed costs
- Commodity charge for water used pays for:
 - Buying water from IEUA
 - Other operating costs
 - Investments in building the recycled water system
- Proposed 3% Recycled Water increase
 - Meter Charge
 - Commodity Charge

Summary of Recycled Water

- Cost of Service Study supports proposed rates
- 3% proposed increase in Meter and Commodity Charges
- Wholesale cost of recycled water determined by the IEUA
 - IEUA has raised the price 18% per year from 2006 to 2019
- IEUA Surcharge pass-through established and used only if needed
 - Recovers the margin between projected costs and actual costs
- Recycled Water remains affordable for irrigation and industrial use

Conclusion - Public Process

- Rate changes recommended for:
 - Cover costs of providing services
 - Pass through IEUA charges imposed on CVWD

- Public communication and outreach
 - Prop 218 Notice mailed
 - Newspaper summary published
 - Open public hearing
 - Participation opportunities explained