



Fallbrook Public Utility District Special Board Meeting

September 21, 2022



Presentation Overview



Background and Objectives



Rate Study Process



Water Finances & Rates



Wastewater Finances & Rates



Recycled Water Finances & Rates



Next Steps



Questions and Discussion

District Financial Overview

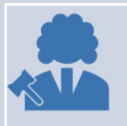


- FPUD utilities are financially self-supporting enterprises
- Rates are the main source of revenues
- Rates for each utility need to be set at levels adequate to fund the cost of providing service
- District has historically provided good financial stewardship by raising rates to meet annual funding needs
- FPUD has completed significant system upgrades including
 - Added new, local water supply and treatment with construction of Santa Margarita Conjunctive Use Project
 - Recently completed Advanced Metering Infrastructure updates
 - Major upgrades to District's aging Water Reclamation Plant
 - Expanded recycled water system
- FPUD is in good financial health but is facing financial challenges that will require modest rate increases

Rate Study Objectives



Financial Sufficiency



Legal Compliance (Prop. 218)



Rates Aligned with District Objectives



Customer Focus

Rate Study Overview

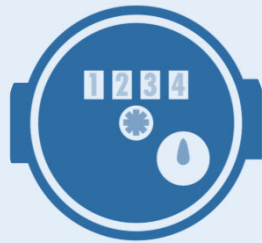


- **10-Year Financial Plans**
 - Fund long-term operating, debt service and capital needs
- **Cost of Service Rate Analysis**
 - Evaluate rate alternatives
 - Develop updated rates that reflect the cost of service and meet annual revenue requirements
- **Worked closely with District throughout project**
 - Incorporated input via numerous online meetings with staff, a series of Finance Committee meetings, and a public Board Meeting
 - Goal: Build consensus for final recommendations

Rate Study Process



Kick-Off



Demand
Analysis



Ten-Year
Financial
Plan



Cost
Allocation



Rate
Design



Prop. 218
Process



Proposition 218



Voter-approved constitutional amendment 1996

- Added Articles 13C & 13D to the California Constitution

Substantive requirements for property-related charges

- Rates cannot exceed cost of providing service
- Proportionate cost recovery (fair and equitable)

Procedural requirements for rate increases

- Mail notice of rate increases to all property owners/customers
- Hold public hearing at least 45 days after the mailing
- Rates are subject to “majority protest”

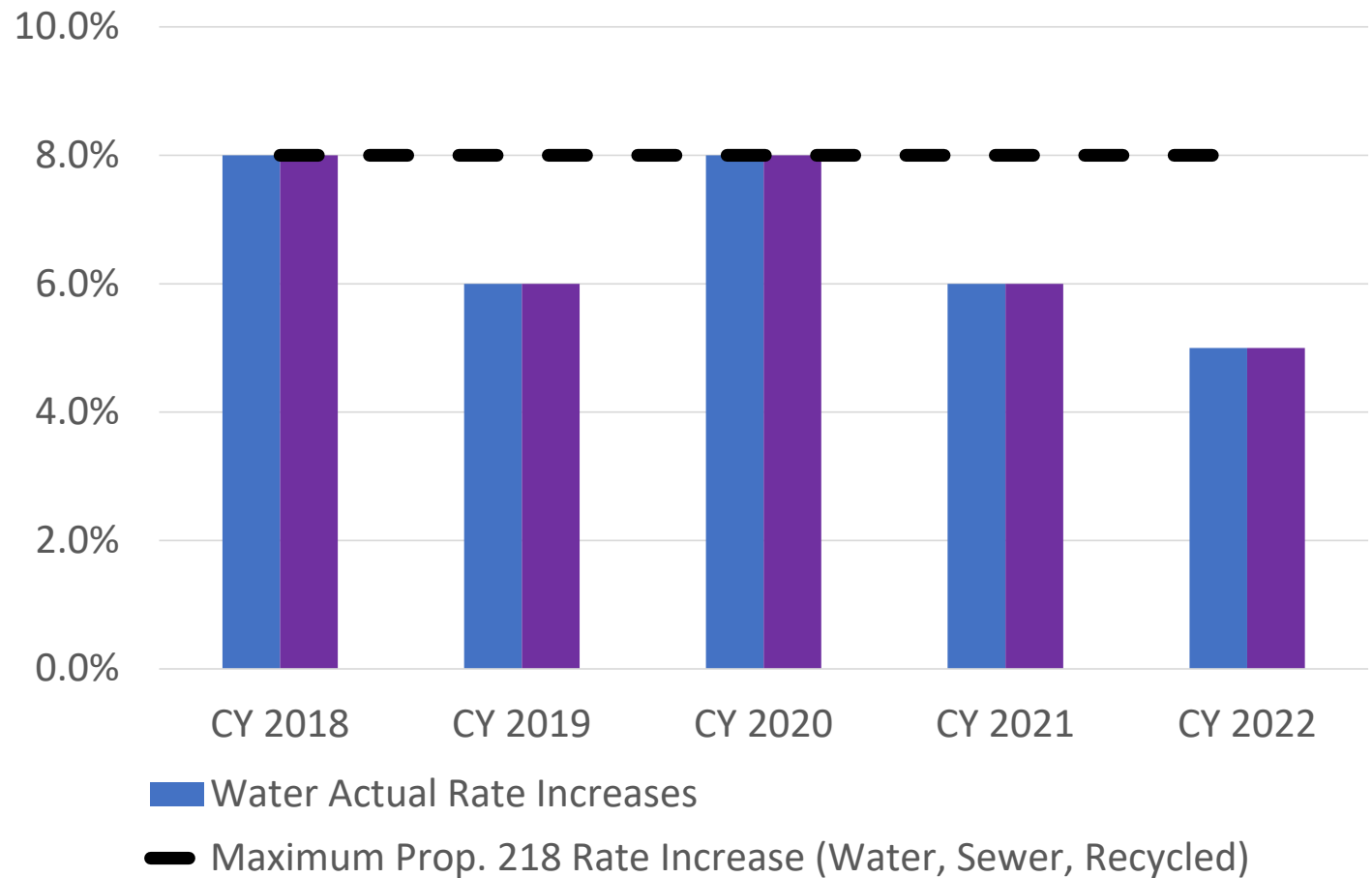
Maximum Rates

FPUD is required to notice maximum rates under Prop. 218.

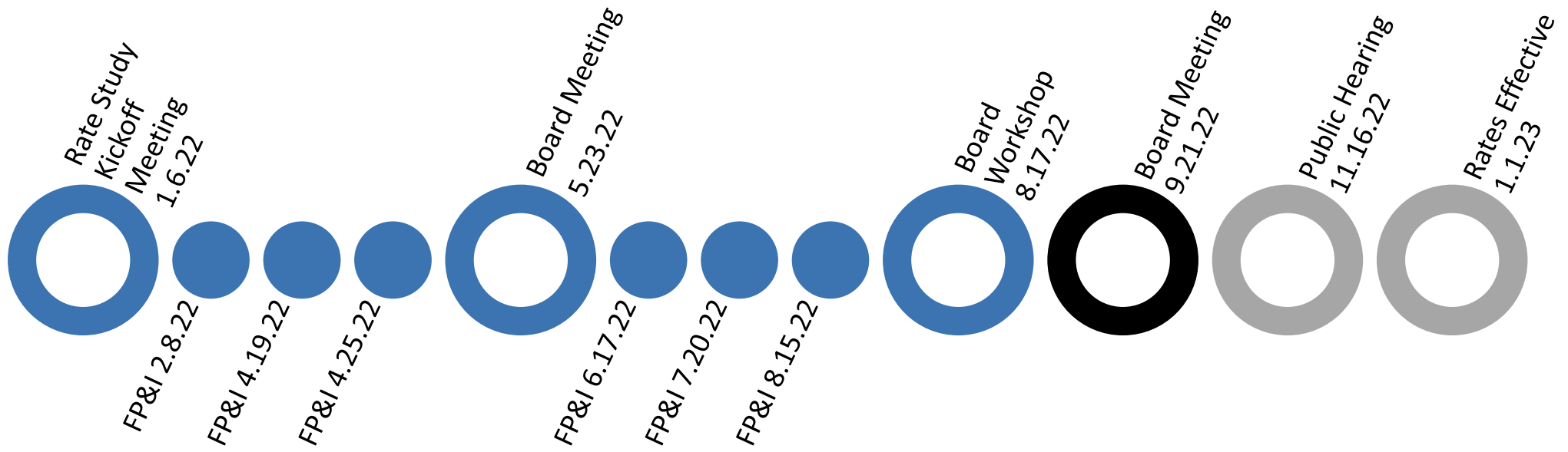
FPUD has a track record of reevaluating rate increases each year and only implementing necessary rate increases.



Prior 218. Noticed Maximum Rate Increases (8%) vs. Actual Implemented Rate Increases



Project Timeline



Water Enterprise

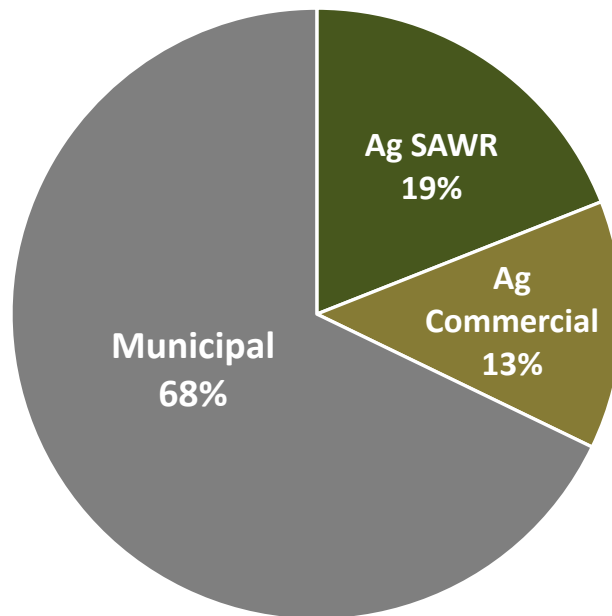


Water Enterprise Overview

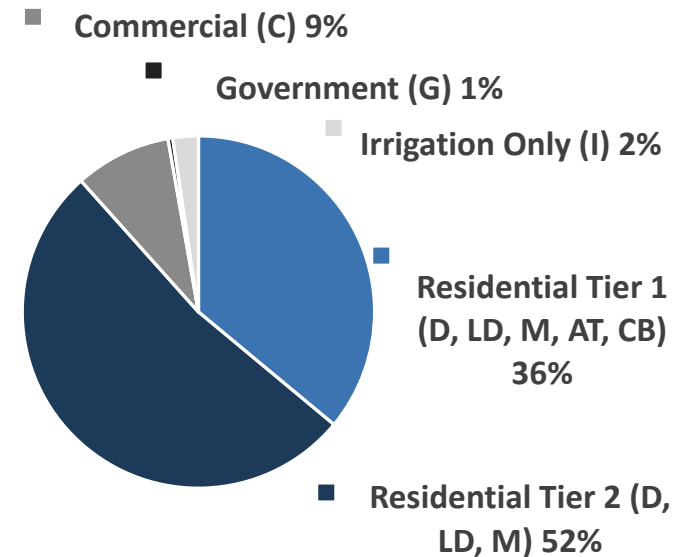


- Serves 35,000 people over a 44-square-mile service area
- Significant agricultural sector accounts for roughly 1/3 of water use
- Facilities include 270 miles of pipelines, an ultraviolet disinfection water treatment plant, 9 water storage tanks, a 300-million-gallon treated water reservoir, and five pump stations

Total Demand



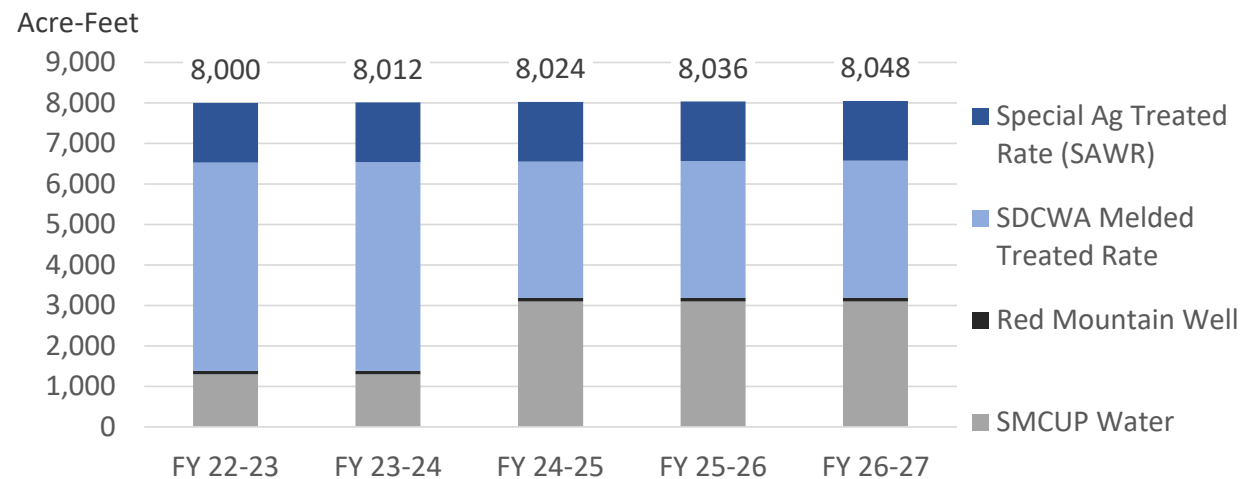
Municipal Demand



Water Supply



- Historically relied on imported water from San Diego County Water Authority (SDCWA) for most of District's water supply
- Recently completed Santa Margarita Conjunctive Use Project (SMCUP) will reduce reliance on imported water, improve water reliability and result in long-term cost savings
- FPUD has also expanded its recycled water system in recent years
- Currently engaging in an effort to detach from SDCWA and transition to lower-cost imported water through Eastern Municipal Water District



Financial Challenges



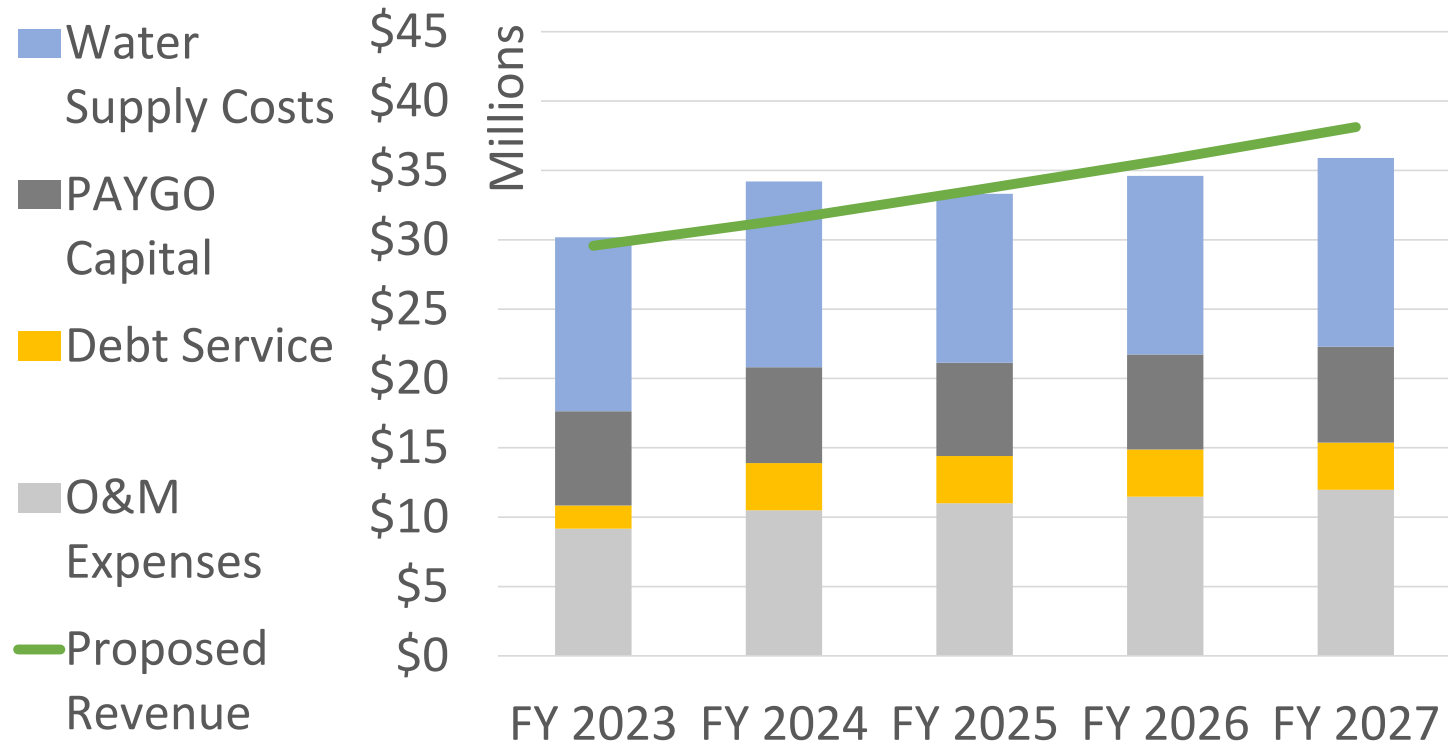
- BWA developed updated financial projections to identify funding needs & evaluate rate increases
- Wholesale water rate increases projected at 7.5% per year over the next 5 years
 - SAWR rate increase 8.6%
- Aging infrastructure & capital improvement needs
 - Water system upgrades, repairs & replacements needed maintain safe & reliable operations
 - \$34 million over the next 5 years
- New debt service for SMCUP
 - Annual debt phases in to \$2.5 million starting next fiscal year
 - Will result in lower-cost water supply in future years
- Operating cost inflation
 - 4.4% per year over next 5 years
 - Annual rate adjustments needed to keep rates in line with escalating costs (electricity, staffing, materials, insurance, etc.)

5-Year Water Financial Plan



Projected Maximum Rate Revenue Increases

Jan 1, 2023	Jan 1, 2024	Jan 1, 2025	Jan 1, 2026	Jan 1, 2027
6.5%*	6.5%	6.5%	6.5%	6.5%



**Due to rate structure adjustments, actual bill impacts will vary the first year*

Existing Water Rates



Fixed monthly charges based on meter size

- **Fixed Monthly Service charges**
 - Service charge, Standby service charge, Private fire service charge
- **Capital Improvement Charges (CIC)**
 - CIC Charges, Standby CIC Charges
- **Pass Through Charges**
 - MWD Readiness to Serve Charge
 - SDCWA Infrastructure Access Charge

Volumetric charges based on water use

- **Residential:** 3 tiers, Inclining block rate structure
- **Commercial/Government/Irrigation:** Uniform rates that vary slightly for each class
- **Agriculture:** SAWR* Ag, Commercial Ag
(Ag accounts with home on property pay residential rates for residential use)

*Special Agricultural Water Rate (reduced water supply cost from SDCWA)

Water Rate Structure Recommendations

- 1. Residential:** Maintain reduced volumetric rates for Tier 1 and combine Tiers 2 & 3
- 2. Non-Residential:** Charge same uniform volumetric rate to Commercial, Government & Irrigation customers
- 3. Agricultural:** Maintain Agricultural water programs
- 4.** Recover MWD's Readiness-to-Serve Charge in Monthly Fixed Service Charges instead of as a small separate pass-through charge
- 5.** Continue historical practice of automatic annual pass-through adjustments to SDCWA Infrastructure Access Charges

Water Rate Structure Recommendations

6. Continue historical practice of automatic annual adjustments to Capital Improvement Charges based on the ENR-Construction Cost Index + 3%
7. Remove Pumping Capital Improvement Charge (\$0.11/Kgal) that only applies to a small number of accounts
8. Charge the small number of Standby Customers the same Capital Improvement Charge as all other customers

Rate structure adjustments will result in a range of bill impacts the first year, but customers will face the same 6.5% across-the-board rate increases in future years

Recommended Volumetric Water Rates

Rates shown are the maximum rates the District can adopt.

FPUD will reevaluate rate increases each year and only implement necessary rate increases.



Proposed Maximum Water Rates						
	Current Water Rates*	Proposed Rates Effective On or After				
		January 1 2023	January 1 2024	January 1 2025	January 1 2026	January 1 2027
Volumetric Charges						
<i>Billed based on metered water use as measured in units of 1,000 gallons (\$/Kgal).</i>						
Residential: Domestic (D), Large Lot Domestic (LD) & Multi Unit (M)						
Tier 1 : 0-5 Kgal	\$7.17	\$7.31	\$7.79	\$8.30	\$8.84	\$9.41
Tier 2: >5 Kgal	6-30 Kgal: 7.27 >30 Kgal: 8.86	8.06	8.58	9.14	9.73	10.36
Commercial (C)	\$7.38	\$7.72	\$8.22	\$8.75	\$9.32	\$9.93
Government (G)	7.26	7.72	8.22	8.75	9.32	9.93
Irrigation Only (I)	7.39	7.72	8.22	8.75	9.32	9.93
Agriculture SAWR (AS)	\$5.31	\$5.63	\$6.00	\$6.39	\$6.81	\$7.25
Commercial Ag (CA)	6.15	6.38	6.79	7.23	7.70	8.20
Agriculture Domestic (AT)						
Tier 1 : 0-5 Kgal	\$7.17	\$7.31	\$7.79	\$8.30	\$8.84	\$9.41
Tier 2: 6-17 Kgal	6.15	6.38	6.79	7.23	7.70	8.20
Tier 3: >17 Kgal	5.31	5.63	6.00	6.39	6.81	7.25
Commercial Domestic Ag (CB)						
Tier 1 : 0-5 Kgal	\$7.17	\$7.31	\$7.79	\$8.30	\$8.84	\$9.41
Tier 2: >5 Kgal	6.15	6.38	6.79	7.23	7.70	8.20
Pumping Charges (Deluz & Toyon Service Areas)	\$0.88	\$0.72	\$0.77	\$0.82	\$0.87	\$0.93

Recommended Fixed Charges

Rates shown are the maximum rates the District can adopt.

FPUD will reevaluate rate increases each year and only implement necessary rate increases.

Proposed Maximum Fixed Water Charges

	Current Charges	Proposed Charges Effective On or After				
		January 1 2023	January 1 2024	January 1 2025	January 1 2026	January 1 2027
Monthly Fixed Service Charges						
<i>Billed based on meter size.</i>						
3/4"	\$57.91	\$60.60	\$64.54	\$68.74	\$73.21	\$77.97
1"	88.65	96.51	102.78	109.46	116.57	124.15
1-1/2"	165.42	185.46	197.51	210.35	224.02	238.58
2"	257.59	292.64	311.66	331.92	353.49	376.47
3"	503.36	578.82	616.44	656.51	699.18	744.63
4"	779.84	900.36	958.88	1,021.21	1,087.59	1,158.28
6"	1,547.83	1,793.16	1,909.72	2,033.85	2,166.05	2,306.84
Monthly Standby Fixed Service Charges						
<i>Billed based on meter size to customers with inactive, standby service.</i>						
3/4"	\$25.22	\$17.44	\$18.57	\$19.78	\$21.07	\$22.44
1"	34.15	24.43	26.02	27.71	29.51	31.43
1-1/2"	56.46	41.75	44.46	47.35	50.43	53.71
2"	83.23	62.61	66.68	71.01	75.63	80.55
3"	154.65	118.30	125.99	134.18	142.90	152.19
4"	235.00	180.88	192.64	205.16	218.50	232.70
6"	458.16	354.65	377.70	402.25	428.40	456.25

Recommended Fixed Charges (Continued)

Rates shown are the maximum rates the District can adopt.

FPUD will reevaluate rate increases each year and only implement necessary rate increases.

Proposed Maximum Fixed Water Charges						
	Current Charges	Proposed Charges Effective On or After				
		January 1 2023	January 1 2024	January 1 2025	January 1 2026	January 1 2027
SDCWA Infrastructure Access Charges (IAC)						
<i>Monthly charge billed based on meter size to all active water service accounts.</i>						
3/4"	\$4.00	\$4.24				
1"	6.69	7.08				
1-1/2"	13.33	14.12				
2"	21.34	22.60				
3"	42.75	45.24				
4"	66.79	70.68				
6"	133.53	141.32				
SDCWA IAC Charges will be adjusted each January 1 based on the IAC charges adopted by SDCWA in future years, subject to a maximum adjustment of 10% per year.						
Water Capital Improvement Charges (CIC)						
<i>Monthly charge billed based on meter size to all active water service accounts.</i>						
3/4"	\$10.10	\$11.11				
1"	16.82	18.50				
1-1/2"	33.66	37.03				
2"	53.84	59.22				
3"	107.68	118.45				
4"	168.25	185.08				
6"	336.50	370.15				
Water CIC Charges will be adjusted each January 1 based on the annual change in the Engineering News-Record Construction Cost Index for Los Angeles through February of the preceding year, plus 3%, subject to a maximum adjustment of 10% per year.						
Monthly Fire Service Charges						
<i>Billed based on service size to customers with private fire service connections.</i>						
2"	\$12.25	\$7.66	\$8.16	\$8.69	\$9.25	\$9.85
3"	13.06	8.90	9.48	10.10	10.76	11.46
4"	14.47	11.03	11.75	12.51	13.32	14.19
6"	19.50	18.70	19.92	21.21	22.59	24.06
8"	28.18	31.92	33.99	36.20	38.55	41.06



Typical Residential Bill Impact

Bills include all charges including the SDCWA IAC and MWD RTS pass through charges and CIC inflation adjusted charge



Monthly Bill Increase: \$9.38



Bill = 11 Kgal
Median Customer Water Bill

SDCWA Detachment

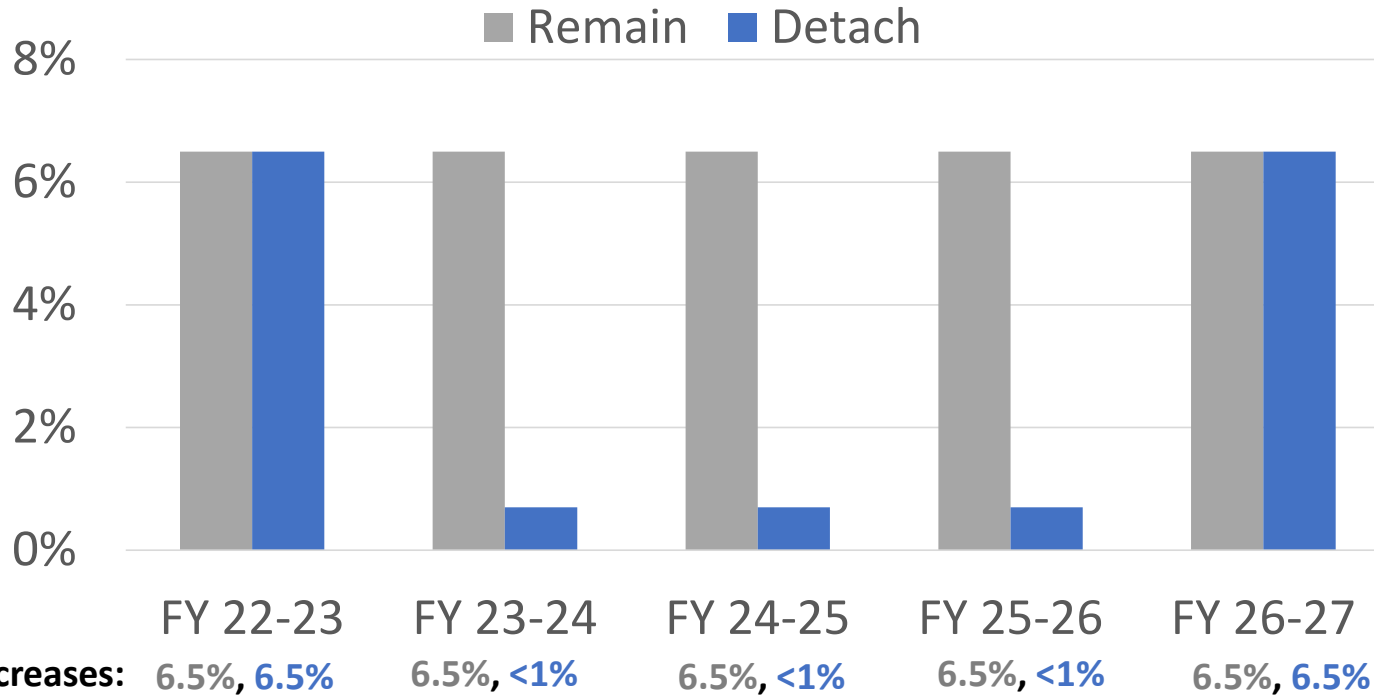
- FPUD purchases 60% of its water supply from SDCWA, which in turn obtains most of its water supply from MWD
- SDCWA wholesale water rates are substantially higher than MWD rates
- FPUD can potentially reduce costs of water supply by purchasing lower-cost water from MWD through Eastern Municipal Water District with minimal markup
- FPUD has 4 direct water supply connections to MWD
- Potential fees for detachment are not yet known & would reduce savings
- Savings would be passed on to FPUD water customers

SDCWA Detachment Savings Analysis

- Preliminary analysis estimates average annual savings between \$3 - \$4 million per year
 - Analysis excludes cost of potential detachment fee, which would reduce savings
- Annual savings would vary based on level of imported water needs which are impacted based on customer demand and SMCUP supply availability
- Under projected water supply conditions, savings could enable FPUD to avoid implementing up to 6.5% rate increases for 3 years (actual savings may vary)
 - Equates to a roughly 20% reduction of rate increases over the next 5 years

SDCWA Detachment Savings Analysis

Potential Lower Rate Increases with SDCWA Detachment
(Less than 1% for three years)



Wastewater Enterprise



Wastewater Enterprise Overview



- FPUD's wastewater system serves a little over 5,000 accounts
- Facilities over 78 miles of wastewater collection system pipelines, approximately 4 miles of sewer force mains, 6 lift stations and a Water Reclamation Plant (WRP) that underwent a \$28 million rehabilitation & upgrade
- Treated effluent is disposed via 18 miles of pipeline to an outfall in the Pacific Ocean

Financial Challenges



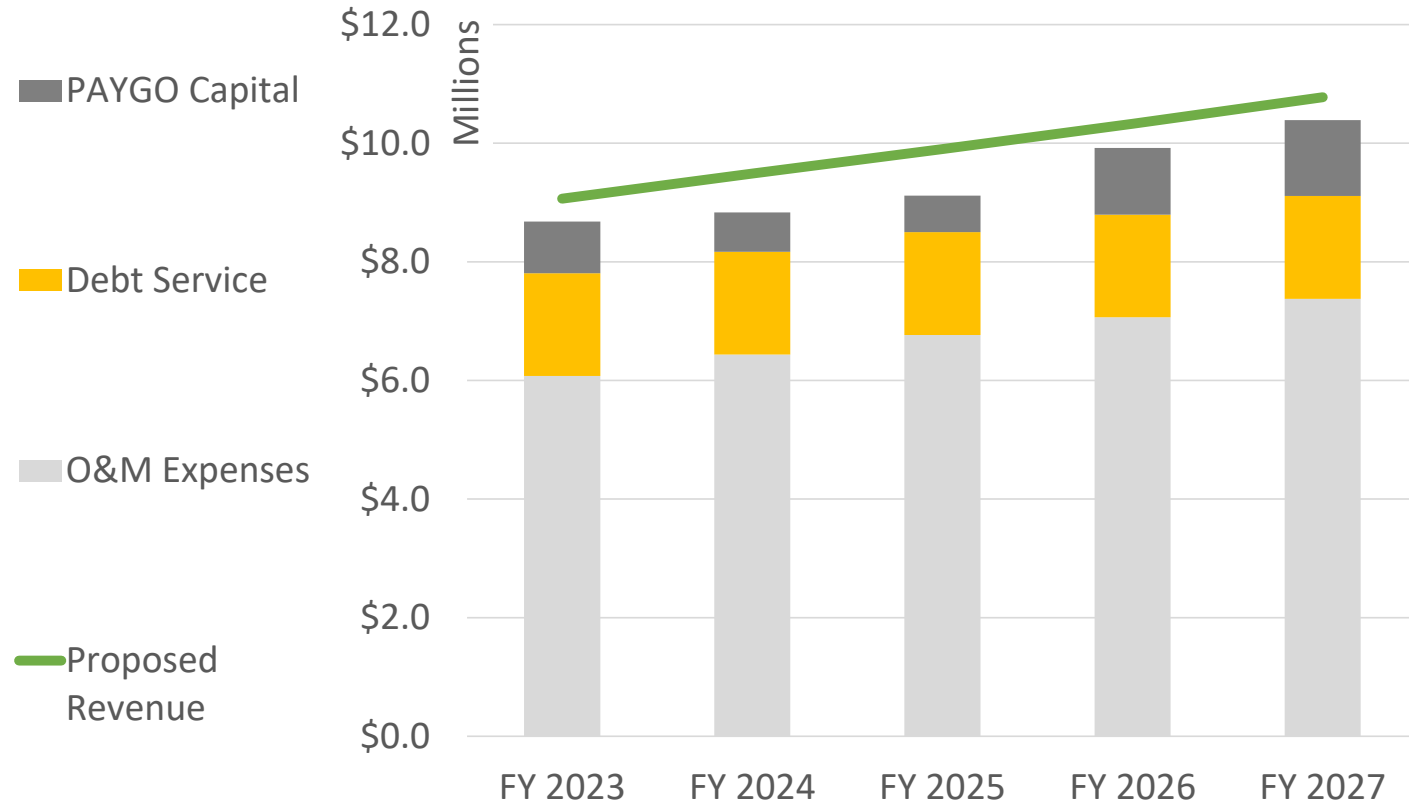
- BWA developed updated financial projections to identify funding needs & evaluate rate increases
- Capital improvement needs
 - Wastewater system upgrades, repairs & replacements needed maintain safe & reliable operations
 - \$4.5 million over the next 5 years
- Low fund reserves
 - Reserves are \$3 million below reserve target
 - Reserves have decreased to only \$1.7 million
- WRP debt service for recent plant upgrade
 - \$1.7 million per year
- Operating cost inflation
 - 5.0% per year over next 5 years
 - Annual rate adjustments needed to keep rates in line with escalating costs (electricity, staffing, materials, insurance, etc.)

5-Year Wastewater Financial Plan



Projected Maximum Rate Revenue Increases

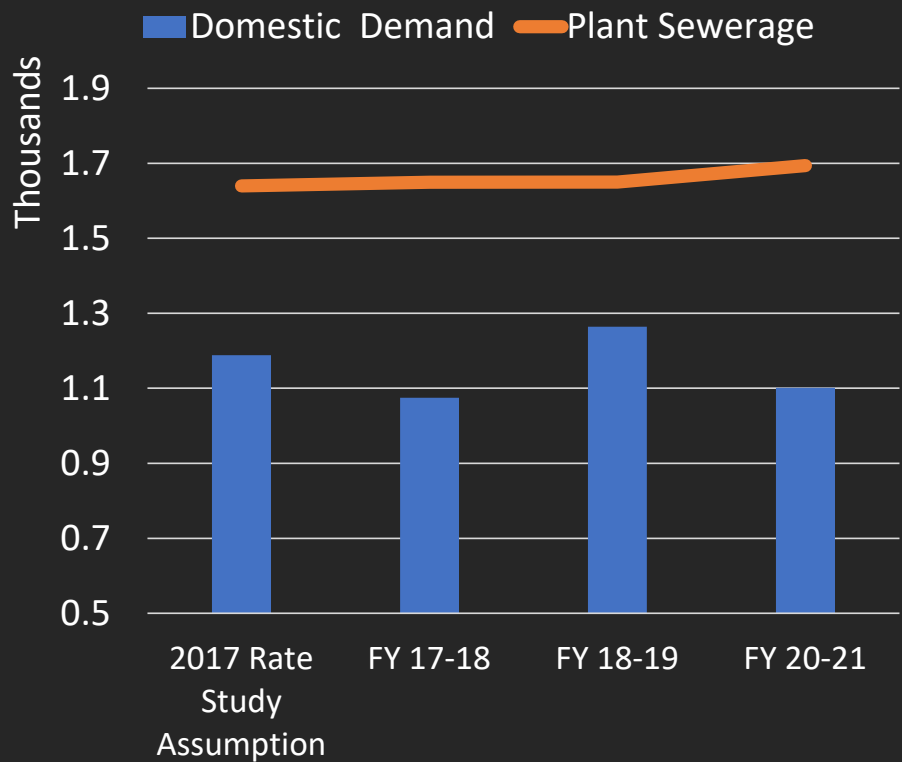
Jan 1, 2023	Jan 1, 2024	Jan 1, 2025	Jan 1, 2026	Jan 1, 2027
5.0%*	5.0%*	5.0%*	5.0%*	5.0%*



**Due to rate structure adjustments the actual impacts will vary by class in the first year for all customers and during the 5-year phase-in for residential customers*

Wastewater Rate Structure

Domestic Demand (AF) and Total Sewer Inflow (AF)



Key Findings

Residential Revenue Variability

- 350,000 to 416,000 units from 2017-2021
- Sewer treatment plan flows were almost flat
- \$720,000 revenue range at existing rates
- No way to measure discharge into the sewer
- Low fixed rate recovery below industry standards

Recommendations

Phase-in to 70% rate recovery from fixed residential rates

- Better reflection of costs of service
- Improve revenue stability
- Maintain significant customer control over bill
- Increase residential return-to-sewer factor from 75% to 80% of winter water use based on updated analysis of treatment plant flows

Existing Wastewater Rates



- **Fixed Service Charge**
 - \$11.08 / Equivalent Dwelling Unit/ Month
 - For comparison - water fixed service charge \$56.20
- **Capital Improvement Charge**
 - \$11.68 / EDU / Month
- **Volumetric charges based on water use**
 - Residential: \$11.28 / kgal
Billed based on 2-year average winter water use (Dec-Feb)
x 75% Return to Sewer (RTS), subject to a maximum of 21 kgals
 - Commercial:
Rates vary based on customer class & wastewater strength and are
billed based on monthly water use x 90% Return to Sewer (RTS)

Proposed Wastewater Rates

Rates shown are the maximum rates the District can adopt.

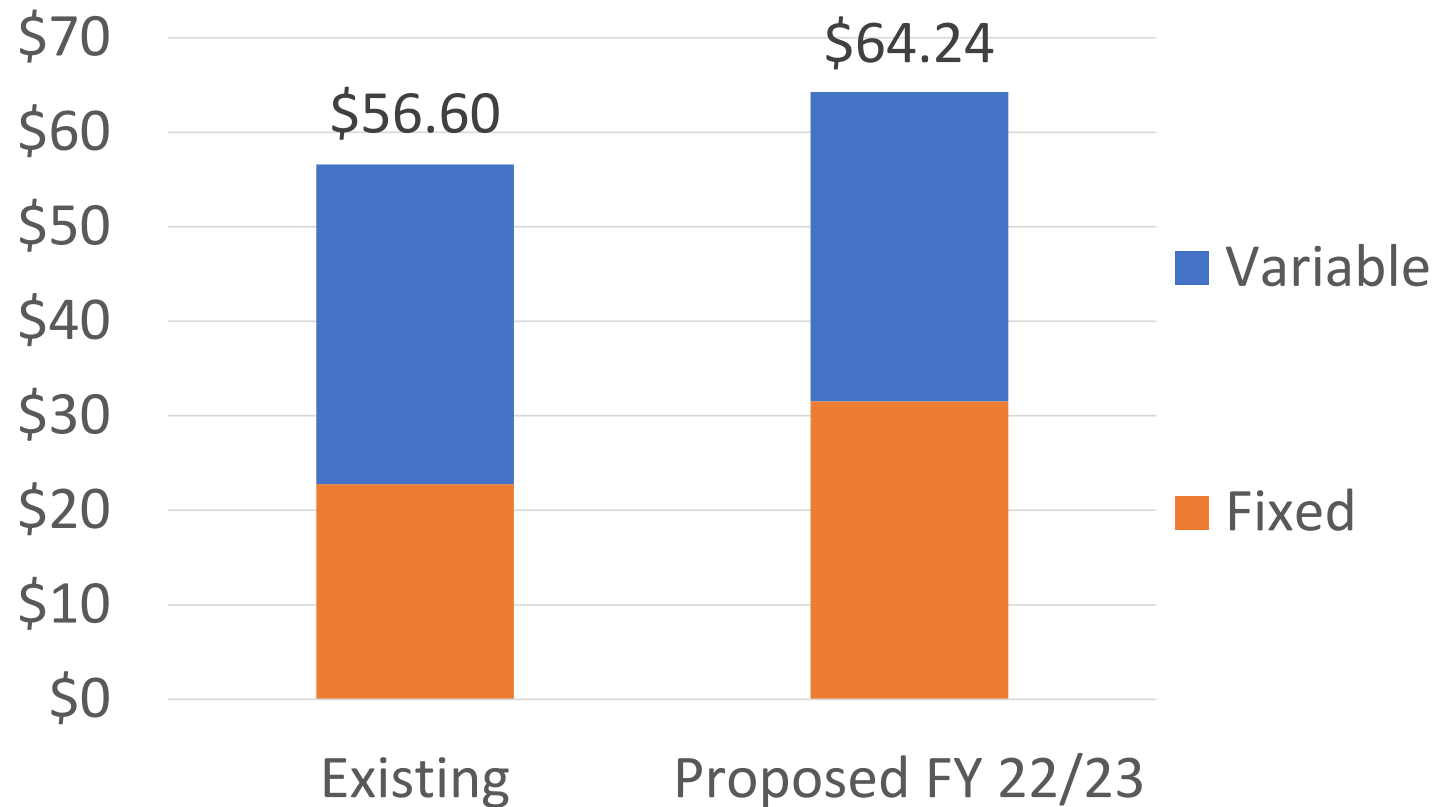
FPUD will reevaluate rate increases each year and only implement necessary rate increases.

Proposed Maximum Wastewater Rates						
	Current Wastewater Rates	Proposed Maximum Rates Effective On or After				
		January 1 2023	January 1 2024	January 1 2025	January 1 2026	January 1 2027
Residential / Domestic						
<i>Includes Single Family (D), Single Family Large Lot (LD), Multi Family (M), Ag Domestic (AT), Commercial Ag (CB)</i>						
Monthly Fixed Service Charges (\$/EDU)	\$11.08	\$18.88	\$26.68	\$34.48	\$42.28	\$50.08
Volumetric Charges (\$/Kgal)	11.28	10.22	9.16	8.10	7.04	5.98
Commercial / Government						
Monthly Fixed Service Charge (\$/EDU)	\$11.08	\$12.14	\$12.75	\$13.39	\$14.06	\$14.76
Volumetric Charges						
Comm - Low Strength (C_L)	\$11.20	\$11.09	\$11.64	\$12.22	\$12.83	\$13.47
Comm - Medium Strength (C_M)	13.81	13.82	14.51	15.24	16.00	16.80
Comm- High Strength (C_H)	17.22	17.66	18.54	19.47	20.44	21.46
Government (G)	11.20	11.09	11.64	12.22	12.83	13.47
Schools						
<i>Monthly charge based on number of students and staff</i>						
Elementary Students (\$ per student)	\$1.37	\$1.39	\$1.46	\$1.53	\$1.61	\$1.69
Junior High Students (\$ per student)	2.00	2.08	2.18	2.29	2.40	2.52
School Staff (\$ per staff)	2.00	2.08	2.18	2.29	2.40	2.52
Wastewater Capital Improvement Charges (CIC)						
<i>Monthly charge per Equivalent Dwelling Unit (EDU) billed to all active wastewater accounts.</i>						
Monthly Wastewater CIC Charges	\$11.68	\$12.66	Wastewater CIC Charges will be adjusted each January 1 based on the annual change in the Engineering News-Record Construction Cost Index for Los Angeles through February of the preceding year, subject to a maximum adjustment of 10% per year.			

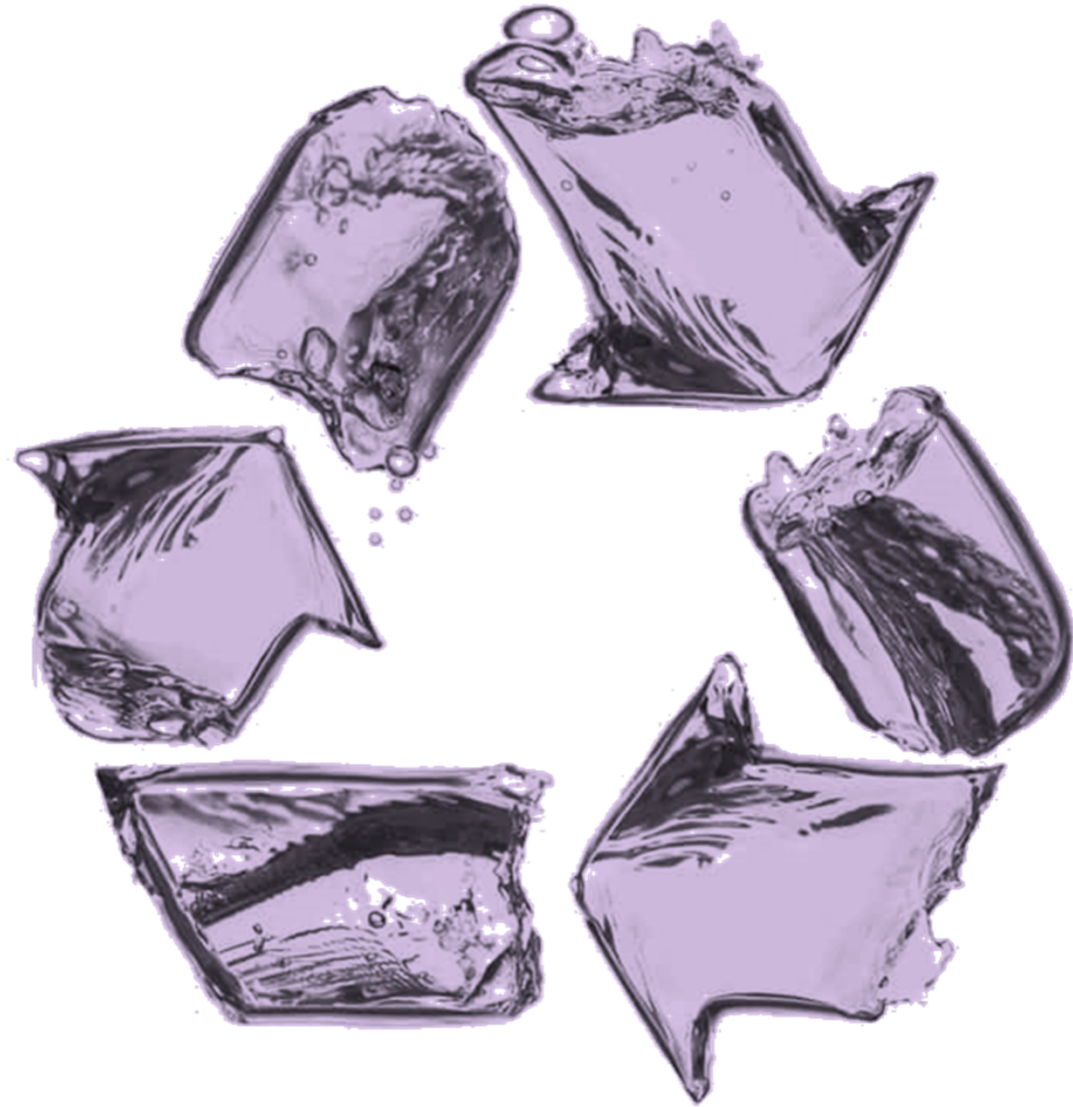
Typical Residential Bill Impact

With Average Winter Consumption of 6 Kgal
50% of customers at or below 6 Kgal

Median Customer Monthly Bill Impact Including the CIC Charge
• Monthly bill increase: \$7.64



Recycled Water Enterprise



Recycled Water Enterprise Overview



- FPUD provides recycled water generated at the WRP for use as a drought-proof, locally-generated irrigation water supply
- Recycled water goes through additional treatment process to meet more-stringent permit requirements for reuse
- FPUD has expanded its recycled water distribution system to increase service area and system capacity
- Last year delivered 810 AF (352,000 Kgals) of recycled water for landscape irrigation, sports fields and nurseries

Financial Challenges



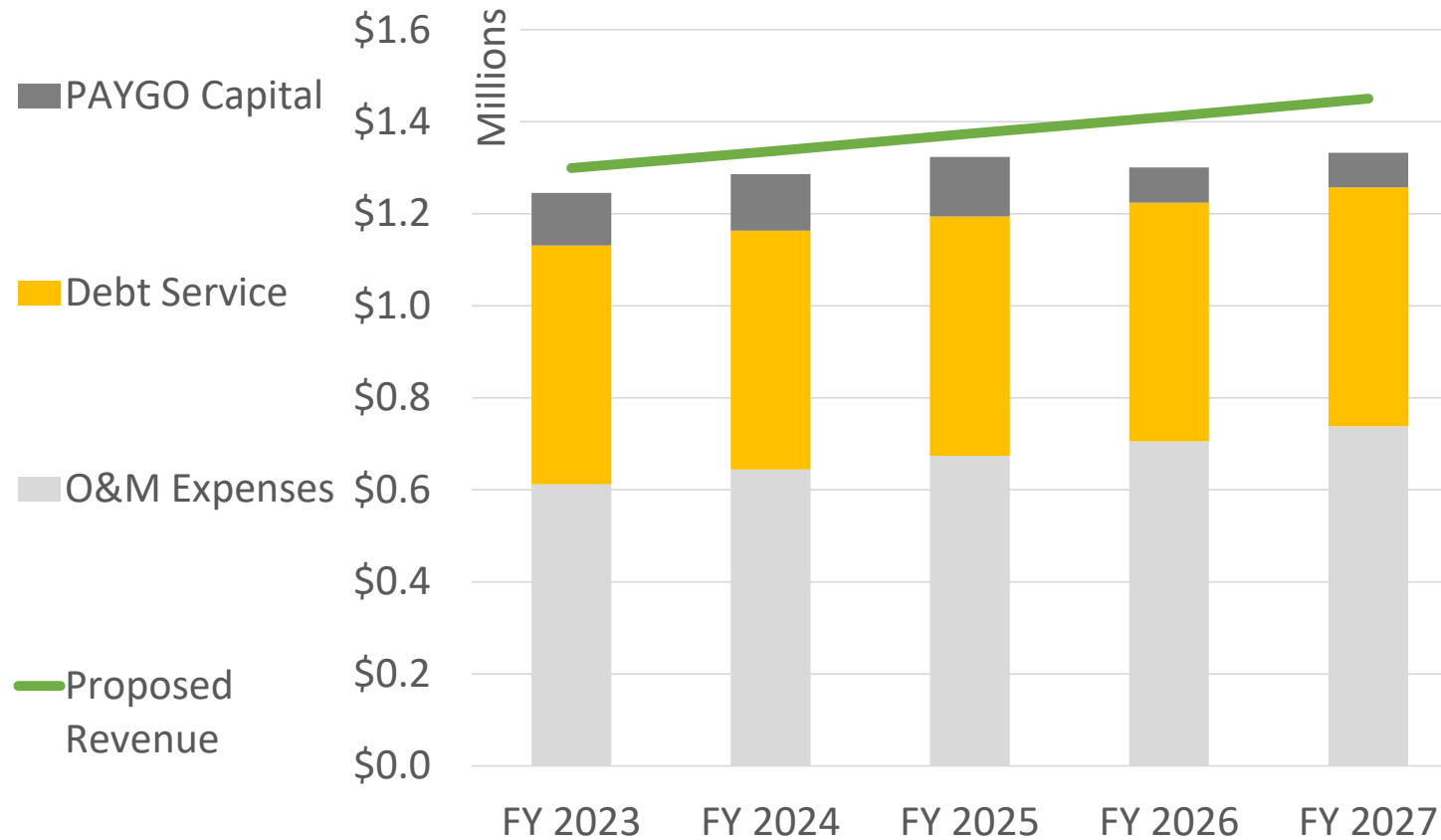
- BWA developed updated financial projections to identify funding needs & evaluate rate increases
- Capital improvement needs
 - Recycled Water system upgrades, repairs & replacements needed maintain safe & reliable operations
 - \$0.5 million over the next 5 years
- Operating cost inflation
 - 4.3% per year over next 5 years
 - Annual rate adjustments needed to keep rates in line with escalating costs (electricity, staffing, materials, insurance, etc.)
- Debt service for recent treatment plant upgrade
 - \$500,000 per year

5-Year Recycled Water Financial Plan



Projected Maximum Rate Revenue Increases

Jan 1, 2023	Jan 1, 2024	Jan 1, 2025	Jan 1, 2026	Jan 1, 2027
2.5%*	2.50%	2.50%	2.50%	2.50%



Recycled Water Rates



Recycled Water Rates

Monthly fixed charges

- Based on meter size for all customers

Volumetric rates

- Uniform rate structure
- Take or pay contracts
- Seasonal rate structure

Proposed Maximum Recycled Water Rates

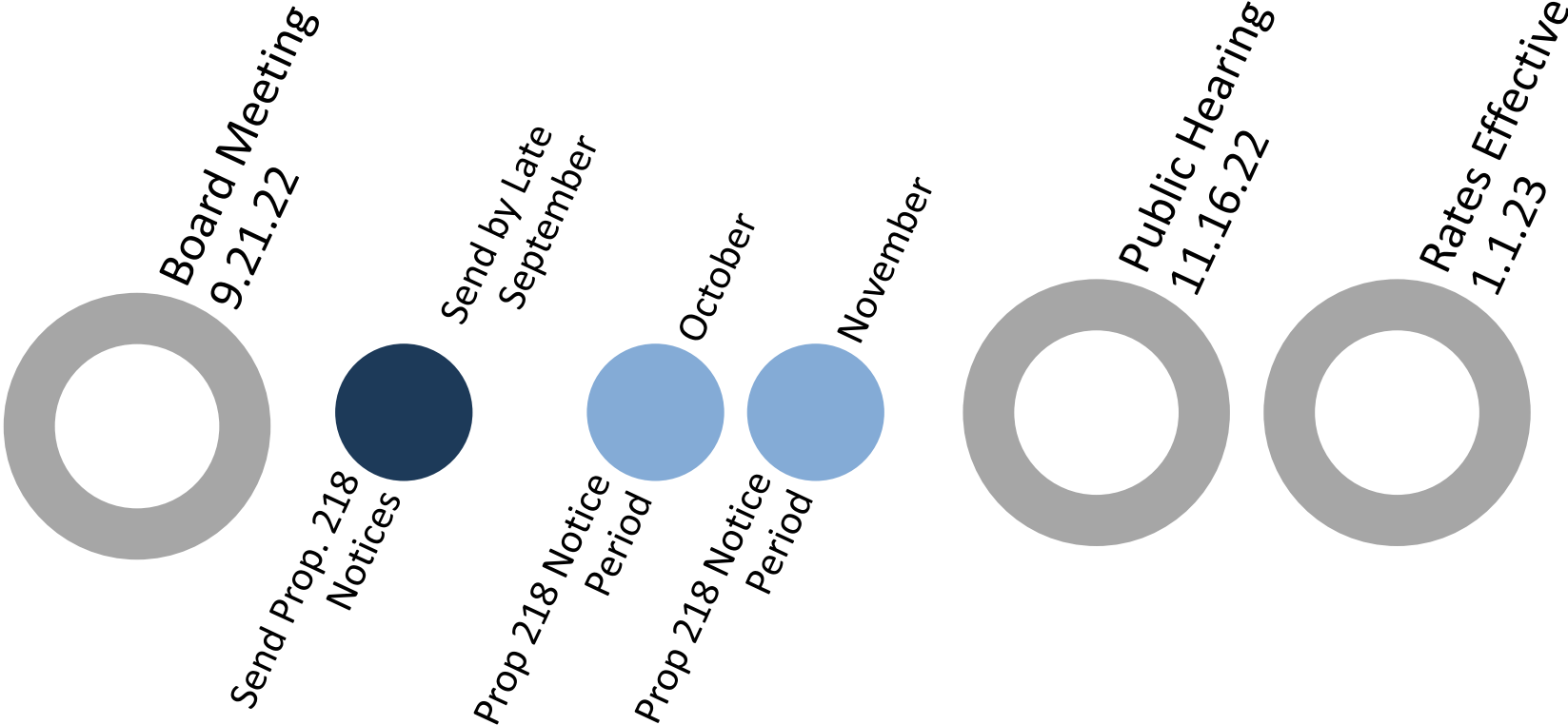
	Current Recycled Water Rates	Proposed Rates Effective On or After				
		January 1 2023	January 1 2024	January 1 2025	January 1 2026	January 1 2027
Monthly Fixed Service Charges						
<i>Billed based on meter size.</i>						
3/4"	\$25.22	\$25.85	\$26.50	\$27.16	\$27.84	\$28.53
1"	34.15	35.14	36.02	36.92	37.84	38.79
1-1/2"	56.46	58.15	59.60	61.09	62.62	64.19
2"	83.23	85.88	88.03	90.23	92.48	94.80
3"	154.65	159.91	163.91	168.01	172.21	176.51
4"	235.00	243.09	249.17	255.40	261.78	268.33
6"	458.16	474.06	485.91	498.06	510.51	523.27
Volumetric Charges						
<i>Billed based on metered water use as measured in units of 1,000 gallons (\$/Kgal).</i>						
Recycled Water Sales	\$6.13	\$6.29	\$6.45	\$6.61	\$6.77	\$6.94

Summary



- FPUD has historically provided good financial stewardship
- Rate increases needed support each utility's operating, debt service and capital needs
- Proposed rate increases are phased in over next 5 years
- Rates updated to reflect the cost of service to each customer class and include some rate structure adjustments
- FPUD recently completed SMCUP to provide local water supply that reduces need for purchasing imported water
- FPUD is engaged in efforts to detach from SDWCA & transition to lower-cost water supply, which could help offset future rate increases
- Next step: With Board permission, send notices to satisfy Prop. 218 requirements before public hearing November 16, 2022.

Next Steps





BARTLE WELLS
ASSOCIATES