

Water Connection Fee Study

Preliminary Results Presentation



January 2022

// Agenda

- Goals of the study
- Connection fee calculation
- Current connection fees
- Methodology and assumptions
- Methodology changes since the last study
- Proposed fees
- Discussion

// Project Goals

A successful connection fee...

- Allocates a fair and equitable share of the District's **existing** system to new customers.
- Allocates a fair and equitable share of the District's **future** system to new customers.
- Finds a balance between the two when calculating the fee.

// Industry best practice offers three primary methodologies to assess connection fees



Buy-in

- New connections buy existing capacity that has been paid for
- Best for systems at or near build-out



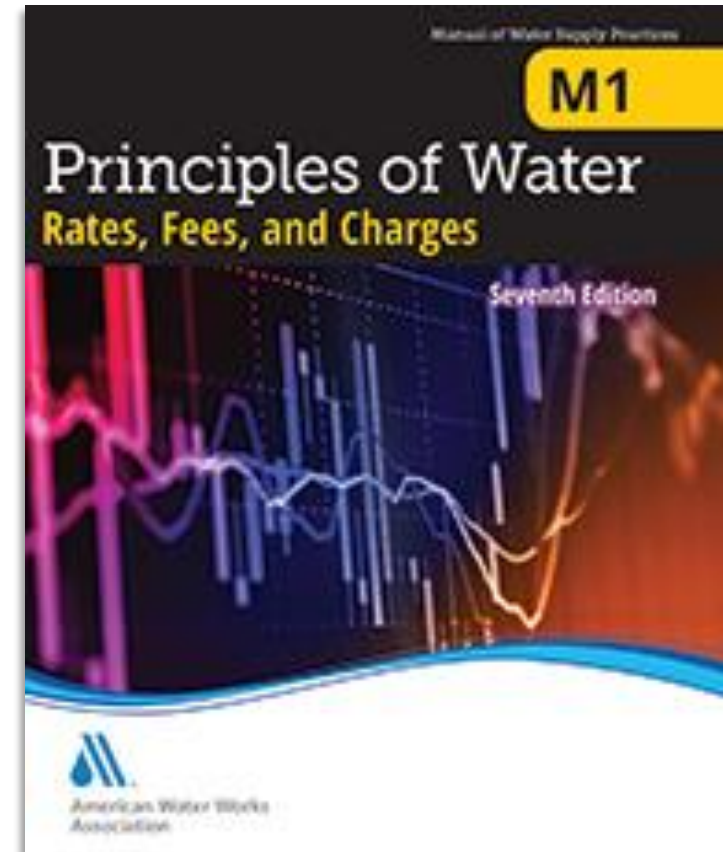
Incremental/Expansion

- New connections pay for expansion CIP
- CIP can be allocated between new and existing users
- Best for systems with lots of growth planned



Hybrid

- Combines both the buy-in and expansion approaches
- Best for systems in-between build-out and growth phases



The District's existing fees are based on the Hybrid approach

// How are the two primary methodologies implemented?

Buy-In Approach

$$\text{Connection Fee} = \frac{\text{Value of Existing Assets}}{\text{System Capacity (MEU)}}$$

1. Calculate existing system value
2. Add in reserves, and deduct outstanding debt principal and donated assets
3. Divide by current MEU capacity
4. Escalate to keep pace with inflation

Incremental Approach

$$\text{Connection Fee} = \frac{\text{Expansion CIP}}{\text{Added System Capacity (MEU)}}$$

1. Allocate CIP between existing system and expansion
2. Divide by projected MEU served by expansion
3. Escalate to keep pace with inflation

// How is the hybrid methodology implemented?

Hybrid Approach

$$\text{Connection Fee} = \frac{\text{Value of Existing Assets + Expansion CIP}}{\text{System Capacity (MEU) + Added System Capacity (MEU)}}$$

1. Combine the system values from the Buy-In and Incremental Approaches
2. Divide by combined current and future MEU capacity
3. Escalate to keep pace with inflation

// Background on the Connection Fee

- Paid by each new connection to the MVWD system for water service
- Assessed based on estimated capacity in the system, expressed using benchmark
 - Meter Equivalent Units, benchmarked against 3/4" meter

Meter Size	Current Fee (eff. July 2021)
3/4-inch	\$6,588
1-inch	\$10,980
1 1/2-inch	\$21,960
2-inch	\$35,136
3-inch	\$70,272
4-inch	\$109,800
6-inch	\$219,600
8-inch	\$351,360
10-inch	\$505,080

// Inputs and Data Sources

- Current fixed asset registry (through FYE 2021)
- Outstanding debt service principal
- Contributed asset totals
- Capital improvement plan through system build-out
- Projected capacity and MEU served through system build-out
- Engineering News-Record Construction Cost Index
- Water system master plans

// Some assumptions have changed from the study behind the current fee, but conceptual approach hasn't changed significantly.

	Study behind Current Fee	This Study
Methodology Used	Hybrid	Hybrid
System Valuation Methodology	Replacement Cost New less Depreciation	Replacement Cost New
Contributed Assets (grants, Chino Hills reserved capacity, etc.)	Excluded from system value	Excluded from system value
Debt Funded Assets	Excluded for R&R projects with debt outstanding	Excluded for R&R projects with debt outstanding
Time Horizon	Build-out	Build-out
Meter Ratio	Modified AWWA	AWWA M6 Manual

// Both AWWA and WEF outline four commonly used and accepted system valuation approaches.

Method	Approach
Original Cost	Nominal value paid at the time of construction
Net Book Value	Original value, less accumulated depreciation
Replacement Cost (as New), Less Depreciation (RCNLD)	Original cost less accumulated depreciation, adjusted to represent cost of replacement in current dollars
Replacement Cost (as New) (RCN)	Original cost, adjusted to represent cost of replacement in current dollars; no depreciation is subtracted

- Current fee is based on RCNLD.
- During this study, RCN was selected for several reasons.
 - RCN is a valid approach supported by industry best practice.
 - Creates a repeatable process for future studies.
 - Represents commitment by District that new connections get reliable quality water, regardless of depreciation.

// Our analysis proposes a change to the current meter ratios to align with both the District's current RTS Charge and AWWA.

Meter Size	Existing Connection Fee MEU Ratio	Current RTS & Proposed Fee MEU Ratio
3/4-inch	1.0	1.0
1-inch	1.7	1.6
1 1/2-inch	3.3	3.6
2-inch	5.3	5.2
3-inch	10.7	11.2
4-inch	16.7	19.6
6-inch	33.3	42.8
8-inch	53.3	73.2
10-inch	76.7	110.0

- AWWA M6 Manual outlines safe max operating capacities for common meter types.
 - MEU Ratios are based on the ratio of that flow rate between a given meter and a 3/4-in. meter.
- In the 2019 rate study, the ratios for the RTS (monthly meter charge) were updated to align with M6.
 - The proposed meter ratios would align with both the RTS and the M6 Manual.

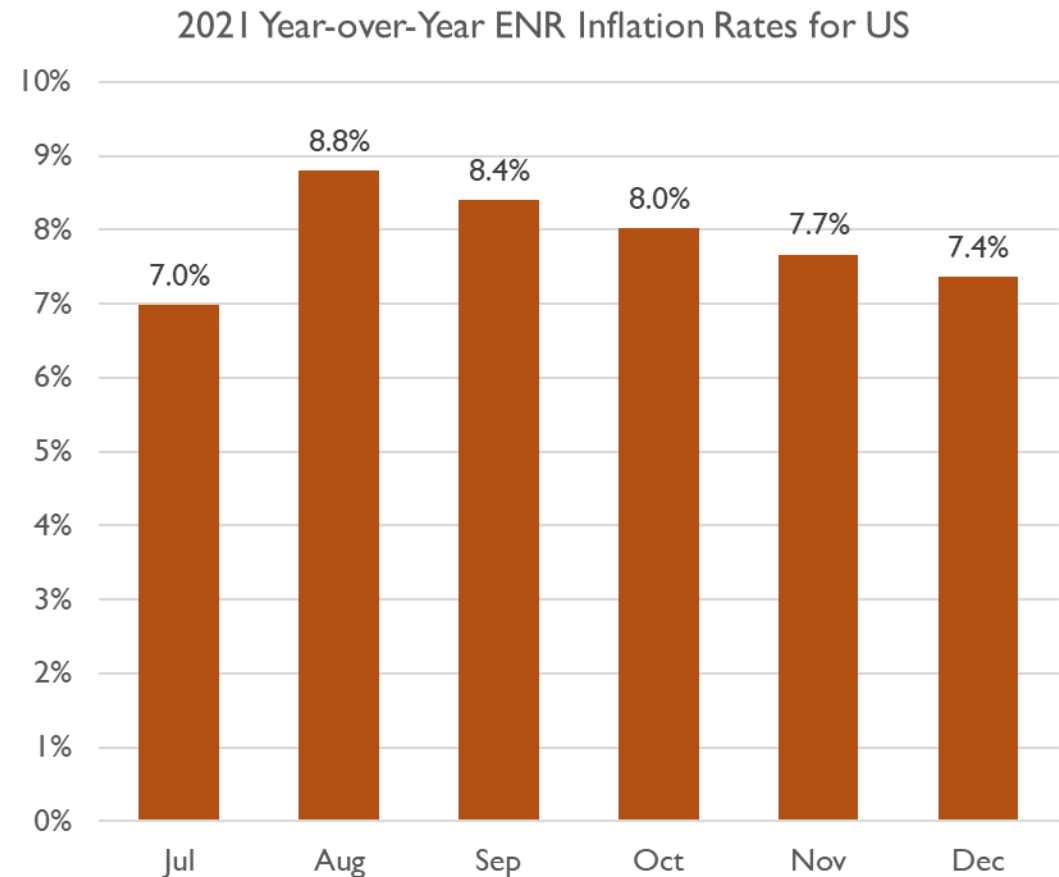
// Connection Fee Calculation

Component	Value
Buy-In Value	
(+) RCN of MVWD system	\$184.77m
(+) RCN of WFA system	\$12.30m
(+) SAWCo	\$22.51m
(+) Chino Basin - MVIC	\$13.44m
(+) Cash Reserves	\$36.41m
(-) Chino Hills Purchased Capacity	\$(32.80m)
(-) Debt Principal	\$(22.78m)
(-) Grants and Settlement CIP	\$(6.67m)
(-) Chino Hills Contribution to Plant 30	\$(4.28m)
Buy-In Total	\$202.90m
Expansion Value	
CIP, Present to 2045	\$18.6m
Total System Value	\$221.5m
Projected MEU, 2045	23,677
Connection Fee (\$ / MEU)	\$9,355
Current Fee	\$6,588
Percent Change	42%

// Given the difference between the current and the calculated fees, it is appropriate to consider a phase-in approach.

- The first year of the phase-in is in line with an ENR-CCI based adjustment to the current fee.

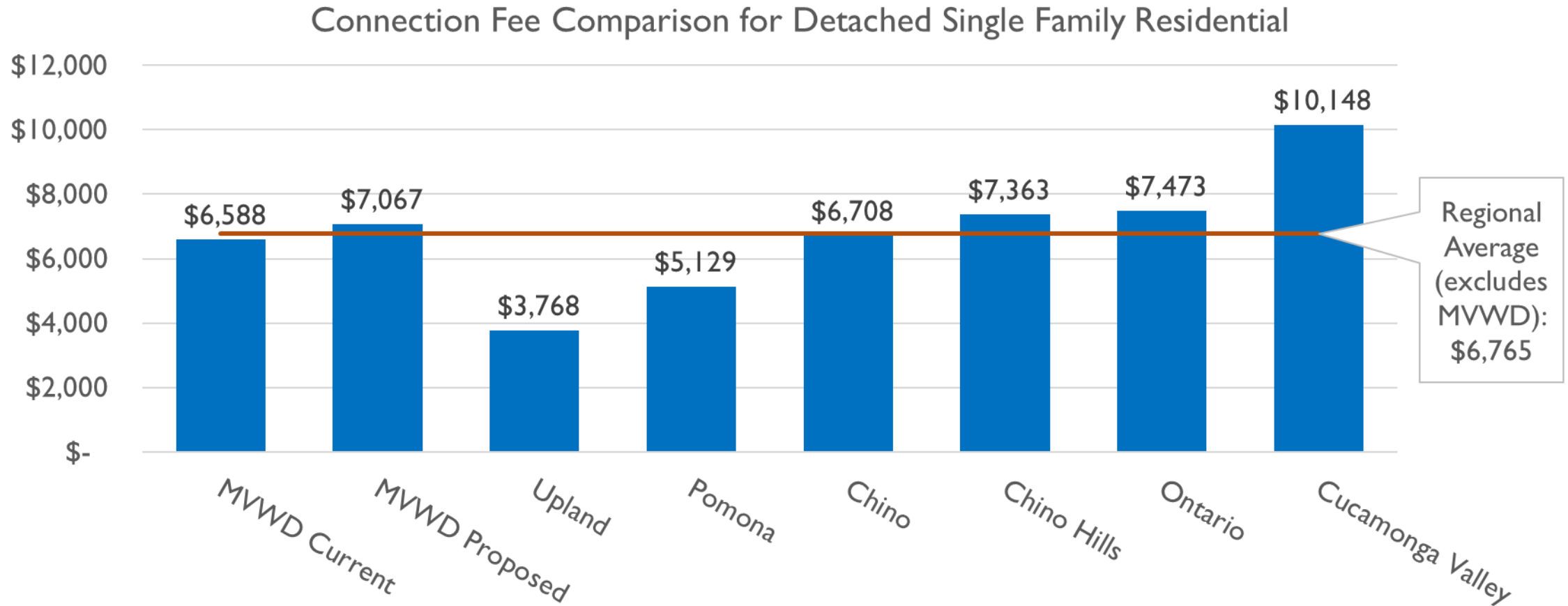
Fee Approach	Total Fee	% Change
Current	\$6,588	-
Full Fee as Calculated	\$9,355	42.0%
Fee Recommend by Study	\$7,067	7.3%
2023 ENR Adjusted Fee	\$7,107	7.9%
Differential between Recommended and 2023 ENR	\$(40)	-0.6%



// A phase-in approach would adopt a smoothed increase each year until it matches the full fee, adjusted for inflation annually.

Meter Size	Current Fee	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027
3/4-inch	\$6,588	\$7,067	\$7,580 + ENR	\$8,131 + ENR	\$8,722 + ENR	\$9,355 + ENR
1-inch	\$10,980	\$11,308	\$12,129 + ENR	\$13,010 + ENR	\$13,955 + ENR	\$14,968 + ENR
1 1/2-inch	\$21,960	\$25,442	\$27,289 + ENR	\$29,270 + ENR	\$31,395 + ENR	\$33,674 + ENR
2-inch	\$35,136	\$36,749	\$39,417 + ENR	\$42,278 + ENR	\$45,347 + ENR	\$48,639 + ENR
3-inch	\$70,272	\$79,151	\$84,896 + ENR	\$91,058 + ENR	\$97,667 + ENR	\$104,756 + ENR
4-inch	\$109,800	\$138,514	\$148,567 + ENR	\$159,350 + ENR	\$170,915 + ENR	\$183,320 + ENR
6-inch	\$219,600	\$302,468	\$324,420 + ENR	\$347,965 + ENR	\$373,219 + ENR	\$400,306 + ENR
8-inch	\$351,360	\$517,305	\$554,849 + ENR	\$595,118 + ENR	\$638,309 + ENR	\$684,635 + ENR
10-inch	\$505,080	\$777,370	\$833,788 + ENR	\$894,301 + ENR	\$959,205 + ENR	\$1,028,820 + ENR

// The proposed fee are in line with the regional average of water connection fees.



Discussion

MONTE VISTA WATER DISTRICT



ANNUAL OPERATING & CAPITAL IMPROVEMENT BUDGET

Fiscal Year Ending June 30, 2022

Mid-Year Budget Update

Presented February 23, 2022



FYE 2022

Budget Review

Historical Water Supply Plan

Demand	2018	2019	2020	2021
MVWD Deliveries	9,606	8,883	8,034	8,756
Chino Hills Deliveries	6,318	6,501	7,706	8,150
Total	15,924	15,384	15,740	16,906
Supply Mix				
GW assessable to MVWD	6,491	6,494	6,724	7,693
GW assessable to CH	1,549	1,673	1,472	2,529
SAWCO	444	454	657	706
WFA (Tier 1)	7,440	6,763	6,887	5,978
Total	15,924	15,384	15,740	16,906

FYE 2022

Budget Review

2022 Water Supply Plan

Thru 12/31/2021

Demand	Projected	Actual	YTD Projected vs Actual
MVWD Deliveries	5,554	4,527	(10.2%)
Chino Hills Deliveries	4,052	4,186	1.6%
Total	9,606	8,713	
Supply Mix			
GW assessable to MVWD	3,743	3,411	(4.6%)
GW assessable to CH	1,152	1,456	11.7%
SAWCO	357	410	6.9%
WFA (Tier 1)	4,354	3,436	(11.8%)
Total	9,606	8,713	

FYE 2022

Budget Review

FYE 2022 Budget Assumptions

- ◆ **Economic uncertainty; concerns of inflation**
- ◆ **Effective 1.9% COLA increase** (July 2021)
- ◆ **No proposed increase for board compensation**
- ◆ **Cafeteria Plan allowance increases to \$1,900/mo** (January 2022)
- ◆ **PERS Employer Contribution (10.02%)**

FYE 2022

Budget Review

FYE 2022 Budget Assumptions (Cont.)

- ◆ **District Rate Increase on 1/1/2022**
- ◆ **Increase in MWD “Tier 1” Rate (\$777 to \$799/AF)**
- ◆ **MVWD Retail Production of 9,881 AF**
- ◆ **Chino Hills Wholesale Demand of 6,800 AF**
- ◆ **Operating Transfer to Fund Capital (\$1.5m)**
- ◆ **Lifeline Assistance Program for FYE 2022 provides up to \$224,000 in financial assistance for water utility payments**

FYE 2022

Budget Review

FYE 2022 Post Budget Events

- ◆ **Effective 2.5% COLA increase** (January 2022)
- ◆ **Compensation Study \$133k budget amendment** (January 2022)

FYE 2022

Budget Review

Total Revenues	Thru 12/31/2021	
	<u>Budget</u>	<u>Actual</u>
Operating Revenues	\$ 11.6m	\$ 12.3m
Capital Revenues	<u>\$ 3.6m</u>	<u>\$ 1.4m</u>
Total	\$15.2m	\$ 13.7m

FYE 2022

Budget Review

Operational Revenue

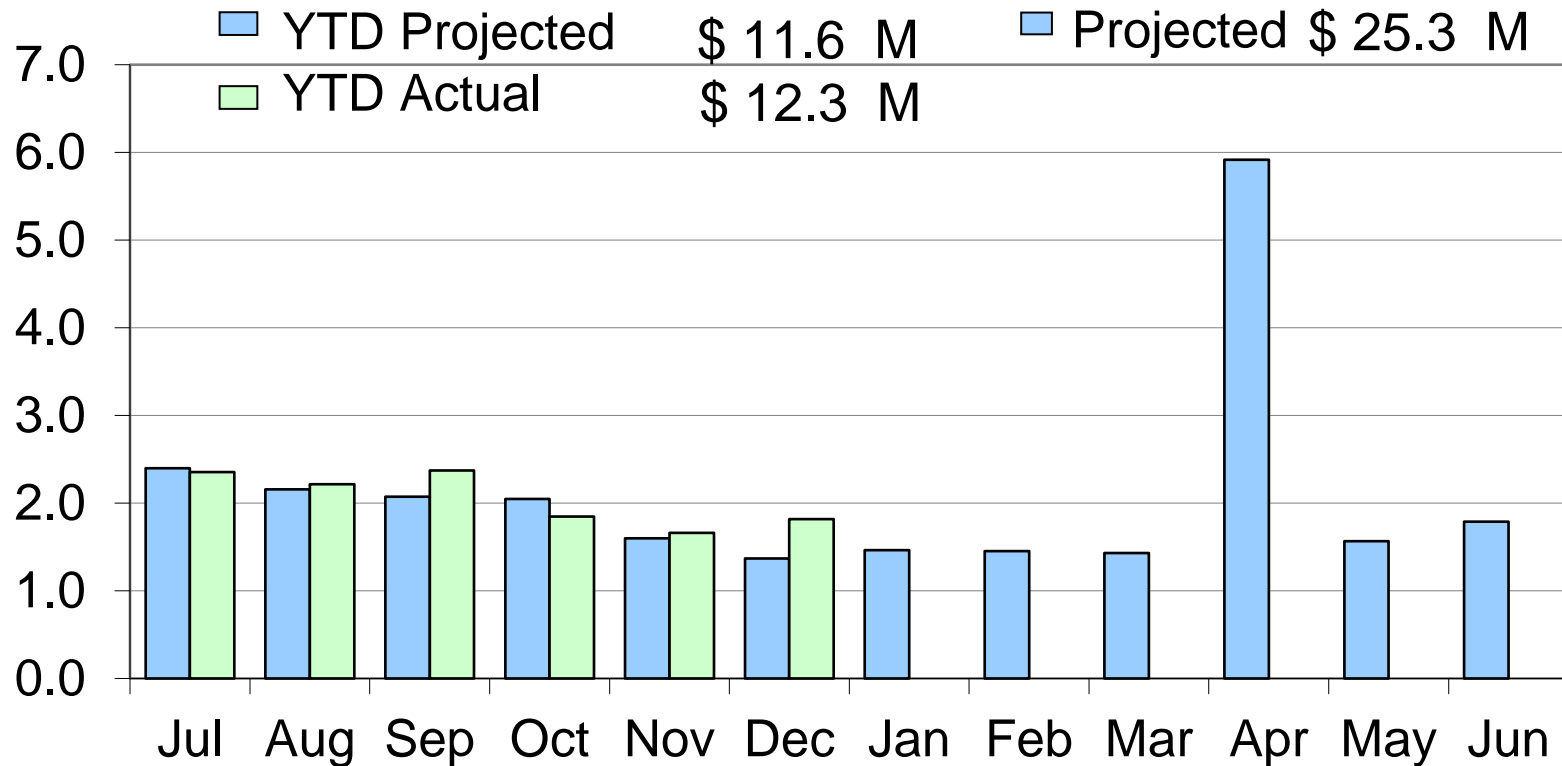
Thru 12/31/2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Retail Water Sales	\$ 8.1m	\$ 8.3m	\$ 190k
Wholesale Water Sales	\$ 3.1m	\$ 3.0m	(\$ 89k)
Interest Income	\$ 96k	\$ 57k	(\$ 39k)
Energy Recovery	\$ 95k	\$ 69k	(\$ 26k)

FYE 2022

Budget Review

FYE 2022 Operational Revenue - \$M



FYE 2022

Budget Review

	Thru 12/31/2021	
Total Expenses	<u>Budget</u>	<u>Actual</u>
Operating Expenses	\$ 11.0m	\$ 8.9m
Debt Service	\$ 768k	\$ 768k
Capital Outlay	<u>\$ 22.5m</u>	<u>\$ 6.1m</u>
Total	\$ 34.3m	\$ 15.8m

FYE 2022

Budget Review

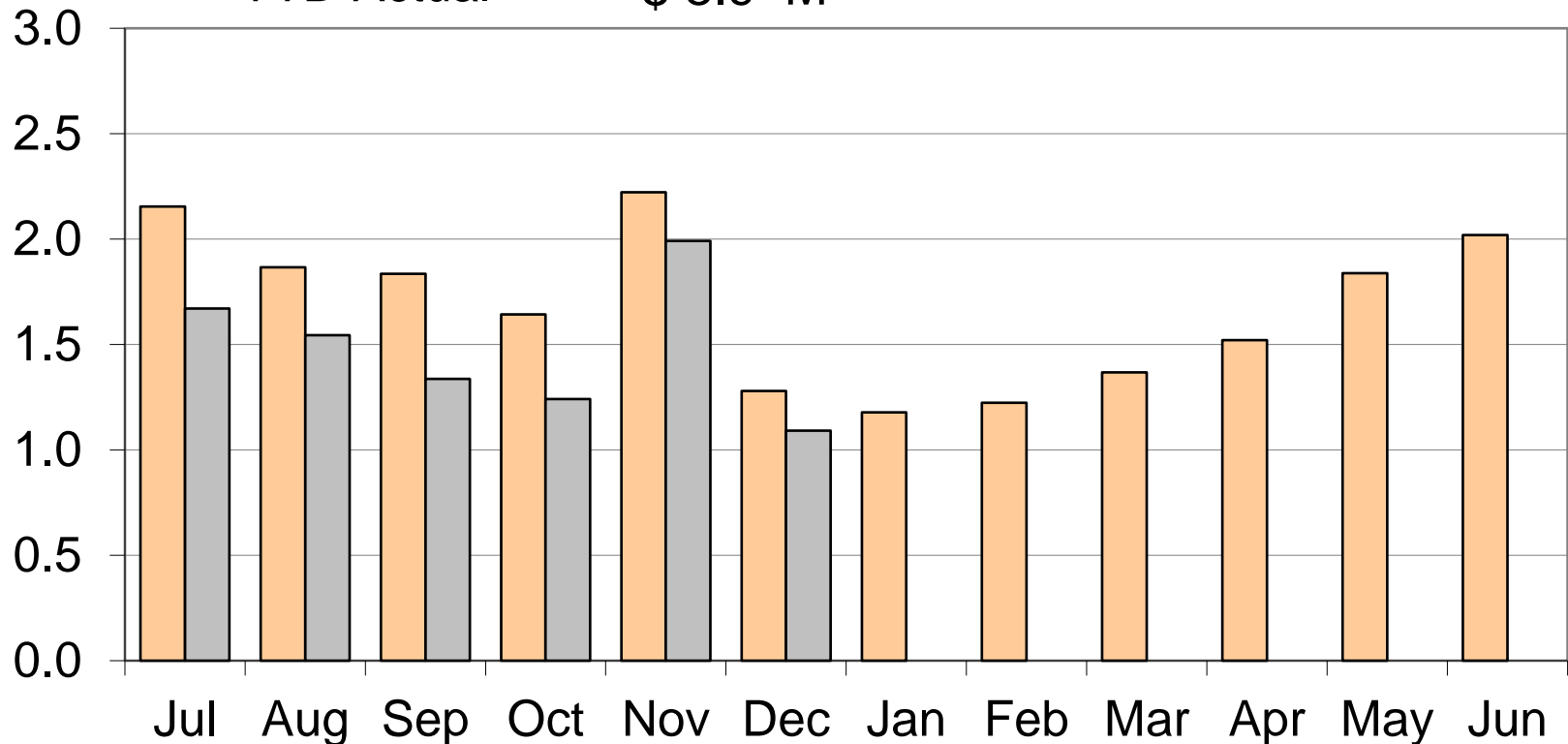
Operational Expense	<u>Budget</u>	Thru 12/31/2021 <u>Actual</u>	<u>Variance</u>
Source of Supply	\$ 4.6m	\$ 3.7m	(\$ 968k)
Electric Utility	\$ 734k	\$ 1.0m	\$ 290k
Payroll	\$ 1.8m	\$ 1.6m	(\$ 268k)
Professional Services	\$ 147k	\$ 98k	\$ 49k

FYE 2022

Budget Review

FYE 2021 Operational Expense - \$M

 YTD Projected	\$ 11 M	 Projected	\$ 20.1 M
 YTD Actual	\$ 8.9 M		



FYE 2022

Budget Review

Capital Expense

	Thru 12/31/2021	
	<u>Budget</u>	<u>Actual</u>
Facilities	10,976,364	2,444,284
Miscellaneous	1,472,928	716,047
Pipeline Replacement	5,883,000	482,187
Production	625,000	204,900
Storage	1,898,000	618,353
Transmission & Distribution	235,000	43,826
Treatment	27,049,249	15,111,550

FYE 2022

Budget Review

Working Capital

◆ FYE 2021 Balance		<u>\$ 46.4m</u>
Plus: Operating Revenues	\$ 25.3m	
Capital Revenues	<u>\$ 6.6m</u>	
	<i>Total</i>	\$ 31.9m
Less: Operating Expenses	\$ 20.1m	
Debt Service Expense	\$ 2.8m	
Capital Outlay	<u>\$ 23.3m</u>	
	<i>Total</i>	\$ 46.2m
◆ Projected FYE 2022 Balance		<u>\$ 32.1m</u>



Questions?