NOTICE OF SPECIAL JOINT MEETING OF THE IEUA BOARD OF DIRECTORS AND THE REGIONAL POLICY COMMITTEE

A JOINT
BOARD OF DIRECTORS MEETING OF THE

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT
*

AND THE REGIONAL POLICY
COMMITTEE

WILL BE HELD ON

WEDNESDAY, FEBRUARY 4, 2015
10:00 A.M.
AT THE OFFICE OF THE AGENCY
6075 KIMBALL AVENUE, BUILDING A
CHINO, CA 91708

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

AGENDA

SPECIAL JOINT MEETING OF THE INLAND EMPIRE UTILITIES AGENCY BOARD OF DIRECTORS AND THE REGIONAL POLICY COMMITTEE

WEDNESDAY, FEBRUARY 4, 2015
10:00 A.M.

INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS
6075 KIMBALL AVENUE, BUILDING A
CHINO, CALIFORNIA 91708

CALL TO ORDER OF THE JOINT INLAND EMPIRE UTILITIES AGENCY BOARD OF DIRECTORS AND REGIONAL POLICY COMMITTEE MEETING

FLAG SALUTE

PUBLIC COMMENT

Members of the public may address the Board on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to complete and submit to the Board Secretary a "Request to Speak" form which are available on the table in the Board Room. Comments will be limited to five minutes per speaker. Thank you.

ADDITIONS TO THE AGENDA

In accordance with Section 54954.2 of the Government Code (Brown Act), additions to the agenda require two-thirds vote of the legislative body, or, if less than two-thirds of the members are present, a unanimous vote of those members present, that there is a need to take immediate action and that the need for action came to the attention of the local agency subsequent to the agenda being posted.

1. RATE BUDGET WORKSHOP FOR FISCAL YEARS 2015/16 THROUGH 2019/20

2. CLOSED SESSION

PURSUANT TO GOVERNMENT CODE SECTION 54957 – PERSONNEL MATTERS – PUBLIC EMPLOYEE PERFORMANCE EVALUATION

1) Manager of Internal Audit
2) Board Secretary/Office Manager

3. ADJOURN

*A Municipal Water District

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary (909) 993-1736, 48 hours prior to the scheduled meeting so that the Agency can make reasonable arrangements.

Proofed by: ________

Declaration of Posting

I, April Woodruff, Board Secretary of the Inland Empire Utilities Agency*, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, January 29, 2015.

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April Woodruff

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date:	February 4, 2015
To:	The Honorable Board of Directors/Regional Policy Committee
From:	P. Joseph Grindstaff General Manager
Submitted by:	Christina Valencia Chief Financial Officer/Assistant General Manager
	JCL #88L Javier Chagoyen-Lazaro Manager of Finance and Accounting
Subject:	Rate Budget Workshop for Fiscal Years 2015/16 – 2019/20

RECOMMENDATION

This is an informational item for the Board of Directors and Regional Policy Committee members to review.

BACKGROUND

Over the last 15 years, the Inland Empire (IE), comprised of San Bernardino and Riverside Counties, has experienced significant economic volatility. Through most of the 1990s and up until the onset of the recession in 2008, the IE region benefited from robust growth. The available land in the IE supported construction of affordable residential housing and large distribution centers to handle goods imported through the ports of Los Angeles and Long Beach, according to the Inland Empire Economic Partnership. The IE was a major force driving job growth in the state of California adding 277,200 or 42%, of California's 660,500 new jobs between 2001 and 2007.

During this time, the Agency benefited from the surge in new development and rising property values. Between 1990 and 2009 member agencies added over 115,000 new EDU connections; averaging 5,700 units and $18 million per year. Assessed property values more than tripled from $17 billion to $56 billion, resulting in an increase in property tax receipts from $11 million to $36 million. The number of billable volumetric EDUs also increased by an average of 2.2% per year and recycled water deliveries nearly quadrupled from 4,000 AF in FY 2001/02 to just under 17,000 AF in FY 2006/07.

Historically, the Agency's operating revenues (net of property tax supplement) have been lower than operating expenses (i.e. services provided by the Agency do not generate revenues needed to pay for total cost of operations). However, the rise in property tax receipts supported the Agency's policy to defer rate increases for years and instead rely on property taxes and fund reserves to support operating costs not recovered by rates.

As shown on Figures 1 and 2, both the EDU volumetric and recycled water rates remained unchanged for five to six consecutive years.

Figure 1: EDU Volumetric Rate History

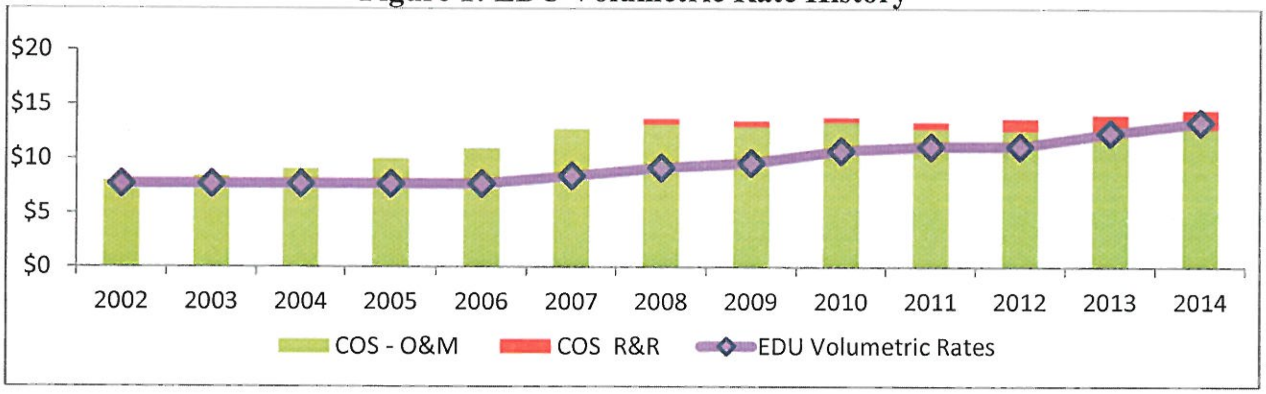
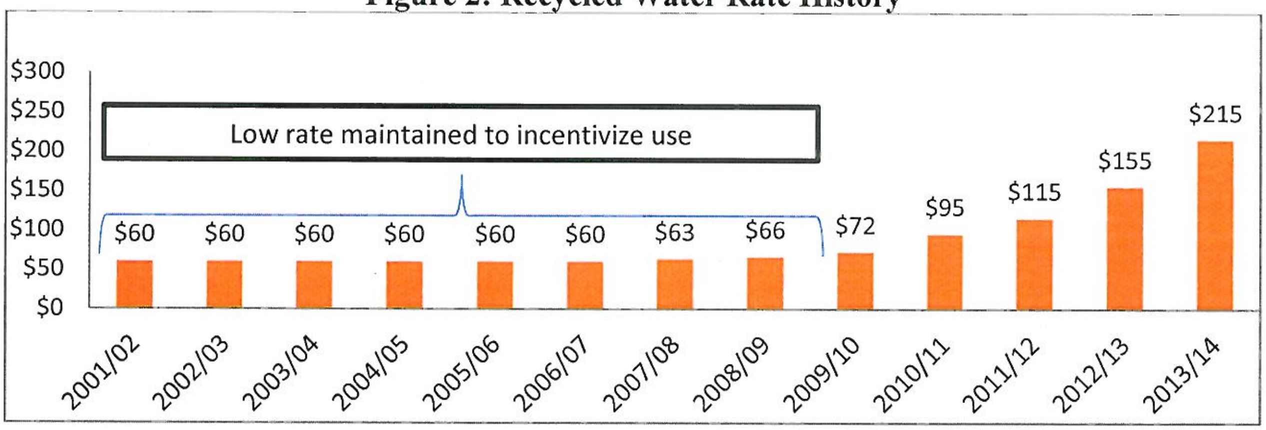


Figure 2: Recycled Water Rate History



The shift of $14 million in property taxes by the State in 2005 and 2006 and the uncertainty of future shifts due to the prevailing State budget crisis was a key driver for the increases in the EDU volumetric rate adopted in 2007 and 2008. The $1.13 increase to $10.75 per EDU approved in FY 2009/10 was needed to fund the Agency's 50% share of the Inland Empire Regional Composting Facility, support the shift of property taxes from the Regional Wastewater Operations and Maintenance (RO) fund to the Recycled Water program, and reduce depletion of fund reserves.

As reported in Figure 2, the recycled water rate was maintained at $60 per acre foot (AF) for six consecutive years (2002-2007) as an incentive to promote use of recycled water. At the end of FY 2008/09, recycled water deliveries escalated to just over 16,000 AF at a rate of $66 per AF.

During this period, recurring drought conditions that resulted in low and unreliable imported water supplies led to the approval of the Recycled Water Business Plan (RWBP), formerly named the Three Year Business Plan, by the Agency and its member agencies in 2007. A key objective of the RWBP was to increase deliveries of recycled water to direct reuse customers and recharge basins throughout the Agency's service area.

The construction and logistic sectors which had been two primary economic drivers for the IE were also the hardest hit by the economic downturn that began in 2008. New development stalled due to the drastic drop in property values, large inventory of housing and commercial units, and high number of foreclosures. The IE was flagged as one the foreclosure "epicenters" in the nation, along with other metro areas in Nevada and Florida, reporting some of the highest numbers of foreclosures and unemployment rates. The Agency felt the impact with new EDU connections dropping to a low of 1,100 units in 2011. Property values also fell by over 6% in 2010 and 2011, resulting in a decrease in property taxes from $36 million in 2009 to $32 million in 2012.

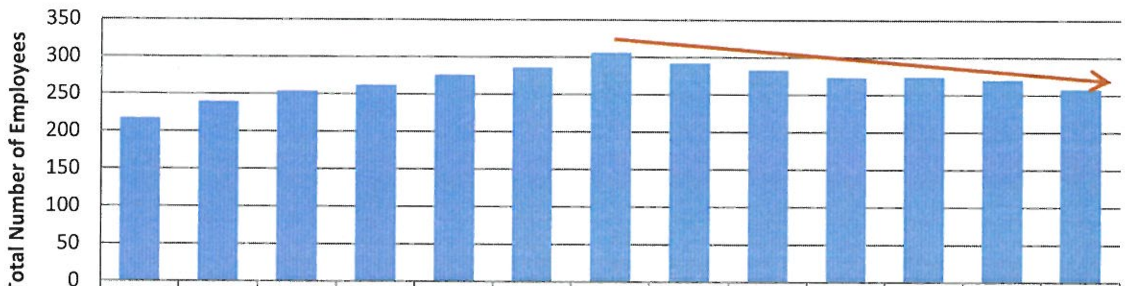
Although the National Bureau of Economic Research declared the recession officially over as of June 2009 recovery in California and the IE in particular, has been painfully slow. What initially was expected to be a three to four year recovery in 2008 is ongoing and still vulnerable to a more recent slowdown in global markets.

Cost Containment

In response to the economic downturn of 2008, the Agency's Board of Directors formally adopted a Cost Containment Plan (Plan) in FY 2008/09 to reduce capital and operating costs (O&M), and lessen the pressure on rate increases. Actual reductions in O&M costs of $14 million far exceeded the $7 million target that first year. The following year, an additional $7 million favorable variance was reported for O&M expenses. Capital costs were also significantly reduced primary through deferral of non-critical projects. As a result, the Ten Year Capital Improvement Plan (TYCIP) adopted in FY 2008/09 was decreased by $218 million in FY 2011/12.

Also reduced is the total number of full time equivalent (FTE) positions which decreased from 306 FTE in FY 2007/08 to 258 FTE at the end of FY 2013/14, as indicated in Figure 3.

Figure 3: Number of FTEs on the Decline Since 2008



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FTE	218	240	254	262	276	286	306	292	283	273	274	270	258

Actual number of full time equivelant (FTEs) at June 30th.

In addition to the declining FTE count, the Agency has maintained an assertive vacancy factor averaging 6% per year through FY 2012/13; higher than the budgeted 5% rate. Over the last two fiscal years, the actual vacancy factor has far exceeded the targeted 5%; 11% as of June 2014 and over 13% (equivalent to an average of 35 FTEs) as recently as November 2014.

Since implementation in FY 2008/09, the Plan has been very effective in reducing and containing costs (both operational and capital), even as health insurance premiums, pension contributions rates, chemicals, and other operating expenses have continued to increase. Cumulative cost reductions through FY 2012/13 are estimated at $245 million as reported on Table A1 in the Appendix.

IEUA Business Goals

In October 2013, the Board of Directors (the Board) approved the IEUA Business Goals integrating the Agency-wide policies and level of service commitments to better communicate the Agency's commitment to provide reliable, affordable, and high quality service to our customers. The IEUA Business Goals, summarized on Table A2 in the Appendix, and the Strategic Plan FYs 2015-2019 (Strategic Plan) serve as the basis for the proposed rates and biennial budget for FYs 2015/16 and 2016/17 (the proposed budget), and the FYs 2016-2025 Ten Year Capital Improvement Plan (TYCIP).

Integrated in the proposed budget and the TYCIP are Agency's long-term planning documents, amongst them the IEUA Strategic Plan Fiscal Years (FYs) 2014/15-2018/19, Wastewater Facilities Master Plan Update, Recycled Water Program Strategy, Integrated Resources Plan, Water Use Efficiency Plan, and the Energy Management Plan.

Key Objectives

In alignment with the IEUA Business Goals and the Strategic Plan some of the key objectives of the proposed budget and multi-year rates include:

- Adoption of 5 year rates that achieve full cost of service and appropriate fund reserve levels;
- Alignment of rate structures with rate study analysis to meet short term and long term needs;
- Adoption of a biennial budget for FYs 2015/16 and 2016/17; Establishment of a new "one water" connection fee to support water reliability and sustainability for the region;
- Integration of the Agency's long term planning documents;
- Leveraging low interest loan/grant financing to support capital investment and pay down of high interest debt obligations;
- Implementation of succession planning to secure the appropriate resources to meet the Agency's long term goals;
- Adoption of multi-year rates by March 2015 to meet member agency's Prop 218 timeline.

Budget Assumptions

The proposed budget is a five-year business plan, consisting of biennial budget for FYs 2015/16 and 2016/17 and a forecast for the three ensuing fiscal years. The key assumptions for the proposed budget are summarized on Table 1.

Table 1: Key Assumptions for the Proposed Budget and TYCIP

Revenues and Other Funding Sources	Expenses and Other Uses of Funds
New EDU and One Water connections estimated to be: FY 2015/16 4,330 EDU/ 3,940 One Water Connections FY 2016/17 4,579 EDU/ 4,167 One Water Connections New EDU connections of 30,000 over 10 years, lower 40,523 projected by member agencies.	Staffing level maintained at 290 FTEs and vacancy factor reduced to support succession planning; 3% FY 2015/16 and FY 2016/17 0% thereafter
3.2 million total number of billable volumetric EDUs, 0.25% annual growth.	COLA partially offset by additional employee paid CalPERS contribution of 1.50% each year: 3.0% COLA FY 2015/16 (5.50% employee paid) 3.5% COLA FY 2016/17 (7.0% employee paid).
Total recycled water deliveries: 35,150 AF FY 2015/16 37,100 AF FY 2016/17 Projected to reach 50,000 AF by 2025.	6% increase in health insurance premiums and 5% increase in CalPERS employer rate.

Potable water deliveries anticipate implementation of the Water Supply Allocation Plan by MWD: 50,000 AF FY 2015/16 55,000 AF FY 2016/17 +10,000 AF of other imported water during wet years (2018, 2021, & 2024). Ten year average potable water deliveries, 62,200 AF for FY 2015/16 for RTS pass-through.	3% average CPI for O&M expenses and $4.5 million annual payment against pension unfunded accrued liability (UAL).
2% - 5% growth in property tax receipts. Assumes no change in the level of property tax receipts and no change in the fund allocation: Administrative Services (GG) 8% Recycled Water (WC) 5% Regional Wastewater O&M (RO) 22% Regional Wastewater Capital (RC) 65%	Pay down of high interest debt.
Capital Improvement Plan (CIP) partially funded by low interest SRF loans and grants.	Capital Improvement Plan (CIP) aligns with the Agency's Ten Year Capital Improvement Plan (TYCIP).

Proposed Multi-Year Rates FYs 2015/16 – 2019/20

The Agency is committed to adopt rates and fees that recover the full cost of service and sustain the high quality level of service, (Funding and Appropriation commitment under the Fiscal Responsibility Business Goal). The rates proposed for the five year period support this commitment.

Fiscal year 2014/15 is the final year of the three-year rates adopted by the Board in February 2012 for the Agency's Regional Wastewater and Recycled Water programs. The adoption of multi-year rates proved beneficial to both the Agency and its member agencies in terms of providing stability and lessening the burden of Proposition 218 (Prop 218) requirements, which permit retail agencies to adopt rates for up to five years. Several member agencies will be required to renew their Prop 218 and adopt rates effective July 1, 2015 a process which can take between 3 to 4 months to complete. As a result, they have requested the Agency accelerate the adoption of rates subject to Prop 218 to no later than March 2015. The effective date on the proposed rates will be July 1, 2015.

<u>Rate Study Analysis</u>

In May 2014, Carollo Engineers, Inc. (Carollo) was contracted to conduct a nexus study to update the Agency's regional wastewater EDU connection fee. The scope of the study was expanded to include an in-depth evaluation of the existing rates for the Water Resources and Recycled Water programs to achieve revenue stability, a closer nexus between how costs are incurred and how costs are recovered, a more equitable allocation amongst member agencies, and support short term and long term projects as identified in the Agency's planning documents, amongst them: the Integrated Resources Plan, Recycled Water Program Strategy, Water Use Efficiency Plan, and TYCIP. The study is analyzing the existing volumetric acre foot (AF) surcharge imposed on imported water deliveries and the monthly meter charge for potable water connections to provide a more stable source of funding for the Agency's water resource initiatives.

Additionally, a new "one water" connection fee is being proposed to recover capital investment in the regional potable and recycled water systems. The new "one water" connection fee will be in addition to the wastewater EDU connection fee currently imposed on new development throughout the Agency's service area. Similar to the EDU wastewater connection fee, Carollo is recommending a hybrid approach for the new "one water" connection fee. Under this approach future users will pay for excess capacity in the existing system and any future expansion needed to meet their needs.

Regular rate study workshops are being held with internal and external stakeholders, including the Agency's member agencies and the Building Industry Association of Southern California, to review the methodology and recommendations. Copies of the 2015 Connection Fee Update Draft Reports (January 2015) for both the regional wastewater and water resources connection fees are attached for your review (Attachments 2 and 3).

The goal is to complete the evaluation and review in time to meet member agencies' Prop 218 timeline.

Regional Wastewater Program Rates

The Regional Wastewater Program is comprised of the Regional Wastewater Capital Improvement (RC) fund and the Regional Wastewater Operations & Maintenance (RO) fund. The RC fund records the capital, debt, and administration activities related to the acquisition, construction, expansion, improvement and financing of the Agency's regional water recycling plants, large sewer interceptors, energy generation, and solids handling facilities. The RO fund accounts for the revenue and operating cost directly related to the collection, treatment and disposal of domestic sewage treatment service for the contracting agencies, capital replacement and organic management activities, including labor costs to operate and support the Inland Empire Regional Composting Facility (IERCA).

EDU Connection Fee

Currently, the Agency collects a connection fee of $5,107 per equivalent dwelling unit (EDU) for new connections into the regional wastewater system. The EDU connections fee was implemented in 1979 (Regional Sewage Service Contract, as amended in October 1994). A rate study analysis was commissioned to validate the basis for the new EDU connection fee.

Based on the characteristics of the Agency's wastewater system and comprehensive evaluation, Carollo (the rate study consultant) recommended the "hybrid" approach be applied in the calculation of the wastewater connection fee. The hybrid approach is a combination of the system buy-in approach which relates to the currently available (excess) capacity that has been paid for by existing users and the incremental cost approach to support planned expansion of capacity in the future. Using the hybrid approach establishes the nexus between the value of existing and future system and the benefits of capital investment to existing and future users. Based on the recommended hybrid approach, the Agency's EDU connection fee was calculated to be between $7,010 and $10,000 depending on the number of expected future users over the next 20 years (through 2035). The higher the number of expected future users: the lower the connection fee.

To mitigate the impact to ratepayers, the Agency opted to use a higher number of future users, or 96,814 (more than double the member agency projections of 40,523 for the next 10 years), resulting in a proposed rate of $7, 010 per new EDU connection. To ensure future expansion of the system is adequately funded, a review of the EDU connection fee will be conducted periodically and adjusted accordingly. The recommendation is to adopt the $7,010 effective July 1, 2015, and base increases for the ensuing four years on the engineering construction cost index (ENR_CCI). Included for your review is the 2015 Connection Fee Update Draft Report (January 2015), (Attachment 2).

EDU Volumetric Rate

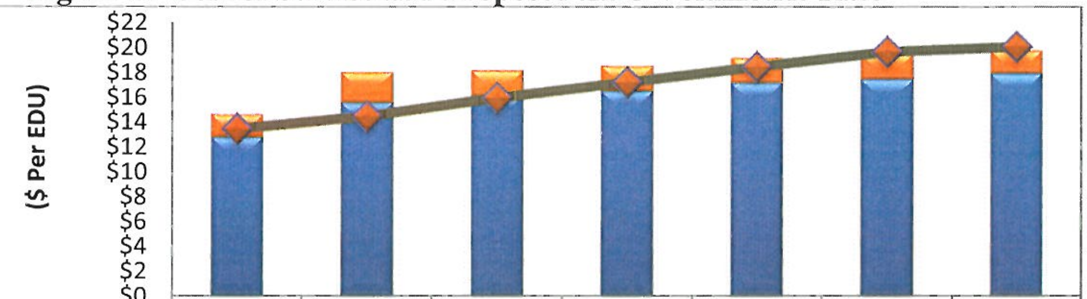
Pursuant to the Agency's commitment to have rates that fully recover the cost of service, incremental increases to the monthly EDU volumetric rate are proposed over the next five fiscal years (Table 2).

Table 2: Regional Wastewater Proposed Multi-Year Rates (Effective July 1st)

Program	Rate Description	FY 2014/15	FY 2015/16 Proposed	FY 2016/17 Proposed	FY 2017/18 Proposed	FY 2018/19 Proposed	FY 2019/20 Proposed
Regional Wastewater	Monthly Volumetric EDU	$14.39	$15.89	$17.14	$18.39	$19.59	$20.00
	New EDU Connection Fee	$5,107	$7,010	$7,223	$7,436	$7,663	$7,890

Based on current assumptions, full cost of service, or recovery of operations and maintenance (O&M) and replacement and rehabilitation (R&R) costs, is projected to be reached in FY 2018/19, as shown on Figure 1.

Figure 1: Cost of Service and Proposed EDU Volumetric Rate



	2014	2015	2016	2017	2018	2019	2020
COS R&R	$1.78	$2.42	$2.01	$2.01	$2.00	$2.00	$1.84
COS - O&M	$12.76	$15.52	$16.08	$16.45	$17.10	$17.41	$17.88
EDU Volumetric Rates	$13.39	$14.39	$15.89	$17.14	$18.39	$19.59	$20.00
Proposed Changes to Rates Effective July 1st..			**$1.50**	**$1.25**	**$1.25**	**$1.20**	**$0.41**

Recycled Water Program Rates

The recycled water rates support the costs associated with the operations and maintenance of the Agency's water recycling facilities, operating costs for the groundwater recharge basins not reimbursed by Chino Basin Watermaster, including the Agency's pro rata share for basins recharged with recycled water, and debt service costs related to the financing of capital construction. These costs are currently fully supported by volumetric (commodity) based rates: 1) $290 per acre foot (AF) rate for direct deliveries of recycled water to end users, and 2) $335 per AF for recharged groundwater deliveries. No change in these rates is being proposed at this time. However, the rate study does recommend a future restructuring of the rates to better support fixed and variable costs, including consideration of a seasonal peaking rate to more appropriately recover higher pumping costs during summer months and promote water use efficiency.

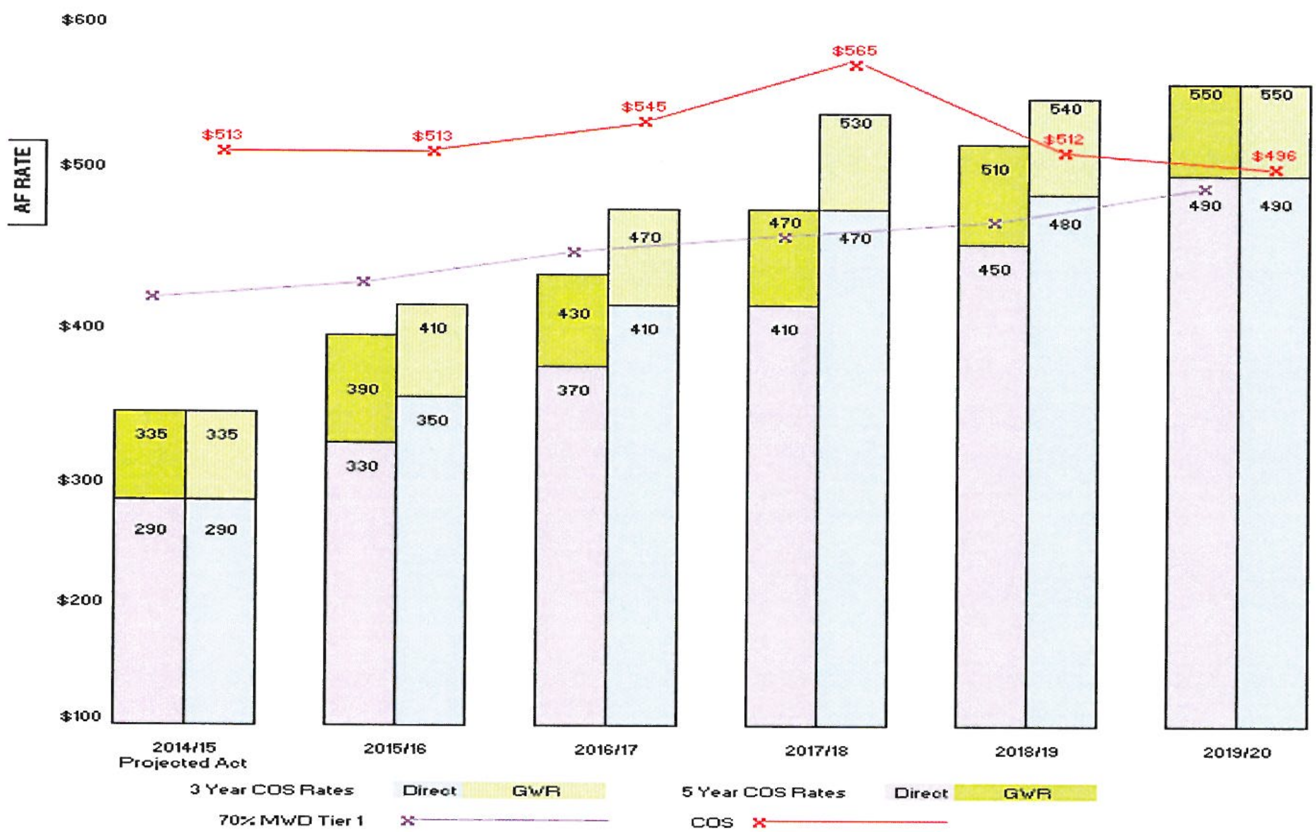
As requested by the IEUA Board, Table 3 shows the proposed rates for the Recycled Water program under two different scenarios: *Scenario A* - achieves cost of service over three fiscal years, *Scenario B* – achieves cost of service over the next five fiscal years.

Table 3: Recycled Water Program Proposed Multi-Year Rates (Effective July 1st)

	Rate	FY 2014/15	FY 2015/16 Proposed	FY 2016/17 Proposed	FY 2017/18 Proposed	FY 2018/19 Proposed	FY 2019/20 Proposed
3 Year COS							
Recycled Water	Direct Delivery per AF	$290	$350	$410	$470	$480	$490
	Groundwater Recharge per AF	$335	$410	$470	$530	$540	$550
5 Year COS							
Recycled Water	Direct Delivery per AF	$290	$330	$370	$410	$450	$490
	Groundwater Recharge per AF	$335	$390	$430	$470	$510	$550

An overview of how the proposed rates compare to program cost of service and 70% of the projected MWD Tier 1 rate for untreated water is provided in Figure 2.

Figure 2: Cost of Service and Proposed Recycled Water Rates



Water Resources Program Rates

The Water Resources (WW) fund records costs associated with providing regional water resources and water use efficiency programs. These programs include management and distribution of imported water supplies, development and implementation of regional water use efficiency initiatives, water resource planning, and support for regional water supply programs including recycled water, groundwater recharge, and storm water management. These costs are currently supported by two rates: a $15 per acre foot (AF) surcharge imposed on imported potable water deliveries, and a $2.11 monthly meter charge on potable water connections. The AF surcharge recovers a portion of the Water Resources fund operating costs ($11 per AF) and regional conservation program ($4 per AF). A major portion of the monthly meter charge, approximately 80%, recovers the readiness to serve (RTS) pass through charges from Metropolitan Water District of Southern California (MWD).

As aforementioned, the water resources rates are also being evaluated as part of the rate study analysis currently underway. A key objective of the rate study is to determine the most appropriate funding source(s) and rate structure needed to achieve revenue stability, a closer nexus between how costs are incurred and how costs are recovered, a more equitable allocation amongst member agencies, and still promote conservation and water use efficiency.

Beginning in FY 2015/16 the Agency plans to expand investment in the development of local water supplies and drought resiliency projects (the Local Supply Initiatives and Drought Resiliency Program). As part of this new program, the Agency will assist member agencies with the implementation and funding of regional projects that enhance water quality, water reliability, and promote conservation. Projects will be determined as part of the Integrated Resources Plan and Water Use Efficiency Plan scheduled for completion in June 2015.

RTS Recovery Rate

Currently, the AF surcharge of $15 per acre foot imposed on imported potable water deliveries is used to recover a portion of the Water Resources (WW) fund operating costs ($11 per AF) and the Agency's regional conservation program ($4 per AF). The AF surcharge is part of the rate study analysis currently underway. A key finding of the study is the revenue instability resulting from a disconnection between the AF surcharge rate which is volume (commodity) based and the fixed nature of the program costs.

A similar disconnect exists between the Agency's recovery of the MWD RTS pass-through charges. Currently the Agency collects the RTS charges through the monthly meter charge; an account based or fixed basis. However, MWD assesses the pass-through RTS charge based on a ten year rolling average of water use; a commodity based or variable basis. To more equitably align incursion of costs with cost recovery, a change in the billing methodology from an account based (meter charge) to a volumetric or AF rate is recommended. Use of a volumetric based rate will more equitably distribute the RTS costs amongst member agencies; those with higher water use will pay a higher share of RTS costs. The proposed RTS recovery rate will be based on a ten year rolling average of water use in alignment with MWD's billing methodology. In addition to providing greater stability for both the Agency and member agencies, use of a commodity based rate will more effectively promote water conservation.

MWD RTS pass-through fees average approximately $4 million per year. Based on a ten year rolling average, the proposed RTS recovery rate for FY 2015/16 is estimated to be approximately $60 - $70 per AF as shown on Table 4 under Scenario A. To mitigate the impact to member agencies, implementation can be phased in over the next five fiscal years shown under Scenario B. Under Scenario B, a higher monthly MEU rate would be needed meet the revenue requirements projected for FY 2015/16.

Table 4: Preliminary Proposed Water Resources Rates (Effective July 1, 2015)

Program	Rate Description	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
			Proposed				
Current	AF Surcharge	$15					
	Meter Charge	$2.11					
Scenario A	Meter Equivalent Units (MEUs)		$1.10	$1.20	$1.30	$1.40	$1.50
	RTS Recovery		$60 -$70	Based on MWD RTS fees			
Scenario B	Meter Equivalent Units (MEUs)		$1.30	$1.35	$1.40	$1.45	$1.50
	RTS Recovery		$40	$55	$70	$85	$100

Monthly Meter Charge/MEU Rate

Currently, approximately 80% of the monthly meter charge imposed on all potable water connections is used to recover the MWD RTS pass-through fees. The remaining amount of 20% is allocated to support operating costs for the water resources program, including a portion of the regional conservation program.

A key recommendation of the study is the restructuring of the monthly meter charge rate from account based (total number of customer accounts) to meter equivalent units (MEUs) and use the revenue generated to support the water resource costs, a portion of which were previously supported by the AF surcharge rate. The use of the MEU rate to support primarily "fixed" program cost will provide more stable funding for the administration of water resource initiatives, including the Agency's regional conservation and water use efficiency program and future purchase of replenishment water in wet years. Included in the proposed budget forecast is the purchase of 10,000 AF of replenishment water in FY 2017/18 and every three years thereafter. Subsequent resale of the water is assumed over a five year period following the year of purchase. Not included is the Agency's commitment to fund 5% of the $250 million in drought resiliency projects submitted by member agencies over the next ten years to improve water quality, develop local water supplies and support water reliability in the region. These "drought" resiliency projects will be defined, along with an implementation timeline as part of the Agency's Integrated Resources Plan (IRP) and Water Use Efficiency Plan (WUEP) scheduled for completion in June 2015. Upon completion of these planning documents, funding sources will be evaluated to determine the most appropriate approach.

Two alternative implementation options for the monthly MEU rate are summarized on Table 4. A lower MEU rate under Scenario A assumes full implementation of the RTS Recovery rate in FY 2015/16. A higher MEU rate under Scenario B will support a phased in implementation approach of the RTS Recovery rate over a five year period. More details on the MEU calculation and alternative rate basis is provided in Attachment 3: Draft Summary Water Rates Report (January 2015).

New "One Water" Connection Fee

Persistent drought conditions and limited imported water supplies from the State Water Project make it essential for the region to secure and develop more reliable and sustainable local water supplies. Future economic development is dependent on having a reliable and sustainable water supply that can meet the needs of future growth throughout the region. Included in the Agency's long term planning documents is the expansion of regional recycled water and groundwater recharge facilities, as well as continual development of local water supplies.

The proposed "one water" connection fee will support future expansion of the Agency's regional water system which is comprised of potable, recycled water, and groundwater recharge. Similar to the new EDU connection fee, the hybrid approach is recommended as the basis for the new "one water" connection fee. Use of the hybrid approach allows for the recovery from future users of existing excess capacity and future expansion of the water system to support their needs. The Agency plans to implement the new "one water" connection fee beginning in FY 2015/16.

Revenue generated from the proposed new "one water" connection fees will be used to support capital investment projects in the Recycled Water, Recharge Water and Water Resources programs. Based on the proposed TYCIP, approximately 75% of the new "one water" connection fees will be allocated to the Recycled Water fund to support planned enhancement and expansion of the distribution and groundwater recharge facilities. The remaining 25% will be allocated to the Water Resources fund to support development of local water supplies and water resources capital projects, including "drought resiliency" projects submitted by member agencies for $250 million over the next ten years.

Based on current assumptions, the proposed "one water" connection fee is estimated to be $1,968 per MEU and comprised of $402 for the Buy-In/Reimbursement component for existing excess capacity and $1,566 for the Incremental Portion for future expansion of the water system. Since the "drought resiliency" projects are still being defined, the Agency recommends deferring implementation of the potable water system portion of the connection fee. The proposed "one water" connection fee listed on Table 5 represents only the portion needed to support capital investment in the recycled water and groundwater recharge system.

Table 5: Proposed New "One Water" Connection Fee and Allocation by Program

	Rate	FY 2014/15	FY 2015/16 Proposed	FY 2016/17 Proposed	FY 2017/18 Proposed	FY 2018/19 Proposed	FY 2019/20 Proposed
Recycled Water	"One Water" Connection Fee/ MEU	N/A	$1,675	$1,726	$1,778	$1,831	$1,942

A summary of the nexus between the proposed rates and fees (funding sources) and the related costs (uses of funds) by Agency program is shown on Table 6. Included under Connection Fees is the proposed new "one water" connection fee allocated to the Recycled Water and Water Resources funds.

Table 6: Sources and Uses of Funds

		Funding Sources				
Fund		Property Tax Receipts	Connection Fees	EDU Volumetric/ AF charge	Recycled Water Sales	Meter Equivalent Unit (MEUs)
Administrative Services (GG) Fund	Uses of Funds	O&M				
Regional Wastewater Capital Improvement (RC) Fund	Uses of Funds	Debt Service, Capital Projects, CIP admin.	Capital Expansion Projects and Debt Service			
Regional Wastewater Operations & Maintenance (RO) Fund	Uses of Funds	Major R&R projects not recovered by EDU volumetric rate		O&M, R&R, and Debt Service Costs		
Recycled Water (WC) Fund	Uses of Funds	Debt Service	Capital Expansion Projects, and Future Debt Service Costs		O&M and Existing Debt Service Costs	
Water Resources (WW) Fund	Uses of Funds		Capital projects identified in the IRP and WUEP	MWD RTS pass-through		Conservation, O&M, and portion of Drought Resiliency Projects

Operating Expenses

Review of O&M costs is still underway for the proposed budget (FYs 2015/16 and 2016/17). For purposes of this workshop, the FY 2014/15 adopted budget and four year forecasts were used as the basis for the proposed budget and rates. Total operating expenses average $90 million over the next five years and are comprised of: 45% employment expenses (wages and benefits), 35% operating costs (utilities, chemicals, biosolids recycling, etc.) and 20% administrative and O&M projects (major maintenance & repair, special projects, etc.).

As part of the Agency's cost containment plan, the Agency has included a vacancy factor in its annual budget plan. Over the last two years, the actual vacancy factor has far exceeded the targeted 5%; 11% as of June 2014 and over 13% (equivalent to an average of 38 FTEs) as recently as November 2014. The high number of vacancies is due to a combination of retirements and employees leaving for better opportunities. Over the last 2 years, a total of 20 employees, many in management and lead positions, were recruited by comparable agencies in Riverside, San Bernardino, Orange, and Los Angeles Counties, including some of our member agencies, and private firms.

Over the next five years, approximately 45% of the existing employees will be eligible for retirement. The loss of talent and institutional knowledge from departing employees is costly to any organization. In order to retain and recruit highly skilled individuals, the Agency must remain competitive in the market. In November 2013, a comprehensive classification and compensation study has initiated. The last time such a comprehensive study had been done was in 1998. An independent consultant (Reward Strategy Group) was retained through competitive solicitation to conduct the Agency-wide study. The anticipated implementation cost is included in the current budget for FY 2014/15.

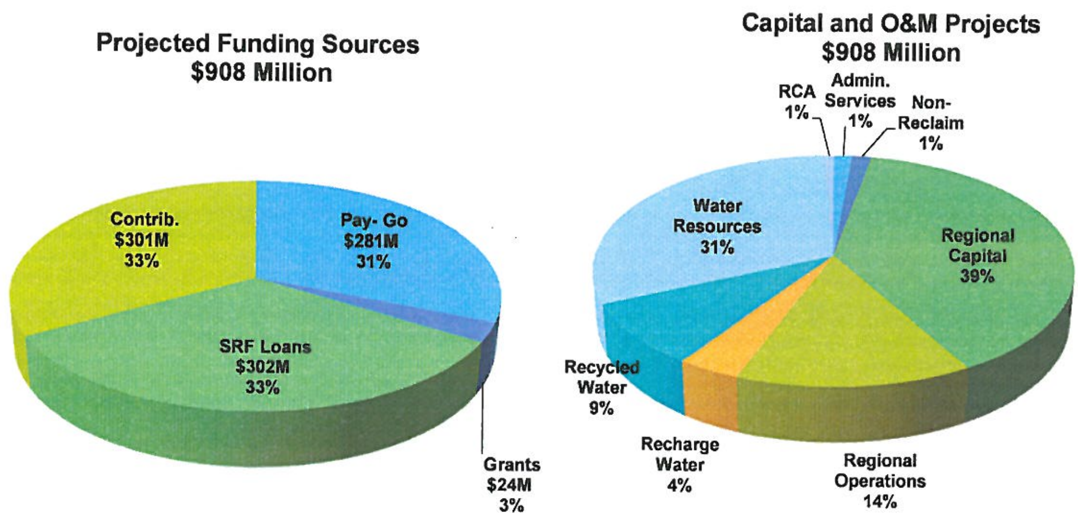
To appropriately plan for impending employee retirements and unplanned departures, included in the proposed budget is a reduction of the Agency's vacancy factor to support succession planning from 5% to 3% in FY 2015/16 and FY 2016/17, then 0% in FY 2017/18 and ensuing years. The positions to be filled will be matched to meet the Agency's service level commitments and strategic objectives.

A summary of major revenues and expenditures by fund is provided on Tables A3 through A6 in the Appendix.

FYs 2016-2025 Ten Year Capital Improvement Plan (TYCIP)

Following a sluggish economic recovery, the Agency's service area is once again anticipating a resurge in new development. This anticipated growth is reflected in the Agency's TYCIP which significantly increased from $ 309 million adopted in June 2014 to $908 million proposed over the next 10 fiscal years (FYs 2015/16 – 2024/25); $544 million of capital projects which includes $7 million for the IERCA, and $364 million in O&M projects, including $250 million for drought resiliency projects. Pursuant to the Regional Sewage Service Contract the Agency prepares the TYCIP identifying the projects needed for the rehabilitation, replacement, and expansion of the facilities owned or operated by the Agency. The capital projects proposed in the TYCIP align with the Wastewater Facilities Master Plan update to be published in May 2015. Figure 3 below shows the allocation by Agency program and anticipated funding sources.

Figure 3: TYCIP Allocation by Fund and Funding Sources



Listed on Table 7 are the major projects by fund planned over the next ten fiscal years. Included in the Regional Wastewater Capital Improvement (RC) fund are major capital projects to expand existing facilities in anticipation of projected growth. Based on member agency forecasts provided in August 2013, approximately 60% of the future growth is projected to occur in the cities of Ontario and Fontana. Expansion of the RP-5 facility located in the city of Chino is needed to support the projected growth in the Agency's southern service area.

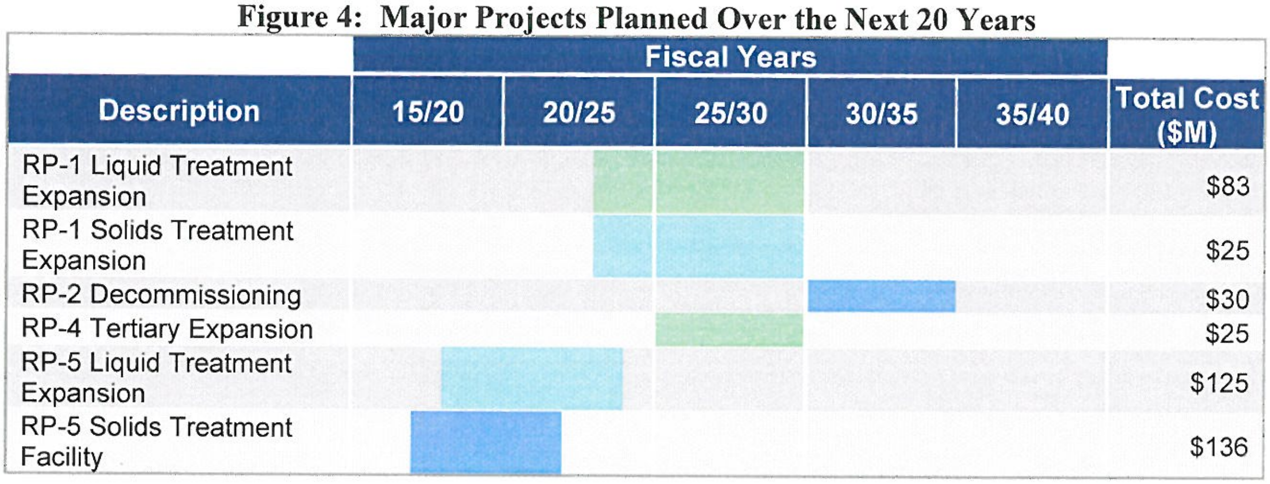
Table 7: Major Projects by Fund Proposed in the FYs 2016-2025 TYCIP

Fund	Project	Timeframe (Fiscal Year)	Ten Year Project Costs ($Millions)
RC Fund			
	RP-5 Liquid Treatment Expansion	2017/18 – 2023/24	$125.0
	RP-5 Solids Treatment Facility	2016/17 – 2021/22	$136.0
	RP-1 Liquid/Solids Treatment Expansion	2023/24 – 2024/25	$20.1
	Lift Stations Improvements	2018/19 – 2024/25	$6.0
	Collection System Upgrades	2015/16 – 2024/25	$6.3
	All Other Projects	2015/16 – 2024/25	$59.5
		RC Total:	**$352.9**
RO Fund	Regional Wastewater Projects AMP	2020/21 – 2024/25	$50.0
	New Water Quality Lab	2015/16 – 2018/19	$17.8
	SCADA Enterprise System	2015/16 – 2018/19	$8.7

	RP-5 Process Improvements	2019/20 – 2021/22	$6.3
	RP-4 Process Improvements	2016/17 – 2018/19	$5.2
	All Other Projects	2015/16 – 2024/25	$38.7
		RO Total:	**$126.7**
WC Fund			
	Recycled Water Projects AMP	2020/21 – 2024/25	$25.0
	Central/Wineville Area Projects	2015/16 – 2016/17	$4.3
	San Sevaine Improvements	2015/16 – 2016/17	$6.0
	Napa Lateral/SB Speedway	2015/16 – 2018/19	$6.0
	RW Pump Station Emergency Generation	2021/22 – 2023/24	$6.0
	All Other Projects	2015/16 – 2024/25	$32.3
		WC Total:	**$79.6**
WW Fund			
	UWMP	2015/16 – 2016/17	$1.0
	Planning Documents, UWMP	2015/16 – 2016/17	$1.0
	Conservation Programming	2015/16 – 2024/25	$30.0
	Drought Resiliency Projects	2015/16 – 2024/25	$250.0
		WW Total:	**$282.0**

In addition to the RP-5 Liquid Treatment and Solids Expansion projects, the rehabilitation and expansion of RP-1, the Agency's oldest facility, is scheduled between 2025 and 2030. Only $20.1 million of the total $108 million estimated costs for this project is included in the proposed TYCIP. Another key project not included in the proposed TYCIP is the future decommissioning of RP-2 solids handling facility. The RP-2 plant is located on land leased from the US Army Corps of Engineers (the Corps) and is within the flood zone behind Prado Dam. The lease is set to expire in 2035. The Corps and Orange County Flood Control District have plans to raise the maximum operational water level behind Prado Dam by 2021 triggering the need to relocate the RP-2 solids handling to RP-5. Both the RP-1 rehabilitation and decommission of RP-2 will need to be funded by a combination of property tax receipts and rates. A listing of major projects planned over the next 20 years is provided in Figure 4.

Figure 4: Major Projects Planned Over the Next 20 Years

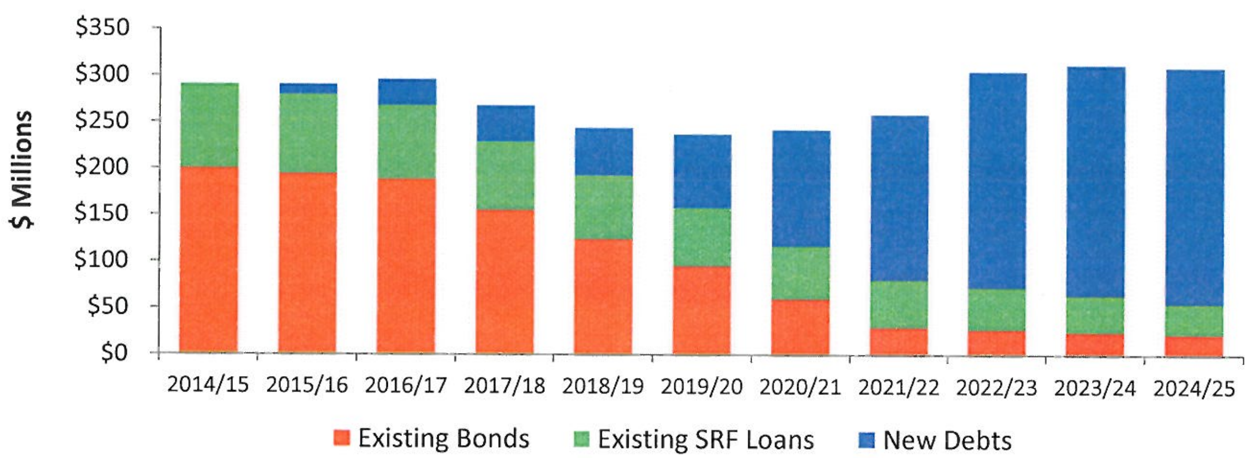


Debt Capacity

The proposed $908 million TYCIP will be funded by a combination of pay-go, low interest State Revolving Fund loans (SRF), grants, and contributions. Consistent with the Fiscal Responsibility commitment to safeguard the Agency's creditworthiness, a key objective is to leverage low interest debt and pay down higher interest obligations. Included in the budget assumptions is the early repayment of the 2008A Revenue Bonds (2008A Bonds) with an outstanding principal balance of $125 million at an interest rate of 5%. The proposed repayment is planned over a five year period beginning in FY 2017/18 when the bonds are eligible for refunding. At an interest rate of 5.0% and scheduled maturity of 2038, present value savings are estimated to be about $60 million.

Another key benefit of early repayment is the Agency's ability to secure low interest SRF loans and grants (capital forgiveness) offered by the State Water Resources Control Board to finance the relocation of the RP-2 solids handling and expansion of the RP-5 facility. Figure 5 below shows the impact to the total principal outstanding balance over the next 10 years assuming the early repayment of the 2008A Bonds and securitization of a new SRF loan for the RP-5 project estimated at $261 million.

Figure 5: Projected Outstanding Principal Debt



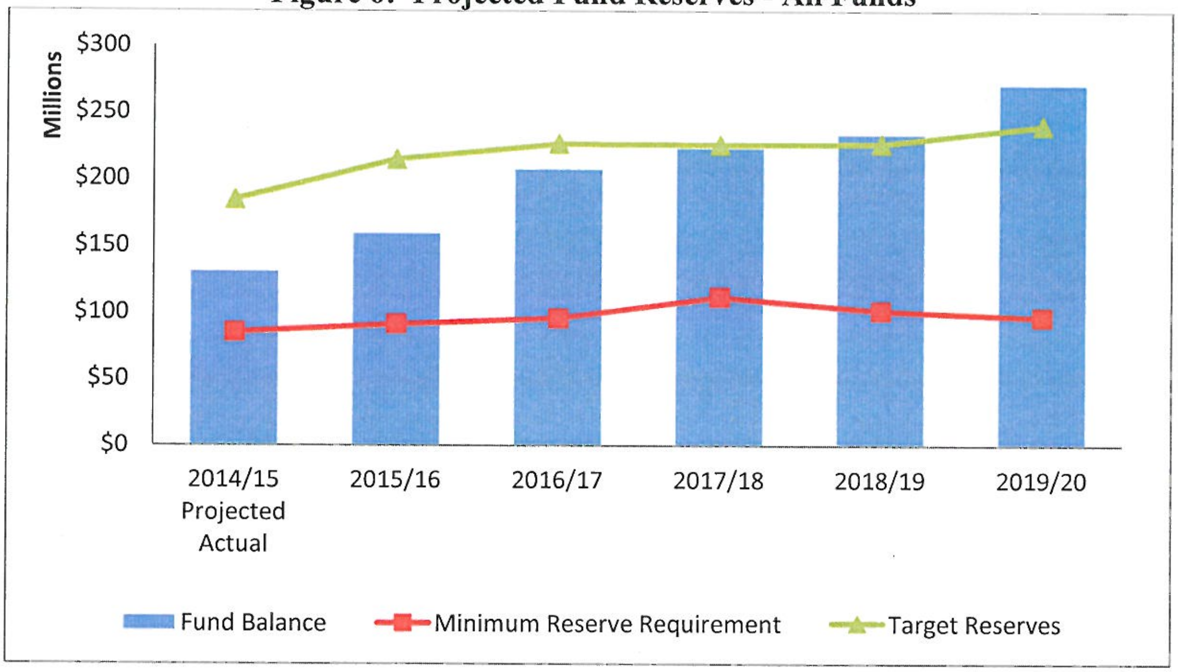
Another alternative being considered is the refunding of the bonds to take advantage of the lower interest rates. Although the savings are estimated to be significantly less, between $7 million to $8 million over ten years, the cash outlay of $125 million would be avoided. Staff is working with the Agency's financial advisor to evaluate the most appropriate alternative given the planned capital investment over the next 20 years.

Based on the current rate and budget assumptions, and early repayment of the 2008A bonds, the total debt coverage ratio (DCR) annual average over the next five years is estimated to be slightly above 3.0x, higher than the 2.12x reported at fiscal year ended June 2014.

Fund Reserves

Funding of future major capital projects, such as the decommissioning of RP-2 and rehabilitation of RP-1, requires the Agency to begin establishing an appropriate level of reserves. As illustrated in Figure 6 below, total fund reserves are projected to increase over the next five years from $130 million estimated at the end of FY 2014/15 to approximately $270 million in FY 2019/20.

Figure 6: Projected Fund Reserves - All Funds



Although the targeted reserve level is not projected to be reached over the next five years, the upward trajectory moves the Agency closer to its goal of establishing an appropriate level of fund reserves to support future commitments, mitigate future rate increases and maintain the Agency's fiscal health.

Timeline

As requested by some of the member agencies, adoption of the proposed five year rates is targeted for adoption in March 2015 to meet their Prop 218 requirements.

Table 7: Proposed Timeline for Adoption of Proposed Rates

Action	IEUA Finance Committee	IEUA Board	Regional Technical Committee	Regional Policy Committee
Budget workshop on rates recommendation		12/11/14	1/29/15	
Joint IEUA Board/ Regional Policy Committee Rate Budget Workshop		2/4/15		2/4/15
Recommendation to approve proposed multi-year rates	2/11/15	2/18/15	2/26/15	3/5/15
Approval of multi-year rates	3/11/15	3/18/15		

Closing

A key emphasis of these rate budget workshops is the evaluation of the proposed five year rates for the Agency's Regional Wastewater, Recycled Water and Water Resources programs. The proposed rates and rate restructuring provide a closer nexus between how costs are incurred and how costs are recovered and ensure The proposed five year rates also provide fiscal stability to both the Agency and its member agencies, and help position the Agency to more effectively prepare for and manage for future growth.

Member agencies and other stakeholders have been actively engaged in reviewing and evaluating the proposed changes to existing rate structures and the implementation of a new "one water" connection fee to appropriately support future investment in regional water reliability and sustainability. Providing reliable and sustainable water supplies is essential to ensuring the region continues to prosper from future economic development. Additionally, achieving a more equitable distribution of costs amongst existing and future users and ensuring more stable and sustainable funding sources for the Agency and its member agencies are also key objectives of the proposed multi-year rates.

PRIOR BOARD ACTION

None.

IMPACT ON BUDGET

None.

Attachments:

Attachment 1: Achieved Cost Containment Reductions: FYs 2008/09 –2013/14
Attachment 2: The 2015 Connection Fee Update Draft Report January 2015 (Regional Wastewater Program)
Attachment 3: The 2015 Connection Fee Update Draft Report January 2015 (Regional Water /Recycled Water Programs)
Attachment 4: The Draft Summary Water Rates Report January 2015

APPENDIX

Table A1: Achieved Cost Containment Reductions: FYs 2008/09 –2013/14

Major Expense Category	Cost Savings ($ Millions)
I. Employment	
• 13 Full Time Equivalent (FTEs) permanent reduction in FY 2010/11	**$1.8**
• 6% average vacancy factor maintained over the last 6 fiscal years (average annual savings = $2M, included in the annual budget)	**1.0**
• 10 Limited term positions (LTD) versus 17 LTDs	**0.2**
• 18 intern positions versus 33 intern positions	
• Achieved a single shift for all IEUA facilities and reduction of 45% of overtime pay since FY 2008/09 through effective staffing allocation and planning	**2.5**
• Granted staff zero COLA since FY 2010/11 and suspended performance awards since FY 2009/10	**5.5**
• Employees began paying 2% of Employer Paid Member Contribution (EPMC) beginning in October 2011, and will fund 100% by FY 2017/18	**6.0**
Total Employment	**$17.0**
II. Operations	
• Optimization of chemical and utilities use through effective use of key performance indicators to monitor consumption	**$3.0**
• Biosolids recycling costs contained at an annual average of $3.5 million since FY 2008/09, due to effective use of the Inland Empire Regional Composting Facility for organics management	
Total Operation	**$3.0**
III. Capital and Debt Service	
• Deferred capital projects focused primarily on expansion and improvement of Agency facilities	**$218.0**
• Reduced debt service payments by $7 million (present value) with the refunding of the 1994 Revenue Bonds (2010A Revenue Refunding Bonds)	**7.0**
Total Capital & Debt	**$225.0**
Total Cost Containment	**$245.0**

Table A2: IEUA Business Goals and Key Objectives

Fiscal Responsibility	Water Reliability	Wastewater Management	Environmental Stewardship	Business Practices	Workplace Environment
▪ Funding & Appropriation ▪ Budget Planning ▪ Reserves ▪ Credit Worthiness	▪ Water Use Efficiency & Education ▪ New Water Supplies ▪ Recycled Water ▪ Groundwater Recharge	▪ Capacity ▪ On-Time ▪ Construction ▪ Biosolids Management ▪ Energy Management	▪ Regulatory Compliance ▪ Good Neighbor Policy ▪ Response & Complaint Mitigation ▪ Environmental Stewardship	▪ Efficiency & Effectiveness ▪ Customer Service ▪ Regional & Community Relations ▪ Policy Leadership	▪ Mission, Vision & Values ▪ Employer of Choice ▪ Training ▪ Staff Safety

Table A3: Regional Wastewater Capital Improvement (RC) Fund

($millions)	5 Year Total	10 Year Total	Comments
Revenues			
Connection Fees	$142	$234	Based on 30,000 new connections over the next 10 years. The proposed rate of $7,010 per new EDU connection is based on the <u>highest</u> number of expected future users, or 96,814 over the next 20 years.
Property Tax	$141	$298	Allocation remains at 65%. Assumes no change in the level of property tax receipts.
SRF Loans	$78	$254	SRF loans and grants to support the RP-2 Solids Relocation and RP-5 Expansion.
Expenses			
Projects	$172	$363	Partially supported by SRF loans and grants, includes O&M and capital projects.
Debt Service	$73	$125	Assumes early redemption of high interest 2008A Revenue Bonds beginning in FY 2017/18.

Table A4: Regional Wastewater Operations and Maintenance (RO) Fund

($ in millions)	5 Year Totals	10 Year Totals	Comments
Revenues			
Property Tax	$48	$101	Allocation remains at 22% to partially support future decommission of RP-2. Assumes no change in the level of property tax receipts.
Volumetric EDUs	$292	$637	Assumes annual growth factor of 0.25% in the number of billable volumetric EDUs.
Expenses			
O&M (net IERCA labor)	$268	$570	Assumes 3% annual average inflationary rate.
Projects	$62	$127	Capital and O&M project spending – partially supported by SRF loans and grants: • New Water Quality Laboratory • Chino Creek Wetlands and Educational Park Upgrades

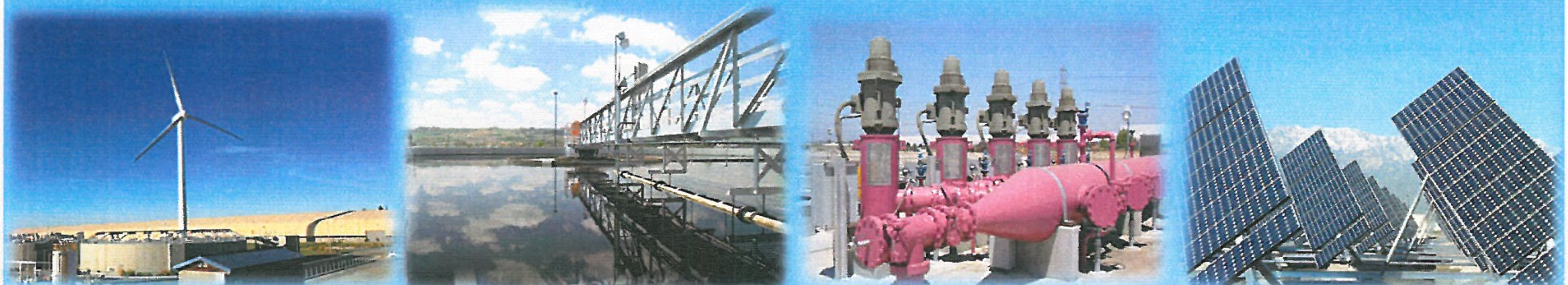
Table A5: Recycled Water (WC) Fund

($Millions)	5 Year Total	10 Year Total	Comments
Revenues			
Recycled Water Sales	$86	$214	Assumes current rates as shown under Scenario B reaching full cost recovery in 5 fiscal years.
Property Tax	$11	$22	Allocation remains at 5%. Assumes no change in the level of property tax receipts.
SRF Loans	$26	$26	SRF loans and grants to support the Central/Wineville area and various other projects.
MWD Rebate	$4	$4	Rebate expires in June 2017.
New Water Connection Fee	$31	$51	Based on 27,300 new EDU connections and preliminary rate of $1,675 per MEU. Study in progress.
Expenses			
O&M	$47	$102	O&M costs include pumping costs and groundwater O&M costs not funded by Watermaster, including the Agency's pro-rata share.
Projects	$43	$80	Capital and O&M projects – partially supported by SRF loans and grants.
Inter-Fund Loan Repayment	$6	$23	Begin repayment in FY 2016/17 to Non-Reclaimable Wastewater (NC) Fund.

Table A6: Water Resources (WW) Fund

($ in millions)	5 Year Totals	10 Year Totals	Comments
Revenues			
RTS Recovery Rate	$20	$43	AF revenue to meet the MWD RTS obligation
Net Proceeds from Imported Water Sales	$.4	$1.4	$100/AF net revenue from sale of non-MWD imported potable water sales beginning in FY 2018/19
Expenses			
Operating Costs	$51	$107	Pass-through MWD readiness to serve, conservation program and operating program costs.
Debt Service	$4	$4	Inter-fund Loan repayment to Admin Services (GG) fund beginning in FY 2017/18.

Rate Budget Workshop for Fiscal Years 2015/16 Through 2019/20



Special Joint IEUA Board/Regional Policy Committee

February 4, 2015

Inland Empire Utilities Agency

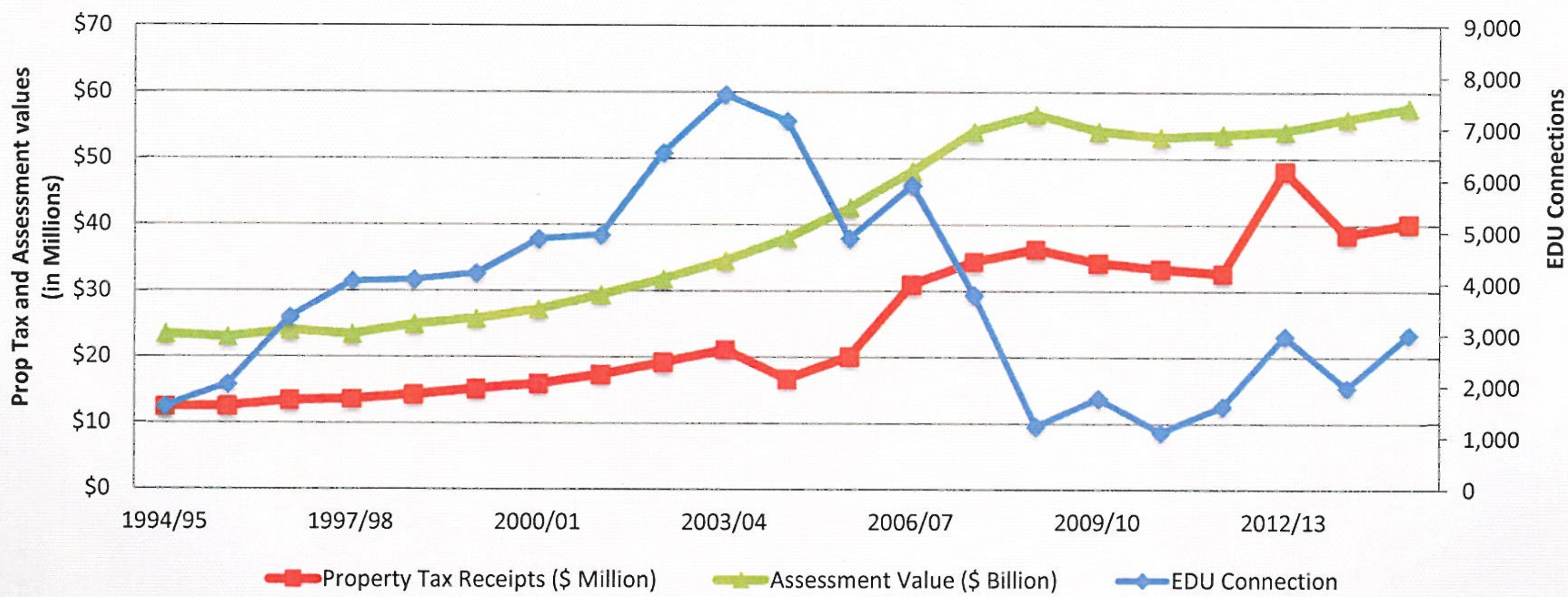
A MUNICIPAL WATER DISTRICT

Rates Summary

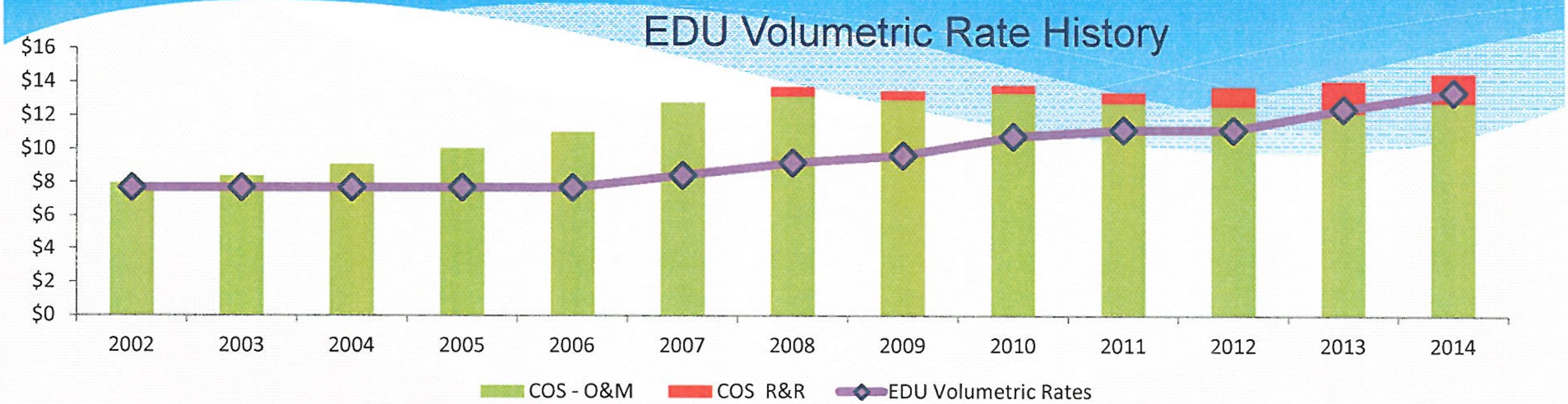
Program	Rate	Existing Rates	Proposed Rates
Regional Wastewater	Monthly Volumetric EDU	X	X
	Connection Fees	X	X
Recycled Water	Direct Delivery per AF	X	X
	Groundwater Recharge per AF	X	X
	"One Water" Connection Fees		X
Water Resources	Meter Charge	X	
	AF Surcharge	X	
	Meter Equivalent Units (MEUs)		X
	RTS Recovery		X

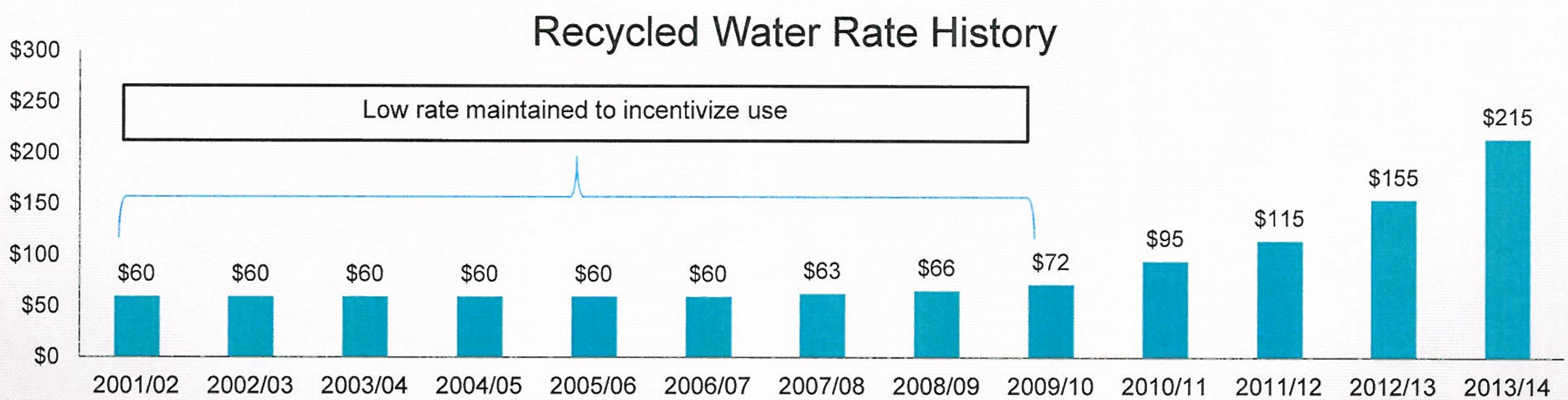
Impact of Economic Volatility

- $14M ERAF tax shift (2004/05 & 2005/06)
- $10.2M unobligated RDA funds (2012/13)
- 3.4% increase in S.B. County property assessed values (2013/14)



Rise in property taxes supported Agency's policy to defer rate increases for years.





Cost of Service gap supported by property taxes, fund reserves and inter-fund loans.

$245 million in Cost Containment Achieved Over the Last 6 Years

$218M
Deferred non-critical capital projects, including expansion and R&R

$17M
Cut in employment costs (FTE count reduced by 48, or 16% since 2008), no COLAS, pension reform, and transition to single shift

$3M
Savings in optimal use of chemical and utilities with KPIs

$7M
Reduction in debt service costs through the refunding of high interest debt

Key Objectives

Fiscal Responsibility	• **Restructure rates** to meet short term and long term needs (*Funding & Appropriation*) • Adopt **5 year rates that achieve full cost of service** (*Funding & Appropriation*) • Adopt **biennial budget** (*Budget Planning*) • Pay down **high interest debt** (*Creditworthiness*)
Water Reliability	• Establish a "**one water**" connection fee to support water reliability and sustainability for the region (*Water Use Efficiency*) • Invest in **"regional drought"** projects (*Water Use Efficiency*)
Wastewater Management	• Integrate **long term planning documents:** TYCIP, Integrated Resources Plan, Recycled Water Program Strategy, Energy Management Plan, etc. (*Capacity & On-time Construction*)

Key Objectives

Workplace Environment

- Initiate **succession planning** to secure the appropriate resources to meet the Agency's long term goals (*Mission, Vision & Values*)
- Retain & recruit **highly skilled staff** to sustain the Agency's level of service (*Employer of Choice*)

Business Practices

- Adopt rates by March 2015 to meet member agencies' **Prop 218 timeline (***Regional and Community Relations*)
- Leverage **AB3030 pass-through** of wholesale water and wastewater rates by retail agencies (*Regional and Community Relations*)

Baseline Budget Assumptions

Revenues and Other Funding Sources

5% to 2% growth in **property tax** receipts. Assumes no change in the level of property tax receipts. No change in the fund allocation.

3.2 million total number of billable **volumetric EDUs**, 0.25% annual growth.

30,000 **new EDU connections** over 10 years. Lower than the member agency projections of 40,523.

4,330 EDU/ 3,940 One Water FY 2015/16
4,579 EDU/ 4,167 One Water FY 2016/17

Ten year average potable water deliveries, 62,200 AF for FY 2015/16 for RTS pass-through.

Potable water deliveries anticipate implementation of the Water Supply Allocation Plan by MWD:
50,000 AF FY 2015/16
55,000 AF FY 2016/17
+10,000 AF of other imported water during wet years (2018, 2021, & 2024).

Total **recycled water deliveries**:
35,150 AF FY 2015/16
37,100 AF FY 2016/17
Projected to reach 50,000 AF by 2025

Capital Improvement Plan primarily funded by low interest **SRF loans** and grants.

Baseline Budget Assumptions

Expenses and Other Uses of Funds

Staffing level maintained at 290 FTEs. **Vacancy factor** reduced to support succession planning:

3% FYs 2015/16 & 2016/17
0% thereafter

6% increase in **health insurance** premiums and 5% increase in **CalPERS** employer rate.

COLA partially offset by additional employee paid CalPERS contribution of 1.50% each year:
3.0% COLA FY 15/16 (5.50% employee paid)
3.5% COLA FY 16/17 (7.0% employee paid)

Continue with cost containment plan.

3% average CPI for **O&M** expenses and $4.5 million annual payment against pension unfunded accrued liability (UAL).

Capital Improvement Plan (CIP) aligns with the Agency's Ten Year Capital Improvement Plan (TYCIP).

Pay-down of high interest **debt**.

Property Tax Receipts Allocation

Fund	Current Allocation	Uses of Funds	FY 2015/16 Funding (Projected)
Administrative Services (GG)	8%	Operations & Maintenance Expense	$3.3
Regional Wastewater Capital Improvement (RC)	65%	Debt Service and Capital Expenditures	26.5
Regional Wastewater Operations (RO)	22%	R&R and O&M not covered by EDU rates	9.0
Recycled Water (WC)	5%	Debt Service	2.0
Water Resources (WW)	-	-	0
Totals	**100%**		**$40.8**

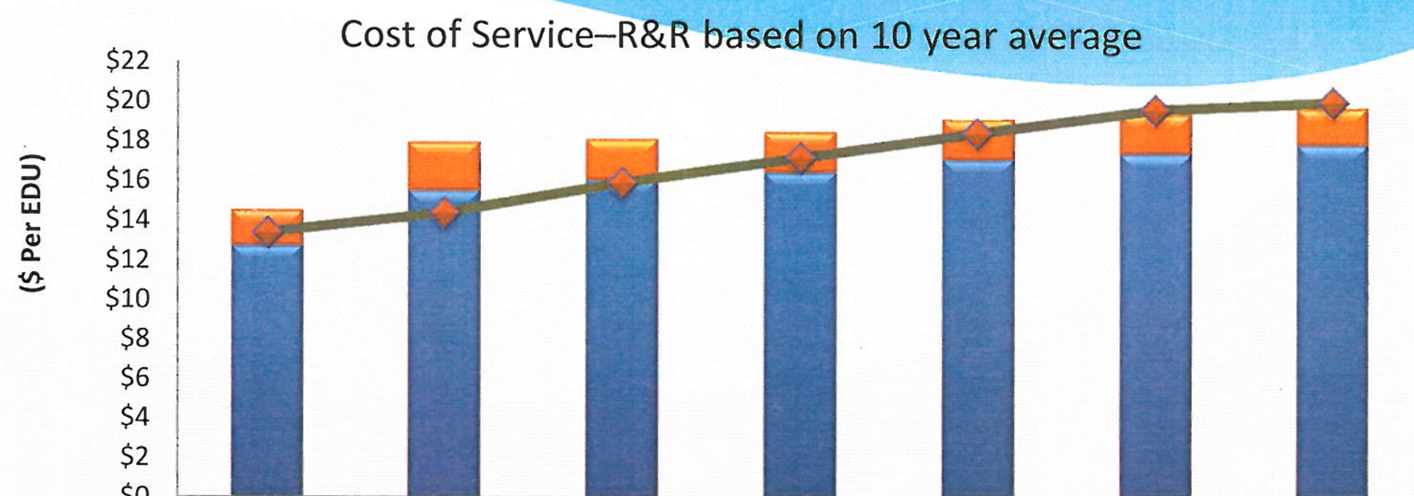
Proposed Multi-Year Rates Regional Wastewater Program

- Monthly Volumetric EDU: Full cost of service achieved in FY 2018/19
- New EDU connection fee: Based on rate analysis study and using the highest number of expected future users (96,814) over the next 20 years.

Program	Rate Description	FY 2014/15	FY 2015/16 Proposed	FY 2016/17 Proposed	FY 2017/18 Proposed	FY 2018/19 Proposed	FY 2019/20 Proposed
Regional Wastewater	Monthly Volumetric EDU	$14.39	$15.89	$17.14	$18.39	$19.59	$20.00
	New EDU Connection Fee	$5,107	$7,010	$7,223	$7,436	$7,663	$7,890

Rates to be effective July 1, 2015.

Cost of Service: EDU Volumetric Charge Regional Wastewater O&M (RO) Fund



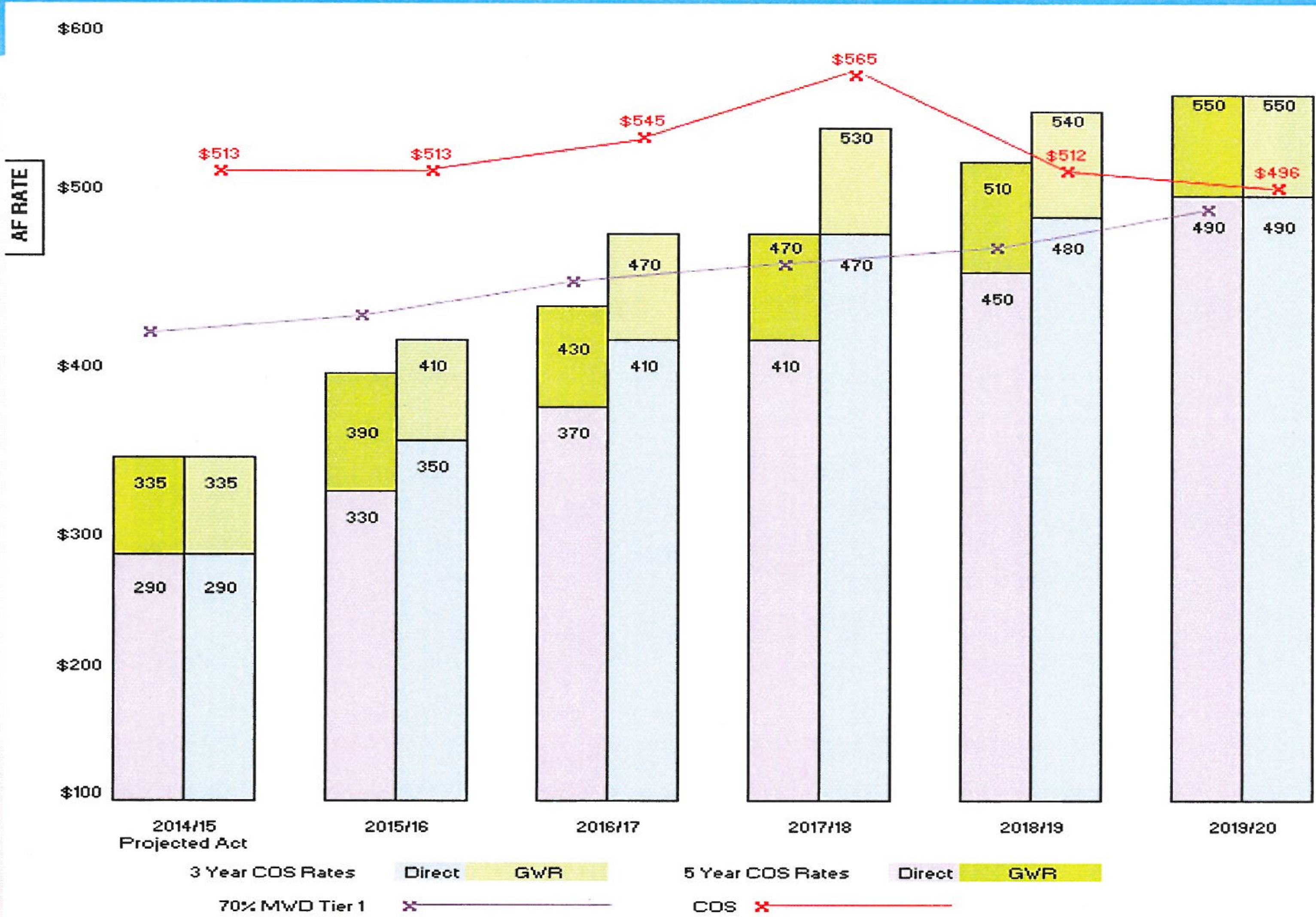
	2014	2015	2016	2017	2018	2019	2020
COS R&R	$1.78	$2.42	$2.01	$2.01	$2.00	$2.00	$1.84
COS - O&M	$12.76	$15.52	$16.08	$16.45	$17.10	$17.41	$17.88
EDU Volumetric Rates	$13.39	$14.39	$15.89	$17.14	$18.39	$19.59	$20.00
Proposed Changes to Rates Effective July 1, 2015.			**$1.50**	**$1.25**	**$1.25**	**$1.20**	**$0.41**

Proposed Multi-Year Rates Recycled Water Program

- **Rates to be Effective July 1, 2015**

	Rate	FY 2014/15	FY 2015/16 Proposed	FY 2016/17 Proposed	FY 2017/18 Proposed	FY 2018/19 Proposed	FY 2019/20 Proposed
3 Year COS							
Recycled Water	Direct Delivery per AF	$290	$350	$410	$470	$480	$490
	Groundwater Recharge per AF	$335	$410	$470	$530	$540	$550
5 Year COS							
Recycled Water	Direct Delivery per AF	$290	$330	$370	$410	$450	$490
	Groundwater Recharge per AF	$335	$390	$430	$470	$510	$550

Cost of Service: AF Sales Rate Recycled Water (WC) Fund



Preliminary Multi-Year Rates Water Resources Program

- Preliminary rates to be adjusted in accordance with rate study analysis.
- Rates effective July 1, 2015.

Program	Rate Description	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
			Proposed				
Current	Meter Charge	$2.11					
	AF Surcharge	$15					
Scenario A	Meter Equivalent Units (MEUs)		$1.10	1.20	1.30	1.40	1.50
	AF RTS Recovery		$60 -$70	Based on MWD RTS fees			
Scenario B	Meter Equivalent Units (MEUs)		$1.30	1.35	1.40	1.45	1.50
	AF RTS Recovery		$40	$55	$70	$85	$100

Proposed "One Water" Connection Fee

- $1,675 per MEU preliminary rate, is comprised of a $290 "buy in" component and a $1,385 "incremental" component
- Rate effective July 1, 2015.

	Rate	FY 2014/15	FY 2015/16 Proposed	FY 2016/17 Proposed	FY 2017/18 Proposed	FY 2018/19 Proposed	FY 2019/20 Proposed
Recycled Water	"One Water" Connection Fee/ MEU	N/A	$1,675	$1,726	$1,778	$1,831	$1,942

Overview of Rate Study by Carollo

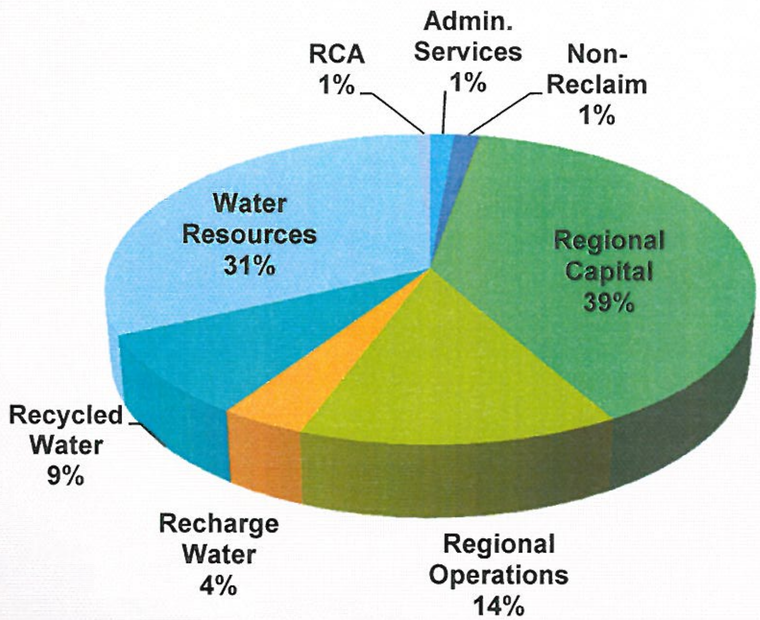
Sources and Uses of Funds

		Funding Sources				
Fund		Property Tax Receipts	Connection Fees	EDU Volumetric/ AF charge	Recycled Water Sales	Meter Equivalent Unit (MEUs)
Administrative Services (GG) Fund	Uses of Funds	O&M				
Regional Wastewater Capital Improvement (RC) Fund		Debt Service, Capital Projects, CIP admin.	Capital Expansion Projects and Debt Service			
Regional Wastewater Operations & Maintenance (RO) Fund		Major R&R projects not recovered by EDU volumetric rate		O&M, R&R, and Debt Service Costs		
Recycled Water (WC) Fund		Debt Service	Capital Expansion Projects and Future Debt Service Costs		O&M and Existing Debt Service Costs	
Water Resources (WW) Fund			Capital projects identified in the IRP and WUEP	MWD RTS pass-through		Conservation, O&M, and portion of Drought Resiliency Projects

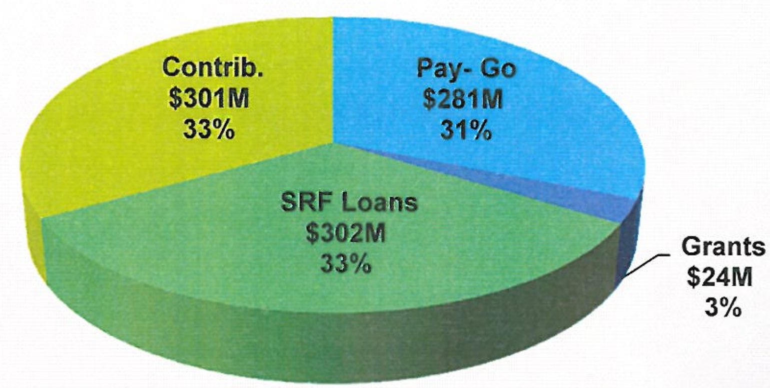
Ten Year Capital Improvement Plan by Fund and Funding Source

FYs 2015/16 – 2024/25

Capital and O&M Projects
$908 Million



Project Funding Sources
$908 Million



$908 Million TYCIP:

$544 M capital projects, includes $7M for IERCA contribution

$364 M O&M projects, includes $250M of drought resiliency project

TYCIP Major Projects

Description	Fiscal Years					Total Cost ($M)
	15/20	20/25	25/30	30/35	35/40	
RP-1 Liquid Treatment Expansion						$83
RP-1 Solids Treatment Expansion						$25
RP-2 Decommissioning						$30
RP-4 Tertiary Expansion						$25
RP-5 Liquid Treatment Expansion						$125
RP-5 Solids Treatment Facility						$136

$275.6 Million

$424 Million

Projected Outstanding Principal Debt

Total outstanding principal debt projected in 2025:

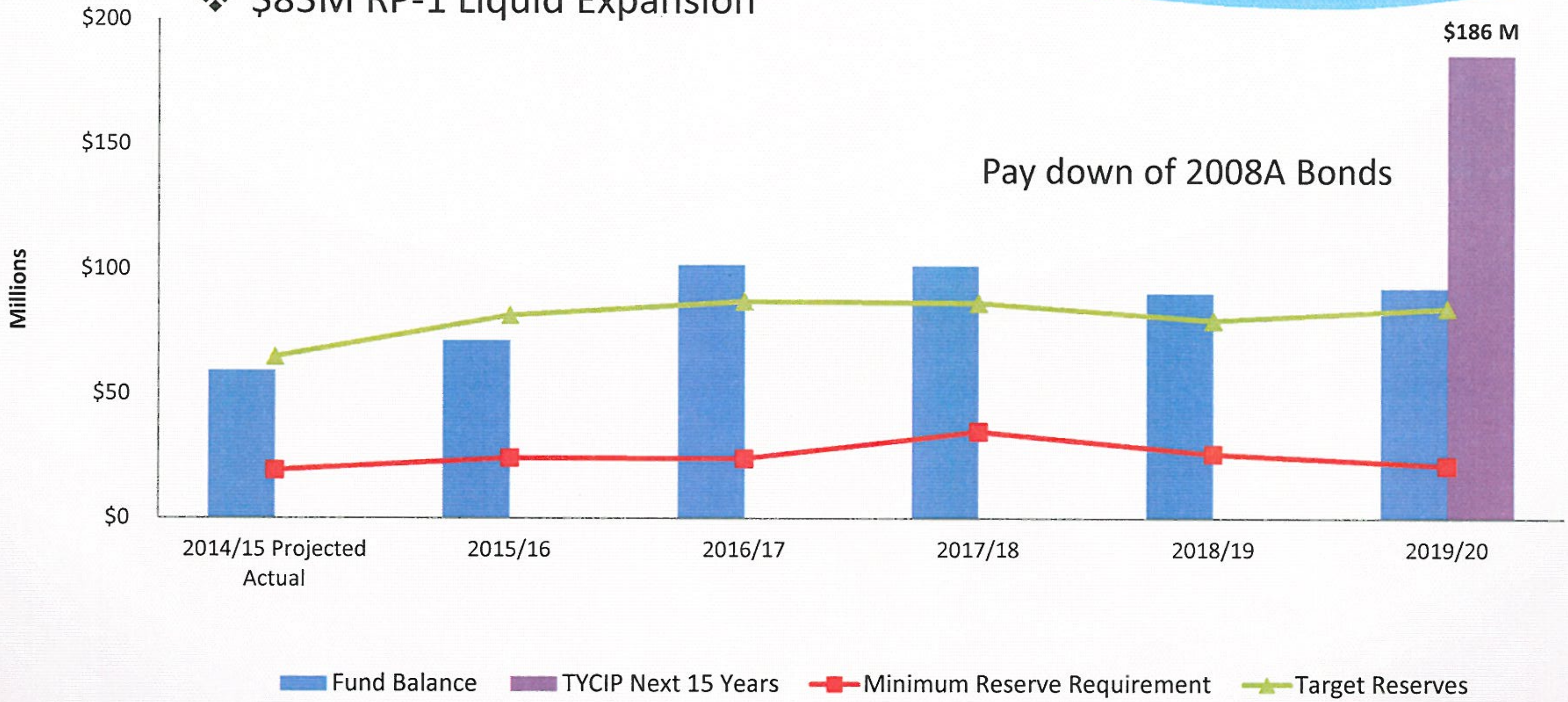
- $310M with the 2008A Bond early repayment
- $420M without the 2008A Bond early repayment
- Estimated Debt Coverage Ratio (DCR) by FY 2024/25 is 3.4X

Regional Wastewater Capital Improvement (RC) Fund

($ in millions)	5 Year Total	10 Year Total	Comments
Revenues			
Connection Fees	$142	$234	Total new connections 30,000. Proposed rate of $7,010 per EDU is based on the highest number of expected future users, or 96,814 over the next 20 years.
Property Tax	$141	$298	Allocation remains at 65%. Assumes no change in the level of property tax receipts.
SRF Loans	$78	$254	SRF loans and grants to support the RP-2 Solids Relocation and RP5 Expansion.
Expenses			
Projects	$172	$363	Partially supported by SRF loans and grants, includes O&M and capital projects.
Debt Service	$73	$125	Assumes early redemption of high interest 2008A Revenue Bonds.

Projected Reserves: RC Fund

Major projects in next 15 years:
- $94M RP-5 Liquid Expansion
- $83M RP-1 Liquid Expansion



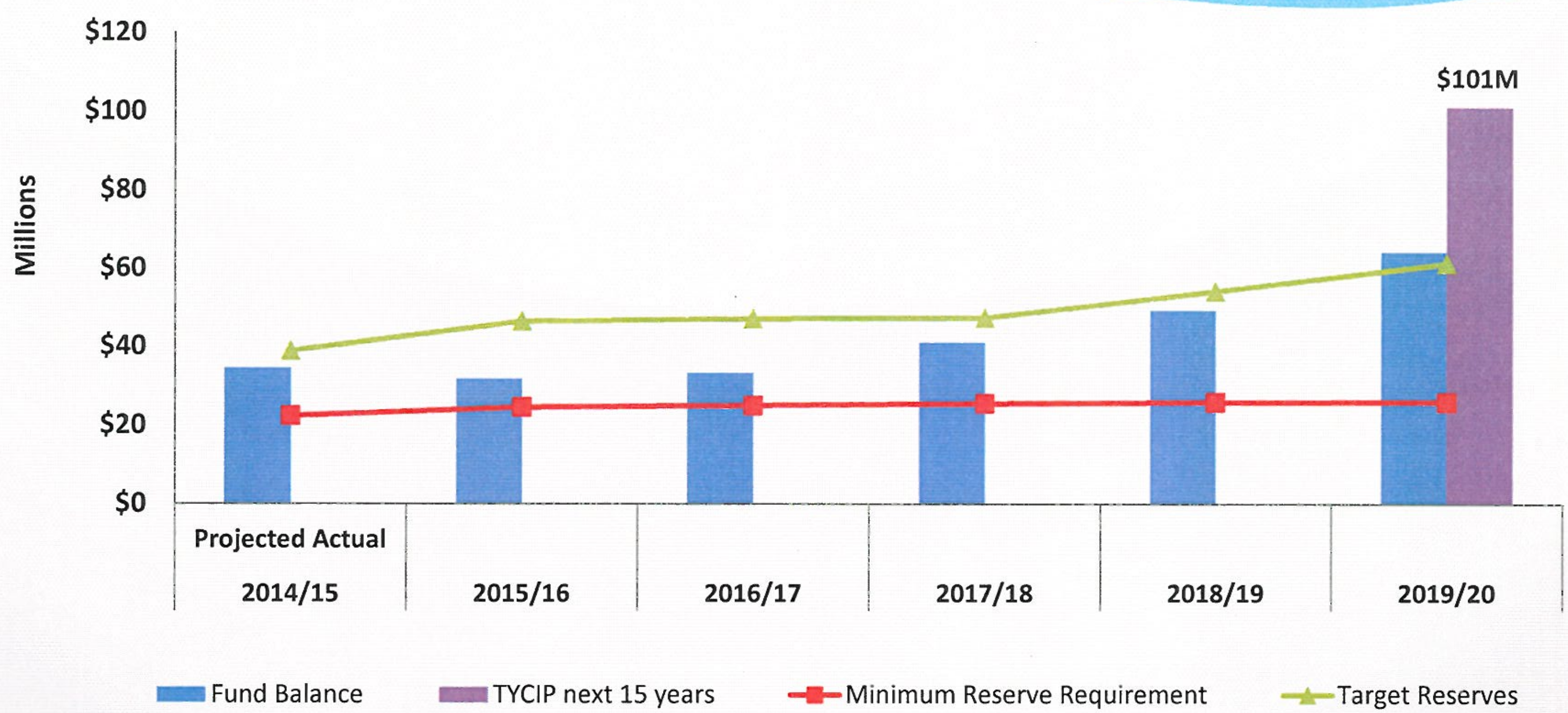
Regional Wastewater Operations and Maintenance (RO) Fund

($ in millions)	5 Year Totals	10 Year Totals	Comments
Revenues			
Property Tax	$48	$101	Allocation remains at 22% to partially support future decommission of RP-2. Assumes no change in the level of property tax receipts.
Volumetric EDUs	$292	$637	Assumes annual growth factor of 0.25%.
Expenses			
O&M (net IERCA labor)	$268	$570	Assumes 3% annual average inflationary rate.
Projects	$62	$127	Capital project spending – partially supported by SRF loans and grants: • New Water Quality Laboratory • Chino Creek Wetlands and Educational Park Upgrades

Projected Reserves: RO Fund

Major projects in next 15 years:

- $50M Wastewater Asset Management Plan
- $30M RP-2 Decommission

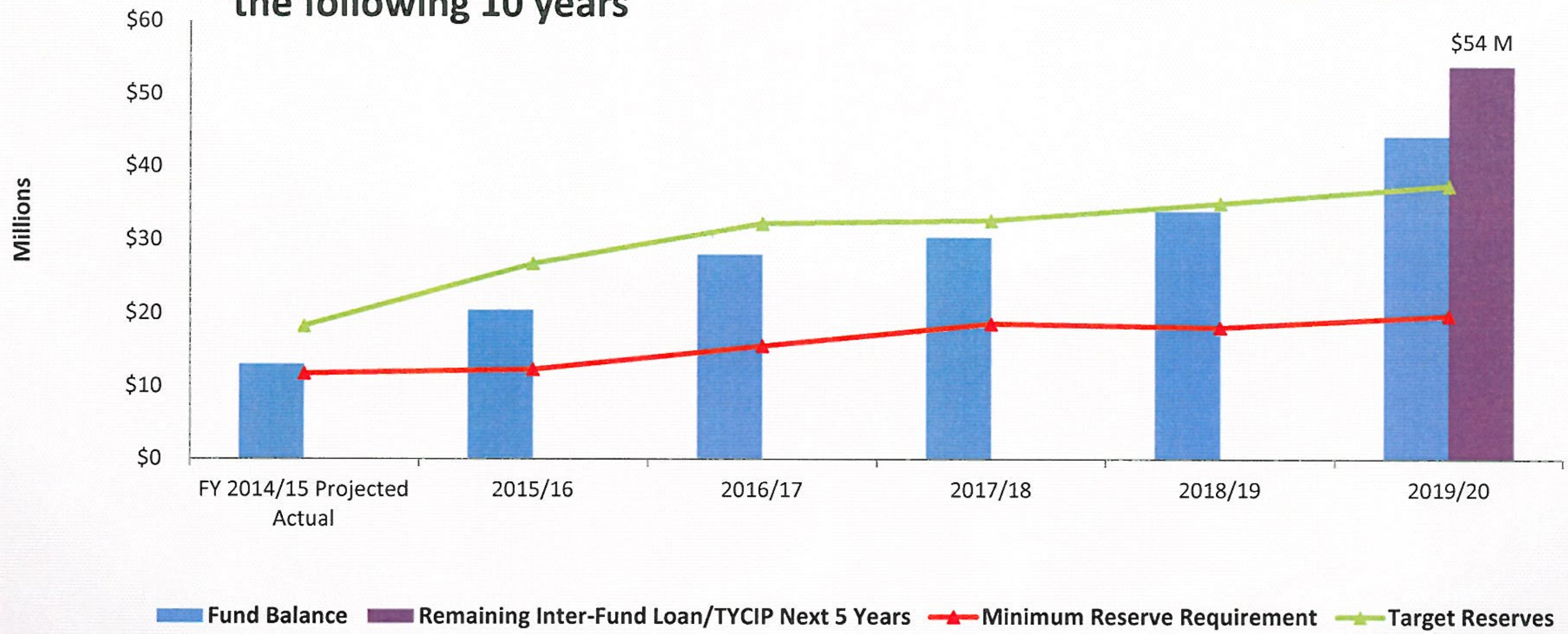


Recycled Water (WC) Fund

($ in millions)	5 Year Total	10 Year Total	Comments
Revenues			
Recycled Water Sales	$86	$214	Assumes current rates as shown for 5 year COS.
Property Tax	$11	$22	Allocation remains at 5%. Assumes no change in the level of property tax receipts.
SRF Loans	$26	$26	SRF loans and grants to support the Central/Wineville area and various other projects.
MWD Rebate	$4	$4	Rebate expires in June 2017.
New Water Connection Fee	$31	$51	Based on 27,300 new EDU connections and preliminary rate of $1,675 per MEU. Study in progress.
Expenses			
O&M	$47	$102	O&M costs include pumping costs and non-reimbursable groundwater O&M costs. Also includes annual Agency's pro-rata share.
Projects	$43	$80	Capital and O&M projects – partially supported by SRF loans and grants.
Inter-Fund Loan Repayment	$6	$23	Begins repayment in FY 2016/17 to Non-Reclaimable (NC) Fund.

Projected Reserves: WC Fund

- **$17.5M Inter-fund loan for FY's 2021-2025**
- **$36.4M TYCIP for FY's 2021-2025, an additional $134 million the following 10 years**

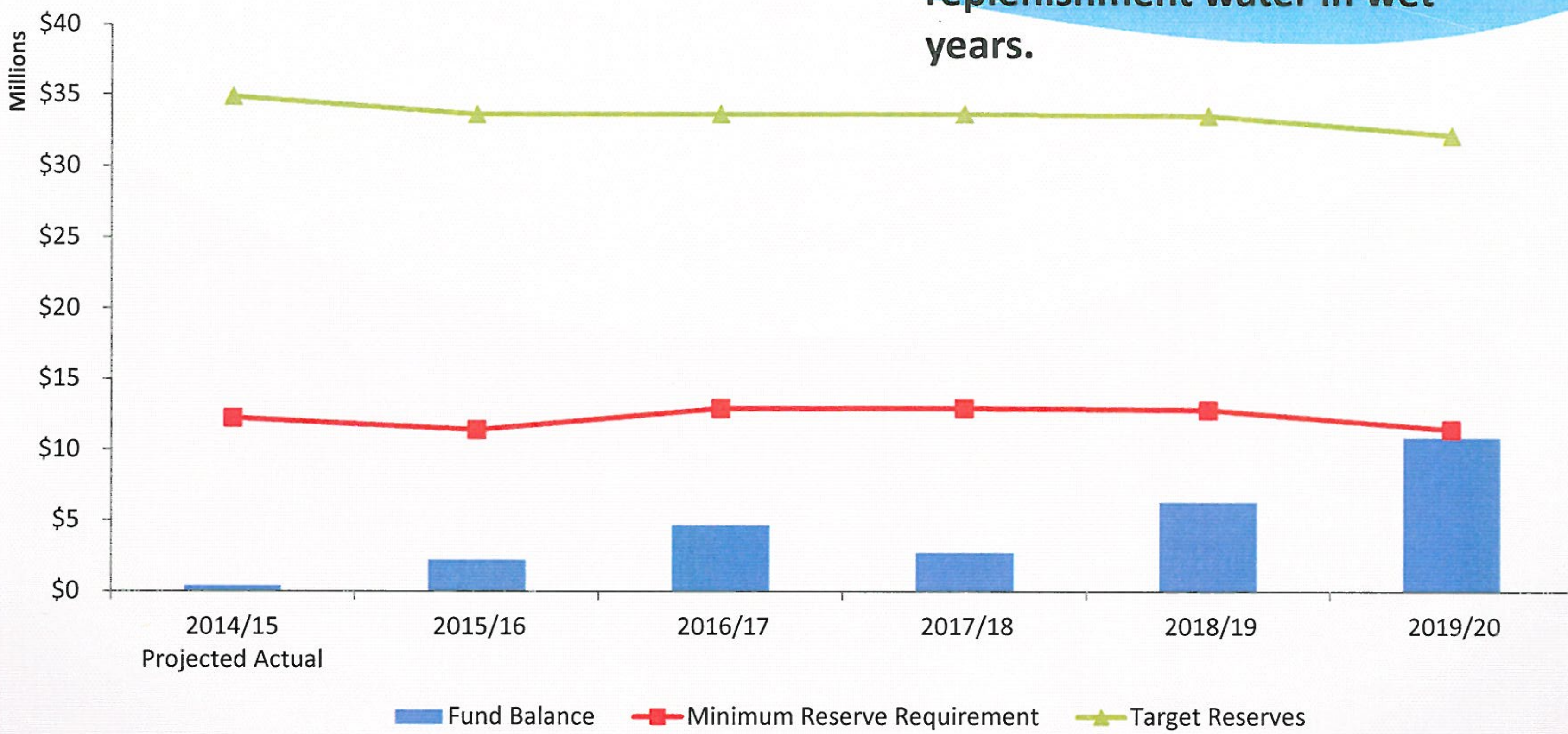


Water Resources (WW) Fund

($ in millions)	5 Year Totals	10 Year Totals	Comments
Revenues			
RTS Recovery	$20	$43	AF revenue to meet the MWD RTS obligation
Net Proceeds from Imported Water Sales	$.4	$1.4	$100/AF net revenue from sale of non-MWD imported potable water sales.
Expenses			
Operating Costs	$51	$107	Pass-through MWD readiness to serve, conservation program and operating program costs.
Debt Service	$4	$4	Inter-fund Loan repayment to Admin Services (GG) fund beginning in FY 2017/18.

Projected Reserves: WW Fund

Reserves needed to finance purchase and storage of replenishment water in wet years.



Benefits of Proposed Rate Changes

* Achieve full cost of service in a reasonable timeframe.
* More equitably allocates costs between current and future ratepayers.
* Affords revenue stability to the Agency and member agencies.
* Provide necessary resources to support investment in water reliability and sustainability in the region to ensure continual economic development.

Schedule

Action	IEUA Finance Committee	IEUA Board	Regional Technical Committee	Regional Policy Committee
Budget workshop on rates recommendation		12/11/14	1/29/15	
Joint IEUA Board/ Regional Policy Committee Rate Budget Workshop		2/4/15		2/4/15
Recommendation to approve proposed multi-year rates	2/11/15	2/18/15	2/26/15	3/5/15
Approval of multi-year rates	3/11/15	3/18/15		

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Questions?