



AGENDA

MEETING/WORKSHOP OF THE BOARD OF DIRECTORS

**WEDNESDAY, AUGUST 2, 2017
10:00 A.M.**

**INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS
BOARD ROOM
6075 KIMBALL AVENUE
CHINO, CALIFORNIA 91708**

CALL TO ORDER OF THE INLAND EMPIRE UTILITIES AGENCY BOARD OF DIRECTORS MEETING/WORKSHOP 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 is available on the table in the Board Room. Comments will be limited to three 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. **ACTION ITEM**

A. ADOPTION OF A RESOLUTION FOR A CWC 2017 WSIP GRANT

Staff recommend that the Board:

1. Adopt Resolution No. 2017-8-1, authorizing IEUA to apply for funding and enter into a financial assistance agreement with the California Water Commission (CWC) for the 2017 Water Storage Investment Program (WSIP); and
2. Authorize the General Manager to execute the financial assistance agreement, any amendments, and any grant related documents thereto.

2. **WORKSHOP**

A. LONG RANGE PLAN OF FINANCE WORKSHOP

3. **ADJOURN**

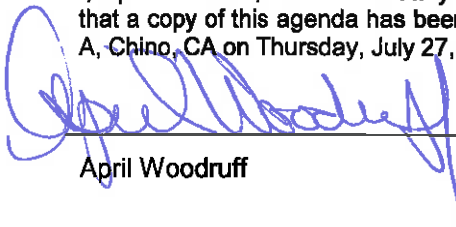
*A Municipal Water District

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.

Declaration of Posting

Proofed by: Jennifer Hys-Butt

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, July 27, 2017.



April Woodruff

**ACTION
ITEM**

1A



Date: August 2, 2017

To: The Honorable Board of Directors
Committee:

From: P. Joseph Grindstaff, General Manager

Executive Contact: Kathy Besser, Executive Manager of Ext. Aff. & Policy Dev./AGM

Subject: Adoption of a Resolution for a California Water Commission 2017 Water Storage Investment Program Grant

Executive Summary:

An official resolution is required to be adopted by the applicant's Board of Directors to apply for and enter into a financial assistance agreement, as mandated under the 2017 Water Storage Investment Program. The Chino Basin Water Storage and Recovery Project, with an estimated cost of \$460,000,000, would construct an advanced water treatment facility and distribution facilities that would store up to 15,000 acre-feet per year (AFY) of water in the Chino groundwater basin, which would be dedicated for environmental benefits within the Delta. The project would leverage a partnership with an existing State Water Project Contractor (SWPC), which would allow for locally stored groundwater to be traded with north of Delta water supply. The locally stored water would be pumped to supplement the water supply for a SWPC and an equivalent amount would then be released by the corresponding SWPC north of the Delta. The proposed grant funding amount from California Water Commission (CWC) is about \$460,000,000 for the capital cost of the project. This application will be submitted under the CWC grant funding category of conjunctive use, which can request up to 100% of capital costs. Other project administrative costs, estimated to be about \$150,000, will be funded by the Agency's Planning and Environmental Resources Department budget.

Staff's Recommendation:

1. Adopt Resolution No. 2017-8-1, authorizing IEUA to apply for funding and enter into a financial assistance agreement with the California Water Commission for the 2017 Water Storage Investment Program; and
2. Authorize the General Manager to execute the financial assistance agreement, any amendments, and any grant related documents thereto.

Budget Impact: Y *Budgeted (Y/N):* Y *Amendment (Y/N):* N *Requested Amount:*

Account/Project Name:

WW Planning and Environmental Resources departmental budget for document costs.

Fiscal Impact (explain if not budgeted):

The impact of IEUA's current fiscal year budget would be for other project administrative costs which is estimated to be \$150,000 for Fiscal Year 2017/18 and will be funded by Planning and Environmental Resources departmental budget for document costs.

Prior Board Action:

On April 19, 2017, the Board authorized IEUA to submit an application to enter into a financial assistance agreement for the WaterSMART Grant: Water Marketing Strategy Grants Program for Fiscal Year 2017 for developing the Chino Basin Water Market Plan.

Environmental Determination:

Not Applicable

Business Goal:

The action supports IEUA's mission to increase sustainability through the development of water storage infrastructure that will contribute to water supply sustainability in a manner that is consistent with the IEUA's mission of pursuing state and federal grants and low-interest financing.

Attachments:

Attachment 1 - Background

Attachment 2 - PowerPoint

Attachment 3 - Resolution No. 2017-8-1

Background

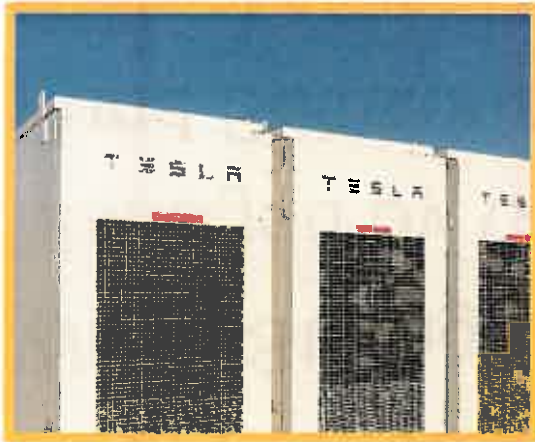
Subject: Adoption of a Resolution for a California Water Commission 2017 Water Storage Investment Program Grant

In November 2014, California voters passed the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1) authorizing \$7.545 billion in general obligation bonds to fund ecosystems and watershed protection and restoration, water supply infrastructure projects, including surface and groundwater storage, and drinking water protection. Of this funding, \$2.7 billion was dedicated for the investment in the public benefits of water storage projects and the California Water Commission (CWC) was designated as the agency responsible for allocating these funds.

The CWC called upon potential project proponents to submit concept papers that summarize potential water storage projects and their benefits. IEUA submitted a concept paper to the CWC on June 6, 2016. In March 2017, the CWC announced the Water Storage Investment Program (WSIP) to fund projects that provide public benefits associated with water storage projects that improve the operation of the state water system, are cost effective and provide a net improvement in ecosystem and water quality conditions. An official resolution is required to be adopted by the applicant's Board of Directors to apply for and enter into a financial assistance agreement, as mandated under WSIP.

The Chino Basin Water Storage and Recovery Project, with an estimated cost of \$460,000,000, would construct an advanced water treatment facility and distribution facilities that would store up to 15,000 acre-feet per year (AFY) of water in the Chino groundwater basin, which would be dedicated for environmental benefits within the Delta. The project would leverage a partnership with an existing State Water Project Contractor (SWPC). The partnership would allow for locally stored groundwater to be traded with north of Delta water supply. The locally stored water would be pumped to supplement the water supply for a SWPC and an equivalent amount would then be released by the corresponding SWPC north of the Delta.

Proposition 1 Water Storage Grant Application



Water Storage Investment Program California Water Commission

Background

- 2014 Proposition 1 Water Bond - \$7.5B
- Water Storage Investment Program - \$2.7B
- Managed by California Water Commission
- Fund Solutions to Improve State Water Project
- Project Must Provide at Least 50% Monetized Bay Delta Ecosystem Environmental Benefits

Proposed Project

- Establish Water Storage & Recovery System
- Construct Advanced Water Treatment Plant & Distribution System
- Store 15,000 Acre-Feet Per Year of Advanced Treated Recycled Water in the Chino Groundwater Basin

Proposed Project

- Chino Basin will Pump Stored Groundwater to State Water Project Contractor (SWPC)
- SWPC will Leave Behind the Same Amount of Groundwater in Northern California for the Bay Delta Ecosystem Environmental Benefits

Grant Funding & Cost Categories

- 50% Grant Funding for Capital Costs
Groundwater and/or Surface Storage Projects
- 100% Grant Funding for Capital Costs
Conjunctive Use Projects
Reservoir Reoperation Projects
- IEUA's application is for a Conjunctive Use Project

Recommendation

- Adopt Resolution No. 2017-8-1, authorizing IEUA to apply for funding and enter into a financial assistance agreement with the California Water Commission; and
- Authorize the General Manager to execute the financial assistance agreement, any amendments, and any grant related documents thereto.

This action supports the Agency's mission to increase sustainability through the development of reliable local water supplies and is consistent with the Agency's mission of pursuing grants and low-interest financing.

RESOLUTION NO. 2017-8-1

RESOLUTION OF THE BOARD OF DIRECTORS OF THE INLAND EMPIRE UTILITIES AGENCY*, SAN BERNARDINO COUNTY, CALIFORNIA, AUTHORIZING THE INLAND EMPIRE UTILITIES AGENCY TO APPLY FOR AND ENTER INTO A FINANCIAL ASSISTANCE AGREEMENT UNDER THE 2017 WATER STORAGE INVESTMENT PROGRAM WITH THE CALIFORNIA WATER COMMISSION AND DESIGNATING A REPRESENTATIVE TO EXECUTE THE FINANCIAL ASSISTANCE AGREEMENT, AND ANY AMENDMENTS THERETO FOR THE CHINO BASIN WATER STORAGE RECOVERY PROGRAM

BE IT RESOLVED, that the Inland Empire Utilities Agency* (IEUA) is authorized to submit an application to the California Water Commission to obtain 2017 Water Storage Investment Program funding pursuant to Title 23, Division 7, Chapter 1 of the California Code of Regulations;

BE IT RESOLVED, that the IEUA is authorized to enter into a financial assistance agreement to receive funding for the Chino Basin Water Storage and Recovery Program;

BE IT RESOLVED, that IEUA's Board of Directors authorizes the General Manager, or his designee, is hereby authorized and directed to prepare the necessary data, conduct investigations, file such application, execute a funding agreement, and any amendments thereto, and sign invoices with the California Water Commission; and

BE IT FURTHER RESOLVED, that IEUA's Board of Directors hereby adopts Resolution No. 2017-8-1 on this 2nd day of August, 2017.

Steven J. Elie, President of the Inland Empire Utilities Agency* and of the Board of Directors thereof

ATTEST:

Jasmin A. Hall, Secretary/Treasurer of the Inland Empire Utilities Agency* and of the Board of Directors thereof

* A Municipal Water District

STATE OF CALIFORNIA)
) SS
 COUNTY OF SAN BERNARDINO)

I, Jasmin A. Hall, Secretary/Treasurer of the Inland Empire Utilities Agency*, DO
 HEREBY CERTIFY that the foregoing Resolution No. 2017-8-1 was adopted at a regular meeting
 on August 2, 2017 of said Agency* by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Jasmin A. Hall
 Secretary/Treasurer of the Inland Empire
 Utilities Agency* and of the Board of
 Directors thereof

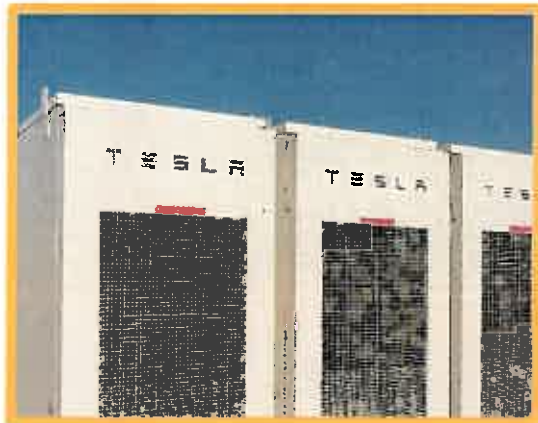
(SEAL)

* A Municipal Water District

WORKSHOP

2A

Long Range Plan of Finance (LRPF) Workshop



Purpose of Long Range Planning



Strategic

- Provides a long-view for decision making
- Supports informed policy decisions
- Projects the impact of policy changes
- Leads legislative initiatives

Financial

- Identifies long term requirements
- Focuses on major drivers for revenues and expenditures
- Evaluates long term impact of current decisions

IEUA Business Goals

Fiscal Responsibility	IEUA is committed to safeguarding the Agency's fiscal health to effectively support short term and long term needs, while providing the best value for our customers.
Funding & Appropriations	IEUA will fund operations and capital investments by maintaining reasonable service rates and fees that fully support the costs of service.
Budget Planning	IEUA will plan for multi-year budgets and rate requirements in support of maintaining fiscal stability for IEUA and the member agencies.
Reserves	IEUA will maintain fund reserves which can withstand significant changes to the economy and funding sources.
Creditworthiness	IEUA will improve its credit rating , with the goal of reinstating a AAA rating, to reduce IEUA's future borrowing costs.

Key Policy Decisions

Sources of funds

- Maintain rates that fully cover *O&M and *R&R costs
- “Growth pays for Growth”
- Property taxes to support capital investment and debt service costs
- Optimize grants and low cost borrowing to finance capital investment

* O&M – Operations and maintenance costs

* R&R = Replacement and rehabilitation costs

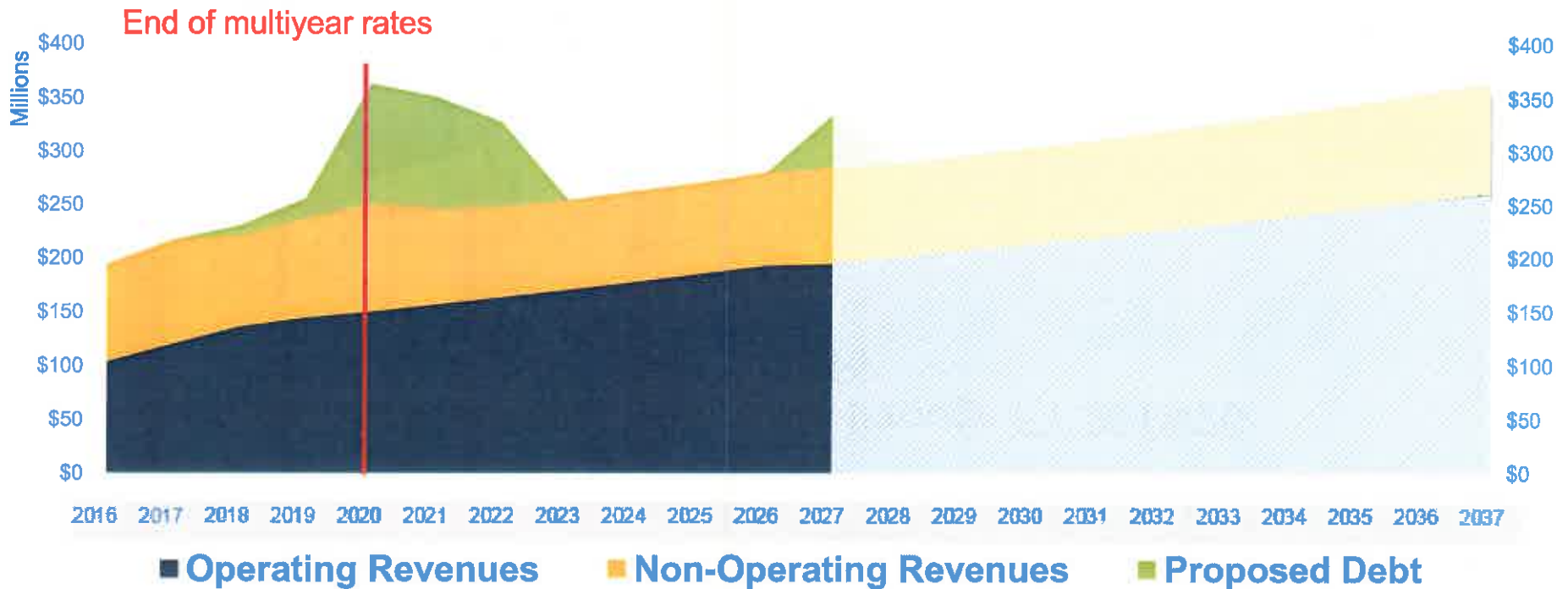
Uses of funds

- Continue commitment to sustainable cost containment for operating and capital costs
- Execute long term planning initiatives:
 - Support economic development
 - Establish water storage bank
 - Secure supplemental water supplies
 - Reduce energy costs and achieve carbon neutrality
 - Fully fund retirement obligations

Sources of Funds

LRPF: Baseline

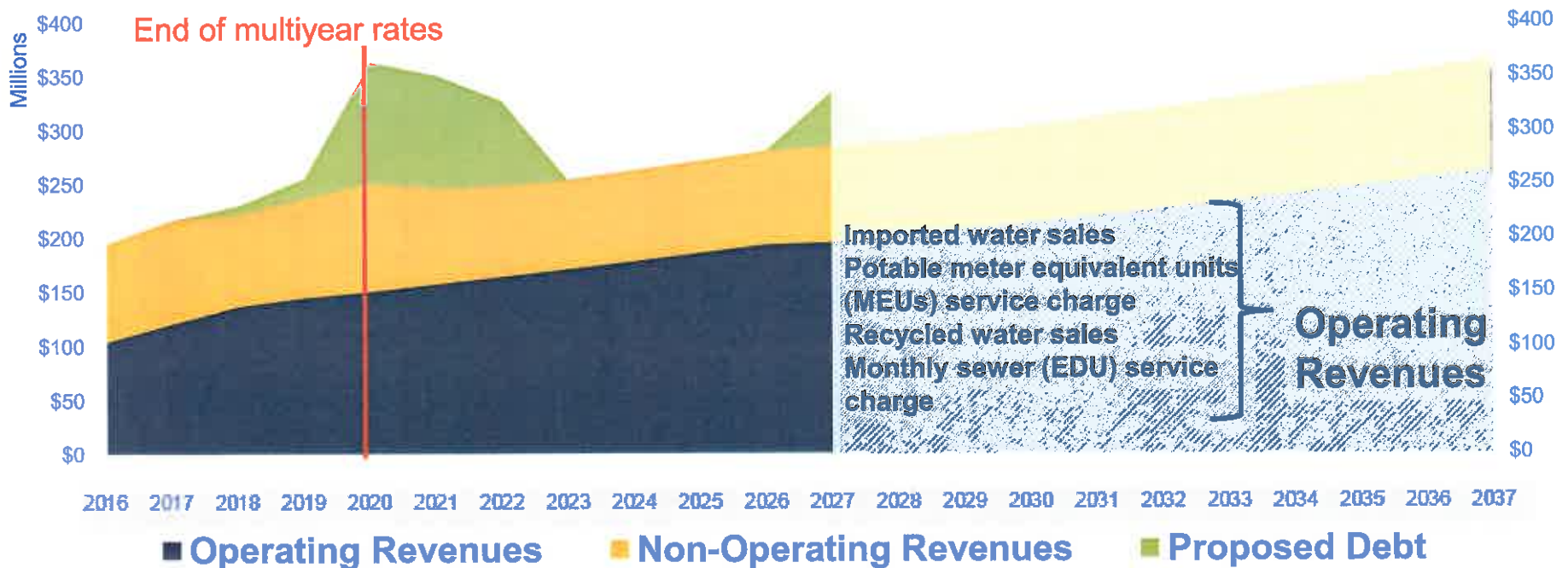
- No change in adopted multi-year rates through FY 2019/20



Sources of Funds

LRPF: Baseline

- No change in adopted multi-year rates through FY 2019/20
- After FY 2019/20 rates adjusted by *CPI

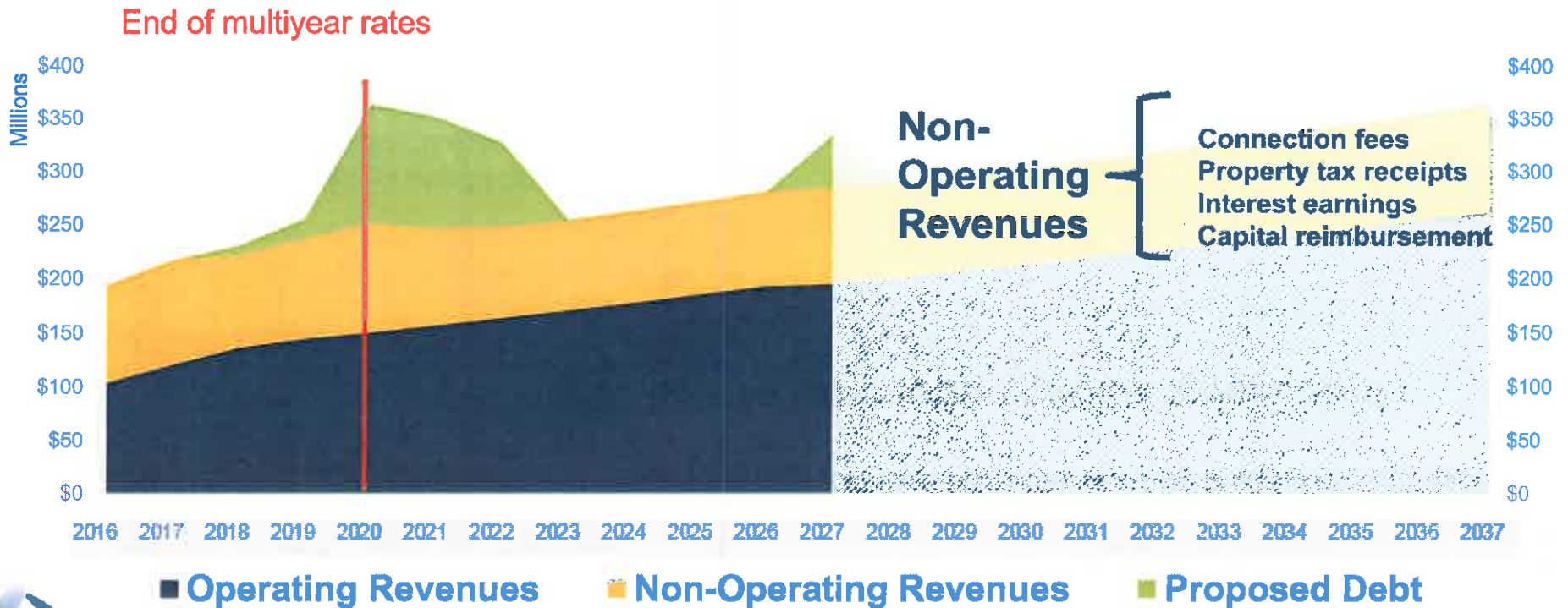


*CPI – consumer price index assumed at an average of 3%

Sources of Funds

LRPF: Baseline

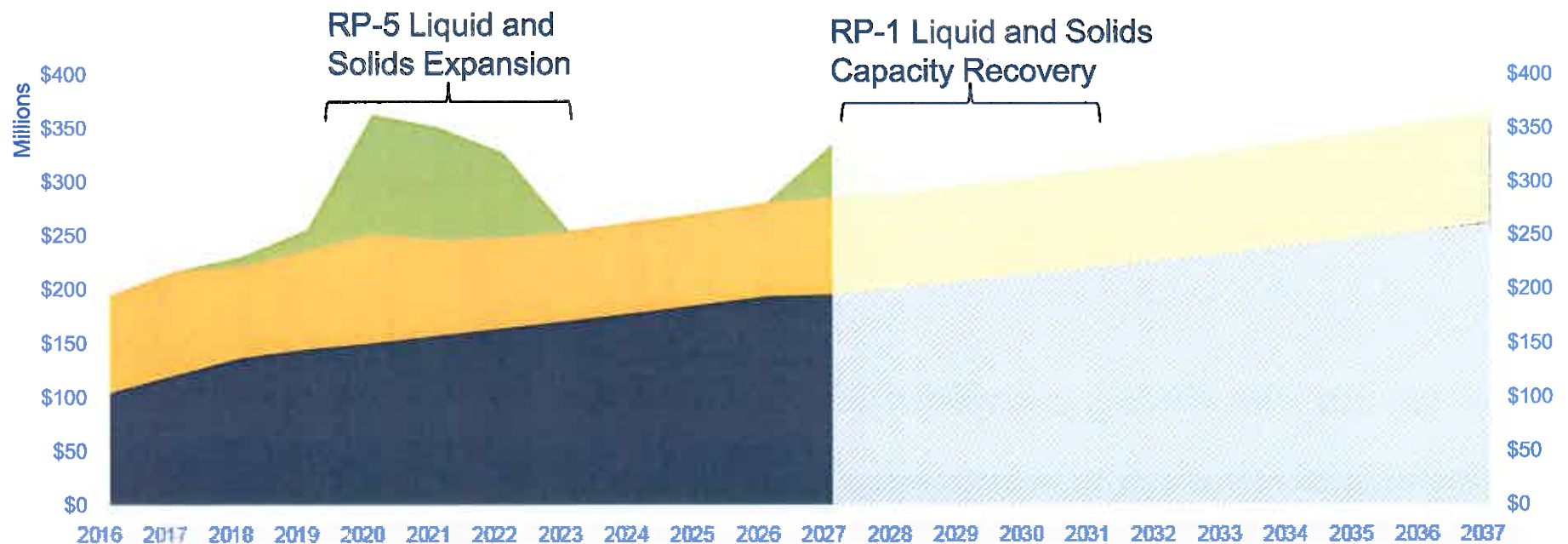
- Conservative number of new connections projected throughout the 20 years
- Property tax growth of 3% per year



Sources of Funds

LRPF: Baseline

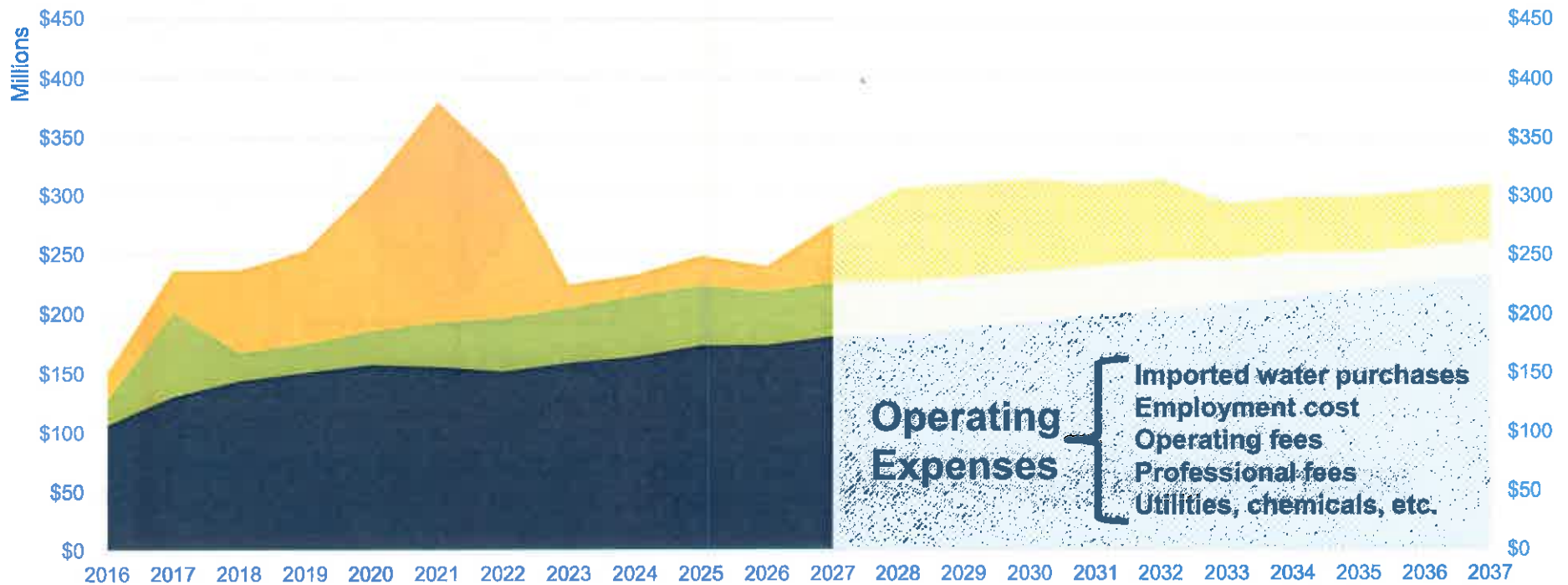
- ~\$377 million new borrowing needed to support capital investment over the next 10 years



Uses of Funds

LRPF: Baseline

- Operating expenses adjusted by CPI



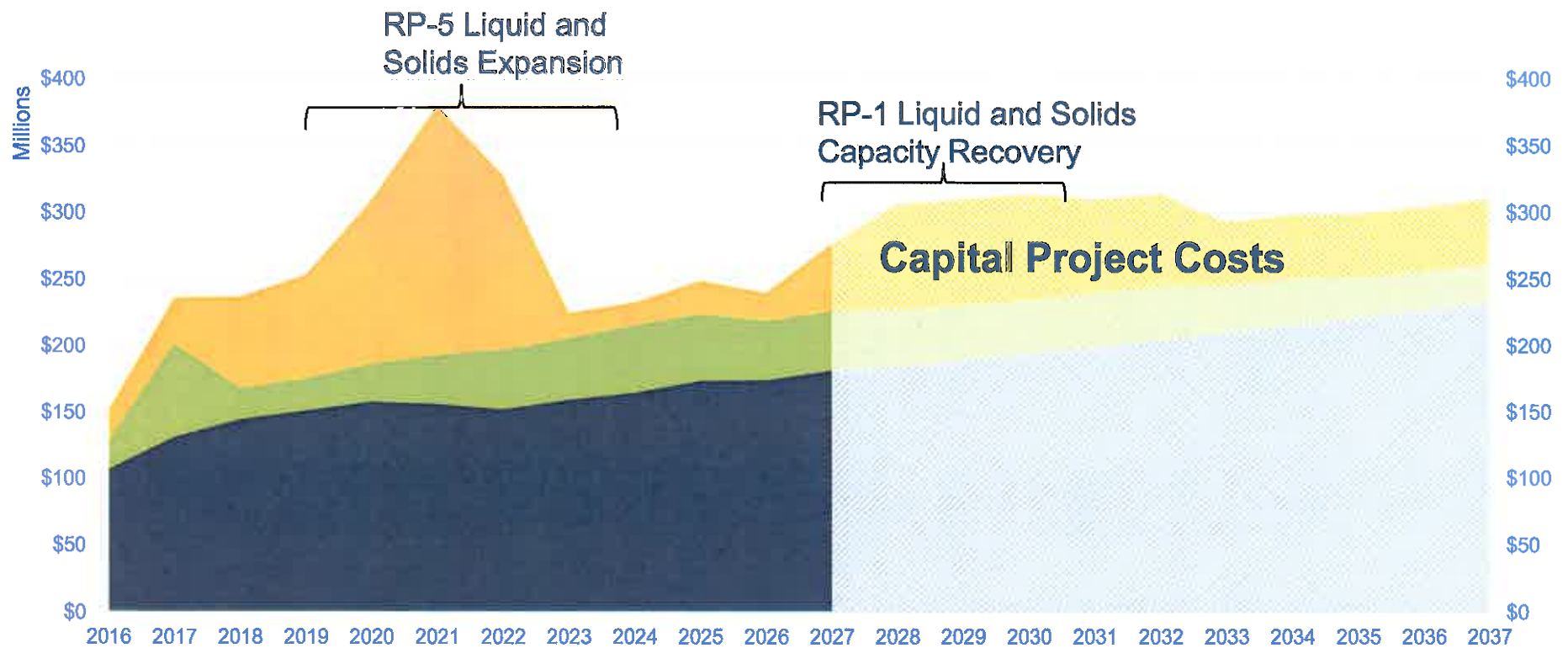
Operating Expenses
 Debt Service
 Capital Projects

*CPI – consumer price index assumed at an average of 3%

Uses of Funds

LRPF: Baseline

- After FY 2026/27, capital project costs average ~\$60 million per year



Operating Expenses
 Debt Service
 Capital Projects

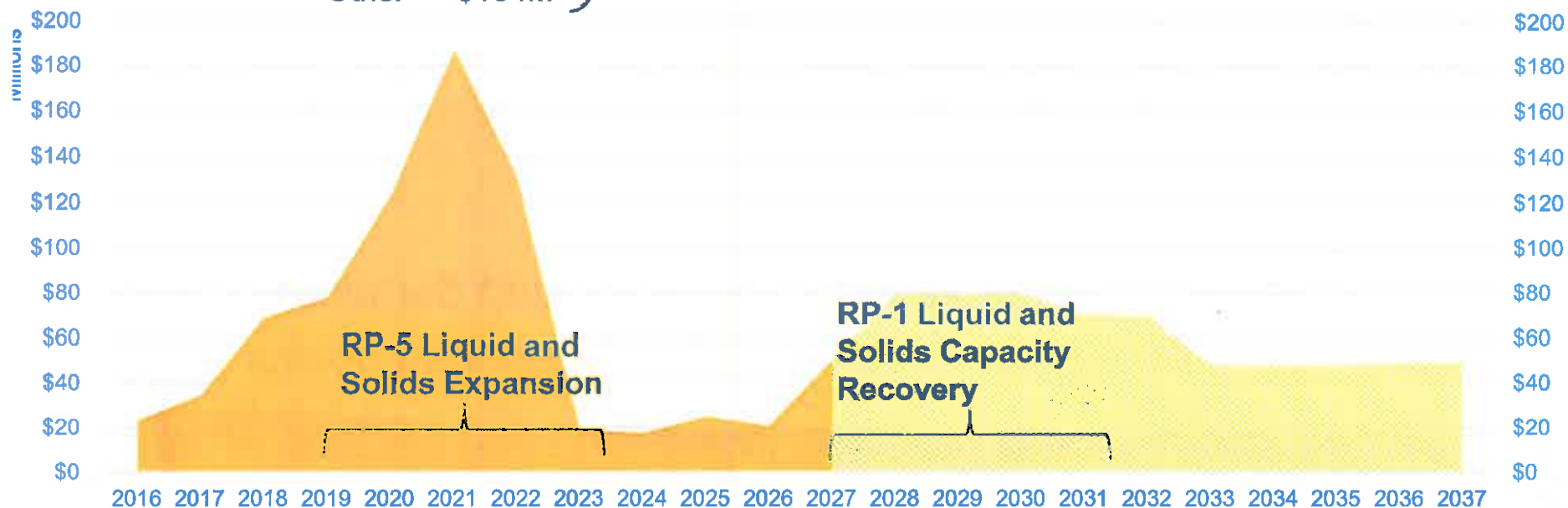


*CPI – consumer price index assumed at an average of 3%

Project Execution Timeline Based on TYCIP

- \$662 million planned over the next 5 years

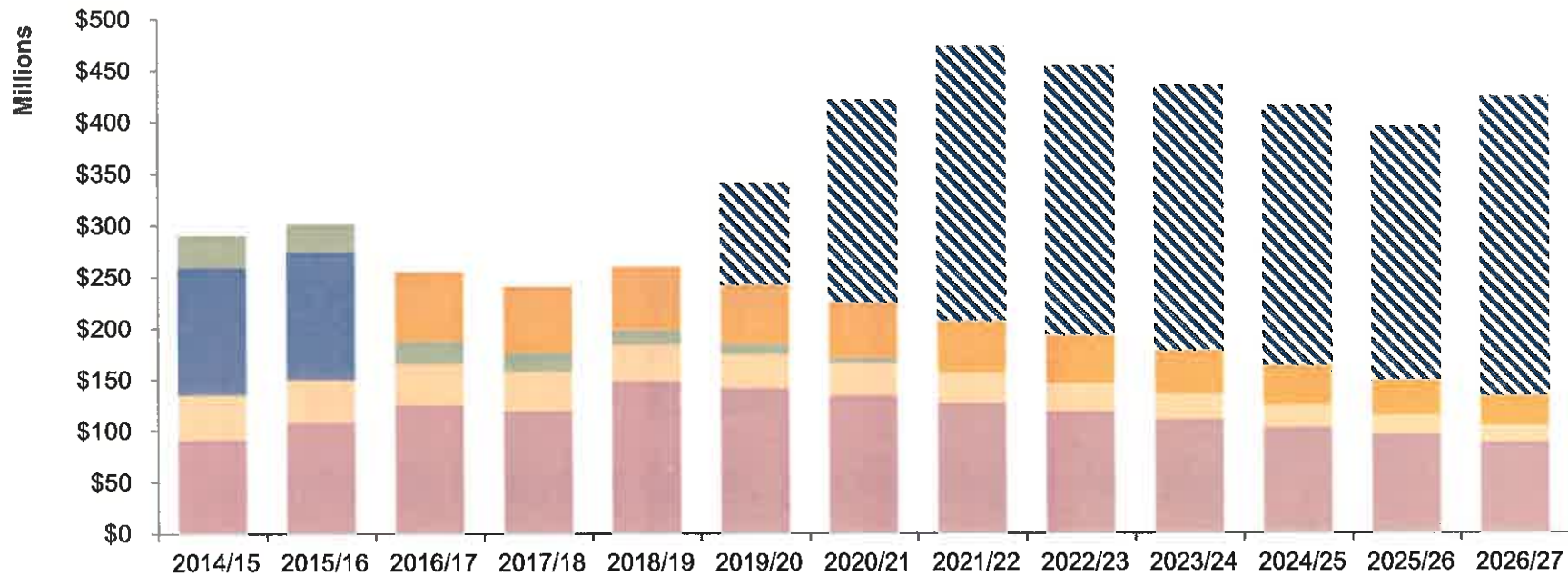
RP-5		\$347M
RP-1	\$62M	} \$315M
RP-4	\$32M	
CCWRF	\$27M	
Other	\$194M	



■ Capital Projects

New Borrowing Needed to Support Capital Investment

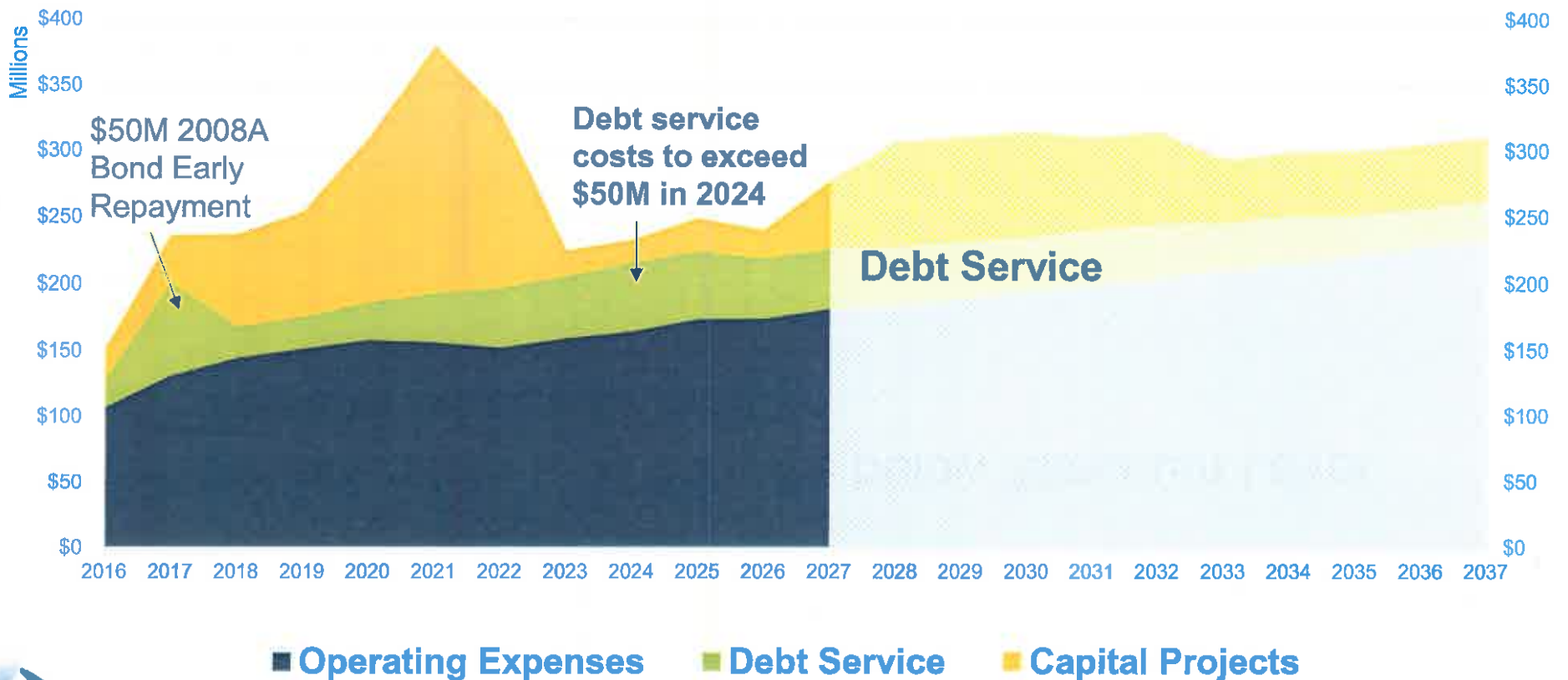
- ~\$377 million new borrowing over the next 10 years
- Total outstanding debt projected to peak at \$470 million



Uses of Funds

LRPF: Baseline

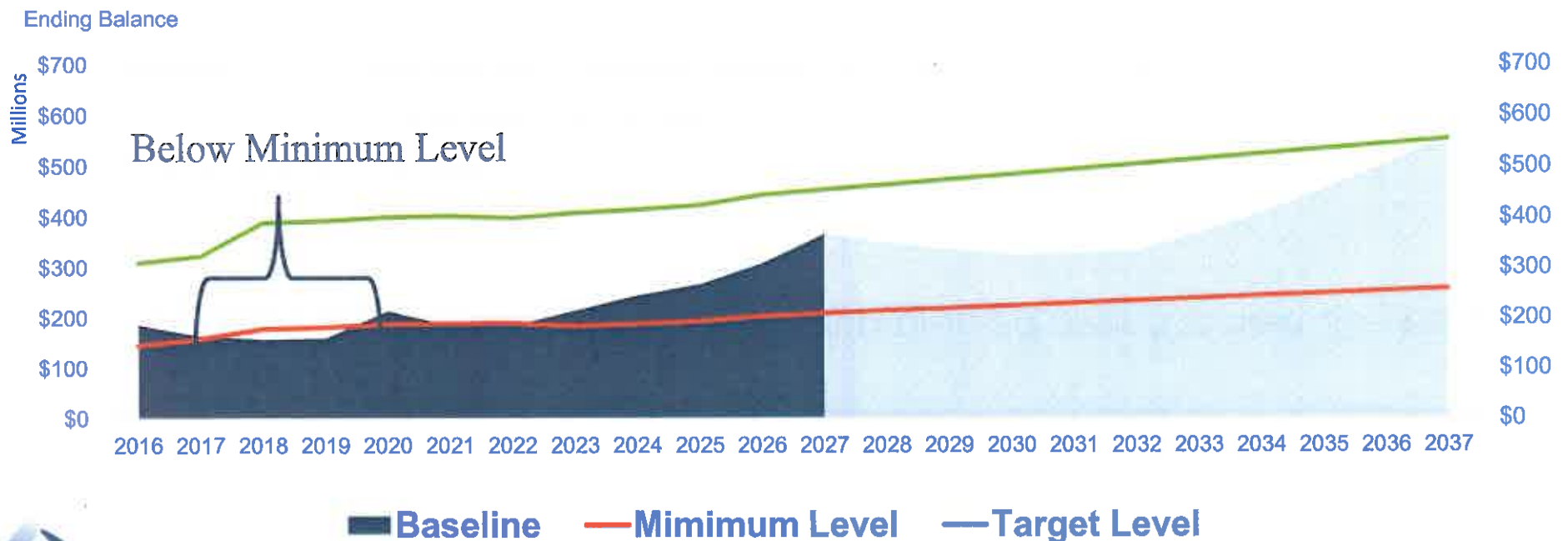
- ~\$38 million annual debt services costs projected over the next 20 years



Project Execution Timeline

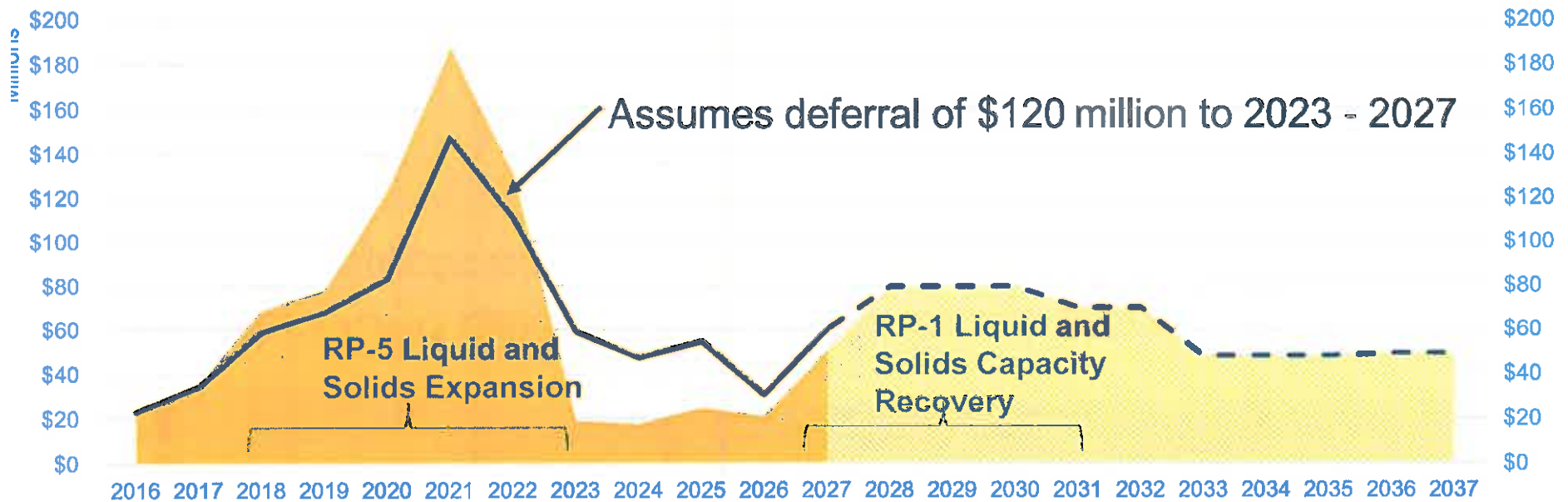
Impact on Fund Balance

- Estimated ending fund balance below Minimum Level in FYs 2018 and 2019



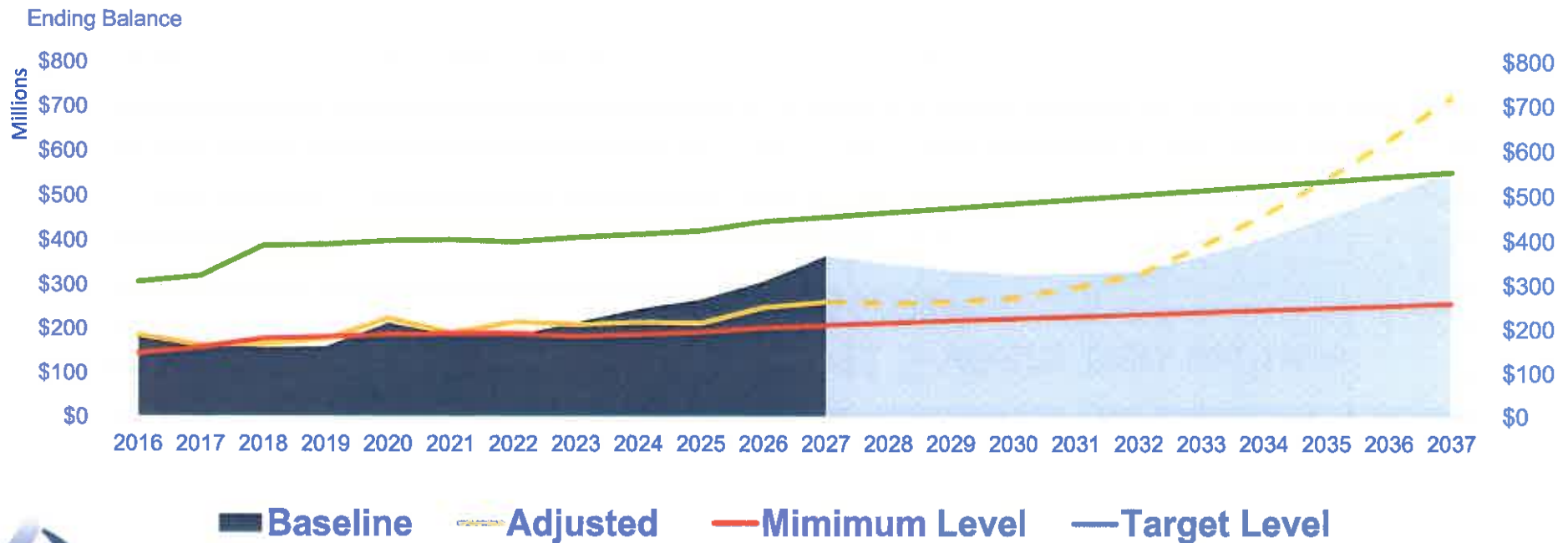
Potential Savings from Adjusting Project Timeline

- Deferral of \$120 million in the first 5 years can reduce:
 - New borrowing requirements by ~\$100M
 - Annual debt service costs by \$6.5M



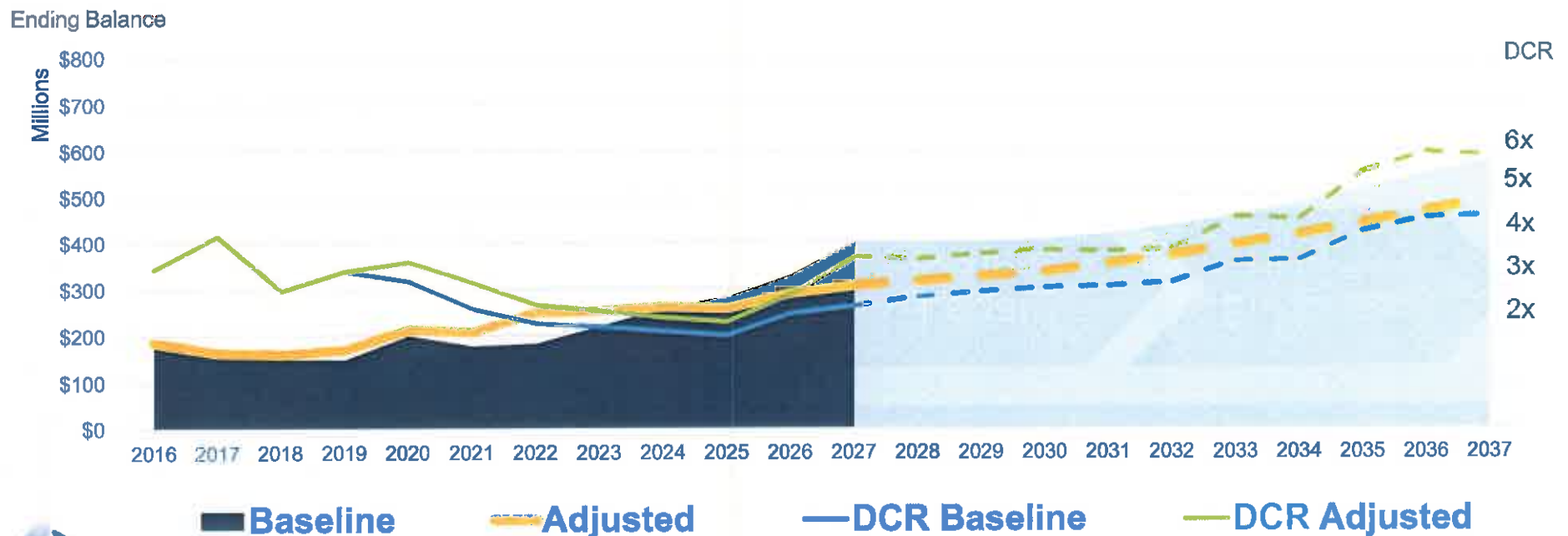
Impact of Project Timeline Adjustment

- Adjusted fund balance meets Minimum Level due to lower capital projects costs and lower debt service costs.



Impact of Project Timeline Adjustment

- Improved debt coverage ratio (DCR) due to lower debt service costs




What Can Happen?

Economic
Cycles

Hydrologic
Cycles

Legal
Issues

Succession
Planning

- 
- If next recession occurs in the next 3 to 5 years
 - Slow down in new development = Lower connection fees
 - Drop in assessed property values = Lower property taxes
 - Lower revenues = Higher risk of uncollectible accounts
 - State budget deficits = Potential shift of property taxes from local government

- 
- Lower borrowing cost = Lower interest rates
 - Lower inflation = Lower construction cost

What Can Happen?

Economic Cycles

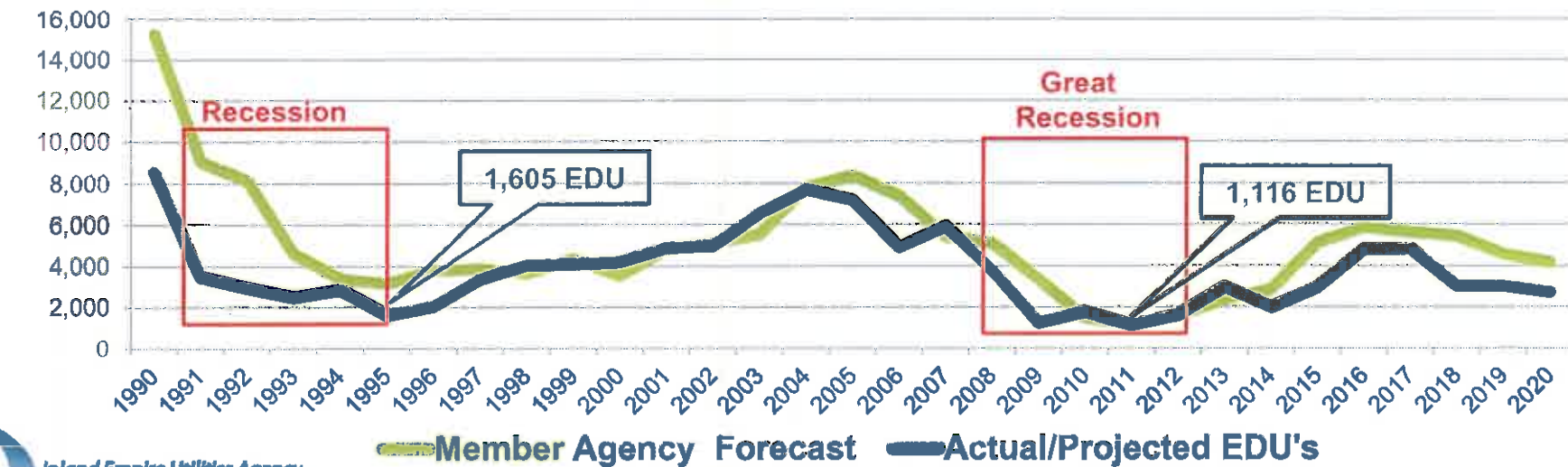
Hydrologic Cycles

Legal Issues

Succession Planning

- Drop in new connections due to economic downturns
- 3,000 to 1,500 new connections per year projected beyond year 2020

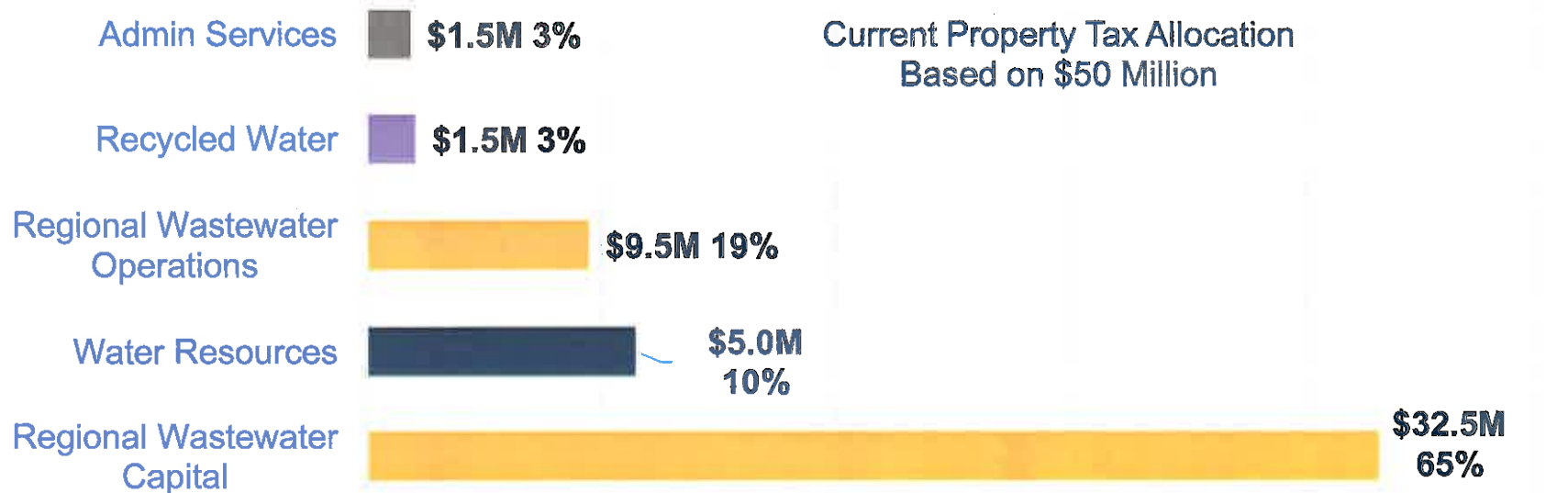
Number of New EDU Connection
Member Agency Forecasts versus Actual/Projected EDU's Connected



What Can Happen?



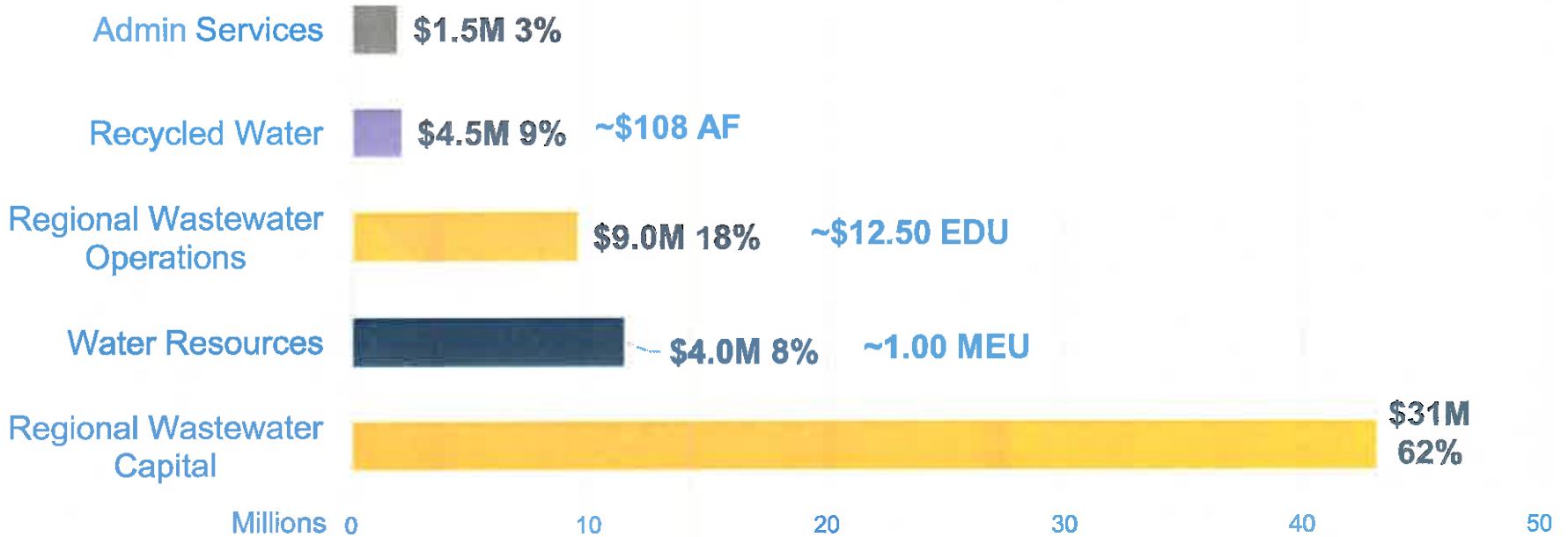
Potential shift of property taxes to support State budget deficits



What Can Happen?




Rate increases will be needed to support program and debt service costs

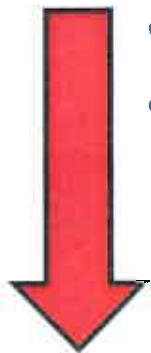


What Can Happen?



- 
- More extreme dry and wet weather cycles are forecasted
 - Next drought may be longer and more severe
 - Reduced imported water allocations =
 - More reliance on local supplies
 - Rising salinity levels
 - More stringent conservation standards = More investment in regional water use efficiency programs
 - Water use efficiency = Higher concentration strength

What Can Happen?



- More extreme dry and wet weather cycles are forecasted
- Availability of supplemental water supplies
 - Funds needed to support purchase, conveyance and storage
 - Limited groundwater recharge
 - Less demand for recycled water



- Improved water quality = Reduced salinity
- Increased water storage = Future water sales

What Can Happen?



- More stringent environmental regulations to meet federal and state goals:
 - Reduction in greenhouse gas emissions
 - Water quality
 - Increased operating expenses
- Loss of tax exempt status for municipal bonds
 - Higher borrowing costs



- Funding opportunities to support changes in compliance requirements

What Can Happen?



- ~45% of Agency employees are eligible to retire over the next 5 years;
 - Timely recruitment of critical positions
 - Recruit, develop and retain highly skilled employees
 - Integration of technology to streamline overall processes



- Lower retirement benefit costs for new employees

Proposed Scenarios

Scenario 1

BASELINE

- CIP
 - FYs 2018-2027 based on TYCIP
 - FYs 2028-2037 annual average of ~\$60M
 - New EDU connections
 - 33,000 first 10 years
 - 25,000 second 10 years
- O&M
 - FYs 2017/18 and 2018/19 Biennial O&M Budget
 - Operating revenues & expenses adjusted by CPI

Scenario 2

ECONOMIC SLOWDOWN

- 30% reduction in new connection fees
- 10% reduction in property taxes

Impact:

Deferral of non-critical capital and special projects

Scenario 3

PROPERTY TAX SHIFT

- Shift of property taxes by the State to cover budget deficits
 - Estimated shift of \$10M million per year (net of debt service costs)
- 50% reduction in new connection fees
- 10% reduction in property taxes

Impact:

- Rate adjustment
- Deferral of non-critical capital and special projects
- Suspension of additional payment to retirement obligations

Key Policy Decisions

Sources of funds

- Maintain rates that fully cover *O&M and *R&R costs
- “Growth pays for Growth”
- Property taxes to support capital investment and debt service costs
- Optimize grants and low cost borrowing to finance capital investment

* O&M – Operations and maintenance costs

* R&R = Replacement and rehabilitation costs

Uses of funds

- Continue commitment to sustainable cost containment for operating and capital costs
- Execute long term planning initiatives:
 - Support economic development
 - Establish water storage bank
 - Secure supplemental water supplies
 - Reduce energy costs and achieve carbon neutrality
 - Fully fund retirement obligations

Next Step

Timeline	Event
August 2017	LRPF Board Workshop
Aug/Sept 2017	LRPF Board Workshop presentation to Regional Committees
Nov 2017/ Feb 2018	Update the Ten Year Capital Improvement Plan for FYs 2018/29 – 2027/28
March 2018	LRPF Draft report to Finance Committee and Board of Directors
Mar/Apr 2018	LRPF Draft report to Regional Committees
May 2018	LRPF Final report to Finance Committee and Board of Directors