

Inland Empire Utilities Agency Regional Sewerage Program Technical Committee Meeting

MINUTES OF February 3, 2011 MEETING

CALL TO ORDER

A regular meeting of the IEUA/Regional Sewerage Program – Technical Committee was held on February 3, 2011, at the City of Chino Hills located at 14000 City Center Drive, Chino Hills, California. Steve Nix, City of Chino Hills, called the meeting to order at 4:00 p.m.

ATTENDANCE

Committee Members:

Steve Nix.....City of Chino Hills
John Bosler Cucamonga Valley Water District
Anthony La City of Upland
Chuck Hays City of Fontana
Mike HudsonCity of Montclair
Mohamed El-Amamy City of Ontario
Jim Hill City of Chino
Thomas Love Inland Empire Utilities Agency

Absent Committee Members:

None.

Others Present:

Martha Davis Inland Empire Utilities Agency
Christina Valencia Inland Empire Utilities Agency
Randy Lee Inland Empire Utilities Agency
Sylvie Lee..... Inland Empire Utilities Agency
Tina Cheng..... Inland Empire Utilities Agency
Chris Berch Inland Empire Utilities Agency
Patrick Sheilds Inland Empire Utilities Agency
Craig Proctor Inland Empire Utilities Agency
Beth Olhasso Inland Empire Utilities Agency
Craig Parker Inland Empire Utilities Agency
Gina Hillary..... Inland Empire Utilities Agency
Sondra Elrod..... Inland Empire Utilities Agency
Kathy Tiegs Cucamonga Valley Water District
Braden Yu Cucamonga Valley Water District
Martin Zvirbulis Cucamonga Valley Water District
Carrie Corder Cucamonga Valley Water District
Earl Elrod City of Chino
Debra Dorst-Porada City of Ontario
Shaun Stone City of Upland
Gino Filippi City of Upland
Acquanetta Warren..... City of Fontana

Dan Chadwick..... City of Fontana
 Nicole GreeneCity of Montclair
 Bill Kruger..... City of Chino Hills
 Chris Bond City of Chino Hills

ACTION ITEMS

1. Approval of Minutes – January 6, 2011

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 // **Motion:** By Anthony La/City of Upland, and seconded by John Bosler/CVWD, to approve the January 6, 2011 //
 // minutes as presented. //
 // //
 // **Motion Carried: Unanimously.** //
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2. Fiscal Year 2011/12 Rate Increases for Regional Wastewater and Recycled Water Programs

Thomas Love/IEUA gave a PowerPoint presentation outlining the Agency’s mission, policies and financial goals, and long range plan of finance. Key assumptions, cost containment results, proposed rates were discussed and 2 scenarios were offered for consideration. Scenario 1 has a \$.41 per EDU increase effective July 2, 2011, with a \$.90 increase thereafter. Scenario 2 has no sewer and no EDU rate increase in 2011 but a \$1.25 increase in 2012/13. Between the two, the rate at the end of 3 years under Scenario 1 is actually less than the rate under Scenario 2. The cost assumptions remain consistent between the 2 scenarios and the only adjustment made is the deferral of revenue due to not increasing the sewer rate. The recycled water recommended increases are the same on Scenario 1 and Scenario 2. Mr. Love then called for questions and/or discussion by the Technical Committee.

Jim Hill/City of Chino thanked IEUA staff for all the effort involved in this process. He stated that the City of Chino would prefer a 2-year rate cycle, however, with the uncertainty in the next couple of years, Chino would like to focus on next year and deal with the second year when it comes.

Mohamed El-Amamy/City of Ontario stated that he, too, was going to make the same comment regarding the 2-year rate. He thinks with the economic uncertainty it might be wise to adopt a one-year rate and revisit the rate again next year, regardless of what option is selected.

Jim Hill/City of Chino then presented the following 5 motions for consideration:

Motion No. 1: Any rate adjustment agreed upon would only be for FY 2011/12. In other words, we would defer the second year.

Motion No. 2: Maintain the monthly EDU volumetric rate at its current rate of \$11.14 for FY 2011/12.

Motion No. 3: Do the same thing for the connection fees; hold them at their current rate of \$4,766 for FY 2011/12.

Motions 4 and 5 are similar for the recycled water direct sale and the recycled water recharge; the rates would remain at their current levels.

Thomas Love/IEUA commented on Jim Hill’s motions. If we only do 1 year, we’ll be back having a similar discussion next year, and IEUA is prepared to do that. The recommendation to not adjust any of the rates, causes staff some concern. Scenario 2 defers the EDU rate until the 2nd year and then we can certainly

debate how much that ought to be when we go through the process next year. The other recommendations of no increases in the other rates does have a significant impact on our revenue. The \$20 increase on the recycled water rate alone amounts to about \$800K a year. That's in addition to the \$1.2M a year that would have been received if we raise the EDU rate. So, we're talking about a \$2M hit as opposed to a \$1.2M hit, and that doesn't include the proposed increase on the recharge recycled water. What that does is it takes our debt coverage ratio down about 3 points lower and about a point and a half above our minimum, legally required debt coverage ratio of 1.25X. If the economy doesn't improve or gets worse, we could find ourselves in a situation where we're not meeting our minimum debt coverage ratio which would cause us some concern.

Anthony La/City of Upland commented that Mr. Love brought up a lot of good points. He suggested that since the City of Chino currently has 5 motions on the floor that they be discussed individually to make it easier for all to understand. He repeated Motion No. 1 which is to consider a one-year rate increase for FY 2011/12 only. With that, he seconded Motion No. 1.

John Bosler/CVWD asked for further discussion on Motion No. 1. He asked for clarification from Upland that for Scenario 1 a rate increase of \$.41 is for FY 2011/12 only, and the \$0 increase in Scenario 2 is for FY 2011/12 also. He also thanked Mr. Love and his staff; he thought this process was outstanding.

John Bosler/CVWD stated that he would also second Motion No. 1.

Motion No. 1: By Jim Hill/City of Chino, and seconded by Anthony La/City of Upland, that any rate adjustments taken at the Technical Committee meeting of February 3, 2011, will be for FY 2011/12 rates only.

Motion Carried: Unanimously.

Steve Nix/City of Chino Hills asked if there were any further comments to Motion No. 1. Hearing none, he called for Motion No. 2.

Motion No. 2: By Jim Hill/City of Chino, seconded by Mike Hudson/City of Montclair, the monthly EDU (Equivalent Dwelling Unit) volumetric rate shall remain at its current level of \$11.14 for FY 2011/12.

Motion Carried: Roll call vote of 4-3 in favor.

Steve Nix/City of Chino Hills called for Motion No. 3.

Jim Hill/City of Chino restated Motion No. 3: The EDU connection rate shall remain at its current level of \$4,766 for FY 2011/12.

Steve Nix/City of Chino Hills asked if the EDU rate was increased last year. Thomas Love/IEUA replied, no.

Motion No. 3: By Jim Hill/City of Chino, seconded by Mohamed El-Amamy/City of Ontario, to keep the EDU connection rate at its current level of \$4,766 for FY 2011/12.

Motion Carried: Roll call vote of 4-3 in favor.

Steve Nix/City of Chino Hills requested discussion on Motions 4 and 5 before the vote. He asked if, for the sewer system, the monthly EDU fee goes towards operations and maintenance and the connection fee goes to capital facilities. Thomas Love/IEUA replied yes.

Mr. Nix then said that we don't have a similar situation for the recycled and that in the workshop he saw that \$100/acre foot should go towards debt coverage just for recycled facilities.

Thomas Love/IEUA responded that their debt service cost on recycled water is about \$150/acre foot.

Mr. Nix then asked if a lot of the increases that are being requested for the next 5 years are to cover the costs of construction of the infrastructure, not necessarily the operation of the system.

Mr. Love stated that the operation is about \$100/acre foot. Also, in terms of our revenue on the recycled water fund, we get revenue from the sale of recycled water and we have a per acre foot subsidy that amounts to \$2.1M from MWD. That \$2.1M will expire in 2017, so we only have another 6 years of that subsidy, which has helped keep the recycled water rate low. And, as a reminder, prior to 2000, recycled water was not a separate fund, it was part of the sewer fund. There are loans back and forth between the NRW and the recycled water fund that ultimately will need to be repaid as well. But that support from the other fund has helped us mobilize or at least implement the recycled water program to get the capital infrastructure built.

John Bosler/CVWD asked if Motions 4 and 5 pass and rates remain at the current levels, what impact would there be on the current subsidy or the tax revenue basically subsidizing the current recycled water rate and, would you not shift that as we were planning to shift. If that were to happen, at some point we're going to have to pay a higher recycled water rate to catch up if we don't do it incrementally.

Thomas Love/IEUA stated that we do use some property tax revenue to support the debt service on recycled water and subsidize the EDU rate. So, without an increase in the EDU rate, we going to have to move property taxes to cover our cost on the sewer operation side. If we don't increase the recycled water rate, we can't move the property taxes twice. In essence what this will do with no increase in the sewer rate, it will draw down reserves. If we don't increase the recycled water rate, it will draw down our reserves an additional \$800K. The impact of \$800K per year is based on sales projections for next year. As our sales increase without the \$20, that amount will increase to over a \$1M revenue shortfall.

Mr. Bosler said that he wanted to understand the impacts if it passes for no increase and, at some point, we're going to have to raise it at a higher rate.

Jim Hill/City of Chino stated that before a vote is taken on his Motions 4 and 5 for no increases, he would like to discuss the possibility of an increase of \$10 in lieu of \$20. If the Committee agrees with that, he would modify his motion to that effect. Based on what Mr. Love has said and conversations he had with him in these 2 areas, he understands there could be a major problem and he would be willing to do a rate increase for one year for half of what the Agency is asking for.

Anthony La/City of Upland asked if that would work based on the debt service that we have if we only vote for 50% of the proposed increase for recycled water for direct as well as recharge?

Thomas Love/IEUA stated that the impact is that it brings our debt coverage ratio down to just a few points above our minimum. If we don't do the increase it brings it down to just one percentage point above or a tenth of a percentage point above our minimum. Doing \$10 instead of \$20 would bring that up slightly but not in a significant way. It would still be in an uncomfortable range of the minimum debt coverage ratio.

Mr. La then asked if the ratio goes down because there is not enough revenue to cover it, would that drive the debt service up for that particular year?

Christina Valencia/IEUA replied, yes, that would drive the debt coverage lower. The revenues go down, the debt coverage drops, and your expenses stay the same.

Mr. La said that could trigger an increase in interest and therefore your debt service for the following year would go up. We have quite a bit of debt on the books right now, roughly \$360M worth of debt; roughly \$250 also bonds and the other \$110 in loans. He is concerned that this could trigger a ripple effect that will cause a much higher increase later, meaning now the debt service ratio goes down, coverage ratio goes down, interest rates go up, therefore, your debt service for the next year goes up. This is very a complex subject and Upland is very uncomfortable at this point until we understand how everything works.

John Bosler/CVWD agreed. One of the scenarios that was presented was based on an increase in recycled water use. Basically we selected Scenario 2, no increase this year. However, there were increases in recycled water. If we were to have no increase in recycled water or even a \$10 increase, it would be difficult to understand the impacts because that scenario has not been presented to us.

Christina Valencia/IEUA stated that when they ran the numbers this morning, the debt ratio went down to 1.28X and that's extremely close to the 1.25X. There are still some assumptions that there is a growth potential or the expectation that the EDU's will increase by one-half percent, but that's a very optimistic growth for that revenue stream. If that doesn't materialize, that could seriously result in lower revenues as Anthony La points out and, the lower the revenues, the lower your debt coverage drops. If the recycled water sales, or any of those revenues are impacted in the reverse, and the EDU numbers don't come through as we're expecting, all those things will impact the revenues. We've gone through the costs as much as we can. The vacancy factor has been increased to 5% and we're committed to maintain that. What we're looking at right now is an impact on revenues and, if that does happen, the other way around, we're going to be very, very close to being in default.

Anthony La/City of Upland commented that we can all be proud of the amount of investment this region has done in recycled water; everyone is benefitting right now. In a couple of years more and more agencies will benefit from recycled water. We're not talking about 2 years, we're talking about one year on the table, which will give us more time to understand the bonds and to talk about it before next year's proposed increase. The risk is very high that this could compromise the current infrastructure improvements that are in the works, which are also tied to some of the loans and grants. So, with that, Upland is very concerned. Upland would be happy to make an alternative motion to support staff's recommendation, but only for one fiscal year in terms of the proposed increase for recycled water.

Mohamed El-Amamy/City of Ontario seconded Upland's alternate motion.

Steve Nix/City of Chino Hills asked for clarification on the motion; was it for both the \$20 increase on the recycled water direct sale and the \$30 increase on the recharge.

Anthony La/City of Upland suggested doing them one at a time; the first one for a \$20 increase on the recycled water direct sale.

Jim Hill/City of Chino requested that his original Motion No. 4 be removed from the floor to allow for a new motion.

Motion No. 4: By Anthony La/City of Upland, seconded by Mohamed El-Amamy/City of Ontario, to support staff's proposed increase of \$20, from \$95 to \$115/acre foot for recycled water direct sale rate for FY 2011/12 only.

Motion Carried: Unanimously by roll call vote.

Steve Nix/City of Chino Hills called for Motion No. 5 and any discussion.

Jim Hill/City of Chino requested that his original Motion No. 5 be removed from the floor to allow for a new motion.

Motion No. 5: By Anthony La/City of Upland, and seconded by Chuck Hays/City of Fontana, to support staff's recommendation for a \$30 increase for recycled water recharge rate from \$115 to \$145/acre foot for FY 2011/12 only.

Motion Carried: Unanimously by roll call vote.

Anthony La/City of Upland thanked Thomas Love, Christina Valencia, and all IEUA staff for the dialogue, information, and hard work that went into this process.

Thomas Love/IEUA thanked the Committee and also felt it went very well. He would like to hear from the agencies in terms of ways they could improve on this process in the future.

3. Self-Regenerating Water Softener Control Program

Martha Davis/IEUA gave a PowerPoint presentation updating the Committee on the findings and recommendations of the Water Softener Task Force Committee which met from September 2010 through January 2011. One of the key recommendations that came out of these meetings was not to change the water softeners that we have in place, except through a voluntary rebate program, but to address what happens next in terms of trying to prevent additional softeners being installed. Also, a model ordinance was drafted for the contracting agencies to use and modify with the idea that all would all be speaking with one voice whereby future installation would be prohibited and the exchange tanks would be okay. The recommendation of the Task Force is for IEUA to adopt the regional ordinance first, and then the contracting agencies follow, scheduling adoption of their ordinances over a 6-month time period. Upon recommendation of the Technical and Policy Committees, IEUA would schedule a public hearing for the adoption of the regional ordinance in March or early April. Adoption of the proposed ordinance would occur the following month. The contracting agencies would then initiate their ordinance adoption processes with the goal of completing the adoption of all of the ordinances by December 2011.

Ms. Davis also thanked everyone for their support in going through this process.

Mohamed E-Amamy/City of Ontario asked if IEUA had received any correspondence or letters in opposition or if they expect any opposition to the proposed ordinance.

Ms. Davis replied that they do expect opposition from the water softener industry, or at least a portion of it, however, there is also a portion of the water softener industry that provides the exchange tank service and they are very vocally in support of these types of ordinances. They also supported AB 1366. IEUA has been trying to make sure that everyone understands why this is an important issue to take on, and why such an ordinance is very reasonable to implement.

Mr. El-Amamy also asked if once the local agencies adopt an ordinance, what kind of push back or potential litigation can they expect.

Ms. Davis stated that they do not expect any litigation. They have been following the specific requirements of AB 1366 which specifically recognized areas of the state that have significant salinity challenges and, with the necessary finding by the Regional Board which occurred last March, they are authorized to go forward with an ordinance. Legally, they have taken steps to reestablish the legitimacy of ordinances that are already on the books.

Motion: By Jim Hill/City of Chino, and seconded by Mohamed El-Amamy/City of Ontario, to approve the adoption by IEUA and the contracting agencies of ordinances to prohibit the future installation of residential self-regenerating water softeners.

Motion carried – unanimously.

INFORMATIONAL ITEMS

RECEIVE AND FILE

4. Pretreatment Summary Report

Receive and file the Pretreatment Summary Report included in the agenda packet.

5. IEUA Monthly Water Newsletter

Receive and file the Monthly Water Newsletter included in the agenda packet.

6. Recycled Water FY 2009/10 Annual Report

Thomas Love/IEUA mentioned that the Recycled Water Annual Report included in the packets contains a lot of data, including water quality information, and every customer connected to the system at the end of the fiscal year, listed by agency.

OTHER BUSINESS

7. Agenda Items for Next Meeting

Thomas Love/IEUA advised that they will be bringing the “draft” 10-Year Capital Improvement Plan to the March meeting.

A recycled water and groundwater recharge program workshop may also be scheduled prior to the Technical Committee meeting in the City of Chino Hills Community Room.

8. Committee Member Comments

None.

9. Next Meeting – March 3, 2011

ADJOURNMENT - Meeting was adjourned at 4:55 p.m.

Transcribed by: Pamela Sharp
Pamela Sharp, Administrative Secretary, City of Chino Hills