



Date: January 19, 2012  
To: Regional Technical Committee  
From: Inland Empire Utilities Agency  
Subject: Fiscal Year 2012/13 Rate Proposals

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### **RECOMMENDATION**

It is recommended that the Regional Technical Committee review and make recommendation to the Regional Policy Committee to approve a three year rates proposal, effective July 1, 2012 for FY 2012/13 through FY 2014/15:

1. Rate adjustments to the monthly EDU (Equivalent Dwelling Unit) volumetric rate:  
FY 2012/13 – increase from the current rate of \$11.14 per EDU to \$12.39 per EDU,  
FY 2013/14 – increase from the FY 2012/13 rate of \$12.39 per EDU to \$13.39 per EDU,  
FY 2014/15 – increase from the FY 2013/14 rate of \$13.39 per EDU to 14.39 per EDU.
2. Rate adjustments to the EDU connection fee rate:  
FY 2012/13 – increase from \$4,766 per EDU to \$4,909 per EDU, and  
FY 2013/14 – increase from the FY 2012/13 rate of \$4,909 per EDU to \$5,007 per EDU,  
FY 2014/15 – increase from the FY 2013/14 rate of \$5,007 per EDU to \$ 5,107 per EDU.
3. Rate adjustments to the Recycled Water Direct Sale rate:  
FY 2012/13 – increase from the current rate of \$115 per AF to \$155 per AF,  
FY 2013/14 – increase from the FY 2012/13 rate of \$155 per AF to \$215 per AF,  
FY 2014/15 – increase from the FY 2013/14 rate of \$215 per AF to \$290 per AF.
4. Rate adjustment to the Recycled Water Recharge Sale rate:  
FY 2012/13 – increase from the current rate of from \$145 per AF to \$195 per AF.  
FY 2013/14 – increase from the FY 2012/13 rate of \$195 per AF to \$255 per AF,  
FY 2014/15 – increase from the FY 2013/14 rate of \$255 per AF to \$335 per AF.

### **BACKGROUND**

On January 12, 2012 the multi-year rate increases proposed for Fiscal Years (FYs) 2012/13 through 2014/15 for the Agency's Regional Wastewater and Recycled Water programs were presented to the Regional Technical Committee (Committee) for their review and recommendation for approval to the Regional Policy Committee. A key recommendation from the Regional Committees and the IEUA Board of Directors (Board) at the budget workshop held on December 6, 2011, was the adoption of multi-year rate increases for FYs 2012/13 thru

2014/15. Furthermore, staff was requested to review and update the key assumptions and adjust the proposed rate increases to ensure the multi-year rates meet the following key objectives agreed upon at the budget workshop:

- Will adequately meet O&M and capital replacement costs, including the reinstatement of deferred capital projects, and avoid additional increases over the three year period,
- Raise the debt coverage ratio to 1.50X by FY 2013/14 and 1.70X by FY 2014/15 to help sustain the Agency's AA long term credit rating to ensure market accessibility and lower borrowing costs in the future to finance capital requirements,
- Streamline the budgeting processing, and
- Eliminate or minimize Proposition 218 requirements for member agencies.

The reinstatement of replacement and refurbishment capital projects deferred as part of Agency's Cost Containment plan are essential to sustaining the reliability and quality of the levels of service and meeting stringent regulatory requirements. Under the Agency's Sewer System Management Plan (SSMP) adopted by the IEUA Board in May 2009; the Agency is required to provide proper management and funding of its sewer systems. The SSMP requires the Agency to establish a proper rate structure and allocate adequate resources for proper operation, maintenance, and repair. Any violations can result in onerous enforcement action and fines.

As discussed at the budget workshop and recommended by the IEUA Board, a key objective of the proposed multi-year rates is to raise the Agency's total debt coverage ratio (DCR) which is projected to drop below the 1.25x minimum level in the current fiscal year. The continual decline in the Agency's DCR over the last several years poses a significant concern. Over time, a low DCR can result in the potential credit downgrade of the Agency's Aa3 /AA- long term credit rating. A downgrade to a single A credit rating will limit the Agency's flexibility in accessing lower cost financing options, such as commercial paper, in the future. As a result, the Agency will have to pay higher borrowing costs for future borrowing, and potentially higher interest rates on its 2008B Variable Rate Demand Obligation Bonds which are priced on weekly basis. Higher borrowing costs can ultimately result in higher rate increases in the future. Conversely, a higher DCR will not only help the Agency maintain its current credit rating, but may eventually result in an improved AA or AAA rating. Therefore, the proposed rates should achieve a DCR of 1.50x by FY 2013/14 and 1.70x by FY 2014/15.

### **Changes to Key Assumptions Recommended at the Budget Workshop**

The changes made to some of the major revenue and expense categories in FYs 2013/4 and 2014/15, as summarized in Table A2 in Attachment A, resulted in a decrease of approximately \$1 million in revenues and an increase of nearly \$3M in total expenses over the two year period. In order to meet the recommended objectives, the proposed increases for the EDU Volumetric and Direct Delivery recycled water rates presented at the budget workshop had to be adjusted. The proposed rate increases for the EDU New Connection and Surcharge on Recharged Deliveries did not change.

#### EDU Volumetric Proposed Rate Increases:

- No change in the proposed rate increase of \$1.25 per EDU in FY 2012/13,

- No change in the proposed rate increase of \$1.00 per EDU in FY 2013/14, and
- A higher rate increase of \$1.00 per EDU vs. \$0.60 per EDU in FY 2014/15

Direct Delivery Recycled Water Rate:

- A higher rate increase of \$40 per AF (acre foot) vs. of \$25 per AF in FY 2012/13,
- A higher rate increase of \$60 per AF vs. \$45 per AF in FY 2013/14, and
- A lower rate of \$75 per AF vs. \$80 per AF in FY 2014/15.

For the three year period, the cumulative amount of the proposed increases for the EDU Volumetric rate increased by \$0.40 per EDU (from \$2.85 to \$3.25 per EDU) and by \$25 per AF (from \$150 to \$175 per AF) for the Direct Delivery recycled water rate. The proposed rate increases as presented at the budget workshop in December are summarized in Tables A3. The revised rate increases based on the updated key assumptions and presented to the Regional Technical Committee on January 12, 2012 are summarized in Table A4.

**Regional Committee Recommendations**

On June 12, 2012, the Regional Technical Committee deferred their recommendation for approval of the proposed rate increases and asked IEUA staff to determine the impact of the following assumptions to the proposed rates and the key objectives:

1. Apply the rate increases as presented at the budget workshop to the updated key assumptions
2. Extend the property tax allocation to the Recycled Water program by one fiscal year through FY 2014/15
3. Defer construction of the Southern Area and Central/Wineville Area Recycled Water projects

A special Regional Technical Committee meeting was scheduled for January 19, 2012 to review the above changes and make a recommendation on the proposed rate increases to the Regional Policy Committee currently scheduled to meet on January 26, 2012.

**Impact of Previously Rate Proposals:** The impact of implementing the rate increases presented at the December budget workshop based on updated assumptions results in:

- A lower DCR that does not achieve the IEUA Board’s recommended objective of 1.50X by FY 2013/14 and 1.70X by FY 2014/15. Under this scenario, the targeted DCR of 1.70X is not achieved until FY 2015/16.

**Table 1 – Impact to Total Debt Coverage Ratio from Application of Previously Proposed Rate Increases**

Fiscal Year	FY 2012/13	FY 2013/14	FY 2014/15
<b>Revised Rate Increases, (January 2012)</b>	1.43X	1.48X	1.70X
<b>Prior Rate Increases (December 2011)</b>	1.41X	1.44X	1.61X

- An estimated one million (\$1M) shortfall in the minimum required Recycled Water program fund reserves in FYs 2014/15 and 2015/16. In order to meet the minimum reserve requirements, the Direct Delivery recycled water rate in FY 2013/14 will need to be \$75 per AF instead of \$45 per AF as currently proposed, (no change in the proposed \$80 per AF in FY 2014/15).
- A higher increase in the EDU Volumetric rate in FY 2015/16, based on updated assumptions. The reduction in the EDU rate from \$1.00 per EDU to \$0.60 per EDU in FY 2014/15 will require an estimated rate increase of \$0.40 per EDU in FY 2015/16.

**Extension of the Property Tax Allocation:** By extending the \$1.6M property tax allocation to the Recycled Water program through FY 2014/15; the proposed rate increase for the Direct Recycled Water rate in FY 2014/15 of \$75 per AF could be reduced to \$30 per AF, ( from \$290 per AF to \$245 per AF). However, future rate increases may need to be higher than currently projected in order to meet the minimum fund reserves. Conversely, the reduced property tax revenue to the Regional Wastewater Operations & Maintenance (RO) Fund in FY 2014/15 will result in a higher EDU Volumetric rate than currently proposed. An increase of \$1.50 per EDU will be necessary in FY 2014/15 in order achieve the recommended DCR of 1.70X. Under this scenario, the EDU Volumetric rate is projected to be \$14.89 per EDU in FY 2014/15 compared to the \$14.39 per EDU as currently proposed.

**Deferral of Southern and Central/Wineville Area Projects:** Deferral of the Southern and Central/Wineville Area projects would reduce projected deliveries by approximately 5,000 acre feet per year beginning FY 2013/14, (as reported in Table 2):

**Table 2 – Impact to Total Projected Recycled Water Deliveries from the Deferral of Southern and Central/Wineville Area Projects (In Acre Feet)**

Scenario	Fiscal Year	FY 2012/13	*FY 2013/14	*FY 2014/15
1	Total projected deliveries (including member agency direct connections) with Southern and Central/Wineville	33,000	34,000	36,000
2	Total projected deliveries (including member agency direct connections) without Southern and Central/Wineville and assumes member agencies	28,000	30,600	36,900
3	Total projected deliveries without Southern and Central/Wineville and assumes member agencies or member agency direct connections	28,800	32,500	33,000
	<b>Reduction:</b>	<5,000>	<1,500>	<3,000>

*\*Includes 4,000 AFY of additional recharged deliveries to the San Sevaive Basin.*

As reported in Table 2, over the four year period, total deliveries would be reduced by a total of 9,500 AF. Thereafter, deliveries are projected to increase by approximately 500 AF per year from new connections. The Central/Wineville Area projected is anticipated to increase recharged deliveries by approximately 3,000 AFY and direct deliveries by 1,000 AFY. The State Revolving Fund (SRF) loan application (\$14M) is currently under review by the State Water Resources Control Board. The value of 4,000 AFY is estimated to be between \$1.8M and \$2.2M per year based on the MWD current replenishment rate of \$442 and \$560 per AF for Untreated Tier 1 imported water.

In the case of the Southern Area project, an SRF loan (\$24M) and a grant (\$4M) have already been secured; 100% of the design has been completed; and the bid release is pending. The benefit of the Southern Area project is enhanced storage capacity that will help manage demand during peak periods.

**Table 3 – Impact to the Proposed Recycled Water Rates from the Deferral of the Southern and Central/Wineville Area Projects (In Acre Feet)**

Fiscal Year	FY	FY	FY
	2012/13	2013/14	2014/15
<b>Proposed Recycled Water Rates with Southern and Central/Wineville</b>	\$155	\$215	\$290
<b>Proposed Recycled Water Rates without Southern and Central/Wineville</b>	\$		
<b>Estimated Increase</b>			

(avoidance of \$2M in debt service costs) Included in the delivery projections each year (Table 2) is about 4,400 AF in new connections to the existing system to be completed by member agencies. Any shortfall in these new connections will result in lower deliveries and higher rates than currently projected (Table 3) to support O&M and debt service costs.

**Approval Timeline**

The timeline for approval of the proposed rate increases for the Regional Wastewater and Recycled water programs is:

**Table 3**

<b>Committees/Board</b>	<b>Date</b>
Budget workshop (Regional Tech & Policy)	12/6/11
Regional Technical Committee– Recommendation for approval	1/12/12
Regional Policy Committee - Recommendation for approval	1/26/12
IEUA Finance, Legal and Admin. Committee – Recommendation for approval	2/8/12
IEUA Board of Directors – Action	2/15/12



## Attachment A

Table A1

Key Drivers	Objectives
Decreasing Revenues	Implement annual rate increases to offset decreasing revenues
Increasing Costs	Achieve full cost of service rates and ultimately eliminate rate subsidies, (e.g. property taxes)
Declining Fund Reserves	Replenish and sustain adequate fund reserves
Weakening Debt Coverage Ratio	Improve debt coverage ratio to maintain and improve AA rating for long term financing cost savings

**Table A2**  
**Changes to Key Assumptions**

	FY 2013/14		FY 2014/15	
	Prior	Revised	Prior	Revised
<b>REVENUES</b>				
Property Taxes	0%	-1%	0.5%	0%
No. Billable EDUs	0.10%	0%	0.25%	0.10%
<b>EXPENSES</b>				
Chemicals	3.0%	4.0%	3.0%	5.0%
*Utilities	3.0%	5.0%	3.0%	5.0%

\*The electricity rate was also increased from \$0.115 to \$0.125 per kWh in based on recent increases by Southern California Edison.

Table A3 – Proposed Rates Presented on December 6, 2011

	Current Rate	Proposed FY 2012/13	Proposed FY 2013/14	Proposed FY 2014/15	Three Year Rate Increase
<b>Proposed Rates to Achieve Target Debt Coverage Ratio:</b>					
EDU Volumetric Rate	\$11.14	\$12.39	\$13.39	\$13.99	
EDU Volumetric Rate Increase		\$1.25	\$1.00	\$0.60	\$2.85
EDU Connection Fee	\$4,766	\$4,909	\$5,007	\$5,107	
EDU Connection Fee Increase		\$143	\$98	\$100	\$341
Direct Delivery Rate	\$115	\$140	\$185	\$265	
Direct Delivery Rate Increase		\$25	\$45	\$80	\$150

*Recharged Delivery Rate	\$145	\$180	\$225	\$310	
Surcharge Rate Component, net of Direct Delivery Rate Increase		\$40	\$40	\$45	\$15
<b>Projected Total Debt Coverage Ratio</b>	<b>1.24x</b>	<b>1.43x</b>	<b>1.50x</b>	<b>1.70x</b>	

*\*The current \$145 per AF rate for recharged deliveries includes a surcharge of \$30 per AF. Proposed rate increases over the three year period will increase the surcharge to \$45 per AF*

**Table A4 – Proposed Rates Presented on January 12, 2012  
(Based on Updated Assumptions to Major Revenues & Expenses)**

	Current Rate	Proposed FY 2012/13	Proposed FY 2013/14	Proposed FY 2014/15	Three Year Rate Increase
<b>Proposed Rates to Achieve Targeted Debt Coverage Ratio:</b>					
EDU Volumetric Rate	\$11.14	\$12.39	\$13.39	\$14.39	
EDU Volumetric Rate Increase		\$1.25	\$1.00	\$1.00	\$3.25
EDU Connection Fee	\$4,766	\$4,909	\$5,007	\$5,107	
EDU Connection Fee Increase		\$143	\$98	\$100	\$341
Direct Delivery Rate	\$115	\$155	\$215	\$290	
Direct Delivery Rate Increase		\$40	\$60	\$75	\$175
*Recharged Delivery Rate	\$145	\$195	\$255	\$335	
Surcharge Rate Component, net of Direct Delivery Rate Increase		\$40	\$40	\$45	\$15
<b>Projected Total Debt Coverage Ratio</b>	<b>1.24x</b>	<b>1.43x</b>	<b>1.48x</b>	<b>1.70x</b>	

*\*The current \$145 per AF rate for recharged deliveries includes a surcharge of \$30 per AF. Proposed rate increases over the three year period will increase the surcharge to \$45 per AF*

**Table A5 – Estimated Rates if the Recycled Water Property Tax Allocation is Extended through FY 2014/15**

	Current Rate	Proposed FY 2012/13	Proposed FY 2013/14	Proposed FY 2014/15	Three Year Rate Increase
EDU Volumetric Rate	\$11.14	\$12.39	\$13.39		
EDU Volumetric Rate Increase		\$1.25	\$1.00		
Direct Delivery Rate	\$115	\$140	\$185		

Proposed Rates for FYs 2012/13 – 2014/15

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Direct Delivery Rate Increase	\$20	\$25	\$45		
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