



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

**Multi-Year Rate Proposals
for the Regional Wastewater &
Recycled Water Programs
FYs 2012/13 – 2014/15**

Regional Policy Committee

January 26, 2012

Agenda:

- ❖ Presentations to Date
- ❖ Key Drivers & Objectives
- ❖ 12/6/11 Workshop Recommendations
- ❖ Updated Recommendations
- ❖ Multi-Year Rate Proposals



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PRESENTATIONS

Presentations

- ❖ 10/6/2011 Initial presentation to the Regional Technical Committee
- ❖ 10/6/2011 Regional Policy Committee was cancelled due to lack of quorum
- ❖ 11/17/2011 Budget workshop re-scheduled to December.
- ❖ 12/6/2011 Budget workshop
- ❖ On-going One on one discussions with key Committee members and staff.



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KEY DRIVERS & OBJECTIVES

KEY DRIVERS & OBJECTIVES FOR PROPOSED RATES

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



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WORKSHOP RECOMMENDATIONS

Workshop Recommendations

- ❖ Revise original rate proposals from a single year (FY 2012/13) to a multi-year (FYs 2012/13 - 2014/15).
- ❖ Update Key Assumptions to ensure proposed multi-year rates:
 - Adequately support projected O&M and capital replacement costs for the 3 year period,
 - Will not need to be modified within this period, and
 - Raise the Agency's total debt coverage ratio to:
 - 1.50X by FY 2013/14, and
 - 1.70x by FY 2014/15

Workshop Recommendations

Benefits provided by multi-year rates:

- ❖ Improve long term financial planning and budgeting for IEUA and its member agencies
- ❖ Help sustain IEUAs AA long term credit rating
- ❖ Ensure market accessibility, flexibility and lower borrowing costs in the future
- ❖ Eliminate or minimize Prop 218 requirements for member agencies



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UPDATED KEY ASSUMPTIONS

Updated Key Assumptions

Net Increase in Revenue, \$150K

(Based on proposed rate increases)



❖ Property Tax Receipts

- FY 2013/14: Updated to 1% decrease, previously at 0%,
- FY 2014/15: Updated to 0.0%, previously at 0.5% increase

❖ Volumetric User Fees (No. of billable EDUs)

- FY 2013/14: Updated 0.0%, previously at 0.10% increase
- FY 2014/15: Updated to 0.10% increase, previously at 0.25% increase

Updated Key Assumptions

Increase in Expenses , \$3.0M

❖ Utilities

- FY 2012/13: Electricity rate increased from \$0.115 to \$0.125 per kWh based on recent increases by Southern California Edison.
- FY 2013/14 & 2014/15: Increased CPI (Consumers Price Index) from 3% to 5% for non-renewal sources.

❖ Chemicals

- FY 2012/13: Increased CPI from 3% to 4% based on current contract pricing.
- FY 2013/14 & FY 2014/15: Increased CPI from 3% to an average of 5%.

Updated Key Assumptions Capital Replacement Projects \$5.3M/ Year

- ❖ FY 2013/14 and FY 2014/15: Reinstatement of deferred capital replacement projects necessary to:
 - Comply with regulatory requirements
 - Ensure service reliability
 - Sustain quality of levels of service



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FINANCIAL METRICS OVERVIEW



The PFM Group

Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

Importance of Financial Metrics

- Objective measures of an agency's financial policies
- Trends are important – a single year does not necessarily represent the full picture
- Establishes benchmarks to compare future performance
- Strong policies and objectives can mitigate concerns of “weak” legal provisions

Recent Financial Trends

➤ IEUA's current financial metrics are below rating agency medians

❑ Rating agency medians for the AA rating category are

- Moody's: 2.15x
- Fitch: 1.9x
- S&P: 1.6x

➤ Debt Service Coverage is trending close to minimums

FY	DCR
2007/08	2.04x
2008/09	1.32x
2009/10	1.58x
2010/11	1.38x
2011/12 ¹	1.24x

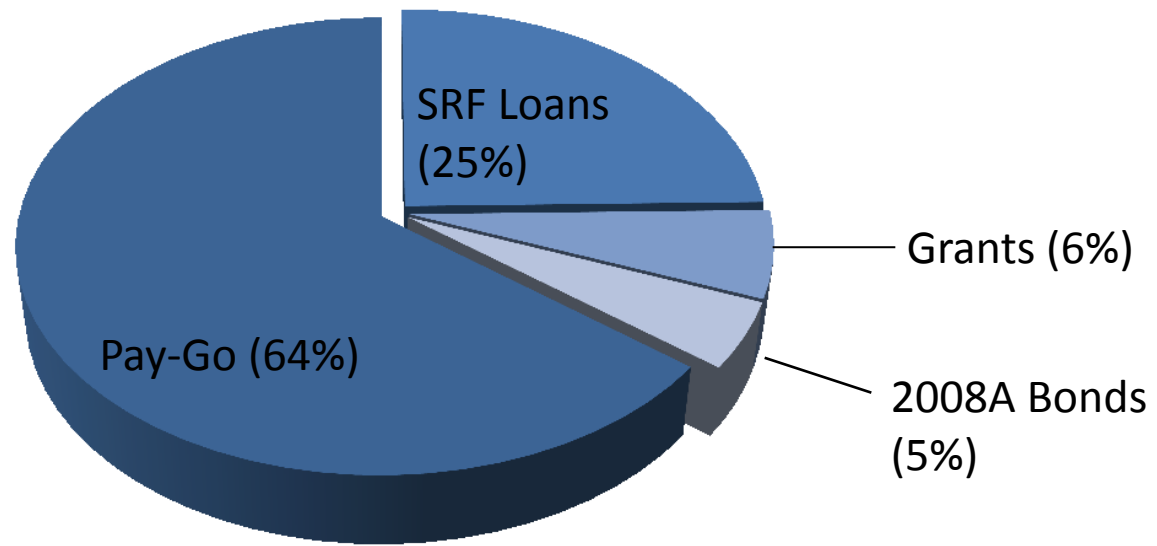
¹Projected without rate increase

➤ Financial objectives should go beyond bond covenants – these are viewed as minimum promises to bondholders

Sizeable Capital Plan

- IEUA's current Ten-year Capital Plan is sizeable at \$171 million
- Managing financial metrics through the capital investment cycle is critical to maintaining your credit rating

FY 2012-2021 Capital Program Funding Sources



Debt Coverage Ratio Comparison

CAFR YR	Utility	Net Available Revenues	Debt Service	Coverage Ratio	Fitch	Moody's	S&P
2011	Inland Empire Utilities Agency	\$26,431,249	\$19,142,044	1.38	NR	Aa3	AA-
2010	Cucamonga Valley Water District	\$18,383,124	\$11,235,255	1.64	NR	Aa3	AA-
2011	Rancho California Water District	\$41,016,850	\$24,061,688	1.71	AA+	Aa2	AA+
2010	Western Municipal Water District	\$12,470,094	\$5,967,575	2.09	A+	Aa2	A2
2010	Metropolitan Water District	\$392,000,000	\$244,000,000	1.61	AA+	Aa1	AAA
2010	Monte Vista Water District	\$925,328	\$337,667	2.74	AAA	Aa1	AAA
2010	Orange County Water District	\$55,096,798	\$23,848,518	2.31	AAA	Aa1	AAA
2010	City of Anaheim Water - Water Utility Revenue Bonds	\$17,516,000	\$3,494,000	5.01	AAA	NR	AAA

Variable Rate Debt

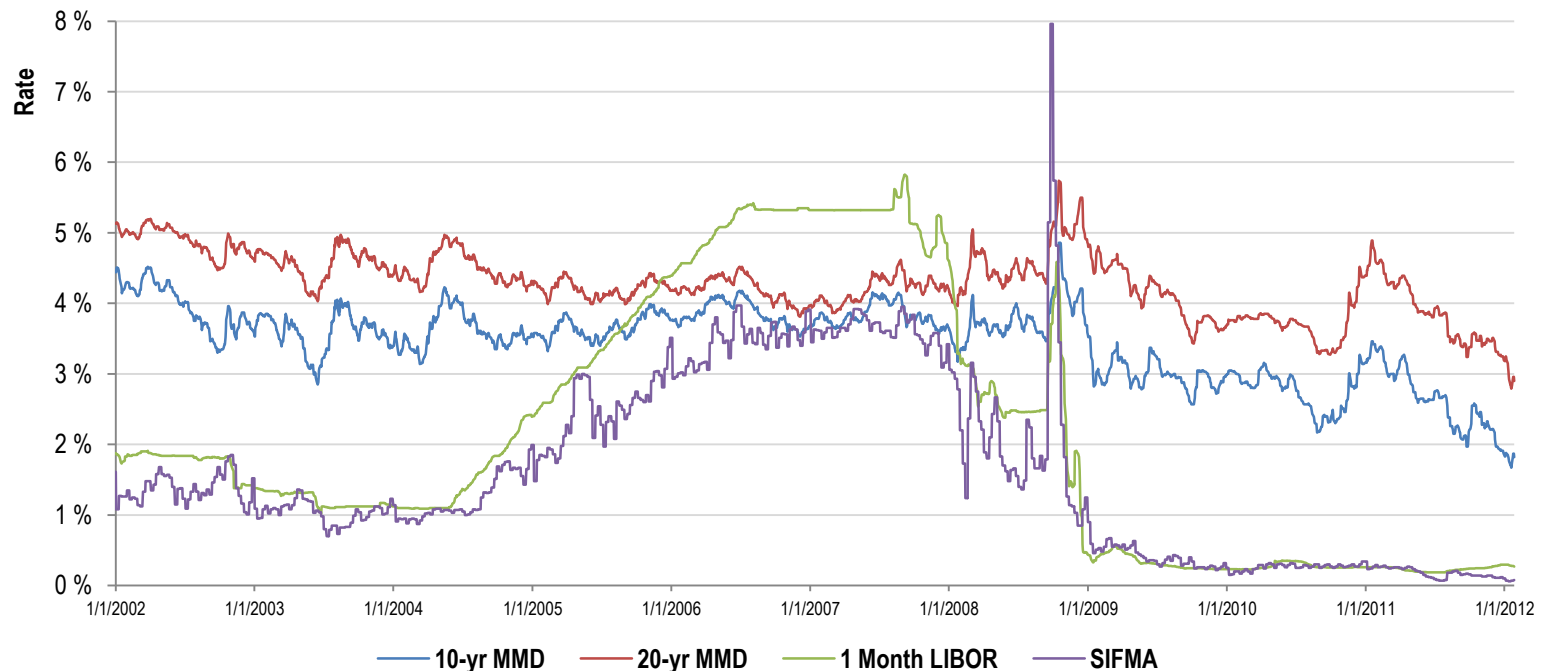
- IEUA has a prudent debt profile that effectively utilizes variable rate debt
- IEUA's variable rate debt exposure is in-line with similarly rated water agencies in the region

	Inland Empire Utilities Agency	Eastern Municipal Water District	Calleguas Municipal Water District	Rancho California Water District
As of	6/30/2011	3/31/2011	6/30/2011	6/30/2011
Variable Rate Debt as a % of Total Debt	15%	34%	15%	12%

Variable Rate Debt is at All Time Lows

- Spike in 2009 was due to uncertainty surrounding banks but was short-lived.
- Rates likely to stay low given feds commitment to maintaining a Federal Funds rate between 0% - 0.25% through at least 2014

Historical Long-Term and Short-Term Rates



Assessing The Impact of a Rating Downgrade

Effects of Rating Changes – Liquidity Facilities

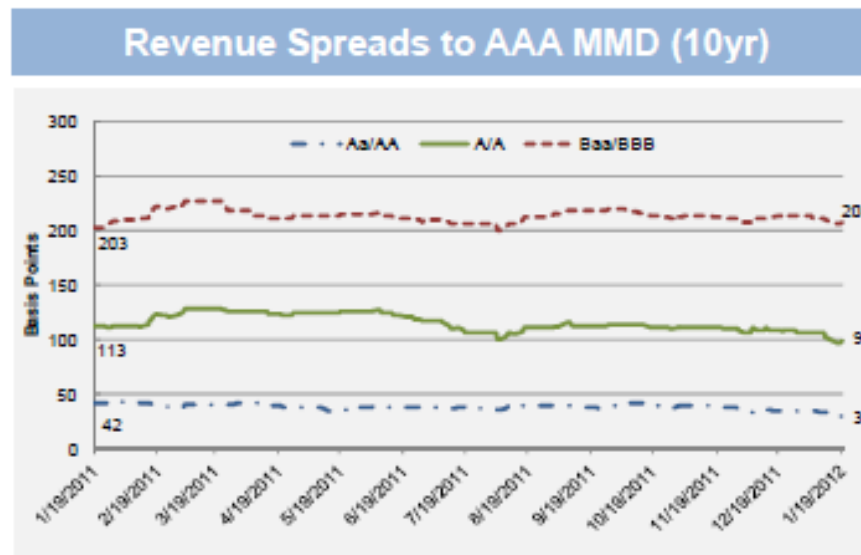
- Ratings can directly impact commitment fees paid to banks for liquidity facilities and letters of credit.
- 10 basis points on a \$100 million dollar liquidity facility equals an additional \$100,000 in fees
- Example of liquidity facility fee schedule:

Level	Moody's Rating	S&P Rating	Facility Fee Rate
Level 1	"A1" or above	"AA-" or above	0.70%
Level 2	"A1"	"A+"	0.85%
Level 3	"A2"	"A"	0.95%
Level 4	"A3"	"A-"	1.10%
Level 5	"Baa1"	"BBB+"	1.30%
Level 6	"Baa2"	"BBB"	1.55%
Level 7	"Baa3"	"BBB-"	1.80%
Level 8	Below "Baa3"	Below "BBB-"	2.05%

Source: 2010 Letter Agreement

Effects of Rating Changes – Cost of Capital

- Lower ratings translate to higher interest costs
- The current spread differential between an 'AA' and an 'A' 30-year fixed rate issuance for a California Municipal Water issuer is approximately 65-70 bps.
- The graphs below highlight the spreads between 'AA' and 'A' rated GO and Revenue bonds over the past year



Effects of Rating Changes – Investor Base

- Rating Category Can Impact Investor Interest
 - Many institutional investors limit the bonds they purchase by rating category with preference often given to high-grade credits
 - Retail investors often look to highest rated credits

- SEC Rule 2A-7 Prevents Money Market Funds from holding more than 3% of bonds outside of top 2 rating categories (AAA /AA and F1+/F1 for Short-Term Notes and Paper)
 - Having a rating below this threshold can limit the investor base that can purchase IEUA's short-term or early maturity debt

- Headline Risk of a Rating Downgrade
 - Downgrades can lead to increased inquiries by customers and outside parties
 - Ratings can be seen as a reflection on management even if external factors are key drivers (eg. economy, water conditions, environmental regulations)

Conclusion

- Certain IEUA Financial Metrics Have Been Trending Downward
- Financial Performance as Well as Targets Are Key Factors in the Credit Rating Process
- A Lower Rating Can Directly Impact IEUA's Cost of Capital
- In A Difficult Economic and Financial Environment, Strengthening Financial Target Can Send a Positive Message to the Marketplace
- Higher Rated Credits Draw a Wider Investor Base at Pricing and in the Secondary Market

Questions or Comments?



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MULTI-YEAR RATE PROPOSALS

Rate Proposals (Based on Updated Assumptions)



Targeted Total Debt Coverage Ratio of 1.50x in Year 2 and 1.70x in Year 3

	Current Rate	Proposed FY 2012/13	Proposed FY 2013/14	Proposed FY 2014/15
EDU Rate Increase		\$1.25	\$1.00	\$1.00
EDU Volumetric Rate	\$11.14	\$12.39	\$13.39	\$14.39
EDU New Connection Increase		\$143	\$98	\$100
EDU New Connection Fee	\$4,766	\$4,909	\$5,007	\$5,107
Direct Delivery Rate Increase		\$40	\$60	\$75
Direct Delivery Rate	\$115	\$155	\$215	\$290
GWR Surcharge Rate for Recharged Deliveries		\$40	\$40	\$45
GWR Recharged Rate (Direct Delivery + GWR Surcharge Rate)	\$145	\$195	\$255	\$335
Debt Coverage Ratio	1.24x	1.43x	1.48x	1.70x

Regional Technical Committee Recommendation

Recommended approval of the Regional Wastewater and Recycled Water Program rate increases for FY 2012/13, FY 2013/14 and FY 2014/15, as recommended IEUA staff, subject to re-evaluation of the rates for FY 2014/15 by February 2014 to allow member agencies time to meet Prop 218 requirements.

EDU WASTEWATER RATE SURVEY REGIONAL AGENCIES (FY 2011/12)



Agency	EDU Rate
WHOLESALE + LOCAL SERVICE RATE	
Western Municipal Water District	\$34.62
Orange County Sanitation District	\$22.25
Inland Empire Utilities Agency (Includes member agency average local service rate: $\$7.57 + \$11.14 = \$18.71$)	\$18.71
WHOLESALE RATE ONLY	
Eastern Municipal Water District	\$23.54
Irvine Ranch Water District	\$16.90
Inland Empire Utilities Agency	\$11.14

RECYCLED WATER RATE SURVEY REGIONAL AGENCIES (FY 2011/12)



WHOLESALE AGENCIES	
Agency	Per AF Rate
West Basin Municipal Water District (Tiered Rates)	\$540 - \$1,270
Irvine Ranch Water District	\$449
*Orange County Water District (Green Acres rate as of Jan 2010)	\$326
Eastern Municipal Water District (Tiered Rates)	\$187.75 - \$299.50
Inland Empire Utilities Agency (\$115 Direct Deliveries + \$30 Groundwater Recharge Surcharge)	\$115 - \$145

*OCWD rate based on FY 10/11 rates, pending survey results for FY 11/12.

Approval Timeline

Committees/Board	Date
Budget Workshop (Regional Tech & Policy)	December 6, 2011
Regional Technical Committee– Recommendation for approval	January 12, 2012
Regional Technical Committee – Special meeting on Rates Recommendation	January 19, 2012
Regional Policy Committee - Recommendation for approval	January 26, 2012
IEUA Board of Directors – Action	February 1, 2012



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QUESTIONS?