



Date: January 26, 2012
To: Regional Policy Committee
From: Inland Empire Utilities Agency
Subject: Fiscal Year 2012/13 Rate Proposals

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 December 6, 2011, staff facilitated a budget workshop for members of the Agency's Board of Directors and Regional Committees to review the proposed rates for the Regional Wastewater and Recycled Water Program for FY 2012/13. Adoption of multi-year rates for the next three fiscal years (FYs 2012/13 – 2014/15) was discussed. It was suggested that staff review and update the key assumptions for the ensuing two years and adjust the corresponding proposed

rates as needed to ensure they adequately meet the projected operating and capital replacement requirements.

Key Drivers & Objectives

Shown on Table 1 are the key drivers and objectives for the proposed rate increases:

Table 1

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

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.

Another key objective of the proposed multi-year rate increases, as suggested by members of the Regional Policy Committee, is to ensure the proposed rates will adequately meet all projected O&M and capital replacement requirements and avoid additional increases during the 3-year period. The Committee members suggested that staff analyze and update key revenue and expense assumptions to include a more conservative approach in future economic conditions; such as a further decline in property assessment values that will unfavorably impact property tax revenues. By establishing a more conservative baseline it will lessen the likelihood of having to modify the proposed rate increases in future years.

Updated Key Assumptions

Consistent with the discussion and suggestions received from the budget workshop, staff reviewed the key assumptions for the three fiscal years (FYs 2012/13 - 2014/15) and updated the following major revenue and expense categories:

Revenues:

- ❖ Property Tax Receipts
 - FY 2013/14: Previously assumed to remain flat, or 0% change. Updated to reflect a decrease of 1%.
 - FY 2014/15: Previously projected to increase by 0.5%. Updated to reflect no change, or 0%.
- ❖ Volumetric User Charges (No. of Billable EDUs)
 - FY 2013/14: Previously assumed to increase by 0.10%. Updated to reflect no change, or 0%.
 - FY 2014/15: Previously assumed to increase by 0.25%. Updated to reflect an increase of only 0.10%.

Expenses:

- ❖ Utilities
 - FY 2012/13: Electricity rate increased from \$0.115 to \$0.125 per kWh in based on recent increases by Southern California Edison.
 - FY 2013/14 & 2014/15: Increased CPI (Consumers Price Index) from 3% to 5%.
- ❖ 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%
- ❖ Replacement Projects
 - Reinstatement of deferred capital projects in FY 2013/14 and FY 2014/15 necessary to:
 - Comply with regulatory requirements,
 - Ensure service reliability, and
 - Sustain quality of levels of service.

The more conservative assumptions applied to property tax revenue for FYs 2013/14 and 2014/15 resulted in a decrease of approximately \$815,000 over the two year period. Despite the more conservative EDU growth forecasts for the same two year period, the proposed EDU rate increases of \$1.00 per year results in an increase of approximately \$1 million in volumetric user charges. On the other hand, the more conservative assumptions applied to utilities and chemical expenses resulted in an increase of approximately \$3 million in total expenses. The increase is primarily due to the higher electricity rates effective FY 2012/13 and the application of a higher CPI factor for both utilities and chemicals. Based on these updated assumptions, the EDU and Recycled Water rate increases proposed for FYs 2013/14 and 2014/15 presented at the Budget workshop did not achieve the targeted total debt coverage ratios.

As a result, a higher EDU rate of \$1.00 per EDU for FY 2014/15 will be required instead of the \$0.60 per EDU previously proposed. No change in the proposed EDU rates for FYs 2012/13 of \$1.25 per EDU and \$1.00 per EDU for FY 2013/14 were necessary. Higher rate increases will also be needed for the Recycled Water program. A rate increase of \$40 per acre foot (AF) in FY 2012/13 is now proposed instead of \$25 per AF, and \$60 per AF in FY 2013/14 instead of \$45

per AF. A lower rate of \$75 per AF instead of \$80 per AF is proposed for FY 2014/15. The proposed cumulative increase for the three year period is \$175 per AF instead of \$150 per AF as previously proposed.

The revised proposed rate increases for FYs 2012/13 to 2014/15 are reported in Table 2.

Table 2
(Based on Updated Assumptions to Major Revenues & Expenses)

	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 Rate + GWR Surcharge Rate)	\$145	\$195	\$255	\$335
Debt Coverage Ratio	1.24x	1.43x	1.48x	1.70x

Approval Timeline

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

Table 3

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 Recommendation for approval	January 19, 2012
Regional Policy Committee - Recommendation for approval	January 26, 2012
IEUA Finance, Legal and Admin. Committee – Recommendation for approval	February 8, 2012

Proposed Rates for FYs 2012/13 – 2014/15

January 26, 2012

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IEUA Board of Directors – Action

February 15, 2012

Attachments:

Attachment 1 - Grants Summary

Attachment 2 – Regional Savings Chart

Attachment 3 – Recycled Water Savings Chart

Attachment 1

Inland Empire Utilities Agency

AWARDS SUMMARY

As of September 30, 2011

Table 2

Funding Agency	Project Name	Award Amount	Award Amount (Through 06/30/09)	Award Amount FY09/10 (07/01/09 - 06/30/10)	Award Amount FY10/11 (07/01/10 - 06/30/11)	Award Amount FY11/12 (07/01/11 - 09/30/11)
USBR (Grants)	Recycled Water Planning	\$ 980,000	\$ 980,000	\$ -	\$ -	\$ -
	Regional Recycled Water Distribution	\$ 950,000	\$ 950,000	\$ -	\$ -	\$ -
	Regional Recycled Water Program	\$ 4,940,000	\$ 4,940,000	\$ -	\$ -	\$ -
	North East Area Recycled Water	\$ 5,942,000	\$ -	\$ 5,942,000	\$ -	\$ -
	North West Area Recycled Water	\$ 7,910,000	\$ -	\$ 7,910,000	\$ -	\$ -
	California Water Wise Landscape	\$ 30,000	\$ -	\$ 30,000	\$ -	\$ -
	CALFED Water 2011 Program	\$ 406,712	\$ -	\$ -	\$ -	\$ 406,712
* CDA Wellfield (Wells 1, 2, 3)	\$ 1,551,095	\$ -	\$ -	\$ -	\$ 1,551,095	
FEMA/Cat-EMA (Grant)	FEMA Winter Storm 2010 Disaster	\$ 614,410	\$ -	\$ -	\$ -	\$ 614,410
Active Federal Grants		\$ 23,324,217	\$ 6,870,000	\$ 13,882,000	\$ -	\$ 2,572,217
DWR (Grants)	Chino Basin Conjunctive Use	\$ 15,500,000	\$ 15,500,000	\$ -	\$ -	\$ -
	Multi-Family ULF Toilet Program	\$ 1,650,133	\$ 1,650,133	\$ -	\$ -	\$ -
	Landscape Water Audit Program	\$ 194,476	\$ 194,476	\$ -	\$ -	\$ -
	2008 Urban Drought Program	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	\$ -
	* CDA II Disaster Expansion	\$ 2,800,000	\$ 2,800,000	\$ -	\$ -	\$ -
Department of Parks & Recreation (Grants)	Water Discovery Field Trip & Bus	\$ 207,900	\$ -	\$ 207,900	\$ -	\$ -
	Earth Day program	\$ 38,500	\$ -	\$ -	\$ 38,500	\$ -
MWD (Grant)	Water Softener Salinity Reduction	\$ 95,000	\$ 95,000	\$ -	\$ -	\$ -
WaterReuse Foundation (Grant)	Research for Potable Reuse and Aquifer Storage Projects	\$ 479,995	\$ 479,995	\$ -	\$ -	\$ -
SWRCB (Grants)	Chino Creek Master Plan	\$ 601,135	\$ 601,135	\$ -	\$ -	\$ -
	Chino Creek Cleanup (ARRA)	\$ 1,471,491	\$ -	\$ 1,471,491	\$ -	\$ -
	North East Area Recycled Water	\$ 4,241,635	\$ -	\$ 4,241,635	\$ -	\$ -
	Greater Prado Basin Clean-up	\$ 76,756	\$ 76,756	\$ -	\$ -	\$ -
	Greater Prado Clean-up (ARRA)	\$ 298,244	\$ -	\$ 298,244	\$ -	\$ -
	Magnolia Channel Project	\$ 181,275	\$ 181,275	\$ -	\$ -	\$ -
	Magnolia Channel Restart (ARRA)	\$ 773,045	\$ -	\$ 773,045	\$ -	\$ -
	Southern Area Recycled Water	\$ 4,000,000	\$ -	\$ -	\$ 4,000,000	\$ -
Active State & Local Grant		\$ 33,609,585	\$ 22,578,770	\$ 6,992,315	\$ 4,038,500	\$ -
Total Active Federal, State & Local Grant		\$ 56,933,802	\$ 29,448,770	\$ 20,874,315	\$ 4,038,500	\$ 2,572,217
SWRCB (SRF Loans)	North East Area Recycled Water	\$ 16,630,166	\$ -	\$ 16,630,166	\$ -	\$ -
	RW Wells and Lysimeters	\$ 1,285,987	\$ 1,285,987	\$ -	\$ -	\$ -
	RP-1 Dewatering Facility	\$ 27,434,811	\$ -	\$ 27,434,811	\$ -	\$ -
	Southern Area Recycled Water	\$ 20,608,638	\$ -	\$ -	\$ 20,608,638	\$ -
	New Main Operations Laboratory	\$ 14,830,000	\$ -	\$ -	\$ 14,830,000	\$ -
Sub-total Active SRF SRF Loans		\$ 80,789,602	\$ 1,285,987	\$ 44,064,977	\$ 35,438,638	\$ -
Total Active Grants & Loans (* including 2 CDA grants)		\$ 137,723,404	\$ 30,734,757	\$ 64,939,292	\$ 39,477,138	\$ 2,572,217

Active Grants & Loans	\$ 137,723,404	\$ 30,734,757	\$ 64,939,292	\$ 39,477,138	\$ 2,572,217
Closed grants and SRF loans	\$ 172,130,033				
Total Active and Closed Grants & Loans since 2002	\$ 309,853,437				

Attachment 1 (continued)

Inland Empire Utilities Agency
Active Grant and SRF Loan Summary
As of September 30, 2011

Revised Table 3

Funding Agency	Project Name	Award Amount	Invoiced (Through 06/30/09)	Invoiced FY09/10 (07/01/09 - 06/30/10)	Invoiced FY10/11 (07/01/10 - 06/30/11)	Invoiced FY11/12 (07/01/11 - 09/30/11)
USBR (Grants)	Recycled Water Planning	\$ 980,000	\$ 980,000	\$ -	\$ -	\$ -
	Regional Recycled Water Distribution	\$ 950,000	\$ 950,000	\$ -	\$ -	\$ -
	Regional Recycled Water Program	\$ 4,940,000	\$ 4,940,000	\$ -	\$ -	\$ -
	North East Area Recycled Water	\$ 5,942,000	\$ -	\$ 2,034,225	\$ 3,904,229	\$ -
	North West Area Recycled Water	\$ 7,910,000	\$ -	\$ 164,273	\$ 2,741,061	\$ 1,709,450
	California Water Wise Landscape	\$ 30,000	\$ -	\$ -	\$ 30,000	\$ -
	CALFED Water 2011 Program	\$ 406,712	\$ -	\$ -	\$ -	\$ -
	* CDA Wellfield (Wells 1, 2, 3)	\$ 1,551,095	\$ -	\$ -	\$ -	\$ -
FEMA/Cal-EMA (Grant)	FEMA Winter Storm 2010 Disaster	\$ 614,410	\$ -	\$ -	\$ -	\$ 111,219
Active Federal Grants		\$ 23,324,217	\$ 6,870,000	\$ 2,198,498	\$ 6,675,290	\$ 1,820,669
DWR (Grants)	Chino Basin Conjunctive Use	\$ 15,500,000	\$ 14,439,026	\$ 1,059,681	\$ 1,293	\$ -
	Multi-Family ULF Toilet Program	\$ 1,650,133	\$ 1,175,420	\$ -	\$ 66,153	\$ 68,646
	Landscape Water Audit Program	\$ 194,476	\$ 79,900	\$ 12,224	\$ 97,013	\$ 5,282
	2008 Urban Drought Program	\$ 1,000,000	\$ 153,356	\$ 846,644	\$ -	\$ -
	* CDA II Desalter Expansion	\$ 2,800,000	\$ -	\$ -	\$ 2,800,000	\$ -
Department of Parks & Recreation (Grants)	Water Discovery Field Trip & Bus	\$ 207,900	\$ -	\$ -	\$ 11,100	\$ -
	Earth Day program	\$ 38,500	\$ -	\$ -	\$ 11,339	\$ -
MWD (Grant)	Water Softener Salinity Reduction	\$ 95,000	\$ 33,756	\$ 61,244	\$ -	\$ -
WaterReuse Foundation (Grant)	Research for Potable Reuse and Aquifer Storage Projects	\$ 479,995	\$ 250,062	\$ 134,941	\$ 40,614	\$ 33,975
SWRCB (Grants)	Chino Creek Master Plan	\$ 601,135	\$ 599,552	\$ 1,584	\$ -	\$ -
	Chino Creek Cleanup (ARRA)	\$ 1,471,491	\$ -	\$ 51,359	\$ 626,888	\$ 59,790
	North East Area Recycled Water	\$ 4,241,635	\$ -	\$ 1,602,704	\$ 2,638,927	\$ -
	Greater Prado Basin Clean-up	\$ 76,756	\$ 76,756	\$ -	\$ -	\$ -
	Greater Prado Clean-up (ARRA)	\$ 298,244	\$ -	\$ 17,234	\$ 54,042	\$ 1,491
	Magnolia Channel Project	\$ 181,275	\$ 181,275	\$ -	\$ -	\$ -
	Magnolia Channel Restart (ARRA)	\$ 773,045	\$ -	\$ 154,397	\$ 618,648	\$ -
	Southern Area Recycled Water	\$ 4,000,000	\$ -	\$ -	\$ -	\$ -
Active State & Local Grant		\$ 33,609,585	\$ 16,989,102	\$ 3,942,012	\$ 6,966,015	\$ 169,184
Total Active Federal, State & Local Grant		\$ 56,933,802	\$ 23,859,102	\$ 6,140,511	\$ 13,641,306	\$ 1,989,853
SWRCB (SRF Loans)	North East Area Recycled Water	\$ 16,630,166	\$ -	\$ 7,995,601	\$ 7,065,569	\$ -
	RW Wells and Lysimeters	\$ 1,285,987	\$ 69,762	\$ 782,792	\$ 145,777	\$ -
	RP-1 Dewatering Facility	\$ 27,434,811	\$ -	\$ 5,792,869	\$ 13,596,885	\$ 1,686,838
	Southern Area Recycled Water	\$ 20,608,638	\$ -	\$ -	\$ -	\$ 1,523,996
	New Main Operations Laboratory	\$ 14,830,000	\$ -	\$ -	\$ -	\$ -
Sub-total Active SRF SRF Loans		\$ 80,789,602	\$ 69,762	\$ 14,571,262	\$ 20,808,231	\$ 3,210,834
Total Active Grants & Loans (* including 2 CDA grants)		\$ 137,723,404	\$ 23,928,864	\$ 20,711,773	\$ 34,449,536	\$ 5,200,688

Active Grants & Loans	\$ 137,723,404	\$ 23,928,864	\$ 20,711,773	\$ 34,449,536	\$ 5,200,688
Closed grants and SRF loans	\$ 172,130,033				
Total Active and Closed Grants & Loans since 2002	\$ 309,853,437				

Attachment 2**Regional Capital and Regional O&M Cost Savings**

RP-1 Dewatering	Principal	Interest	Total
SRF Loan @ 1.0% (Current)	\$13.4 M	\$2.1M	\$15.5M
SRF Loan @ 0.0% (Current)	\$14.0M		\$14.0M
Total Current Financing	\$27.4M	\$2.1M	\$29.5M
30 Year Bond @ 4%	\$27.4M	\$19.7M	\$47.1M
Financing Cost Savings		\$17.6M	\$17.6M
RC EDU New Connection Units			
Total Equivalent Financing Cost Savings Per EDU New Connection	\$17.6M / 1,100 units		1,100 units \$16,000
Annual Equivalent Financing Cost Savings Per EDU New Connection	\$16,000 / 30 years		\$533
RO EDU Volumetric Units			
Total Equivalent Financing Cost Savings Per EDU Volumetric Rate	\$17.6M / 3,075,100 units		3,075,100 units \$5.73
Annual Equivalent Financing Cost Savings Per EDU Volumetric Rate	\$5.73 / 30 years		\$0.20

PPA-Environ Strategy Consultant Inc. (ESCI)	FY 2012/13	FY 2013/14
Annual Lease – Phase I (Begins October 2011)	\$240,000	\$240,000
Annual Lease – Phase II (Begins October 2013)		\$360,000
Total Annual Lease Revenue	\$240,000	\$600,000
EDU Volumetric Units 2011/12 (Millions)	3.075	3.075
Savings per EDU	\$0.08	\$0.20

Attachment 3

Recycled Water Cost Savings

Recycled Water	Principal	Interest	Total
Grants	\$55.1M		\$55.1M
Lateral & Retrofit Reimbursement	\$1.6M		\$1.6M
SRF Loan @ 1.3% (Current)	\$58.4M	\$12.2M	\$70.6M
SRF Loan @ 2.5% (Future)	\$13.1M	\$5.5M	\$18.6M
Total Current Financing	\$128.2M	\$17.7M	\$145.9M
30 Year Bond @ 4%	\$128.2M	\$92.1M	\$220.3M
Total Financing Cost Savings		\$74.4M	\$74.4M
AF estimated delivery			33,000 AF
Total Equivalent Financing Cost Savings Per AF	\$74.4 M / 33,000 AF		\$2,255/ AF
Annual Equivalent Financing Cost Savings Per AF	\$2,255 / 30 years		\$75/AF