Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

2012 Long Range Plan of Finance

JUNE 2011

VISION

The Inland Empire Utilities Agency will strive to enhance the quality of life in the Inland Empire by providing the optimum water resources management for the area's customers while promoting conservation and environmental protection.

MISSION

Supply imported and recycled water, collect, treat, and dispose of wastewater and provide other utility-related (renewable electrical energy, compost) services to the communities it serves. The Agency strives to provide these services in a regionally planned, managed, and cost-effective manner.

Executive Summary

The 2012 Long Range Plan of Finance (LRPF) is a strategic tool used in planning for the Agency's long term sustainability and financial health. Each year, staff updates the LRPF in parallel with the Ten Year Capital Improvement Plan (TYCIP) and the annual operating budget based on the same key factors and assumptions. The economic slowdown, environmental regulations, water conservation, and the ongoing state budget crisis continue to be the most critical emerging issues impacting the Agency and its customers.

Since the collapse of the subprime mortgage market in December 2007, the economy continues to impact some of the Agency's key revenue sources; development (connection) fees, property taxes, and user charges. Despite recent signs of an economic recovery at the national level, local economists agree economic development in California, and in particular Southern California, will most likely lag the nation by two or three years. The slowdown in new development and new home sales is contributing to the region's high unemployment rate which remains above the national average. The loss of jobs related to the drastic slowdown in both residential and commercial construction was a key factor in the high number of foreclosures plaguing the Inland Empire and making it one of the foreclosure epicenters in the nation. Consequently, the area has also experienced a significant decline in property assessment values. All of these factors directly affect the Agency's revenue and cost projections and plans for expansion of existing facilities or construction of new facilities.

Another challenge for the Agency continues to be the volatility in the energy market, new legislation such as AB 32 governing greenhouse gas emissions, and more stringent regulations limiting the use of natural gas in energy generation. Energy costs represent nearly 12% of the Agency's total operating costs. Sustaining energy costs over time by maximizing use of self-generated and renewal energy power is a critical component of the Agency's commitment to cost containment. Consistent with the 2008 Energy Management Strategy, the Agency's "Go Gridless by 2020" initiative focuses on energy independence from Southern California Edison, or the grid, during the peak energy use/pricing period (noon to 6:00 PM) by the year 2020 or sooner. This will be achieved through optimization of energy consumption by maximizing on-site energy generation; effective energy demand response, implementation of new technologies such as solar, wind and fuel cells; and utilization of effective energy procurement strategies. Maximizing the use of renewal energy will help to mitigate the South Coast Air Quality Management District rule 1110.2 which limits natural gas usage to 10% of total gas usage and threatens to reduce the Agency's ability to produce its own electricity.

A key objective of the Agency and its member agencies continues to be the development and securitization of local water supplies in the Chino Basin to meet current and future needs. Construction of the Agency's regional recycled water distribution system is targeted for completion in FY 2013/14, increasing deliveries of recycled and recharge water supplies from 39,000 AF (acre feet) projected for FY 2011/12 to 50,000 AFY (acre feet per year) by FY 2015/16. Despite Governor Jerry Brown's rescinding of the 2009 statewide drought declaration established by former Governor Schwarzenegger in March 2011, water conservation continues to be paramount to the sustainability and quality of life to California, and Southern California residents in particular. To date, the Agency, in collaboration with its member agencies, have been successful in educating residents of the importance of water conservation. An ongoing challenge for the Agency and its customer is not just building on conversation efforts, but establishing a "conservation ethic", for a more holistic approach to resource use, allocation, and protection of our natural resources.

The ongoing state budget crisis continues to be a challenge for local governments. In the past, the State has shifted revenues from local governments to help fill the gap in the state budget. One of these revenue sources is property taxes taken from local governments to fund the State's Education Revenue Augmentation Fund (ERAF). The Agency allocates property taxes to support debt service and capital costs, and the remaining portion used to supplement operating costs in its Regional Wastewater Program. By supplementing its operating costs with property taxes, the Agency has been able to mitigate rate increases. Currently, the Agency's sewage and recycled water rates are amongst the lowest in Southern California. However, due to uncertainty of the state's fiscal condition, minimizing reliance on property taxes over time is imperative to the Agency's ability to provide reliable and quality levels of service, as well as avoid significant rate increases due to the loss of property taxes.

The LRPF is also guided by broad policy goals which are designed to move the Agency forward in executing its *mission* and attaining its *vision*. These Board policy goals can be categorized into nine major thematic areas:

- Conservation and Water Quality
- Technological Innovation
- Rate Stabilization and Cost Effectiveness
- Operational and Maintenance Efficiency
- Strategic Planning and Capital Implementation
- Waste Management and Resource Utilization

- Interagency Relationships and Community Partnership
- Fiscal Accountability and Regulatory Compliance
- Staff Training, Development, and Well Being

The Plan demonstrates the Agency's ability to maintain financially sound operations while delivering its capital program within its already-established policy and financial goals which are to:

- Maintain programs that are self-supported
- Levy reasonable rate increases to support program requirements
- Maintain revenues for debt service coverage above 1.25 times outstanding debt service (required coverage ratios)
- Achieve aggregate fund balance target at 50% of operating revenues[1] in each year, plus debt service costs
- Minimize the Agency's borrowing cost

Although it is the ultimate goal of the Agency and its contracting member agencies for each program to be self-supported through user charges, future rate increases are dependent upon economic conditions and recovery from the current economic slowdown. In light of the economic uncertainty, the Agency's Board of Directors approved to defer the rate increases proposed for the Regional Wastewater Program in FY 2011/12 until the next fiscal year.

Rates. A key policy of the Agency is to maintain a stable revenue base sufficient to meet operating and maintenance requirements, as well as to restore and maintain fund balances at a level that ensures the Agency's financial health. The proposed future rate increases are necessary to meet anticipated cost increases, as well as reduce reliance on property taxes and ultimately have programs that are self-supported by user charges and fees.

Reserves balance. Notwithstanding aggressive capital spending, the Agency maintains its reserves balance at 50% of annual operating revenues plus debt service costs on an aggregate program level. Operating revenues primarily consist of User Fees, Service Charges, Surcharges on Imported Water Sales, Connection Fees, Recycled Water Sales, Rebates on Recycled Water Deliveries, and Property Taxes.

Debt service coverage. The Agency estimates are based on the assumption that operating revenue will exceed the legally required minimum of 1.25 times coverage ratio throughout the ten year term.

The following tables summarize the output of the model, and quantify the impact to the Agency given certain assumptions along with the stated financial goals. Each of the three categories (fees/rates, fund balances, and debt service coverage) directly reflect the impact of financing decisions on the Agency's long term financial health.

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[1] *Operating revenue includes: User Fees/Service Charges/Imported Water Sales, Connection Fees, Recycled Water Sales, Property Taxes, Contract Cost Reimbursement, and Interest Revenue.*

Table 1
Summary of Results: Scenario A

SUMMARY OF RESULTS: Scenario A							
Projected Rates							
Rates	2012	2014	2016	2018	2019	2020	2021
User Charges							
Wastewater	$11.14	$12.39	$12.89	$13.39	$13.64	$13.89	$14.14
Recycled Water - Direct Sales	$115.00	$180.00	$245.00	$295.00	$295.00	$295.00	$295.00
Recharge Water- Recharged Sales	$145.00	$220.00	$285.00	$335.00	$335.00	$335.00	$335.00
Connection Fees	$4,766.00	$4,862.00	$4,960.00	$5,060.00	$5,111.00	$5,162.00	$5,214.00
NRW - CIP	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00
NRW Admin Fee	50% / 10%	50% / 10%	50% / 10%	50% / 10%	50% / 10%	50% / 10%	50% / 10%
Imported Water Surcharge	$12	$14	$14	$14	$14	$14	$14
Imported Water Meter Charge	$1.455	$1.705	$1.955	$2.455	$2.605	$2.805	$2.955
Property Taxes	-1.00%	0.05%	1.50%	1.00%	1.00%	1.00%	1.00%

Table 2
Ending Fund Balance

Ending Fund Balances								
Fund	2012	2014	2016	2018	2019	2020	2021	10 Year Average
Regional Wastewater RC	$34,901,000	$42,164,000	$52,166,000	$62,328,000	$71,167,000	$78,021,000	$85,384,000	$56,360,000
Regional Wastewater RO	21,457,000	23,818,000	30,787,000	38,157,000	41,375,000	47,603,000	54,675,000	34,152,000
Recycled Water	20,855,000	15,964,000	15,294,000	15,199,000	14,965,000	16,324,000	17,575,000	16,377,000
Recharge Water	1,727,000	1,706,000	1,748,000	1,801,000	1,831,000	1,862,000	1,892,000	1,776,000
Non-Reclaimable Wastewater	5,406,000	6,590,000	7,714,000	9,241,000	9,844,000	9,464,000	9,276,000	8,006,000
Administrative Services	12,120,000	12,346,000	12,354,000	12,168,000	11,969,000	11,709,000	11,377,000	12,100,000
Water	1,588,000	2,051,000	2,200,000	2,276,000	2,350,000	2,310,000	2,245,000	2,129,000
Total Program	**$98,054,000**	**$104,639,000**	**$122,263,000**	**$141,170,000**	**$153,501,000**	**$167,293,000**	**$182,424,000**	**$130,900,000**

Table 3
Debt Service Coverage Ratio (Excludes WW Fund)

Debt Service Coverage Ratio (Excludes WW Fund)								
Lien	2012	2014	2016	2018	2019	2020	2021	10 Year Average
Senior	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Parity	1.64	1.99	2.18	2.40	2.25	2.21	2.27	2.22
Other	2.66	4.89	5.82	7.30	6.92	6.68	6.98	6.43
Total Debt Coverage Ratio	**1.32**	**1.66**	**1.32**	**2.01**	**1.91**	**1.87**	**1.92**	**1.78**

Overview of Capital Program

Based on current projections, it is assumed that existing wastewater treatment capacity is sufficient to support anticipated future growth over the next ten years. Thus, the primary focus of the Agency's capital program changed from one of expansion to refurbishment and replacement of existing facilities. Capital replacement costs account for over 50%, or $125 million of the $171 million FY 2012-2021 TYCIP.

Allocation of the TYCIP $171 million capital costs among the various programs is shown in the following table.

Table 4
Capital Costs Projected FY 2012-2021
($Thousands)

Fund	Projected 2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	TYCIP Total
Admin Services Fund	$ 477	$ 1,361	$ 750	$ 679	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 6,290
NonReclaimable (NRW) Fund	1,536	3,021	2,797	2,811	3,008	2,957	2,957	2,958	2,197	2,197	2,197	27,099
Regional Capital Improvement Fund	20,988	16,042	3,630	2,850	2,250	2,150	8,150	4,046	2,566	2,650	2,650	46,984
Regional O&M Fund	1,667	2,650	2,775	2,775	2,750	3,800	4,850	3,850	5,575	2,776	2,550	34,351
Recycled & Recharge Water Funds	23,151	24,593	13,106	850	850	450	450	450	3,450	5,950	6,450	56,599
Total	$ 47,819	$ 47,667	$ 23,058	$ 9,964	$ 9,358	$ 9,857	$ 16,907	$ 11,804	$ 14,287	$ 14,072	$ 14,347	$ 171,322

The Regional Wastewater and Recycled Water Programs consist of nearly $137 million or 80% of the total Agency capital costs. A total of $62 million are projected in the first two years of the ten year period. Due to the slowdown in new development and the projected reduction in the number of new connections, capital costs forecasts thereafter average approximately $12 million per fiscal year. Connection fees is the primary funding source of the Regional Capital program and are only projected to average $10 million per fiscal year.

Revenue Projections

Total system revenues available to the Agency to support both capital and operations, are estimated to range from $130 million in fiscal year 2012 to $138 million in fiscal year 2021. The primary revenue sources for the Agency include; monthly user charges (including surcharges on imported water deliveries), connection fees, property taxes, recycled water sales, rebates on recycled water deliveries, and grants.

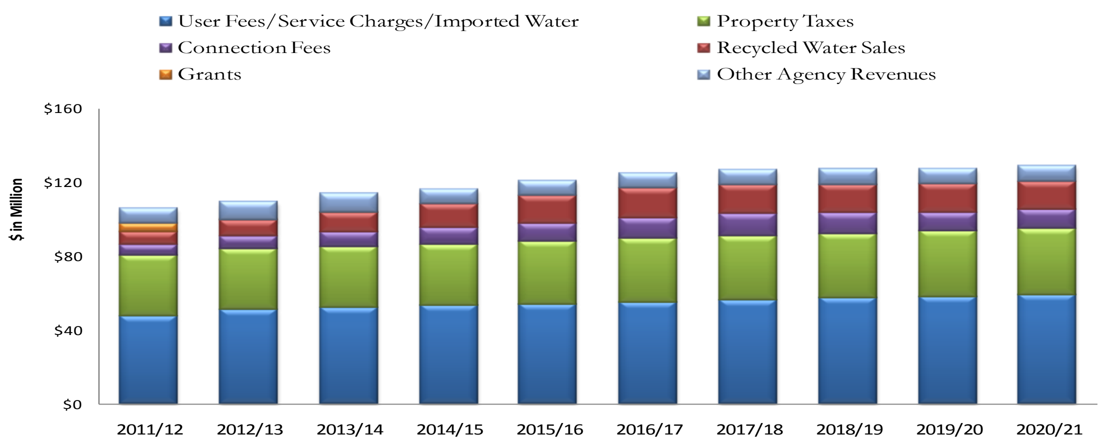
Table 5
Ten Year Revenues and Funding Sources by Category

Revenue	Ten Year Total ($ Millions)	% of Total	Description
User Charges	$559.8	44%	Includes Regional Wastewater Program EDU monthly service charges, NRW program volumetric, capacity and other user charges, surcharges for imported water deliveries and monthly meter fees
Property Tax	342.3	27%	Share of the San Bernardino County-wide secured property tax levy and RDA tax
Recycled Water Sales	132.1	10%	Recycled water sales and MWD Local Project Program (LPP) rebate
Connection Fees	94.2	7%	New EDU connection fees to the Regional Wastewater sewer system
Contract Cost Reimbursement	60.4	5%	Various reimbursements for operational and capital costs, including IERCA, CDA and CBWM.
State and Other Loans	42.5	3.6%	State revolving fund loans for the Recycled Water and Regional Wastewater Programs

Inter-fund Loan	17.0	1%	Inter-fund loan repayment from WC Fund to NC and RC Funds
Interest	16.2	1%	Interest earnings
Grants	10.6	.8%	Various federal, state and local grants primarily in support of the Agency's Recycled Water Distribution System.
Other Revenues	8.3	.6%	Includes one time sale of assets, NRW capacity sales, and conservation program rebates
Total Revenue & Other Funding Sources	**$1,283.4**	**100%**	

The bar graph below depicts each of the primary revenues annual contribution to total revenues as well as the long-term annual growth trend.

Figure 2
Projected Primary Revenues (FY 2012-2021)



The steady increase projected for system revenues is a combination of increasing recycled water deliveries with the completion of the Agency's Regional Recycled Water Distribution System and annual moderate rate increases in future years.

Expense Projections

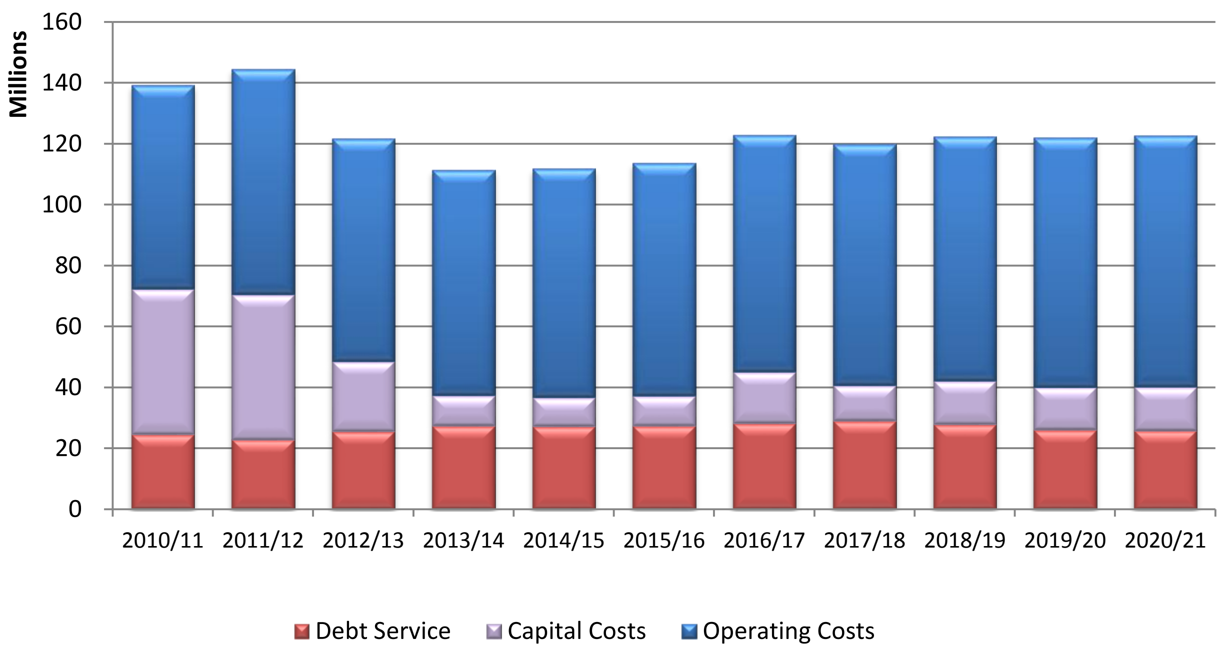
Total costs over the next ten fiscal years are projected to be $1.2 billion, estimated to range from $145 million in fiscal year 2012 to $123 million in fiscal year 2021. FY 2011/12 expenses are considerably higher due to capital project costs of $48 million, which represents about 33% of the total expenses. Over the ten year period operating costs are estimated to be $774 million and are primarily comprised of employment, utilities, operating fees, chemicals and office administration. Total capital project costs are budgeted at $171 million (Ten Year Capital Improvement Program – TYCIP), and $268 million in debt service costs (principal and interest due on bonds, SRF loans and notes, and inter-fund obligations).

Table 6
Ten Year Expenses and Uses of Funds by Category

Expenses	Ten Year Total ($ Millions)	% of Total	Description
Operating	$774.3	64%	Includes operating costs, employment, utilities, chemicals, etc.
Capital Costs	171.3	14%	TYCIP
Debt Service Costs	267.9	22%	Principal and interest due on bonds, SRF loans and notes, and inter-fund obligations
Total Expenses & Uses of Funds	**$1,213.5**	**100%**	

The bar graph below shows the total expenses by major category as well as the long-term annual growth trend.

Figure 3
Projected Costs by Major Category FY 2012 – 2021



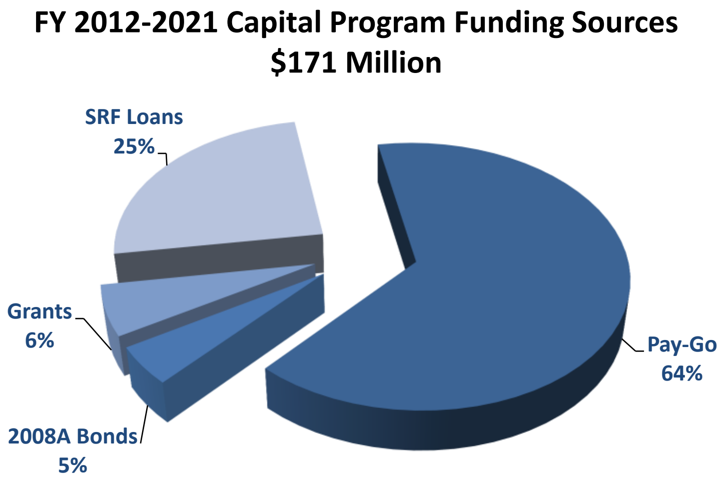
Financing Strategy

Over 58% or $100 million, of the $171 million total capital expenditures are scheduled between FY 2012 – 2016, the first half of the ten year period. An annual average of $14 million of capital expenditures is projected for the remaining five years. Based on the economic forecast in early 2011, the economy and housing development in the Inland Empire are not expected to recover for another two or three years.

The Agency's capital financing is derived from four (4) primary sources:

1. Pay-Go cash which, for purposes of the model, is defined as net system revenues[2]
2. State revolving fund fixed low interest loans (SRF)
3. Unexpended 2008A Bond proceeds
4. Grant revenues

Figure 4



Net system revenues are expected to exceed capital costs over the next 10 year period by $107 million. In addition to connection fees and a portion of property taxes, other primary funding sources include low interest State loans of $42 million and $11 million in grant revenues.

To ensure the lowest cost of borrowing while maximizing flexibility, the Agency adopted a strategy that applies the lowest cost funds first and the most expensive funding sources last. This tiered strategy includes system revenues, fund balance draws, and State Revolving Fund loans.

[2] *Primarily user charges, connection fees and property taxes not needed for debt service.*

Table 7

Borrowing Requirements: Scenario A			
Year	SRF Loans	Commercial Paper/New Bond Issues	Aggregate Borrowing
2012/2021	$42.5 million	$0	$42.5 million

Projections indicate that funding of the aggregate capital expenses of $171 million over 10 years will primarily be funded by a pay-as-you go, unexpended 2008A bond proceeds and low interest SRF loans. Aside from the SRF loans, which are the key funding sources for the Recycled Water Program and the Regional RP-1 Dewatering Facility Expansion project, no future long term bond issues or use of commercial paper proceeds are anticipated.

The balance of the report expands on the information presented in this Executive Summary. Each section of the summary corresponds to a detailed discussion in the report which serves as a reference for additional contextual and statistical data.

I. Introduction

Until the recent downturn in the economy, the Agency's service area was part of one of the fastest growing metropolitan areas in the nation. In most national surveys, the Agency's service area ranked consistently in the top ten growth regions over the past several years. Prior to the current economic slowdown, moderate growth for the area was expected to continue until reaching built out in 2025. The Agency's LRPF adopted in 2007 was based on this assumption of continued growth and included expansion of its wastewater infrastructure as part of the 30 year capital program of $1.2 billion. However, due to the economic downturn during fiscal years 2009 and 2010, the FY 2012-2021 LRPF assumes a continuation of the following financial problems that are still affecting the state, national, and global economies:

- Continued slowdown in new development
- High unemployment rate
- Tightening credit markets

Slowdown in New Development. Southern California, and in particular the San Bernardino/Riverside metro area, were hit hard by the economic downturn triggered by the collapse of the sub-prime mortgage market in December 2007. Over a three year period, 2006 to 2009, the median home price in the seven cities serviced by IEUA fell between 30% and 55%. Even though the housing market is beginning to show modest signs of recovery, it is only expected to rise only 2% in 2011 across the state. Future improvement in the housing market is encumbered by the continued slowdown in the economy and high unemployment rate. This translates to a lower population growth in the Agency's service area than was projected prior to the economic recession. Based on revised growth projections, no expansion to existing facilities is needed over the next ten years. Through a combination of project deferrals, completions and a favorable construction bidding environment, the Agency's has successfully reduced its TYCIP by nearly $279 million since FY 2008/09. The Agency's current capital program is focused on refurbishment and maintenance of existing facilities.

High Unemployment Rate. Since the beginning of the economic downturn the Inland Empire region has lost approximately 13.5% of the total nonfarm employment compared to a 9% loss in California. As of March 2011, the unemployment rate of 14% in the region remains as the highest in the nation, with the national unemployment rate averaging around 9%). The turnaround is projected to be very modest due to the loss of the area's traditional competitive advantages (undeveloped land, modestly priced labor) for the manufacturing and construction sectors which have been overcome by the deep mortgage crises affecting these sectors' competitiveness.

Tightening Credit Market. The tightening credit market stemming from the collapse of collateralized debt obligations that were based on risky mortgage loans continues to hinder business and private investment. Financial institutions' holdings of troubled assets have led to insolvency and illiquidity among lenders. The federal government and central banks have taken drastic action to prop up the global financial system through programs like TARP, (Troubled Asset Relief Program), which allowed the United States government to purchase assets and equity from financial institutions to strengthen the financial sector. High unemployment continues to hinder economic recovery resulting in consensus amongst economic analysts that we are still a long way from returning to normal lending practices.

These major financial issues are the basis for the Agency's conservative projections on future revenue growth. Specifically, the LRFP addresses the Agency's projected revenues and expenditures over a 10-year horizon to determine the most cost effective funding and rate increases needed to meet both its capital and operating costs requirements through FY 2021.

The economic assumptions utilized in the LRPF are summarized below:

Table 8
Economic and Demographic Assumptions

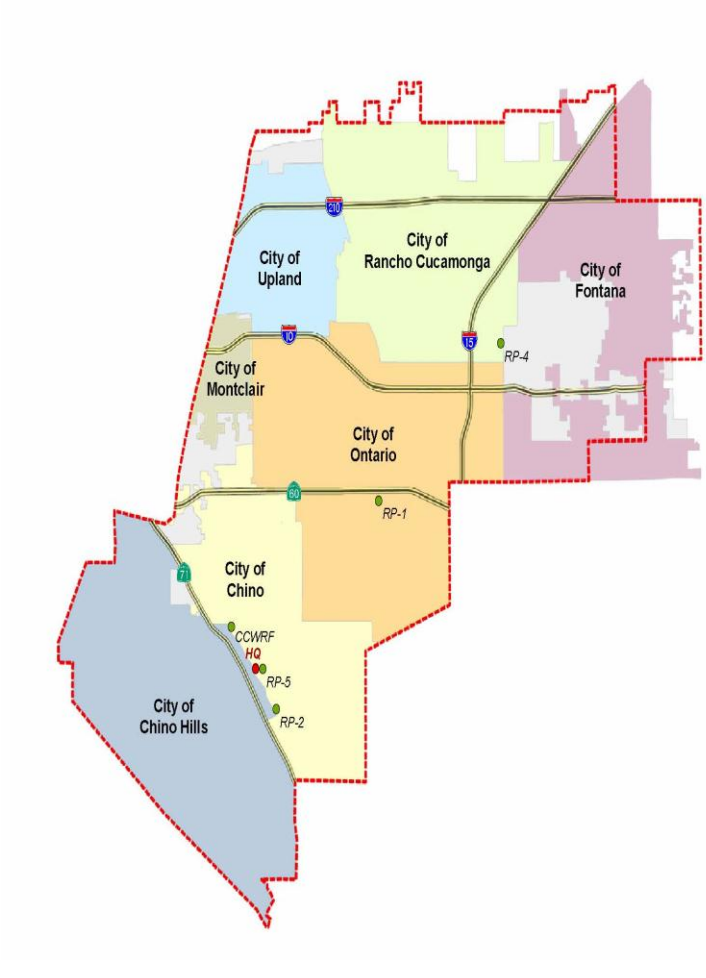
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Population in 000's (Service Area)	831.6	840.1	848.5	857.0	865.6	874.3	883.0	891.9	900.8	909.9	919.0
Population (% Change)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Property Tax (% Change)	-3.0%	-1.0%	0.0%	0.5%	1.0%	1.5%	1.5%	1.0%	1.0%	1.0%	1.0%
Salaries (% Change)	-6.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Healthcare Benefits (% Change)	5.0%	7.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
PERS Benefits (Increase %)	0.0%	3.0%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PERS Benefits (% Change)	0.0%	15.0%	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Benefits (% Change)	-9.0%	2.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Services & Supplies	6.0%	15.0%	1.0%	3.0%	2.0%	3.0%	3.0%	3.0%	2.0%	3.0%	1.0%
Capital Outlay*	-1.0%	0.0%	-52.0%	-57.0%	-6.0%	5.0%	72.0%	-30.0%	21.0%	-2.0%	2.0%
Authorized Positions**	(13)	-	-	-	-	-	-	-	-	-	-

**FY 2010/11 projected capital project costs, $47.8 million*
***Budgeted FY 2009/10 FTE 308*

Agency Overview

The Inland Empire Utilities Agency ("the Agency"), formerly known as the Chino Basin Municipal Water District until 1998, was established on June 6, 1950 and in 1951 annexed to the Metropolitan Water District of Southern California (MWD) to provide supplemental imported water to the Chino Basin. The Agency serves as a wholesale imported water provider to the cities of Upland, Ontario, Chino, and Chino Hills, Cucamonga Valley Water District, and Fontana Water Company. During the mid 1960's, the Agency began a domestic sewage and industrial waste collection system (the Wastewater System). In 1969, the Agency started construction of a non-reclaimable wastewater system (the NRW System) which has simultaneously curtailed groundwater pollution by existing industries and provided for new industrial development within the Agency's service area. Based on the Regional Sewage Service Contract, adopted in 1972, the Agency provides wastewater treatment services to several cities and agencies, (Chino, Chino Hills, Fontana, Ontario, Montclair and Upland, and the Cucamonga Valley Water District), known as the "contracting member agencies".

The Agency service area has expanded from 92 square miles and a population of 80,000 in 1950, to 242 square miles and a current population of 796,000 residents. The Agency boundaries extend from the Los Angeles County line to a point near the eastern boundary of the City of Fontana and from the base of the San Gabriel Mountains, south to the Riverside County and west to the Orange County line. The Agency processes approximately 53 million gallons per day (MGD) of untreated wastewater in five treatment facilities from its contracting agencies.



The Agency provides a number of services to the area with wastewater treatment and reuse forming the core and a regional network of wastewater and non-reclaimable wastewater interceptors, five regional plants, one biosolids composting facility, and a growing system of recycled water pipelines. Wastewater treatment includes the collection and disposal of sewage on behalf of the Agency's contracting partners, as discussed further below. The Agency has an extensive program in development for the delivery of recycled water to commercial and industrial customers. Additionally, the Agency produces renewable energy to partially power its operating activities through internal combustion engines and solar energy. The installation of a wind power turbine and fuel cell technology at two of the Wastewater processing facilities will further increase the Agency's renewable energy portfolio. The Agency also serves as a leader within the Inland Empire in water quality management, water conservation activities, and environmental protection.

The Agency separates its activities into seven functional areas described below:

Figure 5
Agency Programs

* Regional Wastewater Capital and O&M include Organics Management.

- **Regional Wastewater Program.** A core Agency program is the Regional Wastewater Program which provides essential wastewater treatment services to the residents and businesses in its service area. The Agency's service area encompasses seven local jurisdictions, (Cities of Chino, Chino Hills, Fontana, Montclair, Ontario, Upland and Cucamonga Valley Water District), that serve nearly 840,000 residents in a 242-square-mile area of western San Bernardino County. Through the Regional Sewage Contract, set in place since 1972, the Agency collects, treats, and disposes of an average of approximately 50 million gallons a day (MGD) of untreated municipal wastewater in all four wastewater treatment facilities (RP-1, RP-4, RP-5, and CCWRF).

  The Regional Wastewater Program consists of the following funds:

  - **Regional Wastewater Capital Improvement (RC) Fund** – records the transactions for the acquisition, construction, and expansion of the Agency's municipal wastewater treatment plants, large sewer interceptors, and appurtenant facilities. Includes the Obligation Payment (OP) Fund that was closed in December 2010 after the refinancing of the 1994 Revenue Bonds and termination of the Master Resolution.

- **Regional Wastewater Operations & Maintenance (RO) Fund** – accounts for the revenue and operating cost directly related to the domestic sewage treatment service to the contracting agencies (Wastewater Collection and Treatment) and all organic management activities, including the Agency's 50% share of the Inland Empire Regional Composting Facility.

The contracting agencies deliver wastewater from their customers for treatment and disposal via a sewage collection pipeline system (owned by each respective contracting agency) to the collection and plant infrastructure constructed, owned and operated by the Agency. The Agency divided the Regional Wastewater Program into capital and operating sub-programs to facilitate the determination of two distinct fees. A development/connection fee (capital reimbursement fee as termed in the Contract) funds capital needs, while a user fee (i.e., EDU service charge) is collected via metering for operating and maintaining the Wastewater System. An additional source, property taxes, currently provides funding for the Regional Wastewater Program debt service costs, capital expenditures and portion of operations and maintenance costs.

- **Non-Reclaimable Wastewater Program.** The Agency constructed and maintains a separate pipeline system for the collection of industrial wastes including brine-laden water. The high concentration of salt and other organic compounds in these industrial discharges make it solely suitable for disposal. The Non-Reclaimable (NRW) System is comprised of two sectors, the Northern and the Southern Systems, and is physically separated from the Regional Wastewater System.

  The Northern System serves approximately 45 industries, and municipal groundwater treatment facilities for brine flows, and conveys these wastewaters to the sewer lines owned and operated by the CSDLAC for ultimate treatment and discharge to the Pacific Ocean.

  The Southern system serves approximately 7 industries and the Chino Basin Desalter facility, and conveys wastewater to the Santa Ana Regional Interceptor (SARI) pipeline, (which is owned and operated by the Santa Ana Watershed Project Authority [SAWPA]). From SAWPA it is carried to the Orange County Sanitation District (OCSD) facility in Fountain Valley for treatment and eventual discharge into the Pacific Ocean. The NRW System also collects the RP-1 belt press filtrate resulting from dewatering of biosolids generated from the Agency's water recycling treatment facilities, and some domestic waste from areas without sewer service. A key benefit of the NRW system is the segregation of high salinity industrial brine discharge from domestic wastewater flows into the Agency's wastewater recycling facilities. The result is high quality recycled water that serves as an essential source of local water supply for irrigation, industrial and agricultural purposes.

- **Recycled Water Program.** All water emanating from the Agency's wastewater processing plants must meet the State of California Department of Health Services and Federal Title 22 regulatory requirements for treatment. The end product, reclaimed or recycled water, has been approved by both state and federal guidelines as acceptable for uses including: irrigation, landscaping, industrial process water and groundwater recharge. In December 2007, the Board adopted the Recycled Water Business Plan (RWBP) to accelerate the implementation of the $200 million Capital Improvement Program for the delivery of approximately 50,000 acre feet of recycled water throughout the IEUA service area by FY 2011/12. The development of a reliable source of local water supply is crucial to mitigate the anticipated reduction in imported water supplies to the Agency's service area from MWD. California is now in the midst of a prolonged drought with no end in sight resulting in decreased water levels. Even if the drought cycle abates sooner, California will have projected shortages of water supplies available to southern California (MWD's service area) of over 1 million acre-feet by 2025. The Agency's recycled water program is anticipated to provide 20% of IEUA's water requirement by 2025.

Recycled water provides a cost effective and more dependable source of local water supply in place of more costly and less reliable imported water. Capital projects in the RWBP include construction of the "backbone" distribution lines, lateral connections and retrofits to switch end users from imported potable water to recycled water. The Agency's recycled water program is anticipated to distribute 93,000 AFY (acre foot per year) to the contracting agencies, commercial customers, and recharge basins for groundwater storage. This 93,000 AFY will replace approximately 60,000 AFY of potable demands in green belt irrigation and industrial use application and 33,000 AFY used for groundwater replenishment.

- **Groundwater Recharge Program**. The Groundwater Recharge Program is a comprehensive plan to increase artificial groundwater recharge within the Chino Basin using storm water, recycled water, and imported water.

  Through the development of increased recharge capacity in the Chino basin, greater quantities of high quality water can be captured and stored during wet years, and be made available during drought years and times of imported water supply shortages. Reuse of recycled water for groundwater recharge is a critical component of water supply plans for the region. It will increase the reliability of water supplies during dry years and save $6 million to $9 million per year in imported water costs. The recharge of high-quality recycled water and high-quality imported and storm water sources will allow Chino Basin groundwater quality objectives to be met.

  In January of 2002, the IEUA Board of Directors approved the Recharge Master Plan Implementation Memorandum of Agreement, between CBWM, Chino Basin Water Conservation District, San Bernardino County Flood Control District (SBCFCD), and IEUA. Members of these four agencies formed a Groundwater Recharge Coordinating Committee to implement the initial $40-million program entitled the Chino Basin Facilities Improvement Project (CBFIP). Implementation of the Recharge Master Plan included enhancements to existing flood control and recharge basins through the CBFIP (Phase I and Phase II). In the summer of 2005, Phase I

CBFIP improvements were completed and recharge operations commenced in the upgraded facilities. In April 2006, IEUA and Watermaster approved the $10.5 million Phase II CBFIP improvements made possible by a Department of Water Resources grant and matching funding from IEUA and CBWM. The Phase II improvements were complete and operational in late 2009; the improvements will enhance the storm water capture, imported water delivery, and operational flexibility of the existing recharge facilities

- **Water Resources Program.** The water resources program manages the distribution of imported water supplies, develops and implements regional water conservation initiatives, directs water resource planning efforts, and supports water supply programs such as recycled water, groundwater recharge and storm water management. The distribution of imported water is managed by the Metropolitan Water District of Southern California (MWD) including the necessary capital infrastructure. There is no capital investment required by the Agency.

  The Agency works closely with the MWD and its regional partners, such as the CBWM, to carefully plan for water resources in the Chino Basin. The Agency's managed conservation programs include public education activities that promote efficient landscaping, landscaping audits, installation of ultra low-flow toilets, and marketing and distribution of water efficiency rebates which are documented in the IEUA Urban Water Management Plan adopted in December 2005. IEUA's water use efficiency programs are a significant part of the recent success of reducing overall water use. Current water use trends indicate a continual reduction in overall water use in the last three years. For example, in that time period, water use decreased by approximately 7% as reported in the most recent "Annual Water Use Report for the Agency (FY 2009/10)." There are no planned capital requirements for this program.

- **Administrative Services Program.** A number of administrative services support the Agency's major programs. Finance, accounting, contract management, human resources, information services, and the like, provide vital services agency wide.

II. Capital Program

This section describes the long-term capital cost estimates associated with the Agency's system replacement and maintenance through 2021. The slowdown in new development and minimal growth expected for the Agency's service area over the next several years shifted the Agency plans from significant capital expansion projects over the next 10 years to replacement and refurbishment projects for its existing and aging facilities. An estimated decrease of *$279 million* from FY 2009 TYCIP can be attributed to completion and reduction of capital projects. Total capital costs through FY 2021 are estimated to be $171 million.

Table 9
TYCIP FY 2012-2021 Allocation by Program

Capital Program	Amount ($ Millions)	Percentage
Regional Wastewater	$ 81.3	47.5%
Recycled Water & Recharge Water	56.3	32.9%
Non-Reclaimable (NRW)	27.1	15.8%
Administrative Services	6.3	3.8%
Total Capital Program	**$171**	**100%**

The Regional Wastewater and Recycled Water Programs project the greatest capital investment within the Agency and are scheduled to require approximately $138 million, or 80% of total Agency capital costs through 2021. A summary of total capital costs by program is presented below:

In 2002, the Agency adopted the Program Environmental Impact Report (PEIR) which encompasses the Wastewater Facilities Master Plan (2002), and serves as the comprehensive document forecasting growth of the service area and the related capital needs through 2050. Also included in the PEIR report is the Recycled Water Feasibility Study (2002), and the Organics Management Business Strategy (2002). Additionally, the Agency annually adopts a Ten Year Capital Improvement Plan (TYCIP), last approved in June 2009. Capital cost estimates in the LRPF are based upon the Agency's existing documentation of long term capital needs and the proposed FY 2012-2021 TYCIP.

The discussion below focuses on the following programs with the greatest capital needs:

- Regional Wastewater Program
- Recycled Water Program
- Non Reclaimable Wastewater Program
- Other Agency Programs

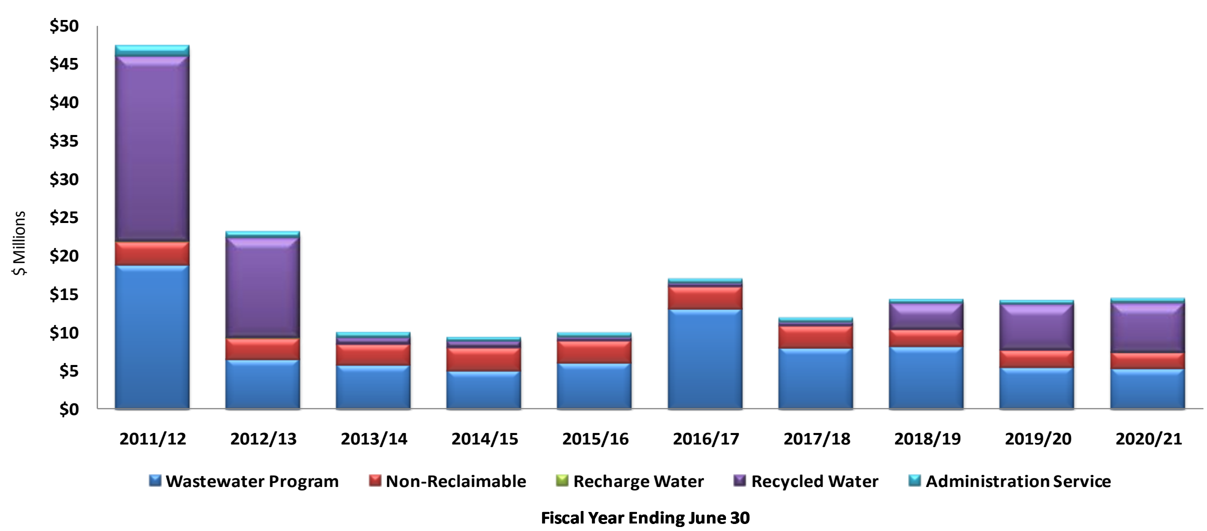
Overview of Capital Program through 2021

As noted previously, total capital costs over the next ten fiscal years are estimated to be $171 million through FY 2021. The expected slower growth projections as a result of the ongoing economic slowdown prompted the Agency to decrease the capital projects by $279 million since 2009. The decrease in total project cost were primarily due to reduction and completion of the regional wastewater treatment facilities to support the region's growth forecasts prior to the economic recession which projected reaching built out by 2025.

A comprehensive analysis of historic and projected wastewater flows conducted by the Agency's Water Resources and Planning department confirmed the Agency's total current wastewater treatment capacity of 85 Million Gallons per Day (MGD), is sufficient to service the anticipated residential growth over the next ten years. Based on the revised growth forecasts, only 77% of the Agency's total treatment capacity is expected to be utilized by FY 2021. As a result, the primary focus of the FY 2012-2021 TYCIP is on the replacement and refurbishment of existing assets, with the exception of the construction of the Regional Recycled Water Distribution System and the RP-1 (Regional Plant No. 1) Dewatering Facilities Expansion Facility project targeted for completion in FY 2012/13 and FY 2011/12, respectively.

The allocation of costs among the various programs is shown in the following graph.

Figure 6
Projected Capital Expenditures (FY 2011-2021)



The slight increase in FY 2016/17 and FY 2019-2021 are due to the future phases and completion of the Recycled Water program in the Southern and Northeast project area.

Regional Wastewater Program

There are no plans in the next ten years to expand the flow capacity of any of the Agency's Regional Wastewater Facilities. The only major capital construction project in the Regional Wastewater Capital Program is the RP-1 Dewatering Facility Expansion Project slated for completion in FY 2011/12. This project is funded by a federal stimulus SRF loan from the State Water Resources Control Board (SWRCB). Approximately $14 million of SRF loan met SWRCB's "green" guidelines and qualified for 0% financing. The remainder of the $24 million loan is financed at an interest rate of 1% for a 20-year term.

Therefore focus of the Agency's FY 2012- FY 2021 Regional Wastewater Capital Program is on replacement, refurbishment, enhancement, and utilization and improvement of the Agency's existing capacity. With the exception of the RP-1 Dewatering project funded by SRF loans, other projected capital costs of approximately $81 million are primarily funded on a pay-go basis through connection fees and a portion of the property tax revenue.

As part of the Agency's Cost Containment Plan, capital projects spending have decreased over the last four years mainly due the deferral of non-essential projects, completion of major capital projects, reduced engineering costs due to the use of Agency staff for in-house design, and reduced construction costs due to the impact of the economic recession on the construction industry which has resulted in a favorable bidding environment. In addition, the effective use of power purchase agreements (PPAs) to finance renewable energy projects, such as solar, wind and fuel cells, without any capital outlay from the Agency and minimal ongoing maintenance costs. The table below is a listing of the Regional Wastewater capital projects:

TABLE 10
FY 2012-21 Regional Wastewater Capital Projects

Capital Projects	TYCIP $ Million
Capital Upgrades RP-1, RP-2, CCWRF, RP-4, RP-5	$26.1
Plant Equipment Improvements	10.5
RP-1 Asset Replacement	9.3
Major Facilities Repairs/ Replacements	8.1
RP-1 Dewatering Facility Expansion Project	5.8
Construction & Emergency Projects	5.0
RP-2 Digester Cleaning	3.5
RP-1 Flare & RP-1/ RP-2 Boiler Replacements	1.5
RP-1, RP-2, Carbon Canyon O&M Manual	1.4
Regional Sewer Special Projects	1.0
All Other Regional Wastewater Projects	8.8
Total Capital Projects	**$81.0**

Recycled Water

In response to potential reduction in imported water supplies following four year of drought statewide, the Agency Board of Directors adopted the Recycled Water Business Plan (Business Plan), formerly referred to as the Three Year Business Plan, in December 2007. The intention of the Business Plan is to accelerate the expansion of the Agency's regional recycled water distribution system in the most cost effective and rapid manner possible to increase the amount of recycled water available within the Agency's service area. The recycled water system consists of pipelines, reservoirs, and pump stations that provide recycled water throughout the majority of the IEUA service area. Also included are construction projects for laterals to connect member agencies and direct users to the Agency's distribution system.

The ultimate goal of the Business Plan is to provide 20% of Agency's water requirement by 2025 by extending the use of recycled water in place of more costly imported water for industrial, irrigation, landscaping, and replenishment of groundwater basins. The Business Plan focused on projects grouped in order of priority and categorized into four project areas: Northeast, Northwest, Central and Southern Project Areas. These were prioritized based on the amount of recycled water that each area could serve, and their proximity to one of the Agency's four recycled water plants.

Consistent with the financing assumption outlined in the Business Plan, the majority of the projects will be funded through federal and state grants and SRF loans. The only exception is the Northwest Area Recycled Water Project that is funded by a combination of 2008A Bonds and federal grant proceeds. Total capital projects are estimated to be approximately $37 million for the next two years, with the recycled water projects totaling approximately $56 million for the ten fiscal years 2012-2021.

Non Reclaimable Wastewater Program (NRW)

Included in the TYCIP for the NRW Program is the completion of the NRW System Upgrade capital project which includes the NRW Collection System Repairs Phase 2 and the NRW Asset Management Phase II projects. These capital improvement projects are directed toward increasing the economic value and improving and retaining the integrity of the NRW system. Over the next ten years, the Agency will spend $12 million on repairs and replacement of the NRWS pipeline and the pump station as part of the IEUA asset management program. These capital projects will improve the reliability of the NRWS and will allow the Agency to comply with the recently adopted requirements of the state mandated Wastewater Discharge Requirements of Sanitary Sewer Management Plan (SSMP).

Recharge Water Capital Program

The Recharge Basins are currently not expected to require significant capital requirements beyond the completion of refurbishment slated groundwater basins. This is subject to change based upon discussions and collaboration with the Agency's partner, Chino Basin Watermaster (CBWM).

Within this plan of finance the Groundwater Recharge Basins are assumed to be sufficient to provide adequate storm water recapture and recycled water storage for the foreseeable future. The determination of any future capital improvements needed and when to implement them will be the subject of a future review and collaborative effort of the Agency and the CBWM. The financial impact of any significant capital requirements for either the IERCF or the groundwater recharge basins will be addressed in revisions and updates to the LRPF.

Administrative Services Program

The capital purchases in the Administrative Services Program are primarily for furniture, vehicles, office equipment (defined by Agency's policy as greater than $5,000), computers and software (greater than $1,000) and other administrative purchases commonly used for general Agency purpose. These capital expenses are supported by the Wastewater Program (90%), and the NRW and Recycled Water Programs. The total ten-year capital project costs for this program are projected at approximately $6.3 million, which includes system upgrades, computer equipment replacement, network infrastructure replacement, software purchases, and capital improvements to the Agency's headquarters.

III. Operations and Maintenance Costs

The Agency is committed to operating at an optimal level and keeping rates low for member agencies. Over the next ten years, the following policies will govern operating costs:

- Maintain staffing levels through productivity and technology enhancements
- Carefully manage employee development, training and recruitment programs to recruit and retain quality employees
- Control utility costs through implementation of smart technology, self-generation, and continued diversification of the Agency's renewable energy portfolio
- Continue optimal use of chemical dosing throughout the treatment process to contain chemical costs

Total operating costs from FY 2012 through FY 2021 are projected to be $774 million, averaging $77 million per fiscal year.

Table 11
Ten Year Operating Expenses by Category

Expenses	Ten Year Total ($ Millions)	% of Total	Description
Employment Costs	$329.9	42.6%	Includes salaries and wages, as well as fringe benefits
Contract Work/Special Projects	12.4	1.6%	Includes Reimbursable and O&M projects
Utilities	107.9	13.9%	Includes electricity, gas, telephone, water, as well as power purchase agreements (PPA) for solar, fuel cell & wind power
Operating Fees	119.2	15.4%	This category includes permits and licenses, and waste fees
Chemicals	51.2	6.6%	Various chemicals used in operations
Professional Fees and Services	63.8	8.2%	Includes contract labor and professional services for facility maintenance, legal, auditing, , laboratory services and security, etc.
Office and Administrative expenses	16.7	2.2%	Includes office supplies, employee training, memberships, meeting/conference expense, etc.
Biosolids Recycling	42.5	5.5%	Biosolids disposal and transportation costs to the IERCF.
Materials & Supplies	24.6	3.2%	Includes laboratory supplies, O&M supplies, fuel, and small tools and equipment.
Other Expenses	6.1	0.8%	Primarily insurance and lease/rental costs
Total Expenses & Uses of Funds	**$774.3**	**100%**	

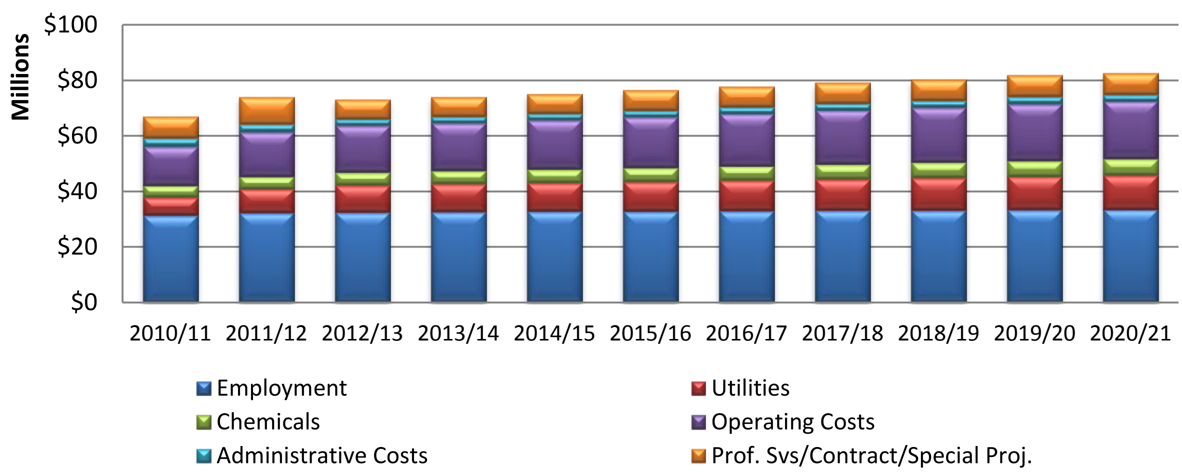
Even before the formal adoption of the Cost Containment Plan in 2008, the Agency has been proactive in managing costs. In the last three years, the Agency has achieved significant cost reductions, including:

- A decrease of 27 FTE (full time equivalent) positions, including a permanent reduction of 13 FTEs in FY 2010/11 to 295 FTE authorized positions
- A 50% reduction in intern positions
- Substantial reductions in chemical and electricity use through the implementation and tracking of Key Performance Indicators (KPIs)
- Cost effective use of direct access energy procurement contracts
- Effective use of Purchase Power Agreements (PPAs) in the installation of solar, wind and fuel cell technologies
- Increased lifecycle of pooled vehicles, computers, other equipment

Continuing its commitment to cost containment, a 5% vacancy factor is assumed for FY 2011/12 and ensuing years. The nearly $2 million projected annual cost savings from maintaining a 5% vacancy will partly offset anticipated increases in premiums for both health insurance and pension benefits. Quarterly sessions with the Chief Executive Officer/General Manager, Assistant General Manager, Chief Financial Officer, Divisional Executive Managers, and each department manager are held to review budget variances and reinforce cost containment efforts.

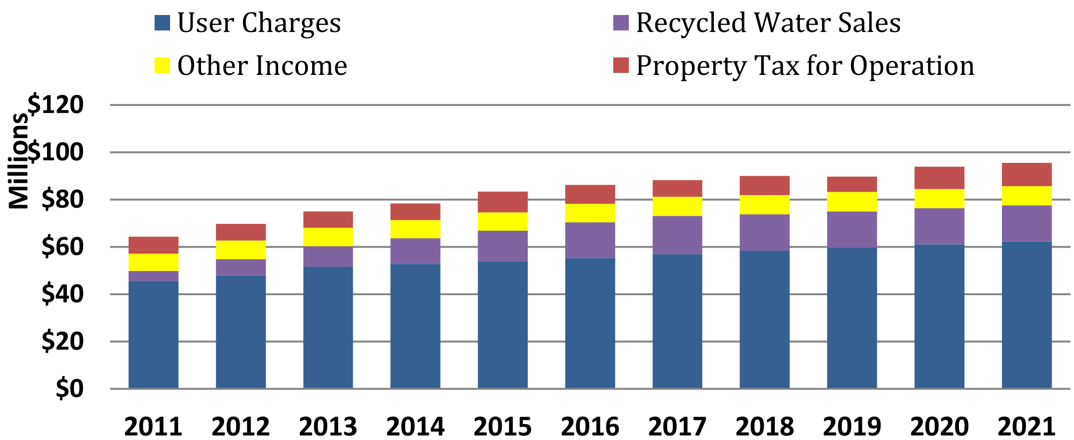
As illustrated in the graph below, total operating costs are only projected to increase from $74 million in FY 2011/12 to $83 million in FY 2020/21 as a result to the Agency's continued commitment to cost containment.

Figure 7
Total Operating Costs FY 2012 – 2021



The primary funding sources for operating costs consist of the following operating revenues:

Figure 8
Total Operating Revenue FY 2012-2021



Due to the ongoing national economic recession and reduction in assessment values throughout the Agency's service area, the property tax revenue is projected to decrease by 1% in FY 2011/12. Future projections assume property taxes will remain flat in FY 2012/12, and minimal growth forecasted for ensuing years. Property taxes will be utilized to cover 100% of debt service costs, capital expenditures, with approximately 20%, an annual average of $7.8 million, used to supplement operating costs in the Regional Wastewater O&M (RO) Fund and the Administrative Services (GG) Fund.

Administrative Costs

Employment

Departments continue to seek out innovative alternatives in performing ongoing work resourcefully for new and emerging priorities, while maintaining the appropriate level of service in the service areas. Employment costs represent approximately 43% of the Agency's total operating costs. A 5% vacancy factor, equivalent to approximately 15 FTE's of 295 authorized positions, is assumed to be maintained over the next ten years.

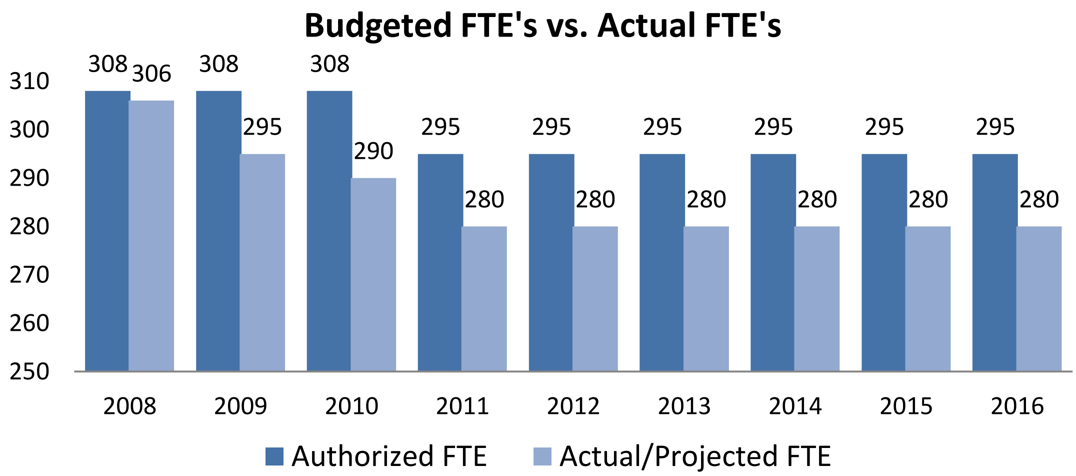
In addition to the 5% vacancy factor and reduction in the number of FTE and internship positions, other cost containment strategies that have been implemented include;

- Modified Hiring Freeze - only fill positions that satisfy a critical need and will support the Agency's goal of containing operating costs in future years
- Reduced the Number of Contract Limited Term Employees - contract limited term employment has been reduced from 18 to 12 budgeted (or 9 full-time positions)
- Evaluation of Organizational Effectiveness - several organizational changes have been implemented to increase operational effectiveness by maximizing staff expertise and Agency resources. The evaluation process and staff reduction through

attrition have contributed to cost savings

Continued monitoring of employment costs will help support the Agency's goal to implement moderate Regional rate increases in the future.

Figure 9



The total employment budget (wages and benefits) from FY 2012 through FY 2021 is projected to be $330 million, or 43% of the Agency's total operating budget of $774 million. Approximately $46 million of labor costs over the next 10 years are reimbursable from the Inland Empire Regional Composting Authority, Chino Basin Desalter Authority and the Chino Basin Watermaster.

Training and Employee Development Programs

The "Technical Enhancement and Management Succession" (TEAMS) program was developed by the Agency in late 2006 to enhance recruitment, develop and train existing employees, and build a stronger internal leadership pool.

The TEAMS program has evolved and now combines online training, group collaborations, facilitated classes, and external college courses with other public agency employees. This evolution has resulted in a significant savings to the Agency. Consideration in the design of the various TEAMS programs focuses on the balance between both the immediate and future needs of the employees and the Agency, including succession planning.

The current program consists of three certificate programs: Personal Development Program, The Southern California Local Government Supervisory Program, and The Southern California Local Government Leadership Academy. These programs target the developmental needs of the different stages of an employee's lifecycle. Online e-learning is also available to provide every employee with the resources they need to achieve their performance goals and objectives.

Professional Services

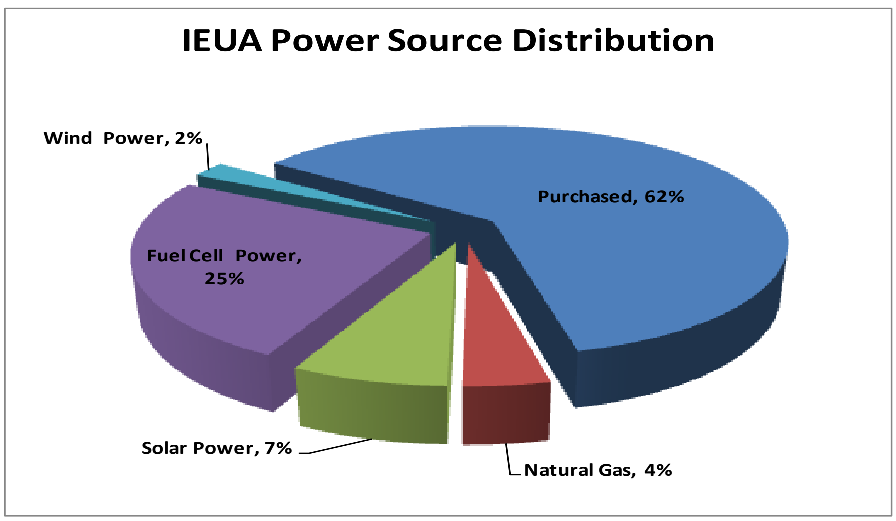
Professional fees and services include such services as security, landscaping, computer software and hardware maintenance support. A total of $64 million is budgeted for professional services throughout the 10 year period, about 8% of the Agency's total operating budget of $774 million. Effective use of in house resources to perform tasks previously performed by outside consultants, as well as deferral of non-essential capital projects which delay the original start up timeline for equipment maintenance and contracting services are attributed in keeping the cost at an average expense of $6 million per fiscal year.

Utilities

Optimizing energy consumption at Agency facilities; increasing the production and use of digester gas; increasing self-generation capacity utilization; pursuing new technologies; and utilizing effective energy procurement strategies are key to achieving the Agency's "Go Gridless by 2020" goal as part of the Energy Management Plan.

IEUA's current energy "pie" is illustrated below.

Figure 10



Currently the Agency self-generates nearly 30% of the power it needs to operate facilities from internal combustion engines (ICE) which utilize a combination of natural gas and biogas. In August 2008, the South Coast Air Quality Management District (SCAQMD) implemented Rule 1110.2. This new rule has severely reduced the amount of natural gas that can be used in combination with digester gas to produce electricity, as well as imposing more stringent engine emission limits. In order to meet the lower emission limitations and recover the value of our renewable fuel (digester gas) supply without a large capital investment, the Agency entered into three Power Purchase Agreements (PPAs) for installation of solar, wind and fuel cell technologies. The Agency's implementation of these renewable energy projects will help the Agency comply with more stringent regulatory emission requirements, achieve its carbon footprint reduction targets, and contain energy costs.

Utility costs are $108 million or 14% of the Agency's total operating budget of $774 million. A blended rate of $.115 per kWh for electricity purchased from the grid and $.90 per therm for natural gas rates is assumed for FY 2011/12. Rates for renewable energy sources are based on contracts over a twenty year period and respective fixed annual escalators which range between 2% and 3%. Over the next ten years, the average for solar generated power is assumed to be $.119 per kWh, $.126 per kWh for fuel cells at, and $.09 per kWh for wind. The pre-established rates under the PPA agreements help the Agency mitigate future SCE rates increases.

Chemicals

Implementation of Key Performance Indicators (KPIs) was started in 2004 to identify process control/optimization and cost containment parameters in all Agency facilities. KPIs were developed using a bottom-up approach to ensure input and consensus from employees at all levels and service as objective targets with allowable ranges used to guide process evaluation, monitoring, and control.

The original development was focused on enhanced compliance monitoring and reduced operational costs (chemicals, residuals solids management, etc.). Through the effective implementation of KPIs at the treatment facilities, the Agency has been able to reduce overall chemical use and expenditures despite increased raw chemical costs and reduce residuals processing through enhanced drying at Agency facilities. As a result, the FY 2011/12 ten year chemical costs forecast projecting a reduction of $8 million, from the prior year ten year projection of $59 million to $51 million.

Over the next ten years, chemical costs of $51 million represent nearly 7% of the Agency's total operating costs of $774 million. Containing chemicals to an annual average of $5 million over the next ten years is a direct result of continual optimal use of chemical doses and assertive procurement practices.

Biosolids Recycling

A key assumption for biosolids recycling costs in FY 2011/12 is the completion of the RP-1 Dewatering Facility Expansion facility. This new facility will enhance the current process by replacing the existing filter belt presses with a more efficient and cost effective centrifuge dewatering system. A storage system for the dewatered cake will also be added to provide a minimum of 48 hours of dewater cake storage. The dewatering process will significantly reduce transportation costs by dehydrating biosolids and removing a greater amount of "water weight".

Operating Contribution to IERCA - The funding approach for the IERCA (Inland Empire Regional Composting Authority) changed from a contribution basis to a fixed rate structure, or tipping fee, in FY 2009/10. The tipping fee is based on a cost of service rate to recover 100% of total budgeted operating and capital costs based on projected throughput capacity. No change in $44 per wet ton was proposed in FY 2011/12.

The biosolids throughput capacity in FY 2009/10 reached 141,000 wet tons, 142,000 wet tons in FY 2010/11 and is projected to produce 138,000 wet tons in FY 2011/12. The 2% decrease in throughput capacity from FY 2011/12 is due to the conversion from belt presses to centrifuges with the completion of the new RP-1 Dewatering Expansion Facility scheduled to be operational by April 2012. The new centrifuge technology will increase solids content from 20% to 26%, resulting in lower wet tons and transportation costs. IEUA labor costs of $2.8M allocated to the IERCA are budgeted in the Regional Operations and Maintenance (RO) Fund, along with County Sanitations District of Los Angeles County (CSDLAC) 50% revenue contribution.

Total biosolids recycling costs for the ten year period are projected at $43 million, approximately 6% of the total operating costs. Unplanned interruptions at the IERCF that impact throughput capacity may result in offsite disposal of biosolids at higher costs.

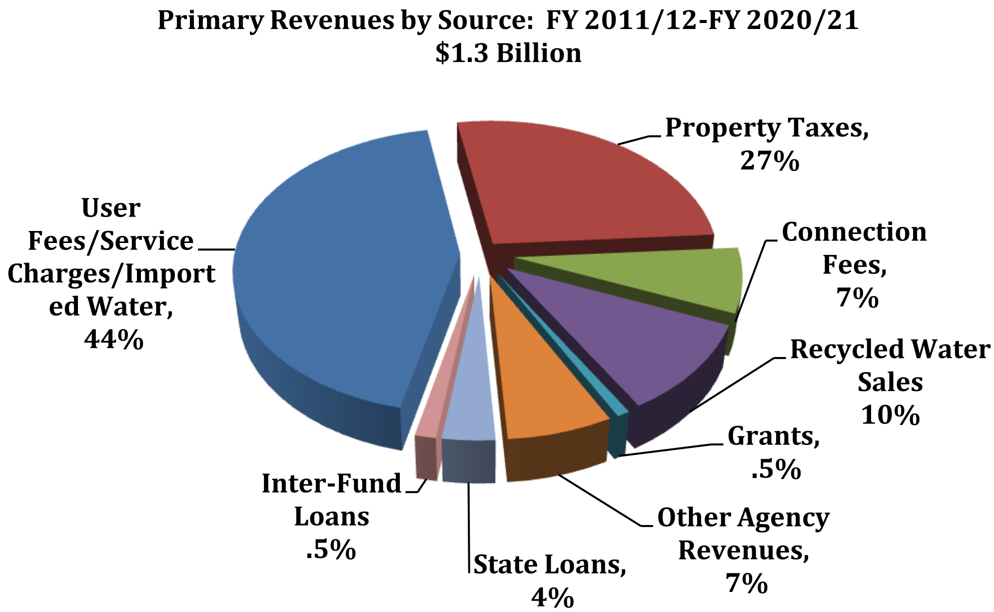
IV. Revenue & Reserves Forecast

This section describes the revenues available to meet the Agency's operating and capital needs through FY 2020/21. Total primary revenues are estimated to be approximately $1.3 billion over the 10-year period. These long-term revenue estimates are supported by six primary revenue sources:

- User Charges
- Property Taxes
- Connection Fees
- Recycled Water Sales
- Grants/Debt Proceeds
- Other Revenues

The share of total long-term revenue contributed by each primary revenue source is depicted below.

Figure 11

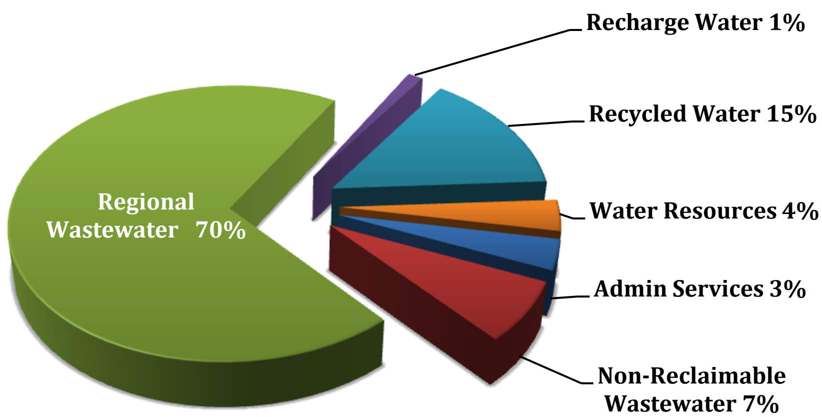


User charges contribute 44% of Agency revenues through FY 2021, property taxes 27%, recycled water sales 10%, connection fees 7%, state loans 4%, grants and debt proceeds 1%, and other Agency revenues account for 7%.

Long term primary revenues by Agency program is presented in the following graph:

Figure 12

Revenues by Agency Program
FY 2011/12 - FY 2020/21
$1.3 Billion



Following is a description of each of the Agency's primary revenue sources followed by detailed revenue estimates for each source. All underlying growth assumptions including periodic rate increases associated with the revenue estimates are described for each revenue source.

User Charges

User charges are assessed to customers for a specific service (e.g. wastewater treatment) and are based on the amount of service or commodity (e.g. potable water) used. Three Agency programs assess a unique service charge:

- Regional Wastewater Program
- Non-Reclaimable Wastewater Program
- Water Resources Program

<u>Regional Wastewater Program</u>
The Agency's largest revenue generating user charge is the Regional Wastewater user charge that is assessed per Equivalent Dwelling Unit (EDU). EDU's are based on the measurement of wastewater flow equivalent in quantity and strength to the daily flow of an average single-family residential household. Each EDU equals approximately 98,550 gallons per year for a single residential household, or 270 gallons per day.

A combination of the effects the high foreclosure rate and number of vacancies due to the economic recession, and greater public awareness of water conservation are reflected in the reduced wastewater flow coming into the Agency's treatment plants. The downward trend in wastewater flows is consistent with treatment facilities in Orange and Los Angeles counties. A moderate recovery of .75% in the number of billable EDUs is projected in FY 2011/12 based on billing activity in FY 2010/11.

There is no change in the Regional Wastewater user charge of $11.14 per EDU for FY 2011/12. In March 2011, the Agency Board of Directors agreed with the Regional Policy Committee's recommendation to defer the proposed rate increases for the Regional Wastewater Program until FY 2012/13.

<u>Non-Reclaimable Wastewater (NRW) Program</u>
This program also assesses a user fee to cover program costs. The revenues for the NRW system consist of cost recovery and user fees in the form of capital and administrative surcharges. Capacity fees are also levied for rights to discharge into the Agency's system. The external charges from the CSDLAC and Santa Anta Watershed Project Authority (SAWPA) for disposal and treatment of industrial discharges are fully recovered from the industries using the Agency's NRW system. The Agency also adds a capital fee to support capital replacement costs. An administrative surcharge of 50% (reduced to 10 % for industries purchasing recycled water) is collected in addition to the pass through rates to support the Agency's operating and administrative expenses.

Starting July 2010, IEUA started to pass on the strength imbalance charges from SAWPA to the industries connected to the southern segment of the NRWS. IEUA staff is working with SAWPA and other agencies to mitigate and minimize the imbalance strength charges. Currently, no IEUA administration charges are added to the BOD and TSS imbalance portion of the pass through charges.

<u>Water Resources Program</u>
The key revenue for this program is an acre foot surcharge imposed on imported water deliveries from Metropolitan Water District (MWS) and a monthly water meter service charge. Water meter charge revenue supports the Agency's Readiness-to-Serve charges (RTS) from MWD and groundwater recharge operational costs and water use efficiency programs. An increase of $.38 in the monthly meter charge is proposed for FY 2011/12.

Property Taxes

The Agency receives an allocated share of the San Bernardino County-wide secured property tax levy pursuant to the California Revenue and Taxation Code. Payments from the County are regulated by the "Teeter Plan" which allows taxing agencies to collect 100% of assessed taxes each year in lieu of receiving only those taxes collected by the County. Property tax revenues support debt service costs, the acquisition of the Regional Wastewater Program and other common Agency assets.

The Agency's apportionment of property tax proceeds from the County of San Bernardino includes:

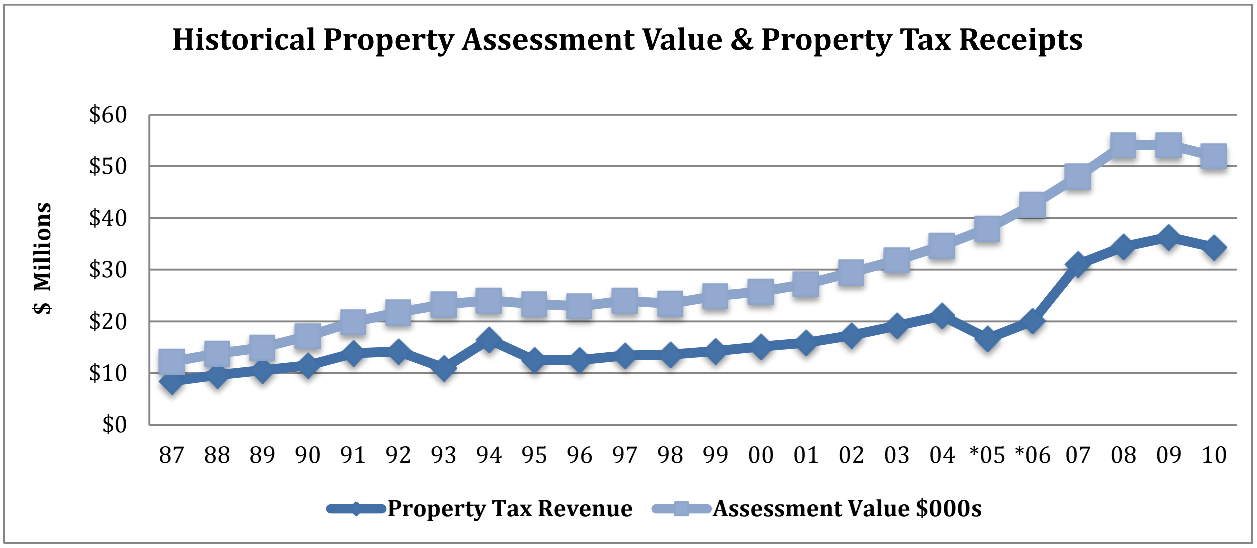
- General - 1% of general property taxes applied to assessed property values within the Agency's service area.
- RDA - The Agency collects a portion of the revenue received by Redevelopment Agencies (RDAs) from the County of San Bernardino for "pass through" tax proceeds.
- IDC - 1% from Improvement District "C" ("IDC"). The formation of the "IDC" by the Agency, (under the provisions of Part 8, [commencing with section 72000] of Division 20 of the Water Code), was solely for the purpose of acquiring certain wastewater treatment facilities and is allocated 100% to the Regional Wastewater Capital Improvement (RC) Fund.

Property taxes have historically been first allocated against annual debt service payments, then capital acquisition costs for Regional Wastewater and Administrative Services Programs. Approximately 20% of property taxes are used to supplement operational costs in the Regional Sewage Program. Beginning in FY 2009/10, 8% of property tax revenue, or approximately $2.6 million, was temporarily re-allocated from the Regional Wastewater O&M (RO) Fund to the Recycled Water (WC) Program to support debt services costs associated with the construction of the Agency's Regional Recycled Water Distribution System. The allocation to the Recycled Water Program will decrease from 8% to 5% in FY 2011/12 through FY 2013/14. Thereafter, the RO fund's allocation will be restored to the full 27%.

- 65% - Regional Wastewater Capital Improvement (RC) Fund to support the acquisition, construction and improvement of wastewater facilities
- 22% - Regional Wastewater Operations & Maintenance (RO) Fund to support capital replacement of wastewater facilities and operating costs
- 5% - Recycled Water (WC) Fund to support the acquisition, construction and improvement of Recycled Water Distribution System through FY 2013/14
- 8% - Administrative Services (GG) Fund to support the acquisition of common Agency assets such as fleet vehicles, and computer and hardware purchases

Historically, housing market and rising property assessment values in the Agency's service area resulted in an increase in property tax revenues from $15 million in FY 1999/2000 to a peak of $36 million in FY 2008/09. As result of the economic downturn beginning in 2008, slowdown in new development and decline in property assessment values in the Agency's service area, property tax revenues are projected to decrease by 3% in FY 2010/11, an additional 1% decrease in FY 2011/12, followed by minimal growth rate as the weak economic forecast is expected to continue for the next two to three fiscal years.

Figure 11



1) Property tax shift by State of California for the Education Revenue Augmentation Fund (ERAF) in FY 1993
2) Prop 1A, property tax shift in FY 2005 & 2006 ($7M per fiscal year)

While property taxes are an important source of revenue, they are also the most uncertain due to the potential for the State of California to take legislative action and shift property taxes from local governments to fund a portion of the State Budget deficit. Therefore, minimizing reliance of property taxes to support operating costs through implementation of moderate annual rate increases in the future is a key objective for the Agency and its member agencies.

Connection Fees

For all new development within the IEUA service area, the Agency levies a fee to connect to the Agency's regional sewer system. The fee is collected by each of the Agency's contracting cities or agencies and these funds are held in trust in a Capital Capacity Reimbursement Account (CCRA) until requested by the Agency based on identified and projected capital needs. These CCRA charges, most commonly termed "connection fees", are restricted to capital acquisition, construction, maintenance, and equipment and process modifications of the Agency's regional wastewater system in accordance with the Regional Sewage Service Contract.

The Agency's current rate of $4,766 per new connection will be maintained in FY 2011/12 followed by a 1% annual increase through FY 2020/21. The conservative growth projection of 200 new connections per fiscal year as indicated in Table 12 below is primarily a result of the current slowdown in new development.

Table 12
MEMBER AGENCY versus IEUA PROJECTED NEW CONNECTIONS
($ Millions)

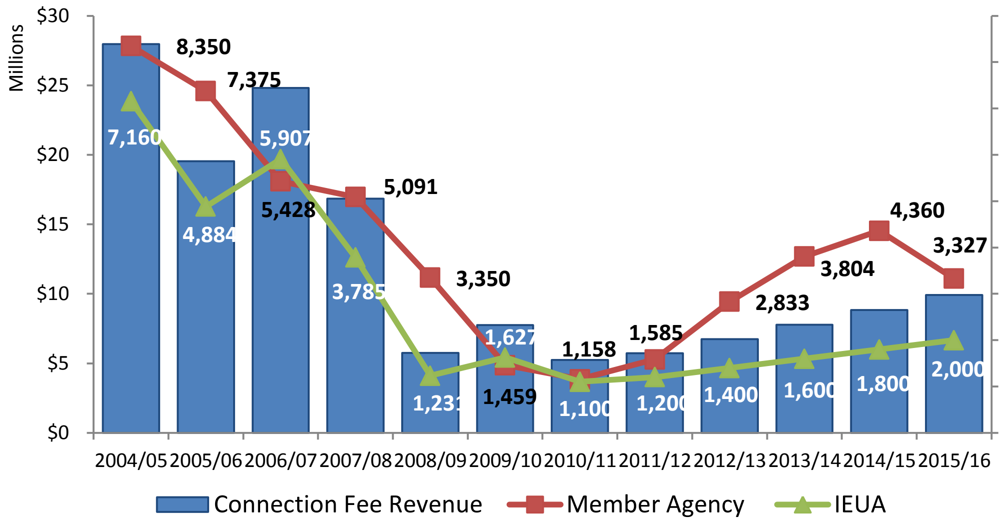
Member Agency projections in September 2010 survey, FY 2010/11 through FY 2020/21.

			Member Agencies		IEUA	
Fiscal Year	**Rate/ EDU**	**% Inc. Rate/EDU**	**EDUs**	**($Millions)**	**EDUs**	**($Millions)**
2009/10	$4,766	0%	1,459	$7.0	1,768*	$7.8
2010/11	$4,766	0%	1,158	$5.5	1,100	$5.2
2011/12	$4,766	0%	1,585	$ 7.6	1,200	$5.7
2012/13	$4,814	1%	2,833	$13.6	1,400	$6.7
2013/14	$4,862	1%	3,804	$18.5	1,600	$7.8
2014/15	$4,911	1%	4,360	$21.4	1,800	$8.8
2015/16	$4,960	1%	3,327	$16.5	2,000	$9.9
2016/17	$5,010	1%	3,333	$16.7	2,200	$11.0
2017/18	$5,060	1%	3,160	$16.0	2,400	$12.1
2018/19	$5,111	1%	3,315	$16.9	2,200	$11.2
2019/20	$5,162	1%	2,809	$14.5	2,000	$10.3
2020/21	$5,214	1%	2,809	$14.6	2,000	$10.4
TOTAL 2009/10 – 2020/21			**33,952**	**$168.8**	**21,527**	**$106.9**
VARIANCE MEMBER vs. IEUA					**# EDU** **$ Millions**	**12,425** **$61.9**

**Before Adjustments*

Although projections from member agencies are considerably more optimistic, historical data supports the Agency's more conservative growth forecast. With the housing market in flux, it is difficult to predict exactly when the increase in building activity will occur. The ensuing years reflect a very conservative growth forecast of 200 new units per fiscal year.

Figure 12
New EDU Connection Fees and Comparison of Member Agency and IEUA Forecasts (Forecast to Actual)



Recycled Water Sales

The Recycled Water Program has moved beyond initial stages and is expected to be one of the Agency's major programs. The adoption of the Recycled Water Business Plan in December 2007 accelerated the construction of the Recycled Water Distribution System with the ultimate goal to increase recycled water connected demand to 50,000 acre feet per year (AFY), and have the program be self-supported through recycled water sales. The recycled water rate has been maintained at a relatively low level (compared to imported water) as an incentive to promote the use of recycled water. As a result, the Recycled Water Program has relied on support from the Non-Reclaimable and Regional Wastewater Programs for both capital and operational costs.

The Agency continues to work closely with member agencies to ultimately achieve a cost-of-service program. Recycled water sales are sensitive to precipitation; as a result periods of heavy rainfall, like the winter season of 2010, reduce the demand for recycled water for irrigation purposes. Due to the heavy rainfall between November 2010 and January 2011, projections of recycled water sales for FY 2010/11 were reduced from 35,000 AF to 25,000 AF. The cost of pumping and delivering recycled water is a major cost that varies with the quantity of recycled water delivered. Higher than anticipated increases in electricity rates from Southern California Edison (SCE), directly impact costs, making rate adjustments necessary to support the additional expense.

A key funding source for the Recycled Water Program is the MWD Local Project Program (LPP) rebate. LPP rebate is based on the recycled water sold in excess of 3,500 AFY (acre feet per year) up to 17,000 AFY at a rate of $154/AF, or approximately $2.1 million per year. The LPP program is scheduled to expire in June 2017.

In FY 2009/10, the Recycled Water Program was allocated a portion of the property tax revenue to support debt service costs. This allocation is scheduled to be phased out at the end of FY 2013/14. The allocation of property taxes from the Regional Wastewater Operations & Maintenance (RO) Fund is consistent with the Agency's historic usage of these revenues to support 100% of debt service costs.

Annual moderate rate increases and ultimate total deliveries of 50,000 AFY result in total recycled water sales projections of $132 million over the ten year period, (FY 2012 –2021). Included in total recycled water sales is approximately $12 million in MWD LPP rebates. Implementation of future rate increases for the Recycled Water Program are needed to support debt service costs, replace the MWD LPP annual rebate of $2.1 million set to expire in FY 2016/17, and ultimately achieve a cost of service rate.

Grant Revenues

As a municipal water district, the Agency is eligible for various Federal, State and Local grant programs from grantors such as the U.S. Bureau of Reclamation (USBR), California State Department of Water Resources (DWR), Southern California Metropolitan Water Distinct (MWD), Federal Emergency Management Agency (FEMA) and California Emergency Management Agency (CalEma), and the California Department of Parks and Recreation. Another important source of funding for the Agency programs has been the State Water Resources Control Board (SWRCB) State Revolving Fund (SRF) grants.

The Agency has been active in participating in these programs since grant revenue has become an important source of funds for the Agency. The agency will continue to pursue vigorously grants to fund essential projects.

Grant revenue projections are based on total expected costs for eligible capital projects. Of the total $10.6 million projected grant revenues for the 10 year term, almost 70% or $7.4 million is projected for FY 2011/12 and mainly funded by the USBR Regional Recycled Water Grant for water distribution system design and construction costs, and the SWRCB for the Chino Creek Integrated Plan and Cleanup project.

Water Resources Program also benefit from grant funding through the California Department of Water Resources (DWR) Residential and Multi Family grant for $1.6 million, with approximately $1 million received through FY 2010/11.

California Department of Parks and Recreation has awarded the Agency two grants under the Habitat Conservation Fund Program; $208,000 for the Water Discovery Field Trip and Mini Bussing grant; and $38,500 under the California Wildlife Protection Act for the Earthday Event held at the Chino Creek Wetlands and Educational Park.

In April 2011, the Agency entered into a Public Assistance Agreement with FEMA/ CalEMA for the 2010 Statewide Storm Event. The total cost to repair the damaged basins and construction sites is estimated at $640,000, with approximately $597,000 eligible for grant.

The American Recovery and Reinvestment Act (ARRA), known as the "stimulus package" was passed by the Congress in February 2009. The Agency has identified the following projects which are eligible for economic stimulus funding:

TABLE 13

Capital Projects Eligible for Federal Stimulus Funding

Federal / State Agency	Project Description	Funding Amount
US Bureau of Reclamation Title XVI	Recycled Water Distribution System ARRA	$13.9M
	Recycled Water Distribution System Others- ARRA	$5.9M
	Total USBR Title XVI	**$19.8M**
US Environmental Protection Agency/SWRCB Clean Water Act	Recycled Water Distribution System	$17.9M
	Other State Clean Water Act Grants	$2.5M
	RP-1 Dewatering Facility	$27.4M
	Total US EPA/SWRCB Clean Act	**$47.8M**

The stimulus bill allocated $126 million to the United States Department of Interior, USBR for Title XVI projects. IEUA has executed funding agreements in the amount of $19.8 million with the USBR through its Title XVI Recycled Water Business Plan Authorization. As of March 2011, the Agency has received 65% of these commitments, for a total of $12.8 million.

A portion of the stimulus funding was also allocated to the US Environmental Protection Agency (EPA) for the Clean Water State Revolving Fund (CWSRF) Program. The California State Water Resources Control Board (SWRCB) will receive $280 million from the EPA through the CWSRF Program. To date, IEUA has executed funding agreements in the amount of $47.8 million with the SWRCB through the CWSRF Program for recycled water distribution facilities and environmental projects. As of March 2011, the Agency has received 59% of these commitments, for a total of $28.2 million.

The SRF loan is part of the American Recovery and Reinvestment Act (ARRA) federal stimulus funds issued through the SWRCB State Revolving Fund program. Over half of the $27.4 million SRF loan, or $14 million, qualified for 0% interest rate as part of SWRCB "green" project guidelines. The remaining balance of $13 million will be financed at a rate of 1% per annum. The RP-1 Dewatering Facility Expansion Project is scheduled to be completed in FY 2011/12. Of the $27.4 million total budget, the project's remaining spending is projected at $13.5 million in FY 2010/11 and $5.8 million in FY 2011/12 since project inception.

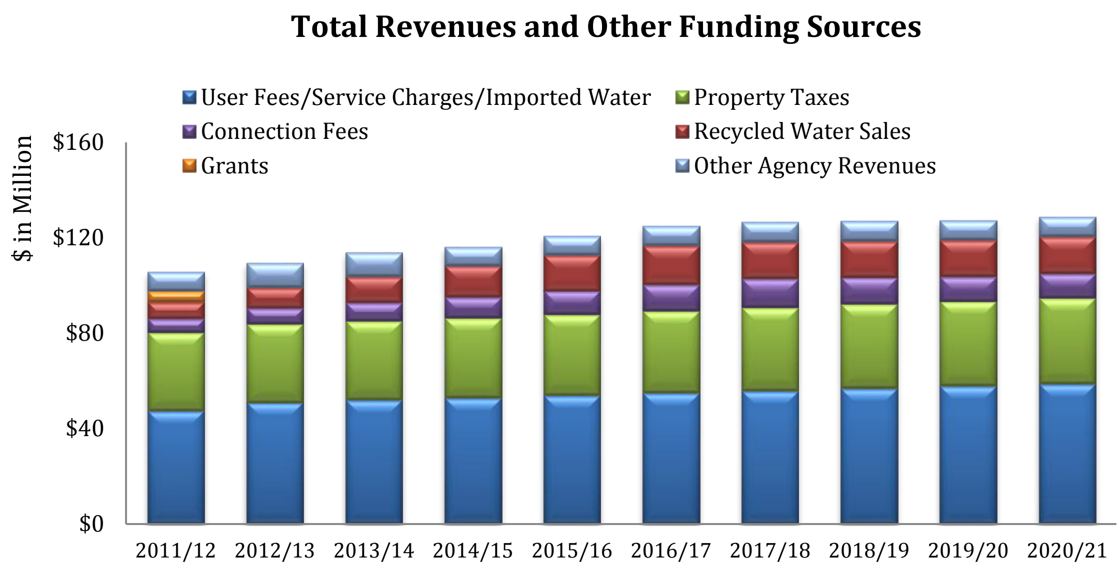
Other Revenues

Other Agency revenues consist primarily of service contract contributions negotiated with the MWD, contract reimbursements from the IERCA and CDA for the administration and operation of their facilities by Agency personnel, and recovery of pass-thru costs.

Total Agency Revenue & Other Funding Sources Forecast

Total revenue and other funding sources available to the Agency for both capital and operations are estimated to range from $130 million in FY 2011/12 (including Inter Fund Loans of $1 million) to $138 million in FY 2020/21, a total of $1.3 billion over the 10 year period. As noted previously, the primary revenue sources for the Agency include user fees, service charges (includes surcharges on imported water deliveries and meter charges), connection fees, recycled water sales (including rebates from MWD), property taxes, and grants. The accompanying graph depicts each of their respective annual contributions to total revenues as well as the long-term annual growth trend.

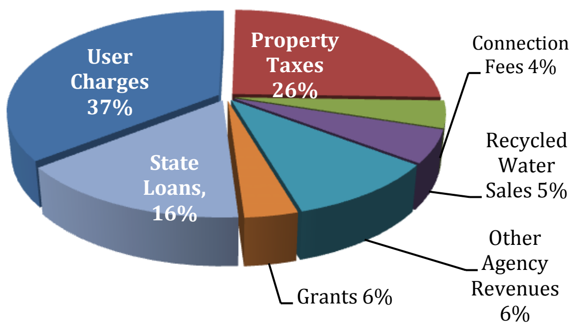
Figure 13



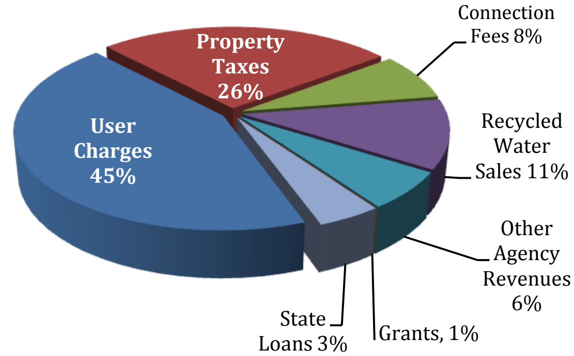
The change in the Agency's operating revenue mix between FY 2011/12 and FY 2020/21 is depicted below in the following charts.

Figure 14

FY 2011/12 Total Revenues
$130 Million



FY 2020/21 Total Revenues
$138 Million



- The increase in user charges is primarily a result of proposed annual rate increases to achieve self-supported programs and minimize reliance on property taxes.
- The annual growth of volumetric flows is projected to increase by 0.75% in FY 2011/12 and 0.25% thereafter, compared to the prior five year average of 2%.
- The increase of water deliveries is projected to increase from 39,000 AF in FY 2011/12 to 50,000 AF by FY 2015/16. The ultimate goal is to serve over 1,200 of the largest customers and supply over 93,000 acre-feet per year (AFY), including groundwater recharge.
- New connection reflects a very conservative growth forecast of 200 new units each fiscal year throughout the 10 year period with the estimated number of new connections to the regional system increasing from 1,200 projected in FY 2011/12 to 2,000 in FY 2020/21.

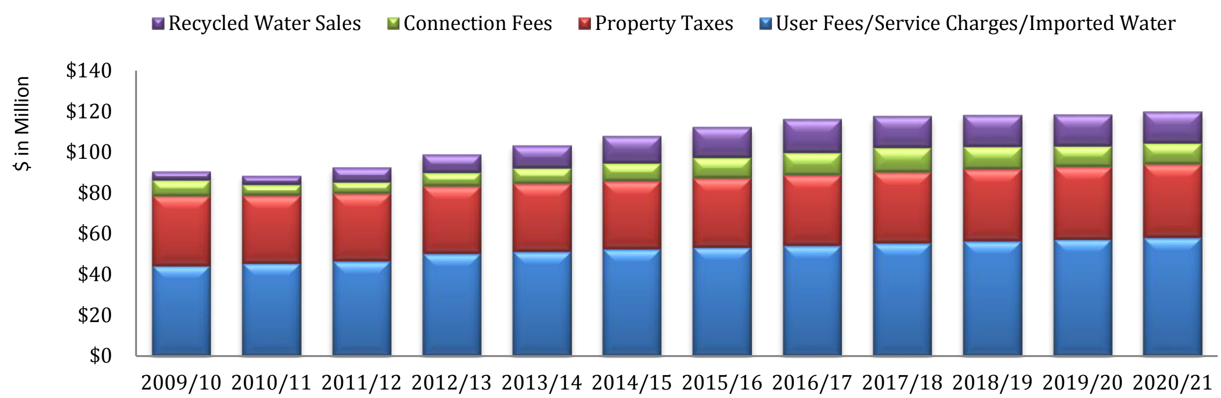
This reallocation of the Agency's revenue mix is intentional and consistent with the Agency's policy objective to have self-supporting programs. Generally, the Agency is working towards maintaining a rate structure such that revenues generated by a specific program are sufficient to meet that program's capital and operating costs. This will provide a basis to rationalize specific rate increases against program uses, reduce the need for fund transfers between programs, and minimize reliance on property taxes.

System Revenue Forecast by Primary Source

A summary graph describing the estimated annual system revenues by primary source is presented below. A detailed discussion of the revenue estimates is presented thereafter:

Figure 15

FY 2009/10 – FY 2020/21 Primary Revenues



- User Charges revenues for the Regional Wastewater Program are estimated to increase from $36 million projected for FY 2011/12 to $45 million in FY 2020/21: a total of $415 million over the 10 year period. Commensurate with the revenue growth, the number of EDUs is estimated to increase from 3 million EDU in FY 2011/12 to 3.1 million EDU in FY 2020/21, a conservative annual average growth rate of 0.25 %. This is less than the prior 10 year annual average of 2% as a result of the slowdown in new development in the Agency's service area. Similarly, the annual rate per EDU is forecast to increase from the current rate of $11.14 per EDU (FY 2010/11) to $14.14 per EDU in FY 2020/21. This represents an average increase of $0.30 per EDU per year through FY 2020/21, based on a conservative estimate of inflation rate.

  In order to ensure the fund's fiscal health, operational sustainability, and support the Agency's commitment to providing effective and efficient levels of service, it is vital that the Agency adopt a rate structure to cover the cost of service for this program, as well as help to replenish fund reserves. Recommendation for rate change is presented annually to the Regional Sewage Committee and the Agency's Board of Directors. EDU volumetric rate change to be implemented is subject to final approval by the Agency's Board of Directors.

- User charges for the Non-Reclaimable Wastewater Program are estimated to increase slightly from $8.4 million in FY 2011/12 to $8.7 million in FY 2020/21; a total of $85 million through the 10-year period. The assumed average annual increase of the Non-Reclaimable Wastewater user charge rate is approximately less than 1%.

- User charges for imported water and meter surcharges for the Water Resources Program are estimated to increase from $4 million in FY 2011/12 to $8 million in FY 2020/21: a total of $60 million through the 10-year period. These charges consist of a $12/AF surcharge on imported water deliveries, increasing to $13/AF in FY 2012/13 and to remain at $14/AF starting in FY 2013/14. Monthly meter charge of $1.455 per unit in FY 2011/12 is projected to increase to $2.955 per unit by FY 2020/21.

- Connection Fees revenues are estimated to increase from $5.7 million projected in FY 2011/12 to $10.4 million in FY 2020/21; a total of $94 million over the 10-year period. Annual connections are then assumed to slightly increase by 200 units per fiscal year from 1,200 in FY 2011/12 to 2,000 in FY 2020/21. This forecast reflects a gradual recovery in residential development over the next 10 years for the region as economic conditions improve. The revenue forecast assumes no increase in connection fee rate in FY 2011/12 and an increase of 1 % annually from FY 2012/13 through FY 2020/21 to support capital improvement costs. This results in a connection fee rate increase from $4,766 per unit in FY 2010/11 to $5,214 per unit in FY 2020/21.

  Recommendation for rate change is presented annually to the Regional Sewage Committee and the Agency's Board of Directors. Connection fee change to be implemented is subject to final approval by the Agency's Board of Directors.

- Property taxes are projected to generate $32.9 million in FY 2011/12, or approximately 25% of Agency total operating revenues. Annual property tax revenues is projected to decrease by 3% in FY 2010/11 based on the increased housing foreclosures and decline in assessed property values in the service areas. A decrease of 1% is projected in FY 2011/12, no increase in FY 2012/13, and a gradual recovery starting in FY 2013/14. By FY 2020/21, the property tax is projected at $35.9 million, for a total of $342 million over the 10-year period. The property tax revenues are estimated to contribute 27% of total Agency revenues through FY 2020/21. The revenue forecast assumes that the tax rate and assessed property values will have very minimal increase ranging from .5% to 1.5% within the ten year period.

  Prior to 2009, property tax revenues have increased substantially, from $15 million in FY 1999/2000 to $36 million in FY 2008/09. The increase was a result of a strong housing market and rising property assessment values in the Agency's service area. The current reduced average annual growth in property tax revenue ranging from .5% to 1.5% is consistent with the Agency's most recent budget forecast and reflects the anticipated decrease in new development due to the economic slowdown and the high rate of foreclosures in the Agency's service area.

This growth trend is not expected to continue due to the high number of foreclosures in the area as a result of the economic recession. The San Bernardino County Tax Assessor projected a drop in property assessment values in FY 2009/10 of approximately 6% and the actual drop was 4%. RealtyTrac reported that foreclosures in the San Bernardino county area were the fifth highest in the nation at the end of calendar year 2010. This estimate is prudently conservative as assessed valuation of the area's property, particularly in the southern section, should trend upward as farming property (which has limited valuation based on state law) is converted to residential property in later years.

- Recycled water sales (wholesale rate plus MWD rebate) are projected to be $7 million in FY 2011/12. Revenues are anticipated to increase to $15 million by 2020/21, for a total of $132 million through the 10 year period; $120 million in recycled water sales and $12 million in MWD LPP rebates.

The additional funding has also been provided by the MWD, CBWCD, and DWR for recycled water retrofit assistance for public sector users. The adoption of the RWBP by the Agency in December 2007 accelerated the construction of the Recycled Water Distribution System which will result in an escalation of recycled water deliveries each year.

Water deliveries are expected to increase from 39,000 AF (acre foot) in FY 2011/12 to 50,000 AF by FY 2015/16, inclusive of groundwater recharge deliveries. Ultimately the distribution system layout will serve over 1,200 of the largest customers and supply over 93,000 acre-feet per year (AFY), including groundwater recharge. As an incentive to promote the use of recycled water for industrial, irrigation and landscaping in lieu of imported water, the Agency has maintained a market incentive rate over the years, currently at $115/AF for direct sales and $145/AF for groundwater recharge sales. This will increase rates from the current rate of $95 per AF in FY 2010/11, $115 per AF in FY 2011/12 to $295 per AF by FY 2020/21 as the demand for recycled water increases and dependency on fund transfers to support operating costs is minimized. The recharged recycled water rate will also increase from $115 to $145 per AF. The additional surcharge of $30/AF in FY 2011/12 supports operating and maintenance costs not funded by Chino Basin Watermaster.

Recommendation for rate change is presented annually to the Regional Sewage Committee and the Agency's Board of Directors. Recycled water rate change to be implemented is subject to final approval by the Agency's Board of Directors.

A fiscal year effective date rather than a calendar effective date to implement future rate proposals on direct and recharge water sales was approved by the Board in March 2011, which will replace a two rate structure within a fiscal year.

The main sources of Recycled Water Program revenues are generated by the sale of recycled water to municipalities in the service area and rebates provided by the Metropolitan Water District of Southern California (MWD). The MWD LPP rebate receipts are based on $154 per AF for recycled water sales in excess of 3,500 AF to a maximum of 17,000 AF per year. The LPP rebate is scheduled to terminate in FY 2017. Also included in the total Recycled Water Program revenue is the transfer of the Regional O&M Fund allocation of property tax revenues to support long term debt service costs, the transfers began in FY 2009/10 and ends in FY 2014/15.

- Implementation of the LRPF has been programmed and scheduled with the use of state and federal grant funds to help offset capital cost and reduce the borrowing requirements through SRF low-interest loans or issuance of bonds. The Agency has been and will continue to be active in participating and pursuing grants and low interest state loans to fund essential projects.

- Other Agency Revenues consist primarily of service contract contributions negotiated with MWD, contract reimbursements for staff service primarily from the CDA (Chino Basin Desalter Authority) and IERCA (Inland Empire Regional Composting Authority) for the operation and management of the composting facility. Total contract reimbursements projected in FY 2011/12 are approximately $6.5 million and stays at the same level in FY 2020/21, for a total of $62 million through the 10 year period. The average annual reimbursement is $1.5 million and $2.8 million for the CDA and IERCA, respectively.

- Groundwater operations and maintenance costs reimbursable by Chino Basin Watermaster (CBWM) are estimated to be approximately $1.5 million per year.

- Other revenue includes interest revenue from all programs which is projected at $1.1 million in FY 2011/12, assuming an overall rate of return of 1.5%.

V. Agency Reserves Forecast

A stated goal in the development of the Agency's LRPF is to ensure that adequate fund reserve balances are established for the protection and furtherance of the Agency's mission: *to provide services in a regionally planned, managed, and cost-effective manner.*

Consistent with sound and prudent fiscal practices, as well as legal requirements, the Agency has historically maintained reserves within its various programs to address unforeseen events, emergencies, accelerated growth, and supplemental budget requirements. In addition to unplanned activities, the Agency has extensive investments in public infrastructure, operating plants, and other related facilities and equipment that require ongoing repair, maintenance, replacement, refurbishment, and expansion. The Agency must also be prepared for planning and implementation of new facilities, to meet the needs as a result of area growth or regulatory requirements.

In recent years, the need for a more structured approach to a comprehensive asset management strategy has been promoted as a necessary best practice recommended by American Water Works Association, Water Environmental Federation and US Environmental Protection Agency. The Agency is in continuing to implement an asset management program, in concurrence with defining service levels for its core programs. As these critical asset management and service level components are identified, they will further define the need for the establishment of prudent and reasonable targets for reserve levels to insure availability of adequate revenues.

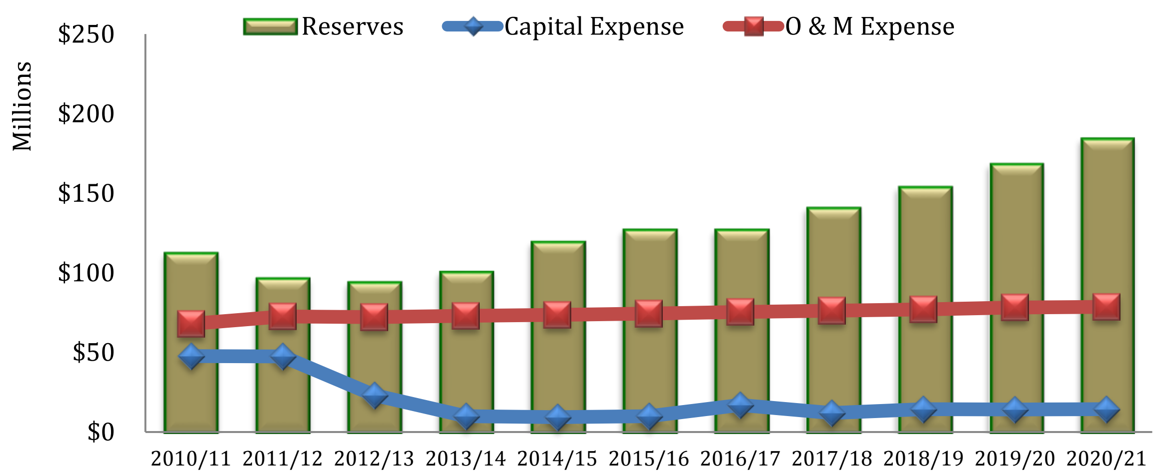
Other considerations key to the financial health of any public agency is the need to mitigate future risk of revenue shortfalls combined with escalating costs. As demonstrated in the LRPF, the Agency may potentially face unprecedented revenue shortfalls due to the faltering economy or the state's fiscal crisis. Due to declining property assessment values, slow economic development, higher operating costs from new initiatives designed to keep the Agency abreast of emerging technologies, and government imposed regulations and standards, the Agency's costs continue to increase even with stringent cost containment measures and productivity improvements.

Reserves further serve to boost the confidence of citizens in the Agency's fiscal soundness and strength of its financial management. External interested parties such as creditors, bondholders, and rating agencies place a high degree of importance on strong and healthy reserve balances as a cushion against steep revenue declines, unexpected and uncontrollable expenses (e.g. chemicals and utilities), and other unanticipated demands on Agency resources. One of the factors considered by the rating agencies in determining overall creditworthiness and rating is the existing and anticipated level of reserves. In the LRPF, the Agency has endeavored to achieve a reasonable balance for determining adequate reserves, taking into consideration the constraints on higher rate increases imposed by the current economic conditions.

Due to a historically healthy level of reserves achieved in a period of modest infrastructure expansion and minimal labor and operating cost increases, the Agency managed to avoid rate increases in many of its core programs between FY 1999/2000 and FY 2004/05. However, because of the economic downturn since 2008, growth in the Agency's service area has been negatively impacted and resulted in declining property tax revenue and connection fees. A significant number of capital projects have been deferred with the remaining capital program expected to be funded with a combination of conservative pay-as- you-go (Pay-go), low interest SRF loans, and grants. In addition, staff continues to closely manage the Agency wide operating costs as part of the containment strategy implemented in 2008. Projected reserves are expected to be conservatively aligned with the demands on the Agency's cash for the future years. In order to ensure the fund's fiscal health, operational sustainability, and support the Agency's commitment to providing effective and efficient levels of service, it is essential the Agency is able to implement the necessary rate increases in future years to support the cost of service for its programs, meet unanticipated demands, as well replenish fund reserves that have been depleted over the last few years.

Figure 16

Total Capital and Operating Expenses vs. Growth in Reserves



For much of the Agency's history, no formal policy was in place to determine a target level for reserves. In June 2005, the Agency formalized a conceptual framework for determining the potential types and level of fund balances by adoption of the Inland Empire Utilities Agency Reserve Policy.

Adoption of this policy was a major step forward in both memorializing what had been prudent and conservative business practices of the Agency with respect to reserves, and expanding beyond that in defining additional reserve categories to be funded over time. However, establishment of definitive target levels was to be completed at a later date based on further analysis and experience.

The following types of reserve are maintained for specific purposes and needs, as well as for meeting legal requirements as stipulated by bond covenants.

Reserve	Purpose
Infrastructure Maintenance/Replacement Reserves	Maintaining infrastructure at an adequate level and in an acceptable condition requires that funds be continually and readily available to support replacement, refurbishment, and construction. The service provided by the Agency is critically important to the health and welfare of the citizens within the Agency's service area. No service is more basic than meeting the need for clean water and wastewater collection, treatment, and disposal. Given the nature of the service, very few options exist, if any, for service reduction levels in the event of revenue shortfalls or other funding deficiencies.
Capital Assets Rehabilitation/Replacement Fund	The Agency's headquarters consist of two 30,000 square feet state of the art buildings. It is estimated that every five years, renovations will be required to replace deteriorating furniture, equipment, and fixtures and to accommodate staff growth.
Contingency Reserve	Unexpected expenditures typically occur in the dynamic environment in which the Agency operates. To accommodate unanticipated expenses, while maintaining reasonable budgetary restraint, a budgetary contingency reserve will be established.
Emergency Reserve	Agency operations and facilities are subject to various catastrophic and other events that may or may not be covered by insurance. These events may include, but are not limited to; terrorist attacks, earthquakes, and severe weather storms.
EDU Rate Stabilization Reserve	The Agency is committed to providing wastewater collection, treatment, and disposal, recognizing this service as a necessary and basic need of its constituencies. The Agency strives to provide and maintain this service with a rate structure which is reasonable, affordable, and stable. However, rising costs and/or decreased revenues requires that the Agency periodically adjust its service charges.
Water Rate Stabilization Reserve	The establishment of this reserve will serve to mitigate extraordinary rate increases from the Metropolitan Water District (MWD)and maintain a stable rate structure for the customers served by the Agency's municipal clients.

Reserve	Purpose
Exposure/Liability Reserve	An Exposure/Liability Reserve will be maintained for costs not covered by the Agency's insurance programs, such as claim costs within the Agency's deductibles, self-insured retentions, and/or major costs associated with disasters and other events, which will not be reimbursable from insurance or from the Federal or State government.
Workers' Compensation Reserve	The Agency has elected to self-insure for potential workers' compensation claims. With a rapidly growing workforce, now numbering in excess of 300, the Agency's exposure to work-related injuries increases.
Employee PERS Retirement Benefit Obligation Reserve	Agency contribution rates to PERS have historically fluctuated due to market volatility, changes in actuarial assumptions, or contract amendments. To protect against significant spikes in contribution rates and its negative impact on Agency operating costs, the Agency has established a reserve to cover any increased contribution amount.
Employee Post Retirement Benefit Obligation Reserve	Public agencies, in general, are faced with a growing liability for post retirement benefits. GASB 45, a recent accounting pronouncement, strongly recommends recognition of post retirement benefit obligation in the financial records, as well as the need to demonstrate steps being taken to ensure adequacy of resources to cover that obligation.
Debt Service Reserves	Required by relevant bond indentures as a set aside for payment of principal and interest on outstanding bonds.
Bond Operating Reserve	This legally required reserve is necessary to meet credit requirements for the Agency's outstanding bonds. Bondholders wanted assurance that the Agency could operate for at least three months despite some cataclysmic reduction in wastewater system revenues.
Capital Construction Reserve	This reserve essentially is the encumbrance for all outstanding capital commitments, particularly for major engineering and construction projects.
CSDLAC Prepayment	Equal to CSDLAC 4R's estimate for the NRW Northern System.

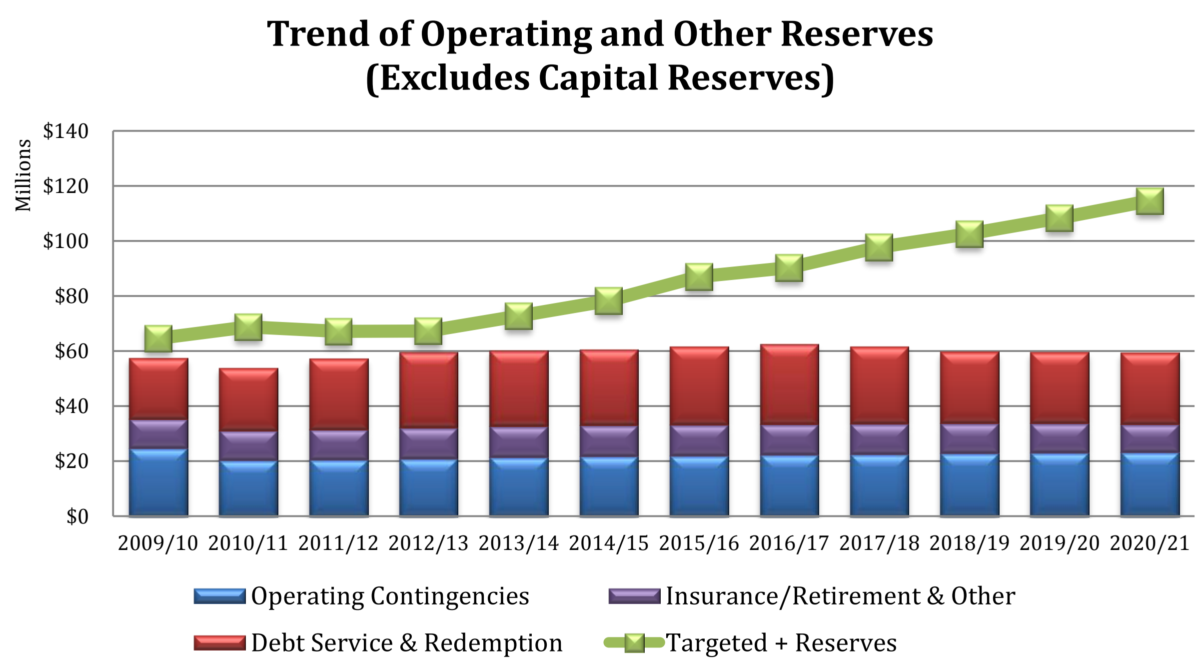
In the 2007 LRPF a target level of 50% of operating revenues on an aggregate basis, plus Debt Service Reserves was established and was used for all cash flow estimates, excluding capital expenditures. This target was reinforced with a subsequent consultation with rating agencies, both of which accepted the 50% threshold as an acceptable level. The Agency has continued to use the 50% level on an aggregate basis as the assumption for a minimum target in the FY 2011/12 LRPF, recognizing that it was one of the many factors contributing to the Agency's investment grade ratings.

Forecast on the Target Reserve Level

The LRPF assumes the Agency will continue to experience economic slowdown for the next two or three years. The increase in reserve levels forecasted for future years are dependent on implementation of annual rate increases for the Agency's core programs. These reserve levels are essential to meeting the legally mandated debt coverage limits, and support Agency's operational and debt service costs.

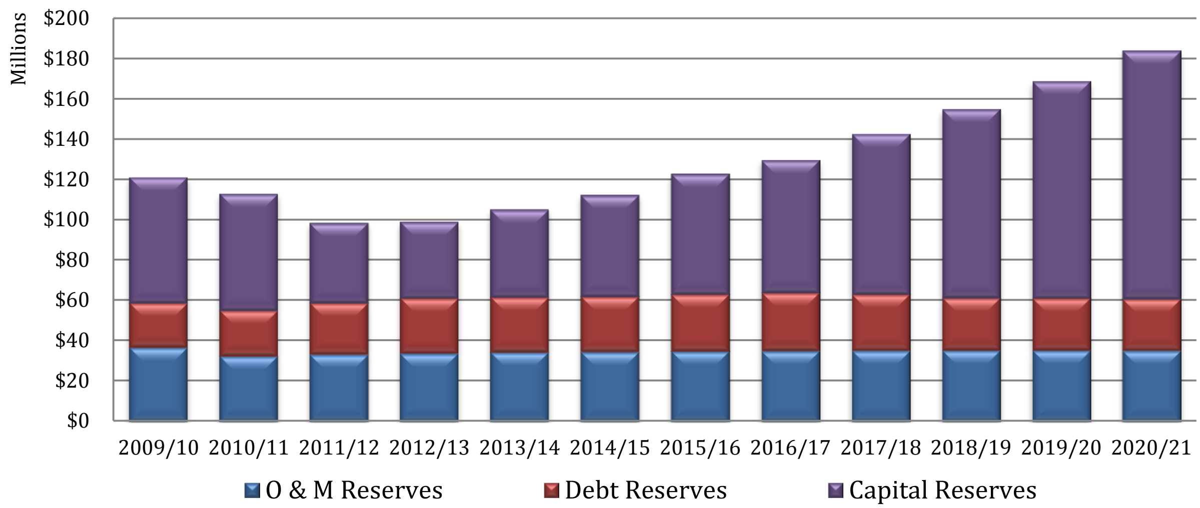
As illustrated in the bar graph below, based on current assumptions, including implementation of annual moderate rate increases for the Agency's core programs, targeted fund reserve levels are not met throughout the next ten year period.

Figure 17



The Agency's total fund balances, including reserves restricted or designated for capital purposes, are estimated to be $184 million at the end of FY 2020/21, as illustrated in the following graph;

Figure 18
Total Fund Balances by Category
FY 2009/10 – FY 2020/21



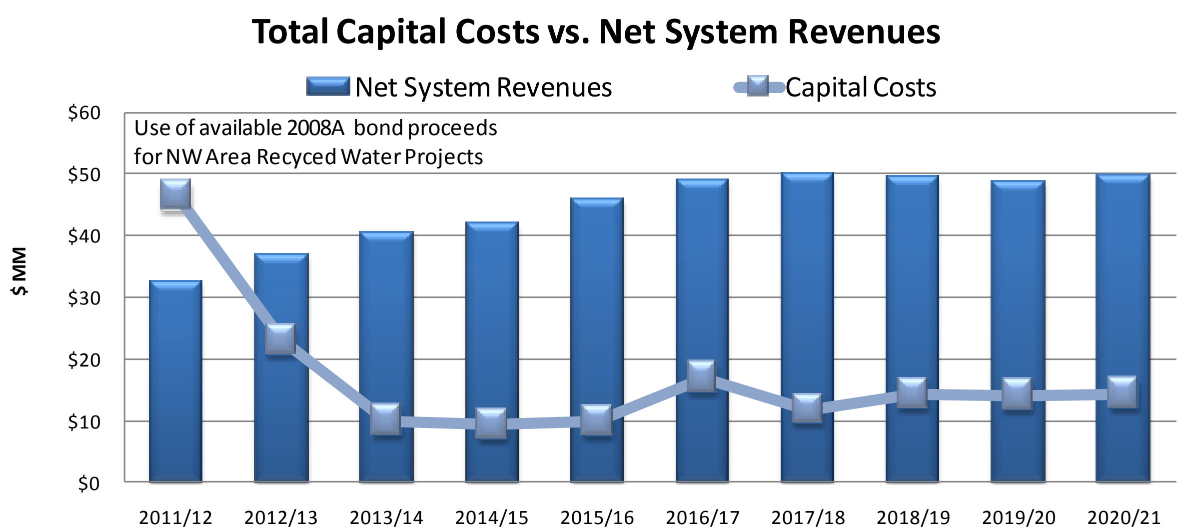
Certain funds are particularly important to meeting the target level on an aggregate basis; the Regional Wastewater Program, the Regional Wastewater Capital Improvement (RC) Fund and the Regional Wastewater Operations & Maintenance (RO) Fund, and Non-Reclaimable Wastewater Program (NRW) are the major sources of support to other Agency funds and are vital to ensuring that the aggregate level of reserves is reached and maintained. Annual rate increases are needed each fiscal year to replenish reserves utilized over the last several years and maintain adequate reserve levels going forward.

Capital cost forecasts for the Regional Wastewater Program average $8 million per fiscal year and reflects the deferral of facility expansion projects. These conservative capital cost forecasts along with an average 1% annual increase in connection fees resulted in Regional Wastewater's cumulative fund balance of $140 million by FY 2020/21. Any significant changes in population and economic growth in the service area may result in an increase in capital costs which will reduce the cumulative fund balance. The projected increase in capital reserves will support future expansion of existing facilities to meet growth requirements in the Agency's service area, as well support unplanned events such as emergency repairs of facility equipment. Deferral of rehabilitation of certain equipment as part of the Agency's cost containment strategy may result in more expensive repair costs under emergency conditions, or more extensive capital projects in the future. Another key reason for maintaining capital cost forecasts at a conservative level is the potential loss of property taxes posed by the continuing budget crisis at the state level.

VI. Financing Strategies

This section discusses the Agency's approach to meeting capital needs while managing its policy goals to minimize borrowing costs and maintain target fund balances. To achieve these goals, the Agency seeks to pay for capital projects first with system revenues (pay-go) whenever possible and pursue various forms of debt financing when net revenues are insufficient. Debt financing utilized throughout the 10-year Plan consists of low interest SRF Loans to spread out the costs of improvements and to maximize future financing flexibility by preserving fund balances. No new bond financings are assumed throughout the 10 year period. Consistent revenue growth throughout the 10-year program enables the Agency to fully fund proposed capital needs beyond 2021 without debt financing.

Figure 19



Capital costs from 2008 through 2012 are funded by a combination of unexpended bond proceeds (2008A Bonds), SRF Loans and pay-go. Based on current operating levels and revised growth population projections, no expansion to the Agency's existing facilities is anticipated over the next 10 years. Additionally, a significant number of non-essential capital projects have also been deferred or scaled back since 2008 as a result of the slowdown in new development in the Agency's service area and the uncertainty of an economic recovery over the next couple of years.

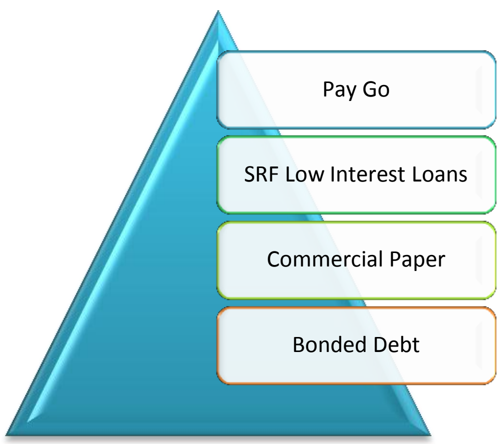
Financing Methodology

To ensure the lowest cost of borrowing, the Agency adopted a strategy that applies the lowest cost funds first and the most expensive funding sources last, with each being exhausted before pursuing the next financing option. Each of the tiered financing strategies for the "Base-Case" analysis is described in order (from least to most expensive) below.

1. **Pay-go**: Pay-go financing entails the use of available cash to meet the Agency's capital needs. Available cash is identified as Agency revenues on hand in excess of operations and other applicable expenses. Because pay-go funding does not require borrowing, it represents the lowest cost of capital funding.

   Based on direction from the Board of Directors, the Plan targets to fund 64% of capital costs with pay-go revenues, and the remaining capital costs will be supported by various borrowing alternatives.

2. **State Revolving Fund (SRF) Loans:** SRF loans, issued by the State Water Resource Control Board, fund the development, implementation and maintenance of the Agency's recycled water projects and certain regional wastewater projects, such as the RP-1 Dewatering Facility.



Unlike other more traditional forms of municipal debt, SRF loans have no explicit costs of issuance and carry a low fixed interest rate. These terms make the SRF program the cheapest debt vehicle available to the Agency at this time.

<u>SRF Loan Assumptions</u>
Security pledge: System Net Revenues
Term: 20 years
Frequency: Every year (as necessary)
Structure: Level debt service
Max loan per year: $50,000,000
Interest Rate: 0.00% - 2.50%
Construction investment rate: 2.50%

IEUA currently has several SRF loans payable in 20 years with an interest rate of 2.2% and 2.5% for phases 1 and 2 of the recycled water distribution system. In 2008 IEUA opted to participate in the Local Match Program offered by the SWRCB for phase 3. This program requires a local match contribution (interest) to be paid in advance, principal payments begin one year after completion of the project for the outstanding principal only. There are 3 additional SRF loans, for phases 4 and 5 of the recycled water distribution system and the RP-1 Dewatering project in the Regional capital fund with an interest rate of 1% or less. The LRPF anticipates three additional SRF loans for the completion of the recycled water distribution system, 2 in FY 2012/13 and the final loan in FY 2018/19. It should be noted however, that there is no guarantee that the Agency will receive an SRF loan in any given year considering the finite amount of money available in the program and that loans are distributed on a first come-first serve basis.

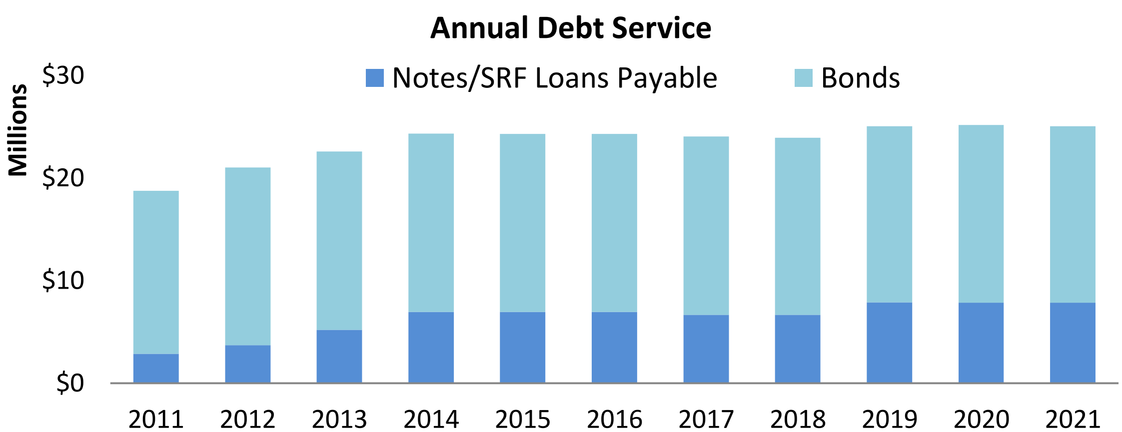
3. **Commercial Paper**: Tax-exempt commercial paper is a short-term financing vehicle typically used to meet interim funding needs between long-term

borrowings, grant receipts or delayed realization of Agency revenues. Maturities of tax-exempt commercial paper generally range from 30 to 90 days with a maximum of up to 270 days. Given the conservative CIP program, the Agency terminated its Commercial Paper Program in 2009. No commercial paper proceeds are included in the current LRPF.

4. **Long-Term Bonds**: Long-term debt represents the third and most expensive debt financing alternative available to the Agency. The higher costs of borrowing derived from issuance costs, higher interest rates and statutory requirements for debt service reserves. Each of these facets is designed to make the bonds attractive to a wide variety of buyers in the public market, thus permitting larger sums to be issued at a time. The analysis presented in this plan of finance assumes no new bond financings throughout the 10 year period.

   Included in all Scenarios (Scenarios A, B and C) is the 2008B Variable Rate Bonds at an assumed fixed rate of 4%. In October 2008 the volatility and uncertainty in the municipal bond market resulted in drastic interest rate fluctuations ranging from under 2% to a maximum allowed rate of 12% for a portion of the bonds that failed to remarket ($19 million of $55 million outstanding).

Figure 20



During this 10 year period, note and loan payments will increase from the current annual payment of $3.3 million to a maximum annual payment of $8.4 million in FY 2018/19. SRF loan payments will increase 100% by FY 2013/14 due to the completion of the RP-1 Dewatering project and the Southern and Central area projects in the Recycled Water Program. Total bond debt service remains at an average of $17.3 million per year through FY 2021/22. In FY 2022/23 2008A bond issue principal payments begin, in the same year the 2005A and 2010A bond issues will have matured thus leaving a total annual average payment of $13.7 million until final payment in FY 2038/39.

Table 15
Debt Service By Type

Total Debt Service							
	FY 2010/11	FY 2011/12	FY 2012/13	F Y 2013/14	FY 2014/15	FY 2015/16	Thereafter
Bonds	$15,904,950	$17,335,982	$17,368,289	$17,375,269	$17,360,727	$17,370,660	$336,017,322
Notes/SRF Loans*	3,351,346	4,187,965	5,694,054	7,447,581	7,440,863	7,434,146	124,389,785
Financial Expense	401,455	418,300	336,551	416,551	336,551	416,550	6,680,072
Inter Fund Loan	3,925,000	1,180,000	2,215,000	2,225,000	2,227,500	2,220,000	9,407,500
Total	**$23,582,751**	**$23,122,247**	**$25,613,894**	**27,464,401**	**$27,365,640**	**$27,441,356**	**$476,494,679**

*Includes projected SRF loans

Agency Borrowing Requirements

Of the $42 million in SRF loans budgeted over the next ten years, $28 million between 2012 and 2014 is primarily for the Southern Area and Central/Wineville Area Recycled Water Projects. The remaining $14 million budgeted between 2019 and 2021 will fund additional projects in the Northeast and Southern areas. These projects will enhance the completed recycled water system by adding additional storage and capacity improvements to meet future recycled water demands. A summary table of the Agency's projected borrowing is presented below.

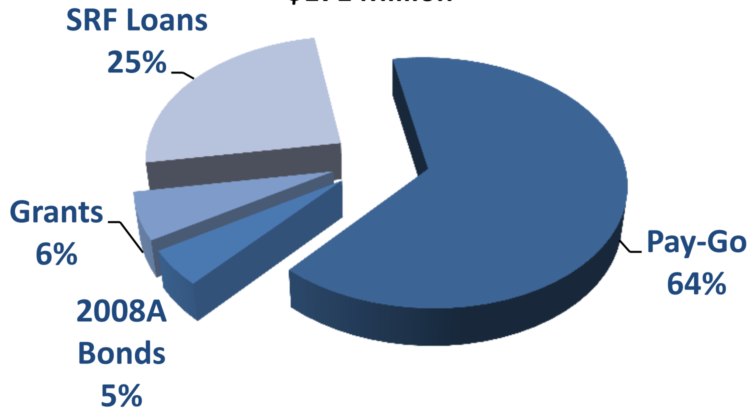
TABLE 16
Projected Borrowing FY 2012 - 2021

Fiscal Year	Bonds	Commercial Paper	SRF Loans ($ Millions)	Aggregate Borrowing
2012	-	-	$20	$20
2013	-	-	7	27
2014	-	-	1	28
2015-2018	-	-	0	0
2019	-	-	3	31
2020	-	-	5	36
2021	-	-	6	42
Total	**$0**	**$0**	**$42**	**$42**

The capital expenditure estimates between 2013 and 2021 are projected to average about $14 million per year. There is still some uncertainty and that new, unforeseen capital costs may arise in the out-years that have not been contemplated in this current LRPF.

Figure 21

FY 2012-2021 Capital Program Funding Sources
$171 Million



VII. Results

The Agency's financial plan accounts for long term operating and capital costs by program, revenues by source and allows the Agency to test various financing strategies in order to minimize borrowing costs across a set of measurable results. This section discusses the results of the long-term financial planning as they apply to following three measures:

- User charge/customer rate trends
- Annual fund balance by program
- Annual debt service coverage for the Agency

Each of the result categories listed is a focal point for the creation and evaluation of the Agency's policies and the optimal financial strategy.

Rate Trends

A primary objective of the Agency in managing the capital program and maintaining customer service is to keep customer rates and fees affordable. Generally, it is the Agency's goal to limit, as much as possible, annual rate increases to keep pace with higher operating costs, (primarily employment, chemicals and utilities).

The success of keeping the annual rate increase to a moderate level is contingent, in part, on external factors outside the Agency's control such as the rate of increase of energy costs, chemical costs and higher insurance and pension benefit premiums that increase total employment costs. Each of these costs impacts the Agency's total operating and maintenance costs which, in turn, are supported by the rates and fees. As external operating costs increase, the Agency will need to reassess and adjust its proposed rate increases.

The table presented below summarizes the long-term customer rate trends projected to manage the Agency's goals followed by brief discussion of rate trends in each program.

Table 17
Scenario A - Projected Rates FY 2012 - 2021

SUMMARY OF RESULTS: Scenario A Projected Rates							
Rates	**2012**	**2014**	**2016**	**2018**	**2019**	**2020**	**2021**
User Charges							
Wastewater	$11.14	$12.39	$12.89	$13.39	$13.64	$13.89	$14.14
Recycled Water - Direct Sales	$115.00	$180.00	$245.00	$295.00	$295.00	$295.00	$295.00
Recharge Water- Recharged Sales	$145.00	$220.00	$285.00	$335.00	$335.00	$335.00	$335.00
Connection Fees	$4,766.00	$4,862.00	$4,960.00	$5,060.00	$5,111.00	$5,162.00	$5,214.00
NRW - CIP	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00
NRW Admin Fee	50% / 10%	50% / 10%	50% / 10%	50% / 10%	50% / 10%	50% / 10%	50% / 10%
Imported Water Surcharge	$12	$14	$14	$14	$14	$14	$14
Imported Water Meter Charge	$1.225	$1.325	$1.350	$1.380	$1.430	$1.455	$1.480
Property Taxes	-1.00%	0.05%	1.50%	1.00%	1.00%	1.00%	1.00%

User Charges

Regional Wastewater Program. No change in the regional wastewater user charge of $11.14 per EDU is included in FY 2011/12. In February 2011, the Agency Board agreed with the Regional Policy Committee's recommendation to defer the rate increase until FY 2012/13. As indicated on Table 16, the proposed future increases in the wastewater user charges are necessary to support operating costs and capital replacement costs.

Recycled Water Program. Annual moderate rate increases for Direct and Recharge Recycled Water rates are essential to cover; higher pumping costs as recycled water deliveries increase, higher debt service costs for the SRF loans funding the construction of the Recycled Water Distribution System, and expiration of the MWD rebate in June 2017.

Connection Fees. Connections fees charged on new development support capital construction costs for the Regional Wastewater Program. The Engineers Construction Index for the Los Angeles serves as the Agency's basis for proposed annual increases; however, deferral of non-essential capital projects beyond the next ten years supports a nominal increase of 1% per year through 2021.

Non-Reclaimable Wastewater Program (NRW). Beginning in FY 2004/05 the Agency implemented a pass-through rate structure for the NRW Program. An administrative charge of 50% is added to the pass-through rates to support the Agency's administrative and operational costs associated with the NRW program. The administrative charge is reduced from 50% to 10% for industries using recycled water. The economic downturn also impacted some of the industries connected to the NRW northern system resulting in lower volumetric flows and administrative charges in FY 2010/11. No further drop in volumetric flows is projected for FY 2011/12 or ensuing years.

Water Resources Program. Revenues are assumed to increase an average of 6% per year, mainly due to increases in the meter charge as a consequence of the significant increases in Readiness-to-Serve fees (RTS) billed by the Metropolitan Water District (MWD). In addition to the MWD RTS fees, meter charge revenue supports water use efficiency programs, and the Agency's groundwater recharge program operational costs. A slight increase of $1 per acre feet (AF) per year is also proposed in FY 2012/13 and FY 2013/14 for deliveries of imported water.

Property Taxes. Due to the slowdown in new development and decline in property assessment values, property taxes have been decreasing since FY 2009/10, a trend projected to continue through FY 2011/12. Property taxes primarily support the Agency's debt service costs and capital construction and replacement costs. Approximately 20% of total property tax revenues are used to supplement operating costs in the Regional Wastewater Program.

Fund Balances

Fund balances, or cash on hand plus net revenues in a given year, are strong indicators of the Agency's financial health on both an individual sub-program and a system wide basis. While net revenues vacillate from year to year depending on annual changes in costs and/or revenues, the ending fund balance is a broad scope of reference for the sustainability of a fund over time.

Wastewater reserves are used to balance the budget through fund transfers to other programs. Reserves are projected to grow from $99 million projected at the end of FY 2011/12 to $184 million in FY 2020/21 as system revenues grow consistently with proposed rate increases, higher recycled water sales, and conservative capital cost projections over the ten year period. It is important to note that these cumulative fund balances will likely be used, in part, to meet unforeseen or currently un-programmed capital costs in the latter years, such as increased capacity to meet a sudden increase in population growth, or emergency rehabilitation or repairs on critical equipment deferred as part of the Agency's cost containment strategy.

The Agency intends that programs with dedicated revenue sources ultimately become self-supported by having user charges and fees cover operations and capital costs without support from other funds. Having programs that are self-supported will also minimize reliance on property taxes to support operating costs in the Regional Wastewater Program. This is achieved through a combination of rate setting and cost management.

Where rate increases and cost reductions are insufficient to achieve a positive fund balance in a given program, inter fund transfers or inter-fund loans will help to relieve shortfalls. Below is a summary of the program fund balances projected through FY 2020/21.

TABLE 18
Summary of Reserve Balances by Program
$ Millions

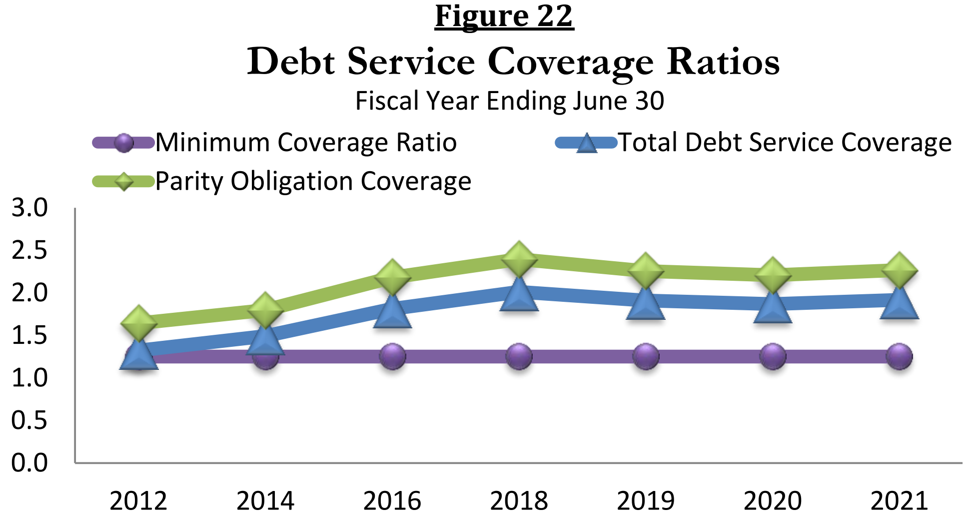
Fund	Fund Code	Min ($)	Average ($)	Max ($)
Regional Wastewater Capital	RC	$34.6	$56.0	$85.0
Regional Wastewater Operations & Maintenance	RO	21.4	34.2	54.7
Recycled Water	WC	15.5	17.4	21.8
Recharge Water	RW	1.7	1.8	1.9
Non-Reclaimable Wastewater	NC	5.4	8.4	10.9
Administrative Services	GG	11.4	12.1	12.4
Water Resources	WW	1.6	2.0	2.2
Aggregate System		**$91.6**	**$131.9**	**$188.9**

Debt Coverage

Ceilings on the amount of long-term debt that can be issued are based on policies that set minimum revenue coverage limits designed to maintain the Agency's credit strength. The Agency seeks to maintain a revenue coverage ratio at least 1.25 times debt service costs due in any given year, as required by bond covenants. Debt service coverage for FY 2012 is projected to be 1.32 times and continues to improve to 1.92 times in 2021.

Debt service coverage targets are maintained at the total aggregate program level which includes all Agency funds except the Water Resources (WW) Fund, and are projected to meet the legally required minimum total debt ratio of 1.25 times throughout the 10 year period.

Figure 22



VIII. Alternative Scenarios

At the request of the Board of Directors, the Regional Policy and Technical Committees and participating member agencies, an alternate structural scenario was considered to assess the impact of possible changes in revenue or financing sources available to the Agency. While the Scenario A represents the most likely scenario, the alternative scenarios (Scenario B and Scenario C) allow decision makers to measure the impact of significant changes on individual variables.

Overview

Property tax revenue is one of the Agency's major revenues. Historically, the Agency has allocated property taxes to support debt service costs, capital acquisitions and capital replacement costs. A portion of property taxes is also used to supplement operating costs in the Regional Wastewater Operations & Maintenance (RO) fund. Property taxes are a primary source of revenue averaging about $34 million annually for the last two years. However, property taxes are also the most uncertain due to their vulnerability to shifts by the State to support state budget deficits.

The 2009 suspension of Prop1A passed by the State Legislature established a precedent for the borrowing and repayment of property tax revenue by the State from local governments. Additionally, on November 2010 California votes approved Proposition 22 restricted the State's ability to shift revenues, such as property taxes, from local governments. Even though these measures minimized the State's ability to shift property taxes from local governments as they had done in prior years, the ongoing state fiscal crisis aggravated by the slowdown in the economy continue to pose some fiscal uncertainties for local governments. A change in statute may allow for future revenue shifts, similar to the one in FY 2004/05 and FY 2005/06, when $14 million of property tax revenues were shifted from the Agency over a two year period, are still probable.

A key assumption in Scenario A is the State will not shift property taxes from the Agency throughout the ten year period. Therefore, an average of $34 million in property tax revenue is projected each fiscal year.

Recognizing such uncertainty, the FY 2011/12 LRPF includes two contingency scenarios:

Scenario B – only the loss of RDA taxes is assumed beginning in FY 2012/13. This scenario is consistent with the FY 2011/12 Governor's Budget Overview, released in January 2011, which included a proposal to dismantle existing redevelopment agencies (RDAs) and redistribute RDA revenue to school districts and non-enterprise special districts.

The likelihood of this happening diminished during the budget negotiations this spring when the Department of Finance provided trailer bill language that specifically protected the existing contracts for "pass through" of RDA taxes to local agencies including special districts. If the RDA proposal re-surfaces without the "pass through" protection language, then the Agency could lose an estimated $7.6 million per fiscal year in RDA taxes.

- **Monthly EDU Rate:** based on these key assumptions, an increase of $1.25/EDU in the volumetric rate would be required for FY 2012/13.

- **Connection Fees:** a 34% increase, or $6,400 per EDU for new connections would be necessary in FY 2012/13 in order to meet operating, capital and debt service requirements.

- **Recycled Water Revenue**: in order to mitigate the impact to the EDU volumetric rate, the property tax allocation of 5%, or $1.6 million per year, to the Recycled Water Program would be shifted back to the RO Fund in FY 2012/13 instead of FY 2013/14, as scheduled under Scenario A. The impact to the Recycled Water rates is an estimated increase of $50/AF for direct and $ 55/AF for groundwater surcharge deliveries in FY 2012/13.

Scenario C – Under the "worst case", or Scenario C, it is assumed all local agency property taxes are shifted by the State beginning in FY 2012/13. At this time, there is no budget proposal that includes this scenario. However, it is a scenario that the Agency must consider as a possible outcome of the current budget debacle. For IEUA, the shift will be net of approximately $6 million secured to support debt service costs for the 2010A Bond (formerly the 1994 Bonds) reported in the RC Fund.

- **Monthly EDU Rate:** based on these assumptions, the monthly EDU rate would have to be increased by $4.00/EDU in FY 2012/13.

- **Connection Fees:** the EDU Connection rate would increase to $13,821 per new EDU connection in order to meet operating, capital and debt service requirements.

- **Recycled Water Revenue:** the projected rates under Scenarios B and C for the Recycled Water Program would be the same since the assumption to return the temporary property tax allocation of $1.6 million to RO Fund in FY 2012/13 is consistent under both scenarios. The impact to the Recycled Water rates is an estimated increase of $50/AF for direct and $ 55/AF for groundwater surcharge deliveries in FY 2012/13.

Wastewater Program

Below are the presumed property tax allocations, EDU rate and connection fee increases for scenarios A, B and C.

TABLE 19

Fund	Proposed Property Tax Allocation					
	Scenario A		Scenario B		Scenario C	
	FY	Total Allocation	FY	Total Allocation	FY	Total Allocation
RC	2012-2021	65%	2012- 2021	65%	2012- 2021	65%
RO	2012-2014	22%	2012- 2021	27%	2012-2014	27%
RO	2015-2021	27%				
GG	2012-2021	8%	2012- 2021	8%	2012- 2021	8%
WC	2012-2014	5%	2012- 2021	0%	2012- 2021	0%
WC	2015-2021	0%				

TABLE 20

Fiscal Year	Proposed Increase per EDU Monthly User Charge					
	Scenario A		Scenario B		Scenario C	
	Proposed Increase Amount	Total Proposed Rate	Proposed Increase Amount	Total Proposed Rate	Proposed Increase Amount	Total Proposed Rate
2011/12	$.00	$11.14	$.00	$11.14	$.00	$11.14
2012/13	$1.00	$12.14	$1.25	$12.39	$4.00	$15.14
2013/14	$.25	$12.39	$.30	$12.69	$.50	$15.64
2014/15	$.25	$12.64	$.30	$12.99	$.30	$15.94
2016- 2021	$.25 per FY	$12.89-14.14	$.30	$13.29-14.79	$.30	$16.24-$17.74

TABLE 21

Fiscal Year	Proposed Increase per New EDU Connection Fee					
	Scenario A		Scenario B		Scenario C	
	Proposed Increase Amount	Total Propose Rate	Proposed Increase Amount	Total Proposed Rate	Proposed Increase Amount	Total Proposed Rate
2011/12	0%	$4,766	0%	$4,766	0%	$4,766
2012/13	1%	$4,814	34%	$6,400	190%	$13,821
2013/14	1%	$4,862	5%	$6,720	0%	$13,821
2014/15	1%	$4,911	0%	$6,720	0%	$13,821
2016- 2021	1% per FY	$4,960-$5,214	0% per FY	$6,720	-5% 2017	$13,821-$13,13

Capital Program – no additional cuts or deferrals of capital costs are proposed under Scenarios B and C. Over the last few years, over $200 million of capital projects have been completed and non-essential capital projects have been reduced or deferred resulting in a very conservative capital program for the next ten years.

Operation Costs – a vacancy factor of 5% is assumed in Scenarios B and C, consistent with Scenario A. However, due to inflationary increases for materials, supplies and other items total operating costs are projected to increase $4 million over the next ten years.

Recycled Water Program

All three scenarios include an increase from $95 to $115 per acre foot (AF) effective July 1, 2011 was approved by the Agency Board in February 2011, along with an additional $30/AF surcharge for recharged recycled water sales. Higher rate increases for future years, beginning in FY 2012/13 are proposed under Scenario B and C, as illustrated in the tables 21 and 22 below:

TABLE 22

	Proposed Increase per Acre Foot (AF) Direct Sales					
	Scenario A		Scenario B		Scenario C	
Fiscal Year	Proposed Increase Amount	Total Proposed Rate	Proposed Increase Amount	Total Proposed Rate	Proposed Increase Amount	Total Proposed Rate
2011/12	$20	$115	$20	$115	$20	$115
2012/13	$25	$140	$50	$165	$50	$165
2013/14	$40	$180	$30	$195	$30	$195
2014/15	$40	$220	$50	$245	$50	$245
2016- 2021	$25	$245-$295	$25	$270-$295	$25	$270-$295

TABLE 23

	Proposed Increase per Acre Foot (AF) Ground Water Recharge Sales					
	Scenario A		Scenario B		Scenario C	
Fiscal Year	Proposed Increase Amount	Total Proposed Rate	Proposed Increase Amount	Total Proposed Rate	Proposed Increase Amount	Total Proposed Rate
2011/12	$30	$145	$30	$145	$30	$145
2012/13	$30	$175	$55	$200	$55	$200
2013/14	$45	$220	$35	$235	$35	$235
2014/15	$40	$260	$50	$285	$50	$285
2016- 2021	$25-50	$285-$335	$25	$310-$335	$25	$310-$335

The increased recycled water direct sale and groundwater surcharge rates proposed under Scenarios B and C are due to the reallocation of property taxes back to the Regional Operations & Maintenance (RO) Fund to mitigate the impact to the monthly EDU user rate.

Administrative Services Program

The primary source of revenue for the Administrative Services Program is property taxes. Therefore, the same property tax allocation amount is assumed under all three scenarios, with the RO Fund supplementing the shortfall. With increases in employment costs due to higher premiums for health insurance and pension benefits, and a conservative capital plan over the next ten years, all three Scenarios project an average reserve balance of approximately $12 million per year throughout the 10-year period. The projected fund balance level is sufficient for maintaining the operating contingency reserves required by bond covenant, as well as providing sufficient reserves for the Agency's self-insurance and retirement programs.

Table 24
Scenario B & C - Projected Rates FY 2012 - 2021

	2011/2012 PROPOSED BUDGET	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
		FORECAST								
Scenario B (No RDA Tax)										
Property Tax Allocation from RO to WC	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
RC Connection Fee Rate	$ 4,766	$ 6,400	$ 6,720	$ 6,720	$ 6,720	$ 6,720	$ 6,720	$ 6,720	$ 6,720	$ 6,720
RC Connection Rate Increase	-	1,634	320	-	-	-	-	-	-	-
RC Connection Rate Increase %	0.0%	34.3%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
RO EDU Rate	11.14	12.39	12.69	12.99	13.29	13.59	13.89	14.19	14.49	14.79
RO EDU Rate Increase	-	1.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
RO EDU Rate Increase %	0.0%	11.2%	2.4%	2.4%	2.3%	2.3%	2.2%	2.2%	2.1%	2.1%
WC Direct Sales Rate (Effective Jul '11)	115	165	195	245	270	295	295	295	295	295
WC Direct Sales Rate Increase	20	50	30	50	25	25	-	-	-	-
WC Direct Rate Increase %	17.4%	43.5%	18.2%	25.6%	10.2%	9.3%	0.0%	0.0%	0.0%	0.0%
Scenario C (Property Tax Loss except Debt Service)										
Property Tax Allocation from RO to WC	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
RC Connection Fee Rate	$ 4,766	$ 13,821	$ 13,821	$ 13,821	$ 13,821	$ 13,130	$ 13,130	$ 13,130	$ 13,130	$ 13,130
RC Connection Rate Increase/(Decrease)	4,755	9,055	-	-	-	(691)	-	-	-	-
RC Connection Rate Increase %	0.0%	190.0%	0.0%	0.0%	0.0%	-5.0%	0.0%	0.0%	0.0%	0.0%
RO EDU Rate	11.14	15.14	15.64	15.94	16.24	16.54	16.84	17.14	17.44	17.74
RO EDU Rate Increase	-	4.00	0.50	0.30	0.30	0.30	0.30	0.30	0.30	0.30
RO EDU Rate Increase %	0.0%	35.9%	3.3%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.7%
WC Direct Sales Rate (Effective Jul '11)	115	165	195	245	270	295	295	295	295	295
WC Direct Sales Rate Increase	20	50	30	50	25	25	-	-	-	-
WC Direct Rate Increase %	17.4%	43.5%	18.2%	25.6%	10.2%	9.3%	0.0%	0.0%	0.0%	0.0%

TABLE 25
Reserves Balance Summary - Scenario B

		$ Millions		
Fund	**Fund Code**	**Min ($)**	**Average ($)**	**Max ($)**
Wastewater Regional Capital	RC	$34.3	$47.1	$67.5
Wastewater Regional Operations	RO	21.5	29.7	44.9
Recycled Water	WC	10.4	14.1	19.9
Recharge Water	RW	1.7	1.8	1.8
Non-Reclaimable Wastewater	NC	4.8	5.7	7.0
Administrative Services	GG	11.3	12.1	12.3
Water Resources	WW	1.6	2.0	2.2
Aggregate System		**$85.6**	**$112.5**	**$155.6**

TABLE 26
Reserves Balance Summary - Scenario C

		$Millions		
Fund	**Fund Code**	**Min ($)**	**Average ($)**	**Max ($)**
Wastewater Regional Capital	RC	$34.4	$55.1	$84.7
Wastewater Regional Operations	RO	21.4	29.6	44.3
Recycled Water	WC	10.4	14.1	19.9
Recharge Water	RW	1.7	1.8	1.8
Non-Reclaimable Wastewater	NC	4.8	5.7	7.0
Administrative Services	GG	10.8	11.9	12.3
Water Resources	WW	1.6	2.0	2.2
Aggregate System		**$85.1**	**$120.2**	**$172.2**

As previously stated, a goal in the development of the Agency's LRPF is to ensure that adequate fund balances (reserves) are established for protection and furtherance of the Agency's mission. Consistent with sound and prudent fiscal practices, as well as legal requirements, the Agency has historically maintained reserves within its various programs.

Unforeseen events, emergencies, accelerated growth, supplemental budget requirements, are among the factors that can result in unplanned expenses. In addition to unplanned activities, the Agency has extensive investments in public infrastructure, operating plants, and other related facilities and equipment that require ongoing repair, maintenance, replacement, refurbishment, and expansion. The Agency must also be prepared for planning and implementation of new facilities, if the need arises as a result of regulatory requirements or area growth.

Figure 23

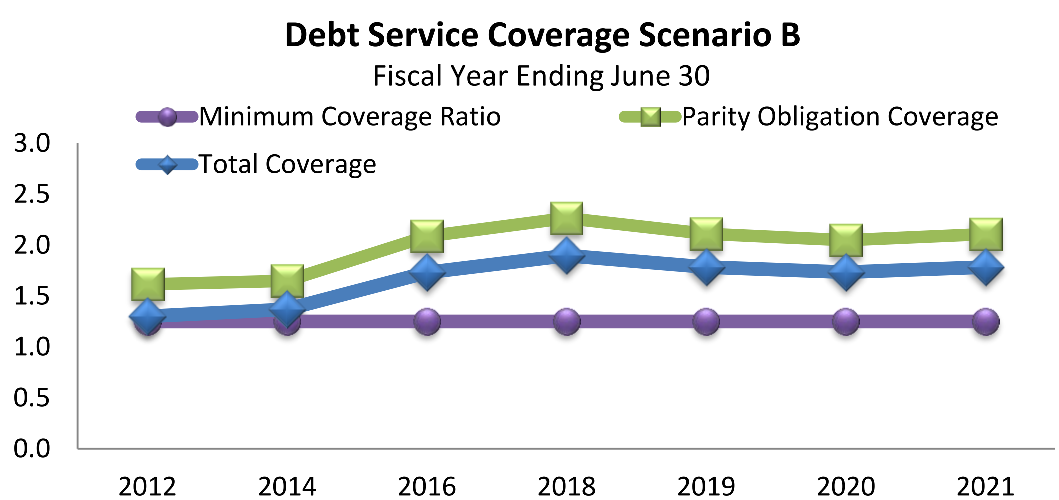
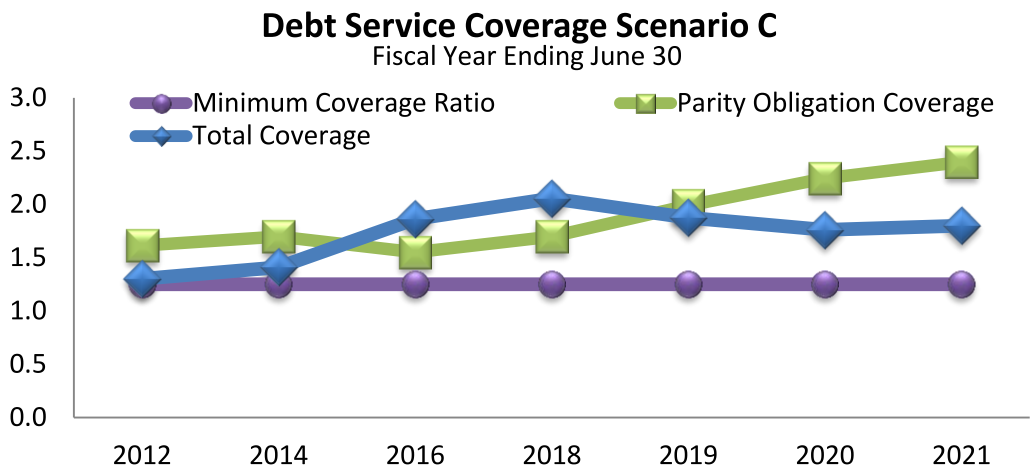


Figure 24



As indicated in the above tables, the Agency will strive to maintain a positive reserve balance and an overall debt coverage ratio above 1.25 through service rate and fee increases, and operating cost reductions.

IX. Conclusion

The weak economic environment resulted from the financial meltdown a few years ago has significantly dampened job growth and business development in the Agency's service region, which adversely impacted the Agency's key revenue sources. Connection fees and property tax revenues that are closely tied to the local economic health have shown unfavorable decreases. With the on-going chronic state budget woes and challenges of economic downturns, the forecast for the Agency's revenues is continued to be cautious and conservative. Nonetheless, as indicated in the Plan, the Agency is committed to achieve financial sustainability through balancing the allocation of resources and demands with fiscal discipline, while striving to meet each of its primary policy and financing objectives.

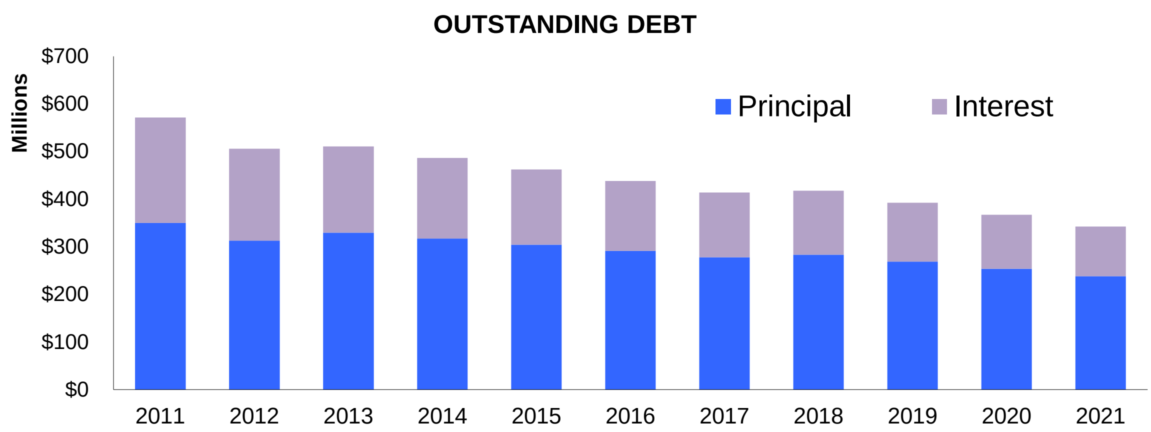
- Following strategic rate adjustments between 2012 and 2021, rate increases to support approximately $171 million in capital projects and $774 million in operations and maintenance expenses, which results in a fund balance of $184 million by end-of-year 2021.

- Financing costs are minimized while maximizing flexibility by balancing pay-go financing with debt financing to fund annual capital needs. Pay-go represents 64% of financing sources and SRF Loans comprise 25% over the 10 year plan.

- Ending fund balances in each fiscal year support four month operating contingency as required by bond covenant, and debt service, throughout the 10 year plan. However the targeted reserves that equal to 50% of operating revenues and debt service reserves are not met. Continuing effort is committed in strengthening the Agency's financial position for improving the debt coverage ratio.

- Revenue coverage on total debt and Parity lien obligations is maintained above 1.25 times outstanding debt service in each year.

Figure 25



X. Appendix

Fiscal Year 2011/2012 Budget
Sources & Uses of Funds
CONSOLIDATED

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2011-2021
	PROJECTED ACTUAL	PROPOSED BUDGET					FORECAST					TOTAL
REVENUES												
User Charges	$45,616,001	$47,912,250	$51,583,534	$52,811,041	$53,878,787	$55,295,715	$56,834,574	$58,381,038	$59,704,136	$61,010,789	$62,202,525	559,614,389
Regional System Connection Fees	5,243,106	5,719,200	6,739,600	7,779,200	8,839,800	9,920,000	11,022,000	12,144,000	11,244,200	10,324,000	10,428,000	94,160,000
Property Tax - O&M	7,112,489	7,024,868	6,899,868	6,949,315	8,746,760	7,872,432	7,000,738	8,121,392	6,518,252	9,440,816	9,790,640	78,365,081
Contract Cost reimbursement	6,115,897	6,136,247	5,954,311	5,996,630	5,960,494	6,003,606	6,019,166	6,062,864	6,082,388	6,126,301	6,145,273	60,478,299
Interest Revenue	1,145,336	1,125,379	1,275,978	1,317,127	1,394,236	1,594,133	1,878,240	1,944,004	1,921,556	1,881,959	1,884,076	16,216,688
Recycled Water Sales	4,254,200	6,984,000	8,659,000	10,819,000	13,059,000	15,049,000	16,259,000	15,350,000	15,310,000	15,310,000	15,310,000	132,109,000
TOTAL REVENUES	**$69,487,029**	**$74,901,944**	**$81,112,291**	**$85,672,313**	**$91,879,077**	**$95,734,886**	**$99,013,718**	**$102,003,298**	**$100,780,532**	**$104,093,865**	**$105,760,514**	**$940,943,457**
OTHER FINANCING SOURCES												
Property Tax - Debt and Capital	$26,185,499	$25,940,140	$26,065,140	$26,180,518	$24,714,370	$26,090,616	$27,471,756	$26,695,827	$28,647,139	$26,076,229	$26,081,575	$263,963,310
State Loans	24,628,028	20,287,627	7,161,558	772,835	0	0	0	0	3,105,000	5,355,000	5,805,000	42,487,020
Grants	7,309,516	7,437,117	3,051,750	51,750	51,750	0	0	0	0	0	0	10,592,367
Sale of Assets	0	0	2,339,250	2,339,250	0	0	0	0	0	0	0	4,678,500
Other Revenues	393,651	570,291	576,371	473,511	356,794	303,128	154,927	157,600	160,331	152,113	151,290	3,056,356
Sale of Capacity	150,000	0	0	0	0	0	118,100	119,151	120,212	121,286	122,369	601,118
Loan Transfer from Internal Fund	3,700,000	1,000,000	2,000,000	2,000,000	2,000,000	2,000,000	3,000,000	4,000,000	2,000,000	0	0	18,000,000
TOTAL OTHER FINANCING SOURCES	**61,991,073**	**55,235,175**	**41,194,069**	**31,817,864**	**27,122,914**	**28,393,744**	**30,744,783**	**30,972,578**	**34,032,682**	**31,704,628**	**32,160,235**	**343,378,671**
TOTAL REVENUES AND OTHER FINANCING SOURCES	**$131,478,102**	**$130,137,119**	**$122,306,380**	**$117,490,177**	**$119,001,990**	**$124,128,630**	**$129,758,501**	**$132,975,876**	**$134,813,215**	**$135,798,493**	**$137,920,748**	**$1,284,300,717**
EXPENSES												
Employment Expenses	$31,477,760	$32,351,396	$32,569,460	$32,722,830	$32,829,269	$32,944,544	$33,058,121	$33,196,210	$33,304,822	$33,426,764	$33,562,259	$329,965,676
Contract Work/Special Projects	2,180,051	4,052,071	1,081,450	996,450	926,450	877,000	887,000	892,000	902,000	917,000	922,000	12,453,421
Utilities	6,490,684	8,619,958	9,787,296	10,076,508	10,374,382	10,681,205	10,997,229	11,322,723	11,658,043	12,012,890	12,359,147	107,889,382
Operating Fees	8,250,452	9,925,664	10,451,936	10,673,298	11,086,843	11,623,268	12,166,371	12,725,908	13,042,521	13,617,759	13,891,554	119,205,121
Chemicals	4,267,298	4,459,389	4,598,094	4,735,266	4,877,536	5,023,625	5,174,038	5,328,611	5,488,206	5,652,206	5,821,699	51,158,669
Professional Fees and Services	5,573,301	5,830,077	5,970,635	6,091,563	6,193,166	6,320,245	6,436,906	6,559,805	6,648,181	6,895,956	6,853,243	63,799,777
Office and Administrative expenses	1,934,733	1,958,934	1,570,431	1,584,620	1,598,945	1,613,403	1,628,000	1,642,734	1,659,823	1,672,622	1,687,779	16,617,292
Biosolids Recycling	3,824,228	4,067,800	4,168,147	4,192,499	4,217,346	4,242,695	4,268,560	4,294,951	4,321,875	4,349,347	4,377,374	42,500,594
Materials & Supplies	2,080,000	2,187,780	2,284,721	2,337,841	2,390,567	2,445,714	2,502,333	2,560,493	2,621,000	2,691,059	2,638,051	24,659,560
Other Expenses	901,401	586,974	597,192	619,100	609,072	615,116	637,226	627,402	633,649	655,971	484,936	6,066,638
TOTAL EXPENSES	**$66,979,908**	**$74,040,043**	**$73,079,362**	**$74,029,976**	**$75,103,577**	**$76,386,816**	**$77,755,785**	**$79,150,837**	**$80,280,119**	**$81,891,573**	**$82,598,044**	**$774,316,130**
CAPITAL PROGRAM												
CSDLAC 4Rs	$1,242,000	$1,485,260	$1,429,818	$1,475,712	$1,422,984	$1,471,673	$1,421,823	$1,473,478	$1,526,682	$1,526,682	$1,526,682	$14,760,794
Work In Progress	46,576,828	46,181,933	21,628,595	8,488,500	7,435,000	7,885,000	14,985,000	9,830,998	12,260,516	12,045,515	12,320,000	153,061,057
WIP Adjustment	0	0	0	0	500,000	500,000	500,000	500,000	500,000	500,000	500,000	3,500,000
TOTAL CAPITAL PROGRAM	**$47,818,828**	**$47,667,193**	**$23,058,413**	**$9,964,212**	**$9,357,984**	**$9,856,673**	**$16,906,823**	**$11,804,476**	**$14,287,198**	**$14,072,197**	**$14,346,682**	**$171,321,851**
DEBT SERVICE												
Financial Expenses	$401,455	$418,300	$336,550	$416,550	$336,550	$416,550	$336,550	$416,550	$336,550	$416,550	$336,550	$3,767,250
Interest	11,982,533	11,620,996	11,771,451	12,205,110	11,877,894	11,507,941	11,131,224	10,653,458	10,614,451	10,084,852	9,580,214	111,047,590
Principal	8,489,193	9,832,953	11,503,395	12,842,744	13,151,199	13,516,867	13,795,274	13,912,975	14,986,336	15,563,115	15,951,987	135,056,844
Short Term Inter-Fund Loan	3,700,000	1,000,000	2,000,000	2,000,000	2,000,000	2,000,000	3,000,000	4,000,000	2,000,000	0	0	18,000,000
TOTAL DEBT SERVICE	**$24,573,181**	**$22,872,249**	**$25,611,396**	**$27,464,403**	**$27,365,643**	**$27,441,358**	**$28,263,048**	**$28,982,983**	**$27,937,337**	**$26,064,517**	**$25,868,750**	**$267,871,684**
FUND BALANCE												
Net Income (Loss)	($8,198,599)	($14,442,185)	$539,156	$6,028,623	$7,159,698	$10,443,749	$6,820,651	$13,040,408	$12,298,944	$13,775,578	$15,100,153	$70,764,772
Beginning Fund Balance July 01	121,377,633	113,179,035	98,736,849	99,276,005	105,304,628	112,464,326	122,908,074	129,728,724	142,769,132	155,068,076	168,843,654	113,179,035
ENDING BALANCE AT JUNE 30	**$113,179,033**	**$98,736,850**	**$99,276,005**	**$105,304,628**	**$112,464,325**	**$122,908,075**	**$129,728,725**	**$142,769,133**	**$155,068,076**	**$168,843,654**	**$183,943,807**	**$183,943,807**
RESERVE BALANCE SUMMARY												
Operating Contingencies	$20,504,270	$20,581,878	$20,990,029	$21,538,893	$21,837,939	$22,113,538	$22,380,948	$22,678,984	$22,993,410	$23,262,078	$23,339,167	
Capital Expansion & Replacement	39,897,696	25,025,164	28,297,999	30,032,386	33,052,748	36,453,107	41,413,935	47,145,764	53,945,543	61,596,271	70,518,997	
CCRA Capital Construction	20,358,039	16,077,239	9,816,839	13,596,039	17,435,839	23,355,839	24,377,839	32,521,839	39,766,039	49,090,039	52,518,039	
CSDLAC Prepayment	1,242,000	1,485,260	1,429,818	1,475,712	1,422,984	1,471,673	142,823	1,473,478	1,526,682	1,526,682	1,526,682	
Debt Service & Redemption	20,460,938	24,475,724	27,453,366	27,366,733	27,427,393	28,261,242	28,966,155	27,932,954	26,045,144	25,861,869	25,861,869	
Insurance & Other	5,389,205	5,564,699	5,561,068	5,367,978	5,160,537	4,925,792	4,641,139	4,289,228	3,791,639	3,157,947	2,370,514	
Retirement reserves	5,326,886	5,526,886	5,726,886	5,926,886	6,126,886	6,326,886	6,526,886	6,726,886	6,999,619	7,348,768	7,778,128	
ENDING BALANCE AT JUNE 30	**$113,179,033**	**$98,736,850**	**$99,276,005**	**$105,304,627**	**$112,464,326**	**$122,908,077**	**$128,449,725**	**$142,769,133**	**$155,068,076**	**$171,843,654**	**$183,913,396**	

Fiscal Year 2011/2012 Budget
Sources & Uses of Funds
ADMINISTRATIVE SERVICES (GG) FUND

		2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	Total 10 Yrs
	PROJECTED ACTUAL	PROPOSED BUDGET					FORECAST					
REVENUE												
Tax Revenue	$2,663,839	$2,637,201	$2,637,201	$2,650,387	$2,676,890	$2,717,044	$2,757,800	$2,785,378	$2,813,231	$2,841,364	$2,869,777	$27,386,273
Cost Reimbursement from CDA	1,278,930	1,407,611	1,413,241	1,418,894	1,424,570	1,430,268	1,435,989	1,441,733	1,447,500	1,453,290	1,459,103	$14,332,198
Interest Revenue	112,529	118,657	152,079	183,880	215,322	247,417	248,963	250,301	251,214	251,746	251,900	$2,171,479
Grants & Rebates	23,917	209,243	0	0	0	0	0	0	0	0	0	$209,243
Cost Reimbursement	91,467	187,125	0	0	0	0	0	0	0	0	0	$187,125
Proceeds from Sale of Assets/Miscellanous	(99,400)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	$20,000
TOTAL REVENUE	**$4,071,282**	**$4,561,837**	**$4,204,521**	**$4,255,161**	**$4,318,782**	**$4,396,729**	**$4,444,752**	**$4,479,412**	**$4,513,945**	**$4,548,400**	**$4,582,780**	**$44,306,318**
EXPENSES												
Administration	$3,783,880	$3,880,963	$4,028,986	$4,204,398	$4,301,858	$4,405,551	$4,504,634	$4,605,985	$4,712,238	$4,808,801	$4,914,443	$44,367,857
Contract Work/Special Projects	32,351	231,357	0	0	0	0	0	0	0	0	0	231,357
TOTAL EXPENSES	**$3,816,231**	**$4,112,320**	**$4,028,986**	**$4,204,398**	**$4,301,858**	**$4,405,551**	**$4,504,634**	**$4,605,985**	**$4,712,238**	**$4,808,801**	**$4,914,443**	**$44,599,214**
CAPITAL OUTLAY												
Work In Progress	$477,112	$1,361,050	$750,000	$678,500	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$6,289,550
TOTAL CAPITAL OUTLAY	**$477,112**	**$1,361,050**	**$750,000**	**$678,500**	**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$6,289,550**
TRANSFERS IN (OUT)												
Transfers - Capital Contribution	$477,112	$1,361,050	$750,000	$678,500	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$6,289,550
TOTAL TRANSFERS IN (OUT)	**$477,112**	**$1,361,050**	**$750,000**	**$678,500**	**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$500,000**	**$6,289,550**
Fund Balance												
NET INCOME (LOSS)	$255,051	$449,517	$175,535	$50,763	$16,924	($8,822)	($59,882)	($126,573)	($198,293)	($260,401)	($331,663)	($292,895)
FUND BALANCE BEGINNING BALANCE July 1	11,415,097	11,670,148	12,119,665	12,295,200	12,345,963	12,362,887	12,354,065	12,294,183	12,167,610	11,969,317	11,708,916	11,670,148
ENDING BALANCE AT JUNE 30	**$11,670,148**	**$12,119,665**	**$12,295,200**	**$12,345,963**	**$12,362,887**	**$12,354,065**	**$12,294,183**	**$12,167,610**	**$11,969,317**	**$11,708,916**	**$11,377,253**	**$11,377,253**
RESERVE BALANCE SUMMARY												
Operating/Capital Contingencies	$954,058	$1,028,080	$1,007,247	$1,051,100	$1,075,465	$1,101,388	$1,126,159	$1,151,496	$1,178,060	$1,202,200	$1,228,611	
Insurance & Other	5,389,205	5,564,699	5,561,068	5,367,978	5,160,537	4,925,792	4,641,139	4,289,228	3,791,639	3,157,948	2,370,514	
Retirement Reserves	5,326,886	5,526,886	5,726,886	5,926,886	6,126,886	6,326,886	6,526,886	6,726,886	6,999,619	7,348,768	7,778,128	
ENDING BALANCE AT JUNE 30	**$11,670,148**	**$12,119,665**	**$12,295,200**	**$12,345,963**	**$12,362,887**	**$12,354,065**	**$12,294,183**	**$12,167,610**	**$11,969,317**	**$11,708,916**	**$11,377,253**	

Fiscal Year 2011/2012 Budget
Sources & Uses of Funds
WASTEWATER PROGRAM – CAPITAL IMPROVEMENT (RC) FUND

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/18	2018/19	2019/20	2020/21	Total 10 Year
	PROJECTED ACTUAL	BUDGET	FORECAST									
REVENUE												
Connection Fees	$5,243,106	$5,719,200	$6,739,600	$7,779,200	$8,839,800	$9,920,000	$11,022,000	$12,144,000	$11,244,200	$10,324,000	$10,428,000	$94,160,000
Interest Revenue	449,330	370,000	426,500	370,000	293,500	338,000	383,500	431,000	410,500	380,000	383,000	3,786,000
Contract Work	5,940	0	0	0	0	0	0	0	0	0	0	0
Lease Revenue	2,200	6,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	51,000
TOTAL REVENUE	$5,700,576	$6,095,200	$7,171,100	$8,154,200	$9,138,300	$10,263,000	$11,410,500	$12,580,000	$11,659,700	$10,709,000	$10,816,000	$97,997,000
OTHER FUNDING SOURCES												
Tax Revenue - Debt and Capital	$21,643,692	$21,427,255	$21,427,255	$21,534,391	$21,749,735	$22,075,981	$22,407,121	$22,631,192	$22,857,504	$23,086,079	$23,316,940	$222,513,453
SRF Loan Proceeds (Incl City of Fontana)	14,512,452	5,849,160	0	0	0	0	0	0	0	0	0	5,849,160
Proceeds from the sale of property	0	0	2,339,250	2,339,250	0	0	0	0	0	0	0	4,678,500
Grants	422,495	1,473,081	0	0	0	0	0	0	0	0	0	1,473,081
Loan from RO/RW Funds	3,700,000	0	0	0	0	0	0	2,000,000	1,000,000	0	0	3,000,000
Miscellaneous Revenue - Spec Sales	3,172	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	10,000
TOTAL OTHER FUNDING SOURCES	$40,281,812	$28,750,496	$23,767,505	$23,874,641	$21,750,735	$22,076,981	$22,408,121	$24,632,192	$23,858,504	$23,087,079	$23,317,940	$237,524,194
TOTAL REVENUES AND OTHER FUNDING SOURCES	**$45,982,388**	**$34,845,696**	**$30,938,605**	**$32,028,841**	**$30,889,035**	**$32,339,981**	**$33,818,621**	**$37,212,192**	**$35,518,204**	**$33,796,079**	**$34,133,940**	**$335,521,194**
EXPENSES												
Administration	$4,202,876	$4,549,540	$4,631,505	$4,645,376	$4,659,508	$4,673,909	$4,688,580	$4,703,533	$4,686,661	$4,695,891	$4,708,336	$46,642,839
Contract Work/Special Projects	702,367	1,059,884	175,000	160,000	160,000	160,000	160,000	160,000	160,000	160,000	160,000	2,514,884
Monthly NRWS Capacity Fees/4R's	564,549	499,616	499,616	499,616	499,616	499,616	499,616	499,616	499,616	499,616	499,616	4,996,160
TOTAL EXPENSES	**$5,469,792**	**$6,109,040**	**$5,306,121**	**$5,304,992**	**$5,319,124**	**$5,333,525**	**$5,348,196**	**$5,363,149**	**$5,346,277**	**$5,355,507**	**$5,367,952**	**$54,153,883**
CAPITAL OUTLAY												
Work In Progress - RC	$20,988,057	$16,042,160	$3,630,350	$2,850,000	$2,250,000	$2,150,000	$8,150,000	$4,045,998	$2,565,516	$2,650,000	$2,650,000	$46,984,024
	$20,988,057	**$16,042,160**	**$3,630,350**	**$2,850,000**	**$2,250,000**	**$2,150,000**	**$8,150,000**	**$4,045,998**	**$2,565,516**	**$2,650,000**	**$2,650,000**	**$46,984,024**
		0										0
DEBT SERVICE												
Principal Payments - Bonds/Loans	$5,941,470	$6,411,550	$8,008,159	$8,210,119	$8,427,318	$8,696,380	$8,960,883	$9,071,268	$9,314,149	$9,775,336	$10,044,828	$86,919,990
Interest Expense	8,911,337	8,312,044	8,255,658	8,052,676	7,815,450	7,548,782	7,277,957	6,963,685	6,643,268	6,284,027	5,898,068	73,051,615
Financial Expense	298,500	266,950	212,400	265,200	212,400	265,200	212,400	265,200	212,400	265,200	212,400	2,389,750
TOTAL DEBT SERVICE	**$15,151,307**	**$14,990,544**	**$16,476,217**	**$16,527,995**	**$16,455,168**	**$16,510,362**	**$16,451,240**	**$16,300,153**	**$16,169,817**	**$16,324,563**	**$16,155,296**	**$162,361,355**
TRANFERS IN (OUT)												
Capital Contribution to GG	($444,668)	($1,268,499)	($699,000)	($632,362)	($466,000)	($466,000)	($466,000)	($466,000)	($466,000)	($466,000)	($466,000)	($5,861,861)
Debt Service, Recharge Water	(341,855)	(687,386)	(666,918)	(681,161)	(666,945)	(680,954)	(667,387)	(680,934)	(667,285)	(681,000)	(667,750)	(6,747,720)
Debt Service, Recycled Water	(1,464,622)	(1,464,622)	(1,464,622)	(1,464,622)	(1,464,622)	(1,464,622)	(1,464,622)	(1,464,622)	(1,464,622)	(1,464,622)	(1,464,622)	(14,646,220)
Obligation Payment	6,972,325	0	0	0	0	0	0	0	0	0	0	0
TOTAL TRANFERS IN (OUT)	**$4,721,181**	**($3,420,507)**	**($2,830,540)**	**($2,778,145)**	**($2,597,567)**	**($2,611,576)**	**($2,598,009)**	**($2,611,556)**	**($2,597,907)**	**($2,611,622)**	**($2,598,372)**	**($27,255,801)**
FUND BALANCE												
Net Income (Loss)	$9,094,413	($5,716,555)	$2,695,377	$4,567,709	$4,267,176	$5,734,518	$1,271,176	$8,891,336	$8,838,687	$6,854,387	$7,362,320	$44,766,131
Beginning Fund Balance July 01	31,523,232	40,617,645	34,901,090	37,596,467	42,164,176	46,431,352	52,165,870	53,437,046	62,328,382	71,167,069	78,021,456	40,617,645
ENDING FUND BALANCE AT JUNE 30	**$40,617,645**	**$34,901,090**	**$37,596,467**	**$42,164,176**	**$46,431,352**	**$52,165,870**	**$53,437,046**	**$62,328,382**	**$71,167,069**	**$78,021,456**	**$85,383,776**	**$85,383,776**
RESERVE BALANCE SUMMARY												
Capital Expansion and Construction	$2,905,595	$3,099,571	$9,000,435	$9,903,720	$10,261,893	$10,149,100	$10,535,816	$11,427,137	$12,853,163	$13,566,067	$14,500,387	
CCRA Capital Construction	20,358,039	13,077,239	9,816,839	13,596,039	17,435,839	23,355,839	24,377,839	32,521,839	39,766,039	46,090,039	52,518,039	
Capital Assets and Construction	$23,263,634	$16,176,810	$18,817,274	$23,499,759	$27,697,732	$33,504,939	$34,913,655	$43,948,976	$52,619,202	$59,656,106	$67,018,426	
Capital Cash Flow Support	211,459	116,523	105,415	77,682	77,682	77,682	77,682	77,682	77,682	77,682	77,682	
Debt Service Support	2,152,008	2,131,540	2,145,783	2,131,567	2,145,576	2,132,009	2,145,556	2,131,907	2,145,622	2,132,372	2,132,372	
Debt Service & Redemption	14,990,544	16,476,217	16,527,995	16,455,168	16,510,362	16,451,240	16,300,153	16,169,817	16,324,563	16,155,296	16,155,296	
ENDING RESERVE BALANCE AT JUNE 30	**$40,617,645**	**$34,901,090**	**$37,596,467**	**42,164,176**	**46,431,352**	**52,165,870**	**53,437,046**	**62,328,382**	**71,167,069**	**78,021,456**	**85,383,776**	

Fiscal Year 2011/2012 Budget
Sources & Uses of Funds
WASTEWATER PROGRAM – OPERATIONS & MAINTENANCE (RO) FUND

	2010/2011 PROJECTED ACTUAL	2011/2012 BUDGET	2012/2013	2013/2014	2014/2015	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total 10 Yrs
			FORECAST									
REVENUE												
Volumetric Revenue	$34,004,900	$34,426,799	$37,598,944	$38,464,060	$39,333,269	$40,206,585	$41,084,023	$41,965,598	$42,851,326	$43,632,672	$44,414,019	$403,977,295
Property Tax Revenues -O&M Operations	4,448,650	4,387,667	4,262,667	4,298,928	6,069,870	5,155,388	4,242,938	5,336,014	3,705,021	6,599,452	6,920,863	50,978,808
Contract Work/Other Users Revenue (NRW)	680,413	1,085,570	1,083,045	1,083,045	1,083,045	1,083,045	1,083,045	1,083,045	1,083,045	1,083,045	1,083,045	10,832,975
IERCA Reimbursement - Operations	2,894,900	2,795,988	2,807,172	2,808,575	2,809,980	2,811,385	2,812,790	2,814,197	2,815,604	2,817,012	2,818,420	28,111,121
Interest Revenue	218,000	230,000	300,000	300,000	400,000	550,000	750,000	800,000	850,000	900,000	900,000	5,980,000
Total Revenue	**$42,246,863**	**$42,926,024**	**$46,051,828**	**$46,954,608**	**$49,696,164**	**$49,806,403**	**$49,972,796**	**$51,998,854**	**$51,304,996**	**$55,032,181**	**$56,136,347**	**$499,880,199**
OTHER FUNDING SOURCES												
Property Tax Revenues-Debt/Capital	$1,877,968	2,864,635	$2,989,635	$2,989,635	$2,964,635	$4,014,635	$5,064,635	$4,064,635	$5,789,635	$2,990,150	$2,764,635	$36,496,865
Environment Benefit Credits	4,375	0	0	0	0	0	0	0	0	0	0	0
Grant Receipts	35,537	65,812	51,750	51,750	51,750	0	0	0	0	0	0	221,062
Other Revenues	65,236	70,000	71,400	72,828	74,285	75,770	77,286	78,831	80,408	82,016	83,656	766,480
TOTAL OTHER FUNDING SOURCES	**$1,983,116**	**$3,000,447**	**$3,112,785**	**$3,114,213**	**$3,090,670**	**$4,090,405**	**$5,141,921**	**$4,143,466**	**$5,870,043**	**$3,072,166**	**$2,848,291**	**$37,484,407**
TOTAL REVENUE & OTHER FUNDING SOURCES	**$44,229,979**	**$45,926,471**	**$49,164,613**	**$50,068,821**	**$52,786,833**	**$53,896,808**	**$55,114,717**	**$56,142,320**	**$57,175,039**	**$58,104,347**	**$58,984,639**	**$537,364,606**
EXPENSES												
Operations	$39,125,698	$41,364,366	$42,333,944	$42,825,061	$43,273,167	$43,780,964	$44,308,715	$44,822,109	$45,352,247	$46,068,576	$46,329,649	$440,458,800
IERCF Operations	2,894,900	2,795,988	2,807,172	2,808,575	2,809,980	2,811,385	2,812,790	2,814,197	2,815,604	2,817,012	2,818,420	28,111,121
Contract Work	373,994	59,450	59,450	59,450	59,450	0	0	0	0	0	0	237,800
Debt Service	210,835	214,635	214,635	214,635	214,635	214,635	214,635	214,635	214,635	214,635	214,635	2,146,350
TOTAL EXPENSES	**$42,605,427**	**$44,434,439**	**$45,415,201**	**$45,907,721**	**$46,357,232**	**$46,806,984**	**$47,336,140**	**$47,850,941**	**$48,382,486**	**$49,100,223**	**$49,362,704**	**$470,954,071**
ASSETS												
Work in Progress	$1,667,133	$2,650,000	$2,775,000	$2,775,000	$2,250,000	$3,300,000	$4,350,000	$3,350,000	$5,075,000	$2,275,515	$2,050,000	$30,850,515
Capital Adjustment	0	0	0	0	500,000	500,000	500,000	500,000	500,000	500,000	500,000	3,500,000
TOTAL ASSETS	**$1,667,133**	**$2,650,000**	**$2,775,000**	**$2,775,000**	**$2,750,000**	**$3,800,000**	**$4,850,000**	**$3,850,000**	**$5,575,000**	**$2,775,515**	**$2,550,000**	**$34,350,515**
NET INCOME (LOSS)	**($42,581)**	**($1,157,968)**	**$974,412**	**$1,386,100**	**$3,679,601**	**$3,289,824**	**$2,928,577**	**$4,441,379**	**$3,217,553**	**$6,228,609**	**$7,071,935**	**$32,060,020**
FUND BALANCE SUMMARY												
Net Income (Loss)	($42,581)	($1,157,968)	$974,412	$1,386,100	$3,679,601	$3,289,824	$2,928,577	$4,441,379	$3,217,553	$6,228,609	$7,071,935	$32,060,022
Beginning Balance July 01	22,657,655	22,615,074	21,457,106	22,431,518	23,817,618	27,497,219	30,787,043	33,715,620	38,156,999	41,374,552	47,603,161	22,615,074
ENDING BALANCE AT JUNE 30	**$22,615,074**	**$21,457,106**	**$22,431,518**	**$23,817,618**	**$27,497,219**	**$30,787,043**	**$33,715,620**	**$38,156,999**	**$41,374,552**	**$47,603,161**	**$54,675,096**	**$54,675,096**
RESERVE BALANCE SUMMARY												
Operating Contingencies	$14,131,531	$14,739,935	$15,066,855	$15,231,029	$15,380,866	$15,530,783	$15,707,168	$15,878,769	$16,055,950	$16,295,196	$16,382,690	
Capital Replacement	8,268,908	6,502,536	7,150,028	8,371,954	11,901,718	15,041,625	17,793,817	22,063,595	25,103,967	31,093,330	38,077,771	
Debt Reserves	214,635	214,635	214,635	214,635	214,635	214,635	214,635	214,635	214,635	214,635	214,635	
ENDING BALANCE AT JUNE 30	**$22,615,074**	**$21,457,106**	**$22,431,518**	**$23,817,618**	**$27,497,219**	**$30,787,043**	**$33,715,620**	**$38,156,999**	**$41,374,552**	**$47,603,161**	**$54,675,096**	

Fiscal Year 2011/2012 Budget
Sources & Uses of Funds
NON-RECLAIMABLE WASTEWATER SYSTEM (NC) FUND

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	Total 10 Yrs
	PROJECTED ACTUAL	BUDGET					FORECAST					
REVENUE												
Volumetric Revenue	$2,476,470	$2,530,050	$2,555,351	$2,580,904	$2,606,713	$2,632,780	$2,659,108	$2,685,699	$2,712,556	$2,739,682	$2,767,078	$26,469,921
Excess user Fees	1,390,119	1,999,645	1,842,328	1,857,261	1,872,344	1,887,577	1,902,963	1,918,503	1,934,198	1,950,050	1,966,060	19,130,929
Capacity Fees	1,585,013	1,400,212	1,407,213	1,414,249	1,421,320	1,428,427	1,435,569	1,442,747	1,449,961	1,457,210	1,464,497	14,321,405
Capital Improvement Program (CIP)	688,573	957,652	957,660	957,660	957,660	957,660	957,660	957,660	957,660	957,660	957,661	9,576,593
Sale of Capacity	150,000	0	0	0	0	0	0	0	0	0	0	0
Administrative Service Charges	1,493,682	1,471,071	1,483,344	1,495,728	1,508,223	1,520,831	1,533,553	1,546,389	1,559,342	1,572,411	1,585,598	15,276,490
Special/Reimbursable Contract Services	2,788	0	0	0	0	0	0	0	0	0	0	0
Interest Revenue	282,000	237,750	253,000	286,250	300,500	251,750	265,000	220,000	187,500	157,000	140,000	2,298,750
Other Revenue	42,446	137,999	138,999	140,009	141,029	117,809	118,100	119,151	120,212	121,286	122,369	1,276,964
TOTAL REVENUE	**$8,111,091**	**$8,734,379**	**$8,637,895**	**$8,732,061**	**$8,807,789**	**$8,796,834**	**$8,871,953**	**$8,890,149**	**$8,921,429**	**$8,955,299**	**$9,003,263**	**$88,351,052**
OTHER FUNDING SOURCES												
Interfund Loan	$0	$1,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$3,000,000	$2,000,000	$1,000,000	$0	$0	$15,000,000
TOTAL OTHER FUNDING SOURCES	**$0**	**$1,000,000**	**$2,000,000**	**$2,000,000**	**$2,000,000**	**$2,000,000**	**$3,000,000**	**$2,000,000**	**$1,000,000**	**$0**	**$0**	**$15,000,000**
TOTAL REVENUE & OTHER FUNDING SOURCES	**$8,111,091**	**$9,734,379**	**$10,637,895**	**$10,732,061**	**$10,807,789**	**$10,796,834**	**$11,871,953**	**$10,890,149**	**$9,921,429**	**$8,955,299**	**$9,003,263**	**$103,351,052**
EXPENSES												
Operations	$6,230,159	$6,484,875	$6,598,512	$6,611,277	$6,624,993	$6,638,764	$6,652,991	$6,686,376	$6,682,183	$6,697,163	$6,551,666	$66,228,800
Administration	26,805	55,390	48,724	49,848	51,004	52,201	53,432	54,703	56,043	57,309	58,609	537,263
Contract Work/Special Projects	27,187	60,000	60,000	60,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	250,000
TOTAL EXPENSES	**$6,284,151**	**$6,600,265**	**$6,707,236**	**$6,721,125**	**$6,685,997**	**$6,700,965**	**$6,716,423**	**$6,751,079**	**$6,748,226**	**$6,764,472**	**$6,620,275**	**$67,016,063**
CAPITAL OUTLAY												
Work-In-Progress	$293,569	$1,535,880	$1,367,500	$1,335,000	$1,585,000	$1,485,000	$1,535,000	$1,485,000	$670,000	$670,000	$670,000	$12,338,380
CSDLAC 4Rs	1,242,000	1,485,260	1,429,818	1,475,712	1,422,984	1,471,673	1,421,823	1,473,478	1,526,682	1,526,682	1,526,682	14,760,794
TOTAL CAPITAL OUTLAY	**$1,535,569**	**$3,021,140**	**$2,797,318**	**$2,810,712**	**$3,007,984**	**$2,956,673**	**$2,956,823**	**$2,958,478**	**$2,196,682**	**$2,196,682**	**$2,196,682**	**$27,099,174**
DEBT SERVICE												
Principal payments	$118,464	$125,570	$133,105	$141,091	$149,556	$158,530	$93,488	$0	$0	$0	$0	$801,340
Interest payments	422,893	409,080	401,546	393,560	385,094	376,121	366,609	356,526	356,526	356,526	356,526	3,758,114
Financial Expenses	550	550	550	550	550	550	550	550	550	550	550	5,500
TOTAL DEBT SERVICE	**$541,907**	**$535,200**	**$535,201**	**$535,201**	**$535,200**	**$535,201**	**$460,647**	**$357,076**	**$357,076**	**$357,076**	**$357,076**	**$4,564,954**
TRANSFERS IN (OUT)												
Capital Equipment Transfers to GG	($16,222)	($46,276)	($25,500)	($23,069)	($17,000)	($17,000)	($17,000)	($17,000)	($17,000)	($17,000)	($17,000)	($213,845)
TOTAL TRANSFERS IN (OUT)	**($16,222)**	**($46,276)**	**($25,500)**	**($23,069)**	**($17,000)**	**($17,000)**	**($17,000)**	**($17,000)**	**($17,000)**	**($17,000)**	**($17,000)**	**($213,845)**
FUND BALANCE SUMMARY												
Net Income (Loss)	($266,758)	($468,502)	$572,640	$641,954	$561,608	$586,995	$1,721,060	$806,516	$602,445	($379,931)	($187,770)	$4,457,016
Beginning Balance July 01	6,140,868	5,874,110	5,405,608	5,978,248	6,620,202	7,181,810	7,768,805	9,489,865	10,296,381	10,898,826	10,518,895	5,874,110
ENDING BALANCE AT JUNE 30	**$5,874,110**	**$5,405,608**	**$5,978,248**	**$6,620,202**	**$7,181,810**	**$7,768,805**	**$9,489,865**	**$10,296,381**	**$10,898,826**	**$10,518,895**	**$10,331,125**	**$10,331,126**
RESERVE BALANCE SUMMARY												
Operating Contingency	$766,139	$746,851	$748,816	$753,418	$758,346	$763,303	$768,421	$779,935	$778,943	$784,313	$736,258	
CSDLAC Prepayment	1,242,000	1,485,260	1,429,818	1,475,712	1,422,984	1,471,673	1,421,823	1,473,478	1,526,682	1,526,682	1,526,682	
Capital Expansion	3,508,895	2,638,296	3,264,413	3,855,872	4,465,279	5,073,182	6,942,545	7,685,892	8,236,125	7,850,824	7,711,109	
Debt Reserves	357,076	535,201	535,201	535,200	535,201	460,647	357,076	357,076	357,076	357,076	357,076	
ENDING RESERVE BALANCE AT JUNE 30	**$5,874,110**	**$5,405,608**	**$5,978,248**	**$6,620,202**	**$7,181,810**	**$7,768,805**	**$9,489,865**	**$10,296,381**	**$10,898,826**	**$10,518,895**	**$10,331,125**	

Fiscal Year 2011/2012 Budget
Sources & Uses of Funds
GROUND WATER RECHARGE (RW) FUND

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	Total 10 Yrs
	PROJECTED ACTUAL	BUDGET	FORECAST									
REVENUE												
Contract Cost Reimbursement WM												
Debt Service (WM)	$341,855	$437,387	$666,918	$681,161	$666,945	$680,954	$667,387	$680,934	$667,285	$681,000	$667,750	$6,497,718
Facilities Operations	653,456	722,137	767,000	788,000	809,000	831,000	853,000	876,000	902,000	925,000	950,000	8,423,137
Capital Contribution	23,100	0	0	0	0	0	0	0	0	0	0	0
Contract Cost Reimbursement WM Total	**$1,018,411**	**$1,159,524**	**$1,433,918**	**$1,469,161**	**$1,475,945**	**$1,511,954**	**$1,520,387**	**$1,556,934**	**$1,569,285**	**$1,606,000**	**$1,617,750**	**$14,920,855**
Transfers from Other Funds												
Debt Service	$341,855	$687,387	$666,918	$681,161	$666,945	$680,954	$667,387	$680,934	$667,285	$681,000	$667,750	$6,747,719
Operation support	132,299	236,863	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	2,036,863
Transfers from Other Funds Total	**$474,154**	**$924,250**	**$866,918**	**$881,161**	**$866,945**	**$880,954**	**$867,387**	**$880,934**	**$867,285**	**$881,000**	**$867,750**	**$8,784,582**
Grants	$0	$346,500	$0	$0	$0	$0	$0	$0	$0	$0	$0	$346,500
Interest Revenue	$10,007	$10,420	$13,174	$16,028	$19,013	$22,144	$25,440	$28,934	$29,657	$30,410	$30,411	$225,631
TOTAL REVENUES	**$1,502,572**	**$2,440,693**	**$2,314,010**	**$2,366,350**	**$2,361,903**	**$2,415,052**	**$2,413,214**	**$2,466,802**	**$2,466,227**	**$2,517,410**	**$2,515,911**	**$24,051,937**
EXPENSES												
DEBT SERVICE												
Financial Expenses	$116,355	$134,450	$107,250	$134,450	$107,250	$134,450	$107,250	$134,450	$107,250	$134,450	$107,250	$1,208,500
Due to Other Funds	3,700,000	0	0	0	0	0	0	0	0	0	0	0
Principal 2008B Bonds	520,339	528,814	562,712	584,746	606,780	632,203	647,458	683,051	710,170	738,983	769,492	6,464,409
Interest 2008B Bonds	47,016	449,598	663,874	643,125	619,859	595,255	580,066	544,367	517,149	488,566	458,757	5,560,616
Debt Service Total	**$4,383,710**	**$1,112,862**	**$1,333,836**	**$1,362,321**	**$1,333,889**	**$1,361,908**	**$1,334,774**	**$1,361,868**	**$1,334,569**	**$1,361,999**	**$1,335,499**	**$13,233,525**
CAPITAL OUTLAY												
Basin improvements	$168,637	$409,000	$50,075	$0	$0	$0	$0	$0	$0	$0	$0	$459,075
Capital outlay Total	**$168,637**	**$409,000**	**$50,075**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$459,075**
REIMBURSABLE												
Facilities Operations												
SBCFCD-O&M	$12,731	$20,000	$20,600	$21,218	$21,855	$22,511	$23,186	$23,882	$24,598	$25,336	$26,096	$229,282
CBWCD-O&M	$0	$4,000	$4,120	$4,244	$4,371	$4,502	$4,637	$4,776	$4,919	$5,067	$5,219	$45,855
IEUA-O&M												
General Basin Maintenance	$271,942	$346,500	$357,795	$369,429	$381,412	$393,754	$406,467	$419,561	$433,048	$446,939	$461,247	$4,016,152
Specialty O&M	6,000	69,000	59,070	61,203	63,398	65,660	67,990	70,390	72,861	75,406	78,028	683,006
GWR General Admin	386,782	403,810	406,232	408,709	411,244	413,837	416,489	419,201	424,192	424,812	427,718	4,156,244
Utilities	106,000	116,000	119,480	123,065	126,757	130,561	134,477	138,512	142,668	146,948	151,356	1,329,825
IEUA-O&M Total	**$770,724**	**$935,310**	**$942,577**	**$962,407**	**$982,811**	**$1,003,811**	**$1,025,423**	**$1,047,664**	**$1,072,769**	**$1,094,106**	**$1,118,349**	**$10,185,227**
Facilities Operations Total	**$783,455**	**$959,310**	**$967,297**	**$987,869**	**$1,009,037**	**$1,030,824**	**$1,053,246**	**$1,076,322**	**$1,102,286**	**$1,124,509**	**$1,149,664**	**$10,460,364**
Reimbursable Total	**$783,455**	**$959,310**	**$967,297**	**$987,869**	**$1,009,037**	**$1,030,824**	**$1,053,246**	**$1,076,322**	**$1,102,286**	**$1,124,509**	**$1,149,664**	**$10,460,364**
NON REIMBURSABLE												
Non Reimbursable Administration	$2,400	$2,640	$0	$0	$0	$0	$0	$0	$0	$0	$0	$2,640
Capital/Special Projects	9,000	0	0	0	0	0	0	0	0	0	0	0
Non Reimbursable Total	**$11,400**	**$2,640**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$2,640**
TOTAL EXPENSES	**$5,347,202**	**$2,483,812**	**$2,351,208**	**$2,350,190**	**$2,342,926**	**$2,392,732**	**$2,388,020**	**$2,438,190**	**$2,436,855**	**$2,486,508**	**$2,485,163**	**$24,155,604**
FUND BALANCE SUMMARY												
Net Income (Loss)	($3,844,630)	($43,119)	($37,198)	$16,160	$18,976	$22,320	$25,194	$28,612	$29,371	$30,901	$336	$91,553
Beginning Fund Balance	5,615,018	1,770,388	1,727,269	1,690,071	1,706,231	1,725,208	1,747,527	1,772,721	1,801,333	1,830,704	1,861,606	1,770,388
ENDING BALANCE AT JUNE 30	**$1,770,388**	**$1,727,269**	**$1,690,071**	**$1,706,231**	**$1,725,208**	**$1,747,527**	**$1,772,721**	**$1,801,333**	**$1,830,704**	**$1,861,606**	**$1,861,941**	**$1,861,941**
RESERVE BALANCE SUMMARY												
Operating Contingency (Bond Requirement)	$924,002	$910,351	$858,911	$889,287	$894,254	$930,140	$941,787	$984,049	$999,705	$1,043,856	$1,044,192	
Debt Service Reserve	437,387	666,918	681,161	666,945	680,954	667,387	680,934	667,285	681,000	667,750	667,750	
Capital Construction	409,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	
ENDING BALANCE AT JUNE 30	**$1,770,338**	**$1,727,269**	**$1,690,071**	**$1,706,231**	**$1,725,208**	**$1,747,527**	**$1,772,721**	**$1,801,333**	**$1,830,704**	**$1,861,606**	**$1,861,941**	

Fiscal Year 2011/2012 Budget
Sources & Uses of Funds
RECYCLED WATER (WC) FUND

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	Total 10 Year
	PROJECTED ACTUAL	BUDGET					FORECAST					
REVENUE												
Recycled Water Sales	$2,175,200	$4,905,000	$6,580,000	$8,740,000	$10,980,000	$12,970,000	$14,180,000	$15,350,000	$15,310,000	$15,310,000	$15,310,000	$119,635,000
MWD LPP/LRP Program	2,079,000	2,079,000	2,079,000	2,079,000	2,079,000	2,079,000	2,079,000	0	0	0	0	12,474,000
Contract Work	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000
Interest Revenue	53,463	142,704	111,270	134,893	133,828	146,084	156,191	163,105	138,868	110,551	127,496	1,364,990
TOTAL REVENUE	**$4,357,663**	**$7,176,704**	**$8,820,270**	**$11,003,893**	**$13,242,828**	**$15,245,084**	**$16,465,191**	**$15,563,105**	**$15,498,868**	**$15,470,551**	**$15,487,496**	**$133,973,990**
OTHER FUNDING SOURCES												
Property Tax Receipts - Debt/Capital	$2,663,839	$1,648,250	$1,648,250	$1,656,492	$0	$0	$0	$0	$0	$0	$0	$4,952,992
SRF Loan Proceeds	10,115,576	14,438,467	7,161,558	772,835	0	0	0	0	3,105,000	5,355,000	5,805,000	36,637,860
Grants	6,721,087	4,920,647	3,000,000	0	0	0	0	0	0	0	0	7,920,647
MWD/CBWCD Public Retrofit/Lateral Reimb.	375,621	353,292	357,972	252,674	133,480	101,548	69,641	70,769	71,923	62,097	59,634	1,533,030
TOTAL OTHER FUNDING SOURCES	**$19,876,122**	**$21,360,656**	**$12,167,780**	**$2,682,001**	**$133,480**	**$101,548**	**$69,641**	**$70,769**	**$3,176,923**	**$5,417,097**	**$5,864,634**	**$51,044,529**
EXPENSES												
Pumping Costs	$1,265,480	$2,610,108	$2,967,896	$3,056,933	$3,148,641	$3,243,100	$3,340,393	$3,440,605	$3,543,823	$3,650,138	$3,759,642	$32,761,278
Operations	1,237,262	1,380,620	1,392,035	1,399,244	1,404,761	1,411,292	1,417,933	1,424,703	1,431,594	1,438,605	1,445,745	14,146,532
Administration	1,284,400	1,347,593	1,351,019	1,353,082	1,358,071	1,363,176	1,368,388	1,373,732	1,379,209	1,389,243	1,390,541	13,674,053
Ground Water Recharge Operations	452,361	457,037	411,184	380,739	415,030	465,484	420,005	390,694	425,252	475,982	430,786	4,272,193
Contract Work/Special Projects	269,545	1,115,750	200,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	1,955,750
TOTAL EXPENSES	**$4,509,047**	**$6,911,108**	**$6,322,134**	**$6,269,997**	**$6,406,503**	**$6,563,052**	**$6,626,719**	**$6,709,733**	**$6,859,878**	**$7,033,968**	**$7,106,714**	**$66,809,806**
CAPITAL OUTLAY												
Work In Progress	$22,982,320	$24,183,843	$13,055,670	$850,000	$850,000	$450,000	$450,000	$450,000	$3,450,000	$5,950,000	$6,450,000	$56,139,513
TOTAL CAPITAL OUTLAY	**$22,982,320**	**$24,183,843**	**$13,055,670**	**$850,000**	**$850,000**	**$450,000**	**$450,000**	**$450,000**	**$3,450,000**	**$5,950,000**	**$6,450,000**	**$56,139,513**
DEBT SERVICE												
Due to Other Funds	$0	$1,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$3,000,000	$4,000,000	$2,000,000	$0	$0	$18,000,000
Principal - SRF Loan	1,908,920	2,767,019	2,799,419	3,906,788	3,967,545	4,029,754	4,093,455	4,158,656	4,962,017	5,048,796	5,137,667	40,871,105
Interest Expense	2,387,001	2,235,989	2,236,088	2,901,464	2,843,206	2,773,498	2,692,307	2,574,595	2,883,223	2,741,448	2,652,578	26,534,395
Financial Expense	(24,000)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	20,000
TOTAL DEBT SERVICE	**$4,271,921**	**$6,005,008**	**$7,037,507**	**$8,810,252**	**$8,812,751**	**$8,805,252**	**$9,787,762**	**$10,735,251**	**$9,847,240**	**$7,792,244**	**$7,792,245**	**$85,425,500**
TRANSFERS IN (OUT)												
Transfer - Groundwater Support -WW	$300,000	$300,000	$200,000	$100,000	$0	$0	$0	$0	$0	$0	$0	$600,000
Capital Equipment Transfer to GG	(16,222)	(46,276)	(25,500)	(23,069)	(17,000)	(17,000)	(17,000)	(17,000)	(17,000)	(17,000)	(17,000)	(213,845)
Debt Service Support - RC to WC	1,464,622	1,464,622	1,464,622	1,464,622	1,464,622	1,464,622	1,464,622	1,464,622	1,464,622	1,464,622	1,464,622	14,646,220
Transfer- Operations Support WC to RW	(132,299)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(2,000,000)
TOTAL TRANSFERS IN (OUT)	**$1,616,101**	**$1,518,346**	**$1,439,122**	**$1,341,553**	**$1,247,622**	**$1,247,622**	**$1,247,622**	**$1,247,622**	**$1,247,622**	**$1,247,622**	**$1,247,622**	**$13,032,375**
FUND BALANCE SUMMARY												
NET INCOME (LOSS)	($5,913,401)	($7,080,936)	($3,994,079)	($753,246)	($1,295,877)	$925,289	$1,062,210	($864,374)	($84,709)	$1,498,107	$1,389,480	($9,161,453)
Beginning Balance July 01	34,849,092	28,935,690	21,891,437	17,897,358	1,714,112	15,848,235	16,773,524	17,835,734	16,971,359	16,886,651	18,387,758	28,935,690
ENDING BALANCE AT JUNE 30	**$28,935,690**	**$21,854,754**	**$17,897,358**	**$17,144,112**	**$418,235**	**$16,773,524**	**$17,835,734**	**$16,971,360**	**$16,886,650**	**$18,384,758**	**$19,777,238**	**$19,774,237**
RESERVE BALANCE SUMMARY												
Capital Construction & Replacement	$22,667,528	$14,701,335	$9,133,784	$8,343,805	$7,016,180	$6,937,941	$7,036,785	$7,022,767	$8,939,586	$10,419,143	$11,708,623	
Debt Service Reserve	4,540,386	5,572,885	7,196,074	7,198,682	7,191,291	8,178,903	9,121,515	8,233,622	6,188,573	6,188,936	6,188,936	
Operating Contingency	1,727,777	1,580,534	1,567,499	1,601,626	1,640,763	1,656,680	1,677,433	1,714,969	1,758,492	1,776,679	1,876,679	
ENDING BALANCE AT JUNE 30	**28,935,690**	**21,854,754**	**$17,897,358**	**$17,144,112**	**$15,848,234**	**$16,773,524**	**$17,835,734**	**$16,971,359**	**$16,886,651**	**$18,384,758**	**$19,774,238**	

Fiscal Year 2011/2012 Budget
Sources & Uses of Funds
Water Resources (WW) FUND

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total 10 Yrs.
	PROJECTED ACTUAL	BUDGET	FORECAST									
REVENUES												
AF Surcharge Revenue	$876,000	$720,000	$871,000	$1,050,000	$1,064,000	$1,078,000	$1,092,000	$1,106,000	$1,120,000	$1,120,000	$1,120,000	10,341,000
Water Meter Revenue	2,402,471	3,302,891	3,766,289	3,889,774	4,013,853	4,482,450	5,068,293	5,657,037	6,017,687	6,479,698	6,826,206	49,504,178
Reliant Connection Fee	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	120,000
Stand by Charges	6,360	6,360	6,360	6,360	6,360	6,360	6,360	6,360	6,361	6,361	6,361	63,603
Interest Revenue	20,007	15,848	19,955	26,076	32,073	38,738	49,146	50,664	53,817	52,252	51,269	389,838
TOTAL REVENUES	**$3,316,838**	**$4,057,099**	**$4,675,604**	**$4,984,210**	**$5,128,286**	**$5,617,548**	**$6,227,799**	**$6,832,061**	**$7,209,865**	**$7,670,311**	**$8,015,836**	**$60,418,619**
OTHER FUNDING SOURCES												
Reimbursable Conservation Programs (Grants/MWD)	$504,320	$957,834	$250,000	$250,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	2,857,834
TOTAL OTHER FUNDING SOURCES	**$504,320**	**$957,834**	**$250,000**	**$250,000**	**$200,000**	**$200,000**	**$200,000**	**$200,000**	**$200,000**	**$200,000**	**$200,000**	**$2,857,834**
EXPENSES												
Readiness To Serve Fees	$1,992,142	$2,901,911	$3,254,494	$3,498,382	$3,874,157	$4,348,795	$4,922,292	$5,495,580	$5,771,456	$6,278,275	$6,586,745	$46,932,088
Program Administration	1,719,227	2,232,655	1,301,537	1,359,105	1,373,310	1,420,759	1,471,769	1,521,692	1,580,916	1,649,462	1,713,187	15,624,392
MWD DYY Storage Phase I & II	13,370	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	50,000
TOTAL EXPENSES	**$3,724,739**	**$5,139,566**	**$4,561,031**	**$4,862,487**	**$5,252,467**	**$5,774,554**	**$6,399,061**	**$7,022,275**	**$7,357,372**	**$7,932,737**	**$8,304,932**	**$62,606,480**
OTHER FINANCING SOURCES (USES)												
Groundwater Operations Transfer Out - WC Fund	($300,000)	($300,000)	($200,000)	($100,000)	$0	$0	$0	$0	$0	$0	$0	($600,000)
TOTAL OTHER FINANCING SOURCES (USES)	**($300,000)**	**($300,000)**	**($200,000)**	**($100,000)**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**($600,000)**
FUND BALANCE												
Net Income (Loss)	($203,581)	($424,633)	$164,573	$271,723	$75,819	$42,994	$28,738	$9,786	$52,493	($62,426)	($89,096)	$69,973
Beginning Fund Balance July 01	2,204,346	2,000,765	1,576,132	1,740,705	2,012,428	2,088,247	2,131,241	2,159,979	2,169,765	2,222,258	2,159,832	1,036,452
ENDING FUND BALANCE AT JUNE 30	**$2,000,765**	**$1,576,132**	**$1,740,705**	**$2,012,428**	**$2,088,247**	**$2,131,241**	**$2,159,979**	**$2,169,765**	**$2,222,258**	**$2,159,832**	**$2,070,736**	**$1,106,425**
RESERVE BALANCE SUMMARY												
Operating/Capital Contingencies	$2,000,765	$1,576,132	$1,740,705	$2,012,428	$2,088,247	$2,131,241	$2,159,979	$2,169,765	$2,222,258	$2,159,832	$2,070,736	
ENDING RESERVE BALANCE AT JUNE 30	**$2,000,765**	**$1,576,132**	**$1,740,705**	**$2,012,428**	**$2,088,247**	**$2,131,241**	**$2,159,979**	**$2,169,765**	**$2,222,258**	**$2,159,832**	**$2,070,736**	