



Date: May 29/June 5, 2014

To: Regional Committees

From: Inland Empire Utilities Agency

Subject: Fiscal Year 2014/15 Proposed Budget for the Regional Wastewater, Recycled Water, and Recharge Water Programs

**RECOMMENDATION**

It is recommended that the Regional Technical and Policy Committees (Committees) review and make recommendation to the IEUA Board of Directors (Board) to approve the proposed Fiscal Year (FY) 2014/15 Budget for the Agency’s Regional Wastewater, Recycled Water, and Recharge Water programs.

**BACKGROUND**

An overview of the preliminary budget for the Agency’s Regional Wastewater, Recycled Water and Recharge Water programs for Fiscal Year (FY) 2014/15 was presented the Regional Technical Committee on April 24, 2014 and the Regional Policy Committee on May 1, 2014. There are no significant changes to the key assumptions as highlighted below.

**FY 2014/15 Key Budget Assumptions**

The FY 2014/15 Proposed Budget for the Regional Wastewater and Recycled Water programs is based on the last year of the multi-year rates adopted by the Board in February 2012, for Fiscal Years (FYs) 2012/13 – 2014/15.

**Table 1: Multi-Year Adopted Rates for Regional Wastewater and Recycled Water Programs**

Program	Rate	FY 2012/13 Effective July 1, 2012	FY 2013/14 Effective July 1, 2013	FY 2014/15 Effective July 1, 2014
Regional Wastewater	Monthly EDU Volumetric Fee	\$12.39	\$13.39	\$14.39
	New Per EDU Connection Fee	\$4,909	\$5,007	\$5,107
Recycled Water	Direct Delivery Rate Per AF	\$155	\$215	\$290
	Groundwater Recharge Per AF	\$195	\$255	\$335

While the multi-year rates have helped to move the Agency closer to its ultimate goal (2007 Long Range Financial Plan) of achieving rates that recover the full cost of service, as illustrated in Exhibit A, the adopted rates for FY 2014/15 are still below the total cost of service for both the Regional Wastewater Operations & Maintenance (RO) and Recycled Water (WC) funds. Other key assumptions are summarized in Table 2.

**Table 2: Other Key Assumptions for FY 2014/15 Budget**

Revenues and Other Funding Sources	Expenses and Other Uses of Funds
3,000 new EDU connections, conservatively less than the 5,106 units projected by member agencies.	Permanent reduction of 5 full time equivalent (FTE) positions from 295 to 290, plus continued commitment to maintain a vacancy factor of up to 5%, equivalent to 15 FTEs.
3.2 million total number of billable volumetric EDUs; slight increase of .25% over projected actual for current fiscal year.	3% COLA offset by an additional 1% employee funded PERS contribution rate. Effective 7/1/14, classic employees will be paying 50% of the 8% employee contribution rate. Estimated \$1.2 million compensation adjustment resulting from the Class & Compensation Study underway
32,000 acre feet (AF) total recycled water deliveries (21,500 AF direct plus 10,500 AF recharged water deliveries).	Prefunding the unfunded accrued liabilities (UAL) for retirement benefits; \$4.5 million (pension) plus \$1.5 million (OPEB).
3% increase in property tax receipts consistent with the San Bernardino County Tax Assessor projected increase in assessed property values. No change in the allocation of property taxes for the Regional Wastewater and Recycled Water programs is proposed for FY 2014/15.	Retirement of high interest bonds callable in November 2014, \$16 million.
Low interest State Revolving Fund (SRF) loans and grants for the Southern and Central/Wineville Area recycled water construction projects.	Capital Improvement Plan (CIP) based on the FYs 2015-2014 TYCIP adopted in February 2014.

Not included in the proposed FY 2014/15 O&M Budget and adopted TYCIP are projects still to be identified with the completion of various long term planning documents currently underway, such as the updated Wastewater Facilities Master Plan, Integrated Resources Plan, and Recycled Water Program Strategy. Projects emerging from these long term documents will be integrated into next year's TYCIP and operating budget.

**Regional Wastewater Capital Improvement (RC) Fund**

A major revenue source for the RC fund is the fees levied for new connections to its regional wastewater system, referred to as new EDU connections fees. Pursuant to the Regional Sewage Service Contract (Regional Contract), member agencies collect and hold these funds in a trust

account (Capital Construction Reimbursement Accounts) until they are “called” or requested by the Agency to support Regional capital expenditures. Following the 2008 economic downturn, the number of new EDU connections plummeted from an annual average of 5,400 units over the preceding ten fiscal years (FY 1998/99 – FY 2007/08) to 1,318 units in FY 2008/09 and 1,116 units in FY 2010/11.

As mentioned above, a spur of new development increased new EDU connections to 1,614 units in FY 2011/12, and followed suit in FY 2012/13 with an additional 2,996 units, ending well above the 1,700 budgeted units. As of March 2014, the number of new EDU connections year to date of 1,340 units is shy of the levels in previous fiscal years. This volatility is an important reminder of the need to take a more conservative approach in forecasting and budgeting future connections. Hence, the new EDU connections for FY 2014/15 have been lowered to 3,000 units, well below the 5,106 units projected by member agencies.

**Table 2: FY 2014/15 RC Fund Major Revenues & Other Sources of Funds**

Fund	Major Revenue Category	Amount \$Millions	Key Assumptions
<b>Regional Wastewater Capital (RC)</b>	New EDU Connections Fees	\$15.3	3,000 new EDUs connections compared to 1,800 units projected for FY 2013/14. New EDU connection fee to increase from \$5,007 per EDU to \$5,107/EDU effective 7/1/14.
	Property Tax Receipts	\$26.1	Assumes a 3% increase in FY 2014/15. Allocation of 65% of total property tax receipts to RC fund are designated for debt service costs in FY 2014/15.

Property tax receipts are another major funding source for the RC fund. Improvement District “C” (IDC) taxes allocated to the RC fund represent 65%, or approximately \$26.1 million of the total property taxes received by the Agency. In FY 2014/15, property taxes in the RC fund are fully designated to support debt service costs of \$30.2 million, which includes early repayment of the 2005 bonds callable in November 2014.

**Table 4: FY 2014/15 RC Fund Major Expenses & Other Uses of Funds**

Fund	Major Expenses Category	Budget \$Millions	Key Assumptions
<b>Regional Wastewater Capital Improvement (RC)</b>	Operating Expenses	\$5.7	Administrative costs for support of the Regional capital program.
	Debt Service Costs	\$30.2	Includes principal & interest for 2005A, 2008A, 2008B and 2010A bonds and SRF loan for RP-1 Dewatering Expansion Facility. Also included \$14.2M for retirement of 2005A bonds.

Capital Project Costs	\$6.0	See Table 3 for summary of major capital projects.
Inter-Fund Transfers	\$1.9	Capital and debt service cost support to the Administrative (GG), Recycled Water (WC), and the Recharge Water (RW) funds.

In addition to debt service costs, the other major expenditure in the RC fund is capital expenditures. A total of \$5.5 million in capital project costs is budgeted in FY 2014/15, which accounts for nearly 23% of the proposed \$26.0 million capital improvement plan (CIP) for FY 2014/15. Some of the major projects for FY 2014/15 are listed on Table 5.

**Table 5: FY 2014/15 RC Fund Major Capital Projects**

Project Name	Total Project Budget \$Thousands	FY 2014/15 Budget \$Thousands
<b>RP-5 Flow Equalization &amp; Effluent Monitoring</b>	<b>\$2,144</b>	<b>\$700</b>
<b>Agency Wide HVAC Improvements</b>	<b>\$1,244</b>	<b>\$600</b>
<b>Fontana Interceptor Relief &amp; Sewer Manholes Rehab.</b>	<b>\$3,035</b>	<b>\$600</b>
<b>CCWRF Odor Control System Replacement</b>	<b>\$5,070</b>	<b>\$500</b>
<b>Collection System Repairs Phase V</b>	<b>\$575</b>	<b>\$400</b>

**Regional Wastewater O&M (RO) Fund**

The Regional Wastewater Operations & Maintenance (RO) fund accounts for the revenue and operating costs directly related to the domestic sewage collection, treatment, and disposal service and organic management activities, including employment costs to operate and support the Inland Empire Regional Composting Authority (IERCA). Over 77%, or \$45.9 million, of the \$59.3 million operating revenue and other funding sources are generated from monthly EDU volumetric fees charged to the Agency’s contracting member agencies for collection and treatment of domestic sewage. Other revenue and funding sources include \$8.8 million of property tax receipts (equivalent to 22% of total property tax receipts) and \$3.5 million in reimbursement from IERCA.

**Table 6: FY 2014/15 RO Fund Major Revenues & Other Sources of Funds**

Fund	Major Revenue Category	Budget \$Millions	Key Assumptions
<b>Regional Wastewater Operations &amp;</b>	Monthly EDU Volumetric Charges	\$45.9	Projected growth of 0.25% in the number of billable EDUs compared to FY 2013/14 adopted budget. EDU Volumetric rate to increase from

<b>Maintenance (RO)</b>			\$13.39/EDU to \$14.39/EDU effective 7/1/14.
	Property Tax Receipts	\$8.8	Assumes a 3% increase in FY 2014/15 in assessed property values, per county assessor. Allocation of 22% of total property tax receipts to RO Fund are designated to support debt service and capital replacement and rehabilitation (R&R).
	Contract Reimbursement	\$3.5	Reimbursement of employment costs from the IERCA

Total operating costs of \$56.3 million budgeted in FY 2014/15 show an increase of \$7.1 million compared to the FY 2013/14 amended budget of \$49.2 million and an increase of \$11.3 million compared to FY 2013/14 projected actuals of \$45.0 million. The projected higher costs in FY 2014/15 are primarily due to higher employment costs which include; implementation of the salary increases partially offset by an increase in employee funded pension contribution rates as per the negotiated MOUs, \$4.5 million to support the prefunding of the unfunded accrued liability (UAL) for pension benefits, additional costs associated with retirement benefits (PERS employer rate) and insurance premiums, and an estimated \$1.2 million compensation adjustment related to the Class and Compensation (C&C) study currently underway. Utilities and chemical costs are projected to increase in FY2014/15 due to additional use of natural gas and polymers for the Fuel Cell and RP-1 Dewatering facilities, respectively. Both facilities are now in full operation. Table 7 below is a summary of the major expense categories and key assumptions.

**Table 7: FY 2013/14 RO Fund Major Expense Categories**

<b>Fund</b>	<b>Major Expense Category</b>	<b>Budget \$Millions</b>	<b>Key Assumptions</b>
<b>Regional Wastewater Operations &amp; Maintenance (RO)</b>	Employment	\$28.4	Permanent reduction of Full Time Equivalent (FTE) positions from 295 to 290, maintain a vacancy factor of up to 5%, 3% COLA per MOUs, 5% increase in CalPERS employer contribution rate, increase of employee funded pension contribution rate from 3% to 4%. Additionally includes \$4.5M to pay down retirement UAL and \$1.2M estimated compensation adjustment resulting from the Class & Compensation study underway.
	Utilities	\$7.2	Electricity rates maintained at \$0.12 kWh for direct access; Increase of the use of natural gas for RP-1 Fuel Cell
	Chemicals	\$4.5	Higher dosage of polymer due to RP-1 Dewatering centrifuge, and Sodium Hypochlorite in RP-1 Tertiary in anticipation of secondary clarifiers shut down for maintenance.
	Biosolids Recycling	\$3.6	Increase tipping fees to \$54 per ton by the IERCA
	Contract Work/Special (O&M) Projects	\$2.2	Major maintenance repair projects identified in the Agency's Asset Management Plan: Underground Piping Rehabilitation, RP1/RP2 Digester Cleaning Annual Rehabilitation of Clarifiers Aeration System Rehabilitation, Biofilter Media Replacement

Maintenance and replacement and rehabilitation (R&R) of aging equipment and facilities are critical elements of the adopted FYs 2015-2014 TYCIP. Beginning in FY 2008/09, the Agency implemented a cost reduction initiative in response to the economic downturn. As part of the cost containment effort, R&R projects deemed to be non-critical at that time were deferred. Since then, the Agency completed development of the Asset Management Plan to more accurately assess the condition of the Agency’s physical assets. The R&R projects proposed for FY 2014/15 are based on the results of condition assessments and are essential to ensuring the Agency can sustain its committed level of service to its customers.

Over the next ten years, over \$50 million of R&R projects are budgeted in the RO fund to uphold the operational reliability of the Agency’s regional facilities. The proposed R&R budget for FY 2014/15 is \$10.2 million; major projects include:

**Table 8: FY 2014/15 RO Fund Major R&R Capital Projects**

<b>Project Name</b>	<b>Total Project Budget \$Thousands</b>	<b>FY 2014/15 Budget \$Thousands</b>
<b>Montclair Lift Station Upgrades</b>	<b>\$2,915</b>	<b>\$2,500</b>
<b>SCADA Enterprise System Upgrade</b>	<b>\$9,625</b>	<b>\$1,000</b>
<b>RP-4 Headwork Retrofit</b>	<b>\$1,200</b>	<b>\$900</b>
<b>CCWRF Secondary Clarifier #3 Rehab</b>	<b>\$1,100</b>	<b>\$800</b>
<b>Major Equipment Rehabilitation</b>	<b>\$4,000</b>	<b>\$700</b>
<b>RP-2 Drying Beds Rehabilitation</b>	<b>\$1,100</b>	<b>\$600</b>

**Recycled Water (WC) Fund**

A key initiative for the Agency is to optimize the beneficial reuse of recycled water and provide a cost effective and reliable alternative to imported water for the region, as specified in the Recycled Water Three Year Business Plan (TYBP) adopted in December 2007. Since the adoption of the TYBP, projected recycled water deliveries have been reduced significantly. Originally, total connected demand was projected to reach 50,000 acre feet per year (AFY) by FY 2010/11; 33,000 AFY direct deliveries and 17,000 AFY recharge water deliveries.

The 50,000 AFY delivery’s goal has been revised due to a combination of factors including delayed execution of major construction projects and a stagnation in the number of direct use connections. Two key projects that have been delayed include the Southern Area and Central/Wineville Area projects; originally planned for completion in FY 2009/10 and FY 2010/11, respectively. Completion of the Southern Area project construction is currently

targeted for 2015; and Central/Wineville Area project in FY 2015/16. Based on the current project plan, the 50,000 AFY goal is now expected to be achieved by FY 2019/20; nine years later than originally planned.

Total recycled water deliveries are not anticipated to increase significantly in FY 2014/15, despite the significant increase in recharge deliveries this year. Recharge deliveries are expected to exceed the 10,000 AF budgeted this fiscal year. As of February, recycled water deliveries totaled 17,254 AF, including 9,222 AF of recharge and 9,669 direct deliveries. The key driver for the increase is the current drought which resulted in the declaration of a drought state of emergency by Governor Brown in January 2014, followed by a second emergency proclamation on April 25, 2014. Given the uncertainty of the drought continuing in FY 2014/15, direct deliveries and recharge deliveries are budgeted at 21,500 AF and 10,500 AF, respectively. These projections result in a total budget of 32,000 AF in total recycled water deliveries for FY 2014/15; a decrease of 3,000 AF over the projected actual for FY 2013/14.

Based on the multi-year rates adopted by the Board in February 2012 (Exhibit A), total recycled water sales are budgeted at \$9.5 million; \$6.0 million direct sales and \$3.5 million for recharge sales. The Metropolitan Water District of Southern California Local Project Program (MWD LPP) rebate of \$2.1 million is another key operating revenue source. This annual rebate is set to expire on June 2017.

**Table 9: FY 2014/15 WC Fund Major Revenue & Other Sources of Funds**

Program	Major Revenue Category	Budget \$Millions	Key Assumptions
Recycled Water (WC)	Direct Sales	\$6.0	21,500 AF, similar to FY 2013/14 projected actual. Rate to increase from \$215 per Acre Foot (AF) to \$290/AF effective 7/1/14.
	Recharge Sales	\$3.5	10,500 AF, a reduction of 3,000 over FY 2013/14 projected actual. Rate to increase from \$255/AF to \$335/AF.
	MWD LPP Rebate	\$2.1	\$134/AF rebate for recycled water sales up to 13,500 AF per FY. Rebate is set to expire in June 2017.
	Property Tax Receipts	\$2.0	Continuation of 5% of property taxes allocation from RO Fund planned to sunset in FY 2013/14.
	Loan and Grant Proceeds	\$13.4	SRF loans and grants are the primary funding source for the Southern and Central/Wineville Area Recycled Water Projects. Each loan is anticipated to receive a maximum grant of \$4 million.

State Revolving Fund (SRF) loan proceeds and grant receipts in the amount of \$13.4 million represent approximately 47% of the \$28.5 million of the Recycled Water program's Total Revenue and Other Funding Sources in FY 2014/15. For both the Southern and Central/Wineville Area projects, the Agency secured 30 year low interest rate loans; 2.1% and

1.0% per annum, respectively. Additionally, staff was successful in waiving the “Buy America” requirement for the Central/Wineville Area project resulting in an estimated savings of approximately \$4 million. These funding sources, along with a 5% allocation of property taxes in the amount of \$2.0 million are the primary funding sources of the Recycled Water (RW) program CIP.

A total of \$8.2 million in operating expenses is budgeted in FY 2014/15, reflecting an increase of approximately 40% compared to projected actuals of \$5.9 million for the current fiscal year. Utilities are anticipated to increase by nearly \$0.4 million, from \$2.1 million to \$2.6 million, due to higher pumping costs compared to projected actuals as summarized in Table 9:

**Table 9: FY 2014/15 WC Fund Major Expense Categories & Other Uses of Funds**

Program	Major Revenue Category	Budget \$Millions	Key Assumptions
Recycled Water (WC)	Employment	\$3.5	Permanent reduction of Full Time Equivalent (FTE) positions from 295 to 290, maintain a vacancy factor of up to 5%, 3% COLA per MOUs, 5% increase in CalPERS employer contribution rate, increase of employee funded pension contribution rate from 3% to 4%. Additionally includes \$4.5M to pay down retirement UAL and \$1.2M estimated compensation adjustment resulting from the Class & Compensation study underway.
	Utilities	\$2.6	\$0.12 kWh electricity rate for direct access, renewal energy rates based Purchase Power Agreements (PPAs) and annual CPI increase. Higher pumping costs are driving an increase of nearly \$0.4M compared to projected actuals.
	Operating Fess & Expense	\$1.1	Includes professional fees and services, materials and supplies, and a portion of the groundwater recharge operations expense
	Debt Service Costs	\$4.8	Includes principal and interest costs for outstanding debt.
	Capital Project Costs	\$9.8	See Table 9 for summary of major capital projects.

Annual debt service costs are estimated to maintain at \$4.8 million in FY 2014/15. Repayment of the \$23.5 million outstanding inter-fund loans (\$8.5 million due to RC fund and \$15 million due to the NC fund) are scheduled to begin in FY 2016/17, with full repayment of the \$23.5 million inter-fund loans is projected by FY 2018/19.

A total of \$9.8 million is budgeted in the WC fund for CIP in FY 2014/15; Major capital projects budgeted in FY 2014/15 are summarized in Table 10:



**Table 10: FY 2014/15 WC Fund Major Capital Projects**

<b>Project Name</b>	<b>Total Project Budget \$Thousands</b>	<b>FY 14/15 Budget \$Thousands</b>
<b>Wineville Extension – Segment A</b>	<b>\$31,200</b>	<b>\$3,000</b>
<b>Wineville Extension – Segment B</b>	<b>\$23,519</b>	<b>\$3,000</b>
<b>GWR and RW SCADA Communication System Upgrades</b>	<b>\$2,764</b>	<b>\$650</b>
<b>GWR and RW SCADA Control Equipment Upgrades</b>	<b>\$1,170</b>	<b>\$500</b>
<b>930 Zone Pressure Zone Pipeline</b>	<b>\$7,619</b>	<b>\$535</b>
<b>1630 East Pipeline Relocation</b>	<b>\$1,050</b>	<b>\$400</b>
<b>RP3 Basin Improvements</b>	<b>\$5,290</b>	<b>\$200</b>

**Recharge Water (RW) Fund**

The Recharge Water (RW) fund accounts for the revenues and expenses associated with groundwater (GWR) recharge operations and maintenance through joint efforts with the Chino Basin Watermaster (Watermaster), Chino Basin Water Conservation District, and the San Bernardino County Flood Control District. Operating expenses include general basin maintenance and/or restoration, groundwater administration (e.g. labor, tools, and supplies), contracted services (e.g. weeding and vector control), compliance reporting, and environmental documentation for permit compliance.

The proposed FY 2014/15 O&M Budget of \$1.6 million includes \$126,000 for utilities, and \$530,000 for general groundwater basin maintenance which includes \$230,000 for infiltration restoration and slope repairs of four groundwater basins: Declez, 8<sup>th</sup> Street, Jurupa, and, Turner 1 & 2. Pursuant with Chino Basin Recharge Master Plan and Peace II Agreement, costs for basins recharged with recycled water are pro-rated between Watermaster and the Agency based on the relative proportion of recycled water to the total water recharged in the basin. The Agency’s pro-rata share is estimated to increase to \$548,000 in FY 2014/15 from \$464,000 projected for the current fiscal year.

## **FY 2015 - 2024 Ten Year Capital Improvement Plan (TYCIP)**

On February 19, 2014 the Board approved the FY 2015/24 Ten Year Capital Improvement Plan (TYCIP) which defines the basis for the Regional and Recycled Water capital projects. Since then, further analysis has resulted in reclassification of some of the projects from capital to operations reducing the total TYCIP from \$336 to \$309 million. The revised FY 2015-2024 TYCIP of \$309 million is approximately 26% lower than the currently adopted FY 2014-2023 TYCIP of \$415 million, and focuses on critical R&R projects necessary to meet reliability and regulatory requirements. Also included is the expansion and improvement of existing facilities as the Agency prepares to meet higher service demands anticipated from the expected growth in its service area.

The Agency is currently engaged in multiple planning initiatives that will define the capital investments needed to provide long term reliable, high quality, sustainable services that meet the demands of the region. Among these initiatives are the Integrated Resources Plan, the Recycled Water Program Strategy, the Energy Plan and an update of the Wastewater Facilities Master Plan. The Agency is also working collaboratively with its member agencies and regional stakeholders to identify projects that will enhance regional water use efficiency, quality, reliability, and sustainability in response to the current drought crisis. All these initiatives, although not included in the current TYCIP, will help to shape future year budget requirements.

### **Debt Coverage Ratio**

The Debt Coverage Ratio (DCR) is the measurement of an entity's ability to generate enough cash to cover debt payments (principal payments and related interest), and serves as a critical financial measure in determining its overall credit rating. DCR also affects an entity's market accessibility for future borrowings and the associated costs. Improvement of the Agency's DCR was a key driver of multi-year rate increases adopted by the Board in February 2012 for the Regional Wastewater and Recycled Water programs. The Board established a minimum DCR target of 1.50x and 1.70x to be achieved by the end of FY 2013/14 and FY 2014/15, respectively.

On January 22, 2014 the Agency's Board of Directors held the first of three budget workshops, which provided an overview of the Agency's current financial position and presented the proposed long term, intermediate, and immediate Business Goals relative to Fiscal Responsibility. A key recommendation by the Board was the payment of long term liabilities. These long term obligations include: high interest bonds and unfunded accrued liabilities (UALs) for retirement benefits. Early repayment of high interest bonds and a reduction in UALs will help support another key recommendation from the Board: improvement of the Agency's total debt coverage ratio (DCR) to 3.0X and achieve AAA credit rating sooner than FY 2017/18.

Based on current assumptions and the combined effect of higher user charges, timely completion of R&R projects, retirement of high interest bonds callable in November 2014, annual prefunding of the retirement unfunded accrued liabilities (UALs), and continual commitment to cost containment, the Agency's DCR is projected to strengthen over time. As indicated in Table 11, total DCR is projected to progress towards the 3.0X target established by the Board.

**Table 11: Debt Coverage Ratio**

	Actual FY 2012/13	Projected Actual FY 2013/14	Proposed FY 014/15	Forecast FY 2015/16	Forecast FY 2016/17	Forecast FY 2017/18
<b>DCR actual/projection based on current assumptions</b>	<b>2.85X</b>	<b>2.09x</b>	<b>2.23x</b>	<b>2.82x</b>	<b>3.02x</b>	<b>2.81x</b>

**Conclusion**

Cost containment continues to be a key objective for the Agency and is an integral part of the Business Goals (Fiscal Responsibility) adopted by Board in October 2012. The Agency’s commitment to cost containment is evident in the proposed FY 2014/15 Budget and ensuing four year forecasts. Some of key cost containment initiatives include:

- Additional reduction of 5 FTEs from 295 to 290
- Vacancy factor of up to 5%, equivalent to 15 FTEs
- Replacement & Rehabilitation (R&R) projects based on the Agency’s Asset Management Plan
- 50% of the 8% CalPERS employee contribution rate funded by employees beginning July 2014, increasing to 100% by FY 2017/18
- \$2 million reduction in annual debt service costs beginning in FY 2015/16 by refunding high interest rate bonds callable in November 2014, set to mature in 2023
- Leveraging low interest, 30 year term, SRF loans and grants to support construction of the Wineville/Central Area recycled water and New Water Quality Laboratory projects

Another key objective for the Agency is to ensure rates and fees fully cover the cost of service for all Agency programs. Although the adopted rates for FY 2014/15 for the Regional Wastewater and Recycled Water programs still do not recover the cost of service, both the IEUA Board and Regional Committees recognize incremental rate increases will be necessary over the next several years. Achieving this critical objective will minimize the Agency’s reliance on property taxes to support recurring costs that are more appropriately supported by rates and fees.

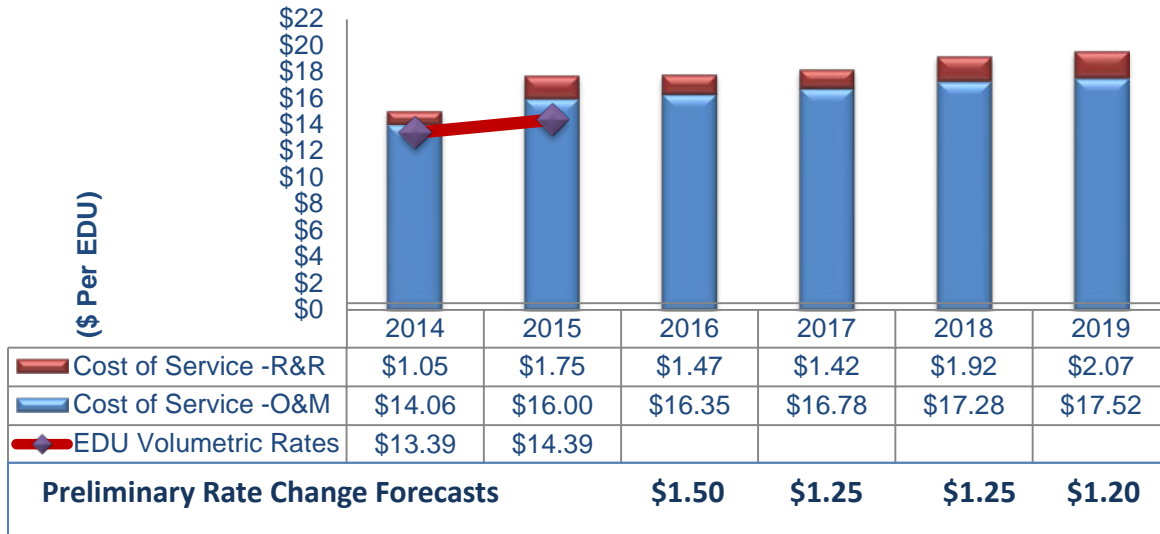
Over the next ten years, the Agency will need to address expansion of its existing facilities in order to meet the anticipated growth and higher service demands, particularly in the southern section of its service area. The severity and uncertainty of the current drought crisis and shrinking reservoir supplies brings water reliability and sustainability to the forefront. With all of the planning initiatives underway the Agency will be better positioned to continue to “drought proof” the region by developing local water supplies, optimizing beneficial use of recycled water, maximizing groundwater recharge, and securing alternative water supplies to reduce

reliance in imported water supplies from the State Water Project. The ability to leverage property taxes and available “drought” funding will be essential in achieving these objectives.

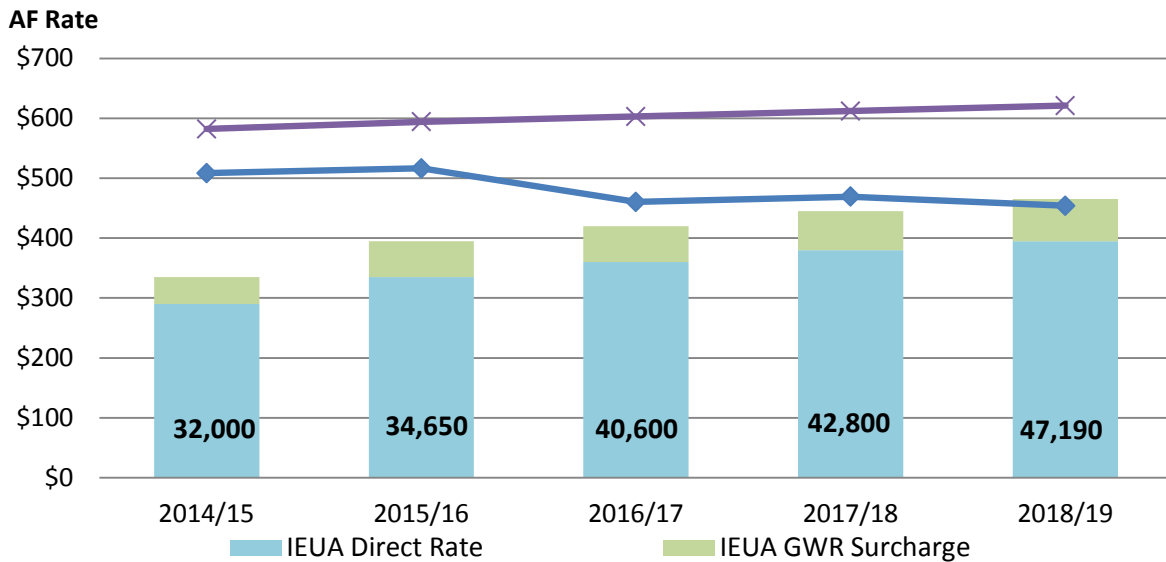
Attached are copies of the Sources and Uses of Fund reports for the Regional Wastewater, Recycled Water, and Recharge Water Programs.

**Exhibit A**

**Cost of Service and EDU Volumetric Rate- Regional O&M (RO) Fund**



**Cost of Service and AF Sales – Recycled Water (WC) Fund**







*Inland Empire Utilities Agency*

**A MUNICIPAL WATER DISTRICT**

# **FY 2014/15 Budget Adoption**

**Regional Committees  
May 2014**



# Adopted Rates

Program	Rate Description	FY 2012/13	FY 2013/14	FY 2014/15
Regional Wastewater	Monthly EDU Volumetric Fee per EDU	\$12.39	\$13.39	\$14.39
	New EDU Connection Fee per EDU	\$4,909	\$5,007	\$5,107
Recycled Water	Direct Delivery per AF	\$155	\$215	\$290
	Groundwater Recharge per AF	\$195	\$255	\$335





# Regional Wastewater Capital Improvement Fund (RC)

- **Revenues & Other Funding Sources**

- ❖ 3,000 New EDU Connections
- ❖ \$26M Property tax receipts, equal to 65% allocation

- **Expense & Other Uses of Funds:**

- ❖ \$5.5M Capital Improvement Plan (CIP)
- ❖ \$30.2M Debt service costs, includes \$16.2M retirement of 2005A Bonds
- ❖ \$1.9M Inter fund transfer to Admin Services (GG) and Recharge Water (RW) funds
- ❖ Excludes long term planning document related projects



# FY 2014/15 Major Projects

## RC Fund



<b>Project Name</b>	<b>Total Project Budget (\$Thousands)</b>	<b>FY 2014/15 Budget (\$Thousands)</b>
<b>RP-5 Flow Equalization &amp; Effluent Monitoring</b>	\$2,144	\$700
<b>Agency Wide HVAC Improvements</b>	\$1,244	\$600
<b>Fontana Interceptor Relief &amp; Sewer Manholes Rehab.</b>	\$3,035	\$600
<b>CCWRF Odor Control System Replacement</b>	\$5,070	\$500
<b>Collection System Repairs Phase V</b>	\$575	\$400

# Regional Wastewater Operations and Maintenance Fund (RO)

- **Revenues & Other Funding Sources**

- ❖ \$14.39/EDU rate with .25% EDU growth
- ❖ \$45.8M EDU volumetric revenue
- ❖ \$8.8M Property taxes, equal to 22% allocation
- ❖ \$3.5M IERCA cost reimbursement

- **Expense & Other Uses of Funds:**

- ❖ \$56.4M total O&M Expenses:
  - \$28.4M, Employment costs
  - \$7.2M Utilities
  - \$4.5M Chemicals
  - \$3.6M Biosolids processing
  - \$2.9M Professional fees
  - \$2.2M Major O&M maintenance repairs (Asset Management)
- ❖ \$10.2M Capital Replacement and Rehabilitation (R&R)



# FY 2014/15 Major Projects

## RO Fund

Project Name	Total Project Budget (\$Thousands)	FY 2014/15 Budget (\$Thousands)
Montclair Lift Station Upgrades	\$2,915	\$2,500
SCADA Enterprise System Upgrade	\$9,625	\$1,000
RP-4 Headwork Retrofit	\$1,200	\$900
CCWRF Secondary Clarifier #3 Rehab	\$1,100	\$800
Major Equipment Rehabilitation	\$4,000	\$700
RP-2 Drying Beds Rehabilitation	\$1,100	\$600

# Recycled Water Fund (WC)



- **Revenues & Other Funding Sources**

- ❖ \$9.5M Recycled Water Sales:
  - 21,500 AF direct deliveries @ \$290/AF
  - 10,500 AF recharge deliveries @ \$335/AF
- ❖ \$2M property taxes, equal to 5% allocation
- ❖ \$2.1M MWD LPP rebate set to expire June 2017
- ❖ \$13.3M Loan & grant proceeds

- **Expense & Other Uses of Funds:**

- ❖ \$9.8M CIP
- ❖ \$4.9M Debt service costs
- ❖ \$2.5 M Pumping costs
- ❖ \$1.1M Groundwater operating costs including the Agency's "pro-rata share"
- ❖ Excludes "drought" and long term planning document related projects

# FY 2014/15 Major Projects

## WC Fund

<b>Project Name</b>	<b>Total Project Budget (\$Thousands)</b>	<b>FY 14/15 Budget (\$Thousands)</b>
<b>Wineville Extension –Segment A</b>	\$31,200	\$3,000
<b>Wineville Extension –Segment B</b>	\$23,519	\$3,000
<b>GWR and RW SCADA Communication System Upgrades</b>	\$2,764	\$650
<b>GWR and RW SCADA Control Equipment Upgrades</b>	\$1,170	\$500
<b>930 Zone Pressure Zone Pipeline</b>	\$7,619	\$535
<b>1630 East Pipeline Relocation</b>	\$1,050	\$400
<b>RP3 Basin Improvements</b>	\$5,290	\$200

# Recharge Water Fund (RW)

- **Revenues & Other Funding Sources**

- ❖ \$1.3M O&M expenses:
  - \$745K Reimbursable from Chino Basin Watermaster (CBWM)
  - \$548K IEUA pro-rata share funded by WC Fund
- ❖ \$1.2M Debt service and CIP equally funded by CBWM and IEUA
- ❖ \$0.4M Non-reimbursable O&M labor costs funded by IEUA

- **Expense & Other Uses of Funds:**

- ❖ \$1.8M O&M costs
- ❖ \$1.0M Debt service costs
- ❖ \$0.2M CIP costs
- ❖ Excludes “drought” and long term planning document related projects



# Schedule

Action	IEUA Finance Committee	IEUA Board	Regional Technical Committee	Regional Policy Committee
Review of Preliminary Budget	4/9	4/16	4/24	5/01
Review of Proposed Budget	5/14	5/21		
Approval/Adoption of Final Budget		6/18	5/29	6/5







*Inland Empire Utilities Agency*

A MUNICIPAL WATER DISTRICT

# Recommendation

