



Date: June 19, 2013

To: The Honorable Board of Directors

Through: Finance, Legal, and Administration Committee (06/12/12)

From: P. Joseph Grindstaff
General Manager

Submitted by: Christina Valencia
Chief Financial Officer

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Subject: Adoption of the Agency's FY 2013/14 Budget, Fiscal Years (FYs) 2014 through 2023 Ten Year Capital Improvement Plan, and FY 2013/14 Rate Resolutions

RECOMMENDATION

It is recommended that the Board of Directors:

1. Adopt Resolution No. 2013-6-2 approving the Agency's FY 2013/14 Budget, including the Agency-wide and departmental goals and objectives as outlined in the Budget, and the FY's 2014 through 2023 Ten Year Capital Improvement Plan (TYCIP);
2. Adopt Rate Resolution Nos. 2013-6-3 through 2013-6-9, and 2013-6-13; and
3. Authorize staff to distribute the final budget and rate resolutions as required.

BACKGROUND

On April 03, 2013, a budget workshop for the Agency's Board of Directors was facilitated for review of the proposed FY 2013/14 Budget and TYCIP. On April 4, 2013, a preliminary review of the proposed Budget for the Agency's Regional Wastewater, Recycled Water and Recharge Water Programs, and TYCIP was presented to the Regional Committees. On May 15, 2013, the Board held a public hearing to receive public comments on the proposed FY 2013/14 rates for the Non-Reclaimable Wastewater (NRW) and Water Resources Programs, and declare its intent to adopt budgets for the Regional Wastewater Program and all other Agency Programs. No public comments were received. On June 6, 2013 the Regional Committees unanimously recommended the IEUA Board approve the FY 2013/14 Budget and FYs 2014-2023 TYCIP.

The FY 2013/14 Budget and the FYs 2014-2023 TYCIP are developed on the basis of cautious

optimism of progressive economic recovery, the Agency's Levels of Service (LOS), and the continual commitment to cost containment. The LOS theme of commitment to deliver high quality, reliable services to our customers in a regional, cost-effective manner, through prudent financial planning and strategic resource management, is consistent with the mission and vision of the Agency. As part of the broader Asset Management Plan (AMP), the LOS aligns the Agency's O&M and capital decisions to customer expectations. A significant component of the Budget and TYCIP is the reinstatement of repair and replacement (R&R) projects previously deferred as part of the Agency's cost containment plan, as well as future expansion and improvement of existing facilities in preparation of the future anticipated growth and increased service demand.

Additionally, the FY 2013/14 Budget for the Regional Wastewater and Recycled Water Programs is based on the multi-year rates adopted by the Agency's Board of Directors (Board) in February 2012, for Fiscal Years (FYs) 2012/13-2014/15. These rates and increases for the Agency's Water Resources and Non-Reclaimable Wastewater (NRW) Program rates, effective July 1, 2013, are listed in Exhibits A, B & C. NRW rates effective July 1, 2013 are based on the current "pass-through" rate structure, but may be subject to change based on the Agency's contract negotiations with the North NRW System provider, Los Angeles Counties Sanitation Districts, currently underway.

FY 2013/14 Total Revenues and Other Funding Sources

Total revenues and other funding sources of \$151.1 million budgeted in FY 2013/14 (net of the \$5.5 million inter-fund loan from the Regional Wastewater Capital Improvement (RC) Fund to the Recycled Water (WC) Fund) are approximately \$29.7 million, or 24% higher than the \$121.4 million projected for FY 2012/13, as show in Table 1-1. The inter-fund loan of \$5.5 million from the RC Fund to the WC Fund will provide cash flow support for capital project costs.

As highlighted in Table 1-1 below, the most significant increases are for state loans and grants, which are the primary funding sources for the Southern and Central/Wineville Area recycled water capital construction projects. User charges and recycled water revenue increases of \$7.2 million and \$2.1 million, respectively, can be attributed to the three-year rate increases adopted by the Board in FY 2011/12, in addition to higher estimates in the number of billable volumetric EDUs and new EDU connections.

Table 1-1: Primary Drivers of Increase in Total Revenues and Other Funding Sources (\$Millions)

Revenue Category	Type	FY 2011/12	FY 2012/13	FY 2012/13	FY 2013/14	FY 2013/14
		Actual	Budget	Amended	Projected	Budget
User Charges	Operating	\$45.6	\$50.4	\$50.2	\$57.4	\$7.2
Contract Cost Reimbursement*	Operating	\$5.8	\$5.9	\$5.5	\$7.1	\$1.6
Recycled Water Sales	Operating	\$6.0	\$7.8	\$7.1	\$9.2	\$2.1

Regional Connection Fees	Other Sources	\$7.7	\$5.4	\$8.3	\$9.0	\$0.7
State Loans	Other Sources	\$7.0	\$13.3	\$3.7	\$22.9	\$19.2
Grants	Other Sources	\$4.7	\$3.5	\$1.7	\$8.9	\$7.2
Other***	Mixed	\$37.4	\$38.3	\$44.9	\$36.6	-8.3
Total		\$114.2	\$124.6	\$121.4	**\$151.1	\$29.7

*Includes reimbursement from Joint Powers Authorities (CDA, IERCA and CBWM).

** Net of \$5.5 million inter-fund loan from RC fund to WC fund.

*** Includes property taxes, capital contract reimbursements, and other revenues.

FY 2013/14 Total Expenses and Other Uses of Funds

Total expenses and other uses of funds of \$170.5 million is 48%, or \$55.6 million, higher than the FY 2012/13 projected actual of \$115.1 million. Similar to total revenues and other funding sources, total expenditures of \$170.5 million excludes the inter-fund loan of \$5.5 million from the RC fund to the WC fund. As highlighted in Table 1-2 below, the increase in total expenditures of approximately \$55 million is primarily due to higher CIP, which includes approximately \$30 million of unexpended capital budget carried forward from FY 2012/13 to FY 2013/14. The high carry forward is primarily due to delayed startup of the Southern and Central/Wineville Area recycled water capital construction projects. Other expenses contributing to the increase include contract work/special projects due to Agency decision to accelerate previously deferred R&R maintenance projects, and employment expenses resulting from increases in health insurance premiums, pension contribution rates, and a lower assumed vacancy factor of 5% compared to the 8.1% averaged in FY 2012/13.

Table 1-2: Primary Drivers of Increase in Total Expenses and Other Uses of Funds (\$Millions)

Expenditure Category	Type	FY 2011/12	FY 2012/13	FY 2012/13	FY 2013/14	FY 2013/14
		Actual	Budget	Amended Projected	Budget	Less Projected Actual
Employment Expenses	Operating	\$32.6	\$35.2	\$32.7	\$35.2	\$2.5
Contract Work/Special Projects	Operating	\$5.6	\$3.1	\$1.0	\$5.0	\$4.0
Operating Fees	Operating	\$7.2	\$8.2	\$7.3	\$9.3	\$2.0
Professional Fees and Services	Operating	\$5.5	\$7.5	\$6.3	\$7.5	\$1.2
Capital Improvement Plan (CIP)	Capital	\$33.9	\$53.9	\$23.7	\$65.3	\$41.6
Other*	Mixed	\$34.7	\$46.9	\$44.1	\$48.2	\$4.1
Total Expenditures		\$119.5	\$154.8	\$115.1	\$170.5**	\$55.4

*Includes utilities, chemicals, materials & supplies, biosolids recycling, other expenses, 4Rs, IERCA contribution, and debt service

** Net of \$5.5 million inter-fund loan from RC fund to WC fund.

FY 2013/14 Operating Financial Position

Overall, a \$3.0 million shortfall in net operating position is estimated in FY 2013/14, as indicated in the Attachment E, Total Sources and Uses of Funds. While the multi-year rate increases have narrowed the gap between operating revenues and operating costs, full cost recovery rates have still not been achieved. Fund reserves will support the estimated net operating deficit of \$3.0 million.

The FY 2013/14 Budget includes operating revenues of \$77.4 million, an increase of \$10.6 million compared to FY 2012/13 projected actual. The key drivers for the higher operating revenues includes the Board adopted rate increases for Regional Wastewater and Recycled Water programs, in addition to more optimistic estimates in the number of related billable volumetric EDUs, and slightly greater recycled water deliveries. Included in operating revenues is approximately \$2.7 million in property tax receipts.

Operating expenses are budgeted in FY 2013/14 at \$80.4 million; an increase of \$12.1 million, when compared to FY 2012/13 projected actual of \$68.3 million. The key drivers for the increase includes; (1) higher employment expenses (from \$32.7 million to \$35.2 million) due to an increase in pension contribution rates, health insurance premiums, and partial funding of Other Post Employment Benefit Obligations (OPEB), (2) an increase in pass-through operating fees for the Non-Reclaimable Wastewater program, (3) higher professional fees and services due to reinstatement of R&R maintenance projects previously deferred a part of the Agency's cost containment initiative, and (4) higher utility costs due to higher estimates of electricity consumption.

Non-Operating Financial Position

As shown on Attachment E, the budgeted FY 2013/14 Other Funding Sources of \$73.7 million (net of \$5.5 million inter-fund loan) show an increase of \$19.1 million compared to the \$54.7 million projected in FY 2012/13. Despite the increase in Other Funding Sources, a shortfall still projected in non-operating activities with Other Funding Uses of \$90.1 million (net of the \$5.5 inter fund loan) exceeding Other Funding Sources by \$ 16.4 million. Fund reserves will support the estimated non-operating shortfall of \$16.4 million.

Included in Other Funding Sources of \$73.7 million are grant receipts (\$9.0 million) and SRF loan proceeds (\$22.9 million) designated to fund the Central/Wineville and Southern Area capital projects in the Recycled Water program. Nearly \$30.7 million in property tax receipts is allocated to support debt services and CIP costs. Other Uses of Funds, comprised of \$68 million in CIP and \$22.1 million in debt service costs (net of \$5.5 million inter fund loan), are \$43.4 million higher than the \$46.7 million projected in FY 2012/13.

Ten-Year Capital Improvement Plan (TYCIP)

A significant component of the FY 2013/14 – 2022/23 TYCIP is the reinstatement of R&R projects previously deferred as part of the Agency's cost containment plan, as well as future expansion and improvement of existing the Southern Service Area facilities in preparation of the future anticipated growth and increased service demand.

A summary of the Agency's CIP by fund for the next 10 fiscal years is presented in Table 1-3 below. Exhibit D includes a listing on major capital projects included in the TYCIP.

Table 1-3: Ten Year Capital Improvement Plan by Fund (\$Millions)

Fund	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 18/19 through FY 2022/23	Total TYCIP
Regional Capital Fund*	\$10.4	\$7.6	\$6.3	\$24.5	\$12.9	\$95.9	\$157.6
Regional O&M Fund	10.1	6.7	14.8	10.6	10.8	62.1	115.1
Recycled Water Fund	41.1	19.4	8.9	3.9	4.5	30.3	108.1
NRW Fund	3.4	2.5	1.9	2.3	2.3	11.3	23.7
Admin Services & Recharge Water Funds	2.4	1.5	1.3	1.0	0.8	3.8	10.8
Total	\$67.4	\$37.7	\$33.2	\$42.3	\$31.3	\$203.4	\$415.3

* Includes \$0.5 million capital outlay for IERCA for FY 2013/14 and \$0.3 million for FY 2014/15.

The FY 2013/14 Capital Improvement Program (CIP) budgeted at \$68 million is primarily funded by new EDU connection fees of \$9.0 million, approximately \$8.6 million of property tax receipts, \$22.9 million SRF loan proceeds, \$8.9 million grants and \$18.6 million pay-go. The adopted CIP in FY 2013/14 is approximately 166% higher than FY 2012/13 projected actual of \$25.6 million primarily due to construction of two major projects budgeted in the Recycled Water (WC) fund; the Southern Area and Central/Wineville Area Recycled Water projects carried forward from FY 2012/13.

FY 2013/14 Inter-Fund Loans

In FY 2013/14 the Recycled Water program will require a \$5.5 million inter-fund loan from the RC fund for cash flow support of capital expenditures not funded by SRF loans or grants. This additional inter-fund loan will increase the Recycled Water program's total outstanding inter-fund loans to \$23.5 million; \$15 million due to the Non-Reclaimable Wastewater (NRW) program and \$8.5 due to the RC fund. Repayment of these loans is scheduled to begin in FY 2016/17.

Fund Balances

The aggregate ending fund balance in FY 2013/14 is estimated to be \$89.3 million; a decline of approximately 18% relative to the FY 2012/13 projected ending fund balance of \$108.7 million. The estimated decline of \$19.4 million is primarily due to the reinstatement of critical R&R projects and completion of the Agency's Recycled Water Distribution System in the central and southern areas. Included in the \$19.4 million is an estimated net operating deficit \$3.0 million to be supported by fund reserves.

Approximately 52%, or \$46.5 million of the fund reserves, are restricted for debt service and operating contingencies, as legally mandated by the Agency's bond indentures. An additional 33%, or \$29.8 million is designated to support capital expansion and replacement, of which over

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50%, or \$17.0 million, are estimated to be new EDU connections to be held by member agencies in their respective Capital Capacity Reimbursement Accounts. The balance of 15% or \$13.0 million is designated to support the Agency's self-insurance, post medical and pension retirement benefits, and the NRW programs CSDLAC prepayment of capital 4Rs (relocation, replacement, refurbishment and repair).

Table 1-4 below shows the beginning and estimated ending fund balances including changes in fund balance, net increase (decrease) reported for FY 2011/12 actual, FY 2012/13 projected, and FY 2013/14 Budget.

Table 1-4: Fund Balance Position

Description	FY 2012/13		FY 2012/13	FY 2013/14
	FY 2011/12	Amended	Projected	Budget
	Actual	Budget	Actual	
Net Increase (Decrease) Reported	-\$5.3	-\$30.2	\$6.3	-\$19.4
Beginning Fund Balance, July 01	\$107.7	\$102.4	\$102.4	\$108.7
Ending Fund Balance, June 30	\$102.4	\$72.2	\$108.7	\$89.3

Debt Coverage Ratio

Improvement of the Agency's declining DCR was a key consideration behind the February 2012 Board adoption of multi-year rate increases 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. These targets are projected to be achieved as shown in Table 1-5.

Table 1-5: Debt Coverage Ratio Projected Trend

	Actual FY 2011/12	Projected FY 2012/13	Forecast FY 2013/14	Forecast FY 2014/15	Forecast FY 2015/16
DCR actual/projection based on current assumptions	1.67X	2.03x	1.82x	2.12x	2.09x

Considering the growth anticipated over the next 10 years and the need to expand existing facilities to meet increased service demands, improving the Agency's long term credit rating from AA- to AAA is essential. Attaining the AAA credit rating (considered high-quality borrower) will better position the Agency to acquire new debt at a significantly lower cost. In today's market, the cost of borrowing between AA and AAA is estimated to be about 20 basis points (one basis point is equivalent to one hundredth of one percent). On a \$40 million bond issue, this translates to estimated cost savings of over \$2.4 million over a 30-year term.

Conclusion

The FY 2013/14 Budget and the FY's 2014-2023 TYCIP continue to demonstrate the IEUA Board and staff's steadfastness and commitment to deliver reliable, high quality essential services to its customers in a regionally planned, cost effective manner, as prescribed by the Agency's adopted Levels of Service. The use of an estimated \$19.4 million in fund reserves is necessary to sustain the operation and efficiency of the Agency's facilities.

All related documents, along with Sources and Uses of Fund reports are available "on-line" at the Agency's web site (www.ieua.org).

PRIOR BOARD ACTION

On June 20, 2012, the Board adopted FY 2012/13 Budget and FY's 2012/13 through 2021/22 TYCIP.

IMPACT ON BUDGET

None.

Attachments:

Attachment A – Staff Report Tables and Graphs

Attachment B- Budget Message/Executive Summary

Attachment C – Agency Wide Policy Goals

Resolutions 2012-6-2 through 2012-6-8, 2013-6-13

Exhibit A**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

Exhibit B**Proposed Rates for Water Resources (WW) Fund**

Program	Rate	FY 2012/13 Current Rate	FY 2013/14 Effective July 1, 2013	Increase Amount and Percentage
Water Resources	Monthly Meter Charge/Unit	\$1.555	\$1.755	\$0.20 11%
	Surcharge/AF	\$12	\$13	\$1 8%

Exhibit C
Proposed Rates for Non Reclaimable Wastewater (NRW) Program
(Based on Current Pass-Through Rate Structure)

Program	Rate Description	FY 2012/13 (Adopted)	FY 2013/14 (Preliminary)	FY 2014/15 (Preliminary)	
Non Reclaimable Water System (NRWS)*	Monthly Capital Improvement Fee (CIP)	\$90.00	\$90.00	\$90.00	
	Monthly Capacity Unit Fee - North	\$123.27	\$319.00	\$319.00	
	Monthly Capacity Unit Fee - South	\$277.17	\$318.49	\$318.49	
	Volumetric Fee - North	\$1,465.26	\$1,437.26	\$1,437.26	
	Volumetric Fee -South	\$794.00	\$736.00	\$736.00	
	Excess User Charges - North				
	Total Suspended Solids (TSS)	\$268.60	\$294.21	\$294.21	
	Chemical Oxygen Demand (COD)	\$101.16	\$110.81	\$110.81	
	Excess User Charges – South				
	Total Suspended Solids (TSS)	\$376.00	\$395.00	\$395.00	
	Biochemical Oxygen Demand (BOD)	\$253.00	\$266.00	\$266.00	
	Operations Surcharge Fee				
	Non-Recycled Water User	50%	50%	50%	
	Recycled Water User (Pro-rated)	10% - 50%	10% - 50%	10% - 50%	

Exhibit D
Proposed TYCIP Major Projects and Projected Funding Sources

Program	Project	Projected Timeline	Total Project Budget (\$million)	Projected Funding Sources
Recycled Water	Southern Area	2011-2014	\$27M	SRF Loan and Grant
	Central/Wineville	2012-2015	\$32.8M	SRF Loan and Grant
	San Sevaine	2013-2023	\$2.5M	
Regional Wastewater Capital	Southern Area Expansion	2019 - 2023	\$90.5M	New debt/Pay Go
	CCWR Odor Control	2013 - 2017	\$3.0M	Pay Go
	RP-1 Headworks	2014 - 2018	\$10.8M	New debt
	Laboratory Replacement	2016 - 2018	\$15.1M	SRF Loan

Attachment E
FY 2013/14 Total Sources and Uses of Funds
(\$Millions)

DESCRIPTION	2010/2011 Actual	2011/2012 Actual	2012/2013 Amended Budget	2012/2013 Projected Actual	2013/2014 Proposed Budget	2014/2015 Forecast	2015/2016 Forecast	2016/2017 Forecast
<u>Operating Revenue/(Expenses)</u>								
User Charges	\$44.9	\$45.6	\$50.4	\$50.2	\$57.4	\$61.3	\$63.0	\$64.1
Property Tax - O&M	\$7.1	\$6.3	\$2.3	\$2.8	\$2.7	\$2.7	\$2.7	\$2.7
Cost Reimbursement from JPA	\$4.3	\$4.6	\$5.3	\$5.2	\$5.3	\$5.3	\$5.4	\$5.6
Contract Cost Reimbursement	\$0.9	\$1.2	\$0.6	\$0.4	\$1.8	\$1.8	\$0.3	\$0.3
Interest Revenue	\$1.2	\$1.0	\$1.0	\$1.0	\$1.0	\$1.4	\$1.6	\$1.9
Recycled Water Sales	\$4.4	\$6.0	\$7.8	\$7.1	\$9.2	\$13.2	\$16.3	\$18.1
Operating Revenues	\$62.6	\$64.6	\$67.3	\$66.7	\$77.4	\$85.8	\$89.5	\$92.7
Operations Expenses	\$34.0	\$36.9	\$42.1	\$35.6	\$45.2	\$44.3	\$44.1	\$45.2
Employment Expenses	\$31.2	\$32.6	\$35.2	\$32.7	\$35.2	\$35.9	\$37.0	\$37.6
Operating Expenses	\$65.2	\$69.5	\$77.3	\$68.3	\$80.4	\$80.2	\$81.1	\$82.8
Operating Income/(Loss)	(\$2.6)	(\$4.9)	(\$10.0)	(\$1.6)	(\$3.0)	\$5.6	\$8.4	\$9.9
<u>Other Funding Sources/(Other Uses of Funds)</u>								
Property Tax - Debt, Capital, and Reserves	\$26.4	\$26.4	\$30.3	\$32.7	\$30.7	\$31.0	\$31.3	\$31.6
Regional System Connection Fees	\$5.4	\$7.7	\$5.4	\$8.3	\$9.0	\$11.2	\$13.1	\$16.2
Debt Proceeds	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
State Loans	\$18.3	\$7.0	\$13.3	\$3.7	\$22.9	\$16.9	\$10.9	\$11.1
Grants	\$7.0	\$4.7	\$3.5	\$1.7	\$8.9	\$0.6	\$0.0	\$0.0
Sale of Assets	\$0.0	\$0.0	\$2.3	\$4.7	\$0.0	\$0.0	\$0.0	\$0.0
Capital Contract Reimbursement	\$0.6	\$0.6	\$0.8	\$0.7	\$0.8	\$0.6	\$0.7	\$0.7
Other Revenues	\$0.7	\$2.9	\$1.6	\$2.7	\$1.5	\$1.5	\$0.8	\$0.8
Sale of Capacity	\$0.2	\$0.2	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0
Inter Fund Loan Transfers	\$3.7	\$0.0	\$0.0	\$0.0	\$5.5	\$0.0	\$0.0	\$1.0
Other Funding Sources	\$62.2	\$49.6	\$57.3	\$54.7	\$79.2	\$61.9	\$56.8	\$61.4
Work in Progress Expenses	\$48.6	\$32.3	\$55.9	\$25.6	\$68.0	\$37.8	\$33.3	\$42.2
Debt Service Expenses (Excludes Interfund Loan)	\$18.1	\$17.6	\$21.6	\$21.1	\$22.1	\$24.1	\$26.3	\$27.3
Interfund Loan	\$3.7	\$0.0	\$0.0	\$0.0	\$5.5	\$0.0	\$0.0	\$1.0
Other Uses of Funds	\$70.4	\$50.0	\$77.5	\$46.7	\$95.6	\$61.8	\$59.6	\$70.5
Net Increase (Decrease)	(\$8.2)	(\$0.4)	(\$20.2)	\$8.0	(\$16.4)	\$0.1	(\$2.8)	(\$9.0)
Total Net Income/(Decrease)	(\$10.8)	(\$5.3)	(\$30.2)	\$6.4	(\$19.4)	\$5.7	\$5.6	\$0.8
Beginning Fund Balance	\$118.5	\$107.7	\$102.4	\$102.4	\$108.7	\$89.3	\$95.0	\$100.6
Ending Fund Balance	\$107.7	\$102.4	\$72.3	\$108.7	\$89.3	\$95.0	\$100.6	\$101.5