Inland Empire Utilities Agency
Regional Sewerage Program
Technical Committee Meeting

MINUTES OF January 12, 2012 MEETING

CALL TO ORDER

A regular meeting of the IEUA/Regional Sewerage Program – Technical Committee was held on January 12, 2012, at the City of Chino Hills located at 14000 City Center Drive, Chino Hills, California. Steve Nix, City of Chino Hills, called the meeting to order at 4:02 p.m.

ATTENDANCE

Committee Members:

Steve Nix .... City of Chino Hills
Jim Hill .... City of Chino
John Bosler .... Cucamonga Valley Water District
Tony Mata .... City of Fontana
Mike Hudson .... City of Montclair
Scott Burton .... City of Ontario
Rosemary Hoerning .... City of Upland
Thomas Love .... Inland Empire Utilities Agency

Absent Committee Members:

None.

Others Present:

Craig Miller .... Inland Empire Utilities Agency
Christina Valencia .... Inland Empire Utilities Agency
Craig Parker .... Inland Empire Utilities Agency
Tina Cheng .... Inland Empire Utilities Agency
Chris Berch .... Inland Empire Utilities Agency
Sylvie Lee .... Inland Empire Utilities Agency
Randy Lee .... Inland Empire Utilities Agency
Paddy Mwembu .... Inland Empire Utilities Agency
Patrick Sheilds .... Inland Empire Utilities Agency
Kathy Tiegs .... Cucamonga Valley Water District
Braden Yu .... Cucamonga Valley Water District
Will Kolbow .... Cucamonga Valley Water District
Jesus Plasencia .... City of Chino
Nicole Greene .... City of Montclair
Dennis Mejia .... City of Ontario
Brian Thomas .... The PFM Group
Chris Bond .... City of Chino Hills

ACTION ITEMS

1. **Approval of Minutes – Regular December 1, 2011 (Technical Meeting) and Special Joint Workshop December 6, 2011**

Motion: By Mike Hudson/City of Montclair, and seconded by John Bosler/CVWD, to approve the December 1, 2011 Technical Committee meeting minutes and the Special Joint Workshop Minutes of December 6, 2011 as written.

Motion carried.

2. **Fiscal Year 2012/2013 Rate Proposals**

Christina Valencia/IEUA gave a PowerPoint presentation of the agenda item. She thanked everyone who attended the December 6, 2011 workshop; there was a good turnout, good discussions and good recommendations. She said at the workshop it was suggested that staff review and update the key assumptions for the ensuing 2 years and adjust the corresponding proposed rates. After the workshop, IEUA staff went back and looked at the assumptions and made adjustments on some revenues and expenditures for the 3-year period of the proposed rates. She outlined the key drivers and objectives, the workshop recommendations, the updated key assumptions based on proposed rate increases, and key assumptions based on an increase in expenses. She then presented the rate proposals based on the updated assumptions.

Steve Nix/City of Chino Hills called for questions and comments.

Mike Hudson/City of Montclair asked for clarification on the recharge rate for recycled water. He said it shows $20 more than the direct sales recycled water yet what you're asking for is actually another $10 beyond that. The rate is proposed to go from $115 to $145; that's a $30 increase over the current rate.

Christina Valencia/IEUA said, no, that is correct. The surcharge rate pays for the non-reimbursable expenses to maintain the basins as well as the Agency's pro rata share with Chino Basin Watermaster. So Chino Basin Watermaster, through agreement, is responsible for 100% of the maintenance on the groundwater basins. They pay for that and it's budgeted in a different fund; a recharge water fund. Of those costs, whatever we recharge in recycled water during the fiscal year, they go back and do the percentage ratio of recharge compared to other water that's in the basin and IEUA has been responsible for those costs. Those costs vary every year depending on that ratio on those basins, and it's a calculation Watermaster does. It's gone from 73,000 all the way to 240,000. This year, they're supposed to be lower than 240,000 simply because we had storm damage from the winter storms and we were able to apply for FEMA money which will fund a portion of that. But that is included or supported by that surcharge. The non-reimbursable costs are recorded in the recycled water fund and those are primarily funds that are not paid for by Watermaster and they consist of laboratory monitoring and sampling reporting type costs that are associated with those basins.

Mr. Hudson then said his question is why do you show recycled water rate or the direct delivery rate at a cost of $115 AF in this case instead of showing what the proposed recycled water recharge is. He sees recharge as being proposed at $145 and direct use at $115. He asked why wasn't that information presented instead of looking at something you just call recycled rate increase of $20. He said it implies that recharge water would be $135 AF instead of $145 AF that you're actually recommending.

Ms. Valencia said that was a good point and they should have put the second rate on the table for the surcharge. She said the surcharge is composed of 100% of the direct charge, plus the surcharge component which is actually going up to $45 and it remains at $45, it doesn't change. That $45 is added on to the proposed direct delivery rate. The combination of the two make up what is called the groundwater surcharge rate, and it should have been included in the table.

Mr. Hudson said his primary concern is the rates that were presented in the workshop versus the rates being presented today, and he feels there's a substantial amount of difference. Not to look at all the years but out to 2014/15, in the workshop you proposed $13.14 per EDU, now you're proposing $14.39, which is a $1.25 increase over what we talked about in the workshop. To me that's more than just fine-tuning and tweaking. That tells me that something was grossly wrong with the way it was done before or some assumptions such as what you're trying to achieve with the debt service ratio were underestimated, or perhaps acting on Board direction to get it up to a higher value as quickly as possible. Now we're being asked to absorb considerably higher rates than what we talked about in the workshop, a workshop that almost all of our Policy Committee members attended and all of the Technical staff was represented. He said he cannot support the kind of increase that IEUA is now asking for.

Ms. Valencia said, for clarification, these were the rates that were presented at the workshop.

Mr. Hudson said perhaps they were presented at the workshop, but they are not what was in the pamphlet that was passed out prior to the workshop. He said the rates that he is looking at say $13.14 forecast for fiscal year 2014/15.

Ms. Valencia said that is correct and that was discussed at the workshop. What those rates represented, were the rates that were given back in June and the comment was made at the workshop that those were very preliminary numbers. The only number for the EDU rate that was really changed was the $.60 in the third year is now increased to $1.00. So, from the $2.85, we're now going up to $3.25.

Mr. Hudson stated that it's a $3.25 increase over a 3-year period, which is about 25% over the current rate, or roughly about 8% a year.

Ms. Valencia said yes, and the reason for the increase is because, even at that rate, we don't get to cost of service, which has been an ultimate goal of the Agency. So, it's been a combination of that and a combination of really trying to reach those targets for the debt coverage ratio that we were directed to do.

Thomas Love/IEUA said that it's actually 6%; 25% spread over 4 years because there was no increase last year.

Mr. Hudson said that would be one way of looking at it but he's looking at the increase that would be effective based on the current rate which is $11.14. If you want to take it over a 4-year period by going back a year, it does reduce the annual percentage increase. He said that would be kind of hard to explain to their customers. He has similar concerns with the recycled water rate. He said it's beginning to look like recycled water is going to cost as much as potable water as far as buying it back from Monte Vista Water District based on what we're going to be selling it to them for.

Scott Burton/City of Ontario said he was a little confused on all the different versions and different rate increases over the last 3 to 4 weeks. At the workshop, the sewer volumetric fee, showed rate increases of $1.25, $.45 and $.30. Then there was the one-page sheet handed out at the workshop which he thinks is different than the one today, which shows $1.25 for 2012/13, then $1.00, and then $.60.

Ms. Valencia said, yes, and that was the presentation at the workshop. The numbers that were given last year didn't give us the debt coverage; they didn't give us the replenishment in reserves that were needed. Consequently, the Board of Directors came back and said to really scrub the numbers a little bit harder.

Mr. Burton asked when Scenario B, being proposed today of $1.25, $1.00, and $1.00, was first made available.

Ms. Valencia said that it went out with the regional Technical Committee package last week.

Thomas Love/IEUA stated that it was in their Board package for the December 21st meeting but it went out in the Technical Committee packet last week.

John Bosler/CVWD asked if the $2.90 will get us up to the true cost of service or is it still subsidized.

Ms. Valencia replied that it is still subsidized.

Mr. Bosler asked how far out they went with the recycled water rate projections based on a 10-year CIP.

Ms. Valencia said they run those scenarios over a 10-year period and in the year 2020, it reaches $415.

Rosemary Hoerning/City of Upland asked if the $415 would be for direct customers.

Ms. Valencia responded, correct, and then $45 doesn't change for the surcharge. It goes up to $45 in 2014/15 and we don't see that changing through 2020/21. The $415 does happen in 2016/17, and then we don't see a change in that. At that point, everything is built, we know what the debt service cost is, we've got the CPI's in there. The big change that happens in 2017 is that we lose the LPP rebate from MWD which is about $2.1M. Some of the increases in recycled water are to prepare for the loss of that revenue. The tax subsidy is the other one from the RO fund that ends in 2013/14 which is about $1.6M.

Scott Burton/City of Ontario said it looks like the surcharge, from the data that was provided recently, is roughly around $600K a year for the monitoring as well as for the cost sharing with Watermaster. So as long as we recharge about the same amount, the $45 is steady.

Ms. Valencia said, correct.

Mr. Burton then asked to see the slide that shows the proposed rates. He stated that today we're at $115 an acre-foot for recycled water and the proposal 3 years out is $290. He asked what percentage of increase that would be.

Ms. Valencia replied that it's about a 35% increase per year.

Mr. Burton then commented about property taxes and that he understood that IEUA gets roughly $32M a year in property tax revenue and currently about $1.6M goes towards the recycled water O&M. In 2014/15, that's being proposed to drop down to zero.

Ms. Valencia said that was correct.

Mr. Burton then said he thought there should be some discussion on whether it makes sense to go to zero property tax towards recycled water and, if so, does it make sense to do it at the same time the rates are increasing by 100% plus in 3 years. He said he would be interested to hear what some of the other member agencies think about that.

Mr. Love said that if they keep property taxes on recycled water, or take them away, the rates drive the debt coverage ratio. The allocation of property taxes does not have any relationship to the debt coverage ratio because they would be looking at total income including all property taxes. If you do that to subsidize the recycled water rate, to maintain that debt coverage ratio, there has to be a give and take on another revenue.

Mr. Burton said he had a comment about the debt coverage ratio too but it does make a difference in terms of when we go back and look at what our rates need to be in terms of water fund and sewer fund. He thinks it's so drastic in such a short period of time, he wonders about the reasons for implementing the property tax change at the same time.

Mr. Love said that it was 3 or 4 years ago when they first started using property taxes to support the recycled water fund. At that time, there were concerns raised by the Technical Committee members about the use of that property tax to subsidize the recycled water. It was agreed, at that point, based on those comments, that we would phase it out by 2014/15. That is the reason it's phased out; we were asked to phase it out and we are following direction.

Ms. Valencia stated that, at that time they were projecting sales of 50,000 AF in that future year so they didn't think they needed the subsidy.

Jim Hill/City of Chino said that he has all of the same concerns that have already been raised. He reminded Mr. Love that a year ago he met at IEUA's office and talked about property taxes and the debt service ratio. He recalled from that meeting being told that it was critical to maintain the 1.25 ratio. He understood that but that it was preferable to be up to 1.5. At the December 6 workshop, we talked about 1.7, and today was the first time that he has ever heard 1.9. He asked when that number is going to stop moving higher and higher.

Ms. Valencia stated that the 1.9 actually came from the Fitch Report.

Mr. Love asked Brian Thomas from The PFM Group to address how the credit rating agencies view public agencies.

Brian Thomas/The PFM Group, introduced himself as IEUA's financial advisor. He stated that the median debt service coverage ratio for a AA category, which is AA-, AA+, is 50% above, 50% below, is about 1.9 in the collection of agencies that Fitch rates. Moody's and S&P have similar ratios in the 1.9 to 2 times coverage. Net operating revenues, that is after you pay your revenues, you receive your revenues, you pay your operating expenses, not including depreciation, that net operating revenue divided by your debt service, principal and interest, the median is about 2 times, or 1.9 times coverage. But that is not the sole and only factor that's going to go into a rating. You are currently rated AA-, even though ratios are in the 1.25 range, which is significantly lower than any of the agencies would say you need. What keeps you in that AA category are actions to increase it and a plan to increase it. Even at a 1.7, a Fitch, or a Moody's, or an S&P analyst would say you're a little bit lower than what they would typically like to see of a AA rated entity. The explanation would be that we've taken appropriate actions, we're making our 1.7 coverage, even when our sales and our units have been lower than we've seen historically. We would expect that to start to increase out in the future and we have sufficient cash balances to meet our needs in the future. That is the story that we would work with the staff to tell the rating agencies to maintain that AA rating. In today's world, ratings are really important. Credit ratings are really important as you go out and issue debt to fund your capital program or to roll over credit facilities to fund and support your capital program, your debt service. On the long term basis, we see differentials between the single A and a AA rated bond have been as high as 100 basis points, or 1%. So instead of borrowing at 4% you'd be borrowing at 5%, or 5% at 6%. Rates have come down a little bit and so you might be about 60 basis points, 6%, but your long term capital costs would be higher if you are a lower rated entity. That's why we would argue that taking actions over a period of time to continue to improve that ratio is prudent, it makes sense, but not to do it all at once. We wouldn't suggest that what you need to do is go from 1.25 to 1.7 because the impacts on your customers and your residents are too high. This is what we think is a prudent plan to be able to support and work with the agencies.

Jim Hill/City of Chino went on to say that the fact that we're now at 1.24 didn't happen overnight. It was never mentioned that we should be at 1.9 or some other number and that we were dropping way below that until it came up last year that 1.25 was bare minimum, 1.5 was preferable, last December it was 1.7, and today it's 1.9. He wanted to know why they weren't being alerted to this as it was dropping.

Mr. Love said that they recognized that the longer they remained down near the minimum requirement level, the greater the risk of a downgrade on their credit rating. What was not discussed last year is what the Agency needed to do to improve it, and in what timeframe.

Mr. Hill agreed that there was talk about the 1.25 and the 1.5.

Thomas Love/IEUA said, yes, the 1.25 was the minimum that had to be maintained, even by deferring the rate increase last year. When we went through the analysis last year and when we did get the recommendation to defer, we went through the numbers, refocused on the cost containment one more time to make sure that we were comfortable that we could maintain the 1.25. We came pretty close, we're just 1 point below that at 1.24. What was not discussed until we started putting things together for this year's evaluation was, what is that action plan, what actions do we need to take to show the credit rating agencies that we are able and willing to take action to improve that above the minimum.

Mr. Hill thinks that it would have behooved all of us to know as we were dropping and dropping each year that really we should have been up 1.9 in lieu of as low as we were getting.

Mr. Love said that when it was discussed last year, he was not aware of the 1.9 Fitch rating criteria on an average for wastewater utilities; their financial advisors provided that information.

Mr. Hill stated that, at last month's discussion, it was 1.7.

Mr. Love/IEUA said the objective is still 1.7, and do we try and get to 1.9 if the economy stays this way, is something that will have to be evaluated beyond this 3-year window. Or, do we just try and maintain it somewhere close to 1.7 for a period of time. If the economy recovers and some of the revenues that we've lost come back, we may be able to get to 1.9. It was as recent as 5 or 6 years ago that they were over 2.

Mr. Hill said it took a while for that to fall and it was never discussed.

Mr. Love stated that it will take a while to get back up to those levels and there needs to be some action to show the credit rating agencies that we're not going to stay at that minimum level because there is a significant risk of a downgrade.

Rosemary Hoerning/City of Upland stated right now the rating is AA- but when you get to the 3rd year, are you still at AA- or did you just step up.

Mr. Love said that they had a mid-year rating by Standard & Poors last month. Assuming that IEUA does move forward with approving rate increases, S&P would consider them in a stable category and, if it is implemented in a few years, there is potential for an upgrade.

Jim Hill/City of Chino commented on the property tax issue and said that he had raised the point at that time that because of the poor economy, maybe it wasn't appropriate that we start reducing that subsidy. At the time he was told, no, we should go ahead, and we went ahead and reduced the subsidy. And now we are talking about the same subject again, a year later. It seems like in this kind of an economy, it is not the time to be doing away with these kinds of subsidies unless we're absolutely forced to do it. That has such a negative impact on the rates for recycled water.

Christina Valencia/IEUA said that reducing it was necessary; they were at 7% allocation to the WC fund. They reduced that by 2% because the rates that they had for the EDU were not cost of service, they were extremely low, and also not sustainable. And, not getting the rate increase didn't help, so they had no choice but to reduce that at the WC level.

Mr. Love said there are several different factors coming in on the property taxes. One, is they have been using a significant amount of the property taxes to subsidize both the EDU rate and the recycled water rate over the last couple of years. The property tax revenue has declined so they have less money to allocate. The other item that was discussed at the workshop is, over several years we have really starved our capital funding for rehabilitation and replacement. That fund has gone down significantly which is normally funded by a more significant portion of the property taxes. The point that was made at the workshop is, we're looking at the next few years, but we also need to think long term and what we do today can affect what happens long term with regard to capital funding. If we continue to draw down and have the capital fund at a low level, there is a point in time where we will have to spend money for rehabilitation and replacement and, at some point, we're going to have to do an expansion. Consequently, we may have a double-edged sword, where if we don't improve the financial situation, the debt coverage ratio, we could be facing a downgrade in the credit rating. If we stay at 1.25 or close to that level given the current market and the current economic situation, it's not inconceivable that the credit rating agencies will take note that we're not taking action. If our credit rating goes down, our cost of borrowing goes up. If the capital fund has been drawn down and remains low when we do have to spend money and borrow money to meet those needs, we're going to have to borrow more money at a higher interest rate. The action we take now will affect those costs in the long term.

Ms. Valencia stated that also included in these assumptions is IEUA's cost containment plan, which has not changed. They are still committed to sustaining the vacancy factor of 5%, not changing their staffing levels, continuing to do as much as possible not to replace the positions as they leave, or as they retire.

Scott Burton/City of Ontario commented that, from the information provided on the recycled water system, one of the reasons for the rapid rate increase is new debt, and that's the single biggest reason for this drastic jump. There are regional projects under design, some planned for construction, and there's new debt going to be issued. He thinks it's important that we make sure that it's in our best interest to spend that money now. The question is, with the changes in the economy, and almost no increase in demand, even drops in demand, and development at a standstill, if these new recycled water pipelines are built, member agencies have to retrofit and switch over from potable consumption to recycled in a time where potable demand is not increasing. We're facing our own challenges with less revenue, and fixed costs are almost the same. He thinks before we issue any more debt and embark on more projects, there needs to be some kind of a check-in with the agencies to determine if those agencies are committed to the project now, or if it's better to wait 5 years. It may be that we can put it on pause for 3 or 4 years as development picks up and demand picks up. It would make more sense financially and also from a water supply standpoint.

Mr. Love said that the majority of the projects that are at a conceptual stage right now are oriented around getting more water into recharge where, once we get the pipeline there and we know what the permit conditions are, and we've operated these basins on storm water and imported water, we know how they operate and have pretty good confidence that that customer at the recharge basin is there. There are some that will rely on some direct connect customers as well. Someone suggested to my staff that we haven't had the recycled water RED team meetings for a while. He thinks it's time to put those back on the table, particularly if we're talking about some additional projects. The goal is to get sales up on the recycled water, but there's also a cost associated with that and that needs to be evaluated. The last point, in 2005, we updated the original feasibility study that was done in 2001 with an implementation plan and then the 3-year business plan as we've expanded this recycled water system. We had to start from where it was, and that's at the treatment plants. We always said we will pick the projects that are the best bang for the buck first and those projects have been built. As we get out farther in the system, these projects are not as cost effective, and, from a water supply and water resource management, and even from a cost, these will make sense. As we built those more economical projects, it hasn't gone to every member of the regional program, but the property tax revenue has subsidized the rates for those. So to say stop now when all the agencies who have helped make this program go so far, have not seen the benefit, it might be of concern to some of the agencies. He thinks getting the RED team get back together to go over some of these newer projects that have been on the books and in the 3-year business plan is a good idea.

Mr. Burton said he thinks that all of IEUA's member agencies that get to purchase the recycled water that's recharged has gotten a benefit. But, even projects that are coming up near term, primarily for recycled water recharge, you have to borrow money and raise the rates even for direct use. He asked for a commitment from IEUA to have some type of a check-in with the member agencies before embarking on any more projects.

Mr. Love said that IEUA will make that commitment. They will bring that back, not only through the RED team, but also the Technical Committee will have an opportunity to see them.

Mr. Burton then asked what the amount was in IEUA's sewer replacement fund.

Ms. Valencia replied that it's very low. If the rates are not increased, it drops down to under $3M this year. With the current rate and current projections, they are under $3M. With the rate increase as proposed for next year, it jumps to about $7M, but that's to sustain the entire regional system.

Mr. Burton asked how certain IEUA can be with respect to rate increases 3 years out. This year, reevaluated, it's changed a couple of times. Ontario is a lot more comfortable with a 2-year rate increase because they don't want to be in a position where a 3-year rate increase is adopted and, at year 3, because you've been able to defer some projects, and lower operating costs, it's not needed. Ontario does not want to see a commitment to a rate increase to the rate payers that may not be necessary. He doesn't think that a prediction can be made as to what's needed 3 years from now.

Mr. Love agreed that the farther out you go, the less certain you are of the assumptions. The comments at the workshop from the IEUA Board and from some of the Policy members was, let's look at a 3-year scenario, but also make certain that we have enough conservatism in the assumptions that we're not going to have to come back and adjust prior to the end of the 3 years. So that's what you see reflected in the change from the workshop to today, is the modification of the assumptions. From staff's standpoint, we feel comfortable that we can live within what we've proposed for the 3-year period, barring some significant event, or significant property tax loss. The economy is showing signs of improvement, but then you could get a another round of foreclosures and another decrease in valuation which is very difficult to predict.

Mr. Burton commented on the debt coverage ratio and said he thinks there's some difference of opinion on whether or not we need to go to 1.7 so quickly. He asked what the financial benefits are of doing that. He thinks if we go with the 2-year rate increase then we can still revisit it again in 2 years to see what is needed in year 3 - do we want to go to a 1.7; do we want to go to a 1.9; or do we want stay at a 1.5. It's a lot of changes in a time when the economy is tough. Ontario just had their rate review and raised rates for water and sewer and there were a lot of comments from the public. For Ontario, 2 years is more comfortable with the 1.5 debt coverage.

John Bosler/CVWD asked if they don't approve the 3rd year, will that still make us okay with the rating.

Mr. Love responded by saying that, in terms of the credit rating agencies' eyes 3 years, as proposed, would be much better than 2 years.

Brian Thomas/The PFM Group said that you're better off taking action than not. He suggested presenting the story as, you've taken action by approving rates for the next 2 years. The plan is to get to the 1.7 and you'll review that in the second year to see if you need to raise rates again based on whatever those conditions are. The forecast that the Agency would be presenting to the rating agencies would be that these rates have been implemented, we've had discussions, and the plan would be to implement that third step as required. However, PFM has worked with other agencies whereby they would actually adopt a 3-year plan with a commitment to come back in year 2 and review that third year to see if it's still required. If you can meet your financial metrics and don't need to raise it quite as much, you wouldn't. One of the big things with Prop 218 hearings and notices is, if you come out and say, here's our notice based on this scenario and then in the 3rd year you come out and say instead of raising it a $1.00, it's $.75, people are generally happier with that result. The options are; you could adopt it with a commitment to review it to make sure you need it, or, simply adopt the 2 years and then start the process again.

Jim Hill/City of Chino said that he recalled from the workshop that the Policy members in attendance stated a preference for 3 year rates. He thinks that the Technical Committee members would also prefer 3 year rates. At the time of the workshop, it was not crystal clear what those 3 year rates were going to do. Next week when we have a similar discussion with the Policy Committee, they might have a totally different opinion of what we should do. Chino's Policy rep was not at the workshop but he's going to have a totally different opinion from what was agreed to at that workshop as the preferred path to take, and he's not sure that, today, everyone would agree on that preferred path.

Mr. Love informed the Committee that the Policy meeting will be 2 weeks from today, January 26.

Steve Nix/City of Chino Hills agrees that the 3-year option would be optimum; it would make life easier for everyone. On the recycled side, IEUA has downgraded the deliveries which, because you need the revenue, drives up the rate. We had a cool year last year so he doesn't know if that's a good indicator; the deliveries are going to stay down. He agrees a rate increase is needed but, because of all the uncertainties, he would pitch for a 1-year rate increase and go through the trouble of this again next year once there is a little more data to be analyzed.

Mr. Love agreed with Mr. Nix about the demand. The biggest variable based on sales is recycled water. We had a wet spring last year and a cool summer; water demands are down across the board. It's only speculation on how much of that is due to the economy. So far, it's a dry winter and we have every valve going to the recharge basin wide open, running with recycled water since it's not raining. The climate is a big driver in how much recycled water we sell.

Scott Burton/City of Ontario said he would be interested in knowing what the rates would look like if IEUA ended up not borrowing any more money for recycled water over the next couple of years, particularly in 2014/15.

Christina Valencia/IEUA said that she would have to calculate that. Included now is the Southern Area Project which has already been approved; it's 100% design complete and bidding has not gone out for that. Also in the assumptions is the Central Wineville Project which is still under review. Those numbers are there and can be taken out. She said she would work with Sylvie Lee/IEUA to determine what the implication to the forecast for the projected deliveries going forward will be, but they may drop significantly because Central Wineville alone has about 4100 AF which is included in those numbers.

Mr. Burton stated that, you borrow less, it goes down, but you sell less, you're unit cost goes up.

Ms. Valencia said, yes, it goes up.

Mr. Love said that's what was talked about earlier in looking at these projects; how much demand do we have a comfort level with or a level of certainty with, compared with the cost of the project and the debt service that may be incurred.

Steve Nix/City of Chino Hills asked for any further comments and called for a motion.

Jim Hill/City of Chino commented that, if there is a motion and a vote, it should be 4 separate, roll call votes.

Rosemary Hoerning/Upland asked if today's vote was deferred, what would that do to IEUA's timing. She said that she had the packet but didn't spend enough time with it from the time she received it to today's meeting. She was not able to talk with her representative to make sure that Upland could develop a comfort level and ask additional questions of IEUA that may arise.

Mr. Love suggested a special meeting be held next week to allow more time for Committee members to review the packet, and to also allow IEUA staff to address some comments, concerns, and questions that were raised in today's meeting.

Scott Burton/City of Ontario said, from Ontario's perspective, he would appreciate that. There has been a lot of different information put forth at today's meeting and he would appreciate more time to review it.

Rosemary Hoerning/City of Upland said she would be in favor of that.

John Bosler/CVWD said he also would be in favor of meeting again next week.

Mike Hudson/City of Montclair said he was ready to make a motion to approve the recommendations that were presented at the workshop back in December which do not apparently achieve IEUA's goal of having a debt service coverage ratio of up to 1.5 by the end of the second year. He wants to know, if the rates that were modified at the workshop (not the rates that were sent out ahead of the workshop) were approved by the Technical Committee, the Policy Committee and the IEUA Board, what would IEUA achieve on its debt service coverage ratio for the 3-year period.

Motion: By Mike Hudson/City of Montclair, and seconded by Scott Burton/City of Ontario, to continue the discussion of the FY 2012/13 Rate Proposals to a special meeting on Thursday, January 19, at the City of Chino Hills.

Motion carried.

Ms. Valencia said that she would provide the information Mr. Hudson requested.

Rosemary Hoerning/City of Upland asked for clarification of Mr. Hudson's motion and if he was asking for those rates to be approved by the Technical Committee.

Mr. Hudson said he is asking IEUA staff to determine what the debt service coverage ratio would be if the numbers presented at the workshop in December were adopted. He said his motion was to continue this discussion to a special meeting next Thursday, January 19.

Scott Burton/City of Ontario asked if that would be the numbers handed out towards the end of the workshop, and, what the debt coverage ratio would be if those rates were approved with the new assumptions or with the previous assumptions.

Mr. Hudson responded that it would be the new assumptions regarding the redirection of property taxes and other assumptions that were presented today.

Ms. Valencia said, yes, the changes to revenues and expenditures.

Mr. Hudson said, yes.

Ms. Valencia said that they can plug those in pretty quickly and provide those sometime tomorrow.

Mr. Hudson said that it would be helpful to have that information prior to next week's meeting.

Ms. Valencia asked if there was anything else that she needed to follow up on.

Mr. Burton said he would like to see what the recycled water rate looks like if we keep the 1.7, $1.6M in property tax towards recycled water through 2014/15.

Thomas Love/IEUA replied to Mr. Burton by saying that they will have to show both rates because of the allocation between the two. He said, if you put more on one, that means less on the other and it affects both rates.

Ms. Valencia said that question was posed by Steve Nix and the response to him was that the impact was about $50/AF on the recycled water side, and $.50 on the EDU. By keeping it, you're subsidizing the $50 and it's costing the EDU about $.50 on that side. That ratio is based on current projections of 33,000 to 34,000 AF a year.

Steve Nix/City of Chino Hills if that was based on the 5% shift.

Ms. Valencia said, yes, it was based on the current 5% allocation.

Rosemary Hoerning/City of Upland said that's a $.50 reduction.

Ms. Burton said, as a percentage increase, it has a much bigger impact on the recycled water rate than it does on the sewer.

Ms. Valencia said, yes, it's a large amount.

Mr. Love confirmed that the next meeting of the Technical Committee will be Thursday, January 19, at 4:00 PM at the City of Chino Hills.

INFORMATIONAL ITEM

3. **Status Report on Self-Regenerating Water Softener Local Ordinance Implementation**

Thomas Love/IEUA gave a brief update on water softeners. The update in the staff report indicates that Monte Vista Water District has adopted an ordinance, but it should say the City of Montclair. He does not believe that the Water District did adopt an ordinance. Also he said that staff has been keeping a close eye on Sacramento. Martha Davis/IEUA did meet with representatives of the Pacific Water Quality Association in Sacramento and they assured her they were not going to go after a legislative action regarding water softeners. Lastly, the City of Upland had their hearing in December and they will have both the adoption and second reading this month, as confirmed by Rosemary Hoerning/City of Upland.

Scott Burton/City of Ontario asked Mr. Love if he had more information on the agency that was looking into putting together a list of alternative technologies.

Mr. Love said it's through the Southern California Salinity Coalition and the National Water Research Institute, and Dr. Peter Fox from the University of Arizona, who has done a lot of research on soil aquifer treatment for recycled water. Dr. Fox has been on some of the blue ribbon panels dealing with the Health Department permits, but he is mainly looking at the saltless technologies for water softeners. It is known that there are saltless technologies that will protect the plumbing; it will not remove calcium from the water but it will prevent it from scaling on the pipes. We do not want consumers going out and buying something that's called a saltless water softener that is not effective. Dr. Fox is going to look at the types of technology; not specific brand names or specific products, but the type of claims made by the saltless technology. He will try to identify the technologies that are effective at preventing scale in the plumbing and those that have no real scientific basis.

Mr. Burton then asked if IEUA could put that information on their website for reference.
Mr. Love said that they would post that information as soon as the report is available. Since IEUA is a public agency they do not want to endorse any one product, but they can reference the different types of technology on the website that are based on university research.

RECEIVE AND FILE

4. **Pretreatment Summary Report**
   Receive and file the Pretreatment Summary Report included in the agenda packet.

5. **IEUA Monthly Water Newsletter**
   Receive and file the Monthly Water Newsletter included in the agenda packet.

OTHER BUSINESS

6. **Agenda Items for Next Meeting**
   A special meeting of the Regional Technical Committee will be held next Thursday, January 19, 2012 for further discussion of the rate proposals

7. **Committee Member Comments**
   No comments.

8. **Next Meeting – January 19, 2012**

ADJOURNMENT - Meeting was adjourned at 5:23 p.m.

Transcribed by: *Pamela Sharp*

Pamela Sharp, Administrative Secretary, City of Chino Hills