



**MINUTES OF THE
WORKSHOP
OF
THE BOARD OF DIRECTORS
OF
THE INLAND EMPIRE UTILITIES AGENCY*
WEDNESDAY, MARCH 5, 2014
7:00 A.M.**

DIRECTORS PRESENT:

Michael Camacho, Vice President
Terry Catlin, President
Steven J. Elie, Secretary/Treasurer
Jasmin A. Hall
Gene Koopman

STAFF PRESENT:

P. Joseph Grindstaff, General Manager
Christina Valencia, Chief Financial Officer/Assistant General manager
Ernest Yeboah, Executive Manager of Operations/Assistant General Manager
Chris Berch, Executive Manager of Engineering/Assistant General Manager
Sharmeen Bhojani, Manager of Human Resources
Javier Chagoyen-Lazaro, Manager of Finance & Accounting
Tina Cheng, Budget Officer
Paula Hooven, Senior Financial Analyst
Majid Karim, Deputy Manager of Engineering
Sylvie Lee, Deputy Manager of Planning and Environmental Compliance
Alex Lopez, Senior Financial Management Analyst
April Woodruff, Board Secretary/Office Manager
Jessica Sarmiento, Financial Analyst

OTHERS PRESENT:

Jean Cihigoyenette, Cihigoyenette, Grossberg, and Clouse

A meeting of the Board of Directors of the Inland Empire Utilities Agency* was held at the office of the Chino Basin Water Conservation District, 4594 San Bernardino Street, Montclair, California on the above date.

President Catlin called the meeting to order at 10:02 a.m., and he led the pledge of allegiance to the flag. A quorum was present.

President Catlin stated that members of the public may address the Board. There was no one desiring to do so.

President Catlin asked if there were any changes/additions/deletions to the agenda. There were no changes/additions/deletions to the agenda.

FY 2014/15 BUDGET WORKSHOP #3: RESERVE POLICY AND BUDGET SCENARIOS

Chief Financial Officer/Assistant General Manager Christina Valencia recognized her staff for all their hard work in putting the all three of the workshops together.

Ms. Valencia briefly reviewed the highlights from Workshop #1 – Financial Position and Business Goals, and Workshop #2 – Challenges, Opportunities, and Strategies.

She stated that in Workshop #1, a key recommendation by the Board was the payment of long-term obligations which includes high interest bonds and the unfunded accrued liabilities (UALs) for retirement benefits. Ms. Valencia stated that payment of long-term obligations will help support another key recommendation from the Board, which is to improve the Agency's total debt coverage ratio (DCR) to 3.0X and reinstate the Agency's long-term credit rating to AAA by FY 2017/18, or sooner. She said that on the unfunded liabilities, which include the OPEB for medical and the pension, Director Elie recommended that staff separate the two, since they have varying amounts, and one can be fully funded sooner than the other. She stated staff also developed a Pay-Go policy for the Replacement and Rehabilitation (R&R) of the Agency's physical assets, as well as certain capital projects that will be identified as staff completes long-term planning documents in process. Lastly, she stated that staff defined the reserve policies and, upon Director Koopman's recommendation, made sure that the reserve will be indexed to inflation going forward, as well as to provide flexibility in the use of excess reserves.

Ms. Valencia stated that in Workshop #2, staff focused on challenges and opportunities, and the methods to achieve full cost of service recovery; what the impact to rates would be depending on how soon we achieve this. She also noted certain restrictions that are currently in place with a Regional Contract, which do not allow the Agency the flexibility to move property taxes around to help mitigate future rate increases. She stated that staff has incorporated into the cost of service scenarios to be presented, the ability to reallocate property taxes. Ms. Valencia stated that another recommendation from the Board was to continue with multi-year rates, and implement a biennial budget beginning in Fiscal Year (FY) 2015/16, which will provide more stability to our member agencies.

Ms. Valencia gave a PowerPoint presentation on the Reserves Policy and scenario analysis incorporating the Board's recommendations. She noted that the key assumptions that are embedded on all of the scenarios is that staff is still compiling the budget for FY 2014/15 the O&M values in the scenarios, are based on the forecasts prepared as part of the current O&M amounts for FY 2013/14. O&M amounts will change as staff continue their review and analysis of the proposed budget for FY 2014/15. She also noted that when the Board adopted the TYCIP of \$336 million, there were still numerous long-term planning documents in progress. Ms. Valencia highlighted the Reserves Policy, stating that the goal is to make sure that the reserves are in the correct category, allow for the flexibility going forward to establish the right levels, and the ability to use excess funds in the future. She highlighted three budget scenarios. Scenario COS 5 years, to achieve cost of service (COS) in 5 years and Scenario COS 3 years, to achieve COS in 3 years for Regional Wastewater Program. The ability to reallocate property taxes will help support water resource management initiatives. For the Recycled Water Program, the same rate and delivery assumptions were assumed and COS was achieved in 5 years. In both COS scenarios, a key assumption is amendment of the Regional Contract to allow management the flexibility to reallocate property tax currently restricted to the Regional Wastewater Capital Improvement (RC) fund.

(Director Camacho left the meeting room at 11:00 a.m.)

(Director Camacho returned to the meeting room at 11:05 a.m.)

(Director Hall left the meeting room at 11:05 a.m.)

(Director Hall returned to the meeting room at 11:10 a.m.)

Discussion ensued regarding if the Benchmark was data normalized, adequate reserves for R&R, recycled water rates tied to MWD Tier I water rates, balancing costs with the incentive to purchase recycled water, funding new construction with connection fees, fund allocations, injection of recycled water, and recharge above the allocation.

At the conclusion of the workshop, the Board directed staff to prepare a recommendation to establish a trust account to begin funding the Agency's Other Post-Employment Benefits (OPEB); present a final reserve policy for Board adoption; work with the Agency's financial advisor on the retirement of high interest debt obligations callable in November 2014; and initiate discussions with the Regional Committee to amend the Regional Contract to more flexibility in the use of property taxes to support water resource management initiatives.

With no further business, President Catlin adjourned the meeting at 11:50 a.m.

Steven J. Elie, Secretary/Treasurer

APPROVED: MARCH 19, 2014