



Date: March 18, 2015

To: The Honorable Board of Directors

Through: Finance, Legal, and Administration Committee (3/11/15)

From: P. Joseph Grindstaff
General Manager

Submitted by: Christina Valencia
Chief Financial Officer/Assistant General Manager

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Subject: Adoption of the Regional Wastewater EDU Volumetric Rate for Fiscal
Years 2015/16 – 2019/20

RECOMMENDATION

It is recommended that the Board of Directors adopt Rate Resolution 2015-3-1, establishing service rates for improvement district “C” for Fiscal Year (FY) 2015/16 through 2019/20 for the EDU volumetric rate for the Regional Wastewater Program.

BACKGROUND

Staff’s recommendation to adopt the proposed five-year rates was presented to the Regional Technical Committee on February 26, 2015 and the Regional Policy Committee on March 5, 2015. The Regional Policy Committee unanimously agreed with the Regional Technical Committee’s recommendation to the IEUA Board of Directors to only adopt the proposed EDU volumetric rate for FYs 2015/16 and 2016/17. The basis for their recommendation was to allow for a review in 2017 of the proposed rates for FYs 2017/18-2019/20 to confirm the proposed increases are still necessary and justified. Agency staff assured the Regional Committees that a thorough review of the rates FYs 2017/18-2019/20 prior to the effective date of the FY 2017/18 rate could be facilitated. Such a review would be in addition to the semi annual budget variance updates already being provided to both Regional Committees. Facilitating such a review process will allow for the adoption of the five-year rates as proposed by the Agency, as well provide member agencies an opportunity to validate, and if necessary, modify the adopted rates for the remaining three years. The Regional Committee’s recommendation to only adopt the rates for FY 2015/16 and 2016/17 as proposed under the five-year staff recommendation does not achieve cost of service.

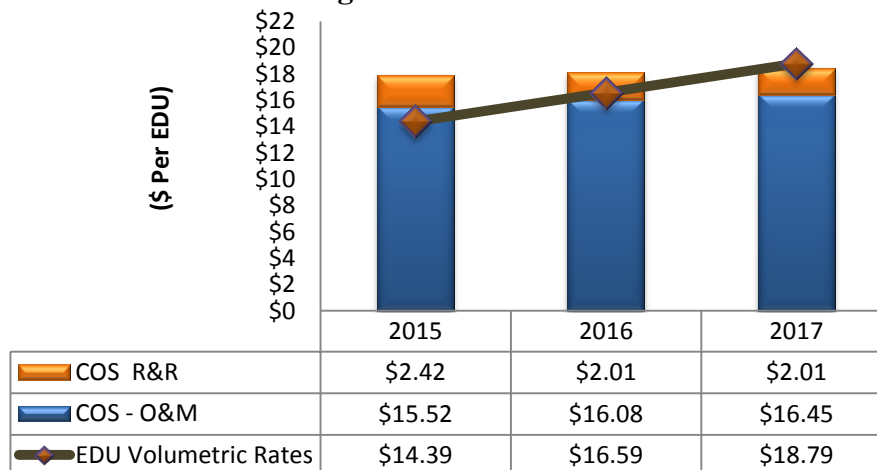
Option: Recover Cost of Service in Two Years (FYs 2015/16 and 2016/17)

An alternative for the Board to consider is the adoption of rates for only FYs 2015/16 and 2016/17 as recommended by the Regional Committees and achieve the Board’s objective to be at full cost of service (IEUA Business Goals Fiscal Responsibility). Under this two-year rate option, the EDU Volumetric rate in both FYs 2015/16 and 2016/17 would be increased by \$2.20 per EDU each fiscal year as indicated in Table 2 and Figure 1. Thereafter, rates would be adjusted to keep up with the cost of living or any significant changes in operating costs, such as enhanced treatment requirements.

Table 2: Two-Year Rate Option

Rate Description	FY 2014/15 Current	FY 2015/16	FY 2016/17
EDU Volumetric Rate	\$14.39	\$16.59	\$18.79
Rate Increase		\$2.20	\$2.20
Effective Date		10/01/15	07/01/16

Figure 1: Two Year COS Rate



The adoption of multi-year rates that fully recover program costs will be improve the Agency’s options in financing the significant capital investments identified in the updated Facilities Master Plan and included in the FY 2015/16 – 2024/25 Ten Year Capital Improvement Plan (TYCIP). Some of the major capital projects include the relocation of the RP-2 solids handling facility to RP-2 and expansion of RP-5 (\$261 million), and rehabilitation and expansion of the RP-1 facility (\$108 million), and future decommission of the RP-2 site (\$30 million). Design documents for the RP-5 and RP-1 facility projects is scheduled to begin in FY 2016/17.

Rates Overview

Fiscal year 2014/15 is the final year of the three-year rates adopted by the Board in February 2012 for the Agency's Regional Wastewater and Recycled Water programs. The adoption of multi-year rates proved beneficial to both the Agency and its member agencies in terms of providing revenue stability, moving rates closer to full cost of service recovery consistent with the IEUA Business Goal of Fiscal Responsibility, and lessening Proposition 218 requirements.

In May 2014, Carollo Engineers, Inc. (Carollo) was contracted to conduct a nexus study to update the Agency's regional wastewater EDU connection fee. The scope of the study was expanded to include an in-depth evaluation of the existing rates for the Water Resources and Recycled Water programs. A key objective of the study is to achieve revenue stability for each of the programs to adequately support short-term and long-term projects as identified in the Agency's planning documents, amongst them: the Integrated Resources Plan, Recycled Water Program Strategy, Water Use Efficiency Plan, and Ten Year Capital Improvement Plan (TYCIP). Another key objective of the study is to ensure a more equitable allocation of costs by providing a closer nexus between how costs are incurred and how costs are recovered. The scope of the study includes:

- **Regional Wastewater EDU Connection Fee:** A one-time charge imposed on new or upsized meters or connections to compensate for the cost providing system capacity. This source of revenue supports capacity expansion and improvement of the regional wastewater system to meet future growth.
- **Recycled Water Program Rates:** The rates support costs associated with the operations and maintenance of the Agency's recycling facilities, groundwater recharge basin operating costs not reimbursed by Chino Basin Watermaster, and debt service costs. Recycled water provides the region with a reliable and affordable local water supply, reduces reliance on limited imported water supplies, and support the region's water portfolio and "drought resiliency" objective (IEUA Business Goal: Water Sustainability).
- **Water Resources Program Rates:** Supports the management and distribution of imported water supplies, development and implementation of regional water use efficiencies, water resource planning, and regional water supply programs. Current rates do not generate adequate revenue streams to support program costs and inequitably allocate costs to ratepayers. The proposed new rate structure addresses these issues and includes:
 - **Meter Equivalent Unit (MEU) Rate:** Supports Water Resources program operating costs, including the regional conservation program.
 - **Readiness to Serve (RTS) Recovery:** Recovers pass through of Metropolitan Water District (MWD) RTS fees using the same 10 year rolling average methodology.

- **“One Water” Connection Fee** - supports future expansion and improvement of the Agency’s regional water system, which is comprised of potable, recycled water, and groundwater recharge supplies, as well as capital conservation projects. Continual investment in securing reliable and sustainable water supplies is essential to ensuring the region continues to prosper from future economic development.

In addition to the rate workshops facilitated by Carollo (Appendix 1), two budget workshops have been held for the Agency’s Board of Directors and the Regional Committees. The budget workshops focused on the proposed multi-year rates for FYs 2015/16 to 2019/20 for the Agency’s Regional Wastewater, Recycled Water and Water Resources Programs, and the proposed TYCIP for FYs 2015/16 to 2024/25. At the second budget workshop on February 3, 2015 (Special Joint Meeting), the Board and Policy members recommended the adoption of the proposed monthly EDU volumetric rates for FYs 2015/16 to 2019/20 in March 2015, with an effective date of October 1, 2015. The March adoption will allow the City of Fontana to meet its submittal deadline to the San Bernardino County Tax Assessor for inclusion in next year’s property tax roll.

Evaluation of the other proposed multi-year rates for the Agency’s Regional Wastewater, Recycled Water, Water Resources Programs, including the proposed new “one-water” connection fee, will continue with a targeted adoption date of May 20, 2015. Staff is recommending an effective date of October 1, 2015 (Appendix 2) for all FY 2015/16 rates. The effective date for the ensuing fiscal years would be July 1st for all rates.

Regional Wastewater Program Rates

The Regional Wastewater Program is comprised of the Regional Wastewater Capital Improvement (RC) fund and the Regional Wastewater Operations & Maintenance (RO) fund. The RC fund records the capital, debt, and administration activities related to the acquisition, construction, expansion, improvement and financing of the Agency’s regional water recycling plants, large sewer interceptors, energy generation, and solids handling facilities. Key revenue and funding sources for the RC fund includes: EDU connection fees, property taxes (65% allocation of total tax receipts), and grant and loan proceeds.

The key revenue and funding sources for the RO fund include: EDU volumetric charges, property taxes, and reimbursement from the Inland Empire Regional Composting Authority (IERCA) for labor and operating costs. Major expenses include operating costs for the collection, treatment, and disposal of wastewater, maintenance and capital replacement and rehabilitation (R&R) costs of regional facilities and infrastructure, organic management activities, including the Agency’s 50 percent share of the IERCA composter, and debt service costs. The only rate recommended to be adopted in March 2015 is the monthly EDU volumetric charge.

EDU Volumetric Rate

The EDU volumetric rate is a monthly charge imposed on all regional wastewater system connections. This service charge supports operational, maintenance, and administrative costs related to the collection, treatment, and disposal of wastewater throughout the Agency’s service

area and unincorporated areas. It also covers R&R costs of regional wastewater facilities and infrastructure, and debt service costs. Pursuant to the Agency’s commitment to have rates that fully recover the cost of service, incremental increases to the monthly EDU volumetric rate are proposed over the next five fiscal years (Table 3).

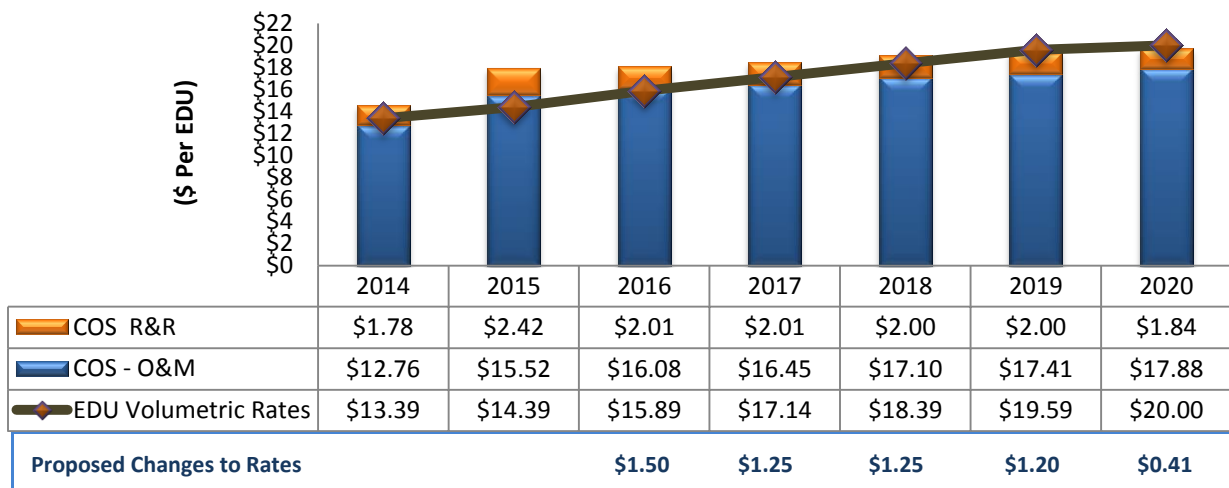
Table 3: Proposed Multi-Year EDU Volumetric Rates (Effective October 1, 2015)

Rate Description	FY 2014/15 Current	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
EDU Volumetric Rate	\$14.39	\$15.89	\$17.14	\$18.39	\$19.59	\$20.00
Rate Increase		\$1.50	\$1.25	\$1.25	\$1.20	\$.41
Effective Date		10/01/15	07/01/16	07/01/17	07/07/18	07/01/19

The proposed \$15.89 per EDU for FY 2015/16 is recommended to take effect on October 1, 2015. If approved, the current rate \$14.39 per EDU will remain through September 30, 2015. Postponement of the proposed EDU rate to October 1st is estimated to result in a decrease of \$1.2 million in EDU volumetric revenue. Proposed rates for FYs 2016/17 to 2019/20 will be effective on July 1st.

Based on current assumptions, full cost of service, or recovery of O&M, R&R, and debt service costs, is projected to be reached in FY 2018/19, as shown on Figure 2.

Figure 2: EDU Volumetric Rate Cost of Service



Key Budget Assumptions

Table 4 summarizes the RO fund primary funding sources and uses of funds over the next five fiscal years based the proposed five-year rates and key budget assumptions. A Sources and Uses of Fund report for FYs 2015/16 to 2019/20 is provided in Exhibit A.

**Table 4: Regional Wastewater Operations and Maintenance (RO) Fund
 Key Budget Assumptions – Based on Proposed Five-Year Rates**

<i>(\$Millions)</i>	5 Year Totals	Comments
Revenues and Other Funding Sources		
EDU Volumetric	\$292	Assumes annual growth factor of 0.25% in the number of billable monthly EDUs.
Property Tax	\$48	No change in the allocation of 22% and the level of property tax receipts. After achieving full cost of service, property taxes will be set aside to support the relocation of RP-2 solids handling to RP-5, rehabilitation of RP-1 and decommissioning of RP-2.
Expenses and Other Uses of Fund		
O&M (net IERCA labor costs)	\$270	Assumes 3% annual average inflationary increase.
Capital Replacement & Rehabilitation (R&R)	\$55	Capital project spending – partially supported by SRF loans and grants: <ul style="list-style-type: none"> • Water Quality Laboratory Replacement Chino Creek Wetlands and Educational Park Upgrades
Debt Service	\$3	Share of principal and interest costs for the 2008A Revenue Bonds and debt service costs for the laboratory’s SRF loan.

Cost of Service (COS) Components

The RO fund COS components include:

- O&M expenses (82%) budgeted at an average 3% annual increase,
- R&R (17%) capital projects for the rehabilitation and replacement of regional wastewater facilities and infrastructure,
- Debt service costs (1%) include a share of 2008A Revenue Bonds and future SRF loan for the Water Quality Laboratory replacement project.

The components and percentages of the total expenditures are summarized in Table 5.

Table 5: Regional Wastewater Operations and Maintenance (RO) Fund Expenses and Other Uses of Funds

Expense Category	Budget %	Description
Employment	37%	Regional Operations employment net of IERCA labor is 37 percent of the total program expense and 60 percent of the Agency's total employment costs.
Utilities	12%	Includes purchase of electricity from Southern California Edison, or the grid, use of natural gas, and purchase of renewable energy generated on site from solar, wind, and fuel cell.
Chemicals	7%	Assumes an average of 3% inflationary factor Major chemical used are Sodium Hypochlorite for disinfection, Polymer to enhance solids settling in primary clarifier and Ferric chloride to optimize treatment performance.
Professional Fees & Services	5%	Includes contract work and materials for regional wastewater facilities and equipment.
Materials & Supplies/Office & Administrative	4%	Operations and maintenance supplies for facility maintenance.
O&M Projects	2%	Major O&M maintenance and repair projects.
Operating Fees	2%	Includes permits and user charges for discharge of RP-1 centrate to the Non-Reclaimable Wastewater system.
Other Expenses	7%	Includes office and administration, leases and rentals, and allocated expenses for operation facilities.
Capital Replacement & Rehabilitation (R&R)	17%	R&R capital projects for regional wastewater related equipment and structures.
Debt Service	1%	Share of principal and interest costs for the 2008A Revenue Bonds and future repayment of the SRF Loan for the Water Quality Laboratory replacement.
Total	100%	

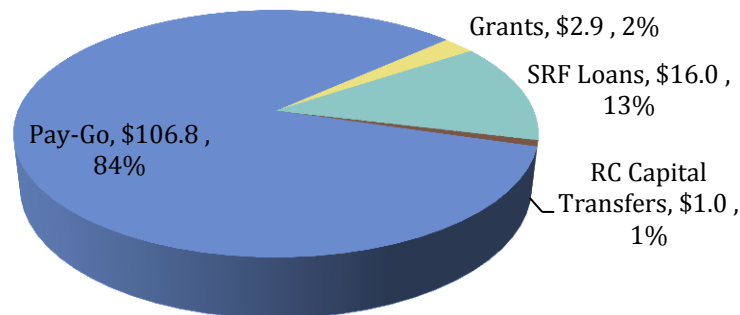
Capital Rehabilitation and Replacement (R&R) Projects

Except for the Water Quality Laboratory replacement project which is funded with a State Revolving Fund (SRF) loan, net of principal forgiveness (grant), the majority of the RO fund capital projects are primarily funded on a pay-go basis (Table 6 and Figure 3). Pay-go is a combination of user charges and property taxes (until full cost of service is achieved in FY 2018/19).

**Table 6: Regional Wastewater Maintenance & Operations (RO) Fund
 Major Capital Projects**

Project	Timeframe (Fiscal Years)	Ten Year Project Costs (\$Millions)
Regional Wastewater Projects Asset Management Plan (AMP)	2020/21 – 2024/25	\$50.0
Water Quality Laboratory Replacement	2015/16 – 2018/19	\$17.8
SCADA Enterprise System	2015/16 – 2018/19	\$8.7
RP-5 Process Improvements	2019/20 – 2021/22	\$6.3
RP-4 Process Improvements	2016/17 – 2018/19	\$5.2
All Other Projects	2015/16 – 2024/25	\$38.7
RO Total:		*\$126.7

Figure 3: R&R Projects Funding Sources



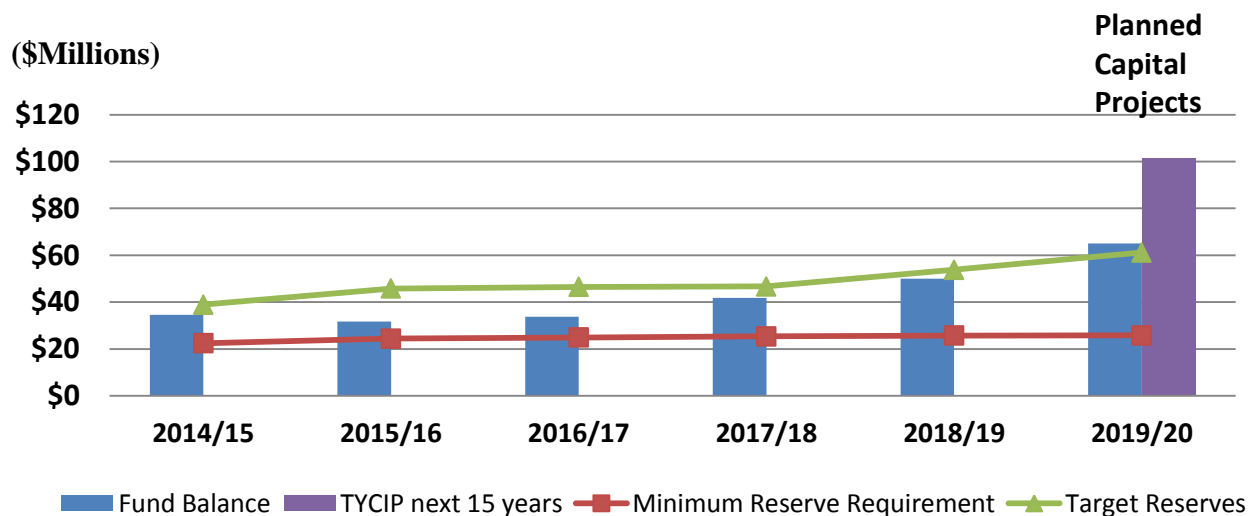
**\$126.7M includes \$12.5M O&M projects and \$114.2M R&R capital projects*

As aforementioned, other major capital projects include the rehabilitation and expansion of the RP-1 facility scheduled to begin in 2023 and the relocation of the the RP-2 solids handling facility to the RP-5 site. RP-2 in the City of Chino is located on land leased from the US Army Corps of Engineers (the Corps) and is within the flood zone behind Prado Dam. The Corps and Orange County Flood Control District have plans to raise the maximum operational water level behind Prado Dam by 2021 triggering the need to relocate the RP-2 solids handling to RP-5. Another future project will be decommissioning of the RP-2 site prior to the lease expiring in 2035.

RO Fund Balance

The RO Fund balance in FY 2015/16 is estimated to be \$32 million; a decrease of 2.5 million, or approximately 7%, relative to the FY 2014/15 projected ending fund balance of \$34.5 million. The adoption of the proposed the multi-year rates and achievement of full cost of service by FY 2018/19 will allow the designation of property taxes to support future capital requirements estimated at \$101 million over the next 15 years, as indicated by the purple bar in FY 2019/20 on Figure 4.

**Figure 4: Regional Wastewater Operations and Maintenance (RO) Fund
 Projected Reserve Balance- Based on Proposed Five-Year Rates**



Closing

Adopting an EDU Volumetric rate that fully recovers the Regional Wastewater Program operating (O&M), R&R, and debt service costs is consistent with the Regional Sewage Service Contract and the IEUA Business Goal of Fiscal Responsibility. The IEUA Business Goals were developed in collaboration with the Regional Committees to ensure the Agency’s ability to effectively meet its mission and vision to deliver high quality essential services to its member agencies and the communities they serve. Reaching full cost of service will allow property taxes allocated to the RO fund to be set aside to support major capital projects over the next 15 years, including the relocation of the RP-2 solids handling to RP-5, rehabilitation of RP-1 and ultimate decommissioning of the RP-2 site. The use of property taxes to support these future costs will lessen the burden on ratepayers by avoiding future rate increases that would be necessary if reservation of property taxes are insufficient. Additionally, adoption of multi-year rates that achieve full cost of service will reduce the Agency’s future borrowing costs should it be necessary to issue new debt to finance some of these capital requirements.

Table 7 is the timeline for adoption of the proposed multi-year rates.

Table 7: Multi-Year Rates Adoption Timeline

Date	Meetings
EDU Volumetric Rate	
2/26/15, 3/5/15	Regional Technical Committee / Regional Policy Committee
3/11/15, 3/18/15	IEUA Committee Recommendation/IEUA Board Approval
Wastewater Connection Fee, Recycled Water Rates, One Water Connection Fee, RTS Recovery, and Meter Equivalent Unit (MEU) rates	
3/10/15	Cost of Service Workshop #4: Connection Fees/Water Rates
4/1/15	Special Joint Mtg of the IEUA Board & Regional Policy Committee
4/14/15	Final Cost of Service Workshop #5: Connection Fees/Water Rates
4/30/15, 5/7/15	Regional Technical Committee / Regional Policy Committee
5/13/15, 5/20/15	IEUA Committee Recommendation/IEUA Board Approval
10/1/15	Recommended effective date for FY 2015/16 rates.

IMPACT ON BUDGET

There is no direct impact on the Agency's adopted Fiscal Year 2014/15 budget as a result of this item.

Attachments:

- Exhibit A– Regional Wastewater O&M (RO) Fund Sources and Uses of Funds Report
- Appendix 1 – Rates study workshops and meetings schedule
- Resolution No. 2015-3-1

**Exhibit A: RO Fund FYs 2015/16 to 2019/20 Sources and Uses of Fund Report
 (Based on the Proposed Five-Year Rates)**

INLAND EMPIRE UTILITIES AGENCY
 FISCAL YEAR 2015/16 BUDGET
 RO FUND - SOURCES AND USES OF FUNDS

	2012/2013	2013/2014	2014/2015	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
	ACTUAL	ACTUAL	AMENDED BUDGET	PROJECTED ACTUAL	PROPOSED BUDGET	FORECAST			
REVENUES									
User Charges	39,569,548	42,970,542	45,988,286	45,988,286	49,696,196	55,023,361	59,173,099	63,182,341	64,630,396
Cost Reimbursement JPA	3,252,652	3,054,632	3,471,033	3,211,133	3,378,369	3,470,762	3,572,316	3,658,482	3,736,974
Contract Cost Reimbursement	516,774	65,541	93,000	93,000	93,000	93,000	93,000	93,000	93,000
Interest Revenue	128,956	149,869	165,000	165,000	142,000	150,000	250,000	430,000	650,000
TOTAL REVENUES	43,467,930	46,240,584	49,717,319	49,457,419	53,309,565	58,737,123	63,088,415	67,363,823	69,110,370
OTHER FINANCING SOURCES									
Property Tax Revenues - Debt/Capital/Re	10,407,455	8,634,143	8,844,764	8,540,378	8,967,396	9,326,092	9,605,875	9,797,993	9,993,952
Grants	42,258	34,851	0	0	525,169	525,169	0	0	0
Other Revenues	598,464	724,766	565,416	565,416	738,000	756,540	775,636	795,305	815,564
TOTAL OTHER FINANCING SOURCES	11,048,177	9,393,760	9,410,180	9,105,794	11,178,124	18,264,451	17,745,148	10,675,116	10,809,517
EXPENSES									
Employment Expenses	23,614,915	23,035,268	28,380,805	25,333,949	26,653,344	27,382,268	28,183,469	28,863,275	29,482,528
Contract Work/Special Projects	130,522	585,650	3,004,240	1,023,700	1,500,000	1,300,000	1,300,000	1,300,000	1,300,000
Utilities	6,100,836	6,561,280	7,164,307	6,877,735	7,379,469	7,600,856	7,828,881	8,063,816	8,308,021
Operating Fees	579,760	683,310	1,157,589	1,607,589	1,107,252	1,137,262	1,170,515	1,202,963	1,237,734
Chemicals	3,578,136	4,125,729	4,715,529	4,526,908	4,593,104	4,730,898	4,872,824	5,019,008	5,169,579
Professional Fees and Services	1,872,563	2,132,842	3,493,950	2,969,858	2,679,964	2,751,834	3,106,797	3,283,538	3,494,121
Office and Administrative expenses	19,220	21,534	351,280	434,430	435,463	436,528	437,623	438,752	439,913
Biosolids Recycling	3,322,651	3,527,828	3,557,924	3,557,924	3,775,007	4,001,141	4,121,175	4,244,810	4,329,707
Materials & Supplies	1,688,761	1,653,604	2,129,332	1,809,932	1,914,334	2,190,850	2,143,745	2,208,337	2,395,311
Other Expenses	862,027	1,290,346	4,161,034	4,292,133	4,493,602	4,400,995	4,352,074	4,103,849	4,328,684
TOTAL EXPENSES	41,769,391	43,617,391	58,115,990	52,434,157	54,531,539	55,932,632	57,517,104	58,728,348	60,485,597
CAPITAL PROGRAM									
TOTAL CAPITAL PROGRAM	6,094,290	5,129,083	11,377,344	7,694,600	12,620,000	17,350,000	13,600,000	9,150,000	2,485,000
DEBT SERVICE									
TOTAL DEBT SERVICE	218,576	214,519	214,585	214,585	215,785	215,785	942,293	942,293	942,293
TRANSFERS IN (OUT)									
Capital Contribution	(400,000)	0	0	0	81,818	(1,545,455)	(790,909)	(1,195,455)	(1,200,000)
Debt Service	0	0	0	0	0	0	181,627	181,627	181,627
Property Tax Transfer	0	(2,200,000)	0	0	0	0	0	0	0
TOTAL INTERFUND TRANSFERS IN (OUT)	(400,000)	(2,200,000)	0	0	81,818	(1,545,455)	(609,282)	(1,013,828)	(1,018,373)
FUND BALANCE									
Net Income (Loss)	6,033,850	4,473,351	(10,580,420)	(1,780,129)	(2,797,817)	1,957,701	8,164,884	8,204,471	14,988,624
Fund Bal Adju to FY 11/12 CAFR									
Beginning Fund Balance July 01	25,798,903	31,832,753	36,306,104	36,306,104	34,525,975	31,728,158	33,685,859	41,850,743	50,055,214
ENDING FUND BALANCE AT JUNE 30	31,832,753	36,306,104	25,725,684	34,525,975	31,728,158	33,685,859	41,850,743	50,055,214	65,043,838
RESERVE BALANCE SUMMARY									
Capital / Operation Contingencies	13,923,130	14,539,132	19,372,000	17,478,054	17,051,060	17,487,292	17,981,598	18,356,624	18,916,210
Rehabilitation/Replacement	17,693,838	20,824,679	6,137,899	16,832,136	14,461,313	15,256,270	22,926,849	30,756,297	45,185,335
Debt Service & Redemption	215,785	942,293	215,785	215,785	215,785	942,293	942,293	942,293	942,293
ENDING BALANCE AT JUNE 30	31,832,753	36,306,104	25,725,684	34,525,975	31,728,158	33,685,859	41,850,743	50,055,214	65,043,838

Appendix 1: Rates Study Workshops and Meetings

Meeting	Discussion	Date
Cost of Service Workshop #1	Connection Fees	11/18/14
Cost of Service Workshop #2	Connection Fees	12/11/14
Cost of Service Workshop #3	Water Rates	1/13/15
Special Joint Meeting IEUA Board/Regional Policy Committee	Proposed Rates	2/4/15
Member Agency Meetings	Proposed Rates	January-May
Cost of Service Workshop #4	Connection Fees/Water Rates	3/10/15
Special Joint Meeting IEUA Board/Regional Policy Committee	Proposed Rates	4/1/15
Final Workshop	Proposed Rates	4/14/15