

Date: May 29, 2014/June 5, 2014  
To: Regional Committees  
From: Inland Empire Utilities Agency  
Subject: Property Tax Use Overview and Proposed Re-Allocation

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## **RECOMMENDATION**

This is an information item for the Regional Committees to receive and file and is intended to address a request from the Regional Technical Committee made on April 24, 2014 for clarification on the Agency's authority on the use of property taxes, and the proposed re-allocation of property taxes amongst the Agency's various programs in future years.

## **BACKGROUND**

### **Agency's Authority on the Use of Property Taxes**

The Inland Empire Utilities Agency (Agency), named the Chino Basin Municipal Water District until July 1998, was formed in 1950 as a municipal water district. The service functions and taxing powers and general district purpose are directed by the Municipal Water District Act of 1911. The Agency levied a tax on taxable property within its service area to support the level of service.

In 1970 the Agency adopted the General Plan for Water and Wastewater Systems (the Plan). The Plan was intended to improve water management in the Chino Basin as mandated by the Orange County Water District vs. City of Chino (Superior Court Case #117628). The Plan called for the Agency to own, control and operate a regional wastewater system which would then allow the integration of municipal sewage effluent to the various sources of water supply to satisfy the annual obligation of delivering 17,000 acre feet of water to the Santa Ana River.

This led to the execution of the Regional Sewage Service Contract (the Regional Contract) in August 1972, wherein the Agency purchased the community sewage facilities and infrastructure owned and operated by cities of Upland, Ontario, Chino, Montclair and Fontana and the Cucamonga County Water District (name later changed to Cucamonga Valley Water District). The Agency assumed regional responsibility in January 1973. To finance the acquisition of the existing and future improvement and expansion of the regional wastewater system, the Agency formed an Improvement District "C" (IDC) to levy a tax on taxable property within its service area. As there were no "Connection Fees" for the Regional Wastewater Capital Improvement (RC) fund, IDC taxes supported the regional system acquisition, expansion and improvement costs. The IDC was in addition to the general taxes already levied by the Agency.

The passage of Proposition 13 in 1978 capped the amount of property taxes to 1% of assessed values. As a result the Agency was no longer permitted to levy a property tax, including an IDC tax. Instead,

the Agency began receiving certain tax money levied by the County and allocated to the Agency in lieu of general and IDC taxes previously levied by the Agency. As the Regional Contract was never amended to incorporate the changes brought on by Prop 13, the Agency continued to designate property taxes received from the County for the IDC tax area to the RC fund. The remaining property tax receipts were split between the General Administration (GG) fund and the Tertiary Capital (TU) fund which later evolved into the Tertiary Operations & Maintenance (TO) fund. Both the GG and the TU funds had very small operating revenues, so property taxes were necessary to support operations and administration costs.

Technically, the TO fund is not part of the Regional Contract. It was included in the Regional program in later years as the result of the 1992-93 state legislation which diverted a portion of the Agency's tax revenue to Education Revenue Augmentation Fund (ERAF). Following another ERAF shift in fiscal years (FYs) 2004/05 and 2005/06, (a total of \$14 million in Agency property taxes were diverted) the TO fund was combined with the RO fund, resulting in the RO fund receiving the property tax allocation of 27%. Since FY 2006/07, the allocation of property taxes has been 8% to GG fund, 27% to RO fund and 65% (IDC taxes) to RC fund.

With the exception of the "IDC" taxes which are allocated to the RC fund in alignment with the Regional Contract, the IEUA Board has the authority to augment the allocation of all other property taxes collected by the Agency amongst its various programs. The Board has exercised this authority on several occasions;

- In FYs 2001/02 – 2007/08, approximately \$75,000 per year was transferred from the GG fund to the Water Resources (WW) fund to support the water conservation program.
- In FY 2009/10, 8%, or approximately \$2.8 million, was re-allocated to the Recycled Water (WC) fund from the RO fund to support debt service costs.
- In FY 2011/12, the re-allocation to the WC fund was reduced to 5%, or approximately \$1.7 million.
- Proposed for FY 2014/15 is a transfer of 3%, or approximately \$1.2 million, from the GG fund to the WW fund to support implementation and administration of drought related projects.

No change in the property taxes allocation percentage to the Regional program is proposed for FY 2014/15.

### **Proposed Re-Allocation of Property Taxes**

Although the Agency, in partnership with its member agencies, have made significant strides in enhancing local water supplies, the severity of the current drought serves as a reminder of how much our region still relies on imported water supplies. Further development of local water supplies, such as maximizing groundwater recharge, improving water quality, and securing alternative water supplies is essential for the region. Additionally, continual promotion of water use efficiency and conservation throughout the region is essential in achieving and sustaining the 20 x 2020 mandate.

Examples of some of the capital investments proposed to be funded with property taxes include:

- Safeguarding land sites to expand groundwater recharge throughout the Chino Basin
- Constructing new recharge basins and ASR well sites
- Implementing groundwater treatment/cleanup to improve water quality
- Securing supplemental/alternative water supplies to reduce dependence on SWP
- Implementing regional drought program to enhance water-use efficiency and conservation
- Maximize regional water supplies by;
  - Expanding current recycled water system to optimize beneficial reuse
  - Constructing interconnections to intertie with IEUA's recycled water system
  - Building a package brine treatment system to recover NRWS flows
  - Increasing Chino Desalter recovery by approximately 10%
  - Optimizing storm water capture from Creeks

Other significant capital investments are the relocation of the Regional Plant 2 (RP-2) biosolids processing facilities to RP-5 and the expansion of the Southern System to meet higher demands from anticipated future growth.

## **Conclusion**

The rapid growth of the Inland Empire since the 1970's has significantly increased property values throughout the Agency's service area. Over the years, rising property values have resulted in higher property tax receipts for the Agency; from an annual average of \$9 million in the late 1980's to \$36 million in 2008, prior to the onset of the economic recession. In FY 2014/15 total property taxes are projected to be \$40 million, approximately 26% of the Agency's total funding sources.

A key assumption in the Agency's long term planning is the continual receipt of property taxes. However, future shifts by the State during periods of fiscal distress are still a potential risk. Given this uncertainty, the Board is committed to reducing reliance on property taxes to support operating costs and other recurring costs which are more appropriately supported by service charges and user fees. A key objective for the Agency is to have full cost of service rates for all programs, (Business Goal Fiscal Responsibility). Achieving this objective will allow the investment of property taxes for capital initiatives/projects that support continual economic development in the region and safeguard the quality of life of the residents served through the Agency's water and sewer member agencies, (Business Goal Water Reliability).

The Agency is in the process of completing a series of long term planning documents, including the Facilities Wastewater Master Plan, Integrated Resources Plan, Conservation Plan Update, Energy Master Plan and the Recycled Water Program Strategy. Projects defined through this process, and once fully vetted by the member agencies, will be integrated in the Agency's Ten Year Capital Improvement Plan and Operating Budget beginning in FY 2015/16. A key funding source for the approved projects is property taxes.

No change in the percentage allocation to the Regional Wastewater program is proposed for FY 2014/15. Discussions on the re-allocation of property taxes to support critical capital investments over the next several years, including amending the Regional Contract to provide for more flexibility in the use of property taxes, will be initiated in the fall 2014. Allocating property taxes to finance the approved projects will help defray future rate increases and new debt issuances, as well as allow the region to

leverage funding opportunities currently available from federal, state and local agencies.