

**IRVINE RANCH WATER DISTRICT
OPERATING BUDGET
FISCAL YEAR 2011-12**



"ADOPTED"

April 26, 2011



**ADOPTED OPERATING BUDGET
FISCAL YEAR 2011-12**

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IRVINE RANCH WATER DISTRICT

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June 27, 2011

Honorable Board of Directors
Irvine Ranch Water District
15600 Sand Canyon Avenue
Irvine, CA 92618

Re: Adopted Fiscal Year 2011-12 Operating Budget

Honorable Members:

Presented for your consideration is the Proposed Fiscal Year (FY) 2011-2012 Operating Budget for the Irvine Ranch Water District (IRWD). This budget provides the financial plan required to implement the District's mission and will enable our employees to utilize the resources needed to achieve our operations, water resource, and quality management goals. The budget has been reviewed on several occasions by the Finance and Personnel Committee, which had oversight responsibility for its preparation, and by this Board during workshops held on April 11, April 25, and June 27, 2011.

The Proposed Fiscal Year (FY) 2011-12 Operating Budget is \$107.5 million, representing a decrease of \$0.7 million or 0.61% from the FY 2010-11 Operating Budget. As part of the budgeting process, staff has reduced operating expenses wherever possible without compromising the District's current high level of service.

The goals of the operating expense reductions were to improve operating efficiencies, address the changing staffing needs of the District, and reduce the District's exposure to additional pension and other benefit expenses. Staff has worked to accomplish these objectives by identifying strategic opportunities to reduce costs, outsourcing certain functions, and making use of current technologies.

The Proposed Operating Budget reflects expected revenue and expenses, quantifies the financial impact of expected staffing changes, and provides for the planned increased contributions to the capital replacement and enhancement funds from user rates and charges. Although staff aggressively pursued reductions in expenses, proposed budget cuts combined with the proposed adjustments to rates and charges will not compromise the District's current high level of service.

Proposed Rates and Charges for FY 2011-12:

Staff has reviewed costs and revenues for the treated water system, the untreated water system and the sewer system (which includes reclaimed water system). As a result of this review,

changes to the water and wastewater rates for the Irvine Ranch rate area (including the former Santiago rate area), Orange Park Acres (OPA) rate area and the Los Alisos rate area recommended for FY 2011-12 include:

Irvine Ranch Rate Area

Treated Water System:

- No change to the low volume rate in the Irvine Ranch rate area, keeping the current rate of \$0.91/ccf.
- An increase to the base commodity rate of \$0.01/ccf, from \$1.21 to \$1.22/ccf.
- An increase of \$0.75 to the current monthly service charge, from \$8.00 to \$8.75, which includes monthly user rate contributions of \$0.60/month for water capital infrastructure replacements and \$0.50/month for water capital infrastructure enhancements.

Untreated Water System:

- The non-potable agriculture irrigation rate will remain unchanged at \$479.25/acre-foot.

Sewer & Recycled Water System:

- An increase to the current monthly service charge of \$0.25, from \$16.65 to \$16.90, which includes monthly user rate contributions of \$4.55/month for sewer/recycled water capital infrastructure replacements and \$0.50/month for sewer and recycled water capital infrastructure enhancements.
- An increase to the current reclaimed landscape irrigation rate of \$4.35/acre-foot, from \$470.50 to \$474.85/acre-foot. This cost increase is consistent with the District's practice of setting recycled landscape irrigation rates at 90% of the District's base treated water commodity rate and is consistent with the cost associated with producing and distributing recycled water.

OPA Rate Area (ID 156)

Treated Water System:

The OPA rate area has tiered rates that are not allocation-based conservation rate structures, but escalate based on set levels of water used per month. Changes in the rates for the OPA rate area are indexed to the changes in the Irvine rate area by agreement:

- An increase to the base commodity rate of \$0.01/ccf, from \$1.73 to \$1.74/ccf.
- An increase of \$0.75 to the current monthly service charge, from \$16.35 to \$17.10.

Los Alisos Rate Area (ID 135/235)

Treated Water System:

The rate adjustments for the Los Alisos rate area treated system include a factor aligning Los Alisos meter rates with the Irvine Ranch meter rates.

- An increase to the base commodity rate of \$0.08/ccf, from \$1.97 to \$2.05/ccf.

- An increase of \$0.20 to the current monthly service charge for meters 1” or smaller, from \$9.60 to \$9.80, which includes monthly user rate contributions of \$0.35/month for water capital infrastructure replacements and \$0.35/month for water capital infrastructure enhancements.
- An increase of 19.5% to the monthly service charge for all meters greater than 1” in diameter.

Sewer & Recycled Water System:

- An increase to the current monthly service charge of \$0.25, from \$16.65 to \$16.90, which includes monthly user rate contributions of \$4.55/month for sewer/recycled water capital infrastructure replacements and \$0.50/month for sewer and recycled water capital infrastructure enhancements.
- An increase to the current reclaimed landscape irrigation rate of \$4.35/acre-foot, from \$470.50 to \$474.85/acre-foot. This cost increase is consistent with the District’s practice of setting reclaimed landscape irrigation rates at 90% of the District’s base treated water commodity rate and is consistent with the cost associated with producing and distributing reclaimed water.

The proposed treated tiered rates for both rate areas follow:

Tiers	Irvine Ranch	Los Alisos
Low Volume	\$0.91	\$1.40
Base Rate	\$1.22	\$2.05
Inefficient	\$2.50	\$2.98
Excessive	\$4.32	\$4.49
Wasteful	\$9.48	\$9.84

A proposed redline version of the schedule of rates and charges is provided as Exhibit “B”, and contains all of the proposed rates for all three rate areas.

User/Replacement and Enhancement Capital Component:

Replacement and enhancement rate components were increased for both water and sewer as noted above. The added components will generate an additional \$1.4 million and \$1.3 million for the treated water and sewer systems, respectively.

Comparison to City of Orange Rates:

On August 28, 2006 IRWD and the City of Orange executed an agreement by which IRWD would provide services to the area known as the “Santiago Hills II / East Orange Area”. One of the conditions stipulated in this agreement was that the cumulative fixed and commodity charges for water service to an IRWD customer using the median amount of water would not exceed the same charges incurred by a customer in the City of Orange using the median amount of water in the City. Based in the rates as proposed for FY 2011-12, a customer in IRWD using the median amount of water (12 ccf per month) will pay an average of \$21.84 per month for the water

Honorable Board of Directors

June 27, 2011

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service fixed and commodity charges. Based on the most current water rates in the City of Orange, a customer using the median amount of water (22 ccf per month) will pay an average of \$40.40 per month for the water service fixed and commodity charges or 85% more than a comparable ratepayer in IRWD.

Proposition 218 Notice:

Proposition 218, enacted in 1996, mandates that proposed increases in “property-related fees” must be noticed to property owners, and that such owners have an opportunity to protest prior to the enactment of the fee increases. While water districts and sewer agencies throughout the State believed, based on court decisions, that water and sewer service was exempt from this requirement, in July 2006, the California Supreme Court issued a decision in the matter of Bighorn, which held that water delivery charges are property-related. Following the Supreme Court’s logic, most interpretations of the decision are that both water and sewer charges should be noticed in order to be in compliance with Proposition 218.

Under Proposition 218, the notice to customers must be sent to all property owners. As permitted by statute, the District sent its notices to all of its customers (including tenants) in the District’s service area at their billing addresses.

The District received all protests from property owners in the District at a separate post office box from the rest of the District’s mail. As of June 22, 2011, five protests have been received, representing 0.0057% of the 87,927 notices sent representing 112,000 customers, .36% were retained as undeliverable. Under Proposition 218, more than 50% of the IRWD customers would have had to protest in order to prevent the Board from adopting the Proposed Rates and Charges.

Staff believes the Proposed Fiscal Year 2011-12 Operating Budget and revised Schedule of Rates and Charges will result in a balanced budget, provide a sound financial basis for District operations and result in high quality, cost effective customer service.

Respectfully submitted,

IRVINE RANCH WATER DISTRICT



Deborah S. Cherney
Senior Director of Finance and Administrative Services



OPERATING EXPENSE BUDGET

FISCAL YEAR 2011-2012

	<u>Actuals</u> <u>2009-10</u>	<u>Current</u> <u>2010-11</u>	<u>Proposed</u> <u>2011-12</u>	<u>Change</u>	<u>%</u>
110 SALARIES & WAGES - RT	\$24,337,390	\$24,711,900	\$24,740,300	\$28,400	0.11%
120 SALARIES & WAGES - OT	\$1,095,240	\$1,019,480	\$990,100	(\$29,380)	-2.88%
130 EMPLOYEE BENEFITS	\$11,254,680	\$11,924,525	\$13,043,550	\$1,119,025	9.38%
140 TEMP & CONTRACT LABOR	\$987,500	\$958,900	\$1,189,400	\$230,500	24.04%
210 WATER PURCHASES	\$27,804,290	\$27,122,800	\$26,179,600	(\$943,200)	-3.48%
220 ELECTRICITY	\$9,348,310	\$10,339,115	\$10,220,220	(\$118,895)	-1.15%
230 FUEL	\$525,850	\$518,000	\$530,500	\$12,500	2.41%
231 GENERATE NATURAL GAS	\$7,980	\$10,200	\$10,200	\$0	0.00%
240 TELEPHONE	\$304,580	\$346,140	\$307,340	(\$38,800)	-11.21%
250 OTHER UTILITIES	\$131,170	\$113,720	\$114,400	\$680	0.60%
310 CHEMICALS	\$3,489,030	\$3,618,750	\$2,941,400	(\$677,350)	-18.72%
320 OPERATING SUPPLIES	\$1,008,360	\$1,020,200	\$1,046,350	\$26,150	2.56%
330 PRINTING	\$222,310	\$346,900	\$292,600	(\$54,300)	-15.65%
340 POSTAGE	\$527,360	\$512,900	\$550,850	\$37,950	7.40%
370 PERMITS, LICENSES & FEES	\$522,260	\$565,100	\$566,850	\$1,750	0.31%
390 OFFICE SUPPLIES	\$86,720	\$104,650	\$104,650	\$0	0.00%
400 DUPLICATING EQUIPMENT	\$202,000	\$189,000	\$189,000	\$0	0.00%
420 EQUIPMENT RENTAL	\$121,350	\$157,600	\$140,590	(\$17,010)	-10.79%
490 REPAIRS & MAINT-OTHER AGENCIES	\$9,572,110	\$11,078,800	\$10,556,100	(\$522,700)	-4.72%
500 REPAIRS & MAINT-IRWD	\$6,689,950	\$6,415,260	\$6,329,550	(\$85,710)	-1.34%
510 INSURANCE	\$697,910	\$535,000	\$535,000	\$0	0.00%
520 LEGAL FEES	\$271,230	\$367,500	\$352,500	(\$15,000)	-4.08%
530 ENGINEERING FEES	\$355,610	\$593,700	\$491,300	(\$102,400)	-17.25%
540 ACCOUNTING FEES	\$75,660	\$93,500	\$92,500	(\$1,000)	-1.07%
550 DATA PROCESSING	\$728,590	\$741,700	\$949,900	\$208,200	28.07%
560 PERSONNEL TRAINING	\$761,150	\$846,600	\$912,300	\$65,700	7.76%
570 PERSONNEL PHYSICALS	\$17,480	\$43,300	\$33,800	(\$9,500)	-21.94%
580 OTHER PROFESSIONAL FEES	\$1,000,260	\$1,269,450	\$1,354,850	\$85,400	6.73%
590 DIRECTORS' FEES	\$141,730	\$145,000	\$145,000	\$0	0.00%
610 MILEAGE REIMBURSEMENT	\$105,450	\$107,000	\$107,000	\$0	0.00%
620 COLLECTION FEES	\$20,750	\$15,000	\$31,000	\$16,000	106.67%
630 ELECTION EXPENSE	\$0	\$100,000	\$100,000	\$0	0.00%
640 SAFETY	\$128,170	\$133,950	\$135,150	\$1,200	0.90%
650 OTHER	\$1,586,870	\$1,530,700	\$1,650,800	\$120,100	7.85%
660 CONSERVATION	\$919,270	\$550,000	\$550,000	\$0	0.00%
Grand Total	\$105,048,570	\$108,146,340	\$107,484,650	(\$661,690)	-0.61%



SOURCES AND USES OF FUNDS

CONSOLIDATED OPERATING BUDGET

Fiscal Year Ending June 30, 2012

In (000's)

Revenues: ²	Water			Total
	Treated ¹	Untreated	Sewer	
Residential	\$ 30,038	\$	\$ 21,627	\$ 51,665
Landscape Irrigation	4,337	126	12,799	17,262
Commercial	8,395		6,372	14,767
Agriculture Irrigation	207	1,501	1,147	2,855
Industrial	3,453		2,473	5,926
Public Authority	1,778		1,263	3,041
Fire Protection	3,678			3,678
Construction/Temporary	595		62	657
Green Acres			169	169
SMWD Sewer			235	235
Caltrans Dewatering			800	800
IDP Reimbursements			505	505
Over Use Funds/Conservation	3,129		1,453	4,582
Over Use Funds/SJ Marsh & NTS	2,287			2,287
Total Revenues	\$ 57,897	\$ 1,627	\$ 48,905	\$ 108,429
Proposed Replacement & Enhancement Capital Project Contribution	<u>(2,674)</u>		<u>(10,241)</u>	<u>(12,915)</u>
Net Revenues	\$ 55,223	\$ 1,627	\$ 38,664	\$ 95,514
Expenses:				
Water	\$ 30,480	\$ (16)	\$ 1,928	\$ 32,392
Salaries & Benefits	12,463	541	12,010	25,014
Materials & Supplies	11,979	362	15,186	27,527
OCSD - O & M			9,288	9,288
General Plant	301		252	553
Total Expenses	\$ 55,223	\$ 887	\$ 38,664	\$ 94,774
Income (Loss) From Operations	\$ 0	\$ 740	\$ 0	\$ 740

1. Treated Systems consist of Irvine and Los Alisos Rate Areas reported on page 4.

2. Proposed rate increases are factored into revenues provided above.

Commodity: Irvine Ranch Rate Area \$0.01/ccf; Los Alisos Rate Area \$0.08/ccf

Water Service Charge Increase: Includes \$0.55 for replacement & Includes \$0.25 for enhancement.

Sewer Service Charge Increase: Includes \$0.50 for replacement & Includes \$0.20 for enhancement.



SOURCES AND USES OF FUNDS

OPERATING BUDGET - TREATED SYSTEM

Fiscal Year Ending June 30, 2012

In (000's)

Revenues: ^{1 & 2}	Treated Water		
	Irvine Area	Los Alisos Area	Total
Residential	\$ 23,874	\$ 6,164	\$ 30,038
Landscape Irrigation	2,942	1,395	4,337
Commercial	7,379	1,016	8,395
Agriculture Irrigation	95	112	207
Industrial	3,453		3,453
Public Authority	1,747	31	1,778
Fire Protection	3,408	270	3,678
Construction/Temporary	545	50	595
Green Acres			-
SMWD Sewer			-
Caltrans Dewatering			-
IDP Reimbursements			-
Over Use Funds/Conservation	3,129		3,129
Over Use Funds/SJ Marsh & NTS	2,287		2,287
Total Revenues	\$ 48,859	\$ 9,038	\$ 57,897
Proposed Replacement & Enhancement Capital Project Contribution	(2,490)	(184)	(2,674)
Net Revenues	\$ 46,369	\$ 8,854	\$ 55,223
Expenses:			
Water	\$ 24,337	\$ 6,143	30,480
Salaries & Benefits	11,005	1,458	12,463
Materials & Supplies	10,766	1,213	11,979
OCSD - O & M			-
General Plant	261	40	301
Total Expenses	\$ 46,369	\$ 8,854	\$ 55,223
Income (Loss) From Operations	\$ 0	\$ 0	\$ 0

- Reporting of potable water will continue to be separated by Irvine and Los Alisos Rate Areas until a uniform rate is feasible.
- Proposed rate increases are factored into revenues provided above.
 Commodity: Irvine Ranch Rate Area \$0.01/ccf; Los Alisos Rate Area \$0.08/ccf
 Irvine Service Charge Increase: Includes \$0.40 for replacement & Includes \$0.20 for enhancement.
 Los Alisos Service Charge Increase: Includes \$0.15 for replacement & Includes \$0.05 for enhancement.



CONSOLIDATED

BUDGETED REVENUE SUMMARY BY SYSTEM

	<u>FY 2010-11</u>	<u>Usage Change</u>	<u>Proposed Rate Inc.</u>	<u>FY 2011-12</u>
Treated				
Service	\$ 19,195,300	\$ 175,000	\$ 388,400	\$ 19,758,700
Enhancement	750,000	8,000	466,000	1,224,000
Replacement	500,000	6,000	944,000	1,450,000
Commodity	28,600,300	(109,000)	388,200	28,879,500
Low Volume	1,629,900	100	54,400	1,684,400
Over Allocation Revenue	3,563,000	169,000	-	3,732,000
Pumping Surcharge	636,300	(5,700)	-	630,600
Miscellaneous	532,600	5,800	-	538,400
	<u>\$ 55,407,400</u>	<u>\$ 249,200</u>	<u>\$ 2,241,000</u>	<u>\$ 57,897,600</u>
AF	52,806			52,640
User Type				
Residential	\$ 30,071,900	\$ 109,000	\$ 1,331,300	\$ 31,512,200
Commercial	7,946,900	(6,800)	455,400	8,395,500
Industrial	3,321,900	7,300	123,500	3,452,700
Public Authority	1,697,300	15,100	66,100	1,778,500
Construction/Temp.	562,800	(14,600)	46,700	594,900
Fire Protection	3,567,400	86,300	24,300	3,678,000
Landscape Irrigation	4,439,300	(80,500)	188,600	4,547,400
Agriculture Irrigation	236,900	(35,600)	5,100	206,400
Over Allocation Revenue	3,563,000	169,000	-	3,732,000
	<u>\$ 55,407,400</u>	<u>\$ 249,200</u>	<u>\$ 2,241,000</u>	<u>\$ 57,897,600</u>
Untreated				
Commodity	\$ 2,049,900	\$ (423,100)	\$ -	\$ 1,626,800
	<u>\$ 2,049,900</u>	<u>\$ (423,100)</u>	<u>\$ -</u>	<u>\$ 1,626,800</u>
AF	4,321			3,919
User Type				
Landscape Irrigation	\$ 174,100	\$ (48,300)	\$ -	\$ 125,800
Agriculture Irrigation	1,875,800	(374,800)	-	1,501,000
	<u>\$ 2,049,900</u>	<u>\$ (423,100)</u>	<u>\$ -</u>	<u>\$ 1,626,800</u>



CONSOLIDATED

BUDGETED REVENUE SUMMARY BY SYSTEM

	<u>FY 2010-11</u>	<u>Usage Change</u>	<u>Proposed Rate Inc.</u>	<u>FY 2011-12</u>
Sewer and Recycled				
Service	\$ 25,984,900	\$ 344,300	\$ (780,400)	\$ 25,548,800
Enhancement	622,000	(8,000)	410,000	1,024,000
Replacement	8,296,000	(103,000)	1,024,000	9,217,000
Commodity	10,534,700	(213,900)	45,900	10,366,700
Low Volume	941,200	(25,900)	30,500	945,800
Over Allocation Revenue	671,000	(164,000)	-	507,000
Pumping Surcharge	361,700	1,000	-	362,700
Miscellaneous	406,000	21,000	-	427,000
IDP Reimbursements	489,900	14,700	-	504,600
	<u>\$ 48,307,400</u>	<u>\$ (133,800)</u>	<u>\$ 730,000</u>	<u>\$ 48,903,600</u>
AF	25,997			25,740
User Type				
Residential	\$ 21,214,100	\$ 44,800	\$ 398,000	\$ 21,656,900
Commercial	6,517,400	(263,400)	117,700	6,371,700
Industrial	2,918,100	308,600	46,100	3,272,800
Public Authority	1,196,800	43,400	23,500	1,263,700
Landscape Irrigation	13,745,700	(174,500)	143,900	13,715,100
Recycled Loans	10,400	(10,400)	-	0
Agriculture Irrigation	1,039,900	106,300	-	1,146,200
Construction/Temp.	49,200	12,000	800	62,000
Green Acres	168,600	-	-	168,600
SMWD	286,300	(51,300)	-	235,000
IDP Reimbursements	489,900	14,700	-	504,600
Over Allocation Revenue	671,000	(164,000)	-	507,000
	<u>\$ 48,307,400</u>	<u>\$ (133,800)</u>	<u>\$ 730,000</u>	<u>\$ 48,903,600</u>



OPERATING BUDGET

Proposed Assumptions as of April 25, 2011 Fiscal Year 2011-12

For the second year in a row, as part of the budgeting process, staff has reduced operating expenses wherever possible without compromising the District's current high level of service. The goals of the operating expense reductions were to improve operating efficiencies, address the changing staffing needs of the District, and reduce the District's exposure to additional pension and other benefit expenses. The District has worked to accomplish these objectives by identifying strategic opportunities to reduce costs, outsource certain functions, and make use of current technologies. The Proposed Operating Budget reflects resulting expected revenue and expenses, quantifies the financial impact of expected staffing changes, and provides for the planned increased contributions to the capital replacement and enhancement funds from user rates and charges.

This document summarizes the major assumptions driving the development of the operating budget for FY 2011-12 for input by the Committee.

I. REVENUES

Estimated potable, untreated, sewer, and recycled system revenues are projected to be \$105.5 million for FY 2011-12 prior to any potential rate adjustments that may be implemented by the Board. Actual fixed service revenue is flat which is consistent with assumptions used in identifying revenues for FY 2010-11

To date in FY 2010-11, commodity water sales are under budget by approximately 5% in part due to the challenging economic times and in part due to increased conservation efforts by the District's customers. Staff expects this trend to continue and has based commodity sales projections on actual usage and then applied the projected revenue on a monthly basis using a four year-average for each customer user type. While taking a four-year average may slightly overestimate total commodity sales, it is a more conservative approach to do so in order to ensure that the blended base rate for water is set at a sufficient level to capture the melded cost of water between the various water supply sources of the District.

Growth Estimates:

Residential development growth was considered primarily in the apartment sector and is based on the most current projections received from the major developers in the service area. Current apartment estimates identify approximately 1,700 additional units in FY 2011-12. Just over 800 additional units are included in current projections although 500 of those units are part of the redevelopment estimate for which the developers have not met previous projections. As a result, the growth factor for residential development was estimated at 1% for FY 2011-12.

Commercial volume has been flat which is consistent with commercial vacancy factors. Although a small decrease in vacancy factors has occurred in the last four quarters, the average is still much higher than it was two years ago. Current development projections for the commercial/industrial sector identify nearly 35 acres of development occurring in FY 2011-12 as well as 21 acres developing in the current fiscal year. The higher than average vacancy factors do not support meeting these development targets. Staff recommends no assumed growth rate for commercial and industrial development for FY 2011-12.

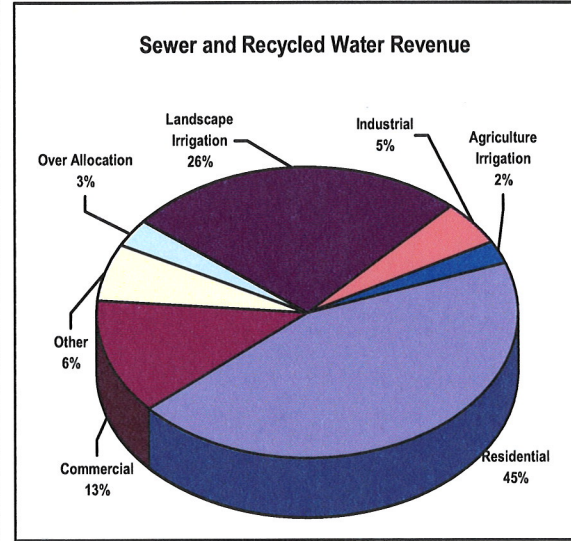
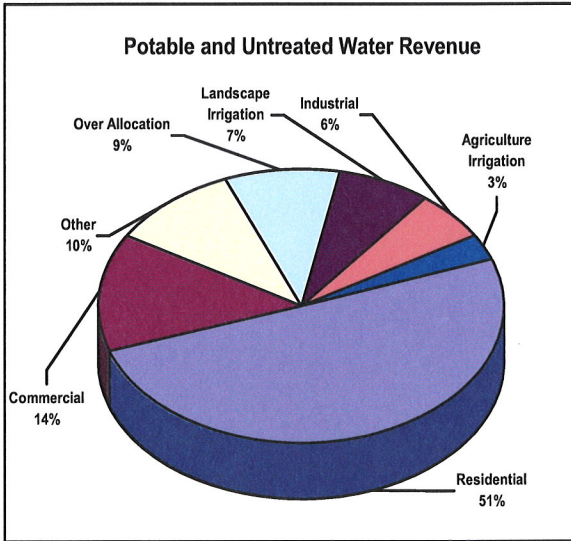


OPERATING BUDGET

*Proposed Assumptions as of April 25, 2011
Fiscal Year 2011-12*

FY 2011-12 Operating Revenue Sources, by Customer Type

Customer Type	Water	Sewer	Total
Residential	\$28,755	\$21,230	\$49,985
Landscape Irrigation	4,281	12,685	16,966
Commercial	7,940	6,254	14,194
Other	5,952	3,042	8,994
Over Allocation	5,335	1,418	6,753
Industrial	3,329	2,427	5,756
Agriculture Irrigation	1,702	1,147	2,849
	\$57,294	\$48,203	\$105,497



The projected revenue sources and their respective percentage of the total are presented in the graph above. Total Residential, Landscape, Commercial, and Industrial revenue constitute over 83% of the total operating revenues.

The "Other" category in the chart above includes revenue from the following sources in the order of total estimated receipts:

- Construction/Temporary accounts
- United States Department of the Navy contribution for the Shallow Ground Water Unit identified as Irvine Desalter Project (IDP) Reimbursements
- Recycled water sales to the Santa Margarita Water District
- Green Acres Project (GAP) recycled water sales
- The Replacement Fund contribution for election expense
- Recycled Water Conversion Loan payments



OPERATING BUDGET

Proposed Assumptions as of April 25, 2011
Fiscal Year 2011-12

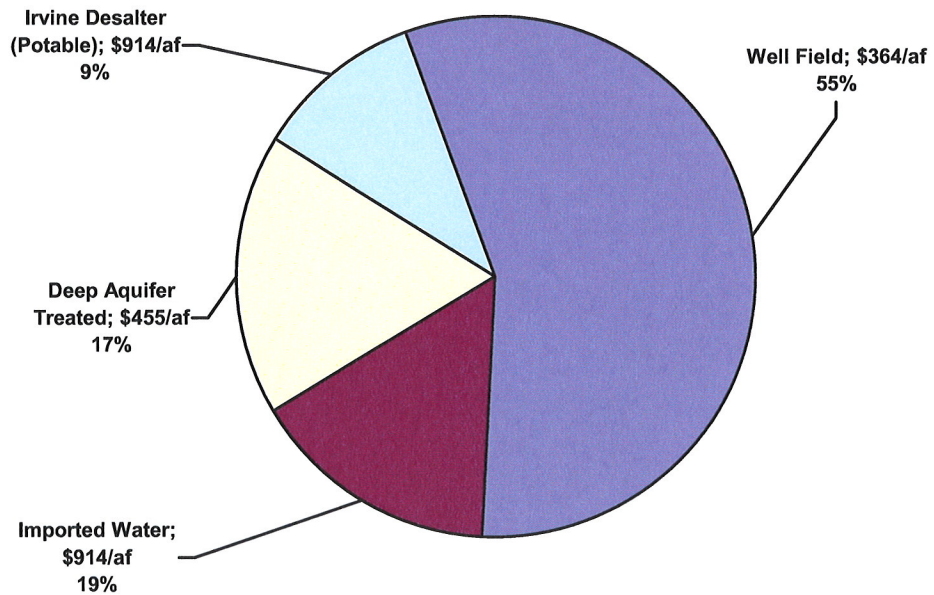
II. OPERATING EXPENSES

Notable expected changes in operating expenses are addressed below by system and function:

A. Treated Water – Groundwater Production

The cost per acre-foot from each of the sources and their respective share of the total water purchased are identified in the graph.

Projected Cost of Treated System
Source Water: FY 2011-12



The major assumptions associated with the respective sources of water include the following:

- Based upon the most current information the Orange County Water District, the Replenishment Assessment (RA) is assumed to increase by \$6/acre-foot to \$255/acre-foot.
- In FY 2008-09, 25% of the labor associated with operation and maintenance of the Dyer Road Well Field (DRWF) was included in the cost of water with the assumption that an additional 25% of the DRWF labor will be added each year until all labor has been migrated into the cost of water. By adding the final 25% of the DRWF labor into the cost of water in FY 2011-12, the full labor cost of approximately \$1.6 million will now be appropriately included in the variable cost of water.



OPERATING BUDGET

Proposed Assumptions as of April 25, 2011 *Fiscal Year 2011-12*

- DRWF pumping costs:
 - Energy costs in general are expected to increase by approximately 3% but adjustments to current assumptions will result in pumping cost estimates remaining consistent with FY 2010-11 costs.
 - Chemical expense on the potable side is expected to remain consistent with FY 2010-11 costs.
- Irvine Desalter Project (IDP) Potable Treatment Plant (PTP) chemical expenses are expected to remain consistent with FY 2010-11 costs, in total.
- Deep Aquifer Treatment System (DATS) costs will increase moderately due to the increase in RA identified above and a moderate increase in energy requirements as a result of an adjustment to FY 2010-11 estimates.

B. Treated Water – Metropolitan Water District of Southern California (MWD)

- MWD is expected to increase its rates again on January 1, 2012 by 7.0% and further expected to increase its Readiness-to-Serve component. There is no planned increase for the Municipal Water District of Orange County (MWDOC) component of water costs.
- Staff assumes no substantial change to the costs associated with the IRWD Reservoir Management Systems.
- Should MWD elect to raise rates in the middle of the fiscal year, the District can pass through those incremental costs at that time without a further formal Proposition 218 notice to customers.

C. Untreated Water

The primary source of untreated water is MWD which will experience substantial rate increases over the next few years. In FY 2011-12, untreated system demands will be met primarily by native water stored in the Irvine Lake.

- Native water, Santiago Aqueduct Commission (SAC) water, and pre-purchased MWD untreated full serve rate water is expected to be used to meet all untreated demands.
- Any MWD/MWDOC increases addressed in the treated water system will also apply to purchases for the untreated system.

D. Sewer and Recycled Water

Sewer:

MWRP and LAW RP – The treatment projections for FY 2011-12 at MWRP and LAW RP are 18 MGD and 4 MGD respectively. LAW RP production is reduced within the budget to match the projected recycled system demands.



OPERATING BUDGET

Proposed Assumptions as of April 25, 2011 Fiscal Year 2011-12

The chemical and energy cost estimates for treatment at LAWRP is expected to decrease due to LAWRP recycled water production being limited to peak summer months, with the balance of supply coming from MWRP.

Recycled:

- Total recycled demand is estimated at 25,718 acre-feet.
- Water produced at MWRP and LAWRP or included in storage is expected to provide 22,311 acre-feet of the total supply.
- Groundwater production is expected to provide an additional 1,080 acre-feet.
- The recycled water system is expected to purchase 740 acre-feet of supplemental water from the untreated.

E. Salaries and Benefits

- Each year, staff prepares a labor budget based upon the total positions in the organization chart, expected merit and cost of living increases, and promotional allowances. This total budget is then reduced by a vacancy factor to account for retirements and job turnover. The vacancy factor assumption is 3.0% for FY 2011-12 due to current staffing levels and expected retirements.
- The primary factors driving salaries are:

Positions Eliminated	(2.90%)
One Time Increase	2.00%
Merit	0.45%
COLA	0.38% (Net of the prior year negative catch-up)
Promotional	<u>0.20%</u>
	0.13%

The Board approved a one-time salary adjustment and Salary Grade Range Adjustment of 2% effective July 1, 2011 will be put in place for all employees, except for the Assistant General Manager and General Manager. This will result in no net impact to employee take home pay as a result of the 2011-12 CalPERS employee contribution rate increase discussed below except for the senior management team.

- The District is setting the PERS Employer contribution rate at 20.0% per input from the Finance & Personnel Committee. Based on that contribution rate and given existing payroll budget information, the employer contribution would be \$4,882,300.
- A multi-year plan will be implemented to transition employees from the current 1% payment of the Employee Contribution to CalPERS to the total 8% of payment of the Employee Contribution. Initial increases to the CalPERS Employee Contribution will take effect on July 1, 2011:



OPERATING BUDGET

Proposed Assumptions as of April 25, 2011 Fiscal Year 2011-12

- The Employee Contribution rate paid by employees will increase from 1% to 3%;
- The Employee Contribution rate paid by Senior Staff (Directors) will increase from 1% to 4%; and
- The Employee Contribution rate paid by the Assistant GM and GM will increase from 1% to 6%
- The District currently has two components to its deferred compensation contribution program. Changes to this program are as follows:
 - The District currently matches an employee's contribution to the deferred compensation by up to 3% of salary after one year of employment. This portion of the program will continue.
 - The District also directly contributes 3% of each employee's salary into his or her deferred compensation accounts after 2 years of service. This portion of the program is being discontinued.
- Health and dental insurance premiums are expected to increase by 13.7%, although a portion of this increase may be offset by additional employee contributions.

III. USE OF OTHER FUNDS

A. Over Allocation Revenue

- Over Allocation Revenue is used to offset three primary expenses:
 - ✓ The Low Volume shortfall is the rate difference between the low volume rate and the base rate. Over allocation revenue is used to offset this differential. This is projected to be \$2,545,300 for FY 2011-12.
 - ✓ Budgeted conservation expenses are funded from over allocation revenue. Conservation expenses for FY 2011-12 are budgeted at \$2,630,000.
 - ✓ Urban runoff (NTS) and San Joaquin Marsh maintenance expenses are the third and final component of expenses funded using over allocation revenue and these are budgeted at \$2,270,000 for FY 2011-12.

Budgeted Over Allocation Revenue (in thousands)	\$6,838
Expenses Funded from Over Allocation Revenue:	
Low Volume Discount	\$2,630
Water Conservation Expense	1,938
Urban Runoff and San Joaquin Marsh	<u>2,270</u>
Total Expenses	<u>\$6,838</u>



OPERATING BUDGET

Proposed Assumptions as of April 25, 2011 Fiscal Year 2011-12

B. Replacement Fund User Rate Component

- Consistent with the Board's direction in recent years, staff assumed increases to the current replacement fund contributions. The current sewer service charge of \$4.00 per month for the average residential customer in FY 2010-11 will increase by \$0.65 to \$4.65 to continue replenishing the sewer replacement fund. Staff assumes an increase of \$0.50 on the water service charge replacement component to \$0.70 for the typical residential customer. The net change in the fund excluding other revenue sources other than 1% receipts follows (in millions):

Fund Balance as of February 2011	\$ 169.7
Projected Capital Expenditures	(18.9)
Estimated 1% Property Tax Allocation	5.9
Replacement Component from User Rates	<u>10.7</u>
Net Replacement Fund Position	<u>\$ 167.4</u>

C. Enhancement Fund User Rate Component

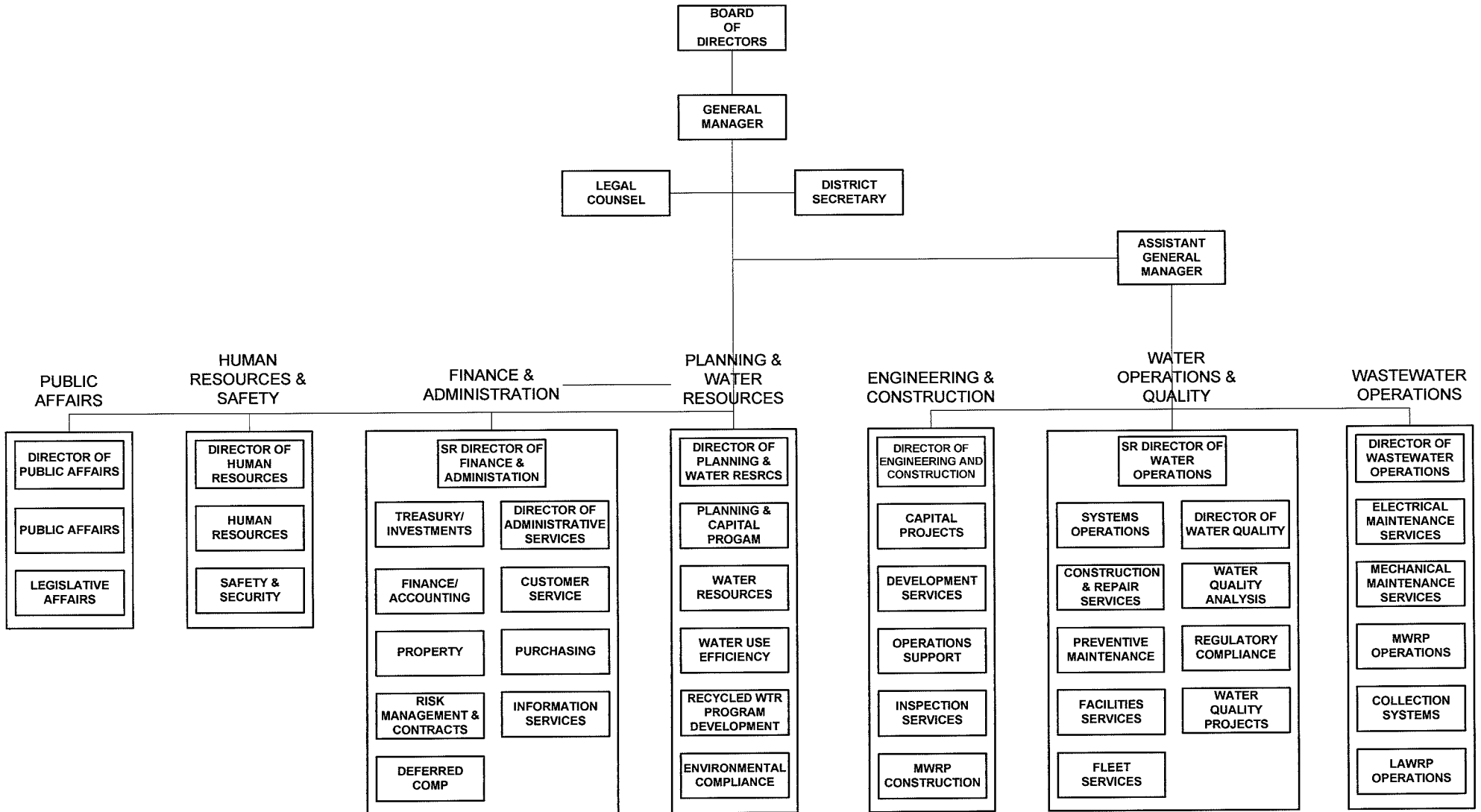
- The current enhancement fund contribution for both the water and sewer system for FY 2009-10 was a combined \$0.50 per month (\$0.25 each for water and sewer) for the average residential customer. Staff assumes an increase of \$0.20 each for a combined enhancement component of \$1.00. The net change in the fund excluding other revenue sources other than 1% receipts follows (in millions):

Fund Balance as of February 2011	\$ 9.6
Projected Capital Expenditures	(3.7)
Estimated 1% Property Tax Allocation	4.8
Enhancement Component from User Rates	<u>2.2</u>
Net Enhancement Fund Position	<u>\$12.9</u>

IV. **ALLOCATION OF COSTS BETWEEN IRWD & LOS ALISOS RATE AREAS**

- Costs that are directly related to providing service or are clearly associated with the Irvine Ranch rate area or Los Alisos treated water are allocated to the respective system expenses of that rate area.
- Those costs that are attributable to system operations but that are not unique to one rate area are allocated based upon the ratio of the budgeted acre-feet.
- All direct labor costs are allocated General & Administrative (G&A) charges based upon the budgeted G&A factor.

**Irvine Ranch Water District
Organizational Chart
(By Function)
Fiscal Year 2011-12**





CONSOLIDATED

THREE YEAR PERSONNEL COMPARISON

Dept. No.	Department	Authorized Positions		
		2009-10	2010-11	2011-12
10	Administration			
	Number of Positions	20.0	20.0	21.0
	% change from prior year	0.0 %	0.0 %	5.0 %
20	Finance and Administration Services			
	Number of Positions	66.0	67.0	64.0
	% change from prior year	(10.8) %	1.5 %	(4.5) %
30	Engineering and Construction			
	Number of Positions	35.0	35.0	33.0
	% change from prior year	(18.6) %	0.0 %	(5.7) %
40	Water Operations			
	Number of Positions	85.0	84.0	82.0
	% change from prior year	(2.3) %	(1.2) %	(2.4) %
50	Wastewater Operations			
	Number of Positions	53.0	54.5	56.0
	% change from prior year	1.9 %	2.8 %	2.8 %
60	Water Quality and Environmental Compliance			
	Number of Positions	25.0	25.0	25.0
	% change from prior year	0.0 %	0.0 %	0.0 %
70	Planning and Water Resources			
	Number of Positions	27.0	28.0	26.0
	% change from prior year	68.8 %	3.7 %	(7.1) %
	Total Number of Positions	<u>311.0</u>	<u>313.5</u>	<u>307.0</u>
	Number of Changed Positions	(6.0)	2.5	(6.5)
	% Change From Prior Year	<u>(1.9) %</u>	<u>0.8 %</u>	<u>(2.1) %</u>



CONSOLIDATED

GENERAL PLANT SUMMARY

	Fiscal Year 2010-11	Fiscal Year 2011-12	Increase (Decrease)	% Inc/(Dec)
Information Systems	\$ 146,900	\$ 227,425	\$ 80,525	54.82%
Transportation Equipment	577,000	379,500	(197,500)	-34.23%
Tools, Shop and Work Equipment				-
Other General Plant Including Safety Equipment	49,500	75,000	25,500	51.52%
Laboratory, Stores and Communication Equipment	74,520	46,000	(28,520)	-38.27%
Office Furniture and Equipment		125,000	125,000	100.00%
Structures/Improvements - Sand Canyon/MWRP				-
Work Equipment/Class IV, V, VI	114,750	64,937	(49,813)	-43.41%
Sub-Total	962,670	917,862	(44,808)	-4.65%
Less: Vehicle Salvage Value	(16,800)	(16,000)	800	-4.76%
Total General Plant	\$ 945,870	\$ 901,862	\$ (44,008)	-4.65%

Fiscal Year 2011-12

Funded by User Charges	\$ 552,900	61.31%
Funded by Connection Fees	348,962	38.69%
Total 2011-12	\$ 901,862	

Fiscal Year 2010-11

Funded by User Charges	\$ 820,220	86.72%
Funded by Connection Fees	125,650	13.28%
Total 2010-11	\$ 945,870	



CONSOLIDATED

GENERAL PLANT ANALYSIS

Description	Admin. Dept. 10	Finance Admin. Dept. 20	Eng. Dept. 30	Water Op's. Dept. 40	Waste Water Op's. Dept. 50	Water Quality Dept. 60	Water Res. Dept. 70	Total
Information Systems	\$ -	\$ 227,425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 227,425
Laboratory Equipment						46,000		46,000
Other General Plant					75,000			75,000
Office Furniture & Equipment				125,000				125,000
Work Equipment/Class IV, V, VI				40,900	24,037			64,937
Transportation Equipment				379,500				379,500
Structures/Improvements - Sand Canyon/MWRP								
Subtotal	\$ -	\$ 227,425	\$ -	\$ 545,400	\$ 99,037	\$ 46,000	\$ -	\$ 917,862
Less Vehicle Salvage Value				(16,000)				(16,000)
Total 2011-12	\$ -	\$ 227,425	\$ -	\$ 529,400	\$ 99,037	\$ 46,000	\$ -	\$ 901,862
Total 2010-11		146,900		671,800	52,650	74,520		945,870
Increase/(Decrease)	\$ -	\$ 80,525	\$ -	\$ (142,400)	\$ 46,387	\$ (28,520)	\$ -	\$ (44,008)

**IRVINE RANCH WATER DISTRICT
ANNUAL DEBT SERVICE BUDGET
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

Type	Issue	Principal Due	Interest Due	Total
Fixed				
	2010 Build America Bonds	0	7,402,500	7,402,500
	2010 Refunding Certificates of Participation	4,210,000	3,893,203	8,103,203
Variable ⁽¹⁾				
	1988 Election Bonds	1,600,000	12,200	1,612,200
	1989 Consolidated Series	2,300,000	28,850	2,328,850
	1991 Consolidated Series	1,100,000	32,350	1,132,350
	1993 Consolidated Series	0	225,000	225,000
	1995 Consolidated Series	1,800,000	114,000	1,914,000
	2008 A Refunding Series	1,200,000	338,396	1,538,396
	2009 A Consolidated Series	0	450,000	450,000
	2009 B Consolidated Series	0	450,000	450,000
	2011A-1 Refunding	1,470,000	356,655	1,826,655
	2011A-2 Refunding	985,000	243,840	1,228,840
Total Debt Service		\$ 14,665,000	\$ 13,546,994	\$ 28,211,994
Credit Enhancement and Administration				2,300,000
Total, All Debt Related Payments				\$ 30,511,994

(1) Variable Interest is estimated at: 0.60%

Capital Budget Summary

Fiscal Year 2011-12

Project Phase	Water	Sewer	Recycled
CONSTRUCTION	40,543,430	33,295,090	15,999,670
CONSTRUCTION FIELD SUPPORT	609,360	388,880	504,650
DESIGN STAFF FIELD SUPPORT	136,060	189,070	84,170
ENGINEERING - CA&I IRWD	2,309,900	1,937,120	1,547,930
ENGINEERING - CA&I OUTSIDE	2,204,020	2,139,470	1,555,190
ENGINEERING - GIS IRWD	51,780	70,940	51,710
ENGINEERING - GIS OUTSIDE	78,790	90,910	78,750
ENGINEERING - PLANNING IRWD	1,498,200	734,820	722,800
ENGINEERING - PLANNING OUTSIDE	2,049,880	362,170	461,760
ENGINEERING DESIGN - IRWD	525,600	1,223,910	215,300
ENGINEERING DESIGN - OUTSIDE	1,166,510	4,975,300	420,260
ENGINEERING ENVIRONMENTAL-OUTSI	120,240	61,180	6,910
LAND	2,931,240		
LEGAL	455,170	46,850	40,180
WATER QUALITY	253,220	29,690	95,160
Grand Total	54,933,400	45,545,400	21,784,440

DISTRICT POLICY WITH RESPECT TO USE & MAINTENANCE OF DISTRICT REPLACEMENT FUND

<u>CATEGORY</u>	<u>PURPOSE</u>
→ Capital Facilities Replacement	— Long-term replacements
→ Self Insurance/Emergency Repair	— Self-insurance for earthquakes and catastrophic loss beyond District's insurance coverage; unplanned emergency repairs
→ Variable Rate Hedge	— Mitigate impact of changing financial markets/conditions
→ System Refurbishment's	— Fund annual replacement expenditures that extend the useful life of facilities
→ Environmental Compliance/Mitigation	— Comply with changing environmental requirements
→ Rate Stabilization	— Mitigate the impact of short-term effects on user rates



DISTRICT POLICY WITH RESPECT TO USE & MAINTENANCE OF DISTRICT REPLACEMENT FUND

WATER SYSTEM CAPITAL FACILITIES REPLACEMENT FUND

CATEGORY	TARGET FUND BALANCE (in millions)	CURRENT FUND BALANCE (in millions)	TARGET FUNDING CRITERIA
Capital Facilities Replacement	\$ 109 [*]	\$ 31	Equivalent to 10% of replacement cost of existing infrastructure
Self Insurance/Emergency Repairs	22	22	Equivalent to 2% of replacement cost of existing infrastructure
Variable Rate Hedge	3	3	Two year reserve based on outstanding variable rate debt
System Refurbishments	7	7	Equivalent to latest three year average expenditures
Environmental Compliance/Mitigation	5	5	Based on risk analysis/exposure
Rate Stabilization	3	3	Equivalent to three years working capital
Fund Balance	\$ 148	\$ 71	



DISTRICT POLICY WITH RESPECT TO USE & MAINTENANCE OF DISTRICT REPLACEMENT FUND

SEWER SYSTEM CAPITAL FACILITIES REPLACEMENT FUND

CATEGORY	TARGET FUND BALANCE (in millions)	CURRENT FUND BALANCE (in millions)	TARGET FUNDING CRITERIA
Capital Facilities Replacement	\$ 132 [▼]	\$ 77	Equivalent to 10% of replacement cost of existing infrastructure
Self Insurance/Emergency Repairs	26	7	Equivalent to 2% of replacement cost of existing infrastructure
Variable Rate Hedge	4 [▼]	4	Two year reserve based on outstanding variable rate debt
System Refurbishments	4	4	Equivalent to latest three year average expenditures
Environmental Compliance/Mitigation	5	5	Based on risk analysis/exposure
Rate Stabilization	3	3	Equivalent to three years working capital
Fund Balance	\$ 174	\$ 100	

