

***IRVINE RANCH WATER DISTRICT
OPERATING BUDGET
FISCAL YEAR 2012-13***



“ADOPTED”

June 25, 2012



**ADOPTED OPERATING BUDGET
FISCAL YEAR 2012-13**

Table of Contents

	<u>Page</u>
LETTER OF TRANSMITTAL	
OPERATING BUDGET	
Consolidated Operating Budget for All Departments	1
Sources and Uses of Funds:	
Consolidated District All Systems	2
Treated System by Service Area	3
Budgeted Revenue Summary by System	4
Assumptions.....	6
PERSONNEL BUDGET	
Organizational Chart (By Function).....	14
Three Year Personnel Comparison.....	15
GENERAL PLANT BUDGET	
General Plant Summary.....	16
General Plant Analysis.....	17
DEBT SERVICE BUDGET	
Annual Debt Service Budget.....	18
CAPITAL BUDGET	
Summary.....	19
REPLACEMENT FUND	
District Policy with Respect to Use and Maintenance of District Replacement Fund:	
Category / Purpose	20
Water System Capital Facilities Replacement Fund	21
Sewer System Capital Facilities Replacement Fund.....	22



IRVINE RANCH WATER DISTRICT

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June 25, 2012

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

Re: Adopted Fiscal Year 2012-13 Operating Budget

Honorable Members:

Presented for your review is the Adopted Fiscal Year (FY) 2012-2013 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 10, April 24, and June 25, 2012.

The Adopted Fiscal Year (FY) 2012-13 Operating Budget is \$111.1 million, representing an increase of \$3.6 million, or 3.4%, over FY 2011-12. As part of the budgeting process, staff has reduced operating expenses wherever possible without compromising the District's current high level of service.

The goal of the District's budgeting process remains to fund the resources required to provide services to the District's customers as cost-efficiently as possible. Over the past two years, the District's operating budget has decreased slightly by aggressively pursuing reductions in expenses to offset uncontrollable expenses such as pass-through rate increases from outside agencies on which the District depends for the purchase of water and the treatment of wastewater and biosolids. With significant additional capital facilities coming online in FY 2012-13, the increases in the operating budget reflect additional expenses associated with operating those facilities.

The FY 2012-13 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, budget cuts combined with the adopted adjustments to rates and charges will not compromise the District's current high level of service.

Adopted Rates and Charges for FY 2012-13:

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 2012-13 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 \$0.02/ccf, from \$1.22 to \$1.24/ccf.
- An increase of \$0.55 to the current monthly service charge, from \$8.75 to \$9.30, which includes monthly user rate contributions of \$0.80/month for water capital infrastructure replacements and \$0.70/month for water capital infrastructure enhancements.

Sewer & Recycled Water System:

- An increase to the current monthly service charge of \$0.30, from \$16.90 to \$17.20, which includes monthly user rate contributions of \$4.65/month for sewer/recycled water capital infrastructure replacements and \$0.65/month for sewer and recycled water capital infrastructure enhancements.
- An increase to the current reclaimed landscape irrigation rate of \$8.70/acre-foot, from \$474.80 to \$483.50/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 rates, 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 until such time as the acquisition balance is paid in full:

- An increase to the base commodity rate of \$0.02/ccf, from \$1.74 to \$1.76/ccf.
- An increase of \$0.55 to the current monthly service charge, from \$17.25 to \$17.80.

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 \$0.09/ccf, from \$2.05 to \$2.14/ccf.
- No change in the current monthly service charge for meters 1” or smaller, which includes monthly user rate contributions of \$0.80/month for water capital infrastructure replacements and \$0.70/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 \$0.30, from \$16.90 to \$17.20, which includes monthly user rate contributions of \$4.65/month for sewer/recycled water capital infrastructure replacements and \$0.65/month for sewer and recycled water capital infrastructure enhancements.
- An increase to the current reclaimed landscape irrigation rate of \$8.70/acre-foot, from \$474.80 to \$483.50/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 adopted treated tiered rates for both rate areas follow:

Tiers	Irvine Ranch	Los Alisos
Low Volume	\$0.91	\$1.51
Base Rate	\$1.24	\$2.14
Inefficient	\$2.76	\$3.16
Excessive	\$4.70	\$4.70
Wasteful	\$9.84	\$9.84

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 \$910,000 and \$684,000 for the treated water and sewer systems, respectively. Combined with the existing replacement and enhancement rate components, the total capital components will generate \$2.8 million and \$10.4 million on 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 on the rates as adopted for FY 2012-13, a customer in IRWD using the median amount of water (12 ccf per month) will pay an average of \$22.54 per month for the water service fixed and commodity charges. Based on the most current water rates in the City of

Honorable Board of Directors

June 25, 2012

Page 4

Orange, a customer using the median amount of water (22 ccf per month) will pay an average of \$46.02 per month for the water service fixed and commodity charges or 104% more than a comparable ratepayer in IRWD. The same comparison at equivalent usages results in Orange residents paying 19% more at IRWD's average usage of 12 ccf per month and 37% more at the City of Orange's average usage of 22 ccf per month.

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 25, 2012, 11 protests were received, representing 0.01% of the 87,038 notices sent, 0.45% 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 Rates and Charges.

Staff believes the Adopted Fiscal Year 2012-13 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



Robert Jacobson
Acting Director of Finance

Consolidated Operating Budget for FY 2012-13

Expense Name	2010-11 Actual	2011-12 Prior Budget	2012-13 Prop Budget	Variance
Water Purchases	30,078,024	26,179,600	24,968,060	(1,211,540)
Labor Expense RT	23,288,240	24,740,300	26,158,800	1,418,500
Labor Expense OT	910,443	990,100	804,920	(185,180)
Employee Benefits	11,403,262	13,043,550	13,726,350	682,800
Temp & Contract Labor	768,324	1,189,400	911,300	(278,100)
Electrical Usage	9,001,518	10,220,220	10,932,200	711,980
Fuel	570,796	540,700	677,500	136,800
Telecommunication	285,735	307,340	293,840	(13,500)
Other Utilities	66,638	114,400	101,700	(12,700)
Chemicals	3,031,265	2,941,400	3,147,480	206,080
Operating Supplies	980,640	1,046,500	1,090,460	43,960
Printing	230,380	292,600	341,500	48,900
Postage Services	611,622	550,850	524,120	(26,730)
Permits, Licenses and Fees	711,492	566,850	689,670	122,820
Office Supplies	75,187	104,650	99,800	(4,850)
Duplicating Equipment	173,277	189,000	176,000	(13,000)
Equipment Rental	116,926	140,590	101,900	(38,690)
Rep & Maint Other Agencies	13,859,380	10,556,100	11,577,890	1,021,790
Rep & Maint IRWD	6,473,276	6,329,550	6,113,905	(215,645)
Insurance	618,130	535,000	650,000	115,000
Legal Fees	237,902	352,500	367,500	15,000
Engineering Fees	446,195	491,300	525,860	34,560
Accounting Fees	78,866	92,500	82,500	(10,000)
Data Processing	660,389	949,900	1,176,950	227,050
Personnel Training	585,550	912,300	915,140	2,840
Personnel Physicals	20,573	33,800	35,200	1,400
Other Professional Fees	1,027,512	1,354,850	1,735,420	380,570
Directors' Fees	134,852	145,000	142,200	(2,800)
Equipment Usage	0	0	0	0
Mileage Reimbursement	106,990	107,000	114,200	7,200
Collection Fees	25,387	31,000	21,000	(10,000)
Election Expense	139,414	100,000	100,000	0
Safety	165,214	135,000	106,310	(28,690)
Other	1,605,225	1,650,800	1,767,300	116,500
Conservation	364,899	550,000	929,000	379,000
GRAND TOTAL	108,853,522	107,484,650	111,105,975	3,621,325

SOURCES AND USES OF FUNDS

CONSOLIDATED OPERATING BUDGET

Fiscal Year Ending June 30, 2013

In (000's)

Revenues:	Water	Sewer	Total
Residential	\$ 30,123	\$ 21,871	\$ 51,994
Landscape Irrigation	4,272	12,789	17,061
Commercial	8,386	6,226	14,612
Agriculture Irrigation	988	2,014	3,002
Industrial	3,498	2,473	5,971
Public Authority	1,784	1,512	3,296
Fire Protection	3,712		3,712
Construction/Temporary	615	59	674
SMWD Sewer		235	235
Reclaimed Loans		10	10
Green Acres		173	173
Caltrans Dewatering		600	600
IDP Reimbursements		520	520
Over Use Funds/Conservation	3,741	1,310	5,051
Over Use Funds/SJ Marsh & NTS	2,474		2,474
Total Revenues	\$ 59,593	\$ 49,792	\$ 109,385
Proposed Replacement & Enhancement Capital Project Contribution	(2,825)	(10,379)	(13,204)
Net Revenues	\$ 56,768	\$ 39,413	\$ 96,181
Expenses:			
Water	\$ 30,802	\$ 1,790	\$ 32,592
Salaries & Benefits	7,546	6,874	14,420
Materials & Supplies	9,655	12,314	21,969
OCSD - O & M		9,689	9,689
General Plant	645	644	1,289
General and Admin Expense	9,055	8,249	17,304
Total Expenses	\$ 57,703	\$ 39,560	\$ 97,263
Funded by User Rate Increase			-
Income (Loss) From Operations	\$ (935)	\$ (147)	\$ (1,082)

SOURCES AND USES OF FUNDS

CONSOLIDATED OPERATING BUDGET

Fiscal Year Ending June 30, 2013

In (000's)

Revenues:	<u>Irvine Area</u>	<u>Los Alisos Area</u>	<u>Total</u>
Residential	\$ 24,178	\$ 5,945	\$ 30,123
Landscape Irrigation	2,966	1,306	4,272
Commercial	7,392	994	8,386
Agriculture Irrigation	877	111	988
Industrial	3,498		3,498
Public Authority	1,752	32	1,784
Fire Protection	3,442	270	3,712
Construction/Temporary	565	50	615
SMWD Sewer			-
Reclaimed Loans			-
Green Acres			-
Caltrans Dewatering			-
IDP Reimbursements			-
Over Use Funds/Conservation	3,741		3,741
Over Use Funds/SJ Marsh & NTS	2,474		2,474
Total Revenues	\$ 50,885	\$ 8,708	\$ 59,593
Proposed Replacement & Enhancement Capital Project Contribution	<u>(2,510)</u>	<u>(315)</u>	<u>(2,825)</u>
Net Revenues	\$ 48,375	\$ 8,393	\$ 56,768
Expenses:			
Water	\$ 24,693	\$ 6,109	\$ 30,802
Salaries & Benefits	6,729	817	7,546
Materials & Supplies	8,903	752	9,655
OCSD - O & M			-
General Plant	645		645
General and Admin Expense	<u>8,075</u>	<u>980</u>	<u>9,055</u>
Total Expenses	\$ 49,045	\$ 8,658	\$ 57,703
Funded by User Rate Increase			-
Income (Loss) From Operations	<u>\$ (670)</u>	<u>\$ (265)</u>	<u>\$ (935)</u>



REVENUE

BUDGETED REVENUE SUMMARY BY SYSTEM

	<u>FY 2011-12</u>	<u>Usage Change</u>	<u>Proposed Rate Inc.</u>	<u>FY 2012-13</u>
Water				
Service	\$ 19,758,700	\$ 140,600	\$ 276,600	\$ 20,175,900
Enhancement	1,224,000	60,000	471,000	1,755,000
Replacement	1,450,000	91,000	471,000	2,012,000
Commodity	30,506,300	(1,041,900)	550,000	30,014,400
Low Volume	1,684,400	(200)	108,700	1,792,900
Over Allocation Revenue	3,732,000	799,000	-	4,531,000
Pumping Surcharge	630,600	4,000	-	634,600
Miscellaneous	538,400	16,500	-	554,900
	<u>\$ 59,524,400</u>	<u>\$ 69,000</u>	<u>\$ 1,877,300</u>	<u>\$ 61,470,700</u>
AF	56,560	(1,920)		54,640
User Type				
Residential	\$ 31,512,200	\$ 95,000	\$ 1,059,500	\$ 32,666,700
Commercial	8,395,500	(9,500)	413,200	8,799,200
Industrial	3,452,700	45,400	103,600	3,601,700
Public Authority	1,778,500	5,500	53,900	1,837,900
Construction/Temp.	594,900	20,500	28,700	644,100
Fire Protection	3,678,000	34,100	-	3,712,100
Landscape Irrigation	4,673,200	(201,400)	210,600	4,682,400
Agriculture Irrigation	1,707,400	(719,600)	7,800	995,600
Over Allocation Revenue	3,732,000	799,000	-	4,531,000
	<u>\$ 59,524,400</u>	<u>\$ 69,000</u>	<u>\$ 1,877,300</u>	<u>\$ 61,470,700</u>



REVENUE

BUDGETED REVENUE SUMMARY BY SYSTEM

	<u>FY 2011-12</u>	<u>Usage Change</u>	<u>Proposed Rate Inc.</u>	<u>FY 2012-13</u>
Sewer and Recycled				
Service	\$ 25,548,800	\$ (13,100)	\$ (5,900)	\$ 25,529,800
Enhancement	1,024,000	14,000	287,000	1,325,000
Replacement	9,217,000	124,000	342,000	9,683,000
Commodity	10,371,000	833,300	92,200	11,296,500
Low Volume	945,800	3,100	61,300	1,010,200
Over Allocation Revenue	507,000	(146,000)	-	361,000
Pumping Surcharge	362,700	8,600	-	371,300
Miscellaneous	427,000	44,100	-	471,100
IDP Reimbursements	504,600	15,300	-	519,900
	<u>\$ 48,907,900</u>	<u>\$ 883,300</u>	<u>\$ 776,600</u>	<u>\$ 50,567,800</u>
AF	25,740	1,940		27,680
User Type				
Residential	\$ 21,656,900	\$ 246,200	\$ 379,600	\$ 22,282,700
Commercial	6,371,700	(145,600)	109,100	6,335,200
Industrial	3,272,800	(200,000)	43,900	3,116,700
Public Authority	1,263,700	248,500	26,900	1,539,100
Landscape Irrigation	13,715,100	(10,500)	216,000	13,920,600
Recycled Loans	-	10,600	200	10,800
Agriculture Irrigation	1,146,200	868,200	-	2,014,400
Construction/Temp.	62,000	(3,400)	900	59,500
Green Acres	172,900	-	-	172,900
SMWD	235,000	-	-	235,000
IDP Reimbursements	504,600	15,300	-	519,900
Over Allocation Revenue	507,000	(146,000)	-	361,000
	<u>\$ 48,907,900</u>	<u>\$ 883,300</u>	<u>\$ 776,600</u>	<u>\$ 50,567,800</u>



OPERATING BUDGET

Assumptions as of June 25, 2012 Fiscal Year 2012-13

The goal of the District's budgeting process remains to fund the resources required to provide services to the District's customers as cost-efficiently as possible. Over the past two years, the District's operating budget has decreased slightly by aggressively pursuing reductions in expenses to offset uncontrollable expenses such as pass-through rate increases from outside agencies on which the District depends for the purchase of water and the treatment of wastewater and biosolids. With significant additional capital facilities coming online in FY 2012-13, the increases in the preliminary draft of the operating budget reflect additional expenses associated with operating those facilities.

This document summarizes the major assumptions driving the development of the operating budget for FY 2012-13 for input by the Committee.

I. REVENUES

Estimated potable, untreated, sewer, and recycled system revenues are projected to be \$109.0 million for FY 2012-13 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 2011-12

To date in FY 2011-12, commodity water sales are under budget by approximately 5%. 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 1,900 coming on line in FY 2012-13. Just over 400 additional units are included in current projections as part of the redevelopment estimate that has not been updated in three years and has clearly not met projections in that time. As a result, the growth factor for residential development was estimated at 1% for FY 2012-13.

Commercial volume has been flat which is consistent with commercial vacancy factors. The FY 2011-12 budget anticipated a return of the base that was lost previously from the economy. Although customer counts increased, it did not match the growth budgeted for FY 2011-12. Current development projections for the commercial/industrial sector identify nearly 30 acres of development occurring in FY 2012-13 as well as 35 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 2012-13.

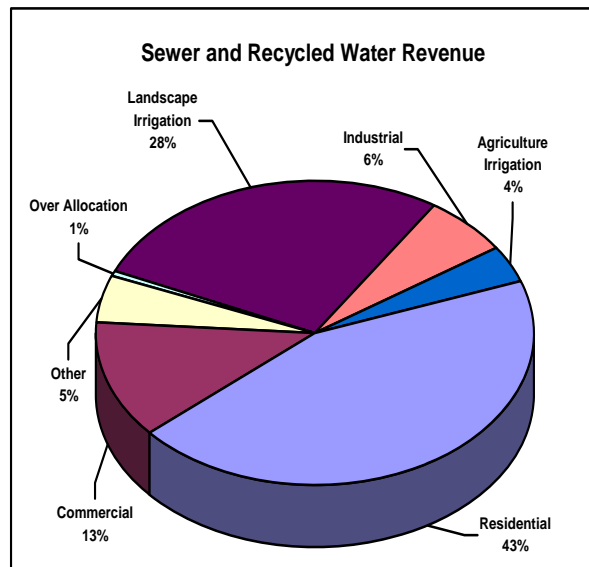
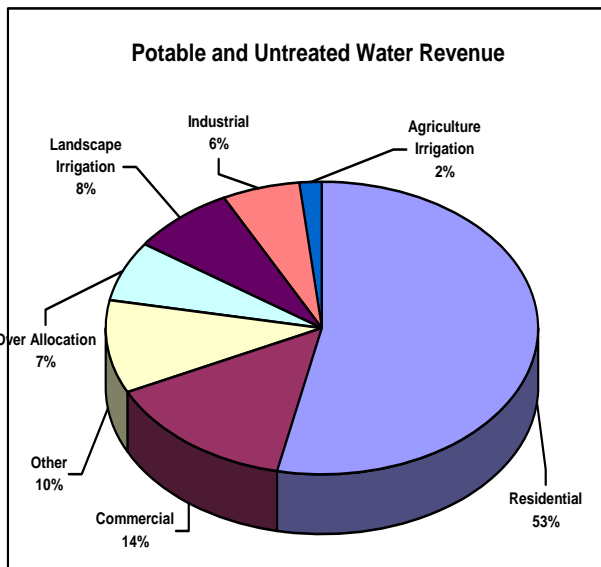


OPERATING BUDGET

*Assumptions as of June 25, 2012
Fiscal Year 2012-13*

FY 2012-13 Operating Revenue Sources, by Customer Type (in thousands):

Customer Type	Water	Sewer/ Recycled Water	Total
Residential	\$ 30,123	\$ 21,871	\$ 51,994
Landscape Irrigation	\$ 4,272	\$ 12,789	\$ 17,061
Commercial	\$ 8,386	\$ 6,226	\$ 14,612
Other	\$ 6,111	\$ 3,109	\$ 9,220
Over Allocation	\$ 5,857	\$ 1,310	\$ 7,167
Industrial	\$ 3,498	\$ 2,473	\$ 5,971
Agriculture Irrigation	\$ 988	\$ 2,014	\$ 3,002
	\$ 59,235	\$ 49,792	\$ 109,027



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 85% 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

Assumptions as of June 25, 2012
Fiscal Year 2012-13

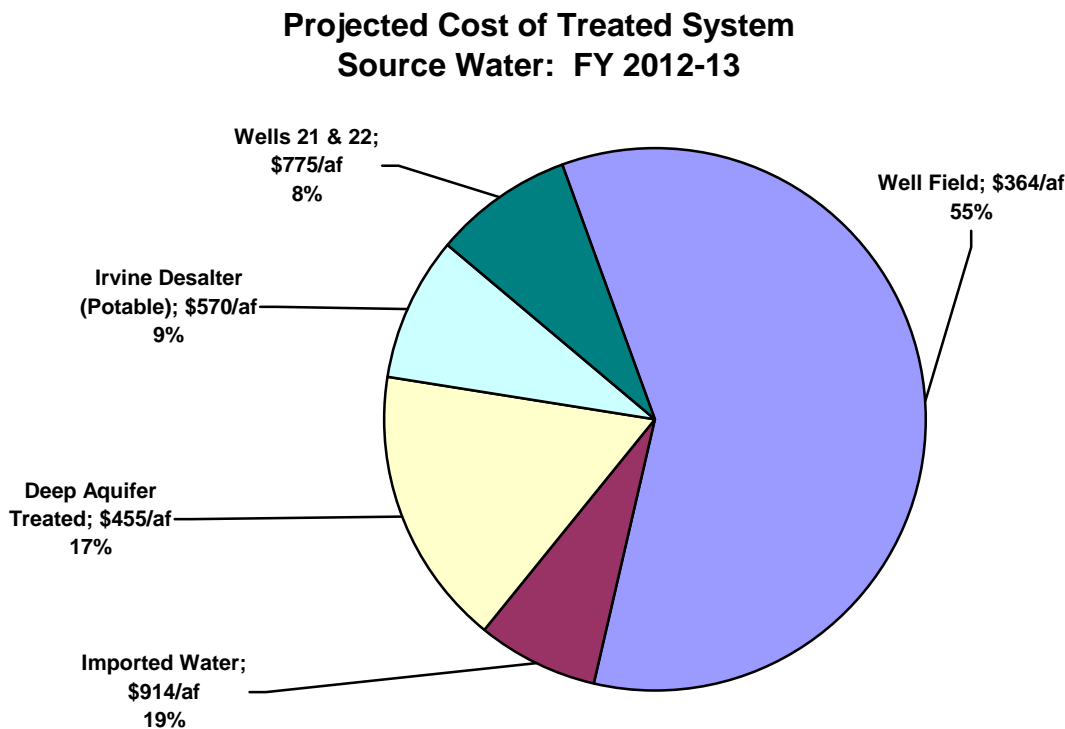
II. OPERATING EXPENSES

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.



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 \$12/acre-foot to \$266/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 2012-13, the full labor cost of approximately \$1.6 million will now be appropriately included in the variable cost of water.
- DRWF pumping costs:



OPERATING BUDGET

Assumptions as of June 25, 2012

Fiscal Year 2012-13

- Actual energy usage was reviewed in detail and although a rate increase of approximately 2.5% is included, most energy costs associated with the various sources decreased slightly.
- Chemical expense on the potable side is expected to remain consistent with FY 2011-12 costs.
- Irvine Desalter Project (IDP) Potable Treatment Plant (PTP) chemical expenses are expected to remain consistent with FY 2011-12 costs, in total.
- Deep Aquifer Treatment System (DATS) costs will increase moderately due to the increase in RA identified above.
- Wells 21 & 22 Desalter will come online in October and provide an additional 4,739 acre feet net of water lost to production. This source, similar to IDP and DATS, will have a Basin Production Percentage (BPP) exemption allowing the District to maximize usage of this source which has a lower operating cost than imported water purchased from MWDOC.
- Lake Forest Well # 2 will come online in June of 2012 and provide an additional 500 acre feet of water.

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

- MWD is expected to increase its rates again on January 1, 2013 by 6.6% and further expected to increase its Readiness-to-Serve and Capacity Reservation Charges.
- The Municipal Water District of Orange County (MWDOC) meter charge will be \$7.25 and the incremental rate per acre foot will decrease slightly with the increase in the BPP (68%).
- Staff assumes no substantial change to the costs associated with the IRWD Reservoir Management Systems.

Untreated Water

The primary source of untreated water for FY 2012-13 will be native water stored in the Irvine Lake.

- Native water and Santiago Aqueduct Commission (SAC) 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.



OPERATING BUDGET

Assumptions as of June 25, 2012

Fiscal Year 2012-13

B. Sewer and Recycled Water

Sewer:

MWRP and LAWRP – The treatment projections for FY 2012-13 at MWRP and LAWRP are 18 MGD and 4 MGD respectively. LAWRP production exceeds the FY 2011-12 but is still well below total capacity.

Recycled:

- Total recycled demand is estimated at 27,697 acre-feet.
- Water produced at MWRP and LAWRP or included in storage is expected to provide 24,413 acre-feet of the total supply.
- Groundwater production is expected to provide an additional 1,080 acre-feet.
- The Irvine Desalter will provide an additional 3,050 acre feet net of water lost to production.
- SAC water will provide an additional 282 acre feet of water.
- The recycled water system is expected to purchase 434 acre-feet of supplemental water from the untreated.

C. 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.
 - Each salary is identified and included in January and then walked forward adding merit increases that are based on prior review ratings where necessary in order to reach a starting July salary base.
 - New Positions and promotions are added and all salaries are walked forward on a month by month basis.
 - In December, a COLA and promotional factor are applied to all salaries.
 - In prior years, the total budget would then be reduced by a vacancy factor of 3% to account for retirements and job turnover. Based on the current approach to managing turnover, staff has eliminated the vacancy factor.



OPERATING BUDGET

Assumptions as of June 25, 2012 Fiscal Year 2012-13

- The primary factors driving salaries are:

Removed "Vacancy Factor"	\$ 784,800
COLA Factor (1.2%)	235,400
Promotional Allowance (0.5%)	87,200
Additional Positions	561,900
Subtotal	1,669,300
Reduced Overtime	(185,200)
Reduced Temporary Labor	(278,100)
Eliminated Positions	(250,000)
<i>Net Change</i>	\$ 956,000

- The District's PERS Employer contribution rate is 16.1% and the PERS in Excess of ARC assumption is 8.9% for a combined employer portion contribution of 25.0%. Based on that contribution rate and given existing payroll budget information, the employer contribution would be \$6,539,000.
- The multi-year plan that was implemented to transition from the District funding the employee contribution to the employee paying their respective portion will continue in FY 2012-13. The current contribution by the District for most employees is 3% and the budget assumes:
 - The Contribution rate paid by employees will increase from 5% to 6% on March 1, 2013;
 - The Employee Contribution rate paid by Senior Staff (Directors) will increase from 7% to 8% on March 1, 2013; and
 - The Employee Contribution rate paid by the GM will remain at 8%
- The District matches an employee's contribution to the deferred compensation by up to 3% of salary after one year of employment. Because not all employees contribute the full 3%, the benefits budget includes includes a matching of 2.75% of total salaries.
- Health and dental insurance premiums are expected to increase, offset in part by expected increases to employee contributions.



OPERATING BUDGET

*Assumptions as of June 25, 2012
Fiscal Year 2012-13*

III. USE OF OTHER FUNDS

A. Over Allocation Revenue

Over Allocation Revenue is used to offset three primary expense:

- o 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.
- o Budgeted conservation expenses are funded from over allocation revenue.
- o Urban runoff (NTS) and San Joaquin Marsh maintenance expenses are the third and final component of expenses funded using over allocation revenue.

Budgeted Over Allocation Revenue (in thousands)	\$7,167
Expenses Funded from Over Allocation Revenue:	
Low Volume Shortfall & Conservation Expenses	\$4,721
Urban Runoff and San Joaquin Marsh	<u>2,446</u>
Total Expenses	<u>\$7,167</u>

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 \$4.50 per month for the average residential customer in FY 2011-12 will increase by \$0.15 to \$4.65 to continue replenishing the sewer replacement fund. Staff assumes an increase of \$0.20 on the water service charge replacement component to \$0.80 for the typical residential customer. The net change in the fund excluding other revenue sources other than 1% receipts follows:

Fund Balance as of February 2012 (in millions)	\$ 165.2
Projected Capital Expenditures	(14.1)
Estimated 1% Receipts	8.6
Replacement Component from User Rates	<u>11.2</u>
Net Replacement Fund Position	<u>\$ 170.9</u>



OPERATING BUDGET

Assumptions as of June 25, 2012

Fiscal Year 2012-13

C. Enhancement Fund User Rate Component

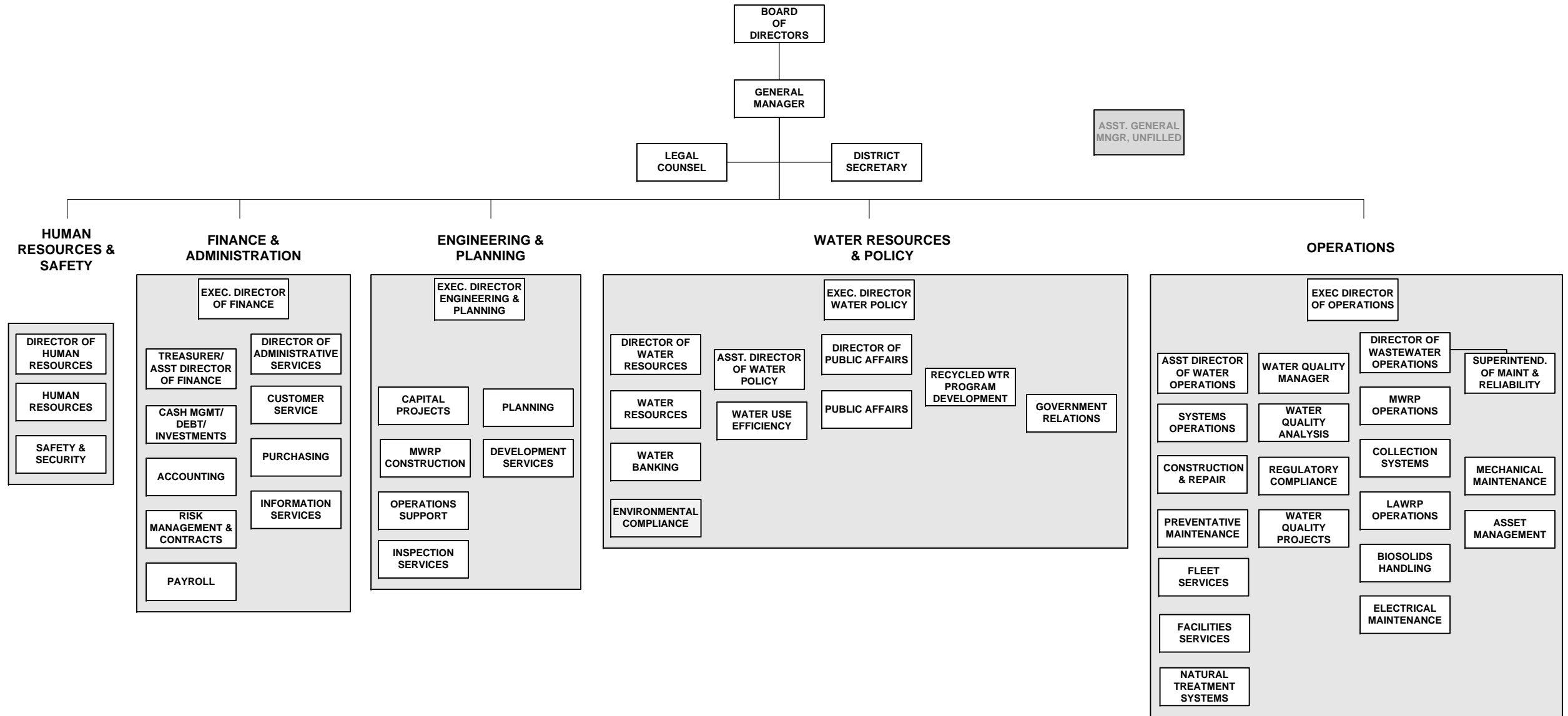
The current enhancement fund contribution for both the water and sewer system for FY 2011-12 was a combined \$1.00 per month (\$0.50 each for water and sewer) for the average residential customer. Staff assumes an increase of \$0.20 and \$0.15 for water and sewer respectively, for a combined enhancement component of \$1.35. The net change in the fund excluding other revenue sources other than 1% receipts follows:

Fund Balance as of February 2012 (in millions)	\$15.6
Projected Capital Expenditures	(2.6)
Estimated 1% Receipts	6.4
Enhancement Component from User Rates	<u>3.1</u>
Net Replacement Fund Position	<u>\$22.5</u>

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

- A. Costs that are directly related to providing service or are clearly associated with the Irvine Ranch service area or Los Alisos treated water are allocated to the respective system expenses of that service area.
- B. Those costs that are attributable to system operations but that are not unique to one service area are allocated based upon the ratio of the budgeted acre-feet.
- C. 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 2012-13**





LABOR

THREE YEAR PERSONNEL COMPARISON

Department	Authorized Positions ⁽¹⁾		
	2010-11	2011-12	2012-13
Administration			
Number of Positions	20.0	21.0	13.0 ⁽²⁾
% change from prior year	0.0 %	5.0 %	(38.1) %
Finance and Administrative Services			
Number of Positions	67.0	64.0	66.0
% change from prior year	1.5 %	(4.5) %	3.1 %
Engineering and Planning			
Number of Positions	35.0	33.0	40.0 ⁽³⁾
% change from prior year	0.0 %	(5.7) %	21.2 %
Operations			
Number of Positions	84.0	82.0	167.0
% change from prior year	1.2 %	(2.4) %	103.7 %
Wastewater Operations			
Number of Positions	54.5	56.0	0.0 ⁽⁴⁾
% change from prior year	2.8 %	2.8 %	(100.0) %
Water Quality and Environmental Compliance			
Number of Positions	25.0	25.0	0.0 ⁽⁴⁾
% change from prior year	0.0 %	0.0 %	(100.0) %
Water Policy			
Number of Positions	28.0	26.0	26.0
% change from prior year	3.7 %	(7.1) %	0.0 %
Total Number of Positions	<u>313.5</u>	<u>307.0</u>	<u>312.0</u>
Number of Changed Positions	(6.0)	(6.5)	5.0
% Change From Prior Year	<u>(1.9) %</u>	<u>(2.1) %</u>	<u>1.6 %</u>

(1) In January 2012, many functional areas were reorganized. The subsequent footnotes provide more detail on the specific departmental shifts.

(2) Public Affairs moved to Water Policy.

(3) Planning was combined with Engineering.

(4) Wastewater Operations and Water Quality are sub-departments within Operations.



GENERAL PLANT

SUMMARY

	Fiscal Year 2011-12	Fiscal Year 2012-13	Increase (Decrease)	% Inc/(Dec)
Information Systems	\$ 227,425	\$ 754,000	\$ 526,575	231.54%
Transportation Equipment	379,500	590,000	210,500	55.47%
Tools, Shop and Work Equipment	-	-	-	-
Other General Plant Including Safety Equipment	75,000	29,450	(45,550)	-60.73%
Laboratory, Stores and Communication Equipment	46,000	211,620	165,620	360.04%
Office Furniture and Equipment	125,000	41,170	(83,830)	100.00%
Structures/Improvements - Sand Canyon/MWRP	-	13,000	13,000	-
Work Equipment/Class IV, V, VI	64,937	87,100	22,163	34.13%
Sub-Total	917,862	1,726,340	808,478	88.08%
Less: Vehicle Salvage Value	(16,000)	(26,800)	(10,800)	67.50%
Total General Plant	\$ 901,862	\$ 1,699,540	\$ 797,678	88.45%

Fiscal Year 2012-13

Funded by User Charges	\$1,154,350	67.92%
Funded by Capital Funds	545,190	32.08%

Total Fiscal Year 2012-13 **\$ 1,699,540**

Fiscal Year 2011-12

Funded by User Charges	\$ 552,900	61.31%
Funded by Capital Funds	348,962	38.69%

Total Fiscal Year 2011-12 **\$ 901,862**



GENERAL PLANT

ANALYSIS

Description	Administration	Finance & Administrative Services	Engineering & Planning	Operations	Water Policy	Total
Information Systems	\$ -	\$ 754,000	\$ -	\$ -	\$ -	\$ 754,000
Laboratory Equipment	-	-	-	211,620	-	211,620
Other General Plant	-	-	-	29,450	-	29,450
Office Furniture & Equipment	-	10,170	-	31,000	-	41,170
Work Equipment/Class IV, V, VI	-	-	-	87,100	-	87,100
Transportation Equipment	-	-	-	590,000	-	590,000
Structures/Improvements - Sand Canyon/MWRP	-	-	-	13,000	-	13,000
Subtotal	\$ -	\$ 764,170	\$ -	\$ 962,170	\$ -	\$ 1,726,340
Less Vehicle Salvage Value	-	-	-	(26,800)	-	(26,800)
Total Fiscal Year 2012-13	\$ -	\$ 764,170	\$ -	\$ 935,370	\$ -	\$ 1,699,540
Total Fiscal Year 2011-12	-	227,425	-	674,437	-	901,862
Increase/(Decrease)	\$ -	\$ 536,745	\$ -	\$ 260,933	\$ -	\$ 797,678

**IRVINE RANCH WATER DISTRICT
ANNUAL DEBT SERVICE BUDGET
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

Type	Issue	Principal Due	Interest Due	Total
Fixed				
	2010 Build America Bonds	0	7,402,500	7,402,500
	2010 Refunding Certificates of Participation	4,700,000	3,680,366	8,380,366
Variable ⁽¹⁾				
	1988 Election Bonds	1,700,000	2,027	1,702,027
	1989 Consolidated Series	2,400,000	18,240	2,418,240
	1991 Consolidated Series	1,100,000	32,617	1,132,617
	1993 Consolidated Series	0	285,000	285,000
	1995 Consolidated Series	1,800,000	130,720	1,930,720
	2008 A Refunding Series	1,200,000	419,515	1,619,515
	2009 A Consolidated Series	2,500,000	546,250	3,046,250
	2009 B Consolidated Series	2,500,000	546,250	3,046,250
	2011A-1 Refunding	1,655,000	439,537	2,094,537
	2011A-2 Refunding	1,105,000	300,694	1,405,694
Total Debt Service		\$ 20,660,000	\$ 13,803,714	\$ 34,463,714
Credit Enhancement and Administration				2,213,000
Total, All Debt Related Payments				\$ 36,676,714

(1) Variable Interest is estimated at: 0.76%

Capital Budget Summary

Fiscal Year 2012-13

Project Phase	Water	Sewer	Recycled
ADMINISTRATIVE & GENERAL EXPENSE			2,000
CONSTRUCTION	15,761,660	22,035,710	10,271,340
CONSTRUCTION FIELD SUPPORT	550,190	180,710	338,820
DESIGN STAFF FIELD SUPPORT	107,340	57,340	76,220
ENGINEERING - CA&I IRWD	1,248,690	1,360,340	1,084,290
ENGINEERING - CA&I OUTSIDE	1,359,390	839,050	944,010
ENGINEERING - GIS IRWD	24,390	54,220	24,350
ENGINEERING - GIS OUTSIDE	30,800	59,430	30,780
ENGINEERING - PLANNING IRWD	1,662,060	524,280	616,980
ENGINEERING - PLANNING OUTSIDE	1,828,170	214,270	329,640
ENGINEERING DESIGN - IRWD	1,942,930	1,618,730	515,670
ENGINEERING DESIGN - OUTSIDE	2,978,410	1,454,210	643,910
ENGINEERING ENVIRONMENTAL-OUTSIDE	176,940	5,230	
LAND	425,000		
LEGAL	320,750	38,730	33,170
WATER QUALITY	110,380	25,490	128,260
Grand Total	28,527,100	28,467,740	15,039,440

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

CATEGORY

PURPOSE

- | | |
|--|--|
| ➔ 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	\$ 99 [▼]	\$ 13	Equivalent to 10% of replacement cost of existing infrastructure
Self Insurance/Emergency Repairs	20	17	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	\$ 137	\$ 48	



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	\$ 115 ▼	\$ 77	Equivalent to 10% of replacement cost of existing infrastructure
Self Insurance/Emergency Repairs	23	20	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	9	9	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	\$ 159	\$ 118	

