

***IRVINE RANCH WATER DISTRICT
OPERATING BUDGET
FISCAL YEAR 2009-10***



“ADOPTED”

April 28, 2009



**ADOPTED OPERATING BUDGET
FISCAL YEAR 2009-10**

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IRVINE RANCH WATER DISTRICT

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June 23, 2009

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

Re: Adopted Fiscal Year 2009-10 Operating Budget

Honorable Members:

Presented for your consideration is the Proposed Fiscal Year (FY) 2009-2010 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 13, April 27, and June 23, 2009.

Summary of Major Factors Impacting FY 2009-10:

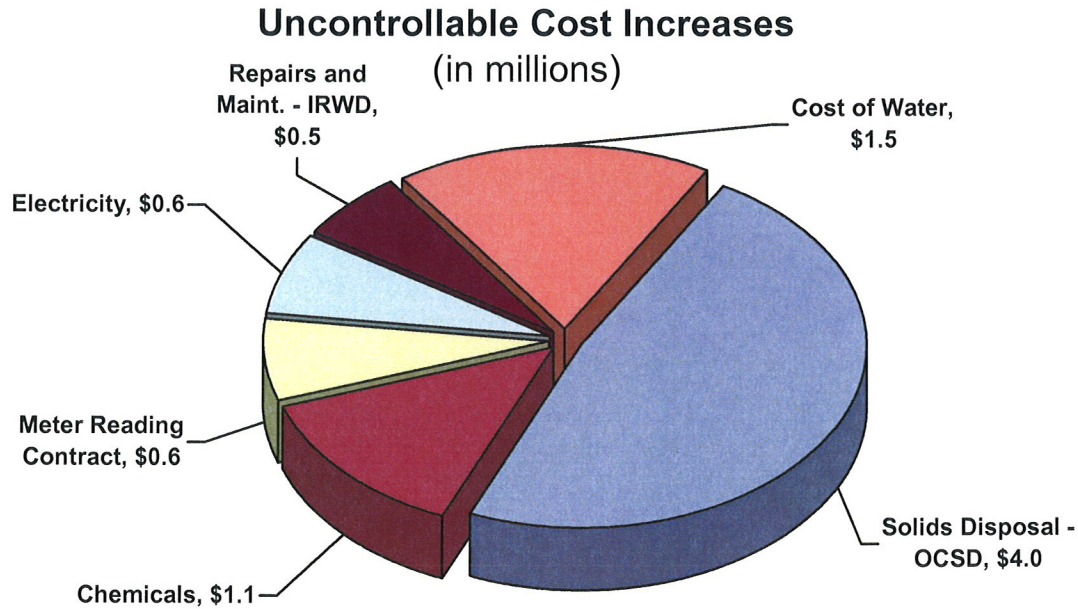
The Adopted FY 2009-10 Consolidated Operating Budget totals \$110.7 million. The \$110.7 million represents an \$8.8 million or 8.6% total increase over the prior year's \$101.8 million operating budget. The increase can be separated into two components, controllable and uncontrollable costs, which are further discussed below:

Uncontrollable cost increases	\$8,127,500	92%
Controllable cost increases	<u>722,400</u>	<u>8%</u>
Total Increase over FY 2008-09	\$8,849,900	100%

Uncontrollable Cost Increases:

Uncontrollable cost increases are those increases that the District has limited authority over, and generally include costs from outside agencies and entities. In the proposed Operating Budget, the uncontrollable increases account for \$8.1 million, or 92%, of the total budgeted increase, primarily impacting the cost of water and the sewer/reclaimed system. The primary drivers in the uncontrollable costs are identified in the graph below. Some of these costs were partially

offset by uncontrollable cost decreases:



Controllable Costs:

Due to the substantial uncontrollable increases anticipated for this FY 2009-10, staff was asked to minimize or eliminate controllable costs where possible. Controllable costs are those over which the District can generally exercise influence, and account for \$0.7 million, or 9%, of the total budgeted increase. Some examples of controllable cost increases or decreases (shown in parentheses) to both the water and sewer system include:

Labor	\$1.1 million
Benefits	0.2 million
Other	0.1 million
Contract Labor	0.6 million
Engineering Fees	(0.2 million)
Conservation	(0.3 million)
Other Professional Fees	(0.4 million)

Proposed Rates and Charges for FY 2009-10:

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, necessary changes to the water and wastewater rates for the Irvine Ranch rate area, Santiago rate area, OPA rate area and the Los Alisos rate area for FY 2009-10 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 \$0.08/ccf, from \$1.07 to \$1.15/ccf.
- An increase of \$0.25 to the current monthly service charge, from \$7.50 to \$7.75, which includes a \$0.10/month enhancement component increasing the monthly contribution to \$0.25 and establishing a \$0.15/month replacement component.

Untreated Water System:

- An increase to the current non-potable and reclaimed agriculture irrigation rate of \$132.00/acre-foot, from \$440.00 to \$572.00/acre-foot.

Sewer System:

- An increase to the current monthly service charge of \$2.80, from \$13.80 to \$16.60, which includes a \$0.30/month user replacement component and a \$0.10/month enhancement component.
- An increase to the current reclaimed landscape irrigation rate of \$29.25/acre-foot, from \$419.50 to \$448.75/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.

Santiago Rate Area (ID 153/155)

Treated Water System:

Changes in the rates for the Santiago rate area are indexed to the changes in the Irvine rate area by agreement:

- An increase to the base commodity rate of \$0.08/ccf, from \$2.16 to \$2.24/ccf.
- An increase of \$0.25 to the current monthly service charge, from \$15.95 to \$16.20.

OPA Rate Area (ID 156)

Treated Water System:

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 \$0.08/ccf, from \$1.59 to \$1.67/ccf.
- An increase of \$0.25 to the current monthly service charge, from \$16.00 to \$16.25.

Los Alisos Rate Area (ID 135/235)

The rate adjustments for the Los Alisos rate area includes the establishment of an allocation-based conservation rate structure and the first step toward aligning Los Alisos meter rates with the Irvine Ranch meter rates.

Treated Water System:

- An increase to the base commodity rate of \$0.23/ccf, from \$1.55 to \$1.78/ccf and the establishment of an allocation-based rate structure.
- No change to the current monthly service charge for meters that are smaller than or equal to 1" with the average residential customer continuing to pay \$9.60/month.
- An increase of 14% to the monthly service charge for all meters greater than 1" in diameter.

Sewer System:

- An increase to the current monthly service charge of \$2.80, from \$13.80 to \$16.60, which includes a \$0.30/month user/replacement component and a \$0.10/month enhancement component.
- An increase to the current reclaimed landscape irrigation rate of \$29.25/acre-foot, from \$419.50 to \$448.75/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 in the Irvine Ranch rate area and it is consistent with the cost associated with producing and distributing reclaimed water.

The proposed schedule of rates and charges includes a new methodology for attributing specific rate tiers to their attendant costs in the Irvine Ranch rate area and establishes an allocation-based conservation rate structure for the Los Alisos rate area. The proposed treated tiered rates for both rate areas follow:

Tiers	Los Alisos	Irvine Ranch
Low Volume	\$1.40	\$0.91
Base Rate	\$1.78	\$1.15
Inefficient	\$2.75	\$2.33
Excessive	\$4.65	\$4.65
Wasteful	\$9.30	\$9.30

The Santiago and OPA rate areas both have tiered rates that are not allocation-based conservation rate structures, but escalate based on set levels of water used per month.

User/Replacement & Enhancement Capital Component:

Enhancement rate components were increased for both water and sewer and the sewer system's user/replacement fund. In addition, a user/replacement rate component was established for the water fund.

The increase to the sewer service charge for a typical residential customer will increase from \$3.45 to \$3.75 for FY 2009-10. A user/replacement rate component of \$0.15 was added to the water service fixed charge for FY 2009-10. The added component will generate an additional \$638,000 for the sewer replacement fund and \$377,000 for the treated water systems.

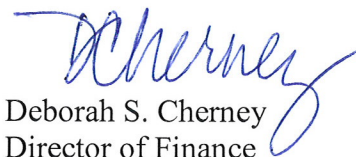
The enhancement components for both the water and sewer fixed service charge were increased by an additional \$0.10 in FY 2009-10 increasing the monthly contribution for each to \$0.25/month. The added component will generate an additional \$251,000 and \$213,000 for the treated water and sewer systems, respectively.

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 that water and sewer service was exempt from this requirement, in July 2006, the California Supreme Court issued a decision which held that water 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. The District sent its notices to all of the customers (including tenants) in the District's service area.

Staff believes the Proposed Fiscal Year 2009-10 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,


Deborah S. Cherney
Director of Finance



OPERATING EXPENSE BUDGET

FISCAL YEAR 2009-2010

	<i>Actuals 2007-08</i>	<i>Current 2008-09</i>	<i>Proposed 2009-10</i>	<i>Change</i>	<i>%</i>
110 SALARIES & WAGES - RT	\$19,047,710	\$23,282,900	\$24,332,700	\$1,049,800	4.51%
120 SALARIES & WAGES - OT	\$1,153,020	\$1,101,400	\$1,111,180	\$9,780	0.89%
130 EMPLOYEE BENEFITS	\$13,492,010	\$11,131,400	\$11,259,400	\$128,000	1.15%
140 TEMP & CONTRACT LABOR	\$591,590	\$633,600	\$691,800	\$58,200	9.19%
210 WATER PURCHASES	\$27,895,510	\$26,421,620	\$27,969,800	\$1,548,180	5.86%
220 ELECTRICITY	\$9,329,860	\$11,170,500	\$11,734,600	\$564,100	5.05%
230 FUEL	\$672,260	\$578,000	\$619,700	\$41,700	7.21%
231 GENERATE NATURAL GAS	\$12,790	\$25,500	\$15,000	(\$10,500)	-41.18%
240 TELEPHONE	\$307,190	\$354,150	\$345,190	(\$8,960)	-2.53%
250 OTHER UTILITIES	\$58,820	\$69,500	\$122,600	\$53,100	76.40%
310 CHEMICALS	\$2,582,240	\$3,126,050	\$4,227,200	\$1,101,150	35.22%
320 OPERATING SUPPLIES	\$1,054,560	\$1,045,400	\$1,047,900	\$2,500	0.24%
330 PRINTING	\$302,890	\$419,750	\$422,400	\$2,650	0.63%
340 POSTAGE	\$523,150	\$524,200	\$504,900	(\$19,300)	-3.68%
370 PERMITS, LICENSES & FEES	\$297,230	\$511,700	\$504,650	(\$7,050)	-1.38%
390 OFFICE SUPPLIES	\$96,920	\$115,550	\$117,950	\$2,400	2.08%
400 DUPLICATING EQUIPMENT	\$186,430	\$212,000	\$205,000	(\$7,000)	-3.30%
420 EQUIPMENT RENTAL	\$51,520	\$111,900	\$101,500	(\$10,400)	-9.29%
490 REPAIRS & MAINT-OTHER AGENCIES	\$8,322,990	\$7,605,000	\$11,564,500	\$3,959,500	52.06%
500 REPAIRS & MAINT-IRWD	\$5,909,940	\$6,151,640	\$6,621,550	\$469,910	7.64%
510 INSURANCE	\$730,050	\$541,300	\$535,600	(\$5,700)	-1.05%
520 LEGAL FEES	\$349,310	\$372,500	\$375,000	\$2,500	0.67%
530 ENGINEERING FEES	\$295,600	\$646,800	\$620,700	(\$26,100)	-4.04%
540 ACCOUNTING FEES	\$63,620	\$74,500	\$82,500	\$8,000	10.74%
550 DATA PROCESSING	\$621,340	\$750,000	\$753,600	\$3,600	0.48%
560 PERSONNEL TRAINING	\$735,090	\$929,200	\$941,500	\$12,300	1.32%
570 PERSONNEL PHYSICALS	\$19,860	\$34,000	\$37,800	\$3,800	11.18%
580 OTHER PROFESSIONAL FEES	\$817,330	\$1,467,950	\$1,106,800	(\$361,150)	-24.60%
590 DIRECTORS' FEES	\$143,180	\$168,750	\$140,000	(\$28,750)	-17.04%
610 MILEAGE REIMBURSEMENT	\$104,350	\$107,800	\$113,200	\$5,400	5.01%
620 COLLECTION FEES	\$6,010	\$12,600	\$15,750	\$3,150	25.00%
630 ELECTION EXPENSE	\$0	\$115,000	\$115,000	\$0	0.00%
640 SAFETY	\$108,140	\$142,400	\$142,700	\$300	0.21%
650 OTHER	\$908,260	\$1,007,200	\$1,652,000	\$644,800	64.02%
660 CONSERVATION	\$715,000	\$890,000	\$550,000	(\$340,000)	-38.20%
Grand Total	\$97,505,770	\$101,851,760	\$110,701,670	\$8,849,910	8.69%



SOURCES AND USES OF FUNDS

CONSOLIDATED OPERATING BUDGET

Fiscal Year Ending June 30, 2010

In (000's)

Revenues:	Water			Total
	Treated ¹	Untreated	Sewer	
Residential	\$ 26,313	\$	\$ 17,528	\$ 43,841
Landscape Irrigation	4,036	124	12,767	16,927
Commercial	7,442		5,702	13,144
Agriculture Irrigation	336	2,581	680	3,597
Industrial	3,197		2,259	5,456
Public Authority	1,596		983	2,579
Fire Protection	3,529			3,529
Construction/Temporary	723		78	801
Reclaimed Loans			9	9
Green Acres			169	169
SMWD Sewer			205	205
Caltrans Dewatering			679	679
IDP Reimbursements			476	476
Repl. Fund for Election Expense	42	1	38	81
Conservation Programs	2,758		1,542	4,300
SJ Marsh and NTS Expense	2,090			2,090
Total Revenues	\$ 52,062	\$ 2,706	\$ 43,115	\$ 97,883
Expenses:				
Water	\$ 29,803	\$ 2,757	\$ 1,718	\$ 34,278
Salaries & Benefits	12,381	292	11,896	24,569
Materials & Supplies	11,689	562	17,402	29,653
OCSD - O & M			9,679	9,679
General Plant	427		396	823
Repl & Enhance Contrib. Fund	1,005		8,508	9,513
Total Expenses	\$ 55,305	\$ 3,611	\$ 49,599	\$ 108,515
Funded by User Rate Increase	2,615	905	5,633	9,153
Repl & Enhance Fund Incr.	628		851	1,479
Income (Loss) From Operations	\$ 0	\$ (0)	\$ 0	\$ (0)

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



SOURCES AND USES OF FUNDS

OPERATING BUDGET - TREATED SYSTEM

Fiscal Year Ending June 30, 2010

In (000's)

Revenues: ¹	Treated Water		
	Irvine Area	Los Alisos Area	Total
Residential	\$ 21,513	\$ 4,800	\$ 26,313
Landscape Irrigation	2,801	1,235	4,036
Commercial	6,686	756	7,442
Agriculture Irrigation	253	83	336
Industrial	3,197		3,197
Public Authority	1,572	24	1,596
Fire Protection	3,309	220	3,529
Construction/Temporary	692	31	723
Reclaimed Loans			-
Green Acres			-
SMWD Sewer			-
Caltrans Dewatering			-
IDP Reimbursements			-
Repl. Fund for Election Expense	38	4	42
Conservation Programs	2,758		2,758
SJ Marsh and NTS Expense	2,090		2,090
Total Revenues	\$ 44,909	\$ 7,153	\$ 52,062
Expenses:			
Water	\$ 24,280	5,523	29,803
Salaries & Benefits	11,025	1,356	12,381
Materials & Supplies	10,546	1,143	11,689
OCSD - O & M			-
General Plant	371	56	427
Repl & Enhance Contribution Fund	914	91	1,005
Total Expenses	\$ 47,137	\$ 8,168	\$ 55,305
Funded by User Rate Increase	1,657	958	2,615
Repl & Enhance Fund Incr.	571	57	628
Income (Loss) From Operations	\$ 0	\$ 0	\$ 0

1. Reporting of potable water will continue to be separated by Irvine and Los Alisos Service Area until of a uniform rate can be feasible.



SOURCES AND USES OF FUNDS

CONSOLIDATED OPERATING BUDGET

Fiscal Year Ending June 30, 2010

In (000's)

	<u>Treated</u>	<u>Untreated</u>	<u>Sewer</u>	<u>Total</u>	<u>Prior Year 2008-09 Total</u>
IRWD					
Uses of Replacement Fund/Conservation Revenue					
1. Low Volume Shortfall	\$ 900	\$	\$ 527	\$ 1,427	\$ 1,446
2. Water Conservation	1,542		1,015	2,557	2,604
3. SJ Marsh and NTS Expense	2,090			2,090	1,053
4. Election Expense	42	1	38	81	80
	<u>4,574</u>	<u>1</u>	<u>1,580</u>	<u>6,155</u>	<u>5,183</u>
Total Use of Other Funds	<u>\$ 4,574</u>	<u>\$ 1</u>	<u>\$ 1,580</u>	<u>\$ 6,155</u>	<u>\$ 5,183</u>

(1) FY09-10

Pr. 10553 - Weather-Based Irrig. Controller Implementation	\$ 41
Pr. 11071 - Prop 50 Residential End Use Study	25
Pr. 11369 - New project	<u>250</u>
	\$ 316

(1) Projects are in the Capital Budget to be funded from Conservation Rev.



CONSOLIDATED

BUDGETED REVENUE SUMMARY BY SYSTEM

	<u>FY 2008-09</u>	<u>Usage Change</u>	<u>Proposed Rate Inc.</u>	<u>FY 2009-10</u>
Treated				
Service	\$ 18,433,660	\$ 502,440	\$ 297,900	\$ 19,234,000
Enhancement	373,000	4,000	251,100	628,100
Replacement	-	-	377,000	377,000
Commodity	28,538,900	(1,889,800)	1,868,200	28,517,300
Low Volume	920,700	(20,200)	450,300	1,350,800
Conservation Revenue	2,985,000	963,000	-	3,948,000
Pumping Surcharge	639,900	58,400	-	698,300
Miscellaneous	537,900	(29,100)	-	508,800
Repl. Fund Election Exp.	40,000	2,000	-	42,000
	<u>\$ 52,469,060</u>	<u>\$ (409,260)</u>	<u>\$ 3,244,500</u>	<u>\$ 55,304,300</u>
AF	59,040			55,663
User Type				
Residential	\$ 27,576,900	\$ (479,900)	\$ 1,982,500	\$ 29,079,500
Commercial	7,575,100	(133,400)	499,500	7,941,200
Industrial	3,291,900	(95,200)	206,800	3,403,500
Public Authority	1,674,700	(79,000)	104,700	1,700,400
Construction/Temp.	913,300	(189,700)	34,800	758,400
Fire Protection	3,525,860	2,140	41,200	3,569,200
Landscape Irrigation	4,321,200	(169,400)	348,600	4,500,400
Agriculture Irrigation	565,100	(229,800)	26,400	361,700
Conservation Revenue	2,985,000	963,000	-	3,948,000
Repl. Fund Election Exp.	40,000	2,000	-	42,000
	<u>\$ 52,469,060</u>	<u>\$ (409,260)</u>	<u>\$ 3,244,500</u>	<u>\$ 55,304,300</u>
Untreated				
Commodity	\$ 2,709,867	\$ (4,567)	\$ 905,700	\$ 3,611,000
Repl. Fund Election Exp.	2,000	(1,000)	-	1,000
	<u>\$ 2,711,867</u>	<u>\$ (5,567)</u>	<u>\$ 905,700</u>	<u>\$ 3,612,000</u>
AF	6,600			6,803
User Type				
Landscape Irrigation	\$ 116,467	\$ 7,933	\$ 56,500	\$ 180,900
Agriculture Irrigation	2,593,400	(12,500)	849,200	3,430,100
Repl. Fund Election Exp.	2,000	(1,000)	-	1,000
	<u>\$ 2,711,867</u>	<u>\$ (5,567)</u>	<u>\$ 905,700</u>	<u>\$ 3,612,000</u>



CONSOLIDATED

BUDGETED REVENUE SUMMARY BY SYSTEM

	<u>FY 2008-09</u>	<u>Usage Change</u>	<u>Proposed Rate Inc.</u>	<u>FY 2009-10</u>
Sewer and Reclaimed				
Service	\$ 21,708,300	\$ 208,500	\$ 4,795,500	\$ 26,712,300
Enhancement	316,000	3,000	213,000	532,000
Replacement	7,049,000	67,700	859,300	7,976,000
Commodity	9,923,970	356,630	342,000	10,622,600
Low Volume	525,000	1,700	274,300	801,000
Conservation Revenue	673,000	342,000	-	1,015,000
Pumping Surcharge	362,200	(500)	-	361,700
Miscellaneous	420,400	(34,600)	-	385,800
Caltrans Dewatering	648,000	31,000	-	679,000
IDP Reimbursements	461,600	13,900	-	475,500
Repl. Fund Election Exp.	38,000	-	-	38,000
	<u>\$ 42,125,470</u>	<u>\$ 989,330</u>	<u>\$ 6,484,100</u>	<u>\$ 49,598,900</u>
AF	26,000			26,940
User Type				
Residential	\$ 17,222,300	\$ 319,700	\$ 3,768,000	\$ 21,310,000
Commercial	5,655,700	46,900	1,245,800	6,948,400
Industrial	2,304,900	(46,100)	502,100	2,760,900
Public Authority	1,174,300	(190,500)	218,700	1,202,500
Landscape Irrigation	13,160,300	119,100	745,800	14,025,200
Reclaimed Loans	37,300	(28,200)	700	9,800
Agriculture Irrigation	165,600	514,200	-	679,800
Construction/Temp.	150,870	(72,670)	3,000	81,200
Green Acres	168,600	-	-	168,600
SMWD Sewer	265,000	(60,000)	-	205,000
Caltrans Dewatering	648,000	31,000	-	679,000
IDP Reimbursements	461,600	13,900	-	475,500
Conservation Revenue	673,000	342,000	-	1,015,000
Repl. Fund Election Exp.	38,000	-	-	38,000
	<u>\$ 42,125,470</u>	<u>\$ 989,330</u>	<u>\$ 6,484,100</u>	<u>\$ 49,598,900</u>



OPERATING BUDGET

Assumptions *Fiscal Year 2009-10*

The following is a list of assumptions used in developing the FY 2009-10 Operating Budget.

I. REVENUES

Estimated potable, untreated, sewer, and reclaimed receipts are projected to be \$97.88 million for FY 2009-10 prior to any potential rate adjustments to be considered by the Board. After factoring growth estimates and conservation factors, this is a \$0.57 million increase over the FY 2008-09 operating budget.

Staff 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.

Growth Estimates:

Residential development growth was considered only in the apartments sector; the growth factor for residential development was reduced from 3% in FY 2008-09 to 1% for FY 2009-10.

Commercial development has slowed substantially as well. Staff recommends reducing the assumed growth rate for commercial development from 3% in FY 2008-09 to 1% for FY 2009-10.

Conservation Factors:

The allocation allotment for each customer will change effective July 1, based on the Board action taken in October 2008. The Board reduced the allocation per person for households and the landscape allocation for all customers in an effort to reduce overall usage. Staff applied a conservation factor to sales to reflect a reduction in usage due to the change in allocation factors.

Two conservation factors were used over the entire District. One was applied to the Los Alisos service area, which is the portion of the District that was acquired in the consolidation with the Los Alisos Water District, and a separate factor was applied to the remainder of the District or the Irvine Ranch service area.

Staff applied a 97% conservation factor to the Irvine Ranch service area sales to account for the change in allocations. The factor applied to Los Alisos was larger because the change affecting this area is much greater due to the impending implementation of a tiered rate structure for the first time in the Los Alisos area. When the District changed the rate structure to an allocation-based tiered structure for the Irvine Ranch service area, usage dropped between 10 to 12%. With this in mind, staff applied a 90% conservation factor to the Los Alisos water sales.

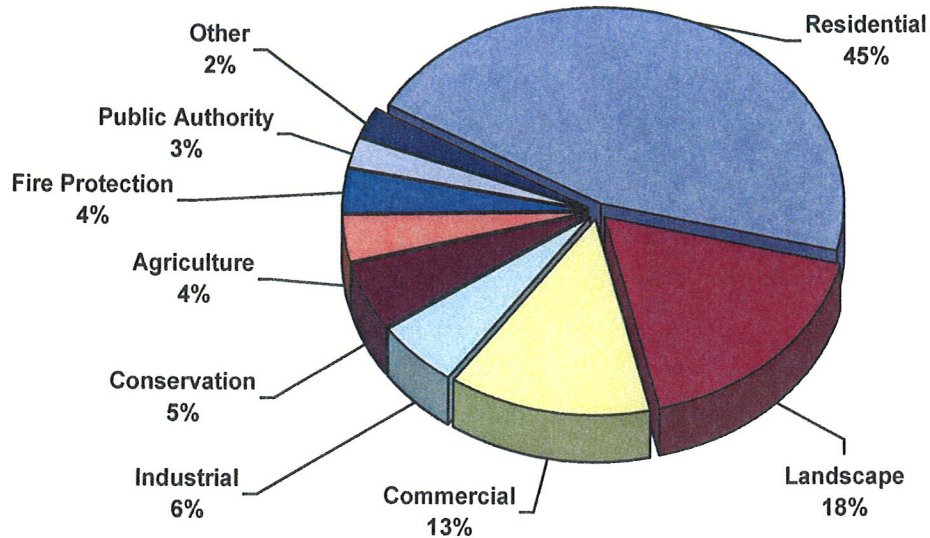


OPERATING BUDGET

Assumptions Fiscal Year 2009-10

Operating Revenue Sources, by Customer Type

Projected Operating Revenue Sources: FY 2009-10



The projected revenue sources and their respective percentage of the total are presented in the graph above. Total Residential and Landscape revenue constitute over 60% of the total.

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

- Construction/Temp
- Caltrans Dewatering (as a matching offset to expected expenses)
- Navy contribution for the Shallow Ground Water Unit identified as Irvine Desalter Project (IDP) Reimbursements
- Reclaimed water sales to the Santa Margarita Water District
- Green Acres Project (GAP) reclaimed water sales
- The Replacement Fund contribution for election expense
- Reclaimed Loan payments



OPERATING BUDGET

Assumptions Fiscal Year 2009-10

II. OPERATING EXPENSES

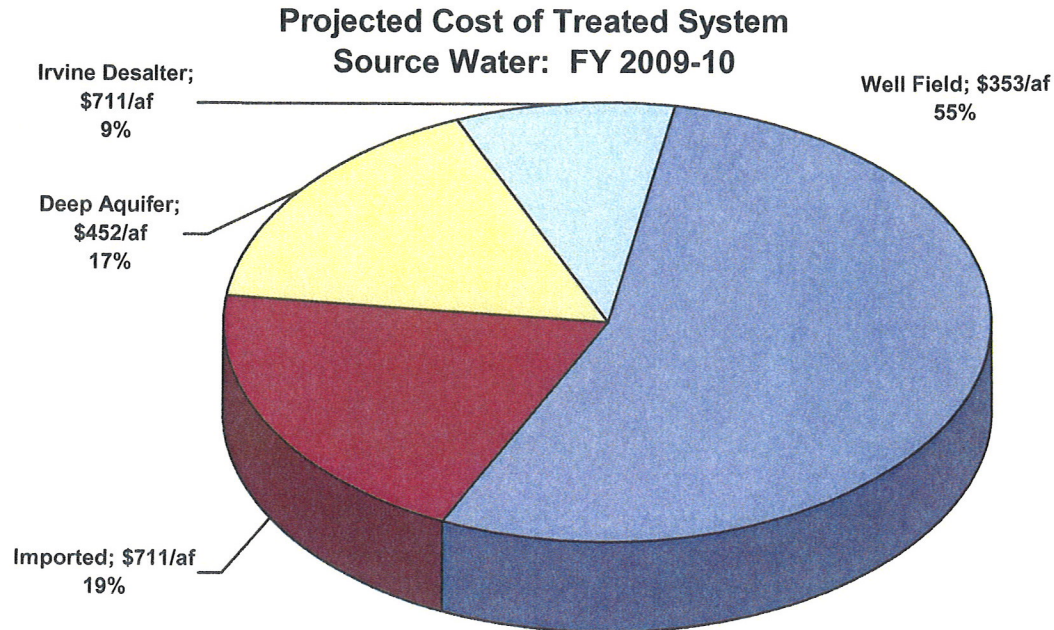
Uncontrollable costs make up a large part of this year's budget increase. Notable increases from external agencies and vendors include:

Solids disposal from the Orange County Sanitation District (OCSD)	\$4.0 M increase
Chemicals	\$1.1 M increase
Transition costs to implement a new contract meter reading service	\$0.6 M increase
Electricity	\$0.6 M increase
Water purchased from MWDOC, as a pass through from the MWD	\$0.4 M increase
Increased costs associated with landscape maintenance for NTS sites	\$0.4 M increase

The 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 increases affecting each source include the following:



OPERATING BUDGET

Assumptions Fiscal Year 2009-10

- The Replenishment Assessment (RA) assumption remains unchanged at \$249/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 was included in the cost of water. In prior years, the fully burdened labor costs were close to \$1.6 million. Accordingly, staff has included 50% of the DRWF labor in the cost of water for FY 2009-10 will continue to add 25% of the labor associated with DRWF per year until all is included in the cost of water.
- DRWF pumping projections
 - The pumping electrical cost estimate is expected to increase 6.0% to \$63/acre-foot.
 - Chemical expense on the potable side is expected to remain relatively flat.
- Irvine Desalter Project (IDP) - Chemical expense will increase due to under-budgeted projections for sodium bisulfate and sodium hydroxide.
- Deep Aquifer Treatment System (DATS) will increase due to:
 - An increase of 4% in the electrical expense associated with pumping and treating DATS water to \$130/acre-foot. This 4% increase assumption is lower than other water energy increase projections because the FY 2008-09 budget was higher than actual expenditures.
 - The treatment/chemical cost estimate is expected to increase 2.5% to \$18.11/acre-foot.

B. Treated Water – Metropolitan Water District (MWD)

- MWD is expected to increase its rates again on September 1, 2009 by 19.6%.
- No direct increase is budgeted from MWDOC.
- Staff assumes no substantial change to the costs associated with Reservoir Management Systems.

C. Untreated Water

The District opted out of the Interim Agricultural Water Program in 2009 which provided for a reduced cost of water for a portion of the sales identified as agriculture (Ag). The decision was based on the reduction in available Ag water due to the water shortage that is confronting Southern California. This source had been the least expensive purchased water for the untreated system. The primary source is MWDOC untreated water which will experience substantial rate increases over the next few years. The sources and cost factors follow.

- Native water, SAC water, and MWD untreated full serve rate water will be used to meet all untreated demands.
- All MWD/MWDOC increases addressed in the treated water system apply to purchases for the untreated system



Assumptions *Fiscal Year 2009-10*

D. Sewer and Reclaimed

Sewer:

MWRP and LAWRP – The treatment projections for FY 2009-10 at MWRP and LAWRP are 18 MGD and 4 MGD respectively.

- The chemical cost estimate for treatment at LAWRP is expected to increase by 20%. This is due to higher turbidity in the pond system requiring an increased usage of hydrofloc coagulant to meet water quality standards.

OCSD – The greatest portion of the increase for FY 2009-10 is due to the change in the billing methodology for solids treatment and disposal at OCSD. This change is expected to impact capital costs as well.

- Solids treatment expense is expected to increase by \$4.0 million.
- Caltrans dewatering expense is increasing to be offset by a corresponding increase in revenue.

Reclaimed:

- Demands on the reclaimed system are expected to increase by 4.8% due to increased customer conversions and new customer additions resulting in increased demands of 860 acre-feet for a total demand of 26,940 acre feet.
- Water produced at MWRP and LAWRP will generate 22,880 acre-feet of the total supply.
- IDP pumping projections – 3,000 acre-feet. Estimated costs per acre-foot are capped at the MWD rate.
- Groundwater will provide an additional 1,600 acre feet.
- The reclaimed system will purchase 1,257 acre feet of supplemental water from the untreated system.

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 FY 2008-09 budget assumed a vacancy factor of 3.5% which was higher than in previous years, due to specific anticipated retirements and job openings. This assumption was reduced to 3.0% for FY 2009-10 due to current staffing levels and expected retirements.



OPERATING BUDGET

Assumptions Fiscal Year 2009-10

- The primary factors driving the overall 5% increase in salaries are:

Merit	1.75%
COLA	1.50%
Promotional	0.20%
Sick and Vacation Accrual	1.00%
Vacancy Factor Change	<u>0.50%</u>
	4.95%
- PERS Employer contribution rate – from 11.390% to 13.588%
- Health and dental insurance premiums are expected to increase by 10%.

III. USE OF OTHER FUNDS

A. Penalty Revenue

- \$2,159,000 to offset the low volume rate.
- \$2,557,000 to fund water conservation
- \$ 2,090,000 to fund urban runoff and source control treatment.

B. Replacement Fund User Rate Component

- Staff assumed that the replacement fund contribution on the sewer service charge of \$3.45 per month for the average residential customer in FY 2008-09 will increase by 9% to \$3.75. Staff assumed establishing a replacement component on the water service charge of \$0.15 for the typical residential customer.
- Preliminary capital projections for FY 2009-10 estimate \$16.8 million in capital costs for water and sewer replacements.

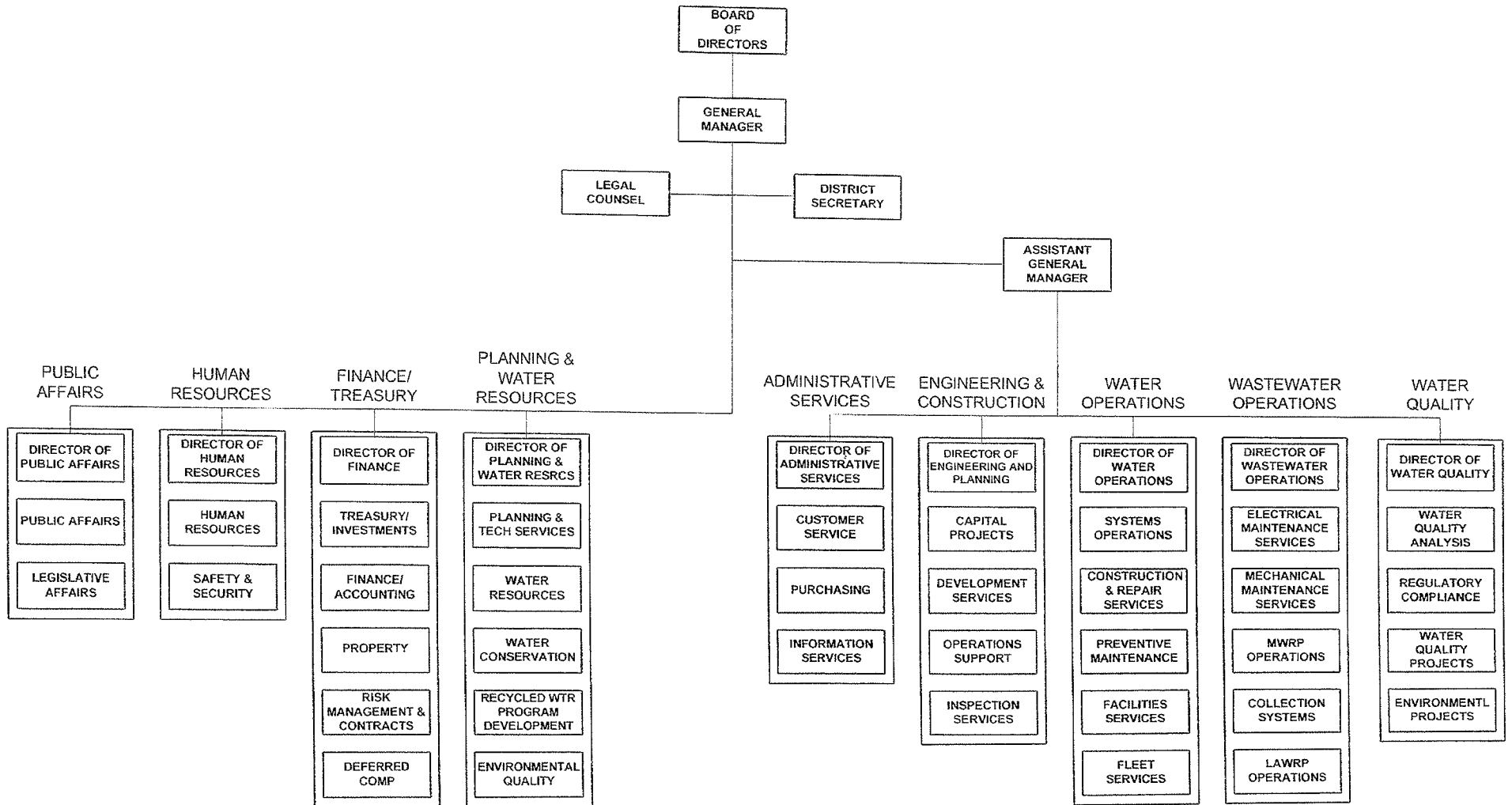
C. Enhancement Fund User Rate Component

- The current enhancement fund contribution for both the water and sewer system for FY 2008-09 was a combined \$0.30 per month (\$0.15 each for water and sewer) for the average residential customer. Staff assumes the combined contribution will increase to \$0.50 per month for the average residential customer.
- Preliminary estimates for FY 2009-10 require \$4.6 million in capital costs for water and sewer enhancements.

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)
Proposed Fiscal Year 2009-10**





CONSOLIDATED

THREE YEAR PERSONNEL COMPARISON

Dept. No.	Department	Authorized Positions		
		2007-08	2008-09	2009-10
10	Office of the General Manager			
	Number of Positions	19.0	20.0	20.0
	% change from prior year	0.0 %	5.3 %	0.0 %
20	Finance & Administration			
	Number of Positions	72.0	74.0	66.0
	% change from prior year	1.4 %	2.8 %	(10.8) %
30	Engineering & Construction			
	Number of Positions	42.0	43.0	35.0
	% change from prior year	2.4 %	2.4 %	(18.6) %
40	Water Operations			
	Number of Positions	85.0	87.0	85.0
	% change from prior year	2.4 %	2.4 %	(2.3) %
50	Wastewater Operations			
	Number of Positions	53.0	52.0	53.0
	% change from prior year	(1.9) %	(1.9) %	1.9 %
60	Water Quality			
	Number of Positions	24.0	25.0	25.0
	% change from prior year	9.1 %	4.2 %	0.0 %
70	Planning, Water Resources & Environmental Quality			
	Number of Positions	21.0	16.0	27.0
	% change from prior year	5.0 %	(23.8) %	68.8 %
	Total Number of Positions	<u>316.0</u>	<u>317.0</u>	<u>311.0</u>
	Number of Changed Positions	7.0	1.0	(6.0)
	% Change From Prior Year	<u>0.0 %</u>	<u>0.3 %</u>	<u>(1.9) %</u>



CONSOLIDATED

GENERAL PLANT SUMMARY

	Fiscal Year 2008-09	Fiscal Year 2009-10	Increase (Decrease)	% Inc/(Dec)
Information Systems	\$ 295,000	\$ 259,500	\$ (35,500)	-12.03%
Transportation Equipment	517,000	230,000	(287,000)	-55.51%
Tools, Shop and Work Equipment				-
Other General Plant Including Safety Equipment	73,460	235,234	161,774	220.22%
Laboratory, Stores and Communication Equipment	302,300		(302,300)	-100.00%
Office Furniture and Equipment	65,800	66,500	700	1.06%
Structures/Improvements - Sand Canyon				-
Work Equipment/Class IV, V, VI	853,700	216,500	(637,200)	-74.64%
Sub-Total	2,107,260	1,007,734	(1,099,526)	-52.18%
Less: Vehicle Salvage Value	(29,200)	(4,500)	24,700	-84.59%
Total General Plant	\$ 2,078,060	\$ 1,003,234	\$ (1,074,826)	-51.72%

Fiscal Year 2009-10

Funded by User Charges	\$ 822,550	81.99%
Funded by Connection Fees	180,684	18.01%
Total 2009-10	\$ 1,003,234	

Fiscal Year 2008-09

Funded by User Charges	\$ 1,462,260	70.37%
Funded by Connection Fees	615,800	29.63%
Total 2008-09	\$ 2,078,060	



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	\$ -	\$ 259,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 259,500
Laboratory Equipment								
Other General Plant				116,800	118,434			235,234
Office Furniture & Equipment				66,500				66,500
Work Equipment/Class IV, V, VI				216,500				216,500
Transportation Equipment - Light Trucks				230,000				230,000
Structures/Improvements - Sand Canyon								
Subtotal	\$ -	\$ 259,500	\$ -	\$ 629,800	\$ 118,434	\$ -	\$ -	\$ 1,007,734
Less Vehicle Salvage Value				(4,500)				(4,500)
Total 2009-10	\$ -	\$ 259,500	\$ -	\$ 625,300	\$ 118,434	\$ -	\$ -	\$ 1,003,234
Total 2008-09		295,000		1,413,300	67,460	302,300		2,078,060
Increase/(Decrease)	\$ -	\$ (35,500)	\$ -	\$ (788,000)	\$ 50,974	\$ (302,300)	\$ -	\$ (1,074,826)

**IRVINE RANCH WATER DISTRICT
ANNUAL DEBT SERVICE BUDGET
FOR THE FISCAL YEAR ENDING JUNE 30, 2010**

Type	Issue	Principal Due	Interest Due	Total
Certificates of Participation				
	Variable ⁽¹⁾			
	1986 Certificates of Participation	3,300,000	397,913	3,697,913
	2008 Refunding Certificates of Participation	1,450,000	882,450	2,332,450
Total	Certificates of Participation	4,750,000	1,280,363	6,030,363
General Obligation Bonds				
	Variable ⁽¹⁾			
	1985 B Consolidated Refunding Series	6,000,000	-60,750	5,939,250
	1985 Consolidated Series	4,700,000	22,613	4,722,613
	1988 Election Bonds	1,300,000	69,300	1,369,300
	1989 Consolidated Series	2,000,000	124,650	2,124,650
	1991 Consolidated Series	1,000,000	102,375	1,102,375
	1993 Consolidated Series	0	506,250	506,250
	1995 Consolidated Series	1,600,000	305,100	1,905,100
	2008 A Refunding Series	0	812,903	812,903
	2008 B Refunding Series	0	1,354,793	1,354,793
	2009 A Consolidated Series	0	1,012,500	1,012,500
	2009 B Consolidated Series	0	1,012,500	1,012,500
Total	General Obligation Bonds	16,600,000	5,262,232	21,862,232
Total Debt Service		\$ 21,350,000	\$ 6,542,595	\$ 27,892,595
Credit Enhancement and Administration				3,925,600
Total, All Debt Related Payments				\$ 31,818,195

(1) Variable Interest is estimated at: 1.35%

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	\$ 109 [▼]	\$ 51	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	11	11	Two year reserve based on outstanding variable rate debt
System Refurbishments	11	11	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	\$ 160	\$ 103	



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 [▼]	\$ -	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	10 [▼]	10	Two year reserve based on outstanding variable rate debt
System Refurbishments	11	11	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	\$ 187	\$ 36	

