

***IRVINE RANCH WATER DISTRICT  
OPERATING BUDGET  
FISCAL YEAR 2010-11***



***“ADOPTED”***

***June 14, 2010***



**ADOPTED OPERATING BUDGET  
FISCAL YEAR 2010-11**

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## IRVINE RANCH WATER DISTRICT

15600 Sand Canyon Avenue • P.O. Box 57000 • Irvine, California 92619-7000 • (949) 453-5300 • [www.irwd.com](http://www.irwd.com)

June 14, 2010

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

Re: Adopted Fiscal Year 2010-11 Operating Budget

Honorable Members:

Presented for your consideration is the Proposed Fiscal Year (FY) 2010-2011 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 12, May 10, and June 14, 2010.

The Proposed FY 2010-11 Consolidated Operating Budget totals \$108.1 million. The \$108.1 million represents a \$2.6 million or 2.4% total decrease over the prior year's \$110.7 million operating budget. In developing the proposed Operating Budget for FY 2010-11, a number of factors were addressed:

- Reductions in the District's commercial/industrial customer base, and to a lesser extent, the residential customer base, as a result of the current downturn in the economy;
- Reductions in water sales as a result of conservation efforts; and
- Substantial increases to the cost of water, primarily due to rate increases from outside agencies.

The goal of the District's budgeting process remains to minimize rate increases, except when necessary. This was especially true this year, in recognition of the economic challenges the District's customers are facing. The proposed Operating Budget takes into consideration these factors and, through reductions in expenses, had resulted in a minor rate increase for the average IRWD customer. 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 2010-11:

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, Santiago rate area, OPA rate area and the Los Alisos rate area recommended for FY 2010-11 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 \$0.06/ccf, from \$1.15 to \$1.21/ccf.
- An increase of \$0.25 to the current monthly service charge, from \$7.75 to \$8.00, which includes a \$0.05/month increase each to the enhancement and replacement components increasing the monthly contribution to \$0.30/month for enhancements and \$0.20/month for replacements.

Untreated Water System:

- A decrease to the current non-potable agriculture irrigation rate of \$92.75/acre-foot, from \$572.00 to \$479.25/acre-foot, as a result of a proper shift in certain costs to the treated and recycled systems.

Sewer System:

- An increase to the current monthly service charge of \$0.05, from \$16.60 to \$16.65, which includes a \$0.25/month user replacement component and a \$0.05/month enhancement component.
- An increase to the current reclaimed landscape irrigation rate of \$21.75/acre-foot, from \$448.75 to \$470.50/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.

*Santiago Rate Area (ID 153/155)*

Treated Water System:

By agreement, when the Santiago County Water District was consolidated with IRWD, Santiago area customers received an immediate 20% reduction in their water rates. In the four years since the consolidation, rates in the Santiago rate area have been indexed to the proposed changes in the Irvine Ranch rate area. The difference between the Santiago area rates and the Irvine Ranch area base rate was then used to pay off the "Acquisition Balance" for the Santiago area to buy-in to IRWD's infrastructure, originally estimated to take six years. As of June 30, 2010, the acquisition balance will be paid in full and the

transition to the Irvine Ranch area rates will take place effective July 1, 2010. There will no longer be references to the Santiago Rate Area.

- The base commodity rate will decrease by \$1.03/ccf, from \$2.24 to \$1.21/ccf.
- In order to move the water up into the canyon, a pumping surcharge of \$0.32/ccf will be added to the cost of water.
- The fixed water service charge for Santiago rate area customers will decrease from \$16.20 to \$8.00 per month for the average size residential water meter.

*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 \$0.06/ccf, from \$1.67 to \$1.73/ccf.
- An increase of \$0.25 to the current monthly service charge, from \$16.25 to \$16.50.

*Los Alisos Rate Area (ID 135/235)*

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.

Treated Water System:

- An increase to the base commodity rate of \$0.19/ccf, from \$1.78 to \$1.97/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 19.5% to the monthly service charge for all meters greater than 1" in diameter.

Sewer System:

- An increase to the current monthly service charge of \$0.05, from \$16.60 to \$16.65, which includes a \$0.25/month user replacement component and a \$0.05/month enhancement component.
- An increase to the current reclaimed landscape irrigation rate of \$21.75/acre-foot, from \$448.75 to \$470.50/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 proposed treated tiered rates for both rate areas are as follows:

<b>Tiers</b>	<b>Los Alisos</b>	<b>Irvine Ranch</b>
Low Volume	\$1.40	\$0.91
Base Rate	\$1.97	\$1.21
Inefficient	\$2.75	\$2.50
Excessive	\$4.32	\$4.32
Wasteful	\$9.48	\$9.48

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.

User/Replacement and 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 is proposed to increase from \$3.75 to \$4.00 for FY 2010-11. A user/replacement rate component of \$0.15 was added to the water service fixed charge for FY 2010-11. 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 \$0.05 in FY 2010-11 increasing the monthly contribution for each to \$0.30/month. The added component will generate an additional \$131,000 and \$106,000 for the treated water and sewer systems, respectively.

Proposition 218 Notice:

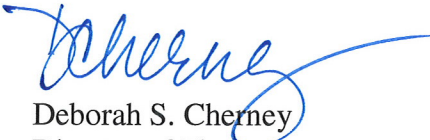
Proposition 218, enacted in 1996, mandates that proposed increases in "property-related fees" must be noticed to property owners, and that such owners have an opportunity to protest prior to the enactment of the fee increases. While water districts and sewer agencies throughout the State believed that 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. Fourteen protests (or 0.015%) were received by the District

Honorable Board of Directors  
June 14, 2010  
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Staff believes the Proposed Fiscal Year 2010-11 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  
Director of Finance



# OPERATING EXPENSE BUDGET

*FISCAL YEAR 2010-2011*

	<u>Actuals</u> <u>2008-09</u>	<u>Current</u> <u>2009-10</u>	<u>Proposed</u> <u>2010-11</u>	<u>Change</u>	<u>%</u>
110 SALARIES & WAGES - RT	\$23,883,490	\$24,332,700	\$24,711,900	\$379,200	1.56%
120 SALARIES & WAGES - OT	\$1,047,000	\$1,111,180	\$1,019,480	(\$91,700)	-8.25%
130 EMPLOYEE BENEFITS	\$11,314,420	\$11,259,400	\$11,924,525	\$665,125	5.91%
140 TEMP & CONTRACT LABOR	\$837,670	\$691,800	\$958,900	\$267,100	38.61%
210 WATER PURCHASES	\$27,667,990	\$27,969,800	\$27,122,800	(\$847,000)	-3.03%
220 ELECTRICITY	\$9,552,820	\$11,734,600	\$10,339,115	(\$1,395,485)	-11.89%
230 FUEL	\$550,250	\$619,700	\$518,000	(\$101,700)	-16.41%
231 GENERATE NATURAL GAS	\$9,940	\$15,000	\$10,200	(\$4,800)	-32.00%
240 TELEPHONE	\$321,190	\$345,190	\$346,140	\$950	0.28%
250 OTHER UTILITIES	\$58,690	\$122,600	\$113,720	(\$8,880)	-7.24%
310 CHEMICALS	\$3,172,470	\$4,227,200	\$3,618,750	(\$608,450)	-14.39%
320 OPERATING SUPPLIES	\$976,770	\$1,047,900	\$1,020,200	(\$27,700)	-2.64%
330 PRINTING	\$290,330	\$422,400	\$346,900	(\$75,500)	-17.87%
340 POSTAGE	\$467,070	\$504,900	\$512,900	\$8,000	1.58%
370 PERMITS, LICENSES & FEES	\$474,850	\$504,650	\$565,100	\$60,450	11.98%
390 OFFICE SUPPLIES	\$98,100	\$117,950	\$104,650	(\$13,300)	-11.28%
400 DUPLICATING EQUIPMENT	\$203,810	\$205,000	\$189,000	(\$16,000)	-7.80%
420 EQUIPMENT RENTAL	\$133,870	\$101,500	\$157,600	\$56,100	55.27%
490 REPAIRS & MAINT-OTHER AGENCIES	\$10,030,330	\$11,564,500	\$11,078,800	(\$485,700)	-4.20%
500 REPAIRS & MAINT-IRWD	\$7,058,530	\$6,621,550	\$6,415,260	(\$206,290)	-3.12%
510 INSURANCE	\$491,840	\$535,600	\$535,000	(\$600)	-0.11%
520 LEGAL FEES	\$466,770	\$375,000	\$367,500	(\$7,500)	-2.00%
530 ENGINEERING FEES	\$426,940	\$620,700	\$593,700	(\$27,000)	-4.35%
540 ACCOUNTING FEES	\$73,710	\$82,500	\$93,500	\$11,000	13.33%
550 DATA PROCESSING	\$683,080	\$753,600	\$741,700	(\$11,900)	-1.58%
560 PERSONNEL TRAINING	\$680,860	\$941,500	\$846,600	(\$94,900)	-10.08%
570 PERSONNEL PHYSICALS	\$18,310	\$37,800	\$43,300	\$5,500	14.55%
580 OTHER PROFESSIONAL FEES	\$890,170	\$1,106,800	\$1,269,450	\$162,650	14.70%
590 DIRECTORS' FEES	\$143,800	\$140,000	\$145,000	\$5,000	3.57%
610 MILEAGE REIMBURSEMENT	\$112,090	\$113,200	\$107,000	(\$6,200)	-5.48%
620 COLLECTION FEES	\$12,870	\$15,750	\$15,000	(\$750)	-4.76%
630 ELECTION EXPENSE	\$174,320	\$115,000	\$100,000	(\$15,000)	-13.04%
640 SAFETY	\$28,940	\$142,700	\$133,950	(\$8,750)	-6.13%
650 OTHER	\$999,550	\$1,652,000	\$1,530,700	(\$121,300)	-7.34%
660 CONSERVATION	\$691,700	\$550,000	\$550,000	\$0	0.00%
<b>Grand Total</b>	<b>\$104,044,540</b>	<b>\$110,701,670</b>	<b>\$108,146,340</b>	<b>(\$2,555,330)</b>	<b>-2.31%</b>





# SOURCES AND USES OF FUNDS

## CONSOLIDATED OPERATING BUDGET

Fiscal Year Ending June 30, 2011

In (000's)

Revenues:	Water			
	Treated <sup>1</sup>	Untreated	Sewer	Total
Residential	\$ 27,439	\$	\$ 21,140	\$ 48,579
Landscape Irrigation	4,020	178	12,464	16,662
Commercial	7,580		6,494	14,074
Agriculture Irrigation	221	2,233	1,040	3,494
Industrial	3,174		2,520	5,694
Public Authority	1,621		1,193	2,814
Fire Protection	3,549			3,549
Construction/Temporary	542		48	590
Recycled Loans			9	9
Green Acres			169	169
SMWD Sewer			286	286
Caltrans Dewatering			390	390
IDP Reimbursements			490	490
Repl. Fund for Election Expense	36	1	33	70
Over Use Funds/Conservation	2,731		1,419	4,150
Over Use Funds/SJ Marsh & NTS	2,137			2,137
<b>Total Revenues</b>	<b>\$ 53,050</b>	<b>\$ 2,412</b>	<b>\$ 47,695</b>	<b>\$ 103,157</b>
<b>Expenses:</b>				
Water	\$ 30,138	\$ 1,435	\$ 2,145	\$ 33,718
Salaries & Benefits	12,374	246	11,960	24,580
Materials & Supplies	11,274	368	14,954	26,596
OCSD - O & M			10,001	10,001
General Plant	407	1	412	820
Over Use & Enhance Contrib.	1,250		8,868	10,118
<b>Total Expenses</b>	<b>\$ 55,443</b>	<b>\$ 2,050</b>	<b>\$ 48,340</b>	<b>\$ 105,833</b>
<b>Funded by User Rate Increase</b>	<b>2,143</b>	<b>(362)</b>	<b>26</b>	<b>1,807</b>
<b>Over Use &amp; Enhance Fund Incr.</b>	<b>250</b>		<b>619</b>	<b>869</b>
<b>Income (Loss) From Operations</b>	<b>\$ 0</b>	<b>\$ (0)</b>	<b>\$ 0</b>	<b>\$ 0</b>

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, 2011

In (000's)

Revenues: <sup>1</sup>	Treated Water		
	Irvine Area	Los Alisos Area	Total
Residential	\$ 22,046	\$ 5,393	\$ 27,439
Landscape Irrigation	2,767	1,253	4,020
Commercial	6,738	842	7,580
Agriculture Irrigation	120	101	221
Industrial	3,174		3,174
Public Authority	1,597	24	1,621
Fire Protection	3,309	240	3,549
Construction/Temporary	504	38	542
Recycled Loans			-
Green Acres			-
SMWD Sewer			-
Caltrans Dewatering			-
IDP Reimbursements			-
Repl. Fund for Election Expense	32	4	36
Over Use Funds/Conservation	2,731		2,731
Over Use Funds/SJ Marsh & NTS	2,137		2,137
<b>Total Revenues</b>	<b>\$ 45,155</b>	<b>\$ 7,895</b>	<b>\$ 53,050</b>
<b>Expenses:</b>			
Water	\$ 24,255	5,883	30,138
Salaries & Benefits	10,931	1,443	12,374
Materials & Supplies	10,125	1,149	11,274
OCSD - O & M			-
General Plant	352	55	407
Over Use & Enhance Contrib.	1,130	120	1,250
<b>Total Expenses</b>	<b>\$ 46,793</b>	<b>\$ 8,650</b>	<b>\$ 55,443</b>
<b>Funded by User Rate Increase</b>	<b>1,412</b>	<b>731</b>	<b>2,143</b>
<b>Over Use &amp; Enhance Fund Incr.</b>	<b>226</b>	<b>24</b>	<b>250</b>
<b>Income (Loss) From Operations</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

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, 2011*

*In (000's)*

	<u>Treated</u>	<u>Untreated</u>	<u>Sewer</u>	<u>Total</u>	Prior Year 2009-10 <u>Total</u>
<b><u>IRWD</u></b>					
<b>Uses of Replacement Fund/Over Use Allocation Revenue</b>					
1. Low Volume Shortfall	\$ 1,305	\$	\$ 748	\$ 2,053	\$ 1,427
2. Water Conservation	1,426		671	2,097	2,873
3. SJ Marsh and NTS Expense	2,137			2,137	2,090
4. Election Expense	36	1	33	70	81
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Use of Other Funds</b>	<b><u>\$ 4,904</u></b>	<b><u>\$ 1</u></b>	<b><u>\$ 1,452</u></b>	<b><u>\$ 6,357</u></b>	<b><u>\$ 6,471</u></b>

Other Water Conservation:

Pr. 10553 - Weather-Based Irrig. Controller Implementation \$ 41



# CONSOLIDATED

## BUDGETED REVENUE SUMMARY BY SYSTEM

	<u>FY 2009-10</u>	<u>Usage Change</u>	<u>Proposed Rate Inc.</u>	<u>FY 2010-11</u>
<b>Treated</b>				
Service	\$ 19,136,600	\$ (304,300)	\$ 363,000	\$ 19,195,300
Enhancement	628,000	(3,000)	125,000	750,000
Replacement	377,000	(2,000)	125,000	500,000
Commodity	28,612,300	(1,466,900)	1,454,900	28,600,300
Low Volume	1,350,800	(46,100)	325,200	1,629,900
Over Allocation Revenue	3,948,000	(385,000)	-	3,563,000
Pumping Surcharge	698,300	(62,000)	-	636,300
Miscellaneous	508,800	23,800	-	532,600
Repl. Fund Election Exp.	42,000	(6,000)	-	36,000
	<u>\$ 55,301,800</u>	<u>\$ (2,251,500)</u>	<u>\$ 2,393,100</u>	<u>\$ 55,443,400</u>
<b>AF</b>	55,663			52,788
<b>User Type</b>				
Residential	\$ 29,072,400	\$ (492,400)	\$ 1,491,900	\$ 30,071,900
Commercial	7,953,900	(373,500)	366,500	7,946,900
Industrial	3,416,700	(242,300)	147,500	3,321,900
Public Authority	1,706,600	(85,600)	76,300	1,697,300
Construction/Temp.	762,400	(219,900)	20,300	562,800
Fire Protection	3,537,200	11,400	18,800	3,567,400
Landscape Irrigation	4,500,400	(317,000)	255,900	4,439,300
Agriculture Irrigation	362,200	(141,200)	15,900	236,900
Over Allocation Revenue	3,948,000	(385,000)	-	3,563,000
Repl. Fund Election Exp.	42,000	(6,000)	-	36,000
	<u>\$ 55,301,800</u>	<u>\$ (2,251,500)</u>	<u>\$ 2,393,100</u>	<u>\$ 55,443,400</u>
<b>Untreated</b>				
Commodity	\$ 3,611,000	\$ (1,200,200)	\$ (360,900)	\$ 2,049,900
Repl. Fund Election Exp.	1,000	-	-	1,000
	<u>\$ 3,612,000</u>	<u>\$ (1,200,200)</u>	<u>\$ (360,900)</u>	<u>\$ 2,050,900</u>
<b>AF</b>	6,803			4,321
<b>User Type</b>				
Landscape Irrigation	\$ 180,900	\$ (3,100)	\$ (3,700)	\$ 174,100
Agriculture Irrigation	3,430,100	(1,197,100)	(357,200)	1,875,800
Repl. Fund Election Exp.	1,000	-	-	1,000
	<u>\$ 3,612,000</u>	<u>\$ (1,200,200)</u>	<u>\$ (360,900)</u>	<u>\$ 2,050,900</u>



# CONSOLIDATED

## BUDGETED REVENUE SUMMARY BY SYSTEM

	<u>FY 2009-10</u>	<u>Usage Change</u>	<u>Proposed Rate Inc.</u>	<u>FY 2010-11</u>
<b>Sewer and Recycled</b>				
Service	\$ 27,393,100	\$ (864,200)	\$ (544,000)	\$ 25,984,900
Enhancement	532,000	(13,000)	103,000	622,000
Replacement	7,976,000	(196,000)	516,000	8,296,000
Commodity	10,604,800	(446,800)	376,700	10,534,700
Low Volume	817,900	(70,100)	193,400	941,200
Over Allocation Revenue	1,015,000	(344,000)	-	671,000
Pumping Surcharge	361,700	-	-	361,700
Miscellaneous	385,800	20,200	-	406,000
IDP Reimbursements	475,500	14,400	-	489,900
Repl. Fund Election Exp.	38,000	(5,000)	-	33,000
	<u>\$ 49,599,800</u>	<u>\$ (1,904,500)</u>	<u>\$ 645,100</u>	<u>\$ 48,340,400</u>
<b>AF</b>	26,940			25,997
<b>User Type</b>				
Residential	\$ 21,156,400	\$ 7,300	\$ 50,400	\$ 21,214,100
Commercial	6,897,400	(403,100)	23,100	6,517,400
Industrial	3,418,700	(508,200)	7,600	2,918,100
Public Authority	1,193,200	100	3,500	1,196,800
Landscape Irrigation	14,259,700	(1,072,800)	558,800	13,745,700
Recycled Loans	9,800	100	500	10,400
Agriculture Irrigation	679,800	360,100	-	1,039,900
Construction/Temp.	82,700	(34,700)	1,200	49,200
Green Acres	168,600	-	-	168,600
SMWD	205,000	81,300	-	286,300
IDP Reimbursements	475,500	14,400	-	489,900
Over Allocation Revenue	1,015,000	(344,000)	-	671,000
Repl. Fund Election Exp.	38,000	(5,000)	-	33,000
	<u>\$ 49,599,800</u>	<u>\$ (1,904,500)</u>	<u>\$ 645,100</u>	<u>\$ 48,340,400</u>



# OPERATING BUDGET

## *Proposed Assumptions Fiscal Year 2010-11*

The operating budget for FY 2010-11 presents a number of challenges resulting from the current downturn in the economic cycle, reductions in commodity sales as a result of conservation efforts, and pass-through increases to the cost of water primarily as a result of rate increases from outside agencies. The budgeting approach taken by staff this year is to accommodate these challenges by reducing operating expenses wherever possible without compromising the District's current high level of service. The goal of the budgeting strategy is to minimize any necessary rate increases in FY 2010-11 in recognition of the economic challenges the District's customers are facing at this time. This document summarizes the major assumptions driving the development of the operating budget for FY 2010-11 for input by the Committee.

### **I. REVENUES**

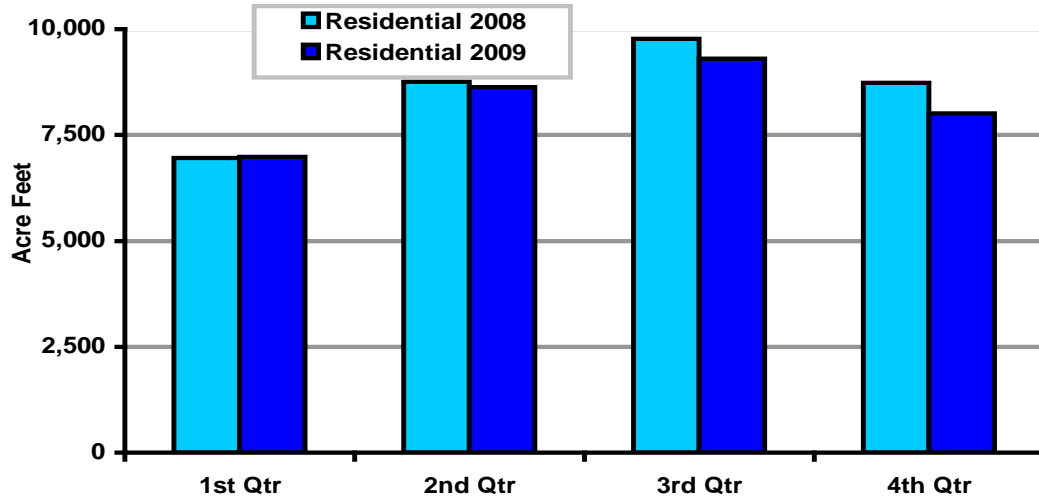
Estimated potable, untreated, sewer, and recycled system revenues are projected to be \$103.88 million for FY 2010-11 prior to any potential rate adjustments that may be implemented by the Board. This represents a \$4.64 million decrease over the FY 2009-10 operating budget revenues. The primary factors influencing the revenue projections are:

1. The downturn in the economy has resulted in a substantial reduction in the commercial/industrial base, and a modest reduction in the residential customer base;
2. The reduced customer base resulted in modest reductions in residential service charge revenue;
3. The significant reductions in both the numbers and usage of commercial and industrial customers has resulted in a substantial reduction in sewer service charge revenue which is expected to continue into FY 2010-11; and
4. Conservation efforts and messaging as well as the District's change in customer allocations are reducing commodity water sales, although these reduced commodity sales are somewhat offset by reduced water purchase expenses.

To date in FY 2009-10, 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.

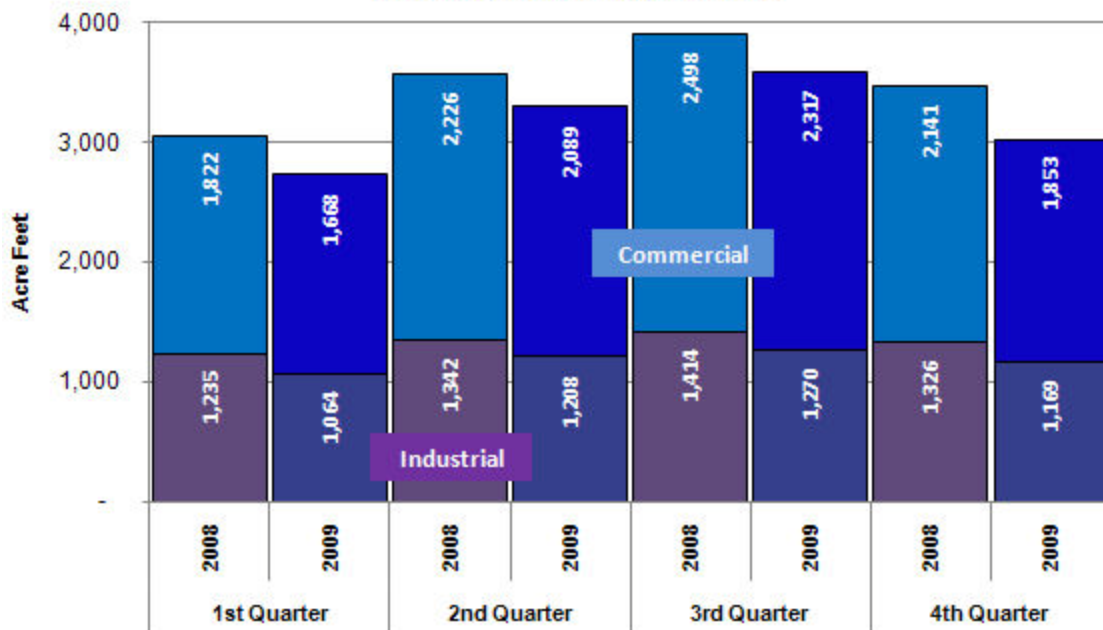
The residential customer base, which makes up 49% of total system demands, experienced a 6.4% reduction in commodity usage for the first 6 months of FY 2009-10. This is due in part to customers reducing usage to fall within the new allocation and also from a mild decrease of 1.5% in occupancy. A comparison by quarter for calendar years 2008 and 2009 identify a significant reduction in usage in quarters 3 and 4 of 2009.

**Residential Usage by  
Calendar Year in Acre Feet**



The shift for the commercial and industrial customer types is more significant. The commercial user base experienced a 3.5% reduction in customers and a 10% reduction in usage. The industrial user base experienced a 6.5% reduction in customers and an 11% reduction in usage. Both of these customer groups do not generally pay a flat sewer service charge. The service charge is tied to commodity demand and reduced demands directly reduce sewer service charge revenue. Demands decreased substantially from calendar year 2008 to 2009 for both commercial and industrial user types resulting in revenues that are between 12 to 15% below budget in these user types.

**Commercial and Industrial Usage by  
Calendar Year in Acre Feet**



As Commercial and Industrial sewer revenue is driven by water sales, sewer revenues in FY 2009-10 are lower than projected. As a result, staff recommends that the revenue budget for FY 2010-11 be reduced from FY 2009-10 budget levels. In particular, sewer revenue for industrial and commercial customer type is budgeted at 92% or a \$220,000 reduction and 94% or a \$403,000 reduction of FY 2009-10 projections. Such revenue projections assume a recovery in the second half of the fiscal year for these customer types.

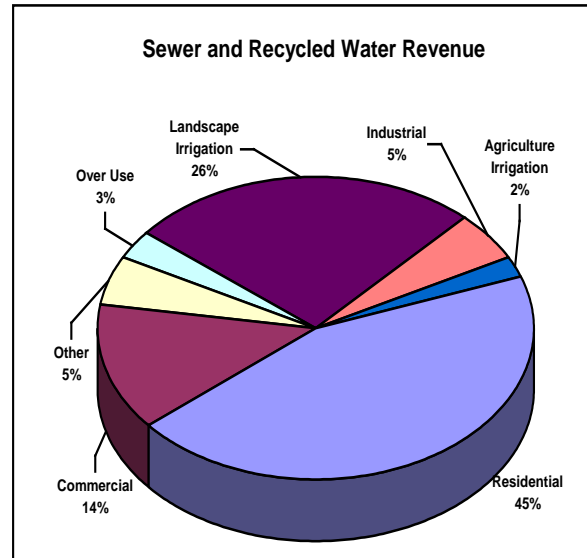
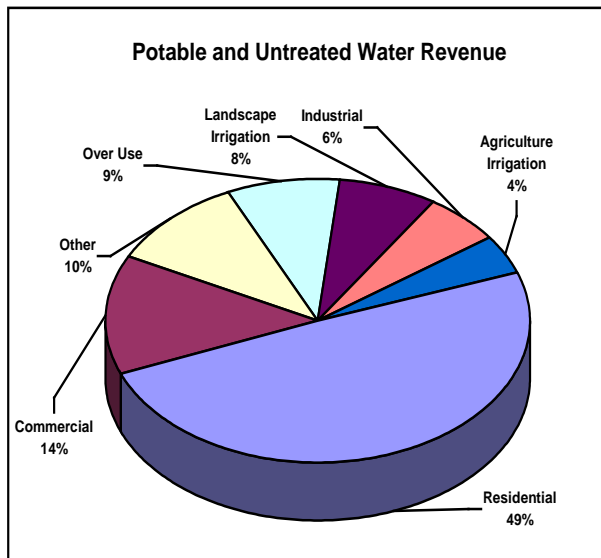
*Growth Estimates:*

Residential development growth was considered only in the apartment sector and is based on the most current projections received from the major developers in the service area. As a result, the growth factor for residential development was estimated at 1% for FY 2010-11.

Commercial volume has decreased substantially which is consistent with commercial vacancy factors. Staff recommends no assumed growth rate for commercial development for FY 2010-11.

*Operating Revenue Sources, by Customer Type*

Customer Type	Water	Sewer	Total
Residential	\$27,439	\$21,140	\$48,579
Commercial	7,580	6,494	14,074
Other	5,748	2,618	8,366
Over Use from Tiers 3-5	4,828	1,401	6,229
Landscape Irrigation	4,198	12,464	16,662
Industrial	3,174	2,520	5,694
Agriculture Irrigation	2,454	1,040	3,494
	\$55,421	\$47,677	\$103,098





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 82% 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:

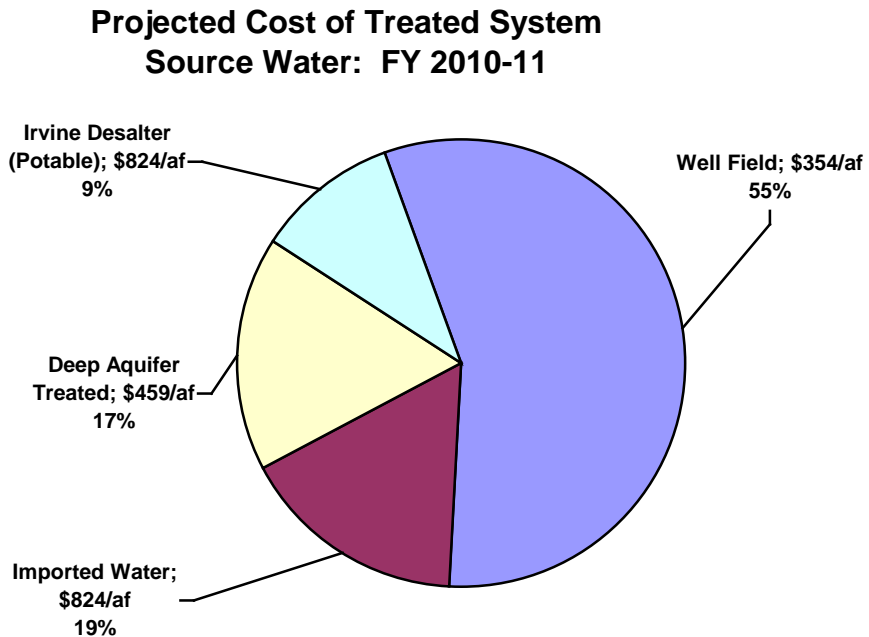
- Construction/Temporary accounts
- United States Department of the Navy contribution for the Shallow Ground Water Unit identified as Irvine Desalter Project (IDP) Reimbursements
- Recycled water sales to the Santa Margarita Water District
- Green Acres Project (GAP) recycled water sales
- The Replacement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

**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 remain at \$249/acre-foot, which is the same as FY 2009-10.
- 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. In prior years, the fully burdened labor costs were close to \$1.6 million. Accordingly, staff has included 75% of the DRWF labor in the cost of water for FY 2010-11 and will add the final 25% of the labor associated with DRWF in FY 2011-12.
- DRWF pumping costs:
  - The pumping electrical cost estimate is expected to decrease from FY 2009-10 levels by 6.0% to \$59/acre-foot because previously expected rate increases did not come to fruition.
  - Chemical expense on the potable side is expected to remain constant.
- Irvine Desalter Project (IDP) Potable Treatment Plant (PTP) chemical expenses are expected to remain constant, in total.
- Deep Aquifer Treatment System (DATS) costs will increase moderately due to increased OCSD disposal costs.

B. Treated Water – Metropolitan Water District (MWD)

- MWD is expected to increase its rates again on January 1, 2011 by 7.5%.
- No direct increase is budgeted for MWDOC.
- Staff assumes no substantial change to the costs associated with the IRWD Reservoir Management Systems.

C. Untreated Water

The primary source of untreated water is MWD which will experience substantial rate increases over the next few years. Untreated system demands will be met by water purchased in FY 2008-09 and stored in the Irvine Lake. The sources and cost factors follow.

- Native water, SAC water, and pre-purchased MWD untreated full serve rate water will 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 LAWRP – The treatment projections for FY 2010-11 at MWRP and LAWRP are 18 MGD and 4 MGD respectively. LAWRP production is reduced within the budget to match the projected recycled system demands.

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:

- Demands on the recycled system decreased in FY 2009-10. Staff estimates that a portion of the untreated customer base will move to the recycled system with the ILP conversions and demands will increase. Total recycled demand is estimated at of 25,997 acre-feet, which assumes that 500 acre-feet of recycled water will be delivered to those ILP conversion customers. Should the ILP conversions be delayed, approximately 500 acre-feet of demand would shift to the Untreated System, which has water in storage to fulfill those demands.
- Water produced at MWRP and LAWRP or included in storage will provide 22,138 acre-feet of the total supply.
- IDP Non-Potable pumping projections – 3,380 acre-feet. Estimated costs per acre-foot are capped at the MWD rate.
- Groundwater production will provide an additional 1,080 acre-feet.
- The recycled system will purchase 865 acre-feet of supplemental water from the untreated system (native, past purchases of MWD water stored in Irvine Lake).

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 assumed vacancy factor assumption is 3.0% for FY 2010-11 due to current staffing levels and expected retirements.
- The Finance and Personnel Committee directed an increase of \$200,000 to the administration budget for “Succession Positions” and authorized the general manager to add up to three full time employees within water and wastewater operations if quality employees are available.
- The primary factors driving the overall 3% increase in salaries are:

New Positions	0.67%
Merit	0.73%
COLA	0.59% (includes net reduction from FY 2009-10)
Promotional	<u>0.27%</u>
	2.26%

- The District is setting the PERS Employer contribution rate at 14.7%.
- Health and dental insurance premiums are expected to increase by 10% and increases in the employee contribution will offset the increase.

### III. USE OF OTHER FUNDS

#### A. Over Use (tiers 3-5) Revenue

- \$2,052,500 is expected to offset the low volume rate.
- \$2,008,000 is expected to fund water conservation
- \$2,090,000 is expected to fund urban runoff and source control treatment.

#### B. Replacement Fund User Rate Component

- Consistent with the Board's direction in recent years, staff assumed that the replacement fund contribution on the sewer service charge of \$3.75 per month for the average residential customer in FY 2009-10 will increase by \$0.25 to \$4.00 to continue replenishing the sewer replacement fund. Staff assumes a moderate increase of \$0.05 on the water service charge replacement component to \$0.20 for the typical residential customer.
- Preliminary capital projections for FY 2010-11 estimate \$18.8 million in capital costs for water and sewer replacements.

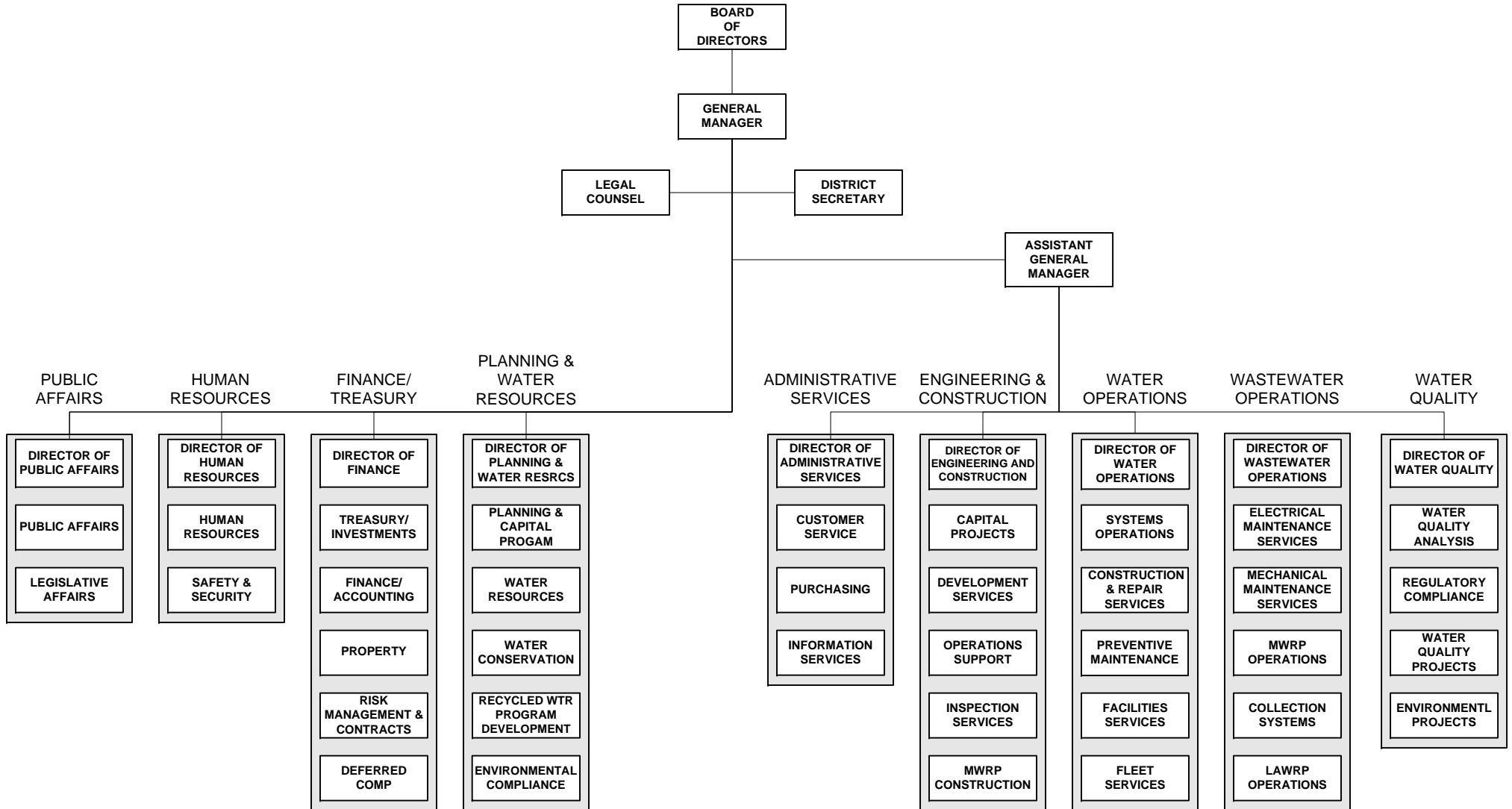
#### C. Enhancement Fund User Rate Component

- The current enhancement fund contribution for both the water and sewer system for FY 2009-10 was a combined \$0.50 per month (\$0.25 each for water and sewer) for the average residential customer. Staff assumes a moderate increase on those by \$0.05 each for a combined enhancement component of \$0.60.
- Preliminary estimates for FY 2010-11 require \$5.6 million in capital costs for water and sewer enhancements. The current enhancement fund balance is \$7.1 million and the 1% contribution for FY 2010-11 should be an additional \$5.8 million. Enhancement capital needs are expected to grow in the coming years, so continuing to build those funds is imperative.

**IV. ALLOCATION OF COSTS BETWEEN IRVINE RANCH & 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 2010-11**





# CONSOLIDATED

## THREE YEAR PERSONNEL COMPARISON

Dept. No.	Department	Authorized Positions		
		2008-09	2009-10	2010-11
10	Administration			
	Number of Positions	20.0	20.0	20.0
	% change from prior year	5.3 %	0.0 %	0.0 %
20	Finance & Administration Services			
	Number of Positions	74.0	66.0	67.0
	% change from prior year	2.8 %	(10.8) %	1.5 %
30	Engineering & Construction			
	Number of Positions	43.0	35.0	35.0
	% change from prior year	2.4 %	(18.6) %	0.0 %
40	Water Operations			
	Number of Positions	87.0	85.0	84.0
	% change from prior year	2.4 %	(2.3) %	(1.2) %
50	Wastewater Operations			
	Number of Positions	52.0	53.0	54.5
	% change from prior year	(1.9) %	1.9 %	2.8 %
60	Water Quality & Environmental Compliance			
	Number of Positions	25.0	25.0	25.0
	% change from prior year	4.2 %	0.0 %	0.0 %
70	Planning & Water Resources			
	Number of Positions	16.0	27.0	28.0
	% change from prior year	(23.8) %	68.8 %	3.7 %
	Total Number of Positions	<u>317.0</u>	<u>311.0</u>	<u>313.5</u>
	Number of Changed Positions	1.0	(6.0)	2.5
	% Change From Prior Year	<u>0.3 %</u>	<u>(1.9) %</u>	<u>0.8 %</u>



# CONSOLIDATED

## GENERAL PLANT SUMMARY

	Fiscal Year 2009-10	Fiscal Year 2010-11	Increase (Decrease)	% Inc/(Dec)
Information Systems	\$ 259,500	\$ 146,900	\$ (112,600)	-43.39%
Transportation Equipment	230,000	577,000	347,000	150.87%
Tools, Shop and Work Equipment				-
Other General Plant Including Safety Equipment	235,234	49,500	(185,734)	-78.96%
Laboratory, Stores and Communication Equipment		74,520	74,520	100.00%
Office Furniture and Equipment	66,500		(66,500)	-100.00%
Structures/Improvements - Sand Canyon/MWRP				-
Work Equipment/Class IV, V, VI	216,500	114,750	(101,750)	-47.00%
<b>Sub-Total</b>	<b>1,007,734</b>	<b>962,670</b>	<b>(45,064)</b>	<b>-4.47%</b>
Less: Vehicle Salvage Value	(4,500)	(16,800)	(12,300)	273.33%
<b>Total General Plant</b>	<b>\$ 1,003,234</b>	<b>\$ 945,870</b>	<b>\$ (57,364)</b>	<b>-5.72%</b>

### Fiscal Year 2010-11

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

### Fiscal Year 2009-10

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





# 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	\$ -	\$ 146,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 146,900
Laboratory Equipment						74,520		74,520
Other General Plant					49,500			49,500
Office Furniture & Equipment								
Work Equipment/Class IV, V, VI				111,600	3,150			114,750
Transportation Equipment				577,000				577,000
Structures/Improvements - Sand Canyon/MWRP								
<b>Subtotal</b>	<b>\$ -</b>	<b>\$ 146,900</b>	<b>\$ -</b>	<b>\$ 688,600</b>	<b>\$ 52,650</b>	<b>\$ 74,520</b>	<b>\$ -</b>	<b>\$ 962,670</b>
Less Vehicle Salvage Value				(16,800)				(16,800)
<b>Total 2010-11</b>	<b>\$ -</b>	<b>\$ 146,900</b>	<b>\$ -</b>	<b>\$ 671,800</b>	<b>\$ 52,650</b>	<b>\$ 74,520</b>	<b>\$ -</b>	<b>\$ 945,870</b>
Total 2009-10		259,500		625,300	118,434			1,003,234
Increase/(Decrease)	\$ -	\$ (112,600)	\$ -	\$ 46,500	\$ (65,784)	\$ 74,520	\$ -	\$ (57,364)

**IRVINE RANCH WATER DISTRICT  
ANNUAL DEBT SERVICE BUDGET  
FOR THE FISCAL YEAR ENDING JUNE 30, 2011**

Type	Issue	Principal Due	Interest Due	Total
<b>Certificates of Participation</b>				
<b>Fixed</b>				
	2010 Refunding Certificates of Participation	3,745,000	4,083,005	7,828,005
Total	Certificates of Participation	3,745,000	4,083,005	7,828,005
<b>General Obligation Bonds</b>				
<b>Variable <sup>(1)</sup></b>				
	1985 Consolidated Series	5,200,000	-58,500	5,141,500
	1988 Election Bonds	1,300,000	57,500	1,357,500
	1989 Consolidated Series	2,100,000	106,875	2,206,875
	1991 Consolidated Series	1,000,000	98,750	1,098,750
	1993 Consolidated Series	0	562,500	562,500
	1995 Consolidated Series	1,700,000	312,750	2,012,750
	2008 A Refunding Series	1,415,000	860,764	2,275,764
	2008 B Refunding Series	2,455,000	1,462,363	3,917,363
	2009 A Consolidated Series	0	1,125,000	1,125,000
	2009 B Consolidated Series	0	1,125,000	1,125,000
Total	General Obligation Bonds	15,170,000	5,653,002	20,823,002
<b>Total Debt Service</b>		<b>\$ 18,915,000</b>	<b>\$ 9,736,007</b>	<b>\$ 28,651,007</b>
<b>Letter of Credit and Remarketing Fees</b>				3,900,000
<b>Total, All Debt Related Payments</b>				<b>\$ 32,551,007</b>

(1) Variable Interest is estimated at: 1.50%

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

## CATEGORY

## PURPOSE

- |                                              |                                                                                                                          |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| ➔ <b>Capital Facilities Replacement</b>      | — Long-term replacements                                                                                                 |
| ➔ <b>Self Insurance/Emergency Repair</b>     | — Self-insurance for earthquakes and catastrophic loss beyond District's insurance coverage; unplanned emergency repairs |
| ➔ <b>Variable Rate Hedge</b>                 | — Mitigate impact of changing financial markets/conditions                                                               |
| ➔ <b>System Refurbishment's</b>              | — Fund annual replacement expenditures that extend the useful life of facilities                                         |
| ➔ <b>Environmental Compliance/Mitigation</b> | — Comply with changing environmental requirements                                                                        |
| ➔ <b>Rate Stabilization</b>                  | — 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 <span style="color: red;">▼</span>	\$ 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	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	\$ 83	



# 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 <sup>▼</sup>	\$ 20	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 <sup>▼</sup>	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	\$ 56	

