



# OPERATING BUDGET

## Fiscal Year 2010-2011

WEST BASIN MUNICIPAL WATER DISTRICT  
CARSON, CALIFORNIA  
[www.westbasin.org](http://www.westbasin.org)

*Providing a safe and reliable supply of high quality  
water to the communities we serve.*



**WEST BASIN MUNICIPAL WATER DISTRICT**  
CALIFORNIA



**OPERATING BUDGET**

Fiscal Year 2010-2011

Adopted June 1, 2010

Prepared by:  
Finance Department  
Margaret Moggia  
Chief Financial Officer



**WEST BASIN MUNICIPAL WATER DISTRICT**  
Fiscal Year 2010-2011 Budget  
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June 1, 2010

**TO THE BOARD OF DIRECTORS AND CUSTOMERS OF WEST BASIN MUNICIPAL WATER DISTRICT:**

West Basin Municipal Water District (West Basin) staff is pleased to present its FY 2011 budget, fiscal year July 1, 2010 to June 30, 2011. The development of this budget document is the result of the dedication and commitment of the West Basin Board of Directors and staff, focused and prepared to meet its mission of providing a safe and reliable supply of water to the communities we serve through solid financial management.

In 2008, West Basin's Board of Directors dedicated significant time and effort to developing a long-term vision for the agency to meet its commitments to its customers and communities. This was accomplished through the development of a new mission statement and Strategic Business Plan. The Strategic Business Plan focuses West Basin projects and programs on the key goals and objectives that define and measure our success. These goals are:

**Reliability** – Maintain a level of local water reliability that supports the regional economy, our community and customer agency needs.

**Workforce** – Develop and maintain a highly-qualified, motivated and productive workforce to accomplish West Basin's goals.

**Water Quality** – Provide high quality water that meets the needs of our customers.

**Environment** – Utilize environmentally sustainable and sound business practices in our projects, policies and actions.

**Customer/Community Services** – Provide for the needs of our customer agencies and the communities we serve in a way that reflects their needs.

**Communications** – Engage in effective two-way communication of West Basin's programs & policies with the customer agencies and communities we serve.

**Infrastructure** – Manage infrastructure to ensure reliability, manage risk, and maximize the useful life of facilities.

**Finance** – Manage finances to optimize the public's investment return & minimize risk.

The Strategic Business Plan provides continuous direction for each year's planning, budgeting, implementation, evaluation and reporting. As staff prepared this year's budget, they focused on achieving the goals and activities described within the plan.

As part of the process to redefine its vision, West Basin conducted a customer survey of its water purveyors (cities, private water companies and water agencies). Results from the survey indicated that West Basin's projects and programs are aligned to its customers' needs. This past year, West Basin management held focused meetings with customers to receive feedback on West Basin's water supply management. Meetings like these ensure that we remain focused on providing value to our customers and communities. From the initial survey conducted two years ago, the Board of Directors adopted five commitment statements, promises to our customers that describe the value West Basin provides to its customers. The commitments are based on the Strategic Business Plan and our customers' needs:

**Water Reliability** – West Basin is committed to innovative planning and investments to provide water supply reliability and drought protection.

**Water Quality** – West Basin is committed to providing safe, high quality water by meeting current and anticipated water quality requirements.

**Sound Financial and Resource Management** – West Basin is committed to efficient business operations, financial planning and asset management.

**Customer Service** – West Basin is committed to providing value by understanding and meeting the needs of our customers and the communities we serve.

**Environmental Stewardship** – West Basin is committed to sustainable and environmentally-friendly business practices.

### ***Water Supply Challenges***

As a municipal water district that wholesales water to 17 cities within the southwest area of Los Angeles, West Basin is concerned about local, regional and national water issues, especially the State Water Project and the Colorado River. For West Basin, imported water from these sources represents 66 percent of its water supply portfolio, with the remaining 34 percent of water needs met through water conservation, water recycling and groundwater pumping.

Significant coverage about water supply availability has permeated to the general public this past year through news media, newspapers and targeted radio, Internet and television messaging and campaigns. The issues range from environmental impacts and endangered species regulations to low water hydrology from the source water, affecting deliveries from both the State Water Project and the Colorado River, and all are critical to our region's water supplies. To ensure that Metropolitan Water District of Southern California (MWD), who imports water to Southern California, meets its water supply demands, MWD has promoted focused conservation messaging and a variety of conversations about water availability to ensure that water supply conditions today and in the future are sufficient to meet the demands of its constituents in Southern California, including the residents and businesses of West Basin's service area.

During FY 2010, West Basin passed through to its customer agencies imported water restrictions imposed by MWD. This mandatory conservation was necessary because of a combination of unfavorable factors, including three consecutive years of below-normal snow pack, environmental restrictions reducing the amount of water moving from Northern to

Southern California, and shrinking storage reserves. West Basin's customer agencies have been successful in reducing imported water use by promoting water use efficiency and increasing groundwater production and recycled water use when available. Retail use of imported water has declined 7 percent over the past fiscal year, and 23 percent since FY 2007.

Despite average snow pack over the past winter, MWD has extended the imported water rationing in Southern California through FY 2011. This is primarily because environmental restrictions remain in place and storage reserves are only half full. Uncertainty regarding a long-term solution for balancing water supply reliability and ecosystem restoration in the Sacramento-San Joaquin Bay Delta (Bay Delta) means that West Basin must continue to aggressively pursue water supply diversification through conservation and development of new, locally-produced supplies. Continued expansion of the recycled water system, and research and testing of ocean-water desalination technologies and practices are among the current opportunities being pursued to advance this mission. As a response to water supply restrictions and an ongoing need to support its infrastructure, the State of California will look to the voters to support a \$11.4 billion Water Bond in the near term.

With the news about water shortages and the increased need to support conserving water, West Basin experienced a decline in its water sales. Unlike past years, this decline impacted water deliveries less than the budgeted demand. As a result, West Basin has modified its budgeting approach for imported water deliveries to adjust to the current state of water availability, the allocation, and the increased need to conserve water.

In addition to imported water challenges, West Basin also experienced declines in its recycled water sales. From scheduled maintenance at refineries to source water quality issues impacting anticipated deliveries to several of its customers, West Basin recycled water deliveries are also expected to be lower than budgeted demands. West Basin addressed the FY 2011 budget more conservatively and assumed that deliveries will be 90-95 percent of actual water deliveries from the previous fiscal year.

### **Financial Market and State Budget Challenges**

Once again, the State of California addresses another deficit budget. The 2010 projected deficit is \$19 billion. West Basin is not directly impacted by suspensions or diversions of sales, gasoline or other taxes as West Basin's programs are not funded by these sources. West Basin's services and programs, however, are funded from the direct rates and charges set by its Board of Directors. West Basin receives grant funding for some programs from the State of California and, to address the potential impact of loss or delay of funding, continues to review its conservation programs to create efficiencies and scale back where possible.

The financial market continues to fluctuate with news about the U.S. economy and, more recently, the European market. The economic difficulties of some countries has caused concern among international investors and European banks that provide liquidity to many agencies and businesses here in the United States. From an investment standpoint, rates continue to be at low levels as investor flight to U.S Treasuries increases. As a result, West Basin anticipates lower interest earnings in FY 2011.

Other significant economic issues such as the continued decline in real estate values and loss of jobs continue to impact local communities. West Basin's mission of delivering safe and reliable water is not directly or significantly impacted by these factors. Families and businesses need this vital resource and changes to populations, foreclosures, or closed businesses do not directly impact West Basin as they might other public agencies such as education, public safety, health, parks or other community services. Water industry challenges from reduced sales are the result of ongoing and effective water conservation campaigns to be more efficient with our water use which are helping to address the water availability and environmental challenges described above.

## **Other challenges**

### *Water Quality*

Over the past year, unanticipated changes in source water quality for recycled water have required additional time and resources to stabilize the delivery of secondary effluent water. Several times during the year, turbidity levels have spiked, impacting recycled water operations, shutting down service to key customers and causing operational challenges for equipment. Staff has developed a number of solutions to address these issues, including additional chemical treatments, pilot testing new approaches and more frequent cleaning and/or replacing fouled membranes to chart a course of action that will help stabilize the source water and allow for more consistency in West Basin's recycled water production.

### *Aging Infrastructure*

In addition, facility maintenance of West Basin's recycling facilities caused a significant rise in recycled water operations costs during FY 2010 which is anticipated to continue in FY 2011. West Basin's water recycling facility is 15 years old and has begun to age, with several original key components now requiring replacement. The Capital Implementation Master Plan (CIMP), currently being implemented, addresses these issues and provides a framework for West Basin's financial model and, ultimately, its Long Range Financial Plan.

### *Wholesale Water Rate Increases*

MWD member agencies, including West Basin, regularly challenge MWD staff to keep rate increases to a minimum. Last year, MWD estimated that rates would need to increase 20 percent in January 2011 to achieve a full cost of service (paying for increased imported water rates through the cost of services provided). As changes in cost drivers became known, MWD reduced the January 2011 increase to 12 percent, followed by a smaller rate increase for 2012. With persistence by member agencies to further reduce rate increases, MWD's Board of Directors reduced, and ultimately approved, a rate increase of 7.5 percent in January 2011 and January 2012, while still achieving a full cost of service.

As MWD continues to address its own budget issues and rates, MWD member agencies continue to debate what role, if any, MWD should play in providing conservation incentives for local residents and businesses. While the need for consistent regional conservation messaging remains, the conservation budget has remained flat and, as a result, MWD has revised its conservation incentive program by re-allocating a portion of the conservation budget to each member agency. This resulted in a loss, or reduction, in incentives on conservation devices for West Basin. Given this reduced funding, West Basin reviewed its Conservation Master Plan and made adjustments to the implementation of many of its

programs. Seeing conservation and water efficiency as a priority, West Basin's Board of Directors approved an additional \$1 on its rates to fund a significant water efficiency program. The High-Efficiency Toilet Exchange (HET) program provides tangible, measurable results in our conservation efforts and that reduces demand for imported water in our service area by 20 million gallons each year. The HET Program is a community event in which residents bring their old toilet and exchange it for a new, free high-efficiency toilet that helps residents easily save water at home. West Basin continues to work with the State of California and MWD to secure funding for its programs and is optimistic that, once their current financial issues are worked out, they will again offer important grant and incentive funding for programs that promote and achieve water conservation.

### ***Making West Basin's Water Supply More Reliable***

In response to water availability concerns, West Basin has developed a Water Reliability 2020 program and continues to improve local water reliability through a diversified water supply portfolio with more local control of production. West Basin built, owns and operates a world renown recycling facility that is recognized as one of only six National Centers for Water Treatment Technologies in the U.S. West Basin has also been recognized by its peers for its innovative planning and program development such as:

- implementation of a Conservation Master Plan that will double our water conservation efforts in the next decade;
- free educational programs for school children that teach them where their water comes from and how to be good water stewards; and
- investments in testing and implementation of technologies and processes needed to desalt ocean-water to protect against future droughts and water supply cutbacks while also reducing energy consumption and protecting marine life.

In 1990, West Basin was 80 percent dependent on imported water. Today, through appropriate investment in recycling and conservation, West Basin is about 66 percent dependent. By 2020, through the Water Reliability 2020 program, we plan to reduce our dependence on imported water to roughly 33 percent through the continued expansion of water recycling, conservation, and education programs and adding desalted ocean-water to our water supply portfolio. It is imperative to our service area that West Basin continue to invest in water supply reliability programs that ensure that the nearly one million West Basin constituents have a reliable supply of water now and into the future.

West Basin's programs presented in FY 2011 are similar to those shown in prior years. No new programs were added; however, a change in FY 2009's organizational structure moved Conservation outreach programs to the newly renamed Public Information and Conservation department budget. Conservation costs were previously shown in the Resource Planning budget. For an accurate view of actual/projected results of Conservation figures, West Basin staff has regrouped the related costs to reflect comparative budgets.

Since 2006, staffing levels had remained consistent at 33 full-time equivalent positions. However, in FY 2010 one additional staff person was added to focus on Water Reliability 2020 outreach, bringing staffing levels to 34 full-time equivalent positions. In FY 2011, the Board

approved two additional staff – one engineering position will focus on capital projects and the other position will provide information technology (IT) or technology services for West Basin rather than continuing to outsource these functions.

To continue our progress with local water supply reliability for this service area, West Basin prepared two critical reports – the Local Resources Strategic Plan and the Capital Improvement Master Plan. These two reports assist management in identifying key expansions and options for various levels of reliability for the Board of Directors to consider. The Capital Improvement Master Plan will also assess the current infrastructure and identify the related costs for maintaining existing facilities. The information produced in these reports is critical to helping West Basin build reliability into its portfolio and protect against water supply restrictions and reductions.

Currently, West Basin maintains a five-year outlook that focuses on anticipated water rate increases, projected operating expenditures and an assumption of capital project costs. With the emphasis on water supply reliability, West Basin will need to effectively plan for the necessary investment required to build and maintain the agency's capital infrastructure. Capital efforts will be supported by the development of the Long Range Financial Plan, intended to provide the following elements:

- a discussion on water supplies;
- financial forecast;
- debt management;
- risk factors; and
- comprehensive financial policies.

West Basin has created a financial model and Debt Management policy which will provide a foundation for the Long Range Financial Plan. Once complete, the Long Range Financial Plan and its elements will be communicated to West Basin's customers and stakeholders to demonstrate the value of West Basin's Water Reliability 2020 efforts in light of the increased costs in providing a safe and reliable supply of water for the region.

### ***West Basin Meeting its Commitments to Customers and Communities***

West Basin continues to be focused on meeting and addressing operational and fiscal challenges outlined above. Staff remains committed to meeting the goals and commitments established by the Board and have highlighted a few actionable efforts below:

#### **Water Reliability**

- Expand conservation efforts with businesses and residents through outdoor landscape programs, incentive rebates on hardware, and workshops and trainings.
- Continue to explore technology advancements at the Edward C. Little Water Recycling Facility.
- Continue Water Reliability 2020 outreach to explain the need for more local control and diversity of our water supplies to mitigate water shortages and future droughts.
- Implement a District-wide water supply allocation plan.
- Continue the advancement of ocean-water desalination research and testing through the demonstration facility currently in progress.

### **Water Quality**

- Continue working individually with each customer to address water quality or other operational issues.
- Implement recommended changes from the comprehensive water quality study for the water recycling system.
- Perform water quality analysis for the ocean-water desalination project.

### **Sound Financial and Resource Management**

- Continue to seek federal and state grants to offset costs for conservation or capital programs.
- Have a leadership role and actively participate in the Integrated Regional Water Management Plan (IRWMP) to collectively work with other agencies to bring state grant monies to the region.
- Enhance business operations through the competitive solicitation process, explore efficiencies in technology and enhanced reporting.

### **Customer Service**

- Continue expanding education programs of school age children from tours of the water recycling facility to Solar Cup team sponsorships and other education venues.
- Host annual Water Harvest to reach thousands of people in the community.
- Keep water purveyors informed of water reliability issues and water rates, both by MWD and West Basin.
- Work with federal, state and local legislators to promote, change or introduce legislation to support the common efforts of West Basin and its customers.

### **Environmental Stewardship**

- Continue to investigate alternative energy sources and safe withdrawal of ocean-water for desalination.
- Continue to partner with environmental organizations in our education and outreach programs.

More specific accomplishments for FY 2010 and a preview to FY 2011 are described in each operating program area. The capital efforts are described in the supplemental section.

## ***Success through Sound Financial and Resource Management***

### *Annual Budget and Process*

Annually, West Basin approves its one (1) enterprise fund operating budget. The executive level review describes how West Basin is performing and provides the detail on expected costs and programs for the upcoming fiscal year. West Basin's budget efforts are tied to its Strategic Business Plan. A further discussion on the budget process and timeline is described in the "Budget and Timeline" section. In addition, the "Operating Expenses" section reflects a direct connection from the Strategic Business Plan to the accomplishments and preview for the year. On a quarterly basis, the Board of Directors receives an executive level comparison of budget to actual with a discussion of variances.

For FY 2011, West Basin has an operating budget of \$151,324,200 which represents an approximately \$1.3 million increase over last year's budget. This amount represents approximately \$89 million of pass-through costs for the purchase of imported water, \$23 million of net debt service and \$32 million in program costs including \$24 million for recycled water operations. Revenues equal expenditures as it is West Basin's policy to place the amounts required to achieve targeted, budgeted debt coverage of approximately \$7 million into Designated Funds. This amount is shown under the expenditures table.

#### *Credit Rating and Debt Coverage*

Strong credit ratings allow an agency to obtain low cost financing for its capital projects. As West Basin continues to meet its mission, it invests in an infrastructure that supports diversifying its local projects to achieve water reliability for its customers. To achieve strong credit ratings, West Basin has internally set budgeted debt coverage goals, reviews its policies, and updates rates as appropriate. These efforts, along with demonstrating strong, consistent financial performance, allow West Basin to save our customers money on water rates.

West Basin received a recalibration from Moody's to an Aa2 and Standard & Poor's credit rating remains at AA-. As outlined in the Strategic Plan, it is a priority for the Board of Directors to maintain or improve West Basin's credit rating. West Basin will establish its revenues and expenses to meet targeted budget debt coverage at each lien level and total debt. In addition, the development of the Long Range Financial Plan and other key financial policies will aid West Basin in maintaining itself as a financially sound organization.

#### *Funding and Rate Projections*

As a single enterprise fund, West Basin's major source of funding is the commodity charge on its imported and recycled water sales, representing over 79 percent of total revenues. These sales enable West Basin to provide customers with more reliable, high quality water. West Basin continues to contribute value to its customers through recycling, conservation, planning, community outreach, legislative advocacy and effective operations and investments for the future.

For FY 2011, West Basin's Board of Directors adopted a \$15 increase in its water reliability charge; recycled water rates will increase per customer agreement or will increase in line with the West Basin non-interruptible tier 1 effective rate; a \$6/cubic foot per second in its water service charge; and passing through the average 7.5% increase in the imported water commodity charge and a \$31/AF increase in the readiness-to-serve charge from MWD. In addition, the Board of Directors approved the annual standby charge collection that brings \$9.6 million to support West Basin's water recycling facilities. A more thorough discussion of these various funding sources is located in the "Source of Revenue" section.

Over the past year, West Basin developed a dynamic financial model and plans to incorporate many of the assumptions and information from other master plans into the Long Range Financial Plan. As West Basin focuses on developing more locally controlled water, the financial model will assist in the development of future rate increases. West Basin will continue to develop additional financial policies that will direct West Basin's continued expansion, protection and maintenance of its assets. At present, West Basin has an Investment Policy, Designated Funds Policy, and Debt Management Policy. In FY 2011, West Basin's

priority will be to develop a Swap Policy. In addition, West Basin participates in a MWD workgroup where participating member agencies evaluate the fiscal impact of their business decisions to individual agencies. As new information is presented, West Basin works with its customer agencies to ensure the increases are appropriate to address water supply reliability.

Once again this year's budget has been challenging, yet rewarding, to compile. California's water industry is politically, environmentally and operationally challenged by fiscal and physical constraints and delivering a safe and reliable supply of water requires prudent planning.

West Basin is cognizant that the State's short- and long-term fiscal challenges and risks have an impact on its customers and is addressing these complex issues in a systematic, comprehensive manner. The agency undertakes its role as a wholesale provider of imported water, producer of recycled and desalinated water, manager of conservation and education programs, and planner of meeting future water and water infrastructure needs while managing rate increases, diversifying water sources, and addressing operational risks. Rate increases have been carefully considered and communicated to our customers.

West Basin is committed to demonstrating the value of its services and programs and will continue to work with its customers and other stakeholders to ensure that rate increases are mitigated to the greatest extent possible to continue delivering a safe and reliable supply of water to the communities we serve.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard Nagel", written in a cursive style.

Richard Nagel  
General Manager



The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to West Basin Municipal Water District, California, for its annual budget for the fiscal year beginning July 1, 2009. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements and we are submitting it to GFOA to determine its eligibility for another award.

## ABOUT WEST BASIN

### West Basin Municipal Water District

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### Mission Statement

*To provide a safe and reliable supply of high quality water to the communities we serve.*

### BACKGROUND

West Basin Municipal Water District (West Basin) is a special district of the State of California. West Basin is an innovative public agency that provides drinking and recycled water to its 185-square mile service area (see Service Area Map). West Basin purchases imported water from the Metropolitan Water District of Southern California (MWD) and wholesales the imported water to cities, water agencies, and private water companies in coastal Los Angeles County. To protect our local groundwater aquifer from seawater intrusion, West Basin provides water for injection into the South Bay's seawater barriers. Consistent with expanding our portfolio of locally produced water to ensure reliability, West Basin invests in research and testing of ocean-water desalination that will one day supplement our local water supply.

West Basin is a recognized leader in the production of recycled water, and our conservation and education programs are fundamental to West Basin's diverse water portfolio. Our water recycling program produces more than 30 million gallons of high-quality water every day using various

### West Basin's Commitments to Our Customers and the Communities We Serve

#### WATER RELIABILITY

West Basin is committed to innovative planning and investments to provide water supply reliability and drought protection.

#### WATER QUALITY

West Basin is committed to providing safe, high quality water by meeting current and anticipated water quality requirements.

#### SOUND FINANCIAL AND RESOURCE MANAGEMENT

West Basin is committed to efficient business operations, financial planning and asset management.

#### CUSTOMER SERVICE

West Basin is committed to providing value by understanding and meeting the needs of our customers and the communities we serve.

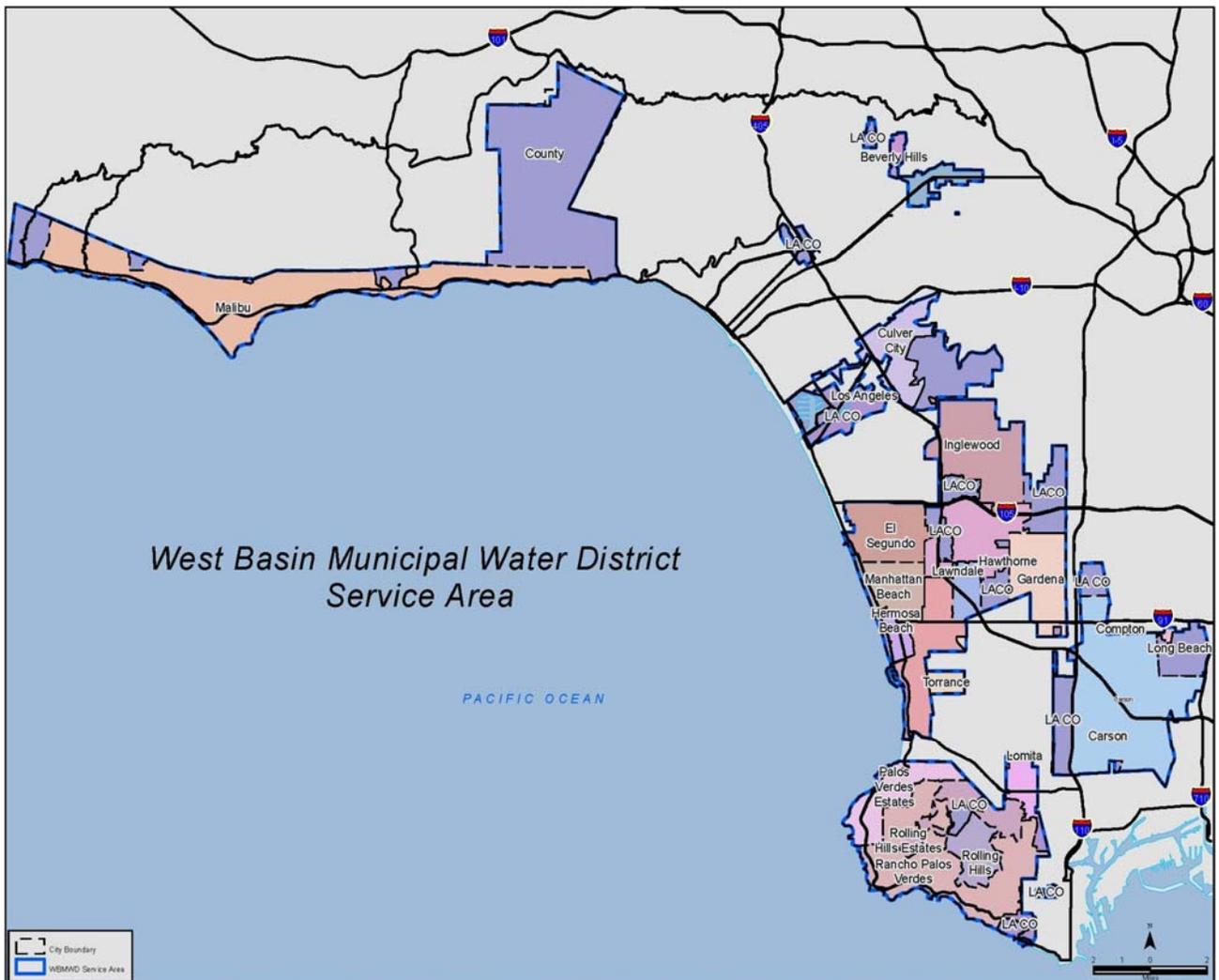
#### ENVIRONMENTAL STEWARDSHIP

West Basin is committed to sustainable and environmentally friendly business practices.

treatment levels and processes. Our water conservation program provides *free* water audits, retrofits commercial kitchens and residential sprinklers, and teaches residents about water-efficient and environmentally-friendly landscaping. West Basin’s vibrant education program hosts thousands of school children each year at our water recycling facility, holds an annual water awareness art contest, sponsors high school solar cup boat-building teams, and hosts a higher education water career scholarship program.

Supplies of imported water from the Sacramento-San Joaquin Bay Delta and the Colorado River have been severely cut back in recent years due to climate change, increased regulation and environmental restrictions. West Basin’s response to this challenge is our Water Reliability 2020 Program (WR 2020). Started in 2008, its goal is to reduce our region’s dependence on imported water from 66% to 33% by the year 2020. In pursuit of that goal West Basin is expanding its production of recycled water, doubling conservation, and adding desalted ocean-water to its water supply portfolio to control more of our water supplies locally. WR2020 has 3,000 supporters and is steadily growing thanks to extensive public outreach at all levels of West Basin’s operations.

### WEST BASIN SERVICE AREA MAP



## Service Area

West Basin Municipal Water District serves a diverse population of nearly a million people living and working in 17 cities and parts of unincorporated coastal Los Angeles County. West Basin has a 3:1 resident-to-business ratio and an average median income of \$67,000. The community diversity ranges from approximately \$23,000 in Westmont to approximately \$200,000 in Rolling Hills (Source: 2000 census). Our service area presents unique challenges in meeting a wide variety of needs, from a diversity of residences and sizes of yards to varying types of industrial and commercial enterprises.

Five publicly elected directors govern West Basin's Board of Directors. Voters in each of the five divisions elect one director to serve a four-year term. The West Basin Board then appoints two representatives to serve on the 37-member MWD Board of Directors.



***Division I: Director Ronald C. (Ron) Smith***

Representing Carson, Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates, Rolling Hills



***Division II: Director Gloria D. Gray***

Representing Inglewood, South Ladera Heights, Lennox, Athens, Howard and Ross-Sexton



***Division III: Director Carol W. Kwan***

Representing Hermosa Beach, Lomita, Manhattan Beach, Redondo Beach, and Torrance



***Division IV: Director Edward C. Little***

Representing Culver City, El Segundo, Malibu, West Hollywood, North Ladera Heights, Del Aire, Topanga, View Park, Windsor Hills, and Lennox



***Division V: Director Donald L. Dear***

Representing Gardena, Hawthorne, Lawndale, and El Camino Village

## History of West Basin

As early as 1918, the levels of the groundwater basins were dropping so low that salt water from the ocean was seeping into the basins, contaminating the groundwater. Lawns in the South Bay were dying, and well water often wasn't drinkable. In the 1940s, studies showed that our groundwater aquifer was being depleted at a much faster rate than it was being recharged. Each year, the aquifer was being over-drafted by millions of gallons.

At that time, one solution was to supply the region with imported water through Metropolitan Water District of Southern California (MWD). In 1947, West Basin was formed by the vote of the people to serve as a wholesale agency to distribute water throughout its service area. A year later, West Basin became a member agency of MWD, an agency that imports water from the Colorado River and Northern California, and for almost four decades, West Basin served its communities solely as a water wholesaler. As a result of the extreme drought of the late 1980's and early 1990's, West Basin evolved into an agency that does much more than distributes imported water.

Today, West Basin is focused on water reliability for the region, delivering a diverse supply of water that includes imported, recycled, desalted and conserved sources. West Basin invested in the research and use of new technologies, alternative energy sources, and conservation and outreach programs. Working with teachers and school children, West Basin is educating the next generations about water use, supply, local production, and careers in the water industry.

### RELIABILITY MILESTONES

**1991:** West Basin and the City of Los Angeles reach agreement to deliver treated sewage water from Los Angeles' Hyperion plant to a new Water Recycling Facility in El Segundo for further treatment and delivery for commercial, municipal and industrial uses.

**1993:** West Basin begins treating brackish water from a saline plume trapped in the West Coast Groundwater Basin.

**1994:** West Basin Hyperion Pump Station is built to pump water to the facility.

**1995:** Water Recycling Facility construction is complete and delivers water to its first customer.

**1997:** Phase II of the Water Recycling Facility is complete, expanding production capacity of tertiary water and barrier water.

**1999:** West Basin completes construction of the Juanita Millender-McDonald Regional Water Recycling Facility in Carson, the first on-site, ultra-purification treatment plant in the nation.

**2000:** Phase III of the Water Recycling Facility expands the capacity of the micro-filtration and reverse osmosis treatment facilities.

**2001:** Construction is complete on the first lateral of the Harbor/South Bay Water Recycling Project, designed to conserve more than 16 billion gallons of water.

**2004:** Construction begins on Phase IV Expansion of the Water Recycling Facility.

**2005:** West Basin Water Recycling Facility celebrates its 10<sup>th</sup> Anniversary.

**2007:** Construction is complete on the Phase IV Expansion, which increases recycled water production at the plant by 15 million gallons per day.

**RELIABILITY MILESTONES (CONT.)**

**2007:** West Basin Board of Directors votes to rename the facility the Edward C. Little Water Recycling Facility in honor of Director Little's commitment and contribution to water reliability.

**2007:** Planning begins on the Phase V Expansion of the Edward C. Little Water Recycling Facility to increase production capacity by at least 5 million gallons per day.

**2008:** West Basin Board certifies Environmental Impact Report (EIR) for temporary ocean-water desalination demonstration facility.

**2009:** California Coastal Commission and Regional Water Quality Control Board approve West Basin ocean-water desalination demonstration facility permits, allowing construction to proceed at SEALab in Redondo Beach.

**2009:** West Basin completes Capital Improvement Master Plan

**2009:** West Basin completes Phase V Capital Improvement Plan.

**2009:** West Basin and Water Replenishment District sign agreement to serve 100% recycled water to the West Coast Barrier.

**2010:** Desalination Demonstration project under construction, to be complete in fall 2010.

West Basin began investing in the local production of water in the early 1990's by building a water recycling facility that would turn treated wastewater into high-quality recycled water suitable for irrigation, municipal, industrial and commercial uses. The benefits generated by our water recycling facility include more affordable water rates for customers, a reliable, locally-controlled supply of recycled water, saving money and energy by not needing to use higher cost imported water from MWD, reducing wastewater and biosolids going to the ocean and turning waste water into a usable water resource.

The drought of the 1990's also increased awareness about water conservation and led to West Basin's addition of conservation as a new water supply. West Basin currently offers free indoor and outdoor programs for residents and businesses to reduce water use and maximize water use efficiency. Through the addition of its Water-Efficient Demonstration Garden, West Basin has created a teaching tool for the community to learn about water-efficient landscaping practices, rain and runoff capture systems, native, drought-tolerant plant species, permeable paving, mulching, and swaling, while reducing its landscaping water use by 80%.

West Basin is currently executing a Board adopted Strategic Business Plan, with the goal of building reliability into our local water supply. Through our Board-adopted

WR 2020 Program, we are currently expanding our production of locally-produced water by doubling water recycling and conservation programs and adding ocean-water desalination. West Basin continues to invest in our staff, operations and programs to maintain high standards within our workforce and reach out to the community even more through conservation outreach, education, community banking, local business opportunities and other programs focused on the needs and talents of our service area.

## *Water Recycling*

In 1992, West Basin received federal funding to implement a water recycling program. Three years later, West Basin completed the construction of the West Basin Water Recycling Facility (WBWRF), a water treatment facility in the City of El Segundo that takes wastewater that would otherwise be dumped into the ocean and purifies it into a usable resource.

West Basin's water recycling facility is named the Edward C. Little Water Recycling Facility (ECLWRF) to honor the 6-term commitment made to West Basin and our constituents by Director Edward Little. The ECLWRF is a world-class, state-of-the-art facility that is the largest of its type in the world. Working with customers like Toyota, ExxonMobil, bp, Chevron, Goodyear, Home Depot Center, and Water Replenishment District, West Basin has built a one-of-a-kind water recycling program with the capacity to expand throughout our service area.

This facility produces more than 30 million gallons of recycled water every day for 362 customers. Uses of recycled water include irrigation, boiler feeds, cooling towers, street sweepers and injection into seawater barriers to prevent our local groundwater supplies from being contaminated by the ocean.

This world-class water purification facility produces five types of "designer" waters to serve specific customer needs for various uses, including golf courses, professional soccer fields, street sweeping, restrooms, boilers, cooling towers and other commercial, municipal and industrial uses. All five (5) types of designer water meet the treatment and water quality requirements specified in the California Department of Public Health's Water Recycling Criteria and permitted by the Los Angeles Regional Water Quality Control Board.

- **Tertiary Water:** Secondary treated wastewater that has been filtered and disinfected for a wide variety of industrial and irrigation uses.
- **Nitrified Water:** Tertiary water that has been nitrified to remove ammonia for industrial cooling towers.
- **Reverse Osmosis Water:** Secondary treated wastewater pretreated by micro-filtration, followed by reverse osmosis (RO) and disinfection (UV / peroxide treatment) for groundwater recharge, which is superior to state and federal drinking water standards.
- **Pure Reverse Osmosis Water:** Secondary treated wastewater that has undergone micro-filtration and RO for low-pressure boiler feed water.
- **Ultra-Pure Reverse Osmosis Water:** Secondary treated water that has undergone micro-filtration and two passes through RO for high-pressure boiler feed water.

In addition to providing recycled water for commercial and industrial uses, high-quality recycled water produced by West Basin is blended with potable water and injected into the South Bay's groundwater basin to prevent seawater intrusion into our local aquifers. The seawater west coast barrier is a series of injection wells positioned like a dam between the ocean and the groundwater aquifer. These wells inject water along the barrier to

ensure that the water level near the ocean stays high enough to keep the seawater from seeping into the aquifer. There are two seawater barriers that receive West Basin's recycled water: the Dominguez Gap Barrier and the West Coast Basin Seawater Barrier. The Dominguez Gap Barrier is planned to receive approximately 50% each of recycled water and potable water. 75% of the West Coast Basin water is high-quality recycled water, mixed with 25% potable water. In April 2009, West Basin and the Water Replenishment District of Southern California signed an agreement to increase the amount of water supplied to the barrier to 100% by 2011. This step will eventually save 5.5 billion gallons of drinking water a year.

### *Water Quality*

Since 1989, West Basin has administered a groundwater quality testing program for the retail water agencies within its service area. The program assists local retail water agencies in complying with state and federal drinking water regulations at the wellhead. West Basin also ensures compliance with water quality requirements for the ECLWRF and ocean-water desalination pilot project. Each year, about 25,000 water quality tests are conducted at the ECLWRF.

### WHAT THE FUTURE HOLDS

As the population continues to increase within West Basin's service area, we continue to expand our programs to meet increasing water needs and to decrease our reliance on imported water. Meeting West Basin's long-term water supply objectives lies in managing demand through conservation and continuing to grow our local supply sources through ocean-water desalination and water recycling.

### *Ocean-Water Desalination*

In May 2002, West Basin initiated piloting efforts to desalinate ocean-water and evaluate its viability as a future water supply source for the region. Supported by various institutions and other interested parties including water agencies and agricultural associations, West Basin began a \$1.5 million desalination research pilot project in El Segundo. After five years of data collection and studies, West Basin has identified optimal operating parameters for ocean-water desalination and is expanding desalination efforts into a demonstration-scale facility to test full-scale equipment at the SEA Lab facility in Redondo Beach. In spring 2009, the California Coastal Commission overwhelmingly approved West Basin's plan to proceed with a demonstration-scale facility to further its research and testing efforts on environmentally-friendly intake technologies and energy recapture. A Temporary Ocean-Water Desalination Demonstration Facility with scheduled construction completion in fall 2010, will process 550,000 gallons of seawater per day. This Demonstration Facility will develop a basis of design for full-scale operations, evaluate performance of alternative energy practices and technology, analyze water quality, and evaluate integration with local potable water systems. The Demonstration Facility will test the viability of a future, full-scale desalination plant capable of providing 6.5 billion gallons of potable water, enough to supply 40,000 families for a year.

## Water Recycling Projects

A significant aspect of West Basin's Water Recycling Program is the development of the Harbor/South Bay Water Recycling Project, a partnership between West Basin and the U.S. Army Corps of Engineers that includes more than 16 projects with nearly 60 miles of pipeline. To meet the increased demand on the system brought on by the construction of the Harbor/South Bay Water Recycling Project and the 75% Seawater Barrier Project, West Basin recently completed the \$54 million Phase IV Expansion Project at the ECLWRF. The Phase V Expansion Project is in the planning and design phase. Phase V includes expansion at ECLWRF to increase high-quality recycled water production for the Seawater Barriers.

Overall, the Harbor/South Bay Water Recycling Project is scheduled for completion in 2012 and is expected to conserve more than 3.2 billion gallons of recycled water annually. In 2009, West Basin received \$5.2 million in federal stimulus funding and \$2.9 million in federal appropriations to continue expanding the Harbor/South Bay recycled water project.

To assist in long-term implementation of West Basin's capital facilities, an updated Capital Improvement Program Master Plan (CIP) has been developed to address the recycled water supply objectives and provide a roadmap for future capital facilities. The CIP Master Plan updates the hydraulic system model, evaluates recycled water service opportunities, identifies potential required capital facilities to meet West Basin's objectives, and develops implementation schedules, costs, and priorities.



Rendering: West Basin Water Education Center at the Ocean-Water Desalination Demonstration project, SEA Lab, Redondo Beach, CA, scheduled to open in fall 2010.



West Basin provides free public tours of its water recycling facility on the second Saturday of each month.

## Recycled Water Customer Usage For the Fiscal Year Ended June 30, 2009



- Other Uses \*
- Cemetery (1) 165.3 million
  - Multi-industrial / irrigation uses (2) 30.0 million
  - Construction uses (1) 81 thousand
  - Street Sweeping (1) 6.5 thousand
  - College (3) 91.8 million
  - Draining / Sump Pumps (3) 3.1 million

Source: Planning Department

## **BUDGET PROCESS AND TIMELINE**

Public agencies develop budgets as a performance tool to measure accountability to its stakeholders. The budget shows how an agency invests its revenues derived from user fees and fixed revenue sources to support its mission and its programs. The budget is also used as a communication tool. Interested parties, such as bond holders, credit rating agencies, and its customers, can review the budget to obtain a wide variety of information on West Basin's short- and long-term strategic planning, financial policies, as well as the current and future fiscal stability. West Basin develops its annual budget based on the priorities, goals, and objectives established by the Board of Directors. Each fiscal year, these priorities, goals, and objectives are communicated to the General Manager through a Strategic Business Plan scorecard update. The Strategic Business Plan was developed through a series of interviews with the Board of Directors, management, key staff and interviews with key stakeholders. The Strategic Business Plan provides direction for planning, budgeting, implementation, evaluation and reporting.

The General Manager communicates the goals and objectives with his senior staff to ensure the budget includes the monetary requirements necessary to achieve these goals and objectives set within the Strategic Business Plan. West Basin is not required to adopt a budget and therefore does not appropriate its fund. However, as a good business practice, West Basin does prepare, adopt, monitor, and report budgeted information.

West Basin develops its budget to achieve the following three objectives:

1. Achieve targeted debt coverage
2. Present a balanced budget
3. Address risks and plan for future budget implications

### **Budget Basis**

The budget for West Basin is kept on an accrual basis. Revenues are recognized when earned and expenses are recognized when incurred. West Basin also maintains its financial records on an accrual basis.

West Basin is a special district of the State of California and operates as a single fund, an enterprise fund. The enterprise fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results that pertain to a specific governmental activity. The activities of the enterprise funds closely resemble those of businesses and are substantially financed by revenue derived from user charges.

## **Budget Process and Timeline**

**December:** Management meets to discuss budgetary priorities and objectives for the coming fiscal year.

**January:** Each senior manager reviews their department's personnel needs for the next fiscal year and will allocate each of their department employee's time to the various programs. Their allocation is based on the personnel needs to help accomplish the goals and objectives provided in the Strategic Business Plan. Water sales projections and water rate assumptions are discussed with senior management, and incorporate water sales assumptions being made at the regional level. Budget versus actual reports for the current fiscal year is provided to each senior manager to assist in the preparation of a preliminary budget for their area of responsibility for the next fiscal year.

**February:** Data is received from each senior manager and is incorporated into West Basin's proposed budget. In particular, the General Manager requires staff to reflect where the Strategic Business Plan objectives are being funded. Senior managers provide their departmental projections for the current fiscal year. Staff reviews preliminary impact of the Capital Implementation Master Plan to determine the capital investment required to meet WR 2020 goals.

**March:** Senior managers and budget staff meet with the General Manager to discuss each program budget and its goals and objectives along with explanations for major variances from the prior year budget. The General Manager will make changes to the preliminary budget as needed. Staff submits a proposed balanced budget to the Board of Directors in a workshop format to review program costs reflecting that the proposed budget meets the goals and objectives provided in the Strategic Business Plan, demonstrate appropriate bond coverage levels for both senior and subordinate debt are achieved, and present a balanced budget that address risks that may have a future impact to West Basin. During the workshop, all staff members who participated in the development of the proposed budget are in attendance to present their respective budget. The Finance staff discusses the budget assumptions, labor needs, revenue requirements and debt coverage. This year's presentation evaluated different rate scenarios in anticipation of MWD's new rates, which were still being debated during that time. At this time, Board members may give direction or request changes to the proposed budget. Subsequent to the Board workshop, West Basin conducts a customer workshop to discuss its goals, the supporting budget and proposed rates.

**April:** Any changes requested by the Board of Directors and/or the General Manager are incorporated into the proposed budget. With a clearer direction on anticipated capital projects for ocean-water desalination and recycling, West Basin staff revisited the timing, the associated cost towards capital outlay and the debt requirements needed to fund these projects in the coming fiscal years. West Basin's Finance

Department incorporated the newly adopted MWD rates into the budget and evaluated the effects on its own rates and charges. Senior staff and budget staff submit budget text to support program costs, rates and other budgetary assumptions.

**May:** The Finance staff presents the final proposed budget at the Finance committee.

**June:** The recommendation for approval is taken to the Board of Directors to adopt the proposed operating budget for the next fiscal year beginning July 1. The Board of Directors also adopts the annual standby charge, water rates and charges.

### **Budget Review**

West Basin's budget monitoring process begins shortly after the prior year's budget is adopted. Each month the senior staff receives a budget versus actual report to review and assist them in monitoring costs. On a quarterly basis, the Finance staff presents an executive level budget versus actual report to the Board of Directors. In addition, other financial reports are presented monthly to keep the Board of Directors informed of sales, recycled water operations and general expenditures.

### *Amendments to the Budget*

The budget is amended when expenditures are anticipated to significantly exceed estimates. Budget amendments can also occur for expenditures seen as appropriate charges but were not anticipated in the budget process. Any amendments adding to the original budget are brought forward to the Board of Directors through staff reports. The staff reports describe why, how much and to which program budget require an amendment to the original budget. These approvals are discussed at Board meetings and require a majority vote of the Board of Directors in order to be incorporated. Upon approval, the Budget and Finance Officer updates the budget and financial system to reflect the approved change.

**West Basin Municipal Water District  
Fiscal 2010-2011 Budget Calendar**

DECEMBER							JANUARY							FEBRUARY							MARCH							
Su	M	T	W	Th	F	Sa	Su	M	T	W	Th	F	Sa	Su	M	T	W	Th	F	Sa	Su	M	T	W	Th	F	Sa	
		1	2	3	4	5							1	2		1	2	3	4	5	6		1	2	3	4	5	6
6	7	8	9	10	11	12	3	4	5	6	7	8	9	7	8	9	10	11	12	13	7	8	9	10	11	12	13	
13	14	15	16	17	18	19	10	11	12	13	14	15	16	14	15	16	17	18	19	20	14	15	16	17	18	19	20	
20	21	22	23	24	25	26	17	18	19	20	21	22	23	21	22	23	24	25	26	27	21	22	23	24	25	26	27	
27	28	29	30	31			24	25	26	27	28	29	30	28							28	29	30	31				
							31																					

APRIL							MAY							JUNE							
Su	M	T	W	Th	F	Sa	Su	M	T	W	Th	F	Sa	Su	M	T	W	Th	F	Sa	
					1	2	3							1			1	2	3	4	5
4	5	6	7	8	9	10	2	3	4	5	6	7	8	6	7	8	9	10	11	12	
11	12	13	14	15	16	17	9	10	11	12	13	14	15	13	14	15	16	17	18	19	
18	19	20	21	22	23	24	16	17	18	19	20	21	22	20	21	22	23	24	25	26	
25	26	27	28	29	30		23	24	25	26	27	28	29	27	28	29	30				
							30	31													

**Date**

**Activity**

December 15, 2009      Budget focus/strategic planning meeting

January 12, 2010      Submit Staff labor Allocation

January 22, 2010      Sales Projections (AF) due

January 29, 2010      Submit operating program and capital budgets

February 26, 2010      Submit FY 09-10 year-end projections for all operating program expenses.

March 1, 2010      Discuss water rates

March 18, 2010      Meet to discuss operating and capital budgets

March 25, 2010      Board workshop

March 31, 2010      Rate workshop with Purveyors

April 16, 2010      Submit Budget text

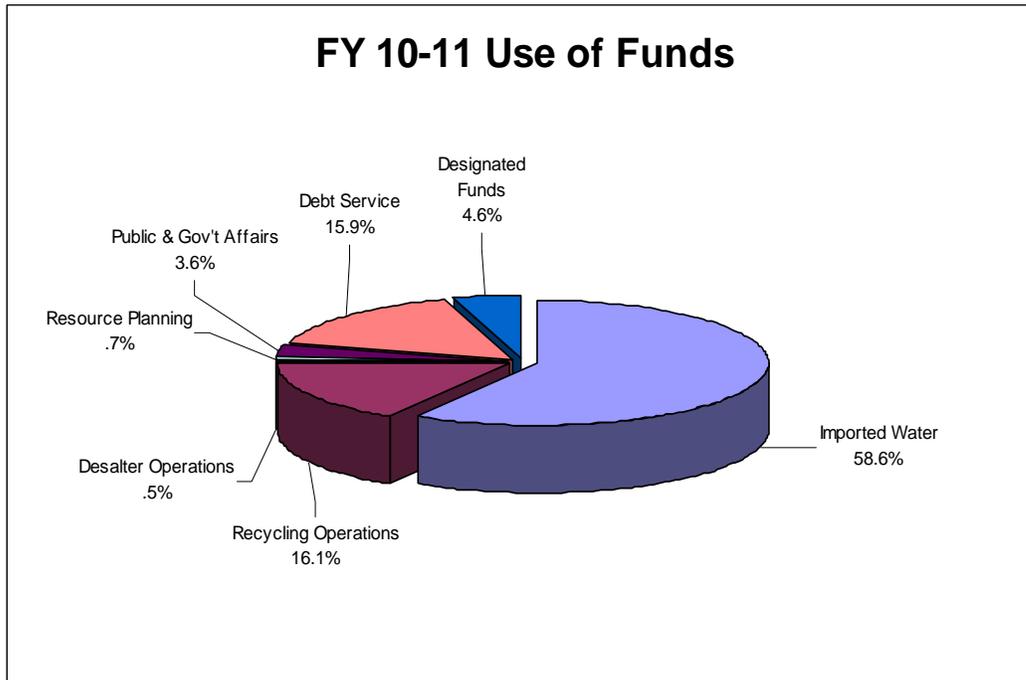
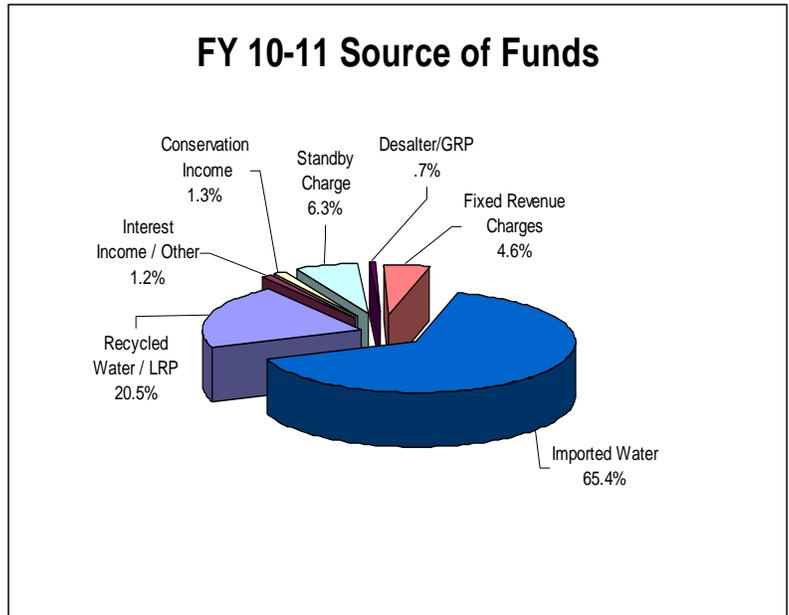
May 20, 2010      Present complete budget document in final draft form to the Finance Committee

June 1, 2010      Board Meeting  
 - Adopt WBMWD water rates and charges  
 - Adopt Standby Charge  
 - Adopt Budget

## FINANCIAL HIGHLIGHTS AND FORECAST

### FY 2011 Sources & Uses of Funds (Dollars in Thousands)

Source of Funds	Budget FY 2011
Imported Water	\$ 99,426
Recycled Water/LRP	31,216
Desalter Water/GRP	1,075
Standby Charge	9,675
Fixed Revenue Charges	6,959
Conservation Income	1,963
Interest Income/Other	1,010
<b>Total Sources of Funds</b>	<b>\$ 151,324</b>
<b>Use of Funds</b>	
Imported Water	\$ 89,154
Debt Service	23,485
Recycling Operations	24,448
Public Info & Conserv.	5,467
Designated Fund/Other	6,937
Resource Planning	1,060
Desalter Operations	773
<b>Total Uses of Funds</b>	<b>\$ 151,324</b>



## Staffing

Budget staffing levels for FY 2010 consisted of 34 full time equivalent budgeted positions; however, the FY 2011 budget does include two (2) additional staff for an IT coordinator and another position in the Engineering department.

The focus is to make appropriate moves between departments or reallocate positions that will best meet the needs of the organization. West Basin tracks its personal time by level of effort toward its various programs. See the table under "Use of Funds—Personnel Staffing by Program: Full Time Equivalent (FTE)", page 50.

## Projected Operating Results

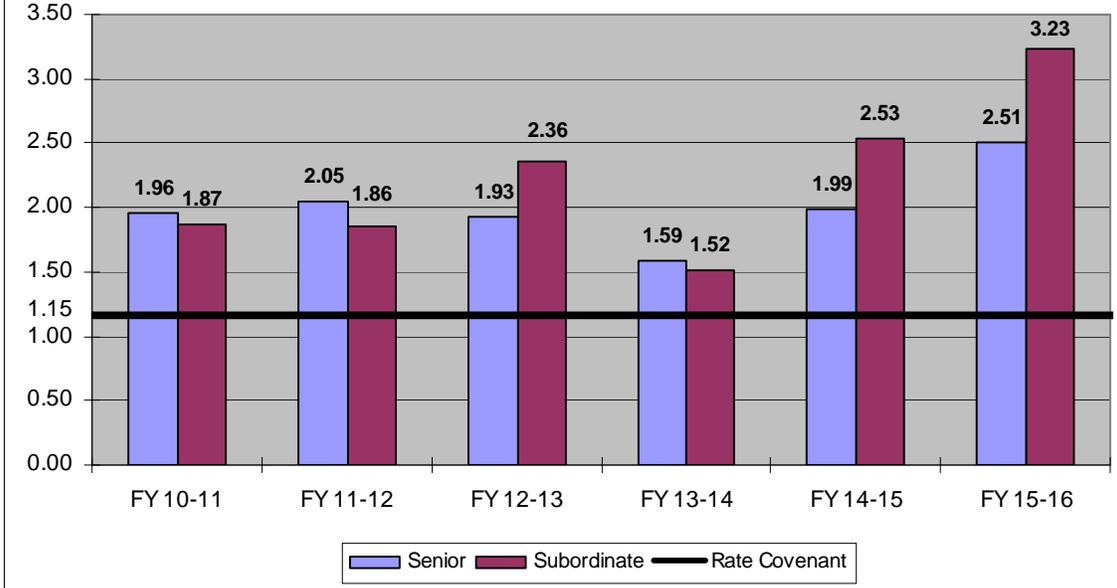
<b>WEST BASIN MUNICIPAL WATER DISTRICT PROJECTED OPERATING RESULTS</b>						
	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
<b>REVENUES</b>						
Water Sales	97,073,800	103,834,000	104,702,075	105,964,104	110,832,675	115,914,699
Water Service Charge	351,492	375,269	420,757	454,872	500,359	545,846
Capacity Charge	2,001,203	1,988,820	1,988,820	1,988,820	1,988,820	1,988,820
Recycled Water Project Revenues						
Recycled Water Sales	23,111,140	24,666,019	31,697,639	36,749,107	42,224,475	44,303,070
Fixed Revenue Charges	6,958,592	6,958,592	15,627,885	6,958,592	15,627,885	15,627,885
MWDLRP Rebate	8,105,053	8,230,053	9,730,053	9,730,053	9,730,053	12,055,053
Standby Charges	9,675,000	9,675,000	9,675,000	9,675,000	9,675,000	9,675,000
Other Revenues						
Desaltered Water Sales	805,140	855,360	904,419	949,640	997,122	1,046,978
MWD GRP Rebate	270,000	270,000	202,500	0	0	0
Interest Earnings/Other	1,009,500	1,315,993	1,514,133	1,464,071	1,307,155	877,805
MWD Conservation Credits	1,963,281	1,963,281	1,963,281	1,963,281	1,963,281	1,963,281
<b>Total Revenues</b>	<b>\$ 151,324,200</b>	<b>\$ 160,132,387</b>	<b>\$ 178,426,561</b>	<b>\$ 175,897,539</b>	<b>\$ 194,846,825</b>	<b>\$ 203,998,438</b>
<b>EXPENSES</b>						
Water Purchases/RTS from MWD	87,216,450	92,852,700	94,856,505	96,273,214	100,542,295	105,024,829
Capacity Charge	1,937,160	1,914,790	1,941,020	1,941,020	1,941,020	1,941,020
Program Expenses						
Recycled Operations	24,426,001	25,663,576	29,351,433	32,690,239	37,703,929	39,589,126
Desalter Operations	772,748	811,385	811,385	851,955	894,552	939,280
Resources Planning	1,060,111	1,113,117	1,113,117	1,168,772	1,227,211	1,288,572
Public Information and Conservation	5,467,193	5,740,553	6,027,580	6,328,959	6,645,407	6,977,678
Title 22 Water Quality Monitoring	22,026	23,127	23,127	24,284	25,498	26,773
Designated Funds/Other	6,937,423	7,596,806	12,314,015	4,665,445	13,814,515	20,237,812
Senior Debt Service						
2003 Installment Purchase Agrmt	12,480,821	12,483,340	12,480,399	12,484,982	12,478,642	8,852,471
Reserve Fund Interest Earnings	(761,867)	(761,867)	(761,867)	(761,867)	(761,867)	(761,867)
2008A Series	3,436,199	3,516,296	3,476,307	3,500,057	3,456,101	3,448,901
SWRCB Loan	361,945	361,945	361,945	361,945	486,499	0
Proposed Debt			7,375,913	7,375,913	7,375,913	7,375,913
Subordinate Debt Service						
2008B Series	7,967,990	8,816,619	9,055,681	8,992,621	9,017,110	9,057,931
<b>Total Expenses</b>	<b>\$151,324,200</b>	<b>\$160,132,387</b>	<b>\$178,426,561</b>	<b>\$175,897,539</b>	<b>\$194,846,825</b>	<b>\$203,998,438</b>
<b>NET REVENUES</b>	<b>\$ -</b>					
<b>Coverage - Senior Debt</b>	<b>1.96</b>	<b>2.05</b>	<b>1.93</b>	<b>1.59</b>	<b>1.99</b>	<b>2.55</b>
<b>Coverage - Subordinate Debt</b>	<b>1.87</b>	<b>1.86</b>	<b>2.36</b>	<b>1.52</b>	<b>2.53</b>	<b>3.23</b>
<b>Coverage - All Debt</b>	<b>1.30</b>	<b>1.31</b>	<b>1.38</b>	<b>1.15</b>	<b>1.43</b>	<b>1.72</b>

Planned capital expansion projects have been included in the above five-year projected operating results table either through draws from the Commercial Paper Program or expected long term financing. In addition, the operating expenses within the recycled operations shows an increase in expenses based on the timing of anticipated new sales.

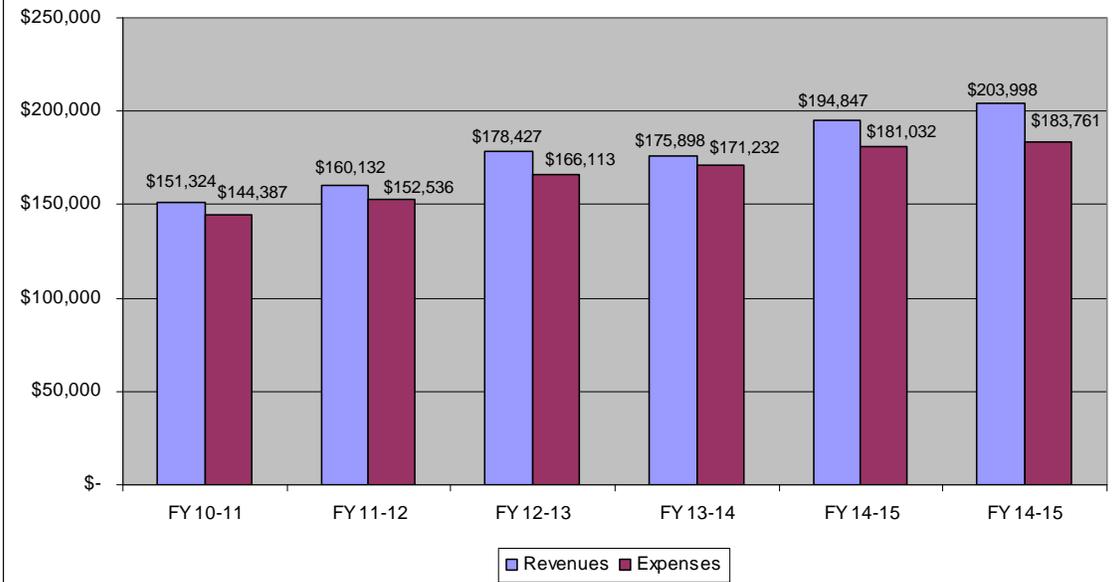
**WEST BASIN MUNICIPAL WATER DISTRICT  
ASSUMPTIONS**

	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
<b>Cost (Sales Price) of Water (\$/af)</b>						
MWD Treated NonInt - Tier 1 (Jul)	701	744	794	834	875	919
MWD Treated NonInt - Tier 2 (Jul)	811	869	920	951	992	1,036
MWD Treated NonInt - Tier 1 (Jan)	744	794	834	875	919	965
MWD Treated NonInt - Tier 2 (Jan)	869	920	951	992	1,036	1,082
MWD RTS Commodity Charge (Jul)	94	125	125	125	125	125
MWD RTS Commodity Charge (Jan)	125	125	125	125	125	125
MWD Seasonal Storage - L/T (Jul)	556	601	651	684	718	754
MWD Seasonal Storage - L/T (Jan)	601	651	684	718	754	791
MWD Seawater Barrier - Tier 1 (Jul)	701	744	794	834	875	919
MWD Seawater Barrier - Tier 2 (Jul)	811	869	920	951	992	1,036
MWD Seawater Barrier - Tier 1 (Jan)	744	794	834	875	919	965
MWD Seawater Barrier - Tier 2 (Jan)	869	920	951	992	1,036	1,082
Title 22 Within WB - Recycled Water	664	714	754	795	839	885
Title 22 - LADWP - Recycled Water	721	772	811	853	896	942
Title 22 - Torrance - Recycled Water	694	729	766	804	844	886
RO - Barrier - RW (1st 4,500AF)	-	-	945	988	1,033	1,080
RO - Barrier - Recycled Water	540	557	575	594	613	639
RO - Industrial - Recycled Water	914	960	1,008	1,058	1,111	1,167
RO - Industrial - Ultra - Recycled Water	1,270	1,333	1,400	1,470	1,543	1,620
Industrial - NH3 - Recycled Water	666	724	775	814	855	899
Reliability Service Charge - Treated	66	71	76	81	87	93
MWD LRP Rebate	250	250	250	250	250	250
Desalted Water (Jul)	724	767	817	858	901	946
Desalted Water (Jan)	767	817	858	901	946	993
MWD GRP Rebate	250	250	250	-	-	-
Capacity Charge - MWD	7,200	7,200	7,400	7,400	7,400	7,400
Capacity Charge - MWD (Jan)	7,200	7,400	7,400	7,400	7,400	7,400
Capacity Charge-Cust	6,350	6,350	6,350	6,350	6,350	6,350
Capacity Charge-Cust (Jan)	6,350	6,350	6,350	6,350	6,350	6,350
<b>SALES VOLUME (afy)</b>						
Treated Non Interruptible (Jul)	50,500	50,250	49,785	48,158	48,158	48,158
Treated Non Interruptible (Jan)	50,500	50,250	49,785	48,158	48,158	48,158
Seawater Barrier (Jul)	3,550	3,550	1,800	1,800	1,800	1,800
Seawater Barrier (Jan)	3,550	3,550	1,800	1,800	1,800	1,800
Recycled Water	32,420	32,920	39,850	44,035	48,220	48,220
Title 22 Within WB	6,790	7,020	7,020	7,020	7,020	7,020
Title 22 - LADWP	580	680	1,610	5,795	9,980	9,980
Title 22 - Torrance	6,240	6,410	6,410	6,410	6,410	6,410
RO - Barrier	10,500	10,500	16,500	16,500	16,500	16,500
RO - Industrial	5,400	5,400	5,400	5,400	5,400	5,400
RO - Industrial - Ultra	2,160	2,160	2,160	2,160	2,160	2,160
Industrial - NH3	750	750	750	750	750	750
Desalted Water (Jul)	540	540	540	540	540	540
Desalted Water (Jan)	540	540	540	540	540	540
Capacity Charge-MWD	275.8	262.3	262.3	262.3	262.3	262.3
Capacity Charge-MWD (Jan)	262.3	262.3	262.3	262.3	262.3	262.3
Capacity Charge-Cust	317.1	313.2	313.2	313.2	313.2	313.2
Capacity Charge-Cust (Jan)	313.2	313.2	313.2	313.2	313.2	313.2
<b>FIXED PAYMENTS</b>						
BP	1,641,000	1,641,000	1,641,000	1,641,000	1,641,000	1,641,000
Mobil NH3	334,000	334,000	334,000	334,000	334,000	334,000
Mobil (phase 2)	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460
Chevron Nitrification	1,009,800	1,009,800	1,009,800	1,009,800	1,009,800	1,009,800
Chevron Boiler Feed	2,192,796	2,192,796	2,192,796	2,192,796	2,192,796	2,192,796
LADWP	206,536	206,536	8,875,829	206,536	8,875,829	8,875,829
<b>TOTAL FIXED PAYMENTS</b>	<b>\$ 6,958,592</b>	<b>\$ 6,958,592</b>	<b>\$ 15,627,885</b>	<b>\$ 6,958,592</b>	<b>\$ 15,627,885</b>	<b>\$ 15,627,885</b>

**Debt Coverage  
Current and 5 year Projection  
FY 10-11 thru FY 15-16**



**Revenue and Expenses  
Current and 5 year Projection  
FY 10-11 thru FY 15-16  
(Dollars in thousands)**



## Designated Funds / Net Assets (Fund Balance)

West Basin has only one enterprise fund, and categorizes the funds as unrestricted or restricted. Unrestricted funds consist of undesignated (operating) funds and designated funds. Designated and undesignated funds can be used for any lawful purpose at the discretion of the Board of Directors. The monies held within designated funds can be shifted or re-allocated at any time at the Board of Directors' discretion. At this time, West Basin has identified the following designated funds: Facility Replacement Fund (which includes Capital Asset Replacement, Emergency Repairs, and System Enhancements), the PayGo Fund, the Rate Stabilization Fund, the Swap Termination Fund and the Bond Defeasance Fund.

Restricted funds consist of funds with external restrictions imposed by creditors, grantors, contributors, or by laws or regulations of government and can only be used for a designated purpose. Currently, West Basin's only restricted funds are the Bond Reserve Funds.

### *Net Assets Summary:*

	<u>Fiscal Year 2011</u>
Revenues	151,324,200
O &M Expenses (1)	134,336,777
Depreciation (2)	<u>16,200,000</u>
Total Expenses	150,536,777
Net Change	787,423
Beginning Net Assets June 30, 2010 (estimated)	<u>\$201,262,000</u>
Projected Ending Net Assets – June 30, 2011	\$202,049,423

- (1) Excludes principal payments of \$10,050,000 and anticipated designated funds of \$6,937,423 necessary for West Basin to achieve its targeted debt coverage.
- (2) Depreciation is not reflected in the budget as it is a non-cash item. The estimated amount is based on asset management records, and reflected in the calculation to appropriately reflect estimated Net Assets.

Net Assets may be impacted by non-cash items such as additions from financial support from the U.S. Army Corps of Engineers. For the purpose of the budget, West Basin does not reflect capital contributions as it is unknown what the value of projects that West Basin will receive from the U.S. Army Corp of Engineers' projects as they are constructed on behalf of West Basin. However, the non-cash contribution from the U.S. Army Corps of Engineers or other sources will be included as part of the actual calculation of Net Assets. For financial statement purposes at year end, Net Assets is broken down among unrestricted, invested in capital assets (net of related debt), and restricted for capital projects.

## SOURCE OF REVENUE

West Basin's primary source of revenue is water sales that comprise 86% of all revenues. Imported sales represents 65% and recycling sales represent 21% of all revenue sources.

West Basin wholesales imported water from MWD for municipal, domestic and groundwater replenishment uses and desalted brackish groundwater. In the early 1990s, West Basin initiated efforts to drought-proof the region by constructing recycled water distribution pipelines and facilities for industrial, commercial, and landscape irrigation sites throughout Coastal Los Angeles County. In FY 2010 the system served more than 362 sites. West Basin plans 20+ additional sites in FY 2011. To fund these construction efforts, West Basin imposes a standby charge. This annual charge to area residents generates roughly \$9,675,000. West Basin also receives fixed revenue charges from some industrial customers to defray some debt service incurred by West Basin to expand facilities at industrial customer sites resulting in a regional benefit.

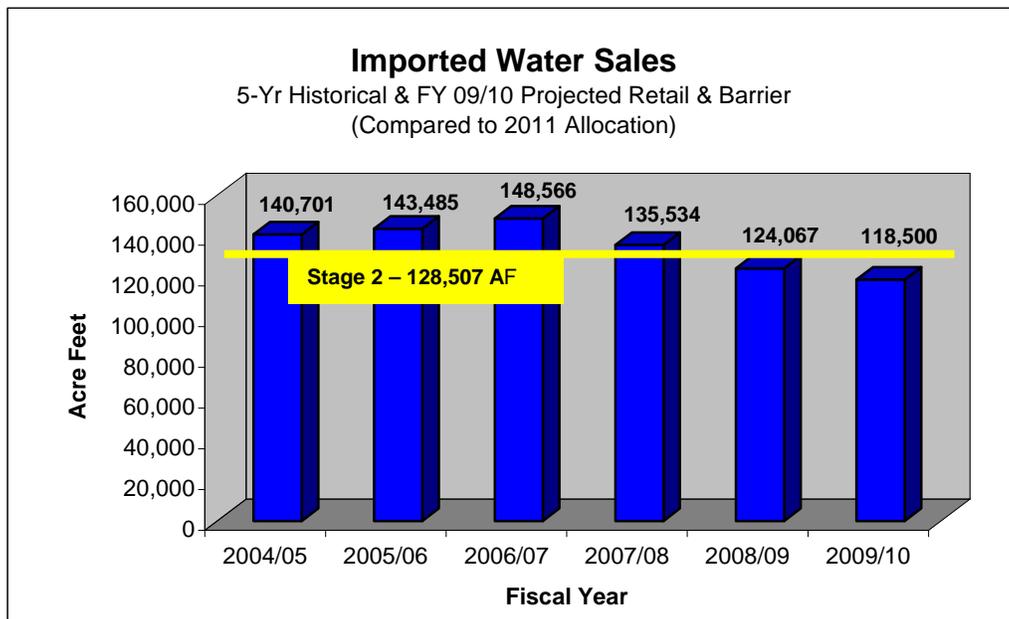
Summarized below is the actual, projected and budgeted sales from imported, recycled and Desalter sales, MWD capacity charges, standby charge, interest earnings, and conservation/grant income.

<u>Revenues</u>	<u>FY 2007-08 Actual</u>	<u>FY 2008-09 Actual</u>	<u>FY 2009-10 Projected</u>	<u>FY 2009-10 Budget</u>	<u>FY 2010-11 Budget</u>
<b>Imported Water Sales</b>	\$80,265,705	\$80,378,933	\$96,774,800	\$96,896,683	\$97,073,800
<b>Water Service Charge</b>	227,436	237,774	289,400	287,707	351,492
<b>Capacity Charge</b>	1,910,400	1,952,100	1,989,300	1,989,293	2,001,203
<b>Recycled Water / LRP</b>	22,890,482	23,599,078	28,178,000	28,362,610	31,216,193
<b>Fixed Revenue Charge</b>	8,271,124	7,952,748	7,510,800	7,135,592	6,958,592
<b>Desalter Water / GRP</b>	352,338	566,188	396,600	1,029,960	1,075,140
<b>General Fund Interest</b>	2,861,026	1,906,397	987,200	1,840,000	868,500
<b>Standby Charge</b>	9,365,443	9,701,131	9,675,000	9,600,000	9,675,000
<b>Conservation Income</b>	404,225	969,618	454,000	2,587,724	1,963,281
<b>Other Income</b>	241,492	242,997	543,000	137,000	141,000
<b>Total Revenues</b>	<b>\$126,789,671</b>	<b>\$127,506,964</b>	<b>\$146,798,100</b>	<b>\$149,866,569</b>	<b>\$151,324,200</b>

Over the past several years, fluctuations in revenues are the result of increased variability in three major revenue sources – potable sales, recycled water sales and conservation income.

The first major source of revenues is the imported water sales. Imported water sales vary based on hydrologic conditions, water demand and more recently on the water supply availability. These imported water sales were 136,000 AF in FY 2008, 124,000 AF in FY 2009, and projected sales of 118,500 AF for FY 2010. This continued decline in West Basin’s main source of revenue has led to an even more conservative approach in budgeting water sales for FY 2011. This decrease in demand is primarily a result of increased efforts to educate the public regarding the current water supply situation in Southern California. In addition, in April 2009 MWD acted to impose mandatory water conservation across Southern California, effective July 1, 2009 for a minimum of 12 months. In April 2010 MWD elected to continue this allocation (or water rationing) to its Member Agencies through FY 2011. West Basin’s allocation under this agreement was 130,613 AF for FY 2010 and is predicted to remain at a similar level for FY 2011. As a result of these factors, sales are budgeted at 108,100 AF for FY 2011.

	FY 2010 Projected	FY 2010 Budget	FY 2011 Normal Year	FY 2011 Budget
Potable Sales	118,500	118,000	131,250	108,100



In April 2009, MWD’s Board of Directors declared a regional water shortage and triggered the implementation of their Water Supply Allocation Plan at a stage 2 level. MWD’s plan allocated shortages of supply over ten levels, from 5 to 50 percent. The

above graph shows the number of AF West Basin would be allocated under a Stage 2 Allocation. Although there has been a fair amount of precipitation in the Sierra's and elsewhere during this winter, the last 4 years of drought conditions have depleted reserves and MWD has elected to continue the Stage 2 Allocation Plan through FY 2011 to protect reservoirs from further depletion.

Recycled water sales increased between the FY 2007 and 2008 from 29,000 AF to more than 32,000 AF. In FY 2009 sales dipped to 29,900 AF, however FY 2010 saw a stabilization of usage with anticipated sales through FY 2010 of approximately 30,700 AF. More recycled water sites have come online during FY 2010 and West Basin expects an uptick in sales to 32,420 AF for FY 2011.

Finally conservation/other income represent incentive rebates from MWD and contributions from outside entities. In the FY 2010 budget, conservation income was anticipated to increase to meet its conservation goals. Unfortunately, grant funding from the State of California was reduced as a result of their budget deficit. Likewise, MWD conservation incentives have been curtailed as they continue to balance rates with funding various priorities. West Basin's conservation staff anticipates incentive rebates to decrease to \$1,963,281 in the FY 2011 budget from \$2,587,724 in the FY 2010 budget.

## **Imported, Recycled and Desalter Water Rates and Charges**

### *Non-Interruptible and Barrier Sales*

West Basin sales are comprised of three components: MWD's commodity, readiness-to-serve charge (RTS), and West Basin's reliability service charge. West Basin anticipates that non-interruptible and barrier sales will have a combined increase of \$89/AF by January 2011. Based on AF assumptions and the rates for the fiscal year described below, West Basin has budgeted \$97,073,800 in imported water sales.

Annually, West Basin establishes rates and charges through a resolution by the Board of Directors. In FY 2003, West Basin implemented a new imported water pricing structure that incorporates MWD's new rates. The highlights of the new rate structure include:

- Two price tiers for non-interruptible service;
- Purchase agreements with purveyors for implementing tiered pricing;
- Baseline usage for determining when the higher priced second tier applies;
- Flow-based fixed charge to limit summertime peaking; and
- Uniform surcharge for all type of imported water.

MWD's commodity rate increase has historically become effective on January 1 of each year. However, in FY 2010 MWD increased their commodity rate \$122/AF on September 1, 2009. This represented a 21.1% increase over the prior year. For FY 2011

and 2012 MWD voted to increase their commodity rates 7.5% each year, effective January 1 of each year. On June 1, 2010, West Basin's Board of Directors approved passing through this rate increase.

MWD's Board of Directors also approved an increase in its RTS charge increasing its overall collection from \$114 million to \$125 million in FY 2011 and to \$146 million in FY 2012 from its 26 customer agencies effective January 1 of each fiscal year. The amount collected is allocated to each of its customers based on each agencies respective percentage to the total on the 10-year rolling average of firm sales. The 10-year rolling average is based on a calendar year (January to December). As West Basin collects the RTS on its commodity rate, West Basin has determined to increase the rate from \$94/AF to \$125/AF effective January 1, 2011 to pay its portion of MWD's RTS.

West Basin has adopted an increase in its reliability service charge by \$15 based on a combination of factors. Mainly, the increase stems from increasing costs in support of West Basin's efforts in water reliability, and lower sales due to the current water supply situation. This increase is effective July 1, 2010.

The barrier sales represent 25% of the anticipated West Coast Barrier overall water deliveries (the remaining 75% represents recycled water deliveries) and the anticipated Dominguez Gap Barrier deliveries. Barrier sales are anticipated to decrease approximately 11% from fiscal year 2010 sales.

#### Water Service Charge

The Water Service Charge is one of the fixed charges within the rate structure, in which West Basin collects a monthly fixed amount based on the cubic foot per second (cfs) of each customer's meter capacity, providing a small consistent revenue stream for the budget. West Basin adopted a \$6/cfs increase on July 1, 2010 for a rate of \$34/cfs. There has been no change in the number and size of meters. West Basin anticipates \$351,492 from this revenue source.

#### Capacity Charge

As part of MWD's rate structure, the Capacity Charge was developed to recover the costs in providing distribution capacity use during peak summer demands. The aim of this charge is to encourage customer agencies to reduce peak day demands during the summer months (May 1 thru September 30) and shift usages to the winter months (October 1 thru April 30), which will result in more efficient utilization of MWD's existing infrastructure and defers capacity expansion costs. MWD will be maintain its capacity charge at \$7,200/cfs and this rate will be in effect throughout FY 2010-2011. West Basin passes through this charge by multiplying each customer agency's highest daily average usage (per cfs) for the past three summer periods by the Capacity

Charge Rate. West Basin will also maintain its rate at \$6,350/cfs and anticipates annual revenues of \$2,001,203.

#### Recycled Water Charges and Fixed Revenue Charges

West Basin currently serves recycled water to 362 meters with projected sales to reach more than 30,700 AF in FY 2010. For FY 2011, West Basin anticipates a relatively modest increase in recycled sales. Sales are comprised of approximately 23% sales to the West Coast Barrier and approximately 53% of the recycled water sales relate to local refineries. These sales remain fairly consistent from year-to-year. Future increases in recycled water deliveries are based on planned expansions of the facilities and generally offset non-interruptible (firm) deliveries.

West Basin adopted recycled water rates that increase according to customer agreements or are inline with the West Basin non-interruptible Tier 1 effective rate increase, depending on the type of recycled water. In review of the water recycling system program, West Basin compared its operating costs to its various sources of income. Operating costs have been increasing in recent years and West Basin has had to address rising costs; in particular, facility maintenance, power and chemical costs. In addition, West Basin also takes into consideration the increase in the non-interruptible rate when it budgets for increases in the recycled water rates. This consideration is given in order to continue to attract new customers and expand existing customers to a more reliable source of water. Revenues from recycled water sales consist of commodity charges and MWD's Local Resources Program (LRP) incentive payment and are estimated at \$31,216,193 for FY 2011. The LRP provides a \$250/AF rebate for each acre-foot of recycled water sold.

In addition, West Basin receives \$6,958,592 fixed revenue charges. Fixed revenue charges are paid by bp, Chevron, and Exxon-Mobil Oil Refineries and are designed to repay the cost of the treatment and distribution facilities that were constructed exclusively for delivery of recycled water to the refineries.

#### Desalter Water Charges

West Basin sells the water produced by the C. Marvin Brewer Desalter to California Water Service Company (CWSC) at the effective MWD rate. The effective Metropolitan rate includes the base non-interruptible rate, and an AF equivalent for the capacity charge. On September 1, 2009 that rate was set at \$721/AF and it was increased by \$3/AF to \$724/AF on January 1, 2010. In January 2011 the Desalter rate will increase to \$767/AF. This rate is then scheduled to increase to \$817/AF on January 1, 2012. Based on these rates and the \$250/AF incentive payment received by MWD for the Groundwater Recovery Program (GRP), West Basin anticipates \$1,075,140 from these sales.

West Basin's adopted rates and charges are shown and are described below:

**West Basin Municipal Water District  
FY 2010-11 Water Rates and Charges**

<b>Rates Effective July 1, 2010 to December 31, 2010</b>				
	<b>MWD Commodity</b>	<b>MWD RTS</b>	<b>Reliability Svc Charge</b>	<b>Total</b>
Non-Interruptible & Barrier (Tier 1)	\$701/AF	\$94/AF	\$66/AF	<b>\$861/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$811/AF	\$94/AF	\$66/AF	<b>\$971/AF</b>
Seasonal Storage Long Term	\$556/AF	-	\$66/AF	<b>\$622/AF</b>
<b>Rates Effective January 1, 2011</b>				
	<b>MWD Commodity</b>	<b>MWD RTS</b>	<b>Reliability Svc Charge</b>	<b>Total</b>
Non-Interruptible & Barrier (Tier 1)	\$744/AF	\$125/AF	\$66/AF	<b>\$935/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$869/AF	\$125/AF	\$66/AF	<b>\$1,060/AF</b>
Seasonal Storage Long Term	\$601/AF	-	\$66/AF	<b>\$667/AF</b>

<b>MWD Non-Interruptible Commodity Rate</b>		
	<i>Effective Dates</i>	
	<u><b>7/1/10</b></u>	<u><b>1/1/11</b></u>
Supply Rate Tier 1	\$101	\$104
Supply Rate Tier 2	\$280	\$280
System Access Rate	\$154	\$204
Water Stewardship Rate	\$41	\$41
Water Supply Surcharge	\$0	\$0
Delta Supply Surcharge	\$69	\$51
Treatment Rate	\$217	\$217
Power Rate	<u>\$119</u>	<u>\$127</u>
<b>Total Tier 1</b>	<b>\$701</b>	<b>\$744</b>
<b>Total Tier 2</b>	<b>\$811</b>	<b>\$869</b>

<b>Capacity Charge</b>
Designated Amount <sup>1</sup>
<i>Effective Jul. 1, 2010 to June 30, 2011</i>
<b>\$6,350/cfs</b>
<small>(1) Designated amount is an Agency's highest peak (per cfs) from the past three summer periods (May 1-Sept. 30)</small>

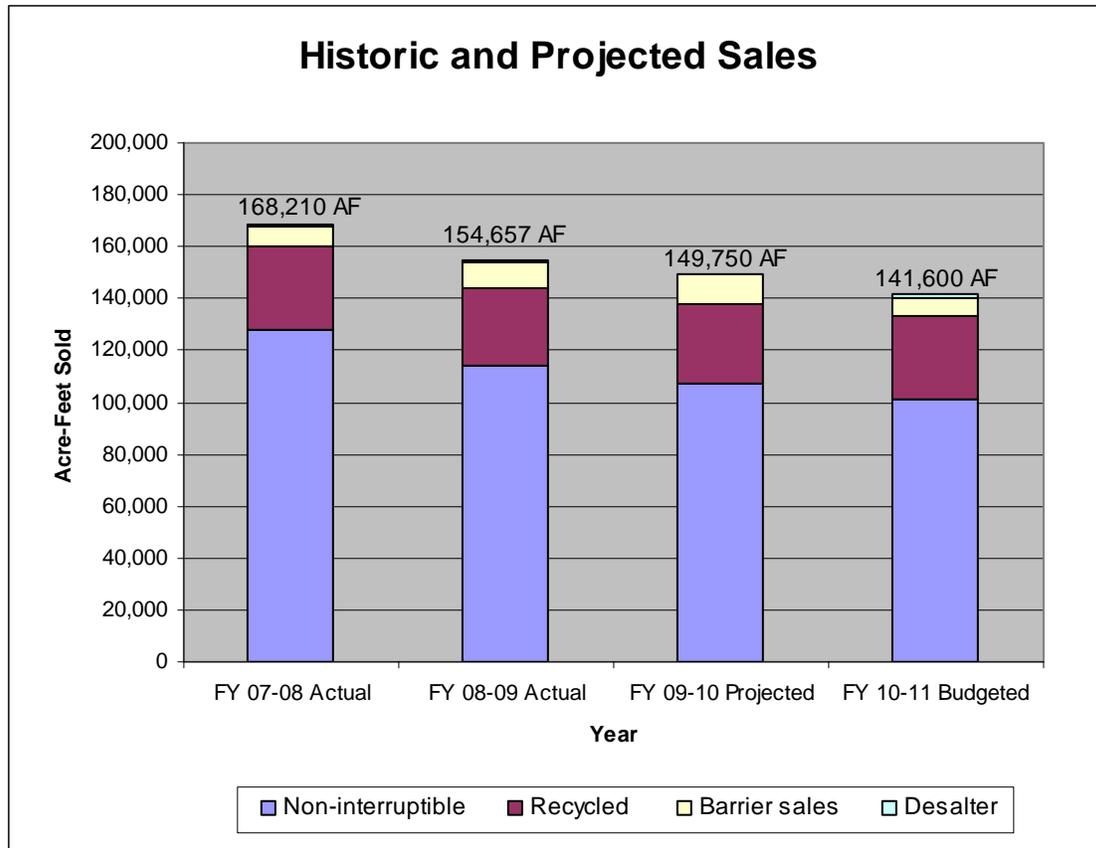
<b>Monthly Water Service Charge</b>
<i>Effective July 1, 2010</i>
WBMWD Water Service Charge
<b>\$34/cfs<sup>2</sup></b>
<small>(2) Per cfs as determined by agency's meter capacity</small>

<b>WBMWD Recycled Water Rates</b>							
<i>Effective July 1, 2010</i>							
Volume (AF/Month)	WBMWD Service Area	West Coast Barrier	Industrial R/O (WB Svc Area)	Nitrified (Ind R/O usage)	Industrial R/O Ultra (WB Svc Area)	Torrance / LADWP Service Areas	Palos Verdes Zone Rate
<b>0-25</b>	<b>\$686/AF</b>	<b>\$540/AF</b>	<b>\$914/AF</b>	<b>\$666/AF</b>	<b>\$1,270/AF</b>	<b>\$728/AF</b>	<b>\$924/AF</b>
<b>25-50</b>	<b>\$676/AF</b>	<b>\$540/AF</b>	<b>\$914/AF</b>	<b>\$666/AF</b>	<b>\$1,270/AF</b>	<b>\$718/AF</b>	<b>\$914/AF</b>
<b>50-100</b>	<b>\$666/AF</b>	<b>\$540/AF</b>	<b>\$914/AF</b>	<b>\$666/AF</b>	<b>\$1,270/AF</b>	<b>\$708/AF</b>	<b>\$904/AF</b>
<b>100-200</b>	<b>\$656/AF</b>	<b>\$540/AF</b>	<b>\$914/AF</b>	<b>\$666/AF</b>	<b>\$1,270/AF</b>	<b>\$698/AF</b>	<b>\$894/AF</b>
<b>200+</b>	<b>\$646/AF</b>	<b>\$540/AF</b>	<b>\$914/AF</b>	<b>\$666/AF</b>	<b>\$1,270/AF</b>	<b>\$608/AF</b>	<b>\$884/AF</b>

*Historic and Projected Sales*

Listed below are the historic sales (in acre-feet) for FY 2008 and FY 2009 and anticipated sales projections for FY 2010 as well as the budgeted sales for both FY 2010 and FY 2011 as follows:

<b>Water Type</b>	<b>FY 07-08 Actual</b>	<b>FY 08-09 Actuals</b>	<b>FY 09-10 Projected</b>	<b>FY 09-10 Budget</b>	<b>FY 10-11 Budget</b>
Non-interruptible	127,925	114,293	106,100	110,000	101,000
Barrier sales	7,609	9,774	12,400	8,000	7,100
Desalter	467	682	550	1,080	1,080
Recycled					
Title 22- Within WB	6,582	7,034	7,150	6,218	6,790
Title22- LADWP	360	444	650	324	580
Title22-Torrance	6,359	5,876	6,475	6,206	6,240
RO – Barrier	11,129	7,652	7,300	10,906	10,500
RO – Industrial	4,506	5,296	5,900	4,416	5,400
RO – Ultra	2,670	2,864	2,250	2,617	2,160
Industrial–NH3	603	742	975	591	750
Total Recycled	32,209	29,908	30,700	31,279	32,420
<b>Total Sales</b>	<b>168,210</b>	<b>154,657</b>	<b>149,750</b>	<b>150,359</b>	<b>141,600</b>



FY 2008 was an unusually dry year with the lowest record of rain in Southern California in over one hundred years and yet West Basin had 8% more non-interruptible sales in FY 2008 than in FY 2009, with even fewer sales projected in FY 2010. There is a projected 11% decrease in non-interruptible sales in FY 2010 compared to FY 2008. West Basin receives imported water through MWD and closely monitors the actions taken by MWD to address water supply. In February 2008, the MWD Board of Directors approved “The Water Supply Allocation Plan” and stated publicly that no allocation will take place in calendar year 2008. For the balance of 2008, MWD relied on heightened conservation, continued withdrawals from storage accounts both in-region and in the Central Valley, and water transfer purchases from agricultural districts to meet anticipated gaps between supplies and demand. In response to MWD’s adoption of a Water Supply Allocation Plan, West Basin adopted its own Water Shortage Allocation Plan (“Plan”) in October of 2008 and voted to implement the Plan in April 2009

MWD voted to implement the Water Supply Allocation Plan effective July 1, 2009 and it was adopted again for FY 2011 with minimal Allocation changes. West Basin in turn will implement its Plan through FY 2011 also.

## Purchase Order Commitment

### MWD's Purchase Order

In the fall of 2002, West Basin agreed to sign a ten-year voluntary Purchase Order with MWD that entitled West Basin to purchase annually a set amount of non-interruptible water (Annual Tier 1 Maximum) at the lower Tier 1 rate. It also committed West Basin to purchase a minimum amount over the ten-year term of the Purchase Order (Purchase Commitment). The table below displays West Basin's Purchase Order terms with MWD:

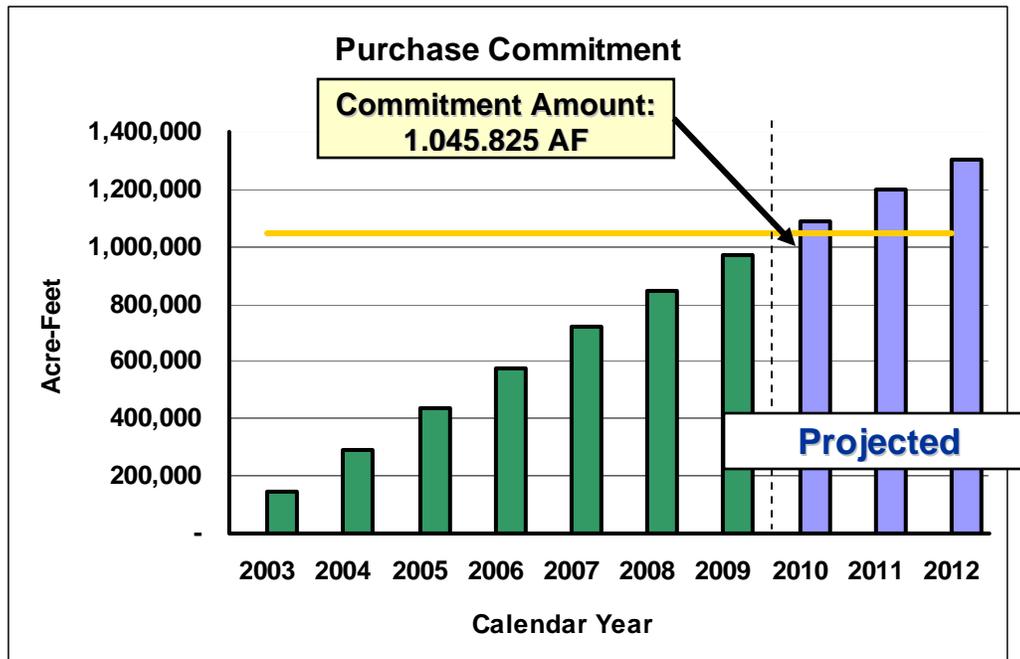
Initial Base Allocation	Annual Tier 1 Maximum (90% of Base)	Purchase Commitment (60% of Base x 10)
174,304 AF	156,874 AF	1,045,825 AF

### West Basin's Purchase Agreement

In order to meet the conditions above with MWD and without solely bearing the liability of exceeding the Annual Tier 1 Maximum and/or the Purchase Commitment with MWD, West Basin established its own purchase contract policy with its customer agencies. West Basin's Imported Water Purchase Agreements mimic the MWD version in terms of an Annual Tier 1 Maximum and total Purchase Commitment, but offers more flexibility to the customer. West Basin required only a five-year commitment, as opposed to a ten-year term. Additionally, customer agencies have the option to adjust their Tier 1 and Purchase Commitment amounts annually if certain conditions are favorable, and can also reduce their commitment by offsetting imported water demand with recycled water purchased from West Basin. For purchases above the Tier 1 limit, or in the absence of a Purchase Agreement, the customer agency pays the Tier 2 rate. The Tier 2 Rate is currently \$110/AF above the Tier 1 rate but will increase to \$125/AF above the Tier 1 rate effective January 1, 2011.

In 2003, every customer agency within West Basin elected to sign a 5-year voluntary purchase agreement. Each agency was allocated an annual Tier 1 maximum limit and a purchase commitment based on historical and projected demands. These agreements expired on December 31, 2007, and each of West Basin's member agencies (customers) met their Tier 1 commitment. In FY 2008, the Board of Directors made minor revisions to the program and renewed with each of its customer agencies for an additional 5-years to coincide with the expiration of West Basin's purchase order with MWD at the end of 2012.

As of December 31, 2009, West Basin’s customer agencies have purchased 968,623 acre-feet or on average 138,000 acre-feet per year. As displayed in the graph below, West Basin projects that it will meet its minimum Purchase Commitment with MWD by calendar year 2010.



**Other Sources of Revenue**

Interest Income

West Basin receives interest income from its general fund. With a declining interest rate environment, West Basin has assumed a more conservative portfolio return. For FY 2011, general fund interest income has been projected at approximately \$868,500. West Basin has adopted an investment policy in accordance with California Government Code 53600 et. seq. and has selected an investment manager to keep West Basin apprised of current market conditions, review West Basin’s investment policy and procedures, and implement changes to ensure West Basin’s key objectives of safety, liquidity and yield are met.

Standby Charge

For FY 2011 the standby charge will be assessed by the same formula as in prior years. The amount assessed is \$16, \$24 or \$120 per parcel depending upon the land use provided by the County of Los Angeles on a given parcel. The amount assessed per parcel has remained consistent since FY 1993. Based on approximately 344,000 benefiting units and previous annual collections, it is estimated that the revenues from

the standby charge, net of program expenses, are expected to be approximately \$9,675,000. After conducting a public hearing, the standby charge is reviewed and adopted by the Board of Directors. This annual charge is used towards West Basin's debt service obligations on the West Basin Edward C. Little Water Recycling Facility.

### Conservation Income

Through the development of the Conservation Master Plan and our Water Reliability 2020 goals, West Basin has enhanced its program offerings across the varying sectors such as residential, large landscape, commercial, industrial and institutional sectors. This results in greater access to available rebates, state and federal grants, and partnerships with retail water agencies interested in investing in cost-effective programs with these partnerships locally and regionally.

For every dollar that West Basin invests in conservation, it provides an additional \$6.00 benefit of programs to residents and businesses throughout its service area. For FY 2011, West Basin will continue to receive outside funding from the MWD's and from many of its purveyors and anticipates grant funding from the State of California and the federal government – the United States Bureau of Reclamation (USBR). The state funding is limited again this year due to the state's continued fiscal challenges, but West Basin continues to receive grant funds from the federal government (USBR) for the Green Garden and Ocean Friendly programs. In addition, MWD's challenges with the drought, allocations, and water supply and demand issues have limited their ability to fund certain programs at the same levels. Based on MWD's conservation budget they have allocated \$266,000 towards West Basin's conservation programs at the expected incentive pricing per device. However, West Basin has accounted for this impact in the current year's budget by working with outside partners in order to provide funding for these vital programs.

Overall, West Basin anticipates approximately \$1,963,281 in conservation income from its grants and funding partners for FY 2011.

### Other Income

West Basin anticipates miscellaneous income to support its efforts for the annual Water Harvest Festival and the Title 22 Water Quality Monitoring Program. In addition, West Basin anticipates a variety of federal and state grants. Overall, West Basin anticipates approximately \$141,000 in FY 2011 for other income.

## USE OF FUNDS

West Basin maintains a single enterprise fund and its use of funds are divided among water purchases, MWD capacity charge, debt service, and operating expenses. West Basin maintains a balanced budget between sources of revenues and uses. The balance generated is placed into West Basin's designated funds..

Detailed below are the historic, anticipated and budgeted expenses:

<u>Expenditures</u>	<u>FY 2007-08 Actual</u>	<u>FY 2008-09 Actual</u>	<u>FY 2009-10 Projected</u>	<u>FY 2009-10 Budget</u>	<u>FY 2010-11 Budget</u>
<b>Imported Water Purchases / RTS</b>	\$73,589,449	\$74,200,415	\$88,371,700	\$ 88,469,850	\$ 87,216,450
<b>Debt Service</b>	22,502,224	23,491,116	23,566,840	24,215,932	24,246,955
<b>Bond Fund Interest</b>	(811,104)	(769,201)	(776,100)	(761,867)	(761,867)
<b>Capacity Charge</b>	1,880,196	1,952,100	1,932,980	1,932,980	1,937,160
<b>Water Recycling Operations</b>	20,708,700	21,528,411	22,718,470	22,575,676	24,426,001
<b>Desalter Operations</b>	440,139	480,732	575,288	702,713	772,748
<b>Resource Planning</b>	2,195,286	1,096,015	950,511	1,141,768	1,060,111
<b>Public Information &amp; Conservation</b>	3,101,614	4,449,665	4,304,025	6,325,042	5,467,193
<b>Water Quality Monitoring</b>	21,671	26,475	23,260	21,832	22,026
<b>Designated Funds/Other</b>	3,161,496	1,051,236	5,131,126	5,242,642	6,937,423
<b>Total Expenditures</b>	\$126,789,671	\$127,506,964	\$146,798,100	\$149,866,569	\$151,324,200

Fluctuations over the past three years are the result of changes in imported water sales, program costs and debt service. As mentioned under sources of funds, imported water sales fluctuated due to hydrologic conditions and due to the water supply availability; however, this is partially offset by a 10% increase in overall imported water rates. Program costs have increased over the past three years largely due to higher operating costs. In addition, West Basin has placed additional focus on conservation and communicating West Basin's message on water reliability. Lastly, West Basin has budgeted higher debt services costs due to a scheduled increase in its fixed portion of the annual debt service.

## MWD Water Purchases and Charges

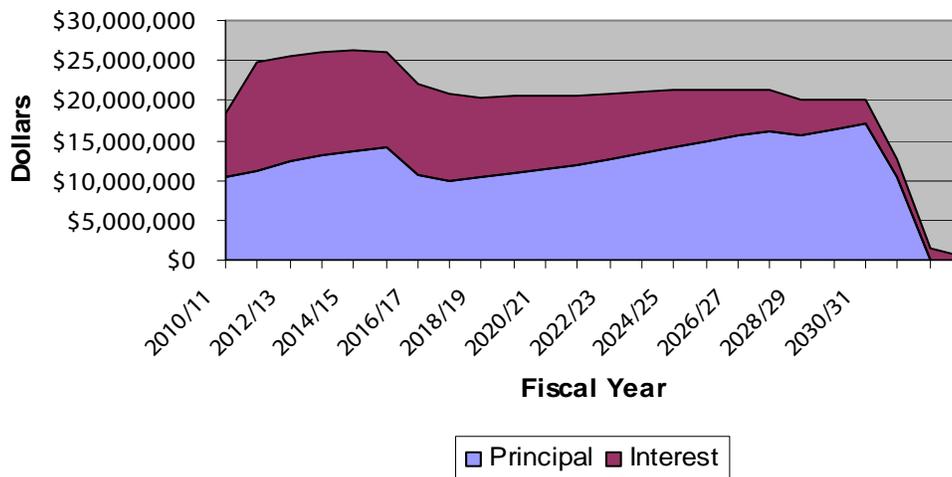
As described under Source of Revenue, West Basin has signed a ten-year voluntary purchase order with MWD that entitled West Basin to purchase annually a set amount of non-interruptible water (Annual Tier 1 Maximum) at the lower Tier 1 rate. It also committed West Basin to purchase a minimum amount over the ten-year term of the Purchase Order (Purchase Commitment). West Basin has determined its cost of water deliveries based on anticipated sales.

In FY 2011, MWD will maintain its rate for the Capacity Charge at \$7,200/cfs (MWD has indicated that this charge will increase \$200/cfs beginning January 1, 2012). West Basin does pass this charge to its customers; however, West Basin customers receive a benefit as the West Basin peaking level varies from the individual customer peaking resulting in savings to the customer. See the revenue section for a further explanation.

## Debt Service

In the early 1990s, West Basin's Board of Directors had the vision to drought-proof its service area by constructing facilities and pipelines to bring recycled water to industrial, commercial and irrigation sites. These sales reduce this areas reliance on imported water. The importance of local control on water availability is even more important today as we continue to face higher costs and lower availability for delivery of this scarce resource. In order to fund the construction of the facilities and pipelines for the recycled water system, West Basin obtained grants, adopted a standby charge program, and issued debt. The graph below, and the debt budget schedule on the following page, shows the scheduled principal and interest payments for West Basin's current debt portfolio.

### Debt to Maturity



<b>DEBT BUDGET</b>						
	<b>Certificates of Participation</b>		<b>State of California Loan</b>		<b>Total</b>	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$9,005,000	13,611,197	292,730	69,216	9,297,730	13,690,413
2011	10,145,000	13,133,231	302,683	59,263	10,447,683	13,192,494
2012	10,760,000	12,884,351	312,974	48,972	11,072,974	12,933,323
2013	12,070,000	12,565,711	323,615	38,331	12,393,615	12,604,042
2014	12,785,000	11,844,405	334,618	27,328	13,119,618	11,871,733
2015	13,360,000	11,322,369	345,995	15,951	13,705,995	11,338,320
2016	14,000,000	10,752,067	123,142	1,411	14,123,142	10,753,478
2017	10,725,000	10,004,898	-	-	10,725,000	10,004,898
2018	10,000,000	9,585,591	-	-	10,000,000	9,585,591
2019	10,425,000	9,196,318			10,425,000	9,196,318
2020	10,890,000	8,663,269			10,890,000	8,663,269
2021	11,350,000	8,270,317			11,350,000	8,270,317
2022	11,835,000	7,720,967			11,835,000	7,720,967
2023	12,560,000	7,191,448			12,560,000	7,191,448
2024	13,455,000	6,580,424			13,455,000	6,580,424
2025	14,085,000	5,926,086			14,085,000	5,926,086
2026	14,775,000	5,240,409			14,775,000	5,240,409
2027	15,520,000	4,524,747			15,520,000	4,524,747
2028	16,195,000	3,759,592			16,195,000	3,759,592
2029	15,520,000	2,968,775			15,520,000	2,968,775
2030	16,295,000	2,197,000			16,295,000	2,197,000
2031	17,110,000	1,385,250			17,110,000	1,385,250
2032	10,535,000	526,750			10,535,000	526,750
Total	\$293,400,000	179,852,172	2,035,757	260,472	295,435,757	180,112,644

Debt Summary

At the end FY 2009 West Basin made several strategic changes in its debt portfolio to reposition it away from auction rate securities and reduce its exposure to variable rate debt. While West Basin did refund a large portion of its variable rate debt to fixed rate, West Basin still maintains approximately \$38 million in variable rate debt as a result of two associated swaps as described below.

Anticipating its future capital outlay for upcoming capital improvement projects, West Basin is currently pursuing a \$50 million commercial paper program. The commercial paper program will allow West Basin to move forward on several capital projects until it needs to secure long-term debt.

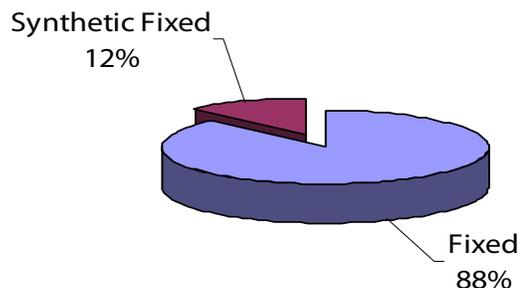
West Basin has the following outstanding issuances: 1) the 2003A Refunding Revenue Certificates of Participation, 2) the 2008B Refunding Revenue Certificates of

Participation and 3) the 2008A Adjustable Rate Revenue Certificates of Participation. In addition, West Basin also has a loan from the State Water Resources Control Board. For FY 2011, debt service (DS) is estimated at \$24,246,955 to be offset by bond interest earnings of \$761,867. West Basin receives interest earnings from bond reserve funds set aside as required by the bond financings. At present, West Basin has two debt issuances where a reserve fund has been established and is restricted for the purpose of the bondholders. All bond fund interest earnings are applied towards West Basin's annual debt payments. For FY 2011, bond fund interest earnings are estimated to be \$761,867.

### Outstanding Long-Term Debt

Series Name	2003A	2008A	2008B	State Loan
<b>Amount</b>	\$156,085,000	\$39,465,000	\$128,665,000	\$5,000,000
<b>Type of Issuance</b>	Refunding / New Proceeds	Refunding	Refunding	Loan
<b>Interest Range</b>	2.5% – 5.25%	Variable	3.0% - 5.0%	3.40%
<b>Swap to Fix</b>	Not Applicable	Yes	Not Applicable	Not Applicable
<b>Issue Date</b>	2003	2008	2008	1995
<b>Final Maturity</b>	2030	2021 and 2027	2031	2015
<b>Current Rating</b>	AA- and Aa2	AA-/A-1 and Aa2/VMIG1	AAA and Aa3	Not rated
<b>Annual DS Pmt</b>	\$12.5 Million	\$3.4 Million	\$8.0 Million	\$361,945
<b>2011 Principal</b>	\$6.8 Million	\$1.9 Million	\$2.0 Million	\$302,682
<b>2011 Interest</b>	\$5.7 Million	\$1.5 Million	\$6.0 Million	\$ 59,263
<b>Lien</b>	Senior	Senior	Subordinate	Senior

### Current Outstanding Debt Issuances



West Basin does not have a legal debt limit due to its ability to raise rates, but does have debt coverage requirements.

During FY 2010 Moody's recalibrated the U.S. municipal ratings to a "Global Scale Rating", which resulted in West Basin's credit rating being upgraded to Aa2. The Standard & Poor's rating for West Basin remains at AA-.

## Swaps

In April 2005, West Basin entered into a forward interest rate swap on its 1997 Refunding Revenue Certificates of Participation. This interest rate swap became effective August 2007. West Basin issued variable debt that will be exchanged for the previously approved fixed interest swap rate. West Basin will pay a fixed rate of 3.515% with a final termination date of August 2021.

In June 2004, West Basin entered into a second swap transaction to exchange the variable rate debt issued in conjunction with the 2004A Refunding Revenue Certificates of Participation. West Basin will pay a fixed rate of 3.662% with a final termination date of August 2027.

## Covenants

Debt coverage is one covenant that West Basin is required to maintain. This covenant is monitored not only by West Basin, but also by both investors and credit rating agencies. To meet this covenant, West Basin has set targeted debt coverage goals at a rate higher than required for its senior, subordinate and all-in debt liens. Detailed below is the anticipated debt coverage for the current and future budget years.

**Bond Debt Coverage Ratios  
(in 000's – except coverage)**

<b>Bond Coverage Ratios</b>	<b>FY 2011/12</b>	<b>FY 2012/13</b>	<b>FY 2013/14</b>	<b>FY 2014/15</b>	<b>FY 2015/16</b>
Revenues	\$160,132	\$178,427	\$175,898	\$194,847	\$203,998
O&M	\$128,119	\$134,124	\$139,278	\$148,980	\$155,787
Net Revenues to pay senior debt	\$32,013	\$44,302	\$36,619	\$45,867	\$48,211
Total Senior Debt Service	\$15,600	\$22,933	\$22,961	\$23,035	\$18,915
Senior Debt Coverage	<b>2.05</b>	<b>1.93</b>	<b>1.59</b>	<b>1.99</b>	<b>2.55</b>
Net Revenues to pay subordinate debt	\$16,413	\$21,369	\$13,658	\$22,832	\$29,296
Total Subordinate Debt	\$8,817	\$9,056	\$8,993	\$9,017	\$9,058
Subordinate Debt Coverage	<b>1.86</b>	<b>2.36</b>	<b>1.52</b>	<b>2.53</b>	<b>3.23</b>
All-In Coverage	<b>1.31</b>	<b>1.38</b>	<b>1.15</b>	<b>1.43</b>	<b>1.72</b>
Remaining Net Revenue	\$7,597	\$12,314	\$4,665	\$13,815	20,238

*Long Range Finance Plan*

Through West Basin's program, Water Reliability 2020, West Basin is focused on developing more local resources through doubling its efforts in recycling, developing an ocean-water desalination facility and expanding its conservation programs (not funding by debt). By year 2020, West Basin hopes to achieve 66% locally controlled water and the balance from imported water. Today, West Basin has 33% locally controlled water.

West Basin developed two strategic plans in FY 2009 to guide and present associated costs on how Water Reliability 2020 goals will be achieved. The Local Resources Strategic Plan looked at the diversity of the types of projects West Basin may undertake while the Capital Implementation Master Plan presented various recycled water projects to expand the recycled water system as well as maintain existing facilities to meet these goals. With this information, West Basin began to focus on the development of a Long-Range Financial Plan. During FY 2010 a financial model was prepared to incorporate the existing budget, incorporate future capital costs, and make certain assumptions. These assumptions include sales, operating expense increases, water rates, and capital project funding and debt coverage.

As West Basin moves forward with the capital projects identified in the Capital Improvement Master Plan, the need to issue debt to fund investments into its infrastructure increases. In FY 2010, West Basin formalized a Debt Management Policy that incorporates the capital funding assumptions to fund a variety of projects. In addition, the Debt Management Policy provides guidance in the issuance, management, evaluation and reporting of debt obligations. In addition to the Debt Management Policy, West Basin developed an Information Technology (IT) Master Plan. The process included examining the current IT environment, establishing a strategic technology direction, and developing an implementation plan that effectively deploys IT solutions that supports West Basin's mission and commitment statements in the following areas: IT service delivery, design, infrastructure and applications

### Future Debt Issuances

With the execution of new customer agreements, West Basin intends to issue new debt in the future or obtain other fixed revenues to assist for the funding necessary to fund these projects. Currently, West Basin is pursuing a \$50 million commercial paper program to provide short-term liquidity until long-term debt is issued. In addition, West Basin will also use its PAYGO funds and seek state loans and grants to pay for certain capital projects. In FY 2011, West Basin anticipates issuing long-term debt to cover approximately \$100 million to fund its Phase V recycled water expansion, Harbor/South Bay projects and other facility improvements. Repayment for this debt will be based on the rates set by the West Basin Board of Directors to serve approximately 4,500 acre-feet to the Water Replenishment District to serve the West Coast Barrier and the additional irrigation customers for the lateral expansion from the Harbor/South Bay Project.

### **Operating Program Expenses**

West Basin organizes and tracks its operating expenses through the following functional budget categories: Finance and Support Services, District Administration, Water Recycling Operations, C. Marvin Brewer Desalter Operations, Resource Planning, Public Information & Conservation, and Water Quality Monitoring Program. Both Finance and Support Services and the District Administration costs are allocated to the other program budgets as overhead costs.

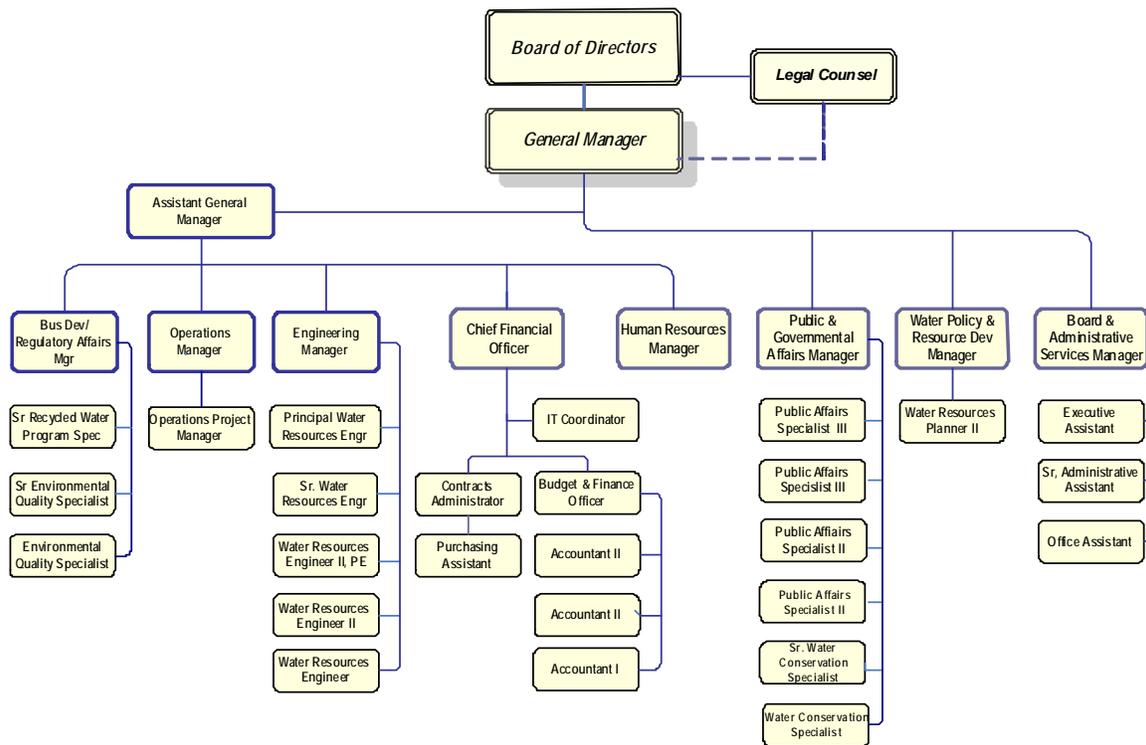
Cost accounting is defined as the process of tracking, recording and analyzing costs associated with the products or activities of an organization. As a single enterprise fund, each program budget has direct charges that represent the specific efforts for consultants, suppliers, utilities or other appropriate charges in addition to payroll and allocated costs. Each operating program is described in further detail under the Operating Program Expenses section.

Payroll and benefits

Historically West Basin has maintained a relatively small staff to complete its goals and objectives. The following organizational chart shows the budgeted positions for FY 2011.

**ORGANIZATIONAL CHART**

**WEST BASIN MUNICIPAL WATER DISTRICT**  
June 2010



In the FY 2011 budget, staffing levels will increase from 34 full-time equivalent (FTE) positions to 36 FTE positions. With the anticipated increase in capital projects identified by the Capital Implementation Master Plan, one (1) additional engineer has been budgeted to assist with the expansion of the recycled water system. Similar to the Capital Implementation Master Plan, West Basin developed an Information Technology (IT) Master Plan to help determine a strategic technology direction, and an implementation plan. The IT Master Plan also recommended West Basin hire an IT Coordinator as a full-time employee and this position has been included in the FY 2011 budget. Funding for the IT Coordinator position is based on offsetting previously budgeted contractor costs for similar services.

### Summary of Personnel by Department

Position	Actual		Budgeted		Change from FY 2010
	FY 2009	FY 2010	FY 2010	FY 2011	
<i>Office of General Manager</i>					
General Manager	1	1	1	1	0
Assistant General Manager	1	1	1	1	0
<i>Board Services</i>					
Administrative Manager	1	1	1	1	0
Executive Assistant	1	1	1	1	0
Senior Administrative Asst.	1	1	1	1	0
Office Assistant II	1	1	1	1	0
<i>Human Resources</i>					
Human Resources Manager	1	1	1	1	0
<i>Public Information &amp; Conservation (PIC)</i>					
PGA Manager	1	1	1	1	0
Public Affairs Specialist III	1	2	2	2	0
Public Affairs Specialist II	2	2	2	2	0
Sr. Water Conservation Specialist	1	1	1	1	0
Water Conservation Specialist	1	1	1	1	0
<i>Engineering and Operations</i>					
Engineering Manager	1	1	1	1	0
Principal Water Resources Eng.	1	1	1	1	0
Sr. Water Resources Engineer	1	1	1	1	0
Water Resources Engineer II	2	2	2	3	1
Operations Manager	1	1	1	1	0
Operations Program Manager	1	1	1	1	0
Sr. Environmental Quality Specialist	1	1	1	1	0
Environmental Quality Specialist	1	1	1	1	0
Recycled Water Program Manager	1	1	1	1	0
Sr. Recycled Water Program Specialist	1	1	1	1	0
<i>Planning And Resources</i>					
Planning and Resources Manager	1	1	1	1	0
Resource Planner	1	1	1	1	0
<i>Finance</i>					
Chief Finance Officer	1	1	1	1	0
IT Coordinator	0	0	0	1	1
Budget and Finance Officer	1	1	1	1	0
Accountant II	2	2	2	2	0
Accountant I	1	1	1	1	0
Contracts Administrator	1	1	1	1	0
Purchasing Assistant	1	1	1	1	0
<i>Total Budgeted Personnel</i>	33	34	34	36	2

Each program budget demonstrates the projected level of effort for the current year for direct labor staff. As a result, the individual program labor cost may fluctuate from year-to-year. Indirect labor represents the support services and is allocated based on the percentage of direct payroll dollars allocated to each program. The method of

allocation of indirect labor to the various operating and capital programs is consistent to prior years. For FY 2011, the payroll does not include any merit or salary adjustments.

Similar to the allocation of indirect labor, benefits are allocated to various programs (including capital) based on direct labor charges. Benefits include health costs, retirement costs, tuition reimbursement, paid holidays, vacation and sick leave. The types of benefits included in the FY 2011 budget are consistent with the prior year; however, a 10% increase in health insurance and 5% increase in dental insurance were assumed for FY 2011.

In FY 2008, the Board of Directors was presented with the initial actuary report for the Other Post Retirement Benefits (OPEB) as required under GASB 45. The actuary report showed an unfunded liability of approximately \$2 million. Beginning FY 2009 and thereafter, an amount for funding the unfunded liability and the normal cost has been included in the benefit allocation. To reduce the impact of the annual cost for OPEB on an ongoing basis, West Basin's Board of Directors approved funding one-half of the unfunded liability, \$1 million, into the California Employer's Retiree Benefit Trust. In addition, West Basin is paying the Annual Required Contribution to the California Employer's Retiree Benefit Trust as well.

*Personnel staffing (by program): Full Time Equivalent (FTE)*

Because West Basin's budget tracks and reports all its costs by program, it also allocates its personnel labor to its various programs. The table below compares FY 2008 and FY 2009 actual to FY 2010 projected to FY2010 and FY 2011 budget. The variance of projected to budget FTE for FY 2010 represents unfilled positions for a portion of the year. The Finance and Support Services and District Administration budgets represent the overhead costs of West Basin and no hours will be charged to these programs. These overhead costs are allocated based on direct labor hours. Direct labor hours are used to represent the actual efforts by staff. The time previously recorded under District Administration in FY 2008 is currently reflected in the other program budgets to reflect the effort to support these programs. In FY 2009, conservation program costs shifted to the Public and Government Affairs budget from Resource Planning. The conservation personnel efforts from previous years will not shift. In FY 2010, an additional staff person was budgeted within the Public Information & Conservation department and was subsequently hired. This individual's efforts have been directed towards Water Reliability 2020 and the outreach of the capital projects to meet this goal. In FY 2011, the budget includes another staff person in the Engineering department to support the Water Reliability 2020 capital improvement efforts. Also, an IT Coordinator has been included in the FY 2011 budget and will be hired to replace the services that had previously been contracted. It is anticipated that the payroll and benefits for this new staff position will be equivalent with the cost paid for the contracted labor.

### Full Time Equivalent by Program

	<b>FY 07/08 Actual</b>	<b>FY 08/09 Actual</b>	<b>FY 09/10 Projected</b>	<b>FY 09/10 Budget</b>	<b>FY 10/11 Budget</b>
<b>District Administration</b>	1.42	0.00	0.00	0.00	0.00
<b>Recycling Operations</b>	8.27	8.31	8.81	8.89	9.95
<b>Desalter Operations</b>	0.08	0.07	0.08	0.12	0.18
<b>Resource Planning</b>	8.71	3.79	3.16	3.15	3.25
<b>Public Information &amp; Conservation</b>	5.97	9.98	9.02	7.44	7.05
<b>WQ Monitoring Program</b>	0.08	0.05	0.06	0.08	0.08
<b>Capital Projects</b>	7.76	10.74	11.50	14.32	15.49
<b>Total FTE</b>	32.29	32.95	32.63	34.00	36.00

### Capital Improvement Program

With the impact of drought conditions and the continuing need for water allocations, West Basin's Water Reliability 2020 plan is more vital today, and requires West Basin to invest into shovel-ready projects this year. As described within the supplemental section on capital, West Basin intends to invest into its existing facilities, expand its existing recycled water facilities and continue with constructing its temporary Ocean-Water Desalination Demonstration Facility.

Before any capital project is initiated, staff presents them to the Board of Directors for approval and direction. Capital projects begin with feasibility and design studies followed by construction contracts. Progress reports are presented to the Board of Directors on a periodic basis. West Basin funds its projects through its PayGo Designated Fund and through bond proceeds. West Basin is also exploring a new revenue measure to provide a fixed source of revenues to aid the funding requirements of its capital improvement program.

The capital improvement budget for FY 2011 is \$36,316,341. See the supplemental section for a detailed discussion on future capital projects.

## OPERATING PROGRAM EXPENSES

Development of the operating program budget is a result of developing strategies to meet the goals and objectives established from the Strategic Business Plan. The preview items noted under each program support the overall Strategic Business Plan and commitment statements of West Basin.

The FY 2011 Operating Program consists of the following programs:

<u>Allocated Programs</u>	<u>Page Number</u>
Finance and Support Services	54
District Administration	57
<u>Operating Programs</u>	
Water Recycling Operations	58
C. Marvin Brewer Desalter Operations	61
Resource Planning	62
Public Information and Conservation	64
Water Quality Monitoring	69

During FY 2009, the Conservation program budget moved under the Public Information and Conservation program budget. These costs had been previously shown under Water Resource Planning. For comparison purposes, West Basin has moved the conservation expenditures to the Public Information and Conservation program; however, the labor efforts were not moved in prior years.

## STRATEGIC BUSINESS PLAN

In January 2008, the Board of Directors unanimously approved a Strategic Business Plan (Plan). The development of this Plan reassessed West Basin's missions, goals, and objectives through a series of interviews with the Board of Directors, management and key stakeholders. The Plan provides continuous direction for each year's planning, budgeting, implementation, evaluation and reporting. The Plan sets the overall policy direction and strategic priorities established by the Board. West Basin management develops the strategies, programs, and activities necessary to effectively implement the Board's directions along with determining whether staff and financial resources need to be realigned to achieve strategic objectives. The Board reviews a scorecard of the Strategic Business Plan semi-annually.

**Reliability:** Maintain a level of local water reliability that supports the regional economy, our community and customer agency needs.

- *Objective 1* – Prepare a water supply strategy that presents different levels of imported water independence and associated costs/water implications
- *Objective 2* – Increase diversification of West Basin's supply portfolio

**Workforce:** Develop and maintain a highly qualified, motivated and productive workforce to accomplish West Basin's goals.

- *Objective 1* – Recruit and hire qualified candidates to fill all West Basin positions
- *Objective 2* – Manage and reward performance
- *Objective 3* - Develop a formal plan for workforce retention, training and succession planning
- *Objective 4* – Conduct Board evaluation of the General Manager

**Water Quality:** Provide high quality water that meets the needs of our customers.

- *Objective 1* – Maximize customer satisfaction
- *Objective 2* – Meet permit and contractual water quality requirements

**Environment:** Utilize environmentally sustainable and sound business practices in our projects, policies and actions.

- *Objective 1* - Establish a process to ensure social and environmental factors are considered in decision-making
- *Objective 2* – Continue to gain environmental community support for West Basin programs

**Customer/Community Service:** Provide for the needs of our customer agencies and the communities we serve in a way that reflects their needs.

- *Objective 1* - Actively engage local businesses in the procurement of services
- *Objective 2* – Maintain customer high regard and respect

**Communications:** Engage in effective two-way communication of West Basin's programs & policies with the customer agencies and communities we serve.

- *Objective 1* - Support the Board in maintaining a strategic business plan
- *Objective 2* – Promote outreach and education programs
- *Objective 3* - Enhance and promote the image of West Basin

**Infrastructure** – Manage infrastructure to ensure reliability, manage risk, and maximize the useful life of facilities.

- *Objective 1* - Develop new water infrastructure to ensure regional water supply reliability
- *Objective 2* – Develop an Ocean-Water Desalination Program
- *Objective 3* – Provide effective overall capital facility asset management
- *Objective 4* – Maintain facilities to manage and minimize risk of failure and liability exposure
- *Objective 5* – Pursue collaborations for facility development

**Finance:** Manage finances to optimize the public's investment return & minimize risk.

- *Objective 1* - Maintain or improve current bond ratings
- *Objective 2* – Complete and maintain a Long Range Financial Plan
- *Objective 3* - Operate cost-efficiently and effectively

## FINANCE AND SUPPORT SERVICES

### ***Strategic Business Plan Goals:***

Finance: Manage finances to optimize the public's investment return & minimize risk.

Workforce: Develop and maintain a highly qualified, motivated and productive workforce to accomplish West Basin's goals.

Customer/Community Service: Provide for the needs of our customer agencies and the communities we serve in a way that reflects their needs.

**Commitment Statement:** West Basin is committed to providing Excellent Customer Service and Sound Financial and Resource Management.

The Finance and Support Services category represents indirect expenses to support the general operations of West Basin and includes financial and legal services, insurance, and building expenses such as utilities, building maintenance, and services such as guard, landscape and interior plant service. These expenses are proportionally allocated to all West Basin operating and capital programs as "Overhead Expense". Direct labor hours are used as the primary basis for allocating these expenses to each program. The allocation provides management with a better understanding of the overall cost of each program.

West Basin maintains memberships to a variety of organizations and the cost is reflected in this budget. The supplemental section further describes these important partnerships.

### *FY 2010 Accomplishments*

- Finance – Objective 3: Received an Excellence in Financial Reporting Award notification for West Basin's Comprehensive Annual Financial Annual Report (CAFR) for the FY 2009 from the Government Finance Officers Association;
- Finance – Objective 3: Enhanced the procurement policy to address critical repairs and local business enterprises;
- Finance – Objective 3: Utilized new E-procurement system (The Network) to improve the bidding process on over 50 solicitations through dissemination of information to a wider vendor audience;
- Finance – Objective 2: Board approved a comprehensive Debt Management Policy;
- Finance – Objective 3: Received award for Model Investment Policy from the Association of Public Treasurer's ;
- Finance – Objective 2: Presented financial model to Board of Directors that incorporated revenue and expense assumptions and results of the Capital Implementation Master Plan to assess the appropriate mix and rates to meet the revenue requirements;
- Finance – Objective 3 – Establish a Commercial Paper Program to provide interim financing for upcoming capital projects

- Finance – Objective 3: Completed Information Technology Master Plan that provides a multi-year actionable steps to improve on the delivery of service, software enhancements and network and desktop maintenance;
- Workforce – Objective 3: Developed and implemented District-wide staff training on managing performance and public speaking, and an Executive Management Training program;
- Workforce – Objective 2: Developed and implemented a new performance appraisal system.

FY 2011 Preview

- Finance – Objective 3: Develop training on new Requisition Self Service Model with Lawson to improve approval process for solicitations;
- Finance – Objective 3: Implement Year 1 of the Information Technology Master Plan through the approval of a new Technology Coordinator and improve on the access to managers to improve utilization of technology outside of the office;
- Finance – Objective 3: Develop a swap policy;
- Finance – Objective 3: Evaluate capital needs requirements to assess when West Basin should seek long-term financing;
- Finance – Objective 1: Meet with rating agencies to discuss upcoming debt issuances for the continued expansion of the recycled water system;
- Workforce – Objective 3: Continue with training plan with a focus on supervisor training;
- Customer/Community Service – Objective 1: Continue to explore various venues for outreach to businesses within West Basin’s service area to meet the Board’s objective of increasing awareness;
- Finance – Objective 3: Review the designated fund policy for appropriate funds and target levels; and
- Finance – Objective 2: Develop a Long-Range Financial Plan to project revenue needs, capital funding and appropriate rates and charges based on assumptions from financial model.

	FY 07/08 Actual	FY 08/09 Actual	FY 09/10 Projected	FY 09/10 Budget	FY 10/11 Budget
General Services	\$ 2,349,015	\$ 1,402,948	\$ 2,153,392	\$ 2,022,925	\$ 2,243,640
Building Services	305,049	232,866	395,500	289,000	319,000
Legal Services	254,594	413,829	272,000	317,000	267,000
Employee Support	17,289	19,759	12,500	16,700	16,700
Total Overhead Allocated	\$ 2,925,947	\$ 2,069,402	\$ 2,833,392	\$ 2,645,625	\$ 2,846,340

The Finance and Support Services program costs are proportionally allocated to all West Basin operating and capital programs.

No labor is allocated to Finance and Support Services as the personnel are classified as indirect labor and therefore allocated to the various program budgets as a percentage based on the program direct labor to the total direct labor.

In FY 2008, a determination was made to classify all memberships to Finance and Support Services. The FY 2008 operating budget was not changed. However, in FY 2009 and FY 2010, all memberships are included within this budget. The memberships are described in the supplemental information section.

## DISTRICT ADMINISTRATION

### **Strategic Business Plan Goal:**

**Communications:** Engage in effective two-way communication of West Basin's programs & policies with the customer agencies and communities we serve.

**Finance:** Manage finances to optimize the public's investment return & minimize risk.

**Commitment Statement:** West Basin is committed to providing Excellent Customer Service and Sound Financial and Resource Management.

District Administration accounts for expenses directly related to the Board of Directors and the Office of the General Manager and represents their involvement with West Basin programs and external activities. A review of allocation of district expenditures determined that the District Administration budget also represents an overhead component as the Board of Directors and General Manager have responsibility for the general oversight over West Basin. Similar to the Finance and Support Services budget, these costs are allocated based on the percentage of direct labor hours to the total direct labor hours and also reflected in the other program budgets as Overhead.

### FY 2010 Accomplishments

- Communications – Objective 1: Provided overall policy direction and strategic priorities through monthly committee and board meetings;
- Finance – Objective 3: Approved the annual budget and rates in June 2010.

### FY 2011 Preview

- Communications – Objective 1: Conduct semi-annual review of Strategic Business Plan to assess completion status of projects and activities to meet West Basin's mission.

	FY 07/08 Actual	FY 08/09 Actual	FY 09/10 Projected	FY 09/10 Budget	FY 10/11 Budget
Labor and Benefits	\$ 80,360	\$ -	\$ -	\$ -	\$ -
Overhead	-	-	-	-	-
Directors Administration Costs	601,702	673,758	682,538	750,000	784,000
Retiree Health	-	-	-	-	-
Standby Charge Program	24,104	24,630	21,000	22,000	-
<b>Total District Administration</b>	<b>\$ 706,166</b>	<b>\$ 698,388</b>	<b>\$ 703,538</b>	<b>\$ 772,000</b>	<b>\$ 784,000</b>

### *Personnel - Full Time Equivalent (FTE)*

FY 2007/08 Actual FTE	FY 2008/09 Actual FTE	FY 2009/10 Projected FTE	FY 2009/10 Budget FTE	FY 2010/11 Budget FTE
1.42	0.00	0.00	0.00	0.00

## WATER RECYCLING OPERATIONS

### ***Strategic Business Plan Goal:***

Reliability: Maintain a level of local water reliability that supports the regional economy, our community and customer agency needs.

Water Quality: Provide high quality water that meets the needs of our customers.

Environment: Utilize environmentally sustainable and sound business practices in our projects, policies and actions.

Infrastructure: Manage infrastructure to ensure reliability, manage risk, and maximize the useful life of facilities.

**Commitment Statement:** West Basin is committed to providing Water Reliability; Water Quality; Environmental Stewardship; and Sound Financial and Resource Management.

The recycled water operations and maintenance budget includes funds to operate and maintain all of the recycled water facilities, research and development costs to evaluate new, potentially more cost-effective processes and to support regulatory efforts, costs to administer the program, and costs to encourage and develop additional customers to use recycled water. West Basin started delivering recycled water in 1995. West Basin's recycled water system consists of:

- A pump station in the southwest corner of the Hyperion Wastewater Treatment Plant to pump secondary effluent to the main El Segundo plant;
- The main water recycling plant in El Segundo that treats water for use in Chevron refinery's high-pressure and low-pressure boilers, for use in the West Coast Barrier and to comply with Title 22 of the California Administrative Code for irrigation and other industrial uses;
- A Satellite Treatment Plant in El Segundo to further treat Title 22 water to provide nitrified water to Chevron refinery's cooling towers;
- A Satellite Treatment Plant in Torrance to further treat Title 22 water to provide nitrified water to ExxonMobil refinery's cooling towers and a separate Satellite Treatment Plant to provide boiler feed water to ExxonMobil;
- A Satellite Treatment Plant in Carson to further treat Title 22 water to provide recycled water to bp refinery's cooling towers;
- Two re-disinfection stations to boost the level of disinfectant within the recycled water distribution system; and
- Approximately 100 miles of pipelines to deliver recycled water to our customers.

West Basin contracts with United Water Services (UWS) to operate and maintain the main and satellite treatment facilities and with California Water Services Company (CWSC) to operate and maintain the distribution system. West Basin staff manages the program, administers the operations and maintenance agreements, and oversees compliance with the various permits West Basin holds to enable it to sell recycled water.

#### FY 2010 Accomplishments

- Finance – Objective 3: Received approximately \$100,000 from the Demand Response Program that West Basin enrolled in, where we cut power use at the ECLWRF when requested by SCE during times of high power demand;
- Finance – Objective 3: Completed draft of key performance indicators for the recycled water program;
- Infrastructure – Objective 3: Completed the conversion of record drawing data to a geo-database;
- Finance – Objective 3: Received \$272,750 rebate from SCE for implementing technology and the Distributed Control System to help with power management;
- Water Quality – Objective 2: Completed over 50 compliance reports to the regulatory agencies;
- Infrastructure – Objective 4: Performed approximately 100 annual visual inspections and over 35 periodic cross-connection tests of recycled water sites;
- Infrastructure – Objective 4: Installed Phase II microfilter elements at the main plant in El Segundo;
- Infrastructure – Objective 4: Installed RO membranes in Train nos. 3 and 4 at the Exxon Mobil satellite plant;
- Infrastructure – Objective 4: Installed Phase IV microfilter elements at the main plant in El Segundo;
- Infrastructure – Objective 4: Installed Phase III microfilter elements at the main plant in El Segundo;
- Finance – Objective 3: Completed antiscalant testing to determine most cost-effective antiscalant;
- Finance – Objective 3: Completed CMF-L microfilter pilot testing to determine if process is cost-effective;
- Infrastructure – Objective 4: Completed modifications to service connection WB-28B; and
- Reliability – Objective 2: Added 20 customers to-date with more anticipated before the end of the year.

#### FY 2011 Preview

- Infrastructure – Objective 3: Develop an asset management system to maximize the asset life and optimize maintenance activities;
- Water Quality – Objective 1: Complete Barrier Intrinsic Tracer Study for permit compliance;

- Water Quality – Objective 1: Complete ferric chloride addition test at Hyperion to improve water quality;
- Water Quality – Objective 1: Complete Ozone pilot test at ECLWRF to improve water quality;
- Finance – Objective 1: Monitor contract operators against key performance metrics and report to the Board on a periodic basis; and
- Water Quality – Objective 1: Continue to support existing customer water quality inquiries.

	FY 07/08 Actual	FY 08/09 Actual	FY 09/10 Projected	FY 09/10 Budget	FY 10/11 Budget
Labor and Benefits	\$ 1,251,245	\$ 1,314,118	\$ 1,268,800	\$ 1,481,224	\$ 1,717,167
Overhead	904,378	1,075,621	1,126,100	846,052	977,934
Operations					
Chemicals	4,528,071	5,235,585	5,156,477	5,768,700	6,018,100
Consultants	940,485	1,421,578	486,203	820,000	918,500
Contract Labor	312,726	349,070	346,969	360,000	360,000
Facility Maintenance	2,054,288	2,053,824	2,369,185	1,870,000	2,067,300
Laboratory Service	526,401	265,317	460,875	418,000	400,900
Office Administration	597,469	357,653	533,175	638,200	611,200
Secondary Effluent	276,629	258,749	263,880	324,000	319,500
Solids Disposal	499,693	605,170	650,930	788,500	788,300
Utilities	4,807,073	4,560,106	4,948,358	5,292,500	5,500,000
UWS Labor	4,773,874	4,836,580	5,912,478	4,805,500	5,584,100
Mobil Reimbursement	(763,632)	(804,960)	(804,960)	(837,000)	(837,000)
Total Recycling Operations	\$ 20,708,700	\$ 21,528,411	\$ 22,718,470	\$ 22,575,676	\$ 24,426,001

*Personnel - Full Time Equivalents (FTE)*

FY 2007/08 Actual FTE	FY 2008/09 Actual FTE	FY 2009/10 Projected FTE	FY 2009/10 Budget FTE	FY 2010/11 Budget FTE
8.27	8.31	8.81	8.89	9.95

**C. MARVIN BREWER DESALTER OPERATIONS**

**Strategic Business Plan Goal:**

Reliability: Maintain a level of local water reliability that supports the regional economy, our community and customer agency needs.

Water Quality: Provide high quality water that meets the needs of our customers.

Infrastructure: Manage infrastructure to ensure reliability, manage risk, and maximize the useful life of facilities.

**Commitment Statement:** Water Reliability; Water Quality; and Sound Financial and Resource Management.

The C. Marvin Brewer Desalter began operating in July 1993. The Desalter was initially conceived as a five-year Pilot Program to see if brackish water could be economically treated to drinking water standards. It originally consisted of two wells that pump brackish water from a saline plume trapped in the West Coast Groundwater Basin and then treated using reverse osmosis (RO) and blended with other potable water in California Water Service Company’s (CWSC) reservoir. The Desalter was successful and operations continued after five years. A single well was constructed in 2005 to replace the two wells.

The Desalter is built on a site owned by CWSC in the City of Torrance. The site includes a potable water reservoir and pump station that CWSC uses to meet demands in its service area. Under the terms of an agreement with CWSC, West Basin reimburses CWSC to operate and maintain the Desalter. The budget for the Desalter includes West Basin staff time to oversee the Desalter, operation and maintenance costs incurred by CWSC, lab fees for water quality analyses, sewer fees for brine disposal, and the replenishment assessment paid to the Water Replenishment District (WRD).

FY 2010 Accomplishments

- Infrastructure – Objective 4: Facilities upgrades continue throughout the fiscal year to address water quality and aging equipment issues.

FY 2011 Preview

- Finance – Objective 3: Assumes a full operating year.

	FY 07/08 Actual	FY 08/09 Actual	FY 09/10 Projected	FY 09/10 Budget	FY 10/11 Budget
Labor and Benefits	\$ 11,704	\$ 8,750	\$ 12,346	\$ 19,080	\$ 29,675
Overhead	9,111	7,559	9,705	10,633	15,633
Operations	327,587	361,079	452,965	422,000	451,500
Replenishment Assessment	91,737	103,344	100,272	251,000	275,940
Total Desalter Operations	\$ 440,139	\$ 480,732	\$ 575,288	\$ 702,713	\$ 772,748

*Personnel - Full Time Equivalent (FTE)*

FY 2007/08 Actual FTE	FY 2008/09 Actual FTE	FY 2009/10 Projected FTE	FY 2009/10 Budget FTE	FY 2010/11 Budget FTE
0.08	0.07	0.08	0.12	0.18

## RESOURCE PLANNING

### **Strategic Business Plan Goal:**

Reliability: Maintain a level of local water reliability that supports the regional economy, our community and customer agency needs.

Customer/Community Service: Provide for the needs of our customer agencies and the communities we serve in a way that reflects their needs.

Finance: Manage finances to optimize the public's investment return & minimize risk.

**Commitment Statement:** Water Reliability, Customer Service, and Sound Financial and Resource Management.

Despite the state's continuing fiscal challenges and its effect on the availability of previously committed grant proceeds and new grants, West Basin remains very active in the pursuit of external funding for conservation and water supply planning and construction, with an increased focus on federal sources. The Resources Planning budget includes funds to support West Basin's efforts in pursuing grant opportunities for West Basin and its customer agencies.

### FY 2010 Accomplishments

- Reliability – Objective 1: Successfully implemented the first 12-month period of West Basin's Water Shortage Allocation Plan, which equitably distributes limited supplies of imported water to its customer agencies;
- Finance – Objective 3: Continued aggressive pursuit of federal stimulus and other grant funding in support of conservation and reliability programs;
- Reliability – Objective 2: Continued a leadership role in the Greater Los Angeles County Integrated Regional Water Management Program as Leadership
- Customer/Community Services – Objective 2: Conducted customer service meetings with each customer agency for feedback pertaining to West Basin's customer service and programs;
- Customer/Community Services – Objective 2: Provided grant writing consultant services to three of West Basin's customer agencies;
- Finance – Objective 3: Awarded 4 additional street median retrofit grants to cities within service area and conducted 2 out of 6 recognition ceremonies for the completed retrofits; and
- Reliability – Objective 2: Submitted CY 2008 greenhouse gas emissions from all West Basin operations to the Climate Registry.

### FY 2011 Preview

- Reliability – Objective 1: Implement a second consecutive 12-month period of Water Shortage Allocation Plan and provide support to customer agencies through the allocation period;
- Reliability – Objective 2: Play an influential role in the completion of Metropolitan's next Integrated Resources Plan that will determine investments into conservation, local supply development, imported water;

- Reliability – Objective 1: Develop a retail water demand forecasting tool, complete West Basin’s 2010 Urban Water Management Plan, and provide support to all customer agencies in the preparation of their Plans;
- Finance – Objective 3: Continue pursuing grant opportunities for West Basin and its customer agencies and monitor applications pending from various venues including MWD, Santa Monica Bay Restoration Commission and U. S. Bureau of Reclamation totaling approximately \$1 million;
- Reliability – Objective 2: Continue leadership role in the Greater Los Angeles County Integrated Regional Water Management Program; and
- Reliability – Objective 2: Submit CY 2009 greenhouse gas emissions from all West Basin operations to the Climate Registry.

	<b>FY 07/08 Actual</b>	<b>FY 08/09 Actual</b>	<b>FY 09/10 Projected</b>	<b>FY 09/10 Budget</b>	<b>FY 10/11 Budget</b>
Labor and Benefits	\$ 1,132,966	\$ 511,416	\$ 424,471	\$ 542,411	\$ 542,773
Overhead	947,709	373,073	393,550	349,357	292,338
Ocean Desalination	1,973	-	-	-	-
Planning	112,638	211,526	132,400	250,000	225,000
<b>Total Resource Planning</b>	<b>\$ 2,195,286</b>	<b>\$ 1,096,015</b>	<b>\$ 950,421</b>	<b>\$ 1,141,768</b>	<b>\$ 1,060,111</b>

*Personnel - Full Time Equivalent (FTE)*

<b>FY 2007/08 Actual FTE</b>	<b>FY 2008/09 Actual FTE</b>	<b>FY 2009/10 Projected FTE</b>	<b>FY 2009/10 Budget FTE</b>	<b>FY 2010/11 Budget FTE</b>
8.71	3.79	3.16	3.15	3.25

## **PUBLIC INFORMATION & CONSERVATION**

### ***Strategic Business Plan Goal:***

*Reliability: Maintain a level of local water reliability that supports the regional economy, our community and customer agency needs.*

*Customer/Community Service: Provide for the needs of our customer agencies and the communities we serve in a way that reflects their needs.*

*Communications: Engage in effective two-way communication of West Basin's programs & policies with the customer agencies and communities we serve.*

**Commitment Statement:** *Reliability and Customer Service.*

The core mission of West Basin's Public Information and Conservation Department (Department) is to convey West Basin's value, benefits and savings to its stakeholders and enhance West Basin's reputation as a premiere, innovative water agency while encouraging water conservation throughout West Basin. This year, staff continues to implement the Board of Director's Strategic Business Plan, in conjunction with its five commitments to its customers: Water Reliability, Water Quality, Customer Service, Sound Financial Management and Environmental Stewardship. The five commitment statements convey the value of all of West Basin's programs to its customers and other stakeholders.

### Water Reliability 2020

The Department continued its program to inform community leaders and the public of the need to develop a more locally-controlled and diversified water supplies through the Water Reliability (WR) 2020 Program. The WR 2020 program will decrease West Basin's dependence on imported water from today's 66 percent down to 33 percent by the year 2020. Doubling West Basin's recycling and conservation programs and implementing 20 million gallons a day of ocean-water desalination by the year 2020 is the goal of the WR2020 initiative.

To support West Basin's water reliability mandate, a variety of legislative advocacy programs are managed by the Department. These include legislative advocacy efforts on key water-supply legislation at the local, state and federal levels, as well as efforts to seek government funding and regulatory support for capital projects and key initiatives. Many local cities are considering passing conservation ordinances in light of current water shortages. All of these efforts support West Basin's Reliability 2020.

### Public Outreach

The Public Information and Conservation department develops and implements a wide array of programs to insure that West Basin is positioned as a leader in water reliability management among key constituencies. Audiences include legislative officials, cities, partner and customer agencies, community, environmental,

educational and business leaders. The Department manages numerous outreach programs, including special events, tours, presentations, media briefings and others designed to inform stakeholders and critical audiences about West Basin. Annual water-themed events, construction outreach meetings, media tours and special delegation tours of West Basin's Edward C. Little Water Recycling Facility continue to enhance West Basin's reputation as a world-class agency dedicated to sustainable water resource management.

### Education

West Basin's award-winning water education programs engage students about the importance of water conservation and environmental responsibility. West Basin currently offers several programs to elementary school children attending both public and private schools and has expanded its programs to service middle and high school levels. The annual "water is life" art contest attracted almost 700 participants in 2010, the highest amount yet.

### Conservation

In FY 2010, West Basin was busy forging new partnerships and developing new water use efficiency strategies and programs to help the public conserve water. West Basin's water conservation programs currently make up 7 percent of the District's total water supply portfolio and by 2020 will double to 14 percent. West Basin is currently conserving 3,000 AF of "active" water savings or 1 billion gallons, and by the year 2020 the number will double to 2 billion gallons of "active" water savings.

### FY 2010 Accomplishments

- Reliability – Objective 2: Continued Water Reliability 2020 program and obtained over 2,500 community supporters for the program, including several legislative supporters, business and community groups;
- Communications – Objective 2: Continued our expanded Water Explorations school tour program to serve more middle and high schools in the District's service area, and added young Sealab student instructors;
- Communications – Objective 2: Expanded the Water is Life Student Art Contest to middle and high school students;
- Communications – Objective 2: Successfully sponsored four high schools in Solar Cup 2010;
- Customer/Community Services – Objective 2: Attracted over 2,000 attendees to the 11th Annual Water Harvest educational festival;
- Communications – Objective 3: Continued our program to honor Legislators of the Year with Water Reliability 2020 awards
- Communications – Objective 3: Continued to implement installation of a new logo and style guide to further the brand of West Basin;

- Communications – Objective 3: Continued to improve [www.westbasin.org](http://www.westbasin.org) with interactive features involving water recycling, conservation and solar power generation, and added a new WR 2020 section;
- Communications – Objective 3 Developed and began distribution of the Huell Howser video on Water Reliability 2020;
- Communications – Objective 2: Obtained more than \$100,000 of sponsorship dollars for West Basin Water Education Center in conjunction with the Temporary Ocean-Water Desalination Project;
- Reliability – Objective 2: Conducted a Local Government Outreach Initiative to inform cities and customers about updating their local conservation ordinances;
- Customer/Community Service – Objective 2: West Basin built a beautiful Native Plant Demonstration and Education Garden at its Edward C. Little Water Recycling Facility in El Segundo, CA;
- Customer/Community Service – Objective 2: Held 2<sup>nd</sup> Smart Landscape Expo for local citizens wishing to learn more about conserving water outside for their home;
- Customer/Community Service – Objective 2: West Basin applied to the United States Bureau of Reclamation and was awarded a grant on behalf of its Customer Agencies to help develop Local Water Use Efficiency Plans to guide West Basin and its retailers to meet new conservation related legislation, regulations and plumbing codes;
- Reliability – Objective 2: Continued to implement West Basin’s Conservation Master Plan, maintaining pace to achieve Water Reliability 2020 goals;
- Reliability – Objective 2: Continued the “Recirc & Save” Program where from an initial auditing effort of over 20 businesses, West Basin continues to work with the top five candidates to move their projects forward. These projects will save tens of millions of gallons each year through the installation of recirculation and water treatment equipment ;
- Reliability – Objective 2: Continued the “Cash for Kitchens” Program to provide free kitchen surveys and training to kitchens that are 1,000 square feet and larger. West Basin has conducted 50 audits and over 30 training sessions providing food facilities with free training materials, faucet flow restrictors and aerators, waterbrooms and kitchen faucet spray nozzles;
- Reliability – Objective 2: Implemented 15 “Ocean Friendly Garden” Workshops to provide residents with information on how they can develop a water-conserving and sustainable garden;
- Customer/Community Service – Objective 2: The PIC department facilitated construction awareness outreach for four separate recycled water pipeline projects, holding community meetings, canvassing neighborhoods and furthering West Basin’s WR2020 program.

## FY 2011 Preview

- Communications – Objective 2: Develop a plan to improve our education programs, including pre- and post-testing, add additional information on the West Basin Web site and an audit by an outside education expert;
- Communications – Objective 2: Plan to initiate a Speakers Bureau, Water 101 class for local colleges, talking point cards for Board and staff;
- Communications – Objective 2: Begin entry into “new media” outlets, such as Facebook and YouTube;
- Reliability – Objective 2: Continue to implement the WR 2020 outreach program and launch WR2020 Web site;
- Customer/Community Service – Objective 2: Develop a one-day local water tour for community leaders;
- Communications – Objective 2: Facilitate formal dedication event of West Basin Temporary Ocean-Water Desalination Project invite Governor, key elected officials, sponsors, media and industry V.I.Ps;
- Communications – Objective 2: Open West Basin Water Education Center in conjunction with the Temporary Ocean-Water Desalination Project which will include multi-media exhibits, under water video feed and water tasting area;
- Communications – Objective 2: Develop outreach strategy for potential revenue measure and facilitate execution of strategy;
- Communications – Objective 2: Continue targeted Redondo Beach outreach plan to build desal support in Redondo Beach and neighboring beach cities;
- Reliability – Launch new youth conservation program called the WR2020 Water Star program in conjunction with WRD to fill the conservation gap between children and adults.
- Communications – Objective 3: Continue to develop new collateral materials to showcase West Basin’s “new” brand and value, including distribution of Huell Howser video;
- Customer/ Community Service – Objective 2: Host 12<sup>th</sup> Annual Water Harvest festival to reach out to the community and make it more education focused;
- Communications – Objective 3: Coordinate frequent meetings with media focused on current issues facing the water industry and West Basin;
- Communications – Objective 3: Continue to improve West Basin’s website;
- Customer/Community Services – Objective 2: Continue to provide cities support with implementation of AB1881 – the state’s new Model Landscape Ordinance;
- Reliability – Objective 2 Customer/Community Services – Objective 2: Update Conservation Master Plan and through a collaborative approach, will assist its customer agencies with developing Local Water Use Efficiency Plans;
- Reliability – Objective 2: Continue to implement the Conservation Master Plan and programs through the following programs –
  - Green Living for Apartments & Condos
  - Ocean Friendly Garden Workshops
  - Ocean Friendly Large Landscape Controllers

- Zero Run-off Street Median
- High Efficiency Toilet Exchange
- Cash for Kitchens
- Recirc & Save Program
- Complete Restroom Retrofit Program

	<b>FY 07/08 Actual</b>	<b>FY 08/09 Actual</b>	<b>FY 09/10 Projected</b>	<b>FY 09/10 Budget</b>	<b>FY 10/11 Budget</b>
Labor and Benefits	\$ 900,888	\$ 1,099,653	\$ 1,024,500	\$ 1,071,643	\$ 1,051,045
Overhead	802,686	1,022,879	1,044,000	880,988	841,579
Education	144,462	229,587	232,027	400,700	225,400
Media	143,400	106,996	84,804	215,000	141,000
Events	151,967	96,027	99,473	115,000	114,600
Government Relations	351,560	395,117	346,050	457,000	441,000
Market Research	17,825	-	-	-	5,000
Outreach	51,296	90,116	70,643	93,000	239,438
Conservation	537,530	1,409,290	1,402,528	3,091,712	2,408,131
<b>Total Public Info &amp; Conservation</b>	<b>\$ 3,101,614</b>	<b>\$ 4,449,665</b>	<b>\$ 4,304,025</b>	<b>\$ 6,325,043</b>	<b>\$ 5,467,193</b>

*Personnel - Full Time Equivalents (FTE)*

<b>FY 2007/08 Actual FTE</b>	<b>FY 2008/09 Actual FTE</b>	<b>FY 2009/10 Projected FTE</b>	<b>FY 2009/10 Budget FTE</b>	<b>FY 2010/11 Budget FTE</b>
5.97	9.98	9.02	7.44	7.05

**WATER QUALITY MONITORING PROGRAM**

**Strategic Business Plan Goal:**

Water Quality: Provide high quality water that meets the needs of our customers.

**Commitment Statement:** Water Quality.

West Basin administers the Water Quality Monitoring Program. Program activities include compliance sample scheduling, contracting wellhead sampling and laboratory services, reviewing water quality data for compliance, maintaining water quality databases, and preparing compliance and non-compliance reports. All laboratory expenses are completely reimbursed by the water agencies participating in the Title 22 Program.

FY 2010 Accomplishments

- Water Quality – Objective 1: Completed annual customer water quality reports for 3 participating retailers;
- Water Quality – Objective 2: Completed laboratory services required to comply with federal Safe Drinking Water Act and California Title 22 Drinking Water regulation such as analyses of all inorganic, organic compounds, and radioactivity; and
- Water Quality – Objective 2: Provide groundwater quality data to the West Basin Watermaster for inclusion in the annual Watermaster report.

FY 2011 Preview

- Water Quality – Objective 2: Include federal Unregulated Contaminant Monitoring Rule (UCMR) sampling in the Water Quality Monitoring Program; and

	FY 07/08 Actual	FY 08/09 Actual	FY 09/10 Projected	FY 09/10 Budget	FY 10/11 Budget
Labor and Benefits	\$ 9,954	\$ 5,373	\$ 9,710	\$ 11,787	\$ 12,110
Overhead	8,151	4,636	6,100	7,595	7,816
Monitoring Program	3,566	16,466	7,450	2,450	2,100
Title 22 Monitoring	\$ 21,671	\$ 26,475	\$ 23,260	\$ 21,832	\$ 22,026

*Personnel - Full Time Equivalents (FTE)*

FY 2007/08 Actual FTE	FY 2008/09 Actual FTE	FY 2009/10 Projected FTE	FY 2009/10 Budget FTE	FY 2010/11 Budget FTE
0.08	0.05	0.06	0.08	0.08

## FINANCIAL POLICIES

West Basin’s Board of Director’s has approved a number of financial policies to effectively manage the agency. Other non-financial policies are maintained by West Basin through its administrative code and are reviewed periodically to ensure compliance with legal statutes and incorporate other considerations. During the year, West Basin received notification from the Association of Public Treasurers that its investment policy received an award demonstrating it met the criteria for its Model Investment Policy award. In February 2010, the West Basin Board of Directors approved a comprehensive debt management policy that addresses the key areas evaluating debt issuance options, and maintaining appropriate capital assets for present and future needs. A copy has been included within the budget document.

West Basin plans to revisit or develop more comprehensive financial policies in support of long-term financial planning. West Basin staff intends to develop a swap policy and review its Designated Fund policy to determine that the various funds, method of allocation and criteria are still appropriate. These recommendations for new or revised policies will be brought to the Board of Directors for consideration and adoption.

In the table listed below, West Basin has highlighted key financial policies for which West Basin Board and staff is governed.

<p>A. Annual Operating Budget Policies</p>	<ul style="list-style-type: none"> <li>• Annual budget is prepared under the direction of the General Manager.</li> <li>• The budget is developed using the direction given by the Board of Directors through the Strategic Business Plan.</li> <li>• A draft budget is to be presented to the Board within sixty days of the new fiscal year.</li> <li>• The budget objectives are: Achieve targeted debt coverage; present a balanced budget; and address risks &amp; plan for future budget implications.</li> <li>• The Board shall adopt a budget prior to commencing the next fiscal year.</li> <li>• The General Manager will submit quarterly operating budget versus actual reports with explanation of significant variances.</li> </ul>
<p>B. Investment Policy</p>	<ul style="list-style-type: none"> <li>• Funds will be invested in compliance with the provisions of the California Government Code Section 53601 and other applicable statutes.</li> <li>• Safety of principal, liquidity and return on investment, in that order, are the criteria in which the Treasurer shall invest.</li> </ul>

	<ul style="list-style-type: none"> <li>• Investments shall be diversified and to the extent possible, West Basin will match its investments with cash flow requirements.</li> <li>• An annual independent review by an external auditor will be performed to assure compliance with policies and procedures.</li> <li>• The Treasurer shall submit a monthly report to the Secretary of the Board of Directors indicating investment by fund, institution, date of maturity, amount of deposit, and shall provide the current market value of all securities with a maturity of more than 12 months, rates of interest, and expected yield to maturity.</li> <li>• May engage services of an external manager to assist in the management of the investment portfolio.</li> </ul>
C. Designated Funds Policy	<ul style="list-style-type: none"> <li>• Designated and undesignated funds can be used for any lawful purpose at the discretion of the Board of Directors.</li> <li>• Designated funds can be shifted or re-allocated at any time at the Board's discretion.</li> <li>• Operating fund is for short-term or immediate purposes such as unplanned activities.</li> <li>• Facility Replacement fund is to provide monies for repair, replacement or refurbishment of existing assets.</li> <li>• Construction fund consists of monies for new capital facilities.</li> <li>• Rate Stabilization fund is a buffer to water rates when unexpected increases in operating costs occur or decreased in revenue.</li> <li>• Swap Termination fund was established to pay for the termination fee.</li> <li>• Bond Defeasance fund is used to set aside funds to accelerate bond retirement.</li> <li>• Bond Reserve fund consists of restricted bond proceeds that provide for additional security for the payment of annual debt service.</li> </ul>
D. Procurement Policy	<ul style="list-style-type: none"> <li>• Covers the purchase of professional and non-professional services as well as supplies, goods and equipment.</li> <li>• A competitive process ensures that purchases are made at the lowest possible cost commensurate with acceptable quality.</li> </ul>

	<ul style="list-style-type: none"> <li>• All expenditures for goods and services are pre-authorized and do not exceed budgeted amounts without Board approval.</li> <li>• Provides for a local business enterprise incentive to encourage local business to bid on West Basin’s procurement opportunities</li> <li>• Thresholds are established to determine if sole source (&lt;\$5,000), informal process (\$5,000-\$25,000) or a formal process (&gt;\$25,000) should be followed.</li> <li>• Critical repairs acquisitions are subject to the informal solicitation process and shall not exceed \$100,000 per each critical repair or critical acquisition.</li> </ul>
<p>E. Capitalization Policy</p>	<ul style="list-style-type: none"> <li>• Provides guidance for the capitalization and depreciation of assets to comply with the requirements of Governmental Accounting Standard Board Statement 34.</li> <li>• Purchased or West Basin constructed assets will be reported at historical cost.</li> <li>• Estimated useful life of an asset is determined using the Internal Revenue Tax Law requirements, general guidelines obtained from professional or industry organizations and information for comparable assets of other governments.</li> <li>• West Basin will use the straight-line method with no salvage value for depreciating capital assets.</li> </ul>
<p>F. Accounting, Auditing and Financial Reporting</p>	<ul style="list-style-type: none"> <li>• The General Manager shall implement an accounting system meeting the financial reporting needs of the Board, and complies with generally accepted accounting practices.</li> <li>• The General Manager shall review and pay all financial obligations as they become due and shall submit a monthly register of disbursements for ratification of the Board.</li> <li>• The General Manager shall prepare and submit to the Board at the end of the fiscal year a comprehensive annual financial report on the finances of West Basin for the preceding year, keep the Board advised of the financial condition and future needs of West Basin, and make recommendations.</li> </ul>

	<ul style="list-style-type: none"> <li>• West Basin will use widely recognized and generally accepted accounting principles (GAAP) and guidance issued by the Government Accounting Standards Board (GASB).</li> <li>• West Basin will hire an independent accounting firm to perform annual audits in conformity with GAAP.</li> </ul>
<p>G. Debt Management</p>	<ul style="list-style-type: none"> <li>• Capital programs can be funded by debt.</li> <li>• Long term debt will not be used for operating and maintenance costs.</li> <li>• West Basin will maintain a debt coverage ratio consistent or greater than the legal or contractual requirements.</li> <li>• A goal of West Basin is to obtain the lowest cost of debt possible with the current ratings of AA- (Standard &amp; Poors) and Aa2 (Moody's).</li> <li>• Final maturity of the debt will not exceed the useful life of the assets being financed.</li> <li>• Refunding shall produce net present value savings of at least 3% of the refunded par amount.</li> </ul>
<p>H. Rates and Charges</p>	<ul style="list-style-type: none"> <li>• The rates, fees and charges will recoup the amounts paid by West Basin for water, the cost of operations and maintenance expenses, and an amount necessary for reasonable designated funds.</li> <li>• The revenue produced by the rates, fees and charges will be used to provide service to existing customers</li> <li>• Rates and charges will be reviewed annually and the Board of Directors will adopt a resolution fixing the rates and charges for the following fiscal year.</li> </ul>
<p>I. Human Resources Management</p>	<ul style="list-style-type: none"> <li>• West Basin will determine staffing levels consistent with budgetary authority, available resources, and operating needs.</li> <li>• The General Manager can modify positions and organizational structure to accomplish West Basin's work within the budget approved by the Board for that fiscal year.</li> <li>• The General Manager shall develop an employee performance evaluation plan to assess employee performance in accomplishing West Basin business.</li> </ul>

	<ul style="list-style-type: none"> <li>• Salary ranges for positions shall be reviewed on an annual basis via a salary survey.</li> <li>• West Basin will provide suitable training for staff.</li> </ul>
J. Risk Management	<ul style="list-style-type: none"> <li>• West Basin will procure insurance for risk of loss involving a combination of property damage and third party claims.</li> <li>• To the extent practicable, West Basin shall transfer risks to third parties through appropriate contractual provisions.</li> </ul>
K. Balanced Budget	<ul style="list-style-type: none"> <li>• The budget should be balanced with the current revenues equal to or greater than current expenses.</li> </ul>

Included for reference are the full and complete financial policies:

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Designated Funds Policy	86
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Capitalization Policy	101
Debt Management Policy	106

## **INVESTMENT POLICY**

### **1.0 Policy:**

This investment policy is intended to outline the guidelines and practices to be used in effectively managing West Basin Municipal Water District (District's) available cash and investment portfolio. District monies not required for immediate cash requirements will be invested in compliance with the California Government Code Section 53600, *et seq.*

### **2.0 Scope:**

This policy applies to the investment of the District fund accounted for in the annual budget. Funds of the District will be invested in compliance with the provisions of, but not necessarily limited to the California Government Code Section 53601 *et seq.* and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this policy.

### **3.0 Prudence:**

The Board of Directors and Treasurer adhere to the guidance provided by the "prudent investor rule," California Government Code Section 53600.3, which obligates a fiduciary to ensure that "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

### **4.0 Objectives:**

In accordance with California Government Code Section 53600.5, and in order of importance, the Treasurer shall adhere to the following three criteria:

- (a) Safety of Principal – Investments shall be undertaken which first seek to ensure the preservation of principal in the portfolio. The Treasurer shall ensure each investment transaction is evaluated or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss. Diversification of the portfolio will be used in order to reduce exposure to principal loss.

- (b) Liquidity – Investments shall be made whose maturity date is compatible with cash flow requirements and which will permit easy and rapid conversion into cash without substantial loss of value.
- (c) Return on Investment – Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

### **5.0 Delegation of Authority:**

The authority to invest public funds is expressly delegated to the Board of Directors. The Board re-delegates the investment function to an appointed Treasurer and Deputy Treasurer. The appointed Treasurer may be a board member or staff member and the Deputy Treasurer shall be a District staff member.

The investment of the District's monies is annually delegated by the Board of Directors to an appointed Treasurer and Deputy Treasurer (District Finance staff) who shall thereafter assume full responsibility for those transactions until the delegation is revoked or expires. The appointed Treasurer shall delegate the day-to-day operations of investing to the Deputy Treasurer, but not the responsibility for the overall investment program. All transactions will be reviewed by the appointed Treasurer on a monthly basis to assure compliance with the Investment Policy. (California Government Code Section 53607.)

### **6.0 Investment Procedures:**

The Treasurer and Deputy Treasurer shall establish written operational procedures pertaining to the investment of District funds. These procedures shall be compliant with the parameters and limits set forth by this investment policy. The procedures should regulate actions regarding: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts, and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer and Deputy Treasurer.

### **7.0 Ethics and Conflicts of Interest:**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business to the Treasurer and Deputy Treasurer. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District

### **8.0 Authorized Financial Dealers and Institutions:**

For brokers/dealers of government securities and other investments, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations. Before engaging in investment transactions with a broker/dealer, the Treasurer shall obtain a signed verification form that attests the individual has reviewed the District's Investment Policy, and intends to present only those investment recommendations and transactions to the District that is appropriate under the terms and conditions of the Investment Policy.

The Board of Directors may engage the services of one or more external managers to assist in the management of the District's investment portfolio. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

### **9.0 Authorized and Suitable Investments:**

The District is governed by the California Government Code, Sections 53600, *et seq.* Within the context of these limitations, the investments listed below are authorized. Those investments not identified in Section 5 are considered to be ineligible. Credit criteria and maximum percentages listed in this section are calculated at the time the security is purchased.

- (a) Time Deposits – The Treasurer may invest in certificates of deposit issued by bank or savings and loans chartered by the United States or California. The maximum term for time deposits or bank certificates of deposit shall be one year. The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the portfolio. Time certificates of deposit shall meet the conditions in either paragraph (1) or paragraph (2):
  - (1) Time certificates of deposit shall meet the requirements for deposit under Government Code Section 53635 *et seq.* The Treasurer, for deposits up to \$100,000, may waive collateral requirements if the institution insures its deposits with the Federal Deposit Insurance Corporation (FDIC).
  - (2) Fully insured time certificates of deposit placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8.
- (b) Local Agency Investment Fund ("LAIF") Deposits – Deposits for the purpose of investment in the Local Agency Investment Fund of the State Treasury may be made up to the maximum amount permitted by State Treasury policy.

- (c) Negotiable Certificates of Deposit – The Treasurer may invest in negotiable certificates of deposit as follows:
- (1) To be eligible, a certificate of deposit must be issued by a nationally, or California-chartered bank, a California savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a California licensed branch of a foreign bank. (Government Code Sections 53601(h).)
  - (2) Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to “A” or higher by one of the nationally recognized statistical rating organizations (NRSRO).
  - (3) The amount invested shall be subject to the capital limitations of Government Code Section 53638.
  - (4) The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the total portfolio.
  - (5) The maximum maturity shall be limited to one (1) year.
- (d) Bankers’ Acceptances – The Treasurer may invest in bankers’ acceptances as follows:
- (1) Investment in a prime banker’s acceptance shall not exceed 15% of the portfolio in effect immediately after any such investment is made.
  - (2) Eligibility shall be limited to those securities issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by one or more of the NRSRO.
  - (3) No more than 15% of this category of investments may be invested in any one commercial bank’s acceptances.
  - (4) The maximum maturity shall be limited to 180 days. (Government Code Sections 53601(f).)
- (e) Commercial Paper – The Treasurer may invest in commercial paper as follows:
- (1) Only commercial paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by a NRSRO. (Government Code Sections 53601(g).)
  - (2) Eligible paper is further limited to issuing corporations that are organized and operating within the United States as a general corporation and having total assets in excess of \$500,000,000.
  - (3) Eligible issuer’s debt other than commercial paper, if any, that is rated “A” or higher by a NRSRO.

- (4) Investments in commercial paper shall not exceed 25% of the portfolio.
  - (5) No more than 10% of the outstanding commercial paper of an issuing corporation may be purchased.
  - (6) The term shall not exceed 270 days.
- (f) United States Treasuries.  
The Treasurer may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. (Government Code 53601 (b)).
- (g) Federal Agencies.  
The Treasurer may invest in Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. (Government Code 53601 (e)).  
(1) Additionally the Treasurer may invest in FDIC-guaranteed corporate debt issued under the Temporary Liquidity Guarantee Program (TLGP) and backed by the full faith and credit of the United States Government with a maximum final maturity of five years or for the length of the TLGP guarantee.
- (h) Money Market Funds.  
The Treasurer may invest in shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (Government Code Section 53601(k)).

The following criteria will be used in evaluating companies:

- (1) Attain the highest ranking letter and numerical rating provided by not less than two nationally recognized rating services; or
  - (2) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five (5) years' experience managing money market mutual funds and with assets under management in excess of \$500,000,000.
  - (3) The maximum purchase price of shares shall not exceed 20% of the portfolio.
- (i) California Municipal Obligations.  
(1) Bonds issued by the local agency, including bonds payable

- solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- (2) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
  - (3) For obligations without a fixed rate of interest, these obligations must have an unconditional demand feature, guarantee or put within the maximum maturity limitations
  - (4) Eligibility shall be limited to those obligations that maintain a rating of Aa3/AA- for the long term and P1/A-1 for the short-term, if any, by the Nationally Recognized Statistical Rating Organizations (NRSRO)
  - (5) Any bonds, notes, warrants, or other evidences of indebtedness of the District:
    - (i) District obligations that maintain short-term ratings will be tendered to the trustee for cancellation no later than the 5th anniversary of their purchase.

#### **10.0 Prohibited Investments:**

Under the provisions of California Government Code Sections 53601.6 and 53631.5, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity.

#### **11.0 Investment Pools/Mutual Funds Due Diligence:**

A thorough investigation of any investment pool or mutual fund is required prior to investing, and on a continual basis. The Treasurer or a staff member delegated by the Treasurer will complete a standard questionnaire that addresses the following issues to determine the safety and appropriateness of a prospective investment pool or mutual fund:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- A description of how reserves, retained earnings, etc. are utilized by the pool or fund

- A fee schedule, and when and how is it assessed.

### **12.0 Collateralization:**

Collateralization is required on Certificates of Deposit as per California Government Code section 53601. The collateralization level for certificates of deposit is 100% of market value of principal and accrued interest.

The entity chooses to limit collateral to the following: U.S. Treasuries and Federal Agency Obligations. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

### **13.0 Safekeeping and Custody:**

All securities purchased may be delivered versus payment ("DVP") basis, and held in safekeeping pursuant to a safekeeping agreement.

### **14.0 Diversification:**

The District's investments shall be diversified by:

- Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).
- Limiting investment in securities that have higher credit risks.
- Investing in securities with varying maturities.
- Continuously investing a portion of the portfolio in readily available funds such as money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

### **15.0 Maximum Maturities:**

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. For certain instruments, the term of the investment is limited by market convention or as otherwise prescribed herein. No investments may be acquired that exceed five (5) years.

### **16.0 Investment Transactions:**

Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community. Confirmations of all investment transactions will be maintained by the Finance Department for the annual audit. When practical, the Treasurer shall solicit more than one quotation on each trade

### **17.0 Exchange of Securities:**

An exchange of securities is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten

maturities, to take a profit, or to increase investment quality. In no instance shall an exchange be used for speculative purposes. Any such exchange shall be simultaneous (same day execution of sale and purchase), and shall require the approval of the Treasurer.

**18.0 Internal Control:**

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. The Treasurer may, at any time, further restrict the securities approved for investment as deemed appropriate.

**19.0 Performance Standards:**

The District's portfolio is managed with the objective of obtaining a market rate of return, commensurate with identified risk constraints and cash flow characteristics. Because the composition of the portfolio fluctuates, depending on market and credit conditions, various appropriate indices selected by the Treasurer will be used to monitor performance.

**20.0 Reporting:**

In accordance with Government Code Section 53607, the Treasurer shall submit a monthly report to the Executive Secretary of the Board of Directors via the General Manager indicating the types of investment by fund, institution, date of maturity, and amount of deposit, and shall provide the current market value of all securities with a maturity of more than twelve (12) months, rates of interest, and expected yield to maturity.

The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing investment activity and the status of cash by depository.

**21.0 Investment Policy Adoption:**

The Treasurer may, at any time, further restrict the securities approved for investment as deemed appropriate. This policy shall be reviewed at least annually by the Board of Directors.

Additionally, the Treasurer shall annually send a copy of the current Investment Policy to all approved dealers. Each dealer is required to return a signed statement indicating receipt and understanding of the District's investment policies.

## APPENDIX A: GLOSSARY

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.

**BANKERS' ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMMERCIAL PAPER:** An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g. U.S. Treasury Bills).

**FAIR VALUE:** The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**GOVERNMENT SECURITIES:** An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**MUTUAL FUND:** An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sells SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD):** A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of

market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES & EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

**SWAP:** Trading one asset for another.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**WEIGHTED AVERAGE MATURITY (WAM):** The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

## **DESIGNATED FUNDS POLICY**

Reserves are categorized into either unrestricted or restricted. Unrestricted reserves consist of undesignated funds, such as the Operating fund, or designated funds, such as the Facility Replacement fund. Designated and undesignated funds can be used for any lawful purpose at the discretion of the Board of Directors. The monies held within designated funds can be shifted or re-allocated at any time at the Board's discretion. Restricted reserves consist of funds with external restrictions imposed by creditors, grantors, contributors, or by laws or regulations of government and can only be used for a designated purpose.

### Operating Fund

Purpose:

The Operating fund is an unrestricted fund and serves as a short-term or immediate purpose. Monies held in the Operating fund meet a variety of potentially competing purposes including paying operating expenses during temporary revenue shortfalls. This fund would also be used to cover timing differences for periodic expenses paid in advance of revenues collected and to pay for expenses for special events not budgeted.

In developing the annual operating budget, staff expends a tremendous amount of effort to identify its program expenses and prudent spending levels. However, unforeseen developments can occur which cause the actual program expenses to exceed the budgeted expenses. In addition, opportunities not budgeted for may arise during the fiscal year that require the District to expend monies which will not be reimbursed. Other times the District will pay expenses that will be reimbursed only after the event is complete. The Operating fund would cover these types of situations.

Target Criteria:

To meet WBMWD cash flow needs and unbudgeted expenses, the Operating fund will be equal to approximately three months of the annual budgeted operating expenses.

### Facility Replacement Fund

Purpose:

The Facility Replacement fund is an unrestricted fund with both short-term and long-term purposes. The objective of the Facility Replacement fund is to provide monies for the current and future replacement of existing assets as they reach the end of their useful lives.

There are three sub-funds within the Facility Replacement fund:

- ◆ **Capital Asset Replacement** – As the Districts’ recycled water system continues to age, there will be increasing demands on this fund to replace or repair these facilities. As a general rule, maintenance costs for an asset becomes more expensive as that asset ages, and eventually the economic decision is made to replace that asset.
- ◆ **Emergency Repairs** - Although the preventive maintenance program is intended to increase the predictability of equipment replacement, unanticipated equipment failure is unavoidable. As a result, these funds would be used to cover periodic short-term replacements made necessary by unplanned failures. In addition, the District does not maintain earthquake insurance. In the event a natural disaster would occur, the District would need sufficient funds to cover the necessary expenditures until funding is available to properly repair the damaged assets.
- ◆ **System Enhancements** – With the rapid changes in technology, assets are becoming obsolete at a faster rate than originally planned. If these improvements increase productivity, reduce operating cost, or extend the useful life of the Districts’ facilities, then expenditures will be made from this fund. Improvements made using this designated fund will show that the benefit/savings must exceed the cost of the enhancement.

The District recognizes that the Facility Replacement fund will only be sufficient to pay a portion of the full cost of future asset replacements and other sources of replacement funding will be needed, such as a bond issuance. This fund will also help reduce the impact of the capital replacements on water rates for future recycled water users.

Target Criteria:

Staff recommends funding levels based on the projected replacement cost of the District’s treatment facilities and distribution systems. The projected capital asset replacement cost for these facilities was determined by first establishing an equipment life cycle and then adjusting estimated replacement cost based on the historical consumer price index. Staff recommends using 5% of the projected capital asset replacement cost to determine the target level for the Capital Asset Replacement Fund and approximately three months funding for critical plant equipment replacement and major pipeline segment repair for the Emergency Repairs Fund. In order to set a target for the System Enhancement Fund, Staff reviewed the historical cost of minor facility projects and considered the cost of future projects to determine a reasonable target level.

## Construction Fund

### Purpose:

The Construction fund is made up of three parts: bond proceeds, grant funds, and PAYGO. Since it is not feasible for the District to fund construction of new capital facilities entirely with current assets, it has been the District's practice to fund a large percentage of such facilities through the issuance of long-term debt. These bond proceeds are restricted solely for the construction of facilities for which they were issued and cannot be used for any other purpose. The second portion of the Construction fund is from grants received from outside contributors such as the United States Bureau of Reclamation. Grant monies enable the District to reduce the amount of their issuance of long-term debt and thereby reduce the annual debt service. These funds are restricted and can only be used for its intended purpose. Lastly, the District budgets annually for its CIP needs, which includes projections for minor facility improvements, retrofits and laterals, and feasibility work on major capital projects. Historically these types of expenditures are relatively inexpensive and have been funded through PAYGO.

### Target Criteria:

As funds in this account fluctuate with each expenditure made for construction, monies received from bond issuances and grants, it is not prudent to set a target amount.

## Rate Stabilization Fund

### Purpose:

The Rate Stabilization fund operates as a buffer to water rates during any period where there are unexpected increases in operating costs or decreases in revenues. For example, in the event an unexpected rate increase from MWD is approved and the District chooses not to pass the increase on to its purveyors immediately, this fund could cover the shortfall in revenue. In the current energy crisis we have seen electricity costs increase significantly during the last year, and they possibly will remain high for several years. Also, in a severe drought or extremely wet conditions, it is reasonable to expect that water sales could fluctuate significantly. As such, the Rate Stabilization fund will absorb these types of fluctuations in operations and help stabilize rates.

### Target Criteria:

As discussed above, potable and recycled water rates can fluctuate for many different reasons. Staff recommends a target level to be sufficient to cover 5% of the budgeted expenditures for two consecutive years.

### Swap Termination Fund

#### Purpose:

As a part of the District's decision to enter into an agreement for a reduced variance enhanced swap it considered many issues including but not limited to the significant short-term and long-term risk to the District. As a means to reduce the monetary risk, the Board established this fund. The Swap Termination Fund was established for the sole purpose of setting aside monies to pay for the termination fee for the reduced variance enhanced swap.

#### Target Criteria:

This account will be funded each year by allocating 100% of the accumulated annual savings earned from the swap for the first 7.5 years.

### Bond Defeasance Fund

#### Purpose:

The Bond Defeasance Fund will be established as part of an accelerated bond retirement strategy; whereas net revenues are set aside in order to meet the 2005 and/or 2009 call dates. If the District is able to retire some or all of its current long-term debt early, then the Board would have the option to incrementally ramp down the Standby Charge or eventually eliminate it.

#### Target Criteria:

Funds in this account will be allocated from net revenues only after all other designated funds have been funded at their target levels.

### Bond Reserve Fund

#### Purpose:

The Bond Reserve Fund consists of bond proceeds that provide additional security for the payment of annual debt service if Standby Charges and other funds are insufficient or not available. The bonding institution establishes the restricted account at the time the debt is issued. The funds cannot be used for any other purpose.

#### Target Criteria:

The Bond Reserve Funds are typically established equal to one year's debt payment on each issuance and would be used to make the last debt service payment.

## PROCUREMENT POLICY

### 5-1.101 POLICY DEFINITIONS

The following terms shall apply to this policy:

- A. Amendment and Change Order – modification of the terms of an existing contract.
- B. Consultant – an individual, firm, or entity that provides Professional Services.
- C. Contract – a written agreement for goods or services (Professional or Non-Professional), and includes both formal contracts and purchase orders.
- D. Cooperative Purchase – any procurement conducted on behalf of two or more public agencies in order to obtain the benefit of volume purchasing or reduction in administrative expenses.
- E. Formal Solicitation – the issuance of a written request for bids, proposals, or quotations.
- F. Goods – supplies, materials, equipment, consumer products, and any other tangible personal property not considered to be a Professional or Non-Professional service.
- G. Informal Solicitation – an oral or written request for a bid, proposal, or quotation in accordance with oral or written conditions and other requirements included in the request.
- H. Local Business Enterprise – to be considered as a local business enterprise, a firm must provide evidence the firm is located at a fixed commercial or residential address where administrative, clerical, professional or other productive work is performed relative to its commercial purpose. The firm must be located within the District’s service area for a minimum of one year.
- I. Non-Professional Services – services provided by an independent contractor other than Professional Services, including, but not limited to, repair and maintenance services.
- J. Professional Services – any specifically trained or experienced person, firm or corporation specializing in financial, economic, accounting, engineering, information technology, legal, architectural, public relations, or other specialized disciplines. Services may include the provision of a report, study, plan, design, specification, document, program, advice, recommendation, analysis, review, opinion, inspection, investigation, audit, brokering or representation of the District before or in dealings with another party. Non-

Professional technical and maintenance services (such as janitorial services, landscape maintenance, etc.,) differ from professional services as such services involve limited discretionary judgment and are primarily manual in nature.

- K. Purchase Order – an authorization under which the party designated as Supplier is to provide Goods and/or services for which the District agrees to pay.
- L. Request for Proposal – a written request for the submission of a proposal in accordance with specifications, conditions, and other requirements included in the request.
- M. Critical Repairs – repairs performed on District facilities that are unplanned, unexpected, and which are essential to the continued operation of the District facilities, but do not rise to the level of “Emergency” as defined in Section 5-1.108. Such repairs may include acquisition and installation of replacement parts.
- N. Critical Acquisition – acquisition of supplies, goods and equipment that is unplanned, unexpected, and which is essential to the continued operation of District facilities, but do not rise to the level of “Emergency” as defined in Section 5-1.108.

#### **5-1.102        PROCUREMENT SOLICITATION**

- A. Informal Solicitations  
For informal solicitations, a minimum of three competitive written or electronic price quotes shall be solicited. If less than three quotes are obtained or are available, the reason shall be documented and included with the other quotes received.
- B. Formal Solicitations  
Formal Solicitations shall be advertised on the District’s web site, and as otherwise required by law. Whenever possible and practical, a minimum of 14 calendar days shall be provided for responses.
  - 1. The formal solicitation process requires a written Request for Proposal (RFP) covering the following (as applicable):
    - (a) Scope of work, including community outreach on construction projects.

- (b) A list of basic questions regarding each firm (address, number of personnel, qualifications, experience, etc.).
  - (c) A description of the method of selection used by the District.
  - (d) An explanation of the District's insurance requirements.
  - (e) A model contract which the bidder will be required to execute, if selected.
2. All proposals submitted in response to a formal solicitation process will be reviewed by District staff. Such review shall include review and comment by a third party with relevant expertise. The Board may excuse this independent review requirement prior to the receipt of proposals.
- (a) Interviews will be conducted with the most qualified bidders and proposed project team to assure a mutual understanding of the project and to obtain additional details related to their capabilities. The Board may excuse this interview requirement prior to the receipt of any proposals.
  - (b) Based upon a review of proposals and interviews (as applicable), the District shall rank the bidders in order of preference, taking into account all of the information obtained.
3. The following criteria, as applicable, shall be considered in the RFP evaluation of qualified Consultants to provide professional services:
- (a) Project approach and schedule.
  - (b) Specialized experience and technical competence of the bidder and personnel considering the type of services required and the complexity of the project.
  - (c) Suitability of the bidder's proposed services to meet the District's needs.
  - (d) Specific experience and qualifications of identified team members and their familiarity with the types of problems applicable to the project.
  - (e) Time commitment of key staff.
  - (f) Past record of performance on contracts with the District, other public agencies, and private industry, including control of costs, quality of work, and ability to meet schedules.
  - (g) Other key factors as appropriate for the type of service.

4. Board Review

Contractors responding to a RFP for construction work, and professional service providers, non-professional service providers, and suppliers of goods and equipment who respond to a formal solicitation from the District, shall have the right to address the Board before the Board authorizes any contract for such work, goods, or services.

The staff will provide written notice to all such contractors, vendors, suppliers, professional service providers, and non-professional service providers of the recommendation the staff will present to the Board. The notice will provide a one-week time period to allow any such contractor, vendor, supplier, professional service provider, and non-professional service provider a chance to address the Board at the next meeting at which the Board plans to authorize the agreement.

**5-1.103 PURCHASING OF SUPPLIES, GOODS AND EQUIPMENT**

The District shall purchase supplies, goods, and equipment through a competitive bid process to maintain a consistent and satisfactory supply for the District's use. Purchases shall be made at the lowest possible cost commensurate with acceptable quality. Controls shall be exercised to ensure that all expenditures for goods and services are pre-authorized and do not exceed budgeted amounts without Board approval. Opportunities to participate in cooperative purchasing shall be pursued whenever feasible and in the best interests of the District.

For the purposes of evaluation of competitive bids, the bids of local business enterprises will be reduced by 3%. If, after this adjustment, the local business enterprise is determined to be the most competitive bid, the actual contract amount will be the amount originally bid by the local business enterprise.

The procurement of supplies, goods, equipment and personal property over \$500 requires a purchase order. Authorized staff may purchase supplies, goods, equipment or other personal property as outlined below:

Single Items up to \$5,000

Requires at least one price quote and purchase order with Department Manager approval.

Single Items over \$5,000 to \$25,000	Requires informal solicitation with at least three competitive price quotes and purchase order approved by Department Manager and General Manager.
Single Items over \$25,000	Requires formal solicitation process and Board approval prior to execution of contract by General Manager and District Counsel.

Competitive bids shall be obtained in writing or by electronic format through an individual quote or from the product catalog and shall be filed with the authorized purchase order. The District shall maintain a purchase order log to track all purchase orders. Splitting or separating of supplies, goods or equipment to avoid required bidding process is prohibited.

Purchases exempt from the competitive bid process include: supplies, goods, equipment or other personal property unique in nature; a sole brand when a given brand or product specifically meets the form, fit, and function of the required procurement; or when it is necessary to standardize certain parts, designs, or features. Whenever possible, staff will work with the vendor to obtain the best pricing and/or terms.

Leasing of any equipment or other personal property at a cost of \$25,000 or more requires an RFP and Board approval prior to the execution of a lease agreement by the General Manager and District Counsel.

**5-1.104 PROFESSIONAL SERVICES**

The District may enter into professional services arrangements as authorized below:

Services up to \$5,000	Requires single price quote, and purchase order approved by Department Manager.
Services over \$5,000 - \$25,000	Requires informal solicitation with at least three competitive proposals/quotes and PSA executed by General Manager and District Counsel.

Services over \$25,000	Requires formal solicitation process and Board approval prior to execution of PSA by General Manager and District Counsel.
Amendments/Change Orders	Over contract authorization require Board approval.

All proposals for professional services over \$25,000.00 value will be evaluated on a 100-point scale. A value of three additional points will be added to the evaluation scores of Local Business Enterprises who bid as prime contractors on professional services contracts. If a non-local prime contractor includes a Local Business Enterprise as a subcontractor in its bid, a value of up to three points may be added to the evaluation score of the non-local prime contractor. Points will be awarded based on the relationship the percentage dollar amount of the contract that will be performed by the Local Business Enterprise bears to the three preference points. For example, if a contract is worth \$100,000.00, and the non-local prime contractor uses a local subcontractor who will perform \$25,000.00 worth of work, the bid will enjoy a preference of .75 points (.25 x 3 points).

In the event the proposed services will be evaluated on a price basis only, the bids of Local Business Enterprises will be reduced by up to 3% based on the percentage Local Business Enterprise participation consistent with the policy described in the paragraph above. If, after this adjustment, the Local Business Enterprise is determined to be the most competitive bid, the actual contract amount will be the amount originally bid by the Local Business Enterprise.

**5-1.105 NON-PROFESSIONAL SERVICES**

Non-Professional services shall mean services other than Professional Services and includes, but is not limited to, technical services, catering/food services, repair, and maintenance services.

The District may enter into non-professional services arrangements as authorized below:

Services up to \$5,000	Requires single price quote and purchase order approved by Department Manager and General Manager.
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Services over \$5,000 to \$25,000	Requires informal solicitation with at least three proposals/quotes and a Services Agreement executed by General Manager and District Counsel.
Services over \$25,000	Requires formal solicitation process and Board approval prior to execution of Services Agreement by General Manager and District Counsel.
Amendments/Change Orders	Over contract authorization require Board approval.

All proposals for non-professional services over \$25,000.00 value will be evaluated on a 100-point scale. A value of three additional points will be added to the evaluation scores of Local Business Enterprises who bid, as prime contractors, on non-professional services contracts. If a non-local prime contractor includes a Local Business Enterprise as a subcontractor in its bid, a value of up to three points may be added to the evaluation score of the non-local prime contractor. Points will be awarded based on the relationship the percentage dollar amount of the contract that will be performed by the Local Business Enterprise bears to the three preference points. For example, if a contract is worth \$100,000.00, and the non-local prime contractor uses a local subcontractor who will perform \$25,000.00 worth of work, the bid will enjoy a preference of .75 points (.25 x 3 points).

In the event the proposed services will be evaluated on a price basis only, the bids of Local Business Enterprises will be reduced by up to 3% based on the percentage Local Business Enterprise participation consistent with the policy described in the paragraph above. If, after this adjustment, the Local Business Enterprise is determined to be the most competitive bid, the actual contract amount will be the amount originally bid by the Local Business Enterprise.

**5-1.106 PUBLIC WORKS**

The procurement of public works by the District shall be governed by the provisions of the California Public Contracts Code.

If a prime contractor intends to employ subcontractors, and the amount of the contract is less than \$3 million dollars, as determined by West Basin’s engineer’s

estimate, the prime contractor will be required to: 1.) attend the pre-bid meeting; and 2.) advertise for subcontractor bids from LBEs in one or more daily or weekly newspapers, trade association publications, trade journals, or other relevant media.

If a prime contractor intends to employ subcontractors, and the amount of the contract is \$3 million dollars or more, as determined by West Basin's engineer's estimate, the prime contractor must, in addition to the requirements set forth above: (1) provide written notice of its interest in receiving subcontractor proposals to those LBEs having an interest in participating in the work. These notices of interest must be provided not less than 10 calendar days prior to the date the proposals are required to be submitted to the District; and (2) the prime contractor must follow-up the initial solicitations by contacting the interested LBEs to determine whether the LBEs were interested in performing specific portions of the project. Such follow up contact must be made not less than 3 calendar days prior to the date the proposals are required to be submitted

All construction projects will also include a community outreach component as part of the basic project structure.

#### **5-1.107 ECONOMIC OUTREACH**

As set forth in Proposition 209, economic outreach to encourage disadvantaged business participation will be implemented to establish or maintain eligibility for any federal program, where ineligibility would result in a loss of federal funds to the District. If implemented, the District will follow the guidelines indicated below:

- (a) The following terms shall apply to this section:
  - (1) Economic Outreach Plan – a set of specific and result-oriented procedures designed to achieve equal employment opportunity.
  - (2) Disadvantaged Business Enterprise (DBE) – a small business concern with at least 51 percent owned by women or members of a minority group or disabled persons and whose management and daily business operations are controlled by one or more of the women or members of a minority group who own it.

- (3) Disabled Person – a qualified individual with a disability as defined by the Americans with Disabilities Act of 1990.
- (4) Feasible – capable of being accomplished economically within a reasonable period of time.
- (5) Minority – a person who is a citizen and a lawful permanent resident of the United States and who is:
  - (i) African American
  - (ii) Hispanic American
  - (iii) Asian-Pacific American
  - (iv) Native American/Native Hawaiian
  - (v) Members of other groups or other individuals found to be economically and socially disadvantaged under the Small Business Act, as amended;
  - (vi) Members of other ethnic groups when there are at least five percent or 5,000 residents within the service area, whichever is higher.
- (6) Workforce Investment Board (WIB) – a private or public agency devoted to assisting the recruitment and placement of disadvantaged persons or businesses.
- (7) Workforce – the number and demographics of the labor force living within the District’s service area.
- (b) When required by federal law, the District shall to the extent feasible:
  - (1) Encourage consultants to use the services of the WIB or similar agencies to recruit disadvantaged persons and businesses.
  - (2) Assure qualified and certified disadvantaged business enterprises are afforded maximum practicable opportunities to compete for procurement and construction awards consistent with the financial constraints of the District and with the rights of non-minority firms to compete equally for District awards.
  - (3) Set a goal of 10 percent of the dollar value of contracts executed during a fiscal year for the participation of DBE’s either as prime contractors or as subcontractors, as follows: at least 3.5 percent shall be allocated for minority-owned businesses, 3.5 percent for certified

women-owned businesses, and 3 percent for disabled businesses where applicable.

(4) Require competitors for District awards who claim DBE status to be CalTrans-certified at the time of submitting bids or qualifications for contract award. Qualification for DBE status by the District shall recognize the differing job-market availabilities in each of the occupational categories due to differing working category propensities of different ethnic groups and genders.

(5) The District shall keep on file reports, records and affirmative action plans sufficient to ascertain compliance with this policy and with the requirements of federal law. The District shall submit such reports to the appropriate State or federal agency as required by law.

#### **5-1.108 EMERGENCY PURCHASES AND SERVICES**

In the event of an emergency, the General Manager may make immediate purchases of materials and services pursuant to California Government Code requirements. Emergency purchases include any purchase required to prevent imminent danger or to prevent or mitigate the loss or impairment of life, health, property, or essential public services. Every effort will be made to receive advance approvals or to obtain approvals as soon as possible following the purchase.

#### **5-1.109 CRITICAL REPAIRS AND ACQUISITIONS**

When expenditures are made for critical repairs and critical acquisitions, staff shall use its best efforts to conform to the informal solicitation process set forth in section 5-1.102(A); and shall not exceed \$250,000 per each critical repair or critical acquisition.

Any expenditures for these types of repairs will be brought to the Board of Directors at the next regularly scheduled Board meeting for ratification

#### **5-1.110 EXCEPTIONS TO COMPETITIVE BID REQUIREMENTS**

Purchases that do not require competitive bids under this policy include books, periodicals, advertising, seminars, conferences, travel, subscriptions, temporary employment agencies, postage, utilities, bank charges, memberships, claims, travel

reimbursements, fees or permits, and health or other benefit related reimbursement services.

**5-1.111 CONTRACT TIME EXTENSIONS.**

The General Manager may extend the term of a District agreement so long as the contract has not expired and there are no other material changes to the agreement, such as scope of work, consideration, method of payment, insurance, and indemnity requirements. This provision applies to time extensions only

## **CAPITALIZATION POLICY**

### **Purpose**

This capitalization policy is intended to provide guidance for the capitalization and depreciation of capital assets to comply with the requirements of Governmental Accounting Standard Board Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This Statement requires the reporting of West Basin Municipal Water District's ("District") capital assets and depreciation in their annual audited financial statement.

This policy includes capital asset classes, descriptions, capitalization threshold levels, estimated useful lives, methods of depreciation and the procedures to be used in effectively identifying, recording and reporting the District's capital assets.

### **Asset Classification**

District capital assets are used to support two major criteria of the business:

- General Administration
- Infrastructure.

#### General Administration

General administration is the activity that District employees conduct to run the day to day business. Capital assets that support these activities can include but are not limited to office furniture, fixtures, equipment, information and computer systems, etc., where the following two (2) conditions are met:

- Each individual item has a cost of \$3,000 or more, and;
  - Useful life of at least three years.
- Or
- A group of same type assets has a cost of \$5,000 or more, and;
  - Useful life of at least three years.

#### Infrastructure

Activities related to infrastructure include new construction, replacement due to expansion or new technology, replacement due to the end of normal life cycle, major repairs or refurbishment and acceptance of assets through the contribution by other agencies. Capital assets that are in this group can include but are not limited to land, land improvement, buildings, building improvements, facilities, facility improvements and renovations, water system, pipelines, pump stations, membranes, meters and other major components that are used in the water treatment plant facility.

#### 1) New Construction:

New construction normally starts as a Construction-In-Progress project and may take more than one fiscal year to complete. At the completion of the project, the total costs of the project may be broken down by the major groups of assets such

as distribution system, pumping system, reverse osmosis system, etc. Under each system, the component unit of the assets is listed based on the nature of the component and the length of the estimated useful life.

To be considered as a capital asset, these two conditions must be met:

- Each individual item or component unit has a cost of \$10,000 or more, and;
- Useful life of at least three years.

Exception:

Service connections (pipelines) are capitalized as capital assets and are not subject to the \$10,000 limitation. However, it still has to meet the useful life limitation of at least three years. In the situation when the customers pay the cost of acquiring and installing service connections, but the District is responsible for the maintenance of the service connections, the District should include the connections as part of the District capital assets and record the customer contributions as revenue according to GASB Comprehensive Implementation Guide, footnote 64 to GASB-34.

2) Replacement due to expansion or new technology:

Replacement can take place when the District is expanding its facilities to increase production capacity, or as the result of new technology and equipment becoming available on the market that is more cost efficient than what is currently used. In this situation, the old systems or equipment will be replaced when they still have a remaining useful life and economic value.

To be considered as a capital asset, these two conditions must be met:

- Each individual item or component unit has a cost of \$10,000 or more, and;
- Useful life of at least three years.

Also, because the retired equipment or systems still have a positive net book value, the District will calculate and record the appropriate loss of disposition.

3) Replacement due to the end of life cycle:

Replacement can also take place as a result of normal scheduled maintenance. The components can be purchased at the same time, but be installed simultaneously or within a planned short period time. In this situation, the old systems or equipment will be replaced when they have no useful life or economic value.

To be considered as a capital asset, these two conditions must be met:

- The aggregate total costs of the component units have a cost of \$10,000 or more, and;

- Useful life of at least three years.

The estimated portion of the original asset that was replaced will be removed from the asset records of the District.

4) Repairs or refurbishments:

The District's existing infrastructure requires repairs and maintenance on a regular basis. Repair or refurbishment expenses to the existing capital assets under certain circumstances may be capitalized. The criteria for determining whether the expenditure is an expense or capital asset requires knowledge of the effect the repair will have on the capital asset.

To be considered as a capital asset, these conditions must be met:

- Total repair or refurbishment cost of one job has to be \$10,000 or more, and;
- After the repair or refurbishment, the remaining useful life of the existing asset must be extended by at least three years.

When the above conditions are not met, the cost of repair or refurbishment will be considered as operations and maintenance expenses.

5) Contribution by other agency:

The District may enter into an agreement with other governmental agencies to co-build some infrastructure. At the completion of the project, a portion or the entire infrastructure may be contributed to the District regardless of which agency had paid for the costs and the District has the primary responsibility for maintaining the asset. In this situation, the capital asset is recorded at the time the asset is the sole property of the District. The total cost of the project must be broken down by operating system, and the major component units are to be listed under the operating systems depending on the nature and the length of the estimated useful life.

To be considered a capital asset, these two conditions must be met:

- Each individual item or component unit has a cost of \$10,000 or more, and;
- Useful life of at least three years

### **Determination of Cost**

GASB Statement 34 states that purchased or District-constructed capital assets should be reported at historical cost. The total cost of the capital asset is the cash outlay or its equivalent that is necessary to acquire the asset and put it in operating condition. These costs include contract price, freight, sales tax, licensing fees, handling and assembling, installation and testing, direct labor and material, indirect labor and materials, benefit and overhead allocations as well as any construction period interest

cost as required by GASB Statement No. 34. In addition, it is the District's policy to capitalize any cost that is specifically identifiable with a planned capital project (or asset acquisition), including public information costs and costs incurred to obtain financing for the project. Contributed capital assets will be recorded at their estimated fair market value at the date of the asset was contribution to the District.

### **Estimated Useful life**

The District uses Internal Revenue Tax Law requirements, general guidelines obtained from professional or industry organizations and information for comparable assets of other governments as the guidelines when estimating the useful lives of the capital assets.

### **Depreciation Method**

The District uses straight-line method with no salvage value for all depreciable capital assets.

### **Summary**

The following table summarizes the criteria discussed above.

<b>Asset Class</b>	<b>Description</b>	<b>Threshold</b>	<b>Useful life (years)</b>
OFFICE FURNITURE, EQUIPMENT	Desk, chair, file cabinet, telephone printer	\$3,000	3-10
INFORMATION SYSTEMS	Computer, server, software, monitor	\$3,000	3-6
LAND	Land	N/A – capitalize all	N/A
LAND IMPROVEMENT	Sidewalks, fences, landscape shrubbery	\$10,000	20
BUILDING & IMPROVEMENT	Buildings	\$10,000	40
INFRASTRUCTURE	Pipelines, pump station, well, motors, vaults, membranes, pump, storage tank, meters, compressor,	\$10,000	3-40
VEHICLES	Car, truck, tractor, trailer	\$10,000	5

\* The above descriptions are not limited to those described.

## **GLOSSARY FOR CAPITALIZATION POLICY:**

**Capital Assets:** Capital assets are acquired for use in operations and not for resale. They are long term in nature and subject to depreciation. They possess physical substance.

**Component Unit:** Individual identifiable pieces of a capital asset (or group of capital assets).

**Depreciation:** The systematic and rational allocation of the estimated historical cost of a capital asset, (or if donated, the fair value of the capital asset at the time of donation), over its estimated useful service life.

**Estimated Useful life:** The period of time over which an asset's cost will be depreciated.

**Fair Market Value:** An estimate of what a willing buyer would pay to a willing seller, both in a free market, for an asset or any piece of property.

**GASB 34:** The Governmental Accounting Standards Board's (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis require State and Local Governments depreciate their exhaustible capital asset, including infrastructure.

**Historical Cost:** The actual exchange value in dollars at the time the asset was acquired. It is measured by cash or cash equivalent price of obtaining the asset and charges necessary to bring it to its intended location and to place the asset in its intended condition for use.

**Infrastructure:** The structures that support a society, such as roads, water supply, wastewater, power grids, flood management systems, telecommunications (Internet, telephone lines, broadcasting), and so forth.

**Replacement:** The substitution of a new facility or component of an existing facility.

**Salvage Value:** An estimate of the amount that will be realized at the end of the useful life of a depreciable asset.

**Straight-Line Depreciation Method:** Is determined by the formula:  $(\text{Cost-Salvage value}) / \text{Estimated useful life} = \text{Depreciation per period}$ .

## **DEBT MANAGEMENT POLICY**

### **I. Purpose**

The purpose of this Debt Management Policy (“Policy”) is to establish parameters and provide guidance as to the issuance, management, continuing evaluation of and reporting on all debt obligations.

This policy affirms the commitment of the Board of Directors (the “Board”) of West Basin Municipal Water District (the “District”) in the practices of sound financial management which includes the timely repayment of all debt, borrowing at the lowest possible net cost of capital while balancing risks associated with any actions or inactions, preserving financial flexibility, and maintaining strong credit ratings and good investor relations.

### **II. Goals and Objectives**

A debt management policy sets forth the guidelines for the issuance of debt and the management of outstanding debt. The Policy establishes parameters which recognize the District’s specific capital requirements, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. Specifically, the Policy is intended to assist the District in the following:

1. Evaluating critical debt issuance options;
2. Maintaining appropriate capital assets for present and future needs;
3. Promoting sound financial management through accurate and timely information on financial conditions;
4. Protecting and enhancing the District’s credit rating; and
5. Ensuring the legal use of District financing authority through an effective system of internal controls.

### **III. Roles and Responsibilities**

The Chief Financial Officer is the designated administrator of the Policy. The Chief Financial Officer shall have the day-to-day responsibility and authority for structuring, implementing, and managing the District’s debt and finance program.

The Board acknowledges that changes in the capital markets and other unexpected events may, from time to time, create situations and opportunities that are not contemplated by this Policy and may require adjustments or

exceptions to the guidelines of the Policy. In such circumstances, the ability of the District to be flexible is important; however, any authorization granted by the Board to proceed with a financing or financial product not expressly permitted by the Policy must be accompanied by an acknowledgement of the Board that the actions to be taken by the District are not specifically authorized by the Policy in force at that time. The Policy shall be initially adopted by the Board and reviewed annually. Future updates, if necessary, to the Policy require the approval by the Board.

#### **IV. Long Range Financial Plan**

A Long Range Financial Plan shall be prepared by the Chief Financial Officer for consideration and approval by the Board. The Long Range Financial Plan will be updated at least once every fiscal year and consist of a future planning horizon of at least five years. In addition to capital project costs, the Long Range Financial Plan shall include the following:

1. Description of all sources of funds;
2. Timing of capital expenditures;
3. Effect of capital projects on District's debt burden;
4. Tracking of reserve levels; and
5. Debt service requirements.

#### **V. Debt Financing**

##### *A. Revenue Obligations*

Long-term revenue obligations issued through a financing corporation or other entity should be used to finance and refurbish capital facilities, projects and certain equipment where it is determined to be cost effective and fiscally prudent. Long-term revenue obligations will not be used to fund operations of the District. The scope, requirements, and demands of the Budget, reserve levels, on the Long Range Financial Plan, and the ability or need to expedite or maintain the programmed schedule of approved capital projects, will also be factors in the decision to issue long-term debt. Revenue obligations will be structured to achieve the lowest possible net cost to the District given market conditions while balancing risks, considering the Long Range Financial Plan, and the nature and type of security to be provided.

The District's debt capacity will not exceed legal limitations, such as rate covenants or Additional Debt Tests imposed by existing financing covenants. Prior to the issuance of any new revenue obligations, the

impact of debt service payments on total annual fixed costs will be analyzed.

As users of the District facilities will benefit from long-term capital investments in future years, it is appropriate that future revenues pay a share of the costs.

#### *B. Commercial Paper*

Commercial paper is a cash management tool that the District may use to provide interim and long-term funding for capital expenditures that will ultimately be funded from another source such as a grant or long-term debt. Such a program would be implemented directly by the District or through a financing corporation or other entity. If implemented through the financing corporation or other entity a tax revenue anticipation note or other instrument would be delivered by the District as security for the program. Periodic issuances or retirements of commercial paper notes within a Board approved program would not require further Board action once the program is implemented.

The Chief Financial Officer would be responsible for implementing and managing the District's sale of commercial paper. The Chief Financial Officer would work closely with commercial paper dealers to develop a marketing strategy for the initial sale and subsequent roll-over of commercial paper amounts and maturities.

#### *C. Fixed and Variable Rate Obligations*

The District typically issues fixed rate obligations. When appropriate, however, the District may choose to issue variable rate obligations, or securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing or auction of securities. The maximum level of net variable rate obligations incurred shall not exceed 20% (the "Maximum Variable Percentage") of outstanding debt. To determine the amount of "net" variable rate obligations, the District will add the principal amount of a fixed rate obligation which are subject to a fixed-to-variable interest rate Swap and will subtract the amount of the District's short-term investments (maturities of less than 12 months) as well as the principal amount of a variable rate obligation which are the subject of a variable-to-fixed interest rate Swap which the District's financial adviser reasonably believes will result in a fixed interest rate to the District.

Variable rate exposure can provide a means to enhance asset/liability management. The primary goal of asset/liability management is to mitigate the impact of increased interest costs in a rising interest rate environment, and mitigate the impact of decreased interest income in a

declining interest rate environment. The Chief Financial Officer will continuously review the net variable rate exposure of the overall debt portfolio.

In selecting and retaining remarketing agents for variable rate debt, the District should choose remarketing agents that diversify its exposure and foster competition. For similar reasons, the District should seek to diversify its counterparties when selecting institutions to provide liquidity or Credit Enhancement for variable rate debt. The Chief Financial Officer will regularly review the performance of the individual remarketing agents in relation to other remarketing agents, similar programs, and market indices.

#### *D. Grant Anticipation Notes*

The District may issue short-term notes to be repaid with the proceeds of State or Federal grants if appropriate for the project and in the best interest of the District. Generally, grant anticipation notes ("GAN's) will only be issued if there is no other viable source of up-front cash for the project. Prior to embarking on selling GAN's the District must identify a secondary source of repayment for the GAN's in case the expected grant funging does not occur.

#### *E. Lease Financings*

Lease obligations are a routine and appropriate means of financing certain types of equipment, but are generally not appropriate for long-term financing of capital assets such as land or facilities. Leases should be considered where lease financing will be more beneficial than funding from reserves or current revenues. The useful life of capital equipment, the term and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Cash flow sufficiency, capital program requirements, lease program structures and cost, and market factors will be considered in conjunction with Pay-As-You-Go strategies in lieu of lease financing.

### **VI. Debt Refinancing**

Refunding obligations are issued to retire all or a portion of an outstanding debt issue. Economic refundings refinance high coupon debt at lower interest rates to effectuate debt service savings. Alternatively, an Issuer can conduct a refunding for reasons other than costs savings, such as to restructure debt service payments, to change the type of debt instruments, or to modernize financing documents by removing undesirable covenants.

The District will target economic refundings that produce net (including cash contributions and foregone interest earnings) present value savings of

at least 3% of the refunded par amount of each maturity being refunded. Refundings producing less than 3% net present value savings for each maturity being refunded will be considered for non-economic purposes, such as removing restrictive covenants, reducing risk, altering the overall debt repayment schedule of the District, releasing revenues, and ease of administration.

The Chief Financial Officer will monitor refunding opportunities for all outstanding debt obligations on a periodic basis applying established criteria in determining when to issue refunding debt.

## **VII. Debt Structure Considerations**

### *A. Maturity of Debt*

The final maturity of the debt shall not exceed, and preferably be less than, the remaining useful life of the assets being financed, and to comply with Federal tax regulations, the average life of a financing shall not exceed 120% of the average life of the assets being financed.

### *B. Debt Service Structure*

Debt service payments for any debt issue will be structured to have approximately level debt service payments over the life of the debt issue. The debt service structure objective is overall level debt service with the debt service declining as debt matures. Exceptions are permissible for refunding debt that will have varying principal repayments structured to fill in the gaps created by refunding specific principal maturities. The Chief Financial Officer may also structure the amortization of principal to wrap around existing obligations or to achieve other financial planning goals. Deferring the repayment of principal should be avoided except in select instances where it will take a period of time before project revenues are sufficient to pay debt service.

### *C. Lien Structure*

Senior and subordinate liens will be utilized in a manner that will maximize the most critical constraint, either cost or capacity, thus allowing for the most beneficial leverage of revenues.

### *D. Capitalized Interest*

*The District* may elect to capitalize interest in connection with the construction of certain projects when revenues from the project will not be available until completion. Other than such instances the District will not

capitalize interest on financings thus avoiding increased borrowing amounts.

*E. Reserve Funds*

A reserve fund for a debt issuance may be required for rating or marketing reasons. If required, such reserve fund can be funded with cash or a surety policy from 1) the proceeds of a debt issue or 2) the reserves of the District. A cash reserve fund will be invested pursuant to the investment restrictions associated with the respective financing documents. For each debt issue, the Chief Financial Officer will evaluate whether a reserve fund is required for rating or marketing purposes and the benefits of funding or maintaining the reserve requirement with cash or a surety policy, in addition to determining the benefits of borrowing the necessary funds or using cash reserves.

*F. Redemption Provisions*

In general, the District will have the right to optionally redeem debt no later than 11 years after issuance. Redemption provisions will be established on a case-by-case basis, taking into consideration market conditions and the results of a call option analysis prior to the time of sale. Because the issuance of non-callable debt may restrict future financial flexibility, cost will not be the sole determinant in the decision to issue non-callable debt.

*G. Credit Enhancement*

Credit Enhancement on District financings will only be used when net debt service is reduced by more than the cost of the enhancement.

Bond insurance will be used when it provides an economic advantage to a particular debt maturity or the entire issue. The District will evaluate the availability and cost/benefit of credit enhanced debt versus unenhanced debt prior to issuing any debt.

In managing its variable rate debt portfolio, the Chief Financial Officer will regularly monitor the market for Credit Enhancement, particularly liquidity facilities provided by Credit Enhancement providers and alternative variable rate products.

**VIII. Method of Sale**

The District will select a method of sale that is the most appropriate when considering the financial, market, transaction-specific and Issuer-related conditions. There are three basic methods of sale: Competitive Sale,

Negotiated Sale and Private Placement. Each type of debt sale has the potential to provide the lowest cost given the right conditions. The Chief Financial Officer will recommend to the Board most appropriate method of sale in light of prevailing financial, market and transaction-specific conditions. If a negotiated sale is expected to provide overall benefits, the selection of the senior managing underwriters and the co-managers shall be made from the approved pool of underwriters selected through the process described below.

**IX. Investment of Proceeds**

The District shall competitively bid the purchase of securities, investment agreements, float contracts, forward purchase contracts and any other investment products used to invest<sup>A</sup> proceeds of a financing. The District shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of financing-related funds. The primary investment objectives are safety, liquidity, and yield. The District's investment advisor must be a registered Investment Advisor. The District shall diversify invested proceeds in order to reduce risk exposure to providers, types of investment products and types of securities held. The District will require that all fees resulting from investment services or sale of products to the District be fully to the District (including fees paid by third parties) to ensure that there are no conflicts of interest and investments are being purchase at a fair market price.

**X. Credit Objectives**

The District's objective is to maintain or improve its credit ratings as a way of reducing financing costs. The Chief Financial Officer shall be responsible for implementing and managing the District's credit rating agencies relations program. This effort shall include providing the rating agencies with the District's annual budget, financial statements and other information they may request. Full disclosure of operations will be made to the credit rating agencies. The Chief Financial Officer shall also coordinate periodic meetings with the rating agencies and communicate with them prior to each debt issuance.

**XI. Investor Relations**

The Chief Financial Officer shall be responsible for implementing and managing the District's investor relations program. The Chief Financial Officer shall make every attempt to promptly respond to any inquiry from an institutional or retail investor. If necessary, the Chief Financial Officer shall periodically meet or conduct conference calls with key institutional investors in

order to familiarize the institutional investors with the District's financial history and financial projections.

**XII. Disclosure and Arbitrage Rebate Compliance**

The District will comply with all financing covenants to maintain the validity of the issuance of debt, including, but not limited to tax-exemption, Arbitrage Rebate compliance, insurance provisions, reporting and monitoring requirements. Any instance of noncompliance will be reported to the Board.

**XIII. Consultants**

*A. Financial Advisor*

The District will retain an external financial advisor through a competitive process administered by the Chief Financial Officer at least every five years. Selection of the District's financial advisor should be based on the following:

1. Experience in providing consulting services to complex Issuers;
2. Knowledge and experience in structuring and analyzing large complex issues;
3. Ability to conduct competitive selection processes to obtain investment products and financial services;
4. Experience and reputation of assigned personnel; and
5. Fees and expenses.

The District expects that its financial advisor will provide objective advice and analysis, maintain confidentiality of District financial plans, and fully disclose any potential conflicts of interest.

*B. Bond Counsel*

For all debt issues, the District will engage and retain an external bond counsel through a competitive process administered by the Chief Financial Officer at least every five years. All debt issued by the District will include a written opinion by a nationally recognized bond counsel affirming that the District is legally authorized to issue the debt, stating that the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status. Bond Counsel may also draft the Official Statement in lieu of having a separate disclosure counsel.

*C. Disclosure Counsel*

The District may engage and retain, when appropriate, Disclosure Counsel through a competitive process administered by the Chief Financial Officer to prepare official statements for debt issues. Disclosure Counsel will be responsible for ensuring that the official statement complies with all applicable rules regulations and guidelines. Disclosure Counsel will be a nationally recognized firm with extensive experience in public finance. <sup>A</sup>

#### *D. Underwriters*

For negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance. The Chief Financial Officer will establish a pool of qualified underwriters through a competitive process at least every five years and may designate one or more firms as eligible to be senior managers and one or more firms as eligible to be co-managers. Criteria to be used in the appointment of qualified underwriters will include:

1. Quality and applicability of financing ideas;
2. Demonstrated ability to manage complex financial transactions;
3. Demonstrated ability to structure debt issues efficiently and effectively;
4. Demonstrated ability to sell debt to institutional and retail investors;
5. Demonstrated willingness to put capital at risk;
6. Experience and reputation of assigned personnel;
7. Past performance and references; and
8. Fees and expenses.

The Chief Financial Officer will regularly monitor the performance of the members of the underwriting pool and recommend changes as appropriate.

#### **XIV. Definitions**

**Additional Debt Test** – A legal earnings test governed by the provisions of a financing document which must be satisfied before revenue obligations secured by the same Pledged Revenues can be issued. Typically, the test requires that historical or estimated future revenues exceed total debt service (existing and proposed) by a certain ratio.

**Amortization** – The required repayment of principal associated with the issue of revenue obligations .

**Arbitrage Rebate** – With regard to tax-exempt revenue obligations, arbitrage refers to taxable earnings on proceeds that are greater than earnings would have been at the

arbitrage yield. IRS regulations require Issuers to calculate and pay rebate to the United States Treasury on arbitrage earned on proceeds of tax-exempt securities.

**Bond Counsel** – An attorney (or firm of attorneys) retained by the Issuer to render a legal opinion on the legality and security of a securities offering and its tax exemption or taxability. Bond counsel may prepare authorizing resolutions or ordinances, installment purchase agreements, Indentures, official statements, and other documents required to allow for access the capital markets.

**Bond Insurance** – An insurance policy guaranteeing the timely payment of principal and interest of all, or a portion, of revenue obligations. In exchange for a Bond Insurance premium, a bond insurer's guarantee can result in a higher credit rating and a lower net borrowing cost for an Issuer.

**Capitalized Interest** – A portion of the proceeds of an issue used to pay interest on the revenue obligations for a specified period of time.

**Commercial Paper** – Short-term (1 to 270 days) promissory notes issued to provide for interim financing of projects or other short-term financing needs through the construction period. Following the completion of the projects, principal and interest due on commercial paper is sometimes redeemed by issuing long-term refunding revenue obligations.

**Competitive Sale** – A sale of securities by an Issuer in which broker/dealers submit bids to purchase the securities.

**Covenants** – The enforceable promise by an Issuer to perform or refrain from performing certain actions. With respect to municipal finance obligations, covenants are generally stated in the financing documents.

**Credit Enhancement** – Credit support purchased by the Issuer to provide enhanced access to the capital markets, frequently resulting in lower expected net borrowing costs. The most common Credit Enhancements consist of Bond Insurance, direct or standby Letters of Credit, and lines of credit.

**Debt Service** – The sum of the principal and interest from revenue obligations. Debt service may be presented on periodic basis, such as on a twelve month period, fiscal year or calendar year basis.

**Defeasance** – The establishment of an Escrow that is sufficient to make all remaining debt service payments including redemption premium, if any, to owners of revenue obligations. The incurrence of refunding revenue obligations is typically accompanied by a defeasance of the refunded revenue obligations.

**Escrow** – A fund established to hold cash and securities pledged to pay debt service on a revenue obligation.

**Financial Advisor** – A consultant who advises an issuer on finance-related matters, such as structure, timing, marketing, pricing, documentation, and credit ratings. The consultant may also provide advice relating to capital planning and investment management.

**Indenture** – Legal document describing the terms and conditions of a revenue obligations offering, the rights of the owner thereof, and the obligations of the Issuer to the such owners.

**IRS** – Internal Revenue Service

**Issuer** – A state, political subdivision, agency, or authority that borrows money through the sale of securities.

**Leases** – Municipal lease agreements are used to finance the purchase or use of real or personal property. Lease agreements can be structured as lease purchase agreements whereby the municipality owns the asset at the end of the lease term or as operating leases whereby the municipality has the option to purchase the asset at the end of the lease term at fair market value. The security for lease obligations is typically general fund revenues but could be a more limited revenue source. Lease agreements can be funded by private companies, such as vendors or finance companies, or through the capital markets.

**Letters of Credit** – A commitment usually from a commercial bank used to provide additional security for notes, installment purchase agreements, commercial paper or other revenue obligations which honor demands for timely payment of debt service upon compliance with pre-established conditions and/or the occurrence of certain events. Draws, if any, are repaid to the bank based on the terms and conditions of the letter of credit terms.

**Negotiated Sale** – A sale of securities by an issuer whereby the Issuer selects one underwriter to negotiate the terms of the purchase and reoffering of revenue obligations to investors by the underwriter or a group of underwriters.

**Notes** – A short-term obligation of the Issuer to repay a borrowing payable from a defined source of anticipated revenue.

**Official Statement** – A document distributed by an Issuer which discloses material information about the proposed issue including the purpose of the issue, source of repayment, financing covenants as well as financial, economic, demographic and legal characteristics of the Issuer. An Official Statement is one of the sources that investors rely upon to determine the credit quality of an issue.

**Pay-As-You-Go** – An Issuer uses existing revenues to fund a project as opposed to funding costs with debt obligations.

**Pledged Revenues** – The moneys obligated for the payment of debt service and other deposits required by the financing documents. A typical revenue pledge obligates all revenues received for the payment of debt service subject to deductions for maintenance or operating expenses.

**Preliminary Official Statement** – A preliminary version of the Official Statement used by the Issuer or underwriter to describe the proposed issue of municipal obligations prior to the determination of interest rates and offering prices. A preliminary official statement is one of the sources that investors rely upon in basing their investment decisions.

**Present Value** – The value of future cash flows in today's dollars.

**Present Value Savings** – Present Value of the differences between two cash flows.

**Private Placement** – Securities sold directly to institutions or private investors by a direct negotiated sale instead of a public offering.

**Rating Agencies** – Independent firms specializing in providing credit analysis to the investment community. The three primary rating agencies that provide municipal credit ratings are Fitch Ratings, Moody's Investors Service, and Standard & Poor's.

**Ratings** – Evaluations of the credit quality of obligations usually made by independent rating services. Ratings generally measure the likelihood of payment of debt service. Higher credit ratings represent lower default risk to investors and typically lower borrowing costs to Issuers.

**Redemption** – The repayment of principal on outstanding debt at a specified price and date(s).

**Reserve Fund (or Debt Service Reserve Fund)** – A fund established at the time revenue obligations are issued to provide additional security in the event that revenues are insufficient to satisfy debt service requirements. A debt service reserve fund can be funded from proceeds of revenue obligations or cash, and in certain circumstances with a surety policy issued by a credit enhancer. Federal tax regulations limit the size of debt service reserve funds funded with tax-exempt.

**Swap** – An agreement between two parties to exchange future payments. The most common Swaps for municipal Issuers are interest rates Swaps whereby one party agrees to pay the other a fixed rate, while the other party pays the first party a floating rate.

**Underwriter** – A broker/dealer that purchases new offerings of securities from the Issuer and resells them to investors.

**Variable Rate Obligations** – A security whose interest rate changes at pre-set intervals over the life of the obligation. Periodic changes in interest rates result from changes in an index or the supply and demand dynamics of a remarketing or auction.

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## **CAPITAL IMPROVEMENT PROGRAM**

### ***Strategic Business Plan Goal:***

Reliability: *Maintain a level of local water reliability that supports the regional economy, our community and customer agency needs.*

Water Quality: *Provide high quality water that meets the needs of our customers.*

Infrastructure: *Manage infrastructure to ensure reliability, manage risk, and maximize the useful life of facilities.*

**Commitment Statement:** *Water Reliability, Water Quality, and Sound Financial and Resource Management.*

The West Basin Municipal Water District Capital Improvement Program (CIP) continues to be very active. To more effectively respond to declared drought conditions and other regulatory restrictions, West Basin views building dependence on locally controlled water as the solution to ensure that the businesses and residents of the West Basin service area continue to receive water in the future. To achieve this objective, West Basin anticipates doubling its conservation efforts, doubling its efforts in recycled water deliveries and adding Ocean-water desalination to its water portfolio by the year 2020. Water Reliability 2020 goal anticipates moving from 33% locally controlled water source to 66% in the year 2020.

To achieve this reliability, West Basin realizes funding its capital needs is significant and will need to come from several sources. Depending on the nature of the capital outlay, the funding decision may be different. West Basin understands that certain capital expenditures have a short useful life and these projects will be funded through West Basin's PAYGO designated fund or through the Commercial Paper program. Another consideration is debt financing which will be used when the term of the financing generally matches or is less than the estimated useful life of the capital project.

In addition, it is generally understood and anticipated that those projects that are the result of customer agreements will also be debt financed as recycled water expansions to refineries, the barrier and other agencies efforts require significant capital outlay. Repayment for these financings may come through as rates or through fixed capital payments. One additional financing consideration that is being explored is a new revenue measure. However, it is uncertain at this time the amount of collection and for which project this potential new fixed revenue source may be obtained. Until a determination is made on a funding source, certain desired long-term capital projects have been excluded from the CIP schedule.

West Basin continues to take thoughtful steps to ensure water reliability. West Basin took one step towards improving water reliability by investing in an updated recycled water capital implementation master plan. Based on continuing discussions of the capital implementation plan, West Basin intends to address future customer needs,

system capacity and the infrastructure required to increase recycled water deliveries from approximately 30,000 AF to 60,000 AF by the year 2020.

For ocean-water desalination, West Basin has observed and learned from other desalination facilities around the nation and the world to develop an approach that effectively and efficiently handles this resource. West Basin began with research, and plans to develop a demonstration facility prior to the investment into a full-scale facility.

Construction began on the Desalination Demonstration Facility Project in FY 2010. The Desalination Demonstration Facility Project will develop a basis of design for a full-scale facility by evaluating intake technologies and impacts, optimizing operation and maintenance procedures using full-scale elements, evaluate performance of potential energy recovery devices, analyze water quality, and provide opportunities for public and stakeholder education.

Project Financing

For FY 2011, the following table depicts the sources of funds that will be used to pay for the anticipated CIP projects. As defined in the designated funds policy, West Basin will set aside \$5,375,280 in the construction fund (PAYGO) to pay for the various replacement and refurbishment projects. Also, it is anticipated that the reliability and other projects in FY 2011 will be paid for through the Commercial Paper program. The CIP projects outlined to begin in FY 2011 will be submitted individually to the Board of Directors for authorization and funding during the fiscal year.

	Commercial Paper	PAYGO
Reliability Projects	\$ 27,021,061	\$ - 0 -
Replacement & Refurbishments Projects	- 0 -	4,745,280
Other/Project Admin.	3,920,000	630,000
Total	\$ 30,941,061	\$ 5,375,280

*Reliability Projects:*

In April 2009, West Basin secured an agreement with the Water Replenishment District (WRD) to expand its facilities to produce recycled water for injection into the West Coast Barrier. This expansion will be the fifth expansion (Phase V) to the ECLWRF and would be financed initially through the Commercial Paper program in FY 2011 and subsequently financed through the issuance of debt with WRD reimbursing West Basin for their portion through their rates. The term of a typical customer agreement is consistent with the life of the bond used to fund the construction of the project. West Basin anticipates seeking bond construction proceeds for the Phase V expansion in FY 2012 with anticipated debt service in FY 2013.

In addition to the Phase V project, West Basin anticipates using the Commercial Paper program in FY 2011 and issuing debt in subsequent fiscal years to finance the design and construction of the Harbor/South Bay Project laterals. Over the next year, several construction projects are planned to be designed and constructed under the Harbor-South Bay Project. These projects are constructed through a partnership with the Army Corps of Engineers. The Army Corps of Engineers has commitment to 75% of the project funding with West Basin paying the remaining 25%.

For FY 2011, West Basin will utilize the Commercial Paper program to complete construction of the Demonstration Facility. Eventually, a full-scale ocean-water desalination facility will be constructed to produce a new potable water supply that will enable West Basin to greatly improve local water reliability. As West Basin continues to pursue the development of a full-scale ocean-water desalination facility, the cost to construct and operate will be further evaluated; however, until more is known regarding the financial viability, the entire potential cost of this project will not be included in the Capital Improvement Program. The Capital Improvement Program currently includes the estimated costs for site leasing, permitting, and initial design.

The recycled water acre-feet and sales associated with the customer-funded reliability projects have been included in the Projected Operating Results within this year's budget which is shown within the "Financial Highlights and Forecast" section. Similarly, the additional operating costs and debt service have also been increased for the projected sales related to the customer-funded reliability projects.

Several other reliability projects anticipated to be financed are the expansion of the Hyperion Secondary Effluent Pump Station and Second Electrical Feed as well as water quality improvements for its customer sites and solutions for the Hyperion water quality.

#### FY 2010 Accomplishments

- Reliability – Objective 2: Completed construction of the El Segundo Corporate Campus Lateral in El Segundo. The El Segundo Corporate Campus Lateral will serve several corporate developments with irrigation water and future cooling tower use.
- Reliability – Objective 2: Completed construction of the Mariposa Recycled Water Pipeline Lateral. The Mariposa Lateral will serve multiple customers within the City of El Segundo. Recycled water will primarily be used for irrigation purposes and potential future cooling tower applications.
- Reliability – Objective 2: Completed construction of the Phase II Anza Lateral. The Phase II Anza Lateral will provide over 200 acre-feet per year of recycled water for landscape irrigation usage to various customers throughout the City of Torrance.

- Infrastructure – Objective 2: Initiated construction of the Oceanwater Desalination Demonstration Project. The Oceanwater Desalination Demonstration Project will develop a basis of design for full-scale operation by evaluating intake technologies and impacts, optimizing operation and maintenance procedures using full-scale elements, evaluate performance of potential energy recovery devices, analyze water quality, provide opportunities for public and stakeholder education.
- Reliability – Objective 2: Initiated preliminary design efforts for the Phase V Expansion Project to serve an additional 5 million gallons per day (MGD) of Barrier Water, expand Title 22 capacity, and potentially provide additional high quality boilerfeed water to the Chevron Refinery.
- Infrastructure – Objective 1: Completed feasibility studies for the BP Refinery and Los Angeles Harbor Area capacity expansion to meet future increased demands from West Basin’s recycled water system.
- Infrastructure – Objective 4: Completed construction of the Brewer Desalter Discharge-to-Waste Improvement System that will allow for improved equalization of well startup and waste discharge to local sewer connection.
- Infrastructure – Objective 4: Initiated construction of multiple Cathodic Protection improvements to District’s overall distribution system in order to ensure integrity of recycled water facilities.
- Reliability – Objective 2: Completed design and initiated construction of a disinfection facility within the ExxonMobil Water Recycling Facility. The disinfection facility will improve water quality for customers within the City of Torrance, including Toyota, American Honda, and future sites.
- Reliability – Objective 2: Initiated design of the Dominguez Lateral. Dominguez Lateral will be constructed within the City of Carson and will serve Anderson Park and various sites within the Dominguez Tech Center with irrigation water and potentially industrial water in the future.

#### FY 2011 Preview

- Reliability – Objective 2: Complete construction of multiple pipeline and pump stations as part of the Harbor-South Bay Project, including the following projects:
  - Carson Mall Lateral - The Carson Mall Lateral Project includes the design and construction of approximately 4,000 feet of 12-inch diameter recycled water pipeline from West Basin’s existing 42-inch diameter mainline and extends to the planned Carson Mall.
  - Gardena Lateral - The Gardena Lateral will be constructed within the City of Gardena to serve multiple customers including parks, schools, and medians.
  - Dominguez and Torrance Booster Pump Stations - To provide adequate hydraulic system pressure and water quality to customers served from the planned laterals, two (2) booster pump station will need to be

constructed. The booster pump stations are planned to be located within the Dominguez Hills area of City of Carson and West Torrance.

- Dominguez Lateral - Dominguez Lateral will be completed within the City of Carson and will serve Anderson Park and various sites within the Dominguez Tech Center with irrigation water and potentially industrial water in the future.
- Infrastructure – Objective 2: Complete construction of the Ocean Water Desalination Demonstration Project. The Desalination Demonstration Project will develop a basis of design for full-scale operation by evaluating intake technologies and impacts, optimizing operation and maintenance procedures using full-scale elements, evaluate performance of potential energy recovery devices, analyze water quality, provide opportunities for public and stakeholder education.
- Reliability – Objective 2: Initiate Design-Build efforts for implementation of the Phase V Expansion Project to serve an additional 5 MGD of Barrier Water, expand Title 22 capacity, and potentially provide additional high quality boilerfeed water to the Chevron Refinery
- Infrastructure – Objective 1: Initiate Design efforts for the Los Angeles Harbor Area Expansion project to serve LADWP refinery customers with over 9,000 AFY of high-quality nitrified Title 22 water. Design efforts include expansion of the existing Carson Regional Water Recycling Facility and approximately 3-miles of new 30-inch diameter conveyance pipeline through the City of Carson.
- Infrastructure – Objective 1: Initiate Design efforts for the BP Refinery supply expansion project. Design efforts include expansion of the existing Carson Regional Water Recycling Facility's membrane processes to provide approximately 6 MGD of additional capacity for boilerfeed uses at the BP Refinery.
- Infrastructure – Objective 4: Complete construction of multiple Cathodic Protection improvements to District's overall distribution system in order to ensure integrity of recycled water facilities.
- Reliability – Objective 2: Complete construction of a filter station to serve multiple recycled water use sites within the Toyota Campus.
- Infrastructure – Objective 1: Begin pre-design on the Hyperion Effluent Pumping Station Expansion and Second Electrical Feed projects. The pump station expansion will provide additional capacity to serve future recycled water demands and a second power source to the existing Hyperion Effluent Pump Station to improve reliability to the District's overall supply system.
- Water Quality – Objective 1: Complete construction of Disinfection Station Facilities and other system water quality improvement to improve distribution system water quality.
- Infrastructure – Objective 4: Implement various treatment and conveyance facility repair, replacement, and rehabilitation projects to maintain and improve facility operations and ensure a long-term reliable water supply for the District's customers.

*Personnel - Full Time Equivalents (FTE)*

FY 2007/08 Actual FTE	FY 2008/09 Actual FTE	FY 2009/10 Projected FTE	FY 2009/10 Budget FTE	FY 2010/11 Budget FTE
8.98	10.74	11.50	11.14	15.49

The following table summarizes the planned expenditures for FY 2011 and the next five years.

CAPITAL IMPROVEMENT PROGRAM	FISCAL YEAR					
	2011	2012	2013	2014	2015	2016
	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
<b>Reliability Projects</b>						
<b>Customer Funded Projects:</b>						
ECLWRF - Phase V Expansion - Barrier System	10,483,500	24,374,138	-	-	-	-
ECLWRF - Phase V Expansion - T22 System	3,780,000	8,788,500	-	-	-	-
<b>District Funded Projects:</b>						
Oceanwater Desalination Demonstration Facility	6,249,561	2,652,000	884,000	-	-	-
Oceanwater Desalination Full-Scale Facility	3,166,000	7,125,000	14,250,000	-	-	-
Hyperion SE Pump Station Expansion	1,475,000	16,225,000	11,775,000	-	-	-
Hyperion SE Pump Station Second Electrical Feed	125,000	1,375,000	987,500	-	-	-
Water Quality Facility Improvements	392,000	200,000	200,000	200,000	200,000	200,000
Harbor/South Bay Project Laterals - US ARMY CORPS	1,000,000	200,000	-	-	-	-
Harbor/South Bay Project Laterals - DISTRICT	350,000	310,000	390,000	250,000	250,000	250,000
<b>Repair, Replacement, &amp; Refurbishment Projects</b>						
Treatment Facility Repair, Replacement, & Improvements	4,320,280	6,900,280	1,895,280	8,445,280	9,005,280	10,733,746
Conveyance Facility Repair, Replacement, & Improvements	75,000	75,000	75,000	75,000	75,000	75,000
Conveyance Facility Corrosion Protection Improvements	350,000	75,000	-	75,000	-	-
<b>District Administration and Other Capital Facilities</b>						
Project Administration - Capital	4,200,000	4,410,000	4,630,500	4,862,025	5,105,126	5,360,383
Building Remodel and Rehabilitation	350,000	120,000	120,000	-	-	-
<b>Projected Project Expenditures</b>	<b>36,316,341</b>	<b>72,829,918</b>	<b>35,207,280</b>	<b>13,907,305</b>	<b>14,635,406</b>	<b>16,619,129</b>

**ELWRF Phase V Expansion – Barrier System**

With the completion of the Phase IV Expansion, the next step for West Basin’s Seawater Barrier Conservation Project is to increase recycled water injection to 100%. The Phase V Expansion Project will be the ultimate expansion of the West Coast Basin Seawater Barrier (Barrier) Conservation Project and will increase Barrier Water production at the Edward C. Little Water Recycling Facility by up to an additional 5 million gallons per day, resulting in 100% recycled water injection into the Barrier.

**ELWRF Phase V Expansion – Title 22 System**

The Title 22 treatment system at the Edward C. Little Water Facility will be expanded as part of the Phase V Expansion effort. The Title 22 treatment expansion will involve increasing additional 20 MGD of pretreatment capacity and 10 MGD of filter capacity to achieve total of 50 MGD of Title 22 production capacity.

## **Ocean-Water Desalination Demonstration Facility**

In May 2002, West Basin initiated piloting efforts to desalinate ocean water and evaluate the potential for developing a viable future water supply source for the region. After over six years of operations, West Basin has identified optimal operating parameters for desalination and is pursuing expanded desalination efforts in a step-wise manner beginning with development of a demonstration level facility, and ultimately leading to implementation of a full-scale ocean water desalination plant.

In late 2008, West Basin approved and certified environmental documentation for the project and in early 2009, West Basin received all necessary permits to proceed forward with the Ocean Water Desalination Demonstration Facility implementation. This project is aimed to develop a basis of design for full-scale operation by evaluating intake technologies and impacts, optimizing operation and maintenance procedures using full-scale elements, evaluate performance of potential energy recovery devices, analyze water quality, provide opportunities for public and stakeholder education. The Demonstration Facility will be constructed and operated at the SEALab Marine Educational Facility in the City of Redondo Beach.

## **Ocean-Water Desalination Full-Scale Facility**

Based on the findings of the Ocean-Water Desalination Demonstration Plant, West Basin anticipates designing and constructing a full-scale Ocean Water Desalination Facility. This facility will likely be located near the coast. Potable water would be produced and supplied to the local drinking water systems once the project is complete and all permits have been obtained.

## **Hyperion Secondary Effluent Pump Station Expansion**

West Basin's Hyperion Secondary Effluent Pump Station is the source of water supply for the Edward Little Water Recycling Facility. As West Basin recycled water production continues to increase, secondary effluent demand will exceed the capacity of the existing Hyperion Secondary Effluent Pump Station. The Hyperion Secondary Effluent Pump Station Expansion Project will potentially provide a capacity of up to 120 MGD.

## **Hyperion Secondary Effluent Pump Station – Second Electrical Feed**

West Basin's Hyperion Secondary Effluent Pump Station must not only have adequate capacity to supply the Edward Little Water Recycling Facility with effluent, but it must also supply the effluent at a level of reliability to meet the needs of West Basin's industrial customers. A backup power source feed is needed to provide reliability and redundancy in the event the current power source is damaged or lost in a power outage. West Basin is working closely with Los Angeles Department of Water & Power,

the provider of electrical power to the pump station, to construct a second electrical feeder to the pump station to increase the reliability of the pumping facilities.

### **Water Quality Facility Improvements**

Design efforts have been initiated to implement several water quality facility improvements, such as treatment facility improvements, disinfection booster station facilities, and backup potable water supplies, throughout West Basin's distribution system. Extended water travel times within the existing distribution system can also potentially result in low chlorine residuals, which can lead to odor and operational concerns. Water quality improvements will be implemented throughout the year to address customer requirements and maintain a reliable water supply source.

### **Harbor-South Bay Recycled Water Expansion Project**

The Harbor-South Bay Recycled Water Expansion Project is a partnership between West Basin and the Army Corps of Engineers to allow for increased recycled water use throughout the region and improved water supply reliability. This project includes the design and construction of numerous recycled water pipelines and pumping facilities throughout various cities such as Carson, Torrance, Palos Verdes, Gardena, and unincorporated areas of Los Angeles County. Over \$30 million in federal funding has been appropriated of the Harbor-South Bay Project and most recently, the project received \$8 million in federal Economic Stimulus Package funding as part of the American Recovery and Reinvestment Act (ARRA). The Army Corps of Engineers has authorized a financial commitment of \$35 million or 75% of the project funding. West Basin provides the remaining 25% funding

### **Treatment/Conveyance Facility Repair, Replacement, and Improvements**

Multiple facility improvements are under consideration for West Basin's treatment and conveyance system facilities. These improvements will enhance the safety, operability and efficiency of both the distribution system and treatment facilities. Some improvements are made to comply with safety, water quality or other regulatory requirements and may not result in an actual cost savings. Other improvements are identified which will result in lower operating costs or improved equipment life.

### **Conveyance Facility Corrosion Protection Improvements**

A pipeline corrosion control survey was performed to determine the condition and integrity of West Basin's overall recycled water distribution system. Various cathodic protection improvements were identified as being necessary to ensure the integrity of West Basin's recycled water facilities and will be implemented this upcoming fiscal year. Improvements will need to occur periodically to ensure system integrity over the duration of the system's useful service life.

### **Project Administration**

This line item represents the cost of West Basin labor, both direct and indirect, benefits and overhead that is attributed to accomplishing the capital improvement program.

### **Building Remodel and Rehabilitation**

Through the Building Ad Hoc Committee, the Committee has identified several rehabilitation efforts, which include minor air conditioning repairs, roof replacement, window repairs and other miscellaneous repairs.

## **ORGANIZATION MEMBERSHIPS**

**ORGANIZATION MEMBERSHIPS**

<b>Membership</b>	<b>FY 09-10 Amount</b>	<b>FY 10-11 Amount</b>
Affordable Desalination Collaboration	10,000	-
Alliance for Water Efficiency	3,000	3,050
American Membrane Technology Association	325	375
American Water Works Assn Research Foundation	40,000	42,000
Association of California Water Agencies	20,000	20,500
CalDesal	-	5,000
California Association of Sanitation Agencies	765	800
California Climate Action Registry	425	-
California Special Districts Association	3,500	-
California Urban Water Conservation Council	7,800	7,900
California Water Awareness Campaign	1,800	-
Chambers of Commerce		
- Carson	400	400
- Chinese	500	500
- Culver City	150	150
- El Segundo	600	500
- Gardena	300	300
- Greater Los Angeles African-American	500	500
- Harbor City / Harbor Gateway	125	175
- Hawthorne	300	300
- Hermosa Beach	350	375
- Inglewood / Airport Area	300	300
- Lawndale	500	500
- Lomita	350	350
- Los Angeles	1,500	1,500
- Malibu	365	365
- Manhattan Beach	450	450
- Palos Verdes Peninsula	400	525
- Redondo Beach	200	250
- South Bay Association	500	500
- South Bay Chinese-American	150	150
- South Bay Latino	500	500
- Torrance	425	425
- West Hollywood	-	350
Climate Action Registry	425	850
Colorado River Water Users Association	120	120
L. A. & San Gabriel River Watershed Council	2,500	2,500
National Water Research Institute	50,000	50,000
National Water Resources Association	350	350
New Water Supply Coalition	30,000	
So CA Alliance of Pub. Owned Treatment Works	8,000	8,000
Southern California Salinity Coalition	10,000	10,000
Southern California Water Committee	-	850
Southwest Membrane Operators Association	600	600
Urban Water Institute, Inc.	1,250	1,250
Utility Branding Network	5,000	5,000
Water Education Foundation	2,700	2,700
WaterReuse Association	5,000	7,500
WaterReuse Foundation	25,000	25,000
West Basin Water Association	200	200
<b>Totals</b>	<b>\$ 237,625</b>	<b>\$ 203,910</b>

## **ORGANIZATION MEMBERSHIPS**

Provided below is a summary description of the organizations that West Basin supports and the membership fees to be paid in FY 2011.

### **ALLIANCE FOR WATER EFFICIENCY**

Orientation: Policy/Technical

Description: The Alliance for Water Efficiency (AWE) is a national stakeholder-based non-profit organization dedicated to the efficient and sustainable use of water. Stakeholders include water agencies, non-profits, environmental organizations, and private companies.

West Basin Involvement: Staff attends local conferences presented by AWE.

Value: AWE provides access to information and resources drawn from agencies nationwide, specifically our efforts are enhanced by access to AWE's conservation modeling tool for developing local conservation master plans. AWE also provides direct technical support to members interested in water efficiency matters.

Association Fee: \$3,050

### **AMERICAN MEMBRANE TECHNOLOGY ASSOCIATION**

Orientation: Technical

Description: The American Membrane Technology Association is dedicated to developing and promoting the use of desalination and desalination technology, encouraging cooperation and communication with governmental, institutional and private agencies in matters relating to desalination.

West Basin Involvement: Staff has presented papers on West Basin projects at past conferences.

Value: Involvement in American Membrane Technology Association provides staff an opportunity to interact with other agencies involved in desalination and learn about the latest desalination technologies.

Association Fee: \$375

### **AMERICAN WATER WORKS ASSOCIATION RESEARCH FOUNDATION (AWWARF)**

Orientation: Technical

Description: AWWARF manages more than \$30 million per year of drinking water research in the areas of water quality, treatment, management, resources and health effects.

West Basin Involvement: Staff serves on two Project Advisory Committees (PAC); one for the correlation of arsenic levels in drinking water to cancer incidences and the other one on determining microbial growth in water distribution systems.

Value: West Basin and its customers receive continuing research benefits in water quality issues such as arsenic and radon, both of which occur naturally in the central groundwater basin at concentrations potentially higher than the anticipated new standards.

Association Fee: \$42,000

**ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA)**

Organization: Policy Development/Legislation

Description: ACWA is the largest and oldest association of public water agencies in California, functioning as an effective forum for developing consensus on statewide policy issues.

West Basin Involvement: Board and staff are involved in various advisory committees and attend two semiannual conferences.

Value: Directors and staff participate in ACWA forums that provide information on key statewide and industry issues that could impact West Basin.

Association Fee: \$20,500

**CAL DESAL**

Orientation: Policy Development/Legislation

Description: CalDesal is a non-profit organization comprises of public agencies and associates that see desalinated water as key to meeting the State of California's water-supply needs. CalDesal is the only organization that is focused solely on advocating in Sacramento and throughout the State for legislation and regulatory action to streamline and facilitate the use of ocean and brackish groundwater desalination as a viable water supply.

West Basin Involvement: West Basin receives timely and informative publications on legislation and regulatory matters from CalDesal.

Value: West Basin is able to stay on top of crucial issues affecting desalination.

Association Fee: \$5,000

**CALIFORNIA ASSOCIATION OF SANITATION AGENCIES (CASA)**

Orientation: Policy/Technical

Description: CASA provides its members with current technical information as well as state and federal legislative advocacy and representation before the State Water Resources Control Board and other state entities on issues affecting sanitation agencies.

West Basin Involvement: West Basin receives timely and informative publications on legislation and regulatory matters from CASA.

Value: West Basin is able to stay on top of crucial issues affecting sanitation agencies.

Association Fee: \$800

## **CALIFORNIA URBAN WATER CONSERVATION COUNCIL (CUWCC)**

Orientation: Policy/Technical

Description: CUWCC consists of urban water agencies, environmental organizations with an interest in water and other interested parties such as non-profit and private companies that oversee the implementation of the 14 best management practices within those agencies responsible for water management and develop firm conservation savings from these practices.

West Basin Involvement: Staff attends Residential and Commercial, Industrial & Institutional committee meetings, as well as the quarterly plenary meetings.

Value: Participation in CUWCC provides West Basin with direct input into conservation strategies impacting statewide water policy.

Association Fee: \$7,900

## **THE CLIMATE REGISTRY**

Orientation: Technical

Description: The Climate Action Registry (Registry) is the premier voluntary greenhouse gas registry in North America. The Registry is a non-profit partnership developing an accurate, complete, consistent and transparent greenhouse gas emissions measurement protocol that is capable of supporting voluntary and mandatory greenhouse gas emission reporting policies for its members and reporters. It provides a verified set of greenhouse gas emissions data from its reporters supported by robust accounting and verification infrastructure.

West Basin Involvement: West Basin is a founding Reporter of the Registry and voluntarily reports West Basin's annual greenhouse gas emissions.

Value: West Basin will benefit from participation in the Registry through its recognition as an environmental leader by identifying and managing our indirect and direct greenhouse gas emissions.

Association Fee: \$850

## **COLORADO RIVER WATER USERS ASSOCIATION (CRWUA)**

Orientation: Policy

Description: The purpose of CRWUA is to protect and safeguard the interests of those who benefit from the use of the Colorado River system.

West Basin Involvement: Directors and staff attend the annual CRWUA conference.

Value: The membership of the CRWUA provides a strong, unified voice for the preservation of Southern California's imported water supplies.

Association Fee: \$120

## **LOS ANGELES AND SAN GABRIEL RIVER WATERSHED COUNCIL (LASGRWC)**

Orientation: Environmental

Description: LASGRWC is a 501(c)(3) non-profit organization working cooperatively to facilitate a comprehensive, multi-purpose, stakeholder driven consensus process to preserve, restore and enhance the many beneficial uses of the Los Angeles River and San Gabriel River watersheds eco-system.

West Basin Involvement: Staff attends monthly stakeholder meetings during which the LASGRWC conducts business and holds workshops on subjects of interest in the watershed.

Value: West Basin has the freedom to present or discuss its projects to the LASGRWC and garner support.

Association Fee: \$2,500

## **NATIONAL WATER RESEARCH INSTITUTE (NWRI)**

Orientation: Research

Description: The NWRI is a public-private partnership that promotes the protection, maintenance and restoration of water supplies through the development of cooperative research.

West Basin Involvement: A West Basin Board member is assigned to NWRI as a voting member. Staff presents research projects to the NWRI, receives funding and attends applicable meetings.

Value: NWRI provides funding for West Basin research projects.

Association Fee: \$50,000

## **NATIONAL WATER RESOURCES ASSOCIATION (NWRA)**

Orientation: Policy Development/Legislation

Description: NWRA is a non-profit organization comprised of companies, associations and individuals concerned with the appropriate management, conservation and use of national water resources.

West Basin Involvement: Directors occasionally attend the NWRA Federal Water Seminar in Washington D.C., which provides water district board members and general managers with an opportunity to interact with members of Congress, key congressional staff and federal agency representatives to promote West Basin's needs and objectives.

Value: NWRA allows West Basin access to its broad-based information and action efforts.

Association Fee: \$350

## **SOUTHERN CALIFORNIA ALLIANCE OF PUBLICLY OWNED TREATMENT WORKS (SCAP)**

Orientation: Policy

Description: SCAP was created in July 1992. It is an association of cities, special districts, and other public agencies formed to concentrate their resources to ensure the passage of reasonable local, state and federal regulations and legislation impacting publicly owned treatment facilities.

West Basin Involvement: West Basin receives SCAP publications and occasionally staff attends its conferences.

Value: As an organization, SCAP serves as a watchdog for legislation which could negatively impact publicly owned treatment facilities, such as the Hyperion Waste Treatment Plant and the West Basin Recycled Water Treatment Plant.

Association Fee: \$8,000

## **SOUTHERN CALIFORNIA SALINITY COALITION**

Orientation: Policy/Technical

Description: The Coalition's purpose is to coordinate salinity management strategies, including legislative and regulatory issues, with water and waste agencies throughout Southern California.

West Basin Involvement: West Basin supports the organization's goals and objectives.

Value: West Basin and its customer agencies benefit from both the improved use of local groundwater and recycled water and reduced costs caused by the Coalition's commitment to keeping salinity levels low.

Association Fee: \$10,000

## **SOUTHERN CALIFORNIA WATER COMMITTEE**

Orientation: Policy/Educational

Description: The Southern California Water Committee is a non-profit, nonpartisan, public education partnership dedicated to informing Southern Californians about our water needs and our water resources. The goal of SCWC is to ensure an adequate, reliable, high-quality water supply statewide by maximizing California's water resources for the benefit of current and future generations.

West Basin Involvement: West Basin supports the organization's goals and objectives.

Value: SCWC seeks to educate business and government leaders and make available information to the public to support informed decisions on water issues, working towards a state consensus on water supply issues, imperative to our future needs.

Association Fee: \$850

## **SOUTHWEST MEMBRANE OPERATORS ASSOCIATION (SWMOA)**

Orientation: Technical

Description: The SWMOA is a non-profit organization comprised of operators and engineers from water agencies, private water companies, consultants, private industrial membrane users, and equipment manufacturers. Its goal is to provide training and education to membrane operators.

West Basin Involvement: West Basin staff attends meetings.

Value: West Basin benefits by encouraging more membrane system training for operators thereby enlarging the pool of operators familiar with membrane operations, by exchange of operating experience at other facilities, and by being kept abreast of state of the art in membrane technology.

Association Fee: \$600

## **THE URBAN WATER INSTITUTE (UWI)**

Orientation: Outreach

Description: The mission of the UWI is to provide a non-partisan exchange of information regarding emerging technology and policy issues to the water resource industry in the Western United States.

West Basin Involvement: West Basin was a founding agency of UWI and attends conferences as presenters and attendees.

Value: West Basin benefits from information on emerging technology and public policy for water resources through a monthly newsletter and conferences that address water issues.

Association Fee: \$1,250

## **UTILITY BRANDING NETWORK (UBN)**

Orientation: Outreach

Description: UBN is a national organization administered by the National Water Research Institute to help water and wastewater utilities develop positive brands that clearly communicate the value they provide.

West Basin Involvement: West Basin participates in branding efforts in order to identify ways of improving its image and that of the water industry to increase public trust and attract greater investment in infrastructure.

Value: UBN provides access to information and resources drawn from agencies nationwide. UBN can also provide direct support to members interested in evaluating their own brands.

Association Fee: \$5,000

### **WATER EDUCATION FOUNDATION (WEF)**

Orientation: Outreach

Description: The mission of WEF is to develop and implement education programs leading to a broader understanding of water issues and the resolution of water problems.

West Basin Involvement: Directors and staff attend the briefings and tours conducted by WEF.

Value: WEF assists West Basin in making information on water issues available to students, residents, Directors and staff.

Association Fee: \$2,700

### **WATEREUSE ASSOCIATION (WATEREUSE)**

Orientation: Technical/Policy/Education

Description: WateReuse promotes recycled water as a supplemental water supply for the state and works for the adoption of legislation and regulations that increase the safe use for recycled water through conferences, workshops and publications that exchange information and ideas between members and others involved in water recycling.

West Basin Involvement: Staff actively participates in WateReuse committees and conference and often has its projects highlighted.

Value: WateReuse is actively involved in local, state and federal level regulatory issues and legislation critical to West Basin's efforts to encourage and expand the use of recycled water locally.

Association Fee: \$7,500

### **WATEREUSE FOUNDATION (WATEREUSE)**

Orientation: Research

Description: The WateReuse Foundation is an educational, nonprofit corporation that serves as a centralized organization for the water and wastewater community to advance the science of water reuse, recycling, reclamation and desalination.

West Basin Involvement: Staff is on the Board of Directors and also attends research conferences.

Value: The WateReuse Foundation has funded research for West Basin, furthering the knowledge and use of recycled water.

Association Fee: \$25,000

## **WEST BASIN WATER ASSOCIATION (WBWA)**

Orientation: Outreach

Description: WBWA is composed of water rights holders in the West Coast Basin and provides a forum to members to discuss current water rights issues and policies.

West Basin Involvement: West Basin participates in forums to better understand local water issues and rate structures.

Value: WBWA provides West Basin with valuable insight on current water rates established by West Basin, proposed legislation and water industry news that affect the way in which West Basin makes policy decisions.

Association Fee: \$200

## GLOSSARY

**Accrual Basis** – The basis of accounting under which transactions are recognized when they occur, regardless of timing of cash receipts and disbursements.

**Acre-Foot (AF)** – A unit of measure equivalent to 325,900 gallons of water which meets the need of two average families, in and around the home, for one year.

### **Acre-Foot per Year (AFY)**

**Adjustable Rate Revenue Certificates of Participation** – Tax-exempt government variable rate securities used to finance capital costs.

**Annual Tier 1 Maximum** – An annual set amount of non-interruptible water an agency may purchase at a preferred rate.

**Arbitrage** - The simultaneous purchase and sale of the same commodity or investment in two different markets at two different prices, which results in a riskless profit.

**Barrier Water** – Imported or recycled water that is injected into wells to prevent seawater intrusion into the groundwater.

**Best Management Practice (BMP)** – An engineered structure or management activity, or combination of these, that eliminates or reduces adverse environmental effects.

**Bond Fund** – Restricted funds used to pay for capital expenditures.

**Brackish Water** - A mixture of seawater and freshwater.

**Budget** – A balanced financial plan for a specified period of time.

**California Water Service Company (CWSC)** - Is the largest investor-owned American water utility west of the Mississippi River and the second largest in the country. Formed in 1926, the San Jose-based company serves 500,000 customers through 28 Customer and Operations Centers throughout the state.

### **California Environmental Quality Act (CEQA)**

**Capacity Charge** – A charge to recover the cost of providing peak capacity within the distribution system.

**Capital Expenditure** – Costs incurred that will derive a future benefit and include the acquisition or upgrade of land, equipment or facilities.

**Capital Improvement Program** – A multi-year plan identifying capital projects to be funded during the planning period.

### **Cubic feet per second (cfs)**

**Colorado River Aqueduct (CRA)** – The 242 mile-long water conveyance system built by Metropolitan Water District to carry water from the Colorado River to its Southern California services area.

**Comprehensive Annual Financial Report (CAFR)** – An annual report intended to provide interested parties a broad financial outlook of West Basin.

**Consumer-Price-Index (CPI)** - A measurement of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

**Desalting (or Desalination)** – Removing of salts from salt water by evaporation or distillation. Specific treatment processes, such as reverse osmosis or multi-stage flash distillation, to demineralize seawater or brackish (saline) waters for reuse.

**Debt Coverage** – The ratio of annual net income to annual debt service.

**Debt Service** - Principal and interest payments on bonds or other debt instruments used to finance capital facilities.

**Department of Water Resources (DWR)** – DWR operates and maintains the State Water Project, including the California Aqueduct. The department also provides dam safety and flood control services, assists local water districts in water management and conservation activities, promotes recreational opportunities, and plans for future statewide water needs.

**Designated Funds** – Unrestricted funds that can be used for any lawful purpose at the discretion of the Board of Directors.

**Edward C. Little Water Recycling Facility (ECLWRF)** – The main water recycling plant in El Segundo, California which began operations in 1995 which was recently renamed the Edward C. Little Water Recycling Facility.

**Effluent** – Wastewater or other liquid, partially or completely treated or in its natural state, flowing from a treatment plant.

**Enterprise Fund** – An entity with a self-balancing set of accounts established to record the financial position and results that pertain to a specific governmental activity.

**Exemption Agreement** – An agreement that allows a property owner, that is able to demonstrate that his property cannot be developed, to be exempt from the Standby Charge.

**Finance and Administrative Overhead** - Indirect expenses to support the general operations of the West Basin.

**Financial Policies** – A document approved by the Board of Directors that identify parameters in which West Basin can operate and provide a standard in which fiscal performance can be reviewed.

**Fiscal Year** – The time frame in which the budget applies. This is the period of July 1 through June 30.

**Full-Time Equivalent (FTE)** – An employee that normally works 40 hours per week and receives full benefits.

**Fund Balance** – See Net Assets

**Gallons Per Minute (GPM)**

**General Fund** – Unrestricted funds used to pay for general or operating expenditures.

**Government Accounting Standards Board (GASB)** – the source of generally accepted accounting principles used by State and Local governments in the United States of America.

**Groundwater** – Water that has percolated into natural, underground aquifers; water in the ground, not water collected on the surface.

**Groundwater Resources Program (GRP)** – A program offered by MWD to provide financial assistance to member agencies and local water purveyors to recover and make beneficial use of contaminated groundwater.

**Imported Water** – Water imported by MWD through the CRA system and from Northern California.

**Integrated Regional Water Management Plan (IRWMP)** – A plan prepared by a water purveyor to ensure the appropriate level of reliability of water service sufficient to meet the needs of its various categories of customers during normal, single dry or multiple dry years.

**Interest Rate Swap** - Contracts that require an exchange of cash flows based on a notional principal amount. Generally a fixed interest rate payment is exchanged against a floating rate payment.

**Irrigation** – Applying water to crops, lawns, or other plants using pumps, pipes, hoses, sprinklers, etc.

**Joint Financing Authority (Authority)** – An entity formed in August 1992 between Central Basin Municipal Water District and West Basin Municipal Water District to develop, finance, acquire, manage, and control facilities. The JFA was dissolved by resolution in August 2007.

**Local Resources Program (LRP)** - A program offered by MWD to provide financial assistance to member agencies and local water purveyors to make beneficial use of treated wastewater.

**Low-use Water Agreement** – An agreement allowing a 50% reduction to the annual Standby Charge. The property owner must certify each year that the water usage is less-than 500 cubic feet per month per dwelling unit.

**Metropolitan Water District of Southern California (MWD)** – MWD is one of the world's largest water agencies. It imports almost 60% of the water used by more than 15 million people in Southern California, including San Diego County. This water is wholesaled to Metropolitan's 26 member agencies. A 37 member Board of Directors representing its member agencies governs MWD.

**MWD's Tier 1 Supply Rate** – Recovers the cost of maintaining a reliable amount of supply.

**MWD's Tier 2 Supply Rate** – Set at MWD's cost of developing additional supply to encourage efficient use of local resources.

**MWD's Treatment Surcharge** – Recovers the costs of treating imported water.

**MWD's System Access Rate** – Recovers a portion of the costs associated with the delivery of supplies.

**MWD's System Power Rate** – Recovers MWD's power costs for pumping supplies to Southern California.

**MWD's Water Stewardship Rate** – Recovers the costs of MWD's financial commitment to conservation, water recycling, groundwater clean-up and other local resource management programs.

**Million Gallons Per Day (MGD)**

**Moody's** – One of the nationally recognized statistical-rating organizations.

**Net Assets** – Represents the difference between assets and liabilities

**Pay-As-You-Go (PAYGO)** – The practice of funding construction expenditures from current operating revenues in-lieu of using debt proceeds.

**Proposition 50** - The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002, Water Code Section 79500, *et seq.*, was passed by California voters in the November 2002 general election.

**Public Agency Retirement System (PARS)** – A retirement plan established to provide benefits to Board of Directors that meets certain minimum requirements.

**Purchase Commitment** – An agreement to purchase non-interruptible water.

**Readiness-To-Serve (RTS) Charge** – A charge designed to provide firm revenue for Capital Investment Plan debt service to meet the reliability and quality needs of existing users.

**Recycled Water** – Tertiary treated water that cannot be used for domestic purposes and must meet appropriate federal, state, and local laws and regulations.

**Restricted Funds** – Funds restricted by a third party, by law, regulation or contractual obligation.

**Revenue Certificates of Participation** – Tax-exempt government securities used to finance capital costs related to construction or acquisition and may not be used to finance ongoing operating costs.

**Reverse Osmosis (RO)** - a filtration process that forces water through membranes that contain microscopic holes, removing microorganisms, organic chemicals and inorganic chemicals, producing very pure water.

**Seawater Intrusion** – The movement of salt water into a body of fresh water. It can occur in either surface water or groundwater basins.

**Standby Charges** – An annual charge paid by property owners to fund West Basin's debt service obligation on the West Basin Water Recycling Facilities.

**Standards & Poor's** - One of the nationally recognized statistical-rating organizations.

**State Water Project (SWP)** – An aqueduct system that delivers water from Northern California to Central or Southern California.

**Title 22** - A section of California Code of Regulations pertaining to various aspects of drinking water and recycled water standards.

**Ultra-Low-Flush Toilet (ULFT)** – A toilet that uses only 1.6 gallons per flush.

**United Water Service (UWS)** - United Water provides water and wastewater services to seven million people in the United States. In addition to owning and operating regulated utilities, United Water operates municipal systems through public-private partnerships and contract agreements.

**Unrestricted Funds** – Funds not restricted by a third party, by law, regulation or by contractual obligation.

**Urban Water Management Plan (UWMP)** – A report prepared by a water purveyor to ensure the appropriate level of reliability of water service sufficient to meet the needs of its various categories of customers during normal, single dry or multiple dry years. The California Water Management Planning Act of 1983, as amended, requires urban water suppliers to develop an UWMP every five years in the years ending in zero and five.

**Water Reclamation** – The treatment of wastewater to make it suitable for a beneficial reuse, such as landscape irrigation. Also called water recycling.

**Water Replenishment District (WRD)** - WRD manages groundwater for nearly four million residents in 43 cities of Southern Los Angeles County. The 420 square mile service area uses about 250,000 acre-feet of groundwater per year, which equates to nearly 40% of the total demand for water. The WRD ensures that a reliable supply of high-quality groundwater is available through its clean water projects, water supply programs, and effective management principles.

## NOTES



**Cover Photos:** West Basin Municipal Water District Water-Efficient Demonstration Garden, located at the Edward C. Little Water Recycling Facility in El Segundo, hosts native, drought tolerant plants, permeable surfaces, rain and runoff capture systems, a weather-based irrigation controller, mulch, and uses recycled water. As part of our Water Reliability 2020 program to reduce our dependence on imported water, this garden plays a key role in showcasing water-efficient practices and serving as an educational tool for the community. This garden has helped reduce West Basin's outdoor water use in this area by 80%.

