

**RESOLUTION NO. 4-13-972**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF  
WEST BASIN MUNICIPAL WATER DISTRICT RELATING TO WATER RATES  
AND REPEALING RESOLUTION NO. 05-12-959**

**BE IT RESOLVED BY THE BOARD OF DIRECTORS OF WEST BASIN  
MUNICIPAL WATER DISTRICT (DISTRICT) as follows:**

**1. Purpose.**

The District purchases water from the Metropolitan Water District of Southern California ("Metropolitan"). The West Basin Municipal Water District's ("District") rates, fees and charges reflect the fees paid to Metropolitan for water. In addition, the District purchases secondary effluent water from the Los Angeles Hyperion facility and produces recycled water. The District will revise its rates and charges as set forth below.

**2. Findings.**

The Board of Directors finds:

(a) The rates, fees and charges set forth herein will recoup the amounts paid by the District for water, the cost of operations and maintenance expenses, the cost of program administration of the District, annual debt service, and an amount necessary for reasonable designated funds.

(b) The revenue produced by the rates, fees and charges set forth herein will be used to provide service to existing customers and, as a result, further environmental review is unnecessary by virtue of 14 California Code of Regulations, Section 15273.

**3. General.**

The District delivers potable and recycled water for direct and indirect use. Customers shall pay the following rates, fees and charges for delivery or continued delivery of water. Customers shall use water delivered by the District only for reasonable and beneficial purposes.

**4. Definitions.**

The following terms are defined for the purposes of this resolution:

*Customer* means a person, firm, or corporation that purchases water from the District.

*Direct use* means the use of water, other than groundwater, for reasonable and beneficial uses.

*District* means West Basin Municipal Water District.

*Indirect use* means the use of water to replenish a groundwater basin through the methods of in-lieu, spreading, or injection.

*Metropolitan or MET* means The Metropolitan Water District of Southern California.

*Recycled water* means tertiary or advanced treated water that cannot be used for domestic purposes and must meet appropriate federal, state, and local laws and regulations.

*Treated water* means water treated by filtration and disinfection at a MET treatment facility.

*Tier 1 rate* means the sum of MET's lowest full service treated volumetric cost, the District's reliability service charge and West Basin's applied readiness-to-serve charge per acre foot.

*Tier 2 rate* means the sum of MET's highest full service treated volumetric cost, the District's reliability service charge and West Basin's applied readiness-to-serve charge per acre foot.

**5. Direct Use: Potable.**

(a) Effective July 1, 2013 customers shall pay a tier 1 rate of \$1,106 per acre foot for direct delivery of potable water or a tier 2 rate of \$1,256 per acre foot. Effective January 1, 2014, customers shall pay a tier 1 rate of \$1,157 per acre foot for direct delivery of potable water, and or a tier 2 rate of \$1,299.

(b) Effective January 1, 2014, a customer will pay \$6,600 per cubic feet per second of the MET system capacity based on the highest average day flow between May 1 and September 30 from the previous three years.

**6. Desalinated Water.**

For desalinated service, the customer shall pay an amount for water delivered by the District as established by contract.

**7. Recycled Water: Basic Recycled Service.**

For basic recycled service, effective July 1, 2013, the customer shall pay for each acre foot of water delivered by the District as follows:

<u>Monthly Volume</u>	<u>Rate</u>
First 25 AF of metered usage	\$908/AF
Next 25 AF of metered usage	\$898/AF
Next 50 AF of metered usage	\$888/AF
Next 100 AF of metered usage	\$878/AF
Additional AF of metered usage	\$868/AF

**8. Recycled Water: Barrier Recycled Service.**

For Barrier recycled service, Water Replenishment District of Southern California shall pay \$1,051 per acre-foot for the first 4,500 acre-feet purchased and shall pay \$578 per acre-foot for all purchases in excess of 4,500 acre-feet for water delivered by the District effective July 1, 2013 pursuant to the purchase agreement effective January 27, 2003 and as amended on April 17, 2009.

**9. Recycled Water: Industrial Reverse Osmosis Recycled Service.**

For industrial recycled service, effective July 1, 2013, the customer shall pay \$1,136 for each acre foot of water delivered by the District.

**10. Recycled Water: Ultra-Industrial Reverse Osmosis Recycled Service.**

For ultra-industrial recycled service, effective July 1, 2013, the customer shall pay \$1,492 for each acre foot of water delivered by the District.

**11. Recycled Water: Nitrified Recycled Service.**

For nitrified recycled service, the customer shall pay a surcharge in addition to the amounts levied pursuant to section 8. The surcharge shall recover at least the cost of operating and maintaining the facilities needed to serve the user. The District shall enter into contracts to levy the surcharge.

**12. Extraterritorial Service.**

Effective as of July 1, 2013, the District may serve recycled water within the cities of Torrance or Los Angeles pursuant to contract with the following rates:

<u>Monthly Volume</u>	<u>Rate</u>
First 25 AF of metered usage	\$950/AF
Next 25 AF of metered usage	\$940/AF
Next 50 AF of metered usage	\$930/AF
Next 100AF of metered usage	\$920/AF
Above 200 AF of metered usage	\$910/AF

**13. Monthly Water Service Charge.**

Effective July 1, 2013, a monthly water service charge of \$46 per cubic foot per second of meter capacity shall be assessed for each service connection capable of delivering imported water regardless of the amount of water delivered. The monthly water service charge shall not exceed \$4,600 per meter.

**14. Payments.**

(a) The District shall bill each customer for water delivered during the prior month. All water shall be billed at the applicable rate. Bills shall be due when issued and shall be delinquent if payment is not received by the District by close of business on the 10th day of the month following the date of issuance. If the 10<sup>th</sup> business day falls on a Saturday, Sunday or a National Holiday, the bill shall be due on the following business day.

(b) For all returned checks, a fee equal to the amount West Basin is assessed by its bank will be subsequently applied to the customer on their following month's water bill invoice.

**15. Delinquencies.**

If a customer is delinquent in payment for water delivered by the District, and any related water delivery charges, an additional charge equal to two percent of such delinquency shall be assessed for each month or portion thereof that the payment remains delinquent.

**16. Water Conservation.**

(a) The use of imported water when the use of recycled water is feasible, is a waste and unreasonable use of imported water. If the District makes recycled water available to a customer, but the customer does not use recycled water, the District may impose a surcharge on water deliveries of up to 50% of the billing. The proceeds of the surcharge shall be used for any of the following purposes:

(1) Designing and constructing additional facilities within the customer's boundaries or at other locations for the distribution of recycled water;

(2) Designing and constructing plumbing system modifications on retail services within customer's boundaries or at other locations as necessary to distribute recycled water; and

(3) Repayment of prior construction costs for systems to deliver recycled water to the customer or others.

**17. Other.**

This resolution is effective for water delivered on or after July 1, 2013 and repeals Resolution 05-12-959.

**PASSED, APPROVED AND ADOPTED** on April 22, 2013

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President

ATTEST:

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Secretary  
(SEAL)

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## West Basin Municipal Water District

### FY 2013-14 Water Rates and Charges

#### Proposed

#### Rates Effective July 1, 2013 to December 31, 2013

	MWD Commodity	MWD RTS	Reliability Svc Charge	Total
Non-Interruptible & Barrier (Tier 1)	\$847/AF	\$135/AF	\$124/AF	<b>\$1,106/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$997/AF	\$135/AF	\$124/AF	<b>\$1,256/AF</b>

#### Rates Effective January 1, 2014

	MWD Commodity	MWD RTS	Reliability Svc Charge	Total
Non-Interruptible & Barrier (Tier 1)	\$890/AF	\$143/AF	\$124/AF	<b>\$1,157/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$1,032/AF	\$143/AF	\$124/AF	<b>\$1,299/AF</b>

#### MWD Non-Interruptible Commodity Rate

	Effective Dates	
	<u>1/1/13</u>	<u>1/1/14</u>
Supply Rate Tier 1	\$140	\$148
Supply Rate Tier 2	\$290	\$290
System Access Rate	\$223	\$243
Water Stewardship Rate	\$41	\$41
Treatment Rate	\$254	\$297
Power Rate	\$189	\$161
<b>Total Tier 1</b>	<b>\$847</b>	<b>\$890</b>
<b>Total Tier 2</b>	<b>\$997</b>	<b>\$1,032</b>

#### Capacity Charge

Designated Amount<sup>1</sup>

Effective Jul 1 to Dec 31, 2013

**\$5,500/cfs**

Effective Jan 1, 2014

**\$6,600/cfs**

(1) Designated amount is an Agency's highest peak (per cfs) from the past three summer periods (May 1-Sept. 30)

#### Monthly Water Service Charge

Effective July 1, 2013

WBMWD Water Service Charge

**\$46/cfs<sup>2</sup>**

(2) Per cfs as determined by agency's meter capacity

#### WBMWD Recycled Water Rates

Effective July 1, 2013

Volume (AF/Month)	WBMWD Service Area	West Coast Barrier (<4,500 AF)	West Coast Barrier (4,500+ AF)	Industrial R/O (WB Svc Area)	Nitrified (Ind R/O usage)	Industrial R/O Ultra (WB Svc Area)	Torrance / LADWP Service Areas
0-25	<b>\$908/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$950/AF</b>
25-50	<b>\$898/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$940/AF</b>
50-100	<b>\$888/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$930/AF</b>
100-200	<b>\$878/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$920/AF</b>
200+	<b>\$868/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$910/AF</b>



**REGULAR BOARD MEETING  
WEST BASIN MUNICIPAL WATER DISTRICT  
and  
SPECIAL BOARD MEETING  
WEST BASIN ANNUAL FINANCING  
CORPORATION  
17140 S. AVALON BLVD., CARSON, CA 90746  
MONDAY, APRIL 22, 2013 – 1:00 P.M.**



**MEETING AGENDA**

- 1. DETERMINATION OF QUORUM  
PLEDGE OF ALLEGIANCE**
  
- 2. PUBLIC COMMENT AND PRESENTATIONS**
  - A. GARDENA HIGH EFFICIENCY TOILET CHECK PRESENTATION**
  - B. 2013 WATER IS LIFE ART CONTEST UPDATE**

NOTE: (Members of the public are invited to present comments to the Board on matters within the District's jurisdiction but not on the agenda. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to inform the Board Secretary prior to the start of the meeting. The public may present comments on agenda items when the matter is called.)

NOTE: At the discretion of the Board, all items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

**3. ITEMS TOO LATE TO BE AGENDIZED**

In accordance with Section 54954.2 of the Government code, additions to the agenda require two-thirds vote of the legislative body, or, if less than two-thirds of the members are present, a unanimous vote of those members present, determine that the need to discuss and/or take action on item(s) introduced that came to the attention of the District subsequently to the posting of the agenda.

- 4. WATER RECYCLING PLANT OPERATIONS UPDATE – ORAL REPORT**
- 5. LEGISLATIVE UPDATE**
  - A. SUPPORT POSITION – SB 620 – WATER REPLENISHMENT DISTRICTS**
  - B. AB 72 (HOLDEN) MUNICIPAL WATER DISTRICT DIRECTOR ELECTIONS**
  - C. 2014 WATER BOND POLICY PRINCIPLES**

**6. METROPOLITAN WATER DISTRICT ACTIVITIES UPDATE**

**7. AB 1234 REPORTING COMPLIANCE**

Members of the legislative body shall provide brief reports (written or oral) on meetings attended at the expense of the local agency at the next regular meeting of the legislative body.

**CONSENT CALENDAR**

NOTICE: All matters listed under the Consent Calendar are considered to be routine and non-controversial and will be acted upon by the Board by one motion in the form listed below. There will be no separate discussion on these items prior to the time the Board votes unless any Board members, staff or the public requests specific items to be discussed and/or removed from the Consent Calendar for separate action.

8. APPROVAL OF MINUTES – MARCH 6, 2013 (MWD CAUCUS), MARCH 13, 2013 (SPECIAL), MARCH 21, 2013 (SPECIAL) and MARCH 27, 2013 (SPECIAL)
9. FINANCIAL REPORT
  - A. Demands
  - B. Cash & Investments
  - C. Water Sales Statements
  - D. Recycled Water Revenue & Expense Summary
10. CONTRACT OPERATIONS FOR RECYCLED WATER FACILITIES
11. FISCAL YEAR 2013-14 BUDGET UPDATE
12. DIRECTOR EXPENSES OVER 90 DAYS
13. QUARTERLY DEBT AND SWAP REPORTS
14. OCEAN-WATER DESALINATION UPDATE
15. CAPITAL IMPROVEMENT PROGRAM UPDATE
16. RECYCLED WATER CUSTOMER DEVELOPMENT PROJECT UPDATE
17. 2013 WATER IS LIFE ART CONTEST UPDATE
18. SOLAR CUP UPDATE
19. BUS TRANSPORTATION – REQUEST FOR PROPOSALS

## **ACTION CALENDAR**

20. PROPOSED WATER STANDBY CHARGE FOR FISCAL YEAR 2013-14 RESOLUTION NO. 4-13-975
21. PROPOSED FISCAL YEAR 2013-14 WATER RATES AND CHARGES RESOLUTION NO. 4-13-972
22. 2013A REFUNDING REVENUE BONDS RESOLUTION NO. 4-13-974
23. LOS ANGELES AIR FORCE BASE POTABLE WATER BACKUP SYSTEM PROJECT
24. FISCAL YEAR 2012-13 EVENT SPONSORSHIPS
25. REVERSE OSMOSIS ELEMENTS TRAINS 1, 2 AND 9 REPLACEMENT
26. POWER DEMAND RESPONSE PROGRAM
27. OUTSIDE LAB SERVICES FOR OCEAN-WATER DEMONSTRATION DESALINATION FACILITY
28. MEETING REQUEST WITH CONGRESSWOMAN GRACE NAPOLITANO – REQUESTED BY PRESIDENT CAROL KWAN



29. 2010A LIQUIDITY FACILITY AMENDMENT RESOLUTION NO. 4-13-973

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**RECESS TO**

**WEST BASIN FINANCING CORPORATION BOARD MEETING**

**FINANCING CORPORATION AGENDA**

- A. DETERMINATION OF QUORUM
- B. PUBLIC COMMENT

**ACTION CALENDAR**

- C. 2010A LIQUIDITY FACILITY RESOLUTION NO. 4-13-015

**ADJOURNMENT TO**

**WEST BASIN MUNICIPAL WATER DISTRICT REGULAR BOARD MEETING**

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**WEST BASIN MUNICIPAL WATER DISTRICT  
AGENDA CONTINUED**

**COMMENTS**

- 30. **GENERAL MANAGER'S REPORT**
- 31. **GENERAL COUNSEL'S REPORT**
- 32. **AD HOC COMMITTEE UPDATES**
- 33. **DIRECTORS' COMMENTS**
- 34. **CLOSED SESSION**

**A. PURSUANT TO GOVERNMENT CODE SECTION 54956.9 (d) (1) PENDING LITIGATION – 4**

**ITEMS**

- 1. CENTRAL BASIN MUNICIPAL WATER DISTRICT vs. WATER REPLENISHMENT DISTRICT – CASE NO. BS 129817
- 2. SAN DIEGO WATER AUTHORITY vs. METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA, ET AL CASE # CPF-10-510830
- 3. CALIFORNIA WATER SERVICE CO. vs. CITY OF COMPTON et al, LASC Case No. C506806
- 4. WEST BASIN MUNICIPAL WATER DISTRICT vs. BRUTOCO ENGINEERING, INC. and DOES1 THROUGH 40

**B. PURSUANT TO GOVERNMENT CODE SECTION 54956.9 (d) (3) POTENTIAL LITIGATION –**

**3 ITEMS**

**C. PURSUANT TO GOVERNMENT CODE SECTION 54956.8 – PROPERTY NEGOTIATIONS –**

**2 ITEMS**

1. AES, 1100 North Harbor Dr., Redondo Beach, CA 90277-2017
2. NRG, El Segundo Operations, 301 Vista del Mar, El Segundo, CA 90245

**ADJOURNMENT**

**Next Board Meeting – May 29, 2013 – 1:00 p.m.**

**Note:** Notice of this Agenda may be found on the District's Web Site at [www.westbasin.org](http://www.westbasin.org). For further information or questions, please contact the Board Secretary at (310) 660-6229.

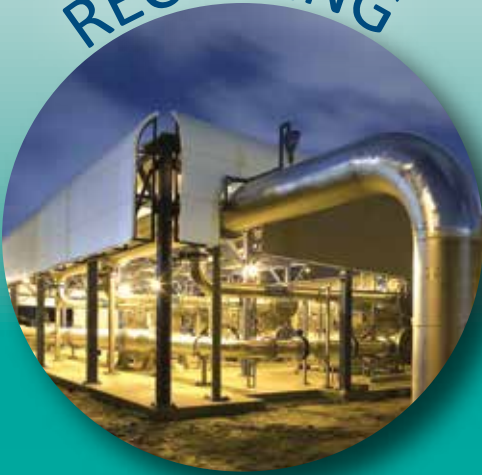
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# OPERATING BUDGET

Fiscal Year 2013-2014

RECYCLING



CONSERVATION



DESALINATION



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

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# **TRANSMITTAL LETTER**

*To be completed after May Board Meeting*

# 2012 FINANCIAL AWARDS



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# **ABOUT THE DISTRICT**

## ABOUT WEST BASIN MUNICIPAL WATER DISTRICT

West Basin Municipal Water District (West Basin) is a special district of the State of California and an innovative, award-winning public agency that provides drinking and recycled water, water efficiency and water education programs to its approximately 1 million residents within a 185-square mile service area (see Service Area Map, p. XX). West Basin purchases imported water from the Metropolitan Water District of Southern California (Metropolitan) and sells 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 currently provides 75% highly purified recycled water to the Water Replenishment District of Southern California (WRD). This year, West Basin will expand that amount to 100% for injection into the West Coast seawater barrier. The seawater barrier protects and augments \$200 million dollars' worth of local groundwater supplies.

West Basin is currently executing a Board-adopted Strategic Plan with the goal of building more reliability into our local water supply. Through our 2008 Board-adopted Water Reliability 2020 Program (WR 2020), we are currently expanding production of locally-produced water by doubling water recycling and conservation programs and planning to add 10% of our future water supplies from ocean-water desalination. In late 2010, West Basin opened its Ocean-Water Desalination Demonstration Facility Water Education Center to the public to share Southern California's water story, teach the community about local supplies, and conduct scientific research on ocean-water desalination.

West Basin continues to invest in 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 providing value to our service area.



## BOARD OF DIRECTORS



**Carol W. Kwan**  
President  
Division III



**Edward C. Little**  
Vice President  
Division IV



**Ronald C. (Ron) Smith**  
Treasurer  
Division I



**Gloria D. Gray**  
Division II



**Donald L. Dear**  
Division V

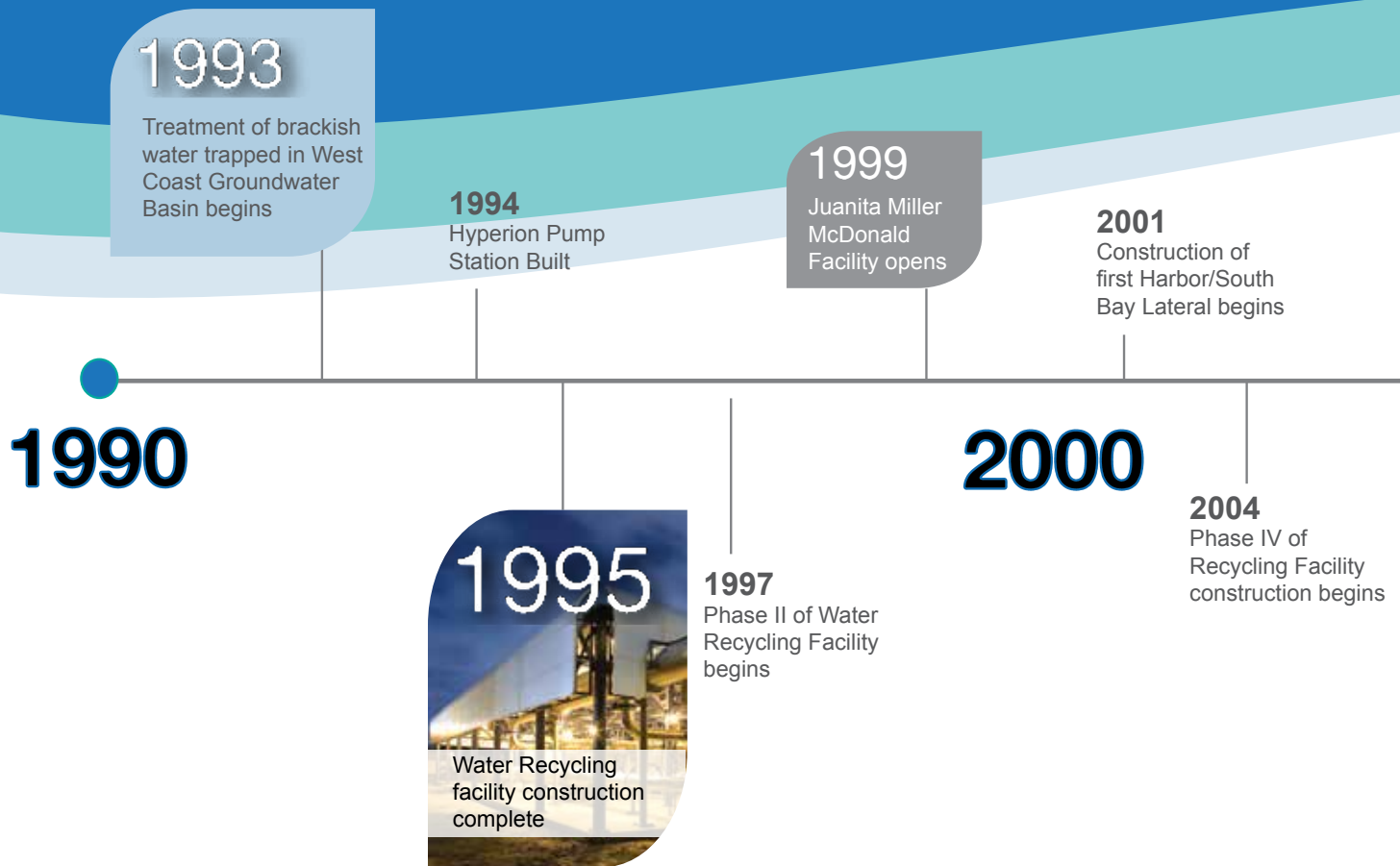
Five publicly-elected officials serve as West Basin’s Board of Directors. Voters in each of the five divisions from Malibu to Palos Verdes and El Segundo to Carson, elect one director to serve a four-year term. The West Basin Board then appoints two representatives to serve on the 37-member Metropolitan Board of Directors. The two representatives currently serving on the Metropolitan Water District Board of Directors are Edward C. Little and Gloria D. Gray.

## SERVICE AREA

West Basin Municipal Water District serves a diverse population of nearly one 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 income diversity ranges from approximately \$23,000 in Westmont to approximately \$200,000 in Rolling Hills (Source: 2000 census).



# DRAFT



## HISTORY

As early as 1918, the levels in local groundwater basins were dropping so low that salt water from the ocean was seeping in and contaminating groundwater. Lawns in coastal Los Angeles were dying from salty water, and well water was so salty it was often undrinkable. In the 1940s, studies showed that the local groundwater aquifer was being depleted at a much faster rate than it was being recharged or refilled. Each year, the aquifer was being over drafted by millions of gallons - more water was taken out than was put back in.

At that time, one solution was to supply the region with imported water through Metropolitan. In 1947, West Basin was formed by a vote of the people to serve as a wholesale agency to distribute water throughout its service area. In 1948, West Basin became a member agency of Metropolitan, an agency that at that time imported water from the Colorado River, and later would also import water from Northern California. For almost four decades, West Basin served its customer agencies and communities solely as a wholesaler of imported water.

As a result of the extreme drought of the late 1980s and early 1990s, West Basin leaders decided to diversify the agency's water portfolio to include conservation and water reuse to provide a more reliable supply of water for future generations. Early efforts included building the world's most unique water recycling facility that would convert treated wastewater into five types of high-quality recycled water suitable for groundwater recharge, irrigation, municipal, industrial and commercial uses.



Water Recycling Facility 10th Anniversary



Desalination Demo facility & Water Education Center opens

**2011**  
Carson Headquarters named in honor of Dir. Donald L. Dear

**2010**

**2009**  
Capital Improvement Master Plan

**2007**  
Water Recycling Facility named in honor of Dir. Edward C. Little

**2013**  
Phase V construction of Edward C. Little Water Recycling Facility complete

**2020**

The benefits generated by the water recycling facility include more affordable water rates for customers, a reliable, locally-controlled supply of recycled water, reducing energy use by importing less water from hundreds of miles away, reducing wastewater and biosolids discharged to the ocean, and use of wastewater as a usable water resource. The drought of the early 1990s also increased awareness about water conservation and resulted in West Basin's addition of conservation as a new water supply alternative. West Basin currently offers free indoor and outdoor programs for residents and businesses to reduce their consumption of water and maximize water use efficiency.

Today, West Basin is an international water industry leader, hosting visitors from around the globe. West Basin is focused on providing value to its customers and delivering water reliability for the region through a diverse supply of water that includes imported, recycled, desalted and conserved water. All West Basin departments contribute to the agency meeting the goals and objectives of the Board of Directors Strategic Business Plan.

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# **BUDGET PROCESS AND TIMELINE**

## BUDGET PROCESS AND TIMELINE

Public agencies develop budgets as a performance tool to measure accountability to its stakeholders. For West Basin, the budget is developed based on meeting the priorities, goals and objectives established by the Board of Directors through its Strategic Business Plan that was developed through a series of interviews with the Board of Directors, management, and key staff in addition to interviews with key stakeholders. The Strategic Business Plan provides direction for planning, budgeting, implementation, evaluation and reporting. Semi-annually the Board of Directors reviews the Strategic Business Plan through a scorecard where the goals and objectives are measured against individual target dates, percent completion, and comments that support the policy direction set by the Board of Directors and implemented by staff to meet those objectives.

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 and financial policies, as well as the current and future fiscal stability. For West Basin, the budget shows how the agency invests its revenues derived from user fees and fixed revenue sources to support its mission and programs.

The General Manager communicates the goals and objectives to the managers to ensure the budget includes the financial 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.

The budget can be adopted in one of three ways: 1) by motion, 2) by resolution or 3) by ordinance. Historically, West Basin has adopted its budget by motion and will continue to adopt the budget in this manner due to the rule of "equal dignity". The rule of "equal dignity" requires an entity that takes action by motion, resolution or ordinance to use the same method for any subsequent action.

### Budget Objectives Obtained

Present a responsible budget

Achieve targeted financial metrics

Address risks and plan for future budget



## Budget Basics

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 activity. The activities of the enterprise funds closely resemble those of businesses and are substantially financed by revenue derived from user charges.

With accrual basis accounting, an entity records all transactions when they occur, regardless of when cash is received from a customer or paid to a vendor. Revenues are recognized when earned and expenses are recognized when incurred. Cash-basis accounting is an example of another basis of accounting. With cash-basis accounting, an entity records all transactions when cash actually changes hands, in other words, when a cash payment is received from a customer or paid out to a vendor.

The budget for West Basin is kept on an accrual basis. West Basin also maintains its financial records on an accrual basis. Both the budget and actual activity is recorded based on a program activity focus. Personnel may work across departments to assist in matters that support the programmatic efforts. By focusing on program activities and not department activities, West Basin has been able to maintain a lean and efficient staff.

## Budget Process and Timeline

January: Each 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 program activities. If a new position is deemed necessary, a request is made to Human Resources and reviewed with the General Manager. Based on their discussion with the requesting department, the General Manager will approve the proposed positions, if any. Human Resources will submit information to the Finance department along with a pay range. Their allocation is based on the personnel needs to help accomplish the goals and objectives provided in the Strategic Business Plan. Water sales projections are discussed with the managers to aide in the development of water sales assumptions being made at the regional level. Budget versus actual reports for the current fiscal year are provided to each manager to assist in the preparation of a preliminary budget. Managers then submit their proposed Programmatic Operating and Capital Improvement Program (CIP) Budgets for Fiscal Year (FY) 2013-14. Managers are also asked to provide their program projections for the current fiscal year.

February: Budget staff updates its long range financial model with the proposed operating and CIP budgets, along with water sales projections and current debt service to recommend the necessary rates and charges to meet the budget objectives for FY 2013-14. Also incorporated into the budget are the anticipated MWD rates in order to know the total effect on West Basin's own rates and charges (the changes in the MWD rate is typically passed through to West Basin's purveyors).

# DRAFT

February (continued): Budget staff updates its long range financial model with the proposed operating and CIP budgets, along with water sales projections and current debt service to recommend the necessary rates and charges to meet the budget objectives for FY 2013-14. Also incorporated into the budget are the anticipated MWD rates in order to know the total effect on West Basin's own rates and charges (the changes in the MWD rate is typically passed through to West Basin's purveyors). The managers and budget staff meet to discuss the recommended rates and charges to meet the budget objectives for FY 2013-14. Options are discussed and are presented to executive management for their consideration. The Finance Department reviews the CIP and the projected net revenues to determine if sufficient net revenues are available to meet the PAYGO requirements. Managers and budget staff meet with the General Manager to discuss each program operating 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.

March: Staff submits a proposed balanced budget to the Board of Directors in a workshop format. Staff reviews water sales assumptions, operating budgets that meet the goals and objectives of the Strategic Business Plan, demonstrate appropriate all-in bond coverage levels, and present a 5-year outlook of potential future water sales and rates and their impact to West Basin's designated funds. During the workshop, all staff members who participated in the development of the proposed budget are in attendance to answer questions regarding their respective budget. The budget staff discusses the budget assumptions, labor needs, debt service, revenue requirements and debt coverage. 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 agency 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. The budget staff presents an update of the proposed budget and provides feedback from the Board workshop and customer agency workshop at the Finance committee. The Board of Directors adopts the annual standby charge, water rates and charges. Managers and budget staff submit budget text to support program costs, rates and charges, and other budgetary assumptions.

May: 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.

## Budget Review

West Basin’s budget monitoring process begins shortly after the prior year’s budget is adopted. Each month the managers receive 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 at the appropriate committee meeting. 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.

## FISCAL YEAR 2013-14 BUDGET CALENDAR

January	February	March	April	May
<b>S M T W T F S</b> 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	<b>S M T W T F S</b> 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28	<b>S M T W T F S</b> 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	<b>S M T W T F S</b> 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	<b>S M T W T F S</b> 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

DATES	KEY ACTIVITIES
January 9, 2013	Submit Staff labor Allocation
January 11, 2013	Sales Projections (AF) due
January 17, 2013	Submit capital budget
January 22, 2013	Submit operating program budgets
January 28, 2013	Submit calendar year departmental expense projections
February 8, 2013	Meet to discuss operating and capital budgets
February 13, 2013	Discuss water rates and charges
March 13, 2013	Board Workshop
March 20, 2013	Rate workshop with purveyors
March 22, 2013	Managers submit program text to Finance Department
April 12, 2013	Present draft water rate and charges and standby charge resolution to Finance Committee
April 22, 2013	Board meeting to adopt West Basin water rates & standby charge
May 15, 2013	Present budget document to Finance Committee
May 28, 2013	Board meeting to adopt budget



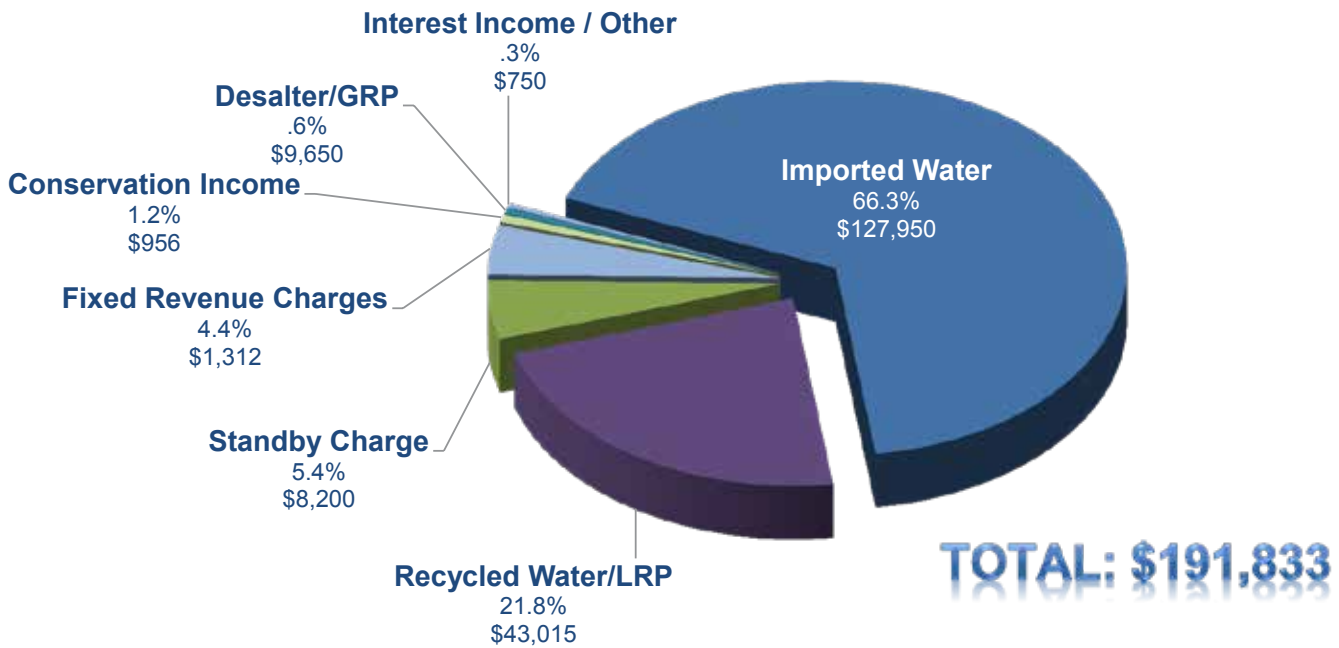
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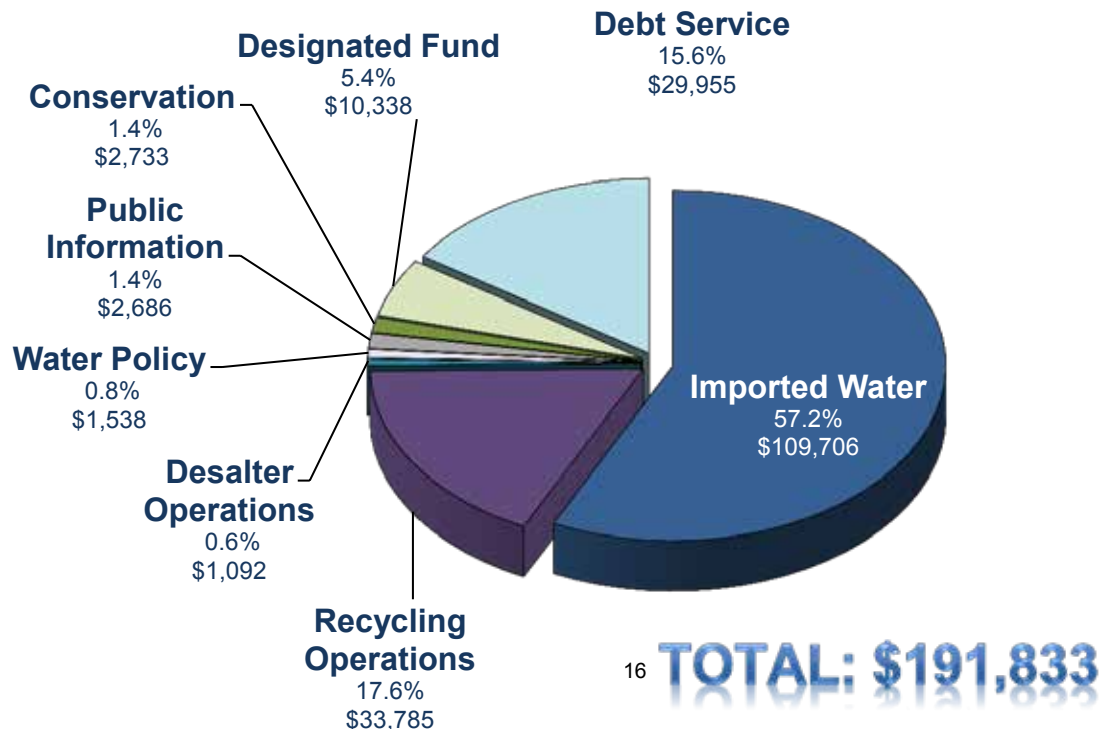
# **FINANCIAL OVERVIEW AND SUMMARY**

## FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2012-13

### Source of Funds 2013-14



### Use of Funds 2013-14

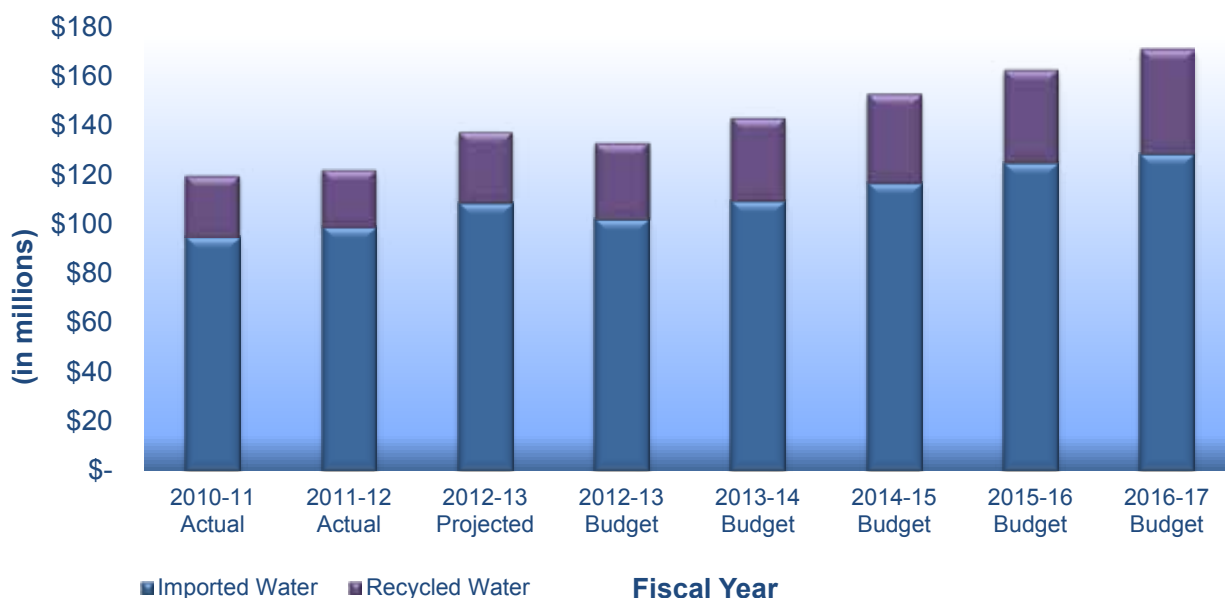


## Budget Executive Summary

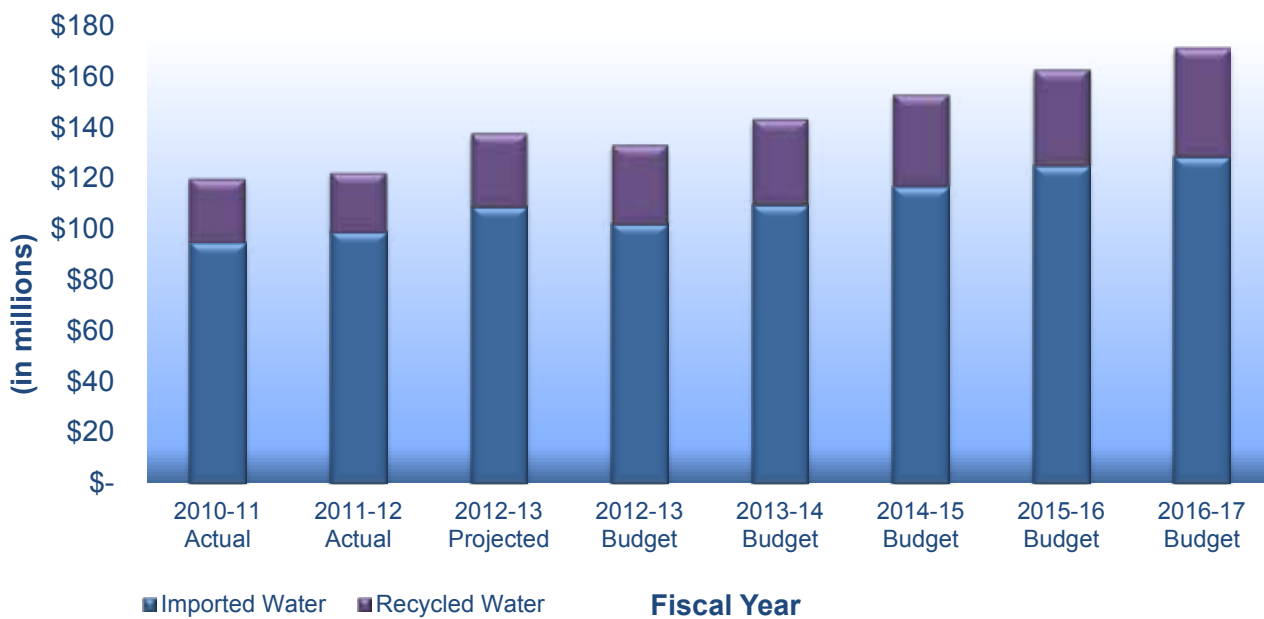
West Basin’s operating budget for FY 2013-14 of \$192 million is 7% higher than the FY 2012-13 operating budget. There are two primary reasons for this increase in revenues. The first is an increase in imported water sales of approximately \$9.3 million. This increase in imported water sales is a result in the number of budgeted acre feet increasing by 1,500 and the price of imported water increasing \$68 per AF or 6.2%. The second reason for the increase in revenues is due to \$4.1 million increase in recycled water sales/MWD LRP. This increase is primarily due to a shift in the number of recycled water acre feet projected to be sold in FY 2013-14 to the Water Replenishment District of Southern California from imported water sales. In addition, there was an increase in the rates, similar to the increase in imported water rates, at which the five tailored types of recycled water will be sold.

Similar to the revenues, operating expenses for FY 2013-14 are budgeted at \$192 million. One reason for the increase in operating expenses is higher imported water cost from MWD which represents \$6.6 million or a 7.3% increase. Higher recycling operations cost also explains the increase in the operating expense budget. West Basin anticipates its power cost from Southern California Edison to elevate by 12% and expects the contractor operating the recycling facilities to hire 1 additional staff and to implement an agreed upon cost-of-living increase. The increase in the recycling operations budget in FY 2013-14 is \$2.5 million or 8%. Finally, as West Basin continues to expand its recycling facilities to achieve its Water Reliability 2020 goals, additional long term debt has been issued and attributes to net debt service increasing \$2.5 million or 15.6% of the operating expenses.

## Historic, Projected & Budgeted Imported/Recycled Water Sales



## Historic, Projected & Budgeted Imported/Recycled Water Costs



## Staffing and Program Budgets

Budget staffing levels for FY 2013-14 consists of 38 full time budgeted positions, two (2) full time limited term, two (2) part time and one (1) intern positions. West Basin recognizes a need for additional assistance in the Operations and Board Services staff in FY 2013-14 and has budgeted two (2) additional full-time positions, one (1) position in each department. Also, 1 limited term position was eliminated in the Engineering department due to the work related to the Ocean-Water Desalination Demonstration Facility shifting to the Operations department. West Basin’s focus is to make appropriate increases in departments or reallocate work responsibilities that will best meet the needs of the organization. West Basin tracks its personnel 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 XX.

West Basin’s programs presented in FY 2013-14 are similar to those shown in prior years. No new programs were added.

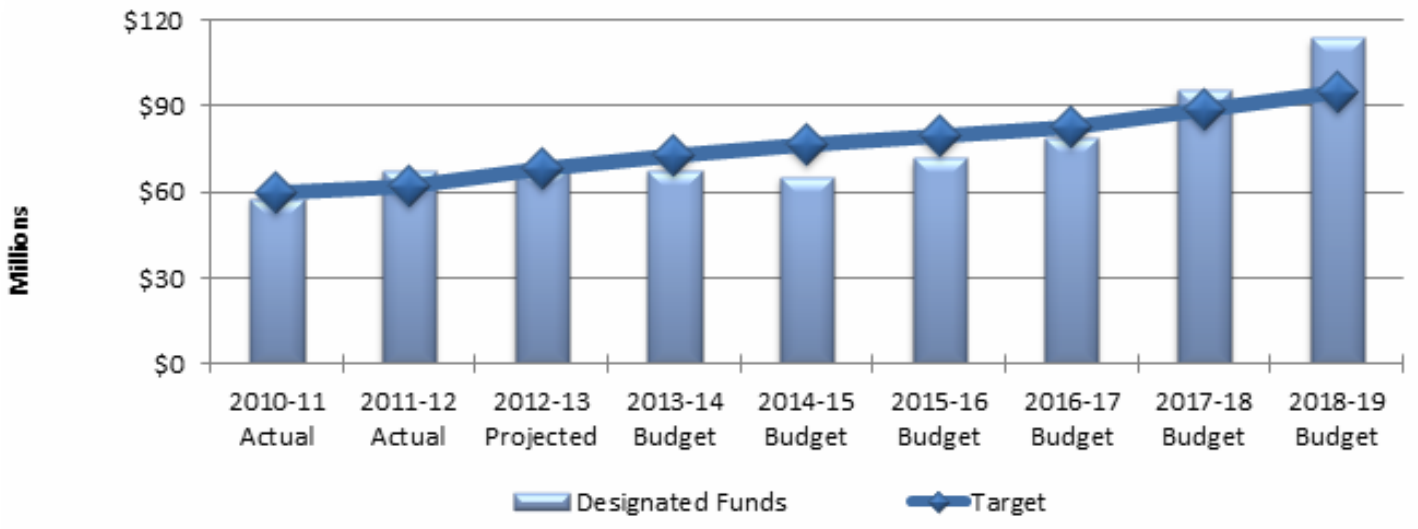
## FUND BALANCE (DESIGNATED FUNDS)

West Basin’s Designated Funds Policy is sometimes referred to as a Reserve Policy and was designed to ensure West Basin has adequate reserves established to protect the furtherance of West Basin’s mission. The current Designated Funds Policy was adopted in November 2011 in conjunction with its Long-Range Financial Plan. Staff is currently reviewing the plan to determine if updates and/or changes are needed to more accurately reflect the desired level of its reserves and to support the assumed overall target used in the Long-Range Financial Model.

The policy does not specifically state a target but staff has established an internal target amount approach within its Long Range Financial Model to fund West Basin’s Designated Funds. The policy allows for the fluidity of a target and will change each year based on the anticipated expenditures. The target amounts are based on West Basin’s experience, the current operating budget and capital improvement plan. The sum of all the components provide an overall target that serves as a trigger for the Board of Directors to consider options when funding levels fall near or below the overall target. If reserve levels exceed the minimum, the Board may consider retiring outstanding debt or reducing future debt by considering funding certain capital projects with cash.

The chart below shows the actual, projected and budgeted designated fund levels from FY 2010-11 through FY 2018-19. The funds in excess of the target, in FY 2017-18 and FY 2018-19, represent anticipated capacity payments from Los Angeles for the Los Angeles Harbor Expansion. These funds will be set aside to address future replacement and refurbishment projects.

### Designated Funds Per Fiscal Year



# DRAFT

West Basin maintains two major types of funds, either restricted or unrestricted. Restricted funds consist of bond reserves and are subject to the conditions of the respective bond financing documents. The unrestricted reserves are then designated by the Board of Directors and are reviewed annually.

Below is are the actual revenues and expenses for FY 2010-11 and FY 2011-12, the projected revenues and expenses for FY 2012-13, as well as the budgeted revenues and expenses for FY 2013-14 through FY 2017-18. (Numbers reflected in thousands)

## Designated Funds Cash Flow

Description	Fiscal Year: 2010-11 Actual	2011-12 Actual	2012-13 Projected	2013-14 Budget	2014-15 Budget	2015-16 Budget	2016-17 Budget	2017-18 Budget	2018-19 Budget
Designated Funds (beg Bal)	\$ 62,380	\$ 57,611	\$ 67,417	\$ 67,417	\$ 67,420	\$ 65,105	\$ 71,892	\$ 79,001	\$ 95,807
Imported Water Revenue	106,427	114,974	127,610	127,950	135,643	146,146	150,173	157,923	165,986
Recycled Water Revenue	43,168	46,131	51,471	60,865	63,545	64,556	68,222	84,581	93,001
Other Revenues	5,433	13,419	2,775	3,018	3,017	3,467	4,020	4,476	5,134
<b>Total Revenues</b>	<b>155,028</b>	<b>174,524</b>	<b>181,856</b>	<b>191,833</b>	<b>202,205</b>	<b>214,169</b>	<b>222,415</b>	<b>246,980</b>	<b>264,121</b>
Water Purchases	94,855	97,696	108,946	109,706	116,911	125,140	128,645	134,924	141,504
Program Expenses	31,481	32,590	36,704	41,834	44,486	46,183	51,325	59,822	68,908
Net Debt Service	22,437	24,068	26,248	29,955	30,363	27,580	26,269	26,154	26,244
PWGO	11,024	10,364	9,958	10,335	12,760	8,479	9,067	9,274	9,601
<b>Total Expenses</b>	<b>159,797</b>	<b>164,718</b>	<b>181,856</b>	<b>191,830</b>	<b>204,520</b>	<b>207,382</b>	<b>215,306</b>	<b>230,174</b>	<b>246,257</b>
Designated Funds (End Bal)	\$ 57,611	\$ 67,417	\$ 67,417	\$ 67,420	\$ 65,105	\$ 71,892	\$ 79,001	\$ 95,807	\$ 113,671

## STRATEGIC BUSINESS PLAN

Originally published in January 2008 and updated in August 2011, West Basin embarked on the development of a Strategic Business Plan (Plan) that provides for a multi-year vision for West Basin. 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 and sets the overall policy direction and strategic priorities established by the Board. It also determines whether staff and financial resources need to be realigned to achieve strategic objectives.

Based on this Plan, West Basin's management develops the strategies, programs, and activities necessary to effectively implement the Board's directions. West Basin will annually review, evaluate, and update the Strategic Business Plan to ensure that the goals and objectives are appropriate for achieving West Basin's mission and the vision of the organization.

## STRATEGIC BUSINESS PLAN (CONTINUED)

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

- Objective 1 – Prepare a water supply strategy annually that presents different levels of imported water independence and associated costs/water rate implications.
- Objective 2 – Increase diversification of West Basin’s supply portfolio.
- Objective 3 – Develop new water infrastructure to ensure regional water supply reliability.
- Objective 4 – Develop an Ocean- Water Desalination Program.



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

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



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

- Objective 1 – Actively engage local businesses in the procurement of services.
- Objective 2 – Maintain customer high regard and respect.
- Objective 3 – Support the Board in maintaining a strategic business plan.
- Objective 4 – Promote outreach and education programs.
- Objective 5 – Enhance and promote the image of West Basin.





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

- Objective 1 – Provide effective overall capital facility asset management.
- Objective 2 – Maintain facilities to manage and minimize risk of failure and liability exposure.
- Objective 3 – Pursue partnerships for facility development.
- Objective 4 – Maintain or improve current bond ratings.
- Objective 5 – Maintain a Long-Range Financial Plan.
- Objective 6 – Operate cost-efficiently and effectively.
- Objective 7 – Recruit and hire qualified candidates to fill all West Basin positions.
- Objective 8 – Manage and reward performance.
- Objective 9 – Develop a formal plan for workforce retention, training and succession planning.
- Objective 10 – Conduct Board evaluation of the General Manager.



***Environmental Stewardship:*** 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.



Within the Operating Program Expenses section, West Basin has identified FY 2012-13 accomplishments and FY 2013-14 strategies to support the Strategic Business Plan goals and objectives identified above.



## FINANCIAL POLICIES SUMMARY

West Basin's Board of Directors 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. All recommendations for new or revised policies are brought to the Board of Directors for consideration and adoption. Within the Supplemental Section, are the full financial policies.

### Policy Additions and Modifications

After review of its existing Procurement Policy staff rewrote the policy to ensure it adheres to practical application and changes needed to comply with the formal purchase order and contract system module in the financial management system. In June 2012, the Board adopted the new Procurement Policy. The West Basin Board also considered and approved the minor recommendations needed to the Investment Policy in December 2012. As part of its annual review process, West Basin staff, its financial advisor and bond counsel reviewed both the Debt Management and Swap Policy and found that no changes were needed. This information was also brought to the Board of Directors in December 2012 to advise them of the outcome of staff's review.

Each of the financial policies supports the assumptions within our Long-Range Financial Model. The model provides an agency a financial outlook while addressing the business objectives. In addition, the Long-Range Financial Plan ensures an entity develops or modifies financial policies to sustain fiscal integrity into the future.

On the next page West Basin has highlighted key financial policies for which West Basin Board and staff is governed.

### A. Annual Operating Budget Policies

- Annual budget is prepared under the direction of the General Manager.
- The budget is developed using the direction given by the Board of Directors through the Strategic Business Plan.
- A draft budget is to be presented to the Board within sixty days of the new fiscal year.
- The budget objectives are: Achieve targeted financial metrics; present a balanced budget; and address risks & plan for future budget implications.
- The Board shall adopt a budget prior to commencing the next fiscal year.
- The General Manager will submit quarterly operating budget versus actual reports with explanation of significant variances.
- Any adjustments to the Budget must be approved by the Board of Directors.

## B. Investment Policy

- Funds will be invested in compliance with the provisions of the California Government Code Section 53601 and other applicable statutes and may be more restrictive than the Code.
- Safety of principal, liquidity and return on investment, in that order, are the criteria in which the Treasurer shall invest.
- Investments shall be diversified and to the extent possible, and match its investments with cash flow requirements.
- Annual appointment of Treasurer is required and may be a staff person.
- 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.
- May engage services of an external manager to assist staff in the management of the investment portfolio, and assist in trade execution.

## C. Designated Funds Policy

- Designated and undesignated funds can be used for any lawful purpose at the discretion of the Board of Directors.
- Policy will be reviewed annually to insure designated funds and targets achieve an appropriate overall minimum target balance.
- Operating liquidity fund is for short-term or immediate purposes such as unplanned activities.
- Operating contingency provides protection against unforeseen expenses which occur which cause actual expenses to exceed the budget.
- Emergency repair provides for major failures of plant/equipment and gives the ability to fund an immediate response without financial disruption.
- Capital contingency provides for unexpected cost increases/unanticipated capital projects.
- Rehabilitation & Replacement (R&R) provides immediate resource for ongoing R&R of the system.
- System expansion provides for cash financing (5%) for future large-scale capital projects.
- Rate stabilization provides a resource to manage the level of water sales fluctuations from year-to-year.

## D. Procurement Policy

- Covers the purchase of professional and non-professional services as well as supplies, goods and equipment.
- A competitive process ensures that purchases are made at the lowest possible cost commensurate with acceptable quality.
- Expenditures for goods and services are pre-authorized and do not exceed budgeted amounts without Board approval.
- Provides for a local business enterprise incentive to encourage local business to bid on West Basin's procurement opportunities.
- Thresholds are established to determine if sole source (<\$10,000), informal process (\$10,000-\$35,000) or a formal process (>\$35,000) should be followed.
- Critical repairs acquisitions are subject to the informal solicitation process and shall not exceed \$250,000 per each critical repair or critical acquisition.

## E. Capitalization Policy

- Provides guidance for the capitalization and depreciation of assets to comply with the requirements of Governmental Accounting Standard Board Statement 34.
- Purchased or West Basin constructed assets will be reported at historical cost.
- 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.
- West Basin will use the straight-line method with no salvage value for depreciating capital assets.

## F. Accounting, Auditing and Financial Reporting

- The General Manager shall implement an accounting system meeting the financial reporting needs of the Board, and complies with generally accepted accounting practices.
- 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.
- 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.
- West Basin will use widely recognized and generally accepted accounting principles (GAAP) and guidance issued by the Government Accounting Standards Board (GASB).
- West Basin will hire an independent accounting firm to perform annual audits in conformity with GAAP.

## G. Debt Management

- Capital programs can be funded by debt.
- Long-term debt will not be used for operating and maintenance costs.
- West Basin will maintain a debt coverage ratio consistent or greater than the legal of contractual requirements.
- A goal of West Basin is to obtain the lowest cost of debt possible with the current ratings. (AA- Standard & Poor's and Aa2 - Moody's)
- Final maturity of the debt will not exceed the useful life of the assets being financed.
- Refunding shall produce net present value savings of at least 3% of the refunded par amount.
- Quarterly reporting will be made to the Board of Directors that addresses current debt portfolio, variable rate exposure, remarketing experience and other considerations.

## H. Rates and Charges

- The rates, fees and charges will recoup the amounts paid by West Basin for water, the cost of operations and maintenance expenses of the District, and an amount necessary for reasonable designated funds.
- The revenue produced by the rates, fees and charges will be used to provide service to existing customers.
- 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.

## I. Human Resources Management

- West Basin will determine staffing levels consistent with budgetary authority, available resources, and operating needs.
- 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.
- The General Manager shall develop an employee performance evaluation plan to assess employee performance in accomplishing West Basin business.
- Salary ranges for positions shall be reviewed on an annual basis via a salary survey.
- West Basin will provide suitable training for staff.

## J. Risk Management

- West Basin will procure insurance for risk of loss involving a combination of property damage and third party claims.
- To the extent practicable, West Basin shall transfer risks to third parties through appropriate contractual provisions.

## K. Swaps

- Each swap will be structured by the CFO and members of the financing team.
- Board of Directors has final authority for approval of each swap.
- Quarterly reporting to the Board of Directors.
- West Basin may execute a swap if the swap reduces exposure to changes in interest rates, or achieves lower net cost of borrowing, or manages variable interest rate exposure, or optimizes the timing and amounts of debt service payments.
- Interest rate swaps, caps, floors, swaptions and collars are allowable.
- West Basin can only enter into swap transactions with qualified swap counter-parties.
- Each swap agreement shall contain terms & conditions as set forth in the International Swap and Derivatives Association, Inc.

## L. Balanced Budget

- The budget should be balanced with the current revenues equal to or greater than current expenses.

## PERFORMANCE METRICS

Performance metrics is defined as a measure of an organization’s activities and performance, and support a range of stakeholder needs from customers, the Board of Directors and employees. While they are traditionally financed based and focus on the performance of the organization, metrics can also focus on performance against customer requirements, effective use of resources, and adherence to policy and reporting requirements.

West Basin continues to explore and identify key performance metrics that provide meaningful information that the Board of Directors and staff can use to measure the success of the programs, services and related resources that are funded and within the budget. Listed below are some of the initial metrics identified.

Metric	FY 2011-12 Actual	FY 2012-13 Projected	FY 2013-14 Target
On time submission of annual bond disclosure	100%	100%	100%
Investment Benchmark – meet or exceed Merrill Lynch 1 year	Actual: Exceeded	Actual: On track to exceed	Benchmark: Merrill Lynch 1 Yr Treasury Index
Maintain AA credit rating from Moody’s and Standard & Poor’s	Aa2/AA-	Aa2/AA-	Aa2/AA-
On time submission of quarterly debt and swap reports	100%	100%	100%
Achieve internal all-in Debt Coverage target of 1.35	1.52	1.44	1.35
Improve Recycled Water Cost per Unit	\$1,727	\$1,851	\$1,700
Achieve 50% Grant Award to Submission success rate	NA	27%	50%
Have 100% submittal of Performance evaluations	100%	100%	100%

## FY 2012-13 Water Use Efficiency Device Savings

Program	Device	Annual Water Savings (AF)	Device Lifetime Water Savings (AF)
5 Toilet Distribution Events	1500 High Efficiency Toilets	60 AF	1200 AF
Ocean Friendly - Large Landscape Sprinkler Controller	Installed 100 Smart Controllers	31 AF	310 AF
* L.I.E.P. - LL Audits	50 Audits	16 AF	32 AF
* L.I.E.P. - Residential Audits	100 Audits	3 AF	6 AF
* L.I.E.P. - Sprinkler Nozzles	5,000 Nozzles	22 AF	110 AF
Commercial Retrofit	1,367 HE Toilets Installed	46 AF	920 AF
Commercial Retrofit	27 HE Urinals	1 AF	20 AF
Cash 4 Kitchens	64 Kitchen Devices	4 AF	20 AF
Recirc and Save	3 Cooling Tower Ph Controller	6 AF	60 AF
	Total	189 AF	2,678 AF
		61,585,839 Gallons	872,628,978 Gallons

### Sample High-Efficiency Toilet Event Promotional Pieces

**FREE TOILETS**  
Save water and save money. Trade in your old water wasting toilet for a free high efficient toilet!

**May 4, 2013**  
10 A.M. to 1 P.M.  
Inglewood, CA

**Pre-registration REQUIRED!**  
Call (866) 861-0784 or visit  
[www.waterprograms.com/westbasin](http://www.waterprograms.com/westbasin)

Golden State Water Company  
www.westbasin.org

FREE HIGH-EFFICIENCY TOILETS | SIGN UP TODAY!!

**Free High-Efficiency Toilets!**  
REGISTER TODAY FOR UP TO 2 UNITS

Celebrate Water Awareness Month By Becoming More Water Efficient!

- EVENT THIS SATURDAY, MAY 11 FROM 9 AM to NOON @ WEHO CITY HALL!
- Up to 2 units per household

CALL TO PRE-REGISTER (866) 861-0784 or visit  
[www.waterprograms.com/westbasin](http://www.waterprograms.com/westbasin)

West Basin Municipal Water District | [www.westbasin.org](http://www.westbasin.org)

**MORE WEST BASIN FREE PROGRAMS**

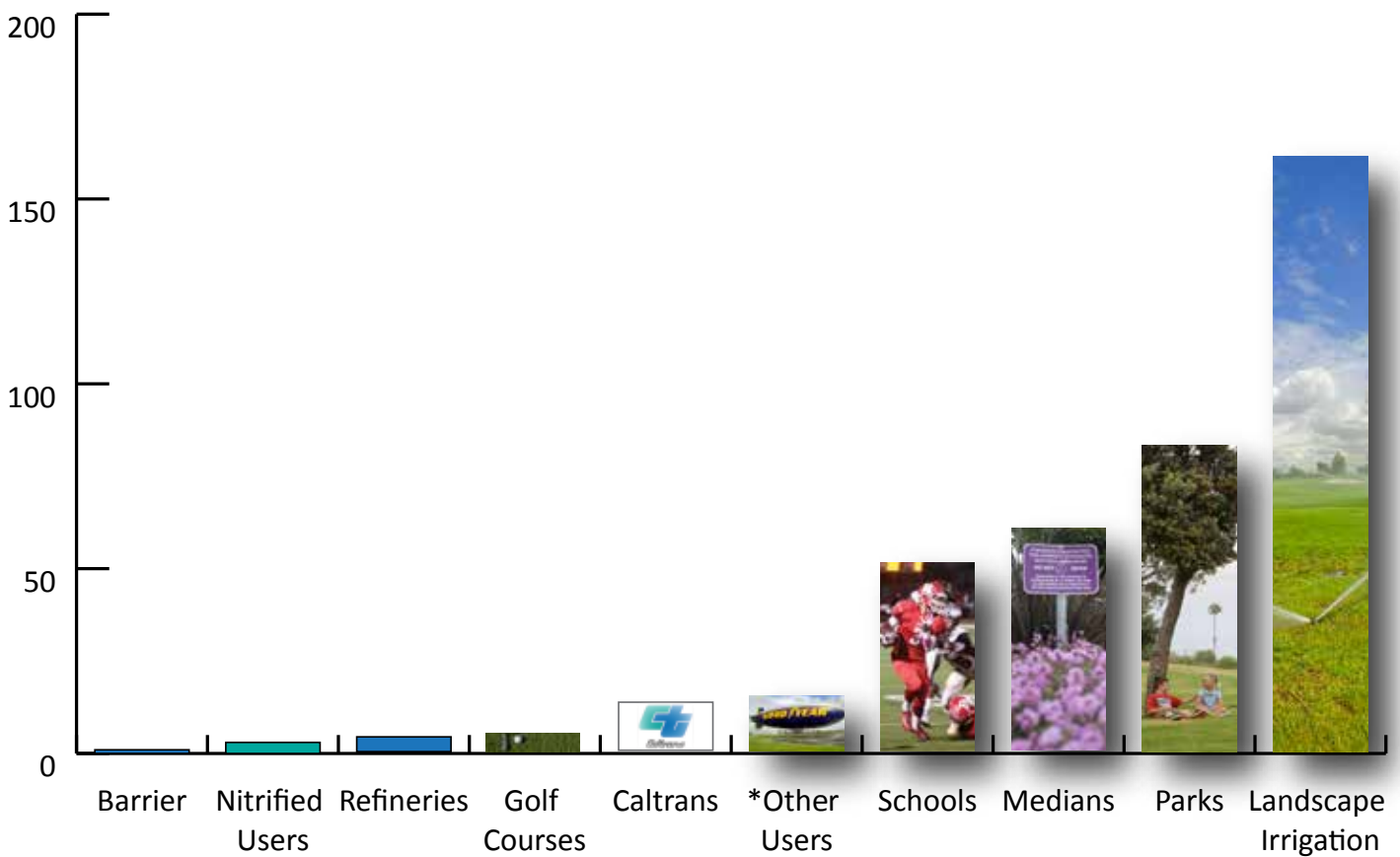
**HIGH-EFFICIENCY TOILET EXCHANGE**  
Trade in your water wasting toilet for a water saving model!  
West Basin offers free high-efficiency toilets. Up to 2 units per household.  
Call to pre-register (866) 861-0784 or visit [www.waterprograms.com/westbasin](http://www.waterprograms.com/westbasin)

**TOURS IN REDONDO BEACH & EL SEGUNDO**  
See how we purify sewer water & reuse water to make drinking



## Recycled Water Customer Usage For the Fiscal Year Ended June 30, 2012

**384 Customer Sites**



### Other Users:

Cemetery (1): \$139.1 million

Colleges & Universities (4): \$101.7 million

Multi-industrial/irrigation uses (4): \$24.9 million

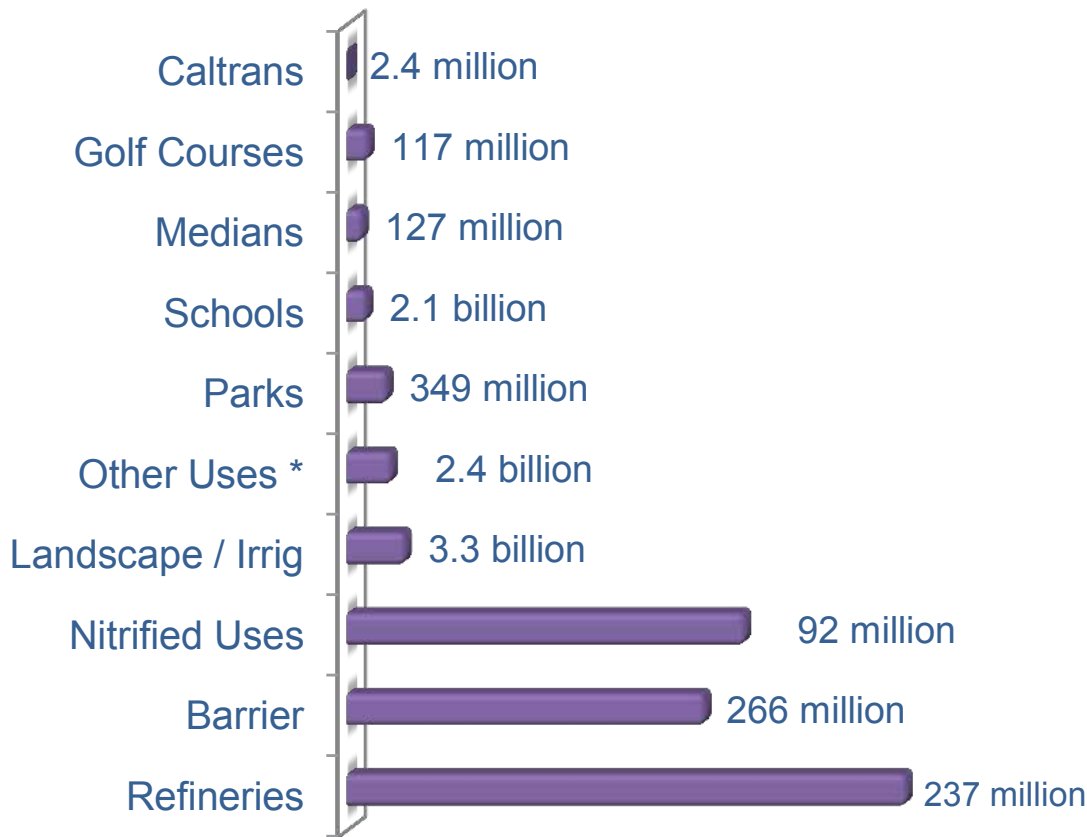
Construction uses (1): \$199,000

Draining/Sump pumps (5) \$9,000



## Recycled Water Customer Usage For the Fiscal Year Ended June 30, 2012

### **Water Usage**



**TOTAL: \$191,833**

### **Other Uses:**

- Cemetery (1): \$139.1 million
- Colleges & Universities (4): \$101.7 million
- Multi-industrial/irrigation uses (4): \$24.9 million
- Construction uses (1): \$199,000
- Draining/Sump pumps (5) \$9,000

## FIVE YEAR FORECAST

While West Basin has a financial model that supports in its long-term financial planning, the five-year forecast provides a near-term outlook of the anticipated revenues and expenditures.

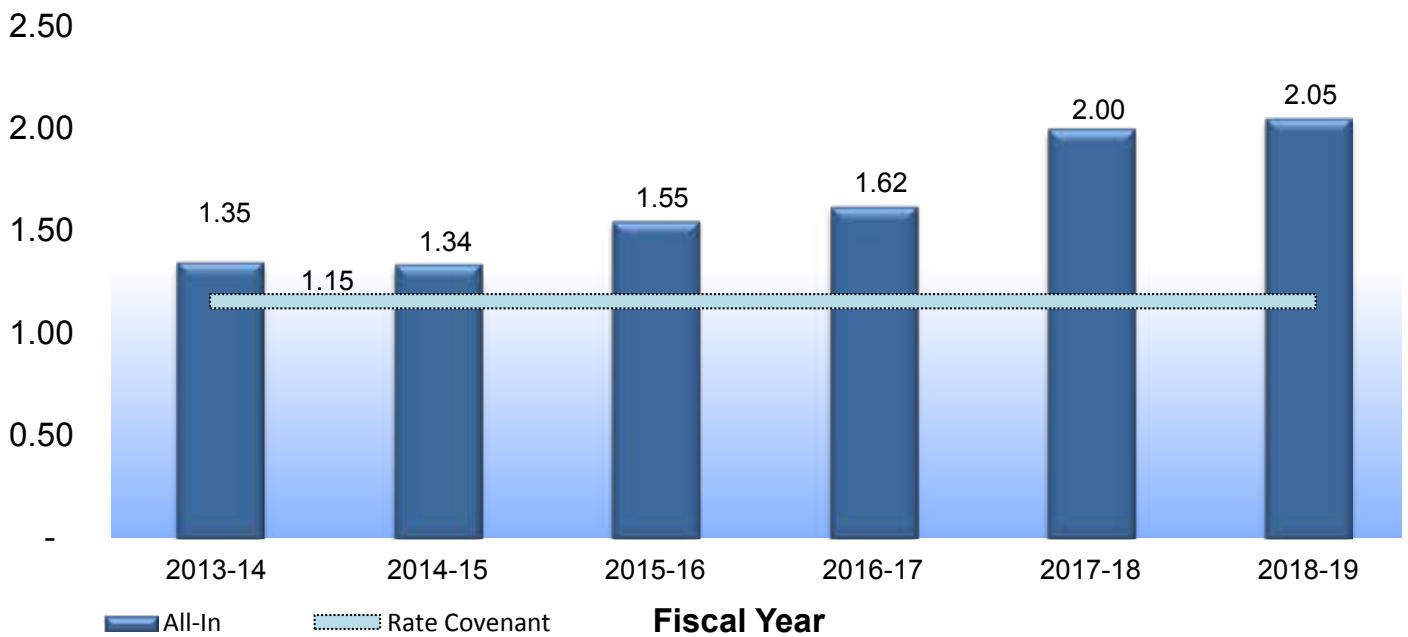
WEST BASIN MUNICIPAL WATER DISTRICT PROJECTED OPERATING RESULTS						
Fiscal Year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>REVENUES</b>						
Water Sales	125,690,700	133,173,843	143,557,713	147,411,808	155,032,722	163,027,399
Water Service Charge	477,616	523,103	568,590	625,449	682,308	750,539
Capacity Charge	1,781,175	1,946,350	2,018,975	2,135,175	2,207,800	2,207,800
Recycled Water Project Revenues						
Recycled Water Sales	33,811,330	35,925,872	37,062,213	42,044,344	49,917,234	58,337,236
Fixed Revenue Charges	8,199,920	8,199,920	8,228,320	6,218,257	14,704,817	14,704,817
MWD LRP Rebate	9,203,750	9,768,750	9,616,250	10,309,250	10,309,250	10,309,250
Standby Charges	9,650,000	9,650,000	9,650,000	9,650,000	9,650,000	9,650,000
Other Revenues						
Desalted Water Sales	955,800	1,005,156	1,055,414	1,108,184	1,163,594	1,221,773
MWD GRP Rebate	0	0	0	0	0	0
Interest Earnings/Other	750,000	700,000	1,100,000	1,600,000	2,000,000	2,600,000
MWD Conservation Credits	1,312,300	1,312,300	1,312,300	1,312,300	1,312,300	1,312,300
<b>Total Revenues</b>	<b>\$ 191,832,591</b>	<b>\$ 202,205,294</b>	<b>\$ 214,169,775</b>	<b>\$ 222,414,767</b>	<b>\$ 246,980,025</b>	<b>\$ 264,121,114</b>
<b>EXPENSES</b>						
Water Purchases/RTS from MWD	108,040,450	114,986,200	123,169,856	126,585,876	132,809,330	139,389,316
Capacity Charge	1,665,340	1,925,490	1,970,010	2,059,050	2,114,700	2,114,700
Program Expenses						
General & Administration						
Desalter Operations	1,092,149	1,119,453	1,147,439	1,176,125	1,205,528	1,235,666
Water Policy	1,537,953	1,576,402	1,615,812	1,656,207	1,697,612	1,740,053
Public Information	2,685,940	2,753,089	2,821,916	2,892,464	2,964,775	3,038,895
Conservation	2,732,900	2,801,223	2,871,253	2,943,034	3,016,610	3,092,026
Title 22 Water Quality Monitoring	23,605	24,195	24,800	25,420	26,056	26,707
JFA Support	0	0	0	0	0	0
Capital Asset Replacement Fund	-	-	-	-	-	-
2003 Installment Purchase Agrmt	9,157,357	9,151,017	5,524,846	757,208	353,750	353,750
1997A Installment Purch Agrmt	-	-	-	-	-	-
2004A Series						
SWRCB Loan	0	0	0	0	0	0
2011A	1,787,592	1,791,400	1,437,688	4,907,167	5,218,350	5,210,138
2011B	2,993,250	2,993,250	2,993,250	2,993,250	2,993,250	2,993,250
2012A	4,168,398	4,389,338	4,389,567	4,386,850	4,389,900	4,390,017
Proposed debt/state loan			1,056,368	1,056,368	1,056,368	1,056,368
Subordinate Debt Service						
2008B Series	8,992,621	9,017,110	9,057,931	8,968,798	8,943,881	8,948,431
<b>Total Expenses</b>	<b>\$191,832,590</b>	<b>\$202,205,294</b>	<b>\$214,169,774</b>	<b>\$222,414,768</b>	<b>\$246,980,025</b>	<b>\$264,121,114</b>
<b>NET REVENUES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Coverage - Senior Debt</b>	<b>1.92</b>	<b>1.91</b>	<b>2.31</b>	<b>2.45</b>	<b>3.04</b>	<b>3.11</b>
<b>Coverage - Subordinate Debt</b>	<b>2.15</b>	<b>2.16</b>	<b>2.69</b>	<b>2.80</b>	<b>3.92</b>	<b>4.07</b>
<b>Coverage - All Debt</b>	<b>1.35</b>	<b>1.34</b>	<b>1.55</b>	<b>1.62</b>	<b>2.00</b>	<b>2.05</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 anticipated long-term financing. In addition, the operating expenses within the recycled operations shows an increase in expenses based on the volume, cost and timing of anticipated new sales.

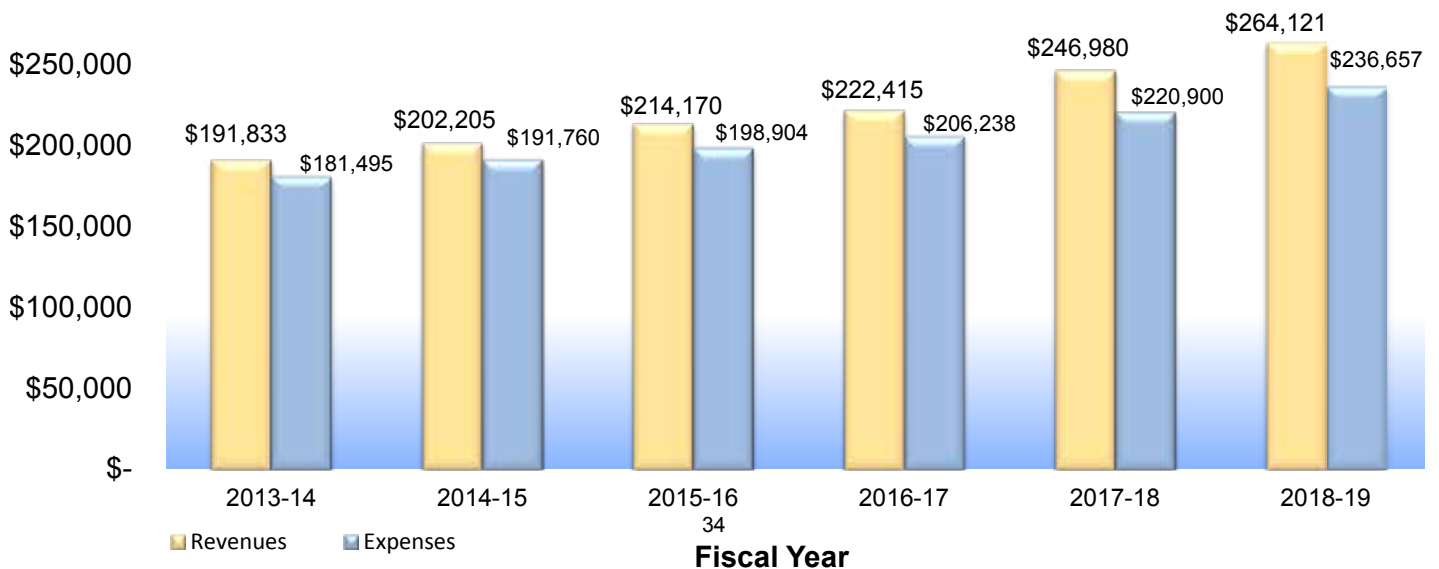
## WEST BASIN MUNICIPAL WATER DISTRICT ASSUMPTIONS

Fiscal Year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Cost (Sales Price) of Water (\$/af)</b>						
MWD Treated NonInt - Tier 1 (Jul)	847	890	935	981	1,030	1,082
MWD Treated NonInt - Tier 2 (Jul)	997	1,032	1,077	1,107	1,156	1,208
MWD Treated NonInt - Tier 1 (Jan)	890	935	981	1,030	1,082	1,136
MWD Treated NonInt - Tier 2 (Jan)	1,032	1,077	1,107	1,156	1,208	1,262
MWD RTS Commodity Charge (Jul)	135	143	149	151	154	157
MWD RTS Commodity Charge (Jan)	143	149	151	154	157	160
MWD Seawater Barrier - Tier 1 (Jul)	847	890	935	981	1,030	1,082
MWD Seawater Barrier - Tier 2 (Jul)	997	1,032	1,077	1,107	1,156	1,208
MWD Seawater Barrier - Tier 1 (Jan)	890	935	981	1,030	1,082	1,136
MWD Seawater Barrier - Tier 2 (Jan)	1,032	1,077	1,107	1,156	1,208	1,262
Title 22 Within WB - Recycled Water	888	932	979	1,028	1,079	1,134
Title 22 - LADWP - Recycled Water	930	976	1,025	1,076	1,130	1,187
Nitrified - LADWP - Recycled Water	1,025	1,076	1,130	1,187	1,246	1,308
Title 22 - Torrance - Recycled Water	930	910	955	1,003	1,053	1,106
RO - Barrier - RW (1st 4,500AF)	1,051	1,105	1,168	1,228	1,293	1,359
RO - Barrier - Recycled Water	578	592	613	636	660	685
RO - Industrial - Recycled Water	1,136	1,192	1,252	1,315	1,380	1,449
RO - Industrial - Ultra - Recycled Water	1,492	1,566	1,645	1,727	1,813	1,904
Industrial - NH3 - Recycled Water	888	932	979	1,028	1,079	1,133
Reliability Service Charge - Treated	124	131	146	161	176	192
MWD LRP Rebate	250	250	250	250	250	250
Desalted Water (Jul)	862	908	953	1,001	1,051	1,104
Desalted Water (Jan)	908	953	1,001	1,051	1,104	1,159
Capacity Charge - MWD	6,400	8,600	8,700	9,000	9,500	9,500
Capacity Charge - MWD (Jan)	8,600	8,700	9,000	9,500	9,500	9,500
Capacity Charge-Cust	5,500	6,600	6,800	7,100	7,600	7,600
Capacity Charge-Cust (Jan)	6,600	6,800	7,100	7,600	7,600	7,600
<b>SALES VOLUME (afy)</b>						
Treated Non Interruptible (Jul)	53,000	54,200	55,450	54,065	54,065	54,065
Treated Non Interruptible (Jan)	53,000	54,200	55,450	54,065	54,065	54,065
Seawater Barrier (Jul)	2,550	1,800	1,800	1,800	1,800	1,800
Seawater Barrier (Jan)	2,550	1,800	1,800	1,800	1,800	1,800
Recycled Water	37,475	39,075	38,465	41,237	45,937	50,537
Title 22 Within WB	5,750	5,850	5,850	5,850	5,850	5,850
Title 22 - LADWP	850	850	850	850	850	850
Nitrified - LADWP	-	-	-	-	4,700	9,300
Title 22 - Torrance	6,100	6,100	5,490	6,100	6,100	6,100
RO - Barrier	15,500	17,000	17,000	17,000	17,000	17,000
RO - Industrial	6,075	6,075	6,075	7,395	7,395	7,395
RO - Industrial - Ultra	2,350	2,350	2,350	2,350	2,350	2,350
Industrial - NH3	850	850	850	1,692	1,692	1,692
Desalted Water (Jul)	540	540	540	540	540	540
Desalted Water (Jan)	540	540	540	540	540	540
Capacity Charge-MWD	221.3	222.6	222.6	222.6	222.6	222.6
Capacity Charge-MWD (Jan)	222.6	222.6	222.6	222.6	222.6	222.6
Capacity Charge-Cust	299.1	290.5	290.5	290.5	290.5	290.5
Capacity Charge-Cust (Jan)	290.5	290.5	290.5	290.5	290.5	290.5
<b>FIXED PAYMENTS</b>						
BP	2,136,000	2,136,000	2,136,000	2,136,000	2,136,000	2,136,000
Mobil NH3	154,000	154,000	182,400	182,400	182,400	182,400
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	182,733	-	-
NRG	926,328	926,328	926,328	926,328	926,328	926,328
LADWP	206,536	206,536	206,536	206,536	8,875,829	8,875,829
<b>TOTAL FIXED PAYMENTS</b>	<b>\$ 8,199,920</b>	<b>\$ 8,199,920</b>	<b>\$ 8,228,320</b>	<b>\$ 6,218,257</b>	<b>\$ 14,704,817</b>	<b>\$ 14,704,817</b>

## Debt Coverage: Current Budget and Five Year Projection FY2013-14 to FY 2018-19



## Revenue & Expenses: Current Budget and Five Year Projection FY2013-14 to FY 2018-19 (dollars in thousands)



DRAFT



# **SOURCE OF REVENUE**

## SOURCE of REVENUE

West Basin’s revenue is derived from water sales and charges, fixed revenues conservation income and interest income. The two primary sources are imported and recycled water sold to its customer agencies water sales. Imported sales represents 65% and recycling sales represent 22% of all revenue sources. Total budgeted revenues for FY 2013-14 are \$191,832,591.

Summarized below are the actual, projected and budgeted revenues for the past three years along with comparative budgets to see the trend of various revenue sources.

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14
Revenues	Actual	Actual	Projected	Budget	Budget
<b>Imported Water Sales</b>	\$104,074,412	\$112,621,888	\$125,390,700	\$116,450,000	\$125,690,700
<b>Water Service Charge</b>	\$351,492	\$392,844	\$432,200	\$432,128	\$477,616
<b>Capacity Charge</b>	2,001,210	1,959,012	1,787,125	1,787,125	1,781,175
<b>Recycled Water / LRP</b>	26,382,155	29,258,124	33,842,800	38,926,976	43,015,080
<b>Fixed Revenue Charge</b>	8,568,492	8,162,672	7,888,000	7,796,756	8,199,920
<b>Desalter Water / GRP</b>	801,332	1,073,749	859,980	1,109,160	955,800
<b>General Fund Interest</b>	801,932	1,053,907	690,000	523,000	525,000
<b>Standby Charge</b>	9,898,500	9,631,773	9,740,000	9,675,000	9,650,000
<b>Conservation Income</b>	721,711	811,628	1,100,000	2,148,947	1,312,300
<b>Other Income</b>	992,797	614,213	125,000	97,000	225,000
<b>Total Expenditures</b>	<b>\$154,594,033</b>	<b>\$165,579,810</b>	<b>\$181,855,805</b>	<b>\$178,946,092</b>	<b>\$191,832,591</b>

## Revenue Highlights

West Basin purchases imported water from MWD and wholesale the water for municipal, domestic and groundwater replenishment uses and desalted brackish groundwater. In the early 1990s, West Basin began constructing recycled water distribution pipelines and facilities for industrial, commercial, and landscape irrigation sites. Today more than 400 sites throughout the southwestern portion of Los Angeles County benefit from this local resource. To fund the construction of the facilities and pipelines, West Basin obtains funding from a variety of sources including a standby charge, fixed capital payments, and commodity rates.

West Basin receives approximately 9% of its revenues from the fixed refinery capital payments and the standby charge. With the completion of the NRG project, fixed revenues from the refineries increased to \$8.2 million. A separate resolution (4-13-975) was also approved by the Board on April 22, 2013 for the standby charge that generates approximately \$9.7 million.

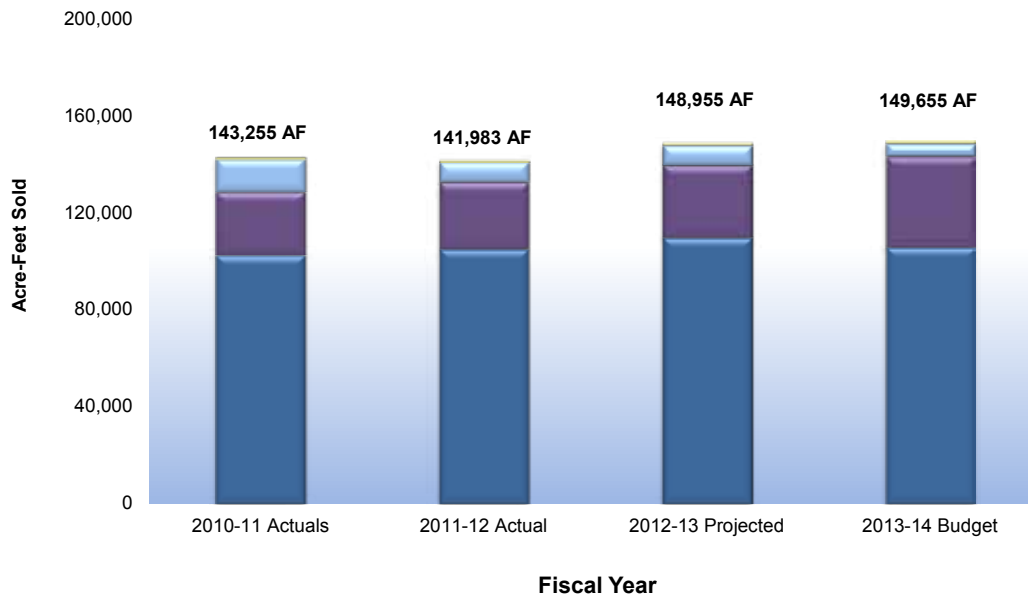
Annually, West Basin establishes water rates and charges through a resolution approved by the Board of Directors. Resolution 04-13-972 was adopted at its April 22, 2013 meeting and includes water rates for the following services:

- Two price tiers for non-interruptible service;
- Capacity Charge
- Water Service Charge
- Recycled Water rates for each class of service
- Desalted Water rate

The acre-feet (AF) assumption for water deliveries is also reviewed annually and is based upon a review of historic water sales, discussions with retail customer about their intended source of water usage (imported, groundwater, recycled), and a review of West Basin capital projects to determine where an imported water sale may replace a recycled water sale. While West Basin sees an upward trend in retail sales from 102,712 AF in FY 2011-12 to expected deliveries in FY 2013 of 108,000 AF, West Basin will maintain its conservative approach to budgeting sales projections and only increase the budgeted sales by 4,000 AF in FY 2013-14. Imported barrier sales will decrease by 2,500 AF for FY 2013-14 as it is expected that deliveries to the seawater barrier will be through recycled water sales since the Phase V project is expected to be completed in FY 2012-13. The increase in the recycled water budget is due to the shift of imported barrier sales of 2,500 AF to recycled barrier sales in FY 2013-14.



## Historic and Projected Sales



## Water Revenue and Charges

### *Imported Water Revenues*

West Basin imported water revenues are comprised of three rate components: MWD’s commodity rate, readiness-to-serve charge (RTS), and West Basin’s reliability service charge. West Basin anticipates that retail and barrier imported sales will have a combined overall increase of \$68 AF in January 2014. Based on AF assumptions and the rates for the fiscal year described below, West Basin has budgeted \$125,690,700 in imported water sales.

MWD’s commodity rate increase has historically become effective on January 1 of each year. For FY 2012-13 and FY 2013-14 MWD’s Board of Directors voted to increase their non-interruptible commodity rate approximately 6.7% and 5.1%, respectively, effective January 1 of each year. This two-year rate increase was approved on April 10, 2012. West Basin’s Board of Directors in turn approved passing through the rate increase for FY 2012-13 at the Board meeting on May 30, 2012 and the rate increase for FY 2013-14 was approved at the Board meeting on April 22, 2013.

MWD’s Board of Directors also approved an increase in its overall RTS charge collection from \$142 million in calendar year 2013 to \$166,000,000 in calendar year 2014 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). For West Basin, our allocated portion has increased approximately \$851,000. The increase resulted not only because of MWD’s overall increase in its RTS collection but also because West Basin’s proportional share increased from 7.43% to 7.56%.

## Water Revenue and Charges

### *Imported Water Revenues (Continued)*

West Basin collects the RTS on its commodity rate, and based on its AF projections for FY 2013-14 has determined to increase the current rate of \$135/AF to \$143/AF effective January 1, 2014 to pay its incremental increase of the allocated portion of MWD's RTS.

In review of the historical and recent sales trends affecting West Basin and continued focus effort towards its Water Reliability 2020 goals, the Board approved a \$17 increase on its reliability service charge. Primarily, the increase stems from higher recycling operating costs due to the anticipated increase in sales and higher debt service due to the Phase V expansion. This increase is effective July 1, 2013.

#### RATES EFFECTIVE JULY 1, 2013 TO DECEMBER 31, 2013

TYPE	MWD Commodity	MWD RTS	Reliability Service Charge	TOTAL
Non-Interruptible & Barrier (Tier 1)	\$847/AF	\$135/AF	\$124/AF	<b>\$1,106/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$997/AF	\$135/AF	\$124/AF	<b>\$1,256/AF</b>

#### RATES EFFECTIVE JANUARY 1, 2014

TYPE	MWD Commodity	MWD RTS	Reliability Service Charge	TOTAL
Non-Interruptible & Barrier (Tier 1)	\$890/AF	\$143/AF	\$124/AF	<b>\$1,157/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$1,032/AF	\$143/AF	\$124/AF	<b>\$1,299/AF</b>

Imported water sales vary based on hydrologic conditions, water demand and on the water supply availability. The imported water sales were 116,200 AF in FY 2010-11, 113,400 AF in FY 2011-12 and projected sales of 118,000 AF for FY 2012-13. The decrease in demand from FY 2010-11 to FY 2011-12 was primarily a result of a decrease in barrier water sales to the West Coast Basin Barrier (Barrier). The retail portion of the imported water sales actually increased by more than 2,000 AF from FY 2010-11 to FY 2011-12. The increase in retail sales most likely was due to a combination of news of the end of the drought with higher rainfall/snowpack building up the water reserves and the slow but steady economic recovery in the Southern California area. West Basin is projecting an increase in imported sales in FY 2012-13 due to a combination of an increase in the water supply availability and a continued improvement in the local economy.

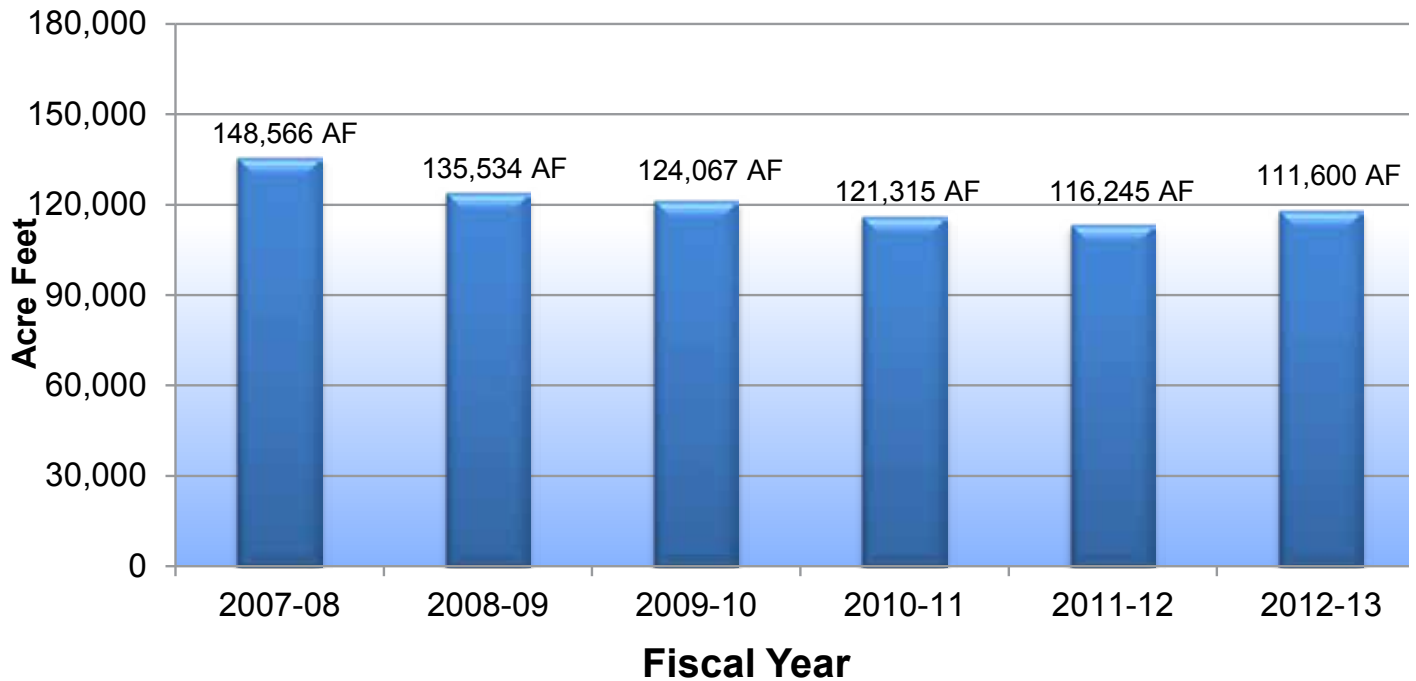
## Water Revenue and Charges

### *Imported Water Revenues (Continued)*

Looking forward to FY 2013-14, West Basin expects to see an increase in demand to continue and has budgeted water sales for FY 2013-14 to be 111,100 AF.

Based on information received from WRD and the County of Los Angeles, West Basin determines the overall demand at the West Coast barrier and Dominguez Gap Barrier. Historically, the Barrier has injected a mix of recycled and imported water, but with the current permit allowing injection of 100% of recycled water that West Basin produces, the sales of imported Barrier water were expected to decrease in FY 2012-13. However, due to the poor source water quality and other operational issues, West Basin has been unable to meet the demands of the recycled Barrier sales. To resolve these issues to meet the expected demand for recycled water, West Basin began its fourth expansion of its treatment facilities in El Segundo. The construction of Phase V will be complete at the end of FY 2012-13 and is expected to lower the imported water sales by 2,100 AF to the Barrier in FY 2013-14. The Dominguez Gap Barrier sales are expected to decrease 400 AF.

### Imported Water Sales: 5 Year Historical & FY 2012-13 Projected Retail and Barrier



## Capacity Charge

As part of MWD’s rate structure established in 2003, 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. West Basin has seen an overall decrease in the peak amount from its customers from a peak of 299.1 in Calendar Year 2013 to 290.5 in Calendar Year 2014. The calculation is made on the highest overall peak level during the past 3 years.

West Basin Customer	2010	2011	2012	Peak
California American Water Co.	5.2	4.1	6.4	<b>6.4</b>
Cal Water - Dominguez	52.1	44.8	46.6	<b>52.1</b>
Cal Water - Hawthorne	7.7	7.9	7.8	<b>52.1</b>
Cal Water - Hawthorne Redondo	22.0	22.4	21.3	<b>22.4</b>
Cal Water - Palos Verdes	45.5	43.7	46.2	<b>46.2</b>
LA County Waterworks No. 29	17.2	18.4	17.7	<b>18.4</b>
City of El Segundo*	13.7	18.2	24.5	<b>24.5</b>
City of Inglewood	14.1	15.2	14.5	<b>15.2</b>
City of Lomita	4.3	5.6	4.5	<b>5.6</b>
City of Manhattan Beach	10.1	9.7	9.5	<b>10.1</b>
Golden State Water Co.	34.9	31.4	34.6	<b>34.9</b>
Water Replenishment District*	33.7	46.8	18.4	<b>46.8</b>

West Basin will increase its current rate from \$5,500/cfs to \$6,600/cfs on January 1, 2014, with anticipated annual revenues of \$1,781,175. West Basin passes through this charge by multiplying each purveyor’s highest daily average usage (per cfs) for the past three summer periods by the Capacity Charge Rate.

For a point of reference, the MWD capacity charge is \$6,400/cfs and in effect through Calendar Year (CY) 2013. Effective January 1, 2014, MWD’s Capacity Charge rate will increase to \$8,600/cfs. West Basin non-coincidental peaking is 221.3 in Calendar Year 2013 and 222.6 in Calendar Year 2014.

## Capacity Charge (Continued)

By using a similar methodology to MWD's to calculate its peak charges to the sub-agencies, West Basin is able to pass through a lower rate per cfs and effectively save its customer agencies thousands of dollars. The timing of the rate changes is structured to coincide with MWD's increase as well.

## Water Service Charge

The Water Service Charge is one of the fixed charges within West Basin's rate structure. West Basin collects a monthly fixed amount based on the cubic foot per second (cfs) of each customer's meter capacity. West Basin adopted a rate of \$42/cfs effective at the beginning of FY 2012-13 and will increase the rate to \$46/cfs for FY 2013-14. There has been no change in the number and size of meters and remains at 44 meters ranging from 4 cfs to 160 cfs. West Basin anticipates \$477,616 from this revenue source. The monthly amount to any one customer shall not exceed \$4,600 per meter.

## Recycled Water Charges and Fixed Revenue Charges

West Basin adopts its recycled water rates to increase according to customer agreements or be in line 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 by type of recycled water. Several types of recycled water were identified to be unprofitable due to restrictions placed on rate setting agreed upon in certain customer agreements. In addition, West Basin also takes into consideration the increase in the imported water 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 \$43,015,080 for FY 2013-14. The LRP provides a \$250/AF rebate for each acre-foot of recycled water sold.

WBMWD Recycled Water Rates							
<i>Effective July 1, 2013</i>							
Volume (AF/Month)	WBMWD Service Area	West Coast Barrier (<4,500 AF)	West Coast Barrier (4,500+ AF)	Industrial R/O (WB Svc Area)	Nitrified (Ind R/O usage)	Industrial R/O Ultra (WB Svc Area)	Torrance / LADWP Service Areas
0-25	\$908/AF	\$1,051/AF	\$578/AF	\$1,136/AF	\$888/AF	\$1,492/AF	\$950/AF
25-50	\$898/AF	\$1,051/AF	\$578/AF	\$1,136/AF	\$888/AF	\$1,492/AF	\$940/AF
50-100	\$888/AF	\$1,051/AF	\$578/AF	\$1,136/AF	\$888/AF	\$1,492/AF	\$930/AF
100-200	\$878/AF	\$1,051/AF	\$578/AF	\$1,136/AF	\$888/AF	\$1,492/AF	\$920/AF
200+	\$868/AF	\$1,051/AF	\$578/AF	\$1,136/AF	\$888/AF	\$1,492/AF	\$910/AF

## Recycled Water Charges and Fixed Revenue Charges (Continued)

In addition, West Basin anticipates receiving approximately \$8.2 million in fixed capital payments, and is based on agreements with bp, Chevron, ExxonMobil Oil Refineries, and El Segundo Power, also known as NRG, and is designed to repay the cost of the treatment and distribution facilities that were constructed exclusively for delivery of recycled water to these entities.

West Basin currently serves recycled water to more than 400 meters with projected sales to reach more than 29,800 AF in FY 2012-13. For FY 2013-14, West Basin anticipates a 25% increase from actual recycled water sales due to the completion of Phase V and NRG projects. Sales to the Barrier will increase with the completion of expansion projects at the Edward C. Little Treatment Plant during FY 2012-13. Not only will West Basin have new sales because of the increase to meet the new permit requirements, but will restore its sales to the rest of the West Coast Barrier that has been adversely affected by the poor source water. The addition of recycled water sales to NRG will also contribute to the increased sales. These projects will generally offset non-interruptible (firm) deliveries.

Sales are comprised of approximately 41% sales to the Barrier, approximately 48% of the recycled water sales relate to local refineries, and the remaining 11% will be sold for use in parks, golf courses, schools and street medians.

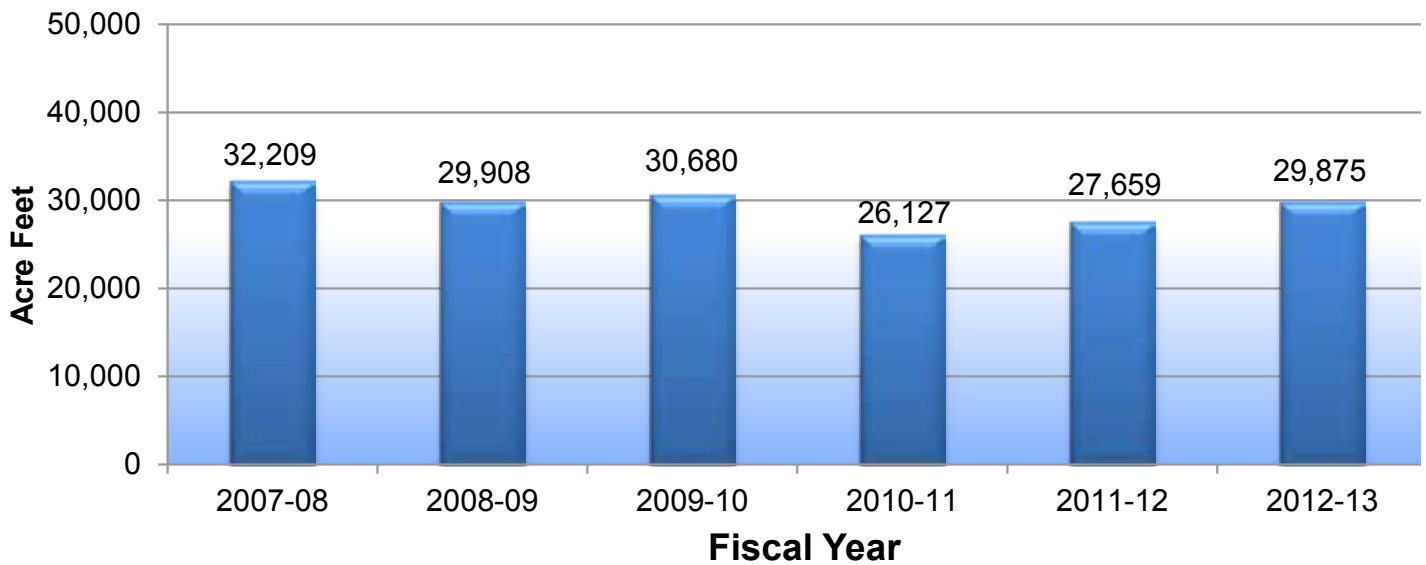
## Recycled Water Charges and Fixed Revenue Charges (Continued)

Water Type	2010-11 Actual	2011-12 Actual	2012-13 Projected	2012-13 Budget	2013-14 Budget
Title22-Within WB	4,258	5,079	6,530	5,750	5,750
Title22- LADWP	763	788	830	850	850
Title22-Torrance	5,785	6,352	6,418	6,000	6,100
RO – Barrier	7,319	6,531	7,000	13,400	15,500
RO – Industrial	4,634	5,613	5,806	5,750	6,075
RO – Ultra	2,481	2,326	2,286	2,235	2,350
Industrial–NH3	887	970	1,005	850	850
<b>Total Recycled</b>	<b>26,127</b>	<b>27,659</b>	<b>29,875</b>	<b>34,950</b>	<b>37,475</b>

Recycled water sales in FY 2011-12 were 27,659 AF, an increase of more than 1,500 AF over FY 2010-11. Higher demand for recycled water from three of its four largest customers; Chevron, ExxonMobil and BP Amoco refineries was the primary reason for the increase. Recycled water sales for FY 2012-13 are expected to increase to 29,875 AF. With the completion of Phase V at the end of FY 2012-13, West Basin will increase recycled water deliveries to the Water Replenishment District of Southern California (WRD) and strive to deliver up to 100% of recycled water to the Barrier. In addition, West Basin has brought online a new industrial customer, NRG in the City of El Segundo, during the latter part of FY 2012-13. With more capacity through the completion of the Phase V expansion, efficient production and completion of the recycled water pipeline to NRG, West Basin expects sales volume to be 37,475 AF in FY 2013-14.



## Recycled Water Sales: 5 year Historical & FY 2012-13 Projected



## Desalter Water Charges

West Basin sells the water produced at 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 January 1, 2013 the rate was \$862/AF, and is scheduled to increase to \$908/AF on January 1, 2014.

For the past 20 years, West Basin received a \$250/AF incentive payment from MWD for the Groundwater Recovery Program (GRP). This program incentive ended April 2013. With the loss of the GRP incentive, West Basin is currently exploring options to increase revenues to support the operating expense.

Deliveries from the Brewer Desalter are expected to remain consistent at 1,080 AF for FY 2013-14, and revenues are budgeted to be \$955,800 in FY 2013-14.

## Other Sources of Revenue

### Standby Charge

This annual standby charge is used towards West Basin’s debt service obligations for the water recycling facilities.

For FY 2013-14 the standby charge will be assessed by the same formula as in prior years and the amount assessed per parcel has remained consistent since FY 1992-93. 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. Based on approximately 346,000 benefiting units and previous annual collections, it is estimated that the receipts from the standby charge, net of program expenses, are expected to be approximately \$9,650,000. After conducting a public hearing on March 27, 2013, the standby charge resolution is reviewed by the Board of Directors. The Board considered public hearing comments received from property owners in its service area and voted to reauthorize the standby charge (Resolution 04-13-975) at its April 22, 2013 meeting.

	Parcels = < 1 Acre	Acres >1 Acre	Total Units	Benefit Ratio	Weighted Benefit Unit	Rate
<b>Residential</b>						
Residential	145,249	15,683	160,933	1.5	241,400	\$24
Reduced Parcels	1	159				
Partial Exemptions	1	140				
Multi Unit Res.incl Hotel and Motel			158,232	1	158,232	\$16
<b>Non-Residential</b>						
Non-residential	12,623	14,768	27,391	7.5	205,432	\$120
Reduced Parcels						
Partial Exemptions	12					
<b>TOTAL</b>					<b>605,064</b>	

### 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. As a result, West Basin has had 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.

## **Conservation Income (Continued)**

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 2013-14, 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 Department of Water Resources (DWR) for the Recirc & Save and Ocean Friendly programs. In addition, MWD's has limited their funding of certain programs at the same levels as previous years. For FY 2013-14, West Basin anticipates its funding partner contributions as follows:

MWD	\$ 275,750
Federal Grants – USBR	\$ 35,000
State Grants – DWR	\$ 584,650
Customer Agencies	\$ 416,900
Total	\$1,312,300

West Basin continues to aggressively promote Conservation efforts throughout its service area and is always seeking to develop new water use efficiency strategies and programs to help the public conserve water. FY 2011-12 saw an increase in conservation income over FY 2010-11; this source of revenue is anticipated to pick up again with programs such as the Irrigation Controller Program, High-Efficiency Toilet Distribution and Restroom Retrofits.

## **Interest Income**

West Basin receives interest income from its general fund. With a low interest rate environment, West Basin has assumed a more conservative portfolio return. For FY 2013-14, general fund interest income has been projected at approximately \$525,000. West Basin has adopted an investment policy in accordance with California Government Code 53600 et. seq. and has utilized 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.

## ***Other Income***

West Basin anticipates miscellaneous income to support its efforts for the annual Water Harvest Festival, the Title 22 Water Quality Monitoring Program, Demand Management Program, and customer development partnership agreement with the Los Angeles Department of Water and Power. Overall, West Basin anticipates approximately \$225,000 in FY 2013-14 for other income.

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# USE OF FUNDS

## USE OF FUNDS

West Basin maintains a single enterprise fund and its use of funds are divided among water purchases, capacity charge, debt service, and program expenses. West Basin maintains a balanced budget between sources of revenues and uses. The balance generated is placed into West Basin's designated funds. Summarized below are the actual, projected and budgeted expenses for the past three years along with comparative budgets to see the trend of various expenses.

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14
Expenditures	Actual	Actual	Projected	Budget	Budget
Imported Water Purchases / RTS	\$92,917,900	\$97,174,577	\$107,337,866	\$100,626,000	\$108,040,450
Capacity Charge	1,937,160	1,844,490	1,608,370	1,608,370	1,665,340
Debt Service	24,484,993	24,930,724	27,009,901	28,209,868	30,717,248
Bond Fund Interest	-761,933	-762,666	-761,900	-761,867	-761,867
Water Recycling Operations	25,279,936	23,594,939	29,026,400	31,217,595	33,758,070
Desalter Operations	668,220	900,652	879,911	955,823	1,049,580
Water Policy	2,001,498	1,193,711	1,254,182	1,400,829	1,526,962
Public Information	1,422,398	2,781,543	2,912,454	2,777,187	2,683,539
Conservation	2,105,644	2,118,055	2,620,157	3,410,270	2,731,698
Water Quality Monitoring	11,079	34,426	10,500	22,015	23,596
Designated Funds	4,527,138	11,769,359	9,957,964	9,480,002	10,347,974
<b>Total Expenditures</b>	<b>\$154,594,033</b>	<b>\$165,579,810</b>	<b>\$181,855,805</b>	<b>\$178,946,092</b>	<b>\$191,782,591</b>

## Use of Funds (Continued)

As the economy slowly recovers, West Basin has seen a gradual uptick in consumption over the past three years. This increased demand along with a 5% water rate increase from MWS drives our increased imported water expense for Fiscal Year (FY) 2013-14. Certain programs, such as Water Recycling and Desalter Operations have increased due to higher operating costs associated with increased production and rising utility and chemical costs. Other programs decreased their budgets as they streamlined efforts and developed more efficient practices, as in the Public Information and Conservation Department. FY 2013-14 will also see an increase in scheduled debt service expense.

## MWD Purchases and Charges

### *MWD's Purchase Order Extension*

In the previous 10 calendar years, 2003-2012, West Basin had a Water Purchase Order in place with MWD that entitled West Basin to purchase 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 of 1,045,825 AF over the 10-year term of the agreement. Based on that commitment, MWD agreed to sell West Basin up to 156,874 acre-feet (AF) of full-service deliveries annually (Tier 1 maximum) at the Tier 1 supply rate. During the 10 year agreement, West Basin's purchases from MWD exceeded the Purchase Commitment, with actual purchases of 1,303,673 AF.

In December 2012 prior to the expiration of this agreement, MWD and its member agencies agreed to a two-year extension as a means to extend the benefits of Tier 1 pricing to member agencies while other fixed revenue concepts are developed and debated. The new Purchase Commitment is simply a 20% addition to the original Purchase Commitment, consistent with a two-year extension of the original 10-year term, to a total of 1,254,990 AF, which has already been satisfied by the aforementioned purchases. West Basin has no further obligation to MWD to continue to receive the Tier 1 Supply Rate up to the Tier 1 Annual Maximum of 156,784 AF in 2013 and 2014. Because the minimum obligation no longer exists and exceeding the Annual Maximum for Tier 2 pricing is unrealistic, West Basin will chose not to continue the Purchase Agreements with its customers at this time.

### *Water Purchase Projections*

Retail imported water sales hit a low of 102,712 AF in FY 2010-11, but in the last two (2) years we have seen water consumption slowly increase as the economy recovers. FY 2011-12 saw a 2.5% increase in sales to 105,309 AF and FY 2012-13 looks to continue that trend with projected year-end sales of 108,000 AF. However West Basin continues to take a conservative approach to projecting imported water sales for FY 2013-14 of 106,000 AF. Imported sales to the barrier are expected to decrease from FY 2012-13 to FY 2013-14 with Phase V Expansion at the Edward C. Little Recycling Facility due to be completed in the latter part of 2013.



## Water Purchase Projections (Continued)

This increase in recycled water deliveries to the Barrier will have an off-setting impact on sales of imported water, which are expected to drop to 5,100AF in FY 2013-14. West Basin’s combined (potable non-interruptible and Barrier) purchase of imported water is projected to be 111,100AF a slight increase of 1.4% over FY 2012-13.

## MWD Non-Interruptible Commodity Rate

West Basin purchases both potable non-interruptible and barrier imported water from MWD. On April 10, 2012, the MWD Board approved a two-year commodity rate increase. The ratio for FY 3012-13 is shown in the box.

	<i>Effective Dates</i>	
	<u>1/1/13</u>	<u>1/1/14</u>
Supply Rate Tier 1	\$140	\$148
Supply Rate Tier 2	\$290	\$290
System Access Rate	\$223	\$243
Water Stewardship Rate	\$41	\$41
Treatment Rate	\$254	\$297
Power Rate	\$189	\$161
<b>Total Tier 1</b>	<b>\$847</b>	<b>\$890</b>
<b>Total Tier 2</b>	<b>\$997</b>	<b>\$1,032</b>

## Capacity Charge

In FY 2013-14, MWD will increase its Capacity Charge from \$6,400/cfs to \$8,600/cfs beginning January 1, 2014 with anticipated capacity charge costs of \$1,914,360, or \$159,530 per month. Current monthly Capacity Charge from MWD is \$118,067. As explained to West Basin’s customer agencies at the in-house workshop in March 2013, this charge is passed through to its customers using the same methodology MWD uses to calculate the member agencies’ share, based on the individual customer’s cubic feet per second (cfs) peak flow levels. See the revenue section for further explanation.

## Readiness-to-serve Charge

MWD also has a Readiness-to-Serve (RTS) charge that is a fixed charge to recover the cost of the portion of system capacity that is on standby to provide emergency service and operational flexibility. The costs of providing standby service, such as emergency storage, are recovered by the RTS. In addition, the demand and standby related costs identified for the conveyance and aqueduct service function are also allocated to the RTS. MWD’s aggregate RTS collections are currently \$142 million for 2013, and will increase to \$166 million for 2014.

## Readiness-to-serve Charge (Continued)

This RTS is allocated to the member agencies based on each agency’s proportional share of a ten-year rolling average of all firm deliveries, and West Basin’s proportionate share for CY 2013 is 7.43% which will increase to 7.56% for CY 2014. This results in a net liability increase for West Basin of \$850,900 in FY 2013-14. West Basin’s RTS charge is a pass-thru to its purveyors, the collection of which is explained more thoroughly in the Sources of Revenue section.

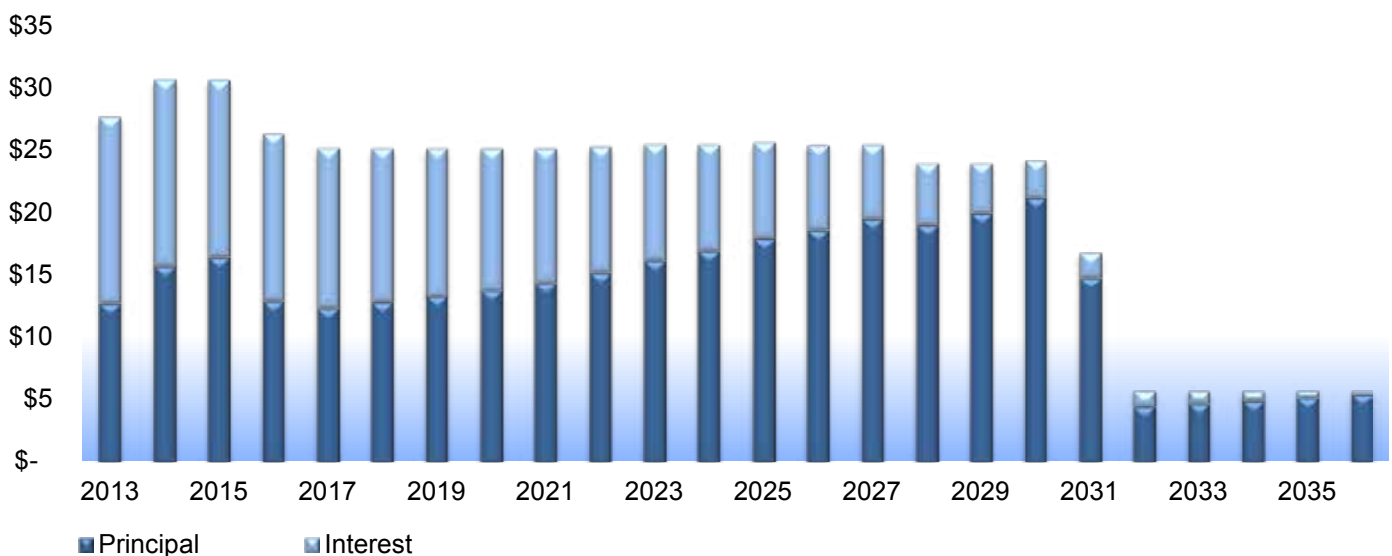
## Debt Service

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 Federal and State grants, invested cash, and also issued debt. The graph below shows the scheduled principal and interest payments for West Basin’s current debt portfolio.

For FY 2013-14, debt service (DS) is estimated on an accrual basis at \$30,717,248 to be offset by bond interest earnings of \$761,867 that West Basin receives from bond reserve funds set aside as required by the bond financings. At present, West Basin has four 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.

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

## Debt to Maturity



Note: Above table reflects debt service payments on a cash basis.

## Debt to Maturity (Continued)

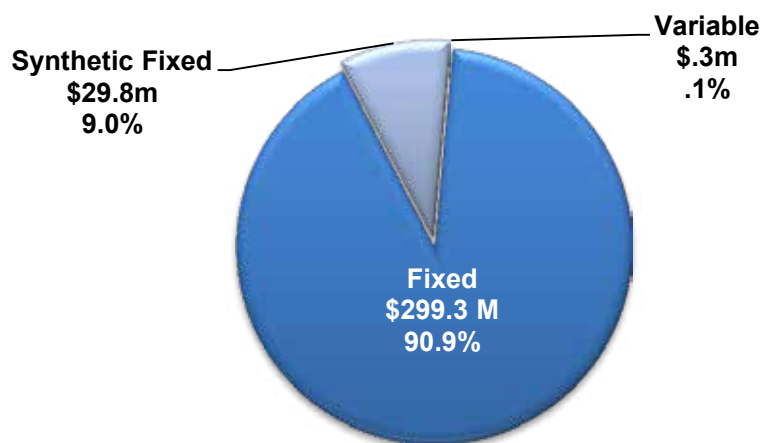
	Certificates of		Refunding		Total	
	Participation		Revenue Bonds			
1-Aug	Principal	Interest	Principal	Interest	Principal	Interest
<b>2013</b>	12,390,833	8,917,013	350,000	6,052,529	12,740,833	14,969,542
<b>2014</b>	13,360,000	8,140,494	2,415,000	6,756,650	15,775,000	14,897,144
<b>2015</b>	14,000,000	7,488,300	2,490,000	6,684,200	16,490,000	14,172,500
<b>2016</b>	10,725,000	6,858,009	2,200,000	6,588,350	12,925,000	13,446,359
<b>2017</b>	6,250,000	6,370,049	6,105,000	6,500,350	12,355,000	12,870,399
<b>2018</b>	6,485,000	6,118,454	6,345,000	6,256,150	12,830,000	12,374,604
<b>2019</b>	6,750,000	5,857,492	6,580,000	6,012,700	13,330,000	11,870,192
<b>2020</b>	7,005,000	5,580,687	6,810,000	5,794,250	13,815,000	11,374,937
<b>2021</b>	7,275,000	5,293,402	7,125,000	5,493,750	14,400,000	10,787,152
<b>2022</b>	7,770,000	4,956,076	7,480,000	5,137,500	15,250,000	10,093,576
<b>2023</b>	8,425,000	4,572,671	7,780,000	4,776,000	16,205,000	9,348,671
<b>2024</b>	8,805,000	4,162,405	8,150,000	4,387,000	16,955,000	8,549,405
<b>2025</b>	9,230,000	3,733,261	8,720,000	4,010,500	17,950,000	7,743,761
<b>2026</b>	9,700,000	3,283,373	8,915,000	3,574,500	18,615,000	6,857,873
<b>2027</b>	10,085,000	2,810,701	9,435,000	3,148,750	19,520,000	5,959,451
<b>2028</b>	9,105,000	2,318,222	9,910,000	2,677,500	19,015,000	4,995,722
<b>2029</b>	9,555,000	1,860,000	10,410,000	2,182,000	19,965,000	4,042,000
<b>2030</b>	17,110,000	1,382,250	4,080,000	1,661,500	21,190,000	3,043,750
<b>2031</b>	10,535,000	526,750	4,285,000	1,457,500	14,820,000	1,984,250
<b>2032</b>	0	0	4,500,000	1,243,250	4,500,000	1,243,250
<b>2033</b>	0	0	4,725,000	1,018,250	4,725,000	1,018,250
<b>2034</b>	0	0	4,960,000	782,000	4,960,000	782,000
<b>2035</b>	0	0	5,210,000	534,000	5,210,000	534,000
<b>2036</b>	0	0	5,470,000	273,500	5,470,000	273,500
<b>Total</b>	<b>\$184,560,833</b>	<b>90,229,611</b>	<b>144,450,000</b>	<b>93,002,679</b>	<b>329,010,833</b>	<b>183,232,290</b>

## Debt Service (Continued)

West Basin currently has the following outstanding issuances:

Series Name	2003A	2008A	2008B	2011A	2011B	2012A
<b>Original Amount</b>	\$156,085,000	\$39,465,000	\$128,665,000	\$34,190,000	\$60,275,000	\$50,325,000
<b>Type of Issuance</b>	Refunding / New Proceeds	Refunding	Refunding	Refunding	Refunding / New Proceeds	Refunding / New Proceeds
<b>Interest Range</b>	2.5% – 5.25%	Variable	3.0% - 5.0%	2.0% - 5.0%	4.0% - 5.0%	3.0% - 5.0%
<b>Swap to Fix</b>	N/A	Yes	N/A	N/A	N/A	N/A
<b>Issue Date</b>	2003	2008	2008	2011	2011	2012
<b>Final Maturity</b>	2030	2021 and 2027	2031	2024	2036	2032
<b>Current Rating</b>	AA- and Aa2	AA-/A-1 and Aa2/VMIG1	AA- and Aa3	AA- and Aa2	AA- and Aa2	AA- and Aa2
<b>Annual DS Pmt</b>	\$9.2 Million	\$3.4 Million	\$9.0 Million	\$1.8 Million	\$3.0 Million	\$4.2 Million
<b>2013 Principal</b>	\$7.8 Million	\$2.2 Million	\$3.4 Million	\$ .4 Million	None	\$2.1 Million
<b>2013 Interest</b>	\$1.4 Million	\$1.2 Million	\$5.6 Million	\$1.4 Million	\$3 Million	\$2.1 Million
<b>Lien</b>	Senior	Senior	Subordinate	Senior	Senior	Senior

## Current Outstanding Debt Issuances



## ***Current Outstanding Debt Issuances (Continued)***

Over the past five years, West Basin has had to make several strategic changes in its debt portfolio to reposition it away from its exposure to variable rate debt. In addition, West Basin continues to monitor the market since it still maintains approximately \$32 million in variable rate debt as a result of two associated swaps as described below. Over the past two years, West Basin has refunded approximately \$146,465,000 resulting in net present value (NPV) savings of \$4,550,791. In April 2013, the West Basin's Board approved staff's recommendation to refund up to the remaining \$27 million in 2003A Refunding Certificates of Participation which, if successful, will result in at least 3% net present value of the amount refunded per the Debt Management Policy.

### **Swaps**

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.

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 rate 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.

### **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 legally required for its senior and subordinate debt liens. Per our financing documents our legal debt coverage requirement is 1.15 at each lien.

Detailed below is the anticipated debt coverage for the current and future fiscal years Budgets.

## Current Outstanding Debt Issuances (Continued)

<b>Bond Debt Coverage Ratios</b>						
<b>(in 000's – except coverage)</b>						
<b>Bond Coverage Ratios</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>
<b>Revenues</b>	\$191,833	\$202,205	\$214,170	\$222,415	\$246,980	\$264,121
<b>O&amp;M</b>	151,539	161,398	171,323	179,969	194,746	210,412
<b>Net Revenues to pay senior debt</b>	40,293	40,808	42,847	42,445	52,234	53,709
<b>Total Senior Debt</b>	20,963	21,346	18,523	17,300	17,210	17,296
<b>Senior Debt Coverage</b>	<b>1.92</b>	<b>1.91</b>	<b>2.31</b>	<b>2.45</b>	<b>3.04</b>	<b>3.11</b>
<b>Net Revenues to pay subordinate debt</b>	19,330	19,462	24,324	25,146	35,023	36,413
<b>Total Subordinate Debt</b>	8,993	9,017	9,058	8,969	8,944	8,948
<b>Subordinate Debt Coverage</b>	<b>2.15</b>	<b>2.16</b>	<b>2.69</b>	<b>2.8</b>	<b>3.92</b>	<b>4.07</b>
<b>All-In Coverage</b>	<b>1.35</b>	<b>1.35</b>	<b>1.55</b>	<b>1.62</b>	<b>2</b>	<b>2.05</b>
<b>Remaining Net Revenue</b>	\$10,338	\$10,445	\$15,266	\$16,177	\$256,080	\$27,465

## Long-Range Financial Plan and Debt Issuances

Through West Basin's program, WR 2020, West Basin is focused on developing more local resources through increasing its efforts in recycling, developing a full-scale ocean-water desalination facility and expanding its conservation programs (not funded by debt).

Based on two strategic plans developed in FY 2009, the Local Resources Strategic Plan and Capital Implementation Master Plan (CIMP), West Basin began to focus on the development of a Long-Range Financial Plan. During FY 2009-10, a financial model was developed to incorporate the existing budget, future capital costs, and make certain assumptions. These assumptions include sales, operating expense increases, water rates, and capital project funding and debt coverage. The assumptions are re-evaluated each year and updated as necessary. In addition, sensitivity analysis is performed to determine the biggest drivers of potential rate increases.

## Long-Range Financial Plan and Debt Issuances

As West Basin moves forward with the capital projects identified in the CIMP, the need to issue debt to fund investments into its infrastructure increases. In FY 2009-10, 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 to IT service delivery, design, infrastructure and applications. In FY 2010-11, West Basin focused on improving its Asset Management Program. That analysis and discussion with staff and contract operators, recommendations were identified to improve documentation and resources required to effectively manage and report on the treatment plant facilities. In FY 2011-12, West Basin revamped its Designated Funds Policy. The new Designated Fund policy established the roles and responsibilities, changed the various types of funds and revised or created new target levels.

For future capital outlay in June 2010, West Basin entered into a direct loan with US Bank which West Basin commonly refers to as its Commercial Paper Program. The Commercial Paper Program allows West Basin to move forward on several capital projects until it needs to secure long-term debt.

West Basin does not intend to issue new long-term debt during FY 2013-14. However, as mentioned before, West Basin has approval from its Board to seek a refunding of \$27 million dollars of 2003A Refunding Certificates of Participation that will result in savings of at least 3% net present value of the amount refunded. In future fiscal years, West Basin plans on financing the desal plan.

## Operating Program Expenses

West Basin organizes and tracks its operating expenses through the following functional budget categories: Overhead Program Costs, Water Recycling Operations, C. Marvin Brewer Desalter Operations, Water Policy and Resource Development, Public Information & Conservation, and Water Quality Monitoring Program. The Overhead Program costs are allocated to the other program budgets and capital. 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.



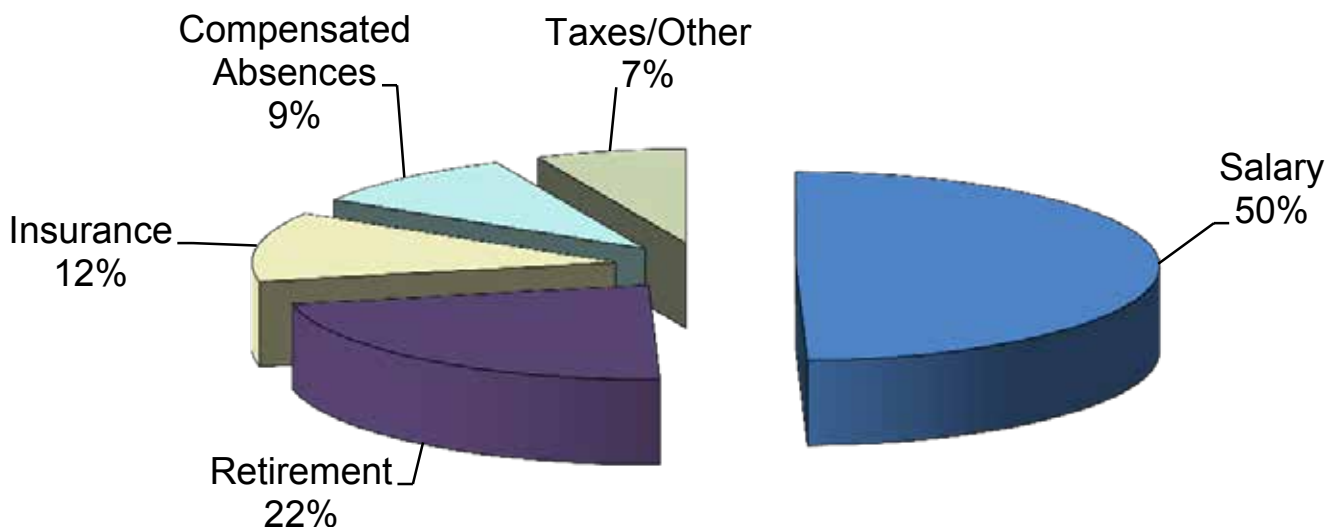
## Payroll and Benefits

West Basin has a unique business model with a small workforce of 43 budgeted positions performing the work of twice as many people in order to accomplish its many critical goals and objectives. Staff is comprised of various high level project managers who oversee the work of consultants in the field. West Basin has no field staff.

The following is included in West Basin's benefits package:

- Retirement -- CalPERS 3% at 60 and Social Security.
- Health Insurance -- Paid family coverage with expense reimbursement.
- Disability Insurance -- Paid short term and long term insurance plans.
- Life Insurance -- Up to \$150,000 based upon salary.
- Vacation -- 10-20 days annually, with credit for prior public service.
- Holidays -- 14 paid holidays annually.
- Sick Leave -- 12 days accrued annually.
- Tuition Reimbursement -- 90% tuition and fees paid for job-related coursework.
- Deferred Compensation -- CalPERS 457 Deferred Compensation Plan (employee contributes; no agency match).
- Fully paid Employee Assistance Program.

## Salary and Benefits



## ***Payroll and Benefits (Continued)***

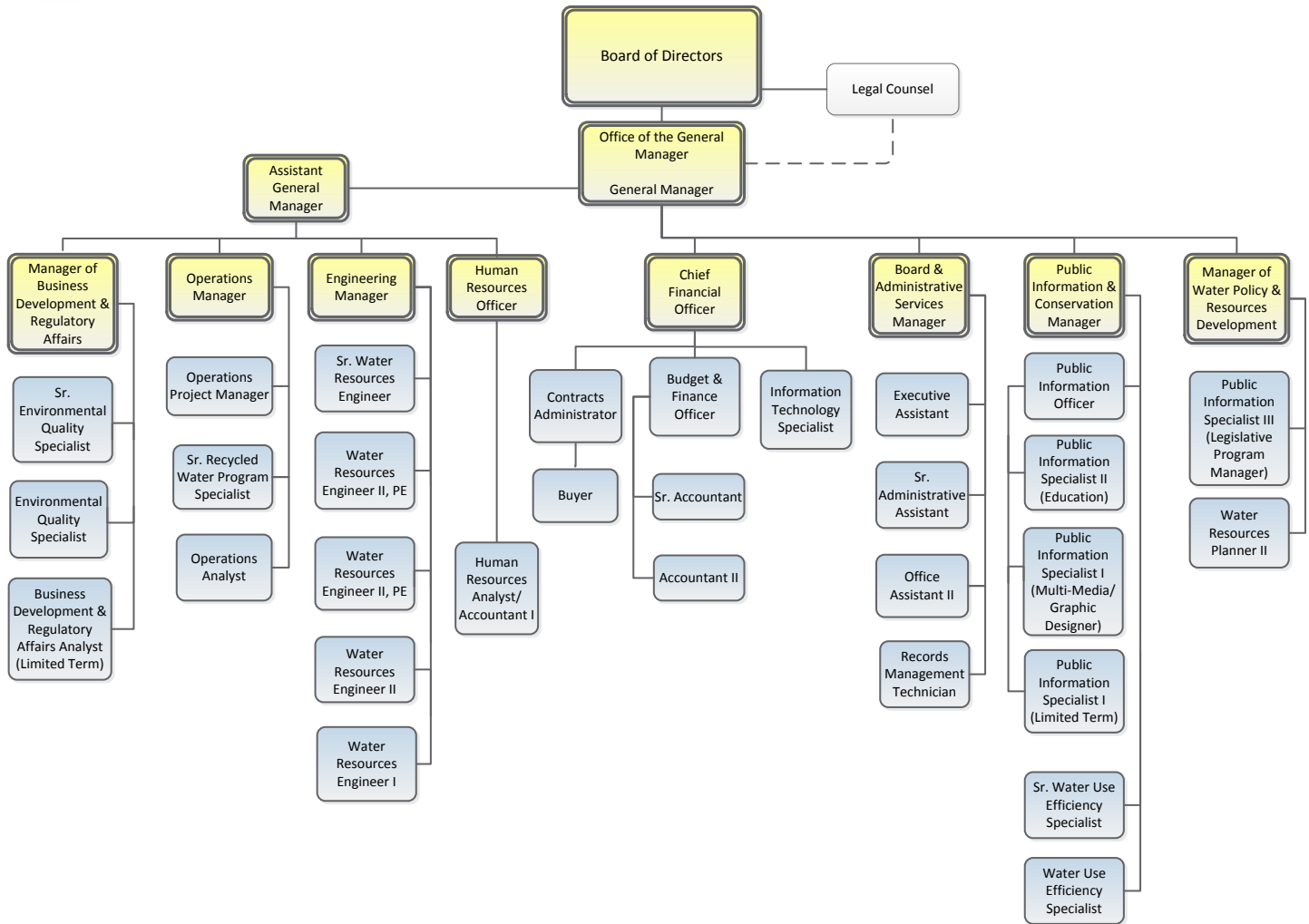
West Basin's benefits package and total payroll comprises 4.1 % of its total FY 2013-14 budget. The types of benefits included are consistent with the prior years' budget and reflect an anticipated 8.4% increase in health insurance and 2.0% increase in dental insurance. West Basin's pension costs also saw an increase of 2.0% in its employer rate to 15.909%. The estimated Other Post-Employment Benefits (OPEB) contribution for FY 2013-14 will be \$540,000, or 12.9% of pay. A new actuarial report will be completed during the FY 2014 that may revise future OPEB contributions higher or lower. West Basin participates in the California Employers Benefit Retirement Trust, which allows West Basin to calculate its liability based on assumed interest rate of 7.5%.

Current employment expense forecasts do not include a Cost of Living Adjustment increase. West Basin has established a performance-based merit pay system, wherein the amount of merit pay that may be granted by the employee's performance appraisal rating and position in the salary range. To sustain competitiveness on an annual basis, West Basin takes into account the regional Consumer Price Index (CPI), and the average salary range increases determined through a classification and compensation survey of similar agencies. As such, West Basin has included a 3% merit increase in the FY 2013-14 budget.

The organizational chart on the next page shows the full time budgeted positions for FY 2013-14.

## Payroll and Benefits (Continued)

### Organizational Chart



\* Organizational chart does not include part-time staff or interns.

In the FY 2013-14, budget staffing levels will increase from thirty-six (36) to thirty-eight (38) regular full-time employees. The two additional budgeted positions will be an Operations Analyst position in the Recycling Operations department and a Records Management Technician. In addition to the thirty-eight full-time staff members, West Basin has two part-time and two limited term positions to better address the current needs in several departments. West Basin is also continuing its intern program to provide opportunities for growth and exposure to current students attending local colleges. West Basin will have one intern position in FY 2013-14 slotted for the Engineering department.

Following is a table showing the head count by department that includes the full-time, limited-term and part-time positions. The intern positions are not included. In addition, one position, Public Information Specialist II, is being filled due to attrition and has been re-evaluated to a Public Information Specialist I.

Position	Actual		Budgeted		Change from
	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14	FY 2012-13
<b>Office of the General Manager</b>					
General Manager	1	1	1	1	0
Assistant General Manager	1	1	1	1	0
<b>Board Services</b>					
Board and Administrative Services Manager	1	1	1	1	0
Executive Assistant	1	1	1	1	0
Senior Administrative Assistant	1	1	1	1	0
Office Assistant II	1	1	1	1	0
Office Assistant II (Records Mgmt Tech)	0	0	0	1	1
<b>Human Resources</b>					
Human Resources Officer	1	1	1	1	0
<b>Public Information &amp; Conservation (PIC)</b>					
Public Information and Conservation Manager	1	1	1	1	0
Public Information Officer	1	1	1	1	0
Public Information Specialist II	2	2	2	1	-1
Public Information Specialist I	0	0	0	1	1
Sr. Water Conservation Specialist	1	1	1	1	0
Public Information Specialist I (Limited Term)	0	0	1	1	0
Water Conservation Specialist	1	1	1	1	0
Tour Guide (Part-time)	0	0	1	1	0
Education Assistant (Part-time)	0	0	1	1	0
<b>Engineering and Operations</b>					
Engineering Manager	1	1	1	1	0
Principal Water Resources Eng.	1	1	1	0	0
Sr. Water Resources Engineer	1	1	1	1	0
Water Resources Engineer II	3	3	3	3	0
Water Resources Engineer I	0	0	1	1	0
Operations Manager	1	1	1	1	0
Operations Project Manager	1	1	1	1	0
Operations Analyst	0	0	0	1	1
Sr. Environmental Quality Specialist	1	1	1	1	0
Environmental Quality Specialist	1	1	1	1	0
Business Development & Regulatory Affairs Mgr	1	1	1	1	0
Bus. Dev. & Reg. Affairs Analyst (Limited Term)	0	1	1	1	0
Sr. Recycled Water Program Specialist	1	1	1	1	0
<b>Water Policy and Resource Development</b>					
Water Policy and Resource Development Manager	1	1	1	1	0
Public Affairs Specialist III	0	1	1	1	0
Resource Planner	1	1	1	1	0
<b>Finance</b>					
Chief Finance Officer	1	1	1	1	0
IT Specialist	1	1	1	1	0
Budget and Finance Officer	1	1	1	1	0
Senior Accountant	0	0	0	1	0
Accountant II	2	2	2	1	0
Accountant I	1	1	1	1	0
Contracts Administrator	1	1	1	1	0
Purchasing Assistant	1	1	1	1	0

## **Personnel Staffing by Program**

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 2010-11 and FY 2011-12 actuals to FY 2012-13 projected to FY 2012-13 and FY 2013-14 budget. The variance of projected to budget FTE for FY 2012-13 represents unfilled positions for a portion of the year. In FY 2013-14, the difference between the Full Time Equivalent table and the Summary of Personnel Head Count by Department is due to the part-time positions budgeted at one-half of a FTE versus one head count for each position.

The Overhead Program budget does not include hours as their efforts are allocated to all other programs. These overhead program costs are allocated based on direct labor hours. Direct labor hours are used to represent the actual efforts by staff.

	<b>FY 2010-11 Actual</b>	<b>FY 2011-12 Actual</b>	<b>FY 2012-13 Projected</b>	<b>FY 2012-13 Budget</b>	<b>FY 2013-14 Budget</b>
<b>Recycling Operations</b>	9.13	10.66	9.88	10.70	12.46
<b>Desalter Operations</b>	0.02	0.05	0.04	0.34	0.34
<b>Water Policy/Resource Development</b>	3.06	3.46	3.05	3.75	3.84
<b>Public Information</b>	6.17	7.42	8.99	9.34	9.07
<b>Conservation</b>	3.34	3.72	3.42	4.23	4.66
<b>WQ Monitoring Program</b>	0.04	0.09	0.03	0.08	0.03
<b>Capital Projects</b>	10.89	11.95	9.93	11.56	10.60
<b>Total FTE</b>	32.65	37.35	35.34	40.00	41.00

Each program budget demonstrates the projected level of effort for the current year for staff’s labor. As a result, the individual program labor cost may fluctuate from year-to-year. In addition, it will vary from the Summary of Personnel Head Count by Department as this summary indicates the number of staff assigned to each West Basin department. 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.

## *Capital Improvement Program*

West Basin continues to strive for the highest levels of Water Reliability, Water Quality, Customer Service with Sound Financial and Resource Management while always keeping Environmental Stewardship at the forefront of our efforts. Our Capital Improvement Program leads the way in these efforts to increase productivity, accessibility and provide continued high-quality recycled water to our customers. While West Basin continues its environmentally responsible research and methodical testing of ocean-water desalination possibilities, new recycled water customers are developed and increased efficiencies are created. These efforts are described in greater detail within the supplemental section on the Capital Improvement Program.

Before any capital project is initiated, staff presents the project 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, grants/partnerships and through bond proceeds.

Anticipated capital improvement expenditures for FY 2013-14 are \$18,264,405.

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# **OPERATING PROGRAM EXPENSES**



## 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 strategy items noted under each program support the overall Strategic Business Plan and commitment statements of West Basin.

The Fiscal Year (FY) 2013-14 Operating Program consists of the following programs:

### **Allocated Programs**

### **Page Number**

*Overhead Program Costs*

*Operating Programs*

*Water Recycling Operations*

C. Marvin Brewer Desalter Operations

Water Policy and Resource Development

Public Information

Conservation

Water Quality Monitoring

Each program budget is developed to achieve the goals and objectives of the Strategic Business Plan and Commitment Statements that have been described previously in the “Financial Overview and Summary” Section and are summarized in a table below. Each objective is short-term oriented and anticipated to be completed within FY 2013-14 and each program budget reflects only the Strategic Business Plan Goals and Commitment Statements that are relevant and qualitative.

### **Strategic Business Plan Goals**



For the program budgets that follow, the strategic goals that are met by the program activity have been highlighted in teal.

## Overhead Program Costs

The Overhead Program includes the cost to support the function of the Finance, Human Resources and Board Services departments. These expenses support the function of each department and are proportionally allocated to all of the other West Basin operating and capital programs and identified as “Overhead”. Direct labor hours are used as the primary basis for allocating these expenses to each program and provide management with a better understanding of the overall resources required to support each program.

The Finance department costs represent the indirect expenses to support the general operations of West Basin and includes financial and legal services, insurance, and building expenses. Human Resources include program costs to support the training and evaluation of salaries and benefits, as well as the cost to recruit, screen and hire new employees. In addition, the department administers the Employee Development program. Board Services accounts for expenses directly related to the Board of Directors and the Office of the General Manager.

In addition, West Basin maintains memberships to a variety of organizations and the cost are reflected in this budget. The supplemental section further describes these important partnerships, the involvement West Basin’s board and/or staff may have in the organization, and the fee paid to be a member.

No labor is allocated to the Overhead Program as the personnel costs are classified as indirect labor and therefore allocated to the various program budgets as a percentage of dollars based on the program direct labor to the total direct labor.

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14
	Actual	Actual	Projected	Budget	Budget
<b>General Services</b>	\$ 1,527,199	\$ 1,511,003	\$ 1,466,803	\$ 1,566,921	\$ 1,561,062
<b>Building Services</b>	368,384	336,776	357,415	364,000	359,400
<b>Legal Services</b>	298,642	286,086	275,000	277,000	277,000
<b>Directors Administration Costs</b>	622,697	615,164	619,778	683,400	606,050
<b>Employee Support</b>	24,605	22,780	13,447	10,550	14,600
<b>Total Overhead Allocated</b>	<b>\$ 2,841,527</b>	<b>\$ 2,771,809</b>	<b>\$ 2,732,443</b>	<b>\$ 2,901,871</b>	<b>\$ 2,818,112</b>

## Overhead Program Costs (Continued)

The decrease in Overhead expense is largely attributed to the decrease in Director Administration costs. In FY 2013-14 Statement #65 from the Government Accounting Standards Board (GASB) becomes effective and addresses the change in accounting for deferred items. The impact to West Basin is that certain program costs, election expenses, can no longer be amortized and must be recognized in the year occurred. In addition, West Basin has implemented certain cost saving measures to reduce general operating and building service costs.

### *Strategic Business Plan Goals*



### *FY 2012-13 Accomplishments*

#### **Customer Service**

- Objective 3: Overall policy direction and strategic priorities are provided by the Board of Directors through monthly committee and board meetings.

#### **Sound Financial & Resource Management**

- Objective 4: Moody's and Standard & Poor's reaffirmed West Basin's ratings of Aa2 and AA-, respectively, in conjunction with each of its refunding transactions.
- Objective 4: Board reviewed and re-approved the Swap, Debt Management and Investment Policy.
- Objective 5: Presented updates to the Long-Range Financial Model to the Board of Directors in March 2013 to determine the affordability of various capital projects to implement Water Reliability 2020.
- Objective 6: Approved the annual budget and rates in April 2013.
- Objective 6: Completed bi-annual actuarial report for the PARS plan.
- Objective 6: Received an Excellence in Financial Reporting Award notification for West Basin's Comprehensive Annual Financial Annual Report (CAFR) for the FY 2011-12 from the Government Finance Officers Association (GFOA).
- Objective 6: Received Excellence in Budget Recognition from GFOA and the California Society Municipal Finance Officers (CSMFO).
- Objective 6: Plan for refunding of approximately \$20 million in Certificates of Participation resulting with anticipated present value savings of over \$1 Million.

## **Sound Financial & Resource Management (Continued)**

- Objective 6: Utilized the E-procurement system (The Network) to facilitate the bidding process on over 40 solicitations and increased the vendor audience with over 60 referrals during the fiscal year.
- Objective 6: Effectively utilize the Commercial Paper Program to provide interim financing for capital projects and pay interest of less than 1%.
- Objective 7: Completed recruitment process for the following positions: 1) Buyer; 2) Public Information Specialist I (Limited Term); 3) Public Information Education Assistant; 4) Engineering Intern; and 5) Water Resources & Conservation Intern.
- Objective 8: Commenced a comprehensive Classification and Compensation Study.
- Objective 8: Distributed and received 100% completed Annual Employee Performance Evaluations from Senior Staff.
- Objective 9: Provided a complete and thorough analysis to the Board of Directors of the AB 340 "California Public Employees' Pension Reform Act (PEPRA)" which established new regulations under which the retirement benefits have been amended for new hires/members hired after January 1, 2013, to ensure District compliance of the new statutory regulations.
- Objective 9: Submitted the 2012 Workforce Diversity Report to the Board that reflects the demographic breakdown by race and occupational category of the District's full-time employees.
- Objective 9: Issued Request for Proposal for voluntary supplemental insurance services and granted award to the appropriate provider.
- Objective 9: Successfully implemented the District's Injury/Illness Prevention Program and Emergency Evacuation Plan in compliance with state and federal workplace safety requirements.
- Objective 9: Updated the salary schedule for display on the website, in accordance with the California Public Employees' Retirement System (CalPERS) statutory and regulatory requirements for publicly available pay schedules.
- Objective 9: Developed a Paid Time Off Donations Policy.
- Objective 9: Conducted District-wide Employee Satisfaction Survey.
- Objective 10: Provided the General Manager with a performance evaluation.

## ***FY 2013-14 Strategies (Continued)***

### **Customer Service**

- Objective 3: Conduct semi-annual review of Strategic Business Plan to assess completion status of projects and activities to meet West Basin's mission.

### **Sound Financial & Resource Management**

- Objective 4: Meet with rating agencies to discuss upcoming debt issuances to support efforts towards accomplishing the goals of Water Reliability 2020.
- Objective 4: Adhere to arbitrage compliance regulations and complete the 5-year report for the 2003A Refunding Certificates of Participation, 2008A Adjustable Rate Certificates of Participation, and the 2008B Certificates of Participation.
- Objective 5: Update Long-Range Financial Model to project revenue needs capital funding and appropriate rates and charges.
- Objective 5: Conduct a review of the rate structure.
- Objective 6: Complete the bi-annual actuarial report for OPEB.
- Objective 6: Conduct request for proposal for several finance consulting contracts including standby charge administration and investment manager.
- Objective 6: Complete the review and amendment of the Administrative Code, Human Resources section, for Board approval/resolution.
- Objective 7: Complete recruitment process for hiring of a full-time Public Information Specialist I, Records Management Technician and the Operations Analyst.
- Objective 8: Implement General Manager approved recommendations resulting from the comprehensive Classification and Compensation Study.
- Objective 9: Provide results to staff of the District-wide Employee Satisfaction Survey. Make necessary policy/administrative changes in accordance with survey outcomes.
- Objective 9: Conduct mandatory Sexual Harassment Training for all District employees and directors.
- Objective 9: Conduct quarterly safety meetings.
- Objective 9: Conduct Safety CPR Training, Emergency Evacuation and Earthquake Preparedness Drills in compliance with the District Injury/Illness Prevention Program and Emergency Evacuation Plan.

## Water Recycling Operations [Overview]



West Basin's Edward C. Little Water Recycling Facility (ECLWRF) is a state-of-the-art facility that is the largest of its type in the world. Working with customers such as Honda, ExxonMobil, bp, Chevron, Goodyear, California State University Dominguez Hills, Home Depot Center, Raytheon, Los Angeles Air Force Base, Marriott, various cities and the 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 more than 320 customer sites.

Uses of recycled water include irrigation, two purities of boiler feeds, cooling towers, 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.

All five types of designer waters meet the treatment and water quality requirements specified in the California Department of Public Health's Water Recycling Criteria and are permitted by the Los Angeles Regional Water Quality Control Board.



### West Basin's "Designer" Customer Tailored Waters:

1. Tertiary Water: Secondary treated wastewater that has been filtered and disinfected for industrial and irrigation uses.
2. Nitrified Water: Tertiary water that has been nitrified to remove ammonia for industrial cooling towers.
3. Indirect Drinking Water: Secondary treated wastewater pretreated by microfiltration, followed by reverse osmosis (RO) and disinfection (UV/peroxide treatment) for groundwater recharge, which is superior to state and federal drinking water quality standards.
4. Pure Reverse Osmosis Water: Secondary treated wastewater that has undergone microfiltration and RO for low-pressure boiler feed water.
5. Ultra-Pure Reverse Osmosis Water: Secondary treated wastewater that has undergone microfiltration and two passes through RO for high pressure boiler feed water.



## Water Recycling Operations [Program Costs]

The recycled water operations 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, 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 and continues to expand its facilities to increase this local resource. 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 the Edward C. Little Water Recycling Facility (ECLWRF) in El Segundo;
- The ECLWRF that treats water for use in Chevron refinery’s high-pressure and low-pressure boilers, the West Coast Basin 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 from the ECLWRF 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 from the ECLWRF to provide nitrified water to bp refinery’s cooling towers and provide boiler feed water to bp;
- Two re-disinfection stations to boost the level of disinfectant within the recycled water distribution system; and
- Approximately 120 miles of pipelines to deliver recycled water to our customers.

West Basin contracts with United Water Services (UWS) to operate and maintain the treatment facilities along 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.

### ***Personnel Full-Time Equivalent***

FY 2010-11 Actual FTE	FY 2011-12 Actual FTE	FY 2012-13 Projected FTE	FY 2012-13 Budget FTE	FY 2013-14 Budget FTE
9.13	10.66	9.88	10.70	12.46



## Water Recycling Operations [Program Costs Continued]

### Operating Budget

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14
	Actual	Actual	Projected	Budget	Budget
<b>Labor and Benefits</b>	\$ 1,732,135	\$ 1,866,439	\$ 1,872,400	\$ 1,860,359	\$ 2,160,690
<b>Overhead</b>	780,209	720,849	732,200	739,083	798,291
<b>Operations</b>					
• Chemicals	7,128,243	5,754,935	6,442,600	7,771,212	8,013,820
• Consultants	784,567	782,082	901,900	850,000	1,090,000
• Contract Labor	553,464	499,653	508,500	550,000	527,300
• Facility Maintenance	2,406,283	2,559,490	2,829,100	2,776,600	3,086,100
• Laboratory Service	423,749	424,353	540,400	547,500	489,200
• Office Administration	567,523	673,558	591,900	603,100	632,785
• Secondary Effluent	234,299	239,793	312,500	368,382	394,015
• Solids Disposal	814,134	550,777	733,400	908,000	894,600
• Utilities	5,092,573	4,981,482	7,926,300	8,009,800	9,058,200
• UWS Labor	5,578,620	5,362,299	6,486,900	7,106,800	7,481,600
• Mobil Reimbursement	(815,863)	(839,674)	(851,700)	(871,000)	(865,500)
<b>Total Recycling Operations</b>	<b>\$ 25,279,936</b>	<b>\$ 23,576,036</b>	<b>\$ 29,026,400</b>	<b>\$ 31,219,836</b>	<b>\$ 33,761,101</b>

The major variances between FY 2012-13 and FY 2013-14 budgets are due to the following items:

- Chemicals – reflects an increase in budgeted production, thus an increase in chemical usage to treat the water;
- Consultants – reflects costs to provide emergency potable back-up and a Power Reliability Study;
- Facility Maintenance – reflects re-classifying maintenance costs from capital to expense and an assumed cost escalation;
- Utilities – reflects an increase in budgeted production and an assumed power rate increase; and
- UWS Labor – reflects a contracted labor rate increase and one additional employee.

## **Strategic Business Plan Goals**



## **FY 2012-13 Accomplishments**

### **Customer Service**

- Objective 2: Work with Los Angeles Air Force Base to develop back-up potable supply for toilet and urinal flushing using recycled water to assure reliability.
- Objective 2: Held first Customer Appreciation event for its irrigation and industrial sites.

### **Sound Financial & Resource Management**

- Objective 1: Implemented the first of a three-year Asset Management Implementation Plan including completion of the pilot facility, developed an asset failure and renewal process, developed a system-wide asset management approach, implemented short-term CMMS enhancements, and implemented short-term maintenance enhancements.
- Objective 2: Placed 4,000 cubic feet of anthracite coal in one Title 22 filter.
- Objective 2: Removed and replaced lamella tubes for two high-rate clarifiers.
- Objective 2: Install four sludge grinders prior to the sludge pumps to protect the sludge pumps.
- Objective 2: Install carbon dioxide injection system at the Exxon Mobil and Carson nitrification facilities to reduce maintenance costs and increase recycled water sales.
- Objective 6: Completed antiscalant testing to determine most cost-effective anti-scalant.
- Objective 6: Received approximately \$84,000 from the Demand Response Program that West Basin enrolled in, where power use was reduced at the ECLWRF when requested by Southern California Edison during times of high power demand.

### **Water Quality**

- Objective 1: Participated in the completion of Hyperion Wastewater Treatment Plant's Water Quality Implementation Study.
- Objective 1: Complete Phase II ferric chloride addition test at Hyperion to improve water quality.

### **Water Reliability**

- Objective 3: Continue to support LADWP in marketing to the refineries in the Los Angeles Harbor area in furtherance of this goal.
- Objective 3: Added 14 new recycled water customers including NRG of 525AF.
- Objective 3: Startup operations from the completion of Phase V & NRG construction projects to increase recycled water deliveries.

## ***FY 2013-14 Strategies (Continued)***

### **Customer Service**

- Objective 2: Work with Toyota Motor Sales USA, and the City of El Segundo Fire Station to develop back-up potable supply for toilet and urinal flushing using recycled water to assure reliability.

### **Sound Financial & Resource Management**

- Objective 1: Implement the prioritized asset management recommendations to maximize the asset life and optimize maintenance activities.
- Objective 3: Seek out and apply for grant funding to maximize opportunity for expansion of recycled water for new customers.
- Objective 3: Complete installation of Phases II, III, and IV microfiltration membranes.
- Objective 3: Complete installation of reverse osmosis trains 1, 2, and 9.
- Objective 6: Evaluate existing processes to improve operations.
- Objective 6: Negotiate new contract for facility contract operations .

### **Water Quality**

- Objective 1: Continue to support existing customer water quality inquiries.
- Objective 2: Complete implementation of automated system for retrieval and compilation of water quality laboratory data, and submit to various regulatory agencies to improve accuracy and provide more opportunity for proactive analysis of results.

### **Water Reliability**

- Objective 3: Continues to support LADWP in marketing to the refineries in the Harbor in furtherance of this goal.

## Marvin Brewer Desalter Operations

The C. Marvin Brewer Desalter (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. 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 of Southern California (WRD).

### Personnel Full-Time Equivalents

FY 2010-11 Actual FTE	FY 2011-12 Actual FTE	FY 2012-13 Projected FTE	FY 2012-13 Budget FTE	FY 2013-14 Budget FTE
0.02	0.05	0.04	0.34	0.34

### Operating Budget

	FY2010-11	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14
	Actual	Actuals	Projected	Budget	Budget
Labor and Benefits	\$ 2,717	\$ 7,397	\$ 6,168	\$ 63,564	\$ 69,775
Overhead	1,331	3,175	2,863	23,831	23,334
Operations	473,258	531,459	562,780	506,700	569,920
Replenishment Assessment	190,914	358,621	308,100	361,800	429,120
<b>Total Desalter Operations</b>	<b>\$ 668,220</b>	<b>\$ 900,652</b>	<b>\$ 879,911</b>	<b>\$ 955,895</b>	<b>\$ 1,092,149</b>

The variance between the FY 2012-13 and FY 2013-14 budgets are due to anticipated increases in CWSC labor, power rates and in the Replenishment Assessment Rate.

## **Strategic Business Plan Goals**



## **FY 2012-13 Accomplishments**

### **Sound Financial & Resource Management**

- Objective 2: Facility upgrades continue throughout the fiscal year to address water quality and aging equipment issues.

## **FY 2013-14 Strategies**

### **Sound Financial & Resource Management**

- Objective 6: Assumes a full operating year.
- Objective 6: Explore options for operating desalter facilities from renegotiating rate to suspension of services to selling the assets.

## **Water Policy and Resource Development**

The Water Policy and Resource Development budget supports the various activities including, but not limited to: pursuing grant funding to support projects and programs; providing technical and other support to West Basin's customer agencies; tracking and reporting on West Basin's water supply portfolio; and implementing West Basin's local, state and federal advocacy efforts; and participation in industry organizations, including CalDesal, WaterReuse, ACWA, as well as every aspect related to Metropolitan Water District (MWD) activities to ensure local and industry related water policies, programs and projects are favorable to West Basin, its service area and the Southern California region. This budget also includes funds to support West Basin's efforts in integrated regional water management planning on behalf of our service territory and as a member of the Greater Los Angeles County planning area.

## Water Policy and Resource Development (Continued)

### Personnel Full-Time Equivalents

FY 2010-11 Actual FTE	FY 2011-12 Actual FTE	FY 2012-13 Projected FTE	FY 2012-13 Budget FTE	FY 2013-14 Budget FTE
3.06	3.46	3.05	3.75	3.84

### Operating Budget

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Projected	FY 2012-13 Budget	FY 2013-14 Budget
<b>Labor and Benefits</b>	\$ 1,085,451	\$ 1,153,850	\$ 632,000	\$ 722,259	\$ 801,475
<b>Overhead</b>	506,167	437,859	234,000	266,609	261,045
<b>Planning</b>	83,421	329,520	74,182	86,300	157,782
<b>Government Affairs</b>	326,459	298,616	314,000	326,470	317,650
<b>Total Resource Planning</b>	<b>\$ 2,001,498</b>	<b>\$ 2,219,845</b>	<b>\$ 1,254,182</b>	<b>\$ 1,401,638</b>	<b>\$ 1,537,952</b>

Increase is due primarily to a planned sponsorship of \$50,000 to a “direct potable reuse” research initiative sponsored by the WaterReuse Research Foundation.

### Strategic Business Plan Goals



### FY 2012-13 Accomplishments

#### Customer Service

- Objective 1: Conducted a workshop with West Basin’s customer agencies to review West Basin’s proposed FY 2013-14 budget, water rates and charges.
- Objective 5: Educated local, state and federal elected officials on matters related to local water supply needs, and West Basin’s Water Reliability 2020 program to develop new, reliable local water supplies.
- Objective 5: Provided regular and timely updates to West Basin’s customers and municipalities on West Basin activities, MWD activities and regional and statewide policy matters that potentially impact the West Basin service area.

## Water Policy and Resource Development (Continued)

### *FY 2012-13 Accomplishments*

#### **Customer Service**

- Objective 1: Conducted a workshop with West Basin's customer agencies to review West Basin's proposed FY 2013-14 budget, water rates and charges.
- Objective 5: Educated local, state and federal elected officials on matters related to local water supply needs, and West Basin's Water Reliability 2020 program to develop new, reliable local water supplies.
- Objective 5: Provided regular and timely updates to West Basin's customers and municipalities on West Basin activities, MWD activities and regional and statewide policy matters that potentially impact the West Basin service area.

#### **Sound Financial & Resource Management**

- Objective 6: Applied for several grant funding opportunities in support of conservation and reliability programs.
- Objective 6: Played a key role in assisting the Greater Los Angeles County Region in receiving funding for a \$25 million implementation grant and a \$1 million planning grant under the Integrated Regional Water Management Program.
- Objective 6: Provided extensive advocacy on behalf of West Basin and the region in support of an increased authorization to fund the Harbor/South Bay Water Recycling project, a regional partnership to build recycled water pipelines throughout the South Bay region.
- Objective 6: Submitted calendar year 2011 report on greenhouse gas emissions from all West Basin operations to the Climate Registry.

### *FY 2013-14 Strategies*

#### **Customer Service**

- Objective 5: Continue to provide a forum for exchange of information and perspectives on West Basin policies and programs as well as statewide water policy issues including a possible 2014 Water Bond and the Bay-Delta Conservation Plan.
- Objective 5: Continue our program to honor Legislators of the Year with Water Reliability 2020 awards.



## ***FY 2013-14 Strategies (Continued)***

### **Sound Financial & Resource Management**

- Objective 6: Continue pursuing grant opportunities for West Basin and its customer agencies and monitor applications pending from U. S. Bureau of Reclamation.
- Objective 6: Continue West Basin's advocacy efforts related to West Basin's request for an increased Federal authorization for the Harbor South Bay project, through the Water Resources Development Act of 2012.
- Objective 6: Continue to defend West Basin service area and MWD as a whole against litigation, legislation and other efforts intended to work against cooperative regional water management policy.
- Objective 6: Continue leadership role in the Greater Los Angeles County Integrated Regional Water Management Program, including administration on behalf of the Region, and of new consultant contract to develop updated Plan.
- Objective 6: Submit CY 2012 greenhouse gas emissions from all West Basin operations to the Climate Registry.

### **Water Reliability**

- Objective 1: Participate on behalf of West Basin customer agencies in developing policy recommendations to MWD regarding a potential new local storage incentive program.
- Objective 1: Prepare proposals to MWD seeking grants from the Foundational Actions Funding Program for research into removing barriers to future implementation of new local sources of supply such as direct potable reuse and desalination.
- Objective 2: Continue to play a leading role in the development of policy and legislative matters; as well as the advocacy activities for CalDesal and WaterReuse.

## Public Information

The core mission is to convey West Basin's Water Reliability 2020 (WR2020) program with its value, benefits and savings provided to its stakeholders. Additionally, this program strives to enhance West Basin's reputation as an award-winning, innovative and industry leading water agency. This year, staff continues to convey the value of all of West Basin's programs and activities that support 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. Outreach tools include:

- Website: [www.westbasin.org](http://www.westbasin.org)
- Social Media: Facebook and YouTube
- Media Outreach and Advocacy
- Water Conservation Promotion and Outreach Events
- Tours
- Construction Outreach



### Water Reliability 2020

The Department continues its program to inform community leaders and the public of the need to develop more locally-controlled and diversified water supplies through the WR2020 program. The WR 2020 program will decrease West Basin's dependence on imported water by the year 2020 through the doubling of West Basin's recycling and conservation programs and adding up to 20 million gallons a day of desalted ocean water.

### Public Outreach

Through support and guidance from the Board of Directors, the staff develops and implements a wide array of leader-focused programs to insure that West Basin is positioned as a valuable utility among key stakeholders. Audiences include State, County and Federal elected officials, cities, partner and customer agencies, community, environmental, educational and business leaders. A number of outreach programs have been developed that reflect the value provided by West Basin, including special events, tours, and presentations. Annual water-themed events, construction outreach meetings, media tours and special delegation tours of West Basin's Edward C. Little Water Recycling Facility and the new Ocean-Water Desalination Demonstration facility and Water Education Center continue to enhance West Basin's reputation as a world-class agency dedicated to sustainable water resource management.

## Public Information (Continued)

### Education

West Basin’s 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 serve middle and high school levels. West Basin’s long-term education efforts will be focused on tours of our operational water facilities.

### Personnel Full-Time Equivalents

FY 2010-11 Actual FTE	FY 2011-12 Actual FTE	FY 2012-13 Projected FTE	FY 2012-13 Budget FTE	FY 2013-14 Budget FTE
6.17	7.42	8.99	9.34	9.07

### Operating Budget

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Projected	FY 2012-13 Budget	FY 2013-14 Budget
Labor and Benefits	\$ 464,569	\$ 830,160	\$ 1,441,600	\$ 1,339,799	\$ 1,328,028
Overhead	357,143	466,877	720,100	679,830	632,292
Education	234,486	153,073	283,930	271,620	287,120
Media	59,799	58,532	116,000	121,000	90,000
Events	153,231	139,125	102,223	118,000	118,000
Market Research	-	974	5,000	5,000	-
WR2020 and General Outreach	153,170	95,399	243,601	244,000	230,500
<b>Total Public Information</b>	<b>\$ 1,422,398</b>	<b>\$ 1,744,140</b>	<b>\$ 2,912,454</b>	<b>\$ 2,779,249</b>	<b>\$ 2,685,940</b>

The Public Information department strives to streamline processes and become more efficient. WR2020 outreach continues to grow exponentially, which has helped contribute to a slight budget decrease this year.

### Strategic Business Plan Goals



## Public Information (Continued)

### *FY 2012-13 Accomplishments*

#### **Customer Service**

- Objective 4: Added take home conservation kits to education tour program.
- Objective 4: Began the process to update the exhibits and educational facilities at the Edward C. Little Recycling Plant.
- Objective 4: Successfully sponsored high schools in Solar Cup 2013.
- Objective 5: Continued active tour program for the Temporary Ocean-Water Desalination Demonstration facility for elected officials, sponsors, media and industry V.I.Ps.
- Objective 5: Continued to use the Water Education Center in conjunction with the Temporary Ocean-Water Desalination Demonstration facility to outreach and educate area residents about the need for new, local and reliable water supplies in the future.
- Objective 5: Launched social media program including Facebook page.
- Objective 5: Continued WR2020 program outreach and obtained over 10,000 community supporters for the program, including several new business and community groups, as well as individuals willing to testify before regulatory agencies on behalf of WR 2020.
- Objective 4: Attracted almost 2,000 attendees to last year's Annual Water Harvest educational festival.
- Objective 5: Continued to improve [www.westbasin.org](http://www.westbasin.org) with interactive features involving water recycling, conservation and a new children's conservation game.
- Objective 5: Overhauled the District community promotional item program to only include water conservation devices in the future.
- Objective 5: Planned and executed several special events including Water Bottle Filling Station in Redondo Beach, 100% Recycled Water to the Seawater Barrier project, second annual State of the District events and Swearing in Ceremonies for Director Dear and Director Kwan.
- Objective 5: West Basin hosted several community events and groups at its new Temporary Ocean-Water Desalination Demonstration facility and Water Education Center, and initiated a public tour program.

## Public Information (Continued)

### *FY 2013-14 Strategies*

#### **Customer Service**

- Objective 4: Develop a plan to improve our education programs, including pre- and post-testing by adding additional information on the West Basin website and conducting an audit by an outside education expert.
- Objective 2: Plan to publish a new value brochure to provide our customers with information about how West Basin efficiently plans, invests and builds cutting edge water facilities.
- Objective 4: Grow entry into “new media” outlets, such as YouTube.
- Objective 4: Continue to implement the WR2020 outreach program and launch a new desalination section on the West Basin website.
- Objective 4: Develop a one-day local water tour for community leaders.
- Objective 5: Continue targeted outreach plan to build desalination support in beach cities and throughout the service area.
- Objective 5: Continue to develop new communication vehicles to showcase West Basin’s “new” brand and value.
- Objective 4: Host annual Water Harvest festival to reach out to the community and continue educational and value focus.
- Objective 5: Coordinate frequent meetings with media focused on current issues facing the water industry and West Basin.
- Objective 5: Launch Recycled Water Customer appreciation award program and tour event.
- Objective 4: Create and launch new water recycling educational game.
- Objective 4: Continue to update the exhibits and educational facilities at the Edward C. Little Recycling Plant.
- Objective 4: Execute six Water 101 courses for public and universities.

## Conservation

West Basin has recently completed its Water Use Efficiency (WUE) and Conservation Master Plan. One of the few Master Plans in the nation that is coordinated with wholesale and retail agency conservation programs. During the past few years, 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 and WUE programs are designed to meet and exceed the State's 20% savings per person by 2020. West Basin has conserved 10,000 acre-feet and plans to double that achievement by 2020.

### *Personnel Full-Time Equivalents*

FY 2010-11 Actual FTE	FY 2011-12 Actual FTE	FY 2012-13 Projected FTE	FY 2012-13 Budget FTE	FY 2013-14 Budget FTE
3.34	3.72	3.42	4.23	4.66

### *Operating Budget*

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14
<b>Labor and Benefits</b>	\$ 417,645	\$ 475,774	\$ 479,800	\$ 599,313	\$ 710,045
<b>Overhead</b>	263,330	251,643	269,500	300,671	316,590
<b>Conservation</b>	1,424,669	1,393,278	1,870,857	2,523,197	1,706,265
<b>Total Conservation</b>	<b>\$ 2,105,644</b>	<b>\$ 2,120,695</b>	<b>\$ 2,620,157</b>	<b>\$ 3,423,181</b>	<b>\$ 2,732,900</b>

Program costs may vary each fiscal year as this program is highly dependent on outside funding to support the WUE initiative. The lower budgeted costs in FY 2013-14 is the result of successfully completing programs that are grant funded. Per the Master Plan, West Basin will continue to seek grant funding opportunities and partnerships for its programs.

## Conservation (Continued)

### *Strategic Business Plan Goals*



### *FY 2012-13 Accomplishments*

#### **Water Reliability**

- Objective 2: Completed five high -efficiency toilet exchange events.
- Objective 2: Constructed three Ocean Friendly Demonstration Gardens at Redondo Union High School, Bluffs Park (City of Malibu) and the Manhattan Beach Pier Strand.

#### **Customer Service**

- Objective 4: Partnered with Home Depot to promote water efficiency at water conservation plant sales.

### *FY 2013-14 Strategies*

#### **Water Reliability**

- Objective 2: Publicize West Basin’s and retailer’s Water Use Efficiency and Conservation Master Plans through a collaborative approach.
- Objective 2: Continue to implement the Water Use Efficiency and Conservation **programs**.
- Objective 2: Build seven more Ocean Friendly Demonstration Gardens throughout West Basin’s service area.

#### **Customer Service**

- Objective 4: Partner with Home Depot to promote water efficiency at five water conservation plant sales.



## Water Quality Monitoring Program

West Basin administers the Water Quality Monitoring Program for several of its potable water purveyors. 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.

### Personnel Full-Time Equivalents

FY 2010-11 Actual FTE	FY 2011-12 Actual FTE	FY 2012-13 Projected FTE	FY 2012-13 Budget FTE	FY 2013-14 Budget FTE
0.04	0.09	0.03	0.08	0.03

### Operating Budget

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Projected	FY 2012-13 Budget	FY 2013-14 Budget
Labor and Benefits	\$ 6,801	\$ 13,780	\$ 4,700	\$ 12,634	\$ 5,386
Overhead	3,525	6,032	2,200	5,699	2,219
Monitoring Program	753	14,614	3,600	3,700	16,000
<b>Title 22 Monitoring</b>	<b>\$ 11,079</b>	<b>\$ 34,426</b>	<b>\$ 10,500</b>	<b>\$ 22,033</b>	<b>\$ 23,605</b>

Monitoring program costs will vary each year depending on the lab analysis that is required. This program cost is fully reimbursed by participating agencies.

### Strategic Business Plan Goals



## ***FY 2012-13 Accomplishments***

### **Water Quality**

- Objective 1: Completed annual customer water quality reports for three participating water purveyors.
- 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.
- Objective 3: Assisted in producing the Triennial Public Health Goals Report for water purveyors.

## ***FY 2013-14 Strategies***

### **Water Quality**

- Objective 2: Continue to assist water purveyors in meeting their water quality reporting requirements.

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# **SUPPLEMENTAL INFORMATION**

## CAPITAL IMPROVEMENT PROGRAM

To effectively respond to potential drought conditions, imported water uncertainty, and regulatory restrictions, West Basin views building dependence on locally controlled water as the solution to ensure businesses and residents of the West Basin service area have a reliable supply of water today and in the future. To meet this objective, West Basin has instituted the Water Reliability 2020 (WR2020) program which will double conservation efforts, double recycled water deliveries, and add ocean-water desalination to its water portfolio by the year 2020.

West Basin continues to take thoughtful steps to ensure water reliability. West Basin maintains a comprehensive recycled water Capital Implementation Master Plan (CIMP) and uses this plan as a guideline to best meet long-term planning objectives. Based on continuing discussions and reference to the CIMP, West Basin intends to address future customer needs, system capacity, and the infrastructure required to double current recycled water deliveries to nearly 70,000AF.

For ocean-water desalination, West Basin has utilized its extensive treatment experience, performed multiple technical studies, and has learned from other desalination facilities around the world to develop an approach that will effectively and efficiently manage this resource. West Basin began with piloting research in 2002, is currently operating an Ocean-water Desalination Demonstration Facility (Desal Facility), and has completed an Ocean-Water Desalination Program Master Plan (Desal Plan) that fully outlines the roadmap for implementing a full-scale ocean water desalination facility as an alternative water supply to our customers. In addition, West Basin initiated a Water Quality Integration Study and piloting effort to assess integration of desalinated ocean water into local and regional potable water distribution systems. The experience gained from piloting and demonstration testing, along with the Desal Plan findings is being used to support an Environmental Impact Report recently awarded by West Basin to assess the impacts of implementing a full-scale ocean water desalination production facility.

### **Project Financing**

To achieve this level of reliability, West Basin recognizes that funding for these projects is significant and will need to come from several sources. Depending on the nature of the capital project, 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 its Commercial Paper program.

## CAPITAL IMPROVEMENT PROGRAM (Continued)

Another consideration is debt financing or obtaining a state loan, which may be used when the term of the financing generally matches or is less than the estimated useful life of the capital project. A new approach to West Basin this coming fiscal year is to pay for construction upfront and immediately invoice the customer each month. West Basin continues to work with its customers inside and outside its service area to find mutually beneficial ways to finance and expand the recycled water system.

It is generally understood and anticipated that many expansion projects are the result of customer agreements. Often these expansion projects will be debt financed as recycled water expansions to serve refineries, the West Coast Basin Barrier, and other customer agencies require significantly more capital outlay. Repayment for these financings may come through commodity rates or through fixed revenue charge.

The recycled water acre-feet and sales associated with the customer-funded reliability projects have been included in the Projected Operating Results in the Fiscal Year (FY) 2013-14 Budget 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.

The following table depicts the sources of funds that will be used to pay for the anticipated Capital Investment Program (CIP) projects during FY 2013-14. West Basin anticipates spending \$10,335,000 from its designated funds to pay for the various replacement and refurbishment projects, water quality improvements, laterals and for the Desal Facility. It is also anticipated that the Nitrified Water Alkalinity Process upgrades, the expansion of the Hyperion Pump Station, and a portion of the Desal Plan in FY 2013-14 will be paid for through the Commercial Paper program. West Basin will also be submitting an application to the State Water Resources Control Board to request a low-interest loan to assist in funding an expansion of the bp Refinery. The total amount of CIP expected to be expended in FY 2013-14 is \$18,264,405. The CIP projects outlined to begin in FY 2013-14 will be submitted individually to the Board of Directors for authorization and funding during the fiscal year.

### Financing Sources for Fiscal Year 2013-14

	Commercial Paper	PAYGO	State Loan	Customer
Reliability Projects	\$ 3,900,705	\$ 3,275,000	\$ 350,000	\$ - 0 -
Replacement & Refurbishments	- 0 -	5,810,000	- 0 -	- 0 -
Other/Project Admin.	1,778,700	1,250,000	- 0 -	\$ 1,900,000 (1)
<b>Total</b>	<b>\$ 5,679,405</b>	<b>\$ 10,335,000</b>	<b>\$ 350,000</b>	<b>\$ 1,900,000</b>

## CAPITAL IMPROVEMENT PROGRAM (Continued)

### Personnel Full-time Equivalents

FY 2010-11 Actual FTE	FY 2011-12 Actual FTE	FY 2012-13 Projected FTE	FY 2012-13 Budget FTE	FY 2013-14 Budget FTE
10.89	11.95	9.94	11.56	10.60

The following table summarizes the planned expenditures for FY 2013-14 and the next five years.

	FISCAL YEAR					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Reliability Projects</b>						
BP Refinery- Capacity Expansion Project	350,000	4,975,000	14,527,000			
Harbor Area Expansion Project - CRWRF Phase II	550,000	553,675	19,932,300	33,220,500		
Harbor Area Expansion Project - Conveyance Pipeline	200,000	250,600	9,021,600	15,036,000		
Harbor Area Expansion Project - Tesoro Refinery Plant	150,000	176,000	6,336,000	10,560,000		
Oceanwater Desalination Demonstration Facility	1,615,000					
Oceanwater Desalination Desal Program Development	2,050,000	1,350,000	1,325,000			
Oceanwater Desalination Full-Scale Facility(20 mgd)		3,948,709	7,897,418	67,128,055	157,948,364	157,948,364
Hyperion SE Pump Station Expansion	704,000	4,878,720				
Hyperion SE Pump Station Secondary Electrical Feed	388,080	1,552,320				
Water Quality Facility Improvements	350,000	125,000		300,000		
Harbor/South Bay Project Laterals - DISTRICT	250,000	250,000	250,000	250,000	250,000	250,000
Nitrified Water Alkalinity Process Upgrades	758,625	1,770,125				
Customer Development & Retrofit Projects	380,000	150,000	150,000	150,000	150,000	150,000
BP Refinery/Temporary MF System	680,000					
<b>Replacement, &amp; Refurbishment Projects</b>						
Treatment Facility/Repair, Replacement, & Improvements	5,635,000	9,135,000	7,754,250	8,141,963	8,549,061	8,976,514
Conveyance Facility Repair, Replacement, & Improvement	75,000	75,000	75,000	75,000	75,000	75,000
Conveyance Facility Corrosion Protection Improvements	100,000		100,000		100,000	
<b>District Administration and Other Capital Facilities</b>						
Project Administration - Capital Only	2,778,700	2,917,600	3,083,500	3,216,700	3,377,500	3,546,400
ECLWRF Admin Building and Educ Ctr Rehabilitation	700,000	2,800,000				
Administrative / Building Remodel and Rehabilitation	550,000	225,000	150,000	150,000	150,000	150,000
<b>Projected Active Project Expenditures</b>	<b>18,264,405</b>	<b>35,132,749</b>	<b>70,582,068</b>	<b>138,228,217</b>	<b>170,599,925</b>	<b>171,096,278</b>

### Strategic Business Plan Goals



## CAPITAL IMPROVEMENT PROGRAM (Continued)

### *FY 2012-13 Accomplishments*

#### **Water Reliability**

- Objective 2: Completed Design-Build efforts for the Phase V ECLWRF Expansion Project to serve an additional 5 million gallons per day (MGD) of Barrier Water, 0.5 MGD of boiler-feed water to NRG, and expand Title 22 water capacity, including the addition of ozonation as pretreatment to the micro filtration systems.
- Objective 2: Completed construction efforts for the NRG Pipeline Project to serve NRG's El Segundo Energy Center with 0.5 MGD of single-pass reverse osmosis (RO) water. The NRG Pipeline consisted of 7,500 linear feet of 10-inch diameter pipeline and will convey RO water for use as part of NRG's repowering effort.
- Objective 3: Completed construction of the Toyota Filter Station at the Toyota Campus in Torrance. The Filter Station will improve water quality for customers within the City of Torrance, including Toyota and future sites.
- Objective 4: Continued demonstration testing of the Desal Facility to collect data that will be used to develop a basis of design for a full-scale ocean water desalination facility by evaluating intake methods and technologies, assessing brine discharge impacts, optimizing operation and maintenance procedures using full-scale elements, evaluating energy recovery devices and energy optimization, assessing water quality, along with providing opportunities for public and stakeholder education
- Objective 4: Completed the Desal Plan, which defines and assess all critical components necessary for implementing a full-scale ocean-water desalination program. The scope included plans for both a local and regional water supply to meet West Basin and regional demands.
- Objective 4: Initiated Environmental Impact Report (EIR) preparation for the Desal Plan. The EIR will assess all environmental related impacts associated with implementation of a full-scale ocean water desalination treatment facility and conveyance system. The EIR will utilize the recently Desal Plan to support alternatives analysis and technical assessments, along with various components required for California Environmental Quality Act compliance.

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

- Objective 1: Completed feasibility study efforts and initiated design of the Hyperion Effluent Pumping Station Expansion and Secondary Electrical Feed Project. The pump station project will provide additional capacity to serve future recycled water demands and add a second power source to the existing Hyperion Effluent Pump Station to improve reliability and redundancy to the overall supply system.



## CAPITAL IMPROVEMENT PROGRAM (Continued)

### *FY 2012-13 Accomplishments*

#### **Customer Service**

- Objective 2: Facilitated construction awareness outreach for the NRG Pipeline recycled water project, holding community meetings, canvassing neighborhoods and furthering West Basin's WR 2020 program.

### *FY 2013-14 Strategies*

#### **Water Reliability**

- Objective 4: Complete Draft Environmental Impact Report (EIR) for planned Desal Plan. The EIR will assess all environmental related impacts associated with implementing full-scale ocean-water desalination treatment facilities, intake and discharge systems, and full conveyance and pumping systems. The EIR will allow for certification in compliance with the California Environmental Quality Act.
- Objective 4: Continue with demonstration testing and validation of the Desal Facility. Complete the Water Quality Integration Study being performed at the Desal Facility in order to assess and address all potential water quality and corrosion impacts associated with introduction of desalinated ocean water into existing distribution and conveyance systems within West Basin's service area.

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

- Objective 1: Finalize design efforts for the Los Angeles Harbor Area Expansion project to serve Los Angeles Department of Water and Power (LADWP) refinery customers with over 9,000 AFY of high-quality nitrified Title 22 water. Design efforts include expansion of the existing Juanita Millender-McDonald Carson Regional Water Recycling Facility and approximately 3-miles of new 30-inch diameter conveyance pipeline through the City of Carson.
- Objective 1: Complete design efforts for the Hyperion Effluent Pump Station Expansion and Secondary Electrical Feed Project. The pump station project will provide additional capacity to serve future recycled water demands and add a second power source to the existing Hyperion Effluent Pump Station to improve reliability and redundancy to the overall supply system.

## CAPITAL IMPROVEMENT PROGRAM (Continued)

### *FY 2013-14 Strategies*

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

- Objective 2: 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 West Basin's customers.

#### **Water Quality**

- Objective 1: Complete construction of Disinfection Station Facilities and other system water quality improvement to improve distribution system water quality.

<b>Project</b>	<b>BP Refinery – Capacity Expansion</b>		
<b>Project Location(s)</b>	<b>Carson Facility</b>		
<b>FY Budget</b>	<b>2013-14</b>	<b>\$350,000</b>	<b>Total Project Budget \$19,900,000</b>

**Requestor:** Customer

**Project Description:** Provides additional micro-filtration capacity, expands reverse osmosis production, and adds additional nitrification process capacity to serve increase demands from BP

**Justification of Project:** Increase overall capacity of the existing Carson Facility serving the BP Refinery.

**Planned work for FY 2013-14:** Preliminary and 30% level design efforts for CRWRF expansion.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning		
Design	January 2013	June 2014
Construction	June 2014	December 2015

**Anticipated Annual Operations & Maintenance Expense:** \$3,800,000



<b>Project</b>	<b>Harbor Area Expansion Project</b>		
<b>Project Location(s)</b>	<b>Carson Facility / Los Angeles Harbor Area</b>		
<b>FY Budget</b>	<b>2013-14</b>	<b>\$900,000</b>	<b>Total Project Budget \$98,027,500</b>

**Requestor:** Customer

**Project Description:** Expansion of the existing Carson Facility, approximately 3 miles of new 30-inch diameter conveyance pipeline and construction of a new satellite facility at Harbor Area Refineries.

**Justification of Project:** Project will serve LADWP customers with more than 9,000 acre-feet per year of recycled water.

**Planned work for FY 2013-14:** Planning / Piloting efforts for T-MBR process at the Carson Facility.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning	October 2012	July 2013
Design		
Construction		

**Anticipated Annual Operations & Maintenance Expense:** \$9,240,000



<b>Project</b>	<b>Ocean Water Desalination Demonstration Facility</b>		
<b>Project Location(s)</b>	<b>West Basin MWD Service Area</b>		
<b>FY Budget</b>	<b>2013-14</b>	<b>\$1,615,000</b>	<b>Total Project Budget \$20,200,000</b>

**Requestor:** West Basin – Engineering Department

**Project Description:** Demo facility is processing 550,000 gallons of seawater every day, evaluating performance of alternative energy practices and technology, analyzing water quality and evaluating integration with local potable water systems

**Justification of Project:** Facility used to acquire data and develop a basis of design for an ultimate implementation of a full-scale ocean water desalination plant

**Planned work for FY 2013-14:**

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning	January 2008	July 2008
Design	July 2008	January 2010
Construction	January 2010	June 2014

**Anticipated Annual Operations & Maintenance Expense:** Not Applicable





<b>Project</b>	<b>Ocean Water Desalination Full-Scale Facility</b>		
<b>Project Location(s)</b>	<b>West Basin MWD Service Area</b>		
<b>FY 2013-14 Budget</b>	<b>\$2,050,000</b>	<b>Total Project Budget</b>	<b>\$399,595,910</b>

**Requestor:** West Basin – Engineering Department

**Project Description:** Planning efforts for implementation of the Desal Plan.

**Justification of Project:** Project will provide a new reliable potable water supply to meet local demands and reduce dependence on imported water supplies.

**Planned work for FY 2013-14:** Development of EIR for planned certification by West Basin in accordance with CEQA requirements.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning	January 2013	July 2015
Design	July 2015	January 2017
Construction	January 2017	July 2019

**Anticipated Annual Operations & Maintenance Expense:** \$19,500,000



# DRAFT

<b>Project</b>	<b>Hyperion Secondary Effluent Pump Station Expansion and Electrical Feed</b>			
<b>Project Location(s)</b>	<b>Hyperion Wastewater Treatment Plant</b>			
<b>FY Budget</b>	<b>2013-14</b>	<b>\$1,092,080</b>	<b>Total Project Budget</b>	<b>\$7,523,120</b>

**Requestor:** West Basin – Engineering Department

**Project Description:** Expansion, upgrade, and backup power addition of West Basin’s existing Hyperion Secondary Effluent Pump Station Facility.

**Justification of Project:** In order to meet the increasing demands for recycled water, the capacity of the existing Hyperion Secondary Effluent Pump Station will need to be expanded. In addition, a backup power source feed is needed to provide reliability and redundancy in the event the current power is damaged or lost in a power outage.

**Planned work for FY 2013-14:** Design efforts to develop plan and specifications for construction bidding.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning		
Design	March 2013	February 2014
Construction	February 2014	June 2015

**Anticipated Annual Operations & Maintenance Expense:** \$30,000





## Water Quality Facility Improvements

<b>Project</b>	<b>Water Quality Facility Improvements</b>		
<b>Project Location(s)</b>	<b>Distribution System</b>		
<b>FY Budget</b>	<b>2013-14</b>	<b>\$350,000</b>	<b>Total Project Budget \$775,000</b>

**Requestor:** West Basin – Engineering

**Project Description:** Several water quality improvements, such as treatment facility improvements, disinfection booster station facilities, and backup potable water supplies will be required throughout West Basin’s distribution system to meet customer and regulatory specifications.

**Justification of Project:** Water quality improvements will be implemented to address customer requirements and maintain a reliable water supply source.

**Planned work for FY 2013-14:** Various projects including design and initial construction efforts for Inglewood Disinfection Station.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning		
Design	September 2013	February 2014
Construction	February 2014	September 2015

**Anticipated Annual Operations & Maintenance Expense:** \$50,000



# DRAFT

<b>Project</b>	<b>Harbor-South Bay Project Laterals</b>		
<b>Project Location(s)</b>	<b>Distribution System</b>		
<b>FY 2013-14 Budget</b>	<b>\$250,000</b>	<b>Total Project Budget</b>	<b>\$1,500,000</b>

**Requestor:** West Basin MWD

**Project Description:** Continued expansion of West Basin Recycled Water distribution system and construct of new pipeline laterals and conveyance facilities.

**Justification of Project:** Meet Water Reliability 2020 goals.

**Planned work for FY 2013-14:** Various small diameter service laterals and conveyance facility improvements to meet customer recycled water needs.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning/Design/Construction	Ongoing	Ongoing

**Anticipated Annual Operations & Maintenance Expense:** \$10,000

<b>Project</b>	<b>Nitrified Water Alkalinity Upgrades</b>		
<b>Project Location(s)</b>	<b>Satellite Treatment Facilities</b>		
<b>FY 2013-14 Budget</b>	<b>\$758,625</b>	<b>Total Project Budget</b>	<b>\$2,528,750</b>

**Requestor:** West Basin MWD

**Project Description:** Construct new Nitrified Water Alkalinity Upgrades to improve overall treatment processes at West Basin satellite facilities.

**Justification of Project:** Construction of the Nitrified Water Alkalinity Process Upgrades will improve water quality and enhance production capacity.

**Planned work for FY 2013-14:** Preliminary and initial design of facility improvements.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning		
Design	August 2013	July 2014
Construction	July 2014	March 2015

**Anticipated Annual Operations & Maintenance Expense:** \$0 (Savings from upgrades off-set the anticipated annual operating expenses)



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<b>Project</b>	<b>Customer Development &amp; Retrofit Projects</b>		
<b>Project Location(s)</b>	<b>Various Sites</b>		
<b>FY 2013-14 Budget</b>	<b>\$380,000</b>	<b>Total Project Budget</b>	<b>\$1,130,000</b>

**Requestor:** West Basin – Customer Development

**Project Description:** Various retrofit projects.

**Justification of Project:** Expand recycled water use as part of Water Reliability 2020 goals.

**Planned work for FY 2013-14:**

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning/Design/Construction	Ongoing	Ongoing

**Anticipated Annual Operations & Maintenance Expense:** \$10,000

<b>Project</b>	<b>BP Refinery Temporary MF System</b>		
<b>Project Location(s)</b>	<b>Carson Facility</b>		
<b>FY Budget</b>	<b>2013-14</b>	<b>\$680,000</b>	<b>Total Project Budget \$850,000</b>

**Requestor:** West Basin – Operations Department

**Project Description:** Addition of Temporary Micro filtration System to increase MF production.

**Justification of Project:** Reduced capacity of existing MF system requires addition of new temporary MF system until a permanent solution can be implemented.

**Planned work for FY 2013-14:** Design, procurement, and installation of facilities.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>
Planning		
Design	January 2013	June 2013
Construction	June 2013	December 2014

**Anticipated Annual Operations & Maintenance Expense:** \$0 (Savings from upgrades off-set the anticipated annual operating expenses)

## Other Capital Projects and Related Costs

### **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 that will result in lower operating costs or improved equipment life.

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

Pipeline corrosion control surveys are performed routinely to determine the condition and integrity of West Basin's overall recycled water distribution system. Various cathodic protection improvements are typically identified during these surveys to ensure the integrity of West Basin's facilities. Improvements 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 allocated cost of West Basin labor, both direct and indirect, benefits and overhead that is attributed to accomplishing the capital improvement program.

## Other Capital Projects and Related Costs (Continued)

<b>Project</b>	<b>Administration Building &amp; Education Center Rehabilitation</b>		
<b>Project Location(s)</b>	<b>Edward C. Little Water Recycling Facility</b>		
<b>FY 2013-14 Budget</b>	<b>\$700,000</b>	<b>Total Project Budget</b>	<b>\$3,500,000</b>

**Requestor:** West Basin – Public Information Department

**Project Description:** Renovation and upgrade of ECLWRF Educational and Visitor Center.

**Justification of Project:** Existing facility requires substantial modernization upgrades and updating/improvement of educational facilities.

**Planned work for FY 2013-14:** Preliminary and initial design work of facility renovation and upgrades.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>	
Planning	September 2012	September 2013	
Design	September 2013	April 2014	
Construction	April 2014	February 2015	

**Anticipated Annual Operations & Maintenance Expense:** Not Applicable

<b>Project</b>	<b>Administration Building Remodel</b>		
<b>Project Location(s)</b>	<b>Donald L. Dear Building</b>		
<b>FY 2013-14 Budget</b>	<b>\$550,000</b>	<b>Total Project Budget</b>	<b>\$1,375,000</b>

**Requestor:** West Basin MWD

**Project Description:** Miscellaneous building upgrades, rehabilitation, and major repair .

**Justification of Project:** Need for various improvements due to facility age and outdated equipment and infrastructure.

**Planned work for FY 2013-14:** Various improvements for technology and building upgrades throughout the year.

<b>Project Schedule:</b>	<b>Start Date:</b>	<b>Completion Date:</b>	
Planning/Design/Construction	Ongoing	Ongoing	

**Anticipated Annual Operations & Maintenance Expense:** Not Applicable



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## Organizational Memberships

<u>Membership</u>	FY 12-13 Budget	FY 13-14 <b>BUDGET</b>
Alliance for Water Efficiency	3,100	3,100
American Membrane Technology Association	375	375
Association of California Water Agencies	20,500	22,000
CalDesal	5,000	5,000
California Assoc of Sanitation Agencies	800	800
California Urban Water Conservation Council	8,000	8,000
<u>Chambers of Commerce</u>		
- Carson	400	400
- Chinese	500	-
- Culver City	150	150
- El Segundo	500	500
- Gardena	300	300
- Greater Los Angeles African-American	500	500
- Harbor City / Harbor Gateway	175	175
- Hawthorne	300	300
- Hermosa Beach	375	375
- Inglewood / Airport Area	300	300
- Lawndale	500	500
- Lomita	350	400
- Los Angeles	1,500	1,500
- Malibu	365	400
- Manhattan Beach	450	495
- Palos Verdes Peninsula	525	550
- Redondo Beach	250	285
- South Bay Association	500	500
- South Bay Chinese-American	150	150
- South Bay Latino	500	500
- Torrance	425	425
- West Hollywood	350	350
Climate Registry	850	1,200
Colorado River Water Users Association	120	120
National Water Research Institute	50,000	50,000
National Water Resources Association	350	350
Santa Monica Bay Restoration Foundation	5,000	5,000
So CA Alliance of Pub. Owned Treatment Works	4,000	6,000
Southern California Water Committee	850	2,500
Southwest Membrane Operators Association	600	600
Urban Water Institute, Inc.	1,250	1,250
Utility Branding Network	2,500	2,500
Water Education Foundation	2,700	2,700
Water Research Foundation	42,000	42,000
WateReuse Association	7,840	8,600
WateReuse Research Foundation	25,000	25,000
West Basin Water Association	200	500
<b>Totals</b>	<b>\$ 190,400</b>	<b>\$ 196,650</b>

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## Organizational Membership Descriptions

Provided below is a summary description of the organizations that West Basin supports and the membership fees to be paid in FY 2013-14.

### **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: \$3,100

### **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

### **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. A board member is appointed by the West Basin Board as a Region 8 representative.

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

Association Fee: \$22,000

## Organizational Membership Descriptions Continued

### **CALDESAL**

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 first 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 is a charter member and has a seat on the Board of Directors. Staff participates in conferences and attends legislative briefings, 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 the development of desalination projects.

Association Fee: \$5,000

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

Orientation: Policy Development/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 related to water quality.

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: \$8,000

## Organizational Membership Descriptions Continued

### **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 benefits 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: \$1,200

### **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

### **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: West Basin Board appoints a board member and alternate to the NWRI Board. 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

## Organizational Membership Descriptions Continued

### **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

### **SANTA MONICA BAY RESTORATION FOUNDATION (SMBRF)**

Orientation: Outreach/Policy/Technical

Description: The Santa Monica Bay Restoration Foundation (SMBRF) is a non-profit environmental group founded in 1990 to restore and enhance the Santa Monica Bay and local coastal waters. The Foundation is the non-profit partner of the Santa Monica Bay Restoration Commission. The Foundation raises and expends funds for research, education, planning, cleanup efforts, and other priorities identified in the Commission's Santa Monica Bay Restoration Plan. SMBRF works with a broad group of stakeholders, including government agencies, industry, environmental groups, and scientists, to implement innovative policies and projects that clean up our waterways, create green spaces and natural habitats in the Los Angeles region.

West Basin Involvement: West Basin was appointed as one of the voting Public Members/Public Interest seats and appoints one of its Board members as the Board member to serve on the Santa Monica Bay Restoration Commission Governing Board and the Executive Committee.

Value: Bi-monthly Governing Board meetings and bi-monthly Executive Committee meetings are a forum for discussion and an opportunity for collaborative problem solving among the agencies, municipalities and other stakeholders of Santa Monica Bay. Publications highlight the work of partners and advance state of the art coastal environmental stewardship.

Association Fee: \$5,000

### **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 Wastewater Treatment Plant and the Edward C. Little Water Recycling Facility.

Association Fee: \$6,000

## Organizational Membership Descriptions Continued

### **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 through seminars and quarterly briefings.

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: \$2,500

### **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 appoints a Board member to the UWI Board. Staff 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 local and Southern California water issues.

Association Fee: \$1,250



## Organizational Membership Descriptions Continued

### **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: \$2,500

### **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

### **WATER RESEARCH FOUNDATION (WRF)**

Orientation: Technical

Description: The Water Research Foundation (WRF) is still affiliated with the oldest water association in the Americas, the American Water Works Association. WRF 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 Project Advisory Committees (PAC) as well as participating in studies with other utilities, universities, and research consultants to advance our knowledge in water quality and improve efficiencies in water resources.

Value: West Basin and its customers receive continuing research benefits in water quality issues.

Association Fee: \$42,000

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

Orientation: Technical/Policy/Education

Description: WaterReuse 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 WaterReuse committees and conference and sits on the Board of Directors and often has its projects highlighted.

Value: WaterReuse 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: \$8,600

## Organizational Membership Descriptions Continued

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

Orientation: Research

Description: The WaterReuse Research 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 WaterReuse Research 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: \$500

## FINANCIAL POLICIES

Investment Policy

Designated Funds Policy

Procurement Policy

Capitalization Policy

Debt Management Policy

Swap Policy

# DRAFT INVESTMENT POLICY

## 1.0 Purpose 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's general 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 Board of Directors is responsible for the investment of West Basin Municipal District's funds. The Board hereby delegates responsibility for investment transactions for the investment program to the Treasurer or the Deputy Treasurer, for a one-year period. The appointed Treasurer may be a board member or staff member and the Deputy Treasurer shall be a District staff member.

The Treasurer may delegate the day-to-day execution of investments to a registered investment advisor, via written agreement approved by the Board. The Advisor in coordination with the Treasurer or Deputy Treasurer will manage on a daily basis the District's investment portfolio pursuant to the specific and stated investment objectives of the District. The Advisor shall follow the policy and such other written instructions provided by the Treasurer or Deputy Treasurer, and assist in security settlement.

## **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. External managers may also use their own list of internally approved broker-dealers subject to its approval by the District. 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 53600 or Section 16429.1 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 five (5) years. 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 may waive collateral requirements if the institution insures its deposits up to the Federal Deposit Insurance Corporation (FDIC) limit.

- (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 (i).)
  - (2) Eligibility for deposits shall be limited to those financial institutions which maintain a long-term rating equivalent to “A” or higher by one of the nationally recognized statistical rating organizations (NRSRO).
  - (3) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
  - (4) The amount invested shall be subject to the capital limitations of Government Code Section 53638.
  - (5) The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the total portfolio.
  - (6) The maximum maturity shall be limited to five (5) years.
- (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) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
  - (5) The maximum maturity shall be limited to 180 days. (Government Code Sections 53601(g).)
- (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(h).)



- (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) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
  - (7) 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 (f).)
- (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 (l).)

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 – The Treasurer may invest in 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.

- (1) 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.
- (2) For obligations without a fixed rate of interest, these obligations must have an unconditional demand feature, guarantee or put within the maximum maturity limitations
- (3) Eligibility shall be limited to those obligations that maintains a long-term rating of A or a short-term rating in the highest category by a Nationally Recognized Statistical Rating Organization (NRSRO).
- (4) 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.
- (5) Investments in California municipal securities shall not exceed 10% of the portfolio.
- (6) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).

(j) State Municipal Obligations

- (1) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
- (2) Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a Nationally Recognized Statistical Rating Organization (NRSRO).
- (3) Investments in State municipal securities shall not exceed 10% of the portfolio.
- (4) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).

(k) Corporate Notes

- (1) Medium-term notes, defined as all corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
- (2) Notes eligible for investment under this subdivision shall be rated "A" or better by an NRSRO
- (3) Purchases of medium-term may not exceed 30% of the District's portfolio.

- (4) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
- (5) If a corporate security owned by the District is downgraded by a NRSRO to a level below the quality required by this Investment Policy, it shall be the District's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. The Treasurer or Deputy Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.

## **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.

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## **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 and Federal Agency issuers).
- 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. 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

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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**

If the Board delegates responsibility of the investment program to the Treasurer or Deputy Treasurer, the Treasurer or Deputy Treasurer will present a monthly report of those transactions 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.

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## Appendix A: Glossary

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

**BANKERS' ACCEPTANCE (BA):** A draft or bill or 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 a discount and redeemed at maturity for full face value (e.g. U.S. Treasury Bills).



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**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 \$250,000 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." This category also includes debt issued by Federal Agencies and Government-Sponsored Enterprises.

**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.

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**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:** 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.

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**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

### **1.0 Introduction**

West Basin Municipal Water District's Board of Directors ("Board") has developed a Strategic Business Plan to provide continuous direction for planning, budgeting, implementing, evaluating and reporting. The Strategic Business Plan sets the overall policy direction and strategic priorities established by the Board. In order to achieve the Strategic Business Plan, the Board developed goals, objectives and strategies in the

areas of Water Reliability, Water Quality, Customer Service, Sound Financial & Resource Management and Environment.

One of the objectives of the Strategic Business Plan is to complete and maintain a long range financial plan. A long range financial plan provides an agency a financial outlook while addressing the business objectives. Among other things, the long range financial plan ensures an entity develops or modifies financial policies to sustain fiscal integrity into the future.

A Designated Funds policy (“Policy”) sometimes referred to as a Reserve policy is a part of West Basin Municipal Water District’s (“West Basin”) financial policies. The Policy will help to ensure that adequate designated fund balances are established for protection and furtherance of West Basin’s mission.

## **2.0 Roles and Responsibilities**

The Policy shall be initially adopted by the Board and reviewed annually to ensure designated funds and targets are established to achieve an appropriate overall minimum target balance. Future updates, if necessary, to the Policy require the approval by the Board.

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 implementing and managing the Policy.

## **3.0 Purpose**

Designated funds can be defined as “fund(s) maintained to account for specific purposes and are not externally restricted.”

Prudent financial planning and fiscal responsibility includes anticipating and preparing for future funding needs as well as unexpected emergencies. The Policy establishes designated funds for its long term organizational and operational stability and also helps to minimize significant rate fluctuations due to unforeseen cash flow requirements.

Adequate designated funds further serve to boost the confidence of external interested parties such as creditors, bondholders, and rating agencies that place a high degree of importance on strong, healthy fund balances as a cushion against steep revenue declines, and unexpected and uncontrollable expenses.

## **4.0 Types of Funds**

West Basin maintains two major types of funds, either restricted reserves or unrestricted reserves. Unrestricted reserves are maintained within the general fund and consist of designated and undesignated funds. Each designated fund is established with a target amount and a target date (see section 6.0) and any funds in excess of the cumulative target amounts will be considered undesignated funds. Both the designated and undesignated funds can be used for any lawful purpose at the discretion of the Board of Directors.

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 specified purposes and are not governed by this policy.

## **5.0 Target Levels**

Using a target amount approach to funding West Basin's designated funds will provide more rate certainty and predictability. Each Board approved designated fund will be established with a target amount and target date. The target amounts are based on West Basin's experience, the current operating budget and/or capital improvement plan. The sum of all the targets will provide an overall target amount which will serve as a trigger for the Board to consider options when funding levels fall near or below the overall target. If water sales decline and reserve levels approach the minimum level, the Board would have time to consider reducing operating costs and or capital costs before increasing water rates. If reserve levels exceed the minimum, the Board could consider retiring outstanding debt, reducing future debt by placing the undesignated funds into a System Expansion Fund or placing the undesignated funds into a Rate Stabilization Fund.

## **6.0 Description of funds**

As part of the annual budget development, the designated funds, their purpose and targets will be evaluated to determine the appropriate minimum cash balance. The current designated funds can be divided into two main categories: Core categories and Other categories.

### **6.1 Core Categories**

- a. Operating Liquidity – Provides for a variety of potentially competing purposes such as paying operating expenses during temporary revenue shortfalls, expenses not originally budgeted and fluctuations in revenues and expenses caused by timing of billing cycles and/or timing of debt service.
  - i. Target Amount – Daily budget operating expenses x 60 days (operating expense includes water purchases, program expenses and debt service).
  - ii. Target Date – Annual (June 30<sup>th</sup> of each fiscal year).
- b. Operating Contingency – Provides protection in the event of variability against budgeted expenses as unforeseen developments can occur which cause actual expenses to exceed the budget (e.g. Recycling O&M).
  - i. Target Amount – 5% of Recycling O&M budget.
  - ii. Target Date - Annual (June 30<sup>th</sup> of each fiscal year).
- c. Emergency Repairs – Provides for major failures of plant and equipment and gives the ability to fund an immediate response without financial disruption. Although preventive maintenance is intended to increase the predictability of equipment replacement, unanticipated equipment failure is

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unavoidable. This fund would be used to cover replacements made necessary by unplanned failures.

- i. Target Amount – Ranges from cost of major repair/replacement or 1-2% of plant assets. An annual assessment will be performed by West Basin’s engineering and operations staff to assist in determining the appropriate target amount.
  - ii. Target Date – Annual (June 30<sup>th</sup> of each fiscal year).
- d. Capital Contingency – Provides a cushion for unexpected capital cost increases and/or unanticipated capital projects that arise.
  - i. Target Amount – 10% of annual capital budget.
  - ii. Target Date – Annual (June 30<sup>th</sup> of each fiscal year).
- e. Rehabilitation & Replacement (R&R) – Provides an immediate resource for ongoing R&R of the system. As West Basin’s assets continues to age, there will be increasing demands to replace its 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 the asset.
  - i. Target Amount – Ranges from 1% of depreciable assets to annual depreciation. An annual assessment will be performed by West Basin’s engineering and operations staff to assist in determining the appropriate target amount.
  - ii. Target Date – Annual (June 30<sup>th</sup> of each year).

## 6.2 Other Categories

- a. System Expansion – Establish a sinking fund in which “excess” revenues are set aside for future needs. Since it is not feasible for West Basin to entirely fund construction of large-scale new capital facilities with current revenues or assets, a portion of future costs will be set aside and the remaining balance will be funded through issuance of long-term debt.
  - i. Target Amount – 5% cash financing for future large-scale capital projects.
  - ii. Target Date – Based on projected start of construction date.
- b. Rate Stabilization – Provides a resource to manage the level of water sales fluctuations from year to year. This fund operates as a buffer during any period where there are unexpected decreases in revenues or an expected rate increase from Metropolitan Water District (MWD) occurs.
  - i. Target Amount – Holding account for any “excess” funds.
  - ii. Target Date – Not Applicable.

## **7.0 Objectives**

As described in Section 6.0 above, West Basin has two main categories of designated funds, a core category and other category.

7.1 The core category is made up of five separate designated funds, each with its own target amount and with the same target date (June 30<sup>th</sup>). The sum of the five target amounts will be used to achieve a minimum cash target balance. This minimum cash target balance will be calculated annually and used to update the West Basin's long range financial plan as well as the upcoming fiscal year's operating budget.

7.2 The designated funds which are included in the other category (Section 6.2) will also be reviewed annually to determine the appropriate target amount and target date. As the target date for the System Expansion designated fund is based on large-scale capital projects and their construction start dates, the target amount will be excluded from the minimum cash target balance determined in Section 7.1.

### **5-1.101 POLICY**

The District will procure Goods and Services in support of its administrative, operational, and capital improvement requirements. It is the intent of the District to engage in procurements that ensure it will receive Goods and Services of the appropriate quantity, of a satisfactory level of quality, delivered in a timely manner, and at a price that represents the best value to the District and its ratepayers. Furthermore, it will employ procurement processes that are fair and equitable and will allow providers of Goods and Services the greatest opportunity to participate and compete for the District's procurement engagements.

### **5-1.102 DEFINITION OF TERMS**

The following definitions shall apply to this chapter:

- A. Amendment / Change Order / Revision – modification of the terms of an existing Contract.
- B. Authority to Approve (Approval Authority) – authority to designate funding for a specific procurement.
- C. Authority to Commit (Commitment Authority) – authority to execute a Contract for a specific designated procurement.
- D. Bidder – Consultant, Contractor, or Supplier that submits a bid in response to a Request for Bid or an Invitation for Quote.
- E. Consultant – an individual, firm, or entity that provides Professional Services.
- F. Public Works Construction Agreement – a written agreement for the provision of Public Works Construction Services by Contractors.
- G. Contract – a written agreement for the provision of Goods or Services (Professional or Non-Professional), and includes Professional Service Agreements (PSA), General Service Agreements (GSA) and Purchase Orders (PO).



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- H. Contractor – an individual, firm, or entity that provides Non-Professional Services.
- I. Cooperative Procurement – any procurement conducted on behalf of two or more public agencies in order to obtain the benefit of volume purchasing and/or reduction in administrative expenses.
- J. Critical Acquisition – acquisition of supplies, Goods and equipment that is unplanned, unexpected, and which is essential to the continued operation of District facilities (including satellite facilities), but do not rise to the level of “Emergency” as defined in Section 5-1.105.
- K. Critical Repairs – repairs performed on District facilities that are unplanned, unexpected, and which are essential to the continued operation of the District facilities (including satellite facilities), but do not rise to the level of “Emergency” as defined in Section 5-1.105. Such repairs may include acquisition and installation of replacement parts.
- L. Critical Services – services performed on District facilities that are unplanned, unexpected, and which are essential to the continued operation of the District facilities (including satellite facilities), but do not rise to the level of “Emergency” as defined in Section 5-1.105.
- M. District – District, when used in this policy document, means West Basin Municipal Water District.
- N. Formal Competitive Solicitation – the issuance of a written Request for Bids, proposals, or quotations.
- O. General Services Agreement (GSA) – a written agreement for the provision of non-Professional Services by Contractors or Consultants. Typically, the GSA will be used for longer term engagements and a Purchase Order (defined below) will be used for the procurement of Services that are short term or “one time” engagements.
- P. Goods – refers to all types of tangible personal property including materials, supplies, and equipment.
- Q. Informal Competitive Solicitation – a written request for a bid, proposal, or quotation in accordance with written terms and conditions included in the request.

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- R. Invitation for Quote (IFQ) – a written request for the submission of a price quotation to provide Goods in accordance with specifications, conditions, and other requirements included in the request.
- S. Material Change - a change to essential terms in a contract including, but not limited to, consideration, scope of Services, insurance and indemnity obligations, and assignment.
- T. Non-Professional Services – Services provided by a Contractor, including, but not limited to, trade, janitorial, maintenance, and construction services.
- U. 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.
- V. Professional Services Agreement (PSA) – a written agreement for the provision of Professional Services by Consultants and other Professional Service providers.
- W. Proposer – Consultant or Contractor that submits a proposal in response to a Request for Proposal.
- X. Public Works Construction Agreement – Agreement for the erection, construction, alteration, repair, or improvement of any public structure, building, road, or other public improvement of any kind and awarded in compliance with competitive bidding statutes as a means of protecting the public from misuse of public funds.
- Y. Purchase Order (PO) – a commercial document issued by the District to a Supplier indicating types, quantities, delivery requirements, and agreed prices for the Goods the Supplier will provide the District. A PO may also be issued to a Contractor or Consultant for the procurement of Services that are short term or “one time” engagements.
- Z. Request for Bid (RFB) – primarily used for construction, a written request for the submission of a sealed price bid to perform work in accordance with specifications, conditions, and other requirements included in the request.

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AA. Request for Proposal (RFP) – a written request for the submission of a proposal in accordance with specifications, conditions, and other requirements included in the request.

BB. Requisition – A document generated by staff to identify and establish a requirement for, and request authorization of, the procurement of Goods or Services. Approved Requisitions are converted to the appropriate Contract document (PSA, GSA or PO) for the procurement of the good or service.

CC. Responsible Bidder – a Contractor that meets the District’s standards with respect to a reasonable expectation that the Contractor has the management, technical, financial, equipment, and human resources available to ensure adequate performance of the work described in a solicitation.

DD. Responsive Bidder – a Contractor that provides a solicitation response that satisfactorily addresses all the requirements specified in a solicitation.

EE. Services – the labor, intellectual property or other work product provided by a Contractor or Consultant that is not tangible personal property.

FF. Sole Source Procurement – procurement of a Good or Service where only one viable provider of such Good or service exists. Typical examples include original equipment manufacturer's replacement parts, patent and copyright restrictions, proprietary processes, and warranty compliance issues.

GG. Supplier – a provider of Goods.

HH. Vendor – a term commonly used to refer to any provider of Goods or Services including Contractors, Consultants, and Suppliers.

## **5-1.103 PROCUREMENT SOLICITATION PROCESS**

A. Informal Competitive Solicitations for Goods, Professional Services, and Non-Professional Services

For Informal Solicitations, a minimum of three (3) written price quotations or proposals shall be competitively solicited. If less than three price quotations or proposals are obtained, it must be demonstrated that competition was attempted and the circumstances of the solicitation shall be documented and included with the price quotations or proposals received.

## B. Formal Competitive Solicitations for Goods

When applicable, Formal Solicitations for Goods will be posted on the District's internet based bid management system, and advertised 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 Invitation for Quote (IFQ) covering the following (as applicable):
  - (a) Instructions to Bidders.
  - (b) Detailed scope of supply including Goods specifications, quantity requirements, and delivery requirements.
  - (c) The District's Purchase Order Terms and Conditions.
2. Recommendation for Purchase Order award will be based on the lowest bid submitted by a responsible and Responsive Bidder.
3. Board Review - Bidders responding to a Formal Solicitation from the District shall have the right to address the District's Board of Directors before the Board authorizes any Purchase Order for the proposed Goods. The staff will provide written notice to all such Bidders of the recommendation that staff will present to the Board. The notice will provide a seven (7) calendar day period to allow any such Bidder the opportunity to address the Board at the next meeting at which the Board plans to authorize the purchase order.

## C. Formal Competitive Solicitations for Professional and Non-Professional Services

Formal Competitive Solicitations shall be posted on the District's internet based bid management system and as otherwise required by law. Whenever possible and practical, a minimum of fourteen (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) Instructions to Proposers
  - (b) Scope of work

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- (c) A list of basic questions regarding each firm (address, number of personnel, qualifications, experience, etc.).
  - (d) A description of the method of selection used by the District.
  - (e) An explanation of the District's insurance requirements.
  - (f) A model Contract which the Proposer will be required to execute, if selected.
2. All proposals submitted in response to a Formal Solicitation will be reviewed by District staff.
- (a) Interviews will be conducted by a District staff panel with the most qualified Proposers and their proposed project team to assure a mutual understanding of the project and to obtain additional details related to their capabilities. Interviews for engagements in excess of \$100,000 will be conducted by a panel consisting of District staff and a third party with relevant expertise. The Board may excuse this interview requirement prior to the receipt of any proposals.
  
  - (b) Based upon the evaluation of proposals and interviews (as applicable) each panelist will assign a score to the Proposer. The District shall compile the panelists' scores and rank the Proposers by score, taking into account all of the information obtained.
3. The following criteria, as applicable, shall be considered in the RFP evaluation of qualified Proposers to provide Services:
- (a) Project approach and schedule.
  - (b) Specialized experience and technical competence of the Proposer and their project team relative to the type of Services required and the complexity of the project.
  - (c) Suitability of the Services proposed 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.

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- (f) Past record of performance on Contracts with the District, other public agencies, and private industry, include control of costs, quality of work, and ability to meet schedules.
- (g) Fee proposal for the proposed Services.
- (h) Other key factors as appropriate for the type of service.

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4. Recommendation of a Proposer for Contract award will be based on the composite score assigned by the evaluation panel. This recommendation represents the evaluation panel's assessment of the Proposer's ability to provide the best value to the District.

5. Board Review - Proposers responding to a Formal Solicitation from the District shall have the right to address the District's Board of Directors before the Board authorizes any Contract for the proposed Services. The staff will provide written notice to all such Proposers of the recommendation that staff will present to the Board. The notice will provide a seven (7) calendar day period to allow any such Proposer the opportunity to address the Board at the next meeting at which the Board plans to authorize the Contract.

6. In the event that a Formal Competitive Solicitation will be awarded on a price basis only, the award shall be made to the lowest responsible, responsive proposer.

D. Formal Competitive Solicitations for Public Works Construction

The procurement of public works by the District shall be governed by the provisions of the California Public Contracts Code. Formal Solicitations will be posted on the District's internet based bid management system, and advertised as otherwise required by law. Whenever possible and practical, a minimum of fourteen (14) calendar days shall be provided for responses.

1. The Formal Solicitation process requires a written Request for Bid (RFB) covering the following (as applicable):

- (a) Instructions to Bidders.
- (b) Detailed scope of work including plans and specifications.
- (c) An explanation of the District's insurance requirements.
- (d) A model Contract which the Bidder will be required to execute, if selected.

2. Recommendation for Contract award will be based on the lowest bid submitted by a Responsible and Responsive Bidder.

3. Board Review - Bidders responding to a Formal Solicitation from the District shall have the right to address the District's Board of Directors before the Board authorizes any Contract for the proposed Services. The staff will provide written notice to all such Bidders of the recommendation that staff will present to the Board. The notice will provide a seven (7) calendar day period to allow any such Bidder the opportunity to address the Board at the next meeting at which the Board plans to authorize the Contract.

## E. Exceptions to Competitive Solicitation Requirements

1. Exemptions – the following procurements are exempt from the competitive solicitation process:

- books, periodicals, advertising, seminars, conferences, travel, subscriptions, postage, utilities, bank charges, memberships, travel reimbursements, and permits.

2. Sole Source Procurements – the competitive solicitation process is waived for procurements where the required Good or Service is available from only one viable source (Good or Service provider). Negotiations shall be conducted with the provider of the Good or Service to achieve the most favorable pricing and terms of sale.

## **5-1.104 PROCUREMENT AUTHORITY OF GOODS AND SERVICES**

### A. Procurement Authority

1. Procurement Authority shall be exercised and performed by the Board of Directors. This authority includes both the authority to approve procurements and the authority to commit the District to procurements. The Board of Directors may delegate certain authorities to the District's management and staff. These delegated authorities shall be exercised and performed in accordance with applicable federal, state, and local laws and the policies contained herein.

2. Approval Authority shall be managed through Requisition approval process. The Requisition approval process, as delegated by the Board of



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Directors, shall be governed by the guidelines set forth in the following sections 5-1.104, B-E.

3. Commitment Authority, as delegated by the Board of Directors, shall be exercised and performed by the General Manager. Commitment Authority may be delegated to appropriate staff (designated alternate / delegate) at the discretion of the General Manager.

## B. Procurement of Goods

The District may procure Goods as authorized below:

### Any Procurement of Goods over \$1,000:

- Requires a Purchase Order Requisitions

#### with a total cost up to \$10,000:

- Requires at least one price quotation
- Requires a Requisition approved by the responsible Department Manager
- Requires a Purchase Order executed by the General Manager or designated alternate (delegate)

#### Requisitions with a total cost over \$10,000 and up to \$35,000:

- Requires Informal Solicitation process with at least three competitive price quotations
- Requires a Requisition approved by the responsible Department Manager and the General Manager
- Requires a Purchase Order executed by the General Manager or designated alternate (delegate)

#### Requisitions with a total cost of \$35,000 or more:

- Requires Formal Solicitation process and Board approval
- Requires a Requisition approved by the responsible Department Manager and the General Manager
- Requires a Purchase Order executed by the General Manager or designated alternate (delegate)

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## Amendments / Change Orders / Revisions:

- Material Changes to a Contract document require authorization. Approval and execution is subject to the thresholds established above and based on the final value of the Contract document after the change is incorporated.

### C. Leasing of Goods

Leasing of Goods is subject to the same requirements established for the procurement of Goods, as defined in Section B above.

### D. Procurement of Professional Services

The District may procure Professional Services as authorized below:

#### Professional Services of any value:

- Requires a Professional Services Agreement.
- Oral/Non-written engagements are strictly prohibited.

#### Professional Services up to \$10,000:

- Requires a single proposal and price quotation
- Requires a Requisition approved by the responsible Department Manager
- Requires a Professional Services Agreement executed by the General Manager or designated alternate (delegate) and District Counsel

#### Professional Services over \$10,000 and up to \$35,000:

- Requires an Informal Solicitation with at least three competitive proposals/quotations
- Requires a Requisition approved by the responsible Department Manager and the General Manager
- Requires a Professional Services Agreement executed by the General Manager or designated alternate (delegate) and District Counsel

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## Professional Services for \$35,000 or more:

- Requires Formal Solicitation and Board approval
- Requires a Requisition approved by the responsible Department Manager and the General Manager
- Requires a Professional Services Agreement executed by the General Manager or designated alternate (delegate) and District Counsel

## Amendments / Change Orders / Revisions:

- Material Changes to a Contract document require authorization. Approval and execution is subject to the thresholds established above and based on the final value of the Contract document after the change is incorporated.

## E. Procurement of Non-Professional Services

The District may procure non-Professional Services as authorized below:

### Non-Professional Services of any value:

- Requires a Contract document (PO or GSA)
- Oral/Non-written engagements are strictly prohibited Non-

### Professional Services up to \$10,000:

- Requires a single a proposal and price quotation
- Requires a Requisition approved by the responsible Department Manager
- Requires a General Services Agreement executed by the General Manager or designated alternate (delegate) and District Counsel or a Purchase Order executed by the General Manager or designated alternate (delegate)

### Non-Professional Services over \$10,000 and up to \$35,000:

- Requires an Informal Solicitation with at least three competitive proposals/quotations
- Requires a Requisition approved by the responsible Department Manager, and the General Manager

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- Requires a General Services Agreement executed by the General Manager or designated alternate (delegate) and District Counsel or a Purchase Order executed by the General Manager or designated alternate (delegate)

## Non-Professional Services for \$35,000 or more:

- Requires Formal Solicitation process and Board approval
- Requires a Requisition approved by the responsible Department Manager and the General Manager
- Requires a General Services Agreement executed by the General Manager or designated alternate (delegate) and District Counsel or a Purchase Order executed by the General Manager or designated alternate (delegate)

## Amendments / Change Orders / Revisions:

- Material Changes to a Contract document require authorization. Approval and execution is subject to the thresholds established above and based on the final value of the Contract document after the change is incorporated.

## F. Public Works

The procurement of Goods and Services for the construction of public works by the District shall be governed by the provisions of the California Public Contracts Code. Engagements of \$35,000 or greater for works of public improvement are subject to the Public Contract Code and are subject to the following thresholds:

### Public Works of \$35,000 or more:

- Requires Formal Solicitation process and Board approval
- Requires a Requisition approved by the responsible Department Manager and the General Manager
- Requires a Public Works Construction Agreement executed by the General Manager or designated alternate (delegate) and District Counsel

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## Amendments / Change Orders / Revisions:

- Material Changes to a Contract document require authorization. Approval and execution is subject to the thresholds established above and based on the final value of the Contract document after the change is incorporated. Change Orders within preapproved funding amounts require execution by cognizant District staff, the Department Manager and the General Manager or designated alternate (delegate)

### G. Cooperative Procurement

Opportunities to participate in Cooperative Procurement shall be pursued whenever feasible and in the best interest of the District.

### H. Requirement Splitting

Splitting or separating quantities of Goods or portions of Services to avoid more stringent competitive solicitation requirements or more stringent Approval or Commitment Authority levels is strictly prohibited.

## **5-1.105 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.

## **5-1.106 PROCUREMENT OF CRITICAL GOODS AND SERVICE**

When expenditures are made for the procurement of Critical Goods and Services, staff shall use its best efforts to conform to the Informal Solicitation process set forth in section 5-1.103(A); and shall not exceed \$250,000 per each critical repair or critical acquisition.

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

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## **5-1.107 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.

## **5-1.108 POLICY COMPLIANCE**

All procurement of Goods and Services pursued on behalf of the District shall be conducted in accordance with this Procurement Policy. District staff shall comply with this Policy to ensure the responsible and prudent expenditure of public funds and the preservation of the public trust. Violations of this Policy will result in disciplinary action up to and including dismissal.

## **5-1.109 EXCEPTIONS TO THIS POLICY**

The Board of Directors authorizes the General Manager to effect procurements, or other activities of special circumstance, free of this Procurement Policy when the General Manager has determined that such action would be in the best interest of the District, and when such action is not in conflict with applicable local, state, or federal laws. The General Manager will report any exceptions taken to the Board of Directors.

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## CHAPTER 2. LOCAL BUSINESS ENTERPRISE PROGRAM

### 5-2.101 POLICY

The District encourages the utilization of businesses within its service area. To promote the participation of Local Business Enterprises in the competitive solicitation process, the District has established a Local Business Enterprise Program that provides incentives to local businesses.

### 5-2.102 DEFINITION OF TERMS

The following definitions shall apply to this chapter:

- A. Local Business Enterprise (LBE) – to be considered as a local business enterprise, a firm must provide evidence, in the form of a business license, that 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.

### 5-2.103 GOODS

For the purposes of evaluation of competitive quotations, the quotations of local business enterprises will be reduced by 3%. If, after this adjustment, the Local Business Enterprise is determined to be the most competitive quotation, the actual Contract amount will be the amount originally quoted by the local Business Enterprise.

### 5-2.104 PROFESSIONAL SERVICES

All proposals for Professional Services over \$25,000 value will be evaluated on a 100point scale. A value of three additional points will be added to the evaluation scores of Local Business Enterprises who propose as prime Consultants on Professional Services Contracts. If a non-local prime Consultant includes a Local Business Enterprise as a Sub-Consultant in its proposal, a value of up to three points may be added to the evaluation score of the non-local prime Consultant. 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 valued at \$100,000, and the non-local prime Consultant uses a local Sub-Consultant who will perform \$25,000 worth of work, that Proposer will enjoy a preference of .75 points (.25 x 3 points).

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In the event the proposed Services will be evaluated on a price basis only, the price proposals 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 price proposal, the actual Contract amount will be the amount originally proposed by the Local Business Enterprise.

## **5-2.105 NON-PROFESSIONAL SERVICES**

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 propose as prime Contractors on Non-Professional Services Contracts. If a non-local prime Contractor includes a Local Business Enterprise as a sub contractor in its proposal, 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 valued at \$100,000.00, and the non-local prime Contractor uses a local sub contractor who will perform \$25,000.00 worth of work, the Proposer 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 price proposals 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 price proposal, the actual Contract amount will be the amount originally proposed by the Local Business Enterprise.

## **5-2.106 PUBLIC WORKS CONSTRUCTION**

If a prime Contractor intends to employ sub contractors, 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 sub contractor bids from LBEs in one or more daily or weekly newspapers, trade association publications, trade journals, or other relevant media.



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If a prime Contractor intends to employ sub contractors, 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 sub contractor 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.

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## CHAPTER 3. ECONOMIC OUTREACH

### 5-3.101 POLICY

In 1996, a majority of California voters passed Proposition 209, which amended the California Constitution (at Article I, Section 31) to prohibit public agencies from granting preferential treatment to any individual or group on the basis of race, sex, color, ethnicity or national origin in public contracting. This prohibition does not apply to action which must be taken to establish or maintain eligibility for any federal program, where ineligibility would result in a loss of federal funds. When action must be taken to establish or maintain such eligibility, the District will follow the guidelines set forth below:

### 5-3.102 DEFINITION OF TERMS

The following definitions shall apply to this chapter:

- A. Economic Outreach Plan – a set of specific and result-oriented procedures designed to achieve equal employment opportunity.
- B. 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.
- C. Disabled Person – a qualified individual with a disability as defined by the Americans with Disabilities Act of 1990.
- D. Feasible – capable of being accomplished economically within a reasonable period of time.
- E. Minority – a person who is a citizen and a lawful permanent resident of the United States and who is:
  - African American
  - Hispanic American
  - Asian-Pacific American
  - Native American/Native Hawaiian
  - Members of other groups or other individuals found to be economically and socially disadvantaged under the Small Business Act, as amended;

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F. Workforce Investment Board (WIB) – a private or public agency devoted to assisting the recruitment and placement of disadvantaged persons or businesses.

G. Workforce – the number and demographics of the labor force living within the District's service area.

## **5-3.103 APPLICATION OF POLICY**

When required to establish or maintain eligibility for federal funds, the District shall to the extent feasible:

A. Encourage Consultants to use the Services of the WIB or similar agencies to recruit disadvantaged persons and businesses.

B. 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.

C. 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 sub-Contractors, 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.

D. 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.

E. 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.

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## CHAPTER 4. DISPOSAL OF SURPLUS PROPERTY

### 5-4.101 POLICY

Whenever the District has property no longer needed for District purposes, the General Manager may dispose of said property as follows:

- A. Board approval is required for the disposal of single-item surplus good with a current market value greater than \$5,000.
- B. Board approval is required for the disposal of any multiple-items (lot) of surplus Goods with a current market value greater than \$25,000.
- C. Professional or Contract Services may be used for the disposal of surplus items, and a Formal Solicitation shall not be required for said Services. Fees for said Services shall be paid from respective surplus disposal proceeds.
- D. Any surplus item(s) may be:
  - Sold for cash
  - Used for trade or exchange
- E. Board approval is required to declare any and all real property as surplus and/or to sell any and all surplus real property, as provided for under California law (i.e., Government Code Section 54221 et. Seq.).
- F. Board approval is required to authorize the General Manager to negotiate any and all sale prices and terms for the sale of surplus real property.
- G. All net proceeds received from surplus activities shall be deposited into the District's designated funds.

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## 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

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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 pays 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.

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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,

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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.



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## **Glossary:**

**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:  $(\text{Cost-Salvage value}) / \text{Estimated useful life} = \text{Depreciation per period}$ .

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## DEBT MANAGEMENT POLICY

### 1.0 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, maintaining strong credit ratings, and providing timely disclosure and good investor relations.

### 2.0 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:

- a) Evaluating critical debt issuance options;
- b) Maintaining appropriate capital assets for present and future needs;
- c) Promoting sound financial management through accurate and timely information on financial conditions;
- d) Protecting and enhancing the District’s credit rating; and
- e) Ensuring the legal use of District financing authority through an effective system of internal controls.

### 3.0 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

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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.

## **4.0 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:

- a) Description of all sources of funds;
- b) Description of operating expenses;
- c) Debt service requirements.
- d) Timing of capital expenditures;
- e) Impact of new capital projects on District's debt burden;
- f) Designated fund levels; and
- g) Minimum target on debt coverage

## **5.0 Debt Financing**

### **5.1 Revenue Obligations**

Long-term revenue obligations issued through the District, 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, 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

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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 and more closely match the term of repayment to the expected economic useful life of the project being financed.

## 5.2 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 commercial paper program. 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.

## 5.3 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 obligations subject to variable rates including the principal amount of fixed rate obligations which are subject to fixed-to-variable interest rate Swaps 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 variable rate obligations which are the subject of variable-to-fixed interest rate Swaps which the

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District's financial adviser reasonably believes will result in fixed interest rates 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 review the net variable rate exposure of the overall debt portfolio on a quarterly basis and at any time that additional debt is issued.

In selecting and retaining remarketing agents for variable rate debt, the District should choose remarketing agents that diversify its exposure and foster competition. 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.

## 5.4 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 funding does not occur.

## 5.5 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.

## 6.0 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

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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 other 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 and bring forth the recommended opportunities with appropriate resolutions and related documentation.

## **7.0 Debt Structure Considerations**

### **7.1 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.

### **7.2 Debt Service Structure**

Debt service payments for any new money debt issue will be structured to create approximately level debt service payments over the life of the debt. 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.

### **7.3 Lien Structure**

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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.

## 7.4 Capitalized Interest

The District may elect to fund capitalized 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.

## 7.5 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.

## 7.6 Redemption Provisions

In general, the District will have the right to optionally redeem debt no later than 10 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.

## 7.7 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 and the District should seek to diversify its exposure to banks when selecting institutions to provide liquidity or Credit Enhancement for variable rate debt.

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.

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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.

## **8.0 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.

## **9.0 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 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 independent 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 disclosed 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.

## **10.0 Credit/Ratings 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.



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## **11.0 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.

## **12.0 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.

## **13.0 Consultants**

### **13.1 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:

- a) Experience in providing consulting services to complex Issuers;
- b) Knowledge and experience in structuring and analyzing large complex issues;
- c) Ability to conduct competitive selection processes to obtain investment products and financial services;
- d) Experience and reputation of assigned personnel; and
- e) 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.

### **13.2 Bond Counsel**

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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.

## 13.3 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.

## 13.4 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:

- a) Quality and applicability of financing ideas;
- b) Demonstrated ability to manage complex financial transactions;
- c) Demonstrated ability to structure debt issues efficiently and effectively;
- d) Demonstrated ability to sell debt to institutional and retail investors;
- e) Demonstrated willingness to put capital at risk;
- f) Experience and reputation of assigned personnel;
- g) Past performance and references; and
- h) Fees and expenses.

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

## 14.0 Reporting Requirements

The Chief Financial Officer will report to the Board of Directors on a quarterly basis the following information:

- a) A summary of outstanding debt obligations to include the series name, original amount of issuance, outstanding principal amount, issue date, maturity dates, interest rates, and annual debt service;
- b) The amount of the net variable rate obligation and percentage as compared to outstanding debt ;
- c) Comparison of variable rates to SIFMA or by remarketing agent, if West Basin has more than one agent, to other remarketing agents, with similar programs and market indices;
- d) Other Considerations if applicable;
- e) Refunding opportunities
- f) Credit Enhancement
- g) Reportable conditions
- h) New debt issuances

## 15.0 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,

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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.

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*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 debt 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

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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

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rates result from changes in an index or the supply and demand dynamics of a remarketing or auction.

## **SWAP POLICY**

### **1.0 Introduction**

The purpose of this Swap Policy (“Policy”) is to establish parameters and provide guidance as to the future use, negotiation, execution,

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management, and reporting on interest rate swaps and related instruments.

An interest rate swap is an agreement between two parties ("counterparties") to exchange periodic interest payments. The interest payments are based on a principal amount ("the notional amount"). No principal amount is actually exchanged between the counterparties; only interest is exchanged. As an example, in a common interest rate swap, one party pays interest on the notional amount at a variable or "floating" rate, while the other party pays interest on the notional amount at a fixed rate.

Interest rate swaps and related instruments can be beneficial and effective interest rate management tools in assisting an agency to achieve its financial purpose as further described in Section III.

## **2.0 Authority**

West Basin Municipal Water District ("West Basin"), either directly or through its financing corporation, is authorized to issue bonds or other obligations and to enter into swaps to better manage its assets and liabilities and take advantage of market conditions to lower overall costs and reduce interest rate risk.

The Board of Directors ("Board") shall have the final authority for approval of each swap. However, the Chief Financial Officer ("CFO"), subject to Board approval, shall have the authority to enter into each swap. Each swap shall be structured by the CFO and members of the financing team. The CFO shall have the day-to-day responsibility for implementing and managing the swap.

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 this Policy. In such circumstances, the ability of West Basin to be flexible is important. However, any authorization granted by the Board to proceed with a swap transaction not expressly permitted by this Policy must be accompanied by an acknowledgement of the Board that the actions to be taken by West Basin are not specifically authorized by the Policy in force at that time.

The Policy shall be initially adopted by the Board and reviewed periodically. Future updates, if necessary, to the Policy require the approval by the Board.



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West Basin shall be authorized to enter into swaps only with qualified counterparties. Qualified counterparties shall be determined pursuant to the criteria set forth in this Policy.

### **3.0 Purpose**

The issuance of bonds or other obligations involves interest rate payment obligations and risks. A variety of financial instruments are available to reduce, offset or hedge these obligations and risks. It is the policy of West Basin to utilize such financial instruments to better manage its assets and liabilities. West Basin may execute a swap if the transaction can be expected to result in one or more of the following:

- a) Reduce exposure to changes in interest rates on a particular financial transaction or portfolio of financial transactions.
- b) Achieve lower net cost of borrowing with respect to West Basin's debt obligations.
- c) Manage variable interest rate exposure consistent with prudent debt practices and policies adopted by the Board.
- d) Optimization of capital structure including modification of timing and amounts of scheduled debt service payments.

West Basin may utilize the following financial products after identifying the objectives to be realized and assessing the potential risks:

- a) Interest rate swaps, including (1) pay fixed/receive floating swaps, (2) pay floating/receive fixed swaps and (3) pay floating/receive floating swaps. Swaps may include option features, such as for the extension, cancellation, or index conversion of the swap.
- b) Interest rate caps, floors, and collars.
- c) Stand- alone options to enter into swaps (swaptions) on a particular date, series of dates, or during a particular period of time in the future.

West Basin will only enter into a swap transaction to hedge existing risks and will not enter into any leveraged swaps (leverage means where the index or notional amount is a multiple of a factor greater than one).

### **4.0 Evaluation of Proposed Transactions**

When evaluating a proposed transaction involving the use of swaps, West Basin will review and consider the following:

- a) Assessment of all inherent risks of the transaction.

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- b) Alternate financing options and a comprehensive evaluation of the potential risks and expected benefits of the transaction relative to such other options.
- c) Procurement process and the suitability of the contemplated counterparties to the swap, taking into account any existing exposure to such counterparties.
- d) Impact on West Basin's credit and liquidity profile and how other financial obligations, existing or expected, may be impacted.
- e) Analysis of the impact on the net variable rate interest exposure from the transaction and any potential budgetary impact.
- f) Cost and availability of on-going resources for the effective operations and risk management of the swap.
- g) If the transaction includes option components, analysis of circumstances under which the option will likely, or not likely, be exercised and the consequences of each outcome.

## **5.0 Qualified Swap Counterparties**

West Basin will be authorized to enter into swap transactions only with Qualified Swap Counterparties. The term "Qualified Swap Counterparties" shall mean any commercial or investment bank or any other financial institution that (1) has a demonstrated record of successfully executing swap transactions, and (2) at the time West Basin enters into the swap, is rated, or has its payment obligations under a Swap Agreement guaranteed by an affiliated entity (parent or subsidiary) which is rated, in each case at least "Aa3" or "AA-", or equivalent by any two of the nationally recognized rating agencies (i.e. Moody's, Standard and Poor's, or Fitch). West Basin will structure interest rate swap agreements to protect itself from credit deterioration of counterparties, including the use of both events-based and ratings-based termination events, collateral posting requirements or other forms of credit enhancement. Such protection shall include any terms and conditions which West Basin deems necessary to protect its interests.

## **6.0 Counterparty Termination Exposure**

In order to diversify West Basin's counterparty credit risk and to limit its credit exposure to any one counterparty, West Basin will compute the "Maximum Net Termination Exposure" prior to executing a swap.

The "Maximum Net Termination Exposure" is the aggregate termination payment for all existing and projected swap transactions that would be paid by or to an individual counterparty. The aggregate termination payment is equal to (1) the potential worse-case termination payment

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based on the market value of all existing swaps as of the first day of the month prior to the execution of any proposed swap transaction, plus (2) the potential worst-case termination payment of the proposed transaction. The potential worst-case termination payment shall be calculated assuming interest rates, as measured by the related index or benchmark interest rates, increased or decreased by two standard deviations from the sample mean over the last 10 years.

West Basin shall not enter into any swap transaction if after giving effect to, and as of the date of the entering into, such swap transaction would occur where the Maximum Net Termination Exposure for the swap counterparty would exceed 25% (100% of West Basin's unrestricted cash X 25% per counterparty) of West Basin's unrestricted cash balance.

West Basin shall not enter into any swap transaction if after giving effect to, and as of the date of the entering into, such swap transaction would occur where the Maximum Net Termination Exposure for all swap counterparties would exceed 100% of West Basin's unrestricted cash.

## **7.0 Termination and Assignment provisions**

West Basin shall consider including in all swap agreements provisions granting West Basin the right to optionally terminate all or a portion of an Agreement at any time over the term of the Agreement and the right to assign an Agreement to a third party. West Basin may exercise its right to optionally terminate a swap agreement if it determines that it will (1) produce a benefit to West Basin, either through receipt of a payment from a termination, or if a termination payment is made by West Basin, in conjunction with a conversion to a more beneficial debt obligation, (2) result in a more beneficial mix of fixed and variable rate debt consistent with prudent debt practices and policies adopted by the Board, or (3) otherwise reduce risk as determined by the CFO. The CFO is authorized to terminate any swap transaction on behalf of West Basin, so long as such termination is consistent with the above described principles, except in the case of a replacement swap transaction as described below.

A termination payment to or from West Basin may be required in the event of early termination of an agreement due to a default or decrease in the credit rating of either West Basin or the swap counterparty and a change in swap rates. If (1) the event of default or termination event is due to the swap counterparty and (2) a termination payment would be owed by West Basin, before deciding to exercise its right to terminate a swap transaction, the CFO shall evaluate whether it is financially advantageous for West Basin to enter into a replacement swap transaction. Such replacement swap transaction could allow West Basin to avoid making a termination payment or allow a replacement swap counterparty to make an upfront

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payment to West Basin in an amount that will substantially offset the termination payment that West Basin will be making to the original swap counterparty

The CFO shall be authorized to execute and deliver on behalf of West Basin any replacement swap transaction so long as the counterparty of such replacement swap transaction is a Qualified Swap Counterparty.

## **8.0 Term and Notional Amount of Swap Agreement**

West Basin shall determine the appropriate term and size for an interest rate swap on a case-by-case basis. In connection with the issuance or carrying of bonds, the outstanding notional amount of a swap agreement should relate to the amortization of the related existing or anticipated debt of West Basin and the term shall not extend beyond the latest final maturity date of the related existing or anticipated bond.

The total net notional amount of all swaps related to an issue of bonds should not exceed the amount of the related outstanding bonds. For purposes of calculating the net notional amount, credit shall be given to any swaps that offset for a specific bond transaction.

## **9.0 Form of Swap Agreements**

Each swap transaction and swap agreement executed by West Basin shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement. The agreements shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, and provisions as the CFO deems necessary or desirable. The CFO may use legal counsel and/or outside professional advisors to assist in preparation of the swap documents.

## **10.0 Collateral Requirements**

As part of any swap agreement, unless otherwise approved by the Board, West Basin shall require collateralization or other credit enhancement to secure any or all swap payment obligations. As appropriate, the CFO shall require collateral or other credit enhancement to be posted by each swap counterparty with the following considerations:

- a) Each swap counterparty to West Basin shall be required to post collateral if the credit rating of the swap counterparty or its guarantor is not in the two highest rating categories by at least two of the nationally recognized rating agencies.

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- b) Collateral shall consist of cash, U.S. Treasury Securities, or Agency Securities which are rated at equivalent ratings of U.S. Treasury Securities, by any two of the nationally recognized rating agencies.
- c) Collateral shall be deposited with a third party custodian, or as mutually agreed upon between West Basin and each swap counterparty.
- d) A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement.
- e) The market value of the swap and the collateral shall be determined on at least a weekly basis.
- f) West Basin will determine reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.
- g) The CFO shall determine on a case by case basis whether other forms of credit enhancement are more beneficial to West Basin.

## **11.0 Amendment or Assignment of Swap Transaction or Swap Agreement**

West Basin shall be authorized to enter into an amendment of any existing swap transaction with the approval and authorization of the CFO if such amendment does not cause an increase on the effective date of the amendment in the Maximum Net Termination Exposure of West Basin to 1) more than 100% of West Basin's unrestricted cash balance and 2) more than 25% of West Basin's unrestricted cash balance per counterparty, after adjusting for any upfront payments either made or received by West Basin. However, West Basin shall be authorized to enter into an amendment of any existing swap transaction with the approval and authorization of the CFO if such amendment decreases the Maximum Net Termination Exposure.

West Basin shall be authorized to enter into any assignment or novation of a swap transaction from one swap counterparty to another swap counterparty with the approval and authorization of the CFO if the swap counterparty to which such swap transaction is assigned is a Qualified Swap Counterparty. West Basin shall be authorized to enter into a swap agreement with the swap counterparty to which any swap transaction is assigned so long as such terms and conditions do not have the impact of increasing on the effective date of such assignment or novation the Maximum Net Termination Exposure of West Basin to 1) more than 100% of West Basin's unrestricted cash balance and 2) more than 25% of West Basin's unrestricted cash balance per counterparty under the assigned or

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novated swap transaction. West Basin shall be authorized to enter into a swap agreement with the swap counterparty to which any swap transaction is assigned if such assignment decreases the Maximum Net Termination Exposure.

## 12.0 Reporting Requirements

Written records noting the status of all swap transactions will be maintained by West Basin and provided to the Board at least on a quarterly basis and shall include the following information:

- a) Highlights of all material changes to the swap agreements or new agreements entered into by West Basin and a summary of any agreements that were terminated.
- b) Basic term sheet containing trade date, effective date and termination date of each of the swap agreements, as well as key terms such as: notional amount, rate paid by each counterparty, day count basis, payment dates, and amortization/accretion schedules. This term sheet will also contain counterparty contact information.
- c) Mark-to-market valuation and performance of the swap to date, performed by an independent third party advisor.
- d) For each swap counterparty, shall provide the total notional amount position, the average life of each agreement, the available capacity to enter into a swap, and the remaining term of each agreement.
- e) The credit rating of each swap counterparty and the guarantor insuring the swap payments.
- f) Actual collateral posting by the swap counterparty, if any, per agreement and in total by swap counterparty.
- g) Information concerning any default by a swap counterparty to West Basin and the results of the default, but not limited to the financial impact to West Basin, if any.
- h) Follow GASB procedures for reporting the swaps on West Basin's annual financial statements, including the provisions of GASB 53.

## 13.0 Definitions

*Collateral* –Assets pledged to secure an obligation. The assets are potentially subject to seizure in the event of default.

*Counterparty* – A principal to a swap or other derivative agreement, as opposed to an agent such as a broker.

*GASB* – Governmental Accounting Standards Board

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*Interest Rate Cap* – An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. SIFMA or LIBOR) and a specified contract rate; effectively establishing a maximum on a variable rate.

*Interest Rate Collar* – An instrument that provides protection within a band of interest rates. (A combination of purchasing an Interest Rate Cap and selling an Interest Rate Floor).

*Interest Rate Floor*- An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. SIFMA or LIBOR) and a specified contract rate.

*Interest Rate Swap* – A contract between two parties to exchange cash flows over a predetermined length of time. Cash flows are calculated periodically based on a fixed or variable interest rate against a set notional amount. Principal is not exchanged.

*LIBOR* – The London Interbank Offer Rate. The rate at which banks will lend Eurodollars to each other over various lengths of time. Used as an index to compute the variable rate on an interest rate swap.

*Notional Amount* – The stipulated principal amount for a swap transaction used to determine the interest payments on a swap.

*SIFMA Index* – The Securities Industry and Financial Markets Association Municipal Swap Index , produced by Municipal Market Data, is a 7-day high-grade market index comprised of tax-exempt variable rate demand bonds.

*Swap* – An agreement between two parties evidenced by a single document in which the parties agree to exchange periodic (net) payments for an agreed period of time based upon a notional amount of principal.

*Swaption* – An option on a swap. The swaption purchaser has the right to enter a specific swap for a defined period of time. This option can be exercised on a specific exercise date or series of exercise dates.

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# GLOSSARY



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## GLOSSARY

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## 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 that meets the need of two average families, in and around the home, for one year.

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

**AFY** – Acre-Foot per Year

**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.

**Balanced Budget** - A balanced budget occurs when the total sum of money a government collects in a year is equal to the amount it spends on goods, services, and debt interest.

**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)** - The largest investor-owned American water utility west of the Mississippi River and the third largest in the country. Formed in 1926, the San Jose-based company serves 460,000 customers through 26 Customer and Operations Centers throughout the state.

**California Environmental Quality Act (CEQA)** – California state statute that requires state and local agencies to identify the significant environmental impacts of their actions and to avoid or mitigate those impacts, if feasible.

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**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)** – Unit of measure used to determine volume of water flowing through meters.

**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.

**Debt Limit** - The legal maximum debt permitted a municipal, state, or national government.

**Defeasance** – A provision that voids a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt.

**Desalting (or Desalination)** – Removal of salts from salt water by evaporation or distillation. Specific treatment processes, such as reverse osmosis or multi-stage flash distillation, to de-mineralize 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.

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**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 that began operations in 1995.

**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 West Basin.

**Financial Policies** – Document approved by the Board of Directors that identifies parameters through which West Basin operates and provides 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

**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.

**GPM** – Gallons per minute.

**Groundwater** – Water that has percolated into natural, underground aquifers; water in the ground, not water collected on the surface.

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**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.

**High-Efficiency Toilet (HET)** – High-Efficiency Toilets flush at 20 percent below a Ultra Low-Flow Toilet that flushes at 1.6 gallons per flush, equating to 1.28 gallons per flush or less.

**Imported Water** – Water imported by Metropolitan through the Colorado River Aqueduct system and from Northern California.

**Integrated Regional Water Management Plan (IRWMP)** – A plan prepared by a Regional Water Management Group pursuant to the Department of Water Resources' IRWMP Program. The plan describes how integrated planning is the effective management of resources through collaboration of efforts and cooperation of various entities. The integration of multiple water management strategies via multipurpose projects creates opportunities to meet regional water resource needs, efficiently use fiscal resources, and provide the public with tangible community benefits.

**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.

**Local Resources Program (LRP)** - A program offered by MWD that provides financial assistance to member agencies and local water purveyors who 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. MWD is governed by a 37-member Board of Directors representing its member agencies.

**MGD** – Million Gallons per Day.

**MWD's Tier 1 Supply Rate** – Recovers the cost of maintaining a reliable amount of supply.

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**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.

**Moody's** – One of the nationally recognized statistical-rating organizations.

**Net Assets** – Represents the difference between assets and liabilities

**OPEB** – Other Post-Employment Benefits

**Pay-As-You-Go (PAYGO)** – The practice of funding construction expenditures from current operating revenues in-lieu of using debt proceeds.

**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.

**Refunding Revenue Bonds** – A bond that retires another bond before the first bond matures. Refunding bonds may be issued for a number of reasons, but mainly to reduce the cost of funding as a result of lower interest rates.

**Restricted Funds** – Funds restricted by a third party, by law, regulation or contractual obligation.

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**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 and 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 of Southern California (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

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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.





**WEST BASIN MUNICIPAL WATER DISTRICT**  
17140 S. Avalon Blvd., Suite 210  
Carson, CA 90746

**AGENDA NO. 17**

**MAY 15, 2013 – Finance**  
Smith (Chair), Dear  
**MAY 29, 2013 – Board Meeting**  
Prepared by: Margaret Moggia  
Submitted by: Margaret Moggia  
Approved by: Rich Nagel

## ACTION CALENDAR

### FISCAL YEAR 2013-14 BUDGET ADOPTION

#### SUMMARY:

West Basin Municipal Water District (West Basin) continues to deliver value to its customers through meeting its five commitments of water reliability, water quality, sound financial and resource management, customer service and environmental stewardship. To demonstrate this value, West Basin annually prepares a draft budget that outlines the programs and the associated costs.

The budget addresses a variety of factors including sales assumptions, salary and benefits, debt, program budgets and rates. In addition, West Basin has certain financial metrics (cash balances and debt coverage) that need to be maintained in the development of the budget and rates. This year, West Basin also took into consideration the results of the State audit and the recently conducted Customer Agency Survey to ensure applicable comments to the budget and rates and charges have been addressed.

#### **Budget Process**

On March 13, 2013, a Special Board Workshop on the proposed Fiscal Year (FY) 2013-14 budget and rates and charges was presented to the Board. Staff discussed the assumptions and the draft numbers along with trend information to provide context to the changes in sales assumptions and program expenditures. The Board requested staff to provide options on more conservative retail imported water sales assumptions and what impact this may have on the rates. Information was presented at the Water Resources Committee the following day and directed staff to lower the sales assumptions for imported retail sales from 110,000 acre-feet (AF) to 106,000 AF.

On March 20, 2013, West Basin held its Annual Customer Agency Workshop with seven customer agencies in attendance including one refinery. The customers were provided an update on current water supply conditions, accomplishments for the current year and anticipated outlook for FY 2013-14. In addition, the customers received the highlights of the budget presentation including the proposed rates and charges as revised with the change in imported retail water sales assumptions. No specific comments on the rates or budget were made.

At the April 10, 2013 Finance Committee, staff presented two adjustments to the draft budget. First, a proposed commitment of \$10,000 was made to support the communications plan at the CalDesal meeting on March 29, 2013. The second is a proposed increase in the membership for Southern California Water Committee from \$850 to \$2,500 annually.

### **Additional New Memberships for Board's Consideration**

Subsequent to the April 2013 Finance Committee, staff received requests to consider adding three new memberships.

1. Los Angeles Council of Black Professional Engineers
  - a. Corporate membership fee: \$1,000/yr.: A private corporation, government agency, other organizations interested in supporting their goals and objectives.
  - b. Annual sponsorship of Annual Awards & Scholarships Banquet \$1,700 offers a table of 10, full page ad and sponsor plaque.
2. Los Angeles Waterkeeper's Annual "Making Waves" event
  - a. In previous years, West Basin had budgeted \$5,000 to sponsor their previous Annual "Santa Monica Baykeeper" Event. A \$5,000 sponsorship offers eight tickets to the event, logo in program and inclusion in email alerts, newsletters and social media.
3. Southern California Association of Governments (SCAG) Regional Conference & General Assembly
  - a. SCAG holds an Annual Regional Conference & General Assembly that offers the opportunity to network with elected officials, decision makers, community leaders and business stakeholders that are committed to building a sustainable Southern California. A \$1,000 sponsorship offers two conference registrations, listing in conference program, exhibit space and logo with link to West Basin website.

Based on the Board's input, staff will incorporate any recommended inclusions to the budget.

### **Budget Highlights**

The FY 2013-14 Operating Budget projects approximately \$192 million in revenues from water sales, fixed revenues and other revenues as listed below.

1. Assumes approximately \$162.7 million in water sales including recycling and Desalter sales based on the rates and charges approved by the Board through Resolution No. 4-13-972 at the April 22, 2013 Board meeting. Water Sales assumptions include retail imported water sales of 106,000 AF; imported water Barrier sales of 5,100 AF; recycled water sales of 37,745 AF and reflects increased sales to the West Coast Basin Barrier and NRG; and Desalter sales of 1,080 AF;
2. Anticipates approximately \$9 million in Local Resources Program (LRP) incentive from Metropolitan Water District (MWD);
3. Incorporates Board's approval of Resolution No. 4-13-975 to assess the Standby Charge at prescribed rates for single family residential, multi-family residential or non-residential and is estimated to result in approximately \$9.6 million in collections;
4. Assumes fixed revenues of \$8.2 million for the individual refineries and LADWP's capital payments;
5. Assumes conversation income of approximately \$1.3 million from grants and other incentives from MWD and retail customer agencies; and
6. Assumes interest and miscellaneous income of \$0.8 million.

The FY 2013-14 Operating Budget expenditures are comprised of water purchases, program expenses (primarily recycling operations), debt service, and designated funds as listed below.

1. Water purchases and pass-through charges are approximately \$109.7 million;
2. Program expenses of \$41.8 million that includes costs for water recycling operations, Desalter operations, water policy and resource management, public information and education, and conservation. The recycled water operations budget is approximately \$33.8 million of the Program Expenses and approximately \$2.2 million higher than the previous fiscal year. The increase is attributed to anticipated higher operating costs for the increase sales to NRG and the West Coast Basin Barrier, anticipated increase in electricity rates, and increase in contract labor costs. The other program expenditures have remained fairly flat;
3. Incorporates 43 positions including two new positions for an Operations Analyst and a Records Management Technician;
4. Debt Service represents \$30 million and is approximately \$2.5 million higher than the previous year's budget as a result of financing the Phase V expansion; and
5. Approximately \$10.3 million in designated funds will be invested towards capital projects.

Based on the above assumptions, West Basin should achieve all-in debt coverage of 1.35.

#### BENEFIT TO WEST BASIN:

The budget provides West Basin a performance tool to measure accountability to its stakeholders.

#### STRATEGIC BUSINESS PLAN IMPLEMENTATION:

Goal 4: Sound Financial and Resources Management – West Basin is committed to efficient business operations, financial planning, and asset management.

#### FISCAL IMPACTS:

The FY 2013-14 Budget anticipates net revenues of approximately \$10 million that will be applied towards West Basin's Designated Funds and achieves 1.35 debt service coverage.

#### ENVIRONMENTAL COMPLIANCE:

Not applicable.

#### COMMITTEE STATUS:

This item was reviewed by the Finance Committee on May 15, 2013 and recommended adopting the FY 2013-14 Budget at the May 29, 2013 Board meeting. The Committee requested additional information on sponsorships before consideration of approval at the May 29, 2013 Board meeting.

**RECOMMENDED MOTION:**

That the Board considers:

1. Adding sponsorship to the Los Angeles Council Black Professional Engineers in the amount of \$1,700 and annual corporate membership in the amount of \$1,000 to the FY 2013-14 budget;
2. Adding sponsorship to the Los Angeles Waterkeeper in the amount of \$5,000 to the FY 2013-14 budget;
3. Adding sponsorship to the Southern California Association of Governments (SCAG) Annual Regional Conference & General Assembly in the amount of \$1,000 to the FY 2013-14 budget; and
4. Adopts the FY 2013-14 Budget with the incorporation of the additional sponsorships/memberships.

**LIST OF EXHIBITS:**

Exhibit "A" – Draft FY 2013-14 Budget

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**SPECIAL BOARD MEETING  
WEST BASIN MUNICIPAL WATER DISTRICT  
17140 S. AVALON BLVD., CARSON, CA 90746  
WEDNESDAY, MAY 29, 2013 – 1:00 P.M.**



## **MEETING AGENDA**

- 1. DETERMINATION OF QUORUM  
PLEDGE OF ALLEGIANCE**
  
- 2. PUBLIC COMMENT AND PRESENTATIONS**
  - A. SOLAR CUP PRESENTATIONS**

NOTE: (Members of the public are invited to present comments to the Board on matters within the District's jurisdiction but not on the agenda. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to inform the Board Secretary prior to the start of the meeting. The public may present comments on agenda items when the matter is called.)

NOTE: At the discretion of the Board, all items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

- 3. WATER RECYCLING PLANT OPERATIONS UPDATE – ORAL REPORT**
- 4. LEGISLATIVE UPDATE – ORAL REPORT**
  - A. AB 145 OVERVIEW**
- 5. METROPOLITAN WATER DISTRICT ACTIVITIES UPDATE**
- 6. AB 1234 REPORTING COMPLIANCE**

Members of the legislative body shall provide brief reports (written or oral) on meetings attended at the expense of the local agency at the next regular meeting of the legislative body.

## **CONSENT CALENDAR**

NOTICE: All matters listed under the Consent Calendar are considered to be routine and non-controversial and will be acted upon by the Board by one motion in the form listed below. There will be no separate discussion on these items prior to the time the Board votes unless any Board members, staff or the public requests specific items to be discussed and/or removed from the Consent Calendar for separate action.

- 7. APPROVAL OF MINUTES – APRIL 3, 2013 (MWD CAUCUS), APRIL 4, 2013 (SPECIAL), APRIL 22, 2013 (REGULAR-WB), APRIL 22, 2013 (SPECIAL-WBFC) and APRIL 29-30, 2013 (SPECIAL)**
- 8. FINANCIAL REPORT**
  - A. Demands**
  - B. Cash & Investments**
  - C. Water Sales Statements**
  - D. Recycled Water Revenue & Expense Summary**

9. SOCIAL SECURITY DISABILITY UPDATE
10. SMART SPRINKLER CONTROLLER EXCHANGE EVENTS
11. THIRD QUARTER 2012-13 BUDGET TO ACTUALS
12. INGLEWOOD RECYCLED WATER DISINFECTION STATION PROPERTY USE AGREEMENT
13. OCEAN-WATER DESALINATION UPDATE
14. CAPITAL IMPROVEMENT PROGRAM UPDATE
15. RECYCLED WATER CUSTOMER DEVELOPMENT PROJECT UPDATE

### **ACTION CALENDAR**

16. STANDBY CHARGE POLICY – ADMINISTRATIVE CODE AMENDMENT
17. FISCAL YEAR 2013-14 BUDGET ADOPTION
18. WATER HARVEST PLANNING CONSULTANT
19. FISCAL YEAR 2012-13 EVENT SPONSORSHIPS
20. DONALD L. DEAR BUILDING ROOF REPLACEMENT PROJECT
21. FISCAL YEAR 2013-14 CONTRACT AWARD FOR SUPPLY AND DELIVERY OF CHEMICALS
22. CURRENT SUPPLY AND DELIVERY OF FERRIC CHLORIDE CONTRACT EXTENSION
23. PHASE III MICROFILTRATION CLEAN-IN-PLACE PIPE CRITICAL REPAIRS
24. TITLE 22 RECYCLED WATER PRODUCT PIPE EMERGENCY REPAIR
25. WEST COAST BASIN BARRIER TRACER STUDY
26. RECYCLED WATER CUSTOMER DEVELOPMENT CONSULTANTS
27. CONTRACT LABORATORY SERVICES - MICROBIOLOGY
28. LOS ANGELES AIR FORCE BASE POTABLE BACK-UP SYSTEM

### **COMMENTS**

29. GENERAL MANAGER'S REPORT
30. GENERAL COUNSEL'S REPORT
31. AD HOC COMMITTEE UPDATES
32. DIRECTORS' COMMENTS

**33. CLOSED SESSION**

**A. PURSUANT TO GOVERNMENT CODE SECTION 54956.9 (d) (1) PENDING LITIGATION – 5**

**ITEMS**

1. CENTRAL BASIN MUNICIPAL WATER DISTRICT vs. WATER REPLENISHMENT DISTRICT – CASE NO. BS 129817
2. SAN DIEGO WATER AUTHORITY vs. METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA, ET AL CASE # CPF-10-510830
3. CALIFORNIA WATER SERVICE CO. vs. CITY OF COMPTON et al, LASC Case No. C506806
4. WEST BASIN MUNICIPAL WATER DISTRICT vs. BRUTOCO ENGINEERING, INC. and DOES1 THROUGH 40
5. LOS ANGELES COMMUNITY COLLEGE DISTRICT vs. WEST BASIN MUNICIPAL WATER DISTRICT

**B. PURSUANT TO GOVERNMENT CODE SECTION 54956.9 (d) (3) POTENTIAL LITIGATION –**

**3 ITEMS**

**C. PURSUANT TO GOVERNMENT CODE SECTION 54956.8 – PROPERTY NEGOTIATIONS –**

**2 ITEMS**

1. AES, 1100 North Harbor Dr., Redondo Beach, CA 90277-2017
2. NRG, El Segundo Operations, 301 Vista del Mar, El Segundo, CA 90245

**D. PURSUANT TO GOVERNMENT CODE SECTION 54957 – PERFORMANCE EVALUATION –**

**General Manager – 1 Item**

**ADJOURNMENT**

**Next Board Meeting – June 24, 2013 – 1:00 p.m.**

**Note:** Notice of this Agenda may be found on the District's Web Site at [www.westbasin.org](http://www.westbasin.org). For further information or questions, please contact the Board Secretary at (310) 660-6229.





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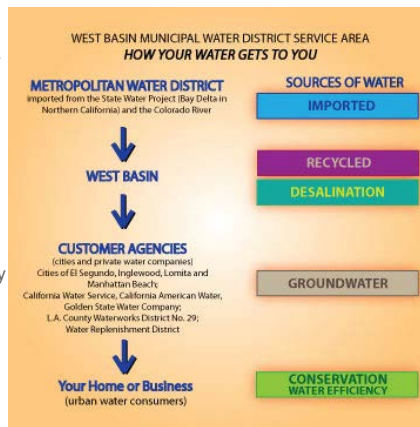
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**WATER RATES**

On an annual basis, West Basin reviews and adopts water rates.

This year, on May 30, 2012, the Board of Directors of the West Basin Municipal Water District (West Basin) approved West Basin's water rates for Fiscal Year 2012-2013. West Basin's rate is referred to as a Reliability Service Charge (RSC) and it is added to the rates charged by the Metropolitan Water District of Southern California (Metropolitan) for imported

water. West Basin's reliability charge supports projects and programs to maintain or improve reliability and is small compared to the overall cost of importing water. For example, a recent State Audit in examining one South Bay water retailer's bill indicated that West Basin contributes 8% of local water costs. The RSC allows West Basin to efficiently manage and ensure a high-quality, reliable source of water for 17 coastal Los Angeles cities.



[FY 2013-2014 Schedule of Water Rates and Charges](#)

[FY 2012-2013 Schedule of Water Rates and Charges](#)

[FY 2011-2012 Water Rates and Charges](#)

**The Value of Water - Water Rates Explained**

West Basin Municipal Water District (West Basin) is a wholesale water agency that manages the water supply for 17 coastal Los Angeles cities. Most of Southern California uses a mixture of imported water and local water supplies consisting of groundwater (well water), conserved water, recycled water and other supplies. In Southern California, approximately half of the water used is imported from 200-400 miles away and the other half comes from local water supplies.

The Metropolitan Water District of Southern California (Metropolitan) procures water from the State Water Project and imports water from the Colorado River to provide supplies to West Basin's service area. Metropolitan's water rates pay for the treatment of drinking water, the operation and maintenance of treatment facilities, conveyance structures, energy costs and other fees needed to bring water hundreds of miles from Northern California and the Colorado River.

West Basin ensures that a reliable supply of high quality water is available for every community. West Basin sells water to eight separate water agencies and companies,

**INTERACT**





or retail water providers. Depending on the city in which you live, your provider will have access to a mix of imported water, local groundwater, conserved water and recycled water for your community. Each water source has a different cost, and subsequently, your water rates vary.

West Basin's cost to manage the water supply for coastal Los Angeles is called a Reliability Service Charge (RSC). This cost is added to the imported water rates charged by Metropolitan. West Basin's RSC is generally a small part of overall water costs, approximately 10%. West Basin is a water wholesale agency and its customers are nine water agencies and cities: California American Water, California Water Service Company, Golden State Water Company, Los Angeles County Waterworks District 29, the cities of El Segundo, Inglewood, Lomita and Manhattan Beach, and the Water Replenishment District.

The RSC makes water reliability possible. West Basin has local and reliable water supply programs made up of recycling and conservation, and, more recently, research into ocean water desalination through a Temporary Ocean Water Desalination Demonstration Facility. The water supplies that West Basin produces here in the South Bay are locally-controlled and drought-proof. This reliability investment not only makes our future water supplies more secure, it also helps Metropolitan meet its future needs and reduces Southern California's dependence on distant water sources.

West Basin is always looking for ways to keep costs down and finds funding partners to be as efficient as possible and keep rates fair. During times of water shortages and rationing, West Basin customers are less likely to be subjected to increased costs for water (sometimes two or three times normal rates) due to water saved through investments made in recycling and conservation programs. Providing value is a high priority for this water agency. West Basin has been able to secure outside investment for one-third for its recycling facilities and West Basin's conservation programs provide \$7 worth of programs to the community for each \$1 West Basin contributes.

West Basin's rate increases are generally needed to pay for increased costs of chemicals, energy, and facility replacement and refurbishment, provide water use efficiency programs and research new local water supply sources such as ocean water desalination.

West Basin and Metropolitan are proactively investing in diverse water supplies as solutions to imported water supply challenges. West Basin continues to invest in additional reliable, local water supplies through its Water Reliability 2020 (WR2020) program. By 2020 West Basin plans to reduce its dependence on imported water by 50 percent through continued investments in recycled water, conservation and responsible ocean water desalination

If you're interested in touring the West Basin facilities mentioned above, [please click here](#). We also have a [Speakers Bureau](#) available to speak to your group. Please call West Basin as 310-660-6200 to schedule a speaker or a tour.

## West Basin Municipal Water District

FY 2013-14 Water Rates and Charges

Board Approved April 22, 2013

### Rates Effective July 1, 2013 to December 31, 2013

	MWD Commodity	MWD RTS	Reliability Svc Charge	Total
Non-Interruptible & Barrier (Tier 1)	\$847/AF	\$135/AF	\$124/AF	<b>\$1,106/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$997/AF	\$135/AF	\$124/AF	<b>\$1,256/AF</b>

### Rates Effective January 1, 2014

	MWD Commodity	MWD RTS	Reliability Svc Charge	Total
Non-Interruptible & Barrier (Tier 1)	\$890/AF	\$143/AF	\$124/AF	<b>\$1,157/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$1,032/AF	\$143/AF	\$124/AF	<b>\$1,299/AF</b>

### MWD Non-Interruptible Commodity Rate

	Effective Dates	
	<u>1/1/13</u>	<u>1/1/14</u>
Supply Rate Tier 1	\$140	\$148
Supply Rate Tier 2	\$290	\$290
System Access Rate	\$223	\$243
Water Stewardship Rate	\$41	\$41
Treatment Rate	\$254	\$297
Power Rate	\$189	\$161
<b>Total Tier 1</b>	<b>\$847</b>	<b>\$890</b>
<b>Total Tier 2</b>	<b>\$997</b>	<b>\$1,032</b>

#### Capacity Charge

Designated Amount<sup>1</sup>

Effective Jul 1 to Dec 31, 2013

Effective Jan 1, 2014

**\$5,500/cfs**

**\$6,600/cfs**

(1) Designated amount is an Agency's highest peak (per cfs) from the past three summer periods (May 1-Sept. 30)

#### Monthly Water Service Charge

Effective July 1, 2013

WBMWD Water Service Charge

**\$46/cfs<sup>2</sup>**

(2) Per cfs as determined by agency's meter capacity

### WBMWD Recycled Water Rates

Effective July 1, 2013

Volume (AF/Month)	WBMWD Service Area	West Coast Barrier (<4,500 AF)	West Coast Barrier (4,500+ AF)	Industrial R/O (WB Svc Area)	Nitrified (Ind R/O usage)	Industrial R/O Ultra (WB Svc Area)	Torrance / LADWP Service Areas
0-25	<b>\$908/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$950/AF</b>
25-50	<b>\$898/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$940/AF</b>
50-100	<b>\$888/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$930/AF</b>
100-200	<b>\$878/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$920/AF</b>
200+	<b>\$868/AF</b>	<b>\$1,051/AF</b>	<b>\$578/AF</b>	<b>\$1,136/AF</b>	<b>\$888/AF</b>	<b>\$1,492/AF</b>	<b>\$910/AF</b>