

# **WEST BASIN MUNICIPAL WATER DISTRICT**

## **STAND-BY CHARGE POLICY**

Updated 2/27/17

**Excerpt from West Basin Administrative Code**

**Part 4. Financial Matters, Chapter 1. Administrative Matters,  
Article 8. Stand-By Charge Policy**

# TABLE OF CONTENTS

**PART 4. FINANCIAL MATTERS..... 4-1**

**CHAPTER 1. ADMINISTRATIVE MATTERS..... 4-1**

ARTICLE 8. STANDBY CHARGE POLICY ..... 4-1

4-1.801 PURPOSE ..... 4-1

4-1.802 BACKGROUND ..... 4-1

4-1.803 STANDBY CHARGE..... 4-2

4-1.804 ROLES AND RESPONSIBILITIES ..... 4-2

4-1.805 DEFINITIONS ..... 4-3

4-1.806 ANNUAL REVIEW OF THE STANDBY CHARGE ..... 4-4

4-1.807 CONSIDERATION OF STANDBY CHARGE CONTINUATION..... 4-4

4-1.808 ANNUAL REPORTING REQUIREMENT..... 4-5

4-1.809 FURTHER INFORMATION..... 4-5

**List of Changes for Part 4. Financial Matters, Chapter 1. Administrative Matters,  
Article 8. Standby Charge..... 4-6**

**PART 4. FINANCIAL MATTERS**  
**CHAPTER 1. ADMINISTRATIVE MATTERS**  
**ARTICLE 8. STANDBY CHARGE POLICY**

**4-1.801 PURPOSE**

The Standby Charge Program was initially established in 1991, amended the following year and currently follows California Government Code Section 54984. The Standby Charge is considered annually by the Board for re-adoption based on review of progress towards the initial estimates for the recycled water program and the need to continue the annual collection to partially pay the annual debt service.

**4-1.802 BACKGROUND<sup>1</sup>**

The drought of 1987-92 led to voluntary water rationing due to restrictions in available imported water supplies. During that time period West Basin Municipal Water District (West Basin), the imported water wholesaler for southwest Los Angeles County, was only delivering 20 percent of committed imported water purchases, creating a shortage in water supply for the region. Immediate action was called for to help alleviate drought impacts. Residents and businesses were conserving but it was not enough to make up for the shortfall in imported water supplies. Because there is no way to predict the length of drought and when it may reoccur, West Basin explored several alternatives to meet the water supply demands of its service area. As part of that effort, the West Basin Board made the visionary decision to develop a world class water recycling program that would encourage commercial, industrial and landscape users to replace a portion of their potable water usage with customer tailored recycled water, treated to meet individual needs. Connecting these types of users to a recycled water supply would conserve millions of gallons of the region's drinking water per day.

To assist in creating a new local drought-proof supply, West Basin implemented a Standby Charge to help West Basin achieve and finance a water recycling program. The new recycled water program would include a treatment plant, distribution pipelines

and appurtenances, along with water conservation and brackish groundwater desalting projects.

West Basin set an original target to ultimately produce 70,000-100,000 acre-feet per year (AFY) of recycled water to conserve potable drinking water supplies.

#### **4-1.803 STANDBY CHARGE**

The Standby Charge has been in place since Fiscal Year (FY) 1991-92 and was originally set at \$10 per parcel on parcels less than one acre and a rate of \$10 per acre or portion thereof, for parcels greater than one acre. In FY 1992-93, the Standby Charge was modified to a variable charge to reflect the benefits associated with different types of land users. The methodology for determining the variable charge is described in West Basin's engineer's report that was originally prepared in 1992 and reviewed annually.

The Standby Charge rates are as follows:

- (a) \$16 per dwelling unit for a multi-unit residential property;
- (b) \$24 per parcel for parcels less than one acre and a rate of \$24 per acre or portion thereof, for parcels greater than one acre for single family and duplex properties; and
- (c) For other than residential parcels, a rate of \$120 per parcel for parcels less than one acre and a rate of \$120 per acre or portion thereof, for parcels greater than one acre.

#### **4-1.804 ROLES AND RESPONSIBILITIES**

The Standby Charge Policy is reviewed and considered annually for adoption by the Board. Future updates to the Standby Charge Policy will require approval by the Board.

The Chief Financial Officer is the designated administrator of the Standby Charge Policy. The Chief Financial Officer has the day-to-day responsibility for managing and monitoring the Standby Charge Program. The General Manager is responsible for implementing the Board's policy and ensuring compliance.

**4-1.805 DEFINITIONS<sup>2</sup>**

- (a) Actual Debt Coverage is calculated based on net revenue divided by annual debt service at the completion of any one fiscal year.
- (b) Budgeted Debt Coverage is calculated based on net revenue divided by annual debt service as determined in the adopted Fiscal Year budget.
- (c) Debt Service are those portions of the principal amount of all outstanding bonds or other debt instruments required to be redeemed or paid, and interest payments on bonds or other debt instruments used to finance capital facilities.
- (d) Designated Funds are unrestricted funds that can be used for any lawful purpose at the discretion of the Board of Directors.
- (e) Cash Available for Capital Projects and Other Purposes is calculated as the difference between Net Revenues and Debt Service.
- (f) Net revenue is the difference between revenues and operating expenses. Revenues include all water revenues, Metropolitan Water District local resources program incentives, fixed revenue, conservation, or other income (including interest income). Operating expenses include water purchases and operating program expenses, but excludes non-cash items like depreciation, amortization or unrealized gains or losses.
- (g) Standby Charge is an annual charge paid by property owners in West Basin's service area to fund the debt service obligation on West Basin's water recycling facilities.
- (h) Standby Charge Defeasance Fund is a Board designated fund where monies will be set aside to accumulate to an amount sufficient to pay the remaining debt service.
- (i) Surplus Net Revenues is calculated when the actual debt coverage exceeds the budgeted debt coverage and represents the difference between actual and budgeted Cash Available for Capital Projects and Other Purposes less capital grants and capital reimbursements.

**4-1.806 ANNUAL REVIEW OF THE STANDBY CHARGE<sup>3</sup>**

When the Standby Charge was initially established, certain assumptions were presented to the Board and the public about the recycled water program, including the future need for the Standby Charge.

Those initial assumptions include:

- (a) (The timing to construct the needed recycled water facilities to meet the estimate of future delivery of 70,000-100,000 AFY and the related debt necessary to support those efforts;
- (b) The expected timing of when the recycled water deliveries would occur;
- (c) The expected increased cost of imported water; and
- (d) The cost to produce recycled water.

Annually, West Basin staff reviews the original goals and assumptions with the Board to determine the continuance of the Standby Charge. This information is to be considered part of West Basin's annual budgeting process and Standby Charge proceedings. At a minimum, the Standby Charge proceedings are to follow the California Government Code Section 54984 and include, but not be limited to, the annual review and update of West Basin's annual engineer's report, the Notice of Intent Resolution, filing of the Negative Declaration with the County of Los Angeles, and holding a Public Hearing. Each of these steps shall occur prior to the Board considering re-adoption of the Standby Charge each year.

**4-1.807 CONSIDERATION OF STANDBY CHARGE CONTINUATION<sup>4</sup>**

The Board may consider eliminating the Standby Charge if it determines that the original estimate of 70,000 to 100,000 AFY will be or has been met and all of the associated debt to meet those deliveries has been paid.

If the actual debt coverage exceeds budgeted debt coverage, the Board may set aside up to 100% of the monies; hereafter referred to as Surplus Net Revenue.

If the actual debt coverage falls below the budgeted debt coverage, no monies can be set aside.

The Board has created a designated fund, the Standby Charge Defeasance Fund, in which any Surplus Net Revenue is deposited, per the Board's direction.

Once sufficient monies have been set aside in the Standby Charge Defeasance Fund to pay the remaining principal, accrued interest and prepayment penalties, if any, the Board may consider eliminating the Standby Charge.

#### **4-1.808 ANNUAL REPORTING REQUIREMENT<sup>5</sup>**

As part of initiating the Standby Charge proceedings each year, staff will provide an annual report of the following matters:

- (a) A calculation of the Surplus Net Revenue based on the final audited financial statements;
- (b) An account summary of the Standby Charge Defeasance Fund; and
- (c) An analysis that compares the balance of the Standby Charge Defeasance Fund to the remaining principal and any accrued interest or prepayment penalties.

#### **4-1.809 FURTHER INFORMATION**

Request for information pertaining to the Standby Charge Program can be obtained through filing a Public Records Request. A form is available by contacting West Basin or visiting [www.westbasin.org](http://www.westbasin.org).

West Basin Municipal Water District  
Attention: Board Secretary  
17140 S. Avalon Blvd., Suite 210  
Carson, CA 90746

**LIST OF CHANGES FOR PART 4. FINANCIAL MATTERS,  
CHAPTER 1. ADMINISTRATIVE MATTERS, ARTICLE 8. STANDBY CHARGE**

---

<sup>1</sup> Section 4-1.802 amended by Resolution 2-17-1059 on February 27, 2017.

<sup>2</sup> Section 4-1.805 amended by Resolution 2-17-1059 on February 27, 2017.

<sup>3</sup> Section 4-1.806 amended by Resolution 2-17-1059 on February 27, 2017.

<sup>4</sup> Section 4-1.807 amended by Resolution 2-17-1059 on February 27, 2017.

<sup>5</sup> Section 4-1.808 amended by Resolution 2-17-1059 on February 27, 2017.