

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

# West Basin Municipal Water District

CALIFORNIA

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## **OPERATING BUDGET**

Fiscal Year 2009-2010

Adopted June 22, 2009

Prepared by:  
Finance Department  
Margaret Moggia  
Chief Financial Officer



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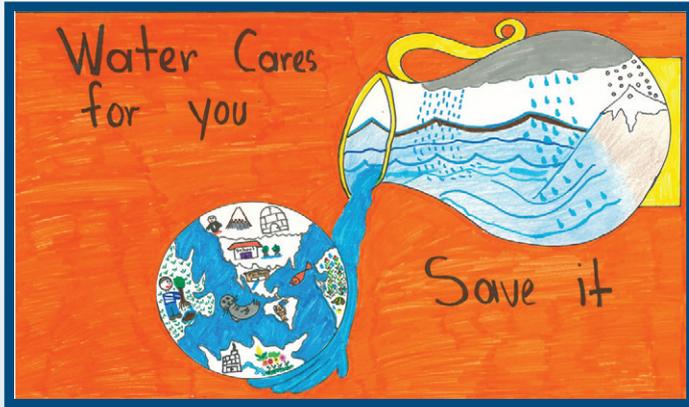
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**West Basin Municipal Water District**  
Fiscal Year 2009-2010 Budget  
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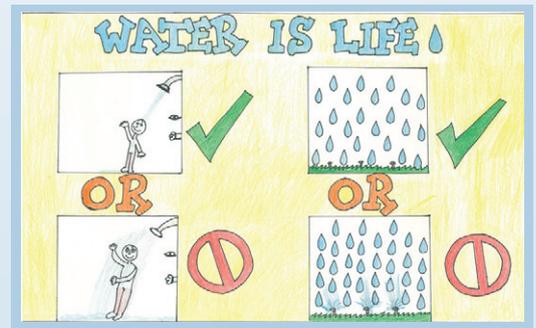
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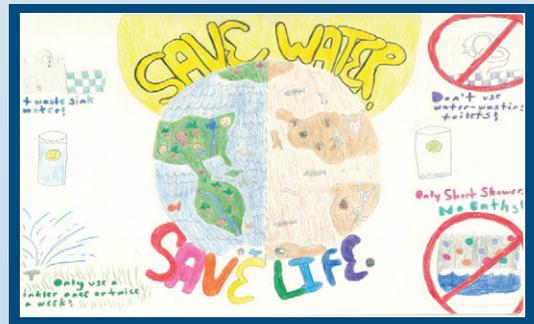
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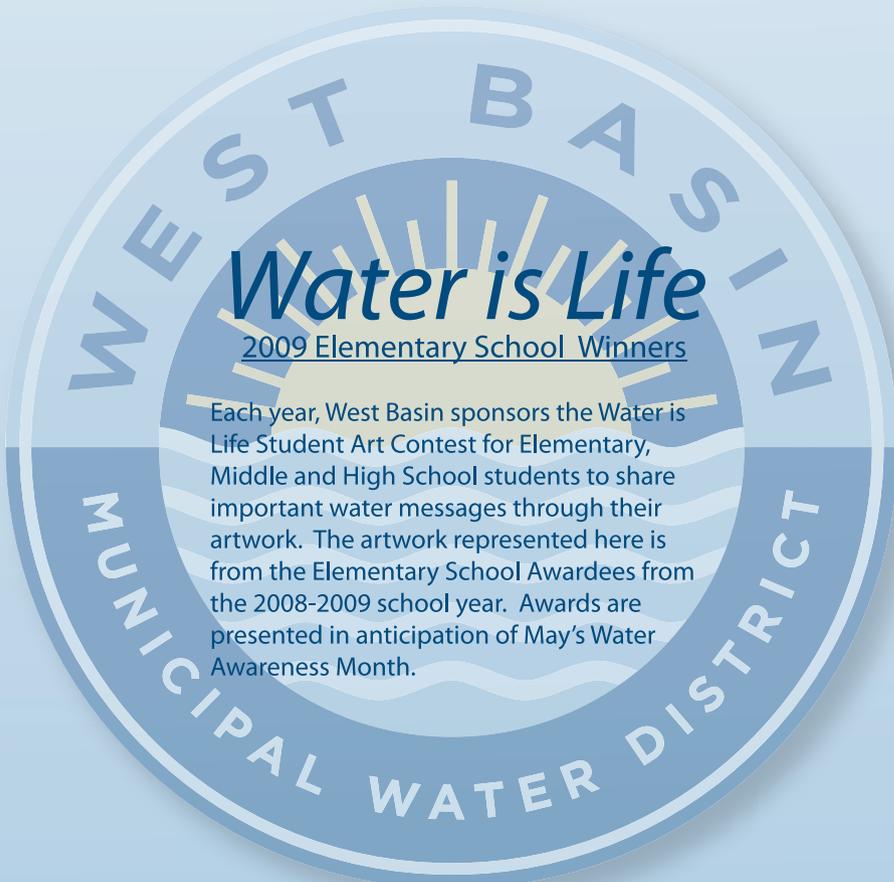
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June 22, 2009

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

West Basin Municipal Water District (West Basin) staff is pleased to present its fiscal year July 1, 2009 to June 30, 2010 (FY 2010) budget. Once again, this year's budget has been challenging, yet rewarding, to compile. California's water industry is politically, environmentally and operationally challenged by both fiscal and physical constraints to deliver safe and reliable water. The development of this budget document is the result of the dedication and commitment of West Basin's Board of Directors and staff focused and prepared to meet its mission through solid financial management.

Over the past year, West Basin's Board of Directors dedicated significant time and effort to develop a long-term vision to meet its commitments to its customers and communities. A new Mission Statement and Strategic Business Plan (Strategic Plan) shape this vision.

West Basin's Mission Statement is "To provide a safe and reliable supply of high quality water to the communities we serve." The Strategic Plan focuses on key goals and objectives to achieve success. These goals are water reliability, workforce, water quality, environment, communications, customer/community service, infrastructure and finance. The Strategic Plan provides continuous direction for each year's planning, budgeting, implementation, evaluation and reporting. As staff prepared this year's budget, they focused on achieving the goals and activities described within the Strategic Plan.

As part of the process to redefine its vision, West Basin conducted a customer survey of its water purveyors (cities, private water companies and water agencies). Results from the survey indicated that West Basin's efforts are aligned to its customers' needs. In order to support our efforts of providing value to our customers and communities, the Board of Directors adopted five Commitment Statements, values we promise to our customers and communities that describe what they can expect from West Basin. The five Commitments are based on West Basin's Mission Statement:

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

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

SOUND FINANCIAL AND RESOURCE MANAGEMENT – West Basin is committed to efficient business operations, financial planning and asset management.

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

ENVIRONMENTAL STEWARDSHIP– West Basin is committed to sustainable and environmentally-friendly business practices.

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

As a municipal water district that wholesales water to 17 cities within the southwest area of Los Angeles, West Basin is concerned about water supply issues locally and regionally, specifically with respect to the State Water Project and the Colorado River. For West Basin, imported water comprises 66% of its water supply portfolio with other water needs met through water conservation, recycling and groundwater.

Significant coverage about water supply availability has permeated throughout the past year through the news media (newspapers, radio, television, and the internet) and through targeted advertising. The issues range from environmental regulations to low water hydrology from the source water - the High Sierras and the Colorado River. To ensure that Metropolitan Water District of Southern California (MWD), who imports the water to Southern California, meets its demands, MWD has conducted outreach focused on conservation messaging and water availability to ensure that water supply conditions today and in the future are sufficient to meet the demands of its constituents in Southern California, including the residents and businesses within the West Basin service area. West Basin has additionally conducted outreach focused on water reliability, conservation and water recycling to educate our communities about our fragile water supply and the need to think differently about how we use water in our homes and businesses.

For the past few years, MWD has been monitoring water supply conditions and, last year, declared a “water supply alert” for Southern California. This set the stage for MWD to approve a Water Supply Allocation Plan (Allocation Plan). During the winter season, the State of California Department of Water Resources (DWR) measures the snowpack monthly to assess potential available water. That available water has been reduced due to court restrictions imposed last year to protect the endangered Delta Smelt and other fish populations. The snowpack assessment resulted in a 25% allocation from the State Water Project. In April 2009, the MWD Board voted to enact the Allocation Plan effective July 1, 2009.

To effectively address the water allocation, West Basin prepared a similar plan with its customers, modeled on MWD’s plan, to address the challenges presented by future water supplies. Our allocation plan will establish price signals and other key steps to undertake should the water supply picture continue to deteriorate. For FY 2010, MWD approved a 21% water rate increase, which will be passed through to customer agencies.

To make up for additional demands, MWD continues to pull from its reservoirs, creating concerns about future supplies. In addition, MWD looks to purchase water transfers from outlying areas throughout the State. The cost for these water transfers has continued to increase as these opportunities become scarce.

With the news about water shortages and the increased need to support conserving water and maximizing efficient use of water, West Basin experienced a 7% decline in its water sales. Unlike past years, this decline impacted water deliveries less than the budgeted demand. As a result, West Basin has modified its approach to budget for imported water deliveries to adjust to the current state of water availability, the allocation, and the increased need to conserve water.

Aside from imported water challenges, West Basin also experienced declines in its recycled water sales. From planned turnarounds at refineries to water quality issues impacting anticipated deliveries to several of its customers, West Basin's recycled water deliveries are expected to be lower than budgeted. Also, West Basin continues to address water quality issues with desalter sales. Several solutions have been put into place and West Basin anticipates higher than actual sales in FY 2010. To address this issue more conservatively, the FY 2010 budget assumes that deliveries will be 90-95% of actual water deliveries from the previous fiscal year.

### **Global Financial Market Challenges**

In light of persistent news about the economy – specifically, declining real estate values and loss of jobs impacting local communities - West Basin's mission to provide a safe and reliable supply of water is not greatly impacted. Families and businesses need this vital resource, and changes in population, foreclosures or closed businesses do not directly impact West Basin as they might other public agencies. The decline in sales experienced by West Basin is the direct result of our effective conservation outreach campaign through encouraging a change in behavior, retrofitting with water-efficient devices, and shifting our collective outlook toward our water supply.

In addition to decreased demand and water sales, West Basin has been impacted by the changes occurring in the financial markets. In Fall 2008, West Basin experienced an interesting phenomenon - higher interest costs on its debt and lower interest earnings. Key financial players were eliminated, credit quality on financial institutions and bond insurers continued to decline and, as a result, nervous investors moved toward lower risk investments. This dropped the Treasury Rate to near zero. The investors who held West Basin's variable rate debt felt exposed with negative news from its liquidity provider. As a result, West Basin experienced a sharp increase in its weekly variable rates followed by investors placing their bonds back to the liquidity provider. What this meant to West Basin was a significantly higher interest rate of 12%. With no movement on the bank bonds for several months, West Basin considered other options, including replacing the liquidity provider or refunding to fixed rate bonds. Fortunately, the bank bonds were once again remarketed and the interest rates have begun to normalize. West Basin continues to be mindful of the financial market and monitors its movement.

## **Other challenges**

In addition to water supply and global financial challenges, West Basin faces a number of other issues. Higher operating costs for chemicals and facility maintenance on West Basin's recycling facilities has caused a significant rise in water recycling operations costs during FY 2009 and is anticipated to continue. The facility is nearly 15 years old and has begun to age with several original key components now requiring replacement. The Capital Implementation Master Plan (CIMP) addresses these issues and provides the framework for the financial model and forthcoming Long Range Financial Plan.

While the State of California addresses its \$26 billion deficit, West Basin is not expecting to be directly impacted by suspensions of Proposition 1A (Property Tax) or other increases to sales, gasoline or other taxes. None of West Basin's programs are funded by these sources. Its programs are funded from the direct rates and charges set by the Board of Directors. West Basin does receive grant funding from the State of California for various conservation programs, which has been impacted by the State's fiscal crisis. To address the potential impact from a loss or delay of State funding, West Basin has scaled back its conservation efforts. In 2009, MWD's funding for conservation programs has been a victim of its own success, resulting in MWD reevaluating the funding it provides for conservation incentive programs. This resulted in a loss or reduction in incentive funding for Member Agencies for conservation devices. West Basin reviewed its Conservation Master Plan and has slowed many of its programs. As a response, the West Basin Board of Directors approved an additional \$1 on the rates to fund an important program, the High-Efficiency Toilet exchange program, a community event in which residents bring their water-wasting toilets and exchange them for a free high-efficiency toilet. West Basin continues to be hopeful that both the State of California and MWD are able to address their fiscal constraints and will once again offer these grant and incentive funding programs to help its Member Agencies promote water conservation.

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

West Basin continues to improve local water reliability through a diversified water supply portfolio and more locally-controlled sources of supply. Not only has West Basin built a world renowned water recycling facility, our agency has been recognized by our peers for innovative planning and programs such as the Conservation Master Plan, free educational programs for school children and investments in the research and testing of ocean-water desalination to protect against future droughts and water supply cutbacks.

In 1990, West Basin was about 80% dependent on imported water. Today, through appropriate investment in water recycling and conservation, West Basin is now about 66% dependent. By 2020, through its Water Reliability 2020 program, West Basin intends to reduce our dependence on imported water to only 33% of its water supply portfolio through the continued expansion of existing water recycling and conservation programs and adding ocean-water desalination to its water supply portfolio. It is imperative to our

service area that West Basin continue to invest in these and other programs to ensure that the nearly one million West Basin residents and businesses have a reliable supply of water.

West Basin's programs presented in FY 2010 are similar to those shown in prior years. No new programs were added; however, a change in FY 2009's organizational structure moved conservation outreach programs to the Public and Government Affairs department budget, which were previously shown in Resources Planning. To reflect comparative budgets and actual/projected results, West Basin has regrouped the related costs. Since 2006, staffing levels remain consistent at 33 full-time equivalent positions. However, West Basin's focus on Water Reliability 2020 has resulted in the addition of one full-time staff person supporting these efforts in FY 2009-2010. This position will be within the Public and Government Affairs department budget.

To continue our progress with local water supply reliability for our service area, West Basin prepared two critical reports – the Local Resources Strategic Plan and the Capital Implementation Master Plan or CIMP. These two reports will assist management in identifying key expansions and options for various levels of reliability for the Board of Directors to consider. The CIMP will additionally assess the current infrastructure and identify the related costs for maintaining existing facilities. The information produced in these reports is critical to helping the organization protect against future water supply reductions, prepare for emergencies, and provide for ongoing needs of our service area.

Currently, West Basin maintains a five-year outlook that focuses on anticipated water rate increases, projected operating expenditures and an assumption of capital project costs. With the emphasis on water supply reliability, West Basin will need to effectively plan for the necessary investment required to build and maintain the capital infrastructure. These capital efforts will be supported by the development of a Long-Range Financial Plan and Dynamic Financial Model. This plan is intended to provide the following elements: a discussion on water supplies, financial forecast, debt management, risk factors, and comprehensive financial policies. These efforts will be communicated to West Basin's customers and stakeholders through our Water Reliability 2020 Program messaging to demonstrate the value West Basin continues to provide, especially as the costs rise for supplying safe and reliable water.

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

In addition to meeting the water reliability challenges in FY 2009, West Basin was successful in a number of other key areas that fulfill its Commitments. West Basin will continue these efforts in FY 2010:

#### **WATER RELIABILITY**

- Expand conservation efforts by reaching out to businesses and residents through various programs (Green Garden, Cash for Kitchens, Ocean-Friendly, High-Efficiency Toilet exchanges) or incentive rebates on hardware.
- Continue to explore advancements at the Edward C. Little Water Recycling Facility.

- Continue Water Reliability 2020 outreach to explain the need for more local control of our water supplies to mitigate water shortages and future droughts.
- Implement a District-wide water supply allocation plan.
- Continue the advancement of ocean-water desalination by moving forward with a temporary demonstration-scale facility.

#### WATER QUALITY

- Continue to work individually with each customer to address water quality or other operational issues.
- Implement changes as a result of the comprehensive water quality study for the water recycling system.
- Perform water quality analysis for the ocean-water desalination project.

#### SOUND FINANCIAL AND RESOURCE MANAGEMENT

- Continue to seek federal and state grants to offset costs for conservation or capital programs.
- Have a leadership role and actively participate in the Integrated Regional Water Management Plan (IRWMP) to collectively work with other agencies to bring state grant monies to the region.
- Enhance business operations through the implementation of the Integrated Technology Master Plan.

#### CUSTOMER SERVICE

- Continue to expand education programs for school age children from tours of the water recycling facility to sponsorships of MWD's Solar Cup High School program or other education venues.
- Host annual Water Harvest event to reach out to the community about water.
- Keep water purveyors informed of water reliability issues and water rates both by MWD and West Basin.
- Work with federal, state and local legislators to promote, change or introduce legislation to support the common efforts of West Basin and its customers.

#### ENVIRONMENTAL STEWARDSHIP

- Continue to investigate alternative energy sources and safe withdrawal of ocean-water for desalination.
- Continue to partner with environmental organizations in our education programs.
- Provide cost-effective give-aways that promote water efficiency, reduce water use, and are either made of recycled or recyclable materials or can be reused.

More specific accomplishments for FY 2009 and a preview to FY 2010 are described in each operating program. The capital efforts are described in the supplemental section.

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

### *Annual Budget and Process*

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

For FY 2010, West Basin has an operating budget of \$150,628,436, which represents an approximate 10% increase over last year’s budget. This amount represents approximately \$90 million in pass-through costs for the purchase of imported water, \$24 million in debt service, and \$31 million in program costs (including \$23 million for the water recycling operations). Revenues equal expenditures and it is our policy to place the amounts required to achieve targeted, budgeted debt coverage of approximately \$5 million into Designated Funds. This amount is shown under the expenditures table.

### *Credit Rating and Debt Coverage*

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

This past year, Standard & Poor’s (AA-) and Moody’s (Aa3) affirmed our credit rating. Through the Strategic Plan, the Board of Directors seeks to maintain or increase our credit rating. West Basin will establish its revenues and expenses to meet targeted budget debt coverage at each lien level and total debt. In addition, the development of the Long Range Financial Plan and other key financial policies will aid in maintaining a financially sound organization.

### *Funding and Rate Projections*

As a single enterprise fund, West Basin’s major source of funding is the commodity charge on its imported and recycled water sales, representing over 78% of total revenues. These sales enable West Basin to provide its customers with consistently reliable, high quality water in spite of drought, regulations, biological opinions, and other influences on the water supply. West Basin continues to contribute value to its customers through

recycling, conservation, planning, community outreach, legislative advocacy and effective operations and investments into the future.

For FY 2010, West Basin's Board of Directors adopted a \$10 increase in its water reliability charge; recycled water rates increases ranged from \$159-241; a \$5/cubic foot per second in its water service charge; and passed through MWD's 21% increase in the imported water commodity charge and an increase in the readiness-to-serve charge. In addition, the Board of Directors approved the annual standby charge collection of \$9.6 million to support water recycling facilities. A more thorough discussion of these various funding sources is located in the "Source of Revenue" section.

West Basin began the development of a Dynamic Financial Model and Long-Range Financial Plan to incorporate many of the decisions being contemplated to ensure our customers have safe and reliable water. As West Basin focuses on more locally controlled water, the financial model will aid in the development of future rate increases. West Basin will also develop additional financial policies that will direct continued expansion, protection and maintenance of its assets. At present, West Basin has an Investment Policy and Designated Funds Policy, which will be expanded with a more comprehensive Debt and Swap Policy. In addition, West Basin participates in discussions with MWD as they contemplate the fiscal impact of their operations.

West Basin is cognizant that the short-term and long-term projected rates have an impact on its customers. Even in this time of statewide drought, our rate increases have been carefully considered and communicated to and from the Board of Directors and with its customers. However, the current challenges facing the water community will impact these rate assumptions. West Basin is committed to showing the value of its efforts. West Basin will continue to work with its customers and other stakeholders to ensure that rate increases are fair, predictable, and mitigated to the greatest extent possible, and sufficient to ensure the continued delivery of safe, reliable water.

Respectfully submitted,



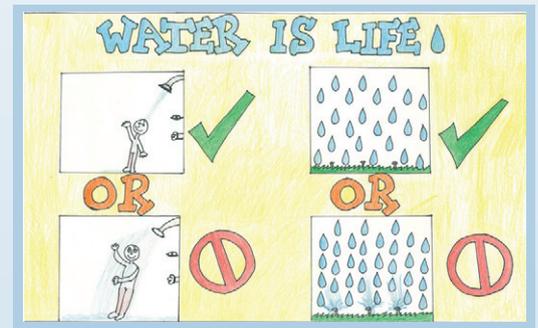
Richard Nagel  
General Manager



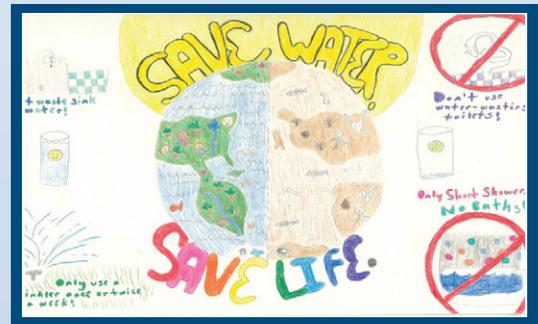
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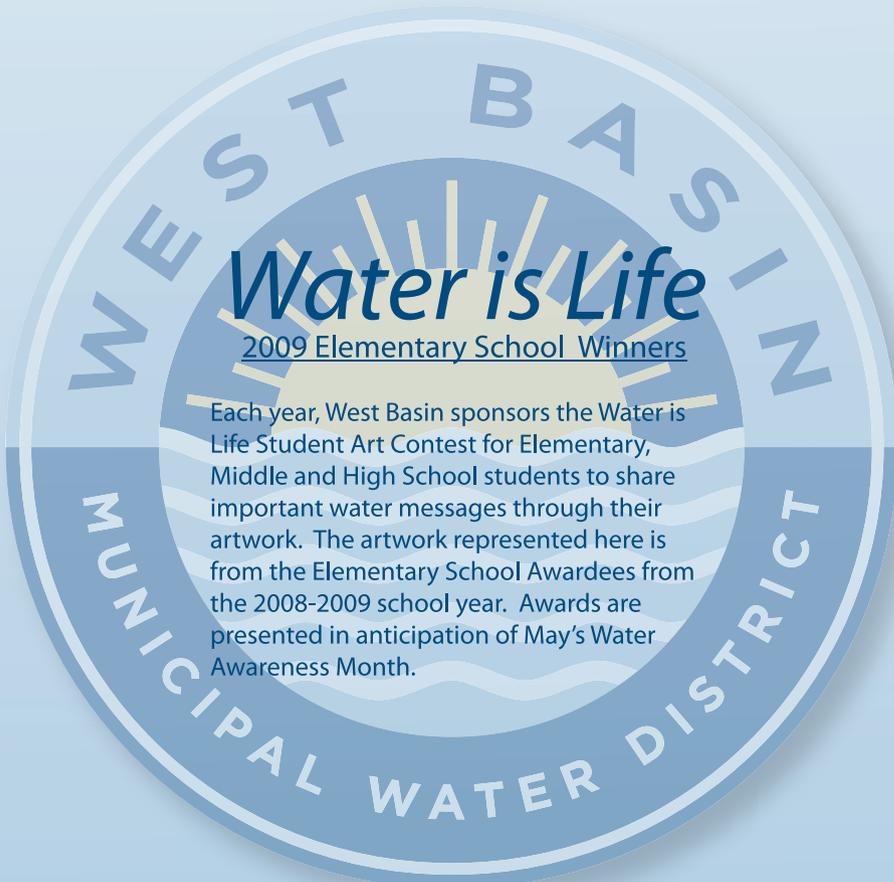
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## ABOUT WEST BASIN

### West Basin Municipal Water District

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[www.westbasin.org](http://www.westbasin.org)



### Our Mission Statement

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

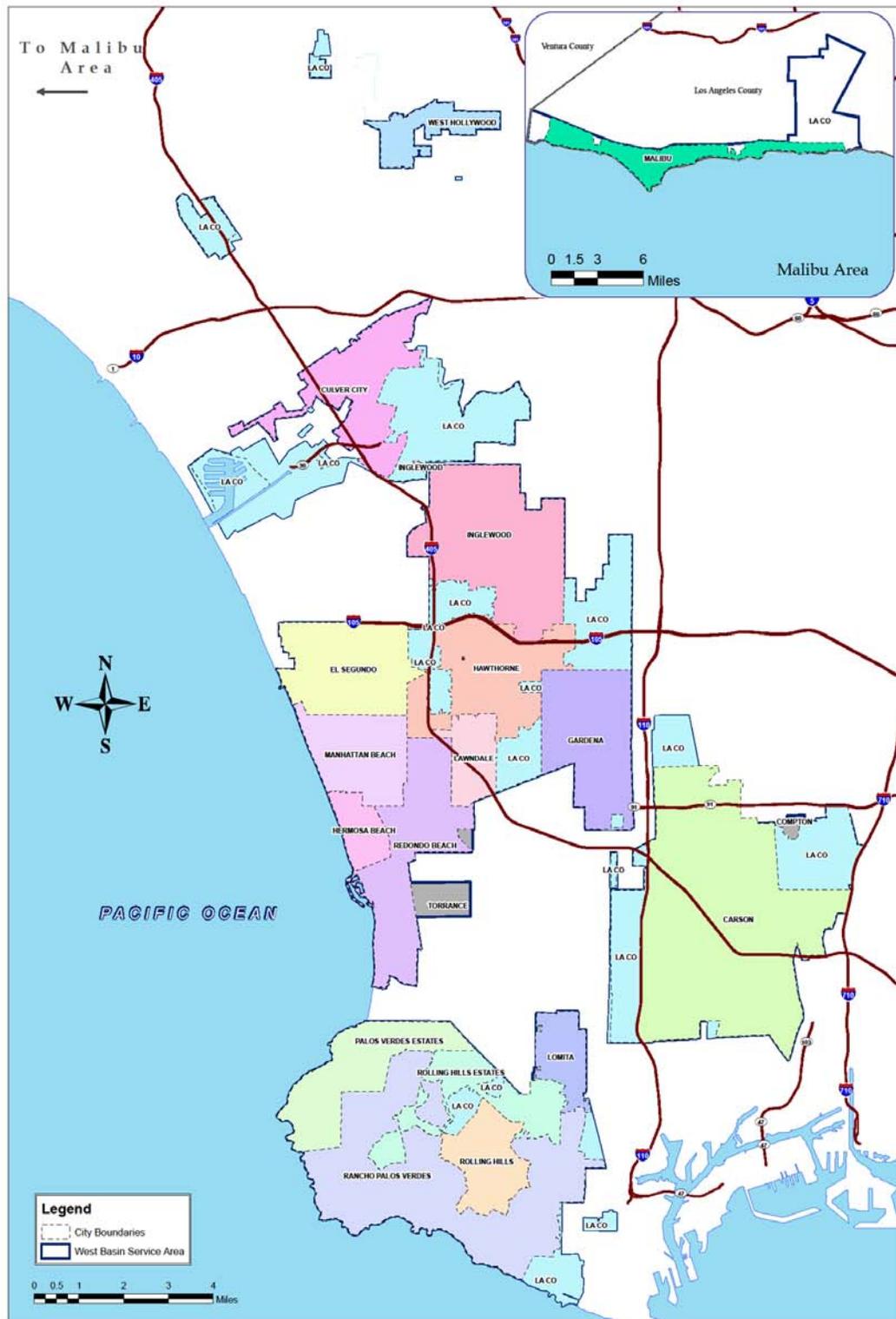
### BACKGROUND

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

West Basin is a recognized leader in the production of recycled water, and our conservation and education programs are fundamental to West Basin's diverse water portfolio. Our water recycling program produces more than 30 million gallons of high-quality water every day using various treatment levels and processes. Our water conservation program provides *free* water audits and retrofits commercial kitchens and residential sprinklers and teaches residents about water-efficient and environmentally-friendly landscaping. West Basin's vibrant education program hosts thousands of school children each year at our water recycling facility, sends the Splash Science program to local elementary schools, holds an annual water awareness art contest for children within the service area, and sponsors high school solar cup boat-building teams and a higher education scholarship program.



# West Basin Municipal Water District Service Area



## Our Service Area

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

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



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

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



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

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



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

Representing Hermosa Beach, Lomita, Manhattan Beach, Redondo Beach, and a portion of Torrance



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

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



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

Representing Gardena, Hawthorne, Lawndale, and El Camino Village

## History of West Basin

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

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

Today, West Basin remains focused on water reliability for the region, delivering a diverse supply of water that includes imported, recycled, desalted and conserved sources. West Basin invested in the research and use of new technologies, alternative energy sources, and conservation and outreach programs. Working with teachers and school children, West Basin is educating the next generations about water use, supply, local production, and careers in the water industry. West Basin began investing in the local production of water in the early 1990's by building a water recycling facility that would turn treated wastewater into high-quality recycled water suitable for irrigation, municipal, industrial and commercial uses. The benefits generated by our water recycling facility include the use of innovative technology, a stable, local supply of recycled water, keeping wastewater that would otherwise be sent to the ocean and turning it into a usable water resource, producing 30 million gallons per day of conserved drinking water, and the use of solar power that generates 10% of the plant's energy needs.

In 2007, West Basin's water recycling facility was renamed the Edward C. Little Water Recycling Facility (ECLWRF) to honor the 5-term commitment made to West Basin and our constituents by Director Little. The ECLWRF is a world-class, state-of-the-art facility that is the largest of its type in the nation. Working with customers like Toyota, ExxonMobil, bp, Chevron, Goodyear, Home Depot Center, and Water Replenishment District, West Basin has built a noteworthy water recycling program with the capacity to expand throughout our service area. West Basin's five (5) types of designer recycled water are distributed for use in golf courses, professional soccer fields, street sweeping, restrooms, boilers, cooling towers and other commercial, municipal and industrial uses.

In early 2008, the West Basin Board adopted a new Strategic Business Plan, and the Board of Directors, management, and staff are now implementing a progressive vision and accompanying goals to build reliability into our local water supply. Through our board-adopted Water Reliability 2020 Program, we are currently working to expand our

production of locally-produced water through water recycling and ocean-water desalination, invest in our staff, operations and programs to maintain high standards within our workforce, and reach out to the community even more through conservation outreach, education, community banking, local business opportunities and other such programs focused on the needs and talents of our service area.

## **Ensuring a Safe and Reliable Water Supply**

Though the population here in Southern California has steadily increased, water usage in West Basin's service area has remained steady due to the success of West Basin's programs focused on conservation, education, public outreach, government affairs, water recycling, and ocean-water desalination. Here's a summary of our efforts:

### *Conservation*

West Basin's water conservation program is aimed at reducing the consumption of potable water (groundwater and imported water) in homes, yards, businesses, and industry. Since 1991, West Basin has successfully offered many programs to its residential communities, saving millions of gallons of precious drinking water each year. West Basin joined a state conservation effort at that time, committing resources to urban water conservation and implementation of its "Best Management Practices" (BMPs).

West Basin's Conservation Master Plan (Plan) is a road map for implementing efficient, cost-effective conservation programs across residential and business sectors, both indoors and out. It also provides partnership and outreach opportunities to local cities, retail water agencies, community groups, nonprofit organizations and consumers. With the launch of this new Plan, West Basin is now entering the commercial, industrial and public sectors as well. By 2025, West Basin is planning to meet 15% of the region's retail water demand through conservation.

Conservation workshops for residents, community groups and city officials are held on an ongoing basis throughout the year. These often involve grant opportunities, water audits or equipment distribution workshops (low-flush toilets, "smart" landscaping controllers, showerheads, faucet aerators, and other such devices) aimed at educating the community about water conservation and reinforce West Basin's leadership role in making our water supply more reliable.

- Ocean-Friendly Landscapes: With 30-70% of water use in West Basin's service area taking place outdoors, a new program offered in partnership with the Surfrider Foundation, teaches residents with yards of all sizes how to create *Ocean-Friendly Landscapes*. This program is made possible through a combination of grant funding sources that include West Basin, Metropolitan Water District of Southern California, California Department of Water Resources, and U.S. Bureau of Reclamation. Workshops will take place throughout the service area through 2011. Demonstration gardens will be created at various locations, as well, to showcase the various drought-tolerant plants, permeable pavements, water-

efficient designs and water retention techniques that make a landscape ocean-friendly, cutting water use and reducing runoff into the ocean.

- Water & Energy Efficiency Devices:** Due to the many relationships West Basin has established with retail water providers, cities and nonprofits like the South Bay Environmental Services Center, our water-efficiency programs are now being combined with energy-efficiency programs to maximize the impact that our programs have on consumers' water and energy use. Through two new programs, *Cash for (Commercial and Industrial) Kitchens* and *Green Living for Apartments and Condos*, businesses and residents can take advantage of *free* water and energy audits and, if they qualify, receive water and energy efficient devices, installed. West Basin has held toilet and sprinkler exchange programs, where West Basin works directly with residents to exchange an old water-wasting toilet for a new water efficient one, or an inefficient sprinkler for a new, 'smart' sprinkler controller. The Toilet distribution program will help residents collectively save 35 million gallons of water a year. Replacing leaky sprinklers with 'smart' sprinkler controllers can help a resident save up to 47 gallons per day.

**FY 2009-10 Device Savings**

<b>Program</b>	<b>Device</b>	<b>Annual Water Savings (AF)</b>	<b>Device Lifetime Water Savings (AF)</b>
Green Garden Program	Surveys, 166 Smart Controllers, rotating sprinkler nozzles	8 AF	80 AF
Green Living for Apartments	2,000 HET toilets, CFL's, showerheads and sink aerators	80 AF	1600 AF
Large Landscape Survey Program	Conducted 15 Surveys and provided recommendations	5 AF	10 AF
1-Day Toilet Distribution Events	1,700 HET toilets	68 AF	1,360 AF
Recirc and Save	10 pH Conductivity Controller Retrofits	19 AF	97 AF
Phase 3 Torrance Marriott	170 in-room HET Toilets, plus retrofit of the lobby urinals and sinks	9 AF	182 AF

<b>Total</b>	<b>189 61M Gallons</b>	<b>3,329 1 B Gallons</b>
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- Smart Landscape Expo: Our first-ever ‘Smart’ Landscape Expo in 2009 provided 4 hours of networking for residents to talk with businesses that provide tools, products and training for how to create and maintain water-efficient yards.
- Zero Runoff Street Median: The *Zero Runoff Street Median Program* provides cities with incentives to adjust irrigation on street medians to reduce water use and runoff.

Left to Right: Smart Landscape Expo, Public Tour of Water Recycling Facility, Ribbon Cutting of CSU Dominguez Hills’ *Green Living* Water & Energy Efficiency Device Retrofit.



### Education

West Basin’s award-winning water education programs inform teachers and students in a lively and engaging manner about the importance of water conservation and environmental sustainability. West Basin offers five programs to engage students:

- Water Explorations Tours: This unique program showcases water recycling and environmental stewardship at a level appropriate for children in 3<sup>rd</sup> thru 12<sup>th</sup> grades. This program combines in-classroom participation, a tour experience, and a visit to nearby Manhattan Beach Roundhouse Aquarium. The water recycling tour takes place at the Edward C. Little Water Recycling Facility in El Segundo and emphasizes water conservation, marine life protection and the production of alternative water sources such as recycled water and ocean-water desalination.
- Splash Science: In collaboration with the SEALab in Redondo Beach, a program of the Los Angeles Conservation Corps, a traveling tidepool van, constructed with touch tanks, visits schools within West Basin’s service area and encourages students to interact with live marine animals at their school site. This program was developed in accordance with state curriculum standards, taking fourth graders on a journey through California’s water systems.
- WATER IS LIFE Student Art Contest: This annual art contest inspires young people to learn and tell visual stories about the value of water and the importance of using it wisely. The program invites participation from students in elementary, middle and high school and provides an iMac laptop computer for the Grand Prize winners and gift certificates to Michael’s Arts and Crafts stores for the Honorable Mention Awardees. Winners are selected in anticipation of May’s Water Awareness Month. Piloted in 2009, West Basin combined winning artwork with conservation tips, turning them into posters and bookmarks for local libraries, available at the checkout counter during the month of May.
- Solar Cup: Led by Metropolitan Water District, this program encourages Southern California high school teams to construct and race a solar-powered boat while learning about water, engineering and science. Beginning in the fall, students

spend an entire school year working together to build their boats with the final race taking place over Solar Cup weekend at Lake Skinner in May.

- **Scholarship Program:** A new program in 2009, the Board of Directors Scholarship program provides \$1,000 to up to 10 students graduating high school within West Basin’s service area and interested in pursuing studies at a trade school, junior college or university with a focus on entering a career in the water industry.

Program Participation	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
Education - Growing Great	0	4,000	5,000
Education – Scholarship Program	0	24	40
Education – Splash Science	2,500	2,500	2,500
Education – Solar Cup	30	30	60
Education – Water Explorations School Tour	2,500	6,800	6,800
Education – Water is Life Art Contest	320	430	530

### *Public Outreach*

West Basin reaches out to the public in multiple mediums to convey news about our water supply and conservation tips, to offer opportunities to participate in our conservation, education and public tours programs and receive feedback. The focus of all of our outreach is Water Reliability 2020, a program designed to reduce our dependence on imported water by increasing the amount of water we conserve and produce locally. By 2020, West Basin will double our water recycling and water conservation programs and include desalted ocean-water as part of our water supply portfolio.

Presentations to community groups are arranged through our Speaker’s Bureau. In addition, plant tours are offered to the public on the second Saturday of each month, and special events of all sizes are hosted on an ongoing basis. Our public affairs team reaches out to editors and writers of newspapers and magazines throughout our service area and hosts tours of our water recycling facility for those that are interested in how we work. We regularly update our website with news of our programs, updates on the water supply and water industry and distribute a quarterly e-newsletter.

- **Website:** [www.westbasin.org](http://www.westbasin.org) provides information about all of West Basin’s programs, with an emphasis on Water Reliability 2020, our work to reduce our dependence on imported water in half by the year 2020. We also provide an animated home conservation tour to show people easy ways to save water indoors and outdoors, an animated tour of our water recycling process – including micro-filtration, reverse osmosis, and ultraviolet light, and “live” measurements of our recycled water production (more than 100 Billion Gallons to date) and the amount of energy we’re producing, and saving, through the use of solar panels (10% of our peak energy demands).
- **Publicity:** As we develop strong relationships with local, regional and national press, magazines, electronic media, and other public forums, media outreach is a priority for West Basin. Our efforts are focused on encouraging citizens to learn

about our water supply, the need to make it more reliable, and West Basin's leadership and services.

- Events: Water Harvest each fall is West Basin's annual, signature event to have fun and share water supply information and conservation tips, offer tours of our water recycling facility and meet our neighbors. Partners in this popular festival include customer cities and water purveyors, local businesses and environmental organizations and others. The event is held at the Edward C. Little Water Recycling Facility in El Segundo and continues to grow each year.
- Tours: At the Edward C. Little Water Recycling Facility, West Basin regularly hosts foreign delegations, elected officials, water industry representatives, and regional and local organizations to share technical expertise and "best practices" in water recycling technologies. We additionally offer tours for the public on the second Saturday of each month, to introduce the community to their water supply. There is a significant waiting list for public tours, demonstrating a growing public interest in water issues.
- Construction outreach: Our construction outreach efforts support West Basin's capital improvement projects when construction requires access through residential or business communities. These efforts often include community meetings and specialized outreach efforts to ensure that local communities are well informed of the nature and timeline of the construction activities that could impact their neighborhoods.

### *Government Affairs*

West Basin leads an aggressive government affairs program to achieve favorable legislation and public policy at the local, state and federal levels with direct involvement from the Board of Directors, management, staff, and consultants. Our key objectives include efforts for:

- Legislative Advocacy: Enhance legislative advocacy efforts on key water-supply legislation impacting West Basin's mission, customers, projects and programs.
- Coalition Building: Build strong coalitions and partnerships throughout the region to educate the public and members of the California Legislature on the importance of enhancing local resources such as groundwater pumping, recycled water, and ocean-water desalination.
- Funding and Regulatory Support: Pursue government funding and regulatory support for capital projects in conjunction with agency partners such as the U.S. Army Corps of Engineers, California Department of Water Resources, and others.
- Information sharing: Inform local City Councils, Councils of Governments (COGs), Chambers of Commerce and other formal entities of West Basin's legislative goals, particularly as they relate to specific cities and constituencies.

- LEGISLATOR OF THE YEAR Awards: Honor legislators who have taken an active role in water issues throughout the year by celebrating their efforts as West Basin’s “Legislator of the Year.”



### *Water Recycling*

In 1992, West Basin received federal funding to implement a water recycling program. Three years later, West Basin completed the construction of the West Basin Water Recycling Facility (WBWRF), a water treatment facility in the City of El Segundo that takes wastewater that would otherwise be dumped into the ocean and purifies it into a usable resource. The facility was renamed in 2007, becoming the Edward C. Little Water Recycling Facility (ECLWRF) in honor of Director Little’s 5-term dedication to West Basin, our constituents, and the water industry.

This facility produces more than 30 million gallons of recycled water every day for more than 370 customers. Uses of recycled water include irrigation, boiler feeds, cooling towers, street sweepers and injection into seawater barriers to prevent our local groundwater supplies from being contaminated by the ocean.

This world-class water purification facility produces five types of “designer” waters to serve specific customer needs for various uses. All five (5) types of designer water meet the treatment and water quality requirements specified in the California Department of Public Health’s Water Recycling Criteria and permitted by the Los Angeles Regional Water Quality Control Board.

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

By using recycled water for non-potable uses, customers such as Chevron, bp, ExxonMobil, Home Depot National Training Center (home of the L.A. Galaxy soccer team), Toyota,

Honda, Raytheon, Goodyear, Marriott and numerous cities, school districts and golf courses are conserving billions of gallons of drinking water for the region every year.

In addition to providing recycled water for commercial and industrial uses, high-quality recycled water produced by West Basin is blended with potable water and injected into the South Bay's groundwater basin to prevent seawater intrusion into our local aquifers. The seawater barrier is a series of injection wells positioned like a dam between the ocean and the groundwater aquifer. These wells inject water along the barrier to ensure that the water level near the ocean stays high enough to keep the seawater from seeping into the aquifer. There are two seawater barriers that receive West Basin's recycled water: the Dominguez Gap Barrier and the West Coast Basin Seawater Barrier. The Dominguez Gap Barrier is planned to receive approximately 50% each of recycled water and potable water.

Currently, 75% of the West Coast Basin water is high-quality recycled water, mixed with 25% potable water. In April 2009, West Basin and the Water Replenishment District of Southern California signed an agreement to increase the amount of water supplied to the barrier to 100% within the next two years. This recent step will eventually save 5.5 billion gallons of drinking water a year.

#### *Water Quality*

Since 1989, West Basin has administered a groundwater quality testing program for the retail water agencies within its service area. The program assists local retail water agencies in complying with state and federal drinking water regulations at the wellhead. West Basin also ensures compliance with water quality requirements for the ECLWRF and ocean-water desalination pilot project. Each year, about 25,000 water quality tests are conducted at the ECLWRF. In addition, more than 500 water quality tests are conducted each month at our ocean-water desalination pilot project in El Segundo.

#### **What the Future Holds**

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



#### *Ocean-Water Desalination*

In May 2002, West Basin initiated piloting efforts to desalinate ocean-water and evaluate its viability as a future water supply source for the region. Supported by various institutions and other interested parties including water agencies and agricultural associations, West Basin began a \$1.5 million desalination research pilot project in El

Segundo. After five years of data collection and studies, West Basin has identified optimal operating parameters for ocean-water desalination and is expanding desalination efforts into a demonstration-scale facility to test full-scale equipment at the SEALab facility Redondo Beach.

In August 2006, West Basin awarded a planning and design contract to construct a temporary ocean-water desalination demonstration facility that will process 550,000 gallons of seawater per day. This Project will develop a basis of design for full-scale operations, evaluate performance of alternative energy practices and technology, analyze water quality, and evaluate integration with local potable water systems. In spring 2009, the California Coastal Commission overwhelmingly approved West Basin's plan to proceed with a demonstration-scale facility to further its research and testing efforts on environmentally-friendly intake technologies and energy recapture. The Project will test the viability of a future, full-scale desalination plant capable of providing 6.5 billion gallons of potable water, enough to supply 40,000 families for a year.

#### *Water Recycling Projects*

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

## RELIABILITY MILESTONES

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

**1993:** West Basin began treatment of brackish water from a saline plume trapped in the West Coast Groundwater Basin.

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

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

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

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

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

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

## RELIABILITY MILESTONES (cont.)

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

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

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

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

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

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

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

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

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

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

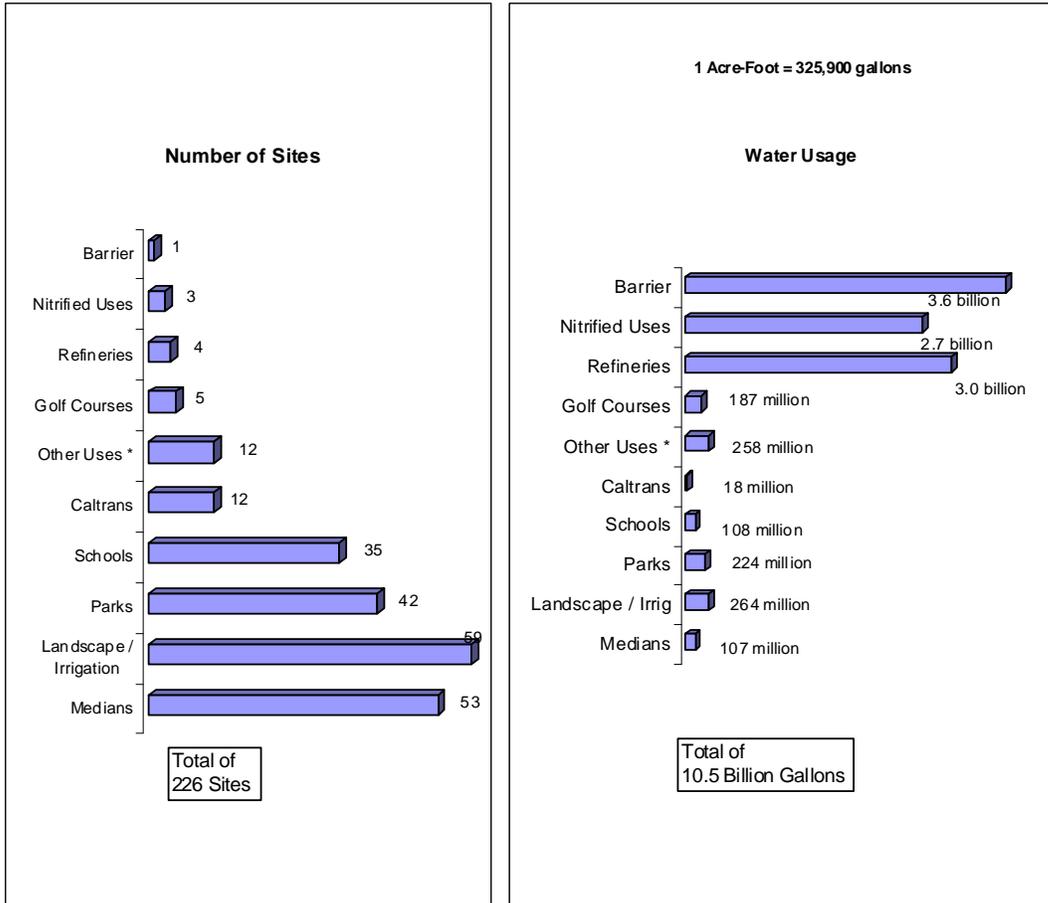
The Capital Improvement Program (CIP) updates the hydraulic system model, evaluates recycled water service opportunities, identifies potential required capital facilities to meet West Basin's objectives, and develops implementation schedules, costs, and priorities. The CIP is created in anticipation of the long range financial plan.

To assist in long-term implementation of West Basin's capital facilities, an updated Capital Implementation Master Plan (CIMP) has been developed to address the recycled water supply objectives and provide a roadmap for future capital facilities by prioritizing the capital improvement projects needed to expand and maintain West Basin's recycled water system to grow from roughly 30,000 AFY to 70,000 AFY by 2020.



West Basin and United Water gather to celebrate the 100 billionth gallon produced of recycled water.

## Recycled Water Customer Usage For the Fiscal Year Ended June 30, 2008



- Other Uses \*
- Cemetery (1) 152.4 million
  - Multi-industrial / irrigation uses (3) 33.5 million
  - Construction uses (1) 143 thousand
  - Street Sweeping (1) 9.8 thousand
  - College (3) 67.6 million
  - Draining / Sump Pumps (3) 4.0 million

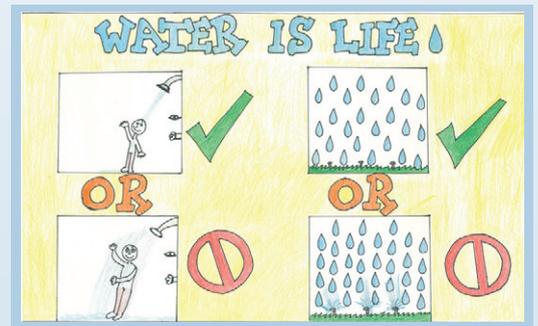
Source: Planning Department



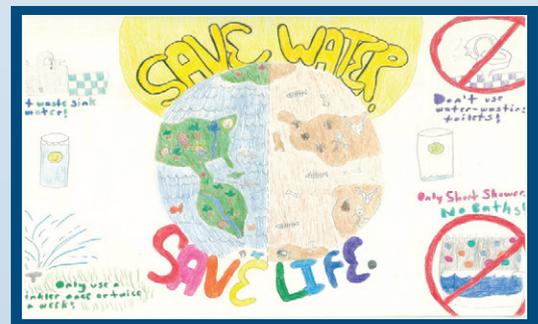
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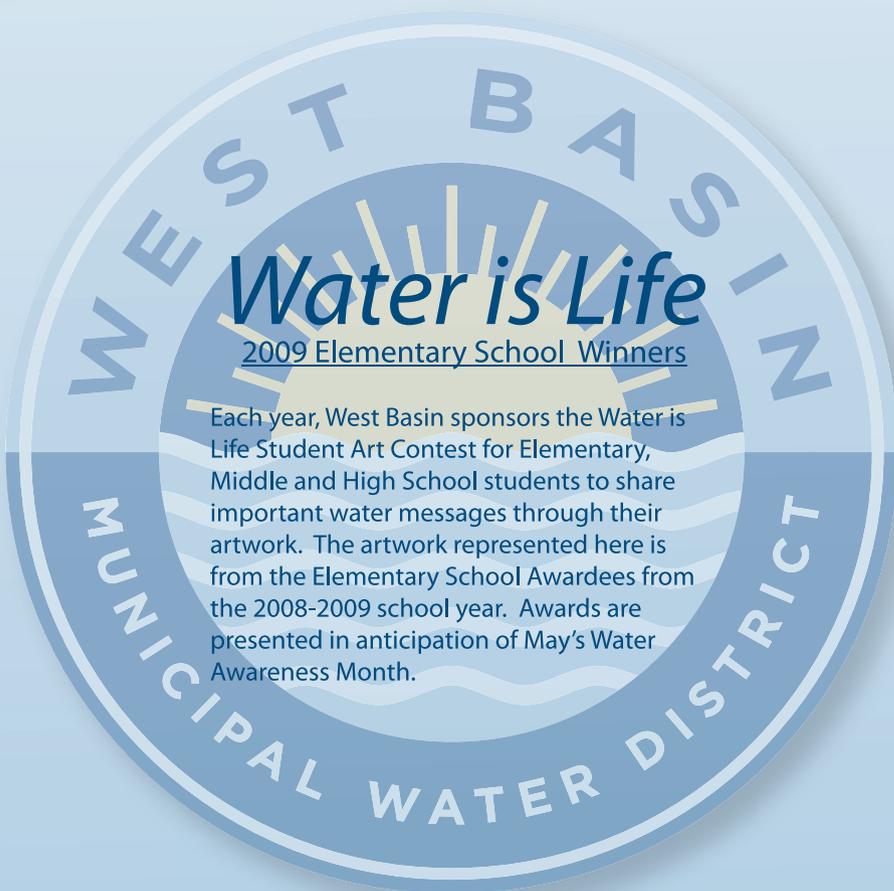
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Each year, West Basin sponsors the Water is Life Student Art Contest for Elementary, Middle and High School students to share important water messages through their artwork. The artwork represented here is from the Elementary School Awardees from the 2008-2009 school year. Awards are presented in anticipation of May's Water Awareness Month.

## **BUDGET PROCESS AND TIMELINE**

Public agencies develop budgets as a performance tool to measure accountability to its stakeholders. The budget shows how an agency invests its revenues derived from user fees and fixed revenue sources to support its mission and its programs. West Basin develops its annual budget based on the priorities, goals, and objectives established by the Board of Directors. For FY 2010, these priorities, goals, and objectives are communicated to the General Manager through the Strategic Business Plan. The Strategic Business Plan was developed through a series of interviews with the Board of Directors, management, key staff and interviews with key stakeholders. The Strategic Business Plan provides direction for planning, budgeting, implementation, evaluation and reporting.

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

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

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

### **Budget Basis**

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

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

## **Budget Process and Timeline**

January: Each senior manager reviews their department's personnel needs for the next fiscal year and will allocate each of their department employee's time to the various programs. Their allocation is based on the personnel needs to help accomplish the goals and objectives provided in the Strategic Business Plan. In addition, a budget versus actual report for the current fiscal year is provided to each senior manager to assist him or her in preparing a preliminary budget for his or her area of responsibility for the next fiscal year. In addition, the Board of Directors review progress on the Strategic Business Plan and provided input for next year.

February: Data is received from each senior manager and is incorporated into West Basin's proposed budget. In particular, the General Manager requires staff to reflect where the Strategic Business Plan objectives are being funded. Water sales projections and water rate assumptions are discussed with senior management, and incorporate water sales assumptions being made at the regional level. Staff reviewed preliminary impact of the Capital Implementation Master Plan to determine the capital investment required to meet Water Reliability 2020 goals.

March: Senior managers provide their projections for the current year. Senior staff and senior managers meet with the General Manager to discuss each program budget and its goals and objectives along with explanations for major variances from the prior year budget. The General Manager will make changes to the preliminary budget as needed.

April: Staff submits a proposed balanced budget to the Board of Directors in a workshop format and reviews program costs in order to ensure that the proposed budget achieves appropriate bond coverage levels for both senior and subordinate debt, present a balanced budget, and address risks that may have a future impact to West Basin. During the workshop, all staff members who participated in developing the proposed budget are in attendance. The Finance staff discusses the budget assumptions, labor needs, revenue requirements and debt coverage. Senior managers present their respective budget. At this time, Board members may give direction or request changes to the proposed budget. Subsequent to the Board workshop, West Basin conducts a customer workshop to discuss its goals, the supporting budget and proposed rates.

May: Any changes requested by the Board of Directors and/or the General Manager are incorporated into the proposed budget. Staff presents the revised information to the Finance committee that is used to make changes to the proposed budget. In addition, the Board of Directors approved its resolution to adopt its standby charge, key fixed revenue for West Basin. With a clearer direction on anticipated capital projects for ocean-water desalination and recycling, West Basin staff revisited the timing and associated cost towards capital outlay.

June: The Finance staff presents the final proposed budget at the Finance committee. The recommendation for approval is then taken to the Board of Directors to adopt the proposed operating budget for the next fiscal year beginning July 1. The Board of Directors also adopts water rates and charges.

### **Budget Review**

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

### *Amendments to the Budget*

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

**West Basin Municipal Water District**  
***Fiscal 2009-2010 Budget Calendar***

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

**Date**

**Activity**

January 14, 2009      Budget focus/strategic planning meeting

January 16, 2009      Submit Staff labor Allocation

February 5, 2009      Sales Projections (AF) due

February 13, 2009      Submit operating program and capital budgets

February 27, 2009      Meeting to discuss water rates

March 6, 2009      Meet to discuss operating and capital budgets

March 13, 2009      Submit Budget text.

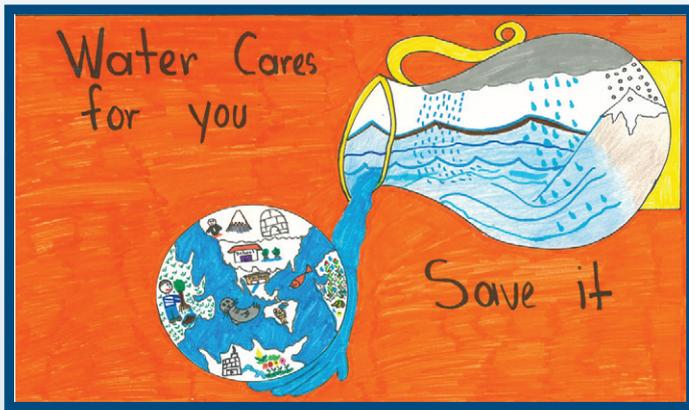
March 20, 2009      Submit FY 08-09 year-end projections for all operating program expenses.

April 1, 2009      Complete budget document in final draft form

April 15, 2009      Board workshop (10:00 A.M.)

April 28, 2009      Rate workshop with Purveyors

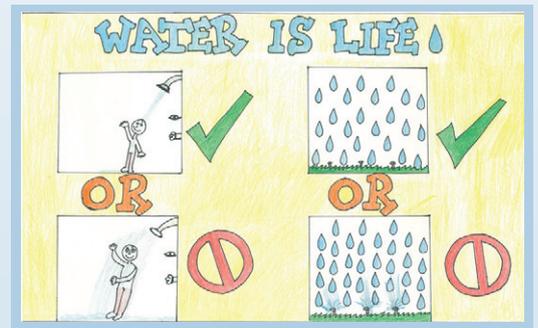
June 22, 2009      Board Meeting  
 - Adopt WBMWD water rates  
 - Adopt Standby Charge  
 - Adopt Budget



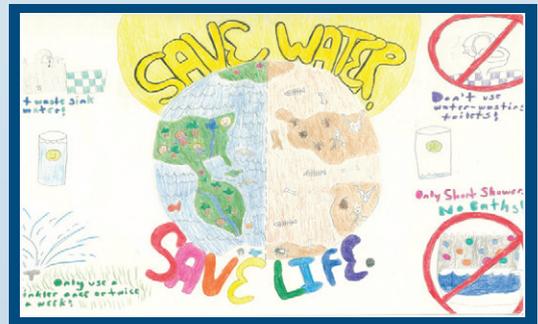
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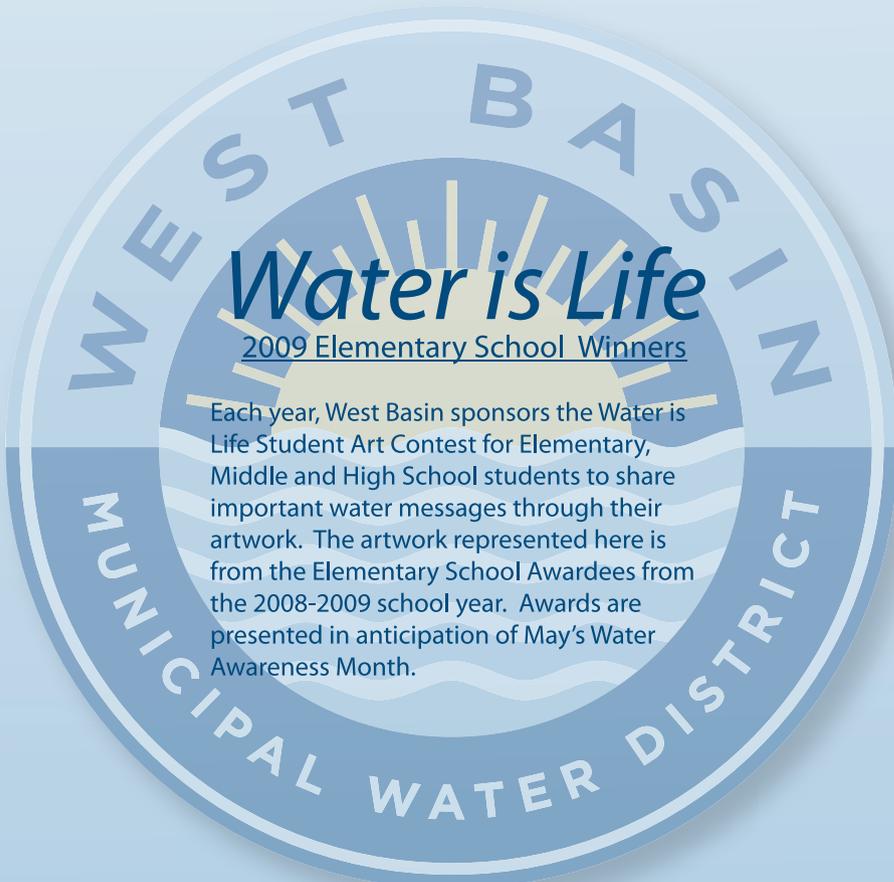
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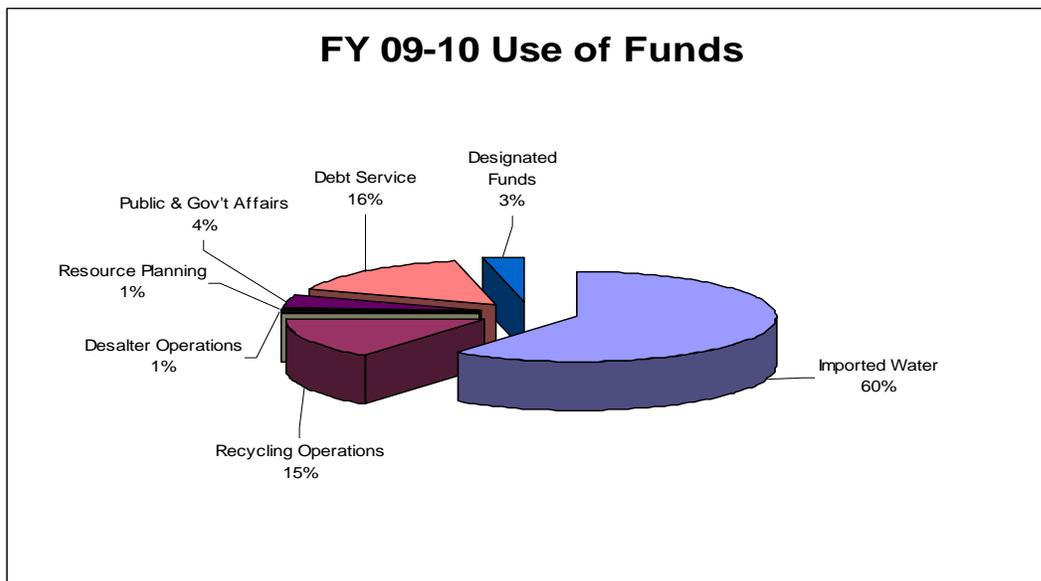
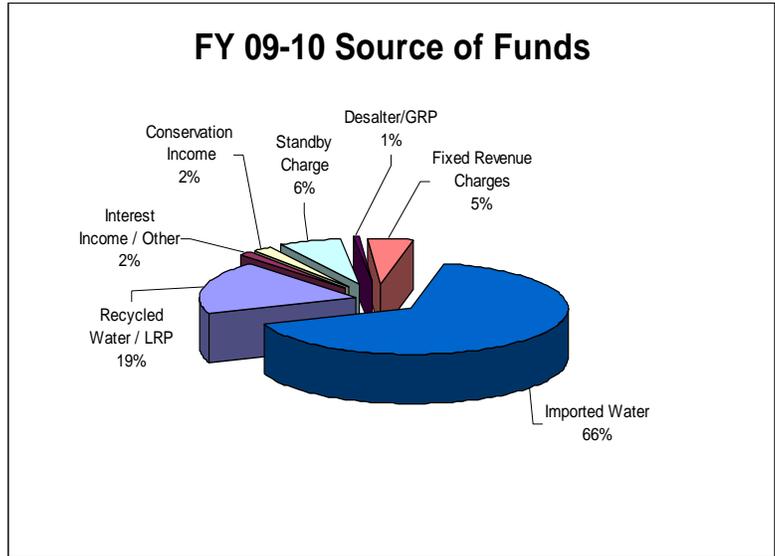


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## FINANCIAL HIGHLIGHTS AND FORECAST

### FY 2010 Sources & Uses of Funds (Dollars in Thousands)

Source of Funds	Budget FY 2010
Imported Water	\$ 99,174
Recycled Water/LRP	28,363
Desalter Water/GRP	1,030
Standby Charge	9,600
Fixed Revenue Charges	7,135
Conservation Income	2,588
Interest Income/Other	2,739
<b>Total Sources of Funds</b>	<b>\$ 150,629</b>
<b>Use of Funds</b>	
Imported Water	\$ 90,403
Debt Service	24,216
Recycling Operations	22,597
Public & Gov't Affairs	6,325
Designated Fund/Other	5,243
Resource Planning	1,142
Desalter Operations	703
<b>Total Uses of Funds</b>	<b>\$ 150,629</b>



Budget staffing levels have remained consistent since 2006 at 33 full time equivalent budgeted positions; however, the FY 2010 budget does include one (1) additional staff in the Public and Governmental Affairs department to support the Water Reliability 2020 outreach.

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

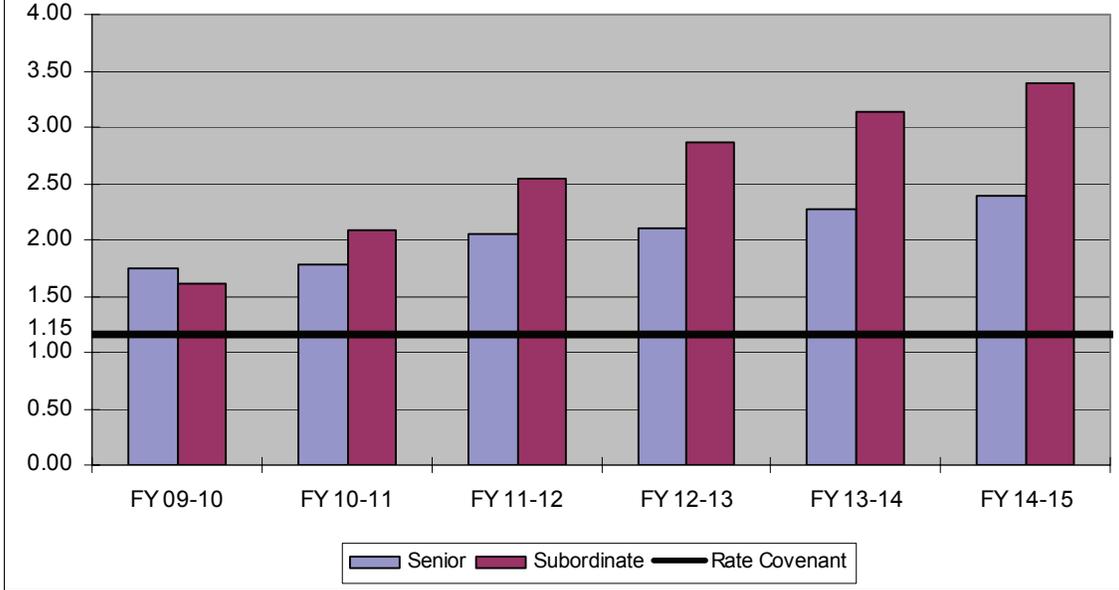
### Projected Operating Results

<b>WEST BASIN MUNICIPAL WATER DISTRICT PROJECTED OPERATING RESULTS</b>						
	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
<b>REVENUES</b>						
Water Sales	96,896,683	107,644,263	106,670,101	110,068,244	115,349,257	120,960,030
Water Service Charge	287,707	347,357	375,269	420,757	454,872	500,359
Capacity Charge	1,989,293	2,021,513	2,092,860	2,219,700	2,283,120	2,283,120
Recycled Water Project Revenues						
Recycled Water Sales	20,542,937	25,938,385	41,341,537	46,631,632	50,717,742	54,781,942
Fixed Revenue Charges	7,135,592	7,135,592	7,135,592	7,135,592	7,135,592	7,135,592
MWD LRP Rebate	7,819,673	8,372,118	12,622,118	13,122,118	13,122,118	13,122,118
Standby Charges	9,600,000	9,600,000	9,600,000	9,600,000	9,600,000	9,600,000
Other Revenues						
Desalted Water Sales	759,960	861,840	952,560	987,056	1,070,151	1,121,454
MWD GRP Rebate	270,000	270,000	270,000	202,500	0	0
Interest Earnings/Other	1,977,000	1,776,000	1,901,000	1,546,000	1,546,000	1,546,000
MWD Conservation Credits	2,587,724	2,587,724	2,587,724	2,587,724	2,587,724	2,587,724
<b>Total Revenues</b>	<b>\$ 149,866,568</b>	<b>\$ 166,554,791</b>	<b>\$ 185,548,761</b>	<b>\$ 194,521,321</b>	<b>\$ 203,866,576</b>	<b>\$ 213,638,339</b>
<b>EXPENSES</b>						
Water Purchases/RTS from MWD	88,469,850	98,137,018	97,738,893	100,371,043	104,944,425	109,746,477
Capacity Charge	1,932,980	1,999,550	2,068,500	2,192,610	2,261,560	2,261,560
Program Expenses						
Recycled Operations	22,575,676	25,190,252	33,739,390	36,371,360	38,189,927	40,099,424
Desalter Operations	702,713	737,849	774,741	774,741	813,478	854,152
Resources Planning	1,141,768	1,198,856	1,258,799	1,258,799	1,321,739	1,387,826
Public and Governmental Affairs	6,325,042	6,767,795	7,241,541	7,241,541	7,748,448	8,290,840
Title 22 Water Quality Monitoring	21,832	22,924	24,070	24,070	25,273	26,537
Designated Funds/Other	5,242,642	8,694,308	13,554,386	16,913,120	19,274,164	21,530,524
Senior Debt Service						
2003 Installment Purchase Agrmt	12,479,272	12,480,821	12,483,340	12,480,399	12,484,982	12,478,642
Reserve Fund Interest Earnings	(761,867)	(761,867)	(761,867)	(761,867)	(761,867)	(761,867)
2008A Series	3,750,342	3,757,350	3,734,925	3,724,400	3,696,400	3,731,625
SWRCB Loan	361,945	361,945	361,945	361,945	361,945	486,499
Proposed Debt	0	0	4,513,480	4,513,480	4,513,480	4,513,480
Subordinate Debt Service						
2008B Series	7,624,373	7,967,990	8,816,619	9,055,681	8,992,621	8,992,621
<b>Total Expenses</b>	<b>\$149,866,568</b>	<b>\$166,554,791</b>	<b>\$185,548,761</b>	<b>\$194,521,321</b>	<b>\$203,866,577</b>	<b>\$213,638,339</b>
<b>NET REVENUES</b>	<b>\$ -</b>					
<b>Coverage - Senior Debt</b>	<b>1.77</b>	<b>2.05</b>	<b>2.10</b>	<b>2.28</b>	<b>2.39</b>	<b>2.49</b>
<b>Coverage - Subordinate Debt</b>	<b>1.61</b>	<b>2.09</b>	<b>2.54</b>	<b>2.87</b>	<b>3.14</b>	<b>3.39</b>
<b>Coverage - All Debt</b>	<b>1.20</b>	<b>1.37</b>	<b>1.47</b>	<b>1.58</b>	<b>1.66</b>	<b>1.73</b>

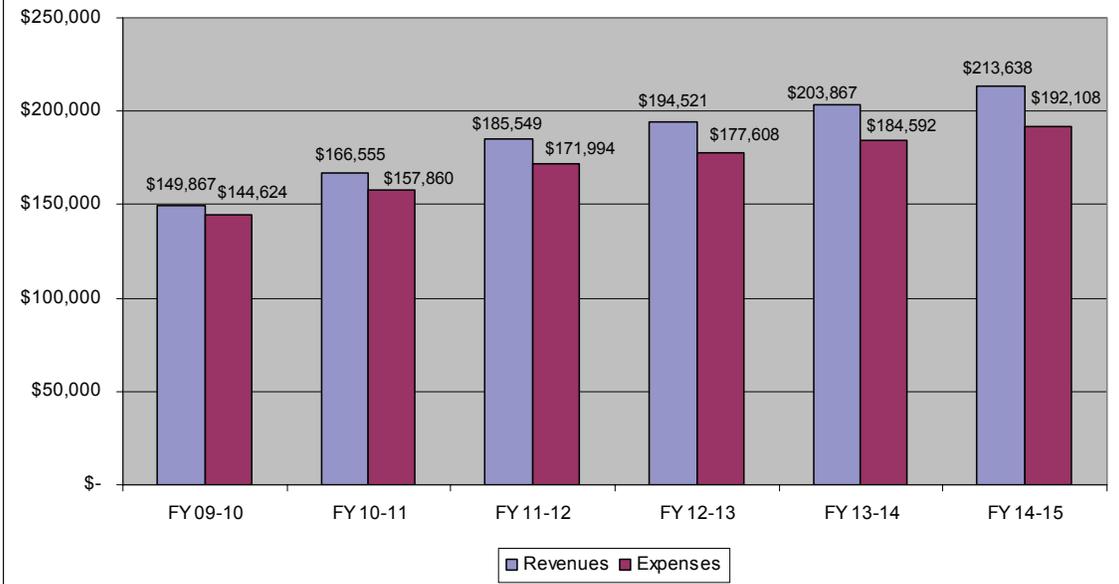
**WEST BASIN MUNICIPAL WATER DISTRICT  
ASSUMPTIONS**

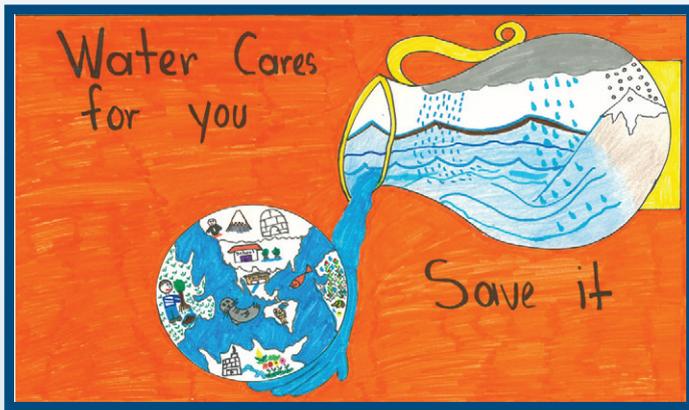
	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
<b>Cost (Sales Price) of Water (\$/af)</b>						
MWD Treated NonInt - Tier 1 (Jul)	579	701	841	883	927	973
MWD Treated NonInt - Tier 2 (Jul)	695	811	951	993	1,037	1,083
MWD Treated NonInt - Tier 1 (Sep)	701	841	883	927	973	1,022
MWD Treated NonInt - Tier 2 (Jan)	811	951	993	1,037	1,083	1,132
MWD RTS Commodity Charge (Jul)	69	94	102	110	110	110
MWD RTS Commodity Charge (Sep)	94	102	110	110	110	110
MWD Seawater Barrier - Tier 1 (Jul)	579	701	841	883	927	973
MWD Seawater Barrier - Tier 2 (Jul)	695	811	951	993	1,037	1,083
MWD Seawater Barrier - Tier 1 (Sep)	701	841	883	927	973	1,022
MWD Seawater Barrier - Tier 2 (Jan)	811	951	993	1,037	1,083	1,132
Title 22 Within WB - Recycled Water	577	717	789	868	954	1,050
Title 22 - LADWP - Recycled Water	626	766	843	927	1,020	1,122
Title 22 - Torrance - Recycled Water	610	750	825	908	998	1,098
RO - Barrier - Recycled Water	501	545	565	587	611	611
RO - Industrial - Recycled Water	913	1,096	1,205	1,326	1,458	1,604
RO - Industrial - Ultra - Recycled Water	1,195	1,433	1,577	1,734	1,908	2,099
Industrial - NH3 - Recycled Water	577	717	789	868	954	1,050
Reliability Service Charge - Treated	51	61	67	74	81	89
MWD LRP Rebate	250	250	250	250	250	250
Desalted Water (Jul)	608	724	872	892	936	1,046
Desalted Water (Sep)	721	-	-	-	-	-
Desalted Water (Jan)	724	872	892	936	1,046	1,031
MWD GRP Rebate	250	250	250	250	250	250
Capacity Charge - MWD	6,800	7,200	7,300	7,700	8,200	8,200
Capacity Charge - MWD (Jan)	7,200	7,300	7,700	8,200	8,200	8,200
Capacity Charge-Cust	6,000	6,350	6,400	6,800	7,200	7,200
Capacity Charge-Cust (Jan)	6,350	6,400	6,800	7,200	7,200	7,200
<b>SALES VOLUME (afy)</b>						
Treated Non Interruptible (Jul)	18,333	53,895	50,045	49,045	49,045	49,045
Treated Non Interruptible (Sep)	91,667	53,895	50,045	49,045	49,045	49,045
Seawater Barrier (Jul)	1,333	4,000	1,500	1,500	1,500	1,500
Seawater Barrier (Sep)	6,667	4,000	1,500	1,500	1,500	1,500
Recycled Water	31,279	33,488	50,488	52,488	52,488	52,488
Title 22 Within WB	6,218	7,318	7,318	7,318	7,318	7,318
Title 22 - LADWP	324	583	9,883	9,883	9,883	9,883
Title 22 - Torrance	6,206	6,317	6,417	6,417	6,417	6,417
RO - Barrier	10,906	11,500	16,500	16,500	16,500	16,500
RO - Industrial	4,416	4,400	4,600	4,600	4,600	4,600
RO - Industrial - Ultra	2,617	2,800	3,200	3,200	3,200	3,200
Industrial - NH3	591	570	2,570	4,570	4,570	4,570
Desalted Water (Jul)	180	540	540	540	540	540
Desalted Water (Sep)	360	-	-	-	-	-
Desalted Water (Jan)	540	540	540	540	540	540
Capacity Charge-MWD	276.5	275.8	275.8	275.8	275.8	275.8
Capacity Charge-MWD (Jan)	275.8	275.8	275.8	275.8	275.8	275.8
Capacity Charge-Cust	327.5	317.1	317.1	317.1	317.1	317.1
Capacity Charge-Cust (Jan)	317.1	317.1	317.1	317.1	317.1	317.1
<b>FIXED PAYMENTS</b>						
BP	1,718,000	1,718,000	1,718,000	1,718,000	1,718,000	1,718,000
Mobil NH3	434,000	434,000	434,000	434,000	434,000	434,000
Mobil (phase 2)	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460
Chevron Nitrification	1,009,800	1,009,800	1,009,800	1,009,800	1,009,800	1,009,800
Chevron Boiler Feed	2,192,796	2,192,796	2,192,796	2,192,796	2,192,796	2,192,796
LADWP	206,536	206,536	206,536	206,536	206,536	206,536
<b>TOTAL FIXED PAYMENTS</b>	<b>\$ 7,135,592</b>					

**Debt Coverage  
Current and 5 year Projection  
FY 09-10 thru FY 14-15**



**Revenue and Expenses  
Current and 5 year Projection  
FY 09-10 thru FY 14-15  
(Dollars in thousands)**

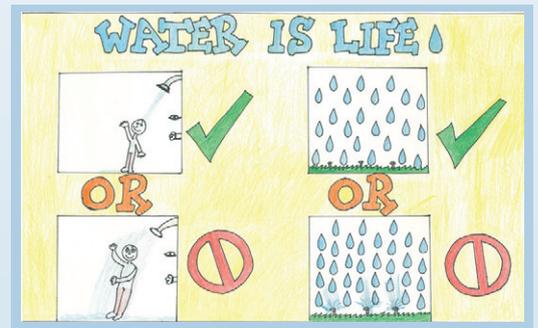




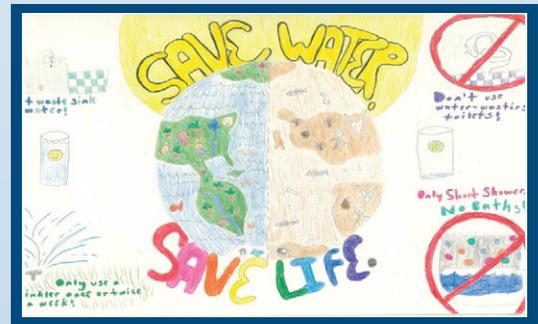
GRAND PRIZE WINNER  
 West Basin Division II, Director Gloria D. Gray  
 Enrique Montelongo, Grade 5  
 Highland Elementary School, Inglewood



West Basin Division I, Director Ronald C. Smith  
 Deion Guillermo, Grade 5  
 Del Amo Elementary School, Carson



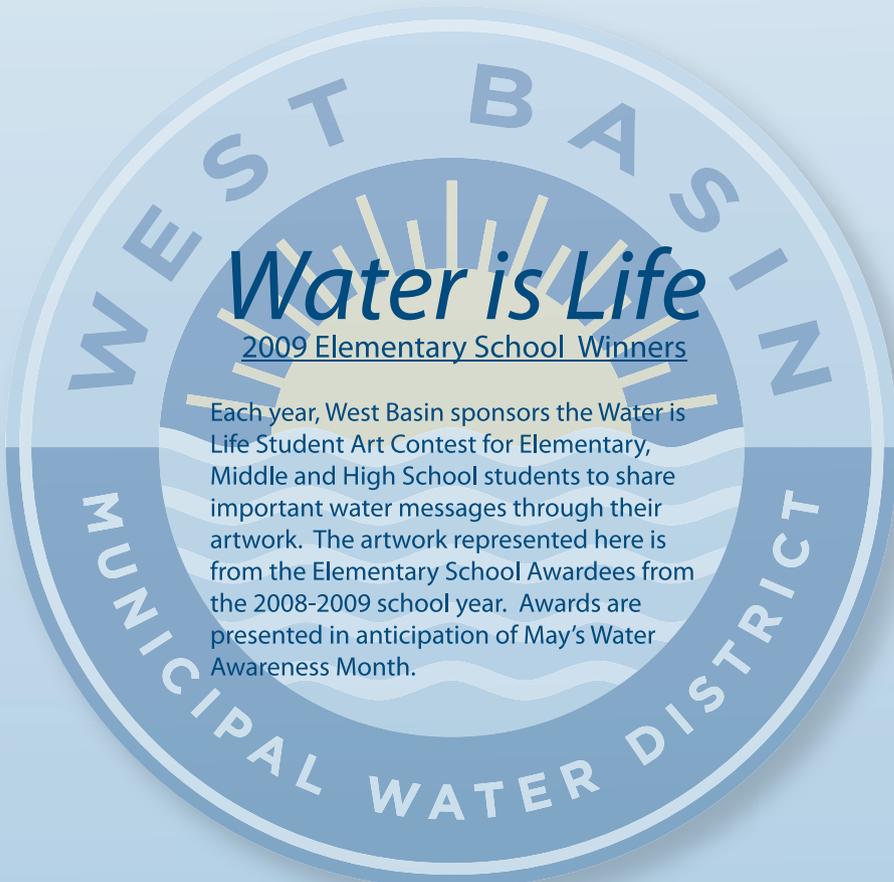
West Basin Division III, Director Carol W. Kwan  
 Nathan Calderella, Grade 5  
 Madison Elementary School, Redondo Beach



West Basin Division IV, Director Edward C. Little  
 Michelle Hong, Grade 4  
 Echo Horizon School, Culver City



West Basin Division V, Director Donald L. Dear  
 Brenda Zavala, Grade 5  
 Gardena Elementary School, Gardena



Each year, West Basin sponsors the Water is Life Student Art Contest for Elementary, Middle and High School students to share important water messages through their artwork. The artwork represented here is from the Elementary School Awardees from the 2008-2009 school year. Awards are presented in anticipation of May's Water Awareness Month.

## SOURCE OF REVENUE

West Basin's primary source of revenue is water sales that comprise 84% of all revenues. Imported sales represents 66% and recycling sales represent 18% of all revenue sources.

West Basin wholesales imported water from MWD for municipal, domestic and groundwater replenishment uses and desalted brackish groundwater. In the early 1990s, West Basin initiated efforts to drought-proof the region by constructing recycled water distribution pipelines and facilities for industrial, commercial, and landscape irrigation sites throughout Coastal Los Angeles County. This system now serves more than 370 sites. To fund these construction efforts, West Basin imposes a standby charge. This annual charge to area residents generates roughly \$9,600,000. West Basin also receives fixed revenue charges from some industrial customers to defray some debt service incurred by West Basin to expand facilities at industrial customer sites resulting in a regional benefit.

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

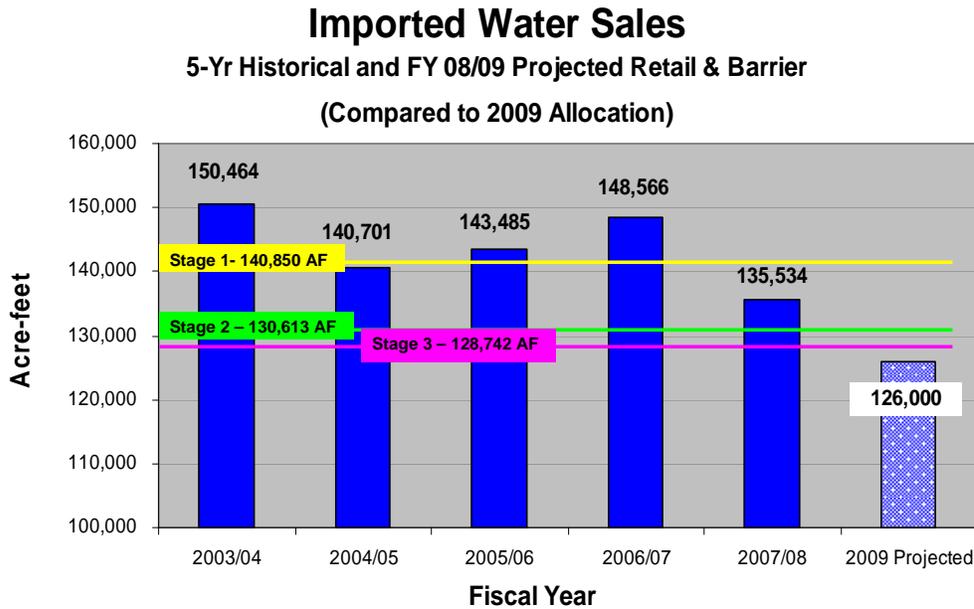
<u>Revenues</u>	<i>FY 2006-07 Actual</i>	<i>FY 2007-08 Actual</i>	<i>FY 2008-09 Projected</i>	<i>FY 2008-09 Budget</i>	<i>FY 2009-10 Budget</i>
<b>Imported Water Sales</b>	\$82,917,256	\$80,265,705	\$81,812,200	\$85,150,000	\$96,896,683
<b>Water Service Charge</b>	217,098	227,436	237,774	237,774	287,707
<b>Capacity Charge</b>	1,843,566	1,910,400	1,910,400	1,910,400	1,989,293
<b>Recycled Water / LRP</b>	19,627,291	22,890,482	24,425,300	25,859,714	28,362,610
<b>Fixed Revenue Charge</b>	7,425,471	8,271,124	7,322,600	7,322,592	7,135,592
<b>Desalter Water / GRP</b>	64,589	352,338	525,100	982,800	1,029,960
<b>General Fund Interest</b>	3,754,489	2,861,026	2,164,700	1,836,000	1,840,000
<b>Bond Fund Interest</b>	826,504	811,104	776,100	761,867	761,867
<b>Standby Charge</b>	9,678,182	9,365,443	9,700,000	9,600,000	9,600,000
<b>Conservation Income</b>	596,906	404,225	1,203,550	2,696,383	2,587,724
<b>Other Income</b>	2,571,288	241,492	322,450	206,400	137,000
<b>Total Revenues</b>	<u>\$129,522,640</u>	<u>\$127,600,775</u>	<u>\$130,100,174</u>	<u>\$136,563,930</u>	<u>\$150,628,436</u>

Fluctuations in revenues over the past several years are the result of three major revenue sources – potable sales, recycled water sales and conservation income.

The first major source of revenues is the imported water sales. Imported water sales vary based on hydrologic conditions and more recently on the water supply

availability as well. These imported water sales were 148,000 in FY 2007, 136,000AF in FY 2008 and projected sales of 126,000AF in FY 2009. Because of this variability West Basin has typically used a 5-year assumption when budgeting for imported water sales. However, for FY 2010, the budgeted imported water sales were calculated differently. Actual Imported water sales for the first 9 months of FY 2009 experienced a 7% decrease as compared to the prior fiscal year. This decrease in demand is primarily a result of increased efforts to educate the public regarding the current water supply situation in Southern California. In addition, in April 2009 MWD acted to impose mandatory water conservation across southern California, effective July 1, 2009 for a minimum of 12 months. Under this mandatory water conservation, MWD elected to implement allocations or water rationing to its Member Agencies. As a result of these two factors, rather than budget 132,200AF of imported water sales (represents the 5 year assumption method), sales were budgeted at 118,000AF for FY 2010.

	FY 2009 Projected	FY 2010 Normal Year	FY 2009 Budget	FY 2010 Budget
Potable Sales	126,000	132,200	128,000	118,000



In April 2009, MWD’s Board of Directors declared a regional water shortage and triggered the implementation of their Water Supply Allocation Plan at a level 2. MWD’s plan allocated shortages of supply over ten levels, from 5 to 50 percent. The above graph show the first 3 levels and the number of AF West Basin would be allocated under general scenarios.

Recycled water sales have increased over the last several years from more than 29,000AF of actual sales in FY 2007 to more than 32,000AF in FY 2008. Reasons for the increase include expansion to the barrier and the additional users on the Title 22 irrigation system. However, recycled water sales are projected to decrease in FY 2009 to 31,200AF and remain at that level in FY 2010. Reason for the slight decline is an anticipated decline in irrigation sales, as users will conserve here as well even though recycled water sales are considered to be drought tolerant. Generally, West Basin is immune to the shifts in the economy. However, West Basin does anticipate lower refinery sales as they adjust to families and businesses cutting back on travel.

Finally conservation/other income represent incentive rebates from MWD and capital contribution from outside entities. In particular in FY 2007 West Basin received \$1.8 million from Southern California Edison towards the installation of solar panels at our treatment facility in El Segundo. No similar major capital contributions occurred in FY 2008 and 2009. For FY 2010, conservation income should increase to meet its conservation goals. Unfortunately, West Basin reduced its anticipated grant funding from the State of California as they address their budget deficit. Likewise, MWD conservation incentives have been curtailed as they continue to balance its rates with funding various priorities.

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

### *Non-Interruptible and Barrier Sales*

West Basin sales are comprised of three components: MWD's commodity, readiness-to-serve charge, and West Basin's reliability service charge. West Basin anticipates that non-interruptible and barrier sales will have a combined increase of \$157 per acre-foot (AF) by September 2010. Based on acre-foot assumptions and the rates for the fiscal year described below, West Basin has budgeted \$96,897,000 in imported water sales.

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

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

MWD's commodity rate increase has historically become effective on January 1<sup>st</sup> of each year. However, for FY 2010 MWD will increase their commodity rate \$122/AF on September 1, 2009. This represents a 21.1% increase over last year's. West Basin's Board of Directors has approved passing through this rate increase. MWD's Board of

Directors also approved an increase in its readiness-to-serve charge increasing its overall collection from \$92 million to \$114 million from its 26 customer agencies effective January 1, 2010. 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). West Basin will increase the rate from \$69/AF to \$94/AF effective September 1, 2009. West Basin opted for a September increase to correlate with the MWD rate change and to mitigate the impact of the increase due to lower anticipated water sales.

West Basin has adopted an increase in its reliability service charge by \$10 based on a combination of factors. These factors include, but are not limited to, the annual CPI from January 1 – December 31, 2008 or 3.5% (rounded up to the nearest whole dollar), increasing costs in support of West Basin's efforts in water reliability, and lower sales due to the current water supply situation. This increase is effective July 1, 2009.

The barrier sales represent 25% of the anticipated West Coast Barrier overall water delivers (the remaining 75% represents recycled water deliveries) and the anticipated Dominguez Gap Barrier deliveries. Barrier sales are anticipated to remain fairly consistent with fiscal year 2009 as these sales are not as affected by hydrologic conditions.

#### Water Service Charge

In January 2003, MWD discontinued its fixed Meter Connection Maintenance charge and replaced it with the Capacity Charge. As one of the fixed charges within the rate structure, West Basin continued its collection of this monthly fixed charge and renamed it the "Water Service Charge". The cubic foot per second (cfs) charge on each customer's meter capacity provides a small consistent revenue stream for the budget. West Basin adopted a \$5/cfs increase on July 1, 2009 for a rate of \$28/cfs. There has been no change in the number and size of meters. West Basin anticipates \$287,707 from this revenue source.

#### Capacity Charge

As part of MWD's new rate structure, a Capacity Charge was developed to recover the costs in providing distribution capacity use during peak summer demands. The aim of this new charge is to encourage customer agencies to reduce peak day demands during the summer months (May 1 thru September 30) and shift usages to the winter months (October 1 thru April 30), which will result in more efficient utilization of MWD's existing infrastructure and defers capacity expansion costs. MWD will be increasing its capacity charge from \$6,800/cfs to \$7,200/cfs effective January 1, 2010. West Basin passes through this charge by multiplying each customer agency's highest daily average usage (per cfs) for the past three summer periods by the Capacity

Charge Rate. West Basin's rate will increase \$350/cfs for FY 2010 for a rate of \$6,350/cfs and anticipates annual revenues of \$1,989,293.

#### Recycled Water Charges and Fixed Revenue Charges

West Basin currently serves recycled water to over 220 customers with projected sales to reach more than 31,000 acre-feet in FY 2009. For FY 2010, West Basin anticipates relatively no increase in recycled sales. Sales are comprised of approximately 35% sales to the West Coast Barrier and approximately 44% of the recycled water sales relate to local refineries. These sales remain fairly consistent from year-to-year. Future increases in recycled water deliveries are based on planned expansions of the facilities and generally offset non-interruptible (firm) deliveries.

West Basin adopted recycled water rate increase ranged from 25% to 37%, depending on the type of recycled water. In review of the water recycling system program, West Basin compared its operating costs to its various sources of income. Operating costs have been increasing in recent years and West Basin has had to address rising chemical costs, facility maintenance, and power. In addition, West Basin also takes into consideration the increase in the non-interruptible rate when it budgets for increases in the recycled water rates. This consideration is given in order to continue to attract new customers and expand existing customers to a more reliable source of water. Revenues from recycled water sales consist of commodity charges and MWD's Local Resources Program (LRP) incentive payment and are estimated at \$28,362,610 for FY 2010. The LRP provides a \$250/AF rebate for each acre-foot of recycled water sold.

In addition, West Basin receives \$7,135,592 fixed revenue charges. Fixed revenue charges are paid by BP/Amoco, Chevron, and Exxon-Mobil Oil Refineries and are designed to repay the cost of the treatment and distribution facilities that were constructed exclusively for delivery of recycled water to the refineries.

#### Desalter Water Charges

West Basin sells the water produced by the C. Marvin Brewer Desalter to California Water Service Company (CWSC) at the effective Metropolitan rate. The effective Metropolitan rate includes the base non-interruptible rate, and an acre-foot equivalent for the capacity charge. Since January 1, 2008, that rate has been set at \$608 per acre-foot increasing to \$721 per acre-foot on September 1, 2009 and then increasing an additional \$3/AF on January 1, 2010 to a rate of \$724/AF. The desalter rate increases in September and January as a result of MWD increasing their commodity charge in September 2009 and correspondingly increasing its capacity charge in January 2010. Based on these rates and the \$250/AF incentive payment received by MWD for the Groundwater Recovery Program (GRP), West Basin anticipates \$1,029,960 from these sales.

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

<b>Rates Effective July 1, 2009 to August 31, 2009</b>				
	<b>MWD Commodity</b>	<b>MWD RTS</b>	<b>Reliability Svc Charge</b>	<b>Total</b>
Non-Interruptible & Barrier (Tier 1)	\$579/AF	\$69/AF	\$51/AF	<b>\$699/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$695/AF	\$69/AF	\$51/AF	<b>\$815/AF</b>
Seasonal Storage Long Term	\$436/AF	-	\$51/AF	<b>\$487/AF</b>
<b>Rates Effective September 1, 2009</b>				
	<b>MWD Commodity</b>	<b>MWD RTS</b>	<b>Reliability Svc Charge</b>	<b>Total</b>
Non-Interruptible & Barrier (Tier 1)	\$701/AF	\$94/AF	\$51/AF	<b>\$846/AF</b>
Non-Interruptible & Barrier (Tier 2)	\$781/AF	\$94/AF	\$51/AF	<b>\$926/AF</b>
Seasonal Storage Long Term	\$556/AF	-	\$51/AF	<b>\$607/AF</b>
<b>Rates Effective January 1, 2010</b>				
Non-Interruptible & Barrier (Tier 2)	\$811/AF	\$94/AF	\$51/AF	<b>\$956/AF</b>

<b>MWD Non-Interruptible Commodity Rate</b>			
	<i>Effective Dates</i>		
	<u>7/1-8/31/09</u>	<u>9/1/09</u>	<u>1/1/10</u>
Supply Rate Tier 1	\$109	\$101	\$101
Supply Rate Tier 2	\$250	\$250	\$280
System Access Rate	\$143	\$154	\$154
Water Stewardship Rate	\$25	\$41	\$41
Water Supply Surcharge	\$25	\$0	\$0
Delta Supply Surcharge	\$0	\$69	\$69
Treatment Rate	\$167	\$217	\$217
Power Rate	\$110	\$119	\$119
<b>Total Tier 1</b>	<b>\$579</b>	<b>\$701</b>	<b>\$701</b>
<b>Total Tier 2</b>	<b>\$695</b>	<b>\$781</b>	<b>\$811</b>

<b>Capacity Charge</b>	
Designated Amount <sup>1</sup>	
<i>Effective July 1, 2009 to Dec. 31, 2009</i>	<i>Effective January 1, 2010</i>
<b>\$6,000/cfs</b>	<b>\$6,350/cfs</b>
<small>(1) Designated amount is an Agency's highest peak (per cfs) from the past three summer periods (May 1-Sept. 30)</small>	

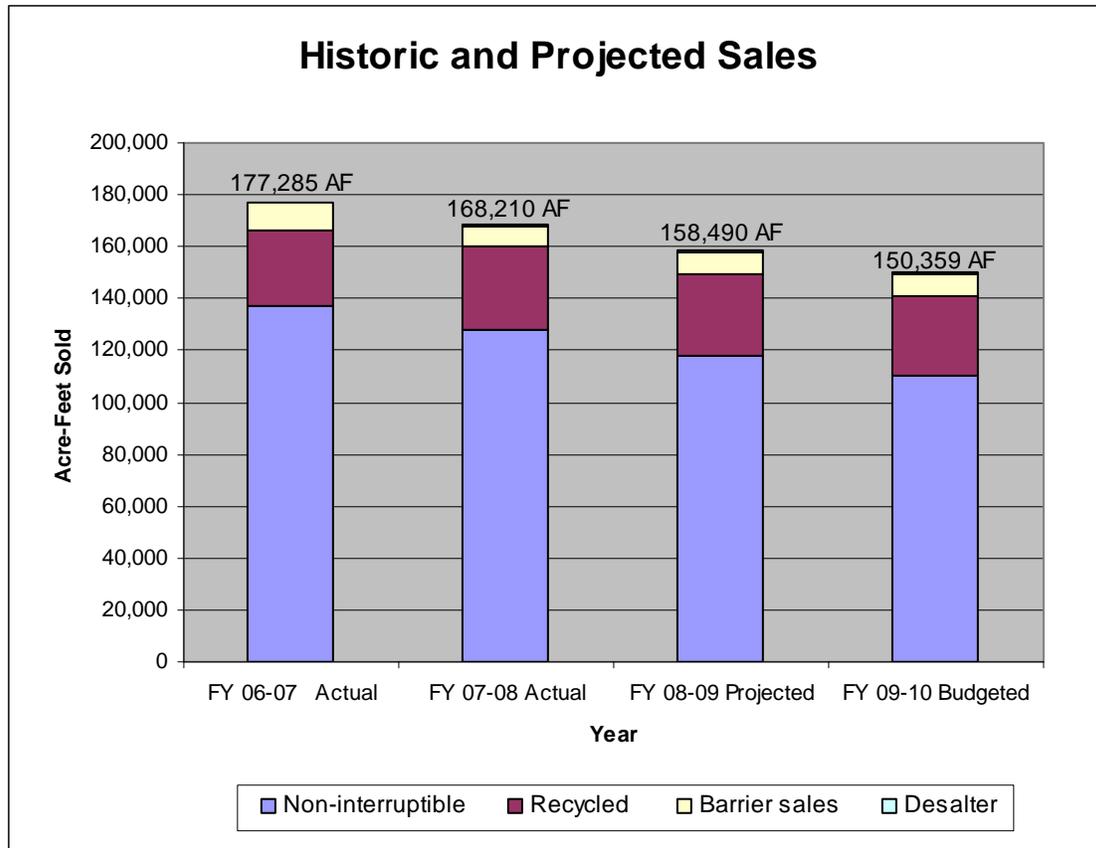
<b>Monthly Water Service Charge</b>
<i>Effective July 1, 2009</i>
WBMWD Water Service Charge
<b>\$28/cfs<sup>2</sup></b>
<small>(2) Per cfs as determined by agency's meter capacity</small>

<b>WBMWD Recycled Water Rates</b>							
<i>Effective July 1, 2009</i>							
Volume (AF/Month)	WBMWD Service Area	West Coast Barrier	Industrial R/O (WB Svc Area)	Nitrified (Ind R/O usage)	Industrial R/O Ultra (WB Svc Area)	Torrance / LADWP Service Areas	Palos Verdes Zone Rate
0-25	\$600/AF	\$501/AF	\$913/AF	\$577/AF	\$1,195/AF	\$642/AF	\$838/AF
25-50	\$590/AF	\$501/AF	\$913/AF	\$577/AF	\$1,195/AF	\$632/AF	\$828/AF
50-100	\$580/AF	\$501/AF	\$913/AF	\$577/AF	\$1,195/AF	\$622/AF	\$818/AF
100-200	\$570/AF	\$501/AF	\$913/AF	\$577/AF	\$1,195/AF	\$612/AF	\$808/AF
200+	\$560/AF	\$501/AF	\$913/AF	\$577/AF	\$1,195/AF	\$602/AF	\$798/AF

*Historic and Projected Sales*

Listed below are the historic sales (in acre-feet) for FY 2007 and FY 2008 and anticipated sales projections for FY 2009 as well as the budgeted sales for both FY 2009 and FY 2010 as follows:

<b>Water Type</b>	<b>FY 06-07 Actual</b>	<b>FY 07-08 Actual</b>	<b>FY 08-09 Projected</b>	<b>FY 08-09 Budget</b>	<b>FY 09-10 Budget</b>
Non-interruptible	136,784	127,925	118,000	123,000	110,000
Barrier sales	11,162	7,609	8,700	8,000	8,000
Desalter	89	467	590	1,200	1,080
Recycled					
Title 22- Within WB	7,210	6,582	7,200	7,200	6,218
Title22- LADWP	313	360	400	350	324
Title22-Torrance	5,742	6,359	5,600	6,225	6,206
RO – Barrier	9,104	11,129	9,215	11,500	10,906
RO – Industrial	3,523	4,506	5,200	4,700	4,416
RO – Ultra	2,835	2,670	2,865	2,800	2,617
Industrial–NH3	523	603	720	570	591
Total Recycled	29,250	32,209	31,200	33,345	31,279
<b>Total Sales</b>	<b>177,285</b>	<b>168,210</b>	<b>158,490</b>	<b>165,545</b>	<b>150,359</b>



Non-interruptible sales for FY 2007 were approximately 8% greater than non-interruptible sales for FY 2008 as this year was an unusually dry year with the lowest record of rain in Southern California in over one hundred years. West Basin receives imported water through MWD and closely monitors the actions taken by MWD to address water supply. In February 2008, the MWD Board of Directors approved “The Water Supply Allocation Plan” and stated publicly that no allocation will take place in calendar year 2008. For the balance of 2008, MWD relied on heightened conservation, continued withdrawals from storage accounts both in-region and in the Central Valley, and water transfer purchases from agricultural districts to meet anticipated gaps between supplies and demand. In response to MWD’s adoption of a Water Supply Allocation Plan, West Basin adopted its own Water Shortage Allocation Plan (“Plan”) in October of 2008 and voted to implement the Plan in April 2009.

However, during FY 2009 West Basin experienced a 7% decrease in demand of non-interruptible sales as compared to FY 2008 due to lower snow pack resulting in MWD voting to implement the Water Supply Allocation Plan effective July 1, 2009. To address this water allocation, West Basin has developed new conservation strategies and programs to help the public conserve water.

## Purchase Order Commitment

### MWD's Purchase Order

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

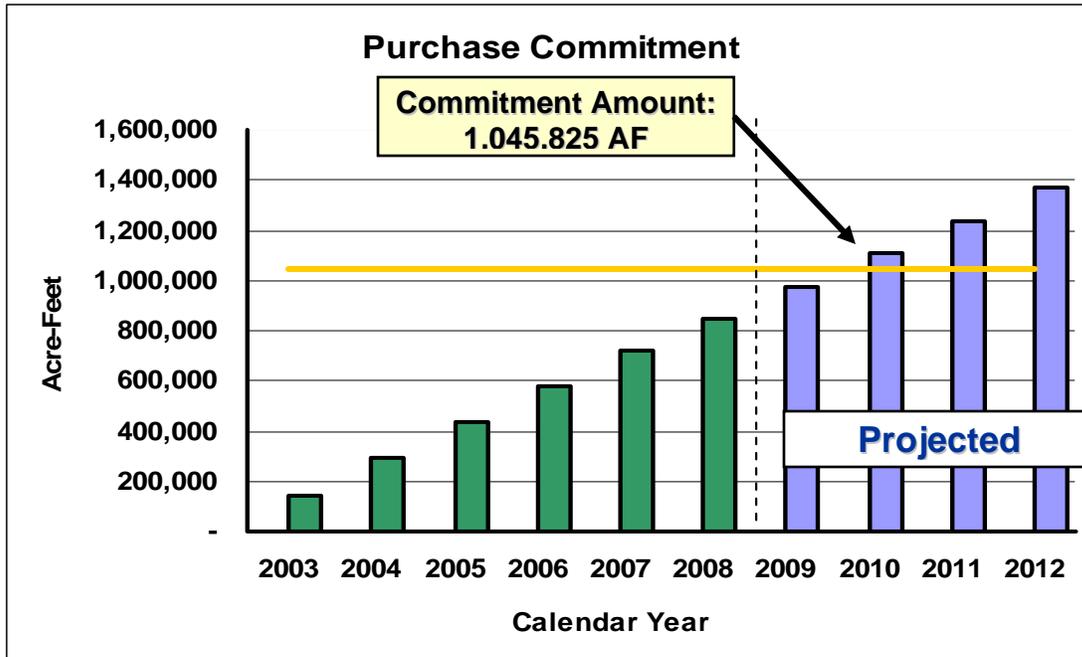
Initial Base Allocation	Annual Tier 1 Maximum (90% of Base)	Purchase Commitment (60% of Base x 10)
174,304 AF	156,874 AF	1,045,825 AF

### West Basin's Purchase Agreement

In order to meet the conditions above with MWD and without solely bearing the liability of exceeding the Annual Tier 1 Maximum and/or the Purchase Commitment with MWD, West Basin established its own purchase contract policy with its customer agencies. West Basin's Imported Water Purchase Agreements mimic the MWD version in terms of an Annual Tier 1 Maximum and total Purchase Commitment, but offers more flexibility to the customer. West Basin required only a five-year commitment, as opposed to a ten-year term. Additionally, customer agencies have the option to adjust their Tier 1 and Purchase Commitment amounts annually if certain conditions are favorable, and can also reduce their commitment by offsetting imported water demand with recycled water purchased from West Basin. For purchases above the Tier 1 limit, or in the absence of a Purchase Agreement, the customer agency pays the Tier 2 rate. The Tier 2 Rate is currently \$116/AF above the Tier 1 rate but will decrease to \$80/AF above the Tier 1 rate effective September 1, 2009. On January 1, 2010 the difference between the Tier 1 rate and the Tier 2 rate will increase to \$100/AF.

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

As displayed in the graph below, West Basin projects that it will be above its minimum Purchase Commitment with MWD by calendar year 2012. As of December 31, 2008, West Basin's customer agencies have purchased 848,320 acre-feet or on average 141,000 acre-feet per year.



## Other Sources of Revenue

### Interest Income

West Basin receives interest income from both its general and bond funds. With a declining interest rate environment, West Basin has assumed a more conservative portfolio return. In addition, West Basin anticipates drawing down funds to be used towards certain capital projects that meet Water Reliability 2020 goals. For FY 2010, general fund interest income has been projected at approximately \$1,840,000. West Basin has adopted an investment policy in accordance with California Government Code 53600 et. seq. and has selected an investment manager to keep West Basin apprise 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.

In addition, West Basin receives interest earnings from bond funds as it relates to its bond financings. At present, West Basin has two debt issuances where a reserve fund has been established and is restricted for the purpose of the bondholders. All bond fund interest earnings are applied towards West Basin's annual debt payments. For FY 2010, bond fund interest earnings are estimated to be \$761,867.

### Standby Charge

For FY 2010 the standby charge will be assessed by the same formula as in prior years. The amount assessed is \$16, \$24 or \$120 per parcel depending upon the land use on a given parcel. Based on approximately 344,000 benefiting units and previous annual collections, it is estimated that the gross revenues from the standby charge will be approximately \$9,600,000. These funds are used towards West Basin's debt service obligations on the West Basin Water Recycling Facility.

### Conservation Income

Through the development of the Conservation Master Plan, West Basin has enhanced its program offerings across commercial and industrial sectors, resulting in greater access to available rebates, state and federal grants, and partnerships with retail water agencies interested to invest in cost-effective programs with these partnerships locally and regionally.

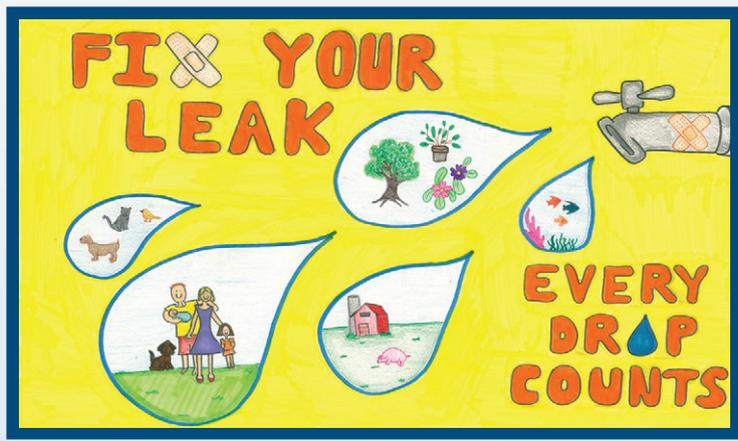
For every dollar that West Basin invests in conservation, it provides an additional \$4.00 benefit of programs to residents and businesses throughout its service area. For FY 2010, West Basin will continue to receive outside funding from the Metropolitan Water District (MWD) and is anticipated some grant funding. The funding is limited this year with the state fiscal crisis. West Basin has planned for a reduced program should the funding be halted. In addition, Metropolitan's past success with conservation incentives has limited their ability to fund certain programs at the same levels. West Basin has accounted for this impact in the current year's budget.

Overall, West Basin anticipates approximately \$2,587,724 in conservation income for FY 2010.

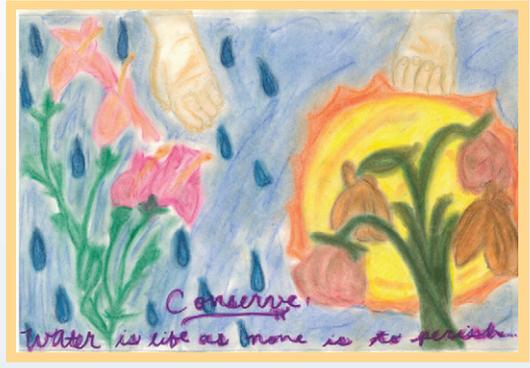
### Other Income

West Basin anticipates miscellaneous income to support its efforts for the annual Water Harvest Festival and the Title 22 Water Quality Monitoring Program. In addition, West Basin receives a variety of federal and state grants. Overall, West Basin anticipates approximately \$137,000 in FY 2010 for other income.

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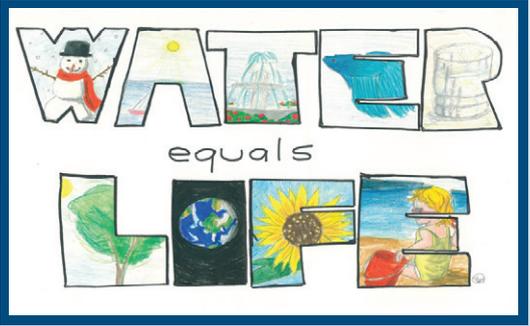
GRAND PRIZE WINNER  
 West Basin Division III, Director Carol W. Kwan  
 Matthew Son, Grade 7  
 Parras Middle School, Redondo Beach



West Basin Division I, Director Ronald C. Smith  
 Vivian Na, Grade 8  
 Ridgecrest Intermediate, Rancho Palos Verdes



West Basin Division II, Director Gloria D. Gray  
 Julieta Gutierrez, Grade 7  
 Peary Middle School, Los Angeles



West Basin Division IV, Director Edward C. Little  
 Tobi Ku, Grade 8  
 El Segundo Middle School, El Segundo



West Basin Division V, Director Donald L. Dear  
 Aldo Gallinar, Grade 8  
 Henry Clay Middle School, Gardena



Each year, West Basin sponsors the Water is Life Student Art Contest for Elementary, Middle and High School students to share important water messages through their artwork. The artwork represented here is from the Middle School Awardees from the 2008-2009 school year. Awards are presented in anticipation of May's Water Awareness Month.

## USE OF FUNDS

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

Detailed below are the historic, anticipated and budgeted expenses:

<u>Expenditures</u>	<u>FY 2006-07 Actual</u>	<u>FY 2007-08 Actual</u>	<u>FY 2008-09 Projected</u>	<u>FY 2008-09 Budget</u>	<u>FY 2009-10 Budget</u>
<b>Imported Water Purchases / RTS</b>	\$76,002,492	\$73,589,449	\$75,547,002	\$ 78,361,800	\$ 88,469,850
<b>Debt Service</b>	24,710,615	22,502,224	22,889,235	22,834,366	24,215,932
<b>Capacity Charge</b>	1,825,800	1,880,196	1,880,200	1,880,200	1,932,980
<b>District Administration **</b>	3,472,767	0	0	0	0
<b>Water Recycling Operations</b>	16,827,306	20,708,700	21,650,800	21,012,553	22,575,676
<b>Desalter Operations</b>	131,224	440,139	461,600	610,605	702,713
<b>Resource Planning</b>	1,747,972	2,195,286	1,048,300	1,223,803	1,141,768
<b>Public &amp; Gov't Affairs</b>	2,712,986	3,101,614	5,004,400	6,808,965	6,325,042
<b>Water Quality Monitoring</b>	22,336	21,671	20,600	18,577	21,832
<b>Joint Financing Authority</b>	147,391	0	0	0	0
<b>Designated Funds/Other</b>	1,921,814	3,161,496	1,598,037	3,813,061	5,242,642
<b>Total Expenditures</b>	<b>\$129,522,640</b>	<b>\$127,600,775</b>	<b>\$130,100,174</b>	<b>\$136,563,930</b>	<b>\$150,628,436</b>

*\*\* Actual District Administration includes program costs and unallocated finance and support service costs in FY 2007. In FY 2008, a change in methodology was made regarding the District Administration program. The total amount will be allocated similar to Finance and Support Services as it represents additional oversight and support for West Basin's activities.*

Fluctuations over the past three years are the result of changes in imported water sales, program costs and debt service. As mentioned under sources of funds, imported water sales fluctuated due to hydrologic conditions and more recently on the water supply availability; however this is offset by a 21% increase in imported water rates. Program costs have increased over the past three years largely due to higher operating costs. In addition West Basin has placed additional focus on conservation and communicating West Basin's message on water reliability. Lastly, West Basin has budgeted higher debt services costs due to the volatility of variable rates and swap payments over the past year.

### ***MWD Water Purchases and Charges***

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

In FY 2010, MWD will increase the Capacity Charge from \$6,800/cfs to \$7,200/cfs effective January 1, 2010. West Basin does pass this charge to its customers; however, the West Basin customers do receive a benefit as the West Basin peaking level varies from the individual customer peaking resulting in savings to the customer. See the revenue section for a further explanation.

### ***Debt Service***

In the early 1990s, West Basin's Board of Directors had the vision to drought-proof its service area by constructing facilities and pipelines to bring recycled water to industrial, commercial and irrigation sites. These sales reduce this areas reliance on imported water. The importance of local control on water availability is even more important today as we continue to face higher costs for the delivery of this scarce resource.

Fiscal Year Ended June 30,	Standby Charge	Fixed Revenue Charge	Total	Debt Service	% of Debt Service
1999	9,478	3,394	12,872	11,432	113%
2000	9,811	4,358	14,169	13,245	107%
2001	9,821	5,336	15,157	17,027	89%
2002	9,496	7,334	16,830	16,934	99%
2003	9,607	7,891	17,498	17,282	101%
2004	9,724	7,586	17,310	17,104	101%
2005	9,669	7,625	17,294	15,233	114%
2006	9,785	7,574	17,359	18,944	92%
2007	9,659	7,426	17,085	20,485	83%
2008	9,365	8,229	17,594	21,213	83%

### ***Debt Summary***

Last spring West Basin made several strategic changes in its debt portfolio to reposition it away from auction rate securities and reduce its exposure to variable rate debt. While West Basin did fix the larger issuance to fixed rate, West Basin does still maintains approximately \$38 million in variable rate debt as a result of the associated two swaps as described below.

However, in fall 2008 the financial market continued to see spiraling affects. Key financial players were eliminated, credit quality on financial institutions and bond insurers continued to decline and as a result nervous investors moved towards safer investments. In October 2008, West Basin saw a sharp increase in its weekly variable resets and about half of its debt portfolio placed with our liquidity provider as bank bonds. While the bonds remained as bank bonds, West Basin was required to pay 12% for the first 45 days and then prime rate plus 1% up to 180 days. West Basin continued to hold bank bonds of approximately \$18 million until January 2009. Today, West Basin has seen the variable rates return to approximately 1%. As a result of a more stable environment, no refunding is planned for the current fiscal year, but West Basin has budgeted above the swap rate to ensure if rates do spike, West Basin is not greatly impacted.

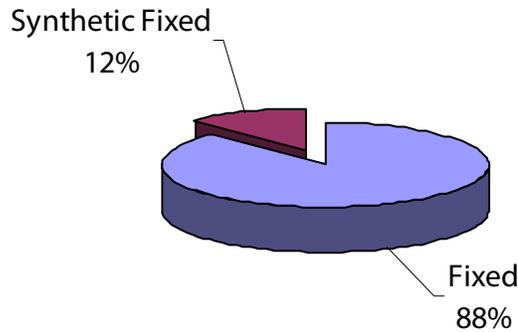
Described below are the three current issuances outstanding: the 2003A Refunding Revenue Certificates of Participation, the 2008B Refunding Revenue Certificates of Participation and the 2008A Adjustable Rate Revenue Certificates of Participation. In addition, West Basin also has a loan from the State Water Resources Control Board. For FY 2010, debt service (DS) is estimated at \$24,215,932.

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

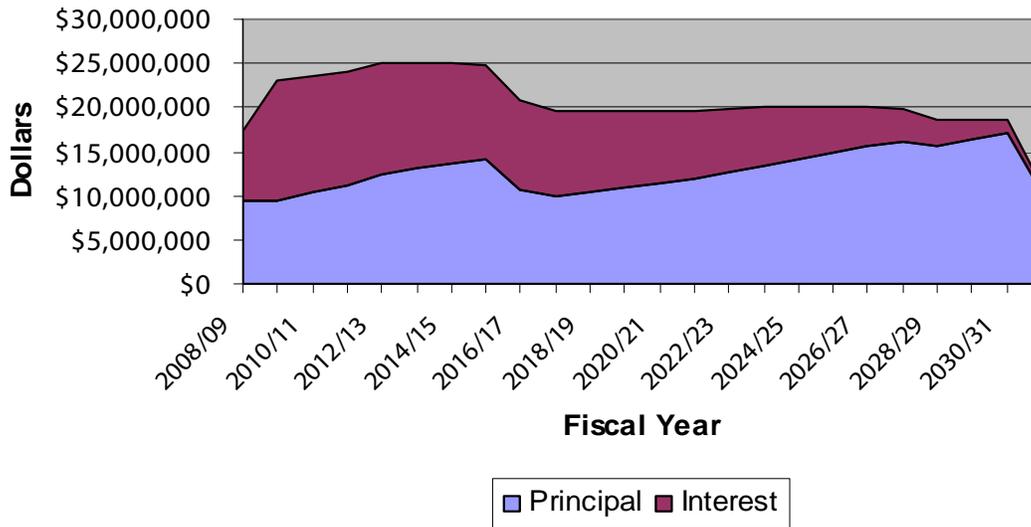
During last year's credit review of West Basin's debt portfolio, West Basin's underlying credit ratings were affirmed at Aa3 for Moody's and AA- for Standard & Poor's.

Series Name	2003A	2008A	2008B	State Loan
<b>Amount</b>	\$156,085,000	\$39,465,000	\$128,665,000	\$5,000,000
<b>Type of Issuance</b>	Refunding / New Proceeds	Refunding	Refunding	Loan
<b>Interest Range</b>	2.5% – 5.25%	Variable	3.0% - 5.0%	3.40%
<b>Swap to Fix</b>	Not Applicable	Yes	Not Applicable	Not Applicable
<b>Issue Date</b>	2003	2008	2008	1995
<b>Final Maturity</b>	2030	2021 and 2027	2031	2015
<b>Current Rating</b>	AA- and Aa3	AA-/A-1 and Aa3/VMIG1	AAA and Aa2	Not rated
<b>Annual DS Payment</b>	\$12.5 Million	\$3.8 Million	\$7.6 Million	\$361,945
<b>2010 Principal</b>	\$6.6 Million	\$1.9 Million	\$1.7 Million	\$292,730
<b>2010 Interest</b>	\$5.9 Million	\$1.2 Million	\$6.0 Million	\$ 69,216
<b>Lien</b>	Senior	Senior	Subordinate	Senior

## Debt Issuances



## Debt to Maturity



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

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

### Covenants

Debt coverage is one covenant that West Basin is required to maintain. To meet this covenant, West Basin has set targeted debt coverage goals for senior, subordinate and all-in debt liens. Detailed below is the anticipated debt coverage for the current and future budget years.

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

<b>Bond Coverage Ratios</b>	<b>FY 2009/10</b>	<b>FY 2010/11</b>	<b>FY 2011/12</b>	<b>FY 2012/13</b>	<b>FY 2013/14</b>
Revenues	\$149,867	\$166,555	\$185,549	\$194,521	\$203,867
O&M	\$121,770	\$134,054	\$146,846	\$148,234	\$155,305
Net Revenues to pay senior debt	\$28,097	\$32,501	\$42,703	\$46,287	\$48,562
Total Senior Debt Service	\$15,830	\$15,838	\$20,332	\$20,318	\$20,295
Senior Debt Coverage	<b>1.77</b>	<b>2.05</b>	<b>2.10</b>	<b>2.28</b>	<b>2.39</b>
Net Revenues to pay subordinate debt	\$12,267	\$16,662	\$22,371	\$25,969	\$28,267
Total Subordinate Debt	7,624	\$7,968	\$8,817	\$9,056	\$8,993
Subordinate Debt Coverage	<b>1.61</b>	<b>2.09</b>	<b>2.54</b>	<b>2.87</b>	<b>3.14</b>
All-In Coverage	<b>1.20</b>	<b>1.37</b>	<b>1.47</b>	<b>1.58</b>	<b>1.66</b>
Remaining Net Revenue	\$5,243	\$8,694	\$13,554	\$16,913	\$19,754

### Long Range Finance Plan and future Debt Issuances

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

Over the past year, West Basin developed two strategic plans to guide and present associated costs on how Water Reliability 2020 goals will be met. The Local Resources

Strategic Plan looks at the diversity of the types of projects West Basin may undertake while the Capital Implementation Master Plan presents the various recycled water projects to expand the recycled water system as well as maintain existing facilities to meet these goals. With this information, West Basin began to focus on the development of a long-range financial plan.

At present, West Basin does not have a formal debt policy. To start, a financial model has been prepared to incorporate the existing budget; incorporate future capital costs; and make assumptions. These assumptions include operating expense increases, water rates, and capital project funding and debt coverage. Upon completion of the financial model, West Basin will formalize a debt policy that incorporates the capital funding assumptions to fund a variety of projects to ensure water reliability.

Investment in West Basin's facilities as of June 30, 2008 is approximately \$497 million. To accomplish these construction efforts, West Basin issued approximately \$349 million in debt. The remaining funding for capital projects comes from federal and state grants and West Basin funds.

With the execution of new customer agreements, West Basin intends to issue new debt in the future or obtain other fixed revenues to assist for the funding necessary to fund these projects. West Basin will also use some of its PAYGO funds or seek state loans to pay for certain capital projects. At this time, West Basin anticipates issuing debt to cover approximately \$50 million to fund its Phase V recycled water expansion, Harbor South Bay projects and other facility improvements in FY 2010. Repayment for this debt will be based on the rates set by West Basin Board of Directors to serve approximately 4,500 acre-feet to the Water Replenishment District to serve the West Coast Barrier and the additional irrigation customers for the lateral expansion from the Harbor South Bay. In April 2009, the two boards signed an agreement that seeks to serve 100% of recycled water to the West Coast barrier.

### ***Operating Program Expenses***

West Basin organizes and tracks its operating expenses through the following functional budget categories: Finance and Support Services, District Administration, Water Recycling Operations, C. Marvin Brewer Desalter Operations, Resource Planning, Public and Governmental Affairs, and Water Quality Monitoring Program. In prior years, West Basin also paid a portion of the costs related to the Joint Financing Authority. The costs included building and other general services that are now included in the Finance and Support Services budget. Both Finance and Support Services and the District Administration costs are allocated to the other program budgets as overhead costs.

Cost accounting is defined as the process of tracking, recording and analyzing costs associated with the products or activities of an organization. As a single enterprise

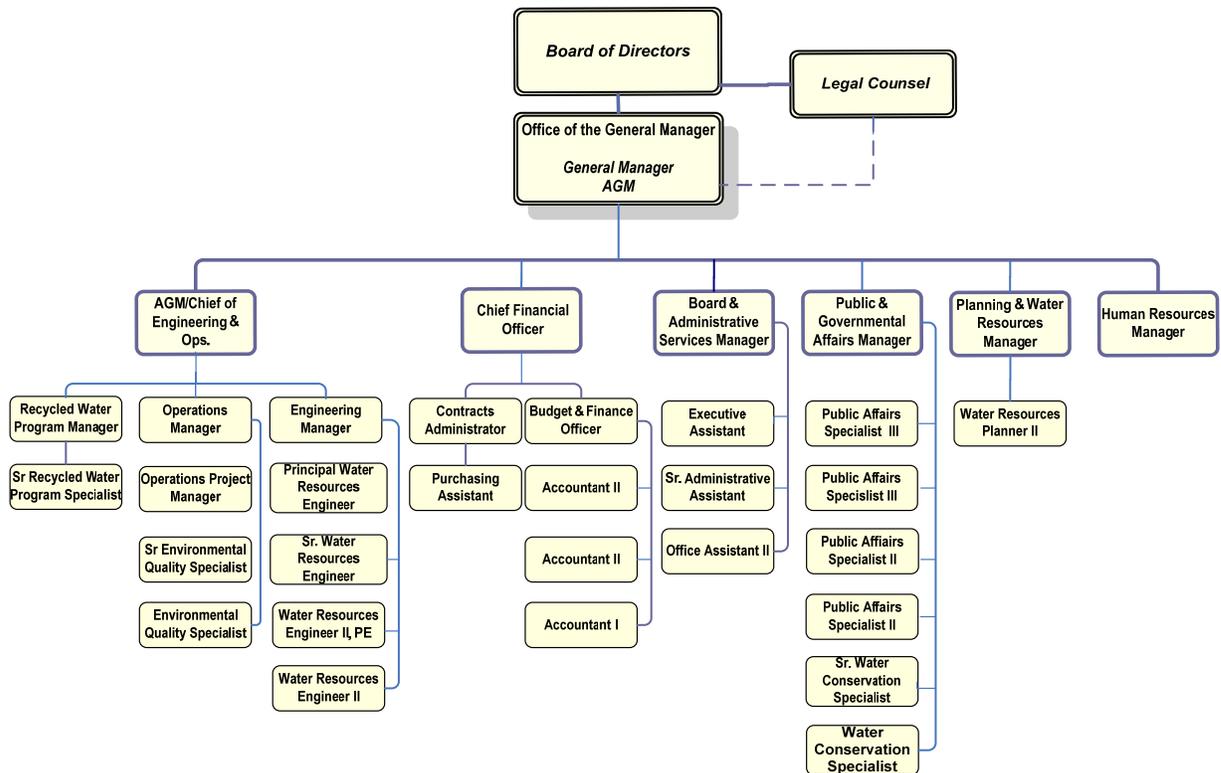
fund, each program budget has direct charges that represent the specific efforts for consultants, suppliers, utilities or other appropriate charges in addition to payroll and allocated costs. Each operating program is described in further detail under the Operating Program Expenses section.

Payroll and benefits

Historically, West Basin shared a modest-sized staff with its sister agency, Central Basin Municipal Water District. Staffing represented an allocated percentage of the shared staff to the two agencies and was allocated to the various programs based on direct labor charges. However, in February 2006, the West Basin Board of Directors exercised its option to terminate the joint administrative agreement effective July 1, 2006. As such, FY 2007 was the first year where the budget reflected a stand-alone staff.

**ORGANIZATIONAL CHART**

**WEST BASIN MUNICIPAL WATER DISTRICT**  
June 2009



Budget staffing levels have remained consistent since 2006 at 33 full time equivalent budgeted positions; however, the FY 2010 budget does include one (1) additional staff in the Public and Government Affairs department to support the Water Reliability 2020 outreach.

### Summary of Personnel by Department

Position	Actual		Budgeted		Change from FY 2009
	FY 2008	FY 2009	FY 2009	FY 2010	
<i>Office of General Manager</i>					
General Manager	1	1	1	1	0
Assistant General Manager	1	1	1	1	0
<i>Board Services</i>					
Administrative Manager	1	1	1	1	0
Executive Assistant	1	1	1	1	0
Senior Administrative Asst.	1	1	1	1	0
Office Assistant II	1	1	1	1	0
<i>Human Resources</i>					
Human Resources Manager	1	1	1	1	0
<i>Public &amp; Governmental Affairs (PGA)</i>					
PGA Manager	1	1	1	1	0
Public Affairs Specialist III	1	1	1	2	1
Public Affairs Specialist II	2	2	2	2	0
Sr. Water Conservation Specialist	0	1	1	1	0
Water Conservation Specialist	0	1	1	1	0
<i>Engineering and Operations</i>					
Engineering Manager	1	1	1	1	0
Principal Water Resources Eng.	1	1	1	1	0
Sr. Water Resources Engineer	0	1	1	1	0
Water Resources Engineer II	2	2	2	2	0
Operations Manager	1	1	1	1	0
Operations Program Manager	0	1	1	1	0
Sr. Environmental Quality Specialist	1	1	1	1	0
Environmental Quality Specialist	1	1	1	1	0
Recycled Water Program Manager	1	1	1	1	0
Sr. Recycled Water Program Specialist	1	1	1	1	0
<i>Planning And Resources</i>					
Planning and Resources Manager	1	1	1	1	0
Sr. Water Resources Planner	1	0	0	0	0
Resource Planner	1	1	1	1	0
Sr. Water Conservation Specialist	1	0	0	0	0
Water Conservation Specialist	1	0	0	0	0
<i>Finance</i>					
Chief Finance Officer	1	1	1	1	0
Budget and Finance Officer	1	1	1	1	0
Accountant II	2	2	2	2	0
Accountant I	1	1	1	1	0
Contracts Administrator	1	1	1	1	0
Purchasing Assistant	1	1	1	1	0
<b>Total Budgeted Personnel</b>	<b>32</b>	<b>33</b>	<b>33</b>	<b>34</b>	<b>1</b>

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

Payroll reflects a 4% increase for salary and merit adjustments. Similar to the allocation of indirect labor, benefits are allocated to various programs (including capital) based on direct labor charges. Benefits include health costs, retirement costs, tuition reimbursement, paid holidays, vacation and sick leave.

In FY 2008, the Board of Directors was presented with the actuary report for the Other Post Retirement Benefits (OPEB). The actuary report showed an unfunded liability of approximately \$2 million. Beginning FY 2009, an amount for funding the unfunded liability and the normal cost has been included in the benefit allocation. Other than the inclusion of pre-funding OPEB last year, there has not been a change in the components to the benefits.

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

As West Basin tracks its costs by programs, West Basin allocates its personnel labor to its various programs and the table below compares FY 2007 and FY 2008 actual, to FY 2009 projected to FY2009 and FY 2010 budget. The variance of projected to budget FTE for FY 2007 and 2008 represents unfilled positions for a portion of the year. The Finance and Support Services and District Administration budgets represent the overhead costs of West Basin and no hours will be charged to these programs. These costs are allocated based on direct labor hours. Direct labor hours are used to represent the actual efforts by staff. For FY 2009, the time previously recorded under District Administration is reflected in the other program budgets to reflect the effort to support these programs. In FY 2009 conservation program costs shifted the Public and Government Affairs budget from Resource Planning. The conservation personnel efforts from previous years will not shift. While an additional staff person is budgeted within the Public and Governmental Affairs department, this individual's efforts will be directed towards Water Reliability 2020 and the outreach of the capital projects to meet this goal.

	<b>FY 06/07 Actual</b>	<b>FY 07/08 Actual</b>	<b>FY 08/09 Projected</b>	<b>FY 08/09 Budget</b>	<b>FY 09/10 Budget</b>
<b>District Administration</b>	1.86	1.42	0.00	0.00	0.00
<b>Recycling Operations</b>	7.36	8.27	8.31	9.11	8.89
<b>Desalter Operations</b>	0.09	0.08	0.07	0.12	0.12
<b>Resource Planning</b>	8.35	8.71	3.79	3.97	3.15
<b>Public and Govt. Affairs</b>	5.95	5.97	9.98	8.61	7.44
<b>WQ Monitoring Program</b>	0.09	0.08	0.05	0.05	0.08
<b>Capital Projects</b>	8.98	7.76	10.74	11.14	14.32
<b>Total FTE</b>	32.68	32.29	32.95	33.00	34.00

### **Capital Improvement Program**

With the impact of drought conditions and the declaration for water allocations, West Basin's Water Reliability 2020 plan is more vital today, and requires that West Basin invest into shovel-ready projects this year. As described within the supplemental section on capital, West Basin intends to invest into its existing facilities, expand its existing recycled water facilities and move forward with an Ocean-water desalination demonstration plant. The latter just received regulatory approval from the Coastal Commission creating the opportunity for West Basin to move forward with this important project.

Before any capital project is initiated, staff presents them to the Board of Directors for approval and direction. Capital projects begin with feasibility and design studies followed by construction contracts. Progress reports are presented to the Board of Directors on a periodic basis. West Basin funds its current projects through its PayGo Designated Fund and through bond proceeds.

See the supplemental section for a detailed discussion on future capital projects.

### **Designated Funds / Net Assets (Fund Balance)**

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

Repairs, and System Enhancements), the PayGo Fund, the Rate Stabilization Fund, the Swap Termination Fund and the Bond Defeasance Fund.

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

*Net Assets Summary:*

	<u>Fiscal Year 2010</u>
Revenues	150,628,436
O &M Expenses (1)	135,335,793
Depreciation (2)	14,862,000
Other Expenses	<u>600,000</u>
Total Expenses	150,797,793
Net Change	(169,357)
Beginning Net Assets June 30, 2009 (estimated)	<u>\$204,997,000</u>
Projected Ending Net Assets – June 30, 2010	\$204,827,643

(1) Excludes principal payments of \$10,050,000.

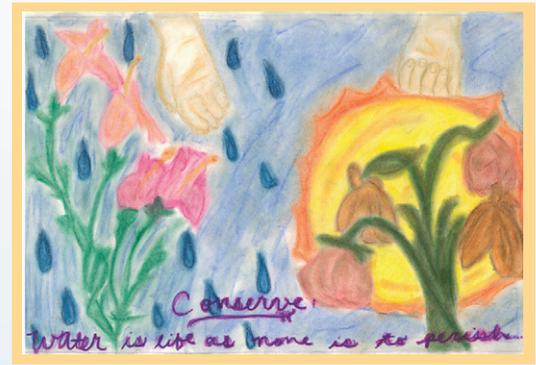
(2) Depreciation is not reflected in the budget as it is a non-cash item. The estimated amount is based on asset management records, and reflected in the calculation to appropriately reflect estimated Net Assets.

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

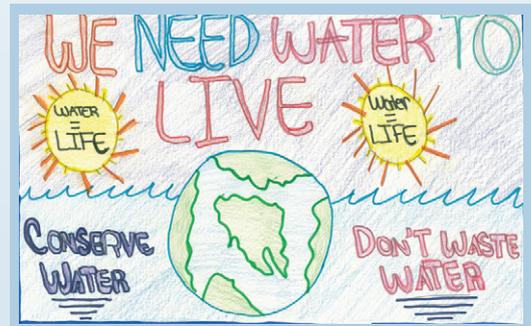
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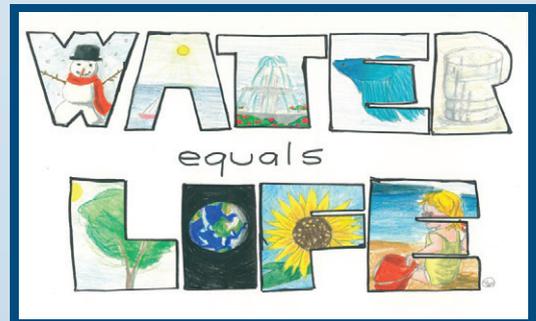
GRAND PRIZE WINNER  
 West Basin Division III, Director Carol W. Kwan  
 Matthew Son, Grade 7  
 Parras Middle School, Redondo Beach



West Basin Division I, Director Ronald C. Smith  
 Vivian Na, Grade 8  
 Ridgecrest Intermediate, Rancho Palos Verdes



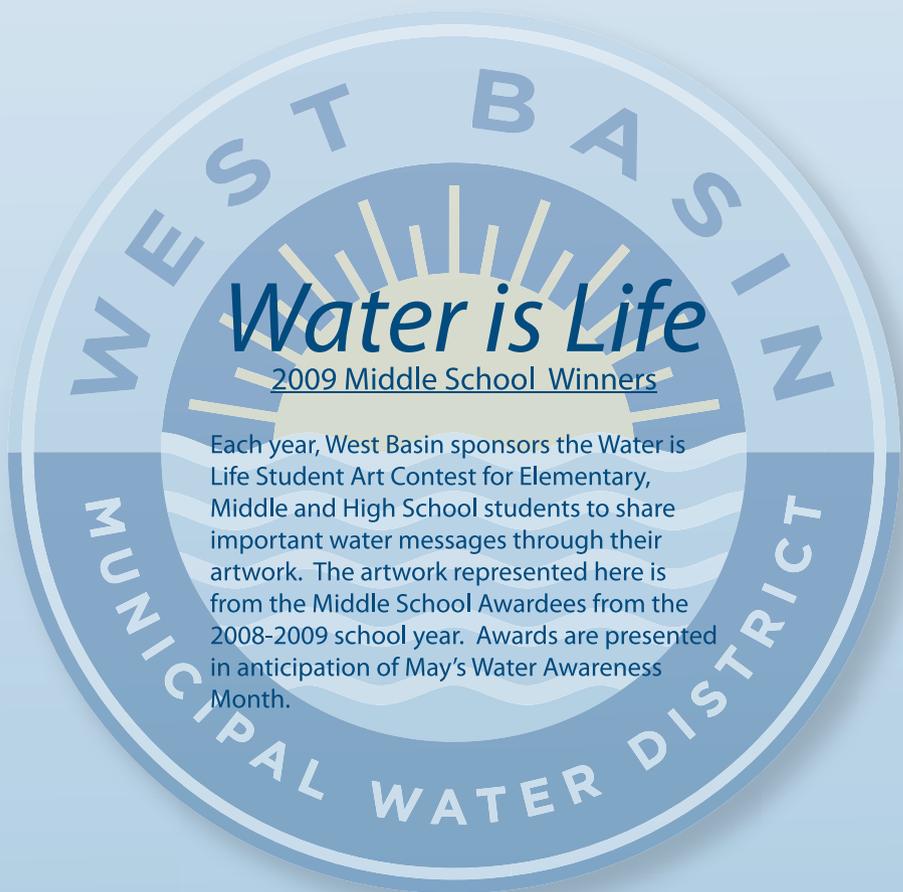
West Basin Division II, Director Gloria D. Gray  
 Julieta Gutierrez, Grade 7  
 Peary Middle School, Los Angeles



West Basin Division IV, Director Edward C. Little  
 Tobi Ku, Grade 8  
 El Segundo Middle School, El Segundo



West Basin Division V, Director Donald L. Dear  
 Aldo Gallinar, Grade 8  
 Henry Clay Middle School, Gardena



Each year, West Basin sponsors the Water is Life Student Art Contest for Elementary, Middle and High School students to share important water messages through their artwork. The artwork represented here is from the Middle School Awardees from the 2008-2009 school year. Awards are presented in anticipation of May's Water Awareness Month.

## OPERATING PROGRAM EXPENSES

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

The FY 2010 Operating Program consists of the following programs:

<u>Allocated Programs</u>	<u>Page Number</u>
Finance and Support Services	58
District Administration	61
 <u>Operating Programs</u>	
Water Recycling Operations	62
C. Marvin Brewer Desalter Operations	65
Resource Planning	66
Public and Government Affairs	68
Water Quality Monitoring	72
Joint Financing Authority	73

During FY 2009, Conservation will move under the Public and Government Affairs Program. These costs had been previously shown under Resource Planning. For comparison purposes, West Basin has moved the conservation expenditures to the Public and Government Affairs program. The labor efforts were not moved from prior years.

## STRATEGIC BUSINESS PLAN

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **FINANCE AND SUPPORT SERVICES**

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

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

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

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

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

The Finance and Support Services category represents indirect expenses to support the general operations of West Basin and also includes financial and legal services, and insurance. New in fiscal year (FY) 2008 is the assumption of building expenses such as utilities, building maintenance, and services like guard, landscape and interior plant service. These expenses are proportionally allocated to all West Basin operating and capital programs as "Overhead Expense". Direct labor hours are used as the primary basis for allocating these expenses to each program. The allocation provides management with a better understanding of the overall cost of each program.

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

### *FY 2009 Accomplishments*

- Workforce – Objective 1: Complete annual workforce diversity report;
- Workforce – Objective 2: Develop a new performance evaluation process and forms that incorporates a performance based evaluation system;
- Workforce – Objective 3: Develop training plan and begin appropriate management, safety and presentation skills training in accordance with the training plan;
- Workforce – Objective 3: Develop a succession planning document for management's review and planning;
- Customer/Community Service – Objective 1: Initiated planning for a West Basin business outreach event to be held June 26, 2009 to increase awareness of procurement opportunities to businesses within our service area;
- Finance – Objective 1: Continue to monitor municipal finance market to address impact of the variable rate market in Fall 2008;
- Finance – Objective 2: Developed a financial model to incorporate revenue and expense assumptions and results of the Capital Implementation Master Plan to assess the appropriate mix and rates to meet the revenue requirements;
- Finance – Objective 2: Board approved a comprehensive capitalization policy to properly account for capital expenditures;

- Finance – Objective 3: Submitted West Basin’s Comprehensive Annual Financial Annual Report (CAFR) for the FY 2008 to the Government Finance Officers Association for their Excellence in Financial Reporting Award;
- Finance – Objective 3: Identify and recommend improvements to West Basin’s procurement policies and internal procedures to provide local business incentive in the evaluation process;
- Finance – Objective 3: Implemented a new E-procurement system (The Network) to improve the bidding process and disseminate information to a wider vendor audience;
- Finance – Objective 3: Board approved modifications to West Basin’s investment policy to incorporate aspects of the Association of Public Treasurer’s model investment policy; and
- Finance – Objective 3: Implement a new financial management system.

FY 2010 Preview

- Workforce – Objective 3: Continue with training plan with a focus on management training;
- Customer/Community Service – Objective 1: Continue to explore various venues to outreach businesses within West Basin’s service area to meet Board’s objective of increasing awareness;
- Finance – Objective 1: Meet with rating agencies to discuss upcoming debt issuances for the continue expansion of the recycled water system;
- Finance – Objective 1: Meet with rating agencies to discuss upcoming debt issuances for the continue expansion of the recycled water system;
- Finance – Objective 2: Develop a long-range financial plan to project revenue needs, capital funding and appropriate rates and charges based on assumptions from financial model;
- Finance – Objective 2: Develop a long-range financial plan to project revenue needs, capital funding and appropriate rates and charges based on assumptions from financial model;
- Finance – Objective 3: Continue to seek improvements in the integrated financial management system to improve financial processes, reporting and access to data;
- Finance – Objective 3: Complete the Information Technology Master Plan to provide actionable recommendations on infrastructure, resource requirements and enhanced use of technology to meet West Basin’s business drivers;
- Finance – Objective 3: Develop a debt policy to address funding of ongoing capital projects expansions and replacements/refurbishments; and
- Finance – Objective 3: Review the designated fund policy for appropriate funds and target levels.

	<b>FY 06/07 Actual</b>	<b>FY 07/08 Actual</b>	<b>FY 08/09 Projected</b>	<b>FY 08/09 Budget</b>	<b>FY 09/10 Budget</b>
General Services	\$ 1,365,146	\$ 2,349,015	\$ 1,421,200	\$ 1,339,800	\$ 1,887,925
Building Services	63,210	305,049	393,200	456,000	424,000
Legal Services	2,293,102	254,594	317,000	217,000	317,000
Employee Support	15,920	17,289	20,400	22,000	16,700
<b>Total Overhead Allocated</b>	<b>\$ 3,737,378</b>	<b>\$ 2,925,948</b>	<b>\$ 2,151,800</b>	<b>\$ 2,034,800</b>	<b>\$ 2,645,625</b>

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

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

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

**DISTRICT ADMINISTRATION**

**Strategic Business Plan Goal:**

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

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

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

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

FY 2009 Accomplishments

- Communications – Objective 1: Provide overall policy direction and strategic priorities through monthly committee and board meetings;
- Finance – Objective 3: Approve the annual budget and rates in June 2009; and
- Finance – Objective 3: Perform required actuary analysis for PARS program and incorporated a new lower rate into FY 10 budget.

FY 2010 Preview

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

	FY 06/07 Actual	FY 07/08 Actual	FY 08/09 Projected	FY 08/09 Budget	FY 09/10 Budget
Labor and Benefits	\$ 267,599	\$ 80,360	\$ -	\$ -	\$ -
Overhead	75,804	-	-	-	-
Directors Administration Costs	799,772	601,702	648,650	802,600	750,000
Retiree Health	36,791	-	-	-	-
Standby Charge Program	18,706	24,104	22,000	22,000	22,000
<b>Total District Administration</b>	<b>\$ 1,198,672</b>	<b>\$ 706,166</b>	<b>\$ 670,650</b>	<b>\$ 824,600</b>	<b>\$ 772,000</b>

*Personnel - Full Time Equivalent (FTE)*

FY 2006/07 Actual FTE	FY 2007/08 Actual FTE	FY 2008/09 Projected FTE	FY 2008/09 Budget FTE	FY 2009/10 Budget FTE
1.86	1.42	0.00	0.00	0.00

## **WATER RECYCLING OPERATIONS**

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

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

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

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

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

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

West Basin started delivering recycled water in 1995. West Basin's recycled water system consists of:

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

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

water. The recycled water operations and maintenance budget includes funds to operate and maintain all of the recycled water facilities, research and development costs to evaluate new, potentially more cost-effective processes and to support regulatory efforts, costs to administer the program, and costs to encourage and develop additional customers to use recycled water.

#### FY 2009 Accomplishments

- Water Quality – Objective 1: Completed hydraulic transient analysis of the distribution system;
- Water Quality – Objective 2: Completed an evaluation by an Independent Expert Advisory Panel to look at providing 100% Recycled Water for the West Coast Basin Barrier Program;
- Water Quality – Objective 2: Completed over 50 compliance reports to the regulatory agencies;
- Environment – Objective 1: Completed the Energy Management Plan;
- Infrastructure – Objective 3: Completed the conversion of Geographic Information System data to a geo-database and implemented software to view and print the data;
- Infrastructure – Objective 4: Updated the groundwater model of the West Coast Basin Barrier;
- Infrastructure – Objective 4: Performed approximately 100 annual visual inspections and over 35 periodic cross-connection tests of recycled water sites;
- Infrastructure – Objective 4: Started up the microfilter cleaning chemicals equalization tank and started up second microfiltration cleaning systems at the Exxon Mobil and Carson satellite plants;
- Infrastructure – Objective 4: Performed approximately 100 annual visual inspections and over 35 periodic cross-connection tests of recycled water sites;
- Infrastructure – Objective 4: Started up the microfilter cleaning chemicals equalization tank and started up second microfiltration cleaning systems at the Exxon Mobil and Carson satellite plants;
- Infrastructure – Objective 5: Participated in a study to assess the condition of the West Coast Barrier. The study was jointly funded by Los Angeles County;
- Infrastructure – Objective 5: Participated in a study to assess the condition of the West Coast Barrier. The study was jointly funded by Los Angeles County Department of Public Works and Water Replenishment District and West Basin;
- Finance – Objective 3: Received approximately \$100,000 from the Demand Response Program that West Basin enrolled in, where we cut power use at the ECLWRF when requested by SCE during times of high power demand;
- Finance – Objective 3: Completed a first draft of key performance indicators for the recycled water program; and
- Finance – Objective 3: Completed study on Alternative Microfiltration Cleaning Methods.

FY 2010 Preview

- Water Quality – Objective 1: Complete Barrier Intrinsic Tracer Study;
- Infrastructure – Objective 4: Install Phase II microfilter elements at the main plant in El Segundo;
- Infrastructure – Objective 4: Install RO membranes in train nos. 3 and 4 at the Exxon Mobil satellite plant;
- Infrastructure – Objective 4: Complete CMF-L microfilter pilot testing;
- Infrastructure – Objective 4: Complete modifications to service connection WB-28B;
- Infrastructure – Objective 5: Initiate/complete pilot testing with Los Angeles County Sanitation Districts at their Joint Pollution Water Control Plant;
- Infrastructure – Objective 3: Develop an asset management system; and
- Finance – Objective 3: Complete antiscalant testing.

	FY 06/07 Actual	FY 07/08 Actual	FY 08/09 Projected	FY 08/09 Budget	FY 09/10 Budget
Labor and Benefits	\$ 968,813	\$ 1,251,245	\$ 1,326,100	\$ 1,436,589	\$ 1,481,224
Overhead	333,805	904,378	564,600	746,638	846,052
Operations					
Chemicals	3,911,592	4,528,071	5,356,290	4,295,180	5,768,700
Consultants	531,622	940,485	789,834	1,023,046	820,000
Contract Labor	271,553	312,726	361,000	300,000	360,000
Facility Maintenance	1,385,924	2,054,288	2,274,783	1,568,600	1,870,000
Laboratory Service	396,410	526,401	415,718	587,800	418,000
Office Administration	549,692	597,469	561,173	618,000	638,200
Secondary Effluent	267,115	276,629	295,700	271,500	324,000
Solids Disposal	583,195	499,693	604,900	825,000	788,500
Utilities	4,484,158	4,807,073	5,503,347	5,449,700	5,292,500
UWS Labor	3,879,271	4,773,874	4,402,315	4,684,500	4,805,500
Mobil Reimbursement	(735,844)	(763,632)	(804,960)	(794,000)	(837,000)
Total Recycling Operations	\$ 16,827,306	\$ 20,708,700	\$ 21,650,800	\$ 21,012,553	\$ 22,575,676

*Personnel - Full Time Equivalents (FTE)*

FY 2006/07 Actual FTE	FY 2007/08 Actual FTE	FY 2008/09 Projected FTE	FY 2008/09 Budget FTE	FY 2009/10 Budget FTE
7.36	8.27	8.31	9.11	8.89

**C. MARVIN BREWER DESALTER OPERATIONS**

**Strategic Business Plan Goal:**

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

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

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

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

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

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

FY 2009 Accomplishments

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

FY 2010 Preview

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

	FY 06/07 Actual	FY 07/08 Actual	FY 08/09 Projected	FY 08/09 Budget	FY 09/10 Budget
Labor and Benefits	\$ 11,547	\$ 11,704	\$ 13,900	\$ 17,247	\$ 19,080
Overhead	3,943	9,111	6,000	8,858	10,633
Operations	103,507	327,587	357,700	392,000	422,000
Replenishment Assessment	12,227	91,737	84,000	192,500	251,000
<b>Total Desalter Operations</b>	<b>\$ 131,224</b>	<b>\$ 440,139</b>	<b>\$ 461,600</b>	<b>\$ 610,605</b>	<b>\$ 702,713</b>

*Personnel - Full Time Equivalents (FTE)*

FY 2006/07 Actual FTE	FY 2007/08 Actual FTE	FY 2008/09 Projected FTE	FY 2008/09 Budget FTE	FY 2009/10 Budget FTE
0.09	0.08	0.07	0.12	0.12

## RESOURCE PLANNING

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

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

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

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

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

Southern California's water supply challenges continued through the winter of 2008 despite hydrologic conditions that approached normal in key watersheds that contribute to our drinking water. Regulatory restrictions on the ability of the state to pump water from the Bay-Delta were increased, having the same effect as a continuing severe drought. As a result, the Metropolitan Water District in April 2009 acted to impose mandatory water conservation across southern California, effective July 1, 2009 for a minimum of 12 months.

In order to carry through the allocation of limited supplies of imported water from Metropolitan to the retail level, West Basin's board of directors adopted a plan to equitably share shortages and enforce them with excess use penalties.

Over the long-term, West Basin believes its approach to supply diversification through conservation and development of locally produced new supplies presents the best solution to these external challenges to our water reliability. Continued expansion of the recycled water system, and research and demonstration of ocean-water desalination are among the current opportunities to advance this mission.

To continue to provide conservation programs and build new facilities cost-effectively, West Basin has remained very active in the pursuit of external funding, including regional, state and federal grants. However, during FY 2008 two events in particular have added both challenges and opportunities to this pursuit. A large fiscal deficit and prolonged state budget debate in California stopped the flow of progress payments to state grant recipients and postponed any new grant programs indefinitely. The federal government's response to the global financial crisis actually created an opportunity for West Basin to access fiscal stimulus funding, either directly from federal agencies, or through the state of California. West Basin worked diligently to position its "shovel-ready" water reliability projects for federal stimulus funding once available.

### FY 2009 Accomplishments

- Reliability – Objective 1: Adopted West Basin's Water Shortage Allocation Plan to equitably distribute limited supplies of imported water to its customer agencies;

- Reliability – Objective 1: Conducted a Local Water Supply Assessment Study to determine planning-level cost estimates of meeting local supply development goals for 2020 and beyond;
- Reliability – Objective 2: Continued a leadership role in the Greater Los Angeles County Integrated Regional Water Management Program as Leadership Committee member, Chair of the South Bay sub-region, and Contract Administrator for Region’s consultant contract;
- Customer/Community Services – Objective 2: Conducted grant funding workshop in winter 2009 along with providing grant writing consultant or access to several West Basin cities;
- Finance – Objective 3: Continued aggressive pursuit of federal stimulus and other grant funding in support of conservation and reliability programs; and
- Finance – Objective 3: Awarded Residential Indoor Plumbing Kits through the Department of Water Resources in the amount of \$251,600.

FY 2010 Preview

- Reliability – Objective 1: Implement the Water Shortage Allocation Plan and provide support to customer agencies through the allocation period;
- Reliability – Objective 1: Develop West Basin’s 2010 Urban Water Management Plan and provide support to all customer agencies in the preparation of their Plans;
- Reliability – Objective 2: Continue leadership role in the Greater Los Angeles County Integrated Regional Water Management Program;
- Reliability – Objective 2: Play an influential role in the completion of Metropolitan’s next Integrated Resources Plan that will determine investments into conservation, local supply development, imported water;
- Finance – Objective 3: Continue pursuing grant opportunities for West Basin and its customer agencies and monitor applications pending from various venues; and including MWD, Santa Monica Bay Restoration Commission and U. S. Bureau of Reclamation totaling approximately \$1 million.

	FY 06/07 Actual	FY 07/08 Actual	FY 08/09 Projected	FY 08/09 Budget	FY 09/10 Budget
Labor and Benefits	\$ 967,399	\$ 1,132,966	\$ 613,500	\$ 634,342	\$ 542,411
Overhead	360,466	947,709	284,800	364,461	349,357
Ocean Desalination	199,536	1,973	-	-	-
Planning	220,571	112,638	150,000	225,000	250,000
<b>Total Resource Planning</b>	<b>\$ 1,747,972</b>	<b>\$ 2,195,286</b>	<b>\$ 1,048,300</b>	<b>\$ 1,223,803</b>	<b>\$ 1,141,768</b>

*Personnel - Full Time Equivalents (FTE)*

FY 2006/07 Actual FTE	FY 2007/08 Actual FTE	FY 2008/09 Projected FTE	FY 2008/09 Budget FTE	FY 2009/10 Budget FTE
8.35	8.71	3.79	3.97	3.15

## **PUBLIC AND GOVERNMENT AFFAIRS**

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

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

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

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

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

The core mission of West Basin's Public and Government Affairs Department is to convey West Basin's value, benefits and savings to its stakeholders and enhance West Basin's reputation as a premiere, innovative water agency. This year, the staff began implementing Board of Director's Strategic Business Plan, including developing five commitments to its customers: Water Reliability, Water Quality, Customer Service, Sound Financial Management and Environmental Stewardship. The five (5) commitment statements convey the value of all of West Basin's programs to its customers and other stakeholders.

The Department also launched a program to inform community leaders and the public of the need to develop a more locally-controlled and diversified water supplies through the Water Reliability (WR) 2020 Program. The Water Reliability 2020 program will decrease West Basin's dependence on imported water from today's 66% down to 33% by the year 2020. Doubling our recycling program, doubling our conservation program and implementing 20 million gallons a day of ocean water desalination by 2020 will accomplish WR 2020.

In addition, the Department also develops and implements a wide array of programs to insure that West Basin is positioned as a leader in water reliability management among key constituencies. These include legislative officials, cities, partner and customer agencies, community, environmental, educational and business leaders. The Department will also oversee West Basin's conservation efforts.

West Basin's award-winning water education programs engage students about the importance of water conservation and environmental responsibility. West Basin currently offers several programs to elementary school children attending both public and private schools and has expanded its programs to schools at middle and high school levels.

The Department manages numerous outreach programs, including special events, tours, presentations, media briefings and others designed to inform stakeholders and critical audiences about West Basin's Water Reliability 2020 program. Water-themed events, construction outreach meetings, media tours and special delegation tours of West Basin's Edward C. Little Water Recycling Facility continue to enhance West Basin's

reputation as a world-class agency dedicated to sustainable water resource management.

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

Surveys indicate that the public is aware of our continued drought situation and want to help. In FY 2008-09, West Basin was busy forging new partnerships and developing new water use efficiency strategies and programs to help the public conserve water. West Basin's water conservation programs currently make up 7% of the District's total water supply portfolio and by 2020 will double to 14%. In gallons, West Basin is currently conserving 3,000 AF of "Active" water savings or 1 Billion gallons, and by 2020 the number will double to 2 Billion gallons of "Active" water savings.

#### FY 2009 Accomplishments

- Reliability – Objective 2: Launched the Water Reliability 2020 Program and obtained over 800 community supporters for the program;
- Reliability – Objective 2: West Basin participated in the state's working group to develop the state's new Model Landscape Ordinance that every city will need to adopt and implement starting on January 1, 2010;
- Reliability – Objective 2: Continued to implement West Basin's Conservation Master Plan, maintaining pace to achieve Water Reliability 2020 goals;
- Reliability – Objective 2: Conducted a Local Government Outreach Initiative to inform cities and customers about local conservation ordinances;
- Reliability – Objective 2: Launched "Cash for Kitchens" Program to provide free kitchen surveys and training to kitchens that are 2,000 square feet and larger. West Basin has conducted 22 audits and training sessions and provided food facilities with free training materials, faucet flow restrictors and aerators, waterbrooms and kitchen faucet spay nozzles;
- Reliability – Objective 2: Launched the "Recirc & Save" Program where 20 Audits were conducted in order to save millions of gallons each year through the installation of equipment where the treatment can use that water several times over;
- Communications – Objective 2: Expanded Water Explorations school tour program to serve more middle and high schools in the District's service area;
- Communications – Objective 2: Expanded the Water is Life Student Art Contest to middle and high school students;

- Communications – Objective 2: Successfully sponsored two high schools in Solar Cup 2009;
- Customer/Community Services – Objective 2: Attracted over 2,000 attendees to the 10th Annual Water Harvest educational festival; and
- Customer/Community Service – Objective 2: Held first Smart Landscape Expo for local citizens wishing to learn more about conserving water outside their home.
- Communications – Objective 3: Continued our program to honor Legislators of the Year
- Communications – Objective 3: Developed a new logo and style guide to further the brand of West Basin;
- Communications – Objective 3: Continued to improve [www.westbasin.org](http://www.westbasin.org) with interactive features involving water recycling, conservation and solar power generation, and added a new WR 2020 section;
- Communications – Objective 3: Implemented Board-adopted legislative policy principles to clarify West Basin’s policy priorities;
- Communications – Objective 3: In partnership with MWD, West Basin developed new fact sheets and displays that communicate West Basin’s commitments to its customers; and
- Communications – Objective 3: West Basin worked with the California Urban Water Conservation Council and helped craft and supports the new Best; Management Practices (BMPs), which were approved in December 2008.

#### FY 2010 Preview

- Reliability – Objective 2: Continue to implement West Basin’s Conservation Master Plan and programs through the following programs –
  - Green Garden Program
  - Green Living for Apartments & Condos
  - High-Efficiency Toilet Distributions
  - Ocean Friendly Garden Workshops
  - Ocean Friendly Large Landscape Controllers
  - Ocean Friendly Gardens
  - Zero Run-off Street Median
  - Cash for Kitchens
  - Recirc & Save Program
- Reliability – Objective 2: Continue to implement the WR 2020 outreach program;
- Communications – Objective 1: Collaborate with Board of Directors to implement goals and objectives of Strategic Business Plan;
- Communications – Objective 2: Develop a plan to improve our education programs, including pre- and post-testing, additional information on the West Basin web site and an audit by an outside education expert;
- Communications – Objective 2: Develop an interpretive exhibit and education program for the Temporary Ocean-Water Desalination Project;

- Customer/Community Service – Objective 2: Develop a one-day local water tour for community leaders;
- Customer/ Community Service – Objective 2: Host 11<sup>th</sup> Annual Water Harvest festival to reach out to the community and make it more educational focused;
- Customer/Community Services – Objective 2: Provide cities support with implementation of AB1881 – the state’s new Model Landscape Ordinance;
- Communications – Objective 3: Continue to develop new collateral materials to showcase West Basin’s “new” brand and value;
- Communications – Objective 3: Coordinate frequent meetings with media focused on current issues facing the water industry and West Basin; and
- Communications – Objective 3: Continue to improve West Basin’s website.

	FY 06/07 Actual	FY 07/08 Actual	FY 08/09 Projected	FY 08/09 Budget	FY 09/10 Budget
Labor and Benefits	\$ 719,993	\$ 900,888	\$ 1,361,500	\$ 1,214,558	\$ 1,071,643
Overhead	274,029	802,686	875,000	832,692	880,988
Education	137,225	144,462	181,850	253,350	400,700
Media	99,092	143,400	160,000	270,000	215,000
Events	169,326	151,967	100,500	130,000	115,000
Government Relations	321,671	351,560	432,000	438,000	457,000
Market Research	-	17,825	-	-	-
Outreach	142,881	51,296	87,000	90,000	93,000
Conservation	848,706	537,530	1,806,550	3,580,365	3,091,712
Total Public & Gov't Affairs	\$ 2,712,923	\$ 3,101,614	\$ 5,004,400	\$ 6,808,965	\$ 6,325,043

*Personnel - Full Time Equivalent (FTE)*

FY 2006/07 Actual FTE	FY 2007/08 Actual FTE	FY 2008/09 Projected FTE	FY 2008/09 Budget FTE	FY 2009/10 Budget FTE
5.95	5.97	9.98	8.61	7.44

**WATER QUALITY MONITORING PROGRAM**

**Strategic Business Plan Goal:**

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

**Commitment Statement:** Water Quality.

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

FY 2009 Accomplishments

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

FY 2010 Preview

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

	FY 06/07 Actual	FY 07/08 Actual	FY 08/09 Projected	FY 08/09 Budget	FY 09/10 Budget
Labor and Benefits	\$ 13,105	\$ 9,954	\$ 6,700	\$ 6,381	\$ 11,787
Overhead	4,849	8,151	3,900	3,796	7,595
Monitoring Program	4,382	3,566	10,000	8,400	2,450
Title 22 Monitoring	\$ 22,336	\$ 21,671	\$ 20,600	\$ 18,577	\$ 21,832

*Personnel - Full Time Equivalents (FTE)*

FY 2006/07 Actual FTE	FY 2007/08 Actual FTE	FY 2008/09 Projected FTE	FY 2008/09 Budget FTE	FY 2009/10 Budget FTE
0.09	0.08	0.05	0.05	0.08

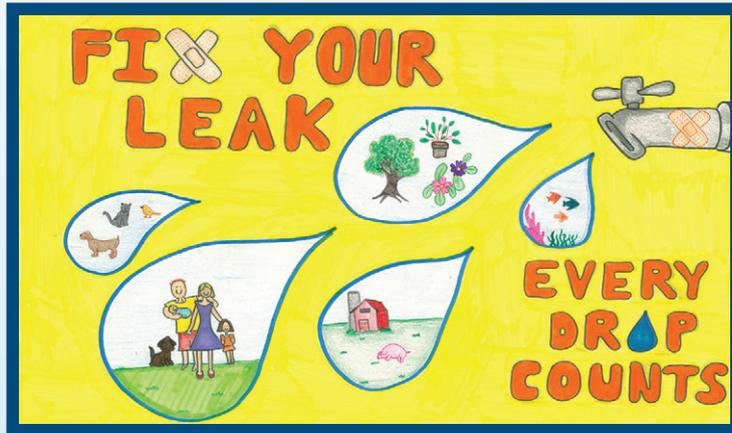
**JOINT FINANCING AUTHORITY (AUTHORITY)**

The Authority was formed in August 1992 by Central Basin Municipal Water District and West Basin Municipal Water District as a public entity in order to plan for, develop, finance, acquire, manage and control facilities. Central Basin and West Basin equally share the revenues and expenses for the administrative headquarters located in Carson, California. In February 2006, the shared management agreement was terminated effective July 2006. In May 2007, Central Basin refunded the remaining bonds on the JFA setting the stage for termination of the JFA.

In August 2007, the JFA board of Directors for the Authority approved the dissolution of the Authority. As a result, operating costs are no longer reflected in this budget. Building costs are now reflected in West Basin’s Finance and Support Services budget.

	FY 06/07 Actual	FY 07/08 Actual	FY 08/09 Projected	FY 08/09 Budget	FY 09/10 Budget
Labor and Benefits	\$ 9,196		\$ -	\$ -	\$ -
Overhead	1,578		-	-	-
Building Services	268,565		-	-	-
Professional Services	15,444		-	-	-
Total JFA	\$ 294,782		\$ -	\$ -	\$ -
Per Member District	\$ 147,391	\$ -	\$ -	\$ -	\$ -

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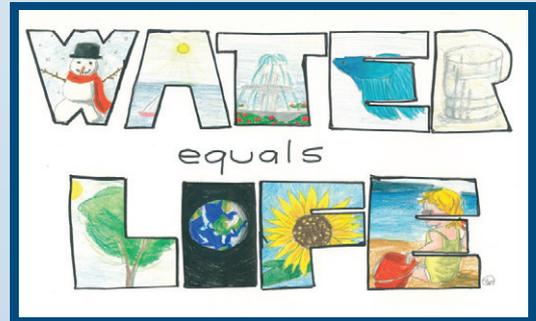
GRAND PRIZE WINNER  
 West Basin Division III, Director Carol W. Kwan  
 Matthew Son, Grade 7  
 Parras Middle School, Redondo Beach



West Basin Division I, Director Ronald C. Smith  
 Vivian Na, Grade 8  
 Ridgecrest Intermediate, Rancho Palos Verdes



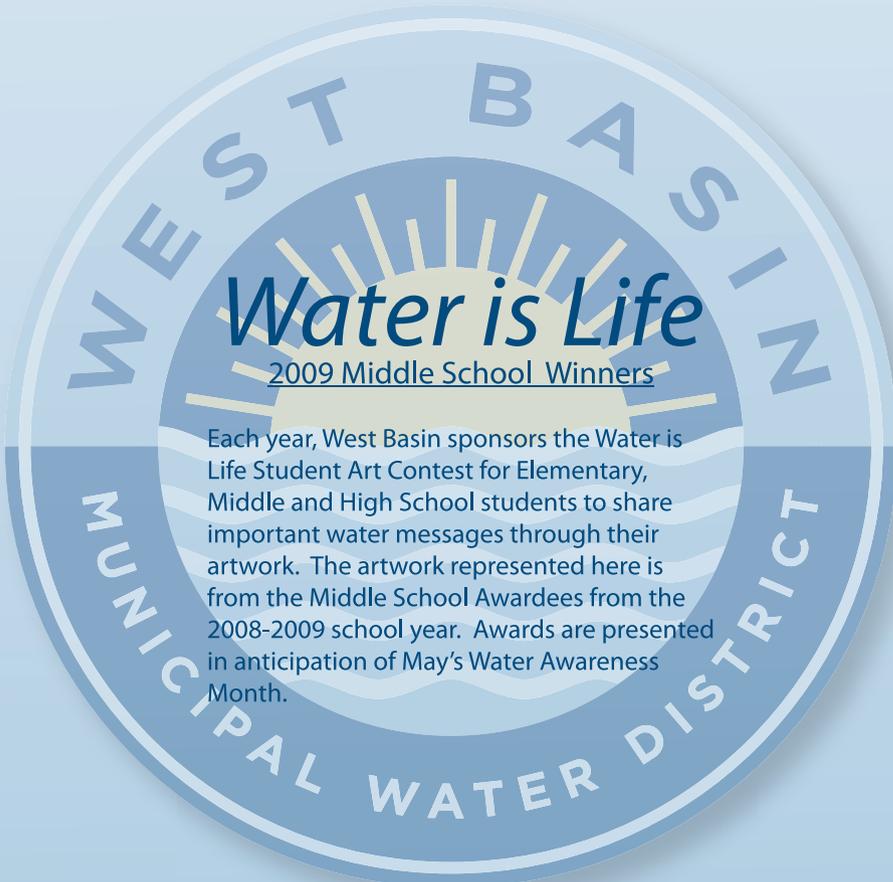
West Basin Division II, Director Gloria D. Gray  
 Julieta Gutierrez, Grade 7  
 Peary Middle School, Los Angeles



West Basin Division IV, Director Edward C. Little  
 Tobi Ku, Grade 8  
 El Segundo Middle School, El Segundo



West Basin Division V, Director Donald L. Dear  
 Aldo Gallinar, Grade 8  
 Henry Clay Middle School, Gardena



Each year, West Basin sponsors the Water is Life Student Art Contest for Elementary, Middle and High School students to share important water messages through their artwork. The artwork represented here is from the Middle School Awardees from the 2008-2009 school year. Awards are presented in anticipation of May's Water Awareness Month.

## SUPPLEMENTAL INFORMATION

<b>Capital Improvement Program</b>	<b>76</b>
<b>Organization Memberships</b>	<b>87</b>
<b>Financial Policies</b>	<b>100</b>

## **CAPITAL IMPROVEMENT PROGRAM**

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

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

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

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

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

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

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

Debt financing projects may include laterals and improvements to the West Basin facilities. In addition, it is generally understood and anticipated that those projects that are the result of customer agreements will also be debt financed as recycled water expansions to refineries, the barrier and other agencies efforts require significant capital outlay. Repayment for this financings may come through as rates or through fixed capital payments. One additional financing consideration that is being explored is a new property assessment. However, it is uncertain at this time how much collection and for which project that this potential new fixed revenue source may be directed.

To meet the recycled water goals in Water Reliability 2020, West Basin invested in an updated recycled water capital implementation master plan. The plan addresses future customer needs, system capacity and the infrastructure required to increase recycled water deliveries from approximately 30,000 AF to 70,000 AF by the year 2020.

West Basin continues to take thoughtful steps to ensure this reliability. For Ocean-water desalination, West Basin has observed and learned from other desalination

facilities around the nation and world to develop an approach that effectively and efficiently handle this resource. West Basin began with research, and plans to develop a demonstration facility prior to the investment into a full-scale facility.

For FY 2010, the following table depicts the sources of funds that will be used to pay for the anticipated CIP projects. As defined in the designated funds policy, West Basin will set aside \$15,728,100 in the construction fund (PAYGO) to fund the various reliability projects, replacement projects and other capital projects. The CIP projects outlined to begin in FY 2010 will be submitted individually to the Board of Directors for authorization and funding during the fiscal year.

	Debt Financed	PAYGO
Reliability Projects	\$ 5,508,200	\$ 7,786,400
Replacement & Refurbishments Projects	-0-	2,228,800
Other/Project Admin.	-0-	5,712,900
Total	\$ 5,508,200	\$ 15,728,100

Projects Debt Financed

In April 2009, West Basin secured an agreement with the Water Replenishment District (WRD) to expand its facilities to produce recycled water for injection into the West Coast Barrier. In addition, West Basin is currently negotiating with Chevron to expand its recycled water supply of single-pass and double-pass boilerfeed water. Both of these expansions would be financed through issuance of debt with each customer reimbursing West Basin for their portion. These agreements will ensure that West Basin will collect sufficient revenues, either through the commodity charge and/or through an annual fixed revenue charge, to pay the annual debt service associated with bonding these projects. The commodity rate will increase as appropriate to account for changes in operating costs. The term of a typical customer agreement is consistent with the life of the bond used to fund the construction of the project.

In addition to the debt issued for customer funded projects, West Basin anticipates issuing debt to finance the design and construction of the Harbor/South Bay Project laterals. Over the next year, seven (7) major construction projects are to be designed and constructed under the Harbor-South Bay Project. These projects are constructed through a partnership with the Army Corps of Engineers. The Army Corps of Engineers has commitment to 75% of the project funding with West Basin paying the remaining 25%. For FY 2010, West Basin was fortunate to receive \$8 million in appropriations for which \$ 5 million was due to the recent federal stimulus funding. West Basin’s contribution is approximately \$2.67 million in funding.

The recycled water acre-feet and sales associated with the customer-funded reliability projects have been included in the Projected Operating Results within this year’s

budget which is shown within the “Financial Highlights and Forecast” section. Similarly, the additional operating costs and debt service have also been increased for the projected sales related to the customer-funded reliability projects.

### PAYGO Funding

Most significantly under the PAYGO funding is Ocean-Water Desalination Demonstration Facility project. For FY 2010, West Basin anticipates it will receive its final permit approval to proceed forward with the demonstration facility. Upon approval, West Basin anticipates moving forward to construct the demonstration facility within the next year. Eventually, construction of a full scale desalination facility will be constructed to produce potable water that will enable West Basin to greatly improve local water reliability. As the acre-feet produced by the desalination facility will replace the potable water West Basin currently purchases from MWD, no change was made to the acre-feet, sales or purchases shown in the Projected Operating Results. At the time the ocean-water desalination full-scale facility is completed, the cost to produce the desalinated water is expected to be equivalent to the cost to purchase imported water. West Basin anticipates seeking debt for the full-scale Ocean Water Desalination Facility in FY 2014 with anticipated debt service in FY 2016.

Several other reliability projects anticipated from West Basin’s PAYGO fund are the expansion of the Hyperion Secondary Effluent Pump Station and Second Electrical Feed as well as water quality improvements for its customer sites and solutions for the Hyperion water quality.

### FY 2009 Accomplishments

- Reliability – Objective 2: Completed construction of the Ashwood Park Lateral. The Ashwood Park Lateral extends from West Basin’s existing recycled water system in the City of Inglewood and provides recycled water to Ashwood Park and Caltrans greenbelts along the Interstate 405 Freeway;
- Reliability – Objective 2: Completed construction of the Imperial Avenue Lateral. Construction of the Imperial Avenue Lateral was completed in February 2009 and will provide recycled water for landscape irrigation usage to greenbelt / park along Imperial Avenue within the City of El Segundo. The Project also includes a connection for future use by the City of Los Angeles Department of Water and Power’s recycled water system. The Project consisted of approximately 4,700 lineal feet of 6-inch diameter recycled water pipeline;
- Reliability – Objective 2: Completed construction of the *Anza Avenue Lateral (Phase I)*. The Anza Avenue Lateral (Phase I) is within the City of Torrance and will provide recycled water for landscape irrigation usage to several customers including Entradero Park, Victor Park, Victor Elementary School, Paradise Park, Anza Elementary School, West Torrance High School, and Jefferson Middle

School. The Project consists of over 12,000 feet of 8-, 6-, and 4-inch diameter recycled water pipeline;

- Water Quality – Objective 1: Completed construction of a Microfiltration (MF) System Equalization Tank. The purpose of the MF Equalization Tank is to remove citric acid used during clean-in-place operations for Micro filtration units at the Edward C. Little Water Recycling Facility and will ultimately improve water quality throughout the District’s distribution system;
- Infrastructure – Objective 1: Completed Feasibility Study for Phase V Expansion Project which included evaluation of expanding recycled water supplies to the West Coast Basin Barrier from 75% to 100%. The Phase V Project will consist of the next major expansion at the Edward C. Little Water Recycling Facility. In addition, the study evaluated capacity expansion for increased supply to Chevron’s single-pass and double-pass boilerfeed uses;
- Infrastructure – Objective 1: Completed Feasibility Study and Cost Estimate to serve additionally high-quality recycled water supplies to BP and the City of Los Angeles’ Harbor Area. The Feasibility Study is the first stage of implementation for BP to determine project viability;
- Infrastructure – Objective 1: Completed West Basin’s long-range Capital Improvement Master Plan (CIMP) which provides a clear roadmap in meeting West Basin’s recycled water supply objectives over the next 20 years. The CIMP includes development of multiple hydraulic models to simulate all of West Basin’s distribution systems, calibration of each model, demand development, and capital facility identification, and cost development over the next 5 years and at 5-year increments through fiscal year 2030. In addition, a long- term repair, replacement, and rehabilitation plan was developed. The information developed in the CIMP will also be applied to West Basin’s long-range financial plan.
- Infrastructure – Objective 2: Completed design, certified environmental documentation, and received all major permits for West Basin’s Ocean Water Desalination Demonstration Project. The Demonstration Project will develop a basis of design for full-scale operation by evaluating intake technologies and impacts, optimizing operation and maintenance procedures using full-scale elements, evaluate performance of potential energy recovery devices, analyze water quality, provide opportunities for public and stakeholder education. The Demonstration Facility will be constructed and operated at the SEALab Marine Educational Facility in the City of Redondo Beach;
- Infrastructure – Objective 2: Completed piloting efforts on Ocean Water Desalination Demonstration Pilot Facility at the El Segundo Power Plant. Ocean Desalination piloting has been performed over the last 6 years in order to develop critical technical and operational knowledge necessary for future design, construction, and operation of a potential full-scale plant operation;
- Infrastructure – Objective 4: Completed upgrade of West Basin’s Distributed Control System for the District’s major treatment plant facility and associated satellite treatment facilities. The Distributed Control System was installed to

- update the original Distributed Control System and to allow for improved and expanded system controls to ensure long-term reliable operation of all District treatment processes and facilities;
- Infrastructure – Objective 4: Completed the Electrical System Verification Project which involved integration of all previous treatment facility electrical system modifications and developing a singular conformed set of electrical system diagrams to fully and accurately represent current system conditions; and
  - Infrastructure – Objective 4: Completed construction of the Satellite Plant MF Clean-in-Place System Modification at both Carson Regional Water Recycling Facility and the ExxonMobil Water Recycling Facility. The MF Clean-in-Place System will allow for optimized cleaning and recovery of microfiltration membranes, which ultimately provide extended membrane life, higher quality product water, and a more reliable water supply.

## FY 2010 PREVIEW

- Reliability – Objective 2: Complete construction of multiple pipeline and pump stations as part of the Harbor-South Bay Project, including the following projects:
  - **Mariposa Lateral** - The Mariposa Recycled Water Pipeline Lateral will include an estimated 6,000 lineal feet of recycled water pipeline and will extend primarily within Mariposa and Nash Streets through the City of El Segundo.
  - **Carson Mall Lateral** - The Carson Mall Lateral Project includes the design and construction of approximately 1,500 feet of 8-inch and 6-inch diameter recycled water pipeline from West Basin's existing 42-inch diameter mainline and extend to the planned Carson Mall.
  - **Anza Avenue Lateral (Phase II)** - The Anza Lateral – Phase II will be constructed in the City of Torrance, California and is the extension of the Phase I Anza Lateral that is currently under construction by the U.S. Army Corps of Engineers. The project will include an estimated 12,000 lineal feet of 8-inch and 6-inch diameter recycled water pipeline.
  - **Dominguez Lateral – Phase I and II** - The Dominguez Lateral will be constructed primarily within the Dominguez Hills portions of the City of Carson, California and will convey approximately 300 acre-feet per year of recycled water to serve multiple customers and use. The Dominguez Lateral will include an estimated 25,000 lineal feet of 12-inch and 8-inch diameter recycled water pipeline.
  - **Dominguez and Torrance Booster Pump Stations** - To provide adequate hydraulic system pressure and water quality to customers served from the planned laterals, two (2) booster pump station will need to be constructed. The booster pump stations are planned to be located within the Dominguez Hills area of City of Carson and West Torrance.
- Reliability – Objective 2: Initiate preliminary design efforts for the Phase V Expansion Project to serve an additional 5 MGD of Barrier Water to the West Coast Basin Barrier and additional high quality boilerfeed water to Chevron Refinery;
- Water Quality – Objective 1: Initiate design efforts on Disinfection Station Facilities and other system water quality improvement to improve distribution system water quality;
- Infrastructure – Objective 1: Complete feasibility studies and initiate preliminary design efforts for the BP Refinery and Los Angeles Harbor Area capacity expansion to meet future increased demands from West Basin's recycled water system;
- Infrastructure – Objective 1: Begin pre-design or study efforts on the Hyperion Effluent Pumping Station Expansion and Second Electrical Feed projects. The pump station expansion will provide additional capacity to serve future

recycled water demands and a second power source to the existing Hyperion Effluent Pump Station to improve reliability to the District's overall supply system;

- Infrastructure – Objective 2: Initiate construction of the Ocean Water Desalination Demonstration Project. The Desalination Demonstration Project will develop a basis of design for full-scale operation by evaluating intake technologies and impacts, optimizing operation and maintenance procedures using full-scale elements, evaluate performance of potential energy recovery devices, analyze water quality, provide opportunities for public and stakeholder education. The Demonstration Facility will be constructed and operated at the SEALab Marine Educational Facility in the City of Redondo Beach.
- Infrastructure – Objective 4: Finalize design and complete construction of the Brewer Desalter Discharge-to-Waste Improvement System that will allow for improved equalization of well startup and waste discharge to local sewer connection;
- Infrastructure – Objective 4: Complete construction of multiple Cathodic Protection improvements to District's overall distribution system in order to ensure integrity of recycled water facilities; and
- Infrastructure – Objective 4: Implement various treatment and conveyance facility repair, replacement, and rehabilitation projects to maintain and improve facility operations and ensure a long-term reliable water supply for the District's customers.

*Personnel - Full Time Equivalents (FTE)*

FY 2005/06 Actual FTE	FY 2006/07 Actual FTE	FY 2007/08 Projected FTE	FY 2007/08 Budget FTE	FY 2008/09 Budget FTE
7.60	8.98	7.76	12.29	11.14

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

	FISCAL YEAR				
	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
<b>Reliability Projects</b>					
<b>Customer Funded Projects:</b>					
ECLWRF - Phase V Expansion - Barrier System	1,329,600	34,126,400	8,864,000	-	-
<b>Potential Customer Funded Projects:</b>					
ECLWRF - Phase V Expansion - Chevron Boilerfeed	308,500	4,627,500	1,234,000	-	-
<b>District Funded Projects:</b>					
Oceanwater Desalination Demonstration Pilot Plant	150,000	-	-	-	-
Oceanwater Desalination Demonstration Facility	7,182,000	4,896,000	1,632,000	-	-
Oceanwater Desalination Full-Scale Facility	200,000	1,000,000	5,800,000	12,700,000	48,300,000
Hyperion SE Pump Station Expansion	204,000	9,996,000	10,200,000	-	-
Hyperion SE Pump Station Second Electrical Feed	50,400	1,209,600	1,260,000	-	-
Water Quality Facility Improvements	1,992,000	392,000	392,000	392,000	392,000
Harbor/South Bay Project Laterals - US ARMY CORPS	3,770,100	250,000	250,000	-	-
Harbor/South Bay Project Laterals - DISTRICT	100,000	750,000	530,000	810,000	850,000
Backup Power and Water Supply Project	-	-	1,000,000	500,000	500,000
<b>Repair, Replacement, &amp; Refurbishment Projects</b>					
Treatment Facility Repair, Replacement, & Improvements	1,853,800	2,323,750	2,323,750	2,323,750	2,323,750
Conveyance Facility Repair, Replacement, & Improvements	75,000	75,000	75,000	75,000	75,000
Conveyance Facility Corrosion Protection Improvements	300,000	-	75,000	-	75,000
<b>District Administration and Other Capital Facilities</b>					
Project Administration - Capital Only	3,470,900	3,644,445	3,826,667	4,018,001	4,218,901
Building Remodel and Rehabilitation	250,000	-	-	-	-
<b>Projected Expenditures</b>	<b>\$ 21,236,300</b>	<b>\$ 63,290,695</b>	<b>\$ 37,462,417</b>	<b>\$ 20,818,751</b>	<b>\$ 56,734,651</b>

### **ELWRF Phase V Expansion – Barrier System**

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

### **ELWRF Phase V Expansion – Chevron Boilerfeed Expansion**

The Chevron El Segundo Refinery, West Basin’s primary customer for boiler feedwater from the ELWRF, has expressed an interest in increasing the amount of high-purity boiler feedwater delivered from West Basin. The increase in recycled water demand would require construction of new facilities within ELWRF in order to allow an increase in both single-pass and double-pass boiler feedwater production. Expansion of Chevron’s Boilerfeed capacity would likely be implemented concurrently with the 100% to Barrier Expansion.

### **Ocean Water Desalination Demonstration Plant**

In May 2002, West Basin initiated piloting efforts to desalinate ocean water and evaluate the potential for developing a viable future water supply source for the region. After over six years of research, West Basin has identified optimal operating

parameters for desalination and is pursuing expanded desalination efforts in a step-wise manner beginning with development of a demonstration level facility, and ultimately leading to implementation of a full-scale ocean water desalination plant.

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

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

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

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

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

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

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

## **Water Quality Facility Improvements**

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

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

The Harbor-South Bay Recycled Water Expansion Project is a partnership between West Basin and the Army Corps of Engineers to allow for increased recycled water use throughout the region and improved water supply reliability. This project includes the design and construction of numerous recycled water pipelines and pumping facilities throughout various cities such as Carson, Torrance, Palos Verdes, Gardena, and unincorporated areas of Los Angeles County. Over \$30 million in federal funding has been appropriated of the Harbor-South Bay Project and most recently, the project received \$8 million in federal Economic Stimulus Package funding as part of the American Recovery and Reinvestment Act (ARRA). The Army Corps of Engineers has authorized a financial commitment of \$35 million or 75% of the project funding. West Basin provides the remaining 25% funding. Over the next year, 7 major construction projects are expected to be designed and constructed under the Harbor-South Bay Project.

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

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

## **Conveyance Facility Corrosion Protection Improvements**

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

**Project Administration**

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

**Building Remodel and Rehabilitation**

Through the Building Ad Hoc Committee, the Committee has identified several remodeling efforts, which include minor air conditioning repairs, boardroom improvements and miscellaneous repairs.

## **ORGANIZATION MEMBERSHIPS**

## ORGANIZATION MEMBERSHIPS

Membership	FY 08-09 Amount	FY 09-10 Amount
Affordable Desalination Collaboration	10,000	10,000
Alliance for Water Efficiency	3,000	3,000
American Membrane Technology Association	350	325
American Water Works Assn Research Foundation	38,000	40,000
Association of California Water Agencies	15,800	20,000
California Association of Sanitation Agencies	765	765
California Climate Action Registry	425	425
California Special Districts Association	3,500	3,500
California Urban Water Conservation Council	3,500	7,800
California Water Awareness Campaign	1,800	1,800
<u>Chambers of Commerce</u>		
- Carson	400	400
- Chinese	500	500
- Culver City	150	150
- El Segundo	600	600
- Gardena	300	300
- Greater Los Angeles African-American	500	500
- Harbor City / Harbor Gateway	175	125
- Hawthorne	300	300
- Hermosa Beach	350	350
- Inglewood / Airport Area	300	300
- Lawndale	500	500
- Lomita	350	350
- Los Angeles	1,500	1,500
- Malibu	365	365
- Manhattan Beach	550	450
- Palos Verdes Peninsula	500	400
- Redondo Beach	250	200
- South Bay Association	-	500
- South Bay Chinese-American	150	150
- South Bay Latino	300	500
- Torrance	425	425
Climate Action Registry	425	425
Colorado River Water Users Association	120	120
L. A. & San Gabriel River Watershed Council	2,500	2,500
National Water Research Institute	50,000	50,000
National Water Resources Association	350	350
New Water Supply Coalition	35,000	30,000
Public Officials For Water & Environ. Reform	1,500	1,500
So CA Alliance of Pub. Owned Treatment Works	8,000	8,000
Southern California Salinity Coalition	10,000	10,000
Southwest Membrane Operators Association	600	600
Urban Water Institute, Inc.	1,250	1,250
Utility Branding Network	5,000	5,000
Water Education Foundation	2,700	2,700
WaterReuse Association	5,000	5,000
WaterReuse Foundation	25,000	25,000
West Basin Water Association	200	200
<b>Totals</b>	<b>\$ 233,250</b>	<b>\$ 239,125</b>

Provided below is a summary description of the organizations that West Basin supports and the association fees that are paid.

### **AFFORDABLE DESALINATION COLLABORATION (ADC)**

Orientation: Technical

Description: The Affordable Desalination Collaboration (ADC) is a non-profit organization comprised of a group of industry leading companies, federal and state government agencies, and water districts that combine their efforts and share their expertise in seawater desalination.

West Basin Involvement: West Basin was a founding member of the collaboration.

Value: West Basin will benefit from the collaboration's research on advances made in membrane and energy recovery technologies that will ultimately result in lowering the cost of ocean-water desalination implemented on a full-scale level as part of West Basin's water supply portfolio.

Association Fee: \$10,000

### **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: The Board and staff will represent West Basin at AWE.

Value: AWE provides access to information and resources drawn from agencies nationwide. AWE also provides direct technical support to members interested in water efficiency matters.

Association Fee: \$3,000

## **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: \$325

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

Orientation: Technical

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

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

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

Association Fee: \$40,000

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

Organization: Policy Development and 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: Staff is involved in various advisory committees and attend two semiannual conferences.

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

Association Fee: \$20,000

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

Orientation: Policy/Technical

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

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

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

Association Fee: \$765

### **CALIFORNIA CLIMATE ACTION REGISTRY**

Orientation: Technical

Description: The California Climate Action Registry is a private non-profit organization originally formed by the State of California. The California Registry serves as a voluntary greenhouse gas (GHG) registry to protect and promote early actions to reduce GHG emissions by organizations. The California Registry provides leadership on climate change by developing and promoting credible, accurate, and consistent GHG reporting standards and tools for organizations to measure, monitor, third-party verify and reduce their GHG emissions consistently across industry sectors and geographical borders.

West Basin Involvement: West Basin became a member of the California Registry in 2008.

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

Association Fee: \$425

### **CALIFORNIA SPECIAL DISTRICTS ASSOCIATION (CSDA)**

Orientation: Special District Governance Advocacy

Description: CSDA is the only statewide association representing all types of independent special districts including irrigation, water, park and recreation, cemetery, fire, police protection, library, utility, harbor healthcare and community services districts with a membership of more than 1,000 organizations. Provides a wide range of high-quality services and resources to member districts.

West Basin Involvement: West Basin receives informative publications on training, legislation, and seminars.

Value: West Basin receives the benefit of education and training, insurance programs, legal advice, industry-wide litigation and public relations support, legislative advocacy, capital improvement and equipment funding, collateral design services, and, most importantly, current information that is crucial to a special district's management and operational effectiveness.

Association Fee: \$3,500

### **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 represents West Basin at CUWCC.

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

Association Fee: \$7,800

## **CALIFORNIA WATER AWARENESS CAMPAIGN**

Orientation: Outreach

Description: California Water Awareness Campaign is an organization created to promote water awareness throughout the State of California using innovative and creative marketing methods that focus on "May is Water Awareness Month."

West Basin Involvement: Staff has been involved with the campaign.

Value: The campaign allows West Basin to promote water awareness and efficiency through educational materials to schools, high school/college student scholarships and promotion of water efficiency statewide.

Association Fee: \$1,800

## **CLIMATE ACTION REGISTRY**

Orientation: Technical

Description: The Climate Action 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.

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

Association Fee: \$425

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

Orientation: Policy

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

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

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

Association Fee: \$120

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

Orientation: Environmental

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

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

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

Association Fee: \$2,500

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

Orientation: Research

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

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

Value: NWRI provides funding for West Basin research projects.

Association Fee: \$50,000

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

Orientation: Policy Development and 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 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

## **NEW WATER SUPPLY COALITION (FORMERLY U.S. DESALINATION COALITION)**

Orientation: Policy Development and Legislation

Description: The New Water Supply Coalition is comprised of 14 water agencies across the United States in the unified pursuit of federal funding to supplement the cost of development of coastal seawater and inland brackish desalination plants through energy subsidies.

West Basin Involvement: West Basin was a founding member of the coalition formerly named the U.S. Desalination Coalition and is involved in policy formulation, lobbying efforts and attends bi-annual leadership meetings.

Value: West Basin benefits from legislation introduced to Congress through the New Water Supply Coalition.

Association Fee: \$30,000

## **PUBLIC OFFICIALS FOR WATER AND ENVIRONMENTAL REFORM (POWER)**

Orientation: Outreach and Policy

Description: POWER organizes an annual conference on Southern California water policy issues that is gaining in prominence among elected officials and environmentalists.

West Basin Involvement: West Basin contributes to the annual conference.

Value: POWER provides West Basin with another advocate for water recycling.

Association Fee: \$1,500

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

Orientation: Policy

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

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

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

Association Fee: \$8,000

## **SOUTHERN CALIFORNIA SALINITY COALITION**

Orientation: Policy/Technical

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

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

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

Association Fee: \$10,000

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

Orientation: Technical

Description: The SWMOA is a non-profit organization comprised of operators and engineers from other 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 sits on the Board of Directors.

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

Association Fee: \$600

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

Orientation: Outreach

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

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

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

Association Fee: \$1,250

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

Orientation: Outreach

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

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

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

Association Fee: \$5,000

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

Orientation: Outreach

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

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

Value: WEF assists West Basin in making information on water issues available to students, residents, Directors and staff through the informational materials available to its members.

Association Fee: \$2,700

## **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 WateReuse committees and conference often has its projects highlighted.

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

Association Fee: \$5,000

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

Orientation: Research

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

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

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

Association Fee: \$25,000

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

Orientation: Outreach

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

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

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

Association Fee: \$200

## FINANCIAL POLICIES

West Basin’s Board of Director’s has approved a number of financial policies to effectively manage the agency. Other non-financial policies are maintained by West Basin through its administrative code and are reviewed periodically to ensure compliance with legal statutes and incorporate other considerations. During the year, certain modifications to the investment policy were made during the year to reflect recommendations from the Association of Public Treasurers model investment policy. In May 2009, the West Basin Board of Directors approved a comprehensive capitalization policy that addresses the determination of capital expenditures and their estimated useful life. This policy reflects the various considerations for infrastructure improvements from newly identified, enhancements to existing or contributed by a third-party. A copy has been included within the budget document as the capitalization policy aides in the determination of which capital outlay is considered operating costs and which are considered a capital asset.

West Basin plans to revisit or develop more comprehensive financial policies based on the completion of the capital improvement master plan. These policies are critical to the development of a long-range financial plan for which West Basin intends to use as a guide in long-term financial planning. West Basin staff intends to develop a more comprehensive debt policy, develop a swap policy and review its Designated Fund policy to determine that the various funds, method of allocation and criteria are still appropriate. These recommendations for new or revised policies will be brought to the Board of Directors for consideration and adoption.

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

<p>A. Annual Operating Budget Policies</p>	<ul style="list-style-type: none"> <li>• Annual budget is prepared under the direction of the General Manager.</li> <li>• The budget is developed using the direction given by the Board of Directors through the Strategic Business Plan.</li> <li>• A draft budget is to be presented to the Board within sixty days of the new fiscal year.</li> <li>• The budget objectives are: Achieve targeted debt coverage; present a balanced budget; and address risks &amp; plan for future budget implications.</li> <li>• The Board shall adopt a budget prior to commencing the next fiscal year.</li> <li>• The General Manager will submit quarterly operating budget versus actual reports with explanation of significant variances.</li> </ul>
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<p>B. Investment Policy</p>	<ul style="list-style-type: none"> <li>• Funds will be invested in compliance with the provisions of the California Government Code Section 53601 and other applicable statutes.</li> <li>• Safety of principal, liquidity and return on investment, in that order, are the criteria in which the Treasurer shall invest.</li> <li>• Treasurer shall select broker/dealers who are licensed and in good standing all applicable self-regulatory organizations.</li> <li>• Investments shall be diversified and to the extent possible, West Basin will match its investments with cash flow requirements.</li> <li>• An annual independent review by an external auditor will be performed to assure compliance with policies and procedures.</li> <li>• The Treasurer shall submit a monthly report to the Secretary of the Board of Directors indicating investment by fund, institution, date of maturity, amount of deposit, and shall provide the current market value of all securities with a maturity of more than 12 months, rates of interest, and expected yield to maturity.</li> </ul>
<p>C. Designated Funds Policy</p>	<ul style="list-style-type: none"> <li>• Designated and undesignated funds can be used for any lawful purpose at the discretion of the Board of Directors.</li> <li>• Designated funds can be shifted or re-allocated at any time at the Board's discretion.</li> <li>• Operating fund is for short-term or immediate purposes such as unplanned activities.</li> <li>• Facility Replacement fund is to provide monies for repair, replacement or refurbishment of existing assets.</li> <li>• Construction fund consists of monies for new capital facilities.</li> <li>• Rate Stabilization fund is a buffer to water rates when unexpected increases in operating costs occur or decreased in revenue.</li> <li>• Swap Termination fund was established to pay for the termination fee.</li> <li>• Bond Defeasance fund is used to set aside funds to accelerate bond retirement.</li> <li>• Bond Reserve fund consists of restricted bond proceeds that provide for additional security for the payment of annual debt service.</li> </ul>

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

	<p>recommendations.</p> <ul style="list-style-type: none"> <li>• West Basin will use widely recognized and generally accepted accounting principles (GAAP) and guidance issued by the Government Accounting Standards Board (GASB).</li> <li>• West Basin will hire an independent accounting firm to perform annual audits in conformity with GAAP.</li> </ul>
G. Debt Management	<ul style="list-style-type: none"> <li>• Capital programs can be funded by debt.</li> <li>• Long term debt will not be used for operating and maintenance costs.</li> <li>• West Basin will maintain a debt coverage ratio consistent or greater than the legal of contractual requirements.</li> <li>• A goal of West Basin is to obtain the lowest cost of debt possible with the current ratings of AA- (Standard &amp; Poors) and Aa3 (Moody's).</li> </ul>
H. Rates and Charges	<ul style="list-style-type: none"> <li>• The rates, fees and charges will recoup the amounts paid by West Basin for water, the cost of operations and maintenance expenses, and an amount necessary for reasonable designated funds.</li> <li>• The revenue produced by the rates, fees and charges will be used to provide service to existing customers</li> <li>• Rates and charges will be reviewed annually and the Board of Directors will adopt a resolution fixing the rates and charges for the following fiscal year.</li> </ul>
I. Human Resources Management	<ul style="list-style-type: none"> <li>• West Basin will determine staffing levels consistent with budgetary authority, available resources, and operating needs.</li> <li>• The General Manager can modify positions and organizational structure to accomplish West Basin's work within the budget approved by the Board for that fiscal year.</li> <li>• The General Manager shall develop an employee performance evaluation plan to assess employee performance in accomplishing West Basin business.</li> <li>• Salary ranges for positions shall be reviewed on an annual basis via a salary survey.</li> <li>• West Basin will provide suitable training for staff.</li> </ul>

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

Included for reference are the full and complete financial policies:

	<u>Page Number</u>
Investment Policy	105
Designated Funds Policy	117
Capitalization Policy	121

## INVESTMENT POLICY

### **1.0 Policy:**

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

### **2.0 Scope:**

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

### **3.0 Prudence:**

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

### **4.0 Objectives:**

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

- (a) Safety of Principal – Investments shall be undertaken which first seek to ensure the preservation of principal in the portfolio. The Treasurer shall ensure each investment transaction is evaluated or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss. Diversification of the portfolio will be used in order to reduce exposure to principal loss.
- (b) Liquidity – Investments shall be made whose maturity date is compatible with cash flow requirements and which will permit easy and rapid conversion into cash without substantial loss of value.

- (c) Return on Investment – Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

**5.0 Delegation of Authority:**

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

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

**6.0 Investment Procedures:**

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

**7.0 Ethics and Conflicts of Interest:**

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

**8.0 Authorized Financial Dealers and Institutions:**

For brokers/dealers of government securities and other investments, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the

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

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

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

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

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

- (1) To be eligible, a certificate of deposit must be issued by a nationally, or California-chartered bank, a California savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a California licensed branch of a foreign bank. (Government Code Sections 53601(h).)
  - (2) Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to "A" or higher by one of the nationally recognized statistical rating organizations (NRSRO).
  - (3) The amount invested shall be subject to the capital limitations of Government Code Section 53638.
  - (4) The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the total portfolio.
  - (5) The maximum maturity shall be limited to one (1) year.
- (d) Bankers' Acceptances – The Treasurer may invest in bankers' acceptances as follows:
- (1) Investment in a prime banker's acceptance shall not exceed 15% of the portfolio in effect immediately after any such investment is made.
  - (2) Eligibility shall be limited to those securities issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by one or more of the NRSRO.
  - (3) No more than 15% of this category of investments may be invested in any one commercial bank's acceptances.
  - (4) The maximum maturity shall be limited to 180 days. (Government Code Sections 53601(f).)
- (e) Commercial Paper – The Treasurer may invest in commercial paper as follows:
- (1) Only commercial paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by a NRSRO. (Government Code Sections 53601(g).)
  - (2) Eligible paper is further limited to issuing corporations that are organized and operating within the United States as a general corporation and having total assets in excess of \$500,000,000.
  - (3) Eligible issuer's debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
  - (4) Investments in commercial paper shall not exceed 25% of the portfolio.

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

The following criteria will be used in evaluating companies:

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

solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

- (2) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- (3) For obligations without a fixed rate of interest, these obligations must have an unconditional demand feature, guarantee or put within the maximum maturity limitations
- (4) Eligibility shall be limited to those obligations that maintain a rating of Aa3/AA- for the long term and P1/A-1 for the short-term, if any, by the Nationally Recognized Statistical Rating Organizations (NRSRO)
- (5) Any bonds, notes, warrants, or other evidences of indebtedness of the District:

(i) District obligations that maintain short-term ratings will be tendered to the trustee for cancellation no later than the 5th anniversary of their purchase.

### **10.0 Prohibited Investments:**

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

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

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

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement

- processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
  - A schedule for receiving statements and portfolio listings.
  - A description of how reserves, retained earnings, etc. are utilized by the pool or fund
  - A fee schedule, and when and how is it assessed.

#### **12.0 Collateralization:**

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

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

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

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

#### **14.0 Diversification:**

The District's investments shall be diversified by:

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

#### **15.0 Maximum Maturities:**

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

#### **16.0 Investment Transactions:**

Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community. Confirmations of all investment transactions will be maintained by the Finance Department for the annual

audit. When practical, the Treasurer shall solicit more than one quotation on each trade

**17.0 Exchange of Securities:**

An exchange of securities is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. In no instance shall an exchange be used for speculative purposes. Any such exchange shall be simultaneous (same day execution of sale and purchase), and shall require the approval of the Treasurer.

**18.0 Internal Control:**

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

**19.0 Performance Standards:**

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

**20.0 Reporting:**

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

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

**21.0 Investment Policy Adoption:**

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

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

## **Appendix A: Investment Policy 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 at a discount and redeemed at maturity for full face value (e.g. U.S. Treasury Bills).

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

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

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

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

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

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

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

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

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

**MUTUAL FUND:** An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual

funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

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

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

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

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

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

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

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

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

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

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

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

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

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

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

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

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

## DESIGNATED FUNDS POLICY

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

### Operating Fund

Purpose:

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

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

Target Criteria:

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

### Facility Replacement Fund

Purpose:

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

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

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

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

Target Criteria:

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

## Construction Fund

### Purpose:

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

### Target Criteria:

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

## Rate Stabilization Fund

### Purpose:

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

### Target Criteria:

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

### Swap Termination Fund

#### Purpose:

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

#### Target Criteria:

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

### Bond Defeasance Fund

#### Purpose:

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

#### Target Criteria:

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

### Bond Reserve Fund

#### Purpose:

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

#### Target Criteria:

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

## 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 and Other Construction Projects

#### 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 and Other Construction Projects

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

1) New Construction:

New construction normally starts as a Construction-In-Progress project and may take more than one fiscal year to complete. At the completion of the project, the total costs of the project may be broken down by the major groups of assets such as distribution system, pumping system, reverse osmosis system, etc. Under each system, the component unit of the assets is listed based on the nature of the component and the length of the estimated useful life.

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

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

Exception:

Service connections (pipelines) are capitalized as capital assets and are not subject to the \$10,000 limitation. However, it still has to meet the useful life limitation of at least three years. In the situation when the customers 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, footnote 64 to GASB-34.

2) Replacement due to expansion or new technology:

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

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

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

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

3) Replacement due to the end of life cycle:

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

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

- The aggregate total costs of the component units have a cost of \$10,000 or more, and;
- Useful life of at least Three years.

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

#### 4) Repairs or refurbishments:

The District's existing infrastructure requires repairs and maintenance on a regular basis. Repairs and maintenance costs allow assets to continue to be used during their originally established useful life. Maintenance costs are expensed in the period incurred. However, certain repair or refurbishment expenses to the existing capital assets can be capitalized if the repair or refurbishment is expected to extend the use of the asset beyond what's left of the depreciation period that was established for that 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 useful life of the existing asset must be extended by at least Three years.

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

#### 5) Contribution by other agency:

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

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

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

### **Determination of Cost**

GASB Statement 34 states that purchased or District-constructed capital assets should be reported at historical cost. The total cost of the capital asset is the cash outlay or its equivalent that is necessary to acquire the asset and put it in operating condition. These costs include contract price, freight, sales tax, licensing fees, handling and assembling, installation and testing, direct labor and material, indirect labor and materials, benefit and overhead allocations as well as any construction period interest cost as required by GASB Statement No. 34. Contributed capital asset 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.

## Capitalization Policy 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.

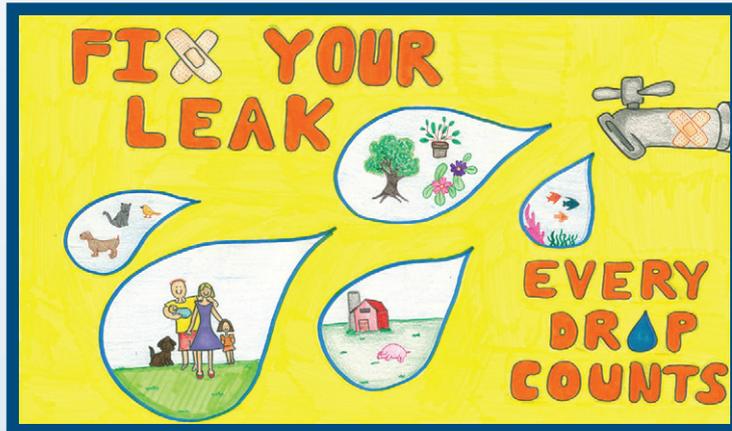
**Infrastructure:** The structures that support a [society](#), such as [roads](#), [water supply](#), [wastewater](#), [power grids](#), [flood](#) management systems, [telecommunications](#) ([Internet](#), [telephone lines](#), [broadcasting](#)), and so forth.

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

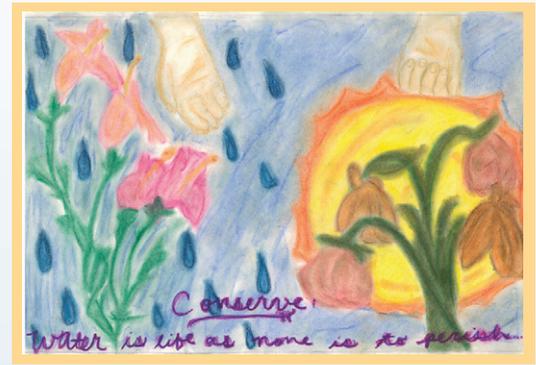
**Salvage Value:** An estimate of the amount that will be realized at the end of the useful life of a depreciable asset.

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

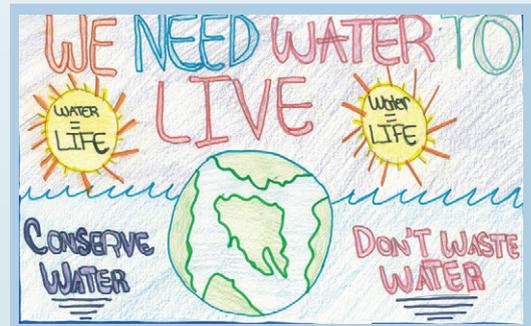
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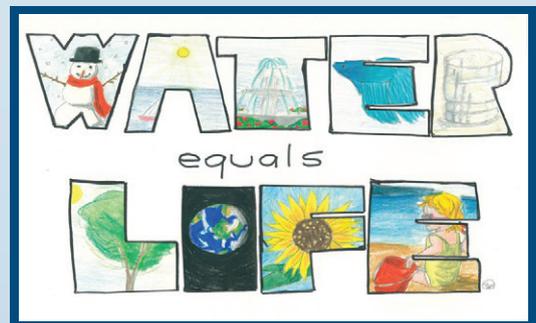
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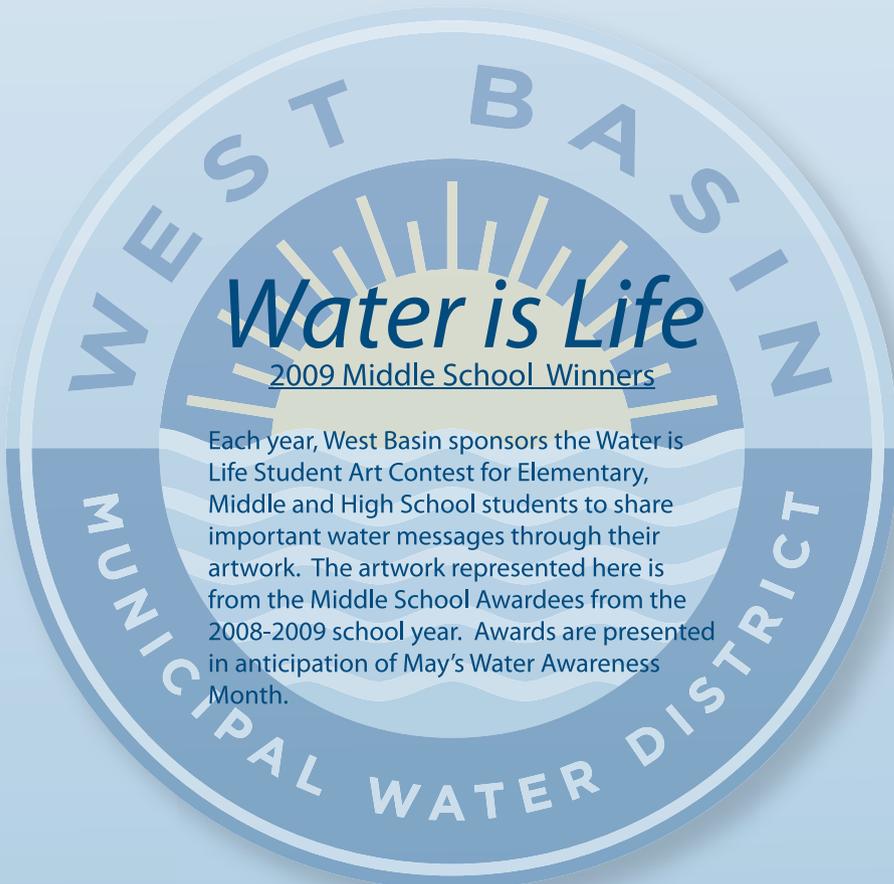
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## GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

**California Environmental Quality Act (CEQA)**

**Capacity Charge** – A charge to recover the cost of providing peak capacity within the distribution system.

**Capital Expenditure** – Costs incurred that will derive a future benefit and include the acquisition or upgrade of land, equipment or facilities.

**Capital Improvement Program** – A multi-year plan identifying capital projects to be funded during the planning period.

**Cubic feet per second (cfs)**

**Colorado River Aqueduct (CRA)** – The 242 mile-long water conveyance system built by Metropolitan Water District to carry water from the Colorado River to its Southern California services area.

**Comprehensive Annual Financial Report (CAFR)** – An annual report intended to provide interested parties a broad financial outlook of West Basin.

**Consumer-Price-Index (CPI)** - A measurement of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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

**Designated Funds** – Unrestricted funds that can be used for any lawful purpose at the discretion of the Board of Directors.

**Edward C. Little Water Recycling Facility (ECLWRF)** – The main water recycling plant in El Segundo, California which began operations in 1995 which was recently renamed the Edward C. Little Water Recycling Facility.

**Effluent** – Wastewater or other liquid, partially or completely treated or in its natural state, flowing from a treatment plant.

**Enterprise Fund** – An entity with a self-balancing set of accounts established to record the financial position and results that pertain to a specific governmental activity.

**Exemption Agreement** – An agreement that allows a property owner, that is able to demonstrate that his property cannot be developed, to be exempt from the Standby Charge.

**Finance and Administrative Overhead** - Indirect expenses to support the general operations of the West Basin.

**Financial Policies** – A document approved by the Board of Directors that identify parameters in which West Basin can operate and provide a standard in which fiscal performance can be reviewed.

**Fiscal Year** – The time frame in which the budget applies. This is the period of July 1 through June 30.

**Full-Time Equivalent (FTE)** – An employee that normally works 40 hours per week and receives full benefits.

**Fund Balance** – See Net Assets

**Gallons Per Minute (GPM)**

**General Fund** – Unrestricted funds used to pay for general or operating expenditures.

**Government Accounting Standards Board (GASB)** – the source of generally accepted accounting principles used by State and Local governments in the United States of America.

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

**Groundwater Resources Program (GRP)** – A program offered by MWD to provide financial assistance to member agencies and local water purveyors to recover and make beneficial use of contaminated groundwater.

**Imported Water** – Water imported by MWD through the CRA system and from Northern California.

**Integrated Regional Water Management Plan (IRWMP)** – A plan prepared by a water purveyor to ensure the appropriate level of reliability of water service sufficient

to meet the needs of its various categories of customers during normal, single dry or multiple dry years.

**Interest Rate Swap** - Contracts that require an exchange of cash flows based on a notional principal amount. Generally a fixed interest rate payment is exchanged against a floating rate payment.

**Irrigation** – Applying water to crops, lawns, or other plants using pumps, pipes, hoses, sprinklers, etc.

**Joint Financing Authority (Authority)** – An entity formed in August 1992 between Central Basin Municipal Water District and West Basin Municipal Water District to develop, finance, acquire, manage, and control facilities. The JFA was dissolved by resolution in August 2007.

**Local Resources Program (LRP)** - A program offered by MWD to provide financial assistance to member agencies and local water purveyors to make beneficial use of treated wastewater.

**Low-use Water Agreement** – An agreement allowing a 50% reduction to the annual Standby Charge. The property owner must certify each year that the water usage is less-than 500 cubic feet per month per dwelling unit.

**Metropolitan Water District of Southern California (MWD)** – MWD is one of the world’s largest water agencies. It imports almost 60% of the water used by more than 15 million people in Southern California, including San Diego County. This water is wholesaled to Metropolitan’s 26 member agencies. A 37 member Board of Directors representing its member agencies governs MWD.

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

**MWD’s Tier 2 Supply Rate** – Set at MWD’s cost of developing additional supply to encourage efficient use of local resources.

**MWD’s Treatment Surcharge** – Recovers the costs of treating imported water.

**MWD’s System Access Rate** – Recovers a portion of the costs associated with the delivery of supplies.

**MWD’s System Power Rate** – Recovers MWD’s power costs for pumping supplies to Southern California.

**MWD's Water Stewardship Rate** – Recovers the costs of MWD's financial commitment to conservation, water recycling, groundwater clean-up and other local resource management programs.

**Million Gallons Per Day (MGD)**

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

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

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

**Proposition 50** - The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002, Water Code Section 79500, *et seq.*, was passed by California voters in the November 2002 general election.

**Public Agency Retirement System (PARS)** – A retirement plan established to provide benefits to Board of Directors that meets certain minimum requirements.

**Purchase Commitment** – An agreement to purchase non-interruptible water.

**Readiness-To-Serve (RTS) Charge** – A charge designed to provide firm revenue for Capital Investment Plan debt service to meet the reliability and quality needs of existing users.

**Recycled Water** – Tertiary treated water that cannot be used for domestic purposes and must meet appropriate federal, state, and local laws and regulations.

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

**Revenue Certificates of Participation** – Tax-exempt government securities used to finance capital costs related to construction or acquisition and may not be used to finance ongoing operating costs.

**Reverse Osmosis (RO)** - a filtration process that forces water through membranes that contain microscopic holes, removing microorganisms, organic chemicals and inorganic chemicals, producing very pure water.

**Seawater Intrusion** – The movement of salt water into a body of fresh water. It can occur in either surface water or groundwater basins.

**Standby Charges** – An annual charge paid by property owners to fund West Basin’s debt service obligation on the West Basin Water Recycling Facilities.

**Standards & Poor’s** - One of the nationally recognized statistical-rating organizations.

**State Water Project (SWP)** – An aqueduct system that delivers water from Northern California to Central or Southern California.

**Title 22** - A section of California Code of Regulations pertaining to various aspects of drinking water and recycled water standards.

**Ultra-Low-Flush Toilet (ULFT)** – A toilet that uses only 1.6 gallons per flush.

**United Water Service (UWS)** - United Water provides water and wastewater services to seven million people in the United States. In addition to owning and operating regulated utilities, United Water operates municipal systems through public-private partnerships and contract agreements.

**Unrestricted Funds** – Funds not restricted by a third party, by law, regulation or by contractual obligation.

**Urban Water Management Plan (UWMP)** – A report prepared by a water purveyor to ensure the appropriate level of reliability of water service sufficient to meet the needs of its various categories of customers during normal, single dry or multiple dry years. The California Water Management Planning Act of 1983, as amended, requires urban water suppliers to develop an UWMP every five years in the years ending in zero and five.

**Water Reclamation** – The treatment of wastewater to make it suitable for a beneficial reuse, such as landscape irrigation. Also called water recycling.

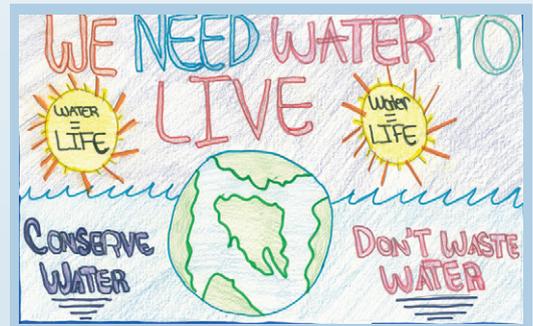
**Water Replenishment District (WRD)** - WRD manages groundwater for nearly four million residents in 43 cities of Southern Los Angeles County. The 420 square mile service area uses about 250,000 acre-feet of groundwater per year, which equates to nearly 40% of the total demand for water. The WRD ensures that a reliable supply of high-quality groundwater is available through its clean water projects, water supply programs, and effective management principles.



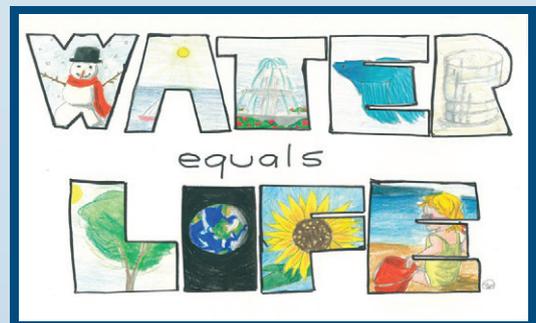
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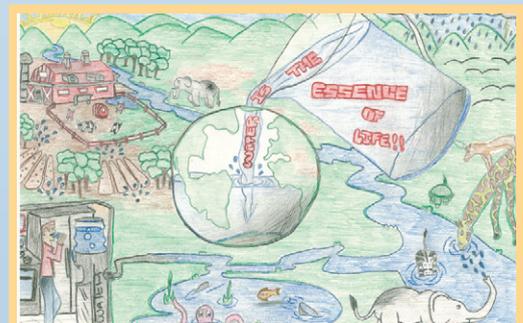
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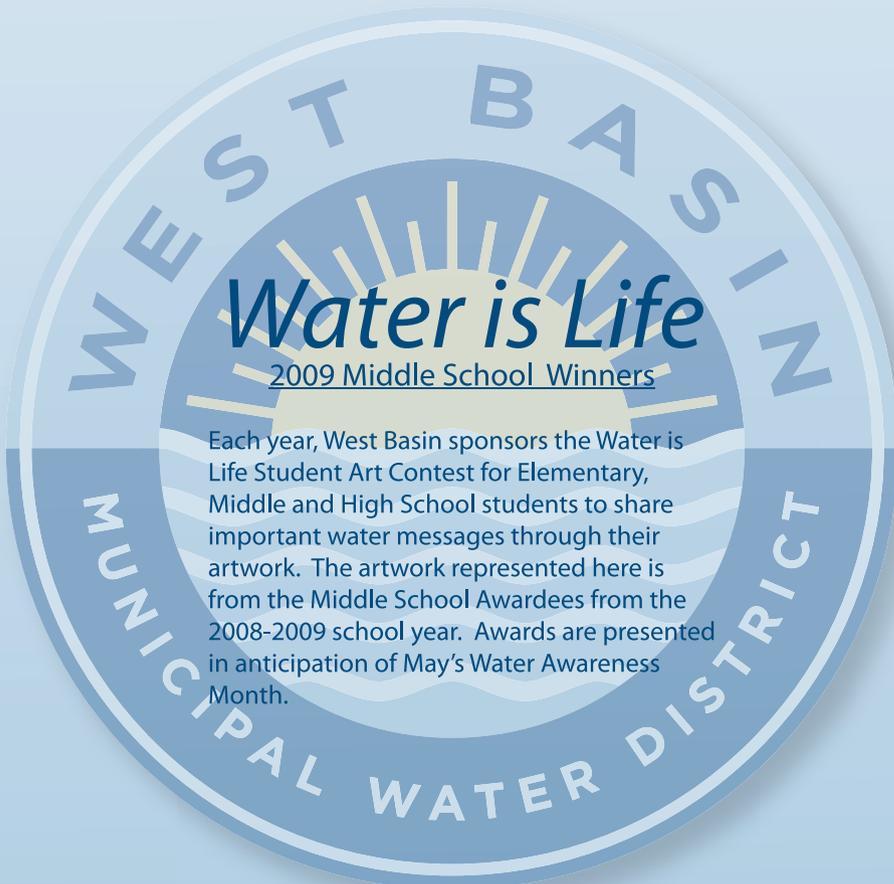
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## NOTES