



OPERATING BUDGET

FISCAL YEAR 2011-2012

WEST BASIN MUNICIPAL WATER DISTRICT
CARSON, CALIFORNIA

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

www.westbasin.org



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[Signature] *[Signature]*
President Executive Director

GENERAL MANAGER'S MESSAGE



May 23, 2011

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, 2011 to June 30, 2012 (FY 2012) budget. 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 of providing safe and reliable water through solid financial management.

West Basin's Board of Directors dedicates significant time and effort to develop and evolve its long-term vision to meet its commitment to its customers and communities. Through the development of a Strategic Business Plan and feedback from its customers, West Basin shapes its vision to provide safe and reliable water to the communities it serves. The means to convey these goals is through the Water Reliability 2020 Program.

The Strategic Business Plan focuses West Basin on the key goals and objectives to achieve success. These goals were originally established as water reliability, workforce, water quality, environment, communications, customer/community service, infrastructure and finance. Each year, staff updates and reviews the Strategic Business Plan scorecard to evaluate the progress and identify near term or ongoing efforts that will aid West Basin to achieve the goals and activities described within the Strategic Business Plan.

In 2008, West Basin conducted a customer survey of its water purveyors (cities, private water companies and water agencies) where the results demonstrated that West Basin's efforts are aligned with its customers. In FY 2012, West Basin plans to conduct another formal customer survey to once again assess how West Basin's efforts align to its customers. Management does meet regularly with its customers through one-on-one meetings and group sessions to ensure customer needs are being addressed.

Trends Impacting the Budget

As a Municipal Water District that wholesales water to 17 cities within the southwest area of Los Angeles County, West Basin's responsibility is to meet the demands of its local constituents' water demands in a cost effective manner. Developing the FY 2012 budget involved addressing certain costly trends. They include unpredictable water sales, higher operating costs and aging infrastructure.

Unpredictable Water Sales

Throughout the past several years, significant coverage about water supply availability has permeated through television news media, newspapers and radio reports. The issues range from environmental impacts to protect endangered species to low water hydrology due to climate change in 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 had focused conservation messaging, targeted outreach and a variety of conversations on water availability.

Over the past two fiscal years, MWD implemented a Water Supply Allocation Plan 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. This mandatory conservation was necessary because of a combination of unfavorable factors, including three consecutive years of below-average snow pack, environmental restrictions on moving water from Northern to Southern California, and shrinking storage reserves. The Water Supply Allocation Plan called for a 10% reduction in water use region-wide. West Basin passed these water restrictions on to its customer agencies who provide imported water. West Basin followed MWD's lead by adopting its own Water Shortage Allocation Plan. Both MWD and West Basin's Water Supply Allocation Plans emphasized that reduction was imperative or the agency would be assessed significant financial penalties.

To ensure success, West Basin held several workshops with customer agencies and cities to discuss options for each to reduce water use including sharing both passive and active water conservation strategies. Several cities updated their water use ordinances and implemented indoor and outdoor conservation programs.

West Basin's customer agencies have been successful in reducing imported water use by promoting water-use efficiency and increasing groundwater production and recycled water use when available. Retail use of imported water has declined 4-5% over the past fiscal year and 27% since FY 2007. In fact, each of West Basin's customer agencies were able to stay within its water budgets and no penalties were assessed.

With the significant amount of rainfall this past year and the reduction of water use throughout the region, water supply conditions have improved. Many of the reservoir levels improved throughout the state which led the Governor of California to declare an end to the drought. On April 12, 2011, the MWD Board voted to end the Water Supply Allocation Plan for FY 2011 and not to continue in 2012. Similarly, West Basin also terminated its restrictions at its April 2011 Board meeting.

West Basin continues to analyze whether the economic crisis has impacted water sales. Continued news about declining real estate values and loss of jobs impact local communities. However, West Basin's mission of delivering safe and reliable water is not greatly impacted by these matters. Families and businesses need this vital resource and changes in population, foreclosures or closed businesses do not directly or significantly impact West Basin as they might other public agencies that provide education, safety and other public services for the community. Reduced sales are the result of an effective campaign to conserve water in response to decreased water availability and restrictions described above.

Uncertainty regarding a long-term solution to balance water supply reliability and ecosystem restoration in the Sacramento-San Joaquin Bay Delta means that West Basin must continue to aggressively pursue water supply diversification through conservation and development of locally produced new supplies. Continued expansion of the recycled water system and research and demonstration of ocean-water desalination are among the current opportunities to advance this mission. As a response to water restrictions and an ongoing need to support its infrastructure, the State of California will look to the voters to support a multi-billion Water Bond in the near term.

To address the unpredictability of water sales (even with the declared end of drought), West Basin has more conservatively budgeted its imported water deliveries to adjust to the current state of water availability, and the increased need to be water efficient. Budget deliveries are expected to remain level from FY 2011 and FY 2012 and increase in the years following as economic activity increases. It is not anticipated that imported water deliveries will return to its historic levels.

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 also expected to be lower than budgeted demands.

Solution: West Basin addressed the FY 2012 budget more conservatively and assumed that deliveries will remain similar to water deliveries from the previous fiscal year. The exception is a decline in recycled water sales to the West Coast Barrier. Until a long-term capital solution is in place, West Basin has reduced its delivery assumption to be 50% (down from 75%).

Higher Operating Costs and Aging Infrastructure

The cost to deliver recycled water has risen over the past few years. In fact, the budget reflects approximately a \$4 million increase from the prior year's original budget with no planned increase in sales. The largest drivers are chemicals, energy use and facility maintenance along with higher operation labor costs.

Over the past year, water quality from West Basin's source water used in its recycling program has resulted in additional time and resources (chemicals and energy use) to determine what solutions can be made to stabilize the delivery of secondary effluent water. Several times during the year turbidity levels have spiked, causing an impact to West Basin's operations, resulting in shutdown of service to some of West Basin's key customers and other operational issues impacting treatment equipment. The source water's high ammonia levels are also impacting Chevron Nitrification flows in FY 2011. A course of action has been identified to resume the historic delivery levels. In particular, the Barrier sales have been greatly impacted, reducing flows from the expected 75% deliveries to around 50%.

Solution: Based on a number of studies to address the issues from additional chemical treatments and more frequent cleaning and/or replacing fouled membranes, West Basin has established a course of action that can lead to stabilizing the source water used in the production of its recycled water. With its fifth expansion of the water recycling facility, West Basin plans to introduce ozone and perhaps add ferric chloride at the Hyperion Pump Station. The new ozone facility is expected to be operational in fall 2012 and is anticipated to lower the unit cost of recycled water by \$70-120 per acre foot, depending on the type of water.

Maintenance at West Basin's recycling facilities has increased in recent years. The recycling facilities are over 15 years old, with several original key components now requiring replacement. To address some of the current budget overruns, West Basin has deferred certain replacements unless required to meet a delivery of water. However, despite efforts to contain facility replacement costs, West Basin's facilities have required a number of major repairs, including leaks on several 42-inch lines, reserve osmosis trains or strainers, microfiltration membranes and components, and rehabilitation of the Carson nitrified storage tank.

Solution: The Capital Implementation Master Plan addresses these issues and provides the framework for inclusion in the financial model and, ultimately, the Long Range Financial Plan. West Basin is currently reviewing its Asset Management Program to identify strengths and opportunities for improvement in business processes, record keeping and other resources needed to support an effective Asset Management Program.

State Budget Challenges and the Uncertain Financial Market

News about the State of California's budget deficit continues to persist. State legislators are looking for solutions to address the almost \$26 billion deficit either through expense cuts or new revenues. This agency is

not directly impacted by suspensions or diversions of sales, gasoline or other taxes as none of West Basin's programs are funded by these sources. Its programs are funded from the direct rates and charges set by this Board of Directors.

West Basin does receive grant funding from the State of California for various conservation programs. To address the potential impact of decreased or delayed funding, West Basin continues to review its conservation efforts, scaling back where necessary.

The financial market continues to fluctuate with news of our economy and more recently with news about the European market. The difficulties of certain countries cause concern about international investors and European banks that provide liquidity to many of the agencies and businesses here in the United States. From an investing standpoint, rates continue to be at low levels as investor flight to quality U.S Treasuries increases. As a result, West Basin anticipates lower interest earnings in this year's budget.

Other challenges

MWD member agencies have continued to challenge MWD staff to minimize rate increases. For the anticipated rate increase in January 2011, MWD originally anticipated the rate increase to be approximately 20%. However, as changes in certain cost drivers became known, MWD determined that the January 2011 increase could be reduced to 12% followed by a smaller increase in 2012, while still achieving a full cost of service. Challenged by member agencies to still minimize rate increases, MWD's Board of Directors approved two 7.5% increases in January 2011 and January 2012. As MWD continues to address its budgets and associated rates, MWD member agencies continue to debate the role of MWD. Some of these discussions surround what role, if any, MWD should have in providing conservation incentives. While the need for conservation messaging remains, the conservation budget has remained flat and, as a result, MWD has revised its conservation incentive program by allocating a portion to each member agency. This resulted in loss or reduction in incentives on conservation devices. Once again, West Basin reviewed its Conservation Master Plan and has slowed many of its programs. 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 grant and incentive income to promote water efficiency programs.

Making West Basin's Water Supply More Reliable

In response to water restrictions, 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 recycling facility, this agency has been recognized by its peers for its 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 approximately 80% dependent on imported water. Today, through appropriate investment in recycling and conservation, West Basin is about two-thirds dependent. By 2020, through the Water Reliability 2020 Program, West Basin intends to reduce its dependence on imported water further through the continued expansion of existing programs and adding ocean-water desalination production to its portfolio. It is imperative to the service area that West Basin continue to invest in local programs to ensure that the

nearly one million West Basin constituents have a reliable supply of water.

With the emphasis on water supply reliability, West Basin will need to effectively plan for the necessary investment required to build and maintain West Basin's capital infrastructure. These capital efforts will be supported by the development of a Long-Range Financial Plan. This plan is intended to provide the following elements: a discussion on water supplies; financial forecast; debt management; risk factors; and comprehensive financial policies. Certain aspects of the plan have begun by developing a financial model and enhancing financial policies. Once complete, these efforts will be communicated to West Basin's customers and stakeholders through Water Reliability 2020 Program messaging to demonstrate where West Basin continues to provide value, especially as the costs for supplying safe and reliable water increase. The supplemental section includes a further description of the specific capital projects that will expand local reliability projects.

West Basin Meeting its Commitments

West Basin continues to be focused to meet and address operational and fiscal challenges. Staff is committed to meeting the strategic goals and commitments established by the Board, highlighted below:

Water Reliability

- Continue Water Reliability 2020 outreach program to explain the need for more local control of our water supplies to mitigate water shortages and future droughts.
- Through an updated Conservation Master Plan, West Basin seeks to expand its conservation efforts by reaching out to businesses and residents through targeted programs or incentive rebates on hardware.
- Begin its fifth expansion to the Edward C. Little Water Recycling Facility to optimize and expand local resources and lessen the impact of the cost of imported water.
- Continue the advancement of ocean-water desalination through the demonstration facility.

Water Quality

- Continue to work individually with each customer to address water quality or other operational issues.
- Monitor and develop alternative solutions to the variable water quality from source water used in the recycling projects to reduce disruption to West Basin facilities.
- Analyze water quality at the temporary ocean water desalination demonstration facility to assess future requirement for the planned full scale facility.

Sound Financial and Resource Management

- Continue to seek federal and state grants to offset costs for conservation or capital programs.
- Have a leadership role and actively participate in the Integrated Regional Water Management Plan (IRWMP) to collectively work with other agencies to bring state grant monies to the region.
- Enhance business operations through the competitive solicitation process, efficiencies in technology, and enhanced reporting.
- Use financial modeling to forecast future expenditures to implement its ongoing programs and future local resources projects and determine the impact to its customers of the required revenue requirements.

Customer Service

- Focus and enhance core education programs of school age children from tours of the water recycling facility to sponsorships of Solar Cup.

- Host annual Water Harvest festival and Water and Energy Expo to educate the community of ways to improve efficiencies in both water and energy.
- 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.
- Developed a draft Energy Management Plan.

More specific accomplishments for FY 2011 and a preview to FY 2012 are described in each operating program area. The capital efforts are described in the supplemental section.

Success through Sound Financial and Resource Management

Annual Budget and Process

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

West Basin’s programs presented in FY 2012 are similar to those shown in prior years. No new programs were added. Budgeted staffing levels remain consistent at 36 full-time equivalent positions.

For FY 2012, West Basin has an operating budget of \$166,680,498 which represents an approximately \$15.4 million increase over last year’s original budget. The increase results from higher imported water costs that are passed through to our customers and \$4 million in recycling operations program costs. This amount represents approximately \$99 million of pass-through costs for the purchase of imported water, \$25 million of net debt service, and \$36 million in program costs including \$28 million for water recycling operations. Revenues equal expenditures as it is West Basin’s policy to place the amounts required to achieve targeted budgeted debt coverage of approximately \$7 million into Designated Funds. This amount is shown under the expenditures table.

Credit Rating and Debt Coverage

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. West Basin understands that strong credit ratings allow an agency to obtain low cost financing for its capital projects. To achieve strong credit ratings, West Basin has internally set budgeted debt coverage goals, enhanced its financial policies, and, from time to time, updates

rates as appropriate. As an essential service provider, demonstrating strong consistent financial performance and the ability to complete large capital projects in a timely manner, West Basin has saved our customers money on water rates.

Through the Strategic Business Plan, the Board of Directors desires to maintain or seek a credit rating increase. West Basin will establish its revenues and expenses to meet targeted budget debt coverage at each lien level and total debt. The financial model and financial policies provides the framework of future assumptions that will allow West Basin to continue to maintain a financially sound organization.

Through the recent liquidity facility replacement in May 2011, both Moody's and Standard & Poor's reviewed the transaction and West Basin and its programs, and reaffirmed its ratings at Aa2 and AA-, respectively.

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 86% of total revenues. These sales enable West Basin to provide our customers with more reliable, high quality water. West Basin continues to contribute value to its customers through recycling, conservation, planning, community outreach, legislative advocacy and effective operations and investments into the future.

For FY 2012, West Basin's Board of Directors adopted a \$29 increase in its water reliability charge; recycled water rates will increase per customer agreement or will increase inline with the West Basin non-interruptible tier 1 effective rate; a \$4/cubic foot per second increase in its water service charge; passing through the average 7.5% increase in the imported water commodity charge and a \$10/AF increase in the readiness-to-serve charge from MWD. In addition, the Board of Directors approved the annual standby charge collection that generates \$9.6 million to support the West Basin's recycling facilities. A more thorough discussion of these various funding sources is located in the "Source of Revenue" section.

The financial horizon for West Basin is evolving over the next 5, 10, and 20 years. To monitor the fiscal impact of its reliability planning efforts, West Basin has developed a dynamic financial model in its Long Range Financial Plan and plans to incorporate many of the assumptions and information from other master plans and decisions West Basin is contemplating 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 continue to develop additional financial policies that will direct West Basin's continued expansion, protection and maintenance of its assets. At present, West Basin has developed a full array of policies including an investment policy, designated funds policy, swap policy and debt management policy. In addition, West Basin participates in a MWD workgroup where participating member agencies contemplate the fiscal impact of their business decisions to individual agencies. As new information is presented, West Basin works with its customer agencies to ensure the increases are appropriate to address water supply reliability.

Once again, this year's budget has been both challenging rewarding to compile. California's water industry is politically, environmentally and operationally challenged by the fiscal and physical constraints to deliver safe and reliable water. West Basin is cognizant that the State's short-term and long-term risks have an impact on its customers and West Basin is working toward addressing the availability and accessibility of providing water to its constituents. In addition, West Basin undertakes its role through managing rate increases, diversifying water sources and addressing operational risks. West Basin's rate increases have been carefully considered

and communicated to the Board of Directors and to 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 and will continue to work with its customers and other stakeholders to ensure that rate increases are mitigated to the greatest extent possible to be able to deliver safe and reliable water to the communities it serves.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard Nagel". The signature is fluid and cursive, with a large initial "R" and "N".

Richard Nagel
General Manager

ABOUT WEST BASIN

ABOUT WEST BASIN

West Basin Municipal Water District

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OUR MISSION STATEMENT

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

BACKGROUND

West Basin is a special district of the State of California and an innovative public agency that provides drinking and recycled water and water efficiency programs to its 185-square mile service area (see Service Area Map). West Basin purchases imported water from the Metropolitan Water District of Southern California (MWD) and wholesales the imported water to cities, water agencies, and private water companies in coastal Los Angeles County. To protect our local groundwater aquifer from seawater intrusion, West Basin provides water (currently up to 75% highly purified recycled water to the Water Replenishment District of Southern California (WRD), with a permit to expand that amount to 100% by 2013) for injection into the West Coast seawater barrier. Consistent with expanding our portfolio of locally produced water to ensure water supply reliability for future residents and businesses, West Basin invests in both water efficiency programs and ocean-water desalination technologies and processes that will help to supplement our local drinking water supply.

COMMITMENT STATEMENTS

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

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

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

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

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

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

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

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

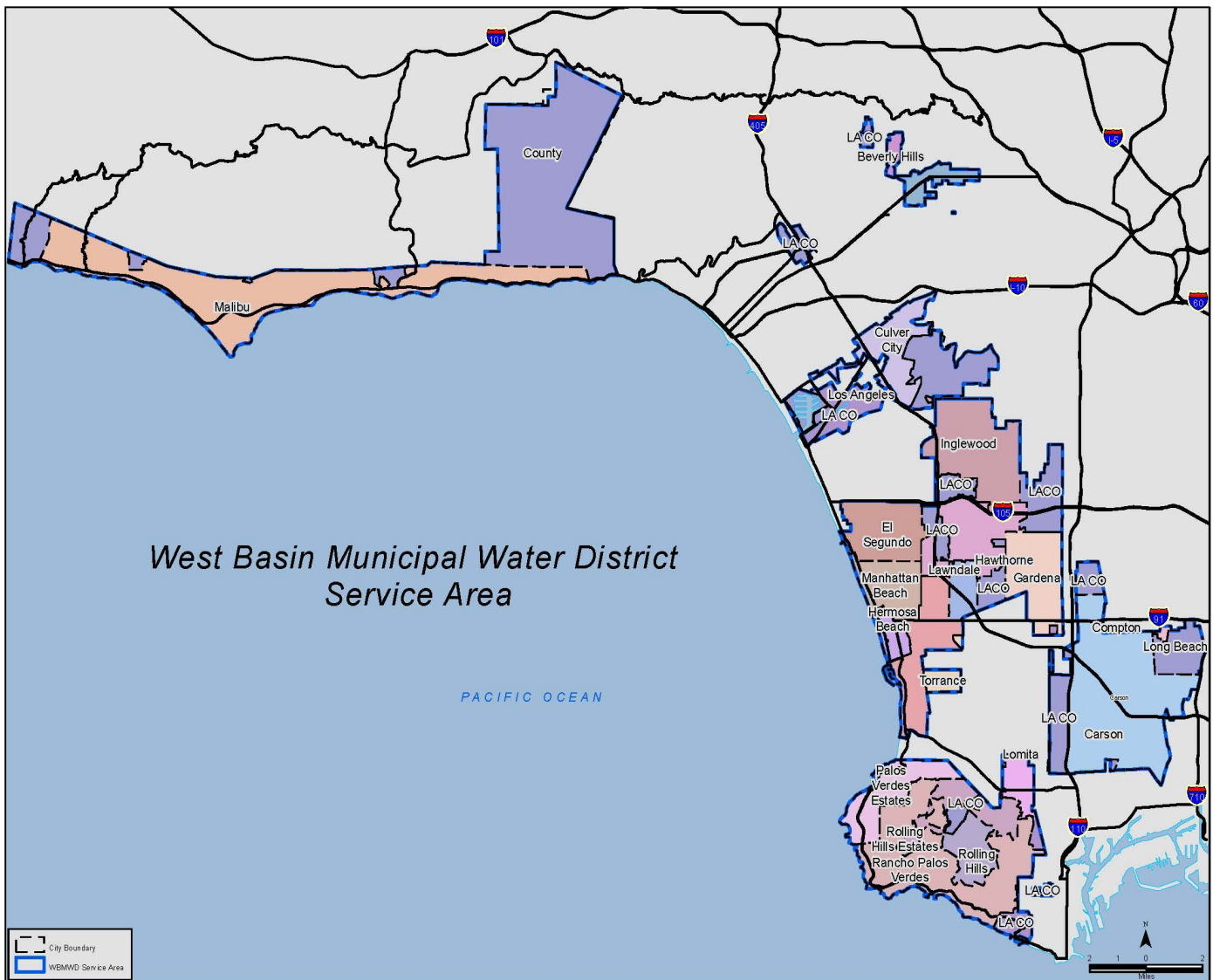
Finance – Manage finances to optimize the public's investment return & minimize risk.

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

WEST BASIN SERVICE AREA

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

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



WEST BASIN BOARD OF DIRECTORS



Ronald C. Smith



Gloria D. Gray



Carol W. Kwan



Edward C. Little



Donald L. Dear

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, Lennox, Athens, Howard and Ross-Sexton

Division III: Director Carol W. Kwan

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

Division IV: Director Edward C. Little

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

Division V: Director Donald L. Dear

Representing Gardena, Hawthorne, Lawndale, and El Camino Village

HISTORY OF WEST BASIN

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

At that time, one solution was to supply the region with imported water through Metropolitan Water District of Southern California (MWD). In 1947, West Basin was formed by a vote of the people to serve as a wholesale agency to distribute water throughout its service area. In 1948, West Basin became a member agency of MWD, an agency that imports water from the Colorado River and Northern California, and for almost four decades, West Basin served its communities solely as a water wholesaler. As a result of the extreme drought of the late 1980's and early 1990's, West Basin evolved into an agency that does much more than distributes imported water to fulfill its mission to provide a safe and reliable supply of high quality water to the communities it serves.

Today, West Basin is focused on water reliability for the region, delivering a diverse supply of water that includes imported, recycled, desalted and conserved sources. West Basin invests 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 thousands of young people 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 more affordable water rates for customers, a reliable, locally-controlled supply of recycled water, saving money and energy by not needing to use higher cost water imported from hundreds of miles away by MWD, reducing wastewater and biosolids going to the ocean and turning wastewater into a usable water resource.

The drought of the 1990's also increased awareness about water conservation and led to West Basin's addition of conservation as a new water supply. West Basin currently offers free indoor and outdoor programs for residents and businesses to reduce their consumption of water and maximize water use efficiency. Through the addition of two Water-Efficient Demonstration Gardens - one at the Edward C. Little Water Recycling Facility and another at West Basin's headquarters - West Basin has reduced its own water use and created teaching tools for the community to learn about water-efficient landscaping practices, rain and runoff capture systems, drought-tolerant plants, permeable paving, and mulch, while reducing its landscaping water use by up to 80%.

West Basin is currently executing a Board adopted Strategic Business Plan (2008), with the goal of building more reliability into our local water supply. Through our Board-adopted Water Reliability 2020 Program (WR 2020), we are currently expanding production of locally-produced water by doubling water recycling and conservation and adding ocean-water desalination. In late 2010, West Basin opened its ocean-water desalination facility and Water Education Center to the public to share Southern California's water story, teach the community about local supplies, and share desalination technology.

West Basin continues to invest in staff, operations and programs to maintain high standards within our workforce and reach out to the community even more through conservation outreach, education, community banking, local business opportunities and other programs focused on the needs and talents of our service area.

COMMITMENT TO LOCAL RELIABLE SOURCES OF WATER

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 facilities produce 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, retrofits commercial kitchens and residential sprinklers and teaches residents about water-efficient and environmentally-friendly landscaping. West Basin's vibrant education program hosts 8,000 school children each year at our water recycling facility, holds an annual water awareness art contest, and sponsors high school solar cup boat-building teams to help raise water stewards who will become our next generations of water professionals. Supplies of imported water from the Sacramento-San Joaquin Bay Delta and the Colorado River have been severely challenged and cut back in recent years due to climate change, increased regulation and environmental restrictions. West Basin's response to this challenge is again the Water Reliability 2020 Program. The focus of WR 2020 (which began in 2008) is reducing our region's dependence on imported water from 66% to 33% by the year 2020. In pursuit of this goal, West Basin is expanding its production of recycled water, doubling conservation, and adding desalted ocean-water to its water supply portfolio to control more of our water supplies locally. WR 2020 has over 5,000 supporters and is steadily growing thanks to extensive public outreach.

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 water resource.

West Basin's Water Recycling Facility is named the Edward C. Little Water Recycling Facility (ECLWRF) to honor the

6-term commitment made to West Basin and our constituents by Director Edward C. Little. The ECLWRF is a world-class, state-of-the-art facility that is the largest of its type in the world. Working with customers like Toyota, Honda, ExxonMobil, bp, Chevron, Goodyear, Cal State University Dominguez Hills, Home Depot Center, Raytheon, L.A. Air Force Base, Marriott, various cities and the Water Replenishment District, West Basin has built a one-of-a-kind water recycling program with the capacity to expand throughout our service area.

This facility produces more than 30 million gallons of recycled water every day for more than 300 customer sites. Uses of recycled water include irrigation, boiler feeds, cooling towers, street sweepers and injection into seawater barriers to prevent our local groundwater supplies from being contaminated by the ocean. This world-class water purification facility produces five types of “designer” waters to serve specific customer needs for various uses, including golf courses, professional soccer fields, street sweeping, restrooms, boilers, cooling towers and other commercial, municipal and industrial uses. All five (5) types of designer water meet the treatment and water quality requirements specified in the California Department of Public Health’s Water Recycling Criteria and permitted by the Los Angeles Regional Water Quality Control Board.

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

In addition to providing recycled water for commercial and industrial uses, high-quality recycled water produced by West Basin is blended with potable water and injected into the South Bay’s groundwater basin to prevent seawater intrusion into our local aquifers. The West Coast barrier is a series of injection wells positioned like a dam between the ocean and the groundwater aquifer. These wells inject water along the barrier to ensure that the water level near the ocean stays high enough to keep the seawater from seeping into the aquifer. In April 2009, West Basin and the Water Replenishment District of Southern California (WRD) signed an agreement to increase the amount of water supplied to the barrier to 100%. This step will eventually save 5.5 billion gallons of drinking water a year.



RELIABILITY MILESTONES

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

1993: West Basin begins 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 Water Recycling Facility.

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

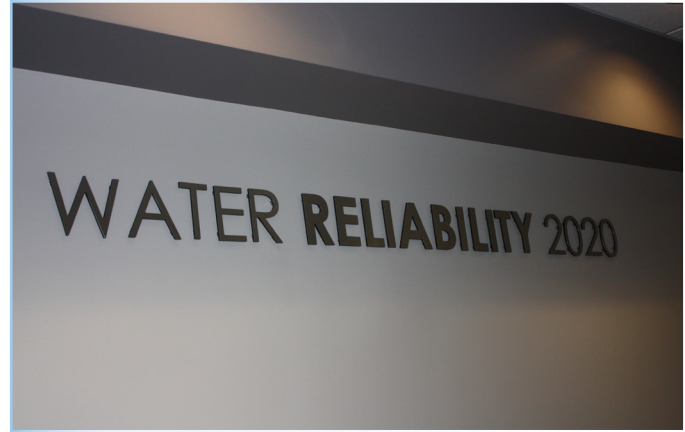
1997: Phase II of the Water Recycling Facility is complete, expanding production capacity of tertiary water and barrier water.

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

2000: Phase III expansion of the Water Recycling Facility in El Segundo expands the capacity of the microfiltration and reverse osmosis treatment facilities.

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

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





RELIABILITY MILESTONES

2005: West Basin's Water Recycling Facility Celebrates its 10th anniversary.

2007: Construction complete on Phase IV Expansion, increasing recycled water production by 15 million gallons per day.

2007: West Basin Board of Directors renames the facility the Edward C. Little Water Recycling Facility in honor of Director Little's 6-term commitment to water reliability and the West Basin service area.

2007: Planning begins on Phase V Expansion of the Edward C. Little Water Recycling Facility to double the plant's production capacity.

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

2009: California Coastal Commission approves West Basin ocean-water desalination facility permit.

2009: West Basin completes Capital Improvement Master Plan (CIMP).

2009: West Basin and Water Replenishment District (WRD) sign agreement to increase amount of highly purified recycled water to the West Coast groundwater barrier to 100%.

2010: Desalination Demonstration facility and new Water Education Center are complete and dedicated to the public.

2011: Design and construction begin on Phase V (4th expansion) of the Edward C. Little Water Recycling Facility.

2011: West Basin works with its customer agencies to develop Conservation Master Plans for each customer and update West Basin's Plan.



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 demonstration facility. Each year, about 25,000 water quality tests are conducted on water produced at the ECLWRF.

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 conservation, education, public outreach, government affairs, water recycling, and ocean-water desalination programs. Here's a summary of our efforts:



WATER USE EFFICIENCY PROGRAMS

PART OF WEST BASIN'S WATER RELIABILITY 2020 PROGRAM

In 2010-11 West Basin collaborated with all eight of its water retailers to implement an integrated conservation master planning project that would help meet the state's new 20% water reductions by 2020, and to help West Basin meet its Water Reliability 2020 Initiative - to double its water conservation efforts. Both these goals are aligned with West Basin's overall mission to increase local-control of water supplies and ensure long term water reliability. The end result of this project was the development of new Water Use Efficiency Master Plans. The draft Plans were completed in the summer of 2011, and the agencies are working to fine-tune and adopt their Plans.

West Basin worked closely with its retailers and together with its consultant, developed a wide-array of programs. By collaborating with local and regional agencies, and successfully obtaining federal, state and local grants, West Basin is able to deliver cost-effective programs to all segments of the population. West Basin offers many free programs to residents, businesses and to public facilities. West Basin has also been able to collaborate and integrate its programs with the energy utilities. This is a natural nexus; both the water and energy efficiency programs target similar customers, so by working together, programs can be coordinated, leveraged and marketed to customers at the same time.

Water Use Efficiency Results

West Basin's water use efficiency programs are developed in a strategic, collaborative and responsible manner. Due to the many economical and resource challenges water agencies and cities face, it is important for agencies to work together and leverage resources and funding wherever possible.

In 2010-11, West Basin continued to develop new leveraged project opportunities, new funding partnerships, and acquired several new grants. West basin continues to focus its programs in all areas where water use efficiency can be improved.

Since 1990, West basin has done a great job in targeting the opportunities that exist in the residential area, but through the master planning process, new programs have been developed to target the landscape and CII sectors.

In 2006, West Basin developed an important partnership with the South Bay Cities Council of Governments (SBCCOG). The SBCCOG is a Joint Power Authority (JPA) comprised of 16 cities located in the South Bay. In early 2000, the SBCCOG received an energy grant and developed a center called, the South Bay Environmental Services Center (SBESC). Today, the South Bay Center helps to promote both water and energy programs. They have also developed more partnerships with the County of Los Angeles and the Sanitation District to name a few.

In 2010-11, the SBESC attended over 100 city events, where it promoted West Basin's programs to the public. In addition to promotion, the SBESC is also assisting West Basin with the implementation of its "Cash 4 Kitchens" Program (described below). As part of West Basin's new Water Use Efficiency Plan, the SBESC assisted West Basin with helping to develop a new "Water and Energy Implementation Plan" component that shows the integration of the water and energy programs. West Basin has been able to work with the SBESC and the energy utilities to identify all the appropriate energy programs that fit well with West Basin's water efficiency programs. A short and long term schedule was also developed showing the timing and implementation of these programs.

West Basin continues to provide the public with excellent value throughout all its efforts. Below are examples of some of the programs implemented by West Basin. A table has also been provided showing the acre-feet water savings that was achieved this year by all of West Basin's Programs.

West Basin offers free programs (Ocean Friendly Garden classes, high-efficiency toilets, "smart" landscape sprinkler controllers, showerheads, faucet aerators, and other such devices) aimed at effectively reducing water use and educating the community about water conservation and reinforcing West Basin's leadership role in making our water supply more reliable.

- Ocean-Friendly Landscape Program: With 30-70% of water use in West Basin's service area taking place outdoors, the Ocean-Friendly Garden (OFG) program is offered in partnership with the Surfrider Foundation and 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. Classes will take place throughout the service area.
- In 2010-11, West Basin conducted 10 Ocean Friendly Garden classes and two "Hands-on-Workshops" or (HOWs). The HOWs are different from the OFG classes, in that they are actual workdays, where residents help build a Ocean Friendly Gardens. In 2010, West Basin built a demonstration Ocean Friendly Garden at its Edward C. Little Water Recycling Facility in the City of El Segundo, CA. And in 2011, West Basin also built an Ocean Friendly Garden at its headquarters in the City of Carson, CA. These gardens showcase the various drought-tolerant plants, permeable pavement surfaces, drip line irrigation, water-efficient designs and water retention techniques that make a landscape ocean-friendly, cutting water use and reducing runoff into the ocean. West Basin's water-efficient landscaping is saving up to 80% of its previous water use by implementing these simple and practical changes.



FY 2009-10 Device Savings

Program	Device	Annual Water Savings (AF)	Device Lifetime Water Savings (AF)
5 Toilet Distribution Events	1,744 HE Toilets	70 AF	1,400 AF
Large Landscape Sprinkler Controllers	Installed 98 Smart Controllers in large landscapes	30 AF	300 AF
Green Living for Apts & Condos	1,080 HE Toilets	67 AF	1,340 AF
Cash 4 Kitchens	173 Kitchen Devices	7 AF	14 AF
Recirc and Save	1 Process Equip Installed	6 AF	30 AF
Commercial Retrofit Program	606 HE Toilets	26 AF	520 AF

Total	206 AF 67M Gallons	3,604 AF 1 B Gallons
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- 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 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 sprinkler controller and toilet exchange programs, where West Basin works directly with residents to exchange an old water-wasting toilet(s) for a new water efficient one, or an inefficient sprinkler controller for a new, 'smart' sprinkler controller. The Toilet distribution program helps residents collectively save 43 million gallons of water a year. Replacing older inefficient sprinkler controllers with 'smart' sprinkler controllers can help a resident save up to 47 gallons per day.

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 several programs to engage students:

- Water Education Center: West Basin's new Water Education Center is a visual portfolio showcasing water conservation, water recycling, imported water, and ocean-water desalination. This new water museum is located at the SEA Lab in Redondo Beach, adjacent West Basin's new ocean-water desalination demonstration facility. Up to 5,000 school children will visit the facility each year as part of West Basin's Water Explorations School Tours program.
- Water Explorations Tours: This unique program showcases water recycling and environmental stewardship at a level appropriate for children in 3rd thru 12th 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. Approximately 8,000 students will participate in this program during the 2011-2012 school year.

- **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. West Basin combines winning artwork with conservation tips, turning them into posters and bookmarks for libraries in West Basin's service area, 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.



Public Outreach

West Basin reaches out to the public in multiple mediums, including mainstream media, social media, website, outreach events, and publications to convey news about our water supply and provide 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, and as discussed previously, is 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 Information and Conservation 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 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). In 2010, West Basin added a “Don’t be a Water Monster” children’s conservation video game, with clues in different home environments that lead the player to figure out who is the water wasting culprit. 2011 brought online a map/database to help customers identify their retail water provider.
- **Water Star:** West Basin’s new Water Reliability 2020 Water Star program encourages elementary aged school children to sign up to save 20 gallons a day, reducing our dependence on imported water and reducing runoff to the ocean. Children receive a water star conservation kit complete with fix-it tickets, a water star badge, shower timer, faucet aerator, and other water-saving reminders.
- **Publicity:** Media outreach is a priority for West Basin as it strengthens its relationships with local, regional and national press, magazines, electronic media, and other public forums. Our efforts are focused on encouraging citizens to learn about our water supply, the need to make it more reliable, and West Basin’s value, leadership, programs, and services. In 2010, West Basin hosted its first media tour of its facilities and programs, resulting in extensive media coverage.
- **Events:** West Basin staff and directors participate in events throughout the year to share water supply and



conservation messages with the public. Spring is the busiest time, with a long list of events focused around Earth Day and water awareness month. 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, with 3,000 people in attendance in 2010. In 2010-11, West Basin hosted its first ever book signing and lecture event for *The Big Thirst*.

- **Tours:** 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 and, now, ocean-water desalination. We additionally offer recycling tours for the public on the second Saturday of each month, to introduce the community to their water supply and offer public tours of the desalination facility Tuesday thru Saturday and by appointment.
- **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 ground water 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.”

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 has expanded desalination efforts into a demonstration-scale facility to test full-

scale equipment at the SEA Lab facility Redondo Beach.

The Desalination Demonstration Facility processes 550,000 gallons of seawater per day. This Project is developing a basis of design for full-scale operations, evaluating performance of alternative energy practices and technology, analyzing water quality, and evaluating 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 is testing 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

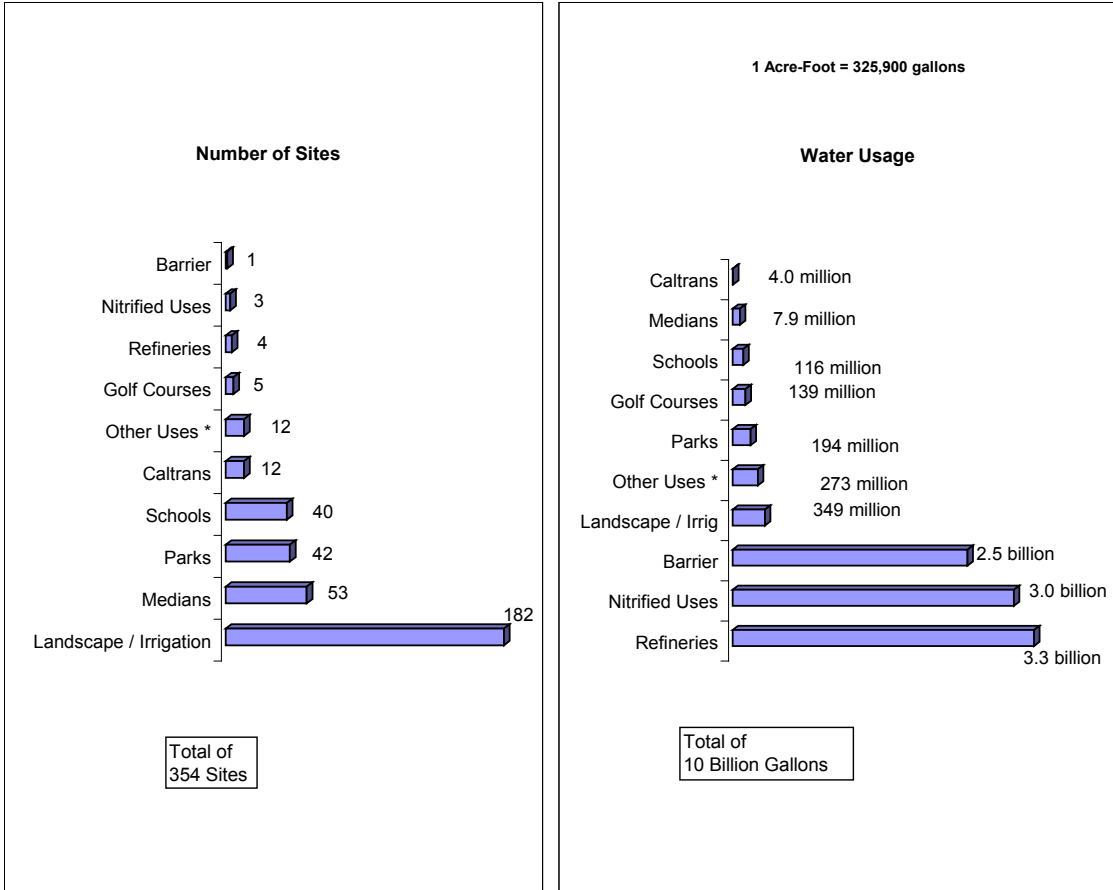
A significant aspect of West Basin's Water Recycling Program is the development of the Harbor/South Bay Water Recycling Project, a partnership between West Basin and the U.S. Army Corps of Engineers that includes more than 16 projects with nearly 60 miles of pipeline. To meet the increased demand on 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 progress and is expected to be complete in FY 2013.

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.



Recycled Water Customer Usage For the Fiscal Year Ended June 30, 2010



- Other Uses * {
- Cemetery (1) 145 million
 - Multi-industrial / irrigation uses (1) 28 million
 - Construction uses (1) 95 thousand
 - Street Sweeping (1) 22 thousand
 - College (4) 98 million
 - Draining / Sump Pumps (3) 2.2 million

Source: Planning Department

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BUDGET PROCESS AND TIMELINE

BUDGET PROCESS AND TIMELINE

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

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

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

Budget 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.

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. Both the budget and actual activity is recorded based on a program activity focus. Personnel may work across departments to assist in matters that support the programmatic efforts.

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. Water sales projections are discussed with senior management to aide in the development of water sales assumptions being made at the regional level. Budget versus actual reports for the current fiscal year is provided to each senior manager to assist in the preparation of a preliminary budget. Senior Managers then submit their proposed Departmental Operating Budgets for Fiscal Year 2011-2012.

February: Senior managers provide their departmental projections for the current fiscal year. Staff reviews Capital Improvement Program and its funding requirements for potential projects. Based on preliminary expenditures, staff meets to discuss the necessary rates and charges to meet the budget objectives. Senior manager and budget staff also begin discussion on Water Rates for FY 2011-2012. Options are discussed and are presented to senior management for their consideration.

March: Senior managers and budget staff meet with the General Manager to discuss each program budget and its goals and objectives along with explanations for major variances from the prior year budget. The General Manager will make changes to the preliminary budget as needed. West Basin's Finance Department incorporates the anticipated MWD rates into the budget and evaluates the effects on its own rates and charges.

April: Staff submits a proposed balanced budget to the Board of Directors in a workshop format. Staff reviews program costs that meet the goals and objectives of the Strategic Business Plan, demonstrate appropriate bond coverage levels for both senior and subordinate debt, and address risks that may have a future impact to West Basin. During the workshop, all staff members who participated in the development of the proposed budget are in attendance to present their respective budget. The Finance staff discusses the budget assumptions, labor needs, revenue requirements and debt coverage. 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. Any changes requested by the Board of Directors and/or the General Manager are incorporated into the proposed budget. Senior staff and budget staff submit budget text to support program costs, rates and other budgetary assumptions.

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

Budget Review

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

Amendments to the Budget

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

West Basin Municipal Water District Fiscal 2011-2012 Budget Calendar

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

Date

Activity

January 13, 2011 Submit Staff labor Allocation

January 20, 2011 Sales Projections (AF) due

January 27, 2011 Submit operating program and capital budgets

February 11, 2011 Submit FY 10-11 year-end projections for all operating program expenses.

February 15, 2011 Discuss Water Rates

March 7, 2011 Meet to discuss operating and capital budgets

April 1, 2011 Board Workshop

April 7, 2011 Rate workshop with Purveyors

April 22, 2011 Submit Budget text

May 6, 2011 Present complete budget document in final draft form To Finance Committee

May 23, 2011 Board Meeting
 - Adopt WBMWD water rates
 - Adopt Standby Charge
 - Adopt Budget

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FINANCIAL OVERVIEW AND SUMMARY

FINANCIAL OVERVIEW AND SUMMARY FOR FISCAL YEAR 2011-2012

FY 2012 Sources & Uses of Funds (Dollars in Thousands)

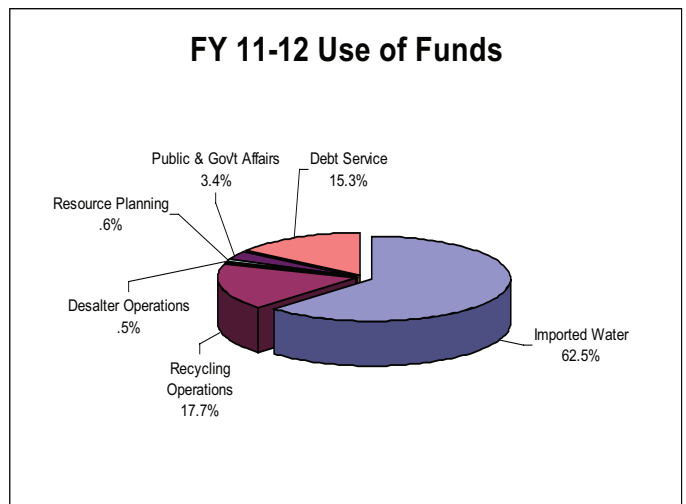
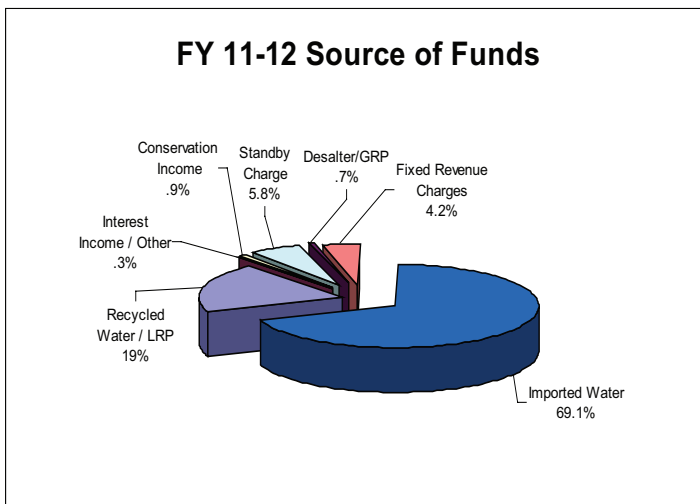
Source of Funds	Budget FY 2012
Imported Water	\$ 115,171
Recycled Water/LRP	31,737
Desalter Water/GRP	1,125
Standby Charge	9,675
Fixed Revenue Charges	6,928
Conservation Income	1,555
Interest Income/Other	489
Total Sources of Funds	\$ 166,680
Use of Funds	
Imported Water	\$ 99,183
Debt Service	24,814
Recycling Operations	28,080
Public Info & Conserv.	5,345
Designated Fund/Other	7,388
Resource Planning	1,032
Desalter Operations	838
Total Uses of Funds	\$ 166,680

Budget Overview

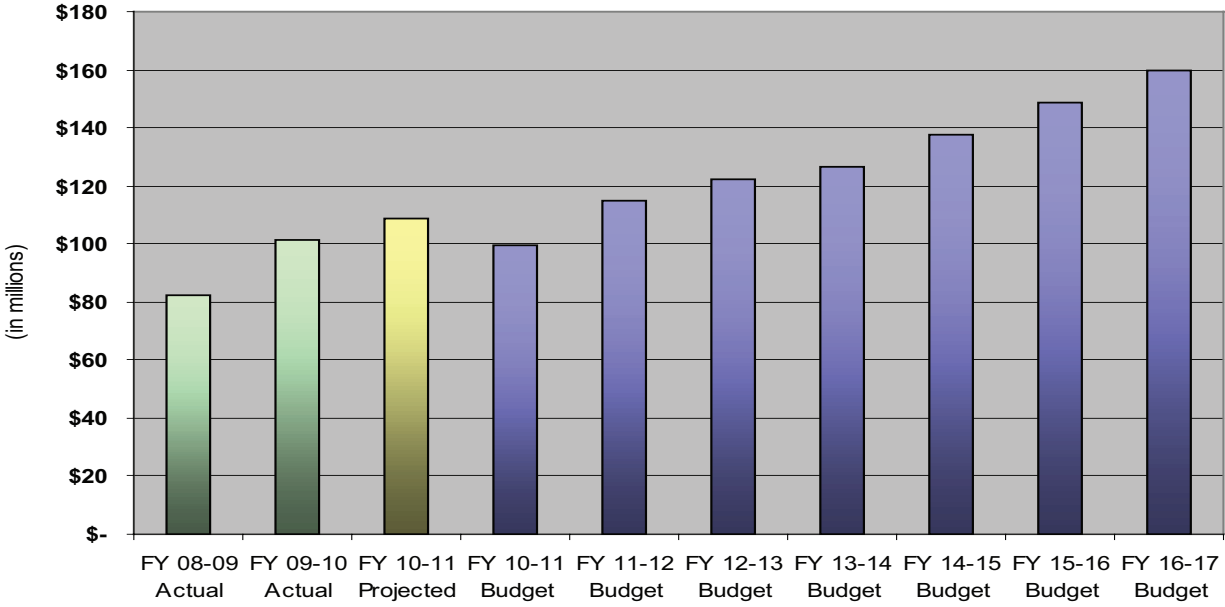
West Basin's operating budget for

FY 11-12 of \$167 million is 10% higher than the FY 10-11 operating budget. The majority of the increase in revenues is attributed to Imported Water sales increasing \$15.7 million. This increase is due to a small increase in the number of acre feet projected to be sold in FY 11-12; however, the majority of the increase is due to the increase in the commodity rate.

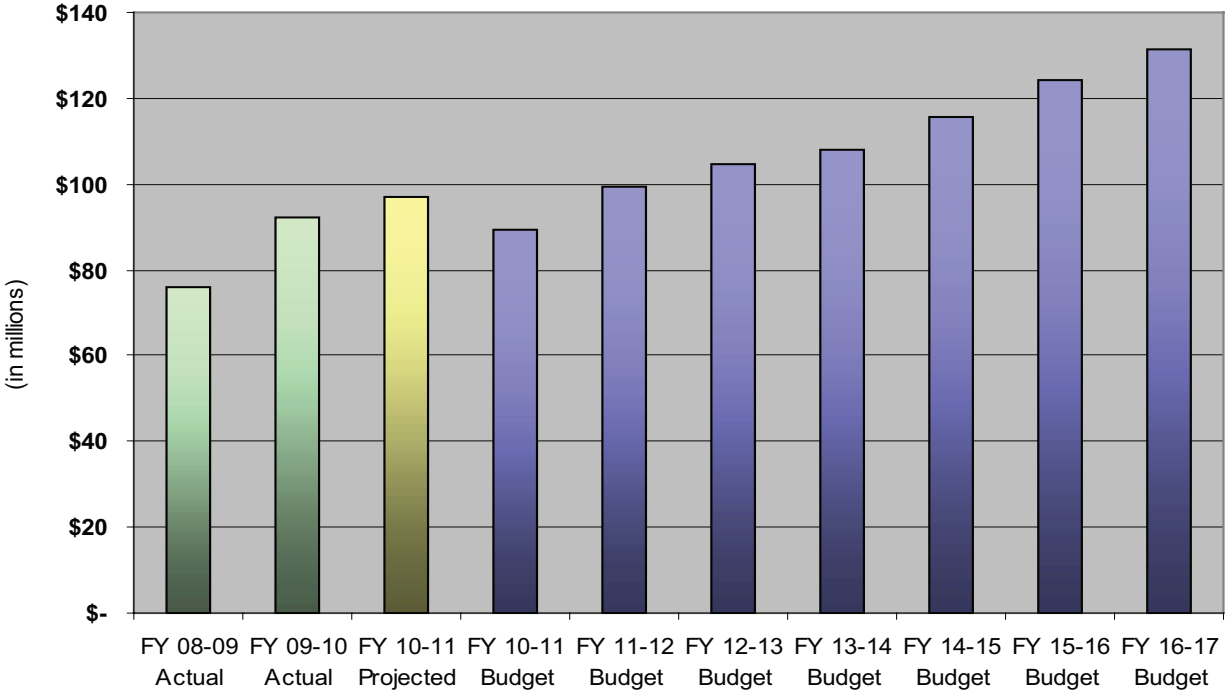
Similar to the revenues, the operating expenses for FY 11-12 are budgeted at \$167 million. The increases in operating expenses are due to higher Imported Water cost and higher Recycling Operations cost.



Historic, Projected & Budgeted Imported Water Revenues



Historic, Projected & Budgeted Imported Water Purchases



Staffing and Program Budgets

Budget staffing levels for FY 2012 consists of 36 full time equivalent budgeted positions and is consistent to prior year. 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 65.

West Basin's programs presented in FY 2012 are similar to those shown in prior years. No new programs were added.

Net Assets (Fund Balance)

Net Assets Summary:

	<u>Fiscal Year 2012</u>
Revenues	166,680,498
O &M Expenses (1)	147,187,795
Non-Cash Items (2)	<u>18,100,000</u>
Total Expenses	165,287,795
Net Change	1,392,703
Beginning Net Assets June 30, 2011 (estimated)	<u>\$192,963,000</u>
Projected Ending Net Assets – June 30, 2012	\$194,355,703

- (1) Excludes principal payments of \$12,027,000 and anticipated designated funds of \$7,387,947 necessary for West Basin to achieve its targeted debt coverage.
- (2) Depreciation and the change in fair market value for West Basin's non-hedged swap are not reflected in the budget as they are non-cash items. The estimated amount of depreciation is based on asset management records, and reflected in the calculation to appropriately reflect estimated Net Assets.

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

STRATEGIC BUSINESS PLAN

In January 2008, the Board of Directors unanimously approved a Strategic Business Plan (Plan) which provides for a multi-year vision for the District. 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 against the original Plan.

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

Within the Operating Program Expenses section, West Basin has identified FY 2011 accomplishments and a FY 2012 preview activities to support the Strategic Business Plan goals and objectives identified above.

FINANCIAL POLICIES SUMMARY

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.

Policy Additions and Modifications:

In October 2010, the Board adopted a new financial policy to address swaps that focus on authority, evaluation of proposed transactions, qualified swap counterparty and exposure along with other important factors from termination, term and assignment. West Basin Board also considered and approved recommendations to the Debt Management Policy and Investment Policy. Changes to the Debt Management Policy made in December 2010 include clarification on refunding opportunities and addition of a section for quarterly reporting. The investment policy changes approved in May 2011 modified the permitted investments with the inclusion of Corporate Notes and clarification on delegation of authority. West Basin plans to revisit its Designated Fund policy to determine that the various funds, method of allocation and criteria are still appropriate. Any 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"> • Annual budget is prepared under the direction of the General Manager. • The budget is developed using the direction given by the Board of Directors through the Strategic Business Plan. • A draft budget is to be presented to the Board within sixty days of the new fiscal year. • The budget objectives are: Achieve targeted debt coverage; present a balanced budget; and address risks & plan for future budget implications. • The Board shall adopt a budget prior to commencing the next fiscal year. • The General Manager will submit quarterly operating budget versus actual reports with explanation of significant variances. • Any adjustments to the Budget must be approved by the Board of Directors.
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<p>B. Investment Policy</p>	<ul style="list-style-type: none"> • Funds will be invested in compliance with the provisions of the California Government Code Section 53601 and other applicable statutes and may be more restrictive than the Code. • Safety of principal, liquidity and return on investment, in that order, are the criteria in which the Treasurer shall invest. • Investments shall be diversified and to the extent possible, and match its investments with cash flow requirements. • Annual appointment of Treasurer is required and may be a staff person • The Treasurer shall submit a monthly report to the Secretary of the Board of Directors indicating investment by fund, institution, date of maturity, amount of deposit, and shall provide the current market value of all securities with a maturity of more than 12 months, rates of interest, and expected yield to maturity. • May engage services of an external manager to assist staff in the management of the investment portfolio, and assist in trade execution.
<p>C. Designated Funds Policy</p>	<ul style="list-style-type: none"> • Designated and undesignated funds can be used for any lawful purpose at the discretion of the Board of Directors. • Designated funds may be shifted or re-allocated at any time at the Board's discretion. • Operating fund is for short-term or immediate purposes such as unplanned activities. • Facility Replacement fund is to provide monies for repair, replacement or refurbishment of existing assets. • Construction fund consists of monies for new capital facilities. • Rate Stabilization fund is a buffer to water rates when unexpected increases in operating costs occur or decreased in revenue. • Swap Termination fund was established to pay for the termination fee. • Bond Defeasance fund is used to set aside funds to accelerate bond retirement. • Bond Reserve fund consists of restricted bond proceeds that provide for additional security for the payment of annual debt service.

<p>D. Procurement Policy</p>	<ul style="list-style-type: none"> • Covers the purchase of professional and non-professional services as well as supplies, goods and equipment. • A competitive process ensures that purchases are made at the lowest possible cost commensurate with acceptable quality. • Expenditures for goods and services are pre-authorized and do not exceed budgeted amounts without Board approval. • Provides for a local business enterprise incentive to encourage local business to bid on West Basin's procurement opportunities • Thresholds are established to determine if sole source (<\$5,000), informal process (\$5,000-\$25,000) or a formal process (>\$25,000) should be followed. • Critical repairs acquisitions are subject to the informal solicitation process and shall not exceed \$250,000 per each critical repair or critical acquisition.
<p>E. Capitalization Policy</p>	<ul style="list-style-type: none"> • Provides guidance for the capitalization and depreciation of assets to comply with the requirements of Governmental Accounting Standard Board Statement 34. • Purchased or West Basin constructed assets will be reported at historical cost. • Estimated useful life of an asset is determined using the Internal Revenue Tax Law requirements, general guidelines obtained from professional or industry organizations and information for comparable assets of other governments. • West Basin will use the straight-line method with no salvage value for depreciating capital assets.

<p>F. Accounting, Auditing and Financial Reporting</p>	<ul style="list-style-type: none"> • The General Manager shall implement an accounting system meeting the financial reporting needs of the Board, and complies with generally accepted accounting practices. • The General Manager shall review and pay all financial obligations as they become due and shall submit a monthly register of disbursements for ratification of the Board. • The General Manager shall prepare and submit to the Board at the end of the fiscal year a comprehensive annual financial report on the finances of West Basin for the preceding year, keep the Board advised of the financial condition and future needs of West Basin, and make recommendations. • West Basin will use widely recognized and generally accepted accounting principles (GAAP) and guidance issued by the Government Accounting Standards Board (GASB). • West Basin will hire an independent accounting firm to perform annual audits in conformity with GAAP.
<p>G. Debt Management</p>	<ul style="list-style-type: none"> • Capital programs can be funded by debt. • Long term debt will not be used for operating and maintenance costs. • West Basin will maintain a debt coverage ratio consistent or greater than the legal of contractual requirements. • A goal of West Basin is to obtain the lowest cost of debt possible with the current ratings of AA- (Standard & Poor's) and Aa2 (Moody's). • Final maturity of the debt will not exceed the useful life of the assets being financed. • Refunding shall produce net present value savings of at least 3% of the refunded par amount. • Quarterly reporting will be made to the Board of Directors that addresses current debt portfolio, variable rate exposure, remarketing experience and other considerations.

<p>H. Rates and Charges</p>	<ul style="list-style-type: none"> • The rates, fees and charges will recoup the amounts paid by West Basin for water, the cost of operations and maintenance expenses of the District, and an amount necessary for reasonable designated funds. • The revenue produced by the rates, fees and charges will be used to provide service to existing customers • Rates and charges will be reviewed annually and the Board of Directors will adopt a resolution fixing the rates and charges for the following fiscal year.
<p>I. Human Resources Management</p>	<ul style="list-style-type: none"> • West Basin will determine staffing levels consistent with budgetary authority, available resources, and operating needs. • The General Manager can modify positions and organizational structure to accomplish West Basin's work within the budget approved by the Board for that fiscal year. • The General Manager shall develop an employee performance evaluation plan to assess employee performance in accomplishing West Basin business. • Salary ranges for positions shall be reviewed on an annual basis via a salary survey. • West Basin will provide suitable training for staff.
<p>J. Risk Management</p>	<ul style="list-style-type: none"> • West Basin will procure insurance for risk of loss involving a combination of property damage and third party claims. • To the extent practicable, West Basin shall transfer risks to third parties through appropriate contractual provisions.

K. Swaps	<ul style="list-style-type: none"> • Each swap will be structures by the CFO and members of the financing team. • Board of Directors has final authority for approval of each swap. • Quarterly reporting to the Board of Directors. • West Basin may execute a swap if the swap reduces exposure to changes in interest rates, or achieves lower net cost of borrowing, or manages variable interest rate exposure, or optimizes the timing and amounts of debt service payments. • Interest rate swaps, caps, floors, swaptions and collars are allowable. • West Basin can only enter into swap transactions with qualified swap counterparties. • Each swap agreement shall contain terms & conditions as set forth in the International Swap and Derivatives Association, Inc.
L. Balanced Budget	<ul style="list-style-type: none"> • The budget should be balanced with the current revenues equal to or greater than current expenses.

FIVE YEAR FORECAST

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

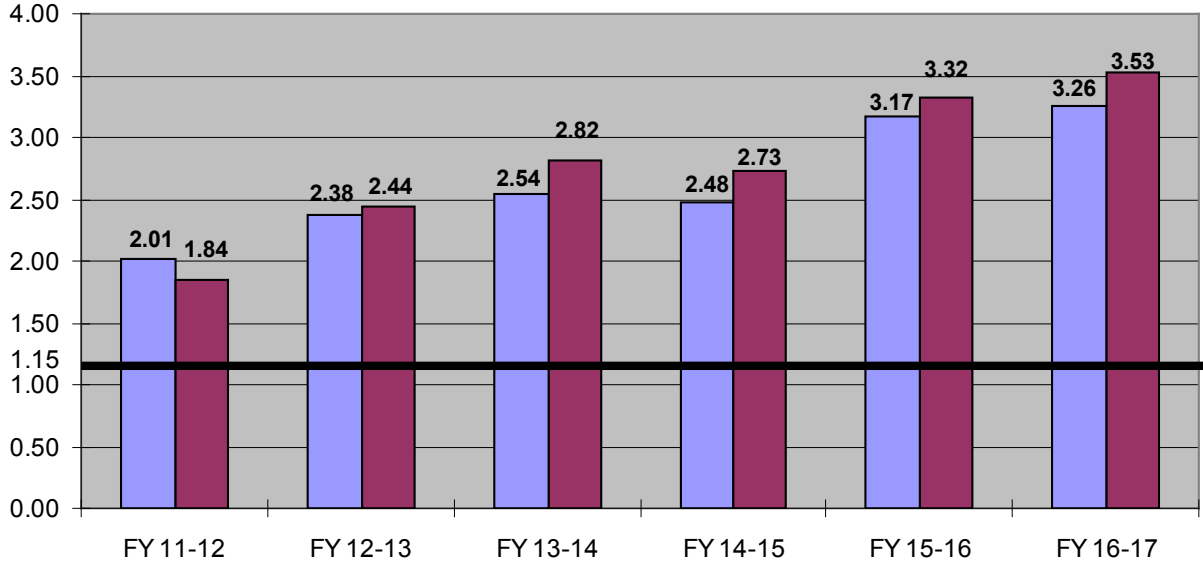
WEST BASIN MUNICIPAL WATER DISTRICT PROJECTED OPERATING RESULTS						
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
REVENUES						
Water Sales	112,819,000	119,632,522	124,375,658	134,935,226	146,348,538	157,098,343
Water Service Charge	392,844	432,128	454,872	500,359	545,846	602,705
Capacity Charge	1,959,010	1,929,200	1,929,200	1,929,200	1,929,200	1,929,200
Recycled Water Project Revenues						
Recycled Water Sales	24,071,982	28,891,005	36,350,211	43,065,851	47,796,180	50,180,180
Fixed Revenue Charges	6,928,592	7,560,025	16,680,341	16,680,341	16,680,341	14,670,278
MWD LRP Rebate	7,665,000	8,427,583	9,921,250	9,921,250	9,921,250	9,921,250
Standby Charges	9,675,000	9,675,000	9,675,000	9,675,000	9,675,000	9,675,000
Other Revenues						
Desalted Water Sales	855,360	904,419	949,640	997,122	1,046,978	1,099,327
MWD GRP Rebate	270,000	202,500	0	0	0	0
Interest Earnings/Other	489,000	940,703	1,391,144	2,105,826	2,985,633	4,493,407
MWD Conservation Credits	1,554,710	1,554,710	1,554,710	1,554,710	1,554,710	1,554,710
Total Revenues	\$ 166,680,498	\$ 180,149,796	\$ 203,282,027	\$ 221,364,885	\$ 238,483,677	\$ 251,224,400
EXPENSES						
Water Purchases/RTS from MWD	97,338,700	102,864,554	106,414,872	113,801,430	122,201,554	129,827,409
Capacity Charge	1,844,490	1,800,420	1,800,420	1,800,420	1,800,420	1,800,420
Program Expenses						
Recycled Operations	28,080,333	29,809,233	33,624,280	40,310,057	44,954,786	47,202,525
Desalter Operations	838,521	867,869	898,245	929,683	962,222	995,900
Resources Planning	1,031,655	1,067,763	1,105,135	1,368,814	1,416,723	1,466,308
Public Information and Conservation	5,335,562	5,522,307	5,715,587	5,915,633	6,357,680	6,580,199
Title 22 Water Quality Monitoring	9,499	9,831	10,176	10,532	10,900	11,282
Designated Funds/Other	7,387,947	13,064,904	20,996,851	21,659,242	29,057,184	31,483,971
Senior Debt Service						
2003 Installment Purchase Agrmt	12,483,340	12,480,399	12,484,982	12,478,642	8,852,471	7,522,333
Reserve Fund Interest Earnings	(761,867)	(761,867)	(761,867)	(761,867)	(761,867)	(761,867)
2008A Series	3,348,754	3,319,256	3,353,780	3,321,190	3,325,673	3,307,623
SWRCB Loan	361,945	361,945	361,945	486,499	0	0
2010A CP Line	565,000	687,500	845,000	1,037,500	1,265,000	1,527,500
Proposed Debt	0		4,863,000	6,513,000	6,512,000	7,814,000
Subordinate Debt Service						
Proposed Debt	0		2,577,000	3,477,000	3,471,000	3,478,000
2008B Series	8,816,619	9,055,681	8,992,621	9,017,110	9,057,931	8,968,798
Total Expenses	\$166,680,498	\$180,149,796	\$203,282,026	\$221,364,884	\$238,483,677	\$251,224,401
NET REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Coverage - Senior Debt	2.01	2.38	2.54	2.48	3.17	3.26
Coverage - Subordinate Debt	1.84	2.44	2.81	2.73	3.32	3.53
Coverage - All Debt	1.30	1.52	1.64	1.61	1.92	1.99

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

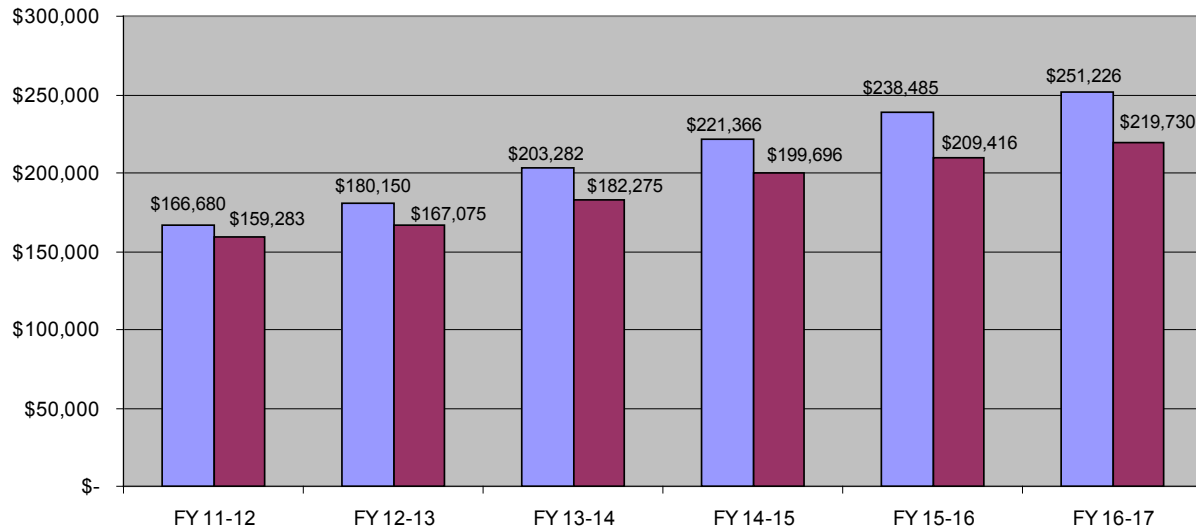
**WEST BASIN MUNICIPAL WATER DISTRICT
ASSUMPTIONS**

	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Cost (Sales Price) of Water (\$/af)						
MWD Treated NonInt - Tier 1 (Jul)	744	794	834	875	919	965
MWD Treated NonInt - Tier 2 (Jul)	869	920	960	1,001	1,045	1,091
MWD Treated NonInt - Tier 1 (Jan)	794	834	875	919	965	1,013
MWD Treated NonInt - Tier 2 (Jan)	920	960	1,001	1,045	1,091	1,139
MWD RTS Commodity Charge (Jul)	125	135	140	145	150	155
MWD RTS Commodity Charge (Jan)	135	140	145	150	155	160
MWD Seasonal Storage - L/T (Jul)	601	651	684	718	754	791
MWD Seasonal Storage - L/T (Jan)	651	684	718	754	791	831
MWD Seawater Barrier - Tier 1 (Jul)	744	794	834	875	919	965
MWD Seawater Barrier - Tier 2 (Jul)	869	920	960	1,001	1,045	1,091
MWD Seawater Barrier - Tier 1 (Jan)	794	834	875	919	965	1,013
MWD Seawater Barrier - Tier 2 (Jan)	920	960	1,001	1,045	1,091	1,139
Title 22 Within WB - Recycled Water	753	793	834	878	924	972
Title 22 - LADWP - Recycled Water	811	852	894	939	986	1,035
Nitrified - LADWP - Recycled Water	-	-	1,025	1,076	1,130	1,187
Title 22 - Torrance - Recycled Water	746	784	823	864	907	953
RO - Barrier - RW (1st 4,500AF)	-	991	1,055	1,125	1,203	1,288
RO - Barrier - Recycled Water	553	566	581	596	616	640
RO - Industrial - Recycled Water	1,003	1,053	1,106	1,161	1,219	1,280
RO - Industrial - Ultra - Recycled Water	1,359	1,427	1,498	1,573	1,652	1,734
Industrial - NH3 - Recycled Water	755	806	846	889	933	980
Reliability Service Charge - Treated	95	114	137	164	197	236
MWD LRP Rebate	250	250	250	250	250	250
Desalted Water (Jul)	767	817	858	901	946	993
Desalted Water (Jan)	817	858	901	946	993	1,043
MWD GRP Rebate	250	250	-	-	-	-
Capacity Charge - MWD	7,200	7,400	7,400	7,400	7,400	7,400
Capacity Charge - MWD (Jan)	7,400	7,400	7,400	7,400	7,400	7,400
Capacity Charge-Cust	6,350	6,500	6,500	6,500	6,500	6,500
Capacity Charge-Cust (Jan)	6,500	6,500	6,500	6,500	6,500	6,500
SALES VOLUME (afy)						
Treated Non Interruptible (Jul)	50,500	51,750	53,000	54,250	55,500	56,000
Treated Non Interruptible (Jan)	50,500	51,750	53,000	54,250	55,500	56,000
Seawater Barrier (Jul)	6,250	4,500	2,000	2,000	2,000	2,000
Seawater Barrier (Jan)	6,250	4,500	2,000	2,000	2,000	2,000
Recycled Water	30,660	33,710	42,010	46,660	48,985	48,985
Title 22 Within WB	6,850	6,850	6,850	6,850	6,850	6,850
Title 22 - LADWP	680	680	680	680	680	680
Nitrified - LADWP	-	-	2,325	6,975	9,300	9,300
Title 22 - Torrance	6,180	6,180	6,180	6,180	6,180	6,180
RO - Barrier	8,500	11,350	17,000	17,000	17,000	17,000
RO - Industrial	5,400	5,600	5,925	5,925	5,925	5,925
RO - Industrial - Ultra	2,200	2,200	2,200	2,200	2,200	2,200
Industrial - NH3	850	850	850	850	850	850
Desalted Water (Jul)	540	540	540	540	540	540
Desalted Water (Jan)	540	540	540	540	540	540
Capacity Charge-MWD	262.3	243.3	243.3	243.3	243.3	243.3
Capacity Charge-MWD (Jan)	243.3	243.3	243.3	243.3	243.3	243.3
Capacity Charge-Cust	313.2	296.8	296.8	296.8	296.8	296.8
Capacity Charge-Cust (Jan)	296.8	296.8	296.8	296.8	296.8	296.8
FIXED PAYMENTS						
BP	1,661,000	1,661,000	1,661,000	1,661,000	1,661,000	1,661,000
Mobil NH3	284,000	284,000	284,000	284,000	284,000	284,000
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	182,733
NRG		631,433	1,082,456	1,082,456	1,082,456	1,082,456
LADWP	206,536	206,536	8,875,829	8,875,829	8,875,829	8,875,829
TOTAL FIXED PAYMENTS	\$ 6,928,592	\$ 7,560,025	\$ 16,680,341	\$ 16,680,341	\$ 16,680,341	\$ 14,670,278
WATER COST (\$)						
Treated Non Interruptible/RTS	87,726,200	95,539,904	102,996,702	110,212,351	118,433,022	125,870,450
Seawater Barrier	9,612,500	7,324,650	3,418,170	3,589,079	3,768,532	3,956,959
Capacity Charge	1,844,490	1,800,420	1,800,420	1,800,420	1,800,420	1,800,420
TOTAL COST	\$ 99,183,190	\$ 104,664,974	\$ 108,215,292	\$ 115,601,850	\$ 124,001,974	\$ 131,627,829

**Debt Coverage
Current and 5 year Projection
FY 11-12 thru FY 16-17**



**Revenue and Expenses
Current and 5 year Projection
FY 11-12 thru FY 16-17
(Dollars in thousands)**



SOURCE OF REVENUE

SOURCE OF REVENUE

West Basin's primary source of revenue is water sales that comprise 86% of all revenues. Imported sales represents 67% and recycling sales represent 19% of all revenue sources.

West Basin wholesales imported water from MWD for municipal, domestic and groundwater replenishment uses and desalted brackish groundwater. In the early 1990s, West Basin initiated efforts to drought-proof the region by constructing recycled water distribution pipelines and facilities for industrial, commercial, and landscape irrigation sites throughout Coastal Los Angeles County. In FY 2010 the system served more than 375 sites. To fund these construction efforts, West Basin obtains funding from a variety of sources including a standby charge, fixed capital payments, and commodity rates. The annual standby charge to area residents generates roughly \$9,675,000. The fixed capital payments result from agreements with some industrial customers to defray some debt service incurred by West Basin to expand facilities at the industrial customer sites resulting in a regional benefit.

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

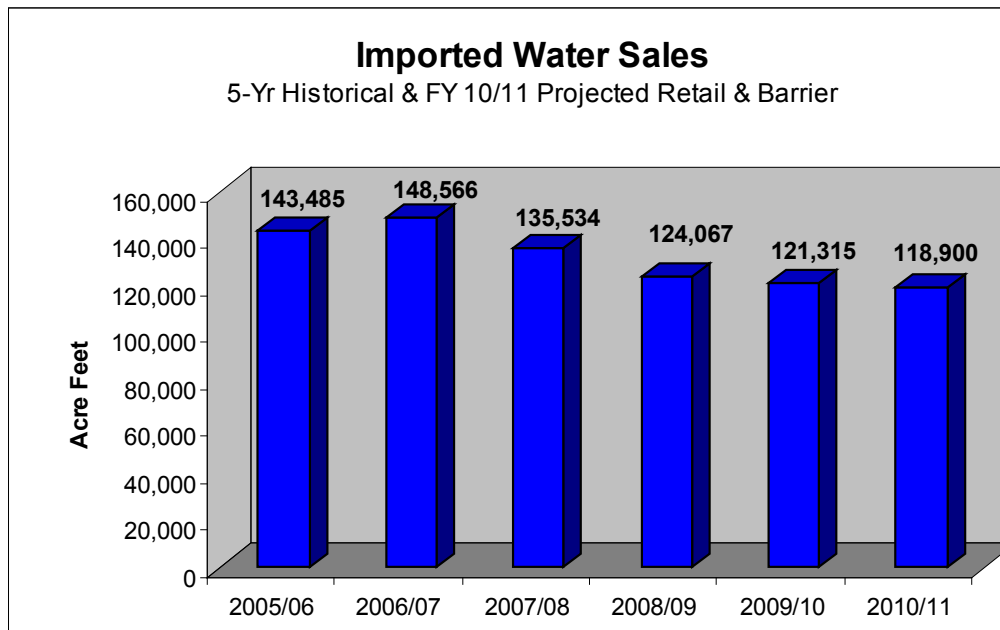
Revenues	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Projected	FY 2010-11 Budget	FY 2011-12 Budget
Imported Water Sales	\$80,378,933	\$99,086,437	\$106,556,463	\$97,073,800	\$112,819,000
Water Service Charge	237,774	289,464	351,492	351,492	392,844
Capacity Charge	1,952,100	1,989,300	2,001,210	2,001,203	1,959,010
Recycled Water / LRP	23,599,078	28,011,549	28,234,200	31,216,193	31,736,982
Fixed Revenue Charge	7,952,748	7,171,370	6,991,300	6,958,592	6,928,592
Desalter Water / GRP	566,188	333,775	866,421	1,075,140	1,125,360
General Fund Interest	1,906,397	840,403	340,400	868,500	418,000
Standby Charge	9,701,131	9,679,063	9,675,000	9,675,000	9,675,000
Conservation Income	969,618	885,442	1,963,281	1,963,281	1,554,710
Other Income	242,997	1,371,990	337,636	141,000	71,000
Total Revenues	\$127,506,964	\$149,658,793	\$157,517,003	\$151,324,200	\$166,680,498

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

Imported water sales vary based on hydrologic conditions, water demand and more recently on the water supply availability. These imported water sales were 124,000 AF in FY 2009, 121,300 AF in FY 2010 and pro-

jected sales of 118,900 AF for FY 2011. This decrease in demand is primarily a result of increased efforts to educate the public regarding the current water supply situation in Southern California. In April 2009 MWD acted to impose mandatory water conservation across Southern California, effective July 1, 2009 for a minimum of 12 months. In April 2010 MWD elected to continue this allocation (or water rationing) to its Member Agencies through FY 2011. This Allocation has since been rescinded due to the increased rainfall this past winter. Although the Drought has been declared officially over, West Basin is planning for a moderate drop before demand stabilizes. As a result of these factors, sales are budgeted at 113,500 AF for FY 2011.

	FY 2011 Pro- jected	FY 2011 Budget	FY 2012 Budget
Potable Sales	118,900	108,100	113,500



Recycled water sales reached its highest level in FY 2008 at 32,209 AF and decreased to 29,908 AF in FY 2009 and to 30,680 AF in FY 2010. Projected recycled water sales for FY 2011 are expected to show a further decrease to 28,740 AF. Poor water quality of West Basin’s source water used in its recycling program has been a major factor contributing to the lower sales. During the past fiscal year water quality issues such as turbidity and ammonia has caused water service to be interrupted or reduced to certain West Basin customers. However, West Basin has continued to promote Recycled Water usage during this time and these efforts led to 28 recycled water sites coming online during FY 2010 and another 22 in FY 2011, with this, West Basin expects a slight uptick in sales to 30,660 AF in FY 2012

Conservation income represents incentive rebates from MWD and contributions from outside entities. West Basin continues to aggressively promote Conservation efforts throughout the District and FY 2011 was no exception. However, certain program funding from the State and local level have come to the end of the grant period and we anticipate a drop-off in FY 2012 to \$1,544,710.

Imported, Recycled and Desalter Water Rates and Charges

Imported Water Sales

West Basin sales are comprised of three components: MWD's commodity, readiness-to-serve charge (RTS), and West Basin's reliability service charge. West Basin anticipates that retail and barrier imported sales will have a combined overall increase of \$89/AF by January 2012, the same as FY 2011. Based on AF assumptions and the rates for the fiscal year described below, West Basin has budgeted \$112,819,000 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 rate structure include:

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

MWD's commodity rate increase has historically become effective on January 1 of each year. For FY 2011 and 2012 MWD voted to increase their commodity rates 7.5% each year, effective January 1 of each year. On May 23, 2011, West Basin's Board of Directors approved passing through this rate increase for FY 2012.

MWD's Board of Directors also approved a 16.8% increase in its overall RTS charge collection from \$125 million in calendar year 2011 and to \$146 million in calendar year 2012 from its 26 customer agencies effective January 1 of each fiscal year. The amount collected is allocated to each of its customers based on each agencies respective percentage to the total on the 10-year rolling average of firm sales. The 10-year rolling average is based on a calendar year (January to December). As West Basin collects the RTS on its commodity rate, West Basin has determined to increase the rate from \$125/AF to \$135/AF effective January 1, 2012 to pay its allocated portion of MWD's RTS.

In review of current trends affecting West Basin, the Board approved a \$29 increase on its reliability service charge. Mainly, the increase stems from increasing recycling operating costs, and lower sales due to the current water demand. This increase is effective July 1, 2011.

Based on information received from WRD and the County of Los Angeles, West Basin determines the overall demand at the West Coast barrier and Dominguez Gap barrier. This West Coast barrier is a mix of recycled and imported water, and the current permit allows an injection of 75% from recycled water that West Basin produces where the remaining 25% results from imported water. However, due to the poor source water quality, West Basin has been unable to meet the demands of the recycled Barrier sales. This has resulted in higher imported water sales in the past few fiscal years. For FY 2012, West Basin recognizes that until the capital solution is in placed in September 2012, it will reflect a higher anticipated imported demand to the West Coast Barrier. The Dominguez Gap barrier is expected to remain flat at 4,000 AF.

As described earlier, hydrology and conservation messaging has curtailed retail imported demand. Monitoring retail sales over the past few years, West Basin has seen a decline a ranging from 3-7% per year. However,

FY 2011 projected deliveries are expected to be slightly above budgeted sales of 101,000, and as such, West Basin will conservatively budget the same 101,000 AF for FY 2012.

Water Service Charge

The Water Service Charge is one of the fixed charges within the rate structure, in which West Basin collects a monthly fixed amount based on the cubic foot per second (cfs) of each customer's meter capacity. West Basin adopted a \$4/cfs increase on July 1, 2011 for a rate of \$38/cfs. There has been no change in the number and size of meters and remains at 44 meters ranging from 4 cfs to 160 cfs. West Basin anticipates \$392,844 from this revenue source.

Capacity Charge

As part of MWD's rate structure, the Capacity Charge was developed to recover the costs in providing distribution capacity use during peak summer demands. The aim of this charge is to encourage customer agencies to reduce peak day demands during the summer months (May 1 thru September 30) and shift usages to the winter months (October 1 thru April 30), which will result in more efficient utilization of MWD's existing infrastructure and defers capacity expansion costs. West Basin has seen an overall decrease in the peak amount from its customers. The calculation is made on the highest overall peak level during the past 3 years.

MWD capacity charge is currently at \$7,200/cfs and this rate will be in effect through Calendar Year 2011. Effective January 1, 2012, MWD's Capacity Charge rate will increase to \$7,400/cfs. West Basin passes through this charge by multiplying each customer agency's highest daily average usage (per cfs) for the past three summer periods by the Capacity Charge Rate. West Basin will maintain its rate at \$6,350/cfs through December 31, 2011 and will increase the rate as to \$6,500 on January 1, 2012, with anticipated annual revenues of \$1,959,010.

Recycled Water Charges and Fixed Revenue Charges

West Basin currently serves recycled water to 375 meters with projected sales to reach more than 25,000 AF in FY 2011. For FY 2012, West Basin anticipates a 6.5% increase from actual recycled water sales. Sales are comprised of approximately 27% sales to the West Coast Barrier and approximately 57% of the recycled water sales relate to local refineries. These sales will remain fairly consistent from year-to-year, and future increases in recycled water deliveries are based on planned expansions of the facilities and generally offset non-interruptible (firm) deliveries.

West Basin adopted recycled water rates that increase according to customer agreements or are inline with the West Basin non-interruptible Tier 1 effective rate increase, depending on the type of recycled water. In review of the water recycling system program, West Basin compared its operating costs to its various sources of income. Operating costs have been increasing in recent years and West Basin has had to address rising costs; in particular, facility maintenance, power and chemical costs. In addition, West Basin also takes into consideration the increase in the non-interruptible rate when it budgets for increases in the recycled water rates. This consideration is given in order to continue to attract new customers and expand existing customers to a more reliable source of water. Revenues from recycled water sales consist of commodity charges and MWD's Local Resources Program (LRP) incentive payment and are estimated at \$31,736,982 for FY 2012. The LRP provides a \$250/AF rebate for each acre-foot of recycled water sold.

In addition, West Basin receives \$6,928,592 fixed revenue charges. Fixed revenue charges are based on agreements with bp, Chevron, and Exxon-Mobil Oil Refineries and are designed to repay the cost of the treatment and distribution facilities that were constructed exclusively for delivery of recycled water to the refineries.

Desalter Water Charges

West Basin sells the water produced by the C. Marvin Brewer Desalter to California Water Service Company (CWSC) at the effective MWD rate. The effective Metropolitan rate includes the base non-interruptible rate, and an AF equivalent for the capacity charge. On January 1, 2011 was set to \$767/AF, and is scheduled to increase to \$817/AF on January 1, 2012. Based on these rates and the \$250/AF incentive payment received by MWD for the Groundwater Recovery Program (GRP), West Basin anticipates \$1,125,360 from these sales. Deliveries are anticipated to be 1,080 AF for FY 2012. The budgeted sales are consistent with past year.

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

West Basin Municipal Water District
FY 2011-12 Water Rates and Charges

Rates Effective July 1, 2011 to December 31, 2011

	MWD Commodity	MWD RTS	Reliability Svc Charge	Total
Non-Interruptible & Barrier (Tier 1)	\$744/AF	\$125/AF	\$95/AF	\$964/AF
Non-Interruptible & Barrier (Tier 2)	\$869/AF	\$125/AF	\$95/AF	\$1,089/AF
Seasonal Storage Long Term	\$601/AF	-	\$95/AF	\$696/AF

Rates Effective January 1, 2012

	MWD Commodity	MWD RTS	Reliability Svc Charge	Total
Non-Interruptible & Barrier (Tier 1)	\$794/AF	\$135/AF	\$95/AF	\$1,024/AF
Non-Interruptible & Barrier (Tier 2)	\$920/AF	\$135/AF	\$95/AF	\$1,150/AF
Seasonal Storage Long Term	\$651/AF	-	\$95/AF	\$746/AF

MWD Non-Interruptible Commodity Rate

	<i>Effective Dates</i>	
	<u>7/1/11</u>	<u>1/1/12</u>
Supply Rate Tier 1	\$104	\$106
Supply Rate Tier 2	\$280	\$290
System Access Rate	\$204	\$217
Water Stewardship Rate	\$41	\$43
Delta Supply Surcharge	\$51	\$58
Treatment Rate	\$217	\$234
Power Rate	\$127	\$136
Total Tier 1	\$744	\$794
Total Tier 2	\$869	\$920

Capacity Charge	
Designated Amount ¹	
Effective July 1, 2011 to Dec 31, 2011	Effective Jan 1, 2012
\$6,350/cfs	\$6,500/cfs
<small>(1) Designated amount is an Agency's highest peak (per cfs) from the past three summer periods (May 1-Sept. 30)</small>	

Monthly Water Service Charge	
<i>Effective July 1, 2011</i>	
WBMWD Water Service Charge	
\$38/cfs²	
<small>(2) Per cfs as determined by agency's meter capacity</small>	

WBMWD Recycled Water Rates

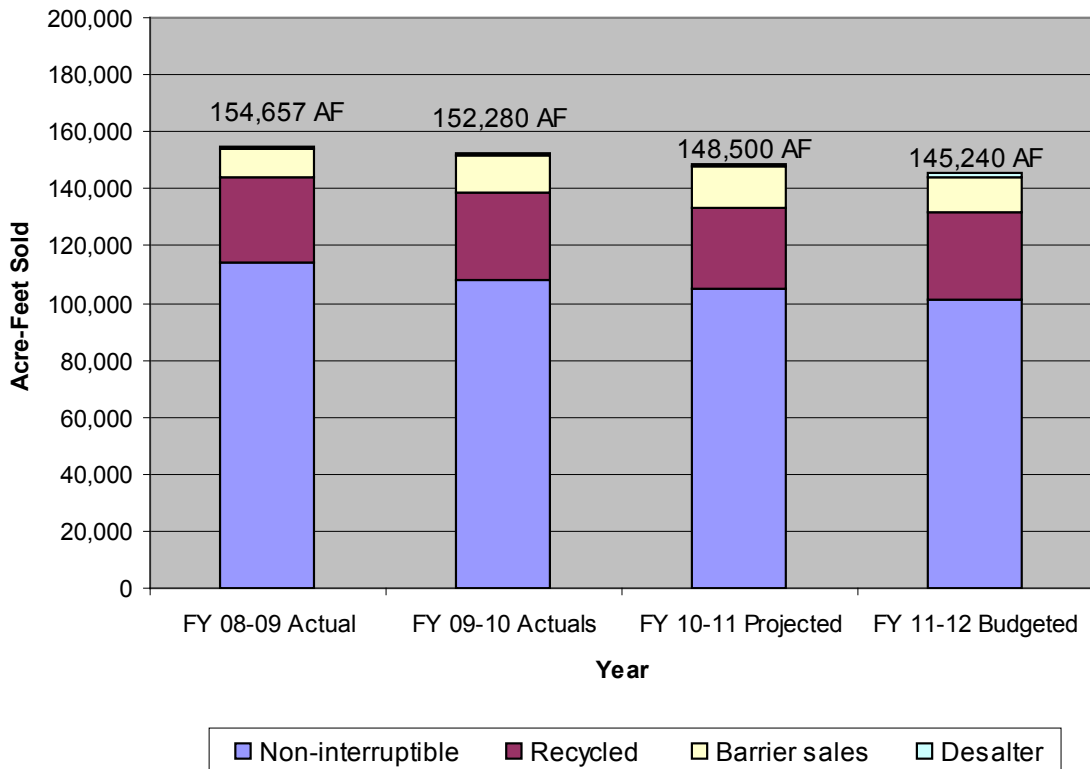
	<i>Effective July 1, 2011</i>					
Volume (AF/Month)	WBMWD Service Area	West Coast Barrier	Industrial R/O (WB Svc Area)	Nitrified (Ind R/O usage)	Industrial R/O Ultra (WB Svc Area)	Torrance / LADWP Service Areas
0-25	\$775/AF	\$553/AF	\$1,003/AF	\$755/AF	\$1,359/AF	\$817/AF
25-50	\$765/AF	\$553/AF	\$1,003/AF	\$755/AF	\$1,359/AF	\$807/AF
50-100	\$755/AF	\$553/AF	\$1,003/AF	\$755/AF	\$1,359/AF	\$797/AF
100-200	\$745/AF	\$553/AF	\$1,003/AF	\$755/AF	\$1,359/AF	\$787/AF
200+	\$735/AF	\$553/AF	\$1,003/AF	\$755/AF	\$1,359/AF	\$777/AF

Historic and Projected Sales

Listed below are the historic sales (in acre-feet) for FY 2009 and FY 2010 and anticipated sales projections for FY 2011 as well as the budgeted sales for both FY 2011 and FY 2012 as follows:

Water Type	FY 08-09 Actual	FY 09-10 Actual	FY 10-11 Projected	FY 10-11 Budget	FY 11-12 Budget
Retail NI	114,293	108,261	104,900	101,000	101,000
Barrier NI	9,774	13,054	14,000	7,100	12,500
Total NI	124,067	121,315	118,900	108,100	113,500
Desalter	682	285	860	1,080	1,080
Recycled:					
Title 22-Within WB	7,034	7,106	5,523	6,790	6,850
Title22- LADWP	444	619	962	580	680
Title22-Torrance	5,876	6,444	6,331	6,240	6,180
RO – Barrier	7,652	7,797	7,790	10,500	8,500
RO – Industrial	5,296	5,423	4,941	5,400	5,400
RO – Ultra	2,864	2,309	2,349	2,160	2,200
Industrial–NH3	742	982	844	750	850
Total Recycled	29,908	30,680	28,740	32,420	30,660
Total Sales	154,657	152,280	148,500	141,600	145,240

Historic and Projected Sales



Fiscal Years 2008 and 2009 were unusually dry years with the lowest record of rain in Southern California in over one hundred years and yet West Basin had an 11% decrease in non-interruptible sales from FY 2008 to FY 2009, and demand continued to decrease into FY 2010. There is a projected 12% decrease in non-interruptible sales in FY 2012 compared to FY 2009. West Basin receives imported water through MWD and closely monitors the actions taken by MWD to address water supply. Although the drought has been declared 'over' and the prior year's "Water Supply Allocation Plan" has been rescinded, West Basin anticipates a flat-lining of potable non-interruptible retail demand and will keep projections the same as last year's budgeted amount of 101,000 AF.

West Basin's Purchase Agreement

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).

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 \$125/AF above the Tier 1 rate but will increase to \$126/AF above the Tier 1 rate effective January 1, 2012.

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.

Other Sources of Revenue

Interest Income

West Basin receives interest income from its general fund. With a declining interest rate environment, West Basin has assumed a more conservative portfolio return. For FY 2012, general fund interest income has been projected at approximately \$418,000. 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 apprised of current market conditions, review West Basin's investment policy and procedures, and implement changes to ensure West Basin's key objectives of safety, liquidity and yield are met.

Standby Charge

For FY 2012 the standby charge will be assessed by the same formula as in prior years. The amount assessed is \$16, \$24 or \$120 per parcel depending upon the land use provided by the County of Los Angeles on a given parcel. The amount assessed per parcel has remained consistent since FY 1993. Based on approximately 344,000 benefiting units and previous annual collections, it is estimated that the revenues from the standby charge, net of program expenses, are expected to be approximately \$9,675,000. After conducting a public hearing, the standby charge is reviewed and adopted by the Board of Directors. This annual charge is used towards West Basin's debt service obligations for the water recycling facilities.

Conservation Income

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

For every dollar that West Basin invests in conservation, it provides an additional \$7.00 benefit of programs to residents and businesses throughout its service area. For FY 2012, West Basin will continue to receive out-

side funding from the MWD's and from many of its purveyors and anticipates grant funding from the State of California and the federal government – the United States Bureau of Reclamation (USBR). The state funding is limited again this year due to the state's continued fiscal challenges, but West Basin continues to receive grant funds from the federal government (USBR) for the Green Garden and Ocean Friendly programs. In addition, MWD's challenges with the drought, allocations, and water supply and demand issues have limited their ability to fund certain programs at the same levels as previous years. This, along with the State of California budget crisis has led to decreased funding for certain programs. However, West Basin has accounted for this impact in the current year's budget by working with outside partners in order to provide funding for these vital programs.

Overall, West Basin anticipates approximately \$1,554,710 in conservation income from its grants and funding partners for FY 2012.

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. Overall, West Basin anticipates approximately \$71,000 in FY 2012 for other income.

USE OF FUNDS

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 program expenses. West Basin maintains a balanced budget between sources of revenues and uses. The balance generated is placed into West Basin's designated funds.

Detailed below are the historic, anticipated and budgeted expenses:

Expenditures	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Projected	FY 2010-11 Budget	FY 2011-2012 Budget
Imported Water Purchases / RTS	\$74,200,415	\$90,343,488	\$94,892,922	\$ 87,216,450	\$97,338,700
Debt Service	23,491,116	23,702,481	24,573,690	24,246,955	25,575,658
Bond Fund Interest	(769,201)	(762,020)	(761,900)	(761,867)	(761,867)
Capacity Charge	1,952,100	1,932,978	1,937,160	1,937,160	1,844,490
Water Recycling Operations	21,528,411	23,477,102	27,972,100	26,190,527	28,080,333
Desalter Operations	480,732	550,935	602,800	772,748	838,521
Water Policy and Resource Planning	1,096,015	1,043,584	853,000	1,060,111	1,031,655
Public Information & Conservation	4,449,665	4,332,725	5,077,100	5,467,193	5,335,563
Water Quality Monitoring	26,475	27,453	10,400	22,026	9,499
Designated Funds/ Other	1,051,236	5,010,067	2,360,131	5,172,897	7,387,947
Total Expenditures	\$127,506,964	\$149,658,793	\$157,417,403	\$151,324,200	\$166,680,498

Fluctuations over the past three years are the result of changes in imported water sales, program costs and debt service. As mentioned under sources of funds, imported water sales fluctuated due to hydrologic conditions and due to the water supply availability; however, this is partially offset by a 7.5% increase in overall imported water rates. Program costs have increased over the past three years largely due to higher operating costs especially in water recycling operations. In addition, West Basin has placed additional focus on conservation and communicating West Basin's message on water reliability. Lastly, West Basin has budgeted higher debt services costs due to a scheduled increase in its fixed portion of the annual debt service.

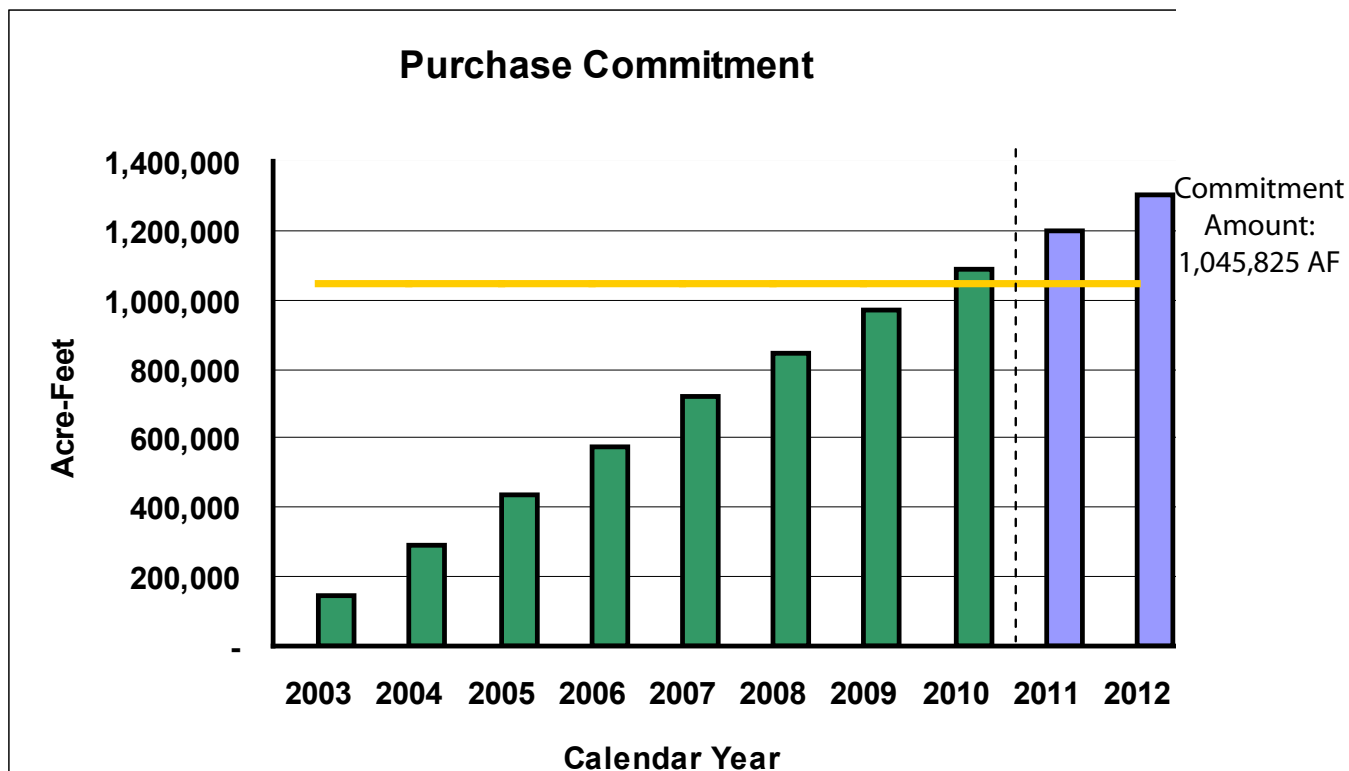
MWD Water Purchases and Charges

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

As displayed in the graph below, West Basin met its minimum Purchase Commitment with MWD in calendar year 2010 reaching purchased acre-fee of 1,050,465 as of September 30, 2010.



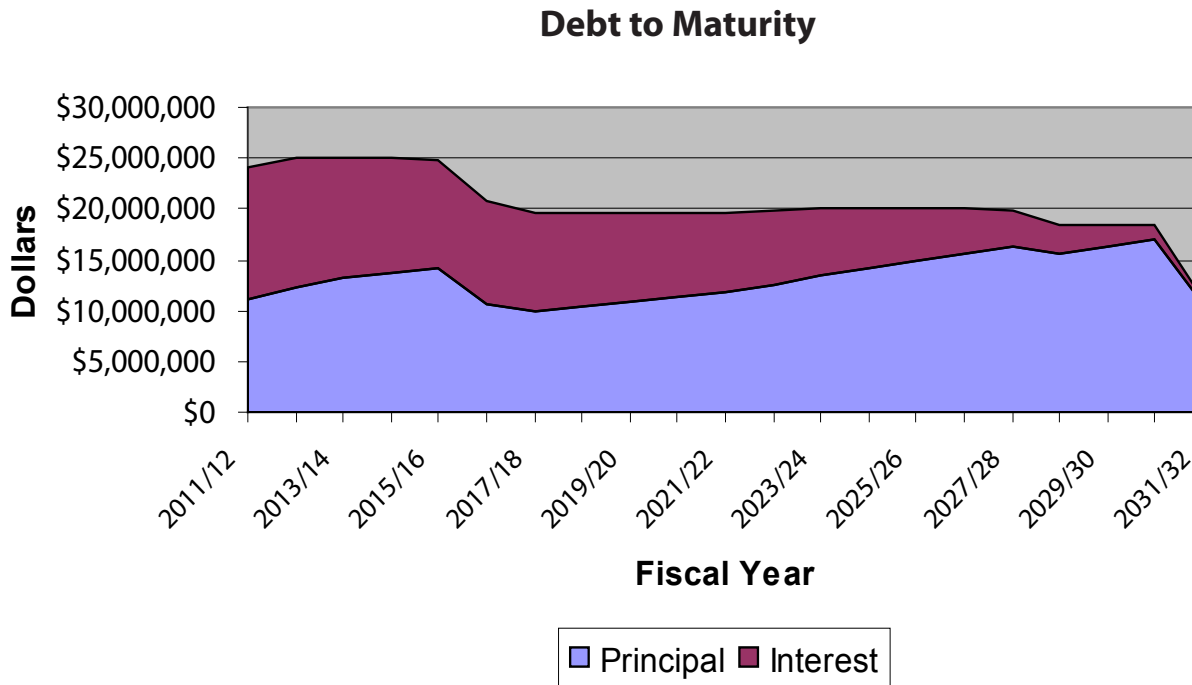
Projected

As noted under the Water Sales section under Revenues, West Basin has determined its cost for water deliveries based on anticipated sales to be \$97,338,700 for FY 2012. With over 20% decline in retail imported water sales over the past 4 years, West Basin has taken a conservative approach to projecting imported water sales, and has budgeted retail purchases to remain flat to last year. Imported sales to the Barrier do show an increase from 7,100 to 12,500. The increase results from the water quality the ability for West Basin to deliver recycled water to the West Coast Barrier. West Basin has indentified capital solutions to meet the water quality requirements and anticipate that it will restore the levels to 75% of the demand of the West Coast barrier and also be used when West Basin expands the delivery to 100% with the fifth expansion expected in September 2012.

In FY 2012, MWD will increase its rate for the Capacity Charge from \$7,200/cfs to \$7,400/cfs beginning January 1, 2012 with anticipated capacity charge costs is \$1,844,490. West Basin does pass this charge to its customers; however, West Basin customers receive a benefit as the West Basin peaking level varies from the individual customer peaking resulting in savings to the customer. See the revenue section for a further explanation.

Debt Service

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



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

Debt Summary

In recent years, West Basin has had to make several strategic changes in its debt portfolio to reposition it away from auction rate securities and reduce its exposure to variable rate debt. In addition, West Basin continues to monitor the market as it still maintains approximately \$34 million in variable rate debt as a result of two associated swaps as described below.

Future capital outlay is anticipated for upcoming capital improvement projects. In June 2010, West Basin entered into a \$50 million commercial paper program. The commercial paper program allows West Basin to move forward on several capital projects until it needs to secure long-term debt.

West Basin has the following outstanding issuances: 1) the 2003A Refunding Revenue Certificates of Participation, 2) the 2008B Refunding Revenue Certificates of Participation and 3) the 2008A Adjustable Rate Revenue Certificates of Participation. In addition, West Basin also has a loan from the State Water Resources Con-

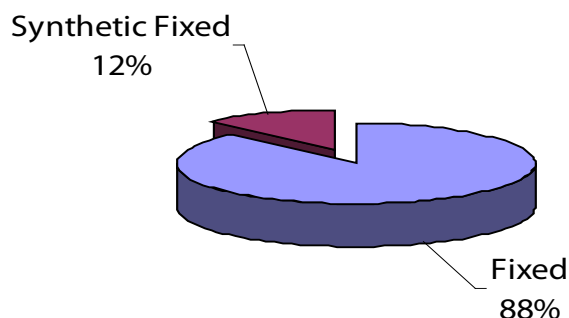
trol Board. For FY 2012, debt service (DS) is estimated at \$25,575,658 to be offset by bond interest earnings of \$761,867 which West Basin receives from bond reserve funds set aside as required by the bond financings. At present, West Basin has two debt issuances where a reserve fund has been established and is restricted for the purpose of the bondholders. All bond fund interest earnings are applied towards West Basin's annual debt payments.

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

Outstanding Long-Term Debt

Series Name	2003A	2008A	2008B	State Loan
Amount	\$156,085,000	\$39,465,000	\$128,665,000	\$5,000,000
Type of Issuance	Refunding / New Proceeds	Refunding	Refunding	Loan
Interest Range	2.5% – 5.25%	Variable	3.0% - 5.0%	3.40%
Swap to Fix	Not Applicable	Yes	Not Applicable	Not Applicable
Issue Date	2003	2008	2008	1995
Final Maturity	2030	2021 and 2027	2031	2015
Current Rating	AA- and Aa2	AA-/A-1 and Aa2/ VMIG1	AA+ and Aa3	Not rated
Annual DS Pmt	\$12.5 Million	\$3.3 Million	\$8.9 Million	\$361,945
2012 Principal	\$7.0 Million	\$2.0 Million	\$3.0 Million	\$312,973
2012 Interest	\$5.5 Million	\$1.3 Million	\$5.9 Million	\$ 48,972
Lien	Senior	Senior	Subordinate	Senior

Current Outstanding Debt Issuances



Future Debt

During FY 2012, West Basin intends to issue new debt of approximately \$100 million to finance Phase V, and to reimburse a portion of the Commercial Paper line used for long-term capital projects. In future fiscal years, West Basin intends to finance the NRG and the Hyperion Pump Station expansion and Ocean Desalination. See discussion in the Long Range Finance Plan and future Debt Issuances section for further information.

Swaps

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

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

Covenants

Debt coverage is one covenant that West Basin is required to maintain. This covenant is monitored not only by West Basin, but also by both investors and credit rating agencies. To meet this covenant, West Basin has set targeted debt coverage goals at a rate higher than legally required for its senior and subordinate 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)**

Bond Cover- age Ratios	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
Revenues	166,680	180,150	203,282	221,365	238,484	251,224
O&M	134,479	141,942	149,569	164,137	177,704	187,884
Net Revenues to pay senior debt	32,201	38,208	55,713	57,228	60,780	63,340
Total Senior Debt Service	15,997	16,087	21,147	23,075	19,193	19,410
Senior Debt Coverage	2.01	2.38	2.54	2.48	3.17	3.26
Net Revenues to pay subor- dinate debt	16,204	22,121	32,566	34,153	41,587	43,930
Total Subor- dinate Debt	8,817	9,056	11,570	12,494	12,529	12,447
Subordinate Debt Cover- age	1.84	2.44	2.81	2.73	3.32	3.53
All-In Cover- age	1.30	1.52	1.64	1.61	1.92	1.99
Remaining Net Revenue	7,387	13,065	20,996	21,659	29,057	31,483

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 increasing its efforts in recycling, developing an ocean-water desalination facility and expanding its conservation programs (not funded by debt).

Based on two strategic plans developed in FY 2009, the Local Resources Strategic Plan and Capital Implementation Master Plan, West Basin began to focus on the development of a Long-Range Financial Plan. During FY 2010 a financial model was developed to incorporate the existing budget, incorporate future capital costs, and make certain assumptions. These assumptions include sales, operating expense increases, water rates, and capital project funding and debt coverage.

As West Basin moves forward with the capital projects identified in the Capital Improvement Master Plan, the need to issue debt to fund investments into its infrastructure increases. In FY 2010, West Basin formalized a Debt Management Policy that incorporates the capital funding assumptions to fund a variety of projects. In addition, the Debt Management Policy provides guidance in the issuance, management, evaluation and re-

porting of debt obligations. In addition to the Debt Management Policy, West Basin developed an Information Technology (IT) Master Plan. The process included examining the current IT environment, establishing a strategic technology direction, and developing an implementation plan that effectively deploys IT solutions that supports West Basin's mission and commitment statements in the following areas: IT service delivery, design, infrastructure and applications. In FY 2011, West Basin focused on improving its Asset Management Program. With analysis and discussion with staff and contract operators, recommendations were identified to improve documentation and resources required to effectively manage and report on the treatment plant facilities.

Future Debt Issuances

With the execution of customer agreements with WRD and NRG, West Basin intends to issue new debt in the future or obtain other fixed revenues to assist for the funding necessary to fund these projects. Currently, West Basin has a \$50 million commercial paper program to provide short-term liquidity until long-term debt is issued. In addition, West Basin will also use its PAYGO funds and seek state loans and grants to pay for certain capital projects. In FY 2012, West Basin anticipates issuing long-term debt to cover approximately \$100 million to fund its Phase V recycled water expansion, Harbor/South Bay projects and other facility improvements. Repayment for this debt will be based on the rates set by the West Basin Board of Directors to serve approximately 4,500 acre-feet to the Water Replenishment District to serve the West Coast Barrier and the additional irrigation customers for the lateral expansion from the Harbor/South Bay Project.

Operating Program Expenses

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

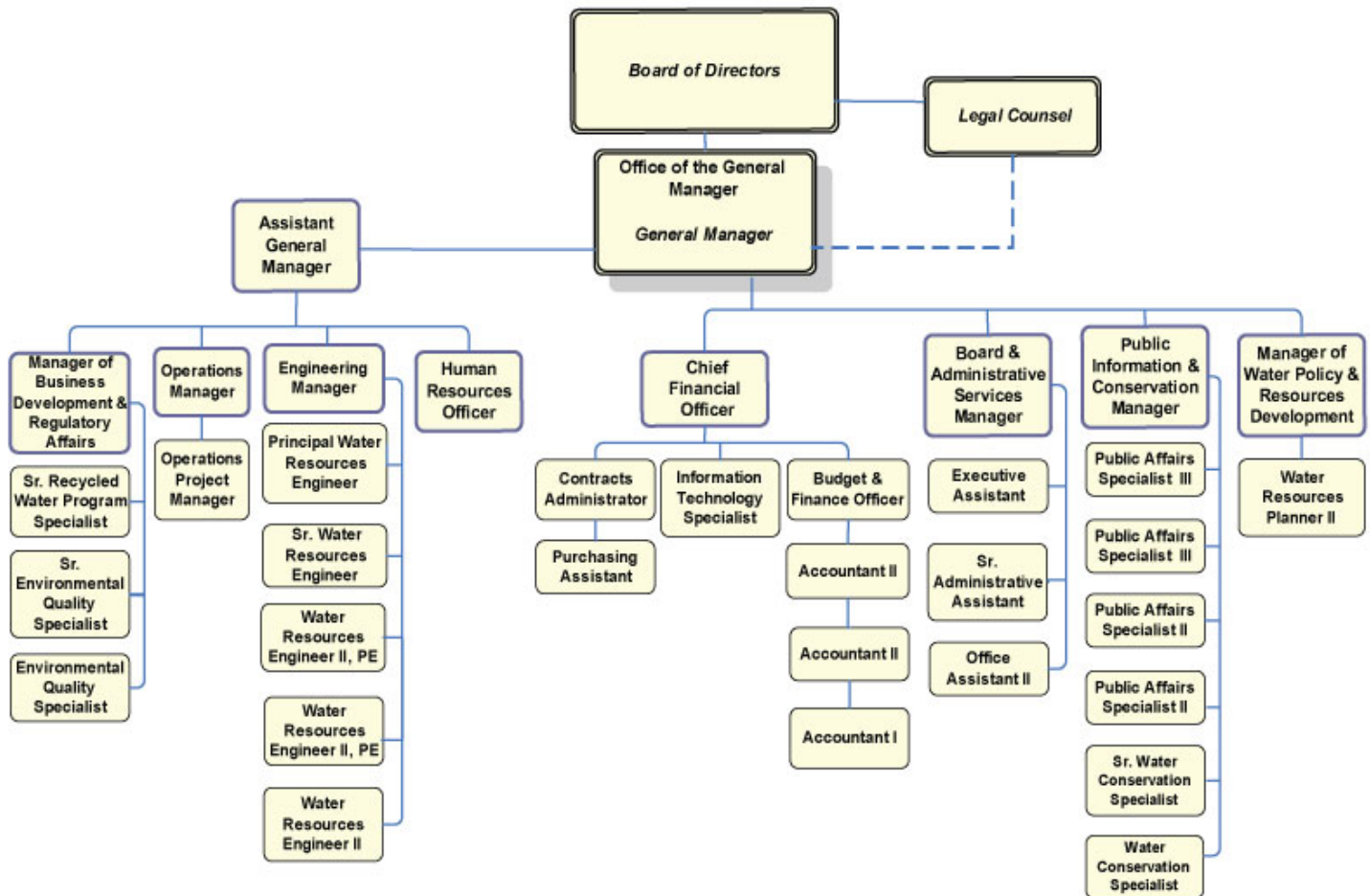
Cost accounting is defined as the process of tracking, recording and analyzing costs associated with the products or activities of an organization. As a single enterprise fund, each program budget has direct charges that represent the specific efforts for consultants, suppliers, utilities or other appropriate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

Payroll and benefits

Historically West Basin has maintained a relatively small staff to complete its goals and objectives. The following organizational chart shows the budgeted positions for FY 2012.

WEST BASIN MUNICIPAL WATER DISTRICT

July 2011



In the FY 2011 budget, staffing levels increased from 34 full-time equivalent (FTE) positions to 36 FTE positions. There are no planned staffing increases in FY 2012.

Summary of Personnel by Department

Position	Actual		Budgeted		Change from
	FY 2010	FY 2011	FY 2011	FY 2012	FY 2011
<i>Office of the General Manager</i>					
General Manager	1	1	1	1	0
Assistant General Manager	1	1	1	1	0
<i>Board Services</i>					
Board and Administrative Services Manager	1	1	1	1	0
Executive Assistant	1	1	1	1	0
Senior Administrative Asst.	1	1	1	1	0
Office Assistant II	1	1	1	1	0
<i>Human Resources</i>					
Human Resources Manager	1	1	1	1	0
<i>Public Information & Conservation (PIC)</i>					
PGA Manager	1	1	1	1	0
Public Affairs Specialist III	2	2	2	2	0
Public Affairs Specialist II	2	2	2	2	0
Sr. Water Conservation Specialist	1	1	1	1	0
Water Conservation Specialist	1	1	1	1	0
<i>Engineering and Operations</i>					
Engineering Manager	1	1	1	1	0
Principal Water Resources Eng.	1	1	1	1	0
Sr. Water Resources Engineer	1	1	1	1	0
Water Resources Engineer II	2	2	3	3	0
Operations Manager	1	1	1	1	0
Operations Program Manager	1	1	1	1	0
Sr. Environmental Quality Specialist	1	1	1	1	0
Environmental Quality Specialist	1	1	1	1	0
Business Development and Regulatory Affairs Mgr	1	1	1	1	0
Sr. Recycled Water Program Specialist	1	1	1	1	0
<i>Water Policy and Resource Development</i>					
Water Policy and Resource Development Manager	1	1	1	1	0
Resource Planner	1	1	1	1	0
<i>Finance</i>					
Chief Finance Officer	1	1	1	1	0
IT Specialist	0	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
Total Budgeted Personnel	34	35	36	36	0

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

West Basin's budget tracks and reports all its costs by program; it also allocates its personnel labor to its various programs. The table below compares FY 2009 and FY 2010 actual to FY 2011 projected to FY 2011 and FY 2012 budget. The variance of projected to budget FTE for FY 2011 represents unfilled positions for a portion of the year. The Overhead Program Costs budget does not include hours as they are these efforts are allocated to all other programs. These overhead program costs are allocated based on direct labor hours. Direct labor hours are used to represent the actual efforts by staff.

Full Time Equivalent by Program

	FY 08/09 Actual	FY 09/10 Actual	FY 10/11 Projected	FY 10/11 Budget	FY 11/12 Budget
Recycling Operations	8.31	9.77	10.08	9.95	9.90
Desalter Operations	0.07	0.06	0.02	0.18	0.20
Water Policy/Resource Development	3.79	3.29	3.18	3.25	3.20
Public Information & Conservation	9.98	8.85	9.60	7.05	10.03
WQ Monitoring Pro- gram	0.05	0.09	0.04	0.08	0.04
Capital Projects	10.74	12.32	11.01	15.49	12.63
Total FTE	32.94	34.38	33.93	36.00	36.00

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. In addition, it will vary from the Summary of Personnel by Department as this summary indicates the number of staff assigned to each West Basin department. Indirect labor represents the support services and is allocated based on the percentage of direct payroll dollars allocated to each program. The method of allocation of indirect labor to the various operating and capital programs is consistent to prior years. For FY 2012, the payroll does include 1.5% 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. The types of benefits included in the FY 2012 budget are consistency with the prior year, and reflect an anticipated 8.5% increase in health insurance and 3% increase in dental insurance. West Basin's pension costs also saw an increase of 2% its employer rate to 14.992%.

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

pays the Annual Required Contribution to the California Employer's Retiree Benefit Trust as well.

Capital Improvement Program

With the recent impact of drought conditions and the need to be more water efficient, West Basin's Water Reliability 2020 plan is more vital today, and requires West Basin to invest into shovel-ready projects this year. As described within the supplemental section on capital, West Basin intends to invest into its existing facilities, expand its existing recycled water facilities and continue with the temporary Ocean-Water Desalination Demonstration Facility with an eye toward constructing a full-scale facility to diversify its water portfolio.

Before any capital project is initiated, staff presents the project to the Board of Directors for approval and direction. Capital projects begin with feasibility and design studies followed by construction contracts. Progress reports are presented to the Board of Directors on a periodic basis. West Basin funds its projects through its PayGo Designated Fund and through bond proceeds. West Basin continues to evaluate if a new revenue measure to provide a fixed source of revenues to aid the funding requirements of its capital improvement program is possible and/or determine other sources of revenues to help afford the facilities necessary to construct and support these local facilities.

Anticipated capital improvement expenditures for FY 2012 are \$72,589,118. See the supplemental section for a detailed discussion on future capital projects.

OPERATING PROGRAM EXPENSES

OPERATING PROGRAM EXPENSES

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

The FY 2012 Operating Program consists of the following programs:

<u>Allocated Programs</u>	<u>Page Number</u>
Overhead Program Costs	68
 <u>Operating Programs</u>	
Water Recycling Operations	71
C. Marvin Brewer Desalter Operations	74
Water Policy and Resource Development	76
Public Information and Conservation	78
Water Quality Monitoring	82

Each program budget is developed to achieve the goals and objectives of the Strategic Business Plan and Commitment Statements that have been described previously in the “Financial Overview and Summary” Section and are summarized in a table section below. Each objective is short-term oriented and anticipated to be completed within FY 2012 and each program budget reflects only the Strategic Business Plan Goals and Commitment Statements that are relevant and qualitative.

Strategic Business Plan Goals	Commitment Statement
Reliability	Water Reliability
Workforce	Sound Financial & Resource Management
Water Quality	Water Quality
Environment	Environmental Stewardship
Customer/Community Service	Customer Service
Communications	Customer Service
Infrastructure	Sound Financial & Resource Management
Finance	Sound Financial & Resource Management

OVERHEAD PROGRAM COSTS

Strategic Business Plan Goals	Commitment Statement
Finance	Sound Financial & Resource Management
Workforce	Sound Financial & Resource Management
Customer/Community Service	Customer Service
Communications	Customer Service

Overhead Program costs include the costs to support the function of the Finance, Human Resources and Board Services departments. 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. Allocating these costs provides management with a better understanding of the overall resources required of each program.

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

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

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

FY 2011 Accomplishments

- Communications – Objective 1: The Board provided overall policy direction and strategic priorities through monthly committee and board meetings;
- Finance – Objective 3: Approved the annual budget and rates in May 2011.
- Finance – Objective 3: Completed bi-annual actuarial report for the PARS plan
- Finance – Objective 3: Received an Excellence in Financial Reporting Award notification for West Basin’s Comprehensive Annual Financial Annual Report (CAFR) for the FY 2010 from the Government Finance Officers Association (GFOA);
- Finance – Objective 3: Received Excellence in Budget Recognition from GFOA and the California Society Municipal Finance Officers (CSMFO);
- Finance- Objective 3: Completed replacement liquidity facility that supports the 2008A Adjustable Rate Revenue Certificates of Participation;
- Finance – Objective 3: Utilized the E-procurement system (The Network) to facilitate the bidding process on over 50 solicitations and increased the vendor audience with over 100 referrals during the fiscal year;
- Finance – Objective 2: Board approved a comprehensive Swap Policy;
- Finance – Objective 2: Presented updates to the financial model to the Board of Directors to determine the affordability of various capital projects to implement Water Reliability 2020;

- Finance – Objective 3 – Effectively utilize the Commercial Paper Program to provide interim financing for capital projects
- Finance – Objective 3: Develop training on new Requisition Self Service Model with Lawson to improve approval process for solicitations;
- Workforce Objective 1 – Completed recruitment process for the following positions: 1) Information Technology Specialist; 2) Part-Time Tour Guide; 3) Engineering Intern; and 4) Public Information & Conservation Intern;
- Workforce Objective 2 – Distributed and received 100% completed Mid-Year Evaluation Forms from Senior Staff;
- Workforce Objective 3 – Completed West Basin Executive Management training and development program;
- Workforce Objective 4 – Successfully completed the enrollment process for the District’s transition to the new health expense reimbursement benefit platform under *take care by WageWorks*;
- Workforce Objective 5 – Revised the District’s organization and salary chart for display on District website; and
- Workforce Objective 6 – Completed mandatory JPIA Defensive Driving Program for all District employees.

FY 2012 Strategies

- 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;
- Finance – Objective 3: Evaluate capital needs requirements to assess when West Basin should seek long-term financing;
- Finance – Objective 1: Meet with rating agencies to discuss upcoming debt issuances for the continued expansion of the recycled water system;
- Customer/Community Service – Objective 1: Continue to explore various venues for outreach to businesses within West Basin’s service area to meet the Board’s objective of increasing awareness;
- Finance – Objective 3: Review the designated fund policy for appropriate funds and target levels;
- Finance – Objective 2: Continue to enhance and utilize Long-Range Financial Model to project revenue needs, capital funding and appropriate rates and charges;
- Finance – Objective 2: Complete the bi-annual actuarial report required by GASB 45
- Workforce Objective 1 – Complete recruitment process for hiring permanent Water Resources Engineer II;
- Workforce Objective 2 – Review the District’s current Safety Program and work with the appropriate staff to design a Board approved program in compliance with state and federal requirements;
- Workforce Objective 3 – Develop District reclassification study policy and procedures., and conduct necessary studies by request of department managers;
- Workforce Objective 4 – Conduct District-wide FLSA audit/review;
- Workforce Objective 5 – Review District Administrative Code Human Resources policies and make necessary changes/amendments; and
- Workforce Objective 6 – Conduct mandatory Sexual Harassment Training for all District employees and directors.

	FY 08/09 Actual	FY 09/10 Actual	FY 10/11 Projected	FY 10/11 Budget	FY 11/12 Budget
General Services	\$ 1,402,948	\$ 1,699,438	\$ 1,438,030	\$ 2,245,640	\$ 1,629,517
Building Services	232,866	379,716	372,900	319,000	361,000
Legal Services	413,829	288,250	275,100	267,000	275,000
Directors Administration Costs	673,758	726,783	672,735	784,000	653,900
Employee Support	19,759	16,696	16,250	16,700	16,700
Total Overhead Allocated	\$ 2,743,160	\$ 3,110,883	\$ 2,775,015	\$ 3,632,340	\$ 2,936,117

WATER RECYCLING OPERATIONS

Strategic Business Plan Goals	Commitment Statement
Reliability	Water Reliability
Water Quality	Water Quality
Customer/Community Service	Customer Service
Infrastructure	Sound Financial & Resource Management
Environment	Environmental Stewardship
Finance	Sound Financial & Resource Management

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

- A pump station in the southwest corner of the Hyperion Wastewater Treatment Plant to pump secondary effluent to the main 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, 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 along with California Water Services Company (CWSC) to operate and maintain the distribution system. West Basin staff manages the program, administers the operations and maintenance agreements, and oversees compliance with the various permits West Basin holds to enable it to sell recycled water.

FY 2011 Accomplishments

- Finance – Objective 3: Received approximately \$60,000 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;
- Water Quality – Objective 2: Completed and submitted over 50 compliance reports to the regulatory agencies;
- Water Quality - Objective 2: Started ferric chloride demonstration test at the Hyperion Wastewater Plant;

- Infrastructure – Objective 4: Performed approximately 100 annual visual inspections and over 35 periodic cross-connection tests of recycled water sites;
- Infrastructure – Objective 4: Completed draft Asset Management Assessment Report with prioritized recommendations to move forward with enhanced information that lead to informed decision-making;
- Infrastructure – Objective 4: Installed 810 MF membranes at the Carson satellite plant;
- Infrastructure – Objective 4: Repaired the nitrification product tank at the Carson satellite plant;
- Finance – Objective 3: Completed antiscalant testing to determine most cost-effective antiscalant;
- Reliability – Objective 2: Concluded negotiations on the LADWP Harbor Agreement that will have West Basin provide 9,300 AFY to the LADWP Harbor customers;
- Water Quality – Objective 2: Completed and signed the Source Control Implementation Plan which is an integral part of the Blue Ribbon Panel Recommendation for providing 100% recycled water to the West Coast Barrier; and
- Reliability – Objective 2: Concluded Hyperion Pump Station Expansion which enables West Basin to increase the water supply from Hyperion to support these projects and others.

FY 2012 Strategies

- Infrastructure – Objective 3: Implement the prioritized asset management recommendations to maximize the asset life and optimize maintenance activities;
- Infrastructure – Objective 4: Install 1,584 RO elements at the Carson satellite plant;
- Infrastructure – Objective 4: Replace RO elements in Barrier trains 1, 2, 3, and 9 at the Edward C. Little Water Recycling Facility in El Segundo.
- Water Quality – Objective 1: Complete ferric chloride addition test at Hyperion to improve water quality;
- Water Quality – Objective 1: Complete Phase II of the Ozone pilot test at ECLWRF to improve water quality;
- Finance – Objective 1: Monitor contract operators against key performance metrics; and
- Water Quality – Objective 1: Continue to support existing customer water quality inquiries.
- Reliability – Objective 2: West Basin Staff continues to support LADWP in marketing to the refineries in the Harbor in furtherance of this goal.

	FY 08/09 Actual	FY 09/10 Actual	FY 10/11 Projected	FY 10/11 Budget	FY 11/12 Budget
Labor and Benefits	\$ 1,326,100	\$ 1,705,849	\$ 1,739,826	\$ 1,717,168	\$ 1,838,742
Overhead	564,600	771,288	770,374	977,934	772,740
Operations					
Chemicals	5,235,855	5,675,592	8,218,100	7,739,428	7,707,300
Consultants	789,834	706,502	1,148,500	961,697	776,500
Contract Labor	361,000	410,900	360,000	360,000	410,000
Facility Maintenance	2,274,783	2,261,459	2,777,300	2,067,300	2,696,500
Laboratory Service	415,178	418,100	400,900	400,900	471,200
Office Administration	561,173	602,651	611,200	611,200	626,600
Secondary Effluent	295,700	262,722	319,500	319,500	319,941
Solids Disposal	604,900	743,560	838,300	788,300	826,900
Utilities	5,501,933	4,661,113	5,600,000	5,500,000	6,049,000
UWS Labor	4,402,315	6,062,326	6,025,100	5,584,100	6,437,900
Mobil Reimbursement	(804,960)	(804,960)	(837,000)	(837,000)	(853,000)
Total Recycling Operations	\$ 21,528,411	\$ 23,477,102	\$ 27,972,100	\$ 26,190,527	\$ 28,080,323

Personnel - Full Time Equivalentents (FTE)

FY 2008/09 Actual FTE	FY 2009/10 Actual FTE	FY 2010/11 Projected FTE	FY 2010/11 Budget FTE	FY 2011/12 Budget FTE
8.31	9.77	10.08	9.95	9.90

C. MARVIN BREWER DESALTER OPERATIONS

Strategic Business Plan Goals	Commitment Statement
Reliability	Water Reliability
Water Quality	Water Quality
Infrastructure	Sound Financial & Resource Management

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. 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 2011 Accomplishments

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

FY 2012 Strategies

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

	FY 08/09 Actual	FY 09/10 Actual	FY 10/11 Projected	FY 10/11 Budget	FY 11/12 Budget
Labor and Benefits	\$ 8,750	\$ 10,532	\$ 2,660	\$ 29,675	\$ 39,322
Overhead	7,559	4,963	1,180	15,633	18,199
Operations	361,079	413,858	412,760	451,500	451,600
Replenishment Assessment	103,344	121,582	186,200	275,940	329,400
Total Desalter Operations	\$ 480,732	\$ 550,935	\$ 602,800	\$ 772,748	\$ 838,521

Personnel - Full Time Equivalent (FTE)

FY 2008/09 Actual FTE	FY 2009/10 Actual FTE	FY 2010/11 Projected FTE	FY 2010/11 Budget FTE	FY 2011/12 Budget FTE
0.07	0.06	0.02	0.18	0.20

WATER POLICY AND RESOURCE DEVELOPMENT

Strategic Business Plan Goals	Commitment Statement
Reliability	Water Reliability
Customer/Community Service	Customer Service
Finance	Sound Financial & Resource Management

The Water Policy and Resource Development budget supports the various activities including pursuit of grant funding to support projects and programs; participation in Metropolitan Water District-related meetings and workgroups to help shape water policy in ways that benefit West Basin and the larger region; providing technical and other support to West Basin's nine customer agencies; and tracking and reporting on West Basin's water supply portfolio. This budget also includes funds to support West Basin's efforts in integrated regional water management planning on behalf of our service territory and as a member of the Greater Los Angeles County planning area.

FY 2011 Accomplishments

- Reliability – Objective 1: Successfully completed implementation of West Basin's Water Shortage Allocation Plan – from July 1, 2009 to April 25, 2011, which help reduce our customer agencies' demand for imported water during the recent multi-year drought;
- Finance – Objective 3: Applied for several grant funding opportunities in support of conservation and reliability programs;
- Reliability – Objective 3: Actively participated in supporting the MWD board's adoption of the 2010 Integrated Resources Plan.
- Customer/Community Services – Objective 2: Conducted a workshop with West Basin's customer agencies to assist with preparation of Urban Water Management Plans, discuss the Water Shortage Allocation Plan, and review West Basin's proposed FY 2011-12 budget and water rates.
- Customer/Community Services – Objective 2: Played a key role in assisting the Greater Los Angeles County Region apply for a \$32 million implementation grant and was awarded a \$1 million planning grant under the Integrated Regional Water Management Program;
- Finance – Objective 3: Awarded 3 additional street median retrofit grants to cities within service area and conducted 6 out of 7 recognition ceremonies for the completed retrofits; and
- Reliability – Objective 2: Submitted CY 2009 report on greenhouse gas emissions from all West Basin operations to the Climate Registry.

FY 2012 Strategies

- Reliability – Objective 1: Monitor customer agencies retail water use post-allocation to evaluate effectiveness of past conservation messaging and programs, and to plan for degree of same efforts going forward;
- Reliability – Objective 2: Secure policy and financial commitment from MWD for local/regional ocean desalination program development partnership, beginning with West Basin's Ocean Desalination Program Master Plan
- Finance – Objective 3: Continue pursuing grant opportunities for West Basin and its customer agencies and monitor applications pending from U. S. Bureau of Reclamation;
- Reliability – Objective 2: Continue leadership role in the Greater Los Angeles County Integrated Regional Water Management Program, including administration, on behalf of Region, of new consultant

contract to develop updated Plan.

- Reliability – Objective 2: Submit CY 2010 greenhouse gas emissions from all West Basin operations to the Climate Registry.

	FY 08/09 Actual	FY 09/10 Actual	FY 10/11 Projected	FY 10/11 Budget	FY 11/12 Budget
Labor and Benefits	\$ 511,416	\$ 572,892	\$ 521,900	\$ 542,773	\$ 579,441
Overhead	373,073	294,241	231,100	292,338	265,214
Planning	211,526	176,451	100,000	225,000	187,000
Total Resource Planning	\$ 1,096,015	\$ 1,043,584	\$ 853,000	\$ 1,060,111	\$ 1,031,655

Personnel - Full Time Equivalents (FTE)

FY 2008/09 Actual FTE	FY 2009/10 Actual FTE	FY 2010/11 Projected FTE	FY 2010/11 Budget FTE	FY 2011/12 Budget FTE
3.79	3.29	3.18	3.25	3.20

PUBLIC INFORMATION & CONSERVATION

Strategic Business Plan Goals	Commitment Statement
Reliability	Water Reliability
Customer/Community Service	Customer Service
Communications	Customer Service

The core mission of West Basin's Public Information and Conservation Department (Department) is to convey West Basin's Water Reliability 2020 program, communicate value, benefits and savings provided to its stakeholders, and enhance West Basin's reputation as a premiere, innovative water agency while encouraging water conservation throughout West Basin. This year, staff continues to implement the Board of Director's Strategic Business Plan, in conjunction with its five commitments to its customers: Water Reliability, Water Quality, Customer Service, Sound Financial Management and Environmental Stewardship. The five commitment statements convey the value of all of West Basin's programs to its customers and other stakeholders.

Water Reliability 2020

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

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. All of these efforts support West Basin's Reliability 2020.

Public Outreach

The Public Information and Conservation department develops and implements a wide array of leader-focused programs to insure that West Basin is positioned as a valuable utility among key stakeholders. Audiences include legislative officials, cities, partner and customer agencies, community, environmental, educational and business leaders. The Department manages numerous outreach programs about the value provided by West Basin, including special events, tours, and presentations. Annual water-themed events, construction outreach meetings, media tours and special delegation tours of West Basin's Edward C. Little Water Recycling Facility and the new Ocean Water Desalination Demonstration facility and Water Education Center continue to enhance West Basin's reputation as a world-class agency dedicated to sustainable water resource management. West Basin will focus this coming year on communicating the value provided by Water Reliability 2020.

Education

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

levels. West Basin's long term education efforts will be focused on tours of our operational water facilities.

Conservation

In FY 2011, West Basin was busy forging new partnerships and developing new water use efficiency strategies and programs to help the public conserve water. West Basin's water conservation programs currently make up 7 percent of the District's total water supply portfolio with plans to double to 14 percent by 2020. In gallons, West Basin is currently conserving 3,000 AF of "active" water savings or 1 billion gallons, and by the year 2020 the number will double to 2 billion gallons of "active" water savings.

FY 2011 Accomplishments

- Communications – Objective 2: Facilitated formal dedication event of West Basin Temporary Ocean-Water Desalination Project for elected officials, sponsors, media and industry V.I.Ps;
- Communications – Objective 2: Opened West Basin Water Education Center in conjunction with the Temporary Ocean-Water Desalination Project which will include multi-media exhibits, under water video feed and water tasting area;
- Reliability – Objective 2: Continued Water Reliability 2020 program and obtained over 5,000 community supporters for the program, including several legislative supporters, business and community groups, as well as individuals willing to testify before regulatory agencies on behalf of WR 2020;
- Communications – Objective 2: Continued our expanded Water Explorations school tour program to serve more middle and high schools in West Basin's service area, and added young Sea Lab student instructors and tours of desalination facility;
- Communications – Objective 2: Successfully sponsored four high schools in Solar Cup 2011;
- Customer/Community Services – Objective 2: Attracted over 3,000 attendees to last year's Annual Water Harvest educational festival;
- Communications – Objective 3: Continued our program to honor Legislators of the Year with Water Reliability 2020 awards;
- Communications – Objective 3: Continued to improve www.westbasin.org with interactive features involving water recycling, conservation and solar power generation, and added a new WR 2020 section;
- Communications – Objective 3: Began distribution of the Huell Howser video on Water Reliability 2020;
- Communications – Objective 2: Obtained more than \$100,000 of sponsorship for West Basin Water Education Center in conjunction with the Temporary Ocean-Water Desalination Project;
- Reliability – Objective 2: Conducted a Local Government Outreach Initiative to inform cities and customers about updating their local conservation ordinances;
- Customer/Community Service – Objective 2: West Basin built a beautiful Native Plant Demonstration and Education Garden at its Edward C. Little Water Recycling Facility in El Segundo, CA;
- Customer/Community Service – Objective 2: Held Water and Energy Expo for local citizens (approximately 300 attendees) wishing to learn more about conserving water outside for their home;
- Customer/Community Service – Objective 2: West Basin applied to the United States Bureau of Reclamation and was awarded a grant on behalf of its Customer Agencies to help develop Local Water Use Efficiency Plans to guide West Basin and its retailers to meet new conservation related legislation, regulations and plumbing codes;
- Reliability – Objective 2: Continued to implement West Basin's Conservation Master Plan, and develop Water Use Efficiency/Conservation Master Plans for customers and a new plan for West Basin;
- Reliability – Objective 2: Continued the "Recirc & Save" Program where from an initial auditing effort of

over 20 businesses, West Basin continues to work with the top five candidates to move their projects forward. These projects will save tens of millions of gallons each year through the installation of recirculation and water treatment equipment ;

- Reliability – Objective 2: Continued the “Cash for Kitchens” Program to provide free kitchen surveys and training to kitchens that are 1,000 square feet and larger. West Basin has conducted 50 audits and over 30 training sessions providing food facilities with free training materials, faucet flow restrictors and aerators, water brooms and kitchen faucet spray nozzles;
- Reliability – Objective 2: Implemented 15 “Ocean Friendly Garden” Workshops to provide residents with information on how they can develop a water-conserving and sustainable garden;
- Reliability – West Basin hosted several community events and groups at its new Temporary Ocean-Water Desalination facility and Water Education Center, and will initiate a public tour program before the end of the fiscal year.
- Reliability – Launched new youth conservation program called the WR2020 Water Star program to fill the conservation gap between children and adults.

FY 2012 Strategies

- Communications – Objective 2: Develop a plan to improve our education programs, including pre- and post-testing, add additional information on the West Basin Web site and an audit by an outside education expert;
- Communication – Objective 2: Plan to publish a new value brochure to provide our customers with information about how West Basin efficiently plans, invests and builds cutting edge water facilities;
- Communications – Objective 2: Within the next couple of years, plan to initiate a Speakers Bureau, Water 101 class for local colleges, talking point cards for Board and staff;
- Communications – Objective 2: Begin entry into “new media” outlets, such as, Twitter and Facebook;
- Reliability – Objective 2: Continue to implement the WR2020 outreach program and launch a new WR2020 section on the West Basin Web site;
- Customer/Community Service – Objective 2: Develop a one-day local water tour for community leaders;
- Communications – Objective 2: Continue targeted outreach plan to build desalination support in Redondo Beach and neighboring beach cities;
- Communications – Objective 3: Continue to develop new collateral materials to showcase West Basin’s “new” brand and value, including distribution of Huell Howser video;
- Customer/Community Service – Objective 2: Host Annual Water Harvest festival to reach out to the community and continue educational focus;
- Communications – Objective 3: Coordinate frequent meetings with media focused on current issues facing the water industry and West Basin;
- Communications – Objective 3: Continue to improve West Basin’s website;
- Customer/Community Services – Objective 2: Continue to provide cities support with implementation of AB1881 – the state’s new Model Landscape Ordinance;
- Reliability – Objective 2 and Customer/Community Services – Objective 2: Finish development of new West Basin’s and retailers Water Use Efficiency and Conservation Master Plans and through a collaborative approach;
- Reliability – Objective 2: Continue to implement the Water Use Efficiency and Conservation programs

	FY 08/09 Actual	FY 09/10 Actual	FY 10/11 Projected	FY 10/11 Budget	FY 11/12 Budget
Labor and Benefits	\$ 1,099,653	\$ 1,167,311	\$ 1,267,819	\$ 1,051,045	\$ 1,538,176
Overhead	1,022,879	829,882	560,640	841,579	899,402
Education	229,587	290,345	196,400	225,400	229,790
Media	106,996	47,277	121,000	141,000	141,000
Events	96,027	106,215	118,060	114,600	114,000
Government Relations	395,117	327,381	351,000	304,000	307,450
Market Research	-	-	5,000	5,000	5,000
WR2020 and General Outreach	90,116	86,512	114,300	376,438	297,000
Conservation	1,409,290	1,477,802	2,342,881	2,408,131	1,803,745
Total Public Info & Conservation	\$ 4,449,665	\$ 4,332,725	\$ 5,077,100	\$ 5,467,193	\$ 5,335,563

Personnel - Full Time Equivalent (FTE)

FY 2008/09 Actual FTE	FY 2009/10 Actual FTE	FY 2010/11 Projected FTE	FY 2010/11 Budget FTE	FY 2011/12 Budget FTE
9.98	8.85	9.60	7.05	10.03

WATER QUALITY MONITORING PROGRAM

Strategic Business Plan Goals	Commitment Statement
Water Quality	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 2011 Accomplishments

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

FY 2012 Strategies

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

	FY 08/09 Actual	FY 09/10 Actual	FY 10/11 Projected	FY 10/11 Budget	FY 11/12 Budget
Labor and Benefits	\$ 5,373	\$ 12,492	\$ 6,350	\$ 12,110	\$ 5,541
Overhead	4,636	7,041	2,820	7,816	2,642
Monitoring Program	16,466	7,920	1,230	2,100	1,316
Title 22 Monitoring	\$ 26,475	\$ 27,453	\$ 10,400	\$ 22,026	\$ 9,499

Personnel - Full Time Equivalent (FTE)

FY 2008/09 Actual FTE	FY 2009/10 Actual FTE	FY 2010/11 Projected FTE	FY 2010/11 Budget FTE	FY 2011/12 Budget FTE
0.05	0.09	0.04	0.08	0.04

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

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CAPITAL IMPROVEMENT PROGRAM

Strategic Business Plan Goals	Commitment Statement
Reliability	Water Reliability
Water Quality	Water Quality
Infrastructure	Sound Financial & Resource Management

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

To achieve this reliability, West Basin recognizes that funding for its needs is significant and will need to come from several sources. Depending on the nature of the capital project, the funding decision may be different. West Basin understands that certain capital expenditures have a short useful life and these projects will be funded through West Basin's PAYGO designated fund or through the Commercial Paper program. Another consideration is debt financing which will be used when the term of the financing generally matches or is less than the estimated useful life of the capital project. One additional financing consideration being explored is a new revenue measure. However, it is uncertain at this time the amount of collection and for which project or projects this potential new fixed revenue source may be obtained.

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

West Basin continues to take thoughtful steps to ensure water reliability. West Basin took one step towards improving water reliability by investing in an updated recycled water capital implementation master plan. Based on continuing discussions of the capital implementation plan, West Basin intends to address future customer needs, system capacity and the infrastructure required to increase recycled water deliveries from approximately 30,000 AF to 60,000 AF by the year 2020.

For ocean-water desalination, West Basin has utilized our extensive treatment experience and learned from other desalination facilities around the world to develop an approach that will effectively and efficiently manage this resource. West Basin began with piloting research in 2002, and recently completed construction of an ocean-water desalination demonstration facility and water education center. The experience gained from piloting and demonstration testing will enable sound future investment into a full-scale production facility.

Construction of the Temporary Ocean-Water Desalination Demonstration Facility Project was completed FY 2011 and is currently being demonstrated to gain insight to develop a basis of design for a full-scale facility by evaluating intake methods and technologies, assessing brine discharge impacts, optimizing operation and maintenance procedures using full-scale elements, evaluating energy recovery devices and energy optimiza-

tion, assessing water quality, along with providing opportunities for public and stakeholder education.

Project Financing

For FY 2012, 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 \$6,343,717 in the construction fund (PAYGO) to pay for the various replacement and refurbishment projects. Also, it is anticipated that the reliability and other projects in FY 2012 will be paid for through the Commercial Paper program and anticipated new debt issuance. The CIP projects outlined to begin in FY 2012 will be submitted individually to the Board of Directors for authorization and funding during the fiscal year.

	Commercial Paper	PAYGO	Debt Finance
Reliability Projects	\$ 3,377,274	\$ 400,000	\$ 52,496,850
Replacement & Refurbishments Projects	- 0 -	5,030,000	- 0 -
Other/Project Admin.	7,833,001 ⁽¹⁾	913,717	2,538,276
Total	\$ 11,210,275	\$ 6,343,717	\$ 55,035,126

(1) Other Projects include the anticipated expansion of nitrified water to the LA Harbor. These funds may be initially paid from the Commercial Paper but will ultimately be reimbursed by the City of Los Angeles as per the agreement.

Reliability Projects:

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

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

The recycled water acre-feet and sales associated with the customer-funded reliability projects have been included in the Projected Operating Results within this year’s budget which is shown within the “Financial Highlights and Forecast” section. Similarly, the additional operating costs and debt service have also been increased for the projected sales related to the customer-funded reliability projects. West Basin is also anticipating a decrease of \$70-120 per acre-foot in recycled water cost with the completion of the ozone treatment

process included in the Phase V Expansion. It is anticipated that the ozone process will reduce chemical costs, power costs, cost to clean the microfiltration membranes and will extend the life of the membranes. The projected savings has also been included in the Projected Operating Results.

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

FY 2011 Accomplishments

- Reliability – Objective 2: Completed construction of the Phase II Anza Lateral. The Phase II Anza Lateral will provide over 200 acre-feet per year of recycled water for landscape irrigation usage to various customers throughout the City of Torrance.
- Reliability - Objective 2: Completed construction of the Ocean-Water Desalination Demonstration Project. The Ocean-Water Desalination Demonstration Project will develop a basis of design for a full-scale facility by evaluating intake methods and technologies, assessing brine discharge impacts, optimizing operation and maintenance procedures using full-scale elements, evaluating energy recovery devices and energy optimization, assessing water quality, along with providing opportunities for public and stakeholder education.
- Reliability – Objective 2: Completed preliminary design efforts and awarded Design-Build contracts for the Phase V ECLWRF Expansion Project to serve an additional 5 million gallons per day (MGD) of Barrier Water, 0.5 MGD of boiler-feed water to NRG, and expand Title 22 water capacity.
- Reliability – Objective 2: Initiated design efforts for the NRG recycled water and potable water pipelines to serve low-pressure boiler feed quality water to the NRG Power Plant in El Segundo. The pipeline will provide 0.5 MGD of supply that is being developed as part of the Phase V Expansion Project.
- Infrastructure – Objective 4: Completed construction of the Brewer Desalter Discharge-to-Waste Improvement System that will allow for improved equalization of well startup and waste discharge to local sewer connection.
- Infrastructure – Objective 4: Completed construction of multiple Cathodic Protection improvements to District's overall distribution system in order to ensure integrity of recycled water facilities.
- Reliability – Objective 2: Completed construction of a disinfection facility within the ExxonMobil Water Recycling Facility. The disinfection facility will improve water quality for customers within the City of Torrance, including Toyota, American Honda, and future sites.
- Reliability – Objective 2: Completed construction of the Dominguez Lateral. Dominguez Lateral was constructed within the City of Carson and will serve Anderson Park and various sites within the Dominguez Tech Center with irrigation water and potentially industrial water in the future.
- Reliability – Objective 2: Initiated construction of the Carson Mall Lateral. The Carson Mall Lateral Proj-

ect includes construction of approximately 4,000 feet of 12-inch diameter recycled water pipeline from West Basin's existing 42-inch diameter mainline and extends to the planned Carson Mall.

- Reliability – Objective 2: Initiated construction of the Dominguez and Torrance Booster Pump Stations to provide adequate hydraulic system pressure and water quality to planned customers. The booster pump stations are located within the Dominguez Hills area of City of Carson and West Torrance.
- Customer/Community Service – Objective 2: The PIC department facilitated construction awareness outreach for four separate recycled water pipeline projects, holding community meetings, canvassing neighborhoods and furthering West Basin's WR2020 program.

FY 2012 Strategies

- Reliability – Objective 2: Complete construction of multiple pipeline and pump stations as part of the Harbor-South Bay Project, including the following projects:
 - Carson Mall Lateral - The Carson Mall Lateral Project includes the design and construction of approximately 4,000 feet of 12-inch diameter recycled water pipeline from West Basin's existing 42-inch diameter mainline and extends to the planned Carson Mall.
 - Dominguez and Torrance Booster Pump Stations – The Dominguez and Torrance Booster Pump Stations will increase hydraulic system pressure and improve water quality to planned customers within the Dominguez Hills area of City of Carson and West Torrance.
- Infrastructure – Objective 2: Continue with demonstrating the Ocean-Water Desalination Demonstration Project.
- Reliability - Objective 2: Award consulting contract and initiate efforts for development of an Ocean-Water Desalination Program Master Plan. The Ocean-Water Desalination Program Master Plan will define and assess all critical components necessary for implementing a full-scale ocean-water desalination program. The scope will include plans for both a local and regional water supply to meet West Basin and regional demands.
- Reliability – Objective 2: Initiate Design-Build efforts for implementation of the Phase V ECLWRF Expansion Project
- Infrastructure – Objective 1: Initiate Design efforts for the Los Angeles Harbor Area Expansion project to serve LADWP refinery customers with over 9,000 AFY of high-quality nitrified Title 22 water. Design efforts include expansion of the existing Carson Regional Water Recycling Facility and approximately 3-miles of new 30-inch diameter conveyance pipeline through the City of Carson.
- Reliability – Objective 2: Complete construction of a filter station to serve multiple recycled water use sites within the Toyota Campus.
- Infrastructure – Objective 1: Begin planning and pre-design efforts for the Hyperion Effluent Pumping Station Expansion and Second Electrical Feed projects. The pump station expansion will provide additional capacity to serve future recycled water demands and a second power source to the existing Hyperion Effluent Pump Station to improve reliability to the District's overall supply system.

- Water Quality – Objective 1: Complete construction of Disinfection Station Facilities and other system water quality improvement to improve distribution system water quality.
- Infrastructure – Objective 4: Implement various treatment and conveyance facility repair, replacement, and rehabilitation projects to maintain and improve facility operations and ensure a long-term reliable water supply for the District’s customers.

Personnel - Full Time Equivalent (FTE)

FY 2008/09 Actual FTE	FY 2009/10 Actual FTE	FY 2010/11 Projected FTE	FY 2010/11 Budget FTE	FY 2011/12 Budget FTE
10.74	12.32	11.01	15.49	12.63

The following table summarizes the planned expenditures for FY 2012 and the next five years.

CAPITAL IMPROVEMENT PROGRAM	FISCAL YEAR					
	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Reliability Projects						
ECLWRF - Phase V Expansion - Barrier System	\$ 31,931,250	\$ 14,737,500	-			
ECLWRF - Phase V Expansion - T22 System	11,286,600	5,209,200	-			
ECLWRF - Phase V Expansion - NRG/Chevron Boilerfeed	1,170,000	540,000	-			
Los Angeles Harbor Area Expansion Project	7,338,532	55,038,990	11,007,798			
NRG Pipeline	5,985,000	2,565,000	-			
Oceanwater Desalination Demonstration Facility	2,527,274	2,527,274	1,263,637			
Oceanwater Desalination Full-Scale Facility (60 mgd)	850,000	750,000	22,002,631	82,509,867	137,516,445	30,253,618
Hyperion SE Pump Station Expansion & Electrical Feed	1,624,000	19,488,000	11,368,000	-	-	
Water Quality Facility Improvements	400,000	200,000	200,000	200,000	200,000	
Harbor/South Bay Project Laterals - US ARMY CORPS	-	500,000	-			
Harbor/South Bay Project Laterals - DISTRICT	500,000	500,000	250,000	250,000	250,000	250,000
Repair, Replacement, & Refurbishment Projects						
Treatment Facility Repair, Replacement, & Improvements	4,955,000	5,202,750	5,462,888	5,736,032	6,022,833	9,997,116
Conveyance Facility Repair, Replacement, & Improvements	75,000	75,000	75,000	75,000	75,000	75,000
Conveyance Facility Corrosion Protection Improvements	-	100,000	-	100,000		75,000
District Administration and Other Capital Facilities						
Project Administration - Capital Only	3,296,462	3,461,285	3,634,349	3,816,067	4,006,870	4,207,214
Administrative / Building Remodel and Rehabilitation	650,000	350,000	100,000	100,000	100,000	100,000
Projected Capital Expenditures	\$ 72,589,118	\$ 111,244,999	\$ 55,364,303	\$ 92,786,966	\$ 148,171,149	\$ 44,957,948

ELWRF Phase V Expansion – Barrier System

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

ELWRF Phase V Expansion – Title 22 System

The Title 22 treatment system at the Edward C. Little Water Facility will be expanded as part of the Phase V

Expansion effort. The Title 22 treatment expansion will involve increasing additional 20 MGD of pretreatment capacity to achieve a total of 40 MGD of Title 22 production capacity.

ELWRF Phase V Expansion – NRG / Chevron Boiler Feed

The Phase V Expansion Project will include a 0.5 MGD expansion of the low-pressure boiler feed system which currently serves the Chevron Refinery for serving the NRG Power Plant facility in El Segundo. A pipeline will also be constructed within the City of El Segundo to convey the low-pressure boiler feed water to the NRG power plant.

Ocean Water Desalination Demonstration Facility

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

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

Ocean Water Desalination Full-Scale Facility

Based on the findings obtained from the Ocean-Water Desalination Demonstration Plant and the outcome of the planned Ocean-Water Desalination Program Master Plan, West Basin anticipates designing and constructing a full-scale Ocean-Water Desalination Facility. This facility will likely be located near the coast and will potentially provide a potable water supply to meet local demands, regional demands, or both.

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 recently planned expansion of the Carson Regional Water Recycling Facility to meet LADWP demands in the Harbor Area will require the expansion of the Pump Station to accommodate these demands. The Hyperion Secondary Effluent Pump Station Expansion Project will potentially provide a capacity of up to 70 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 \$32 million in federal funding has been appropriated of the Harbor-South Bay Project and most recently, the project received over \$8 million in federal Economic Stimulus Package funding as part of the American Recovery and Reinvestment Act (ARRA). The Army Corps of Engineers has authorized a financial commitment of \$35 million or 75% of the project funding. West Basin provides the remaining 25% funding

Treatment/Conveyance Facility Repair, Replacement, and Improvements

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

Conveyance Facility Corrosion Protection Improvements

Pipeline corrosion control surveys are performed routinely to determine the condition and integrity of West Basin's overall recycled water distribution system. Various cathodic protection improvements are typically identified during these surveys to ensure the integrity of West Basin's facilities. Improvements need to occur periodically to ensure system integrity over the duration of the system's useful service life.

Project Administration

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

Building Remodel and Rehabilitation

Through the Building Ad Hoc Committee, the Committee has identified several rehabilitation efforts, which can include HVAC repairs, roof replacement, window repairs and other miscellaneous improvements. In addition, this amount also includes funding for the Little Facility tour exhibits and public area space.

ORGANIZATION MEMBERSHIPS

<u>Membership</u>	FY 10-11 Amount	FY 11-12 Amount
Alliance for Water Efficiency	3,050	3,050
American Membrane Technology Association	375	375
Association of California Water Agencies	20,500	20,500
CalDesal	5,000	5,000
California Association of Sanitation Agencies	800	-
California Urban Water Conservation Council	7,900	7,900
<u>Chambers of Commerce</u>		
- Carson	400	400
- Chinese	500	500
- Culver City	150	150
- El Segundo	500	500
- Gardena	300	300
- Greater Los Angeles African-American	500	500
- Harbor City / Harbor Gateway	175	175
- Hawthorne	300	300
- Hermosa Beach	375	375
- Inglewood / Airport Area	300	300
- Lawndale	500	500
- Lomita	350	350
- Los Angeles	1,500	1,500
- Malibu	365	365
- Manhattan Beach	450	450
- Palos Verdes Peninsula	525	525
- Redondo Beach	250	250
- South Bay Association	500	500
- South Bay Chinese-American	150	150
- South Bay Latino	500	500
- Torrance	425	425
- West Hollywood	350	350
Climate Registry	850	850
Colorado River Water Users Association	120	120
L. A. & San Gabriel River Watershed Council	2,500	-
National Water Research Institute	50,000	50,000
National Water Resources Association	350	350
So CA Alliance of Pub. Owned Treatment Works	8,000	4,000
Southern California Salinity Coalition	10,000	-
Southern California Water Committee	850	850
Southwest Membrane Operators Association	600	600
Urban Water Institute, Inc.	1,250	1,250
Utility Branding Network	5,000	2,500
Water Education Foundation	2,700	2,700
WateReuse Association	7,500	7,500
Water Research Foundation (formerly AWWARF)	42,000	42,000
WateReuse Research Foundation	25,000	25,000
West Basin Water Association	200	200
Totals	\$ 203,910	\$ 184,110

ORGANIZATION MEMBERSHIPS

Provided below is a summary description of the organizations that West Basin supports and the membership fees to be paid in FY 2012.

ALLIANCE FOR WATER EFFICIENCY

Orientation: Policy/Technical

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

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

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

Association Fee: \$3,050

AMERICAN MEMBRANE TECHNOLOGY ASSOCIATION

Orientation: Technical

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

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

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

Association Fee: \$375

ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA)

Organization: Policy Development/Legislation

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

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

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

Association Fee: \$20,500

CAL DESAL

Orientation: Policy Development/Legislation

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

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

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

Association Fee: \$5,000

CALIFORNIA URBAN WATER CONSERVATION COUNCIL (CUWCC)

Orientation: Policy/Technical

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

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

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

Association Fee: \$7,900

THE CLIMATE REGISTRY

Orientation: Technical

Description: The Climate Action Registry (Registry) is the premier voluntary greenhouse gas registry in North America. The Registry is a non-profit partnership developing an accurate, complete, consistent and transpar-

ent greenhouse gas emissions measurement protocol that is capable of supporting voluntary and mandatory greenhouse gas emission reporting policies for its members and reporters. It provides a verified set of greenhouse gas emissions data from its reporters supported by robust accounting and verification infrastructure.

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

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

Association Fee: \$850

COLORADO RIVER WATER USERS ASSOCIATION (CRWUA)

Orientation: Policy

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

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

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

Association Fee: \$120

NATIONAL WATER RESEARCH INSTITUTE (NWRI)

Orientation: Research

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

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

Value: NWRI provides funding for West Basin research projects.

Association Fee: \$50,000

NATIONAL WATER RESOURCES ASSOCIATION (NWRA)

Orientation: Policy Development/Legislation

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

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

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

Association Fee: \$350

SOUTHERN CALIFORNIA ALLIANCE OF PUBLICLY OWNED TREATMENT WORKS (SCAP)

Orientation: Policy

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

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

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

Association Fee: \$4,000

SOUTHERN CALIFORNIA WATER COMMITTEE

Orientation: Policy/Educational

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

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

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

Association Fee: \$850

SOUTHWEST MEMBRANE OPERATORS ASSOCIATION (SWMOA)

Orientation: Technical

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

West Basin Involvement: West Basin staff attends meetings.

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

Association Fee: \$600

THE URBAN WATER INSTITUTE (UWI)

Orientation: Outreach

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

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

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

Association Fee: \$1,250

UTILITY BRANDING NETWORK (UBN)

Orientation: Outreach

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

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

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

Association Fee: \$2,500

WATER EDUCATION FOUNDATION (WEF)

Orientation: Outreach

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

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

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

Association Fee: \$2,700

WATEREUSE ASSOCIATION (WATEREUSE)

Orientation: Technical/Policy/Education

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

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

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

Association Fee: \$7,500

WATER RESEARCH FOUNDATION (WRF) (Formerly AMERICAN WATER WORKS ASSOCIATION RESEARCH FOUNDATION)

Orientation: Technical

Description: The Water Research Foundation (WRF) changed its name from AWWRF in 2009 however is still affiliated with the oldest water association in the Americas, the American Water Works Association. WRF manages more than \$30 million per year of drinking water research in the areas of water quality, treatment, management, resources and health effects.

West Basin Involvement: Staff serves on Project Advisory Committees (PAC) as well as participating in studies with other utilities, universities, and research consultants to advance our knowledge in water quality and improve efficiencies in water resources. Recent studies including "Renewable Energy for North American Water Agencies" and "Microbiological Quality and Biostability of Reclaimed Water."

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

Association Fee: \$42,000

WATEREUSE RESEARCH FOUNDATION (WATEREUSE)

Orientation: Research

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

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

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

Association Fee: \$25,000

WEST BASIN WATER ASSOCIATION (WBWA)

Orientation: Outreach

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

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

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

Association Fee: \$200

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FINANCIAL POLICIES

Included for reference are the full and complete financial policies:

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Investment Policy	102
Designated Funds Policy	113
Procurement Policy	117
Capitalization Policy	124
Debt Management Policy	129
Swap Policy	140

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

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

6.0 Investment Procedures:

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

7.0 Ethics and Conflicts of Interest:

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

8.0 Authorized Financial Dealers and Institutions:

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

The Board of Directors may engage the services of one or more external managers to assist in the management of the District's investment portfolio. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. External managers may also use their own list of internally approved broker-dealers subject to its approval by the District. Such managers must be registered under the Investment Advisers Act of 1940.

9.0 Authorized and Suitable Investments:

The District is governed by the California Government Code, Sections 53600, *et seq.* Within the context of these limitations, the investments listed below are authorized. Those investments not identified in Section 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 five (5) years. The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the portfolio. Time certificates of deposit shall meet the conditions in either paragraph (1) or paragraph (2):

- (1) Time certificates of deposit shall meet the requirements for deposit under Government Code Section 53635 et. seq. The Treasurer may waive collateral requirements if the institution insures its deposits up to the Federal Deposit Insurance Corporation (FDIC) limit.
 - (2) Fully insured time certificates of deposit placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8.
- (b) Local Agency Investment Fund ("LAIF") Deposits – Deposits for the purpose of investment in the Local Agency Investment Fund of the State Treasury may be made up to the maximum amount permitted by State Treasury policy.
- (c) Negotiable Certificates of Deposit – The Treasurer may invest in negotiable certificates of deposit as follows:
- (1) To be eligible, a certificate of deposit must be issued by a nationally, or California-chartered bank, a California savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a California licensed branch of a foreign bank. (Government Code Sections 53601 (i).)
 - (2) Eligibility for deposits shall be limited to those financial institutions which maintain a long-term rating equivalent to "A" or higher by one of the nationally recognized statistical rating organizations (NRSRO).
 - (3) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
 - (4) The amount invested shall be subject to the capital limitations of Government Code Section 53638.
 - (5) The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the total portfolio.
 - (6) The maximum maturity shall be limited to five (5) years.
- (d) Bankers' Acceptances – The Treasurer may invest in bankers' acceptances as follows:
- (1) Investment in a prime banker's acceptance shall not exceed 15% of the portfolio in effect immediately after any such investment is made.
 - (2) Eligibility shall be limited to those securities issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by one or more of the NRSRO.
 - (3) No more than 15% of this category of investments may be invested in any one commercial bank's acceptances.
 - (4) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
 - (5) The maximum maturity shall be limited to 180 days. (Government Code Sections 53601(g).)
- (e) Commercial Paper – The Treasurer may invest in commercial paper as follows:
- (1) Only commercial paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by a NRSRO. (Government Code Sections 53601(h).)
 - (2) Eligible paper is further limited to issuing corporations that are organized and operating within the United States as a general corporation and having total assets in excess of \$500,000,000.

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

The following criteria will be used in evaluating companies:

- (1) Attain the highest ranking letter and numerical rating provided by not less than two nationally recognized rating services; or
- (2) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five (5) years' experience managing money market mutual funds and with assets under management in excess of \$500,000,000.
- (3) The maximum purchase price of shares shall not exceed 20% of the portfolio.
- (i) California Municipal Obligations – The Treasurer may invest in bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
 - (1) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
 - (2) For obligations without a fixed rate of interest, these obligations must have an unconditional demand feature, guarantee or put within the maximum maturity limitations.

- (3) Eligibility shall be limited to those obligations that 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).
 - (4) Any bonds, notes, warrants, or other evidences of indebtedness of the District:
 - (i) District obligations that maintain short-term ratings will be tendered to the trustee for cancellation no later than the 5th anniversary of their purchase.
 - (5) Investments in California municipal securities shall not exceed 10% of the portfolio.
 - (6) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
- (i) Corporate Notes
- (1) Medium-term notes, defined as all corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
 - (2) Notes eligible for investment under this subdivision shall be rated "A" or better by an NRSRO
 - (3) Purchases of medium-term may not exceed 30% of the District's portfolio.
 - (4) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
 - (5) If a corporate security owned by the District is downgraded by a NRSRO to a level below the quality required by this Investment Policy, it shall be the District's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. The Treasurer or Deputy Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.

10.0 Prohibited Investments:

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

11.0 Investment Pools/Mutual Funds Due Diligence:

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

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.

- A schedule for receiving statements and portfolio listings.
- A description of how reserves, retained earnings, etc. are utilized by the pool or fund
- A fee schedule, and when and how is it assessed.

12.0 Collateralization:

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

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

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. 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:

If the Board delegates responsibility of the investment program to the Treasurer or Deputy Treasurer, the Treasurer or Deputy Treasurer will present a monthly report of those transactions to the Executive Secretary of the Board of Directors via the General Manager indicating the types of investment by fund, institution, date of maturity, and amount of deposit, and shall provide the current market value of all securities with a maturity of more than twelve (12) months, rates of interest, and expected yield to maturity. The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing investment activity and the status of cash by depository.

21.0 Investment Policy Adoption:

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

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

Appendix A: Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

count.

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

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

GOVERNMENT SECURITIES: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds." This category also includes debt issued by Federal Agencies and Government-Sponsored Enterprises.

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

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

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

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

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

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

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sells SEC-registered products licensed with a self-regulating organiza-

tion (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: 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 pre-

dictability of equipment replacement, unanticipated equipment failure is unavoidable. As a result, these funds would be used to cover periodic short-term replacements made necessary by unplanned failures. In addition, the District does not maintain earthquake insurance. In the event a natural disaster would occur, the District would need sufficient funds to cover the necessary expenditures until funding is available to properly repair the damaged assets.

- ☒ **System Enhancements** – With the rapid changes in technology, assets are becoming obsolete at a faster rate than originally planned. If these improvements increase productivity, reduce operating cost, or extend the useful life of the Districts’ facilities, then expenditures will be made from this fund. Improvements made using this designated fund will show that the benefit/savings must exceed the cost of the enhancement.

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

Target Criteria:

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

Construction Fund

Purpose:

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

Target Criteria:

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

Rate Stabilization Fund

Purpose:

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

Target Criteria:

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

Swap Termination Fund

Purpose:

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

Target Criteria:

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

Bond Defeasance Fund

Purpose:

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

Target Criteria:

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

Bond Reserve Fund

Purpose:

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

Target Criteria:

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

PROCUREMENT POLICY
(Excerpt from Administrative Code)

5-1.101 POLICY DEFINITIONS

The following terms shall apply to this policy:

- A. Amendment and Change Order – modification of the terms of an existing contract.
- B. Consultant – an individual, firm, or entity that provides Professional Services.
- C. Contract – a written agreement for goods or services (Professional or Non-Professional), and includes both formal contracts and purchase orders.
- D. Cooperative Purchase – any procurement conducted on behalf of two or more public agencies in order to obtain the benefit of volume purchasing or reduction in administrative expenses.
- E. Formal Solicitation – the issuance of a written request for bids, proposals, or quotations.
- F. Goods – supplies, materials, equipment, consumer products, and any other tangible personal property not considered to be a Professional or Non-Professional service.
- G. Informal Solicitation – an oral or written request for a bid, proposal, or quotation in accordance with oral or written conditions and other requirements included in the request.
- H. Local Business Enterprise – to be considered as a local business enterprise, a firm must provide evidence the firm is located at a fixed commercial or residential address where administrative, clerical, professional or other productive work is performed relative to its commercial purpose. The firm must be located within the District’s service area for a minimum of one year.
- I. Non-Professional Services – services provided by an independent contractor other than Professional Services, including, but not limited to, repair and maintenance services.
- J. Professional Services – any specifically trained or experienced person, firm or corporation specializing in financial, economic, accounting, engineering, information technology, legal, architectural, public relations, or other specialized disciplines. Services may include the provision of a report, study, plan, design, specification, document, program, advice, recommendation, analysis, review, opinion, inspection, investigation, audit, brokering or representation of the District before or in dealings with another party. Non-Professional technical and maintenance services (such as janitorial services, landscape maintenance, etc.) differ from professional services as such services involve limited discretionary judgment and are primarily manual in nature.
- K. Purchase Order – an authorization under which the party designated as Supplier is to provide Goods and/or services for which the District agrees to pay.
- L. Request for Proposal – a written request for the submission of a proposal in accordance with specifications, conditions, and other requirements included in the request.
- M. Critical Repairs – repairs performed on District facilities that are unplanned, unexpected, and which are essential to the continued operation of the District facilities, but do not rise to the level of “Emergency” as defined in Section 5-1.108. Such repairs may include acquisition and installation of replacement parts.
- N. Critical Acquisition – acquisition of supplies, goods and equipment that is unplanned, unexpected, and which is essential to the continued operation of District facilities, but do not rise to the level of “Emergency” as defined in Section 5-1.108.

5-1.102 **PROCUREMENT SOLICITATION**

A. Informal Solicitations

For informal solicitations, a minimum of three competitive written or electronic price quotes shall be solicited. If less than three quotes are obtained or are available, the reason shall be documented and included with the other quotes received.

B. Formal Solicitations

Formal Solicitations shall be advertised on the District's web site, and as otherwise required by law. Whenever possible and practical, a minimum of 14 calendar days shall be provided for responses.

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

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

rizes any contract for such work, goods, or services.

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

5-1.103 PURCHASING OF SUPPLIES, GOODS AND EQUIPMENT

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

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

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

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

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

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

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

5-1.104 PROFESSIONAL SERVICES

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

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

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

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

5-1.105 NON-PROFESSIONAL SERVICES

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

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

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

All proposals for non-professional services over \$25,000.00 value will be evaluated on a 100-point scale. A value of three additional points will be added to the evaluation scores of Local Business Enterprises who bid, as prime contractors, on non-professional services contracts. If a non-local prime contractor includes a Local Business Enterprise as a subcontractor in its bid, a value of up to three points may be added to the evaluation

score of the non-local prime contractor. Points will be awarded based on the relationship the percentage dollar amount of the contract that will be performed by the Local Business Enterprise bears to the three preference points. For example, if a contract is worth \$100,000.00, and the non-local prime contractor uses a local subcontractor who will perform \$25,000.00 worth of work, the bid will enjoy a preference of .75 points (.25 x 3 points).

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

5-1.106 PUBLIC WORKS

The procurement of public works by the District shall be governed by the provisions of the California Public Contracts Code. If a prime contractor intends to employ subcontractors, and the amount of the contract is less than \$3 million dollars, as determined by West Basin's engineer's estimate, the prime contractor will be required to: 1.) attend the pre-bid meeting; and 2.) advertise for subcontractor bids from LBEs in one or more daily or weekly newspapers, trade association publications, trade journals, or other relevant media.

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

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

5-1.107 ECONOMIC OUTREACH

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

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

- (3) Disabled Person – a qualified individual with a disability as defined by the Americans with Disabilities Act of 1990.
 - (4) Feasible – capable of being accomplished economically within a reasonable period of time.
 - (5) Minority – a person who is a citizen and a lawful permanent resident of the United States and who is:
 - (i) African American
 - (ii) Hispanic American
 - (iii) Asian-Pacific American
 - (iv) Native American/Native Hawaiian
 - (v) Members of other groups or other individuals found to be economically and socially disadvantaged under the Small Business Act, as amended;
 - (vi) Members of other ethnic groups when there are at least five percent or 5,000 residents within the service area, whichever is higher.
 - (6) Workforce Investment Board (WIB) – a private or public agency devoted to assisting the recruitment and placement of disadvantaged persons or businesses.
 - (7) Workforce – the number and demographics of the labor force living within the District’s service area.
- (b) When required by federal law, the District shall to the extent feasible:
- (1) Encourage consultants to use the services of the WIB or similar agencies to recruit disadvantaged persons and businesses.
 - (2) Assure qualified and certified disadvantaged business enterprises are afforded maximum practicable opportunities to compete for procurement and construction awards consistent with the financial constraints of the District and with the rights of non-minority firms to compete equally for District awards.
 - (3) Set a goal of 10 percent of the dollar value of contracts executed during a fiscal year for the participation of DBE’s either as prime contractors or as subcontractors, as follows: at least 3.5 percent shall be allocated for minority-owned businesses, 3.5 percent for certified women-owned businesses, and 3 percent for disabled businesses where applicable.
 - (4) Require competitors for District awards who claim DBE status to be CalTrans-certified at the time of submitting bids or qualifications for contract award. Qualification for DBE status by the District shall recognize the differing job-market availabilities in each of the occupational categories due to differing working category propensities of different ethnic groups and genders.
 - (5) The District shall keep on file reports, records and affirmative action plans sufficient to ascertain compliance with this policy and with the requirements of federal law. The District shall submit such reports to the appropriate State or federal agency as required by law.

5-1.108 EMERGENCY PURCHASES AND SERVICES

In the event of an emergency, the General Manager may make immediate purchases of materials and services pursuant to California Government Code requirements. Emergency purchases include any purchase required to prevent imminent danger or to prevent or mitigate the loss or impairment of life, health, property,

or essential public services. Every effort will be made to receive advance approvals or to obtain approvals as soon as possible following the purchase.

5-1.109 CRITICAL REPAIRS AND ACQUISITIONS

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

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

5-1.110 EXCEPTIONS TO COMPETITIVE BID REQUIREMENTS

Purchases that do not require competitive bids under this policy include books, periodicals, advertising, seminars, conferences, travel, subscriptions, temporary employment agencies, postage, utilities, bank charges, memberships, claims, travel reimbursements, fees or permits, and health or other benefit related reimbursement services.

5-1.111 CONTRACT TIME EXTENSIONS.

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

Capitalization Policy

Purpose

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

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

Asset Classification

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

- General Administration
- Infrastructure.

General Administration

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

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

Infrastructure

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

1) New Construction:

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

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

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

Exception:

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

2) Replacement due to expansion or new technology:

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

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

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

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

3) Replacement due to the end of life cycle:

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

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

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

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

4) Repairs or refurbishments:

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

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

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

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

5) Contribution by other agency:

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

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

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

Determination of Cost

GASB Statement 34 states that purchased or District-constructed capital assets should be reported at historical cost. The total cost of the capital asset is the cash outlay or its equivalent that is necessary to acquire the asset and put it in operating condition. These costs include contract price, freight, sales tax, licensing fees, handling and assembling, installation and testing, direct labor and material, indirect labor and materials, benefit and overhead allocations as well as any construction period interest cost as required by GASB Statement No. 34. In addition, it is the District's policy to capitalize any cost that is specifically identifiable with a planned capital project (or asset acquisition), including public information costs and costs incurred to obtain financing for the project. Contributed capital assets will be recorded at their estimated fair market value at the date of the asset was contribution to the District.

Estimated Useful life

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

Depreciation Method

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

Summary

The following table summarizes the criteria discussed above.

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

* The above descriptions are not limited to those described.

Glossary:

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

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

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

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

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

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

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

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

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

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

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

DEBT MANAGEMENT POLICY

I. Purpose

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

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

II. Goals and Objectives

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

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

III. Roles and Responsibilities

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

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

IV. Long Range Financial Plan

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

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

V. Debt Financing

A. Revenue Obligations

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

The District's debt capacity will not exceed legal limitations, such as rate covenants or Additional Debt Tests imposed by existing financing covenants. Prior to the issuance of any new revenue obligations, the impact of debt service payments on total annual fixed costs will be analyzed.

As users of the District facilities will benefit from long-term capital investments in future years, it is appropriate that future revenues pay a share of the costs and more closely match the term of repayment to the expected economic useful life of the project being financed.

B. Commercial Paper

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

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

paper amounts and maturities.

C. *Fixed and Variable Rate Obligations*

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

Variable rate exposure can provide a means to enhance asset/liability management. The primary goal of asset/liability management is to mitigate the impact of increased interest costs in a rising interest rate environment, and mitigate the impact of decreased interest income in a declining interest rate environment. The Chief Financial Officer will review the net variable rate exposure of the overall debt portfolio on a quarterly basis and at any time that additional debt is issued.

In selecting and retaining remarketing agents for variable rate debt, the District should choose remarketing agents that diversify its exposure and foster competition. The Chief Financial Officer will regularly review the performance of the individual remarketing agents in relation to other remarketing agents, similar programs, and market indices.

D. *Grant Anticipation Notes*

The District may issue short-term notes to be repaid with the proceeds of State or Federal grants if appropriate for the project and in the best interest of the District. Generally, grant anticipation notes ("GAN's) will only be issued if there is no other viable source of up-front cash for the project. Prior to embarking on selling GAN's the

District must identify a secondary source of repayment for the GAN's in case the expected grant funding does not occur.

E. *Lease Financings*

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

VI. Debt Refinancing

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

The District will target economic refundings that produce net (including cash contributions and foregone interest earnings) present value savings of at least 3% of the refunded par amount of each maturity being refunded. Refundings producing less than 3% net present value savings for each maturity being refunded will be considered for other purposes, such as removing restrictive covenants, reducing risk, altering the overall debt repayment schedule of the District, releasing revenues, and ease of administration.

The Chief Financial Officer will monitor refunding opportunities for all outstanding debt obligations on a periodic basis applying established criteria in determining when to issue refunding debt and bring forth the recommended opportunities with appropriate resolutions and related documentation.

VII. Debt Structure Considerations

A. Maturity of Debt

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

B. Debt Service Structure

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

C. Lien Structure

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

D. Capitalized Interest

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

instances the District will not capitalize interest on financings thus avoiding increased borrowing amounts.

E. Reserve Funds

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

F. Redemption Provisions

In general, the District will have the right to optionally redeem debt no later than 10 years after issuance. Redemption provisions will be established on a case-by-case basis, taking into consideration market conditions and the results of a call option analysis prior to the time of sale. Because the issuance of non-callable debt may restrict future financial flexibility, cost will not be the sole determinant in the decision to issue non-callable debt.

G. Credit Enhancement

Credit Enhancement on District financings will only be used when net debt service is reduced by more than the cost of the enhancement and the District should seek to diversify its exposure to banks when selecting institutions to provide liquidity or Credit Enhancement for variable rate debt.

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

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

VIII. Method of Sale

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

IX. Investment of Proceeds

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

X. Credit/Ratings Objectives

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

XI. Investor Relations

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

XII. Disclosure and Arbitrage Rebate Compliance

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

XIII. Consultants

A. Financial Advisor

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

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

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

B. Bond Counsel

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

C. Disclosure Counsel

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

D. Underwriters

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

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

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

XIV. Reporting Requirements

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

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

XV. Definitions

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

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

Arbitrage Rebate – With regard to tax-exempt revenue obligations, arbitrage refers to taxable earnings on proceeds that are greater than earnings would have been at the arbitrage yield. IRS regulations require Issuers to calculate and pay rebate to the United States Treasury on arbitrage earned on proceeds of tax-exempt securities.

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

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

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

Commercial Paper – Short-term (1 to 270 days) promissory notes issued to provide for interim financing of projects or other short-term financing needs through the construction period. Following the

completion of the projects, principal and interest due on commercial paper is sometimes redeemed by issuing long-term refunding revenue obligations.

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

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

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

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

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

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

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

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

IRS – Internal Revenue Service

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

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

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

conditions of the letter of credit terms.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SWAP POLICY

I. Introduction

The purpose of this Swap Policy ("Policy") is to establish parameters and provide guidance as to the future use, negotiation, execution, management, and reporting on interest rate swaps and related instruments.

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

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

II. Authority

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

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

Changes in the capital markets and other unexpected events may, from time to time, create situations and opportunities that are not contemplated by this Policy and may require adjustments or exceptions to this Policy. In such circumstances, the ability of West Basin to be flexible is important. However, any authorization granted by the Board to proceed with a swap transaction not expressly permitted by this Policy must be accompanied by an acknowledgement of the Board that the actions to be taken by West Basin are not specifically authorized by the Policy in force at that time.

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

West Basin shall be authorized to enter into swaps only with qualified counterparties, unless the aggregate net exposure to the counterparty would be reduced as a result of entering into a new swap. Qualified counterparties shall be determined pursuant to the criteria set forth in this Policy.

III. Purpose

The issuance of bonds or other obligations involves interest rate payment obligations and risks. A vari-

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

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

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

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

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

IV. **Evaluation of Proposed Transactions**

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

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

V. **Qualified Swap Counterparties**

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

VI. **Counterparty Termination Exposure**

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

The "Maximum Net Termination Exposure" is the aggregate termination payment for all existing and projected swap transactions that would be paid by or to an individual counterparty. The aggregate termination payment is equal to (1) the potential worst-case termination payment based on the market value of all existing swaps as of the first day of the month prior to the execution of any proposed swap transaction, plus (2) the potential worst-case termination payment of the proposed transaction. The potential worst-case termination payment shall be calculated assuming interest rates, as measured by the related index or benchmark interest rates, increased or decreased by two standard deviations from the sample mean over the last 10 years.

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

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

VII. **Termination and Assignment provisions**

West Basin shall consider including in all swap agreements provisions granting West Basin the right to optionally terminate all or a portion of an Agreement at any time over the term of the Agreement and the right to assign an Agreement to a third party. West Basin may exercise its right to optionally terminate a swap agreement if it determines that it will (1) produce a benefit to West Basin, either through receipt of a payment from a termination, or if a termination payment is made by West Basin, in conjunction with a conversion to a more beneficial debt obligation, (2) result in a more beneficial mix of fixed and variable rate debt consistent with prudent debt practices and policies adopted by the Board,

or (3) otherwise reduce risk as determined by the CFO. The CFO is authorized to terminate any swap transaction on behalf of West Basin, so long as such termination is consistent with the above described principles, except in the case of a replacement swap transaction as described below.

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

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

VIII. **Term and Notional Amount of Swap Agreement**

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

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

IX. **Form of Swap Agreements**

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

X. **Collateral Requirements**

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

- Each swap counterparty to West Basin shall be required to post collateral if the credit rating of

the swap counterparty or its guarantor is not in the two highest rating categories by at least two of the nationally recognized rating agencies.

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

XI. **Amendment or Assignment of Swap Transaction or Swap Agreement**

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

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

XII. **Reporting Requirements**

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

- Highlights of all material changes to the swap agreements or new agreements entered into by West Basin and a summary of any agreements that were terminated.
- Basic term sheet containing trade date, effective date and termination date of each of the swap agreements, as well as key terms such as: notional amount, rate paid by each counterparty, day

count basis, payment dates, and amortization/accretion schedules. This term sheet will also contain counterparty contact information.

- Mark-to-market valuation and performance of the swap to date, performed by an independent third party advisor.
- For each swap counterparty, shall provide the total notional amount position, the average life of each agreement, the available capacity to enter into a swap, and the remaining term of each agreement.
- The credit rating of each swap counterparty and the guarantor insuring the swap payments.
- Actual collateral posting by the swap counterparty, if any, per agreement and in total by swap counterparty.
- Information concerning any default by a swap counterparty to West Basin and the results of the default, but not limited to the financial impact to West Basin, if any.
- Follow GASB procedures for reporting the swaps on West Basin's annual financial statements, including the provisions of GASB 53.

Definitions

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

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

GASB – Governmental Accounting Standards Board

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

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

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

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

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

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

SIFMA Index – The Securities Industry and Financial Markets Association Municipal Swap Index , pro-

duced by Municipal Market Data, is a 7-day high-grade market index comprised of tax-exempt variable rate demand bonds.

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

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

GLOSSARY

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.