



Fiscal Year 2012-2013

OPERATING BUDGET

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



WEST BASIN MUNICIPAL WATER DISTRICT

FISCAL YEAR 2012-13 BUDGET

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TRANSMITTAL LETTER



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May 30, 2012

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, 2012 to June 30, 2013 (FY 2012-13) budget. West Basin's Board and staff have created a budget that provides a sound system of financial management. The FY 2012-13 Budget represents Board and staff's commitment to meeting West Basin's mission of providing a safe and reliable supply of high quality water to the communities we serve through sound financial management.

West Basin's Board of Directors dedicates significant time and effort to plan, develop and implement its long-term vision and commitment to its customers and communities. The Board of Director's Strategic Business Plan (Strategic Plan), combined with customer feedback, shapes West Basin's vision and plan for each year and the Water Reliability 2020 Program provides the means for communicating our vision and goals with the communities we serve.

Originally published in January 2008 and revised in August 2011, the Strategic Plan outlines West Basin's key goals and objectives for success. With the 2011 revision, the Board of Directors consolidated the eight original strategic goals into five goals to align them with West Basin's commitment statements. The current goals and commitment statements are water reliability, water quality, customer service, sound financial management, and environmental stewardship. Each year, staff reviews the Strategic Plan scorecard to evaluate West Basin's progress and identify near term or ongoing efforts that will aide West Basin in achieving the goals described within the Strategic Plan.

In 2008, West Basin conducted a customer survey of its water purveyors (cities, private water companies and water agencies) in which the results indicated that West Basin's efforts are aligned with its customers. West Basin commissioned an independent consultant in summer 2012 to update the customer survey to assess whether West Basin's services continue to align with its customers' needs. Management meets regularly with West Basin's 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, West Basin has a responsibility to meet local water demands in a cost effective manner. West Basin monitors major cost drivers that may impact the budget and takes action to keep rates reasonable. The major cost drivers that impact West Basin's water rates and budget 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 been reported through television news media, newspapers and radio reports. The issues range from endangered species protection to low water hydrology in the High Sierras and the Colorado River (the source waters for Southern California's potable water supplies). West Basin purchases potable water from Metropolitan Water District of Southern California (MWD). To ensure that MWD meets its demands, MWD invests in local resource programs that promote conservation, water efficiency, recycling and educate the public about water supply availability.

During fiscal years 2009-10 and 2010-11, MWD implemented a Water Supply Allocation Plan (Allocation Plan) to address serious drought conditions and low water levels in local reservoirs. MWD's efforts, combined with those of its member agencies (including West Basin), ensure that water supplies are sufficient to meet the demands of Southern California residents and businesses. 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 Allocation Plan called for a 10% reduction in water use region-wide. West Basin worked with its customer agencies to implement water use restrictions on imported water. Both MWD and West Basin's Allocation Plans emphasized that reduction was imperative or the agency would be assessed significant financial penalties. Due to successful conservation campaigns, water use declined significantly and in April 2011 the Allocation Plans implemented by both MWD and West Basin were deemed no longer necessary. Careful deliberations are made each year to assess water availability. Storage levels within the MWD system have increased and the State allocation of 60% has been determined to be enough water to meet the needs of the MWD member agencies for the current year.

Since 2007, West Basin sales have declined more than 20%. West Basin's customer agencies have been successful in reducing imported water use by promoting water use efficiency, increasing groundwater production and using recycled water where appropriate. In fact, each of West Basin's customer agencies were able to stay within their water allocation budgets and no penalties were assessed during the allocation

period. While some of the decrease in sales is the result of the Allocation Plan, some of the decline is a result of the sluggish, and slowly recovering, economy. The economy does not directly impact West Basin as much as it may influence local cities or other government counterparts. Families and businesses need this vital resource and changes in populations, homeownership and foreclosures, or closed businesses do not significantly impact West Basin. Other public agencies provide services in education, public safety, libraries, public works and other needs of their communities. Reduced sales are the result of a combination of the slow economy and an effective campaign to conserve water and address the water supply issues described above.

Uncertainty in the Sacramento-San Joaquin Bay-Delta regarding a long-term solution for balancing water supply reliability and ecosystem restoration means that West Basin must continue to aggressively pursue water supply diversification through conservation and the development of new, locally produced supplies. Continued expansion and enhancement of the recycled water system and research and demonstration of ocean-water desalination are among the current opportunities to advance this objective. 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 dollar Water Bond in the near term.

To address the unpredictability of water sales projections, West Basin has more conservatively budgeted for its imported water deliveries, taking into consideration the current state of water availability and the increased need to be water use efficient. Budgeted deliveries are expected to slightly increase by approximately 1,000 acre feet in FY 2012-13. West Basin expects that sales will rebound, but not necessarily return to historic levels.

Aside from imported water challenges, West Basin has also experienced declines in recycled water sales. From planned turnarounds at refineries to source water quality issues, anticipated deliveries to several customers have been impacted, causing recycled water deliveries to be lower than previously budgeted.

West Basin will continue to budget conservatively and assume that water deliveries will remain similar to those of FY 2011-12. One exception is an anticipated decline in recycled water sales to the West Coast Barrier. Until the West Coast Barrier long-term capital solution is in place, West Basin has reduced its delivery assumption to 50% (down from an expected 75%).

Higher Operating Costs and Aging Infrastructure

The cost to deliver recycled water has risen over the past few years. Last year, West Basin experienced a \$4 million increase in operating costs over the FY 2011-12 original budget with no planned increase in sales. The largest drivers for higher recycled water production costs are chemicals, energy use, and facilities maintenance, along with

higher facility operation labor costs. In FY 2012-13, the expected increase is approximately \$3 million due to expected increases in power and contract labor. West Basin has planned sales increases because of the scheduled completion of Phase V at the Edward C. Little Water Recycling Facility in FY 2012-13, producing more water, and driving the increase in variable costs such as power and chemical use.

Water quality challenges such as turbidity in the source water used in West Basin's recycling program have resulted in additional staff time, chemicals, and energy use, to find solutions to stabilize the delivery of secondary effluent water. Several times during the year, turbidity levels have spiked, causing shutdowns in service to some of West Basin's key customers and impacting treatment equipment. In particular, Barrier sales have been greatly impacted, reducing flows from the expected 75% recycled water contribution to approximately 50%. Beginning in 2011, the source water caused high ammonia levels that impacted Chevron's Nitrification flows. A course of action has been identified to resume historic delivery levels.

Based on a number of studies that address the specific issues faced by West Basin, from additional chemical treatments to fouled membranes, West Basin has set a course of action that is leading to stabilizing the source water turbidity challenges in recycled water production. Through the fourth expansion of the water recycling facility, West Basin is introducing ozone as a pre-treatment process and is considering adding ferric chloride to the process at the Hyperion Pump Station. The new ozone facility is expected to be operational in winter 2012 and is anticipated to lower the unit cost and decrease the amount of chemicals needed to produce recycled water.

Facilities maintenance at West Basin's recycling facilities has increased in recent years. The recycling facilities are nearly 20 years old and have begun to age with several original key components now requiring replacement. To address some of the current budget overruns, West Basin has deferred replacements that are not required to meet specific deliveries of water. However, despite efforts to contain facility replacement costs, West Basin has had a number of major repairs.

The Capital Implementation Master Plan addresses operations and maintenance issues and provides the framework to include these projects in West Basin's financial model which will be incorporated into the Long Range Financial Plan. In addition, West Basin is currently reviewing its Asset Management Program to identify opportunities to improve its business processes, record keeping, and resources required to support an effective Asset Management Program.

State Budget Challenges and the Uncertain Financial Market

News about the State of California's budget deficit persists. State legislators are looking for solutions to address the multi-billion dollar deficit either through spending cuts or new revenues. West Basin 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. West Basin's programs are funded directly by customer rates and charges set by the Board of Directors. West Basin receives grant funding from the State of California and U.S. Department of the Interior for various conservation programs. To address the potential impacts from a loss or delay in conservation program funding, West Basin continually reviews its conservation programs and reduces services when necessary. Currently 85% of conservation program funding is provided through outside funding sources such as grants and partnership agreements.

The financial market continues to fluctuate based on U.S. and global economic issues. From an investment standpoint, interest rates continue to be at low levels and are expected to continue through 2014. As a result, West Basin anticipates lower interest earnings in this year's budget. This low interest rate environment has alternatively benefited West Basin, who recently entered into the fixed income market to finance its Phase V construction project. West Basin was able to secure a long term average fixed rate of 3.49%. However, banks continue to be scrutinized by the ratings agencies and this may impact West Basin. For example, West Basin holds a standby bond purchase agreement with a bank that could potentially be a downgraded, which could in turn impact the trading of West Basin's 2008A Adjustable Rate Certificate of Participation.

Other challenges

MWD member agencies continually challenge MWD staff to keep rate increases minimal. MWD has approved its rate increases for the next two years with an average rate increase of 5% in January 2013 and 5% in January 2014. However, some member agencies continue to argue for smaller or no rate increases. West Basin monitors these discussions, provides input, and ensures that the true cost of water is discussed. In addition, one MWD member agency has filed suit against MWD to challenge its rate structure. If successful, there will be a cost shift from this one agency to all of the other member agencies, including West Basin, resulting in a significant cost shift with higher water rates passed on to our customers and no additional services.

West Basin also monitors the State Water Project and its challenges. As mentioned previously, the State intends to place a multi-billion dollar initiative on the ballot to fix the Delta and support other infrastructure needs throughout the State. In addition, the threat of a major earthquake could severely impact water deliveries to the customers of the State Water Project, including MWD and its member agencies.

Making West Basin's Water Supplies 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,

but this agency has been recognized by its peers for its innovative planning and programs such as the Water Efficiency Master Plan, public outreach, free educational programs for school children, and the research and demonstration of environmentally-responsible 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 65% dependent on imported water. By 2020, through the Water Reliability 2020 Program, West Basin plans to reduce its dependence on imported water further to approximately 35%, through the continued expansion of existing programs and adding desalinated ocean-water production to its portfolio. It is imperative to the service area that West Basin continue investing in local water supply programs to ensure that the nearly one million West Basin constituents have a reliable supply of water.

With the emphasis on local 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 (LRF Plan). Individual efforts to update the LRF Plan are underway and are intended to address the following elements: water supplies; financial forecast; debt management; risk factors; and comprehensive financial policies. Some elements of the LRF Plan are in place and are continually evaluated to ensure the information is current and relevant. For instance, West Basin has developed a financial model and enhanced 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 contribute to local water reliability.

West Basin Meeting its Commitments

West Basin is focused on meeting and addressing the operational and fiscal challenges presented in this budget. Staff remains committed to meeting the goals and commitments established by the Board and have highlighted a few action items for FY 2012-13:

Water Reliability

- Continue Water Reliability 2020 outreach program to explain the need for more local control of our water supplies to mitigate the impacts of future water shortages and droughts.

- Through an updated Water Efficiency Master Plan, expand water efficiency and conservation efforts by reaching out to businesses and residents through targeted programs or incentive rebates on water saving devices.
- Complete expansion to the Edward C. Little Water Recycling Facility to continue developing local resources and lessen the impacts of fluctuating costs of imported water.
- Continue the advancement of ocean-water desalination by taking steps towards a full scale facility.

Water Quality

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

Sound Financial and Resource Management

- Continue seeking 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 competitive solicitation, efficiencies in technology, and enhanced reporting.
- Use financial modeling to forecast long-term expenditures for ongoing programs and future local resource projects to determine the impact of the required revenue to customers.

Customer Service

- Enhance core education programs of school age children with pre- and post-tests to evaluate the success of the program, tour and materials.
- Host annual Water Harvest festival, public tours, Water 101 classes and other events to educate the community of ways to improve efficiency 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 partnering with environmental organizations through education programs.

More specific accomplishments for FY 2011-12 and a preview to FY 2012-13 are described in each operating program area. The capital efforts are described in the supplemental section.

Sound Financial and Resource Management

Annual Budget and Process

Annually, West Basin approves its one 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 Plan. A further discussion on the budget process and timeline is described in the “Budget and Timeline” section. In addition, the “Operating Expenses” section reflects a direct connection between the Strategic Plan, accomplishments, and preview for the year. On a quarterly basis, the Board of Directors receives an executive level comparison of budget to actuals with a discussion of variances.

West Basin’s programs presented in FY 2012-13 are similar to those shown in prior years. No new programs were added. Budgeted staffing levels remain at 36 regular full-time positions. For FY 2012-13, West Basin added two part-time employees to support the Public Information and Conservation Department activities, and three limited term full-time positions to support current efforts in Public Information and Conservation, Engineering, and Business Development and Regulatory Affairs. Each of these limited term positions had previously been filled by interns.

For FY 2012-13, West Basin has an operating budget of \$178,946,092, which represents approximately \$102 million of pass-through costs for the purchase of imported water, \$27 million of net debt service, and \$40 million in program costs (including \$31 million for water recycling operations). This represents an approximately \$12.3 million increase over last year’s original budget. Increases result from the higher imported water costs and \$3 million in recycling operations program costs. Revenues equal expenditures as it is West Basin’s policy to achieve targeted, budgeted debt coverage of approximately \$9.5 million in 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 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

established budgeted, internal debt coverage goals, enhanced its financial policies, and updated rates as appropriate. West Basin is fortunate to be located in a strong economic area (greater Los Angeles), is a provider of an essential service, demonstrates strong, consistent financial performance, and completes large capital projects in a timely manner, which earns the water district a solid credit rating that allows for borrowing at low interest rates and saves our customers money on water rates.

West Basin's Board of Directors has made clear through its Strategic Plan that sound financial ratings are a priority and has directed staff 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, together with the financial policies, provides the framework for future assumptions that will allow West Basin to continue to fulfill its commitment to sound financial and resource management.

West Basin's 2012 refunding transaction was reviewed by both Moody's and Standard & Poor's, in addition to reviewing West Basin's management and governance structure, rate setting practice, and its programs. The ratings were reaffirmed 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 more than 88% of total revenues. These sales enable West Basin to provide our customers with more reliable, high quality water. West Basin provides value to its customers through recycling, conservation, planning, community outreach, legislative advocacy and effective operations and investments into the future.

For FY 2012-13, West Basin's Board of Directors adopted a \$12 increase in its water reliability charge; will increase recycled water rates either per customer agreement or in line with the West Basin non-interruptible tier 1 effective rate; a \$4/cubic foot per second increase in its water service charge; and pass through of the average 5% increase in the imported water commodity charge. There will be no change to the readiness-to-serve charge. In addition, the Board of Directors approved the annual standby charge collection that generates \$9.6 million to support the West Basin 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 for projections over the next 20 years. To monitor the fiscal impact, West Basin has developed a dynamic financial model that incorporates many of the assumptions and information from other master plans and Board decisions to ensure our customers have safe and reliable water. As West Basin

focuses on locally controlled water in its water supply portfolio, 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 and adopted a full array of policies, including an investment policy, designated funds policy, swap policy and debt management policy. As new information is presented, West Basin works with its customer agencies to ensure the increases are appropriate to address water supply reliability.

West Basin is cognizant that the short-term and long-term risks have an impact on its customers and West Basin is diligently working toward addressing the availability and accessibility of providing safe and reliable water to its constituents. West Basin rate increases have been carefully considered and communicated to its customers. West Basin understands the impact that its role in setting rates has on its customers and balances those concerns with diversifying water sources and addressing operational risks. The current challenges facing the water community will impact these rate assumptions.

This year's budget has been challenging, yet rewarding, to compile. California's water industry is politically, environmentally and operationally challenged by budgetary and physical constraints. West Basin is committed to demonstrating 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.

Respectfully submitted,

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

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 Municipal Water District (West Basin) is a special district of the State of California and an innovative, award-winning public agency that provides drinking and recycled water, water efficiency and education programs to its 185-square mile service area (see Service Area Map, p. 14). West Basin purchases imported water from the Metropolitan Water District of Southern California (MWD) and wholesales the imported water to cities, water agencies, and private water companies in coastal Los Angeles County.

To protect our local groundwater aquifer from seawater intrusion, West Basin provides water for injection into the West Coast seawater barrier. Currently, up to 75% highly purified recycled water is sold to the Water Replenishment District of Southern California (WRD) for the barrier, with a permit to expand that amount to 100% by 2013. The seawater barrier water protects and augments \$200 million worth of local groundwater supplies.

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 supplies. West Basin's Ocean-water Desalination Demonstration Facility (Demonstration Facility) is gathering science to protect the ocean at intake and discharge, reduce energy consumption with an energy recovery device, and optimize ocean desalination operations.

COMMITMENT STATEMENTS

West Basin's Board of Directors has dedicated significant time and effort developing a long-term vision for the agency to meet its commitments to its customers and communities. This effort has included surveying our customers and creating a system

for receiving ongoing feedback, the development of a new mission statement, a clear list of agency commitments to its customers, and creating an updated Strategic Plan. The Strategic Plan (approved in 2008 and updated in 2011 is available at www.westbasin.org in the Board of Directors section) focuses West Basin projects and programs on the key goals and objectives that will define and measure our success. These goals correspond to our customer commitments and include:

- 1.) Water Reliability** – West Basin is committed to innovative planning and investments to provide water reliability and drought protection;
- 2.) Water Quality** – West Basin is committed to providing safe, high quality water by meeting current and anticipated water quality requirements;
- 3.) Customer Service** – West Basin is committed to providing value by understanding and meeting the needs of the customers and communities we serve;
- 4.) Sound Financial and Resource Management** – West Basin is committed to efficient business operations, financial planning, and asset management; and
- 5.) Environmental Stewardship** – West Basin is committed to sustainable and environmentally-friendly business practices.

The Strategic Plan provides continuous direction for each year’s planning, budgeting, implementation, evaluation and reporting.

WEST BASIN SERVICE AREA

West Basin 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 income diversity ranges from approximately \$23,000 in Westmont to approximately \$200,000 in Rolling Hills (Source: 2000 census). West Basin’s 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 MWD Board of Directors are Edward C. Little and Gloria D. Gray.

WEST BASIN MUNICIPAL WATER DISTRICT BOARD OF DIRECTORS



Director Ronald C. (Ron) Smith
2012 Board Treasurer
Serves Division I Cities of Carson, Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills, Rolling Hills Estates, and unincorporated portions of San Pedro.



Director Gloria D. Gray
Serves Division II Cities of Inglewood, South Ladera Heights, a portion of Lennox and Athens, Howard and Ross-Sexton.



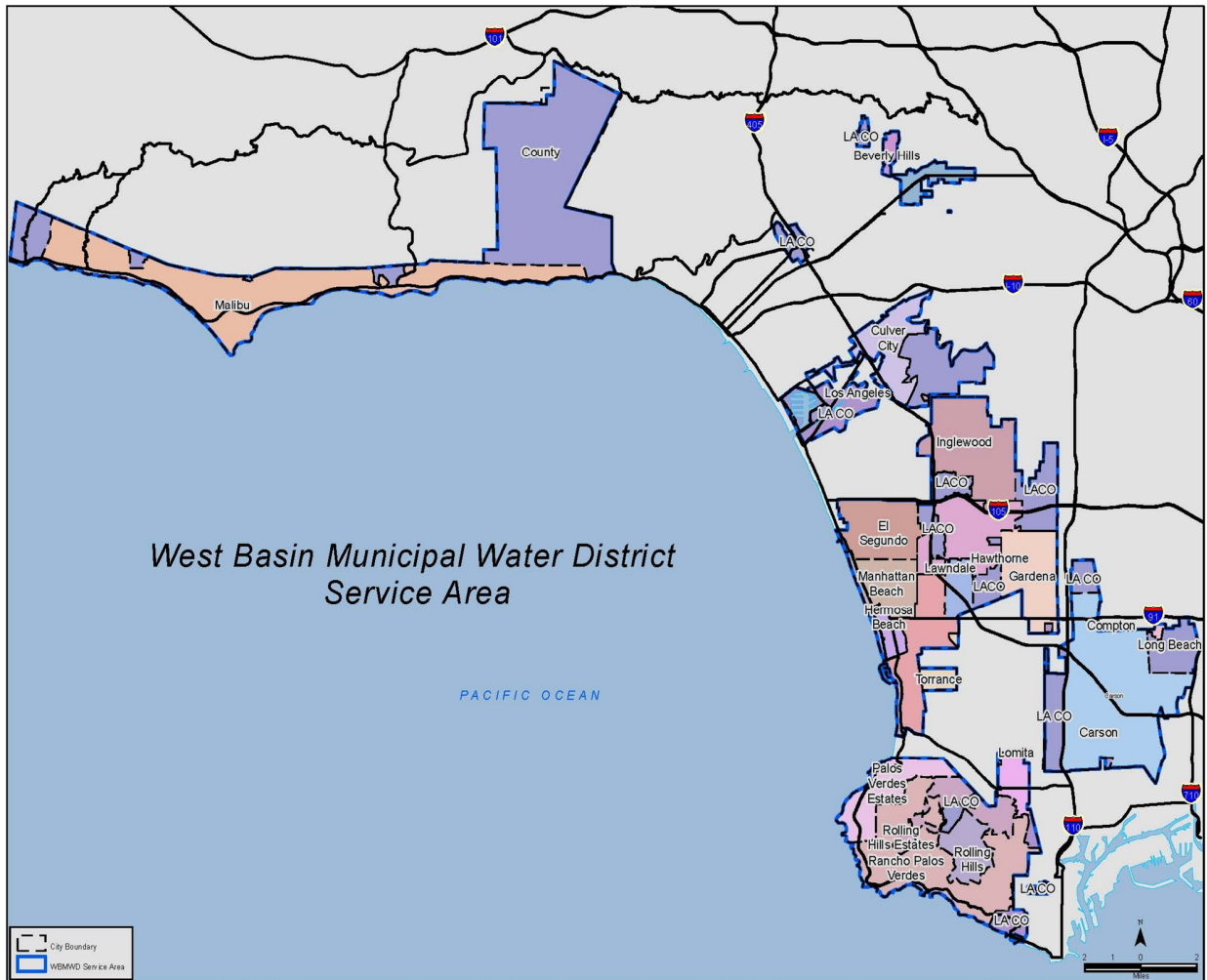
Director Carol W. Kwan
2012 Board Vice President
Serves Division III Cities of Hermosa Beach, Lomita, Manhattan Beach, Redondo Beach and Torrance.



Director Edward C. Little
Serves Division IV Cities of Culver City, El Segundo, Malibu, West Hollywood and Lennox, North Ladera Heights, Del Aire, Topanga, View Park and Windsor Hills.



Director Donald L. Dear
2012 Board President
Serves the Cities of Gardena, Hawthorne, Lawndale and portions of 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 and 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 by becoming a member of 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 goes beyond just distributing imported water to one that invests in the development of local supplies in support of its mission to provide a safe and reliable supply of high quality water to the communities it serves.

Today, West Basin is an international water industry leader, hosting visitors from around the globe and sharing accomplishments and lessons learned with international audiences. West Basin is focused on providing value to its customers and delivering water reliability for the region through a diverse supply of water that includes imported, recycled, desalted and conserved sources. West Basin invests in the research and use of new technologies, alternative energy sources, conservation, youth education and public 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 provides hundreds of tours and talks within the community each year to encourage an appreciation for the value and need to be efficient with our water supplies.

West Basin began investing in conservation and the local production of recycled water in the early 1990s by distributing water efficient toilets and building a water recycling facility that would convert treated wastewater into five types of high quality recycled water suitable for groundwater recharge, irrigation, and municipal, industrial and commercial uses. The benefits generated by the water recycling facility include more affordable water rates for customers, a reliable, locally-controlled supply of recycled water, reduced energy use by importing less water from hundreds of miles away, reducing wastewater and bio-solids discharged to the ocean, and turning wastewater into a usable water resource.

The drought of the early 1990s also increased awareness about water conservation that resulted in West Basin's addition of "Conservation" as a new water supply. Today, this new water supply is referred to as "Water Use Efficiency." West Basin currently

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, industrial and municipal purposes.

1993: West Basin begins treatment of brackish water from 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 Construction in El Segundo is complete and delivers water to its first customer.

1997: Phase II of the Water Recycling Facility in El Segundo 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.

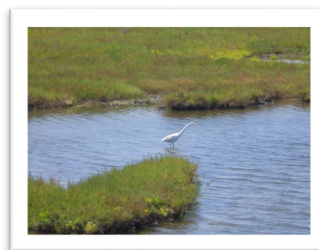
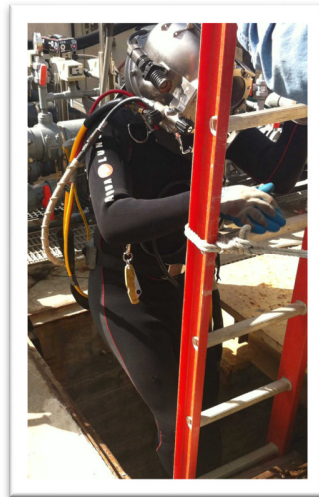
2000: Phase III of the Water Recycling Facility in El Segundo expands the capacity of micro-filtration and reverse osmosis processes.

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.

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





2007: Construction is 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 of Directors 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 sign agreement to increase amount of highly purified recycled water to the West Coast barrier to 100%.

2010: Desalination Demonstration facility and new Water Education Center are complete.

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

2011: West Basin dedicates Carson headquarters building to Director Donald L. Dear.

2011: West Basin works with customer agencies to develop new 5-year Water Efficiency Master Plans.

2011: West Basin installs Ocean-Friendly Demonstration Garden at Inglewood Fire Station.

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 in its facilities, West Basin has reduced its 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 Plan with the goal of building more reliability into our local water supply. Through our 2008 Board-adopted Water Reliability 2020 Program (WR 2020), we are currently expanding production of locally-produced water by doubling water recycling and conservation and adding ocean-water desalination to our water supply portfolio. In late 2010, West Basin opened its Water Education Center and Desalination Demonstration Facility to the public to share Southern California's water story, teach the community about local supplies, and share scientific research and the latest 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 providing value to our service area.

COMMITMENT TO LOCAL RELIABLE SOURCES OF WATER

West Basin is an industry leader in the production of recycled water, and our award winning outreach, conservation and education programs are fundamental to West Basin's diverse water portfolio. Our desalination program is demonstrating the use of environmentally-protective technologies and processes that will one day help make desalination a more sustainable means of producing drinking water.

Supplies of future imported water from the Sacramento-San Joaquin Bay Delta and the Colorado River will be severely challenged in the future due to climate change, population growth, environmental restoration, and other water supply challenges. West Basin's response to these challenges is to develop locally-controlled, reliable water supplies through its Water Reliability 2020 Program (mentioned above).

The focus of WR 2020 is to reduce the 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 more than 8,000 community supporters and the written support of most of the elected officials, community leaders, Chambers of Commerce and business leaders within the service area. This steadily growing support for the WR 2020 program will continue to expand thanks to extensive public education and outreach. WR 2020 includes water recycling, water quality, desalination, conservation and water use efficiency, education, public information, and legislation.

Water Recycling

In 1992, West Basin received federal funding to create a water recycling program in El Segundo. The facility became operational in 1995 when it began converting secondary treated wastewater into a usable recycled water resource for customers. West Basin's water recycling facility has been named the Edward C. Little Water Recycling Facility (ECLWRF) to honor the 6-term commitment made to West Basin and its constituents by Director Edward C. Little (re-elected in 2010 to serve a 7th term). The ECLWRF is a world-class, state-of-the-art facility that is the largest of its type in the world. Working with customers such as ExxonMobil, bp, Chevron, Goodyear, California State University Dominguez Hills, Home Depot Center, Raytheon, Los Angeles Air Force Base, Marriott, various cities, the Water Replenishment District, and more, West Basin has built a one-of-a-kind water recycling program with the capacity to expand its customer base throughout the service area and beyond.



The water recycling facilities produce more than 30 million gallons of high quality water every day using various treatment levels and processes. 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 saltwater from the ocean. This world-class water purification facility produces five types of custom-designed waters to serve the specific needs of more than 350 customer sites 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. The five types of water include:

- **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 wastewater that has undergone microfiltration 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 between the ocean and the groundwater aquifer. These wells inject highly purified water along the barrier to ensure that the water level near the ocean stays high enough to prevent seawater from seeping into the aquifer. In April 2009, West Basin and the WRD signed an agreement to increase the amount of water supplied to the barrier to 100%, decreasing the amount of potable supplies needed for Barrier injection. This step will eventually save 5.5 billion gallons of drinking water a year.

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 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 increased capacity for the Seawater Barrier Project, West Basin is currently implementing its Phase V Construction Project, expected to be complete in FY 2012-13.

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. The CIMP prioritizes the capital improvement projects needed to expand West Basin's recycled water from 30,000 AFY to 70,000 AFY by 2020.



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, approximately 25,000 water quality tests are conducted on water produced at the ECLWRF.

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 six years of data collection and studies, West Basin expanded its desalination efforts to a demonstration-scale facility to test full-scale equipment on a research and testing basis at the SEA Lab property in Redondo Beach.

The Demonstration Facility is processing 550,000 gallons of seawater every day, 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. One of the key goals of the Demonstration Facility is to research and generate science to ensure protection of the ocean environment in conjunction with future ocean water desalination plants. All of this research to protect the ocean at the source is posted on West Basin's website.

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. With more than a year of research complete, we know that our wedge wire screens over the intake pipes will protect 100% of the adult and juvenile fish and mature larvae. We also know that an installed energy recovery system will capture and reuse 50% of the energy involved with using membrane purification systems.

West Basin is currently working on a Desalination Master Plan that is evaluating several potential locations for a full-scale facility and is scheduled for completion in 2012.

Conservation and Water Use Efficiency

West Basin's conservation and water use efficiency programs emphasize outdoor residential and commercial/industrial uses that are aimed at reducing the consumption of potable water (groundwater and imported water) in homes, yards, businesses, and industry. Through these programs, the agency provides *free* water

audits, retrofits commercial kitchens and residential sprinklers and teaches residents about water-efficient and environmentally-friendly landscaping.

Since 1991, West Basin has successfully offered programs to its communities that are saving millions of gallons of precious drinking water each year. West Basin joined a state conservation effort at that time, committing resources to urban water conservation and implementation of its “Best Management Practices” (BMPs).



West Basin began its Conservation and Water Efficiency Master Plan (Master Plan) development in 2005 to establish a 5-year action plan for conservation program implementation. In 2010, the Master Plan was updated to tally achievements of the previous 5 years and plan for the next 5 years. The current Master Plan maps out doubling water efficiency from 3 billion to 6 billion gallons by 2015. This new road map was developed together with West Basin’s local retail water agencies and will implement water efficient, cost-effective conservation programs across residential and business sectors, both indoors and out. It also provides partnership and outreach opportunities to local cities, retail water agencies, community groups, nonprofit organizations and consumers. Both plans are available for download from West Basin’s website, www.westbasin.org.

West Basin serves the commercial, industrial and public sectors with water efficiency programs. The Master Plan will exceed the requirements set by the State of California to reduce water use by 20% throughout the service area by 2020. The Master Plan is a collaborative effort among West Basin and its customers to develop individual customer master plans that follow the same parameters as West Basin’s Master Plan but are tailored to meet the needs of each customer agency. By 2020, West Basin is planning to meet at least 14% of the service area’s retail water demand through conservation and water use efficiency programs. Through investments made by the State of California, U.S. Bureau of Reclamation, MWD and some of West Basin’s customers, every \$1 that West Basin invests in conservation results in \$7 worth of conservation program value for the community.

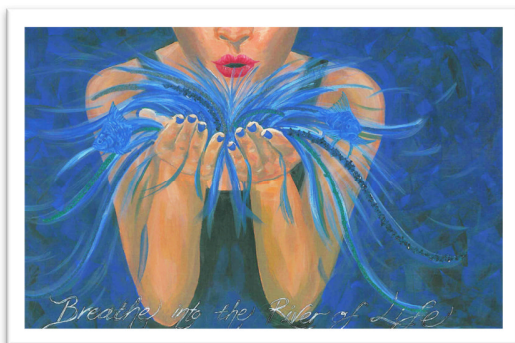
Water use efficiency (formerly “Conservation”) workshops for residents, community groups and city officials are held on an ongoing basis throughout the year. These often involve grant opportunities, water audits or equipment distribution workshops (high-efficiency toilets, “smart” landscaping controllers, showerheads, faucet aerators, and other such devices) aimed at effectively reducing water use, water education and reinforcing West Basin’s leadership role in making our water supply more reliable. Program priorities, as outlined in the Master Plan, include:

Continuing Programs

- High Efficiency Toilet Distribution
- Ocean Friendly Landscape Classes and Gardens
- Energy Upgrade California (in partnership with South Bay Environmental Services Center)
- Cash for Kitchens
- Commercial Restroom Retrofit
- Recirc and Save
- SCE Commercial Audit
- Small Business Direct Install

Pilot Programs

- Sprinkler Nozzle Voucher – Pilot Program
- Turf Removal Incentives – Pilot Program
- Water Budget – Pilot Program



Education

West Basin’s vibrant, award-winning water education programs inform teachers and students in a lively and engaging manner about the importance of water use efficiency, conservation and environmental sustainability, specifically with protecting the ocean. West Basin hosts thousands of school children each year at the 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 through the following programs:

- Water Education Center (WEC), Redondo Beach: West Basin's Water Education Center is a visual portfolio showcasing water use efficiency and 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 Ocean-water Desalination Demonstration Facility. Nearly 5,000 school children will visit the WEC facility each year as a complement to West Basin's Water Explorations School Tours program.
- Water Explorations Tours, El Segundo: This unique program showcases water recycling and environmental stewardship at a level appropriate for children in 3rd thru 12th grades. This program combines classroom-setting participation, water recycling plant tour experience, and a visit to a nearby 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 5,000 students participate in this program annually.
- Water Star: West Basin's new Water Reliability 2020 Water Star program encourages elementary aged school children to save 20 gallons a day, reducing our dependence on imported water and reducing runoff to the ocean. All children visiting our facilities for tours will receive a water star conservation kit complete with fix-it tickets, a water star badge, shower timer, faucet aerator, and other water-saving reminders to take home and share with their families, along with a custom activity book.
- Splash Science (Traveling Tidepool): In collaboration with the SEA Lab in Redondo Beach, a program of the Los Angeles Conservation Corps, a traveling tide pool van complete with built-in 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 Water is Life art program invites participation from students in elementary, middle and high school and provides prizes to the Grand Prize winners and Honorable Mention Awardees. Winning artwork is selected in anticipation of May's Water Awareness Month. Artwork is used in West Basin's outreach efforts to educate the public about the value of water.
- Solar Cup: Led by MWD, 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 Information

West Basin's Water Reliability 2020 public outreach program recently received the Silver Anvil award by the Public Relations Society of America in New York, the highest honor for public relations work, and awarded the PRism for best outreach program in Los Angeles by the Public Relations Society of America, Los Angeles Chapter. West Basin's outreach program provides briefings for community leaders and the public in multiple ways, including face-to-face, community talks, mainstream media, social media, e-newsletters, website, events, and publications. Also included in public outreach are water use efficiency programs, conservation tips, and public tours. The focus of all of West Basin's outreach is Water Reliability 2020 is to educate the public about reducing our dependence on imported water and increasing the amount of water we produce locally. Public support will play a significant role in its success.

Presentations to community groups are arranged through our Speaker's Bureau. Plant tours, Water 101 classes, and special events are offered to the public on a regular basis. Our Public Information team reaches out to wire services, reporters, editors and writers of books, newspapers and magazines throughout our service area and hosts tours of our water recycling facility for international visitors and local groups that are interested learning about West Basin and our groundbreaking work. We regularly update our website and Facebook page with news of our programs, updates on the water supply situation and the water industry and distribute a quarterly e-newsletter.

- Website and electronic media: www.westbasin.org provides information about West Basin's Water Reliability 2020 program. 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 microfiltration, reverse osmosis, and ultraviolet light, and live measurements of our recycled water production (more than 135 billion gallons as of publication date) and the amount of energy we're producing and saving through the use of solar panels (10% of the water recycling plant's peak energy demands). In 2010, West Basin added a "Don't be a Water Monster" children's water

detective conservation video game to its website, providing a fun learning opportunity for children and parents alike, with clues in different home environments that lead the player to figure out who is the water wasting culprit and what they can do to become more water efficient. In 2011, an interactive GIS mapping tool was added, allowing people to enter their address to find out if their property is within the West Basin service area, allowing them to participate in our free programs. In 2012, we added sound to the water monster video game and published an online list of research and scientific studies that have been sponsored by West Basin.

- Publicity: Media outreach is a priority for West Basin as it strengthens its relationships with local, regional and national press, magazines, book authors, 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.
- Events: West Basin staff and directors participate in events throughout the year to share water supply and water efficiency and conservation messages with the public. Spring and fall are the busiest times, with a long list of events focused around Earth Day in April, Water Awareness month in May, and Water Harvest in October. Water Harvest each fall is West Basin's annual, signature event to share water supply information and have fun, offer tours of our water recycling facility and meet our neighbors. Partners in this popular festival include customer cities and water purveyors, consultants and engineering firms, local businesses and environmental organizations and others. This popular event is held at the Edward C. Little Water Recycling Facility in El Segundo and continues to grow each year.
- Tours and Talks: The Edward C. Little Water Recycling Facility and the Ocean-water Desalination Demonstration Facility and Water Education Center regularly host foreign delegations, elected officials, water industry representatives, and regional and local organizations to share technical expertise and "best practices" in water recycling and ocean-water desalination technologies. We additionally offer tours for the public once each month and Water 101 classes every other month to introduce the community to water supply issues locally and around the globe.
- 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 legislative and 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:

- Legislative Advocacy: Enhance legislative advocacy efforts on key water-supply legislation impacting West Basin’s mission, customers, projects and programs.
- Coalition Building: Build strong coalitions and partnerships throughout the region to educate the public and members of the California Legislature on the importance of enhancing local resources such as groundwater pumping, recycled water, and ocean-water desalination.
- Funding and Regulatory Support: Pursue government funding and regulatory support for capital projects in conjunction with agency partners such as the U.S. Army Corps of Engineers, California Department of Water Resources, and others.
- Information sharing: Inform 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 Water Reliability 2020 “Legislator of the Year.”



Pictured above left: 2012 federal Legislator of the Year Representative Grace Napolitano with President Donald L. Dear and Vice President Carol W. Kwan. Pictured above right: 2012 state Legislator of the Year Senator Ted Lieu with Directors Edward C. Little, Carol W. Kwan, Gloria D. Gray, and Donald L. Dear.

BUDGET PROCESS AND TIMELINE

BUDGET PROCESS AND TIMELINE

Public agencies develop budgets as both a performance tool and to demonstrate accountability to its stakeholders. West Basin's budget is developed in accordance with the priorities, goals and objectives established by the Board of Directors through its Strategic Plan and customer surveys. The process begins with a series of interviews with the Board of Directors, management, key staff, and stakeholders. The Strategic Plan provides direction for planning, budgeting, implementation, evaluation and reporting. Semi-annually, the Board of Directors reviews the Strategic Business Plan through a scorecard where the goals and objectives are measured against individual target dates, percent completion, and comments that support the direction taken by the Board of Directors and staff to meet these objectives.

The budget is also used as a communication tool. Interested parties, such as bond holders, credit rating agencies, and customers can review the budget to obtain a wide variety of information on West Basin's short- and long-term strategic planning, financial policies, and the current and future fiscal stability. For West Basin, the budget shows how the agency invests its revenues derived from user fees and fixed revenue sources to support its mission, goals and programs.

The General Manager communicates the goals and objectives with his senior staff to ensure the budget includes the monetary requirements necessary to achieve the goals and objectives set within the Strategic 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 prepares, adopts, monitors, and reports budgeted information.

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

BUDGET OBJECTIVES	MET
1. Present a responsible budget	✓
2. Achieve targeted financial metrics	✓
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 activity. The activities of enterprise funds closely resemble those of businesses and are substantially financed by revenue derived from user charges.

With accrual basis accounting, an entity records all transactions when they occur, regardless of when cash is received from a customer or paid to a vendor. In contrast is cash-basis accounting in which an entity records all transactions when cash actually changes hands.

West Basin's budget is managed 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 are recorded based on a program activity focus. Personnel may work across departments to assist in matters that support 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 program activities. Their allocation is based on the personnel needs to help accomplish the goals and objectives provided in the Strategic 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 are provided to each senior manager to assist in the preparation of a preliminary budget. Senior Managers then submit their proposed Department Operating Budgets for Fiscal Year 2012-13. Senior managers are also asked to provide their departmental projections for the current fiscal year.

February: Based on preliminary departmental operating budgets, debt service, and water purchase expenditures, senior managers and budget staff meet to discuss the necessary rates and charges to meet the budget objectives for FY 2012-13. Options are discussed and presented to executive management for their consideration. The Finance Department reviews the Capital Improvement Program (CIP) and the projected net revenues from the draft FY 2012-13 to determine whether sufficient net revenues are available to meet the agency's PAYGO needs. Senior managers and budget staff meet with the General Manager to discuss each departmental operating budget and its goals and objectives along with explanations for major variances from the prior year budget. The General Manager will make changes to the preliminary budget as needed. West Basin's Finance Department incorporates the anticipated MWD rates into the budget and evaluates the effects on its own rates and charges.

Senior staff and budget staff submit budget text to support program costs, rates and other budgetary assumptions.

March: Staff submits a proposed balanced budget to the Board of Directors in a workshop format. Staff reviews water sales assumptions, departmental operating budgets, bond coverage levels for both senior and subordinate debt, and addresses potential 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 budgets. 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.

April: 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 General Manager are incorporated into the proposed budget. The Finance staff presents the final proposed budget at the Finance committee. During April, a public hearing on the standby charge is held for the Board to hear comments before considering reauthorization.

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

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 comparison report to review and assist in monitoring the agency's costs. On a quarterly basis, the Finance staff presents an executive level budget versus actual report to the Board of Directors. 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 which program budget(s) may require an amendment to the original budget. These approvals are discussed at Board meetings and require a majority vote of the Board of Directors to be incorporated into the budget. Upon approval, the Budget and Finance Officer updates the budget and financial system to reflect the approved change.

West Basin Municipal Water District Fiscal Year 2012-13 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	5	6	7	5	6	7	8	9	10	11	4	5	6	7	8	9	10	1	2	3	4	5	6	7	6	7	8	9	10	11	12	1	2	3	4	5	6	7
8	9	10	11	12	13	14	12	13	14	15	16	17	18	11	12	13	14	15	16	17	8	9	10	11	12	13	14	13	14	15	16	17	18	19	13	14	15	16	17	18	19
15	16	17	18	19	20	21	19	20	21	22	23	24	25	18	19	20	21	22	23	24	15	16	17	18	19	20	21	20	21	22	23	24	25	26	20	21	22	23	24	25	26
22	23	24	25	26	27	28	26	27	28	29				25	26	27	28	29	30	31	22	23	24	25	26	27	28	27	28	29	30	31			27	28	29	30	31		
29	30	31																			29	30																			

Date

Activity

January 9, 2012 Submit Staff labor Allocation

January 12, 2012 Sales Projections (AF) due

January 23, 2012 Submit operating program and capital budgets

January 31, 2012 Submit CY departmental expense projections

February 8, 2012 Discuss Water Rates and Charges

February 17, 2012 Meet to discuss operating and capital budgets

February 28, 2012 Submit budget text

March 22, 2012 Board Workshop

April 4, 2012 Rate workshop with purveyors

April 11, 2012 Present budget document to Finance Committee

April 23, 2012 Public hearing on Standby Charge

May 16, 2012 Present budget committee to Finance Committee

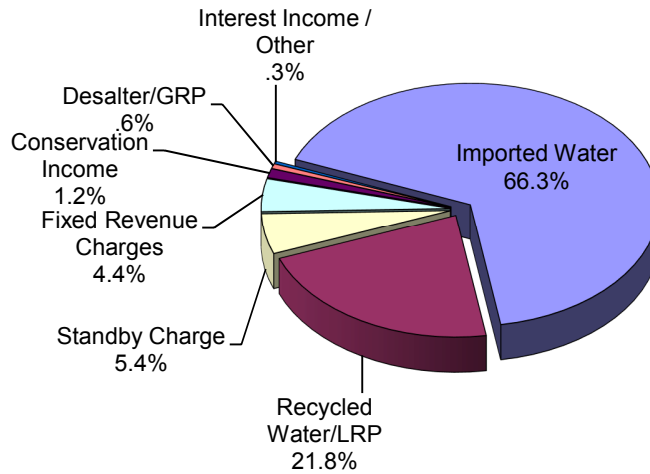
May 30, 2012 Board Meeting
 - Adopt WBMWD water rates
 - Reauthorize Standby Charge
 - Adopt Budget

FINANCIAL OVERVIEW AND SUMMARY

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2012-13

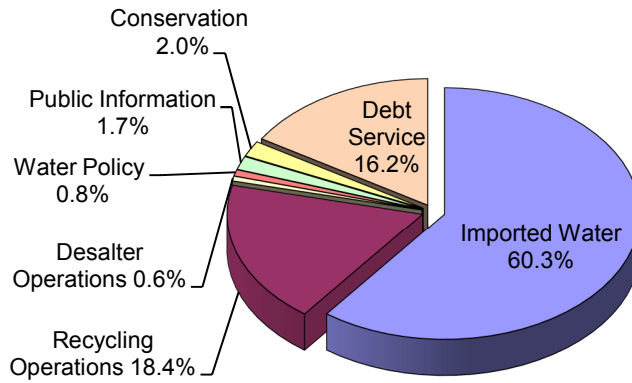
Source of Funds	Budget FY 2012-13 (In 000's)
Imported Water	\$ 118,669
Recycled Water/LRP	38,927
Desalter Water/GRP	1,109
Standby Charge	9,675
Fixed Revenue Charges	7,797
Conservation Income	2,149
Interest Income/Other	620
Total Sources of Funds	\$ 178,946

Source of Funds FY 2012-13



Use of Funds	Budget FY 2012-13 (In 000's)
Imported Water	\$ 102,234
Debt Service	27,448
Recycling Operations	31,240
Public Information	2,777
Conservation	3,410
Designated Fund	9,480
Water Policy	1,401
Desalter Operations	956
Total Uses of Funds	\$ 178,946

Use of Funds FY 2012-13

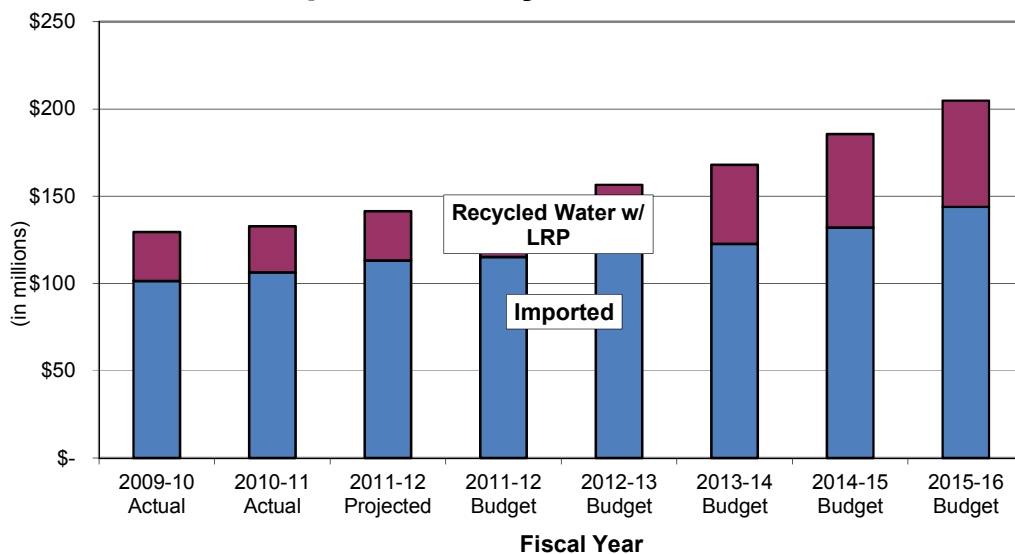


Budget Executive Summary

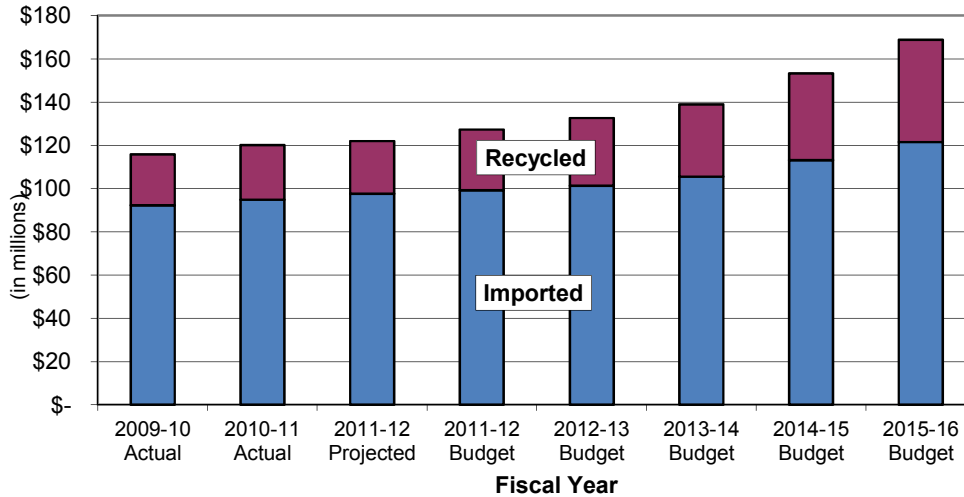
West Basin's operating budget for FY 2012-13 of \$179 million is 7% higher than the FY 2011-12 operating budget. The majority of the increase in revenues is attributed to recycled water sales/MWD LRP increasing \$7.2 million. This increase is due to a shift in the number of recycled water acre feet projected to be sold in FY 2012-13 to the Water Replenishment District of Southern California from imported water sales. In addition, there was a modest increase in the rates of the five types of recycled water. West Basin anticipates a small increase in the number of imported water acre feet projected to be sold in FY 2012-13 as the economy continues to recover and will pass-through approved rate increases from MWD.

Similar to the revenues, operating expenses for FY 2012-13 are budgeted at \$179 million. One reason for the increase in operating expenses is higher imported water costs from MWD, which represents \$3.3 million or 27%. Higher recycling operations costs also explain the increase in the operating expense budget. West Basin anticipates that its energy costs from Southern California Edison will increase by 10% and expects the contractor operating the recycling facilities to hire 4 additional personnel to support the operation of the new facilities being added to achieve the increase in production of recycled water. The increase in the recycling operations budget in FY 2012-13 is \$3.1 million or 26% as West Basin continues to expand its recycling facilities to achieve its Water Reliability 2020 goals and issues additional long term debt. In FY 2012-13 West Basin's net debt service will increase \$2.6 million or 22% of the operating expenses.

Historic, Projected & Budgeted Imported/Recycled Water Sales



Historic, Projected & Budgeted Imported/Recycled Water Costs



STAFFING AND PROGRAM BUDGETS

Budget staffing levels for FY 2012-13 consists of 36 full time budgeted positions in addition to 3 full time limited term, 2 part time and 1 intern position. West Basin recognized a need for additional assistance in the Engineering and Operations and Public Information & Conservation staff in FY 2011-12 and, as a result, requested 4 intern positions be reclassified to limited term (2) and part time (2). An additional limited term position has been added to assist the Engineering department with the work related to the Ocean Water Desalination Demonstration Facility. 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 personnel time by level of effort toward its various programs. See the table under “Use of Funds — Personnel Staffing by Program: Full Time Equivalent (FTE)”, page 73.

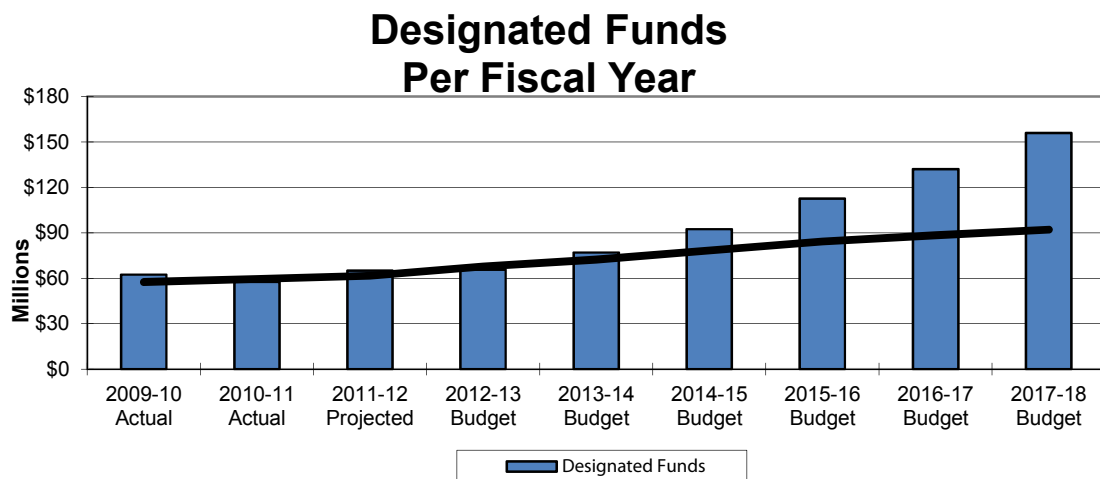
West Basin’s programs presented in FY 2012-13 are similar to those shown in prior years. No new programs were added. However, the effort of legislative advocacy has been shifted to the Water Policy and Resource Analysis department to better align our efforts in water policy management. For comparison purposes, the program costs have been shifted in prior years.

FUND BALANCE (DESIGNATED FUNDS)

West Basin adopted a new Designated Funds Policy in November 2011 to comply with its Long Range Financial Plan. The Designated Funds Policy is sometimes referred to as a Reserve Policy and was designed to ensure West Basin has adequate reserves established to protect the furtherance of West Basin’s mission.

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

The chart below shows the actual, projected and budgeted designated fund levels from FY 2009-10 through FY 2017-18. The funds in excess of the target, in FY 2014-15 through FY 2017-18, represent anticipated capacity payments from Los Angeles for the Los Angeles Harbor Expansion. These funds will be set aside to address future replacement and refurbishment projects.



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

Below are the actual revenues and expenses for FY 2009-10 and FY 2010-11, the projected revenues and expenses for FY 2011-12, as well as the budgeted revenues and expenses for FY’s 2012-13 through FY 2017-18 (numbers reflected in thousands).

Designated Funds Cash Flow

Fiscal Year:	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Description	Actual	Actual	Projected	Budget	Budget	Budget	Budget	Budget	Budget
Designated Funds (Beg Bal)	\$ 63,349	\$ 62,380	\$ 57,611	\$ 65,000	\$ 65,651	\$ 76,861	\$ 92,312	\$ 112,403	\$ 131,913
Imported Water Revenue	101,365	106,427	113,151	118,669	123,703	133,380	145,107	157,710	167,626
Recycled Water Revenue	45,438	43,168	45,163	56,399	71,985	80,131	87,441	87,950	90,423
Other Revenues	2,786	5,433	13,419	3,878	3,703	4,011	4,736	5,678	6,164
Total Revenues	149,589	155,028	171,733	178,946	199,391	217,522	237,284	251,338	264,213
Water Purchases	92,276	94,855	97,696	102,234	106,396	114,044	122,481	131,554	137,947
Program Expenses	29,432	31,481	32,590	39,784	42,337	49,380	56,912	59,615	62,449
Net Debt Service	22,071	22,437	24,068	27,448	32,031	32,164	31,124	30,037	29,992
PAYGO	6,779	11,024	9,990	8,829	7,417	6,483	6,676	10,622	9,901
Total Expenses	150,558	159,797	164,344	178,295	188,181	202,071	217,193	231,828	240,289
Designated Funds (End Bal)	\$ 62,380	\$ 57,611	\$ 65,000	\$ 65,651	\$ 76,861	\$ 92,312	\$ 112,403	\$ 131,913	\$ 155,837

STRATEGIC BUSINESS PLAN

Originally published in January 2008 and updated in August 2011, West Basin developed a Strategic Business Plan (Strategic Plan) which provides for a multi-year vision for the District. The development of the Strategic Plan clarified West Basin’s mission, goals, and objectives through a series of interviews with the Board of Directors, management and key stakeholders. The Strategic Plan provides continuous direction for each year’s planning, budgeting, implementation, evaluation and reporting and sets the overall policy direction and strategic priorities established by the Board. It also determines whether staff and financial resources need to be realigned to achieve strategic objectives.

Based on the Strategic Plan, West Basin’s management develops the strategies, programs, and activities necessary to effectively implement the Board’s direction. West Basin will annually review, evaluate, and update the Strategic Plan to ensure that the goals and objectives are appropriate for achieving West Basin’s mission.

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

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

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

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

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

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

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

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

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

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

Within the Operating Program Expenses section, West Basin has identified FY 2011-12 accomplishments and FY 2012-13 strategies to support the Strategic Business Plan goals and objectives identified above.

FINANCIAL POLICIES SUMMARY

West Basin’s Board of Directors has approved a number of financial policies to effectively manage the agency. Other non-financial policies are maintained by West Basin through its administrative code and are reviewed periodically to ensure compliance with legal statutes and incorporate other considerations. All recommendations for new or revised policies are brought to the Board of Directors for consideration and adoption. Within the Supplemental Section are the full financial policies.

Policy Additions and Modifications:

After careful review of its existing Designated Funds Policy and consideration of similar policies of other water agencies, staff has rewritten its Designated Funds Policy to more accurately reflect the desired level of its reserves. As a result, the Policy better supports the assumed overall target used in the Long Range Financial Model. The new Designated Funds policy established the roles and responsibilities, changed the various types of funds, and revised or created new target levels. In November 2011, the Board adopted the new Designated Funds Policy. The West Basin Board also considered and approved recommendations to the Debt Management, Swap, and Investment policies in December 2011. No substantial changes were made to those policies. Staff is currently updating the Procurement policy and intends to present the amended policy to the Board of Directors in June 2012 for any comments or changes and will bring the policy, with all comments incorporated, to the Board for adoption in July 2012.

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

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 financial metrics; present a balanced budget; and address risks & plan for future budget
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	<p>implications.</p> <ul style="list-style-type: none"> • The Board shall adopt a budget prior to commencing the next fiscal year. • The General Manager will submit quarterly operating budget versus actual reports with explanation of significant variances. • Any adjustments to the budget must be approved by the Board of Directors.
B. Investment Policy	<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.
C. Designated Funds Policy	<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. • Policy will be reviewed annually to ensure designated funds and targets achieve an appropriate overall minimum target balance. • Operating liquidity fund is for short-term or immediate purposes such as unplanned activities. • Operating contingency provides protection against unforeseen expenses that occur which cause actual expenses to exceed the budget. • Emergency repair provides for major failures of plant/equipment and gives the ability to fund an

	<p>immediate response without financial disruption.</p> <ul style="list-style-type: none"> • Capital contingency provides for unexpected cost increases/unanticipated capital projects. • Rehabilitation & Replacement (R&R) provides immediate resource for ongoing R&R of the system. • System expansion provides for cash financing (5%) for future large-scale capital projects. • Rate stabilization provides a resource to manage the level of water sales fluctuations from year-to-year.
D. Procurement Policy	<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 businesses 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.
E. Capitalization Policy	<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.
F. Accounting, Auditing and Financial Reporting	<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.
G. Debt Management	<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 or contractual requirements. • A goal of West Basin is to obtain the lowest cost of debt possible with the current ratings. (AA- Standard & Poor's and Aa2 - Moody's) • Final maturity of the debt will not exceed the useful life of the assets being financed. • Refunding shall produce net present value savings of at least 3% of the refunded par amount. • Quarterly reporting will be made to the Board of Directors that addresses current debt portfolio, variable rate exposure, remarketing experience and other considerations.
H. Rates and Charges	<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

	<p>District, and an amount necessary for reasonable designated funds.</p> <ul style="list-style-type: none"> • The revenue produced by the rates, fees and charges will be used to provide service to existing customers. • Rates and charges will be reviewed annually and the Board of Directors will adopt a resolution fixing the rates and charges for the following fiscal year.
I. Human Resources Management	<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.
J. Risk Management	<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 structured by the CFO and members of the financing team. • Board of Directors has final authority for approval of each swap. • Quarterly reporting to the Board of Directors. • West Basin may execute a swap if the swap reduces exposure to changes in interest rates, or achieves lower net cost of borrowing, or manages variable interest rate exposure, or optimizes the timing and amounts of debt service payments. • Interest rate swaps, caps, floors, swaptions and collars are allowable. • West Basin can only enter into swap transactions with qualified swap counterparties.

	<ul style="list-style-type: none">• 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.

PERFORMANCE METRICS

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

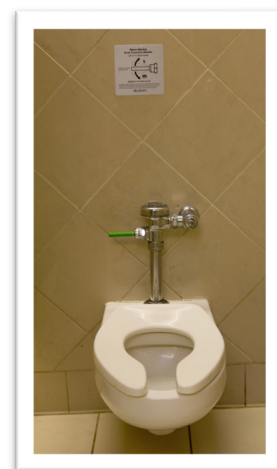
West Basin continues to explore and identify key performance metrics that provide meaningful information that the Board of Directors and staff can use to measure the success of the programs, services and related resources that are funded and included in the budget. Listed below are some of the initial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

Metric	FY 2010-11 Actual	FY 2011-12 Projected	FY 2012-13 Target
On time submission of annual bond disclosure	100%	100%	100%
Investment Benchmark – meet or exceed Merrill Lynch 1 year	Actual: Exceeded	Actual: On track to exceed	Benchmark: Merrill Lynch 1 Yr Treasury Index
Maintain AA credit rating from Moody's and Standard & Poor's	Aa2/AA-	Aa2/AA-	Aa2/AA-
On time submission of quarterly debt and swap reports	100%	100%	100%
Achieve internal all-in Debt Coverage target of 1.30	1.19	1.35	1.30
Improve Recycled Water Cost per Unit	\$1,875	\$1,727	\$1,679
Achieve 50% Grant Award to Submission success rate	NA	27%	50%
Have 100% submittal of Performance evaluations	100%	100%	100%
Successful completion of committee/Board of Directors meetings	69	64	60

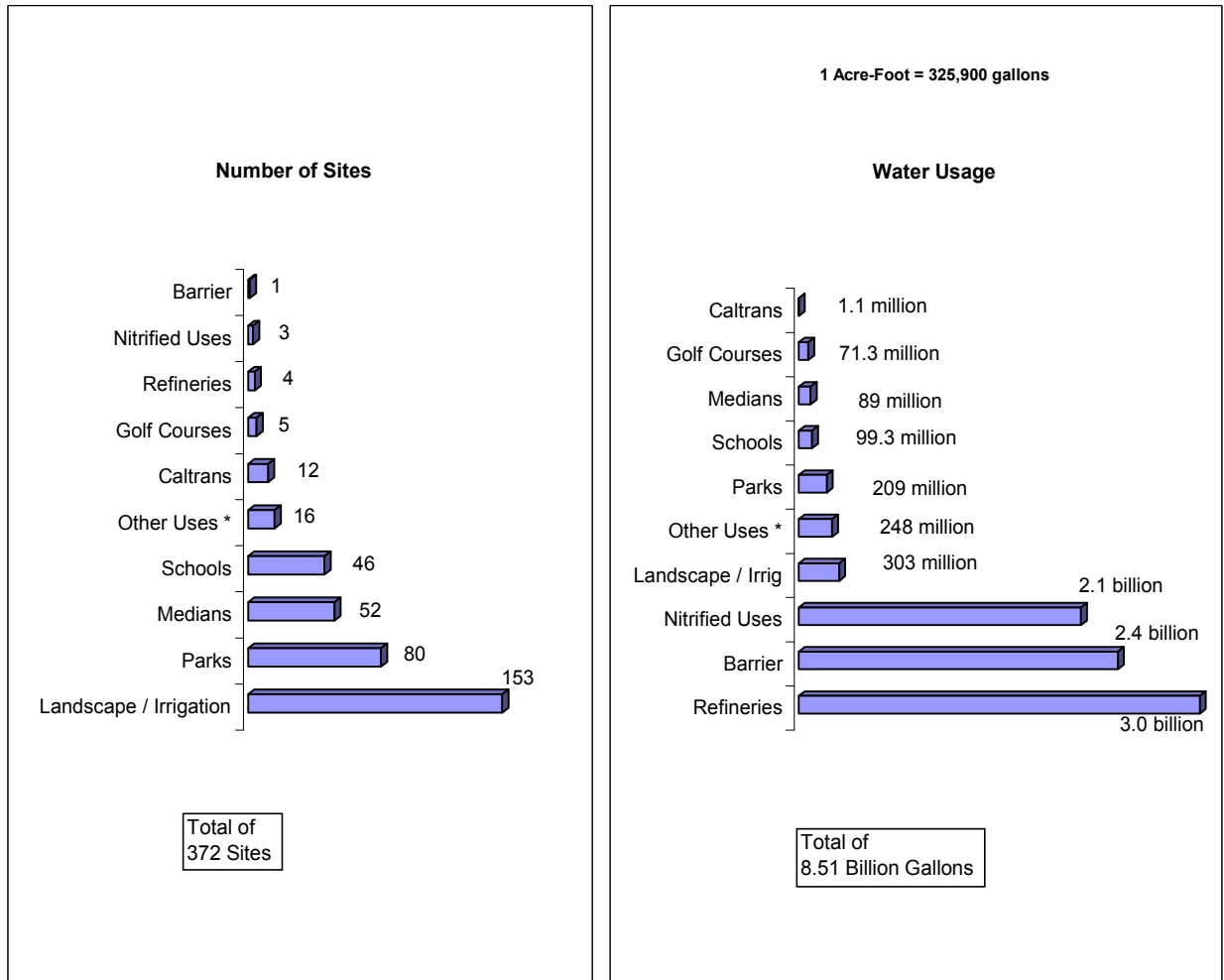
FY 2010-11 Water Use Efficiency Device Savings

Program	Device	Annual Water Savings (AF)	Device Lifetime Water Savings (AF)
5 Toilet Distribution Events	1,744 High Efficiency Toilets	70 AF	1,400 AF
Ocean Friendly - Large Landscape Sprinkler Controller	Installed 98 Smart Controllers	29 AF	290 AF
Green Living for Apartments and Condos	838 High Efficiency Toilets	34 AF	680 AF
Green Garden	225 Smart Controllers	12 AF	120 AF
Green Garden	788 Landscape Surveys	22 AF	110 AF
Green Garden	4,845 Nozzles	48 AF	480 AF
Commercial Retrofit	575 HE Toilets Installed	23 AF	460 AF
Commercial Retrofit	20 HE Urinals	2 AF	40 AF
Cash 4 Kitchens	65 Kitchen Devices	4.46 AF	250 AF
Recirc and Save	1 Cooling Tower Ph Controller	2 AF	20 AF

Total	246.5 AF 80.3M Gallons	3,850 AF 1.25 B Gallons
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Recycled Water Customer Usage For the Fiscal Year Ended June 30, 2011



- Other Uses * {
- Cemetery (1) 129 million
 - Multi-industrial / irrigation uses (4) 21 million
 - Construction uses (1) 120 thousand
 - Street Sweeping (1) 19 thousand
 - College (4) 97 million
 - Draining / Sump Pumps (5) 394 thousand

Source: Planning Department

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.

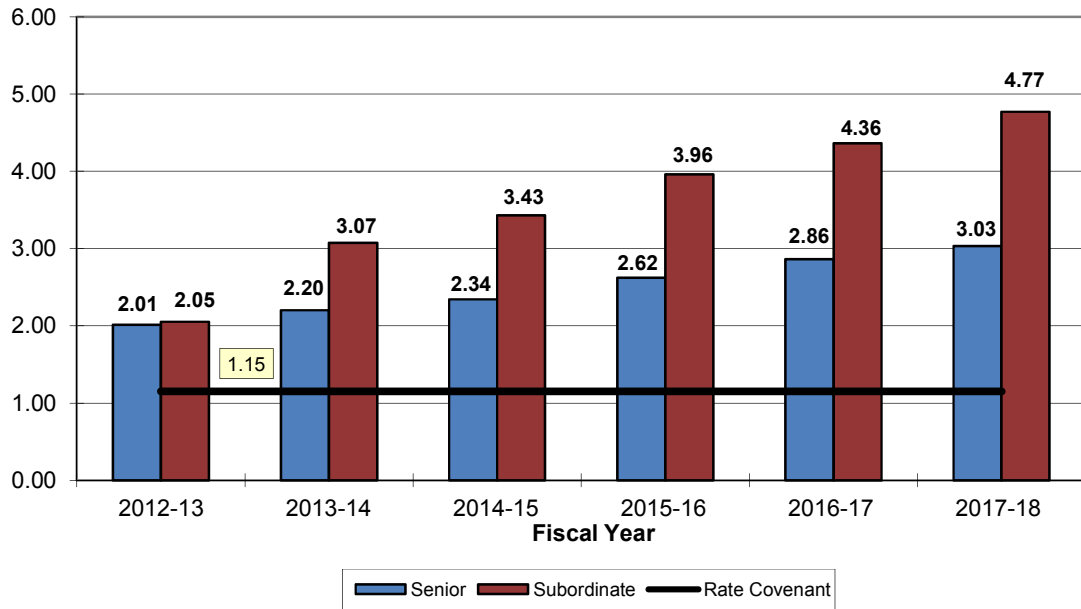
WEST BASIN MUNICIPAL WATER DISTRICT PROJECTED OPERATING RESULTS						
Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
REVENUES						
Water Sales	116,450,000	121,379,004	130,785,418	142,466,790	155,013,675	164,873,125
Water Service Charge	432,128	454,872	500,359	545,846	602,705	659,564
Capacity Charge	1,787,125	1,869,375	2,093,700	2,093,700	2,093,700	2,093,700
Recycled Water Project Revenues						
Recycled Water Sales	30,189,476	35,366,680	43,242,277	50,584,144	53,103,316	55,758,656
Fixed Revenue Charges	7,796,756	16,929,213	16,929,213	16,897,613	14,887,550	14,704,817
MWD LRP Rebate	8,737,500	10,014,000	10,284,250	10,284,250	10,284,250	10,284,250
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	906,660	954,234	1,001,946	1,052,043	1,104,645	1,159,877
MWD GRP Rebate	202,500	-	-	-	-	-
Interest Earnings/Other	620,000	600,000	860,000	1,535,000	2,425,000	2,855,000
MWD Conservation Credits	2,148,947	2,148,947	2,148,947	2,148,947	2,148,947	2,148,947
Total Revenues	\$ 178,946,092	\$ 199,391,325	\$ 217,521,110	\$ 237,283,334	\$ 251,338,788	\$ 264,212,937
EXPENSES						
Water Purchases/RTS from MWD	100,626,000	104,735,602	112,141,366	120,577,745	129,650,409	136,043,769
Capacity Charge	1,608,370	1,659,750	1,903,180	1,903,180	1,903,180	1,903,180
Program Expenses:						
Recycled Operations	31,217,595	33,471,074	40,203,003	47,415,063	49,785,816	52,275,107
Desalter Operations	955,823	989,277	1,023,901	1,059,738	1,096,829	1,135,218
Water Policy	1,400,829	1,449,858	1,500,603	1,553,124	1,607,483	1,663,745
Public Information	2,777,187	2,874,389	2,974,992	3,079,117	3,186,886	3,298,427
Conservation	3,410,270	3,529,629	3,653,166	3,781,027	3,913,363	4,050,331
Title 22 Water Quality Monitoring	22,016	22,787	23,584	24,410	25,264	26,148
Designated Funds/Other	9,480,001	18,628,207	21,933,694	26,766,306	30,132,274	33,824,554
Senior Debt Service:						
2003 Installment Purchase Agrmt	10,300,776	10,305,357	10,299,017	6,672,846	1,905,208	1,501,750
Reserve Fund Interest Earnings	(761,867)	(761,867)	(761,867)	(761,867)	(761,867)	(761,867)
2008A Series	3,319,256	3,353,780	3,321,190	3,325,673	3,307,623	3,307,206
2010A CP Line	495,000	561,500	705,000	845,000	915,000	985,000
2011A	1,814,619	1,787,592	1,791,400	1,437,688	4,907,167	5,218,350
2011B	1,532,414	2,993,250	2,993,250	2,993,250	2,993,250	2,993,250
2012A (Estimated)	1,692,122	4,061,094	4,061,094	6,815,677	7,064,679	7,067,461
State Loan	-	737,426	737,426	737,426	737,426	737,426
Subordinate Debt Service :						
2008B Series	9,055,681	8,992,621	9,017,110	9,057,931	8,968,798	8,943,881
Total Expenses	\$178,946,093	\$199,391,325	\$217,521,110	\$237,283,334	\$251,338,788	\$264,212,937
Coverage - Senior Debt	2.01	2.20	2.34	2.62	2.86	3.03
Coverage - Subordinate Debt	2.05	3.07	3.43	3.96	4.36	4.78
Coverage - All Debt	1.35	1.58	1.68	1.86	2.00	2.13

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

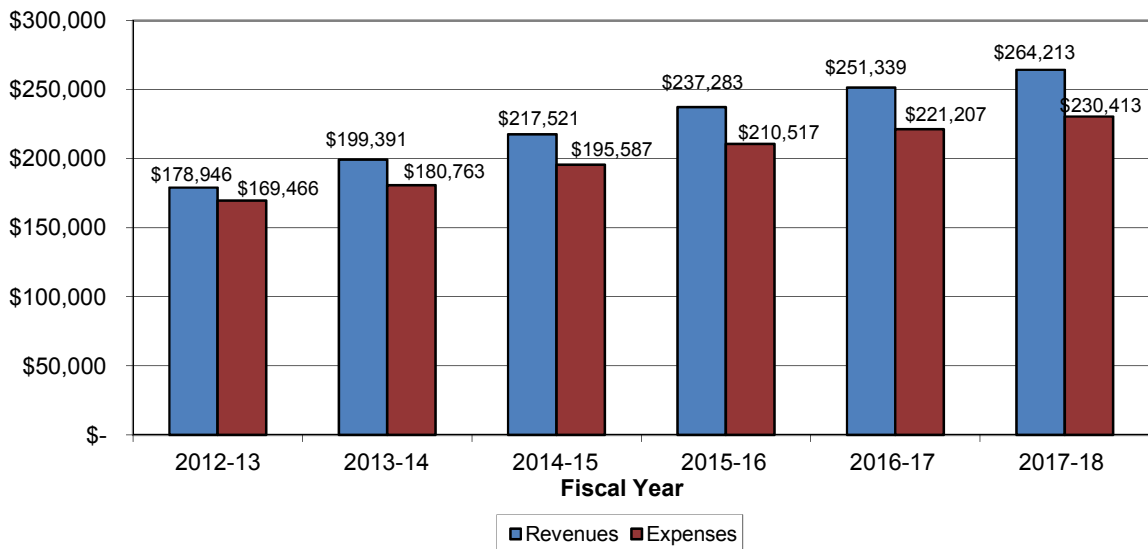
WEST BASIN MUNICIPAL WATER DISTRICT ASSUMPTIONS

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Cost (Sales Price) of Water (\$/af)						
MWD Treated NonInt - Tier 1 (Jul)	794	847	890	935	981	1,030
MWD Treated NonInt - Tier 2 (Jul)	920	997	1,032	1,077	1,107	1,156
MWD Treated NonInt - Tier 1 (Jan)	847	890	935	981	1,030	1,082
MWD Treated NonInt - Tier 2 (Jan)	997	1,032	1,077	1,107	1,156	1,208
MWD RTS Commodity Charge (Jul)	135	135	142	155	165	175
MWD RTS Commodity Charge (Jan)	135	142	155	165	175	181
MWD Seawater Barrier - Tier 1 (Jul)	794	847	890	935	981	1,030
MWD Seawater Barrier - Tier 2 (Jul)	920	997	1,032	1,077	1,107	1,156
MWD Seawater Barrier - Tier 1 (Jan)	847	890	935	981	1,030	1,082
MWD Seawater Barrier - Tier 2 (Jan)	997	1,032	1,077	1,107	1,156	1,208
Title 22 Within WB - Recycled Water	820	863	908	954	1,003	1,055
Title 22 - LADWP - Recycled Water	869	912	958	1,006	1,056	1,109
Nitrified - LADWP - Recycled Water	-	1,025	1,076	1,130	1,187	1,246
Title 22 - Torrance - Recycled Water	849	891	936	983	1,032	1,084
RO - Barrier - RW (1st 4,500AF)	984	1,050	1,114	1,189	1,265	1,349
RO - Barrier - Recycled Water	565	581	595	616	639	663
RO - Industrial - Recycled Water	1,068	1,121	1,177	1,236	1,298	1,363
RO - Industrial - Ultra - Recycled Water	1,424	1,495	1,570	1,648	1,731	1,817
Industrial - NH3 - Recycled Water	820	897	942	989	1,038	1,090
Reliability Service Charge - Treated	107	123	141	162	186	214
MWD LRP Rebate	250	250	250	250	250	250
Desalted Water (Jul)	817	862	905	950	998	1,048
Desalted Water (Jan)	862	905	950	998	1,048	1,100
MWD GRP Rebate	250	-	-	-	-	-
Capacity Charge - MWD	7,400	6,400	8,600	8,600	8,600	8,600
Capacity Charge - MWD (Jan)	6,400	8,600	8,600	8,600	8,600	8,600
Capacity Charge-Cust	6,500	5,500	7,000	7,000	7,000	7,000
Capacity Charge-Cust (Jan)	5,500	7,000	7,000	7,000	7,000	7,000
SALES VOLUME (afy)						
Treated Non Interruptible (Jul)	51,000	51,710	52,419	53,669	54,919	54,919
Treated Non Interruptible (Jan)	51,000	51,710	52,419	53,669	54,919	54,919
Seawater Barrier (Jul)	3,800	2,000	2,000	2,000	2,000	2,000
Seawater Barrier (Jan)	3,800	2,000	2,000	2,000	2,000	2,000
Recycled Water	34,950	40,056	45,837	50,437	50,437	50,437
Title 22 Within WB	5,750	5,750	5,750	5,750	5,750	5,750
Title 22 - LADWP	850	850	850	850	850	850
Nitrified - LADWP	-	-	4,700	9,300	9,300	9,300
Title 22 - Torrance	6,000	6,100	6,100	6,100	6,100	6,100
RO - Barrier	13,400	17,000	17,000	17,000	17,000	17,000
RO - Industrial	5,750	6,735	7,395	7,395	7,395	7,395
RO - Industrial - Ultra	2,350	2,350	2,350	2,350	2,350	2,350
Industrial - NH3	850	1,271	1,692	1,692	1,692	1,692
Desalted Water (Jul)	540	540	540	540	540	540
Desalted Water (Jan)	540	540	540	540	540	540
Capacity Charge-MWD	243.3	221.3	221.3	221.3	221.3	221.3
Capacity Charge-MWD (Jan)	221.3	221.3	221.3	221.3	221.3	221.3
Capacity Charge-Cust	296.8	299.1	299.1	299.1	299.1	299.1
Capacity Charge-Cust (Jan)	299.1	299.1	299.1	299.1	299.1	299.1
FIXED PAYMENTS						
BP	2,136,000	2,136,000	2,136,000	2,136,000	2,136,000	2,136,000
Mobil NH3	214,000	214,000	214,000	182,400	182,400	182,400
Mobil (phase 2)	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460
Chevron Nitrification	1,009,800	1,009,800	1,009,800	1,009,800	1,009,800	1,009,800
Chevron Boiler Feed	2,192,796	2,192,796	2,192,796	2,192,796	182,733	-
NRG	463,164	926,328	926,328	926,328	926,328	926,328
LADWP	206,536	8,875,829	8,875,829	8,875,829	8,875,829	8,875,829

**Debt Coverage
Current Budget and 5 year Projection
FY 2012-13 thru FY 2017-18**



**Revenue and Expenses
Current Budget and 5 year Projection
FY 2012-13 thru FY 2017-18
(Dollars in thousands)**



SOURCE OF REVENUE

SOURCE OF REVENUE

West Basin's primary source of revenue is water sales. Total water sales comprise 88% of all revenues, with Imported Sales representing 66% and Recycling Sales representing 22% 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 2010-11 the system served nearly 370 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.

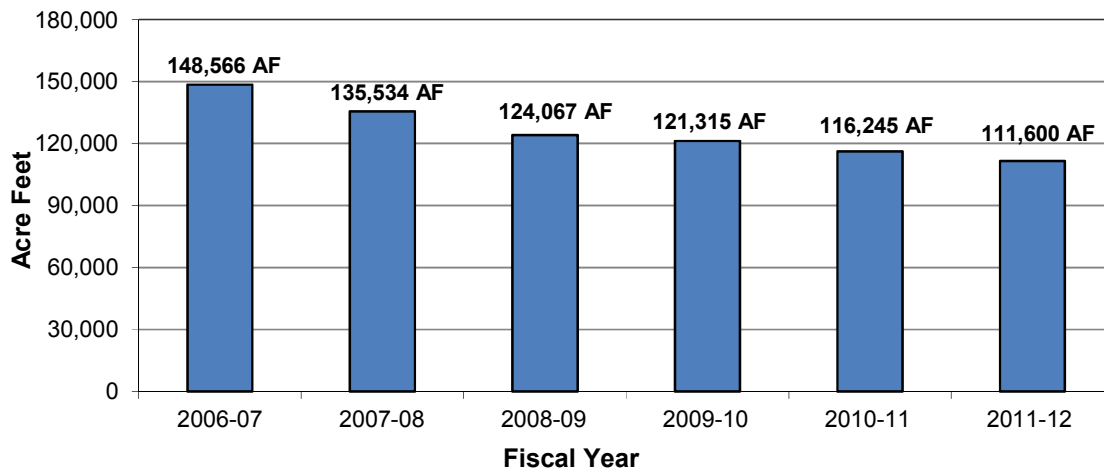
Revenues	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Imported Water Sales	\$99,086,437	\$104,074,412	\$110,798,700	\$112,819,000	\$116,450,000
Water Service Charge	289,464	351,492	392,800	392,844	432,128
Capacity Charge	1,989,300	2,001,210	1,959,000	1,959,010	1,787,125
Recycled Water / LRP	28,011,549	26,382,155	28,330,700	31,736,982	38,926,976
Fixed Revenue Charge	7,171,370	8,568,492	7,156,700	6,928,592	7,796,756
Desalter Water / GRP	333,775	801,332	1,125,400	1,125,360	1,109,160
General Fund Interest	840,403	801,932	668,000	418,000	523,000
Standby Charge	9,679,063	9,898,500	9,675,000	9,675,000	9,675,000
Conservation Income	885,442	721,711	1,554,700	1,554,710	2,148,947
Other Income	1,371,990	992,797	71,000	71,000	97,000
Total Revenues	\$149,658,793	\$154,594,033	\$161,732,000	\$166,680,498	\$178,946,092

Over the past several years, fluctuations in revenues have been 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 water supply availability. These imported water sales were 121,300 AF in FY 2009-10, 116,200 AF in FY 2010-11 and projected sales of 111,600 AF for FY 2011-12. This decrease in demand is primarily a result of increased conservation outreach efforts to educate the public regarding the current water supply situation in Southern California and throughout the State of California. Aggregate consumption decreased, either through education and/or conservation efforts. Even with the increased rainfall/snowpack building up the water reserves and signifying the end of the drought, the general population has implemented efficiency measures and reduced its overall consumption. West Basin is expecting a further decrease in non-interruptible sales due to the increase in recycled water to the Barrier, which is a direct offset to imported water sales. Looking forward, demand is anticipated to remain relatively flat and water sales for FY 2012-13 are budgeted to be 109,600 AF.

	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Imported Water	111,600	113,500	109,600

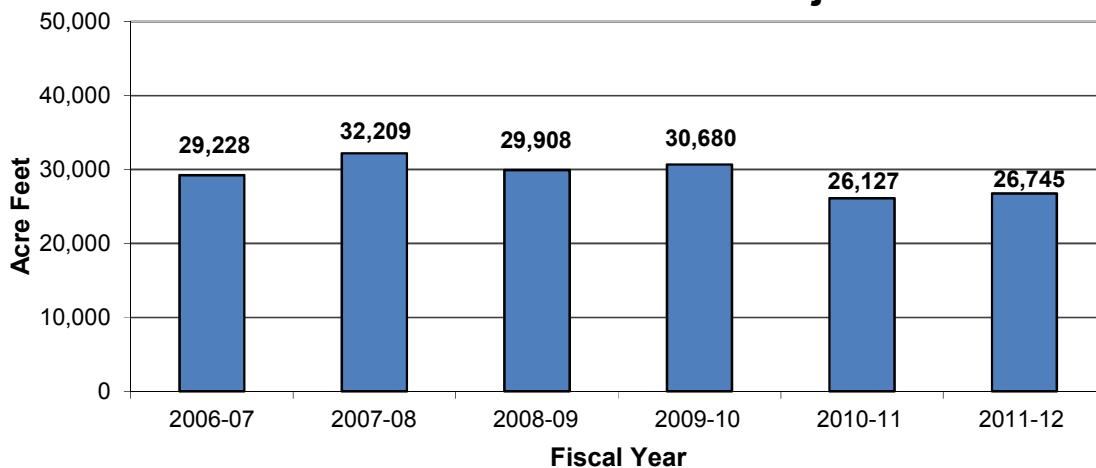
**Imported Water Sales
5-Yr Historical & FY 2011-12 Projected Retail
& Barrier**



Recycled water sales in FY 2009-10 were 30,680 AF, a slight increase from FY 2008-09, but FY 2010-11 saw a significant decrease to 26,100 AF. Projected recycled water sales for FY 2011-12 are expected to remain relatively flat at 26,700 AF. Poor water quality of West Basin’s source water used in its recycling program continues to be a major

factor contributing to lower sales. During the past fiscal year, water quality issues such as turbidity and ammonia have caused water service to be interrupted or reduced for some West Basin customers. Efforts are in place to better serve our existing customers with the highest quality water at a time when expected demand for Title 22 water remains flat. With the completion of Phase V, West Basin will increase recycled water deliveries to the Water Replenishment District of Southern California (WRD) to deliver 100% to the West Coast Barrier. In addition, West Basin will also bring online NRG, a new industrial customer in the City of El Segundo, during the latter part of FY 2012-13. With more efficient production and completion of recycled water access to NRG, West Basin projects the recycled water sales volume to be 34,950 AF in FY 2012-13.

Recycled Water Sales 5-Yr Historical & FY 2011-12 Projected



Conservation income represents incentive rebates from MWD and contributions from program partners and other outside entities. West Basin continues to aggressively promote Conservation efforts throughout the service area and FY 2010-11 was no exception. Although FY 2011-12 saw a drop in conservation income, this income area is anticipated to pick up with new programs such as the Irrigation Efficiency Program, Sprinkler Nozzle Exchange and Turf Removal. Income from West Basin’s conservation programs incentives are expected to increase to \$2,148,947 in FY 2012-13.

Imported, Recycled and Desalter Water Rates and Charges

Imported Water Sales

West Basin sales are comprised of three components: MWD’s commodity rate, readiness-to-serve charge (RTS), and West Basin’s reliability service charge. West Basin anticipates that retail and barrier imported sales will have a combined overall increase of \$65/AF in January 2013. Based on AF assumptions and the rates for the fiscal year described below, West Basin has budgeted \$116,450,000 in imported water sales.

Annually, West Basin establishes rates and charges through a resolution by the Board of Directors. The highlights of West Basin's 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 types of imported water.

MWD's commodity rate increase has historically become effective on January 1 of each year. For FY 2010-11 and 2011-12 MWD voted to increase their commodity rates 7.5% each year, effective January 1 of each year. On April 10, 2012, MWD's Board of Director's approved increasing their commodity rate by an average rate of 5%. West Basin's Board of Directors approved passing through this rate increase for FY 2012-13 at their Board meeting on May 30, 2012.

MWD's Board of Directors also approved a decrease in its overall RTS charge collection from \$146 million in calendar year 2012 to \$142 million in calendar year 2013 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 agency's respective percentage to the total on the 10-year rolling average of firm sales. The 10-year rolling average is based on a calendar year (January to December). For West Basin, our allocated portion has increased approximately \$700,000 even though the overall MWD collection will be decreasing. West Basin collects the RTS on its commodity rate, and will maintain the current rate of \$135/AF effective January 1, 2013 to pay its allocated portion of MWD's RTS.

In review of current trends affecting West Basin and striving toward its Water Reliability 2020 goals, the Board approved a \$12 increase on its reliability service charge. Mainly, the increase stems from increasing recycling operating costs and lower imported water barrier sales. This increase is effective July 1, 2012.

West Basin uses information received from WRD and the County of Los Angeles to determine the overall demand at the West Coast and Dominguez Gap barriers. This West Coast barrier is a mix of recycled and imported water, and the current permit allows an injection of 75% from recycled water produced by West Basin with the remaining 25% from imported water. However, due to the poor source water quality coming into West Basin's treatment facility, 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 2012-13, West Basin anticipates that its capital project will provide higher production of recycled water and will be complete in December 2012, resulting in higher recycled water sales. This will lower the imported water sales by 3,600 AF to the West Coast Barrier. The Dominguez Gap barrier sales are expected to remain 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 ranging from 3-7% per year. FY 2011-12 looks to continue that downward trend but indicates a flattening out and West Basin has budgeted 102,000 AF for retail sales for FY 2012-13, only 1,000 AF higher than the prior year's budget.

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 rate of \$38/cfs effective at the beginning of FY 2011-12 and will increase the rate \$4/cfs for FY 2012-13. 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 \$432,128 from this revenue source.

Capacity Charge

As part of MWD's rate structure, established in 2003, the Capacity Charge was developed to recover the costs in providing distribution capacity use during peak summer demands. The aim of this charge is to encourage customer agencies to reduce peak day demands during the summer months (May 1 thru September 30) and shift usages to the winter months (October 1 thru April 30), which will result in more efficient utilization of MWD's existing infrastructure and defer 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's capacity charge is currently \$7,400/cfs and this rate will be in effect through Calendar Year (CY) 2012. Effective January 1, 2013, MWD's Capacity Charge rate will decrease to \$6,400/cfs, with a planned increase to \$8,600/cfs in CY 2014. West Basin passes through this charge by mirroring MWD's methodology of multiplying each purveyor's highest daily average usage (per cfs) for the past three summer periods by the Capacity Charge Rate. This effectively models the method MWD calculates its peak charges to the sub-agencies. West Basin will maintain its current rate at \$6,500/cfs through December 31, 2012 and will decrease the rate to \$5,500/cfs on January 1, 2013, with anticipated annual revenues of \$1,787,125. The timing for each rate change is structured to coincide with each of MWD's changes.

Recycled Water Charges and Fixed Revenue Charges

West Basin currently serves recycled water to about 370 water meters with projected sales to reach more than 26,700 AF in FY 2011-12. For FY 2012-13, West Basin anticipates a 32% increase from actual recycled water sales. Sales are comprised of approximately 38% sales to the West Coast Barrier and approximately 62% to local refineries. Sales to the West Coast Barrier will increase significantly with the

completion of the Phase V expansion projects at the Edward C. Little Water Recycling Facility during FY 2012-13. Not only will West Basin have new sales because of new permit requirements, but the agency will restore its sales to the rest of the West Coast Barrier. The addition of recycled water sales to NRG will contribute to the increased sales. These projects will generally offset non-interruptible (firm) deliveries.

West Basin adopted recycled water rates that increase according to customer agreements or are in alignment with the West Basin non-interruptible Tier 1 effective rate increase, depending on the type of recycled water. West Basin reviewed and compared its water recycling 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, specifically, power and contract labor. In addition, West Basin takes into consideration the increase in the non-interruptible rate when budgeting for increases in the recycled water rates. Revenues from recycled water sales consist of commodity charges and MWD's Local Resources Program (LRP) incentive payment and are estimated at \$38,926,976 for FY 2012-13. The LRP provides a \$250/AF rebate for each acre-foot of recycled water sold.

In addition, West Basin receives approximately \$7.8 million in fixed capital payments, through agreements with bp, Chevron, and Exxon-Mobil Oil Refineries that are designed to repay the cost of the treatment and distribution facilities that were constructed for delivery of recycled water to the refineries. In FY 2012-13, West Basin expects to complete construction of recycled water facilities to NRG and has included their fixed capital payments.

Desalter Water Charges

West Basin sells the water produced by the C. Marvin Brewer Desalter (Brewer Desalter) to California Water Service Company (CWSC) at the effective MWD rate. The effective MWD rate includes the base non-interruptible rate and an AF equivalent for the capacity charge. On January 1, 2012, this rate was set to \$817/AF and is scheduled to increase to \$862/AF on January 1, 2013. West Basin currently receives \$250/AF incentive payment from MWD for the Groundwater Recovery Program (GRP) but the GRP incentive is scheduled to terminate in April 2013. Deliveries from the Brewer Desalter are expected to remain consistent at 1,080 AF for FY 2012-13, but with the loss of the GRP incentive, revenues are expected to decrease to \$1,109,160.

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

West Basin Municipal Water District

FY 2012-13 Water Rates and Charges

Board Approved May 30, 2012

Rates Effective July 1, 2012 to December 31, 2012				
	MWD Commodity	MWD RTS	Reliability Svc Charge	Total
Non-Interruptible & Barrier (Tier 1)	\$794/AF	\$135/AF	\$107/AF	\$1,036/AF
Non-Interruptible & Barrier (Tier 2)	\$920/AF	\$135/AF	\$107/AF	\$1,162/AF
Seasonal Storage Long Term	\$651/AF	-	\$107/AF	\$758/AF
Rates Effective January 1, 2013				
	MWD Commodity	MWD RTS	Reliability Svc Charge	Total
Non-Interruptible & Barrier (Tier 1)	\$847/AF	\$135/AF	\$107/AF	\$1,089/AF
Non-Interruptible & Barrier (Tier 2)	\$997/AF	\$135/AF	\$107/AF	\$1,239/AF
Seasonal Storage Long Term	***	-	***	***

MWD Non-Interruptible Commodity Rate		
	<i>Effective Dates</i>	
	<u>7/1/12</u>	<u>1/1/13</u>
Supply Rate Tier 1	\$106	\$140
Supply Rate Tier 2	\$290	\$290
System Access Rate	\$217	\$223
Water Stewardship Rate	\$43	\$41
Delta Supply Surcharge	\$58	\$0
Treatment Rate	\$234	\$254
Power Rate	\$136	\$189
Total Tier 1	\$794	\$847
Total Tier 2	\$920	\$997

Capacity Charge	
Designated Amount ¹	
<i>Effective Jul 1 to Dec 31, 2012</i>	<i>Effective Jan 1, 2013</i>
\$6,500/cfs	\$5,500/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, 2012</i>
WBMWD Water Service Charge
\$42/cfs²
<small>(2) Per cfs as determined by agency's meter capacity</small>

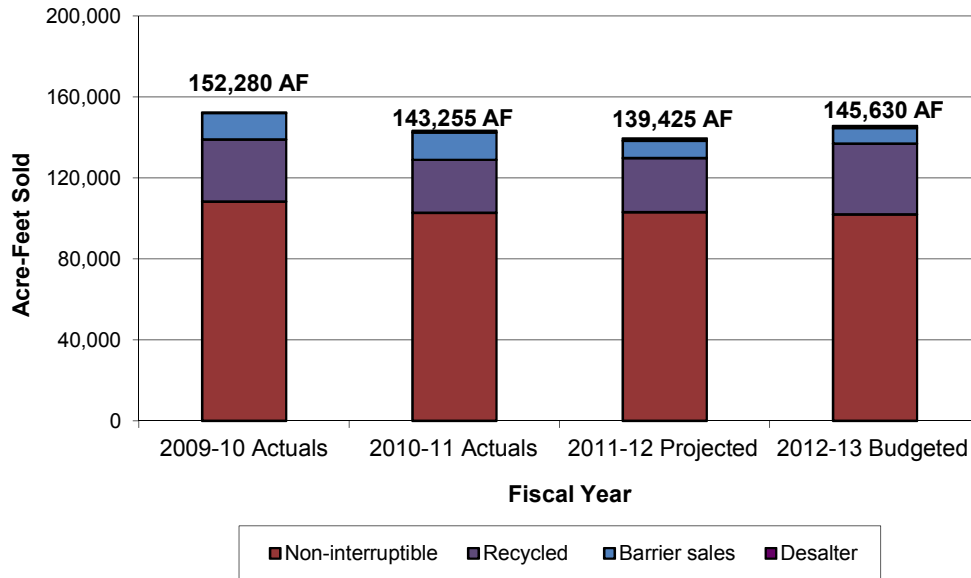
WBMWD Recycled Water Rates							
<i>Effective July 1, 2012</i>							
Volume (AF/Month)	WBMWD Service Area	West Coast Barrier (<4,500 AF)	West Coast Barrier (4,500+ AF)	Industrial R/O (WB Svc Area)	Nitrified (Ind R/O usage)	Industrial R/O Ultra (WB Svc Area)	Torrance / LADWP Service Areas
0-25	\$840/AF	\$984/AF	\$565/AF	\$1,068/AF	\$820/AF	\$1,424/AF	\$882/AF
25-50	\$830/AF	\$984/AF	\$565/AF	\$1,068/AF	\$820/AF	\$1,424/AF	\$872/AF
50-100	\$820/AF	\$984/AF	\$565/AF	\$1,068/AF	\$820/AF	\$1,424/AF	\$862/AF
100-200	\$810/AF	\$984/AF	\$565/AF	\$1,068/AF	\$820/AF	\$1,424/AF	\$852/AF
200+	\$800/AF	\$984/AF	\$565/AF	\$1,068/AF	\$820/AF	\$1,424/AF	\$842/AF

Historic and Projected Sales

Listed below are the historic sales (in acre-feet) for FY 2009-10 and FY 2010-11, anticipated sales projections for FY 2011-12, and budgeted sales for both FY 2011-12 and FY 2012-13:

Water Type	2009-10 Actual	2010-11 Actual	2011-12 Projected	2011-12 Budget	2012-13 Budget
Retail NI	108,261	102,712	103,000	101,000	102,000
Barrier NI	13,054	13,534	8,600	12,500	7,600
Total NI	121,315	116,246	111,600	113,500	109,600
Desalter	285	882	1,080	1,080	1,080
Recycled:					
Title 22-Within WB	7,106	4,258	5,141	6,850	5,750
Title22- LADWP	619	763	811	680	850
Title22-Torrance	6,444	5,785	5,823	6,180	6,000
RO – Barrier	7,797	7,319	6,500	8,500	13,400
RO – Industrial	5,423	4,634	5,350	5,400	5,750
RO – Ultra	2,309	2,481	2,190	2,200	2,350
Industrial–NH3	982	887	930	850	850
Total Recycled	30,680	26,127	26,745	30,660	34,950
Total Sales	152,280	143,255	139,425	145,240	145,630

Historic and Projected Sales



Fiscal Years 2009-10 and 2010-11 saw a rebound from the previous years' drought conditions, yet West Basin continued to see a decrease in demand for non-interruptible water. There is, however, a projected 2% increase in non-interruptible sales for FY 2011-12 signifying a bottoming-out of non-interruptible demand. West Basin will therefore keep projections slightly above last year's budgeted amount of 102,000 AF for FY 2012-13.

West Basin's Purchase Agreement

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

West Basin's ten-year voluntary Purchase Order Agreement with MWD expires on December 31, 2012. Member agencies will be engaging in a process with MWD staff to develop alternative policy options to either continue or replace the Purchase Orders by January 2013. In general, the collective goal should be to both provide more cost certainty to member agencies and more revenue certainty to MWD, but all options for specific terms will be considered.

In order to meet the conditions for the ten-year voluntary Purchase Order 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 \$126/AF above the Tier 1 rate but will increase to \$150/AF above the Tier 1 rate effective January 1, 2013.

Other Sources of Revenue

Interest Income

West Basin receives interest income from its general fund. With a low interest rate environment, West Basin has assumed a more conservative portfolio return. For FY 2012-13, general fund interest income has been projected at approximately \$523,000. 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 that West Basin's key objectives of safety, liquidity and yield are met.

Standby Charge

For FY 2012-13 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 classification provided by the County of Los Angeles on a given parcel. The amount assessed per parcel has remained consistent since FY 1992-93. Based on approximately 344,000 benefiting units and previous annual collections, it is estimated that the receipts from the standby charge, net of program expenses, are expected to be approximately \$9,675,000. After conducting a public hearing on April 23, 2012, the standby charge was reviewed by the Board of Directors. The Board considered the public hearing comments and voted to reauthorize the standby charge. This annual charge is used toward West Basin's debt service obligations for the water recycling facilities.

Conservation Income

Through the development of the Water Efficiency Master Plan and the agency's Water Reliability 2020 goals, West Basin has enhanced its program offerings across the 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 comprehensive, cost-effective programs locally and regionally.

For every dollar that West Basin invests in conservation, it provides an additional \$6.00 in program benefit to residents and businesses throughout its service area. For FY 2011-12, West Basin will continue to receive outside funding from MWD and many of its purveyors and anticipates grant funding from the State of California and the United States Bureau of Reclamation (USBR). State funding is limited again this year due to the State's continued fiscal challenges, but West Basin continues to receive grant funds from the Department of Water Resources (DWR) for the Recirc & Save and Ocean Friendly programs. In addition, MWD has limited their funding of certain programs to previous year levels. West Basin will be integrating new programs into existing ones, such as Irrigation Efficiency Sprinkler Nozzles and Turf Removal, to increase awareness and effectiveness in this vital area.

Overall, West Basin anticipates approximately \$2,148,947 in conservation income from its grants and funding partners for FY 2012-13.

Other Income

West Basin anticipates miscellaneous income to support its efforts for the annual Water Harvest Festival, the Title 22 Water Quality Monitoring Program, and customer development partnership agreement with LADWP. Overall, West Basin anticipates approximately \$97,000 in FY 2012-13 for other income.

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USE OF FUNDS

USE OF FUNDS

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

Expenditures	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Imported Water Purchases / RTS	\$90,343,488	\$92,917,900	\$95,759,000	\$ 97,338,700	\$100,626,000
Capacity Charge	1,932,978	1,937,160	1,937,200	1,844,490	1,608,370
Debt Service	23,702,481	24,484,993	24,829,500	25,575,658	28,209,868
Bond Fund Interest	(762,020)	(761,933)	(761,900)	(761,867)	(761,867)
Water Recycling Operations	23,477,102	25,279,936	25,553,219	28,080,333	31,217,595
Desalter Operations	550,935	668,220	721,950	838,521	955,823
Water Policy	1,799,722	2,001,498	1,880,395	1,797,010	1,400,829
Public Information	1,391,947	1,422,398	1,835,810	1,940,853	2,777,187
Conservation	2,184,640	2,105,644	2,578,952	2,629,354	3,410,270
Water Quality Monitoring	27,453	11,079	19,823	9,499	22,015
Designated Funds	5,010,067	4,527,138	7,378,051	7,387,947	9,480,002
Total Expenditures	\$149,658,793	\$154,594,033	\$161,732,000	\$166,680,498	\$178,946,092

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 water supply availability; however, this is partially offset by an 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. West Basin has budgeted higher debt service costs due to additional

debt issued in FY 2011-12 to support the expansion of West Basin’s recycled water system to meet its Water Reliability 2020 goals.

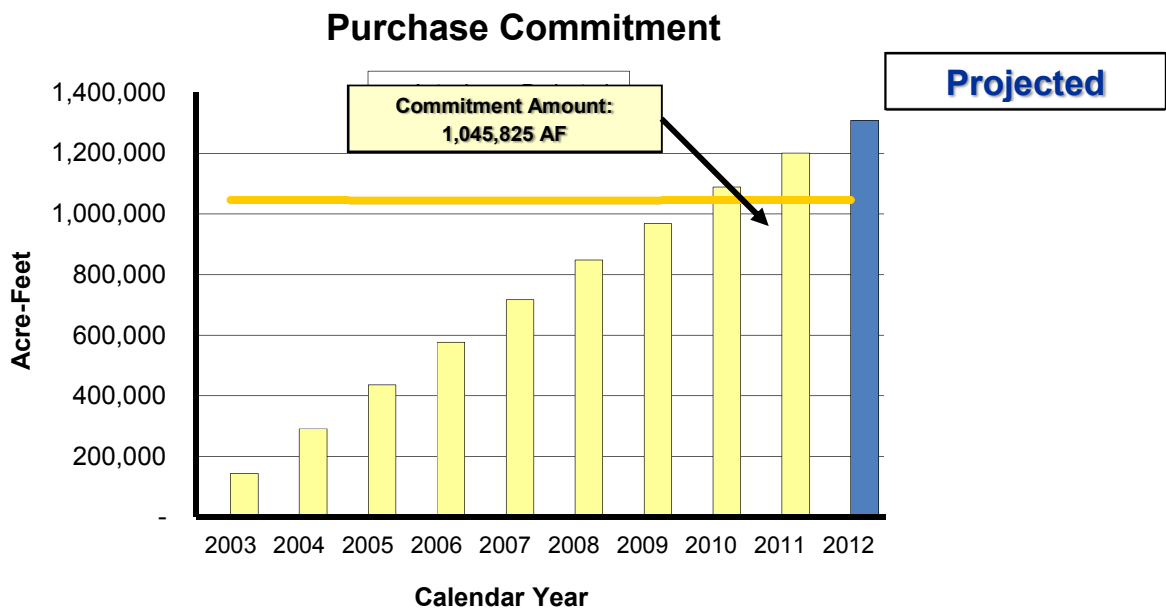
MWD Water Purchases and Charges

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.



As noted in the Water Sales section under Revenues, West Basin has determined its cost for water deliveries based on anticipated sales to be \$100,626,000 for FY 2012-13.

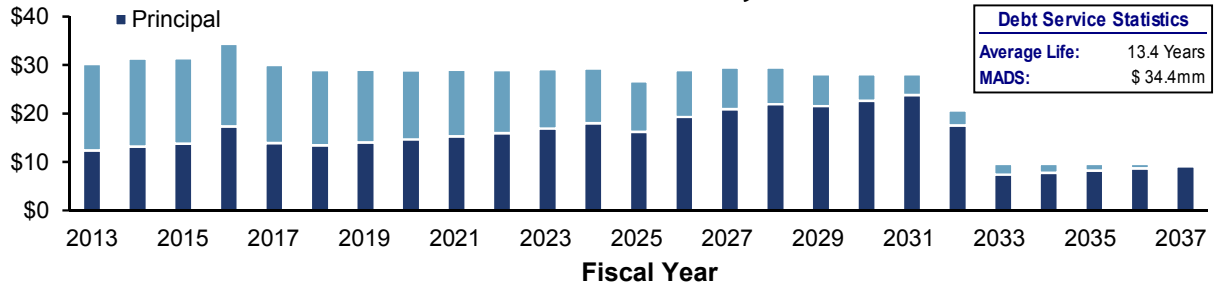
Retail imported water sales from FY 2006-07 through FY 2010-11 declined over 20%. Retail imported water sales are projected for FY 2011-12 to be consistent with FY 2010-11. West Basin anticipates that decreasing sales have “bottomed-out” and will steadily increase as the economy continues to rebound. With the variability of water sales, West Basin took a conservative approach to projecting imported water sales and West Basin has budgeted retail purchases to remain relatively flat with a minor increase in imported water sales of 1,000 AF over last fiscal year. Imported sales to the Barrier are projected to decline from 12,500 AF to 7,600 AF as a result of West Basin completing its fourth expansion of the recycled water system and other capital improvements that will allow West Basin to begin delivery of 100% recycled water to the West Coast Barrier in late 2012. Due to its ability to provide 100% recycled water to the West Coast Barrier during FY 2012-13, budgeted imported Seawater Barrier sales will shift to recycled water sales.

In FY 2012-13, MWD will decrease its rate for the Capacity Charge from \$7,400/cfs to \$6,400/cfs beginning January 1, 2013 with anticipated capacity charge costs of \$1,608,370. West Basin passes through this charge to its customers; however, West Basin customers receive a benefit as the West Basin peaking level varies by individual 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. Recycled water sales reduce the 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 next graph shows the scheduled principal and interest payments for West Basin’s current debt portfolio.

Debt to Maturity



Aug 1	Certificates of Participation		Refunding Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	12,070,000	10,386,087	340,000	7,413,161	12,410,000	17,799,248
2014	12,785,000	9,664,780	350,000	8,492,394	13,135,000	18,157,174
2015	13,360,000	9,142,744	360,000	8,481,894	13,720,000	17,624,638
2016	14,000,000	8,572,442	3,380,000	8,471,094	17,380,000	17,043,536
2017	10,725,000	7,825,273	3,180,000	8,283,300	13,905,000	16,108,573
2018	6,250,000	7,405,966	7,190,000	8,096,475	13,440,000	15,502,441
2019	6,485,000	7,211,068	7,530,000	7,745,688	14,015,000	14,956,756
2020	6,750,000	6,875,019	7,880,000	7,387,994	14,630,000	14,263,013
2021	7,005,000	6,687,817	8,255,000	7,022,013	15,260,000	13,709,830
2022	7,275,000	6,355,717	8,680,000	6,614,306	15,955,000	12,970,023
2023	7,770,000	6,054,198	9,150,000	6,143,294	16,920,000	12,197,492
2024	8,425,000	5,682,674	9,575,000	5,659,094	18,000,000	11,341,768
2025	8,805,000	5,278,586	7,410,000	5,138,825	16,215,000	10,417,411
2026	9,230,000	4,856,909	10,065,000	4,778,675	19,295,000	9,635,584
2027	13,395,000	4,418,497	7,460,000	4,258,494	20,855,000	8,676,991
2028	16,195,000	3,759,592	5,695,000	3,888,056	21,890,000	7,647,648
2029	15,520,000	2,968,775	6,000,000	3,584,319	21,520,000	6,553,094
2030	16,295,000	2,197,000	6,325,000	3,264,238	22,620,000	5,461,238
2031	17,110,000	1,385,250	6,655,000	2,926,681	23,765,000	4,308,931
2032	10,535,000	526,750	7,010,000	2,571,400	17,545,000	3,098,150
2033			7,385,000	2,197,056	7,385,000	2,197,056
2034			7,785,000	1,802,563	7,785,000	1,802,563
2035			8,195,000	1,386,538	8,195,000	1,386,538
2036			8,635,000	948,481	8,635,000	948,481
2037			9,100,000	486,763	9,100,000	486,763
Total	\$230,745,000	130,136,497	163,590,000	128,058,069	394,647,974	258,243,538

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

Debt Summary

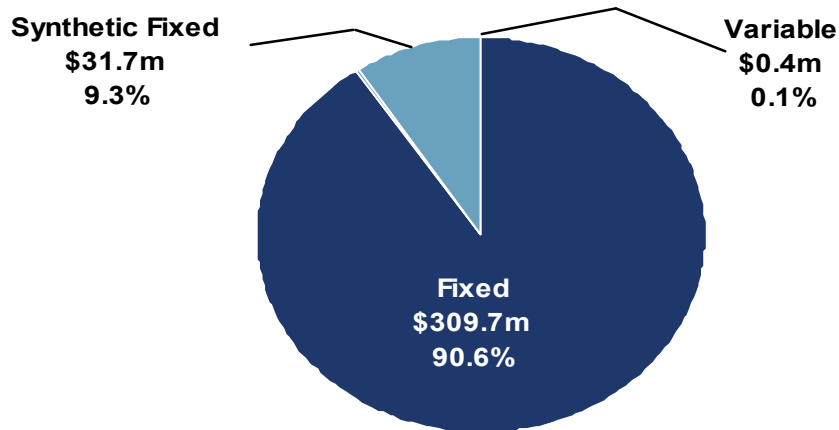
For FY 2012-13, debt service (DS) is estimated on an accrual basis at \$28,209,868 to be offset by bond interest earnings of \$761,867, which West Basin receives from bond reserve funds set aside as required by the bond financings. At present, West Basin has four debt issuances where a reserve fund has been established and is restricted for the purpose of the bond holders. 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.

West Basin has the following outstanding issuances:

Current Outstanding Long-Term Debt						
Series Name	2003A	2008A	2008B	2011A	2011B	2012A
Original Amount	\$156,085,000	\$39,465,000	\$128,665,000	\$34,190,000	\$60,275,000	\$50,325,000
Type of Issuance	Refunding / New Proceeds	Refunding	Refunding	Refunding	Refunding / New Proceeds	Refunding / New Proceeds
Interest Range	2.5% – 5.25%	Variable	3.0% - 5.0%	2.0% - 5.0%	4.0% - 5.0%	3.0% - 5.0%
Swap to Fix	N/A	Yes	N/A	N/A	N/A	N/A
Issue Date	2003	2008	2008	2011	2011	2012
Final Maturity	2030	2021 and 2027	2031	2024	2036	2032
Current Rating	AA- and Aa2	AA-/A-1 and Aa2/VMIG1	AA- and Aa3	AA- and Aa2	AA- and Aa2	AA- and Aa2
Annual DS Pmt	\$10.3 Million	\$3.3 Million	\$9.1 Million	\$1.8 Million	\$1.5 Million	\$1.7 Million
2012 Principal	\$7.4 Million	\$2.1 Million	\$5.8 Million	\$.4 Million	None	None
2012 Interest	\$2.9 Million	\$1.2 Million	\$3.3 Million	\$1.4 Million	\$1.5 Million	\$1.7 Million
Lien	Senior	Senior	Subordinate	Senior	Senior	Senior

Current Outstanding Debt Issuances



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 \$32 million in variable rate debt as a result of two associated swaps, as described below.

Swaps

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

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

Covenants

Debt coverage is one covenant that West Basin is required to maintain. This covenant is monitored not only by West Basin, but also by both investors and credit rating agencies. To meet this covenant, West Basin has set targeted debt coverage goals at a rate higher than legally required for its senior and subordinate debt liens. Per our financing documents, our legal debt coverage requirement is 1.15 at each lien.

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

Bond Debt Coverage Ratios (in 000's – except coverage)						
Bond Coverage Ratios	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Revenues	\$178,946	\$199,391	\$217,521	\$237,283	\$251,339	\$264,213
O&M	142,018	149,470	164,161	180,131	191,169	200,396
Net Revenues to pay senior debt	36,928	50,659	54,097	57,890	60,170	63,817
Total Senior Debt Service	18,392	23,038	23,147	22,066	21,068	21,049
Senior Debt Coverage	2.01	2.20	2.34	2.62	2.86	3.03
Net Revenues to pay subordinate debt	18,536	27,621	30,951	35,824	39,101	42,768
Total Subordinate Debt	9,056	8,993	9,017	9,058	8,969	8,944
Subordinate Debt Coverage	2.05	3.07	3.43	3.96	4.36	4.78
All-In Coverage	1.35	1.58	1.68	1.86	2.00	2.13
Remaining Net Revenue	\$ 9,480	\$ 18,628	\$ 21,934	\$ 26,766	\$ 30,132	\$ 33,824

Long Range Finance Plan and future Debt Issuances

Through West Basin's Water Reliability 2020 program, West Basin is focused on developing more local resources by increasing recycling, developing ocean-water desalination and expanding 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 focusing on the development of a Long-Range Financial Plan. During FY 2009-10 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 2009-10, West Basin formalized a Debt Management Policy that incorporates the capital funding assumptions to fund a variety of projects. In addition, the Debt Management Policy provides guidance in the issuance, management, evaluation and reporting of debt obligations. In addition to the Debt Management Policy, West Basin developed an Information Technology (IT) Master Plan. The process included examining the current IT environment, establishing a strategic technology direction, and developing an implementation plan that effectively deploys IT solutions that supports West Basin's mission and commitment statements in the following areas: IT service delivery, design, infrastructure and applications. In FY 2010-11, 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. In FY 2011-12 West Basin revamped its Designated Funds Policy. The new Designated Fund policy established the roles and responsibilities, changed the various types of funds and revised or created new target levels.

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

West Basin does not intend to issue new long term debt during FY 2012-13. However, in FY 2013-14 West Basin intends to issue new debt of approximately \$16 million to finance an expansion at the Hyperion Pump Station. West Basin plans to apply for a state loan with the State Water Resources Control Board to finance the \$15 million recycled water facilities that serve British Petroleum (bp) in the City of Carson. In future fiscal years, West Basin intends to finance Ocean Desalination.

Operating Program Expenses

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

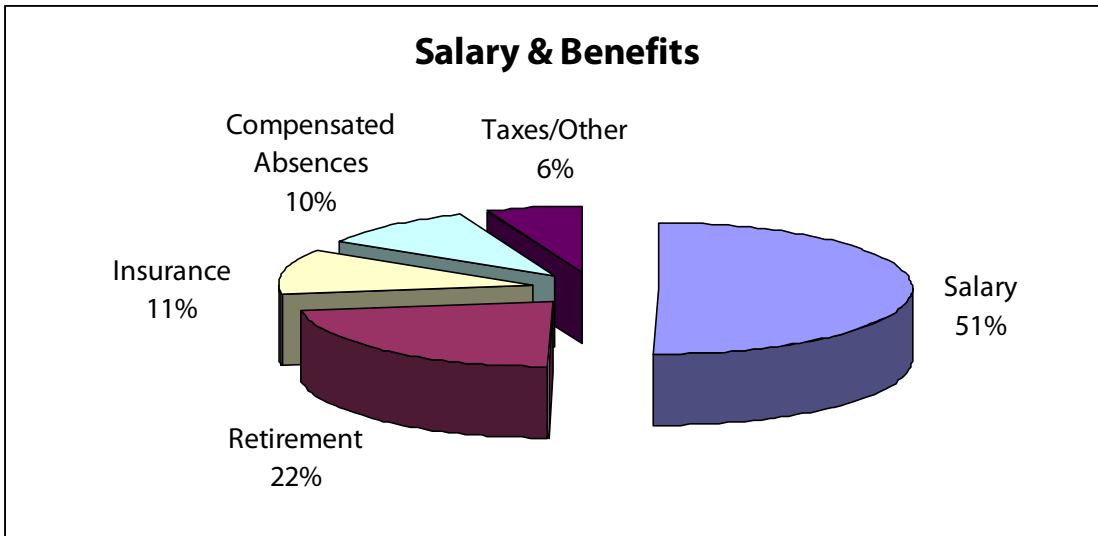
Cost accounting is defined as the process of tracking, recording and analyzing costs associated with the products or activities of an organization. As a single enterprise fund, each program budget has direct charges that represent the specific efforts for consultants, suppliers, utilities or other appropriate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

Payroll and benefits

West Basin has a unique business model with a small workforce of 42 employees (36 FTE) performing the work of twice as many people in order to accomplish its many critical goals and objectives. Staff is comprised of various high level project managers who oversee the work of consultants in the field. West Basin has no field staff and a very small administrative staff.

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

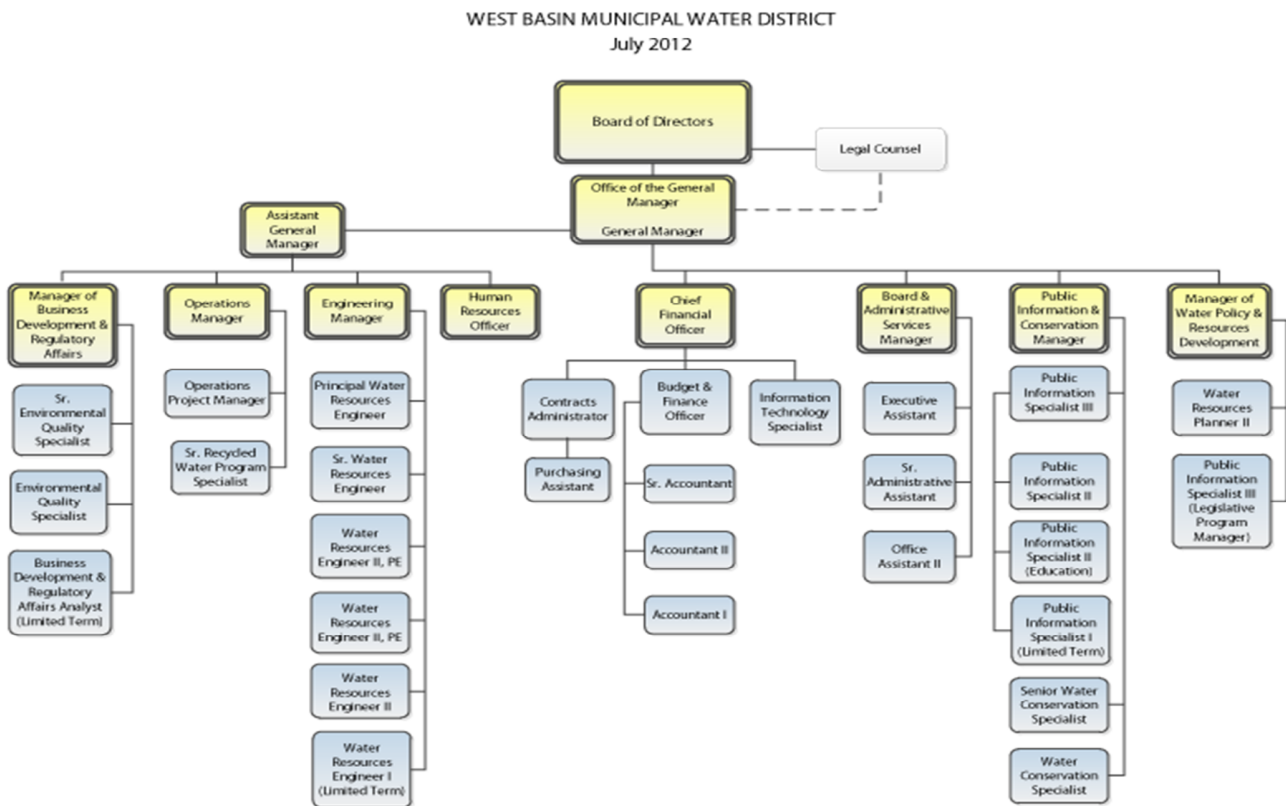
- Retirement -- CalPERS 3% at 60 and Social Security.
- Health Insurance -- Paid family coverage with expense reimbursement.
- Disability Insurance -- Paid short term and long term insurance plans.
- Life Insurance -- Up to \$150,000 based upon salary.
- Vacation -- 10-20 days annually, with credit for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



Indicative of its small workforce, West Basin's benefits package and total payroll comprises 3.8 % of its total FY 2012-13 budget. The types of benefits included in the FY 2012-13 budget are consistent with the prior year's budget, and reflect an anticipated 7.5% increase in health insurance and 3.0% increase in dental insurance. West Basin's pension costs also saw an increase of 2.0% in its employer rate of 15.45%. West Basin recently updated its required actuarial report which increased the budgeted annual required contribution from \$330,000 to \$470,000. West Basin participates in the California Employers Benefit Retirement Trust which allows West Basin to calculate its liability based on an assumed interest rate of 7.5%.

Current employment expense forecasts do not include a Cost of Living Adjustment increase. West Basin has established a performance-based merit pay system, wherein the amount of merit pay granted is determined by the employee's performance appraisal rating and position in the salary range. To sustain competitiveness on an annual basis, West Basin takes into account the regional Consumer Price Index (CPI), and the average salary range increases of survey agencies. As such, West Basin has included a 3% merit increase cap in the FY 2012-13 budget.

The organizational chart below shows the full time budgeted positions for FY 2012-13.



In the FY 2012-13 budget staffing levels will remain consistent with FY 2011-12 at thirty-six (36) regular full-time positions. However, West Basin has reclassified four of its intern positions to two part-time and two limited term positions to better address the current needs in several departments. Also, one additional limited term position has been added in the FY 2012-13 budget bringing the total of limited term employees to three.

Following is a table showing the head count by department which includes the full-time, limited term and part-time positions. The intern position is not included. In addition, one position, Public Information Specialist III, was reassigned to a new department, Water Policy and Resource Development.

Summary of Personnel Head Count by Department

Position	Actual		Budgeted		Change from FY 2011-12
	FY 2010-11	FY 2011-12	FY 2011-12	FY 2012-13	
<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 Assistant	1	1	1	1	0
Office Assistant II	1	1	1	1	0
<i>Human Resources</i>					
Human Resources Officer	1	1	1	1	0
<i>Public Information & Conservation (PIC)</i>					
Public Information and Conservation Manager	1	1	1	1	0
Public Information Specialist III	2	2	2	1	(1)
Public Information Specialist II	2	2	2	2	0
Sr. Water Conservation Specialist	1	1	1	1	0
Public Information Specialist I (Limited Term)	0	0	0	1	1
Water Conservation Specialist	1	1	1	1	0
Tour Guide (Part-time)	0	0	0	1	1
Education Assistant (Part-time)	0	0	0	1	1
<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	3	3	3	0
Water Resources Engineer I (Limited Term)	0	0	0	1	1
Operations Manager	1	1	1	1	0
Operations Program Manager	1	1	1	1	0
Sr. Environmental Quality Specialist	1	1	1	1	0
Environmental Quality Specialist	1	1	1	1	0
Business Development & Regulatory Affairs Mgr	1	1	1	1	0
Bus. Dev. & Reg. Affairs Analyst (Limited Term)	0	0	0	1	1
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
Public Affairs Specialist III	0	0	0	1	1
Resource Planner	1	1	1	1	0
<i>Finance</i>					
Chief Finance Officer	1	1	1	1	0
IT Specialist	1	1	1	1	0
Budget and Finance Officer	1	1	1	1	0
Accountant II	2	2	2	2	0
Accountant I	1	1	1	1	0
Contracts Administrator	1	1	1	1	0
Purchasing Assistant	1	1	1	1	0
Total Budgeted Personnel	35	36	36	41	5

Personnel staffing by program

West Basin's budget tracks and reports all of its costs by program; it also allocates its personnel labor to its various programs. The table below compares FY 2009-10 and FY 2010-11 actual to FY 2011-12 projected to FY 2011-12 and FY 2012-13 budget. The variance of projected to budget FTE for FY 2011-12 represents unfilled positions for a portion of the year. In FY 2012-13 the difference between the Full Time Equivalent table and the Summary of Personnel Head Count by Department is due to the part-time positions budgeted at one-half of a FTE each versus one head count for each position.

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

Full Time Equivalent by Program

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Recycling Operations	9.77	9.13	10.02	9.90	10.70
Desalter Operations	0.06	0.02	0.05	0.20	0.34
Water Policy/Resource Development	3.29	3.06	3.16	3.20	3.75
Public Information	5.18	6.17	6.48	5.96	9.34
Conservation	3.67	3.34	3.64	4.07	4.23
WQ Monitoring Program	0.09	0.04	0.09	0.04	0.08
Capital Projects	12.32	10.89	11.44	12.63	11.56
Total FTE	34.38	32.65	34.88	36.00	40.00

Each program budget demonstrates the projected level of effort for the current year for staff's labor. As a result, the individual program labor cost may fluctuate from year-to-year. In addition, it will vary from the Summary of Personnel Head Count by Department as this summary indicates the number of staff assigned to each West Basin department. Indirect labor represents the support services and is allocated based on the percentage of direct payroll dollars allocated to each program. The method of allocation of indirect labor to the various operating and capital programs is consistent to prior years. For the position reclassified to a new department, it also moved the associated labor dollars and benefits to the new program budget of Water Policy and Resource Development.

Capital Improvement Program

With the recent impact of drought conditions and the need to be more water efficient, West Basin's Water Reliability 2020 program is vital and requires West Basin to invest in shovel-ready projects. As described within the supplemental section about the capital improvement program, West Basin intends to invest in 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 capital projects are initiated, staff presents a proposed project to the Board of Directors for approval and direction. Capital projects begin with feasibility and design studies followed by construction contracts. Progress reports are presented to the Board of Directors on a periodic basis. West Basin funds its projects through its PayGo Designated Fund, grants/partnerships and bond proceeds.

Anticipated capital improvement expenditures for FY 2012-13 are \$41,029,574.

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 Plan. The strategies noted under each program support the overall Strategic Plan and commitment statements of West Basin.

The FY 2012-13 Operating Program consists of the following programs:

<u>Allocated Programs</u>	<u>Page Number</u>
Overhead Program Costs	77
<u>Operating Programs</u>	
Water Recycling Operations	81
C. Marvin Brewer Desalter Operations	84
Water Policy and Resource Development	86
Public Information	89
Conservation	93
Water Quality Monitoring	95

Each program budget is developed to achieve the goals and objectives of the Strategic 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 and anticipated to be complete within FY 2012-13, with each program budget reflecting only the Strategic Plan Goals and Commitment Statements that are relevant and qualitative.

Strategic Business Plan Goals
Customer Service
Environmental Stewardship
Sound Financial & Resource Management
Water Quality
Water Reliability

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

OVERHEAD PROGRAM COSTS

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 and

identified as "Overhead". Direct labor hours are used as the primary basis for allocating these expenses to each program and provide management with a better understanding of the overall resources required to support each program.

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 includes 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 are 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.

Operating Budget

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2011-12	FY 2012-13
	Actual	Actual	Projected	Budget	Budget
General Services	\$ 1,699,438	\$ 1,538,163	\$ 1,533,397	\$ 1,629,517	\$ 1,558,121
Building Services	379,716	368,384	366,900	361,000	364,000
Legal Services	288,250	298,642	266,500	275,000	277,000
Directors Administration Costs	726,783	622,697	630,593	653,900	683,400
Employee Support	16,696	24,605	11,000	16,700	10,550
Total Overhead Allocated	\$ 3,110,883	\$ 2,852,491	\$ 2,808,390	\$ 2,936,117	\$ 2,893,071

Strategic Goals and Objectives

Strategic Business Plan Goals
Customer Service
Environmental Stewardship
Sound Financial & Resource Management
Water Quality
Water Reliability

FY 2011-12 Accomplishments

Customer Service

- Objective 3: The Board provided overall policy direction and strategic priorities through monthly committee and board meetings;
- Objective 3: Presented scorecard of strategic plan on a semi-annual basis to the Board of Directors in November 2011 and May 2012.

Sound Financial & Resource Management

- Objective 4: Reviewed West Basin's refunding opportunities with Moody's and Standard & Poor's ratings agencies and they affirmed current ratings of Aa2 and AA-, respectively
- Objective 4: Board approved a new Designated Funds Policy and approved updated Swap, Debt Management and Investment Policies
- Objective 4: Review procurement policy for appropriate levels and provide updated policy to Board for information by June 2012
- Objective 5: Presented updates to the financial model to the Board of Directors in September 2011 and January 2012 to determine the affordability of various capital projects to implement Water Reliability 2020
- Objective 6: Approved the annual budget and rates in May 2012
- Objective 6: Completed bi-annual actuarial report for the OPEB plan
- Objective 6: Received an Excellence in Financial Reporting Award notification for West Basin's Comprehensive Annual Financial Annual Report (CAFR) for the FY 2010-11 from the Government Finance Officers Association (GFOA)
- Objective 6: Received Excellence in Budget Recognition from GFOA and the California Society of Municipal Finance Officers (CSMFO)
- Objective 6: Refunded approximately \$70 Million in Certificates of Participation resulting in net present value savings of over \$6 Million
- Objective 6: Finance Phase V and NRG projects initially through the Commercial Paper funding and then refinanced as Revenue Bonds in November 2011 and April 2012
- Objective 6: Utilized the E-procurement system (The Network) to facilitate the bidding process on more than 50 solicitations and increased the vendor audience with over 100 referrals during the fiscal year
- Objective 6: Effectively utilize the Commercial Paper Program to provide interim financing for capital projects and pay interest earnings of less than 1% compared to the long term rate average rate of approximately 4%
- Objective 6: Developed a West Basin Wellness Center policy for Board approval
- Objective 7: Completed recruitment process for the following positions: 1) Business Development and Regulatory Affairs Analyst (Limited Term); 2) Water Resources Engineer II (Full-Time); and 3) Water Resources Engineer I (Limited Term)
- Objective 8: Updated the District's organization and salary charts in compliance with government accountability, openness and transparency

- Objective 8: Distributed and received 100% completed Evaluation Forms from Senior Staff
- Objective 8: Developed position reclassification study procedures, and conducted necessary studies by request of department managers
- Objective 9: Completed computer training for staff to transition to Office 2010

FY 2012-13 Strategies

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

Sound Financial & Resource Management

- Objective 4: Meet with rating agencies to discuss upcoming debt issuances for the continued expansion of the recycled water system
- Objective 5: Update Long-Range Financial Model to project revenue needs, capital funding and appropriate rates and charges
- Objective 6: Complete the PARS bi-annual actuarial report
- Objective 6: Review District Administrative Code Human Resources policies and make necessary changes/amendments
- Objective 7: Complete recruitment process for hiring limited term Public Information Specialist
- Objective 8: Conduct a comprehensive classification and compensation study
- Objective 8: Conduct District-wide FLSA audit/review
- Objective 9: Conduct mandatory Sexual Harassment Training for all District employees and directors
- Objective 9: Seek General Manager and Board approval for the District's Safety Program policies in compliance with state and federal requirements

WATER RECYCLING OPERATIONS

The recycled water operations budget includes funds to operate and maintain all of the recycled water facilities, research and development costs to evaluate new, potentially more cost-effective processes, regulatory efforts, costs to administer the program, and costs to encourage and develop additional customers to use recycled water. West Basin started delivering recycled water in 1995 and continues to expand its facilities to increase production and use of 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 Edward C. Little Water Recycling Facility (ECLWRF) 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 from the ECLWRF to provide nitrified water to the 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 supply recycled water to bp refinery’s cooling towers and boilers;
- Two re-disinfection stations to boost the level of disinfectant within the recycled water distribution system; and
- Approximately 120 miles of pipelines to deliver recycled water to our customers.

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

Personnel - Full Time Equivalents (FTE)

FY 2009-10 Actual FTE	FY 2010-11 Actual FTE	FY 2011-12 Projected FTE	FY 2011-12 Budget FTE	FY 2012-13 Budget FTE
9.77	9.13	10.02	9.90	10.70

Operating Budget

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Labor and Benefits	\$ 1,705,849	\$ 1,732,135	\$ 1,722,286	\$ 1,838,744	\$ 1,860,359
Overhead	771,288	780,209	740,033	772,740	736,842
Operations					
Chemicals	5,675,592	7,128,243	5,971,200	7,707,300	7,771,212
Consultants	706,502	784,567	726,000	776,500	850,000
Contract Labor	410,900	553,464	450,400	410,000	550,000
Facility Maintenance	2,261,459	2,406,283	2,402,600	2,696,500	2,776,600
Laboratory Service	418,100	423,749	465,500	471,200	547,500
Office Administration	602,651	567,523	684,300	626,600	630,300
Secondary Effluent	262,722	234,299	260,300	319,941	368,382
Solids Disposal	743,560	814,134	676,300	826,900	908,000
Utilities	4,661,113	5,092,573	6,331,600	6,049,000	7,982,600
UWS Labor	6,062,326	5,578,620	5,962,200	6,437,900	7,106,800
Mobil Reimbursement	(804,960)	(815,863)	(839,500)	(853,000)	(871,000)
Total Recycling Operations	\$ 23,477,102	\$ 25,279,936	\$ 25,553,219	\$ 28,080,325	\$ 31,217,595

Strategic Goals and Objectives

Strategic Business Plan Goals
Customer Service
Environmental Stewardship
Sound Financial & Resource Management
Water Quality
Water Reliability

FY 2011-12 Accomplishments

Sound Financial & Resource Management

- Objective 1: Completed Asset Management Implementation Plan with prioritized recommendations to move forward with enhanced information that led to informed decision-making
- Objective 2: Performed approximately 200 annual visual inspections of recycled water sites
- Objective 2: Installed 540 microfiltration membranes at the Exxon Mobil satellite plant
- Objective 2: Installed more than 1,000 reverse osmosis membranes at the Edward C. Little Water Recycling Facility
- Objective 2: Repaired the nitrification product tank at the Carson satellite plant
- Objective 6: Completed antiscalant testing to determine most cost-effective antiscalant
- Objective 6: Received approximately \$30,000 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 1: Re-started ferric chloride demonstration test at the Hyperion Wastewater Treatment Plant
- Objective 2: Completed and submitted more than 50 compliance reports to the regulatory agencies
- 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

Water Reliability

- Objective 3: Finalize agreement to expand the use of recycled water by 2,100 AFY to the BP refinery in Carson, CA and begin implementation of this expansion
- Objective 3: Concluded Hyperion Pump Station Expansion study which enables West Basin to increase the water supply from Hyperion to support these projects and others

FY 2012-13 Strategies

Sound Financial & Resource Management

- Objective 1: Implement the prioritized asset management recommendations to maximize the asset life and optimize maintenance activities
- Objective 2: Replace reverse osmosis 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 Phase III of the Ozone pilot test at ECLWRF to improve water quality
- Objective 1: Continue to support existing customer water quality inquiries
- Objective 1: Complete Phase II ferric chloride addition test at Hyperion to improve water quality

Water Reliability

- Objective 3: West Basin staff continues to support LADWP in marketing to the refineries in the Harbor in furtherance of this goal
- Objective 3: Install carbon dioxide injection system at the nitrification facilities to increase recycled water sales

C. MARVIN BREWER DESALTER OPERATIONS

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

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

Personnel - Full Time Equivalents (FTE)

FY 2009-10 Actual FTE	FY 2010-11 Actual FTE	FY 2011-12 Projected FTE	FY 2011-12 Budget FTE	FY 2012-13 Budget FTE
0.06	0.02	0.05	0.20	0.34

Operating Budget

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Labor and Benefits	\$ 10,532	\$ 2,717	\$ 8,367	\$ 39,322	\$ 63,564
Overhead	4,963	1,331	3,926	18,199	23,759
Operations	413,858	473,258	446,137	451,600	506,700
Replenishment Assessment	121,582	190,914	263,520	329,400	361,800
Total Desalter Operations	\$ 550,935	\$ 668,220	\$ 721,950	\$ 838,521	\$ 955,823

Strategic Goals and Objectives

Strategic Business Plan Goals
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FY 2011-12 Accomplishments

Sound Financial & Resource Management

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

FY 2012-13 Strategies

Sound Financial & Resource Management

- Objective 6: Assumes a full operating year

WATER POLICY AND RESOURCE DEVELOPMENT

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

Personnel - Full Time Equivalents (FTE)

FY 2009-10 Actual FTE	FY 2010-11 Actual FTE	FY 2011-12 Projected FTE	FY 2011-12 Budget FTE	FY 2012-13 Budget FTE
3.29	3.06	3.16	3.20	3.75

Operating Budget

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Labor and Benefits	\$ 861,744	\$ 1,085,451	\$ 1,002,957	\$ 902,614	\$ 722,259
Overhead	434,146	506,167	419,988	399,946	265,800
Planning	176,451	83,421	150,000	187,000	86,300
Government Affairs	327,381	326,459	307,450	307,450	326,470
Total Resource Planning	\$ 1,799,722	\$ 2,001,498	\$ 1,880,395	\$ 1,797,010	\$ 1,400,829

Strategic Goals and Objectives

Strategic Business Plan Goals
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FY 2011-12 Accomplishments

Customer Service

- Objective 5: Educated local, state and federal elected officials on matters related to local water supply needs, and West Basin's Water Reliability 2020 program to develop new, reliable local water supplies
- Objective 6: Successfully advocated in opposition to SB 701 and AB 954, which threatened the region's management authority over the groundwater basin and would have caused increased costs to regional groundwater pumpers

Sound Financial & Resource Management

- Objective 6: Applied for several grant funding opportunities in support of conservation and reliability programs
- Objective 6: Played a key role in assisting the Greater Los Angeles County Region in receiving funding for a \$25 million implementation grant and a \$1 million planning grant under the Integrated Regional Water Management Plan
- Objective 6: Provided extensive advocacy on behalf of West Basin and the region in support of an increased authorization to fund the Harbor South Bay Water Recycling project, a regional partnership to build recycled water pipelines throughout the South Bay region
- Objective 6: Submitted CY 2009 report on greenhouse gas emissions from all West Basin operations to the Climate Registry
- Objective 6: Awarded 3 additional street median retrofit grants to cities within the service area and supported 6 out of 8 recognition ceremonies for the completed retrofits

Water 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
- Objective 1: 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 FY 2011-12 budget and water rates
- Objective 1: Completed the District's 2010 Urban Water Management Plan and Water Demand Assessment Model to project water demands within the District's service area
- Objective 3: Actively participated in supporting the MWD board's adoption of the 2010 Integrated Resources Plan

FY 2012-13 Strategies

Sound Financial & Resource Management

- Objective 6: Continue pursuing grant opportunities for West Basin and its customer agencies and monitor applications pending from U. S. Bureau of Reclamation
- Objective 6: Continue West Basin's advocacy efforts related to West Basin's request for an increased Federal authorization for the Harbor South Bay project, through the Water Resources Development Act of 2012
- Objective 6: Continue to defend West Basin service area and MWD as a whole against litigation, legislation and other efforts intended to work against cooperative regional water management policy
- Objective 6: Continue leadership role in the Greater Los Angeles County Integrated Regional Water Management Plan, including administration, on behalf of the Region, of new consultant contract to develop updated Plan
- Objective 6: Submit CY 2010 greenhouse gas emissions from all West Basin operations to the Climate Registry

Water Reliability

- Objective 1: Participate on behalf of West Basin customer agencies in developing policy recommendations to MWD pertaining to an imported water purchase commitment that will replace the current Purchase Agreements that expire at the end of CY 2012
- Objective 2: Secure a policy commitment from MWD for local/regional ocean desalination program development partnership, to build upon West Basin's Ocean Desalination Program Master Plan
- Objective 2: Continue to play a leading role in the development of policy and legislative matters; as well as the advocacy activities for CalDesal and WaterReuse

PUBLIC INFORMATION

The core mission is to convey West Basin's Water Reliability 2020 program with its value, benefits and savings provided to its customers and stakeholders. Additionally, the Department strives to enhance West Basin's reputation as an award-winning, innovative and industry leading water agency. This year, staff continues to convey the value of all of West Basin's programs and activities that support the Board of Director's Strategic Business Plan, in conjunction with its five commitments to its customers: Water Reliability, Water Quality, Customer Service, Sound Financial Management and Environmental Stewardship.

Water Reliability 2020

The Department continues its program to inform community leaders and the public of the need to develop more locally-controlled and diversified water supplies through the Water Reliability 2020 (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 adding up to 20 million gallons a day of desalted ocean water.

Public Outreach

The department develops and implements a wide array of leader-focused programs to ensure that West Basin is positioned as a valuable utility among key stakeholders. Audiences include state, county and federal elected officials, cities, partner and customer agencies, community, environmental, educational and business leaders. 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 the operations of our water purification facilities.

Personnel - Full Time Equivalents (FTE)

FY 2009-10 Actual FTE	FY 2010-11 Actual FTE	FY 2011-12 Projected FTE	FY 2011-12 Budget FTE	FY 2012-13 Budget FTE
5.18	6.17	6.48	5.96	9.34

Operating Budget

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Labor and Benefits	\$ 457,308	\$ 464,569	\$ 618,661	\$ 694,675	\$ 1,339,799
Overhead	404,290	357,143	428,083	459,388	677,768
Education	290,345	234,486	201,259	229,790	271,620
Media	47,277	59,799	141,000	141,000	121,000
Events	106,215	153,231	134,296	114,000	118,000
Market Research	-	-	5,000	5,000	5,000
WR2020 and General Outreach	86,512	153,170	307,511	297,000	244,000
Total Public Information	\$ 1,391,947	\$ 1,422,398	\$ 1,835,810	\$ 1,940,853	\$ 2,777,187

Strategic Goals and Objectives

Strategic Business Plan Goals
Customer Service
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Sound Financial & Resource Management
Water Quality
Water Reliability

FY 2011-12 Accomplishments

Customer Service

- Objective 4: Continued our expanded Water Explorations school tour program to serve more middle and high schools in West Basin's service area, and added young adult Sea Lab student instructors and tours of desalination facility
- Objective 4: Successfully sponsored four high schools in Solar Cup 2011
- Objective 5: Continued active tour program for the Temporary Ocean-Water Desalination Project for elected officials, sponsors, media and industry VIPs
- Objective 5: Continue to use the Water Education Center in with the Temporary Ocean-Water Desalination Project to outreach and educate area residents about the need for new, local and reliable water supplies
- Objective 5: West Basin's WR 2020 outreach program won the top award in the national Public Relations Society of America Silver Anvil in early 2012 and the Los Angeles Public Relations Society of American PRism Award contest and the Best Overall Public Relations program in Los Angeles in 2011
- Objective 5: Continued Water Reliability 2020 program outreach and obtained over 6,000 community supporters for the program, including seven new legislative supporters, and several business and community groups, as well as individuals willing to testify before regulatory agencies on behalf of WR 2020
- Objective 4: Attracted over 2,000 attendees to last year's Annual Water Harvest educational festival
- Objective 5: Continued our program to honor Legislators of the Year with Water Reliability 2020 awards;
- Objective 5: Continued to improve www.westbasin.org with interactive features involving water recycling, conservation and solar power generation, and a WR 2020 section
- Objective 5: Launched West Basin's Facebook page to reach target audiences
- Objective 5: Overhauled the District community give-away program to focus solely on water conservation devices
- Objective 5: Planned and executed several special events including Director Dear Building Dedication, State of the District and Water Harvest Festival
- Objective 2: Built a beautiful Native Plant Demonstration and Education Garden at its Carson Headquarters;
- Objective 4: Held Water and Energy Expo for local citizens (approximately 300 attendees) wishing to learn more about conserving water outside for their home
- Objective 5: Hosted several community events and groups at its new Temporary Ocean-Water Desalination facility and Water Education Center, and initiated a public tour program
- Objective 4: Modified the Water Star Program so that each student visiting the water facilities will go home with a Water Star conservation kit to implement conservation in their homes

FY 2012-13 Strategies

Customer Service

- Objective 4: 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
- Objective 2: Plan to publish a new value brochure to provide our customers with information about how West Basin efficiently plans, invests and builds cutting edge water facilities
- Objective 2: Initiate a Speakers Bureau, Water 101 class for local colleges, talking point cards for Board and staff
- Objective 4: Integrate “new media” such as Twitter and YouTube into outreach
- Objective 4: Continue implementing the WR2020 outreach program and launch a revived WR2020 section on the West Basin Web site
- Objective 4: Develop a one-day local water tour for community leaders
- Objective 5: Continue targeted outreach plan to build desalination support in Redondo Beach, neighboring beach cities, and throughout the District
- Objective 5: Continue developing new communication vehicles to showcase West Basin’s “new” brand and value including new State of District event
- Objective 4: Host Annual Water Harvest festival to reach out to the community and continue educational and value focus
- Objective 5: Coordinate frequent meetings with media focused on current issues facing the water industry and West Basin

CONSERVATION

West Basin has recently completed its Water Efficiency Master Plan, one of the few Master Plans in the nation that is coordinated with wholesale and retail agency conservation programs. During the past few years, West Basin was busy forging new partnerships and developing new water use efficiency strategies and programs to help the public conserve water. West Basin's water conservation and water efficiency programs are designed to not just meet but exceed the State's 20% savings per person by 2020. West Basin has conserved 10,000 acre-feet and plans to double that achievement by 2020.

Personnel - Full Time Equivalents (FTE)

FY 2009-10 Actual FTE	FY 2010-11 Actual FTE	FY 2011-12 Projected FTE	FY 2011-12 Budget FTE	FY 2012-13 Budget FTE
3.67	3.34	3.64	4.07	4.23

Operating Budget

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Labor and Benefits	\$ 421,151	\$ 417,645	\$ 458,560	\$ 520,329	\$ 599,313
Overhead	285,687	263,330	268,042	305,280	299,760
Conservation	1,477,802	1,424,669	1,852,350	1,803,745	2,511,197
Total Conservation	\$ 2,184,640	\$ 2,105,644	\$ 2,578,952	\$ 2,629,354	\$ 3,410,270

Strategic Goals and Objectives

Strategic Business Plan Goals
Customer Service
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Water Quality
Water Reliability

FY 2011-12 Accomplishments

Sound Financial & Resource Management

- Objective 6: Awarded a grant on behalf of its Customer Agencies to help develop additional local Water Use Efficiency programs

Water Reliability

- Objective 2: Continued to implement Ocean Friendly Garden classes and residential and Commercial water efficiency programs
- Objective 2: Completed five toilet events
- Objective 2: Installed an Ocean Friendly Garden at the Inglewood Central Fire Station

FY 2012-13 Strategies

Reliability

- Objective 2: Publicize West Basin's and retailers' new Water Efficiency Master Plans through a collaborative approach;
- Objective 2: Continue to implement the Water Efficiency and Conservation programs
- Objective 5: Continue to provide cities support with implementation of AB1881 – the state's new Model Landscape Ordinance

WATER QUALITY MONITORING PROGRAM

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

Personnel - Full Time Equivalents (FTE)

FY 2009-10 Actual FTE	FY 2010-11 Actual FTE	FY 2011-12 Projected FTE	FY 2011-12 Budget FTE	FY 2012-13 Budget FTE
0.09	0.04	0.09	0.04	0.08

Operating Budget

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Projected	FY 2011-12 Budget	FY 2012-13 Budget
Labor and Benefits	\$ 12,492	\$ 6,801	\$ 11,791	\$ 5,541	\$ 12,634
Overhead	7,041	3,525	5,732	2,642	5,681
Monitoring Program	7,920	753	2,300	1,316	3,700
Title 22 Monitoring	\$ 27,453	\$ 11,079	\$ 19,823	\$ 9,499	\$ 22,015

Strategic Goals and Objectives

Strategic Business Plan Goals
Customer Service
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FY 2011-12 Accomplishments

Water Quality

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

FY 2012-13 Strategies

Water Quality

- Objective 2: Continue to monitor and report on the Water Quality Monitoring Program
- Objective 2: Assist in producing the Triennial Public Health Goals Report for purveyors

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

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CAPITAL IMPROVEMENT PROGRAM

The West Basin Municipal Water District Capital Improvement Program (CIP) continues to be very active. To effectively respond to potential drought conditions, imported water uncertainty, and regulatory restrictions, West Basin views building dependence on locally controlled water as the solution to ensure businesses and residents of the West Basin service area have a reliable supply of water in the future. To meet this objective, West Basin has instituted the Water Reliability 2020 Program which will double its conservation efforts, double recycled water deliveries, and add Ocean-Water Desalination to its water portfolio by the year 2020.

To achieve this level of reliability, West Basin recognizes that funding for these projects is significant and will need to come from several sources. Depending on the nature of the capital project, the funding decision may be different. West Basin understands that certain capital expenditures have a short useful life and these projects will be funded through West Basin's PAYGO designated fund or through its Commercial Paper program. Another consideration is debt financing or obtaining a state loan which may be used when the term of the financing generally matches or is less than the estimated useful life of the capital project. Another approach new to West Basin this coming fiscal year is to pay for the construction upfront and immediately invoice the customer each month. West Basin continues to work with its customers inside and outside its service area to find mutually beneficial ways to finance and expand the recycled water system.

It is generally understood and anticipated that many expansion projects 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 fixed revenue charges.

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 and review of the capital implementation plan, West Basin intends to address future customer needs, system capacity and the infrastructure required to double current recycled water deliveries of approximately 30,000 AF.

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, is currently validating the temporary ocean-water desalination demonstration facility, and has substantially completed an Ocean Water Desalination Program Master Plan that fully outlines the roadmap for implementing a full-scale ocean water desalination facility and water supply to our

customers. The experience gained from piloting and demonstration testing is being used for the master planning process and will enable sound future investment into a full-scale ocean water desalination production facility.

West Basin is gaining 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 optimization, assessing water quality, along with providing opportunities for public and stakeholder education.

Project Financing

The following table depicts the sources of funds that will be used to pay for the anticipated CIP projects during FY 2012-13. West Basin anticipates spending \$8,829,193 from its designated funds to pay for the various replacement and refurbishment projects, water quality improvements, laterals and for the temporary ocean-water desalination demonstration facility. It is also anticipated that the reliability projects for the fourth expansion of the ECLWRF (Phase V), the expansion of the Hyperion Pump Station, the NRG Pipeline and other large CIP projects in FY 2012-13 will be paid for through the Commercial Paper program and/or from debt proceeds. West Basin will also be submitting an application to the State Water Resources Control Board to request a low-interest loan to assist in funding an expansion of the BP Refinery. The total amount of CIP expected to be expended in FY 2012-13 is \$41,029,574. The CIP projects outlined to begin in FY 2012-13 will be submitted individually to the Board of Directors for authorization and funding during the fiscal year.

Financing Sources for Fiscal Year 2012-13

	Commercial Paper	PAYGO	State Loan	Debt Finance
Reliability Projects	\$ 2,000,000	\$ 2,467,193	\$ 3,020,000	\$ 10,178,381
Replacement & Refurbishments	- 0 -	5,862,000	- 0 -	- 0 -
Other/Project Admin.	14,002,000 ⁽¹⁾	500,000	- 0 -	\$ 3,000,000
Total	\$ 16,002,000	\$ 8,829,193	\$ 3,020,000	\$ 13,178,381

(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 fourth expansion (Phase V) to the ECLWRF and has been 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. West Basin issued debt and received approximately \$80 million in bond construction proceeds for the Phase V expansion in FY 2011-12. The life of the bond used to fund the construction of the project is consistent with the term of a typical customer agreement.

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 Projected Operating Results only includes the estimated costs for site leasing and permitting.

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.

Personnel - Full Time Equivalent (FTE)

FY 2009-10 Actual FTE	FY 2010-11 Actual FTE	FY 2011-12 Projected FTE	FY 2011-12 Budget FTE	FY 2012-13 Budget FTE
12.32	10.89	11.44	12.63	11.56

The following table summarizes the planned expenditures for FY 2012-13 and the next five years.

CAPITAL IMPROVEMENT PROGRAM	FISCAL YEAR					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Reliability Projects						
ECLWRF - Phase V Expansion - Barrier System	3,619,131					
ECLWRF - Phase V Expansion - T22 System	913,110					
ECLWRF - Phase V Expansion - NRG/Chevron Boilerfeed	289,890					
BP Refinery - Capacity Expansion Project	3,020,000	12,080,000				
Harbor Area Expansion Project - CRWRF Phase II	5,170,000	38,000,000	1,563,000			
Harbor Area Expansion Project - Conveyance Pipeline	8,832,000	16,490,320	1,000,000			
NRG Pipeline	3,396,250					
Oceanwater Desalination Demonstration Facility	1,867,193	1,263,637				
Oceanwater Desalination Full-Scale Facility (20 mgd)	400,000	24,835,027	93,131,351	155,218,918	34,148,162	
Hyperion SE Pump Station Expansion & Electrical Feed	1,600,000	14,400,000				
Water Quality Facility Improvements	300,000	150,000	100,000	100,000	100,000	
Harbor/South Bay Project Laterals - DISTRICT	200,000	250,000	250,000	250,000	250,000	250,000
Nitrified Water Alkalinity Process Upgrades	1,960,000	2,940,000				
Replacement & Refurbishment Projects						
Treatment Facility Repair, Replacement, & Improvements	5,787,000	5,579,000	5,857,950	6,150,848	9,997,116	9,576,185
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		100,000	
District Administration and Other Capital Facilities						
Project Administration - Capital Only	3,000,000	3,150,000	3,307,500	3,472,875	3,646,519	3,828,845
Administrative / Building Remodel and Rehabilitation	500,000	100,000	100,000	100,000	100,000	
Projected Active Project Expenditures	41,029,574	119,312,984	105,484,801	165,367,641	48,416,797	13,730,030

Strategic Goals and Objectives

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FY 2011-12 Accomplishments

Water Reliability

- Objective 2: Initiated Design-Build efforts for the Phase V ECLWRF Expansion Project to serve an additional 5 million gallons per day (MGD) of Barrier Water, 0.5 MGD of boiler-feed water to NRG, and expand Title 22 water capacity, including the addition of ozonation as pretreatment to the micro filtration systems.
- Objective 3: Completed construction of the Toyota Filter Station at the Toyota Campus in Torrance. The Filter Station will improve water quality for customers within the City of Torrance, including Toyota and future sites.
- Objective 4: Initiated the Temporary Ocean-Water Desalination Demonstration Project to provide data that will be used 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 optimization, assessing water quality, along with providing opportunities for public and stakeholder education

Sound Financial and Resource Management

- Objective 1: Finalized design and initiated construction of the NRG Recycled Water Pipeline 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
- Objective 1: Completed construction of the Carson Mall Lateral. The Carson Mall Lateral Project 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
- Objective 1: Completed construction of the Dominguez Booster Pump Station to provide adequate hydraulic system pressure and water quality to planned customers. The booster pump station is located within the Dominguez Hills area of City of Carson
- Objective 1: Completed construction of the Torrance Booster Pump Station to provide adequate hydraulic system pressure and water quality to planned customers. The booster pump station is located within the City of Torrance and will serve multiple customers within the City

Customer Service

- Objective 2: Facilitated construction awareness outreach for three separate recycled water projects, holding community meetings, canvassing neighborhoods and furthering West Basin's WR2020 program

FY 2012-13 Strategies

Water Reliability

- Objective 2: Finalize Design-Build efforts for implementation of the Phase V ECLWRF Expansion Project. The Phase V Project will expand Barrier Water capacity by an additional 5 million gallons per day (MGD), and 0.5 MGD of boiler-feed water for serving NRG, and expand Title 22 water capacity for future additional customers
- Objective 4: Complete all aspects of the 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.
- Objective 4: Continue with demonstration testing and validation of the Temporary Ocean-Water Desalination Demonstration Project

Sound Financial and Resource Management

- Objective 1: Finalize 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
- Objective 1: Initiate feasibility study and initial pre-design efforts for the Hyperion Effluent Pumping Station Expansion and Secondary Electrical Feed Project. The pump station project will provide additional capacity to serve future recycled water demands and add a second power source to the existing Hyperion Effluent Pump Station to improve reliability and redundancy to the District's overall supply system
- Objective 2: Implement various treatment and conveyance facility repair, replacement, and rehabilitation projects to maintain and improve facility operations and ensure a long-term reliable water supply for the District's customers

Water Quality

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

ECLWRF PHASE V EXPANSION

Barrier System

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.

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.

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 10-inch diameter pipeline will also be constructed within the City of El Segundo to convey the low-pressure boiler feed water to the NRG power plant.



Project	ELWRF Phase V Expansion		
Timeline	Start	October 2009	Complete
			May 2013
FY 2012-13 Budget	\$4,822,131	Total Project Budget	\$69,000,000

BP REFINERY CAPACITY EXPANSION PROJECT

Expansion of the Carson Regional Water Recycling Facility will increase overall capacity serving the BP Refinery with cooling tower and boiler feed quality water. The BP Expansion Project will provide additional micro-filtration capacity, expand reverse osmosis production, and add additional nitrification process capacity to serve increased demands from BP.



Project	BP Refinery Capacity Expansion Project			
Timeline	Start	June 2012	Complete	June 2014
FY 2012-13 Budget	\$3,020,000	Total Project Budget		\$15,100,000

HARBOR AREA EXPANSION PROJECT – CRWRF PHASE II/CONVEYANCE PIPELINE

The Los Angeles Harbor Area Expansion project will 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.



Project	Harbor Area Expansion Project-CRWRF Phase II/Conveyance Pipeline			
Timeline	Start	August 2011	Complete	December 2014
FY 2012-13 Budget	\$14,002,000	Total Project Budget		\$75,000,000

Costs for this project will be reimbursed by LADWP as progress payments.

NRG PIPELINE

In 2011, West Basin and El Segundo Power, also known as NRG, entered into an agreement to deliver 526 AF of boiler feed water. Construction of the NRG Recycled Water Pipeline will 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



Project	NRG Pipeline			
Timeline	Start	April 2011	Complete	December 2012
FY 2012-13 Budget	\$3,396,250	Total Project Budget		\$3,940,000

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 demonstration of a temporary demonstration level facility, and ultimately leading to implementation of a full-scale ocean water desalination plant.

In 2011, West Basin began finalized construction of a Temporary Ocean Water Desalination Demonstration Facility. This facility will be used to acquire data and develop a basis of design for ultimate 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.

West Basin was awarded \$2,100,000 in grants to help offset the cost of construction for the Temporary Ocean Water Desalination Demonstration Facility.



Project	Ocean Water Desalination Demonstration Facility			
Timeline	Start	July 2006	Complete	December 2013
FY 2012-13 Budget	\$1,867,193	Total Project Budget		\$20,200,000

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. At present, West Basin utilized budgeting numbers for a 20 MGD facility.



Project	Ocean Water Desalination Full-Scale Facility			
Timeline	Start	July 2012	Complete	June 2017
FY 2012-13 Budget	\$400,000		Total Project Budget	\$308,000,000

HYPERION SECONDARY EFFLUENT PUMP STATION EXPANSION & ELECTRICAL FEED

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.

West Basin's Hyperion Secondary Effluent Pump Station must not only have adequate capacity to supply the Edward C. 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.



Project	Hyperion SE Pump Station Expansion & Electrical Feed			
Timeline	Start	September 2012	Complete	June 2014
FY 2012-13 Budget	\$1,600,000		Total Project Budget	\$16,000,000

NITRIFIED WATER ALKALINITY PROCESS UPGRADES

Construction of the Nitrified Water Alkalinity Process Upgrades will improve water quality and enhance production capacity at each recycled water satellite treatment facility.



Project	Nitrified Water Alkalinity Process Upgrades			
Timeline	Start	September 2012	Complete	December 2013
FY 2012-13 Budget	\$1,960,000	Total Project Budget		\$4,900,000

WATER QUALITY FACILITY IMPROVEMENTS

Design efforts have been initiated to implement several water quality 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.



Project	Water Quality Facility Improvements			
Timeline	Start	Various Dates	Complete	Ongoing
FY 2012-13 Budget	\$300,000	Total Project Budget		\$750,000

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 \$33 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.



Project	Harbor-South Bay Recycled Water Expansion Project			
Timeline	Start	May 2002	Complete	On-going
FY 2012-13 Budget	\$200,000	Total Project Budget		\$11,700,000

OTHER CAPITAL PROJECTS AND RELATED COSTS

Treatment/Conveyance Facility Repair, Replacement, and Improvements

Multiple facility improvements are under consideration for West Basin's treatment and conveyance system facilities. These improvements will enhance the safety, operability and efficiency of both the distribution system and treatment facilities. Some improvements are made to comply with safety, water quality or other regulatory requirements and may not result in an actual cost savings. Other improvements are identified 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 allocated cost of West Basin labor, both direct and indirect, benefits and overhead that is attributed to accomplishing the capital improvement program.

Administrative, Building Remodel and Rehabilitation

Several rehabilitation efforts have been identified, which can include HVAC repairs, roof replacement, computer upgrades, window repairs and other miscellaneous improvements. Each year an evaluation is made to determine what projects are necessary to support the administrative headquarters building and infrastructure.

ORGANIZATION MEMBERSHIPS

<u>Membership</u>	<u>FY 2011-12 Budget</u>	<u>FY 2012-13 BUDGET</u>
Alliance for Water Efficiency	3,050	3,100
American Membrane Technology Association	375	375
Association of California Water Agencies	20,500	20,500
CalDesal	5,000	5,000
California Urban Water Conservation Council	7,900	8,000
<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
National Water Research Institute	50,000	50,000
National Water Resources Association	350	350
So CA Alliance of Pub. Owned Treatment Works	4,000	4,000
Southern California Water Committee	850	850
Southwest Membrane Operators Association	600	600
Urban Water Institute, Inc.	1,250	1,250
Utility Branding Network	2,500	2,500
Water Education Foundation	2,700	2,700
Water Research Foundation (formerly AWWARF)	42,000	42,000
WaterReuse Association	7,500	7,840
WaterReuse Research Foundation	25,000	25,000
West Basin Water Association	200	200
Totals	\$ 184,110	\$ 184,600

Provided below is a summary description of the organizations that West Basin supports and the membership fees to be paid in FY 2012-13.

ALLIANCE FOR WATER EFFICIENCY

Orientation: Policy/Technical

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

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

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

Association Fee: \$3,100

AMERICAN MEMBRANE TECHNOLOGY ASSOCIATION

Orientation: Technical

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

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

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

Association Fee: \$375

ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA)

Organization: Policy Development/Legislation

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

West Basin Involvement: Board and staff are involved in various advisory committees and attend two semiannual conferences. A board member is elected as a Region 8 representative.

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

Association Fee: \$20,500

CAL DESAL

Orientation: Policy Development/Legislation

Description: Cal Desal 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. Cal Desal 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 Cal Desal.

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: \$8,000

THE CLIMATE REGISTRY

Orientation: Technical

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

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

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

Association Fee: \$850

COLORADO RIVER WATER USERS ASSOCIATION (CRWUA)

Orientation: Policy

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

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

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

Association Fee: \$120

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

**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 ASSOCIATION (WATEREUSE)

Orientation: Technical/Policy/Education

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

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

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

Association Fee: \$7,840

WATEREUSE RESEARCH FOUNDATION (WATEREUSE)

Orientation: Research

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

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

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

Association Fee: \$25,000

WEST BASIN WATER ASSOCIATION (WBWA)

Orientation: Outreach

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

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

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

Association Fee: \$200

FINANCIAL POLICIES

Included for reference are the full and complete financial policies:

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Designated Funds Policy	139
Procurement Policy	144
Capitalization Policy	155
Debt Management Policy	160
Swap Policy	174

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

3.0 Prudence:

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

4.0 Objectives:

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

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

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

5.0 Delegation of Authority:

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

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

6.0 Investment Procedures:

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

7.0 Ethics and Conflicts of Interest:

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

8.0 Authorized Financial Dealers and Institutions:

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

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

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

9.0 Authorized and Suitable Investments:

The District is governed by the California Government Code, Sections 53600, *et seq.* Within the context of these limitations, the investments listed below are authorized. Those investments not identified in Section 53600 or Section 16429.1 are considered to be ineligible. Credit criteria and maximum percentages listed in this section are calculated at the time the security is purchased.

- (a) Time Deposits – The Treasurer may invest in certificates of deposit issued by bank or savings and loans chartered by the United States or California. The maximum term for time deposits or bank certificates of deposit shall be five (5) years. The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the portfolio. Time certificates of deposit shall meet the conditions in either paragraph (1) or paragraph (2):
 - (1) Time certificates of deposit shall meet the requirements for deposit under Government Code Section 53635 *et seq.* The Treasurer may waive collateral requirements if the institution insures its deposits up to the Federal Deposit Insurance Corporation (FDIC) limit.
 - (2) Fully insured time certificates of deposit placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8.
- (b) Local Agency Investment Fund ("LAIF") Deposits – Deposits for the purpose of investment in the Local Agency Investment Fund of the State Treasury may be made up to the maximum amount permitted by State Treasury policy.
- (c) Negotiable Certificates of Deposit – The Treasurer may invest in negotiable certificates of deposit as follows:

- (1) To be eligible, a certificate of deposit must be issued by a nationally, or California-chartered bank, a California savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a California licensed branch of a foreign bank. (Government Code Sections 53601 (i).)
 - (2) Eligibility for deposits shall be limited to those financial institutions which maintain a long-term rating equivalent to "A" or higher by one of the nationally recognized statistical rating organizations (NRSRO).
 - (3) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
 - (4) The amount invested shall be subject to the capital limitations of Government Code Section 53638.
 - (5) The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the total portfolio.
 - (6) The maximum maturity shall be limited to five (5) years.
- (d) Bankers' Acceptances – The Treasurer may invest in bankers' acceptances as follows:
- (1) Investment in a prime banker's acceptance shall not exceed 15% of the portfolio in effect immediately after any such investment is made.
 - (2) Eligibility shall be limited to those securities issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by one or more of the NRSRO.
 - (3) No more than 15% of this category of investments may be invested in any one commercial bank's acceptances.
 - (4) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuer(s)).
 - (5) The maximum maturity shall be limited to 180 days. (Government Code Sections 53601(g).)

- (e) Commercial Paper – The Treasurer may invest in commercial paper as follows:
- (1) Only commercial paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by a NRSRO. (Government Code Sections 53601(h).)
 - (2) Eligible paper is further limited to issuing corporations that are organized and operating within the United States as a general corporation and having total assets in excess of \$500,000,000.
 - (3) Eligible issuer's debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
 - (4) Investments in commercial paper shall not exceed 25% of the portfolio.
 - (5) No more than 10% of the outstanding commercial paper of an issuing corporation may be purchased.
 - (6) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
 - (7) The term shall not exceed 270 days.
- (f) United States Treasuries – The Treasurer may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. (Government Code 53601 (b)).
- (g) Federal Agencies – The Treasurer may invest in Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.(Government Code 53601(f).)
- (1) Additionally the Treasurer may invest in FDIC-guaranteed corporate debt issued under the Temporary Liquidity Guarantee Program (TLGP) and backed by the full faith and credit of the United States Government with a maximum final maturity of five years or for the length of the TLGP guarantee.
- (h) Money Market Funds – The Treasurer may invest in shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (Government Code Section 53601 (l).)

The following criteria will be used in evaluating companies:

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

- (j) 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 and Federal Agency issuers).
- Limiting investment in securities that have higher credit risks.
- Investing in securities with varying maturities.
- Continuously investing a portion of the portfolio in readily available funds such as money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

15.0 Maximum Maturities:

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. No investments may be acquired that exceed five (5) years.

16.0 Investment Transactions:

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

17.0 Exchange of Securities:

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

18.0 Internal Control:

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

19.0 Performance Standards:

The District's portfolio is managed with the objective of obtaining a market rate of return, commensurate with identified risk constraints and cash flow characteristics. Because the 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 discount.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.0 Introduction

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

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

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

2.0 Roles and Responsibilities

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

The Chief Financial Officer is the designated administrator of the Policy. The Chief Financial Officer shall have the day-to-day responsibility and authority for implementing and managing the Policy.

3.0 Purpose

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

Prudent financial planning and fiscal responsibility includes anticipating and preparing for future funding needs as well as unexpected emergencies. The Policy establishes designated funds for its long term organizational and

operational stability and also helps to minimize significant rate fluctuations due to unforeseen cash flow requirements.

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

4.0 Types of Funds

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

Restricted reserves consist of funds with external restrictions imposed by creditors, grantors, contributors, or by laws or regulations of government and can only be used for specified purposes and are not governed by this policy.

5.0 Target Levels

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

6.0 Description of funds

As part of the annual budget development, the designated funds, their purpose and targets will be evaluated to determine the appropriate minimum

cash balance. The current designated funds can be divided into two main categories: Core categories and Other categories.

6.1 Core Categories

- a. Operating Liquidity – Provides for a variety of potentially competing purposes such as paying operating expenses during temporary revenue shortfalls, expenses not originally budgeted and fluctuations in revenues and expenses caused by timing of billing cycles and/or timing of debt service.
 - i. Target Amount – Daily budget operating expenses x 60 days (operating expense includes water purchases, program expenses and debt service).
 - ii. Target Date – Annual (June 30th of each fiscal year).

- b. Operating Contingency – Provides protection in the event of variability against budgeted expenses as unforeseen developments can occur which cause actual expenses to exceed the budget (e.g. Recycling O&M).
 - i. Target Amount – 5% of Recycling O&M budget.
 - ii. Target Date - Annual (June 30th of each fiscal year).

- c. Emergency Repairs – Provides for major failures of plant and equipment and gives the ability to fund an immediate response without financial disruption. Although preventive maintenance is intended to increase the predictability of equipment replacement, unanticipated equipment failure is unavoidable. This fund would be used to cover replacements made necessary by unplanned failures.
 - i. Target Amount – Ranges from cost of major repair/replacement or 1-2% of plant assets. An annual assessment will be performed by West Basin’s engineering and operations staff to assist in determining the appropriate target amount.
 - ii. Target Date – Annual (June 30th of each fiscal year).

- d. Capital Contingency – Provides a cushion for unexpected capital cost increases and/or unanticipated capital projects that arise.
 - i. Target Amount – 10% of annual capital budget.

- ii. Target Date – Annual (June 30th of each fiscal year).
- e. Rehabilitation & Replacement (R&R) – Provides an immediate resource for ongoing R&R of the system. As West Basin’s assets continues to age, there will be increasing demands to replace its facilities. As a general rule, maintenance costs for an asset becomes more expensive as that asset ages, and eventually the economic decision is made to replace the asset.
 - i. Target Amount – Ranges from 1% of depreciable assets to annual depreciation. An annual assessment will be performed by West Basin’s engineering and operations staff to assist in determining the appropriate target amount.
 - ii. Target Date – Annual (June 30th of each year).

6.2 Other Categories

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

6.0 Objectives

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

- 7.1 The core category is made up of five separate designated funds, each with its own target amount and with the same target date (June 30th). The sum of the five target amounts will be used to achieve a minimum cash target balance. This minimum cash target balance will be calculated annually and used to update the West Basin's long range financial plan as well as the upcoming fiscal year's operating budget.
- 7.2 The designated funds which are included in the other category (Section 6.2) will also be reviewed annually to determine the appropriate target amount and target date. As the target date for the System Expansion designated fund is based on large-scale capital projects and their construction start dates, the target amount will be excluded from the minimum cash target balance determined in Section 7.1.

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

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

5-1.103 PURCHASING OF SUPPLIES, GOODS AND EQUIPMENT

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

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

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

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

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

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

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

5-1.104 PROFESSIONAL SERVICES

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

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

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

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

5-1.105 NON-PROFESSIONAL SERVICES

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

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

Services up to \$5,000	Requires single price quote and purchase order approved by Department Manager and General Manager.
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 customers pays the cost of acquiring and installing service connections, but the District is responsible for the maintenance of the service connections, the District should include the connections as part of the District capital assets and record the customer contributions as revenue according to GASB Comprehensive Implementation Guide, footnote 64 to GASB-34.

2) Replacement due to expansion or new technology:

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

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

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

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

3) Replacement due to the end of life cycle:

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

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

1.0 Purpose

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

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

2.0 Goals and Objectives

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

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

3.0 Roles and Responsibilities

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

The Board acknowledges that changes in the capital markets and other unexpected events may, from time to time, create situations and opportunities that are not contemplated by this Policy and may require adjustments or exceptions to the guidelines of the Policy. In such circumstances, the ability of the District to be flexible is important; however, any authorization granted by the Board to proceed with a financing or financial product not expressly

permitted by the Policy must be accompanied by an acknowledgement of the Board that the actions to be taken by the District are not specifically authorized by the Policy in force at that time. The Policy shall be initially adopted by the Board and reviewed annually. Future updates, if necessary, to the Policy require the approval by the Board.

4.0 Long Range Financial Plan

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

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

5.0 Debt Financing

5.1 Revenue Obligations

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

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

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

5.2 Commercial Paper

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

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

5.3 Fixed and Variable Rate Obligations

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

Variable rate exposure can provide a means to enhance asset/liability management. The primary goal of asset/liability management is to

mitigate the impact of increased interest costs in a rising interest rate environment, and mitigate the impact of decreased interest income in a declining interest rate environment. The Chief Financial Officer will review the net variable rate exposure of the overall debt portfolio on a quarterly basis and at any time that additional debt is issued.

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

5.4 Grant Anticipation Notes

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

5.5 Lease Financings

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

6.0 Debt Refinancing

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

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

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

7.0 Debt Structure Considerations

7.1 Maturity of Debt

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

7.2 Debt Service Structure

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

7.3 Lien Structure

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

7.4 Capitalized Interest

The District may elect to fund capitalized interest in connection with the construction of certain projects when revenues from the project will not be available until completion. Other than such instances the District will not capitalize interest on financings thus avoiding increased borrowing amounts.

7.5 Reserve Funds

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

7.6 Redemption Provisions

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

7.7 Credit Enhancement

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

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

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

8.0 Method of Sale

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

9.0 Investment of Proceeds

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

10.0 Credit/Ratings Objectives

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

11.0 Investor Relations

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

12.0 Disclosure and Arbitrage Rebate Compliance

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

13.0 Consultants

13.1 Financial Advisor

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

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

- d) Experience and reputation of assigned personnel; and
- e) Fees and expenses.

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

13.2 Bond Counsel

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

13.3 Disclosure Counsel

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

13.4 Underwriters

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

- a) Quality and applicability of financing ideas;
- b) Demonstrated ability to manage complex financial transactions;

- c) Demonstrated ability to structure debt issues efficiently and effectively;
- d) Demonstrated ability to sell debt to institutional and retail investors;
- e) Demonstrated willingness to put capital at risk;
- f) Experience and reputation of assigned personnel;
- g) Past performance and references; and
- h) Fees and expenses.

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

14.0 Reporting Requirements

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

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

15.0 Definitions

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

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

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

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

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

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

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

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

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

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

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

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

obligations is typically accompanied by a defeasance of the refunded revenue obligations.

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

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

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

IRS – Internal Revenue Service

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

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

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

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

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

Official Statement – A document distributed by an Issuer which discloses material information about the proposed issue including the purpose of the

issue, source of repayment, financing covenants as well as financial, economic, demographic and legal characteristics of the Issuer. An Official Statement is one of the sources that investors rely upon to determine the credit quality of an issue.

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

Pledged Revenues – The moneys obligated for the payment of debt service and other deposits required by the financing documents. A typical 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

1.0 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.

2.0 Authority

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

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

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

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

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

3.0 Purpose

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

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

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

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

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

4.0 Evaluation of Proposed Transactions

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

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

5.0 Qualified Swap Counterparties

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

6.0 Counterparty Termination Exposure

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

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

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

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

7.0 Termination and Assignment provisions

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

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

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

8.0 Term and Notional Amount of Swap Agreement

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

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

9.0 Form of Swap Agreements

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

10.0 Collateral Requirements

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

- a) Each swap counterparty to West Basin shall be required to post collateral if the credit rating of the swap counterparty or its guarantor is not in the two highest rating categories by at least two of the nationally recognized rating agencies.
- b) Collateral shall consist of cash, U.S. Treasury Securities, or Agency Securities which are rated at equivalent ratings of U.S. Treasury Securities, by any two of the nationally recognized rating agencies.
- c) Collateral shall be deposited with a third party custodian, or as mutually agreed upon between West Basin and each swap counterparty.
- d) A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement.
- e) The market value of the swap and the collateral shall be determined on at least a weekly basis.
- f) West Basin will determine reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.
- g) The CFO shall determine on a case by case basis whether other forms of credit enhancement are more beneficial to West Basin.

11.0 Amendment or Assignment of Swap Transaction or Swap Agreement

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

West Basin shall be authorized to enter into any assignment or novation of a swap transaction from one swap counterparty to another swap counterparty with the approval and authorization of the CFO if the swap counterparty to which such swap transaction is assigned is a Qualified Swap Counterparty.

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

12.0 Reporting Requirements

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

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

13.0 Definitions

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

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

GASB – Governmental Accounting Standards Board

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

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

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

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

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

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

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

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

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

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 third largest in the country. Formed in 1926, the San Jose-based company serves 460,000 customers through 26 Customer and Operations Centers throughout the state.

California Environmental Quality Act (CEQA)

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) – Removal of salts from salt water by evaporation or distillation. Specific treatment processes, such as reverse osmosis or multi-stage flash distillation, to de-mineralize seawater or brackish (saline) waters for reuse.

Debt Coverage – The ratio of annual net income to annual debt service.

Debt Service - Principal and interest payments on bonds or other debt instruments used to finance capital facilities.

Department of Water Resources (DWR) – DWR operates and maintains the State Water Project, including the California Aqueduct. The department also provides dam safety and flood control services, assists local water districts in water management and conservation activities, promotes recreational opportunities, and plans for future statewide water needs.

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.

High-Efficiency Toilet (HET) – High-Efficiency Toilet (HET) flushes at 20 percent below a ULFT which flushes at 1.6 gallons per flush, equating to 1.28 gallons per flush or less. The average water savings for HETs is estimated to be 19,000 gallons per year when replacing an average, non-efficient toilet and 4,000 gallons per year when replacing a ULFT.

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.

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

OPEB – Other Post-Retirement Benefits

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

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

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

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

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

Refunding Revenue Bonds – A bond that retires another bond before the first bond matures. A company may issue a refunding bond for a number of reasons, but mainly because of a decline in interest rates, which reduces the cost of funding.

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



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