



WEST BASIN MUNICIPAL WATER DISTRICT » CARSON, CA
OPERATING BUDGET
FISCAL YEAR 2014-2015



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



TABLE OF CONTENTS

West Basin Municipal Water District
Fiscal Year 2014-15 Budget

General Manager’s Message	A-1
About West Basin Municipal Water District	B-1
Financial Overview and Summary	C-1
• Financial Highlights for FY 2014-15.	C-1
• Performance Metrics	C-4
• Strategic Business Plan.	C-5
• Long-Range Financial Plan	C-6
• Five-year Forecast.	C-9
Budget Process and Timeline	D-1
Source of Revenue	E-1
• Revenue Highlights	E-2
• Water Rates and Charges	E-3
• Other Sources of Revenue.	E-9
Use of Funds	F-1
• Water Purchases and Charges	F-2
• Debt Service.	F-4
• Operating Program Expenses	F-9
• Salaries and Benefits	F-9
• Capital Improvement Program	F-14
Operating Program Expenses	G-1
• Overhead Program Costs.	G-2
• Water Recycling Operations.	G-6
• C. Marvin Brewer Desalter Operations.	G-10
• Water Policy and Resource Development	G-12
• Public Information	G-15
• Conservation	G-18
• Water Quality Monitoring Program.	G-20
District Policies	H-1
• Budget-Related Policies Summaries	H-1
• Investment Policy	H-5
• Designated Funds Policy	H-15
• Procurement Policy.	H-19
• Capitalization Policy	H-32
• Debt Management Policy	H-36
• Swap Policy	H-46
• Standby Charge Policy.	H-53
Supplemental Information	I-1
• Capital Improvement Program.	I-1
• Organization Memberships and Sponsorships.	I-26
Glossary	J-1



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**West Basin Municipal Water District
California**

For the Fiscal Year Beginning

July 1, 2013

Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

*Operating Budget Excellence Award
Fiscal Year 2014*

Presented to the

West Basin Municipal Water District

For meeting the criteria established to achieve the Operating Budget Excellence Award.

February 11, 2014

*Pauline Marx
CSMFO President*

*Ken Brown, Chair
Professional Standards and
Recognition Committee*



Dedicated Excellence in Municipal Financial Reporting

GENERAL MANAGER'S MESSAGE

GENERAL MANAGER'S MESSAGE



May 28, 2014

To the Honorable Board of Directors and Customers of West Basin Municipal Water District

West Basin Municipal Water District (West Basin) staff is pleased to present the operating budget and supplemental information for Fiscal Year (FY) beginning July 1, 2014 and ending June 30, 2015 (FY 2014-15). Careful consideration is made in its development to ensure West Basin's mission, strategic goals, and commitments are being met. West Basin balances its Budget by carefully setting water rates and charges to address the many challenges facing the water industry, such as the uncertainty of future water supply availability, lower demand due to heightened awareness of the statewide drought, and the commitment to augment potable water deliveries with various grades of recycled water.

For FY 2014-15, the total West Basin operating budget is \$196,915,035 and represents an increase of \$5,082,444 from the prior year. The increase is the result of slightly higher than anticipated imported water sales for the West Coast Basin Barrier (Barrier) along with an increase of \$33 per acre-foot (AF) in the imported water rate passed through from Metropolitan Water District of Southern California (MWD) offset by minimal declines in both debt service and program expenditures.

Addressed below are several factors considered in the development of this year's budget including: 1) commitment to achieving the goals within West Basin's Strategic Business Plan, 2) the Board of Director's policy discussions, 3) the financial considerations to prepare a sound and fiscally responsible operating budget that meets the financial metrics and the long-term fiscal impact of the decisions made today, and 4) address the impacts of the declaration of drought and the increased awareness for conservation.

ACHIEVEMENT TOWARD WEST BASIN'S STRATEGIC BUSINESS PLAN (PLAN) GOALS AND COMMITMENTS

Originally developed in 2008 and revised in in 2011, the West Basin Plan provides the framework for identifying and implementing the key goals and objectives to meet the needs of the West Basin service area in five key commitment areas: Water Reliability, Water Quality, Customer Service, Environmental Stewardship, and Sound Financial and Resource Management. Throughout this period, regular updates have been provided on the progress of the Plan Goals and Objectives. The Board of Directors anticipate a review of the Plan in 2014 to identify changes, if any, should be made to provide guidance on future policy direction that increases West Basin's value commitment to its service area customers, resident, businesses, and other stakeholders.

Highlighted below are accomplishments where West Basin has provided value during the current fiscal year and has shaped our objectives for FY 2014-15.

Water Reliability

- Completion of Phase V and working towards 100% injection into the West Coast Basin Barrier;
- Completion of feasibility and initial design towards Hyperion Pump Station expansion;
- Piloted a new water efficiency program for distributing rain barrels that has received a tremendous response to each distribution event; and
- Identified and developed locations to build Ocean Friendly Gardens that demonstrates the ability to update landscapes to be more water efficient.

Water Quality

- Completed a pilot study on new water quality, referred to as tertiary membrane bioreactor or T-MBR; and
- Designed a portable potable backup system to be made available when source water quality does not meet the needs of our customers.

Customer Service

- Expanded the Small and Community Bank Investment Program with two new participating banks;
- Developed the framework for an effective small business enterprise program to compliment West Basin's local business enterprise program;
- Continued success with outreach programs which serve to engage and educate the public, effectively communicating the message on conservation and current water issues through school tours, technical tours, and evening Water 101 classes for the communities we serve;
- Held first Greater Los Angeles Water Summit that brought local city officials together with water industry leaders to discuss local, regional and statewide water-related topics; and
- Actively engaged in legislation that would directly affect West Basin or the water industry including the Bay Delta Conservation Plan and the proposed statewide water bond.

Sound Financial and Resource Management

- Established the Standby Charge Defeasance Fund in an effort to end the need for the annual Standby Charge by setting aside funds towards the repayment of outstanding debt;
- Made revisions to designated funds policy to more accurately reflect the nature of the core designations, the calculation of the core and incorporate the new Standby Charge Defeasance Fund;
- Redeemed 2008A Bonds through Commercial Paper Line resulting in savings of at least \$160,000 in the initial year;
- Paid off the OPEB unfunded liability to reduce future required Other Post-Employment Benefits expense;
- Increased focus on Asset Management and more effectively plan for needed replacements or refurbishments; and
- Updated building infrastructure with a new roof and improved technology cabling.

Environmental Stewardship

- Met with the Non-Government Organizations (NGO) to provide updates on West Basin's progress in the research and development of ocean-water desalination in an environmentally responsible manner; and
- Continued to evaluate alternate energy sources.

SPECIAL BOARD POLICY WORKSHOPS

Last year, the Board of Directors initiated monthly Special Board Policy workshops. Each workshop is focused on one subject matter to allow the Board and staff to thoroughly analyze the subject matter, receive Board direction, and assess next steps. At the Board's direction, staff incorporated any financial commitment from those workshops into the development of the FY 2014-15 operating budget.

As previously mentioned, the Board began review of the Plan by working with a consultant to identify the future focus for water reliability. This may result in an updated Plan with revised goals and objectives to plan, budget, implement, evaluate and report the overall policy direction for West Basin.

Two key updates, presented by Human Resources, focused on a comprehensive classification and compensation review and a succession plan. The last review of classification and compensation was addressed nearly five years ago. Since that time, new positions have been added and roles have evolved. This process allowed for all job descriptions to be rewritten and was the basis for the compensation analysis. Results from the classification and compensation review resulted in a few reclassifications, and adjustment to salary ranges along with the Board approving a compensation policy. A separate effort was made towards succession with a review of each position to determine the retirement status, criticality of positions and succession planning priority. It also identified the need to continue the effort to ensure that proper documentation, training, and mentoring are occurring to effectively manage staff resources that support the West Basin's operations.

In terms of West Basin's progress toward achieving its "Water Reliability 2020" (WR 2020) program goals and the SBX-7 legislation enacted in November 2009 to reduce water consumption by 20 percent by the year 2020, a number of meetings were held to receive input on the goals for water recycling, conservation and ocean-water desalination. In addition, staff presented recommendations in response to the Board's request on the financial viability of the water recycling system.

Staff has also briefed the Board on a number of other subjects including a project labor agreement, small business enterprise program and implementation costs for renovation of the office facility at the Edward C. Little Water Recycling Facility.

KEY FACTORS IMPACTING THE BUDGET

The development of the budget incorporates a multitude of decisions, from water sales assumptions, to achieving the goals and objectives of the Plan, to consideration of funding for capital projects, to the future risks or financial commitments of West Basin. Each item is carefully considered to ensure that West Basin is focused on meeting its mission to provide a safe and reliable supply of water.

West Basin understands that strong credit ratings allow an agency to obtain low-cost financing for its capital projects. To achieve strong credit ratings, West Basin has internally established budgeted debt coverage goals, enhanced its financial policies, and updated water rates as appropriate. West Basin is an economically strong service area, and it provides an essential and critical service to a community increasing in population. In addition, West Basin has demonstrated consistently high financial performance and the ability to complete large capital water recycling projects in a timely manner.

Through the Plan, the Board of Directors desires to maintain or seek a credit rating increase. West Basin establishes its revenues and expenses to meet targeted budget debt coverage at

each security interest level and total debt. The financial model and financial policies provide the framework of future assumptions that will allow West Basin to continue to maintain a financially sound organization.

As part of its 2013 refunding opportunity, both Moody's and Standard & Poor's reviewed West Basin's management and governance, rate setting practice and programs, and reaffirmed at Aa2 and AA-, respectively.

Water Sales Assumptions

As nearly 90% of our revenues are generated from volumetric sales, careful consideration is made when determining its sales assumptions. Staff reviewed past history, monitored the regional water provider (MWD) position, discussed impacts with its customers and also reviewed its current projects to assess where an appropriate assumption is anticipated for retail and Barrier imported sales, recycled water sales and the brackish desalter water sales.

With the declaration of a statewide drought by Governor Brown on January 17, 2014, West Basin has been closely monitoring its retail imported water sales to determine the impact of the drought on its service area water demand. West Basin closely monitors the amount of water expected through the State Water Project and the Colorado River Aqueduct as it will dictate how much water MWD may need to pull from its water reserves. Initially, the state informed its customers to expect a 0% allocation due to the record low water fall and snow pack levels; however, the allocation was recently revised upwards to 5%. Significant regional demand is expected from MWD's water reserves and the Colorado River Aqueduct that will require MWD to make certain storage investments necessary when the water becomes available.

West Basin recognizes the serious impact that certain communities may be experiencing and held a press conference to inform its service area that local investment by West Basin and MWD in water efficient projects reduce our dependence on state project water and has more favorably positioned us to meet the service area demands. However, it was also communicated that continued investment in, and applying water efficient practices everyday will be a long-term necessity even without a declaration of drought.

The last declaration of drought in 2007 resulted in West Basin having a 20% decline in water sales in four years. While West Basin has seen actual retail imported sales above budget the last two years, a more conservative approach was taken by holding the retail imported sales budget flat in anticipation that the conservation messaging has a resounding affect.

In review of the Barrier sales, staff looks individually at the history of sales to the Dominguez Gap Barrier and the West Coast Basin Barrier. The West Coast Basin Barrier sales include both imported and recycled water sales. While West Basin has completed the Phase V project to increase groundwater replenishment to 100% recycled, there has been some operational changes and external restrictions that have prevented West Basin from reflecting all of the sales as recycled water. While the Barrier capacity is approximately 17,000 AF, staff noted the average overall deliveries have been around 15,500 AF. Based on the assumed overall deliveries, staff calculated the amount of recycled water production (taking into consideration the external restrictions and the expected ramp up) and then placed the balance as imported water sales.

Achieving the Goals and Objectives of the Strategic Business Plan

The development of the program budget takes into consideration several factors. The Plan provides the roadmap and supports certain initiatives while the daily operations guide the necessary costs to run each West Basin activity along with achieving its debt coverage. Program activity levels remain

the same to current year with no new programs added; however, staffing levels have increased with one additional limited-term Accountant position and an additional intern for a total employee count of 45. Staff has made a concerted effort to hold or reduce its program costs with obtaining an understanding of the necessity of certain higher costs.

A major concerted effort within the Operations and Engineering Departments is to document the assets of its treatment facilities. A comprehensive asset management database has been developed and continues to evolve, and is the basis for identifying a nearly \$6 million replacement and refurbishment (R&R) budget. The other expected capital expenditures are dependent on obtaining a customer agreement or direction to proceed.

More information about West Basin expenditures can be found within the Use of Funds section, Operating Program Expenses section and the Supplemental Section (Capital Improvement Program).

Consideration of Funding for Capital Projects

Since the majority of the expected capital expenditures are R&R, West Basin can fund those projects through Pay-as-You-Go (PAYGO). West Basin has available a Commercial Paper line and will seek long-term debt such as the State of California's Revolving Loan Program. In addition, West Basin is active in pursuing grants from local, state and Federal agencies to collaborate on the many important studies and projects that will benefit the water industry.

At this time, West Basin does not anticipate it will need to draw upon its Designated Funds.

Future Risks and Other Considerations

Just as it is important to understand the assumptions for the current year to develop the budget and associated water rates and charges, West Basin is mindful that the decisions made today could have a long-term impact and West Basin wants to be responsive to predictable rate increases and program activity that provides value to its customers. In addition, West Basin also understands that there may be future commitments or changes that should be considered in the development of its annual budget.

For consideration in the FY 2014-15 budget, West Basin contemplated the fiscal impact of the drought and conservation messaging, future funding for pensions and other post-retirement employee benefits (OPEB), managing operating costs, funding for future WR 2020 projects such as ocean-water desalination, and the expiring incentive from MWD through its Local Resources Program (LRP).

News of the global and local economy can certainly have an effect on the constituents of West Basin's service area. Those items however are typically ancillary to West Basin, as the significant driver is the impact on delivery of water. West Basin does receive grant funding through the State of California from voter approved propositions and works diligently to monitor and pursue those grants.

Since a majority of West Basin's debt is fixed rate obligations that have a predetermined debt maturity schedule, the smaller variable portion is generally reset by the one month LIBOR rate. Staff does work actively with its financial advisor to monitor this experience and it has remained relatively flat over the past year. West Basin has certain funds with which they may invest in fixed-income securities and West Basin, along with their investment manager, carefully monitor the market to seek opportunities to achieve its investment benchmark. While the stock market continues to rise, the fixed income market remains relatively low; however, the Federal Central Bank has made certain decisions that could increase these rates in the next few years.

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 nearly 90% of total revenues. These sales enable West Basin to provide its customers with more reliable, high-quality water. West Basin continues to contribute value to its customers through water recycling, conservation, planning, community outreach, legislative advocacy and effective operations and investments into the future.

For FY 2014-15, West Basin's Board of Directors adopted an increase of \$45 on its water reliability service charge that incorporates a shift of \$31 from the Readiness-To-Serve charge; recycled water rates will increase per customer agreement or will increase in line with the non-interruptible Tier 1 effective rate; a \$5/cubic foot per second increase in its water service charge; and passing through a \$33/AF increase in the MWD commodity charge. In addition, the Board of Directors approved the annual Standby Charge collection that generates \$9.6 million to support the water recycling program. A more thorough discussion of these various funding sources is located in the "Source of Revenue" section.

IN CONCLUSION

The financial horizon evolves as West Basin builds the infrastructure to support the goals within the WR 2020 program. To monitor the fiscal impact, West Basin has developed a dynamic financial model and incorporates many of the assumptions and information from other master plans and decisions are being contemplated to ensure our customers have a safe and reliable water supply. As West Basin focuses on more locally controlled water, the financial model will aid in the development and communication of future water rate impacts.

West Basin water rates have been carefully considered and communicated to the Board of Directors and to its customers. West Basin understands the impact the water rates have on its customers and balances those concerns with meeting the objective of diversifying water supply sources and identifying and addressing operational risks. West Basin is aware of the short-term and long-term risks that have an impact on its operations and achieving the successes of local projects to support WR 2020 and takes these into consideration as it develops the budget and water rates.

California's water industry is politically, environmentally and operationally challenged by budgetary and physical constraints. West Basin is committed to demonstrate 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 a safe and reliable water supply.

Respectfully,



Rich Nagel
General Manager

ABOUT

WEST BASIN MUNICIPAL WATER DISTRICT

ABOUT WEST BASIN MUNICIPAL WATER DISTRICT

Board of Directors



Donald L. Dear
PRESIDENT | DIVISION V



Gloria D. Gray
VICE PRESIDENT | DIVISION II



Ronald C. (Ron) Smith
TREASURER | DIVISION I



Carol W. Kwan
DIVISION III

*Director position for Division IV
is currently vacant (As of 6/1/2014)*

West Basin Municipal Water District (West Basin) is a special district of the State of California and an innovative, award-winning public agency that provides drinking and recycled water, water efficiency and water education programs to its approximately 1 million residents within a 185-square mile service area. West Basin purchases imported water from the Metropolitan Water District of Southern California (Metropolitan) and sells the imported water to cities, water agencies, and private water companies in coastal Los Angeles County.

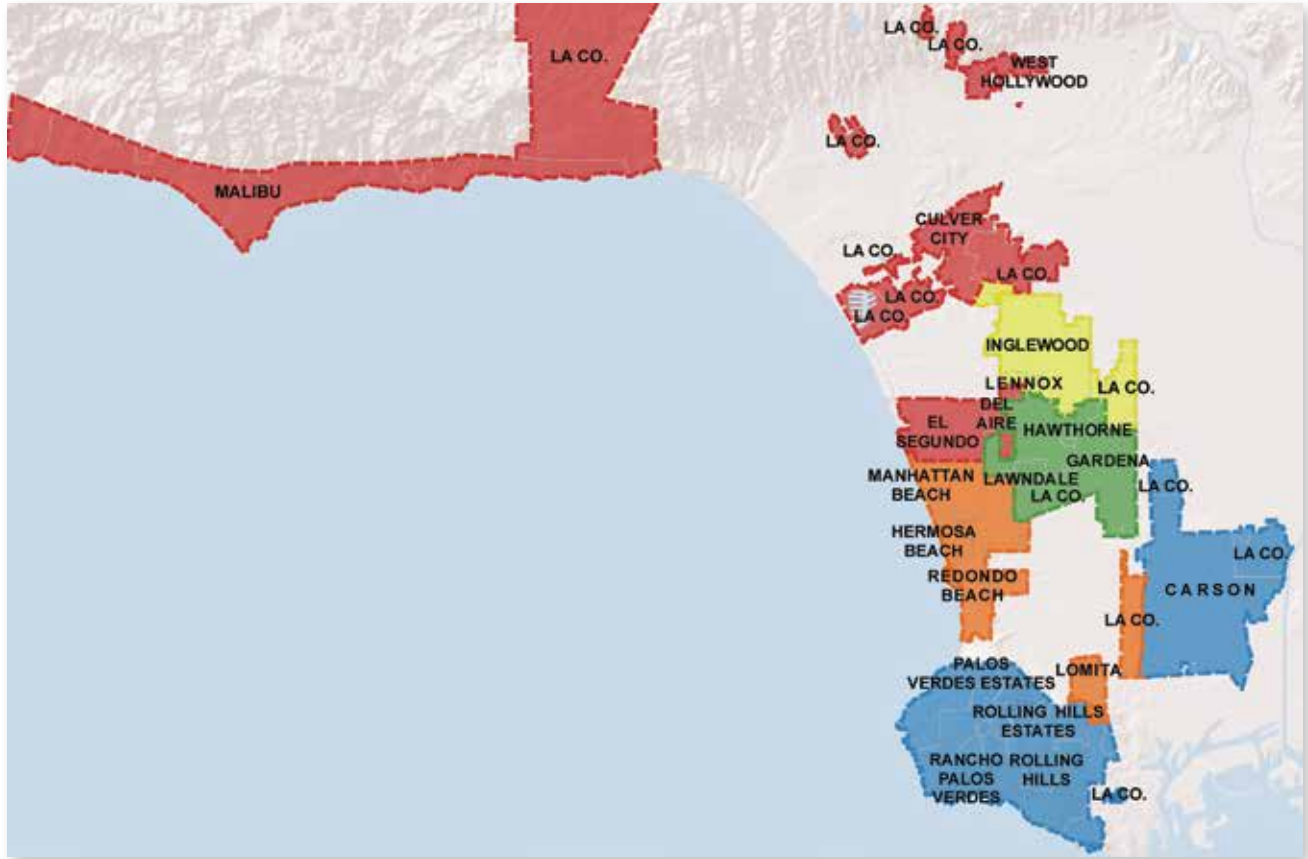
To protect our local groundwater aquifer from seawater intrusion, West Basin currently provides highly purified recycled water to the Water Replenishment District of Southern California (WRD) for injection into the West Coast seawater barrier. The seawater barrier protects and augments \$200 million dollars' worth of local groundwater supplies.

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

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

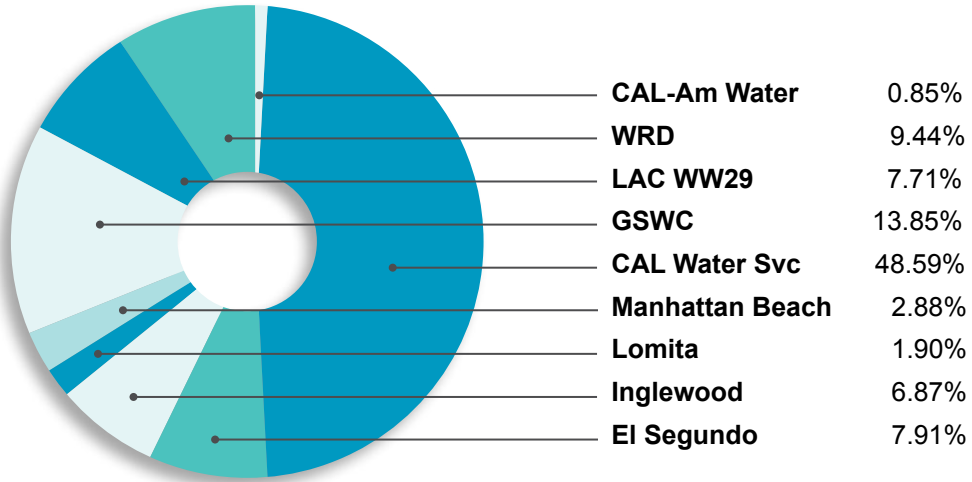
Service Area

West Basin Municipal Water District serves a diverse population of nearly one million people 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).

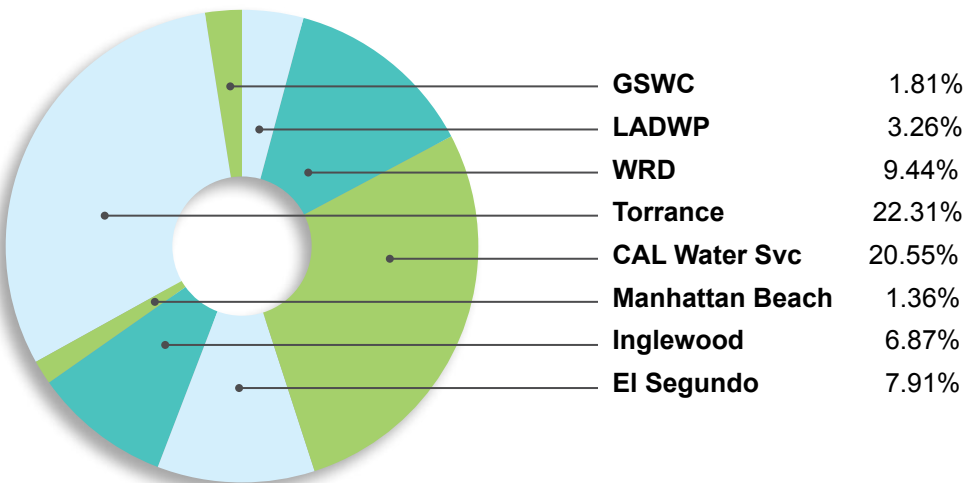


CUSTOMERS	WATER PURCHASES		
	Potable	Recycled	Desalted
California American	✓		
California Water Service	✓	✓	✓
City of El Segundo	✓	✓	
City of Inglewood	✓	✓	
City of Lomita	✓		
City of Manhattan Beach	✓	✓	
City of Torrance		✓	
Golden State Water Company	✓	✓	
LA County Waterworks No. 29	✓		
Los Angeles Department of Water & Power		✓	
Water Replenishment District	✓	✓	

POTABLE AF
Customer Sales Distribution
FY 2012-2013



RECYCLED WATER AF
Customer Sales Distribution
FY 2012-2013



History

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

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

As a result of the extreme drought of the late 1980s and early 1990s, West Basin leaders decided to diversify the agency's water portfolio to include conservation and water reuse to provide a more reliable supply of water for future generations. Early efforts included building the world's most unique water recycling facility that would convert treated wastewater into different types of high-quality recycled water suitable for groundwater recharge, irrigation, 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, reducing energy use by importing less water from hundreds of miles away, reducing wastewater and biosolids discharged to the ocean, and use of wastewater as a sustainable water resource. The drought of the early 1990s also increased awareness about water conservation and resulted in West Basin's addition of conservation as a new water supply alternative. West Basin currently offers free indoor and outdoor programs for residents and businesses to reduce their consumption of water and maximize water use efficiency.

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

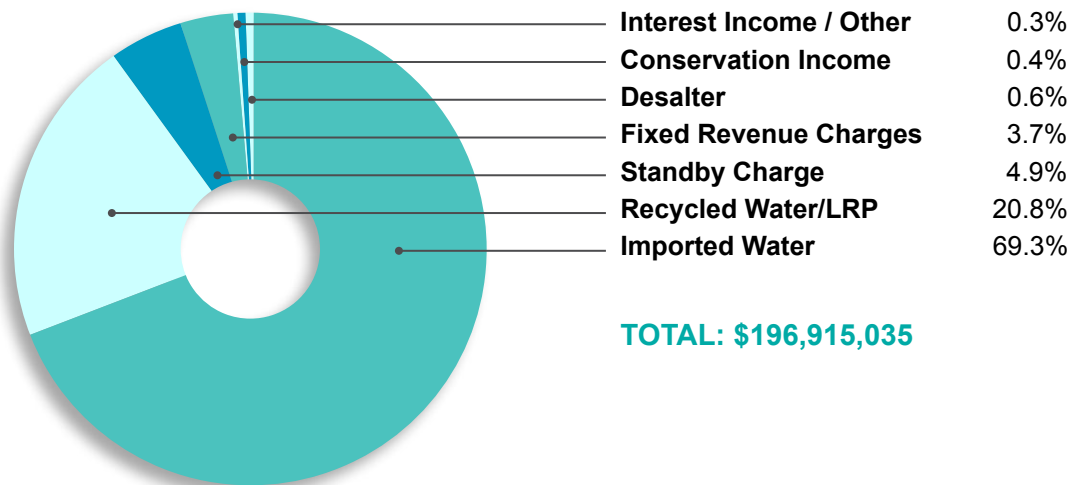
FINANCIAL OVERVIEW AND SUMMARY

FINANCIAL OVERVIEW AND SUMMARY

Financial Highlights for Fiscal Year (FY) 2014-15

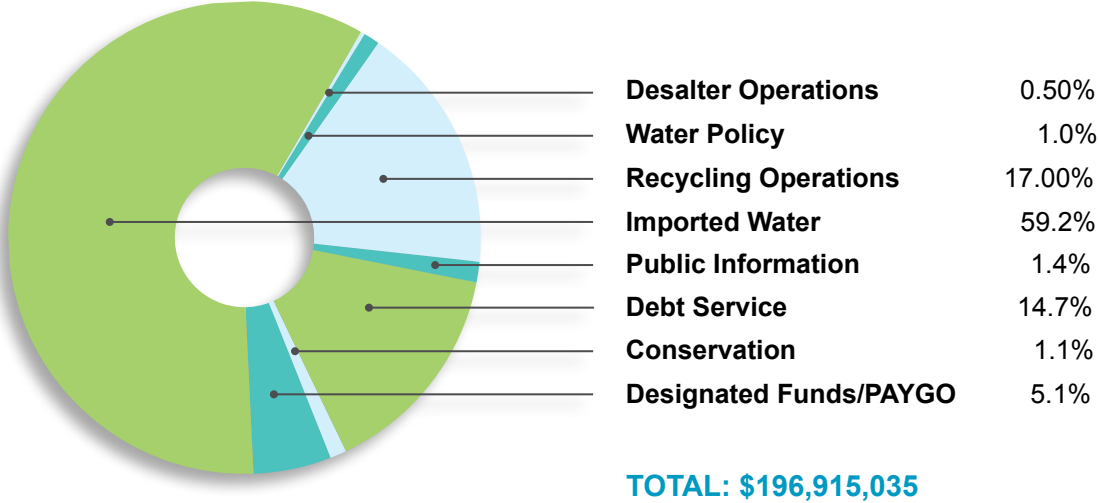
West Basin's operating budget for FY 2014-15 of \$197 million is 2.7% higher than the FY 2013-14 operating budget. There are two primary reasons for this modest increase in revenues. The first is an increase in imported water sales of approximately \$8.0 million. This increase in imported water sales is a result of the number of budgeted acre-feet increasing by 1,500 and the price of imported water increasing \$47 per acre-foot (AF) or 4.1%. However the modest increase in revenues is actually an offset of \$2.1 million in recycled water sales/Metropolitan Water District's (MWD) Local Resources Program (LRP). This decrease is primarily due to a decline in the number of recycled water acre feet projected to be sold in FY 2014-15 to the Water Replenishment District of Southern California (WRD).

SOURCE OF FUNDS FY 2014-15



Similar to the revenues, operating expenses for FY 2014-15 are budgeted at \$197 million. One reason for the increase in operating expenses is higher imported water cost from MWD that represents \$6.3 million or a 5.9% increase. Off-setting the higher imported water costs are lower operating program costs. West Basin anticipates its power cost from Southern California Edison to elevate by 12% and expects the contractor operating the water recycling facilities to hire one (1) additional staff and to implement an agreed upon cost-of-living increase. Even with the increases in power and contract labor, the water recycling operations budget in FY 2014-15 will remain fairly flat due to the anticipated decrease in number of acre-feet sold. Finally, in the recent low interest rate environment, West Basin has refunded its long-term debt several times over the last several years and continues to look for opportunities to lower its annual debt service. As a result of the refundings, West Basin’s annual debt service decreased \$920,794 below the FY 2013-14 Budget.

**USE OF FUNDS
FY 2014-15**



STAFFING AND PROGRAM BUDGETS

West Basin focuses on making appropriate personnel increases in departments or reallocates work responsibilities that will best meet the needs of the organization. To better understand the staffing needs, 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 F-13.

Budget staffing levels for FY 2014-15 consists of thirty-eight (38) full-time budgeted positions, three full-time limited term, two part-time and two intern positions. In FY 2013-14 West Basin recognized a need for additional assistance in the Human Resources staff and shifted approximately one-half of the time from a Finance Department position to assist the Human Resources Department. In the FY 2014-15 Budget, a full-time limited term position has been added to separate the human resources and financial duties into two positions to allow for segregation of duties and better internal controls. Also, one intern position was added to assist both the Water Policy and Public Information departments.

West Basin’s programs presented in FY 2014-15 are similar to those shown in prior years. No new programs were added.

BUDGET	FY 2013-14	FY 2014-15
Total Positions	43	45
Full-time regular	38	38
Full-time limited	2	3
Part-time	2	2
Interns	1	2

Performance Metrics

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

West Basin continues to explore and identify key performance metrics that provide meaningful information that the Board of Directors and staff can use to measure the success of the programs, services and related resources that are funded and within the budget. In addition, staff has provided the accomplishments and strategies under the Operating Program Expenses and CIP section to reflect how the use of funds will benefit the agency.

METRIC	FY 2012-13 ACTUAL	FY 2013-14 PROJECTED	FY 2014-15 TARGET
On time submission of annual bond disclosure	100%	100%	100%
Investment Benchmark – meet or exceed Merrill Lynch 1 year	Actual: Exceeded	Actual: On track to exceed	Benchmark: Merrill Lynch 1- Yr Treasury Index
Maintain AA credit rating from Moody’s and Standard & Poor’s	Aa2/AA-	Aa2/AA-	Aa2/AA-
On time submission of quarterly debt and swap reports	100%	100%	100%
Achieve internal all-in Debt Coverage target of 1.35	1.55	1.88	1.35
Improve Recycled Water Cost per Unit	\$1,633	\$1,771	\$1,752
Achieve 50% Grant Award to Submission success rate	NA	70%	50%
Achieve 50% Grant Award to Submission success rate	100%	100%	100%

Strategic Business Plan

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

While the Strategic Business Plan is a living document, the Board of Directors anticipate a review of the Plan in 2014 to identify changes, if any, should be made to continue to provide guidance on future policy direction that increases West Basin's value commitment to its service area customers, resident, businesses, and other stakeholders.

Based on this Plan, West Basin develops the strategies, programs, and activities necessary to effectively implement the Board's directions.

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 2013-14 accomplishments and FY 2014-15 strategies to support the Plan goals and objectives identified above.

Long-Range Financial Plan

Through West Basin's program, Water Reliability 2020 (WR 2020), West Basin is focused on developing more local resources through increasing its efforts in water recycling, developing a full-scale ocean-water desalination facility and expanding its conservation programs (not funded by debt). Based on two master plans, the Local Resources Strategic Plan and Capital Implementation Master Plan (CIMP), West Basin began to focus on the development of a Long-Range Financial Plan. During FY 2009-10 a financial model was developed to incorporate the existing budget, incorporate future capital costs, and make certain budgetary assumptions. These assumptions include water sales, operating expense increases, water rates, capital project funding, designated funds, and debt coverage. The assumptions are re-evaluated each year and updated as necessary. In addition, sensitivity analysis is performed to determine the biggest drivers of potential water rate increases.

As West Basin moves forward with supporting WR 2020, 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 and along with the Capital Implementation Master Plan and the Ocean-Water Desalination Master Plan will provide strategic direction where investments are anticipated.

In FY 2010-11, West Basin focused on improving its Asset Management Program. Through 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. As a result of analysis performed, West Basin created a new position to assist in effectively implementing its Asset Management Program. And finally, in FY 2013-14 West Basin revamped its Designated Funds Policy.

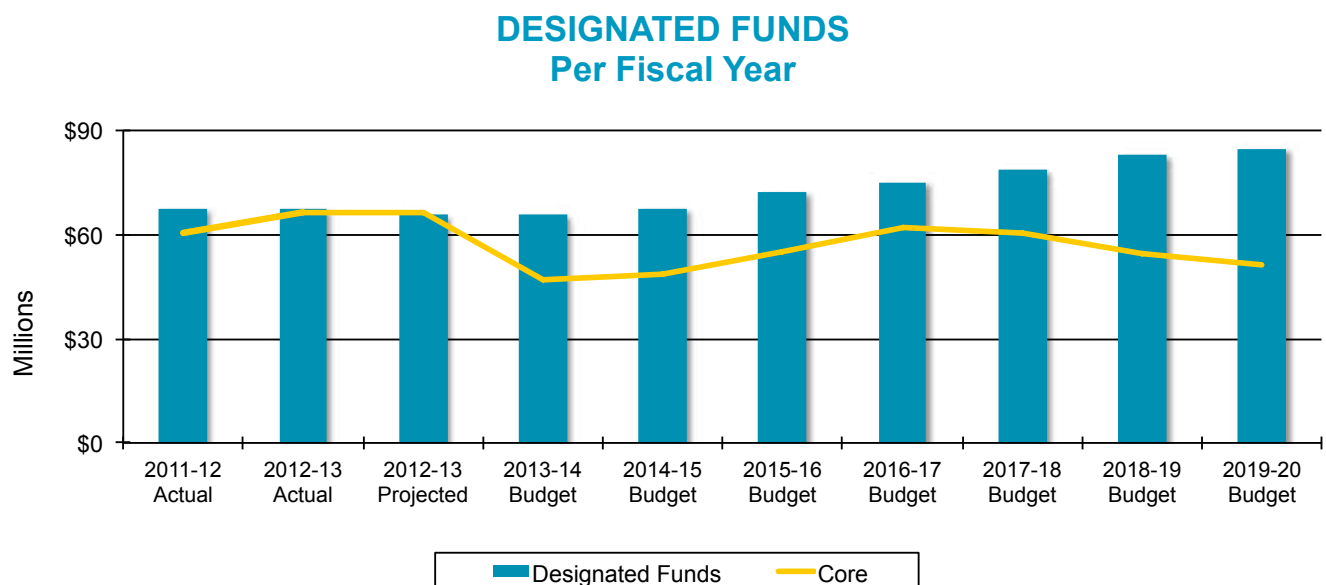
FUND BALANCE (DESIGNATED FUNDS)

Designated Funds are a strong indicator of an agency’s financial health. West Basin’s Designated Funds Policy is sometimes referred to as a Reserve Policy and was designed to ensure West Basin has adequate funds to protect its financial health and the furtherance of West Basin’s mission. The Designated Funds Policy was revamped in FY 2013-14 in conjunction with the Long-Range Financial Plan by combining certain funds, revising target levels to be based on a calculation, and adding a new fund for Standby Charge Defeasance.

The policy does not specifically state a target amount but staff has established an internal target approach in its Long-Range Financial Plan 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 program. The sum of all the core components provide an overall target amount that serves as a trigger for the Board of Directors to consider options when funding levels fall near or below the overall target. If reserve levels exceed the minimum, the Board may consider retiring outstanding debt or reducing future debt by considering funding certain capital projects with cash.

West Basin’s core target level decreased in FY 2013-14 when the Designated Funds Policy was revised; however, the core target level is anticipated to increase in the future years as capital improvement projects escalate. Designated funds are also anticipated to increase during the same period as a result of debt service dropping off.

The chart below shows the actual, projected and budgeted designated fund levels from FY 2011-12 through FY 2019-20.



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

Below are the actual revenues and expenses for FY 2011-12 and FY 2012-13, the projected revenues and expenses for FY 2013-14, as well as the budgeted revenues and expenses for FY's 2014-15 through FY 2019-20.

DESIGNATED FUNDS CASH FLOW (In 000's)

Fiscal Year:	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Description	Actual	Actual	Actual	Projected	Budget	Budget	Budget	Budget	Budget	Budget
Designated Funds (Beg Bal)	\$62,380	\$54,121	\$67,418	\$53,722	\$67,530	\$67,544	\$72,314	\$75,007	\$78,583	\$82,892
Imported Water Revenue	106,427	114,974	129,607	136,501	136,501	137,781	138,593	143,315	148,248	153,168
Recycled Water Revenue	43,168	46,131	49,794	66,115	57,815	63,295	66,541	67,893	69,488	68,372
Other Revenues	5,433	4,723	6,215	2,599	2,599	3,837	2,863	3,463	4,250	4,608
Total Revenues	155,028	165,828	185,616	205,215	196,915	204,913	207,997	214,671	221,986	226,148
Water Purchases	94,855	99,019	110,530	116,554	116,554	116,490	116,195	119,259	122,414	125,664
Program Expenses	31,481	30,630	34,338	41,324	41,296	44,409	49,487	51,758	54,136	56,628
Net Debt Service	22,437	21,390	21,022	29,029	29,029	26,094	26,022	26,078	26,127	26,104
PAYGO	14,514	1,492	33,422	4,500	10,022	13,150	13,600	14,000	15,000	16,000
Total Expenses	163,287	152,531	199,312	191,407	196,901	200,143	205,304	211,095	217,677	224,396
Designated Funds (End Bal)	\$54,121	\$67,418	\$53,722	\$67,530	\$67,544	\$72,314	\$75,007	\$78,583	\$82,892	\$84,644

Five Year Forecast

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

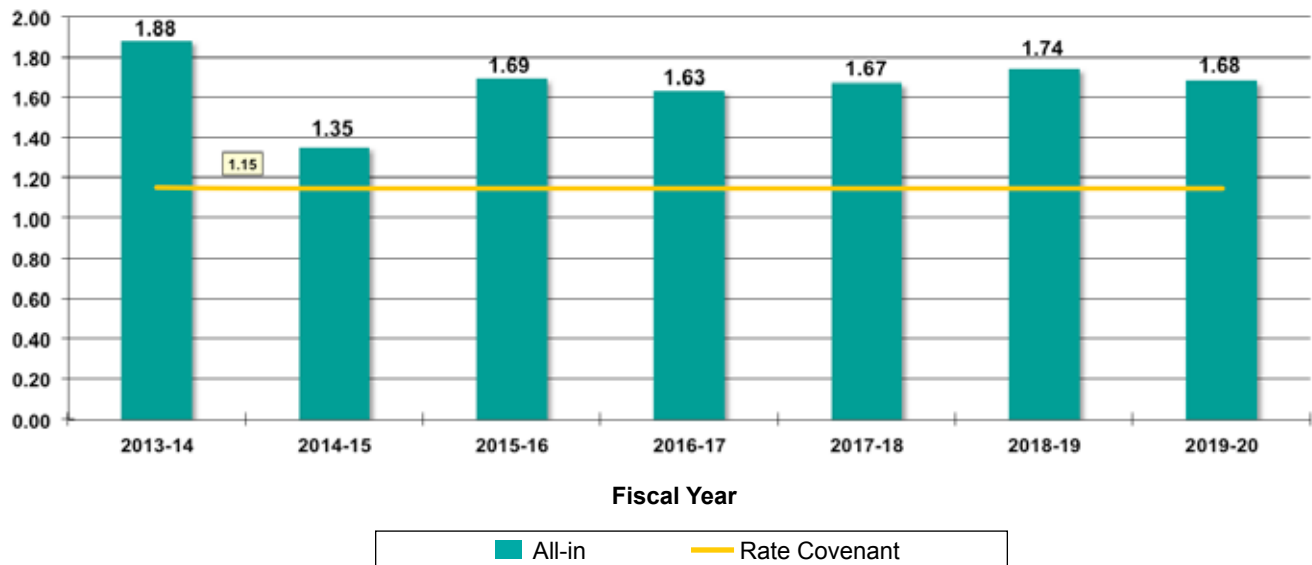
Fiscal Year:	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
REVENUES						
Water Sales	133,712,500	134,643,600	135,442,625	140,108,284	144,972,655	149,824,886
Water Service Charge	523,103	568,590	625,449	682,308	750,539	818,770
Capacity Charge	2,265,450	2,569,050	2,524,500	2,524,500	2,524,500	2,524,500
Recycled Water Project Revenues						
Recycled Water Sales	32,109,270	36,799,142	41,356,413	42,890,750	44,486,103	46,088,991
Fixed Revenue Charges	7,293,592	7,341,992	5,331,929	5,149,196	5,149,196	4,980,896
MWD LRP Rebate	8,762,500	9,503,750	10,203,000	10,203,000	10,203,000	7,652,250
Standby Charges	9,650,000	9,650,000	9,650,000	9,650,000	9,650,000	9,650,000
Other Revenues						
Desalted Water Sales	1,099,980	1,128,060	1,153,580	1,184,559	1,216,467	1,249,332
Interest Earnings/Grants/Other	640,000	1,850,000	850,000	1,420,000	2,175,000	2,500,000
Conservation Incentives	858,640	858,640	858,640	858,640	858,640	858,640
Total Revenues	\$196,915,035	\$204,912,824	\$207,996,136	\$214,671,236	\$221,986,100	\$226,148,265
EXPENSES						
Water Purchases/RTS from MWD	114,319,100	113,957,800	113,686,265	116,749,849	119,905,340	123,155,496
Capacity Charge	2,234,790	2,532,200	2,509,180	2,509,180	2,509,180	2,509,180
Program Expenses						
Recycled Operations	33,515,736	36,433,148	41,312,300	43,377,915	45,546,811	47,824,152
Desalter Operations	912,347	935,156	958,535	982,498	1,007,060	1,032,237
Water Policy	1,897,312	1,944,745	1,993,363	2,043,198	2,094,277	2,146,634
Public Information	2,830,934	2,901,707	2,974,250	3,048,606	3,124,821	3,202,942
Conservation	2,116,950	2,169,874	2,224,121	2,279,724	2,336,717	2,395,135
Title 22 Water Quality Monitoring	23,820	24,416	25,026	25,652	26,293	26,950
Designated Funds/Other	10,035,148	17,920,129	16,290,667	17,576,071	19,308,900	17,751,699
2010A CP Line	3,435,000	3,497,800	3,538,800	3,592,900	3,644,600	3,625,200
2011A	1,791,400	1,437,688	4,907,167	5,218,350	5,210,138	5,219,350
2011B	2,993,250	2,993,250	2,993,250	2,993,250	2,993,250	2,993,250
2012A	4,389,338	4,389,567	4,386,850	4,389,900	4,390,017	4,390,688
2013A	7,402,800	3,777,150	287,300	-	-	-
Proposed debt/state loan	-	940,264	940,264	940,264	940,264	940,264
Subordinate Debt						
2008B Series	9,017,110	9,057,931	8,968,798	8,943,881	8,948,431	8,935,088
Total Expenses	\$196,915,035	\$204,912,824	\$207,996,135	\$214,671,237	\$221,986,100	\$226,148,265
Coverage - Senior Debt	1.95	2.58	2.48	2.55	2.64	2.55
Coverage - Subordinate Debt	2.11	2.98	2.82	2.97	3.16	2.99
Coverage - All Debt	1.35	1.69	1.63	1.67	1.74	1.68

Planned capital improvements projects have been incorporated into the above five-year projected operating results table either through draws from the Commercial Paper Program, PAYGO, or anticipated long-term financing. In addition, the operating expenses in recycled water operations in future years reflect an increase in expenses based on the volume, cost per acre-foot, including both variable and fixed costs, and timing of new sales.

Fiscal Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
COST (Sales Price) of Water (\$/af)						
MWD Imported - Tier 1 (Jul)	890	923	942	970	999	1,029
MWD Imported - Tier 1 (Jan)	923	942	970	999	1,029	1,060
MWD RTS Commodity Charge (Jul)	112	112	112	112	112	112
MWD RTS Commodity Charge (Jan)	112	112	112	112	112	112
Title 22 Within WB - Recycled Water	935	969	1,014	1,058	1,104	1,150
Title 22 - LADWP - Recycled Water	977	1,011	1,056	1,100	1,146	1,192
Title 22 - Torrance - Recycled Water	977	1,011	1,056	1,100	1,146	1,192
Barrier - RW (1st 4,500AF)	586	1,158	1,191	1,232	1,275	1,318
Barrier - Recycled Water	586	605	625	645	666	687
LPBF - Recycled Water	1,183	1,217	1,261	1,305	1,351	1,397
HPBF - Recycled Water	1,539	1,574	1,621	1,670	1,720	1,772
Nitrified - Recycled Water	935	969	1,013	1,057	1,103	1,149
Reliability Service Charge	169	184	200	215	231	246
MWD LRP Rebate	250	250	250	250	250	250
Desalted Water (Jul)	1,002	1,035	1,054	1,082	1,111	1,141
Desalted Water (Jan)	1,035	1,054	1,082	1,111	1,141	1,172
Capacity Charge - MWD	8,600	11,100	10,900	10,900	10,900	10,900
Capacity Charge - MWD (Jan)	11,100	10,900	10,900	10,900	10,900	10,900
Capacity Charge-Cust	6,600	8,800	8,500	8,500	8,500	8,500
Capacity Charge-Cust (Jan)	8,800	8,500	8,500	8,500	8,500	8,500
SALES VOLUME (afy)						
Non-Interruptible	106,000	106,000	103,205	103,205	103,205	103,205
Seawater Barrier	6,600	3,600	3,600	3,600	3,600	3,600
Recycled Water	35,650	38,015	40,812	40,812	40,812	40,812
Title 22 Within WB	6,850	6,850	6,850	6,850	6,850	6,850
Title 22 - LADWP	900	900	900	900	900	900
Title 22 - Torrance	6,350	5,715	6,350	6,350	6,350	6,350
RO - Barrier	12,500	15,500	15,500	15,500	15,500	15,500
RO - Industrial	5,710	5,710	7,030	7,030	7,030	7,030
RO - Industrial - Ultra	2,340	2,340	2,340	2,340	2,340	2,340
Industrial - NH3	1,000	1,000	1,842	1,842	1,842	1,842
Desalted Water	1,080	1,080	1,080	1,080	1,080	1,080
Capacity Charge-MWD	222.6	230.2	230.2	230.2	230.2	230.2
Capacity Charge-MWD (Jan)	230.2	230.2	230.2	230.2	230.2	230.2
Capacity Charge-Cust	290.5	297.0	297.0	297.0	297.0	297.0
Capacity Charge-Cust (Jan)	297.0	297.0	297.0	297.0	297.0	297.0
FIXED PAYMENTS						
BP	2,136,000	2,136,000	2,136,000	2,136,000	2,136,000	2,136,000
Mobil NH3	134,000	182,400	182,400	182,400	182,400	182,400
Mobil (phase 2)	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460
Mobil O&M (phase 2)	-	-	-	-	-	-
Chevron Nitrification	1,009,800	1,009,800	1,009,800	1,009,800	1,009,800	841,500
Chevron Boiler Feed	2,192,796	2,192,796	182,733	-	-	-
NRG	40,000	40,000	40,000	40,000	40,000	40,000
LADWP	206,536	206,536	206,536	206,536	206,536	206,536
TOTAL FIXED PAYMENTS	\$7,293,592	\$7,341,992	\$5,331,929	\$5,149,196	\$5,149,196	\$4,980,896

DEBT COVERAGE

Projected, Current Budget and 5-year Projection FY 2013-14 thru FY 2019-20



HISTORICAL DEBT COVERAGE

Comparison with Other Water Agencies FY 2008-09 thru FY 2012-13

NAME OF AGENCY	2008-09	2009-10	2010-11	2011-12	2012-13
Central Basin MWD	1.21	1.71	1.91	0.64	0.20
Calleguas MWD	2.67	1.96	1.26	1.88	2.85
Eastern MWD	2.30	2.00	2.00	1.80	2.00
La Virgenes MWD	2.92	2.03	2.35	2.82	2.92
Inland Empire Utilities Agency	1.32	1.75	1.43	1.69	2.20
San Diego County Water Authority	2.92	2.03	2.35	2.82	2.92
Three Valleys MWD	2.63	1.95	1.23	0.99	2.05
West Basin MWD	1.09	1.26	1.22	1.52	1.55
Western MWD	4.44	3.01	1.74	1.79	2.75

BUDGET PROCESS AND TIMELINE

BUDGET PROCESS AND TIMELINE

Public agencies develop budgets as a performance tool to measure accountability to its stakeholders. For West Basin, the budget is developed based on meeting the priorities, goals and objectives established by the Board of Directors through its Strategic Business Plan (Plan), which was developed through a series of interviews with the Board of Directors, management, and key staff in addition to interviews with key stakeholders. The Plan provides direction for planning, budgeting, implementation, evaluation and reporting. The Plan is a “living” document in that it does not have a termination date, but it is constantly changing and evolving as the needs of West Basin change and evolve.

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

The General Manager communicates the goals and the current year budget objectives to the managers to ensure the budget includes the financial requirements necessary to achieve these goals and objectives. To ensure completion, the goals are also incorporated into individual staff’s performance goals. Furthermore, the high level goals are also included in the monthly board memos to reflect the commitment to meet the Board’s directives.

BUDGET OBJECTIVES	MET
1. Achieve Board-directed Financial Metrics	✓
2. Review Sales Assumptions and Rate Options	✓
3. Review long-term rate impact	✓

West Basin is not required to adopt a budget and therefore does not appropriate funds. However, as a good business practice, West Basin does prepare, adopt, monitor, and report budgeted information.

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

Budget Basis

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

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

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

Budget Process and Timeline for Fiscal Year 2014-15

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

DATES

KEY ACTIVITIES

January 7, 2014

Submit staff labor allocation

January 14, 2014

Submit sales AF projections

January 16, 2014

Submit preliminary draft FY 14-15 operating and capital budget

February 4, 2014

Submit FY 13-14 operating program projections

February 6, 2014

Meet to discuss water rates and charges

February 13, 2014

Meet to discuss operating and capital budgets

February 25, 2014

Conduct 2nd meeting to discuss operating and capital budgets

March 12, 2014

Conduct Board workshop

March 24, 2014

Present budget highlights at regular Board meeting

March 25, 2014

Submit program text to Finance

March 26, 2014

Conduct customer agency workshop

April 16, 2014

Present draft water rate and charges and Standby Charge resolutions to Finance Committee

April 28, 2014

Adopt separate resolutions on West Basin water rates and Standby Charge at regular Board meeting

May 14, 2014

Present draft budget document to Finance Committee

May 28, 2014

Adopt FY 14-15 operating budget at regular Board meeting

January: Each manager reviews their department's personnel needs for the next fiscal year and will allocate each of their department employee's time to the various program activities and on the personnel needs to help accomplish the goals and objectives provided in the Plan. If a new position is deemed necessary, a request is made to Human Resources and reviewed with the General Manager. Based on their discussion with the requesting department, the General Manager will consider approval of adding the proposed position, if any, to the budget. Human Resources will submit information regarding the proposed position to the Finance Department along with a pay range. Water sales projections are discussed with the managers to aide in the development of water sales assumptions being made at the regional level. Budget versus actual reports for the current fiscal year are provided to each manager to assist in the preparation of a preliminary draft budget. Managers then submit their proposed programmatic operating and capital improvement program (CIP) budgets for Fiscal Year (FY) 2014-15.

February: The budget versus actual reports also assist each manager in providing their year-end program projections for the current fiscal year. Budget staff updates its long- range financial model with the proposed operating and CIP budgets, along with water sales projections and current debt service to recommend the necessary water rates and charges to meet the budget objectives for FY 2014-15. Also incorporated into the budget are the anticipated Metropolitan Water District (MWD) water rates in order to know the total effect on West Basin's own water rates and charges (the changes in the MWD rate is typically passed through to West Basin's purveyors). The managers and budget staff meet to discuss the recommended water rates and charges to meet the budget objectives for FY 2014-15. Water rate and acre-feet options are discussed and are presented to executive management for their consideration. The Finance Department reviews the CIP and the projected net revenues to determine if sufficient net revenues are available to meet the PAYGO requirements. Managers and budget staff meet with the General Manager to discuss each program operating budget and its goals and objectives along with explanations for major variances from the prior year budget. The General Manager will make changes to the preliminary draft budget as needed.

March: Staff submits a proposed balanced budget to the Board of Directors in a workshop format. Staff reviews water sales assumptions, operating budgets that meet the goals and objectives of the Plan, demonstrate appropriate all-in bond coverage levels, and present a 5-year outlook of projected future water rates and their impact to West Basin's designated funds. During the workshop, all staff members who participated in the development of the proposed budget are in attendance to answer questions regarding their respective budget. The presentation also discusses the budget assumptions, labor needs, debt service, revenue requirements and debt coverage. At this time, Board members may give direction or request changes to the proposed budget. Managers and budget staff submit budget text to support program costs, water rates and charges, and other budgetary assumptions. Subsequent to the Board workshop, West Basin conducts a customer agency workshop to discuss its goals, the supporting budget and proposed water rates.

April: Any changes requested by the Board of Directors and/or the General Manager are incorporated into the proposed budget. The budget staff presents an update of the proposed budget and provides feedback from the Board workshop and customer agency workshop at the Finance Committee. The Board of Directors considers adoption of the annual Standby Charge, and the water rates and charges.

May: The recommendation for approval is taken to the Board of Directors to adopt the proposed operating budget for the next fiscal year beginning July 1.

Budget Review

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

Amendments to the Budget

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

SOURCE OF REVENUE

SOURCE OF REVENUE

West Basin Municipal Water District (West Basin) revenue is derived from water sales and charges, fixed revenues, conservation income and interest income. The two primary sources are imported and recycled water sold to its customer agencies. Imported sales represent 68% and recycling sales represent 21% of all revenue sources. Total budgeted revenues for Fiscal Year (FY) 2014-15 are \$196,915,035.

Summarized below are the actual, projected and budgeted revenues for the past three years along with comparative budgets (FY 2013-14 & FY 2014-15) to show the trend of various revenue sources.

REVENUES	FY 2011-12 ACTUAL	FY 2012-13 ACTUAL	FY 2012-13 PROJECTED	FY 2013-14 BUDGET	FY 2014-15 BUDGET
Imported Water Sales	\$112,621,888	\$127,385,697	\$131,568,743	\$125,690,700	\$133,712,500
Water Service Charge	392,844	434,196	477,616	477,616	523,103
Capacity Charge	1,959,012	1,786,980	1,781,175	1,781,175	2,265,450
Recycled Water/ LRP	29,258,124	32,628,990	38,130,800	43,015,080	40,871,770
Fixed Revenue Charge	8,162,672	8,528,283	15,885,000	8,199,920	7,293,592
Desalter Water/ GRP	1,073,749	879,124	1,008,000	955,800	1,099,980
General Fund Interest	1,053,907	104,985	502,000	525,000	238,300
Standby Charge	9,631,773	9,805,001	9,650,000	9,650,000	9,650,000
Conservation Income	811,628	1,156,166	881,150	1,312,300	858,640
Other Income	614,213	139,134	175,000	225,000	401,700
Total Revenues	\$165,579,810	\$182,848,556	\$200,059,484	\$191,832,591	\$196,915,035

Revenue Highlights

West Basin is a wholesaler who purchases imported water from Metropolitan Water District (MWD) for retail use (municipal, commercial, and domestic) and groundwater replenishment uses. Desalted brackish groundwater is also produced and sold. In the early 1990s, West Basin began constructing recycled water distribution pipelines and facilities for industrial, commercial, and landscape irrigation sites. Today more than 400 sites throughout the southwestern portion of Los Angeles County benefit from this local resource. To fund the construction of the facilities and pipelines, West Basin obtains funding from a variety of sources including a Standby Charge, fixed revenue charges, and commodity rates.

West Basin receives approximately 8.6% of its revenues from the fixed revenue charges and the Standby Charge. The fixed revenue charges are determined by agreements. Through Resolution 04-14-988 approved by the Board on April 28, 2014, the Standby Charge generates approximately \$9.65 million.

Annually, West Basin establishes rates and charges through a resolution approved by the Board of Directors. Resolution 04-14-989 was adopted at its April 28, 2014 meeting and includes rates for the following services:

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

Although the resolution does reflect non-interruptible rates for two tiers, Tier 2 pricing is not anticipated for West Basin customers as West Basin has met its requirement to MWD.

The acre-foot (AF) assumption for water deliveries is also reviewed annually and is based upon a review of historic water sales, discussions with customers about their intended source of water usage (imported, groundwater, recycled), and a review of West Basin capital projects to determine where recycled water sales may replace imported water sales. Retail imported water sales were 108,550 AF in FY 2012-13 and are expected to remain steady with maybe a minor uptick to 109,000 AF in FY 2013-14. However, West Basin anticipates these sales for FY 2014-15 to decrease due to drought messaging and continued conservation efforts. As a result, West Basin will maintain the same retail imported water AF sales in FY 2014-15 as were budgeted in FY 2013-14, 106,000 AF.

As expected, budgeted imported water barrier sales have decreased significantly from actual AF deliveries due to a shift away from imported water to increased recycled water deliveries. Retail barrier water sales are expected to drop from 11,320 AF in FY 2012-13 to a projected 7,500 AF at end of FY 2013-14. This decrease is expected to continue as imported sales to the barrier are budgeted at 6,600 AF for FY 2014-15 as West Basin provides more recycled water for injection into the West Coast Basin Barrier (Barrier). Recycled water revenues are expected to decrease due to lowered overall demand and the lowered rate (per agreement) at which recycled water is sold for the Barrier.

Water Rates and Charges

IMPORTED WATER REVENUES

West Basin imported water revenues are comprised of three rate components: MWD's Commodity Rate, Readiness-to-Serve (RTS) Charge, and West Basin's Reliability Service Charge. West Basin anticipates the retail and barrier imported water rate will have a combined overall increase of \$47/AF by January 2015. Based on AF assumptions and the rates for the fiscal year described below, West Basin is budgeting \$133,712,500 in imported water sales.

MWD's commodity rate increase has historically become effective on January 1 of each year and this year MWD approved rates for the next two years on April 8, 2014. For Calendar Year (CY) 2015 and 2016 MWD's Board of Directors voted to increase their non-interruptible commodity rate approximately 3.7% and 2.0%, respectively, effective January 1 in those years. West Basin's Board of Directors approved its one-year rate increase for FY 2014-15 at the Board meeting on April 28, 2014.

MWD's Board of Directors also approved an overall RTS charge collection of \$158 million in CY 2015, a decrease of 4.8% from the \$166 million collected in CY 2014. The RTS is collected from its 26 customer agencies on a monthly basis with rate changes effective January 1 of each FY. The amount collected is allocated to each of its customers based on each agencies respective percentage to the total on the 10-year rolling average of firm sales. The 10-year rolling average is based on a CY (January to December). Although MWD's total RTS revenue collections has decreased for CY 2015, for West Basin, the allocated portion in FY 2014-15 has increased approximately \$697,000. This is because of the timing of RTS increases in which MWD's CY overlaps with West Basin's FY. West Basin has also changed its methodology for calculating the RTS rate. This new methodology is equal to West Basin's share of MWD's RTS collection (\$12,247,200) divided by 95% of the previous 5-year average imported water sales (109,220 AF). This calculates to a rate of \$112/AF effective July 1, 2014.

The Reliability Service Charge will increase from \$124 to \$169 or \$45/AF to reflect the needed revenue requirement and incorporates the shift from the RTS. This increase provides West Basin sufficient revenues to support its Water Reliability 2020 (WR 2020) Program.

RATES EFFECTIVE JULY 1, 2014 TO DECEMBER 31, 2014

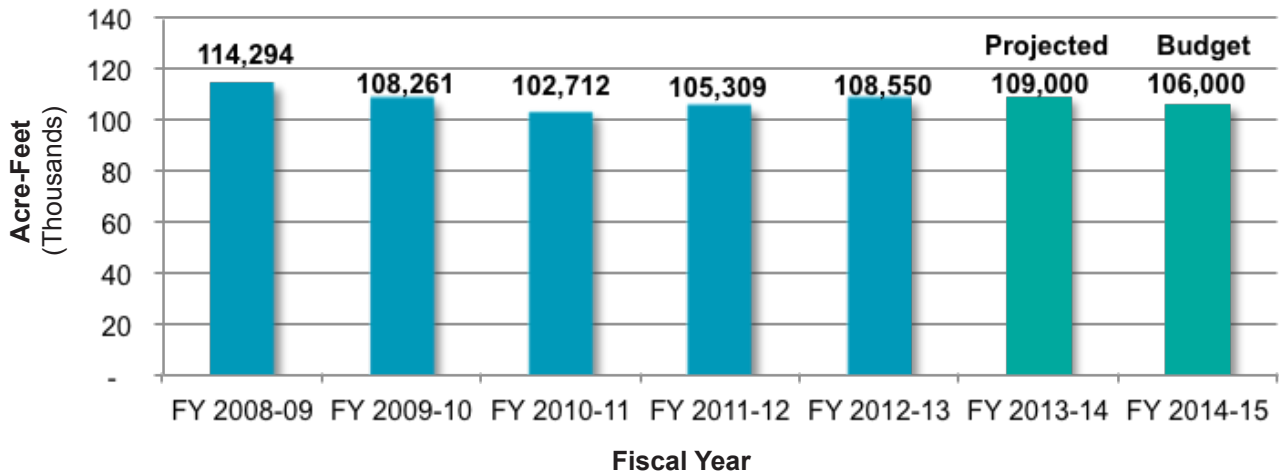
TYPE	MWD Commodity	MWD RTS	Reliability Service Charge	TOTAL
Non-Interruptible & Barrier (Tier 1)	\$890/AF	\$112/AF	\$169/AF	\$1,171/AF
Non-Interruptible & Barrier (Tier 2)	\$1,032/AF	\$112/AF	\$169/AF	\$1,313/AF

RATES EFFECTIVE JANUARY 1, 2015

TYPE	MWD Commodity	MWD RTS	Reliability Service Charge	TOTAL
Non-Interruptible & Barrier (Tier 1)	\$923/AF	\$112/AF	\$169/AF	\$1,204/AF
Non-Interruptible & Barrier (Tier 2)	\$1,055/AF	\$112/AF	\$169/AF	\$1,336/AF

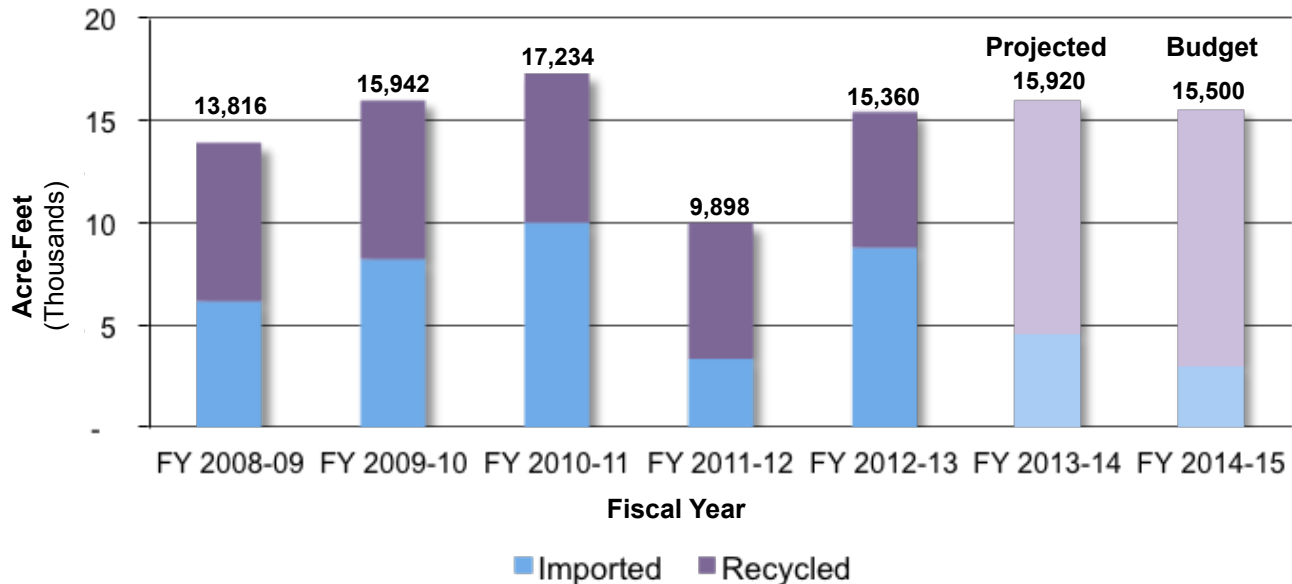
Imported water sales vary based on hydrologic conditions, water demand and on the water supply availability. After a few years (FY 2008-2011) of decreasing water sales, West Basin began to see an increase. The retail imported water sales were 108,550 AF in FY 2012-13 as compared to 105,309 AF in FY 2011-12. FY 2013-14 is experiencing a particularly dry season, resulting in imported water retail sales are projected to remain relatively flat for FY 2013-14. With the declaration of a statewide drought and increased conservation messaging, West Basin expects demand to decrease slightly for retail imported water sales and has budgeted water sales for FY 2014-15 to be 106,000 AF.

**RETAIL SALES
FY 2008-09 thru FY 2014-15**



Based on information received from the Water Replenishment District (WRD) and the County of Los Angeles, West Basin determines the overall demand at the West Coast Basin Barrier (Barrier) and Dominguez Gap Barrier. Historically, the Barrier is injected with a mix of recycled and imported water, with total (imported and recycled) water delivered averaging 15,500AF per year. These expected deliveries will continue with an increased emphasis on recycled water and less demand for imported water, with the eventual goal being to provide 100% recycled water to the Barrier. The graph below shows the decreased demand for imported water as more recycled water is used for the Barrier. Imported sales to the Barrier are projected to drop from 8,738 AF in FY 2012-13 to a projected 4,600 AF in FY 2013-14. West Basin expects the shift to recycled water to continue and is budgeting 3,000 AF in imported sales to the Barrier for FY 2014-15. Imported water deliveries to the Dominguez Gap Barrier have remained steady and will be budgeted at 3,600 AF for FY 2014-15.

WEST COAST BARRIER Sales History



WATER SERVICE CHARGE

West Basin collects the Water Service Charge as a monthly fixed amount based on the cfs of each customer’s meter capacity. West Basin adopted a rate of \$46/cfs effective at the beginning of FY 2013-14 and will increase the rate to \$51/cfs for FY 2014-15. There has been no change in the number and size of meters remaining at 44 meters ranging from 4 cfs to 160 cfs. West Basin anticipates \$523,103 from this revenue source. The monthly amount to any one customer shall not exceed \$4,600 per meter.

CAPACITY CHARGE

As part of MWD’s rate structure established in 2003, the Capacity Charge was developed to recover the costs in providing distribution capacity use during peak summer demands. The aim of this charge is to encourage customer agencies to reduce peak day demands during the summer months (May 1 thru September 30) and shift usages to the winter months (October 1 thru April 30), which will result in more efficient utilization of MWD’s existing infrastructure and defers capacity expansion costs. West Basin’s combined cubic feet per second (cfs) peak amount from its customers is 297 for CY 2015, calculated on each customer’s highest overall peak level during the past three (3) years. West Basin’s non-coincidental peaking with MWD is 222.6 in CY 2014 and 230.2 in CY 2015.

WEST BASIN CUSTOMER	2011	2012	2013	PEAK
California American Water Co.	4.1	6.4	2.5	6.4
Cal Water - Dominguez	44.8	46.6	56.4	56.4
Cal Water - Hawthorne	7.9	7.8	7.1	7.9
Cal Water - Hawthorne Redondo	22.4	21.3	21.1	22.4
Cal Water - Palos Verdes	43.7	46.2	44.6	46.2
LA County Waterworks No. 29	18.4	17.7	18.1	18.4
City of El Segundo	18.2	24.5	10.7	24.5
City of Inglewood	15.2	14.5	16.3	16.3
City of Lomita	5.6	4.5	5.1	5.6
City of Manhattan Beach	9.7	9.5	9.8	9.8
Golden State Water Co.	31.4	34.6	29.6	34.6
Water Replenishment District	46.8	18.4	48.5	48.5
TOTAL				297.0

West Basin models MWD's methodology to calculate its peak charges to the sub agencies and; therefore, enables West Basin to pass through a lower rate per cfs and establishes a more equitable distribution of MWD's charge. West Basin multiplies each purveyor's highest daily average usage (per cfs) for the past three summer periods by the Capacity Charge Rate. The timing of the rate change is structured to coincide with MWD's increase as well. West Basin will increase its current Capacity Charge Rate from \$6,600/cfs to \$8,800/cfs on January 1, 2015, with anticipated revenues of \$2,265,450 during FY 2014-15.

RECYCLED WATER CHARGES AND FIXED REVENUE CHARGES

West Basin adopts its recycled water rates to increase according to customer agreements or in line with the West Basin's Non-Interruptible Tier 1 rate increase, depending on the type of recycled water. In addition, West Basin also takes into consideration the increase in the imported water rate when it budgets for increases in the recycled water rates. This consideration is given in order to continue to attract new customers and expand existing customers to a more reliable source of water. Revenues from recycled water sales consist of commodity charges and MWD's Local Resources Program (LRP) incentive payment and are estimated at \$40,871,770 for FY 2014-15. The LRP provides a \$250/AF rebate for each AF of recycled water sold.

WBMWD RECYCLED WATER RATES							
<i>Effective July 1, 2014</i>							
Volume (AF/Month)	WBMWD Service Area	West Coast Barrier (<4,500AF)	West Coast Barrier (4,500+AF)	Lower Pressure Boiler Feed	Nitrified	High Pressure Boiler Feed	Outside Service Area
0-25	\$955/AF	\$1,112/AF	\$586/AF	\$1,183/AF	\$935/AF	\$1,539/AF	\$997/AF
25-50	\$945/AF	\$1,112/AF	\$586/AF	\$1,183/AF	\$935/AF	\$1,539/AF	\$987/AF
50-100	\$935/AF	\$1,112/AF	\$586/AF	\$1,183/AF	\$935/AF	\$1,539/AF	\$977/AF
100-200	\$925/AF	\$1,112/AF	\$586/AF	\$1,183/AF	\$935/AF	\$1,539/AF	\$967/AF
200+	\$915/AF	\$1,112/AF	\$586/AF	\$1,183/AF	\$935/AF	\$1,539/AF	\$957/AF

In addition, West Basin anticipates receiving approximately \$7.3 million in fixed revenue charge, and is based on agreements with Tesoro, Chevron, and ExxonMobil Oil Refineries and LADWP, and is designed to repay the cost of the treatment and distribution facilities that were constructed exclusively for delivery of recycled water to these entities.

West Basin currently serves recycled water to more than 400 meters with projected sales to reach more than 34,100 AF in FY 2013-14. For FY 2014-15, West Basin anticipates a slight increase in demand as a result of a shift in Barrier imported water sales to recycled water sales and higher sales to refineries due to their increased demand for recycled water. Expected recycled water sales are comprised of approximately 35% sales to the Barrier, 53% to local refineries, and the remaining 12% will be used in parks, golf courses, schools and street medians.

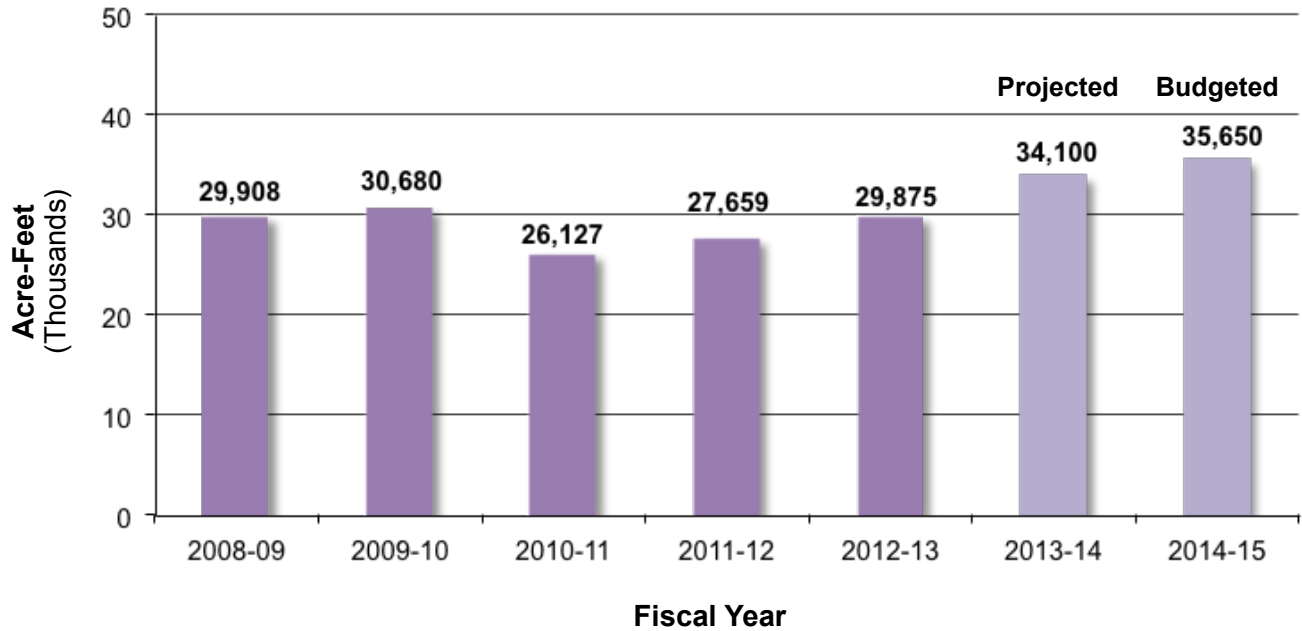
	2011-12	2012-13	2013-14	2013-14	2014-15
RECYCLED WATER TYPE	ACTUAL	ACTUAL	PROJECTED	BUDGET	BUDGET
Title22 – Within WB	5,079 AF	6,268 AF	6,433 AF	5,750 AF	6,850 AF
Title 22 – LADWP	788	968	886	850	900
Title22 – Torrance	6,352	6,634	6,472	6,100	6,350
Barrier	6,531	6,622	11,313	15,500	12,500
LPBF	5,613	5,729	5,625	6,075	5,710
HPBF	2,326	2,337	2,321	2,350	2,340
Nitrified	970	1,179	1,051	850	1,000
TOTAL RECYCLED	27,659 AF	29,737 AF	34,100 AF	37,475 AF	35,650 AF

LPBF = Low Pressure Boiler Feed

HPBF = High Pressure Boil Feed

Recycled water sales in FY 2012-13 were 29,737 AF, an increase of approximately 2,100 AF over the previous year, with an even bigger jump expected to 34,100 AF at the end of FY 2013-14. This is mostly due to the shift away from imported water to the Barrier and a greater reliance on recycled water. There is also steady to slightly higher demand of recycled water from three of its four largest customers; Chevron, ExxonMobil and Tesoro refineries. With the completion of Phase V at the end of FY 2012-13, West Basin continues to increase recycled water deliveries to WRD and strives to deliver up to 100% of recycled water to the Barrier as soon as possible. West Basin has made it a priority to maximize recycled water deliveries to the Barrier as much as possible; however, restrictions on the County and the continued ramp-up of recycled water Barrier sales has caused West Basin to budget more conservatively, leading West Basin to budget recycled water at 35,650 AF for FY 2014-15. This is less than FY 2013-14 Budget but 1,150 AF more than projected actual deliveries for that same period.

**RECYCLED WATER
Sales History
FY 2008-09 thru FY 2014-15**



DESALTER WATER CHARGES

West Basin sells desalinated brackish water produced at the C. Marvin Brewer Desalter to California Water Service Company (CWSC) and prior to FY 2013-14, West Basin also received \$250/AF incentive payment from MWD through their Groundwater Recovery Program (GRP). This agreement with MWD expired May 15, 2013, and as a result West Basin no longer receives this incentive. To address the affordability of this type of water, West Basin amended its CWSC agreement to restructure the rate. The Desalter Rate is based on MWD’s commodity charges plus West Basin’s RTS charge. On July 1, 2014, the rate will be \$1,002/AF and will increase to \$1,035/AF on January 1, 2015. Deliveries from the Brewer Desalter are expected to remain consistent at 1,080 AF for FY 2014-15 and revenues are budgeted to be \$1,099,980 in FY 2013-14.

Other Sources of Revenue

STANDBY CHARGE

This annual Standby Charge is used towards West Basin's debt service obligations for the water recycling facilities. For FY 2014-15, the Standby Charge will be assessed by the same formula as in prior years and the amount assessed per parcel has remained consistent since FY 1992-93. The amount assessed is \$16, \$24 or \$120 per parcel depending upon the land use provided by the County of Los Angeles on a given parcel. The table below is an excerpt of the Engineer's Report that specifies the exact amount of units included in the Standby Charge Program and their Weighted Benefit calculation. Based on approximately 346,000 benefiting units and previous annual collections, it is estimated that the receipts from the Standby Charge, net of program expenses, are expected to be approximately \$9,650,000. The Board conducted a public hearing on March 24, 2014, to receive comments from property owners, public agencies and other interested parties. After careful consideration the Board voted to reauthorize the Standby Charge (Resolution 04-14-988) at its April 28, 2014 meeting.

	PARCELS = < 1 ACRE	ACRES > 1 ACRE	TOTAL UNITS	BENEFIT RATIO	WEIGHTED BENEFIT UNIT	RATE
RESIDENTIAL						
Residential	145,166	15,539	160,705	1.5	241,058	\$24
Reduced Parcels	1	140				
Partial Exemptions	5	178				
Multi Unit Res. incl Hotel and Motel			158,343	1	158,343	\$16
NON-RESIDENTIAL						
Non-residential	12,650	14,661	27,311	7.5	204,833	\$120
Reduced Parcels						
Partial Exemptions	12					
TOTAL			346,359		604,234	

CONSERVATION INCOME

Through the development of the Conservation Master Plan and West Basin's WR 2020 goals, West Basin continues to enhance its Conservation Program offerings across the varying sectors such as residential, large landscape, commercial, industrial and institutional. As a result, West Basin has had greater access to available rebates, state and federal grants, and partnerships with retail water agencies interested in investing in cost-effective programs. For every dollar that West Basin invests in conservation it garners an additional \$4.00 from various partners, thereby enhancing the programs to greater benefit of the residents and businesses throughout the service area. For FY 2014-15, West Basin will continue to receive outside funding from MWD and from many of its purveyors and anticipates grant funding from the State of California Department of Water Resources (DWR). For FY 2014-15, West Basin anticipates its partner contributions as follows:

MWD	\$ 197,690
State Grants – DWR	470,950
Customer Agencies	<u>190,000</u>
Total	\$ 858,640

West Basin continues to aggressively promote conservation efforts throughout its service area and is always seeking to develop new water use efficiency strategies and programs to help the public conserve water. West Basin remains nimble and extremely active in developing and implementing new conservation programs, such as Rain Barrel distributions, as well as bringing in partners to help defray the cost in order to maximize the public's use of water at the lowest cost possible.

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 2014-15, general fund interest income is expected to be approximately \$238,300. West Basin has adopted an investment policy in accordance with California Government Code 53600 et. seq. and has utilized an investment manager to keep West Basin apprised of current market conditions, review West Basin's investment policy and procedures, and implement changes to ensure West Basin's key objectives of safety, liquidity and yield are met.

OTHER INCOME

West Basin anticipates miscellaneous income to support its efforts for the annual Water Harvest Festival, the Title 22 Water Quality Monitoring Program, Demand Management Program, a state grant and a partnership agreement with LADWP to fund the Gardena Lateral. Overall, West Basin anticipates approximately \$401,700 in FY 2014-15 for other income.

USE OF FUNDS

USE OF FUNDS

West Basin Municipal Water District (West Basin) maintains a single enterprise fund which is divided among four major types of expenses: water purchases (including the Readiness-to-Serve (RTS) Charge), Capacity Charge, debt service, and program expenses. A balanced budget is maintained between sources of revenues and uses of funds by placing the difference generated 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 illustrate the trend of the various expenses.

	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14	FY 2014-15
EXPENDITURES	ACTUAL	ACTUAL	PROJECTED	BUDGET	BUDGET
Imported Water Purchases / RTS	\$97,174,577	\$108,921,586	\$112,518,717	\$108,040,450	\$114,319,100
Capacity Charge	1,844,490	1,608,370	1,665,340	1,665,340	2,234,790
Debt Service	24,930,724	26,845,746	28,322,035	30,717,248	29,028,898
Bond Fund Interest	(762,666)	(680,969)	(84,435)	(761,867)	-
Water Recycling Operations	23,594,939	27,103,178	32,261,100	33,761,101	33,515,736
Desalter Operations	900,652	891,600	749,056	1,092,149	912,347
Water Policy	1,193,711	1,634,083	1,782,047	1,537,954	1,897,312
Public Information	2,781,543	2,571,506	2,927,265	2,685,940	2,830,934
Conservation	2,118,055	2,126,624	2,155,452	2,732,900	2,116,950
Water Quality Monitoring	34,426	12,131	11,284	23,605	23,820
Designated Funds	11,769,359	11,814,701	17,751,723	10,337,771	10,035,148
Total Expenditures	\$165,579,810	\$182,848,556	\$200,059,484	\$191,832,591	\$196,915,035

Overall expenditures are budgeted to increase approximately \$5 million in fiscal year (FY) 2014-15 as compared to FY 2013-14 primarily due to Metropolitan Water District (MWD) increasing their Tier 1 rate for non-interruptible water. In addition to water purchases increasing, West Basin's cost for the Capacity Charge is increasing. West Basin has actively taken advantage of the low interest rate environment and has refunded portions of its debt portfolio over the last three years. As a result, the annual debt service will decrease in FY 2014-15 as compared to FY 2013-14. Another area that will see a decrease in cost is the program expenses, with the largest decrease coming through the conservation program. See "Operating Program Expenses" for further explanation.

Water Purchases and Charges

IMPORTED WATER PURCHASE/RECYCLED WATER PROJECTIONS

West Basin purchases imported water solely from MWD and those purchases tie directly to its sale of imported water. West Basin's retail imported water sales have fluctuated over the last several years beginning with a 20% decline from 127,925 AF in FY 2007-08 to a low of 102,712 AF in FY 2010-11. In the following years as drought conditions and the economy improved, sales increase to 2,597 AF in FY 2011-12 and another 3,241 AF in FY 2012-13 and are projected to reach 109,000 by the end of FY 2013-14. However, with increased conservation messaging by the State and local agencies and increased conservation program funding from MWD, West Basin has assumed no increase over the FY 2013-14 Budget in its retail imported water sales of 106,000 AF.

West Basin injects barrier imported water into the Dominguez Gap Barrier and a mix of imported and recycled water into the West Coast Basin Barrier (Barrier) with a goal of injecting 100% recycled water into the Barrier.

Actual imported water sales to both Barriers are expected to decrease from 11,320 AF in FY 2012-13 to a projected 7,500 AF in FY 2013-14. This decrease is expected to continue as West Basin strives to inject more recycled water into the West Coast Basin Barrier and the demand of imported water to the Dominguez Gap Barrier remains consistent with prior years

Budgeted imported water sales to the Barrier in FY 2014-2015 increased 1,500 AF above the FY 2013-2014 budget due to the ramp-up of the operations of the Phase V Expansion taking longer than originally anticipated. This budget increase in barrier imported water deliveries to the Barrier has an off-setting impact on budgeted recycled water deliveries.

MWD NON-INTERRUPTIBLE COMMODITY RATE

As mentioned earlier, West Basin purchases all of its imported water from MWD. On April 8, 2014, the MWD Board approved its biennial budget and water rates. Although the overall average rate increase adopted by MWD was 1.5%, the imported water commodity rate increased 3.7% or \$33 per AF effective January 1, 2015. The components of MWD's non-interruptible commodity rate and their cost per AF are shown below.

Non-Interruptible Commodity Rate	Effective Dates	
	1/1/14	1/1/15
Supply Rate Tier 1	\$148	\$158
Supply Rate Tier 2	\$290	\$290
System Access Rate	\$243	\$256
Water Stewardship Rate	\$41	\$41
Treatment Rate	\$297	\$343
Power Rate	\$161	\$125
Total Tier 1	\$890	\$923
Total Tier 2	\$1,032	\$1,055

READINESS-TO-SERVE CHARGE

The RTS is a fixed charge that MWD charges its member agencies to recover the cost of the portion of their system conveyance that is on standby to provide emergency service and operational flexibility. The cost of providing standby service also covers the distribution and system storage capacity and is allocated to the RTS. MWD's aggregate RTS collection is currently \$166 million for calendar year (CY) 2014 and will decrease to \$158 million in 2015. The RTS is allocated to the MWD's 26 member agencies based on each agency's proportional share of a 10-year rolling average of all firm deliveries, and West Basin's share for CY 2015 will remain constant at 7.56%. Although MWD is decreasing their aggregate collection from \$166 million to \$158 million, West Basin's share of the RTS for FY 2014-2015 will increase approximately \$700,000.

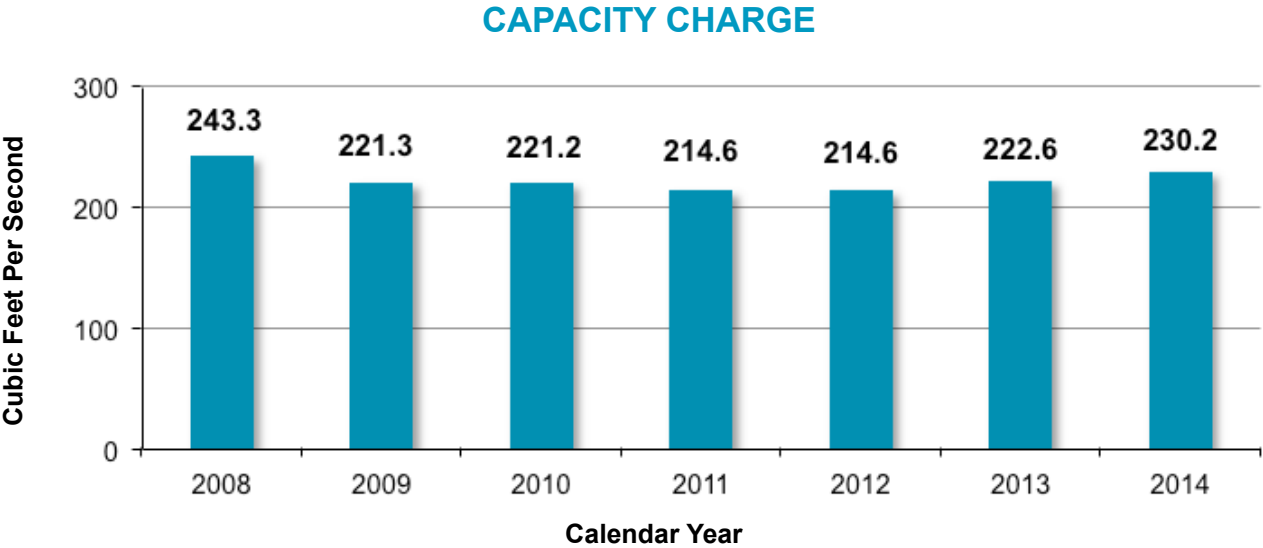
Many of MWD's member agencies elect to have their RTS share collected by MWD; however, West Basin's RTS share is a pass-thru to its purveyors, the collection of which is explained more thoroughly in the "Sources of Revenue" section.

Overall, West Basin estimates water purchases and RTS expenditures to be \$114,319,100.

CAPACITY CHARGE

MWD charges its members agencies a Capacity Charge to recover the cost of providing peak water service capacity within its distribution system and the charge increases as more capital costs are allocated to peak system use. The Capacity Charge is based on individual customer’s cubic foot per second (cfs) peak flow levels between May 1 and September 30.

The table below shows West Basin’s cfs peak flow for CY 2008 through CY 2014.



Effective January 1, 2015, MWD will increase its Capacity Charge from \$8,600 per cfs to \$11,100 per cfs. Due to this increase in the Capacity Charge and the increase in West Basin’s peak flow, the capacity cost will increase from \$159,530 per month for the first six months of FY 2014-15 to \$212,935 per month for the second six months of FY 2014-15, for a total cost of \$2,234,790.

West Basin passes through this charge to its customer agencies using the same methodology MWD uses to calculate their member agencies’ share. See the “Sources of Revenue” section for further explanation.

Debt Service

In the early 1990’s, West Basin’s Board of Directors had the vision to drought-proof its service area by constructing treatment facilities and distribution pipelines to bring recycled water to industrial, commercial and irrigation sites that were using potable water. By selling recycled water to these customers, West Basin reduced its reliance on imported potable 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 treatment facilities and distribution pipelines for the recycled water system, West Basin obtained federal and state grants, invested its own cash, and also issued debt.

West Basin does not have a legal debt limit due to its ability to raise its water rates and charges, but does have debt coverage requirements due to the Installment Purchase Agreements or Indentures of Trust associated with each debt issuance.

West Basin works in collaboration with its financial team of financial advisors, bond counsel, trustees, and other related parties to identify, evaluate potential new construction proceeds or refunding opportunities. In addition, West Basin reviews its debt structure to ensure an overall level debt structure is maintained and aligns with the expected service life of the capital assets.

Since the early 1990's, West Basin has received more than \$420 million in construction proceeds through fixed and variable debt issuances using a variety of debt instruments including Certificates of Participation, Revenue Bonds, state loans, and commercial paper. West Basin monitors its debt portfolio and takes advantage of favorable market conditions to reduce water rates through appropriate refunding opportunities.

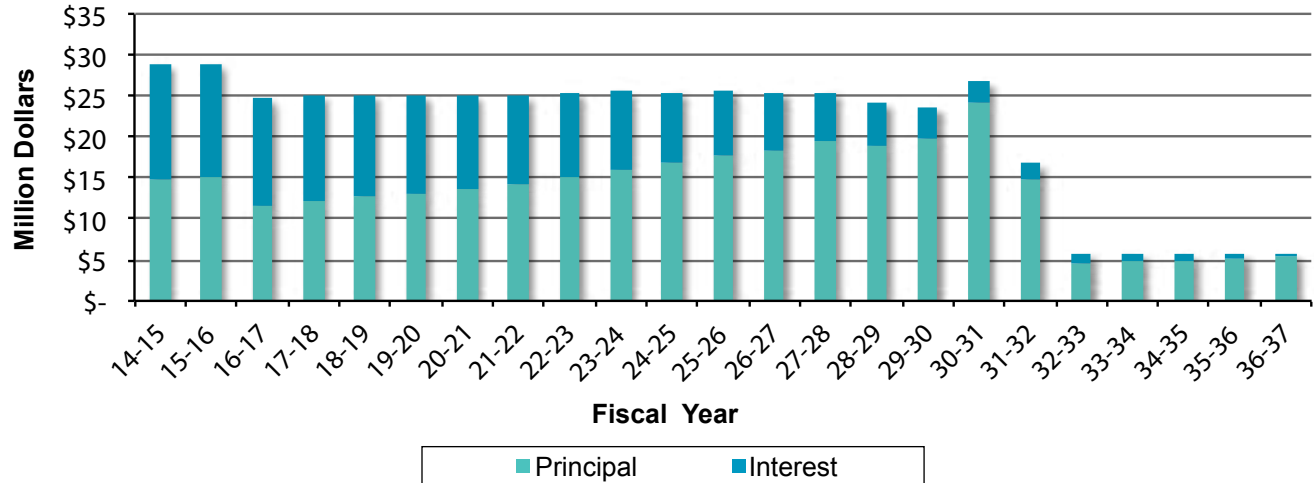
West Basin currently has the following outstanding issuances:

CURRENT OUTSTANDING LONG-TERM DEBT						
SERIES NAME	2008B	2010A	2011A	2011B	2012A	2013A
Original Amount	\$128,665,000	\$40,000,000	\$34,190,000	\$60,275,000	\$50,325,000	\$17,165,000
Type of Debt	Certificates of Participation	Certificates of Participation	Refunding Revenue Bonds	Refunding Revenue Bonds	Refunding Revenue Bonds	Refunding Revenue Bonds
Purpose	Refunding	Refunding / New Proceeds	Refunding	Refunding / New Proceeds	Refunding / New Proceeds	Refunding
Interest Range	3.0% - 5.0%	Variable	2.5% - 5.0%	4.0% - 5.0%	3.0% - 5.0%	2.0% - 4.0%
Swap to Fix	N/A	Yes	N/A	N/A	N/A	N/A
Issue Date	2008	2010	2011	2011	2012	2013
Final Maturity	2031	2030	2024	2036	2029	2016
Current Rating	A+ and Aa3	N/A	AA- and Aa2	AA- and Aa2	AA- and Aa2	AA- and Aa2
Annual DS Pmt	\$9.0 Million	\$3.3 Million	\$1.8 Million	\$3.0 Million	\$4.4 Million	\$7.4 Million
2014 Principal	\$3.4 Million	\$2.1 Million	\$ 0.4 Million	None	\$2.1 Million	\$6.9 Million
2014 Interest	\$5.6 Million	\$1.2 Million	\$1.4 Million	\$3.0 Million	\$2.3 Million	\$0.5 Million
Lien	Subordinate	Senior	Senior	Senior	Senior	Senior

For FY 2014-15, debt service is budgeted at \$29,028,898.

DEBT TO MATURITY

The graph and table below show the scheduled principal and interest cash payments for West Basin's current debt portfolio. Payment is made semi-annually on February 1st and August 1st each year.



1-Aug	Certificates of Participation		Refunding Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	5,500,000	6,837,564	9,275,000	7,306,050	14,775,000	14,143,614
2015	5,690,000	6,677,846	9,480,000	7,096,400	15,170,000	13,774,246
2016	5,975,000	6,509,549	5,515,000	6,720,950	11,490,000	13,230,499
2017	6,125,000	6,330,513	6,105,000	6,500,350	12,230,000	12,830,863
2018	6,360,000	6,145,327	6,345,000	6,256,150	12,705,000	12,401,477
2019	6,625,000	5,887,437	6,580,000	6,012,700	13,205,000	11,900,137
2020	6,880,000	5,614,174	6,810,000	5,794,250	13,690,000	11,408,424
2021	7,050,000	5,330,902	7,125,000	5,493,750	14,175,000	10,824,652
2022	7,730,000	5,060,330	7,480,000	5,137,500	15,210,000	10,197,830
2023	8,335,000	4,683,967	7,780,000	4,776,000	16,115,000	9,459,967
2024	8,690,000	4,276,459	8,150,000	4,387,000	16,840,000	8,663,459
2025	9,165,000	3,849,302	8,720,000	4,010,500	17,885,000	7,859,802
2026	9,560,000	3,400,601	8,915,000	3,574,500	18,475,000	6,975,101
2027	9,970,000	2,933,260	9,435,000	3,148,750	19,405,000	6,082,010
2028	9,105,000	2,499,760	9,910,000	2,677,500	19,015,000	5,177,260
2029	9,555,000	1,506,250	10,410,000	2,182,000	19,965,000	3,688,250
2030	20,035,000	1,028,500	4,080,000	1,661,500	24,115,000	2,690,000
2031	10,535,000	526,750	4,285,000	1,457,500	14,820,000	1,984,250
2032	0	0	4,500,000	1,243,250	4,500,000	1,243,250
2033	0	0	4,725,000	1,018,250	4,725,000	1,018,250
2034	0	0	4,960,000	782,000	4,960,000	782,000
2035	0	0	5,210,000	534,000	5,210,000	534,000
2036	0	0	5,470,000	273,500	5,470,000	273,500
TOTAL	\$152,885,000	\$79,098,489	\$161,265,000	\$88,044,350	\$314,150,000	\$167,142,839

The principal amount due in 2030 includes \$10,000,000 of Adjustable Rate Certificates of Participation that the District has an obligation to repay on its final maturity, August 1, 2030.

West Basin has \$314 million in long-term debt outstanding. Over the past three years, West Basin has changed its debt portfolio by refunding a portion of its outstanding Certificates of Participation (COP) bonds and issuing Refunding Revenue Bonds. These transactions resulted in West Basin lowering its interest cost due to the bond market favoring revenue bonds over COP's and because of the low interest rate environment.

Due to an expiring liquidity facility and with the Board's approval, West redeemed the 2008A Adjustable Rate Refunding COP's (2008A Bonds) in the amount of \$27,990,000. Staff utilized the available funds from the 2010A Adjustable Rate COP's (referred to as Commercial Paper or CP) to redeem the 2008A Bonds that resulted in a net present value savings of \$796,476.

For future capital outlay, West Basin has available funds under the 2010A Adjustable Rate COP's. This debt is structured as a direct loan with a third party provider and is commonly referred to as the CP Program. The CP 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 2014-15 and is currently considering obtaining a loan from the State Revolving Fund (SRF) to finance certain capital projects that qualify under SRF's Water Recycling Funding Program.

SWAP TRANSACTIONS

West Basin currently has two swaps transactions outstanding with a total notional amount of \$27,700,000. The first swap was entered into in June 2004 with a synthetic fixed rate of 3.662% and a final termination date of August 2027.

In April 2005, West Basin entered into a forward interest rate swap that became effective August 2007. This second swap required West Basin to pay a fixed rate of 3.515% with a final termination date of August 2021.

Under GASB 53, these swaps have been determined to be an effective hedge, and have a strong correlation to the 2010A Adjustable Rate COP's.

COVENANTS

Debt coverage is one covenant West Basin is required to maintain. Per our financing documents our legal debt coverage requirement is 1.15 for both our senior and subordinate liens. 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 for its budget at a rate higher than legally required for both liens.

Detailed below is the anticipated debt coverage for the current and future FY budgets.

BOND DEBT COVERAGE RATIOS (in 000's – except coverage)						
Bond Coverage Ratios	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Revenues	\$196,915	\$204,913	\$207,996	\$214,671	\$221,986	\$226,148
O&M	157,851	160,899	165,683	171,017	176,551	182,293
Net Revenues to pay senior debt	39,064	44,014	42,313	43,655	45,436	43,856
Total Senior Debt	20,012	17,036	17,054	17,135	17,178	17,159
Senior Debt Coverage	1.95	2.58	2.48	2.55	2.64	2.55
Net Revenues to pay subordinate debt	19,052	26,978	25,259	26,520	28,257	26,687
Total Subordinate Debt	9,017	9,058	8,969	8,944	8,948	8,935
Subordinate Debt Coverage	2.11	2.98	2.82	2.97	3.16	2.99
All-In Coverage	1.35	1.69	1.63	1.67	1.74	1.68
Remaining Net Revenue	\$10,035	\$17,920	\$16,291	\$17,576	\$19,309	\$17,752

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 and 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.

Salaries and Benefits

West Basin has a unique business model with a small workforce of 45 budgeted positions working 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, which allows for flexibility to implement new programs as they arise or modify existing programs when staff needs change.

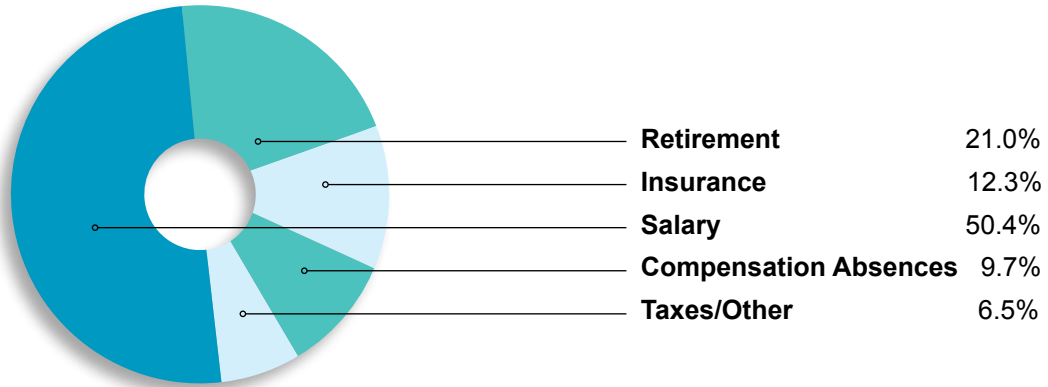
The following is included in West Basin’s benefits package:

- Retirement – Classic - CalPERS 3% at 60 and Social Security (1).
- Retirement – Tier 2 - CalPERS 2% at 62 and Social Security (2).
- 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.

(1) An employee who was employed by West Basin prior to January 1, 2013 is a “Classic” member of CalPERS or was hired by West Basin after January 1, 2013 but was employed with an agency with CalPERS reciprocity, or who have less than a six month break in service between employment in a CalPERS (or reciprocal) agency and employment with West Basin, will be enrolled in the 3% @ 60 benefit formula with Social Security.

(2) An employee is considered a “Tier 2” member if he/she becomes a new member of CalPERS for the first time on or after January 1, 2013 (and who was not a member of another California public retirement system prior to that date) will be enrolled in the CalPERS 2% @ 62 benefit formula (with Social Security) in accordance with the Public Employees’ Pension Reform Act of 2013 (PEPRA). New members will be required to pay at least 50% of the normal retirement cost.

SALARY & BENEFITS FY 2008-09 thru FY 2014-15

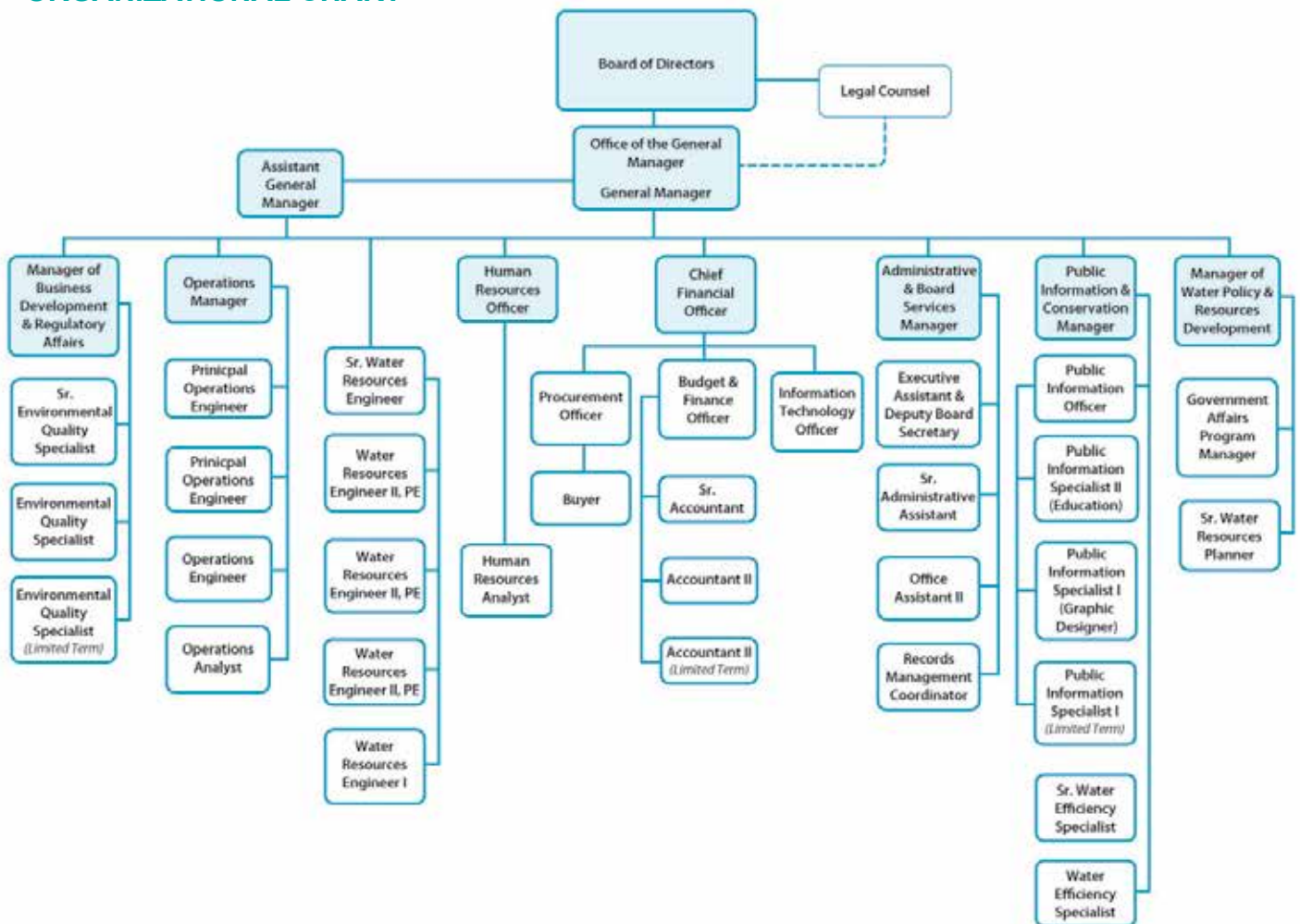


West Basin’s benefits package and total payroll comprises 4.2% of its total FY 2014-15 operating budget. The types of benefits included are consistent with the prior years’ budget and reflect an anticipated 8.0% average increase in health insurance and 3.0% increase in dental insurance. West Basin’s pension costs for “Classic” CalPERS members saw an increase of approximately 1.0% in its employer rate to 16.963%. Pension costs for “Tier 2” CalPERS members remained at 6.7%. West Basin is projected to pay the unfunded portion of its Other Post-Employment Benefits (OPEB) actuarially accrued liability by June 2014, which will lower its annual OPEB contribution for FY 2014-15 to \$441,000, or 9.8% of pay, from \$540,000 in FY 2013-14. A new actuarial report will be completed during the FY 2015-16 that may revise future OPEB contributions higher or lower. West Basin participates in the California Employers Benefit Retirement Trust that allows West Basin to calculate its liability based on assumed interest rate of 7.5%.

Current employment expense forecasts do not include a Cost-of-Living Adjustment increase. West Basin has established a performance-based merit pay system, wherein the amount of merit pay 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 in the FY 2014-15 budget.

The organizational chart shows the full-time budgeted positions for FY 2014-15.

ORGANIZATIONAL CHART



* Organization Chart above does not include Part-Time staff or Interns.

In the FY 2014-15 Budget, staffing levels will increase from forty (40) to forty-one (41) regular full-time and limited-term full-time positions. The change reflects an increase from two to three full-time limited-term positions. The added limited term position allows the former dual Accountant I/Human Resources Analyst to focus solely on Human Resources and the new Accountant I to better address the needs in the Finance department. West Basin is also continuing its intern program to provide opportunities for growth and exposure to current students attending local colleges. West Basin had one intern assisting the Engineering department; however, in FY 2014-15 West Basin has budgeted one additional intern position to assist with both in-office and field work to support two departments, Water Policy and Public Information.

Following is a table showing the head count by department that includes the full-time, limited-term and part-time positions. The intern positions are not included.

SUMMARY OF PERSONNEL HEAD COUNT BY DEPARTMENT (Not including interns)

Position	Actual		Budgeted		Change from
	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15	FY 2013-14
Office of the General Manager					
General Manager	1	1	1	1	0
Assistant General Manager	1	1	1	1	0
Board Services					
Administrative and Services Manager	1	1	1	1	0
Executive Assistant & Deputy Board Secretary	1	1	1	1	0
Senior Administrative Assistant	1	1	1	1	0
Office Assistant II	1	1	1	1	0
Records Management Coordinator	0	1	1	1	0
Human Resources					
Human Resources Manager	1	1	1	1	0
Human Resources Analyst	0	1	1	1	0
Public Information & Conservation (PIC)					
Public Information and Conservation Manager	1	1	1	1	0
Public Information Officer	1	1	1	1	0
Public Information Specialist II	2	1	1	1	0
Public Information Specialist I	0	1	1	1	0
Public Information Specialist I (Limited Term)	0	1	1	1	0
Senior Water Efficiency Specialist	1	1	1	1	0
Water Efficiency Specialist	1	1	1	1	0
Tour Guide (Part-time)	0	1	1	1	0
Education Assistant (Part-time)	0	1	1	1	0
Engineering and Operations					
Engineering Manager	1	1	1	0	-1
Principal Water Resources Engineer	1	0	0	0	0
Senior Water Resources Engineer	1	1	1	1	0
Water Resources Engineer II	3	3	3	3	0
Water Resources Engineer I	0	1	1	1	0
Operations Manager	1	1	1	1	0
Principal Operations Engineer	1	1	1	2	1
Operations Engineer	1	1	1	1	0
Operations Analyst	0	1	1	1	0
Business Development & Regulatory Affairs Mgr	1	1	1	1	0
Senior Environmental Quality Specialist	1	1	1	1	0
Environmental Quality Specialist	1	1	1	1	0
Environmental Quality Specialist (Limited Term)	1	1	1	1	0
Water Policy and Resource Development					
Water Policy and Resource Development Mgr	1	1	1	1	0
Government Affairs Program Manager	1	1	1	1	0
Senior Water Resources Planner	1	1	1	1	0
Finance					
Chief Finance Officer	1	1	1	1	0
Information Technology Officer	1	1	1	1	0
Budget and Finance Officer	1	1	1	1	0
Senior Accountant	0	1	1	1	0
Accountant II	2	1	1	1	0
Accountant I (Limited Term)	1	0	0	1	1
Procurement Officer	1	1	1	1	0
Buyer	1	1	1	1	0
Total Budgeted Personnel	37	42	42	43	1

PERSONNEL STAFFING BY PROGRAM

West Basin's budget tracks and reports all its costs by program; it also allocates its personnel labor to its various programs. The table below compares FY 2011-12 and FY 2012-13 actual to FY 2013-14 projected and FY 2013-14 and FY 2014-15 budget. The variance of projected to budget Full Time Equivalent (FTE) for FY 2013-14 represents unfilled positions for a portion of the year. In FY 2013-14 and FY 2014-15 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.

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 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. The table below includes both the direct and indirect labor.

FULL TIME EQUIVALENT (FTE) BY PROGRAM (Not including interns)

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
	Actual	Actual	Projected	Budget	Budget
Recycling Operations	10.66	10.22	9.93	12.46	13.06
Desalter Operations	0.05	0.03	0.02	0.34	0.18
Water Policy/Resource Development	3.46	3.85	4.23	3.84	4.53
Public Information	7.42	10.20	9.85	9.07	9.98
Conservation	3.72	3.75	3.69	4.66	4.14
WQ Monitoring Program	0.09	0.04	0.02	0.03	0.03
Capital Projects	11.95	10.60	9.70	10.60	10.08
Total FTE	37.35	38.69	37.44	41.00	42.00

Capital Improvement Program

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

Before any capital project is initiated, staff presents the project to the Board of Directors for approval and direction. Capital projects begin with feasibility studies and design estimates followed by construction contracts. Between the feasibility studies and completion of construction, 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, its CP Program and through bond proceeds.

Anticipated capital improvement expenditures for FY 2014-15 are \$39,128,194.

OPERATING PROGRAM EXPENSES

OPERATING PROGRAM EXPENSES

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

The Fiscal Year (FY) 2014-15 Operating Program consists of the following:

<u>Allocated Programs</u>	<u>Page Number</u>
Overhead Program Costs	G-2
<u>Operating Programs</u>	
Water Recycling Operations	G-6
C. Marvin Brewer Desalter Operations	G-10
Water Policy and Resource Development	G-12
Public Information	G-15
Conservation	G-18
Water Quality Monitoring	G-20

Each program budget is developed to achieve the goals and objectives of the Plan and commitment statements that have been described previously in the “Financial Overview and Summary” Section and are summarized below. Each objective is short-term oriented and anticipated to be completed in FY 2014-15 and each program budget reflects only the Plan goals and commitment statements that are relevant and qualitative.

Strategic Business Plan Goals



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

Overhead Program Costs

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

The costs of the Finance Department represent the expenses to support the general operations of West Basin and include financial and legal services, insurance, and building expenses. Human Resources include program costs to support the training and evaluation of salaries and benefits, as well as the cost to recruit, screen and hire new employees. In addition, the Human Resources Department administers the Employee Development Program that recognizes employees, provides for periodic employee meetings, and also administers the safety 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 costs are reflected in this budget. The supplemental section further describes these important partnerships, the involvement West Basin’s Board and/or staff has in the organization, and the membership fee.

No labor is allocated to the Overhead Program as the personnel costs are classified as indirect labor; 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 2011-12 ACTUAL	FY 2012-13 ACTUAL	FY 2013-14 PROJECTED	FY 2013-14 BUDGET	FY 2014-15 BUDGET
General Services	\$1,511,003	\$1,265,916	\$1,568,994	\$1,529,412	\$1,348,000
Building Services	336,776	385,766	370,600	359,400	359,400
Legal Services	286,086	293,645	321,000	277,000	326,000
Board Services	615,164	852,305	655,009	646,050	1,046,600
Employee Support	22,780	14,229	14,600	14,600	15,600
Total Overhead Allocated	\$2,771,809	\$2,811,861	\$2,930,203	\$2,826,462	\$3,095,600

The change in Overhead expense between the FY 2013-14 and FY 2014-15 budgets is largely attributed to the increase in Board Services. In FY 2013-14 Statement #65 from the Government Accounting Standards Board (GASB) became effective and addresses the change in accounting for deferred items. The impact to West Basin is that certain program costs, election expenses, can no longer be amortized and must be recognized in the year occurred. In November 2014, West Basin has three seats up for election. The reduction in General Services is the result of the recent refunding that reduced the liquidity facility fees.

STRATEGIC GOALS AND OBJECTIVES

Strategic Business Plan Goals



FY 2013-14 Accomplishments

Customer Service

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

Sound Financial & Resource Management

Objective 1: Performed over 180 preventive maintenance work orders and 440 corrective maintenance work orders at the Donald L. Dear building.

Objective 4: Board reviewed and re-approved the Swap, Debt Management and Investment Policies and added appropriate language to its Swap Policy to select and evaluate qualified swap advisors.

Objective 4: Board reviewed and approved recommended changes to the Designated Funds Policy that revised the definition of several core categories, and added a new designated fund (Standby Charge Defeasance Fund).

Objective 4: Provide periodic updates to rating agencies about financial activities through submission of annual financial report, response to inquiries and submission of the required annual bond disclosure document to Electronic Municipal Market Access (EMMA).

Objective 5: Presented periodic update to the Long-Range Financial Model to the Board of Directors in October 2013 with a review of the new Designated Funds Policy. In addition, the model was updated in March 2014 as part of the annual budgeting process.

Objective 6: Solicited and awarded Building Maintenance Contract in October 2013 with a reduction in the annual cost.

Objective 6: Solicited and awarded new security guard contract with annual savings of \$20,000.

Objective 6: Approved the annual rates in April 2014 and the annual budget in May 2014 that meets the Board's financial metrics of a 1.35 overall debt coverage, meets its Designated Funds Policy limits, and responsibly budgets for its sales assumption in response to the declaration of a state-wide drought in January 2014.

Objective 6: Completed the required bi-annual actuarial report for the Other Post-Retirement Employees Benefit plan and presented options to the Board of Directors regarding the payment of the unfunded liability. In May 2014, the Board approved amortizing the unfunded liability in one year (FY 2014); therefore, reducing its annual required contribution in FY 2015 by approximately \$220,000.

Objective 6: Developed a business plan to implement a Small Business Enterprise Program soliciting input from the Board of Directors, management and project managers.

Objective 6: Received an Excellence in Financial Reporting Award for West Basin's Comprehensive Annual Financial Annual Report (CAFR) for FY 2012-13 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: On March 5, 2014, a financial transaction was completed that redeemed the 2008A Adjustable Rate Certificates of Participation through the 2010A Adjustable Rate Certificates of Participation as a result of an expiring liquidity facility. The transaction will save approximately \$160,000 in debt service costs in the initial year.

Objective 6: In July 2013, the arbitrage rate consultant completed the required final year arbitrage report for the full redemption of the 2003A Refunding Rate Certificates of Participation, the required 5-year report for the 2008A Adjustable Rate Certificates of Participation, and the 2008B Refunding Rate Certificates of Participation. West Basin was required to pay the Internal Revenue Service the required payment due to the positive position of the arbitrage. In April 2014, the arbitrage rate consultant completed the final report as a result of the full redemption of the 2008A Adjustable Rate Certificates of Participation and also makes the required payment due to the positive arbitrage position with funds from the trustee rebate fund.

Objective 6: Presented annual report to the Board of Directors in October 2013 on the new Standby Charge Policy and received their direction to set aside approximately \$1,219,000 in excess net revenues into a new Standby Charge Defeasance Fund.

Objective 6: Utilized the E-procurement system (The Network) to facilitate the bidding process on 50 solicitations and increased the vendor audience with over 60 referrals during the fiscal year.

Objective 6: Initiate development of a management dashboard on the Financial Management System that provides high-level repository of financial reports, open contracts reports, and water sales reports.

Objective 6: Contracted for an online insurance management program that allowed for improved oversight to verify coverage, deficient and expiring coverage notices, and repository of all insurance documentation.

Objective 7: Completed and/or commenced the recruitment process for the following positions: 1) Public Information Specialist I (Graphic Designer); 2) Public Information Specialist I (Limited Term); 3) Engineering Intern; 4) Operations Analyst; 5) Operations Project Manager; 6) Records Management Coordinator; 7) Senior Administrative Assistant; and 8) Water Policy and Conservation Intern.

Objective 8: Successfully implemented the Board approved findings and recommendations from an employee comprehensive Classification and Compensation Study.

Objective 8: Distributed and received 100% completed Annual Employee Performance Evaluations from Senior Staff.

Objective 9: Completed Evaluation of Administrative Support needs.

Objective 9: In accordance with the Board's Strategic Business Plan objectives, submitted the 2013 Workforce Diversity Report to the Board that reflects the demographic breakdown by race and occupational category of the full-time employees.

Objective 9: Successfully secured final Board approval for offering staff voluntary supplemental insurance through Allstate beginning January 1, 2014.

Objective 9: Successfully conducted three mandatory Safety Meetings for staff in accordance with the Injury/Illness Prevention Program.

Objective 9: Conducted Safety CPR Training for staff in compliance with the Injury/Illness Prevention Program and Emergency Evacuation Plan.

Objective 9: Conducted mandatory Sexual Harassment Prevention Training for all employees.

Objective 9: Ensured timely revision, update and Board approval of the salary schedule for display on the website, in accordance with the California Public Employees' Retirement System (CalPERS) statutory and regulatory requirements for publicly available pay schedules.

Objective 9: Conducted Special Board Workshop on Succession Planning initiatives and strategies.

Objective 9: Upon completion of an Employee Satisfaction Survey with 98% of staff participating, successfully facilitated General Manager and Senior Staff involvement in developing responses to primary concerns noted in survey results and facilitated/conducted thorough follow-up and feedback to staff.

Objective 10: Revised the General Manager Evaluation form.

FY 2014-15 Strategies

Customer Service

Objective 3: Board of Directors will be reviewing the Strategic Business Plan for possible revisions based on the outcome of the board retreat, and input received from the consultant and where necessary from the management staff.

Sound Financial & Resource Management

Objective 4: Meet with rating agencies to discuss upcoming debt issuances to support efforts towards accomplishing the goals of Water Reliability 2020.

Objective 5: Update Long-Range Financial Model to project revenue needs, capital funding and appropriate rates and charges.

Objective 6: Complete the bi-annual actuarial report for PARS plan.

Objective 6: Conduct Request for Proposal for auditing services.

Objective 6: Continue to improve the setup and efficiencies with financial management software.

Objective 6: Incorporate the elements of a Small Business Enterprise program into the solicitation process.

Objective 6: Conduct a Request for Proposal for online bid management system.

Objective 6: Complete the review and amendment of the Administrative Code, Human Resources section, for Board approval/resolution.

Objective 6: Implement a revised Records Management Plan for retention and destruction.

Objective 7: Complete the hiring processes for Senior Administrative Assistant and a limited term Accountant I.

Objective 8: Implement General Manager approved recommendations resulting from the comprehensive Classification and Compensation Study.

Objective 9: Develop an administrative support needs request form.

Objective 9: Implement Board approved Succession Planning initiatives and objectives.

Objective 9: Conduct mandatory Sexual Harassment Training for all employees and directors.

Objective 9: Conduct Employee Wellness Fair in support of the wellness initiatives.

Objective 9: Conduct quarterly safety meetings.

Objective 9: Conduct Safety CPR Training, Emergency Evacuation and Earthquake Preparedness Drills in compliance with the Injury/Illness Prevention Program and Emergency Evacuation Plan.

Water Recycling Operations

West Basin's Edward C. Little Water Recycling Facility (ECLWRF) is a state-of-the-art facility that is the largest of its type in the world. Working with customers such as Honda, ExxonMobil, Tesoro, Chevron, Goodyear, California State University Dominguez Hills, Home Depot Center, Raytheon, Los Angeles Air Force Base, Marriott, various cities and the Water Replenishment District of Southern California (WRD), West Basin has built a one-of-a kind water recycling program with the capacity to expand throughout our service area.

ECLWRF produces more than 30 million gallons of recycled water every day for more than 390 customers. Uses of recycled water include irrigation, two purities for boiler feed, cooling towers, and injection into seawater barriers to prevent our local groundwater supplies from being contaminated by the salt water. This world-class purification facility produces five types of "designer" waters to serve specific customer needs. All five types of designer waters meet the treatment and water quality requirements specified in the California Department of Public Health's Water Recycling Criteria and are permitted by the Los Angeles Regional Water Quality Control Board.

West Basin's "Designer" Customer Tailored Waters:

1. Title 22 Water: Secondary treated wastewater that has been filtered and disinfected for industrial and irrigation uses.
2. Nitrified Water: Title 22 water that has been nitrified to remove ammonia for industrial cooling towers.
3. Barrier Water: Secondary treated wastewater pretreated by microfiltration, followed by reverse osmosis (RO) and disinfection (UV/peroxide treatment) for groundwater recharge, which is superior to state and federal drinking water quality standards.
4. Low Pressure Boiler Feed Water: Secondary treated wastewater that has undergone microfiltration and RO for low-pressure boiler feed water.
5. High Pressure Boiler Feed Water: Secondary treated wastewater that has undergone microfiltration and two passes through RO for high pressure boiler feed water.

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 promote and develop additional customers to use recycled water. West Basin started delivering recycled water in 1995 and continues to expand its facilities to increase this local resource. West Basin's recycled water system consists of:

- A pump station in the southwest corner of the Hyperion Wastewater Treatment Plant to pump secondary effluent ECLWRF in El Segundo;
- The ECLWRF treats water for use in Chevron refinery's high-pressure and low-pressure boilers, the West Coast Basin Barrier (Barrier) and to comply with Title 22 of the California Code for irrigation and other industrial uses;
- A Satellite Treatment Plant in El Segundo to further treat Title 22 water from the ECLWRF to provide nitrified water to Chevron refinery's cooling towers;
- A Satellite Treatment Plant in Torrance to further treat Title 22 water to provide nitrified water to ExxonMobil's cooling towers and a separate Satellite Treatment Plant to provide boiler feed water to ExxonMobil;

- A Satellite Treatment Plant in Carson to further treat Title 22 water from the ECLWRF to provide nitrified water to Tesoro's cooling towers and provide boiler feed water to bp;
- Three 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 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
10.66	10.22	9.93	12.46	13.06

Operating Budget

	FY 2011-12 ACTUAL	FY 2012-13 ACTUAL	FY 2013-14 PROJECTED	FY 2013-14 BUDGET	FY 2014-15 BUDGET
Labor and Benefits	\$1,866,439	\$1,911,349	\$1,916,822	\$2,160,690	\$2,551,538
Overhead	720,849	714,663	706,724	798,291	900,298
Operations					
Chemicals	5,754,935	6,007,150	7,115,100	8,013,820	7,239,400
Consultants	782,082	615,317	1,055,000	1,090,000	1,542,000
Contract Labor	499,653	458,652	584,780	527,300	550,000
Facility Maintenance	2,559,490	3,102,873	3,247,900	3,086,100	3,169,200
Laboratory Service	424,353	440,175	481,400	489,200	640,900
Office Administration	673,558	1,651,443	728,600	632,785	732,900
Secondary Effluent	239,793	237,384	321,900	394,015	373,100
Solids Disposal	550,777	620,408	693,500	894,600	747,600
Utilities	4,981,482	6,410,194	10,405,200	9,058,200	8,465,200
UWS Labor	5,362,299	5,785,219	6,839,020	7,481,600	7,480,900
Mobil Reimbursement	(839,674)	(851,650)	(860,050)	(865,500)	(877,300)
Total Recycling Operations	\$23,576,036	\$27,103,178	\$33,235,896	\$33,761,101	\$33,515,736

The major variances between FY 2013-14 and FY 2014-15 budgets are due to the following items:

- Chemicals: Reflects a decrease in budgeted production, thus a decrease in chemical usage to treat the water.
- Consultants: Reflects costs to provide emergency potable back-up.
- Facility Maintenance: Reflects an increase due to equipment rental and filter media replacement costs.
- Solids Management: Reflects a decrease in budgeted production, thus a decrease in solids hauling.
- Utilities: Reflects a decrease in budgeted production, thus a decrease in power usage and an assumed power rate increase.
- UWS Labor: Reflects a contracted labor rate increase and one additional employee.

STRATEGIC GOALS AND OBJECTIVES

Strategic Business Plan Goals



FY 2013-14 Accomplishments

Customer Service

Objective 1: Implement back-up potable supply for toilet and urinal flushing using recycled water at Los Angeles Air Force Base to assure reliability.

Objective 2: Held Site Supervisor Training for new site supervisors, and staff at existing sites.

Sound Financial & Resource Management

Objective 1: Install surge tank to protect West Coast Basin Barrier Pipeline.

Objective 1: Make infrastructure improvements to achieve 100 percent recycled water to the Barrier.

Objective 2: Install 3,846 membranes for Phase II, III, and IV microfiltration systems.

Objective 2: Install 3,276 membranes for trains 2, 3, 4, 5, 9 reverse osmosis systems.

Objective 6: Executed new recycled water Operations and Maintenance agreement with United Water Environmental Services.

Objective 6: Increased the Chevron Refinery's nitrified demand by 30 percent.

Objective 7: Hired Operations Analyst to develop and manage the Asset Management Implementation Plan.

Water Quality

Objective 1: Conducted a demonstration test and eventually implemented the use of a coagulant chemical, a ferric blend, to save costs.

Water Reliability

Objective 3: Startup operations from the completion of Phase V & NRG construction projects to increase recycled water deliveries.

Objective 3: Received grant to construct pipeline for Gardena Lateral.

Objective 3: Resolved long standing issues delaying conversion of Leuzinger HS, Entradero Park, Calle Mayor Middle School, and Torrance South High School.

FY 2014-15 Strategies

Customer Service

Objective 1: Continue making infrastructure improvements to achieve 100 percent to the Barrier.

Sound Financial & Resource Management

Objective 1: Implement the prioritized asset management recommendations to maximize the asset life and optimize maintenance activities.

Objective 3: Seek out and apply for grant funding to maximize opportunity for expansion of recycled water for new customers.

Objective 6: Evaluate existing processes to improve operations.

Water Quality

Objective 1: Continue to support existing customer water quality inquiries.

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

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 RO and blended with other potable water in 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 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 WRD.

Personnel - Full Time Equivalent (FTE)

FY 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
0.05	0.03	0.02	0.34	0.18

Operating Budget

	FY 2011-12 ACTUALS	FY 2012-13 ACTUALS	FY 2013-14 PROJECTED	FY 2013-14 BUDGET	FY 2014-15 BUDGET
Labor and Benefits	\$7,397	\$4,055	\$2,754	\$69,775	\$39,099
Overhead	3,175	1,811	1,294	23,334	13,042
Operations	531,459	612,966	436,500	569,920	527,350
Replenishment Assessment	358,621	272,768	308,508	429,120	332,856
Total Desalter Operations	\$900,652	\$891,600	\$749,056	\$1,092,149	\$912,347

The variance between the FY 2013-14 and FY 2014-15 Budgets are due to an anticipated decrease in contract operations, and a decrease in the budgeted Replenishment Assessment Rate.

STRATEGIC GOALS AND OBJECTIVES

Strategic Business Plan Goals



FY 2013-14 Accomplishments

Sound Financial & Resource Management

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

FY 2014-15 Strategies

Sound Financial & Resource Management

Objective 6: Assumes a full operating year.

Objective 6: Implement new Operations and Maintenance agreement with California Water Service Company.

Water Policy and Resource Development (Water Policy)

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

Personnel - Full Time Equivalents (FTE)

FY 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
3.46	3.85	4.23	3.84	4.53

Operating Budget

	FY 2011-12 ACTUALS	FY 2012-13 ACTUALS	FY 2013-14 PROJECTED	FY 2013-14 BUDGET	FY 2014-15 BUDGET
Labor and Benefits	\$1,153,850	\$905,440	\$935,665	\$801,476	\$993,227
Overhead	437,859	336,921	359,500	261,045	387,203
Planning	329,520	71,072	135,282	157,782	138,282
Government Affairs	298,616	320,650	351,600	367,650	378,600
Total Resource Planning	\$2,219,845	\$1,634,083	\$1,782,047	\$1,587,953	\$1,897,312

The increase between the FY 2013-14 and FY 2014-15 budgets is due to a reallocation of labor, benefits and overhead to reflect an anticipated increase in the level of effort by staff in this program.

STRATEGIC GOALS AND OBJECTIVES

Strategic Business Plan Goals



FY 2013-14 Accomplishments

Customer Service

Objective 1: Conducted a workshop with customer agencies to review proposed FY 2013-14 budget and water rates.

Objective 5: Educated local, state and federal elected officials on matters related to local water supply needs, and the Water Reliability 2020 program to develop new, reliable local water supplies.

Objective 5: Increased state and federal advocacy efforts related to securing project and program funding for the service area through the potential 2014 Water Bond and Water Resources Development Act (WRDA).

Objective 5: Provided regular and timely updates to West Basin’s customers and municipalities on activities, state and federal legislation, MWD activities and regional and statewide policy matters that potentially impact the West Basin service area.

Objective 5: Planned and implemented the first Greater Los Angeles Water Summit to attract local elected officials throughout Los Angeles County to a one-day water issues conference.

Sound Financial & Resource Management

Objective 6: Applied for several grant funding opportunities in support of conservation and reliability programs.

Objective 6: Played a key role in assisting the Greater Los Angeles County Region in receiving funding for a \$25 million implementation grant and a \$1 million planning grant under the Integrated Regional Water Management Program, including a recycled water project to serve four sites in the City of Gardena.

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 Current Year 2012 report on greenhouse gas emissions from all West Basin operations to the Climate Registry.

FY 2013-14 Strategies

Customer Service

Objective 5: Continue to provide a forum for exchange of information and perspectives on West Basin policies and programs as well as statewide water policy issues including a possible 2014 Water Bond and the Bay Delta Conservation Plan.

Objective 5: Ensure that any state and federal legislation regarding potential local government and, or water supply funding incorporate a “diverse” approach, which provides funding opportunities for

conservation, water recycling, and ocean-water desalination.

Objective 5: Continue our program to honor Legislators of the Year with Water Reliability 2020 awards.

Sound Financial & Resource Management

Objective 1: Manage the reporting to MWD for the projects funded through the Foundational Actions Funding Program.

Objective 6: Continue pursuing grant opportunities for West Basin and its customer agencies and monitor applications pending from U. S. Bureau of Reclamation and Department of Water Resources.

Objective 6: Continue advocacy efforts related to West Basin's request for an increased Federal authorization for the Harbor South Bay project, through the Water Resources Development Act of 2012.

Objective 6: Continue to defend West Basin service area and MWD as a whole against litigation, legislation and other efforts intended to work against cooperative regional water management policy.

Objective 6: Continue leadership role in the Greater Los Angeles County Integrated Regional Water Management Program, including administration, on behalf of the Region, of its financial resources.

Objective 6: Continue leadership role in the South Bay sub-region of the Greater Los Angeles County Integrated Regional Water Management Program, in preparing to apply for the remaining Proposition 84 funding.

Objective 6: Submit CY 2012 greenhouse gas emissions from all West Basin operations to the Climate Registry.

Water Reliability

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 WateReuse.

Objective 5: Continue to monitor and advocate for long term solutions, including the Bay Delta Conservation Plan, for California's co-equal goals in the Sacramento San Joaquin Bay Delta, to improve California's water supply reliability, while restoring the health of the Delta estuary.

Public Information

The core mission is to convey West Basin’s Water Reliability 2020 (WR 2020) program with its value, benefits and savings provided to its stakeholders. Additionally, this program strives to enhance West Basin’s reputation as an award-winning, innovative and industry leading water agency. This year, staff continues to convey the conservation message due to the current drought, and also the value of programs and activities that support the Board of Director’s Strategic Business Plan.

Water Reliability 2020

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

Public Outreach

Through support and guidance from the Board of Directors, staff develops and implements a wide array of leader-focused programs to insure that West Basin is positioned as a valuable utility among key stakeholders. Audiences include state, county and federal elected officials, cities, partners and customer agencies, community, environmental, educational and business leaders. A number of outreach programs have been developed that reflect the value provided by West Basin, including special events, tours, and presentations. Annual water-themed events, construction outreach meetings, media tours and special delegation tours of ECLWRF and the 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.

Education

West Basin’s water education programs engage students about the importance of water conservation and environmental responsibility. Currently, several programs are offered to elementary school children attending both public and private schools and have expanded its programs to serve middle and high school students. West Basin’s long-term education efforts will be focused on tours of our operational water facilities.

Personnel - Full Time Equivalents (FTE)

FY 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
7.42	10.2	9.85	9.07	9.92

Operating Budget

	FY 2011-12 ACTUALS	FY 2012-13 ACTUALS	FY 2013-14 PROJECTED	FY 2013-14 BUDGET	FY 2014-15 BUDGET
Labor and Benefits	\$830,160	\$1,408,377	\$1,502,530	\$1,328,028	\$1,461,076
Overhead	466,877	661,902	776,747	632,292	721,158
Education	153,073	153,813	257,824	287,120	221,700
Outreach, Media, & Events	294,030	347,416	390,164	438,500	427,000
Total Resource Planning	\$1,744,140	\$2,571,507	\$2,927,265	\$2,685,940	\$2,830,934

The Public Information Department strives to streamline processes and become more efficient. WR 2020 outreach continues to be efficiently executed, which has helped contribute to a significant budget decrease this year.

Strategic Business Plan Goals



FY 2013-14 Accomplishments

Customer Service

Objective 4: Added Water 101 classes in Carson at Donald L. Dear building.

Objective 4: Began the process to update the exhibits, conference rooms and educational facilities at the ECLWRF.

Objective 4: Successfully sponsored high schools in Solar Cup 2013-14.

Objective 5: Continued active tour program for the Water Education Center and Ocean-Water Desalination Demonstration Facility for elected officials, sponsors, media and industry V.I.Ps even though the plant is no longer active.

Objective 5: Continued social media program including Facebook page.

Objective 5: Continued WR 2020 program outreach and obtained over 10,000 community supporters for the program, including several new business and city commissions, 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 to improve www.westbasin.org with interactive features involving water recycling, conservation and a new children's conservation game.

Objective 5: Overhauled the community giveaway program to primarily include practical and water conservation devices in the future.

Objective 5: Planned and executed several special events centered on Ocean Friendly Gardens and water bottle filling stations.

Objective 5: West Basin hosted several community events and groups at its Ocean-Water Desalination Demonstration Facility and Water Education Center, and continued the public tour program.

FY 2014-15 Strategies

Customer Service

Objective 4: Continue to improve our education programs, including pre- and post-testing by adding additional information on the West Basin website.

Objective 2: Plan to publish a new value brochure to provide our customers with information about how West Basin efficiently plans, invests and builds cutting edge water facilities.

Objective 4: Continue to implement the WR 2020 outreach program and launch a new desalination section on the West Basin website.

Objective 5: Continue targeted outreach plan to build desalination support in beach cities and throughout the service area.

Objective 5: Continue to develop new communication vehicles to showcase West Basin's "new" brand and value.

Objective 4: Host annual Water Harvest festival to reach out to the community and continue educational and value focus.

Objective 5: Coordinate frequent meetings with media focused on current issues facing the water industry and West Basin.

Objective 4: Continue to update the exhibits and educational facilities at the ECLWRF.

Objective 4: Execute six Water 101 courses for the public and universities.

Conservation

West Basin is currently implementing the fourth year of its 2010-2015 Water Efficiency Master Plan (Plan). In the coming fiscal year, staff will be evaluating the successes and challenges of its current programs and developing new strategies and programs for the next five years. The next Plan will carry West Basin to the year 2020.

West Basin's goal is to reduce imported water use by 20% as called for in the Governor's 2009 Conservation Water Act. Together with the water recycling program, West Basin has met and will exceed the 20% imported water reduction goal.

West Basin continues to obtain outside funding through partnerships and federal, state and local grants as a way to increase the cost-effectiveness of its programs and provide the public with greater value.

Personnel - Full Time Equivalent (FTE)

FY 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
3.72	3.75	3.69	4.66	4.14

Operating Budget

	FY 2011-12 ACTUALS	FY 2012-13 ACTUALS	FY 2013-14 PROJECTED	FY 2013-14 BUDGET	FY 2014-15 BUDGET
Labor and Benefits	\$475,774	\$529,988	\$572,900	\$710,045	\$637,031
Overhead	251,643	287,510	270,800	316,590	292,396
Conservation	1,393,278	1,309,126	1,796,388	1,706,265	1,187,523
Total Conservation	\$2,120,695	\$2,126,624	\$2,640,088	\$2,732,900	\$2,116,950

Program costs may vary each fiscal year as this program is highly dependent on outside funding to support the water use efficiency initiative. The lower budgeted costs in FY 2014-15 is the result of successfully completing programs that are grant funded. Per the Plan, West Basin will continue to seek grant funding opportunities and partnerships for its programs.

For every dollar invested, more than three dollars worth of water conservation devices and programs are delivered to the public due to grants and local partnerships.

Strategic Business Plan Goals



FY 2013-14 Accomplishments

Water Reliability

Objective 2: Completed five high-efficiency toilet exchange events.

Objective 2: Worked with various schools and city facilities to install water efficiency measures.

Objective 2: The South Bay Environmental Services Center conducted over 40 Cash for Kitchen Audits.

Objective 2: Signed up several car washes for the water efficiency car wash coupon program.

Objective 2: Worked with various schools and city facilities to install water efficiency measures.

Objective 2: Piloted a new Rain Barrel Distribution Program.

Objective 2: Piloted a new Smart Sprinkler Exchange Event.

Objective 2: Constructed three Ocean Friendly Demonstration Gardens at the following locations: City of Carson Community Center, City of Hawthorne City Hall and Palos Verdes High School.

Objective 2: Conducted four California Friendly Landscape Training Classes and three “Hands-on-Workshops”.

Objective 2: Conducted two landscape classes in Malibu for the Spanish speaking landscapers.

Customer Service

Objective 4: In partnership with the South Bay Environmental Services Center, they represented and promoted programs at over 125 community events.

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

Objective 4: In partnership with the City of Malibu and the Los Angeles County Department of Public Works – Waterworks District #29, West Basin and the partners presented certificates, along with the Malibu City Council, to residents, businesses, and public sites for their actions in conserving water.

Environmental Stewardship

Objective 2: Through its water efficiency programs, West Basin continues to gain environmental and community support.

FY 2014-15 Strategies

Water Reliability

Objective 2: Focus on drought messaging and publicize Water Use Efficiency and Conservation programs.

Objective 2: Continue to implement the Water Use Efficiency and Conservation programs in all sectors.

Objective 2: Build nine more Ocean Friendly Demonstration Gardens throughout the service area for a total of 16 gardens.

Objective 2: Update the Water Use Efficiency Master Plan for the next five years, 2015–2020.

Water Quality Monitoring Program

West Basin administers the Water Quality Monitoring Program for several of its potable water purveyors. Program activities include compliance sample scheduling, contracting wellhead sampling and laboratory services, reviewing water quality data for compliance, maintaining water quality databases, and preparing compliance and non-compliance reports.

Personnel - Full Time Equivalents (FTE)

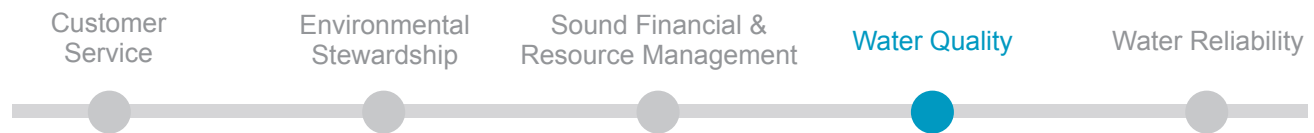
FY 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
0.09	0.04	0.02	0.03	0.03

Operating Budget

	FY 2011-12 ACTUALS	FY 2012-13 ACTUALS	FY 2013-14 PROJECTED	FY 2013-14 BUDGET	FY 2014-15 BUDGET
Labor and Benefits	\$13,780	\$6,237	\$2,633	\$5,386	\$5,455
Overhead	6,032	2,789	1,226	2,219	2,365
Monitoring Program	14,614	3,105	7,426	16,000	16,000
Title 22 Monitoring	\$34,426	\$12,131	\$11,285	\$23,605	\$23,820

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

Strategic Business Plan Goals



FY 2013-14 Accomplishments

Water Quality

Objective 1: Completed annual customer water quality reports for two participating retailers.

Objective 2: Completed laboratory services required to comply with Federal Safe Drinking Water Act and California Title 22 Drinking Water regulations such as analyses of all inorganic, organic compounds, and radioactivity.

FY 2014-15 Strategies

Water Quality

Objective 1: Complete annual customer water quality reports for two participating retailers.

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

Objective 3: Provide FY 2014-15 budget estimate for lab costs and annual assessment to each participating purveyor.

DISTRICT POLICIES

DISTRICT POLICIES

Budget-Related Policies Summaries

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

In order to stay in compliance with each of its financial policies, staff performs periodic reviews, quarterly reporting, and review by the independent external auditors.

POLICY ADDITIONS AND MODIFICATIONS

Annually, West Basin reviews its policies to ensure they remain relevant and address any new best practices or regulations that may impact the usefulness of these financial policies.

As part of its annual review process, staff, the financial advisor and bond counsel reviewed both the Debt Management and Swap Policy. Language was added to the Debt Management Policy to expand the application to products similar to a commercial paper program and new language was added to the Swap Policy requiring West Basin to utilize the services of the qualified independent swap advisor for both the evaluation and execution of all future swap transactions, as well as with the ongoing monitoring and valuation of all swap transactions. This information was also brought to the Board of Directors in January 2014 for their review and consideration for re-adoption. The West Basin Board also considered and approved the minor recommendations needed to the Investment Policy in January 2014.

A new policy was adopted in May 2013, the Standby Charge Policy. This policy provides a process for the elimination of the annual Standby Charge. The Board of Directors will determine the amount of "excess" funds, if any, that will be designated and placed into the Standby Charge Defeasance Fund, and was added to West Basin's Designated Funds Policy in October 2013.

Along with adding a new fund for Standby Charge Defeasance, West Basin also revamped its Designated Funds Policy by combining certain funds and revising the target levels. Before the Designated Funds Policy was revised, staff provided analysis to demonstrate to the Board of Directors the financial impacts the recommended changes would have on West Basin's near-and long-term financial position.

Listed below, are key financial policies that the Board and staff must comply with when conducting business of the district.

A. Annual Operating Budget Policies

- Annual budget is prepared under the direction of the General Manager.

- The budget is developed using the direction given by the Board of Directors through the Strategic Business Plan.
- A draft budget is to be presented to the Board within sixty days of the new fiscal year.
- The Board shall adopt a budget prior to commencing the next fiscal year.
- The General Manager will submit quarterly operating budget versus actual reports with explanation of significant variances.
- Any adjustments to the Budget must be approved by the Board of Directors.

B. Investment Policy

- Funds will be invested in compliance with the provisions of the California Government Code Section 53601 and other applicable statutes and may be more restrictive than the Code.
- Safety of principal, liquidity and return on investment, in that order, are the criteria in which the Treasurer shall invest.
- Investments shall be diversified and to the extent possible, and match its investments with cash flow requirements.
- Annual appointment of Treasurer is required and may be a staff person.
- The Treasurer shall submit a monthly report to the Secretary of the Board of Directors indicating investment by fund, institution, date of maturity, amount of deposit, and shall provide the current market value of all securities with a maturity of more than 12 months, rates of interest, and expected yield to maturity.
- May engage services of an external manager to assist staff in the management of the investment portfolio, and assist in trade execution.

C. Designated Funds Policy

- Designated and undesignated funds can be used for any lawful purpose at the discretion of the Board of Directors.
- Policy will be reviewed annually to insure designated funds achieve an appropriate overall minimum target balance.
- Operating Liquidity Fund is for short-term or immediate purposes such as unplanned activities.
- Operating Contingency Fund provides protection against unforeseen expenses that cause actual expenses to exceed the budget.
- Capital Contingency Fund provides for unexpected cost increases/unanticipated capital projects.
- Rehabilitation & Replacement (R&R) Fund provides immediate resource for ongoing R&R of the system that is in excess of the amount included in the annual operating budget.
- Standby Charge Defeasance Fund is to repay outstanding debt that could eliminate the annual Standby Charge.
- System Expansion Fund provides for cash financing (5%) for future large-scale capital projects.
- Rate Stabilization Fund provides a resource to manage the level of water sales fluctuations from year-to-year.

D. Procurement Policy

- Covers the purchase of professional and non-professional services as well as supplies, goods and equipment.
- A competitive process ensures that purchases are made at the lowest possible cost commensurate with acceptable quality.
- Provides for a local business enterprise incentive to encourage local business to bid on West Basin's procurement opportunities.
- Thresholds are established to determine if single source (<\$10,000), informal process (\$10,000-

\$35,000) or a formal process (>\$35,000) should be followed.

- Critical repairs acquisitions are subject to the informal solicitation process and shall not exceed \$250,000 per each critical repair or critical acquisition.

E. Capitalization Policy

- Provides guidance for the capitalization and depreciation of assets to comply with the requirements of Governmental Accounting Standard Board Statement 34.
- Purchased or 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.
- Use the straight-line method with no salvage value for depreciating capital assets.

F. Accounting, Auditing and Financial Reporting

- The General Manager shall implement an accounting system meeting the financial reporting needs of the Board, and complies with generally accepted accounting practices.
- The General Manager shall review and pay all financial obligations as they become due and shall submit a monthly register of disbursements for ratification of the Board.
- The General Manager shall prepare and submit to the Board at the end of the fiscal year a comprehensive annual financial report on the finances of West Basin for the preceding year, keep the Board advised of the financial condition and future needs of West Basin, and make recommendations.
- West Basin will use widely recognized and generally accepted accounting principles (GAAP) and guidance issued by the Government Accounting Standards Board (GASB).
- West Basin will hire an independent accounting firm to perform annual audits in conformity with GAAP.

G. Debt Management

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

H. Rates and Charges

- The rates, fees and charges will recoup the amounts paid for water, the cost of operations and maintenance expenses, and an amount necessary for reasonable designated funds.
- The revenue produced by the rates, fees and charges will be used to provide service to existing customers.
- Rates and charges will be reviewed annually and the Board of Directors will adopt a resolution fixing the rates and charges for the following fiscal year.

I. Human Resources Management

- Determine staffing levels consistent with budgetary authority, available resources, and operating needs.
- The General Manager can modify positions and organizational structure to accomplish work within the budget approved by the Board of Directors for that fiscal year.
- The General Manager shall develop an employee performance evaluation plan to assess employee performance in accomplishing West Basin business.
- Salary ranges for positions shall be reviewed on an annual basis via a salary survey.
- West Basin will provide suitable training for staff.

J. Risk Management

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

K. Swaps

- Each swap will be structured by the CFO and members of the financing team.
- Board of Directors has final authority for approval of each swap.
- Quarterly reporting to the Board of Directors is required.
- 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 and will utilize a qualified independent swap advisor to assist with the evaluation and executions of swap transactions.
- Each swap agreement shall contain terms & conditions as set forth in the International Swap and Derivatives Association, Inc.

L. Balanced Budget

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

FINANCIAL POLICIES

Included for reference are the full and complete financial policies:

	<u>Page Number</u>
Investment Policy	H-5
Designated Funds Policy	H-15
Procurement Policy	H-19
Capitalization Policy	H-32
Debt Management Policy	H-36
Swap Policy	H-46
Standby Charge Policy	H-53

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 Financial Industry Regulatory Authority (FINRA) 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.

The Treasurer or Deputy Treasurer shall review the portfolio on a monthly basis for compliance with the sector, issuer, and credit ratings established in this section of the Policy. In the event that any security is found to be non-compliant, staff will prepare a report for the Board that details the compliance issue and provide analysis and a recommendation to bring the portfolio back into compliance with the Policy.

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

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

The following criteria will be used in evaluating companies:

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

- (1) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- (2) For obligations without a fixed rate of interest, these obligations must have an unconditional demand feature, guarantee or put within the maximum maturity limitations
- (3) Eligibility shall be limited to those obligations that maintains a long-term rating of A or a short-term rating in the highest category by a Nationally Recognized Statistical Rating Organization (NRSRO).
- (4) Any bonds, notes, warrants, or other evidences of indebtedness of the District:
 - (i) District obligations that maintain short-term ratings will be tendered to the trustee for cancellation no later than the 5th anniversary of their purchase.
- (5) Investments in California municipal securities shall not exceed 10% of the portfolio.
- (6) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).

(j) State Municipal Obligations

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

(k) Corporate Notes

- (1) Medium-term notes, defined as all corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
- (2) Notes eligible for investment under this subdivision shall be Rated "A" or better by an NRSRO
- (3) Purchases of medium-term may not exceed 30% of the District's portfolio.
- (4) Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding Treasuries and Federal Agency issuers).
- (5) If a corporate security owned by the District is downgraded by a NRSRO to a level below the quality required by this Investment Policy, it shall be the District's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. The Treasurer or Deputy Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.

10.0 Prohibited Investments

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

11.0 Investment Pools/Mutual Funds Due Diligence

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

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- A description of how reserves, retained earnings, etc. are utilized by the pool or fund
- A fee schedule, and when and how is it assessed.

12.0 Collateralization

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

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

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 or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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

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

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

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

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

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

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

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

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

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

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

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

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.

Financial Industry Regulatory Authority (FINRA): A self-regulatory organization (SRO) that assists the SEC in regulating financial markets, notably exchanges and companies that deal with securities. Among other duties, FINRA enforces rules, arbitrates disputes, and provides training and licensing services. It was created in 2007 with the merger of the National Association of Securities Dealers and the NYSE regulatory board.

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 Financial Industry Regulatory Authority (FINRA).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

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. 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 agency's 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) 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. 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. Purpose

Designated funds are 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. 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.

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. 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, if applicable. The target amounts are based on West Basin's experience, the current operating budget, outstanding long-term debt, 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 setting aside monies into the Standby Charge Defeasance Fund in order to retire outstanding debt in the future and eliminate the annual standby charge or placing the undesignated funds into a System Expansion Fund or a Rate Stabilization Fund.

6. 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 three main categories: Core categories, Standby Charge Defeasance Fund 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 180 days (operating expense includes program expenses and debt service but excludes the pass-through costs from water purchases and charges from Metropolitan Water District of Southern California (MWD)).
 - 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. Capital Contingency – Provides a cushion for unexpected capital cost increases and/or unanticipated capital projects that arise.
 - i. Target Amount – 10% of 3-year average of capital budget.
 - ii. Target Date – Annual (June 30th of each fiscal year).

- d. Rehabilitation & Replacement (R&R) - 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. Although preventive maintenance is intended to increase the predictability of equipment replacement, unanticipated equipment failure is unavoidable. As part of its annual Operating Budget, West Basin includes money for anticipated R&R projects. This Fund will cover all emergency repairs and expenditures in excess of the amount included in the annual Operating Budget for R&R.
 - i. Target Amount – 1% of all depreciable assets as of the fiscal year-end.
 - ii. Target Date – Annual (June 30th of each year).

6.2 Standby Charge Defeasance Fund

Establish a separate fund so that the Board may consider eliminating the standby charge if it determines that the original estimate of 70,000 to 100,000 acre-feet per year (AFY) of recycled water production will be or has been met and all of the associated debt to meet those deliveries has been paid. Contributions to this Standby Charge Defeasance Fund are subject to Board discretion to cease making contributions to this fund or to re-allocate funds from this fund to other designated funds.

- i. Target Amount – Remaining principal, accrued interest and prepayment penalties, if any.
- ii. Target Date – Not Applicable.

6.3 Other Categories

- a. System Expansion – Establish a sinking fund in which “excess” revenues are set aside for future needs. Since it is not feasible or practical 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 revenue fluctuations from year to year. This fund operates as a buffer during any period where there are unexpected decreases in revenues or an unexpected rate increase from Metropolitan Water District (MWD) occurs.
 - i. Target Amount – Holding account for any “excess” funds.
 - ii. Target Date – Not Applicable.

7. Objectives

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

- 7.1 The core category is made up of four separate designated funds, each with its own target amount and with the same target date (June 30th). The sum of the four 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 minimum cash target balance, as explained in Section 7.1, must be met before any monies are placed into the designated funds in the other category as defined in Section 6.3.
- 7.3 The Standby Charge Defeasance fund will be reviewed annually (Section 6.2). The Board may set aside up to 100% of surplus net revenues. The target amount will change from time to time as outstanding debt is paid or new debt is issued and will be excluded from the minimum cash target determined in Section 7.1. A target date will not be established as the amount of funding will vary from year to year as it is based on surplus net revenues, if any, the Board sets aside.
- 7.4 The designated funds which are included in the other category (Section 6.3) will also be reviewed annually to determine the appropriate target amount and target date, if applicable.

8. Definitions

Actual Debt Coverage is calculated based on net revenue divided by annual debt service at the completion of any one fiscal year.

Budgeted Debt Coverage is calculated based on net revenues divided by annual debt service as determined in the adopted Fiscal Year budget.

Debt Service is the principal and interest payment on bonds or other debt instruments used to finance capital facilities.

Surplus Net Revenues is calculated as annual debt service multiplied by the difference between the actual debt coverage and the budgeted debt coverage.

Net Revenue is the difference between revenues and operating expenses. Revenues include all water revenues, Metropolitan Water District local resources program incentive, fixed revenue, conservation or other income. Operating expenses include water purchases and operating expenses, but excludes non-cash items like depreciation or amortization. For the purpose of this definition, net revenue will exclude capital grants and capital reimbursements.

Standby Charge is an annual charge paid by property owners in West Basin's service area to fund the debt service obligation on West Basin's water recycling facilities.

Procurement Policy (Excerpt from Administrative Code)

5-1.101 POLICY

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

5-1.102 DEFINITION OF TERMS

The following definitions shall apply to this chapter:

- A. Amendment / Change Order / Revision: modification of the terms of an existing Contract.
- B. Authority to Approve (Approval Authority): authority to designate funding for a specific procurement.
- C. Authority to Commit (Commitment Authority): authority to execute a Contract for a specific designated procurement.
- D. Bidder: Consultant, Contractor, or Supplier that submits a bid in response to a Request for Bid or an Invitation for Quote.
- E. Consultant: an individual, firm, or entity that provides Professional Services.
- F. Public Works Construction Agreement – a written agreement for the provision of Public Works Construction Services by Contractors.
- G. Contract: a written agreement for the provision of Goods or Services (Professional or Non-Professional), and includes Professional Service Agreements (PSA), General Service Agreements (GSA) and Purchase Orders (PO).
- H. Contractor: an individual, firm, or entity that provides Non-Professional Services.
- I. Cooperative Procurement: any procurement conducted on behalf of two or more public agencies in order to obtain the benefit of volume purchasing and/or reduction in administrative expenses.
- J. Critical Acquisition: acquisition of supplies, Goods and equipment that is unplanned, unexpected, and which is essential to the continued operation of District facilities (including satellite facilities), but do not rise to the level of “Emergency” as defined in Section 5-1.105.
- K. Critical Repairs: repairs performed on District facilities that are unplanned, unexpected, and which are essential to the continued operation of the District facilities (including satellite facilities), but do not rise to the level of “Emergency” as defined in Section 5-1.105. Such repairs may include acquisition and installation of replacement parts.
- L. Critical Services: services performed on District facilities that are unplanned, unexpected, and which are essential to the continued operation of the District facilities (including satellite facilities), but do not rise to the level of “Emergency” as defined in Section 5-1.105.
- M. District: District, when used in this policy document, means West Basin Municipal Water District.

- N. Formal Competitive Solicitation: the issuance of a written Request for Bids, proposals, or quotations.
- O. General Services Agreement (GSA): a written agreement for the provision of non-Professional Services by Contractors or Consultants. Typically, the GSA will be used for longer term engagements and a Purchase Order (defined below) will be used for the procurement of Services that are short term or “one time” engagements.
- P. Goods: refers to all types of tangible personal property including materials, supplies, and equipment.
- Q. Informal Competitive Solicitation: a written request for a bid, proposal, or quotation in accordance with written terms and conditions included in the request.
- R. Invitation for Quote (IFQ): a written request for the submission of a price quotation to provide Goods in accordance with specifications, conditions, and other requirements included in the request.
- S. Material Change: change to essential terms in a contract including, but not limited to, consideration, scope of Services, insurance and indemnity obligations, and assignment.
- T. Non-Professional Services: Services provided by a Contractor, including, but not limited to, trade, janitorial, maintenance, and construction services.
- U. Professional Services: any specifically trained or experienced person, firm or corporation specializing in financial, economic, accounting, engineering, information technology, legal, architectural, public relations, or other specialized disciplines. Services may include the provision of a report, study, plan, design, specification, document, program, advice, recommendation, analysis, review, opinion, inspection, investigation, audit, brokering or representation of the District before or in dealings with another party.
- V. Professional Services Agreement (PSA): a written agreement for the provision of Professional Services by Consultants and other Professional Service providers.
- W. Proposer: Consultant or Contractor that submits a proposal in response to a Request for Proposal.
- X. Public Works Construction Agreement: Agreement for the erection, construction, alteration, repair, or improvement of any public structure, building, road, or other public improvement of any kind and awarded in compliance with competitive bidding statutes as a means of protecting the public from misuse of public funds.
- Y. Purchase Order (PO): a commercial document issued by the District to a Supplier indicating types, quantities, delivery requirements, and agreed prices for the Goods the Supplier will provide the District. A PO may also be issued to a Contractor or Consultant for the procurement of Services that are short term or “one time” engagements.
- Z. Request for Bid (RFB): primarily used for construction, a written request for the submission of a sealed price bid to perform work in accordance with specifications, conditions, and other requirements included in the request.
- AA. Request for Proposal (RFP): a written request for the submission of a proposal in accordance with specifications, conditions, and other requirements included in the request.
- AB. Requisition: A document generated by staff to identify and establish a requirement for, and request authorization of, the procurement of Goods or Services. Approved Requisitions are converted to the appropriate Contract document (PSA, GSA or PO) for the procurement of the good or service.
- AC. Responsible Bidder: a Contractor that meets the District’s standards with respect to a

reasonable expectation that the Contractor has the management, technical, financial, equipment, and human resources available to ensure adequate performance of the work described in a solicitation.

- AD. Responsive Bidder: a Contractor that provides a solicitation response that satisfactorily addresses all the requirements specified in a solicitation.
- AE. Services: the labor, intellectual property or other work product provided by a Contractor or Consultant that is not tangible personal property.
- AF. Sole Source Procurement: procurement of a Good or Service where only one viable provider of such Good or service exists. Typical examples include original equipment manufacturer's replacement parts, patent and copyright restrictions, proprietary processes, and warranty compliance issues.
- AG. Supplier: a provider of Goods.
- AH. Vendor: a term commonly used to refer to any provider of Goods or Services including Contractors, Consultants, and Suppliers.

5-1.103 **PROCUREMENT SOLICITATION PROCESS**

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

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

- B. Formal Competitive Solicitations for Goods

When applicable, Formal Solicitations for Goods will be posted on the District's internet based bid management system, and advertised as otherwise required by law. Whenever possible and practical, a minimum of 14 calendar days shall be provided for responses.

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

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

Formal Competitive Solicitations shall be posted on the District's internet based bid management system and as otherwise required by law. Whenever possible and practical, a minimum of fourteen (14) calendar days shall be provided for responses.

- a. The Formal Solicitation process requires a written Request for Proposal (RFP) covering the following (as applicable):
 - (a) Instructions to Proposers
 - (b) Scope of work
 - (c) A list of basic questions regarding each firm (address, number of personnel, qualifications, experience, etc.).
 - (d) A description of the method of selection used by the District.
 - (e) An explanation of the District's insurance requirements.
 - (f) A model Contract which the Proposer will be required to execute, if selected.
- b. All proposals submitted in response to a Formal Solicitation will be reviewed by District staff.
 - (a) Interviews will be conducted by a District staff panel with the most qualified Proposers and their proposed project team to assure a mutual understanding of the project and to obtain additional details related to their capabilities. Interviews for engagements in excess of \$100,000 will be conducted by a panel consisting of District staff and a third party with relevant expertise. The Board may excuse this interview requirement prior to the receipt of any proposals.
 - (b) Based upon the evaluation of proposals and interviews (as applicable) each panelist will assign a score to the Proposer. The District shall compile the panelists' scores and rank the Proposers by score, taking into account all of the information obtained.
- c. The following criteria, as applicable, shall be considered in the RFP evaluation of qualified Proposers to provide Services:
 - (a) Project approach and schedule.
 - (b) Specialized experience and technical competence of the Proposer and their project team relative to the type of Services required and the complexity of the project.
 - (c) Suitability of the Services proposed to meet the District's needs.
 - (d) Specific experience and qualifications of identified team members and their familiarity with the types of problems applicable to the project.
 - (e) Time commitment of key staff.
 - (f) Past record of performance on Contracts with the District, other public agencies, and private industry, include control of costs, quality of work, and ability to meet schedules.
 - (g) Fee proposal for the proposed Services.
 - (h) Other key factors as appropriate for the type of service.
- d. Recommendation of a Proposer for Contract award will be based on the composite

score assigned by the evaluation panel. This recommendation represents the evaluation panel's assessment of the Proposer's ability to provide the best value to the District.

- e. Board Review - Proposers responding to a Formal Solicitation from the District shall have the right to address the District's Board of Directors before the Board authorizes any Contract for the proposed Services. The staff will provide written notice to all such Proposers of the recommendation that staff will present to the Board. The notice will provide a seven (7) calendar day period to allow any such Proposer the opportunity to address the Board at the next meeting at which the Board plans to authorize the Contract.
- f. In the event that a Formal Competitive Solicitation will be awarded on a price basis only, the award shall be made to the lowest responsible, responsive proposer.

D. Formal Competitive Solicitations for Public Works Construction

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

- 1. The Formal Solicitation process requires a written Request for Bid (RFB) covering the following (as applicable):
 - (a) Instructions to Bidders.
 - (b) Detailed scope of work including plans and specifications.
 - (c) An explanation of the District's insurance requirements.
 - (d) A model Contract which the Bidder will be required to execute, if selected.
- 2. Recommendation for Contract award will be based on the lowest bid submitted by a Responsible and Responsive Bidder.
- 3. Board Review - Bidders responding to a Formal Solicitation from the District shall have the right to address the District's Board of Directors before the Board authorizes any Contract for the proposed Services. The staff will provide written notice to all such Bidders of the recommendation that staff will present to the Board. The notice will provide a seven (7) calendar day period to allow any such Bidder the opportunity to address the Board at the next meeting at which the Board plans to authorize the Contract.

E. Exceptions to Competitive Solicitation Requirements

- a. Exemptions – the following procurements are exempt from the competitive solicitation process:
 - i. books, periodicals, advertising, seminars, conferences, travel, subscriptions, postage, utilities, bank charges, memberships, travel reimbursements, and permits.
- b. Sole Source Procurements – the competitive solicitation process is waived for procurements where the required Good or Service is available from only one viable source (Good or Service provider). Negotiations shall be conducted with the provider of the Good or Service to achieve the most favorable pricing and terms of sale.

5-1.104 PROCUREMENT AUTHORITY OF GOODS AND SERVICES

A. Procurement Authority

1. Procurement Authority shall be exercised and performed by the Board of Directors. This authority includes both the authority to approve procurements and the authority to commit the District to procurements. The Board of Directors may delegate certain authorities to the District's management and staff. These delegated authorities shall be exercised and performed in accordance with applicable federal, state, and local laws and the policies contained herein.
2. Approval Authority shall be managed through Requisition approval process. The Requisition approval process, as delegated by the Board of Directors, shall be governed by the guidelines set forth in the following sections 5-1.104, B-E.
3. Commitment Authority, as delegated by the Board of Directors, shall be exercised and performed by the General Manager. Commitment Authority may be delegated to appropriate staff (designated alternate / delegate) at the discretion of the General Manager.

B. Procurement of Goods

The District may procure Goods as authorized below:

Any Procurement of Goods over \$1,000:

- Requires a Purchase Order

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

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

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

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

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

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

Amendments / Change Orders / Revisions:

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

C. Leasing of Goods

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

D. Procurement of Professional Services

The District may procure Professional Services as authorized below:

Professional Services of any value:

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

Professional Services up to \$10,000:

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

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

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

Professional Services for \$35,000 or more:

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

Amendments / Change Orders / Revisions:

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

E. Procurement of Non-Professional Services

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

Non-Professional Services of any value:

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

Non-Professional Services up to \$10,000:

- Requires a single a proposal and price quotation
- Requires a Requisition approved by the responsible Department Manager

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

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

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

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

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

Amendments / Change Orders / Revisions:

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

F. Public Works

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

Public Works of \$35,000 or more:

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

Amendments / Change Orders / Revisions:

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

G. Cooperative Procurement

Opportunities to participate in Cooperative Procurement shall be pursued whenever

feasible and in the best interest of the District.

H. Requirement Splitting

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

5-1.105 EMERGENCY PURCHASES AND SERVICES

In the event of an emergency, the General Manager may make immediate purchases of materials and Services pursuant to California Government Code requirements. Emergency purchases include any purchase required to prevent imminent danger or to prevent or mitigate the loss or impairment of life, health, property, or essential public Services. Every effort will be made to receive advance approvals or to obtain approvals as soon as possible following the purchase.

5-1.106 PROCUREMENT OF CRITICAL GOODS AND SERVICE

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

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

5-1.107 CONTRACT TIME EXTENSIONS

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

5-1.108 POLICY COMPLIANCE

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

5-1.109 EXCEPTIONS TO THIS POLICY

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

Chapter 2. Local Business Enterprise Program

5-2.101 POLICY

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

5-2.102 DEFINITION OF TERMS

The following definitions shall apply to this chapter:

- A. Local Business Enterprise (LBE): to be considered as a local business enterprise, a firm must provide evidence, in the form of a business license, that the firm is located at a fixed commercial or residential address where administrative, clerical, professional or other productive work is performed relative to its commercial purpose. The firm must be located within the District's service area for a minimum of one year.

5-2.103 GOODS

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

5-2.104 PROFESSIONAL SERVICES

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

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

5-2.105 NON-PROFESSIONAL SERVICES

All proposals for Non-Professional Services over \$25,000.00 value will be evaluated on a 100-point scale. A value of three additional points will be added to the evaluation scores of Local Business Enterprises who propose as prime Contractors on Non-Professional Services Contracts. If a non-local prime Contractor includes a Local Business Enterprise as a sub contractor in its proposal, a value of up to three points may be added to the evaluation score of the non-local prime Contractor. Points will be awarded based on the relationship the percentage dollar amount of the Contract that will be performed by the Local Business Enterprise bears to the three preference points. For example, if

a Contract is valued at \$100,000.00, and the non-local prime Contractor uses a local sub contractor who will perform \$25,000.00 worth of work, the Proposer will enjoy a preference of .75 points (.25 x 3 points).

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

5-2.106 PUBLIC WORKS CONSTRUCTION

If a prime Contractor intends to employ sub contractors, and the amount of the Contract is less than \$3 million dollars, as determined by West Basin's engineer's estimate, the prime Contractor will be required to: 1.) attend the pre-bid meeting; and 2.) advertise for sub contractor bids from LBEs in one or more daily or weekly newspapers, trade association publications, trade journals, or other relevant media.

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

Chapter 3. Economic Outreach

5-3.101 POLICY

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

5-3.102 DEFINITION OF TERMS

The following definitions shall apply to this chapter:

- A. Economic Outreach Plan: a set of specific and result-oriented procedures designed to achieve equal employment opportunity.
- B. Disadvantaged Business Enterprise (DBE): a small business concern with at least 51 percent owned by women or members of a minority group or disabled persons and whose management and daily business operations are controlled by one or more of the women or members of a minority group who own it.
- C. Disabled Person: a qualified individual with a disability as defined by the Americans with Disabilities Act of 1990.

- D. Feasible: capable of being accomplished economically within a reasonable period of time.
- E. Minority: a person who is a citizen and a lawful permanent resident of the United States and who is:
 - African American
 - Hispanic American
 - Asian-Pacific American
 - Native American/Native Hawaiian
 - Members of other groups or other individuals found to be economically and socially disadvantaged under the Small Business Act, as amended;
- F. Workforce Investment Board (WIB): a private or public agency devoted to assisting the recruitment and placement of disadvantaged persons or businesses.
- G. Workforce: the number and demographics of the labor force living within the District's service area.

5-3.103 APPLICATION OF POLICY

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

- A. Encourage Consultants to use the Services of the WIB or similar agencies to recruit disadvantaged persons and businesses.
- B. Assure qualified and certified disadvantaged business enterprises are afforded maximum practicable opportunities to compete for procurement and construction awards consistent with the financial constraints of the District and with the rights of non-minority firms to compete equally for District awards.
- C. Set a goal of 10 percent of the dollar value of Contracts executed during a fiscal year for the participation of DBE's either as prime Contractors or as sub-Contractors, as follows: at least 3.5 percent shall be allocated for minority-owned businesses, 3.5 percent for certified women-owned businesses, and 3 percent for disabled businesses where applicable.
- D. Require competitors for District awards who claim DBE status to be CalTrans-certified at the time of submitting bids or qualifications for Contract award. Qualification for DBE status by the District shall recognize the differing job-market availabilities in each of the occupational categories due to differing working category propensities of different ethnic groups and genders.
- E. The District shall keep on file reports, records and affirmative action plans sufficient to ascertain compliance with this policy and with the requirements of federal law. The District shall submit such reports to the appropriate State or federal agency as required by law.

Chapter 4. Disposal of Surplus

5-4.101 POLICY

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

- A. Board approval is required for the disposal of single-item surplus good with a current

market value greater than \$5,000.

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

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 and similar financing products are cash management programs 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 can be implemented directly by the District or through a financing corporation or other entity. If implemented through a financing corporation or other entity a tax revenue anticipation note or other instrument will be delivered by the District as security for the program. Periodic issuances or retirements of commercial paper notes or similar financing products within a Board approved program would not require further Board action once the program is implemented.

The Chief Financial Officer is responsible for implementing and managing the District's commercial paper or similar financing program. The Chief Financial Officer will work closely with commercial paper dealers, if any, to develop a marketing strategy for the initial sale and subsequent roll-over maturing amounts.

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 the 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.

West Basin will utilize a qualified independent swap advisor to assist with the evaluation and execution of swap transactions, as well as with the ongoing monitoring and valuation of its portfolio of outstanding swap transactions. West Basin will periodically evaluate the performance and services of its swap advisor. The swap advisor will meet all necessary registration, qualification and other requirements as set by the appropriate rules and regulations relating to the swap markets. The swap advisor will make necessary representations related to its status as a swap advisor to conform to appropriate rules and regulations, including each of the following:

- a) The swap advisor and its principals and/or senior staff will have a demonstrated specialized experience with respect to swap transactions to allow them to evaluate swap transactions and related risks;
- b) The swap advisor will have required industry and regulation registrations and/or licenses and will not be subject to any statutory disqualifications related to such registrations;
- c) The swap advisor will be independent of any swap dealer or a major swap participant that may

be acting as a counterparty to West Basin, and as such:

- i. The representative of the swap advisor providing advice to West Basin is not, and will not have been within one year of representing West Basin, associated with the counterparty in a capacity that involved solicitation or acceptance of swap transactions or that supervised such activities;
 - ii. There is no principal relationship between the swap advisor and the counterparty;
 - iii. The swap advisor will disclose, in a timely manner, any conflicts of interest that could reasonably affect its judgment or decision-making ability with respect to West Basin's swap transactions and will have policies and procedures designed to manage and mitigate any conflicts of interest;
 - iv. The swap advisor is not affiliated with, is not directly or indirectly controlled by, in control of, or under common control with the counterparty; and
 - v. The swap advisor was not referred, recommended, or introduced to West Basin by the counterparty within one year of the swap advisor's representation in connection with a swap transaction;
- d) The swap advisor will agree to undertake a duty to act in the best interest of West Basin, and to meet all of the business conduct rules and regulations set forth by appropriate regulatory agencies or self-regulatory organizations;
 - e) For each transaction, the Swap Advisor will provide detailed, written materials outlining benefits and risks of the swap transaction and evaluating appropriateness and fair pricing in accordance with any guidelines provided by West Basin; and
 - f) The swap advisor will be subject to restrictions on certain political contributions imposed by appropriate regulatory agencies or self-regulatory organizations.

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.

Standby Charge policy

1. PURPOSE

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

2. BACKGROUND

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

To assist in creating a new local drought-proof supply, West Basin implemented a **Standby Charge** to help West Basin achieve and finance a water recycling program. The new recycled water program that would include a treatment plant, distribution pipelines and appurtenances, along with water conservation and brackish groundwater desalting projects.

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

3. STANDBY CHARGE

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

The **Standby Charge** rates are as follows:

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

4. ROLES AND RESPONSIBILITIES

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

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

5. DEFINITIONS

Actual Debt Coverage is calculated based on **net revenue** divided by annual **debt service** at the completion of any one fiscal year.

Budgeted Debt Coverage is calculated based on **net revenue** divided by **annual debt service** as determined in the adopted Fiscal Year budget.

Debt Service is the principal and interest payment on bonds or other debt instruments used to finance capital facilities.

Designated Funds are unrestricted funds that can be used for any lawful purpose at the discretion of the Board of Directors.

Excess Net Revenue is calculated as annual **debt service** multiplied by the difference between the **actual debt coverage** and **budgeted debt coverage**.

Net revenue is the difference between revenues and operating expenses. Revenues include all water revenues, Metropolitan Water District local resources program incentive, fixed revenue, conservation or other income. Operating expenses include water purchases and operating program expenses, but excludes non-cash items like depreciation or amortization. For the purpose of this Standby Charge Policy, net revenue will exclude capital grants or capital reimbursements.

Standby Charge is an annual charge paid by property owners in West Basin's service area to fund the debt service obligation on West Basin's water recycling facilities.

Standby Charge Defeasance Fund is a Board designated fund where monies will be set aside to accumulate to the sufficient funds to pay the remaining debt service.

6. ANNUAL REVIEW OF THE STANDBY CHARGE

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

Those initial assumptions include:

- The timing to construct the needed recycled water facilities to meet the estimate that may ultimately deliver 70,000-100,000 AFY and the related debt necessary to support those efforts;
- The expected timing of when the acre-feet deliveries would occur;
- The expected increase cost of imported water; and
- The cost to produce recycled water.

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

7. CONSIDERATION OF STANDBY CHARGE CONTINUATION

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

If the **actual debt coverage** exceeds **budgeted debt coverage**, the Board may set aside 10% of the monies; hereafter referred to as **Excess Net Revenue**.

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

The Board could create a new and separate designated fund and may place the **Excess Net Revenue** into that **designated fund**; hereafter referred to as the **Standby Charge Defeasance Fund**.

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

8. ANNUAL REPORTING REQUIREMENT

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

- A calculation of the **actual debt coverage** from the prior fiscal year. Based on the final audited **actual debt coverage**, staff will compare to the budgeted debt coverage to determine the **Excess Net Revenue**, if any;
- An account summary of the **Standby Charge Defeasance Fund**; and
- An analysis that compares the balance of the **Standby Charge Defeasance Fund** to the remaining principal and any accrued interest or prepayment penalties.

9. FURTHER INFORMATION

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

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

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

Capital Improvement Program

To effectively respond to current and potentially long drought conditions, imported water uncertainty, and regulatory restrictions, West Basin Municipal Water District (West Basin) views building on locally supplied water as an alternative solution for a reliable supply of water today and for the future. To meet this objective, West Basin has implanted the Water Reliability 2020 (WR 2020) Program that will double conservation efforts, double recycled water deliveries, and incorporates ocean-water desalination to West Basin's water portfolio by the year 2020.

West Basin continues to take thoughtful steps to ensure water reliability. A comprehensive recycled water Capital Implementation Master Plan (CIMP) was previously developed and West Basin uses this plan as a guide to best meet long-term planning and reliability objectives. Based on continuing discussions and reference to the CIMP, West Basin intends to address future customer needs, system capacity, and the infrastructure required to potentially double current recycled water deliveries to nearly 70,000AF. In this fiscal year, West Basin has taken an active approach to replace and refurbish critical parts of the aging infrastructure that provides recycled water to our customers. By undertaking this large replacement and refurbishment effort, West Basin hopes to continue to enhance the recycled water process, provide reliability to the customers and implement cost savings through a more efficient operation.

In regards to ocean-water desalination, West Basin has utilized extensive treatment experience, performed multiple technical studies, and has learned from other desalination facilities around the world to develop an approach that will effectively and efficiently manage this resource. West Basin has completed an Ocean-Water Desalination Program Master Plan, operated a temporary ocean-water desalination demonstration facility (Desal Facility), and began an Environmental Impact Report (EIR) for the proposed full-scale desalination facility. In addition, West Basin has recently initiated an Intake Biofouling and Corrosion Study through Metropolitan Water District's (MWD) Foundational Action Grant Program to assess open ocean environmentally sustainable intake metals and identify efficient intake line cleaning processes. As the studies scheduled to be performed at the Desal Facility near completion, West Basin is planning to decommission the facility in FY 2014-15. The experience gained from piloting, demonstration testing and the numerous research studies performed will be used to support the EIR process.

The Harbor Area Expansion Project and Harbor/South Bay Project Laterals are projects included in the Capital Improvement Program (CIP) that will produce recycled water supplies for customers in the City or Los Angeles' service area. Significant advances in testing new treatment technologies have been made including the conclusion of pilot testing of the tertiary membrane bioreactor process. This project is currently on hold following the conclusion of the pilot testing and will commence when West Basin's partner, the City of Los Angeles, is ready to reinstate the program.

This year's fiscal budget also includes funds for the development of recycled water pipelines that will be funded through the United States Army Corps of Engineers partnership. Should funding become available, West Basin will work to find incentives to partner with potential customers and begin the design and construction of these new laterals which will result in recycled water demand.

PROJECT FINANCING

During the budget development process, West Basin reviews its upcoming capital improvement projects and determines how each project will be funded. West Basin recognizes that funding for the capital improvement projects can be significant and funding may need to come from multiple sources. When determining the source of funding, West Basin considers several factors such as the useful life of the future asset, the anticipated cost of the project, if there are potential grant opportunities, and whether the customer will be contributing and the timing of the customer's contribution.

Understanding that some capital assets have a short useful life, West Basin has determined that these projects will be funded through West Basin's PAYGO designated fund or through its Commercial Paper program. Another financing option is for West Basin to pay for construction upfront and immediately invoice the customer each month. A third financing option is for West Basin to issue long-term debt or to obtain 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. 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.

Expansion projects will often be debt financed as they typically have a long useful life and are expensive to construct. Repayment for these financings may come through commodity rates of through a fixed revenue charge from a customer.

The recycled water sales and acre-feet associated with the reliability projects have been included in the Projected Operating Results in the Fiscal Year (FY) 2014-15 Budget shown in the "Financial Highlights and Forecast" section. Similarly, the additional annual operating costs and debt service have also been increased for the projected recycled water sales related to these projects.

The following table depicts the sources of funds that will be used to pay for the anticipated CIP projects during FY 2014-15. West Basin anticipates spending \$10,021,545 from its designated funds to pay for the various replacement and refurbishment projects, water quality improvements, laterals, and towards the temporary ocean-water desalination demonstration facility. The PAYGO designated fund will also be used on the Donald L. Dear administration building that will see some technology upgrades in FY 2014-15. It is also anticipated that the Nitrified Water Alkalinity Process upgrades, the expansion of the Hyperion Pump Station, and a portion of the Full-Scale Ocean-Water Desalination Program development in FY 2014-15 will be financed through the Commercial Paper program. West Basin will also be submitting an application to the State Water Resources Control Board to request a low-interest loan to assist in funding an expansion at the Tesoro Refinery. The total amount of CIP expected to be expended in FY 2014-15 is \$39,128,194. The CIP projects outlined to begin in FY 2014-15 will be submitted individually to the Board of Directors for authorization and funding during the fiscal year.

Financing Sources for Fiscal Year 2014-2015

	COMMERCIAL PAPER	PAYGO	STATE LOAN	CUSTOMER
Reliability Projects	\$7,795,049	\$2,778,500	\$19,033,600	\$300,000
Replacements & Refurbishments	-	5,820,472	-	-
Project Admin/Other	989,000	1,422,573	973,653	15,347
Total	\$8,784,049	\$10,021,545	\$20,007,253	\$315,347

Personnel - Full Time Equivalents (FTE)

FY 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
11.95	10.60	9.70	10.60	10.08

The following table summarizes the planned expenditures for FY 2014-2015 and the next five years.

	FISCAL YEAR					
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
RELIABILITY PROJECTS						
<i>Customer Funded Projects</i>						
Tesoro Refinery - Capacity Expansion Project	19,033,600	4,208,400				
Harbor Area Expansion Project - CRWRF Phase II	100,000	553,675	19,932,300	33,120,500		
Harbor Area Expansion Project - Conveyance Pipeline	100,000	250,600	9,021,600	14,936,000		
Harbor Area Expansion Project - Tesoro Refinery Plant	100,000	176,000	6,336,000	10,460,000		
<i>West Basin Funded Projects</i>						
Oceanwater Desalination Demonstration Facility	1,368,500	500,000				
Oceanwater Desalination Desal Program Development	1,900,000	1,350,000				
Oceanwater Desalination Full-Scale Facility (20 mgd)	90,000	425,000	67,128,055	157,898,364	157,998,364	11,331,127
Hyperion SE Pump Station Expansion- PUMP	2,770,000	7,450,000				
Hyperion SE Pump Station- ELECTRICAL	810,000	2,190,000				
Water Quality Facility Improvements	730,000	300,000				
Harbor/South Bay Project Laterals - DISTRICT	100,000	250,000	250,000	250,000	250,000	250,000
Nitrified Water Alkalinity Process Upgrades	1,700,000					
Customer Development & Retrofit Projects	230,000	150,000	150,000	150,000	150,000	
South Gardena Lateral	525,049	1,217,860				
Universal MF Pilot	350,000					
REPLACEMENT & REFURBISHMENT PROJECTS						
All Facilities	700,000	200,000	50,000	50,000	50,000	
Hyperion	160,000					
Chevron	970,000	25,000				
ECLWRF	3,168,472	2,821,000	411,000	411,000	386,000	
Exxon Mobil	310,000	5,540,000	60,000	60,000	60,000	
Carson	467,000	377,000	1,187,000	157,000	157,000	
Brewer Desalter	45,000					
DISTRICT ADMINISTRATION AND OTHER CAPITAL FACILITIES						
Project Administration	2,640,573	2,719,790	2,801,384	2,885,425	2,971,988	3,061,148
ECLWRF Admin Building and Educ Ctr Rehabilitation	75,000	2,150,000	3,850,000			
Administrative / Building Remodel and Rehabilitation	685,000	150,000	150,000	150,000	150,000	150,000
TOTAL CIP PROJECT EXPENDITURES	39,128,194	33,004,325	111,327,339	220,528,289	162,173,352	14,792,275

Strategic Business Plan Goals



FY 2013-2014 Accomplishments

Sound Financial and Resource Management

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

Objective 1: Completed the Hyperion Secondary Effluent Pump Station preliminary design review for an expansion of the pump station. This expansion assessment included increasing the pumping capacity for greater production and bringing in a secondary electrical power feed for enhanced reliability. This preliminary design review will be integrated into the redesign on the pump station.

Objective 2: Completed several replacement and refurbishment projects including replacement of a hypochlorite tank, a cable replacement project and a variable frequency drive (VFD) replacement all of which occurred at the Edward C. Little Water Recycling Facility.

Objective 2: Completed the Donald L. Dear Building Roof Replacement Project. This new design and construction for the roof replacement was completed successfully to protect the interior during storm events and from incurring water damage.

Objective 3: Applied for several grants for the recycled water program as well as for ocean-water desalination research and development.

Objective 3: Awarded a contract for the design of the South Gardena Lateral. This lateral is partially funded by West Basin, Los Angeles Department of Water and Power (LADWP) as well as a grant from the Department of Water Resources. Construction for this project will begin in FY 2014-2015.

Water Quality

Objective 1: Completed the Title 22 Alkalinity Improvements preliminary design review. This preliminary design review assessed the need and feasibility for nitrified water upgrades to improve the water quality and enhance production capacity.

Objective 1: Completed the design and construction of a backup potable water line to the Los Angeles Air Force Base in El Segundo, CA. This water line will provide the base with potable water for their toilets as a backup in the event West Basin cannot provide recycled water.

Water Reliability

Objective 2: Completed the Tertiary Membrane Bioreactor (T-MBR) Pilot Study at the Juanita Millender-McDonald Carson Regional Facility (Carson Facility). The pilot study investigated a new type of T-MBR treatment to potentially produce a sixth type of recycled water for West Basin's customers.

Objective 3: Completed the preliminary 30% design efforts for the Carson Facility expansion. The 30% design will serve as the basis for the remainder of the design work to increase the capacity of the Carson Facility to serve more recycled water to the Tesoro Refinery.

Objective 3: Completed the ExxonMobil recycled water service laterals. These two 4 inch lines will be providing recycled water to the ExxonMobil Refinery and the City of Torrance for irrigation purposes.

Objective 4: Completed the multi-year Ocean-Water Desalination Temporary Demonstration Facility test plan operations and published the final report. This data will be used to develop a basis of design for a Full-Scale Ocean-Water Desalination Facility and shared with the public and interested stakeholders.

Objective 4: Completed the Ocean-Water Desalination Water Quality Integration Study that assessed the potential challenges of introducing desalinated ocean water directly into the aging local distribution system. MWD partnered with West Basin to help provide lab analysis for part of the study.

Objective 4: Initiated the Ocean-Water Desalination Intake Biofouling and Corrosion Study as a part of MWD's Foundational Action Grant Program. The study was put out to bid, a team was selected and testing began. The study will conclude and results will be published in 2015.

FY 2014-2015 Strategies

Sound Financial and Resource Management

Objective 2: Implemented various treatment and conveyance facility replacement and rehabilitation projects to maintain and improve facility operations and ensure a long-term reliable water supply for West Basin's customers

Objective 3: 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 Facility and approximately 3-miles of new 30-inch diameter conveyance pipeline through the City of Carson

Objective 3: Finalize the design of the South Gardena Lateral to serve four new local customers with approximately 120 acre-feet of recycled water. This partnership with LADWP and the Department of Water Resources will involve the construction of 1.25 miles of recycled water pipeline within South Gardena.

Objective 6: Completed construction and testing of a new innovative Universal Microfiltration Pilot Unit that will allow agencies who utilize microfiltration units to switch between different manufacturers for replacement membranes. Currently, no such universal system exists and once a microfiltration system is built the same membranes must be utilized for the life of the asset.

Water Quality

Objective 1: Complete construction of the Inglewood Disinfection Station to improve distribution system water quality.

Objective 1: Implement the Title 22 Alkalinity Process Upgrades recently studied at the Chevron and ExxonMobil Refineries. This upgrade will supply the refineries with improved water quality and will reduce the costs for breakpoint chlorination operations on site.

Water Reliability

Objective 2: Complete the 100% design of the Tesoro Refinery Expansion to provide approximately 2.6 MGD of increased capacity. The expansion will allow West Basin to provide more recycled water to the Tesoro Refinery utilizing recently the pilot tested T-MBR process to produce West Basin's sixth type of recycled water.

Objective 3: Complete design efforts for the Hyperion Effluent Pump Station Expansion and Secondary Electrical Feed Project. The pump station project will provide additional capacity to serve future recycled water demands and add a second power source to the existing Hyperion Effluent

Pump Station to improve reliability and redundancy to West Basin's overall recycled water supply system.

Objective 4: Complete EIR for planned future Full-Scale Ocean-Water Desalination Program implementation. The EIR will assess all environmental related impacts associated with implementing Full-Scale Ocean-Water Desalination treatment facilities, intake and discharge systems, and full conveyance and pumping systems. The EIR will allow for certification in compliance with the California Environmental Quality Act.

TESORO REFINERY CAPACITY EXPANSION

Carson Regional Facility (Carson, CA)



Purpose:

Provide 2.59 mgd of increased supply to the Tesoro Refinery by constructing a tertiary- Membrane Biological Reactor (t-MBR); and fully restoring the MF capacity back to contract requirements.

Benefits:

This project will increase the supply of recycled water to Tesoro; will improve water quality of the nitrified water; reduce breakpoint chlorination to the current nitrified effluent, thereby reducing the chloride content of the wastewater; optimize the Tesoro blend of RO & nitrified water used in their cooling towers; and remove total suspended solids and colloidal iron concentrations.

FY 2014-15 Budget:

\$19,033,600

Total Budget:

\$24,842,000

Completion Date:

FY 2015-16

1. Tesoro Refinery Capacity Expansion

- a. In 2013-14 a 30% Design and an Association for the Advancement of Cost Estimating Level 2 cost estimate for the planned expansion was completed. A pilot test to prove the effectiveness of the t-MBR system was performed with the results being better than expected. Tesoro reviewed the design and cost estimate to determine if they would move forward with the project. The facility expansion will provide increased recycled water capacity to the Tesoro refinery as well as improving water quality for the site and reducing the cost of chemicals.
- b. FY 2014-15 Budget: \$19,033,600
- c. Anticipated Annual Operations & Maintenance Expense: \$535,300

OCEAN WATER DESALINATION PROGRAM

West Basin Service Area



Purpose:

The Ocean-Water Desalination Program was implemented to potentially provide a new reliable water supply to meet local demands and reduce dependence on imported water supplies.

Benefits:

An Ocean-Water Desalination Facility would reduce West Basin's reliance on imported water and would provide local reliability.

FY 2014-15 Budget:
\$3,358,500

Total Budget:
\$439,700,000

Completion Date:
FY 2019-20

1. West Basin's Ocean-Water Desalination Demonstration Facility (Desal Facility)
 - a. The Desal Facility has facilitated critical testing and research and will cease at the end of calendar year 2014. Beginning in January 2015 the entire Desal Facility will be decommissioned and West Basin will vacate the site. Expenditures will include operations contracts, research contracts, permit compliance lab testing, decommissioning contracts and public and educational outreach.
 - b. FY 2014-15 Budget: \$1,368,500
 - c. Anticipated Annual Operations & Maintenance Expense: N/A
2. The Full-Scale Desalination Development Stage
 - a. Take steps to develop a Full-Scale Desalination Facility. Some of the steps to be initiated during this fiscal year could include initiating a site options acquisition analysis, preparing an EIR for a full-scale facility, environmental outreach and regulatory research.
 - b. FY 2014-15 Budget: \$1,900,000
 - c. Anticipated Annual Operations & Maintenance Expense: N/A
3. The Full-Scale Implementation
 - a. Begin the initial steps to implementing a full-scale desalination facility by looking to initiate a site purchase agreement.
 - b. FY 2014-15 Budget: \$90,000
 - c. Anticipated Annual Operations & Maintenance Expense: \$16,453,300

HYPERION SECONDARY EFFLUENT PUMP STATION

El Segundo, CA



Purpose:

The Hyperion Secondary Effluent Pump Station provides wastewater to the Edward C. Little Water Recycling Facility (ECLWRF).

Benefits:

Increase secondary effluent pumping capacity and improve system reliability with redundant power supply.

FY 2014-15 Budget:

\$3,580,000

Total Budget:

\$14,036,000

Completion Date:

FY 2015-16

1. Pump Station Expansion

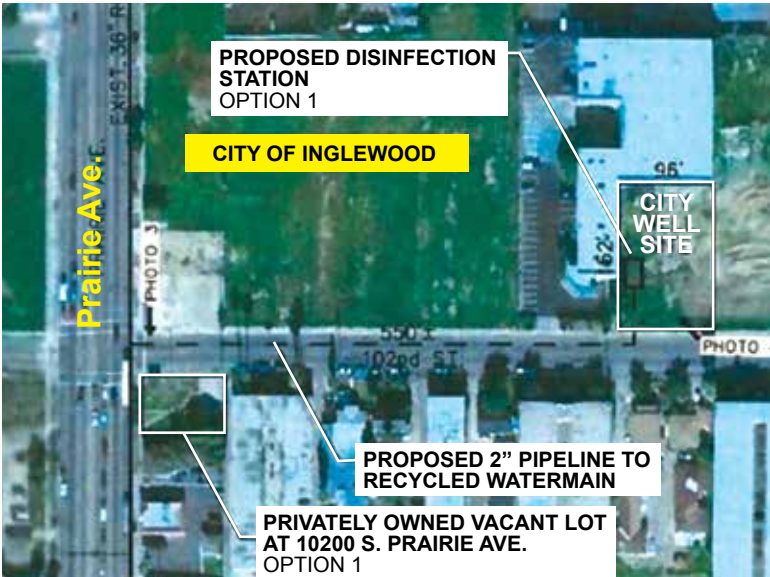
- a. Expand the secondary effluent firm pumping capacity from 50 MGD to 70 MGD. This expansion will increase the secondary effluent pumping capacity to prepare for an increase in recycled water demands.
- b. Pump Station Expansion FY 2014-2015 Budget: \$2,770,000
- c. Anticipated Annual Operations & Maintenance Expense: \$50,000

2. Secondary Electrical Power

- a. Establish a redundant power supply to the existing pump station and subsequent pumping expansion. This electrical feed expansion will provide a redundant power supply to protect against unplanned power outages and keep the pump station providing water to ECLWRF.
- b. Secondary Electrical Power Feed FY 2014-2015 Budget: \$810,000
- c. Anticipated Annual Operations & Maintenance Expense: \$100,000

WATER QUALITY FACILITY IMPROVEMENTS

Inglewood, CA



Purpose:

Water quality facility improvements are made to existing facilities to improve or sustain the water quality provided to the recycled water customers.

Benefits:

Provides customers with a consistent recycled water quality for their specific needs.

FY 2014-15 Budget:
\$730,000

Total Budget:
\$1,067,000

Completion Date:
FY 2015-16

1. Inglewood Disinfection Station

- a. The Inglewood disinfection station will be a new facility. This disinfection station will mitigate water quality issues associated with long detention periods in the Inglewood recycled water distribution system by constructing a disinfection station to add chlorine to the recycled water.
- b. FY 2014-15 Budget: \$730,000
- c. Anticipated Annual Operations & Maintenance Expense: \$57,700

NITRIFIED WATER ALKALINITY PROCESS UPGRADES

Chevron Nitrification Facility (El Segundo, CA)

Exxon Mobil Facility (Carson, CA)



Purpose:

Maintain and improve the alkalinity of the water provided to two customers, Chevron Refinery and ExxonMobil Refinery.

Benefits:

Providing the two customers with an improved water quality as well as reducing operational chemical costs for breakpoint chlorination.

FY 2014-15 Budget:

\$1,700,000

Total Budget:

\$1,774,000

Completion Date:

FY 2014-15

1. Chevron Nitrification Facility

- a. Install permanent carbon dioxide and sodium hydroxide feed facilities to supplement the alkalinity of the Title 22 recycled water and facilitate nitrification.
- b. FY 2014-15 Budget: \$850,000
- c. Anticipated Annual Operations & Maintenance Expense: \$726,200

2. Exxon Mobil Facility

- a. Install permanent carbon dioxide and sodium hydroxide feed facilities to supplement the alkalinity of the Title 22 recycled water and facilitate nitrification.
- b. FY 2014-15 Budget: \$850,000
- c. Anticipated Annual Operations & Maintenance Expense: \$726,200

CUSTOMER DEVELOPMENT AND RETROFIT PROJECTS

West Basin Service Area

**Purpose:**

Customer development projects assist to make connections and retrofits to new recycled water customers.

Benefits:

Providing new customers recycled water and reducing dependence on imported water.

FY 2014-15 Budget:

Completion Date:

\$230,000

On-going

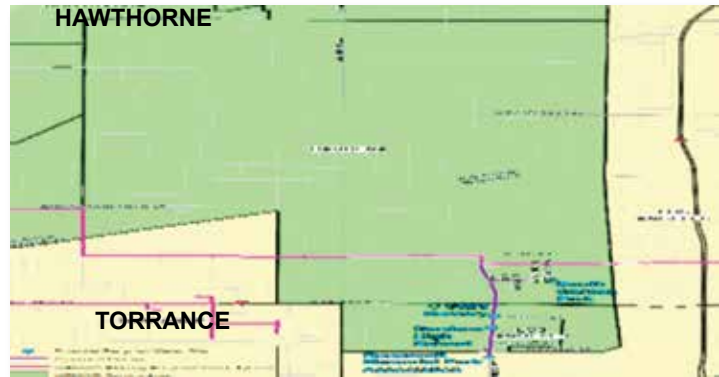
1. Dominguez Tech Center Retrofit Project

- a. The Dominguez Tech Center is a potential recycled water customer. In order to serve the Dominguez Tech Center recycled water, an engineering analysis will be performed to determine the best connection locations and retrofits needed to be made and then begin the construction to make the connection.
- b. FY 2014-15 Budget: \$230,000
- c. Anticipated Annual Operations & Maintenance Expense: \$50,000



SOUTH GARDENA LATERAL

Gardena, CA



Purpose:

Once completed, the Project is anticipated to serve approximately 120 acre-feet per year (AFY) of recycled water.

Benefits:

The South Gardena Lateral will connect four new recycled water customers: Gardena High School, South Garden Park, Roosevelt Memorial Park Association and C Stars Nursery. Sites will reduce reliance on imported water.

FY 2014-15 Budget:

\$525,049

Total Budget:

\$1,742,909

Completion Date:

FY 2015-16

1. South Gardena Lateral

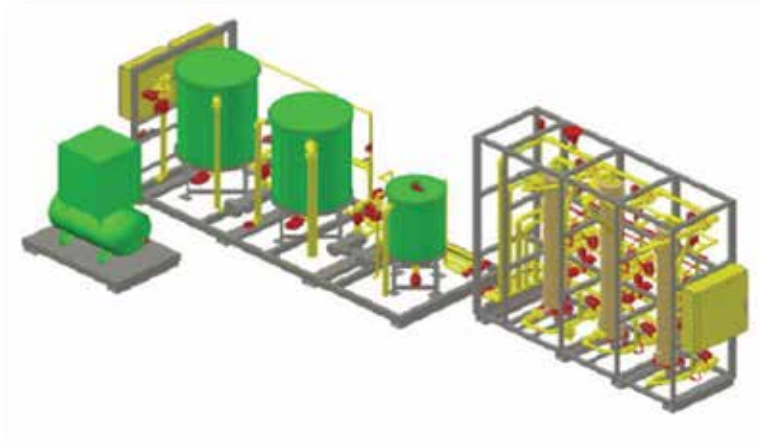
- a. To help the local region reduce its dependence on imported water and optimize its local water resources, West Basin entered into an agreement with the City of Gardena and Los Angeles Department of Water and Power (LADWP) to apply for a grant to build a recycled water system that will help achieve the team's goals. The grant was approved on February 19, 2014 with West Basin as the primary agency.

The South Gardena Lateral includes the design and construction of approximately 1.25 miles of recycled water pipeline in South Gardena. The proposed pipeline will connect to the existing 42-inch diameter recycled water main at 168th Street in the City of Gardena. Once completed, the Project is anticipated to serve approximately 120 AFY of recycled water.

- b. FY 2014-15 Budget: \$525,049
- c. Anticipated Annual Operations & Maintenance Expense: Minimal

UNIVERSAL MICROFILTRATION PILOT

Carson Regional Facility (Carson, CA)



Purpose:

The Universal Microfiltration Pilot will allow West Basin to assess a currently non-existent universal vessel to house different microfiltration manufactures.

Benefits:

A universal microfiltration unit will provide greater competition in bidding situations and allows flexibility to change manufacturers as products and objectives change.

FY 2014-15 Budget:

\$350,000

Total Budget:

\$350,000

Completion Date:

FY 2014-15

1. Universal Microfiltration Pilot

- a. An analysis was conducted to evaluate the feasibility of replacement of all Memcor microfiltration systems. It was determined that it is cost-effective to replace the current systems with new units. In order to ensure there will be flexibility in selecting membranes in the future, a Universal Module Microfiltration system will be evaluated.
- b. FY 2014-15 Budget: \$350,000
- c. Anticipated Annual Operations & Maintenance Expense: Minimal

REPLACEMENT & REFURBISHMENT

All Treatment Facilities

West Basin Service Area



Purpose:

West Basin has certain refurbishment and replacement activities that span over all its facilities. These types of activities can vary widely in scope and budget.

For this fiscal year the largest upgrade project for all treatment facilities is a robust security system upgrade that will allow for better monitoring and protection of assets and processes. The purchase and implementation of a new asset management software will help assess all current facilities and processes for critical equipment failure points and identify when maintenance, repairs and replacements should be performed. Some smaller projects include upgrading the switch gears at all treatment facilities and updating the compliance and reporting systems.

-
1. Asset Management Software Upgrade
 - a. FY 2014-15 Budget: \$150,000
 2. Compliance and Permitting
 - a. FY 2014-15 Budget: \$50,000
 3. Energy Efficiency Projects
 - a. FY 2014-15: \$50,000
 4. Switch Gear Upgrades
 - a. FY 2014-15: \$50,000
 5. Security System Upgrade
 - a. FY 2014-15: \$400,000

REPLACEMENT & REFURBISHMENT

Hyperion Secondary Effluent Pump Station (El Segundo, CA)



Purpose:

The Hyperion Effluent Pump Station provides the wastewater to the ECLWRF. The Hyperion Pump Station is one of the oldest assets and the pumps currently need to be rebuilt after having been in service for 20 years. A smaller project to be completed this fiscal year will be the addition of site access improvements for the site for operator safety and ease of maintenance.

Year Built:

1994

Treatment Processes:

NA

Capacity:

50 MGD

-
1. Site Access to A/C Units
 - a. FY 2014-2015 Budget: \$10,000
 2. Pump Rebuild
 - a. FY 2014-2015 Budget: \$150,000

REPLACEMENT & REFURBISHMENT

Chevron Nitrification Facility



Purpose:

West Basin has certain refurbishment and replacement activities that span over all its facilities. These types of activities can vary widely in scope and budget.

For this fiscal year the largest upgrade project for all treatment facilities is a robust security system upgrade that will allow for better monitoring and protection of assets and processes. The purchase and implementation of a new asset management software will help assess all current facilities and processes for critical equipment failure points and identify when maintenance, repairs and replacements should be performed. Some smaller projects include upgrading the switch gears at all treatment facilities and updating the compliance and reporting systems.

1. Asset Management Software Upgrade
 - a. FY 2014-15 Budget: \$150,000
2. Compliance and Permitting
 - a. FY 2014-15 Budget: \$50,000
3. Energy Efficiency Projects
 - a. FY 2014-15: \$50,000
4. Switch Gear Upgrades
 - a. FY 2014-15: \$50,000
5. Security System Upgrade
 - a. FY 2014-15: \$400,000

REPLACEMENT & REFURBISHMENT

Edward C. Little Water Recycling Facility (El Segundo, CA)



Purpose:

The ECLWRF provides five types of designer waters from the Hyperion Waste Water Treatment Plant's secondary effluent waste stream. Several large-scale replacement and enhancements will be made to the ECLWRF in this fiscal year. The largest project to be completed at the site will be the modification of the RO sump to be routed to the sewer system. Several other smaller projects will take place including upgrades to the Barrier water to enhance reliability and production as well as rehabbing the entire lime system to perform at a higher rate. The solids handling system will see significant upgrades on the presses and cloth media. All of the projects to be completed at this facility will improve the ability to provide reliable recycled water to our many customers.

Year Built:

1995

Treatment Processes:

High Rate Clarification, Sand Filtration, Chlorine Disinfection, Microfiltration, Reverse Osmosis, Ultraviolet Disinfection, Ozone

Capacity:

62 MGD

-
1. Instrumentation, Pipe, Forklift and Phone Replacements
 - a. FY 2014-2015 Budget: \$175,000
 2. Solids Handling Enhancements
 - a. FY 2014-2015 Budget: \$240,000
 3. Air Conditioning Upgrade
 - a. FY 2014-2015 Budget: \$150,000
 4. Chemical Feed Pumps and Piping Replacement
 - a. FY 2014-2015 Budget: \$166,000
 5. Lime System Rehabilitation
 - a. FY 2014-2015 Budget: \$827,472
 6. RO Sump Discharge Re-route to Sewer
 - a. FY 2014-2015 Budget: \$1,200,000
 7. Barrier Water Upgrades
 - a. FY 2014-2015 Budget: \$240,000
 8. Site Work Access Installations
 - a. FY 2014-2015 Budget: \$170,000

REPLACEMENT & REFURBISHMENT

ExxonMobil Facility (Torrance, CA)



Purpose:

The ExxonMobil Facility provides nitrified Title 22 water to the ExxonMobil Refinery for cooling water makeup and MF/RO treated water for low-pressure boiler feed purposes. The ExxonMobil Facility has several smaller replacement and upgrade projects planned for this fiscal year. Many of the replacements are due to the age of a facility and some of the equipment is nearing the end of its useful life. The motor protection units need to be replaced to maintain operation of the facility and modifying the RO CIP batch set up to enhance performance. Permanent scaffolding will be installed to ensure operator safety during routine maintenance activities as well as modifying the surge tank control strategy to ensure stable operations at the facility.

Year Built:

1998

Treatment Processes:

Nitrification, Microfiltration, Reverse Osmosis

Capacity:

5 MGD – Nitrification

3.2 MGD – MF/RO

1. Solenoid Valve Replacement
 - a. FY 2014-2015 Budget: \$20,000
2. Tank Replacement
 - a. FY 2014-2015 Budget: \$50,000
3. Surge Tank Control Strategy
 - a. FY 2014-2015 Budget: \$50,000
4. Replace Motor Protection Units
 - a. FY 2014-2015 Budget: \$35,000
5. RO Pressure Vessel Replacement
 - a. FY 2014-2015 Budget: \$60,000
6. Modified RO CIP Batching Set-Up
 - a. FY 2014-2015 Budget: \$75,000
7. Permanent Scaffolding
 - a. FY 2014-2015 Budget: \$20,000

REPLACEMENT & REFURBISHMENT

Juanita Millender- McDonald Carson Regional Facility (Carson Facility)
Carson, CA



Purpose:

The Carson Facility provides nitrified Title 22 water to the Tesoro Refinery for cooling water makeup and MF/RO treated water for boiler feed purposes. The Carson Facility is undergoing several minor refurbishments and replacements along with a large VFD room A/C upgrade. Smaller upgrades and enhancements will also be occurring, such as upgrading the plant-wide containment for permit compliance and an enhanced RO CIP batching set-up that will allow the facility to run more efficiently and save chemical costs.

Year Built:

2000

Treatment Processes:

Nitrification, Microfiltration, Reverse Osmosis

Capacity:

5 MGD – MF/RO

1 MGD - Nitrification

-
1. VFD Room A/C Upgrade
 - a. FY 2014-2015 Budget: \$200,000
 2. Instrumentation Upgrade
 - a. FY 2014-2015 Budget: \$100,000
 3. Solenoid Valve Replacement
 - a. FY 2014-2015 Budget: \$20,000
 4. Surge Tank Rehabilitation
 - a. FY 2014-2015 Budget: \$30,000
 5. Plant Wide Containment System Upgrades
 - a. FY 2014-2015 Budget: \$30,000
 6. Chemical Feed Pumps Replacement
 - a. FY 2014-2015 Budget: \$25,000
 7. Bulk Chemical Storage Tank Capacity Increase
 - a. FY 2014-2015 Budget: \$20,000
 8. RO Pressure Vessels Replacement
 - a. FY 2014-2015 Budget: \$12,000
 9. Enhanced RO CIP Batching Set-Up
 - a. FY 2014-2015 Budget: \$30,000

REPLACEMENT & REFURBISHMENT

Brewer Desalater Facility (Torrance, CA)



Purpose:

The Brewer Desalater provides desalinated brackish water into the potable distribution system. This small facility is operated by California Water Service to treat potable water that has been affected by seawater intrusion. The only upgrade to be performed this fiscal year will be to replace an air conditioning unit on the existing VFD. This air conditioning replacement will also include installation of a protection canopy structure to prevent damage to the unit.

Year Built:

1993

Treatment Processes:

Brackish Desalination

Capacity:

1.7 MGD

-
1. Well Pump VFD A/C Replacement
 - a. FY 2014-2015 Budget: \$35,000
 2. VFD Protection Structure
 - a. FY 2014-2015 Budget: \$10,000

REPLACEMENT & REFURBISHMENT

Edward C. Little Water Recycling Facility Administration Building
and Visitors Center Rehabilitation (El Segundo, CA)



Purpose:

This project will expand the existing administration building and visitors center.

Benefits:

The building upgrade will provide West Basin a larger visitor center for meetings, conference and large public events.

FY 2014-15 Budget:
\$75,000

Total Budget:
\$6,075,000

Completion Date:
FY 2016-17

1. Administration and Education Expansion

- a. Expansion of the existing administration building to include new conference room and restroom facilities to accommodate additional public events. The project will also involve the relocation of the control room, new exhibits in the visitor center, remodeling of the entry plaza and the existing conference with latest audio and visual equipment. The project will expand the visitor center to host larger public events, additional conference room for meetings and other events, and updated exhibits and public relation information. The first stage of this project is the design of the build-out.
- b. FY 2014-15 Budget: \$75,000
- c. Anticipated Annual Operations & Maintenance Expense: Minimal

REPLACEMENT & REFURBISHMENT

Donald L. Dear Administrative Building Remodel and Rehabilitation
(Carson, CA)



Purpose:

This project will include a building audio upgrade, server expansion and office space improvements.

Benefits:

The building upgrade will continue to provide West Basin with an efficient use of the spaces available in the building as well as upgrading aging technology.

FY 2014-15 Budget:
\$685,000

Total Budget:
\$1,435,000

Completion Date:
On-going

1. Board Room Audio Upgrade

a. The board room audio upgrade will improve the audio capacity of the board room for public Board meetings and large District meetings.

b. FY 2014-2015 Budget: \$40,000

2. Server Expansion

a. The IT department plans to increase the server capacity to facilitate the large amount of data being stored on the District's network.

b. FY 2014-2015 Budget: \$35,000

3. Office Space Improvements

a. Office space improvements will be identified to better utilize the existing space in the Donald L. Dear Building.

b. FY 2014-2015 Budget: \$100,000

4. Security Upgrade

- a. Security upgrades to the building will be made to include a new updated electronic key-card entry system.
- b. FY 2014-2015 Budget: \$25,000

5. Lawson Upgrade

- a. Additional licenses and upgrades will be procured for the accounting and project management system.
- b. FY 2014-2015 Budget: \$215,000

6. Document Management System

- a. A new document management system will be implemented to keep track of all documents and record drawings for the recycled water facilities and permits.
- b. FY 2014-2015 Budget: \$120,000

7. Phone System

- a. A new phone system will be purchased and installed to replace the existing phones
- b. FY 2014-2015 Budget: \$150,000

Organizational Memberships & Sponsorships

West Basin Municipal Water District (West Basin) seeks to engage with the community on many levels and maintaining membership and sponsoring events with various organizations provides platforms for discourse on topics such as environment, conservation, and education. Involvement with certain organizations also gives West Basin the ability to stay abreast of cutting-edge technology, current trends, the latest innovations and opportunities to speak to industry experts about issues in line with to West Basin's mission.

	FY 13-14	FY 14-15
MEMBERSHIPS	BUDGET	BUDGET
Alliance for Water Efficiency	\$ 3,100	\$ 3,100
American Membrane Technology Association	375	375
Association of California Water Agencies	22,000	22,000
American Water Works Association	-	14,000
CalDesal	5,000	5,000
California Association of Sanitation Agencies	800	800
California Urban Water Conservation Council	8,000	8,000
<u>Chambers of Commerce</u>		
- Carson	400	400
- Culver City	150	150
- El Segundo	500	500
- Gardena Valley	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	400	400
- Los Angeles Area	1,500	1,500
- Malibu	400	400
- Manhattan Beach	495	495
- Palos Verdes Peninsula	550	550
- Redondo Beach	285	285
- South Bay Association	500	500
- South Bay Chinese-American	150	150
- South Bay Latino	500	500
- Torrance	425	425
- West Hollywood	350	350
Climate Registry	1,200	1,200
Colorado River Water Users Association	120	120

	FY 13-14	FY 14-15
MEMBERSHIPS	BUDGET	BUDGET
Los Angeles Council of Black Professional Engineers	1,000	1,000
National Water Research Institute	50,000	50,000
National Water Resources Association	350	350
Santa Monica Restoration Committee	5,000	5,000
So CA Alliance of Public Owned Treatment Works	6,000	6,000
Southern California Water Committee	2,500	2,500
Southwest Membrane Operators Association	600	600
Urban Water Institute, Inc.	1,250	1,250
Utility Branding Network	2,500	2,500
Water Education Foundation	2,700	2,700
Water Research Foundation	42,000	42,000
WateReuse Association	8,600	8,600
WateReuse Research Foundation	25,000	25,000
West Basin Water Association	500	500
Memberships Total	\$ 197,650	\$ 211,650

	FY 13-14	FY 14-15
SPONSORSHIPS	BUDGET	BUDGET
CalDesal Annual Conference	\$ -	\$ 1,000
Greater Los Angeles Summit	10,000	10,000
Groundwater Festival Sponsorship (WRD)	-	2,500
Heal the Bay	5,000	5,000
Los Angeles Council of Black Professional Engineers	1,700	1,700
Los Angeles Waterkeeper	5,000	5,000
Public Officials for Water & Environmental Reform	1,500	1,500
South Bay Cities Councils of Governments General Assembly	-	1,000
Southern CA Association of Governments Regional Assembly	1,000	-
Urban Water Institute - Annual Conference	3,000	3,000
WateReuse CA Annual Conference Sponsorship	-	1,000
Water-Filling Stations	40,000	-
Sponsorships Total	\$ 67,200	\$ 31,700

Summarized descriptions of FY 2014-15 Organizational Memberships are listed on the following pages.

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 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 technologies.

Association Fee: \$375

ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA)

Organization: Policy Development/Legislation

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

West Basin Involvement: Board and staff are involved in various advisory committees and attend two semi-annual conferences. A board member is appointed by the West Basin Board as a Region 8 representative.

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

Association Fee: \$22,000

AMERICAN WATER WORKS ASSOCIATION (AWWA)

Organization: Policy Development/Technical

Description: Established in 1881, the American Water Works Association is the largest nonprofit, scientific and educational association dedicated to managing and treating water, the world's most important resource. With approximately 50,000 members, AWWA provides solutions to improve public health, protect the environment, strengthen the economy and enhance our quality of life.

West Basin Involvement: West Basin Directors and staff regular attend meetings and conferences hosted by this organization. Issues including potable water, recycled water, and conservation are discussed. Staff also volunteers time by participating on Water Reuse and Membrane Processes Committees.

Value: AWWA provides valuable information to staff and Board Members on a variety of critical issues.

Association Fee: \$14,000

CALDESAL

Orientation: Policy Development/Legislation

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

West Basin Involvement: West Basin is a charter member and has a seat on the Board of Directors. Staff participates in conferences and attends legislative briefings, receives timely and informative publications on legislation and regulatory matters from CalDesal.

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

Association Fee: \$5,000

CALIFORNIA ASSOCIATION OF SANITATION AGENCIES (CASA)

Orientation: Policy Development/Technical

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

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

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

Association Fee: \$800

CALIFORNIA URBAN WATER CONSERVATION COUNCIL (CUWCC)

Orientation: Policy/Technical

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

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

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

Association Fee: \$8,000

THE CLIMATE REGISTRY

Orientation: Technical

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

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

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

Association Fee: \$1,200

COLORADO RIVER WATER USERS ASSOCIATION (CRWUA)

Orientation: Policy

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

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

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

Association Fee: \$120

LOS ANGELES COUNCIL OF BLACK PROFESSIONAL ENGINEERS

Orientation: Advocacy

Description: The Los Angeles Council of Black Professional Engineers helps advance the education, employment, and business opportunities of minority individuals. These aims are achieved through personal contact with students of all levels, curriculum advice, higher level education communication, employers communication, and support and aid.

West Basin Involvement: West Basin Board and staff have participated in annual events and volunteered and student development programs throughout the year.

Value: Participation in this organization promotes water and the environment to the youth in West Basin's service area. It allows for increased awareness of water and conservation issues.

Association Fee: \$1,000

NATIONAL WATER RESEARCH INSTITUTE (NWRI)

Orientation: Research

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

West Basin Involvement: West Basin Board appoints a board member and alternate to the NWRI Board. Staff presents research projects to the NWRI, receives funding and attends applicable meetings.

Value: NWRI provides funding for West Basin research projects.

Association Fee: \$50,000

NATIONAL WATER RESOURCES ASSOCIATION (NWRA)

Orientation: Policy Development/Legislation

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

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

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

Association Fee: \$350

SANTA MONICA BAY RESTORATION FOUNDATION (SMBRF)

Orientation: Outreach/Policy/Technical

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

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

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

Association Fee: \$5,000

SOUTHERN CALIFORNIA ALLIANCE OF PUBLICLY OWNED TREATMENT WORKS (SCAP)

Orientation: Policy

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

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

Value: As an organization, SCAP serves as a watchdog for legislation that could negatively impact publicly owned treatment facilities, such as the Hyperion Wastewater Treatment Plant and the Edward C. Little Water Recycling Facility.

Association Fee: \$6,000

SOUTHERN CALIFORNIA WATER COMMITTEE

Orientation: Policy/Educational

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

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

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

Association Fee: \$2,500

SOUTHWEST MEMBRANE OPERATORS ASSOCIATION (SWMOA)

Orientation: Technical

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

West Basin Involvement: West Basin staff attends meetings.

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

Association Fee: \$600

THE URBAN WATER INSTITUTE (UWI)

Orientation: Outreach

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

West Basin Involvement: West Basin was a founding agency of UWI and appoints a Board member to the UWI Board. Staff attends conferences as presenters and attendees.

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

Association Fee: \$1,250

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: Board members 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, Board members and staff.

Association Fee: \$2,700

WATER RESEARCH FOUNDATION (WRF)

Orientation: Technical

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

West Basin Involvement: Staff serves on Project Advisory Committees (PAC) as well as participating in studies with other utilities, universities, and research consultants to advance our knowledge in water quality and improve efficiencies in water resources.

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

Association Fee: \$42,000

WATEREUSE ASSOCIATION (WATEREUSE)

Orientation: Technical/Policy/Education

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

West Basin Involvement: Staff actively participates in WaterReuse committees and conferences and has a seat on the Board of Directors and often has its projects highlighted.

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

Association Fee: \$8,600

WATER REUSE RESEARCH FOUNDATION (FOUNDATION)

Orientation: Research

Description: The 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 and presents at research conferences.

Value: The 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 pumpers with water rights in the West Coast Basin and provides a forum to members to discuss current water rights issues and policies.

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

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

Association Fee: \$500

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

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

AFY: Acre-Foot per Year

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

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

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

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

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

Bond Fund: Restricted funds used to pay for capital expenditures.

Brackish Water: A mixture of seawater and freshwater.

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

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

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

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 (CIP): A multi-year plan identifying capital projects to be funded during the planning period.

Cubic feet per second (cfs): Unit of measure used to determine volume of water flowing through meters.

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

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

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

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

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

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

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

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

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

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

Edward C. Little Water Recycling Facility (ECLWRF): The main water recycling plant in El Segundo, California that began operations in 1995.

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

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

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

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

Financial Policies: Document approved by the Board of Directors that identifies parameters through which West Basin operates and provides a standard in which fiscal performance can be reviewed.

Fiscal Year: The time frame in which the budget applies, this is the period of July 1 through June 30.

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

Fund Balance: See Net Assets

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

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

GPM: Gallons per minute

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

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

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

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

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

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

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

LIBOR: The London Interbank Offered Rate is the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks.

Local Resources Program (LRP): A program offered by MWD that provides financial assistance to member agencies and local water purveyors who make beneficial use of treated wastewater.

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

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

MGD: Million Gallons per Day.

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

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

MWD's Treatment Surcharge: Recovers the costs of treating imported water.

MWD's System Access Rate: Recovers a portion of the costs associated with the delivery of supplies.

MWD's System Power Rate: Recovers MWD's power costs for pumping supplies to Southern California.

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

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

Net Assets: Represents the difference between assets and liabilities

Non-Interruptible Water: The treated firm water supply that is available year-round.

OPEB: Other Post-Employment Benefits

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

Potable: Drinkable water. Non-potable means non-drinkable.

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

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

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

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

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

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

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

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

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

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

Standards & Poor's: One of the nationally recognized statistical-rating organizations.

State Water Project (SWP): An aqueduct system that delivers water from Northern California to Central and Southern California.

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

Tertiary Membrane Biological Reactor (T-MBR): A process by which solids are removed from tertiary treated wastewater using a combination of biological treatment and membrane filtration, all of which takes place in a complete-stirred mixed reactor.

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.



WWW.WESTBASIN.ORG