



WEST BASIN MUNICIPAL WATER DISTRICT » CARSON, CA

OPERATING BUDGET

FISCAL YEAR 2015-2016



TABLE OF CONTENTS

West Basin Municipal Water District

Fiscal Year 2015-16 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 2015-16.	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-17
• 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-28
Glossary	J-1



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GENERAL MANAGER'S MESSAGE

GENERAL MANAGER'S MESSAGE



May 27, 2015

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, 2015 and ending June 30, 2016 (FY 2015-16). Each year staff makes careful consideration in its budget development to ensure West Basin's mission, strategic goals, and commitments are being financially supported. 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.

The following factors were considered in the development of FY 2015-16 budget including: 1) pass-through MWD rate and charges increases; 2) discuss drought implications on sales assumptions; and 3) review debt coverage target in response to Moody's analysis.

The total West Basin operating budget is \$199,234,050 and represents an increase of \$2,319,015 from the prior year. There were several significant changes that occurred this year where one offset another. Although the imported water rate increased \$50 per acre-foot (AF), the declared drought and request to reduce water sales up to 25% resulted in an overall decrease in imported water sales and water purchased. There was a nearly \$5 million increase in recycled water sales due to an increase of water rates and budgeted sales of 3,000 AF. Another significant change is the expected decline in debt service from \$29 million to \$25 million due to the final maturity of West Basin's debt. Because of West Basin's desire to increase the overall debt coverage to 1.75, these changes resulted in an increase in designated funds increasing from \$10 million to \$18.6 million. These additional funds are necessary to support the growing rehabilitation and replacement projects and other PAYGO intended projects for the recycled water facilities.

Achievement toward West Basin's Strategic Business Plan (Plan) Goals and Commitments

Originally developed in 2008 and revised 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. The Board of Directors plan to update the Strategic Plan and has provided guidance to staff and its consultant to prepare an update for a review in September 2015.

Highlighted on the following page are accomplishments where West Basin has provided value during the current Fiscal Year and shaped our objectives for FY 2015-16.

Water Reliability

- Completion design towards Hyperion Pump Station expansion;
- Expanded new water efficiency program for distributing rain barrels that has received a tremendous response to each distribution event;
- Identified and developed locations to build Ocean Friendly Gardens that demonstrates the ability to update landscapes to be more water efficient.

Water Quality

- Designed a portable potable backup system to be made available when source water quality does not meet the needs of our customers.

Customer Service

- Received Board approval on the initial phase 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;
- Actively engaged in the development and communication of the Water Supply Allocation Plan.

Sound Financial and Resource Management

- Credit ratings maintain at Aa2 and AA- with Moody's and Standard and Poors
- Developed a budget that meets higher debt coverage requirements
- Increased focus on Asset Management and more effectively plan for needed replacements or refurbishments;

Environmental Stewardship

- Continued to evaluate alternate energy sources.

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 long range financial model and financial policies provide the framework of future assumptions that will allow West Basin to continue to maintain a financially sound organization.

In January 2015, Moody's reviewed West Basin's credit rating applying their new methodology and the associated weighting of the following characteristics of system characteristics, financial strength, management, and legal provisions. Based on a review of recent financial and statistical information, Moody's reaffirmed West Basin's credit rating at Aa2. With the rating, their commentary emphasized a need to focus on its debt coverage ratios and cash balances. While both have improved, they are still low in comparison to our peer group. The debt coverage and cash balances are within the control of West Basin. Staff and West Basin's financial advisor presented the recent Moody's review and sought direction to strive for higher debt coverage levels. The Board responded with increasing its reliability service charge \$10/AF to set the budgeted all in debt coverage level 1.75 from 1.70.

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.

On April 1, 2015, Governor Brown issued Executive Order B-29-15 which calls for a 25% reduction in consumer water use and a poor outlook for the final State Water Project Table A allocation. This was in response to the historically dry conditions throughout the State of California.

In response regional water suppliers, like Metropolitan Water District, and state water agencies are asking for the public support in taking an active response to the cutbacks. This includes restrictions on water use to certain times and locations and direct water suppliers to develop rate structures and pricing mechanisms to maximize water conservation. Some of the steps taken to date include the following:

- Implement a water supply allocation plan at a Level 3 Regional Shortage Level with penalty structure should sales exceed the allocated level
- Increase public outreach through print and radio ads
- Provide additional funding for conservation programs such as turf removal and other water efficient devices.

With a Level 3 Regional Shortage Level, West Basin will be allocated approximately 100,000 AF from MWD. This allocation goes below the lowest sales in West Basin history of approximately 102,700 AF. West Basin recognizes the serious impact that certain communities may be experiencing and is working closely with MWD to implement the changes and sharing the information with its customers.

The uncertainty of how the West Basin service area will respond, staff has taken a more conservative approach in budgeting for its retail potable sales. Staff has budgeted for sales to be at 98,000 AF. In addition, the Board approved a similar water supply allocation plan as MWD with penalties to its customers.

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. In consultation with the County of Los Angeles who requests the sales for the Water Replenishment District, staff noted that recent activity places the capacity at 18,200. West Basin intends to fill the request with the full 15,500 of recycled water as stated per agreement and the balance will come from potable 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 two additional staff ; a limited-term position to focus on conservation efforts, and a full time Engineering supervisor to address the increasing number of capital related projects. West Basin also increased the number of interns for a total employee count of 52. Staff has made a concerted effort to hold or reduce its program costs with obtaining an understanding of the necessity of certain higher costs for operational and maintenance due to the increase in budgeted deliveries.

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

Planned capital expenditures for FY 2015-2016 is anticipated to be approximately \$56 million. Based on the nature of the projects, staff anticipated using all avenues including the use of PAYGO funds, commercial paper line, and seeking a loan through the State of California's Revolving Loan Program. Based on timing of certain capital projects, staff does anticipate the need to enter the capital markets to debt finance the larger projects. 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 in its revenue streams that should be considered in the development of its annual budget.

For consideration in the FY 2015-16 budget, West Basin contemplated the fiscal impact of the drought and conservation messaging, managing operating costs, working towards implementing the rates stipulated in the WRD contract, funding for future WR 2020 projects such as ocean-water desalination, and the expiring incentive from MWD through its Local Resources Program (LRP). With the use of its financial model, West Basin is able to monitor anticipated rate increases, more financially constrained years and model the impacts when circumstances change.

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. Staff will continue to market the capital markets to plan for intended entrance to pay for the larger projects.

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 2015-16, West Basin's Board of Directors adopted an increase of \$25/AF on its water reliability service charge that incorporates the Board's decision to improve its debt coverage ratio to help maintain its credit rating; \$6/AF increase on its readiness to serve charge; a \$5/cubic foot per second increase in its water service charge; and passing through a \$19/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

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 while still being able to deliver a safe and reliable water supply.

West Basin water rates have been carefully considered by the Board of Directors and communicated 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.

Respectfully,



Rich Nagel
General Manager

ABOUT WEST BASIN

ABOUT WEST BASIN MUNICIPAL WATER DISTRICT

West Basin Municipal Water District (West Basin), an innovative and award-winning public agency, is a special district of the State of California that provides drinking and recycled water, water efficiency and water education programs to its nearly 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 a more diverse, locally controlled and reliable water supply. Through the 2008 Board-adopted Water Reliability 2020 Program (WR 2020), West Basin is expanding production of locally-produced water by doubling water recycling and conservation programs and researching the possibility of adding 10% of future water supplies from ocean-water desalination. In late 2010, West Basin opened its Ocean-Water Desalination Demonstration Facility Water and Education Center to the public to share Southern California's water story, teach the community about local supplies, and responsibly research 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.

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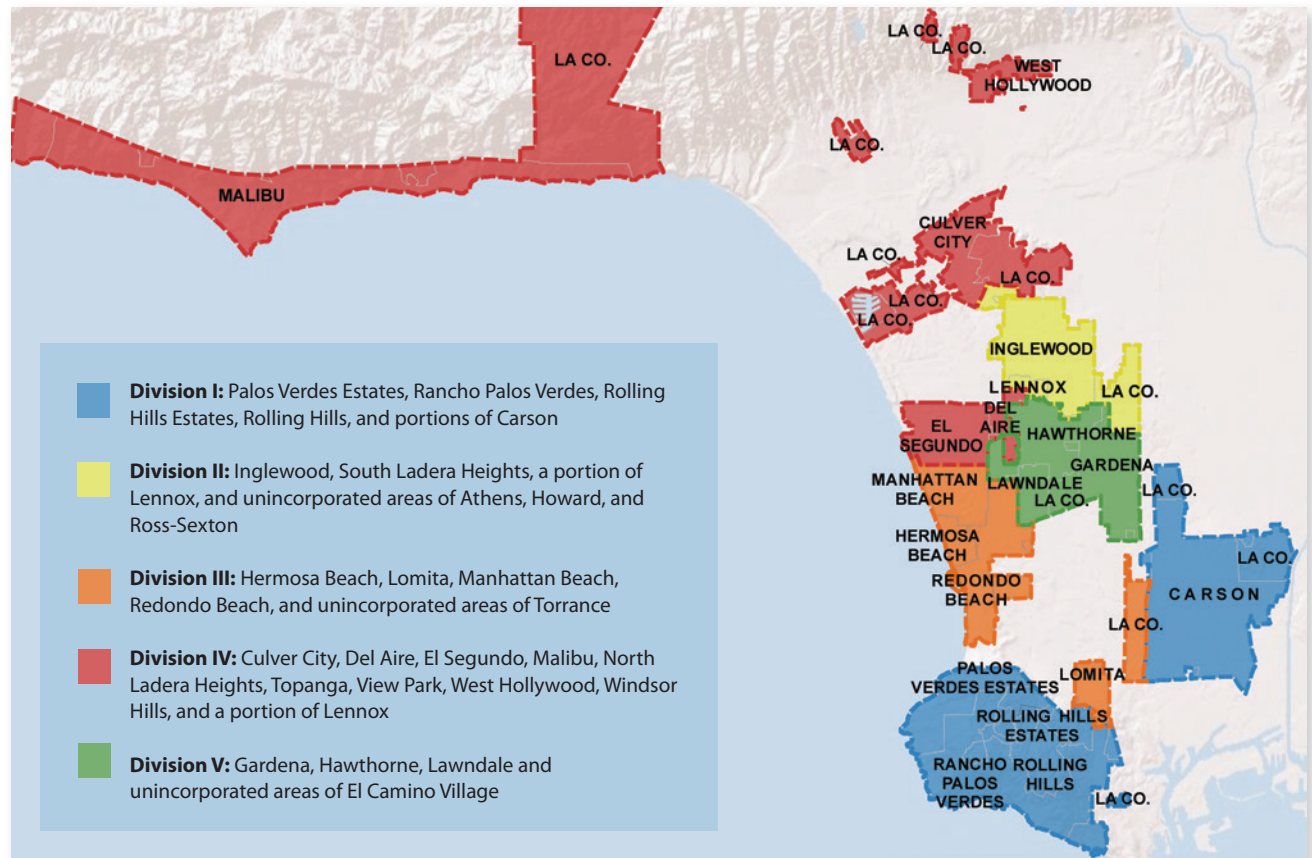
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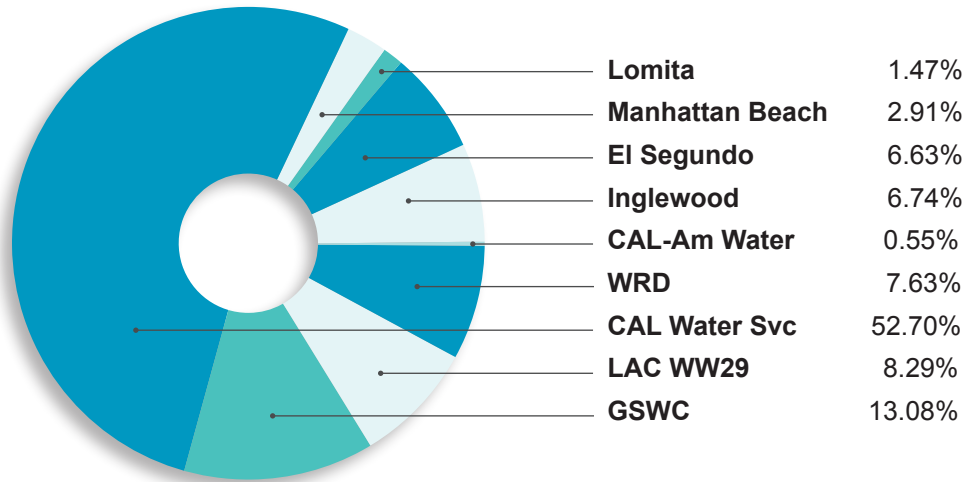
SERVICE AREA

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).

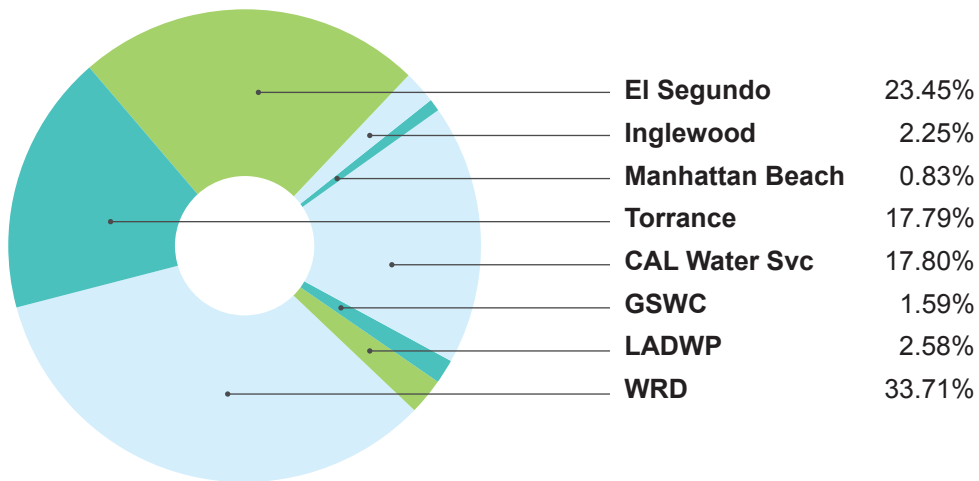


CUSTOMERS	WATER PURCHASES		
	Potable	Recycled	Desalted
California American	✓		
California Water Service	✓	✓	✓
City of El Segundo	✓	✓	
City of Inglewood	✓	✓	
City of Lomita	✓		
City of Manhattan Beach	✓	✓	
City of Torrance		✓	
Golden State Water Company	✓	✓	
LA County Waterworks No. 29	✓		
Los Angeles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

Potable AF Customer Sales Distribution FY 2013-2014



Recycled Water AF Customer Sales Distribution FY 2013-2014



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.

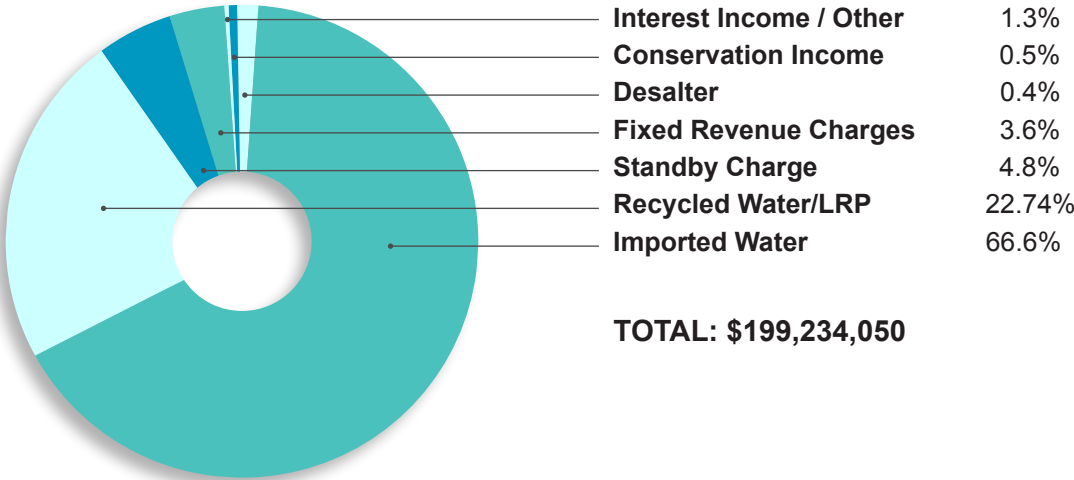
FINANCIAL OVERVIEW AND SUMMARY

FINANCIAL OVERVIEW AND SUMMARY

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR (FY) 2015-16

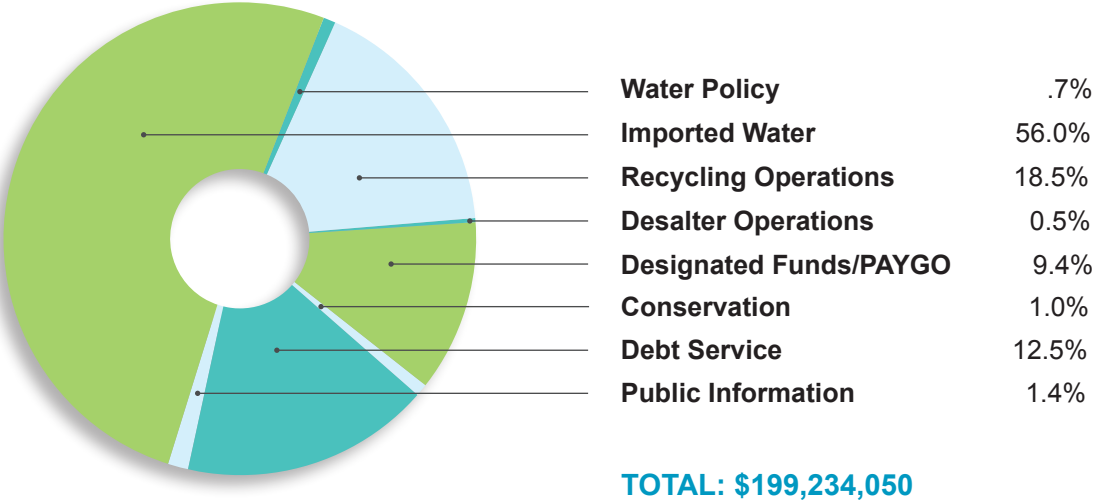
West Basin’s operating budget of \$199.2 million for FY 2015-16 is \$2.3 million or 1.2% higher than the FY 2014-15 operating budget. One reason for this modest budget increase is higher revenues from increased recycled water sales (combined with Metropolitan Water District’s Local Resources Program) of \$4.4 million, lower imported water sales of (\$3.8 million), and decreased production from the Brewer Desalter (\$220,000); the net result being a \$341,000 increase in overall water sales. Additional revenue of approximately \$1,930,000 is also expected in the form of state and federal grants to help with projects that further West Basin’s mission of increased water reliability, water quality and customer service.

Source of Funds FY 2015-16



Similar to the revenues, operating expenses for FY 2015-16 are budgeted at \$199.2 million. Imported Water purchases are expected to decrease due to anticipated lower demand and the implementation of MWD's Water Supply Allocation thereby decreasing the available water supply; consequently West Basin expects 4.7% lower imported water costs in FY 2015-16, approximately (\$5.37 million) decrease. The Capacity Charge rate will decrease for calendar year 2016, however the full fiscal-year charge for FY 2015-16 will see a 3% increase from prior year's budget due to timing. The Capacity Charge is applied on a calendar year basis whereas West Basin follows a fiscal year calendar, and the first six months of FY 2014-15 (part of CY 2014) had a significantly lower rate than CY 2015 and CY 2016. As a result of the timing, FY 2015-16 will be the first full fiscal-year with the higher capacity charge leading to a \$300,000 increase. Also, in lieu of decreased imported water sales, West Basin anticipates higher recycled water sales (9% over FY 2014-15 budget projections) leading to increasing recycled water production costs of approximately \$3.4 million. All other West Basin program expenses remain relatively unchanged. Finally, due to the maturity of its original debt being paid in August 2015, West Basin's annual debt service has significantly decreased by \$4,069,818 below the FY 2014-15 Budget.

**Use of Funds
FY 2015-16**



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 2015-16 consists of thirty-nine (39) full-time budgeted positions, four full-time limited term, two part-time and seven intern positions. In FY 2014-15 West Basin went through a reorganization which determined the need for two critical positions; a regular full-time Engineering Supervisor to oversee four engineers and their projects, and a limited term Conservation Analyst to further West Basin’s efforts in this important area. Also, West Basin is expanding its intern program to 7 interns in FY 2015-16.

BUDGET	FY 2014-15	FY 2015-16
Total Positions	45	52
Full-time regular	38	39
Full-time limited	3	4
Part-time	2	2
Interns	2	7

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.

Over the last 5 years, in consultation with PFM Asset Management, West Basin has used the Bank of America / Merrill Lynch (BAML) 1-year Treasury Index to benchmark its portfolio’s performance. However, with changes in West Basin’s portfolio, commiserate with changing economic conditions overall, West Basin has determined that the BAML 0-3 Treasury Index is more appropriate.

During FY 2014-15, West Basin met with Moody’s Rating Agency and it was determined that in order to maintain it’s critical Aa2 rating West Basin should evaluate its various rate factors and address its financial metrics that are more directly in an agency’s control. For West Basin one of the main factors is to strive for an all-in debt coverage ratio of 1.75, up from 1.35 calculated at the end of FY 2013-14. West Basin’s covenants require a 1.15 which has been consistently surpassed at the end of each fiscal year. West Basin’s Board of Directors deliberated this matter and decided to set a budgetary all-in Debt Coverage target of 1.75 for FY 2015-16.

METRIC	FY 2013-14 ACTUAL	FY 2014-15 PROJECTED	FY 2015-16 TARGET
On time submission of annual bond disclosure	100%	100%	100%
Investment Benchmark – meet or exceed BAML 0-3 Yr US Treasury Index	Actual: Exceeded	Actual: On track to meet BAML 0-3 Yr UST Index	Benchmark: BAML 0-3 Yr UST 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 1.75	1.73	1.5	1.75
Improve Recycled Water Cost per Unit	\$1,613	\$1,602	\$1,593
Achieve 50% Grant Award to Submission success rate	60%	53%	65%
Have 100% submittal of Performance evaluations	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.

The Strategic Business Plan is a living document and the Board of Directors anticipate a review of the Plan in 2015 to identify changes, if any, that should be made. This will continue to provide guidance and direction on future policy 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. 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.

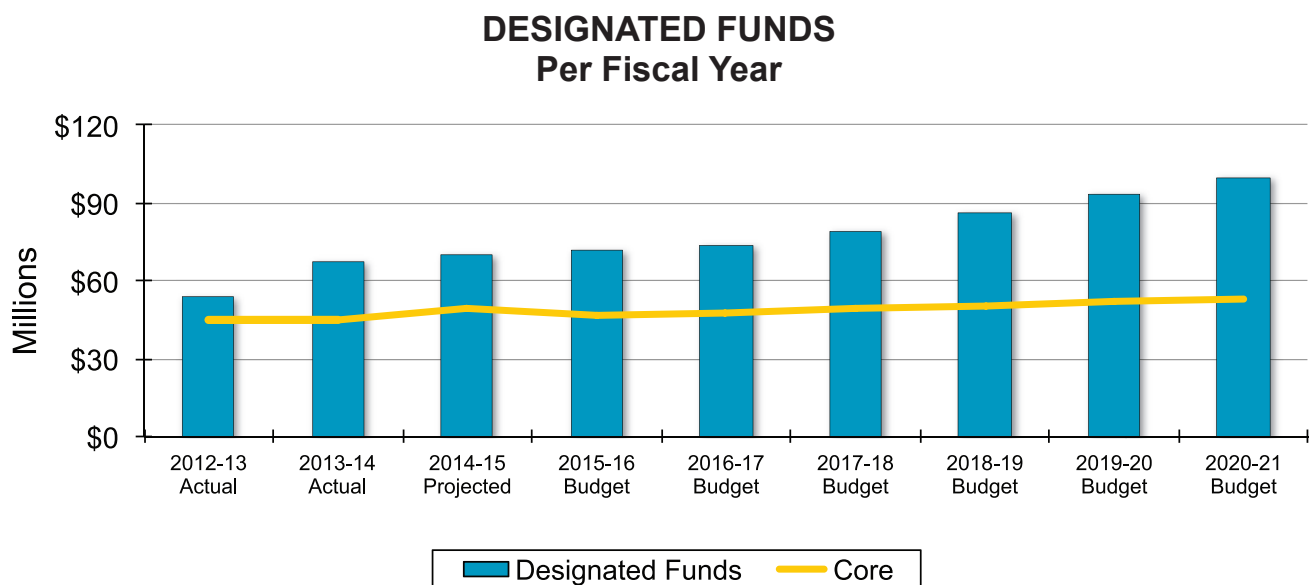
Fund Balance (Designated Funds)

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 as further described in the board-approved policy.

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.

The chart below shows the actual, projected and budgeted designated fund levels from FY 2012-13 through FY 2020-21.



Below are the actual revenues and expenses for FY 2012-13 and FY 2013-14, the projected revenues and expenses for FY 2014-15, as well as the budgeted revenues and expenses for FY's 2015-16 through FY 2020-21.

DESIGNATED FUNDS CASH FLOW (In 000's)

Fiscal Year:	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Description	Actual	Actual	Projected	Budget	Budget	Budget	Budget	Budget	Budget
Designated Funds (Beg Bal)	\$67,418	\$53,722	\$67,388	\$70,000	\$71,572	\$73,405	\$79,289	\$86,046	\$92,941
Imported Water Revenue	129,607	135,310	134,318	132,630	134,616	141,646	148,770	157,660	162,740
Recycled Water Revenue	49,794	67,430	61,436	62,216	67,330	69,963	73,012	71,937	65,668
Other Revenues	6,215	3,185	1,728	4,388	2,600	3,002	2,946	4,025	4,622
Total Revenues	185,616	205,925	197,482	199,234	204,546	214,611	224,728	233,622	233,030
Water Purchases	110,530	118,116	115,166	111,479	111,871	116,779	121,802	128,068	125,670
Program Expenses	34,338	41,800	42,892	44,152	47,174	49,869	52,780	55,048	57,415
Net Debt Service	21,022	16,238	26,379	24,959	25,846	29,434	29,492	29,606	29,509
PAYGO	33,422	16,105	10,433	17,072	17,822	12,645	13,897	14,005	13,966
Total Expenses	199,312	192,259	194,870	197,662	202,713	208,727	217,971	226,727	226,560
Designated Funds (End Bal)	\$53,722	\$67,388	\$70,000	\$71,572	\$73,405	\$79,289	\$86,046	\$92,941	\$99,411

FIVE YEAR FORECAST

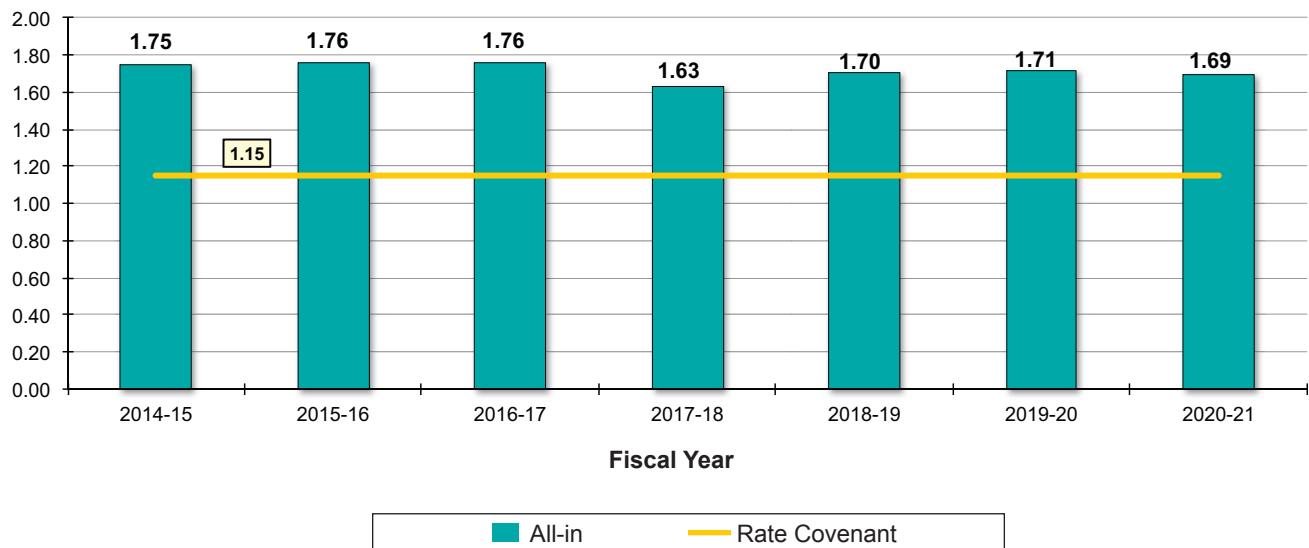
While West Basin has a financial model that supports its long-term financial planning, the five-year forecast provides a near-term outlook of the anticipated revenues and expenditures.

Fiscal Year:	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
REVENUES						
Water Sales	129,488,450	131,478,370	138,450,768	145,507,118	154,328,839	159,409,075
Water Service Charge	578,928	625,449	682,308	750,539	818,770	818,770
Capacity Charge	2,563,100	2,512,600	2,512,600	2,512,600	2,512,600	2,512,600
Recycled Water Project Revenues						
Recycled Water Sales	35,688,927	42,007,158	44,572,570	47,349,575	49,161,841	51,083,846
Fixed Revenue Charges	7,251,992	5,241,929	5,059,196	5,059,196	4,890,896	3,710,460
MWD LRP Rebate	9,625,000	10,431,250	10,681,250	10,953,750	8,234,063	1,223,750
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	879,900	901,849	924,684	947,821	972,543	999,292
Interest Earnings/Grants/Other	2,570,000	760,000	1,140,000	1,060,000	2,115,000	2,685,000
Conservation Incentives	937,753	937,753	937,753	937,753	937,753	937,753
Total Revenues	\$199,234,050	\$204,546,358	\$214,611,129	\$224,728,352	\$233,622,304	\$233,030,545
EXPENSES						
Water Purchases/RTS from MWD	108,946,700	109,362,628	114,270,261	119,292,920	125,558,723	123,160,449
Capacity Charge	2,532,200	2,509,180	2,509,180	2,509,180	2,509,180	2,509,180
Program Expenses						
Recycled Operations	36,919,234	39,759,934	42,269,345	44,990,903	47,064,190	49,230,776
Desalter Operations	1,057,697	1,084,139	1,111,243	1,139,024	1,167,500	1,196,687
Water Policy	1,301,438	1,333,974	1,367,323	1,401,506	1,436,544	1,472,458
Public Information	2,855,464	2,926,851	3,000,022	3,075,022	3,151,898	3,230,695
Conservation	2,007,106	2,057,284	2,108,716	2,161,434	2,215,469	2,270,856
Title 22 Water Quality Monitoring	11,612	11,902	12,200	12,505	12,817	13,138
Designated Funds/Other	18,643,519	19,654,733	18,528,738	20,653,973	20,899,833	20,437,255
2010A CP Line	3,303,494	3,386,596	3,452,289	3,513,618	3,631,342	3,527,258
2011A	1,437,688	4,907,167	5,218,350	5,210,138	5,219,350	5,235,833
2011B	2,993,250	2,993,250	2,993,250	2,993,250	2,993,250	2,993,250
2012A	4,389,567	4,386,850	4,389,900	4,390,017	4,390,688	4,388,458
2013A	3,777,150	287,300	-	-	-	-
Proposed debt/state loan	-	915,773	4,436,431	4,436,431	4,436,431	4,436,431
Subordinate Debt						
2008B Series	9,057,931	8,968,798	8,943,881	8,948,431	8,935,088	8,927,821
Total Expenses	\$199,234,050	\$204,546,359	\$214,611,129	\$224,728,352	\$233,622,304	\$233,030,545
Coverage - Senior Debt	2.74	2.70	2.34	2.44	2.44	2.43
Coverage - Subordinate Debt	3.06	3.19	3.07	3.31	3.34	3.29
Coverage - All Debt	1.75	1.76	1.63	1.70	1.71	1.69

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. More detailed information is reflected in supplemental section.

Fiscal Year	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
COST (Sales Price) of Water (\$/af)						
MWD Imported - Tier 1 (Jul)	923	942	970	999	1,029	1,060
MWD Treated NonInt - Tier 2 (Jul)	1,055	1,076	1,100	1,129	1,159	1,190
MWD Imported - Tier 1 (Jan)	942	970	999	1,029	1,060	1,092
MWD Treated NonInt - Tier 2 (Jan)	1,076	1,100	1,129	1,159	1,190	1,222
MWD RTS Commodity Charge (Jul)	112	118	117	115	113	113
MWD RTS Commodity Charge (Jan)	118	117	115	113	113	114
MWD Seawater Barrier - Tier 1 (Jul)	923	942	970	999	1,029	1,060
MWD Seawater Barrier - Tier 2 (Jul)	1,055	1,076	1,100	1,129	1,159	1,190
MWD Seawater Barrier - Tier 1 (Jan)	942	970	999	1,029	1,060	1,092
MWD Seawater Barrier - Tier 2 (Jan)	1,076	1,100	1,129	1,159	1,190	1,222
Title 22 Within WB - Recycled Water	982	1,025	1,067	1,110	1,156	1,205
Title 22 - LADWP - Recycled Water	1,030	1,073	1,115	1,158	1,204	1,253
Title 22 - Torrance - Recycled Water	1,030	1,073	1,115	1,158	1,204	1,253
Barrier - RW (1st 4,500AF)	605	1,207	1,247	1,287	1,327	1,372
Barrier - Recycled Water	605	625	645	666	687	709
LPBF - Recycled Water	1,233	1,276	1,318	1,361	1,407	1,456
HPBF - Recycled Water	1,589	1,636	1,686	1,736	1,788	1,842
Nitrified - Recycled Water	985	1,028	1,070	1,113	1,159	1,208
Reliability Service Charge	194	210	225	240	255	271
MWD LRP Rebate	250	250	250	250	250	250
Desalted Water (Jul)	1,035	1,060	1,087	1,114	1,142	1,173
Desalted Water (Jan)	1,060	1,087	1,114	1,142	1,173	1,206
Capacity Charge - MWD	11,100	10,900	10,900	10,900	10,900	10,900
Capacity Charge - MWD (Jan)	10,900	10,900	10,900	10,900	10,900	10,900
Capacity Charge-Cust	8,800	8,500	8,500	8,500	8,500	8,500
Capacity Charge-Cust (Jan)	8,500	8,500	8,500	8,500	8,500	8,500
SALES VOLUME (afy)						
Non Interruptible (Jul)	49,000	48,814	49,814	50,769	52,219	52,169
Non Interruptible (Jan)	49,000	48,814	49,814	50,769	52,219	52,169
Non-Interruptible	98,000	97,627	99,627	101,537	104,437	104,337
Seawater Barrier	6,300	4,800	4,800	4,800	4,800	4,800
Recycled Water	38,850	41,725	42,725	43,815	43,915	44,015
Title 22 Within WB	6,725	7,500	7,600	7,700	7,800	7,900
Title 22 - LADWP	950	950	1,050	1,050	1,050	1,050
Title 22 - Torrance	5,975	6,575	6,575	6,575	6,575	6,575
RO - Barrier	15,500	17,000	17,000	17,000	17,000	17,000
RO - Industrial	6,450	6,450	6,450	6,450	6,450	6,450
RO - Industrial - Ultra	2,350	2,350	2,350	2,350	2,350	2,350
Industrial - NH3/t-MBR	900	900	1,700	2,690	2,690	2,690
Desalted Water	840	840	840	840	840	840
Capacity Charge-MWD	230.2	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	297.0	295.6	295.6	295.6	295.6	295.6
Capacity Charge-Cust (Jan)	295.6	295.6	295.6	295.6	295.6	295.6
FIXED PAYMENTS						
BP	2,136,000	2,136,000	2,136,000	2,136,000	2,136,000	2,136,000
Mobil NH3	132,400	132,400	132,400	132,400	132,400	-
Mobil (phase 2)	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460	1,574,460
Chevron Nitrification	1,009,800	1,009,800	1,009,800	1,009,800	841,500	-
Chevron Boiler Feed	2,192,796	182,733	-	-	-	-
NRG	-	-	-	-	-	-
LADWP	206,536	206,536	206,536	206,536	206,536	-
TOTAL FIXED PAYMENTS	\$7,251,992	\$5,241,929	\$5,059,196	\$5,059,196	\$4,890,896	\$3,710,460

DEBT COVERAGE
Projected, Current Budget and 5-year Projection
FY 2014-15 thru FY 2020-21



HISTORICAL DEBT COVERAGE
Comparison with Other Water Agencies
FY 2009-10 thru FY 2013-14

NAME OF AGENCY	2009-10	2010-11	2011-12	2012-13	2013-14
Central Basin MWD	1.71	1.91	0.64	0.20	1.33
Calleguas MWD	2.03	1.29	1.89	2.96	1.89
Eastern MWD	2.00	2.00	1.80	2.00	2.10
La Virgenes MWD	2.03	2.35	2.82	2.92	2.71
Inland Empire Utilities Agency	1.75	1.43	1.69	2.20	2.09
San Diego County Water Authority	1.50	1.36	1.47	1.50	1.50
Three Valleys MWD	1.95	1.23	0.99	2.05	102.86*
West Basin MWD	1.26	1.22	1.52	1.55	1.73
Western MWD	3.01	1.74	1.79	2.75	4.21

* Three Valleys MWD's debt has been fully repaid

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	ADDRESSED
1. Pass-through MWD rate increases	✓
2. Discuss drought implication on sales assumptions	✓
3. Review debt coverage target in response to Moody’s analysis	✓

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 small and efficient staff.

BUDGET PROCESS AND TIMELINE FOR FISCAL YEAR 2015-16



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

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

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

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

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

Dates

- January 7, 2015
- January 14, 2015
- January 23, 2015

Key Activities

- Submit staff labor allocation
- Submit sales AF projections
- Submit draft FY 15-16 operating and capital budget

- February 4, 2015
- February 6, 2015
- February 13, 2015
- February 24, 2015

- Submit FY 14-15 operating program projections
- Discuss water rates and charges
- Discuss operating and capital budgets
- Conduct 2nd meeting to discuss operating and capital budgets

- March 11, 2015
- March 18, 2015
- March 25, 2015

- Conduct Board of Directors workshop
- Conduct customer agency workshop
- Submit program text to Finance

- April 15, 2015
- April 27, 2015

- Present draft water rate and charges and standby charge resolutions to Finance Committee
- Adopt separate resolutions on West Basin water rates and standby charge at regular Board of Directors meeting

- May 13, 2015
- May 27, 2015

- Present draft budget document to Finance Committee
- Adopt FY 15-16 operating budget at regular Board of Directors 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 such as a pay range, position title and whether the position is full-time, part-time, permanent or limited. Water sales projections are discussed by the managers to aide in the development of water sales assumptions for both imported and recycled water sales. Budget versus actual reports for the current fiscal year are provided to each manager to assist in the preparation of a draft budget. Managers then submit their proposed programmatic operating and capital improvement program (CIP) budgets for Fiscal Year (FY) 2015-16.

February: The budget versus actual reports also assists 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 2015-16 and future fiscal years. Also incorporated into the budget are the anticipated Metropolitan Water District (MWD) water rates in order to determine the total effect on West Basin's own water rates and charges (the changes in the MWD rate is passed through to West Basin's purveyors). The managers and budget staff meet to discuss the recommended water rates and charges to achieve the budget objectives for FY 2015-16. 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 and/or current year spending levels. The General Manager will make changes to the draft budget as needed.

March: Staff submits a proposed balanced budget to the Board of Directors in a workshop format. At the workshop, 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 explain and 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 responses to 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 prior year's 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 both the appropriate committee and Board meetings and require a majority vote of the Board of Directors in order to be incorporated. Upon approval, staff 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 65% and recycling sales represent 23% of all revenue sources. Total budgeted revenues for Fiscal Year (FY) 2015-16 are \$199,234,050.

Summarized below are the actual, projected and budgeted revenues for the past three years along with comparative budgets (FY 2014-15 & FY 2015-16) to see the trend of various revenue sources.

REVENUES	FY 2012-13 ACTUAL	FY 2013-14 ACTUAL	FY 2014-15 PROJECTED	FY 2014-15 BUDGET	FY 2015-16 BUDGET
Imported Water Sales	\$127,385,697	\$133,053,569	\$131,529,810	\$133,712,500	\$129,488,450
Water Service Charge	434,196	475,548	523,103	523,103	578,928
Capacity Charge	1,786,980	1,781,028	2,265,450	2,265,450	2,563,100
Recycled Water / LRP	32,628,990	42,151,257	44,303,100	40,871,770	45,313,927
Fixed Revenue Charge	8,528,283	16,446,497	7,482,606	7,293,592	7,251,992
Desalter Water / GRP	879,124	789,969	652,607	1,099,980	879,900
General Fund Interest	104,985	(146,237)	100,000	238,300	516,000
Standby Charge	9,805,001	9,683,207	9,650,000	9,650,000	9,650,000
Conservation Income	1,156,166	1,036,527	573,100	858,640	937,753
Other Income	139,134	207,716	402,000	401,700	2,054,000
Total Revenues	\$182,848,556	\$205,479,081	\$197,481,776	\$196,915,035	\$199,234,050

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 390 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 8.5% of its revenues from fixed revenue charges and the Standby Charge. The fixed revenue charges are determined by agreements. The Standby Charge generates approximately \$9.65 million and through Resolution 04-15-1011 was approved by the Board on April 27, 2015.

Annually, West Basin establishes rates and charges through a resolution approved by the Board of Directors. Resolution 04-15-1012 was adopted at its April 27, 2015 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 reflects non-interruptible rates for two tiers, Tier 2 pricing is not anticipated for West Basin customers as West Basin is anticipated to meet 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 111,629 AF in FY 2013-14 and, due to serious drought conditions and conservation messaging, sales are projected to drop approximately 5.9% to 105,000 AF in FY 2014-15. West Basin anticipates a continued drop in imported sales in FY 2015-16 with continuous drought messaging, conservation efforts and MWD adopting a Level 3 (approximately 15%) Water Supply Allocation Plan to limit deliveries to its member agencies. As a result, in FY 2015-16 West Basin is budgeting for expected sales of 98,000 AF, which is a 7.5% decline from its FY 2014-15 budget.

West Basin has also adopted a Drought Rationing Plan to help meet service area goals for mandatory conservation of imported water (if required) and to provide a mechanism to appropriately assess any financial penalties to West Basin's customer agencies as a result of MWD's Water Supply Allocation Plan.

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. Imported water sales to the barriers are expected to drop from 9,286 AF in FY 2013-14 to a projected 6,600 AF at end of FY 2014-15. West Basin strives to provide more recycled water for injection into the West Coast Barrier (Barrier) and as a result expects a slight decrease in imported sales to the barriers, budgeting for 6,300 AF in FY 2015-16. Although more recycled water is being delivered to the Barrier, revenues are negatively impacted due to the lowered rate (per agreement) at which recycled water is sold to 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's retail and barrier imported water rate will have an overall increase of \$50/AF by January 2016. West Basin's Board of Directors approved its one-year rate increase for FY 2015-16 at the Board meeting on April 27, 2015. Based on AF assumptions and the rates for the fiscal year described below, West Basin is budgeting \$129,488,450 in imported water sales.

MWD's commodity rate increase has historically become effective on January 1 of each year and last 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 will pass through the MWD Tier 1 commodity rate at \$923/AF from July-December 2015 and \$942/AF from January-June 2016.

MWD's Board of Directors also approved an overall RTS charge collection of \$153 million in CY 2016, a decrease of 3.2% from the \$158 million collected in CY 2015. 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). Consequently, West Basin's allocated portion in FY 2015-16 has decreased by \$560,250. In 2015 West Basin changed its methodology for calculating the RTS rate, equating West Basin's share of MWD's RTS collection divided by 95% of the previous 5-year average imported water sales. However, an alternate method was developed in calculating the RTS rate for FY 2015-16 that reflects the significant decline in sales due to drought rationing. The RTS rate effective January 1, 2016 was determined by dividing West Basin's share of MWD's RTS collection (\$11,693,000) by the budgeted imported water sales, 98,000 AF, approximately \$118/AF.

The Reliability Service Charge (RSC) will increase from \$169 to \$194 or \$25/AF to reflect the higher all-in debt service coverage target from a 1.35 to a 1.75. The elevated target is in response to a recent review with Moody's rating agency. This increased RSC also provides West Basin sufficient revenues to support its Water Reliability 2020 (WR 2020) Program.

RATES EFFECTIVE JULY 1, 2015 TO DECEMBER 31, 2015

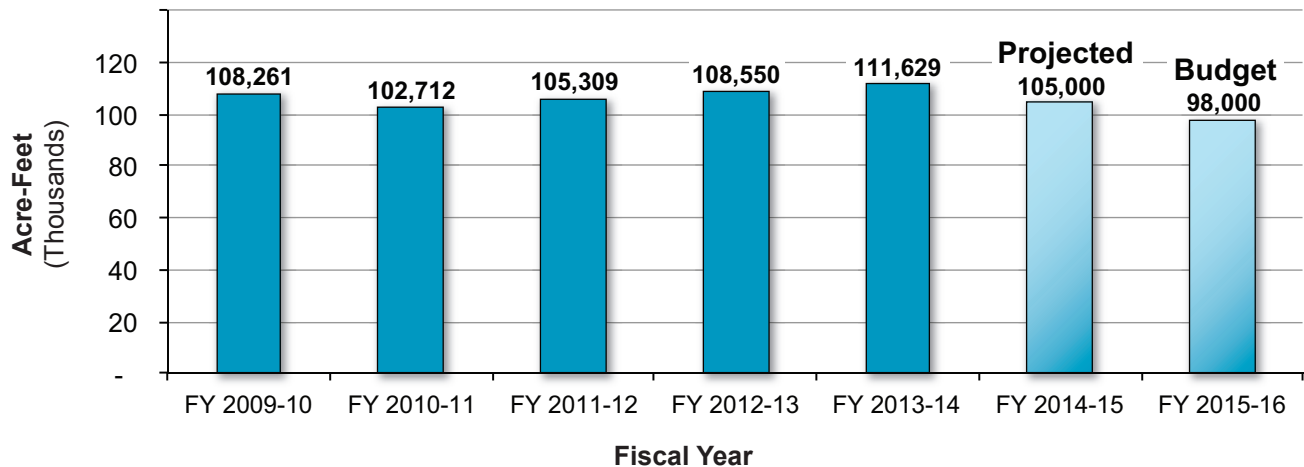
TYPE	MWD Commodity	MWD RTS	Reliability Service Charge	TOTAL
Non-Interruptible & Barrier (Tier 1)	\$923/AF	\$112/AF	\$194/AF	\$1,229/AF
Non-Interruptible & Barrier (Tier 2)	\$1,055/AF	\$112/AF	\$194/AF	\$1,361/AF

RATES EFFECTIVE JANUARY 1, 2016

TYPE	MWD Commodity	MWD RTS	Reliability Service Charge	TOTAL
Non-Interruptible & Barrier (Tier 1)	\$942/AF	\$118/AF	\$194/AF	\$1,254/AF
Non-Interruptible & Barrier (Tier 2)	\$1,076/AF	\$118/AF	\$194/AF	\$1,338/AF

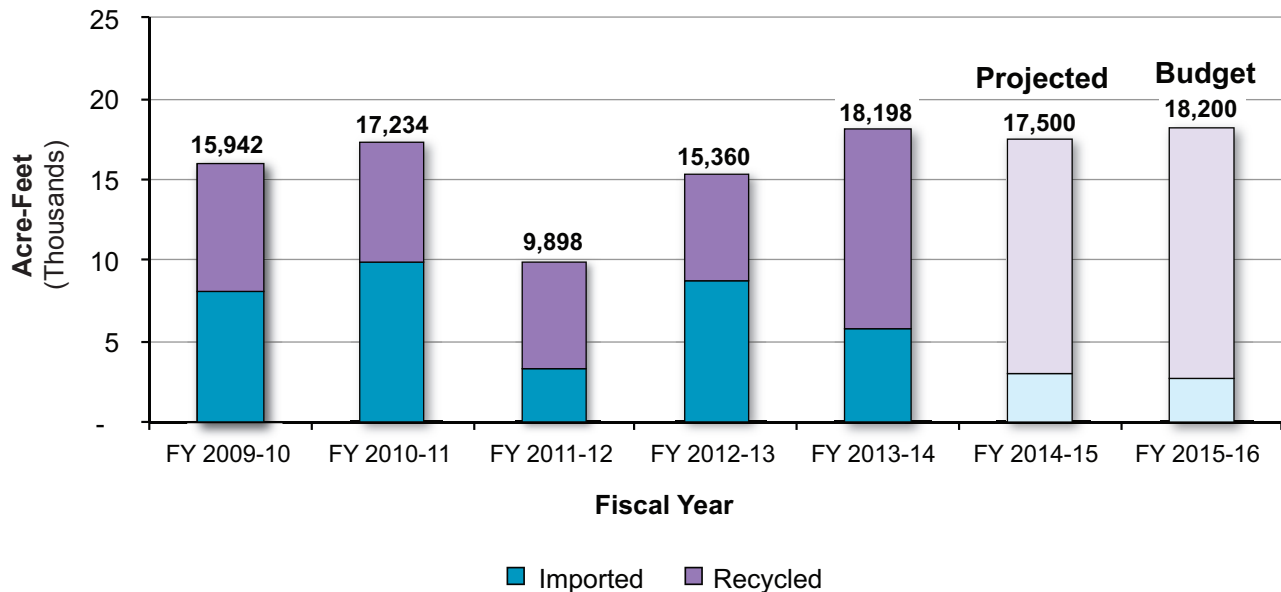
Imported water sales vary based on hydrologic conditions, water demand and on the available water supply. FY 2013-2014 saw some of the driest months on record and drought conditions have continued through FY 2014-15 resulting in Metropolitan Water District enacting a Water Supply Allocation plan. West Basin imported water sales increased annually since experiencing a low of 102,712 AF in FY 2010-11, reaching 111,629 AF in FY 2013-14. However, with continued drought conditions and increased conservation messaging, sales in FY 2014-15 are projected to decline 5.9% to 105,000 AF by the end of the year. With the declaration of a statewide drought, increased conservation messaging and a reduction in the available supply of water, West Basin expects retail imported water demand to decrease and has budgeted water sales for FY 2015-16 to be 98,000 AF.

RETAIL SALES FY 2009-10 thru FY 2015-16



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 Barrier (Barrier) and Dominguez Gap Barrier. Historically, Barrier is injected with a mix of recycled and imported water, with total (imported and recycled) water delivered in FY 2013-14 of 18,200 AF. Overall, the gross amount of water deliveries to the Barrier is expected to remain steady while emphasis is placed on injecting more recycled water and less imported water, with the eventual goal being to provide 100% recycled water to the Barrier. The graph below shows the decreasing demand for imported water over the years as more recycled water is used for the Barrier. Imported sales to the Barrier are projected to drop from 5,826 AF in FY 2013-14 to a projected 3,000 AF in FY 2014-15. West Basin expects the shift to continue and is budgeting 2,700 AF of imported sales to the West Coast Barrier for FY 2015-16 and 15,500 AF of recycled water, a total of 18,200 AF. Imported water deliveries to the Dominguez Gap Barrier are expected to remain steady and will be budgeted at 3,600 AF for FY 2015-16.

WEST COAST BARRIER Sales History



Water Service Charge

West Basin collects the Water Service Charge as a monthly fixed amount based on the cubic feet per second (cfs) of each customer’s meter capacity. West Basin adopted a rate of \$51/cfs effective at the beginning of FY 2014-15 and will increase the rate to \$56/cfs for FY 2015-16. 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 \$578,928 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 usage 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 295.6 cfs for CY 2016, calculated on each customer’s highest overall peak level during the past three (3) years. West Basin’s non-coincidental peaking with MWD is 230.2 in both CY 2015 and CY 2016.

WEST BASIN CUSTOMER	2012	2013	2014	PEAK
California American Water Co.	6.4	2.5	3.7	6.4
Cal Water - Dominguez	46.6	56.4	51.1	56.4
Cal Water - Hawthorne	7.8	7.1	7.5	7.8
Cal Water - Hawthorne Redondo	21.3	21.1	20.7	21.3
Cal Water - Palos Verdes	46.2	44.6	44.2	46.2
LA County Waterworks No. 29	17.7	18.1	18.2	18.2
City of El Segundo	24.5	10.7	20.5	24.5
City of Inglewood	14.5	16.3	15.0	16.3
City of Lomita	4.5	5.1	3.6	5.1
City of Manhattan Beach	9.5	9.8	10.3	10.3
Golden State Water Co.	34.6	29.6	34.3	34.6
Water Replenishment District	18.4	48.5	22.7	48.5
TOTAL				295.6

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 establishing 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 changes is structured to coincide with MWD's increase as well. West Basin will decrease its current Capacity Charge Rate from \$8,800/cfs to \$8,500/cfs on January 1, 2016, with anticipated revenues of \$2,563,100 during FY 2015-16.

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 at relatively lower rate. Revenues from recycled water sales consist of commodity charges and incentive payments from MWD's Local Resources Program (LRP). The LRP provides a \$250/AF rebate for each AF of recycled water sold, helping West Basin and its customers to develop and utilize recycled water as much as possible further decreasing the reliance on imported water. These revenues are estimated at \$45,313,927 for FY 2015-16.

WBMWD RECYCLED WATER RATES							
<i>Effective July 1, 2015</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	\$1,005/AF	\$1,168/AF	\$605/AF	\$1,233/AF	\$985/AF	\$1,589/AF	\$1,047/AF
25-50	\$995/AF	\$1,168/AF	\$605/AF	\$1,233/AF	\$985/AF	\$1,589/AF	\$1,037/AF
50-100	\$985/AF	\$1,168/AF	\$605/AF	\$1,233/AF	\$985/AF	\$1,589/AF	\$1,027/AF
100-200	\$975/AF	\$1,168/AF	\$605/AF	\$1,233/AF	\$985/AF	\$1,589/AF	\$1,017/AF
200+	\$965/AF	\$1,168/AF	\$605/AF	\$1,233/AF	\$985/AF	\$1,589/AF	\$1,007/AF

In addition, West Basin anticipates receiving approximately \$7.3 million in fixed revenue charges, and is based on agreements with Tesoro (originally with Arco), 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 390 sites with sales projected at more than 39,000 AF in FY 2014-15. For FY 2015-16, West Basin anticipates a slight increase in demand, as compared to the FY 2014-15 Budget, 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 40% sales to the Barrier, 48% to local refineries, and the remaining 12% will be used in parks, golf courses, schools and street medians.

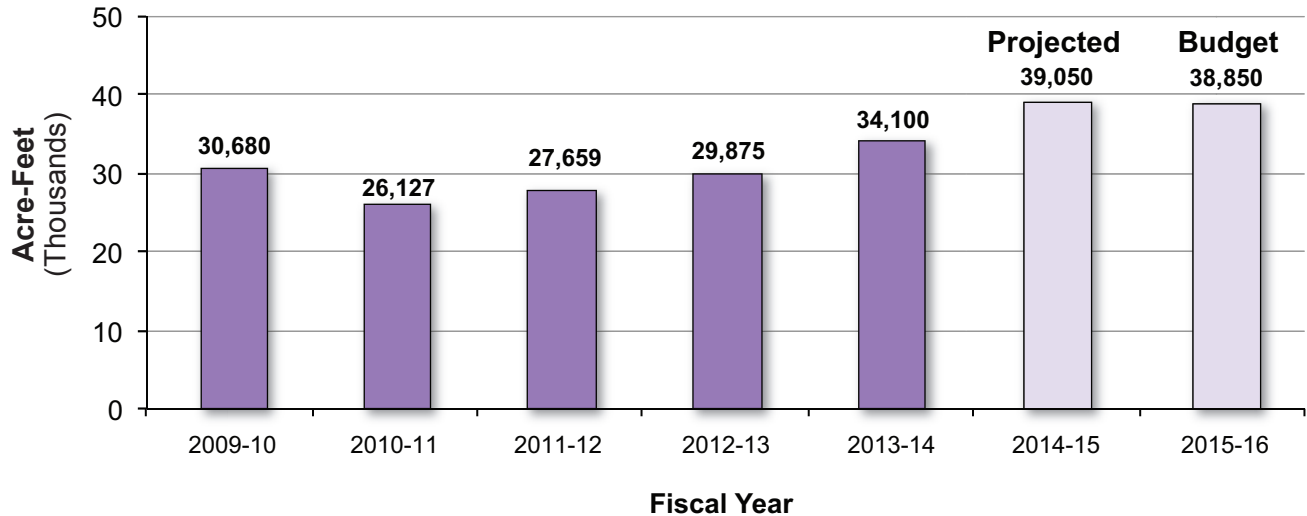
	2012-13	2013-14	2014-15	2014-15	2015-16
RECYCLED WATER TYPE	ACTUAL	ACTUAL	PROJECTED	BUDGET	BUDGET
Title22 – Within WB	6,268 AF	7,172 AF	7,000 AF	6,850 AF	6,725 AF
Title 22 – LADWP	968	945	950	900	950
Title22 – Torrance	6,634	6,529	6,650	6,350	5,975
Barrier	6,622	12,372	14,500	12,500	15,500
LPBF	5,729	6,034	6,500	5,710	6,450
HPBF	2,337	2,362	2,350	2,340	2,350
Nitrified	1,179	1,284	1,100	1,000	900
TOTAL RECYCLED	29,737 AF	36,698 AF	39,050 AF	35,650 AF	38,850 AF

LPBF = Low Pressure Boiler Feed

HPBF = High Pressure Boil Feed

Recycled water sales in FY 2013-14 were 36,698 AF, an increase of 6,961 AF over the previous year, and sales are expected to hit 39,050 AF by the end of FY 2014-15. 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 the 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 from the County have inhibited West Basin's ability to reach 100% recycled water to the Barrier. West Basin will budget recycled water sales at 38,850 AF for FY 2015-16, a 3,200 AF increase from 2014-15 Budget.

RECYCLED WATER Sales History FY 2009-10 thru FY 2015-16



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. The current rate for desalted water is \$1,035/AF and will increase to \$1,060/AF on January 1, 2016. Deliveries from the Brewer Desalter are budgeted at 840 AF for FY 2015-16 and revenues are budgeted to be \$879,900 in FY 2015-16.

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 2015-16, 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 347,000 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 23, 2015, to receive comments from property owners, public agencies and other interested parties. After careful consideration the Board voted to adopt the annual Standby Charge (Resolution 04-15-1011) at its April 27, 2015 meeting.

	PARCELS = < 1 ACRE	ACRES > 1 ACRE	TOTAL UNITS	BENEFIT RATIO	WEIGHTED BENEFIT UNIT	RATE
RESIDENTIAL						
Residential	145,114	15,470	160,582	1.5	240,873	\$24
Reduced Parcels	1	123				
Partial Exemptions	4	164				
Multi Unit Res. incl Hotel and Motel			158,684	1	158,684	\$16
NON-RESIDENTIAL						
Non-residential	12,620	15,079	27,699	7.5	207,746	\$120
Reduced Parcels						
Partial Exemptions	11					
TOTAL			346,965		607,303	

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 \$3.00 from various partners, thereby enhancing the programs to greater benefit of the residents and businesses throughout the service area. For FY 2015-16, 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 2015-16, West Basin anticipates its partner contributions as follows:

MWD	\$ 189,400
Federal Grants – USBR	396,653
State Grants – DWR	232,200
Customer Agencies	<u>119,500</u>
Total	\$ 937,753

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 extremely active in developing and implementing new conservation programs, such as Rain Barrel distributions and Turf Removal, 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 relatively conservative portfolio return. For FY 2015-16, general fund interest income is expected to be approximately \$516,000. 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 (Prop 84) and DWR grant to help fund the Gardena Lateral. Overall, West Basin anticipates approximately \$2,054,000 in FY 2015-16 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 2012-13	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16
EXPENDITURES	ACTUAL	ACTUAL	PROJECTED	BUDGET	BUDGET
Imported Water Purchases / RTS	\$108,921,586	\$116,451,274	\$113,501,260	\$114,319,100	\$108,946,700
Capacity Charge	1,608,370	1,665,340	1,665,340	2,234,790	2,532,200
Debt Service	26,845,746	26,537,695	29,028,850	29,028,898	24,959,080
Bond Fund Interest	(680,969)	(170,230)	(2,650)	-	-
Water Recycling Operations	27,103,178	32,682,913	35,661,030	33,515,736	36,919,234
Desalter Operations	891,600	810,526	822,071	912,347	1,057,697
Water Policy	1,634,083	2,302,418	1,778,325	1,897,312	1,301,438
Public Information	2,571,506	3,513,761	2,811,435	2,830,934	2,855,464
Conservation	2,126,624	2,240,660	1,813,200	2,116,950	2,007,106
Water Quality Monitoring	12,131	13,907	7,300	23,820	11,612
Designated Funds	11,814,701	19,430,817	10,395,615	10,035,148	18,643,519
Total Expenditures	\$182,848,556	\$205,479,081	\$197,481,776	\$196,915,035	\$199,234,050

Overall expenditures are budgeted to increase approximately \$2 million in fiscal year (FY) 2015-16 as compared to FY 2014-15 primarily due to West Basin increasing its debt service coverage requirement, thereby increasing the amount required to be deposited into its Designated Funds. Imported water purchases/RTS is decreasing due to anticipated decreases in retail imported water sales, while West Basin’s cost for the Capacity Charge is modestly increasing. West Basin’s debt service obligation in FY 2015-16 will drop by approximately \$4 million as the debt issued in 1991 to fund the initial construction of the ECLWRF has matured and been paid. Another area that will see an increase in cost is the program expenses, with the largest increase coming through the water recycling operations program. See “Operating Program Expenses” for further explanation.

WATER PURCHASES AND CHARGES

Imported Water Purchase

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 increased 2,597 AF in FY 2011-12, 3,241 AF in FY 2012-13 and another 3,079 AF in FY 2013-14. However, with increased conservation messaging by the State and local agencies and increased conservation program funding from MWD, sales are projected to decrease in FY 2014-15 and reach only 105,000 AF. On April 1, 2015, Governor Brown issued an Executive Order that calls for statewide mandatory water reductions of 25 percent. In response, MWD approved a Level 3 (approximately 15%) water allocation plan to limit deliveries to its member agencies. West Basin's Level 3 allocation from MWD has been calculated to be approximately 100,000 AF for FY 2015-16 and has assumed it's retail imported sales for the FY 2015-16 Budget at 98,000 AF to provide a small level of buffer should consumers more aggressively conserve.

Through WRD, West Basin provides imported water to inject into the Dominguez Gap Barrier and the West Coast Basin Barrier (Barrier) when the goal of injecting 100% recycled water into the Barrier cannot be met. Actual imported water sales to both Barriers are expected to decrease from 9,285 AF in FY 2013-14 to a projected 6,600 AF in FY 2014-15. This decrease was anticipated as West Basin strove to inject more recycled water into the West Coast Basin Barrier and the demand of imported water to the Dominguez Gap Barrier remained consistent with prior years. Budgeted imported water sales to both Barriers in FY 2015-2016 will slightly decline from 6,600 AF to 6,300 AF.

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 effectively increased 2.1% or \$19 per AF effective January 1, 2016. The commodity rate is a direct pass-through to West Basin's customers. The components of MWD's non-interruptible commodity rate and their cost per AF are shown below.

Non-Interruptible Commodity Rate	Effective Dates	
	1/1/15	1/1/16
Supply Rate Tier 1	\$158	\$156
Supply Rate Tier 2	\$290	\$290
System Access Rate	\$257	\$259
Water Stewardship Rate	\$41	\$41
Treatment Rate	\$341	\$348
Power Rate	\$126	\$138
Total Tier 1	\$923	\$942
Total Tier 2	\$1,055	\$1,076

Readiness-to-Serve (RTS) 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 \$158 million for calendar year (CY) 2015 and will decrease to \$153 million in CY 2016. 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 2016 will decrease from 7.56% to 7.47%. With MWD decreasing their aggregate collection from \$158 million to \$153 million and West Basin's proportional share decreasing to 7.47%, the RTS expense for FY 2015-2016 will decrease approximately \$600,000.

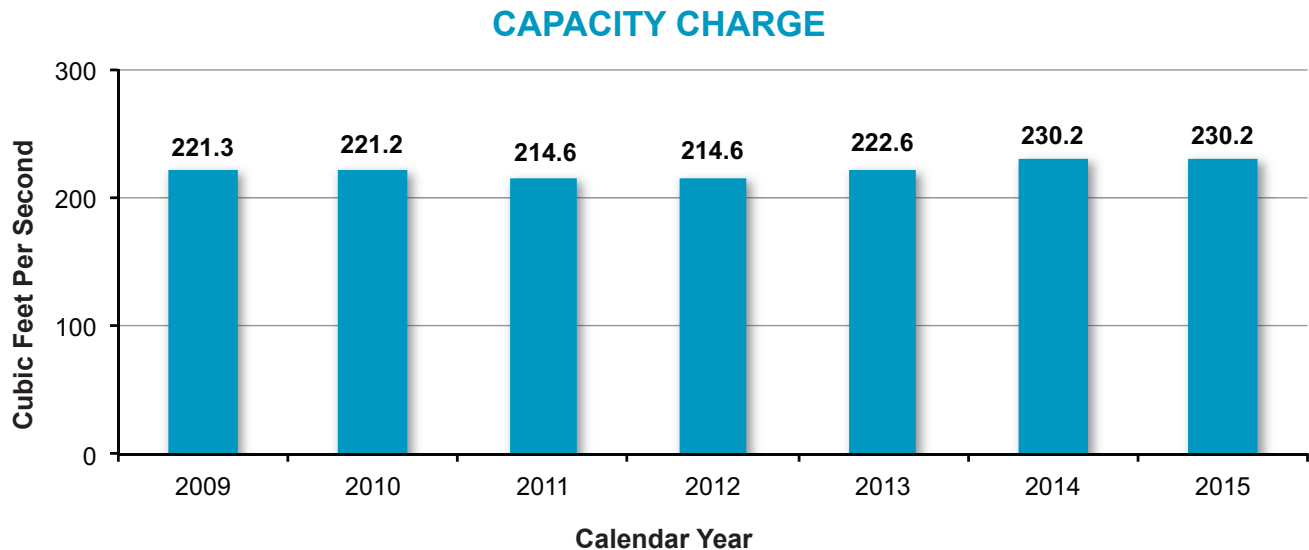
Many of MWD's member agencies elect to have their RTS share collected by MWD; however, West Basin's RTS share is a pass-thru to its purveyors, the collection of which is explained more thoroughly in the "Sources of Revenue" section.

Overall, West Basin estimates water purchases and RTS expenditures to be \$108,946,700.

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 2009 through CY 2015.



Effective January 1, 2016, MWD will decrease its Capacity Charge from \$11,100 per cfs to \$10,900 per cfs. Due to this decrease in the Capacity Charge and West Basin's peak flow remaining constant, the capacity cost will decrease from \$212,935 per month for the first six months of FY 2015-16 to \$209,098 per month for the second six months of FY 2015-16, for a total cost of \$2,532,200.

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 stated within 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.

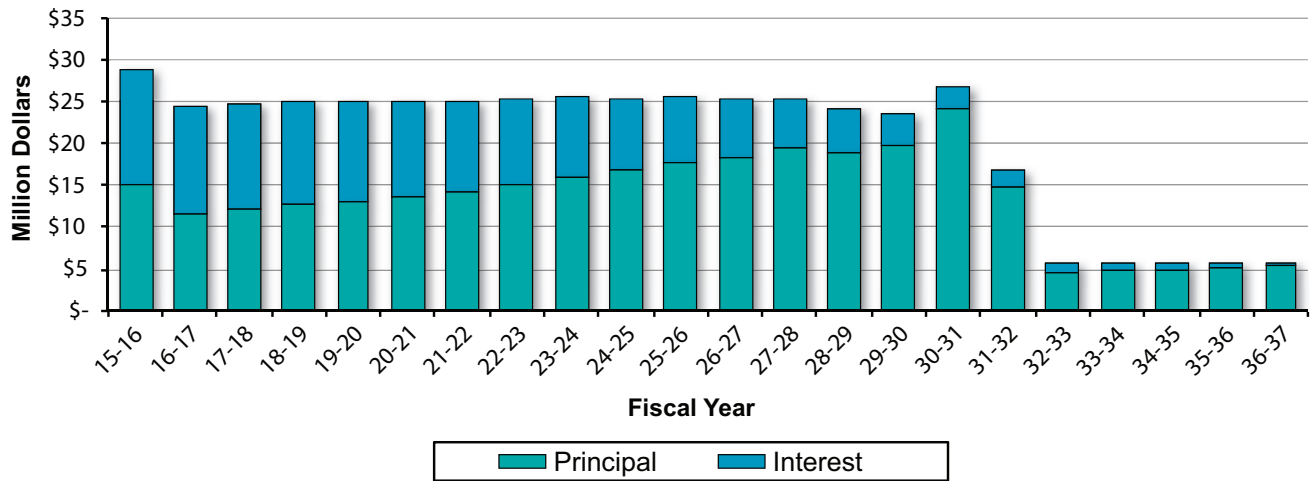
West Basin currently has the following outstanding issuances:

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	\$9.1 Million	\$3.3 Million	\$1.4 Million	\$3.0 Million	\$4.4 Million	\$3.8 Million
2014 Principal	\$3.8 Million	\$2.2 Million	\$ 0.03 Million	None	\$2.2 Million	\$3.6 Million
2014 Interest	\$5.3 Million	\$1.1 Million	\$1.4 Million	\$3.0 Million	\$2.2 Million	\$0.2 Million
Lien	Subordinate	Senior	Senior	Senior	Senior	Senior

For FY 2015-16, debt service is budgeted at \$24,959,080.

Debt to Maturity (on a cash basis)

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



	Certificates of Participation		Refunding Revenue Bonds		Total	
1-Aug	Principal	Interest	Principal	Interest	Principal	Interest
2015	5,690,000	6,542,416	9,480,000	7,096,400	15,170,000	13,638,816
2016	5,975,000	6,369,039	5,515,000	6,720,950	11,490,000	13,089,989
2017	6,125,000	6,184,820	6,105,000	6,500,350	12,230,000	12,685,170
2018	6,360,000	5,994,249	6,345,000	6,256,150	12,705,000	12,250,399
2019	6,625,000	5,851,102	6,580,000	6,012,700	13,205,000	11,863,802
2020	6,880,000	5,577,087	6,810,000	5,794,250	13,690,000	11,371,337
2021	7,050,000	5,294,890	7,125,000	5,493,750	14,175,000	10,788,640
2022	7,730,000	5,023,780	7,480,000	5,137,500	15,210,000	10,161,280
2023	8,335,000	4,647,740	7,780,000	4,776,000	16,115,000	9,423,740
2024	8,690,000	4,240,984	8,150,000	4,387,000	16,840,000	8,627,984
2025	9,165,000	3,813,397	8,720,000	4,010,500	17,885,000	7,823,897
2026	9,560,000	3,365,663	8,915,000	3,574,500	18,475,000	6,940,163
2027	9,970,000	2,898,645	9,435,000	3,148,750	19,405,000	6,047,395
2028	9,105,000	2,465,145	9,910,000	2,677,500	19,015,000	5,142,645
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	\$147,385,000	\$71,330,457	\$151,990,000	\$80,738,300	\$299,375,000	\$152,068,757

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.

As of June 30, 2015, West Basin has \$299 million in long-term debt outstanding. From FY 2009-10 through FY 2011-12, West Basin 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 in June 2013 and with the Board's approval, West Basin redeemed the 2008A Adjustable Rate Refunding COP's (2008A Bonds) in the amount of \$27,990,000 in May 2013. 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. No new debt or refunding transactions has occurred in the past two (2) fiscal years.

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 has several large capital projects pending that may require the issuance of new long-term debt during FY 2015-16 and is currently applying for capital grants and 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 \$25,525,000. 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 the 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 internal targeted debt coverage goals for its budget at a rate higher than legally required for both liens.

In preparation for the FY 2015-16 Operating Budget, West Basin's financial advisor made a presentation to the Board regarding changes made by Moody's to its rate setting analysis and suggested West Basin increase its internal target debt coverage. The Board agreed with the recommendation and directed staff to set the targeted debt coverage at 1.75 for FY 2015-16.

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 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Revenues	\$199,234	\$204,486	\$214,551	\$224,668	\$233,562	\$232,971
O&M	155,631	158,964	166,564	174,496	183,028	182,994
Net Revenues to pay senior debt	43,592	45,522	47,987	50,172	50,534	49,977
Total Senior Debt	15,901	16,877	20,490	20,543	20,671	20,581
Senior Debt Coverage	2.74	2.70	2.34	2.44	2.44	2.43
Net Revenues to pay subordinate debt	27,701	28,646	27,497	29,629	29,863	29,396
Total Subordinate Debt	9,058	8,969	8,944	8,948	8,935	8,928
Subordinate Debt Coverage	3.06	3.19	3.07	3.31	3.34	3.29
All-In Coverage	1.75	1.76	1.63	1.70	1.71	1.69
Remaining Net Revenue	\$18,643	\$19,677	\$18,553	\$20,680	\$20,928	\$20,468

For the future years, as shown in the above chart, where the All-In Coverage falls below the internal target of 1.75, staff will use its long range financial model to address the shortfall and look for options to achieve its new internal target.

OPERATING PROGRAM EXPENSES

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

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

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.

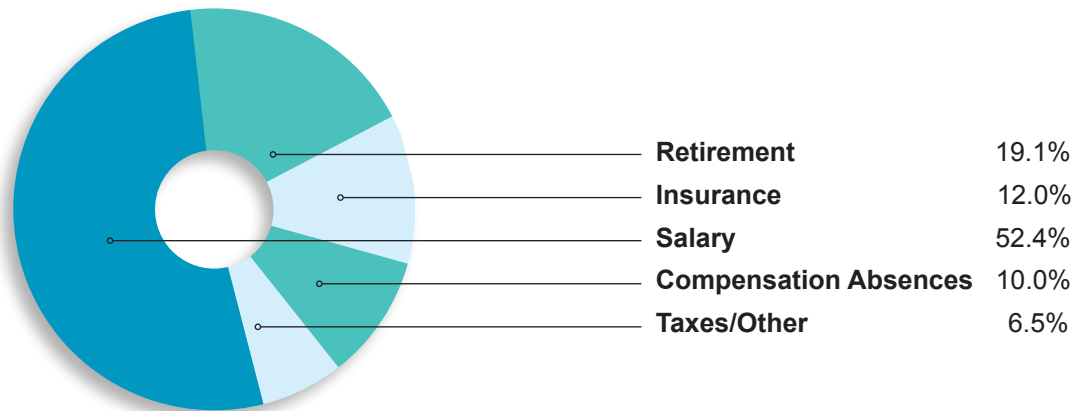
The following is included in West Basin’s benefits package:

- 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 accrued 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).
- Supplemental Income Plan Loan – Made from employee’s own CalPERS 457 Deferred Compensation Plan.
- 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 2015-16

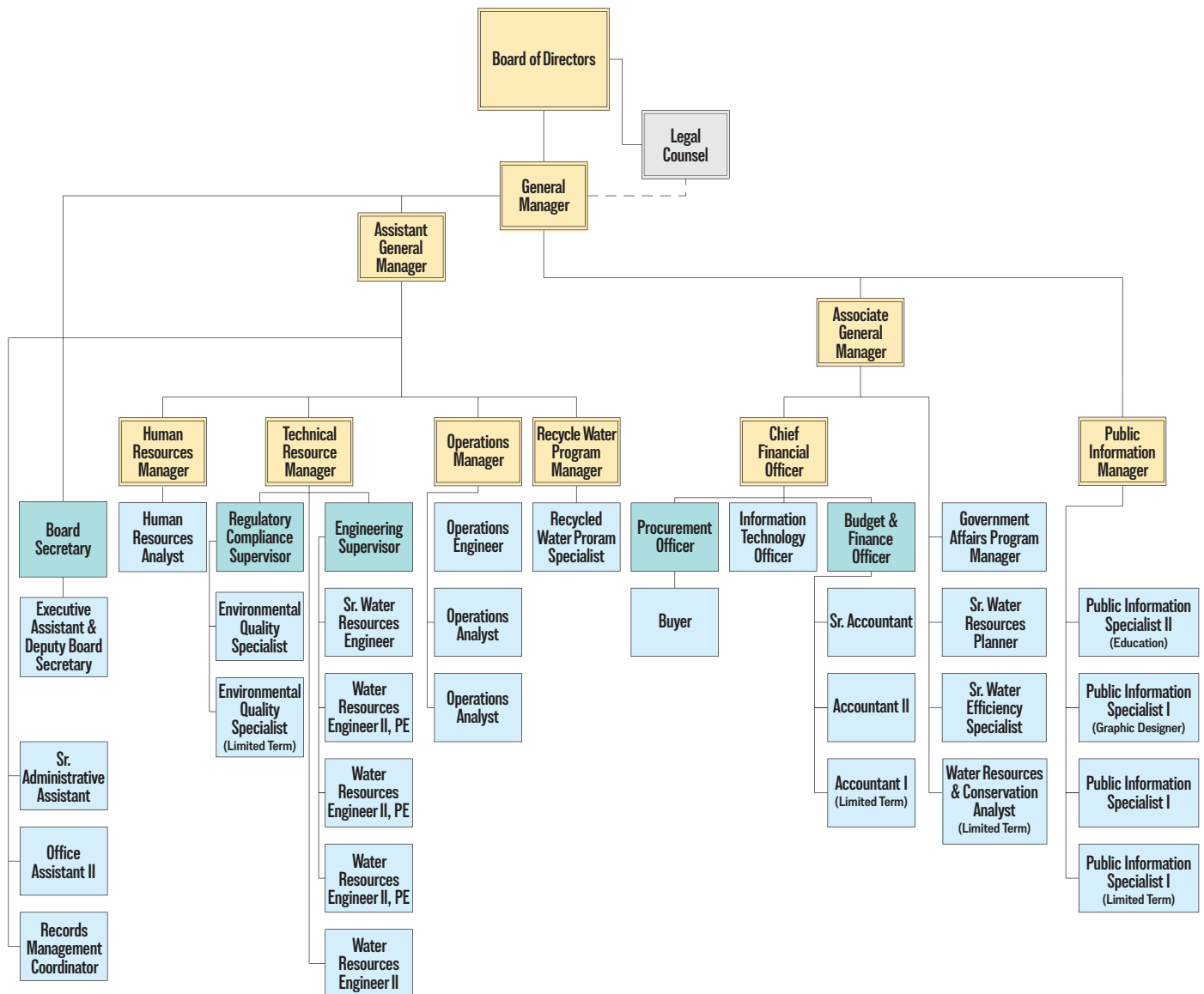


West Basin’s benefits package and total payroll comprises 3.9% of its total FY 2015-16 operating budget. The types of benefits included are consistent with the prior years’ budget and reflect an anticipated 2.9% average increase in health insurance and 3.0% increase in dental insurance. West Basin’s pension costs for “Classic” CalPERS members saw a decrease of approximately 4.2% in its employer rate to 12.764%. Pension costs for “Tier 2” CalPERS members remained at 6.7%. The estimated Other Post-Employment Benefits (OPEB) contribution for FY 2015-16 will be \$529,000, or 10.8% of pay, from \$441,000 in FY 2014-15. 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 4% merit increase in the FY 2015-16 Budget.

The organizational chart shows the full-time budgeted positions for FY 2015-16.

ORGANIZATIONAL CHART* (July 2015)



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

In the FY 2015-16 Budget, staffing levels will increase from forty-three (43) to forty-five (45) full and part-time positions. The change reflects an increase from thirty-eight to thirty-nine full-time regular positions and three to four full-time limited-term positions. The additional full-time regular position will be an Engineering Supervisor that will oversee a staff of four engineers and their project assignments. The added limited term position is a result of West Basin's reorganization; a critical conservation position was essentially eliminated and reclassified to another function. This new position is necessary to focus on conservation programs and related activities, which cannot effectively be performed by a single employee. West Basin is also continuing its intern program to provide opportunities for growth and exposure to current students attending local colleges. West Basin had budgeted two interns in FY 2014-15 and expanded to 7 positions in FY 2015-16

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 reflected in the table.

Summary of Personnel Head Count by Department (Not including interns)

Position	Actual		Budget		Change from
	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16	FY 2014-15
Office of the General Manager					
General Manager	1	1	1	1	0
Assistant General Manager	1	1	1	1	0
Associate General Manager	0	1	0	1	1
Board Services					
Board Secretary	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	1	1	1	1	0
Human Resources					
Human Resources Manager	1	1	1	1	0
Human Resources Analyst	1	1	1	1	0
Public Information & Education					
Public Information Manager	1	1	1	1	0
Public Information Officer	1	1	1	0	-1
Public Information Specialist II	1	1	1	1	0
Public Information Specialist I	1	1	1	1	0
Public Information Specialist I	1	1	0	1	1
Public Information Specialist I (Limited Term)	0	1	1	1	0
Tour Guide (Part-time)	1	1	1	1	0
Education Assistant (Part-time)	1	1	1	1	0
Technical Resources and Operations					
Technical Services Manager	1	1	0	1	1
Engineering Supervisor	0	0	0	1	1
Senior Water Resources Engineer	1	1	1	1	0
Water Resources Engineer II	3	4	3	4	1
Water Resources Engineer I	1	0	1	0	-1
Operations Manager	1	1	1	1	0
Operations Engineer	1	0	2	0	-2
Operations Engineer	1	1	1	1	0
Operations Analyst	1	2	1	2	1
Recycled Water Program Manager	1	1	1	1	0
Recycled Water Program Specialist	1	1	1	1	0
Regulatory Compliance Supervisor	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	0	1	0	-1
Government Affairs Program Manager	1	1	1	1	0
Senior Water Resources Planner	1	1	1	1	0
Senior Water Efficiency Specialist	1	1	1	1	0
Water Res & Conservation Analyst (Limited Term)	0	0	0	1	1
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	1	1	1	1	0
Accountant II	1	1	1	1	0
Accountant I (Limited Term)	0	0	1	1	0
Procurement Officer	1	1	1	1	0
Buyer	1	1	1	1	0
Total Budgeted Personnel	42	43	43	45	2

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 2012-13 and FY 2013-14 actual to FY 2014-15 projected and FY 2014-15 and FY 2015-16 budget. The variance of projected to budget Full Time Equivalent (FTE) for FY 2014-15 represents unfilled positions for a portion of the year. In FY 2014-15 and FY 2015-16 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 2012-13	FY 2013-14	FY 2013-14	FY 2014-15	FY 2015-16
	Actual	Actual	Projected	Budget	Budget
Recycling Operations	10.22	10.26	15.20	13.06	15.04
Desalter Operations	0.03	0.02	0.04	0.18	0.42
Water Policy/Resource Development	3.85	4.48	4.67	4.53	3.20
Public Information	10.20	9.91	10.53	9.98	10.03
Conservation	3.75	3.85	2.39	4.14	3.54
WQ Monitoring Program	0.04	0.03	0.01	0.03	0.05
Capital Projects	10.60	10.18	7.95	10.08	11.72
Total FTE	38.69	38.73	40.79	42.00	44.00

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 2015-16 are \$56,321,673.

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) 2015-16 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-17
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 2015-16 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 activity 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 activity 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.

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 2012-13 ACTUAL	FY 2013-14 ACTUAL	FY 2013-14 PROJECTED	FY 2014-15 BUDGET	FY 2015-16 BUDGET
General Services	\$1,265,916	\$1,464,167	\$1,461,600	\$1,348,000	\$1,684,400
Building Services	385,766	393,621	391,600	359,400	390,000
Legal Services	293,645	454,357	559,500	326,000	289,000
Board Services	852,305	625,421	987,422	1,046,600	741,000
Employee Support	14,229	13,443	15,200	15,600	15,700
Total Overhead Allocated	\$2,811,861	\$2,951,009	\$3,415,322	\$3,095,600	\$3,120,100

The Overhead expense between the FY 2014-15 and FY 2015-16 budgets remained relatively flat. The increase in General Services is increased support towards technology resources and services to support new initiatives such as asset management and upgrades to existing software and systems. The increase is offset by a decrease in Board Services as Statement #65 from the Government Accounting Standards Board (GASB) change the accounting for deferred items such a selection expenses as they can no longer be amortized and must be recognized in the year occurred.

STRATEGIC GOALS AND OBJECTIVES

Strategic Business Plan Goals



FY 2014-15 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 185 preventive maintenance work orders and 484 corrective maintenance work orders at the Donald L. Dear building.

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

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 4: Received a formal review by Moody's who reaffirmed West Basin's rating of Aa2.

Objective 6: Addressed recommendations from the special audit conducted on director expenses and the sponsorship/outreach program that lead to a revised Code of Conduct and forms.

Objective 6: Approved the annual rates in April 2015 and the annual budget in May 2015 that meets the Board's financial metrics of a 1.75 overall debt coverage, meets its Designated Funds Policy limits, and responsibly budgets for its sales assumption in response to the state-wide drought and drought rationing plan approved by the Board in April 2015.

Objective 6: Completed the required bi-annual actuarial report for the Public Agency Retirement System (PARS) plan.

Objective 6: Received approval on the initial phase to implement a Small Business Enterprise Program in September 2014.

Objective 6: Received an Excellence in Financial Reporting Award for West Basin's Comprehensive Annual Financial Report (CAFR) for FY 2013-14 from the Government Finance Officers Association (GFOA).

Objective 6: Received Excellence in Budget Recognition for the FY 2014-15 Operating Budget from GFOA and the California Society of Municipal Finance Officers (CSMFO).

Objective 6: Completed the bi-annual PARS actuarial report that sets the contribution rate for FY 2014-15 and FY 2015-16.

Objective 6: Presented annual report to the Board of Directors in January 2015 on the new Standby Charge Policy.

Objective 6: Utilized the E-procurement system (The Network) to facilitate the bidding process on 34 solicitations and increased the vendor audience with over 60 referrals during the fiscal year during the calendar year 2014.

Objective 6: Issued over 77 new contracts, 68 amendments to contracts and 215 purchases orders during the calendar year 2014.

Objective 6: Developed 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: Extended agreement with online bid management system to competitively bid solicitations for goods and services.

Objective 6: Conducted competitive solicitation processes for financial advisor, bond counsel, financial auditing services, and trustee services.

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

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

Objective 7: Completed and/or commenced the recruitment process for the following positions: 1) Public Information Education Assistant; 2) Accountant I (Limited Term); 3) Information Technology Intern (two recruitments); 4) Operations Analyst; 5) Engineering Intern; 6) Board Secretary; 7) Water Resources and Conservation Intern; 8) Public Information Intern; and 9) Operations Intern.

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

Objective 8: Revised the Mid-year and Year-End Employee Evaluation Forms making the forms more user-friendly and effective.

Objective 9: Successfully secured Board approval for offering staff a Supplemental Income Plan Loan (Option1) through the CalPERS 457 Deferred Compensation Plan.

Objective 9: Successfully secured Board approval of a Resolution to tax defer CalPERS member paid contributions.

Objective 9: Assisted Executive Management in the successful implementation of staff reorganization.

Objective 9: In accordance with the Board's Strategic Business Plan objectives, submitted the 2014 Workforce Diversity Report to the Board that reflects the demographic breakdown by race and occupational category of the full-time employees.

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

Objective 9: In direct response to the 2013 Employee Satisfaction Survey, redesigned the Employee Suggestion Box developing a standard form and process for staff to anonymously submit their concerns regarding District policies/procedures, etc.

FY 2015-16 Strategies

Customer Service

Objective 3: Board of Directors will review 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: Conduct a rate study to evaluate and recommend changes to the current rate methodology for imported, recycled and other charges.

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

Objective 6: Conduct Request for Proposal for general banking services and implement transition, if necessary.

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

Objective 6: Continue to develop elements of a Small Business Enterprise program from reporting to the solicitation process.

Objective 6: Conduct a business outreach event targeted towards engineering and operation supplies and services.

Objective 7: Complete in-house recruitment for Engineering Supervisor position and external recruitment for a Water Resources & Conservation Analyst (Limited Term).

Objective 9: Conduct training (software program training, leadership training, etc.) for staff per request and recommendation of Senior Management.

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

Objective 9: Fully implement staff Safety Coordinator initiatives and objectives.

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. West Basin caters to a variety of customers such as American Honda, ExxonMobil, Tesoro, Chevron, Goodyear Airship Station, California State University Dominguez Hills, StubHub Center, Raytheon, Los Angeles Air Force Base, Marriott Hotels, 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 its service area.

ECLWRF has a capacity of over 50 million gallons of recycled water every day for more than 400 customer sites. 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 and its three satellite treatment plants produce 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. Disinfected Tertiary Recycled Water: Secondary treated wastewater that has been filtered and disinfected for industrial and irrigation uses.
2. Nitrified Water: Disinfected Tertiary Recycled Water that has been nitrified to remove ammonia for industrial cooling towers.
3. Barrier Water: Secondary treated wastewater pretreated by ozone and 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 ozone, microfiltration, and RO treatment for low-pressure boiler feed water.
5. High Pressure Boiler Feed Water: Secondary treated wastewater that has undergone ozone, microfiltration, and two passes of RO treatment 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 Tesoro;

- 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 Environmental Services (UWES) 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 2012-13	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
10.22	10.26	15.20	13.06	15.04

Operating Budget

	FY 2012-13 ACTUAL	FY 2013-14 ACTUAL	FY 2014-15 PROJECTED	FY 2014-15 BUDGET	FY 2015-16 BUDGET
Labor and Benefits	\$1,911,349	\$3,375,296	\$2,920,800	\$2,551,538	\$2,748,697
Overhead	714,663	768,853	1,222,800	900,298	1,034,537
Operations					
Chemicals	6,007,150	6,525,826	7,658,500	7,239,400	7,523,000
Consultants	615,317	924,949	1,394,000	1,542,000	1,611,500
Contract Labor	458,652	470,609	546,900	550,000	650,000
Facility Maintenance	3,102,873	3,226,411	3,653,000	3,169,200	4,352,000
Laboratory Service	440,175	448,684	375,490	640,900	703,300
Office Administration	1,651,443	826,302	858,340	732,900	671,200
Secondary Effluent	237,384	302,754	412,100	373,100	410,300
Solids Disposal	620,408	660,220	983,000	747,600	978,600
Utilities	6,410,194	9,523,761	9,208,500	8,465,200	9,398,900
UWS Labor	5,785,219	6,489,300	7,303,100	7,480,900	7,724,100
Mobil Reimbursement	(851,650)	(860,052)	(875,500)	(877,300)	(886,900)
Total Recycling Operations	\$27,103,178	\$32,682,913	\$35,661,030	\$33,515,736	\$36,919,234

The major variances between FY 2014-15 and FY 2015-16 budgets are due to the following items:

- Chemicals: Reflects an increase in budgeted production, thus an increase in chemical usage to treat the water.
- Consultants: Reflects costs to provide a power reliability study and additional water distribution studies.
- Facility Maintenance: Reflects an increase due to equipment rental and coating improvements.
- Solids Management: Reflects an increase in budgeted production, thus an increase in solids hauling.
- Utilities: Reflects an increase in budgeted production, thus an increase in power usage and an assumed power rate increase.
- UWES Labor: Reflects a contracted labor rate increase and one additional employee.

STRATEGIC GOALS AND OBJECTIVES

Strategic Business Plan Goals



FY 2014-15 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: Partnered with the Manhattan Beach Marriott to study operational issues, and modify process to enhance the benefit of recycled water use.

Sound Financial & Resource Management

Objective 1: Made operational and infrastructure improvements to achieve 100 percent recycled water to the Barrier.

Objective 1: Install Portable Ultrafiltration System at the Carson Regional Water Recycling Facility to supplement poorer performing microfiltration system and reduce potable water.

Objective 1: Complete cathodic protection survey of all test stations covering the recycled water distribution system.

Objective 2: Install potable water connection as a back-up water supply to the Chevron Nitrification Facility.

Objective 7: Hired Operations Analyst to prepare and analyze data such as water production and quality; prepare charts, maps, graphs and flow diagrams; and prepare data input and develop spreadsheets.

FY 2015-16 Strategies

Customer Service

Objective 1: Continue to monitoring operational and infrastructure improvements to achieve 100 percent to the Barrier.

Objective 1: Implement back-up potable supply for toilet and urinal flushing using recycled water at El Segundo Fire Station to assure reliability.

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.

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 2012-13	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
0.03	0.02	0.04	0.18	0.42

Operating Budget

	FY 2012-13 ACTUALS	FY 2013-14 ACTUALS	FY 2014-15 PROJECTED	FY 2014-15 BUDGET	FY 2015-16 BUDGET
Labor and Benefits	\$4,055	\$4,839	\$6,833	\$44,378	\$68,797
Overhead	1,811	1,481	3,393	7,763	27,252
Operations	612,966	501,763	604,949	527,350	678,400
Replenishment Assessment	272,768	302,157	206,896	332,856	283,248
Total Desalter Operations	\$891,600	\$810,240	\$822,071	\$912,347	\$1,057,697

The variance between the FY 2014-15 and FY 2015-16 Budgets are due to more staff involvement with plant operations, and anticipated increase in contract operations rates. In addition, the budgeted production is decreasing twenty percent from 1,080 AF in FY 2014-15 to 840 AF in FY 2015-16, however; most fixed cost are not budgeted to decrease.

STRATEGIC GOALS AND OBJECTIVES

Strategic Business Plan Goals



FY 2014-15 Accomplishments

Sound Financial & Resource Management

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

FY 2015-16 Strategies

Sound Financial & Resource Management

Objective 6: Assumes reduced operations.

WATER POLICY AND RESOURCE DEVELOPMENT (Water Policy)

The Water Policy and Resource Development budget supports various activities including, but not limited to: overseeing the conservation program, 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 participating in industry organizations, including CalDesal, WaterReuse, 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. Implementation of the District's various conservation programs is supported by a separate program budget.

Personnel - Full Time Equivalents (FTE)

FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
3.85	4.48	4.67	4.53	3.20

Operating Budget

	FY 2012-13 ACTUALS	FY 2013-14 ACTUALS	FY 2014-15 PROJECTED	FY 2014-15 BUDGET	FY 2015-16 BUDGET
Labor and Benefits	\$905,440	\$1,541,503	\$974,800	\$993,227	\$600,340
Overhead	336,921	358,673	402,700	387,203	225,798
Planning	71,072	91,315	90,125	138,282	111,500
Government Affairs	320,650	310,927	310,700	378,600	363,800
Total Resource Planning	\$1,634,083	\$2,302,418	\$1,778,325	\$1,897,312	\$1,301,438

The decrease between the FY 2014-15 and FY 2015-16 budgets is due primarily to a realignment of labor as a result of the recent re-organization.

STRATEGIC GOALS AND OBJECTIVES

Strategic Business Plan Goals



FY 2014-15 Accomplishments

Customer Service

Objective 1: Conducted several informational workshops with customer agencies to review proposed FY 2015-16 budget and water rates, and discuss the drought and proposed water rationing plans of both Metropolitan Water District and West Basin.

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 support of Proposition 1 (2014 Water Bond) and the federal 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.

Sound Financial & Resource Management

Objective 6: Applied for and succeeded in being awarded 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 statewide water industry in support of an increased funding for recycled water projects within Proposition 1.

Objective 6: Submitted Current Year report on greenhouse gas emissions from all West Basin operations to the Climate Registry.

Water Reliability

Objective 1: Developed a Drought Rationing Plan to help meet service area goals for mandatory conservation of imported water, and provide a mechanism to appropriately assess any financial penalties from MWD to West Basin's customer agencies.

FY 2015-16 Strategies

Customer Service

Objective 5: Continue to pursue state, federal and other external funding for conservation and reliability projects with the West Basin service area, and support the efforts of our customer agencies and stakeholders, particularly for projects that provide immediate water savings during the drought.

Objective 5: Implement West Basin's Drought Rationing Plan in a manner that is equitable to customer agencies and that achieves regional goals for mandatory water conservation.

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

Objective 5: Host a Water Issues Forum for local elected officials and other stakeholders within the West Basin service area to educate and inform on the challenges and opportunities to securing the water reliability of the region.

Sound Financial & Resource Management

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

Objective 6: Pursue changes to West Basin's water rate structure that increase fixed cost recovery in a manner that is acceptable to customer agencies and enhances West Basin's ability to more aggressively pursue conservation.

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 2014.

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 2014 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 2: Pursue policies and actions on behalf of West Basin's service area that mitigate the impacts of the current drought and increase resiliency against future droughts.

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, support conservation, and General Manager and Board outreach programs and events.

Public Outreach and Events

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, Chambers of Commerce, 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, Water 101 classes 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, grades 3 – 12, 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 and conservation education.

Personnel - Full Time Equivalents (FTE)

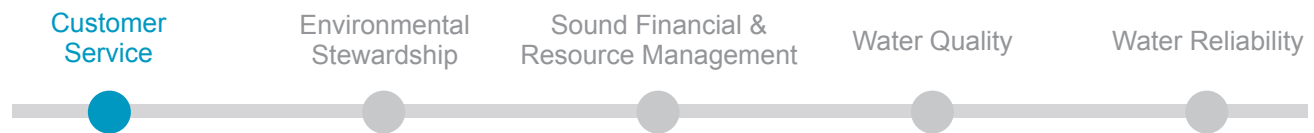
FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
10.20	9.91	10.53	9.98	10.03

Operating Budget

	FY 2011-12 ACTUALS	FY 2012-13 ACTUALS	FY 2014-15 PROJECTED	FY 2014-15 BUDGET	FY 2015-16 BUDGET
Labor and Benefits	\$1,408,377	\$2,228,860	\$1,400,200	\$1,461,076	\$1,452,368
Overhead	661,902	736,593	820,500	721,158	726,236
Education	153,813	187,218	177,835	221,700	209,960
Outreach, Media, & Events	347,416	361,089	412,900	427,000	466,900
Total Resource Planning	\$2,571,507	\$3,513,760	\$2,811,435	\$2,830,934	\$2,855,464

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 modest increase in the FY 2015-16 Budget as compared to the FY 2014-15 Budget.

Strategic Business Plan Goals



FY 2014-15 Accomplishments

Customer Service

Objective 4: Another successful Harvest Festival.

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

Objective 4: Successfully sponsored 3 high schools in Solar Cup 2014-15.

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 as the facility is slated to be decommissioned.

Objective 5: Expanded social media program including Facebook, Twitter.

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: Handled crisis communications of Board member's inappropriate actions.

Objective 5: Assisted with special events for Edward C. Little remembrance and recognition of Met Chairman.

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

FY 2015-16 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 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: Expand media coverage and coordinated more frequent meetings with media focused on current issues facing the water industry and West Basin.

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

Objective 4: Execute 10 Water 101 courses for the public and universities.

Objective 5: Conduct a town hall meeting to engage community members in the discussion of drought and water reliability issues.

CONSERVATION

West Basin is currently implementing the fifth 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 and the SBx7-7 legislation. Together with the water recycling program, West Basin is planning on meeting and exceeding 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. 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.

Personnel - Full Time Equivalents (FTE)

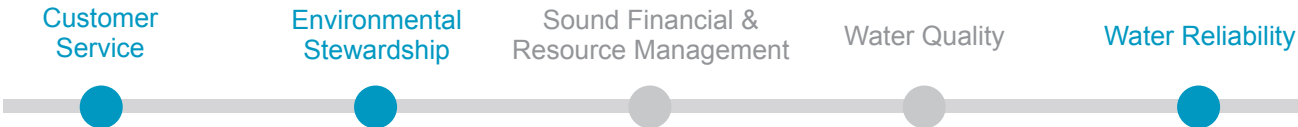
FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
3.75	3.85	2.39	4.14	3.54

Operating Budget

	FY 2012-13 ACTUALS	FY 2013-14 ACTUALS	FY 2014-15 PROJECTED	FY 2014-15 BUDGET	FY 2015-16 BUDGET
Labor and Benefits	\$529,988	\$970,887	\$527,300	\$637,031	\$494,595
Overhead	287,510	296,654	253,700	292,396	217,958
Conservation	1,309,126	973,119	1,032,200	1,187,523	1,214,553
Total Conservation	\$2,126,624	\$2,240,660	\$1,813,200	\$2,116,950	\$1,927,106

Program costs may vary each fiscal year as this program is highly dependent on outside funding to support the water use efficiency initiative. Per the Plan, West Basin will continue to seek grant funding opportunities and partnerships for its programs.

Strategic Business Plan Goals



FY 2014-15 Accomplishments

Customer Service

Objective 4: In partnership with its cities and water retailers, West Basin implemented various water efficiency and outreach programs.

Objective 4: In partnership with the South Bay Environmental Services Center, they represented and promoted West Basin's programs at over 110 community events.

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

Objective 4: Successfully tested a sustainability social media application with Palos Verdes High School.

Objective 4: Through its partnership with the Metropolitan Water District, provided a customer retail agency with \$300,000 of MWD incentive funds for a free direct install ultra-high-efficiency toilet program targeting apartments.

Environmental Stewardship

Objective 2: Partnered with several environmental organizations in the development and implementation of its water efficiency programs.

Water Reliability

Objective 2: Implemented Year 5 of West Basin's Water Efficiency Master Plan.

Objective 2: Successfully completed five free Rain Barrel Distribution Events.

Objective 2: Provided residents and large landscape facilities with over 300 landscape surveys.

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

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

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

Objective 2: Conducted a Smart Sprinkler Exchange Event.

Objective 2: Constructed four Ocean Friendly Demonstration Gardens at the following locations: City of Hermosa Beach at the Community Center, Culver City High School at the Robert Frost Auditorium, Rowley Park in the City of Gardena, and at California State University Dominguez Hills in the City of Carson.

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

FY 2015-16 Strategies

Customer Service

Objective 4: In partnership with the South Bay Environmental Services Center, they will continue to represent and promote West Basin's programs at community events.

Objective 4: Launch a new micro web site to provide the public with information on turf removal, native plants and other landscape gardening templates and tools to help conserve water outdoors.

Environmental Stewardship

Objective 2: Continue to gain environmental and community support in the development and implementation of its water efficiency programs.

Objective 2: Work with the Surfrider Foundation and the City of Hermosa Beach to provide a water conserving garden for the city's new Surf Legends Memorial Statue at the Community Center.

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 five 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.

Objective 2: Continue to seek federal and state grant funding for new water efficiency programs.

Objective 2: Expand West Basin's Cash for Kitchen Survey Program into Division IV.

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)

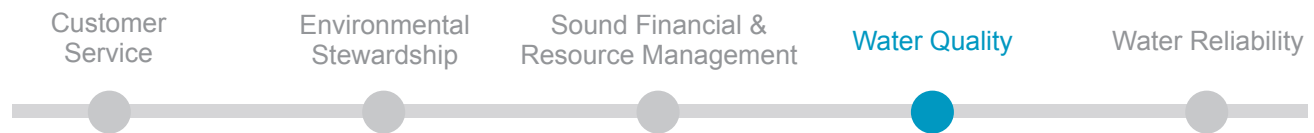
FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
0.04	0.03	0.01	0.03	0.05

Operating Budget

	FY 2012-13 ACTUALS	FY 2013-14 ACTUALS	FY 2014-15 PROJECTED	FY 2014-15 BUDGET	FY 2015-16 BUDGET
Labor and Benefits	\$6,237	\$7,131	\$900	\$5,455	\$7,714
Overhead	2,789	2,023	400	2,365	3,298
Monitoring Program	3,105	4,753	6,000	16,000	600
Title 22 Monitoring	\$12,131	\$13,907	\$7,300	\$23,820	\$11,612

Monitoring program costs will vary each year depending on the lab analyses that are required by state and federal regulations. Participating agencies reimburse West Basin for all lab sampling and analytical costs.

Strategic Business Plan Goals



FY 2014-15 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 2015-16 Strategies

Water Quality

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

Objective 1: Continue to assist retail purveyors in meeting their water quality reporting requirements including water quality workshops.

Objective 2: Provide 2015 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 Long-Range Financial 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, West Basin's financial advisor and bond counsel reviewed both the Debt Management and Swap Policy. As a result of that review, language was added to the Debt Management Policy to update reference to financial advisors and new language was added regarding compliance with continuing disclosure requirements. A new section was added to the Swap Policy regarding conformance with Dodd-Frank which describes the legislative and regulatory compliance pertaining to swap advisors as West Basin utilizes the services of a 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. Along with updating the Debt Management and Swap Policy, West Basin also reviewed its Designated Funds Policy and made some minor changes. This information was brought to the Board of Directors in February 2015 for their review and consideration for re-adoption.

The West Basin Board also considered and approved adding language to the Investment Policy to expand allowable investments to include Supranational Bonds and clarified the determination of conflict of interest with regard to the Treasurer, Deputy Treasurer or Board member. Also in January 2015, the Board re-adopted its Standby Charge Policy and added language to the definition of "Debt Service" to agree with the language stated within West Basin's Indenture of Trust.

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.
- Cooperative agreements are allowed.

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 or 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.
- Current refundings shall target to produce net present value savings of at least 3% of the refunded par amount. The target for advance refundings is at least 5% of the refunded par amount of each maturity being refunded.
- 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

- 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.

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.

West Basin board members and employees shall disclose any potential conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions, to the Treasurer, Deputy Treasurer, and District Counsel for review.

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.

(l) Supranationals – The District may invest in United States dollar denominated senior

unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

- (1) Eligibility shall be limited to obligations which are dollar denominated and for purchase and sale within the United States.
- (2) Obligations eligible for investment under this subdivision shall be rated “AA” or its equivalent or better by a NRSRO.
- (3) Purchases of supranationals may not exceed 30% of the District’s investment portfolio.

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.

SUPRANATIONAL BONDS: Bonds issued by a supranational organization. A supranational organization is an international organization or union, whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping. Examples include the European Union, the World Bank, and the International Monetary Fund.

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. A sinking fund in which revenues in excess of operating and maintenance costs, debt service and deposits to required reserves 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 – 100% of one (1) year of potable, recycled and desalter water sales.
- 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 - a 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.
- BB. 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.
- CC. 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.

- DD. Responsive Bidder – a Contractor that provides a solicitation response that satisfactorily addresses all the requirements specified in a solicitation.
- EE. Services – the labor, intellectual property or other work product provided by a Contractor or Consultant that is not tangible personal property.
- FF. 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.
- GG. Supplier – a provider of Goods.
- HH. 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 PROPERTY

5-4.101 POLICY

A. Definitions

The following terms shall apply to this policy:

1. District Property – property to which title is vested in the District, regardless of the types of funds used to purchase the property and whether it was obtained by gift or transfer from another entity.
2. Personal Property – any movable item subject to ownership, including but not limited to materials, supplies, equipment, tools, and apparatus.
3. Real Property – land, and generally whatever is erected or growing upon or affixed to land, including structures that cannot be removed from the land.

4. Surplus Property – all District owned property that is no longer needed or useable for District purposes.
5. De Minimis Value – surplus personal property is considered de minimis when its fair value is below the cost required for handling, record keeping, storage, removal, and other costs associated with its trade or sale.
6. No Value – any surplus personal property that has minimal value due to spoilage, obsolescence or other cause or where the cost of disposal of such property would exceed the recovery value. Property has no value when it has reached the end of its useful life or is otherwise deemed to be broken, unserviceable, junk, scrap or no longer suitable for its original purpose.
7. Fair Value – the price at which a willing buyer and a willing seller settle a sale of property. Recent transactions or advertisements can be used as an estimate to establish fair value.
8. Useful Life – the life expectancy during which property is estimated to be in service before it wears out, becomes obsolete or is no longer fit for its original purpose.
9. Take Away Program – a program by which the District offers excess property to the general public at no cost, on the sole condition that the acquirer provide for its physical removal. Excess property offered in a take-away program must have no resale value and shall typically consist of furniture, low-value and/or damages supplies and other miscellaneous items. The disposition of excess property through a take-away program must be more cost-effective than the cost of other forms of disposition.
10. Computer Asset - all computers, parts and equipment appurtenant thereto, including but not limited to desktop computers, laptops, servers, software, printers, fax machines and copiers.
11. Non-Profit Organization – an organization exempt from taxation under the provisions of the Internal Revenue Code, 26 U.S.C. § 501(c)(3).

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 or contractual 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 purchased 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. Such communication shall be made only if permitted under applicable federal securities laws.

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 (including amendments, terminations, novations or other changes) only after certain determinations as required by statute have been made by the Board of Directors. 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 apportion of their potable water usage with customer tailored recycled water, treated to meet individual needs. Connecting these types of users to a recycled water supply would conserve millions of gallons of the region's drinking water per day.

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

West Basin set an original 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 are those portions of the principal amount of all outstanding bonds or other debt instruments required to be redeemed or paid, and interest payments on bonds or other debt instruments used to finance capital facilities.

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

Surplus 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 incentives, fixed revenue, conservation, or other income. Operating expenses include water purchases and operating program expenses, but excludes non-cash items like depreciation, amortization or unrealized gains or losses. 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 **Surplus 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 **Surplus 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 **Surplus 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 (CIP)

To effectively respond to current and potentially long-term drought conditions, imported water uncertainty, and regulatory restrictions, West Basin Municipal Water District (West Basin) actively pursues locally supplied water as a viable alternative to ensure a reliable supply of water today and for the future. To meet this objective, West Basin has implemented an aggressive program to find the right solution for the region by doubling conservation efforts, doubling recycled water deliveries, and incorporating ocean-water desalination into West Basin's water portfolio in the future.

West Basin continues to take carefully thought-out steps to ensure water reliability while faced with an uncertain future. 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. West Basin intends to address future customer needs, system capacity, and the infrastructure required to potentially double current recycled water deliveries and meet the region's demand. In this fiscal year, West Basin has continued to take 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.

West Basin will also be continuing and initiating projects that will increase the capacity and contribute to the reliability of our recycled water system. These include the expansion of Barrier water microfiltration facilities, the Tesoro Refinery Expansion project, and the Hyperion Secondary Effluent Pump Station Expansion. These large CIP projects will strengthen the reliability of the recycled water system as well as introduce additional revenues through increased sales.

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), initiated an Intake Biofouling and Corrosion Study through Metropolitan Water District's (MWD) Foundational Action Grant Program, and began an Environmental Impact Report (EIR) for the proposed full-scale desalination facility. In addition, West Basin has recently initiated a study to investigate the technical feasibility of subsurface seawater intake systems. West Basin began decommissioning the Desal Facility in FY 2014-15 once the scheduled studies were completed. The experience gained from piloting, demonstration testing and the numerous research studies, will be used to support the EIR process.

West Basin works ceaselessly to find ways in which to partner with potential customers and begin the design and construction of new laterals which will result in increased recycled water demand thereby further lowering our future reliance on imported water. This year's fiscal budget also includes funds for the construction of recycled water pipelines and customer connections that will be funded through a partnership with the United States Army Corps of Engineers (Carson Mall Lateral Phase II) or California's Proposition 84 funding programs (Dominguez Tech Center customers, as one example).

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 or through a fixed payment from a customer.

Costs for ocean-water desalination have been included through FY 2017-18 and include the cost for the environmental impact report development and approval, however; the full cost of the project will be incorporated into future CIP once final commitment to ocean-water desalination is made.

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) 2015-16 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 2015-16. West Basin anticipates spending \$17,072,397 from its designated funds to pay for the various replacement and refurbishment (R&R) projects 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 2015-16. It is also anticipated that the Nitrified Water Alkalinity Process upgrades, the Hyperion Pump Station Reliability Project, and the addition of several recycled water laterals in FY 2015-16 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 2015-16 is \$56,321,673. The CIP projects outlined to begin in FY 2015-16 will be submitted individually to the Board of Directors for authorization and funding during the fiscal year.

Financing Sources for Fiscal Year 2015-2016

	DEBT FINANCE	PAYGO	COMMERCIAL PAPER	STATE LOAN
Reliability Projects	\$26,858,000	\$4,077,893	\$7,897,451	\$2,200,000
Replacements & Refurbishments	-	9,896,752	-	-
Project Admin/Other	1,667,076	3,097,753	490,195	136,553
Total	\$28,525,076	\$17,072,398	\$8,387,646	\$2,336,553

Personnel - Full Time Equivalentents (FTE)

FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15	FY 2015-16
ACTUAL FTE	ACTUAL FTE	PROJECTED FTE	BUDGET FTE	BUDGET FTE
10.60	10.18	7.95	10.08	11.72

WBMWD - 5 Year Cap Project Expenditures

The following table summarizes the planned expenditures for FY 2015-2016 and the next five years.

CAPITAL IMPROVEMENT PROGRAM	FISCAL YEAR					
	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
RELIABILITY PROJECTS						
<i>Potential Customer Funded Projects:</i>						
Tesoro Refinery - Capacity Expansion Project	2,200,000	13,677,300	7,364,700	-	-	-
<i>District Funded Projects:</i>						
RO CIP Waste Discharge	3,500,000	500,000	-	-	-	-
Oceanwater Desalination Demonstration Facility	1,813,000	-	-	-	-	-
Oceanwater Desalination Desal Program Development	1,750,000	1,250,000	-	-	-	-
Oceanwater Desalination Full-Scale Facility (20 mgd)	115,000	375,000	-	-	-	-
Hyperion SE Pump Station Expansion	11,237,000	5,381,159	-	-	-	-
Water Quality Facility Improvements	1,121,000	-	-	-	-	-
West Basin Laterals	890,995	-	-	-	-	-
Proposition 84	1,721,000	-	-	-	-	-
Barrier Production Increase	11,000,000	8,000,000	8,500,000	-	-	-
Nitrified Water Alkalinity Process Upgrades	1,980,000	-	-	-	-	-
Carson Mall Lateral Phase II	697,110	-	-	-	-	-
South Gardena Lateral	2,608,346	-	-	-	-	-
Universal MF Pilot	150,000	-	-	-	-	-
Customer Development & Retrofit Projects	249,893	150,000	150,000	150,000	150,000	150,000
REPLACEMENT & REFURBISHMENT PROJECTS						
All Facilities	1,359,500	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Chevron	1,913,126					
ECLWRF	3,376,000					
Exxon Mobil	1,938,126					
Carson	310,000					
Brewer Desalter	1,000,000					
R&R subtotal	9,896,752	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
DISTRICT ADMINISTRATION AND OTHER CAPITAL FACILITIES						
Project Administration - Capital Only	3,291,577	3,390,324	3,492,034	3,596,795	3,704,699	3,815,840
ECLWRF Admin Building and Educ Ctr Rehabilitation	530,000	4,500,000	900,000	-	-	-
Administrative / Building Remodel and Rehabilitation	1,570,000	275,000	150,000	150,000	150,000	-
PROJECTED ACTIVE PROJECT EXPENDITURES	56,321,673	47,498,783	30,556,734	13,896,795	14,004,699	13,965,840

Strategic Business Plan Goals



FY 2014-2015 Accomplishments

Sound Financial and Resource Management

Objective 1: Completed 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 state grant from the Department of Water Resources. Construction for this project is anticipated to begin in late FY 2014-2015.

Objective 2: Performed an upgrade to the security systems at ECLWRF, Hyperion Pump Station and three satellite facilities. This project included constructing and installing security cameras and intrusion devices, intercom systems, monitoring systems and keyless entry pads in order to protect West Basin's infrastructure and assets from theft, vandalism, or unauthorized entries.

Objective 2: Completed several replacement and refurbishment projects including: replacement of a second hypochlorite tank and completion of an upgrade to the lime storage silos, both of which occurred at the Edward C. Little Water Recycling Facility.

Objective 3: Received grant funding from California's voter approved Proposition 84 bond measure for onsite customer connections to recycled water. Received grant funding for two ocean-water desalination research and development projects. These included funding from the US Bureau of Reclamation for Ocean-water desalination a subsurface intake study, and funding from the Metropolitan Water District – Foundational Action Grant for an Intake Biofouling and Corrosion Study.

Water Quality

Objective 1: Completed the disinfected tertiary recycled water Alkalinity Improvement design package and advertised construction. This project addressed the need for nitrified water upgrades to improve the water quality and enhance production capacity.

Objective 1: Completed the rehabilitation and refurbishment of the lime silos at the ECLWRF. This project will allow for improved control and dosing of calcium hydroxide (lime) used for stabilization of the Barrier product water. This project will reduce the variability of the pH, Langelier Saturation Index (LSI) and the Modified Fouling Index (MFI) of the treated water.

Objective 1: Completed the design of the Inglewood disinfection station to boost the chlorine residual in the disinfected tertiary recycled water distribution system.

Objective 2: Began the design of the Reverse Osmosis (RO) Clean-in-Place Waste Discharge project to allow RO cleaning chemicals to be discharged to the sewer rather than being combined with RO brine and discharged to Hyperion Treatment Plant's ocean outfall.

Water Reliability

Objective 3: Completed 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 3: Installed Portable Ultrafiltration Membrane System to enhance recycled water operations and reduce potable water usage at the Carson Regional Water Recycling Facility.

Objective 3: Completed the design of the Carson Mall Lateral Phase II project to deliver recycled water into new areas within the City of Carson.

Objective 4: Initiated the Subsurface Intake Study to determine the technical feasibility of using subsurface seawater intakes as part of West Basin's Ocean-water Desalination Program.

Objective 4: Conducted the Ocean-Water Desalination Intake Biofouling and Corrosion Study as a part of MWD's Foundational Action Grant Program. The study will conclude in late FY14-15. Results will be published in 2015.

FY 2015-2016 Strategies

Sound Financial and Resource Management

Objective 1: Develop a comprehensive Rehabilitation and Replacement Program (R&R) whereby projects are prioritized and scheduled based on, the scope, budgeted resources, estimated cost, risks and priority of each R&R project.

Objective 2: Continue to implemented various treatment and conveyance facility R&R projects to maintain and improve facility operations and ensure a long-term reliable water supply for West Basin's customers

Objective 3: Finalize the construction 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: Complete pilot testing with a Universal Microfiltration Pilot Unit that will allow West Basin to determine design conditions for full-scale, non-proprietary microfiltration or ultrafiltration systems. These design conditions are intended to be used for the eventual replacement of microfiltration systems currently installed at ECLWRF and the satellite facilities, which are nearing the end of their usable lives.

Water Quality

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

Objective 1: Complete construction of the disinfected tertiary recycled water Alkalinity Process Upgrades recently studied at the Chevron and ExxonMobil Refineries. These upgrades will supply the refineries with improved water quality and will reduce the costs for breakpoint chlorination operations on site.

Objective 2: Complete the design and begin construction of the Reverse Osmosis (RO) Clean-in-Place Waste Discharge project to allow RO cleaning chemicals to be discharged to the sewer rather than being combined with RO brine and discharged to Hyperion Treatment Plant's ocean outfall. This project will ensure compliance with the brine permit issued by the Regional Water Quality Control Board (RWQCB).

Customer Service

Objective 5: Complete the design effort for the Edward C. Little Water Recycling Facility Visitor Center Renovation to expand the visitor center space, renovate interior of the existing office spaces, relocate the control room, update interpretive messages and renovate exhibits. The expanded visitor center and additional conference will allow West Basin to host multiple and large special events, including industry meetings, conferences and events due to close proximity to Los Angeles airport. The updated exhibits will reinforce West Basin's mission and water related issues in the region.

Water Reliability

Objective 2: Increase the microfiltration capacity through expansion of existing systems in order to produce more water for injection into the seawater intrusion barrier.

Objective 2: Investigate the technical feasibility and cost/benefit analysis of expanding the recycled water distribution system into the Palos Verdes Peninsula cities and to Kenneth Hahn Park in Baldwin Hills.

Objective 2: Complete the 100% design of the Tesoro Refinery Expansion to provide approximately 2.6 million gallons per day (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: Begin construction 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 2015-16 Budget:
\$2,200,000

Total Budget:
\$24,842,000

Completion Date:
FY 2017-18

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 2015-16 Budget: \$2,200,000
- c. Anticipated Annual Operations & Maintenance Expense: \$876,500, including R&R costs

ECLWRF Reverse Osmosis Clean-In-Place Waste Discharge Project

El Segundo, CA



Purpose:

Currently, the RO CIP waste is discharged into the existing brine line along with the RO brine. The existing brine line connects to the Hyperion Ocean Outfall Line. This project will allow West Basin to discharge the Reverse Osmosis (RO) Clean-In-Place (CIP) waste to the sewer system to ensure that West Basin will be in compliance with the brine permit issued by the Regional Water Quality Control Board (RWQCB).

Benefits:

The proposed RO CIP waste discharge improvements will ensure that West Basin will be in compliance with the brine permit issued by the RWQCB, in order to maintain continuous production for the Barrier System and Boiler Feedwater system for Chevron.

FY 2015-16 Budget:
\$3,500,000

Total Budget:
\$4,350,000

Completion Date:
FY 2016-17

1. RO CIP Waste Discharge System

- a. Demolition of the existing Lime Clarifier structure and construction of an above ground storage facility with capacity to store up to 80,000 gallons. The project will also include series of pumps and pipelines from the RO sites to the storage tank and to the sewer system, as well as, sewer improvements per the Sewer Area Study. Other miscellaneous work include improvements for the existing brine meter for future maintenance, and the improvement for the Phase IV microfiltration (MF) underground vault to prevent flooding from rain and irrigation runoff.
- b. FY 2015-16 Budget: \$3,500,000
- c. Anticipated Annual Operations & Maintenance Expense: Minimal

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 2015-16 Budget:
\$3,678,500

Total Budget:
\$439,700,000

Completion Date:
Estimated FY 2019-20

1. West Basin's Ocean-Water Desalination Demonstration Facility (Desal Facility)

- a. Critical testing and research has been performed at the Desal Facility over the three and a half years it has been in operation. Operation of the facility ceased at the end of calendar year 2014. Beginning in July 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 2015-16 Budget: \$1,813,000
- 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 2015-16 Budget: \$1,750,000
- 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 2015-16 Budget: \$115,000
- 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) where it is further treated to produce recycled water.

Benefits:

Improve system reliability with additional pumping units and emergency generator.

FY 2015-16 Budget:

\$11,237,000

Total Budget:

\$16,862,159

Completion Date:

FY 2016-17

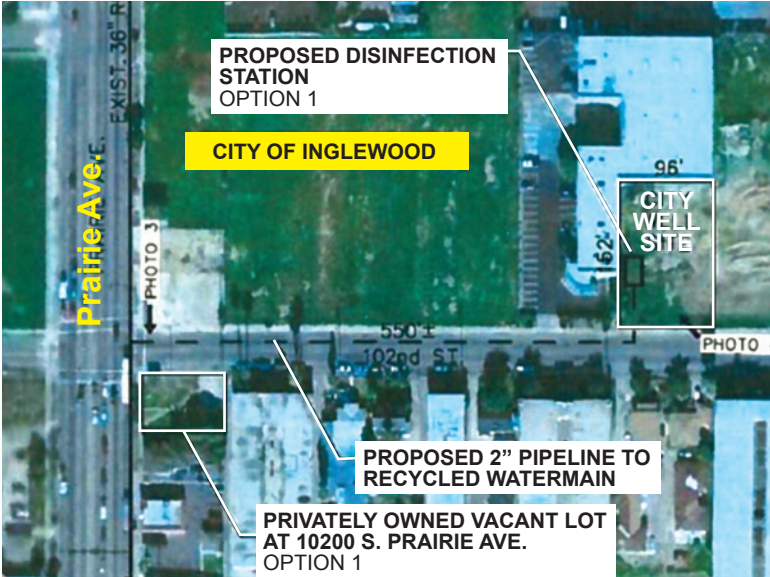
1. Pump Station Improvements

- a. Improve the reliability of the facility by installing two (2) new 20 MGD pumps. The new pumps will facilitate the repair and refurbishment of the existing equipment and will provide additional capacity to accommodate the future growth of West Basin's recycled water program. The secondary effluent firm pumping capacity will be increased from 50 MGD to 70 MGD.
- b. Improve the reliability of the facility by installing a new three (3) megawatt emergency generator to maintain operation of the pump station during an outage of the primary power supply.
- c. Pump Station Expansion FY 2015-2016 Budget: \$11,237,000

Anticipated Annual Operations & Maintenance Expense: \$350,000

Water Quality Facility Improvements

Inglewood & Torrance, CA



Purpose:

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

Benefits:

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

FY 2015-16 Budget:
\$1,121,000

Total Budget:
\$1,121,000

Completion Date:
FY 2015-16

1. Inglewood Disinfection Station

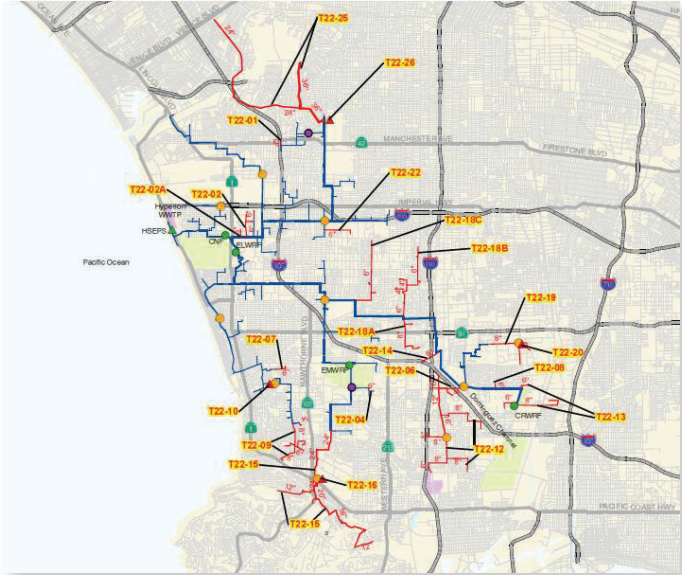
- a. The Inglewood disinfection station will be a new facility. This disinfection station will mitigate water quality issues associated with long detention periods in the Inglewood recycled water distribution system by constructing a disinfection station to boost the chlorine residual of the recycled water.
- b. FY 2015-16 Budget: \$781,000
- c. Anticipated Annual Operations & Maintenance Expense: \$57,700

2. ExxonMobil Dechlorination System

- a. The ExxonMobil Dechlorination System will be a new facility. This system will mitigate the elevated levels of ammonia currently being provided to ExxonMobil due to increases in the Hyperion secondary effluent feed source.
- b. FY 2015-16 Budget: \$340,000
- c. Anticipated Annual Operations & Maintenance Expense: \$50,000

West Basin Pipeline Lateral

(Title 22 Water Distribution System), Various Cities



Purpose:
 Provide increased supply of West Basin’s disinfected tertiary recycled water for irrigation and cooling tower supply to various facilities within the West Basin service area.

Benefits:
 The construction of additional laterals increases West Basin’s supply of disinfected tertiary recycled water and reduces the amount of imported water used for potable services. The additional supply also improves the water quality within the distribution system by moving water faster through the system, reducing the potential for biological growth, scale, and corrosion within the pipeline.

FY 2015-16 Budget:
 \$890,995

Total Budget:
 \$890,995

Completion Date:
 FY 2015-16

1. Pueblo Park Lateral:
 - a. This lateral is located within the City of Torrance and will provide T22 water to the newly renovated park. The landscape design calls for recycled water to feed the new plants and grass play area. Average demand is 0.9 AFY.
 - b. FY 2015-16 Budget: \$55,995
 - c. Anticipated Annual O&M Expense: minimal
2. Redondo Union High School:
 - a. This new lateral will extend off of West Basin’s recycled water main within Vincent Street, run up Vincent Park Avenue, and feed existing irrigation uses along the south side of the high school.
 - b. FY 2015-16 Budget: \$70,000
 - c. Anticipated Annual O&M Expense: minimal
3. Mills Park Lateral:
 - a. This new lateral will extend off of West Basin’s recycled water main in E. Del Amo Blvd. in the City of Carson, run up S. Central Ave, and feed recycled water to the Dr. Thomas G. Mills Memorial Park.

- b. FY 2015-16 Budget: \$150,000
- c. Anticipated Annual O&M Expense: minimal

West Basin Pipeline Lateral (cont.)

(Title 22 Water Distribution System), Various Cities

4. The Jungle Lateral

- a. This new lateral will extend off of West Basin's recycled water main in S. Hughes Way in the El Segundo and feed The Jungle Nursery located in the Southern California Edison easement outside of ECLWRF.
- b. FY 2015-16 Budget: \$115,000
- c. Anticipated Annual O&M Expense: minimal

5. Palos Verdes Golf Course Lateral:

- a. This effort will include performing a pipeline alignment and preparing California Environmental Quality Act (CEQA) documents in order to pursue grant funding for the future design and construction of this lateral.
- b. FY 2015-16 Budget: \$250,000
- c. Anticipated Annual O&M Expense: minimal

6. Kenneth Hahn Park Lateral:

- a. This effort will include performing a pipeline alignment and preparing California Environmental Quality Act (CEQA) documents in order to pursue grant funding for the future design and construction of this lateral.
- b. FY 2015-16 Budget: \$250,000
- c. Anticipated Annual O&M Expense: minimal

Proposition 84, Round 3

Torrance, Carson, Manhattan Beach, Inglewood, El Segundo, CA



Purpose:

West Basin is the recipient of funding under DWR's Proposition 84-Round 3 Grant for the retrofit conversion of various project sites that will provide disinfected tertiary recycled water for irrigation use and in some cases for industrial approved applications.

Benefits:

The project will provide approximately 206 acre-feet per year of disinfected tertiary recycled water. This project will introduce a source of water to new customers that will reduce dependence on imported water.

FY 2015-16 Budget:
\$1,721,000

Total Budget:
\$1,721,000

Completion Date:
FY 2015-16

In order to serve recycled water to the proposed sites, service lines and pipeline systems, will need to be designed and installed to allow the delivery of recycled water to the meter of the new customers. The work will be within public right of way. The sites under consideration are:

- Virco Lateral
Design and construction of a service line from the main pipeline to the customer's meter. The recycled water will be used for irrigation and other approved industrial purposes. Project site is located in the City of Torrance.
- Dominguez Tech Center:
Design and construction of the connection of the existing recycled water systems. Project site is located in the City of Carson.
- Manhattan Village HOA
Installation of approximately 1 mile of pipeline within the Home Owners Association in the Manhattan Village. Activities include design, construction, construction management, and construction outreach. Project site is located in the City of Manhattan Beach.
- Northrop Gruman
Design and construction of a service line that will extend from the main pipeline to the customer's meter. Recycled water will be used for irrigation and approved industrial applications. Project site is located in the City of Redondo Beach.
- Monroe Middle School, Woodworth Elementary
Design and construction of a service line from the main distribution pipeline to the customers' meter. Project site is located in the City of Inglewood.
- Animo Charter School
A pipeline and a service line will need to be designed and constructed. Project site is located in the Unincorporated City of Los Angeles area.

Barrier Production Increase

ECLWRF (El Segundo, CA)



Purpose:

West Basin desires to maximize the available production for injection into the West Coast Basin Seawater Intrusion Barrier (Barrier). The microfiltration systems constructed as part of the Phase IV and V expansions at ECLWRF both include expansion slots for new membrane units to be installed. This project's first phase will include the engineering design and construction of additional Phase V MF units in FY15-16.

Benefits:

The benefit to West Basin is a reduction of potable water used for injection into the Barrier, and an increase in revenue through additional sales of recycled water to the Water Replenishment District of Southern California.

FY 2015-16 Budget:
\$11,000,000

Total Budget:
\$27,500,000

Completion Date:
FY 2017-18

1. Phase V Expansion:

- a. This project will include the addition of two new Pall Corp. microfiltration racks and blowers into the Phase V MF system. The addition of these racks will increase the MF production by 3.6 MGD, for an increase in Barrier final product water capacity of 2.7 MGD.
- b. FY 2015-16 Budget: \$10,000,000
- c. Anticipated Annual O&M Expense: \$552,720

2. Phase IV Retrofit & Expansion:

- a. This project will include the engineering design of a retrofit for the existing polypropylene membrane technology used in Phase IV MF system with a more contemporary membrane material, polyvinylidene fluoride (PVDF). The project will also include addition of two new Evoqua microfiltration cells and ancillary equipment into the Phase IV MF system. The addition of these racks will increase the MF production by 2.6 MGD, for an increase in Barrier final product water capacity of 2.0 MGD.
- b. FY 2015-16 Budget: \$1,000,000
- c. Anticipated Annual O&M Expense: \$1,138,257

Nitrified Water Alkalinity Process Upgrades

Chevron Nitrification Facility (El Segundo, CA)

Exxon Mobil Facility (Carson, CA)



Purpose:

Improve the alkalinity of the recycled water provided to two customers, the Chevron and ExxonMobil Refineries, to facilitate the removal of ammonia.

Benefits:

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

FY 2015-16 Budget:

\$1,980,000

Total Budget:

\$2,010,000

Completion Date:

FY 2015-16

1. Chevron Nitrification Facility

a. Install permanent carbon dioxide and sodium hydroxide feed facilities to supplement the alkalinity of the disinfected tertiary recycled water and facilitate nitrification.

b. FY 2015-16 Budget: \$990,000

c. Anticipated Annual Operations & Maintenance Expense: \$726,200

2. Exxon Mobil Facility

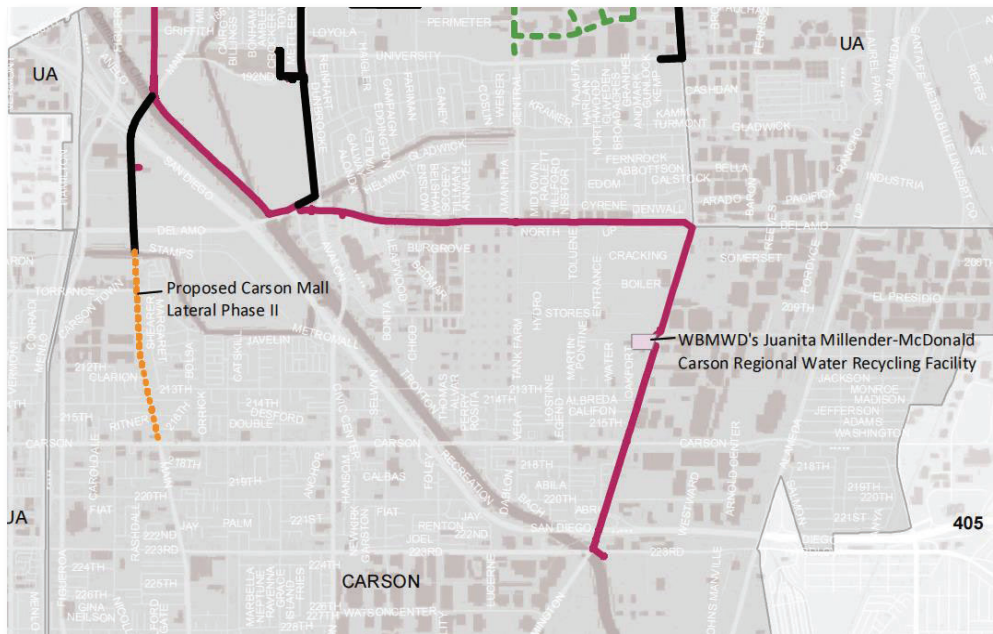
a. Install permanent carbon dioxide and sodium hydroxide feed facilities to supplement the alkalinity of the disinfected tertiary recycled water and facilitate nitrification.

b. FY 2015-16 Budget: \$990,000

c. Anticipated Annual Operations & Maintenance Expense: \$726,200

Carson Mall Lateral Phase II

Carson, CA



Purpose:

This is a new recycled water pipeline project to be constructed in cooperation with the U.S. Army Corps of Engineers under the Harbor South Bay Program.

Benefits:

The project will provide disinfected tertiary recycled water for approved uses in irrigation to Carson's medians and Park. In addition, this pipeline will connect to a future recycled water system to be built by the City of Carson and which will help expand the delivery of recycled water to additional medians, City Hall green areas, parks and schools.

FY 2015-16 Budget:
\$697,110

Total Budget:
\$2,116,744

Completion Date:
FY 2015-16

Carson Mall Lateral Phase II

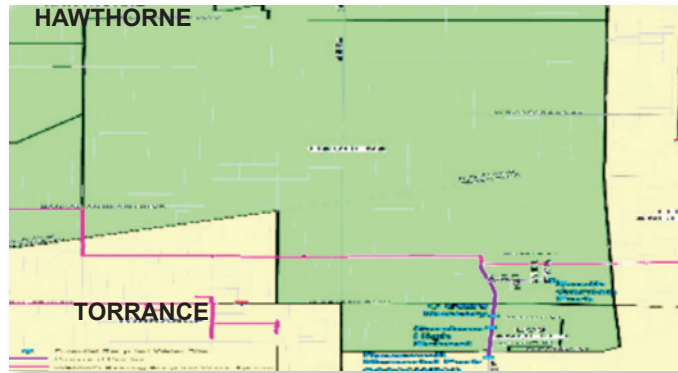
- a. To help the local region reduce its dependence on imported water and optimize its local water resources, West Basin and U.S. Army Corps of Engineers formed a partnership to develop the Harbor South Bay Water Recycling Program.

The Carson Mall Lateral Phase II is part of the Harbor South Bay Program and consists of approximately one mile of 12-inch diameter PVC pipeline that will help transport the delivery of recycled water to various within the City of Carson. The proposed pipeline will connect to the existing 12-inch diameter recycled water main at the intersection of Main Street and Jim Dear Boulevard in the City of Carson and it will extend parallel to Main Street to Carson Street.

- b. FY 2015-16 Budget: \$697,110
- c. Anticipated Annual Operations & Maintenance Expense: Minimal

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 three new recycled water customers: Gardena High School, South Gardena Park, and Roosevelt Memorial Park Association. Sites will reduce reliance on imported water.

FY 2015-16 Budget:

\$2,608,346

Total Budget:

\$2,808,346

Completion Date:

FY 2015-16

1. South Gardena Lateral

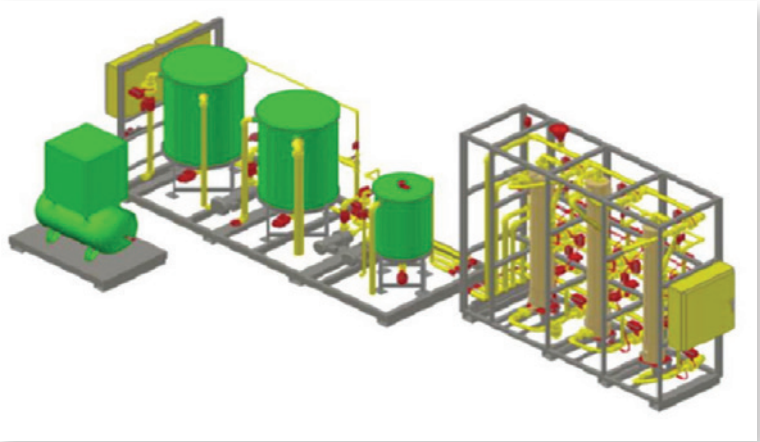
- a. To help the local region reduce its dependence on imported water and optimize its local water resources, West Basin entered into an agreement with the City of Gardena and Los Angeles Department of Water and Power (LADWP) to apply for a state grant to build a recycled water system that will help 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 2015-16 Budget: \$2,608,346
- c. Anticipated Annual Operations & Maintenance Expense: Minimal

Universal Microfiltration Pilot

ECLWRF (El Segundo, CA)



Purpose:

The Universal Microfiltration Pilot will allow West Basin to determine design conditions for a non-proprietary, universal microfiltration system using a variety of commercially available membrane modules.

Benefits:

A non-proprietary, universal microfiltration system will provide greater competition in bidding situations and allows flexibility to change manufacturers as technology, feed water quality, and treatment objectives change.

FY 2015-16 Budget:
\$150,000

Total Budget:
\$350,000

Completion Date:
FY 2015-16

1. Universal Microfiltration Pilot

- a. West Basin's existing, proprietary microfiltration systems are reaching the end of their usable life. An analysis of O&M costs associated with the systems determined that it is cost-effective to replace the previous-generation systems with current technology. A non-proprietary, universal MF systems will offers flexibility in selecting from a variety of membranes options in the future, ensuring O&M costs remain attractive through the life of the asset.
- b. FY 2015-16 Budget: \$150,000
- c. Anticipated Annual Operations & Maintenance Expense: Minimal

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 2015-16 Budget:

\$249,893

Completion Date:

On-going

1. Hollywood Park Recycled Water Project
 - a. A new recycled water distribution system will be incorporated into the Hollywood Park Redevelopment Project. Hollywood Park is estimated to use approximately 200 acre-feet per year of recycled water. Hollywood Park Land Company is constructing the recycled water distribution system with design support and inspection services being provided by West Basin.
 - b. FY 2015-2016 Budget: \$99,893
 - c. Anticipated Annual Operations & Maintenance Expense: \$10,000
2. Unanticipated Customer Connections
 - a. West Basin has included funds in the FY15-16 budget to perform connections for new recycled water customers that may be identified during the year.
 - b. FY 2015-16 Budget: \$150,000
 - c. Anticipated Annual Operations & Maintenance Expense: \$15,000

Replacement & Refurbishment

ECLWRF & Satellite Facilities



Purpose:

West Basin's recycled water system consists of the Hyperion Pump Station in Playa del Rey, CA; the Edward C. Little Water Recycling Facility and the Chevron Nitrification Facility in El Segundo, CA; the ExxonMobil Satellite Facility in Torrance, CA; the Carson Regional Water Recycling Facility in Carson, CA; and over 120 miles of distribution pipelines. In addition, West Basin owns and operates a brackish groundwater desalination facility, the Brewer Desalter, in Torrance, CA.

Much of West Basin's recycled water infrastructure was built in the mid-1990s in response to the droughts of the late 1980s and early 1990s. As the treatment facilities continue to age, a comprehensive R&R Program has been established to identify components of West Basin's recycled water system that are in need of repair or replacement. The R&R Program helps ensure that process equipment is properly maintained and replaced as necessary to maintain the ongoing operation of West Basin's treatment facilities.

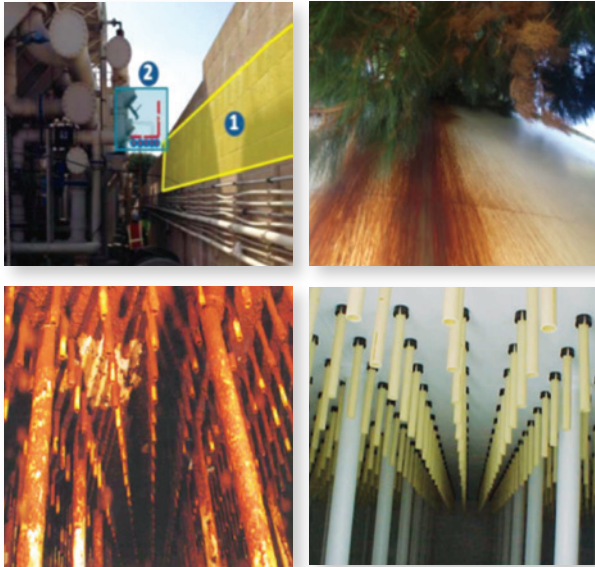
FY 2015-16 Budget:
\$9,896,752

Completion Date:
On-going

Facility	Year Built	Treatment Process	Capacity
Hyperion Pump Station	1995	• Pumping	50 MGD
ECLWRF	1995	• High Rate Clarification, Sand Filtration, Chlorine Disinfection, • Ozone, Microfiltration, Reverse Osmosis, Ultraviolet Light, Advanced Oxidation, Disinfection,	62 MGD
Exxon Mobil WRF	1998	• Nitrification • Microfiltration, Reverse Osmosis	8.2 MGD
Carson Regional WRF	2000	• Nitrification • Microfiltration, Reverse Osmosis	6 MGD
Chevron Nitrification Facility	1996	• Nitrification	5 MGD

CIP Replacement & Refurbishment Program

FY15-16 Continuing Projects



Description:

The list below represents major R&R projects that were already underway for West Basin's treatment facilities during the previous fiscal year and will be carried into FY15-16.

-
1. R&R Program Management
 - a. FY 2015-2016 Budget: \$150,000
 2. SCADA System Implementation
 - a. FY 2015-2016 Budget: \$317,500
 3. Chevron Nitrification & Waste Tank Rehab.
 - a. FY 2015-2016 Budget: \$705,000
 4. Satellite Biofor Rehabilitation
 - a. FY 2015-2016 Budget: \$2,216,252
 5. Air conditioning Upgrade
 - a. FY 2015-2016 Budget: \$200,000
 6. Power Distribution Panel
 - a. FY 2015-2016 Budget: \$210,000
 7. Exxon Mobil Nitrification Tank
 - a. FY 2015-2016 Budget: \$700,000
 8. Security System Upgrades
 - a. FY 2015-2016 Budget: \$400,000

FY15-16 Continuing Projects Budget:
\$4,898,752

CIP Replacement & Refurbishment Program

FY15-16 Prioritized Projects

Description:

The list below represents major R&R projects that have been identified by West Basin's Technical Resources Department, with input from the Operations Department and the contract operator, as high priorities in the near future. These projects will be initiated in FY15-16.

1. Asset Management Software Implementation
 - a. FY 2015-2016 Budget: \$150,000
2. Energy Efficiency Projects
 - a. FY 2015-2016 Budget: \$67,000
3. Cathodic Protection within the Distribution System
 - a. FY 2015-2016 Budget: \$200,000
4. Brewer Desalter Well Rehab
 - a. FY 2015-2016 Budget: \$1,000,000
5. ECLWRF Tertiary Disinfected System Media replacement
 - a. FY 2015-2016 Budget: \$120,000
6. ECLWRF RO Train 9 Membrane Replacement
 - a. FY 2015-2016 Budget: \$500,000
7. ECLWRF RO Train 1&2 Membrane Replacement
 - a. FY 2015-2016 Budget: \$800,000
8. Disinfected Tertiary RW Isolation Valve
 - a. FY 2015-2016 Budget: \$745,000

FY15-16 Prioritized Projects Budget:

\$3,582,000

Replacement & Refurbishment

FY15-16 Ongoing Monitoring

Description:

The list below represents R&R projects that occur on a routine or ongoing basis to maintain West Basin's facilities that have reached the end of their useful life. These efforts are typically smaller in scope, but include budgets for expected or routine repair and rehabilitation of specific equipment or assets.

1. All Facility Compliance and Permitting
 - a. FY 2015-2016 Budget: \$50,000
2. All Facility Instrumentation & Controls
 - a. FY 2015-2016 Budget: \$313,000
3. All Facility Valves and Actuators Replacement Program
 - a. FY 2015-2016 Budget: \$120,000
4. All Facility Pipe Replacement Program
 - a. FY 2015-2016 Budget: \$269,000
5. All Facility Pump Replacement Program
 - a. FY 2015-2016 Budget: \$204,000
6. Treatment Process Repair and Replacement
 - a. FY 2015-2016 Budget: \$460,000

FY15-16 Prioritized Projects Budget:

\$1,416,000

Edward C. Little Water Recycling Facility Administration Building and Visitors Center Renovation

El Segundo, CA



Purpose:

The Edward C. Little Water Recycling Facility Administration Building and Visitor Center Renovation will expand the visitor center space, renovate interior of the existing office spaces, relocate the Operations control room, update interpretive messages and renovate exhibits.

Benefits:

The expanded visitor center and additional conference will allow West Basin to host multiple and large special events, including industry meetings, conferences and events due to close proximity to Los Angeles airport. The updated exhibits will reinforce West Basin's mission and water related issues in the region.

FY 2015-16 Budget:
\$530,000

Total Budget:
\$6,075,000

Completion Date:
FY 2017-18

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 2015-16 Budget: \$480,000

c. Anticipated Annual Operations & Maintenance Expense: Minimal

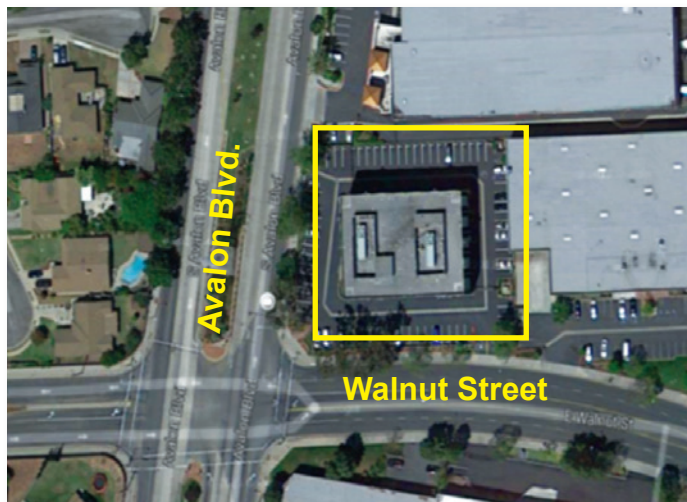
1. ECLWRF Monument Sign

a. FY 2015-16 Budget: \$50,000

b. Anticipated Annual Operations & Maintenance Expense: Minimal

Donald L. Dear Administrative Building Remodel and Rehabilitation

Carson, CA



Purpose:

This project will include a variety of building and technology 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 2015-16 Budget:

\$1,570,000

Total Budget:

On-going

Completion Date:

On-going

1. Board Room Audio Upgrade
 - a. Improve the audio capacity of the board room for public Board meetings and large District meetings.
 - b. FY 2015-2016 Budget: \$40,000
2. Server Expansion
 - a. Increase the server capacity to facilitate the large amount of data being stored on the District's network.
 - b. FY 2015-2016 Budget: \$45,000
3. Office Space Improvements
 - a. Office space improvements will be identified to better utilize the existing space in the Donald L. Dear Building for staffing and other improvements.
 - b. FY 2015-2016 Budget: \$1,000,000
4. Security Upgrade
 - a. Security upgrades to the building will be made to include new locations for an updated electronic key-card entry system.
 - b. FY 2015-2016 Budget: \$25,000
5. Lawson Licenses
 - a. Additional licenses will be procured for the accounting and project management system when Lawson is upgraded.
 - b. FY 2015-2016 Budget: \$213,000
6. Computer Replacement
 - a. The current leasing agreement for computers is nearing the end of its term, and will be replaced with new computers purchased by West Basin.
 - b. FY 2015-2016 Budget: \$72,000
7. Hanson Upgrade and Optimization
 - a. West Basin's Asset Management Software, Hanson, is out of date and requires updating.
 - b. FY 2015-2016 Budget: \$150,000
8. Agenda Management / Streaming System
 - a. This technology will allow improved management and distribution of West Basin's Board service packages.
 - b. FY 2015-2016 Budget: \$25,000

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 14-15	FY 15-16
MEMBERSHIPS	BUDGET	BUDGET
Alliance for Water Efficiency	\$ 3,100	\$ 3,100
American Membrane Technology Association	375	675
Association of California Water Agencies	22,000	24,000
American Water Works Association	14,000	14,100
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	450
- Culver City	150	200
- El Segundo	500	500
- Gardena Valley	300	600
- 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
- LAX Coastal	-	330
- Lomita	400	400
- Los Angeles Area	1,500	850
- Malibu	400	400
- Manhattan Beach	495	650
- Palos Verdes Peninsula	550	600
- Redondo Beach	285	300
- South Bay Association	500	500
- South Bay Chinese-American	150	150
- South Bay Latino	500	500
- Topanga	-	120
- Torrance	425	450
- West Hollywood	350	450

	FY 14-15	FY 15-16
MEMBERSHIPS (CONT.)	BUDGET	BUDGET
Climate Registry	\$ 1,200	\$ 1,200
Colorado River Water Users Association	120	-
L. A. Council of Professional Black Engineers	1,000	1,000
National Water Research Institute	50,000	50,000
National Water Resources Association	350	350
Santa Monica Bay Restoration Foundation	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	42,850
WateReuse Association	8,600	8,600
WateReuse Research Foundation	25,000	25,000
West Basin Water Association	500	500
Memberships Total	\$ 211,650	\$ 210,325

	FY 14-15	FY 15-16
SPONSORSHIPS	BUDGET	BUDGET
CalDesal Annual Conference	\$ 1,000	\$ 1,000
Greater Los Angeles Summit	10,000	-
Groundwater Festival Sponsorship (WRD)	2,500	2,500
Heal the Bay	5,000	5,000
Los Angeles Council of Black Professional Engineers	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	-
Southwest Membrane Operators Association – Annual Symposium	-	1,200
Urban Water Institute - Annual Conference	3,000	3,000
WateReuse CA Annual Conference Sponsorship	1,000	2,500
Sponsorships Total	\$ 31,700	\$ 21,700

Summarized descriptions of FY 2015-16 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: \$675

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: \$24,000

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: \$14,100

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

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

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: \$42,850

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

WATEREUSE 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 Reliability 2020 (WR 2020) – A program to 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.

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



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