

Long Beach Water Department Fiscal Year 2015 Annual Budget Summary

I. Overview

For over 100 years, the Department has provided Long Beach residents and businesses with a reliable, cost-effective and high-quality drinking water supply. In addition, the Department has established itself as one of California's leaders in the areas of water conservation and environmental stewardship. As imported water supplies continue to become more expensive, yet less reliable, the Department continues to seek out cost-effective methods for expanding its utilization of alternative water supply sources and water conservation programs.

The Department's service area encompasses the boundaries of the City of Long Beach, the seventh largest city in State, with an area of approximately 50 square miles and a population of 467,000 with some customers outside the City limits. Total active water accounts number just under 90,000. The Department's budget and activities are divided into two independent funds, the Water Fund and the Sewer Fund.

For the FY 15 Water Fund budget, revenues are estimated to rise mainly due to a 4% increase in water rates. Budgeted expenditures are also estimated to increase due to rising costs in purchased water, as well as the new financial system project costs.

For the FY 15 Sewer Fund budget, revenues are expected to increase due to a 4% increase in sewer rates, as well as an increase in capital project debt issuance. Expenditures are also expected to rise due to planned capital expenditures.

Two main focal points of the Department's budget are related to the management of its water resources portfolio and the maintenance of the Department's infrastructure.

II. Management of the Water Resources Portfolio

The Department meets the needs of its customers through a diverse portfolio of water resources. Local groundwater, combined with imported supplies, water recycling and water conservation are used in combination to meet the water demands within the service area.

Groundwater. Ownership of water rights in the Central Groundwater Basin allows just over half of Long Beach's water supply needs to be produced from groundwater wells located within the City. High-powered pumps extract the groundwater from 31 active wells and pump it to our groundwater treatment plant. Long Beach Water Department pays a Replenishment Assessment, or pump tax, to the Water Replenishment District of Southern California, for water produced

from the wells, in addition to Long Beach Water Department's costs for electricity, maintenance and treatment of the groundwater at our groundwater treatment plant.

For FY 15, the planned pump tax charged by WRD did not increase. WRD's rates have risen a total of 80% since FY 08.

Imported Supplies. The balance of water supply needed to meet the City's demand for potable (drinking) water is treated water purchased from The Metropolitan Water District of Southern California. MWD's water supplies originate from two sources: the Colorado River Aqueduct and the State Water Project (SWP). The Long Beach Water Department has been a member of MWD since 1931, and is one of the 13 original founding cities.

For FY 15, MWD's rates for treated water will rise by 4%. MWD's rates have risen a total of 82% since FY 08.

These core costs associated with the production of groundwater and payment for imported water are expected to increase by over \$1.2 million as compared to FY 14 and will comprise approximately 38% of the Water Fund budget.

Water Conservation - Drought Related Developments. Since 2007, the Water Department has undertaken a comprehensive public communications strategy to emphasize the need for a comprehensive reduction in water consumption. The Water Department began communicating a regular update on the overall demand in its service area, compared to a historical ten (10) year average period immediately predating the call for conservation. Since 2007, the Water Department's customers have achieved a sustained conservation response leading to annual demands at about 13% below the historical ten (10) year average. Currently, overall consumption by Water Department customers is approximately equivalent to the consumption levels in 1968. The Water Department continues to provide additional communications and programs such as landscape retrofits to its customers, and believes the conservation response is a sustained change in consumption behavior.

III. Infrastructure Repair and Rehabilitation

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2013, the water distribution system totaled 912 miles of water mains with 87,644 active service connections.

Long Beach Water Department continues to annually replace approximately 24,000 linear feet of aging cast iron mains with ductile iron pipe, which enhances the reliability of the distribution system and protects against main breaks. Since 1991, this investment in infrastructure has reduced the annual number of main breaks from near 150 in 1991 to an estimated 38 for this fiscal year. This effort represents \$4.3 million of the budgeted capital expenditures for the Water Fund.

Additionally, efficient operation of the distribution system requires the ongoing maintenance, repair and rehabilitation of the other components of the distribution system, such as control valves, storage tanks and the network of groundwater pumping wells. Those efforts comprise an additional \$7.3 million of the budgeted capital expenditures for the Water Fund.

The Department responds immediately, 24-hours a day, 365 days a year, to water emergencies such as main breaks.

Since 2009, the Department's Sewer Fund capital expenditures have been focused on a large amount of capital work driven by the Sewer Master Plan. The Department's Sewer Master Plan was also updated in response to increased statewide regulations that required preparation of a Master Plan and targeted infrastructure repairs and replacements to the sewer collection system. Statewide regulations also established additional, annual activities such as televising and cleaning of sewer lines and a Fats, Oil and Grease (FOG) reduction program.

In order to complete the prioritized capital improvement projects identified in the Sewer Master Plan, the Department has issued short term debt obligations to manage the increased costs. These projects represent \$3.9 million in the Sewer Fund.

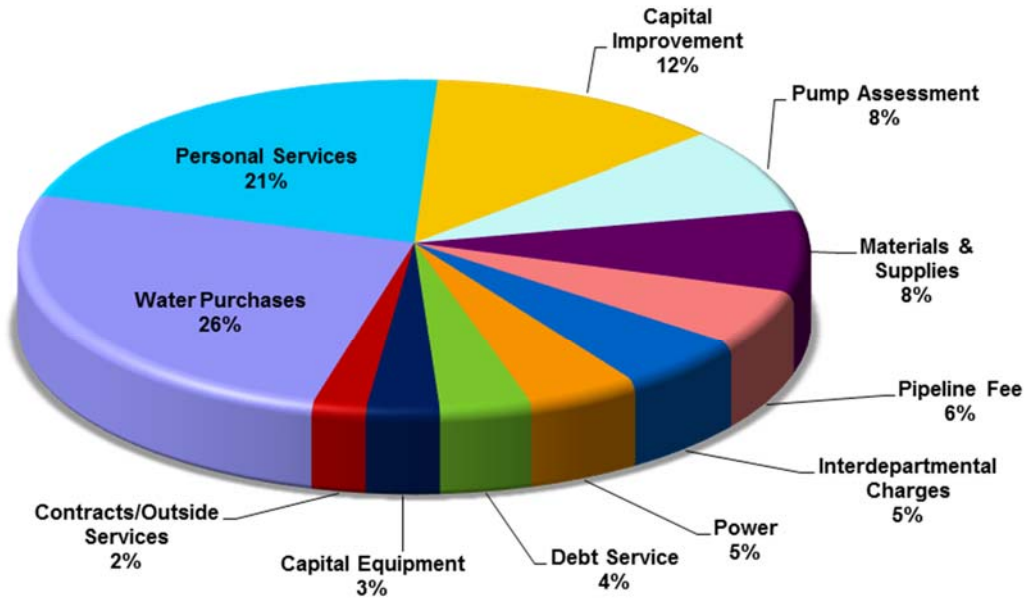
IV. Budget Highlights

Please refer to Figures 1 - 4 for the budget summaries of the Water and Sewer Funds.

- FY 15 Water Fund expenditures total \$104.7 million, a 3% increase over the FY 14 budget.
- FY 15 Sewer Fund expenditures total \$19.6 million, a 7% increase over the FY 14 budget.
- FY 15 Water Fund revenues total \$97.2 million, a 7% increase over the FY 14 budget.
- FY 15 Sewer Fund revenues total \$21.4 million, a 9% increase over the FY 14 budget.
- Planned borrowing of \$3.5 million for Sewer Fund capital expenditures.

FIGURE 1

**Water Fund
FY 15 Expenditures**

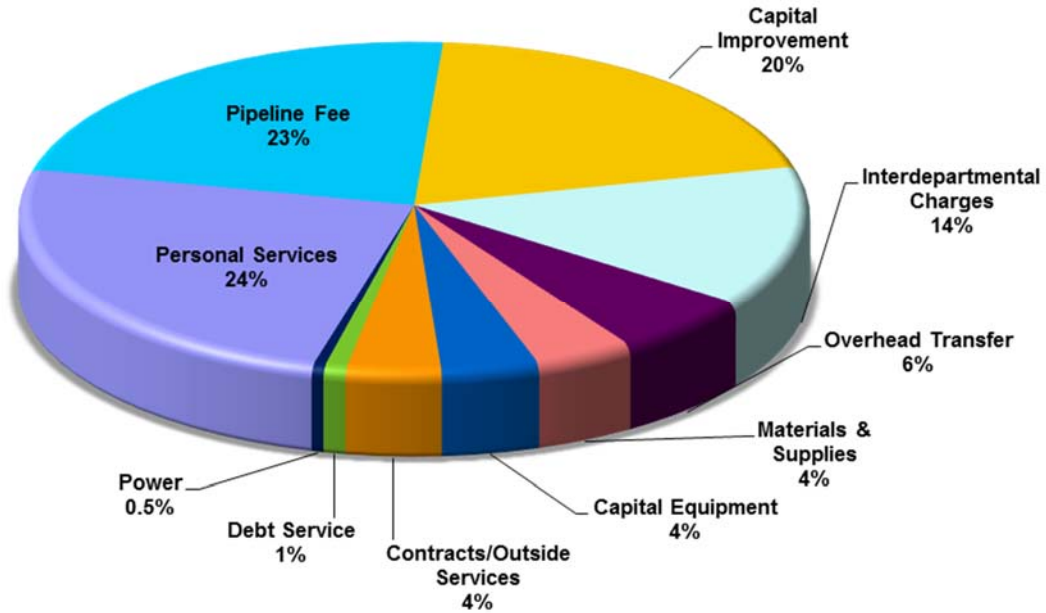


Expenditures (in \$1,000's): Budget to Budget Comparison

	FY 14 Budget	FY 15 Budget	Change	Percent Change
Water Purchases	29,278	26,710	(2,568)	-9%
Personal Services	21,318	22,305	988	5%
Capital Improvement	13,229	13,044	(185)	-1%
Pump Assessment	8,291	8,764	472	6%
Materials & Supplies	7,339	8,378	1,039	14%
Pipeline Fee	5,694	5,794	100	2%
Interdepartmental Charges	5,371	5,558	187	3%
Power	3,559	4,835	1,276	36%
Debt Service	3,903	3,908	5	0%
Capital Equipment	1,795	3,124	1,330	74%
Contracts/Outside Services	2,144	2,317	174	8%
Total Expenditures	101,920	104,738	2,818	3%

FIGURE 2

**Sewer Fund
FY 15 Expenditures**

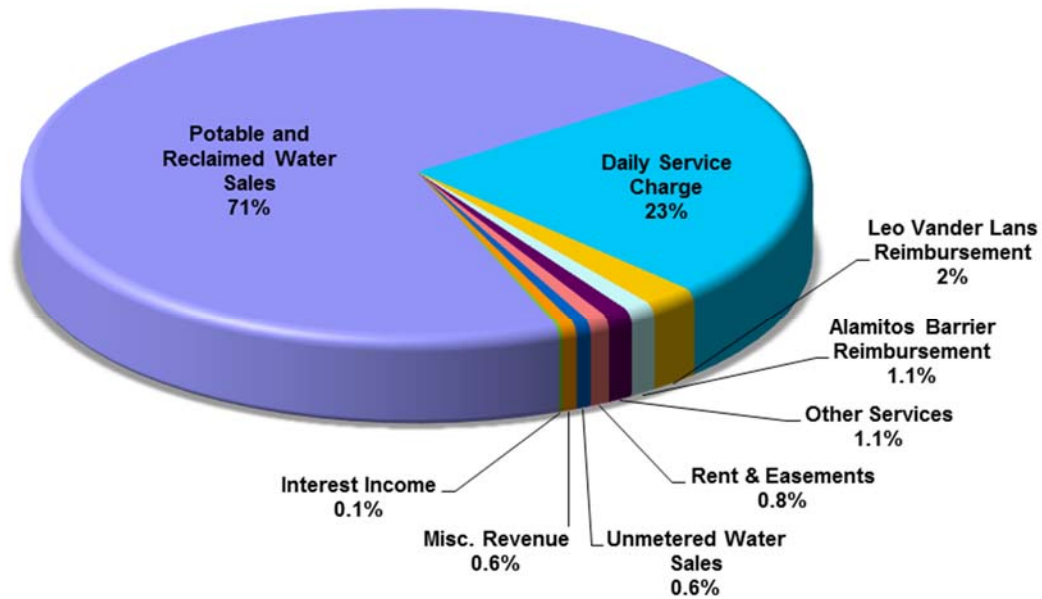


Expenditures (in \$1,000's): Budget to Budget Comparison

	FY 14 Budget	FY 15 Budget	Change	Percent Change
Personal Services	4,341	4,752	412	9%
Pipeline Fee	4,381	4,449	68	2%
Capital Improvement	3,183	3,925	742	23%
Interdepartmental Charges	2,580	2,677	97	4%
Overhead Transfer	1,085	1,150	66	6%
Materials & Supplies	825	797	(28)	-3%
Capital Equipment	772	782	10	1%
Contracts/Outside Services	871	760	(110)	-13%
Debt Service	200	176	(24)	-12%
Power	89	95	6	6%
Total Expenditures	18,326	19,563	1,237	7%

FIGURE 3

**Water Fund
FY 15 Revenues**

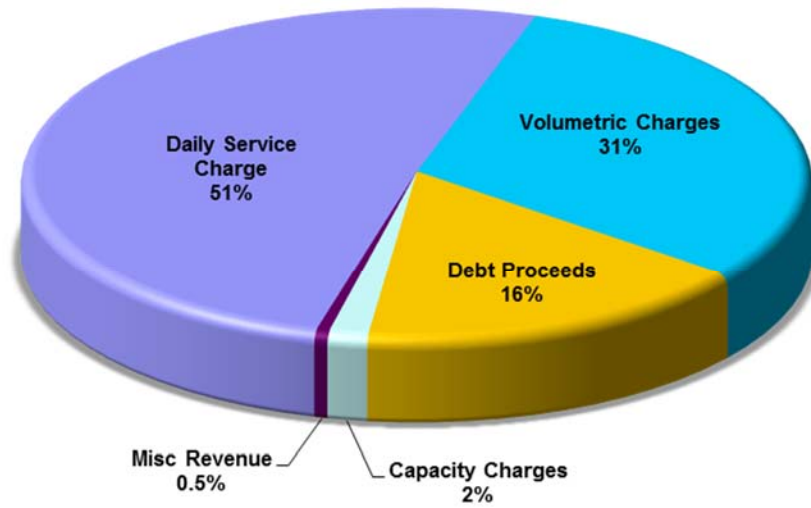


Revenues (in \$1,000's): Budget to Budget Comparison

	FY 14 Budget	FY 15 Budget	Change	Percent Change
Potable and Reclaimed Water Sales	64,482	68,896	4,414	7%
Daily Service Charge	21,032	22,024	992	5%
Leo Vander Lans Reimbursement	1,350	2,051	701	52%
Alamos Barrier Reimbursement	219	1,078	858	391%
Other Services	765	1,035	270	35%
Rent & Easements	992	812	(180)	-18%
Unmetered Water Sales	229	603	374	163%
Misc. Revenue	545	597	52	10%
Interest Income	180	145	(35)	-19%
In-Lieu Replenishment Reimbursement	1,398	-	(1,398)	-100%
Total Revenues	91,193	97,241	6,049	7%

FIGURE 4

**Sewer Fund
FY 15 Revenues**



Revenues (in \$1,000's): Budget to Budget Comparison

	FY 14 Budget	FY 15 Budget	Change	Percent Change
Daily Service Charge	10,380	10,896	516	5%
Volumetric Charges	6,194	6,576	382	6%
Debt Proceeds	2,546	3,500	954	37%
Capacity Charges	350	350	-	0%
Misc Revenue	231	116	(115)	-50%
Total Revenues	19,701	21,438	1,737	9%