

Long Beach Water Department Fiscal Year 2014 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 14 Water Fund budget, revenues are slightly increased compared with FY 13, mainly due to a 4% increase in water rates. Expenditures have increased compared with FY 13, mainly due to increasing costs in purchased and pumped water, with a slight offset due to the reduction in the Customer Information System project costs.

For the FY 14 Sewer Fund budget, revenues are slightly decreased compared with FY 13, due to a lower amount of estimated debt financing to cover planned capital expenditures. Expenditures are also decreased compared with FY 13 due to the reduction in planned capital expenditures as well as a reduction in the Customer Information System project costs.

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 14, the pump tax charged by WRD was increased 9.9%. 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 14, MWD's rates for treated water rose 5%. MWD's rates have risen a total of 75% since FY 08.

These core costs associated with the production of groundwater and payment for imported water increased by over \$4 million as compared to FY 13 and comprise approximately 37% 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, 2012, the water distribution system totaled 911 miles of water mains with 89,957 active service connections.

Long Beach Water Department continues to annually replace approximately 27,000 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 25 for this

fiscal year. This effort represents \$6.3 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 \$5.5 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 first years of the mandated program, the Department has issued short term debt obligations to manage the increase in capital costs of the projects. These projects represent \$3.2 million in the Sewer Fund.

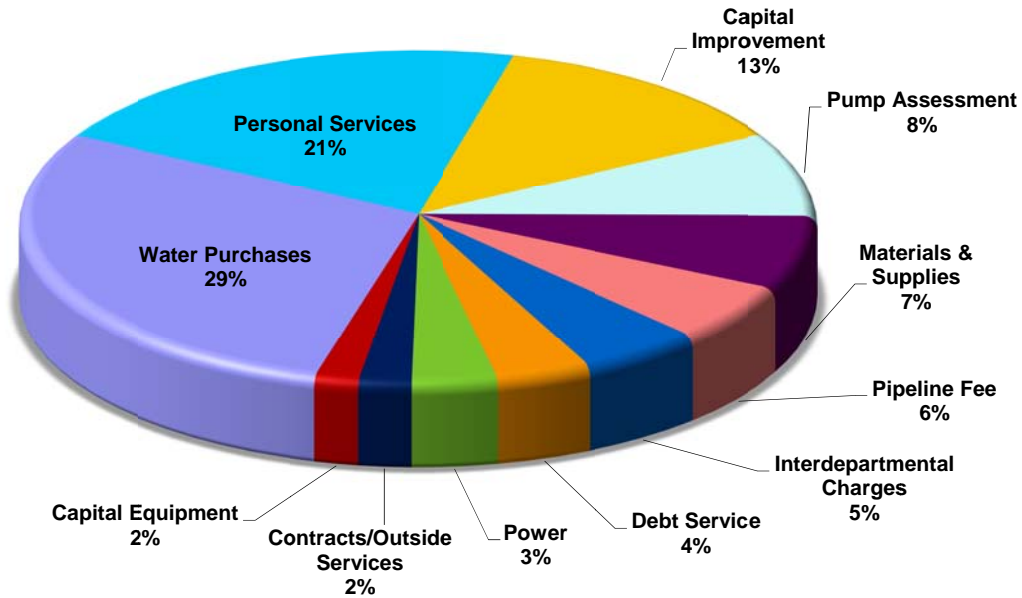
IV. Budget Highlights

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

- FY 14 Water Fund expenditures total \$101.9 million, a 2% increase over the FY 13 budget.
- FY 14 Sewer Fund expenditures total \$18.3 million, a 15% decrease over the FY 13 budget.
- FY 14 Water Fund revenues total \$91.2 million, a 3% increase over the FY 13 budget.
- FY 14 Sewer Fund revenues total \$19.7 million, an 8% decrease over the FY 13 budget.
- Planned borrowing of \$2.5 million for Sewer Fund capital expenditures.

FIGURE 1

**Water Fund
FY 14 Expenditures**

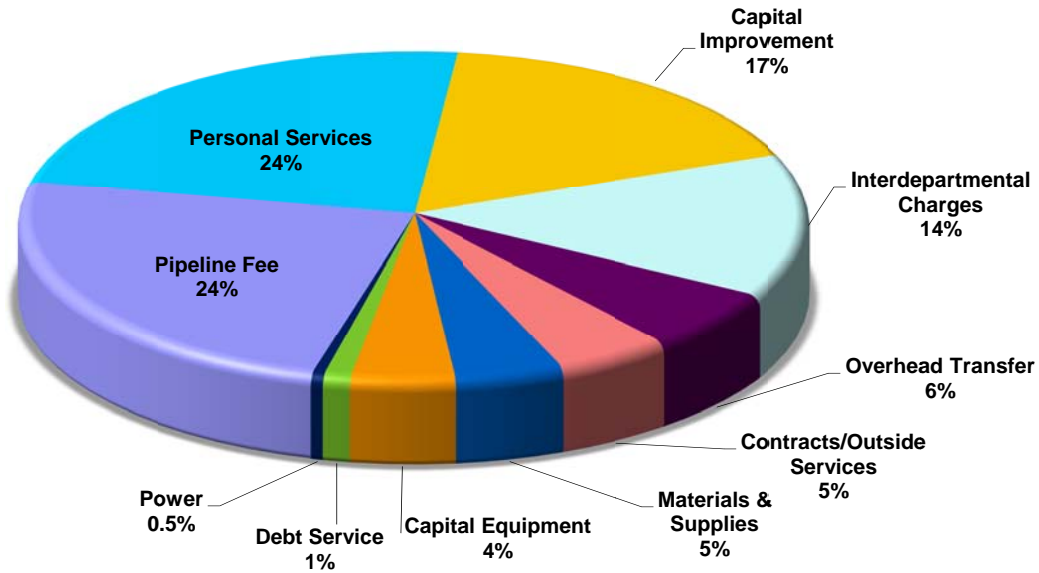


Expenditures (in \$1,000's): Budget to Budget Comparison

	FY 13 Budget	FY 14 Budget	Change	Percent Change
Water Purchases	25,576	29,278	3,702	14%
Personal Services	21,504	21,318	(186)	-1%
Capital Improvement	13,572	13,229	(343)	-3%
Pump Assessment	7,863	8,291	429	5%
Materials & Supplies	6,913	7,339	426	6%
Pipeline Fee	5,567	5,694	127	2%
Interdepartmental Charges	4,773	5,371	599	13%
Debt Service	3,960	3,903	(57)	-1%
Power	4,619	3,559	(1,060)	-23%
Contracts/Outside Services	1,926	2,144	218	11%
Capital Equipment	3,880	1,795	(2,085)	-54%
Total Expenditures	100,150	101,920	1,770	2%

FIGURE 2

**Sewer Fund
FY 14 Expenditures**

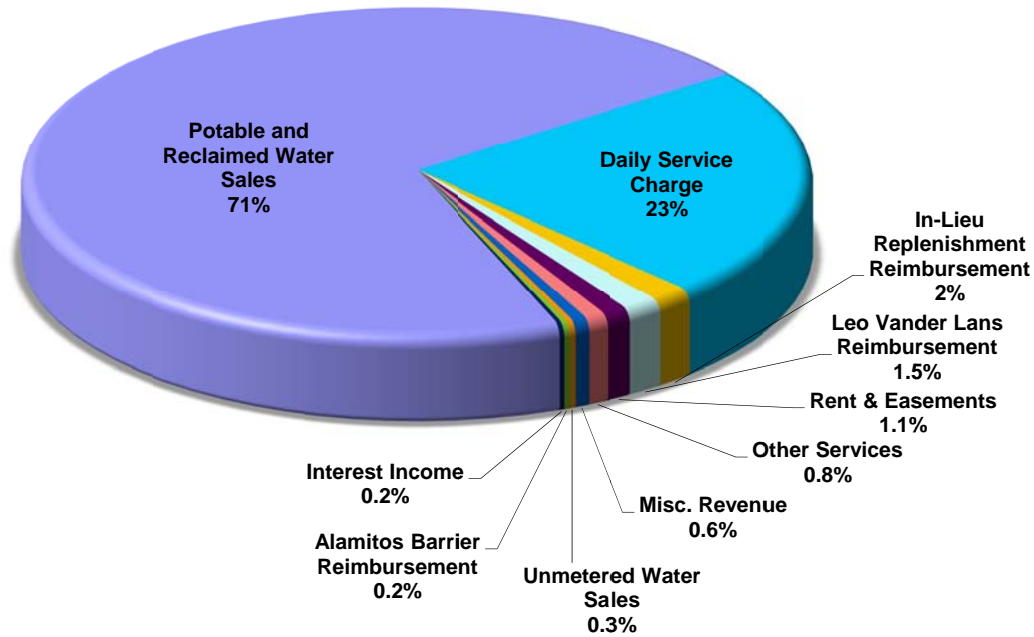


Expenditures (in \$1,000's): Budget to Budget Comparison

	FY 13 Budget	FY 14 Budget	Change	Percent Change
Pipeline Fee	4,284	4,381	97	2%
Personal Services	4,463	4,341	(122)	-3%
Capital Improvement	5,533	3,183	(2,350)	-42%
Interdepartmental Charges	2,316	2,580	264	11%
Overhead Transfer	962	1,085	123	13%
Contracts/Outside Services	883	871	(12)	-1%
Materials & Supplies	780	825	45	6%
Capital Equipment	2,086	772	(1,314)	-63%
Debt Service	162	200	38	23%
Power	96	89	(7)	-7%
Total Expenditures	21,565	18,326	(3,239)	-15%

FIGURE 3

**Water Fund
FY 14 Revenues**

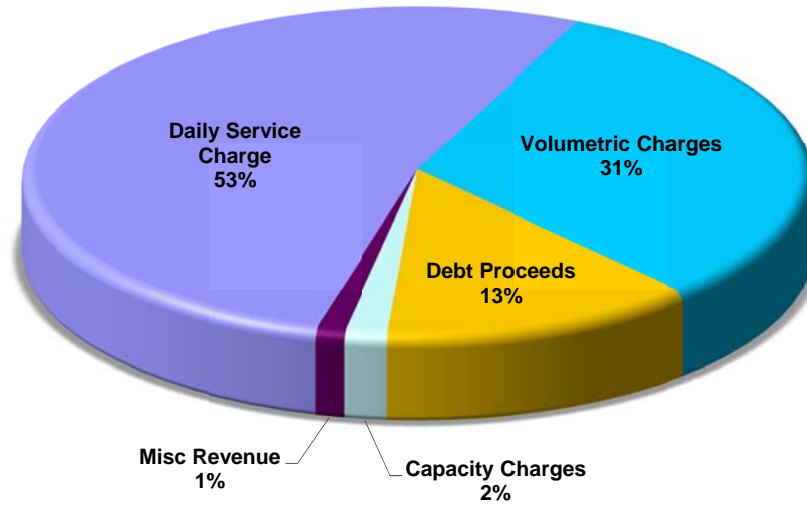


Revenues (in \$1,000's): Budget to Budget Comparison

	FY 13 Budget	FY 14 Budget	Change	Percent Change
Potable and Reclaimed Water Sales	60,794	64,482	3,688	6%
Daily Service Charge	19,978	21,032	1,055	5%
In-Lieu Replenishment Reimbursement	-	1,398	1,398	-
Leo Vander Lans Reimbursement	1,350	1,350	-	0%
Rent & Easements	1,042	992	(50)	-5%
Other Services	855	765	(89)	-10%
Misc. Revenue	1,178	545	(633)	-54%
Unmetered Water Sales	50	229	179	358%
Alamitos Barrier Reimbursement	3,019	219	(2,800)	-93%
Interest Income	119	180	61	51%
Grant Proceeds	88	-	(88)	-100%
Total Revenues	88,472	91,193	2,720	3%

FIGURE 4

**Sewer Fund
FY 14 Revenues**



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

	FY 13 Budget	FY 14 Budget	Change	Percent Change
Daily Service Charge	10,236	10,380	144	1%
Volumetric Charges	6,093	6,194	101	2%
Debt Proceeds	4,426	2,546	(1,880)	-42%
Capacity Charges	350	350	-	0%
Misc Revenue	246	231	(15)	-6%
Total Expenditures	21,351	19,701	(1,650)	-8%