

Long Beach Water Department Fiscal Year 2016 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, 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 the state, with an area of approximately 50 square miles and a population of 469,000 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 16 Water Fund budget, revenues are estimated to rise mainly due to a 4% increase in water rates and an increase in reimbursement for operating the Leo Vander Lans recycling plant due to a plant expansion. Budgeted expenditures are estimated to increase by 1%. The 4% increase is the third in a series of five (5) annual 4% increases originally planned in FY 14 to help revenues keep pace with rising costs. The conservation response has not affected the planned series of increases established in FY 14.

For the FY 16 Sewer Fund budget, rate revenues are expected to increase due to a 4% increase in sewer rates, but overall revenue will decrease due to the elimination of capital project debt issuance. Expenditures are decreasing slightly due to a reduction in planned capital expenditures. The 4% increase is the second in a series of five (5) annual 4% increases that started with FY 15. The goal of the planned series of increases is to raise revenue to meet state mandated obligations for maintenance and infrastructure rehabilitation.

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 16, the planned pump tax charged by WRD will increase by 6%. WRD's rates have risen a total of 90% 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 16, MWD's rates for treated water will rise by 2%. MWD's rates have risen a total of 85% since FY 08.

These core costs associated with the production of groundwater and payment for imported water are expected to increase by almost \$1 million despite an assumed reduction in demand of 6% as compared to FY 15. These core costs will comprise approximately 36% 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 18% below the historical ten (10) year average.

The State Water Resources Control Board (SWRCB) has mandated Long Beach cut its water use by 16 percent, cumulatively, compared to 2013 to respond to the Governor's drought state of emergency. Long Beach reduced water use by 19% in the first month, June 2015. The mandate will extend until February 2016. 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.

It is important to note that imported water from MWD is the Department's highest cost source of water. Consequently, when conservation lessens demand for water, the Department purchases

less imported water from MWD, helping to offset most of the reductions in revenue due to conservation.

III. Infrastructure Repair and Rehabilitation

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2014, the water distribution system totaled 912 miles of water mains with 89,895 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 30 for this fiscal year. This effort represents \$6.2 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 \$5.4 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.

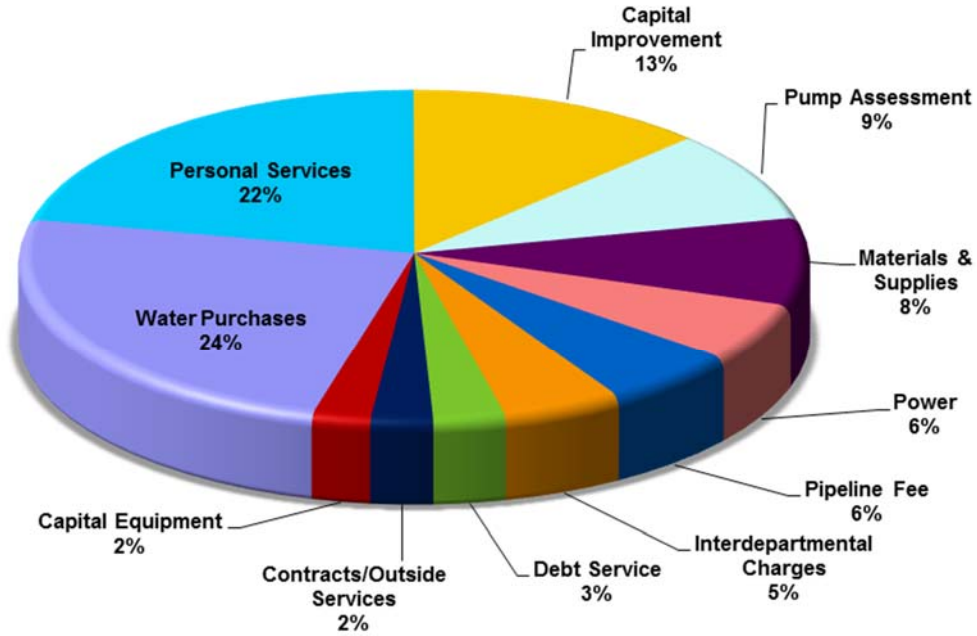
IV. Budget Highlights

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

- FY 16 Water Fund expenditures total \$106.3 million, a 1% increase as compared to the FY 15 budget.
- FY 16 Sewer Fund expenditures total \$19.3 million, a 1% decrease as compared to the FY 15 budget.
- FY 16 Water Fund revenues total \$100.2 million, a 3% increase as compared to the FY 15 budget.
- FY 16 Sewer Fund revenues total \$19.0 million, a 12% decrease as compared to the FY 15 budget.

FIGURE 1

**Water Fund
FY 16 Expenditures**

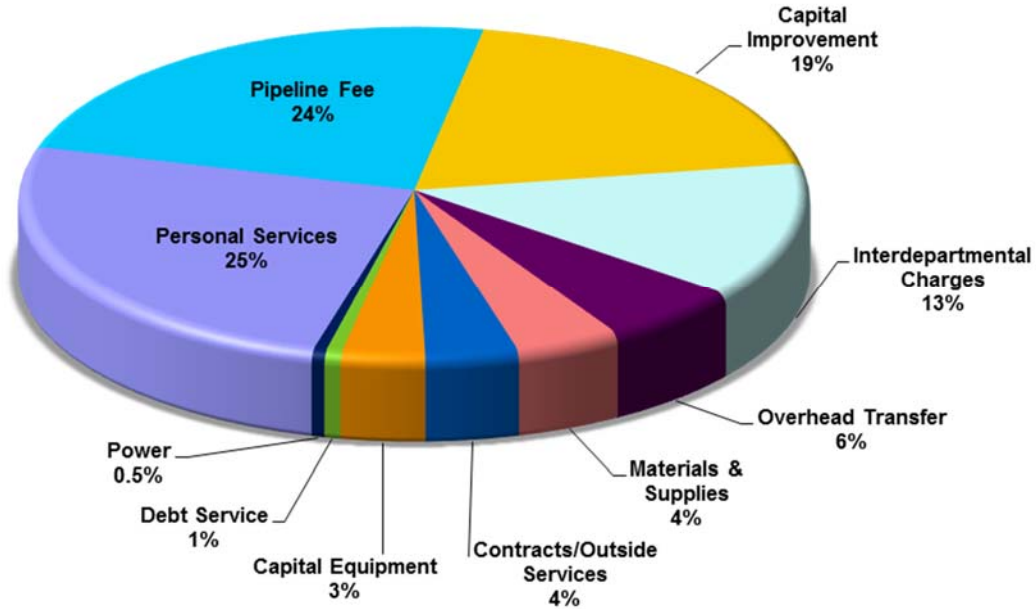


Expenditures (in \$1,000's): Budget to Budget Comparison

	FY 15 Budget	FY 16 Budget	Change	Percent Change
Water Purchases	26,710	25,604	(1,106)	-4%
Personal Services	22,305	23,067	762	3%
Capital Improvement	13,044	13,448	403	3%
Pump Assessment	8,764	9,504	741	8%
Materials & Supplies	8,378	9,044	666	8%
Power	4,835	6,041	1,206	25%
Pipeline Fee	5,794	5,968	174	3%
Interdepartmental Charges	5,558	5,219	(340)	-6%
Debt Service	3,908	3,134	(774)	-20%
Contracts/Outside Services	2,317	2,701	383	17%
Capital Equipment	3,124	2,541	(583)	-19%
Total Expenditures	104,738	106,271	1,533	1%

FIGURE 2

**Sewer Fund
FY 16 Expenditures**

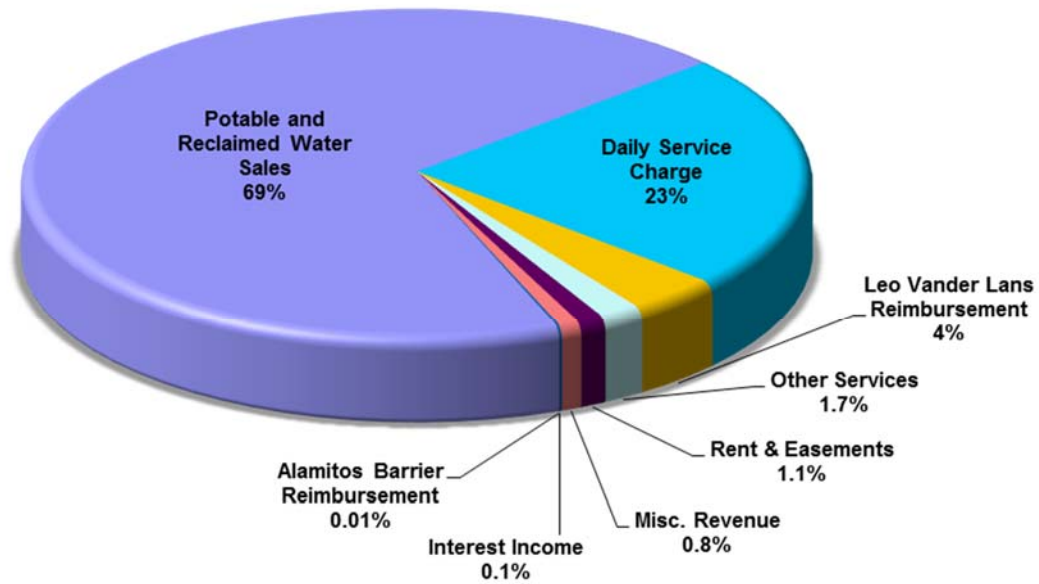


Expenditures (in \$1,000's): Budget to Budget Comparison

	FY 15 Budget	FY 16 Budget	Change	Percent Change
Personal Services	4,752	4,841	89	2%
Pipeline Fee	4,449	4,575	126	3%
Capital Improvement	3,925	3,774	(151)	-4%
Interdepartmental Charges	2,677	2,549	(128)	-5%
Overhead Transfer	1,150	1,125	(25)	-2%
Materials & Supplies	797	836	39	5%
Contracts/Outside Services	760	736	(24)	-3%
Capital Equipment	782	662	(120)	-15%
Debt Service	176	128	(48)	-27%
Power	95	102	7	7%
Total Expenditures	19,563	19,328	(235)	-1%

FIGURE 3

**Water Fund
FY 16 Revenues**

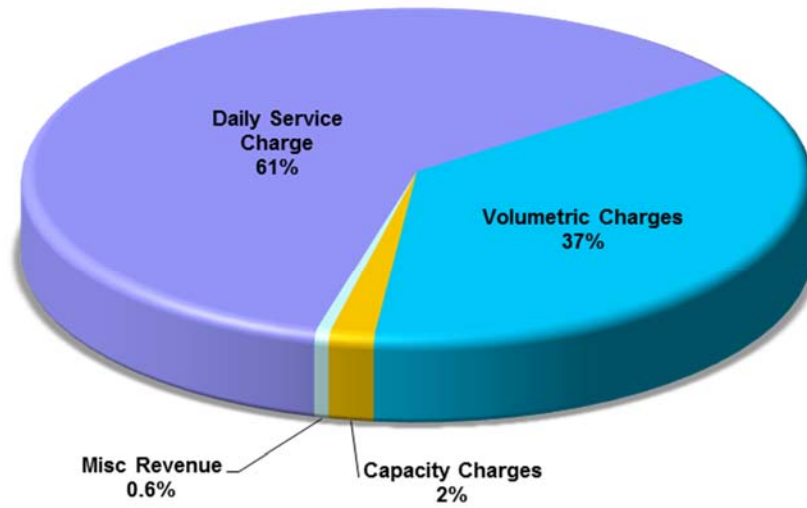


Revenues (in \$1,000's): Budget to Budget Comparison

	FY 15 Budget	FY 16 Budget	Change	Percent Change
Potable and Reclaimed Water Sales	68,896	69,322	426	1%
Daily Service Charge	22,024	23,306	1,282	6%
Leo Vander Lans Reimbursement	2,051	3,773	1,722	84%
Other Services	1,035	1,740	704	68%
Rent & Easements	812	1,086	274	34%
Misc. Revenue	1,200	847	(353)	-29%
Interest Income	145	115	(30)	-21%
Alamitos Barrier Reimbursement	1,078	11	(1,066)	-99%
Total Revenues	97,241	100,200	2,958	3%

FIGURE 4

**Sewer Fund
FY 16 Revenues**



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

	FY 15 Budget	FY 16 Budget	Change	Percent Change
Daily Service Charge	10,896	11,505	609	6%
Volumetric Charges	6,576	6,987	411	6%
Capacity Charges	350	350	-	0%
Misc Revenue	116	111	(5)	-4%
Debt Proceeds	3,500	-	(3,500)	-100%
Total Revenues	21,438	18,953	(2,485)	-12%