

Long Beach Water Department Fiscal Year 2017 Annual Budget Summary

I. Overview

For over 100 years, the Long Beach Water 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 473,500 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 17 Water Fund budget, expenditures are estimated to decrease by 2% due to the reduction in water purchases as a result of conservation, as well as the completion of payments for the City's new financial system. Budgeted revenues are estimated to decrease by 2% despite a 4% increase in water rates and an increase in seawater barrier reimbursements and grant proceeds. The major factors in the declining revenues are reduced sales due to conservation and the elimination by the Metropolitan Water District of Southern California (MWD) of its conservation programs reimbursement to the Department.

For the FY 17 Sewer Fund budget, expenditures are estimated to increase by 2% mainly due to the transitioning of capital projects debt service from interest only to interest and principal. Budgeted revenues are estimated to increase only 1% despite a 4% increase in sewer rates due to the conservation-related winter reset affecting volumetric charges.

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 almost two-thirds of the Department'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. The Department pays a Pump Assessment to the Water

Replenishment District of Southern California (WRD), for water produced from the wells, in addition to electricity, maintenance and treatment costs at our groundwater treatment plant.

- For FY 17, the planned pump assessment charged by WRD will increase by 5%.
- WRD's rates have risen a total of 63% since 2010.

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

- For FY 17, MWD's rates for treated water will rise by 4%.
- MWD's rates have risen a total of 40% since 2010.

Water Conservation - Drought Related Developments. Since 2007, the Department has undertaken an extensive public communications strategy to emphasize the need for a comprehensive reduction in water consumption. The Department began communicating to its customers a regular update on the City's conservation levels as compared to a pre-conservation ten-year average. As a result, the Department's customers have reduced its water usage to about 25% below the historical ten-year average.

On April 1, 2015, Governor Jerry Brown issued the fourth in a series of Executive Orders on actions necessary to address California's severe drought conditions. In response, the State Water Resources Control Board (SWRCB) mandated Long Beach cut its June 2015 to May 2016 cumulative water use by 14% as compared to 2013 water use. The City's customers reduced water use by over 15% in that period as compared to 2013.

In May 2016 SWRCB extended and modified the emergency urban water conservation mandate to allow water suppliers to locally determine conservation mandates effective June 2016 through February 2017. Under the new mandate, Long Beach will not be allowed to exceed its 2013 water usage. The state is still under a drought emergency as declared by Governor Brown, and Long Beach remains in an "exceptional drought" condition. The Department continues to provide programs such as landscape retrofit rebates to its customers, and believes the conservation response is a sustained change in consumption behavior.

It is important to note that purchased 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, 2015, the water distribution system totaled 912 miles of water mains with 89,897 active service connections.

The Department continues to replace 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 approximately 30 per year.

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.

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.

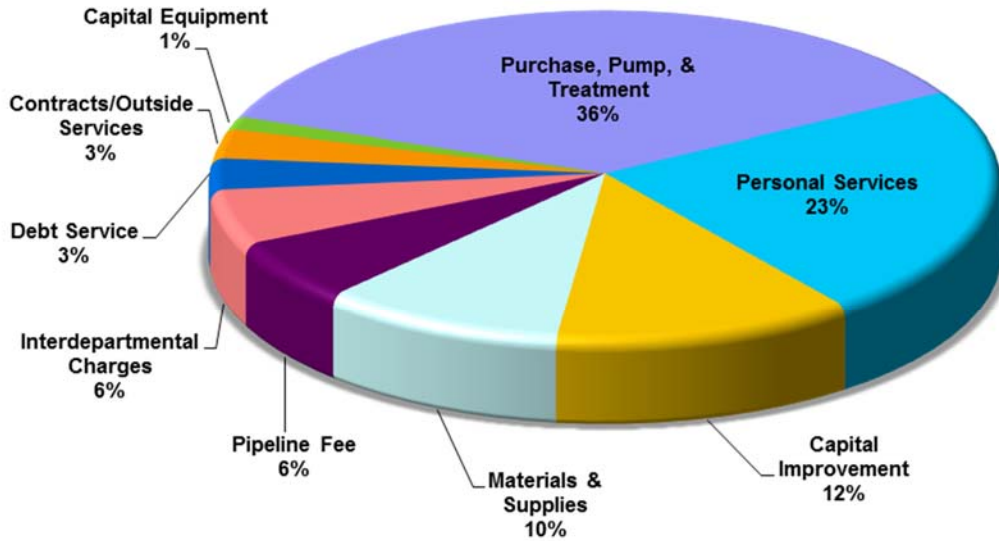
IV. Budget Highlights

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

- FY 17 Water Fund expenditures total \$102.3 million, a 4% decrease as compared to the FY 16 budget.
- FY 17 Sewer Fund expenditures total \$20.2 million, a 5% increase as compared to the FY 16 budget.
- FY 17 Water Fund revenues total \$98.5 million, a 2% decrease as compared to the FY 16 budget.
- FY 17 Sewer Fund revenues total \$19.1 million, a 1% increase as compared to the FY 16 budget.

FIGURE 1

**Water Fund
FY 17 Expenditures**

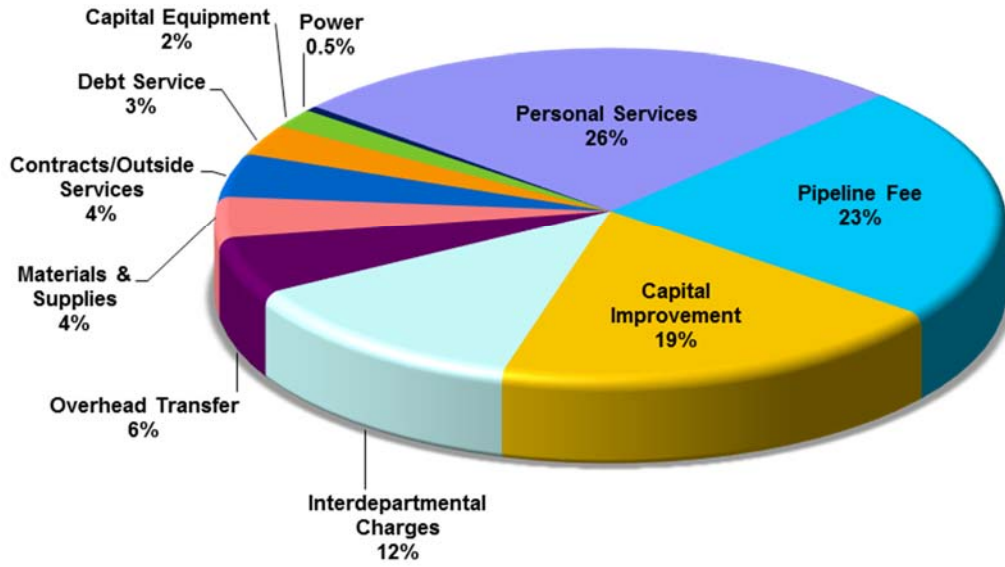


Expenditures (in \$1,000's): Budget to Budget Comparison

	FY 16 Budget	FY 17 Budget	Change	Percent Change
Purchase, Pump, & Treatment	38,691	37,088	(1,602)	-4%
Personal Services	23,067	23,396	328	1%
Capital Improvement	13,448	12,588	(860)	-6%
Materials & Supplies	11,502	10,263	(1,240)	-11%
Pipeline Fee	5,968	6,147	179	3%
Interdepartmental Charges	5,231	5,520	289	6%
Debt Service	3,134	3,134	0	0%
Contracts/Outside Services	2,689	2,890	201	7%
Capital Equipment	2,541	1,295	(1,246)	-49%
Total Expenditures	106,271	102,320	(3,950)	-4%

FIGURE 2

**Sewer Fund
FY 17 Expenditures**

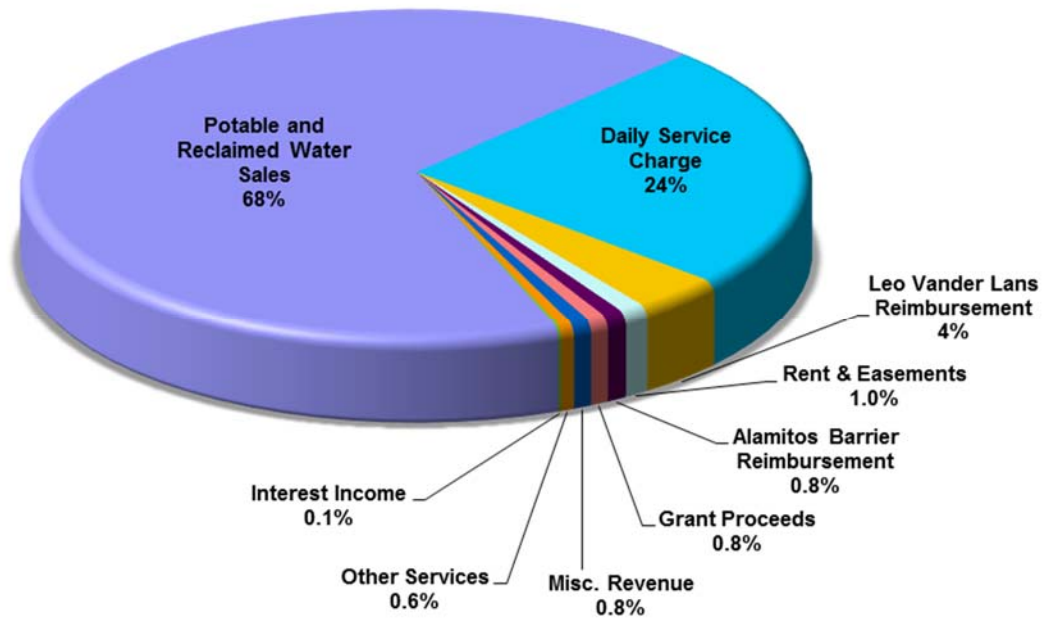


Expenditures (in \$1,000's): Budget to Budget Comparison

	FY 16 Budget	FY 17 Budget	Change	Percent Change
Personal Services	4,841	5,311	470	10%
Pipeline Fee	4,575	4,712	137	3%
Capital Improvement	3,774	3,794	20	1%
Interdepartmental Charges	2,549	2,502	(47)	-2%
Overhead Transfer	1,125	1,132	7	1%
Materials & Supplies	836	820	(15)	-2%
Contracts/Outside Services	736	862	126	17%
Debt Service	128	613	485	379%
Capital Equipment	662	380	(282)	-43%
Power	102	102	-	0%
Total Expenditures	19,328	20,229	901	5%

FIGURE 3

**Water Fund
FY 17 Revenues**

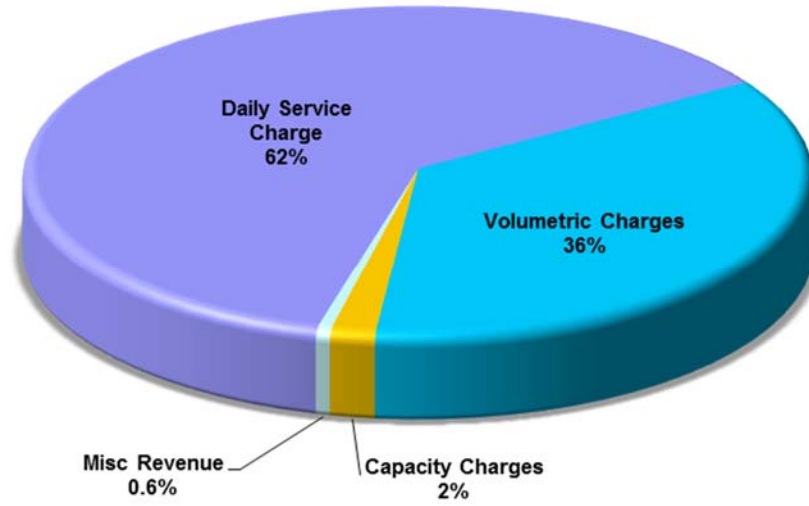


Revenues (in \$1,000's): Budget to Budget Comparison

	FY 16 Budget	FY 17 Budget	Change	Percent Change
Potable and Reclaimed Water Sales	69,322	67,070	(2,252)	-3%
Daily Service Charge	23,306	23,861	555	2%
Leo Vander Lans Reimbursement	3,773	3,574	(198)	-5%
Rent & Easements	1,086	1,025	(61)	-6%
Alamos Barrier Reimbursement	11	826	815	7311%
Grant Proceeds	-	750	750	
Misc. Revenue	840	740	(100)	-12%
Other Services	424	542	118	28%
Interest Income	122	125	3	2%
Conservation Programs Reimbursement	1,316	-	(1,316)	-100%
Total Revenues	100,200	98,513	(1,687)	-2%

FIGURE 4

**Sewer Fund
FY 17 Revenues**



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

	FY 16 Budget	FY 17 Budget	Change	Percent Change
Daily Service Charge	11,505	11,807	302	3%
Volumetric Charges	6,987	6,783	(204)	-3%
Capacity Charges	350	350	-	0%
Misc Revenue	111	111	-	0%
Total Revenues	18,953	19,051	98	1%