

July 1, 2010

Castaic Lake Water Agency
Board of Directors

We are pleased to present the Castaic Lake Water Agency's Final FY 2010/11 Budget. The basic purpose of the budgetary process is to present the Agency's expenditure plan and to identify the resources and revenues available to fund it. The budget is intended to support the priorities and policies of the Board of Directors as reflected in the Agency's mission statement and strategic plan.

Total expenditures for FY 2010/11 are budgeted at \$106.9 million and are comprised of General Fund/Operating Budget expenditures of \$16.9 million, capital improvement expenditures of \$44.2 million, State Water Contract Fund expenditures of \$23.4 million and Certificates of Participation (COP) principal and interest payments of \$22.4 million. These expenditures will be funded from total revenues of \$69.5 million and available fund balances of \$37.4 million from COP proceeds and one percent property tax revenues. COP proceeds were booked as revenue in the year they were received (FY 2006/07) and one percent property tax revenues are available from prior years.

The total revenues of \$69.5 million are comprised \$24.4 million in Agency-set property tax revenues, \$18.8 million in one percent property tax revenues, \$16.6 million in purveyor water sales based on purveyor FY 2010/11 requests of 40,400 acre-feet (AF), \$5 million in Facility Capacity Fees, \$4.3 million in investment revenues and about \$380,000 in other revenues.

FY 2010/11 is a Transition Year

FY 2010/11 represents a transition year for the Agency. As discussed below, the Agency continues to deal with a challenged water supply and financial constraints. The revenue situation for the Agency is starting to improve, but the magnitude and duration of the improvement are uncertain. In addition, the Agency will update its Urban Water Management Plan (UWMP) and its Data Document during FY 2010/11. The 2010 UWMP will reflect a five-year update to the 2005 UWMP, taking into account revised water demands throughout the Agency's service area as well as a changing water supply portfolio. The 2010 Data Document will use the updated water demands to refine the long-term capital improvement program to meet those needs and, based on this work, calculate revised Facility Capacity Fees.

In addition to these Agency-specific studies, there will be continued progress on important studies and programs related to the State Water Project (SWP). A number of court actions over the past three years have resulted in operational impacts to the SWP, and ongoing litigation may result in additional adverse operational impacts. Also, the Bay Delta Conservation Plan (BDCP) is a collaborative effort between water agencies, environmental organizations and State and federal agencies to develop a comprehensive conservation plan for the Delta. The BDCP will be a comprehensive solution that will protect fish species and create a sustainable water delivery system. A related effort, the Delta Habitat Conservation and Conveyance Program (DHCCP), was formed in 2008 to assess potential habitat restoration and water conveyance options in the Delta. The DHCCP is a partnership between the California Department of Water Resources and the U.S. Bureau of Reclamation to evaluate the ecosystem restoration and water conveyance alternatives identified by the BDCP. The evaluation will include full environmental review and developing engineering options for habitat restoration and water conveyance.

BOARD OF DIRECTORS

PRESIDENT
R. J. KELLY

VICE PRESIDENT
PETER KAVOUNAS

E.G. "JERRY" GLADBACH

ROBERT J. DIPRIMO

DEAN D. EFSTATHIOU

WILLIAM C. COOPER

WILLIAM PECSI

THOMAS P. CAMPBELL

EDWARD A. COLLEY

JACQUELYN H. McMILLAN

B. J. ATKINS

GENERAL MANAGER

DAN MASNADA

GENERAL COUNSEL

McCORMICK, KIDMAN &
BEHRENS, LLP

SECRETARY

APRIL JACOBS

All these planning and study efforts will impact the Agency's operations and finances, and the results will be the basis for future year budgets and programs. In anticipation of the results of these programs and with continued monitoring of the state's economic situation, the Final FY 2010/11 Budget does not add new programs other than those related to water supply availability and reliability and water use efficiency/conservation. In addition, the Final FY 2010/11 Budget does not include a cost of living adjustment (COLA) to employee salaries.

Revenue Situation

The global and national economic downturn continues, although the Agency's service area has seen some increase in revenues. *The 2010 North Los Angeles County Real Estate and Economic Outlook* published by the California Economic Forecast in April 2010 discusses that 2010 is a transition year for the economy, with economic expansion scheduled for 2011, and also predicts a rebound in residential construction with steadily improving demand for homes each year through 2013:

The housing recovery for existing home sales began in 2009 and will continue building momentum this year. However, the recovery in new housing production has been delayed until 2011. While the general economy shows improvement this year due to the rebound in resale housing, more time for production to rise is needed; consequently, a more convincing recovery in housing production occurs in 2011.

More specifically, for the Santa Clarita Valley:

The forecast calls for 540 new housing units to be started in the Santa Clarita Valley this year and 900 in 2011. Between 2010 and 2015, a total of 8,500 homes will be started. While this is our base forecast, it is conservative.

The Agency's revenue projection includes a continued decrease in assessed valuation and property tax revenues, but an increase in Facility Capacity Fees as development activity starts to recover. In addition, during FY 2009/10, the Agency increased wholesale water rates to fully recover operating costs. Based on this diversity of revenues, the Agency will be able to maintain its current level programs and continue to enhance its water resources programs.

The Need to Maintain and Enhance a Reliable Water Supply

As discussed above, even with reduced revenues, the Agency continues to fund programs that enhance and maintain the Agency's source of supply. Because of the Agency's and local water purveyors' progressive water resources planning efforts in the past, the Santa Clarita Valley has a diverse water supply portfolio and the Agency has banked water to firm up SWP supplies in dry years. For calendar year 2010, the Agency will be able to meet all purveyor demands and carry over SWP water into 2011. Even if the SWP allocation for 2011 is as low as 15%, the Agency will have sufficient water to meet demands and will have *essentially "drought-proofed" itself through 2011.*

Increased Staffing for the Water Resources Department

The Agency's 2009 and 2010 strategic planning retreats identified water supply, reliability and conservation as key issues. Recent budgets have focused on programs that enhance water supply availability and reliability and water use efficiency/conservation. The Final FY 2010/11 Budget includes additional resources for the Water Resources Department to develop and implement programs, as well as certain staffing changes. The Final FY 2010/11 Budget includes the addition of one position of Principal Water Resources Planner and the upgrade of the current position of Water Resources Planner to Senior Water Resources Planner. This continues the Agency's succession planning efforts and its emphasis on water resources programs that enhance and maintain the Agency's water supply. The upgraded position of Senior Water Resources Planner will take a leadership role in the Agency's water conservation and water use efficiency programs, as well as assist and manage other water resources programs, such as water banking programs, water transfers and management of the Devil's Den Water District. The Principal Water Resources Planner will function as assistant Water Resources Manager and will help manage the activities of the entire Water Resources Department.

Water Use Efficiency Strategic Plan

The Final FY 2020/11 Budget provides substantial funding for the Water Use Efficiency Strategic Plan. During FY 2008/09, the Board of Directors adopted a Water Use Efficiency Strategic Plan (Plan) for the Santa Clarita Valley. The Plan identifies a comprehensive long-term conservation effort for the Valley that meets the region's goal of achieving a ten percent water conservation savings through the adoption of policies and programs designed to promote proven and cost-effective conservation practices. Key program elements include:

- ◆ **Landscape Contractor Certification (Weather-Based Irrigation Controllers) (Best Management Practice [BMP] 1)** This program targets the landscapers that serve single family homes in the Santa Clarita Valley. It is designed to provide landscapers incentives to install residential water efficiency devices such as weather-based irrigation controllers. Individual homeowners would also qualify for this program for their own residences. Staff anticipates that over 300 weather based irrigation controllers will be installed during the fiscal year.
- ◆ **Large Landscape Audit and Incentive Program (BMP 5)** This program provides large landscape water users, such as homeowner associations, with a water use survey and incentives to act on the survey's recommendations. This program identifies the amount of acre feet available at a given site based on a simple water budget. Staff anticipates that 21 audits will be completed during the fiscal year.
- ◆ **Public Outreach (BMP 7)** A common component of all of the programs is a portion of the funds devoted to public outreach. This is reflected as a line item in the plan. All the associated water savings are included in the specific programs.
- ◆ **Commercial Industrial and Institutional Audit and Customized Incentive (BMP 9)** The Agency has initiated a CII water audit and incentive program. Previously, Valencia Water Company was the only retailer providing this type of program. It has identified savings but was been unable to incentivize any identified process improvements. The Agency's program makes audits available and provides an incentive of \$300 per acre-foot of savings. Staff anticipates at least 62 audits will be completed in the fiscal year.

The FY 2010/11 cost of this program is \$980,000 and funds have been included in BMP Implementation and Public Relations Consulting accounts in the Water Resources Department budget. This work will help the Agency in its efforts to meet the requirements of the state's 20% conservation by 2020 goal. The FY 2010/11 cost of \$980,000 is \$275,000 more than the FY 2009/10 amount, reflecting full-year funding of the program and updated costs.

Perchlorate Treatment and Distribution Projects

In May 2007, the Agency and three of the Santa Clarita Valley retail water purveyors settled a long-running lawsuit against the current and past owners of the former Whittaker-Bermite industrial site and approved a settlement agreement to remove perchlorate contamination from the Santa Clarita Valley's groundwater aquifers. The water agencies estimate this settlement, when added to past settlements, could provide up to \$100 million on an undiscounted basis to construct replacement wells, pipelines, and a treatment plant to remove perchlorate. *The settlement also provides funds to operate and maintain the system for up to thirty years.*

During FY 2009/10 the Agency rehabilitated Saugus 1 and 2 wells and completed construction and placed into service a perchlorate treatment facility and distribution pipelines. The treatment facility includes an ion exchange process located at the RVIPS. Placing the Saugus 1 and 2 wells into service restores lost capacity and will help contain groundwater contamination emanating from the contaminated sites.

In accordance with the Memorandum of Understanding (MOU) between the Agency and the purveyors, the Agency will operate the wells and sell 4,100 AF of the water per year at the current operating and maintenance costs of extracting, disinfecting and delivering groundwater from the Saugus Formation. The treated groundwater will be delivered to the Newhall County Water District and the Santa Clarita Water Division in quantities reported in the MOU and shown below. At this time, it is estimated the cost will be \$94/AF, of which \$84/AF is for energy and \$10/AF is for operations and maintenance.

Operating costs are fully reimbursed by the Settlement Agreement. The Final FY 2010/11 Budget assumes that day-to-day operations and maintenance are fully reimbursed during the year and expenditures are offset by revenues. These costs, including but not limited to staff time and the purchase of chemicals, are not shown in the budget as full reimbursement is anticipated. Staff will monitor the operations and reimbursements and may make adjustments in future budget years. In addition, the Settlement Agreement will provide a flat rate reimbursement of \$20,000 per year to cover general administrative costs, reimburse property and liability costs associated with the facilities and reimburse for legislative advocate services related to perchlorate contamination. These revenues are included in the Final FY 2010/11; General Fund/Operating – Annual revenues of \$28,500 will cover the \$20,000 flat rate and insurance premiums and Capital Improvement Program/One Percent Property Funds – Annual revenues of \$105,600 will cover legislative advocate services.

Long-Term Financial Plan

During FY 2008/09, the Agency developed its first Long-term Financial Plan. This Plan is updated each year as part of the Budget process. The Plan (included in Appendix A) is not a static, one-time document, but represents a process where the Board and management review financial strategies to help achieve the Agency's overall strategic plan. This Plan reviews individual financial strategies and serves as the basis for future analysis and decision making by identifying potential financial issues and risks. It also groups financial strategies into near-term, mid-term and long-term issues, to help prioritize and schedule action items for implementation of the Plan. Based on the decisions and guidance provided by the Board, the Plan is a rolling "look-ahead" to help identify priorities and focus. It is not intended to address each and every fiscal issue, but identify high priority fiscal programs and strategies to be monitored over time, so that the Agency is positioned to address them at the appropriate time.

General Fund/Operating Budget

The FY 2010/11 General Fund/Operating Budget increases by seven percent, from \$15,034,500 to \$16,123,500. Of the total increase of \$1,089,000, \$370,000 is for the election to be held in November 2010. Without the election, the increase would be five percent. The significant changes to the budget include:

- ◆ November 2010 election (\$370,000)
- ◆ Increased funding of the Water Use Efficiency Strategic Plan for the Santa Clarita Valley and BMP Implementation (\$257,000)
- ◆ Increased funding for energy based on projected water deliveries (\$204,300)
- ◆ Increased funding for Devil's Den Water District property owner activities (\$150,000)
- ◆ Increased funding of legal consulting (\$100,000)

Change in Staffing

As discussed above, one new position is added to the Water Resources Department. This increases the Agency's overall position count from 72 to 73.

Capital Improvement Program

The FY 2010/11 CIP is \$44,221,700 compared to a CIP of \$54,739,000 in FY 2009/10. The key major capital improvement projects underway in FY 2010/11 include the Rio Vista Water Treatment Plant Expansion project (\$21.9 million), the Sand Canyon Pump Station Standby Generator (\$2.8 million) and the Recycled Water Program Phase II (\$2.1 million) and the Rosedale-Rio Bravo Storage Program Extraction project (\$2 million). Of this total CIP, \$31.2 million is being funded from Certificates of Participation (COP) bond funds and \$13 million is being funded on a pay-as-you-go basis (using one percent property tax funds).

For the projects that are currently underway, the forecast shows that COP proceeds will be exhausted in early FY 2011/12 and approximately \$70 million will be required to complete those projects. If debt-financed, the annual debt service would be approximately \$4.6 million per year, of which it is estimated that \$2.7 million would be allocated to Facility Capacity Fees and \$1.9 million would be allocated to one percent property tax revenues.

The Agency has typically used debt financing to fund capital improvement projects, but would review its financial situation prior to considering any future debt to ensure it can continue to meet reserve and debt coverage requirements. If debt financing is not the best funding source for these projects, the Agency would review grant funding or pay-as-you-go funding. If these sources are not available, the Agency could reduce the scope of or defer projects. The Agency will monitor revenues and CIP expenditures, and will use this information to develop the FY 2011/12 budget and determine the appropriateness of additional CIP financing.

Ongoing Activities – Expanding Infrastructure

As identified in recent budgets, the Agency's infrastructure continues to expand. The previous three budgets have included additional resources to operate and maintain new facilities. As discussed above, the perchlorate treatment and distribution facilities are operational in FY 2010/11, and the costs associating with operating these projects are fully reimbursable under the settlement agreement.

While no additional new facilities are coming on line in FY 2010/11, the Agency understands the importance of monitoring the impacts of CIP projects on operating expenditures. Each major CIP project that becomes operational adds new complexity and costs to the Agency's overall system. As this additional infrastructure is implemented, the Agency will require additional staff resources and will incur additional costs to operate and maintain the infrastructure. The Long-term Financial Plan notes that the Agency should develop a method to fully understand the impact of the CIP on operating costs. That is, when a project is added to the CIP, its cost is not just the cost of the capital improvement program, but also includes the ongoing costs to operate and maintain that project.

Santa Clarita Water Division Cost Allocation

The Agency allocates certain shared positions to its Santa Clarita Water Division (SCWD). The allocation of staff is updated each year through the budget process and is largely based on full-time equivalent (FTE) positions. In July 2008, the Agency's audit firm presented the results of a target audit of the shared positions to the Finance and Administration Committee, and presented recommended allocations of the shared positions.

At the time the Committee reviewed the target audit, the Committee directed staff to use the project accounting system to better track the shared employees' time. As a result of these efforts, the allocation based on FTE positions was confirmed for most of the positions. Time charges continue to be monitored and, based on experience to date, no changes are recommended for the FY 2010/11 Budget. This situation will be reviewed each year as part of the budget process.

The shared positions for FY 2010/11 are as follows:

- ◆ Human Resources/Safety: Human Resources/Risk Management Supervisor, Administrative Analyst (Human Resources) and Safety Officer. These positions are allocated 56% to CLWA and 44% to SCWD. Charges include labor, benefits and other indirect costs.
- ◆ Information Technology: Information Technology Technician. This position is allocated 56% to CLWA and 44% to SCWD. Charges include labor, benefits and other indirect costs.
- ◆ Accounting Technician II (Payroll). This position is allocated 56% to CLWA and 44% to SCWD. Charges include labor, benefits and other indirect costs.
- ◆ Facilities. All four positions in the Facilities section will charge actual time worked on SCWD projects to SCWD. Charges include labor and benefits.
- ◆ Controller. The Controller charges actual time spent on SCWD projects to SCWD. The Budget assumes 25% of the Controller's time is charged based on experience to date. Charges include labor and benefits.
- ◆ Administrative Services Manager. This position is assumed to spend 50% of time supervising the above functions, and is allocated 22% to SCWD (half of 44%). Charges include labor and benefits.
- ◆ Water Conservation Coordinator. This position is budgeted at 10%, but charges actual time spent on SCWD projects to SCWD. Charges include labor and benefits.

Major Accomplishments

During FY 2009/10 we:

- ◆ Met all purveyor demands by delivering 34,610 AF and all applicable water quality regulations, while maximizing SWP carryover for use in FY 2010/11.
- ◆ Achieved 10% conservation valley-wide during 2009 (relative to 2007).
- ◆ Obtained a favorable final appellate court ruling in December 2009 after a series of legal challenges to the Kern-Castaic transfer of 41,000 AFY of SWP water. In March 2010, the Plaintiffs' petition for review by California Supreme Court and request for an order directing depublication of the opinion was denied.
- ◆ Completed construction and started up the Groundwater Production Restoration Project and Perchlorate Treatment Project. The facilities serve a two-fold purpose: (1) to mitigate migration of the contaminant plume and (2) to restore some of the well capacity that was taken out of service due to the contamination.
- ◆ Completed 60% of the construction of the Rio Vista Water Treatment Plant Expansion with 1.7% change orders (total contract cost is \$37.6 million).
- ◆ Calibrated and verified accuracy of all flow meters in the distribution system.
- ◆ Through participation in the Santa Clarita Valley Water Committee (formerly the SCV Drought Committee), the City adopted the State model landscape ordinance.
- ◆ Assembled the 2010 Urban Water Management Plan consultant team and held the kickoff meeting in December 2009. The first public workshop was held in May 2010.
- ◆ Enhanced CLWA's standing in the Santa Clarita Valley as "water champions" through a water conservation based public relations communication plan consisting of the following actions:
 - Retained a marketing consultant in May 2010 to develop marketing campaign.
 - Retained a local branding consultant in June 2010 to design a media campaign.
 - Created an Agency Facebook page in November 2009.
 - Participated in the KHTS legislative tour in March 2010 and conducted a local water facility tour in May 2010.
- ◆ Set the 2010-2012 wholesale water rates that fully recovered operating costs.
- ◆ Worked with Association of California Water Agencies, California-Nevada Section of American Waterworks Association, certain community water systems, other water utilities, the Regional Water Quality Control Board and Los Angeles County to adopt the Santa Clara River Memorandum of Understanding and associated Best Management Practices in lieu of a proposed new General National Pollution Discharge Elimination System Permit.
- ◆ Pursued federal funding for perchlorate contamination clean-up, which includes a \$5 million appropriations submittal by Senator Boxer for 2011.
- ◆ Refunded the 2001A Certificates of Participation, resulting in four percent net present value savings of \$2.7 million.
- ◆ Successfully participated in the Proposition 1A securitization program. The Agency was subject to a Proposition 1A borrowing of approximately \$1.7 million, due to be repaid no later than June 30, 2013. By participating in the securitization program, the Agency received the funds during FY 2009/10.
- ◆ Received the Excellence in Budgeting Award from the California Society of Municipal Finance Officers and the Distinguished Budget Presentation Award from the Government Finance Officers Association for the FY 2009/10 Operating Budget.
- ◆ Received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the FY 2008/09 Comprehensive Annual Financial Report.
- ◆ Expended only 90% of the FY 2009/10 Budget.

Major Actions

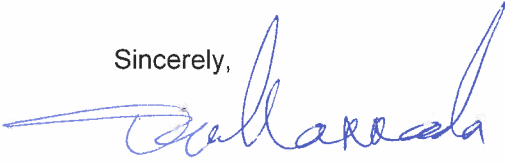
During FY 2010/11 we will:

- ◆ Meet all local water retailers' water demands.
- ◆ Meet all applicable water quality regulations.
- ◆ Complete construction of the Rio Vista Water Treatment Plant Expansion project.
- ◆ Update Operations Plans for the Rio Vista Water Treatment Plant and the Earl Schmidt Filtration Plant.
- ◆ Cooperate with the local water retailers to develop a strategy to comply with AB7X-7 (20% per capita water use reduction by 2020).
- ◆ Continue pursuing federal funding for perchlorate contamination clean-up and recycled water projects in coordination with our Washington, D.C. legislative advocate.
- ◆ Monitor innovative financing techniques in the bond financing environment (including but not limited to Build America Bonds and Qualified Energy Conservation Bonds).
- ◆ Continue our outreach program with rating agencies to maintain and improve the Agency's credit rating, and achieve the lowest possible annual debt service costs.
- ◆ Perform a market survey to update the current compensation structure to be implemented with the FY 2010/11 Budget.
- ◆ Develop and implement a comprehensive pipeline inspection program and implement Computer Maintenance Management System as part of a comprehensive asset management strategy.
- ◆ Identify and assess potential imported water supplies to augment the Agency's portfolio, including the completion of a feasibility study for the Garden Bar Reservoir.
- ◆ Monitor and participate in development and implementation of Delta improvements, including the Bay Delta Conservation Plan and the Delta Habitat Conservation and Conveyance Plan.
- ◆ Implement our plan to enhance the recovery capacity of the Rosedale Rio Bravo Banking Program.
- ◆ Complete environmental studies to enhance recovery of banked water from the Semitropic Banking Programs.
- ◆ Assess the feasibility of constructing solar power generation facilities at the Rio Vista Water Treatment Plant and the Devil's Den property.
- ◆ Complete the 2010 Urban Water Management Plan to reflect revised SWP water supply reliability conditions and other appropriate changes as required by state law.
- ◆ Host a local tour highlighting critical water facilities and issues.
- ◆ Enhance CLWA's standing in the Santa Clarita Valley as the source for pertinent water-related information through a branding communication plan as follows:
 - Implement the partnership building component of public outreach including working with City, County Regional Planning, school districts, local water retailers and homeowner associations.
 - Implement the outreach component of the Santa Clarita Valley Water Use Efficiency Strategic Plan including promoting available rebates and advertising in various media.
- ◆ Enhance CLWA's water conservation efforts in the Santa Clarita Valley through a water conservation based social marketing communication plan consisting of the following components:
 - Implement the advertising components of public outreach including TV, radio, web based and print media.
 - Implement media outreach component of public outreach including ongoing news stories and editorials.
- ◆ Ensure that the Agency budget and the Department budgets are appropriately expended by actively managing and controlling expenditures.

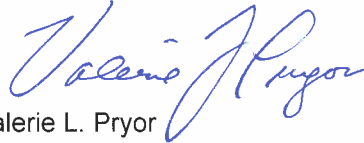
Conclusion

In conclusion, the Final FY 2010/11 Budget acknowledges the financial uncertainties and challenges the Agency faces, but also maintains and enhances the Agency's ability to provide a reliable water supply to the Santa Clarita Valley. The budget reflects a substantial investment in water supply, reliability and conservation programs to address the ongoing drought as well as SWP infrastructure issues.

Sincerely,



Dan Masnada
General Manager



Valerie L. Pryor
Administrative Services Manager