

SANTA CLARITA WATER, A DIVISION OF CASTAIC LAKE WATER AGENCY

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July 1, 2010

Castaic Lake Water Agency
Board of Directors

We are pleased to present the Santa Clarita Water Division (SCWD) Final Fiscal Year 2010/11 Budget. This budget represents the spending plan for SCWD for the fiscal year beginning July 1, 2010 and identifies the revenues and resources available to fund the plan. The Final FY 2010/11 Budget reflects our commitment to our customers to continue to provide an affordable, reliable supply of high quality water. SCWD's major focus for FY 2010/11 will be long-range planning that will provide the framework and direction for the upcoming years. The budget is intended to support the policies and priorities of the Board as reflected in the Agency's mission statement and the Division's strategic plan. It also serves as a financial plan and an operations guide for FY 2010/11.

Operating Revenues

Operating Revenues are anticipated to increase 11.2% from last year's Estimated Revenues to \$24,240,400. The 11.2% increase reflects a 15.3% rate increase (adopted January 2010) for July 2010 to December 2010 and a 12.4% rate increase effective January 2011 for the second half of the fiscal year. It also reflects minimal growth and a 5% decrease in consumption for anticipated conservation. Operating Income is expected to increase to \$5,256,300 from \$5,074,754 for Estimated FY 2009/10. Operating Income provides funds for non-operating activities, primarily for debt repayment to the Agency, Certificates of Participation (COPs) and reserves. The CIP proposed for FY 2010/11 is \$5,465,617, a decrease of 2.8% from Estimated FY 2009/10. This program is funded through (1) the three year retail rates based on a 20% "pay-as-you-go" and 80% COP financing for the CIP and (2) Impact Capacity Fees paid by developers for future expansion. CIP projects budgeted for FY 2009/10 and earlier that are still in progress are included in the proposed budget as prior year carry-forward amounts totaling \$5,046,425.

Position Changes

Proposed in FY 2010/11 is the Senior Financial Analyst position being reclassified to reflect the actual role as a department head. Currently the position oversees the Finance and Customer Service departments. Also proposed is the promotion of the Engineering Technician II to a proposed Senior Engineering Technician position in recognition of increased responsibilities. The proposed reclassifications/promotions will not increase the employee count.

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Operating Expenses

Total Operating Expenses included in the Final Budget are \$18,984,100, an increase of 13.5% from FY 2009/10 Estimated. A major change to the Budget includes an increase of \$987,429 for Purchased Water due to the increase in the wholesale water rate from \$420 per acre foot (AF) to \$478 per acre foot (AF) effective January 1, 2011, which was approved by the Board on August 26, 2009, offset in part by a 5% decrease in volume due to anticipated conservation. Other major changes to the budget include:

- ◆ \$160,969 for Power for Pumping which includes a preliminary estimate of rate increases by Edison and the additional costs of more wells coming on line.
- ◆ \$281,408 for Burden and Benefits due to increases in medical and dental insurance.
- ◆ \$111,686 for Materials and Supplies, which includes backup motors for pumps, new stationery for the new administration building, replacement computers for staff and credit card terminals for customer service to provide more payment options for the customers.
- ◆ \$464,539 for Outside Services for 90 day Department of Transportation certification for all company vehicles, SCWD's share of the Integrated Regional Water Management Plan and security for the warehouse and administration buildings.

SCWD will continue to emphasize training and professional development. The FY 2010/11 Budget provides funds for a variety of training and educational opportunities for all employees, tuition reimbursement and other activities. SCWD will continue to coordinate with the Agency on Agency-wide safety training, such as CPR, First Aid and Automated External Defibrillator training.

Capital Improvement Program

A number of critical infrastructure improvements are included in the FY 2010/11 Budget including upgrading the SCADA system to improve automated remote monitoring of our well facilities, booster pump stations and reservoirs.

Other infrastructure projects include the installation of two additional wells, one in the Alluvium and one in the Saugus Formation, that will improve our production capacity and system reliability and redundancy. The increased production capacity will enhance SCWD's ability to deliver groundwater supplies during dry periods and assist in maintaining a 60%/40% blend with imported water.

In addition, five reservoir siting studies are underway for future reservoirs that will provide 3.5 million gallons (MG) of additional storage for the Friendly Valley Zone, 3 MG for the Deane Zone, 3 MG for the Catala Zone, 2.5 MG for the Placerita Zone and 0.5 MG for the Seco Zone. These projects will augment SCWD's overall storage capacity in these zones and improve our ability to respond during emergencies.

Enterprise-wide projects will also be initiated including an Automated Meter Read (AMR) project and the completion and implementation of a GIS Master Plan. Staff is proposing an initial phase of AMR technology network that can receive data signals from water meters within our system and remotely transmit that data in real time to software-enabled office desktop or field notebook computers.

Benefits of the AMR system include improvements in customer service response time as each customer's meter readings would be available in real time to our customer service representatives. It would reduce work orders/service calls as meters can be read from the office and accounts can be opened and closed while on the phone with the customers. Field Customer Service Representatives' time in the field would be reduced, thereby conserving gasoline and reducing wear and tear on the vehicles and enhancing the ability of personnel to respond to other operational and maintenance issues. It can also be used in a proactive manner to analyze hourly/daily consumption patterns for conservation efforts and early detection of leaks or system inefficiencies. All transmitters would be equipped with GPS capability that can be integrated into a Geographical Information System (GIS). The GIS Master Plan is 95% complete. This plan identifies the information needs and requirements for SCWD to optimize asset management. Requests for Proposals for professional services will be issued to qualified firms for implementation of the first phase of the GIS network.

Cost Allocation From CLWA

CLWA allocates certain shared positions to 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 CLWA 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:

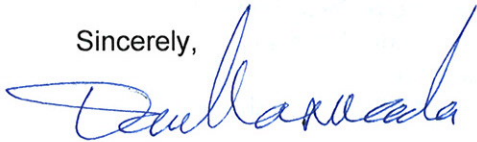
- ◆ Human Resources/Safety: Human Resources/Risk Management Supervisor, Administrative Analyst (Human Resources) and Safety Officer. These positions are allocated 44% to SCWD and 56% to CLWA. Charges include labor, benefits and other indirect costs.
- ◆ Information Technology: Information Technology Technician. This position is allocated 44% to SCWD and 56% to CLWA. Charges include labor, benefits and other indirect costs.
- ◆ Accounting Technician II (Payroll). This position is allocated 44% to SCWD and 56% to CLWA. 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, benefits and other indirect costs.
- ◆ 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, benefits and other indirect costs.

- ◆ 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, benefits and other indirect costs.
- ◆ Water Conservation Coordinator. This position is budgeted 10%, but charges actual time spent on SCWD projects to SCWD. Charges include labor, benefits and other indirect costs.


Conclusion

The Final FY 2010/11 Budget is not only a financial document but also a planning tool for the upcoming year. The final budget provides a strategy to address current needs and to focus on future needs while being financially responsible. We continue to support the priorities and policies articulated by the Board while also providing a high level of service to our customers. We believe that the programs and projects planned for the upcoming year support SCWD's strategic plan and long-range goals.

Sincerely,



Dan Masnada
General Manager



Mauricio E. Guardado, Jr.
Retail Manager

Major Accomplishments

During FY 2009/10 we:

- ◆ Acquired a new Administrative Office Building. Anticipate moving in January 2011 pending completion of tenant improvements.
- ◆ Completed reservoir site studies for Deane and Placerita tanks. Since the Deane and Placerita tank sites are linked to developer projects, timing of projects are developer driven. Construction is anticipated to begin 12/13. The Friendly Valley site study is 90% complete and the Catala tank site study is 75% complete. The Seco site study is complete and is in the design phase.
- ◆ Developed the operations plan for moving water from west to east; it is in the final stages of review.
- ◆ Drilled and completed construction of the Valley Center Alluvial Well to increase groundwater production capability.
- ◆ Completed Guida Well Panel Upgrades.
- ◆ Completed the Saugus Booster rebuild project.
- ◆ Completed 510 meter change outs.
- ◆ Cleaned out and exercised 1,798 valves and replaced 32 broken valves.
- ◆ Awarded a contract to Northern Digital May 2010 for the SCADA upgrade to improve telemetry capabilities.
- ◆ Developed and implemented a service line replacement program. The first phase of Saugus and Friendly Valley was completed June 2010.
- ◆ Implemented mass distribution voicemail reminding SCWD customers of weather and seasonal changes and to adjust sprinkler settings accordingly.
- ◆ Changed the SCE base rates on 12 pumps, which will save SCWD approximately \$65,000 over the next year.
- ◆ Conserved 12% during FY 2009/10 through May compared to FY 2008/09 through May.
- ◆ Completed consumption survey reports for ten HOAs.
- ◆ Awarded contracts to complete ten CII (Commercial, Industrial, and Institutional) audits.
- ◆ Prepared a five-year operating and capital financial plan.
- ◆ Implemented pre-funding of a portion of the GASB 45 liability.
- ◆ Implemented and adjusted developer connection fees, now known as Impact Capacity Fee, effective February 1, 2010.
- ◆ Implemented adjustments to retail water rates effective January 1, 2010, that apply the fairness doctrine, included a tiered rate structure to encourage water use efficiency and are in full compliance with Proposition 218 requirements.
- ◆ Participated in the Great California Shake Out earthquake simulation.
- ◆ Achieved a “no related issues/recommendations” status in the JPIA’s Property Risk Assessment report.
- ◆ Expended 95% of FY 2009/10 Budget.

Major Actions

During FY 2010/11 we will:

- ◆ Perform a functional and an economic cost analysis of the existing utility billing system to determine whether to upgrade it or to convert to new software and commence the implementation process.
- ◆ Revise SCWD reserve fund policy to ensure sufficient coverage.
- ◆ Develop and maintain proper project tracking mechanism to comply with Certificates of Participation Bonds Purchase Agreement and associated regulations.
- ◆ Propose operations facility upgrades to improve site efficiency, maintenance and safety.
- ◆ Evaluate and identify preferred computerized management maintenance system to improve preventative maintenance and inventory tracking methods.
- ◆ Evaluate and identify preferred Automated Meter Reading/Automated Meter Infrastructure system to improve meter read efficiency, accuracy, conservation tracking and customer service.
- ◆ Conduct an overall asset management analysis to develop and implement an asset management system to support our infrastructure.