

OVERVIEW OF THE SANTA CLARITA WATER DIVISION

History and Growth of Santa Clarita Water Company

The origins of the Santa Clarita Water Division (SCWD) began when the Bonelli family started a small water company in 1949 called the Bouquet Canyon Water Company as a public utility water company regulated by the California Public Utilities Commission. When formed, Bouquet Canyon Water Company had three service connections, 2888 feet of pipe, one well capable of producing 900 gallons per minute (GPM), and 200,000 gallons of tank storage. The original service area of Bouquet Canyon Water Company totaled 223 acres and was situated along San Francisquito Canyon Road (now Seco Canyon Road) at Bouquet Canyon Road. The Bonelli family started a second water company in 1956 called the Solemint Water Company. The Solemint Water Company started with 78 service connections, 24,479 feet of pipe, two wells capable of producing 1,325 GPM and 100,000 gallons of storage. At that time, the Solemint Water Company service area was several hundred acres mostly in the Canyon Country, Sand Canyon and Placerita Canyon areas.

In 1973, a merger of Bouquet Canyon Water Company and Solemint Water Company was approved by the California Public Utilities Commission. In the merger agreement, the name of the Solemint Water Company was changed to Santa Clarita Water Company (SCWC). At the time of the merger, SCWC had a combined total of 8,736 service connections, 650,000 feet of pipe, 19 wells capable of producing 16,000 GPM and 8 million gallons of storage.



History of Santa Clarita Valley and the Formation of Castaic Lake Water Agency

Rich in Old West history, the Santa Clarita Valley boasts tales of Native American tribes, Spanish soldiers and Mexican bandits, gold discovery and oil strikes, railroads and ranches, a horrible dam failure, and cowboy movie stars. Today, the Santa Clarita Valley is a fast growing and vibrant community.

Now, as in the beginning, the fundamental key to growth is a stable water supply. While the Santa Clara River historically provided alluvial groundwater for agriculture and livestock, this source could not provide a year round supply. At the turn of the twentieth century, the area's needs were met with the advent of the deep-well turbine pump.

While the area remained primarily agricultural through the 1950's, the local communities secured additional water for municipal growth. In 1960, voters approved the California State Water Project (SWP) to import water to Southern California. In 1980, the Castaic Lake Water Agency (CLWA) commenced delivering SWP water to the Valley. CLWA purchases State Project Water from the Department of Water Resources (DWR) and treats SWP and other imported water at the Earl Schmidt Filtration Plant and the Rio Vista Water Treatment Plant. As a wholesaler within the Santa Clarita Valley, CLWA sells treated water to four retail water purveyors within the Santa Clarita Valley. The four retail water purveyors are Los Angeles County Waterworks District No. 36, Newhall County Water District (NCWD), Santa Clarita Water Company (SCWC) and Valencia Water Company (VWC).



Aerial photo of the California Aqueduct at the Interstate 205 crossing
Photo courtesy of Wikipedia.com

Santa Clarita Water Division

In 1999, the Castaic Lake Water Agency purchased SCWC, and the name was changed to the Santa Clarita Water Division (SCWD) of Castaic Lake Water Agency. The service area at the time of acquisition included about 20,000 service connections, 12 groundwater production wells and 39 storage tanks.

Today, SCWD is a retail water purveyor operating a service area that includes a portion of the City of Santa Clarita and unincorporated portions of Los Angeles County in the communities of Saugus, Canyon Country and West Newhall. SCWD supplies potable water from imported water purchased from CLWA, accounting for approximately 55-65% of supply, and groundwater wells, accounting for approximately 35-45% of supply, to approximately 28,000 service connections. Existing land use within the retail service area is principally residential consisting of approximately 94% of retail customers and 6% for commercial, industrial and other users including public authorities, irrigators, government, institutional and fire service.

SCWD's staff operates and maintains a distribution system consisting of approximately 300 miles of pipeline, 29 booster stations, 15 active groundwater wells, 5 hydro-pneumatic systems (pressurized system or closed system), 25 pressure reducing stations and 48 active storage tanks. This infrastructure is organized into 16 pressure zones and 12 sub-pressure zones.

Mission Statement

Santa Clarita Water Division's mission is:

"A Public Agency Providing Reliable, Quality Water at a Reasonable Cost to our customers."

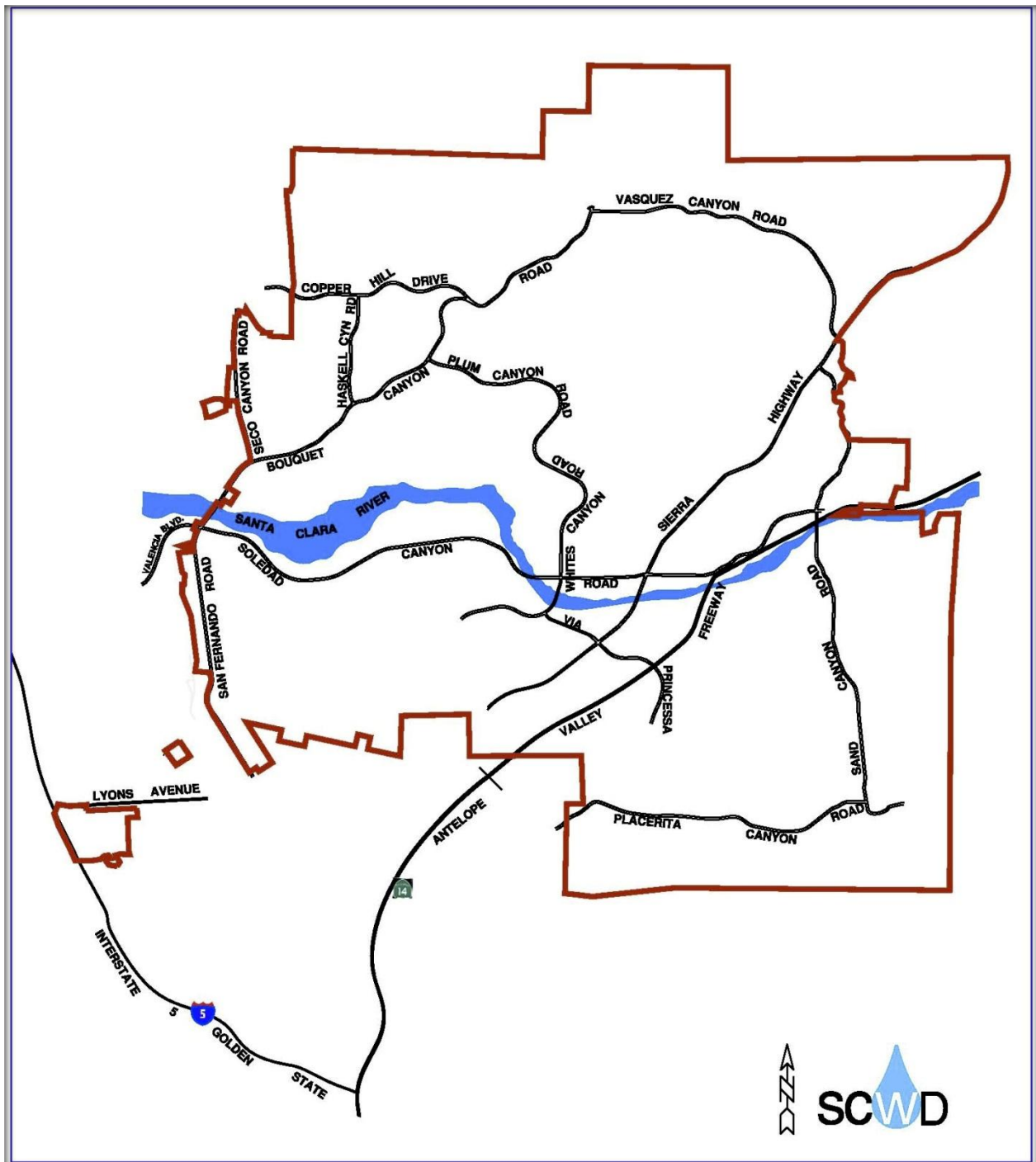
Location of Santa Clarita Water Division

Santa Clarita Water Division is located in the Santa Clarita Valley, which is in the northwestern portion of Los Angeles County approximately 35 miles from downtown Los Angeles.



Santa Clarita Water Division Service Area

SCWD operates a service area that includes a portion of the City of Santa Clarita and unincorporated portions of Los Angeles County in the communities of Saugus, Canyon Country, and West Newhall. The Santa Clarita Valley is approximately 200 square miles and cradles the headwater of the Santa Clara River. It is surrounded by the San Gabriel Mountains, the Santa Susana Mountains and the Sierra Pelona Mountains. SCWD currently serves a population of approximately 111,200 within 56 square miles.



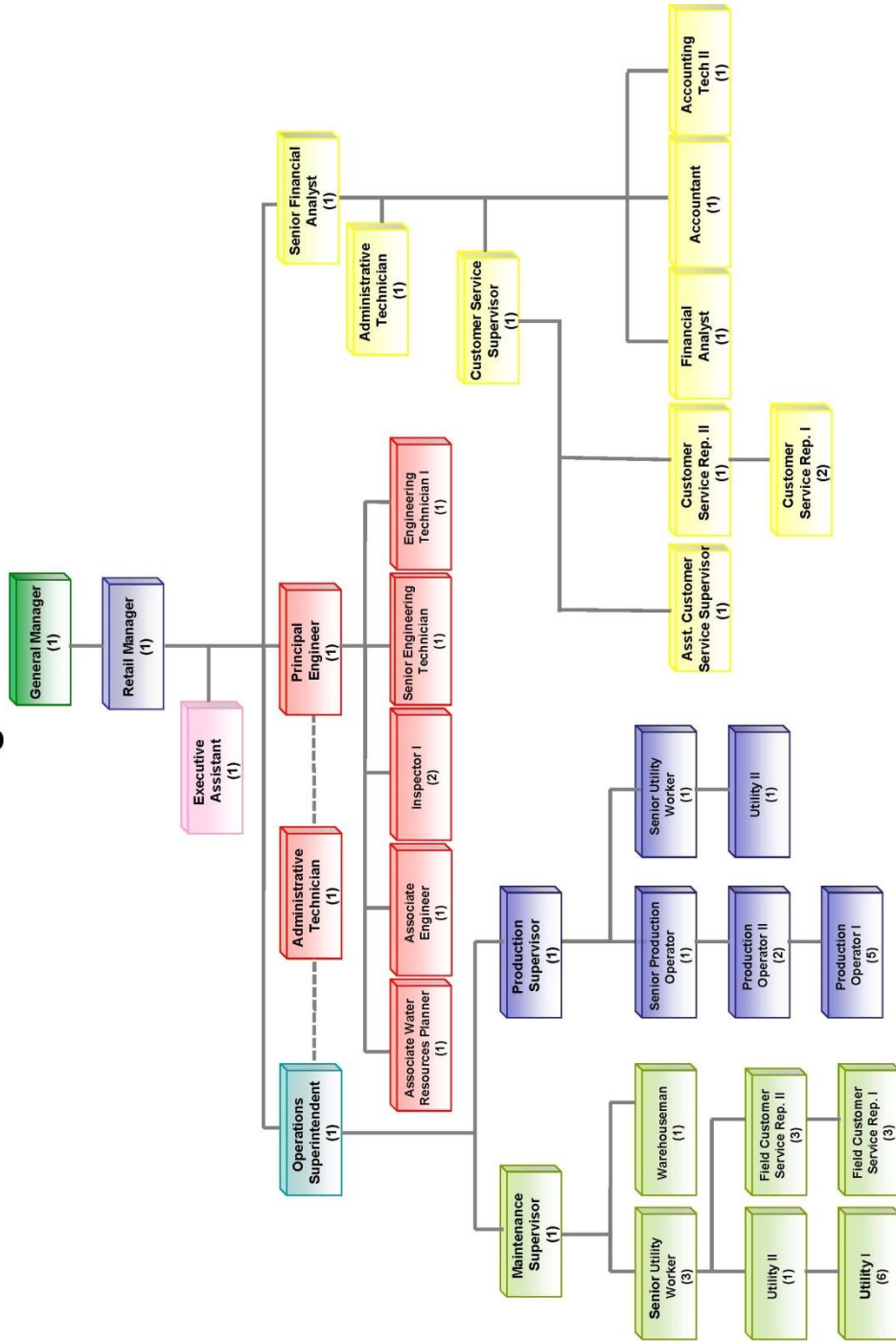
Government

SCWD has the same governing board as CLWA. The governing board is made up of two directors from each division, two directors at large and one director appointed by three of the retail water purveyors (Valencia Water Company, Newhall County Water District and Los Angeles County Waterworks District #36) for a total of eleven Board members. SCWD also has a governing Retail Operations Committee (ROC), which is comprised of five CLWA Directors and meets monthly on the first Monday of each month. SCWD first presents all retail water related matters to the ROC for recommendations to the full CLWA Board. As of June 2010, the ROC and CLWA Board consists of the following individuals:

Retail Operations Committee	
Peter Kavounas	Chair
Ed Colley	Vice Chair
Dean Efstathiou	
R.J. Kelly	
William Pecs	

Castaic Lake Water Agency – Board of Directors		
Director	Division	Term Expires
R.J. Kelly, President	1	January 2013
Peter Kavounas, Vice President	2	January 2011
Thomas Campbell	At Large	January 2011
William Cooper	At Large	January 2013
Ed Colley	1	January 2011
E.G. “Jerry” Gladbach	2	January 2013
Jacque McMillan	3	January 2011
William Pecs	3	January 2013
B.J. Atkins	NCWD	January 2013
Dean Efstathiou	LA Co. #36	January 2011

SCWD Organizational Chart



SCWD 2009 Rate Study

On November 12, 2008, CLWA Board of Directors selected Camp Dresser & McKee Inc. (CDM) to prepare a Comprehensive Water Rate Report and Impact/Capacity Fee Analysis for SCWD.

The report is dated August 2009, and can be viewed at the www.scwater.org website under Customer Service.

Rate Study Objectives – The objective of the Rate Study was to develop equitable, conservation-oriented user charges that recover future rate-based revenues needed to sustainably operate the water system. There were six major objectives:

- ◆ **Revenue Sufficiency.** Required that user charge revenues be sufficient to operate the utility and properly maintain the facilities for the long run.
- ◆ **Practical.** Required that the bills can be calculated using the existing billing system without creating an administrative burden.
- ◆ **Equitable.** Required that the user charges result in each customer class paying the portion of costs for which it is responsible.
- ◆ **Stable.** Required that net utility revenues do not vary significantly from year to year during changes in demand and that the revenues fully support the fixed costs of operations.
- ◆ **Acceptable to the Community.** Required that the user charges be easily understood by the utility's customers.
- ◆ **Compliant with Applicable Regulations.** Required that applicable state laws, regulations and court case findings be applied correctly. Specifically, the rates must be implemented in compliance with the calculation and customer notification process prescribed by Proposition 218, interpreted by the State courts and enacted in the laws and governing codes of the state.

Findings and Conclusions – The summary of the findings and conclusions to the Comprehensive Water Rate Report and Impact/Capacity Fee Analysis are as follows:

- ◆ **Projected Customer Demands.** Total customer water demands will decrease by five percent per year over FY 2009/10 and FY 2010/11 due to water conservation practices, and will drop from FY 2008/09 12.3 million billings of hundred cubic feet (Ccf) to 11.1 million Ccf in FY 2010/11.
- ◆ **Projected Water Supply Costs.** Water supply costs will increase from the \$4.5 million in FY 2008/09 to \$7.3 million in FY 2011/12; total water supply and energy pass-through costs will increase from \$6.8 million to \$10.0 million.
- ◆ **Projected Operating Costs.** Annual operating costs, including water, will increase from the \$14.9 million to \$19.7 million in FY 2011/12.
- ◆ **Cash Reserve Funds.** FY 2008/09 year-end cash reserves totaled \$13.1 million, including \$3.1 million in working cash and reserves, \$4.1 million in offsite developer funds and deposits and \$5.8 million in capital project reserves and encumbered funds.
- ◆ **Project Expenditures.** Capital project expenditures and appropriations will total \$26.1 million over four years from FY 2008/09 to FY 2011/12, which includes \$4.5 million for the cost of a new office building.
- ◆ **Project Funding Plan.** Funding of the projects will be based on (1) 20 percent pay-as-you-go cash for local upgrade-related projects that will increase rates and Impact Capacity Fees Funds (formerly known as Offsite Developer Funds) and (2) certificates of participation (COPs) for the remaining costs (about \$14.3 million for the remaining

80 percent of project costs). The actual COPs issued on May 11, 2010 have a par value of \$14.475 million. SCWD received a high “AA” credit rating from Standard and Poors for the issuance. The actual COP amount is slightly higher than CDM’s estimated \$14.3 million due to changes in current project needs and priorities.

- ◆ **Rate-based Revenue Increases.** The resulting rate-based revenue requirements will increase from \$21.3 million to \$27.2 million per year in FY 2011/12. This will be achieved with annual rate increases of 15.3, 12.4, and 7.2 percent, respectively, for 2010, 2011 and 2012. The resulting effect on the median (18 Ccf consumption) residential water bill is an increase from the \$40 per month to \$51 per month in 2012.

The SCWD financial plan and rate based revenue requirements are based on the forecasted costs of operations and water supplies, the number of customer accounts and their water demands, the cash flows associated with funding 20% of the capital projects, and the maintenance of cash reserve funds.

Retail Water Rates

The following new rates for SCWD were adopted by the Board on September 9, 2009 with an effective date of January 1, 2010:

Fixed Meter Service Charge by Meter Size (\$ per month)

Meter Size (Inches)	2010	2011	2012
5/8 by 3/4	\$ 14.45	\$ 16.24	\$ 17.41
3/4	\$ 18.26	\$ 20.53	\$ 22.01
1	\$ 25.89	\$ 29.10	\$ 31.20
1 1/2	\$ 44.96	\$ 50.54	\$ 54.17
2	\$ 67.84	\$ 76.26	\$ 81.75
3	\$128.87	\$144.85	\$155.28
4	\$197.52	\$222.01	\$238.00
6	\$388.22	\$436.36	\$467.78
8	\$617.06	\$693.58	\$743.51

Variable Water Commodity Charges for Single Family Dwelling Residential Customers (\$ per Ccf)

Rate Block	Block Range (Ccf per Month) Bottom - Top	2010	2011	2012
Tier 1 -- Essential	0 - 14	\$1.3029	\$1.4644	\$1.5699
Tier 2 -- Basic	15 - 49	\$1.4532	\$1.6334	\$1.7511
Tier 3 -- Conservation	50 and above	\$1.9105	\$2.1474	\$2.3020

Variable Water Commodity Charges for Irrigation Customers (\$ per Ccf)

Commodity Charges	Current	2010	2011	2012
All Use	\$1.2604	\$1.9105	\$2.1474	\$2.3020

Variable Water Commodity Charges for All Other Customers (\$ per Ccf)

Commodity Charges	Current	2010	2011	2012
All Use	\$1.2604	\$1.4532	\$1.6334	\$1.7511

Miscellaneous Fees - On October 14, 2009 the CLWA Board of Directors approved the following schedule effective January 1, 2010:

SCWD Miscellaneous Fees	
	Current Fees
48 Hour Door Hanger Notice (1)	\$ 25.00
Late Charge (3)	\$ 10.00
Meter Re-check after 2 free checks (special reading at customer's request) -no charge if meter is inaccurate (1)	\$ 53.00
Meter Calibration by Bench Test (> 2" meters with testing valve in place)-no charge if meter is inaccurate (1) *	\$ 205.00
Meter Calibration by Bench Test (Up to 2" meters)-no charge if meter is inaccurate (1) *	\$ 112.00
Hydrant Meter Deposit (includes Eddy valve) (2)	\$ 1,100.00
Hydrant Meter Deposit (without Eddy valve) (2)	\$ 900.00
Hydrant Meter Processing Fee (1)	\$ 25.00
Meter Tampering/Illegal Connection Penalty (4)	\$ 1,000.00 plus estimated water use
Return Check Charge (1)	\$ 43.00
Service Reconnection-after business hours (1)	\$ 82.00
Service Reconnection-regular business hours (1)	\$ 44.00
Cut Lock Charge (2)	\$ 6.90
Pulled Meter Charge (1)	\$ 23.00
<p>Notes:</p> <ol style="list-style-type: none"> 1. Based on actual time for labor with benefits and equipment required for the service. 2. Based on actual material costs. 3. Cost of sending a late notice reminder through Data Prose, our billing outsource vendor, and staff's labor time with benefits. 4. To discourage illegal activities. <p>* SCWD has the meter calibrated after the meter has been rechecked three times and the customer still disagrees with the results.</p>	

Impact Capacity Fees – SCWD’s Impact Capacity Fees (formerly known as Offsite Production and Storage Fees) are billed to developers seeking new service connections to reimburse SCWD for the costs of backbone facilities that store and deliver water to a local development. The fees prior to February 1, 2010 were \$1,200 per single-family dwelling parcel using a ¾ inch meter connection. Any updates to the impact fees must be defensible, in compliance with state laws and consistent with industry practices. The prior fees had two cost components and were based on the value of capacity in groundwater production well sites and in water storage facilities.

Impact Capacity Fees were calculated, which includes the costs for production, storage and transmission, based on methods endorsed by the American Water Works Association (AWWA) and presented in the Water Rate AWWA Manual M1. They are consistent with California Government Code requirements promulgated under AB1600, including Government Code Section 66013. The Impact Capacity Fees, also known as System Development Charges, assign the capacity cost of growth to those entities causing the growth rather than to existing customers, thus insulating existing customers from capital costs associated with system growth. The fees are based on both the replacement value of existing but unused assets held for the benefit of new customers and the projected cost of future expansion related projects in the 2008 Water Master Plan. The value of existing assets is calculated using the equity buy-in method, and the value of future facilities is calculated using the incremental future capacity method.

The following Impact Capacity Fees were approved by the CLWA Board of Directors on November 11, 2009 and were effective February 1, 2010.

SCWD Impact Capacity Fees	
Meter Size	Current Fees
5/8" x 3/4"	\$ 2,047
3/4"	\$ 2,047
1"	\$ 3,699
1 1/2"	\$ 7,143
2"	\$ 12,567
3"	\$ 21,430
4"	\$ 36,816
6"	\$ 95,234
8"	\$ 132,561

Revenue Sources

SWCD’s revenue sources are as follows:

- ◆ **Retail Water Sales** – SCWD bills its approximately 28,000 customers monthly for water consumption, which consists of a combination of imported water purchased from CLWA and groundwater pumped from groundwater production wells. SCWD charges a flat meter service charge based on meter size plus water commodity charges that includes local SCWD water usage charge and pass-through charges for purchased water from CLWA and power purchased from Southern California Edison.

To encourage conservation, SCWD implemented a three tiered rate structure for Single Family Residential Customers effective January 1, 2010. Irrigation Customers have a flat third tiered rate and all Other Customer categories have a flat second tiered rate

from the Single Family Residential Customer tiered rate structure. The retail water sales revenue are used to pay for operating expenses, approximately 20% of capital improvement projects and meet reserve target levels by December 2014. The remaining 80% of capital improvement projects are funded through COP financing.

- ◆ **Miscellaneous Fees** – The miscellaneous fees revenue is used to recover actual costs of staff time and material.
- ◆ **Impact Capacity Fees** – The Impact Capacity Fees are paid by future developers and the revenues are strictly used for future expansion related capital improvement projects. They are not used for existing system upgrades that benefit existing customers. This source of revenue is difficult to project due to its heavy reliance on developers' plans, which, in turn, are based on variable real estate demands. The Impact Capacity Fees revenues are not included as part of the Operating Revenues budget.

Financial Policies

SCWD's Financial Policies includes some of the same policies as CLWA and certain separate policies specific to SCWD. SCWD utilizes the same Investment Policy, Interest Swap Policy and Build America Bonds Compliance Policy as CLWA. SCWD has a separate Reserve Fund Policy, Debt Management Policy and Purchasing and Bidding Policy. All the financial policies are included in the Appendices.

Reserve Fund Policy

SCWD has a policy for funding three reserve funds established in January 2004 to be fully funded by December 2014. They are the Operating Expense Fund, the Rate Stabilization Fund and the Capital Project Fund.

- ◆ **Operating Expense Fund** – The Operating Expense Fund is to be used to cover for unscheduled costs relating to the operations of the retail water system, including, but not limited to, unforeseen repairs, emergencies, unexpected increases in treatment costs, regulatory changes and unforeseen legal expenses. The target amount is 25% of annual operating budget or three months.
- ◆ **Rate Stabilization Fund** – The Rate Stabilization Fund is to be used when there are variations in water sales resulting from unusual seasons, major consumption reduction due to voluntary conservation or to correct for a net loss of revenues in the event of a catastrophic loss of imported water supplies. The Rate Stabilization Fund is used to defer rate increases due to temporary reductions in water sales. Currently the Rate Stabilization Fund is set at 2% of annual revenues.

- ◆ Capital Project Fund – The Capital Project Fund is currently used to fund identified budgeted CIP annually from the retail division operating revenues. The CDM study proposed that SCWD create a Capital Project Reserve Fund to be set at 20% of the expected annual average CIP for FY 2010/11, 2011/12 and 2012/13. The capital project reserve fund balance would cover unexpected capital project expenditures due to emergencies such as earthquake, fire, etc.

Investment Policy

The CLWA Board of Directors annually adopts an Investment Policy for the Agency that conforms to the California State Law, Agency ordinances and resolutions, prudent money management and the “prudent person” standards. The objectives of the Investment Policy are safety, liquidity and yield. SCWD funds are normally invested in the State Treasurer’s Local Agency Investment Fund, the Los Angeles County Pooled Investment Fund, Certificates of Deposit, Government Agency Obligations or other specifically authorized investments.

Debt Management Policy

The Agency’s Debt Management Policy includes the Agency’s written guidelines and restrictions that affect the amount and type of debt issued, the issuance process and the management of the debt portfolio. The policy is designed to provide justification for the structure of debt issuance, identify policy goals and demonstrate a commitment to long-term financial planning. The Interest Rate Swap Policy and the Build America Bonds Compliance Policy supplement the Debt Management Policy.

Interest Rate Swap Policy

CLWA’s Interest Rate Swap Policy was developed to guide CLWA and SCWD in its use of interest rate risk mitigation products such as interest rate swaps and other such financing techniques. These financing products can increase SCWD financial flexibility and provide opportunities for interest rate savings or enhanced investment yields. The use of these financing products should be integrated into SCWD’s overall debt and investment management policy. Careful monitoring of such products is required to preserve SCWD credit strength and budget flexibility.

Swaps will not be used to speculate on perceived movements in interest rates.

Purchasing and Bidding Policy

On April 14, 2010, the CLWA Board of Directors approved SCWD’s Purchasing and Bidding Policy to more cost effectively and efficiently construct works of improvement and acquire goods and services needed for the operation, maintenance and improvement of the retail system. SCWD’s Purchasing and Bidding Policy distinguishes retail procurement and contracting procedures from those followed for CLWA’s wholesale operations and is designed in accordance with the County Water District Law (Water Code Section 30000 et seq.).

Long-Term Commitments

The following is a description of SCWD’s long-term debt obligations:

Interfund Loan

CLWA acquired Santa Clarita Water Company's (SCWC) stock through condemnation in September 1999. CLWA acquired SCWC's stock in 1999 at a purchase price of \$63 million. The acquisition was treated as an Interfund Loan. At the time of the purchase, the CLWA Financial Advisor prepared a financial analysis of SCWC's cash flow. This analysis showed that it was financially feasible to fund the acquisition of the company with its own revenue stream. Santa Clarita Water Division (SCWD) is repaying the loan plus interest at a rate of 5.04%. SCWD began making payments on the loan in FY 2000/01. In 2006, the Board of Directors formally adopted a payment schedule that includes quarterly payments to minimize accrued interest, smoothes payments throughout each fiscal year and allows the growth in customers to fund the increase in payments. This schedule is intended to provide financial stability to both CLWA and SCWD and consistent and definitive information for long-range forecasts. The payments increase by \$100,000 each fiscal year with the provision that, if necessary due to financial condition of the retail division, SCWD may make payments for interest only or pay an amount in excess of the scheduled payment. The interest rate would remain the same at 5.04%.

Certificates of Participation (COP)

COP was issued to finance 80% of SCWD's capital improvement program for FY 2009/10 to FY 2011/12 with the remaining 20% from the 2010 to 2012 retail water rates.

2010B-2

On May 11, 2010, \$14,475,000 of certificates of participation were executed and delivered to provide funds to acquire the new Administration Office Building, several reservoir tanks and a well.

The certificates are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1. The balance at the end of FY 2009/10 remains at \$14,475,000 since no payments were made in FY 2009/10.

Basis of Budgeting

SCWD operates on the accrual basis of accounting and budgeting, following "generally accepted accounting principles" (GAAP), which means that revenues and expenses are recorded in the periods in which the transactions occur, regardless of the timing of cash flows. Exceptions to this are:

- ◆ Principal payments on long term debt are applied to the outstanding balance of debt.
- ◆ Capital projects/outlays are recorded as assets when acquired or as projects are completed.

Water Enterprise Fund

SCWD uses the Enterprise Fund to account for SCWD's retail water operations including the amount of funds advanced from CLWA to fund the purchase of SCWC.

Budgetary Control

The CLWA Board of Directors annually adopts a balanced operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the SCWD retail operations and capital projects. The Retail Operations Committee monitors the budget through monthly Finance and Expenditures reports, Quarterly Investment reports, Midyear Budget report and Comprehensive Annual Financial Report (CAFR).

The CLWA Board of Directors must approve all supplemental appropriations to the Budget.

Budget Process

The budget planning and preparing process is an important SCWD activity and provides an opportunity for the Retail Operations Committee, CLWA Board of Directors, management and staff to assess goals and objectives for the upcoming and future years. New this fiscal year budget and a key part of the budget process is the use of a strategic plan specific to SCWD to relate the mission statement to annual work program objectives to be achieved during FY 2010/11 and in the future.

During March and April of each year, management and staff update current and develop new objectives for the upcoming fiscal year. The objectives are discussed and refined with the Retail Operations Committee and CLWA Board of Directors in April and May. The process is used to develop the Preliminary Budget which is presented to the Retail Operations Committee in May and subsequently the CLWA Board of Directors in June.

This is the initial review of the budget by CLWA Board of Directors. The Board reviews the Preliminary Budget and recommends changes as it deems appropriate.

Also during April, the CLWA Board of Directors holds a Strategic Planning Workshop to refine the Strategic Plan and finalize the objectives for the upcoming fiscal year. This is the basis for the Final Budget. Staff revises and updates the Preliminary Budget reflecting the Board's direction and submits it as the proposed Final Budget in June for Board review and adoption. The Final Budget is approved by motion and majority vote of the Board. All of these meetings are posted for public participation. In addition, the Preliminary FY 2010/11 Budget is posted on both SCWD's and CLWA's websites to allow for public review. The Final FY 2010/11 Budget is also posted on both SCWD's and CLWA's websites after it is adopted.

Strategic Planning

On April 16 and 17, 2010, SCWD participated in a strategic plan workshop with the Board and facilitated by MIG, Inc. (consultant). Starting FY 2010/11 SCWD has a separate strategic plan from CLWA, which is included in this FY 2010/11 Budget.

Balancing the Budget

A balanced budget is a basic budgetary constraint intended to ensure that a government does not spend beyond its means. In developing the FY 2010/11 Budget, management reviews the short-term and long-term forecast information to develop a budget that balances anticipated revenues and expenditures.

Capital Budget Process

The fiscal year capital budget is generally based on the 2008 SCWD Water Master Plan. The 2008 Water Master Plan was prepared to recommend and prioritize capital improvements based on long-range planning efforts through analysis and assessment of the capacity of existing and planned infrastructure with respect to established design criteria. Major considerations in the development of the recommended improvements include water sources, condition of existing facilities, pumping efficiency and operational parameters determined by management and staff.

The CIP projects are identified as either maintenance-related for projects that require repairs to maintain the system or to improve the existing system for current users, or expansion-related for projects that are for future growth due to new development. In FY 2010/11, 20% of the overall FY 2009/10 to 2011/12 maintenance-related projects that benefit existing users are funded through the retail water rates and 80% through COP financing. The expansion-related projects are funded through the Impact Capacity Fee Fund that are collected from various development projects.

Capital Projects

Capital projects are defined as non-operating expense items of the budget, which includes expenditures for fixed asset/equipment purchases as well as the accumulation of expenditures associated with construction projects. Capital Projects typically have a life of five years or more. The categories of capital projects are:

- ◆ **Capital Improvement Projects**. The acquisition of land, facilities, works, improvements and supplies of water, and enhancements or enlargements to existing capacity and facilities for obtaining, importing, transporting and delivering additional quantities of water. Capital improvement projects are typically included in the 2008 Water Master Plan.
- ◆ **Repair and Replacement Projects**. Any repair or replacement to SCWD's existing water infrastructure that extends the life a minimum of five years or more and costs \$5,000 or more.
- ◆ **Capital Planning, Studies and Administration**. The initial planning costs of future capital improvement projects such as site feasibility studies and permit requirement, etc.
- ◆ **Capital Equipment**. The purchase of fixed asset equipment with a cost of \$5,000 or more and has a life of more than five years.

Capital Improvement Project Cost Allocation

Repair and replacement capital improvement projects for FY 2009/10 to 2011/12 that benefit existing customers are funded through 20% of the retail water revenue and 80% COP financing. Capital improvement projects that benefit future customers are funded through the Impact Capacity Fees deposited by developers. SCWD staff charges direct costs to capital projects. Burden and benefit rates are applied and the total amount is charged to each project budget.

Risk Management

SCWD strives to minimize losses through its safety and training programs and through its risk transfer program. SCWD has adopted and follows a Risk Transfer Manual. The Risk Transfer Manual recognizes that a critical step in minimizing the exposure to loss is to execute effective risk transfer. SCWD uses the same Agency standard contracts to minimize potential liability

exposures by transferring the legal and financial responsibility for losses to the party best able to control them.

Insurance

SCWD is a member of the Association of California Water Agencies Joint Power Insurance Authority (JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The JPIA arranges and administers programs of insurance for the pooling of self-insured losses, and purchases excess insurance coverage for its members. The JPIA began operations on October 1, 1979 and has continued without interruption since that time. As of June 30, 2009, the Agency limits and deductibles for liability, property, and workers compensation programs of the JPIA are as follows:

- ◆ General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit per occurrence. The JPIA purchased additional excess coverage layers of \$49,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- ◆ Property losses are paid at the replacement cost for buildings, fixed equipment and personal property on file, if replaced within two years after the loss, otherwise such losses are paid on a actual cash value basis, subject to a \$5,000 deductible per loss, and actual cash value for mobile equipment, subject to a \$1,000 deductible per loss, and licensed vehicles, subject to a \$500 deductible per loss. The JPIA purchased excess coverage for a combined total of \$100,000,000 per occurrence.
- ◆ Workers compensation insurance up to State statutory limits for all work-related injuries/illnesses covered by State law, and employer's liability coverage up to \$4,000,000. The JPIA is self-insured up to \$2,000,000 and excess coverage has been purchased.

In addition, SCWD also has crime coverage up to \$1,000,000 per loss, including public employee dishonesty, including public officials who are required by law to give bonds for the faithful performance of their service, forgery or alteration and computer fraud, subject to a \$1,000 deductible.

Employee Compensation

Salaries

General wage increases are established by a program of alternating cost-of-living adjustments (COLAs) and market surveys. The program is for market surveys to be performed every other year and for resulting general wage increases to be implemented in July with a new fiscal year. In the intervening years, the Board of Directors review Consumer Price Index (CPI) and other relevant information and, where appropriate, grant a COLA adjustment in July. A market survey took place in Spring 2009. The results were that the Agency's compensation structure is competitive. As such, no COLA was granted in July 2009. Due to the current economic situation, no COLA is included in the FY 2010/11 Budget.

Retirement

SCWD is a member of the California Public Employees Retirement System (PERS). For FY 2010/11, PERS will require SCWD to pay the employer contribution at a rate of 11.983%, a slight increase from the FY 2009/10 rate of 11.935%. SCWD also pays the employee's contribution of 7%, which brings SCWD's total contribution to 18.938% in FY 2010/11.

Fiscal Year	Employer Contribution
2011/12	13.2% (projected)
2010/11	11.983%
2009/10	11.935%
2008/09	11.935%
2007/08	11.975%
2006/07	12.293%
2005/06	12.18%

Health Insurance

SCWD provides a range of medical insurance plans through PERS under the Agency's membership. Recent increases in medical insurance costs have been relatively modest because PERS converted from statewide rates to zone rates and rates in Southern California tend to be less than in Northern California. The FY 2010/11 Budget assumes an increase of 15% effective January 1, 2011.

Year	Change from Previous Year – Blue Shield Family Premium
2011	15% (projected)
2010	3.0%
2009	3.6%
2008	10.1%
2007	13.8%
2006	8.77%
2005	(8.71%)

Dental and vision insurance are provided through the Association of California Water Agencies (ACWA). The FY 2010/11 Budget assumes an increase of 5% effective January 1, 2011 for dental insurance and no increase for vision insurance.

Retiree Benefits

SCWD offers full medical and dental insurance to retirees and their dependents. In FY 2009/10, SCWD had funded 9 retirees.

Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently published Statement No. 45, requiring governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as SCWD (beginning with the fiscal year ending June 30, 2009), to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions. SCWD offers post-employment health care benefits (medical and dental), which have historically been funded on a pay-as-you-go basis. Beginning in FY 2008/09, SCWD implemented partial pre-funding for retiree health insurance (10% of salaries) only on shared employee services with CLWA and instructed staff to further address the liability. In FY 2009/10, SCWD implemented pre-funding for all SCWD's retiree health insurance and now fully prefunds the ARC (annually required contribution) on an annual basis. As a result, CLWA and SCWD adopted a vesting schedule for retiree benefits for all employees hired after January 1, 2009, which should result in reduced future costs. It subsequently adopted the use of the California Employers' Retiree Benefit Trust Fund through CALPERS to hold prefunding payments. The Final FY 2009/10 Budget completes the transition to full pre-funding of the obligation over a 30-year period. In FY 2009/10, CLWA and SCWD's pre-funding rate was 19.1% of salaries. Based on a revised actuarial study, the FY 2010/11 pre-funding rate is 11.5%.

Workers' Compensation Insurance

SCWD receives Workers' Compensation insurance from the ACWA Joint Powers Insurance Authority (ACWA-JPIA). Premiums are based on CLWA's and SCWD's size and experience ratings. The JPIA uses the same formula developed by the Workers' Compensation Insurance Rating Bureau to generate an experience modification factor that reflects CLWA and SCWD's loss experience in comparison with other employers in the same classifications. Premiums are paid quarterly based on actual payroll for the previous quarter. The rates vary by employee classification. No increase is anticipated for FY 2010/11.

Community Profile

SCWD is located in the northwestern portion of Los Angeles County approximately 35 miles from downtown Los Angeles. SCWD operates a service area that includes a portion of the City of Santa Clarita and unincorporated portions of Los Angeles County in the communities of Saugus, Canyon Country, and West Newhall. The Santa Clarita Valley is approximately 200 square miles and cradles the headwater of the Santa Clara River. It is surrounded by the San Gabriel Mountains, the Santa Susana Mountains, and the Sierra Pelona Mountains. SCWD's service area covers approximately 111,200 service area population within 56 square miles.

The Santa Clarita Valley is part of a comprehensive transportation network, which includes three major freeways, commuter rail which serves over 2,000 passengers daily and easy access to the ports of Los Angeles and Long Beach. The three Metrolink commuter rail stations in Santa Clarita carry over 2,000 passengers a day to and from the San Fernando Valley and Downtown Los Angeles. The City also has nearly 40 miles of bicycle and pedestrian trails.

There are a number of recreational and historical facilities located in the Santa Clarita Valley, including the Six Flags Magic Mountain amusement park and Gene Autry's Melody Ranch. SCWD's service area is adjacent to the Angeles National Forest, and includes nearby Castaic Lake, the Placerita Canyon Nature Center and Vasquez Rocks County Park.

Also located in the Santa Clarita Valley are the COC Performing Arts Center; Canyon Theatre Guild, Disney Studios, Santa Clarita Repertory Theater, as well as the Friendly Valley, Valencia Country Club, Robinson's Ranch, Tournament Players Club and Vista Valencia golf courses.

The City of Santa Clarita's strong and diverse economy continues to expand, making Santa Clarita the ideal destination for Southern California business. Maintenance of a highly supportive environment for business development is achieved through the cooperation of the local Chamber of Commerce and the City government. In addition, companies benefit greatly from the area's land and leasing opportunities, as well as from the highly-skilled labor pool, variety of transportation choices, housing, quality of life, climate, and scenery. Santa Clarita's top employers include Six Flags Magic Mountain, Princess Cruises, Henry Mayo Newhall Memorial Hospital, H.R. Textron and The Master's College.

Economy

SCWD's service area is largely located in the northwestern portion of Los Angeles County approximately 35 miles from downtown Los Angeles. In 2007, the gross product of Los Angeles County was \$464.4 billion. Los Angeles County is not immune to the national and world economic downturn and, as a result, January 2010 unemployment rate was 13.1% compared to the State of California's 13.2% (California Labor Market Information). In January 2010, the unemployment rate for the City of Santa Clarita was 8.1%.

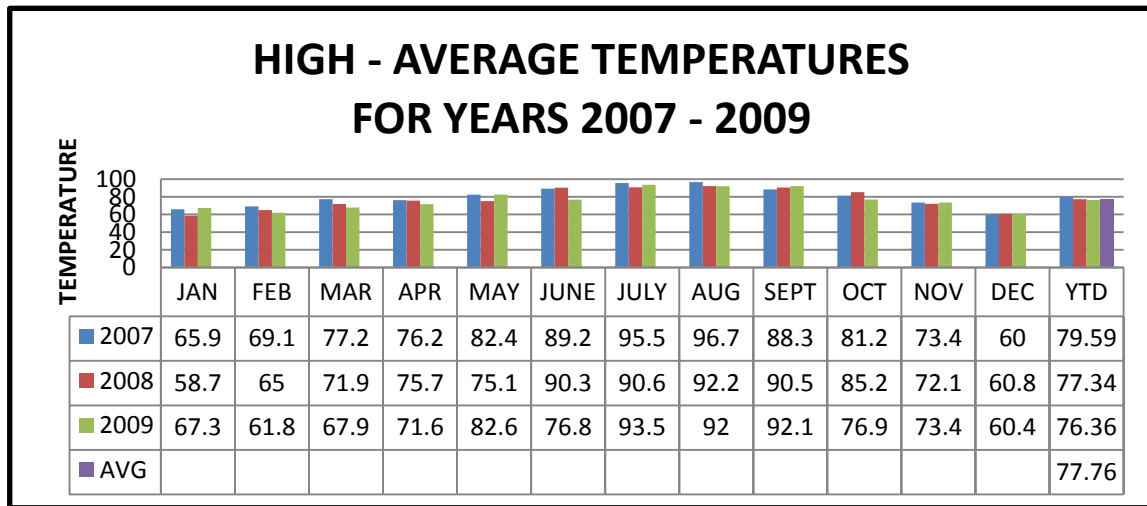
Santa Clarita Valley Climate

The climate in the Santa Clarita valley is typical of the inland valley areas of Southern California. Temperatures range from the maximums near 110 degrees Fahrenheit during the summer months to minimums near 20 degrees during the winter. Average rainfall on the lower flat lands is in the range of 18 inches per year. Higher mountainous areas tributary to this reach of the Santa Clara River receive average annual precipitation rates up to slightly over 27 inches per year.

Average high/low temperatures from 2007 to 2009.

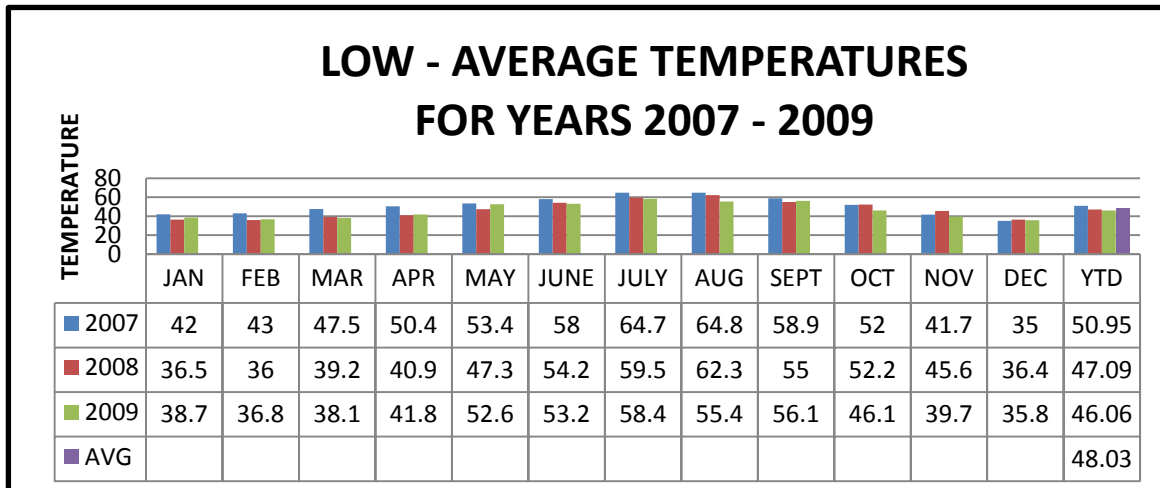
AVERAGE TEMPERATURE - HIGH

YEAR	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	ANNUAL
2007	65.9	69.1	77.2	76.2	82.4	89.2	95.5	96.7	88.3	81.2	73.4	60	79.59
2008	58.7	65	71.9	75.7	75.1	90.3	90.6	92.2	90.5	85.2	72.1	60.8	77.34
2009	67.3	61.8	67.9	71.6	82.6	76.8	93.5	92	92.1	76.9	73.4	60.4	<u>76.36</u>
AVG													77.76



AVERAGE TEMPERATURE - LOW

YEAR	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	ANNUAL
2007	42	43	47.5	50.4	53.4	58	64.7	64.8	58.9	52	41.7	35	50.95
2008	36.5	36	39.2	40.9	47.3	54.2	59.5	62.3	55	52.2	45.6	36.4	47.09
2009	38.7	36.8	38.1	41.8	52.6	53.2	58.4	55.4	56.1	46.1	39.7	35.8	<u>46.06</u>
AVG													48.03



The Santa Clarita Valley is characterized as having an arid climate. Historically, intermittent periods of less-than-average precipitation have typically been followed by periods of greater-than-average precipitation in a cyclical pattern, with each wetter or drier period typically lasting from one to five years.

The long-term average precipitation is 17.9 inches (1931-2007). In general, periods of less-than-average precipitation have been longer and more moderate than periods of greater-than-average precipitation. The precipitation records were taken from Newhall-Soledad 32c gage and the KCANEWHA2 gage.

The short-term average precipitation is 20.87 inches for 2008 and 2009. There was zero precipitation during July to September for both 2008 and 2009.

YEAR	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	YTD
2008	17.54	1.82	0.10	0.07	0.17	0.00	0.00	0.00	0.00	0.09	1.78	3.01	24.58
2009	0.69	6.78	1.18	0.07	0.01	0.03	0.00	0.00	0.00	4.04	0.08	4.28	<u>17.16</u>
AVG													20.87

Conservation

Santa Clarita Water Division has taken a proactive approach to the ongoing drought that the State of California has been experiencing. SCWD is a member of the Santa Clarita Valley Family of Water Suppliers, www.scvh2o.org. Together with CLWA, the other local water retailers, the City of Santa Clarita and Los Angeles County, SCWD is a member of the Santa Clarita Valley Water Committee that is committed to improving water efficiency use in the valley in order to create a more sustainable environment for the future. Also public outreach has been an important part of our conservation efforts. During the summer SCWD included water conservation tips in the message area of the bills. SCWD's website, www.scwater.org, also provides conservation tips. In addition to public service announcements through the local television outlet, SCWD created a van wrap and had it placed on one of our water quality vans with messages encouraging water conservation. The mobile van can be seen throughout SCWD's service area as the employees check the water quality throughout the water system.

**FY 2010/11
BUDGET CALENDAR**

March 31, 2010	Governmental Relations and Outreach Committee review of proposed fiscal year actions.
April 5	Retail Operations Committee review of proposed fiscal year actions.
April 15	Water Resources Committee review of proposed fiscal year actions.
April 16-17	Board of Directors Develop Strategic Plan.
April 20	Finance and Administration Committee review of proposed fiscal year actions.
April 20	Finance and Administration Committee Provide direction for the upcoming FY budget.
April 26 – May 5	Refine and develop proposed actions in support of Strategic Plan.
April 27	Planning and Engineering Committee review of proposed fiscal year actions.
April 29	Planning and Engineering Committee Review Major Capital Projects.
May 3	Retail Operations Committee Review SCWD Preliminary FY Budget.
May 18	Finance and Administration Committee Review Preliminary FY Budget.
May 26	Board of Directors Presentation of Preliminary FY Budget.
May 27	Planning and Engineering Committee Final review of proposed major capital projects.
June 1	Retail Operations Committee Recommend approval of SCWD Final FY Budget.
June 9	Board of Directors Approve Final SCWD FY Budget.
June 15	Finance and Administration Committee Recommend approval of Final CLWA FY Budget.
June 23	Board of Directors Approve Final CLWA FY Budget.

[This page intentionally left blank.]