

July 1, 2011

Castaic Lake Water Agency  
Board of Directors

We are pleased to present the Castaic Lake Water Agency's Final FY 2011/12 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 2011/12 are budgeted at \$93.0 million and are comprised of General Fund/Operating Budget expenditures of \$16.9 million, capital improvement program (CIP) expenditures of \$25.9 million, State Water Contract Fund expenditures of \$25.6 million and Certificates of Participation (COP) principal and interest payments of \$24.6 million. These expenditures will be funded from total revenues of \$70.8 million and a transfer of \$22.2 million from COP proceeds and one percent property tax revenues. The total revenues of \$70.8 million are comprised of \$24.8 million in Agency-set property tax revenues, \$19.4 million in one percent property tax revenues, \$16.6 million in purveyor water sales based on purveyor FY 2011/12 requests of 39,700 acre-feet (AF), \$5 million in Facility Capacity Fees, \$3.4 million in investment revenues and about \$1.6 million in other revenues. Of the \$1.6 million of other revenues, \$706,000 is collected as part of the wholesale water rate for Operating Reserves, but is counted as a separate source of revenue.

### **FY 2011/12 is a "Flat" Budget Year**

The Final FY 2011/12 Budget is considered a "flat" budget that continues key water resources initiatives and transitions a significant major capital projects construction program to a more modest design program. This is in response to the continuing economic slowdown and the Agency's low revenue levels, but the continued need to maintain a reliable water supply. *The Final FY 2011/12 Budget does not propose any significant new programs and does not add or upgrade staff. Further, as discussed in the Capital Improvement Program section, the Agency will monitor the revenue situation and will not move forward with new construction until revenues are deemed sufficient.* However, should the economy improve in the Agency's service area, the Agency would be ready to move forward with continued investment in its Capital Improvement Program.

### **Continued Investment in Water Supply Reliability**

On June 22, 2010, the Agency adopted the Santa Clarita Valley 2010 Urban Water Management Plan (UWMP). The 2010 UWMP is a significant planning tool for the Agency and the retail water purveyors. A key component of the 2010 UWMP is working with the retail water purveyors to develop a strategy to comply with SBX7-7, which calls for a 20 percent reduction in per capita water use by 2020 (i.e., "20% by 2020"). The legislation requires each retail water purveyor to develop a baseline per capita water use, an interim 2015 water use target and a 2020 compliance target.

Key components of the Agency's conservation program will include continued investment in the Santa Clarita Valley Water Use Efficiency Strategic Plan (SCVWUESP) and the development of recycled water. The SCVWUESP identifies a comprehensive long-term conservation effort for the Valley designed to meet the 2005 UWMP goal of achieving a ten percent water conservation savings by 2030 through the adoption of policies and programs designed to promote proven and cost-effective conservation practices (an effort that predated the SBX7-7 legislation). Significant funding was provided for this program in the FY 2010/11 Budget; the Final FY 2011/12 Budget continues funding at the same level. Detailed information on the key program elements is included in the Water Resources Department section of the General Fund/Operating Budget.

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The SCVWUESP also discusses additional possible measures to achieve higher conservation goals than the ten percent savings the SCVWUESP is based on, and which are incorporated in the 2010 UWMP. Such measures could include additional conservation programs and more aggressive tiered rate structures by the retail purveyors. The Agency and the retail purveyors have completed the first year of implementing programs identified in the SCVWUESP and will be assessing the effectiveness of the programs in the upcoming fiscal year. This information along with per capita water use trends will be assessed and recommendations will be made for adjusting expenditures in the FY 2012/13 Budget in furtherance of achieving the 20% by 2020 goal.

The development of recycled water is largely in the design phase, as shown in the Major Capital; Projects section of the Capital Improvement Program budget.

### **Capital Improvement Program (CIP)**

The Final FY 2011/12 CIP is \$25.9 million compared to a CIP of \$44.2 million in FY 2010/11. The major projects CIP of \$11.1 million in FY 2011/12 is a significant reduction from the \$31.1 million estimated to be expended in FY 2010/11. The FY 2010/11 expenditures reflect the substantial progress on the Rio Vista Water Treatment Plant (RVWTP) Expansion project and the completion of the perchlorate treatment and distribution projects. The Final FY 2011/12 Major Projects CIP provides modest funds for the completion of the RVWTP Expansion project and design of projects that will be implemented in the next 2-5 years.

The key CIP underway in FY 2011/12 includes the completion of the RVWTP Expansion project (\$4.3 million), the Sand Canyon Pump Station Standby Generator (\$2.6 million) and the Rosedale-Rio Bravo Storage Program Extraction project (\$1.5 million in Capital Planning, Studies and Administration section). Of this total CIP, \$12.2 million is being funded from Certificates of Participation (COP) bond funds and \$13.7 million is being funded on a pay-as-you-go basis (using one percent property tax funds).

For the anticipated CIP, the forecast shows that COP proceeds will be fully expended in FY 2012/13 and approximately \$82 million will be required to complete those projects. If debt-financed, the debt service is estimated to be over \$6 million per year, funded by a combination of Facility Capacity Fees and 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.

Management will actively monitor the status of the Agency's revenues and CIP throughout the year. For the projects in the design phase, the Agency will complete final design. *After final design of each project, the Agency will review the Agency's financial status before making a recommendation to proceed with construction. If revenues are not sufficient to support additional borrowing, projects will be deferred.*

According to *The 2011 North Los Angeles County Real Estate and Economic Outlook* published by the California Economic Forecast in April 2011, 2011 is the year that meaningful growth is projected to return to the Santa Clarita Valley. The forecast calls for 700 new housing units to be started in the Santa Clarita Valley in 2011 and 1,350 in 2012. Between 2011 and 2016, the forecast estimates a total of 9,400 home starts. The forecast notes this is a conservative forecast.

If the levels of growth predicted in the forecast are accurate, the Agency's revenues will exceed the budgeted revenues and the Agency would be in a position to move forward with its CIP. Further, should this level of growth occur, the Agency should accelerate the implementation of the CIP to ensure the facilities are available ahead of need.

## **Perchlorate Treatment and Distribution Projects**

During FY 2010/11, the Agency completed and placed into operations replacement wells, pipelines and a treatment plant to remove perchlorate contamination from the Santa Clarita Valley's groundwater aquifers. In May 2007, the Agency and three of the retail 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.*

Operating costs are fully reimbursed by the Settlement Agreement. The Final FY 2011/12 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 because full reimbursement is anticipated.

## **The State Water Project**

The Agency continues to monitor the legal and water supply issues associated with the State Water Project (SWP). A number of court actions in 2007-2011 have resulted in operational impacts to the State Water Project, and ongoing litigation may result in additional and more adverse operational impacts. The Agency, in coordination with the retail purveyors, continues to address the impacts through planning for and managing a diverse water supply portfolio. This Final FY 2011/12 Budget continues and enhances many of those efforts. The Agency will continue to monitor and support DWR in its efforts to implement short- and long-term actions to provide for the recovery of endangered and threatened species and their habitats in the Delta and protect and restore water supplies, primarily through the Bay Delta Conservation Plan process.

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.

## **Revenue Situation**

The global and national economic downturn continues, although the Agency's service area has seen some increase in revenues. In general, the Agency projects flat revenues from FY 2010/11 to FY 2011/12.

- ◆ Based on the retail water purveyors' requests for water in FY 2011/12 and approved wholesale water rates for calendar years 2011 and 2012, revenue is anticipated to increase from \$13.1 million in FY 2010/11 to \$16.6 million in FY 2011/12.
- ◆ The Agency's assessed valuation is projected to remain the same, compared to Los Angeles County as a whole, where the County Assessor is projecting a 0.76 percent increase in assessed valuation for FY 2011/12. Based on this, one percent property tax revenues are estimated to remain the same in FY 2011/12 as in FY 2010/11, at \$19.4 million.
- ◆ A modest increase in the Agency-set tax rate is anticipated to pay for increased costs of the State Water Project.
- ◆ Facility Capacity Fee revenues are budgeted at \$5 million, compared to \$3 million in FY 2010/11 and \$4 million in FY 2009/10. This is a conservative estimate used for budgeting purposes. The 2010 Data Document projects revenue of \$9.1 million based on the estimated sales and fee increases that will take effect January 1, 2012.

These budget estimates are fiscally conservative estimates. As discussed above, *The 2011 North Los Angeles County Real Estate and Economic Outlook* projects meaningful growth will return to the Santa Clarita Valley in 2011. The forecast calls for 700 new housing units to be started in the Santa Clarita Valley in 2011 and 1,350 in 2012. Between 2011 and 2016, the forecast estimates a total of 9,400 homes started. The forecast notes this is a conservative forecast.

### **General Fund/Operating Budget**

The Final FY 2011/12 General Fund/Operating Budget is a flat budget remaining at the FY 2010/11 Budget amount of \$16,123,500. The Final FY 2011/12 Budget does not include \$370,000 provided in FY 2010/11 for the November 2010 election. Adjusting for this change, the overall increase in the General Fund/Operating Budget would have been 2.3 percent.

As discussed above, *the FY 2011/12 Budget does not propose any new operating programs and does not add or upgrade staff*. The Agency is currently reviewing the Agency's medical insurance programs for long-term sustainability. It is likely that, if any changes are made, they will be implemented effective January 1, 2012. The Final FY 2011/12 Budget does not include any changes in this program. One of the FY 2011/12 Action items is to review the Agency's retirement program for long-term sustainability. In these reviews of benefit programs, the Agency will look to balance its Strategic Plan Objective D.1 (Workforce Excellence – Recruit and retain excellent employees, and compensate employees fairly) with the need to maintain fiscal stability.

A potential challenge in the Final FY 2011/12 Budget is that it does not provide for inflation in the cost of goods and services. The current economic environment is one of historic low interest rates. It is likely that interest rates will rise in the near to mid-term future and increase the cost of goods and purchases.

### **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.

### **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. While no new facilities are coming on line in FY 2011/12, 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 Final FY 2011/12 Budget. This situation will be reviewed each year as part of the budget process.

The shared positions for FY 2011/12 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 will include labor, benefits and other indirect costs.
- ◆ Information Technology: Information Technology Technician. This position is allocated 56% to CLWA and 44% to SCWD. Charges will include labor, benefits and other indirect costs.
- ◆ Accounting Technician II (Payroll). This position is allocated 56% to CLWA and 44% to SCWD. Charges will 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 will include labor and benefits.
- ◆ Controller. The Controller will charge actual time spent on SCWD projects to SCWD. The Budget assumes 25% of the Controller's time will be charged based on experience to date. Charges will 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 will include labor and benefits.
- ◆ Water Conservation Coordinator. This position will be budgeted at 10%, but will charge actual time spent on SCWD projects to SCWD. Charges will include labor and benefits.

### **Celebration**

During FY 2011/12, on April 20, 2012, the Agency will celebrate its 50<sup>th</sup> anniversary. The Castaic Lake Water Agency (Agency) was organized as the Upper Santa Clara Valley Water Agency on April 20, 1962 by passage of Assembly Bill No. 26, Chapter 28, California Statutes of 1962. Its purpose is to contract with the State of California for the delivery of a portion of the water conveyed over the Tehachapi Mountains from the Sacramento-San Joaquin Delta through the State Water Resources Development System (the State Water Project). In 1970, the name of the Upper Santa Clara Valley Water Agency was changed to the Castaic Lake Water Agency.

Since then, the Agency has grown to become an organization managing multiple supplemental water supplies and operating a water infrastructure that includes two treatment plants, two intake pump stations, the Sand Canyon Pump Station and Reservoir, recycled water facilities and conveyance pipelines throughout the Santa Clarita Valley. The Agency also provides retail water service to nearly 30,000 customers in the Santa Clarita Valley. The character of the service area has changed over the last half century from predominantly agriculture to a major suburban community in Los Angeles County, and is considered a premier community for raising families and building businesses.

During FY 2011/12, the Agency will celebrate its Golden Anniversary to appropriately recognize its achievements and growth over the past fifty years.

## Major Accomplishments

During FY 2010/11 we:

- ◆ Met all purveyor demands.
- ◆ Ensured CLWA has full access to water supplies available to it under its SWP contract and other water supply agreements by delivering 31,895 AF and storing 32,256 AF during 2010. 36,094 AF were carried over to 2011 (of which 5,608 AF were stored prior to DWR reclassifying the water as SWP supplies).
- ◆ Achieved 16% reduction in 2010 water use valley wide (relative to 2007).
- ◆ Prepared the biannual update of the Data Document and adopted Facility Capacity Fees for 2012 and 2013.
- ◆ Essentially completed construction of the Rio Vista Water Treatment Plant Expansion project.
- ◆ Completed the 2010 Urban Water Management Plan.
- ◆ Continued to implement Board strategic plans for CLWA and SCWD.
- ◆ Negotiated and executed settlement with ACWA-JPIA to recover \$890,000 of legal expenses for the perchlorate contamination litigation.
- ◆ Obtained an operating permit from the California Department of Public Health for the Perchlorate Treatment Plant and begin utilizing the treated water in the Agency's distribution system in January 2011.
- ◆ Applied for and recommended for funding for a \$6.9 million Proposition 84 implementation grant for several IRWM projects including the Phase 2C Recycled Water Project, bromide treatment, water conservation, invasive plant removal and sewer line removal from the Santa Clara River.
- ◆ Applied for and recommended for funding for a \$266,000 Proposition 84 grant for IRWMP update and for the preparation of salt and nutrient management plans.
- ◆ Formed the Upper Santa Clara Valley Joint Powers Authority with the Devil's Den Water District to allow the Agency to issue revenue bonds and achieve lowest cost of financing.
- ◆ Implemented Best Management Practices (BMP) water conservation programs including weather based irrigation controllers and high efficiency toilets for residents as well as large landscape and commercial, industrial and institutional programs.
- ◆ Received the ACWA/JPIA President's Special Recognition Award for achieving a low loss ratio for the Workers' Compensation Program for the period July 1, 2006 through June 30, 2009.
- ◆ Received the ACWA/JPIA President's Special Recognition Award for achieving a low loss ratio for the Property Program for the period April 1, 2006 through March 31, 2009.
- ◆ 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 2010/11 Operating Budget. This is the fourth and fifth year, respectively, in which the Agency has received these awards.
- ◆ Collaborated on an article entitled "Bringing Water to a Thirsty Southland: Complexity Behind the Scenes," published in the July 2010 edition of the *Southern Sierran* publication of the Angeles Chapter of the Sierra Club.
- ◆ Expended only 91% of the FY 2010/11 Budget.

## Major Actions

During FY 2011/12 we will:

- ◆ Meet all local water retailers' water demands.
- ◆ Meet all applicable water quality regulations.
- ◆ Monitor and participate in development and implementation of Delta improvements, including the Bay Delta Conservation Plan (BDCP) and the Delta Habitat Conservation and Conveyance Program (DHCCP).
- ◆ Advance resolution of Santa Clara River chloride TMDL (Total Maximum Daily Load) issue through the efficient and cost-effective implementation of the Alternative Water Resource Management program.
- ◆ Identify projects and initiate planning for projects to enhance emergency and long-term water supply reliability including south of Tehachapi banking, additional groundwater banking, increased banking program pumpback capability, water exchanges and water transfers.
- ◆ Continue pursuing federal funding for perchlorate contamination clean-up and recycled water projects in coordination with Washington, D. C. legislative advocate.
- ◆ Complete planning for replacement wells for capacity lost due to perchlorate contamination.
- ◆ Cooperate with the local water retailers to develop and implement strategies to comply with SBX7-7 (20% per capita water use reduction by 2020).
- ◆ Administer Integrated Regional Water Management Planning and Implementation grants for the Upper Santa Clara River in cooperation with other stakeholders and develop the updated Integrated Regional Water Management Plan, salt and nutrient management plans and the implementation programs that CLWA sponsors.
- ◆ Complete preliminary design, environmental compliance and initiate final design of the South End Recycled Water project (Phase 2C of the Recycled Water Program).
- ◆ Complete design of the Castaic Conduit Bypass and RV-2 Modifications projects.
- ◆ Initiate construction of the Sand Canyon Pump Station Standby Generator project.
- ◆ Develop and implement a comprehensive pipeline inspection program.
- ◆ Initiate the biannual update of the Data Document and Facility Capacity Fees.
- ◆ Through an RFP process, select a firm to perform a wholesale water rate study that will recommend wholesale and recycled water rates that incentivize and maximize conjunctive use of the service area's sources of supply.
- ◆ Through an RFP process, select an audit firm for audit services for multiple years starting with this year's audit.
- ◆ Perform a market survey to update the current compensation structure to be implemented with next year's Budget.
- ◆ Review the Agency's retirement program for long-term sustainability.
- ◆ Review the Agency's medical insurance for long-term sustainability.
- ◆ Continue active participation in industry associations such as Association of California Water Agencies, American Water Works Association, California Special Districts Association, etc.
- ◆ Review and adjust the Agency Division boundaries as required after each census.
- ◆ Enhance CLWA's standing in the Santa Clarita Valley as the source for pertinent water-related information.
- ◆ Continue to implement Board strategic plans for CLWA and SCWD.
- ◆ Conduct a fifty-year anniversary commemoration.

**Conclusion**

In conclusion, the Final FY 2011/12 Budget acknowledges the financial uncertainties and difficulties 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