Agenda Item No. 7.1

2014 Budget Proposal

January 22, 2014

Overview of 2014 Budget Presentation

- What Has the District Done; Planning to Do?
- What is the 2014 Budget Proposal?
- Why a Rate Increase and How Does it Compare?
- Is Money being Used Efficiently?
- Why is Replacing Water Mains, Meters, and Equipment Needed?

What Has the District Done and is Planning to Do?

First and Foremost Responsibility is Providing Safe, Reliable Drinking Water to Current and Future Customers

- **Additional Activities Support Core Responsibility**
  - **Managing Facilities and Water Supplies**
  - **Projects to Increase Cost Efficiency and Reduce Costs**
- **Provide Basis for Building a Budget**
  - **Highlights of 2013 Activities**
  - **Highlights of Planned 2014 Objectives**



Highlights of 2013 District Activities

- ✓ **Initialized the Palmdale Recycled Water Authority;**
- ✓ **Adopted a Water Supply Fee to provide for future growth and secured a long term lease of additional water supply;**
- ✓ **Began work in Littlerock Creek Recharge and Recovery Feasibility Study;**
- ✓ **First year of operating the inter-connection with AVEK to assist with water service to Acton;**
- ✓ **Replaced 20,923 feet, or 3.96 miles, of leaking water mains and responded to 276 leaks in the water system;**
- ✓ **Coordinated community water conservation events, "Before the First Drop" campaign, and paper/electronic newsletters;**
- ✓ **Completed an Organizational Assessment and began implementing improvements;**
- ✓ **Began transition to using more technology in the field to increase efficiency;**
- ✓ **Installed localized GAC treatment to reduce future costs GAC costs at the Leslie O. Carter Water Treatment Plant;**
- ✓ **Maintained departmental expenses at a level below 2006, also 2012, while producing nearly the same amount of water as 2012.**

Highlights of 2014 Planned Objectives

- ✓ **Update District Strategic Plan;**
- ✓ **Prepare the Littlerock Reservoir Sediment Removal Project environmental work;**
- ✓ **Continue work in Littlerock Creek Recharge and Recovery Feasibility Study;**
- ✓ **Conduct a new water rate study, amend water rate structure, and adopt a new five-year water rate plan;**
- ✓ **Replace leaking water mains and increase maintenance of the water system and other assets;**
- ✓ **Operate localized GAC treatment and test new products to control and reduce overall GAC costs;**
- ✓ **Continue transparent financial reporting and auditing;**
- ✓ **Implement additional ways for customers to handle their accounts;**
- ✓ **Incorporate more technology to increase the efficiency of District staff;**
- ✓ **Continue to improve outreach for water conservation, education, and general information through participation in community events and electronic media.**

2014 Budget Proposal

Overall Considerations in Developing the Proposal

- **Maintaining the District's (Customer's) Assets**

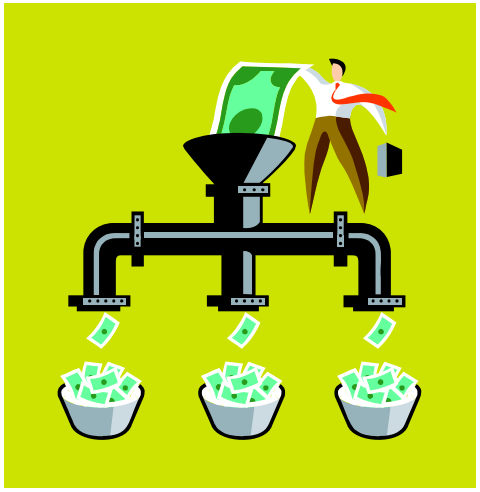
  Balancing of Short-Term and Long-Term Customer Impacts

- **Building Reserves for Financial Stability**

  Conservative Estimates (Water Sales, etc.)

- **Complying with Bond Covenants**

- **Minimizing the Effect on Customers**



Summary of 2014 Budget Proposal

- **Maintaining the District's (Customer's) Assets**

  Investment in District Assets for Long-Term Reliability and Cost Control

  $3,029,500 for 2014 Projects for Equipment and Meter Replacements, etc.

  $5,678,500 in 2013 Bond Funds for 2014 Projects Replacing Long-Term Assets and Water Supply

  Example: 4% Higher Water Losses than Normal = $408,800 Lost Annual Revenues

- **Building Reserves for Financial Stability**

  Holds 97% ($2.45M) of Reserve Level Gains from 2013 Budget

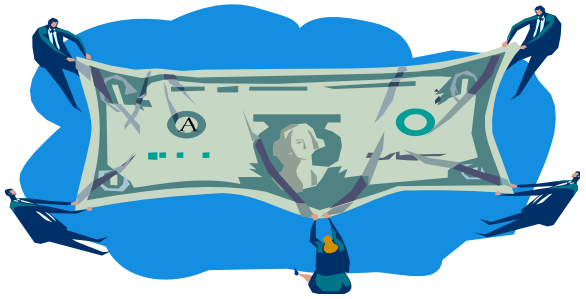
  2014 Ending Reserve level of $10.7MM of $16.2MM Goal

Summary of 2014 Budget Proposal

➢ Compliance with Bond Covenants

Re-Establishes and Funds Rate Stabilization Fund

$480k in 2013 and $480k in 2014



Provides a Debt Coverage Ratio of 1.23

Minimum of 1.10 Required

1.09 with No Rate Change

Maintains the Current Bond Rating and Opportunity for Future Increase

Important for Lowest Cost of Future Financing of Facilities and Water Supplies

Summary of 2014 Budget Proposal

➢ Minimizing the Effect on Customers

Addresses Additional and Increased Costs

$946.5k from Adjudication Class Settlement, Utilities, and Failing Meters

Board Cost Control Actions

$360K in Reductions, Equal to 2% Water Rate Change

Change in Benefit Provider and Capping District Insurance Contribution

Refinancing of 2004 Series Bond issue

3% Water Rate Change Proposed => Avoids Approved 8% Increase

=> Helps Avoid Larger, Future Increases

Summary of 2014 Budget Proposal

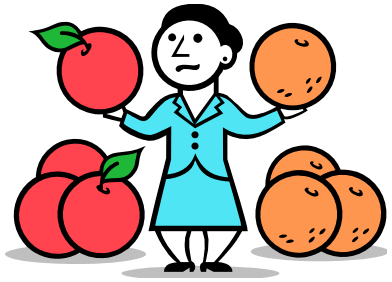
➢ Minimizing the Effect on Customers

How Does a 3% Water Rate Increase Compare?

Inflation 2009-2013 = 8.6% => PWD Rate Changes Same Period = 8.0%

31% Below Approved 2009 Water Rate Plan

Less Than Water Rates in West Palmdale



What is the Average Effect on Customer Types?

$1.72/month for Single Family Residence Accounts

$6.65/month for Multi-Family Residence Accounts

$9.95/month for Commercial Accounts

$10.85/month for Irrigation Accounts

Public / Customer Outreach

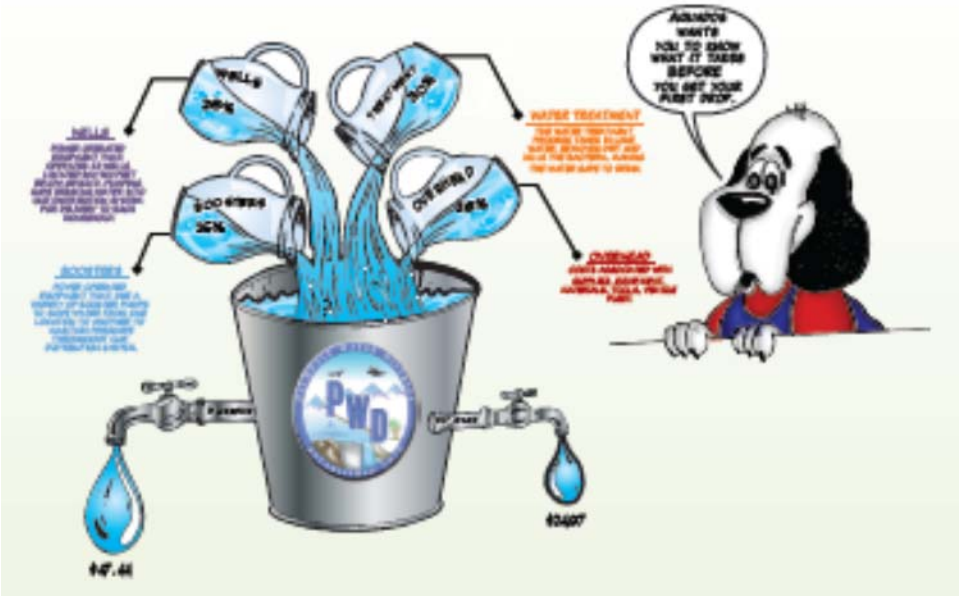
- **"Before the First Drop" Campaign throughout 2013**

  Educate Public on the cost of having water ready to use at the tap

  Included Legislative Visits, Contest

Four Broad Areas of Operation

- **Wells**
- **Booster Stations**
- **Water Treatment**
- **Overhead**



- **Public Workshop Discussing 2014 Budget Proposal**
- **Discussed at Three Regular Public Board of Director Meetings**

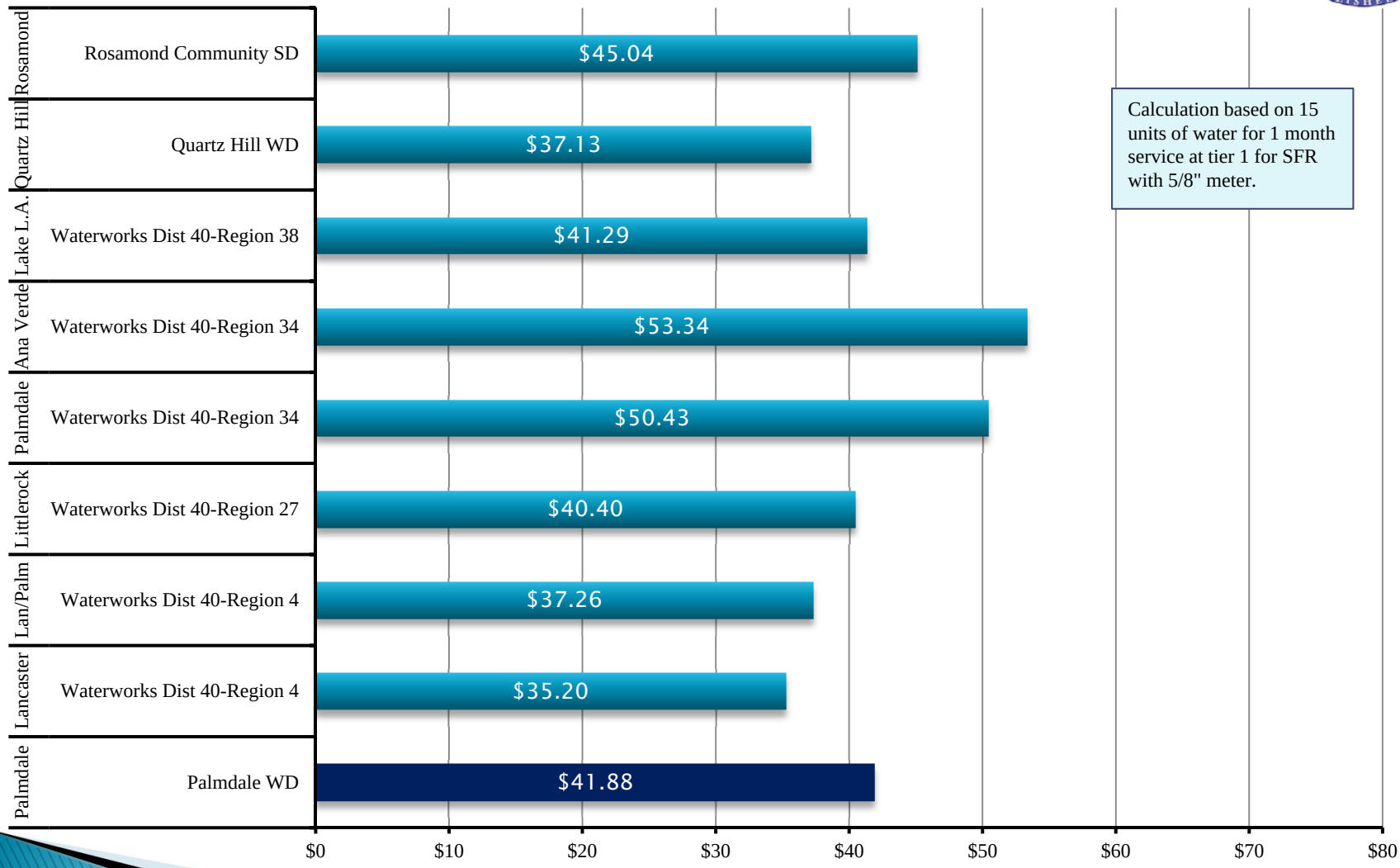
How do Proposed PWD Water Rates Compare?

- 5/8” and 1” Meters
- Local Water Agencies
- 2009 Water Rate Plan



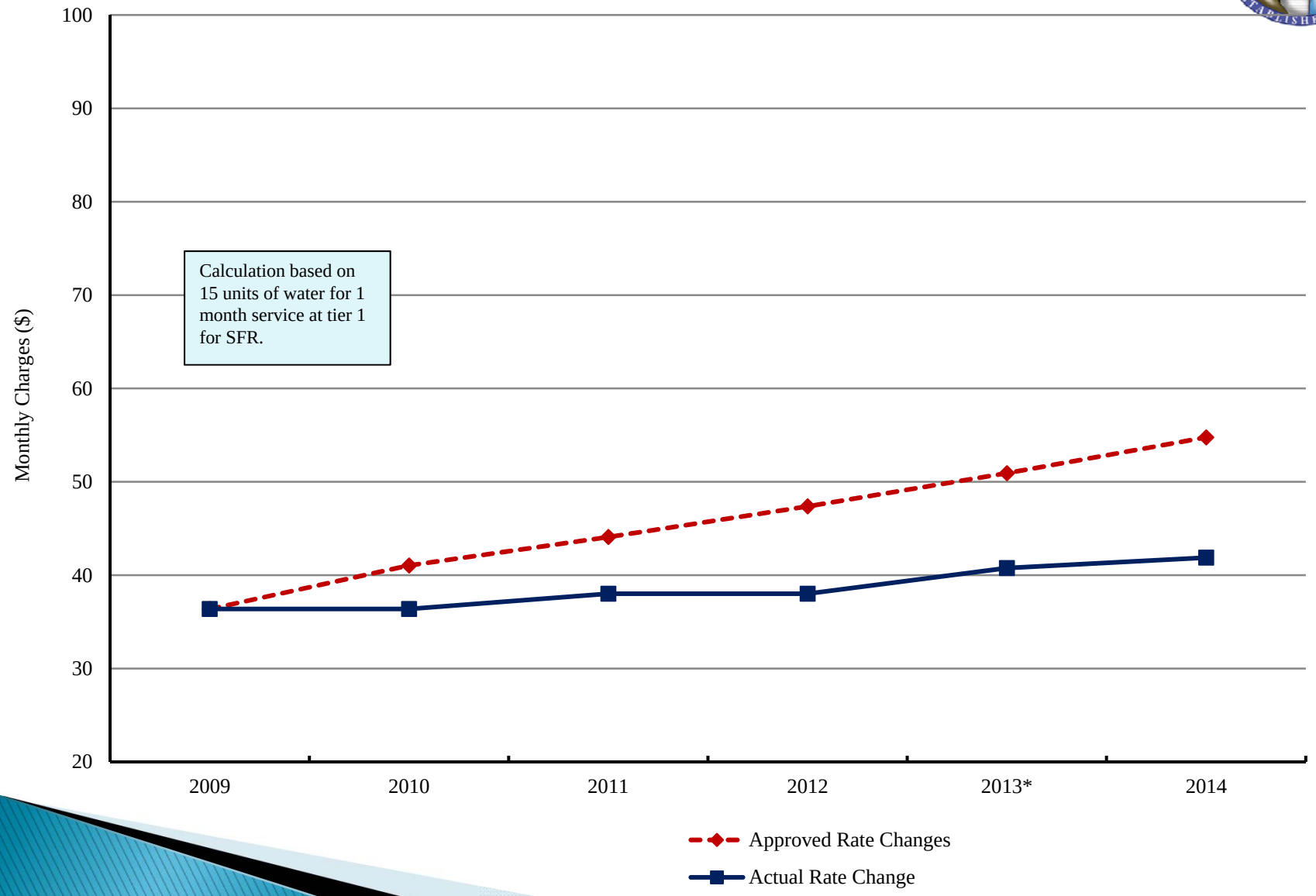
Antelope Valley Area Water Purveyors – 5/8” Meters

(Including GAC Costs and Proposed PWD 3% Rate Change)



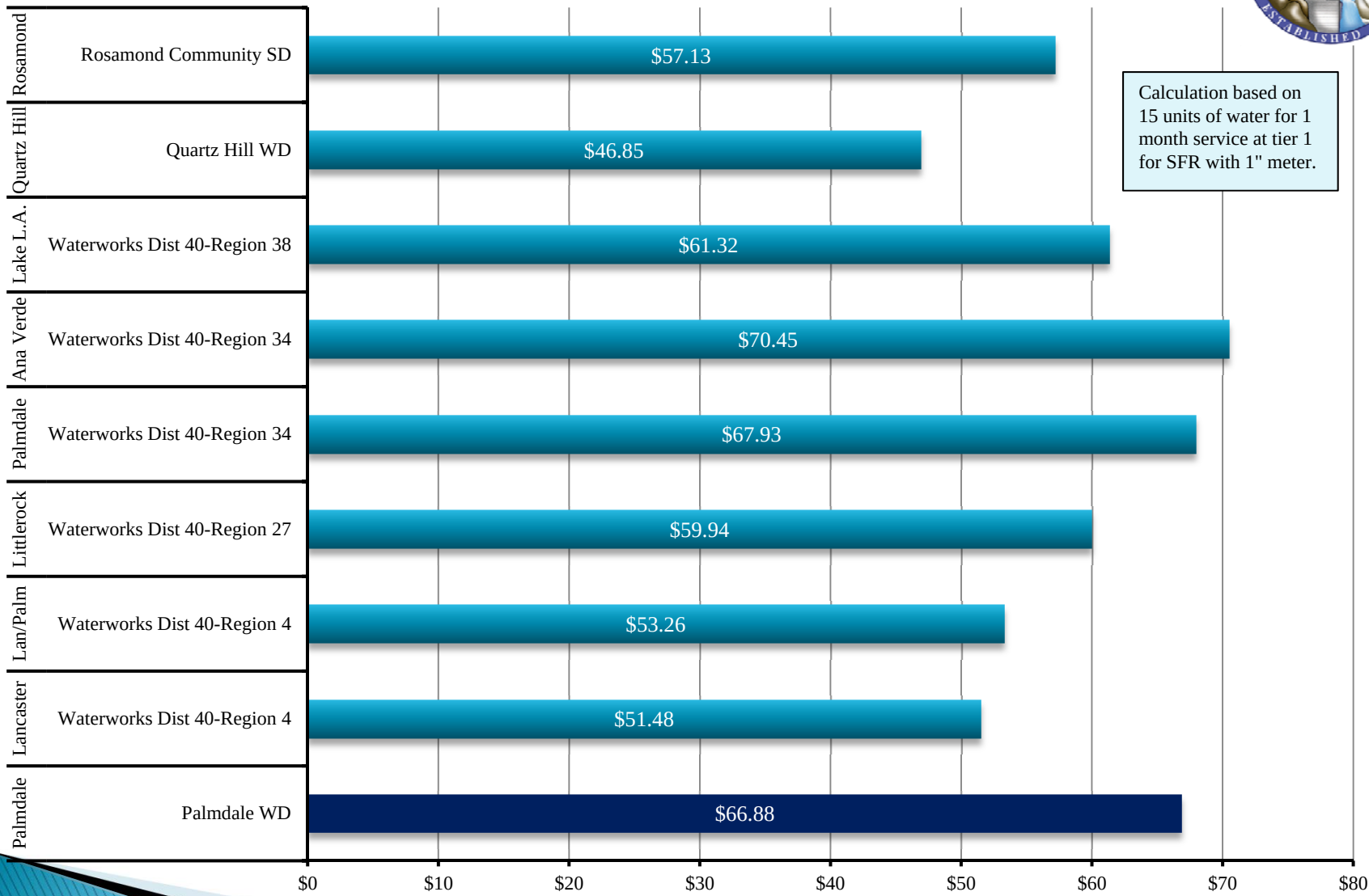
Calculation based on 15 units of water for 1 month service at tier 1 for SFR with 5/8" meter.

Difference of Planned and Actual Water Rate Changes (5/8" Meters)



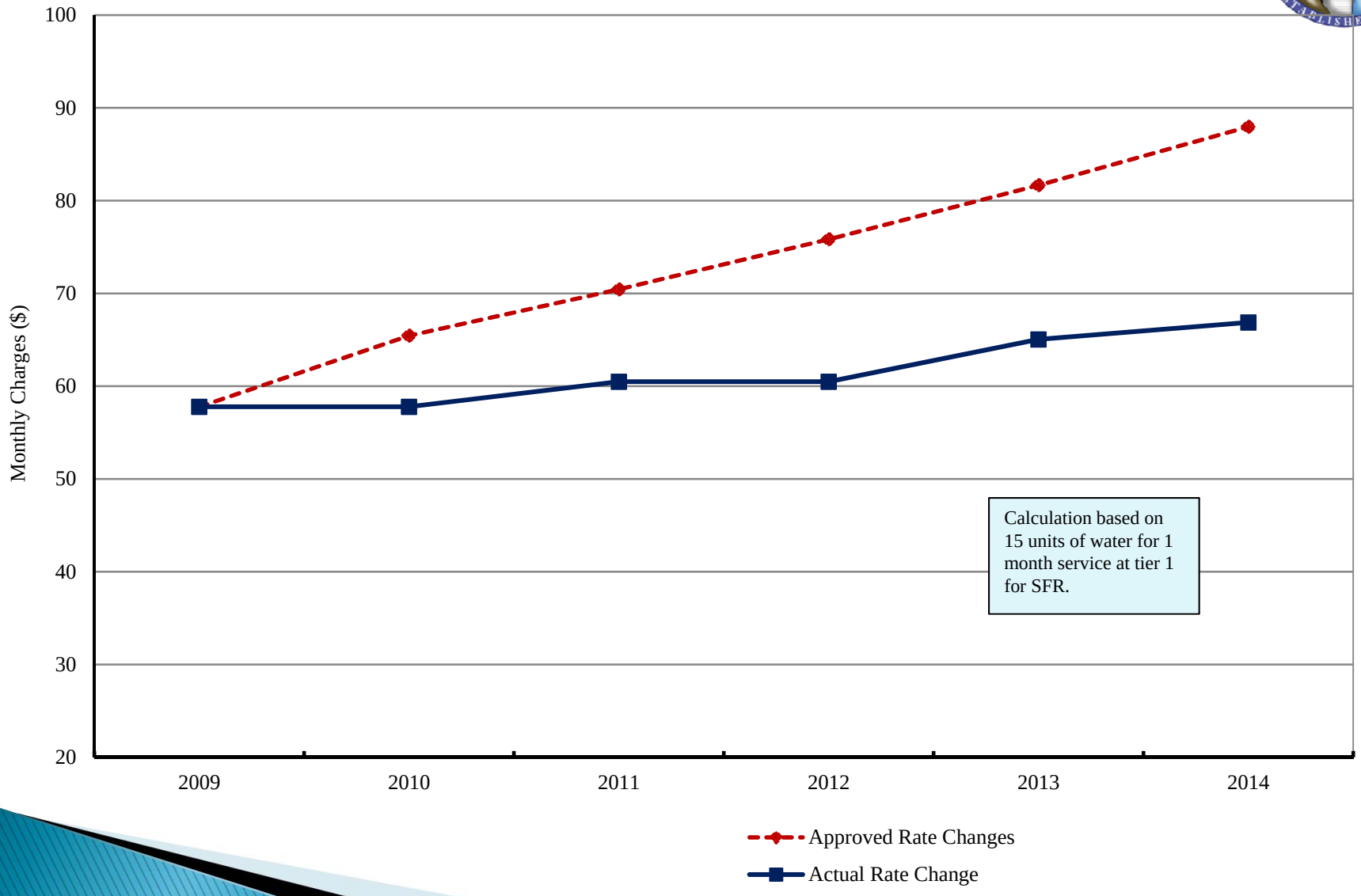
Antelope Valley Area Water Purveyors – 1” Meters

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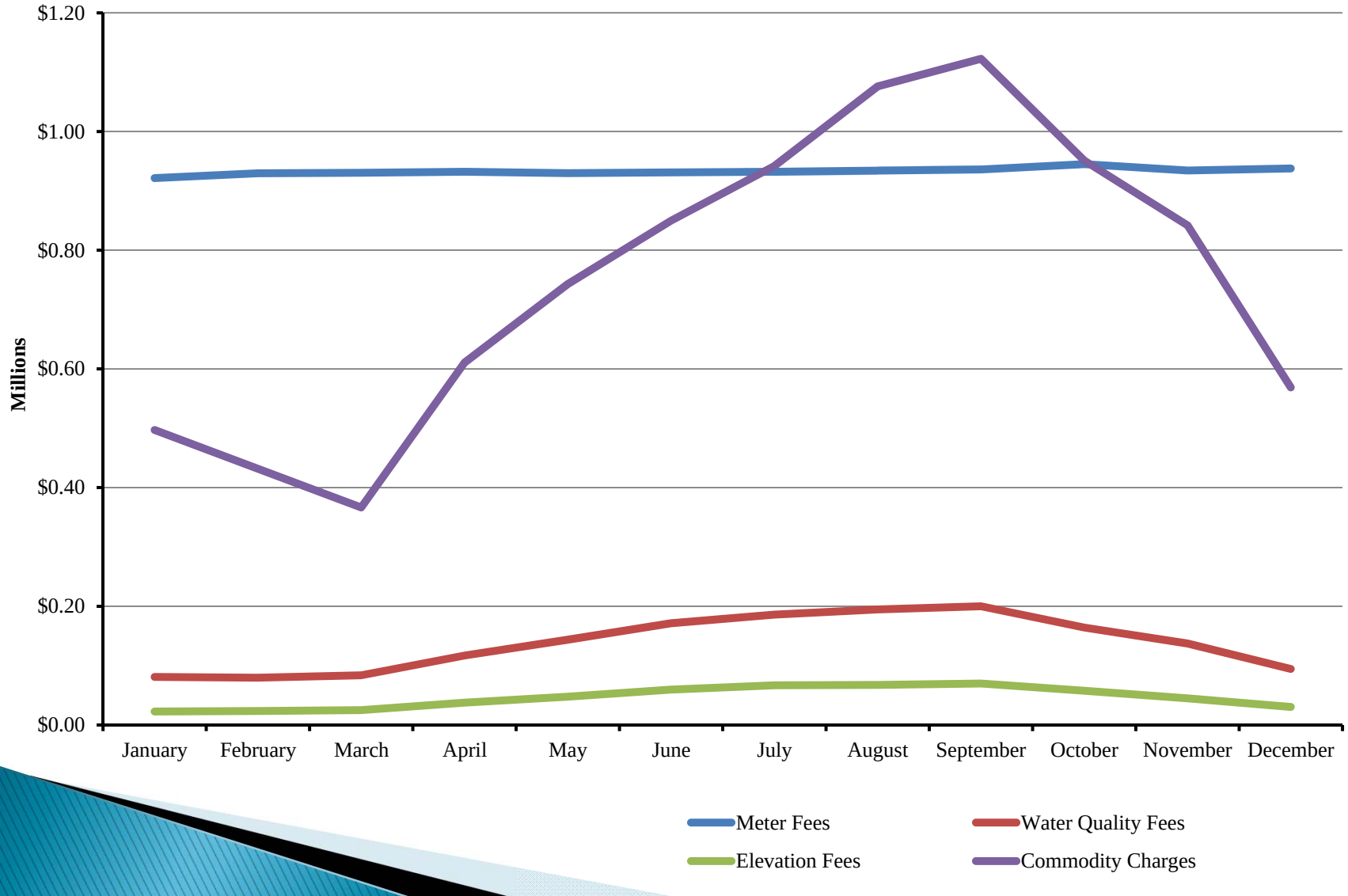
Difference of Planned and Actual Water Rate Changes (1" Meters)



Is the Money Being used Efficiently?



Typical Monthly Revenue Pattern from Water Budget Rate Structure



Why is Replacing Mains, Meters, etc. Important?

- Affects the Reliability of Service to Customers
- Aging of Property, Plant, and Equipment
- High Cost of Deferred Maintenance
- Control Lost Water/Revenues and Need for Future Rate Increases
- Water Main Replacement Status
- Summary of Water Meter Ages

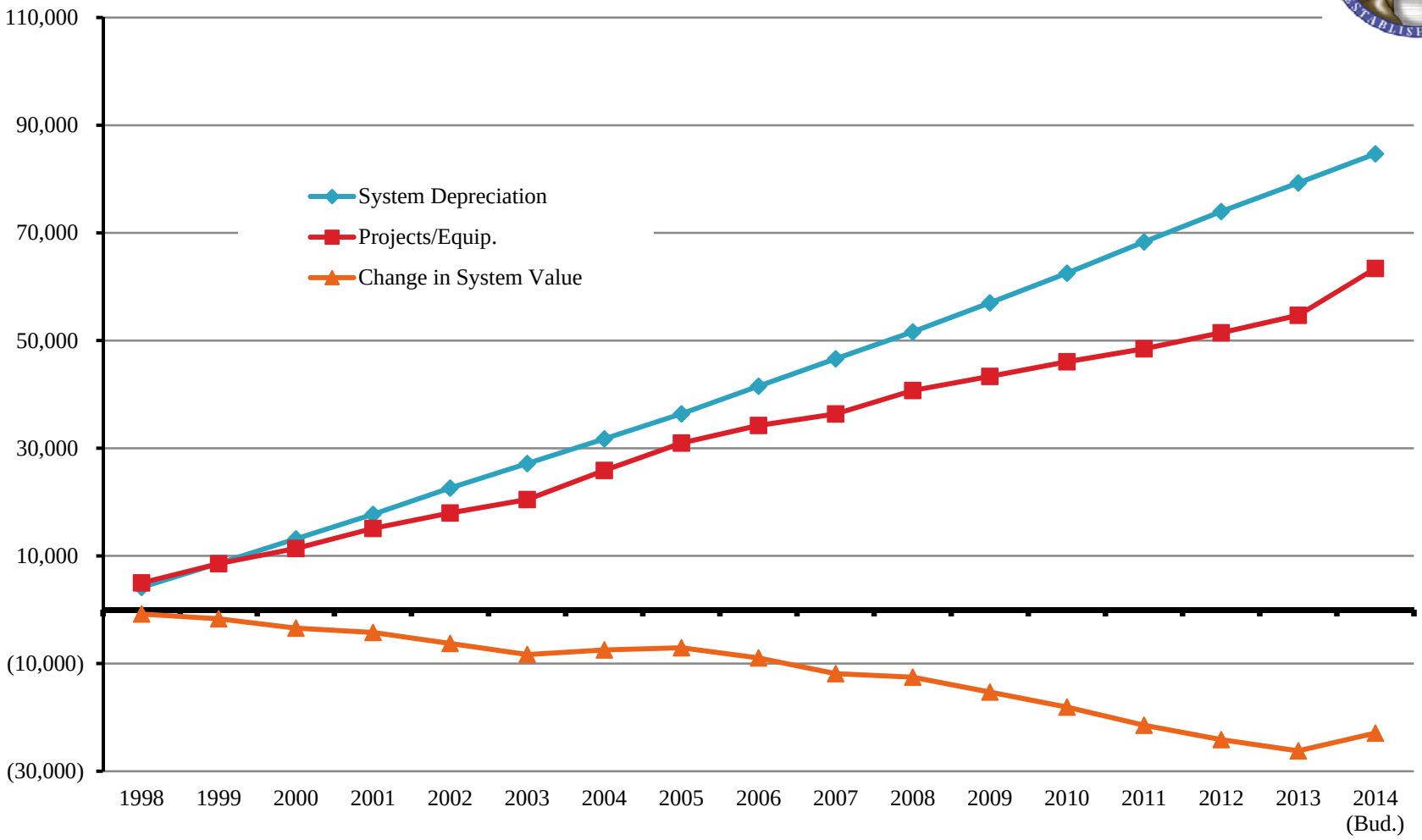




Property, Plant, and Equipment Value



Relative Property, Plant, and Equipment Value ($1,000)



Note: Depreciation excludes WTP Improvements; Projects/Equip. excludes WTP improvement costs and Capital Imp. Projects

Why not Continue Delaying Maintenance?

- **Running to Breakdown Costs at Least 15:1 Over Spending on Maintenance (David Todd Gleason)**

- **District Example:**

Water Main: Sumac from Q-3 to Q-7 (~1,100')

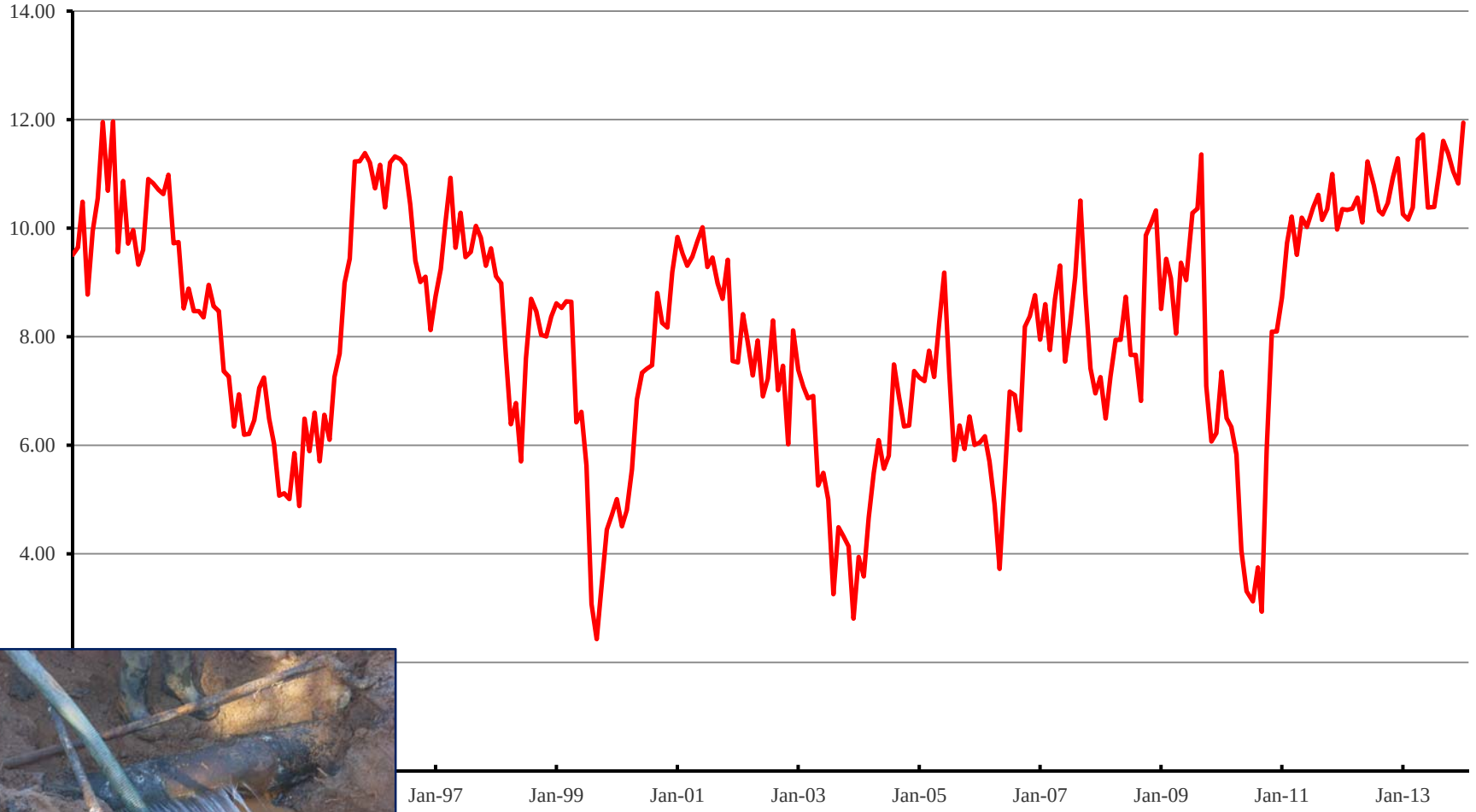
159 Leaks from 2008 to 2013 = $238,500

Replacement Cost = $120,000





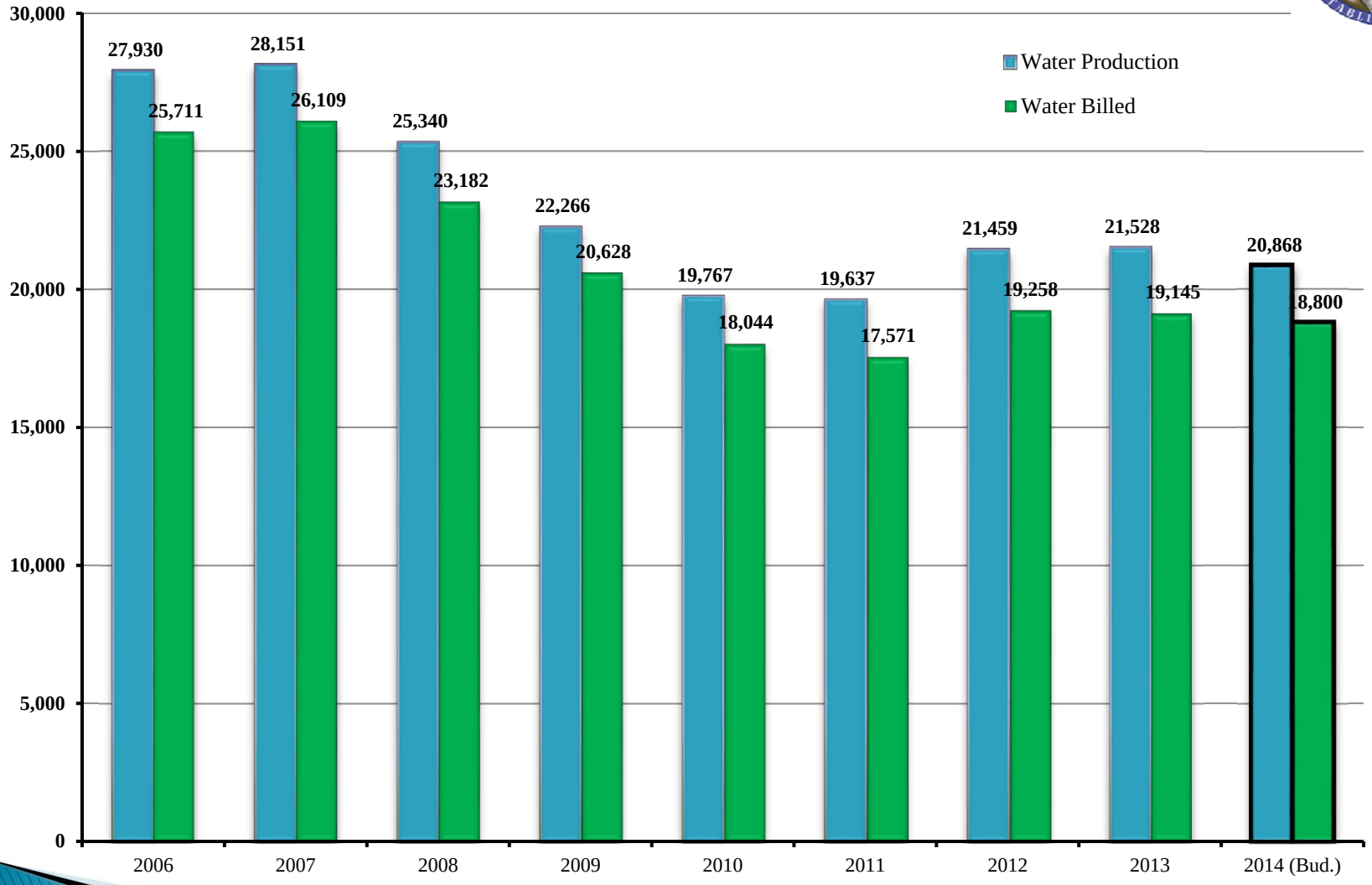
12 Month Running Average of Water Loss (%)





(Water Main Leaks, Slow or Stuck Meters, Fire Protection)

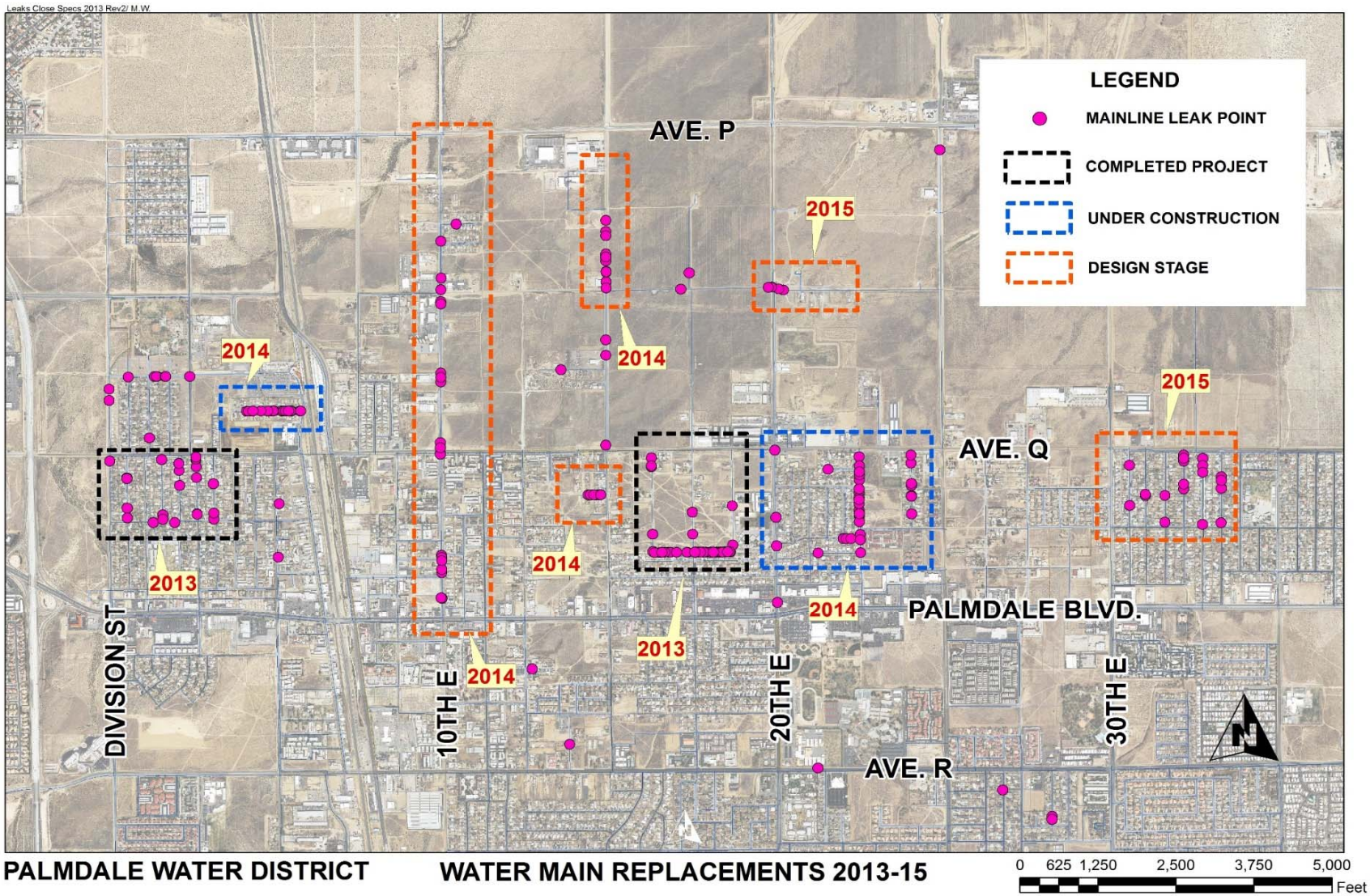
Water Production/Billing (AF)



Annual Mainline Leaks (2006 – 2013)



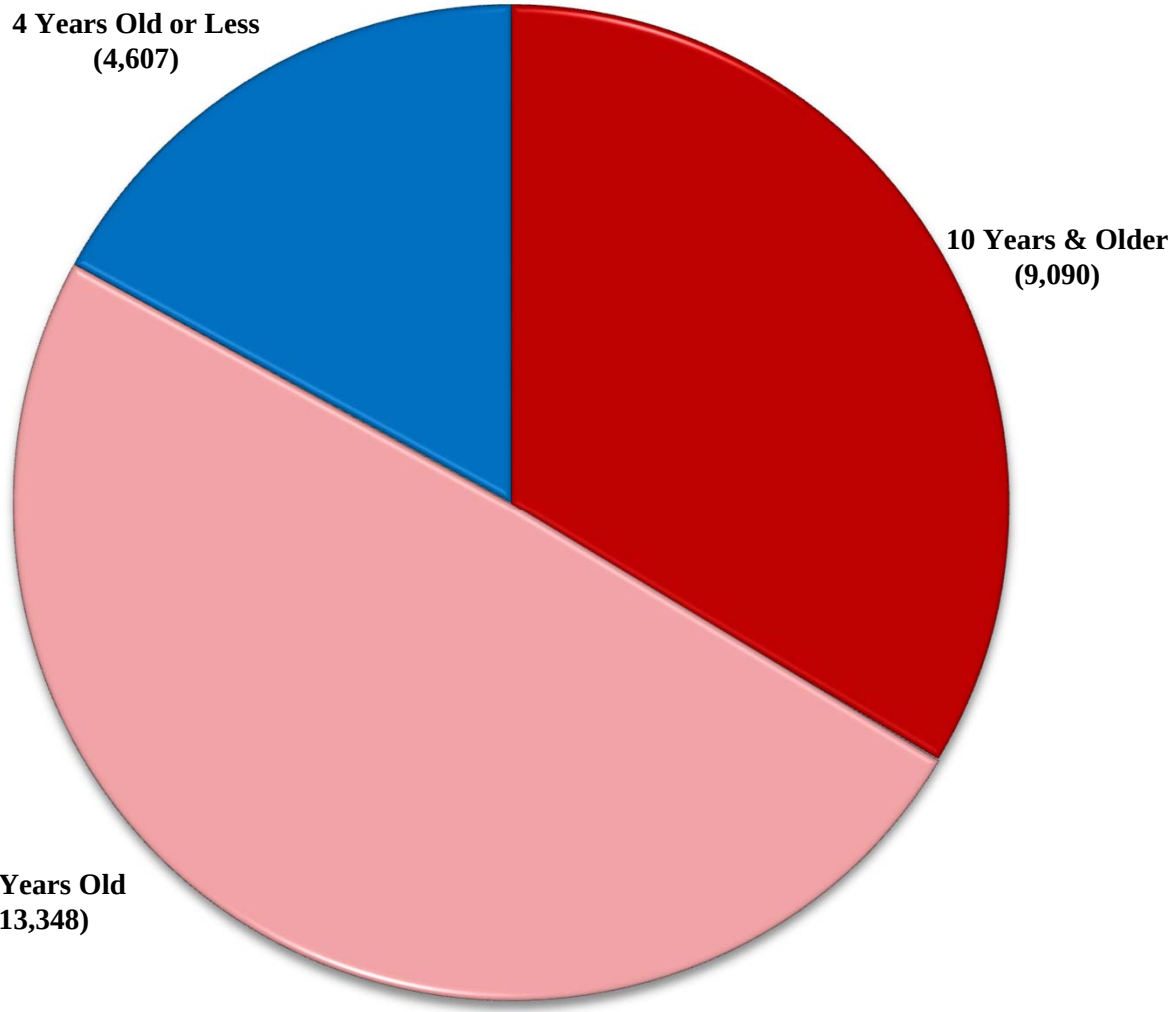
(Average Leak Repair Cost = $1,500)



20,923 Ft or 3.96 Miles Replaced in 2013

26,073 Ft or 4.94 Miles Planned Replacements in 2014

Summary of Water Meter Age



Questions and Discussion