



COUNTY OF LOS ANGELES BOARD OF SUPERVISORS

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October 20, 2014

The Honorable Anthony Rendon
Assembly Member, 63rd District
State Capitol
P.O. Box 942849
Sacramento, CA 94249-0063

Dear Assembly Member Rendon:

REQUEST FOR STATE AUDIT OF CENTRAL BASIN MUNICIPAL WATER DISTRICT

For more than a decade, the news media has reported on the mismanagement, unethical practices, and questionable activities of the Central Basin Municipal Water District Board of Directors. These news agencies have included the *Los Angeles Times*, the *Whittier Daily News*, the *Pasadena Star News*, and others. Concurrently with these reports, Central Basin has received and continues to receive significant State funding from the California Department of Water Resources. The cloud of dysfunction confronting Central Basin threatens its ability to effectively serve its customers, undermines efforts to reform the agency, raises questions as to its use of State funding, and discourages other agencies from collaborating or partnering with Central Basin. Central Basin has the responsibility of serving water to more than 2 million people in 24 cities and unincorporated areas within the County of Los Angeles.

At our request, our Chief Executive Office and the Department of Public Works recently completed an investigation of the Central Basin and prepared the enclosed report documenting the issues at Central Basin identified by the local media, our constituents, and other local water agencies. The County staff report notes:

- Debt ratio coverage has been as low as 0.20.
- Sale of imported water from the Metropolitan Water District – the reason Central Basin was created in 1952 – continues to decline, 9 percent from Fiscal Year 2013-14.
- After more than a decade of legal conflict with other water agencies, legal expenses have exceeded \$200,000 in some months.
- The administrative fee Central Basin adds to the cost of purchasing Metropolitan Water District water more than quadrupled in 19 years, from \$15 in 1992-93 to \$70 in 2011-12.

The Honorable Anthony Rendon
October 20, 2014
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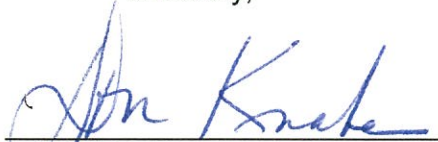
- The Association of California Water Agencies Joint Powers Insurance Authority terminated the agency's insurance policy when it failed to comply with the Joint Powers Insurance Authority's conditions for continued insurance coverage.
- Other water agencies recommended an independent management audit and development of a plan for Central Basin to address the continued decline in its imported water sales.

In the last year, Central Basin has made some improvements under a new General Manager. The Central Basin Board of Directors, however, recently fired that manager undermining public confidence and raising questions as to further reforms. Central Basin's use of State and public money continues to raise concerns as to the future of water supply reliability in its service area.


Based on the findings of this investigation and report, we request your assistance in arranging for the State Government to perform a comprehensive management audit of Central Basin's operational structure, business management, and alleged inappropriate use of funds. An audit by either the State Controller or the State Auditor could effectively answer questions as to Central Basin's continued viability. We are prepared to support the audit's recommendations to pursue any legislative and non-legislative actions necessary to reform Central Basin to effectively maintain water availability and services to the residents and businesses of our County within its service area.

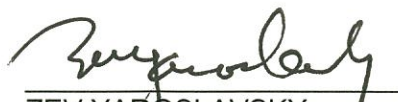
If you have any questions, please contact Mr. William T Fujioka, our Chief Executive Officer, at (213) 974-1101, or Ms. Gail Farber, our Director of Public Works, at (626) 458-4002.

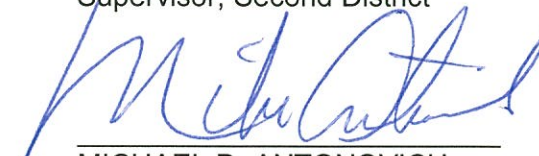
Sincerely,


DON KNABE
Chairman, Board of Supervisors


GLORIA MOLINA
Supervisor, First District


MARK RIDLEY-THOMAS
Supervisor, Second District


ZEV YAROSLAVSKY
Supervisor, Third District


MICHAEL D. ANTONOVICH
Supervisor, Fifth District



COUNTY OF LOS ANGELES

DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

GAIL FARBER, Director

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IN REPLY PLEASE

REFER TO FILE: W-4
A4113

October 2, 2014

TO: Each Supervisor

FROM: Gail Farber *Gail Farber*
Director of Public Works

BOARD MOTION OF JUNE 4, 2014, AGENDA ITEM 3 EVALUATION OF CENTRAL BASIN MUNICIPAL WATER DISTRICT

On June 4, 2014, the Board instructed the Chief Executive Office, Department of Public Works, and County Counsel to consult with Central Basin Municipal Water District to ensure all necessary steps are being taken by Central Basin to immediately address and correct their ongoing problems, investigate options to ensure continued water availability and service to Central Basin's customers, and report back to the Board within 90 days with findings and recommendations. Attached is our report in response to this motion.

If you have any questions regarding this matter, please contact me or your staff may contact Gary Hildebrand at (626) 458-4012 or ghildeb@dpw.lacounty.gov.

GE:dvt
MEMO656

Attach.

cc: Chief Executive Office (Rita Robinson)
County Counsel
Executive Office

Report to the County Board of Supervisors on Central Basin Municipal Water District

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Report to the County Board of Supervisors on Central Basin Municipal Water District

1 Executive Summary

1.1 Formation and Mission of CBMWD

Central Basin Municipal Water District (CBMWD) was formed by the California Legislature under the Municipal Water District Law of 1911 (Water Code Section 71000) for the purpose of providing an adequate supply of water within its service area. Due to depleting groundwater resources within the area of the County, CBMWD was created in 1952 to assist in supplying supplemental water from imported sources to help mitigate the over-pumping of groundwater resources in the Central Basin. CBMWD is a member agency of Metropolitan Water District (MWD) and has the right to purchase imported water supplies from MWD, which has access to supplies from the Colorado River and State Water Project. The agency's primary function is to develop and maintain water supply programs that improve the water supply reliability for its customers.

1.2 Reported Issues at CBMWD

For more than a decade, news stories concerning CBMWD have been reported by various news agencies including the *Los Angeles Times*, the *Whittier Daily News*, the *Pasadena Star News*, and several public news agencies. The majority of the stories have highlighted mismanagement, unethical practices, and questionable activities by CBMWD's board. Many of these issues continue to plague the agency today.

1.3 Board Motion

On June 4, 2014, Supervisor Don Knabe submitted a motion that was unanimously approved, which directed the County of Los Angeles Chief Executive Office (CEO) and the County of Los Angeles Department of Public Works (Public Works) to perform the following tasks:

1. *Consult with CBMWD to ensure all necessary steps are being taken by CBMWD to immediately address and correct their ongoing problems.*

CBMWD has informed the County of several mitigation measures that have been implemented or will be implemented in the near future. For example, CBMWD has taken several steps to reduce its debt and annual expenditures while maintaining a 2-year operating reserve. Other actions have been taken to resolve several lawsuits with other water agencies and to implement a new legal expenditure policy. Furthermore, CBMWD was

Report to the County Board of Supervisors on Central Basin Municipal Water District

able to maintain continuity in its liability insurance coverage by securing insurance from top-rated providers in the private market.

CBMWD has also hired new senior managers with significant levels of experience within the water supply industry, which has allowed CBMWD to reduce consultant costs significantly and provide stability to its operations and workforce.

- 2. In consultation with County Counsel, major water stakeholder agencies within the County and at the Regional and State levels, as well as the County's Sacramento Legislative Representative, discuss the situation affecting CBMWD and investigate options to ensure continued water availability and service to CBMWD's customers, including the option of having another local water management agency undertake CBMWD's responsibilities.*

Water Agency Concerns

Through discussion with various water agencies they have suggested steps that should be taken to restore the public's trust in CBMWD, including: (1) conducting an independent audit, (2) reducing future litigation, (3) establishing an independent Advisory Committee for 5 years to provide recommendations regarding its annual budget and capital projects, and (4) training and educating its Directors regarding the formation and purpose of CBMWD.

Process to allow another entity to assume CBMWD responsibilities

The Los Angeles Local Agency Formation Commission (LAFCO), an independent commission created by state law, controls the process to allow another entity to assume CBMWD responsibilities pursuant to the Cortez-Knox-Hertzberg Act. This action could be initiated on petition of CBMWD, 10 percent of the voters of CBMWD, any city served by CBMWD, the County of Los Angeles, or upon an action initiated by LAFCO.

Dissolution proceedings would require notice to the affected voters/landowners, an evidentiary public hearing, and a protest hearing. Depending on how proceedings were initiated and/or protest results, and other factors, an election of the entire electorate of CBMWD could be required. Independent action by LAFCO would require a report recommending dissolution and findings consistent with dissolution.

Report to the County Board of Supervisors on Central Basin Municipal Water District

Upon dissolution of CBMWD, a Successor Agency will be appointed by LAFCO. The determination of a Successor Agency is based on which city or County or existing district jurisdiction includes the greatest assessed value of taxable property within the dissolved district unless the conditions of the dissolution provide that all remaining assets of the dissolved district shall go to one or more successor districts.

3. *Report back to the Board of Supervisors in 90 days with findings and recommendations.*

Based on the collected information of this report, the CEO and Public Works recommend that the Board of Supervisors request a comprehensive Management Audit of CBMWD by the California State Auditor.

2 Issues Confronting CBMWD

2.1 2001 State Audit

Problems in the agency were reported as far back as 2001 in an audit by the California State Auditor, which found mismanagement of its finances regarding its recycled water program. The Auditor's report findings were as follows:

"When the Central Basin Municipal Water District (CBMWD) started its recycled-water project in 1991, it presented projections to taxpayers indicating that the project would be self-sufficient after three years and would no longer depend upon the so-called "standby charge," an assessment levied on property owners. CBMWD used high imported water rate projections of up to \$2,200 per acre-foot in Fiscal Year 2019-20 to determine the project's recycled-water revenues. By ignoring lower projections, it overstated the project's potential for self-sufficiency... CBMWD also failed to properly evaluate the project's financial risks and did not obtain firm purchasing commitments from local water retailers and their customers before constructing its distribution system. In doing so, it ignored the advice of the State Water Resources Control Board, which told CBMWD to obtain customer contracts for the use of 50% of the system's planned capacity and letters of intent from customers for the remaining 50%. More than nine years later, CBMWD is still assessing its taxpayers \$3 million a year in standby charges, revenue that is essential for CBMWD to meet debt payments related to construction of the project. The financial problems it faces—flattening water rates and customers who refuse service—have been exacerbated by CBMWD's choice to hold its recycled water rates steady even when imported water rates have increased."

Report to the County Board of Supervisors on Central Basin Municipal Water District

One year after the State Auditor's report was released, CBMWD had only taken "partial action" to address the report findings, which focused on the actions CBMWD would take to make the funding for the recycled water program sustainable.

2.2 Recent News Articles and Other Public Source Material

For more than a decade, news stories concerning CBMWD have been reported by various news agencies including the *Los Angeles Times*, the *Whittier Daily News*, the *Pasadena Star News*, and several public news agencies. The scope and number of news articles has increased significantly since January 2014. The majority of the stories have highlighted mismanagement, unethical practices, and questionable activities by CBMWD's board. Some of these news reports include the following:

- Loss of liability insurance
- Alleged illegal contracting practices
- Misuse of public funds
- Alleged sexual harassment and unethical practices by board members
- Mishandled public relations campaign
- Legal battles with other water agencies
- High legal costs

Many of these issues continue to plague the agency today.

2.3 Issues Revealed Through Discussions with CBMWD

On July 2, 2014, CBMWD General Manager Tony Perez, Finance Director Rick Aragon, and Public Affairs Manager Joseph Legaspi met with staff from Public Works. Concerns raised at this meeting included Board Governance, finances, litigation, loss of insurance, operations, and water supply.

3 Steps Taken by CBMWD to Address Issues

Upon the request of Public Works, CBMWD staff prepared a report (Attachment C) summarizing the improvements and reforms they have

Report to the County Board of Supervisors on Central Basin Municipal Water District

implemented. These improvements and reforms speak to the concerns raised by the Board of Supervisors' motion. Information from the report is summarized below.

3.1 Governance

CBMWD has stated it is committed to upholding the highest ethical standards in all of its business and professional operations and relationships. CBMWD maintains a Directors' Code of Conduct that is guided by these principles. CBMWD is currently reviewing its Directors' Code of Conduct for potential improvements.

3.2 Finances

In January 2014, CBMWD performed a 6-month budget review and adjustment to respond to up-to-date budget information. Operating expenses for the current fiscal year were decreased by \$2.5 million (28%) from the previous fiscal year. CBMWD's unadjusted debt ratio coverage increased from 0.20 to 1.20 in Fiscal Year 2013-14. CBMWD also reduced consultant expenditures by over \$900,000.

Last year, CBMWD paid off \$4 million in bonds early to reduce its overall debt load and bring annual required debt service payments to an affordable level and equal to a dedicated and stable property assessment revenue stream. CBMWD also expects to complete a debt restructuring by October 2014 that would guarantee the same affordable payment level until the debt is paid off.

CBMWD maintains a reserve of \$15 million on average throughout the year. This represents almost 2 years of operating expenses. For the third consecutive year, CBMWD did not raise imported rates in order to provide stability to ratepayers.

3.3 Legal Expenditures and Litigation

CBMWD has taken significant actions to reduce legal expenditures. This includes the resolution of three major pieces of litigation and the implementation of a legal expenditure policy. Resolution of the CBMWD's lawsuits with the Water Replenishment District has fostered an environment for increased partnership among regional water agencies, as evidenced by the recent agreement between CBMWD and the Water Replenishment District for the purchase of 60,000 acre-feet of replenishment water, at over \$40 million, to replenish the central basin and provide regional water reliability.

Report to the County Board of Supervisors on Central Basin Municipal Water District

The newly enacted legal expenditure policy requires that all legal services include limits for budget, schedule, and scope that are set in advance by CBMWD's Board of Directors. This method requires CBMWD's lawyers to justify performance should there be a need for an increase in contract limits.

Prior to the resolution of the lawsuits referenced above and implementation of the Legal Policy, invoices for legal services were approaching, and sometimes exceeding, \$200,000 per month. Resolution of litigation and implementation of the new Legal Policy has resulted in projections for legal services to be \$50,000 per month or less. According to CBMWD, "dramatically reduced legal costs have already materialized beginning in June of 2014."

3.4 Loss of Insurance

Upon notification by ACWA-JPIA that they were considering removing CBMWD from the group's insurance pool, CBMWD staff worked on reviewing all available insurance options to ensure that CBMWD had continuous, uninterrupted insurance coverage, and preserved its improved financial standing and operations.

CBMWD has secured insurance from top-rated providers in the private market, including Allied World Assurance Company for liability, property and crime coverage, ACE Insurance Company for employment practices liability coverage, and State Compensation Insurance Fund for workers compensation coverage. The decision to secure insurance in the private marketplace had no impact on water rates as CBMWD adopted the Fiscal Year 2014-15 budget with no increases on imported water rates.

3.5 Operations

Over the past year, according to CBMWD, its operations have experienced marked improvement particularly in completing its Senior Management Team. In April 2013, CBMWD appointed Antonio Perez, a water industry professional engineer with over 30 years of experience as General Manager. Additionally, Jonathan Tat, a California Licensed Civil Engineer with over 23 years of professional experience with the Metropolitan Water District was selected as the Engineering and Operations Manager; and Richard Aragon, a Certified Public Finance Officer and a Certified Grants Manager with nearly 10 years of experience in finance and professional accounting was selected to serve as the Finance Director. Joseph Legaspi, an experienced media and government relations professional with more than 10 years of experience in public policy and communications, was selected to serve as the Public Affairs Manager.

Report to the County Board of Supervisors on Central Basin Municipal Water District

The completion of the Senior Management Team has allowed CBMWD to reduce consultant costs significantly and provide stability to meet the water resource needs of more than 2 million residents in its service area. Additionally, there has been a 10 percent reduction in labor costs as the result of actions implemented by committed staff that have taken on additional responsibilities and created new operating efficiencies.

3.6 Water Supply, Reliability and Sales

In September 2013, CBMWD connected its largest recycled water customer, Pro-Cal in the City of Santa Fe Springs. This connection will provide Pro-Cal with more than 70 million gallons of recycled water per year. This connection is part of CBMWD's efforts to reduce the region's dependence on imported water supplies. CBMWD provides more than 5,800 acre-feet (AF) of recycled water to more than 280 sites in its service area.

Imported water sales for Fiscal Year 2014 were 33,951 AF compared to 37,501 AF for Fiscal Year 2013. This represents a 9 percent decrease due to increased conservation efforts and increased reliance on local supplies. Recycled water sales for Fiscal Year 2014 are at 5,841 AF, compared to 4,953 AF for Fiscal Year 2013. This is an 18 percent increase. Although imported water sales are down, the increase in recycled water sales has allowed CBMWD to remain within 5 percent of anticipated Total Net Water Revenue.

3.7 Transparency

According to CBMWD, maintaining the public's trust is a key step towards its ability to serve its customers. All Board meeting agendas are posted online. With respect to budgeting for the current fiscal year, CBMWD hosted four public budget workshops, had all budget materials posted online, and all budget workshops videotaped and posted online. Public workshops were advertised via mailed invitation, press releases, announcements on the website, and social media channels.

Additionally, CBMWD completed more than 80 public records requests since June 2013 with Board members and staff in full compliance with inquiries from external authorities.

Report to the County Board of Supervisors on Central Basin Municipal Water District

3.8 Additional Recommendations from the Water Community

Public Works staff met with multiple stakeholder agencies that regularly interact with CBMWD to solicit input on recommendations for improving CBMWD. These agencies all recognize the significant role CBMWD plays in the water supply picture in Los Angeles County and hope CBMWD embraces necessary reforms to become a better managed and properly focused agency. They identified many of the same themes for improvement already identified by CBMWD staff and suggested the following specific actions CBMWD should take:

- While CBMWD has initiated reforms through an internal process, they should seriously consider an independent management audit to provide transparency and assurance to other agencies and stakeholders in the region that the necessary reforms have been identified.
- The amount of litigation that CBMWD has been involved in has been disruptive, and it is a very positive sign to see its litigation with the Water Replenishment Districts come to an end. Efforts should be made to reduce future litigation.
- CBMWD should establish an independent Advisory Committee for 5 years to provide formal stakeholder recommendations to CBMWD regarding capital projects and its annual budget.
- It is vitally important that a water agency understand the purpose of its formation and its role within the water community. CBMWD Directors and staff should undergo training and education about the formation and purpose of CBMWD to instill an appropriate level of institutional knowledge that does not currently exist. This will help to avoid unnecessary and avoidable inter-agency conflict in the future.
- CBMWD does not appear to have a plan for dealing with the future drop in purchase of imported water by its customers, as more switch to groundwater.

Report to the County Board of Supervisors on Central Basin Municipal Water District

4 Process to Transfer Ownership of Central Basin to Another Entity

Should there be a decision to pursue transfer of ownership of CBMWD to another entity, the process for dissolution (the disincorporation, extinguishment, or termination of the existence of a district and the cessation of all of its corporate powers) is defined by Government Code ("GC") section 56035. LAFCO controls the dissolution process pursuant to Cortez-Knox-Hertzberg Act of 2000.

Dissolution of a district and transfer of its assets and responsibilities to one or more successor agencies is one of the potential changes of district organization under state law. A process of dissolution of CBMWD could originate with a petition for dissolution filed at LAFCO by CBMWD pursuant to [GC 56654(a)], or the LAFCO Commission [GC 56375(a)(2)(B)], or 10 percent of the voters or defined landowners of CBMWD, (GC 56700, GC 56870), or any city served by CBMWD (GC 56654, GC 56014), or the County of Los Angeles (GC 56654, GC 56054, GC 56014).

Dissolution proceedings require notice to the affected residents (GC 56150). LAFCO generally provides notice by mail to each resident; however, when there is a large district such as CBMWD, publication and posting is the proper notice under GC 56157(h) and GC 56158.

An evidentiary public hearing is required where evidence is presented to the LAFCO Commissioners (Commission) (GC 56666). If the proceeding was initiated by LAFCO [GC 57077.1(c)(2)], a report is required, either a Sphere of Influence review required every 5 years (GC 56425), or a Municipal Service Review report (GC 56430), or a Special Study (GC 56378).

Prior to making a dissolution finding, the Commission must hold a protest hearing (GC 57050). Depending on whether or not the petition was initiated by LAFCO, the voters or property owner's participation rate in a protest will dictate the Commission's determinations which may be subject to an election to determine the outcome (GC 57077.1). In absence of a majority protest, dissolution can occur without an election [GC 57077.1(c)(2)]. State law also provides for the effects of dissolution of a district and duties of Successor Agencies. (GC 57450 - GC 57463).

Upon dissolution of CBMWD, the responsibilities of the former special district become the responsibility of one or more Successor Agencies that will be determined by LAFCO [GC 56886(m)]. The determination of Successor Agency is based on the property tax base of the electorate. A Successor

Report to the County Board of Supervisors on Central Basin Municipal Water District

Agency is usually the agency that has the greatest assessed value of taxable property in the boundaries of the former district [GC 57451(c)-(e)].

Alternatively, CBMWD could be broken up into smaller pieces with each piece operating independently, consolidated in whole or in part with another agency, merged with one or more cities within the district boundaries, a new special district could be formed, or some combination thereof. Reorganizations are also under the jurisdiction of LAFCO. Each reorganization type has its own set of laws under the Government Code, although they are subject to multiple steps similar to the dissolution examples identified above.

5 Conclusion and Recommendation

CBMWD has the responsibility for serving water to more than 2 million people in 24 cities and unincorporated areas within Southeastern Los Angeles County. The issues confronting CBMWD as documented by the media and collected through discussions with the local water agencies threaten CBMWD's ability to effectively serve its customers and perform its function as a distributor of imported water. Based on collected information, the CEO and Public Works recommend that the Board of Supervisors request a comprehensive Management Audit of CBMWD by the California State Auditor.

Report to the County Board of Supervisors on Central Basin Municipal Water District

Appendix A

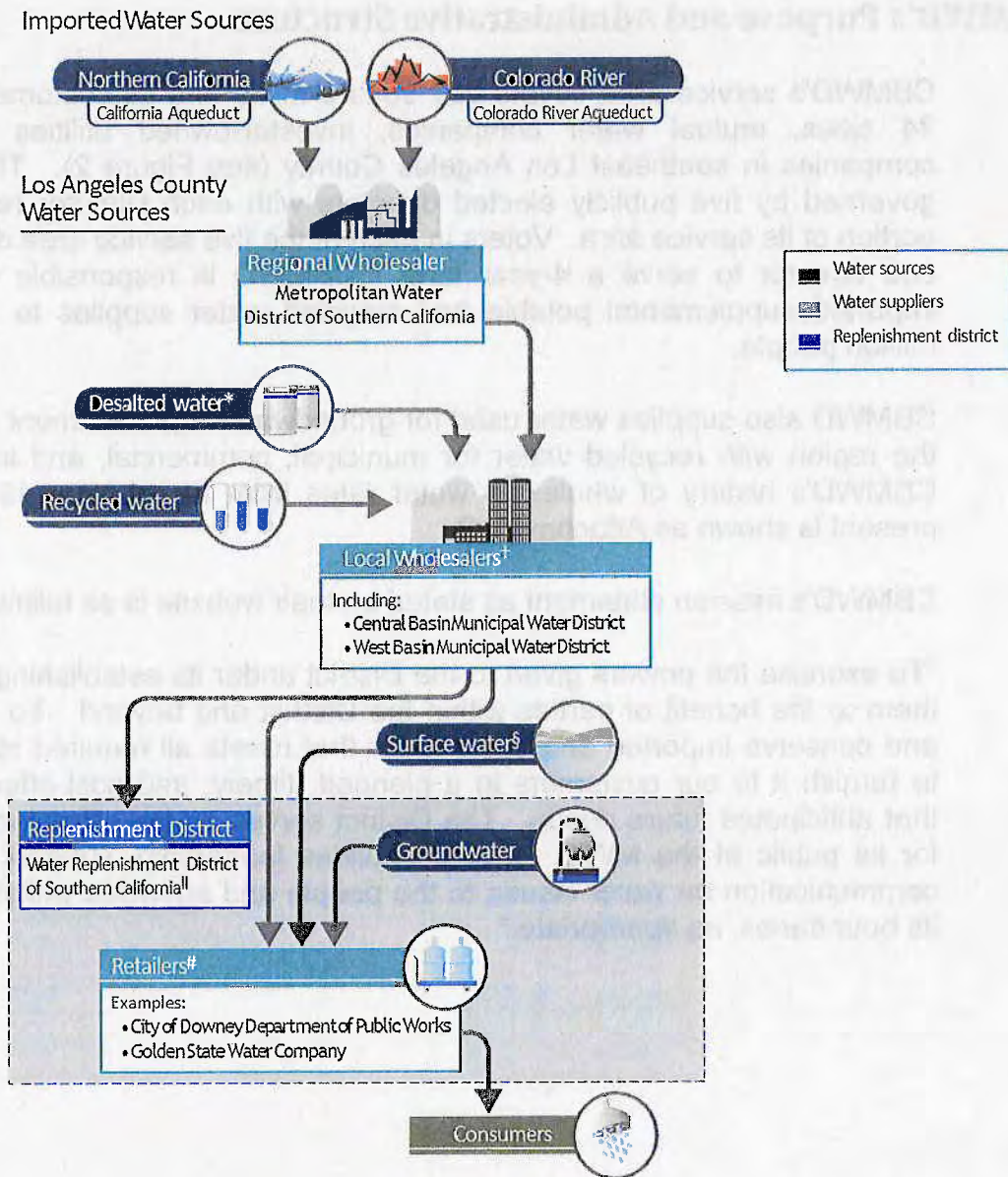
Central Basin Municipal Water District (CBMWD) History and Background

Early History and Legal Formation

In the early 1900s, increases in industry and agriculture caused demand for groundwater to exceed the groundwater basins' natural replenishment. This over-pumping led several entities to file suit to set groundwater rights for the West Coast Basin, resulting in a court judgment that limited pumping from that basin in 1961. Other entities similarly filed suit to set their rights to groundwater from the Central Basin, resulting in a separate judgment in 1965 that set restrictions on pumping groundwater from that basin. The court ordered that 500 parties having water rights in the Central Basin were limited as to how much water they could take in order to prevent overdraft of the basin. To assist the courts in the administration and enforcement of their judgments, each court appointed the State Department of Water Resources (Water Resources) as the watermaster for the basins. Water Resources tracks the amount of groundwater extracted. Pumpers, who include retailers, report amounts pumped monthly and calculate the amounts that pumpers can legally pump during the remainder of that fiscal year.

CBMWD is a public agency established in 1952 by a vote of the people to help mitigate the over-pumping of groundwater resources in southeast Los Angeles County. The agency's primary function is to develop and maintain water supply programs that improve the water supply reliability for its customers. District founders realized they would have to reduce the use of relatively inexpensive, yet diminishing, local groundwater and supplement the water supply for the region with imported water. In 1954, CBMWD became a member agency of MWD, which has access to supplies from the Colorado River and State Water Project. The 5 CBMWD Directors appoint 2 representatives to the 37 member MWD Board of Directors. CBMWD is one of the largest member agencies of the MWD. CBMWD is considered a "middle tier" water wholesaler, as depicted in Figure 1 below.

Report to the County Board of Supervisors on Central Basin Municipal Water District



* All local wholesalers do not have access to desalted water.

† Members of the Metropolitan Water District of Southern California (MWD).

§ All retailers do not have access to surface water.

II The Water Replenishment District of Southern California purchases water from various sources to recharge the groundwater basins beneath southern Los Angeles County.

Nonmembers of the MWD.

Figure 1 - Water Delivery System for Southeast Los Angeles (Source: State Auditor Report 2012-104)

Report to the County Board of Supervisors on Central Basin Municipal Water District

CBMWD's Purpose and Administrative Structure

CBMWD's service area covers 227 square-miles and its customers consist of 24 cities, mutual water companies, investor-owned utilities and private companies in southeast Los Angeles County (see Figure 2). The Agency is governed by five publicly elected directors with each Director representing a portion of its service area. Voters in each of the five service area divisions elect one director to serve a 4-year term. CBMWD is responsible for providing imported supplemental potable and recycled water supplies to more than 2 million people.

CBMWD also supplies water used for groundwater replenishment and provides the region with recycled water for municipal, commercial, and industrial use. CBMWD's history of wholesale water rates from Fiscal Year 1991-92 to the present is shown as Attachment B.

CBMWD's mission statement as stated on their website is as follows:

"To exercise the powers given to the District under its establishing act, utilizing them to the benefit of parties within the District and beyond. To acquire, sell, and conserve imported and other water that meets all required standards and to furnish it to our customers in a planned, timely, and cost-effective manner that anticipates future needs. The District serves as the official representative for its public at the MWD. It also provides leadership, support, advice, and communication on water issues to the people and agencies within and without its boundaries, as appropriate."

Report to the County Board of Supervisors on Central Basin Municipal Water District

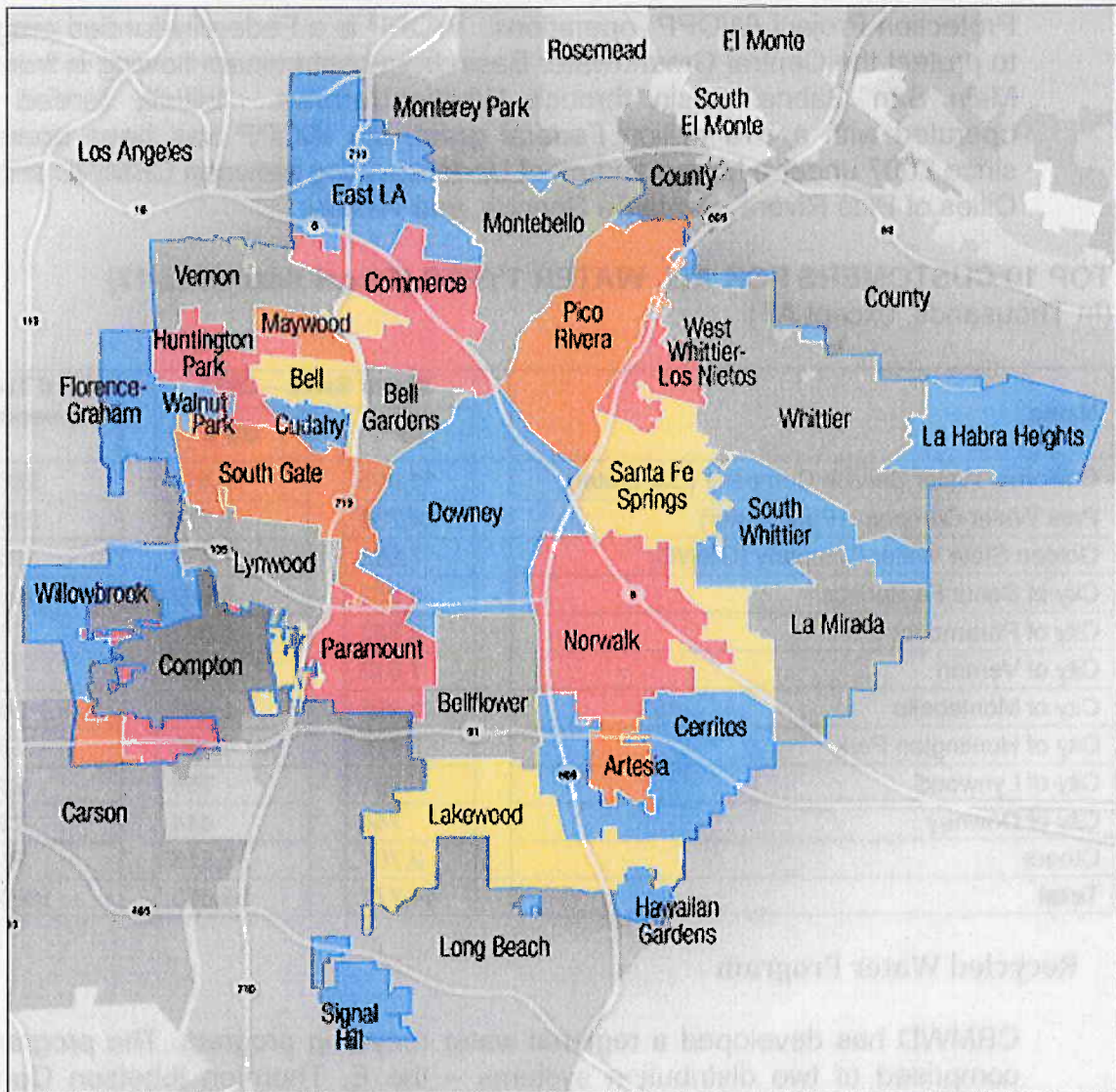


Figure 2 - Map of CBMWD Service Area

Water Resources Supply Portfolio and Operations

Water Supply Portfolio

In 2013, CBMWD delivered 44,778 AF of water. This total includes 37,498 AF (84%) of non-interruptible treated water from MWD, which is imported through the Colorado River Aqueduct system and from Northern California through the State Water Project. Additionally, 5,015 AF (11%) of recycled water is delivered through CBMWD's recycled water distribution system (see description below) and 2,265 AF (5%) is produced from the Water Quality

Report to the County Board of Supervisors on Central Basin Municipal Water District

Protection Project (WQPP) operations. WQPP is a Federally-funded program to protect the Central Groundwater Basin from contaminant flowing in from the Main San Gabriel Basin through Whittier Narrows. Initially funded and operated with a \$10 million Federal grant, the WQPP has been operating since 2007 under a Memorandum of Understanding between CBMWD and the Cities of Pico Rivera, Santa Fe Springs, and Whittier.

TOP 10 CUSTOMERS FOR ALL WATER TYPES (Fiscal Year 2012-13) (In Thousands, except AF)

Name	Water Sales – 2013		% of Total Revenues
	AF	US \$	
California Water Service Company (Cal Water)	11,015	10,517	26%
Park Water Company (Park Water)	8,768	8,273	21%
Golden State Water Company (GSWC)	7,983	7,475	19%
City of Santa Fe Springs	5,952	3,842	10%
City of Paramount	2,882	2,622	7%
City of Vernon	1,612	1,139	3%
City of Montebello	1,182	1,090	3%
City of Huntington Park	1,170	1,102	3%
City of Lynwood	761	758	2%
City of Downey	744	444	1%
Others	2,707	2,618	7%
Total	44,777	39,880	100%

Recycled Water Program

CBMWD has developed a regional water recycling program. The program is comprised of two distribution systems – the E. Thornton Ibbetson Century Water Recycling Project and the Esteban Torres Rio Hondo Water Recycling Project – as well as three pumping stations and a reservoir. The Ibbetson Project and Torres Project are interconnected by an intricate 50-mile distribution system and operate as one recycled water supply system. The combined projects are referred to as the "Central Basin Water Recycling Project."

By constructing the 50-mile pipeline system, Central Basin developed the ability to distribute treated recycled water obtained from the Sanitation Districts of Los Angeles County. The Central Basin Water Recycling Project delivers approximately 3,100 AF of recycled water annually to more than 210 industrial, commercial, and landscape irrigation sites. Central Basin's use of recycled water augments the groundwater and imported water supplies of southeast Los Angeles County.

Report to the County Board of Supervisors on Central Basin Municipal Water District

Central Basin promotes recycled water as an ideal alternative for business and municipal use. As the customer base continues to expand, ranging from irrigation users like golf courses and parks to unconventional commercial and industrial users, new benefits of recycled water continue to be discovered.

Association with WBMWD and Recent Litigation

1990 to 1996 saw the merging of West Basin Metropolitan Water District (WBMWD) and CBMWD. The two Districts shared staff and an office building. The merger sought to reduce overall costs to the customers served by both WBMWD and CBMWD.

In 2001, several interested parties sought to utilize unused groundwater storage space in the Central Basin. A court appointed Water Resources to serve as watermaster. The court rejected the legal notion that the right to extract water creates a concurrent right to store water.

A companion groundwater lawsuit, originally filed in 1965, was reopened in 2007, to determine the groundwater storage rights of the parties to the Central Basin Groundwater Adjudication. After making its way to the California Supreme Court in 2012, the case is back in the trial court and a settlement has been proposed that appears to be headed for approval.

In 2012, Governor Jerry Brown signed legislation banning the CBMWD from storing and managing underground water. Senate Bill 1386, authored by State Senator Alan Lowenthal (D-Long Beach), gave that power to the Water Replenishment District of Southern California. According to Senator Lowenthal, "Without this bill, continued efforts by the Central Basin Municipal Water District will lead to more litigation, more costly legal fees, and higher water rates for our region." (*Whittier Daily News*, August 28, 2012).

Changes Leading to Reorganization and Break from WBMWD

CBMWD and WBMWD operated together from 1990 to 2006. However, claiming they were subsidizing utilities in the South Bay area, Southeast-area water utilities began to consider a split that they believed would save their customers money. "The idea behind combining staff and operating jointly was to save cost and to streamline the process," said CBMWD spokeswoman Valerie Howard. "It was a great idea and worked out for a while, but it became clearer and clearer that service areas had different needs and interests."

Report to the County Board of Supervisors on Central Basin Municipal Water District

On February 24, 2006, WBMWD took action in closed session to effectively end the two Districts' partnership of more than 15 years after conducting three studies to examine the benefits of a split. The office building shared by WBMWD and CBMWD was sold to WBMWD for \$2.4 million. CBMWD subsequently bought a building in the City of Commerce for \$4.3 million.

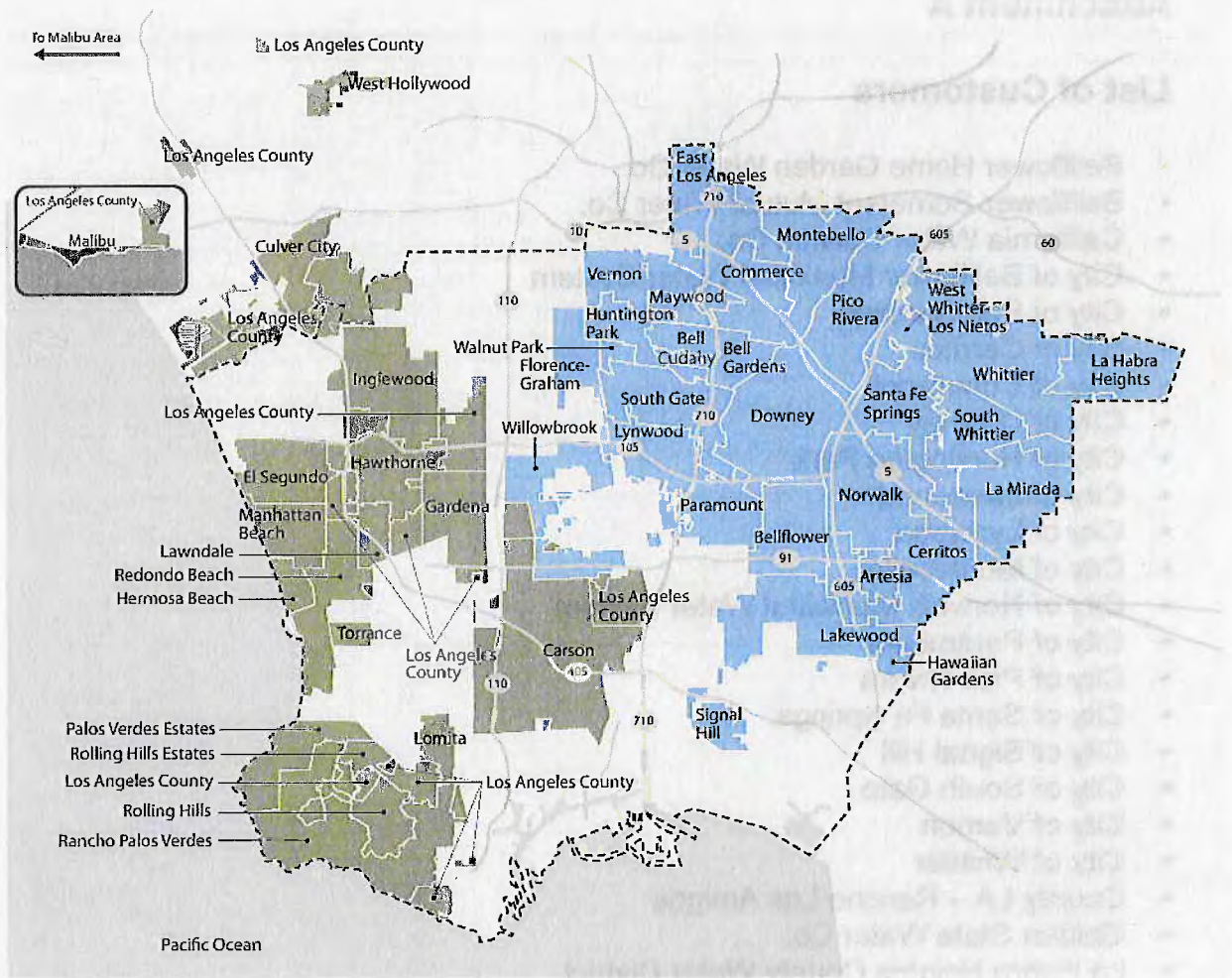
During 2005-06, the year before the split, operating expenses at CBMWD were \$46 million and at WBMWD were \$119 million. In 2006-07, operating expenses at CBMWD were \$53 million and at WBMWD were \$122 million.

Since 2004, administrative costs at WBMWD have decreased from \$1 million to \$931,000, while costs at Central have increased from \$961,000 to \$1.4 million. (*Pasadena Star News*, March 14, 2008).

In 2007, Assemblyman Hector De La Torre sponsored a bill, AB 640, which forced the Water Replenishment District to split its ground water pumping rate into two rates. One rate would be for the Southeast area (CBMWD) and another for the South Bay area (WBMWD) water utilities (*Whittier Daily News*, May 16, 2007).

In 2008, CBMWD sued the WBMWD, alleging that it owed CBMWD \$468,444. WBMWD claimed that it made all the necessary payments to settle what it owed to CBMWD. The matter was decided by the court against WBMWD and WBMWD was ordered to pay CBMWD damages of 7.5 percent for interest on unfunded pension liabilities up to the point in time that the pension fund was made whole.

Report to the County Board of Supervisors on Central Basin Municipal Water District



Sources: Web sites for the Water Replenishment District of Southern California (replenishment district), the Central Basin Municipal Water District (Central Basin District), and the West Basin Municipal Water District (West Basin District).

- = Service area for the Central Basin District.
- = Service area for the West Basin District.
- = Service area for the replenishment district.

Figure 3 - WBMWD and CBMWD service areas (Source: January 2013 State Auditor's Report Number 2012-104)

Report to the County Board of Supervisors on Central Basin Municipal Water District

Attachment A

List of Customers

- Bellflower Home Garden Water Co.
- Bellflower-Somerset Mutual Water Co.
- California Water Service Co.
- City of Bellflower Municipal Water System
- City of Bell Gardens
- City of Cerritos
- City of Commerce
- City of Downey
- City of Huntington Park
- City of Lakewood
- City of Lynwood
- City of Montebello
- City of Norwalk Municipal Water System
- City of Paramount
- City of Pico Rivera
- City of Santa Fe Springs
- City of Signal Hill
- City of South Gate
- City of Vernon
- City of Whittier
- County LA – Rancho Los Amigos
- Golden State Water Co.
- La Habra Heights County Water District
- Lynwood Park Mutual Water Co.
- Maywood Mutual Water Co. No. 1
- Maywood Mutual Water Co. No. 2
- Maywood Mutual Water Co. No. 3
- Montebello Land & Water Co.
- Orchard Dale Water District
- Park Water Co.
- Pico Water District
- San Gabriel Valley Water Co.
- Sativa L.A. County Water District
- South Montebello Irrigation District
- Suburban Water Systems
- Tract 180 Mutual Water Co.
- Tract 349 Mutual Water Co.
- Walnut Park Mutual Water Company

Report to the County Board of Supervisors on Central Basin Municipal Water District

Attachment B

CBMWD Rate History

Rates are shown as per Acre Foot

Year	CB Admin Fee	MWD Tier 1 Rate (100% Pass-thru)
FY 2014-15	\$70	\$890
FY 2013-14	\$70	\$847
FY 2012-13	\$70	\$847
FY 2011-12	\$70	\$744
FY 2010-11	\$66	\$701
FY 2009-10	\$62	\$579
FY 2008-09	\$44	\$508
FY 2007-08	\$42	\$478
FY 2006-07	\$40	\$453
FY 2005-06	\$38	\$443
FY 2004-05	\$37	\$418
FY 2003-04	\$37	\$408
FY 2002-03	\$40	\$431
FY 2001-02	\$40	\$431
FY 2000-01	\$40	\$431
FY 1999-2000	\$40	\$431
FY 1998-99	\$30	\$431
FY 1997-98	\$30	\$431
FY 1996-97	\$30	\$426
FY 1995-96	\$30	\$426
FY 1994-95	\$30	\$412
FY 1993-94	\$17	\$385
FY 1992-93	\$15	\$322
FY 1991-92	\$15	\$261

MWD began a tiered rate structure in CY 2003. Prior to that, a single rate existed. MWD rates historically increase at the beginning of the calendar year, so to be consistent with Central Basin's Administrative Fee, the MWD rates reflect what was in place on July 1 of each fiscal year.

Report to the County Board of Supervisors on Central Basin Municipal Water District

Appendix B

Report to the County of Los Angeles Board of Supervisors by Central Basin Municipal Water District

Fiscal Year	Revenue	Expenses	Net Income
FY 2014-15	2000	1800	200
FY 2013-14	1950	1750	200
FY 2012-13	1900	1700	200
FY 2011-12	1850	1650	200
FY 2010-11	1800	1600	200
FY 2009-10	1750	1550	200
FY 2008-09	1700	1500	200
FY 2007-08	1650	1450	200
FY 2006-07	1600	1400	200
FY 2005-06	1550	1350	200
FY 2004-05	1500	1300	200
FY 2003-04	1450	1250	200
FY 2002-03	1400	1200	200
FY 2001-02	1350	1150	200
FY 2000-01	1300	1100	200
FY 1999-00	1250	1050	200
FY 1998-99	1200	1000	200
FY 1997-98	1150	950	200
FY 1996-97	1100	900	200
FY 1995-96	1050	850	200
FY 1994-95	1000	800	200
FY 1993-94	950	750	200
FY 1992-93	900	700	200
FY 1991-92	850	650	200
FY 1990-91	800	600	200

Water production and distribution in the Central Basin Municipal Water District is a complex process involving a variety of factors, including weather, population growth, and infrastructure. The following table provides a summary of the district's financial performance over the past 25 years, showing a consistent trend of positive net income.

August 2014

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**A Report to the County of Los Angeles Board of Supervisors
Central Basin Municipal Water District**

August 2014

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Appendix C – Treasurer's Cash and Investment Report, June 2014

Appendix D – FY 2014 – 2015 Budget Supporting Documents

1. Rate Schedule
2. Operating Budget Summary
3. Operating Budget Statement
4. Operating Budget Detail
5. CIP Budget
6. Position FTE List

Appendix E – Press Releases

1. April 2013, Antonio Perez Selected To Serve As Central Basin's General Manager
2. May 2013, Richard Aragon Joins central Basin As New Finance Director
3. September 2013, Jonathan Tat Selected To Serve As Central Basin's Engineering And Operations Manager
4. September 2013, Central Basin and Procal Team Up To Bring Recycled Water To Santa Fe Springs Facility
5. October 2013, Joseph Legaspi Selected To Serve As Central Basin's Public Affairs Manager
6. October 2013, Central Basin Statement On Dismissal Of Proposition 218 Lawsuit
7. November 2013, Central Basin Recognized For Leadership In Information Technology For Sixth Consecutive Year
8. November 2013, Central Basin MWD Moves Toward Resolution On Storage Litigation
9. December 2013, Central Basin And The City Of Pico Rivera Team Up To Bring Recycled Water To Community Park
10. February 2014, Central Basin MWD Board Takes Action To Improve District's Financial Stability
11. February 2014, Central Basin MWD Board of Directors Approves Water Purchase Agreement With WRD
12. May 2014, Central Basin Board Approves 2014-15 FY Budget And Provides Rate Stability For Customers
13. May 2014, Central Basin And Huntington Park Partner To Secure Region's Water Reliability
14. June 2014, Central Basin Is Eager To Work With LA County Board Of Supervisors To Address Concerns

Appendix F - Organizational Structure

Introduction

On Tuesday, June 03, 2014, the Los Angeles County Board of Supervisors approved a motion over concerns with the Central Basin Municipal Water District's (Central Basin) ability to serve the more than 2 million residents in its service area. The County Board directed staff to investigate options to ensure continued water deliveries to residents in the Central Basin service area.

Central Basin is eager to work with the County in an open and transparent manner (press release attached) to address any questions that the County may have regarding the organization. Central Basin views this as an opportunity to highlight the improvements and progress it has achieved over the past 18-months.

In the final section of this report, we will provide an overview of the several actions taken to improve operations, finances and policy so that residents in the Central Basin service area can rest assured that their water supply needs will be continually, effectively and reliably met.

Legal Formation and Early History in Association with West Basin Municipal Water District

Since its formation, Central Basin has continuously made its highest priority the delivery of a reliable source of water to the region. Prior to its establishment, cities in the central basin region relied solely on groundwater. With a growing population, increasing water demands and a need to mitigate the over-pumping of the groundwater, the region was compelled to find additional sources of water.

Concerns over water deliveries in the central basin service area began after reports in the 1940s indicated that the population in the region had doubled within the past decade. Consequently, water demands also increased. The California Department of Water Resources determined that the central basin region needed supplemental supplies of imported water to overcome the diminishing water supplies in the basin created by over pumping.

As a result, on December 19, 1952 and under the Municipal Water District Law of 1911, a vote of the people led to the formation of Central Basin Municipal Water District. Following in 1954, Central Basin became a member agency of the Metropolitan Water District, the state agency responsible for providing all of southern California supplemental supplies of imported water from the Colorado River Aqueduct system and Northern California.

Central Basin is a governmental agency authorized under Section 71000 of the California Water Code for the purpose of providing an adequate supply of water within its service area.

West and Central Basin Financing Authority (JFA)

In July 1991, Central Basin and the West Basin Municipal Water District jointly purchased a property located in Carson, California (the "Property"). West Basin Municipal Water District is a special water district created in 1947 by the vote of the people to provide supplemental supplies of imported water to its 185-square mile service area in southwest Los Angeles County. Central Basin and West Basin (collectively referred to herein as the "Districts") intended to jointly own and operate an administration building on the site. The Districts entered into a Headquarters Building Agreement (the "Headquarters Agreement") on July 10, 1991, which provided, among other things, that West Basin would convey a one-half undivided interest in the Property to Central Basin on or about October 1, 1991, or the Districts would agree to another mode of holding title.

The Districts later determined that it would be financially advantageous to have the title to the Property vested solely in Central Basin and, as a result, on November 13, 1991, the Districts entered into Amendment 1 to the Headquarters Agreement, pursuant to which West Basin agreed to convey title in the Property solely to Central Basin. Amendment 1 to the Headquarters Agreement provided for Central Basin to administer the operation and maintenance of the building, and that the Districts would share 50% of the net profits of operations. On December 13, 1991, the Districts recorded a deed conveying title in the Property from West Basin to Central Basin.

On August 1, 1992, the Districts entered into a Joint Exercise of Powers Agreement pursuant to Article 1, Chapter 5, Division 7, Title 1 of the California Government Code (commencing with section 6500). The Districts created a public entity known as the "West and Central Basin Financing Authority" (JFA). The formation of the JFA was for the issuance of bonds and for the administration of shared resources and operations, which included joint headquarters and a budgeted staff.

Between 1992 and 2006, West Basin and Central Basin operated out of the Property and shared employees under the guidelines of the Management Agreement and Amendment 1 to the Headquarters Agreement.

The Split

In 2006, due to changes in the needs of each agency, it was agreed the JFA should be dissolved. The Management Agreement terminated on June 30, 2006 and since July 1, 2006 each agency has operated independently but continues to collaborate on various projects that affect both basins.

Central Basin has maintained its headquarters in Commerce, CA since December 17, 2007. Since the JFA's dissolution in 2006, the agency has grown from 13 to 19 full-time employees. Operations have continued to expand and the District continues to work to ensure and protect reliable sources of drinking water for the region.

Administrative Structure

Central Basin Municipal Water District is guided under the direction of a publicly elected, five-member Board of Directors. Working under the general direction of the Board of Directors, the General Manager is the chief executive of the District who has the power and authority to exercise all executive, administrative, and ministerial powers of the District, not specifically reserved to the Board pursuant to the District's Administrative Code, the Municipal Water District Law of 1911, and all other applicable federal and state laws. In addition, the General Manager oversees the day-to-day operations and reports on such operations to the Board.

For over 60-years, Central Basin has shown its commitment in providing a reliable source of drinking water by setting low water rates, establishing regional conservation programs, improving water infrastructure, and providing educational and outreach resources. These projects have been made possible by a joint effort between the Board of Directors and District staff. The District's administrative structure is comprised of Board & Administrative Services, Budget & Finance, Human Resources, Engineering & Operations, Public Affairs, and Information Technology & Building Resources (organization chart attached). The District has a total of 19 full-time positions to carry out these functions.

Board & Administrative Services consists of the General Manager's office and Board Administrative Services. The department assures the smooth overall governance and operations of Central Basin including assistance to the Board, General Manager, and other departments with District governance, logistics, communications and administrative support services.

Budget & Finance is responsible for ensuring the financial health of Central Basin including development and implementation of fiscal policies, plans, and processes to support the achievement of District goals and objectives. In addition, the Department optimizes the value and reliability of Central Basin's financial resources while assuring that the District meets all of its financial obligations in a manner that follows all applicable rules and regulations.

Human Resources assures the effective selection, development, management and support of the District's workforce including planning, organizing, managing, and leading effective and efficient human resources systems on behalf of the District. Human Resources oversees the development, implementation and maintenance of employment, training and development, performance management, compensation and benefits, employee relations, health and safety, and all other pertinent human resources systems to meet both legal and operational needs of the District.

Engineering & Operations assures the effective and proper use of all of Central Basin's water resources with development of long and short-term water use and system plans. Engineering & Operations provides technical and regulatory oversight of recycled water systems while maintaining the fiscal integrity of the District. It is also responsible for developing and planning recycled water customers connections and system expansion, developing and maintaining the District's capital improvement programs, providing support in operations and maintenance of District infrastructure, and assisting the writing of grants and agreements that help meet the water needs of the District's service area.

Public Affairs leads communications planning and keeps the public informed about District operations, plans, programs, accomplishments, and point of view. Public Affairs plans and develops programs that support the achievement of District goals and objectives such as student education and other outreach programs that promote public awareness on water supplies, distribution, and effective use. In addition, the department maintains effective relations with communities, cities, government and retailers through conservation measures, legislative and research support.

Information Technology & Building Resources provides and maintains the Information Technology (IT) services and infrastructure and office space resources to support all of the District's operations. Information Technology & Business Resources assures the full range of technical integration and continued evaluation of IT resources and infrastructure to provide a safe and secure computer networking environment and continually improving and relevant District technology system.

Water Resources, Supply Portfolio and Operations

Water Resources

Central Basin MWD has 40-retail agencies located in its service area. Of that, 27 are Central Basin imported water customers. The remaining 13-retail agencies are 100% reliant on groundwater from the Central Groundwater Basin. Retail agencies include: cities, county water districts, mutually owned water companies and private companies or investor-owned utilities.

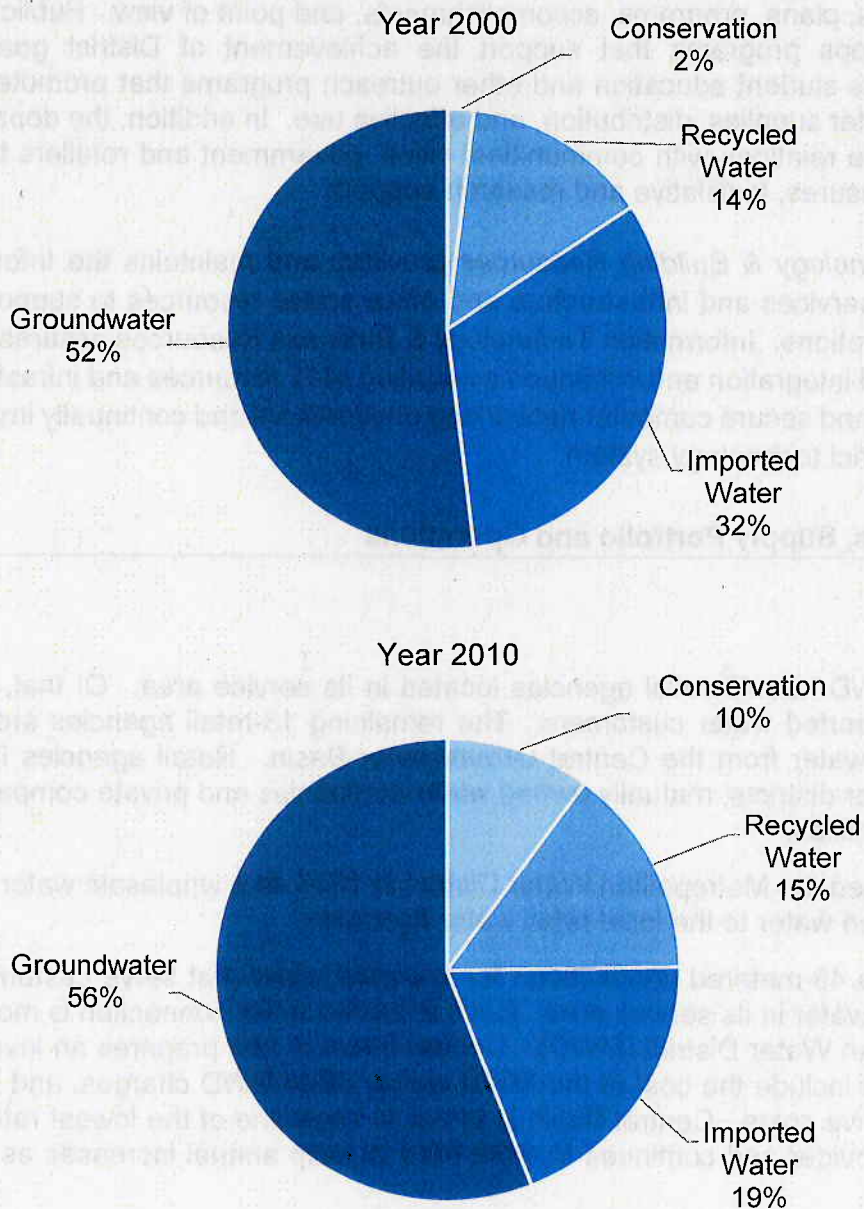
Central Basin joined the Metropolitan Water District in 1954 as a wholesale water district to provide imported water to the local retail water agencies.

Central Basin has 49-metered connections for imported water that serve customers for different types of water in its service area. Each imported water connection is monitored by the Metropolitan Water District (MWD). Central Basin in turn prepares an invoice for its customers that include the cost of the MWD water, other MWD charges, and Central Basin Administrative costs. Central Basin is proud to have one of the lowest rates as a regional water provider and continues to work hard to keep annual increases as low as possible.

Water Supply Portfolio

Central Basin's primary purpose is to ensure the long-term water supply reliability of its region. Since its formation in 1952, Central Basin has fulfilled its responsibility of providing customer agencies with supplemental supplies to ensure reliability. Today, diversification is the key to a reliable future supply of water throughout the service area. Figure 1 below shows how the Central Basin's supply portfolio has changed over the past few years.

Figure 1. Central Basin Water Portfolio



* The information above was taken from the District's 2010 Urban Water Management Plan

Imported Water

Central Basin relies on water from the Colorado River and the California State Water Project to meet its retail and replenishment demands. The Metropolitan Water District is a State Water Contractor and imports water from these sources, which is made available to Central Basin. Metropolitan offers a variety of imported water supplies to Central Basin, which includes both treated and untreated non-interruptible water for cities and water agencies throughout its service area.

Imported Replenishment Water

As the imported water wholesaler for its region, Central Basin provides untreated water to the Water Replenishment District to be conserved at the Spreading Grounds in the Montebello Forebay. Demands at the Spreading Grounds have varied year to year. Imported spreading purchases can range from approximately 46,000-AF to zero AF in any given year. The Water Replenishment District historically had calculated its annual average imported replenishment need at 21,000-AF per year but this figure can vary greatly due to limitations in delivery ability and available supplies. Future imported water needs for replenishment may be reduced if the Water Replenishment District successfully completes its advanced recycled water treatment Groundwater Reliability Improvement Project (GRIP).

Treated Groundwater

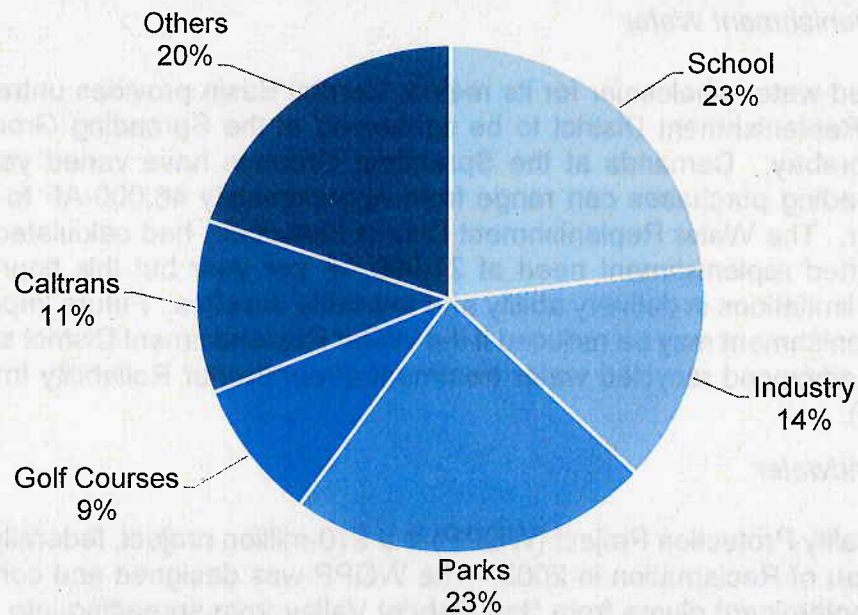
The Water Quality Protection Project (WQPP) is a \$10-million project, federally funded by the U.S. Bureau of Reclamation in 2002. The WQPP was designed and constructed to prevent the contaminant plume from San Gabriel Valley from spreading into the Central Basin groundwater supply. The project became operational in March 2004 and began delivering water to the cities of Whittier, Santa Fe Springs and Pico Rivera. A Granular Activated Carbon Treatment Plant includes two extraction wells consisting of 6,700-feet of pipeline. When the initial federal funds were exhausted, the WQPP was then operated under a financial agreement with Pico Rivera, Santa Fe Springs and Whittier. Currently, Santa Fe Springs is receiving this water on a continual basis and Pico Rivera is receiving the water on an as-needed basis. The WQPP wells supply 2,000-3,000 AF of water on average per year, and have a total annual pumping capacity of 5,200 AF.

Recycled Water

In 1992, Central Basin received funding from the United States Bureau of Reclamation to design and construct the infrastructure necessary to distribute recycled water from the Los Angeles County Sanitation Districts for customers throughout our service area. Central Basin's recycled water systems are comprised of two separate projects: E. Thornton Ibbetson Century Water Recycling Project and the Esteban E. Torres Rio Hondo Water Recycling Project. The two projects comprise more than 70 miles of pipeline that are now distributing more than 5,800 Acre-Feet of recycled water to over 280 sites throughout Southeast Los Angeles County

Additionally by 2011, Central Basin added 7-miles of pipeline under the Southeast Water Reliability Project (SWRP). Central Basin received federal funding to begin construction of the Southeast Water Reliability Project to expand its recycled water delivery system to serve many customers with large industrial and irrigation needs. Each year, Central Basin connects new customers to recycled water and further reduces demands on potable and imported water. Figure 2 below shows recycled water deliveries for a variety of customer types.

Figure 2. Recycled Water Users by Type



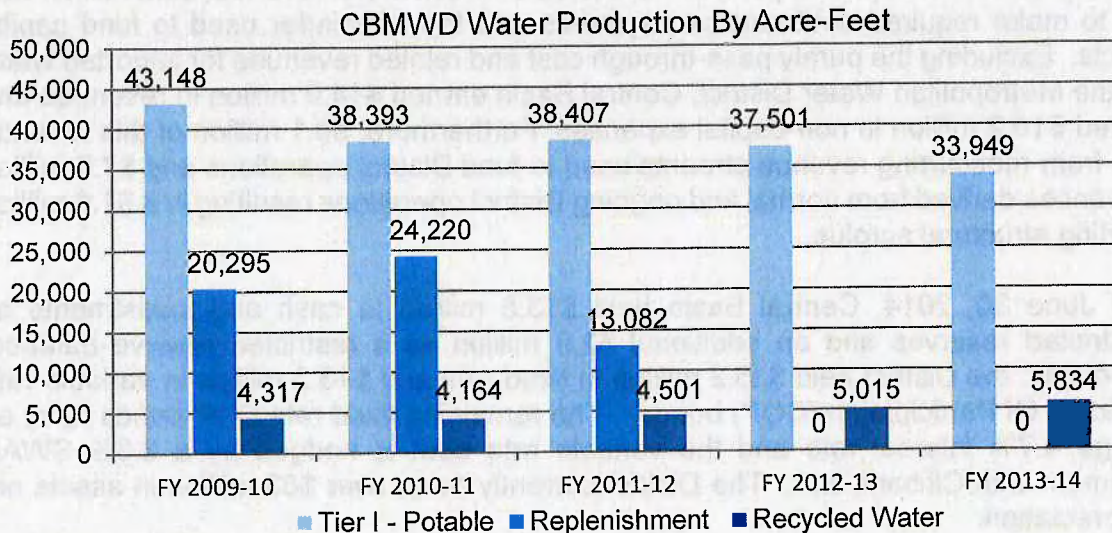
Total Water Produced

Central Basin continues to proactively expand the use of recycled water by increasing its customer base and identifying new applications. Additionally, Central Basin expanded its conservation efforts by providing recycled water outside of its service area. In 2003, Central Basin partnered with Upper San Gabriel Valley Municipal Water District to deliver recycled water to Rio Hondo College and Rose Hills Memorial Park and Mortuary.

During fiscal year 2013-14, Central Basin’s recycled water system delivered more than 5,800 acre-feet annually to over 280 sites. Central Basin’s service area increased its population growth by approximately 18% over the last 20 years. But over the same period, water demand has remained remarkably consistent. This says that the Central Basin service area is becoming more efficient with its water supplies each year. This is due to Central Basin’s investments in recycled water development, water conservation

programs, school education and public information campaigns. Figure 3 below shows the different types of water deliveries for the past five years.

Figure 3. Central Basin Water Deliveries



Engineering

Central Basin's Engineering and Operations Department has been focused ensuring the integrity of Central Basin's infrastructure and expansion of its Recycled Water System. As we enter into the third year of a drought, with reduced supplies of imported water and newly implemented restrictions on water use, recycled water will be a vital part on reducing demand on potable water supplies in the region and also reducing southern California's dependence upon imported water.

Examples of Central Basin's commitment to maintain and expand its recycled water systems include the relocation of a recycled water pipeline to accommodate the Caltrans I-5 widening project in Downey, the implementation of a reliability study of Central Basin's Rio Hondo Pump Station (a vital facility that is essential to our ability to delivering recycled water to the northern part of the service area), implementation of a new Supervisory Control Data Acquisition (SCADA) system and asset management program, and the connection of five new sites to the Central Basin Recycled Water System.

Looking towards the future, the Engineering and Operations Department has aggressively outreached to several potential customers educating them on the advantages for converting their facilities from potable water use to recycled water use. We are also in the midst of negotiations with the Sanitation Districts of Los Angeles County to extend our

recycled water allocation agreement, and with the Metropolitan Water District of Southern California to extend our recycled water rebates program.

Finance

The District completed the 2013-14 fiscal year with \$45.7 million in gross revenues and \$41.8 million in non-capital expenses. Of the \$3.9 million in net revenue, \$3.2 million was used to make required debt service payments and the remainder used to fund capital projects. Excluding the purely pass-through cost and related revenues for imported water from the Metropolitan Water District, Central Basin earned \$14.0 million in revenues and incurred \$10.2 million in non-capital expenses. Furthermore, \$9.1 million of this revenue came from reoccurring revenue streams used to fund District operations and \$7.5 million in expenses derived from normal and ongoing District operations resulting in a \$1.6 million operating structural surplus.

As of June 30, 2014, Central Basin held \$13.5 million in cash and investments as unrestricted reserves and an additional \$2.9 million as a restricted reserve balance. Additionally, the District held \$35.2 million in fixed rate and \$13.2 million in variable rate Certificate Of Participation (COP) bonds. The remaining fixed rate COP bonds have an average 4.7% interest rate and the variable rate debt is hedged by a 3.3% SWAP agreement with Citibank N.A. The District currently owns over \$83 million in assets net of depreciation.

Issues Confronting Central Basin (News Articles and Other Public Material)

Since January 2014, there has been significant media scrutiny on the Central Basin Municipal Water District. The media coverage has focused primarily in the following areas: Central Basin Board Members, inquiry by the federal authorities in connection with the investigation of Senator Ron Calderon, litigation, and the recent decision by the Association of California Water Agencies-Joint Powers Insurance Authority (ACWA-JPIA) to cancel the District's insurance.

Issues Revealed Through Discussion with CBMWD

On July 2, 2014, Central Basin General Manager Tony Perez, Finance Director Rick Aragon and Public Affairs Manager Joseph Legaspi met with staff from the County of Los Angeles Public Works. Concerns raised by the County included Board Governance, Finances, Litigation, Loss of Insurance, Operations and Water Supply.

Steps Taken by Central Basin to Address Issues

Provided below is an overview of improvements and reforms that have taken place at Central Basin. These improvements and reforms speak to the concerns raised by the County's motion. Additionally, it is of utmost importance to point out that Central Basin

has focused on improving transparency of the District's operations, a section on transparency is included below.

Governance

The District is committed to upholding the highest ethical standards in all of its business and professional operations and relationships. The District maintains a Directors' Code of Conduct (attached) that is guided by these principles. The District is currently reviewing our Directors' Code of Conduct for potential improvements. We recently implemented a set of changes in January and February 2014. We welcome your input as we move forward on review of our Directors' Code of Conduct.

Finances

Under new leadership, the District has made significant improvements with respect to its finances. To address Central Basin's financial stability, in January 2014, the District performed a six-month budget review and adjustment to respond to up to date budget information. The District reduced consultant expenditures by over \$900,000.

Operating expenses for the current fiscal year were decreased by \$2.5 million (28%) from the previous fiscal year. For FY 2012-13, the District had an unadjusted debt ratio coverage of 0.20 or in other words, earned 20% of the net revenues necessary to pay annual debt payments. The District ended the year with a 1.20 debt coverage ratio for FY13-14. This represents a 600% increase, which met the District's goal and exceeds all statutory requirements. Additionally, the District was recognized by the Government Finance Officers Association for the 8th year in a row with an Award of Excellence.

With respect to debt, last year the District paid off \$4 million in bonds early to reduce the overall debt load and bring annual required debt service payments to an affordable level equal to a dedicated and stable property assessment revenue stream. In line with these efforts, the District is expected to complete a debt restructuring by October of 2014 that would guarantee the same affordable payment level until the debt is paid off.

In terms of financial position and safety, the District maintains a reserve of \$15 million on average throughout the year. This represents almost 2 years of operating expenses. Lastly, to provide stability to ratepayers, the District did not raise imported rates for the current fiscal year. This is the third consecutive year that Central Basin has kept rates at the same level.

Legal Expenditures and Litigation

The District has taken significant actions to reduce legal expenditures. This includes the resolution of three major pieces of litigation and the implementation of a legal expenditure policy. Resolution of the District's lawsuits with the Water Replenishment District has fostered an environment for increased partnership amongst regional water agencies, evidenced by the recent agreement between Central Basin and the Water Replenishment

District for the purchase of 60,000 Acre-Feet of replenishment water, at over \$40-million, to replenish the central basin and provide regional water reliability.

The newly enacted legal expenditure policy requires that all legal services include limits for budget, schedule and scope that are set in advance by the District's Board of Directors. This method requires the District's lawyers to justify performance should there be a need for an increase in contract limits.

Prior to the resolution of these lawsuits and implementation of the Legal Policy, invoices for legal services were approaching and exceeding \$200,000 per month. Resolution of litigation and implementation of the new Legal Policy has projections for legal services to be \$50,000 per month or less. Dramatically reduced legal costs have already materialized beginning in June of 2014.

Loss of Insurance

Earlier this year, the District was notified by ACWA-JPIA that they were considering removing the District from the group's insurance pool (letter attached). In order to ensure that the District had continuous, uninterrupted insurance coverage, and preserved its improved financial standing and operations, District staff worked on reviewing all available insurance options.

The District secured insurance from top rated providers in the private market, including Allied World Assurance Company for liability, property and crime coverage, ACE Insurance Company for employment practices liability coverage, and State Compensation Insurance Fund for workers compensation coverage. The decision to secure insurance in the private marketplace had no impact on water rates as Central Basin adopted the 2014-15 FY budget with no increases on imported water rates.

Operations

Over the past year, the District's operations have experienced marked improvement. In the past year, the District was able to complete its Senior Management team. In April 2013, the District appointed Antonio Perez, a water industry professional engineer with over 30-years of experience as General Manager. Additionally, Jonathan Tat, a California Licensed Civil Engineer with over 23-years of professional experience with the Metropolitan Water District was selected as the District's Engineering and Operations Manager, and Mr. Richard Aragon, a Certified Public Finance Officer and a Certified Grants Manager with nearly 10-years of experience in finance and professional accounting was selected to serve as the District's Finance Director, and Mr. Joseph Legaspi, an experienced media and government relations professional with more than 10 years of experience in public policy & communications was selected to serve as the District's Public Affairs Manager.

The completion of the Senior Management Team has allowed for the District to reduce consultant costs significantly and provides the District with stability to meet the water

resource needs of more than 2-million residents in the Central Basin service area. Additionally, through committed staff who have taken on additional responsibilities and the creation of operating efficiencies there has been a 10% reduction in labor costs.

Water Supply, Reliability and Sales

The District is committed to protecting the region's water reliability. At no point has there ever been a threat to the District's ability to meeting the water needs of constituents in the Central Basin service area. Provided below is additional information on water supply and sales for the past fiscal year.

In September 2013, the District connected its largest recycled water customer, Pro-Cal in the City of Santa Fe Springs. This connection will provide Pro-Cal with over 225 AF (more than 70 million gallons) of recycled water. This connection is part of our efforts to reduce the region's dependence on imported water supplies. In fact, the District provides more than 5,800 AF of recycled water to more than 280 sites in the Central Basin service area. Additionally, the District entered into its largest water purchase agreement with the Water Replenishment District for 60,000 AF.

With respect to water sales, the imported water sales for FY 2014 were 33,951 Acre-Feet compared to 37,501 for FY 2013. This represents a 9% decrease due to increased conservation efforts and increased reliance on local supplies. Recycled water sales for FY 2014 are at 5,841 AF, compared to 4,953 AF for FY 2013. This is an 18% increase.

Although imported water sales are down, the increase in recycled water sales has allowed for the District to remain within 5% of anticipated Total Net Water Revenue. The lower than expected revenue is also due to the fact that no replenishment deliveries were completed primarily due to the lack of a water supply allocation from the State, and because of the quagga mussel impeding deliveries from the Colorado River. The District is working with the County of Los Angeles Flood Control, the Metropolitan Water District of Southern California and the Water Replenishment District to address the quagga mussel issue.

Transparency

Maintaining the Public's trust is key towards Central Basin's ability to serve our customers. In the past year we have made significant efforts to increase transparency. The District posts all of our Board Meetings online, the only regional water agency in the area to do so.

With respect to our budgeting process for the current fiscal year, the District hosted four public budget workshops, had all budget materials were posted online, and all budget workshops were videotaped and posted online. All District purveyors were invited to the public workshops via mailed invitation, District press release announcing the public budget workshops, posting on the District website and shared on Central Basin's social media channels.

Additionally, the District has completed more than 80-public records requests since June 2013, with Central Basin Board Members and staff in full compliance with inquiries from external authorities.

Summary

The preceding discussion details the accomplishments and improvements achieved by CBMWD during the past 18-months. CBMWD is confident that this report will not find an organization that is in danger of failing to meet its obligations, but to the contrary, CBMWD is an organization that has taken decisive steps towards overturning mistakes made by past management, has worked hard to put in place the organizational infrastructure and policies necessary to ensure transparent and capable management oversight, and has positioned CBMWD to meet all future challenges for successfully completing its mission of delivering a reliable, high-quality supply of imported and recycled water.

The past accomplishments include:

- Completed critical hires of experienced and capable industry professionals for General Manager, Engineering and Operations Manager, and Finance Director.
- Terminated long-term, no-bid consultant contracts resulting in over \$900,000 annual savings.
- Reduced operating expenses by \$2.5-million (28%) for FY2013-14.
- Increased debt coverage from 0.20 in FY 2012-13 to 1.20 in FY 2013-14.
- District was recognized by the Government Finance Officers Association for the 8th year in a row with an Award of Excellence.
- District paid off \$4-million in bonds early to reduce the overall debt load and bring annual required debt service payments to an affordable level.
- District's current reserves are \$15-million, representing nearly 2-years of operating expenses.
- District did not raise rates for imported water for FY 2014-15, the third consecutive year that Central Basin has kept rates at the same level.
- Completed an internal investigation by outside law firm, Arent Fox responding to concerns regarding the propriety of establishing a trust fund to finance a Programmatic Environmental Impact Report. Findings of investigation were posted on CBMWD's website.

- Resolution of long-term litigation with the Water Replenishment District (WRD), which has eased legal expenses and paved way to reestablishing positive relations with WRD and CBMWD's customers.
- Completed largest sale of replenishment water in CBMWD's history: 60,000-AF for over \$40-million to WRD.
- Increased recycled water sales for FY 2014 by 18%, offsetting reduced imported water sales due to short supply and conservation.
- Implemented a more effective and transparent budget process, holding multiple public budget workshops, conducting a 6-month mid-term budget review, and approving a revised budget based on the mid-term review.
- Implementation of a Legal Policy, which has reduced legal fees from over \$200,000/month to less than \$50,000/month.
- Responded to ACWA-JPIA's dropping of insurance by acquiring comparable insurance coverage in the private markets, at reasonable rates. There was no interruption of coverage and no impact to water rates due to ACWA-JPIA's actions.

It would be disingenuous to suggest that CBMWD is unaware of the recent media attention surrounding the District. But what should be pointed out is that despite the increased media distractions and the increased staff workload responding to public records requests, including coordination and cooperation with law enforcement, the District has managed to rise above these external challenges and continues to capably complete the District's mission.

Closing

In closing, we wish to emphasize that CBMWD not only continues to fulfill its mission of delivering a reliable, high quality supply of imported and recycled water in a cost-efficient manner, but has successfully remedied the mistakes of past management, and is well positioned to make CBMWD the thriving enterprise its constituents have come to expect and deserve.

CBMWD believes that the County's investigation will find an organization that despite the external challenges resulting from media distractions, has risen above these challenges and has managed to move capably and professionally forward. CBMWD believes that the County's investigation will find an organization that meets all business metrics for effective management, and that has established organizational infrastructure necessary for future growth and continued success. CBMWD believes that the County's investigation will find that there is no rationale for County or state intervention into CBMWD's business at this time, and such an intervention will actually undo much of the good work completed so far, and potentially damages the region.

Central Basin, its staff and the Board of Directors remain committed to meeting the water needs of the more than 2-million residents in our service area. We look forward to working with the County of Los Angeles and the State Legislature to ensure that a reliable water supply is available for the residents of Southeast Los Angeles County. Should you have any questions regarding the District, please do not hesitate to contact me at 323-201-2648 or via email at tonyp@centralbasin.org

