AGENDA NO. 11

CENTRAL BASIN MUNICIPAL WATER DISTRICT

NOVEMBER 16, 2006 - Finance/Administration
Hawkins, Apodaca
NOVEMBER 28, 2006 - Board Meeting
Prepared by: Aileen Hermoso
Submitted by: Aileen Hermoso
Approved by: Art Aguilar

ACTION CALENDAR

STANDBY CHARGE PROGRAM
RESOLUTION OF INTENT AND DRAFT ENGINEER'S REPORT

SUMMARY:

The Board has imposed a Standby Charge on all parcels within the District's service area since 1991 to help recover the cost of drought-proofing. This assessment is consistent with obligations the Board agreed to within the Official Statements offering to sell "Certificates of Participation" and "Revenue Bonds" for the District's Capital Improvement Program. The "Resolution of Intent" initiates the procedure to continue the Standby Charge as required by Water Code Section 71630.

Also, attached is the draft Engineer's Report describing the District's Capital Improvement Program, which the Standby Charge revenues will be used to finance.

In the past, the District submitted Certification of Negative Declaration to the Board and the Los Angeles County Clerk's Office. The District's consultant informed staff that Negative Declaration is required only for certain instances and may not be applicable to the District's Standby Charge Program for fiscal year 2007-08. Exhibit "C" explains the need for Negative Declaration.

FISCAL IMPACTS:

The Standby Charge Program generates annual revenues of approximately $3.2 million that are used to meet the District's debt service obligations.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Finance/Administration Committee on November 16, 2006 and was recommended for approval at the November 28, 2006 Board meeting.

RECOMMENDED MOTION:

That the Board approves, adopts, and authorizes the President to sign Resolution No. 11-06-722, "A RESOLUTION OF THE BOARD OF DIRECTORS OF CENTRAL BASIN MUNICIPAL WATER DISTRICT INITIATING PROCEEDINGS FOR THE ESTABLISHMENT OF THE WATER AVAILABILITY OR STANDBY CHARGE FOR THE FISCAL YEAR COMMENCING JULY 1, 2007."

LIST OF EXHIBITS:

Exhibit "A" - Resolution No. 11-06-722
Exhibit "B" - Draft of Engineer's Report
Exhibit "C" - Letter Regarding Negative Declaration

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EXHIBIT “A”

RESOLUTION NO. 011-06-722

A RESOLUTION OF THE BOARD OF DIRECTORS OF CENTRAL BASIN MUNICIPAL WATER DISTRICT INITIATING PROCEEDINGS FOR THE ESTABLISHMENT OF THE WATER AVAILABILITY OR STANDBY CHARGE FOR THE FISCAL YEAR COMMENCING JULY 1, 2007

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF CENTRAL BASIN MUNICIPAL WATER DISTRICT as follows:

1. Purpose and Scope.

The District has undertaken a water recycling program consisting of construction of pipelines and appurtenances to deliver recycled water throughout portions of the District. The program conserves potable water supplies by substituting recycled water to the extent feasible. A standby charge has been levied by the District since 1991 to finance a portion of the cost of such programs.

This resolution initiates proceedings to levy a water standby charge for the fiscal year commencing July 1, 2007, to finance water recycling and water conservation programs of the District. The charge is a continuation of the charge imposed during prior fiscal years.

2. Report of Engineer.

Attached hereto and hereby incorporated by this reference as Exhibit 1 is a report of a qualified engineer on file with the District. The proposed standby charge is based upon this report. The report includes the following: a description of the charge and the method by which it will be imposed; a compilation of the amount of the charge proposed for each parcel subject to the charge; the methodology and rationale followed in determining the degree of benefit conferred by the service for which the charge is made; other factors, including the degree of availability or quantity of the use of the water by the affected lands.

3. Affected Lands.

A description of the lands (by assessor parcel number) is hereby referenced as Exhibit 2 upon which the charge is to be imposed. The description is on compact disk and is on file with the District Secretary.

4. Proposed Charge.

The proposed standby charge shall not exceed the amount of $10.00 per acre, or portion thereof, per year or $10.00 per parcel of less than one acre per year upon each parcel within the District for the fiscal year commencing July 1, 2007.

5. Public Hearing.

(a) The Board shall conduct a public hearing at 17140 South Avalon Boulevard, Suite 300, Carson, California, on Tuesday, March 27, 2007, at the hour of 1:00 p.m., or as soon thereafter as the matter can be heard, to consider the imposition of the standby charges described herein. The Board will hear and consider all objections or protests, if any, to the proposed charges.

(b) The notice of hearing shall be in the form required by law. The notice shall be mailed at least forty-five days prior to the date set for hearing to each owner of land for which an increased charge is proposed, as shown on the last equalized assessment roll, or known to the secretary of the District. The notice shall also be published at least once a week for two (2) weeks prior to the date set for the hearing in a newspaper of general circulation printed and published within the District, if there is one, and if not, then in a newspaper of general circulation printed and published in Los Angeles County.

PASSED, APPROVED AND ADOPTED on _____, 2006.

_____
President

ATTEST:

_____
Secretary

(SEAL)

EXHIBIT "B"

DRAFT

CENTRAL BASIN MUNICIPAL WATER DISTRICT
ENGINEER'S REPORT

FISCAL YEAR 2007-08 STANDBY CHARGE

PREPARED BY:

CENTRAL BASIN MUNICIPAL WATER DISTRICT

November 2006

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Introduction

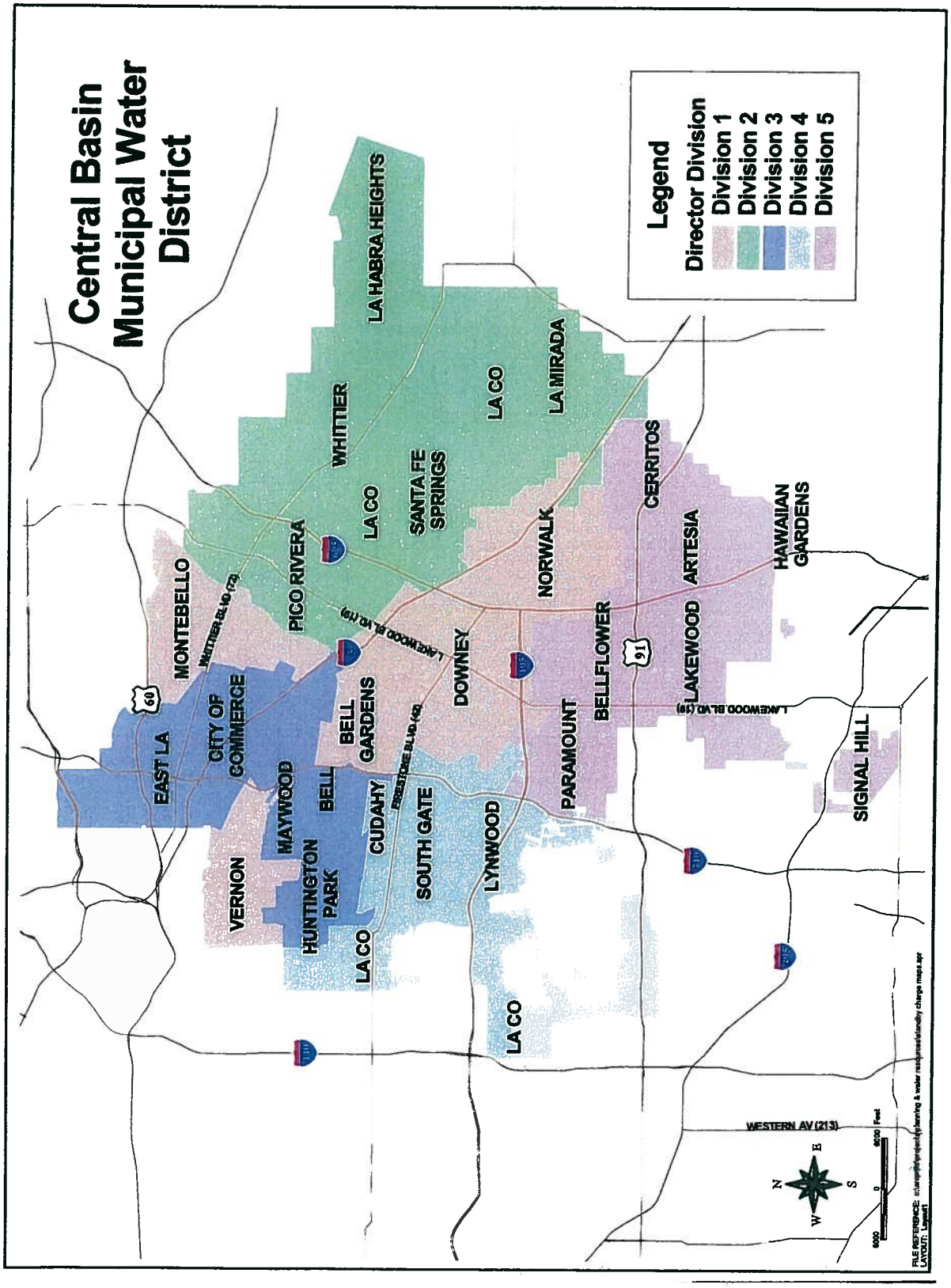
The Central Basin Municipal Water District (District) is a public agency in southeast Los Angeles County. The District was formed in 1952 by popular vote to provide supplemental imported water supplies to local retail agencies. Currently, there are over 1.6 million people within the District's 227-square-mile service area. Figure 1 shows the District's service area, including cities and political subdivisions.

The District has been a leader in changing the manner in which scarce water resources are managed in Southern California. Over the past decade, the District has implemented a plan to reduce the need for imported water from Northern California and the Colorado River, and insulate its service area from future water shortages. This "drought-proofing" plan is founded on aggressive water conservation, including flow-reducing plumbing hardware and education, and water recycling.

In 1990, the District took a significant step in its drought-proofing plan by commencing construction on a recycled water distribution system. This new system was envisioned to provide a source of non-potable water completely independent of drought-sensitive imported supplies, for use in non-potable applications such as irrigation and industry. Today, the District's recycled water system serves over 234 service connections/ meters with a water supply that would otherwise be served by potable sources such as groundwater and imported water that are used by all residents in the service area. During future imported water shortages, recycled water will not be subject to reduction – essentially a water supply insurance policy for all residents.

Pursuant to the provisions of the Municipal Water District Act of 1911 (Water Code Section 71638, *et seq*), the District began levying an assessment in 1991. Since 1991, the District has levied an assessment, called a "standby charge", to all property owners within its service area to help recover the cost of drought-proofing the service area. The purpose of this Engineer's Report is to 1) describe the District's recycled water program and its benefits to all residents within the District's service area, and 2) explain the assessment, also known as a standby charge, and how it is calculated and imposed. To this end, the report also gives historical context to the water recycling program and describes the water supply outlook in Southern California as well as the District's water resource management approach. This Engineer's Report has received technical review by MuniFinancial.

FIGURE 1, MAP OF CBMWD SERVICE AREA



HISTORICAL CONTEXT

Much of the impetus for the current water recycling efforts statewide, and particularly in Southern California, began after the drought of 1976-77. These two years are the fourth and first driest years, respectively, in California recorded history. The socioeconomic impact of those two years was significant with economic losses of $2.5 billion[1] statewide. ($6.5 billion in 2005 dollars). The drought of 1987-92 strongly reinforced the need for recycled water programs because the supply is not subject to hydrologic variability or other uncertainties such as imported water sources. These sources, the Colorado River and the Sacramento-San Joaquin River Delta are significant because they provide Southern California with about 50 percent of its water supply. At the same time, environmental and hydrologic conditions highlight the long-term trend toward decreasing reliability of these imported supplies while the state's population continues to increase in every region.

The State Legislature realized the potential for recycled water to play a significant role in mitigating future water shortages when it set a goal in 1991 of 1 million acre-feet of water recycled by 2020. Today, California's water agencies recycle about 500,000 acre-feet annually[1], which is three times the amount in 1970. The California Department of Water Resources (DWR) estimates that statewide, there is a potential of 900,000 to 1.4 million acre-feet annually of additional water supply from recycled water.

Water Supply Outlook

California's increasing population is a driving force behind the increasing water demands. California's population increased from about 30 million in 1990 to about 36.5 million in 2004 and in growing at a rate of about 600,000 annually. By 2030, California expects to have a population of 48 million people. Central Basin's service area is expected to increase at a slightly lower rate of growth from the present 1.6 million to nearly 1.9 million by 2030. The DWR reports that the construction of new facilities (such as Diamond Valley Lake) and the expansion of groundwater storage programs will help lessen the impact of future droughts and increase local reliability. DWR also states that water agencies should continue to develop water resource programs such as recycled, conservation, and conjunctive use programs to meet future demand.

[1] California Water Plan Update 2005" California Department of Water Resources Bulletin 160-05.

WATER RESOURCE MANAGEMENT APPROACH

For more than five decades, the District was strictly an imported water wholesaler, purchasing supply from the Bay-Delta and Colorado River through MWD to supplement local groundwater supplies. Since the early 1990s, however, the District has embarked on an ambitious plan to help make its service area more drought resistant through more efficient use of supplies and resources already available. Water conservation and water recycling are at the heart of this resource management approach. The District also assists local groundwater producers and agencies in protecting groundwater supplies and optimizing the use of the groundwater basins.

Water conservation is a demand-management method aimed at reducing the consumption of potable water (groundwater and imported water) at the point where it is put to use. Water recycling is the beneficial re-use of wastewater for specific non-potable applications such as irrigation. Both conservation and recycling are effective tools for reducing reliance on imported water and extending the use of locally available supplies – essentially "drought-proofing" the area against future imported water shortages.

Water Conservation

In 1991, the District joined a state effort to conserve water and signed the "Memorandum of Understanding" regarding urban water conservation in California and agreed to implement the established conservation "Best Management Practices" (BMPs). The District is committed to implementing proven and reliable water conserving technologies and educational programs for conservation within its jurisdiction.

In partnership with MWD, cities, water retailers, federal and state agencies, the District's conservation programs have been responsible for providing various opportunities and programs to the communities the District serves. The programs allow local non-profits to assist and raise funds for their programs. Also, local contractors can assist with program implementation. The programs include the distribution of thousands of ultra-low flush toilets and high efficiency toilets, and the availability of rebate programs for high-efficiency clothes washers, high efficiency toilets, ultra-low-flush toilets, waterless urinals, and commercial, industrial and institutional devices within the District's service area.

Combined with plumbing codes, public information, school education, and other conservation efforts, the District programs have resulted in a significant water savings. As described in the District's 2005 Urban Water Management Plan (UWMP), conservation efforts by the District have resulted in savings estimated at 20,000 acre-feet each year or about 8 percent of total annual demand. In addition, the UWMP shows that conservation and recycling programs are working to increase efficiency. Since 1990, overall water demand in the District's service area has remained relatively constant while population has increased by over 200,000 over the same period.

The District continues to be one of the leaders by seeking opportunities to develop new and viable programs that conserve water and help to maintain a safe and reliable water supply.

DESCRIPTION OF WATER RECYCLING PROGRAM

In 1989, the District, in partnership with MWD and the County Sanitation Districts of Los Angeles County (CSDLAC), began planning the implementation of a program to deliver recycled water to a significant portion of the District's service area.

The two recycled water projects that resulted from this planning, E. Thornton Ibbetson Century Recycled Water Project and Esteban E. Torres Rio Hondo Recycled Water Project are interconnected and operate as one distribution system. The combined projects are now referred to as the Central Basin Recycled Water Project. The program will continue to grow as additional customers are identified and expansion is determined to be economically feasible. The recycled water program provides the District's service area with a reliable, local water supply that reduces dependence on imported water.

E. Thornton Ibbetson Century Recycled Water Project

Construction on the first part of the program, the Ibbetson Project, began in December 1990 and the first customers were connected in February 1992. Construction of the entire Ibbetson Project was completed in August 1993.

The District acquires water from the Los Coyotes Water Reclamation Plant (a CSDLAC facility), and uses the City of Cerritos' pump station and the Hollydale Pump Station to distribute recycled water through several miles of pipeline.

Esteban E. Torres Rio Hondo Recycled Water Project

In 1991, District staff prepared a feasibility study and implementation plan for the Torres Project. Design of project facilities was completed and construction on portions of the project began in February 1993. Those portions of the project are now in operation and delivering water to customers.

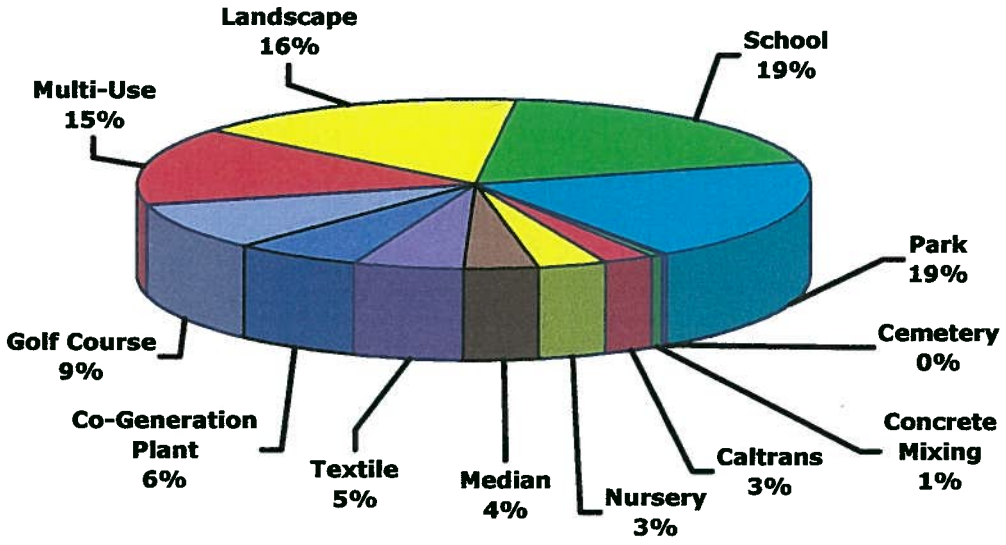
The District acquires water from the San Jose Creek Water Reclamation plant (a CSDLAC facility), and uses the Rio Hondo Pump Station and Cudahy Pump Station to distribute recycled water through several miles of pipeline. In addition, the District also has a potable water backup.

Recycled Water Distribution and Use

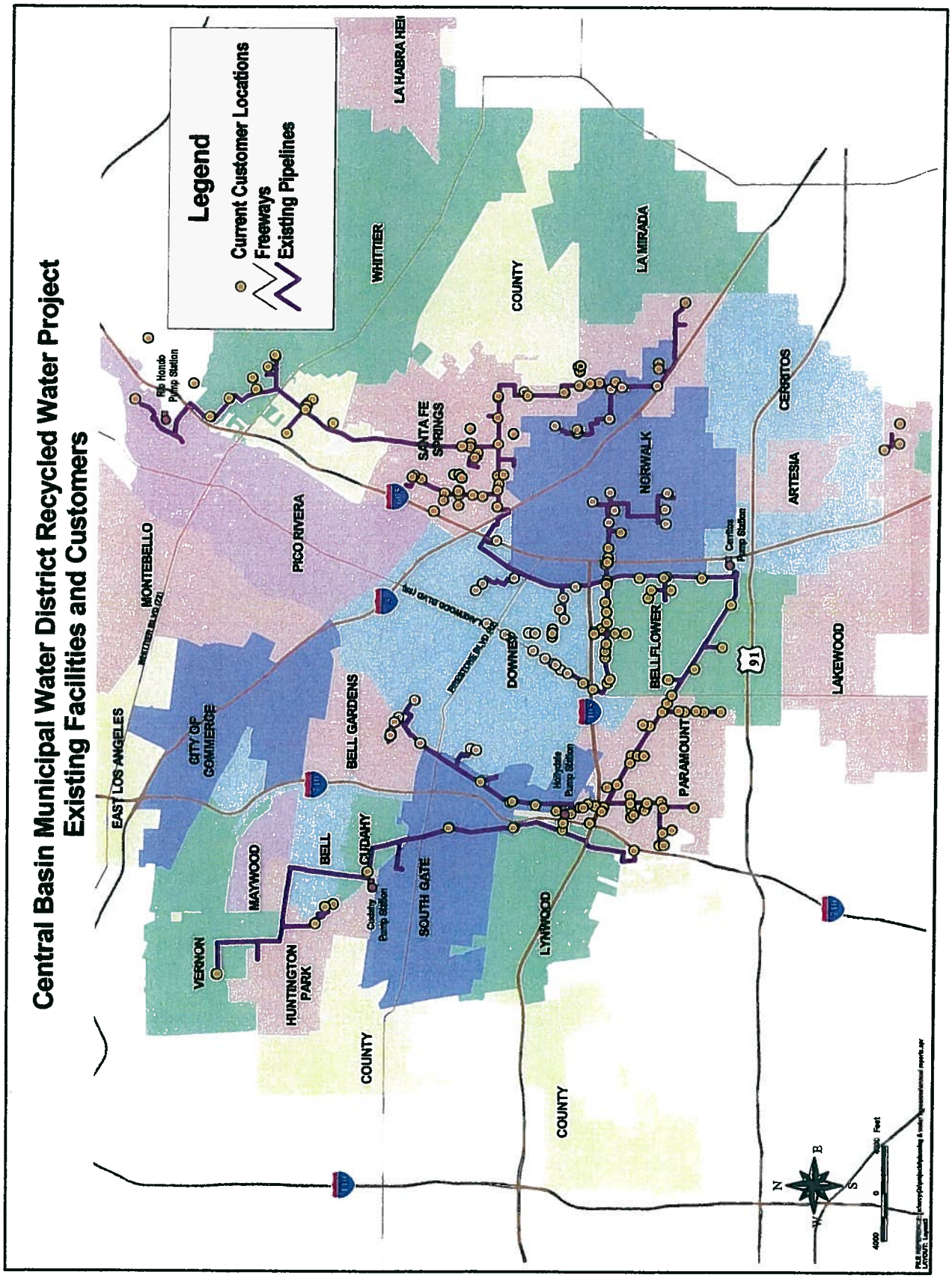
In an attempt to drought-proof the area, the District has aggressively marketed and connected irrigation and industrial users to the recycled water system. Current irrigation uses include schools, golf courses, freeway landscape, parks, cemeteries, nurseries, and street medians. Current industrial uses include concrete mixing, carpet dying and cooling towers. Figure 2 shows a breakdown of recycled water consumption by type of service connections/meters. Figure 3 shows the existing facilities and customers on the recycled water system.

FIGURE 2

CBMWD
RECYCLED WATER CONSUMPTION
BY TYPE OF SERVICE CONNECTIONS/METERS
(Fiscal Year 2005-2006)



- **Parks (769 AFY)**
- **Schools (754 AFY)**
- **Landscape Areas (638 AFY)**
- **Multi-Use (578 AFY)**
- **Golf Courses (361 AFY)**
- **Caltrans Service Connections/ Meters (103 AFY)**
- **Co-Generation Plant (245 AFY)**
- **Textile (202 AFY)**
- **Medians (149 AFY)**
- **Nurseries (126 AFY)**
- **Concrete Mixing (21 AFY)**
- **Cemetery (13 AFY)**


Central Basin Municipal Water District Recycled Water Project
Existing Facilities and Customers
Legend
Current Customer Locations
Freeways
Existing Pipelines
Rio Hondo Pump Station
Montebello Blvd (2)
Rosecrans Ave (2)
Imperial Hwy (2)
Carrillo Pump Station
Hollydale Pump Station
County of LA Pump Station
EAST LOS ANGELES
CITY OF COMMERCE
MONTEBELLO
PICO RIVERA
WHITTIER
LA HABRA HEI
SANTA FE SPRINGS
NORWALK
LA MIRADA
CERRITOS
ARTESIA
BELL GARDENS
DOWNEY
BELLFLOWER
PARAMOUNT
LAKEWOOD
MAYWOOD
BELL
GIRDARY
SOUTH GATE
LYNWOOD
VERNON
HUNTINGTON PARK
COUNTY
91
N
W
E
S
Feet
4000

BENEFITS OF WATER RECYCLING PROGRAM

The District's water recycling program creates multiple benefits for both potable and recycled water users within its service area:

- All property owners and residents benefit from the increase in the availability of potable water resulting from the use of recycled water for non-potable uses that would have otherwise been met with potable water.

- The extension of the potable supply due to its replacement with recycled water will be particularly beneficial during drought conditions, when the availability of imported water can be significantly reduced, thus impacting the potable supply. Drought-proofing will also help mitigate adverse economic impacts, which typically accompany a severe drought.

- Recycled water users benefit from a supply that is not subject to hydrologic variability locally or in other parts of the state that contribute to the imported supply. This is particularly beneficial to commercial and industrial users which rely on a firm, dependable supply of water for their operations. Water supply reliability is an incentive for industry to remain in, or locate in, the District's service area.

- Recycled water users can also benefit from a lower per unit water cost than potable, the difference depending primarily on the amount of imported water included in the potable supply.

LONG RANGE FINANCIAL PLANNING

The District has also developed an approach to recovering the costs of its recycled water program. The approach has been to not only ensure that adequate revenue is recovered to fund the program, but also to create a blend of revenue sources that would equitably distribute the fixed and variable cost components of the program to the appropriate beneficiaries.

To this end, program costs were divided into two broad categories:
1) costs attributable to the development of the program (fixed) and,
2) costs attributable to operation and maintenance of the system (variable).

Variable Costs

The District determined that operation and maintenance costs of the distribution system would be paid directly by those customers purchasing the recycled water. This is considered equitable on the basis that recycled water customers receive the direct benefit of the recycled water and pay in proportion to the quantity of water they purchase.

Fixed Costs

The District also determined that the benefit of this new water source could not be reflected through the sale of recycled water alone. As stated above, the increase in the availability of potable water is a benefit to every property owner within the District's service area. As such, it is appropriate that the capital and replacement costs of the recycled water program be partially recovered through a parcel charge known as a standby charge.

Table 3 shows the District's projected operating results, including operating expenses and debt service for fiscal year 2007-08. Revenues are projected to exceed operating expenses, with the balance paying for a small portion of the debt service. The remainder of the debt service is proposed to be recovered through the standby charge.

TABLE 1

Determination of Total Standby Charge Revenue Requirement

PROJECTED OPERATING RESULTS FOR FY 2007-08
($ millions)

Revenues (without standby)	45.60
Operating Expenses	(45.50)
Debt Service	(3.3)
Net Operating Results	(3.2)
Standby Charge Requirement	**3.2**

External Funding

The District has been aggressive in seeking external financial assistance to help defray the cost of the recycled water program. The U.S. Department of Interior, and MWD have contributed financially to the program.

METHODOLOGY FOR CALCULATING STANDBY CHARGE

In the calculation of the standby charge, it is necessary to first define the Benefiting Unit. The number of total Benefiting Units is divided into the total standby charge revenue required to determine the standby charge per Benefiting Unit.

The definition of a Benefiting Unit for the purposes of this parcel assessment is founded on the determination that the economic value of one acre-foot of water, in terms of employment and production, is several times greater than the actual cost of that acre-foot of supply provided. Because the District is in the business of providing water, it was deemed appropriate that the Benefiting Unit be defined as one acre, or portion thereof.

As shown in Table 2, the District's service area includes 309,810 parcels encompassing 73,138 acres. For the purposes of this report, a Benefiting Unit is described as either (a) any parcel with 1 acre or less; or, (b) any acre, or portion thereof, within a parcel with 1 or more acres. Therefore, the District's service area has approximately 326,807 Benefiting Units. The FY 2007-08 parcel assessment (calculated by dividing the projected standby charge requirement by total Benefiting Units) is approximately $10 per Benefiting Unit.

PROPOSED STANDBY CHARGE FOR FY 2007-08

The District pledged current and future standby charge proceeds in its bond agreements dated 1997 and 2003. For FY 2007-08, the District will continue to use standby charge proceeds to repay principal and interest payments obligated under bond agreements. The proposed assessment level and methodology for FY 2007-08 will remain the same as FY 2006-07.

TABLE 2

Projected Benefiting Units

	ACRES <1	ACRES >1	TOTAL BENEFITING UNITS
Improved Parcels			
Parcels	293,233	6,353	312,271
Acres	46,677	19,038	
Unimproved Parcels			
Parcels	8,857	1,367	14,536
Acres	1,744	5,679	
TOTAL			
Parcels	302,090	7,720	309,810
Acres	48,421	24,717	73,138
TOTAL BENEFITING UNITS			**326,807**

The method of, and formula for, this assessment is proposed as $10 per Benefiting Unit (i.e., $10 per parcel of 1 acre or less; or $10 per acre, or portion thereof, for parcels 1 acre or more). The estimated revenue for FY 2007-08 is approximately $3,268,070. The levy of this assessment is proposed under the Municipal Water District Act, Alternative Procedures.

SUMMARY

The benefits described in this Engineer's Report far exceed the recommended charge. Conservation of potable water through demand management and recycled water drought-proofs the entire service area by increasing the potable supply for all property owners within the District. The standby charge recognizes that there are economic benefits to land from extending potable water supplies through the use of recycled water, whether or not such lands are directly using the recycled water. The performance of the financial plan will be reevaluated annually to ensure that the program expectations are being realized.

EXHIBIT "C"

October 17, 2006

Ms. Gail Skersick
Senior Administrative Assistant
Central Basin Municipal Water District
17140 South Avalon Blvd.
Suite 300
Carson, CA 90746

Re: Central Basin Municipal Water District Standby Charge
Notice of Intent to File a Negative Declaration

Dear Gail:

Per your request, this letter serves to advise you that the Notice of Intent to File a Negative Declaration with Los Angeles County Recorder's Office for Fiscal Year 2007/2008 is not required. This recommendation is based on the findings below:

MuniFinancial discussed the filing of a Negative Declaration with Mark Mandell (Mandell Municipal Counseling), an attorney specializing in this area. He reviewed Title 14, Chapter 3 of the California Code of Regulations. Under this Section of the Code, the Negative Declaration is only required to be submitted for "Projects." In reviewing the appropriate code sections, the standby charge does not qualify as a "Project" for the following reasons:

- It only involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines).
- It does not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

Central Basin Municipal Water District is responsible for informing MuniFinancial should the standby charge proceeds be used in a manner which would qualify as a "Project" based on the aforementioned California Code regulations.

Sincerely,
MuniFinancial

Gladys Medina, Project Manager
District Administration Services

Enclosures