



| MEETING | TIME & DATE | LOCATION |
|--|---|-------------------------|
| Special Meeting of the Central Basin Municipal Water District Board of Directors | 10:00 a.m. Friday, January 12, 2018 | Board Room 1st Floor |

Board Workshop Agenda

1. Roll Call

- Invocation
- Pledge of Allegiance
- **Certification by the Board Secretary to the Board of Directors that the Agenda was posted in Accordance with the Brown Act**

2. Public Comment and Presentations –

(This time has been set aside for persons in the audience to make comments or inquiries on matters within the general subject matter jurisdiction of the Board of Directors (the "Board") that are not listed on this agenda. Although no person is required to provide their name and address as a condition to attending a Board meeting, persons who wish to address the Board are asked to state their name and address. Each speaker will be limited to three (3) continuous minutes. Speakers may not lend any portion of their speaking time to other persons or borrow additional time from other persons.

Except as otherwise provided under the Brown Act (Gov. Code section 54950 et seq.), the Board may not deliberate or take action upon any matter not listed on this posted agenda but may order that any such matter be placed on the agenda for a subsequent meeting. The Board may also direct staff to investigate certain matters for consideration at a future meeting.

NOTE: At the discretion of the Board, all items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

WORKSHOP AND ACTION

3. Presentation, Discussion and Action on Board Workshop Cost Reduction and Revenue Enhancement

RECOMMENDED MOTION: That the Board take action on the 10 cost reduction revenue enhancement measures as presented.

COMMENTS

4. General Counsel's Report

5. General Manager's Report on District Activities

6. Director's Comments

ADJOURNMENT.

NEXT REGULAR BOARD MEETING: MONDAY, JANUARY 22, 2018 10:00 A.M.

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Agendas and complete Agenda Packets (including staff reports and exhibits related to each item) are posted on the Central Basin Municipal Water District's ("District") Internet Web Site (www.centralbasin.org). These are also available for public review prior to a meeting in the Board Secretary's Office. Any public writings distributed to at least a majority of the Board regarding any items on this special meeting agenda will also be made available at the Board Secretary's Office at the District's headquarters located at 6252 Telegraph Road, Commerce, California, 90040-2512 – during normal business hours. In addition, the District may also post such documents on the District's Web Site at www.centralbasin.org. In accordance with the Americans with Disabilities Act of 1990, if you require a disability-related modification/accommodation to attend or participate in this meeting, including auxiliary aids or services please call the Board Secretary's Office at (323) 201-5527 at least 48 hours prior to the meeting.

Enforcement of Decorum: While members of the public are free to level criticism of District policies and the action(s) or proposed action(s) of the Board or its members, members of the public may not engage in behavior that is disruptive to the orderly conduct of the proceedings, including, but not limited to, conduct that prevents other members of the public from being heard when it is their opportunity to speak or which prevents members of the audience from hearing or seeing the proceedings. Members of the public may not threaten any person with physical harm or act in a manner that may reasonably be interpreted as an imminent threat of physical harm.)

**JANUARY 12, 2018 – Special Board Meeting**

Prepared by: Andrew Hamilton/Kevin P. Hunt

Submitted by: Kevin P. Hunt

Approved by: Kevin P. Hunt P.E.

ACTION CALENDAR**PRESENTATION, DISCUSSION AND ACTION ON BOARD WORKSHOP COST
REDUCTION AND REVENUE ENHANCEMENT****SUMMARY:**

The workshop will provide brief overview of the background and actions already taken; provide revenue and cost projections for fiscal years 2018-2019 and 2019-2020; discussion on cost reduction and revenue enhancement currently under study which will not be resolved for several months; proposed changes under the General Manager's authority; discussion of items reviewed and rejected by the General Manager; and discussion of 10 items requiring Board approval to implement. The meeting will conclude with a summary of the proposed target Budget for fiscal year 2018-2019 after the implementation of approved changes.

Background

Central Basin has known for years that replenishment deliveries would end as a reliable source of revenue in fiscal year 2018-2019, and that the Local Resource Program (LRP) revenue supplements from Metropolitan Water District (MWD) would end in 2019-2020. The drastic decline in potable water sales and the loss of 600 AF of recycled water sales for Rose Hills Cemetery were not anticipated or planned. Central Basin staff began downsizing and adjusting to new revenue projects in April 2017 and again in September 2017, due to uncertain replenishment projections. A total of \$1.5 million was cut from the capital and operating budgets, including two full time positions, Board authorized staff raise pool, training, travel, consultants, and numerous other cost reductions. In addition, the rebidding of the operations and maintenance contract and the Board approved contract with STEM Energy will reduce operating costs. Staff continues to seek any proposal for cost reduction and revenue enhancement.

In 2016, Central Basin instituted a rate increase with support from its retail agencies and was able to refinance the 2008 Bonds to avoid a \$1.4 million spike in payments per year.

Unfortunately, the reduction in costs, increased rates and refinanced bond savings is not enough to compensate for the decrease in revenue projected. The bond covenants require that Central Basin achieve a 1.15 surplus of operating revenues over operating costs (excluding principal payments on bonds and capital costs). Failure to do so significantly increases financing costs and may trigger a bond recall. The debt coverage ratio this past year was 0.77.

We have been discussing the need for an alternative fixed cost of revenue for almost six months. We have also discussed the equity issue of, without replenishment sales, several of our agencies receiving benefits of Central Basin's activities without paying anything. The

proposed charge to resolve both these issues is an annual retail meter charge to the retail agencies based upon the number of retail meters in their service area.

We have discussed them over the past months with our retail agencies, to vociferous opposition. While there are several long-term options that could minimize or eliminate the need for the charge, there is nothing identified that can be implemented in the next 18 months. Consequently, Central Basin staff will be presented the charge to the Board on January 22, 2018. This workshop is planned to reduce the amount of the charge through a combination of General Manager directed and Board directed reductions.

Projected Revenue and Costs for Fiscal Year 2018-2019

The District has completed a financial forecast for the next two fiscal years ending June 30, 2019 and 2020. An overview of each year's forecast along with 2018 Budgeted figures is summarized below:

| | FY 2018 Budget | FY 2019 Forecast | FY 2020 Forecast |
|---|---------------------------|-----------------------------|-----------------------------|
| Budget /Forecast - Surplus (Deficit) | \$173,678 | (\$2,217,374) | (\$1,936,048) |

As shown, the forecast results in a Deficit of \$2.3 million in FY 2019 and \$2.1 million in FY 2020.

The following is a list of items necessary to complete the each year's budget/forecast and related assumptions used for each fiscal year:

1. Revenue - Below is a summary of significant Revenue assumptions:

| Revenue Assumptions | FY 2018 Budget | FY 2019 Forecast | FY 2020 Forecast |
|------------------------------------|---------------------------|-----------------------------|-----------------------------|
| Potable Sales, Acre Feet | 18,500 | 16,500 | 16,200 |
| Replenishment Sales, Acre Feet | 10,400 | 0 | 0 |
| Recycled Sales, Acre Feet | 5,300 | 5,080 | 5,456 |
| Potable Admin Surcharge Increase % | 16.5% | 5.0% | 5.0% |
| Recycled Rate Increase % | 16.5% | 5.0% | 5.0% |
| Replenishment Net Revenue | \$728,000 | \$0 | \$0 |
| LRP Revenue | \$749,500 | \$625,000 | \$52,000 |

2. Expenses - Summarized below is a summary of noteworthy Expense assumptions:

| Expense Assumptions | FY 2018 Budget | FY 2019 Forecast | FY 2020 Forecast |
|---------------------------------------|----------------|------------------|------------------|
| Recycling Costs/Acre Foot | \$64/af | \$100/af | \$100/af |
| Salary Increases | 0% | 3.5% | 3.0% |
| Capitalized Labor | \$(405,419) | \$(30,298) | \$(31,206) |
| Debt Interest Expense | \$1,468,813 | \$1,091,588 | \$1,051,088 |
| Letter of Credit (LOC) Fees | \$152,460 | \$208,939 | \$208,939 |
| Election Expense | \$0 | \$450,000 | \$0 |
| Legal Expense | \$262,000 | \$260,000 | \$260,000 |
| Electricity - Battery Savings | \$0 | \$(70,000) | \$(70,000) |
| Education Expense | \$80,250 | \$155,250 | \$155,250 |
| Unfilled staffing positions - Savings | \$0 | \$(206,351) | \$(206,351) |
| Urban Water Management Plan | \$0 | \$0 | \$50,000 |

Items Currently Under Study

These are longer-term items requiring study or approval of others.

- a. Subleasing Rio Hondo Property: Currently reviewing lease terms and potential use by WRD, solar developers or others.
- b. Implementation of Voter Approved Parcel Charge: Per Board authorization in December 2017, we are reviewing proposals from engineering firms, marketing firms, and polling companies to ascertain the feasibility of a parcel charge.
- c. Pay Pension Debt with a Taxable Bond: Discussing with a financial consultant; may require more stable finances to incur more debt.
- d. Sponsorships or Grants for Water Education Program: A concept proposal is in progress.
- e. Revised New LRP for Current Projects: Submittal to MWD.
- f. Wheeling Water for WRD: Engineering study underway.
- g. Lease of Recycled Water Capacity: Legal and engineering study underway.
- h. Sale of Office Building: Discussing benefits and costs with Ad Hoc Members.

General Manager’s Proposed Changes to Base Budget

Table 1 shows the General Manager’s proposed changes. These total \$142,000 in the proposed fiscal year 2018-219 budget.

| Table 1 General Manager Proposed New Changes to 2018-2019 Budget | | |
|---|-----------|------------------|
| | | Amount |
| Do Not Fill Public Information Office Position | (savings) | \$91,000 |
| Do Not Fill G.I.S. Intern Position | (savings) | \$15,000 |
| Reduce Retired Annuitant (Engineering) Hours by 200 Hours | (savings) | \$20,000 |
| Reduce District Meeting (food) Expense | (savings) | \$4,000 |
| Not Budget for renewal of Ethics Hotline & Attorney Retainer – Feb. 2019 | | \$7,000 |
| Miscellaneous – Minor Reductions | | \$5,000 |
| Total | | \$142,000 |

Options Reviewed and Rejected by General Manager

Options proposed and rejected, and reasons for rejection:

- a. Eliminate Afternoon Security Guard: Not safe, particularly when people work late.
- b. Cancel Edison Lot Lease: Parking is needed too frequently; unsafe to have parking across the street.
- c. Move Caucus to Morning or Quarterly: Believed to be beneficial to community for minor cost.
- d. Staff Pay Cuts: Not warranted; staff have already made significant sacrifice.

Board Action Required

The following are the 10 potential cost reduction and revenue enhancement measures requiring Board action.

- a. Place 5% handling fee on Metropolitan pass-through fee – Readiness-to-Serve (RTS) and capacity charge;
- b. Lease out offices on ground floor;
- c. Change to Los Angeles Count Investment Fund;
- d. Eliminate Bottled Water Program;
- e. Reduce HRA from 4/8/12 to \$4k;
- f. Reduce Director Travel Allowance Budget to \$3,500 per Director and Budget \$28k;
- g. Reduce or Eliminate Water Education Program;
- h. Eliminate General Manager and Director Car Allowances;
- i. Request to Transfer San Gabriel River Watermaster duties to WRD; and
- j. All Employees pay PEPRAs Percent of Salary towards retirement (over 3 years).

Staff will present such items with advantages and disadvantages and request a Board vote on each.

At the end of the workshop, the total reductions approved will be applied to the base budget and the size of the remaining deficit, if any, will be defined.

Attached as Exhibit "A" is an outline of the proposed workshop process.

FISCAL IMPACTS:

The workshop will reduce the budget deficit in 2018-2019.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was not reviewed by the Finance & Audit Committee.

RECOMMENDED MOTION:

That the Board take action on the 10 cost reduction revenue enhancement measures as presented.

EXHIBITS:

Exhibit "A" - Presentation Outline

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EXHIBIT “A”

Central Basin Board Workshop Reducing Central Basin MWD Budget Deficit

1. Purpose of workshop
2. Background
 - a. Reduction in Sales
 - b. End of LRP
 - c. Increasing Costs
 - d. Equity Issue
 - e. 2016 Rate Increase
 - f. Financial Covenants
 - g. Fixed Costs
3. Summary of Reductions to date
 - a. April 2017
 - b. September 2017
4. Projected Revenue and Costs Fiscal Year 2018-2019 and 2019-2020
 - a. Revenue
 - i. Assumptions
 - ii. Revenue Generated
 - b. Costs
 - i. Assumptions
 - ii. Projected Costs
 - c. Comparison Revenue/Costs
5. Items Currently under Study
 - a. Sublease of Rio Hondo Property
 - b. Implementation of a Voter Approved Parcel Charge
 - c. Pay Pension debt with Taxable Bond
 - d. Sponsorships or Grants for Water Education Program
 - e. Revise New LRP for small projects
 - f. Wheeling Water for WRD
 - g. Lease of Recycled Water Capacity
 - h. Sale of Office Building
6. General Manager Proposed Changes to base budget
 - a. Revenue Increases
 - b. Cost Reductions
 - c. Comments?
7. Reviewed and Rejected by General Manager
 - a. Eliminate Security Guard – Not Safe

- b. Cancel Edison Lot Lease – Needed; Not Safe
 - c. Move Caucus to Morning or Quarterly – Beneficial to Community
 - d. Pay Cuts – Not Warranted
8. Board Action Required
- a. Place 5% handling fee on Metropolitan pass-through fee – Readiness-to-Serve (RTS) and capacity charge
 - b. Lease out offices on ground floor
 - c. Change to Los Angeles Count Investment Fund
 - d. Eliminate Bottled Water Program
 - e. Reduce HRA from 4/8/12 to 4
 - f. Reduce Director Travel Allowance Budget to \$3,500 per Director and Budget \$28k
 - g. Reduce or Eliminate Water Education Program
 - h. Eliminate General Manager and Director Car Allowances
 - i. Request to Transfer San Gabriel River Watermaster duties to WRD
 - j. All Employees pay PEPRA Percent of Salary towards retirement (over 3 years)
9. Summary General Manager Implemented and Board Approved Reductions
10. Remaining Surplus or Deficit