

Protecting
Big Bear's Future
Through Responsible
Planning

2012

Operating
And Capital Budget

2011– 2012

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

BIG BEAR CITY, CALIFORNIA



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Section I. Introduction and Overview

Budget Summary and Message from the General Manager

The employees and I are pleased to submit the Big Bear Area Regional Wastewater Agency budget for fiscal year 2012 (FY 2012). The \$4.6 million budget is the culmination of planning and hard work from the management team and departmental staff combined with the leadership and insightfulness of the Governing Board. Consistent with past budgets, the current budget has been developed to prepare for and complete the Agency's mission: ***To collect and treat wastewater and dispose of or utilize the by-products in a safe, progressive and fiscally responsible manner for the health and welfare of the community.*** To make this mission a reality in today's increasingly complex world, the Agency pledges to focus on meeting the needs of a growing and changing community in an efficient and cost effective manner.

Since 1974, the Big Bear Area Regional Wastewater Agency (BBARWA) has transformed itself from a newly formed Joint Powers Agency with multiple, undersized, failing facilities and multi-agency operating contracts to a superior, award-winning organization. As we begin the 37th year of providing centralized, environmentally friendly wastewater conveyance, treatment and disposal services for the Big Bear Valley communities, BBARWA staff is prepared to be vigilant and proactive as we focus on meeting the needs and challenges of our mountain-top community and our organization.

BBARWA is fortunate to have a talented and experienced workforce dedicated to serving the Big Bear Valley. Through effective utilization of its workforce (currently 11.5 full-time equivalent employees), BBARWA provides its users with reliable, efficient and cost-effective service at rates approximately one-half the state average. Today, BBARWA's operations serve approximately 24,643 commercial establishments and single-family residences and an estimated population of over 61,000 on a full and part-time basis.

In keeping with the "forward thinking" nature of the Agency's vision statement, BBARWA began planning for the FY 2012 budget process during the first quarter of 2009. Recognizing the future impact of a failing economy combined with escalating costs (associated with labor, solids disposal, energy, chemicals and supplies) and a history of limited rate adjustments, the Agency aggressively pursued and implemented numerous changes during the 18-month period preceding the FY 2012 budget process. Major issues facing the Agency included declining revenues and investment income combined with the rising costs associated with labor and benefit expense (projected annual increases in excess of 10%), the mandated Sewer System Management Plan and Monitoring Program, major capital improvement needs, and reporting requirement changes.

To address rising costs, the Agency proactively met with its employees and mutually agreed to rescind a five-year labor agreement. The agreement was replaced with a Memorandum of Understanding resulting in significant long-term cost-saving concessions that included reductions to staffing and realignment of job duties; elimination of step and cost-of-living increases; reduction in sick-time accruals; modifications and reductions in holiday pay; reductions in longevity pay increases and limits on health benefit coverage. Further, future wage increases became contingent on managing total salaries and benefits expense to 5.0% annually, a rate of growth more closely aligned with inflation. The cost savings associated with these changes is estimated at \$173,000 annually or \$867,000 over the next five-year period.



To address issues related to increasing solids disposal costs, the Agency has researched and contracted with disposal sites to ensure space availability as regulatory issues and community concerns continue to limit disposal options. In addition, during FY 2011, the Agency assumed control of the Cannibal Reduction-Solids (CRS) process from the vendor (as outlined in its contract) resulting in a 10% reduction in solids generated at the treatment plant. Presently, the Agency is experiencing a 60% reduction in hauling costs as a result of the CRS process and expects to ultimately reach an 80% reduction in solids disposal costs by FY 2013.

With rising costs, purchasing and inventory controls played an even bigger part in cost management. To ensure cost effectiveness when purchasing chemicals and supplies for the Agency, staff identified vendors with the most competitive costs, and developed a thorough inventory program to ensure a more efficient operation resulting in projected cost savings of \$45,710 in FY 2012. The Agency continues to control energy costs by effectively maintaining and utilizing its natural gas generators. Today, the Agency is producing power at approximately \$0.07 per kWh compared to purchasing power from the local utility at \$0.125 per average kWh plus peak demand charges.

Addressing the need for rate adjustments was difficult but necessary considering a five-year history of no rate increases. As part of the FY 2011 rate review process, the Agency updated its Sewer Master Plan and commissioned both a User Fee Study and Connection Fee Analysis. As a result of these analyses and efforts, the Agency garnered support from the community, media and local agencies for multi-year, annual rate increases of 4%. Support for the rates has been due to the affordability of the increase and the Agency's commitment to controlling costs. The average annual change in operating costs has been 5.3% over the last five years and is projected to be 2.9% through FY 2016. The rate increase will provide the Agency with needed operating revenues to cover its operating costs and will offset to some extent, declining connection fee revenue and interest income associated with the struggling economy.

For the upcoming year, the Agency's priorities continue to be uninterrupted service to the community, strong financial leadership and controls and maintaining the system for those who will follow at rates which are fair and equitable. Factors influencing the FY 2012 budget include:

RATE ADJUSTMENT AND BILLING STRUCTURE: The Agency approved an annual, four-percent rate adjustment through FY 2016. The rate adjustments will increase revenues and allow the Agency to refinance its existing debt and issue new debt, if necessary, to complete major capital improvements. In addition, revisions to the billing method will more equally apportion costs to the member agencies based on an equitable allocation of the Agency's fixed and volumetric costs.

STAFFING LEVELS: Presently, the Agency is operating the facilities with an historic low level of employees (11.5 full-time equivalent employees). The plan for FY 2012 will be to add an additional operator and fill the Accounting / Human Resource Technician position, bringing the staff level to 13.5, below but more closely aligned with historical levels of 15.0 employees.

CAPITAL IMPROVEMENT PLANNING: The Agency has committed to replacing the obsolete, failing and below-capacity Lake Pump Station (LPS). This project will replace the critical LPS facilities with a pump station that allows for increased pumping capabilities, increased storage capacity, future expandability, and increased



reliability necessary to facilitate wet weather flows and reduce the potential for sewage spills into Big Bear Lake. Deferral of the design and construction of the Load Equalization Basin occurred during the FY 2012 budget discussions. This project initially provided for the replacement of the failing and under-sized Balancing Chambers. This effort has been moved beyond the current, five-year planning cycle to allow for funding on a pay-as-you go basis.

SOLIDS DISPOSAL: The Agency continues to experience costs savings due to the implementation of the CRS. Through FY 2011, the Agency has estimated savings to be approximately \$510,000.

CONTINGENCIES, INVESTMENTS AND DEBT – In FY 2012, the Agency plans to refinance its existing debt while borrowing minimal new debt to fund the LPS project outlined above. Cash from the Agency's Contingency Fund will provide the financing for a portion of the LPS, reducing the amount of borrowed funds. The FY 2012 rate increase, combined with minimal increases in debt service, will provide the Agency with sufficient debt service coverage and good operating flexibility.

As a result of the actions taken over the last 18 months, and the commitment and dedication of our hardworking staff, the Agency approaches the new fiscal year in a solid operating and financial position. The Agency has adequate revenue to cover its costs, maintain and improve its facilities, meet its debt service requirements as they come due and fund the minimum balance requirements associated with its contingency, liquidity, capital improvement and debt service funds. In closing, the Agency remains in a strong financial position, ready to accept the challenges of the next 12 months, led by an experienced management team supported by a knowledgeable and dedicated workforce. We look forward to another successful year.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steven C. Schindler", is written over a horizontal line.

Steven C. Schindler
General Manager
TOUGH TIMES DON'T LAST, TOUGH TEAMS DO



Financial Factors Influencing the Budget

New Rates and Connection Fees

As noted in the budget summary, the Agency began planning for the FY 2012 rate increase in FY 2009, understanding the dynamics of increasing costs, flat operating revenues, sharply declining connection fee revenue and unchanging debt service requirements. As a result of careful planning, the Agency was able to 1) prepay existing debt to better manage its debt service covenants and 2) lower the annual change in salaries and benefits expense to 5.0% or less through employee negotiations. Both of these actions combined with overall cost management, allowed the Agency to approach its ratepayers for a more reasonable rate increase than would have otherwise had to occur in order to meet the Agency's operating and financial requirements

SUMMARY OF FEE CHANGES

User Fee Annual Rate

(all rate changes shall not exceed the rates implied below)

<u>Current</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
\$173.76	\$180.71	\$187.94	\$195.46	\$203.27	\$211.41
% Change	4.0%	4.0%	4.0%	4.0%	4.0%

Beginning in FY 2017, the Agency may increase its sewer user fees annually by an amount not to exceed the percentage change in the twenty-city construction cost index published by Engineering News Record.

Connection Fee

<u>Current</u>	<u>New (Effective July 1, 2011)</u>
\$3,031.22	\$3,670.00

New Debt and Significant Use of Fund Balance

The original intention of the Agency at the beginning of the budget workshop was to borrow approximately \$2.0 million in construction costs to complete the Lake Pump Station (LPS) replacement project. During the Agency's budget workshop, the Governing Board determined that it would use approximately \$1.3 million of the Agency's contingency funds to fund the LPS replacement project and limit new borrowing to approximately \$700,000. The Governing Board's decision to reduce new debt, effectively lowered the Agency's proposed rate increase from 5.0% to 4.0%. In the coming year, the Agency plans to refinance its existing debt in a manner that will free up cash reserves held with a bond trustee and primary lender. This will potentially increase the cash available to the Agency and reduce new borrowings needed to complete the Lake Pump Station replacement project. With lower new debt borrowings and lower rates on existing debt, the Agency will have lower overall debt service requirements, increased operating flexibility and will reserve debt capacity for future projects while still maintaining sufficient contingency funds.



Staffing Changes and Cost Savings

During FY 2011, two resignations within the administration department led to the opportunity to reduce costs through staffing changes. The full-time administrative clerk position was rehired on a part-time basis and the senior accountant position was rehired at a lower level position of accounting / human resource technician. These changes are expected to result in better economic use of the Agency's resources with these positions better matching the demands of the Agency .

Also during FY 2011, an Operator I retired and an Operator I resigned. The Agency will be replacing one of the Operator I positions during FY 2012 and has promoted an Operator-In-Training (OIT) to an Operator I position. The OIT position was filled in FY 2010 in anticipation of the FY 2011 retirement and will not be replaced during FY 2012 unless future retirements become scheduled. *(The chart below shows changes in the Agency's full-time staffing positions and excludes temporary employee positions.)*

	<u>Potential Staffing</u>	<u>Staffing Changes</u>	<u>Current</u>	<u>FY 2012 Proposed</u>
Administration	4.0	Full-Time Admin Clerk reduced to Part-Time Clerk; Senior Accountant Position changed to Accounting / HR Technician which is currently vacant but will be filled.	2.5	3.5
Operations	9.0	An Operator I positions is vacant due to resignation and will be filled.	7.0	8.0
Laboratory	<u>2.0</u>	No Changes	<u>2.0</u>	<u>2.0</u>
	15.0		11.5	13.5

Strategic Planning and Long-Range Outlook

FY 2011 was a year highlighted with the completion of major planning for the Agency, the spirit of which dons the cover of this year's annual budget: "Protecting Big Bear's Future Through Responsible Planning". Annually, the Agency reviews its five-year strategic plan as part of the budget development process to identify any changes in its environment and to identify any new opportunities or future direction. Over the past year, and in conjunction with the rate review process, the Agency completed an update to its master sewer plan which included long-range planning for the community and the Agency's facilities. The Agency assessed its existing assets and the capacity utilization of its processes to determine future investment needs. Based on current excess capacity in the system coupled with little growth in projected flows, projects identified in the master plan involve primarily the maintenance and replacement of the existing system. These projects have been scheduled beginning in FY 2012 through FY 2029 based on current condition and remaining useful life.



Strategic Objectives

Strategic Plan

The Agency's current strategic plan was developed in FY 2008 and is a five-year plan. The plan is reviewed and revised on an annual basis as part of the financial planning process by management staff and the Governing Board. The Agency has developed the following mission used to guide the Agency's actions and decision making .

Mission Statement

The Agency will collect and treat wastewater, and dispose of or utilize the by-products in a safe, progressive and fiscally responsible manner for the health and welfare of the community.

FY 2012 Strategic Goals

How We Do Business

1. **Provide Service in a Cost-Effective, Efficient and Safe Manner.** The Agency evaluates its processes on an iterative basis in an effort to identify efficiencies and reduce costs. In FY 2012, The Agency will establish performance measures for benchmarking purposes.
2. **Gather and Provide Data that is Accurate, Precise, Reliable and Meets the Discharge Requirements Set Forth by the California Regional Water Quality Control Boards**
3. **Support Current Computer, Network, and SCADA Systems to Maximize Employee Productivity**
4. **Keep Records Organized and Well Maintained in Accordance with the Records Management Policy .** Good records retention supports the integrity of the Agency's operations and promotes public accountability.

Financial Management

1. **Continue to be Fiscally Responsible through Financial Management and Planning.** Strong financial management is key to the Agency's ability to provide competitive, efficient service and to preserve enterprise value for the ratepayers.

Working Together

1. **Ensure that the Big Bear Area Regional Wastewater Agency Remains an Employer of Choice and a Desirable Place to Work .** The Agency's ongoing efforts to attract and maintain talented and skilled employees is a key long-term objective.
2. **Provide the Public with the Opportunity to Participate.** Public participation is important to the Agency and can result in improved decision making and more successful outcomes.



Section II. Financial Structure, Policy and Process

Governance

The Agency is governed by a five-member Governing Board appointed annually by the governing bodies of its three Member Agencies.

<u>Member Agency</u>	<u>Number of Appointments</u>
Big Bear City Community Services District	2
City of Big Bear Lake	2
San Bernardino County Service Area 53B	1

The Governing Board of Directors



Rick Herrick, Chair
City of Big Bear Lake



Tom Brandau, Vice Chair
County of San Bernardino



Liz Harris, Ed. D., Secretary
City of Big Bear Lake



Jeff Newsome, Director
Big Bear City CSD



Paul Terry, Director
Big Bear City CSD

Staffing

General Manager and Staff



Steven Schindler
General Manager



Joe Hanford
Plant Superintendent



Jennifer McCullar
Finance Manager



BBARWA Employee Group



Pictured from left to right beginning from the top row, Joe Hanford, Brent Berg, Jeremy Sweeney, Nikki Flores, Kim Booth, Steven Schindler; bottom row Ron Roberts, Troy Bemisdarfer, Bob Sellards, Fred Uhler, Jennifer McCullar, Sonja Kawa. Francis Hobbs and Robert Schindler are not pictured.

The Agency's employees are accountable for the efficient operation and administration of the treatment plant and related facilities. The Agency maintains informal departments due to the small, single-service nature of the Agency's operations. The operations department consists of the plant superintendent and eight operators. The laboratory department includes two lab analysts. The administrative department includes the general manager, finance manager, accounting / human resource technician, and administrative clerk.

The Agency has a **dedicated team** with 40% of the employees employed for more than ten years and 60% employed for more than five. Employee longevity provides the organization with decades of experience and lends itself to efficient operations. Approximately 40% of the workforce will be eligible for retirement in FY 2012.

Service Recognition and Awards

The Agency has received multiple industry awards over the years. In FY 2011, the Agency and certain of its employees received the following awards by the California Water Environment Association at its annual event recognizing outstanding employees and treatment facilities in the local desert and mountain areas of Big Bear, Running Springs, Lake Arrowhead, Crestline, Victorville, Hisperia, and Apple Valley: Small Plant of the Year, Operator of the Year, Maintenance Technologist of the Year, and Young Professional of the Year.

In FY 2011, for the third consecutive year, the Government Finance Officers Association presented the Agency with the **Distinguished Budget Presentation Award**.



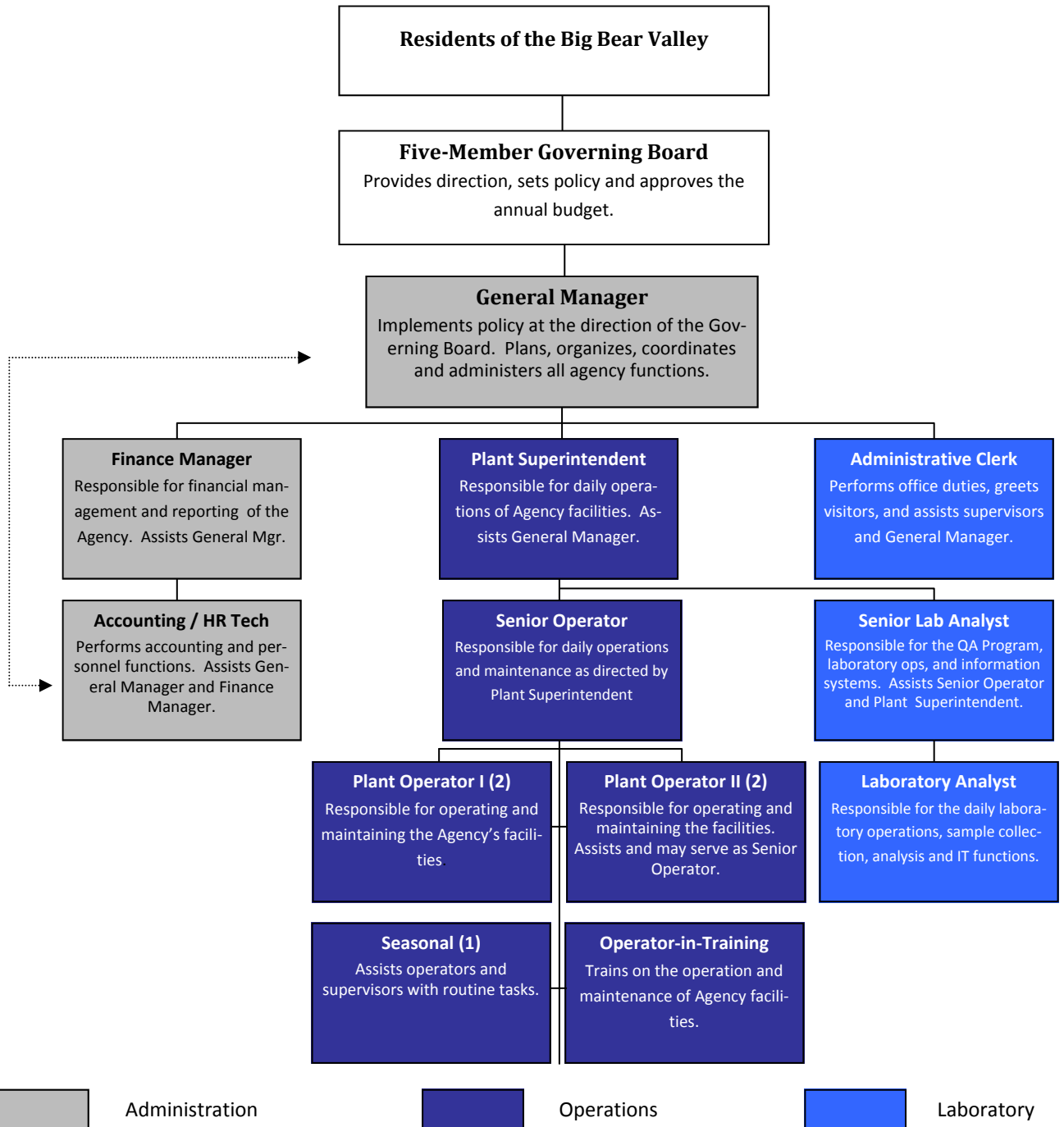
“The Distinguished Budget Presentation Awards Program allows the public finance profession a welcome opportunity to recognize those governments that have, in fact, succeeded in preparing a high quality budget document. Recognition can be viewed as a positive factor by credit rating agencies and by others interested in the professionalism of a government’s finance function.” (Government Finance Officers Association)





Departments and Organization










Organization Chart—Big Bear Area Regional Wastewater Agency





Financial Practice and Controls

The Agency has developed multiple financial policies which have laid the foundation for the Agency's continued financial strength. Financial strength is assessed by the bond rating agencies using various frameworks for measurement. Utilizing Standard and Poor's Top 10 Management Characteristics for comparison purposes, we can see the Agency's achievement of strong leadership and financial management.

Top Ten Management Characteristics		Agency Performance
1.	An established rainy day / budget stabilization reserve	 The Agency maintains contingency funds specifically for emergency and budget variance purposes.
2.	Regular economic and revenue reviews to identify shortfalls early.	 Management staff reviews monthly variance reports. Quarterly variance reports are prepared and presented to the Governing Board.
3.	Prioritized spending plans and established contingency plans for operating budgets	 The annual budget and five-year forecast, including both the operating and capital budget, prioritize spending. The Agency has established a contingency fund to fund any unexpected and unabsorbed variances from budget.
4.	A formalized capital improvement plan in order to assess future infrastructure requirements.	 The Agency maintains a 5-year and 20-year capital improvement plan.
5.	Long-term planning for all liabilities of a government, including pension obligations, other post employment benefits and other contingent obligations would be optimal and allow for assessment of future budgetary risks.	 The Agency completes annual and bi-annual actuarial valuations of its pension and OPEB obligations and funds 100% of its annual required contributions. Information related to these liabilities is audited and disclosed annually in the Agency's financial statements.
6.	A debt affordability model in place to evaluate future debt profile.	 The Agency's debt policy specifically requires a review of the Agency's debt capacity prior to new debt issuance. The Agency's debt capacity is measured using S&P and Moody's criteria .
7.	A pay-as-you go financing strategy as part of the operating and capital budget.	 The Agency has structured its rates to collect approximately 50% of its average annual capital requirements on a cash basis.
8.	A multi-year financial plan in place that considers the affordability of actions or plans before they are part of the annual budget.	 The Agency prepares and maintains a 5-year operating and capital plan and a 20-year capital plan. The timing of capital projects is based on need and affordability.
9.	Effective management and information systems.	 The Agency's operations utilize Supervisory Control and Data Acquisition, an automated system that uses programmable logic controls to monitor and control treatment plant processes and stations. Financial reporting and accounting utilizes industry standard accounting and asset management software.
10.	A well-defined and coordinated economic development strategy.	 The Agency is governed by its member agencies and thus its member communities. The economic impact of the Agency's operating and financial decisions are paramount with priorities placed on 1) affordable and competitive rates, 2) local contractor preference, 3) volunteer and internship programs for on-the-job training.



Financial Policies

The Agency has established financial controls pertaining to revenue and expenditures, designated funds, investments and debt.

The Revenue and Expenditure Policy outlines internal controls and procedures for accounts payable, purchase orders, appropriations and expenditures, credit card purchases, banking activities and verifications, contractual bidding, budget amendments and adjustments, business meeting and professional development reimbursement, and capitalization, maintenance, replacement and disposal of assets.

The Designated Fund Policy establishes funds and fund balances for the purposes of contingency, liquidity, debt service and capital investment. The Designated funds are presented on the next page.

The Investment Policy applies to all financial assets and has the primary objectives of safety, liquidity and yield. Authorized investments pursuant to the policy and California Government Code 53646 include the Local Agency Investment Fund; Certificates of Deposit insured by the Federal Deposit Insurance Corporation; U.S. Treasury Bills, Notes and Bonds; and triple-A-rated, money market mutual funds regulated by the Securities and Exchange Commission. The Governing Board annually reviews and approves the investment policy.

The Debt Policy guides and disciplines debt issuance. The Agency funds its capital requirements using both pay-as-you-go and debt financing and recognizes that debt management is critical to its overall financial success. The debt policy establishes the conditions and analysis required for debt issuance and recognizes the essentials of 1) ensuring the Agency's ability to meet its debt service requirements and 2) maintaining sufficient financial flexibility to respond to unexpected events.

Agency Funds

As noted in subsequent sections, the Agency operates and reports similar to an enterprise fund, using standards that are similar to private sector accounting. This allows the agency to readily determine the cost of providing its service and the amount that is recovered through the Agency's fees: usage fee, connection fee, and standby fee. Any excess funds translate into retained earnings and are maintained in the Agency's Contingency Fund unless or until designated to another fund or appropriated for an operating expense. The Agency maintains multiple funds through its formal Fund Policy for the purposes of debt service requirements, capital expenditures, contingency and liquidity. It should be noted that the Agency maintains contingency funds for both 1) an emergency and 2) for variances from the budget which may require new appropriations during the year. The required balances are based on guidelines provided by the Government Finance Officer's Association combined with the Agency's experience.

The Agency is currently meeting and is projected to meet all minimum balance requirements associated with its funds over the next five-year period through FY 2016.



Fund Name	Minimum Required Balance	Purpose
Emergency	\$500,000 (10—15% of Op Rev)	Contingency
Operating	\$2,200,000 (A)	Liquidity (C)
Contingency	Variable	Contingency (D)
Debt Service	100% of current-year debt service (B)	Principal and Interest Expense
Capital and Replacement	100% of current-year capital projects (B)	Capital Projects
<p>(A) Balance required at May 1. (B) Balance required at July 1, the beginning of the fiscal year. (C) The seasonal nature of the Agency's revenues (98% of Operating Revenues are received during the months of December and April) requires the establishment of an Operating Fund to fund operations throughout the year. (D) The Agency's Contingency Fund includes 1) two months of operating expense, 2) designated funds and 3) unallocated reserve.</p>		

Basis of Accounting and Budgeting

Basis of Accounting

The Agency operates and reports as an **enterprise** utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Agency applies all applicable Government Accounting Standards Board (GASB) pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

Basis of Budgeting

The Agency's annual budget and five-year forecast are based on the accrual method of accounting and exclude non-cash depreciation and amortization expense.

Balanced Budget

A balanced budget is when the Agency's revenues are equal to its expenditures. In the event expenditures exceed revenues, the Governing Board may appropriate funds to balance the budget. The Agency has had a balanced budget during the last three years and with the recent rate increase, is projected to have a balanced budget in FY 2012.



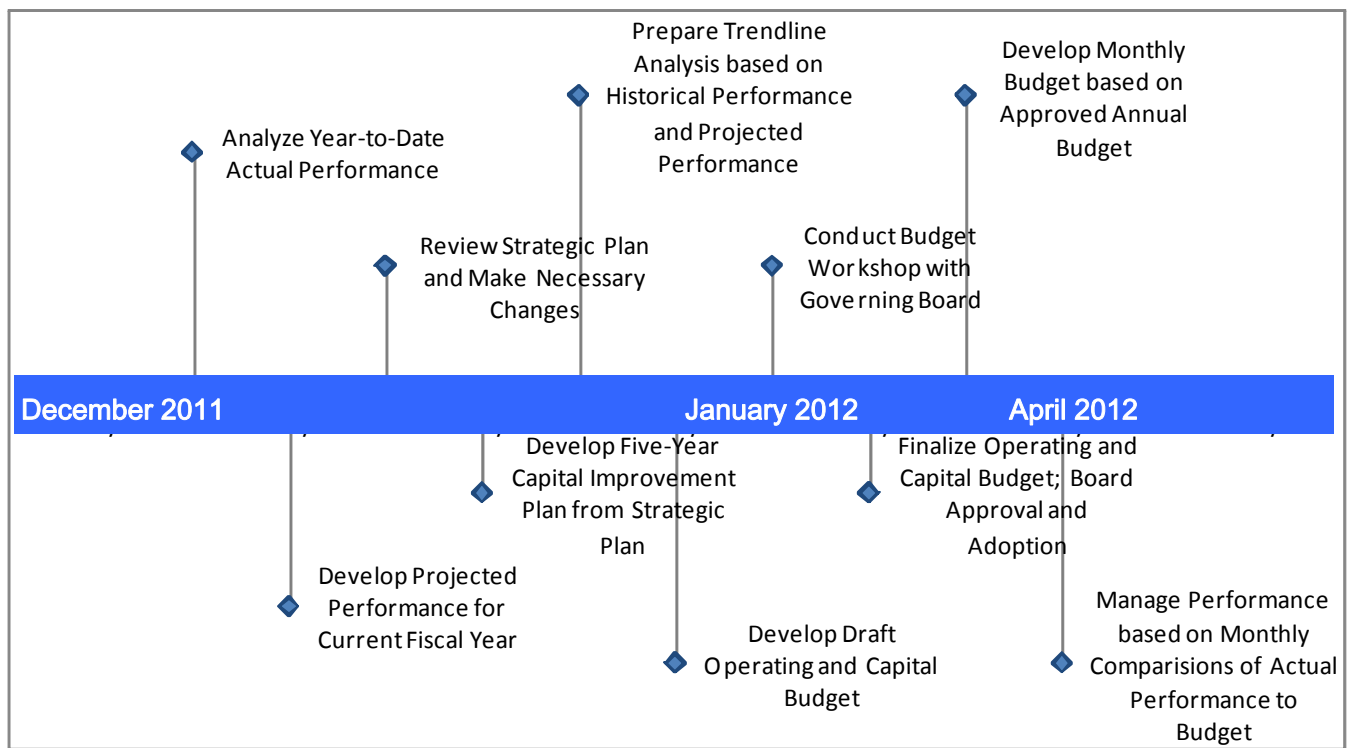
Budget Process

Pursuant to financial policy, a budget must be reviewed, approved and adopted prior to May 1 of each year for the subsequent fiscal year beginning July 1. The budget adoption deadline of May 1, is also established in the Agency’s operating agreement among BBARWA and its member agencies. By California Government Code, the Agency must adopt its budget by July 1 of each year.

Development of the budget is influenced by the strategic plan, organizational goals and objectives, and external factors such as economic conditions. The Governing Board, General Manager, Agency staff and the public participate in the development of the budget. A public workshop is held to review the draft budget and to get public input prior to the public hearing to adopt the budget.

After the annual budget has been adopted by the Governing Board, a monthly budget is created from which actual performance will be compared. The General Manager, Plant Superintendent and Finance Manager review financial performance on a monthly basis to discuss operating performance and variances from the budget. This aids in understanding the Agency’s operating and financial performance, changing patterns of performance, trends in costs, and general economic data. On a quarterly basis, a quarterly financial report is presented to the Governing Board for its review and discussion. Variances from budget may require a budget amendment and / or newly appropriated funds by the Governing Board. Pursuant to financial policy, Governing Board approval is required to amend the budget if 1) the Operating Budget is unable to absorb the shortfall of an existing line item, 2) a capital project exceeds \$20,000 or 10% of the original budgeted expenditure, and 3) any new capital expenditure needs to be added to the Agency’s current-year capital improvement plan.

Budget Timeline





Section III: Financial Information and Budget Review

Sources and Uses of Funds

In an effort to assist the public in better understanding the budget, an overview of the Agency's primary sources and uses of funds is outlined below. Providing the public with the opportunity to participate is a primary objective of the Agency.





Guide to the Budget and Five-Year Forecast

About the Budget

The **budgeting methodology changed beginning with the FY 2011 Budget** in order to more tightly manage the operations, and identify true operating variances more quickly. In the past, staff estimated costs for the budget by assuming some probability of a wet year resulting in higher costs than if the assumption of a normal, dry year were used. This was done in order to avoid cost overruns during a wet year. In the current budget, staff has estimated costs for the budget assuming a normal year, understanding that a wet year may result in costs in excess of the budget and the need to appropriate funds from the contingency fund to cover such an event.

It should be noted that **the current budget includes the provision for a contingency fund** as referenced above. The contingency fund provides for variances from budget and is recommended to be two months of operating and maintenance expense by the Government Finance Officers Association. Based on staff's review, we believe this amount to be adequate. For example, HMO health premiums rose 17.9% in FY 2011. Often times, these types of unexpected increases cannot be absorbed by the budget and new monies will need to be available for appropriation to cover the increased costs. The beginning balance for the fund is thus calculated on the ensuing fiscal year's operating and maintenance expense and will go up and down in accordance with changes in operating and maintenance expense.

About the Numbers

Actual FY 2009 and FY 2010 financial performance has been adjusted for comparison purposes to exclude 1) a \$100,820 warranty refund on the cannibalization system which was netted against sludge removal expense in FY 2009 and FY 2010 and 2) a \$149,938 non cash engineering expense in FY 2009.

About the Terminology

CAGR	is the Compound Average Growth Rate which is the average annual growth rate over the period referenced.
EDU	is an equivalent dwelling unit or single family dwelling. Commercial connections often account for multiple EDUs as determined by the member agencies at the time of connection or change in use.
FY	means the fiscal year ending June 30 th of the year referenced, i.e. FY 2011 is the fiscal year ending June 30, 2011
nm	means "not meaningful". It is input as the outcome when dividing "0" by "0".
Projected performance	is based on eight months of actual performance through February 2011 and represents the Agency's best estimate of full-year, FY 2011 performance.
SCADA	is the acronym for Supervisor Control and Data Acquisition.



Inflationary Assumptions

Annual price change assumptions are used in the multi-year forecast to project year-over-year changes in certain revenues and costs. The Agency considers the Los Angeles-Riverside-Orange County, CA CPI-U (Consumer Price Index for all Urban Wage Earners, All Items; published by the Bureau of Labor Statistics), the Producer Price Index for Utilities (published by the Bureau of Labor Statistics and includes the wastewater industry) and the Construction Cost Index (published by Engineering News Record) as indicators in determining price changes.

The U.S. inflationary outlook is uncertain, but almost certainly on the rise, with recent increases in the CPI being driven by escalating food and energy prices. At March 2011, the annual change in the CPI for all items rose to 2.7%, the largest increase since December 2009 while the annual change in the CPI excluding food and energy rose to 1.2%. The Agency, in the short term, will likely be unaffected by the increase in energy prices due to the terms of its current energy contract (through October 31, 2014). Therefore, when determining price changes for planning purposes, the following indices, with the respective price change levels, were considered:

Price Index	Date	Change
CPI, Los Angeles-Riverside-Orange-County, excluding food and energy	March 2011	1.2%
Producer Price Index, Utilities	March 2011	0.7%
Construction Cost Index	April 2011	4.0%

An average of the above indices, calculates to a 2.0% rate. Since the FY 2012 budget period covers a period of time that extends fourteen months from the above price changes, a higher rate of 2.7% has been assumed, gradually increasing to 3.5% over the forecast period. While this seems to be a reasonable approach, the future rate of inflation remains highly uncertain.

Continued Next Page



INCOME STATEMENT COMPARISON

	Actual	Projected	Budget	Projected FY 2011		Budget FY 2012	
				vs		vs	
				Actual FY 2010	Projected FY 2011	Projected FY 2011	Projected FY 2011
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	\$	%	\$	%
Operating Revenues							
Annual Charges	4,279,422	4,274,044	4,453,246	-5,378	-0.1%	179,202	4.2%
Standby Charges	96,323	95,240	93,890	-1,083	-1.1%	-1,350	-1.4%
Rental Income	45,273	46,458	46,383	1,184	2.6%	-74	-0.2%
Waste Disposal	14,072	17,331	15,987	3,259	23.2%	-1,344	-7.8%
Other Revenue	<u>10,690</u>	<u>2,049</u>	<u>0</u>	<u>-8,641</u>	<u>-80.8%</u>	<u>-2,049</u>	<u>-100.0%</u>
Total Op Revenue	4,445,780	4,435,122	4,609,507	-10,659	-0.2%	174,385	3.9%
Operating Expenses							
Salaries and Benefits	1,830,689	1,811,107	1,899,500	-19,582	-1.1%	88,393	4.9%
Power	434,849	504,509	462,960	69,660	16.0%	-41,549	-8.2%
Sludge Removal	297,448	226,100	235,450	-71,348	-24.0%	9,350	4.1%
Chemicals	99,547	85,621	93,140	-13,926	-14.0%	7,519	8.8%
Materials and Supplies	173,096	157,131	168,560	-15,965	-9.2%	11,429	7.3%
Repairs and Replacements	209,257	188,882	197,280	-20,375	-9.7%	8,398	4.4%
Equipment Rental	2,029	1,000	1,500	-1,029	-50.7%	500	50.0%
Utilities Expense	18,426	22,651	21,360	4,225	22.9%	-1,291	-5.7%
Communications Expense	39,110	50,389	53,480	11,279	28.8%	3,091	6.1%
Contractual Services - Other	74,668	88,292	88,902	13,624	18.2%	610	0.7%
Contractual Services - Prof	112,718	242,879	96,812	130,161	115.5%	-146,068	-60.1%
Permits and fees	101,255	91,865	101,865	-9,390	-9.3%	10,000	10.9%
Property Tax Expense	3,100	3,120	3,335	20	0.7%	214	6.9%
Insurance	97,774	110,764	110,000	12,990	13.3%	-764	-0.7%
Other Operating Expense	60,139	73,336	60,720	13,196	21.9%	-12,615	-17.2%
Depreciation Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>nm</u>	<u>0</u>	<u>nm</u>
Total Operating Expense	3,554,106	3,657,646	3,594,863	103,540	2.9%	-62,783	-1.7%
Operating Income	891,674	777,475	1,014,643	-114,199	-12.8%	237,168	30.5%
Nonoperating Income							
Gain (loss) on Asset Disp	977	4,309	0	3,332	341.0%	-4,309	-100.0%
Interest Income	24,772	14,264	17,688	-10,508	-42.4%	3,424	24.0%
Other Nonoperating Income	<u>0</u>	<u>788,361</u>	<u>0</u>	<u>788,361</u>	<u>nm</u>	<u>-788,361</u>	<u>-100.0%</u>
Nonoperating Income	25,749	806,934	17,688	781,185	3033.8%	-789,246	-97.8%
Nonoperating Expense							
Other Expense	156,293	0	0	-156,293	-100.0%	0	nm
Interest Expense	<u>285,131</u>	<u>271,630</u>	<u>264,970</u>	<u>-13,501</u>	<u>-4.7%</u>	<u>-6,660</u>	<u>-2.5%</u>
Nonoperating expense	441,424	271,630	264,970	-169,794	-38.5%	-6,660	-2.5%
Income before Contributions	475,999	1,312,779	767,362	836,780	175.8%	-545,417	-41.5%
Connection Fees	<u>54,562</u>	<u>241,890</u>	<u>91,750</u>	<u>187,328</u>	<u>343.3%</u>	<u>-150,140</u>	<u>-62.1%</u>
Net Income, Change in Net Assets	530,561	1,554,669	859,112	1,024,108	193.0%	-695,557	-44.7%



CASH FLOW AND ENDING FUND BALANCES

	Projected <u>FY 2011</u>	Budget <u>FY 2012</u>	<u>Change</u>
CASH FROM OPERATIONS:			
Operating Income (Loss)	777,475	1,014,643	237,168
Depreciation expense	0	0	0
Other Miscellaneous Income (Exp)	139	0	-139
Change in Working Capital	4,146	-22,585	<u>-26,731</u>
Cash from Operations	781,760	992,058	210,298
CASH FROM INVESTMENTS:			
Connection Fee (Capital Contrib)	241,890	91,750	-150,140
Capital Expenditures	-245,403	-1,056,290	-810,887
Increase in other assets	-14,194	0	14,194
Other Proceeds (a)	788,361	0	-788,361
Proceeds from the Sale of Investment	0	0	0
Proceeds from Asset Disposition	4,170	0	<u>-4,170</u>
Cash from Investments	774,823	-964,540	-1,739,363
CASH FROM FINANCING:			
Interest Income	14,403	17,688	3,285
Debt Service:			
Interest Expense	-271,630	-264,970	6,660
Principal Debt Amortization	-331,121	-363,472	-32,350
Total Debt Service	-602,751	-628,441	-25,690
Proceeds from Debt Issuance	0	685,939	<u>685,939</u>
Cash from Financing Activities	-588,348	75,186	663,534
NET CHANGE IN CASH	<u>968,235</u>	<u>102,704</u>	<u>-865,531</u>
Beginning Cash Balance	4,950,105	5,918,340	968,235
Ending Cash Balance	5,918,340	6,021,044	<u>102,704</u>
Change in Cash Balance	<u>968,235</u>	<u>102,704</u>	<u>-865,531</u>
FUND BALANCE (ENDING)			
Cash	5,918,340	6,021,044	102,704
Designated Funds:			
Capital and Replacement Fund	390,330	1,169,194	778,864
Contingency Fund:			
Emergency	500,000	500,000	0
Op & Maint Contingency	599,144	620,934	21,790
Other (including LPS contingency)	<u>1,985,490</u>	<u>1,308,422</u>	<u>-677,068</u>
Total Contingency Fund	3,084,634	2,429,355	-655,278
Operations Fund	1,800,000	1,769,103	-30,897
Debt Service Fund	<u>628,441</u>	<u>653,392</u>	<u>24,950</u>
Total Designated Fund Balance	5,903,405	6,021,044	117,639
Restricted Funds:			
Connection Fees	14,935	0	-14,935
Total Funds	<u>5,918,340</u>	<u>6,021,044</u>	<u>102,704</u>



FIVE-YEAR FORECAST
INCOME STATEMENT

	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016	5-Year CAGR
Operating Revenues							
Annual Charges	4,274,044	4,453,246	4,591,683	4,757,208	4,928,695	5,081,690	3.5%
Standby Charges	95,240	93,890	93,382	92,874	92,366	91,858	-0.7%
Rental Income	46,458	46,383	46,992	47,619	48,264	48,929	1.0%
Waste Disposal	17,331	15,987	15,987	15,987	15,987	15,987	-1.6%
Other Revenue	<u>2,049</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>nm</u>
Total Operating Revenue	4,435,122	4,609,507	4,748,044	4,913,688	5,085,312	5,238,464	3.4%
Operating Expenses							
Salaries and Benefits	1,811,107	1,899,500	1,990,216	2,080,213	2,172,573	2,267,381	4.6%
Power	504,509	462,960	476,849	492,585	508,840	526,650	0.9%
Sludge Removal	226,100	235,450	242,514	250,516	258,783	267,841	3.4%
Chemicals	85,621	93,140	78,733	81,331	102,370	86,956	0.3%
Materials and Supplies	157,131	168,560	173,617	179,346	185,265	191,749	4.1%
Repairs and Replacements	188,882	197,280	203,134	209,705	216,489	224,066	3.5%
Equipment Rental	1,000	1,500	1,545	1,596	1,649	1,706	11.3%
Utilities Expense	22,651	21,360	22,001	22,727	23,477	24,299	1.4%
Communications Expense	50,389	53,480	45,935	47,451	49,017	50,733	0.1%
Contractual Services - Other	88,292	88,902	90,963	93,964	97,064	100,460	2.6%
Contractual Services - Prof	242,879	96,812	95,081	104,337	101,460	111,552	-14.4%
Permits and fees	91,865	101,865	108,996	116,625	124,789	133,524	7.8%
Property Tax Expense	3,120	3,335	3,458	3,587	3,720	3,858	4.3%
Insurance	110,764	110,000	130,020	137,821	147,469	157,791	7.3%
Other Operating Expense	73,336	60,720	62,542	64,606	66,738	69,073	-1.2%
Depreciation Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>nm</u>
Total Operating Expense	3,657,646	3,594,863	3,725,603	3,886,410	4,059,702	4,217,639	2.9%
Operating Income	777,475	1,014,643	1,022,441	1,027,277	1,025,610	1,020,825	5.6%
Nonoperating Income							
Gain (loss) on asset disposal	4,170	0	0	0	0	0	-100.0%
Interest Income	14,403	17,688	23,584	23,859	26,470	25,601	12.2%
Other Nonoperating Income	<u>788,361</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-100.0%</u>
Nonoperating income	806,934	17,688	23,584	23,859	26,470	25,601	-49.8%
Nonoperating Expense							
Other Expense	0	0	0	0	0	0	nm
Interest Expense	<u>271,630</u>	<u>264,970</u>	<u>257,182</u>	<u>240,042</u>	<u>222,103</u>	<u>203,048</u>	<u>-5.7%</u>
Nonoperating expense	271,630	264,970	257,182	240,042	222,103	203,048	-5.7%
Income before Contributions	1,312,779	767,362	788,843	811,095	829,977	843,378	-8.5%
Connection Fees	<u>241,890</u>	<u>91,750</u>	<u>91,750</u>	<u>91,750</u>	<u>91,750</u>	<u>91,750</u>	<u>-17.6%</u>
Net Income, Change in Net Assets	1,554,669	859,112	880,593	902,845	921,727	935,128	-9.7%



FIVE-YEAR FORECAST
CASH FLOW AND ENDING FUND BALANCES

	Projected <u>FY 2011</u>	Budget <u>FY 2012</u>	Forecast <u>FY 2013</u>	Forecast <u>FY 2014</u>	Forecast <u>FY 2015</u>	Forecast <u>FY 2016</u>
CASH FROM OPERATIONS:						
Operating Income (Loss)	777,475	1,014,643	1,022,441	1,027,277	1,025,610	1,020,825
Depreciation expense	0	0	0	0	0	0
Other Miscellaneous Income (Exp)	139	0	0	0	0	0
Change in Working Capital	<u>4,146</u>	<u>-22,585</u>	<u>78</u>	<u>618</u>	<u>869</u>	<u>1,082</u>
Cash from Operations	781,760	992,058	1,022,519	1,027,896	1,026,480	1,021,907
CASH FROM INVESTMENTS:						
Connection Fee (Capital Contrib)	241,890	91,750	91,750	91,750	91,750	91,750
Capital Expenditures	-245,403	-1,056,290	-1,169,194	-404,037	-684,124	-758,671
Increase in other assets	-14,194	0	0	0	0	0
Other Proceeds	788,361	0	0	0	0	0
Proceeds from the Sale of Investment	0	0	0	0	0	0
Proceeds from Asset Disposition	<u>4,170</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash from Investments	774,823	-964,540	-1,077,444	-312,287	-592,374	-666,921
CASH FROM FINANCING:						
Interest Income	14,403	17,688	23,584	23,859	26,470	25,601
Debt Service:						
Interest Expense	-271,630	-264,970	-257,182	-240,042	-222,103	-203,048
Principal Debt Amortization	-331,121	-363,472	-396,209	-415,600	-430,413	-450,668
Total Debt Service	-602,751	-628,441	-653,391	-655,641	-652,516	-653,716
Proceeds from Debt Issuance	<u>0</u>	<u>685,939</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash from Financing Activities	-588,348	75,186	-629,807	-631,783	-626,046	-628,115
NET CHANGE IN CASH	<u>968,235</u>	<u>102,704</u>	<u>-684,732</u>	<u>83,826</u>	<u>-191,941</u>	<u>-273,129</u>
Beginning Cash Balance	4,950,105	5,918,340	6,021,044	5,336,312	5,420,138	5,228,198
Ending Cash Balance	<u>5,918,340</u>	<u>6,021,044</u>	<u>5,336,312</u>	<u>5,420,138</u>	<u>5,228,198</u>	<u>4,955,069</u>
Change in Cash Balance	<u>968,235</u>	<u>102,704</u>	<u>-684,732</u>	<u>83,826</u>	<u>-191,941</u>	<u>-273,129</u>
FUND BALANCE (ENDING)						
Cash	5,918,340	6,021,044	5,336,312	5,420,138	5,228,198	4,955,069
Designated Funds:						
Capital and Replacement Fund	390,330	1,169,194	450,000	684,124	758,671	450,000
Contingency Fund:						
Emergency	500,000	500,000	500,000	500,000	500,000	500,000
Op & Maint Contingency	599,144	620,934	647,735	676,617	702,940	724,028
Other (including LPS contingency)	<u>1,985,490</u>	<u>1,308,422</u>	<u>1,249,493</u>	<u>994,302</u>	<u>615,011</u>	<u>551,741</u>
Total Contingency Fund	3,084,634	2,429,355	2,397,228	2,170,919	1,817,950	1,775,769
Operations Fund	1,800,000	1,769,103	1,833,443	1,912,579	1,997,860	2,075,584
Debt Service Fund	<u>628,441</u>	<u>653,392</u>	<u>655,642</u>	<u>652,517</u>	<u>653,717</u>	<u>653,717</u>
Total Designated Fund Balance	5,903,405	6,021,044	5,336,312	5,420,138	5,228,198	4,955,069
Restricted Funds:						
Connection Fees	<u>14,935</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Funds	<u>5,918,340</u>	<u>6,021,044</u>	<u>5,336,312</u>	<u>5,420,138</u>	<u>5,228,198</u>	<u>4,955,069</u>



Financial Summary : Budget and Forecast Period

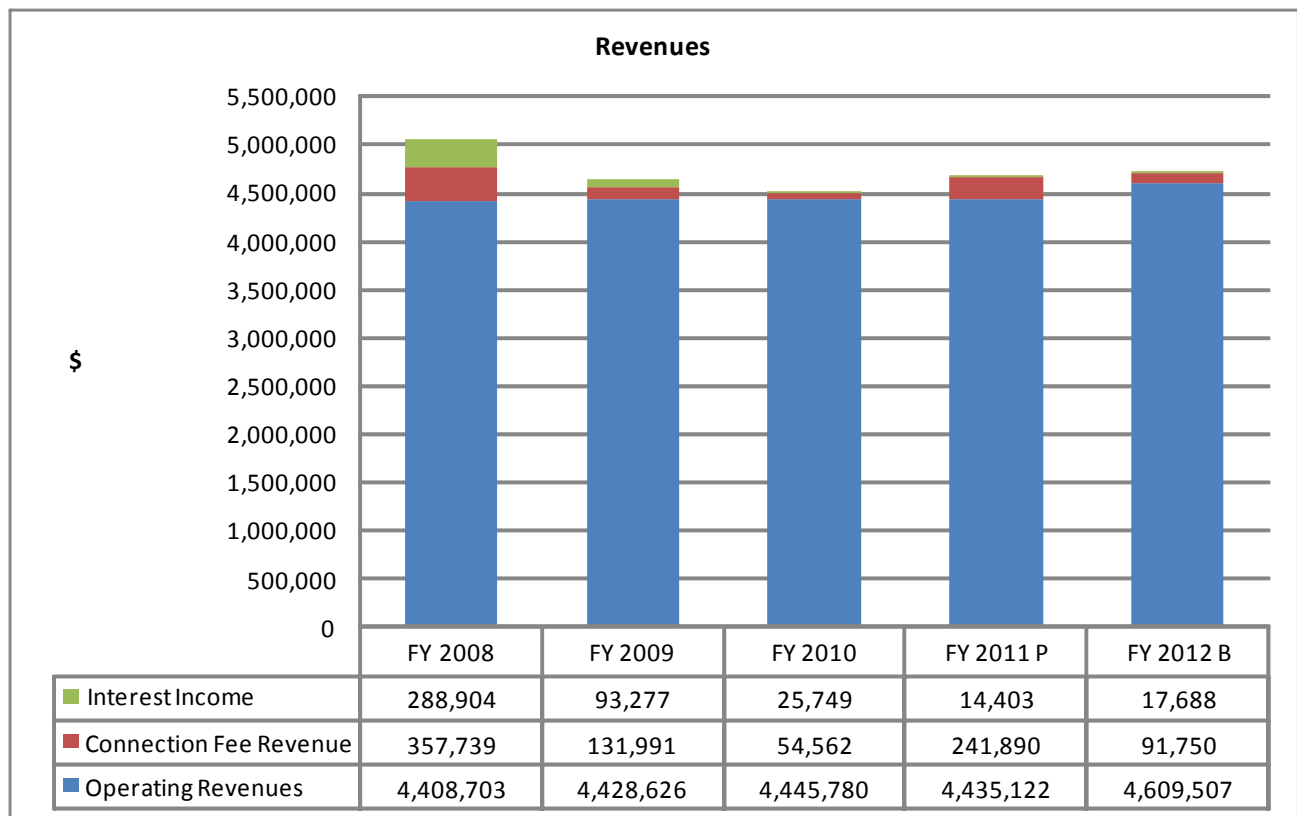
For FY 2012, Operating Revenues are projected to grow 3.9% primarily as a result of a 4.0% increase in the sewer user fees. Operating expenses are budgeted to decline 1.7% compared to the prior period due largely to nonrecurring professional services in FY 2011, and to a lesser extent reduced salaries and benefits expense, and power expense. Excluding one-time nonrecurring and unusual costs in FY 2011 of \$240,792 associated with professional services and wet weather, Operating Expenses are budgeted to be 5.2% over Projected FY 2011.

With higher Operating Revenues and lower Operating Expenses, Operating Income is budgeted to increase 30.5% to \$1,014,643 in FY 2012. While connections are expected to remain low at approximately 25 for the current period and each subsequent year through the five-year forecast period, increased Operating Income from the proposed rate changes and reduced expenses combined with unallocated reserve will provide the Agency with adequate cash to meet both its 1) operating and capital requirements and 2) debt service coverage covenants under its current debt obligations over the five-year forecast period.

Revenues : Discussion and Trend Analysis

Revenues

The Agency's revenues by type are outlined in the Sources of Funds (p. 21) and consist of Operating Revenue, Other Income (primarily Interest Income) and Connection Fee Revenue. Operating Revenues are the Agency's largest source of funds as can be seen from the chart below.





Revenue Trends

The Agency's overall revenues have been negatively impacted by the economic recession, largely as a result of declining connection fee revenue and lower interest income. From FY 2008 through FY 2010, the Agency's revenues declined by approximately \$530,000.

Operating Revenues have been relatively flat through FY 2011, reflecting little to no growth in equivalent dwelling units (the basis for the Agency's annual charges to its member agencies) and no change in the Agency's rates. Beginning in FY 2012, Operating Revenues are budgeted to increase 3.9%, which reflects the Agency's recent 4.0% increase in User Fees. (Please see further discussion on next page related to Operating Revenues). **Connection Fee Revenues** are the one-time fees paid at the time of connection to the system and recovers a proportional share of capital costs incurred to provide service capacity for the new wastewater customers. New connections to the system have been negatively impacted by the recent recession. Connection Fee Revenue dropped by approximately \$226,000 in FY 2009 and continued to decline in FY 2010. A slight rebound occurred in FY 2011 and is the result of a multi-unit housing project. Excluding this one-time revenue of \$163,080, Connection Fee Revenue is projected to be \$78,810, reflecting 24 connections for FY 2011 (up from 18 connections in the prior year). For FY 2012, the Agency is planning for 25 connections, or \$91,750 in Connection Fee Revenue. **Interest Income** has also declined sharply, falling from approximately \$289,000 in FY 2008 to \$14,403 projected for FY 2011. The decline in interest income is the direct result of much lower interest rates. LAIF (Local Agency Investment Fund), the Agency's primary investment vehicle, yielded 4.62% in January 2008 compared to 0.54% in January 2011 (the monthly yield on the pooled money investment account).

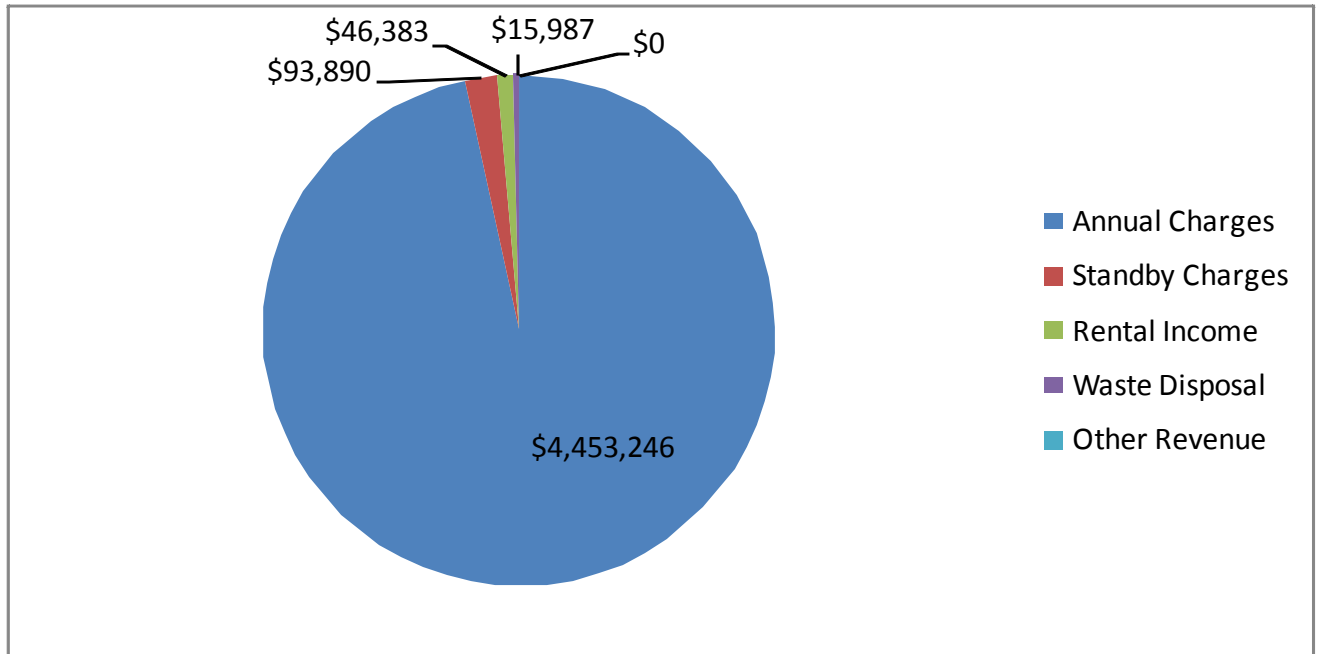
Operating Revenues

Operating Revenues consist of Annual Charges, Standby Charges, Rental Income, Waste Disposal Fees and Other Revenue:

Annual Charges	The amount charged to the Member Agencies based on the User Fee (per EDU), the number of EDUs, and wastewater flow.
Standby Charges	Fees charged to the owners of undeveloped parcels to cover operating costs associated with maintaining the system in a "ready" state.
Rental Income	Income from leased property.
Waste Disposal Fees	Charges for waste disposal at the treatment plant by outside parties.
Other Revenue	Miscellaneous or unusual one-time operating revenue.



Annual Charges are the Agency's largest source of revenue (97% of Operating Revenue) and the driver of its overall revenues.

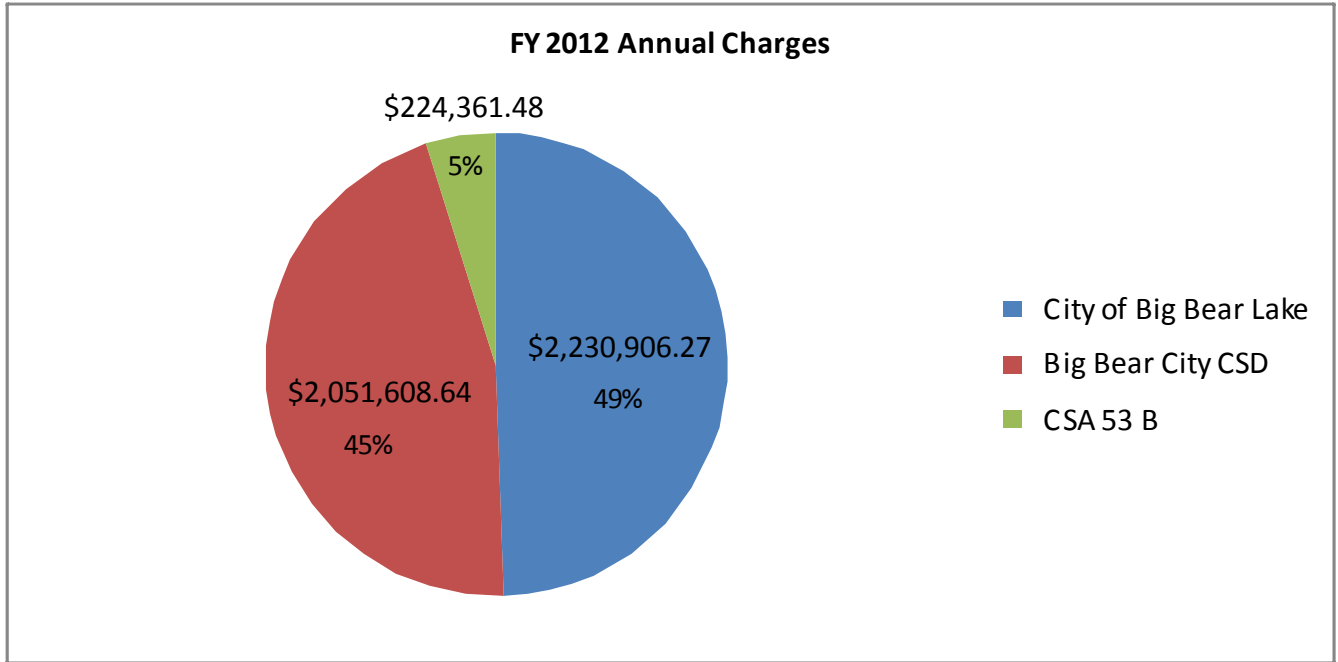


Operating Revenues, as previously noted, are budgeted to increase 3.9% in FY 2012 and 3.9% on an average annual basis over the forecast period, through FY 2016. Growth is driven by increases in Annual Charges as a result of increasing sewer user fees and minimal annual connections of 25 during the forecast period. Connections have been forecast to remain low due to the unprecedented low level of connections the last two years and the uncertainty associated with a rebound in new construction.

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016	5-Year CAGR
Operating Revenue:										
Annual Charges	4,232,967	4,262,159	4,279,422	4,274,044	4,453,246	4,591,683	4,757,208	4,928,695	5,081,690	4.2%
Standby Charges	102,320	100,160	96,323	95,240	93,890	93,382	92,874	92,366	91,858	-1.4%
Rental Income	45,020	45,446	45,273	46,458	46,383	46,992	47,619	48,264	48,929	-0.2%
Waste Disposal	13,852	15,632	14,072	17,331	15,987	15,987	15,987	15,987	15,987	-7.8%
Other Revenue	514	5,230	10,690	2,049	0	0	0	0	0	-100.0%
Operating Revenue	4,394,673	4,428,626	4,445,780	4,435,122	4,609,507	4,748,044	4,913,688	5,085,312	5,238,464	3.9%
% Change	0.5%	0.8%	0.4%	-0.2%	3.9%	3.0%	3.5%	3.5%	3.0%	

Annual Charges

Annual Charges, pursuant to the Agency's Operating Agreement No. 1, are collected annually from the three member agencies based on EDUs per agency and the rate charged per EDU (the sewer user fee). While this represents a high concentration of revenues among two of the three agencies (see chart next page) public agency default risk, according to bond rating agencies, has historically been low with strong recovery rates.



Standby Charges and Rental Income

Both Standby Charges and Rental Income are stable and predictable. Standby Charges are the fees paid by the owners of vacant parcels and are collected from the member agencies at the same time as the Annual Charges. These charges decline annually as parcels are developed and connect to the system. Rental Income is related to leased property and is contractual in nature

Capital Contributions - Connection Fees

Connection Fees are expected to remain flat over the forecast period at 25 connections per year, due to the uncertainty associated with new construction and thus new connections. The Agency is expected to have 80 new connections in FY 2011; however, approximately 54 of these connections are related to a multi-unit housing project and are not expected to recur in the future. Excluding these one-time connections, the Agency expects 26 connections for FY 2011. The connection fee charged per connection is budgeted to increase to \$3,670 from \$3,031.22 per connection. The increase is the result of the Agency’s connection fee study completed in December 2010.

	Actual FY 2006	Actual FY 2007	Actual FY 2008	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
Connections	284	208	128	47	18	80	25	25	25	25	25
Connection Fee	\$ 2,577	\$ 2,705	\$ 2,793	\$ 2,868	\$ 3,031	\$ 3,031	\$ 3,670	\$ 3,670	\$ 3,670	\$ 3,670	\$ 3,670
Connection Fee Rev	731,786	563,686	357,739	131,991	54,562	241,891	91,750	91,750	91,750	91,750	91,750
% Change		-23.0%	-36.5%	-63.1%	-58.7%	343.3%	-37.5%	0.0%	0.0%	0.0%	0.0%



Operating Expenses: Discussion and Trend Analysis

Salaries and Benefits

Contractual adjustments associated with an agreement between the Big Bear Area Regional Wastewater Agency and its employees occurred during FY 2010 providing the Agency with the ability to manage average annual changes in Salaries and Benefits expense to 5.0%. Further, in FY 2011, 1) staffing changes were made which resulted in immediate and long-term cost savings to the Agency and 2) an employee retired which resulted in additional savings to the Agency. Overall, the five-year forecast for salaries and benefits expense was reduced by a total of \$867,000 or \$173,000 per year over the five-year period. These changes were significant and an attempt by the Agency to align its growth in operating expenses more closely with inflation, a level of growth which is reasonable to recover from ratepayers.

Salaries and Benefits expense is projected to increase by 4.9% in FY 2012 and approximately 4.5% each year thereafter. The 4.9% or \$88,393 increase in salaries and benefits for the FY 2012 budget year is driven largely by an approximately \$68,000 or 10.1% increase in employee benefits, primarily medical premiums (\$24,761), the Agency's retirement contribution (\$26,389) and OPEB contribution (\$17,586) offset by a lower 1.8% change in salaries and wages.

The Agency does not anticipate labor increases associated with general economic expansion and related capacity increases, over the forecast period. Plant capacity utilization is relatively stable during economic contractions and expansions. The Agency has planned for one seasonal employee during the forecast period.

	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
SALARIES AND BENEFITS	1,801,680	1,830,688	1,811,107	1,899,500	1,990,216	2,080,213	2,172,573	2,267,381
% Change		1.6%	-1.1%	4.9%	4.8%	4.5%	4.4%	4.4%

Power

The Agency enters into short and medium-term contracts for the purchase of natural gas to generate electricity during peak and mid-peak hours, from 6 a.m. until midnight. From midnight until 6:00 a.m., the Agency may purchase natural gas at spot rates or switch to local electricity depending on cost. The Agency's current contract expires in October 2011 and has entered into a 36-month contract through October 2014 at lower prices than the current contract. The Agency has budgeted an 8.2% decline in power costs for FY 2012 which reflects the higher power costs in FY 2011 as a result of wet weather. Excluding the estimated power costs associated with the wet weather of approximately \$42,000, power costs are budgeted to remain flat in FY 2012.

	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
POWER:								
Fuel for Power Production	277,512	325,696	340,451	337,400	347,522	358,990	370,837	383,816
Gas Admin Building	2,605	3,140	4,402	3,600	3,708	3,830	3,957	4,095
Gas Treatment Plant	13,430	14,707	17,406	15,750	16,223	16,758	17,311	17,917
Electricity Treatment Plant	68,515	27,234	58,003	59,540	61,326	63,350	65,441	67,731
Electricity Stations	31,838	54,194	83,063	43,450	44,754	46,230	47,756	49,427
Electricity Admin Building	15,852	9,265	561	2,500	2,575	2,660	2,748	2,844
Electricity Lucerne	542	612	621	720	742	766	791	819
Total	410,294	434,848	504,507	462,960	476,849	492,585	508,840	526,650
% Change		6.0%	16.0%	-8.2%	3.0%	3.3%	3.3%	3.5%



Based on prior experience, the Agency believes its average costs for natural gas power should be approximately \$400,000 year, ceteris paribus, and if required to purchase from the local electrical provider, the cost at current rates could reach \$525,000. Due to the contractual nature of natural gas purchases, the Agency should be able to anticipate and plan for rising natural gas prices in advance of contract expiration. In the case of an unexpected supply interruption, the Agency may incur higher costs by purchasing local electricity, but likely, for only a short period of time. In the event of an extended supply interruption, the Agency's Contingency Fund would be available to cover the increased operating costs if necessary.

Sludge Removal

The cannibalization system went online in January 2008. The Agency has experienced an approximately 60% solids reduction since installation. In FY 2009 and FY 2010, the Agency received \$100,820 during each period from the manufacturer and recovered a final payment under warranty of \$788,000 in FY 2011 due to underperformance. The combined payments under the warranty represent the total equipment costs associated with the project of approximately \$989,000. While the system has yet to perform to expectation, the Agency continues to experience cost savings which began during the last six months of FY 2008 and continues through FY 2011. The 4-year average annual decline since FY 2008 is 12%, for total dollar savings of approximately \$510,000.

	Actual FY 2007	Actual FY 2008	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
SLUDGE REMOVAL	422,037	373,065	282,356	297,448	226,100	235,450	242,514	250,516	258,783	267,841
% Change		-11.6%	-24.3%	5.3%	-24.0%	4.1%	3.0%	3.3%	3.3%	3.5%

Chemicals

Chemicals expense is budgeted to increase 8.8% in FY 2012, due to planned carbon tower replacement (odor control / disinfectant) which occurs every second or third year and costs approximately \$15,000, offset to some extent by declines in polymer expense. Polymer expense was up in FY 2011 and in excess of budget due to wet weather.

	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
CHEMICALS								
Odor Control / Disinfectant	47,779	77,135	43,064	66,570	51,366	53,061	73,167	56,731
Polymer	25,916	17,059	35,157	18,740	19,302	19,939	20,597	21,318
Laboratory Reagents	5,495	5,353	7,400	7,830	8,065	8,331	8,606	8,907
Total	79,190	99,547	85,621	93,140	78,733	81,331	102,370	86,956
% Change		25.7%	-14.0%	8.8%	-15.5%	3.3%	25.9%	-15.1%



Materials and Supplies

Materials and supplies expense is budgeted to increase 7.3% over Projected FY 2011. The increase reflects increases in safety supplies and expense, fuel, and electrical supplies offset to some extent by a decline in office equipment, supplies and expense. Safety supplies are budgeted to increase in FY 2012 due to the costs associated with the implementation of OSHA required Arc Flash standards and electrical supplies are budgeted to increase due to scheduled replacement of motor starters and circuit breakers. The decline in office expense in FY 2012 is due to costs associated with the Proposition 218 mailing in FY 2011 that will not recur in FY 2012.

	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
MATERIALS AND SUPPLIES								
Office Equip, Supplies, Exp	37,423	45,084	58,100	41,190	42,426	43,826	45,272	46,857
Safety Supplies and Expense	13,752	11,725	13,800	18,150	18,695	19,311	19,949	20,647
Laboratory	9,700	16,743	12,240	14,700	15,141	15,641	16,157	16,722
Fuel - Vehicles	15,944	15,129	15,500	21,600	22,248	22,982	23,741	24,572
Oils, Antifreeze, Filters	14,995	16,715	17,700	18,600	19,158	19,790	20,443	21,159
Degreasers and Solvents	1,270	1,686	1,887	1,180	1,215	1,256	1,297	1,342
Hardware, Cleaning, Painting	5,454	7,981	8,966	8,700	8,961	9,257	9,562	9,897
Ground Maint and Supplies	13,463	32,516	9,805	15,000	15,450	15,960	16,487	17,064
Electrical Supplies	14,855	10,873	8,072	14,100	14,523	15,002	15,497	16,040
Welding and Fab Supplies	769	1,455	2,300	1,300	1,339	1,383	1,429	1,479
Tools and Equip	3,978	2,674	3,300	5,840	6,015	6,214	6,419	6,643
Plumbing Supplies	6,846	11,128	6,097	8,200	8,446	8,725	9,013	9,328
Tertiary Water	2,595	-613	0	0	0	0	0	0
Purchase Discounts	-966	0	-637	0	0	0	0	0
Total	140,078	173,096	157,130	168,560	173,617	179,346	185,265	191,749
% Change		23.6%	-9.2%	7.3%	3.0%	3.3%	3.3%	3.5%

Repairs and Replacements

Repairs and replacements expense has been fairly steady historically. This trend is expected to continue moving forward. The 4.4% increase in the budget for FY 2012 primarily reflects costs associated with flow monitoring and manhole sealing partially offset by lower generator expense. Emergency generator repairs that occurred in FY 2011 are not expected to recur in FY 2012.

	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
REPAIRS AND REPLACEMENTS:								
Mainline	60,864	66,399	58,026	72,500	74,675	77,139	79,685	82,474
Pumps, Motors, Bearings	6,728	13,972	9,058	12,430	12,803	13,225	13,662	14,140
Equipment and Machinery	121,455	73,161	40,984	46,100	47,483	49,050	50,669	52,442
Vehicles	10,728	11,190	15,000	14,100	14,523	15,002	15,497	16,040
Generators	32,185	38,360	49,581	25,500	26,265	27,132	28,027	29,008
Irrigation System - Lucerne	5,465	4,875	4,900	5,150	5,305	5,480	5,660	5,858
Other	0	1,300	11,333	21,500	22,081	22,677	23,289	24,104
Total	237,425	209,257	188,882	197,280	203,134	209,705	216,489	224,066
% Change		-11.9%	-9.7%	4.4%	3.0%	3.2%	3.2%	3.5%



Communications Expense

Communications expense has increased compared to historical performance. The increase is due to the new SCADA system, both for the purchase of supplies and for telephone service. The increase in supplies purchases is expected to continue through FY 2012 (\$28,300) and return to normal in FY 2013 (\$20,000).

	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
COMMUNICATIONS:								
SCADA	6,365	18,281	27,500	28,300	20,000	20,660	21,342	22,089
Radio Service and Rep	2,415	3,526	1,000	1,000	1,030	1,064	1,099	1,138
Television	491	504	540	540	556	575	594	614
Telephone Srvc and Rep	12,513	15,505	18,067	17,400	17,922	18,513	19,124	19,794
Internet Access	<u>879</u>	<u>1,294</u>	<u>3,282</u>	<u>6,240</u>	<u>6,427</u>	<u>6,639</u>	<u>6,858</u>	<u>7,098</u>
Total	22,663	39,110	50,389	53,480	45,935	47,451	49,017	50,733
% Change		72.6%	28.8%	6.1%	-14.1%	3.3%	3.3%	3.5%

Contractual Services – Professional

Professional services can be highly variable for the Agency, reflecting the ebb and flow of the Agency's projects. Board-directed projects resulted in much higher legal expense in FY 2009, and in FY2011, the Agency began a comprehensive review of its rates resulting in higher engineering and legal expense. In addition, engineering associated with the Load Equalization Basin project was terminated in February 2011, and the associated costs were expensed to engineering instead of being capitalized. This project termination and respective accounting change resulted in higher engineering expense for the period. The one-time costs in FY 2011 are estimated to be approximately \$184,000. Professional service expense is forecast to increase above inflationary levels in FY 2014 and FY 2016 due to the costs associated with Agency's OPEB valuations, which are required every other year and are scheduled during these periods.

	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
CONTRACTUAL:								
Engineering	78,087	21,246	115,730	30,000	30,900	31,920	32,973	34,127
Legal	177,471	60,429	54,000	40,000	41,200	42,560	43,964	45,503
Other	<u>26,500</u>	<u>31,044</u>	<u>73,150</u>	<u>26,812</u>	<u>22,981</u>	<u>29,857</u>	<u>24,523</u>	<u>31,922</u>
Total	282,058	112,718	242,879	96,812	95,081	104,337	101,460	111,552
% Change		-60.0%	115.5%	-60.1%	-1.8%	9.7%	-2.8%	9.9%

Other Expense

Increases in Other Expense have been driven by education and training. Specialized training of \$27,000 associated with new laboratory equipment (ion analyzer) and the new SCADA system (the operations communication system) accounts for the growth in FY 2011. In FY 2012, the Agency has budgeted \$28,000 for annual education and training expense which reflects more closely historical levels and includes an anticipated increase in tuition reimbursement expense.

	Actual FY 2009	Actual FY 2010	Projected FY 2011	Budget FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
OTHER EXPENSE:								
Memberships, Dues and Subscrip	17,541	18,861	22,191	22,570	23,248	24,015	24,807	25,675
Directors Fees	11,029	6,800	10,000	8,000	8,240	8,512	8,793	9,101
Public Notices	4,492	1,860	1,709	600	618	638	659	683
Education and Training	17,851	31,303	36,726	28,000	28,840	29,792	30,775	31,852
Advertising Expense	819	1,316	2,709	1,550	1,596	1,649	1,703	1,763
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	51,732	60,140	73,335	60,720	62,542	64,606	66,738	69,073
% Change		16.3%	21.9%	-17.2%	3.0%	3.3%	3.3%	3.5%



Fund Balance—Discussion

	Projected <u>FY 2011</u>	Budget <u>FY 2012</u>	Forecast <u>FY 2013</u>	Forecast <u>FY 2014</u>	Forecast <u>FY 2015</u>	Forecast <u>FY 2016</u>	Total
Fund Balance (Ending)							
Cash	5,918,340	6,021,044	5,336,312	5,420,138	5,228,198	4,955,069	-963,272
Designated Funds:							
Capital and Replacement Fund	390,330	1,169,194	450,000	684,124	758,671	450,000	-59,670
Contingency Fund:							
Emergency	500,000	500,000	500,000	500,000	500,000	500,000	0
Op & Maint Contingency	599,144	620,934	647,735	676,617	702,940	724,028	-124,884
Other (including LPS contingency)	<u>1,985,490</u>	<u>1,308,422</u>	<u>1,249,493</u>	<u>994,302</u>	<u>615,011</u>	<u>551,741</u>	<u>1,433,749</u>
Total Contingency Fund	3,084,634	2,429,355	2,397,228	2,170,919	1,817,950	1,775,769	1,308,865
Operations Fund	1,800,000	1,769,103	1,833,443	1,912,579	1,997,860	2,075,584	-275,584
Debt Service Fund	<u>628,441</u>	<u>653,392</u>	<u>655,642</u>	<u>652,517</u>	<u>653,717</u>	<u>653,717</u>	<u>-25,275</u>
Total Designated Fund Balance	5,903,405	6,021,044	5,336,312	5,420,138	5,228,198	4,955,069	948,336
Restricted Funds:							
Connection Fees	<u>14,935</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,935</u>
Total Funds	5,918,340	6,021,044	5,336,312	5,420,138	5,228,198	4,955,069	963,272

Major Changes in Fund Balance

During the FY 2012 budget process, the Governing Board decided to use a substantial portion of its contingency funds to fund approximately \$1.3 million of the Lake Pump Station replacement project and to fund the remaining construction costs of approximately \$700,000 with debt. As a result, the Agency's contingency funds will decline by \$1.3 million over the five-year period, from approximately \$3.1 million to \$1.8 million. The \$1.8 million in remaining contingency funds meets the Agency's requirements for both emergency and operating contingencies, with approximately \$550,000 remaining in unallocated reserve.

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Section IV. Capital and Debt

Capital Expenditures (CAPEX)

Definition

Capital expenditures or CAPEX are expenses incurred to purchase an asset or add value to an existing asset such as acquiring or upgrading a physical asset (i.e. machinery, equipment, property or buildings). For an expense to be considered a capital expenditure, the investment must extend the useful life beyond one year and be \$5,000 or more.

Long-Range Planning and Nature of CAPEX

As a wastewater treatment facility, the Agency's operations are capital intensive. The replacement value of the current facilities is estimated to be in excess of \$40 million. Given the large capital requirements associated with the Agency's operations, long-term planning is essential in order to have the financial resources available to replace assets when necessary. The Agency upgraded its master plan in FY 2011 which included a detailed analysis of its assets and capital needs through FY 2029. The Agency maintains both a five-year and twenty-year capital plan which is evaluated annually. Depending on the nature of the investment, the Agency may finance the costs either with debt financing or pay-as-you-go financing.

The Agency's primary facilities were constructed in 1979 and were built with excess capacity. This excess capacity combined with the relatively slow growth in housing development (1.0% annually) eliminates the need for major capital improvements that expand the Agency's current facilities. The majority of the Agency's CAPEX is for the repair and replacement of the existing facilities with some investments related to new processes for the treatment and disposal of solid waste which will either improve service or lower costs to the ratepayer.

Five-Year Capital Improvement Plan (CIP)

The Agency's CIP contains planned CAPEX for the period. The CIP is presented during the Agency's budget workshop and is approved separately from the annual budget. The Agency's five-year CIP has been reduced to approximately \$4.1 million from \$6.2 million previously. The primary reason for the decline in planned expenditures is the termination of the Load Equalization Basis (LEB) project in February 2011. The project accounted for approximately \$1.7 million in the FY 2011 five-year capital plan and provided for the replacement of the balancing chambers at the treatment plant. The project was deferred into the future beyond the current five-year plan, in part to avoid additional debt financing and the need for higher rate increases during the current rate review.

The only major project during the next five years is the replacement of the Lake Pump Station with estimated construction costs of \$1.9 million. The remainder of the capital expenditures, or \$2.2 million is for routine CAPEX.

The following chart summarizes the projects in the five-year plan by primary account, amount and financing method.



FIVE-YEAR CIP SUMMARY
FY 2012—FY 2106

	\$	<u>% of Total</u>	<u>Proposed Financing Method</u>
Major Repair and Replacement Projects:			
Lake Pump Station Replacement (a)	\$1,915,960	47%	Debt / Pay as You Go
Routine Projects:			
Treatment Plant Improvements	\$563,752	14%	Pay as You Go
Interceptor Upgrades	\$911,206	22%	Pay as You Go
Power Generating Equipment	\$192,697	5%	Pay as You Go
Flow Measuring Devices	\$71,971	2%	Pay as You Go
Other Equipment	\$144,923	4%	Pay as You Go
Transportation Equipment	\$190,806	5%	Pay as You Go
Other Tangible Plant	<u>\$81,000</u>	<u>2%</u>	Pay as You Go
	\$2,156,355	53%	
Total	<u>\$4,072,315</u>	<u>100%</u>	

(a) Construction costs only. Legal and Engineering costs included in "Interceptor Upgrades" below.

FY 2012 Capital Budget

The capital budget for FY 2012 includes two projects: the partial construction of the Lake Pump Station replacement project and the replacement of a TCM Loader with accessories. The combined projects total \$1,056,290.

Lake Pump Station (LPS) Replacement (\$977,980)

This project will begin in April 2012 (FY 2012) and will be completed in August 2012 (FY 2013). The construction costs have therefore been allocated equally between FY 2012 and FY 2013 in the CIP.

The LPS pumps the entire sewage flow from the City of Big Bear Lake to the treatment plant via a 5.5 mile, 16-inch force main. The LPS wet well was part of the original Big Bear Lake Sanitation Department treatment plant and was originally designed, engineered, and constructed during the 1950s as part of the pre-treatment system for grit removal. Over the years, the facility went through modifications to facilitate the operation as a lift station. LPS is equipped with a 54,200 gallon, below-grade wet well; a diesel emergency back-up generator; two, 2.4 MGD, 30-horsepower pumps; and two, 4.6 MGD, 125-horsepower pumps; a dry well that services check valves and associated piping; and a block building that houses the controls and emergency generator. The majority of the controls and equipment have become obsolete and the critical components have become unreliable. The strength and reliability of the wet well is the main concern. Based on a preliminary engineering evaluation and report conducted by Water 3 Engineering, there are numerous inadequacies and safety concerns that relate to the existing station.



The project will include the construction of a new lift station, the demolition of the existing, above-ground structure (the existing wet well structure will be maintained), installation of pipeline, and the connection to the existing force main. The upgraded station will be equipped with a 58,300 gallon wet well, two, 30-horsepower submersible pumps with a pumping capacity of 2.4 MGD each, one, 125-horsepower submersible pump with a pumping capacity of 4.6 MGD, and the option to install one, 250-horsepower pump with a pumping capacity of approximately 8.0 MGD to facilitate wet weather, peak hour flows.



The replacement of LPS will result in lower electrical costs due to more efficient pumping equipment, decreased maintenance costs and man hours, more readily available replacement parts, lower potential for sewer spills during high flow events, reduced odor complaints, and improved maintenance activities due to a better design.



Budget: \$ 977,980 (includes \$20,000 of engineering costs)
Start Date: April 1, 2012
Completion Date: October 31, 2012



Replacement of TCM Loader and Accessories (\$78,310)

The existing TCM Loader was purchased in 1996 and has 3,422 hours on the unit. In the course of utilizing the loader over the years, the unit frame and the steel components have become compromised. As a result, the unit has become unsafe to operate. The loader is utilized on a daily basis to load sludge into bins, move equipment and machinery, and to unload materials. The existing loader has a lifting capacity of 3,500 pounds and a lifting height of 10 feet. These restrictions limit the unit's ability to unload heavy materials and to load high profile dump trucks. The project includes the purchase of a new or slightly used articulating loader with a lifting capacity of 5,000 pounds and a lifting height of approximately 14 feet. With the slight increase in lifting capacity and height, the unit will be able to serve more functions.

Budget: \$78,310
Start Date: July 1, 2011
Completion Date: August 1, 2011





Debt Obligations

The Agency funds its capital requirements using both pay-as-you-go and debt financing and recognizes that debt management is critical to its overall financial success. In accordance with the debt policy, the Agency recognizes the essentials of 1) ensuring the Agency's ability to meet its debt service requirements and 2) maintaining sufficient financial flexibility to respond to unexpected events. The Agency's two outstanding debt obligations are as follows:

Issue	Date of Issuance	Issue Amount; Yield	Use of Proceeds
1998 ABAG Water and Waste-water Revenue Bonds	December 8, 1998	\$2.745 million; 3-5%	Improvements including nutrient removal system, effluent storage, Horseshoe Pond modifications; generator installation; sludge handling; administrative building.
Loan Agreement	December 15, 2006	\$5.14 million; 4.45%	Cannibal Solids Reduction System; 2, 250-kilowatt natural gas generators.

Debt Limitations and Capacity

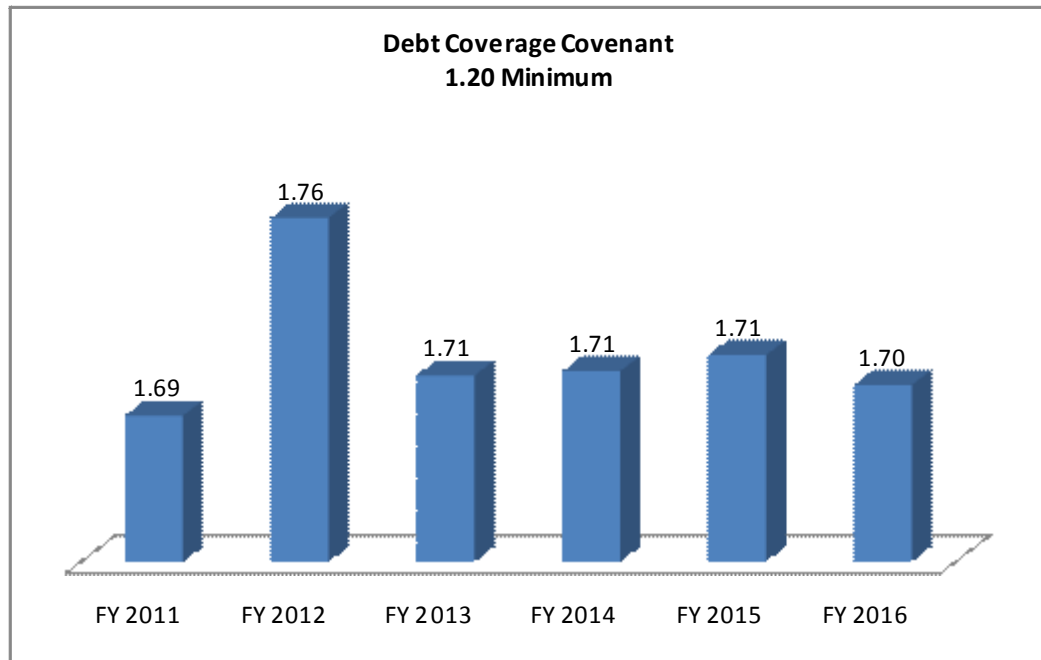
California Government Code places certain restrictions on the Agency's indebtedness. In the case of 1) general obligation bonds, a district shall not incur bonded indebtedness that exceeds 15 percent of the assessed value of all taxable property in the district at the time bonds are issued and 2) promissory notes, the total amount issued shall not exceed 5 percent of the district's total enterprise and non-enterprise revenues in the preceding fiscal year. Currently, these restrictions do not apply to the Agency based on the debt instruments it has in place.

The Agency measures its debt capacity in accordance with Standard & Poor's and Moody's guidelines. Currently, the Agency has excess debt capacity under its existing rate structure. Further, at the Agency's current rate levels, the Agency has additional rate raising capacity and thus additional debt capacity if needed. This provides the Agency with the financial flexibility to use a greater portion of its contingency funds than it otherwise would.

Debt Coverage

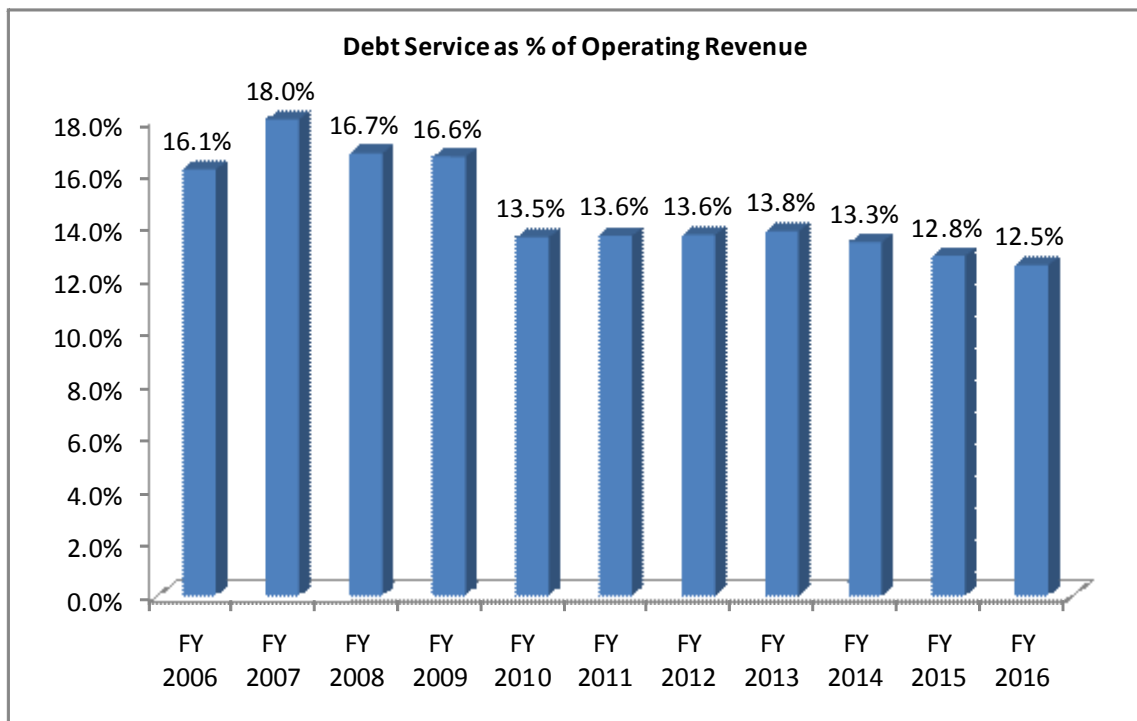
The debt coverage test associated with the debt obligations outstanding, measures the Agency's ability to meet its debt obligations as they come due. Currently the Agency is required to cover its annual debt service 1.2x. The calculation is Net Revenue (Operating Revenue + Connection Fees—Operating Expense) to annual Debt Service.

The FY 2012 rate increase will provide the Agency with sufficient financial flexibility to meet the debt coverage covenant requirements under its existing debt obligations. The Agency structured the rate increase to provide for a 1.7x coverage under an assumption of 25 connections per year. New sewer connections are at a cyclical low and the timing associated with a rebound in new sewer connections is uncertain.



Debt Service

Debt service is part of the Agency's capital requirements and represents debt-financed capital expenditures. As a fixed, legal obligation, the Agency must maintain adequate revenues to meet its debt service obligations. This is measured through the debt service coverage covenant above. The Agency's debt service requirement is approximately \$625,000 per year or approximately 14.0% of Operating Revenue. As can be seen from the chart below, the Agency reduced its leverage in FY 2010 as the result of the FY 2009 prepayment of the Agency's 1998 Refunding Bonds.





Section V: Staffing and Departmental Information

Staffing

Overall, the Agency's staffing needs remain unchanged over time due to the consistent nature of the Agency's sewage treatment and disposal services and relatively little increase in annual MGDs (millions of gallons per day) treated. Further, the Agency does not anticipate labor increases associated with general economic expansion and related capacity increases, over the forecast period. Plant capacity utilization is relatively stable during economic contractions and expansions based on the nature of the business and the relatively mature Big Bear housing market (relatively low level of annual connections).

During the budget period, staffing will be lower compared to FY 2011 due to attrition. The Agency filled an Operator-In-Training (OIT) position in FY 2010 in anticipation of the FY 2011 retirement. The OIT position has been promoted to an Operator I. One seasonal/temporary operator is planned for FY 2012.

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Full-Time Equivalent Staffing				
Position	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Budget
General Manager	1.0	1.0	1.0	1.0
Finance Manager	1.0	1.0	1.0	1.0
Senior Accountant	1.0	1.0	0.0	0.0
Accounting/ Human Resource Tech	0.0	0.0	1.0	1.0
Administrative Clerk	1.0	1.0	0.0	0.0
Part-Time Administrative Clerk	<u>0.0</u>	<u>0.0</u>	<u>0.5</u>	<u>0.5</u>
Subtotal	4.0	4.0	3.5	3.5
Plant Superintendent	1.0	1.0	1.0	1.0
Senior Operator	1.0	1.0	1.0	1.0
Plant Operator I	4.0	4.0	4.0	4.0
Plant Operator II	2.0	2.0	2.0	2.0
Operator in Training	<u>0.0</u>	<u>1.0</u>	<u>1.0</u>	<u>0.0</u>
Subtotal	8.0	8.0	9.0	8.0
Senior Laboratory Analyst	1.0	1.0	1.0	1.0
Laboratory Analyst	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Subtotal	2.0	2.0	2.0	2.0
Seasonal / Temporary	0.5	0.0	0.0	0.5
Total	14.0	14.0	14.5	14.0

Departments

The Agency does not have distinct and separate departments due to the small, single- service nature of its operations. From a functional standpoint, the Agency may say that it has the following departments: Administration, Operations and Laboratory, with both the Administration and Laboratory Departments supporting the Agency's wastewater Operations Department.

Administration Department

Administrative staff include the General Manager, Finance Manager, Accounting / Human Resource Technician and a Part-time Administrative Clerk. These positions support the Agency's managerial, legal and fiscal responsibilities



associated with being a public wastewater treatment facility and directly support the operations department through the human resource function.

Department Goals

Continue to be Fiscally Responsible through Financial Management and Planning. Strong financial management is key to the Agency's ability to provide competitive, efficient service and to preserve enterprise value for the ratepayers. The Agency will continue to

- Maintain a five-year financial plan;
- Annually review fees and charges to ensure adequacy of revenues and appropriateness of fees;
- Maintain appropriate fund levels to ensure fund availability for liquidity, debt service, capital investment and contingency purposes;
- Ensure bond covenant compliance;
- Maintain a balanced budget;
- Complete annual audit of the Agency's financial records;
- Review monthly financial performance with management and staff;
- Ensure timely employer contributions to the Agency's retirement and OPEB trusts;
- Maintain Agency assets by ensuring funds are available for scheduled maintenance;
- Minimize Agency risk by maintaining appropriate insurance and adhering to the Agency's investment and debt policies.

Ensure that the Big Bear Area Regional Wastewater Agency remains an Employer of Choice and a Desirable Place to Work . The Agency's ongoing efforts to attract and maintain talented and skilled employees is a key long-term objective.

- investing in our employees by offering educational and training opportunities and tuition reimbursement;
- conducting comparable compensation surveys to make certain that the Agency's compensation and benefit plans are attractive and competitive;
- recognizing all employees as a valuable asset as set out in the Agency's core values;
- publically recognizing employee achievements and certifications;
- providing leadership and gathering input at all levels of staffing.

Provide the Public with the Opportunity to Participate. Public participation is important to the Agency and can result in improved decision making and more successful outcomes. The Agency will continue to encourage public participation by

- Providing meeting materials on the Agency's web site;
- Responding readily to public records requests in accordance with the Public Records Act;
- Preparing public documents as a communication tool not only to the Governing Board and staff, but to the general public.

Operations Department

The Agency expects to collect and treat approximately 883 million gallons of wastewater at the wastewater treat-



ment plant in FY 2012. These services will be performed by the Operations Department, in compliance with discharge permits issued by the Colorado and Santa Ana Regions of the State Water Resource Control Boards which regulate our effluent quality as it leaves the treatment plant. The Agency has a 100% compliance record which exemplifies the Agency's commitment to excellent service and providing its services in a progressive and responsible manner for the health and welfare of the community.

The Operations Department is responsible for operating, inspecting, maintaining, and troubleshooting the wastewater pumping stations and treatment plant equipment and processes. In addition, it is responsible for ensuring the treatment plant processes are operating efficiently and all discharge requirements are fulfilled. The operations department is a technical element of the Agency's operation and which 1) utilizes complex valving schemes and flow patterns specific to a variety of treatment processes, 2) performs basic troubleshooting on systems as necessary, 3) reads meters, gauges, charts, and instruments, and 4) interprets, records, and logs plant performance. The department is also responsible for maintaining and servicing the interceptor system which consists of (15.07) miles of pipelines, (93) manholes, (12) air release vents, and (4) lift stations.

Some of the challenges the department encounters includes maintaining an aging infrastructure and integrating new technologies to enhance the operation.

Department Goals

Provide Service in a Cost-Effective, Efficient and Safe Manner:

- Establish and track performance targets based on industry standards and Agency specifics;
- Manage annual growth in total operating expense to inflationary levels;
- Meet or exceed all discharge requirements;
- Reduce solids produced and/or removed and track sludge yield to determine solids reduction;
- Minimize unscheduled maintenance by reviewing asset schedule and asset condition annually to schedule required maintenance;
- Effectively manage power costs through purchase contracts and scheduling steady generator loads.
- Evaluate power costs monthly to ensure cost-effective usage;
- Monitor and minimize I&I through three-year system inspections and annual man-hole cover replacement and sealing program. The Agency will notify Member Agencies of any suspected I&I problems as soon as possible. The Agency will track flow to determine changes in I&I;
- Continue annual safety incentive program, which includes annual training requirements for all BBARWA employees and monthly safety meetings, to increase safety awareness and reduce accidents.

Laboratory Department

The Laboratory Department is responsible for 1) collecting and analyzing wastewater flows and biosolids to adhere to federal, state, and local guidelines and 2) providing data to the operations department for implementing process control decisions. The laboratory analyses include, but are not limited to, 1) those required on a daily basis for compliance with the Agency's NPDES (National Pollution Discharge Elimination System) and Discharge Order permits, such as pH, biochemical oxygen demand, total dissolved solids, suspended solids, nitrates, chloride, fluoride,



sulfate, conductivity, total and fecal Coliform, and conductivity, and 2) wastewater solids inventory and microscopic examinations of activated sludge for process control. Based on the laboratory department's analyses, it is also responsible for preparing evaluations of the treatment plant unit processes and making recommendations for process control.

Department Goals

Gather and provide data that is accurate, precise, reliable and meets the discharge requirements set forth by the California Regional Water Quality Control Boards. The Agency's laboratory department performs a critical support function and seeks to provide qualitative and quantitative data for performance measuring and for regulatory purposes. The department will continue to

- Run check standards, matrix spikes, blanks and run samples in duplicates;
- Follow operating procedures during sample collection and analysis to ensure data of known and defensible quality;
- Know discharge requirement limits;
- Maintain Laboratory Analyst Certification by CWEA and maintain Environmental Laboratory Accreditation Program (ELAP) certification;
- Review and update BBARWA's Quality Assurance Manual annually.

Support Current Computer, Network, and SCADA Systems to Maximize Employee Productivity

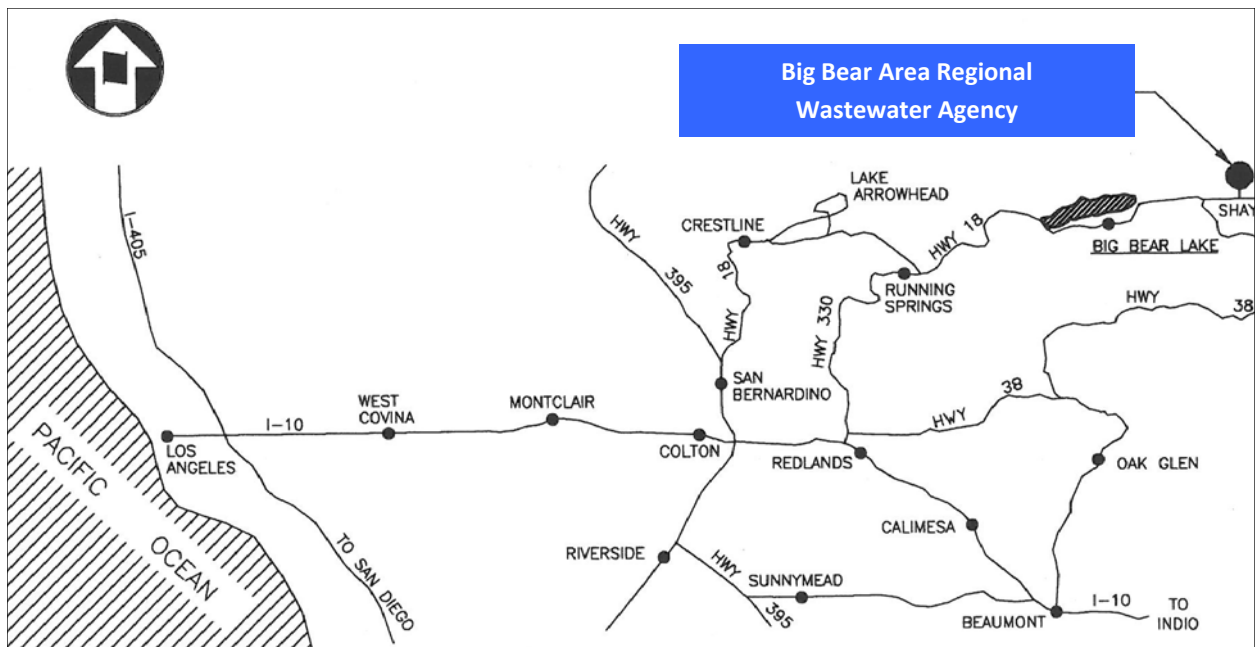
- Keep computer hardware and software current. Replace desktop computers every three years and laptops every five years. Dispose of old computers appropriately;
- Address problems quickly and to the satisfaction of computer users. Call outside assistance when necessary;
- Provide training for all computer users.

Continued Next Page

Section VI: Supplemental Information

Location

The Agency is located in the San Bernardino Mountains of Southern California. The Big Bear area is a resort community located approximately 100 miles northeast of the City of Los Angeles. The area provides year-round recreational opportunities including biking, boating, fishing, camping, golfing, hiking, snow skiing, and snowboarding. The Big Bear area has a growing population of permanent residents and seasonal visitors. There are approximately 21,000 residential structures throughout the area serving permanent and part-time residents, with several million visitors arriving each year to engage in recreational activities.



Formation

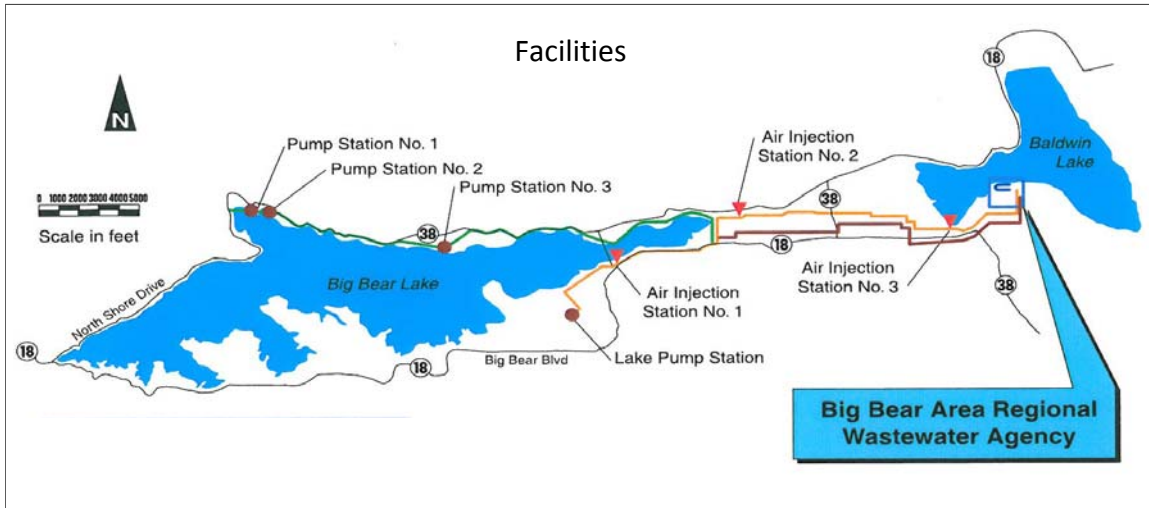
The Agency was formed in 1974 under a Joint Powers Agreement for the purpose of conveying, treating and disposing of sewage from the Big Bear City Community Services District, the City of Big Bear Lake and the County of San Bernardino on behalf of San Bernardino County Service Area 53B (the Member Agencies). The Agency was created as a management agency, obligated to provide service to three Member Agencies under the terms set forth in its operating agreements. Each Member Agency maintains and operates its own wastewater collection system and delivers wastewater to the Agency's interceptor system for transport to the wastewater treatment plant. The Agency's service area encompasses the entire 79,000 acres of the Big Bear area.

Facilities

The Agency's facilities include a 4.8 million gallon-per-day sewage treatment plant, interceptors, outfall line and disposal site. The Agency operates three main lines: Lake Pump Station (LPS) force main that services the City of Big Bear Lake's wastewater system; North Shore Interceptor that services the County's wastewater system, and the trunk line that services the Big Bear City Community Services District's wastewater system and conveys flow from

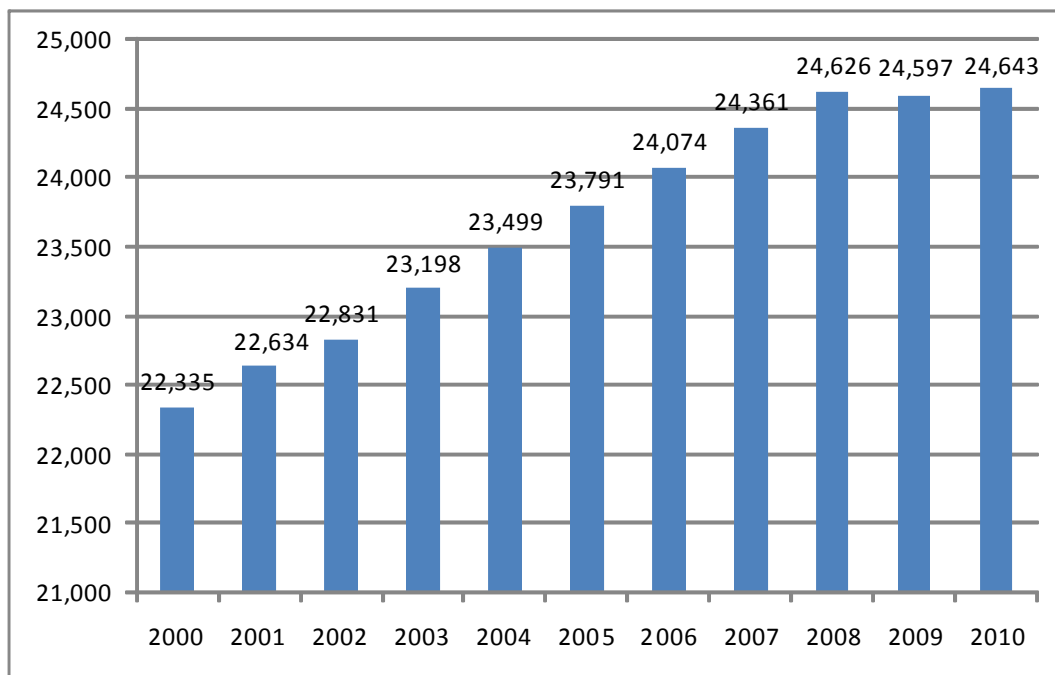


the North Shore Interceptor to the wastewater treatment plant. The Big Bear facilities operate under permit from the California Regional Water Quality Control Board, Santa Ana Region, Order No. R8-2005-0044. The Agency's 640-acre disposal site is located northeast of the Agency in the desert community of Lucerne Valley. The effluent from the treatment plant is pumped to Lucerne Valley for irrigation of fodder and fiber crops under permit from the California Regional Water Quality Control Board, Colorado River Basin, Order No. 01-156. The disposal site is leased to an independent contractor.



Demographics

The Agency serves an area that experiences relatively slow population growth. The average annual change in EDUs (Equivalent Dwelling Units) has been approximately 1.0% over the last 10 years.



10-Year
Compound
Annual Growth
Rate =
0.99%



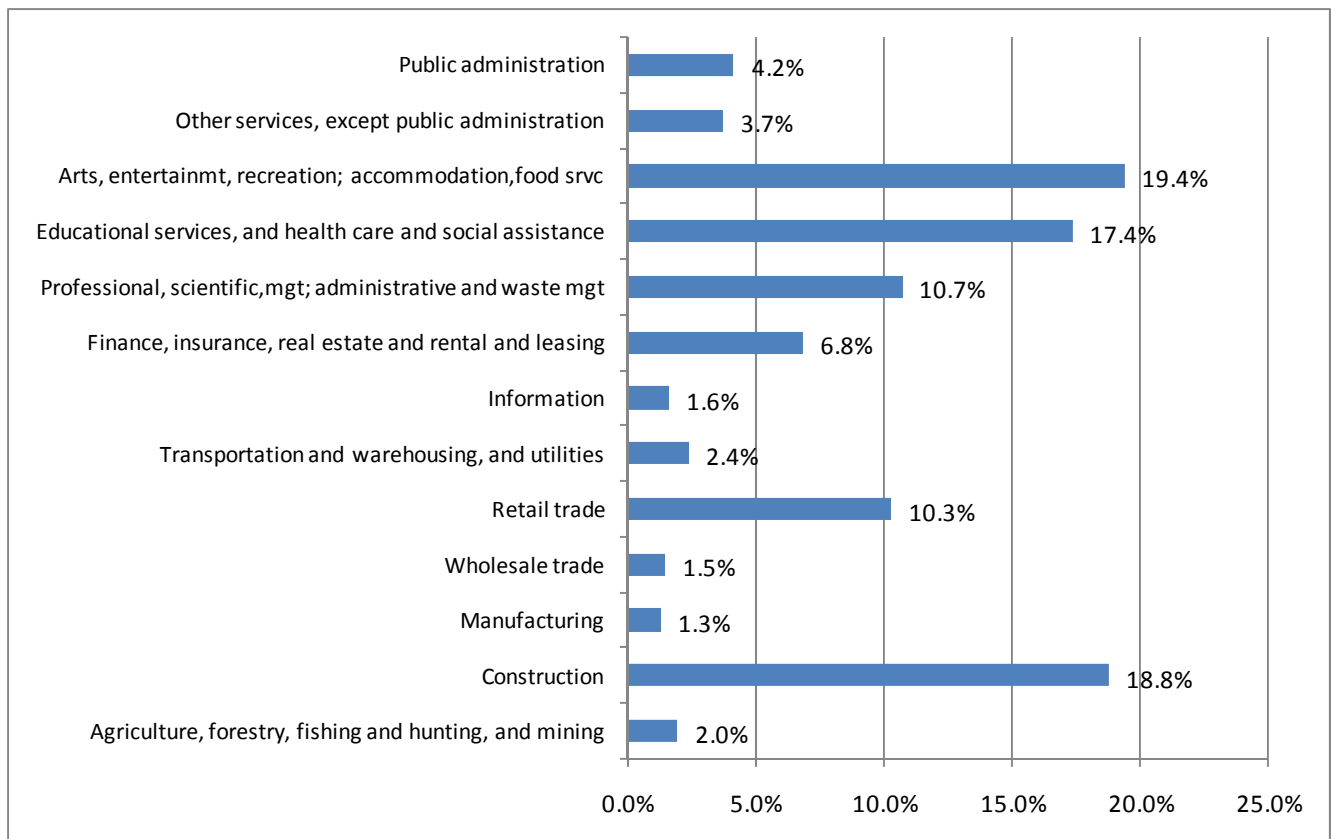
The Big Bear area is considered a four- season resort community and is characterized by a large, part-time population of second homeowners and seasonal peaks associated with tourism. The permanent population consists of approximately 20,000 residents and 1,400 businesses and on a busy weekend, can flourish to 100,000. It is estimated that approximately 38% of all sewer connections are full-time residents with the remainder part-time or second homeowners.

The following demographic, economic and social statistics are important considerations for the Agency, especially in maintaining affordable rates for the permanent population of the Agency's service area. The information has been gathered from the U.S. Census Bureau and represents the areas of Big Bear Lake and Big Bear City, and excludes Erwin Lake, Lake Williams and Sugarloaf. While the information is incomplete, we believe it is representative of the Agency's service area.

Employment

As a resort community, the primary employer is the Arts, Entertainment, Recreation, Accommodation and Food Service Industries, employing approximately 19.4% of the workforce.

Major Employers by Industry

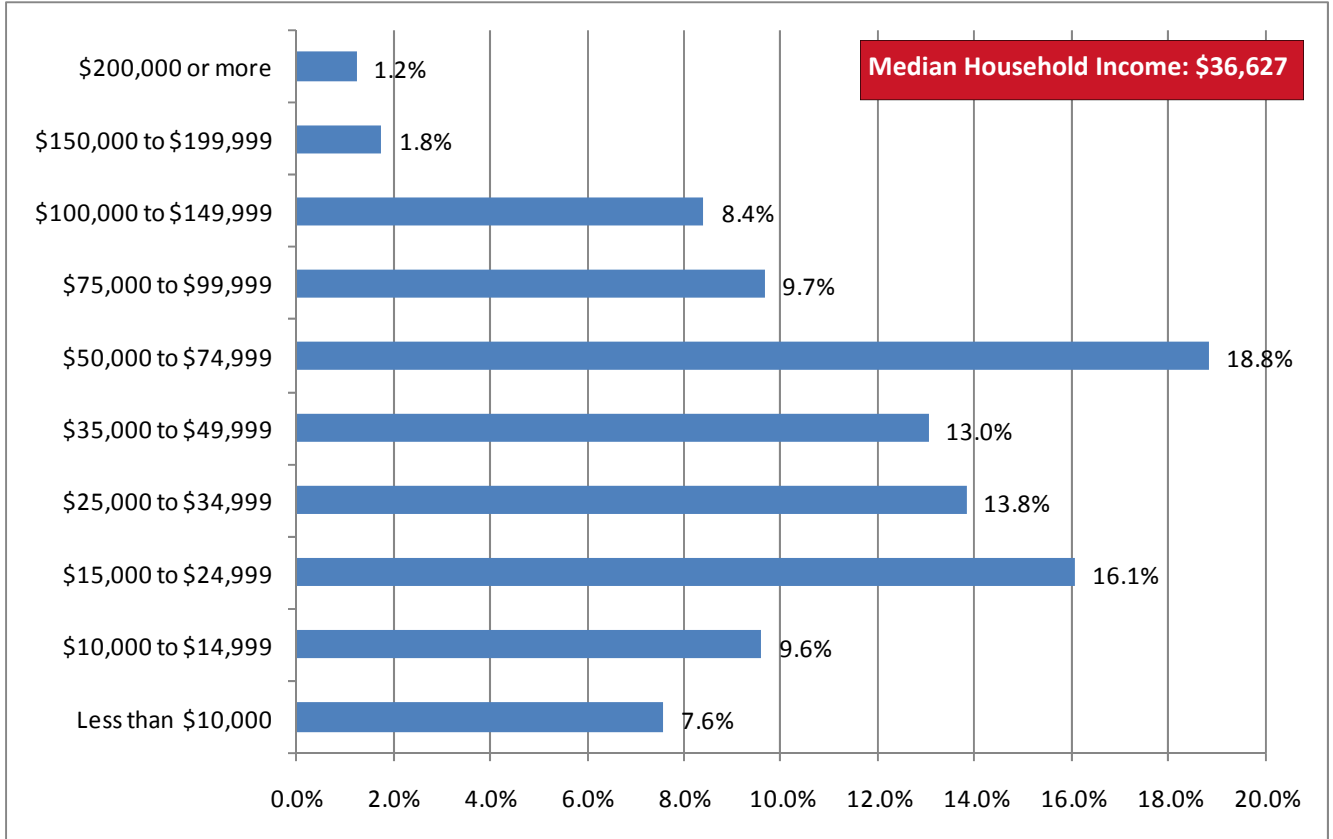




Household Income

The median household income for the area was \$36,627 in 2009, approximately \$13,000 below the national average of \$49,777 for the same period.

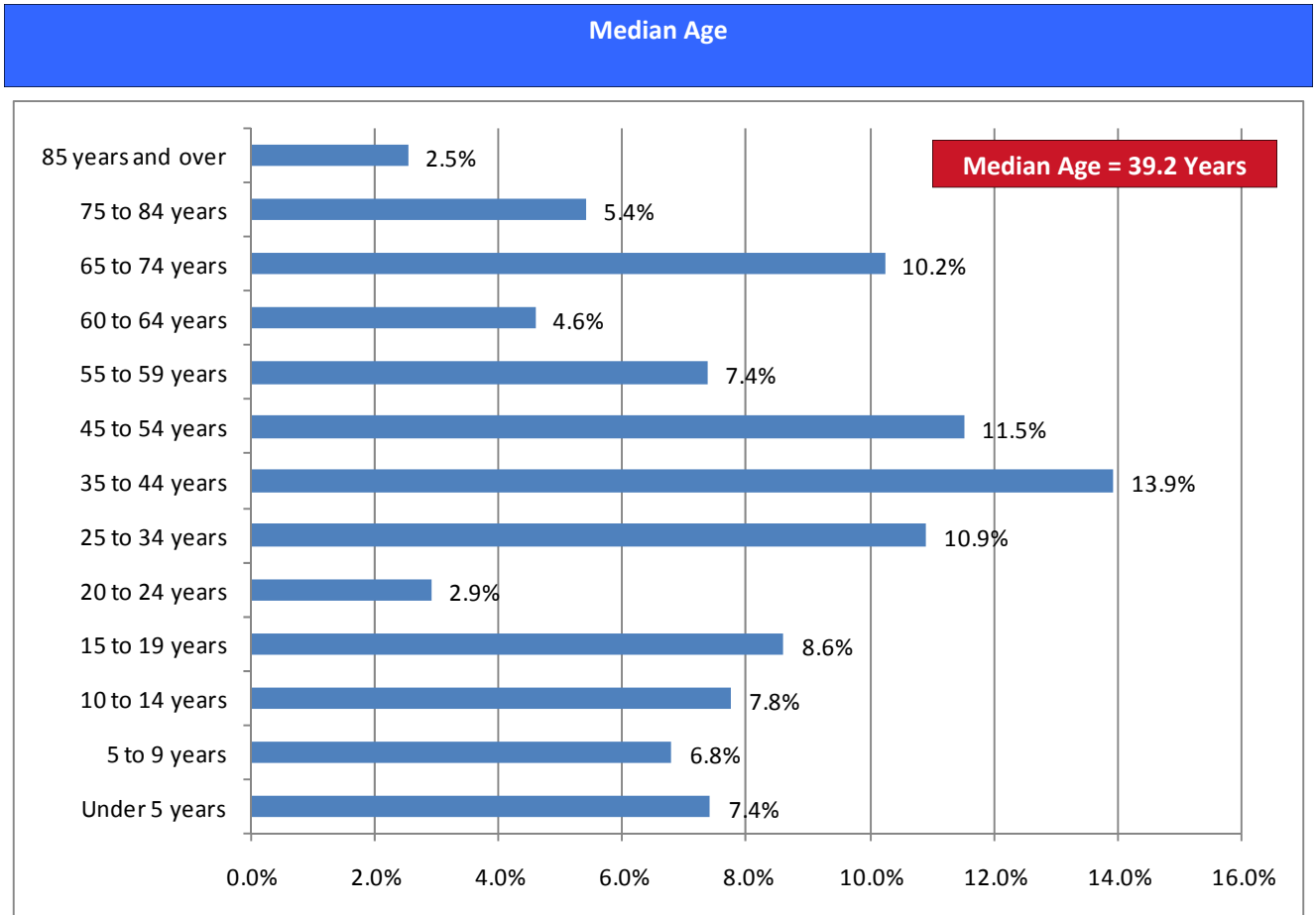
Household Income (in 2009 inflation-adjusted dollars)





Median Age

The median age of the area has remained relatively unchanged. In 2003, it was estimated to be 41 years old and in 2009 it was 39.2 years. Approximately 30.1% of the population is estimated to be 55 years and older, with 23% of the population 60 years and older.



Section VII: Glossary

Accrual accounting	A method of accounting in which revenues are recorded when earned and expenses are recognized when incurred.
Annual charges	The amount collected by the Agency to cover its revenue requirements. It is calculated by multiplying the number of equivalent dwelling units reported by each member agency by the user fee. This amount is then prorated based on member agency actual flow into the system. Annual charges are collected from the member agencies in April and December of each year. Each member agency, in turn, collects the fees from the respective ratepayers.
Balanced budget	A budget in which the revenues are greater than or equal to the expenditures.



BOD	Biochemical oxygen demand. A chemical testing procedure for determining the uptake rate of dissolved oxygen by the biological organisms in a body of water. It is widely used as an indication of the quality of water.
Bond	A bond is a promise to repay borrowed money by a specific date in the future including specific interest on the amount borrowed at predetermined intervals during the life of the bond.
Cannibalization system	A solids reduction system or process that uses a combination of biological and manufacturing processes to lower typical sludge yield.
Capital budget	The Agency's plan for capital expenditures during a one-year period.
Capital expenditure	An expenditure of \$5,000 or more that is used to purchase or improve an asset with a useful life of one year or more.
Connection fee	The connection fee is referred to as a system development fee or capacity charge and is a one-time fee paid at the time of connection to the system. The fee recovers a proportional share of capital costs incurred to provide service capacity for the new wastewater customers.
Debt service	Principal and interest payments on borrowed money.
Equivalent dwelling unit (EDU)	EDUs are used to set water rates based on the amount of wastewater generated from an average, single-family residence, or EDU. Connections and EDUs may be used interchangeably to reference the number of single-family households in the system or connecting to the system at any given time.
Fodder and fiber crops	Fodder and fiber crops are those cultivated explicitly or primarily for feeding animals.
GFOA	Government Finance Officers Association
I & I	Infiltration and inflow. A term used to describe the ways that groundwater and storm water enter into a sewer system. Inflow is storm water that enters into sanitary sewer systems and point of direct connection to the system. Infiltration is groundwater that enters sanitary sewer systems through cracks and / or leaks in the sanitary sewer pipes
Interceptor system	That portion of the Agency's pipeline system that collects wastewater flow from the member agencies and transports it to the treatment plant.
Joint powers agreement	A formal legal agreement between two or more public agencies that shows a common power and where the agencies want to jointly implement programs, build facilities, or deliver services. Officials from those public agencies formally approve a cooperative arrangement.
Master plan	A long-term plan which outlines and discusses the Agency's operations and capital plan for the period in review.
Member agencies	The member agencies pursuant to BBARWA's joint powers agreement are the Community Services District, the City of Big Bear Lake, and the County of San Bernardino County Service Area 53B.



MGD	Million gallons per day.
Mixed liquor	A mixture of raw or settled wastewater and activated sludge contained in an aeration tank in the activated-sludge process.
OPEB	Other post employment benefits.
Operating budget	The Agency's plan for operating and maintenance expenses during a one-year period.
Pumping station	A pumping operation, usually located a long distance from the treatment plant, that provides for the lifting and conveyance of sewage through the force main to gravity flow points.
Revenue requirements	Amount of revenue required to cover operating and capital costs. Operating costs are usually routine or periodic costs incurred to provide service on an ongoing basis. Capital costs relate to capital items such as equipment or facilities that provide benefits over multiple years.
SCADA	Supervisory Control and Data Acquisition (SCADA) is an automated system that uses programmable logic controls to monitor and control treatment processes and pump stations.
Sewage	Wastewater flow from residential and commercial units connected to the sewer system.
Sewerage	The infrastructure, including pipelines, drains, manholes, and other system facilities used to convey sewage.
Sludge	Sludge refers to the residual, semi-solid material left from industrial wastewater, or sewage treatment processes.
Solids	The material removed from sludge such as grit, sand or debris.
Standby fee	A charge to undeveloped parcel owners that recovers a proportional share of operating costs that maintain the wastewater facilities in "ready" state.
User fee	The rate charged per equivalent dwelling unit. This rate is set by BBARWA based on its revenue requirements.
Wastewater	Any water that has been adversely affected in quality by anthropogenic influence. It comprises liquid waste discharged by domestic residences, commercial properties, industry, and/or agriculture and can encompass a wide range of potential contaminants and concentrations. In the most common usage, it refers to the municipal wastewater that contains a broad spectrum of contaminants resulting from the mixing of wastewaters from different sources.