2016

Big Bear Area Regional Wastewater Agency

Operating and Capital Budget

Fiscal Year Ending June 30, 2016

121 Palomino Drive, Big Bear City, California, 92314, www.bbarwa.org

Our Mission

The Big Bear Area Regional Wastewater Agency is committed to collecting and treating wastewater, and disposing of the by-products in a safe, progressive and fiscally responsible manner for the health and welfare of the community. To carry out this mission, the Agency will meet the needs of the regulatory agencies and our community in an open and co-operative manner.

The Big Bear Area Regional Wastewater Agency is a joint powers agency proudly serving the areas of Big Bear Lake, Big Bear City, Erwin Lake, Fawnskin, Lake Williams, and Sugarloaf.

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Section I. Introduction and Overview

Message from the General Manager

Once again, we are pleased to present a fiscally sound and balanced budget for fiscal year 2016. The budget submitted has been prepared consistent with the Governing Board's direction following meetings with the Finance Committee and the Governing Board during our Budget Workshop. The FY 2016 budget is just one part of a long-term commitment which includes responsible financial planning, high-quality service, continued financial viability, and the commitment to protect the public and environmental health and safety.

The proposed budget judiciously utilizes available revenues to maintain and improve our aging infrastructure while providing uninterrupted service to the member agencies and their customers. As in past years, we are attempting to be conservative and prudent with taxpayer money, while still addressing the social, environmental and economic needs of the community as reflected within the Agency Mission, Vision and Core Values.

In general, revenues are projected to reflect a modest increase over the prior year; while operating costs beyond the Agency's control continue to escalate. While many public agencies continue to face escalating salaries and benefit costs, pension obligations, power costs and permitting fees; the Big Bear Area Regional Wastewater Agency is uniquely and positively positioned to financially manage these increases. This is a direct result of the Board's conservative fiscal management and the Agency's commitment to accountability and strong financial management.

As we embark on our 41st year of continuous and uninterrupted high-quality service the staff, supervisors, and managers are prepared to support the Governing Board in completing our 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."

Respectfully submitted,

Steven C. Schindler
General Manager

Strategic Goals and Strategies

The Agency's strategic plan was developed in 2009. The plan set important direction for the Agency in terms of establishing a mission, vision, policy statement and core values.

MISSION

The mission statement is a succinct statement of what BBARWA does. It focuses on the present, defines the customers and critical processes, and informs about the desired level of performance.

The mission of the Big Bear Area Regional Wastewater Agency is to collect and treat wastewater, and dispose of the by-products in a safe, progressive and fiscally responsible manner for the health and welfare of the community. To carry out this mission, the Agency will meet the needs of the regulatory agencies and our community in an open and cooperative manner.

VISION

The vision statement is a statement of where BBARWA wants to be. It focuses on the future, is a source of inspiration, provides clear decision-making criteria, and is timeless.

The Big Bear Area Regional Wastewater Agency pledges to focus on meeting the needs of a growing and changing community in a cost-effective manner. We are proactive, forward thinking, well trained, fully staffed, fully funded and environmentally responsible.

POLICY STATEMENT

A policy is a statement of intent, and is implemented as a procedure or protocol.

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It shall be the policy of the Governing Board, manager, supervisors and staff to support the Big Bear Area Regional Wastewater Agency Strategic Plan and its various subcomponents. Particular attention will be paid to the Vision Statement, Mission Statement and Core Values of the agency while conducting the day-to-day business. Upon adoption of the Strategic Plan, the Governing Board, manager, supervisors and staff shall support the implementation of the Strategic Plan and recognize that staff is bound by the direction imposed by the Governing Board as a whole.

CORE VALUES

Core Values are those things to which the agency is fiercely dedicated. Core Values describe who we are by how we act.

The Agency is dedicated to

- providing a safe work and operational environment,
- providing a trained and qualified workforce,
- providing functional, adequate and properly maintained infrastructure; and
- long-term planning.

The Governing Board values

- Customer Service
- Ethical Behavior
- Integrity
- Respect
- Honesty
- Accountability
- Open Mindedness
- Cooperation, as we implement the Vision and Mission
- Recognize that our manager, supervisors and employees are a valuable asset.

The strategic plan is an important management tool for the Agency. It aids in decision making and goal setting, promotes operational effectiveness, and influences the Agency's ability to successfully plan for the future. In FY 2012, the Agency established priorities and outcomes based on the initial strategic plan, and put in place measures to assess its progress. The following reflects the Agency's priorities and desired outcomes. Performance measures that are tied to these priorities and outcomes have been established and are outlined in Section V.

PERFORMANCE AREA	PRIORITY	OUTCOME
Work Environment and Culture	Qualified, Well-Trained, Motivated and Professional Employees	BBARWA values education and continuous learning and rewards creativity and innovation.
	Safety in the Work Environment	BBARWA promotes a safe work environment through employee participation in the Safety Incentive Program.
Public Service	Excellent and Efficient Customer Service	BBARWA staff identifies opportunities to increase operating efficiencies, stabilize expenditures, and enhance overall performance.
Financial Strength	Long-Term Planning and Maintenance of Infrastructure	BBARWA's long-term planning aids in controlling costs, managing capital investment and maintaining adequate rates that are fair and stable.
Environment	Preservation of Environment and Protection of Public Health	BBARWA uses its resources efficiently for the preservation of the environment and protection of public health and maintains strong relationships with regulatory agencies.
Principals	Cooperation and Partnership	BBARWA is an agent and proponent for its principals and works to develop and foster participation and strong working relationships.
Governance and Management	Responsibility, Accountability, Integrity and Trust	Effective policy setting, oversight and direction by the Governing Board facilitate successful management of Agency resources.

Short-Term Factors Influencing the FY 2016 Budgetary Decisions

The Agency, as a matter of practice, focuses on 1) cost control, with the growth in operating costs maintained at or near inflation, 2) timely maintenance of infrastructure, and 3) meeting or exceeding all operating and regulatory requirements for the treatment and disposal of wastewater. These factors influence each budget and overlap with Board-directed priorities and strategic initiatives. Controlling costs is paramount and allows the Agency to better maintain adequate, affordable and stable rates. Adequate rates, in turn, provide for the timely maintenance of infrastructure and the satisfaction of mandated regulatory and operating requirements and the terms of the Agency's operating agreement with its Member Agencies. Other factors impacting financial performance and operational/financial management during FY 2016 are as follows:

Lower Rates than Planned

The Governing Board increased user rates to a lesser amount than allowed under the Maximum Rate Schedule adopted in 2011. This is the third consecutive year of lower rates than planned due to lower operating and capital costs than estimated during the 2010 Rate Study. Usage rates will remain unchanged at $201.32 per EDU (equivalent dwelling unit) compared to $211.41 per EDU under the adopted schedule.

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Improving Economy

As we move into FY 2016, the economic outlook is improved with expectations of solid jobs growth, higher wages, and increased consumption; all contributing to a solid housing market, slightly higher inflation and somewhat higher short-term interest rates. Other Revenue (interest income and connection fee revenue) have experienced sharp declines as a result of the Great Recession, declining in total by approximately $868,000 from FY 2007 through FY 2010. For the budget and forecast period, Interest Income is expected to gradually increase as a result of improving short-term interest rates and an increasing balance in the capital and replacement fund.

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While system connections are trending up, the Agency has not projected a full recovery in connections during the budget period or five-year forecast and has taken a conservative approach to the level of connections considering 1) the timing of the recovery in vacation/second-home starts still remains uncertain and 2) continuing drought conditions could affect connection levels over the period. Connections are expected to increase to 55, from a base of 45 in the prior period, and remain flat over the forecast period. Other revenue sources, Interest Income and Connection Fee Revenue combined, are expected to increase modestly by approximately $100,000 annually by FY 2020.

Rising Power Costs

The Agency utilizes power from Bear Valley Electric (BVE) to run its pumping stations and purchases natural gas under contract to run its generators which supply power to the Agency's treatment plant and administration building. The Agency experienced a rate increase by BVE during December 2014 and by Southwest Gas (its natural gas transporter), in January 2015, both contributing to a compound annual growth rate in power costs of 14% from FY 2014 through the budget period of FY 2016, and an annual increase of approximately $100,000. The Agency expects another rate increase from BVE in FY 2017. Power is the Agency's second largest operating expense, comprising 13% of total operating expenses (before depreciation).

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Higher Salaries and Benefits Expense

Salaries and Benefits expense is projected to increase by 8% in FY 2016, driven by a 6% increase in salaries and wages and a 12.5% increase in benefits expense. The increase in salaries and wages is largely due to an increase in full-time operations staff. The Agency will increase its full-time operating staff to nine, from eight by the end of FY 2015. This staffing increase will bring its operations staff to the same level reported in FY 2009 through FY 2011. The increase in benefits expense is largely driven by an increase in pension contribution expense associated with the required amortiza-

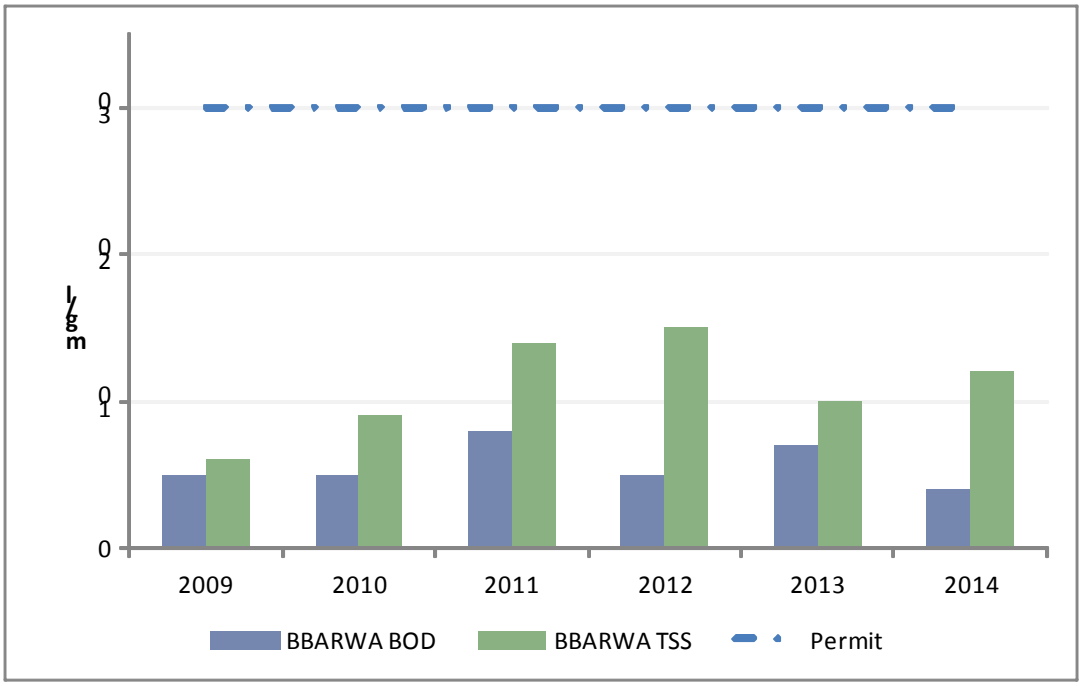
tion of the Agency's CalPERS' Unfunded Accrued Liability (UAL) and is the result of CalPERS' assumption changes for pension valuation. Once the Agency reduces its UAL (as planned) in FY 2016, the Agency will realize lower pension contribution expense beginning in FY 2017.

Core Business and Operating Objectives

Core Business

The Agency's core business is operating and maintaining the collection, treatment and disposal system in a manner that ensures all federal and state requirements associated with the Agency's treatment and discharge of wastewater are met. Industry measures for effluent quality and the effectiveness of wastewater treatment include the Biological Oxygen Demand (BOD) and Total Suspended Solids (TSS). BOD is a measure of how much oxygen is required to biologically decompose organic matter in the water. TSS is the total amount of suspended materials in the water. Both measure the strength of wastewater discharges and are each limited to 30 milligrams per liter (30 mg / l) under the Agency's Santa Ana Region and Colorado River Basin Region discharge permits.

Discharge Permit Requirements Compared to Actual



Operating Objectives

The Agency's near-term operating objectives remain primarily unchanged from the prior period. The Agency's objectives for FY 2016 are 1) maintaining stable rates, 2) controlling labor and benefit costs, 3) managing the increasing costs associated with power and solids disposal, 4) capital planning for infrastructure replacements and capacity expansion and 5) annual performance management planning and review.

- **Maintaining Stable User Rates**: The Agency's rate adjustments are driven by inflationary changes in operating costs and capital projects. The Agency's focus on operational and cost controls has resulted in relatively stable rates, with no rate adjustment planned for FY 2016. Adequate capital funding, cost management, and long-term financial planning, has positioned the Agency to maintain stable and competitive rates and to adequately fund future capital projects.

- **Controlling Labor and Benefit Costs**: The Agency has benefitted from steps taken in 2009 to control labor and benefits expense through the renegotiation of its employee MOU, resulting in modifications to its compensation structure and a cap on health premiums paid by the Agency for active employees and for those retirees retiring on or after January 1, 2011 . The Agency has planned to pay down its unfunded accrued pension liability during FY 2016, which expected to result in net present value savings of approximately $400,000.
- **Controlling Sludge Removal and Power Costs**: The Agency completed the construction of a covered drying bed (CDB) in 2014, which is expected to continue to lower sludge removal costs in FY 2016. The CDB project involves the re-use of waste heat from the Agency's generators to increase the drying of the solid waste and thus reduce the weight and volume of sludge removed from the plant. This project was proposed by employees during the FY 2013 strategic planning process. The Agency has been able to avoid the higher cost of power associated with power purchases through the local electric provider by operating a natural gas generation system for power to its treatment plant and administration building. During FY 2016, the Agency will consider alternatives to the local utility for standby power and power to its stations (increasing storage capacity, solar panels, etc.) due to escalating costs associated with this source.
- **Capital Planning:** The Agency is planning for two major projects beginning in FY 2019. The first is the construction of the Load Equalization Basin (**LEB**) which will replace the Agency's Balancing Chambers. These structures have been in service for approximately 70 years and are showing signs of excessive damage and failure, and are in need of replacement. The second major project is the construction of an additional clarifier (**C4**) to increase the hydraulic capacity of the treatment plant. At this time, the existing clarifiers have a treatment capacity of 3.04 MGD. The biological treatment capacity (per the oxidation ditches) is 4.9 MGD. With the current design, the Agency may violate its discharge order during high-flow events. The additional clarifier will provide adequate capacity for build out of the area.
- **Performance Management Planning and Tracking**: The Agency will complete a new strategic plan in FY 2016 which will chart the future of the Agency, establish priorities, allocate resources, and provide the framework to best serve our customers. Currently, the Agency meets with its employees annually to evaluate its performance measures (which are tailored from the strategic plan) and identify annual initiatives that target improvement in the Agency's overall performance. On a quarterly basis, the employee group evaluates and discusses its progress. This process has resulted in multiple projects that have benefitted the Agency including the re-use of waste heat, the use of livestock for weed control, recycling all paper and plastics, incorporation of plant signage and drought-tolerant landscaping to improve treatment plant aesthetics, and the identification of processes that result in better plant efficiency.

Financial Summary FY 2016 - FY 2020

While the Agency completes a one-year budget, it also looks closely at the next five-year period. Most of the discussion and analysis, and financial information presented will include the five-year period, from FY 2016 through FY 2020.

With no rate changes, and thus flat revenue growth, and growing operating expenses during the forecast period, Operating Income will shrink, lowering the Agency's debt service coverage and debt capacity, although to levels that still remain good. During the period, the Agency's minimum fund balance targets are met and the Agency's financial position is strong. Based on the current forecast, the Agency will likely need to consider an inflationary rate increase beginning in FY 2021.

Operating Income is expected to decrease from $962,719 in FY 2015 to $67,884 in FY 2020. The decline in Operating Income is acceptable, considering the Agency's average operating income over the period provides adequate cash flow for operating and capital requirements, but the decline is not sustainable. Under the current operating assumptions, the Agency would likely seek a modest, inflationary rate increase in FY 2021 in order to maintain operating income at a level that is sufficient to 1) fund 100% of rate- funded debt service and 2) fund 50% of maintenance level capital expenditures (or depreciation).

Operating Income is an important measure for the Agency. Operating Income is Operating Revenues less Operating Expenses and is an indicator of the Agency's ability to cover maintenance capital expenditures and debt service with recurring revenues

Under the proposed rate and cost structure, the Agency has sufficient funds to cover capital expenditures and debt service through FY 2020. The Agency has a net use of cash during the five-year period of $1.2 million which reflects a high level of cash funded capital expenditures during the period ($5.1 million) and the reduction of the Agency's CalPERS unfunded accrued liability ($800,000).

At the end of FY 2020, the balance in the Agency's capital and replacement fund is estimated to be $1.6 million, of which approximately $600,000 is allocated for FY 2021 capital expenditures. The residual $1.0 million would be available for future capital projects or to reduce the Agency's unfunded OPEB liability (approximately $1.4 million based on current reports using current methodologies) or further reduce its CalPERs UAL (approximately $980,000 after the FY 2016 reduction).

The Agency's debt service coverage covenants are strong, although declining during the period from an estimated 3.7 X in FY 2015 to 2.5 X in FY 2020.

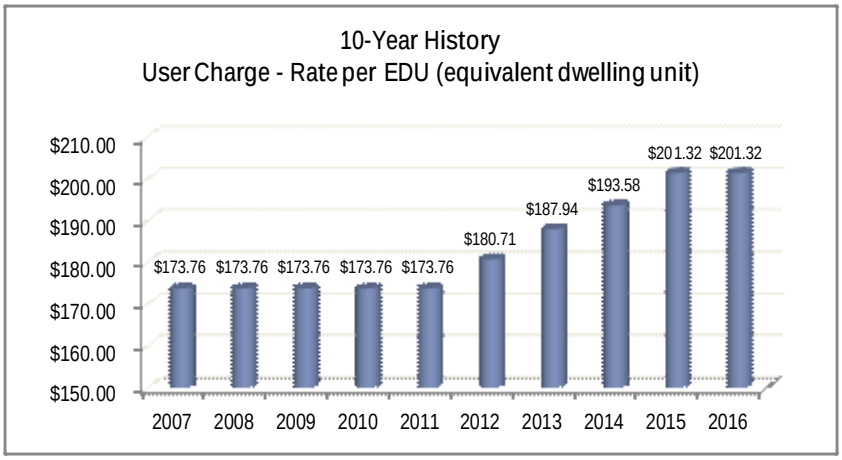
Operating Trends and Outlook

Declining Operating Income, Higher Operating Expenses

Operating Income has recovered from historically low levels as a result of increased rates beginning in FY 2012 and lower, stable operating expenses. Beginning in FY 2015, Operating Income is expected to decline due to flat rates over the projected period and increasing operating expenses.

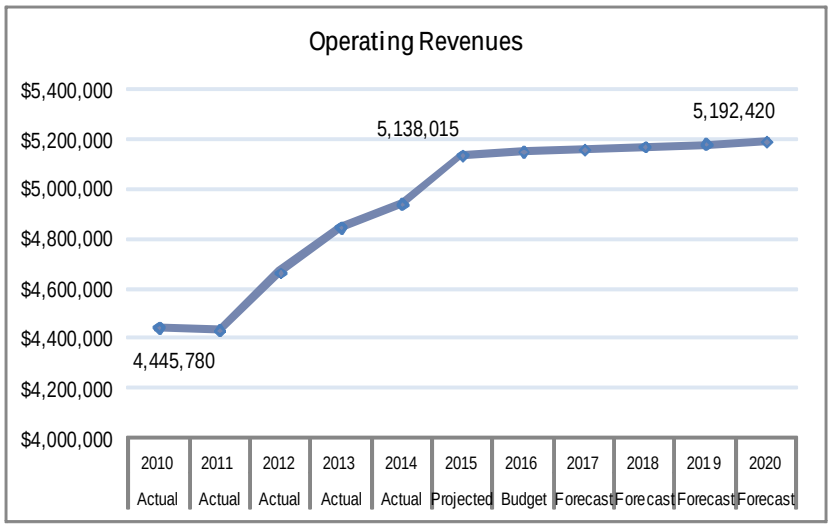
Flat Rates for the Budget and Forecast Periods

Starting in FY 2012, the Agency began annual rate increases under a Maximum Rate Schedule adopted in 2011, which allows the Agency to increase rates up to a maximum amount each year. The increase in rates, increased the Agency's Operating Revenues and has contributed to improved Operating Income through FY 2015. Rates are expected to remain unchanged through FY 2020, with inflationary increases beginning in FY 2021.

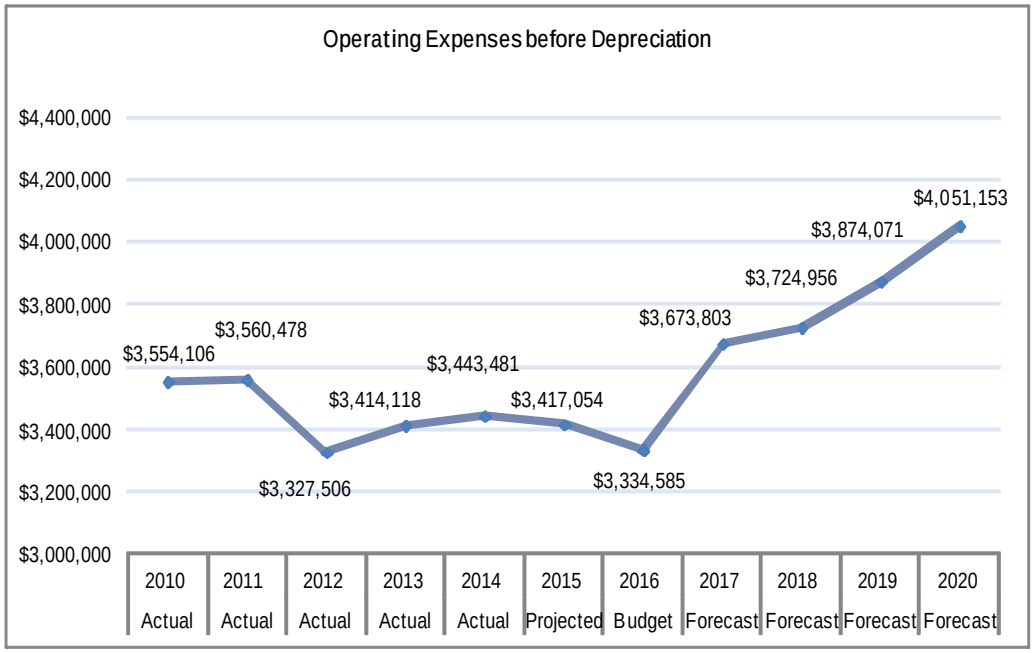


Higher Operating Expenses

The Agency's Operating Expenses are expected to grow at average annual rate of 4%, outpacing expected inflation of 2.3% for the period, and higher than historical experience of -1.1% (since FY 2009). The largest contributor to higher operating expenses is Salaries and Benefits expense. During the second half of FY 2015, the Agency will increase its operating staff by one operator, to 9 operators, to better operate and maintain the Treatment Plant and related facilities. The Agency operated at this staffing level in FY 2009 through FY 2011. Other contributors to higher Operating Expenses include Repairs and Replacements, Power, and Permits and Fees expenses. The five-year forecast for Repairs and Replacements expense is higher than normal due to the timing of 1) certain repairs and 2) the video inspection and



cleaning of the Agency's pipeline. Power expense is higher due to increases in electrical rates and distribution charges. Permits and Fees expense is expected to grow 10% annually and is based on the Agency's experience over the last three years, specifically related to its annual discharge permits.



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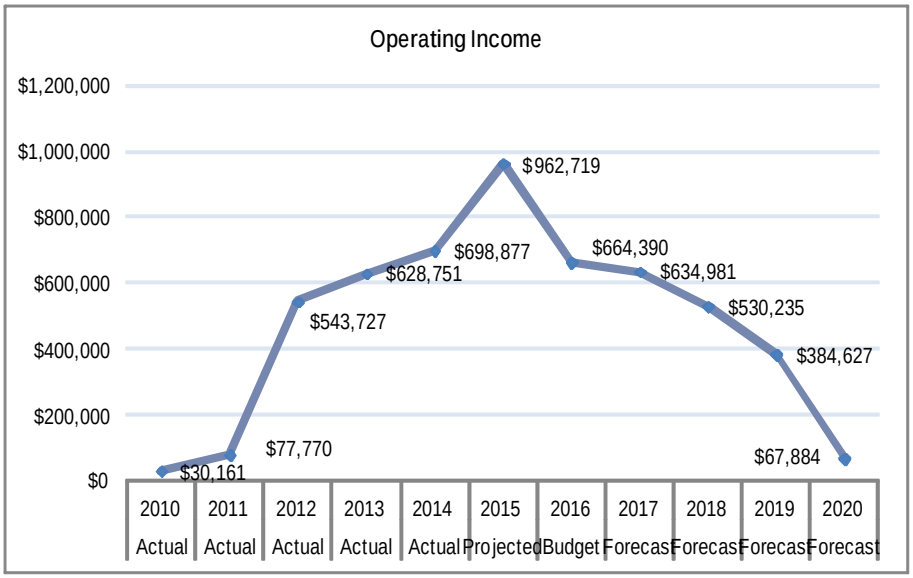
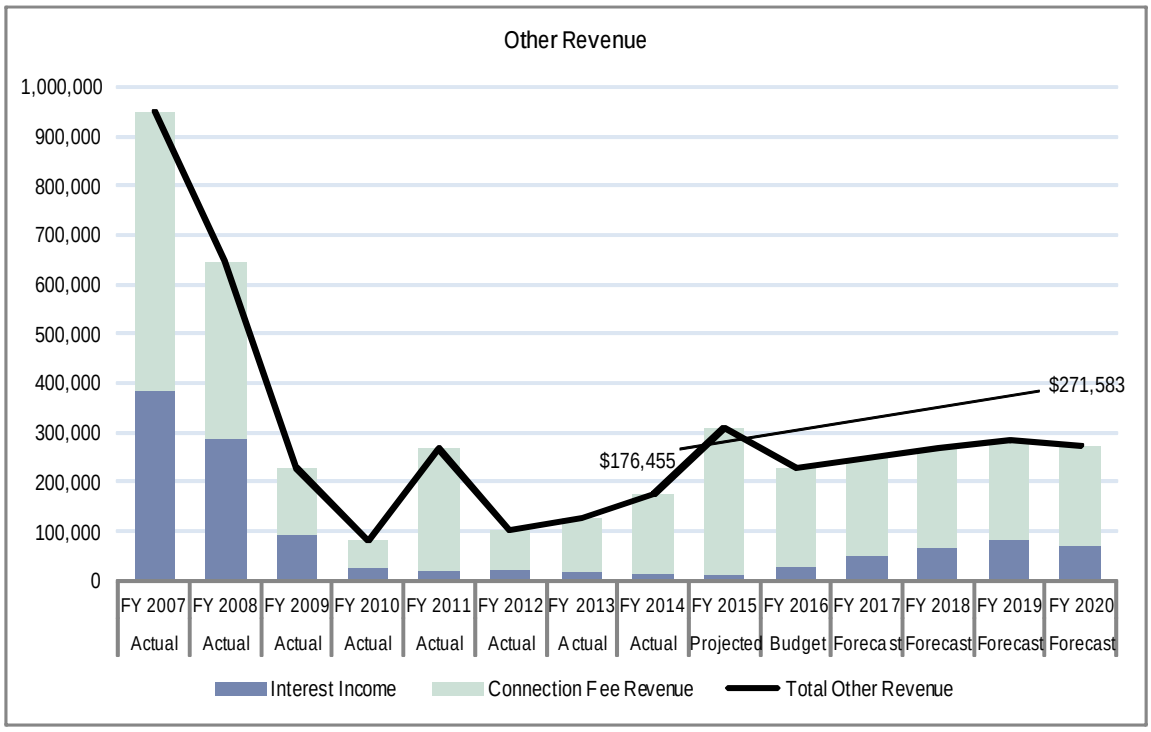
Operating Income has recovered from historically low levels in FY 2009 as a result of increased rates beginning in FY 2012 and lower, stable operating expenses. Moving forward, Operating Income is expected to decline as rates are held flat and operating expenses rise.



Other Revenue Sources Trend Up Slightly

The Agency's other revenue sources, Interest Income and Connection Fees, experienced sharp declines during the 2008/2009 recession and have been relatively flat, mirroring the slow economic recovery. For the budget and forecast period, Interest Income is expected to gradually increase as the capital and replacement fund grows (increasing the Agency's cash balance available for investment). Interest rates are expected to climb slowly increasing by 0.15% in FY 2016 and 0.8% over the forecast period.

New connections to the wastewater system have been at an unprecedented low, ranging from 18 to 45 connections per year for the last five years. While connections are trending up, the Agency has taken a conservative approach to the level of connections considering 1) the timing of the recovery in vacation/second-home starts still remains uncertain and 2) continuing drought conditions could affect connection levels over the period. Connection Fees are expected to increase to 55, from a base of 45 projected for FY 2015 and remain flat over the forecast period. Other revenue sources, Interest Income and Connection Fee revenue combined, are expected to increase by approximately $100,000 annually by FY 2020.

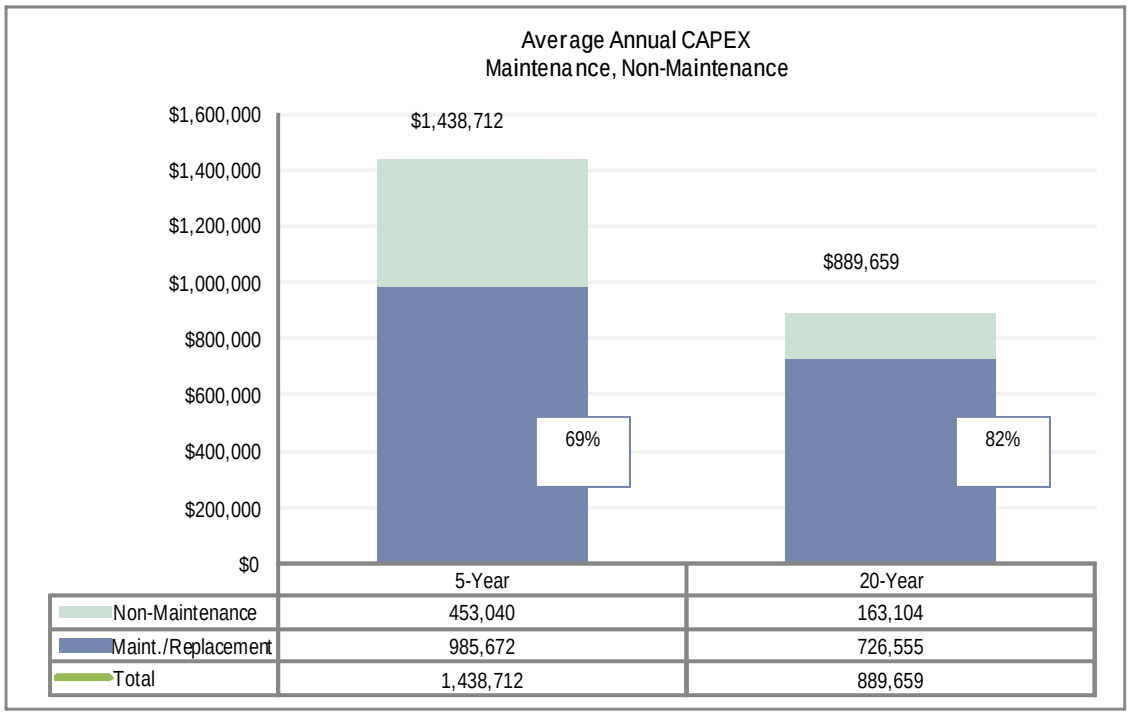


Other revenue sources such as Interest Income and Connection Fees are considered separately from Operating Revenue since they are cyclical and potentially non-recurring, and not generated as part of the Agency's primary operations.

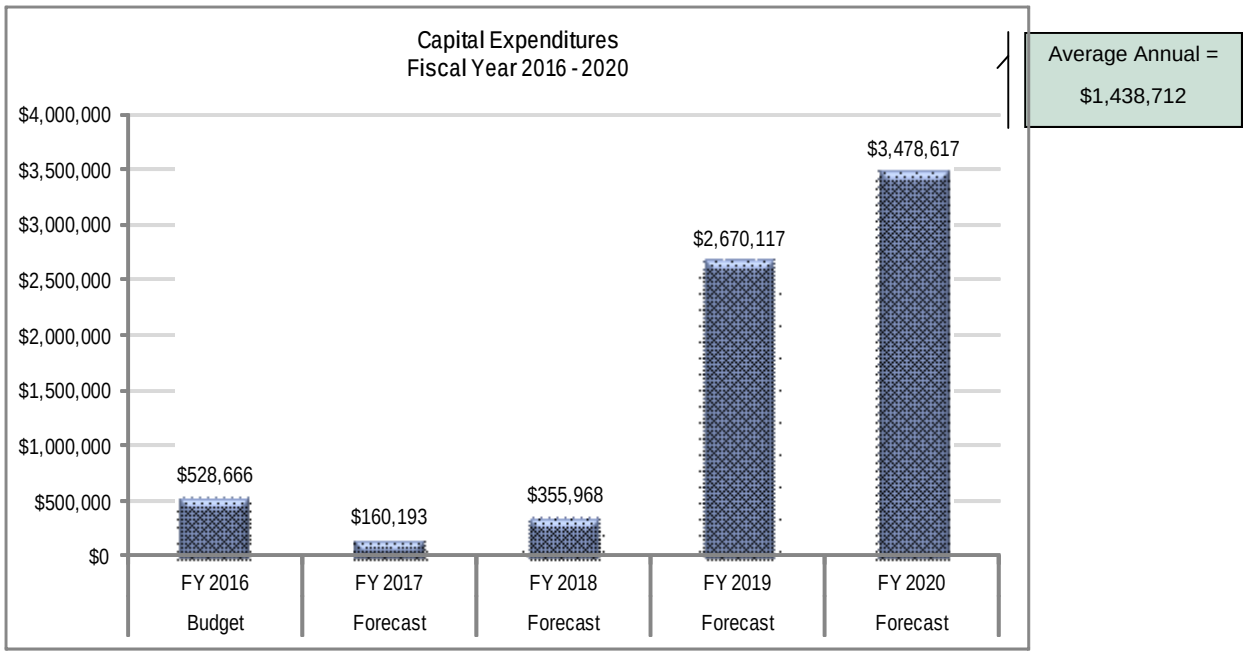
Capital

Capital Expenditures (CAPEX)

The Agency's annual depreciation expense averages approximately $830,000, and is a general indicator of the level of annual maintenance CAPEX needed to maintain the Agency's assets. The Agency's 20-year CIP (capital improvement program) indicates an average annual maintenance requirement of approximately $725,000 and is slightly lower than average depreciation based on the timing of replacement projects (i.e. depreciation expense includes pipeline depreciation, although the majority of the Agency's pipeline replacement projects fall beyond the 20-year CIP).



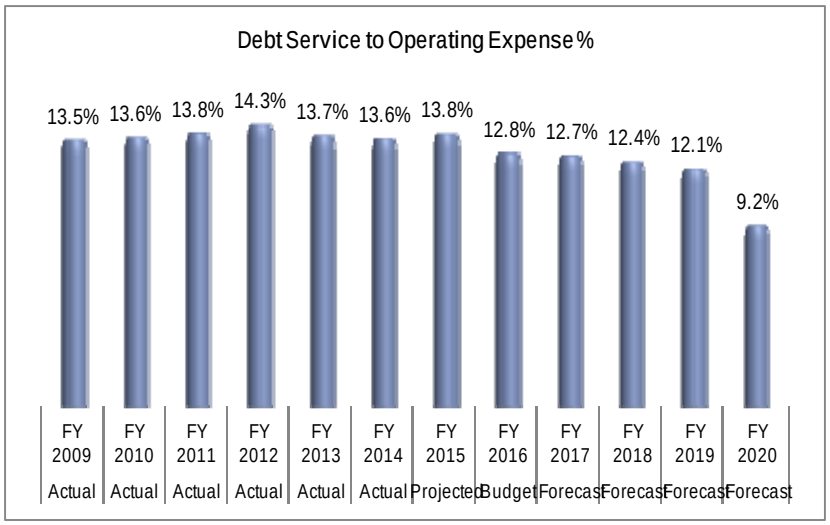
During the five-year forecast, average annual CAPEX is higher than the Agency's long-term average due to the large capital projects scheduled in FY 2019 and 2020. Total CAPEX planned for the period is $7.2 million or an average of $1.4 million a year. Approximately $2.1 million of the planned capital expenditures will be debt financed. Excluding the LEB and the C4, the average annual CAPEX is approximately $600,000 during the period. See Capital Projects section for a detailed discussion of the planned capital projects for the budget and forecast period.



Debt

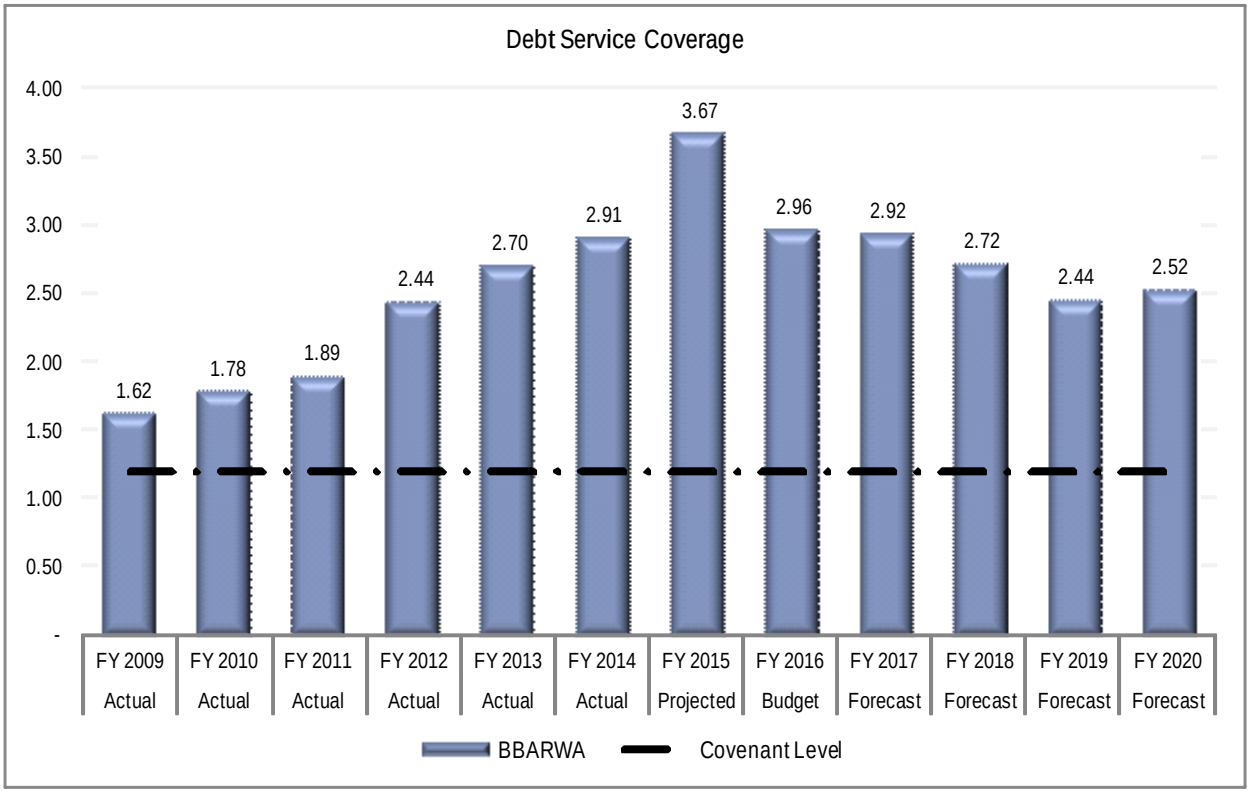
The Agency plans to borrow $2.1 million in FY 2019 to finance a portion of the LEB and C4 projects which are planned for construction beginning in that year.

The Agency currently has the capacity to borrow (excess debt capacity) and maintains moderate leverage with debt service as a percentage of expenditures ranging from a high of 12.8% to 9.2% for the budget and forecast period. (Standard &Poor's Analytical Characterizations of Debt Service as a Percentage of Expenditures characterize debt service between 8% - 15% of expenditures as moderate.)



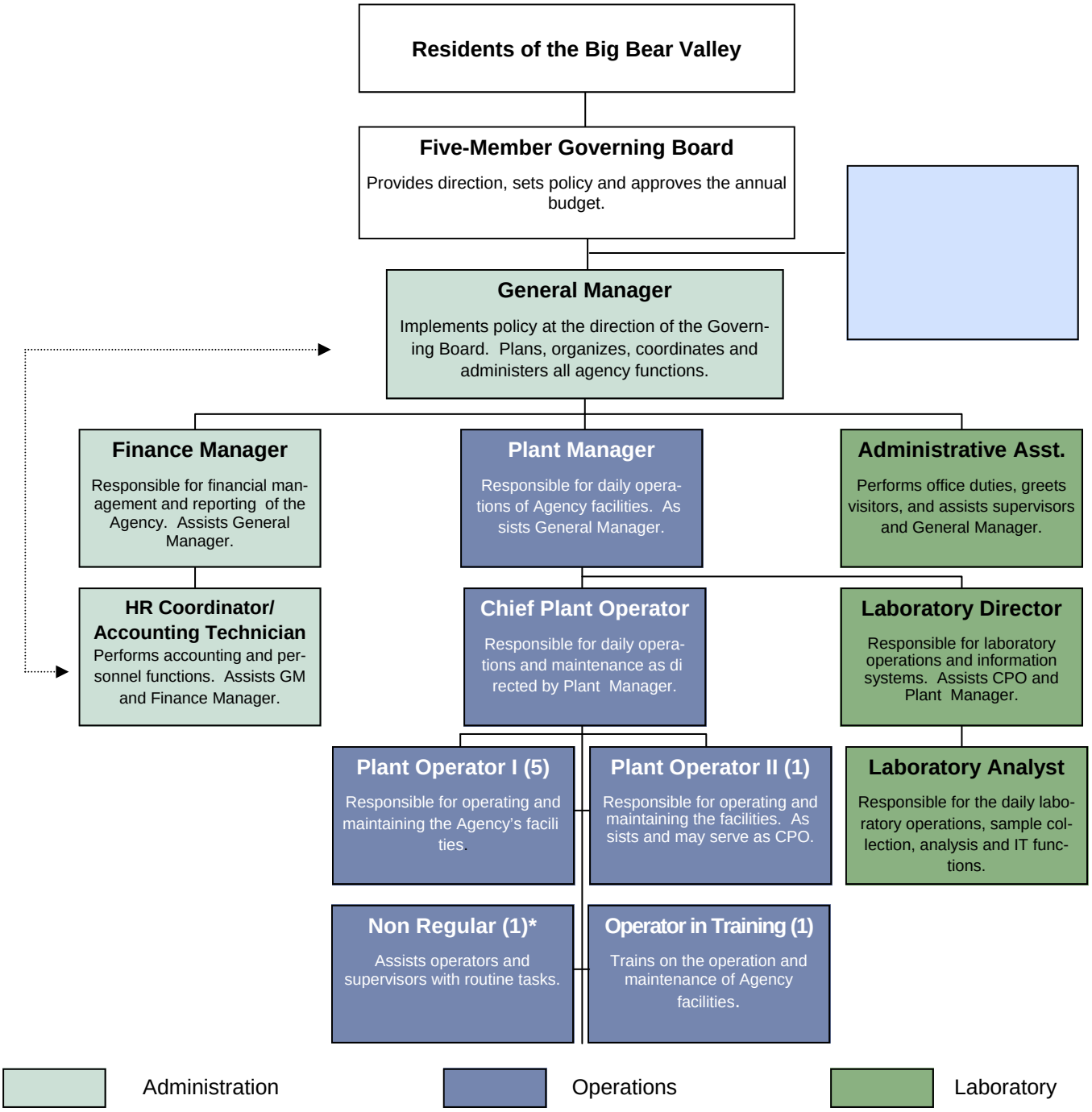
Debt Service Coverage Covenant

The Agency's debt service coverage ratios are excellent and show the financial strength of the Agency. This coverage test measures the Agency's ability to cover it debt service with net revenues (total revenue less operating expenses). The Agency's rates were structured to achieve 1.7 x coverage. Lower operating expenses realized through FY 2013 and planned through FY 2019 combined with lower debt service than planned are the contributing factors to the higher debt service coverage ratios when compared to the 2010 Rate Study. Debt coverage ratios show some deterioration beginning in FY 2017 as rate changes are forecast at 0% and net revenues included in the calculation will drop, however these levels are still strong. Beginning in FY 2019, the Agency's debt service declines causing the coverage to improve to 3.73 X.



Section II. Financial Structure, Policy and Process

Organization Chart



*This position is typically seasonal in nature. The Agency has budgeted for one seasonal operator in FY 2016 and each year through FY 2020.

Governance

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

The Governing Board of Directors

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

David Caretto, Chair
City of Big Bear Lake

John Green, Vice Chair
Big Bear City CSD

Liz Harris Ed. D. ,Secretary
County Service Area 53 B

Rick Herrick, Director
City of Big Bear Lake

Paul Terry, Chair
Big Bear City CSD

Staffing

General Manager and Staff

Steven Schindler
General Manager

Jennifer McCullar
Finance Manager

Fred Uhler
Plant Manager

BBARWA Employee Group

Pictured from left to right beginning with the top row: Kim Booth, Jennifer McCullar, Troy Bemisdarfer, Jeremy Sweeney, Brent Berg, Sonja Kawa, Steve Schindler, Bobby Schindler, Justin Ploense, Francis Hobbs, Nick Josenhans, and Fred Uhler; the bottom row: Nikki Flores and Bob Sellards. Not pictured are Kyle Burnett and Chris Santillan.

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 manager and seven operators. The laboratory department includes one lab director and one lab analyst. The administrative department includes the general manager, finance manager, human resource coordinator/accounting technician, and administrative assistant.

The Agency has a dedicated team with 33% of the employees employed for more than ten years and 67% employed for more than five. Employee longevity provides the organization with decades of experience and lends itself to efficient operations. Approximately 33% of the workforce will be eligible for retirement in FY 2015.

Service Recognition and Awards

The Agency has received multiple industry awards over the years**.** In FY 2015, 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, Hesperia, and Apple Valley:

Administrative Person of the Year

Laboratory Person of the Year

Engineering Achievement

Plant of the Year

Outhouse Award

During the period, the **Special District Risk Management Authority**, the Agency's insurance provider, awarded the Agency the ***President's Special Acknowledgement Award*** for zero claims during the last five years. On a national level, the Agency's Laboratory Analyst was presented with the ***Laboratory Analyst Excellence Award*** by the **Water Environment Federation** recognizing outstanding performance, professionalism and contributions to the water quality analysis profession.

The Agency received the ***Certificate of Achievement for Excellence in Financial Reporting*** (3rd consecutive year) and the ***Distinguished Budget Presentation Award*** (7th consecutive year) from the **Government Finance Officers Association**:

"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)


GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished
Budget Presentation
Award

PRESENTED TO

Big Bear Area Regional Wastewater

California

For the Fiscal Year Beginning

July 1, 2014

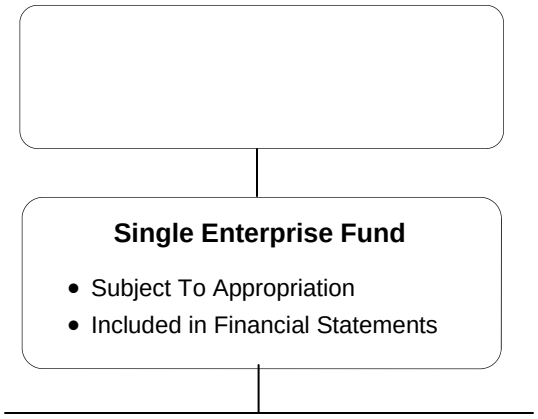
Executive Director

Fund Descriptions and Fund Structure

As noted in subsequent sections, the Agency operates and reports as a proprietary, 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 cash flow translates into retained earnings and is maintained in the Agency's Capital and Replacement reserve fund unless or until designated to another reserve fund or otherwise appropriated.

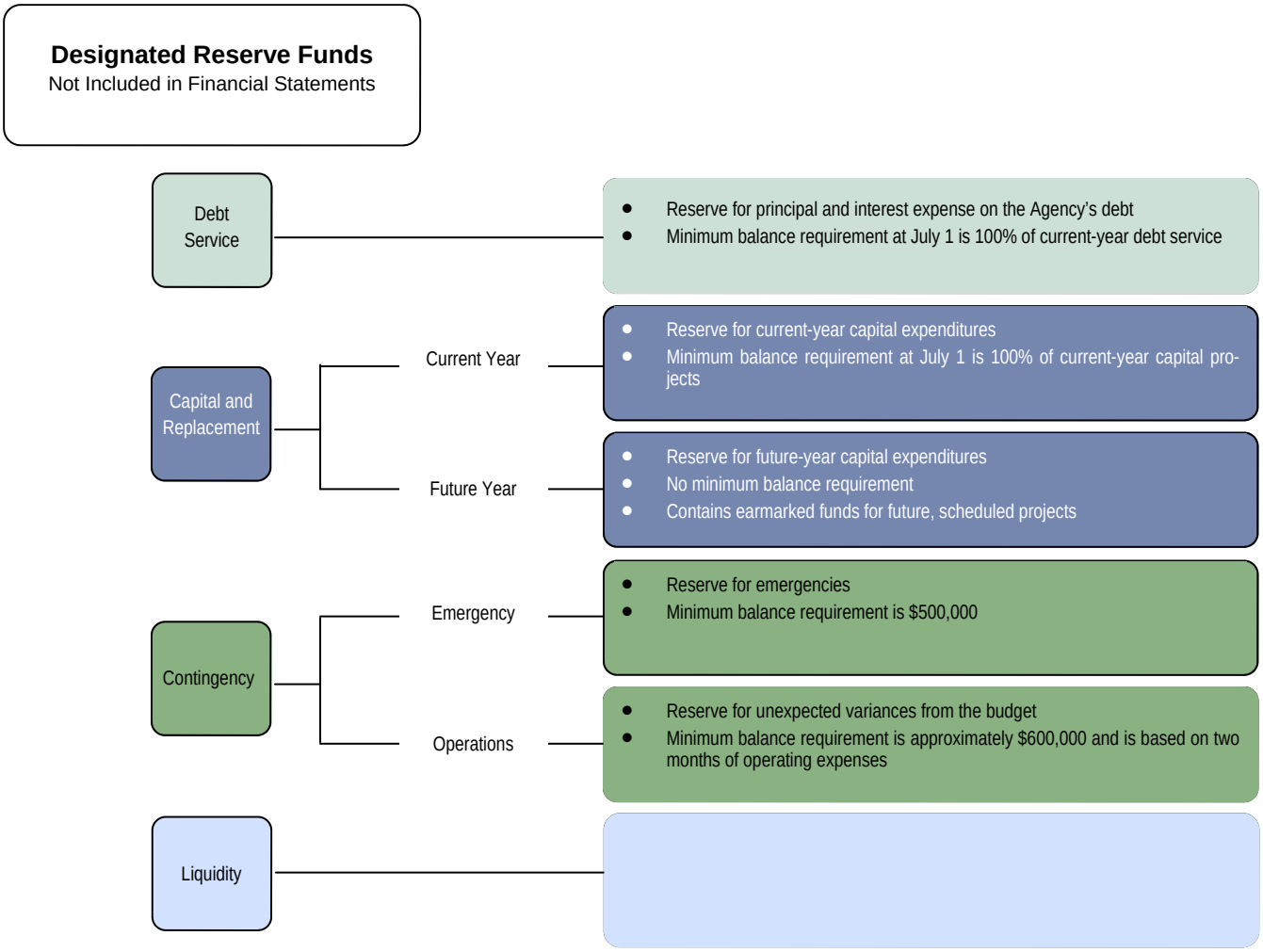
The Agency's cash position is allocated among its designated reserve funds in accordance with its Designated Funds Policy. The Agency maintains multiple reserve funds through its formal Designated Funds Policy for financial management purposes. These funds include debt service, capital expenditures, contingency and liquidity reserve funds. **These designated funds are for internal, financial management purposes only and are not included in the audited financial statements.** The Agency is currently meeting and is projected to meet all minimum balance requirements associated with its designated reserve funds over the next five-year period through FY 2020.

Budget Fund Structure



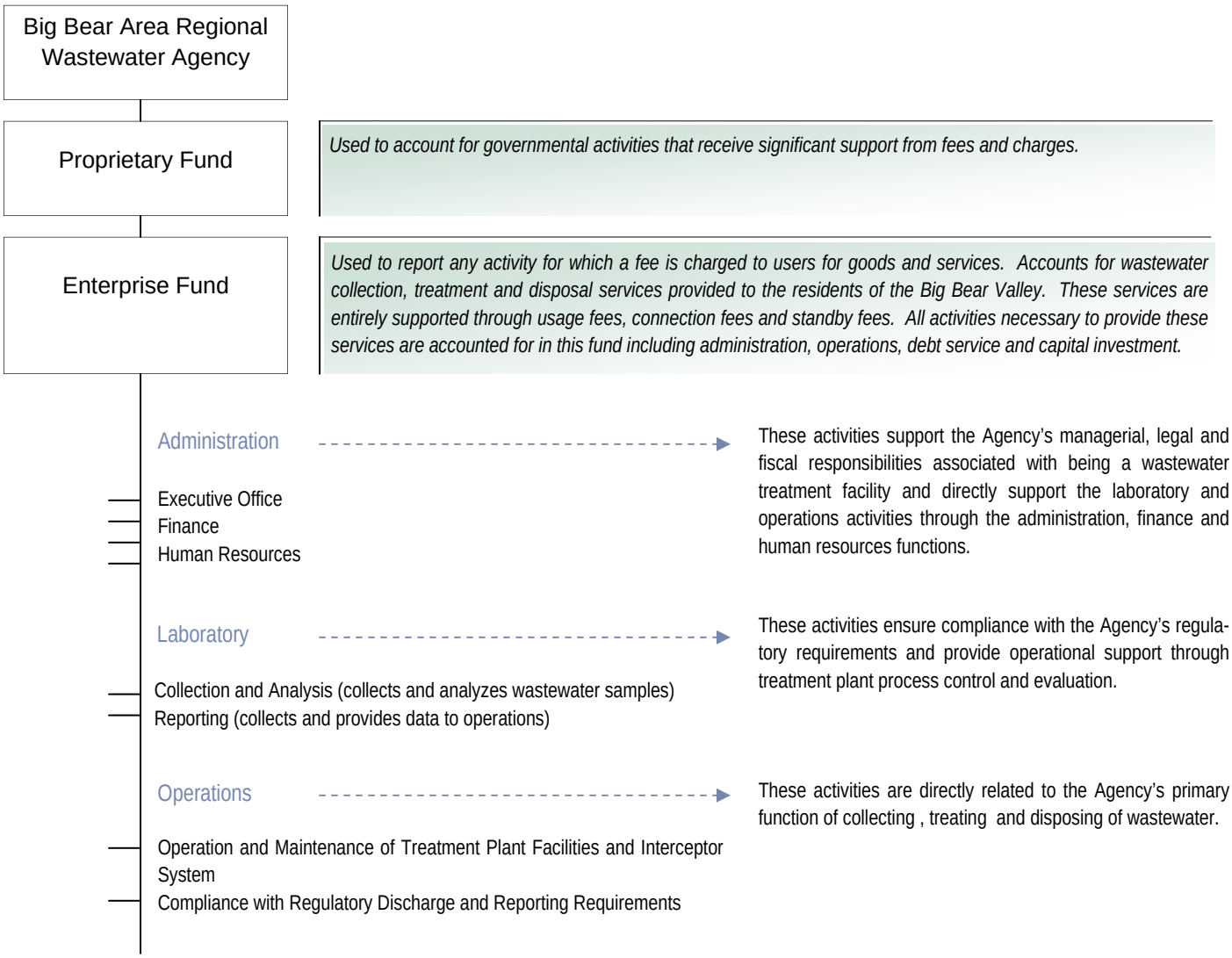
FUND DESCRIPTION

Accounts for wastewater collection, treatment and disposal services provided to the residents of the Big Bear Valley. These services are entirely supported through usage fees, connection fees and standby fees. All activities necessary to provide this service are accounted for in this fund including administration, operations, debt service and capital investment.



Departmental/Fund Relationship

Governmental accounting and financial reporting systems are organized and operated on a "fund" basis for the purpose of demonstrating compliance with various potential legal and contractual obligations associated with government activities. Examples of these obligations would be special purpose revenues which are collected for a specific purpose and therefore restricted to a specific use by law or regulation. An example, provided by the GFOA in its Governmental Accounting, Auditing and Financial Reporting publication, is a government establishing a separate fund to account for revenues from gasoline taxes that can only be spent on road repair and construction so as to ensure and demonstrate compliance with that requirement. Funds are separate fiscal and accounting entities, and may be presented separately and in aggregate in a government's financial statements. Different governmental departments may have distinct activities which are represented by separate funds. The Big Bear Area Regional Wastewater Agency is considered a proprietary, single enterprise fund for accounting and financial reporting purposes. All of its activities/departments are included in a single accounting and reporting entity.



Basis of Accounting and Budgeting

Basis of Accounting

The Agency operates and reports as an **enterprise** utilizing the accrual method of accounting. Revenues are recog-

nized when earned and expenses are recognized when incurred. The Agency applies all applicable Government Accounting Standards Board (GASB) pronouncements in accounting and reporting for is 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 are structured to reflect the same format as the Agency's audited financial statements. Both the "basis of accounting" and the "basis of budgeting" are on an accrual basis which recognizes revenues when earned and expenses when incurred.

Financial Policies

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, the Agency's achievement of strong leadership and financial management is evident.

Top Ten Management Characteristics		Agency Performance
1. Focus on structural balance	✓	Structural balance references the ability of recurring revenues to cover recurring expenditures. The Agency's current and future rates (operating revenues) are structured to cover recurring expenditures These include ongoing operating expenses, debt service and maintenance capital expenditures.
2. Strong liquidity management	✓	The Agency maintains reserves to meet its minimum debt service obligations, emergency funding requirements, and operational variances equal to two months of operating expense in addition to maintaining additional debt capacity.
3. 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.
4. An established rainy day / budget stabilization reserve	✓	The Agency maintains contingency funds specifically for emergency and budget variance purposes.
5. 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.
6. Strong long-term and contingent liability management	✓	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.
7. 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.
8. A formal debt management policy 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 .
9. 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.
10 A well-defined and coordinated economic development strategy	✓	As a wastewater agency, an economic development strategy is not directly applicable; however, 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.

Policies

The Agency has established financial controls pertaining to revenue and expenditures, designated funds, assets, investments, debt and the budget to improve effectiveness, ensure reliable financial reporting, and comply with legal requirements.

The INTERNAL CONTROL POLICIES outline 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, and business meeting and professional development reimbursement.

The BUDGET ADOPTION POLICY ensures the Agency's compliance with the budget adoption requirements of the California Government Code and the Operating Agreement No. 1 among the Member Agencies, outlines the requirements for operating and capital planning, the rate review, and the budget development process.

- The Agency is subject to Government Code Section 61110 which prescribes that a preliminary budget be adopted prior to July 1 of each year. Pursuant to the Operating Agreement No. 1, the Agency must adopt a budget prior to May 1.
- The annual operating budget will be based on historical performance and staff input and includes an income statement, cash flow statement and ending designated fund balances.
- A five-year operating projection will include an income statement, cash flow statement, and designated fund balances. This forecast combined with the long-term capital plan is used to assess the adequacy of the Agency's rates and to plan for capital financing.
- Capital planning will include both a five-year and twenty-year plan. Strategic capital projects for the purposes of costs savings should include calculations of payback period, NPV (Net Present Value) and IRR (Internal Rate if Return) for comparison purposes.
- During the budget development process, the Agency will address the adequacy of rates (sewer usage fees) based on the five-year forecast and long-term capital needs. The Agency's connection fee will be evaluated based on changes in the capital plan, capital financing, and EDUs over the capital planning horizon.

The DESIGNATED FUNDS POLICY establishes reserves and designated reserve balances for the purposes of contingency, liquidity, debt service and capital investment.

- Provides funding for specific purposes related to the management and operation of the Agency.
- The Designated Funds are financial resources available to finance expenditures and are not limited by legal or contractual requirements and may be appropriated elsewhere at the discretion of the Governing board
- The Agency's Designated Funds are outlined on page 20 of this budget document.

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 it s debt service requirements and 2) maintain sufficient financial flexibility to respond to unexpected events.

- The debt policy applies to all forms of debt obligations including bonds, certificates of participation, lease/purchase agreements and other obligations permitted to be issued by the Agency under California Law.
- Debt issuance may be considered a financing option for 1) expenditures that have been formalized in a capital improvement plan and approved by the Governing Board and are considered major infrastructure projects, 2) capital expenditures that have long economic useful lives, usually five years or greater, and 3) capital expenditures where the use of debt financing would better "match" the benefit received by the Agency's ratepayers with the economic impact to the ratepayers.
- Factors to consider when issuing debt are the impact on customers, the timing of the Agency's infrastructure needs, the Agency's debt capacity, the nature of the asset and availability of resources (i.e. the useful life of the project should be commensurate with the term of the debt), and the economic and interest rate environment.
- Analysis requirements prior to debt issuance include a cost and benefit analysis incorporating the impact of the project and debt financing on the budget and multi-year forecast.

The INVESTMENT POLICY applies to all financial assets and has the primary objectives of safety, liquidity and yield (in priority order). When managing public funds, the Agency understands that investment success can not be measured in terms of achieving the highest possible return but must be measured in terms of prudent investing that utilizes uncommitted dollars in safe, short-term investments to earn the Agency reasonable returns with the least amount of risk and to maintain adequate liquidity.

- Investments permitted by policy and authorized by the California Government Code 53646 include: 1) LAIF managed by the Treasurer of the State of California; 2) CDs insured by the FDIC with maturities less than two years (purchases less than 30% of Agency surplus funds); 3) U.S. Treasury Bills, Notes and Bonds with maturities less than two years ; and 4) AAA-rated money market mutual funds regulated by the SEC and consisting only of U.S. Treasury securities.
- The finance officer reports to the General Manager and the Governing Board on a monthly basis the Agency's investments and the ability of the Agency to meet its expenditure requirements for a period of six months.

The FINANCIAL REPORTING POLICY is for the purpose of fiscal monitoring.

- The finance officer will prepare monthly financial reports for review by the management staff. These reports include an income statement, cash flow statement, balance sheet and a fund balance report. The presentation will include actual performance compared to the budget on a period and year-to-date basis.
- The finance officer will prepare quarterly and annual reports for the Governing Board of Directors. These reports include an income statement, a cash flow statement, and a fund balance report. The presentation will include 1) actual performance compared to the budget on a period and year-to-date basis and 2) an explanation of variances from the budget. Quarterly reports should be completed no later than 45 days from quarter end. Annual reports should be completed no later than 60 days from year end.

The RATES POLICY ensures the Agency's compliance with the legal requirements associating with setting and maintaining rates. Maintaining adequate, stable and competitive rates is an Agency priority.

- The policy establishes that the Agency's rates are:
    - Cost-based, equitable and meet the Agency's full revenue requirement
    - Easy to understand and administer
    - Have been set based on generally accepted rate-setting techniques
    - Are stable in the ability to provide adequate revenues for meeting the Agency's current and future financial requirements
    - Have been established at a level that is stable from year to year from a ratepayer perspective
    - Have been adopted according to legal requirements
- The policy outlines the legal requirements for each of its rates: the sewer user fee (also referenced as the Agency's Annual Charges), the connection fee, and the standby fee.

Balanced Budget

The Agency considers the budget balanced when recurring revenues are equal to or in excess of recurring expenditures or in the case where recurring revenues are less than recurring expenditures, there are adequate reserves to cover the excess expenditures. Recurring revenues include annual charges (user fees), standby fees, wastewater disposal fees, and rental income. Recurring expenditures include ongoing operating expenses, debt service and average annual maintenance capital expenditures. The Agency is projected to have a balanced budget during the current budget year.

Budget Process

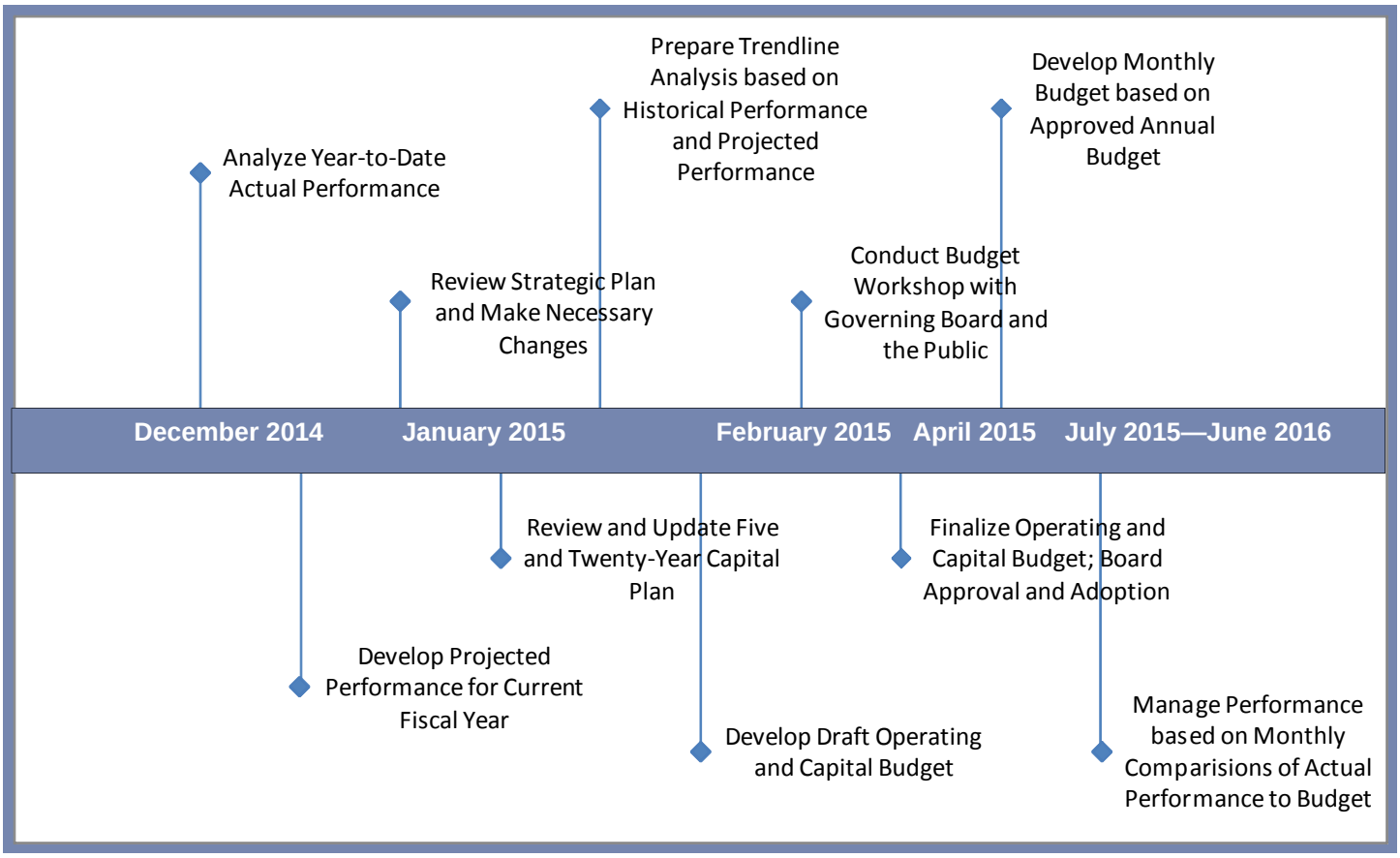
Pursuant to financial policy, a budget must be reviewed, approved and adopted prior to May 1 of each year for the subsequent fiscal year beginning July 1. The budget adoption deadline of May 1, is also established in the Agency's operating agreement among BBARWA and its member agencies. By California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

The Agency's annual budget provides a solid picture of the Agency's expectations for the next twelve months and is an accountability tool for management and reflects its commitment to performance. Overall, the Agency's operations are fairly stable and the goal is to be within five percent of the original budget during any given year, unless unexpected events occur.

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 Manager 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 the 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 a cost overage, 2) a capital project exceeds the original budgeted expenditure by $20,000 or more, and 3) any new capital expenditure needs to be added to the Agency's current-year capital improvement plan.

Budget Timeline



Section III: Financial Summaries

Budget Framework

While the Agency completes a one-year budget, it also looks closely at the next five-year period. Most of the discussion and analysis, and financial information presented will include the five-year period, from FY 2016 through FY 2020.

Important Assumptions

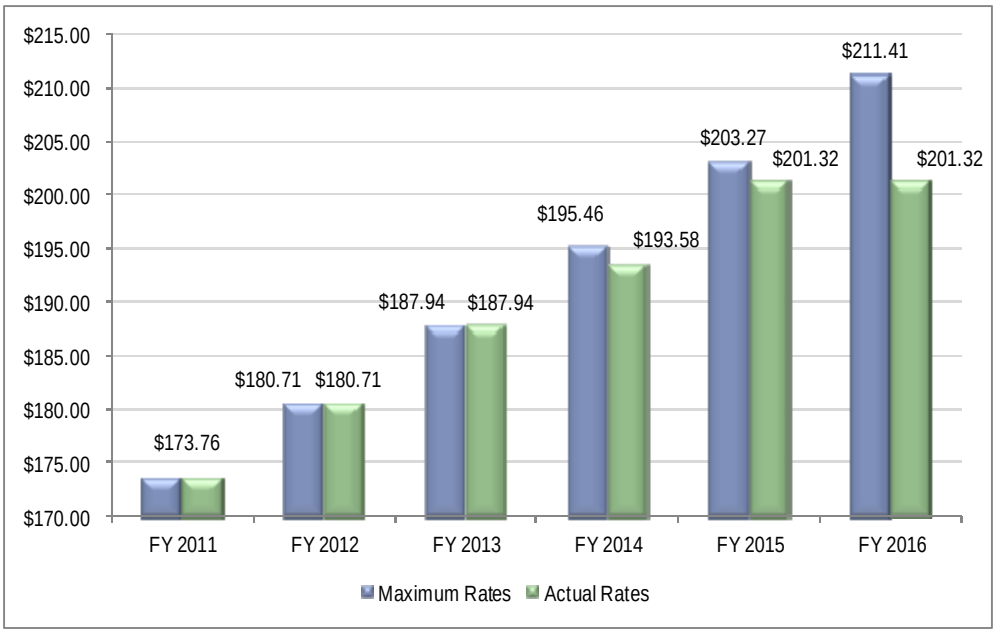
The budget and the forecast period were prepared using the following assumptions:

Average Dry Weather Flow

The Agency budgets for dry weather as a matter of practice. The Agency experiences average dry weather flows of approximately 788 million gallons on an annual basis. If, during the budget period, the Agency incurs wet weather flows or other operational variances from the budget, and the operating budget is unable to absorb the increased costs, the Agency has established a contingency fund from which the Board may appropriate funds. The contingency fund is recommended to be two months of operating and maintenance expense by the Government Finance Officers Association. Based on staff's review, we believe the amount to be adequate.

Lower Rates than the Maximum Rate Schedule

The budget and forecast period assume no changes in the Agency's sewer user fees. The Agency consulted with the engineering firm of HDR Engineering, Inc. to complete a comprehensive review of the Agency's sewer user fees, standby fees and connection fees in FY 2011. As a result of these studies, the Governing Board of Directors approved a multi-year rate schedule. The maximum rate schedule determines the maximum rate the Agency can charge in any particular year. The following is a comparison between the actual rates and those allowed through the maximum rate schedule.



As previously noted, lower rates than the maximum rate schedule were achieved primarily through lower operating expenses, due mostly to lower salaries and benefits expense. The rates through FY 2020 have been structured to meet the Agency's current needs and longer-term capital requirements. In FY 2019 and 2020, the Agency's capital plans include the construction of a new clarifier (Clarifier 4) and a Load Equalization Basin (LEB), for an estimated cost of $2.3 million and $1.9 million, respectively. Under the proposed rate structure, the Agency will be positioned to cash finance 50% of the capital costs of these projects and debt finance the remainder.

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 Consumers, 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.

Price Index	Date	Change
CPI, Los Angeles-Riverside-Orange-County – All Urban Consumers	Dec 2014	0.7%
Producer Price Index, Utilities	Dec 2014	0.0%
Construction Cost Index	Dec 2014	2.8 %
Congressional Budget Office, CPI, All Urban Consumers	Calendar Years 2015- 2019, Annual Average	2.2%

Lower energy prices negatively impacted the December CPI and PPI in the above table. Lower energy prices are expected to be temporary, with inflation expected to pick up as unemployment continues to fall, ultimately leading to higher wages and increased consumption. The overall outlook is for inflation to move back to 2% (Fed target) in the medium term with a potential increase in the Fed Funds rate in June 2015.

The Agency has assumed inflation of 2.1% in FY 2016 increasing gradually to 2.5% over the forecast period, for an average annual rate of 2.3%.

	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020
Inflation	-2.2%	1.1%	1.8%	1.6%	1.0%	1.8%	2.0%	2.1%	2.1%	2.3%	2.3%	2.5%

Note: Actual inflation represents the CPI, Los Angeles, Riverside, Orange County, All Urban Consumers

Comparisons

Financial performance comparisons throughout this budget include historical, current and future periods. The periods prior to and including FY 2014 are periods of actual financial performance, FY 2015 is the projected performance, FY 2016 is the budget period, and FY 2017 – FY 2020 are the forecast periods:

FY 2014	FY 2015	FY 2016	FY 2016 - FY 2020
Actual	Projected	Budget	Forecast Period

Items Impacting Financial Performance

Increase in Staffing (Increase in Salaries and Benefiits Expense)

Salaries and wages are expected to increase 6% in FY 2016 due to an increase in full-time operations staff (to 9 from 8) at the end of FY 2015. This higher level of costs will carry through to the forecast periods when compared to prior projections.

Higher Pension Contribution Expense (Increase in salaries and benefits expense)

Benefits expense is expected to increase 12.5% due to an increase in the Agency's required amortization associated with its CalPERS unfunded accrued liability (UAL) and is the result of CalPERS' assumption changes for pension valuation. Once the Agency reduces the UAL (planned in FY 2106), the Agency will realize lower pension contribution expense beginning in FY 2017.

Increase in Power Costs

Power costs are expected to increase 11% in FY 2016 due to 1) the full-year impact of the January 2015 increase in Bear Valley Electric rates (impacts power costs associated with the Agency's pumping stations) and 2) the full-year impact of the January 2015 rate increases by Southwest Gas (impacts the Agency's natural gas transportation costs).

Reduction in CalPERS Unfunded Accrued Lability (Decrease in Cash)

The Agency has budgeted to reduce its CalPERS UAL by $800,000 during FY 2016, increasing its funded ratio to approximately 90% at June 30, 2013 (most recent actuarial measurement date) from 76.7%. This payment will result in lower pension contribution expense beginning in FY 2017, with total net savings of approximately $880,000 (approximately $400,000 NPV, using a 3% discount rate).

Increase in Connections (Increase in Other Revenue)

The Agency has assumed connections increase to 55 per year from 45 budgeted in FY 2015. The 55 annual connections are assumed through FY 2020 and will contribute approximately $37,000 annually to the Agency's cash flow compared to prior projections. The Agency has taken a conservative approach to the level of connections considering 1) the timing and level of the recovery in vacation/second-home starts still remains uncertain and 2) continuing drought conditions could affect connection levels. The assumed increase in connections (when compared to prior projections) is the result of solid economic data and an improved economic outlook combined with two, multi-unit developments that may contribute up to 30+ annual connections over the next few years.

Net Position or Fund Equity

Net Position reflects the Agency's equity, or its assets minus its liabilities. The Statement of Revenues, Expenses and Changes in Net Position, shows the Agency's Change in Net Position for the period, which increases or decreases the Agency's overall Net Position (see page 31). The Agency's Net Position or fund equity reflects amounts that are not necessarily available for expenditure. For financial management purposes, the Agency's primary focus is on changes in cash and ending cash balances, net of working capital, thus, it focuses on it's expendable, available funds. The Agency designates portions of its cash balance to meet current period financial requirements and future capital requirements. The designated portions of the cash balance are referred to as the Agency's Designated Reserve Funds. Target balances have been established for the various designated reserve funds for financial management and planning purposes.

Special Terms

The following terms are used throughout the Financial Summaries section of this budget and have been provided here as a matter of convenience to the reader. These terms may also be found in the Glossary.

C4	Clarifier 4
CAGR	is the Compound Average Growth Rate which is the average annual growth rate over the period referenced
CDB	Covered Drying Bed
FY	means the fiscal year ending June 30th of the year referenced, i.e. FY 2015 is the fiscal year ending June 30, 2015
LEB	Load Equalization Basin
UAL	is the unfunded accrued liability associated with the Agency's pension obligations and represents the accrued pension liability that is unfunded as of the most recent valuation date
nm	means "not meaningful". It is input as the outcome when dividing by "0"
Projected performance	is based on five months of actual performance through November 2014 and represents the Agency's best estimate of full-year, FY 2015 performance

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.

Derived from Agency's primary operations and include:

- annual charges - based on the user fee and number of EDUs in the system
- standby fees- collected from undeveloped parcel owners to cover operating costs to maintain the system in a "ready" state
- rental income - income from leased property
- waste disposal income -charge for waste disposal by outside parties at the treatment plant

Includes other income such as:

- interest income - earned on cash balances and reserves held with bond trustees
- gains on asset disposal
- other miscellaneous

Connection Fee Revenue

A one-time fee 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.

Operating Expenses

All operating and maintenance costs associated with running the treatment plant and related facilities.
The largest expenses are salaries and benefits; power; repairs and replacements; materials and supplies; and permits and fees expense.

Debt Service

Debt service is principal payments and interest expense associated with the Agency's existing debt obligations. The Agency uses debt and pay-as-you go financing to fund capital projects.

Capital Expenditures

Capital expenditures are investments in property, plant and equipment. The amount of the investment is usually greater than $5,000 for accounting purposes.

	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year Total
Sources of Funds:										
Operating Revenues	4,665,762	4,849,143	4,941,801	5,138,015	5,153,205	5,160,440	5,171,079	5,181,739	5,192,420	25,858,883
Connection Fees	80,740	110,100	165,150	297,270	201,850	201,850	201,850	201,850	201,850	1,009,250
Other Income	28,822	16,167	11,789	10,800	26,588	47,008	66,613	81,841	69,733	291,784
Proceeds from Debt Issuance	0	0	0	0	0	0	0	2,082,601	0	2,082,601
Total Sources of Funds	4,775,324	4,975,410	5,118,740	5,446,085	5,381,643	5,409,299	5,439,542	7,548,031	5,464,004	29,242,518
										0
Uses of Funds:										0
Op Expense (b/f Depreciation)	-3,327,506	-3,414,118	-3,443,481	-3,334,585	-3,673,803	-3,724,956	-3,874,071	-4,051,153	-4,281,087	-19,605,070
Working Capital	255,137	-126,100	79,824	24,033	-27,397	-3,846	-11,596	-13,847	-18,248	-74,934
Debt Service	-617,402	-527,410	-527,224	-576,084	-576,084	-576,084	-576,084	-578,502	-469,994	-2,776,747
Other	-741,854	6,400	0	0	-800,000	0	0	0	0	-800,000
Capital Expenditures	-683,220	-703,600	-2,196,489	-333,505	-528,666	-160,193	-355,968	-2,670,117	-3,478,617	-7,193,561
Total Uses of Funds	-5,114,845	-4,764,828	-6,087,370	-4,220,141	-5,605,949	-4,465,078	-4,817,719	-7,313,620	-8,247,946	-30,450,311
										0
Net Cash Flow	-339,521	210,582	-968,630	1,225,943	-224,306	944,220	621,823	234,411	-2,783,942	-1,207,794

The Agency is expected to generate negative cash flow of $224,306 in FY 2016 and approximately $1.2 million in total through FY 2020. The net use of cash during FY 2016 is primarily due to the $800,000 payment to reduce the Agency's CalPERS UAL. The net use of cash during the forecast period is primarily due to the a higher level of capital expenditures associated with the construction of the LEB and the C4 in FY 2019 and 2020.

Financial Schedules

The Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows have been provided on the following pages. A financial summary is provided for each statement. A discussion and analysis of the FY 2016 Budget follows.

Statement of Revenues, Expenses and Changes in Net Position, Comparison

	Actual FY 2014	Projected FY 2015	NEW Budget FY 2016	Projected FY 2015 vs Actual FY 2014 $	%	Budget FY 2016 vs Projected FY 2015 $	%
Operating Revenues:							
Annual Charges	4,778,215	4,979,690	4,994,548	201,475	4%	14,857	0%
Standby Charges	91,400	90,860	89,250	-540	-1%	-1,610	-2%
Rental Income	47,745	48,264	48,929	519	1%	665	1%
Waste Disposal	22,433	19,200	20,478	-3,233	-14%	1,278	7%
Other Revenue	2,007	0	0	-2,007	-100%	0	nm
Total Operating Revenue	4,941,801	5,138,015	5,153,205	196,214	4%	15,190	0%
Operating Expenses:							
Salaries and Benefits	1,797,691	1,807,117	1,954,560	9,426	1%	147,444	8%
Power	399,239	470,323	522,455	71,084	18%	52,132	11%
Sludge Removal	221,541	146,272	140,625	-75,269	-34%	-5,647	-4%
Chemicals	37,376	46,268	69,957	8,892	24%	23,689	51%
Materials and Supplies	153,454	154,081	148,321	626	0%	-5,760	-4%
Repairs and Replacements	186,806	129,661	215,299	-57,145	-31%	85,637	66%
Equipment Rental	0	0	0	0	nm	0	nm
Utilities Expense (other than power)	19,757	15,500	15,614	-4,257	-22%	114	1%
Communications Expense	45,613	31,741	61,426	-13,872	-30%	29,685	94%
Contractual Services - Other	95,678	109,336	100,950	13,658	14%	-8,386	-8%
Contractual Services - Professional	224,045	129,145	133,442	-94,900	-42%	4,297	3%
Permits and fees	131,361	139,310	153,883	7,949	6%	14,573	10%
Property Tax Expense	3,265	3,660	3,441	395	12%	-219	-6%
Insurance	69,623	83,349	87,763	13,726	20%	4,413	5%
Other Operating Expense	58,032	68,823	66,069	10,791	19%	-2,753	-4%
Depreciation Expense	799,443	840,710	815,012	41,267	5%	-25,698	-3%
Total Operating Expense	4,242,924	4,175,295	4,488,815	-67,629	-2%	313,519	8%
Operating Income	698,877	962,719	664,390	263,842	38%	-298,329	-31%
Nonoperating Income							
Gain (loss) on asset disposition	-28,326	0	0	28,326	+ a)	0	nm
Interest Income	11,305	10,800	26,588	-505	-4%	15,788	146%
Other Nonoperating Income	0	0	0	0	nm	0	nm
Nonoperating income	-17,021	10,800	26,588	27,821	+ a)	15,788	146%
Nonoperating Expense							
Other Expense	11,700	11,700	11,700	0	0%	0	0%
Interest Expense	111,747	146,782	132,499	35,035	31%	-14,284	-10%
Nonoperating expense	123,447	158,482	144,199	35,035	28%	-14,284	-9%
Income before Contributions	558,409	815,037	546,780	256,628	46%	-268,257	-33%
Connection Fees	165,150	297,270	201,850	132,120	80%	-95,420	-32%
Change in Net Position	723,559	1,112,307	748,630	388,748	54%	-363,677	-33%
Beginning Net Position	17,279,908	18,003,467	19,115,774	723,559	4%	1,112,307	6%
Ending Net Position	18,003,467	19,115,774	19,864,403	1,112,307	6%	748,630	4%

a) Percent change is not provided if either the latest period or the comparison period contains a loss or negative number. If the performance is improved when compared to the budget a "+" is given. If the actual performance is worse when compared to the budget, a "-" is given.

Statement of Cash Flows and Ending Disignated Reserve Fund Balances

	Actual FY 2014	Projected FY 2015	Budget FY 2016
CASH FROM OPERATIONS:			
Operating Income (Loss)	698,877	962,719	664,390
Depreciation expense	799,443	840,710	815,012
Other Miscellaneous Income (Exp)	0	0	0
Change in Working Capital	79,824	24,033	-27,397
Cash from Operations	1,578,144	1,827,462	1,452,005
CASH FROM INVESTMENTS:			
Connection Fee (Capital Contrib)	165,150	297,270	201,850
Capital Expenditures	-2,196,489	-333,505	-528,666
(Increase) Decrease in Other Assets	0	0	0
Other Proceeds	0	0	0
Proceeds from the Sale of Investment	484	0	0
Proceeds from Asset Disposition	0	0	0
Cash from Investments	-2,030,855	-36,235	-326,816
CASH FROM FINANCING:			
Interest Income	11,305	10,800	26,588
Change in Other LT Liabilities	0	0	-800,000
Refunding Charges	0	0	0
Debt Service:			
Interest Expense	-123,447	-146,782	-132,499
Principal Debt Amortization	-403,777	-429,301	-443,585
Total Debt Service	-527,224	-576,084	-576,084
Proceeds from Debt Issuance	0	0	0
Cash from Financing Activities	-515,919	-565,284	-1,349,496
NET CHANGE IN CASH	-968,630	1,225,943	-224,306
Beginning Cash Balance	6,414,277	5,445,645	6,671,588
Ending Cash Balance	5,445,645	6,671,588	6,447,282
Change in Cash Balance	-968,632	1,225,943	-224,306
DESIGNATED RESERVE FUND BALANCE (ENDING):			
Cash Balance	5,445,647	6,671,588	6,447,282
Designated Reserve Fund Balances:			
Capital and Replacement Fund			
Current Year	333,505	528,666	160,193
Future Years	1,823,003	2,628,658	2,738,876
Total C & R	2,156,508	3,157,324	2,899,069
Debt Service Fund	576,084	576,084	576,084
Liquidity Fund	1,657,289	1,825,880	1,851,303
Contingency Fund:			
Emergency	500,000	500,000	500,000
Operating	555,764	612,300	620,826
Total Contingency	1,055,764	1,112,300	1,120,826
Designated Reserve Funds	5,445,645	6,671,588	6,447,282

Financial Summaries

NEW Budget FY 2016 Compared to Projected FY 2015

Operating Revenues are budgeted to be $5.2 million, flat with FY 2015. Annual Charges will remain relatively unchanged from the prior year as a result flat sewer user fees and relatively flat connections.

Operating Expenses are budgeted at $4.5 million, up $313,519 or 8% from FY 2015 projected performance. Operating expenses are budgeted to increase when compared to the prior period due largely to higher Salaries and Benefits expense, Power expense, and Repairs and Replacements expense and to a lesser extent higher Chemicals and Communications expense. These increases are explained below.

- **Salaries and benefits expense** is budgeted to be $1,954,560, an increase of $147,444 or an 8% increase. The increase is driven by higher salaries and wages due to an increase in staffing and higher pension contribution expense (associated with recent changes in pension liability valuation methodology).

Item	Increase $
New Operations Staff	$57,468
Merit and Longevity	27,763
COLA (1.3%)	12,187
Pension Contribution - Amortization of UAL	30,367
Pension Contribution - Normal Cost	6,243
OPEB Contribution	6,356
Medical, Dental, Vision, Life Insurance Premiums	5,172
Other	1,188
Total	$147,444

- **Power expense** is budgeted to be $522,455, an increase of $52,132 or 11%. The increase reflects full-year price increases from Bear Valley Electric and Southwest Gas. Both companies increased prices effective January 2015. Bear Valley Electric provides electricity to the Agency's pumping stations and Southwest Gas transports natural gas to the Agency's generators.
- **Chemicals expense** is budgeted to be $69,957, an increase of $23,689 or 51%. The increase reflects a carbon tower replacement of approximately $24,000 (required every three years).
- **Repairs and Replacements expense** is budgeted to be $215,299 an increase of $85,637 or 66% due to video inspection and hydro cleaning of the mainline ($72,200) and an increase in costs associated with raising and sealing manholes.
- **Communications expense** is budgeted to be $61,426, an increase of $29,685 or 94% from the prior year. During FY 2016, the Agency will be replacing SCADA system components including controls in the Cannibal Building, a laptop and software totaling $36,166.

Operating Income is budgeted to be $664,390, a decrease of $298,329 or 31%. The decrease in Operating Income is primarily due to flat Operating Revenues and the increase in Operating Expenses of $313,519.

Change in Net Position is budgeted to be $748,630, a decrease of $363,677 or 33%. The decrease is due to lower Operating Income (noted above) and lower Connection Fees. The Agency expects 81 connections in FY 2015 and has budgeted 55 connections in FY 2016, a decrease of 26 connections. Approximately 31 of the 81 estimated connections for FY 2015 are related to multi-unit developments. Due to the uncertainty associated with these connections continuing, the flat recovery in housing to date, and the current drought, the Agency has budgeted a modest increase of 10 connections over its FY 2015 base line connection level of 45.

Five-Year Forecast
Statement of Revenues, Expenses and Changes in Net Position

	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year Total
Operating Revenues							
Annual Charges	4,979,690	4,994,548	5,002,238	5,013,311	5,024,384	5,035,456	25,069,937
Standby Charges	90,860	89,250	88,111	86,971	85,832	84,693	434,856
Rental Income	48,264	48,929	49,614	50,319	51,046	51,794	251,703
Waste Disposal	19,200	20,478	20,477	20,477	20,477	20,477	102,387
Other Revenue	0	0	0	0	0	0	0
Total Operating Revenue	5,138,015	5,153,205	5,160,440	5,171,079	5,181,739	5,192,420	25,858,883
Operating Expenses							
Salaries and Benefits	1,807,117	1,954,560	2,047,632	2,153,149	2,259,721	2,367,863	10,782,926
Power	470,323	522,455	591,149	595,000	598,939	603,320	2,910,863
Sludge Removal	146,272	140,625	143,578	146,880	150,259	154,015	735,357
Chemicals	46,268	69,957	48,232	49,341	75,960	51,680	295,169
Materials and Supplies	154,081	148,321	133,477	138,579	143,171	151,892	715,439
Repairs and Replacements	129,661	215,299	154,464	152,472	160,829	238,365	921,429
Equipment Rental	0	0	0	0	0	0	0
Utilities Expense	15,500	15,614	15,941	16,308	16,683	17,100	81,646
Communications Expense	31,741	61,426	33,088	33,849	34,627	47,294	210,284
Contractual Services - Other	109,336	100,950	104,915	105,051	104,168	106,349	521,432
Contractual Services - Prof	129,145	133,442	131,460	139,378	137,576	146,148	688,005
Permits and fees	139,310	153,883	169,852	187,591	207,271	229,131	947,728
Property Tax Expense	3,660	3,441	3,454	3,468	3,482	3,496	17,341
Insurance	83,349	87,763	92,372	96,390	100,549	105,068	482,142
Other Operating Expense	68,823	66,069	55,342	56,615	57,917	59,365	295,308
Depreciation Expense	840,710	815,012	800,504	766,773	745,959	843,449	3,971,696
Total Operating Expense	4,175,295	4,488,815	4,525,459	4,640,844	4,797,112	5,124,536	23,576,766
Operating Income	962,719	664,390	634,981	530,235	384,627	67,884	2,282,117
Nonoperating Income							
Finance Charge	0	0	0	0	0	0	0
Interest Income	10,800	26,588	47,008	66,613	81,841	69,733	291,784
Other Nonoperating Income	0	0	0	0	0	0	0
Nonoperating income	10,800	26,588	47,008	66,613	81,841	69,733	291,784
Nonoperating Expense							
Other Expense	11,700	11,700	11,700	11,700	11,700	11,700	58,500
Interest Expense	146,782	132,499	117,740	102,489	134,039	121,706	608,472
Nonoperating expense	158,482	144,199	129,440	114,189	145,739	133,406	666,972
Income before Contributions	815,037	546,780	552,550	482,659	320,729	4,212	1,906,929
Connection Fees	297,270	201,850	201,850	201,850	201,850	201,850	1,009,250
Change in Net Position	1,112,307	748,630	754,400	684,509	522,579	206,062	2,916,179

Five-Year Forecast
Statement of Cash Flows and Ending Designated Reserve Fund Balances

	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	Total
CASH FROM OPERATIONS:							
Operating Income (Loss)	962,719	664,390	634,981	530,235	384,627	67,884	2,282,117
Depreciation expense	840,710	815,012	800,504	766,773	745,959	843,449	3,971,696
Other Miscellaneous Income (Exp)	0	0	0	0	0	0	0
Change in Working Capital	24,033	-27,397	-3,846	-11,596	-13,847	-18,248	-74,934
Cash from Operations	1,827,462	1,452,005	1,431,639	1,285,412	1,116,738	893,086	6,178,880
CASH FROM INVESTMENTS:							
Connection Fee (Capital Contrib)	297,270	201,850	201,850	201,850	201,850	201,850	1,009,250
Capital Expenditures	-333,505	-528,666	-160,193	-355,968	-2,670,117	-3,478,617	-7,193,561
(Increase) Decrease in Other Assets	0	0	0	0	0	0	0
Other Proceeds	0	0	0	0	0	0	0
Proceeds from the Sale of Investment	0	0	0	0	0	0	0
Proceeds from Asset Disposition	0	0	0	0	0	0	0
Cash from Investments	-36,235	-326,816	41,657	-154,118	-2,468,267	-3,276,767	-6,184,311
CASH FROM FINANCING:							
Interest Income	10,800	26,588	47,008	66,613	81,841	69,733	291,784
Change in LT Liabilities	0	-800,000	0	0	0	0	-800,000
Refunding Charges	0	0	0	0	0	0	0
Debt Service:							0
Interest Expense	-146,782	-132,499	-117,740	-102,489	-134,039	-121,706	-608,472
Principal Debt Amortization	-429,301	-443,585	-458,344	-473,594	-444,463	-348,288	-2,168,275
Total Debt Service	-576,084	-576,084	-576,084	-576,084	-578,502	-469,994	-2,776,747
Proceeds from Debt Issuance	0	0	0	0	2,082,601	0	2,082,601
Cash from Financing Activities	-565,284	-1,349,496	-529,075	-509,471	1,585,940	-400,261	-1,202,362
NET CHANGE IN CASH	1,225,943	-224,306	944,220	621,823	234,411	-2,783,942	-1,207,794
Beginning Cash Balance	5,445,645	6,671,588	6,447,282	7,391,502	8,013,325	8,247,737	6,671,588
Ending Cash Balance	6,671,588	6,447,282	7,391,502	8,013,325	8,247,737	5,463,795	5,463,795
Change in Cash Balance	1,225,943	-224,306	944,220	621,823	234,411	-2,783,942	-1,207,794
DESIGNATED RESERVE FUND BALANCE (ENDING):							Change
Cash Balance	6,671,588	6,447,282	7,391,502	8,013,325	8,247,737	5,463,795	-1,207,794
Designated Reserve Fund Balances:							
Capital and Replacement Fund							
Current Year	528,666	160,193	355,968	2,670,117	3,478,617	583,602	54,936
Future Years	2,628,658	2,738,876	3,388,359	1,576,091	1,011,785	1,039,238	-1,589,420
Total C & R	3,157,324	2,899,069	3,744,327	4,246,208	4,490,402	1,622,840	-1,534,484
Debt Service Fund	576,084	576,084	576,084	578,502	469,994	469,994	-106,090
Liquidity Fund	1,825,880	1,851,303	1,925,413	2,013,423	2,073,826	2,136,041	310,161
Contingency Fund:							
Emergency	500,000	500,000	500,000	500,000	500,000	500,000	0
Operating	612,300	620,826	645,679	675,192	713,514	734,920	122,619
Total Contingency	1,112,300	1,120,826	1,145,679	1,175,192	1,213,514	1,234,920	122,619
Designated Reserve Funds	6,671,588	6,447,282	7,391,502	8,013,325	8,247,737	5,463,795	-1,207,794

Budget and Forecast Period, FY 2016 - FY 2020

With no rate changes, and thus flat revenue growth, and growing operating expenses during the forecast period, Operating Income will shrink, lowering the Agency's debt service coverage and debt capacity, although to levels that still remain good. During the period, the Agency's minimum fund balance targets are met and the Agency's financial position is strong. Based on the current forecast, the Agency will likely need to consider an inflationary rate increase beginning in FY 2021.

Operating Income is expected to decrease from $962,719 in FY 2015 to $67,884 in FY 2020. The decline in Operating Income is acceptable, considering the Agency's average operating income over the period provides adequate cash flow for operating and capital requirements, but the decline is not sustainable. Under the current operating assumptions, the Agency would likely seek a modest, inflationary rate increase in FY 2021 in order to maintain operating income at a level that is sufficient to 1) fund 100% of rate funded debt service and 2) fund 50% of maintenance level capital expenditures (or depreciation).

Under the proposed rate and cost structure, the Agency has sufficient funds to cover capital expenditures and debt service through FY 2020. The Agency has a net use of cash during the five-year period of $1.2 million which reflects a high level of cash funded capital expenditures during the period ($5.1 million) and the reduction of the Agency's CalPERS unfunded accrued liability ($800,000).

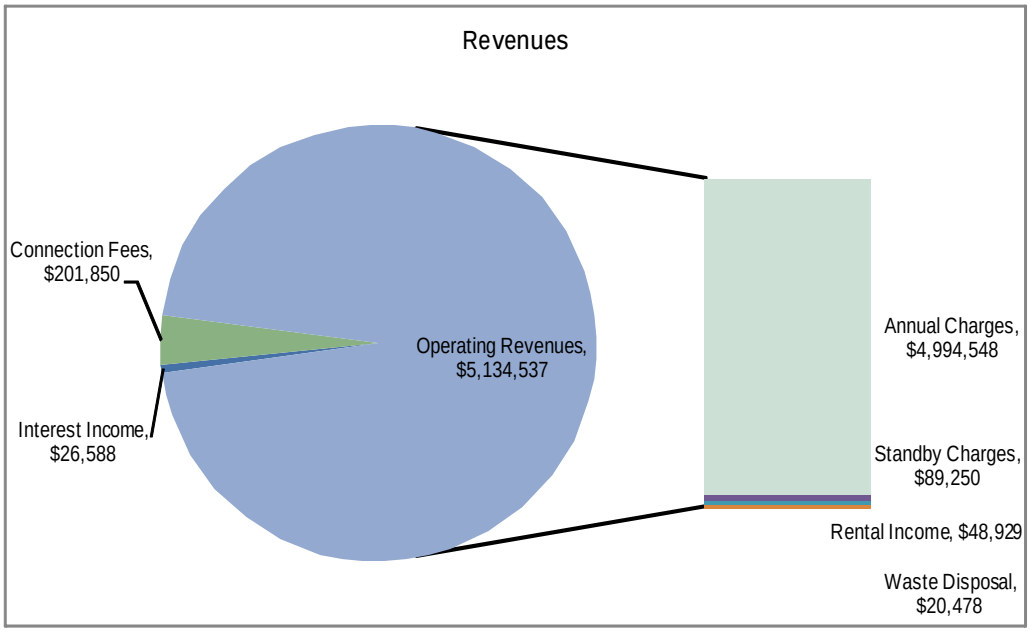
At the end of FY 2020, the balance in the Agency's capital and replacement fund is estimated to be $1.6 million, of which approximately $600,000 is allocated for FY 2021 capital expenditures. The residual $1.0 million would be available for future capital projects or to reduce the Agency's unfunded OPEB liability (approximately $1.4 million based on current reports using current methodologies) or further reduce its CalPERs UAL (approximately $980,000 after the FY 2016 reduction).

The Agency's debt service coverage covenants are strong, although declining during the period from an estimated 3.7x in FY 2015 to 2.5x in FY 2020.

Revenues: Trends and Analysis

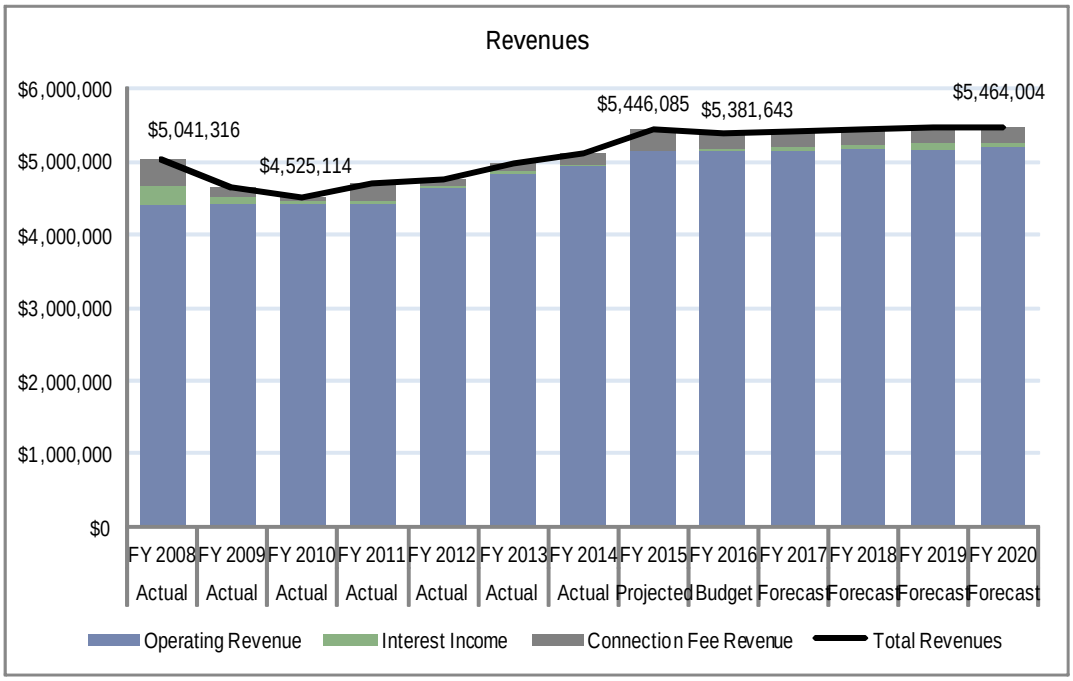
Revenues

Operating Revenues are the Agency's largest source of funds (96% of total sources) and are driven by the Agency's Annual Charges.



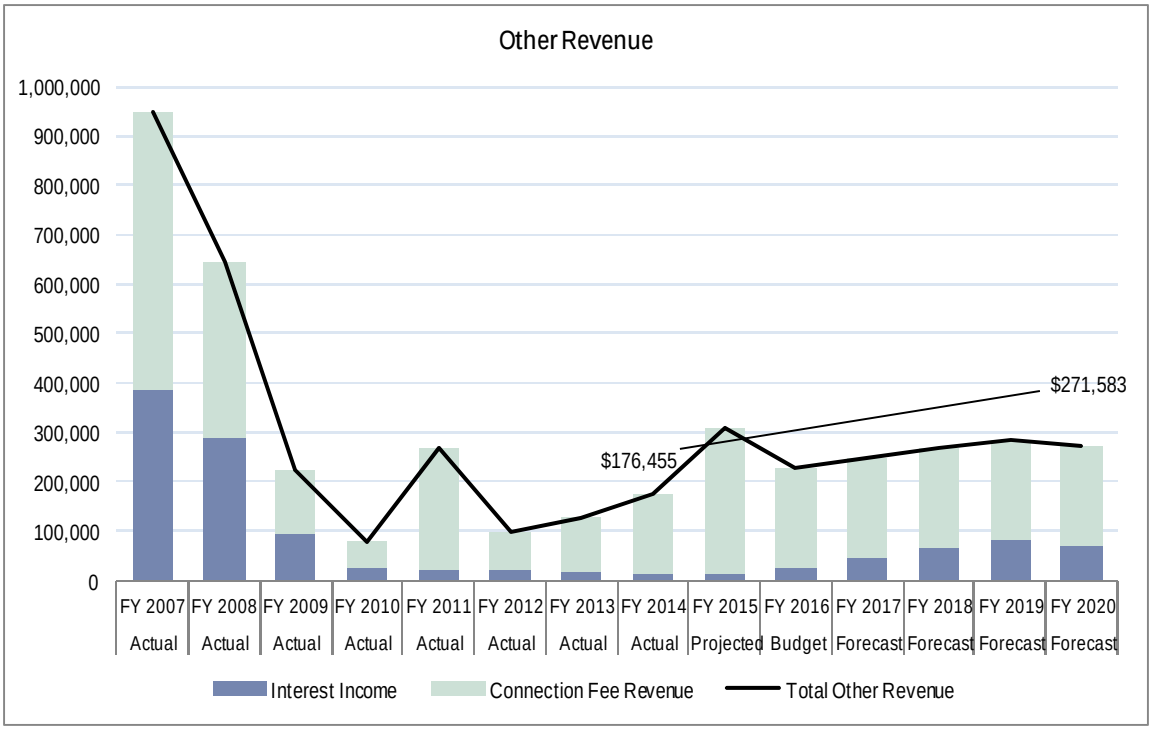
Revenue Trends

The Agency's overall revenues have been negatively impacted by the Great Recession and lackluster recovery, largely as a result of declining Connection Fee Revenue and lower Interest Income beginning in 2008



The Agency's other revenue sources, Interest Income and Connection Fees, experienced sharp declines during the 2008/2009 recession and have been relatively flat, mirroring the slow economic recovery. For the budget and forecast period, Interest Income is expected to gradually increase as the capital and replacement fund grows (increasing the Agency's cash balance available for investment). Interest rates are expected to climb slowly increasing by 0.15% in FY 2016 and 0.8% over the forecast period.

New connections to the wastewater system have been at an unprecedented low, ranging from 18 to 45 connections per year for the last five years. While connections are trending up, the Agency has taken a conservative approach to the level of connections considering 1) the timing of the recovery in vacation/second-home starts still remains uncertain and 2) continuing drought conditions could affect connection levels over the period. Connection Fees are expected to increase to 55, from a base of 45 projected for FY 2015 and remain flat over the forecast period. Other revenue sources, Interest Income and Connection Fee revenue combined, are expected to increase by approximately $100,000 annually by FY 2020. The connection fee charged per connection increased to $3,670 from $3,031.22 per connection in FY 2012 as a result of the connection fee study completed in December 2010.



Operating Revenue

Operating Revenue consists 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.

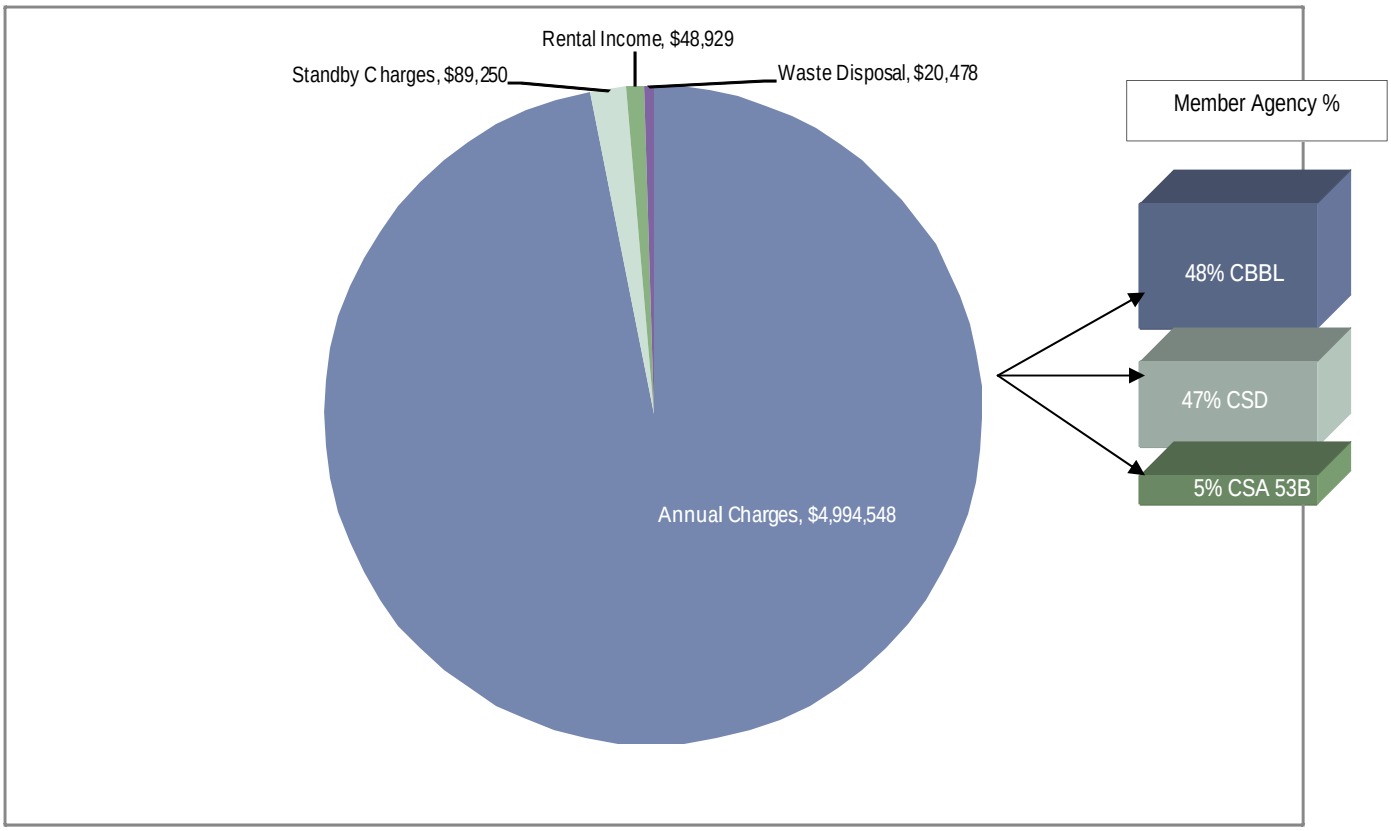
Other Revenue: Miscellaneous or unusual one-time operating revenue.

Operating Revenues are budgeted to increase 0% in FY 2016 and 0% on an average annual basis over the forecast period, through FY 2020. The flat growth reflects a 0% increase in the Agency's sewer user fees and minimal change in annual connections to the system.

	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year CAGR
Op Revenue:												
Annual Charges	4,279,422	4,274,044	4,506,876	4,688,312	4,778,215	4,979,690	4,994,548	5,002,238	5,013,311	5,024,384	5,035,456	0%
Standby Charges	96,323	95,240	93,890	92,430	91,400	90,860	89,250	88,111	86,971	85,832	84,693	-1%
Rental Income	45,273	46,512	46,859	47,433	47,619	48,264	48,929	49,614	50,319	51,046	51,794	1%
Waste Disposal	14,072	16,974	18,081	20,918	15,722	19,200	20,478	20,477	20,477	20,477	20,477	1%
Other Revenue	10,690	2,049	56	50	0	0	0	0	0	0	0	nm
Op Revenue	4,445,780	4,434,819	4,665,762	4,849,143	4,932,956	5,138,015	5,153,205	5,160,440	5,171,079	5,181,739	5,192,420	0%
% Change	0%	0%	5%	4%	2%	4%	0%	0%	0%	0%	0%	

Annual Charges

Operating Revenues are driven by Annual Charges, which account for 96% of the Agency's Operating Revenues. Annual Charges, pursuant to the Agency's Operating Agreement No. 1, are collected annually from the three member agencies based on EDUs and flow per agency. While this represents a high concentration of revenues among two of the three agencies (see chart below), public agency default risk, according to bond rating agencies, has historically been low with strong recovery rates. The Agency maintains a contingency fund of approximately $1.1 million which could be used to temporarily soften the impact in the event of a non-payment from one of its member agencies.



Member Agency Charges

	Reported EDUs	Charge per EDU	Fixed Charge	Variable Charge	Transition Adjustment (a)	Annual Charge Adjustment (a)	Total
Annual Charges:							
City of Big Bear Lake	11,605	$207.96	$1,714,285	$581,736	$3,451	$113,972	$2,413,444
Big Bear City CSD	11,931	$195.78	$1,762,411	$482,166	-$3,143	$94,465	$2,335,900
CSA 53 B	1,256	$192.53	$185,533	$47,326	-$308	$9,272	$241,821
Total	24,792		$3,662,229	$1,111,227	$0	$217,709	$4,991,166
Standby Charges:							
City of Big Bear Lake							$31,940
Big Bear City CSD							$51,270
CSA 53 B							$6,040
Total Annual Charges							$89,250
Connection Fee:							
Connection Fee per EDU Effective July 1, 2015							$3,670

(a) The transition adjustment reflects the agreement by the City of Big Bear Lake to remit an additional charge beginning with $0.05 per 1,000 gallons in FY 2012 and reducing to $0 by FY 2017.
(b) The annual charge adjustment reflects charges in excess or below the total of 1) the required rate revenues and 2) estimated costs associated with wet weather flow during the prior 3-year period. The Annual Charge Adjustment is prorated among the member agencies based on 3-year average flow.

Standby Charges , Rental Income and Waste Disposal Fees

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 or are combined. Rental Income is related to leased property and is contractual in nature.

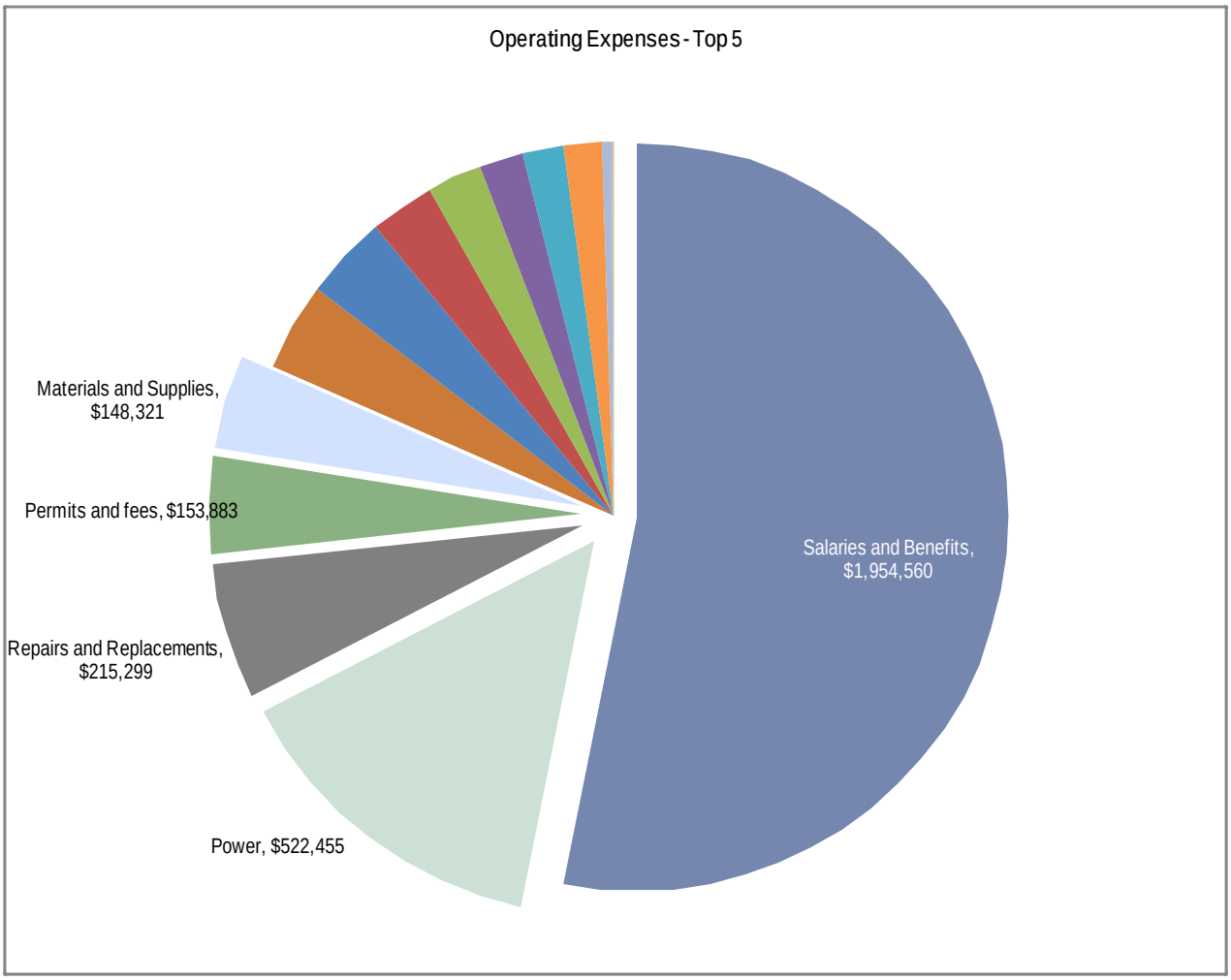
Capital Contributions - Connection Fee Revenue

New connections to the wastewater system have been at an unprecedented low, ranging from 18 to 45 connections per year for the last five years. While connections are trending up, the Agency has taken a conservative approach to the level of connections considering 1) the timing of the recovery in vacation/second-home starts still remains uncertain and 2) continuing drought conditions could affect connection levels over the period. Connection Fees are expected to increase to 55, from a base of 45 projected for FY 2015 and remain flat over the forecast period. Other revenue sources, Interest Income and Connection Fee revenue combined, are expected to increase by approximately $100,000 annually by FY 2020.

The connection fee charged per connection increased to $3,670 from $3,031.22 per connection in FY 2012 as a result of the connection fee study completed in December 2010.

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020
Connections	128	47	18	81	22	30	45	81	55	55	55	55	55
Connection Fee	$ 2,793	$ 2,868	$ 3,031	$ 3,031	$ 3,670	$ 3,670	$ 3,670	$ 3,670	$ 3,670	$ 3,670	3,670	3,670	3,670
Connection Fees	357,739	131,991	54,562	244,923	80,740	110,100	165,150	297,270	201,850	201,850	201,850	201,850	201,850
% Change	-37%	-63%	-59%	349%	-67%	36%	50%	80%	-32%	0%	0%	0%	0%

Operating Expenses



The Agency's top five operating expense categories make up approximately 82% of the FY 2016 operating expense budget (before depreciation expense). Growth in operating expenses can be largely impacted by changes in salaries and benefits expense and power expense, the two largest categories of operating expense, comprising 53% and 14% of operating expenses (before depreciation), respectively. As noted below and in prior budgets, the Agency has taken steps to control the growth in these costs and its overall operating expenses to the rate of inflation.

Operating Expenses: Trends and Analysis

Overall, the Agency's operating expenses (see next page) have remained relatively flat, declining 1% on an average annual basis during the last five years (FY 2010 - FY 2015), and are expected to grow at a faster pace during the next five years, with a 4% average annual change during the period (FY 2016—FY 2020). Lower operating expenses historically are primarily due to flat salaries and benefits expense due to cost control efforts and lower staffing levels, lower levels of influent (very dry weather), and a low inflationary environment (1.6% a year on average).

A discussion of operating trends is presented on the following pages for the Agency's top five operating expense categories.

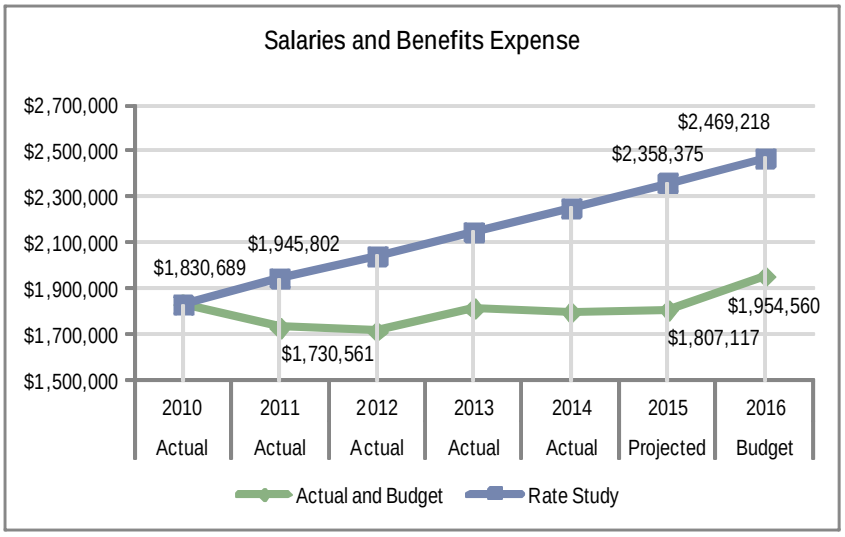
Operating Expenses Summary, Average Annual Growth

	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	FY 2010-15 5-Year	FY 2016-20 5-Year
Operating Expenses:												
Salaries and Benefits	1,730,561	1,714,734	1,812,835	1,797,691	1,807,117	1,954,560	2,047,632	2,153,149	2,259,721	2,367,863	0%	6%
Power	472,130	470,256	424,266	399,239	470,323	522,455	591,149	595,000	598,939	603,320	2%	5%
Sludge Removal	219,399	185,005	242,838	221,541	146,272	140,625	143,578	146,880	150,259	154,015	-13%	1%
Chemicals	81,207	59,930	81,290	37,376	46,268	69,957	48,232	49,341	75,960	51,680	-14%	2%
Materials and Supplies	153,309	162,394	144,334	153,454	154,081	148,321	133,477	138,579	143,171	151,892	-2%	0%
Repairs and Replacements	188,725	170,603	159,819	186,806	129,661	215,299	154,464	152,472	160,829	238,365	-9%	13%
Equipment Rental	4,245	148	0	0	0	0	0	0	0	0	-100%	nm
Utilities Expense	16,259	25,727	22,509	19,757	15,500	15,614	15,941	16,308	16,683	17,100	-3%	2%
Communications Expense	49,112	51,911	34,293	45,613	31,741	61,426	33,088	33,849	34,627	47,294	-4%	8%
Contractual Services - Other	80,988	82,994	75,706	95,678	109,336	100,950	104,915	105,051	104,168	106,349	8%	-1%
Contractual Services - Prof	294,431	141,200	136,259	224,045	129,145	133,442	131,460	139,378	137,576	146,148	3%	3%
Permits and fees	87,655	108,055	124,708	131,361	139,310	153,883	169,852	187,591	207,271	229,131	7%	10%
Property Tax Expense	3,120	3,130	3,488	3,265	3,660	3,441	3,454	3,468	3,482	3,496	3%	-1%
Insurance	108,747	93,222	86,135	69,623	83,349	87,763	92,372	96,390	100,549	105,068	-3%	5%
Other Operating Expense	70,590	58,197	65,638	58,032	68,823	66,069	55,342	56,615	57,917	59,365	3%	-3%
Depreciation Expense	796,571	794,529	806,274	799,443	840,710	815,012	800,504	766,773	745,959	843,449	0%	0%
Total Operating Expenses	4,357,049	4,122,035	4,220,392	4,242,924	4,175,295	4,488,815	4,525,459	4,640,844	4,797,112	5,124,536	-1%	4%

Salaries and Benefits Expense

Lower salaries and wages combined with lower medical premiums and OPEB expense than expected, has resulted in significantly lower salaries and benefits expense than anticipated at the time of the Agency's rate study in FY 2011. 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 a better ability to manage average annual changes in Salaries and Benefits expense to 5%. In FY 2011 - 2014, staffing changes resulted in cost savings to the Agency and four, long-term employees separated which resulted in additional savings to the Agency. Cost reductions through FY 2015, as compared to the rate study, are estimated to be approximately $2.6 million, $1.9 million of which can be attributed to lower salaries and benefits expense.

Salaries and Benefits expense is projected to increase by 8% in FY 2016, driven by a 6% increase in salaries and wages and a 12.5% increase in benefits expense. The 6% increase in salaries and wages is due to an increase in full-time operations staff, a 1.3%



	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Projected 2015	Budget 2016
Salaries and Benefits							
Actual and Forecast	1,830,689	1,730,561	1,714,734	1,812,835	1,797,691	1,807,117	1,954,560
Rate Study	-	1,945,802	2,043,092	2,147,290	2,252,507	2,358,375	2,469,218
Annual Difference		-215,241	-328,358	-334,455	-454,816	-551,258	-514,658
Cumulative Difference		-215,241	-543,599	-878,054	-1,332,870	-1,884,128	-2,398,786
% Change							
Actual, Current Forecast			-1%	6%	-1%	1%	8%
Rate Study			5%	5%	5%	5%	5%

COLA, and annual increases associated with merit increases (up to 5%) and longevity pay (1%). The Agency will increase its full-time operating staff to nine, from eight by the end of FY 2015. This staffing increase is estimated to add approximately $57,000 to the Agency's cost structure in FY 2016 and bring its operations staff to the same level reported in FY 2009 through FY 2011. The 12.5% increase in benefits expense is driven by a 49% increase in pension contribution expense and a 12.6% increase in medical premium expense. The increase in pension contribution expense is associated with the required amortization of the Agency's CalPERS' UAL and is the result of CalPERS' assumption changes for pension valuation. Once the Agency reduces the UAL planned in FY 2016, the Agency will realize lower pension contribution expense beginning in FY 2017. The 12.6% increase in medical premium expense is driven by the increase in staffing. *Please note, the financial information presented below is before capitalized costs and one-time cost-savings incentive pay, and may differ from the audited financial statements and information provided elsewhere in this report*.

	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5- Year CAGR
Salaries and Benefits:											
Salaries and Wages	1,094,989	1,069,494	1,167,748	1,159,003	1,192,123	1,264,964	1,349,743	1,406,593	1,463,571	1,520,861	5%
Employee Benefits	617,862	606,373	617,635	624,023	596,689	671,437	678,517	726,370	775,145	825,168	7%
Unemployment Expense	1,568	22,433	10,228	503	704	0	0	0	0	0	-100%
Payroll Taxes	16,141	16,434	17,224	18,472	17,600	18,159	19,372	20,187	21,005	21,835	4%
Total	1,730,560	1,714,734	1,812,835	1,802,001	1,807,116	1,954,560	2,047,632	2,153,150	2,259,721	2,367,864	6%
% Change	-5%	-1%	6%	-1%	0%	8%	5%	5%	5%	5%	

POWER EXPENSE

The Agency utilizes power from Bear Valley Electric (BVE) to run its pumping stations and purchases natural gas under a five-year contract to run its generators which supply power to the Agency's Treatment Plant and Administration Building. The Agency's natural gas contract expires in October 2019. The Agency incurred a rate increase from BVE in FY 2015 (effective December 2014) and from Southwest Gas (its natural gas transporter), in January 2015, The increases combined will total approximately $100,000 annually. The Agency expects and has incorporated another rate increase from BVE in FY 2017. Power is the Agency's second largest operating expense, comprising 13% of total operating expenses (before depreciation).

	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5- Year CAGR
POWER:											
Fuel for Power	349,416	358,548	331,479	319,045	359,890	391,984	395,428	399,279	403,218	407,599	3%
Gas Admin Building	3,412	3,450	3,232	3,823	2,788	3,281	3,281	3,281	3,281	3,281	3%
Gas Treatment Plant	13,536	10,497	9,584	8,442	7,443	8,500	8,500	8,500	8,500	8,500	3%
Electricity T/P	39,719	37,716	31,117	31,841	53,710	64,265	124,265	124,265	124,265	124,265	18%
Electricity Stations	66,028	59,103	47,972	35,090	45,134	52,500	57,750	57,750	57,750	57,750	5%
Electricity Admin Bldg	-604	238	132	195	500	1,000	1,000	1,000	1,000	1,000	15%
Electricity Lucerne	623	704	750	803	858	925	925	925	925	925	2%
Total	472,130	470,256	424,266	399,239	470,323	522,455	591,149	595,000	598,939	603,320	5%
% Change	9%	0%	-10%	-6%	18%	11%	13%	1%	1%	1%	

Materials and Supplies Expense

Materials and Supplies expense is expected to remain relatively flat over the forecast period. Line items are forecast to grow at the rate of inflation, adjusted for the timing of special purchases. Lower expenses in FY 2016 are driven by lower office supplies expense (which have been lowered in recent years in an effort reduce overall costs), lower oils expense, and lower electrical and plumbing supplies expense. The Agency incurred higher plumbing expense in FY 2015 related to the Covered Drying Bed, which is not expected to reoccur.

	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year CAGR
Materials and Supplies:											
Office Expense, Equip, Supplies	52,722	47,321	43,357	43,719	37,000	33,274	32,490	35,269	37,485	43,564	3%
Safety Supplies and Expense	14,524	26,206	9,081	5,795	11,526	9,000	9,189	9,400	9,617	9,857	-3%
Laboratory	13,453	10,382	9,744	23,630	11,800	25,000	10,216	10,451	10,691	10,959	-1%
Fuel - Vehicles	16,697	17,278	25,656	25,504	28,213	26,458	27,013	27,635	28,270	28,977	1%
Oils, Antifreeze, Filters	15,586	15,355	15,087	19,840	22,515	19,147	19,549	19,999	20,459	20,971	-1%
Degreasers and Solvents	1,906	6,225	2,488	1,125	2,872	2,162	2,207	2,258	2,310	2,368	-4%
Hardware, Cleaning, Painting	9,781	9,154	5,002	6,792	8,310	6,700	6,841	6,998	7,159	7,338	-2%
Ground Maint and Supplies	10,945	13,920	15,289	7,371	4,549	4,644	4,742	4,851	4,962	5,086	2%
Electrical Supplies	8,619	9,956	6,958	3,295	11,906	7,500	7,658	7,834	8,014	8,214	-7%
Welding and Fab Supplies	769	323	375	222	675	424	433	443	453	464	-7%
Tools and Equip	3,345	5,008	9,736	12,906	7,566	10,000	9,043	9,251	9,464	9,700	5%
Plumbing Supplies	5,820	1,608	1,594	3,294	7,149	4,012	4,096	4,191	4,287	4,394	-9%
Tertiary Water	0	0	0	0	0	0	0	0	0	0	nm
Purchase Discounts	-858	-342	-33	-38	0	0	0	0	0	0	nm
Total	153,309	162,394	144,334	153,454	154,081	148,321	133,477	138,579	143,171	151,892	0%

Repairs and Replacements Expense

Repairs and Replacements expense will be higher than normal in FY 2016 and FY 2020 due to the scheduling of pipeline video inspection and cleaning during these years. The Agency also expects higher costs associated with these services due to recent legislation aimed at prevailing wage and compliance monitoring. Higher generator repairs and replacement expense is associated with the replacement of natural gas catalysts in each year of the forecast period.

	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year CAGR
REPAIRS AND REPLACEMENT											
Mainline	62,724	62,948	74,507	20,251	26,244	128,500	56,300	57,595	59,035	139,585	40%
Pumps, Motors, Bearings	7,430	16,363	25,325	21,569	11,691	16,800	17,153	17,547	17,951	18,364	9%
Equipment and Machinery	49,376	32,243	5,554	9,022	49,000	25,628	29,039	29,707	30,390	30,527	-9%
Vehicles	12,871	4,875	23,467	15,944	15,500	15,826	18,303	17,808	18,217	18,636	4%
Generators	41,162	31,264	15,253	29,892	13,300	23,440	28,457	24,483	29,781	25,672	14%
Irrigation System - Lucerne	2,167	8,276	0	779	5,000	5,105	5,212	5,332	5,455	5,580	2%
Other	12,995	14,634	15,713	89,349	8,927	0	0	0	0	0	-100%
Total	188,725	170,603	159,819	186,806	129,661	215,299	154,464	152,472	160,829	238,365	13%
% Change	-10%	-10%	-6%	17%	-31%	66%	-28%	-1%	5%	48%	

Permits and Fees Expense

A large portion of the permits and fees expense is related to the Agency's discharge permits through the State Water Resources Control Board (SWRCB). These permits make up about 90% of the total line item, with the remaining permits and fees through the South Coast Air Quality Management District, USDA Forest Service, Environmental Laboratory Accreditation Program, and San Bernardino County Fire. The three-year average growth in the SWRCB discharge permit fees has been 11%. This is also the rate of growth assumed over the five-year period for these fees, with the remaining fees assumed to grow at inflation.

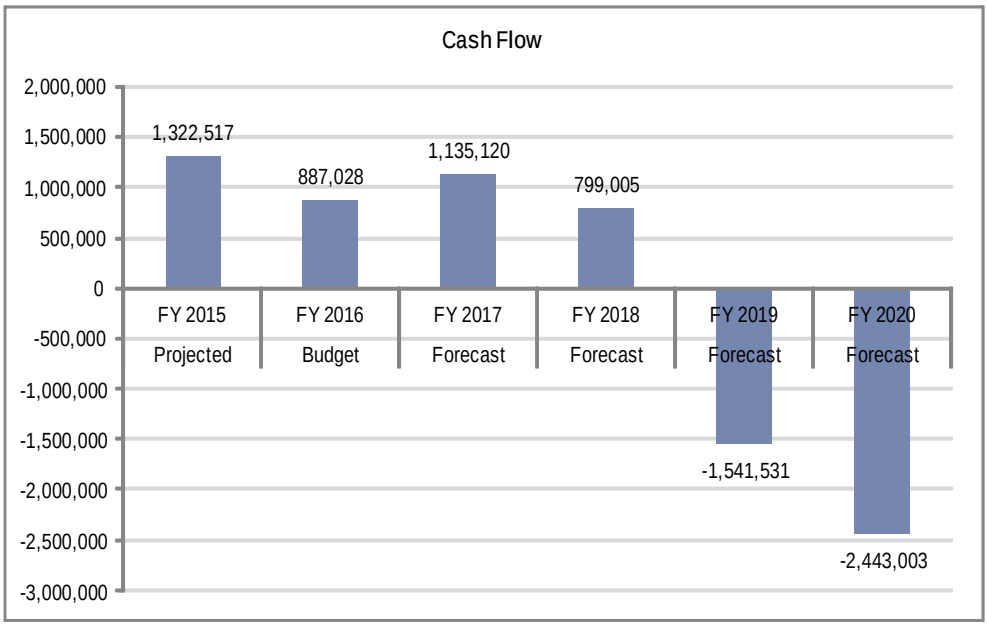
	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year CAGR
PERMITS AND FEES	87,655	108,055	124,708	131,361	139,310	153,883	169,852	187,591	207,271	229,131	10%
% Change	-13%	23%	15%	5%	6%	10%	10%	10%	10%	11%	

Cash Flow and Designated Reserve Fund Balances

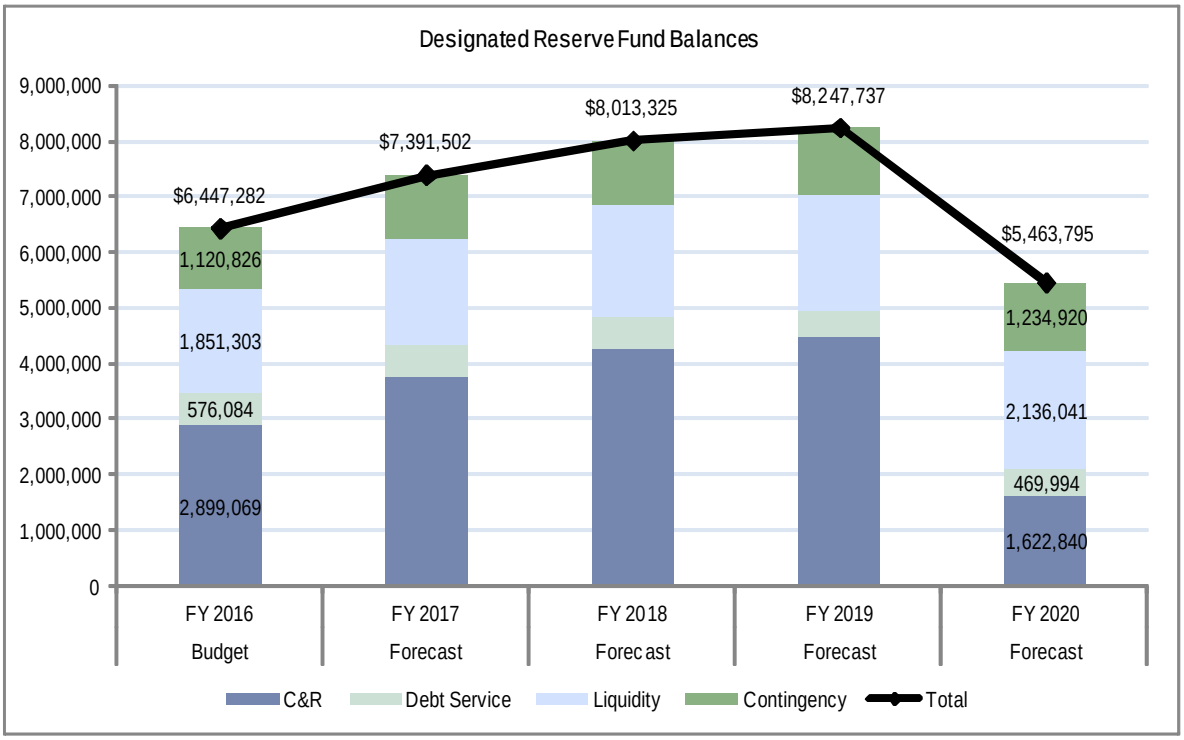
All references to Agency funds and designated fund balances are related to internal reserve funds maintained by the Agency for various operating and capital related purposes and are not governmental or proprietary funds for accounting purposes.

Primary drivers of cash flow are operating income, (operating revenues less operating expenses), connection fees, debt service and capital expenditures. Volatility in cash flow from year to year, as shown in the chart, is primarily due to the timing of the Agency's capital expenditures

The Agency has a net use of cash during the five-year period of $1.2 million which reflects a high level of cash funded capital expenditures during the period ($5.1 million) and the reduction of the Agency's CalPERS unfunded accrued liability ($800,000).



At the end of FY 2020, the balance in the Agency's capital and replacement fund is estimated to be $1.6 million, of which approximately $600,000 is allocated for FY 2021 capital expenditures. The residual $1.0 million would be available for future capital projects or to reduce the Agency's unfunded OPEB liability (approximately $1.4 million based on current reports using current methodologies) or further reduce its CalPERs UAL (approximately $980,000 after the FY 2016 reduction).



DESIGNATED RESERVE FUND BALANCES (Ending)

	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	Change
ENDING BALANCE:							
Cash Balance	6,671,588	6,447,282	7,391,502	8,013,325	8,247,737	5,463,795	-1,207,794
Designated Fund Balances:							
Capital and Replacement Fund							
Current Year	528,666	160,193	355,968	2,670,117	3,478,617	583,602	54,936
Future Years	2,628,658	2,738,876	3,388,359	1,576,091	1,011,785	1,039,238	-1,589,420
Total C & R	3,157,324	2,899,069	3,744,327	4,246,208	4,490,402	1,622,840	-1,534,484
Debt Service Fund	576,084	576,084	576,084	578,502	469,994	469,994	-106,090
Liquidity Fund	1,825,880	1,851,303	1,925,413	2,013,423	2,073,826	2,136,041	310,161
Contingency Fund:							
Emergency	500,000	500,000	500,000	500,000	500,000	500,000	0
Operating	612,300	620,826	645,679	675,192	713,514	734,920	122,619
Total Contingency	1,112,300	1,120,826	1,145,679	1,175,192	1,213,514	1,234,920	122,619
Designated Funds	6,671,588	6,447,282	7,391,502	8,013,325	8,247,737	5,463,795	-1,207,794

Long-Range Financial Plans

Long-term planning is essential to financial management and maximizing ratepayer value. The Agency completes a five-year financial forecast each year. The first year of the forecast, is the Agency's annual budget. The budget provides a solid picture of the Agency's expectations for the next twelve months and is an accountability tool for management and reflects it's commitment to performance. The forecast is the Agency's best estimate of performance beyond the next twelve months. It is based on historical trend analysis, economic conditions, inflationary expectations, and other relevant information that may impact future performance. The information provided in the previous section, discusses and analyzes information provided in the five-year forecast through FY 2019. Each year, the Agency also reviews and updates its 20-year capital plan which includes 1) the scheduled maintenance and replacement of Agency assets and 2) any planned improvement or capacity expansion projects.

Through long-term planning, the Agency understands the expected timing and nature of future operating and capital requirements and can determine the adequacy of its revenues to meet these demands.

Through long-term planning, the Agency understands the expected timing and nature of future operating and capital requirements and can determine the adequacy of its revenues to meet these demands. This type of planning is necessary to maintain stable, fair and competitive rates. The Agency's current rate structure has been designed to accommodate annual inflationary changes in operating costs, meet designated fund balance requirements, and fund fifty percent of average annual capital expenditures on a pay-as-you-go basis.

Long-term forecasting has provided the Agency with a tool to evaluate cost trends associated with it salaries and benefits, power, and sludge removal expenses. As a result, the Agency has taken numerous actions to slow the growth and lower the costs associated with these expense categories. The Agency's actions directly reduced the level of rates approved in FY 2011 and subsequently implemented, and continue to improve the Agency's ability to appropriately fund capital expenditures and access the capital markets when needed. Currently, and as a result of long-term planning, the Agency is planning for the construction of two major projects ($4.1 million combined) beginning in FY 2019. The timing of these projects is based on need and available funding. Based on the Agency's long-term plan, it will have sufficient reserves combined with debt capacity to fund both projects as currently scheduled.

Section IV. Capital and Debt

Capital Expenditures (CAPEX)

Definition

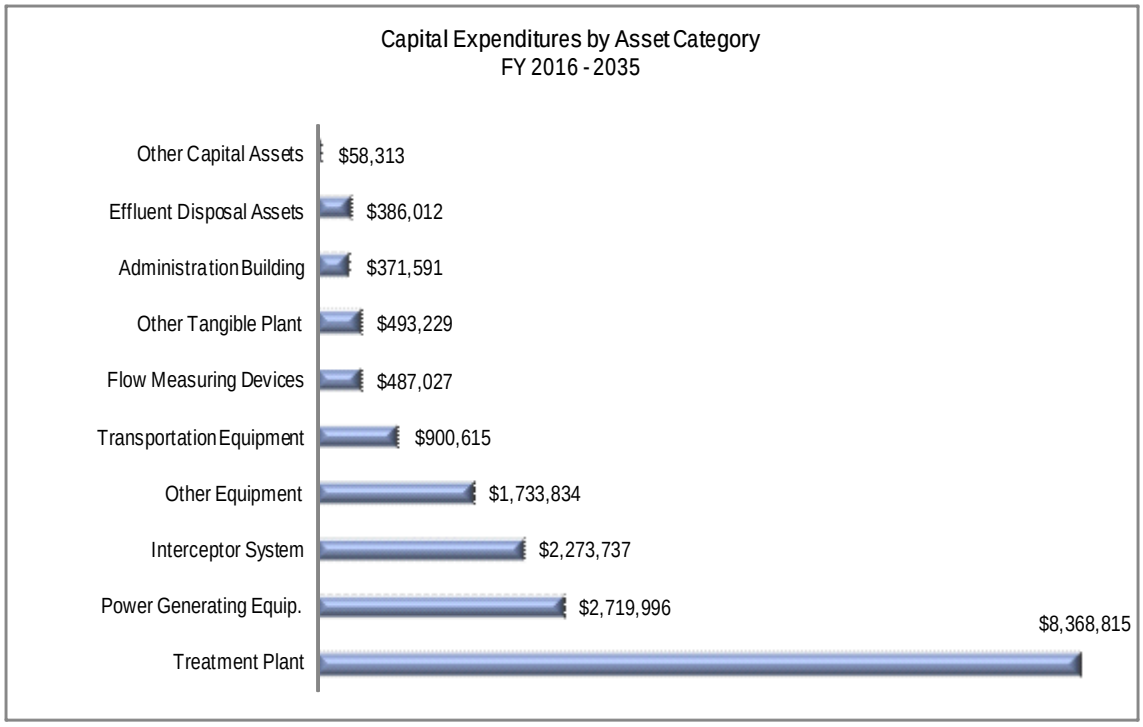
Capital expenditures or CAPEX are expenses incurred to construct or build an asset, purchase an asset or add value to an existing asset such as acquiring or upgrading a physical asset (i.e. machinery, equipment, property or buildings). For the Agency's accounting purposes, an expense is considered a capital expenditure if the investment extends the useful life beyond one year and is $5,000 or more.

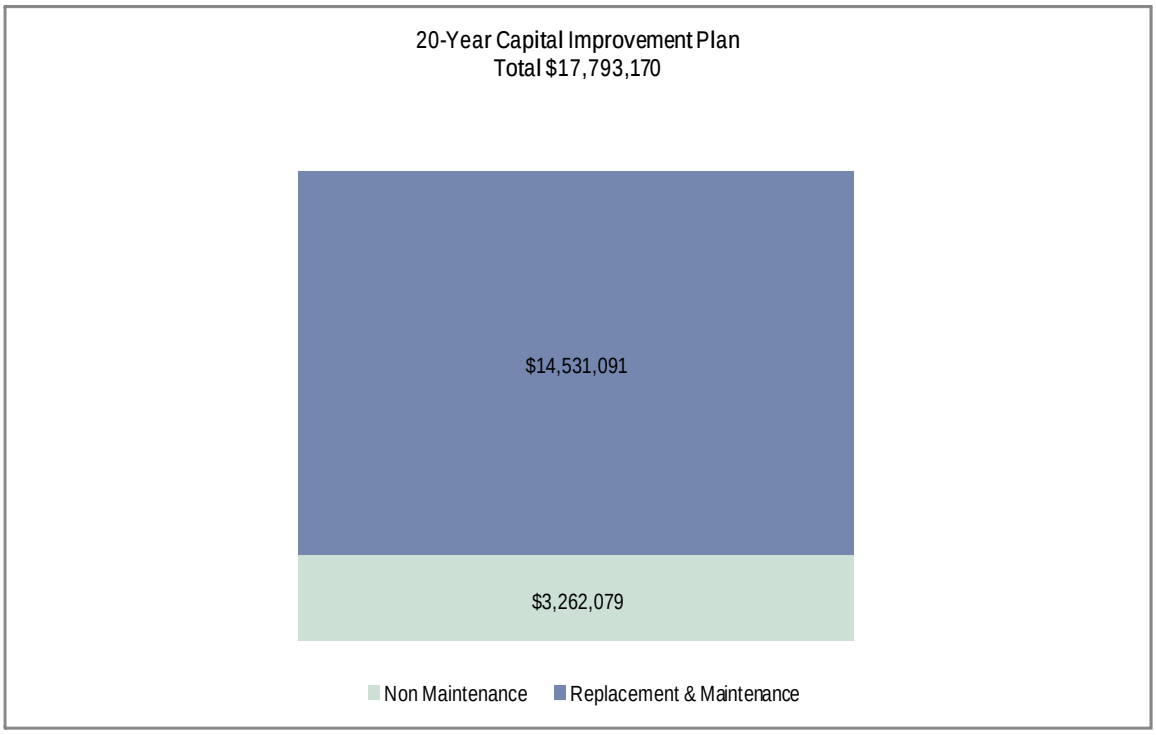
Long-Range Planning and Nature of CAPEX

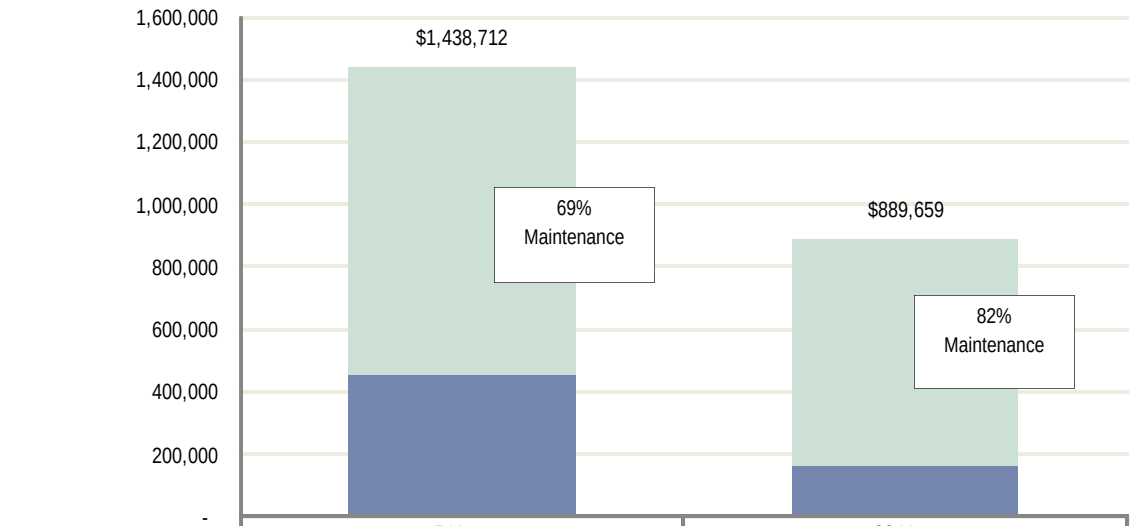
As a wastewater treatment facility, the Agency's operations are capital intensive. The replacement value of the current facilities is estimated to be in excess of $40 million. Given the large capital requirements associated with the Agency's operations, long-term planning is essential in order to have 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 and the Agency's debt capacity, the Agency may finance the costs either with debt financing or pay-as-you-go (cash) 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) reduces 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 re-

placement 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. Based on the current 20-year capital improvement plant, approximately 80% of the Agency's CAPEX is for maintenance with the remaining 20% for non-maintenance improvements.



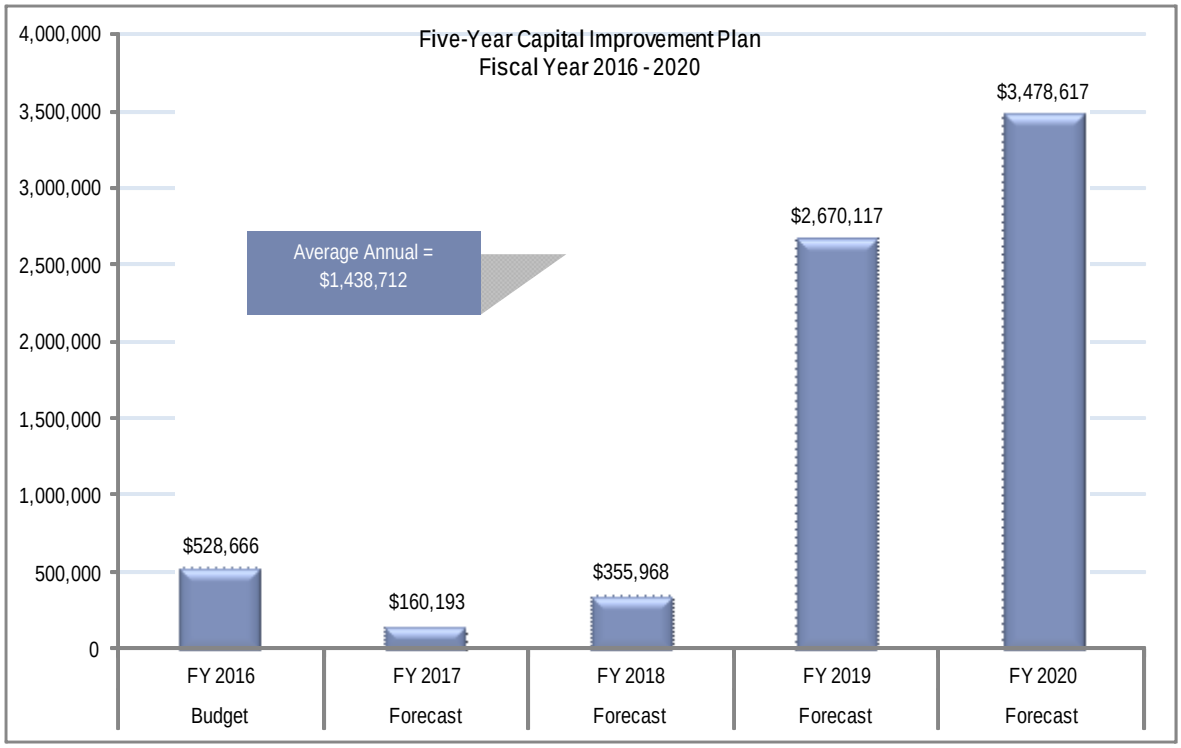




	5-Year	20-Year
Maintenance CAPEX	985,672	726,555
Non Maintenance CAPEX	453,040	163,104
Total CAPEX	1,438,712	889,659

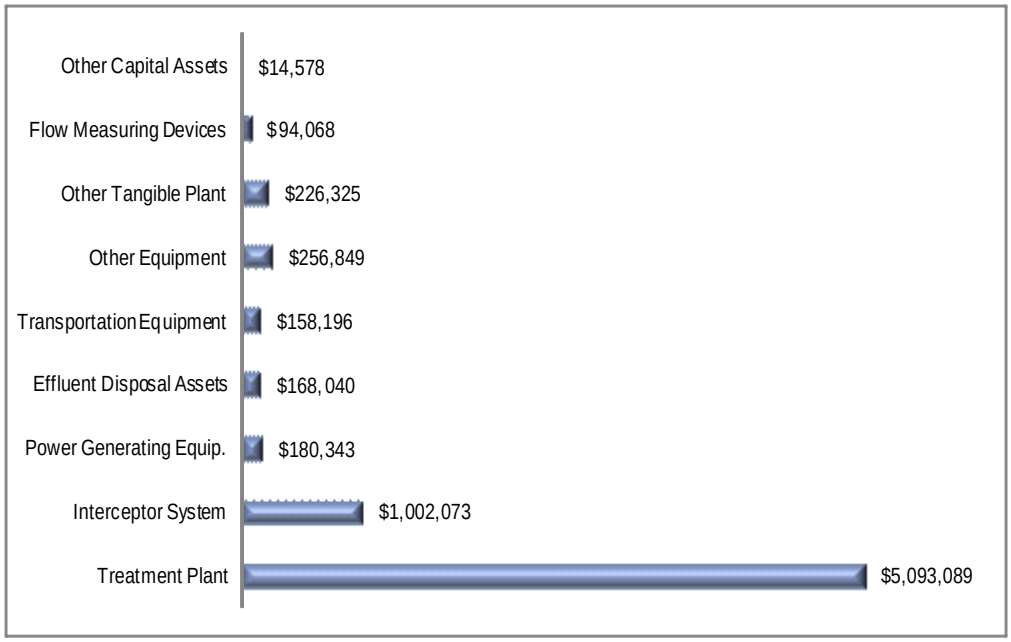
Five-Year Capital Improvement Plan (CIP)

The Agency's CIP contains planned CAPEX for the period. The 5-Year CIP is presented during the Agency's budget workshop and is approved in addition to the annual operating budget. The Agency's current five-year CIP totals approximately $7.2 million, or an average annual amount of approximately $1.4, and will be funded with cash and debt.



The following chart summarizes the projects in the five-year plan by primary account and amount. The next five-year period represents a high investment cycle due to the timing of two major improvement projects. The average annual maintenance is approximately $500,000 over the next five years compared to $680,000 in the 20-year capital plan.

FIVE-YEAR CAPITAL IMPROVEMENT PLAN SUMMARY, FY 2016—FY 2020, $7.2 MILLION



FIVE-YEAR CAPITAL IMPROVEMENT PLAN, FY 2015—FY 2019

	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year FY 2016-2020
EFFLUENT DISPOSAL ASSETS						
Irrigation						
Sprinkler System	0	0	0	0	168,040	168,040
	0	0	0	0	168,040	168,040
FLOW MEASURING DEVICES						
BB Flow Meter and Software (10 year replacement)	0	0	0	0	48,169	48,169
Total Influent Flow Meter (10 yr replacement)	0	19,326	0	0	0	19,326
Effluent Flow Meter (10 year replacement)	0	0	9,985	0	0	9,985
Flow Meter CSD/CSA - OAC (10 yr replacement)	0	0	16,588	0	0	16,588
	0	19,326	26,573	0	48,169	94,068
INTERCEPTOR SYSTEM						
Pipeline						
Main Trunk	0	0	0	411,334	0	411,334
North Shore Interceptor Sliplining	0	0	0	0	579,637	579,637
Pumping Equipment						
Back-up Fairbanks 15HP Pump - Station #1	0	0	0	11,102	0	11,102
Total interceptor system	0	0	0	422,436	579,637	1,002,073

Five-Year Capital Improvement Plan, FY 2015—FY 2019

	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year FY 2016-2020
OTHER EQUIPMENT						
Communications						
SCADA PH and ORC Sensors	0	0	4,104	0	0	4,104
Electrical						
VFD T/P - Rotor 1 60 HP (7 yr)	0	13,173	0	0	0	13,173
VFD T/P - Rotor 4 60 HP (7 yr)	0	13,311	0	0	0	13,311
VFD T/P - Rotor 5 60 HP (7 yr)	0	0	13,711	0	0	13,711
VFD T/P - Rotor 7 60 HP (7 yr)	0	0	13,853	0	0	13,853
VFD T/P - Rotor 8 60 HP (7 yr)	0	0	0	14,122	0	14,122
VFD Interceptor - Station 3 (7 yr)	0	0	0	0	26,714	26,714
Transfer Switch Admin Building	0	0	0	0	81,433	81,433
Laboratory						
Fume Hoods	0	0	0	0	15,927	15,927
Office Equipment						
Copier	0	0	0	16,093	0	16,093
Security						
Security System Update - Ops Bldg	0	0	0	0	13,982	13,982
Security System Ops Building	0	0	0	0	30,426	30,426
Total	0	26,484	31,668	30,215	168,482	256,849
OTHER CAPITAL ASSETS						
Web Site	0	0	0	14,578	0	14,578
Total	0	0	0	14,578	0	14,578
OTHER TANGIBLE PLANT						
Asphalt and Paving	119,700	0	0	0	106,625	226,325
POWER GENERATING EQUIPMENT						
Cummins Rebuild	0	0	109,273	0	0	109,273
Waukesha Rebuild	71,070	0	0	0	0	71,070
Total	71,070	0	109,273	0	0	180,343
TRANSPORTATION EQUIPMENT						
Vehicles						
2003 Cheverolet Silverado	0	0	63,654	0	0	63,654
2004 Toyota 4-Runner	0	0	0	0	47,271	47,271
2004 Toyota Tundra	0	0	0	0	47,271	47,271
Total transportation equipment	0	0	63,654	0	94,542	158,196
TREATMENT PLANT						
Miscellaneous Equipment:						
AQMD Emissions Tester	0	0	0	0	14,732	14,732
Emissions Tester	0	16,276	0	0	0	16,276

	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	5-Year FY 2016-2020
TREATMENT PLANT						
Piping:						
High Pressure Effluent Line	0	0	0	194,100	0	194,100
Processing Equipment:						
Polyblend Unit DAF	10,055	0	0	0	0	
Shaft Mount Reducer - Ditch #3	13,912	0	0	0	0	
Solar Bee	0	0	0	0	31,820	
Belt Filter Press Drive Motors	0	38,758	0	0	0	
Pumping Equipment:						
Main Pump Building:						
RAS Pump 1 7.5 HP Rebuild	0	4,757	0	0	0	
RAS Pump 2 Rebuild	0	0	4,900	0	0	4,900
RAS Pump 3 Rebuild	0	0	4,900	0	0	4,900
RAS Pump 4 7.5 HP Rebuild	0	4,757	0	0	0	
Effluent Pump 3 100 HP	0	0	0	0	26,656	
Effluent Pump 5 100 HP	0	24,394	0	0	0	
Sludge Building:						
Belt Feed Pump	17,074	0	0	0	0	
Storage:						
Pond #2 Reconstruction	122,855	0	0	0	0	
Structures:						
Entrance Wall	0	25,441	0	0	0	
Load Equalization Basin - NEW	0	0	57,500	921,250	921,250	1,900,000
Clarifier 4 - Construction and Engineering	0	0	57,500	1,087,538	1,120,164	2,265,202
Splitter Box Building	66,000	0	0	0	0	
Storage Bins	0	0	0	0	18,344	
Treatment Equipment:						
Bar Screen	0	0	0	0	131,697	131,697
Grit Aeration, Air Lift Difuser	0	0	0	0	48,459	
Wash Press B.S.	108,000	0	0	0	0	108,000
Total treatment plant equipment	337,896	114,383	124,800	2,202,888	2,313,122	5,093,089
TOTAL	528,666	160,193	355,968	2,670,117	3,478,617	7,193,561
						1,438,712

FY 2016 Capital Expenditure Budget

The capital expenditure budget for FY 2016 totals $528,666 and is comprised of routine maintenance and replacement projects only and does not include any non-routine, significant capital projects. **Therefore, there is no notable expected or budgeted impact to the operating budget as a result of FY 2016 capital expenditures**.

Other Tangible Plant

Asphalt and Paving ($119,700): Asphalt and paving for FY 2016 includes work between Oxidation Ditch No. 3 and the Covered Drying Bed as well as paving and grading around the Covered Drying Bed to control storm water runoff in the northeast area of the Treatment Plant and improve access to the Covered Drying Bed. The scope of work will include approximately 15,000 square feet of new asphalt and approximately 11,400 square feet of overlay asphalt.

Budget:	$119,700
Start date:	September 2, 2015
Target completion date:	September 30, 2015

Power Generating Equipment

Waukesha Generator Rebuild ($71,070): The Waukesha generator system was installed in 2002 and operates approximately 4,500 hours a year to provide electricity to the Treatment Plant and the Administration Building. The generator system is a crucial part of plant operations that continues to save the Agency approximately $365,000 a year by not utilizing Bear Valley Electric as the main source of power. The rebuild schedule is every 20,000 hours for a major or "top end" rebuild. During FY 2016, a top end rebuild is required. The scope of work will include the installation of new cylinder heads, valve train, turbocharger, waste gate and water pumps.

Budget:	$71,070
Start date:	August 15, 2015
Target completion date:	August 30, 2015

Treatment Plant, Processing Equipment

Polyblend Unit Press ($10,055): The Agency utilizes the poly blend unit to pump polymer to the belt feed pump for sludge building operation. The pump is a crucial component of the sludge building operation and is required to ensure the optimum efficiency of sludge de-watering for the belt press operation. The existing unit is approximately 15 years old and is scheduled for replacement. The project will include the purchase and installation of a new poly blend unit to replace the existing unit.

Budget:	$10,055
Start Date:	September 1, 2015
Target completion date:	September 25, 2015

Shaft Mount Reducer ($13,912): The Shaft Mount Reducer is a critical piece of equipment that is needed to meet the Agency's discharge requirements. This equipment may be used on all three oxidation ditches. The scope of work includes the purchase and installation as needed.

Budget:	$13,912
Start Date:	October 1, 2015
Target completion date:	November 6, 2015

Belt Feed Pump ($17,074): The Belt Feed Pump is a critical piece of equipment used in the sludge building operations. The existing pump has been in service approximately 15 years and is at the end of its useful life. The existing pump has been rebuilt 20 times and is worn out. The scope of work will include the purchase and installation of a new pump that will include valves and pipe work.

Budget:	$17,074
Start Date:	March 1, 2016
Target completion date:	March 15, 2016

Treatment Plant, Storage

Pond #2 Reconstruction ($122,855): Pond #2 side walls have been eroding for a number of years due to the wave action and lack of reinforcement of the north and south side walls. The last time pond maintenance was done (removal of sludge) was approximately 10 years ago. The project scope will include build up of the north/south walls and reinforcement with material that will prevent erosion.

Budget:	$122,855
Start date:	July 7, 2015
Target completion date:	July 31, 2015

Treatment Plant, Structures

Splitter Box Building ($66,000): The original Splitter Box Building was installed in 1991 and was constructed of wood framing. The building is in a harsh environment that has led to mold and rotting material, which has become a safety issue. The building is used for the flow regulation to the clarifiers. The scope of work will include the demolition of the existing building and the replacement with a concrete block building that will include electrical and exhaust fans.

Budget:	$66,000
Start date:	September 1, 2015
Target completion date:	October 15, 2015

Treatment Plant, Equipment

Wash Press Bar Screen ($108,000): The Wash Press is a critical piece of equipment to the Treatment Plant and is needed to remove and dewater the material that enters the Treatment Plant. Without this piece of equipment, material from headworks cannot be disposed of at the local transfer station. The scope of work will include the purchase of the equipment and installation by an outside contractor.

Budget:	$108,000
Start date:	July 1, 2015
Target completion date:	August 15, 2015

Capital Projects – FY 2016 – FY 2019

Projects discussed below are in the 5-year capital plan, beyond the budget year, and exceed $100,000.

Interceptor System, Pipeline

North Shore Interceptor Sliplining ($250,000): Note this project begins in FY 2015 and continues in FY 2016. The North Shore Interceptor System is a series of pump stations and pipelines that convey the sewage from CSA-53B to the Treatment Plant. The interceptor system consists of both force mains and gravity sections. The pipelines are approximately 40-years old. Previous video inspections have identified portions of the gravity sections that require repair. The project scope will include sliplining approximately 3,300 lineal feet of the gravity sewer lines.

Power Generating Equipment

Cummins Generator Rebuild ($109,273): The Cummins Generator system was installed in 2007 and put on line in April 2008. The generator system operates approximately 4,380 hours per year to provide electricity for the treatment plant operation. The generator system is a crucial component of the plant operation and ensures reduced expenditures for electricity by not having to utilize Bear Valley Electric electricity. The generator system produces electricity for approximately $0.08 cents per Kwh and saves the agency approximately $365,000 per year. The Cummins generator rebuild is required every 20,000 hours of operation. The project scope will include the installation of new cylinder heads.

Treatment Plant, Structures

Load Equalization Basin Engineering and Construction ($1,900,000): The Load Equalization Basin (LEB) project is the replacement of the two Balancing Chambers. The Balancing Chambers are concrete structures that were part of the original Big Bear City Community Services District treatment plant constructed during the 1930's. Over the years, they have been modified to serve as chlorine contact chambers, secondary effluent polishing ponds, and construction water or tertiary treated storage basins. These structures have been in service for approximately 70 years and are showing signs of excessive damage and failure, and are in need of replacement. The LEB project scope will include engineering in fiscal year 2018 ($57,500) with the construction phase commencing in FY 2019 and completion targeted in FY 2020.

Clarifier 4 ($2,196,459): This project is for the construction of an additional clarifier to increase the hydraulic capacity of the treatment plant. At this time, the existing clarifiers (3) have a treatment capacity of 3.04 MGD. The biological treatment capacity (per the oxidation ditches) is 4.9 MGD. With the current design, the Agency may violate its discharge order during high flow events. The additional clarifier will provide adequate capacity for build out of the valley.

Treatment Plant, Treatment Equipment

Wash Press / Grit New ($113,391): The Agency currently operates a grit removal system in the headworks portion of the treatment plant. The grit removed from the system is placed in filter bags and then hauled to the local transfer station. On average the treatment plant removes approximately 60 cubic yards of grit material annually. The project scope includes purchasing and installing a wash press for the grit removal system. The primary functions of the wash press are to remove (wash) the organics from the grit, press the grit into a compact form and convey it to a filter bag system.

Impact of Capital Investments on Operating Budget

The capital investment in the current budget period is for recurring, routine maintenance expenditures with no significant nonrecurring capital expenditures. Therefore, there is no notable expected or budgeted impact to the operating budget as a result of FY 2016 capital expenditures.

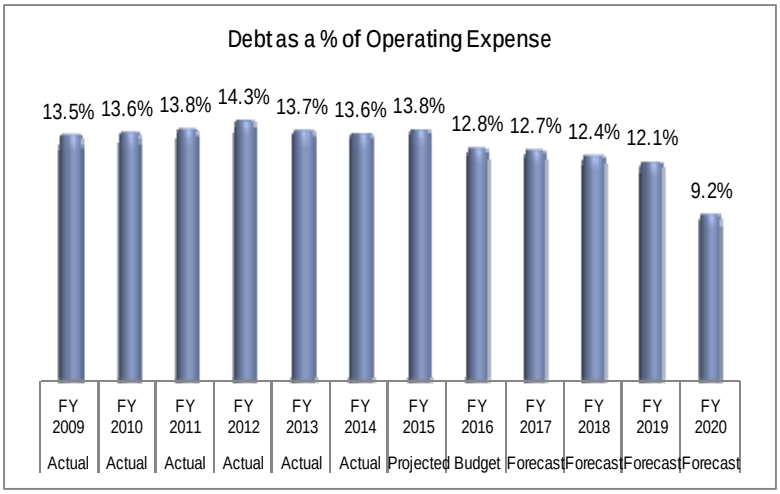
Debt

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 Agency refinanced its outstanding debt in FY 2012 to take advantage of the low interest rate environment. The Agency's current outstanding debt obligation is as follows:

Issue	Date of Issuance	Issue Amount; Rate	Use of Proceeds
Compass Bank Loan Agreement	November 1, 2011	$5.6 million; 3.3%	Refinance of existing debt. Original debt used for improvements including nutrient removal system, effluent storage, Horseshoe Pond modifications, generator installation, sludge handling, administration building, Cannibal Solids Reduction System, and 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's 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.

The Agency's debt service requirement is approximately $576,000 per year and represents 13% of FY 2016 budgeted operating expenses. Standard &Poor's Analytical Characterizations of Debt Service as a Percentage of Expenditures characterize debt service between 8% - 15% of expenditures as moderate.

Currently, the Agency has excess debt capacity under its existing rate and cost structure. The Agency's ability to borrow additional debt is based in large part on its ability to pay the principal and interest (the debt service) over the life of the loan, without financial distress and while maintaining its operating and financial flexibility. The Agency's ability to pay its debt service is measured by a debt service coverage ratio. This ratio is included as a covenant in the Agency's borrowing documents and is typically set at a minimum of 1.20 to 1.25. From an operational and financial management standpoint, a ratio of 2.0 provides the Agency with better flexibility to meet its obligations during unexpected events. Based on a target ratio of 2.0, the Agency has the following available debt capacity.

Projected Available Debt Capacity

	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020
Target Coverage	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Net Revenues	1,561,293	1,674,775	2,111,500	1,707,840	1,684,343	1,565,471	1,414,276	1,182,917
Maximum Debt Service to Meet Target Coverage	780,646	837,387	1,055,750	853,920	842,172	782,735	707,138	591,458
Actual Debt Service	579,284	576,084	576,084	576,084	576,084	576,084	578,502	469,994
Additional Debt Service Capacity	201,362	261,304	479,666	277,836	266,088	206,652	128,636	121,465
Available Debt Capacity (a)	3,800,000	4,900,000	9,000,000	5,200,000	5,000,000	3,900,000	2,400,000	2,300,000

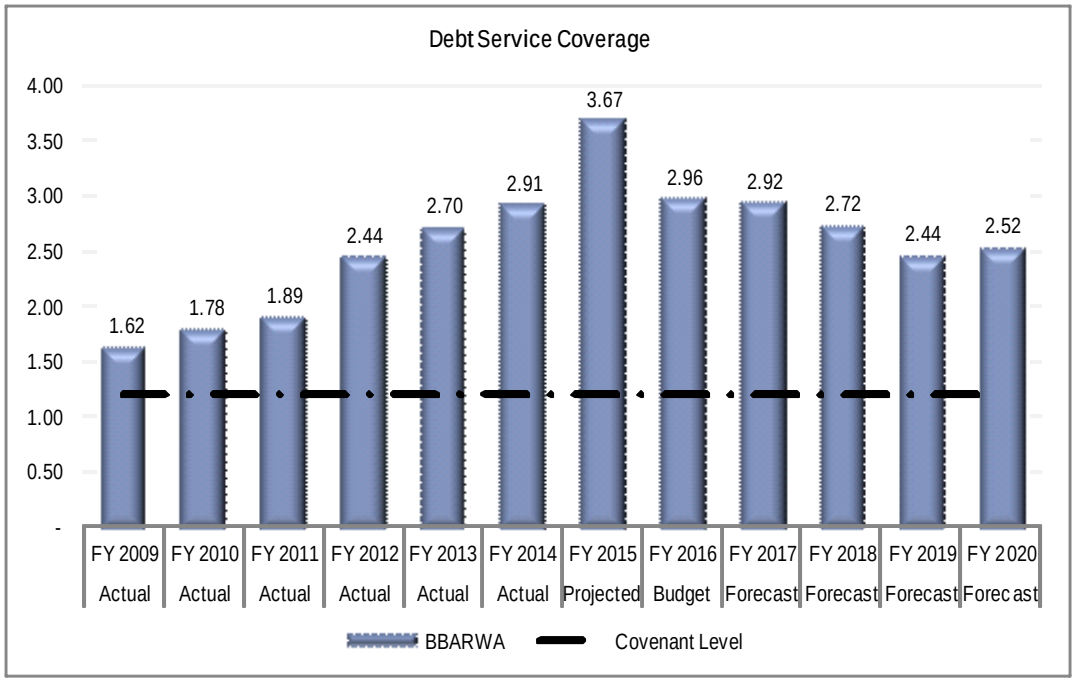
(a) Assumes 4.5% borrowing rate for 25 years; principal amount rounded to the nearest hundred thousand.

As can be seen from the table, the Agency's available debt capacity peaks in FY 2015, the last year of assumed rate increases under the Agency's Maximum Rate Schedule. Beginning in FY 2017, additional debt capacity declines as net revenues decline due to flat revenues and increasing operating costs. This trend continues through FY 2020, and is the result of no rate increases through the projection period. The Agency anticipates $2.1 million in new borrowings in FY 2019 to fund capital improvements. After this new borrowing, the Agency is expected to have excess debt capacity of approximately $2.4 million in FY 2019.

Debt Service and Debt Service Coverage

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 as previously noted.

The Agency's debt service coverage covenant requires a minimum of 1.2 x coverage and measures the Agency's ability to cover its annual debt service with current year earnings. The Agency's debt service coverage ratios are excellent and show the financial strength of the Agency. The Agency's rates were structured to achieve 1.7 x coverage. Lower operating expenses realized through FY 2014 combined with lower debt service than planned are the contributing factors to the higher debt service coverage ratios when compared to the 2010 Rate Study. Debt coverage ratios show some deterioration beginning in FY 2016 as rate changes are forecast at 0% and net revenues included in the calculation will drop, however these levels are still strong. Beginning in FY 2020, the Agency's debt service declines causing the coverage to improve to 2.6x.



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. During the budget period, permanent staffing will remain unchanged compared to FY 2015. The Agency has budgeted for one seasonal position in FY 2016.

Full– Time Equivalent Staffing

Position	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Budget
Administration:							
General Manager	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Finance Manager	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Human Resource Coordinator/ Accounting Tech	0.0	1.0	1.0	1.0	1.0	1.0	1.0
Senior Accountant (a)	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative Clerk (a)	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Clerk	0.0	0.5	0.5	0.5	0.0	0.0	0.0
Administrative Assistant	0.0	0.0	0.0	0.0	0.5	0.5	0.5
Subtotal	4.0	3.5	3.5	3.5	3.5	3.5	3.5
Operations:							
Plant Manager	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Chief Plant Operator	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Plant Operator I	4.0	4.0	4.0	3.0	5.0	5.0	6.0
Plant Operator II	2.0	2.0	2.0	1.0	1.0	1.0	1.0
Operator in Training	1.0	1.0	0.0	2.0	0.0	1.0	0.0
Subtotal	9.0	9.0	8.0	8.0	8.0	9.0	9.0
Laboratory:							
Laboratory Director	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Laboratory Analyst	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Subtotal	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Seasonal / Temporary	**0.0**	**0.0**	**0.5**	**1.0**	**0.5**	**0.5**	**0.5**
Total	**15.0**	**14.5**	**14.0**	**14.5**	**14.0**	**15.0**	**15.0**

(a) This position has been eliminated.

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 Operations Department.

Administration Department

Positions	General Manager
	Finance Manager
	Human Resources Coordinator/ Accounting Technician
	Administrative Assistant
	Plant Manager (this position is the senior operations position but is also part of the Agency's key management staff)
Functions	Accountable for the Agency's managerial, legal and fiscal responsibilities associated with being a public wastewater treatment facility and directly supports the operations department through the administration, finance and human resource functions.

2015 CWEA
Administrative
Person of the Year
Kimberly Booth

Laboratory Department

Positions	Laboratory Director
	Laboratory Analyst
Functions	Collects and analyzes wastewater flows and biosolids to adhere to federal, state, and local guidelines and 2) provides 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 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.

2015 CWEA
Laboratory
Person of the Year
Nikki Flores

2015 WEF
Laboratory
Analyst Excellence
Nikki Flores

Operations Department

Positions

Plant Manager

Chief Plant Operator

Plant Operator II

Plant Operator I (6)

2015
CWEA DAMS
Outhouse of the Yea
Award
Bobby Schindler

CWEA DAMS
Plant of the Year
Award

Functions

The Agency expects to collect and treat approximately 800 million gallons of wastewater at the wastewater treatment plant in FY 2016. 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 the Agency's effluent quality as it leaves the treatment plant.

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 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.

2015 SDRMA
President's Special
Acknowledgement
Award

This award by SDRMA, the Agency's insurance provider, recognizes agencies with zero claims during the last five-year period. Safety is one of the Agency's top priorities.

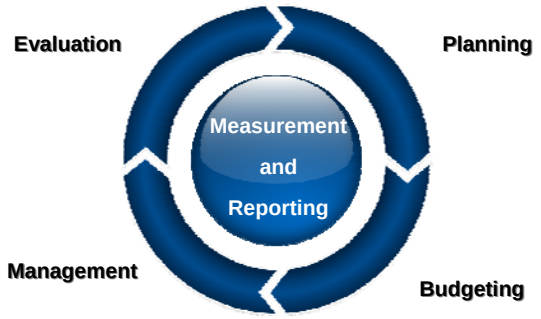
2015
CWEA DAMS
Engineering
Achievement

The Strategic Plan and the Performance Management Program (PMP)

Performance measures have been around for a long while and in general, involve measuring results to achieve improvement over time. Beginning with the FY 2013 budget process, the Agency began a planning program to include performance measures tied to Board-designated priorities. These priorities and performance measures are presented on subsequent pages.

The overall goal of the PMP is to improve results for the public. According to the National Performance Management Advisory Commission in its publication, A Performance Management Framework for State and Local Government, "The primary motive driving the commission and public sector performance management in general is the conviction that governments must improve their focus on producing results that benefit the public, and also give the public confidence that government has produced those results."

The Agency's staff is committed to improving performance. Formalizing a performance management program has provided a continuous learning environment where Agency employees are engaged in the process of improvement and empowered with the resources necessary to track, measure and achieve improved performance. Performance management is an ongoing, systematic approach to improving results through evidence-based decision making, continuous organizational learning, and a focus on accountability for performance. It involves a performance management cycle:



The cycle for BBARWA includes:

1) establishing priorities and performance measures
2) allocating resources (through the budget process)
3) managing the program, and
4) evaluating performance

Establishing Priorities and Performance Measures

The Agency annually reviews its five-year strategic plan, initially completed by the Governing Board in January 2009 (the Strategic Plan). The Strategic Plan set important direction for the Agency in terms establishing a mission statement, a vision statement, a policy statement and core values (see page 6 for details of each).

Performance Measures, Priorities and Outcomes

Based on Board direction contained in the Strategic Plan (the vision, mission and core values), the following Board performance areas, priorities and outcomes have been established. For the FY 2016 budget cycle, Agency staff will continue to meet quarterly to report and discuss performance associated with established performance measures and will continue to evaluate the Performance Management Program during July of each year based on prior performance. Due to the timing of the budget preparation, new measures for FY 2016 have not yet been discussed or finalized. This will occur in July 2015. Provided on the subsequent pages are the Agency's performance measures since the program was established in 2012.

PERFORMANCE AREA	PRIORITY	OUTCOME
Work Environment and Culture	**Qualified, Well-Trained, Motivated and Professional Employees**	BBARWA values education and continuous learning and rewards creativity and innovation.

PERFORMANCE MEASURES

	Department	FY 2013	FY 2014	FY 2015 Proposed
Treatment Plant Operators Certifications Met	Operations	100%	95%	100%
Number of Certifications Above Requirements	Operations	35	26	25
Training Hours per Employee (off site)	All	41	38	50
Industry Recognition	All	4 (by the CWEA, GFOA)	8 (by the CWEA, GFOA, SDRMA)	Yes
Voluntary Turnover (Excludes Retirements)	All	0	0	0
Participation in Savings Incentive Program (BBARWA program that rewards realized cost savings through employee initiated changes)	All	No	Yes	Yes

PERFORMANCE AREA	PRIORITY	OUTCOME
Work Environment and Culture	**Safety in the Work Environment**	BBARWA promotes a safe work environment through employee participation in the Safety Incentive Program.

PERFORMANCE MEASURES

	Department	FY 2013	FY 2014	FY 2015 Proposed
% Completion of Safety Incentive Program	All	100%	100%	100%
Injury Accidents	All	0	1	0
Non-Injury Accidents	All	2	1	5 or less

PERFORMANCE AREA	PRIORITY	OUTCOME
Public Service	**Excellent and Efficient Customer Service**	BBARWA staff identifies opportunities to increase operating efficiencies, stabilize expenditures, and enhance overall performance.

PERFORMANCE MEASURES

	Department	FY 2013	FY 2014	FY 2015 Proposed
Staff Participation in PMP	All	100%	100%	100%
Number of Complaints (odor)	Operations	3	0	5 or less
Gallons of Influent Treated (in MG)	Operations	822	663	788
Tons of Sludge Hauled	Operations	1,859	2,675	2,500
MG of Influent per operations staff (8)	Operations	102.75	75.7	87.5
% Change in Op Costs before Deprec. (a)	All	-7%	1%	-4%

a) Targeted at an average annual change less than or equal to inflation.

CONTINUED NEXT PAGE

PERFORMANCE AREA	PRIORITY	OUTCOME
Financial Strength	**Long-Term Planning and Maintenance of Infrastructure**	BBARWA's long-term planning aids in controlling costs, managing capital investment and maintaining adequate rates that are fair and stable.

PERFORMANCE MEASURES

	Department	FY 2013	FY 2014	FY 2015 Proposed
Completion of 20-Year Capital Improvement Plan	Administration	Yes	Yes	Yes
% of Annual Depreciation Funded	Administration	103%	113%	80%
Manholes Inspected	Operations	99	100	99
Pipeline Assessed through Video Inspection (every 3 to 5 years)	Operations	None	100%	None
Physical Inspection of Outfall Line	Operations	Yes	50%	Yes
Number of Surface Spills, Manhole Overflows	Operations	0	0	0
Completion of 5-Year Financial Projection	Administration	Yes	Yes	Yes
Review Rates with Internal Rate Model	Administration	Yes	Yes	Yes
Op Revenues to Expenditures (op expense including depreciation + rate funded debt service)	Administration	1.02	1.15	.98

NOTES:

- % of Annual Depreciation Funded is a measure used to determine if the Agency's revenues are adequate to cover maintenance capital investment. Depreciation expense is often used as a target level of annual maintenance capital investment required to replace or maintain assets, since it represents the annual depreciation or annual expense associated with using the Agency's assets. This percentage calculation represents the ratio of residual funds after operating expenses and debt service to depreciation expense.
- Operating Revenues to Expenditures measures the Agency's ability to cover operating expenses, maintenance capital expenditures and rate-funded debt service with operating revenues. This measure indicates the adequacy of the Agency's rates or recurring revenues to cover recurring expenditures associated with operations and capital.
- While certain of these measures are operational in nature (manholes inspected, pipeline assessment, inspection of lines, surface spills), the incidence of each indicates the health of the Agency's infrastructure and can be related to its overall financial strength (weakness). Agency's that are financially weak, may be unable to adequately maintain infrastructure.

PERFORMANCE AREA	PRIORITY	OUTCOME
Environment	Preservation of Environment and Protection of Public Health	BBARWA uses its resources efficiently for the preservation of the environment and protection of public health and maintains strong relationships with regulatory agencies.

PERFORMANCE MEASURES

	Department	FY 2013	FY 2014	FY 2015 Proposed
Energy Use per Million Gallons (kWh / MG)	Operations	4,558	4,906	4,900
Number of Regulatory Permit Violations	Operations	0	1	0
Number of Tests Conducted on Plant Samples	Laboratory	6,978	8,047	6,978
% of Co-Generation Heat Used	Operations	0%	0%	30%
Recycle Daily Consumables (paper, plastics)	All	100%	20.7 cubic ft.	21 cubic ft.

NOTES:

- Energy use per Million Gallons of influent flow is measured by the Agency so that it may better understand the effectiveness of energy reducing projects and replacement of older, less efficient assets.
- % of Co-Generation Heat Used is measured by the Agency in relation to the expanded use of heat from its generators to improve its operational processes and to heat operational structures. The Agency will implement its first co-generation project in FY 2014.

PERFORMANCE AREA	PRIORITY	OUTCOME
Principals	Cooperation and Partnership	BBARWA is an agent and proponent for its principals and works to develop and foster participation and strong working relationships.

PERFORMANCE MEASURES

	Department	FY 2013	FY 2014	FY 2015 Proposed
No. of Incidents Receiving BBARWA Assistance	All	3	1	As Needed
Public Participation in Strategic Planning	Administration	No	No	Yes
Public Participation in Budget Workshop	Administration	Yes	Yes	Yes
Number of Meetings with Member Agencies	All	30	26	24

PERFORMANCE AREA	PRIORITY	OUTCOME
Governance and Management	Responsibility, Accountability, Integrity and Trust	Effective policy setting, oversight and direction by the Governing Board facilitates successful management of Agency resources.

PERFORMANCE MEASURES

	Department	FY 2013	FY 2014	FY 2015 Proposed
Review of Board Policies	Administration	No	Yes	No
Quarterly Financial Review	Administration	Yes	Yes	Yes
Rate Review	Administration	Yes	Yes	Yes
Strategic Plan, PMP Review	Administration	Yes	Yes	Yes
Capital Plan Review	Administration	Yes	Yes	Yes

Staff Initiatives

As part of the planning process and the performance management program, staff is asked to provided suggestions that may improve the Agency's operations. These initiatives are evaluated and those which have the most merit are slated for completion. The following reflects the Agency's current and prior initiatives.

FY 2013 (Completed)

Cost Reductions

- Dedicated equipment for maintenance, i.e. dedicated cart with onboard tools.
- Re-insulated attic in OAC to reduce gas and electrical usage
- Sealed louvers in station buildings to reduce gas and electrical usage.
- Purchased bin hauling truck to reduce sludge removal expense

Environmental Protection and Reuse

- Agency staff determined that waste heat produced from the existing generators may be used to 1) heat buildings in the winter and/or 2) help dry the Agency's solids. The Agency incorporated the use of waste heat into the FY 2014 Cover Drying Bed capital project.
- The Agency used goats for weed control and fire safety

Technology and Communication

- Purchased computer notebooks or IPADS for communication and materials distribution. This included the issuance of IPADs to Board Members for multiple purposes and resulted in a reduction of paper usage and labor
- Developed a new web site that is up-to-date and user friendly and aids in BBARWA's communication to its principals
- Installed of hearing impaired equipment for use during Board Meetings

Other

- Provided public access to Agency's rural area.

FY 2014 (Completed)

Technology and Communication

Opportunities to improve communication and/or operations were identified:

- Communicate BBARWA's performance to the public by 1) inviting the public to presentations and workshops and b) publicize industry awards and recognition.
- Educate employees on Agency benefits (improves benefit utilization and maximizes value to employees), policies and procedures, and education and training opportunities.
- Establish method for gathering customer satisfaction levels with BBARWA's response to public requests, odor complaints, or other general public response.

Plant Aesthetics

Staff identified multiple improvements to the Agency's professional appearance:

- Replace old signage at a) Palomino Drive, b) the Plant Gate and c) Plant Instructional and Informational signage.
- Incorporate drought tolerant landscaping throughout the treatment plant grounds.

FY 2015 (In Process)

Cost Reductions / Operational Improvements

- Consider automation of row turning in covered drying bed.
- Research alternate/supplemental energy sources including solar panels for the pump stations and integration with the pond to reduce algae growth.
- Re-evaluate weed control / fire break program and consider the use of fewer, larger livestock such as cattle.

Environmental Protection and Reuse

- Implement Grout Creek erosion control to prevent potential sewage spills into Big Bear Lake.
- Discuss BBARWA's supportive role in meeting the area's water demands.
- Consider solar energy at the Agency's stations.
- Improve energy efficiency by consulting with Bear Valley Electric to modify lighting.

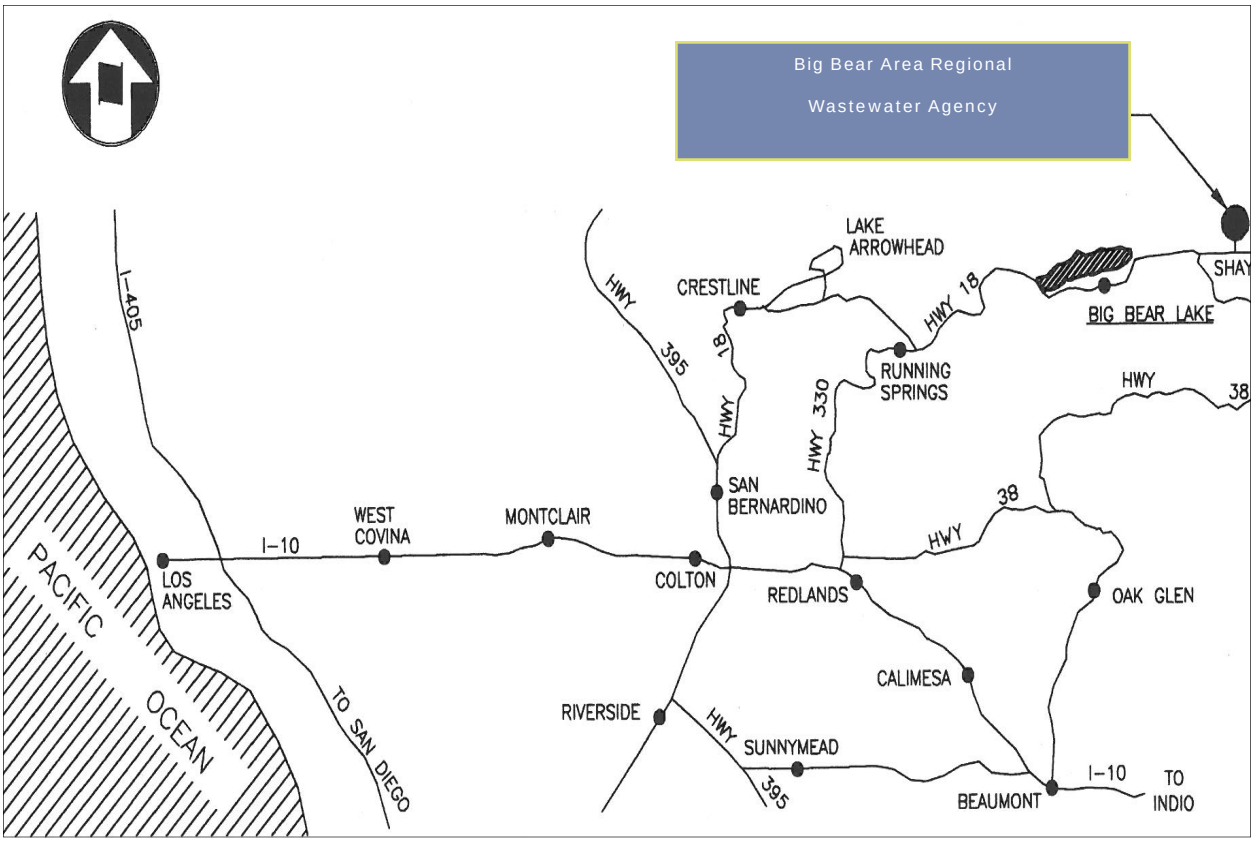
Other

- Research employee wellness programs and teambuilding activities.
- Continue improving plant aesthetics including increased signage, landscaping maintenance and extension of plant entrance wall.

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.



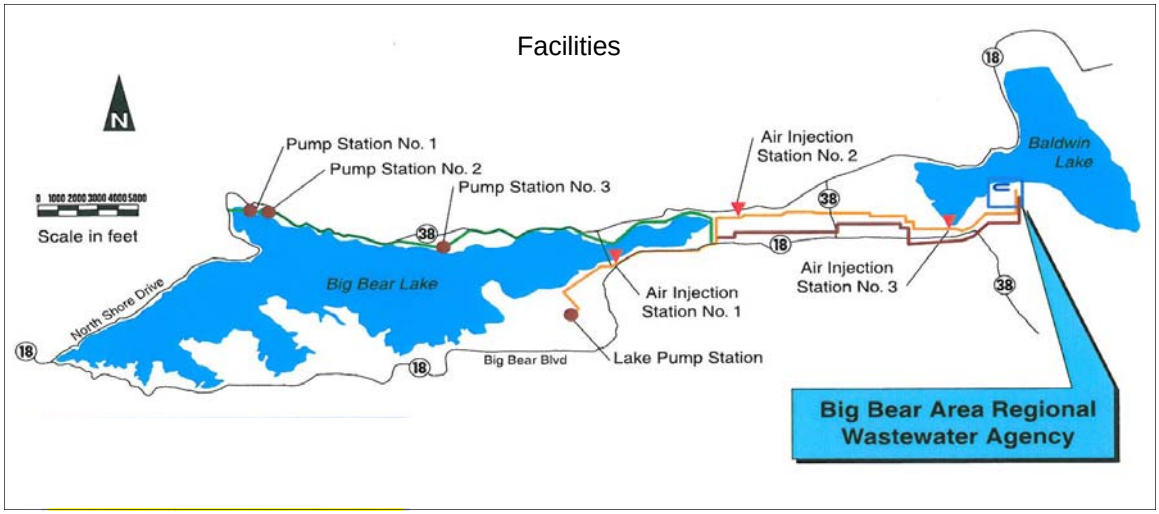
Formation

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

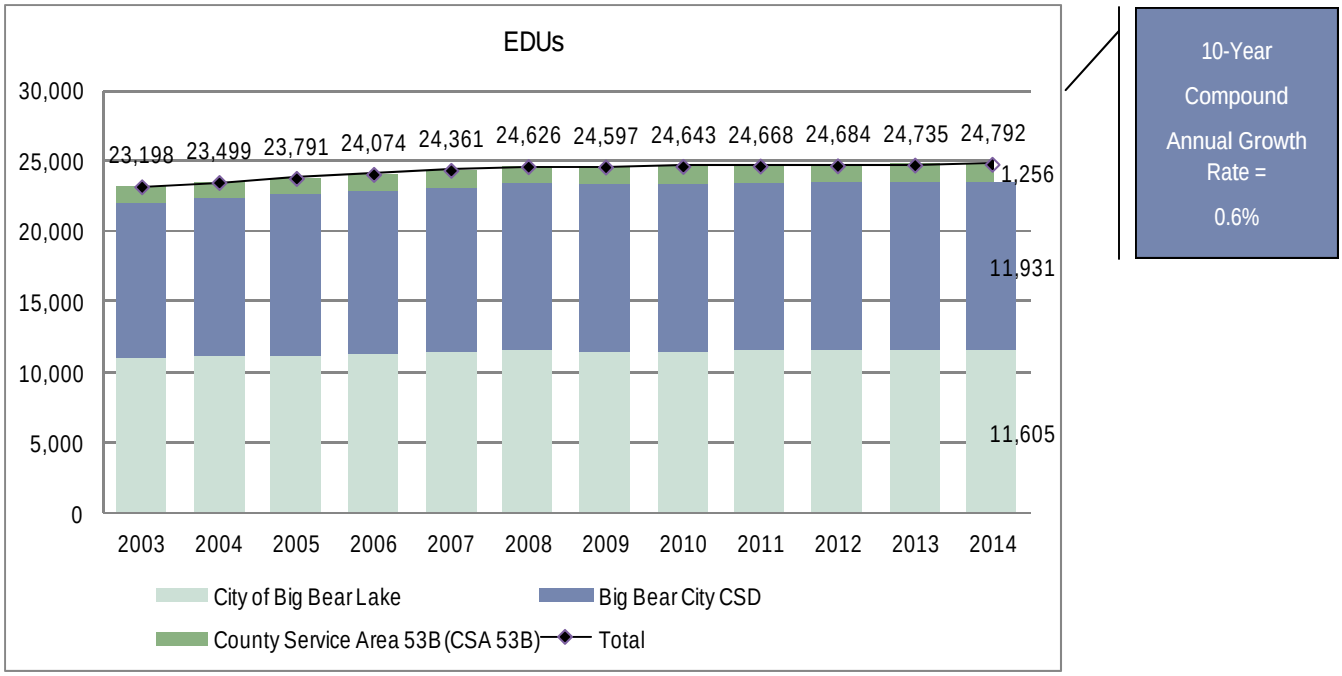
The Agency's facilities include a 4.8 million gallon-per-day sewage treatment plant, interceptors, outfall line and disposal site. The Agency operates three main lines: Lake Pump Station (LPS) force main that services the City of Big Bear

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.

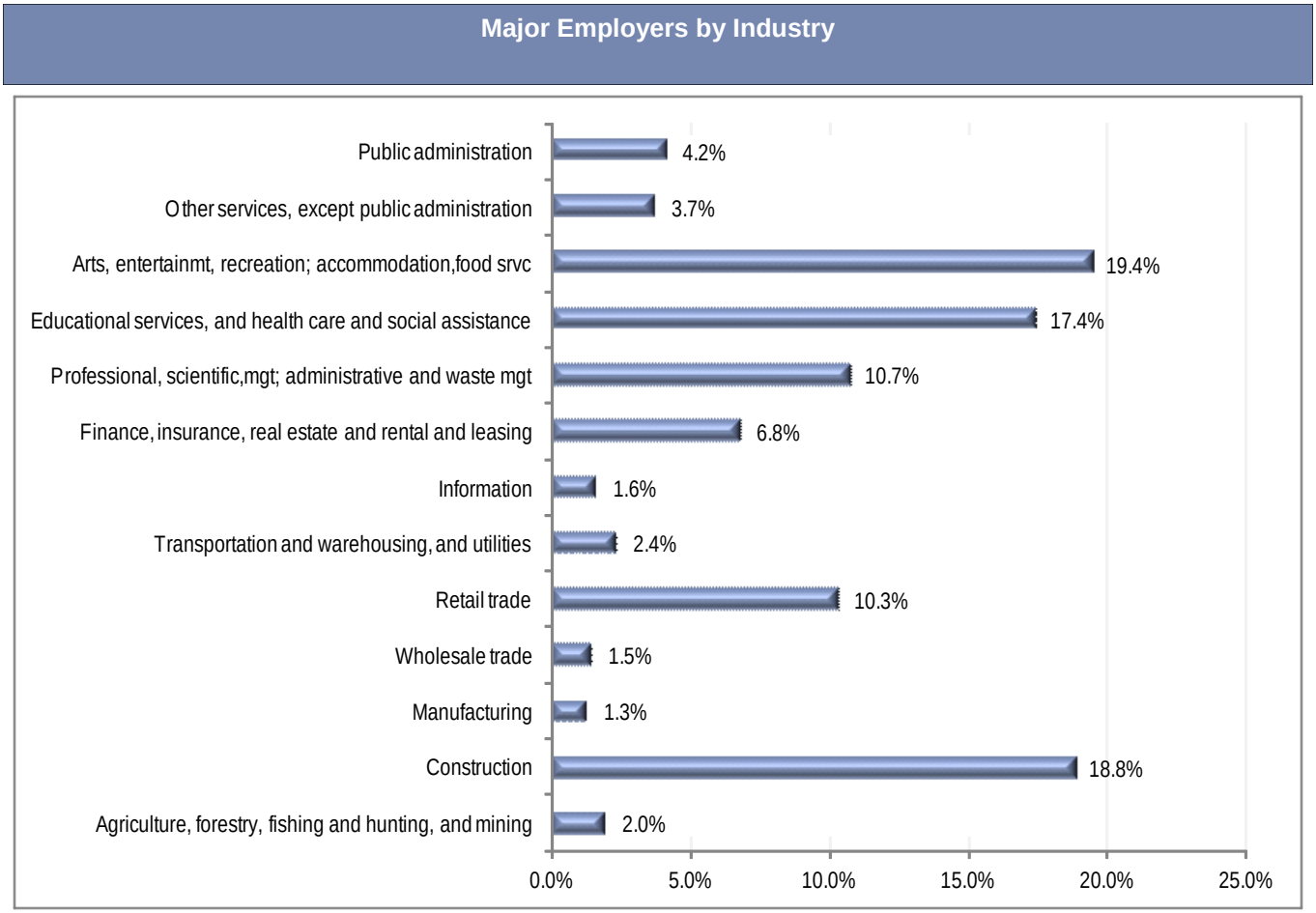


The Big Bear area is considered a four- season resort community and is characterized by a large, part-time population of second homeowners and seasonal peaks associated with tourism. The permanent population consists of approximately 20,000 residents and 1,400 businesses and on a busy weekend, can flourish 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.

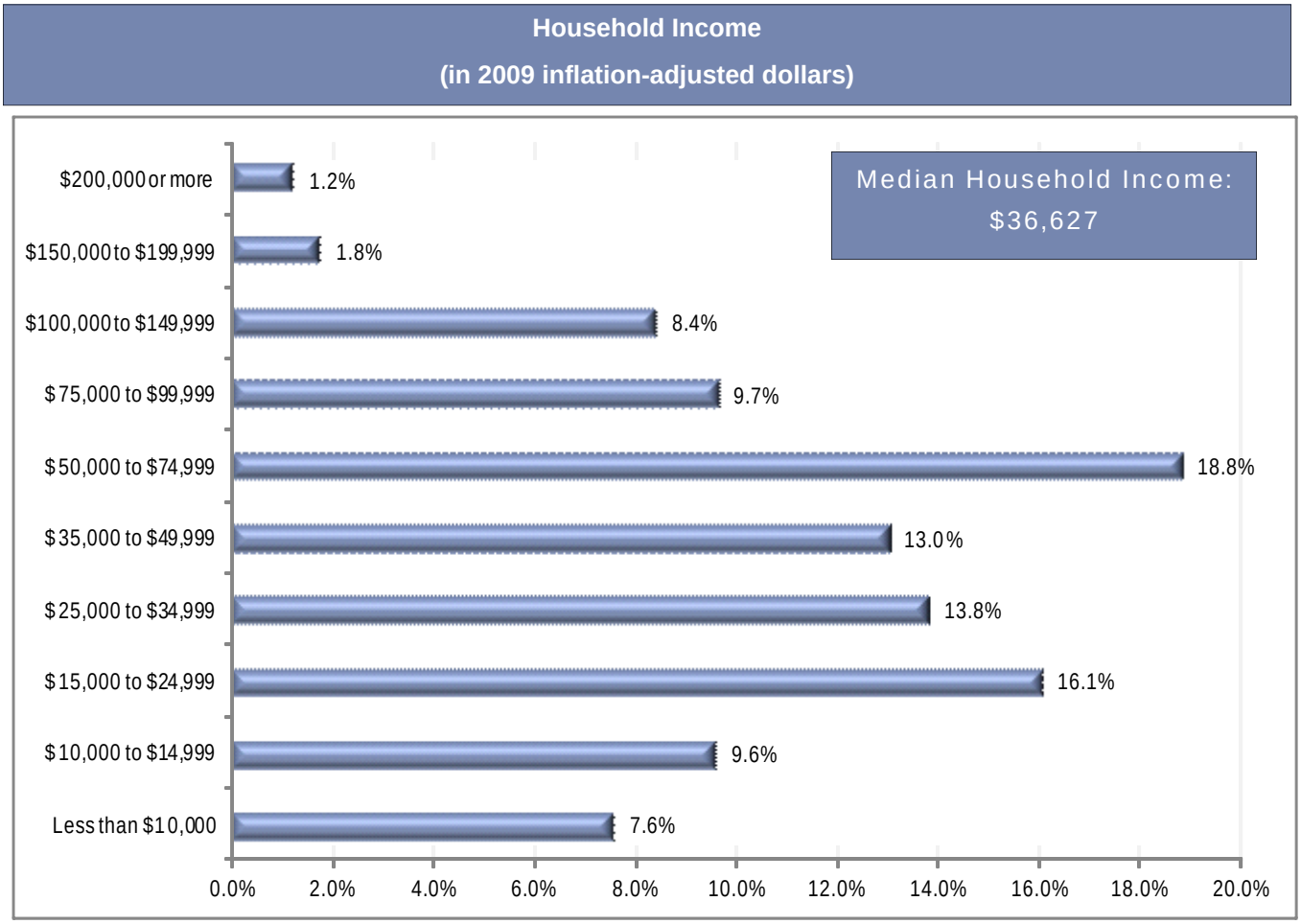
Employment

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



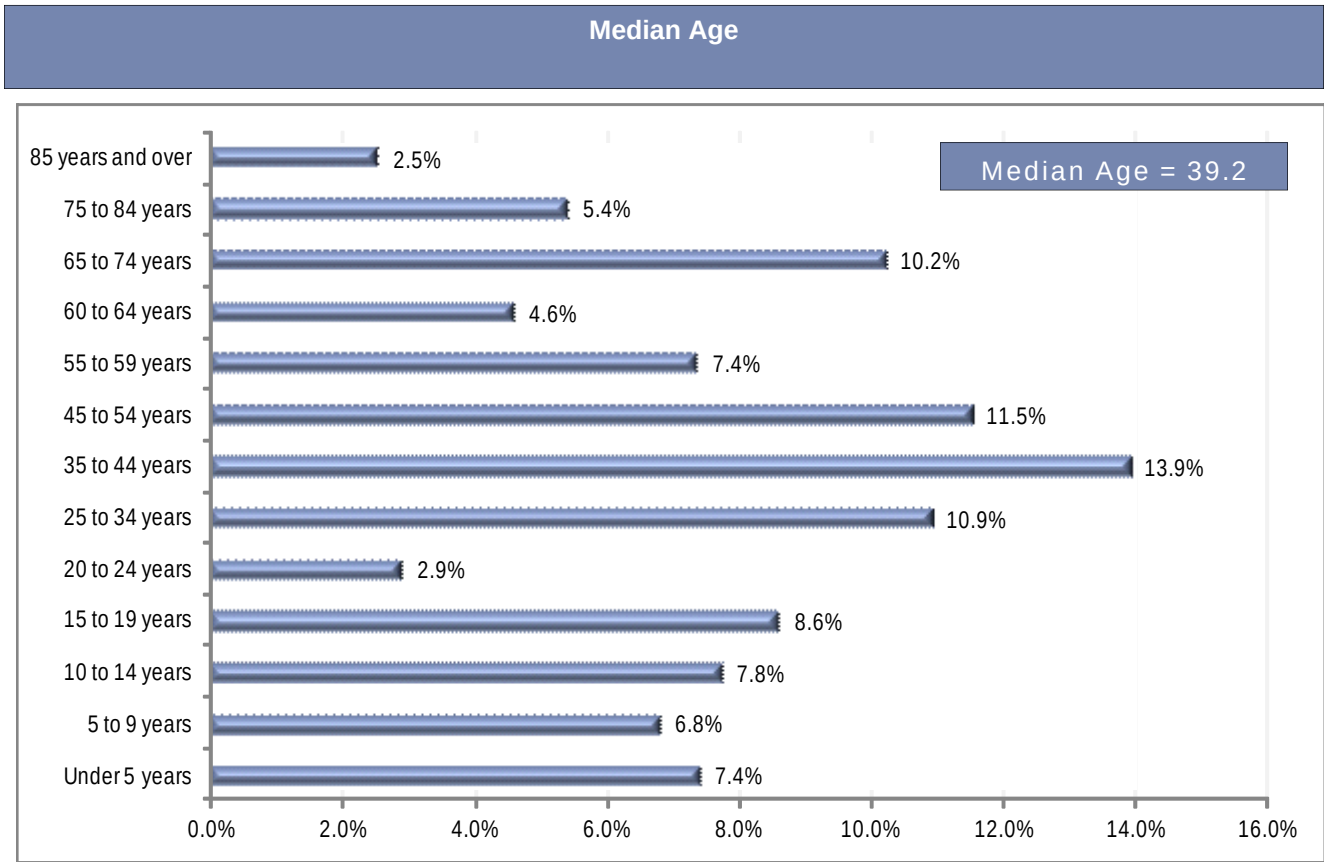
Household Income

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.



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 balanced budget is when the Agency's recurring revenues are equal to or in excess of recurring expenditures or in the case where recurring revenues are less than recurring expenditures, there are adequate contingency reserves to cover the excess expenditures. Recurring revenues include annual charges (user fees), standby fees, wastewater disposal fees and rental income. Recurring expenditures include ongoing operating expenses, debt service and average annual maintenance capital 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.
C4	Clarifier 4
CalPERS	California Public Employees' Retirement System
CalPERS UAL	Refers to the Agency's Unfunded Accrued Liability with CalPERS and represents the Agency's accrued pension liability amount that is not currently funded with (matched by) assets.
Cannibal system	A solids reductions system or process that uses a combination of biological and manufacturing processes to lower typical sludge yield.
CAPEX	A capital expenditure (s)
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.
CDB	Covered Drying Bed. An enclosed building with a heated floor and will be used to dry the Agency's solid waste year-round. The building will utilize waste heat from the Agency's generators to heat the floor. The project is expected to be complete in June 2014.
CAGR	Compound Average Growth Rate. The average annual growth rate over he period referenced.
Connection fee	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.
EDU	An equivalent dwelling unit. 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, fiber crops	Fodder and fiber crops are those cultivated explicitly or primarily for feeding animals.
FY	Means the fiscal yer ending June 30th of the year referenced, i.e. FY 2015 is the fiscal year ending June 30, 2015.
GFOA	Government Finance Officers Association
Great Recession	The recession beginning in December 2007 and ending in June 2009.
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.
IRR	Internal Rate of Return. The discount rate at which the present value of all future cash flow is equal to the initial cost of the investment. Used to compare multiple projects for decision-making purposes or to determine the level at which a project's rate of return exceeds the Agency's cost of capital.
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.
LEB	Load Equalization Basin
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.
nm	Means "not meaningful". It is input as the outcome when dividing by "0".

NPV	Net Present Value. The present value of cash inflows and present value of cash outflows related to a capital project. Is used to determine the overall value or profitability of a project. Used to compare multiple projects for decision-making purposes.
OPEB	Other post employment benefits.
Operating income	Is equal to Operating Revenue less Operating Expenses. Is a key indicator of the Agency's ability to cover its debt service and maintain capital assets.
Operating budget	The Agency's plan for operating and maintenance expenses during a one-year period.
Projected performance	Is based on five months of actual performance through November 2013 and represents the Agency's best estimate of full-year, FY 2014 performance.
PUC	Public Utilities Commission. Is the governing body that regulates the rates and services of a public utility.
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 to 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.