

WATER LINE



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Wholesale Costs Increase District's Delivery Charge Remains Unchanged

PREPARING AND ADOPTING A BALANCED BUDGET

Once again this year, District staff worked ever so diligently in preparing the \$24 million dollar budget for Fiscal Year 2004-2005 to ensure the District's ability to effectively operate and maintain its water delivery and storage system, which provides water for approximately 98,000 multi-use consumers in six communities. The District's present service area includes all of the city of Diamond Bar; portions of the cities of Industry, Pomona, Walnut, and West Covina; and the easterly section of the unincorporated area of Rowland Heights. Due to the limited availability of local groundwater sources, the District is heavily dependent upon imported potable water purchased from the Metropolitan Water District of Southern California (MWD), the sole importer of water to this area, through a wholesale member agency, Three Valleys Municipal Water District (TVMWD).

The District's Board of Directors is proud to declare that, through prudent investment practices and a commitment to cost-effective efficient business operations, for the 12th consecutive year, it has been able to maintain or lower its water delivery rate. The current delivery charge has been maintained at 36 cents per 100 cubic feet, since it was lowered 3 years ago.

By no stretch of the imagination is the District's budgetary process a rubber stamp. Beginning in February, the process takes nearly four months to complete and includes an intensive review of both current year-to-date and projected future year expenses. Review of a draft Budget prepared by District staff begins the process at the Board-committee level where the District's Finance Committee evaluates the overall expenses for the fiscal year then ending and reviews staff's proposed funding requests for the upcoming fiscal year. Following this initial review, suggested program changes and/or funding adjustments are incorporated into the draft budget. The refined version then undergoes a second Finance Committee review and, upon final changes, becomes the committee recommended preliminary budget. The preliminary budget is then submitted to the full Board for final review and adoption prior to June 30, with the final budget being adopted in August.

This process, with slight modification, is also followed when developing the budget for the District's Asset Refurbishment and Replacement (ARR) Program. The ARR budget funds significant, time-specific projects, such as the District's Radio Read Program, which require capitalization of costs. Based on the District's "pay-as-you-go"

philosophy adopted many years ago, funding for these projects takes place once all accounting of the prior year revenues and expenses is completed. A Source and Application of Funds report is prepared, which identifies retained earnings that are available to support the project costs, following funding of depreciation and completion of other inter-fund transfers.

Each year the Board and staff are extremely challenged to ensure that operational costs do not exceed anticipated revenue so that a balanced budget can be adopted. The chart shown below identifies how your water dollar is allocated to support the District's fiscal year 2004-2005 budget.

Purchased Water Expense

At 54%, this operating expense represents the largest portion of the District's total budget, as the District is heavily dependent upon imported water supplies. During fiscal year 2003-2004 the District purchased nearly 9.6 billion gallons of imported drinking water to serve approximately 26,000 residences and businesses, and it is expected that approximately 8.3 billion gallons of imported drinking water will be purchased during fiscal year 2004-2005. This operating expense includes the payment of assessments levied by the District's wholesale water provider, TVMWD.

General and Administrative Expense

Approximately 15% of the District's budget is allocated for services which support those general and administrative functions required to manage and operate the District. These functions include human resource management; risk management; property, liability, workers compensation, and other insurance coverages; building and fleet maintenance; MIS and GIS computer systems; and the District's various water conservation, water education, and other community outreach programs.

Walnut Valley Water District General Budget Fiscal Year 2004-2005



Source of Supply, Transmission and Distribution, Pumping, and Hydroelectric Expense

These four operational requirements account for approximately 13% of the District's budget and provide for the operation and maintenance of the District's water storage and delivery system. Source of Supply covers the operation and maintenance of District transmission mains that transport imported water to the District from outside sources. Allocation of funds for Transmission and Distribution and Pumping cover the costs for the District's 85.4 million gallons of water storage at its 26 facilities, 16 pump plants that lift water to higher elevations, 369 miles of water mains, over 26,000 metered services, and nearly 3,000 fire hydrants that provide water for fire protection for homes and businesses within the District.

Hydroelectric Expense covers the costs to operate and maintain the District's 182-kilowatt hydroelectric generating station.

Long-Term Debt

Accounting for nearly 7%, \$1.6 million of the District's budget has been allocated for repayment of long-term debt, which covers the principal and interest payments on the 1998 Certificates of Participation (COP's) originally issued in 1992 to finance the construction of the District's Badillo-Grand Transmission Main and related terminal storage improvements. This project was essential in that it provides a much-needed secondary source of supply to help meet existing peak demands, as well as an additional source of water in time of catastrophic emergency. Without extending the repayment period, the 1992 COP issue was refinanced in 1998, resulting in a lower interest rate and saving the District more than \$5 million over the remaining life of the bonds.

Consumer Service

Approximately 6% of the District's budget is allotted for consumer service programs and customer support. This is an essential function and ensures that District consumers continue to receive the level of service they are accustomed to and deserve. These services include computer billing systems and postage for approximately 350,000 consumer bills; 24-hour account access; personal response to billings and service inquiries made by telephone, in person, or e-mail; automated bill payment programs; and most importantly, the services of an on-call District representative available to respond when necessary to a consumer's water service emergency 24-hours a day, seven days a week, 365 days a year.

Regulatory Costs

The remaining 5% of the District's budget is allocated for regulatory costs. These functions include mandatory water quality and regulatory compliance programs as directed by the California Department of Health Services and many other state and federal agencies, such as California Environmental Protection Agency, U.S. Environmental Protection Agency, Cal OSHA, and the

AQMD.

It is a known fact that California's water quality standards, established by the Department of Health Services, are far more stringent than in any other state, or even in the world for that matter. These standards were established to help ensure that all consumers throughout California are provided with the highest quality water possible. This oversight, however, does not come without cost, and both the new and on-going regulatory requirements mandated at the federal and state levels are reflected in the 13 cent regulatory fee component of your water rate.

District's Delivery Charge

As previously discussed, the District's delivery charge for the fiscal year 2004-2005 budget has been maintained at 36 cents per 100 cubic feet since it was lowered 3 years ago.

Rising External Costs

Although the District was able to maintain its own delivery rate, unfortunately, increased costs from outside sources over which the District has no control are continuing to impact your water rate. Sources of these costs include assessments levied and water rate hikes by the District's wholesale water provider, the Three Valleys Municipal

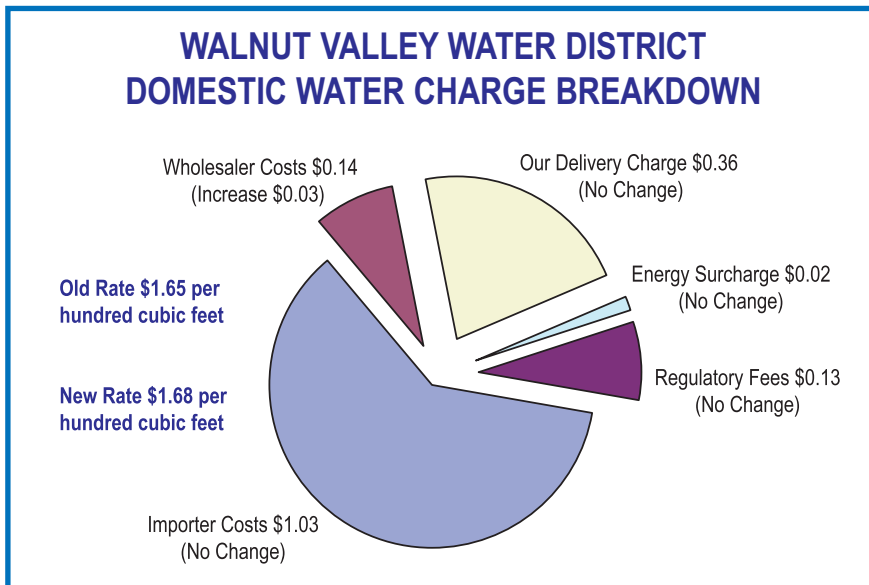
Water District (TVMWD) and the cost of imported water from Metropolitan Water District (MWD). The amount charged to the District this year resulted in a 3 (three) cent increase in the TVMWD wholesale component of your water rate, or an extra \$313,500.

Energy Costs

The District is, and always has been, firmly committed to conserving energy as demonstrated by its on-going operational plan which, whenever possible, utilizes time-of-use pumping. By operating its pump plants during off-peak hours, the District receives a lower energy rate, although a significant amount of electrical power is still required to "keep the water flowing." Through prudent management practices and a commitment to cost effective operations, the energy surcharge component of 2 cents on your water rate remains unchanged.

THE BOTTOM LINE

As indicated in this report, the fiscal year 2004-2005 budget again supports the delivery of more than eight billion gallons of dependable, high quality potable water. However, with the increase in the wholesale water rate (costs over which the District has no control), the rate you pay for water has increased 3 cents per unit, from \$1.65 to \$1.68 per 100 cubic feet (750 gallons). Rest assured that the District's Board of Directors remains firmly committed to maintaining the lowest rate possible.



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