



Los Angeles
Department of
Water & Power

RESOLUTION NO. _____

BOARD LETTER APPROVAL

JEFFERY L. PELTO
Chief Financial Officer

DAVID H. WRIGHT
Chief Operating Officer

MARTIN L. ADAMS
Senior Assistant General Manager -
Water System

MARCIE L. EDWARDS
General Manager

DATE: February 29, 2016

SUBJECT: Transmittal of Preliminary Fiscal Year 2016-17 Los Angeles Department of Water and Power Budget to the Los Angeles City Council – Water Revenue Fund Receipts and Appropriations Budget and Associated Schedules

SUMMARY

Submitted for the Board of Water and Power Commissioners (Board) approval is a Resolution that authorizes the Los Angeles Department of Water and Power (LADWP) to transmit the preliminary Fiscal Year (FY) 2016-17 LADWP Water Revenue Fund Receipts and Appropriations budget and associated schedules to the Los Angeles City Council (Council), as required by City Charter Section 684. Estimated appropriations for FY 2016-17 total \$2.33 billion or \$1.93 billion, net of receipts from the Power System, contributions in aid of construction, individuals, and companies and other miscellaneous sources.

Work on the FY 2016-17 budget commenced in September 2015, and will continue to be refined over the next two months leading towards a final budget by May 31. The preliminary budget presented herein includes a Board approved five-year rate action with a 5.26 percent system average annual rate increase, inclusive of base rate and pass through rate adjustment factors (water quality, supply, infrastructure, conservation and reclamation), requiring Mayor and City Council approval. Pass-through rates would continue to adjust for, in part, variable and uncontrollable costs such as the need to purchase water from the Metropolitan Water District as a result of the drought conditions, as well as dedicated and increased investment in infrastructure reliability.

The LADWP continues to emphasize cost control and fiscal discipline while current benchmarking efforts and use of performance metrics will ensure cost efficiency and

accountability. This preliminary budget supports continued progress towards the Mayor's priorities for LADWP, including rebuilding customer confidence; improving customer service; setting an example for integrity and transparency; maintaining and updating infrastructure; achieving high environmental goals; and restoring pride in the agency. FY 2016-17 funding priorities reflect a number of existing and continuing challenges, including:

- Investment in protecting L.A.'s drinking water by meeting and exceeding State and Federal Water Quality requirements
- Creation of a more sustainable and local water supply
- Replacement of aging infrastructure, including pipeline and regulator and pumping stations, maintaining and repairing the L.A. Aqueduct, and continuing compliance with regulatory mandates in the Owens Valley.
- Investing in customer opportunity programs (i.e., water conservation programs)
- Supporting the local economy through job creation

This preliminary budget transmittal contains the following documents:

- Cover letter to the City Administrative Officer (CAO)
- LADWP Goals and Objectives for FY 2016-2017
- Preliminary Water Revenue Fund Receipts and Appropriations
- Water Revenue Fund Capital Improvement Program
- Water Revenue Fund Salaries and Authorized Number of Positions (based on Annual Personnel Resolution)
- Preliminary Retirement, Disability, and Death Benefit Insurance Plan
- Federal and State Grant Funding Estimates
- Preliminary Budget Presentation

City Council approval is not required.

RECOMMENDATION

It is recommended that the Board adopt the attached Resolution authorizing the transmittal of the preliminary FY 2016-17 LADWP Water Revenue Fund Receipts and Appropriations budget and associated schedules to the Council with the understanding that the LADWP will submit to the Board changes from this preliminary budget through the final budget by May 31.

FINANCIAL INFORMATION

The Water Revenue Fund Preliminary Budget incorporates expenditures for the Water System, including the share of expenditures associated with the Joint System and Power Revenue Fund that support Water System functions. Estimated appropriations for FY 2016-17 total \$2.33 billion. Net of receipts from the Power System, contributions in aid of construction, individuals, and companies and other miscellaneous sources, appropriations are \$1.93 billion.

BACKGROUND

Since the City of Los Angeles' Water Company completed its first water system in 1860, LADWP's Water System has become one of the largest and most complex systems in the world, consisting of over 35.5 million feet of mainline, 2.9 million feet of trunk lines, 78 pump stations, 421 regulating stations, and 114 tanks and reservoirs. This system provides 187 billion gallons of water annually to nearly four million residents, through approximately 700,000 service connections in a 473 square-mile area.

LADWP faces continuing challenges to comply with mandates, upgrade aging infrastructure, and create a more sustainable and local water supply. This preliminary FY 2016-17 budget provides funding for key programs as described below:

Water Quality-Safe Drinking Water, \$419 million

Planned water quality capital projects will continue to fund investments in FY 2016-17 that develop the highest quality of water through the reservoir covers, bypasses, trunk line replacement, and regulatory compliance for construction, operation and maintenance, equipment, and supplies for facilities and systems to provide high quality water and meet State and Federal water quality standards.

Replace Aging Infrastructure, \$464 million

Ensuring reliable water for domestic use and fire protection, replacement and repair of water pipelines and other water system facilities are critical priorities for the Water System. To address these priorities, the Water System has developed the Water Infrastructure Program (WIP). To support the WIP, the Water System has formalized its Asset Management process and is conducting condition assessments to develop a comprehensive Asset Management Plan (Plan). The Plan will address the reliability of aging distribution mainlines, trunk lines, pump stations, pressure regulating stations, tanks, reservoirs, aqueducts, and meters and services. FY 2016-17 investments to replace and rebuild aging infrastructure total \$324 million in capital expenditures and \$140 million in operation and maintenance.

Local Water Supply and Conservation, \$233 million

Currently, the LADWP receives its water supply from four sources:

1. Owens Valley and Mono Basin via the Los Angeles Aqueduct (LAA)
2. Pumping groundwater in the San Fernando Groundwater Basin, the Sylmar Basin, and the Central Basin
3. Recycled water
4. Purchases from the Metropolitan Water District of imported water delivered through the Colorado River Aqueduct and the California Aqueduct

The Water System is investing in increased local supply and conservation to reduce long term dependence on imported water resulting in overall reduced cost and improved

reliability. Local Supply includes investment in an additional 10,000 feet of purple pipe to provide recycled water to irrigation and industrial users. Investments in recycled water projects total \$73 million and will allow the LADWP to proceed with over 10 water recycling projects, including the expanding use of recycled water in Griffith Park. The use of recycled water is currently two percent of the total water supplies and will increase in the coming years. Other Local Supply investments include, recycled water recharge and enhanced storm water capture to increase the overall use of our groundwater basins. Water Conservation is also a key component of the Local Water Supply program, and the preliminary budget includes \$62 million for this purpose, allowing LADWP to fund Water Conservation Programs including:

- SoCal Watersmart Commercial Rebate Program
- Commercial California Friendly Landscape Incentive Program
- Technical Assistance Program
- SoCal Watersmart Residential Rebate Program
- Residential California Friendly Landscape Incentive Program
- Direct Install Partnership Program
- Water Conservation Awareness and Outreach Campaign

This Water Conservation budget will give LADWP customers the enhanced ability through technical and financial assistance from the LADWP to contribute to our effort to mitigate our reliance on imported water through a sustainable reduction of individual water usage at their homes and businesses.

Regulatory Compliance – Owens Valley, \$180 million

With the new Owens Lake Agreement, the LADWP plans to complete the remaining sections of dust mitigation, work to reduce the water-intensive measures on the lake, which will increase the long-term availability of water.

CITY ATTORNEY

The City Attorney has reviewed and approved the Resolution as to form and legality.

ATTACHMENTS

- Resolution
- Cover letter to the City Administrative Officer (CAO)
- LADWP Goals and Objectives for FY 2016-2017
- Preliminary Water Revenue Fund Receipts and Appropriations
- Water Revenue Fund Capital Improvement Program
- Water Revenue Fund Salaries and Authorized Number of Positions (based on Annual Personnel Resolution)
- Preliminary Retirement, Disability, and Death Benefit Insurance Plan
- Federal and State Grant Funding Estimates
- Preliminary Budget Presentation