

Executive Summary

This FY 2008-09 and FY 2009-10 budget represents a consolidation of two one-year proposed operating and capital budgets. The District's fiscal year 2008-09 operating and capital improvement budget is proposed at \$601.0 million, a 17.1 percent increase over the prior year budget of \$513.2 million. This overall increase is primarily attributable to a \$72.3 million, or 23.7 percent increase in cash outlays for construction projects, a \$9.3 million or 14.3 percent increase in debt service requirements, and a \$6.2 million, or 4.3 percent increase in the operating budget.

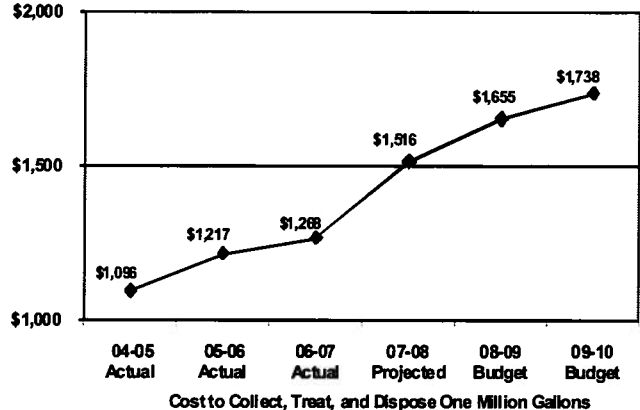
The District's fiscal year 2009-10 operating and capital improvement budget is proposed at \$467.3 million, a 22.3 percent decrease from the FY 2008-09 proposed budget. This overall decrease is comprised of a \$150.8 million, or 39.9 percent decrease in cash outlays for construction projects that is partially offset by an a \$9.7 million, or 13.0 percent increase in debt service requirements, and a \$7.4 million or 5.0 percent increase in the operating budget.

This fiscal year 2008-09 and 2009-10 budget continues to reflect the agency's ongoing efforts to streamline operations. Staffing reductions since fiscal year 1995-96 are a result of this agency's effort in striving to provide wastewater treatment as efficiently and effectively as possible while lowering operational and maintenance costs to more closely match those agencies that are "best in class" for wastewater treatment facilities. However, the increase in the demand for services in the areas of ocean monitoring, ocean discharge and level of treatment, water reclamation and conservation, urban runoff diversions, increased local regulations of biosolids, and the expansion of the Capital Improvement Program (CIP), is causing the cash flow needs of the agency to grow. Considering the CIP alone, \$50 million of new CIP projects to be constructed over the next 10 years were identified within the November 2007 Five-Year Strategic Plan.

In addition, the 2008 CIP Validation Study of the CIP includes 86 large capital projects and 28 special projects to be constructed over the next 15-years at a total cost of \$1.47 billion.

Budget Overview

The agency's two treatment plants, located in Fountain Valley and Huntington Beach, process about 230 million gallons of wastewater each day generated by approximately 2.5 million people in central and northwest Orange County.



The fiscal year 2008-09 proposed budget to operate, maintain and manage our sewage collection, treatment and disposal system is \$148.8 million, an increase of \$6.2 million over the prior year. Of this total, personnel costs are being proposed at a 4.9 percent increase, or \$3.9 million, due primarily to the 4.0 percent cost of living increases negotiated within the memorandum of understandings (MOU) of the employee bargaining units and the increase of 7.0 full time equivalent (FTE) employees included within this proposed budget. Contractual Services are being proposed to increase \$7.1 million, or 33.1 percent, primarily due to a \$5.6 million, or 39.1 percent increase in solids removal. This increase is attributable to a projected increase in solids production at Plant No. 1 of 20 percent due to the increase in treatment as a result of the completion of the Ellis Pump Station construction project, and being placed into service. Plant No. 2 solids production is projected to increase 8 percent as new secondary treatment projects are placed into service. In addition, the average unit cost for the removal of solids will increase 18.0 percent to \$65 per ton.

The fiscal year 2009-10 proposed operations budget is \$156.2 million, an increase of \$7.4 million, or 5.0 percent over the fiscal year 2008-09 proposed budget. Again, personnel costs are a significant contributor to this increase at a 7.4 percent increase, or \$6.1 million, due primarily again to the 4.0 percent MOU increases and another increase in staff of 7.0 FTE. These additional staff members are necessary due to secondary treatment facilities coming on line that have a significant impact on operational manpower as the District continues to move towards full secondary treatment standards. In addition to salary cost increases, retirement premiums and group insurance costs are expected to increase \$1.0 million and \$784,000, respectively. Operating

2008-09 & 2009-10 Budget

materials and supplies are being proposed to increase \$1.4 million, or 6.1 percent, due primarily to the combined increases in chemical coagulants, odor control, and disinfection totaling \$1.3 million. These chemical increases are due mostly to projected quantity increases. Repairs and maintenance is being proposed at a decrease of \$1.2 million due to the timing and scheduling of major maintenance projects.

The cost per million gallons of wastewater treated, an industry-wide performance measurement is expected to increase in fiscal year 2008-09 to \$1,655, a \$139, or 9.2 percent increase over the prior year projection of \$1,516, and increase in fiscal year 2009-10 to \$1,738, an \$83, or 5.0 percent increase over the FY 2008-09 proposed. Wastewater flows through the treatment system are expected to increase from the projected 222.83 million gallons per day (mgd) in fiscal year 2007-08 to 230.00 mgd in fiscal year 2008-09 and fiscal year 2009-10, a 3.2 percent increase.

The District's Capital Improvement Program (CIP) cash flow budget for fiscal year 2008-09 is \$373.7 million, an increase of \$94.4 million from the prior year estimated total. The CIP cash flow budget for fiscal year 2009-10 is \$228.9 million, a decrease of \$144.8 million from the fiscal year 2008-09 proposed CIP cash flow. This CIP two-year cash flow budget finances collection system, joint works treatment and disposal system improvement projects. These CIP cash flows are attributable to the additional infrastructure needs identified in the 2002 Interim Strategic Plan Update and in the 2008 Validation Study of the CIP.

Facilities Planning

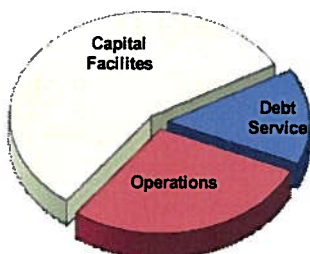
In October 1999, the District adopted a new Facilities Strategic Plan, a planning effort to define the District's goals, responsibilities, and requirements over the next twenty years, and including projections through the assumed "build-out" of the District's service area to the year 2050. This effort to update the 1989 30-year "2020 Vision" Master Plan was necessary because many of the assumptions used then have now changed. Critical factors such as population growth, new construction, the volume of wastewater delivered to the plants and viable water conservation and reclamation programs have been reevaluated.

In June 2002 the District completed the Interim Strategic Plan Update which further updated these critical factors and developed revised cost estimates and user fee projections for upgrading the District's level of treatment to meet secondary standards. On July 17, 2002, after reviewing: (1) the Interim Strategic Plan Update treatment alternatives, (2) ocean monitoring data, (3) public input, (4) regulatory issues, and (5) financial considerations, the Board of Directors made the decision to upgrade our treatment to meet secondary treatment standards.

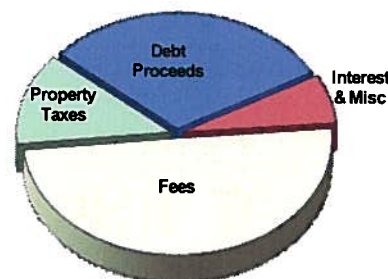
The reasoning behind the decision to move to secondary treatment standards included (1) the possibility (no matter how remote) that bacteria from the ocean outfall may at times reach the shoreline, (2) upgraded treatment will aid additional water reclamation with the Orange County Water District, (3) and the public clearly favored upgrading wastewater treatment at this time.

FY 2008-10

Uses of Funds



Source of Funds



How Resources Are Used

District resources are used to fund the cost of providing wastewater collection, treatment and disposal service, including employees' salaries and benefits, debt service, capital improvements and the cost of self-insurance.

Executive Summary

Summary of Operating & Maintenance Expenses

Collections, Treatment & Disposal Operations

	2006-07 Actual	2007-08 Budget	2008-09 Proposed	2009-10 Proposed
Net Salaries, Wages & Benefits	\$71,574,723	\$79,924,560	\$83,844,080	\$90,008,160
Administrative Expenses	1,095,519	1,520,740	1,325,360	1,293,520
Printing & Publication	459,051	650,730	651,020	654,610
Training & Meetings	1,124,856	1,503,140	1,433,710	1,440,370
Operating Expenses	16,684,653	23,058,340	22,368,520	23,731,840
Contractual Services	15,630,140	21,417,440	28,503,150	28,889,700
Professional Services	2,367,736	3,731,840	3,774,320	2,955,420
Research & Monitoring	1,426,408	1,572,740	1,426,410	1,409,860
Repairs and Maintenance	7,567,182	10,333,750	11,321,190	10,092,530
Utilities	8,072,262	9,883,260	9,719,370	10,212,260
Other Materials, Supplies & Services	2,119,593	3,656,060	2,607,460	2,815,940
Capital Grants to Member Agencies	2,127,154	2,500,000	300,000	2,064,530
Cost Allocation - CIP	<u>(16,101,402)</u>	<u>(19,779,200)</u>	<u>(20,503,410)</u>	<u>(21,530,710)</u>
Total Operating & Maintenance Expenses	114,147,875	139,973,400	146,771,180	154,038,030
Revenues & Offsets	<u>(8,033,660)</u>	<u>(5,099,000)</u>	<u>(7,836,000)</u>	<u>(8,122,000)</u>
Net Operating & Maintenance Expenses	<u>\$106,114,215</u>	<u>\$134,874,400</u>	<u>\$138,935,180</u>	<u>\$145,916,030</u>

The CIP includes \$631 million to upgrade the District's treatment plants to meet secondary treatment standards. Implementation of secondary treatment standards is scheduled to be completed by December 31, 2012. This schedule was reviewed and determined to be reasonable and achievable by an independent Peer Review Team and the CIP Oversight Committee made up of members from the District's Board of Directors. Total projected cost for the 114 currently identifiable proposed projects over the next fifteen years is \$1.47 billion. The CIP cash flows over the next ten years are projected to be \$2.0 billion.

Preferred Level of Treatment

In order to eliminate most bacteria from being released from the ocean outfall, the District began in fiscal year 2002-03 to first use chlorine bleach to disinfect the effluent and then apply sodium bisulfite to remove any remaining chlorine prior to releasing the treated wastewater to the ocean.

The District continues to take great measures to limit the chlorine residual to a very low level, essentially

non-detectable, for the purpose of protecting the animal life living in the ocean. This mode of disinfection is anticipated to continue for the short-term, possibly three years, while the District studies, designs and constructs permanent facilities, and considers alternate disinfection technologies. Beginning in fiscal year 2002-03, the addition of disinfection treatment required an annual outlay of \$7 million in additional chemicals within the operating budget of the District.

Staffing

Authorized staffing levels are being proposed with increases of 7.0 full time equivalents (FTE) each for FY 2008-09 and FY 2009-10 above the staffing level of 634 FTE positions authorized for FY 2007-08 to support the new secondary facilities being placed into service as the District moves toward full secondary treatment standards. The total FTE count of 648 FTE's in FY 2009-10 would still be 30 FTE below the agency's all time high of 678 positions approved in FY 1995-96.

2008-09 & 2009-10 Budget

The District budgets staffing levels by FTE in order to provide a realistic estimate of actual staffing levels since not all employees are full-time employees. The part-time positions are funded at 1,040 hours. Part-time employees receive a prorated share of personnel benefits. The reductions from fiscal year 1995-96 are a result of this agency's effort in striving to provide wastewater treatment as efficiently and effectively as possible while lowering operational and maintenance costs to more closely match those agencies that are "best in class" for wastewater treatment facilities.

Sewer Service Fee Increases

In July of 2002, the Board of Directors approved a change from the existing level of treatment, a blend of 50 percent advanced primary and 50 percent secondary treated wastewater, to secondary treatment standards. The reasoning behind the decision to move to secondary standards included (1) the possibility that bacteria from the ocean outfall may at times reach the shoreline, (2) upgraded treatment will aid additional water reclamation with the Orange County Water District, and (3) the public clearly favored upgrading wastewater treatment at this time.

In November 2007, the Board approved the District's Five-Year Strategic Plan that reaffirmed the 2002 capital construction estimate of \$649 million to meet secondary treatment standards by 2013, and to proceed with the \$2.6 billion, 20-year capital improvement program.

In February 2008, following a Proposition 218 notice process, the Board approved sewer rate increases for each year over the next five years averaging approximately 10 percent a year. These increases are necessary to provide needed capital improvements, to meet additional treatment and disinfection requirements, and to minimize future rate increases.

The impact of this five-year sewer fee schedule increased the annual single family residence user fee from \$182 to \$201 in FY 2008-09, to \$221 in FY 2009-10, to \$244 in FY 2010-11, to \$267 in FY 2011-12, and to \$294 in FY 2012-13.

Even with these increases, District rates will remain well below the current State-wide average annual sewer rate of \$406 reported in the 2008 California Wastewater Charge Survey of 920 agencies by the State Water Resources Control Board.

Strategic Planning

Beginning in the summer of 2007, the General Manager's Office initiated the process of creating the Strategic Plan, soliciting assistance from all levels of the organization. Input included meetings with staff members who helped to retool the Mission Statement, Vision Statement and Core Values during a series of management workshops and Executive Management Team retreats. This was followed by a series of four workshops with the Board of Directors to provide additional input and direction. As a result, the Strategic Plan addresses major objectives and critical challenges facing the District now, in the next five-years, and further into the future. This Strategic Plan also laid down the foundation for the development of the Business Plan as it addressed critical operations and construction issues, financial and budgeting challenges, and gave a clear and concise direction from the Board of Directors to staff, ratepayers, regulatory agencies, and the general public.

As part of the strategic planning process, Staff has reviewed all of the initiatives and has identified ten that it would consider highly strategic and worthy of particular focus:

1. Succession Planning
2. SARI Sewer Line Relocation
3. Environmental Compliance Management
4. Odor Nuisance Management
5. Facilities Master Plan Update
6. Energy Master Plan
7. Reclaiming SARI Line Sewer Flows
8. Managing a Sustainable Biosolids Program
9. Making North County Yard Operational
10. Enhancing the District's Security Plan

Resources have been reallocated from lower priority activities within the organization to support these strategic initiatives. Staff will report quarterly to the General Manager on the progress of each initiative.