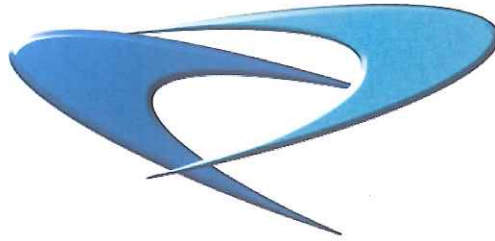


Mid-Peninsula Water District

OPERATING AND CAPITAL BUDGET
FISCAL YEAR 2011-2012



Serving the community since 1929



Mid-Peninsula Water District

OPERATING AND CAPITAL BUDGET
FISCAL YEAR 2011-2012



Board of Directors

Betty L. Linvill – President
David Altscher – Vice President
Louis J. Vella – Director
Matthew P. Zucca – Director
Al Stuebing – Director

Management

Paul R. Regan – General Manager
Cathy Remeleh – Administrative Service Manager/Board Secretary
Henry Young – Maintenance Superintendent

**OPERATING AND CAPITAL BUDGET
FISCAL YEAR 2011-2012**

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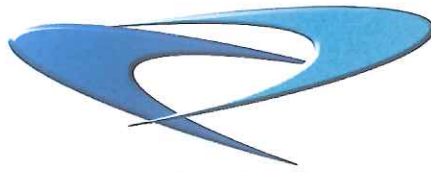
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Attachments

- A. Reserve Policy
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Mid-Peninsula Water District

ABOUT MID-PENINSULA WATER DISTRICT

The Mid-Peninsula Water District, formerly Belmont County Water District, was formed in 1929 from the physical plant of 7 independent systems, including the Spring Valley Water Company, which were united and began functioning as a public utility in 1930. Since the first operation, the District has purchased its entire water supply from the City of San Francisco Water Department. The District now supplies water to consumers in an area slightly larger than the city limits of the City of Belmont. Small portions of the service area are within the City Limits of the City of San Carlos, Redwood City, and parts of the unincorporated County of San Mateo. The District's service territory covers approximately 5 square miles and serves approximately 30,000 people. In the event of an emergency the District can serve or be served with inter-ties between neighboring utilities. As of today the District has 1 inter-tie with Foster City, 2 with San Carlos, 1 with Redwood City and 3 with San Mateo. A District service area map is included on page 4.

The District is a member of the Bay Area Water Supply and Conservation Agency (BAWSCA), which represents the interests of 26 cities and water districts, and two private utilities that purchase water wholesale from the San Francisco regional water system.

MID-PENINSULA WATER DISTRICT MISSION STATEMENT

The Mid-Peninsula Water District exists to serve our customers by obtaining and distributing a safe, reliable, high quality supply of water for current and future needs in the most cost efficient manner.

GOVERNANCE

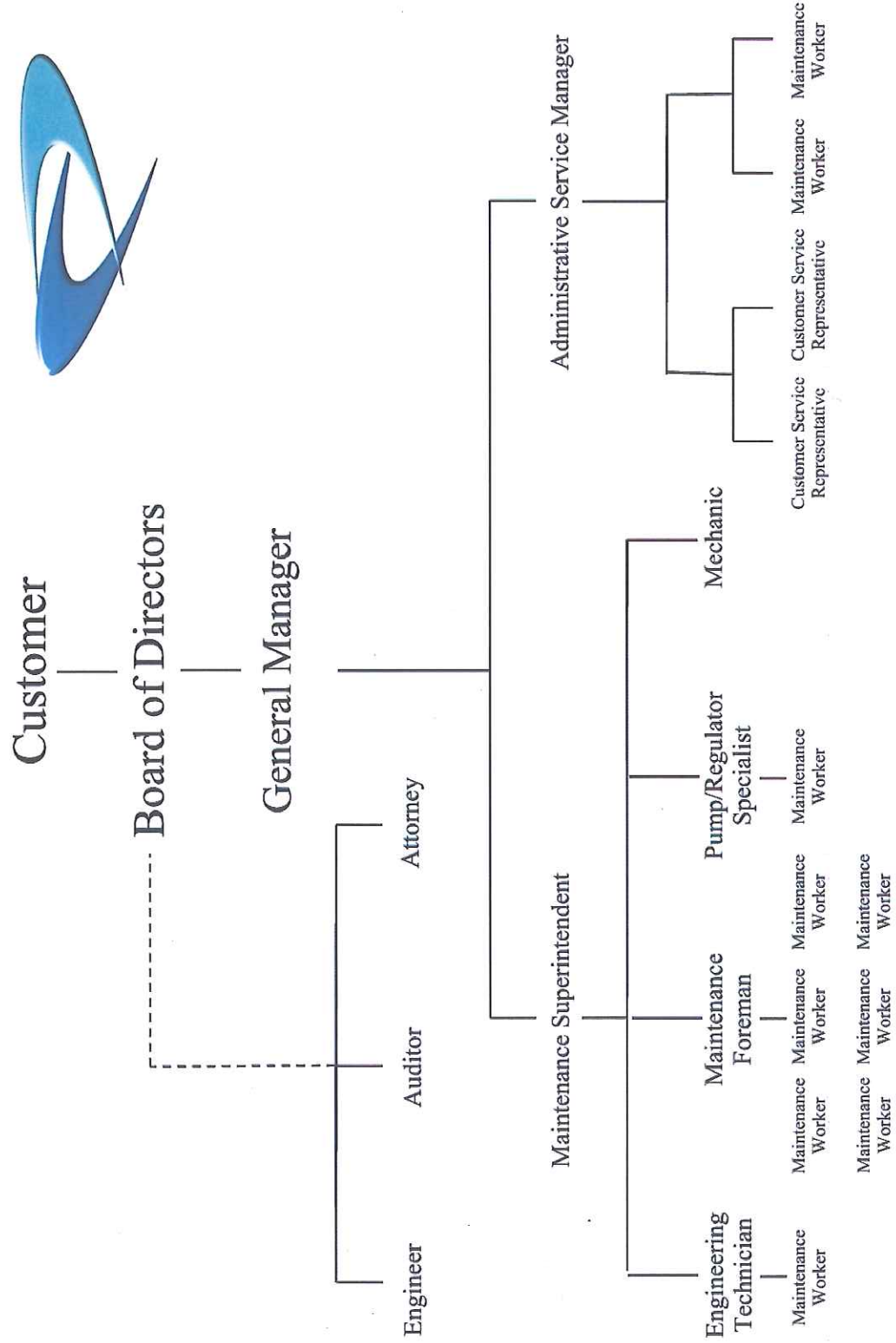
The Mid-Peninsula Water District was formed in 1929 as a County Water District to serve as a California Special District. The District's ordinances, policies and rates for service are set by five Directors, elected by voters to serve staggered four-year terms on its governing board.

Officers of the Board include the General Manager, District Secretary, District Counsel, District Engineer and District Treasurer.

ORGANIZATIONAL STRUCTURE

The General Manager reports directly to the Board of Directors, and through the Maintenance Superintendent and the Administrative Service Manager, oversees day to day operations. The Maintenance Superintendent oversees the Water Operations and Engineering departments and the Administrative Service Manager oversees the Department of Administrative Services, Finance and Offices Functions. See the organizational chart on the next page.

MPWD Organizational Chart



GENERAL INFORMATION

Mid-Peninsula Water District (MPWD) is an independent special district operating pursuant to State Water Code Section 300001. Mid-Peninsula Water District, formerly Belmont County Water District, was formed to consolidate 7 independent systems. The District employs 18 fulltime employees under the leadership of the General Manager.

The District operates and maintains a complex distribution system that includes 9 pressure zones, 19 pumps, 11 water tanks, 20 water regulating valves, 790 fire hydrants, 94 miles of water mains and lands on which District tanks, pumps, etc. are located. The District has the ability to transfer water between pressure zones either in a pump up or flow down mode. The District also has redundancy built into the distribution system so that it can, if necessary, supply all customers from either one of the San Francisco Public Utilities Commission connections.

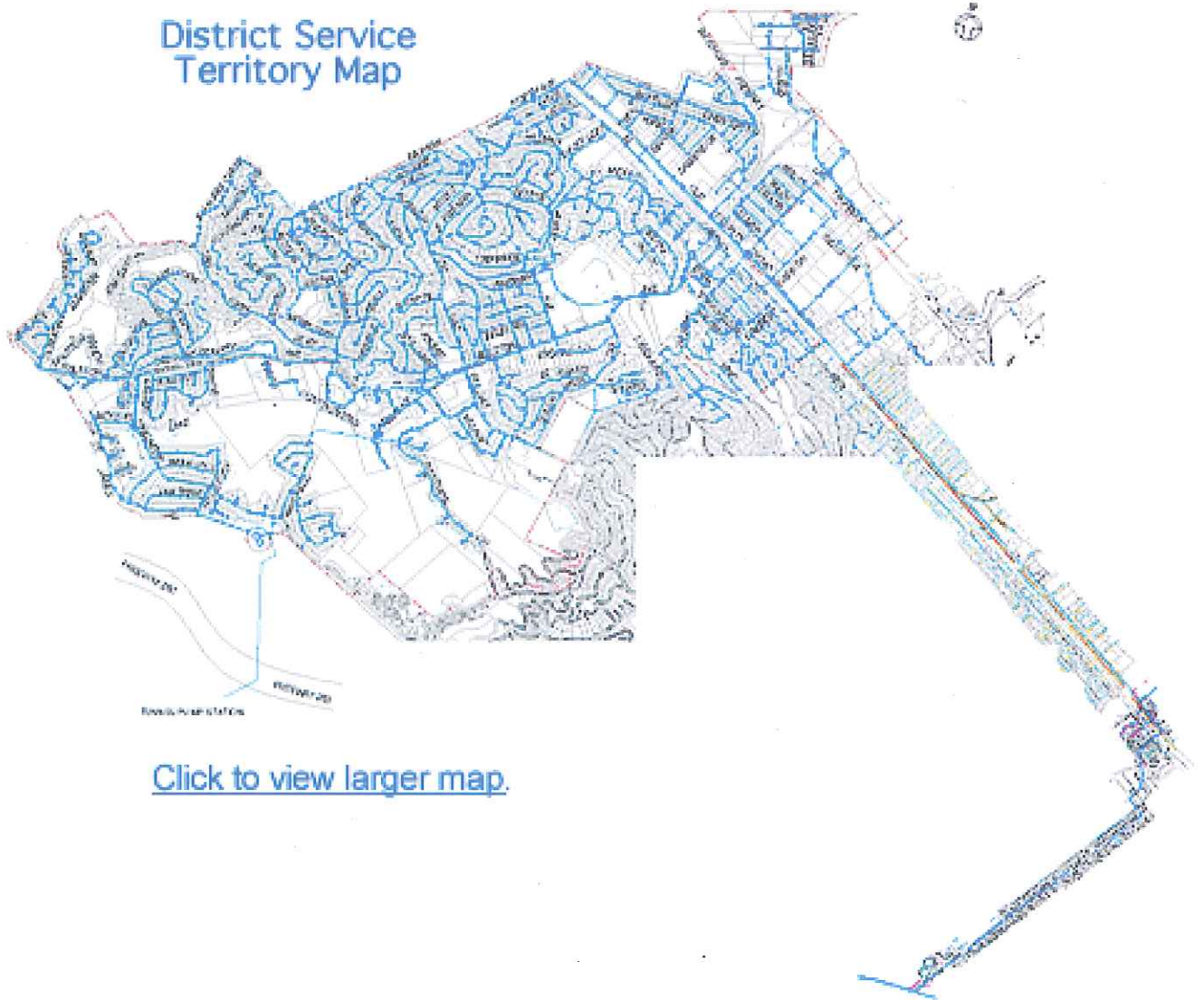
Each fiscal year, the District's Capital Improvement and Facility Maintenance Budget identifies priority capital improvement projects for funding. The 2010-11 budget included \$850,000 for repair of two storage tanks and replacement of aging water meters with advanced water meters that will provide for better customer service and alert customers of undetected leaks on service lines. Facility maintenance expenditures of \$250,000 include: water main replacement; vehicle smog checks to comply with State law; fire hydrant replacement and addition of hydrants essential for fire fighting, pump and regulator maintenance essential for extending the service life of water mains and reduce the amount of water main breaks, and maintenance of valves throughout the system.

The District operates on a "pay as you go" basis and thereby avoids incurring debt for capital improvements or drastic rate increases to fund capital improvements. Because the District has set rates to include capital improvement expenditures, the District has no outstanding debt.

The District's adopted tiered rate schedule is designed to allow gradual increases over the next five years, rather than less frequent, drastic increases. The District relies solely on water from the San Francisco Public Utility Commission (SFPUC), which has commenced a \$4.3 billion seismic Capital Improvement Project on the Hetch Hetchy distribution system. Costs for the capital improvements are passed on to water retailers through wholesale water prices, requiring that District water rates be adjusted upward to account for increasing wholesale water rates. Other factors affecting water rates include size of rate base, reduced volume in water sales due to conservation and cost of operations.

In May 2010, following completion of a water rate study, the District approved new water rates for fiscal years 2010 through 2014 that provide for a phased approach to raising rates to keep pace with increasing wholesale water rates and operational costs. The tiered rate model also encourages conservation by increasing unit rates for higher consumption.

The District engages in an array of water conservation programs including washing machine and toilet rebate programs, school conservation programs and landscape audit programs just to name a few. The District and its employees are committed to supply its consumers with a safe reliable, high quality supply of water in the most cost efficient manner.



DISTRICT FINANCIAL POLICIES and TRUST FUND

Reserve Policy – Attachment A Resolution 2007-13 and Exhibit A

The Board of Directors adopted a reserve fund policy to maintain prudent reserves in order to maintain needed operations and maintenance, rate stabilization, capital improvements, facility maintenance and emergency funds. Set amounts were recognized in the prior categories and the District has been working to achieve those targets.

Investment Policy – Attachment B Resolution 2007-11, 2007-12 and Statement of Investment

The Board reviews and updates the District Investment Policy as needed. It is the policy of the District to invest funds in a manner that will provide the highest investment return with the maximum security while meeting with all statutes governing the investment of the District funds.

Rates and Rate Increases – Attachment E

In 2009 the Mid-Peninsula Water District hired an outside consulting firm to perform a water rate study for current and future needs. The District was facing many financial obstacles including a \$4.3 billion Capital Improvement Project by the San Francisco Public Utilities Commission which the District would owe its share of, possible mandatory drought rationing and a significant economic downturn while the cost of products and services were rising.

This study took all those factors into account and gave the District a financial blueprint to follow. The District held a public hearing on May 27, 2010 to adopt a 5 year financial rate plan. Attached is the public notice and 5 year rate plan.

OPERATING AND CAPITAL BUDGET

FISCAL YEAR 2011-2012

Every year MPWD management and staff evaluate the needs of the District and creates a budget to cover those needs. The budget is then given to the Directors for comments, questions and input. This process begins around April for an approval by the June Board meeting. MPWD's budget is fiscal year to fiscal year (July thru June).

In preparing for this years budget process management and staff reviewed the following areas:

- District capital projects and operational needs
- Continued excellence in customer service to our constituents
- Economic forecast
- Water Rate Study
- Conservation
- SFPUC wholesale rates
- Labor
- Employee expenses
- Weather forecast

Although the financial forecast of the Country is better than in past years the return is and will continue to be a slow process. This coupled with the rate increase from the SFPUC, which is 38.4%, has staff continuing to look for ways to cut expenses. Due to the District's tier structure the 38.4% increase by the SFPUC equals 12.8% budget shortfall. In 2010 MPWD had a water rate study completed by Bartle Wells in which the recommendation was to increase rates gradually over the next 5 years by 45%, this equals 9% per year. The budget is built on an assumption of a 9% rate increase and the fixed rate increase proposed by Bartle Wells. Taking into account the actual budget shortfall and the proposed increase this will leave the District with a 3.8% budget shortfall which will be absorbed by the District and controlled by cost cutting measures like reduced capital and facility maintenance projects, a wage freeze for employees, cuts in employee expenses, reductions in operating expenses and continuing to do work in-house to save on outsourcing cost.

Due to the Governor calling an end to the drought and the Farmer Almanac predicting a normal summer, management has concluded customers will be using about 2% more water this year than last year.

Capital projects for this year reflect the needs of the District not the wishes. The District's retail water meters have aged out, the computer system is getting close to it maximum capacity and will need to be upgraded for the new meter technology. Large meter testing and leak detection is vital for control of the water supply and revenues, cathodic protection is important for water quality and the Buckland Tanks are in desperate need of repairs.

As with any entity employee wages and expenses make up a large part of the budget. This year's budget reflects not only the continued hiring freeze but also a wage freeze and cutbacks to employee expense including but not limited to training, uniforms, safety incentives etc.

This fiscal year in order to save costs the District will be focusing on maintenance the the exclusion of main replacement in the capital budget. District field staff will be installing the new meters and doing District maintenance in our service territory and operational cutbacks will continue.

Conservation efforts will continue with washing machine and toilet rebates and a scaled back school program. In years past the District has continued with rebates when budget numbers have been reached. This year the District will be cutting off rebates when budget numbers have been reached.

Below is a summary of the District Capital Improvement and Facility Maintenance Project for fiscal year 2011 – 2012.

Buckland Tanks \$ 500,000

The tank site is approximately 1,600 square feet, has a five foot (5') public utility easement along the east property line and a ten foot (10') PG&E easement along the south property line with power a pole and overhead power lines within the 10' easement. The site currently is occupied by two 0.1 MG steel tanks that were constructed in 1955; both tanks are 30 feet in diameter, 20 feet in height. The tanks were constructed with a single center column supporting roof beams; both tanks were constructed on top of oil sand and confined by a concrete curb and gutter. Last fiscal year 2010/2011 the District had BKF engineers and Spiess Construction perform inspections on both tanks. Staff had BKF engineers do a cost comparison of Tank Rehabilitation vs Construction of New Tanks; we also had Spiess Construction Company do a cost estimate on the design build approach. The final conclusion and recommendation by the District's Engineer was to design, contract and build two new tanks. The design build approach did not show a substantial savings.

The approximate cost of constructing two new tanks is \$1,200,000. The approximate cost to make repairs to the roof, roof beams, floor and paint is \$ 480,000. With the current economy, the escalating cost of operations, materials, utility rate increases, and fuel increases it is recommended that we repair both tanks at \$480,000; this would increase the life expectancy of these tanks by 15 to 20 years, it also addresses the issues brought up by the past inspections done by California Department of Public Health Services.

The District will still need to address in future budgets the need to construct a new concrete ring foundation and an anchor bolt system.

Meter Change-out Program \$300,000

Budgeted and approved for the 2010-2011, this project consists of the installation of a Radio Read Infrastructure System from Sensus Technologies, and the installation of the meters for Zones 4,5 and 6, and varied locations throughout the system for coverage verification. This project is a carry-over from the previous budget year.

Computer System Upgrades \$130,000

Upgrade existing server room equipment and PC equipment including network switches, firewall, servers storage, data backup system, battery backup, Microsoft operating system and Office licenses due to age and warranty related issues. This District has out grown the existing system storage and back-up capabilities and some software applications are not compatible with older operating systems. Also included would be the office PC computers scheduled for replacement.

Leak Detection Survey \$35,000

District requirement for Distribution System analysis every two years to detect leaks and reduce unaccounted for water losses. Last completed in 2008.

Large Meter Testing \$15,000

District requirement for the testing of the large (1.5" and up) compound meters in the Distribution System. Last completed in 2009.

Cathodic Protection \$ 44,600

Each tank and various pipelines are equipped with one or more Impressed Current Cathodic Protection system (ICCP) or Galvanic Anode Cathodic Protection system (GACP). Cathodic protection of the water tanks provides supplemental corrosion control of the interior submerged surfaces. Cathodic protection of the buried pipelines provides supplement corrosion control of the exterior metallic fittings or lay sections.

This project is a combination of two tasks, the first task is to perform a comprehensive survey of all District tanks and tank pipelines to ascertain that the systems are functioning properly and providing adequate corrosion protection. The second task is to make repairs to the cathodic protection on various waterlines in the distribution system

Pipelines protected in the Distribution System \$ 34,700

Scope of work

Anode and test station panel board replacements

Install new test boards and leads at defective stations

Install new pipe/fitting leads and anodes

Replacement of 30lb zinc bags

Repair cables and cad welds

Excavation, backfill and paving

1. Industrial Way water main
2. Treasure Island water main
3. Shoreway Road and Cormorant water mains
4. Farllon Island Park water mains
5. Sharpell Development
6. Sterling Point Development
7. Island Parkway water main
8. Newcastle Lane water main
9. OxfordWay water main

Water Tank Survey \$ 9,900

Scope of work

Visually inspect accessible cathodic protection system components

Collect tank-to-water potential measurements to determine the adequacy of cathodic protection

Collect pipe-to-soil potential measurements at all test stations along the water mains to determine the adequacy of cathodic protection

Inspect and test applicable components of the cathodic protection system

Adjust rectifiers as required to insure the water tanks and tank mains meet National Association of Corrosion Engineers (NACE)

Provide a final report

1. Buckland North
2. Buckland South
3. Exbourne East
4. Exbourne West
5. Hallmark North
6. Hallmark South
7. Dekoven East
8. Dekoven West
9. Hersom
10. West Belmont North
11. West Belmont South

MPWD Cash Flow Projections for Budget Year 2011/2012

Beginning Fund Balance FY Ending 2009/2010
Beginning Fund Balance FY Ending 2010/2011

	10/11 as of 3/31/11	10/11 Projected	11/12 Budget
REVENUES			
Monthly Service Charges	1,074,477	1,442,577	1,593,000
Water Sales	4,518,683	5,425,000	6,568,000
<i>Subtotal</i>	<i>5,593,160</i>	<i>6,867,577</i>	<i>8,161,000</i>
Property Taxes	182,055	185,000	180,000
Interest Income on Reserves	5,975	7,538	10,000
Other Income (Lease of Physical Property & AOC Shut Off Penalties)	126,909	175,000	174,550
Total Revenues	5,908,099	7,235,115	8,525,550

EXPENSES			
<u>Operating & Maintenance</u>			
Labor	1,530,637	1,951,400	2,042,000
Water Purchases	2,089,038	2,700,000	3,559,000
SFWD Contract Maint	40,770	57,000	90,600
Purchase Power	166,578	215,000	225,000
Customer Billing	62,364	81,000	70,000
Maintenance and General	416,018	537,000	600,600
Insurance	87,382	120,000	120,000
Legal Services	34,018	70,000	65,000
Directors Fees and Benefits	70,632	90,000	151,000
Other Expenses (Mains, Water Quality, Supplies, Fuel etc.)	332,387	445,000	338,400
<i>Subtotal</i>	<i>4,829,824</i>	<i>6,266,400</i>	<i>7,261,600</i>

<u>Non Operating</u>			
Debt Service, Dairy lane Note	101,780	101,780	-
Capital Improvements & Maint	1,388,000	1,518,000	1,024,600
<i>Subtotal</i>	<i>1,469,780</i>	<i>1,619,780</i>	<i>1,024,600</i>
Total Expenses	6,299,604	7,886,180	8,286,200

Revenues Less Expenses	(391,505)	(651,065)	239,350
Reserves	2,640,000	2,540,000	2,788,650
Ending Fund Balance	1,815,495	1,555,935	3,028,000
Fund Reserve Target	5,000,000	5,000,000	5,000,000

Depreciation not included in this spreadsheet