

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE LONG BEACH WATER DEPARTMENT

A Department of the City of Long Beach, California



For The Fiscal Year Ended  
**September 30, 2017**



**Long Beach Water**

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**Long Beach Water Department**

1800 East Wardlow Road

Long Beach, CA 90807

<http://www.lbwater.org>

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
OF THE  
LONG BEACH WATER DEPARTMENT  
(A Department of the City of Long Beach, California)**

**For the Fiscal Year Ended  
SEPTEMBER 30, 2017**

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**Prepared by the Finance Division  
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# INTRODUCTORY SECTION

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# Comprehensive Annual Financial Report

of the

## Long Beach Water Department

(A Department of the City of Long Beach, California)

For the Fiscal Year Ended September 30, 2017

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DATE March 26, 2018  
TO Board of Water Commissioners  
FROM B. Anatole Falagan, Assistant General Manager  
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal years ended September 30, 2017

Management is pleased to present the Comprehensive Annual Financial Report (CAFR) of the Long Beach Water Department (Department), for the fiscal year ended September 30, 2017. The Department's financial statements are also included in the City of Long Beach (the City) Financial Statements as enterprise funds (Water Fund and Sewer Fund).

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The accompanying financial statements have been audited by KPMG LLP, an independent certified public accounting firm. KPMG LLP has issued an unmodified ("clean") opinion on the Department's financial statements for the fiscal year ended September 30, 2017. The independent auditors' report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report, and provides a narrative introduction, overview, and analysis of the financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

## **THE REPORTING ENTITY**

During the early years of the 20<sup>th</sup> Century, Long Beach began establishing itself as an up-and-coming area that seemed destined to someday become a large city. In order to sustain the expected growth that would occur in future years, it was critical that the City identify and secure a reliable source of water. In recognizing the importance of this, on June 27, 1911, Long Beach voters approved an \$850,000 bond issuance to purchase two private water companies that had been providing water supplies to the Long Beach population. Three days later, on June 30, 1911, the Long Beach city council approved an emergency ordinance creating the Long Beach Water Department, thereby giving the City its own municipal water agency that would regulate and control the use, sale and distribution of water owned or controlled by the City.

Twenty years later, in 1931, two additional significant milestones came to pass for the Department. The first was the creation of the Long Beach Board of Water Commissioners (Board), which governs the Department and is comprised of five members appointed by the Mayor, subject to confirmation by the City Council. Members of the Board serve overlapping five-year terms to provide continuity of operations. That same year, the City also became one of the original 13 founding members of the Metropolitan Water District of Southern California (MWD). Joining MWD would allow the Department to eventually acquire imported water as a supplement to the City's groundwater supplies.

In February 1988, the Department assumed the responsibility of the various functions of the City's sanitary sewer system, including operations and maintenance. In April 1990, the citizens of Long Beach passed a City Charter amendment that allowed greater autonomy for the Department in administering the City's sanitary sewer operations.

The Department's service area encompasses the boundaries of the City of Long Beach, the seventh largest city in State, with an area of approximately 50 square miles and a population of 480,173 with some customers outside the City limits. The Department is not subject to regulation by the California Public Utilities Commission.

## **LOCAL ECONOMY**

The City has a diverse economic base as both a major industrial center and popular beach resort area. In addition, the Port of Long Beach, along with its related commercial and international trade activities, strengthens the local economy. Further, the City has been successful in building and maintaining a substantial tourist and convention business. This diversification helped the City to weather the effects of the national recession. Continuing positive trends in both the State and local economies indicate slow and steady economic growth for the near future. As an older, established and geographically built-out City, the Department's customer base is relatively stable and is comprised of eighty-eight percent (88%) residential

accounts, with the remaining twelve percent (12%) comprised of commercial, industrial, irrigation and other accounts. The residential accounts comprise approximately sixty-nine percent (69%) of the Department's total potable water sales. Further information on the local economy is provided in the City of Long Beach CAFR, of which the Department is a component unit.

## **WATER SUPPLY**

The Department meets the needs of its customers through an increasingly diverse portfolio of water resources. Local groundwater, combined with imported supplies, water recycling and water conservation are used in combination to meet the water demands within the service area.

### ***Drought Related Developments***

Long Beach water demand peaked in 1990, but water demand has been declining ever since. The reduced water demand can be attributed to a combination of a steady commitment to water conservation efforts by the Department and statewide droughts in 1990-1991, 2007-2009, and 2015-2016, each of which triggered a sharp decrease in water demand. Conservation efforts have included aggressive public outreach and incentive programs for water saving measures. The Water Department will continue these efforts to incorporate the conservation success into a sustained change in consumption behavior.

Reduced water usage due to conservation does result in reduced revenues. At the same time, those reductions are also offset by a reduction in operating expenses as a result of less imported water purchases from Metropolitan Water District (MWD).

Additionally, the Department managed discretionary budget expenses to minimize initial budget and rate impacts from reduced consumption. The Water Department's budget and rate structure is based annually on cost recovery and on State law governing water utility rate setting (Proposition 218).

The following subsections provide an overview of the Department's water resources.

### ***Groundwater***

Ownership of water rights allows approximately sixty percent (60%) of Long Beach's water supply needs to be produced from groundwater wells located within the City. Before it reaches our customers' taps, local groundwater must journey many miles from its source high up in the mountains. Rain and snow-melt from the San Gabriel Mountains watershed travel through washes and creeks into the San Gabriel River and the Whittier Narrows Basin. From there it percolates underground through sand and water beds where it begins a lengthy subsurface journey to Long Beach. High-powered pumps then extract it from 31 active groundwater wells and pump it to our groundwater treatment plant.

During the 1940's and 1950's the population grew and the increased water demand in the San Gabriel Valley significantly reduced the flows southward to the Central Basin, contributing to falling water tables. In 1959, to protect this vital source of local water supply, the Board initiated a lawsuit against major water producers in the San Gabriel Valley to guarantee water supplies to Central Basin producers.

Parties to the lawsuit negotiated a settlement which provided the basis of a stipulated judgment (the "Long Beach Judgment") rendered by the Superior Court on October 8, 1965. By separate action, a committee of Central Basin producers reached an agreement for voluntary reduction of pumpage within the basin to restore and protect the water table and to expedite the above judgment to permanently prevent excessive pumping. The reduction in pumping began October 1, 1962. The two events were of major importance in securing local water supplies for the City. The Department is the largest producer of water in the Central Basin.

### ***Imported Supplies***

Another portion of the City's potable (drinking) water supply is treated water purchased from MWD. This water originates from two sources: the Colorado River Aqueduct and the State Water Project (SWP).

Through its 242-mile long system, the Colorado River Aqueduct provides up to a billion gallons of water a day to residents and businesses in Southern California's coastal plain. Water is taken in at Lake Havasu and carried to the reservoir facilities at Lake Mathews. The State Water Project delivers water originating from the Oroville Dam and Reservoir and the Sacramento River Delta. The SWP is an intricate network of dams, pumping plants, reservoirs, hydroelectric plants, the Sacramento and San Joaquin Rivers and 440 miles of aqueducts that carry water to several Southern California reservoirs.

### ***Water Recycling***

Effective water recycling helps stretch the potable water supply; that is the primary reason the Department launched a reclaimed water system in 1978. In FY2017, the Department served approximately 2.3 billion gallons of reclaimed water to a variety of users throughout the City.

Water that would otherwise flow to the ocean and be wasted is reclaimed and used to irrigate park land, golf courses, freeway landscaping and school grounds, which reduces our dependence on imported water. Since 2005, recycled water treated at the Leo J. Vander Lans Advanced Water Treatment Facility (LVLAWTF) has partially replaced the use of imported water at the Alamitos Barrier, an engineered freshwater pressure ridge and seawater trough constructed to prevent seawater intrusion into the Central Basin and neighboring Orange County Groundwater Basin. In 2015, LVLAWTF was expanded, providing the operational flexibility to meet the needs of the Alamitos Barrier almost entirely with recycled water, minimizing the need of imported water.

## **Conservation**

The Department has an aggressive water conservation program that offers a variety of opportunities to conserve water across different sectors of the community and for both indoor and outdoor water uses.

Single-family and multi-family customers together are responsible for approximately two-thirds of the City's demand for water. Several of the Department's programs provide rebates to residential customers towards the purchase of water-efficient toilets and washing machines.

Close to half of single-family residential water use is estimated to be for landscape irrigation. The Department provides, at no cost to the customers, very well attended and well received classroom instruction on the design, installation, and maintenance of water-efficient California-friendly landscapes. The Department has also developed and implemented an award-winning Lawn-to-Garden program whereby customers can apply for an incentive to replace up to 1,500 square feet of turf with a California-friendly landscape. Incentives are also offered for customers to change traditional spray irrigation systems to water-efficient drip irrigation.

In addition to promoting conservation to residential and landscape accounts, we work closely with commercial, industrial and institutional (CII) customers to help them conserve water. The Department has encouraged conservation through targeted direct marketing, through rebates for water conserving devices, and offers a Certified Blue program to promote water efficiency in restaurants which will be expanded to include other CII sectors.

Long Beach Water Department promotes water use efficiency with many community partners, including schools, organizations and businesses. The Department takes pride in its award-winning outreach efforts, including supporting community functions, making presentations at local and regional events, and marketing through print, digital and social media strategies.

## **WATER QUALITY**

A primary objective of the Department is to deliver to our customers water that meets or exceeds all Federal and State standards. The Department continues to be recognized as a leader in the area of water quality. Our extensive testing and Quality Assurance/Quality Control program ensures that water delivered to our customers is of the highest possible quality.

The Long Beach Groundwater Treatment Plant is a state of the art water treatment facility, including four advanced water quality laboratories. This combination helps explain why the City's high quality drinking water consistently meets or exceeds all Federal and state drinking water regulations.

The Department conducts extensive sampling and testing of groundwater wells, water storage reservoirs, the water distribution system and, when appropriate, selected homes, businesses, schools and public facilities. This year, our Water Quality laboratories collected 15,370 samples and performed 79,442 tests while maintaining certification with the California Department of Health Services and Environmental Protection Agency (EPA).

During fiscal year 2017, the Groundwater Treatment Plant processed approximately 10.2 billion gallons of drinking water. Overall, 16.7 billion gallons of high-quality water were delivered to the Long Beach community.

## **MAJOR INITIATIVES**

### ***Seawater Desalination Research***

Since 1994, the Department has researched seawater desalination as a potential source of drinking water. In 1996, the Department received authorization for Federal cost-sharing of a seawater desalination demonstration project; and in fiscal year 2001, the Department received an earmark in the Federal fiscal year 2002 budget, making it the only newly funded water project by the Federal government in that budget. Federal funding continued in fiscal years 2003 through 2015. Through an innovative public sector partnership, the Long Beach Water Department along with the Los Angeles Department of Water & Power and the United States Bureau of Reclamation operated a 300,000 gallon-per-day prototype desalination facility, one of the largest seawater desalination research and development facilities in the United States. The Seawater Desalination study was completed in March 2010 and research gathered from the operation of the prototype plant was published as a report to the U.S. Bureau of Reclamation. Additionally, the Department operates an ongoing research project for an under-ocean intake and discharge system.

### ***Conjunctive Use***

The Department has also partnered with MWD and the California Department of Water Resources (DWR) on an innovative groundwater storage program. The \$4.5 million project, which was funded by State of California Proposition 13, stored surplus water in the Central Groundwater Basin, and has previously, delivered the stored water during previous drought conditions in 2008 and 2009. A second \$2.7 million joint conjunctive use project with the City of Lakewood was completed in 2009 and water stored under this project may also be called upon in a drought.

### ***Water Distribution System***

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2017, the water distribution system totaled 912 miles of water mains with approximately 90,000 service connections.

During fiscal year 2017, the Department and contractors replaced 20,359 feet of deteriorated cast iron water mains with new ductile iron pipe. This critical replacement program addresses upgrading old pipelines, many of which were installed more than 50 years ago.

The Department maintains 643 large control valves 20 inches or more in diameter and 22,958 smaller control valves. The Department has a maintenance and replacement program to ensure that control valves are operational and that they can be turned off or on promptly during emergencies. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. With 31 active water wells across Long Beach supplying just over half of the City's water, well maintenance is another ongoing project for the Department. Rehabilitation of water wells and storage tanks at Alamitos and J. Will Johnson Reservoirs continues to ensure a reliable supply of water in the future.

### ***Sanitary Sewer Collection System***

The Department has made considerable progress since 1988 in addressing the substantial challenges posed by an aging sanitary sewer infrastructure, much of which is between 60 and 80 years old. At September 30, 2017, the sanitary sewer collection system totaled 714 miles of sewer pipelines. The Department developed the first City-wide Sewer Master Plan in 1991, which provided an initial prioritization of sewer deficiencies to be addressed. The Department has since developed a comprehensive program of maintenance, monitoring and repair of sewer lines including:

- an aggressive annual pipeline cleaning program and Fats, Oil and Grease (FOG) program to address impacts to lines;
- a video monitoring program to assess conditions of pipelines;
- a comprehensive annual sewer infrastructure repair program.

In fiscal year 2009, the Department completed a comprehensive Sewer Master Plan Update, providing the Department with an updated evaluation and prioritization of current deficiencies. The plan included the use of dynamic hydraulic modeling software to assess existing collection system performance, as well as to evaluate the system for future conditions. Based on the plan, the Department developed and began implementation of a multi-year Capital Improvement Program to address aging infrastructure identified by the Master Plan analysis.

### **RELEVANT FINANCIAL POLICIES**

The Department's financial statements are presented on the accrual basis of accounting. As an enterprise fund, the cost of providing water is recovered through user charges assessed by meter size, volumetric charges and other miscellaneous charges. The cost of providing sewer service is also recovered through user and volumetric charges for all water customers who are connected to the City's sewers. Certain services, such as payroll, civil service, public service, general service, customer billing, data processing, legal, etc., are provided to the Department by



other City departments; these costs are reimbursed to the City by transfer of funds from the Water Fund or the Sewer Fund.

***Internal Control Structure***

In the development and enhancement of the Department's accounting system, careful consideration is given to the adequacy of the internal controls designed to provide reasonable assurance regarding the safeguarding of assets against possible loss, unauthorized use or disposition; to ensure the reliability of financial records for preparing financial statements and maintaining accountability for assets, and to promote operational efficiency and compliance with managerial policies. The concept of reasonable assurance recognizes that: (1) the cost of a specific control feature should not exceed the benefits likely to be derived, and; (2) the evaluation of costs and benefits requires continued estimates and judgment by management.

***Budgetary Control***

The budget is a management control device for the forthcoming fiscal year. Prior to July 1 each year, the Board adopts an operating budget, which covers anticipated revenues and expenditures of the Department. The Department's budget is also subject to the approval of the City Council. By September 30 each year, the City Council shall approve the budget as adopted by the Board of Water Commissioners, or shall amend the budget and approve it as amended.

Budgets are prepared on a cash basis for revenues and for several categories of expenses. These budgets are not designed to be pro-forma statements of income and expense in the same format as the Water Department's financial statements. Instead, they are utilized primarily for controlling costs along organizational and programmatic lines. Each Bureau within the Department is responsible for outlays initiated by Divisions. Revenues are monitored only at the departmental level, except in certain areas where they are controlled by individual projects.

## **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2016. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting and its attainment represents a significant accomplishment by a government agency and its management. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized CAFR whose contents not only conform to the high program standards of the GFOA, but also satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to acknowledge the assistance of Sokhalay Hong, Senior Accountant, and Yumina C. Eggleston, Senior Accountant, of the Business Bureau Finance Division in the preparation of this report.

It is recommended that the Board of Water Commissioners receive and file the Comprehensive Annual Financial Report for the fiscal years ended September 30, 2017.

Prepared by:

  
\_\_\_\_\_  
Paul T. Fujita, Director of Finance

Submitted and  
Recommended by:

  
\_\_\_\_\_  
B. Anatole Falagan, Assistant General Manager

Approved by:

  
\_\_\_\_\_  
Christopher J. Garner, General Manager

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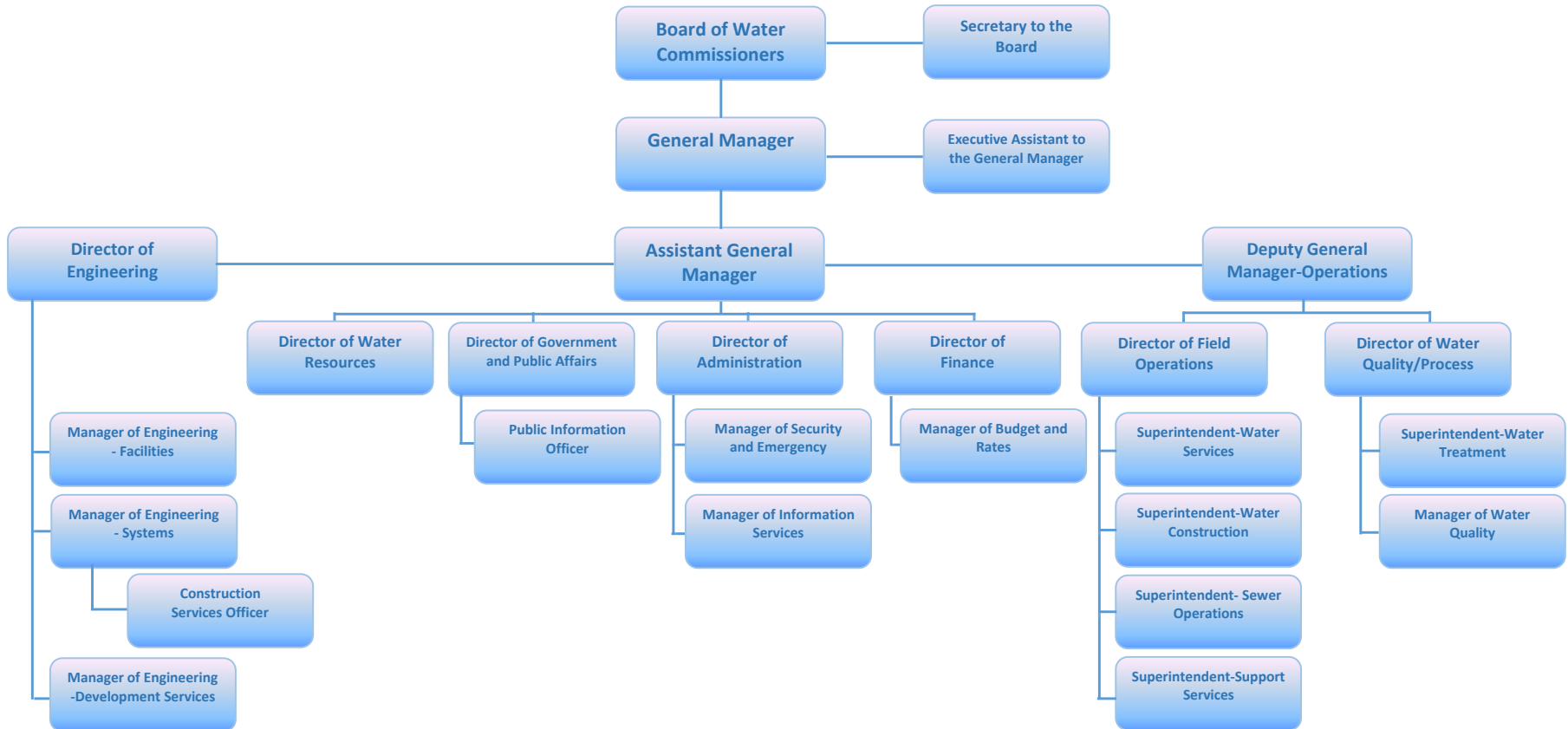
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2016**

*Christopher P. Morill*

Executive Director/CEO

# Long Beach Water Department Organizational Chart



# **LONG BEACH WATER DEPARTMENT**

## **BOARD OF WATER COMMISSIONERS**

ROBERT SHANNON	PRESIDENT
GLORIA CORDERO	VICE PRESIDENT
HARRY SALTZGAVER	SECRETARY
FRANK MARTINEZ	MEMBER
ARTHUR LEVINE	MEMBER

## **STAFF**

CHRISTOPHER J. GARNER  
General Manager

B. ANATOLE FALAGAN  
Assistant General Manager

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**FINANCIAL SECTION**

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KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

## Independent Auditors' Report

The Honorable Mayor and City Council  
The Honorable Members of the Board of Water Commissioners:

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Long Beach Water Department (the Department) of the City of Long Beach, California (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the tables of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund for the Long Beach Water Department of the City of Long Beach, California, as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



## **Emphasis of Matter**

As discussed in note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City as of September 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

**KPMG LLP**

Los Angeles, California  
March 26, 2018

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2017

As the management of the Long Beach Water Department, a department of the City of Long Beach (the City), we offer readers of the Long Beach Water Department's financial statements this narrative overview and analysis of the financial activities of the Long Beach Water Department (the Department) for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. The Department comprises the City's Water Enterprise Fund (Water Fund) and Sewer Enterprise Fund (Sewer Fund) operations. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### FINANCIAL HIGHLIGHTS

The Department's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of fiscal year 2017 (FY2017) by \$346,353 (*net position*). The Department's net position is further broken down between the Water Fund and Sewer Fund below.

**Water Fund.** Assets and deferred outflows exceeded liabilities and deferred inflows at the close of FY2017 by \$282,764. Of this amount, \$284,413 represents net investment in capital assets, and \$1,700 represents resources that are subject to restrictions on how they may be used. The Water Fund showed a deficit in unrestricted net position of \$3,349 in FY2017. Total Water Fund net position increased by \$6,734 (+2.4%) from the prior fiscal year. The increase reflects income in excess of expenses and contributed capital received during the year.

**Sewer Fund.** Total Sewer Fund net position totaled \$63,589 as of September 30, 2017, an increase of \$3,550 (+5.9%) from the prior fiscal year. The increase reflects income in excess of expenses during the year. In FY2017, the net investment in capital assets and the unrestricted portion of net position totaled \$58,927 and \$4,360, respectively.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. Because the Department is a business-type activity of the City, enterprise funds are used to account for its water and sewer operations. These financial statements include only the activities of the Department and provide comparative information for the last fiscal year. Information on Citywide financial operating results is available in the City of Long Beach Comprehensive Annual Financial Report as of September 30, 2017.

The Department's financial statements comprise two components: 1) financial statements and 2) notes to financial statements. Included as part of the financial statements are the

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2017

Statements of Net Position, Statements of Revenues, Expenses, and Changes in Fund Net Position, and Statements of Cash Flows.

The *Statements of Net Position* present the Department's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Fund Net Position* present information showing how the Department's net position have changed during the most recent fiscal year. Results of operations are recorded under the accrual basis of accounting, whereby transactions are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (i.e., accounts payable and accounts receivable). The Department's use of the accrual basis of accounting is more fully described in the accompanying *Notes to Financial Statements*.

The *Statements of Cash Flows* present flows of cash and cash equivalents during the last two fiscal years, including certain restricted amounts.

The *Notes to Financial Statements* provide additional information that is essential to the full understanding of the data provided in the financial statements and can be found on pages 24-52 of this report.

### FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the Department's financial position. As of September 30, 2017, Water Fund assets exceeded liabilities by \$282,764, and Sewer Fund assets exceeded liabilities by \$63,589, representing a 2.4% increase in net position over the prior fiscal year for the Water Fund and a 5.9% increase in Sewer Fund net position. Net positions are further categorized by net investment in capital assets, and restricted and unrestricted net positions.

As of September 30, 2017, investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, amounted to \$284,413 and \$58,927 of Water Fund and Sewer Fund, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt on the Statements of Net Position must come from other sources such as operations.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2017

The restricted portion of the Department's net position amounted to \$1,700 and \$302 for Water Fund and Sewer Fund, respectively. This represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the net position for Water Fund reflects a deficit of \$3,349 as of September 30, 2017, representing a 8.7% increase over FY2016. On the other hand, the Sewer Fund's unrestricted portion amounted to \$4,360, representing a 24.8% increase over FY2016. The unrestricted portion of the Department's net position may be used to meet the Department's ongoing obligations to creditors and customers.

The Department's Condensed Schedules of Net Position as of September 30, 2017 and 2016 are as follows (in thousands):

#### Long Beach Water Department Condensed Schedules of Net Position September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016	
			Amount	%
<b>Assets:</b>				
Current and other assets	\$ 68,436	\$ 59,979	\$ 8,457	14.1%
Capital assets	377,238	371,269	5,969	1.6%
Total assets	<u>445,674</u>	<u>431,248</u>	<u>14,426</u>	<u>3.3%</u>
<b>Deferred Outflows of Resources:</b>				
Deferred Outflows	<u>15,099</u>	<u>13,552</u>	<u>1,547</u>	<u>11.4%</u>
<b>Liabilities:</b>				
Current liabilities	20,814	20,239	575	2.8%
Noncurrent liabilities	89,477	84,445	5,032	6.0%
Total liabilities	<u>110,291</u>	<u>104,684</u>	<u>5,607</u>	<u>5.4%</u>
<b>Deferred Inflows of Resources:</b>				
Deferred Inflows	<u>4,129</u>	<u>4,047</u>	<u>82</u>	<u>2.0%</u>
<b>Net Position:</b>				
Net investment in capital assets	343,340	333,856	9,484	2.8%
Restricted	2,002	1,800	202	11.2%
Unrestricted	1,011	413	598	144.8%
Total net position	<u>\$ 346,353</u>	<u>\$ 336,069</u>	<u>\$ 10,284</u>	<u>3.1%</u>

# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2017

The Department's financial position is further broken down as follows between the Department's Water Fund and the Sewer Fund as of September 30, 2017 and 2016:

### Water Fund Condensed Schedules of Net Position September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016	
			Amount	%
<b>Assets:</b>				
Current and other assets	\$ 55,075	\$ 48,566	\$ 6,509	13.4%
Capital assets	307,357	303,259	4,098	1.4%
Total assets	<u>362,432</u>	<u>351,825</u>	<u>10,607</u>	<u>3.0%</u>
<b>Deferred Outflows of Resources:</b>				
Deferred Outflows	<u>12,963</u>	<u>11,526</u>	<u>1,437</u>	<u>12.5%</u>
<b>Liabilities:</b>				
Current liabilities	19,034	18,189	845	4.6%
Noncurrent liabilities	<u>70,309</u>	<u>65,770</u>	<u>4,539</u>	<u>6.9%</u>
Total liabilities	<u>89,343</u>	<u>83,959</u>	<u>5,384</u>	<u>6.4%</u>
<b>Deferred Inflows of Resources:</b>				
Deferred Inflows	<u>3,288</u>	<u>3,362</u>	<u>(74)</u>	<u>-2.2%</u>
<b>Net Position:</b>				
Net Investment in capital assets	284,413	277,394	7,019	2.5%
Restricted	1,700	1,716	(16)	-0.9%
Unrestricted	<u>(3,349)</u>	<u>(3,080)</u>	<u>(269)</u>	<u>8.7%</u>
Total net position	<u>\$ 282,764</u>	<u>\$276,030</u>	<u>\$ 6,734</u>	<u>2.4%</u>

# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2017

### Sewer Fund Condensed Schedules of Net Position September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016	
			Amount	%
<b>Assets:</b>				
Current and other assets	\$ 13,361	\$ 11,413	\$ 1,948	17.1%
Capital assets	69,881	68,010	1,871	2.8%
Total assets	83,242	79,423	3,819	4.8%
<b>Deferred Outflows of Resources:</b>				
Deferred Outflows	2,136	2,026	110	5.4%
<b>Liabilities:</b>				
Current liabilities	1,780	2,050	(270)	-13.2%
Noncurrent liabilities	19,168	18,675	493	2.6%
Total liabilities	20,948	20,725	223	1.1%
<b>Deferred Inflows of Resources:</b>				
Deferred Inflows	841	685	156	22.8%
<b>Net Position:</b>				
Net Investment in				
capital assets	58,927	56,462	2,465	4.4%
Restricted	302	84	218	259.5%
Unrestricted	4,360	3,493	867	24.8%
Total net position	\$ 63,589	\$ 60,039	\$ 3,550	5.9%

### Fiscal Year Ended September 30, 2017 Compared to 2016

**Water Fund.** Net position increased by \$6,734 (+2.4%) over FY2016. This net increase is attributable to contributed capital of \$734 from various Developers for water distribution systems and revenues in excess of expenses of \$6,000.

Current and other assets increased by \$6,509 (+13.4%) from FY2016, as a result of recognizing the amount due from the City's Employee Benefit fund in relation to the allocation of employee compensated absences benefits.

Capital assets increased by \$4,098 (+1.4%) over the prior year, mainly due to the ongoing capital improvement program for cast iron water main replacement, water service installations, machinery and equipment purchases, and facility improvements.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2017

Deferred outflows of resources increased by \$1,437 (+12.5%) over FY2016. This net increase reflects changes in actuarial assumptions on other post-employment benefits costs (OPEB) and overall deferred net pension costs. Additional information on deferred outflows related to pensions is provided on Note 5 – Retirement Program of the Notes to Financial Statements in page 41.

Current liabilities increased by \$845 (+4.6%) compared to FY2016 mainly due to increases in accrued labor costs by \$1,974 (+231.5%). These increases were offset by a decrease of \$1,173 (-62.8%) in liabilities to the City relating to the new city-wide Enterprise Resource Planning (ERP) system and customer information systems upgrade.

Noncurrent liabilities increased by \$4,539 (+6.9%) from FY2016 due to increases in pension and OPEB liabilities by \$3,487 (+9.3%) and recognition of compensated absences liabilities amounting to \$4,256 (+100%). This amount was offset by a decrease of \$3,204 (-11.8%) due to annual principal payments on debt and bonds premium amortization in FY2017. Additional information is provided on Note 4-Noncurrent Liabilities of the Notes to Financial Statements in page 36 and on Note 6 – Post Retirement Health Care Benefits in page 47.

**Sewer Fund.** Net position increased \$3,550 (+5.9%) over FY2016. This increase was attributable to revenues in excess of expenses.

Current assets and other assets increased by \$1,948 (+17.1%), reflecting an increase in pooled cash and cash equivalents due to sewer capacity charges revenue received and a 4% sewer rate increase in FY2017.

Capital assets increased by \$1,871 (+2.8%) over FY2016 due to machinery and equipment purchases and the completion of several sewer main pipe relining and sewer pump station rehabilitation projects across the city of Long Beach.

Deferred outflows of resources increased by \$110 (+5.4%) over FY2016. This net increase shows changes in actuarial assumptions on OPEB costs and deferred pension costs. Additional information on deferred outflows related to pensions is provided on Note 5 – Retirement Program of the Notes to Financial Statements in page 41.

Current liabilities decreased by \$270 (-13.2%) compared to FY2016 mainly due to a decrease of accounts payable outstanding at the end of fiscal year.

Noncurrent liabilities increased by \$493 (+2.6%) from FY2016 primarily due to the recognition of compensated absences liabilities amounting to \$827 (+100%) and an increase in pension and OPEB liabilities by \$131 (+1.7%). This amount was offset by a decrease of \$465 (-4.2%) primarily due to annual principal payments on Series 2016A



# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2017

Bonds. Additional information is provided on Note 4-Noncurrent Liabilities of the Notes to Financial Statements in page 36 and on Note 6 – Post Retirement Health Care Benefits in page 47.

Deferred Inflows of resources increased by \$156 (+22.8%) over FY2016. This increase reflects changes in actuarial assumptions, differences between actual and projected experience and proportionate share of deferred pension and OPEB costs. Additional information on deferred outflows related to pensions is provided on the Note 5 – Retirement Program of the Notes to Financial Statements in page 41.

The Water Department's Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position provide further insight as to the nature and source of changes in net position and are summarized as follows for the years ended September 30, 2017 and 2016 (in thousands):

**Long Beach Water Department**  
**Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position**  
**Fiscal Years Ended September 30, 2017 and 2016**  
**(in thousands)**

	2017	2016	Variance	
			2017/2016	
			Amount	%
<b>Operating Revenues:</b>				
Metered water sales	\$ 67,616	\$ 65,922	\$ 1,694	2.6%
Reclaimed water sales	3,338	4,018	(680)	-16.9%
Service charges	36,469	34,549	1,920	5.6%
Maintenance services	86	86	-	-
Other services	9,823	11,430	(1,607)	-14.1%
Total operating revenues	<u>117,332</u>	<u>116,005</u>	<u>1,327</u>	<u>1.1%</u>
<b>Operating Expenses:</b>				
Cost of water	25,374	28,743	(3,369)	-11.7%
Personal services	25,153	22,373	2,780	12.4%
Maintenance and other	27,728	29,386	(1,658)	-5.6%
Depreciation and amortization	14,017	13,356	661	4.9%
Permit fees	10,892	10,543	349	3.3%
Commercial Services	4,041	3,687	354	9.6%
Total operating expenses	<u>107,205</u>	<u>108,088</u>	<u>(883)</u>	<u>-0.8%</u>
Operating income	10,127	7,917	2,210	27.9%
<b>Nonoperating Income (Expenses):</b>				
Interest income	119	393	(274)	-69.7%
Interest expense	(238)	(433)	195	-45.0%
Loss on disposition of property	(114)	(278)	164	-59.0%
Rents	811	1,027	(216)	-21.0%
Bonds issuance costs	(21)	(298)	277	-93.0%
Other	(1,134)	(1,363)	229	-16.8%
Income before contributed capital	9,550	6,965	2,585	37.1%
Capital contributions	734	2,710	(1,976)	-72.9%
Change in net position	10,284	9,675	609	6.3%
Beginning net position, as adjusted	336,069	326,394	9,675	3.0%
Ending net position	<u>\$346,353</u>	<u>\$336,069</u>	<u>\$10,284</u>	<u>3.1%</u>

# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2017

The Department's operations are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2017 and 2016:

### Water Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position Fiscal Years Ended September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016 Amount	%
<b>Operating Revenues:</b>				
Metered water sales	\$ 61,383	\$ 59,640	\$ 1,743	2.9%
Reclaimed water sales	3,338	4,018	(680)	-16.9%
Service charges	24,599	23,121	1,478	6.4%
Other services	8,063	10,871	(2,808)	-25.8%
Total operating revenues	<u>97,383</u>	<u>97,650</u>	<u>(267)</u>	<u>-0.3%</u>
<b>Operating Expenses:</b>				
Cost of water	25,374	28,743	(3,369)	-11.7%
Personal services	21,389	18,405	2,984	16.2%
Maintenance and other	25,101	25,981	(880)	-3.4%
Depreciation and amortization	11,694	11,169	525	4.7%
Permit fees	6,161	5,968	193	3.2%
Commercial Services	2,174	1,987	187	9.4%
Total operating expenses	<u>91,893</u>	<u>92,253</u>	<u>(360)</u>	<u>-0.4%</u>
Operating income (loss)	5,490	5,397	93	-1.7%
<b>Nonoperating Income (Expenses):</b>				
Interest income	87	299	(212)	-70.9%
Interest expense	(161)	(433)	272	-62.8%
Loss on disposition of property	(94)	(283)	189	-66.8%
Rents	811	1,027	(216)	-21.0%
Other	(133)	(1,282)	1,149	-89.6%
Income (loss) before contributed capital	<u>6,000</u>	<u>4,725</u>	<u>1,275</u>	<u>-27.0%</u>
Capital contributions	734	2,710	(1,976)	-72.9%
Change in net position	<u>6,734</u>	<u>7,435</u>	<u>(701)</u>	<u>-9.4%</u>
Beginning net position, as adjusted	<u>276,030</u>	<u>268,595</u>	<u>7,435</u>	<u>2.8%</u>
Ending net position	<u>\$282,764</u>	<u>\$276,030</u>	<u>\$ 6,734</u>	<u>2.4%</u>

# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2017

### Sewer Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position Fiscal Years Ended September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016 Amount	%
<b>Operating Revenues:</b>				
Metered water sales	\$ 6,233	\$ 6,282	\$ (49)	-0.8%
Service charges	11,870	11,428	442	3.9%
Maintenance services	86	86	-	-
Other services	1,760	559	1,201	214.8%
Total operating revenues	<u>19,949</u>	<u>18,355</u>	<u>1,594</u>	<u>8.7%</u>
<b>Operating Expenses:</b>				
Personal services	3,764	3,968	(204)	-5.1%
Maintenance and other	2,627	3,405	(778)	-22.8%
Permit fees	4,731	4,575	156	3.4%
Depreciation	2,323	2,187	136	6.2%
Commercial Services	1,867	1,700	167	9.8%
Total operating expenses	<u>15,312</u>	<u>15,835</u>	<u>(523)</u>	<u>-3.3%</u>
Operating income	4,637	2,520	2,117	84.0%
<b>Nonoperating Income (Expenses):</b>				
Interest income	32	94	(62)	-66.0%
Interest expense	(77)	-	(77)	-
Gain on disposition of property	(20)	5	(25)	-500.0%
Bonds issuance costs	(21)	(298)	277	-93.0%
Other	(1,001)	(81)	(920)	1135.8%
Income before contributed capital	<u>3,550</u>	<u>2,240</u>	<u>1,310</u>	<u>58.5%</u>
Capital contributions	-	-	-	-
Change in net position	<u>3,550</u>	<u>2,240</u>	<u>1,310</u>	<u>58.5%</u>
Beginning net position, as adjusted	<u>60,039</u>	<u>57,799</u>	<u>2,240</u>	<u>3.9%</u>
Ending net position	<u>\$ 63,589</u>	<u>\$ 60,039</u>	<u>\$ 3,550</u>	<u>5.9%</u>

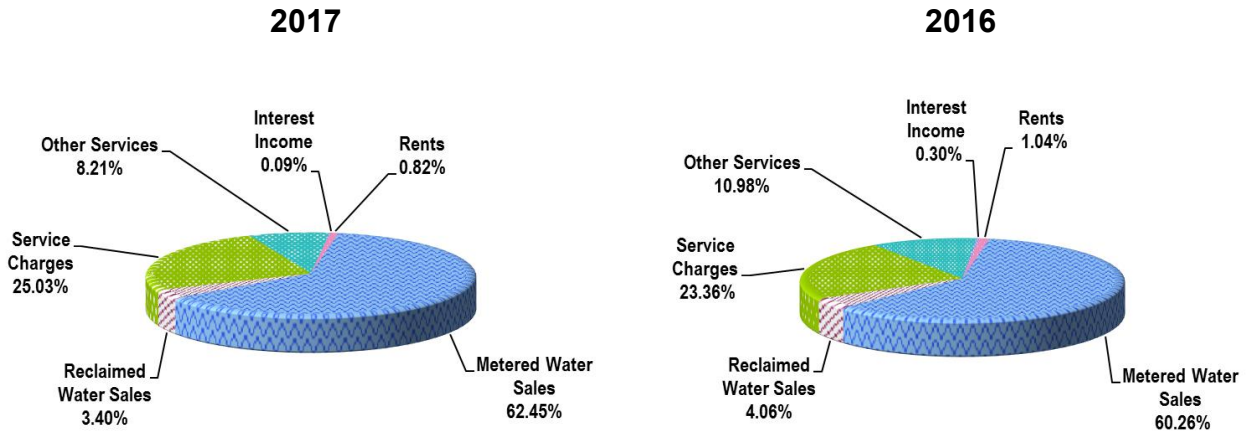
# LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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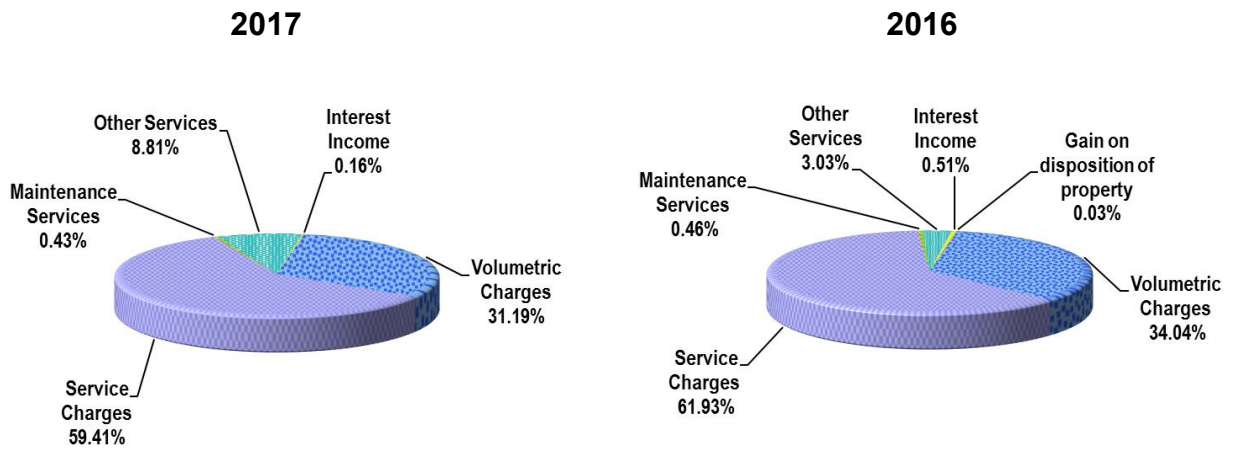
## Sources of Revenues

Sources of revenue for fiscal years 2017 and 2016 are shown on the following charts.

### Water Fund



### Sewer Fund



## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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### ***Management Review of the Department's Revenues***

#### **Water Fund**

##### **Fiscal Year Ended September 30, 2017 Compared to 2016**

Total operating revenues were \$97,383, a decrease of \$267 (-0.3%) over FY2016. The major elements of this net decrease are as follows:

- Metered potable water sales revenue increased by \$1,743 (+2.9%) primarily due to a 4% water rate increase in FY2017, which was offset by a 614 AF (-1.18%) decrease in consumption.
- Service charges increased by \$1,478 (+6.4%) in FY2017 primarily due to a 4% water rate increase.
- Revenue from other services totaled \$8,063, a net decrease of \$2,808 (-25.8%) from the prior year. This is primarily attributable to a decrease in revenue from unmetered water sales to the Water Replenishment District of Southern California (WRD) in the amount of \$3,007 in FY2017. This unmetered water sales revenue received from replenishing the Central Basin aquifer is part of a potable water purchase agreement between the Department, Central Basin Municipal Water District (CBMWD), and WRD. This agreement ended in FY2016.

Capital contributions decreased by \$1,976 (-72.9%) compared to FY2016 primarily due to a decrease on distribution system development agreements with the Department and grant proceeds received.

#### **Sewer Fund**

##### **Fiscal Year Ended September 30, 2017 Compared to 2016**

Total operating revenues increased \$1,594 (+8.7%) over FY2016. The key elements of this net increase are as follows:

- Metered water sales revenue decreased by \$49 (-0.8%) over FY2016 as a result of a decrease in volumetric demand in FY2017. This decrease was offset by a 4% sewer rate increase in FY2017.
- Service charges increased by \$442 (+3.9%) over FY2016 due to a 4% sewer rate increase in FY2017.
- Other services revenue increased by \$1,201 (+214.8%) over FY2016 due to an increase in sewer capacity charges revenue as a result of several new residential developments in the city of Long Beach.

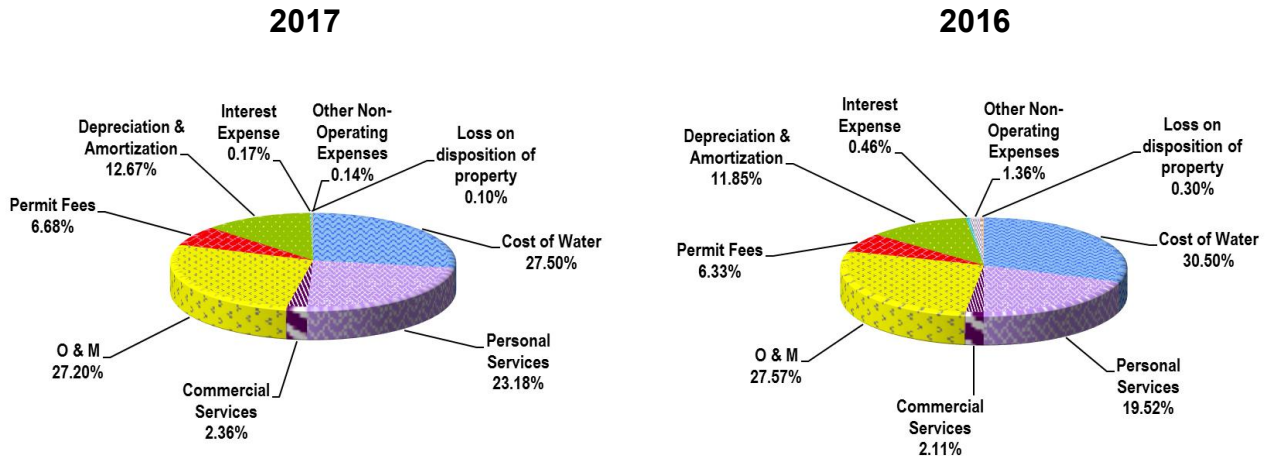
# LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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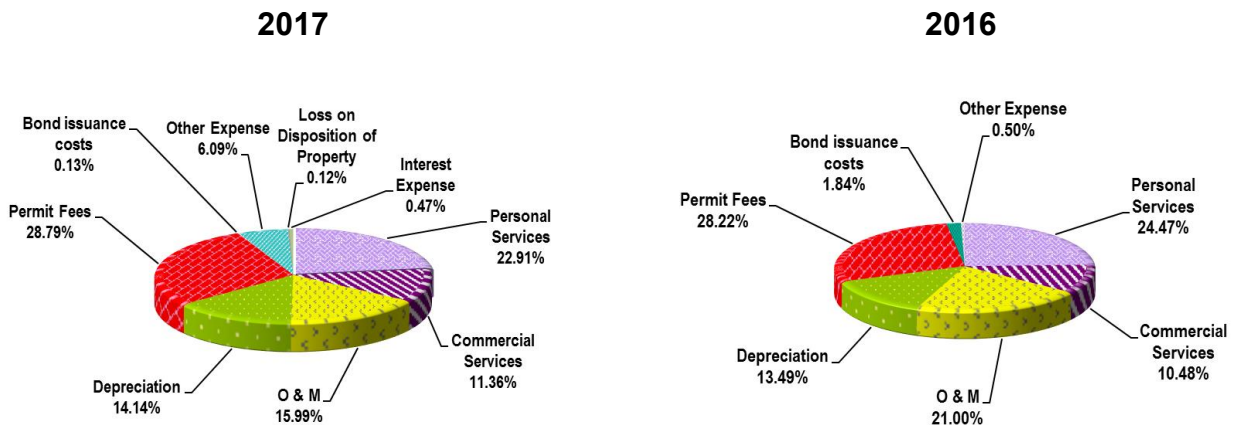
## Functional Expenses

Functional expenses for the 2017 and 2016 fiscal years are shown on the following charts.

### Water Fund



### Sewer Fund



## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2017

### ***Management Review of the Department's Expenses.***

#### **Water Fund**

##### **Fiscal Year Ended September 30, 2017 Compared to 2016**

Operating expenses totaled \$91,893, a decrease of \$360 (-0.4%) over FY2016. The major elements attributable to the net decrease are as follows:

- Purchased water costs decreased by \$3,369 (-11.7%) in FY2017 primarily due to a decrease in potable water purchased from Metropolitan Water District (MWD) in connection with the conclusion of the Central Basin Aquifer Replenishment agreement with CBMWD and WRD in FY2016.
- Personal services costs increased by \$2,984 (+16.2%) in FY2017 primarily as a result of increases in staffing previously budgeted vacant positions, negotiated Cost of Living Allowance (COLA), fringe benefits and pension costs.

FY2017 net nonoperating income totaled \$510, a net increase of \$1,182 (+175.9%) over FY2016 which is primarily due to a decrease in water capital improvement projects charged to expense.

#### **Sewer Fund**

##### **Fiscal Year Ended September 30, 2017 Compared to 2016**

Total operating expenses amounted to \$15,312, a decrease of \$523 (-3.3%) over FY2016. This is mostly attributable to a decrease in maintenance and other expenses incurred for sewer pipeline and pump station maintenance activities by \$778 (-22.8%).

FY2017 net nonoperating expense totaled \$1,087, a net increase of \$807 (+288.2%) over FY2016 which is primarily due to the sewer capital improvement projects charged to expense in the amount of \$897.

#### **Capital Assets and Debt Administration**

**Capital assets.** The Department's capital assets (net of accumulated depreciation and amortization) as of September 30, 2017 amounted to \$307,357 for the Water Fund and \$69,881 for the Sewer Fund. Capital assets include investments in production, transmission, patent, improvements on buildings and structures, and distribution related facilities, as well as general items such as office equipment and furniture. For FY2017, net capital assets increased \$4,098 (+1.4%) and \$1,871 (+2.8%) for Water Fund and Sewer Fund, respectively. The net increase is due primarily to machinery and equipment purchases and capitalization of major potable water and reclaimed water distribution systems, and sewer collection systems.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2017

The Department's capital assets are summarized as follows for the years ended September 30, 2017 and 2016 (in thousands):

#### Long Beach Water Department Capital Assets September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016	
			Amount	%
Land	\$ 11,214	\$ 11,214	\$ -	-
Water Rights	40	40	-	-
Patent - Desalination	815	815	-	-
Buildings, structures, and facilities	144,951	135,271	9,680	7.2%
Distribution/collection systems	545,704	535,032	10,672	2.0%
Machinery and equipment	22,600	21,343	1,257	5.9%
Construction in progress	24,814	27,863	(3,049)	-10.9%
Total capital assets	750,138	731,578	18,560	2.5%
Less: accumulated depreciation and amortization	(372,900)	(360,309)	(12,591)	3.5%
Net capital assets	<u>\$ 377,238</u>	<u>\$ 371,269</u>	<u>\$ 5,969</u>	<u>1.6%</u>

The Department's capital assets are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2017 and 2016:

#### Water Fund Capital Assets September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016	
			Amount	%
Land	\$ 11,214	\$ 11,214	\$ -	-
Water Rights	40	40	-	-
Patent - Desalination	815	815	-	-
Buildings, structures, and facilities	135,446	129,590	5,856	4.5%
Distribution/collection systems	343,462	333,998	9,464	2.8%
Machinery and equipment	17,013	15,978	1,035	6.5%
Construction in progress	20,398	22,051	(1,653)	-7.5%
Total capital assets	528,388	513,686	14,702	2.9%
Less: accumulated depreciation and amortization	(221,031)	(210,427)	(10,604)	5.0%
Net capital assets	<u>\$ 307,357</u>	<u>\$ 303,259</u>	<u>\$ 4,098</u>	<u>1.4%</u>



## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2017

#### Sewer Fund Capital Assets September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016	
			Amount	%
Buildings, structures, and facilities	\$ 9,505	\$ 5,681	\$ 3,824	67.3%
Distribution/collection systems	202,242	201,034	1,208	0.6%
Machinery and equipment	5,587	5,365	222	4.1%
Construction in progress	4,416	5,812	(1,396)	-24.0%
Total capital assets	221,750	217,892	3,858	1.8%
Less: accumulated depreciation	(151,869)	(149,882)	(1,987)	1.3%
Net capital assets	<u>\$ 69,881</u>	<u>\$ 68,010</u>	<u>\$ 1,871</u>	<u>2.8%</u>

Additional information regarding capital assets can be found in notes 1 and 3 to the Department's financial statements.

**Long-term debt.** As of September 30, 2017, the Department had total outstanding long-term debt, net of current portion in the amount of \$24,009 for the Water Fund and \$10,624 for the Sewer Fund. All debt is supported by Water Fund revenues and Sewer Fund revenues. Total Department outstanding debt as of September 30, 2017 and 2016 is summarized as follows:

#### Water Fund Summary of Long-Term Debt September 30, 2017 and 2016 (in thousands)

	2017	2016	Variance	
			2017/2016	
			Amount	%
Revenue refunding bonds	\$ 24,910	\$ 27,640	\$ (2,730)	-9.9%
Less:				
Current portion	(2,815)	(2,730)	(85)	3.1%
Long-term debt outstanding	22,095	24,910	(2,815)	-11.3%
Add:				
Unamortized bond premium	1,914	2,303	(389)	-16.9%
Total long-term debt	<u>\$ 24,009</u>	<u>\$ 27,213</u>	<u>\$ (3,204)</u>	<u>-11.8%</u>

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2017

**Sewer Fund**  
**Summary of Long-Term Debt**  
**September 30, 2017 and 2016**  
**(in thousands)**

	2017	2016	Variance	
			2017/2016	
			Amount	%
Revenue refunding bonds	\$ 9,370	\$ 9,830	\$ (460)	-4.7%
Less:				
Current portion	(330)	(460)	130	-28.3%
Long-term debt outstanding	9,040	9,370	(330)	-3.5%
Add:				
Unamortized bond premium	1,584	1,719	(135)	-7.9%
<b>Total long-term debt</b>	<b>\$ 10,624</b>	<b>\$ 11,089</b>	<b>\$ (465)</b>	<b>-4.2%</b>

The Department maintains AA+ credit ratings from Standard & Poor's for the Water and Sewer Funds. Additional information on the Department's long-term debt can be found in note 4 of this report.

### Economic Factors and Next Year's Budget and Rates

The Board of Water Commissioners (Board) approved the budget for the fiscal year-end September 30, 2017, with budgeted expenditures totaling approximately \$106,382 and \$22,025 for the Water Fund and Sewer Fund, respectively. In fiscal year 2018 (FY2018), there were 4% rate increases for potable water and reclaimed water, and a 2% rate increase for sewer collection services.

### Requests for Information

This financial report is designed to provide a general overview of the Department's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Long Beach Water Department, 1800 E. Wardlow Road, Long Beach, California 90807.

**LONG BEACH WATER DEPARTMENT**

**Statements of Net Position  
Business Type Activity - Enterprise  
September 30, 2017**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Pooled cash and cash equivalents	\$ 30,503	11,179	41,682
Non-pooled cash equivalents	37	8	45
Interest receivable	11	-	11
Due from other funds	36	74	110
Due from employee benefit fund	5,613	832	6,445
Customer accounts receivable	7,219	937	8,156
Allowance for doubtful accounts	(263)	(48)	(311)
Material and supplies inventory	3,842	77	3,919
Prepaid expense	2,552	-	2,552
Restricted assets			
Pooled cash and cash equivalents:			
Funds held in trust	1,179	-	1,179
Bond service funds	1,622	302	1,924
Sub-total pooled cash and cash equivalents	<u>2,801</u>	<u>302</u>	<u>3,103</u>
Non-pooled investments	<u>2,655</u>	<u>-</u>	<u>2,655</u>
Total restricted assets	<u>5,456</u>	<u>302</u>	<u>5,758</u>
Total current assets	<u>55,006</u>	<u>13,361</u>	<u>68,367</u>
Noncurrent Assets:			
Capital assets:			
Land	11,214	-	11,214
Water rights	40	-	40
Patent desalination	815	-	815
Buildings, structures and facilities	135,446	9,505	144,951
Distribution/collection systems	343,462	202,242	545,704
Machinery and equipment	17,013	5,587	22,600
Construction in progress	20,398	4,416	24,814
Total capital assets	<u>528,388</u>	<u>221,750</u>	<u>750,138</u>
Less: Accumulated depreciation and amortization	<u>(221,031)</u>	<u>(151,869)</u>	<u>(372,900)</u>
Total capital assets, net	307,357	69,881	377,238
Other assets, net of amortization			
Other assets	<u>69</u>	<u>-</u>	<u>69</u>
Total noncurrent assets	<u>307,426</u>	<u>69,881</u>	<u>377,307</u>
Total assets	<u>\$ 362,432</u>	<u>83,242</u>	<u>445,674</u>

*(Continued)*

**LONG BEACH WATER DEPARTMENT**

**Statements of Net Position  
Business Type Activity - Enterprise  
September 30, 2017**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Economics loss from the refunding of debt	\$ 1,303	-	1,303
Pension contributions after measurement date	2,107	396	2,503
Difference between actual and expected			
CalPERS investment returns	3,500	657	4,157
Change in Assumption	5,395	1,013	6,408
Change in proportion	298	-	298
OPEB liability	27	5	32
OPEB assumption	333	65	398
Total deferred outflows of resources	<u>12,963</u>	<u>2,136</u>	<u>15,099</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	10,479	702	11,181
Accrued wages payable	1,070	308	1,378
Accrued compensated absences	1,757	71	1,828
Due to other funds	696	99	795
Advances from developers	591	105	696
Accrued interest payable	449	165	614
Long-term debt due within one year	2,815	330	3,145
Customer deposits	1,177	-	1,177
Total current liabilities	<u>19,034</u>	<u>1,780</u>	<u>20,814</u>
Noncurrent Liabilities:			
Long-term debt, net of current portion	24,009	10,624	34,633
Compensated absences	4,256	827	5,083
Total OPEB liability	1,703	332	2,035
Net pension liability	39,341	7,385	46,726
Accrued site restoration cost	1,000	-	1,000
Total noncurrent liabilities	<u>70,309</u>	<u>19,168</u>	<u>89,477</u>
Total liabilities	<u>\$ 89,343</u>	<u>20,948</u>	<u>110,291</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
CalPERS difference between actual and expected experience	2,625	493	3,118
CalPERS change in proportion	381	293	674
CalPERS change in OPEB chg in proportion	15	3	18
CalPERS change in OPEB experience	267	52	319
Total deferred inflows of resources	<u>3,288</u>	<u>841</u>	<u>4,129</u>
<b>NET POSITION</b>			
Net investment in capital assets	284,413	58,927	343,340
Restricted for:			
Bond Service	1,622	302	1,924
Bond Reserve	78	-	78
Unrestricted	(3,349)	4,360	1,011
Total net position	<u>\$ 282,764</u>	<u>63,589</u>	<u>346,353</u>

*See accompanying notes to financial statements*

## LONG BEACH WATER DEPARTMENT

### Statements of Revenues, Expenses, and Changes in Fund Net Position Business Type Activity - Enterprise Year Ended September 30, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Operating Revenues:</b>			
Metered water sales	\$ 61,383	6,233	67,616
Reclaimed water sales	3,338	-	3,338
Service charges	24,599	11,870	36,469
Maintenance services	-	86	86
Other services	8,063	1,760	9,823
Total operating revenues	<u>97,383</u>	<u>19,949</u>	<u>117,332</u>
<b>Operating Expenses:</b>			
Cost of water	25,374	-	25,374
Personal services	21,389	3,764	25,153
Commercial services	2,174	1,867	4,041
Maintenance and other	25,101	2,627	27,728
Permit fees	6,161	4,731	10,892
Depreciation and amortization	11,694	2,323	14,017
Total operating expenses	<u>91,893</u>	<u>15,312</u>	<u>107,205</u>
Operating income	<u>5,490</u>	<u>4,637</u>	<u>10,127</u>
<b>Non-operating Income (Expense):</b>			
Interest income	87	32	119
Interest expense	(161)	(77)	(238)
Loss on disposition of property	(94)	(20)	(114)
Rental income	811	-	811
Bonds issuance costs	-	(21)	(21)
Other	(133)	(1,001)	(1,134)
Total non-operating income (expense)	<u>510</u>	<u>(1,087)</u>	<u>(577)</u>
Income (loss) before contributed capital	6,000	3,550	9,550
Contributed capital	<u>734</u>	<u>-</u>	<u>734</u>
Changes in net position	6,734	3,550	10,284
Net position - October 1	<u>276,030</u>	<u>60,039</u>	<u>336,069</u>
Net Position - September 30	<u>\$ 282,764</u>	<u>63,589</u>	<u>346,353</u>

*See accompanying notes to financial statements*

# LONG BEACH WATER DEPARTMENT

## Statements of Cash Flows Business Type Activity - Enterprise Year Ended September 30, 2017

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 96,519	19,887	116,406
Cash paid to employees	(18,994)	(3,429)	(22,423)
Cash paid for water	(25,135)	-	(25,135)
Cash paid for goods and services	(29,247)	(4,972)	(34,219)
Cash paid for permit fees	(6,161)	(4,731)	(10,892)
Other operating cash paid (received)	562	(1,021)	(459)
Net cash provided by operating activities	17,544	5,734	23,278
<b>Cash flows from capital and related financing activities:</b>			
Payments for issuance costs	-	(21)	(21)
Proceeds from sale of capital assets	24	-	24
Contributions in aid of construction	750	-	750
Payments for capital acquisitions	(14,880)	(3,948)	(18,828)
Principal repayments-bonds	(2,730)	(460)	(3,190)
Interest payments	(1,165)	(269)	(1,434)
Net cash used for capital and related financing activities	(18,001)	(4,698)	(22,699)
<b>Cash flows from investing activities:</b>			
Interest income received	85	32	117
Net cash provided by investing activities	85	32	117
Net increase (decrease) in cash and cash equivalents	(372)	1,068	696
<b>Cash and cash equivalents, October 1</b>	36,368	10,421	46,789
<b>Cash and cash equivalents, September 30</b>	\$ 35,996	11,489	47,485

*(Continued)*

## LONG BEACH WATER DEPARTMENT

### Statements of Cash Flows Business Type Activity - Enterprise Year Ended September 30, 2017

	Water Fund	Sewer Fund	Total
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 5,490	4,637	10,127
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense and amortization	11,694	2,323	14,017
Amortization of other assets	38	-	38
Other expense	2,178	244	2,422
Decrease (Increase) property rental and other income	561	(1,021)	(460)
Increase in customer accounts receivable	(963)	(36)	(999)
Increase in due from City of Long Beach	(13)	(26)	(39)
(Increase) decrease in material and supplies inventory	(344)	13	(331)
Decrease in accounts and retainage payable	(254)	(292)	(546)
Increase in accrued wages payable	217	91	308
Decrease in due to City of Long Beach	(1,173)	(199)	(1,372)
Increase in customer deposits	113	-	113
Total adjustments	12,054	1,097	13,151
Net cash provided by operating activities	\$ 17,544	5,734	23,278
 Supplemental schedule of noncash capital and financing activities:			
Contributed capital assets	289	-	289
Accrued capital asset costs	1,436	117	1,553

*See accompanying notes to financial statements*

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

### **Note 1 - Description of the Department and Summary of Significant Accounting Policies**

#### *Description of the Department*

The Long Beach Water Department (the Department) was established in 1911 through adoption of the City Charter of the City of Long Beach, California (the City) to regulate and control the use, sale, and distribution of water owned or controlled by the City. In February 1988, the City Council of the City of Long Beach voted to transfer administrative, operational, and maintenance responsibility of the City's sewer system to the Department. In addition, in April 1990, the citizens of Long Beach passed a City Charter amendment that allowed greater autonomy of the Department in administering sewer operations. For accounting purposes, the transfer was effective July 1, 1988.

The Department services the City's sewer system that consists of 714 miles of sewer mains, 15,112 manholes, and 28 sewage pumping stations. This system is capable of transporting for treatment approximately 40 million gallons of raw sewage daily.

The Department obtains potable water for distribution from two sources. Historically, approximately half of the City's water is purchased from the Metropolitan Water District of Southern California; the other half is pumped from the Department's own groundwater wells. Potable water is stored in two reservoirs with a combined capacity of 105.6 million gallons. As of September 30, 2017, the Department also delivered over 2.3 billion gallons of reclaimed water to various users in the City.

#### *Reporting Entity*

The Department's financial activities are considered to be enterprise operations of the City of Long Beach; accordingly, such activities are included in the City's Comprehensive Annual Financial Report (CAFR). Control and management of the Department is vested in the five-member Board of Water Commissioners (the Board). Each Commissioner is appointed by the Mayor, confirmed by the City Council, and may serve two five-year terms.

The accompanying Department financial statements include the Water and Sewer Fund operations of the City of Long Beach. The statements of the Department are intended to present the financial position, and changes in financial position, and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City, as of September 30, 2017, and the changes in its financial position, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

The City's Comprehensive Annual Financial Report may be obtained by contacting:

City of Long Beach, California – Department of Financial Management  
333 W. Ocean Blvd.  
Long Beach, CA 90802

### Basis of Accounting

The Department's accounts are maintained on a flow of economic resources measurement focus utilizing the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, regardless of when they are received, and expenses are recognized in the period incurred. The Department's operations are not subject to regulation by the Public Utilities Commission.

The Department applies all Governmental Accounting Standards Board (GASB) Statements and Interpretations.

### Implementation of New Accounting Pronouncements

Application of the following Statements was effective for the Department's fiscal year ended September 30, 2017:

In August of 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. This information is intended, among other things, to assist users of financial statements in assessing whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity); whether a government complied with finance-related legal and contractual obligations; where a government's financial resources come from and how it uses them; and a government's financial position and economic condition and how they have changed over time. The application of this statement did not impact the Department's financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. As of September 30, 2017, the application of this statement did not impact the Department's financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. As of September 30, 2017, the application of this statement did not impact the Department's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement were effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, or September 30, 2017. The application of this statement did not impact the presentation of the Department's financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The purpose of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities with the focus of the criteria being on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The statement changes the way agency funds are presented for financial statement purposes and renames those funds as custodial funds to clarify their relationship with the custodial government. The application of this statement did not impact the Department's financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. As of September 30, 2017, the application of this statement did not impact the Department's financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for the in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

notes to financial statements for debt that is defeased in substance. As of September 30, 2017, the application of this statement did not impact the Department's financial statements.

The Department is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The purpose of this Statement is to address the accounting and financial reporting for a legally enforceable liability associated with the retirement of a tangible capital asset (Asset Retirement Obligations or ARO). This Statement establishes criteria for (1) determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources, (2) requires that recognition occur when the liability is both incurred and reasonably estimable, and (3) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Department is evaluating the impact of this standard.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Department is evaluating the impact of this standard.

### City of Long Beach Investment Pool

In order to maximize investment return and in accordance with City Charter requirements, the Department pools its available cash with other City funds into the City of Long Beach Investment Pool (the Pool). The Pool is an internal investment pool that is used as a demand deposit account by participating units. Investment decisions are made by the City Treasurer and approved by a general investment committee whose membership includes a member of the Department's management. Interest income and realized and unrealized gains and losses arising from the Pool are apportioned to each participating unit based on their average daily cash balances compared to aggregate pooled cash and investments.

At September 30, 2017, the Water Fund and Sewer Fund had equity in the Pool of \$33,304 and \$11,481, respectively, which represents approximately 2.14% and 0.74%, respectively, for a total departmental equity of \$44,785 or 2.88% of the Pool.

The Department's share of the Pool is stated at fair value.

For a complete description of the Pool and its underlying investments, refer to the City of Long Beach's separately issued financial statements.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

### Cash Equivalents

The Department classifies its investment in the Pool as cash and cash equivalents, regardless of the underlying maturity of the Pool's investments as the Department can withdraw amounts from the pool without penalty or notice.

The Department classifies all other investments with maturities of three months or less at the time of purchase as cash equivalents. These cash equivalents are reported at amortized cost in the accompanying financial statements.

### Fair Value

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction.

The Department categorizes investments reported at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

### Material and Supplies Inventory

Material and supplies inventory is stated at the lower of average cost or market, determined on a first-in, first-out basis.

### Capital Assets

Capital assets, which include property, plant, equipment, and transmission and distribution infrastructure, are composed of assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. The cost of additions to capital assets and replacement of retired property is capitalized. Significant interest costs incurred during construction of assets are also capitalized. The costs of minor replacement expenditures are expensed as incurred. Upon retirement or sale of capital assets, the cost and related accumulated depreciation are removed from the accounts, with any resulting gain or loss recorded in the Department's financial statements (see note 3).

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

Depreciation of capital assets is provided by the straight-line method based on the estimated service lives of the properties, as follows:

Buildings, structures, and facilities	10 to 50 years
Distribution/collection systems	20 to 75 years
Patents	20 years
Other machinery and equipment	5 to 10 years

### Capitalized Interest

In fiscal year 2017, the Department incurred interest expense on Revenue Refunding Bonds in the amount of \$1,128 and \$407 for the Water and Sewer Funds, respectively, of which \$776 was capitalized for Water Fund and \$195 for Sewer Fund.

### Capital Contributions

Advances received for construction of plant assets are recorded as unearned revenue when received. As construction progresses, advanced amounts equivalent to capitalized expenditures are recorded as capital contributions and included as other nonoperating revenue. Assets constructed by developers and contributed to the Department are capitalized at fair value.

The Department includes capital contributions for construction of plant assets as a nonoperating revenue in the accompanying statements of revenues, expenses, and changes in fund net position.

### Revenue Recognition

Operating revenues include revenues derived from the sale of water, from providing sewer service, and from other activities closely related to providing water and sewer service. Principal revenues are derived from volumetric usage and service charges for water and sewer services. Nonoperating revenues and expenses are those not directly associated with the Department's normal business operations of supplying water and sewer service and include interest income and expense, rents received for Department property, and gains and losses on disposition of property. Revenues for water and sewer charges are recorded when billed to customers; billings are based on monthly meter readings.

### Operating Expenses

The cost of water includes all purchases of water from the Metropolitan Water District of Southern California. Personal services include labor costs for operations, maintenance, and general and administrative functions. Commercial services cost is the Department's share of the City's utility billing system. Maintenance and other costs include the operating costs of the Department and include costs of pumping and treating groundwater as well as general and administrative costs. Permit fees are transfers made to the City.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

### Employee Benefits, Compensated Absences and Termination Benefits

Accumulated sick leave becomes vested only when an employee meets the City's minimum requirements for retirement. Accumulated sick leave is forfeited upon termination for reasons other than retirement. In accordance with the City's Personnel Ordinance, upon retirement from the City, the City allows retirees, their spouses, and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental, and long-term care insurance premiums until such time as the unused sick leave is exhausted.

The conversion of unused sick leave for postemployment benefits is reflected as accrued compensated absences benefits and accrued OPEB liability in the accompanying financial statements. These liabilities are being funded over time through burden rates, applied as a percentage of current productive salaries, and charged to the Department

### Pension Plan and Postretirement Benefits

All full-time Department employees are members of the City's Miscellaneous Plan. The Department's policy is to fund all pension costs accrued. The costs to be funded are determined annually as of October 1 and are incorporated into the payroll burden rate to reimburse the Employee Benefits Internal Service Fund for contributions made on behalf of Department employees (see note 5).

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Miscellaneous Plan and additions to/deductions from Miscellaneous Plan's fiduciary net position have been determined on the same basis as they are reported by the Miscellaneous Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Department also participates in the City's Retired Employee Health Insurance Program. This program is a single-employer defined benefit healthcare plan (see note 6).

### Restricted Assets

Amounts restricted for bond indenture requirements and funds held in trust are recorded as restricted assets. Related liabilities of these funds are identified as amounts payable from restricted assets when such obligations are incurred.

### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position reports a separate section for deferred outflows of resources. This separate financial statement element, Deferred

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

Outflows of Resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position reports a separate section for deferred inflows of resources. The separate financial element, Deferred Inflows of Resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### Risk Management

The Department, as an entity of the City, participates in the City's self-insured program for workers' compensation, property, and tort liability. The City and the Department's management believe that sufficient funds are being accumulated in the City's Insurance Internal Service Fund (Insurance Fund) to meet losses as they arise. The Department contributes to the Insurance Fund through payroll burden charges applied as a percent of current productive salaries. In addition, various risk control techniques, including safety training for all employees and the inclusion of appropriate legal provisions in third-party contracts, have been implemented to minimize risk losses.

### Estimates

The preparation of the Department's financial statements in conformity with the U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Net Position

The Department has adopted a policy of generally utilizing restricted funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

The Department's net position are classified into the following net position categories:

Net Investment in Capital Assets - Capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets and unexpended bond proceeds and economic losses of refunding of debt.

Restricted - Amounts restricted for bond indenture requirements.

Unrestricted - All other categories of net position

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

### **Note 2 - Cash Equivalents and Investments**

The Department's unrestricted and restricted cash equivalents and investments are as follows:

<b>Water Fund</b>			
	Unrestricted	Restricted	Total Investments & Cash Equivalent
Equity in the City of Long Beach's investment pool	\$ 30,503	2,801	33,304
Other cash equivalents	37	-	37
Investments - U.S. Treasury Notes	-	2,655	2,655
Total cash and investments	\$ 30,540	5,456	35,996

<b>Sewer Fund</b>			
	Unrestricted	Restricted	Total Investments & Cash Equivalent
Equity in the City of Long Beach's investment pool	\$ 11,179	302	11,481
Other cash equivalents	8	-	8
Total cash and investments	\$ 11,187	302	11,489

The Departments investment policy allows funds to be invested with the City or to be held outside of the Pool based on the requirements of bond indentures or by actions of the Board. The City's investment policy limits the permitted investments in the Investment Pool to the following: Obligations of the U.S. government, federal agencies, local agency bonds, medium-term corporate notes, certificates of deposit; bankers' acceptances, commercial paper, Local Agency Investment Fund, repurchase agreements, reverse repurchase agreements, securities lending, asset-backed securities, mortgage-backed securities and money market mutual funds. Cash equivalents held outside of the Pool are governed by the provisions of the debt agreement.

As of September 30, 2017, the City's Investment Pool has weighted average maturity of less than 2 years and is not rated. The Department's investment in the Pool is not categorized nor leveled in the fair value hierarchy.

The Water Funds' investments in U.S. Treasury notes have a weighted average maturity of 1.59 years and are not rated. These investments are reported at fair value using observable inputs and are accordingly reported as a level 1 investment in the fair value hierarchy.



## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2017 (in thousands of dollars)

#### **Note 3 – Capital Assets**

Capital assets at September 30, 2017 were as follows:

<b>Water Fund</b>	Balance September 30, 2016	Additions	Deletions, Retirements and Transfers	Balance September 30, 2017
Capital assets, not being depreciated:				
Land	\$ 11,214	-	-	11,214
Construction in progress	22,051	14,622	(16,275)	20,398
Water Rights	40	-	-	40
<b>Total capital assets, not being depreciated</b>	<b>33,305</b>	<b>14,622</b>	<b>(16,275)</b>	<b>31,652</b>
Capital assets, being depreciated:				
Buildings, structures and facilities	129,590	6,275	(419)	135,446
Patents	815	-	-	815
Distribution/collection systems	333,998	9,706	(242)	343,462
Machinery and equipment	15,978	1,493	(458)	17,013
<b>Total capital assets, being depreciated</b>	<b>480,381</b>	<b>17,474</b>	<b>(1,119)</b>	<b>496,736</b>
Less accumulated depreciation for:				
Buildings, structures and facilities	(59,432)	(3,829)	419	(62,842)
Patents	(408)	(41)	-	(449)
Distribution/collection systems	(136,057)	(6,971)	217	(142,811)
Machinery and equipment	(14,530)	(853)	454	(14,929)
<b>Total accumulated depreciation</b>	<b>(210,427)</b>	<b>(11,694)</b>	<b>1,090</b>	<b>(221,031)</b>
<b>Total capital assets, being depreciated, net</b>	<b>269,954</b>	<b>5,780</b>	<b>(29)</b>	<b>275,705</b>
<b>Total Water Fund capital assets, net</b>	<b>\$ 303,259</b>	<b>20,402</b>	<b>(16,304)</b>	<b>307,357</b>

# LONG BEACH WATER DEPARTMENT

## Notes to Financial Statements September 30, 2017 (in thousands of dollars)

<b>Sewer Fund</b>	Balance September 30, 2016	Additions	Deletions, Retirements and Transfers	Balance September 30, 2017
Capital assets, not being depreciated:				
Construction in progress	\$ 5,812	4,715	(6,111)	4,416
Total capital assets, not being depreciated	5,812	4,715	(6,111)	4,416
Capital assets, being depreciated:				
Buildings, structures and facilities	5,681	3,824	-	9,505
Distribution/collection systems	201,034	1,390	(182)	202,242
Machinery and equipment	5,365	393	(171)	5,587
Total capital assets, being depreciated	212,080	5,607	(353)	217,334
Less accumulated depreciation for:				
Buildings, structures and facilities	(1,802)	(193)	-	(1,995)
Distribution/collection systems	(145,019)	(1,774)	177	(146,616)
Machinery and equipment	(3,061)	(356)	159	(3,258)
Total accumulated depreciation	(149,882)	(2,323)	336	(151,869)
Total capital assets, being depreciated, net	62,198	3,284	(17)	65,465
Total Sewer Fund capital assets, net	\$ 68,010	7,999	(6,128)	69,881
<b>Combined Total</b>				
Capital assets, not being depreciated:				
Land	\$ 11,214	-	-	11,214
Construction in progress	27,863	19,337	(22,386)	24,814
Water Rights	40	-	-	40
Total capital assets, not being depreciated	39,117	19,337	(22,386)	36,068
Capital assets, being depreciated:				
Buildings, structures and facilities	135,271	10,099	(419)	144,951
Patents	815	-	-	815
Distribution/collection systems	535,032	11,096	(424)	545,704
Machinery and equipment	21,343	1,886	(629)	22,600
Total capital assets, being depreciated	692,461	23,081	(1,472)	714,070
Less accumulated depreciation for:				
Buildings, structures and facilities	(61,234)	(4,022)	419	(64,837)
Patents	(408)	(41)	-	(449)
Distribution/collection systems	(281,076)	(8,745)	394	(289,427)
Machinery and equipment	(17,591)	(1,209)	613	(18,187)
Total accumulated depreciation	(360,309)	(14,017)	1,426	(372,900)
Total capital assets, being depreciated, net	332,152	9,064	(46)	341,170
Total Department capital assets, net	\$ 371,269	28,401	(22,432)	377,238

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
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In FY2017, the Department capitalized enhancements to several facilities and structures, which amounted to \$6,275 and \$3,824 for Water Fund and Sewer Fund, respectively. These improvements included large valve replacement, potable water tanks and well rehabilitations. In addition, the Department completed numerous projects as part of ongoing improvements to its current water distribution system and sewer collection system, which totaled \$9,706 for the Water Fund and \$1,390 for the Sewer Fund. These improvements include ongoing programs for Water Cast Iron Main replacement, Water Services installations, Fireline and Fire Hydrant installations, Water Meter replacement, Cathodic protection systems and Sewer Pipe rehabilitation. The Department also purchased machinery and equipment which totaled \$1,493 for the Water Fund and \$393 for the Sewer Fund. These machinery and equipment purchases included dump trucks, utility pick-up trucks, laboratory equipment, trailers, sewer collection pumps, & a camera van for closed-circuit television (CCTV) monitoring of sewer mains and lateral pipes.

### Construction in Progress

Construction in progress at September 30, 2017 includes the following projects:

Project	2017
Water Main Replacement Program	\$ 7,290
Reclaimed Water System	858
Sewer Main Replacement Program	3,239
Other Projects	13,427
Total Combined Construction in Progress	\$ 24,814
Such costs are allocated as follows:	
Water Enterprise Fund	\$ 20,398
Sewer Enterprise Fund	4,416
Total Water Department	\$ 24,814

It is the Department's policy to transfer the costs of projects after their completion to other capital asset classifications or to expense. For the fiscal year ended September 30, 2017, completed projects were transferred from Construction in progress as follows:

	2017	
	Water Fund	Sewer Fund
Transfers to Capital Assets	\$ 15,886	5,214
Transfers to Expense	389	897
Total	\$ 16,275	6,111

## LONG BEACH WATER DEPARTMENT

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### **Note 4 – Noncurrent Liabilities:**

<b>Water Fund</b>					
September 30, 2017	Beginning of year	Additions	Reductions	End of year	Due within one year
2010 Water Revenue Refunding Bonds	\$ 19,795	-	(2,150)	17,645	2,210
2012 Water Revenue Refunding Bonds	7,845	-	(580)	7,265	605
	27,640	-	(2,730)	24,910	2,815
Less current portion	(2,730)	(2,815)	2,730	(2,815)	-
Add 2010 unamortized bond premium	1,465	-	(266)	1,199	-
Add 2012 unamortized bond premium	838	-	(123)	715	-
Total long-term debt	27,213	(2,815)	(389)	24,009	2,815
Compensated Absences	-	4,256	-	4,256	-
Net Pension Liability	36,007	3,334	-	39,341	-
Total OPEB Liability	1,550	153	-	1,703	-
Accrued site restoration cost	1,000	-	-	1,000	-
Total noncurrent liabilities	<u>\$ 65,770</u>	<u>4,928</u>	<u>(389)</u>	<u>70,309</u>	<u>2,815</u>

<b>Sewer Fund</b>					
September 30, 2017	Beginning of year	Additions	Reductions	End of year	Due within one year
2016 Sewer Revenue Refunding Bonds	\$ 9,830	-	(460)	9,370	330
	9,830	-	(460)	9,370	330
Less current portion	(460)	(330)	460	(330)	-
Add 2016 unamortized bond premium	1,719	-	(135)	1,584	-
Total long-term debt	11,089	(330)	(135)	10,624	330
Compensated Absences	-	827	-	827	-
Net Pension Liability	7,277	108	-	7,385	-
Total OPEB Liability	309	23	-	332	-
Total noncurrent liabilities	<u>\$ 18,675</u>	<u>628</u>	<u>(135)</u>	<u>19,168</u>	<u>-</u>

The bonds are payable from and secured by net revenues of the Department.

### **Second Lien Water Revenue Bonds - Series 2012A**

On August 30, 2012, the Water Fund issued \$9,850 in Second Lien Water Revenue Bonds, Series 2012A (the Series 2012A Bonds) at a premium of \$1,342 to provide funds to (a) refund, on a current basis, \$11,000 aggregate principal outstanding in Subordinate Water Revenue Commercial Paper Notes, and (b) pay the cost of issuing the Series 2012A Bonds. There is no bond reserve requirement. The objective of this debt refinancing was to take advantage of historically low fixed bond rates, and provide the Department with certainty in its future debt service payment requirements. The Commercial Paper program, as authorized by the Board under Resolution WD-1170, expired on October 1, 2012.

## LONG BEACH WATER DEPARTMENT

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The Bonds bear interest ranging from 2.0% to 5.0% per annum payable on May 1 and November 1 of each year, commencing on November 1, 2012. Principal payments are due every May 1, commencing on May 1, 2013, with bond terms maturing through the year 2027. The initial issuance premium of \$1,342 on the Series 2012 Bonds is reported as an addition to long-term debt and is amortized using the effective-interest-rate method over the life of the Bonds.

Under Board Resolution WD-1300 adopted July 24, 2012 authorizing the issuance and sale of the Series 2012A Bonds, the Board also approved closure of the Senior Lien trust indentures pursuant to which the Department previously issued the Series 1997A City of Long Beach Water Revenue Refunding Bonds and Series 2010A City of Long Beach Water Revenue Refunding Bonds. The Board also irrevocably covenanted that the Department would not issue any additional Parity Obligations in the future that would have a lien on Net Revenues senior to its Subordinate Obligations, including the 2012A Bonds.

The Board, on behalf of the City, has covenanted under the Master Subordinate Indenture, to set rates and charges for the supply of water to its customers sufficient to yield net revenues each year equal to at least equal to 1.10 times the aggregate annual amount of principal and interest due on the Senior Lien Bonds and any Subordinate Obligations, including the Series 2012A Bonds.

### Water Revenue Refunding Bonds - Series 2010A

On September 29, 2010, the Water Fund issued \$22,740 in Water Revenue Refunding Bonds, Series 2010A (the Series 2010A Bonds) at a premium of \$3,021 to (a) advance refund 82.4% or \$24,290 of the outstanding Series 1997A Water Revenue Refunding Bonds at a redemption premium of 2% over par value, (b) fund a reserve fund for the Series 2010A Bonds, and (c) pay the cost of issuing the 2010 Bonds. The Series 2010A Bonds bear interest ranging from 3.0% to 5.0% per annum payable on May 1 and November 1 of each year, commencing on November 1, 2010. Principal payments are due May 1, commencing on May 1, 2012.

The remaining Series 1997A Bonds maturing on May 1, 2015 were not subject to redemption prior to, maturity and the \$1,825 outstanding was paid off on May 1, 2015.

The initial issuance premium of \$3,021 on the Series 2010A Bonds is reported as an addition to long-term debt and is amortized using the effective-interest-rate method over the life of the Bonds.

In addition, the refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 1997A Bonds of \$2,697. This difference is considered to be a deferred outflow on the refunding and is reported in the Statement of Net Position as a separate category under Deferred Outflows of Resources. The deferred outflow from the refunding is being amortized using the straight-line method over the life of the Series 2010A bonds, which have the same maturity as the old debt. The Refunded Series 1997A Bonds

## LONG BEACH WATER DEPARTMENT

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were refunded in order to take advantage of lower interest rates to achieve debt service savings. The Department reduced its aggregate debt service payments by \$3,286, with the refunding structured to achieve such savings upfront over fiscal years 2011 and 2012. The economic gain from the refunding (difference between the present value of the old and new debt service payments) was \$3,349.

The Series 2010A Bonds and any Parity Obligations are secured by a first lien upon and pledge of all of the net revenues of the entire water system (the Water Enterprise Fund) of the City of Long Beach. Net revenues are defined as all gross revenues derived by the ownership and operation of the Water Enterprise Fund less operation and maintenance costs. The Board has covenanted, on behalf of the City, to set rates and charges for the supply of water to its customers sufficient to provide net revenues each year equal to at least 1.10 times the aggregate annual amount of principal and interest due on the Bonds and any parity obligations.

### Senior Sewer Revenue Refunding Bonds - Series 2016A

On September 7, 2016, the Sewer Fund issued \$9,830 in Senior Sewer Revenue Refunding Bonds, Series 2016A (the Series 2016A Bonds) at a premium of \$1,727 to provide funds to (a) refund, on a current basis, \$11,250 aggregate principal outstanding in Subordinate Sewer Revenue Obligations pursuant to the terms of a credit agreement with Wells Fargo Bank, National Association, and (b) pay the cost of issuing the Series 2016A Bonds. There is no bond reserve requirement. The objective of this debt refinancing was to take advantage of low fixed bond yield rates, and provide the Department with certainty in its future debt service payment requirements.

The Series 2016A Bonds bear interest ranging from 4.0% to 5.0% per annum payable on May 1 and November 1 of each year, commencing on November 1, 2016. Principal payments are due every May 1, commencing on May 1, 2017, with bond terms maturing through the year 2036. The initial issuance premium of \$1,727 on the Series 2016A Bonds is reported as an addition to long-term debt and is amortized using the effective-interest-rate method over the life of the Bonds.

The Series 2016A Bonds and any Parity Obligations are secured by a first lien upon and pledge of all of the net revenues of the Sewer Enterprise. Net revenues are defined as all gross revenues derived by ownership and operation of the Sewer Enterprise less operation and maintenance costs. The Board, on behalf of the City, has covenanted under the Senior Indenture to set rates and charges for sewer service to its customers sufficient to yield net revenues each year which are at least equal to 1.25 times the aggregate annual amount of debt service on the Senior Bonds (including the Series 2016A Bonds) for such fiscal year.

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### Subordinate Sewer Revolving Line of Credit

On May 5, 2011, the Board approved Resolution WD-1282 authorizing the issuance from time to time of Subordinate Sewer Revenue Obligations pursuant to the terms of a credit agreement with Wells Fargo Bank, National Association, which provides for a Revolving Line of Credit (LOC) in an amount not to exceed \$20,000 at any time. Obligations under the LOC are secured by and payable from a subordinate lien upon the City's Sewer Enterprise net revenues (gross revenues less operation and maintenance costs). The original term of the LOC was for three years, with a Commitment Expiration Date of May 26, 2014. Effective July 8, 2013, the Commitment Expiration Date was extended by an additional three years to May 26, 2017. The LOC was secured to pay off the outstanding principal on Senior Sewer Revenue Commercial Paper Notes and to continue to provide interim financing of sewer system improvements and sewer pipe rehabilitation and replacement programs. The Department suspended the issuance of sewer commercial paper notes under the existing commercial paper program, but reserves the right to issue obligations in the future senior to its obligations created under the LOC.

On May 26, 2011, the Department drew \$6,000 on the LOC to retire \$4,000 of outstanding Sewer Revenue Commercial Paper notes and fund \$2,000 in sewer system improvements. On September 3, 2013, the Department drew \$3,750 to fund sewer system improvements. On August 12, 2015, the Department drew another \$1,500 again to fund sewer system improvements. Interest rates are based on 70% of the London Interbank Offered Rate (LIBOR) plus an applicable margin, and can be designated as fixed or variable for one-month, three-month, or six-month interest periods. Interest rates have ranged from 0.76% to 1.06%.

On September 7, 2016, the Department retired all outstanding notes, with an aggregate principal balance of \$11,250. As authorized by the Board under Resolution WD-1360, the Department amended the Credit Agreement with Wells Fargo Bank, National Association to extend the Commitment Expiration Date from May 26, 2017 to September 7, 2019. Additionally, the not-to-exceed amount of the LOC was reduced from \$20,000 to \$10,000.

### Senior Sewer Revenue Commercial Paper Notes

On May 7, 2009, the Board approved Resolution WD-1255, which authorized the issuance and sale of up to \$20,000 of City of Long Beach, California Senior Sewer Revenue Commercial Paper Notes (notes), Series A (tax exempt), and Series B (taxable). The City's Sewer Enterprise net revenues (gross revenues less operation and maintenance costs) secure the notes. The notes are further supported by credit enhancement in the form of an Irrevocable Letter of Credit, issued initially by Union Bank, N.A. pursuant to a reimbursement agreement. The City of Long Beach City Council approved the issuance and sale on June 2, 2009. Proceeds from the variable debt was used for interim financing of sewer system improvements and sewer pipe rehabilitation and replacement programs.

## LONG BEACH WATER DEPARTMENT

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On June 11, 2009, Series A notes in the amount of \$4,000 were issued. The notes were issued in denominations in excess of \$100 thousands and matured not more than 270 days after date of issuance. Interest rates have ranged from 0.20% to 0.30%. The Department retired these notes on May 26, 2011 and suspended the issuance of sewer commercial paper notes under the existing commercial paper program, but reserves the right to issue obligations in the future senior to its obligations created under the LOC.

### Accrued Site Restoration Cost

In FY2010, the Department completed its study on Seawater Nanofiltration Desalination Processes. The Department's prototype 300,000 gallons per day desalination research and development facility was located on land leased from Los Angeles Department of Water and Power. Under the terms of the lease, the Department was required to dismantle the facility and restore the site to its original condition. Estimated site restoration costs of \$400 had been accrued as a long-term liability in FY2007. During FY2010, the estimated accrued site restoration costs were reduced and actual restoration costs relating to the dismantling of the prototype desalination research and development facility were recorded as expense.

In FY2008, the Department completed construction of a subsurface seawater intake and discharge facility. Facility construction costs totaling \$4,614 have been capitalized and were depreciated over a period of two years. A Coastal Development Permit granted by the California Coastal Commission in September 2007, required the Department to restore the project site to its preexisting condition no later than May 21, 2012. On July 14, 2011, the Department was granted an extension for the restoration of the coastal area to May 26, 2017. On October 13, 2016, the Department was granted an additional five year extension on the restoration from May 26, 2017 to May 27, 2022. Estimated site restoration costs of \$1,000 have been accrued as a long-term liability and recorded as nonoperating expenses. Operating costs of the facility are expensed as incurred.



**LONG BEACH WATER DEPARTMENT**

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Total Annual Debt Service Requirements to Maturity

Annual debt service requirements to maturity are as follows:

<b>Water Fund</b>							
Fiscal Year Ending Sept 30	Series 2010 Bonds		Series 2012 Bonds		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2018	\$ 2,210	778	605	299	2,815	1,077	3,892
2019	2,300	690	630	275	2,930	965	3,895
2020	2,395	598	655	250	3,050	848	3,898
2021	2,490	502	680	223	3,170	725	3,895
2022	2,590	396	710	196	3,300	592	3,892
2023-2027	5,660	423	3,985	534	9,645	957	10,602
Total	<u>\$ 17,645</u>	<u>3,387</u>	<u>7,265</u>	<u>1,777</u>	<u>24,910</u>	<u>5,164</u>	<u>30,074</u>

<b>Sewer Fund</b>			
Fiscal Year Ending Sept 30	Series 2016 Bonds		Total Debt Service
	Principal	Interest	
2018	\$ 330	395	725
2019	345	382	727
2020	360	368	728
2021	375	354	729
2022	390	339	729
2023-2027	2,190	1,448	3,638
2028-2032	2,740	899	3,639
2033-2036	2,640	269	2,909
Total	<u>\$ 9,370</u>	<u>4,454</u>	<u>13,824</u>

**Note 5 - Retirement Program**

Plan Description – Public Employees’ Retirement System (CalPERS)

The Department contributes to the California Public Employees’ Retirement System (CalPERS) agent multiple-employer defined benefit pension plan. The City is considered the employer and the Department is a department of the City. The Department’s employees are enrolled in the City Miscellaneous Plan. CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. All City departments are considered collectively to be a single employer, and the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Department’s employees is determined as the Department’s percentage of the City as a single employer. Similarly, the net assets available for benefits of Department employees is determined as the Department’s percentage of the City’s net assets. CalPERS issues publicly available reports that include a full description of the pension plans, including benefit provisions, assumptions and

## LONG BEACH WATER DEPARTMENT

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membership information. All qualified permanent employees of the Department are eligible to participate in the Miscellaneous Plan. The reports can be found on the CalPERS website.

### Benefits Provided

CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees or beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment, age at retirement and final compensation. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. The cost of living adjustments for the plan is applied as specified by the Public Employees' Retirement Law.

*Contributions* - California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The Plans' provisions and benefits in effect at September 30, 2017, are summarized in the following table:

Hire date	<u>Miscellaneous</u>		
	Prior to October 1, 2006	On or after October 1, 2006 and prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.5% @ 55	2.0% @ 62
Benefit vesting schedule		5 years of service	
Benefit payments		Monthly for life	
Retirement age	50- 55	50 - 55	52 - 62
	<u>Required Contribution Rates</u>		
Employee	8.0%	8.0%	6.5%
Employer	20.586%	20.586%	20.586%
	<u>Percentage of Eligible Compensation</u>		
Monthly benefits	2.0% to 2.7%	2.0% to 2.5%	1.0% to 2.0%

## LONG BEACH WATER DEPARTMENT

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### Allocation Methodology

The City used a calculated percentage based on the Department's share of the pensionable compensation to the City's total pensionable compensation amounts for each plan, to provide the Department's net pension liability and related GASB 68 accounting elements. The Department's calculated percentage was 6.9% (5.8% for Water and 1.1% for Sewer) for the Plan.

### Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows Related to Pensions

The City's net pension liability for the Plan was measured as the total pension liability, less the plan's fiduciary net position. Net pension liability is measured as of June 30, 2017 (measurement date). The Department's net pension liability for the Plan \$46,726 (\$39,341 for Water and \$7,385 for Sewer) at September 30, 2017.

For the measurement period ending June 30, 2017 (the measurement date), the Department incurred a pension expense of \$7,348 (\$6,313 for Water and \$1,035 for Sewer).

As of September 30, 2017, the Department had deferred outflows and deferred inflows related to pensions as follows:

	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
Deferred outflows of resources:			
Pension contributions after measurement date	\$ 2,107	396	2,503
Difference between actual and expected investment returns	3,500	657	4,157
Change in assumptions	5,395	1,013	6,408
Change in proportion	298	-	298
Total deferred outflows of resources	\$ 11,300	2,066	13,366
Deferred inflows of resources:			
Differences between actual and expected experience	\$ 2,625	493	3,118
Change in proportion	381	293	674
Total deferred inflows of resources	\$ 3,006	786	3,792

## LONG BEACH WATER DEPARTMENT

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Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

<b>Measurement Period ending</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>June 30</b>			
2018	\$ 2,936	\$ 394	\$ 3,329
2019	3,416	522	3,938
2020	675	126	801
2021	(840)	(158)	(997)
	<b>\$ 6,187</b>	<b>\$ 884</b>	<b>\$ 7,071</b>

### Actuarial Methods and Assumptions Used to Determine Total Pension Liability

A summary of principal assumptions and methods used to determine the net pension liability is as follows:

	<b>Miscellaneous</b>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.5% <sup>1</sup>
Mortality	<sup>2</sup>

<sup>1</sup> Net of Pension Plan Investment and Administrative Expenses; includes inflation.

<sup>2</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2017 Actuarial Valuation Report were based on the results of an actuarial experience study for the period from 1997 to 2011. Further details of the experience study can be found on the CalPERS website.

## LONG BEACH WATER DEPARTMENT

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(in thousands of dollars)

### Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

The long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference to the Plans.

The long-term expected rate of return on pension plan investments of 7.50% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

The following table reflects the long-term expected real rate of return by asset class for both Safety and Miscellaneous Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 - 10<sup>a</sup></b>	<b>Real Return Years 11+<sup>b</sup></b>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00	0.80	2.27
Inflation Sensitive	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	(2.20)	(1.05)

<sup>a</sup> An expected inflation of 2.5% used for this period

<sup>b</sup> An expected inflation of 3.0% used for this period

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the City for each plan as of the measurement date, calculated using the discount rate of 7.15%, compared to a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%):

<b>Net Pension Liability</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
1% Decrease (6.15%)	\$ 59,485	11,167	70,652
Current Discount Rate (7.15%)	39,341	7,385	46,726
1% Increase (8.15%)	22,709	4,263	26,972

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

### **Note 6 – Post Retirement Health Care Benefits**

#### *Plan Description*

The Department participates in the City of Long Beach Retiree Health Care plan (the Plan), a single-employer plan administered by the City of Long Beach. The Plan covers all eligible full-time employees of the City. City Council has the authority to establish and amend the benefit terms currently permitted by Ordinance No. C-7556.

#### *Benefits provided*

The Plan provides health, dental and long-term care insurance for retirees and their dependents as long as (a) that employee participated in a City provided insurance program of that type (PPO or HMO) during the year immediately preceding retirement, (b) has not attained the eligibility age for Medicare payments, and (c) has attained the minimum retirement age for the employee's retirement plan. Benefits are administered through a third-party provider, and the full cost of the benefits is covered by the plan.

#### *Total OPEB Liability, OPEB expense, and Deferred Outflows of Resources Related to OPEB*

At September 30, 2017, the Department reported a total OPEB liability of \$2,035 (\$1,703 for Water and \$332 for Sewer) for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of September 30, 2016 and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Department's proportion of the total OPEB liability was based on the Department's share of sick leave balances. At September 30, 2017, the Department's proportion was 4.1% (3.4% for Water and 0.7% for Sewer).

For the year ended September 30, 2017, the Department recognized OPEB expense of \$46 (\$40 for Water and \$6 for Sewer). At September 30, 2017, the Department reported \$32 (\$27 for Water and \$5 for Sewer) of deferred outflows of resources related to OPEB from contributions made subsequent to the measurement date, \$398 (\$333 for Water and \$65 for Sewer) in deferred outflows of resources related to actuarial changes in assumptions, and \$319 (\$267 for Water and \$52 for Sewer) of deferred inflows of resources related to actuarial determined difference between expected and actual experience.

Amounts reported as deferred outflows and deferred outflows related to OPEB from the Department's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended September 30, 2018. Amounts related to both the deferred outflow of resources and deferred inflow of resources will be amortized over the next 7.3 years. Amounts reported as deferred outflows and deferred

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

inflows related to OPEB will be recognized in OPEB expense over the next five years as follows:

<i>Water</i>		<i>Sewer</i>	
<i>Year Ending</i>	<i>Amount</i>	<i>Year Ending</i>	<i>Amount</i>
<i>September 30</i>	<i>to be</i>	<i>September 30</i>	<i>to be</i>
<i>Recognized</i>	<i>Recognized</i>	<i>Recognized</i>	<i>Recognized</i>
2018	9	2018	2
2019	9	2019	2
2020	9	2020	2
2021	9	2021	2
2022	9	2022	2
2023 - 2027	19	2023 - 2027	4

### Actuarial Assumptions

The total OPEB liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	September 30, 2016	
Measurement Date	September 30, 2016	
Actuarial Cost Method	Entry Age	
Actuarial Assumptions:		
Inflation	2.75%	
Discount Rate	3.10%	Based on Fidelity Municipal Bond GO AA 20-year Bond Index
Payroll Increases	Aggregate	3.00%
	Merit	CalPERS 1997-2011 Experience
Health Care Cost Trend Rates	7.50% for 2019, decreasing to 4.00% for 2026 and later	
Mortality, Withdrawal, Disability, Retirement	CalPERS 1997-2011 Experience Study	



## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

### Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Department, as well as what the Department's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.1%) or 1-percentage-point higher (4.1%) than the current discount rate:

	<b>1 Percent Decrease (2.10 %)</b>	<b>Discount Rate (3.10 %)</b>	<b>1 Percent Increase (4.10 %)</b>
Total OPEB Liability - Water	\$ 1,879	1,703	1,543
Total OPEB Liability - Sewer	367	332	301

### Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Department, as well as what the Department's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (8.5 percent decreasing to 4.0 percent) than the current healthcare cost trend rates:

	<b>1 Percent Decrease (6.5 %)</b>	<b>Healthcare Cost Trend Rate (7.5 %)</b>	<b>1 Percent Increase (8.5 %)</b>
Total OPEB Liability - Water	\$ 1,504	1,703	1,937
Total OPEB Liability - Sewer	293	332	378

### Employee Benefits, Compensated Absences and Termination Benefits

As of September 30, 2017, the City has recorded compensated absence and OPEB liabilities in the City Employee Benefits Fund, Other Internal Services Fund and Enterprises Fund in the amount of \$135.2 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, Accounting for Compensated Absences (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees. An additional amount relating to negotiated public safety health benefit supplements for employees who retired during calendar year 2009 is described as follows:

The actuarial study assumes an investment return of 3.8% and wage increases of 3.0% per year for safety employees. The \$135.2 million long-term portion of the liability is being funded over time through burden rates, applied as a percentage of current productive salaries, and charged to the various City funds.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

As of September 30, 2017, the Department has recorded compensated absences and OPEB liabilities as follows:

	<i>Reported as</i>			
	<i>Compensated Absences</i>		<i>OPEB</i>	
	<i>Vacation</i>	<i>Sick</i>	<i>Liability</i>	<i>Total</i>
<b>Water</b>	\$ 1,401	4,612	1,703	7,716
<b>Sewer</b>	-	898	332	1,230

### **Note 7 - Operating Leases**

The Department owns approximately 820 acres of land, approximately 80 acres of which is leased for commercial purposes. Minimum future rental income due to the Water Fund under noncancelable operating leases which have an initial term in excess of one year is as follows:

Year ending September 30:

2018	\$ 670
2019	430
2020	399
2021	381
2022	334
2023-2027	807
2028-2032	437
2033-2037	304
2038-2042	105
Total minimum future rental \$	3,867

### **Note 8 - Commitments and Contingencies**

#### Litigation

The Department is subject to claims and lawsuits arising from the normal course of business. Such claims are routinely evaluated by representatives of the City Attorney's office. Department management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying basic financial statements. Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that any liability for unreserved claims and lawsuits will not have a material impact on the basic financial statements of the Department.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

### Commitments

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2017 amount to \$8,879 and \$1,576 for the Water Fund and Sewer Fund, respectively.

### **Note 9 – Subsequent Events**

#### Lawsuit Settlement Agreement

Effective November 8, 2017, the City of Long Beach (City) entered into a Settlement and Release Agreement (Agreement) with Diana Lejins (Ms. Lejins), a resident of the City and Water and Sewer service customer of the Department. The Agreement is pursuant to a lawsuit entitled Diana Lejins v. City of Long Beach (Los Angeles Superior Court Case No. BS1655724) alleging that the City's annual assessment and transfer of Pipeline Permit Fees from the Water and Sewer Funds to the City's general fund violates Proposition 218 (California Constitution Article XIII D).

The City's Pipeline Permit Fee assessment to the Water Department for FY2018 was \$6,453 and \$4,959 for the Water and Sewer Funds respectively. The Agreement requires that the City (i) will no longer charge Pipeline Permit Fees to the Department's Water and Sewer Funds and (ii) return previous transfers totaling \$12 million from the City's general fund back to the Department in four equal annual payments of \$3 million each. Each payment is allocated 57% to the Water Fund and 43% to the Sewer Fund (\$1,710 and \$1,290 respectively), with the first transfer being made within 120 days of the effective date of the Agreement. The Department made one final quarterly transfer payment of the Pipeline Permit Fee to the City for the first quarter of FY2018 ended December 31, 2017 in the amount of \$1,613 and \$1,240 from the Water and Sewer Funds respectively.

The Agreement allows for an accepted methodology for calculating future transfers from the Department to the City's general fund based on a consultant study of City costs incurred for maintenance of the City street right-of-way (ROW study). For FY2018, the City's ROW study methodology resulted in estimated reductions in transfers by -\$3,417 (-71%) and -\$1,822 (-49%) for the Water and Sewer Funds respectively, as compared to Pipeline Permit Fees that would have been transferred.

The Agreement also requires the Department to reduce its FY2018 Water and Sewer rates within sixty days of the effective date of the Agreement to reflect that the Pipeline Permit Fees are no longer being paid by the Water and Sewer Funds. This reduction was partially offset by the payment of Ms. Lejins's attorney fees. Consequently, the Department implemented volumetric and daily service charge rate reductions of -4.2% for the Water Fund and -10.4% for Sewer Fund effective January 1, 2018. The Agreement allows for the Department to adjust rates to account for potential increases in future annual transfers based on the City's ROW study methodology.

## **LONG BEACH WATER DEPARTMENT**

Notes to Financial Statements  
September 30, 2017  
(in thousands of dollars)

### *Proposed Charter Amendment*

On March 7, 2018, The Long Beach City Council adopted a Resolution calling for the holding of a General Municipal Election on June 5, 2018, for the submission of a proposed City Charter Amendment to Long Beach voters. The proposed Charter Amendment revises Charter Section 1407 - Use of Water Department Funds, authorizing annual transfers of any funds from the Water and Sewer Funds to the General Fund that are determined by the Board of Water Commissioners (Commission) to be unnecessary to meet its obligations; provided that the maximum transfer does not exceed 12% of each funds' audited annual gross revenues. The transfers to the General Fund can be spent for unrestricted general revenue purposes. The Commission is authorized to set, and the City Council to approve, water and sewer rates in an amount sufficient to recover the cost of Water and Sewer Fund obligations.

**STATISTICAL SECTION**  
(Unaudited)

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# **Financial Trends**

These schedules contain trend information to help the reader understand how the Department's financial performance and well-being have changed over time.

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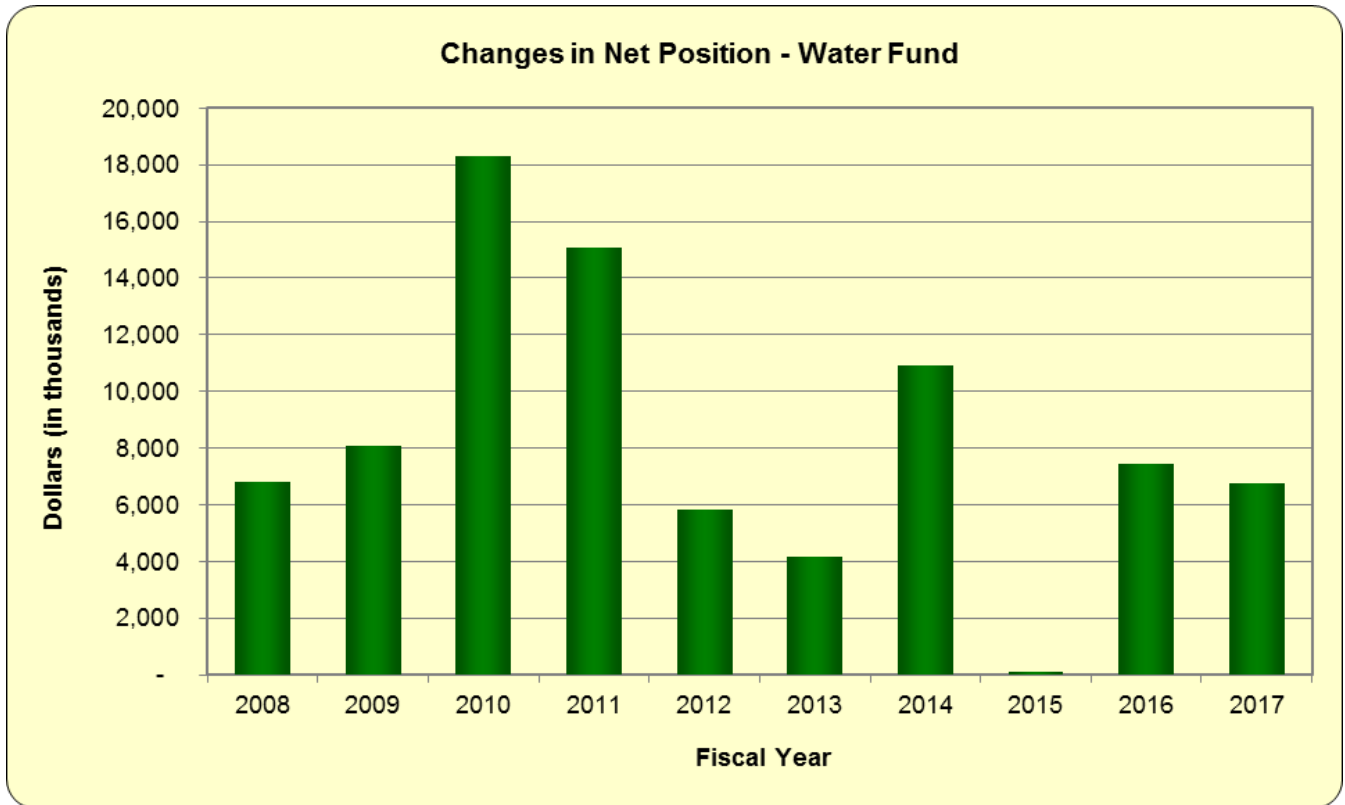
**LONG BEACH WATER DEPARTMENT**  
**CHANGES IN NET POSITION - WATER FUND**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

<b>Fiscal Year Ended</b>	<b>Total Operating Revenue <sup>(1)</sup></b>	<b>Total Operating Expense</b>	<b>Operating Income (Loss)</b>	<b>Total Non-Operating Income (Expense)</b>	<b>Total Contributed capital</b>	<b>Changes in Net Position</b>
9/30/2008	71,384	67,647	3,737	(660)	3,746	6,823
9/30/2009	80,777	73,916	6,861	(1,029)	2,221	8,053
9/30/2010	87,151	79,422	7,729	8,302	2,263	18,294
9/30/2011	88,576	80,403	8,173	(1,374)	8,283	15,082
9/30/2012	86,515	79,342	7,173	(1,573)	247	5,847
9/30/2013	91,949	85,783	6,166	(2,152)	131	4,145 <sup>(2)</sup>
9/30/2014	100,187	91,992	8,195	(216)	2,924	10,903
9/30/2015	99,475	102,134	(2,659)	1,051	1,726	118
9/30/2016	97,650	92,253	5,397	(672)	2,710	7,435
9/30/2017	97,383	91,893	5,490	510	734	6,734

Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.  
(2) Changes in Net Position amount excludes adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

Source: Department's annual reports

See accompanying independent auditors' report



**LONG BEACH WATER DEPARTMENT**  
**CHANGES IN NET POSITION - SEWER FUND**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

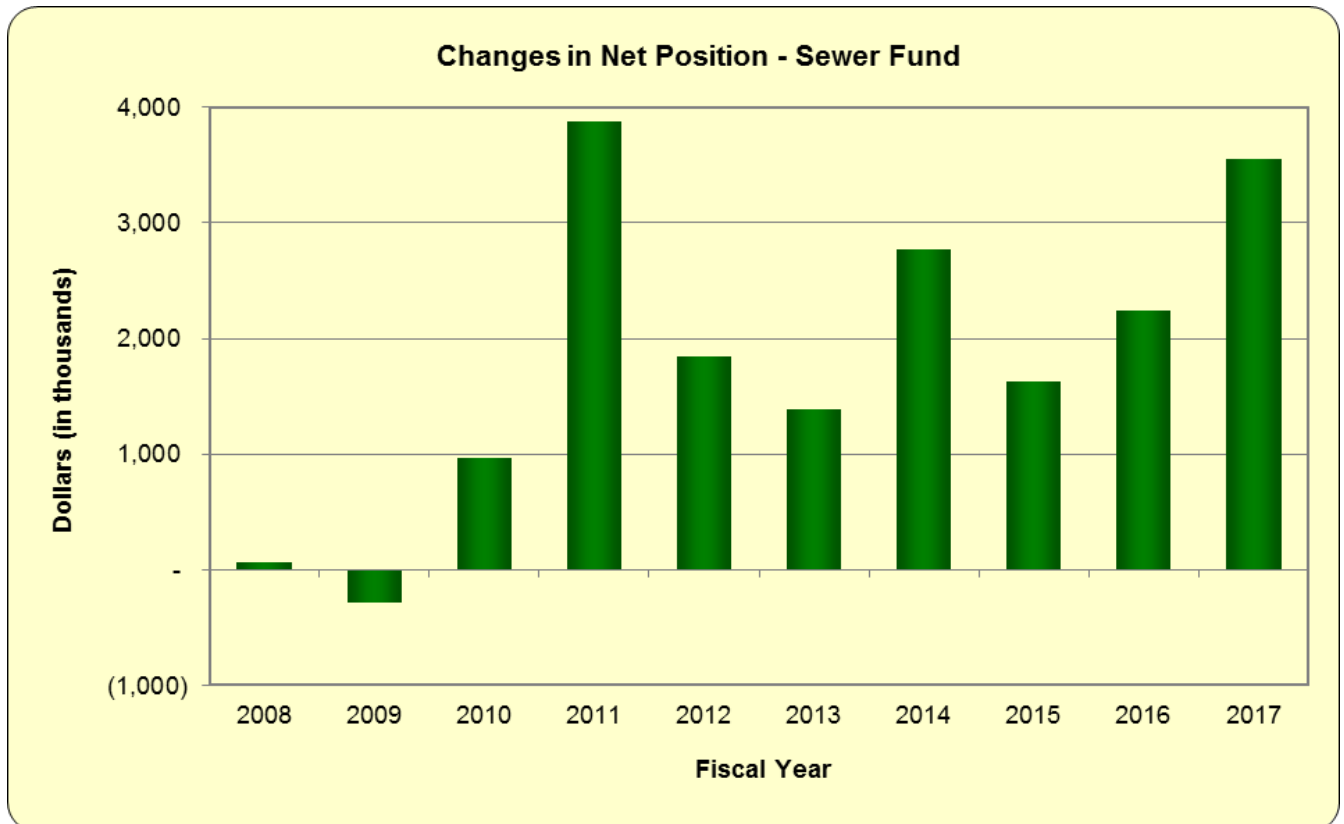
<u>Fiscal Year Ended</u>	<u>Total Operating Revenue <sup>(1)</sup></u>	<u>Total Operating Expense</u>	<u>Operating Income (Loss)</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Changes in Net Position</u>
9/30/2008	11,759	11,875	(116)	174	-	58
9/30/2009	12,455	13,003	(548)	258	-	(290)
9/30/2010	15,186	14,015	1,171	(517)	310	964
9/30/2011	16,448	14,795	1,653	(650)	2,868	3,871
9/30/2012	17,325	14,411	2,914	(1,260)	185	1,839
9/30/2013	17,311	15,165	2,146	(761)	-	1,385 <sup>(2)</sup>
9/30/2014	17,953	15,479	2,474	(462)	759	2,771
9/30/2015	17,903	16,024	1,879	(257)	-	1,622
9/30/2016	18,355	15,835	2,520	(280)	-	2,240
9/30/2017	19,949	15,312	4,637	(1,087)	-	3,550

Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.

(2) Changes in Net Position amount excludes adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

Source: Department's annual reports

See accompanying independent auditors' report



**LONG BEACH WATER DEPARTMENT**  
**NET POSITION BY COMPONENT - WATER FUND**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

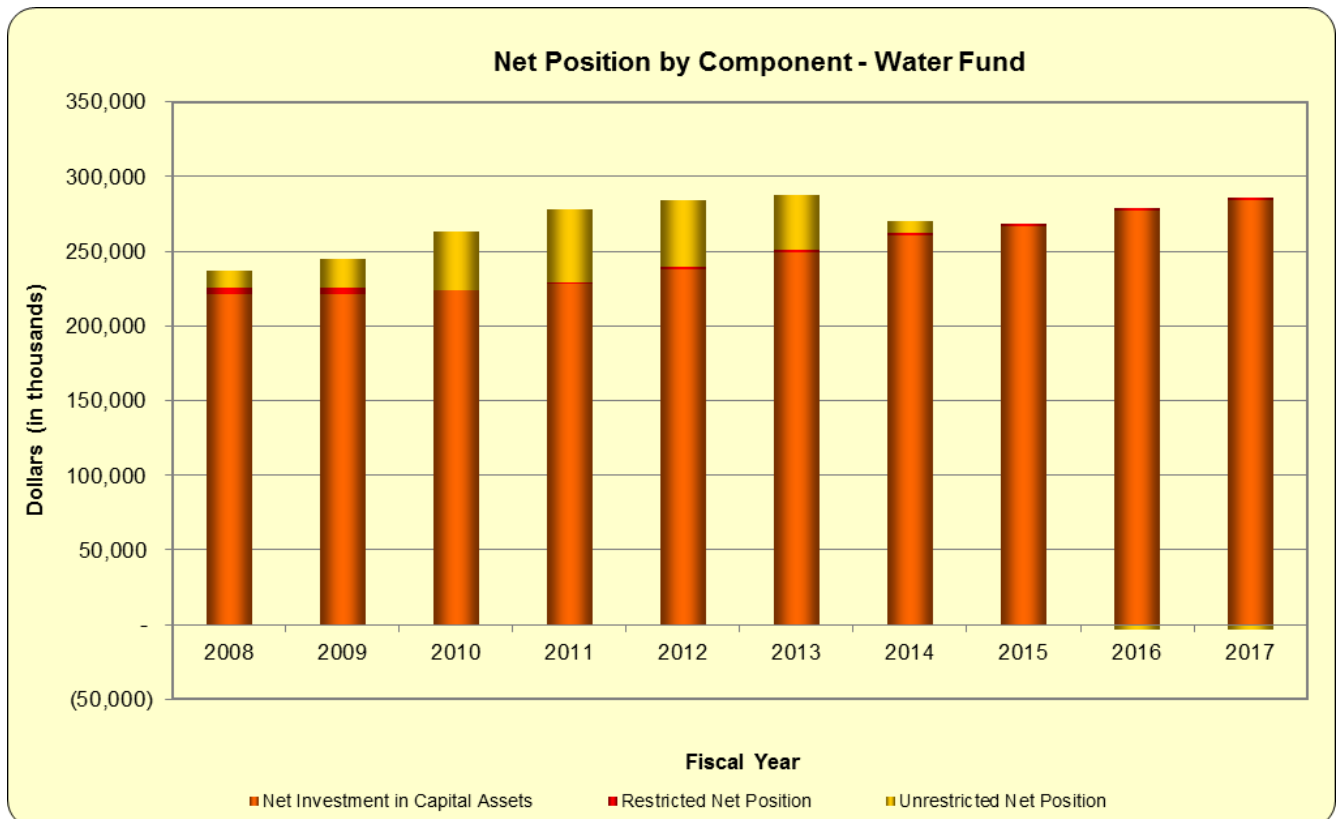
<u>Fiscal Year Ended</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position (deficit)</u>	<u>Total Net Position</u>
9/30/2008	221,225	4,178	11,442	236,845
9/30/2009	220,974	4,240	19,684	244,898
9/30/2010	223,560	153	39,479	263,192
9/30/2011	228,196	736	49,342	278,274
9/30/2012	237,793	1,350	44,978	284,121
9/30/2013	249,256	1,656	36,814	287,726 <sup>(1)</sup>
9/30/2014	260,538	1,673	7,725	269,936
9/30/2015 <sup>(2)</sup>	267,041	1,697	(143)	268,595
9/30/2016	277,394	1,716	(3,080)	276,030
9/30/2017	284,413	1,700	(3,349)	282,764

Notes: (1) Total Net Position amount includes adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

(2) Amounts adjusted due to implementation of GASB Statement No. 75.

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 4

**LONG BEACH WATER DEPARTMENT**  
**NET POSITION BY COMPONENT - SEWER FUND**  
**LAST TEN FISCAL YEARS**  
**(in thousands of dollars)**

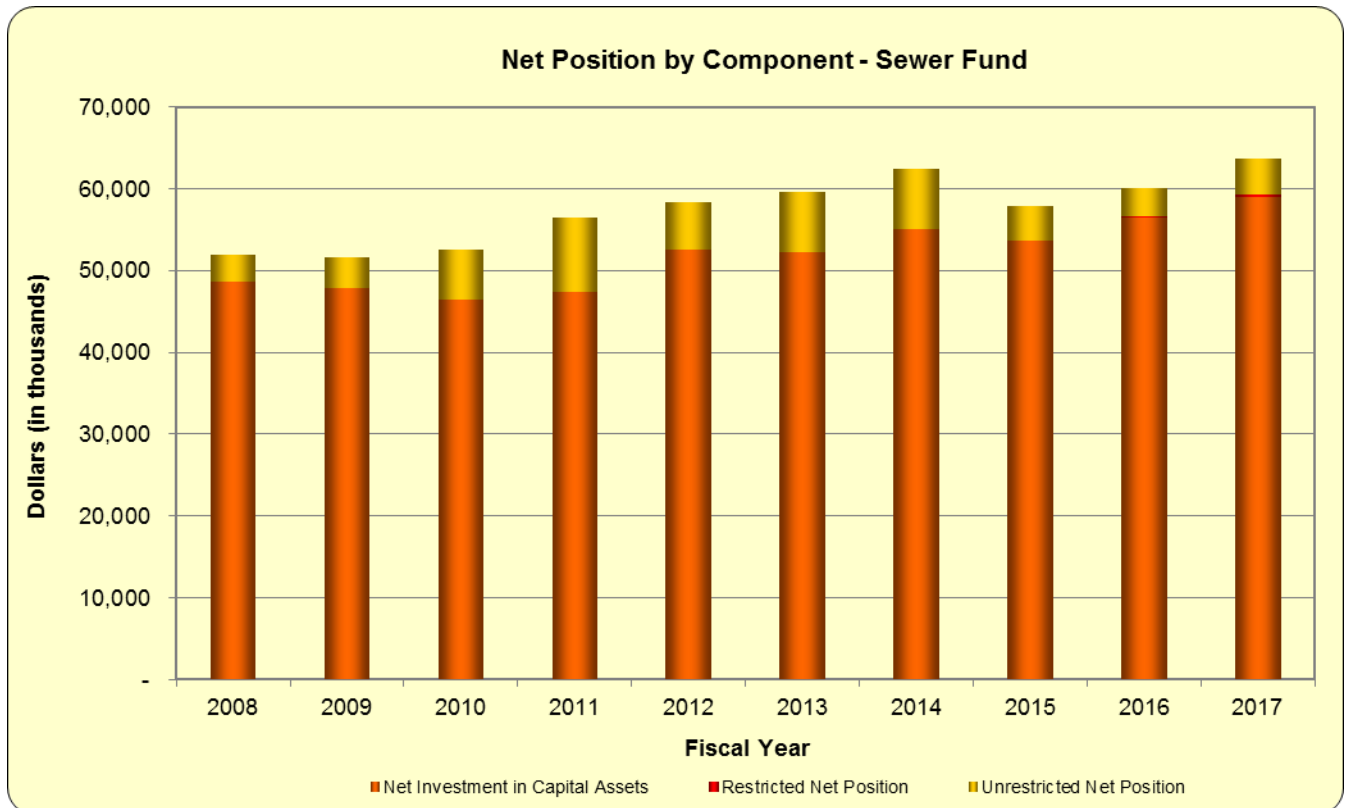
<u>Fiscal Year Ended</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>
9/30/2008	48,541	-	3,389	51,930
9/30/2009	47,891	-	3,749	51,640
9/30/2010	46,383	-	6,221	52,604
9/30/2011	47,378	-	9,097	56,475
9/30/2012	52,465	-	5,849	58,314
9/30/2013	52,151	-	7,412	59,563 <sup>(1)</sup>
9/30/2014	55,006	-	7,328	62,334
9/30/2015 <sup>(2)</sup>	53,604	-	4,195	57,799
9/30/2016	56,462	84	3,493	60,039
9/30/2017	58,927	302	4,360	63,589

Notes: (1) Total Net Position amount includes adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

(2) Amounts adjusted due to implementation of GASB Statement No. 75.

Source: Department's annual reports

See accompanying independent auditors' report



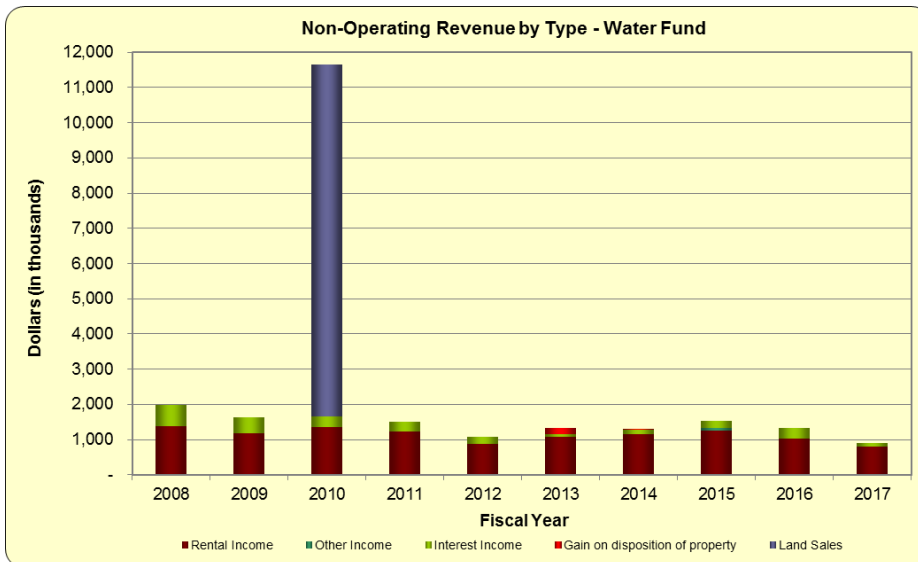
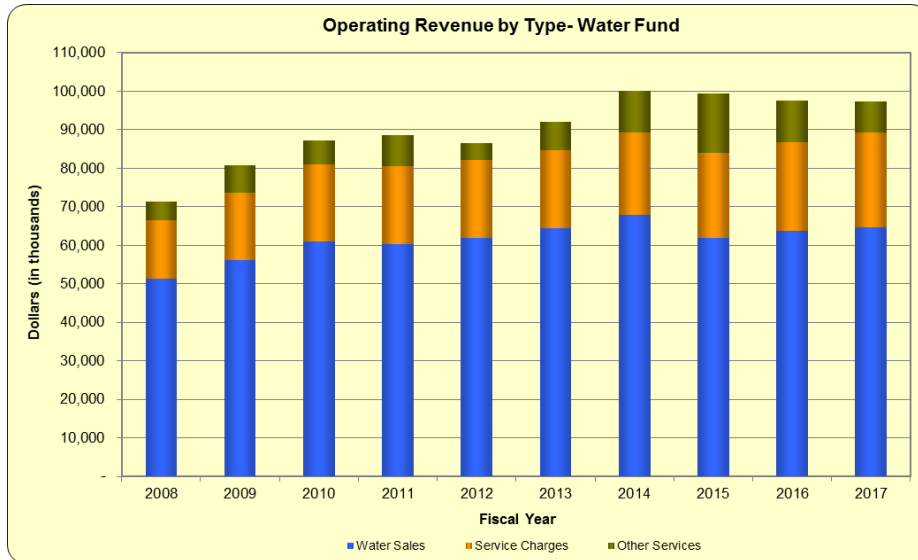
**LONG BEACH WATER DEPARTMENT**  
**WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING					
	Water Sales <sup>(1)</sup>	Service Charges	Other Services	Total Operating Revenue	Interest Income	Rental Income	Land sales	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/2008	51,389	15,156	4,839	71,384	602	1,382	-	-	-	1,984
9/30/2009	56,256	17,299	7,222	80,777	456	1,181	-	-	-	1,637
9/30/2010	60,975	19,983	6,193	87,151	302	1,345	10,000	-	-	11,647
9/30/2011	60,398	20,251	7,927	88,576	294	1,221	-	-	-	1,515
9/30/2012	61,884	20,223	4,408	86,515	193	885	-	-	-	1,078
9/30/2013	64,347	20,363	7,239	91,949	58	1,087	-	-	196	1,341
9/30/2014	67,818	21,548	10,821	100,187	120	1,158	-	-	36	1,314
9/30/2015	61,995	22,061	15,419	99,475	223	1,256	-	62	-	1,541
9/30/2016	63,658	23,121	10,871	97,650	299	1,027	-	-	-	1,326
9/30/2017	64,721	24,599	8,063	97,383	87	811	-	-	-	898

Notes: (1) Water Sales is net of Provision for doubtful accounts expense.

Source: Department's annual reports

See accompanying independent auditors' report

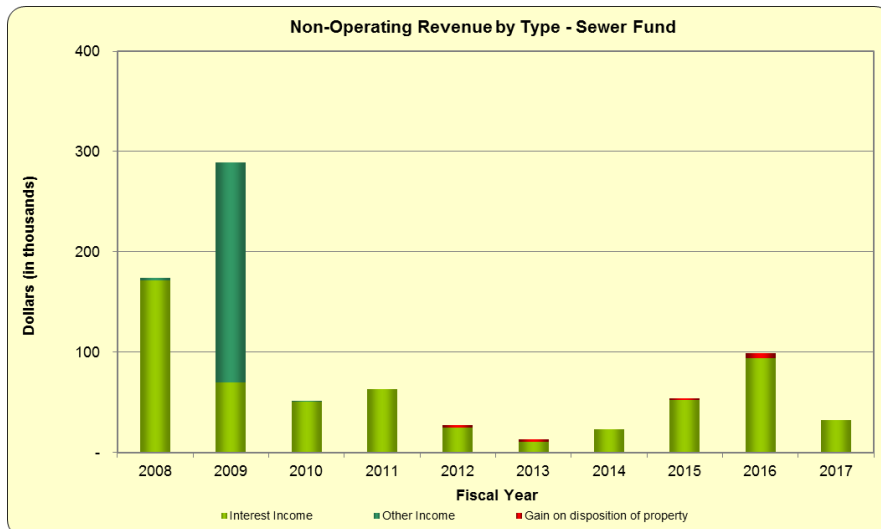
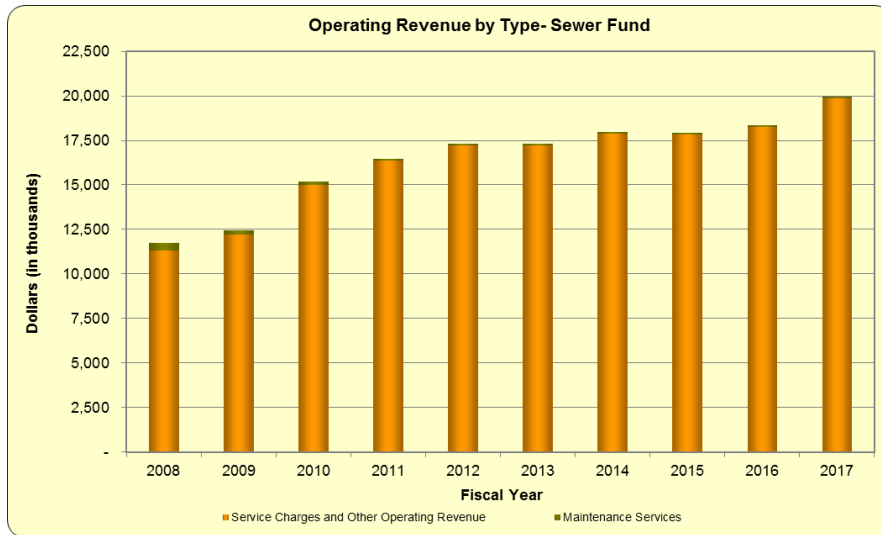


**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING			
	Service Charges and Other Operating Revenue	Maintenance Services	Total Operating Revenue	Interest Income	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/2008	11,317	442	11,759	172	2	-	174
9/30/2009	12,203	252	12,455	70	219	-	289
9/30/2010	15,013	173	15,186	50	0.01	-	50
9/30/2011	16,362	86	16,448	63	-	-	63
9/30/2012	17,239	86	17,325	25	-	2	27
9/30/2013	17,225	86	17,311	11	-	2	13
9/30/2014	17,867	86	17,953	23	-	-	23
9/30/2015	17,817	86	17,903	52	-	2	54
9/30/2016	18,269	86	18,355	94	-	5	99
9/30/2017	19,863	86	19,949	32	-	-	32

Source: Department's annual reports

See accompanying independent auditors' report

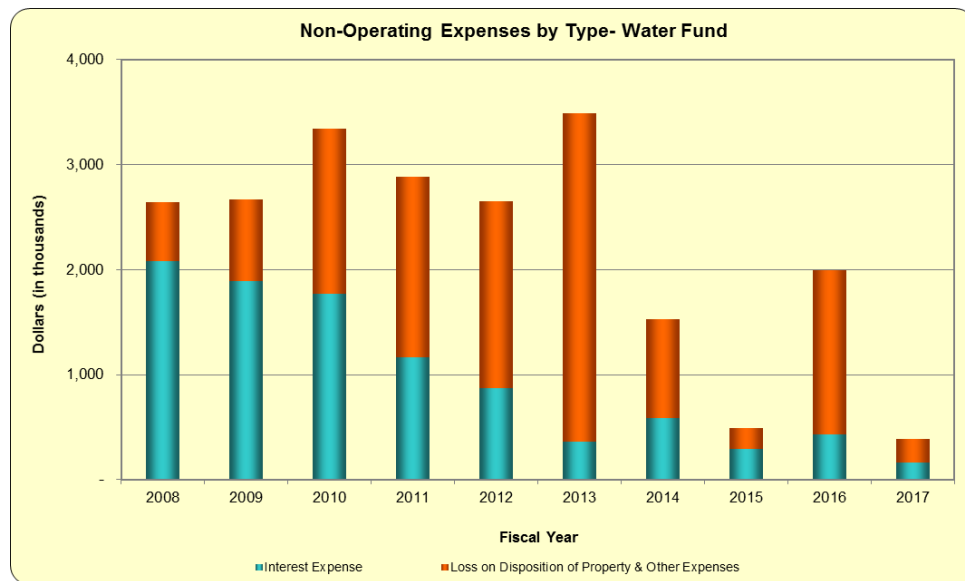
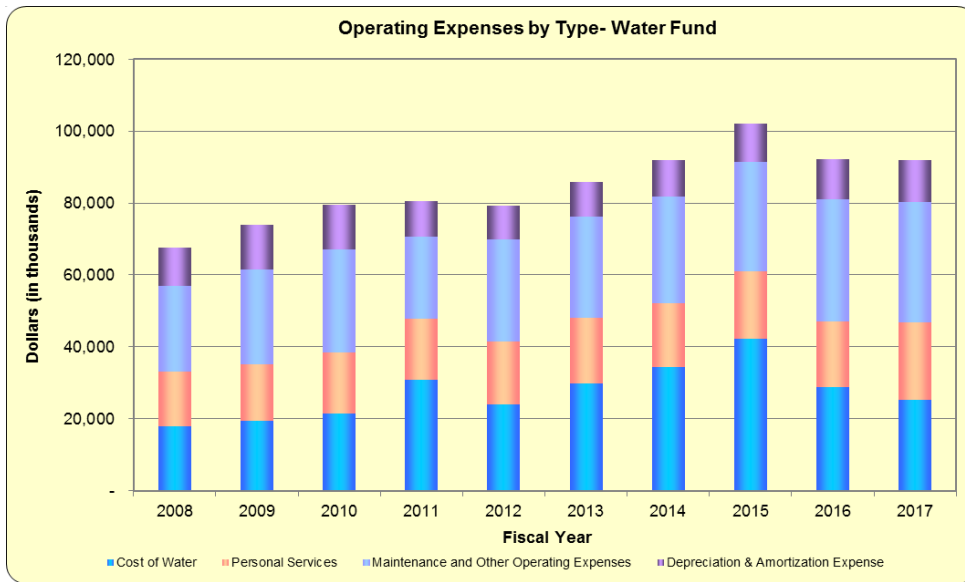


**LONG BEACH WATER DEPARTMENT**  
**WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING			
	Cost of Water	Personal Services	Maintenance and Other Operating Expenses	Depreciation & Amortization Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/2008	18,036	14,974	24,009	10,628	67,647	2,078	566	2,644
9/30/2009	19,509	15,654	26,319	12,434	73,916	1,891	775	2,666
9/30/2010	21,588	16,855	28,648	12,331	79,422	1,773	1,572	3,345
9/30/2011	30,825	17,095	22,644	9,839	80,403	1,167	1,722	2,889
9/30/2012	23,887	17,594	28,502	9,359	79,342	872	1,779	2,651
9/30/2013	29,753	18,309	28,155	9,566	85,783	363	3,130	3,493
9/30/2014	34,378	17,822	29,566	10,226	91,992	587	943	1,530
9/30/2015	42,178	18,923	30,294	10,739	102,134	292	198	490
9/30/2016	28,743	18,405	33,936	11,169	92,253	433	1,565	1,998
9/30/2017	25,374	21,389	33,436	11,694	91,893	161	227	388

Source: Department's annual reports

See accompanying independent auditors' report

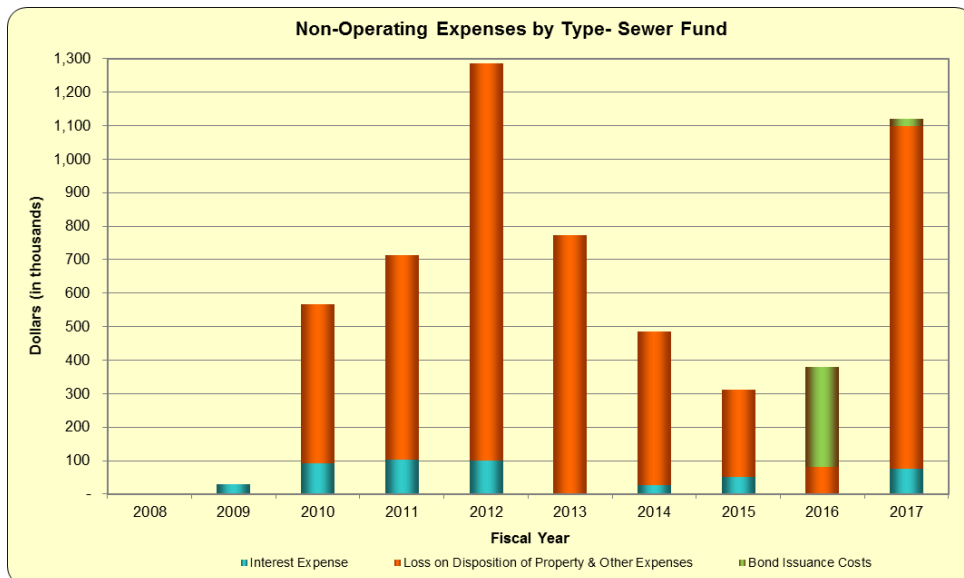
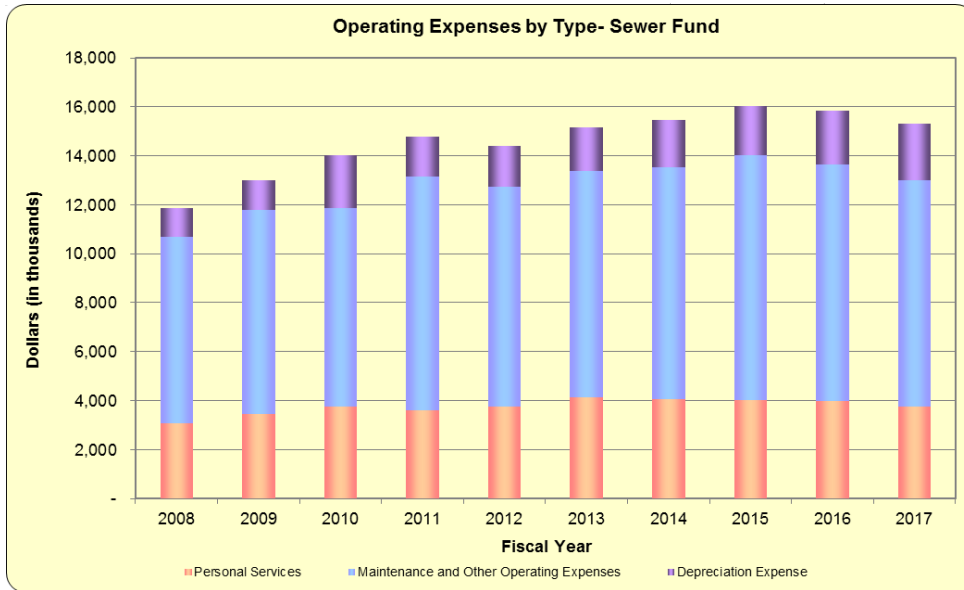


**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING				Total Non-Operating Expense
	Personal Services	Maintenance and Other Operating Expenses	Depreciation Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Bond Issuance Costs	
9/30/2008	3,067	7,635	1,173	11,875	-	-	-	-
9/30/2009	3,440	8,363	1,200	13,003	31	-	-	31
9/30/2010	3,735	8,113	2,167	14,015	91	476	-	567
9/30/2011	3,607	9,528	1,660	14,795	102	611	-	713
9/30/2012	3,748	8,988	1,675	14,411	101	1,186	-	1,287
9/30/2013	4,122	9,246	1,797	15,165	2	772	-	774
9/30/2014	4,043	9,475	1,961	15,479	27	458	-	485
9/30/2015	4,021	9,993	2,010	16,024	51	260	-	311
9/30/2016	3,968	9,680	2,187	15,835	-	81	298	379
9/30/2017	3,764	9,225	2,323	15,312	77	1,021	21	1,119

Source: Department's annual reports

See accompanying independent auditors' report





# **Revenue Capacity**

These schedules contain information to help the reader assess the Department's significant revenue sources.

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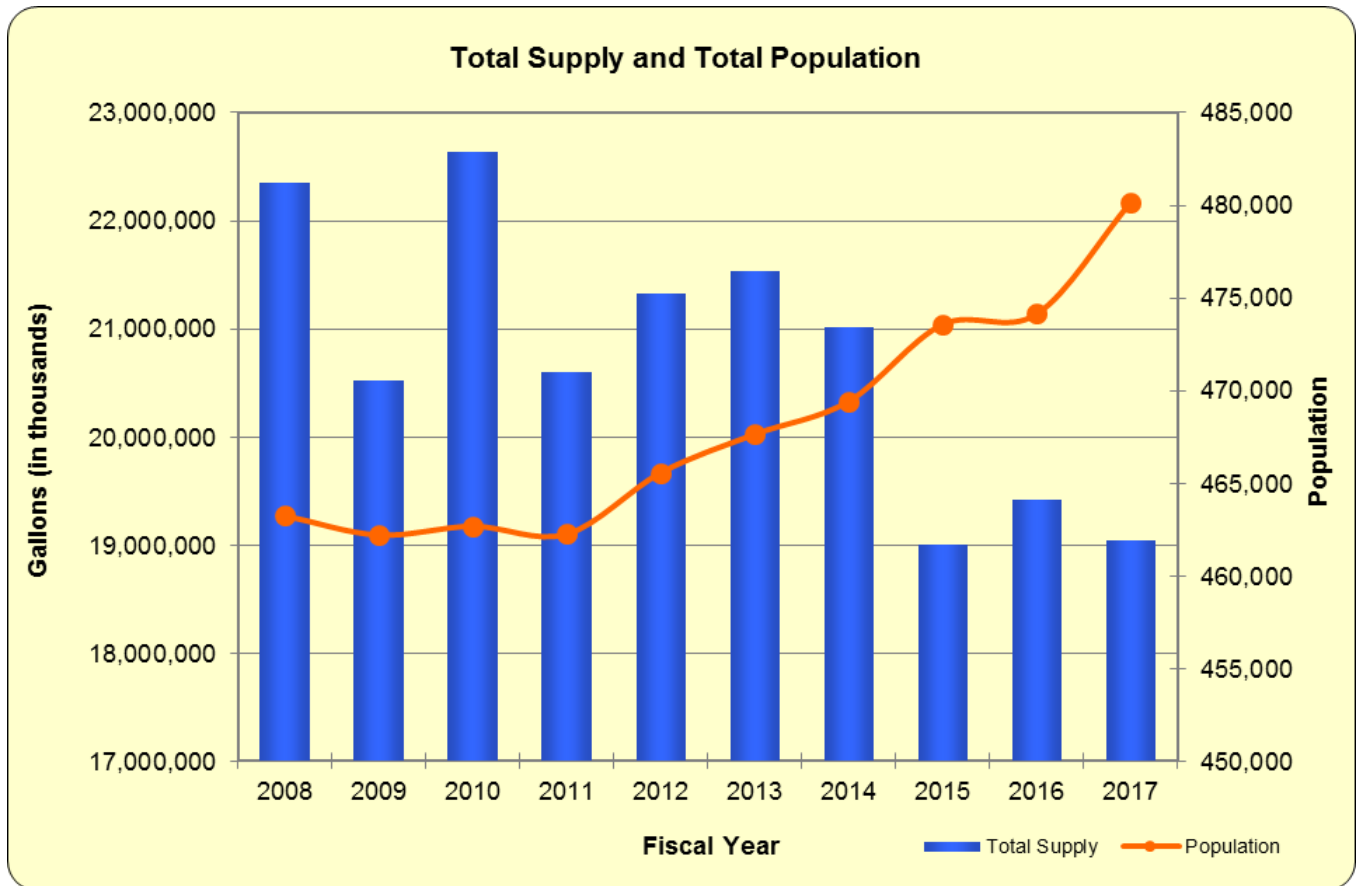
**LONG BEACH WATER DEPARTMENT**  
**SOURCE OF WATER (PUMPED, PURCHASED, AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS**  
 (in thousands of gallons, except population)

Fiscal Year Ended	SOURCE OF SUPPLY			CONSUMPTION				
	Potable Water		Reclaimed Water	Total Supply	Average Daily Demand Potable Water <sup>(1)</sup>	Peak Day Distribution	Average Daily Sales Per Capita	Population
	Pumped	Purchased						
9/30/2008	11,006,041	9,179,092	2,161,793	22,346,926	55,302	82,080	132	463,250
9/30/2009	11,038,496	7,462,640	2,021,971	20,523,107	50,688	72,650	122	462,211
9/30/2010	11,789,387	8,651,083	2,197,803	22,638,273	56,001	71,220	134	462,685
9/30/2011	5,856,585	12,725,394	2,022,264	20,604,243	50,910	72,300	122	462,257
9/30/2012	10,772,406	8,302,455	2,255,671	21,330,532	52,260	74,700	126	465,576
9/30/2013	10,125,461	9,248,531	2,164,954	21,538,946	53,079	68,700	126	467,646
9/30/2014	9,131,485	9,990,526	1,897,724	21,019,735	52,389	72,000	123	469,428
9/30/2015	7,169,276	10,146,544	1,684,650	19,000,470	47,441	68,600	110	473,577
9/30/2016	10,455,223	6,487,074	2,470,635	19,412,932	46,417	63,300	112	474,140
9/30/2017	10,283,141	6,459,051	2,303,734	19,045,926	45,869	60,300	109	480,173

Note: (1) Does not include reclaimed water which is used for irrigation only.

Source: Department's annual reports

See accompanying independent auditors' report



**LONG BEACH WATER DEPARTMENT  
WATER RATES: VOLUMETRIC RATE CHARGES  
LAST TEN FISCAL YEARS**

Effective Date	Potable Water <sup>(1)</sup>			Reclaimed Water		
	TIER I <sup>(2)</sup>	TIER II <sup>(3)</sup>	TIER III <sup>(4)</sup>	Peaking Rate Per Cubic Foot <sup>(5)</sup>	Non-Peaking Rate Per Cubic Foot <sup>(6)</sup>	Interruptible Rate Per Cubic Foot <sup>(7)</sup>
10/1/2007	1.646	1.829	2.744	1.281	0.915	-
10/1/2008	1.893	2.103	3.155	1.472	1.052	-
10/1/2009	2.196	2.439	3.659	1.708	1.220	-
10/1/2010	2.196	2.439	3.659	1.708	1.220	-
10/1/2011	2.196	2.439	3.659	1.708	1.220	1.220
10/1/2012	2.196	2.439	3.659	1.708	1.220	1.220
10/1/2013	2.283	2.537	3.806	1.776	1.269	1.269
10/1/2014	2.374	2.638	3.957	1.847	1.319	1.319
10/1/2015	2.470	2.744	4.116	1.921	1.372	1.372
10/1/2016	2.569	2.854	4.281	1.998	1.427	1.427
7/1/2017 <sup>(8)</sup>	1.921	3.678	5.366	1.859	1.578	1.578

Note: (1) Volumetric rate charges for Single family residence, not granted an exemption (one billing unit equals 100 cubic feet).

(2) From 10/1/2007 to 10/1/2016, Tier I is billed for first five (5) billing units. Starting 7/1/2017, Tier I is billed for first six (6) billing units.

(3) All non-residential customers are charged at the Tier II rate. From 10/1/2007 to 10/1/2016, Tier II is billed for next ten (10) billing units.

Starting 7/1/2017, Tier I is billed for first seven (7) billing units.

(4) From 10/1/2007 to 10/1/2016, Tier III is billed for over fifteen (15) billing units. Starting 7/1/2017, Tier III is billed for over thirteen (13) billing units.

(5) Rate for total average daily demand occurring between the hours of 9:00pm and 6:00am.

(6) Rate for total average daily demand occurring at a continuous, constant level over a 24 hour period.

(7) Rate for reclaimed water service that can be suspended at anytime at the Board of Water Commissioner's discretion, without liability and dependent upon the Department's reclaimed water system needs for such service.

(8) Restructured water rates effective July 1, 2017.

Source: Department's records

See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT  
WATER RATES: DAILY SERVICE CHARGE BY SIZE  
LAST TEN FISCAL YEARS**

Effective Date	3/4"	1" <sup>(1)</sup>	1-1/2"	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2007	0.313	0.472	0.881	1.306	2.704	4.279	7.885	12.377	20.270	24.774	41.002
10/1/2008	0.360	0.543	1.013	1.502	3.110	4.921	9.068	14.234	23.311	28.490	47.152
10/1/2009	0.418	0.630	1.175	1.742	3.608	5.708	10.519	16.511	27.041	33.048	54.696
10/1/2010	0.418	0.630	1.175	1.742	3.608	5.708	10.519	16.511	27.041	33.048	54.696
10/1/2011	0.418	0.630	1.175	1.742	3.608	5.708	10.519	16.511	27.041	33.048	54.696
10/1/2012	0.418	0.630	1.175	1.742	3.608	5.708	10.519	16.511	27.041	33.048	54.696
10/1/2013	0.435	0.655	1.222	1.812	3.752	5.936	10.940	17.171	28.123	34.370	56.884
10/1/2014	0.452	0.681	1.271	1.884	3.902	6.173	11.378	17.858	29.248	35.745	59.159
10/1/2015	0.470	0.708	1.322	1.959	4.058	6.420	11.833	18.572	30.418	37.175	59.159
10/1/2016	0.489	0.736	1.375	2.037	4.220	6.677	12.306	19.315	31.635	38.662	63.986
7/1/2017 <sup>(2)</sup>	0.550	0.815	1.478	2.273	4.790	8.102	18.039	37.251	55.800	70.374	103.497

Note: (1) Normal residential size.

(2) Restructured water rates effective 7/1/2017.

Source: Department's records

See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT**  
**WATER RATES: DAILY FIRELINE SERVICE CHARGE BY SIZE**  
**LAST TEN FISCAL YEARS**

Effective Date	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2007	0.654	1.117	1.651	2.814	4.125	5.580	7.034	10.313
10/1/2008	0.752	1.285	1.899	3.236	4.744	6.417	8.089	11.860
10/1/2009	0.872	1.491	2.203	3.754	5.503	7.444	9.383	13.758
10/1/2010	0.872	1.491	2.203	3.754	5.503	7.444	9.383	13.758
10/1/2011	0.872	1.491	2.203	3.754	5.503	7.444	9.383	13.758
10/1/2012	0.872	1.491	2.203	3.754	5.503	7.444	9.383	13.758
10/1/2013	0.907	1.551	2.291	3.904	5.723	7.742	9.758	14.308
10/1/2014	0.943	1.613	2.383	4.060	5.952	8.052	10.148	14.880
10/1/2015	0.981	1.678	2.478	4.222	6.190	8.374	10.554	15.475
10/1/2016	1.020	1.745	2.577	4.391	6.438	8.709	10.976	16.094
7/1/2017 <sup>(1)</sup>	0.325	0.654	1.221	3.256	6.767	12.047	19.365	41.095

Note: (1) Restructured water rates effective 7/1/2017.

Source: Department's records

See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT**  
**TEN LARGEST POTABLE WATER USERS IN CITY OF LONG BEACH**  
**CURRENT YEAR AND NINE YEARS AGO**

Fiscal Year 2017					Fiscal Year 2008				
Industry	Ranking	Sales in thousands	Acre Feet (AF)	AF Percent of Total	Industry	Ranking	Sales in thousands	Acre Feet (AF)	AF Percent of Total
Government	1	\$ 4,869	3,101	6.24 %	Government	1	\$ 2,520	3,020	5.00 %
Education	2	1,081	569	1.14	Education	2	770	749	1.24
Utility	3	864	685	1.38	Utility	3	398	492	0.81
Education	4	623	451	0.91	Utility	4	394	476	0.79
Healthcare	5	500	351	0.71	Education	5	377	440	0.73
Utility	6	486	374	0.75	Utility	6	342	420	0.70
Cruise Line	7	469	364	0.73	Government	7	283	264	0.44
Utility	8	390	292	0.59	Healthcare	8	238	289	0.48
Healthcare	9	348	267	0.54	Healthcare	9	229	271	0.45
Education	10	200	84	0.17	Cruise Line	10	178	219	0.36
Total Ten Largest Users		9,830	6,538	13.16	Total Ten Largest Users		5,729	6,640	11.00
Total All Other Users		76,152	43,132	86.84	Total All Other Users		58,623	53,734	89.00
Total City		<u>\$ 85,982</u>	<u>49,670</u>	<u>100.00</u>	Total City		<u>\$ 64,352</u>	<u>60,374</u>	<u>100.00</u>

Source: Department's utility billing records

See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT**  
**TEN LARGEST RECLAIMED WATER USERS IN CITY OF LONG BEACH**  
 CURRENT YEAR AND NINE YEARS AGO

Fiscal Year 2017				Fiscal Year 2008			
Industry	Ranking	Acre Feet (AF)	AF Percent of Total	Industry	Ranking	Acre Feet (AF)	AF Percent of Total
Water Resource Management	1	1,966	28.05 %	Water Resource Management	1	1,735	26.15 %
Oil Production	2	1,790	25.55	Golf Course	2	1,411	21.27
Golf Course	3	1,337	19.08	Oil Production	3	1,209	18.22
Government	4	1,091	15.57	Government	4	1,182	17.82
Education	5	162	2.31	Golf Course	5	376	5.67
Education	6	150	2.14	Education	6	143	2.15
Memorial Park	7	129	1.84	Memorial Park	7	131	1.97
Education	8	108	1.54	Memorial Park	8	95	1.44
Memorial Park	9	86	1.23	Education	9	92	1.38
Plant Nursery	10	36	0.51	Plant Nursery	10	68	1.04
Total Ten Largest Users		6,856	97.82	Total Ten Largest Users		6,441	97.11
Total All Other Users		152	2.18	Total All Other Users		193	2.89
Total City		7,008	100.00	Total City		6,634	100.00

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 15

**LONG BEACH WATER DEPARTMENT**  
**SEWER RATES: VOLUMETRIC RATE CHARGES & CAPACITY CHARGES**  
 LAST TEN FISCAL YEARS

Effective Date	Volumetric Rate Charges <sup>(1)</sup>	Capacity Charges <sup>(2)</sup>
10/1/2007	0.207	80.370
10/1/2008	0.248	84.710
10/1/2009	0.303	88.520
10/1/2010	0.330	90.380
10/1/2011	0.347	91.370
10/1/2012	0.347	93.200
10/1/2013	0.347	93.390
10/1/2014	0.361	97.310
10/1/2015	0.375	99.520
10/1/2016	0.390	101.110
7/1/2017 <sup>(3)</sup>	0.390	101.110

Note: (1) Volumetric rate charges - one (1) billing unit equals 100 cubic feet.

(2) A one-time capacity charge per equivalent fixture unit is applied to all new developments in the City.

(3) Restructured sewer rates effective July 1, 2017

Source: Department's records

See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT  
SEWER RATES: DAILY SERVICE CHARGE BY SIZE  
LAST TEN FISCAL YEARS**

Effective Date	3/4" <sup>(1)</sup>	1"	1-1/2"	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2007	0.149	0.237	0.430	0.624	1.292	2.046	3.768	5.921	9.686	11.839	19.373
10/1/2008	0.179	0.284	0.516	0.749	1.550	2.455	4.522	7.105	11.623	14.207	23.248
10/1/2009	0.218	0.346	0.630	0.914	1.891	2.990	5.517	8.668	14.180	17.333	28.363
10/1/2010	0.238	0.377	0.687	0.990	2.061	3.265	6.014	9.448	15.456	18.893	30.916
10/1/2011	0.250	0.396	0.721	1.046	2.164	3.428	6.315	9.920	16.229	19.838	32.462
10/1/2012	0.250	0.396	0.721	1.046	2.164	3.428	6.315	9.920	16.229	19.838	32.462
10/1/2013	0.250	0.396	0.721	1.046	2.164	3.428	6.315	9.920	16.229	19.838	32.462
10/1/2014	0.260	0.412	0.750	1.088	2.251	3.565	6.568	10.317	16.878	20.632	33.760
10/1/2015	0.270	0.428	0.780	1.132	2.341	3.708	6.831	10.731	17.553	21.457	35.110
10/1/2016	0.281	0.445	0.811	1.177	2.435	3.856	7.104	11.159	18.255	22.315	36.514
7/1/2017 <sup>(2)</sup>	0.246	0.365	0.957	1.649	3.842	5.558	15.482	16.412	25.405	32.042	47.125

Note: (1) Normal residential size  
 (2) Restructured sewer rates effective July 1, 2017  
 Source: Department's records  
 See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT  
TEN LARGEST SEWER USERS IN CITY OF LONG BEACH  
CURRENT YEAR AND NINE YEARS AGO**

Industry	Fiscal Year 2017				%	Fiscal Year 2008			
	Ranking	Sales in thousands	Acre Feet (AF)	AF Percent of Total		Ranking	Sales in thousands	Acre Feet (AF)	AF Percent of Total
Government	1	\$ 424	1,333	3.62	Government	1	\$ 217	1,602	3.59
Education	2	212	318	0.86	Education	2	106	409	0.92
Education	3	109	448	1.22	Education	3	51	424	0.95
Healthcare	4	85	349	0.95	Government	4	26	156	0.35
Education	5	54	83	0.23	Hotel	5	16	78	0.17
Real Estate	6	32	103	0.28	Healthcare	6	15	106	0.24
Healthcare	7	31	121	0.33	Manufacturing	7	14	115	0.26
Hotel	8	28	57	0.15	Manufacturing	8	13	126	0.28
Manufacturing	9	27	38	0.10	Residential Community	9	13	91	0.20
Manufacturing	10	22	44	0.12	Manufacturing	10	12	121	0.27
Total Ten Largest Users		1,024	2,894	7.86	Total Ten Largest Users		483	3,228	7.23
Total All Other Users		17,078	33,915	92.14	Total All Other Users		9,710	41,385	92.77
Total City		\$ 18,103	36,809	100.00	Total City		\$ 10,194	44,613	100.00

Source: Department's utility billing records  
 See accompanying independent auditors' report

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# **Debt Capacity Information**

These schedules contain information to help the reader assess the affordability of the Department's current levels of outstanding debt and ability to issue additional debt in the future.

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**LONG BEACH WATER DEPARTMENT**  
**WATER FUND DEBT SERVICE COVERAGE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Fiscal Year Ended	Total Operating Revenue <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Operating Income	Net Non-Operating Income/ (Expense) <sup>(3)</sup>	Amount Available for Debt Service	Principal	Interest	Total Debt Service <sup>(4)</sup>	Times Coverage
9/30/2008	71,384	57,019	14,365	1,526	15,891	1,352	1,731	3,083	5.15
9/30/2009	80,777	61,482	19,295	904	20,199	1,330	1,661	2,991	6.75
9/30/2010	87,151	67,091	20,060	10,245	30,305	1,405	1,588	2,993	10.13
9/30/2011	88,576	70,564	18,012	(152)	17,860	-	861	861 <sup>(5)</sup>	20.74
9/30/2012	86,515	69,983	16,532	(331)	16,201	490	1,249	1,739	9.32
9/30/2013	91,949	76,217	15,732	(1,985)	13,747	2,110	1,485	3,595	3.82
9/30/2014	100,187	81,766	18,421	335	18,756	2,385	1,502	3,887	4.83
9/30/2015	99,475	91,395	8,080	1,541	9,621	2,510	1,390	3,900	2.47
9/30/2016	97,650	81,084	16,566	44	16,610	2,630	1,264	3,894	4.27
9/30/2017	97,383	80,199	17,184	764	17,948	2,730	1,165	3,895	4.61

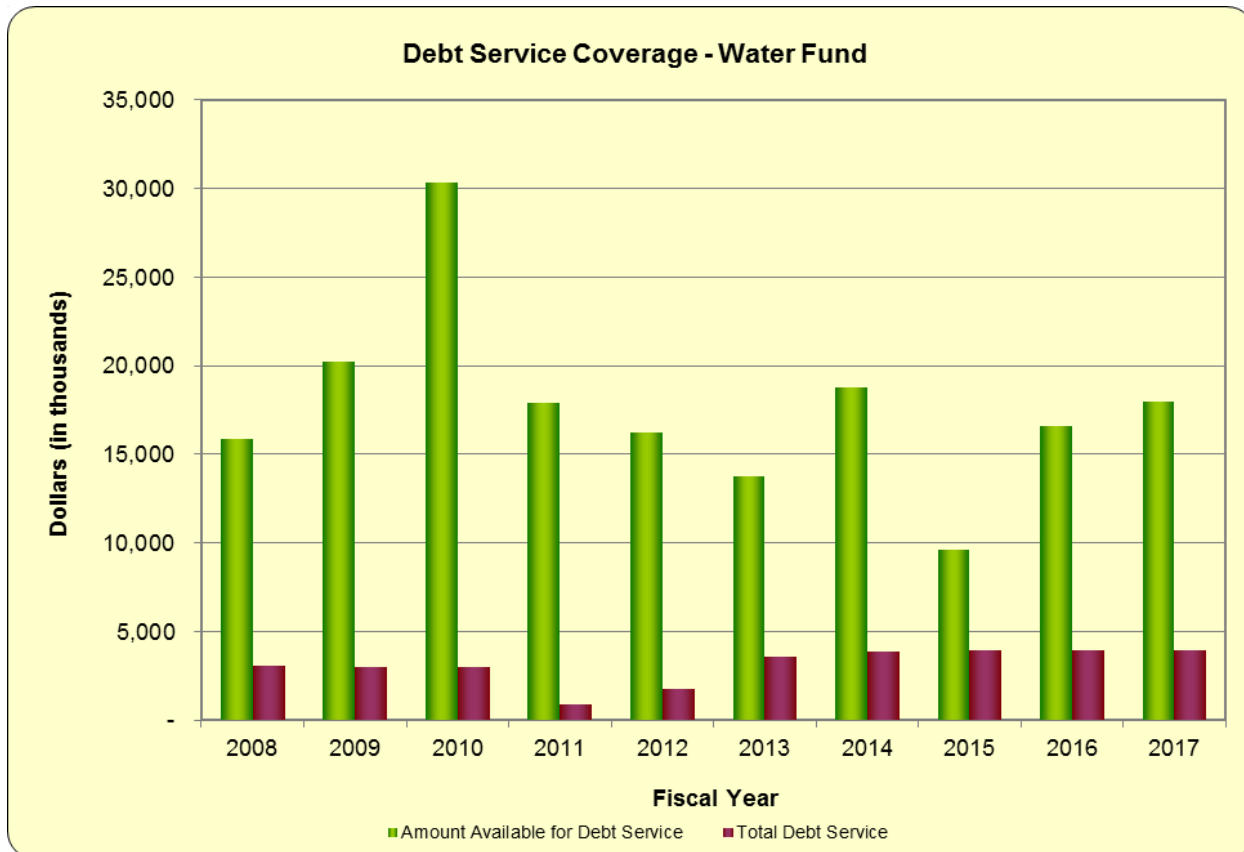
Bond Issues: Water Revenue Refunding Bonds - 1997 Series A, 2010 Series A, & 2012 Series A

Average Coverage, ten years	7.21
Rate Covenant (Series: 1997A, 2010A, & 2012A)	1.10

- Notes:(1) Total Operating Revenue is net of Provision for doubtful accounts expense.  
(2) Operating Expenses are exclusive of depreciation expense.  
(3) Net Non-Operating Income (Expense) is exclusive of bond interest, amortization of bond issue costs, contributed capital and loss on disposition of property.  
(4) Total Debt Service is the current year's scheduled principal interest payments on November 1st and May 1st.  
(5) Debt Service for FY2010 includes interest only, reflecting the issuance of Water Revenue Refunding Bonds - Series 2010A to advance refund 82.4% of outstanding Series 1997A Water Revenue Refunding Bonds. The refunding reduced the Department's aggregate debt service payments by \$3.3 million, with the refunding structured to achieve such savings upfront over fiscal years 2011 and 2012.

Source: Department's annual reports

See accompanying independent auditors' report



**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND DEBT SERVICE COVERAGE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u> <sup>(1)</sup>	<u>Operating Expenses</u> <sup>(2)</sup>	<u>Net Operating Income</u>	<u>Net Non-Operating Income (Expense)</u> <sup>(3)</sup>	<u>Amount Available for Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u> <sup>(4)</sup>	<u>Times Coverage</u>
9/30/2008	11,759	10,702	1,057	174	1,231	-	-	-	n/a
9/30/2009	12,455	11,803	652	289	941	-	4	4	235.25
9/30/2010	15,186	11,848	3,338	(426)	2,912	-	10	10	291.20
9/30/2011	16,448	13,135	3,313	(538)	2,775	-	27	27	102.78
9/30/2012	17,325	12,736	4,589	(1,161)	3,428	-	57	57	60.14
9/30/2013	17,311	13,368	3,943	(761)	3,182	-	54	54	58.93
9/30/2014	17,953	13,518	4,435	(434)	4,001	-	76	76	52.64
9/30/2015	17,903	14,014	3,889	(208)	3,681	-	79	79	46.59
9/30/2016	18,355	13,648	4,707	13	4,720	-	125	125	37.76
9/30/2017	19,949	12,989	6,960	(969)	5,991	460	269	729	8.22

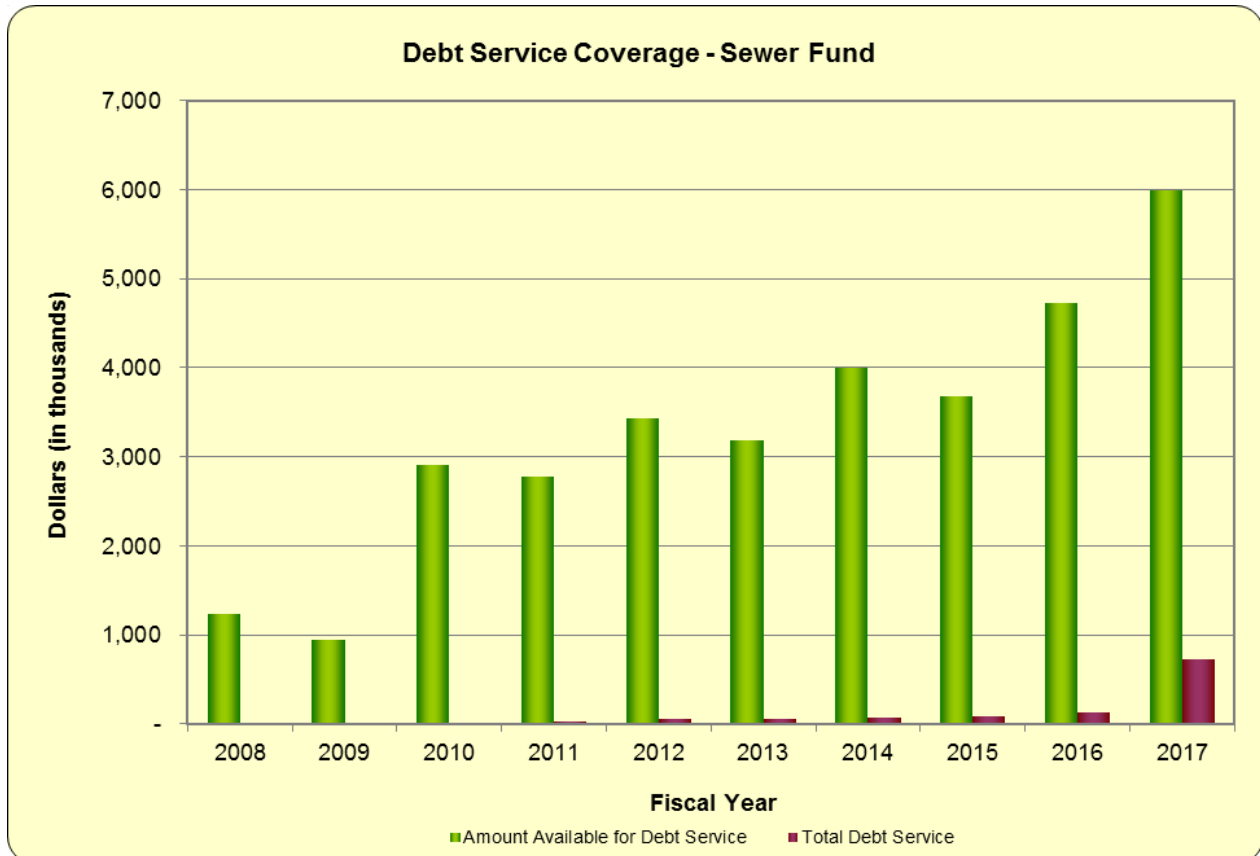
Average Coverage, ten years	99.28
Rate Covenant	1.25

Bond Issues: None

- Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.  
(2) Operating Expenses are exclusive of depreciation expense.  
(3) Net Non-Operating Income (Expense) is exclusive of contributed capital, bond issuance costs, and loss on disposition of property.  
(4) Total Debt Service is the current year's scheduled principal interest payments on November 1st and May 1st.

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 20

**LONG BEACH WATER DEPARTMENT**  
**WATER FUND RATIOS OF OUTSTANDING DEBT BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Fiscal Year Ended	Revenue Refunding Bonds			Subordinate Water Revenue Commercial Paper Notes	Current portion discounts, premiums, & adjustments	Total	Percentage of Personal Income <sup>(1)</sup>	Per Capita <sup>(1)</sup>
	Series 1997	Series 2010	Series 2012					
9/30/2008	32,200	-	-	8,000	(4,110)	36,090	0.27%	0.078
9/30/2009	30,870	-	-	11,000	(4,011)	37,859	0.30%	0.082
9/30/2010	5,175	22,740	-	11,000	(94)	38,821	0.30%	0.084
9/30/2011	5,175	22,740	-	11,000	(516)	38,399	0.28%	0.083
9/30/2012	5,175	22,250	9,850	-	(768)	36,507	0.26%	0.078
9/30/2013	3,545	22,125	9,495	-	1,101	36,266	0.25%	0.078
9/30/2014	1,825	21,995	8,960	-	592	33,372	0.21%	0.071
9/30/2015	-	21,860	8,410	-	73	30,343	0.19%	0.064
9/30/2016	-	19,795	7,845	-	(427)	27,213	0.16%	0.057
9/30/2017	-	17,645	7,265	-	(901)	24,009	0.13%	0.050

Notes: (1) See Exhibit 22-Demographic Statistics for Personal Income and Population Data.

Source: Department's annual reports

See accompanying independent auditors' report

(Unaudited)

Exhibit 21

**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND RATIOS OF OUTSTANDING DEBT - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Fiscal Year Ended	Revenue Refunding Bonds Series 2016A	Subordinate Sewer		Current portion & premiums	Total	Percentage of Personal Income <sup>(1)</sup>	Per Capita <sup>(1)</sup>
		Revenue Commercial Paper Notes	Sewer Revolving Line of Credit				
9/30/2008	-	-	-	-	-	-	-
9/30/2009	-	4,000	-	-	4,000	0.03%	0.009
9/30/2010	-	4,000	-	-	4,000	0.03%	0.009
9/30/2011	-	-	6,000	-	6,000	0.04%	0.013
9/30/2012	-	-	6,000	-	6,000	0.04%	0.013
9/30/2013	-	-	9,750	-	9,750	0.07%	0.021
9/30/2014	-	-	9,750	-	9,750	0.06%	0.021
9/30/2015	-	-	11,250	-	11,250	0.07%	0.024
9/30/2016	9,830	-	-	1,259	11,089	0.07%	0.023
9/30/2017	9,370	-	-	1,254	10,624	0.06%	0.022

Notes: (1) See Exhibit 22-Demographic Statistics for Personal Income and Population Data.

Source: Department's annual reports

See accompanying independent auditors' report

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# **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Department's financial activities take place.

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**LONG BEACH WATER DEPARTMENT  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**

<u>Fiscal Year Ended</u>	<u>Estimated Population <sup>(1) (4)</sup></u>	<u>Personal Income (in millions) <sup>(2) (4)</sup></u>	<u>Per Capita Personal Income <sup>(2) (4)</sup></u>	<u>Unemployment Rate <sup>(3)</sup></u>
9/30/2008	463,250	13,387	28,898	8.2%
9/30/2009	462,211	12,752	27,589	12.8%
9/30/2010	462,685	12,938	27,964	13.9%
9/30/2011	462,257	13,486	29,173	13.4%
9/30/2012	465,576	14,058	30,196	12.2%
9/30/2013	467,646	14,757	31,556	10.3%
9/30/2014	469,428	15,525	33,072	8.6%
9/30/2015	473,577	16,242	34,296	6.8%
9/30/2016	474,140	16,939	35,725	5.7%
9/30/2017	480,173	17,864	37,203	5.3%

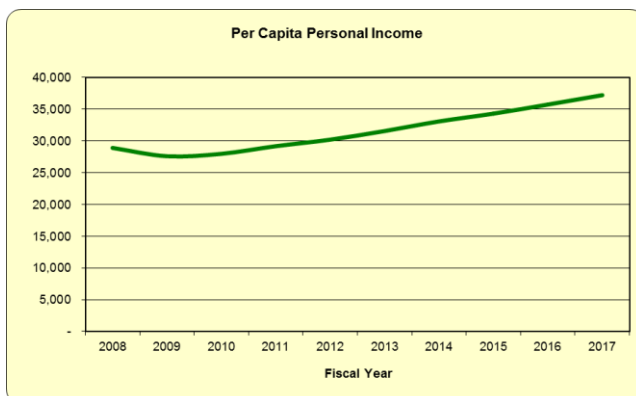
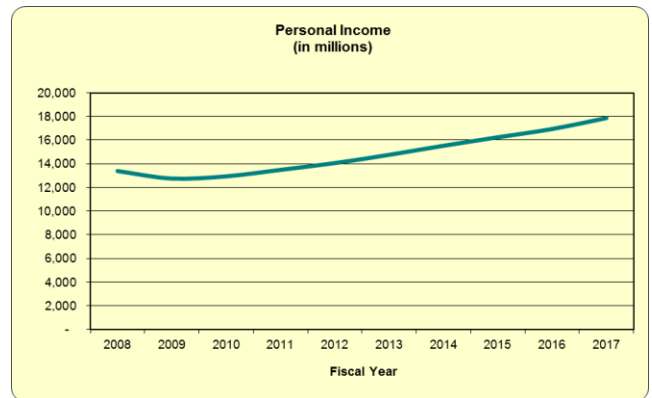
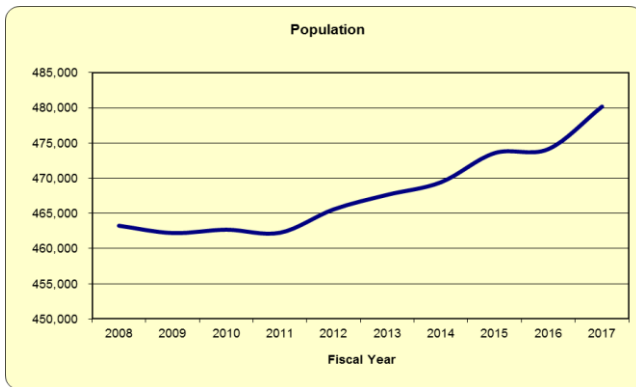
Source: (1) California Department of Finance Demographic Reports

(2) U.S. Department of Commerce, Bureau of Economic Analysis: Personal Income and per capita personal income are based on percent change of per capita personal income for Los Angeles-Long Beach-Anaheim, CA (Metropolitan Statistical Area). The BEA's Report does not have personal income available for 2015, so an average of the last five years was used.

(3) Average annual rate reported by California Employment Development Department (EDD) for Long Beach city.

(4) Data from 2008-2014 restated due to the annual revisions.

See accompanying independent auditors' report



**LONG BEACH WATER DEPARTMENT  
MAJOR EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO**

<u>Employer</u>	<u>Fiscal Year 2017</u>			<u>Fiscal Year 2008</u>		
	<u>Ranking</u>	<u>Number of Employees <sup>(1)</sup></u>	<u>Percentage of Total City Employment <sup>(2)</sup></u>	<u>Ranking</u>	<u>Number of Employees <sup>(1)</sup></u>	<u>Percentage of Total City Employment <sup>(2)</sup></u>
Long Beach Unified School District	1	12,808	5.28%	1	8,335	3.59%
City of Long Beach	2	5,318	2.19%	4	5,812	2.50%
Long Beach Memorial Medical Center	3	5,091	2.10%	5	5,800	2.49%
Veteran Affairs Medical Center	4	3,243	1.34%	6	2,500	1.08%
California State University Long Beach	5	3,045	1.25%	3	6,367	2.74%
Long Beach City College	6	2,744	1.13%	8	2,300	0.99%
Molina Healthcare Inc	7	2,433	1.00%			
California State Univ Long Beach Research Foundation	8	1,708	0.70%			
The Boeing Company	9	1,705	0.70%	2	8,200	3.53%
St. Mary Medical Center	10	1,466	0.60%	10	1,480	0.64%
United States Postal Service				9	1,700	0.73%
Verizon				7	2,500	1.08%

Sources: (1) Department of Financial Management Accounting and Business License  
(2) State of California Employment Development Department Labor Market Info for 2008 and 2017.

This data was compiled from various sources by the City of Long Beach Departments of Development Services and Financial Management. Employment data is intended for use as a general guide only. The City of Long Beach does not warrant the accuracy of this data. Inquiries should be directed to the respective employer.

See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT  
NUMBER OF EMPLOYEES BY FUND  
LAST TEN FISCAL YEARS**

<u>Fiscal Year Ended</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
9/30/2008	169	41	210
9/30/2009	172	37	209
9/30/2010	175	44	219
9/30/2011	174	43	217
9/30/2012	184	48	232
9/30/2013	179	47	226
9/30/2014	170	49	219
9/30/2015	172	47	219
9/30/2016	180	44	224
9/30/2017	183	47	230

Sources: Department's Personnel records

See accompanying independent auditors' report

# **Operating Information**

These schedules contain information about operations and resources to help the reader understand how the Department's financial information relates to the services the Department provides and the activities it performs.

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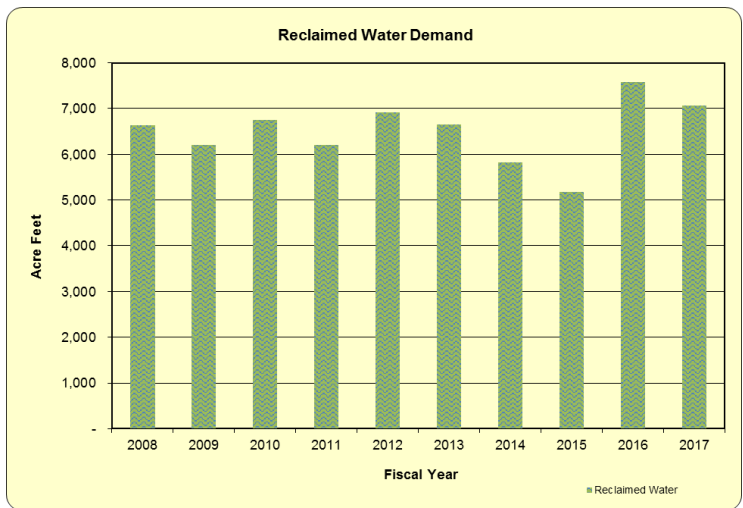
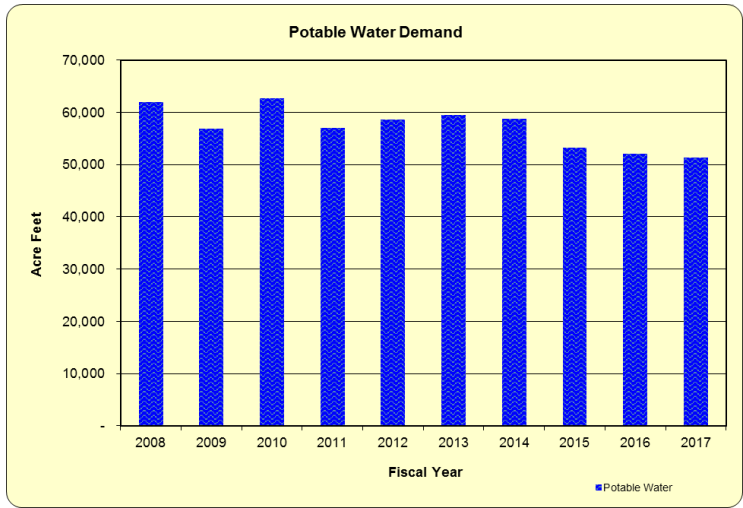
**LONG BEACH WATER DEPARTMENT**  
**WATER DEMAND - LAST TEN FISCAL YEARS**  
(in acre feet)

Fiscal Year Ended	Potable Water				
	Pumped	Purchased	Total Potable Demand	Reclaimed Water	Total Demand
9/30/2008	33,776	28,170	61,946	6,634	68,580
9/30/2009	33,876	22,902	56,778	6,205	62,983
9/30/2010	36,180	26,549	62,729	6,744	69,473
9/30/2011	17,973	39,053	57,026	6,206	63,232
9/30/2012	33,059	25,479	58,538	6,922	65,460
9/30/2013	31,074	28,383	59,457	6,644	66,101
9/30/2014	28,024	30,660	58,683	5,824	64,507
9/30/2015	22,002	31,139	53,141	5,170	58,311
9/30/2016	32,086	19,908	51,994	7,582	59,576
9/30/2017	31,558	19,822	51,380	7,070	58,450

Note: One acre foot equals 43,560 cubic feet or 325,851 gallons.

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 26

**LONG BEACH WATER DEPARTMENT**  
**METROPOLITAN WATER DISTRICT'S RATE CHANGES - LAST TEN FISCAL YEARS**  
(in dollars per acre foot)

<u>Effective Date</u>	<u>Non-Interruptible Treated Water</u>	<u>Percent Change Non-Interruptible Treated Water</u>	<u>Seasonal Treated Water <sup>(1)</sup></u>
1/1/2008	508	6	367
5/1/2008	508	-	-
1/1/2009	579	14	-
9/1/2009	701	21	-
1/1/2010	701	-	-
1/1/2011	744	6	-
1/1/2012	794	7	-
1/1/2013	847	7	-
1/1/2014	890	5	-
1/1/2015	923	4	-
1/1/2016	942	2	-
1/1/2017	979	4	-

Note: (1) Seasonal Water Treated Rate in accordance to Metropolitan Water District and Long Beach Water Department Agreement No. A04959 started on October 1, 1997 up to May 1, 2008.

Source: Metropolitan Water District of Southern California

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 27

**LONG BEACH WATER DEPARTMENT**  
**WATER REPLENISHMENT DISTRICT ASSESSMENT (PUMP TAX)**  
**LAST TEN FISCAL YEARS**

<u>Effective Date</u>	<u>Rate per Acre-Foot</u>	<u>Percent Change</u>
7/1/2008	153.00	3
7/1/2009	181.85	19
7/1/2010	205.00	13
7/1/2011	244.00	19
7/1/2012	244.00	-
7/1/2013	268.00	10
7/1/2014	268.00	-
7/1/2015	283.00	6
7/1/2016	297.00	5
7/1/2017	318.00	7

Source: Water Replenishment District of Southern California (WRD)

*See accompanying independent auditors' report*

**LONG BEACH WATER DEPARTMENT**  
**OPERATING AND CAPITAL ASSETS STATISTICS - WATER FUND**  
**LAST TEN FISCAL YEARS**

Fiscal Year Ended	Water System				Water Quality		Reclaimed System
	Number of Groundwater wells	Miles of water mains	Number of active water service	Number of fire hydrants	Number of water samples collected	Number of tests performed	Miles of Pipeline
9/30/2008	31	904	89,583	6,507	16,805	81,378	33
9/30/2009	31	908	89,630	6,525	19,238	118,799	33
9/30/2010	31	909	89,706	6,529	17,126	84,923	33
9/30/2011	31	911	89,851	6,603	15,814	71,472	33
9/30/2012	31	911	89,957	6,594	12,292	57,310	33
9/30/2013	31	912	89,996	6,589	14,388	60,819	34
9/30/2014	31	912	89,895	6,604	13,750	58,968	34
9/30/2015	31	912	89,897	6,631	13,050	57,070	34
9/30/2016	31	912	90,955	6,894	14,635	72,587	34
9/30/2017	31	912	89,147	6,910	15,370	79,442	34

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 29

**LONG BEACH WATER DEPARTMENT**  
**OPERATING AND CAPITAL ASSETS STATISTICS - SEWER FUND**  
**LAST TEN FISCAL YEARS**

Fiscal Year Ended	Number of sewer pump stations	Miles of sewer pipelines	Number of sewer manholes
9/30/2008	28	711	16,078
9/30/2009	28	712	16,129
9/30/2010	28	712	16,135
9/30/2011	28	712	16,147
9/30/2012	28	712	16,148
9/30/2013	28	714	16,158
9/30/2014	28	714	16,170
9/30/2015	28	714	15,129
9/30/2016	28	714	15,127
9/30/2017	28	714	15,112

Source: Department's records

See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT  
INFRASTRUCTURE MAINTENANCE AND IMPROVEMENTS  
LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended</b>	<b>Cast Iron Water Mains Replaced (in feet)</b>	<b>Fire Hydrants Repaired</b>	<b>Water Meters Repaired</b>	<b>Sewer Mains &amp; Laterals Repaired<sup>(1)</sup></b>	<b>Sewer Mains Cleaned (in miles)</b>	<b>Sewer Manholes Chemically Treated</b>
9/30/2008	44,332	346	10,637	278	365	3,000
9/30/2009	23,676	485	6,350	215	424	5,000
9/30/2010	21,137	94	8,441	182	547	5,000
9/30/2011	21,294	223	5,428	259	470	5,000
9/30/2012	25,733	269	3,690	261	414	5,000
9/30/2013	24,595	266	3,348	241	535	5,000
9/30/2014	19,475	208	1,835	213	498	5,000
9/30/2015	16,366	544	760	224	492	5,000
9/30/2016	20,427	259	2,037	215	405	7,719
9/30/2017	20,360	156	2,939	169	446	7,734

Note: (1) Repairs are tracked according to the number of jobs.

Source: Department's records

*See accompanying independent auditors' report*