

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

AGENDA
REGULAR MEETING
BOARD OF WATER COMMISSIONERS
 Tuesday, FEBRUARY 2, 2016 – 9:30 a.m.
MARGARET H. CHANDLER WATER RECLAMATION PLANT
399 CHANDLER PLACE
San Bernardino, California

BOARD OF WATER COMMISSIONERS

TONI CALLICOTT
 President

Commissioners
 LOUIS A. FERNANDEZ
 WAYNE HENDRIX
 JUDITH VALLES
 DAVID E. MLYNARSKI



STACEY R. ALDSTADT
 General Manager
 ROBIN L. OHAMA
 Deputy General Manager
 MIGUEL GUERRERO, P.E.
 Director of Water Utility
 JOHN A. CLAUS
 Director of Water Reclamation
 TERRI WILLOUGHBY
 Director of Finance
 JENNIFER L. SHEPARDSON
 Director of Environmental &
 Regulatory Compliance

“Trusted, Quality Service since 1905”

Welcome to a meeting of the Board of Water Commissioners of the City of San Bernardino.

- The City of San Bernardino Municipal Water Department recognizes its obligation to provide equal access to those individuals with disabilities. Please contact the General Manager’s Office (909-384-5191) two working days prior to the meeting for any requests for reasonable accommodation, to include interpreters.
- All documents for public review are on file with the Water Department located on the 5th floor of City Hall, 300 North “D” Street, San Bernardino or may be accessed online at http://www.ci.san-bernardino.ca.us/water/newsalerts/agendas_n_minutes.asp
- Please turn off or mute your cell phone while the meeting is in session.
- Any member of the public desiring to speak to the Board of Water Commissioners concerning any matter not on the agenda, but which is within the subject matter jurisdiction of the Board of Water Commissioners, may address the body at the end of the meeting during the period reserved for public comments. Said total period for public comments shall not exceed forty-five (45) minutes, unless such time limit is extended by the Board of Water Commissioners. A three-minute limitation shall apply to each member of the public, unless such time limit is extended by the Board of Water Commissioners. No member of the public shall be permitted to “share” his/her three minutes with any other member of the public.
- The Board of Water Commissioners may refer any item raised by the public to staff for appropriate action or have the item placed on the next agenda of the Board of Water Commissioners. However, no other action shall be taken nor discussion held by the Board of Water Commissioners on any item which does not appear on the agenda unless the action is otherwise authorized in accordance with the provisions of subdivision (b) of Section 54954.2 of the Government Code.
- Public comments will not be received on any item on the agenda when a public hearing has been conducted and closed.

CALL TO ORDER: _____ a.m./p.m.

Attendee Name	Present	Absent	Late	Arrived
President Toni Callicott				
Commissioner Louis Fernández				
Commissioner Wayne Hendrix				
Commissioner Judith Valles				
Commissioner David E. Mlynarski				
General Manager Stacey Aldstadt				
Deputy General Manager Robin Ohama				
Director of WRP John Claus				
Director of WU Miguel Guerrero				
Director of Finance Terri Willoughby				
Director of ERC Jennifer Shepardson				

OTHERS:

1. CLOSED SESSION: _____ a.m./p.m.

Pursuant to Government Code Section(s):

- A. Conference with legal counsel – existing litigation – pursuant to Government Code Section 54956.9(a): *In Re City of San Bernardino, California*, United States Bankruptcy Court, Central District of California (Riverside), Case No. 6: 12-bk-28006-MJ.
- B. Conference with legal counsel – anticipated litigation – significant exposure to litigation – pursuant to Subdivision (b) (1), (2), (3) (A-F) of Government Code Section 54956.9.
- C. Conference with legal counsel – anticipated litigation – initiation of litigation – pursuant to subdivision (d) (4) of Government Code Section 54956.9.
- D. Conference with legal counsel – personnel – pursuant to Government Code Section 54957.
- E. Conference with legal counsel and security consultant on matters posing a threat to the security of essential public services, including water, drinking water, and wastewater treatment pursuant to Government Code Section 54957 (a).
- F. Conference with labor negotiator – pursuant to Government Code Section 54957.6(a).

**END OF CLOSED SESSION
RECONVENE MEETING**

CALL TO ORDER: _____ a.m./p.m.

Attendee Name	Present	Absent	Late	Arrived
President Toni Callicott				
Commissioner Louis Fernández				
Commissioner Wayne Hendrix				
Commissioner Judith Valles				
Commissioner David E. Mlynarski				
General Manager Stacey Aldstadt				
Deputy General Manager Robin Ohama				
Director of WRP John Claus				
Director of WU Miguel Guerrero				
Director of Finance Terri Willoughby				
Director of ERC Jennifer Shepardson				

OTHERS:

2. ANNOUNCEMENTS BY MEMBERS OF THE BOARD OF WATER COMMISSIONERS:3. CONSENT CALENDAR

MOTION: That the motions indicated by consent calendar items 3A through 3E3 be adopted, except for _____.

MOTION:_____ SECONDED:_____

A. WAIVE FULL READING OF RESOLUTIONS

MOTION: That full reading of the resolutions on the regular or supplemental agendas of the Board of Water Commissioners be waived.

B. PAYROLL

MOTION: Approve the payroll for the pay period January 11, 2016 through January 24, 2016.

C. CONTRACTS AND BILLS

MOTION: Approve the payment of contracts and bills to be presented at this meeting.

D. MINUTES

MOTION: Approve the minutes of the meetings of January 19, 2016 of the Board of Water Commissioners.

E. PERSONNEL ACTIONS:

1. PROMOTION: Daniel Silva, Water Utility Worker I, Range 132, to the position of Water Utility Worker II, Range 138, ratify effective January 25, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.
2. PROMOTION: Jamie Yglesias, Water Utility Worker III, Range 142, to the position of Water Utility Lead Worker, Range 148, ratify effective January 25, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.
3. PROMOTION: Ildegardo Espinoza, Water Utility Worker I, Range 132, to the position of Water Utility Worker II, Range 138, ratify effective January 25, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.

MOTION: Approve the Personnel Actions as submitted.

END OF CONSENT CALENDAR

4. ADDITIONS TO THE AGENDA: (if any) in accordance with Section 54954.2 (b) (2) of the Government Code (Brown Act), a two-thirds vote (or a unanimous vote if less than two-thirds are present) is required to add an item for action provided that there is a need to take immediate action and that the need for action came to the attention of the agency after the agenda was posted.

MOTION: Approve an additional item(s) to be added to the agenda in accordance with Government Code Section 54954.2(b) (2).

MOTION:_____ SECONDED:_____

5. PRESENTATION OF THE RESULTS OF THE FISCAL YEAR 2014-15 AUDIT AND COMPREHENSIVE ANNUAL FINANCIAL REPORT; DAVIS FARR LLP: On February 2, 2016, Jennifer Farr, Partner in the firm of Davis Farr LLP, will present and distribute to the Board of Water Commissioners the annual audit report for the City of San Bernardino Municipal Water Department for the fiscal year ending June 30, 2015. The auditors' opinion is unqualified and reflects our conformity with generally accepted accounting principles.

MOTION: Approve the annual audit report for the City of San Bernardino Municipal Water Department for the fiscal year ending June 30, 2015.

MOTION:_____ SECONDED:_____

6. CONTRACT NO. 1599 – SPIESS CONSTRUCTION COMPANY, INC. – CHANGE ORDER NO. 9 – UNIT 1 CLARIFIER AND AERATION SYSTEM UPGRADE: In January 2014, the Board of Water Commissioners entered into Contract No. 1599 with Spiess Construction Company, Inc. (SCCI) for the Unit 1 Primary Clarifier and Aeration System Upgrade at the Water Reclamation Plant Project. This project includes modifications to the Unit 1 Primary Clarifier, the Unit 1 Aeration Basins, the existing mixed liquor (ML) effluent conveyance system between the Unit 1 Aeration Basins and the Unit 1 Mixed Liquor Splitter Box, electrical and control system modifications, and yard piping modifications.

The basins could not be drained prior to the project's design; therefore, the actual condition and location of existing items in the bays was not fully known. As such, additional work on the project was anticipated.

This project was approved as part of the 2013/2014 Capital Improvements Budget. Change Order No. 9 in the amount of \$23,235.00 has been prepared for extra work to be performed by SCCI under Contract No. 1599. The funding source for this Change Order is C.O. 00086 (Budget ID No. 05-200), which currently has an unencumbered balance of \$294,293.20.

MOTION: Approve Change Order No. 9 to Contract No. 1599 with Spiess Construction Company, Inc., in the amount of \$23,235.00 and authorize the General Manager to execute the change order.

MOTION:_____ SECONDED:_____

7. APPROVAL OF SPECIAL PURCHASE/REFURBISHMENT OF ULTRAVIOLET DISINFECTION SYSTEM COMPONENTS – RIX FACILITY ULTRAVIOLET DISINFECTION SYSTEM REHABILITATION PROJECT (CO-00187) – IRONBROOK UV (A DIVISION OF COLLCORP, INC.):

The Department's tertiary treatment facility, the Rapid Infiltration and Extraction (RIX) Facility, utilizes an ultraviolet (UV) radiation system as a component of the treatment (specifically, disinfection). The principal role of this system is to inactivate pathogenic microorganisms in the filtered effluent.

This system has been in operation for nearly twenty (20) years. The average life span for this type of equipment is normally fifteen (15) years. Continuous use and weathering has caused the system to reach the end of its useful life. Currently, there are five (5) channels in operation with a total of fifteen (15) ultraviolet radiation banks, and all of the banks are in need of refurbishment. Much of the hardware, such as the stainless steel cabinets and lamp rack support cages, are reusable as they do not suffer any considerable deterioration.

A quote was solicited from the only company authorized to maintain and supply parts for Fischer & Porter UV disinfection system at the RIX facility. The quote was received from Ironbrook UV (A Division of Collcorp, Inc.) in the amount of \$1,218,325.00.

Staff is requesting the Board of Water Commissioners approve this purchase as permitted in Policy and Procedure No. 51.030 Purchasing, Part I, Initiation of Purchase Requisition, Subsection H, Special Purchases prior to staff procuring the equipment. This will allow for the timely rehabilitation of the RIX UV disinfection system.

The funding sources for this project are the FY2015/2016 RIX Fund Capital Improvement Project titled RIX - UV System Rehabilitation (C.O. 00187, Budget ID No. 16-207), which currently has a total of \$280,000 in unencumbered funds and a \$1,200,000 loan from the San Bernardino Valley Municipal Water District.

MOTION: Approve the Special Purchase equipment procurement/refurbishment from Ironbrook UV (A division of Collcorp, Inc.) in the amount of \$1,218,325.00 as outlined in Purchasing Policy 51.030, Part 1, Section H, Special Purchases.

MOTION:_____ SECONDED:_____

8. AWARD OF CONTRACT – EPA 109S SITE DEMOLITION, GRADING AND WALL CONSTRUCTION PROJECT: Five (5) bids were received and opened on December 7, 2015, for Specification No. 1646, "Furnish all labor, equipment, and materials for EPA 109S Site Demolition, Grading, and Wall Construction Project, located in San Bernardino, CA."

As a result of size limitations at the existing EPA 109 site, proposed improvements must be constructed on the parcel immediately adjacent to this site. This parcel is known as 974 Home Avenue (EPA 109S). In preparation for the future construction of the EPA 109 Shallow Well and associated facilities, the existing structure and improvements on this parcel shall be demolished and removed. In order to maintain the site appropriately secured, new block walls must be constructed around the site's perimeter. This project consists of demolishing and removal of existing improvements and grading and construction of the block wall at 974 Home Avenue.

MOTION: Accept the bid of IVL Contractors, Inc. as the lowest responsive, responsible bidder, and award a contract in the amount of NINETY TWO THOUSAND AND 00/100 DOLLARS (\$92,000.00) TO FURNISH ALL LABOR, MATERIALS, AND EQUIPMENT FOR THE EPA 109S SITE DEMOLITION, GRADING, AND WALL CONSTRUCTION PROJECT, SAN BERNARDINO, CALIFORNIA, and authorize the President and Secretary to execute the contract.

MOTION: _____ SECONDED: _____

9. RECOMMENDATION TO TRANSFER FUNDS FROM MT. VIEW AVENUE 12” MAIN EXTENSION (CO 10553) TO GIS APPLICATIONS UPGRADE PROJECT (CO 10736) AND TO AWARD A CONTRACT FOR FY 2015/16 GEOGRAPHIC INFORMATION SYSTEM APPLICATIONS UPGRADE PROJECT TO SPATIAL WAVE, INC. (CO 10736): As a part of its Fiscal Year (FY) 2015/16 Capital Improvement Program, the Department plans to develop additional functions and software tools for its Geographic Information System (GIS). The Department’s GIS incorporates system assets such as pipelines and valves, in addition to other data layers such as parcels, streets, topography and many other attributes. The GIS platform is used for mapping, data management, asset information (such as pipeline age/material), and for tracking development and boundary changes. The GIS is comprised of hardware and software, and each of these elements is updated periodically as technology evolves.

The additional development and integration planned for this year is focused on user tools for the Engineering, Operations, and Water Quality sections, including automation of some report data entry and further development of user dashboards. Spatial Wave, Inc. has completed several previous phases of work for the GIS and the Department has been satisfied with its performance.

Staff is recommending that the Board of Water Commissioners (Board) approve a Professional Services Agreement for the FY 2015/16 Geographic Information Systems Applications Upgrade Project with Spatial Wave, Inc.

The funding source for this project is the FY 2015/16 Water Fund Capital Improvement Budget through the project titled *Water System (GIS) Application Upgrades*. Current year funding is \$120,000.00; this amount is not sufficient to fully fund the project. A budget transfer of \$85,000.00 is requested from Mt. View Avenue 12” Main Extension (CO 10553) to GIS Applications Upgrade Project (CO 10736). The Mt. View Avenue 12” Main Extension project has been delayed and will be budgeted in a subsequent fiscal year for construction.

MOTION: Approve a transfer of \$85,000.00 from Construction Order 10553 to Construction Order 10736; and

Award a contract to Spatial Wave, Inc. in the amount not-to-exceed \$194,845.00; and authorize the President and Secretary to execute the contract to provide GIS Software and Applications services.

MOTION: _____ SECONDED: _____

MINUTES
BOARD OF WATER COMMISSIONERS
OF THE CITY OF SAN BERNARDINO

REGULAR MEETING
January 19, 2016
Water Reclamation Plant Conference Room
399 Chandler Place
San Bernardino, California
9:30 a.m.

The Regular Meeting of the Board of Water Commissioners of the City of San Bernardino was called to order by President Callicott at 9:34 a.m. on January 19, 2016 in the Water Reclamation Conference Room, 399 Chandler Place, San Bernardino, California.

ROLL CALL: Roll call was taken by the Secretary with the following being present: President Callicott; Commissioners Valles, and Fernández; staff Aldstadt, Ohama, Claus, Guerrero, Shepardson, and Willoughby; Henry Empeño, City Attorney's Office; Steven Graham, City Attorney's Office; Patrick Rogers, Information Technology Manager; Amy Smith, Executive Secretary.

Commissioner Mlynarski arrived at 9:36 a.m.
Commissioner Hendrix arrived at 11:00 a.m.

Members of the Public: Jose Martinez, East Valley Water District
 Thomas Ruiz, Laborers' International Union of
 North America
 Kaitlyn Smith, Student

1. CLOSED SESSION: President Callicott adjourned the Regular Meeting of the Board of Water Commissioners to a Closed Session. At 10:44 a.m., the Regular Meeting of the Board of Water Commissioners was recessed and a Closed Session was called to order in accordance with the following Government Code Sections:

B. Conference with legal counsel – anticipated litigation – significant exposure to litigation – pursuant to Subdivision (b) (1), (2), (3) (A-F) of Government Code Section 54956.9.

1. This item was moved from Item 1.C to 1.B. - Claim No. 15-141 – Spiess Construction Company, Inc. - upon motion by Commissioner Valles, duly seconded by Commissioner Fernández, it was unanimously voted to give settlement authority to special counsel regarding Claim No. 15-141.

ROLL CALL: Roll call was taken with the following present: President Callicott; Commissioners Valles, Fernández, and Mlynarski; staff Aldstadt, Ohama, Claus, Guerrero, Shepardson, and Willoughby; Henry Empeño, City Attorney's Office; Amy Smith, Executive Secretary.

Absent: Commissioner Hendrix

ADJOURN CLOSED SESSION: At 10:51 a.m., the Closed Session of the Board of Water Commissioners adjourned to the Regular Meeting of the Board of Water Commissioners in the Water Department Board Room.

ROLL CALL: Roll call was taken by the Secretary with the following being present: President Callicott; Commissioners Fernández, and Mlynarski; staff Aldstadt, Ohama, Claus, Guerrero, Shepardson, and Willoughby; Henry Empeño, City Attorney's Office; Patrick Sanchez, Sr. Business Systems Analyst; Amy Smith, Executive Secretary.

Absent: Commissioner Hendrix

2. ANNOUNCEMENTS BY MEMBERS OF THE BOARD OF WATER

COMMISSIONERS: None

3. CONSENT CALENDAR: Upon motion by Commissioner Valles, duly seconded by Commissioner Fernández, it was voted to approve the following Consent Calendar, Agenda Items 3A through 3F:

A. WAIVE FULL READING OF RESOLUTIONS: Waive full reading of the resolutions on the regular or supplemental agendas of the Board of Water Commissioners.

B. PAYROLL

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Claims: 267468-267718			
Accounts Payable	\$3,035,046.91	\$1,369,266.29	\$4,404,313.20
Gross Payroll: 12/14/15- 12/27/15	<u>258,823.08</u>	<u>197,377.66</u>	<u>456,200.74</u>
TOTALS	<u>\$3,293,869.99</u>	<u>\$1,566,643.95</u>	<u>\$4,860,513.94</u>

Payroll for the pay periods December 14, 2015 through December 27, 2015; and December 28, 2015 through January 10, 2016.

C. CONTRACTS AND BILLS: Contracts and bills presented at this meeting.

D. MINUTES: January 5, 2015

E. PERSONNEL ACTIONS:

1. APPOINTMENT: Maria Nazarian, Bilingual Customer Service Representative I, Section 2060, Range 133, effective January 19, 2016. This position was in the budget and based on the needs and staffing for this section, the position was justifiable under the budget.

2. PROMOTION: Ted Brunson, Engineering Technician, Range 147, to the position of Associate Engineer, Range 162, ratify effective January 18, 2016. This position was in the budget and based on the needs and staffing for this section, the position was justifiable under the budget.

- F. NOTICE OF COMPLETION – CONTRACT NO. 1616 – RIX TERTIARY FILTER PUMP SYSTEM MODIFICATIONS PROJECT (CO 00155): The final acceptance date of October 15, 2015, directed staff to file a Notice of Completion, and release the retention in accordance with Contract No. 1616.

END OF CONSENT CALENDAR

4. ADDITIONS TO THE AGENDA: None.
5. APPROVAL OF EQUIPMENT PURCHASE AND INSTALLATION BY BEST PUMP AND DRILLING, INC. FOR MT. VERNON WELL REHABILITATION: Water Department staff issued a Request for Qualifications under Specification No. 1640 – Well Rehabilitation Assessment and Repair in December 2014. As a result, in February 2015, four (4) well rehabilitation contractors were pre-qualified. Staff requested rehabilitation proposals for the Mt. Vernon Well from these pre-approved contractors.

Rehabilitation of the Mt. Vernon Well was prompted by declining water levels in the groundwater basin due to the ongoing drought, equipment degradation, and a loss of efficiency. Furthermore, during the design phase, it was discovered that the 83 year old well has a 20-foot vertical deviation, making the installation of an above ground vertical turbine pump very difficult, if not impossible.

Best Pump and Drilling, Inc. was responsive and provided the lowest quotation in the amount of \$73,543.00. Due to the critical nature of this well with respect to its typical use and need for reliable water supply, staff requested Board approval of this work prior to staff procuring the equipment.

Staff recommended that this expenditure be approved from existing funds in the FY 2015/16 Capital Budget under Annual Well Rehabilitation (CO 10755) with available funding of approximately \$463,000.00. Furthermore, Southern California Edison would provide an incentive rebate to the Department upon project completion of approximately \$11,500.00 to offset the capital costs.

Upon motion by Commissioner Mlynarski, duly seconded by Commissioner Valles, it was unanimously voted to approve the equipment and installation from Best Pump and Drilling, Inc. in the amount of \$73,543.00.

6. DECEMBER 2015 DROUGHT MONITORING REPORT: This report continued to monitor and track the effects of the ongoing drought by monitoring groundwater levels in select wells located in the Department's service area. The Board implemented Stage IIA extreme mandatory restrictions as a result of the State Water Resources Control Board (SWRCB) emergency regulations. **(INFORMATION ONLY)**
7. STRATEGIC PLANNING WORKSHOP: The Board of Water Commissioners and Staff conducted a Strategic Planning Workshop to discuss future development for the Water Department. **(INFORMATION ONLY)**
8. REPORTS:
- A. Report of the President: None

- B. Report of the Commissioners: None
- C. Report of the Directors: None
- D. Report of the General Manager:

General Manager Aldstadt congratulated Henry Empeño on his retirement from the City of San Bernardino City Attorney's Office after 27 years of service effective February 15, 2016. Mr. Empeño stated Steven Graham will be assigned to the Water Department as his replacement.

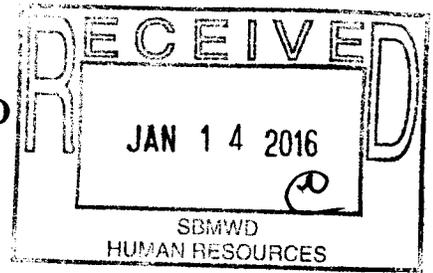
- 9. PUBLIC COMMENTS: This is the time specified for public comments concerning specific items not on the agenda or matters of general interest. There being none, the matter was closed.
- 10. ADJOURN MEETING: The meeting adjourned at 2:02 a.m. to the next Regular Meeting to be held on Tuesday, February 2, 2016, at 9:30 a.m. in Margaret H. Chandler Water Reclamation Plant Conference Room, 399 Chandler Place, San Bernardino, California, 92408.

BY: _____
TONI CALLICOTT
President

BY: _____
ROBIN L. OHAMA
Deputy City Clerk & Ex-Officio Secretary

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS
STAFF REPORT



TO: Stacey R. Aldstadt
FROM: Miguel J. Guerrero
SUBJECT: PERSONNEL ACTION – PROMOTION OF DANIEL SILVA TO WATER UTILITY WORKER II (SECTION 3021)
DATE: January 8, 2016
COPIES: Tim Connor, Sally Duran, Human Resources

BACKGROUND:

The SBMWD Board of Water Commissioners approved an increase for the Fiscal Year 2015/2016 budget for a Water Utility Worker II position in Water Utility Distribution Service and Repair (Section 3021). Selection interviews were conducted on December 2, 2015 by Tim Potter, Raquel Serrano, and Rudy Olguin for the position of Water Utility Worker II. This position is in the budget. I have reviewed the needs of and staffing for this section and believe, based on those, that the position is still justifiable under the budget. The panel is recommending the promotion of Daniel Silva to fill this position.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

Ratify the promotion of Daniel Silva from Water Utility Worker I, Range 132, to the position of Water Utility Worker II, Range 138, effective January 25, 2016.

Respectfully submitted,

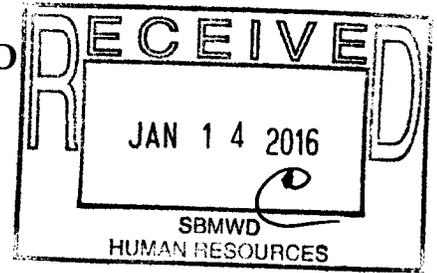
A handwritten signature in black ink, appearing to read "Miguel J. Guerrero".

Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:jgt

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS
STAFF REPORT



TO: Stacey R. Aldstadt
FROM: Miguel J. Guerrero
SUBJECT: PERSONNEL ACTION – PROMOTION OF JAMIE YGLESIAS TO WATER UTILITY LEAD WORKER (SECTION 3023)
DATE: January 8, 2016
COPIES: Tim Connor, Sally Duran, Human Resources

BACKGROUND:

Due to the recent promotion of Ralph Ramos effective October 19, 2015, one vacancy exists for a Water Utility Lead Worker position in Water Utility Distribution Maintenance (Section 3023). Selection interviews were conducted on January 7, 2016 by Tim Potter, Ralph Ramos, and Emily Long for the position of Water Utility Lead Worker. This position is in the budget. I have reviewed the needs of and staffing for this section and believe, based on those, that the position is still justifiable under the budget. The panel is recommending the promotion of Jamie Yglesias to fill this position.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

Ratify the promotion of Jamie Yglesias from Water Utility Worker III, Range 142, to the position of Water Utility Lead Worker, Range 148, effective January 25, 2016.

Respectfully submitted,

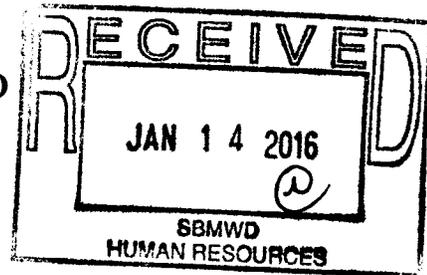
A handwritten signature in cursive script, appearing to read "Miguel J. Guerrero".

Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:jgt

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS
STAFF REPORT



TO: Stacey R. Aldstadt
FROM: Miguel J. Guerrero
SUBJECT: PERSONNEL ACTION – PROMOTION OF ILDEGARDO ESPINOZA
TO WATER UTILITY WORKER II (SECTION 3023)
DATE: January 8, 2016
COPIES: Tim Connor, Sally Duran, Human Resources

BACKGROUND:

Due to the recent promotion of Raquel Serrano effective October 12, 2015, one vacancy exists for a Water Utility Worker II position in Water Utility Distribution Maintenance (Section 3023). Selection interviews were conducted on December 2, 2015 by Tim Potter, Raquel Serrano, and Rudy Olguin for the position of Water Utility Worker II. This position is in the budget. I have reviewed the needs of and staffing for this section and believe, based on those, that the position is still justifiable under the budget. The panel is recommending the promotion of Ildegardo Espinoza to fill this position.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

Ratify the promotion of Ildegardo Espinoza from Water Utility Worker I, Range 132, to the position of Water Utility Worker II, Range 138, effective January 25, 2016.

Respectfully submitted,


Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:jgt

**CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT
BOARD OF WATER COMMISSIONERS
STAFF REPORT**

JAN 26 2016
C. Farr

TO: Stacey R. Aldstadt, General Manager
FROM: Terri A. Willoughby, Director of Finance
SUBJECT: PRESENTATION OF THE RESULTS OF THE FISCAL YEAR 2014-15
AUDIT AND COMPREHENSIVE ANNUAL FINANCIAL REPORT;
DAVIS FARR LLP
DATE: January 21, 2016

BACKGROUND:

On February 2, 2016, Jennifer Farr, Partner in the firm of Davis Farr LLP, will present and distribute to the Board of Water Commissioners the annual audit report for the City of San Bernardino Municipal Water Department for the fiscal year ended June 30, 2015. The auditors' opinion is unqualified and represents our conformity with generally accepted accounting principles.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

RECOMMENDATION:

Staff recommends the Board of Water Commissioners make the following motion:

- Approve the annual audit and financial report for the City of San Bernardino Municipal Water Department for the fiscal year ended June 30, 2015.

Respectfully submitted,



Terri A. Willoughby
Director of Finance

Agenda Item: 5

COMPREHENSIVE ANNUAL FINANCIAL
REPORT OF THE CITY OF SAN
BERNARDINO MUNICIPAL WATER
DEPARTMENT, A DEPARTMENT OF THE
CITY OF SAN BERNARDINO,
CALIFORNIA



FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**City of San Bernardino Municipal Water Department
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2015**

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CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

TONI CALLICOTT
President

Commissioners
JUDITH VALLES
LOUIS A. FERNANDEZ
WAYNE HENDRIX
DAVID E. MLYNARSKI



STACEY R. ALDSTADT
General Manager
ROBIN L. OHAMA
Deputy General Manager
MIGUEL GUERRERO, P.E.
Director of Water Utility
JOHN A. CLAUS
Director of Water Reclamation
JENNIFER SHEPARDSON
Director of Environmental &
Regulatory Compliance
TERRI WILLOUGHBY
Director of Finance

"Trusted, Quality Service since 1905"

January 27, 2016

Members of the Board of Water Commissioners
San Bernardino Municipal Water Department

Introduction:

State law requires that every general purpose government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the San Bernardino Municipal Water Department ("Department") for the fiscal year ended June 30, 2015.

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 it has 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.

Davis Farr LLP has issued an unqualified ("clean") opinion on the Department's financial statements for the year ended June 30, 2015. The independent auditor's report is located at the front of the financial section of this report.

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

Profile of the Department:

The San Bernardino Municipal Water Department and the Board of Water Commissioners ("Board") were established on May 8th, 1905 by the Mayor and Common Council of San Bernardino in accordance with the provisions specified in the City charter. The Board assembled for the first time on May 16th, 1905 to meet the water supply needs of the community by providing trusted, quality service to our customers. This service has grown through the years to include: water supply, water reclamation, geothermal heating supply, and administrative support for our growing community.

300 North "D" Street, San Bernardino, California 92418 P.O. Box 710, 92402 Phone: (909) 384-5141

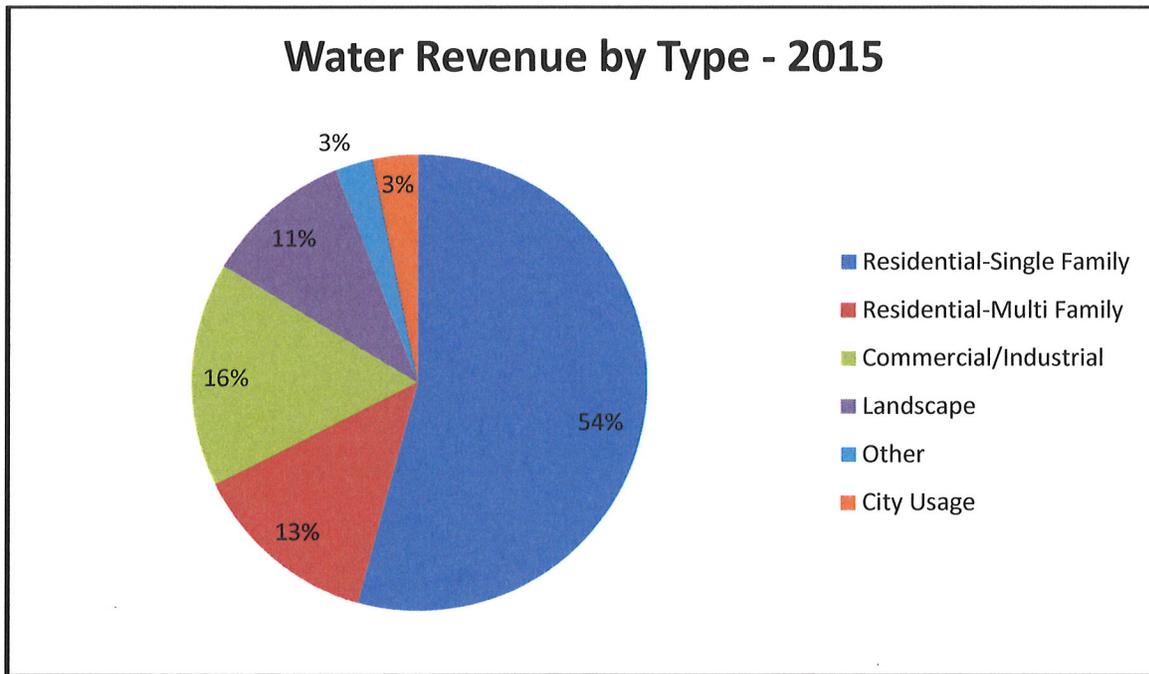
FACSIMILE NUMBERS: Administration: (909) 384-5215 Engineering: (909) 384-5532 Customer Service: (909) 384-7211

Corporate Yards: (909) 384-5260 Water Reclamation Plant: (909) 384-5258

The first water distribution system of San Bernardino included water supply for approximately six thousand citizens within a one square mile service area. In contrast, the water supply distribution network now encompasses over 40,000 service connections including 550 miles of water mains. Although the number of connections has increased during the past one hundred years, our commitment to providing trusted, quality service remains the same.

The San Bernardino service area receives the majority of its water supply from an underground aquifer called Bunker Hill Basin which is concentrated at the Northwestern end of the city. The water contained in the Bunker Hill Basin is replenished with rain and snowmelt that filters through our local San Bernardino Mountains. This local water supply ensures that the customers of the San Bernardino Municipal Water Department receive high quality, inexpensive water as compared to other communities. Many other communities in Southern California must import their water supplies from remote locations via the Colorado River and Northern California pipelines. Many water supplies imported from distant locations can be impacted by certain man-made and natural contaminants as the water is transported to the customer.

The Department is committed to providing trusted, quality service to our customers as we provide water supply, water reclamation, geothermal heating, and administrative services to our community.



Fiscal Management:

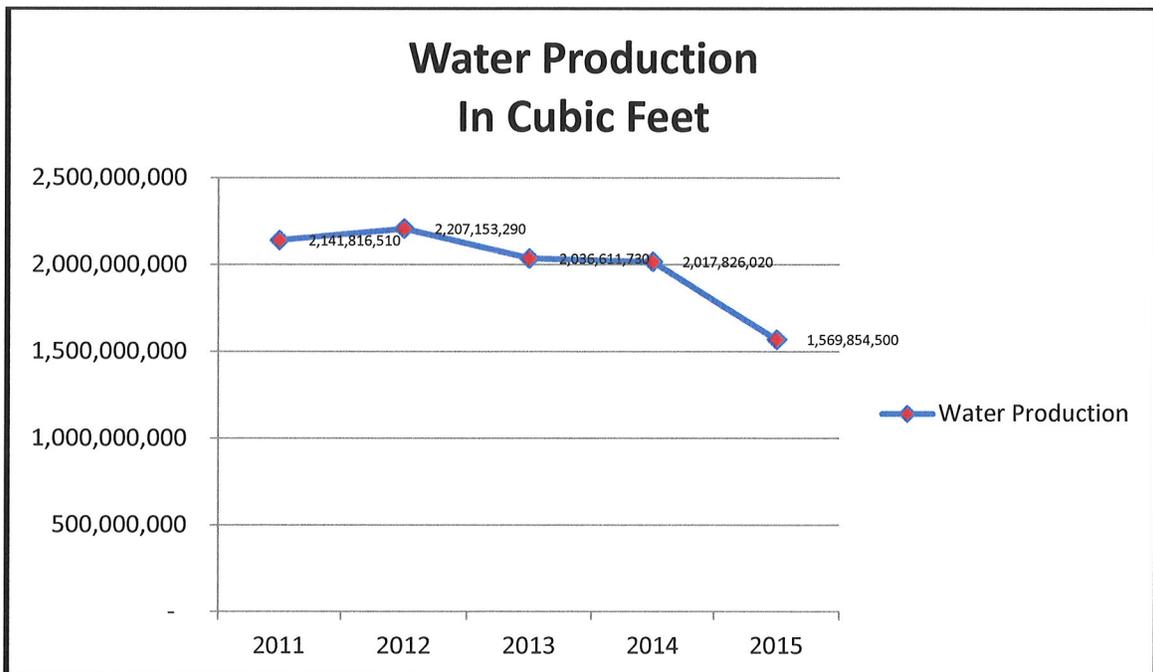
The Board annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the Department's functions, including the Water and Sewer Funds. The budget and reporting treatment applied to a fund is consistent with the accrual basis of accounting and the financial statement basis. Each year the Department adopts a balanced budget.

Local Economy:

The Department's offices are located in the City of San Bernardino in San Bernardino County. According to the California Department of Finance, San Bernardino's population as of January 1, 2015 was 213,933. San Bernardino's local economy has been affected by the recent recession, both to a greater extent and for a longer period than surrounding cities. This has affected the Department as increased residential and commercial vacancies have led to a declining customer base. However, as the local real estate and employment markets improve, this customer base should begin to recover. The City's unemployment rate is currently 7.6%, down from 9.4% in the prior year. Local Economists also project continued improvement in the labor market and are forecasting that the region's unemployment rate will drop to 6.1% by the end of 2020.

California's water supply continues to be a concern due to projected population increases and dwindling supplies from traditional sources. The Department has expanded and will continue to expand its conservation efforts in order to respond to the state-wide drought emergency. Department staff members continue to seek various methods to decrease its dependence on imported water and to increase water source reliability, including increasing production of recycled water. On January 17, 2014, Governor Edmund G. Brown Jr. proclaimed a State of Emergency related to the drought conditions in California and formed the Drought Task Force. On April 1, 2015, Governor Brown issued an executive order mandating a statewide 25% reduction for urban water suppliers. On May 5, 2015, the State Water Resources Control Board adopted an emergency regulation which assigned a conservation standard to each urban water supplier. The conservation standard assigned to the Department was 28%. In turn, the Department's Board of Water Commissioners declared that Stage IIA, Extreme Mandatory Restrictions were in effect. These restrictions imposed a 28% reduction in water usage and assess financial penalties on usage in excess of these amounts. As a result of these restrictions, water consumption in Fiscal Year 2014-15 decreased 11% from the prior year.

During the past three years, the Department's expenses related to the cost of water production have reduced, despite an increase in customers of over the same time frame. Production increased from 2011 to 2012, but decreased each year from 2012 to 2014 as displayed in the graph below. In 2012, production per customer was 50,843 cubic feet but fell to 33,505 per cubic feet in 2015.



Long Term Financial Planning:

The Department's financial plan includes the establishment of reserve funds in accordance with the Department's adopted Reserve Policy. Reserve funds are established to ensure the Department's financial stability and to have sufficient funding available to meet its operating, capital and debt service cost obligations. The Department has committed to the following funds in its Reserve Policy, adopted by the Board in February 2013.

- **Operating Reserve:** This reserve is established to ensure adequate cash flow is available to meet day-to-day expenses. The target balance is 45 days of the operating expenses budgeted for each respective fund.
- **Rate Stabilization Reserve:** This reserve is established to offset revenue risk associated with low service demands years. The minimum target balance for the Water Fund is 20% of budgeted water sales. The minimum target balance for the Sewer Fund is 10% of budgeted sewer sales.
- **Emergency Replacement Reserve:** The purpose of this reserve was to minimize the impact of unforeseen capital asset and operating expenses. The target balance for the Water Fund is 2% of the total recorded value of capital assets as of the previous fiscal year. The target balance for the Sewer Fund is 3% of the total recorded value of capital assets as of the previous fiscal year.
- **Capital Replacement Reserve:** The Capital Replacement Reserve was set up in order to provide funding in support of the Department's capital program. The basis for calculating the target balance for this reserve is a rolling five-year average of the Department's Capital Improvement Program projects, excluding those with external funding. The target balance will be assessed on an annual basis as part of the budgeting process.

Debt Administration:

The Department's outstanding debt as of June 30, 2015 consists of four Notes Payable in the Water Fund, and debt obligations consisting of a Note Payable and Certificates of Participation in the Sewer Fund, as shown in the table below:

Water Fund Long-Term Debt Activity	
Year of Issuance/Description	Use of Proceeds
2002 California Infrastructure & Economic Development Bank (CIEDB) Note	Funding for transmission mains, booster Stations and a reservoir.
2007 California Infrastructure & Economic Development Bank (CIEDB) Note	Funding for booster stations and transmission mains in the Verdemon area.
2012 California Infrastructure & Economic Development Bank (CIEDB) Note	Funding for the construction of the 12 million gallon Ogden Reservoir and pipeline improvements.
2012 San Bernardino Valley Municipal Water District Note	Funding for the purchase of real property.

Sewer Fund Long-Term Debt Activity	
Year of Issuance/Description	Use of Proceeds
2001 State Revolving Fund Note Payable	Funding for the San Bernardino/Colton Rapid Infiltration Extraction (RIX) project
1998 Certificates of Participation	Advance refunding of the 1992 Certificates of Participation and funding for capital improvements.

Relevant Financial Policies:

Internal Control Structure

Department management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the Department are protected from loss, theft or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Department's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Major Initiatives and Key Values:

The activities of the Board and staff at the Department are driven by our key value statements as outlined below:

1. Provide the highest level of customer service to our community.
2. Establish fair and equitable rates.
3. Provide the highest quality of water and wastewater services.
4. Provide responsible stewardship of our resources and our environment.
5. Require ethical business practices.
6. Promote staff development.

Acknowledgements:

Preparation of this report was accomplished by the combined efforts of Department staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the service of the Department's customers. The contributions made by Susan Justice, Principal Accountant, and Michelle Honis and Jennifer Francis, Senior Accountants, deserve special recognition. We would also like to thank and recognize the members of the Board for their continued support in planning and implementation of the Department's fiscal policies.

Respectfully submitted,



Stacey R. Aldstadt, General Manager



Terri A. Willoughby, Director of Finance

City of San Bernardino Municipal Water Department

Mayor of the City of San Bernardino

R. Carey Davis

Board of Water Commissioners

Toni Callicott, President

David E. Mlynarski, Commissioner

Dr. Louis A. Fernandez, Commissioner

Wayne Hendrix, Commissioner

Dr. Judith Valles, Commissioner

Administration

Stacey R. Aldstadt, General Manager

Robin L. Ohama, Deputy General Manager

Miguel Guerrero, Director of Water Utilities

John A. Claus, Director of Water Reclamation

Terri Willoughby, C.P.A., Director of Finance

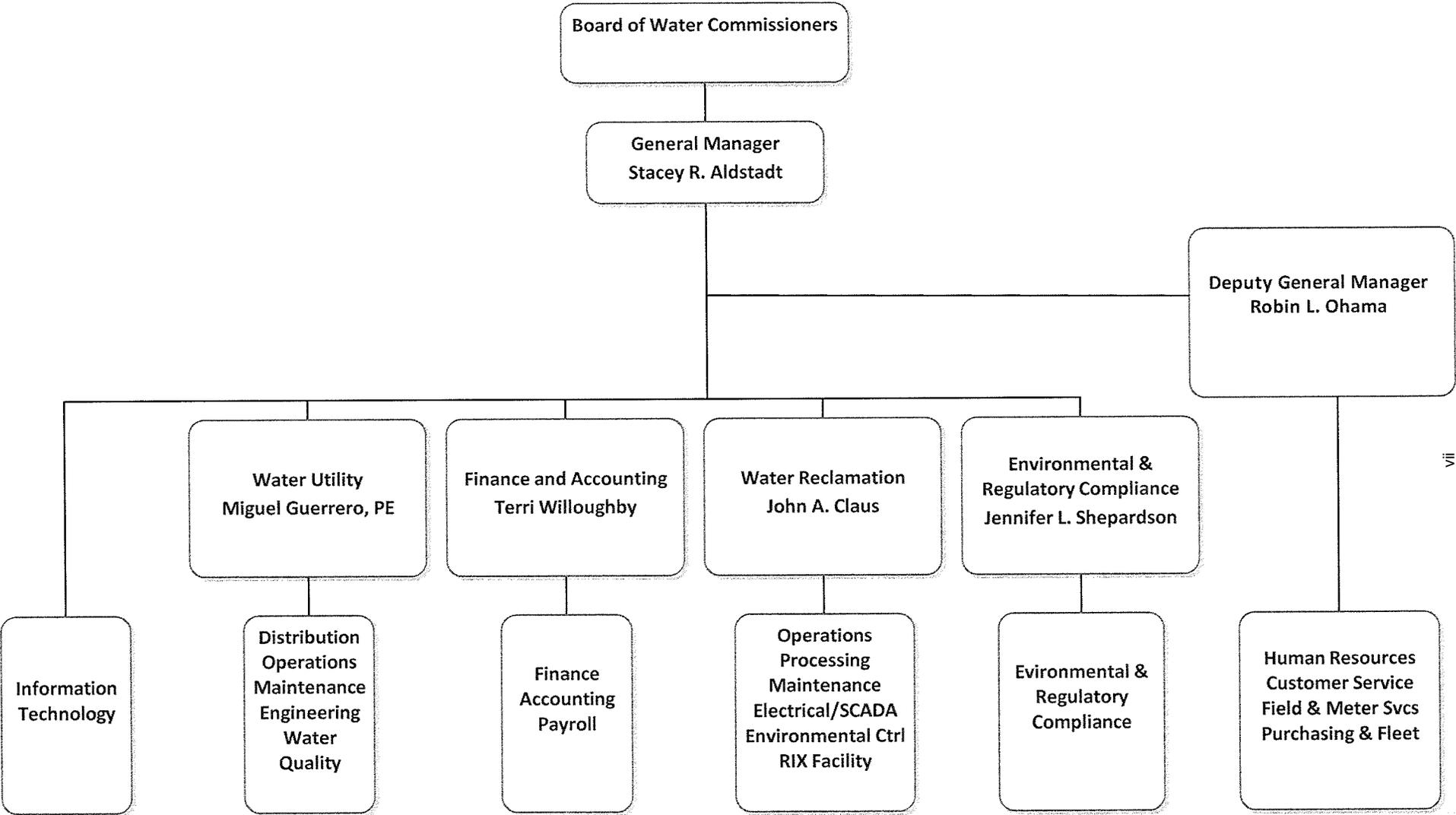
Mission Statement

To meet our customer's needs by providing high-quality service in water supply, water reclamation and geothermal heating in the most professional and cost-effective manner possible.

Organization

The City of San Bernardino Municipal Water Department was formed in 1905 under the Charter of the City of San Bernardino. The Department is governed by the Board of Water Commissioners who are appointed by the Mayor of the City of San Bernardino. The Charter gives the Board of Water Commissioners semi-autonomous authority to govern the Department independent of the City Council. The Department operates two enterprise funds: the Water Utility Enterprise Fund and the Sewer Utility Enterprise Fund. Water service encompasses the City, with the exception of the east end, which is served by the East Valley Water District. Sewer service encompasses all of the City of San Bernardino, the City of Loma Linda, the former Norton Air Force Base, Patton State Hospital and portions of the areas serviced by East Valley Water District.

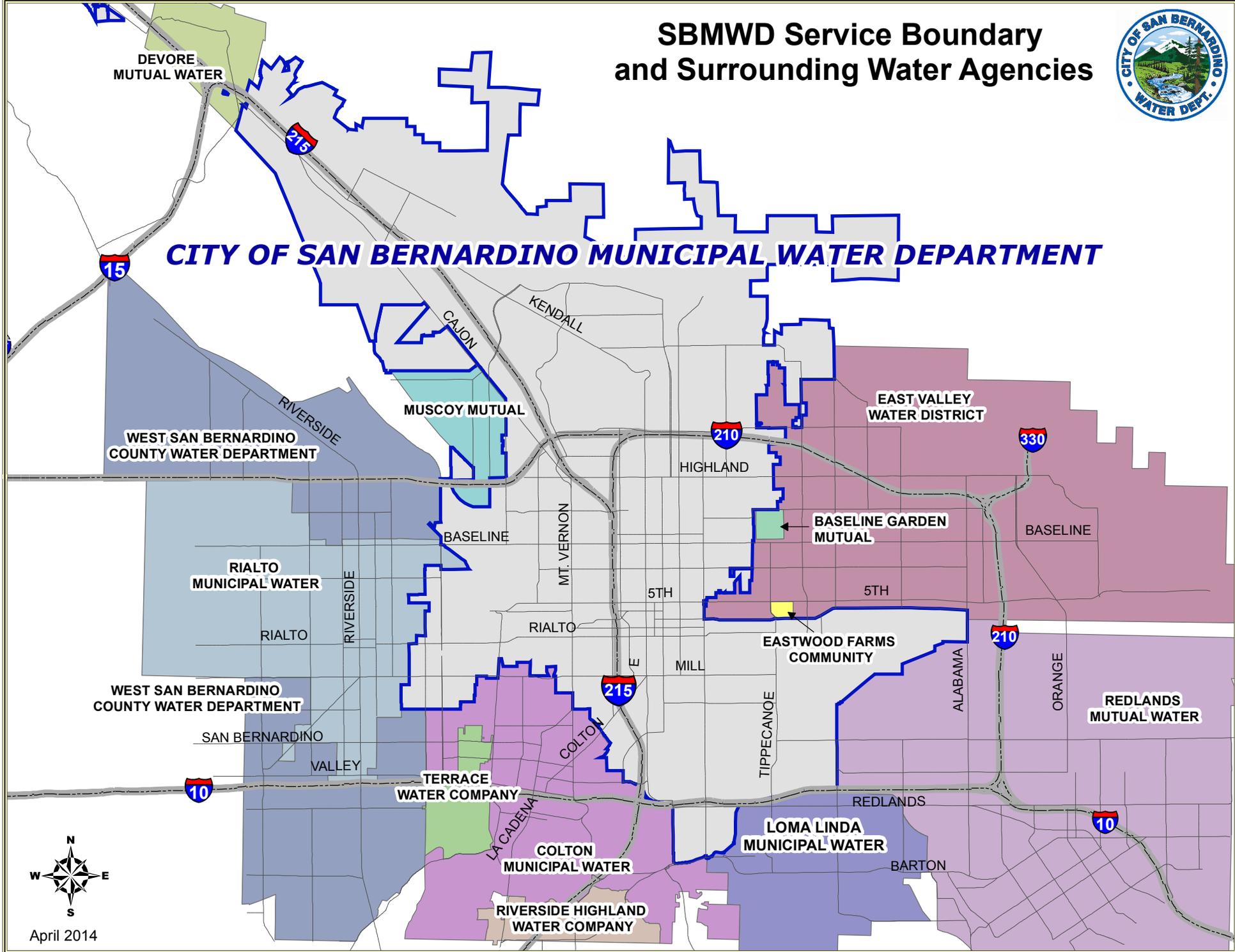
CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
ORGANIZATION



SBMWD Service Boundary and Surrounding Water Agencies



CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT



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Board of Water Commissioners
Municipal Water Department of the City of San Bernardino
San Bernardino, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Water Department of the City of San Bernardino, California ("Department"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table 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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 audits 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Water Department of the City of San Bernardino, California, as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Municipal Water Department of the City of San Bernardino (“Department”) are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and each major fund of the City of San Bernardino, California that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of San Bernardino as of June 30, 2015, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

On August 1, 2012, the City of San Bernardino filed a petition under Chapter 9 of the United States Bankruptcy Code seeking to adjust the timing and amount of the payments associated with the City’s obligations. As discussed in note two to the financial statements, there is considerable uncertainty associated with this process and the effects of this process upon the Department are not known at this time.

The financial statements for the year ended June 30, 2015 reflect certain prior period adjustments as described further in Note 15 to the financial statements and Governmental Accounting Standards Board Statement No. 68 as described further in Note 7. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management’s discussion and analysis* 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 (GASB) 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.

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 section* and the *statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *introductory* and the *supplemental 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2016 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 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 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.



Irvine, California
January 26, 2016

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CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2015



The City of San Bernardino's Municipal Water Department (Department) is a water and sewer treatment utility responsible for delivering high quality, economically priced water and sewer treatment service to a quarter of a million customers in and around the City of San Bernardino, California. This section of the Department's annual financial report presents management's analysis of the Department's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the basic financial statements, which follow this section. **All amounts in the Management's Discussion and Analysis within text areas are in thousands unless otherwise noted.**

Financial Highlights

New significant Accounting Standards implemented. In fiscal year 2014-15, the Department adopted two new statements of financial accounting standards issued by the Government Accounting Standards Board (GASB) that relate to pension activity: Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of Statement No. 27," and Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." Statement No. 68 (Statement) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for the Department's defined benefit pension plans. This Statement replaces the requirements of prior GASB statements impacting accounting and disclosure of pensions. Statement No. 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Both Statements are to be applied simultaneously.

The significant impact to the Department of implementing Statement No. 68 is the reporting of the Department's pension liability on the Department's financial statement. There are also new note disclosures and required schedules as a result of implementing this Statement. In order to implement the Statements, a prior period adjustment was made to the Department's July 1, 2014 net position. The prior period decreased the Department's beginning net position by \$49 million and reflects the reporting of: 1) net pension liabilities of \$40.9 million, 2) deferred outflow of resources of \$3 million and 3) deferred inflow of resources of \$9.7 million.

Other highlights:

- The Department's overall net position increased by \$11.5 million.
- Operating revenues decreased by slightly more than 7% from the prior year, primarily due to reduced water consumption.
- Operating expenses decreased \$2.9 million, or 5% from the prior fiscal year.
- Net income/loss before capital contributions increased by \$830,000. primarily due to a gain attributed to the investment in the RIX Joint Venture.
- The Department's current ratio (the ability to pay short-term obligations) was 2.48.
- Cash available (the ability to cover current expenses with cash) was 381 days.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of two components: the Financial Statements and the Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves. Information providing citywide financial results is available in the City's Comprehensive Annual Financial Report.



Required Financial Statements

The financial statements of the Department report information about the Department using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position (pages 14-15) includes all of the Department's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Department and assessing the liquidity and financial flexibility of the Department. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position (page 16) statement measures the success of the Department's operations over the past year and can be used to determine whether the Department has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows (pages 17-18). The primary purpose of this statement is to provide information about the Department's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Department

Our analysis of the Department begins on page 14 of the financial statements. One of the most important questions to ask about the Department's finances is "Whether the Department, as a whole, is better off or worse off as a result of the year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the Department's activities in a way that will help answer this question. These two statements report the net position of the Department and changes in them. Measuring the change in the Department's net position - the difference between assets and liabilities - is one way to measure financial health or financial position. Over time, increases or decreases in the Department's net assets are indications of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

Water Utility Fund

To begin our analysis, a summary of the Water Utility Fund's Statements of Net Position is presented in Table A-1.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2015



TABLE A-1
Condensed Statement of Net Position - Water Utility
 (amounts expressed in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Current and noncurrent assets	\$ 78,876	\$ 77,056	\$ 1,820	2.36%
Capital assets	<u>188,080</u>	<u>185,851</u>	<u>2,228</u>	1.20%
Total assets	266,956	262,908	4,048	1.54%
Deferred outflows of resources	<u>1,698</u>	<u>-</u>	<u>1,698</u>	
Current liabilities	12,730	9,208	3,522	38.24%
Noncurrent liabilities	<u>98,612</u>	<u>78,174</u>	<u>20,439</u>	26.15%
Total liabilities	111,342	87,382	23,960	27.42%
Deferred inflows of resources	<u>5,501</u>	<u>0</u>	<u>5,501</u>	
Net investment in capital assets	166,963	163,797	3,166	1.93%
Restricted	-	-	-	0.00%
Unrestricted	<u>(15,153)</u>	<u>11,728</u>	<u>(26,881)</u>	-229.20%
Total net position	<u>\$ 151,810</u>	<u>\$ 175,525</u>	<u>\$ (23,715)</u>	-13.51%

As can be seen from the table above, the Water Utility net position decreased \$23,715 to \$151,810 in fiscal year 2015. The primary result of this decrease was a prior period adjustment of \$27.9 million due to the implementation of new pension reporting standards related to the Department's pension obligations. The net investment in capital assets increased \$3.2 million in fiscal year 2015 due to the completion of capital projects within the period.



TABLE A-2
Condensed Statement of Revenues, Expenses and Changes in Net Position - Water Utility
 (amounts expressed in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenue	\$ 33,121	\$ 36,672	\$ (3,551)	-9.68%
Capital contributions	3,905	6,522	(2,616)	-40.12%
Other non-operating revenue	2,872	2,767	106	3.81%
Total revenues	<u>39,898</u>	<u>45,960</u>	<u>(6,062)</u>	-13.19%
Operating expenses	\$ 35,505	\$ 36,042	(537)	-1.49%
Non-operating expenses	169	262	(93)	-35.41%
Total expenses	<u>35,674</u>	<u>36,303</u>	<u>(630)</u>	-1.73%
Change in net position	4,225	9,657	(5,432)	-56.25%
Net position, beginning balance	175,525	168,892	6,633	3.93%
Prior period adjustment	<u>(27,940)</u>	<u>(3,023)</u>	<u>(24,916)</u>	N/A
Total net position	<u>\$ 151,810</u>	<u>\$ 175,525</u>	<u>\$ (23,715)</u>	-13.51%

Total revenues decreased by 13%, or \$6.0 million, primarily due to decreased water revenues which resulted from decreased consumption after mandatory conservation regulations were imposed. Total expenses decreased almost 2% due to prudent cost control measures adopted by the Water Utility.

TABLE A-3
Capital Assets - Water Utility
 (amounts expressed in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Land and easements	\$ 5,654	\$ 5,654	\$ -	0.00%
Construction in progress	3,523	6,224	(2,701)	-43.40%
Wells and pumping	98,173	96,612	1,561	1.62%
Distribution	146,681	136,982	9,698	7.08%
Plant and facilities	3,222	3,097	125	4.03%
Other capital assets	15,827	13,902	1,925	13.84%
Total capital assets	273,079	262,472	10,607	4.04%
Less: accumulated depreciation	<u>(84,999)</u>	<u>(76,620)</u>	<u>(8,379)</u>	10.94%
Total capital assets, net	<u>\$ 188,080</u>	<u>\$ 185,851</u>	<u>\$ 2,228</u>	1.20%

Total capital assets increased \$2.2 million in fiscal year 2015. Approximately \$8.4 million in construction in progress was completed and placed in service. Major project completions include the North San Bernardino Industrial Park Phase II Pipe Installation project and the Irvington Avenue Transmission Main Project. Additional information on capital assets is presented in Note 4 of the Notes to the Basic Financial Statements.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2015



TABLE A-4
Long-term Debt - Water Utility
 (amounts expressed in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Notes payable	\$ 21,117	\$ 22,800	\$ (1,684)	-7.39%
Compensated absences	942	1,077	(135)	-12.51%
Total long-term debt	<u>\$ 22,058</u>	<u>\$ 23,877</u>	<u>\$ (1,819)</u>	-7.62%

During the year, the Water Utility's long-term debt decreased by \$1.8 million which can be attributed to normal debt payments. Additional information on long term debt is presented in Note 6 of the Notes to Basic Financial Statements.

Sewer Utility Fund

TABLE B-1
Condensed Statement of Net Position - Sewer Utility
 (amounts expressed in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Current and noncurrent assets	\$ 59,627	\$ 66,773	\$ (7,146)	-10.70%
Capital assets	64,146	59,489	4,657	7.83%
Total assets	123,773	126,262	(2,489)	-1.97%
Deferred outflow of resources	1,348	-	1,348	-
Current liabilities	8,568	7,435	1,133	15.24%
Noncurrent liabilities	21,015	17,164	3,851	22.44%
Total liabilities	29,583	24,599	4,984	20.26%
Deferred inflow of resources	4,150	0	4,150	-
Net investment in capital assets	56,090	37,787	18,303	48.44%
Restricted	7,633	7,348	285	3.88%
Unrestricted	27,664	56,527	(28,863)	-51.06%
Total net position	<u>\$ 91,387</u>	<u>\$ 101,662</u>	<u>\$ (10,275)</u>	-10.11%

As can be seen from the table above, the Sewer Utility net position decreased \$10.3 million to \$91,387 in fiscal year 2015. The primary result of this decrease was a prior period adjustment of \$21.1 million due to the implementation of new pension reporting standards related to the Department's pension obligations. The net investment in capital assets increased \$18.3 million, due to the completion of several long-term capital projects within the period.



TABLE B-2
Condensed Statement of Revenues, Expenses and Changes in Net Position - Sewer Utility
 (amounts expressed in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenue	\$ 24,734	\$ 25,671	\$ (936)	-3.65%
Capital contributions	1,073	989	84	8.46%
Other non-operating revenue	<u>1,326</u>	<u>667</u>	<u>659</u>	98.93%
Total revenues	<u>27,133</u>	<u>27,327</u>	<u>(193)</u>	-0.71%
Operating expenses	19,620	21,974	(2,354)	-10.71%
Non-operating expenses	<u>227</u>	<u>1,796</u>	<u>(1,569)</u>	-87.35%
Total expenses	<u>19,847</u>	<u>23,770</u>	<u>(3,922)</u>	-16.50%
Change in net position	7,286	3,557	3,729	104.84%
Net position, beginning balance	105,178	108,296	(3,117)	-2.88%
Prior period adjustment	<u>(21,077)</u>	<u>(6,674)</u>	<u>(14,403)</u>	-215.80%
Total net position	<u>\$ 91,387</u>	<u>\$ 105,178</u>	<u>\$ (13,791)</u>	-13.11%

During Fiscal Year 2015, total revenues for the Sewer Utility decreased by less than 1% from the prior year, while total expenses decreased almost 17% during the same time period.

TABLE B-3
Capital Assets - Sewer Utility
 (amounts expressed in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Land and easements	\$ 12,168	\$ 11,482	\$ 686	5.98%
Construction in progress	13,934	9,408	4,526	48.11%
Pumping	3,192	1,360	1,833	134.81%
Buildings, plants and stores	129,866	120,109	9,757	8.12%
Field and office equipment	<u>5,866</u>	<u>5,601</u>	<u>265</u>	4.73%
Total capital assets	165,026	147,959	17,067	11.53%
Less: accumulated depreciation	<u>(100,880)</u>	<u>(92,427)</u>	<u>(8,453)</u>	9.15%
Total net assets	<u>\$ 64,146</u>	<u>\$ 55,533</u>	<u>\$ 8,613</u>	15.51%

Total capital assets increased by \$8.6 in fiscal year 2015, with approximately \$6.1 million in construction in progress completed and placed in service. Major project completions include the Bypass Line between Units 3 & 1 and the Sludge Dewatering Centrifuge projects. One of the major projects still in progress is the Unit 1 Primary Clarifier and Aeration System Upgrade project. More information relating to capital assets can be found in note 4 of the notes to the financial statements.



TABLE B-4
Long-term Debt - Sewer Utility
 (amounts expressed in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Notes payable	\$ 1,710	\$ 3,374	\$ (1,664)	-49.33%
Certificates of participation	6,346	9,292	(2,946)	-31.70%
Compensated absences	284	367	(82)	-22.48%
Total long-term debt	<u>\$ 8,340</u>	<u>\$ 13,033</u>	<u>\$ (4,693)</u>	<u>-36.01%</u>

During the year, the Sewer Utility’s long-term debt decreased \$4.7 million which can be attributed to normal debt payments. Additional information on long term debt is presented in Note 6 of the Notes to Basic Financial Statements.

Management Challenges and Opportunities

Economics

The ongoing economic downturn continues to limit the planned capital expansion of the water and sewer treatment facilities. Development in San Bernardino has significantly slowed and delinquencies continue. Additionally, the fiscal challenges of the City as a whole hinder progress within the Water Department. However, as the local economy begins to improve, the Department’s customer base should improve and the delinquency rate should return to pre-recession levels.

Capital Construction

The Sewer Utility faces an extensive list of compliance-related construction requirements over the next several years, and is also rehabilitating facilities and designing/constructing Primary Influent Flow Equalization. The Water Utility continues to concentrate on retrofitting and upgrading existing facilities to current design standards and Uniform Building Codes (UBC) as well as replace aging pipelines, wells and plant facilities.

Rates

The Department implemented the last of a three-phase water utility rate increase and the last of a two-phase increase to sewer treatment rates in January 2012. A three-phase sewer treatment rate increase was approved in September 2015, and will be effective through 2017. The Department continues to review revenue and expense levels to determine when rate increases will be necessary.

Contacting the Department’s Director of Finance

This financial report is designed to provide our customers and creditors with a general overview of the Department finances and to demonstrate the Department’s accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Department’s Director of Finance at (909) 384-5184. For information on the City of San Bernardino’s financial statements, please contact the City’s finance department at (909) 384-5242.

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Basic Financial Statements

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Statement of Net Position

June 30, 2015

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Interfund Eliminations</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and investments (note 3)	\$ 17,789,720	22,926,544	-	40,716,264
Accounts receivable, net	6,365,070	2,462,691	(7,803)	8,819,958
Interest receivable	11,684	136,051	-	147,735
Due from other entities	599,163	164,668	-	763,831
Inventory	1,991,313	-	-	1,991,313
Current portion of prepaid expenses	297,911	139,577	-	437,488
Total current assets	<u>27,054,861</u>	<u>25,829,531</u>	<u>(7,803)</u>	<u>52,876,589</u>
Noncurrent assets:				
Prepaid expenses	-	681,663	-	681,663
Investment in joint venture - RIX (note 10)	-	21,887,814	-	21,887,814
Investment in joint venture - PSA (note 10)	-	3,594,562	-	3,594,562
Restricted assets:				
Cash and cash equivalents (note 3):				
Restricted for capital-related fees	-	7,633,049	-	7,633,049
Restricted for consent decree (notes 3 & 13)	528,651	-	-	528,651
Investments (note 3):				
Restricted for consent decree (note 13)	21,125,203	-	-	21,125,203
Interest receivable - consent decree (note 13)	65,494	-	-	65,494
Prepaid insurance - consent decree (note 13)	30,101,766	-	-	30,101,766
Capital assets (note 4):				
Non-depreciable assets	9,177,446	26,102,047	-	35,279,493
Depreciable assets	263,901,535	138,924,135	-	402,825,670
Less: accumulated depreciation and amortization	<u>(84,999,216)</u>	<u>(100,880,133)</u>	<u>-</u>	<u>(185,879,349)</u>
Total capital assets (net)	<u>188,079,765</u>	<u>64,146,049</u>	<u>-</u>	<u>252,225,814</u>
Total noncurrent assets	<u>239,900,879</u>	<u>97,943,137</u>	<u>-</u>	<u>337,844,016</u>
Total assets	<u>266,955,740</u>	<u>123,772,668</u>	<u>(7,803)</u>	<u>390,720,605</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred charge on refunding	-	66,698	-	66,698
Deferred pension contributions (note 7)	<u>1,698,121</u>	<u>1,281,039</u>	<u>-</u>	<u>2,979,160</u>
Total deferred outflow of resources	<u>1,698,121</u>	<u>1,347,737</u>	<u>-</u>	<u>3,045,858</u>

(continued on next page)

See accompanying independent auditor' report and notes to the basic financial statements

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Statement of Net Position, continued

June 30, 2015

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Interfund Eliminations</u>	<u>Total</u>
LIABILITIES				
Current liabilities:				
Accounts payable	4,674,430	2,355,339	(7,803)	7,021,966
Related parties payable (note 9)	2,655,137	265,300	-	2,920,437
Accrued compensation	860,556	470,786	-	1,331,342
Claims payable (note 11)	1,213,539	239,673	-	1,453,212
Consumer deposits	583,345	-	-	583,345
Current portion of compensated absences (note 6)	753,511	227,394	-	980,905
Current portion of notes payable (note 6)	1,748,054	1,709,710	-	3,457,764
Current portion of certificates of participation (note 6)	-	3,155,000	-	3,155,000
Accrued interest payable	241,369	144,780	-	386,149
Total current liabilities	<u>12,729,941</u>	<u>8,567,982</u>	<u>(7,803)</u>	<u>21,290,120</u>
Noncurrent liabilities:				
Consumer deposits	3,274,097	-	-	3,274,097
Compensated absences (note 6)	188,378	56,848	-	245,226
Unearned revenue - consent decree (note 13)	51,821,114	-	-	51,821,114
Notes payable (note 6)	19,368,473	-	-	19,368,473
Certificates of participation (note 6)	-	3,191,308	-	3,191,308
OPEB obligation (note 8)	628,895	166,326	-	795,221
Net pension liabilities (note 7)	23,331,467	17,600,931	-	40,932,398
Total noncurrent liabilities	<u>98,612,424</u>	<u>21,015,413</u>	<u>-</u>	<u>119,627,837</u>
Total liabilities	<u>111,342,365</u>	<u>29,583,395</u>	<u>(7,803)</u>	<u>140,917,957</u>
DEFERRED INFLOW OF RESOURCES				
Deferred inflows - actuarial (note 7)	5,501,195	4,150,024	-	9,651,219
Total deferred inflow of resources	<u>5,501,195</u>	<u>4,150,024</u>	<u>-</u>	<u>9,651,219</u>
NET POSITION				
Net investment in capital assets (note 14)	166,963,238	56,090,031	-	223,053,269
Restricted for capital-related fees (note 14)	-	7,633,049	-	7,633,049
Unrestricted (note 14)	(15,152,937)	27,663,906	-	12,510,969
Total net position	<u>\$ 151,810,301</u>	<u>91,386,986</u>	<u>-</u>	<u>243,197,287</u>

See accompanying independent auditor' report and notes to the basic financial statements

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Statement of Revenues, Expenses and Changes in Net Position

Fiscal Year Ended June 30, 2015

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Interfund Eliminations</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 32,334,810	24,399,415	-	56,734,225
Other operating revenues	786,318	335,010	(38,004)	1,083,324
Total operating revenues	<u>33,121,128</u>	<u>24,734,425</u>	<u>(38,004)</u>	<u>57,817,549</u>
Operating expenses				
Administration and customer service	6,575,895	2,387,122	-	8,963,017
Utility administration	653,209	638,613	-	1,291,822
Plant operations	7,813,911	8,697,724	-	16,511,635
Maintenance	1,988,719	2,906,853	(15,173)	4,880,399
Environmental control	-	594,777	-	594,777
Distribution	4,653,106	-	-	4,653,106
Engineering and water quality control	2,439,170	534,226	-	2,973,396
General, administration and overhead	6,015,448	990,463	(22,831)	6,983,080
Depreciation and amortization	5,365,124	2,870,550	-	8,235,674
Total operating expenses	<u>35,504,582</u>	<u>19,620,328</u>	<u>(38,004)</u>	<u>55,086,906</u>
Operating income (loss)	<u>(2,383,454)</u>	<u>5,114,097</u>	<u>-</u>	<u>2,730,643</u>
Nonoperating revenues (expenses)				
Investment income	54,786	481,211	-	535,997
Rental income	181,809	700	-	182,509
Noncapital grant funds	2,089,637	-	-	2,089,637
Gain (loss) on asset disposition	-	-	-	-
Gain (loss) on joint venture - RIX	-	345,884	-	345,884
Interest expense and fiscal charges	(169,119)	(227,165)	-	(396,284)
Other	545,840	498,247	-	1,044,087
Total nonoperating revenues (expenses)	<u>2,702,953</u>	<u>1,098,877</u>	<u>-</u>	<u>3,801,830</u>
Net income (loss) before capital contributions	<u>319,499</u>	<u>6,212,974</u>	<u>-</u>	<u>6,532,473</u>
Capital contributions:				
Acquisition fees	1,631,678	-	-	1,631,678
Capacity fees	2,187,090	938,131	-	3,125,221
EPA grants	86,336	-	-	86,336
Other capital restricted fees	-	134,710	-	134,710
Total capital contributions	<u>3,905,104</u>	<u>1,072,841</u>	<u>-</u>	<u>4,977,945</u>
Change in net position	4,224,603	7,285,815	-	11,510,418
Net position, beginning of year, as restated (footnote 15)	147,585,698	84,101,171	-	231,686,869
Net position, end of year	<u>\$ 151,810,301</u>	<u>91,386,986</u>	<u>-</u>	<u>243,197,287</u>

See accompanying independent auditor' report and notes to the basic financial statements

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Statement of Cash Flows

Fiscal Year Ended June 30, 2015

	Water Utility	Sewer Utility	Interfund Eliminations	Total
Cash flow from operating activities:				
Cash received from customers	\$ 35,650,068	26,242,134	-	61,892,202
Rental income	181,809	700	-	182,509
Nonoperating miscellaneous revenue (expenses)	545,840	498,247	-	1,044,087
Cash paid to employees for services	(9,233,112)	(5,914,404)	-	(15,147,516)
Cash paid to suppliers of goods and services	(18,568,787)	(11,816,350)	-	(30,385,137)
Net cash provided by operating activities	<u>8,575,818</u>	<u>9,010,327</u>	<u>-</u>	<u>17,586,145</u>
Cash flow from noncapital financing activities:				
Cash paid to RIX joint venture	-	-	-	-
Consent Decree insurance drawdowns	2,089,637	-	-	2,089,637
Net cash provided by noncapital financing activities	<u>2,089,637</u>	<u>-</u>	<u>-</u>	<u>2,089,637</u>
Cash flow from capital and related financing activities:				
Capital fees received	3,818,768	1,072,841	-	4,891,609
Drawdown on CIEDB loan	746,201	-	-	746,201
Cash paid to acquire capital assets	(7,584,022)	(11,483,816)	-	(19,067,838)
Principal paid on capital-related debt	(1,683,818)	(4,629,425)	-	(6,313,243)
Interest paid on capital-related debt	(187,153)	(242,585)	-	(429,738)
Grant proceeds	86,336	-	-	86,336
Net cash provided by (used for) capital and related financing activities	<u>(4,803,688)</u>	<u>(15,282,985)</u>	<u>-</u>	<u>(20,086,673)</u>
Cash flow from investing activities:				
Purchase of investments	(17,210,432)	(11,877,148)	-	(29,087,580)
Sales and maturities of investments	17,599,300	11,588,638	-	29,187,938
Interest received	53,683	480,453	-	534,136
Net cash provided by investing activities	<u>442,551</u>	<u>191,943</u>	<u>-</u>	<u>634,494</u>
Net increase (decrease) in cash	<u>6,304,318</u>	<u>(6,080,715)</u>	<u>-</u>	<u>223,603</u>
Cash and cash equivalents at beginning of year	<u>7,987,773</u>	<u>12,699,727</u>	<u>-</u>	<u>20,687,500</u>
Cash and cash equivalents at end of year	<u>\$ 14,292,091</u>	<u>6,619,012</u>	<u>-</u>	<u>20,911,103</u>
Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:				
Cash and investments	\$ 17,789,720	22,926,544	-	40,716,264
Restricted cash and cash equivalents:				
Restricted for capital related fees	-	7,633,049	-	7,633,049
Restricted for consent decree	528,651	-	-	528,651
Less those not meeting the definition of a cash equivalent	<u>(4,026,280)</u>	<u>(23,940,581)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 14,292,091</u>	<u>6,619,012</u>	<u>-</u>	<u>48,877,964</u>

(continued on next page)

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Statement of Cash Flows, continued

June 30, 2015

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Interfund Eliminations</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (2,383,454)	5,114,097	-	2,730,643
Depreciation and amortization	5,355,684	2,870,550	-	8,226,234
Nonoperating miscellaneous revenue (expenses)	545,840	498,247	-	1,044,087
Rental income	181,809	700	-	182,509
Adjustments				
(Increase) decrease in accounts receivable	1,262,291	1,578,275	-	2,840,566
(Increase) decrease in due from other entities	992,197	65,792	-	1,057,989
(Increase) decrease in inventory	(300,570)	-	-	(300,570)
(Increase) decrease in prepaid expenses	(86,465)	5,646	-	(80,819)
(Increase) decrease in deferred pension contributions	(178,081)	(134,342)	-	(312,423)
Increase (decrease) in accounts payable	2,163,224	(625,397)	-	1,537,827
Increase (decrease) in related parties payable	371,762	(3,313)	-	368,449
Increase (decrease) in accrued compensation	304,337	133,737	-	438,074
Increase (decrease) in compensated absences current portion	1,323,776	7,174	-	1,330,950
Increase (decrease) in compensated absences non-current portion	(1,458,478)	(89,599)	-	(1,548,077)
Increase (decrease) in claims payable	482,043	(28,434)	-	453,609
Increase (decrease) in consumer deposits current portion	81,047	-	-	81,047
Increase (decrease) in consumer deposits non-current portion	193,405	-	-	193,405
Increase (decrease) in OPEB obligation	352,488	90,223	-	442,711
Increase (decrease) in net pension liability	(6,128,232)	(4,623,053)	-	(10,751,285)
Increase (decrease) in deferred inflows-actuarial	5,501,195	4,150,024	-	9,651,219
Net cash provided by operating activities	<u>\$ 8,575,818</u>	<u>9,010,327</u>	<u>-</u>	<u>17,586,145</u>

There were no significant noncash investing, capital and financing related activities for the year ended June 30, 2015.

See accompanying independent auditor' report and notes to the basic financial statements



(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The San Bernardino Municipal Water Department (Department) is governed under the Charter of the City of San Bernardino (City). A Board of Water Commissioners (BOWC) appointed by the Mayor and approved by City Council, has Charter defined powers, with full authority for administration of the water utility and delegated authority for the sewer treatment utility. The Department has served the community since 1905.

B. Basis of Accounting and Measurement Focus

The Department reports its activities as enterprise funds, which are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Department is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

Operating revenues, such as charges for services (water sales, sewer services and water services) result from exchange transactions associated with the principal activity of the Department. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes and investment income, result from nonexchange transactions or ancillary activities in which the Department gives (receives) value without directly receiving (giving) equal value in exchange.

When both restricted and unrestricted resources are available for use, the Department uses restricted resources and then unrestricted resources.

The funds of the Department are described below:

Water Utility Fund – The Water Utility Enterprise Fund (Water Utility) is used to account for the operations of the Department’s water system and related revenues.

Sewer Utility Fund – The Sewer Utility Enterprise Fund (Sewer Utility) is used to account for the operations of the City’s wastewater treatment system and related revenues. The Sewer conveyance system is under the direction of the City’s Public Works Department.

Administrative and engineering services are provided by the Water Utility to the Sewer Utility. Electrical services are provided by the Sewer Utility to the Water Utility.

C. Implementation of GASB Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting for pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 30, 2014. The Department implemented this Statement in the fiscal year ending June 30, 2015.

In 2014, the GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The provision of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Department implemented this Statement in the fiscal year ending June 30, 2015.

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards decreased the net position at July 1, 2014 by \$49,016,946. See footnotes 8 and 15 for further information.



(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Reporting

The Department's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net position replaces the balance sheet and reports assets, liabilities, and the difference between them as net position, not equity. A statement of revenues, expenses and changes in net position replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

E. Assets, Liabilities and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

1. Cash and Investments

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost as they are not transferable and have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value and any gains or losses realized upon the liquidation of investments.

2. Accounts Receivable

Customer or trade receivables are shown net of an allowance for uncollectible accounts based on historical and management estimates. Transactions between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables / payables" or "advances to/from" other funds. All interfund transactions are eliminated for financial reporting.

3. Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the Department's water transmission and distribution system and items necessary for maintenance at the sewer treatment facilities. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.



(1) Reporting Entity and Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

4. Prepaid Expense and Deposit

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

5. Capital Assets

Capital assets acquired or constructed are capitalized at historic cost. Department policy has set the capitalization threshold for reporting capital assets at \$5,000 and a life expectancy of at least 3 years. Overhead is capitalized at the rate of 28.9% of labor and benefits, 10% of material and supplies and 2% of significant contracts. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Source of supply plant 8 to 50 years
- Disposal plant and interceptor lines 35 to 50 years
- Other facilities (shops, leasehold & yards) 5 to 25 years
- Tools, office equipment & communications 4 to 20 years
- Computer equipment 3 to 5 years
- Automotive and fleet equipment 3 to 15 years

6. Compensated Absences

Department policy is to permit employees to accumulate a limited amount of earned vacation and sick leave. Various negotiation groups have different sell-back and cash out options. Additionally, cash out options upon retirement or death of the employee vary based on the negotiation group. Employees' vacation and sick leave benefits are recognized as a liability of the Department.

7. Restricted Assets and Amounts Payable from Restricted Assets

Amounts shown as restricted assets have been restricted by bond indentures or are to be used for specified purposes based on contract provisions, such as bonded debt service. Certain liabilities which are currently payable have been classified as current liabilities payable from restricted assets since assets have been restricted for their payment.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the Department. 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.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	June 30, 2013 to June 30, 2014



(1) Reporting Entity and Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

Deferred Outflows/Inflows

In addition to assets, the Statement of Net Position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Department has two items that qualify for reporting in this category: the deferred outflows on pension contributions, and the deferred charges on debt refundings. These are reported on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, deferred inflow – actuarial.

9. Interfund Eliminations

The interfund eliminations column represents entries made to eliminate interfund income and expenditure transactions between the water utility fund and the sewer utility fund for the purposes of consolidated financial statements.

10. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

11. Capital Contributions

Contributions in aid of construction represent cash and utility plant additions contributed to the Department by property owners or developers desiring services that require capital expenditures or capacity commitment. In accordance with Governmental Accounting Standards Board Statement No. 33, the capital contributions are recorded on the Statement of Revenues, Expenses and Changes in Net position.

12. Budgetary Policies

The Department adopts an annual budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to outstanding contracts for construction and services.



(2) City of San Bernardino Bankruptcy

Without reserves and facing a \$45.8 million budget deficit, in July of 2012, the City determined that it was no longer able to meet its contractual obligations and declared a fiscal emergency. On August 1, 2012, the City filed a petition under Chapter 9 of the United States Bankruptcy Code in Riverside seeking to adjust its debts. On August 28, 2013, the Bankruptcy Court ruled that the City is eligible for bankruptcy protection.

Based on the California Constitution, precedents established in prior municipal bankruptcies in California, and various legal opinions provided to the Department by special legal counsel and the City Attorney's office, the Department believes that its revenues, derived from ratepayer fees, will be protected from attachment by the City's creditors. Although unlikely, it is possible that the bankruptcy court will make a different determination. The Department's arguments for the protection of its assets from the claims of the City's creditors are set forth in further detail below.

The bankruptcy case seeks the adjustment of the obligations of the City and does not extend to City funds with Federal, State or other restrictions. The Department has continued to operate and use its restricted resources for only the expenses incurred to operate the water system and sewer treatment plants. Debt obligations secured by Department revenues are treated as secured obligations and are not expected to be affected so long as the revenues of the Department are sufficient to meet debt service.

State and federal laws place protections on the revenues of the Department. Section 902(2) of the Bankruptcy Code defines special revenues as, among other things, "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems." Further, section 928 of the Bankruptcy Code states: "(a) Notwithstanding section 552 (a) of this title and subject to subsection (b) of this section, special revenues acquired by the debtor after the commencement of the case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case"; and "(b) Any such lien on special revenues, other than municipal betterment assessments, derived from a project or system shall be subject to the necessary operating expenses of such project or system, as the case may be."

Chapter 9 of the Bankruptcy Code does not have a provision for liquidation of assets of the City and distribution of the proceeds to creditors. Additionally, Chapter 9 does not prevent a debtor from borrowing additional funds while under bankruptcy protection. The Tenth Amendment of the United States Constitution and Supreme Court decisions in upholding municipal bankruptcy legislation place severe limitations upon the power of the bankruptcy court in chapter 9 cases.

In addition, at least two aspects of California law place restrictions on the use of revenue of the Department. First, under Articles XIIC and XIID of the California Constitution (enacted pursuant to the voter approved Proposition 218), money raised from municipal utility rates must only be used to fund such utility operations, and not to fund general municipal operations. Thus, when the Department charges a water delivery or consumption fee, or rates for wastewater services, and places those monies into its specially segregated Water Fund and Sewer Fund accounts, those charges are considered property-related fees and are subject to the constitutional constraints enacted pursuant to Proposition 218. This has very specific consequences for the amount of money that can be collected, as well as the use to which those funds can be put. Specifically, Cal. Const. Article XIII D section 6(b) states that:



(2) City of San Bernardino Bankruptcy, continued

A fee or charge shall not be extended, imposed, or increased by any agency unless it meets all of the following requirements:

- (1) Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.
- (2) Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.
- ...
- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. (Cal Const, Art. XIII D § 6.)

Put differently, use of fees for general governmental services is prohibited, fees can only be for the service provided, fees cannot exceed the cost of that service, and fees cannot exceed the proportional cost of the service attributable the payer.¹

The second relevant aspect of state law is the City’s status as a Charter City. Under California law a city charter is “the supreme law of the City,” but is still subject to “conflicting provisions in the federal and state Constitutions and to preemptive state law.” (*Howard Jarvis Taxpayers Assn. v. City of Roseville* (2003) 106 Cal.App.4th 1178, 1186, citing *Domar Electric, Inc. v. City of Los Angeles* (1994) 9 Cal.4th 161, 170.) The Department was created by and currently operates pursuant to Article IX of the City’s Charter, and provides both retail water and sewer service pursuant to the City Charter provisions. Specifically, Article IX, Section 164 of the City Charter provides that the Water Department Board of Commissioners, and not the City Council, “. . . shall have power to control and order the expenditure of all money received from sale or use of water, for the defraying of expenses or maintenance and repairs and operation of the water system, and for any expenses for additions to the same; and for supplying the City with water for any and all purposes; *provided that all such money shall be deposited in the treasury of the City to the credit of a fund to be known as the Water Fund, and shall be kept separate and apart from other moneys of the City . . .*” (emphasis added). Consistent with the discussion above, the constitutional requirements under Proposition 218 apply to “counties, cities, cities and counties, *including charter cities* or counties, any special district, or other local or regional governmental entity. (Cal. Const., art. XIII C, § 1(b), emphasis added.) Courts have routinely held that “[t]here is no question that Proposition 218, as a constitutional initiative, is binding upon charter cities.” (*Howard Jarvis Taxpayers Assn. v. City of Roseville* (2003) 106 Cal.App.4th 1178, 1185.) In order to provide for the safety of the Department’s liquid assets, the Department established its own bank account and investment portfolio within the City treasury as required by the City Charter. Representatives of the City Treasurer’s office and the Water Department are signatories to these accounts. As previously noted, the City Charter specifically grants to the Water Department Board of Commissioners the power to control and order the expenditure of these funds and limits the withdrawal of these funds for the payment of demands authenticated by the Board of Commissioners.

¹ See League of California Cities, Proposition 218 Implementation Guide (2007 Ed.) at pp. 49-50; see also *Howard Jarvis Taxpayers Ass’n v. City of Roseville* (2002) 97 Cal.App.4th 637, 647-648 [interpreting Art. XIII D, § 6(b) and emphasizing, “[t]he key is that the revenues derived from the fee or charge are required to provide the service, and may be used only for the service.”]

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(2) City of San Bernardino Bankruptcy, continued

Accordingly, both the City Charter and the California Constitution require that the Department’s special revenues collected for water-related services may only be used for expenditures related to those services. Due to these additional state law restrictions, the Department believes that the revenues of the Department (and accumulated assets since those assets were accumulated as a result of collection of revenue) can only be used for Department expenses and obligations.

On October 16, 2013, Bankruptcy Judge Meredith Jury issued an opinion on the City’s eligibility for bankruptcy. “...CalPERS submits that the uncontroverted fact that the City’s Water Fund had a large cash balance before and after the petition date which the City did not tap to attempt to balance its books is evidence of lack of desire to effect a plan. This argument has no legal legs. It is a matter of California constitutional law that the City may not use funds belonging to the Water Department for general fund purposes. Amendments to the Constitution enacted by Proposition 218 in 1996, which added Articles XIII C and XIII D, expanded restrictions on local government revenue-raising and imposed limitations on local government use of special fees, including water and sewer fees. C.A. Const. art. XIII C and XIII D. Article XIII D covers water fees and prohibits the use of such fees for general governmental services, including police, fire and other services. *Bighorn Desert View Water Agency v. Verjil*, 39 Cal. 4th 205, 216-17 (2006); *Richmond v. Shasta Cmty. Servs. Dist.*, 32 Cal. 4th 409 (2004). Thus, the City was legally prohibited by the California Constitution from using Water Department funds for general fund purposes.

“Similarly, the City could not have borrowed funds from the Water Department without incurring debt that it could not repay within one year. Article XVI, Section 18 of the Constitution prohibits the City from incurring a debt in any year that exceeds the available revenues of the City for that year without the approval of a two-thirds vote of qualified voters. C.A. Const. art. XVI, § 18. Looking at its dire financial status in July 2012, the City could not reasonably conclude that it would be able to repay to the Water Fund any loans it made within that fiscal year. The Water Fund cash was thereby out of reach to address the City’s insolvency and this issue is an outlier to the Court’s analysis.” (Case No.: RS 6: 12-bk-28006 MJ).

(3) Cash and Investments

Cash and investments are reported in the accompanying statement of net position as follows:

	Water Utility	Sewer Utility	Total
Cash and investments	\$ 17,789,720	22,926,544	40,716,264
Restricted cash and cash equivalents:			
Restricted for capital-related fees	-	7,633,049	7,633,049
Restricted for Consent Decree	528,651	-	528,651
Restricted investments:			
Restricted for Consent Decree	21,125,203	-	21,125,203
Total Cash and Investments	\$ 39,443,574	30,559,593	70,003,167

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(3) Cash and Investments, continued

Cash and investments at June 30, 2015 consisted of the following:

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
Cash on Hand	\$ 7,000	200	7,200
Deposits with Financial Institutions	14,285,091	6,618,812	20,903,903
Investments	25,151,483	23,940,581	49,092,064
Total Cash and Investments	<u>\$ 39,443,574</u>	<u>30,559,593</u>	<u>70,003,167</u>

Investments Authorized by the California Government Code and the Department’s Investment Policy

The table below identifies the investment types that are authorized by the Department and Consent Decree (see note 13) in accordance with the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that addresses interest rate risk, credit risk, and concentration of credit risk. Due to its long-term nature, the Consent Decree has been explicitly exempted from maximum maturity requirements of the California Government Code, which limits maturity of most investments to five years. All other aspects of the Consent Decree investment policy are consistent with the City’s investment policy.

<u>Investment Type*</u>	<u>Maximum Maturity</u>		<u>Maximum % of Portfolio</u>	<u>Maximum % in One Issuer</u>
	<u>Department</u>	<u>Consent Decree</u>		
US treasury	5 years	None	None	None
US agency	5 years	None	None	None
Bankers acceptances	180 days	180 days	40%	30%
Commercial paper	270 days	270 days	25%	10%
Negotiable CDs	5 years	None	30%	None
Medium-term notes	5 years	None	30%	None
Money market mutual funds	N/A	N/A	20%	10%
Mortgage pass through	5 years	None	20%	None
Local Agency Investment Fund	N/A	N/A	\$40,000,000	None
Guaranteed investment	N/A	N/A	None	None

* - Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. Investments authorized for funds held by bond trustee include, U.S. Treasury Obligations, U.S. Government Sponsored Enterprise Securities, the California Local Agency Investment Fund, Guaranteed Investment Contracts, Commercial Paper, Local Agency Bonds, Banker’s Acceptance and Money Market Mutual Funds. There are no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment, except for the maturity of Banker’s Acceptance which are limited to one year.



(3) Cash and Investments, continued

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposits made by a state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law.

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Department's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

For investment identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The Department is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Department's investment in this pool is reported in the accompanying financial statements at amounts based upon the Department's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated by a nationally recognized statistical rating organization, but, as stated previously, it is regulated by the California Government Code, and is therefore exempt from rating requirements.

Interest Rate Risk

Interest rate risk is the possibility that fluctuations in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value will be to changes in market interest rates. One method that the Department uses to manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(3) Cash and Investments, continued

Information about the sensitivity of the fair values of the Department’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Department’s investments by maturity date:

Investment Type	Maturities				Total
	Less than 12 months	13-24 months	25-60 months	More than 60 months	
U.S. Agency Securities	\$ 2,012,950	2,449,564	7,130,016	-	11,592,530
U.S. Treasuries	116,716	201,172	7,608,482	-	7,926,370
Medium Term Corporate Notes	927,223	612,844	972,197	-	2,512,264
Asset Backed Securities	-	79,665	1,520,255	-	1,599,920
Commercial Paper	484,515	-	-	-	484,515
Money Market Funds	107,342	-	-	-	107,342
Local Agency Investment Fund	3,743,920	-	-	-	3,743,920
Consent Decree:					
U.S. Treasuries	303,914	382,364	4,065,210	-	4,751,488
U.S. Agency Mortgage Backed Securities	-	-	-	1,510,006	1,510,006
U.S Agency Collateralized Mortgage Obligations	-	-	151,626	1,272,622	1,424,248
U.S. Agency Securities	624,408	1,082,060	2,752,979	-	4,459,447
Commercial Paper	499,961	-	-	-	499,961
Corporate Notes	615,190	1,975,931	3,716,407	-	6,307,528
Certificates of Deposit	475,329	898,774	399,777	-	1,773,880
Asset Back Securities/Collateralized Mortgage Obligations	398,645	-	-	-	398,645
Total Investments	<u>\$ 10,310,113</u>	<u>7,682,374</u>	<u>28,316,949</u>	<u>2,782,628</u>	<u>49,092,064</u>

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(3) Cash and Investments, continued

Credit Risk

Generally, credit risk is the possibility that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Department’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	Minimum Legal Rating	Rating	Total
U.S. Agency Securities	None	AA+	\$ 11,592,530
U.S. Treasuries	Exempt	Exempt	7,926,370
Medium Term Corporate Notes	AA-	AAA	360,158
		AA+	633,654
		AA	855,109
		AA-	663,343
Asset Backed Securities	AA	AAA	1,599,920
Commercial Paper	A-1	A-1	484,515
Money Market Funds	AA+	AAA	107,342
Local Agency Investment Fund	None	not rated	3,743,923
Consent Decree:			
U.S. Treasuries	Exempt	Exempt	4,751,488
U.S. Agency Mortgage Backed Securities	None	AA+	1,510,006
U.S. Agency Securities	None	AA+	4,459,447
U.S. Agency Collateralized Mortgage Obligation	AA	AA	1,424,248
Corporate Notes	A	AAA	743,993
		AA+	1,161,384
		AA	1,788,763
		AA-	1,307,551
		A+	1,305,837
Commercial paper	A-1	A-1	499,961
Certificates of Deposit	A	A-1+	400,244
		A-1	973,859
		AA-	399,777
Asset Backed Secuirites/Collateralized Mortgage Obligation	AA	AAA	398,644
Money Market Funds	AA+	AA+	528,649
Total Investments			\$ 49,620,715

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(3) Cash and Investments, continued

Concentration of Credit Risk

Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Department investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percentage of Investments</u>
Fannie Mae	U.S. Agency Securities	\$ 2,519,945	6%
Federal National Mortgage Association	U.S. Agency Securities	2,444,812	5%

(4) Capital Assets

Capital asset activity for the water utility for the fiscal year ended June 30, 2015:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2015</u>
Non-depreciable assets:				
Land and easements	\$ 5,654,389	-	-	5,654,389
Construction in progress	6,224,030	5,671,874	(8,372,847)	3,523,057
Total non-depreciable assets	<u>11,878,419</u>	<u>5,671,874</u>	<u>(8,372,847)</u>	<u>9,177,446</u>
Depreciable assets:				
Water rights, wells and pumping	96,612,111	1,560,536	-	98,172,647
Distribution system	138,672,711	8,007,924	-	146,680,635
Buildings, plants, and stores	3,221,571	-	-	3,221,571
Field and office equipment	15,110,147	716,536	-	15,826,683
Total depreciable assets	<u>253,616,540</u>	<u>10,284,996</u>	<u>-</u>	<u>263,901,536</u>
Less: accumulated depreciation				
Water rights, wells and pumping	(32,242,815)	(1,532,740)	-	(33,775,555)
Distribution system	(34,701,375)	(2,792,111)	-	(37,493,486)
Buildings, plants, and stores	(1,676,055)	(109,038)	-	(1,785,093)
Field and office equipment	(11,023,287)	(921,795)	-	(11,945,082)
Total accumulated depreciation	<u>(79,643,532)</u>	<u>(5,355,684)</u>	<u>-</u>	<u>(84,999,216)</u>
Total depreciable assets, net	<u>173,973,008</u>	<u>4,929,312</u>	<u>-</u>	<u>178,902,320</u>
Total capital assets, net	<u>\$ 185,851,427</u>	<u>10,601,186</u>	<u>(8,372,847)</u>	<u>188,079,766</u>

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(4) Capital Assets, continued

Capital asset activity for the sewer utility for the fiscal year ended June 30, 2015:

	Balance July 1, 2014	Additions	Deletions/ Transfers	Balance June 30, 2015
Non-depreciable assets:				
Land and easements	\$ 11,481,942	686,112	-	12,168,054
Construction in progress	9,407,628	10,672,880	(6,146,515)	13,933,993
Total non-depreciable assets	<u>20,889,570</u>	<u>11,358,992</u>	<u>(6,146,515)</u>	<u>26,102,047</u>
Depreciable assets:				
Pumping	3,192,218	-	-	3,192,218
Buildings, plants, and stores	123,860,500	6,253,133	(248,062)	129,865,571
Field and office equipment	5,601,463	266,466	(1,583)	5,866,346
Total depreciable assets	<u>132,654,181</u>	<u>6,519,599</u>	<u>(249,645)</u>	<u>138,924,135</u>
Less: accumulated depreciation				
Water rights, wells and pumping	(2,454,606)	(39,651)	-	(2,494,257)
Buildings, plants, and stores	(90,333,632)	(2,536,358)	-	(92,869,990)
Field and office equipment	(5,222,730)	(294,541)	1,385	(5,515,886)
Total accumulated depreciation	<u>(98,010,968)</u>	<u>(2,870,550)</u>	<u>1,385</u>	<u>(100,880,133)</u>
Total depreciable assets, net	<u>34,643,213</u>	<u>3,649,049</u>	<u>(248,260)</u>	<u>38,044,002</u>
Total capital assets, net	<u>\$ 55,532,783</u>	<u>15,008,041</u>	<u>(6,394,775)</u>	<u>64,146,049</u>

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(5) Operating Leases

Effective December 15, 2008, the Department took possession of leased space from Superior Homes LLC for administrative office and warehouse space for a term of ten years. The following is a schedule of minimum lease payments as of June 30, 2015:

Year	Water Utility	Sewer Utility	Total
2016	\$ 228,408	31,152	259,560
2017	228,408	31,152	259,560
2018	228,408	31,152	259,560
	<u>\$ 685,224</u>	<u>93,456</u>	<u>778,680</u>

(6) Long-term Liabilities

Water Utility Fund

Changes in long-term liabilities in the water utility fund for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion	Long-term Portion
Notes Payables:						
2002 CIEB	\$ 5,177,248	-	(575,228)	4,602,020	594,440	4,007,580
2007 CIEB	7,359,166	-	(479,775)	6,879,391	492,777	6,386,614
2012 CIEB	9,586,740	-	(424,046)	9,162,694	435,114	8,727,580
SMVMWD Note	677,191	-	(204,769)	472,422	225,723	246,699
Total Notes Payable	<u>22,800,345</u>	<u>-</u>	<u>(1,683,818)</u>	<u>21,116,527</u>	<u>1,748,054</u>	<u>19,368,473</u>
Compensated Absences	<u>1,076,591</u>	<u>935,324</u>	<u>(1,070,026)</u>	<u>941,889</u>	<u>753,511</u>	<u>188,378</u>
Total long term-debt, Water fund	<u>\$ 23,876,936</u>	<u>935,324</u>	<u>(2,753,844)</u>	<u>22,058,416</u>	<u>2,501,565</u>	<u>19,556,851</u>

2002 California Infrastructure and Economic Development Bank (CIEDB) Note Payable

In April 2002, CIEDB issued a \$10,000,000 note to the Department to provide funding for transmission mains, booster stations and a reservoir identified in the Water System Reliability Schedule of Improvements. The note was issued with an interest rate of 3.34% with interest payable semiannually on February 1 and August 1. Principal payments are due annually on February 1.

Debt service requirements on the 2002 CIEDB Note Payable are as follows:

Year	Principal	Interest	Total
2016	\$ 594,440	153,708	748,148
2017	614,294	133,854	748,148
2018	634,812	113,336	748,148
2019	656,014	92,133	748,147
2020	677,925	70,222	748,147
2021-2022	<u>1,424,535</u>	<u>71,760</u>	<u>1,496,295</u>
	<u>\$ 4,602,020</u>	<u>635,013</u>	<u>5,237,033</u>

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(6) Long-term Liabilities, continued

2007 CIEDB Note Payable

In July 2007, CIEDB issued a \$10,000,000 note to the Department to provide funding for booster stations and transmission mains in the Verdemon area. The note was issued with an interest rate of 2.71% with interest payable semiannually on February 1 and August 1. Principal payments are due annually on August 1.

Debt service requirements on the 2007 CIEDB Note Payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 492,777	179,754	672,531
2017	506,131	166,219	672,350
2018	519,847	152,317	672,164
2019	533,935	138,038	671,973
2020	548,405	123,373	671,778
2021-2025	2,973,170	382,585	3,355,755
2026-2027	1,305,126	35,605	1,340,731
	<u>\$ 6,879,391</u>	<u>1,177,891</u>	<u>8,057,282</u>

2012 CIEDB Note Payable

In May 2012, CIEDB issued a \$10,000,000 note to the Department to provide funding for the construction of the 12 million gallon Ogden Reservoir and certain pipeline improvements. The note was issued with an interest rate of 2.61% with interest payable semiannually on February 1 and August 1. Principal payments are due annually on August 1.

Debt service requirements on the 2012 CIEDB Note Payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 435,114	233,468	668,582
2017	446,470	221,963	668,433
2018	458,123	210,158	668,281
2019	470,080	198,045	668,125
2020	482,349	185,616	667,965
2021-2025	2,607,286	729,988	3,337,274
2026-2030	2,965,768	366,828	3,332,596
2031-2032	1,297,504	34,083	1,331,587
	<u>\$ 9,162,694</u>	<u>2,180,149</u>	<u>11,342,843</u>

SBVMWD Note Payable

In July 2012, the Department closed escrow on the purchase of real property from the San Bernardino Valley Municipal Water District (SBVMWD), which included a down payment of \$1,000,000 and a promissory note of \$1,117,500 to be paid in sixty (60) monthly installments due on or before the 1st of each month.

Debt service requirements on the SBVMWD Note Payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 225,723	3,504	229,227
2017	246,699	1,238	247,937
	<u>\$ 472,422</u>	<u>4,742</u>	<u>477,164</u>

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(6) Long-term Liabilities, continued

Debt Service Coverage

The Water Utility Fund is required to maintain net revenues adequate to cover 110% of annual debt service. Gross revenue is defined as Operating Revenue combined with non-operating revenue. Debt service coverage for the Water Utility Fund for the year ended June 30, 2015 was as follows:

Gross revenue	\$ 33,121,128
Operating expenses	35,504,584
Less: depreciation expense	<u>(5,365,124)</u>
Net operating expenses	<u>30,139,460</u>
Net revenues	<u>\$ 2,981,668</u>
Annual debt service	<u>\$ 2,318,805</u>
Actual coverage ratio	<u>1.29</u>

Sewer Utility Fund

Changes in long-term liabilities in the sewer utility fund for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion	Long-term Portion
Notes Payables:						
State Revolving Fund	\$ 3,374,135	-	(1,664,425)	1,709,710	1,709,710	-
Total Notes Payable	<u>3,374,135</u>	<u>-</u>	<u>(1,664,425)</u>	<u>1,709,710</u>	<u>1,709,710</u>	<u>-</u>
Certificates of Participation:						
1998 Certificates of Participation	9,340,000	-	(2,965,000)	6,375,000	3,155,000	3,220,000
Less: unamortized discounts	(47,636)	-	18,944	(28,692)	-	(28,692)
Total Certificates of Participation	<u>9,292,364</u>	<u>-</u>	<u>(2,946,056)</u>	<u>6,346,308</u>	<u>3,155,000</u>	<u>3,191,308</u>
Compensated Absences	<u>366,667</u>	<u>688,116</u>	<u>(770,541)</u>	<u>284,242</u>	<u>227,394</u>	<u>56,848</u>
Total long term-debt, Sewer fund	<u>\$ 13,033,166</u>	<u>688,116</u>	<u>(5,381,022)</u>	<u>8,340,260</u>	<u>5,092,104</u>	<u>3,248,156</u>

State Revolving Fund Note Payable

The State Water Resources Control Board issued a note to Santa Ana Watershed Authority to provide funding for the Santa Ana Watershed Authority providing funding for the San Bernardino/Colton Rapid Infiltration Extraction (RIX) project in the amount of \$25,978,599. In April 2001, the agreement was amended to transfer the note obligation to the successors in interest being the City of San Bernardino Board of Water Commissioners and the City of Colton. The Department will use revenues from the sewer treatment utility fund towards repayment of the note.

Debt service requirements on the State Revolving Fund Note Payable are as follows:

Year	Principal	Interest	Total
2016	<u>\$ 1,709,710</u>	<u>47,872</u>	<u>1,757,582</u>
	<u>\$ 1,709,710</u>	<u>47,872</u>	<u>1,757,582</u>

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(6) Long-term Liabilities, continued

1998 Certificates of Participation

In 1998, the sewer treatment utility issued \$36,230,000 in Certificates of Participation to advance refund the 1992 Sewer Certificates of Participation and fund additional capital improvements. The 1992 Certificates originally provided for the construction of certain capital improvements. The proceeds of the 1998 Certificates were invested and used to pay interest on the 1998 issue until February 1, 2001, when the 1992 Certificates were called at a prepayment premium of two percent. The Department now pays the installment payments on the 1998 Certificates from the net revenues of the sewer treatment system. The issue has interest rates between 3.95% - 5.25%, annual debt service payments of \$1,697,000 - \$3,474,000, and a maturity date of 2017.

Debt service requirements on the 1998 Certificates of Participation are as follows:

Year	Principal	Interest	Total
2016	\$ 3,155,000	318,750	3,473,750
2017	3,220,000	161,000	3,381,000
	<u>\$ 6,375,000</u>	<u>479,750</u>	<u>6,854,750</u>

Debt Service Coverage

The Sewer Utility Fund is required to maintain net revenues adequate to cover 110% of annual debt service. The Department’s Certificates of Participation hold a senior lien on net revenues of the Sewer Utility Fund. Gross revenue is defined as Operating Revenue combined with non-operating revenue. Debt service coverage for the Sewer Utility Fund for the fiscal year ended June 30, 2015 was as follows:

Gross revenue	\$ 24,598,067
Operating expenses	19,167,269
Less: depreciation expense	<u>(2,417,491)</u>
Net operating expenses	<u>16,749,778</u>
Net revenues	<u>\$ 7,848,289</u>
Senior Lien - annual debt service	\$ 3,439,412
Subordinate Lien - annual debt service	<u>1,758,901</u>
Total annual debt service	<u>\$ 5,198,313</u>
Senior lien debt coverage ratio	2.28
Aggregate debt coverage ratio	1.51

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(7) Pension Plan

Plan Description

The Department is considered to be part of the City of San Bernardino PERS pension plan, therefore all related information included in this note refers to the City as a whole unless specifically indicating otherwise. All qualified permanent and probationary employees are eligible to participate in the Department’s Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Additional disclosures regarding the City plan can be found in the City’s audited financial statements.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2% @ 60
Benefit vesting schedule	5 years service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	8%
Required employer contribution rates	22.024%	22.024%

Employees Covered

As of June 30, 2013, the following employees were covered by the benefit terms of the Plan:

	City-wide	Department
Inactive employees or beneficiaries currently receiving benefits	1,262	123
Inactive employees entitled to but not yet receiving benefits	843	0
Active employees	736	246
Total	2,841	43



(7) Pension Plan, continued

Contribution Description

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) 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. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate is 7.936 percent of annual pay, and the employer’s contribution rate is 18.186 percent of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses: includes Inflation
Mortality Rate Table ¹	Derived using CalPERS’ Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power applies, 2.75% thereafter

¹ 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, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.



(7) Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent 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 at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent 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 percent. 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.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments 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, staff 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.



(7) Pension Plan, continued

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10¹	Real Return Years 11+²
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.



(7) Pension Plan, continued

Changes in Net Pension Liability

The following table shows the Plan’s proportionate share of the net pension liability of the City’s plan over the measurement period:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	170,090,256	123,406,572	51,683,684
Balance at: 6/30/2014 (MD)	182,054,201	141,121,803	40,932,398
Net Changes during 2013-14	6,963,945	17,715,231	(10,751,285)

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

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate – 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan’s Net Pension Liability – Department Allocation (36%)	\$ 64,214,204	\$ 40,932,398	\$ 21,619,155

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(7) Pension Plan, continued

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the 2013-14 measurement period is 2.4 years, which was obtained by dividing the total service years of 6,678 (the sum of remaining service lifetimes of the active employees) by 2,841 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the measurement period ending June 30, 2014 (the measurement date), the Department recognized a pension expense of \$2,666,737 for the Plan.

As of June 30, 2014, the Department reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$2,979,160	\$0
Differences between Expected and Actual Experience	0	0
Changes of Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(9,651,219)
Total	\$2,979,160	\$(9,651,219)

The amounts above are net inflows and outflows recognized in the 2013-14 measurement period expense.

\$2,979,160 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:



(7) Pension Plan, continued

Measurement period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2015	\$(2,412,805)
2016	(2,412,805)
2017	(2,412,805)
2018	(2,412,805)
2019	0
Thereafter	0

(8) Other Post-Employment Benefits

Plan Description

The Department provides health benefits to all qualifying retirees and their spouses in accordance with Memorandums of Understanding under various labor agreements.

Eligibility

Employees are eligible for retiree health benefits if they retire from the Department on or after age 50 with at least 10, 12 or 15 years of service, depending on bargaining unit, and are eligible for a PERS pension. The latest actuarial valuation of the plan occurred June 30, 2014. Membership consists of the following:

Retirees and beneficiaries receiving benefits	123
Active plan members	<u>246</u>
Total plan members	<u>369</u>

Funding Policy

The contribution requirements of plan members and the Department are established and may be amended by the Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as may be determined annually by the Board. The Department has established an irrevocable trust to which pre-funding contributions are made. For fiscal year 2015, the Department has funded \$2,256,321 for the current year. The Department pays up to the entire cost of health benefits for eligible retirees and their spouses, subject to the City's vesting schedule.



(8) Other Post-Employment Benefits, continued

Annual OPEB Cost and Net OPEB Obligation

The Department's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Department's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Department's net OPEB obligation:

Actual required contribution (ARC)	\$ 2,707,000
Interest on new OPEB obligation	22,032
Amortization of net OPEB obligation	<u>(30,000)</u>
Annual OPEB cost (expense)	2,699,032
Contributions made	<u>2,256,321</u>
Increase in net OPEB obligation	442,711
Net OPEB obligation - beginning of year	<u>352,510</u>
Net OPEB obligation - end of year	<u>\$ 795,221</u>

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Paid Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
6/30/2013	\$ 2,361,000	\$ 573,621	24%	\$ 1,787,379
6/30/2014	2,438,000	3,872,869	159%	352,510
6/30/2015	2,699,032	2,256,321	84%	795,221

Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the plan was 38.2% funded. The actuarial accrued liability for benefits was \$35,012,000, the actuarial value of assets was \$13,380,000 and the unfunded actuarial accrued liability (UAAL) was \$21,632,000. The covered payroll (annual payroll of active employees covered by the plan) was \$15,531,000 and the ratio of the UAAL to the covered payroll was 139.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(8) Other Post-Employment Benefits, continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a rate of return of 6.25% and annual healthcare cost trend rates of 7.5% initially, reduced by increments to an ultimate rate of 5% in 2021. Both rates included a 3% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2015, was 19 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
6/30/2010	\$ -	\$ 28,676,000	\$ 28,676,000	0.0%	\$ 12,619,000	227.2%
6/30/2012	8,556,000	28,831,000	20,275,000	29.7%	14,765,000	137.3%
6/30/2014	13,380,000	35,012,000	21,632,000	38.2%	15,531,000	139.3%

(9) Related Party Transactions

The following is a summary of transactions and balances with the City of San Bernardino and its various Departments as of and for the year ended June 30, 2015.

Receipts	Water Utility	Sewer Utility	Total
City of San Bernardino:			
Revenue from Water Charges	\$ 1,307,085	-	1,307,085
Revenue from Sewer Charges	-	77,569	77,569
Revenue from Geothermal Charges	29,944	-	29,944
Billing & Collection Charges - Refuse	360,000	-	360,000
Billing & Collection Charges - Storm Drain	4,770	-	4,770
Billing & Collection Charges - Sewer Collection	63,000	-	63,000
Cost Reimbursement	69,400	-	69,400
Total receipts from related parties	\$ 1,834,199	77,569	1,911,768

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(9) Related Party Transactions, continued

Payments	Water Utility	Sewer Utility	Total
City of San Bernardino:			
Worker's Compensation (Admin. Charges)	\$ 387,444	140,456	527,900
Printing Services	-	679	679
Postage	20,480	-	20,480
Refuse Disposal Service	19,996	21,038	41,034
Consulting Services	3,158,832	-	3,158,832
Franchise Fee	-	107,784	107,784
Permits	91,247	919	92,166
Cost Reimbursement	9,964	3,881	13,845
Total payments to related parties	\$ 3,687,963	274,757	3,962,720

Receivables	Water Utility	Sewer Utility	Total
City of San Bernardino:			
Related party receivable	\$ 927,874	47,565	975,439
Accounts receivable, net	41,311	300	41,611
Due from other entities	165,828	-	165,828
Total receivable from related parties	\$ 1,135,013	47,865	1,182,878

Payables	Water Utility	Sewer Utility	Total
City of San Bernardino:			
Related party payable	\$ 2,523,358	230,300	2,753,658
Accounts payable	3,285,973	168,352	3,454,325
Claims payable	1,213,539	239,673	1,453,212
Total payable to related parties	\$ 2,523,358	638,325	7,661,195



(10) Joint Ventures

Colton / San Bernardino Regional Tertiary Treatment and Water Reclamation Authority

On August 2, 1994, the City of San Bernardino, through the Department formed a joint powers authority with the City of Colton to construct, operate, use and maintain tertiary wastewater treatment, disposal and water reclamations systems, including the Regional Rapid Infiltration and Extraction Facility (RIX). This authority is governed by a separate board consisting of four members; two appointed by the City of San Bernardino through the Department's BOWC and two appointed by the City Council of the City of Colton. Construction of RIX was administered by the Santa Ana Watershed Project Authority and was substantially completed during 1996. Administration and operation was turned over at that time. The cities of San Bernardino and Colton each have a measurable equity interest in the net position of RIX in proportion to its contributions, which are based on an 80% / 20% split, respectively. Substantially all of the assets of RIX are in the form of capital assets. RIX has no liabilities. Annual revenues (in the form of contributions from the two member cities) are equal to annual expenses. The Department's equity interest in this joint venture has been reported as an investment in joint venture in the accompanying statement of net position.

San Bernardino Public Safety Authority

On April 1, 1968, the City of San Bernardino and the County of San Bernardino formed the San Bernardino Public Safety Authority (PSA), a joint powers authority, as a financing vehicle to construct public safety buildings and improvements to the wastewater treatment plant. In accordance with the terms of an installment purchase agreement, title to the capital assets financed through the PSA were recognized as capital assets of the City at the inception of the installment purchase agreement between the City and the PSA. The City's remaining interest in the joint venture is in the form of cash and investments held by the PSA for debt service related activity. The Department's equity interest in these assets has been recognized in the accompanying statement of net position as an investment in joint venture.

West End Water Development, Treatment and Conservation Joint Powers Authority

On August 15, 1990, the City of San Bernardino joined the West End Water Development, Treatment and Conservation Joint Powers Authority (WEJPA) as a financing vehicle for construction of water facilities. A three-member board consisting of one representative from each agency's governing body governs the WEJPA. This joint venture was formed to provide a financing vehicle for the three member agencies. This joint venture is currently inactive.

(11) Commitments and Contingencies

Risk Management

Risk management activities are recorded in both utility funds. Significant losses are covered by insurance for all major events except workers' compensation, for which the Department retains risk of loss in conjunction with the City of San Bernardino's risk management program for workers compensation. Settlement amounts have not exceeded insurance coverage for the current year or the prior three years. Insurance coverage has been increased over the past several years.

The Department records an estimated liability for workers' compensation. Claims liabilities are based on estimates of the ultimate cost of reported claims and an estimate for claims incurred but not reported based upon historical experience. Workers' compensation claims liability is not discounted.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT*Notes to the Basic Financial Statements, continued*

For the Year Ended June 30, 2015

**(11) Commitments and Contingencies, continued**

The following are the changes in approximate aggregate liabilities for the year ended June 30, 2015.

Claims Liabilities	Water Utility	Sewer Utility	Total
Claims payable, beginning of year	\$ 731,496	\$ 268,107	\$ 999,603
Claims and changes in estimates	835,698	177,237	1,012,935
Claims payments	(353,655)	(205,671)	(559,326)
Claims payable, end of year	\$ 1,213,539	\$ 239,673	\$ 1,453,212

Litigation

In the ordinary course of operations, the Department is subject to claims and litigation from outside parties. After consultation with legal counsel, the Department believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(12) Federal and State Grants

Grant funds received by the Department are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Department believes that such disallowances, if any, would not be significant. The Department produces a Single Audit that details the use of grant and Consent Decree funds (see note 13 for information on the Consent Decree).

(12) Subsequent Events

On December 1st, 2015, the Board of Water Commissioners approved a loan with the San Bernardino Valley Municipal Water District up to \$1.2 million for the UV System Rehabilitation Project.



(13) Consent Decree

In 1996, the City of San Bernardino filed a complaint against the United States of America, Department of the Army to recover damages, response costs and other available remedies relating to contamination alleged to have originated at a World War II army installation known as Camp Ono. In March 2005, the United States District Court, Central Division entered judgment, in the form of a consent decree, in the matter of City of San Bernardino v. United States of America. The Consent Decree settles the City's and the State's claims arising from the groundwater contamination allegedly caused by the Army. The Consent Decree contains a number of provisions obligating the City (through the Department) to operate and maintain the Newmark Groundwater Superfund site (Site). The Site consists of two operable units, the Newmark Operable Unit and the Muscoy Operable Unit. The Newmark Operable Unit was declared operational and functional in 1998. The Muscoy Operable unit was declared operational and functional in 2007.

The Consent Decree provided for a payment of \$69 million from the Army to the City for performance of the work outlined in the Consent Decree. Upon acceptance of the Consent Decree, the Department received title to all facilities constructed by the United States Environmental Protection Agency (EPA) of the Site and agreed to operate and maintain the groundwater extraction and treatment system for a period of 50 years. The \$69 million payment consisted of \$59 million for operations and maintenance and \$10 million for the construction of certain capital facilities that would be required in the future; the funds are subject to strict limitations, contained in the Consent Decree, as to how the money may be spent.

Pursuant to the Consent Decree, \$10 million, including interest earned, has been set aside to be used only for (i) funding construction of treatment and directly related transmission systems that expand the Department's capacity to deliver potable water and (ii) funding work performed by the Department to complete construction of the Muscoy Operable Unit extraction system. These capital facility funds may not be used for costs incurred to operate, maintain, repair or retrofit components of the site extraction of treatment systems constructed by EPA.

In March 2006, the Department entered into a Guaranteed Investment Contract with AIG Match Funding Corporation. The Department invested \$16,482,039 of excess Consent Decree funds into an interest bearing Escrow Fund investment with an interest rate of 4.95% per annum. These funds were invested to pay costs associated with the water facilities defined in the Consent Decree for years 2035-2056. An additional \$50 million was used to purchase a blended insurance policy to provide a financial vehicle that provides cost gap coverage for the first 30 years of expenses.

The terms of the Guaranteed Investment Contract only provided the Department with the position of a secured creditor with respect to an AIG bankruptcy. As concerns arose regarding AIG's financial credibility, in October 2009, the Department negotiated and accepted a "payout" in the amount of \$18,661,876 which represented the principal and accrued interest as of that date. These funds are currently invested in a diversified portfolio managed by PFM Asset Management and present in more detail in note 3.

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

Notes to the Basic Financial Statements, continued

For the Year Ended June 30, 2015



(14) Net Position

Net position at June 30, 2015, consisted of the following:

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
Net investment in capital assets:			
Non-depreciable assets	\$ 9,177,446	26,102,047	35,279,493
Depreciable assets	263,901,536	138,924,135	402,825,671
Accumulated Depreciation and amortization	(84,999,216)	(100,880,133)	(185,879,349)
Less: related debt			
Notes payable, current portion	1,702,526	1,664,425	3,366,951
Certificates of participation, current portion	-	2,965,000	2,965,000
Notes payable, noncurrent portion	19,414,001	45,285	19,459,286
Certificates of participation, noncurrent portion	-	3,381,308	3,381,308
Total net investment in capital assets	<u>166,963,239</u>	<u>56,090,031</u>	<u>223,053,270</u>
Restricted for capital-related fees:			
Cash and cash equivalents, restricted for capital-related fees	-	7,643,404	7,643,404
Unrestricted:			
Designated for operating reserve	3,780,556	3,780,556	7,561,112
Designated for rate stabilization reserve	4,248,000	4,248,000	8,496,000
Designated for emergency replacement reserve	-	11,115,109	11,115,109
Designated for capital replacement reserve	533,559	11,665,577	12,199,136
Undesignated	-	10,635,783	10,635,783
Total unrestricted	<u>8,562,115</u>	<u>41,445,025</u>	<u>50,007,140</u>
Total net position	<u>\$ 175,525,354</u>	<u>\$ 105,178,460</u>	<u>\$ 280,703,814</u>

(15) Prior Period Adjustment

During the year the Department implemented GASB 68 resulting in recording a net pension liability and deferred outflow of resources as a prior period adjustment.

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
Net position at beginning of the year, as previously reported	\$ 175,525,354	105,178,460	280,703,814
Implementation of GASB 68	<u>(27,939,656)</u>	<u>(21,077,289)</u>	<u>(49,016,945)</u>
Net position at beginning of the year, restated	<u>\$ 147,585,698</u>	<u>84,101,171</u>	<u>231,686,869</u>

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STATISTICAL SECTION

(Unaudited)

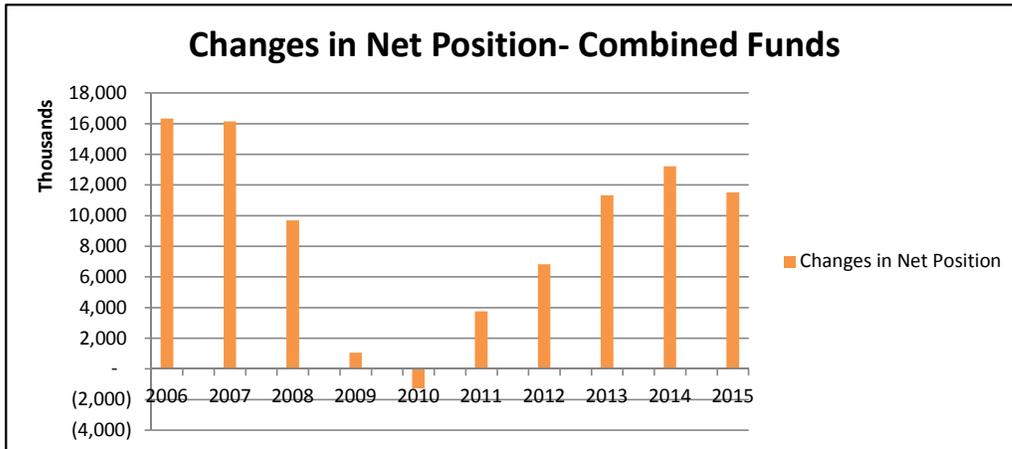
FINANCIAL TRENDS

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

City of San Bernardino Municipal Water Department
Changes in Net Position
Last Ten Fiscal Years

Fiscal Year Ended	Total Operating Revenue	Total Operating Expense	Operating Income	Total Non-Operating Income (Expense)	Total Contributed Capital	Changes in Net Position
6/30/2006	41,163,361	44,391,520	(3,228,159)	1,112,920	18,430,146	16,314,907
6/30/2007	47,914,999	48,791,026	(876,027)	2,106,963	14,904,830	16,135,766
6/30/2008	46,757,411	54,172,974	(7,415,563)	3,838,588	13,263,336	9,686,361
6/30/2009	47,171,798	54,044,608	(6,872,810)	2,717,707	5,197,854	1,042,751
6/30/2010	47,808,997	57,965,395	(10,156,398)	1,375,536	7,510,777	(1,270,085)
6/30/2011	54,280,835	56,328,523	(2,047,688)	1,408,498	4,390,162	3,750,972
6/30/2012	60,756,697	58,971,535	1,785,162	1,974,266	3,055,921	6,815,349
6/30/2013	61,883,615	57,327,537	4,556,078	1,861,758	4,896,921	11,314,757
6/30/2014	62,292,428	57,965,395	4,327,033	1,375,536	7,510,777	13,213,346
6/30/2015	57,805,304	55,074,661	2,730,643	3,801,830	4,977,945	11,510,418

Source: Department's annual reports

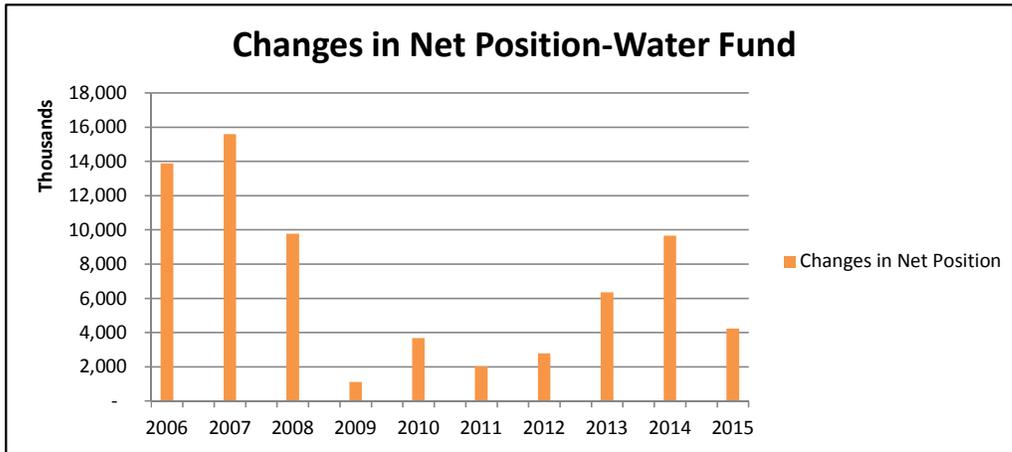


City of San Bernardino Municipal Water Department
Water Fund

Changes in Net Position
Last Ten Fiscal Years

Fiscal Year Ended	Total Operating Revenue	Total Operating Expense	Operating Income	Total Non-Operating Income (Expense)	Total Contributed Capital	Changes in Net Position
6/30/2006	21,760,104	24,833,550	(3,073,446)	3,186,965	13,766,100	13,879,619
6/30/2007	28,232,366	28,069,392	162,974	3,487,628	11,931,117	15,581,719
6/30/2008	27,337,093	32,453,101	(5,116,008)	3,479,605	11,397,947	9,761,544
6/30/2009	27,258,954	32,934,974	(5,676,020)	2,853,518	3,919,197	1,096,695
6/30/2010	27,688,694	31,953,080	(4,264,386)	2,101,540	5,829,803	3,666,957
6/30/2011	33,027,707	35,811,915	(2,784,208)	2,025,029	2,782,168	2,022,989
6/30/2012	37,106,217	39,155,830	(2,049,613)	2,436,449	2,384,710	2,771,546
6/30/2013	37,868,846	37,430,224	438,622	2,492,448	3,421,521	6,352,591
6/30/2014	36,671,903	36,041,616	630,287	2,504,705	6,521,601	9,656,593
6/30/2015	33,121,128	35,504,582	(2,383,454)	2,702,953	3,905,104	4,224,603

Source: Department's annual reports



City of San Bernardino Municipal Water Department

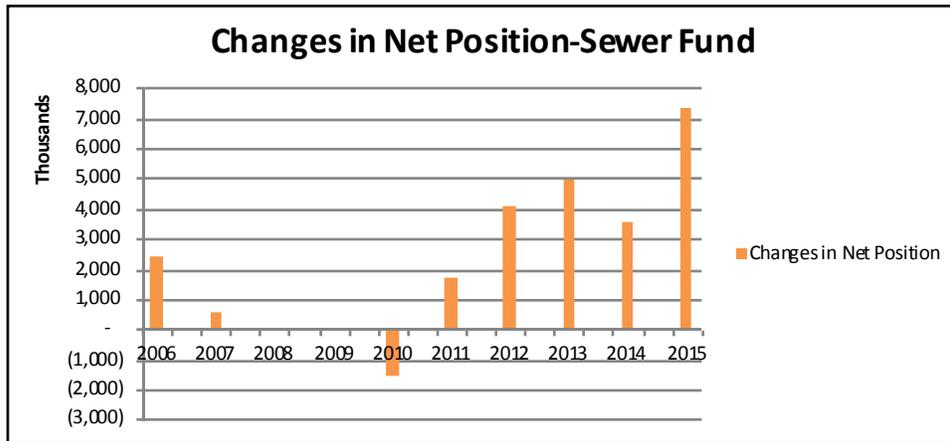
Sewer Fund

Changes in Net Position

Last Ten Fiscal Years

Fiscal Year Ended	Total Operating Revenue	Total Operating Expense	Operating Income	Total Non-Operating Income (Expense)	Total Contributed Capital	Changes in Net Position
6/30/2006	20,363,472	20,518,185	(154,713)	(2,074,045)	4,664,046	2,435,288
6/30/2007	21,002,484	22,041,485	(1,039,001)	(1,380,665)	2,973,713	554,047
6/30/2008	20,847,984	23,147,539	(2,299,555)	358,983	1,865,389	(75,183)
6/30/2009	21,208,021	22,404,811	(1,196,790)	(135,811)	1,278,657	(53,944)
6/30/2010	22,424,943	24,474,747	(2,049,804)	(19,598)	495,768	(1,573,634)
6/30/2011	23,433,833	22,697,313	736,520	(616,531)	1,607,994	1,727,983
6/30/2012	25,888,729	22,053,954	3,834,775	(462,183)	671,211	4,043,803
6/30/2013	26,414,653	22,297,197	4,117,456	(630,690)	1,475,400	4,962,166
6/30/2014	25,670,774	21,974,028	3,696,746	(1,129,169)	989,176	3,556,753
6/30/2015	24,734,425	19,620,328	5,114,097	1,098,877	1,072,841	7,285,815

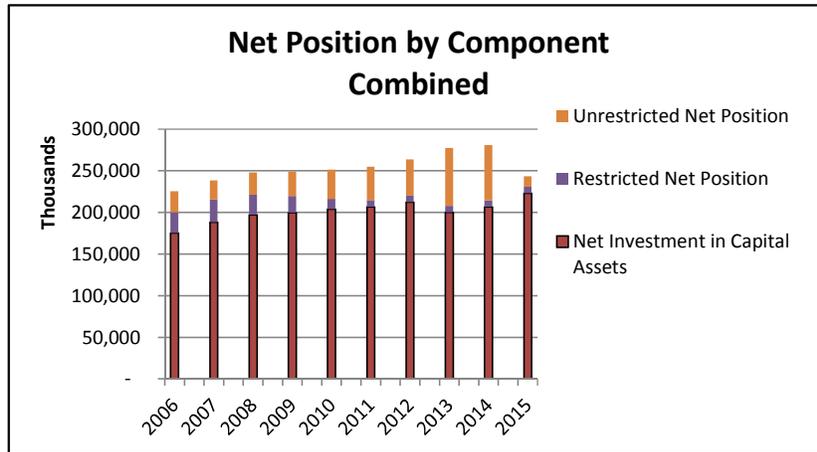
Source: Department's annual reports



City of San Bernardino Municipal Water Department
 Net Position By Component
 Last Ten Fiscal Years

Fiscal Year Ended	Net Investment in Capital Assets	Restricted Net Position	Unrestricted Net Position	Total Net Position
6/30/2006	175,115,812	24,859,169	25,256,531	225,231,512
6/30/2007	188,196,495	27,280,333	22,890,450	238,367,278
6/30/2008	196,892,664	24,205,033	26,955,942	248,053,639
6/30/2009	199,628,149	19,831,726	29,636,515	249,096,390
6/30/2010	204,066,502	11,992,059	35,131,152	251,189,713
6/30/2011	206,520,977	8,276,462	40,143,246	254,940,685
6/30/2012	212,490,593	7,389,246	43,545,621	263,425,460
6/30/2013	200,072,942	7,799,773	69,315,171	277,187,886
6/30/2014	206,663,567	7,515,658	66,524,589	280,703,814
6/30/2015	223,053,269	7,633,049	12,510,969	243,197,287

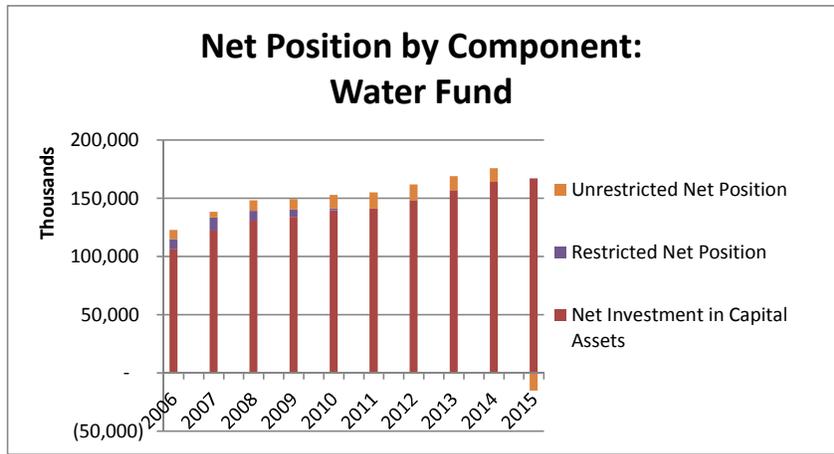
Source: Department's annual reports



City of San Bernardino Municipal Water Department
 Net Position By Component-Water Fund
 Last Ten Fiscal Years

Fiscal Year Ended	Net Investment in Capital Assets	Restricted Net Position	Unrestricted Net Position	Total Net Position
6/30/2006	106,036,062	8,720,267	7,964,724	122,721,053
6/30/2007	122,080,723	11,294,440	4,927,609	138,302,772
6/30/2008	130,610,364	8,406,696	9,047,256	148,064,316
6/30/2009	133,834,066	6,328,449	8,998,496	149,161,011
6/30/2010	139,688,690	1,528,434	11,610,844	152,827,968
6/30/2011	140,912,873	-	13,938,084	154,850,957
6/30/2012	148,063,104	41,320	13,658,195	161,762,619
6/30/2013	156,758,127	-	12,133,904	168,892,031
6/30/2014	163,797,283	-	11,728,071	175,525,354
6/30/2015	166,963,238		(15,152,937)	151,810,301

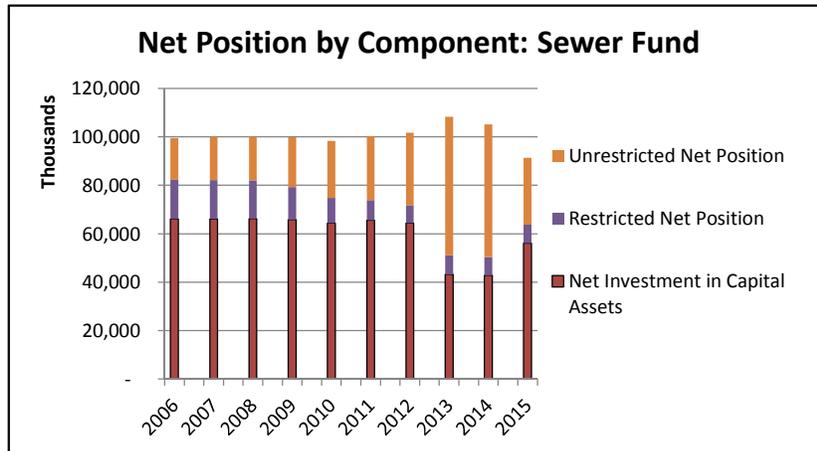
Source: Department's annual reports



City of San Bernardino Municipal Water Department
 Net Position By Component-Sewer Fund
 Last Ten Fiscal Years

Fiscal Year Ended	Net Investment in Capital Assets	Restricted Net Position	Unrestricted Net Position	Total Net Position
6/30/2006	66,079,750	16,138,902	17,291,807	99,510,459
6/30/2007	66,115,772	15,985,893	17,962,841	100,064,506
6/30/2008	66,282,300	15,798,337	17,908,686	99,989,323
6/30/2009	65,794,083	13,503,277	20,638,019	99,935,379
6/30/2010	64,377,812	10,463,625	23,520,308	98,361,745
6/30/2011	65,608,104	8,276,462	26,205,162	100,089,728
6/30/2012	64,427,489	7,347,926	29,887,426	101,662,841
6/30/2013	43,314,815	7,799,733	57,181,267	108,295,815
6/30/2014	42,866,284	7,515,658	54,796,518	105,178,460
6/30/2015	56,090,031	7,633,049	27,663,906	91,386,986

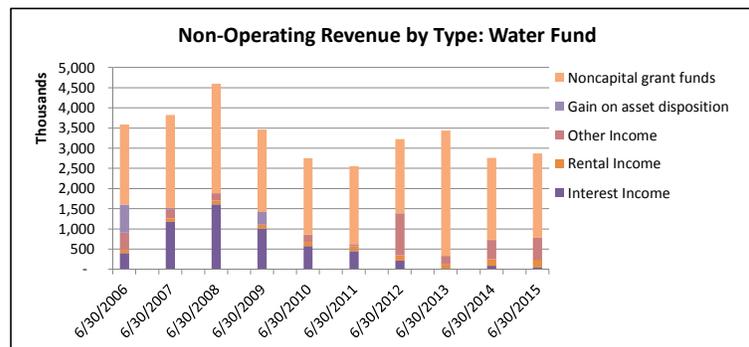
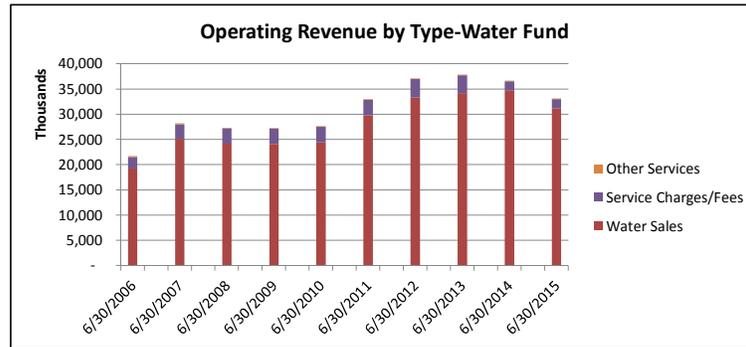
Source: Department's annual reports



City of San Bernardino Municipal Water Department
Water Fund Revenue by Type
Last Ten Fiscal Years

Fiscal Year Ended	Water Sales	Service Charges/Fees	Other Services	Total Operating Revenue	Interest Income	Rental Income	Other Income	Gain on asset disposition	Noncapital grant funds	Total Non Operating Income
6/30/2006	19,293,502	2,243,214	223,388	21,760,104	401,369	89,761	421,317	693,500	1,983,509	3,589,456
6/30/2007	25,136,912	2,929,446	166,008	28,232,366	1,180,789	82,944	227,509	37,377	2,300,151	3,828,770
6/30/2008	24,194,275	3,005,938	136,880	27,337,093	1,613,192	95,818	178,348	-	2,715,957	4,603,315
6/30/2009	24,147,627	2,991,468	119,859	27,258,954	1,008,607	101,130	-	309,708	2,043,889	3,463,334
6/30/2010	24,436,854	3,118,571	133,269	27,688,694	578,912	98,638	175,782	8,988	1,894,624	2,756,944
6/30/2011	29,782,786	3,101,431	143,489	33,027,707	451,927	117,454	59,960	-	1,928,999	2,558,340
6/30/2012	33,315,084	3,665,354	125,779	37,106,217	219,027	133,400	1,041,667	-	1,838,223	3,232,317
6/30/2013	34,252,357	3,476,061	140,429	37,868,846	-	122,826	211,032	-	3,110,201	3,444,059
6/30/2014	34,777,112	1,754,614	140,176	36,671,903	93,428	160,089	478,512	4,446	2,030,066	2,766,541
6/30/2015	31,217,534	1,789,654	113,940	33,121,128	54,786	181,809	545,840	-	2,089,637	2,872,072

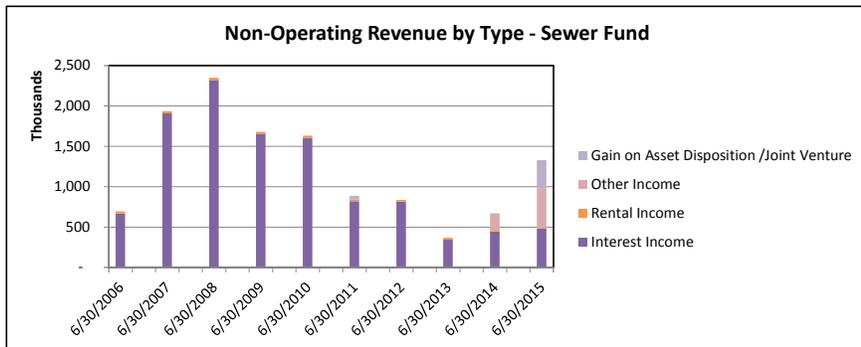
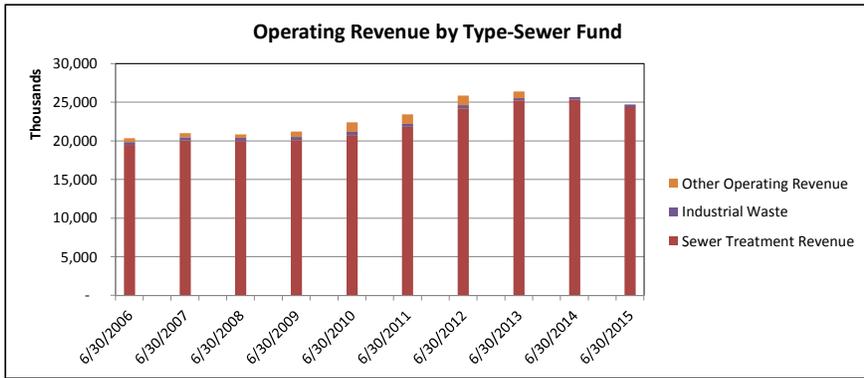
Source: Department's annual reports



City of San Bernardino Municipal Water Department
Sewer Fund Revenue by Type
Last Ten Fiscal Years

Fiscal Year Ended	Sewer Treatment Revenue	Industrial Waste	Other Operating Revenue	Total Operating Revenue	Interest Income	Rental Income	Other Income	Gain on Asset Disposition /Joint Venture	Total Non Operating Income
6/30/2006	19,492,372	366,321	504,779	20,363,472	662,460	29,181	-	-	691,641
6/30/2007	20,083,001	390,328	529,155	21,002,484	1,906,369	29,101	-	-	1,935,470
6/30/2008	20,009,959	372,631	465,394	20,847,984	2,319,570	29,425	-	-	2,348,995
6/30/2009	20,124,192	406,686	677,142	21,208,021	1,652,562	26,826	-	-	1,679,388
6/30/2010	20,771,749	431,300	1,221,894	22,424,942	1,603,840	26,303	-	-	1,630,143
6/30/2011	21,833,085	379,316	1,221,431	23,433,833	817,740	23,517	-	41,609	882,866
6/30/2012	24,250,417	376,550	1,261,762	25,888,729	812,885	21,907	-	-	834,792
6/30/2013	25,261,792	296,153	856,708	26,414,654	340,689	22,574	-	-	363,263
6/30/2014	25,350,988	319,786	-	25,670,774	443,836	20,669	202,078	-	666,583
6/30/2015	24,399,415	335,010	-	24,734,425	481,211	700	498,247	345,884	1,326,042

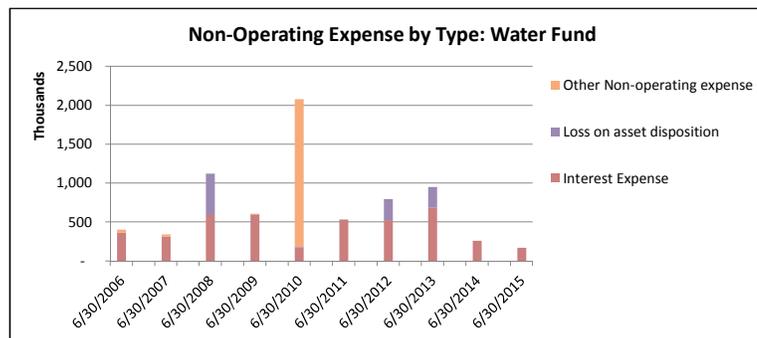
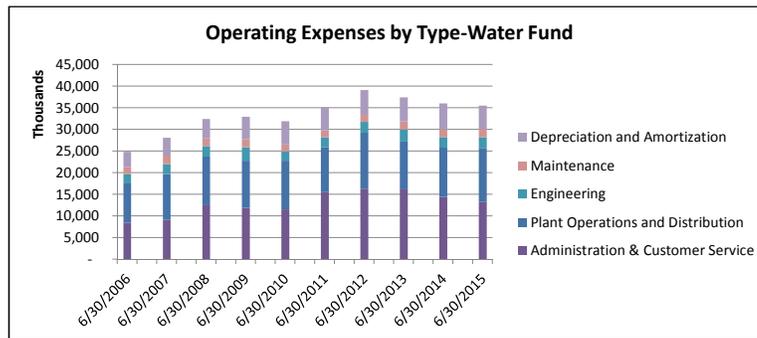
Source: Department's annual reports



City of San Bernardino Municipal Water Department
Water Fund Expenses by Type
Last Ten Fiscal Years

Fiscal Year Ended	Administration & Customer Service	Plant Operations and Distribution	Engineering	Maintenance	Depreciation and Amortization	Total Operating Expense	Interest Expense	Loss on asset disposition	Other Non-operating expense	Total Non-Operating Expense
6/30/2006	8,477,420	9,251,147	1,873,653	1,748,898	3,482,432	24,833,550	365,636	-	36,855	402,491
6/30/2007	9,142,746	10,532,739	2,334,538	1,994,341	4,065,028	28,069,392	313,450	-	27,692	341,142
6/30/2008	12,493,276	11,250,830	2,405,221	1,813,310	4,490,464	32,453,101	592,182	531,528	-	1,123,710
6/30/2009	11,901,700	10,908,332	3,046,765	1,853,244	5,224,933	32,934,974	601,795	-	8,021	609,816
6/30/2010	11,552,062	11,209,298	2,204,374	1,577,642	5,409,704	31,953,080	175,782	8,988	1,894,624	2,079,394
6/30/2011	15,489,152	10,440,753	2,220,956	1,634,919	5,396,135	35,181,915	531,839	1,472	-	533,311
6/30/2012	16,304,830	12,959,507	2,492,056	1,628,764	5,770,673	39,155,830	526,915	268,953	-	795,868
6/30/2013	16,149,788	11,073,338	2,813,459	1,888,236	5,505,403	37,430,224	689,665	261,946	-	951,611
6/30/2014	14,410,400	11,395,305	2,426,717	1,837,556	5,971,638	36,041,616	261,836	-	-	261,836
6/30/2015	13,244,552	12,467,017	2,439,170	1,988,719	5,365,124	35,504,582	169,119	-	-	169,119

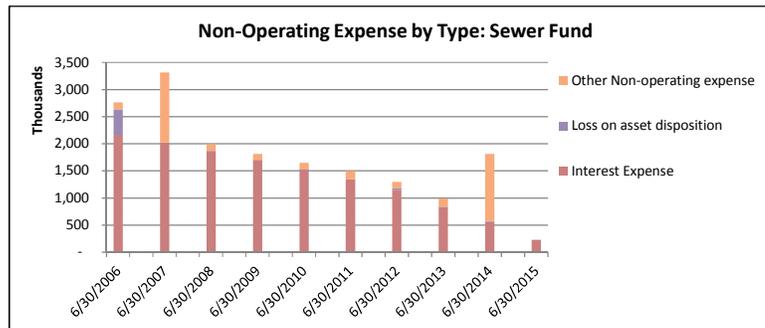
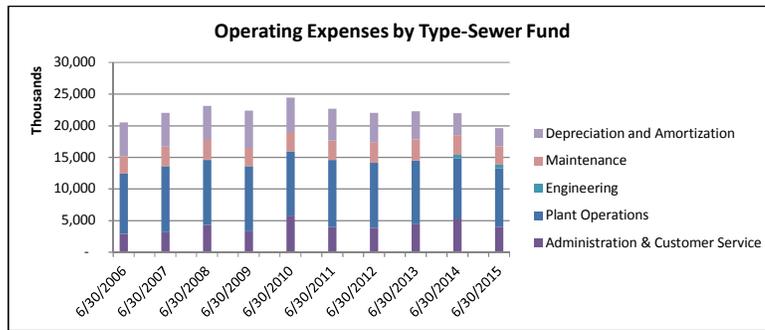
Source: Department's annual reports



City of San Bernardino Municipal Water Department
Sewer Fund Expenses by Type
Last Ten Fiscal Years

Fiscal Year Ended	Administration & Customer Service	Plant Operations	Engineering	Maintenance	Depreciation and Amortization	Total Operating Expense	Interest Expense	Loss on asset disposition	Other Non-operating expense	Total Non-Operating Expense
6/30/2006	2,937,280	9,489,306	-	2,759,868	5,331,731	20,518,185	2,164,150	474,657	126,879	2,765,686
6/30/2007	3,180,710	10,388,472	45,794	3,088,137	5,338,372	22,041,485	2,021,326	2,037	1,292,772	3,316,135
6/30/2008	4,318,939	10,293,707	32,336	3,138,509	5,364,048	23,147,539	1,868,033	3,784	118,195	1,990,012
6/30/2009	3,334,540	10,237,490	16,278	2,928,189	5,888,314	22,404,811	1,701,371	3,736	110,092	1,815,199
6/30/2010	5,807,692	10,170,647	-	3,059,780	5,436,628	24,474,747	1,529,650	2,142	117,949	1,649,741
6/30/2011	3,989,616	10,627,225	-	3,108,701	4,971,771	22,697,313	1,343,649	-	155,748	1,499,397
6/30/2012	3,823,627	10,328,073	-	3,257,127	4,645,127	22,053,954	1,147,810	34,114	118,051	1,299,975
6/30/2013	4,454,713	10,040,895	-	3,392,868	4,408,721	22,297,197	828,129	11,644	154,180	993,953
6/30/2014	5,345,726	9,528,218	527,294	3,146,275	3,426,515	21,974,028	557,049	16,244	1,238,703	1,811,996
6/30/2015	4,016,198	9,292,501	534,226	2,906,853	2,870,550	19,620,328	227,165	-	-	227,165

Source: Department's annual reports



DEBT CAPACITY INFORMATION

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

City of San Bernardino Municipal Water Department
Water Fund Debt Service Coverage
Last Ten Fiscal Years

Fiscal Year Ended	Total Operating Revenue	Net Operating Expenses (Excluding Depreciation)	Net Operating Income (Loss)	Net Non-Operating Income/ (Expense)	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Coverage Ratio
6/30/2006	21,760,104	21,351,118	408,986	3,186,965	3,595,951	1,765,988	396,183	2,162,171	1.66
6/30/2007	28,232,366	24,004,364	4,228,002	3,487,628	7,715,630	523,644	582,772	1,106,416	6.97
6/30/2008	27,337,093	27,962,637	(625,544)	3,479,605	2,854,061	541,079	485,626	1,026,705	2.78
6/30/2009	27,258,954	27,710,041	(451,087)	2,853,518	2,402,431	559,106	603,368	1,162,474	2.07
6/30/2010	27,688,694	26,543,376	1,145,318	2,101,540	3,246,858	956,106	667,146	1,623,252	2.00
6/30/2011	33,027,707	29,785,780	3,241,927	2,025,029	5,266,956	1,352,148	548,318	1,900,466	2.77
6/30/2012	37,106,217	33,385,157	3,721,060	2,436,449	6,157,509	974,027	505,819	1,479,846	4.16
6/30/2013	37,868,846	31,924,821	5,944,025	2,492,448	8,436,473	1,227,491	547,616	1,775,107	4.75
6/30/2014	36,671,903	30,069,978	6,601,925	2,504,705	9,106,630	1,658,265	660,854	2,319,119	3.93
6/30/2015	33,121,128	30,139,458	2,981,670	2,702,953	5,684,623	1,683,818	187,153	1,870,971	3.04

Source: Department's annual reports

City of San Bernardino Municipal Water Department
Sewer Fund Debt Service Coverage
Last Ten Fiscal Years

Fiscal Year Ended	Total Operating Revenue	Net Operating Expenses (Excluding Depreciation)	Net Operating Income (Loss)	Net Non-Operating Income/ (Expense)	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Coverage Ratio
6/30/2006	20,363,472	15,186,454	5,177,018	(2,074,045)	3,102,973	3,603,614	2,143,829	5,747,443	0.54
6/30/2007	21,002,484	16,703,113	4,299,371	(1,380,665)	2,918,706	3,761,442	2,003,864	5,765,306	0.51
6/30/2008	20,847,984	17,783,491	3,064,493	358,983	3,423,476	3,823,275	1,855,515	5,678,790	0.60
6/30/2009	21,208,021	16,516,497	4,691,524	(135,811)	4,555,713	4,197,317	1,687,518	5,884,835	0.77
6/30/2010	22,424,942	19,038,119	3,386,823	(19,598)	3,367,225	4,181,342	1,635,707	5,817,049	0.58
6/30/2011	23,433,833	17,725,542	5,708,291	(616,531)	5,091,760	2,130,378	3,706,195	5,836,573	0.87
6/30/2012	25,888,729	17,408,827	8,479,902	(462,183)	8,017,719	4,417,731	1,166,496	5,584,227	1.44
6/30/2013	26,414,654	17,888,476	8,526,178	(630,690)	7,895,488	4,724,227	757,010	5,481,237	1.44
6/30/2014	25,670,774	18,547,513	7,123,261	(1,129,169)	5,994,092	4,424,090	747,460	5,171,550	1.16
6/30/2015	24,734,425	16,749,778	7,984,647	1,098,877	9,083,524	4,629,425	568,888	5,198,313	1.75

Source: Department's annual reports

DEMOGRAPHIC AND ECONOMIC INFORMATION

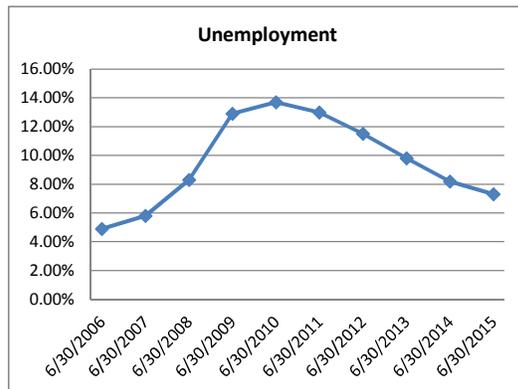
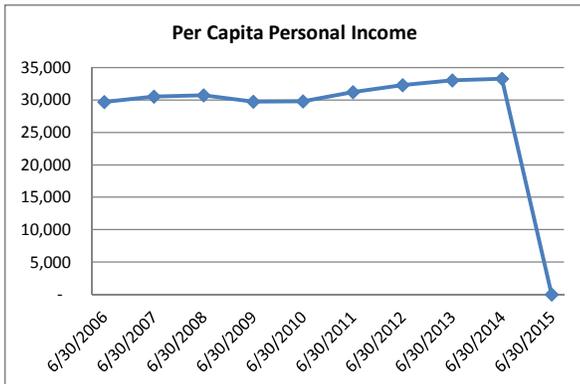
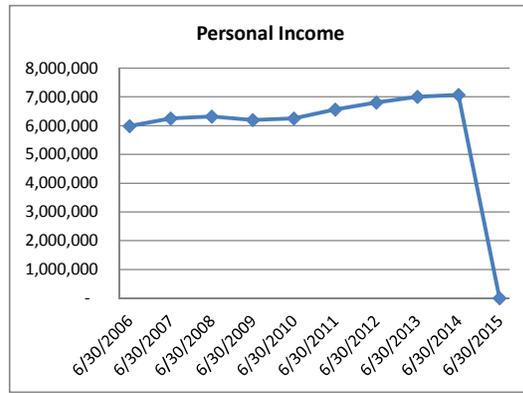
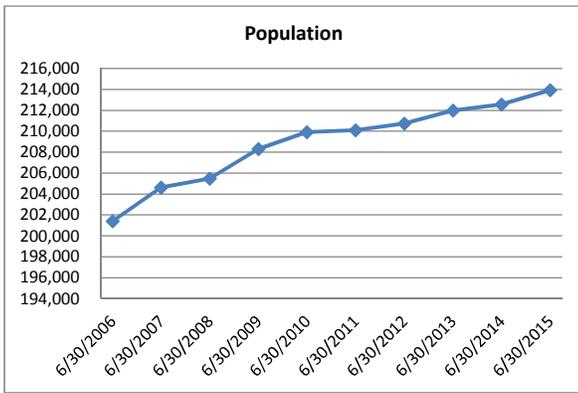
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Department's financial activities take place.

City of San Bernardino Municipal Water Department
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year Ended	Estimated Population (1)	Personal Income (In Thousands) (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
6/30/2006	201,396	5,982,065	29,703	4.90%
6/30/2007	204,620	6,248,072	30,535	5.80%
6/30/2008	205,493	6,318,704	30,749	8.30%
6/30/2009	208,318	6,198,919	29,757	12.90%
6/30/2010	209,924	6,256,785	29,805	13.70%
6/30/2011	210,108	6,559,152	31,218	13.00%
6/30/2012	210,753	6,807,533	32,301	11.50%
6/30/2013	211,994	7,001,102	33,025	9.80%
6/30/2014	212,584	7,070,119	33,258	8.20%
6/30/2015	213,933	n/a	n/a	7.30%

- (1) California Department of Finance
- (2) U.S. Department of Commerce, Bureau of Economic Analysis for 2006-2013 (Riverside-San Bernardino MSA)
- (3) State of California, Economic Development Department

* Most recent complete year available.



City of San Bernardino Municipal Water Department
Major Employers
Current Year and Nine Years Ago

Employer	Fiscal Year 2015		Fiscal Year 2006*	
	Ranking	Number of Employees	Ranking	Number of Employees
Stater Brothers	1	18,000		
County of San Bernardino	2	17,395	9	1000+
San Bernardino City Unified School District	3	12,629	7	1000+
California State University, San Bernardino	4	3,012	1	1000+
Saint Bernardine Medical Center	5	1,400		
Community Hospital of San Bernardino	6	1,200	4	1000+
City of San Bernardino	7	1,067	3	1000+
San Bernardino Community College District	8	862	8	1000+
The Sun Newspaper	9	526		
Blood Bank of San Bernardino	10	340		
State of California, Department of Transportation			2	1000+
Corona Regional Medical Center			5	1000+
Renzenberger, Inc.			6	1000+
San Bernardino Valley College			10	1000+

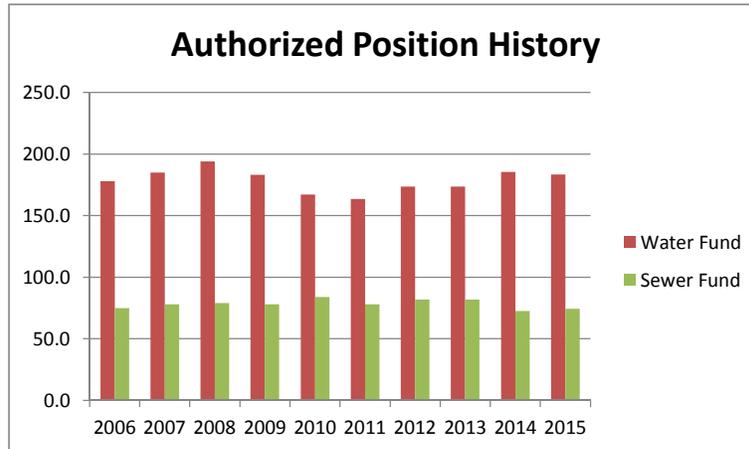
* Actual employment figures not available

Source: City of San Bernardino Economic Development Department and City's Annual Financial Report

City of San Bernardino Municipal Water Department
 Authorized Positions History
 Last Ten Fiscal Years

Year End	Water Fund	Sewer Fund	Total
2006	178.0	75.0	253.0
2007	185.0	78.0	263.0
2008	194.0	79.0	273.0
2009	183.0	78.0	261.0
2010	167.0	84.0	251.0
2011	163.5	78.0	241.5
2012	173.5	82.0	255.5
2013	173.5	82.0	255.5
2014	185.5	72.5	258.0
2015	183.5	74.5	258.0

Source: Department's records



REVENUE CAPACITY

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

City of San Bernardino Municipal Water Department
Water Rates: Minimum Monthly Charge
Last Ten Fiscal Years

Effective Date	(\$/month)											
	1/2"	5/8"	3/4"	1"	1-1/2"	2"	3"	4"	6"	8"	10"	12"
7/1/2006	*	8.32	11.10	13.27	23.81	33.26	56.56	96.02	172.87	259.28	324.10	388.98
7/1/2007	*	8.59	11.47	13.71	24.6	34.36	58.43	99.19	178.57	267.84	334.8	401.82
7/1/2008	*	8.88	11.84	14.16	25.41	35.49	60.35	102.46	184.47	276.67	345.84	415.08
7/1/2009	*	8.88	11.84	14.16	25.41	35.49	60.35	102.46	184.47	276.67	345.84	415.08
2/1/2010	10.55	10.55	13.00	17.90	30.15	44.85	79.15	128.15	250.70	397.75	569.30	*
1/1/2011	12.20	12.20	15.15	21.00	35.75	53.45	94.75	153.70	301.15	478.10	684.55	*
1/1/2012	12.90	12.90	16.15	22.60	38.80	58.20	103.50	168.20	330.00	524.15	750.65	*
7/1/2013	12.90	12.90	16.15	22.60	38.80	58.20	103.50	168.20	330.00	524.15	750.65	*
7/1/2014	12.90	12.90	16.15	22.60	38.80	58.20	103.50	168.20	330.00	524.15	750.65	*
7/1/2015	12.90	12.90	16.15	22.60	38.80	58.20	103.50	168.20	330.00	524.15	750.65	*

* Information not reported

All water usage, except municipal, will be billed at the rate of \$0.94 and \$0.97 per 100 cubic feet effective July 1, 2007 and July 1, 2008, respectively, with no minimum allowance.

Source: Department's Records

City of San Bernardino Municipal Water Department
Water Rates: Elevation Charges \$ per HCF
Last Ten Fiscal Years

Effective Date	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6
07/01/06	0.00	0.06	0.14	0.20	0.30	0.47
07/01/07	0.00	0.06	0.14	0.21	0.12	0.12
07/01/08	0.00	0.06	0.15	0.21	0.13	0.13
07/01/09	0.00	0.06	0.15	0.21	0.13	0.13
07/01/10	0.09	0.17	0.15	0.12	0.21	0.21
07/01/11	0.10	0.18	0.16	0.13	0.22	0.22
07/01/12	0.11	0.19	0.17	0.14	0.23	0.23
07/01/13	0.11	0.19	0.17	0.14	0.23	0.23
07/01/14	0.11	0.19	0.17	0.14	0.23	0.23
07/01/15	0.11	0.19	0.17	0.14	0.23	0.23

City of San Bernardino Municipal Water Department
Top Ten Water Customers
Fiscal Year 2015

Customer-2015

City of San Bernardino	\$ 1,260,575
San Bernardino Unified School District	719,163
Cott Beverages	311,477
County of San Bernardino	284,351
Housing Authority	232,150
California State University	225,113
St. Bernardino Hospital/CHW	130,572
Successor to Former San Bernardino EDA	124,327
W. Dean Weidner	123,825
Pama Management Company	123,007
Top Ten Customers Total	<u>\$ 3,534,560</u>
Total Water Revenue	<u><u>\$ 32,220,868</u></u>
Top Ten Customers Percent of Total	<u>10.97%</u>

Note: Data not available for the fiscal period ended nine years prior.

City of San Bernardino Municipal Water Department
Sewage Treatment Rate History
Fiscal Years 1995 through 2015

	7/1/1995	1996-2004	7/1/2004	1/1/2009	1/1/2010	2/1/2011	1/1/2012	10/1/2015
<u>Residential (monthly per EDU)</u>	13.25	no change	14.50	15.25	16.00	17.00	18.50	20.65
<u>Commercial:</u>								
Commodity Charge (per HCF):								
Multi-family, mobile home parks	0.75	no change	0.83	0.90	0.95	1.10	1.25	1.36
Retail, commercial, light industrial	1.10	no change	1.70	1.80	1.90	2.00	2.10	2.28
Auto repair, car wash	1.20	no change	1.17	1.25	1.30	1.30	1.30	1.41
Offices, motels (w/o restaurants)	0.95	no change	1.32	1.40	1.50	1.50	1.50	1.63
Restaurants, hotels	1.70	no change	1.84	1.90	2.00	2.35	2.70	2.93
Laundromats	0.90	no change	1.15	1.25	1.30	1.40	1.50	1.63
Hospitals, convalescent homes	0.80	no change	0.84	0.90	0.95	1.15	1.35	1.46
Schools, churches, nursery schools	0.50	no change	0.62	0.65	0.70	0.90	1.10	1.19
<u>Industrial:</u>								
Discharge Flow (per million gallons)	826.67	no change	816.10	860.00	900.00	900.00	900.00	977.00
Biological Oxygen demand (per 1,000 lbs)	*	no change	264.91	280.00	292.00	330.00	360.00	391.00
Suspended Solids (per 1,000 lbs)	*	no change	577.41	610.00	640.00	640.00	640.00	694.00

* data not reported

Source: Department's records

City of San Bernardino Municipal Water Department
Sewage Treatment Connections and Revenue by User Type
Last Ten Fiscal Years

User Type	2015		2014		2013		2012	
	Connections	Revenue	Connections	Revenue	Connections	Revenue	Connections	Revenue
San Bernardino Residential	32,874	\$8,056,827	32,537	\$8,111,634	32,563	\$7,922,936	32,571	\$7,650,142
San Bernardino Nonresidential	5,344	7,240,533	5,410	8,033,072	5,447	8,332,214	5,412	7,877,416
East Valley Residential	18,480	4,093,625	18,404	4,149,836	18,925	4,188,434	18,813	4,019,127
East Valley Nonresidential	1,051	2,571,813	1,115	2,725,075	1,126	2,434,118	1,128	2,492,375
Loma Linda Residential	5,040	997,242	4,656	991,387	4,663	1,063,124	4,443	933,648
Loma Linda Nonresidential	588	1,294,612	592	1,330,102	585	1,549,643	589	1,258,747
Total all users	63,377	\$24,254,651	62,714	\$25,341,106	63,309	\$25,490,469	62,956	\$24,231,455

User Type	2011		2010		2009		2008	
	Connections	Revenue	Connections	Revenue	Connections	Revenue	Connections	Revenue
San Bernardino Residential	32,447	\$7,053,263	32,307	\$6,670,859	32,050	\$6,288,804	32,058	\$6,197,816
San Bernardino Nonresidential	5,416	7,131,988	5,196	6,699,228	5,434	6,625,012	5,491	6,570,125
East Valley Residential	18,700	3,645,721	18,157	3,348,238	17,986	3,285,452	17,956	3,221,455
East Valley Nonresidential	1,138	2,070,233	1,132	2,185,072	1,146	2,139,543	1,159	2,213,946
Loma Linda Residential	4,648	870,734	4,688	839,451	4,692	781,159	4,407	767,075
Loma Linda Nonresidential	584	1,048,402	588	1,016,088	559	984,117	576	1,011,795
Total all users	62,933	\$21,820,341	62,068	\$20,758,936	61,867	\$20,104,087	61,647	\$19,982,212

User Type	2007		2006	
	Connections	Revenue	Connections	Revenue
San Bernardino Residential	32,367	\$6,238,570	31,523	\$6,021,449
San Bernardino Nonresidential	5,528	6,654,231	5,401	6,448,117
East Valley Residential	18,085	3,231,282	18,005	3,184,223
East Valley Nonresidential	1,160	2,252,260	1,160	2,171,095
Loma Linda Residential	4,567	728,111	4,493	728,713
Loma Linda Nonresidential	584	950,227	584	910,116
Total all users	62,291	\$20,054,681	61,166	\$19,463,713

Source: Department's records

City of San Bernardino Municipal Water Department
 Top Ten Sewage Treatment Customers
 Fiscal Year 2015

Customer-2015

Farmdale Creamery, Inc.	\$ 420,205
Cott Beverage	329,155
County of San Bernardino	323,520
Patton State Hospital	202,653
Housing Authority	172,232
San Bernardino City Unified School District	172,145
St. Bernardine Hospital/CHW	107,797
Co-West Commodities	97,898
Pama Management Company	94,078
Cal State University San Bernardino	83,312
 Top Ten Customers Total	 <u>\$ 2,002,995</u>
 Total Sewer Revenue	 <u><u>\$ 24,263,000</u></u>
 Top Ten Customers Percent of Total	 <u>8.26%</u>

Source: Department's records

Note: Data not available for the fiscal period ended nine years prior.

Board of Water Commissioners
Municipal Water Department of the City of
San Bernardino, California

We have audited the financial statements of the City of San Bernardino Municipal Water Department (Department) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 23, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Department are described in Note 1 to the financial statements. Governmental Accounting Standards Board Statement No. 68 was implemented during the year. We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Department's financial statements were:

- Judgements involving the funded status of the pension liability
- Judgments involving the useful lives and depreciation methodology to use for capital assets.
- Judgments concerning which capital project expenditures should be capitalized and depreciated versus expensed in the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Board of Water Commissioners
Municipal Water Department of the City of
San Bernardino, California**

Page 2 of 3

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 26, 2016

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

**Board of Water Commissioners
Municipal Water Department of the City of
San Bernardino, California**

Page 3 of 3

We were not engaged to report on the introductory section and the statistical section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Water Commissioners and management of the City of San Bernardino Municipal Water Department and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
January 26, 2016

Board of Water Commissioners
Municipal Water Department of the City of
San Bernardino, California

Communications Regarding Internal Control

In planning and performing our audit of the financial statements of the City of San Bernardino Municipal Water Department (Department) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to conform to that definition:

(1) Adjustments Detected During the Audit

Auditing standards require the auditors to include in our communications any material adjustment detected during the audit process. For the year ended June 30, 2015, we recorded the following material audit adjustments:

- To adjust capital outlay expenditures relating to CIP
- To adjust capital assets and fund balance for prior year entries not recorded
- To adjust depreciation expense and accumulated depreciation for current year capital asset activity

Recommendation

We recommend all yearend adjustments are recorded prior to the start of the audit.

Management's Response

We agree with the recommendation.

Board of Water Commissioners
Municipal Water Department of the City of
San Bernardino, CA
Page 2

This communication is intended solely for the information and use of management, the Board of Water Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Davis Jan 26

Irvine, California
January 26, 2016

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@for SMK

**CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT**

**BOARD OF WATER COMMISSIONERS
STAFF REPORT**

TO: Stacey R. Aldstadt, General Manager

FROM: John A. Claus, Director of Water Reclamation

SUBJECT: **CONTRACT NO. 1599 – SPIESS CONSTRUCTION COMPANY, INC. –
CHANGE ORDER NO. 9 – UNIT 1 PRIMARY CLARIFIER AND
AERATION SYSTEM UPGRADE**

DATE: January 25, 2016

COPIES: T. Willoughby, G. Gage, S. Miller, S. Morrison, M. Honis, E. Razo

BACKGROUND:

In January 2014, the Board of Water Commissioners entered into Contract No. 1599 with Spiess Construction Company, Inc. (SCCI) for the Unit 1 Primary Clarifier and Aeration System Upgrade at the Water Reclamation Plant Project. This project includes modifications to the Unit 1 Primary Clarifier, the Unit 1 Aeration Basins, the existing mixed liquor (ML) effluent conveyance system between the Unit 1 Aeration Basins and the Unit 1 Mixed Liquor Splitter Box, electrical and control system modifications, and yard piping modifications.

Since the basins could not be drained prior to the project's design, the actual conditions and location of existing items in the bays was not fully known. As such, additional work on the project was anticipated, and the additional work associated with Change Order No. 9 is summarized below.

- The East and West Secondary Clarifier weirs were leveled while the clarifiers were empty. Once the clarifiers were refilled, it was discovered that the effluent launders were floating at different elevations. As such, the Department requested SCCI relevel the existing effluent launders in both clarifiers.
- During the construction phase of Construction Sequencing Plan Nos. 10, 11, and 12, SCCI encountered several unforeseen conditions within the aeration basins. Additional effort by SCCI was required to repair concrete and minimize future corrosion of the exposed steel at nine locations.
- Upon the Department's request, SCCI used closed circuit television to inspect the six-inch brine line prior to relocation.

Stacey R. Aldstadt, General Manager

Page 2

January 25, 2016

SUBJECT: CONTRACT NO. 1599 – SPIESS CONSTRUCTION COMPANY, INC. – CHANGE ORDER NO. 9 – UNIT 1 PRIMARY CLARIFIER AND AERATION SYSTEM UPGRADE

- SCCI had to perform additional testing of the clarifier mechanism while clean water was in the basin.
- SCCI had to extend the geothermal line relocation by five (5) feet in the north and south direction to better support the adjacent piping.
- Upon the Department's request, SCCI rotated knife gate valve (KGV) – 108 and installed an additional hand wheel support in order to avoid conflict with adjacent piping.

This project was approved as part of the 2013/2014 Capital Improvements Budget. Change Order No. 9 in the amount of \$23,235.00 has been prepared for extra work to be performed by SCCI under Contract No. 1599. A complete summary of the Change Order items prepared by the Department's Engineering section is attached.

FUNDING SOURCE:

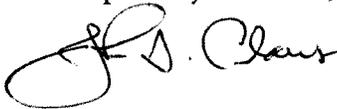
The funding source for this Change Order is C.O. 00086 (Budget ID No. 05-200), which currently has an unencumbered balance of \$294,293.20.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

- Approve Change Order No. 9 to Contract No. 1599 with Spiess Construction Company, Inc., in the amount of \$23,235.00 and authorize the General Manager to execute the change order.

Respectfully submitted,



John A. Claus
Director of Water Reclamation

sm

Attachments

**CONTRACT NO. 1599
CHANGE ORDER NO. 9**

DATE: January 25, 2016

OWNER: City of San Bernardino Municipal Water Department

CONTRACTOR: SPIESS CONSTRUCTION COMPANY, INC.

PROJECT: UNIT 1 PRIMARY CLARIFIER AND AERATION SYSTEM UPGRADE PROJECT

You are hereby requested to make the following described changes and/or additions to the project Plans and Specifications.

Item No.	Description Changes and/or Additions	Decrease Contract Price (Contract Time)	Increase Contract Price (Contract Time)
1	Relevelled existing effluent weirs		\$11,107.00
2	Miscellaneous Time and Materials work for Construction Sequencing Plan Nos. 10,11, and 12		\$9,907.00 (5 Calendar Days)
3	Rotate knife gate valve (KGV)-108		\$2,221.00
TOTAL			\$23,235.00 (5 Calendar Days)
Original Contract Amount			\$7,251,052.00
Contract Amount Prior to This Change Order			\$7,885,778.07
Net Increase Due To This Change Order			\$23,235.00
Net Contract Amount, Including This Change Order			\$7,909,013.07
Net Change in Contract Price			0.29%

The additional work contained with this Change Order can be performed incidental to the prime work and any Change Order work issued to date and is able to be completed concurrently with remaining work to be performed under the items of the Contract, without interference or delay to the Contractor. The work required by the Change Order can be completed within the time allotted for the original Contract plus the extensions to the Contract time made by this and any previously issued Change Orders.

The amounts indicated above shall be compensation in full for the work described, including all direct and indirect, incidental or consequential costs or expenses, including but not limited to, extended overhead and other impact costs that have been or will be incurred by the Contractor.

The total Contract performance time is increased by five (5) Calendar Days. The Contract completion date is now June 7, 2015.

Contract No. 1599
Change Order No. 9

ACCEPTED BY: _____ DATE: _____
SPIESS CONSTRUCTION COMPANY, INC.

RECOMMENDED BY: _____ DATE: _____
REPRESENTATIVE
CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

RECOMMENDED BY: _____ DATE: _____
DIRECTOR OF WATER RECLAMATION
CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

APPROVED BY: _____ DATE: _____
GENERAL MANAGER
CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
(or)
PRESIDENT, BOARD OF WATER COMMISSIONERS
CITY OF SAN BERNARDINO

**CONTRACT NO. 1599
CHANGE ORDER NO. 9
ITEM NO. 1 BREAKDOWN**

Description: Releveled existing effluent weirs

Reason: At the Department's request, the Contractor releveled the existing effluent weirs in the East and West Secondary Clarifiers. Initially, the weirs were leveled while the clarifiers were empty; upon refilling the clarifiers, it was discovered that the effluent launders were floating at different elevations. The work was then performed a second time from a boat with the clarifiers full to achieve the correct elevation under working conditions.

The work was performed on a Time and Materials (T&M) basis. This change was identified and tracked under Potential Change Order (PCO) 032.

Prior Approval: Steve Miller/John Claus/Stacey Aldstadt

Contractors

Proposed Cost: \$11,107.00

Total Cost: \$11,107.00

Time Extension: 0 Calendar Days

**CONTRACT NO. 1599
CHANGE ORDER NO. 9
ITEM NO. 2 BREAKDOWN**

Description: Miscellaneous Time and Materials work for Construction Sequencing Plan Nos. 10, 11, and 12

Reason: During the construction of Construction Sequencing Plans (CSPs) 10, 11, and 12, unforeseen conditions were discovered within the aeration basins.

- At seven (7) wall pipe penetrations and two (2) swing gate frame locations, the contractor was required to remove existing reinforcing steel and repair the concrete in order to minimize future corrosion of the exposed steel.

Other unforeseen conditions were discovered (outside of the aeration basins):

- At the direction of the Department, the contractor was required to use closed circuit television (CCTV) to inspect the 6-inch brine line prior to relocating the piping.
- The contractor performed an additional operational test of the clarifier mechanism while clean water was in the basin.
- During construction, the contractor was required to extend the geothermal line relocation by five feet in the north and south direction from the location shown on the plans.
- Pipe support 027 was relocated from the location shown on the plans to better support the adjacent piping.
- At the direction of the Department, the contractor installed an additional handrail, additional asphalt concrete pavement, and dewatered the 48-inch primary effluent line a second time due to the pipe having a low section at the connection point.

The above work was performed on a T&M basis. The price includes all labor, equipment, and materials necessary to perform the work. This change was identified and tracked under PCO 041.

Prior Approval: Steve Miller/John Claus/Stacey Aldstadt

Contractors

Proposed Cost: \$9,907.00

Total Cost: \$9,907.00

Time Extension: 5 Calendar Days

**CONTRACT NO. 1599
CHANGE ORDER NO. 9
ITEM NO. 3 BREAKDOWN**

Description: Rotate Knife Gate Valve (KGV)-108

Reason: At the Department's request, the Contractor rotated KGV-108 to avoid a conflict with the concrete walkway above, and installed an additional hand wheel support. Also, the hand wheel for the knife gate valve on Walkway D was rotated 90 degrees, and a support added, in order to avoid an obstruction in the walkway.

The price includes the labor, equipment, and materials necessary to perform the work. This change was identified and tracked under PCO 039.

Prior Approval: Steve Miller/John Claus/Stacey Aldstadt

Contractors

Proposed Cost: \$2,221.00

Total Cost: \$2,221.00

Time Extension: 0 Calendar Days

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@ [Signature]
CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

**CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT**

BOARD OF WATER COMMISSIONERS
STAFF REPORT

TO: Stacey R. Aldstadt, General Manager

FROM: John A. Claus, Director of Water Reclamation

SUBJECT: **APPROVAL OF SPECIAL PURCHASE/REFUBISHMENT OF ULTRAVIOLET DISINFECTION SYSTEM COMPONENTS – RIX FACILITY ULTRAVIOLET DISINFECTION SYSTEM REHABILITATION PROJECT (CO-00187) – IRONBROOK UV (A DIVISION OF COLLCORP, INC.)**

DATE: January 25, 2016

CC: T. Willoughby, C Phelps, M. Honis, A. Winchester, E. Razo, Laserfiche

BACKGROUND:

The Department's tertiary treatment facility, the Rapid Infiltration and Extraction (RIX) Facility, utilizes an ultraviolet radiation system as a component of the treatment (specifically, disinfection). The principal role of this system is to inactivate pathogenic microorganisms in the filtered effluent.

This system has been in operation for nearly twenty (20) years. The average life span for this type of equipment is normally fifteen (15) years. Continuous use and weathering has caused the system to reach the end of its useful life. Currently, there are five (5) channels in operation with a total of fifteen (15) ultraviolet radiation banks, and all of the banks are in need of refurbishment. Much of the hardware, such as the stainless steel cabinets and lamp rack support cages, are reusable as they do not suffer any considerable deterioration.

The rights to the Fisher & Porter Ultraviolet Disinfection System, which is installed at RIX, has gone through several ownerships, including Eltag Bailey, ABB, and Trojan Technologies. Ironbrook UV (A Division of Colcorp, Inc.) is the only company that is authorized to maintain and supply parts for the Fisher & Porter system.

A quote, in the amount of \$1,218,325.00 (attached), was provided from IronbrookUV. The cost of the parts that will be utilized in the total refurbishment represents a price reduction of approximately thirty-one percent (31%), over buying the parts individually.

Staff is requesting the Board of Water Commissioners approve this purchase as permitted in Policy and Procedure No. 51.030 Purchasing, Part I, Initiation of Purchase Requisition, Subsection H, Special Purchases, prior to staff proceeding with the UV System Rehabilitation.

Agenda Item 7

Stacey R. Aldstadt, General Manager

January 25, 2016

Page 2

**SUBJECT: APPROVAL OF SPECIAL PURCHASE/REFUBISHMENT OF
ULTRAVIOLET DISINFECTION SYSTEM COMPONENTS – RIX
FACILITY ULTRAVIOLET DISINFECTION SYSTEM
REHABILITATION PROJECT (CO-00187) – IRONBROOK UV (A
DIVISION OF COLLCORP, INC.)**

FUNDING SOURCE:

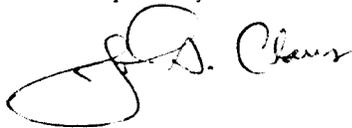
The funding sources for this project are the FY2015/2016 RIX Fund Capital Improvement Project titled *RIX - UV System Rehabilitation* (C.O. 00187, Budget ID No. 16-207), which currently has a total of \$280,000 in unencumbered funds and a \$1,200,000 loan from the San Bernardino Valley Municipal Water District.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

- Approve the Special Purchase equipment procurement/refurbishment from Ironbrook UV (A division of Colcorp, Inc.) in the amount of \$1,218,325.00 as outlined in Purchasing Policy 51.030, Part 1, Section H, Special Purchases.

Respectfully submitted,



John A. Claus
Director of Water Reclamation

Attachments



F&P ULTRAVIOLET SPECIALISTS

FACSIMILE TRANSMITTAL SHEET

TO:	FROM:
Chris Phelps	Jamie Collins
COMPANY:	DATE:
City of San Bernardino Municipal Water Department	25/01/2016
FAX NUMBER:	TOTAL NO. OF PAGES, INCLUDING COVER:
	3
PHONE NUMBER:	SENDER'S REFERENCE NUMBER:
RE:	YOUR REFERENCE NUMBER:
UV System Quote	San_Bernardino_quote_080515_rev012116

URGENT FOR REVIEW PLEASE COMMENT PLEASE REPLY PLEASE RECYCLE

NOTES/COMMENTS:

Chris,

We are pleased to provide The City Of San Bernardino Municipal Water Department (Rix Facility) a quote on the refurbishment of the F&P Ultraviolet Disinfection System.

Ironbrook, as you are aware, has been involved with the manufacturing, design, servicing and refurbishing of the F&P base system for over 16 years and directly involved with the system for over 20 years. We not only provide parts and service but have, over the last many years, refurbished/upgraded many sites throughout North America. We have upgraded 20 lamp systems up to a 2500 lamp addition to the Central Contra Costa site in Martinez, CA (6 new banks).

The F&P designed system is the most efficient system in the market place with over 95% efficiency compared to low/high and medium pressure type of systems. In the last few years alone we have increased the usable UV output by approx. 22% just by improving the quality of the lamp and ballast. We have gone from approx. 26.1W to 32.7W of UV output. Our commitment to service and customer support is second to none, this can be verified by speaking with our many customers throughout North America.



F&P ULTRAVIOLET SPECIALISTS

Here are a few of the most recent plants we have upgraded;

Remington, VA
Moravia, NY
Central Contra Costa, Martinez, CA
Sussex, NJ
Bloomer, WI
Marshall, MN
Ojai, CA
Cutler Orosi, CA
Oiled Wildlife, CA
Windsor, CO
Riverside, NJ
Severn Trent, MS
Madeline Island, WI
Westfield, IN
Lansing, MI

These sites all had the same questions and concerns but after completing the refurbishment they can all rest assured that they will now have excellent disinfection, customer support, and parts for many many years.

Therefore Ironbrook will provide the following for the refurbishment of 15 PDC's (power distribution cabinets plus 330 lamp racks);

- Replace Controller Boards (conformal coated, multi-layer revision)
- Replace DC Ballast (Rev 3)
- Replace Breakers (controller board, main, fan, auxiliary)
- Replace Transformers
- Replace Blowers
- Replace Internal cables (controller board to 40 pole housing on frt of cabinet)
- Replace relays (level control, time delay, phase detection, control)
- Replace level probes
- Replace 40 pole housings (front of cabinet)
- Replace GFI's (latest 17mA revision)
- Replace Local "off" Remote switch
- Replace thermostats
- Replace UV Intensity monitors
- Re-work all lamp racks (stripped, cleaned, re-wired, replace gaynors, grommets, PVC's, top plate)



F&P ULTRAVIOLET SPECIALISTS

- Clean inside of cabinets
- Shipping of racks to Ironbrook UV for re-work
- On-site work
- PLC not included
- Level gates not included

LOT Price: US\$1,218,325.00

Please refer to cost breakdown sheet to view in detail cost associated with this refurbishment.

Taxes if applicable by others.
FOB site/ins incld

Please refer to attached spreadsheet with a breakdown of costs.

Terms (our standard)
30% initial

Our normal terms would be 30%, 30% and 40% but since we are not going to be refurbishing all 15 banks on one visit we will go with a 30% initial and bill in equal amounts per bank completed, i.e. \$365,497.50 initial then \$56,855.17 for each bank completed.

This would provide the Rix Facility an excellent updated UV system that will operate with the highest efficiency and provide excellent kills for many years. We provide a one year warranty on all parts (exception of consumables). Our price is guaranteed for 90 days and will not change as there are no hidden costs associated with this refurbishment.

We are looking forward to working with the City of San Bernardino on this project. We believe communication is a vital part of any project and will do our best to advise all on every part of this refurbishment process.

Kind regards,

Jamie Collins
President
IBUV

Ironbrook UV

Cost Breakdown

City of San Bernardino Municipal Water Department

Quote# IBUV_022014 (revised 012116)

15 PDC Refurbishment

<u>Part & Qty (1 bank)</u>	<u>Cost (\$)</u>	<u>Qty</u>	<u>Total (US\$)</u>	<u>Increase</u>
16 Lamper racks *	800	330	264000	16500
Controller Boards (8ballast mod)	400	330	132000	
6A Breakers	130	330	42900	
Internal Cables	300	330	99000	16500
40-pole Housings	45	330	14850	
DC Ballast (new rev 4)	130	2640	343200	
GFI's	150	330	49500	
Main Breaker 50A (CB1)	400	15	6000	
Contactora 3-pole 50A c/w Aux 120VAC	250	15	3750	
20A 120VAC single pole aux breakers (CB3/CB2)	100	30	3000	
15A 120VAC single pole aux breaker (CB4)	50	15	750	
TDR1 Relays (Din Rail)	150	15	2250	
PCR 480VAC relay c/w N/O contact	190	15	2850	
Blowers c/w caps (10uF)	280	15	4200	
LCR relays (Lo/Hi)	250	30	7500	
8A 12VDC power Suppliers	280	30	8400	
120VAC control relays	35	15	525	
Thermostats (blower/heater)	80	30	2400	
120VAC Lamp (ON/test push)	175	15	2625	
3-pos switch	175	15	2625	
UV Intensity Monitor c/w sensor	2900	15	43500	1500
Level probe (Lo/Hi)	300	15	4500	
Shipping parts - five crates	6000	1	6000	
Shipping Racks 2- trips ***	2000	15	30000	

Site work (2 persons approx. 2 days/cabinet) **	20000	1	20000	
	Total		1096325	
Transformer compartment (15 PDC's)			122000	2000
	Grand Total		<u>1218325</u>	

* Rack re-work includes stripping, cleaning, installing new gaynor, pvc, grommets, top plate, re-wiring, testing and Hi-potting

** Site work includes flight, hotel car, approx. 30 days on site (8hrs/day), food and all expenses
2 persons

*** Racks to be secured to pallet by site personnel, Ironbrook will arrange for pickup, racks will be re-worked at our location then shipped back in crate to be used for next shipment of racks

PLC not included

Taxes if applicable not included

Terms

30% initial \$365,497.50

\$56,855.17 per completed cabinet afterwards

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**CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT**

**BOARD OF WATER COMMISSIONERS
STAFF REPORT**

TO: Stacey R. Aldstadt, General Manager

FROM: Robin L. Ohama, Deputy General Manager

SUBJECT: **AWARD OF CONTRACT – EPA 109S SITE DEMOLITION, GRADING AND WALL CONSTRUCTION PROJECT SPECIFICATION NO. 1646**

DATE: January 19, 2016

CC: M. Guerrero, M. Honis

BACKGROUND:

Specifications were advertised on November 5, 2015 for Specification No. 1646, FURNISH ALL LABOR, MATERIALS, AND EQUIPMENT FOR THE EPA 109S SITE DEMOLITION, GRADING, AND WALL CONSTRUCTION PROJECT, SAN BERNARDINO, CALIFORNIA.

As a result of size limitations at the existing EPA 109 site, proposed improvements must be constructed on the parcel immediately adjacent to this site. This parcel is known as 974 Home Avenue (EPA 109S). In preparation for the future construction of the EPA 109 Shallow Well and associated facilities, the existing structure and improvements on this parcel shall be demolished and removed. In order to maintain the site appropriately secured, new block walls must be constructed around the site's perimeter. This project consists of demolishing and removal of existing improvements and grading and construction of the block wall at 974 Home Avenue.

Specifications were provided to contractors through newspapers, plan rooms, and the automated e-Bidboard process. The Engineer's Estimate for this project was \$74,000.00. The five bids received and opened on December 7, 2015, are as follows:

BIDDERS NAME	LOCATION	SUBS LISTED	LUMP SUM	BOND/CHECK
IVL CONTRACTORS, INC.	RIALTO	YES	\$92,000.00	BOND
PYRAMID BUILDING & ENGINEERING, INC.	HESPERIA	YES	\$92,800.00	BOND
ROADWAY ENGINEERING & CONTRACTING, INC.	MIRA LOMA	NO	\$93,650.00	BOND
TRINITY CONSTRUCTION	BLUE JAY	YES	\$105,300.00	BOND

DDH APPLE VALLEY CONSTRUCTION	APPLE VALLEY	YES	\$120,132.86	BOND
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All bidders submitted the appropriate bid bond with their proposal.

FUNDING SOURCE:

The funding source for this project is the FY 2015/2016 Capital Improvement Project titled *Muscoy-EPA 109 Shallow Well Design/Construction* (C.O. 10690) which currently has a total of \$1,378,836.36 in unencumbered funds.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

- Accept the bid of IVL Contractors, Inc. as the lowest responsive, responsible bidder, and award a contract in the amount of NINETY TWO THOUSAND AND 00/100 DOLLARS (\$92,000.00) TO FURNISH ALL LABOR, MATERIALS, AND EQUIPMENT FOR THE EPA 109S SITE DEMOLITION, GRADING, AND WALL CONSTRUCTION PROJECT, SAN BERNARDINO, CALIFORNIA, and authorize the President and Secretary to execute the contract.

Respectfully submitted,



Robin L. Ohama
Deputy General Manager

Attachments

sdm

**City of San Bernardino Municipal Water Department
Bid Results Data Sheet**

Chronology				
Specification number:	1646			
Specification Title:	EPA 109S SITE DEMOLITION, GRADING AND WALL CONSTRUCTION PROJECT			
Date Advertised:	November 5, 2015			
Where Advertised (Papers, Plan rooms)	Press Enterprise, San Bernardino Sun, BidsOnline Bid Management (PlanetBids)			
Number of specifications sent out:	506			
Number of Addendums:	1			
Date of job walk:	November 18, 2015			
Number of contractors present:	19			
Total number of bids received:	5			
Number of bidders not responding:	14			
Date bids opened: (Electronic Bid)	December 7, 2015			
Engineering Estimate:	\$74,000.00			
Number of responsive bids:	5			
Bidders Name	Lump Sum Bid	Subs Listed	Bond/ Check	LOCATION OF BIDDER
IVL CONTRACTORS, INC.	\$92,000.00	YES	BOND	RIALTO
PYRAMID BUILDING & ENGINEERING, INC.	\$92,800.00	YES	BOND	HESPERIA
ROADWAY ENGINEERING & CONTRACTING INC.	\$93,650.00	NO	BOND	MIRA LOMA
TRINITY CONSTRUCTION	\$105,300.00	YES	BOND	BLUE JAY
DDH APPLE VALLEY CONSTRUCTION INC.	\$120,132.86	YES	BOND	APPLE VALLEY

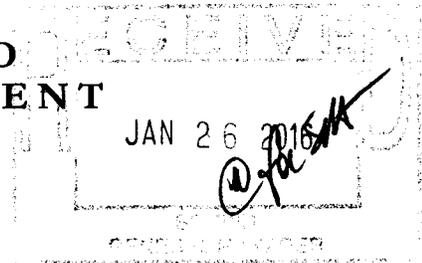
Remarks: All bids received are over the Engineer's Estimate of \$74,000.00; the C.O. has sufficient balance to cover the overage on the bids received.

SIGNED: Sydney Morrison, Sr. Administrative Coordinator

DATE: December 14, 2015

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS
STAFF REPORT



TO: Stacey R. Aldstadt, General Manager
FROM: Miguel Guerrero, Director, Water Utility
SUBJECT: RECOMMENDATION TO TRANSFER FUNDS FROM MT. VIEW AVENUE 12" MAIN EXTENTION (CO 10553) TO GIS APPLICATIONS UPGRADE PROJECT (CO 10736) AND TO AWARD A CONTRACT FOR FY 2015/16 GEOGRAPHIC INFORMATION SYSTEM APPLICATIONS UPGRADE PROJECT TO SPATIAL WAVE, INC. (CO 10736)
DATE: January 22, 2016
COPIES: Greg Gage (w/o attach), Sally Duran (w/attach), Pat Rogers (w/o attach), Sydney Morrison (w/attach)

BACKGROUND:

As a part of its Fiscal Year (FY) 2015/2016 Capital Improvement Program, the Department plans to develop additional functions and software tools for its Geographic Information System (GIS). The Department's GIS system incorporates system assets such as pipelines and valves, in addition to other data layers such as parcels, streets, topography and many other attributes. The GIS platform is used for mapping, data management, asset information (such as pipeline age/material), and for tracking development and boundary changes. The GIS is comprised of hardware and software, and each of these elements is updated periodically as technology evolves.

The additional development and integration planned for this year is focused on user tools for the Engineering, Operations, and Water Quality sections, including automation of some report data entry and further development of user dashboards. The scope of work also includes conversion of the Engineering Project Management (EPM) application to a new database, and integration of the EPM system with the Department's GIS platform.

Spatial Wave, Inc. has completed several previous phases of work for the GIS system, and the Department has been satisfied with its performance. Accordingly, staff is recommending that the Board approve a Professional Services Agreement for the FY 2015/16 Geographic Information Systems Applications Upgrade Project with Spatial Wave, Inc. A copy of the Agreement and proposed scope of work is attached.

Stacey R. Aldstadt, General Manager

Page 2

January 22, 2016

SUBJECT: RECOMMENDATION TO TRANSFER FUNDS FROM MT. VIEW AVENUE 12" MAIN EXTENTION (CO 10553) TO GIS APPLICATIONS UPGRADE PROJECT (CO 10736) AND TO AWARD A CONTRACT FOR FY 2015/16 GEOGRAPHIC INFORMATION SYSTEM APPLICATIONS UPGRADE PROJECT TO SPATIAL WAVE, INC. (CO 10736)

FUNDING SOURCE IDENTIFICATION:

The funding source for this project is the FY 2015/2016 Water Fund Capital Improvement Budget (CIP) through the project titled "Water System (GIS) Application Upgrades." Current year funding is \$120,000.00; this amount is not sufficient to fully fund the project. Accordingly, a budget transfer of \$85,000.00 is requested from Mt. View Avenue 12" Main Extension (CO 10553) to GIS Applications Upgrade Project (CO 10736). The Mt. View Avenue Main Extension project has been indefinitely delayed, and will be budgeted in a subsequent fiscal year for construction.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

- **Approve a transfer of \$85,000.00 from Construction Order 10553 to Construction Order 10736.**
- **Award a contract to Spatial Wave, Inc. in the amount not-to-exceed \$194,845.00 and authorize the President and Secretary to execute the contract to provide GIS Software and Applications services.**

Respectfully submitted,



Miguel Guerrero, P.E.
Director, Water Utility

MG:GG:aew
Attach.

PROFESSIONAL SERVICES AGREEMENT

THIS AGREEMENT is made and entered into effective _____ (the "Agreement Date") by and between:

"DEPARTMENT"

Name: City of San Bernardino Municipal Water Department
Address: 397 Chandler Place, P.O. Box 710, San Bernardino, CA 92401
Phone: (909) 384-7210
Fax: (909) 384-5215
Representative: Robin Ohama
Deputy General Manager

"CONSULTANT"

Name: Spatial Wave
Address: 23382 Mill Creek Drive, Suite 100, Laguna Hills, CA 92653
Phone: (949) 540-6400
Fax: (949) 586-8141
Representative: Ali Diba, Ph.D., P.E.
Principal-in-charge

PROJECT NAME (the "PROJECT"): GEOGRAPHIC INFORMATION SYSTEM (GIS) APPLICATIONS UPGRADE PROJECT

PROJECT

- DESCRIPTION OF WORK:** CONSULTANT shall render the services described in Attachment "A1" (hereinafter called the "SERVICES") in accordance with this AGREEMENT. CONSULTANT may, at its discretion and at any stage, engage sub-CONSULTANTS to perform part of the SERVICES. The DEPARTMENT and CONSULTANT by written amendment to this AGREEMENT may, from time to time, make changes to the SERVICES. All changes must be in writing, in accordance with the procedures outlined in this AGREEMENT. The time for completion of the SERVICES may be adjusted accordingly.
- COMPENSATION:** Charges for the SERVICES rendered will be made in accordance with the CONTRACT PRICE indicated in Attachment "A1"; or, if no CONTRACT PRICE is indicated, in accordance with TASK ORDERS issued under this AGREEMENT and the CONSULTANT's Schedule of Fees attached and incorporated into the TASK ORDER. TASK ORDERS shall be incorporated into the AGREEMENT.

All invoices MUST identify the contract or purchase order number and the project name. Any invoice received without proper identification will be returned to the CONSULTANT. Approved invoices shall be paid by the DEPARTMENT within thirty (30) calendar days of approval by the DEPARTMENT.

- REPRESENTATIVES:** Each party shall designate a representative who is authorized to act on behalf of that party and receive notices under this AGREEMENT. CONSULTANT agrees that the DEPARTMENT's representative cannot bind the DEPARTMENT and can only make recommendations or act within his or her authority, granted by the DEPARTMENT's BOARD of WATER COMMISSIONERS.
- NOTICES:** All notices, consents, and approvals required to be given hereunder shall be in writing and shall be given to the representatives of each party. All notices required by this AGREEMENT to be given by either party shall be deemed to be properly given and received within two (2) business days if made in writing to the other party by certified mail, telegram, e-mail, facsimile, or telex, addressed to the regular business address of such party as identified above.
- DEPARTMENT'S RESPONSIBILITIES:** The DEPARTMENT shall provide to CONSULTANT, in writing, the DEPARTMENT'S total requirements in connection with the PROJECT, including the PROJECT budget and time constraints. The DEPARTMENT shall make available to CONSULTANT all relevant information or data pertinent to the PROJECT which is required by CONSULTANT to perform the SERVICES. CONSULTANT shall be entitled to rely upon the accuracy and completeness of all information and data furnished by the DEPARTMENT. However, CONSULTANT shall perform any investigation or confirmation of data that a reasonable CONSULTANT offering the same type of services would under the same circumstances.

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The DEPARTMENT shall give prompt consideration to all documentation related to the PROJECT prepared by CONSULTANT and whenever prompt action is necessary shall inform CONSULTANT of DEPARTMENT'S decisions in such reasonable time so as not to delay the schedule for providing the SERVICES.

When applicable, the DEPARTMENT shall arrange and make provision for CONSULTANT's entry to the PROJECT site as well as other public and private property as necessary for CONSULTANT to perform the SERVICES. The DEPARTMENT shall obtain any required approvals, licenses, and permits from governmental or other authorities having jurisdiction over the PROJECT so as not to delay CONSULTANT in the performance of the SERVICES, unless the scope of services requires that CONSULTANT shall do that work.

6. **CONSULTANT'S RESPONSIBILITIES:** CONSULTANT shall furnish the necessary, qualified personnel to provide the SERVICES. CONSULTANT represents that it has the experience and capability necessary to and agrees to perform the SERVICES in accordance with the generally accepted professional practices and in a manner consistent with the level of care and skill ordinarily exercised by members of the profession currently practicing under similar conditions. All services shall be performed to the DEPARTMENT's satisfaction.

In performing the SERVICES under this AGREEMENT, CONSULTANT shall operate as and have the status of an independent contractor and shall not act as, or be, an employee of the DEPARTMENT. The SERVICES performed by CONSULTANT shall be subject to the inspection and the review of the DEPARTMENT at all times but such inspection and review shall not relieve CONSULTANT from its responsibility for the proper performance of the SERVICES. Neither CONSULTANT nor any of his/her/its employees or agents shall have any claim under this AGREEMENT or otherwise against the DEPARTMENT for vacation pay, paid sick leave, retirement benefits, social security, workers' compensation, health, disability, or unemployment insurance benefits or other employee benefits of any kind. CONSULTANT is liable for all applicable Social Security, Federal, and State taxes required on payments made by the DEPARTMENT.

7. **TERMINATION:** Either party may terminate this AGREEMENT, in whole or in part, without cause upon thirty (30) calendar days' written notice. Upon receipt of the termination notice, CONSULTANT shall promptly discontinue services unless the notice directs to the contrary. In the event DEPARTMENT renders such written notice to CONSULTANT, CONSULTANT shall be entitled to compensation for all services rendered prior to the effective date of the notice and all further services set forth in the notice. DEPARTMENT shall be entitled to reimbursement for any compensation paid in excess of services rendered. CONSULTANT acknowledges DEPARTMENT's right to terminate this AGREEMENT as provided in the Section, and hereby waives any and all claims for damages that might arise from DEPARTMENT's termination of this AGREEMENT. CONSULTANT shall deliver to the DEPARTMENT and transfer title (if necessary) to all completed work, and work in progress, including drafts, documents, plans, forms, maps, models, products, graphics, computer programs, and reports.

8. **BUILDING CODES, BYLAWS, AND OTHER PUBLIC REGULATIONS:** CONSULTANT shall, to the best of its ability, interpret building codes, bylaws, and other public regulations as they apply to the PROJECT and as they are published at the time SERVICES commence. Furthermore, CONSULTANT shall observe and comply with all applicable laws, ordinances, codes and regulations of government agencies, including federal, state, provincial, municipal, and local governing bodies having jurisdiction over the conduct of the SERVICES ("LAW"). However, it is expressly acknowledged and agreed by the DEPARTMENT that as the PROJECT progresses, such building codes, bylaws, other public regulations, and LAWS may change or the interpretation of any public authority may differ from the interpretation of CONSULTANT, through no fault of CONSULTANT, and any extra costs necessary to conform to such changes or interpretations during or after execution of the SERVICES, will be paid by the DEPARTMENT upon the determination of the DEPARTMENT in the exercise of its sole discretion that the CONSULTANT has performed due diligence in complying with the applicable statute.

CONSULTANT shall continue to provide equal employment opportunity to all qualified persons and to recruit, hire, train, promote, and compensate persons in all jobs without regard to race, color, religion, sex, age, disability, or national origin or any other basis prohibited by applicable laws.

9. **COST AND SCHEDULE OF CONSTRUCTION WORK:** When applicable, and in providing opinions of probable cost and project schedule, it is recognized that neither the DEPARTMENT nor CONSULTANT has control over the costs of labor, equipment, or materials. The opinions of probable cost or project duration are based on CONSULTANT'S reasonable professional judgment and experience and do not constitute a warranty, expressed or implied, that the DEPARTMENTS' bids, project schedules, or the negotiated price of the Work or schedule will not vary from the DEPARTMENT'S budget or schedule or from any opinion of probable cost or project schedule prepared by

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CONSULTANT. Exact costs and times will be determined only when bids have been received for the PROJECT and when the construction work has been performed and payments finalized.

10. **ADMINISTRATION OF CONSTRUCTION CONTRACTS:** When applicable, CONSULTANT shall provide field services during the construction of the PROJECT to the extent that such SERVICES are included and defined in this AGREEMENT.

It is understood and agreed by the DEPARTMENT and CONSULTANT that only work which can be seen during an examination by CONSULTANT can be said to have been appraised and comments on the balance of any construction work are assumptions only.

When field services are provided by CONSULTANT, the authority for general administration of the PROJECT shall reside with CONSULTANT only to the extent defined in this AGREEMENT. In such case, CONSULTANT shall coordinate the activities of other consultants employed by the DEPARTMENT, only to the extent that CONSULTANT is empowered to do so by such other consultants' contracts with the DEPARTMENT.

When field services are provided, no acceptance by CONSULTANT of the work or services of a construction contractor or other consultants, whether expressed or implied, shall relieve such construction contractor or other consultants from their responsibilities to the DEPARTMENT for the proper performance of such work or services and further, CONSULTANT shall not be responsible to the DEPARTMENT or to the construction contractor or to the other consultants for the means, methods, techniques, sequences, procedures, and use of equipment of any nature whatsoever, whether reviewed by CONSULTANT or not, which are employed by the construction contractor or the other consultants in executing, designing, or administering any phases of the PROJECT, or for placing into operation any plant or equipment or for safety precautions and programs incidental thereto.

11. **CHANGE ORDERS:** Any change(s) to the CONSULTANT'S scope of work, including a time extension, shall be in writing, without exception. CONSULTANT acknowledges by signing this AGREEMENT that DEPARTMENT is a public entity and, as such, representatives of the DEPARTMENT have no authority to bind the DEPARTMENT contractually. DEPARTMENT representatives will recommend changes to the AGREEMENT to the General Manager of the DEPARTMENT and/or to the BOARD of WATER COMMISSIONERS.

If CONSULTANT intends to initiate a change to the scope of work, including a time extension, CONSULTANT must provide a written request to the DEPARTMENT within twenty (20) calendar days of discovery of the need for the change. Failure to provide a written request within that time period shall effect a WAIVER of a claim for additional work, unless such failure is the sole fault of the DEPARTMENT. Within twenty (20) calendar days of a written request by CONSULTANT, DEPARTMENT will either issue a CHANGE ORDER, request additional information, or deny the CHANGE ORDER. If DEPARTMENT ultimately denies the CHANGE ORDER, the CONSULTANT shall continue work under the original or approved, amended scope of work.

If the DEPARTMENT initiates a change to the scope of work, including a time extension, it will issue a request for change of scope. CONSULTANT shall, within twenty (20) calendar days of the request for change of scope, provide a firm cost for the change of scope. If both parties agree, the DEPARTMENT will issue a CHANGE ORDER for the change to the scope of work.

12. **JOBSITE SAFETY:** CONSULTANT shall be responsible for safety related to and during the performance of the work. CONSULTANT will ensure that his/her employees and the employees of his sub-CONSULTANTS are notified of and observe and abide by all safety regulations and laws. CONSULTANT shall immediately notify DEPARTMENT of any damage to property and/or injury to, or death of persons, which occurs in connection with or is in any way related to the work. CONSULTANT shall furnish DEPARTMENT a written report of any such damage or injury within three (3) business days.
13. **LIMITATION OF LIABILITY:** The DEPARTMENT releases CONSULTANT from any liability and agrees to defend, indemnify, and hold CONSULTANT harmless from any and all claims, damages, losses, and/or expenses, direct and indirect, or consequential damages, including but not limited to, attorney's fees and charges and court and arbitration costs, arising out of, or claimed to arise out of, the performance of the SERVICES, excepting liability arising from the negligence or willful misconduct of CONSULTANT. The CONSULTANT releases DEPARTMENT from any liability and agrees to defend, indemnify, and hold DEPARTMENT harmless from any and all claims, damages, losses, and/or expenses, direct and indirect, or consequential damages, including but not limited to, attorney's fees and charges and

PROFESSIONAL SERVICES AGREEMENT

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court and arbitration costs, arising out of, or claimed to arise out of, the performance of the SERVICES, excepting liability arising from the negligence or willful misconduct of DEPARTMENT.

14. **INSURANCE:** CONSULTANT shall not commence work under this AGREEMENT until CONSULTANT has obtained, at his/her/its sole expense, the required policies of insurance, which meet the insurance requirements established by the DEPARTMENT, a copy of which is attached hereto. At the time of execution of this AGREEMENT, CONSULTANT shall provide DEPARTMENT with valid Certificate(s) of Insurance for said policies of insurance. CONSULTANT shall, during the life of this AGREEMENT, notify the DEPARTMENT in writing, within 72 hours of knowledge, of any incident giving rise to potential bodily injury or property damage claim.
15. **CONFIDENTIALITY:** CONSULTANT acknowledges that DEPARTMENT operates a water and wastewater system that are governed by laws affecting homeland security. Therefore, CONSULTANT agrees that any information provided to it that is protected from disclosure to the general public shall remain confidential and shall not be disclosed to any third party unless absolutely necessary to perform the SERVICES. CONSULTANT agrees that it shall keep the location of DEPARTMENT facilities confidential and shall take all reasonable steps to assure that its employees keep the location of DEPARTMENT facilities confidential. CONSULTANT also acknowledges that there may be substantial continuing harm caused by failure of CONSULTANT to maintain strict confidentiality regarding the SERVICES and that an action for specific performance is the appropriate remedy.

CONSULTANT will comply with its statutory obligations respecting the collection, use, disclosure, access to, correction, protection, accuracy, retention, and disposition of confidential and personal information that may be collected or created under this AGREEMENT. CONSULTANT will refer any request for access to or correction of confidential and personal information that is made under statute to the DEPARTMENT and will comply with any directions from the DEPARTMENT respecting the access request, or respecting correction and annotation of confidential and personal information. CONSULTANT shall, during regular business hours and upon ten (10) calendar days notice, allow the DEPARTMENT to enter its premises and inspect any personal information of the DEPARTMENT'S that is in the custody of CONSULTANT or any of CONSULTANT's policies or practices relevant to the management of confidential and personal information subject to this AGREEMENT.

16. **OWNERSHIP OF WORK PRODUCT:** All original papers, maps, models, designs, studies, surveys, reports, data, notes, computer files, documents, drawings, and other WORK PRODUCT of CONSULTANT produced by CONSULTANT pursuant to this AGREEMENT, except documents which are required to be filed with public agencies, shall be deemed solely the property of DEPARTMENT. CONSULTANT shall take such steps as are necessary to perfect and protect the ownership interest of the DEPARTMENT in such WORK PRODUCT. Upon completion, expiration, or termination of this AGREEMENT, CONSULTANT shall turn over to DEPARTMENT all such original WORK PRODUCT within ninety (90) calendar days of the completion of the SERVICES, unless otherwise agreed in writing to the contrary.
17. **FORCE MAJEURE:** Any default in the performance of this AGREEMENT caused by any of the following events and without fault or negligence on the part of the defaulting party shall not constitute a breach of contract: labor strikes, riots, war, unusually severe weather conditions or other natural catastrophe, or any other cause beyond the reasonable control or contemplation of either party.
18. **GOVERNING LAW:** This AGREEMENT shall be governed, construed, and enforced in accordance with the laws of the state of California.
19. **CHOICE OF VENUE:** Venue for any dispute shall be in the courts for the county of San Bernardino and the parties hereto consent to the exercise of personal jurisdiction over them by such courts for purposes of any such action or proceeding.
20. **ATTORNEYS FEES:** In the event of a dispute hereunder, the prevailing party is entitled to recover from the other party all costs incurred by the prevailing party in enforcing this AGREEMENT and prosecuting the dispute, including reasonable attorney's and expert's fees, whether incurred through formal legal proceedings or otherwise.
21. **ASSIGNMENT AND SUCCESSORS:** Neither the DEPARTMENT nor CONSULTANT shall, without the prior written consent of the other party, assign the benefit or in any way transfer the obligations of this AGREEMENT or any part hereof. This AGREEMENT shall inure to the benefit of and be binding upon the parties hereto, and except as otherwise provided herein, upon their executors, administrators, successors, and assigns.

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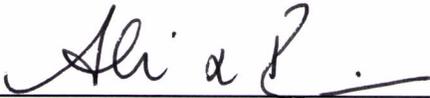
22. **ENTIRE AGREEMENT:** This AGREEMENT constitutes the sole and entire agreement between the DEPARTMENT and CONSULTANT relating to the PROJECT and supersedes all prior agreements between them, whether written or oral, respecting the subject matter hereof and no other terms, conditions, or warranties, whether expressed or implied, shall form a part hereof. This AGREEMENT may be amended only by written instrument signed by both the DEPARTMENT and CONSULTANT. All attachments referred to in this AGREEMENT are incorporated herein by this reference; however, in the event of any conflict between attachments and the terms and conditions of this AGREEMENT, the terms and conditions of this AGREEMENT shall take precedence.
23. **SEVERABILITY:** If any term, condition, or covenant of this AGREEMENT is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions of this AGREEMENT shall be binding on the DEPARTMENT and CONSULTANT.

THE PARTIES EXPRESSLY ACKNOWLEDGE THAT THIS AGREEMENT CONTAINS LIMITATION OF LIABILITY PROVISIONS RESTRICTING RIGHTS FOR THE RECOVERY OF DAMAGES.

The Parties, intending to be legally bound, have made, accepted, and executed this AGREEMENT as of the Agreement Date noted above:

SPATIAL WAVE

CITY OF SAN BERNARDINO
BOARD OF WATER COMMISSIONERS



Ali Diba, Ph.D., P.E.
Principal-in-charge

Toni Callicott
President

Robin L. Ohama
Deputy City Clerk & Ex-Officio Secretary

ATTACHMENT "A"

Attached to and forming part of the AGREEMENT

BETWEEN:

CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
(hereinafter called the "DEPARTMENT")

- and -

SPATIAL WAVE
(hereinafter called "CONSULTANT")

EFFECTIVE: _____

This Attachment details the SERVICES, CONTRACT TIME, CONTRACT PRICE, ADDITIONAL CONDITIONS, and ADDITIONAL ATTACHMENTS forming part of the above described AGREEMENT.

SERVICES: CONSULTANT shall perform the following SERVICES:

See Attachment A1, incorporated herein

(hereinafter called the "SERVICES")

CONTRACT TIME: Commencement Date: January 21, 2016
Estimated Completion Date: January 21, 2017

CONTRACT PRICE: Subject to the terms below, DEPARTMENT will compensate CONSULTANT for SERVICES as follows:

ONE HUNDRED NINETY-FOUR THOUSAND EIGHT HUNDRED FORTY-FIVE DOLLARS AND NO/100 (\$194,845.00) as shown in Attachment A1

Changes to the SERVICES shall be administered as provided in Section 11 of the AGREEMENT.

Unless otherwise specified, charges for SERVICES are based on CONSULTANT'S hourly billing.

ADDITIONAL CONDITIONS: The following additional conditions shall be read in conjunction with and constitute part of this AGREEMENT:

None

ADDITIONAL ATTACHMENTS: The following additional attachments shall be read in conjunction with and constitute part of this AGREEMENT:

None

INSURANCE REQUIREMENTS

Before any services are provided under this agreement, CONSULTANT shall procure, and maintain in effect during the term of this agreement, insurance coverage in amounts and on terms not less than set forth below.

If you have any questions about the type of coverage we require, you may e-mail your questions to:

*Sydney Morrison
Senior Administrative Coordinator
City of San Bernardino
Municipal Water Department
E-mail address: Sydney.Morrison@sbmwd.org*

Insurance - During the life of the contract and for such additional time as may be required the CONSULTANT shall procure, provide, and maintain in full force and effect the insurance outlined here for coverages at not less than the prescribed minimum limits of liability covering the CONSULTANTS activities, those of any and all consultants, or anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them maybe liable. Professional liability insurance providing a minimum limit of liability of \$1.0 million per claim and a \$2,000,000 million aggregate. Insurance for protection from claims under workers' compensation insurance with statutory minimum amounts of coverage, as required by the Labor Code of the State of California, and including employer's liability insurance with a minimum limit of \$1,000,000. Such workers' compensation insurance shall be endorsed to provide for a waiver of subrogation against the City of San Bernardino Municipal Water Department, its commissioners, officers, agents, employees, Consultants, and consultants of this Contract, the City of San Bernardino, its officers, agents, and employees, and all public agencies from whom permits will be obtained and its directors, officers, agents, and employees (Department). Insurance for claims for damages because of bodily injury including personal injury, sickness or disease or death of any and all employees or of any person other than such employees, and from claims or damages because of injury to or destruction of property including loss of use resulting therefrom. The insurance shall provide the following minimum limits of liability: Combined Single Limit of \$1.0 million per occurrence for bodily injury, including death, personal injury, and property damage, with \$2.0 million aggregate. Automotive/vehicle liability insurance on a commercial auto liability form covering owned, non-owned and hired automobiles providing a minimum limit of liability of \$1.0 million per accident for bodily injury, death, and property damage and a \$2.0 million aggregate. CONSULTANT shall provide the DEPARTMENT the original policies of insurance or present a certificate of insurance as well as any necessary endorsements evidencing such coverage as in force in compliance with the terms and conditions outlined herein.

All Insurance Coverages: The insurance provided for the coverages above are subject to the following conditions:

1. The insurance shall be issued and underwritten by insurance companies acceptable to the DEPARTMENT with a minimum rating of an "A-" policyholder's rating and a financial rating of at least class VII in accordance with the most current Best's Guide Rating, and shall be licensed by the State of California to do business on the lines of insurance specified. The State Compensation Fund of California is an acceptable Workers Compensation carrier.
2. The CONSULTANT may satisfy the limit requirements in a single policy or multiple policies. Any such additional policies written as excess insurance shall not provide any less coverage than that provided by the first or primary policy.
3. Any costs associated with a self-insured program, deductibles, or premium rating programs that determine premium based on loss experience shall be for the account of the CONSULTANT and subsequent sub-CONSULTANTS, and the DEPARTMENT shall not be required to participate in any such loss. If any such programs exist, CONSULTANT and subsequent sub-CONSULTANTS agree to protect and defend the DEPARTMENT in the same manner as if such cost provisions were not applicable.

4. The CONSULTANT shall be responsible to establish insurance requirements for any sub-CONSULTANT/suppliers hired by the CONSULTANT. The insurance shall be in amounts and types reasonably sufficient to deal with the risk of loss involving the sub-CONSULTANT'S operations and work.

5. CONSULTANT shall have presented at the time of execution of the Contract, the original policies of insurance or have provided a copy of the certificate of insurance and any necessary endorsements in the form as attached hereto evidencing such coverage as in force, and which complies with the terms and conditions outlined herein.

6. If an insurance policy contains a general policy aggregate of less than the minimum limits specified, then the policy coverage shall be written with limits applicable solely to this Contract, as specified, and shall not be reduced by or impaired by any other claims arising against CONSULTANT. These policy limits shall be set forth by separate endorsement to the policy.

7. Each such policy of General Liability and Automotive/Vehicle Liability insurance shall contain endorsements providing the following:

a. The City of San Bernardino Municipal Water Department, its commissioners, officers, agents, employees, Consultants, and consultants for this Contract, the City of San Bernardino, its officers, agents, and employees, and all public agencies from whom permits will be obtained and its Directors, officers, agents, and employees are hereby declared to be additional insureds under the terms of this policy, but only with respect to the operations of the CONSULTANT at or upon any of the premises of the DEPARTMENT in connection with the Contract with the DEPARTMENT.

b. Each policy shall contain an endorsement that provides that the insurance policy will not be cancelled, limited, materially altered, or non-renewed by the insurer until thirty (30) days after receipt by the DEPARTMENT of a written notice of such cancellation or reduction in coverage.

c. The insurance policy provided by the CONSULTANT and Sub-CONSULTANT shall be listed as primary and noncontributory insurance and no insurance held or owned by The City of San Bernardino Municipal Water Department, its commissioners, officers, agents, employees, Consultants, and engineers for this Contract, the City of San Bernardino, its officers, agents, and employees, and all public agencies from whom permits will be obtained and its Directors, officers, agents, and employees shall be called upon to cover a loss under this policy. The endorsements shall be on the forms supplied by their insurance carrier.

ATTACHMENT A1
SCOPE OF SERVICES



City of San Bernardino Municipal Water Department

Statement of Work FY 2016/2017 GIS Project

Introduction

The purpose of this document is to outline tasks that are necessary to define the scope of work for further advancement of the Enterprise GIS systems at SBMWD (Phase 8 of the GIS Implementation Project). This scope is the development of a new GIS enabled Engineering Project Management system that will replace the existing EPM system. It will also include capturing of the data from the SCADA system for reporting purpose. Furthermore, this scope of work includes generation of the Public Health Goals (PHG) report from the water quality data in the GWIS database.

Develop New GIS Enabled EPM Database

SBMWD has been using an existing system for management of the engineering projects (EPM). EPM has been used to track all of engineering design, development, contracts, and customer interactions including processing request for information (RFI). EPM is the official source for generation of the Engineering Project No. (EPN) which is the basis for organizing information associated with all Construction Orders (COs) and Work Orders (WOs). Construction Orders in turn are the base against which Purchase Orders (POs) are issued and tracked in EPM. The scope of work for this task is comprised of 4 steps which include Design, Development, Installation and Training, and Migration of data.

Step 1 - Design the New System

Elements to be considered in the design include the data entry forms and reports. These are described in detail in the attached "EPM Modules Final" documentation. They are briefly described here.

Forms and Workflows include the following:

- Engineering Projects
- Projects
- Project Approval Routing
- Fire Hydrant Notification Report
- ERC/DRC Cases
- Pipe Records
- RFI
- List/Lookup Management
- Administration Interface

Reports include the following:

- Engineering Projects by Year (summary)
- Engineering Projects by Year (detail)
- Projects
- Project Approval Routing
- Fire Hydrant Notification Report
- ERC/DRC
- Pipe Records
- List/Lookup Management



Step 2 - Develop the New System – This step involves development of the new system. Which includes the development of the forms, reports, and the delivery platform. We anticipate developing the new system using the similar technology that was used to develop GWIS which is a web based solution for managing the data.

Step 3 - Installation and Training in the New System – This step involves installation and startup of the new system which includes the forms and reports. Users will be trained to use this system in parallel with the existing EPM system.

Step 4 - Migrate Historical Data from the old EPM into the new system – This step involves the migration of the old EPM data into the new system. Note should be made that existing relationships in the EPM data will be preserved to the degree possible. Information in the old system that does not support the structure of the new system will not be transferred to the new EPM.

The above steps are repeated in the following tasks to develop the new EPM system:

Task 1 - Engineering Projects – This task covers the implementation of the Engineering Projects which is the central components of the EPM system. This task covers the key components of the existing EPM which will be implemented in the new EPM. These components are discussed in Appendix A.

Task 2 – GIS Integration - Engineering project includes GIS integration to allow for creating of the project boundary based on parcel data, and creating new facility addition/removal or change management linked to GIS. GIS integration will be implemented in the following areas:

- Identification of the impacted Parcels for a given Engineering Project using the Parcel Data.
- Creation of a Project Boundary if it splits parcels.
- Availability of the assets and related documentation (e.g., Tie Sheets) for a given project via ArcGIS Desktop.

Task 3 - ERC/DRC – Implement the Environmental/Development Regulatory Committee interface (ERC/DRC).

Task 4 - Pipe Records – Implement generation of the pipe reports from GIS.

Task 5 - RFI – Implement the Request for Information (RFI) tracking. The components of the RFI implementation and described in Appendix A.

Task 6 - Admin Interface – This interface will be used to authorize users, manage lookup tables, and domains. Furthermore this interface will be used to manage the GIS data linkage.

***SBMWD Responsibility:** Provide feedback on the design of the new system. Provide historical data for inclusion into the new system. Verify and validate the assumptions. Test and accept the new system.*

***Spatial Wave Responsibility:** Design and develop the new EPM. Install, test the system, and provide training.*

***Deliverables:** New EPM system.*

***Document Describing Details Requirements:** Appendix A – EPM_Modules_Final.docx - EPM Modules Final*

Develop SCADA Data Capture

SBMWD uses the Wonderware SCADA system for supervisor control and data acquisition purposes. The SCADA system included a Historian which contains the historical data collected from the SCADA. This system is managed using a secure environment and the data from the Historian is not easily accessible to the different departments for reporting, analysis, and modeling purposes. This task will allow for regular transfer of the SCADA data from the Historian into SQL Server database in use by the GIS project. Once the data is in the SQL Server then it can be used in the regulatory reports as well as linked to the GIS system. For example this would allow for obtaining reservoir levels for a given reservoir or flow measurements for a given pump.

There are two methods in which to pull SCADA data. One is SCADA provides a flat file (not compressed format) of the needed tags on a frequent basis (to be defined) into the Enterprise Network. The other is to develop an extraction mechanism from the SCADA network. This project will use the first method to obtain the data on a regular basis.

The first phase of this task is to perform a discovery that should answer the following:



1. Clearer definition of the objectives and use case of the data
2. Detailed understanding of the SCADA environment
3. Development of the transfer file process from the SCADA. This includes frequency of transfer (e.g., twice a day) as well as the frequency and content of the historian data (hourly/daily, flow, elevation, pump on/off, etc.)
4. Testing and documentation.

Spatial Wave will execute a series of discovery meetings to clarify all the needed information. We anticipate 2 onsite meetings and 2 additional remote meetings to accomplish this. Tasks for this project include the following:

Task 1 - Design System – This task includes the discovery meetings to design the system and associated parameters. We will identify the data exchange mechanism between SCADA and the GIS system. We will also discuss the identification of the tags that relate to data of interest and frequency of the data obtained from the historian.

Task 2 - Implement Regular Data Upload – This task covers the implementation of the data load. We anticipate implementing an ETL process to load the data file obtained from SCADA into SQL Server.

Task 3 - Implement Mapping with Mapplet – During this task we will develop a linkage from Mapplet to display the SCADA data. This task involves development of a data mapping element between GIS features and SCADA tags.

Task 4 - Create Sample Excel to Obtain Data – During this task we will develop a sample MS Excel sheet to demonstrate the ability to export the SCADA data into an Excel sheet for graphing and reporting purpose. This will be used to train the users on how to create their own Excel reports.

Task 5 - Installation, Training, and Support – This task covers the installation, training, and support of the SCADA integration.

Task 6 - Incorporation of SCADA Data into Nitrate Reports – The current Nitrate report will benefit from incorporation of the SCADA data instead of manually reading the data. During this task we will work on populating the Nitrate report from the data extracted from SCADA. Other elements of the Nitrate report not available from SCADA and GWIS need to be entered manually into the system.

Task 7 - Project Management – This task covers the project management activities of the SCADA integration.

***SBMWD Responsibility:** Provide access to the necessary staff to answer questions and needs on the SCADA system.*

***Spatial Wave Responsibility:** Design and Develop the interface for incorporation of the SCADA data into the existing GIS system.*

***Deliverables:** SCADA Integration into the GIS Database.*

***Document Describing Details Requirements:** Appendix B – Blend_Nitrate_Rept092015.pdf - Blend Nitrate Report 092015*

Develop Public Health Goals Report

Water Quality Division of SBMWD generates Public Health Goals (PHG) reports on an annual basis. These reports contain the regulatory data related to constituents measured at different sources throughout the year. The PHG report includes exceedance by constituent of the regulatory reports. We anticipate performing this task using similar mechanism we developed for water quality reports generated in MS Excel.

Spatial Wave will execute a two discovery meetings to clarify all the needed information. We anticipate 2 remote meetings to accomplish this. Tasks for this project include the following:

Task 1 – Develop Approach – This task includes the discovery meetings to design the system and associated parameters. We will identify the data in GWIS that will be needed to generate this report. Additional data required but not present in GWIS needs to be entered into the system manually.



Task 2 - Implement Reports – We will develop the Excel functions to retrieve the data into MS Excel. Once the functions are developed, we will develop the MS Excel sheets that are needed to implement PHG. This task also includes implementation of the MAT Tiles showing the desired alarms for exceedance of the limits.

Task 3 - Installation, Testing, and Support – This task covers the installation, training, and support of PHG reports.

Task 4 - Project Management – This task covers the project management activities of the PHG report generation.

SBMWD Responsibility: Provide access to the necessary staff to answer questions and needs on the PHG reports.

Spatial Wave Responsibility: Design and Develop the PHG reporting system.

Deliverables: MS Excel Sheets Producing PHG Reports

Document Describing Details Requirements: Appendix C – PHG_Report2.pdf – 2013 PHG Report - Recap

Provide Reporting Update and Modification Support

This task covers up to 40 hours of technical support towards creation and update of the existing reports. This task is provided at no additional cost.

SBMWD Responsibility: Provide clear instruction on report modifications.

Spatial Wave Responsibility: Obtain clarification of the required changes. Implement required changes. Keep track and report the remaining budget during project status meetings.

Deliverables: Report Changes

Project Cost

Spatial Wave will perform this project on a time and materials basis. Spatial Wave's rates are shown in the following table:

Classification	Labor Rate (\$/hr)	ODC (\$)
Project Manager	\$180	-
Senior Engineer	\$140	
Professional Engineer/Trainer	\$130	-
Reports Specialist	\$115	-

Estimated costs in dollar amount of each step are included in the following table:

EPM Tasks	Hours	\$ Cost
Task 1 - Engineering Projects	412	\$52,120
Task 2 – GIS Integration	288	\$35,600
Task 3 – ERC/DRC	190	\$23,925
Task 4 – Pipe Records	84	\$10,800
Task 5 - RFI	108	\$22,320
Task 6 – Admin. Interface	188	\$23,960
SCADA Tasks		
Task 1 - Implement SCADA Data Retrieval	80	\$10,500
PHG Reports		
Task 1 - Implement PHG Reports and Tiles	120	\$15,620
Total	1470	\$194,845

The estimation of the project duration for this project is 8 months from the start date.



**CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT**

**BOARD OF WATER COMMISSIONERS
STAFF REPORT**

TO: Stacey R. Aldstadt, General Manager
FROM: Jennifer Shepardson, Director of Environmental & Regulatory Compliance
SUBJECT: CLAIMS SETTLEMENTS -- QUARTERLY REPORT
DATE: January 26, 2016

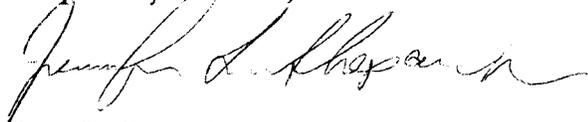
BACKGROUND:

In Policy 20.090 -- Claims Handling, it is required that the Environmental and Regulatory Compliance division provide the Board a quarterly written report detailing all claims processed within the authority granted in the policy. Attached is the quarterly report for the period of October 2015 through December 2015.

RECOMMENDATION:

Receive and file, as this report is provided for information only.

Respectfully submitted,



Jennifer Shepardson
Director of Environmental & Regulatory Compliance

QUARTERLY CLAIMS HANDLING REVIEW (10/01/2015 to 12/31/2015)

Date Closed/ Payment Received	Incident Number	Date of Incident	Event	Amount of Claim	Name	Resolution	\$ Received	\$ Paid Out	
10/9/2015	15-030	1/15/2015	Secure System from Sewer Contamination	\$4,921.39	CLG Property Management	Paid	\$2,460.69		
11/24/2015	15-078	5/6/2015	Repair Damaged Line	\$9,464.97	SBCUSD	Paid	\$9,464.97		
11/30/2015	15-157	9/10/2015	Traffic Collision Damaged SBMWD Fence	\$690.00	U-Haul	Paid	\$690.00		
12/28/2015	09-111	9/20/2015	Hit Fire Hydrant	\$4,750.00	Jose Luis Garcia	Paid	\$200.00		
12/28/2015	14-150	11/6/2013	Hit Fire Hydrant	\$2,807.06	Vincente Ponce	Paid	\$75.00		
TOTAL:							\$12,890.66	\$	-