

AGENDA
Borrego Water District Board of Directors
Special Meeting
July 17, 2012 9:00 a.m.
806 Palm Canyon Drive
Borrego Springs, CA 92004

I. OPENING PROCEDURES

- A. Call to Order
- B. Pledge of Allegiance
- C. Roll Call
- D. Approval of Agenda
- E. Comments from Directors and Requests for Future Agenda Items
- F. Comments from the Public and Requests for Future Agenda Items (comments will be limited to 3 minutes)

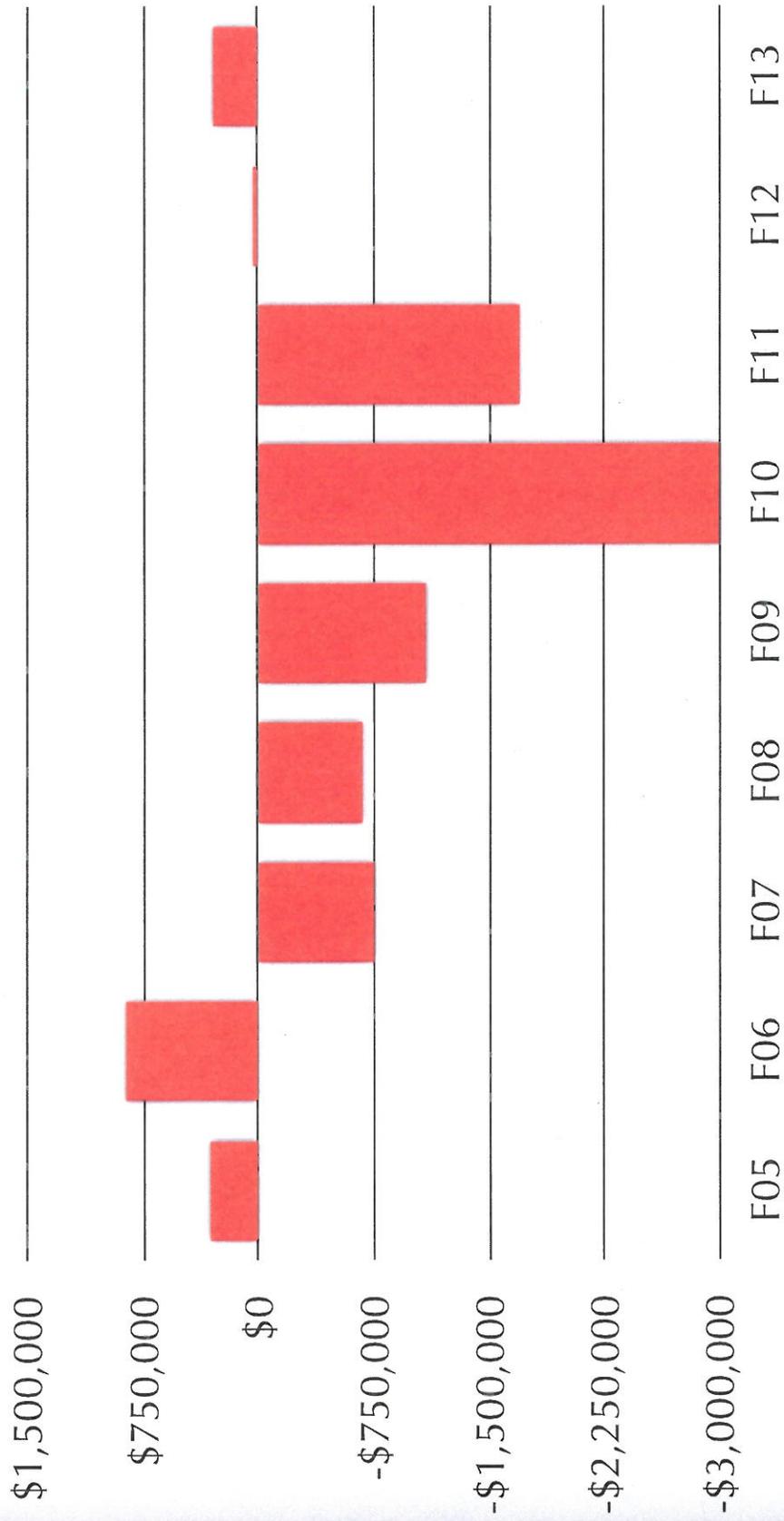
II. CURRENT BUSINESS MATTERS

- A. Public Hearing to hear testimony regarding the proposed water and sewer rate changes and consider adoption of ***RESOLUTION 2012-07-01 ESTABLISHING WATER AND SEWER SERVICE RATES FOR FY2012-2013.*** (page 2-14)
- B. Discussion and possible action of ***RESOLUTION 2012-07-02 AUTHORIZING THE SALE OF REAL PROPERTY OWNED BY THE DISTRICT LOCATED AT BORREGO SALTON SEAWAY (COUNTY ROAD S-22) TO ANZA BORREGO FOUNDATION*** (page 15-16)
- C. Discussion and possible approval of relinquishing trash services for the CSD
- D. Discussion of potential agenda items for July 25th board meeting.

III. CLOSING PROCEDURE, Adjournment

The next Regular Meeting of the Board of Directors is scheduled for July 25, 2012 at the Borrego Water District.

■ Net Increase (Decrease) In Cash & Cash Equivalents

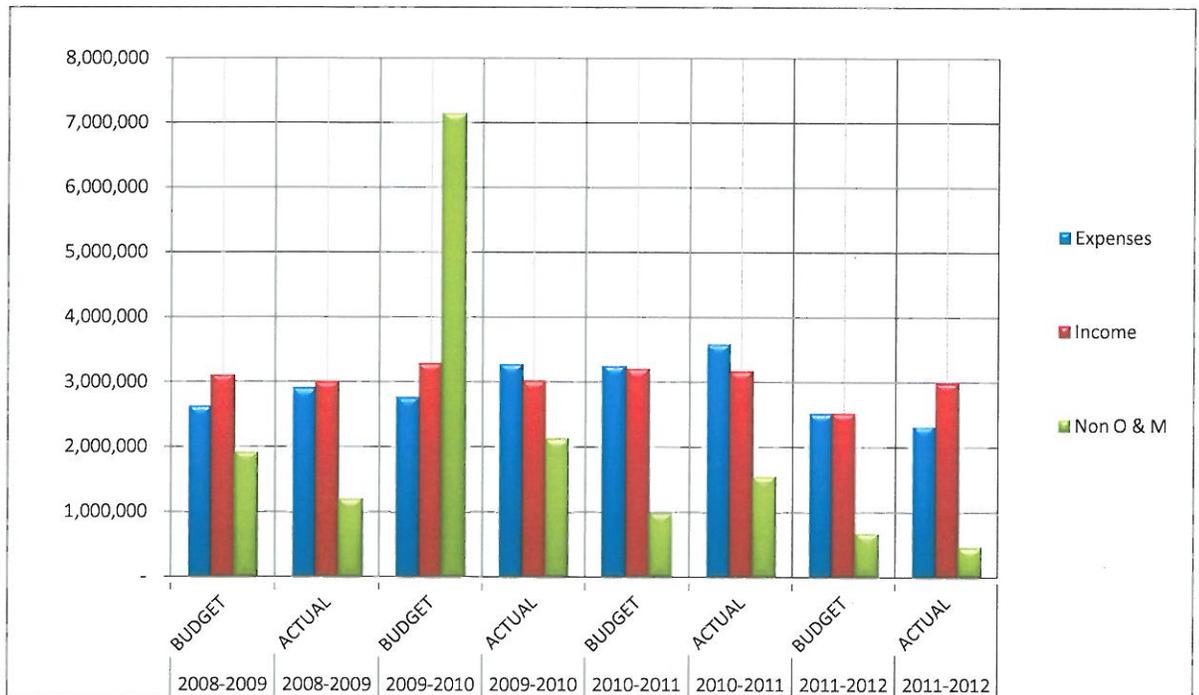


Financial Highlights

- Pre-approved revenue increases of 85% over FY 2011 revenues to take effect by FY 2016
- First revenue increase of 30% in FY 2012
- Second revenue increase of 20% in FY 2013
- Objective: reach credit worthiness to borrow \$6-\$7M by FY 2016 - FY2017; no further large corrective revenue increases
- Requires: about \$500K free cash flow; reserves of around \$4M; GWM cost sharing - all pumpers

**BUDGET TO ACTUAL COMPARISONS
FY 2009- 2012**

	<u>2008-2009 BUDGET</u>	<u>2008-2009 ACTUAL</u>	<u>2009-2010 BUDGET</u>	<u>2009-2010 ACTUAL</u>	<u>2010-2011 BUDGET</u>	<u>2010-2011 ACTUAL</u>	<u>2011-2012 BUDGET</u>	<u>2011-2012 ACTUAL</u>
REVENUE								
Water Sales	2,117,838	2,135,264	2,285,178	2,076,154	2,241,000	1,969,697	1,702,312	2,137,799
Property Assessments	159,054	191,492	199,055	199,222	196,000	263,759	69,080	68,174
Standby Charges	134,385	157,405	134,385	164,400	135,000	135,258	180,385	151,191
Sewer Revenue	292,500	317,325	395,500	400,897	400,000	408,889	415,678	450,867
Interest Income	242,500	101,572	121,200	6,186	10,500	2,503	1,550	236
DWR Grant-Stag Grant	-	-	-	-	-	234,869	125,000	131,750
Park/Golf Income	-	6,666	-	98,281	120,000	96,825	-	19,040
Other	146,200	84,133	145,584	63,848	86,584	41,978	24,216	22,172
Total Revenue	<u>3,092,477</u>	<u>2,993,857</u>	<u>3,280,902</u>	<u>3,008,988</u>	<u>3,189,084</u>	<u>3,153,778</u>	<u>2,518,221</u>	<u>2,981,229</u>
EXPENSES								
Interest	-	137,329	-	159,739	125,000	160,203	194,875	194,875
Personnel Expense	983,684	839,625	457,991	1,018,196	1,209,023	1,119,091	863,848	853,710
Employee Benefits	304,229	380,081	613,854	507,011	500,000	444,179	410,733	382,164
Maintenance	232,111	224,964	305,000	307,271	227,500	379,948	189,500	229,992
Professional Services	118,840	96,062	143,500	103,146	124,000	134,997	185,000	140,898
Insurance	86,000	85,562	107,000	98,639	99,000	94,402	122,774	91,920
Office	78,170	160,102	119,370	239,134	112,500	357,295	88,991	79,178
Utilities	452,633	447,513	517,000	470,420	511,000	454,312	330,000	343,530
Groundwater Mgmt.	-	344,463	-	208,040	54,682	434,309	5,000	5,000
Depreciation	470,000	534,097	520,000	605,092	600,000	637,474	-	-
All Other	360,475	184,954	497,187	158,536	297,552	-	127,500	-
Add back Depreciaton/Amortization	(470,000)	(534,097)	(520,000)	(605,092)	(616,491)	(637,474)	-	-
Total Expenses	<u>2,616,142</u>	<u>2,900,655</u>	<u>2,760,902</u>	<u>3,270,132</u>	<u>3,243,766</u>	<u>3,578,736</u>	<u>2,518,221</u>	<u>2,321,267</u>
NET O & M REVENUE(DEFICIT)	<u>476,335</u>	<u>93,202</u>	<u>520,000</u>	<u>(261,144)</u>	<u>(54,682)</u>	<u>(424,958)</u>	<u>-</u>	<u>659,962</u>
NON O & M	<u>1,913,000</u>	<u>1,198,273</u>	<u>7,142,500</u>	<u>2,118,831</u>	<u>986,000</u>	<u>1,547,784</u>	<u>670,311</u>	<u>458,931</u>
TOTAL CASH FLOW	<u>(1,436,665)</u>	<u>(1,105,071)</u>	<u>(6,622,500)</u>	<u>(2,379,975)</u>	<u>(1,040,682)</u>	<u>(1,972,742)</u>	<u>(670,311)</u>	<u>201,031</u>



<u>WATER SYSTEM</u>	<u>RATE STRUCTURE</u>	<u>AMOUNT</u>	<u>COMMUNITY</u>
Hi-Desert W.D.	No Change in rate		Yucca Valley
Apple Valley Ranchos W.C	Monthly Fixed 3/4" meter	32.31	Apple Valley
	Tier 1 (First 14 100 ccf) 14 x \$2.239	31.35	
	Tier 2 (>14 thru 29 100 ccf) 15 x \$2.364	35.46	
	Tier 3 (>29 100 ccf up) 5.4874 x \$2.488	13.65	
		<u>112.77</u>	
Coachella Valley W.D.	No Change in rate		Coachella
Borrego Springs W.D.	Monthly Fixed 3/4" meter	30.54	Borrego Springs
	Tier 1 First 45 units 34.4874 x \$1.76	60.70	
		<u>91.24</u>	
Mission Springs W.D.	Monthly Fixed meter	9.32	Desert Hot Springs
	Tier 1 (0-4 ccf) 4ccf x \$.99	3.96	
	Tier 2 (5-15 ccf) 11cf x \$1.74	19.14	
	Tier 3 (15 ccf up) 19.4874 x \$1.83	35.66	
		<u>68.08</u>	

Does the Board have the authority to increase rates for FY 2013?

Yes. The California Proposition 218 process the District went through in 2011 approved rate increases for a 5-year period. It allowed a rate increase of 30% in water and sewer rates for both FY 2012 and FY 2013. The Board of the Water District, at its public workshop on June 19th, agreed to a FY 2013 budget that adopted a water and sewer rate of only 20% over FY 2012 rates. The purpose of this public hearing is to explain to you the Board's thinking for why only a 20% rate increase is planned for FY 2013 rather than the already approved 30% increase in water and sewer rates. Additionally, the increase will first go into effect for the September billing rather than the August billing as originally scheduled.

A public hearing is not required for the Board to raise rates for FY 2013. The Board has decided to voluntarily hold the hearing solely for the purpose of providing rate payers an opportunity to hear the Board's thinking and for the Board to hear from ratepayers and answer any questions you may have regarding the District's finances and need for a 20% increase in water and sewer rates for FY 2013.

During Board meetings in May and June, the District and public analyzed the District's situation to determine whether we should seek another 30% increase in rates as recommended by the District's financial consultant and allowed by Proposition 218, or something less. After much discussion, it was agreed that while an increase is required to build reserves and cover possible emergencies that would require the use of cash, we believe we can safely do so with only a 20% increase in rates this year.

There is a risk in seeking less than the financial consultant's recommendation, but the Board and District employees have worked diligently to reduce operations expenses and as a result, we will be putting into savings or reserve accounts about the same as if we had increased rates 30% rather than 20%. Barring equipment failures, emergencies or other serious events, we should be in better fiscal shape by next July than we were this July. And if something unforeseen should occur which significantly drains the District's cash, under Proposition 218, the Board may, at its discretion, raise rates again next year to the 20% level.

What will the proposed rate increases through 2016 be used for?

The revenue increases scheduled through FY 2016 were analytically determined to provide the cash flow and reserves (savings) necessary to return the District to creditworthiness. The statement in the SUN contains a misunderstanding of the District's intent. We are not raising

QUESTIONS AND ANSWERS REGARDING FY 2013 WATER AND SEWER RATE INCREASES

rates to accumulate \$6 million in cash. In fact, the accumulation of between \$6 million to \$7 million in cash reserves by 2017 is a mathematical impossibility under any combination of rate increases and cost cutting. Our intent is to become credit worthy so that we can borrow between "\$6 million to \$7 million, which would enable the District to once again issue bonds for capital improvement and repair projects." Adequate cash flow and reserve levels means the District can borrow at reasonable interest rates or secure public bonds to fund large scale capital projects at the most desirable rates in the open market.

Each dollar of rate increase through FY 2016 will be used for the following purposes:

- less than 8 cents of each dollar of revenue increase through FY 2016 will go to pay increases in O&M expenses (mostly projected increase in pumping costs, but also about \$300,000 in projected employee pension cost increases that the District is legally obligated to pay as a result of decisions made by the prior Board in 2008);
- about 24 cents will go for capital improvements and groundwater management. The District is using a "pay-as-you go" repair and replacement of infrastructure from current year's revenues as neither cash savings nor new public debt is available to fund these costs;
- the remaining approximately 68 cents will go to replenish savings (cash reserves). This is a requirement that the public bond market credit rating agencies have for reestablishing credit and the ability to borrow by FY 2016/2017.

Why is it important to return the District to creditworthiness by FY 2016 - FY 2017?

One of the reasons that this objective of returning the District to creditworthiness as soon as possible is important is that otherwise, rates would, by necessity, need to increase yet again and significantly, beyond their projected FY 2016 levels. This is because the annual "pay-as-you-go" capital improvements projects (CIP) would more than double by then and we could no longer defer repair and replacements issues into the future. If this CIP is not capable to be funded with new debt, the only way to fund it is with further rate hikes.

Another reason to reestablishing creditworthiness is for public health reasons. The District must make routine repairs and replacement (R&R) of its infrastructure in order to operate at the least costly, safe, distribution system. Under its current "pay as you go" system, we don't have enough revenue to do all the R&R that is economically optimal each year. We are managing an infrastructure with the replacement value of \$64.0M and we will have to borrow money to keep

up with its maintenance and expand the system. This is where debt comes in and creditworthiness to borrow at a reasonable interest rate is important - to keep costs, thus, rates as low as possible. The District has deferred some large, necessary CIP projects until the District may achieve creditworthiness again. Under the best circumstances, at present, that may be in the FY 2016 - FY 2017 timeframe.

Why can't the District just issue a bond to raise the money it needs to make repairs?

To sell a bond issuance, the District must be creditworthy. That is, investors must have confidence that the money they lend the District will be paid back without default. Presently, this is not the case. Because of the lack of adequate cash flow to readily pay the principle and interest due on a loan, the District is no longer creditworthy. To restore credit worthiness there must be sufficient cash flow and reserves. The District is using a combination of spending cuts and rate increases to achieve these objectives.

Why can't the District reduce its operating and maintenance (O&M) costs further?

Having the necessary cash to perform preventative maintenance of the District's system is just sound business practice. This saves money that would otherwise be needed from increased rates projected through F 2016. Every one of you knows this intuitively.

It is the same logic for why you periodically change the oil on your car or truck rather than waiting for the engine to seize up. Preventative maintenance is typically a fraction of the cost of waiting for a catastrophic failure. But, in the District's case, instead of driving a \$35,000 vehicle down the road, it is responsible for a system whose replacement cost is approximately \$64.0 M. Preventive maintenance that includes the repair and replacement of worn out parts of this system is expensive.

From an operating perspective, the District is presently about as lean as it is able to get without creating additional risk, with potentially expensive outcomes. Some additional O&M savings *may* be possible. But, we are proceeding carefully to do only what is prudent and safe.

Why does the District need to spend so much on capital improvements (CIP) in its budget?

It's the same logic as with ongoing annual maintenance, although now we are talking about repairs and replacement of infrastructure. For example, its always less expensive to repair a flat

before you ruin the rim of your wheel or replace a worn out tire before you find yourself stranded. It is just common sense and it saves real money in the long run. However, in the District's case, there are potential real health risks by not attending to repairing and replacing infrastructure at the optimal time. Not making timely repairs of infrastructure can also cause problems. Maybe the worst case of failure to repair and replace their water infrastructure in a timely fashion allowed a protozoan parasite (cryptosporidium oocysts) into the water supply that sickened 400,000 people in Milwaukee in April 1993; 4,000 were hospitalized, 100 people died.

Why is water so expensive in Borrego?

Once the new rates for FY 2012 - FY 2016 go into effect, the water rates in Borrego will still be neither the most expensive nor the least expensive among Southern California desert communities. Rates are established for each water and wastewater utility based on the revenue requirements for that utility. Each utility has specific operating costs, capital costs and "contributions to special replacement, improvement, expansion, rate stabilization, and self-insurance funds" that are required "to provide for adequate facilities, to allow for proper asset replacement and maintenance, to address debt service and coverage requirements, and to ensure that the utility is operated on a self-sustaining basis."¹

Why can't the District eliminate the base charge and just charge people for the water they use?

If all the District's customers used zero units of water, the District would still have fixed monthly expenses to pay which cover the costs of providing 24x7 water and sewer services. The base charge covers a portion (not all) of these fixed expenses. The commodity fee accurately assesses customers for the variable cost to the District of supplying water. As a customer uses more water, they are charged more.

How come the ratepayers are being asked to pay this rate increase and the rest of the Valley's pumpers don't have to pay?

The rate increases go only to pay for the services provided to the District's customers and the related infrastructure necessary to provide those services. The situation in the Valley where some pumpers pay for the water and others do not is because the groundwater basin is not a

¹ See: George A. Raftelis, *Water and Wastewater Finance and Pricing: A Comprehensive Guide, 3rd Edition* (Boca Raton, FL: Taylor & Francis, 2005), 181, 185.

“managed” basin. As the upper aquifer is dewatered and it becomes more expensive to withdraw water from the basin or to bring water into the basin from a pipeline, it will be necessary for the basin to become a “managed” basin. When that occurs, all pumpers will be required to pay something for the groundwater that is pumped beyond the annual average recharge rate of the basin.

Why should I care about the overdraft and the District having the financial resources to address the overdraft when the aquifer still has fifty years of water left and I will be long dead and gone by then?

The concern is not that an aquifer has 50-years or 500-years of water left. The concern is when the economic impacts of withdrawing more water than is replaced each year (an overdraft) from the aquifer show-up. An aquifer can have 100-years of water left in it, but in 5-years already be too expensive to pump and use, much less, make potable for human consumption.

The economic costs to the District’s ratepayers and the entire community typically mandate addressing a significant annual overdraft in a timely fashion. These include: (a) increased pumping costs for all pumpers of the groundwater basin; (b) dramatically increased water treatment costs as water quality declines; (c) costs of subsidence as building and roads on the surface are damaged; and (d) loss of aquifer recharge capacity as compaction of the aquifer’s pore space occurs.

Our history and security here in the Borrego Valley sometimes provides the sentimental belief that the things we fear will never come to pass. That someone else, somehow, will solve the Valley’s groundwater overdraft problem. But, prudent persons will reject these sentiments and prefer to face the facts so that this community can plan intelligently for the needs of its posterity.²

What is the Board doing to address the overdraft situation?

The Board has engaged three major initiatives for addressing the overdraft:

² The fact that the uncertainties allow one to construct a relatively benign future does not provide for ignoring futures in which economic water supply runs out. The doubters are right that uncertainties are rife. They are wrong when they present that as a reason for inaction. *Technological optimism*, the belief that some future technology can fix any water problem, has not been borne out historically. Also, technological fixes are typically expensive and ultimately uncertain themselves. See Howard G. Wilshire, Jane E. Nielson, and Richard W. Hazlett, *The American West at Risk: Science, Myths, and Politics of Land Abuse and Recovery* (Oxford & New York: Oxford University Press, 2008), 5, 8, 365, 367.

QUESTIONS AND ANSWERS REGARDING FY 2013 WATER AND SEWER RATE INCREASES

The District has applied for an \$800,000 Integrated Regional Water Management (IRWM) planning grant for the Anza-Borrego Desert Region from the California Department of Water Resources (DPR). One of the objectives of the grant is to develop the analytical basis for developing a plan, an enforcement authority, and a funding mechanism for establishing a managed Borrego Valley Groundwater Basin. The proposal is available at:

http://www.borregowd.org/uploads/Planning_Grant_Application_3.08.2012.pdf.

District staff and the Board are working with the Bureau of Reclamation (Reclamation) on identifying sources and costs for the augmentation of water supply to the Valley through importation. A preliminary report of the findings should be available this November 2012. This is a \$900,000 project funded by grants and District work. The total new cash required for this project has been \$12,000.

District staff and the Board have been working with the U.S. Geological Survey (USGS) on their groundwater management model for the Borrego Valley Groundwater Basin. The final report of this important work should be completed around December 2012. The total cost of this work over the past four years is around \$400,000 and is a necessary precondition for any plan to manage the basin. The FY 2013 portion of this cost is approximately \$135,000.

RESOLUTION NO. 2012-07-01

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE
BORREGO WATER DISTRICT ESTABLISHING WATER AND
SEWER SERVICE RATES FOR FY 2012-2013**

WHEREAS, the Borrego Water District is a California Water District established pursuant to Section 34000 et seq. of the California Water Code; and

WHEREAS, the Board has determined that the District is facing increasing costs for the administration, operation, maintenance and improvements of the water and sewer systems and services, the District's water and sewer rates need to be increased in order for the District to pay for its costs of providing service; and

WHEREAS, on June 22, 2011, the Board held a duly noticed public hearing in accordance with the provisions of Article XIIIID of the California Constitution (Proposition 218), received oral and written testimony, and having determined that there was no majority protest, approved a schedule of water and sewer rates for a five year period beginning with FY 2012 and ending with FY 2016; and

WHEREAS, the water and sewer rate schedule approved at the public hearing on June 22, 2011 included water and sewer rate increases for FY 2013 of up to 30% from the rates approved for FY 2012; and

WHEREAS, at a public meeting held on June 19, 2012, the Board discussed the proposed rate increases for FY 2013, and adopted water and sewer rate increases for FY 2013 of 20%, subject to ratification at a noticed public hearing to be held July 17, 2012.

WHEREAS, a public hearing notice for the July 17, 2012 hearing was mailed to the District's water and sewer customers at the customary billing addresses on or about July 5, 2012; and

WHEREAS, the Board desires to adjust and increase certain water and sewer rates in order to increase them 20% in FY 2013, as set forth in Exhibit A.

NOW THEREFORE, the Board of Directors of the Borrego Water District does hereby resolve, determine and order as follows:

Section 1. All of the foregoing recitals are true and correct, and the Board so finds and determines. The recitals set forth above are incorporated herein and made an operative part of this Resolution.

Section 2. The Board conducted a public hearing on July 17, 2012 in order to receive oral and written testimony regarding this Resolution.

Section 3. The Board finds that the adoption of the rates and charges set forth herein is necessary and reasonable to fund the administration, operation, maintenance and improvements of the District water and sewer system. Based on this finding, the Board determines that the adoption of the rates and charges established by this Resolution are exempt from the requirements of the

California Environmental Quality Act pursuant to section 21080(b)(8) of the Public Resource Code and section 15273(a) of the State CEQA Guidelines.

Section 4. The Board hereby adopts the rates and charges for each separate rate classification for each separate service area as set forth in Exhibit A attached to this Resolution, to be effective with the September billing.

Section 5. All resolutions or administrative actions by the Board, or parts thereof, which are inconsistent with any provision of this Resolution, are hereby superseded, to the extent of such inconsistency. Any rates or fees associated with water or sewer service that are not addressed in this Resolution or Exhibit A shall remain in full force and effect as previously adopted by the Board.

Section 6. In any section, subsection, clause or phrase in this Resolution or the attached Exhibits is for any reason held to be invalid; the validity of the remainder of the Resolution or Exhibits shall not be affected thereby.

Section 7. The increased rates and charges set forth herein shall become effective with the September billing.

PASSED, ADOPTED AND APPROVED at a regular meeting of the Board of Directors of the Borrego Water District held on 17th day of July, 2012.

President of the Board of Directors
Of Borrego Water District

ATTEST:

Secretary/Treasurer of the Board of Directors
Of Borrego Water District

RESOLUTION NO. 2012-07-02

RESOLUTION OF THE BOARD OF DIRECTORS OF THE BORREGO WATER DISTRICT, AUTHORIZING THE SALE OF REAL PROPERTY OWNED BY THE DISTRICT LOCATED AT BORREGO SALTON SEAWAY (COUNTY ROAD S-22) TO ANZA BORREGO FOUNDATION

WHEREAS, the Borrego Water District (“District”) is the owner of real property located at Borrego Salton Seaway (County Road S-22), more particularly described as Assessor’s Parcel Number 142-110-22; and

WHEREAS, it is necessary, advisable, and in the best interests of the public and the District that the real property described herein be sold; and

WHEREAS, The District Board of Directors has determined to sell such property pursuant to the authority granted by the District under California Water Code section 35604; and

WHEREAS, (INCLUDE ANY PERTINENT FACTS ABOUT COMPLIANCE WITH SURPLUS LANDS ACT – The District first offered to sell the property to (list the agencies) pursuant to Government Code section 54222 and did not receive a response to that offer.

NOW, THEREFORE, the Board of Directors of the Borrego Water District does hereby resolve, determine and order as follows:

Section 1. That the real property described herein is hereby authorized to be sold by negotiation for the amount of \$ _____ to Anza Borrego Foundation.

Section 2. The District’s General Manager is hereby authorized and directed to execute all necessary documents to complete the sale of the property, including but not limited to the purchase and sale agreement and grant deed.

ADOPTED, SIGNED AND APPROVED this 17th day of July 2012.

President of the Board of Directors
of Borrego Water District

ATTEST:

Secretary of the Board of Directors
of Borrego Water District

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN DIEGO)

I, Marshal Brecht, Secretary of the Board of Directors of the Borrego Water District, do hereby certify that the foregoing Resolution 2012-07-02 was duly adopted by the Board of Directors of said District at an adjourned regular meeting held on the 17th of July, 2012, and that it was so adopted by the following vote:

AYES: DIRECTORS:
NOES: DIRECTORS:
ABSENT: DIRECTORS:
ABSTAIN: DIRECTORS:

Secretary of the Board of Directors
of Borrego Water District

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN DIEGO)

I, Marshal Brecht, Secretary of the Board of Directors of the Borrego Water District, do hereby certify that the above and foregoing is a full, true and correct copy of RESOLUTION NO. 2012-07-02 of said Board, and that the same has not been amended or repealed.

Dated: _____

Secretary of the Board of Directors
of Borrego Water District