

REQUEST FOR QUOTATION (RFQ) FOR ADVICE
TO THE BORREGO WATER DISTRICT

Purpose of RFQ: The purpose of this RFQ is to identify professionals including: legal advisors (district counsel and California water law attorneys), auditors, financial advisors, strategy and planning advisors, and management consultants who are capable and willing to provide ongoing advice to the Borrego Water District.

Background: The Borrego Water District (“BWD”) is a small public water and wastewater district serving approximately 2,000 customers in beautiful Borrego Springs, California, a retirement and resort community located about 70 miles NE of San Diego and surrounded by the Anza-Borrego Desert State Park.

In FY2010, the district’s revenues were approximately \$3,000,000 and its O&M budgeted expenses were about \$3,800,000, of which depreciation was over \$600,000. Water and sewer rates have remained stable for the past 10-years and are lower than those of surrounding communities. Present rates are based on service area/ improvement district (SA/ID) basis. Only ID #4 has COP’s outstanding that are exclusively a pledge of that ID’s revenues.

BWD is the only appropriator of groundwater from the unajudicated Borrego Valley Groundwater Basin, which has been in overdraft since 1945. Present overdraft is estimated at more than 16,000 acre-feet/year (AF/y), if the natural annual recharge is around 4,000 AF/y. BWD accounts for about 3,000 AF/y or less than 15% of annual withdrawals. Unmetered recreational use by overlyers (3 golf courses) annually account for about 15% of the annual withdrawals and unmetered agricultural use by overlyers accounts for about 70% of annual withdrawals. Preliminary results from current USGS models project a complete dewatering of the upper aquifer within 50-years. Presently, there is uncertainty whether economically extractable potable water will be available from the middle and lower aquifers once the upper aquifer is dewatered.

Strategy to Address the Overdraft: In 2002, the district’s plan to address the overdraft based on the assumption that “*obtaining water from state projects and transporting it to the Borrego Valley was prohibitively expensive and much more expensive than following agricultural lands.*”¹ In 2008 a new strategy was developed that assumed that following

¹ See BWD “Groundwater Management Plan” (October 18, 2002), III.

REQUEST FOR QUOTATION (RFQ) FOR ADVICE
TO THE BORREGO WATER DISTRICT

agricultural lands was insufficient and building a pipeline to import water to the Valley to ameliorate the overdraft problem is required. Under this new strategy, the following elements were initiated:

- The United States Geological Survey (USGS) was asked to develop a model that can predict various fallowing and importation schemes' estimated affect water table levels in the basin. This requires the USGS to: (a) estimate present levels of overdraft; (b) estimate the natural annual recharge rate for the basin's watershed; (c) determine the best locations for new wells; and (d) provide a tool for selling storage space in the aquifer. This three-year half-million dollar study will be completed in October 2011 and results from the study will be published in 2012-13 (BWD's cost for this study is approximately \$350,000);
- The Bureau of Reclamation (BoR) was asked to perform a study to determine whether sufficient water is available regionally for importation to establish a recharge basin. This almost million dollar two-year study should be completed in 2012-13 (BWD's cost for this study is in-kind services);
- Efforts were made to secure federal funding to investigate the potential viability of the importation of water from the nearby Clark Lake aquifer for augmenting BWD's water supply;
- The 2002 Groundwater Management Plan's directive to fallow agricultural lands was implemented through a fallowing through water credits purchase program to extend the life of the aquifer beyond its projected life.

Concerns with Strategy: Some public concerns regarding the above strategy include:

- (a) In 1982 the USGS projected 500-years of water in the aquifer, now it projects the aquifer will be dewatered in about 50-years. Why should the public believe the USGS now?
- (b) The BoR study, if any dependable regional water source is available to replenish the basin, assumes that some water authority other than the district is willing to pay for a pipeline to store water in the basin;

REQUEST FOR QUOTATION (RFQ) FOR ADVICE
TO THE BORREGO WATER DISTRICT

- (c) The quantity and quality of the water in the Clark Lake aquifer is still not fully known, a pipeline and water treatment plant may not be economically feasible, and this pipeline may need to cross State Park land; and
- (d) Acting as market maker for the following for water credits purchase program may not be economically fair for ratepayers. Ratepayers' share of use of the aquifer is less than 15% of annual withdrawals but they are being asked to pay 100% of the upfront costs of the district being a market maker for the water credit purchase program.

Present Situation: In November 2010, three new board directors were elected. Of concern is the apparent immediate cost of the present strategy to the district and affect its finances. Historically, the district has produced operating surpluses with its present rate structure (e.g. 2005 +\$387,412, 2006 +\$594,534, 2007 +\$315,031, 2008 + \$112,460). However, in FY2009 and FY2010 collectively, the district produced a \$1,100,000 operating loss under this strategy and related capital spending decisions. The district presently anticipates a \$400,000 operating loss for FY2011.

During the past three years, the district consumed, through December 31, 2010, approximately \$6,400,000 of the \$7,400,000 cash reserves available at the beginning of FY2008, and projects cash consumption for the remaining FY2011 of more than \$600,000 that may leave less than \$400,000 cash available to the district at year-end on June 30, 2011. Also, future cash requirements for two of the capital projects may cost the district an additional \$3,000,000 or so in cash (e.g. 10 annual payments of \$70,000 to complete purchase of well #12 at Montesoro in FY'09 and approximately \$2.5M P&I payments over life of the loan to complete purchase of Viking Ranch water credits in FY'10).

Recently, the district's long-term investment banker has indicated that the district is not presently able to raise funds in the private capital markets. Both its investment banker and its auditors have recommended that the district hold up on a rate study until some decisions are made as to: (a) how it allocates G&A to its operating activities; (b) how it intends to build its rate structure (e.g. based on water and sewer or on SA/ID); and (c) establishes a capital improvements plan that more adequately and clearly projects its near and medium term capital needs over the next 5 to 10-years:

REQUEST FOR QUOTATION (RFQ) FOR ADVICE
TO THE BORREGO WATER DISTRICT

Some Questions Regarding Developing A Strategy to Address the Overdraft:

- Does California State law prohibit the overdraft of a basin and if so, who is empowered to enforce the state statute?
- Are there any state or federal agencies that oversee the overdraft of a basin and what if any power do they have to correct the matter?
- Are there any public rights or other doctrines that can be pressed to restrict overdrafting? Do pumpers with water rights have an unobstructed right to withdrawal any amount of water when a basin is in overdraft?
- Is there any regulation(s) requiring that overlyers be metered? By what process would a local water district require all basin pumpers be metered?
- Who can apply a pump tax or replenishment fee and by what authority?
- Is adjudication, voluntary or court ordered, the best solution to the overdraft of a basin with a small number of pumpers?
- Does the State Park, which surrounds and is part of the basin, have any power to control overdraft if it adversely affects the flora and fauna within the Park's boundaries?
- There is some possibility in the future to import water to the basin. What are the legal consequences of becoming a replenishment basin?
- Are there statutory or regulatory considerations if the basin were used for storage of water for another entity?
- **Advice Requested:** The district seeks timely advice regarding the immediate challenge of a potential cash crunch in the near term. However, without an economically-based strategy to address the overdraft, improving cash flow through tightening operations and a rate hike, etc., may provide only short-term relief. A few questions that the Professional Advisory Committee seeks advice regarding include the following:

REQUEST FOR QUOTATION (RFQ) FOR ADVICE
TO THE BORREGO WATER DISTRICT

- What actions do you recommend that the district consider to improve cash flow to not experience a cash crunch in the near term and to be able to continue with a Proposition 218 process successfully;
- What actions do you recommend that the district consider to improve cash flow to be creditworthy to obtain reasonable cost financing for future capital projects in the near and middle term?
- What amount of cash reserves is reasonable for a district our size for: (a) repair and replacement of physical infrastructure (Borrego lies in the most active earthquake zone in the United States); (b) rate stabilization reserve; and (c) working capital reserve?
- What strategic approaches do you recommend that the district explore, and their potential cost, to more affordably address the overdraft of the basin?

RFQ Response: Please respond with: (a) a 1-3 pp. (not including exhibits e.g. of resume or capabilities statement, etc.) cost proposal for providing advice to the district on any one or more of the above “advice requested” questions; (b) an optional additional cost for you to provide any additional advice you deem important for the district to consider at this time; (c) a list of any documents and need for access to district staff time that you may require in order to develop this timely advice; and (d) an estimate of the date by which your advice can be delivered to the district in draft form for discussion purposes.

RFQ Due Date: Your response is due by 2:00 PM Pacific Time, Friday, February 11, 2011, by email to [diana\[at\]borregowd\[dot\]org](mailto:diana@borregowd.org).

Selection Process: The Professional Advisory Committee has been tasked with overseeing the identification and recommendation of advisors to the district. Any questions should be addressed to Director Lyle Brecht at 410.963.8680 (cell) or [LBrecht\[at\]gmail\[dot\]com](mailto:LBrecht@gmail.com).