



FREQUENTLY ASKED QUESTIONS

ABOUT THE PROPOSED RATE INCREASES

Informacion adicional y el Aviso y este Boletin Informativo en Espanol se encuentran en el sitio Web del Distrito www.borregowd.org o llame al Distrito al numero (760) 767-5806.

Why are rates increasing?

The District's current revenues are not keeping pace with its expenses; therefore, the District is proposing to increase rates so that it will be able to continue to provide current levels of water and sewer service. The expenses of providing service are increasing because costs for items that are vital to providing service, such as electricity, chemicals and labor, continue to rise. The District must also continue to meet increasing regulatory requirements that apply to providers of water and sewer service.

Additionally, the District's reserve funds are severely depleted, and currently insufficient to cover unforeseen costs that might arise such as a system failure or disaster. It is critical for the District's reserves to be replenished so that the District is prepared to manage unforeseen events without significant interruption of service. Adequate reserves are also necessary for reestablishing the District's creditworthiness and ability to borrow money in the public credit markets.

What will happen if the rate increases are not approved?

Without the proposed rate increases, the District will exhaust its operating cash, the money used to operate its water and sewer services. If there is an emergency, such as an earthquake or flood that damages our systems, without cash to fund repairs the District may have to wait for federal, state or insurance monies before it can restore services. In addition, without cash, the District may be unable to fund repairs or replace its aging and worn infrastructure, distribution lines, wells and/or pumps. This would

severely handicap our ability to provide continuous 24 x 7 service and jeopardize our ability to meet regulatory requirements to deliver safe, potable water.

The Board believes that its duty to ratepayers is to provide a sustainable water supply. That is always forefront in our decision making process and has led us to propose these necessary rate increases. We understand the gravity of the responsibility we have been given. Without the support of the District staff and employees, we would not be able to accomplish our task as a Board. We commend them all for their willingness to be part of a solution to the District's challenges. We also commend the many members of the public who have stepped forward to assist the Board and the District through these very difficult times. Only by working together and supporting each other can we prevail and solve the financial challenges the District presently faces.

When will I see the rate increase on my bill?

If approved, the initial rate increases will appear on the first bill for service provided after July 1, 2011, which will be mailed to customers in August 2011.

Why are rate increases being approved for multiple years?

There are five rate increases being proposed, varying in amount, beginning July 1, 2011 and ending June 30, 2016, based on the District's future expense projections. The increases being authorized for future years are "up to" amounts that will be reevaluated each year. The District Board has the option each year of implementing a lesser increase or no increase if circumstances change and the authorized level of increase is not necessary.

Is the District proposing to change the current tiered water rate structure?

Not at the present time. The proposed increases will be based on the existing rate structure including the tiered water rate schedule for residential customers. The District's Board of Directors may review the tiered rate structure at a later date.

What has the District done to help reduce its expenses?

The new Board took immediate action to staunch the financial drain it inherited by:

- Eliminating health benefits for directors that cost the District approximately \$122,000 in 2 years;
- Significantly reducing legal expenses that totaled in excess of \$477,000 in 3 years;

- Electing not to immediately replace the previous General Manager, whose monthly salary, benefits, travel and conference expenses cost the District over \$787,000 during his three years of employment;

These expenses alone represented an outflow of nearly \$1.4 million in District funds in 3 years. The Board has also curtailed other spending programs that paid out \$5.7 million of the District's total \$6.5 million in cash reserves to assorted vendors and conservation programs in the past 3 years. Additionally, the Board is working to reduce or eliminate, the approximately \$7.5 million in future unfunded debt created by real estate and lease agreements entered into just prior to December 2010.

Also, the Board in collaboration with District staff reduced the FY 2012 operating and maintenance (O&M) budget by approximately \$700,000 from the previous year's budget to an absolute "bare-bones" level to conserve cash.

While the Board will continue to carefully review all future spending, it presently believes that the District operates efficiently, and currently has no additional room to reduce operating expenses without compromising the health and safety of the District's customers.

How are utility rates set by the District?

The District's rates are calculated by comparing the District's revenues to its expenses, and determining the rates necessary to cover the expenses. The District's expenses include:

- Costs of operating and maintenance, such as labor, supplies, and materials;
- Capital expenditure for infrastructure such as distribution lines;
- Augmenting water supply and groundwater management and protection planning activities; and
- Adequate reserves to cover expenses in unforeseen situations such as reduced revenues due to unusually wet weather and unforeseen emergencies.

The District's projected costs were put into a financial model by the California office of Raftelis Financial Consultants, Inc. (RFC), a national firm with expertise in performing rate studies for water utilities. Working from information and data provided by the District, RFC determined the rates necessary to meet the District's current and future expenses.

The District is prohibited by law from making a profit based on water and sewer services. All of the money that the District receives from its water and sewer bills goes

toward maintaining or improving the community's service systems, and paying for the day-to-day costs of providing its customers with water and sewer service.

Is this rate increase going to help resolve the overdraft issue?

The rate increase includes the cost of developing a groundwater management implementation plan to begin the process of spreading the costs associated with the overdraft and bringing additional water supplies to the Valley among all the Valley's pumps. However, the proposed increase does not include the cost for implementing such a plan.

When is the public hearing regarding the rate increases?

The public hearing will be held at the District's regular Board of Directors meeting on June 22, 2011, at the District office, 806 Palm Canyon Drive, Borrego Springs, CA 92004. The meeting begins at 9:00 a.m., and the rate increase item will be heard at 11:00 a.m.

How can I participate?

You can participate by attending the public hearing listed above, where you can submit oral or written comments. You can register a protest against the proposed rate increases by delivering a protest letter in writing to the District, which you can hand deliver or send by U.S. Mail to: Board Secretary, Borrego Water District, 806 Palm Canyon Drive, Borrego Springs, CA 92004. In order to be counted as a protest, your letter must:

- Be signed by you
- Include your name
- Identify your property by address or APN
- Include a statement that you are opposed to the rate increases

Protest letters must be delivered to the District prior to the close of the public hearing on June 22, 2011. Only one protest letter per affected parcel will be counted. Protests delivered by email will not be accepted.

What is Proposition 218, and how does it affect the rate increase process?

New or increased water and sewer rates must conform to the rules established by Proposition 218, which amended Article XIID of the California Constitution. The following is a summary of the key requirements of Proposition 218:

- Property related rates, fees and charges cannot exceed the reasonable cost of the proportional specific benefit conferred on the parcel of property.
- The amount of the proposed rate, fee or charge for each affected parcel shall be identified, and the record owner or customer for each affected parcel shall be given written notice by mail of the proposed rate increase.
- The agency shall conduct a public hearing upon the proposed rate increases not less than 45 days after the mailing.
- If written protests against the proposed fee or charge are presented by a majority of the identified parcels, the agency shall not impose the fee or charge.

The District is required by state law to follow this process for imposing rate increases, and does not have the discretion to use a different process.

How can I save money on my bill?

The commodity portion of your water bill can be reduced by using less water.

Does the District offer a “lifeline” or discount rate for low or fixed income customers?

Unfortunately, the District is prohibited by state law from offering discount rates to fixed income customers, such as the “Lifeline” rate offered by SDG&E. Proposition 218 requires that all water and sewer customers be charged equally for the proportional costs of providing their service.

Where can I get more information or information in Spanish?

Additional information and Spanish versions of the notice and this FAQ are available on the District’s website at www.borregowd.org or by calling the District at (760) 767-5806.