



FREQUENTLY ASKED QUESTIONS

ABOUT THE PROPOSED RATE INCREASES

Informacion adicional 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?

In January 2011 when the current new Board took office, the Water District was in dire financial condition. Its reserve funds were depleted, and financial experts forecasted it only had sufficient cash to cover operating expenses at best through October 2011. As a result, the District took immediate action to eliminate approximately \$800,000 in annual operating and maintenance expenses, renegotiated approximately \$3 million in various long term contractual commitments created by the previous Board and proposed a financial rescue plan that raised rates almost 100% over a 5-year period through fiscal year FY 2016. Thereafter, it made additional reductions to its expenses, shaving another \$400,000 from its annual operating budget and reducing its staff from 17 to 10 employees.

However, of great concern to the new Board was the District's loss of its creditworthiness. It no longer had the capacity to secure credit from outside institutions, and initially, was even denied a line of temporary credit from various banks it contacted. For a capital intensive business like a water utility, this loss of credit was especially risky for its customers as it meant if something broke, the District would not have the funds necessary to fix it.

Since 2011, the District's efforts to establish fiscal stability have been largely successful and today the District is on much more financially stable ground. However, to generate sufficient annual cash flow and accumulate the necessary reserves to become creditworthy again, it delayed multiple capital expenditures to repair and improve its aging infrastructure, including a large new capital project to address existing state

drinking water standards that are likely to result from the critical overdraft of the Borrego Valley Groundwater Basin (the Basin) and/or from new requirements of the state's drinking water standards.

The District is setting forth a 5-year financial plan to increase its water and sewer rates to fund these deferred capital projects before there is a catastrophic system failure or public health disaster, such as the potential inability to provide its customers with potable water that meets mandated drinking water quality standards. Currently, the data presently available to the District projects that water quality will degrade in the future due to the continuing overdraft of the Basin where all drinking water for Borrego comes from.

Additionally, the District is now required under the Sustainable Groundwater Management Act (SGMA), a legislative act of the State of California that went into effect January 1, 2015, to address the overdraft by bringing the Basin into balance - meaning the amount of water withdrawn each year is no more than the average amount of water replenished each year through rainfall in the mountains surrounding Borrego. Under SGMA, all pumpers of the Basin are required to reduce their annual withdrawals from the Basin.

In an effort to address the District's portion of the overdraft, as required under SGMA, the District is proposing a rate structure that reduces the fixed cost of a meter (based on size of the meter), establishes an indoor use standard based upon the current population that is equivalent to a *sustainable* use rate, and established a new rate tier for water used beyond a sustainable rate, water primarily used for outside and landscape purposes. According to the California state conservation performance standard for indoor water use, the average household in Borrego should use no more than 55 gallons per person per day or 7 units per month for an average of 2.5 persons per household. That amount is considered *sustainable*.

How are rates established?

The District has contracted Raftelis Financial Consultants, Inc. (RFC), a company founded in 1993 to provide financial services to water utilities to operate as economically sustainable organizations while providing the public with clean water at an affordable price. They have worked with hundreds of water, wastewater and storm water utilities across the country and specialize in meeting the provisions of California's Proposition 218.

After securing data from the District including its financial, billing, and operating expenses along with the proposed and current planned capital expenses, RFC created an analytical model of the data, established a ratio of fixed versus variable costs projections for the next 5 fiscal years (FY 2017 – FY 2021), determined appropriate

reserves and saving targets to cover various capital projects and annual operating costs and allow for lowest cost borrowing, and developed a cost factor for each separate element of water and sewer services provided by the District by customer class.

In addition, RFC analyzed the cost of *sustainable* indoor water use as related to the community's population and applied the California State performance standard of 55 gallons per day per person for household indoor use. Then RFC set a second standard or tier for use beyond indoor with a factor to provide sufficient income to cover the expense of supplying potable water and dependable sewer and wastewater service to its customers by customer class.

The analysis determined that a rate increase was necessary and supported under Proposition 218 requirements for both water and sewer rates, while establishing a reduction in the meter rates. This complied with the District's desire to reduce fixed costs for ratepayers who use less water in a sustainable manner and to increase water commodity rates for use beyond sustainability, primarily outside or as irrigation for landscape.

Why is the Board proposing these increases?

The Board believes that its duty to ratepayers is to provide a sustainable, quality potable water supply. That is always forefront in our decision making process and has led us to propose these necessary, cost-justified 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 the years. Only by working together and supporting each other can we prevail and solve the challenges created by a Basin in critical overdraft that has largely been left unaddressed in the past.

What are the proposed rate increases?

Summary:

- Monthly base service rates will decrease approximately 20% (all meter sizes);
- Residential water rates for Tier 1 (< 7 units/mo) will increase from \$2.42 to \$3.16/unit in FY 2017; Tier 2 (> 7 units/mo) = \$3.48/unit in FY 2017;
- Commercial water rates will increase from \$2.42 to \$3.35/unit in FY 2017;
- Revenue from sewer rates will increase 9,4,4,4,4% between FY 2017-FY 2021.

Proposed Monthly Service Charge (FYE 2016 – FYE 2021)

Meter Size	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
3/4"	\$34.89	\$36.99	\$39.21	\$41.57	\$44.07
1"	\$45.27	\$47.99	\$50.87	\$53.93	\$57.17
1 1/2"	\$71.20	\$75.48	\$80.01	\$84.82	\$89.91
2"	\$102.32	\$108.46	\$114.97	\$121.87	\$129.19
3"	\$185.31	\$196.43	\$208.22	\$220.72	\$233.97
4"	\$278.68	\$295.41	\$313.14	\$331.93	\$351.85
6"	\$538.03	\$570.32	\$604.54	\$640.82	\$679.27

Proposed Five-Year Commodity Base Rates

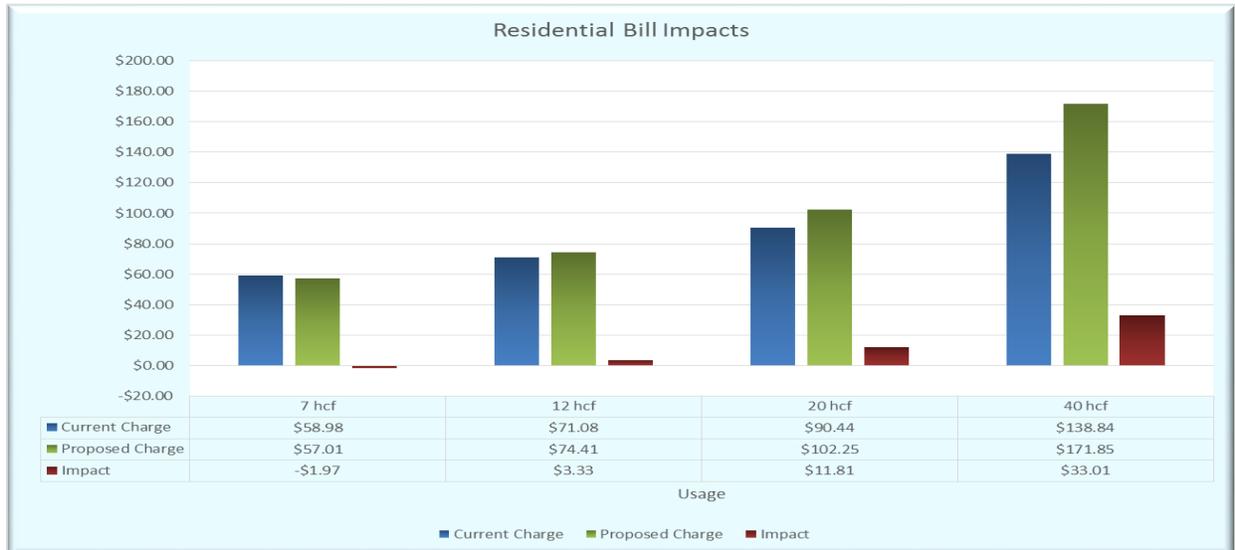
Customer Class	FYE 2017 Rates	FYE 2018 Rates	FYE 2019 Rates	FYE 2020 Rates	FYE 2021 Rates
Residential					
Tier 1	\$3.16	\$3.35	\$3.56	\$3.78	\$4.01
Tier 2	\$3.48	\$3.69	\$3.92	\$4.16	\$4.41
Non-Residential	\$3.35	\$3.55	\$3.77	\$4.00	\$4.24

Proposed Wastewater Rates through FY 2021

Customer Class	Current Rate	Proposed FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
ID 1	\$33.56	\$38.78	\$40.33	\$41.94	\$43.62	\$45.37
ID 2 User	\$29.42	\$45.10	\$46.90	\$48.78	\$50.73	\$52.76
ID 2 Holder	\$19.42	\$24.76	\$25.75	\$26.78	\$27.85	\$28.97
ID 5	\$62.62	\$45.10	\$46.90	\$48.78	\$50.73	\$52.76
Borrego Springs Resort	\$62.62	\$24.76	\$25.75	\$26.78	\$27.85	\$28.97
Borrego Springs Usage	\$1.30	\$1.82	\$1.89	\$1.97	\$2.05	\$2.13

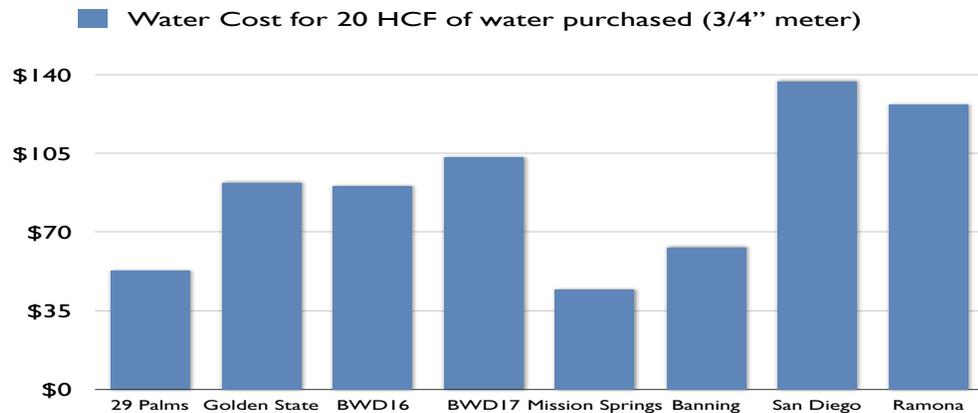
How will this proposal affect the average residential customer in FY 2017?

For a customer with a ¾ inch meter, water bills will change as listed in the graph below:



How does the District's proposed new rates compare today with those of other water district's?

Each water district has different cost structures, which ultimately determine rates under Proposition 218 rules. However, for comparison purposes, these are the District's new rates for a 20 HCF (units) user compared with some other, similar water districts nearby. However, due to the California drought, many water districts in California are presently in the process of proposing higher rates for their customers. These potential higher rates for other water districts are not reflected in this comparison chart below:



When will I see the rate increase on my bill?

When approved, the initial rate increases will appear on the first bill for service provided after July 1, 2016, which will be mailed to customers in August 2016.

Why are rate increases being approved for multiple years?

There are five rate increases being proposed, varying in amount, beginning July 1, 2016 and ending fiscal year June 30, 2021, based on the District's future cost projections. The increases being authorized for future years are *no more than* 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. It may not, however, exceed the total amount proposed for the 5 year period.

Is the District proposing to create a tiered water rate structure?

Yes. An analysis by RFC demonstrates that the only sustainable residential water use for Borrego, because of the Basin overdraft, is indoor use of approximately 7 units per month (5,236 gallons of monthly use). Usage over this amount falls into a Tier 2 residential rate, a rate that is justified by the cost of providing water in a critically overdrafted Basin beyond the *sustainable* rate established for Tier 1. Commercial usage costs have also been calculated and these costs fall between Tier 1 and Tier 2 residential rates.

How are the District's rates validated by Proposition 218 Requirements?

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 operations and maintenance, such as labor, supplies, and materials;
- Capital expenditures for water and sewer infrastructure. The replacement cost for the District's infrastructure is approximately \$62.5 million. Thus, on average the District should be spending about one million dollars a year on repair and replacement of this infrastructure to keep rates as low as possible. The cost to repair and replace during a catastrophic failure is normally 3 or more times more expensive than replacing infrastructure on a scheduled basis. All repair and replacement expenses will be funded through rates. Thus, being proactive in making such repairs or improvements will keep rates lower, while failing to replace capital infrastructure in a timely dashion is likely to raise rates higher.
- Groundwater management and protection planning activities such as those required under SGMA; and

- Adequate reserves to cover expenses in unforeseen situations such as reduced revenues due to unusually wet weather and unforeseen emergencies. Without adequate reserves, rates would dramatically increase from time to time to pay for these emergencies. Reserves are also required by funding institutions for creditworthiness to borrow money for capital improvement projects.

RFC determined the rates necessary to meet the District's current and future expenses and are fully within the requirements of the Proposition 218 law for cost-based revenue requirements. For example, 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 paying for the day-to-day costs of providing its customers with potable water and reliable sewer and waste water treatment services and establishing the cash reserves to cover unanticipated emergencies and unexpected revenue losses.

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

The rate increases includes the District's proportional share of the cost of developing the SGMA-required groundwater management plan that will spread the costs associated with the overdraft to all pumpers in the Valley. This is a significant change from the past when all the groundwater-related costs have been previously borne by District ratepayers, even though District ratepayers have historically been responsible for only about 10% of the annual overdraft.

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

When is the public hearing regarding the rate increases?

There will be two public hearings. The first will be held at the District's regular Board of Directors meeting on May 25, 2016, 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. The second public hearing regarding rates will be held on June 9, 2016, at the District office, 806 Palm Canyon Drive, Borrego Springs, CA 92004. The meeting and rate increase item will be heard at 9:00 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 or support of the rate changes, 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 and if possible, why the analysis that RFC has done in compliance with Prop 218 is in your opinion not adequate to support the proposed rates.

Any protest or support letters must be delivered to the District prior to the close of the public hearing on June 9, 2016. Only one protest or support letter per affected parcel will be counted. Protests or support comments delivered by email will not be accepted.

Note: only valid protest letters will be counted as part of this Proposition 218 process. If more than fifty percent of eligible voters who are District customers protest the rates that the District has proposed (50%+1 of the properties properly protest the increased rates), the proposed rates will not go into effect. Instead, the District would be required to go through another proposition 218 to establish new rates. The presently proposed rates meet Proposition 218 requirements for generating revenues necessary to deliver potable water to its customers in compliance with state drinking water quality standards and to support state sewer and wastewater treatment regulations. Also, under California Water Code section 35470, the District is required by law to raise sufficient funds to cover its costs. Thus, a majority protest does have the possibility of harming public health and safety, reducing property values, and hurting the creditworthiness of the District so that necessary capital projects must be curtailed. All of which could

potentially produce even higher Proposition 218 justified future rates if another 218 process was necessary due to a majority protest of this Proposition 218 process.

Where can I review the financial plan that Raftelis has prepared for the District that provides the Proposition 218 justification for a rate increase?

The Raftelis rate study for FY 2017 – FY 2021 is available on the District’s website <http://www.borregowd.org>. Additionally, if a ratepayer has any questions regarding this financial plan, he or she may contact the District’s General Manager, Operations Manager or a Board member to answer your question.

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 the services they receive.

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.