

I would like to take a few moments and discuss some of the assumptions that went into my decision to rescue the District from imminent financial collapse.

Director Hart mentioned some of the cost-saving decisions that this Board made to stem the red ink from previous years, but what were some of my own assumptions that went into the need to raise rates over five years through FY 2016?

These are:

- Things should work. When you turn on your tap, water should flow from the faucet;
- People should remain healthy when they drink the water being delivered to their homes and businesses;
- Ratepayers should be treated fairly and justly. No ratepayer should receive special treatment at the expense of another ratepayer receiving the same class of service;
- Daily life should go smoothly. Water service to the District's customers should not go from one crisis to the next so that you have to worry about whether you will have water from one month to another;
- Harming innocent people is neither ethical nor legally permissible. The District's water infrastructure must be kept in sound working order so that the public's health is not jeopardized;
- Lying is unethical. My ethical and legal responsibility is to make decisions with transparency. The objective is not so that everyone agrees with my decisions, but so that people understand why I made the hard decisions I has been faced with since I took office in December 2010.

These working assumptions suggest why I support this Board's willingness to spend what it is on O&M expenses and not recommend further draconian cuts. I believe that District is presently about as lean as it is able to get without creating additional risk, with potentially expensive outcomes.

To produce safe, potable water requires a water utility to spend adequate O&M expenses: have enough personnel; have trained operators. Worst case of skimping on O&M expenses that I am aware: in May 2000 in Walkerton, Ontario, a town of 5,000 people, 2,300 people fell ill,

hundreds were hospitalized, and 7 people died from an E-coli O157:H7 outbreak due to skimping on O&M.

As Beth mentioned, this Board has lowered O&M expenses for FY 2012 about \$800,000 from their FY 2011 level. That is close to the maximum I feel that is prudent and safe.

These working assumptions also suggest why I believe that it is important to return the District to creditworthiness as soon as feasible. The replacement cost of the District's investment in capital infrastructure is about \$62.5M. To keep this infrastructure operating in the least costly and safest way requires continuous repair and replacement of this investment.

Most of us know that it costs less to replace a bad tire than to drive on it until it blows out. When it blows, there is the potential for all sorts of collateral damage that adds to the ultimate repair cost, to say nothing of the risk to our safety and well being traveling down the road.

But, presently the District lacks credit to borrow for large capital projects; any capital projects must be done on a pay-as-you-go basis; i.e., paid entirely from current revenues. The cash presently available from annual revenues is less than what is required to keep the District's infrastructure in an economically optimal shape. I do not want this situation to continue beyond indefinitely. Why"

Not making timely repairs and replacement of infrastructure can also cause public health problems: maybe one of the worst cases of skimping: failure to repair and replace their water treatment infrastructure in a timely fashion allowed cryptosporidium oocysts into the public water supply that sickened 400,000 people in Milwaukee in April 1993; 4,000 were hospitalized, 100 people died.

If I was willing to take a less ethical and legally mandated stance or cared less about continuance of service to your homes and business or even throw caution to the wind and was willing to skimp on necessary repairs and replacement of critical infrastructure that may endanger your health, maybe I would support reducing the rate increases that have been adopted for next year.

However, I am not willing to throw caution to the wind. I believe that one of my most important fiduciary responsibilities, as Director is to act to protect the public health.

P U B L I C H E A R I N G C O M M E N T S

These are some of the reasons for why I support the rate increases this Board has adopted for next year. Whether you agree with this decision or not, I pray that you respect my motivation. If the District was in some other business other than the public health business, I might be persuaded to hold off on a rate increase for next year due to the difficult economic situation all of us who live in Borrego face today. However, I believe that there is just too much risk associated with not raising rates. Managing risk is what, for me, defines being a director.