

STATEMENT OF BOARD VICE PRESIDENT LYLE BRECHT AT HEARING:

The proposed rate increase has two main purposes:

(1) to provide the cash flow necessary to pay for some minimal amount of necessary infrastructure repairs and ,

(2) to generate some additional cash flow necessary to begin accumulating minimal reserves.

BOTH are necessary to restore the District's creditworthiness. Whether the District can borrow funds or not determine whether or not this District is financially stable. So, why does this Board want to restore this District to financial stability? And, why does this Board consider restoring the District's financial stability so important to accomplish sooner, rather than later?

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 far beyond the rates being discussed today. Every one of you know 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 \$62.5M. Preventive maintenance that includes the repair and replacement of worn out parts of this system is expensive.

However, the primary driver to increasing reserves and restoring the District to financial stability sooner rather than later is because of the overdraft situation. For many years in the past the District's boards have spend hundreds of thousands of dollars on study after study – to determine whether an overdraft exists, or not, and if so how much.

This Board believes no more studies of whether or not the overdraft exists are needed. Instead, what is needed are concrete plans for implementing a *managed basin* program. This Board understands that establishing a *managed basin* is required, for example, for the Imperial Irrigation District (IID) or the San Diego County Water Authority (SDCWA) to consider our basin for a water-banking project. We also understand that any financing authority for the pipeline to accomplish this will require that this basin be managed in order to fairly apportion costs to all pumpers.

And, if for any reason such a transfer of water to the Valley is not economically feasible in the short-term, a *managed basin* becomes even more critical to buy time until a water importation project *is* viable.

But presently the District has neither the financial resources nor the financial standing to begin establishing a *managed basin* and becoming an attractive opportunity for replenishing the basin through a water importation project. The timeliness for this initiative is now. Right now, those authorities and districts with surplus water are deciding on the capital projects they require to address their future water storage needs.

Today, we know with a high degree of certainty that this basin's upper aquifer has about fifty-years before it is completely dewatered at present withdrawal rates. What that means is not that we will suddenly "run out of water" fifty years in the future. There will be lots of water left in the middle and lower aquifers fifty years from now.

What that means is that sometime in the near future (e.g. potentially 8-15-years from now), pumpers of the upper aquifer are likely to start experiencing rapidly increasing costs. At some point, if the basin does not become a *managed basin* sooner rather than later, the economic cost of the water that is extracted will *dramatically* increase. This is an almost certainty. How do we know this? Because this is what has occurred in many other basins under severe overdraft.

Thus, the most important first step to addressing the overdraft is to return the District to financial stability and creditworthiness as soon as possible. This is a necessary first

step to implement any strategy to address the overdraft. With your help, this Board would like to accomplish this by January 2013.

We would like to take this opportunity to commend the members of the community who have come forward to work with the Board these past months. We welcome their involvement and encourage those of your here today to join in. Please add your talents and ideas to the process for solving these exceedingly serious and difficult challenges that affect this entire community. Thank you for attending this hearing. Thank you for your interest. Thank you for your participation.

Now let's hear from Sanjay Gaur from Raffelis Financial Consultants (RFC) to describe the present financial situation of the District and how this Board proposes to restore it to financial stability. Please welcome him to Borrego.