Rate Increase and Prop 218 Protest:

Q: When and how did the District send notifications for the rate increase?
A: The District used direct mail to alert property owners to proposed rate increases. Letters were sent via regular U.S. mail to all property owners with water service in the Water District on the September 6, 2013.

Q: How will the District process and count the rate increase protest letters? Will the public be able to view the vote counting? Will the protest letters be made available to the public?
A: All letters received by the District will be date-stamped upon arrival and made available to the public at District offices. The official counting of the protest letters at the October 24th District Board meeting will take place in full view of the public.

Q: Who should submit a rate increase protest letter? Will renters be able to protest the rate increase?
A: The property owner (who is ultimately responsible for the payment of water service costs) may submit a formal protest letter. Renters are not eligible to submit official rate increase protests under Proposition 218.

Q: Why doesn’t the public get to vote directly on bonds issues by the Water District?
A: District Board members are elected by the public to represent the public interest. The Board is authorized to adopt rate increases that are not protested by a majority of property owners within the District. The Board may, however, elect to seek a vote of the public for any rate increases or projects.

Q: What will occur at the October 24, 2013 District Board meeting?
A: The Board will conduct a public hearing where everyone who wishes to comment on the rate increase will be given the opportunity to speak for an allotted period of time. At the conclusion of testimony from the public, the Board will close the public hearing. At this point, all apparent protest letters that have been received will be counted. If the number of apparent protest letters received represents less than 50 percent of the number of property owners in the Water District (7,347 total), then the number of protest letters will be identified as constituting an “apparent minority” of property owners, and the Board of Directors will be free to adopt the rate increases as proposed, or the Board may make modifications that would lower the rate increase, if they so choose. If the number of protest letters appears to be equivalent to 50 percent plus one or more of property owners in the District, then all letters received will need to be validated to ensure that all senders are, in fact, property owners with valid eligibility. If validation of the letters (subsequent to the meeting) demonstrates that a sufficient number of valid protests letters have been received so as to constitute a true majority of property owners, then the Board of Directors would be legally barred from issuing the proposed rate increases.

Q: Are the proposed rate increases permanent, or will they expire after the five-year period?
A: The proposed rate increases are permanent and will remain in force after all annual increases have taken place. This does not preclude the District Board from authorizing future rate increases or from potentially lowering rates, if circumstances allow.

**Q: Why will the increased rates remain if these infrastructure improvements are “one-time” projects?**

A: Although the capital projects will be completed over a limited number of years, servicing the debt incurred to finance those projects will continue beyond the five years over which the rate increases will occur. In addition, the District will continue to have other future needs for infrastructure improvements.

**Q: Current plans for water rate increases include 24% for debt service. Has the District considered how these costs could be impacted by potential interest rate increases?**

A: The district estimated future borrowing costs with the best information available. However, interest rates are volatile and it is not feasible for the District to account for or predict all future possibilities in this regard. Nevertheless, the District can use appropriate financial models to predict the impact of future or hypothetical interest rate increases, as needed.

**Q: Will owners of mobile homes in mobile home parks be eligible to vote if they pay property taxes?**

A: This question has been directed to legal counsel.

**Q: Can the Water District adopt a different process for official protests, such as one that includes renters or others who pay water bills, but are not property owners?**

A: The state legislature sets rules for protesting rate increases under Proposition 218. The Water District cannot adopt a process that contradicts state law. Requests for changes to the Prop 218 process should be directed to state legislators.

**Q: Has the Water District ever received enough protest letters to constitute an apparent or true majority of property owners in the District?**

A: Proposition 218 was passed in 1996 and fully implemented in 1997. The District has not received a number of protest letters that would constitute an apparent or true majority of property owners in the District for any proposed water rate increases. However, in the past the District did receive a majority protest associated with wastewater rates.

**Infrastructure and Specific Projects:**

**Q: What are emergency interties?**

A: Emergency interties are connections between two or more water systems that are otherwise separate. In the event of a service outage in one water system, such as from a water main break, a malfunctioning pump, or a natural disaster, an intertie allows a district to obtain water from a neighboring provider. Before such an intertie is activated, the water system operator that would be supplying emergency water has discretion to determine whether or not it will provide the emergency supply. The District operates three separate water systems, each of which have independent sources of supply.
Q: Are there future water sale implications from interties?

A: As part of longer-term planning, the possibility of greater integration with nearby water systems has been discussed. However, such considerations are not part of the currently proposed rate increase and none of the potential projects that would be funded by the rate increase include non-emergency water exchanges with systems outside the San Lorenzo Valley.

Q: Is the Water District creating an intertie to Santa Cruz? If so, why do customers in the San Lorenzo Valley Water District have to pay for it?

A: The Water District does not have immediate plans for the creation of an emergency intertie to the Santa Cruz water system. Interties to the Santa Cruz water system are not among the projects for which the proposed rate increase would offer funding.

Q: Do the 5-year cost estimates for the San Lorenzo Valley Water District include the costs of a potential merger with Lompico Water District?

A: No, this potential project was not included in the five-year cost estimates.

Q: If the San Lorenzo Valley Water District merges with the Lompico Water District, who will pay for the merger costs, including maintenance and infrastructure upgrades?

A: Costs of a merger between the San Lorenzo Valley Water District and the Lompico Water District would be borne entirely and exclusively by rate-payers in the Lompico Water District.

Q: What is the Quail Hollow Water Distribution System project?

A: The existing “Desert Line” is an asbestos cement water main that connects the Olympia wellfield to the Quail Water Storage Tanks in Ben Lomond. The line is currently in poor condition and crosses sensitive habitat areas that make replacement in its current location unfeasible. The Quail Hollow Water Distribution System would relocate and replace this ailing line with a more modern and sturdy distribution line that would not need to traverse sensitive habitat.

Q: Could the San Lorenzo Valley Water District install new dams or weirs to increase overall supply?

A: New permanent water impoundments are not included in the list of capital improvements under the proposed rate increase. Undertaking such projects would require consultation and approval from the California Department of Fish and Wildlife, the NOAA Marine Fisheries Service, and other state and federal agencies. For a variety of regulatory, financial and environmental reasons, such projects are deemed to be unfeasible at this time.

Facilities Consolidation Project:

Q: Would a more decentralized approach to Water District offices and facilities be less risky in the event of a natural disaster?

A: The Water District evaluated the ability of existing facilities to meet current and near-term needs and determined that new, consolidated facilities would best allow for improved coordination and
efficiency in the provision of water service. Additional information on the San Lorenzo Valley Water District Facilities Consolidation Project is available on the District website.

**Q: What informed the Water District’s decision to select the proposed Boulder Creek site for District offices and facilities?**

A: The District has been investigating potential sites for consolidation for approximately 20 years. The selected parcels along Highway 9 represent a central, accessible location with sufficient area to accommodate all necessary District facilities.

**Q: Why did the District select a site that is not centrally located?**

A: The District believes the site is centrally located, both in terms of the District’s distribution system, and in terms of population served in within the District’s service area. The District analyzed the population distribution within all zones in its service area to verify that the site is centrally located.

**Q: Why did the District select a site on marshland?**

A: The District selected the site because of its size, accessibility and central location on the Highway 9 corridor. The District considered many locations before identifying this area as the most suitable location. Many sites along the Highway 9 corridor at the foot of Ben Lomond Mountain have a high water table and experience marshiness in the winter season. The total project site is approximately 1.7 acres. Approximately 1/3 of an acre on the site was determined to contain wetlands.

**Q: Why didn’t the District choose a site that didn’t require the creation of replacement wetlands?**

A: It was not apparent when the District purchased the land that regulatory agencies would require the degradation of this area to be mitigated by creating new man-made wetlands on another property. When the District was required to do so, the District complied. All regulatory agencies involved have agreed that the mitigation is acceptable.

**Q: Did the Water District overpay for the selected parcels? What is the current appraised value of the two parcels?**

A: The District purchased the parcels when they became available and negotiated a price at or below the fair market appraisal price as established by an independent property appraiser retained by the District. Unfortunately, the District purchased the properties near the peak of the real estate bubble. The District could not predict that property values would fall when they did. The property has not been appraised in the current market. In general, local properties are regaining some of their lost value.

**Q: Will the Water District consider selling back the two parcels to save money and lower rate increases?**

A: The Board can consider any action. The Board has conducted more than 35 public meetings over the past 10 years, in which the need for facilities consolidation has been identified and planned. The District’s 2013 Strategic Plan identifies the Facilities Consolidation Project as a high priority project, because it will greatly increase the efficiency of the District’s operations and provide emergency preparedness for the San Lorenzo Valley.

**Q: Why is the Water District considering the inclusion of a public meeting room as part of the facilities consolidation? Doesn’t such a facility represent an “extravagance?”**
A: The District’s existing board meeting room is too small to accommodate those who normally attend meetings, as well as members of the public who wish to attend board meetings. The District does not consider the proposed meeting room to be an extravagance. The room is also intended to be available to the public for meetings of community groups.

Q: Based on the cost of the facilities consolidation project and the number of employees who will be working there, the District is spending $450,000 per employee to build the facilities. How does the District justify this expense?

A: There are several ways to define costs for the facilities consolidation project, including land acquisition, pre-construction, construction and financing. The proposed rate increase would include funding to cover financing costs associated with construction of the project—land acquisition and pre-construction costs have already been incurred. The $450,000 used as basis of the question does not take this fact into account and instead attempts to combine all project-related costs without regard to costs to be included in the rate increase vs. costs already incurred. In addition, the project would include the sale of two existing properties, which is estimated to bring approximately $1 million to the district to offset other project costs. The project itself will be an asset owned by the community, not employees, and is designed to bring needed efficiency to District operations, while ensuring reliable delivery of safe drinking water.

Q: What rate increase would be necessary if the District were able to decrease the cost of facilities consolidation by 50 percent or more?

A: The District's financial consultant has not determined this figure, but could potentially perform such a calculation.

District Operations and Finances:

Q: What is the current annual cost for the District to provide water service?

A: The total cost of maintaining water service for the San Lorenzo Valley Water District is approximately $6.5 million per year. However, this does not include any funding for infrastructure upgrades.

Q: In order for the District to maintain service and perform all essential maintenance and upgrades, how much would the District need to spend per year?

A: There is no official number on a per-year basis, but the District has determined the cost of all short-to medium-term capital needs to be approximately $27 million (as of 2010).

Q: How did the District determine average water use and costs for single-family households?

A: The Water District uses different “tiers” based on water flow capacity to categorize individual water connections. To evaluate average water use and costs for single-family customers, the District looked only at data for those connections in the tier that includes most single-family homes.

Q: District customers have been doing their part to conserve water. Why does conserving water cause rates to go up?

A: Climate extremes and State mandates have compelled District customers to use less water, but when less water is used, the Water District receives less revenue. Even when less water is used, existing infrastructure must still be maintained to provide basic service and ensure sufficient system
capacity during dry periods. When less water is available or used, the cost for each unit of water must therefore rise. Put another way, as the water supply shrinks or becomes less predictable, the value of water and the cost of reliably providing it increase on a per-unit basis. Consistent with recent trends, the Water District has projected a 3 percent decrease in water use per year over the next five years. Despite the increased rates, decreased individual water use should help offset some portion of costs for District customers. The largest share of the costs to run the water system and provide the maintenance and replacement of infrastructure are fixed-type costs.

Q: Does the Water District have a way of measuring its return on investment for infrastructure improvements and other projects?

A: PUC-regulated, for-profit utilities are required to calculate and report their returns on investment. Because the San Lorenzo Valley Water District is a non-profit utility, returns come in the form of benefits to water customers rather than quantifiable profits. Return on investment is therefore not an appropriate measure for the Water District and the District does not calculate this figure. Nevertheless, the district could perform cost-benefit analyses for individual projects.

Q: What has the Water District been doing with the money it has raised from prior rate increases?

A: In part because the existing infrastructure is so out of date, much of the Water District's budget in recent years has been dedicated to operation and maintenance of the existing system. The Water District has been able to take on only a limited number of projects on its list of capital improvements.

Q: When did the Water District last undergo an audit? Has an audit been conducted for the current year?

A: The San Lorenzo Valley Water District underwent an audit for fiscal year 2012 and the results of that audit are publicly available. The audit for fiscal year 2013 is currently underway and the results will be publicly available once it is completed.

Q: How is the District working to control or even reduce its expenditures?

A: The Water District has undertaken multiple efforts to cut costs and improve efficiency. One example of a project that is offering cost savings for the District is its solar power program, which is now providing a significant portion of the District's electrical needs during the summer.

Q: How much does the district currently spend on electricity each year?

A: The District currently spends approximately $250,000 on electricity costs each year.

Q: Why is the District undertaking any projects beyond the bare minimum to maintain infrastructure and perform essential upgrades?

A: The District's list of capital improvements represents the most important projects needed to ensure efficient, reliable provision of safe, clean drinking water for the near-term. However, the District Board has indicated a willingness to remain open to modifying capital projects in order to reduce capital outlays.

Q: Why does the District maintain debt? Isn’t that an undesirable way to run a business?

A: The infrastructure to provide water service represents an immense investment, and this investment must be made in large chunks over time as particular system components need repair or
replacement. In order to maintain a more stable budget and avoid the need for untenable single-year expenditures, the District must find ways to estimate and pay capital costs on an annualized basis. Options for doing this include the creation of a large reserve fund, which can then be used to pay for large future expenses, or using debt-financing to pay off the cost of a project or set of projects over time. Very few utility districts use reserve funds rather than debt-financing; this is in part because the maintenance and administration of a large reserve fund presents special needs and risks that may be difficult for a district to manage.