

Leland Meadow Water & Sewer District Deep Dive Workshop

January 30, 2019



LMWD Deep Dive Workshop



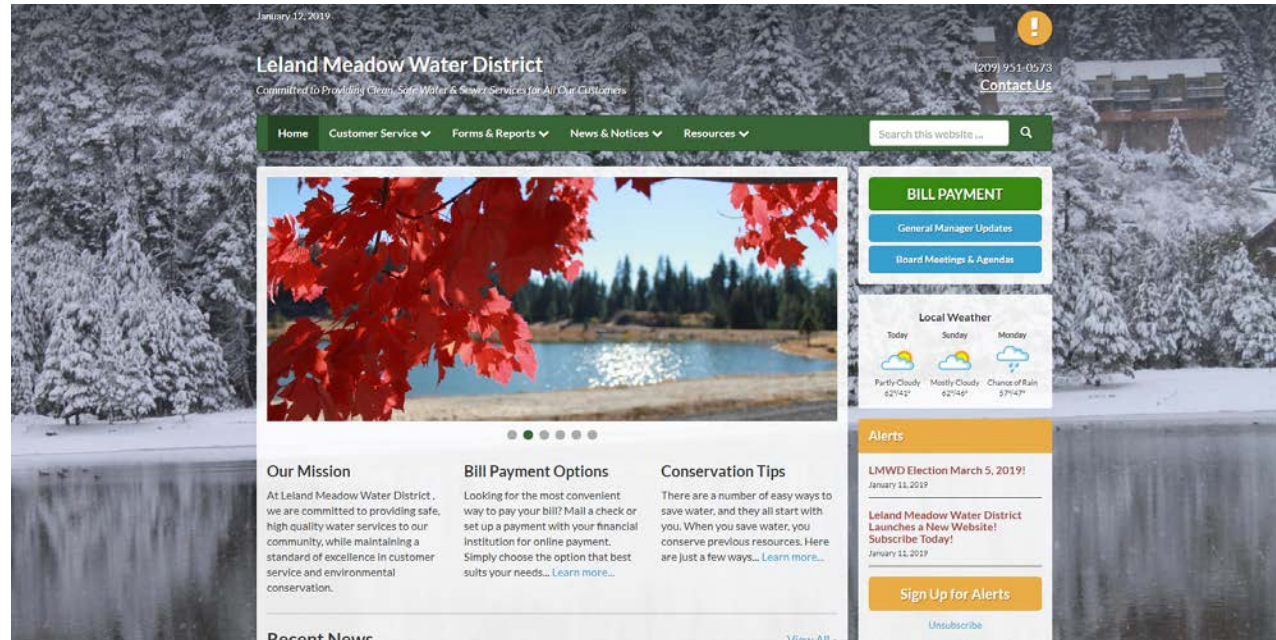
- This Presentation includes a LOT of information
- Most was in GM Board Update (12/14/18)
- We will review the entire Presentation in 60 minutes
 - Will hold questions to the end of each section
 - If questions not covered in limited time frame
 - Request Customers to email written questions to GM
 - Written responses will be distributed to all Customers
- If Customers have interest, Board will schedule additional Workshop
 - GM will Solicit Interest in 2nd Workshop via email
 - Need six or more Customers to commit to participate
 - Customers to submit their specific questions/topics for further review

LMWD Deep Dive Workshop Agenda

- LMWD News
- Review 9/1/18 Meeting Board Revised Recommendation
- Deep Dive Topic 1: Replacement Cost and Time Estimates
- Deep Dive Topic 2: Methods to Fund Large Capital Projects
- Deep Dive Topic 3: Fixed vs Usage Based Fees
- Deep Dive Topic 4 : Long Term Financial Analysis
- California Proposition 218 Review of Next Steps
- Important Dates



LMWD NEWS!



- **Website - Live 1/11/2019**
<https://lmwater.myruralwater.com>
 - District Updates
 - Important Documents
 - Future Proposition 218 Notices

- **Starting July 1, 2019 billing will change from quarterly to monthly**
 - Customers can still pay quarterly or annually
 - Online bill payment is being explored

9/1/18: LMWD Board Revised Recommendation

Over the next several months, the Board will perform a “**Deep Dive**” to investigate and evaluate information and return to Customers with recommendations:

- Working with professional industry experts, **refine replacement cost estimates and time forecasts** for major water and sewer system components using “best practices”.
- Working with experts in small water/sewer districts, establish what **methods are available to fund future large capital projects**. Focus on utilizing borrowing to “smooth out” the impact on Customers over the next 75 years.
- Working with experts in small water/sewer districts, evaluate and analyze our LMWD costs and usage and determine what, if any **usage fees** should be implemented
 - evaluate what costs are variable and related to usage and what costs are fixed
 - evaluate customer usage once we have at least a full year of usage data
 - evaluate what additional regulations or costs may be involved if we add a usage fee
- Board return to Customers when analysis and evaluation complete with recommended proposal for rate adjustments; expect to accomplish in 6 – 9 months.

Deep Dive Topic 1: Replacement Cost & Time Estimates

Working with professional industry experts, **refine replacement cost estimates and time forecasts** for major water and sewer system components using “best practices”.

Action(s) Completed

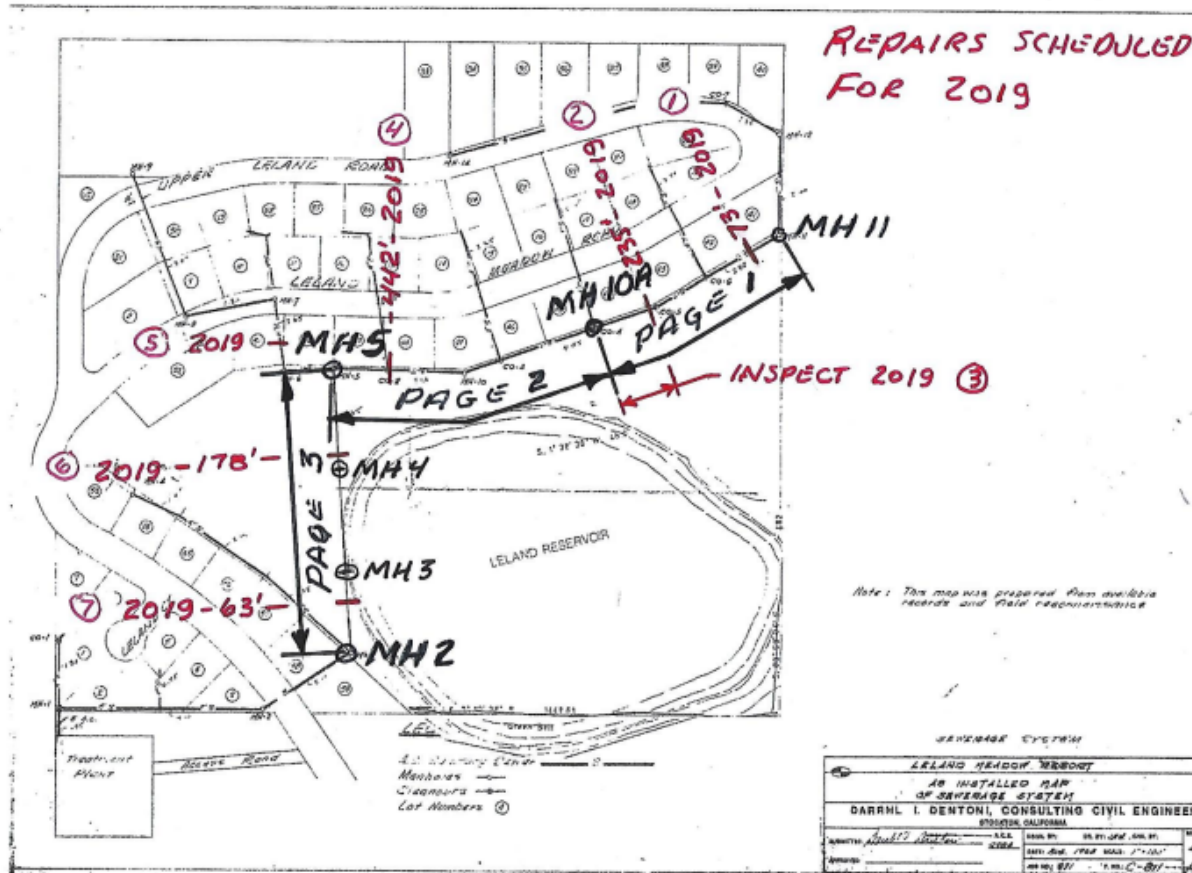
- Nor Cal Piping hired to complete sewer line inspections
 - Fall 2018: Video sewer line inspections, found worse conditions than previously known
 - Customers received Nor Cal inspection report & Robertson Plumbing follow-up inspection report
 - Developed Long Term Plan to include line repairs & line replacement sooner than Association Reserve Study
 - Water Lines same material and age as Sewer Lines; will inspect these lines and will expect increased maintenance and replacement sooner than Association Reserve Study.

Next Steps

- Complete proposed 2019 inspections & repair projects
- Refine forecast for future *inspections and Repair Projects & Capital Projects*

Deep Dive Topic 1: Replacement Cost & Time Estimates

SEWER LINE INSPECTION - PROBLEM AREAS



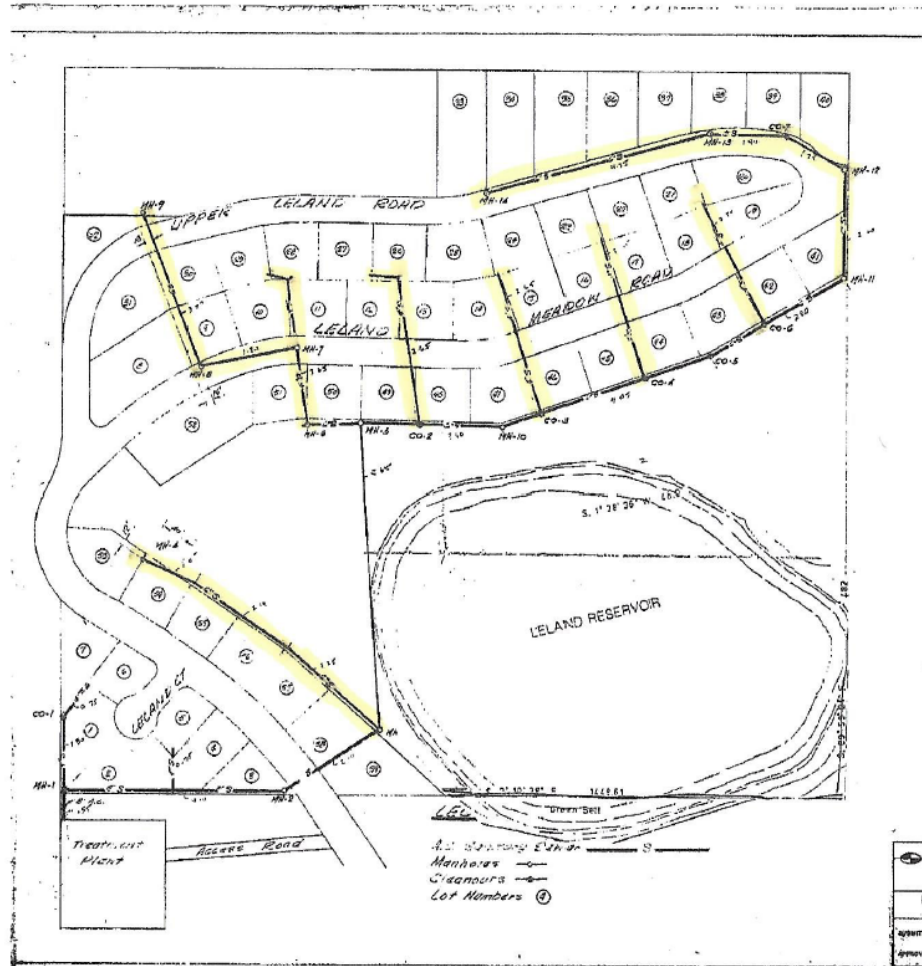
2019 Planned Projects

1. Repair open pipe to prevent sand/sediment into sewer line
2. Repair offset joint to enable further video inspection (to MH10A, photo below)
3. Nor-Cal to perform visual inspection of 200' area in #2
4. Re-level multiple connections in this area
5. Repair or install new manhole
6. Inspect and remove "unknown" pipe protruding in top of Sewer line
7. Excavate and repair offset joint as required.



Deep Dive Topic 1: Replacement Cost & Time Estimates

LATERAL SL INSPECTION - 2019



2019 Planned Projects (continued)

- Sewer line inspections of the lateral lines to homes and condos

DEEP DIVE TOPIC 1: REPLACEMENT COST & TIMING: SUMMARY OF LEARNINGS

SUMMARY

LMWD infrastructure is 55 years old

- Fall 2018 Inspection revealed deteriorated condition of sewer lines
- Must expect similar condition of water lines
- Forecasts include
 - increased maintenance costs
 - Replacement of sewer and water lines earlier than Association Reserve Study
- Revised Operations & Maintenance Cost and Capital Cost Forecasts have been developed
- **Future Action: As we continue to maintain our sewer and water infrastructure, modify forecasts to incorporate new learnings**

I just need
the main ideas



DEEP DIVE TOPIC 2: METHODS TO FUND LARGE CAPITAL PROJECTS

Working with experts in small water/sewer districts, establish what **methods are available to fund future large capital projects**. Focus on utilizing borrowing to “smooth out” the impact on Customers over the next 75 years.

Action(s) Completed

- Explored line of credit options with Wells Fargo (LMWD bank)
 - \$15,000 line of credit was approved (maximum available)
 - Approved by Board Resolution 1/2/19 and available now
- Gathered data on other potential options

Next Steps

- **Once Capital Project Defined, Identify viable potential funding options & explore in deeper detail**



DEEP DIVE TOPIC 2: METHODS TO FUND LARGE CAPITAL PROJECTS

Overview of Borrowing Requirements

All require “Plan of Finance”: Detailed District Financial Audited Report including justifications that rates are sufficient to repay borrowing

- Up Front Costs & Ongoing (All forms of borrowing require some of these)
 - Detailed Engineering Estimates
 - Permits
 - Environmental Review (California Environmental Quality Act (CEQA), including Cultural, Biological & Water Quality)
 - Loan Counsel/Consultants
 - If Bonds – Rating Agency Fees + Lending Prospectus development + Underwriter Counsel
 - Interest on Principle
 - Bond/Loan Insurance
 - Ongoing Reporting to Lender
- Example from Bond Consultant
 - Issuance Cost on \$1.7 Million Bond = \$110,000 to \$150,000
 - Advises up front costs do not vary directly with the size of the loan.
- Many Lenders prefer loans for large projects (multimillion)

DEEP DIVE TOPIC 2: METHODS TO FUND LARGE CAPITAL PROJECTS

Overview of Potential Types of Funding

- Bank Lending
- District Bonds
- Government Funding
- Private Lenders
- Pay as You Go

DEEP DIVE TOPIC 2: METHODS TO FUND LARGE CAPITAL PROJECTS

- **Bank Lending**

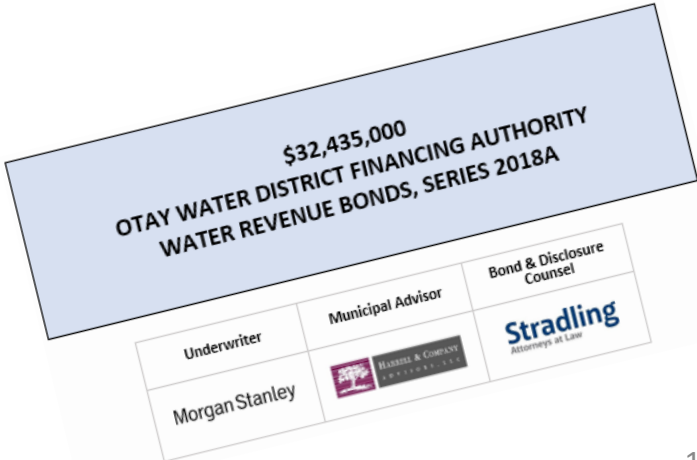
- 10 – 15 year repayment schedule
- Interest Rates determined by Bank's Credit analysis
- Secured by District Rates
- Up Front Costs may be less (no Rating Agency, less complex prospectus)



DEEP DIVE TOPIC 2: METHODS TO FUND LARGE CAPITAL PROJECTS

District Issued Bonds

- 10+ year repayment schedule
- May qualify as Tax Exempt to Bond Purchaser
- Interest Rates would depend on Rating & Market
- Sophisticated Financing Instrument
 - Requires expertise to coordinate
- Up Front Costs May be most expensive
 - Includes rating agency fees, bond counsel, prospective development)



DEEP DIVE TOPIC 2: METHODS TO FUND LARGE CAPITAL PROJECTS

Government Programs

- Single application through California Financing Coordinating Committee
- California Clean Water State Revolving Fund (CWSRF) Loans
 - Repayment over 20+ years
 - CA Revolving Fund (availability of funds subject to many factors)
 - Grants would only be available if more than 50% Customers were full time residents
 - Interest Rates may be more favorable than other types of loans
 - Up front costs would include technical review of Engineering Report by State staff
 - Likely to impose more requirements related to size of LMWD Reserve Funds
 - Administrative/reporting burden high
- USDA Rural Water & Waste Disposal Loan & Grant Program
 - Repayment over 30 years+
 - LMWD Not Eligible for Grant Programs (low income)
 - Similar up front effort, costs, and administrative/reporting burden to California CWSRF



DEEP DIVE TOPIC 2: METHODS TO FUND LARGE CAPITAL PROJECTS

- **Private lenders: ??**



- **Pay as You Go**

- **Yield lowest overall Fees to Customers**

- Example: Borrow \$500,000 in 2024,
 - 10% Up Front Cost,
 - 4% Interest,
 - 20 Year Amortization.
 - Total Repayment Amount = \$809,000
 - \$40,000 per year payments
- Consideration: Timing of Available Reserves to fund Projects
- District Reserve Funding could be adequate

Pay as you go



DEEP DIVE TOPIC 2: METHODS TO FUND LARGE CAPITAL PROJECTS: SUMMARY OF LEARNINGS

Borrowing may be a option to Fund future LMWD Capital Projects

- All borrowing requires rate structure to reflect ability to pay
- All borrowing has some up front & ongoing costs
- Borrowing most appropriate and cost effective when the size of the loan is substantial (\$500,000 and up)
- Self Funding or “Pay as you go” has lowest impact on rates; may be viable alternative
- **Future Action: A year or more prior to first substantial capital project, Board to investigate borrowing alternatives for specific project**

SUMMARY

I just need
the main ideas



DEEP DIVE TOPIC 3: FIXED VS USAGE FEES

- Over the next several months, the Board will perform a “**Deep Dive**” to investigate and evaluate information and return to Customers with recommendations:
 - Working with experts in small water/sewer districts, evaluate and analyze our LMWD costs and usage and determine what, if any **usage fees** should be implemented
 - evaluate what costs are variable and related to usage and what costs are fixed
 - evaluate customer usage once we have at least a full year of usage data
 - evaluate what additional regulations or costs may be involved if we add a usage fee
- **UPDATE: Working with Industry experts analyzed District Costs**
 - Only cost that varies directly with water or sewer usage
 - Electricity usage cost to run the well pump (Approximately \$1,200 per year)
 - Electricity to run the aerators; partially related to usage (Approximately \$1,200 per year)
 - The Balance of District Operating and Capital Costs are costs to maintain system
 - LMWD does not have a per unit cost for water
 - Many Water Districts that incorporate a usage fee actually pay for their water by the gallon or cubic foot unit

DEEP DIVE TOPIC 3: FIXED VS USAGE FEES

- Background for Context: Average water usage
 - According to the U.S. EPA; “The average American family of four uses 320 gallons of water per day, about 30 percent of which is devoted to outdoor uses.” This equates to 80 gallons per person per day.
 - According to California Housing & Community Development; “California’s 39 million people live in 13 million households”, for an average of 3 people per household.

..... So if Leland Meadow were “average”:

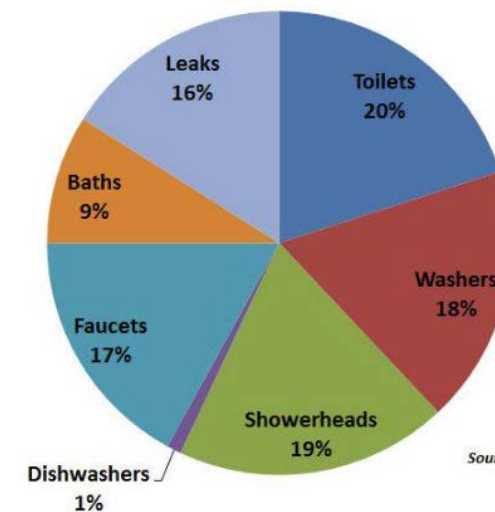
- 3 people (average household) x
- 30 days in a month x
- 56 gallons per day (80 gallons less 30% outdoor use) =
- 5,040 gallons per household per month x
- 60 Customers = 340,200 gallons per month

..... But

Leland Meadows is a community of 6 properties which are full time residents, one seasonal business, one HOA Lakehouse and 52 second homes

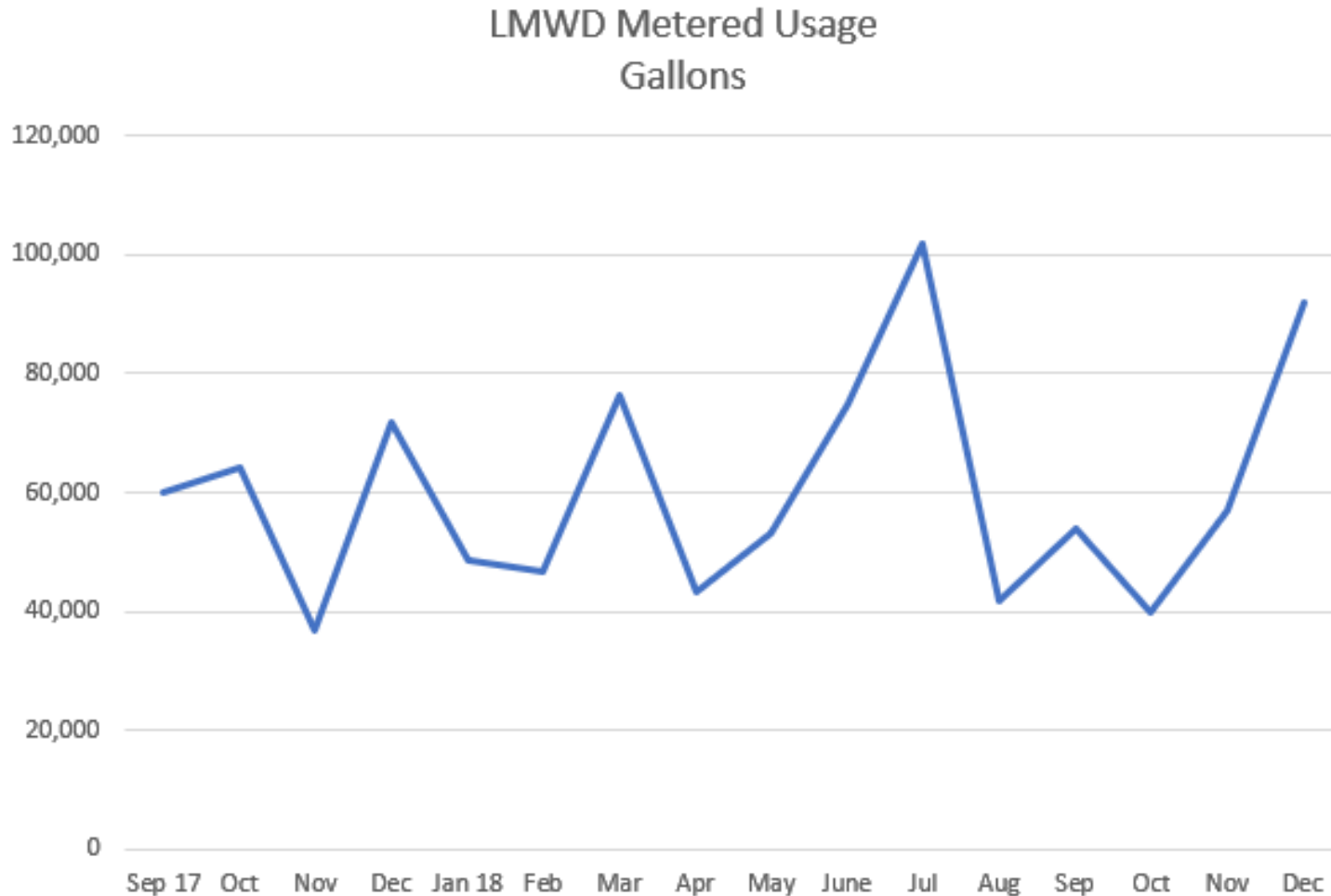
..... **So What does LM Usage look like?**

Average California Household Water Use
(Indoors), percent



Source: Pacific Institute, 2015

DEEP DIVE TOPIC 3: FIXED VS USAGE FEES



- 16 months of water meter readings
- **Gallons Metered for last sixteen months = 962,373 gallons**
- **Average usage around 1,000 gallons per property per month;**

DEEP DIVE TOPIC 3: FIXED VS USAGE FEES

- What we learned from 16 months of meter readings:
 - Large variability between monthly total usage with some month's water usage nearly 3 times that of another
 - Benefit has been to identify unintended water wastage (running toilets, leaking faucets & hot water heaters) and alert Customers to perform repairs
 - Has occurred for both full time residents and vacant properties



DEEP DIVE TOPIC 3: FIXED VS USAGE FEES

- Rate Study Experts advise against usage fee components for now
 - With such small variable costs (\$2,400 per year), usage component would have negligible impact on individual Customer's rates.
 - Administrative Costs to institute usage component would be significant
 - Est. 10 hours incremental cost per month x \$30 per hour for GM x 12 months = \$3,600 / year
 - Estimate 5 minutes/Customer/month to calculate and send Customer billings
 - Estimate 5 hours/Customer/month for Reconciliation of payments, send follow up statements.
 - Does not include new software that may be needed
 - Does not address whether future GM rate will be \$30 per hour!
 - Variability of Usage could cause District revenue shortfalls and cash flow issues
 - With only 16 months of meter data that fluctuates significantly, usage fee not advised until a baseline can be established with confidence.
- **Conclude: Usage Component will be considered in next Rate Study (2023)**

DEEP DIVE TOPIC 3: FIXED VS USAGE FEES: SUMMARY OF LEARNINGS

SUMMARY

- LMWD has small costs that vary with usage (\$2,400/yr)
- LMWD Usage has been metered for 16 months
 - Average usage = 1,000 gallons/property/month
- LMWD Usage is highly variable between months
- Costs to manage a usage fee are substantial (\$3,600/yr)
- Industry Experts recommend against a usage fee with our limited data
- **Future Action: Customer Usage will continue to be tracked and analyzed for consideration in next Rate Study (2023)**

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the main ideas



DEEP DIVE TOPIC 4: FINANCIAL ANALYSIS

- Board return to Customers when analysis and evaluation complete with recommended proposal for rate adjustments; expect to accomplish in 6 – 9 months.
- UPDATE: Board Developed Long Term Financial Forecast



DEEP DIVE TOPIC 4: FINANCIAL ANALYSIS

- Assumptions for Expense Forecast:

FOR EXPENSE FORECASTS (10 year "zero based budget" + 15 year annual inflation only):

- 1 Started with 2019 Financial Plan distributed to Customers August 2018
- 2 Based on inspections, 2018 costs increased to perform needed repairs.
- 3 Based on inspections, 2019 plan was modified to provide additional funds to complete inspections and perform repairs
- 4 10 Year Expense Maintenance Forecast developed based on typical annual spending + additional projects now known
- 5 Maintenance Plan was developed that includes video inspection of the balance of the sewer lines and inspection of water lines
- 6 Maintenance Plan includes funds to repair lines based on the type of repairs needed as a result of September inspections
- 7 Most costs simply indexed for inflation at 2.25% (same as AR assumption)
- 8 New line item was added for legal and engineering support of Rate Study & Update of LMWD Governing Documents
- 9 New line item was added in 2021 to reflect expected increased expense for new GM once MP retires (MP volunteers many many hours)



DEEP DIVE TOPIC 4: FINANCIAL ANALYSIS

- Assumptions for Capital Replacement Costs:

10 Started with Association Reserves Report from August 2018

11 As Starting Point, Used Capital Spending Amounts and Timing as in AR Report

12 Performed video and physical inspections of the sewer lines in September & October 2018

13 Inspections revealed that sewer line in poorer condition than previously known

14 Based on inspections replacement of sewer lines must be earlier than Associate Reserves report

15 Revised sewer line replacement schedule has been developed and will be done in phases

16 Since sewer line replacement will be divided into smaller jobs, additional cost per linear foot has been added to costs

17 AR Report estimated \$90/linear ft for replacement; revised capital spending plan provides for \$100/linear ft

18 Water Lines assumed to be in similar condition with similar program to replace water lines soon in phased approach



DEEP DIVE TOPIC 4: FINANCIAL ANALYSIS

- Assumptions for Overall Financial Calculations:

For Financial Calculations:

19 Started with the Capital and Expense costs and starting reserve balance (\$25,000) to determine funds required to maintain systems

20 Assumed cost annual increase equal to inflation used for both Capital and Expense Forecasts

21 *Scenario 1: Calculation with no Rate Increase*

22 *Scenario 2: Calculation to Provide Sufficient Funds*



DEEP DIVE TOPIC 4: FINANCIAL ANALYSIS – RESULTS WITH NO FEE INCREASE

LELAND MEADOW WATER DISTRICT

Scenario #1: FINANCIAL CALCULATION WITH NO RATE INCREASE

Per Association Reserves Capital Plan 8/2018, modified for earlier Replacement of Distribution Lines

Per modified 10 Year Operating Expense Forecast

Prepared 12/14/18

| Year | Customer Monthly Fee | Individual Annual Fee | Total Fee Revenue | Operating Expenses | Reserve Fund Contribution | Fee inflation | Operating Expense % increase | Interest Income, 1% | Reserve Fund Balance | Capital Spending |
|------|----------------------|-----------------------|-------------------|--------------------|---------------------------|---------------|------------------------------|---------------------|----------------------|------------------|
| 2018 | | | | | | | | | \$25,000 | |
| 2019 | \$100 | \$1,200 | \$72,000 | \$107,400 | (\$35,400) | | | \$250 | (\$15,150) | \$5,000 |
| 2020 | \$100 | \$1,200 | \$72,000 | \$88,910 | (\$16,910) | 0.00% | | | (\$75,005) | \$42,945 |
| 2021 | \$100 | \$1,200 | \$72,000 | \$88,511 | (\$16,511) | 0.00% | | | (\$91,516) | \$0 |
| 2022 | \$100 | \$1,200 | \$72,000 | \$84,940 | (\$12,940) | 0.00% | | | (\$163,252) | \$58,797 |
| 2023 | \$100 | \$1,200 | \$72,000 | \$88,363 | (\$16,363) | 0.00% | | | (\$299,854) | \$120,239 |
| 2024 | \$100 | \$1,200 | \$72,000 | \$83,234 | (\$11,234) | 0.00% | | | (\$375,355) | \$64,266 |
| 2025 | \$100 | \$1,200 | \$72,000 | \$84,680 | (\$12,680) | 0.00% | | | (\$416,033) | \$27,999 |
| 2026 | \$100 | \$1,200 | \$72,000 | \$86,360 | (\$14,360) | 0.00% | | | (\$609,180) | \$178,786 |
| 2027 | \$100 | \$1,200 | \$72,000 | \$88,078 | (\$16,078) | 0.00% | | | (\$625,258) | \$0 |
| 2028 | \$100 | \$1,200 | \$72,000 | \$88,835 | (\$16,835) | 0.00% | | | (\$713,930) | \$71,837 |

DEEP DIVE TOPIC 4: FINANCIAL ANALYSIS

RESULTS WITH \$100/MONTH FEE INCREASE 7/1/19

LELAND MEADOW WATER DISTRICT

Scenario #2: FINANCIAL CALCULATION TO PROVIDE SUFFICIENT FUNDS

Per Association Reserves Capital Plan 8/2018, modified for earlier Replacement of Distribution Lines

Per modified 10 Year Operating Expense Forecast 12/2018

Assumes FEE INCREASE of \$100 / month starting 7/1/19 WITH 2.25% ANNUAL INCREASES

Prepared 12/14/18

| Year | Customer Monthly Fee | Individual Annual Fee | Total Fee Revenue | Operating Expenses | Reserve Fund Contribution | Fee inflation | Operating Expense % increase | Interest Income, 1% | Reserve Fund Balance | Capital Spending |
|------|----------------------|-----------------------|-------------------|--------------------|---------------------------|---------------|------------------------------|---------------------|----------------------|------------------|
| 2018 | | | | | | | | | \$25,000 | |
| 2019 | \$150 | \$1,800 | \$108,000 | \$107,400 | \$600 | | | \$250 | \$20,850 | \$5,000 |
| 2020 | \$200 | \$2,400 | \$144,000 | \$88,910 | \$55,090 | 2.25% | | \$209 | \$33,203 | \$42,945 |
| 2021 | \$205 | \$2,454 | \$147,240 | \$88,511 | \$58,729 | 2.25% | | \$332 | \$92,265 | \$0 |
| 2022 | \$209 | \$2,509 | \$150,553 | \$84,940 | \$65,613 | 2.25% | | \$923 | \$100,004 | \$58,797 |
| 2023 | \$214 | \$2,566 | \$153,940 | \$88,363 | \$65,578 | 2.25% | | \$1,000 | \$46,342 | \$120,239 |
| 2024 | \$219 | \$2,623 | \$157,404 | \$83,234 | \$74,170 | 2.25% | | \$463 | \$56,709 | \$64,266 |
| 2025 | \$224 | \$2,682 | \$160,946 | \$84,680 | \$76,266 | 2.25% | | \$567 | \$105,543 | \$27,999 |
| 2026 | \$229 | \$2,743 | \$164,567 | \$86,360 | \$78,207 | 2.25% | | \$1,055 | \$6,019 | \$178,786 |
| 2027 | \$234 | \$2,804 | \$168,270 | \$88,078 | \$80,191 | 2.25% | | \$60 | \$86,271 | \$0 |
| 2028 | \$239 | \$2,868 | \$172,056 | \$88,835 | \$83,220 | 2.25% | | \$863 | \$98,517 | \$71,837 |

DEEP DIVE TOPIC 4: FINANCIAL ANALYSIS: SUMMARY OF LEARNINGS

Long Term Forecast for Operations & Maintenance Costs & Capital Projects have been developed

- Operations & Maintenance Cost Forecast based on historical spending and future maintenance projects now known
- Capital Spending Forecast based on August Reserve Study modified to reflect condition of sewer lines now known
- Operations & Maintenance and Capital Forecasts assembled
- **Without Rate Increase, LMWD WILL NOT BE ABLE TO MEET ITS FINANCIAL OBLIGATIONS BEGINNING THIS YEAR.**
- **Future Action: Rate Study to be developed by Bartle Wells, Engineering Company to become basis of Rate Hearing**

SUMMARY

I just need
the main ideas



Proposition 218 Process & Status

- At 1/2/19 Special Meeting, LMWD Board approved hiring Bartle Wells to prepare Rate Study
- Proposition 218 Requires that Every Fee or Charge Must Satisfy:
 1. Revenues Must Not Exceed Funds Required to Provide Service
 2. Revenues Must Not be Used for Any Other Purpose
 3. Amount Must Not Exceed the Proportional Cost of the Property-Related Service Attributable to the Parcel
 4. No Fee/Charge May be Imposed Unless Service is Used by, or Immediately Available to Owner of Property
 5. No Fee or Charge may be imposed for General Governmental Services, such as Police or Fire Services, where the Service is Available to the Public at Large in Substantially the Same Manner as to Property Owners.

Proposition 218 Process (cont.)



- Bartle Wells Advised that Water & Sewer Charges must be evaluated separately
- Bartle Wells Process
 - Review and analyze District Financial & Customer Data
 - Identify appropriate assumptions for costs, timing, reserve balances, etc.
 - Develop updated 10-year financial projections for the District
 - Evaluate financial scenarios and rate increase options and
 - Develop a fixed rate recommendation for water and sewer service charges
 - Draft a summary report explaining key findings and recommendations
 - Draft Proposition 218 Notices for proposed sewer and/or water rate increases
 - Present summary of findings & recommendations at the Rate Hearing

Proposition 218 Process (cont.)

- Prop 218 Next Steps
 - Special Meeting will be held March 14, 2019 at 2 pm where LMWD Board will
 - Consider whether to Accept Findings of Bartle Wells Rate Study
 - Consider whether to Approve Bartle Wells Proposition 218 Notice of Any Rate Adjustment





Proposition 218 Process (cont.)

- If Board accepts the BW Rate Study & Approves BW Prop 218 Notice:
 - Notice of public hearing must be mailed to property owners at least 45 days prior to the public hearing. Notice must contain
 - a) the amount of the fee or charge proposed to be imposed;
 - b) the basis upon which it was calculated;
 - c) the reason for the fee or charge;
 - d) the date, time and location of the public hearing.
 - Rate Hearing will be at Board Meeting May 25, 2019 at 11 am at LM Lake House.
 - Customers can file protests to the fee after the notice is issued prior to the close of the public hearing (instructions will be included in the notice).
 - At Rate Hearing, Board can
 - accept/approve Rates proposed by the Rate Study or
 - approve alternate Rates
 - Increased fee goes into effect unless majority of Customers file written protests

PROPOSITION 218 PROCESS: SUMMARY

SUMMARY

Bartle Wells Rate Study underway, to be presented to Board and Customers in Special Meeting March 14, 2019

- If LMWD Board accepts Rate Study & Notice of Rate Hearing
 - Notice of Rate Hearing mailed to all Customers
 - Rate Hearing to be held May 25, 2019
 - Customers can file written Protests to proposed rate increase
 - At Rate Hearing, Board can accept proposed or alternate Rates
 - Increased fees goes into effect unless majority of Customers Protest
- **Next Steps: Rate Study to be developed by Bartle Wells, Engineering Company to become basis of Rate Hearing**

*I just need
the main ideas*



Important Dates!

- Election March 5, 2019 for three (3) LMWD Board Members
 - Note – if there are no more than three candidates for the three District Board seats, there will be no election.
- Special Meeting March 14, 2019 at 2 pm via “Go to Meeting” for Board to consider accepting Bartle Wells Rate Study and consider approval of a Proposition 218 notice.
- No Later than April 9, 2019, Prop 218 Notices Distributed by Mail
- Regular Board Meeting & Rate Hearing May 25, 2019 at 11 am at LM Lake House
- Regular Board Meeting August 31, 2019



LMWD Deep Dive Workshop

- This Presentation contained a LOT of information
- If not all questions covered in limited time frame
 - Request participants to email written questions to GM
 - Written responses will be distributed to all Customers
- If Customers have interest, Board will schedule additional Workshop
 - GM will Solicit Interest in 2nd Workshop via email
 - Need six or more Customers to commit to participate
 - Customers to submit their specific questions/topics for further review



| Questions: | Answers |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Q: When was our last rate increase? | A: 1/1/12 the rate went to \$300/quarter with previous rate increases in 2007, 2009, 2010, and 2011. |
| Q: Do we need a rate increase because Operating Expenses are increasing or because future Capital Costs are needed? | A: BOTH! |
| Q. Why does it seem our rates have to go up so fast? | A. For many years, the District has been focused on maintaining the sewer and water systems adequately and trying to keep our rates low for our Customers. The Reserve Study from August brought to light the significant future capital projects that we need to perform. In addition, in the Fall 2018, sewer line inspections reflected lines in worse condition than we had previously known. |
| Q: Why are we talking about a Rate Increase instead of a Special Assessment? | A: We are talking about a Rate Increase rather than a Special Assessment for two reasons: <ol style="list-style-type: none"> 1. A Special Assessment is generally used when a particular project needs to be funded on a one-time basis. This would presume that the existing rates were adequate to provide for operating expenses and future capital project. 2. Reasonable forecasts of LMWD operating expenses and capital costs reflect a continuous and sustained shortfall unless we raise rates. |
| Q. Why don't we have a usage fee as part of our rates? | A. Our rate consultant and industry experts advise against incorporating a usage fee at this time for several reasons. <ol style="list-style-type: none"> 1. We only have meter water usage for the past 16 months and there is a lot of variability between months. If a usage component was set with this limited data, the District could be exposed to revenue shortfalls. 2. Our costs that vary with water or sewer usage are very small (about \$2,400 per year). 3. The costs to implement a usage fee are estimated to be \$3,600 based on additional 10 hours per month to calculate and distribute individual bills and perform additional collection and reconciliation functions. |
| Q: With a higher rate, it would be easier for me to plan with a monthly billing. Can we have monthly billings? | A: Yes. We will convert to a monthly billing for the second half of 2019. |
| Q: The Capital Forecasts extend for 25 years. Is it possible that we can save money either by delaying projects or finding better pricing? | A: The operating expense and capital forecasts are educated estimates of future costs. Each and every repair and replacement will be evaluated in advance of when the project is estimated to be done to consider whether it can be prudently delayed and the lowest cost and most efficient means to execute the project. |
| Q: Do Water and Sewer charges have to be separated in the Rate Study? | A: Yes. By California law, the Rate Study must consider water and sewer costs separately. |
| Q: Why don't we borrow money instead of increasing rates? | A: The only way for LMWD to borrow money is to be able to demonstrate to a lender that we can repay the loan. Whether we borrow the money or "self fund" the work, we need the rates to provide for long term financial viability. |



Notes