

Town Hall Meeting Serrano Water District

January 31, 2013

Board of Directors

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Jerry L. Haight, Director

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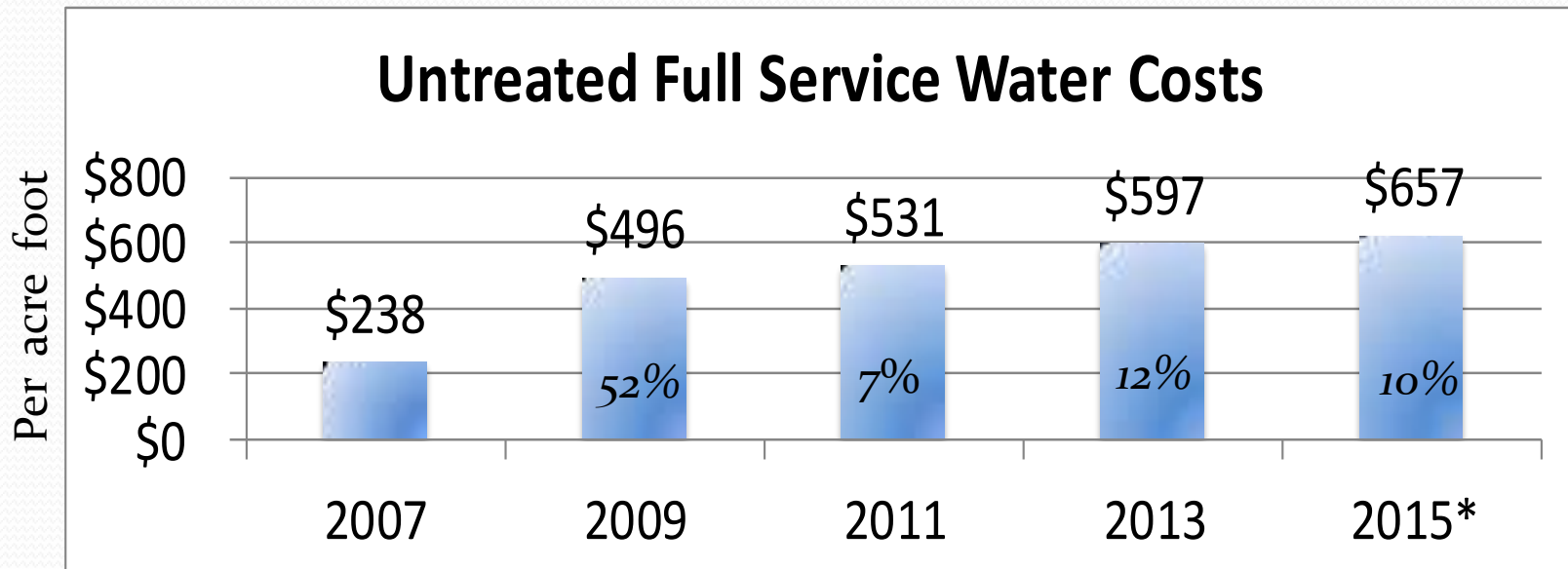
Overview

- Where Southern California Gets Its Water
- Regional Water Costs
- Serrano Water District
 - Background and Goals
 - Santiago Reservoir
 - History of Operations
 - Serrano Water District Assets
 - Cost Control Measures
 - Challenges Facing the District
 - Benefits of the District
- Sample Monthly Water Bill Comparison

Where Southern California Gets Its Water



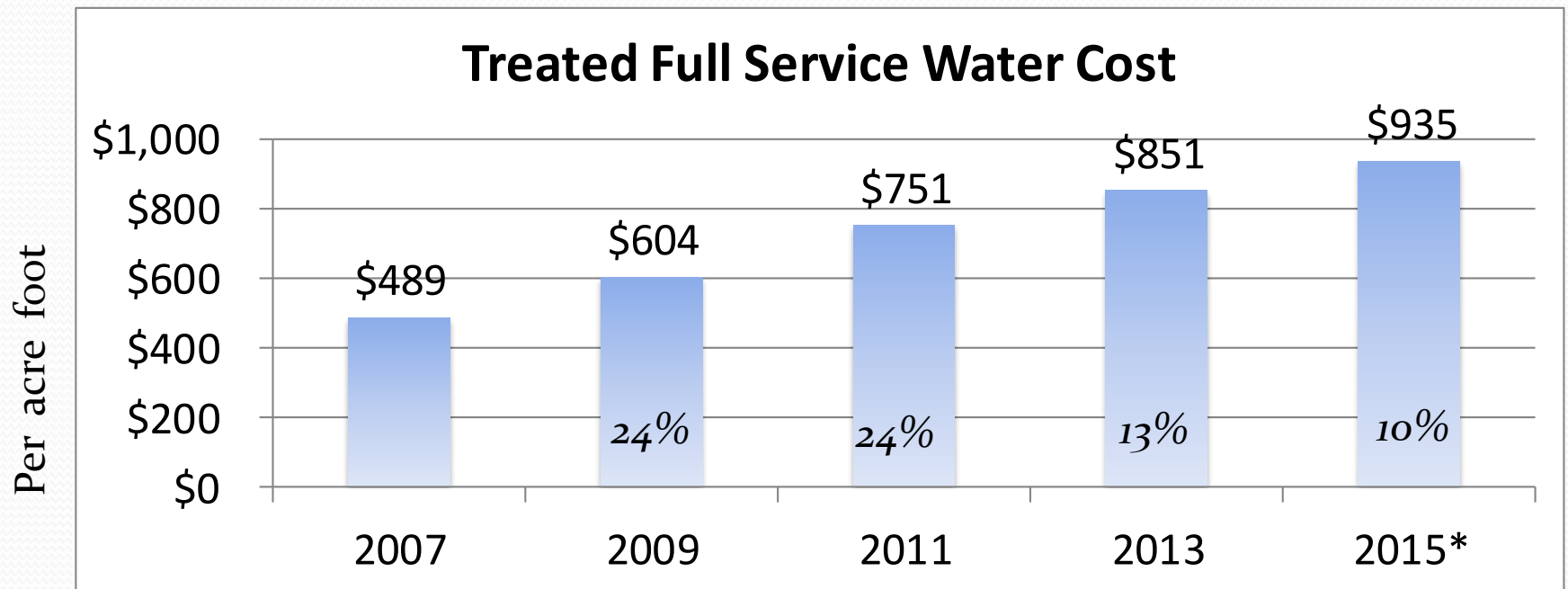
MWDOC Water Costs 2007-2015



Note: Cost of MWDOC untreated water has increased by 150% since 2007.

(*projected)

MWDOC Water Costs 2007-2015



Note: Cost of MWDOC treated water has increased by 75% since 2007.

(*projected)

Five Years of Water Rate Increases at MWD

WHAT DOES THE FUTURE HOLD?

Metropolitan Water District (MWD), the wholesale water supplier for over 20 million people in southern California, has increased its cost of treated water by approximately 75% over the past 5 years. In Orange County, this has resulted in water districts and cities initiating double-digit rate increases, sometimes in the same year. MWD projects that costs will continue to increase at a rate averaging 5% a year for the next 5 years.

In central and north Orange County, cities and water districts have access to well water which is controlled by the Orange County Water District for up to 65% of their consumption. Rates have remained stable for the past 5 years but are also projected to increase 5% a year for the next 5 years. These increased costs for both treated water and well water will have to be passed on to water users so rates will continue to increase for the next 5 years.

Board of Directors Stewardship

MISSION

Supply our customers with quality drinking water through a cost effective system that insures uninterrupted supply while keeping rates low.

VISION

The Board's vision is to achieve customer satisfaction while providing employees a work place environment that enhances performance resulting in achievement of district goals.

GOALS

Reliable, Safe and Secure Water Supply

Customer Satisfaction

Governmental Compliance

Conservation and Environmental Conformance

Serrano Water District

- Formed in 1876
- Serves over 2,300 meters in the City of Villa Park and a small portion of the City of Orange
- Water supply includes native water, ground water and purchased water
- 4 mgd Water Treatment Plant
- 3 Wells, 2 Storage Reservoirs (6 mg and 3 mg)
- Management of Irvine Lake Recreation

mg = Million Gallons

mgd = Million Gallons per Day

Irvine Lake (Santiago Reservoir)

- Provides a reliable, uninterrupted water supply
- Generates revenues for the Serrano Water District
- Reservoir construction started in 1928 and completed in 1931
- Serrano Water District owns half of the Santiago Reservoir which includes the dam
- Santiago Reservoir can hold up to 25,000 acre-feet of water and has a 66-square mile watershed
- A recreational destination

Acre-foot of water = 326,000 gallons

History of Operations

	ACTUAL 08-09	ACTUAL 09-10	ACTUAL 10-11	ACTUAL 11-12	PROJECTED 12-13
TOTAL REVENUE	4,381,192	4,639,911	4,787,793	5,477,739	5,490,750
TOTAL OPERATING COSTS	3,632,817	3,452,396	3,402,212	3,332,510	3,639,439
NET INCOME	748,375	1,187,515	1,385,581	2,145,229	1,851,311
CAPITAL IMPROVEMENTS*	127,848	328,955	379,988	236,985	706,500 **
DEBT SERVICE	803,537	801,535	816,207	960,454	781,814
RESERVES	668,726	1,233,989	1,876,716	2,483,883	2,846,880
* EXCLUDES TREATMENT PLANT MODIFICATION COSTS OF APPROXIMATELY \$5 MILLION.					
**INCLUDES \$300,000 OF TREATMENT PLANT COSTS IN 2013					
NOTE: THE BOARD OF DIRECTORS HAS DETERMINED THAT A PRUDENT RESERVE LEVEL IS \$4 MILLION					

Cost Control Measures

- The Board of Directors has initiated the following actions for the purpose of controlling operating costs and monitoring expenditures:
 - Contract General Manager
 - Formed Management Committee
 - Monthly Expense Review & Approval
 - Annual Budget with Monthly Review of Results
 - Annual Audited Financial Statements & Management Review by LaVine & Associates , a CPA firm
 - Employee Performance Evaluation Program
 - Employee Awareness Program

Note: District staffing level has remained the same for over 20 years.

Challenges Facing the District

- Maintaining Adequate Reserves
- Substantial Increase in Water Costs
- Mandatory Treatment Plant Improvements
- Regulatory Requirements & Costs
- Improving Ground Water Supply with New Well
- Aging Infrastructure
- Irvine Lake Recreation Management Agreement
- Untreated Water Purchases
- No run-off into the Lake in 2012; no run-off to-date in 2013

Serrano Water District Assets

Estimated Replacement Costs

- Treatment plant - \$18-20 million
- Reservoirs - \$18 million
- Three wells - \$4 million
- Pipelines delivery - \$31 million
- Pump stations - \$5 million
- Santiago pipeline (50% ownership) – \$8 million
- Buildings and improvements - \$200,000
- Vehicles/Equipment - \$500,000
- Miscellaneous personal property – \$300,000
- Land – \$1,250,000

Total: \$86.25-\$88.25 million

- SANTIAGO RESERVOIR – (50% ownership) estimated by consultants to have a replacement cost of at least \$100 million and may be as high as \$250 million or more

Benefits of Serrano Water District

- Unique Water Supply
 - Owns 50% of Santiago Reservoir (Irvine Lake) and Water Rights to 66-sq. mile watershed
 - Surface water supply & storage in Irvine Lake
 - Three sources of water supply including Irvine Lake, wells, and MWD water
 - Storage and ability to purchase untreated water before rate increases
 - Ability to supply residents during disasters and/or other emergencies
 - Sale of Water to the City of Orange & other agencies
- Local Control
- NO PROPERTY TAX REVENUE or other subsidies
- Revenues from Irvine Lake Recreation
- Prompt Customer Service Response
- Highest rating in 2012 for any special water district in Orange County by the Orange County Grand Jury

OC Watchdog Reports

Stealth support? Special districts swallow \$183 million in taxes

“Orange County’s special districts - little governments which exist independently from the city and county governments crowding in all around them – collected \$182.9 million in property tax dollars last year, according to a critical grand jury report.”

“The overwhelming majority of it - \$162.6 million - went to water and sewer districts, which are empowered to act like businesses and charge customers what it actually costs to provide services. But many do not, because those millions – what the grand jury essentially considers stealth tax support – allow many to charge less than what services actually cost (leading customers to believe they’re getting a great bargain when, perhaps, they’re not).”

“It varies wildly, from **zero percent** of the total revenues in the Mesa Consolidated and **Serrano water districts**... The Irvine Ranch Water District got the most in raw dollars (\$38.3 million)... All told, property taxes kicked in **15 percent** of special district budgets.”

Sample Monthly Water Bill Comparison

Based on average SWD customer consumption of 50 CCF billing Units per Month

Excludes meters and readiness-to-serve charges

Serrano Water District	Irvine Ranch Water District	City of Orange
\$150.50	\$312.42	\$132.22 <i>(Includes a 33 1/3% surcharge for customers located outside the City of Orange, but does not include zone charges. Without the surcharge, the monthly water bill would be \$99.47)</i>
SWD charges a flat rate of \$3.01 per CCF. THE DISTRICT RECEIVES NO MONEY FROM PROPERTY TAXES OR OTHER SUBSIDIES. The last rate increase was July 2011.	The average use of IRWD customers is 13 CCF's per month and on amounts over 26 CCF's per month water is charged at a rate of \$9.48 subject to approved variances. IRWD has had rate increases each year over the last 5 years and <u>receives over 19 million dollars in property taxes each year</u> which represents 21% of its revenue.	The City of Orange <u>receives property tax revenue for water as well as other funds</u> . Water rates for Orange remained at very low levels for years and was funded by its water reserve funds which are now depleted. Rates have increased 35% over approximately the last 3 years and are anticipated to increase by 5% per year or more for the next 5 years based upon a city council resolution.

Note: CCF represents 100 cubic feet of water. One cubic foot is 7.48 gallons.

Sample Monthly Water Bill Comparison

Month	Units Consumed (ccf)	Serrano Water District	Irvine Ranch Water District (Scenario 1)	Irvine Ranch Water District (Scenario 2)
Month 1	46	\$155.62	\$274.47	\$229.04
Month 2	141	\$441.57	\$1,209.27	\$1,163.80
Month 3	164	\$510.80	\$1,435.59	\$1,390.20

Serrano Water District

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www.serranowater.org