

LAGUNA BEACH COUNTY WATER DISTRICT



INCORPORATED 1925

COMMISSIONERS:

BRUCE R. SCHERER, Chair
SUSAN M. TRAGER, Vice Chair
MARVIN C. JOHNSON
MARK B. LEWIS
DEBORAH K. NEEV

GENERAL MANAGER:

RENAE M. HINCHEY

MANAGEMENT:

RICHARD B. MATHIS, Manager of Operations
JAMES R. NESTOR, Manager of Engineering
CHRISTOPHER J. REGAN, Manager of Administration
ROBERT L. WESTPHAL, Manager of Finance

LEGAL COUNSEL:

PAULA E. MEYER, ESQ.

August 19, 2008

Honorable Nancy Wieben Stock
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Dear Judge Wieben Stock:

The Laguna Beach County Water District commends the 2008 Orange County Grand Jury for recognizing the critical nature of our current water crisis, which threatens our ability to adequately meet the water needs of our customers. Southern California's water supplies have been cut by regulatory actions and further reduced by multi-year drought. Water runoff into streams and reservoirs is below normal, storage in the state's key reservoirs is dangerously low, and court ordered reductions to protect endangered fish has reduced our supply by 30 percent. All of these challenges, in addition to the District's 100 percent reliance on imported supplies, have created a very serious water problem. The District's Board of Directors and Commission appreciate your efforts in further shedding light on this very real crisis.

In accordance with the California Penal Code sections 933 and 933.05, the following represents the District's response to the Grand Jury's Findings and Recommendations.

Response to findings:

- F-1 Opportunities for further water conservation exist especially with regard to landscape watering.
District Response: The District agrees with the finding.
- F-2 Conservation pricing, or tiered pricing, with a fair and reasonable base allotment, followed by tiers of higher rates, can be an effective tool to motivate further conservation.
District Response: The District agrees with the finding.

Response to recommendations:

- R-1 Continue to emphasize methods and availability of tools that assist customers in understanding weather-based irrigation practices by:
- Providing a hotline for assisting the public with landscape irrigation information.
- District Response:** Knowing that landscape water use accounts for approximately 60 percent of customer water use, the District has been proactive in educating the public on proper watering techniques. The District has a dedicated Water Use Efficiency Hotline where customers can call to get information on landscape watering guidelines, available

rebates, and report landscape water waste. Two full-time water use efficiency staff members are available to answer questions and provide assistance. Once a month, the District participates in the Laguna Beach Farmer's Market to answer questions and provide District customers with free conservation products. The District has a Water-wise and Fire-safe demonstration garden to educate the public on California Friendly plants and smart irrigation techniques.

- Providing a countywide soil texture map on MWDOC website.

District Response: This recommendation has been discussed, and the Municipal Water District of Orange County (MWDOC) has agreed to implement this recommendation on behalf of all retail agencies in Orange County by November 20, 2008.

- Developing an Orange County specific water calculator on the MWDOC website.

District Response: This recommendation has been discussed, and the Municipal Water District of Orange County (MWDOC) has agreed to implement this recommendation on behalf of all retail agencies in Orange County by November 20, 2008.

R-2a Develop monthly allocations for each customer based on the following:

- A per person indoor water allotment that satisfies basic needs.
- An outdoor water allotment that applies the weather-based method over the customer's landscaped area.

District Response: This recommendation is currently being analyzed. The District is in the process of acquiring parcel data on all of its water accounts in order to develop water-budget-based allocations for both interior and exterior water use.

The District has taken an initial first step towards a tiered rate structure as outlined in R-2b below.

R-2b Develop a tiered pricing structure with the first tier based on individual customer water allocation priced at a commodity rate, and subsequent tiers priced significantly higher to encourage conservation. The pricing shall be structured in a manner that will preclude the necessity of price increases as a result of reduced water use.

District Response: In January 2008, the District retained Willdan Financial Services to analyze and study revenue requirements and draft rates for fiscal years ending 2009 through 2018. The goal of the study was to move the District from a uniform flat rate to a tiered rate structure. To comply with Proposition 218, the District had to keep in mind the proportionate cost of service for each customer. The costs of providing services were allocated to all users to ensure that rates are equitable and not unduly discriminatory, thereby satisfying Proposition 218 requirements. A tiered rate structure was designed for single-family residential customers (87 percent of District customers), which establishes a first tier-based on similar usage patterns among these accounts. A second tier was developed by considering the expenses involved in water resource challenges currently facing the District, such as extraordinary conservation measures and alternative water supply sources, and the relationship to the cost of providing water service to District customers. Budgeted expenses directly related to water conservation efforts and feasibility studies for alternate sources of supply have been allocated and applied to the tiered rate for Single Family Residential (SFR) accounts, which are also included in the uniform consumption charge for all other customer classes. The amount dedicated to water resource conservation and to water supply feasibility studies have been applied to Tier 2. It is

important to note that due to the recent California Supreme Court decision (Big Horn-Desert View Water Agency v. Verjil) regarding water rate setting, the District is limited in its ability to arbitrarily create tiers. Water rates in California are now considered property-related fees, and the amount of the fee imposed on any parcel or person, as an incident of property ownership, cannot exceed the proportionate cost of the service attributable to the parcel.

In regard to rates that are structured in a manner that preclude the necessity of increases as a result of reduced water use, approximately 22 percent of the District's fixed costs are covered through revenue generated from our bi-monthly service charge (based on meter size), which provides some revenue stability when customers conserve. In the District's 2008 rate structure study, conducted by Willdan Financial Services, it was determined that if all fixed costs were recovered in the service charge, it would result in huge rate increases for customers using small amounts of water.

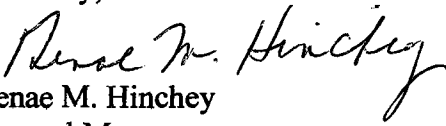
Unfortunately, when water becomes scarce, the cost of securing additional supplies increases the cost of water to the District and to our customers. Municipal Water District of Orange County, our water supplier, predicts that early next year water districts in Orange County will be subject to water supply allocations. Any use above these allocations will be priced at a much higher than normal rate. This leaves us in a precarious position of how water districts will recover this additional cost for water supply.

R-2c Modify water bills to clearly explain customer monthly allotment and monthly water usage.

District Response: This recommendation will be implemented in fiscal year 2008/2009. Customer water bills will be modified to include suggested customer base allotment information based on an estimated per person allotment and property characteristics obtained from County parcel data for each bi-monthly billing period.

If you have questions or need further information on any of the District's responses, please do not hesitate to call me at 949-494-1041.

Sincerely,


Renae M. Hinchey
General Manager